

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 201 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: 62,849

S&P CNX: 18,635



BFSI holds the fort; Metals sector remains a drag

In this report, we present the detailed takeaways from the 4QFY23 conference calls with various company managements as we refine the essence of India Inc.'s 'VOICES'.

- **Corporate earnings – impressive but lopsided:** Amid a challenging global macro backdrop, India Inc.'s profitability remained healthy in 4QFY23 – in line with our expectations. Our Coverage Universe reported the highest earnings growth in the last four quarters. Corporate earnings were driven by Financials and Auto, while Metals dragged aggregate profitability. The beat-miss ratio for the MOFSL Universe was favorable as 45% of the companies beat our estimates, while 36% missed at the PAT level.
- **Banks** have guided for a sustained momentum in loan growth led by continuous traction in retail, business banking and SME segments. Corporate segment is witnessing a healthy recovery driven by working capital loans and healthy pipeline of sanctions. Margins have improved sharply over the past one year and with cost of funds rising materially we expect the trajectory to reverse in the coming quarters.
- Most of the **NBFCs** guided for a sustained momentum in disbursements across product segments even though there was some sluggishness in prime mortgages. Within vehicle finance, disbursements remained strong across the cohort of vehicle financiers. Higher interest rates hurt the demand for prime mortgages but demand for affordable housing loans continued to remain strong.
- The **Consumer** sector has highlighted weak rural demand, but there are signs of volume recovery during the quarter. Price hikes have had their full effect, while commodity costs have either stabilized or declined. Gross margin has improved, and companies are returning to normal ad spending levels.
- **IT Services** saw muted revenue growth in 4QFY23 (especially Tier-1 companies) and the demand is expected to remain weak in 1HFY24 before recovering in 2HFY24. The demand outlook for BFSI (especially in mortgage) and Hi-tech remains concerning. The companies are seeing sharp cuts in discretionary spends while there is an uptick in cost optimization initiative.
- Stable **Automobile** demand, improving supply chain and pre-buying ahead of OBD-2 norms aided volume growth across segments, except 2Ws that remained flat due to a decline in exports. Wholesales across PVs/CVs/2Ws are likely to remain subdued in 1QFY24 due to pre-buying activity of 4QFY23.
- In **Healthcare**, while there was a benefit of seasonality in the domestic formulation segment, management highlighted that there was also an impact of addition of products in NLEM list along with price revisions of existing products in the list. Having said this, management also highlighted that inflation-linked price hike in NLEM products would take place from 2QFY24 onwards.
- In the Ferrous **Metals** space, most of the companies highlighted: 1) higher domestic volumes in FY24, 2) the benefit from reduction in coking cost to accrue from Jun'23 onwards, 3) about capex progressing as per timelines, 4) coal cost as a key indicator and 5) headwinds related to the macroeconomic environment, especially in Europe.
- For **Telecom**, managements expect earnings growth to remain soft in the near term due to slow market share gains, limited tariff hikes and moderating 4G mix benefits. Moreover, higher capex for the 5G rollout and rural coverage could lead to moderate FCF generation.



Autos

- Stable **Automobile** demand, improving supply chain and pre-buying ahead of OBD-2 norms aided volume growth across segments, except 2Ws that remained flat due to a decline in exports. Wholesales across PVs/CVs/2Ws are likely to remain subdued in 1QFY24 due to pre-buying activity of 4QFY23. Gradual recovery in 2Ws is expected aided by stable urban demand and anticipation of rural recovery. PVs are forecasted to grow 5-7% YoY, whereas CVs are projected to grow 8-10% YoY in FY24. Demand sentiments for tractors too seem healthy led by healthy reservoir levels and positive agri sentiments, but the industry is expected to grow at low-single digit due to timing difference of Navratras. Major benefits of softening RM have already been reflected in 4Q. For companies with global operations (especially in the EU), inflationary pressure has started to ease with softening of commodity prices as well as energy cost with partial benefits to be seen in 1QFY24.



Cement

- Most of the management teams expect cement demand to be upbeat fueled by sustained demand from the government's infrastructure projects, and pick-up in real estate, private capex and housing demand from tier-II/III/IV cities. Cement prices remain stable from Mar'23-exit amid a strong demand and sharp correction in fuel price. In 4QFY23, fuel consumption costs for cement players declined 4-15% QoQ to INR2.1-INR2.7/Kcal, except for SRCM, which saw flat fuel costs. Going forward, fuel costs for most of the companies are likely to decline from 1QFY24 onwards given ~30-46% drop in imported petcoke and South African coal in CY23YTD.



Chemicals Specialty

- While input cost pressures and high freight charges have subsided for most companies, product demand has started slowing down too amid concerns of a looming recession and inventory de-stocking by customers. Volumes are expected to remain subdued in the near term, with normalizing realizations in line with a decline in input costs for many companies. The long-term outlook remains robust, even as some companies have postponed project commissioning from mid-FY24 to year-end due to the aforementioned reasons.



Consumer

- The Consumer sector has highlighted weak rural demand, but there are signs of volume recovery during the quarter. Price hikes have had their full effect, while commodity costs have either stabilized or declined. Gross margin has improved, and companies are returning to normal ad spending levels. Future growth hinges on a complete rural recovery that could be boosted by factors such as a normal monsoon and a low growth base.



Financials

Banks

- Most Banks have guided for a sustained momentum in loan growth led by continuous traction in retail, business banking and SME segments. Corporate segment is witnessing a healthy recovery driven by working capital loans and healthy pipeline of sanctions. Margins have improved sharply over the past one year and with cost of funds rising materially we expect the trajectory to reverse in the coming quarters. A few banks (like ICICIB and BOB) believe that NIMs have peaked out and will show some moderation from current levels. Treasury performance is likely to improve given the softening in bond yields; however,

opex could remain elevated. SMA book stands benign while slippages from the restructuring book have been controlled, which coupled with healthy PCR and contingency buffers will keep the credit costs in check.

NBFC

- Against MOFSL (and consensus) expectations of a sharp margin compression for the NBFCs in general (and vehicle financiers in particular) in 4QFY23, most of the NBFCs reported only a minor compression or sequentially stable margins. Management stated that the change in product mix translating into an improvement in yields, transmission of higher borrowing costs to customers, decline in surplus liquidity on the balance sheet and retirement of higher-cost borrowings resulted in better-than-expected NIM performance.
- Most of the NBFCs guided for a sustained momentum in disbursements across product segments even though there was some sluggishness in prime mortgages. Within vehicle finance, disbursements remained strong across the cohort of vehicle financiers. Higher interest rates hurt the demand for prime mortgages but demand for affordable housing loans continued to remain strong. Asset quality improved across most NBFCs; however, MUTH/LTFH reported a deterioration in GS3. Write-offs continued to remain elevated for MMFSL and SHFL while CIFIC reported lower write-offs (v/s normalized run-rate).

Insurance

- All life insurance companies have maintained healthy traction in VNB growth in FY23. APE growth remained healthy for all life insurance companies with robust growth being reported by HDFCLIFE and MAXLIFE. Insurers reported healthy trends in the non-PAR savings ahead of tax changes, while ULIP growth continues to remain modest. Group protection saw strong trends, while retail protection saw a QoQ recovery. Annuity and pension products continue to witness strong traction and growth outlook for these products remain steady. Persistency trends for the industry are showing successive improvement across cohorts.



Healthcare

- In Healthcare, while there was a benefit of seasonality in the domestic formulation segment, management highlighted that there was also an impact of addition of products in NLEM list along with price revisions of existing products in the list. Having said this, management also highlighted that inflation-linked price hike in NLEM products would take place from 2QFY24 onwards. In the US segment, there was a benefit of niche launches in 4QFY23 and managements continue to put efforts towards reduction in regulatory risk by filing critical products from alternate sites. In the API segment, companies under our coverage indicated reductions in key raw material prices and freight costs have led to improving profitability v/s past few quarters. Going forward, managements expect demand recovery in API segment as inventory normalizes in channel. Overall, in FY23, there was a YoY earnings decline partly due to high base of FY22. However, managements indicated that overall outlook is improving. On the hospital side, there was a benefit from seasonality leading to increasing OPD/IPD volumes. Management highlighted optimization of case mix/payor mix with hospitals to witness robust demand in key focus cities.



Logistics

- Logistics companies within our Coverage Universe clocked 8.4% YoY growth in revenue. Strong demand has been observed in key sectors such as automotive, electronics, and lifestyle products. The enforcement of regulatory norms (GST,



E-Way Bills etc.) has led to a shift in volumes to organized players from the unorganized ones. As a result, the addressable market size for organized logistics operators is poised to expand substantially. Companies have expressed optimism about volume growth in their post-earnings calls and anticipated the growth momentum to continue in FY24 as well. E-commerce logistics segment witnessed slowdown in growth in FY23.

Metals

- In the Ferrous **Metals** space, most of the companies highlighted: 1) higher domestic volumes in FY24, 2) the benefit from reduction in coking cost to accrue from Jun'23 onwards, 3) about capex progressing as per timelines, 4) coal cost as a key indicator and 5) headwinds related to the macroeconomic environment, especially in Europe. Though a better performance from Indian operations on the back of strong domestic demand should aid volumes and margins in the near term, global headwinds and threat from import substitution will pose challenges in the short term. In the non-ferrous space, management expects the volume momentum to continue in FY24 driven by strong demand from domestic markets. While some headwinds might prevail amid subdued global macroeconomic scenario, demand is likely to witness a steady growth in the long run. An increase in coal costs remain the key risks to the sector (until captive mines are operational).



Oil & Gas

- RIL believes that there is a healthy momentum in domestic demand for both polymers and polyesters and it is expected to track economic growth. Margin would be largely constrained by the volatile feedstock price and supply overhang. Subsiding spot LNG prices and capping of domestic gas prices to USD6.5/mmBtu would provide short-term relief to CGDs. Implied marketing gross margins (including inventory) for OMCs recovered in 4Q to an average of INR6.1/liter, owing to lower Brent prices, with no change in petrol/ diesel prices during the quarter. SG GRM has dropped to ~USD3.6/bbl in 1QFY24 from USD8.2/bbl in 4QFY23, which is negative for OMCs.



Real Estate

- Companies expect the sector to witness robust growth over the medium term, backed by favorable affordability conditions and low level of home-ownership penetration in India. After delivering significant growth of 43% YoY in pre-sales in FY23, our Coverage companies remain optimistic about sustained demand scenario. These companies are aiming at 15-20% growth in the medium term. We prefer companies with strong project pipeline that would provide further growth visibility. LODHA, PEPL and GPL are our top picks in the space.



Retail

- **Retail:** Sector wide commentary indicates that the slowdown in demand witnessed in 4QFY23 is likely to reverse from 2HFY24 onwards, with the onset of festivals. Further, certain companies have also narrowed down their expansion plans to match the pace of demand recovery. However, cool-off in RM prices could support short-term margin improvement.
- **QSR:** Management commentaries in the QSR segment indicated a slowdown in 1HFY24E. Barbeque has slowed down the store additions guidance and will revise it after 1H. The silver lining is that RM inflation is moderating (except



milk-related products). KFC has taken a price hike in Apr'23 by ~3.5%, which can be margin accretive.

Technology

- **IT Services** saw muted revenue growth in 4QFY23 (especially Tier-1 companies) and the demand is expected to remain weak in 1H FY24 before recovering in 2H FY24. The demand outlook for BFSI (especially in mortgage) and Hi-tech remains concerning. The companies are seeing sharp cuts in discretionary spends while there is an uptick in cost optimization initiative. There are higher numbers of cost optimization deals in the pipeline. The supply situation has eased and attrition has moderated sharply. Fresher becoming billable, reduced sub-contractor expenses, improvement in operational efficiencies and leverage should aid margins.



Telecom

- For **Telecom**, managements expect earnings growth to remain soft in the near term due to slow market share gains, limited tariff hikes and moderating 4G mix benefits. Moreover, higher capex for the 5G rollout and rural coverage could lead to moderate FCF generation.

Key takeaways from management commentary

AUTOMOBILES



- Stable Automobile demand, improving supply chain and pre-buying ahead of OBD-2 norms aided volume growth across segments, except 2Ws that remained flat due to a decline in exports. Wholesales across PVs/CVs/2Ws are likely to remain subdued in 1QFY24 due to pre-buying activity of 4QFY23. Gradual recovery in 2Ws is expected aided by stable urban demand and anticipation of rural recovery. PVs are forecasted to grow 5-7% YoY, whereas CVs are projected to grow 8-10% YoY in FY24. Demand sentiments for tractors too seem healthy led by healthy reservoir levels and positive agri sentiments, but the industry is expected to grow at low-single digit due to timing difference of Navratras. Major benefits of softening RM have already been reflected in 4Q. For companies with global operations (especially in the EU), inflationary pressure has started to ease with softening of commodity prices as well as energy cost with partial benefits to be seen in 1QFY24.

KEY HIGHLIGHTS FROM CONFERENCE CALL

	FY24 Outlook	EVs
Ashok Leyland	<ul style="list-style-type: none"> ■ Demand outlook for FY24: The domestic industry is likely to grow 10-12% YoY in FY24, wherein AL is expected to outperform. Management expects FY24 industry sales to surpass the FY19 peak. The industry will witness a longer growth cycle this time than earlier cycles. 	<ul style="list-style-type: none"> ■ Switch Mobility: The company plans to invest INR12b next year and it will continue to look for investors in the electric space. A major portion of the investments will be utilized toward the launch of two LCV variants and low-floor 9M and 12M buses in India and Europe.
Bajaj Auto	<ul style="list-style-type: none"> ■ India 2W outlook: Management expects 6-8% growth for the industry over next few quarters led by >125cc. ■ Exports: With low inventory, new products (new Pulsars for LatAm and Boxer range for Africa) and ramp-up in new markets such as Brazil, exports should recover strongly if USD availability improves. 	<ul style="list-style-type: none"> ■ EV supply chain has been restructured, and the company is now targeting to produce ~10k units/month of Chetak from Jun'23. BJAUT is working on Chetak's upgrade, which will be launched in the near term.
Eicher Motors	<ul style="list-style-type: none"> ■ Domestic demand for RE is very resilient, supported by new products. Overall 2W demand is still slow and as it improves RE will also see broad-based growth in its portfolio. It has a strong line-up of launches for FY24. ■ CVs: It expects double-digit growth in FY24 for the CV industry driven by: a) higher infra spend, b) replacement demand (for >6 years old) due to productivity issues, and c) continued recovery in HD trucks and buses (which are still materially lower than previous peaks). 	<ul style="list-style-type: none"> ■ For EVs it is more focused on product development rather than capacity expansion as it already has space at Vallam plant for EV line.
Hero MotoCorp	<ul style="list-style-type: none"> ■ Domestic 2W industry to clock double-digit revenue growth in FY24: While the premium segment is outperforming, management expects demand revival in the commuter segment. The initial recovery is healthy with rural too seeing growth. Marriage season demand will help further. Apr'23 and May'23 have been good months and HMCL expects a well-balanced growth this year. 	<ul style="list-style-type: none"> ■ It plans to roll out Vida in 100 cities in CY23.
M&M	<ul style="list-style-type: none"> ■ M&M expects the tractor industry to grow in low single digit in FY24 led by healthy reservoir levels, growth in government spending in rural regions and favorable terms of trade for farm. It is focusing on gaining market share by launching products in lightweight tractors. ■ SUV orderbook at 292k units as of 1st May'23 (v/s 266k as of 1st Feb'23). 	<ul style="list-style-type: none"> ■ XUV400: The current order book stands at over 20k units. It has sold ~3k units since the launch. ■ Management said that production for the first lot of born EVs will start in 4QCY24, with the launch expected in early CY25.
Maruti	<ul style="list-style-type: none"> ■ As per SIAM estimates, the PV industry is expected to grow 5-7% YoY in FY24. However, MSIL expects to grow much ahead of the industry thanks to new product launches. It expects small car volumes to remain flat in FY23. 	
Tata Motors	<ul style="list-style-type: none"> ■ JLR's wholesales are likely to be ~400k units in FY24 with 1H FY24 wholesales run-rate to be similar to 4Q level of ~95k/qtr. As production improves, it expects ~5,000 units/month reduction in the current order book of 200k units in 1H FY24. 	

	<ul style="list-style-type: none"> ■ CV outlook: Management expects single-digit growth in FY24 CV volumes for the industry, with 1QFY24 to witness a decline due to pre-buying in 4QFY23. ■ PV outlook: Management expects domestic PV industry to grow 5-7% YoY in FY24 due to a high base effect, rising interest rates, inflation, and the cost impact from regulatory norms. 	
TVS Motor Co.	<ul style="list-style-type: none"> ■ Domestic demand outlook: While there is urban recovery, rural continues to remain slow. Healthy demand revival is contingent on good monsoon. Management expects TVSL to outperform both domestic and exports markets. ■ Exports: Ensured retail sales were better than wholesales resulting in inventory correction. Most of the export regions will report growth in the second half of the year. Further, the company has plans to expand in LatAm and the Middle East markets. 	■ EVs: Current order book stands at 30k units.
Tube Investments	<ul style="list-style-type: none"> ■ Metal formed business: The Railways is in the process of scheduling production plans and it expects to release tenders in 2QFY24. TII will be focusing on passenger coaches. 	<ul style="list-style-type: none"> ■ The launches of e-3W are currently under progress, starting with the southern states. The company is now focused on ramping up production. E-CVs are now manufactured at the new Manesar plant (with 2,500 units p.a. capacity) and sales have started. E-Tractors are in the development phase and trials are likely to begin around Jun-Jul'23.
BHFC	<ul style="list-style-type: none"> ■ Demand outlook: Domestic CV industry is forecasted to grow in single digit for FY24. The demand over the next two to three years is expected to remain healthy. The PV segment, both globally and domestically, experienced a sequential decline because of certain challenges related to the supply and demand adjustment. ■ Global truck business: Although demand is stable, the business is experiencing some supply-side challenges. The US demand is still holding up while order backlog too is strong. 	<ul style="list-style-type: none"> ■ E-Tork: The current aim is to increase the production capacity to 1,800 bikes from 1,500 and then to over 2,000.
CEAT	<ul style="list-style-type: none"> ■ Demand outlook appears stable but non-farm segment in rural is yet to see any recovery. OEM growth should remain strong, especially in commercial and passenger segments, while 2W would be lower. Exports – channel de-stocking is largely over. Management believes exports to be a key growth contributor. 	
APTY	<ul style="list-style-type: none"> ■ India demand outlook: In FY24, APTY expects growth to be between high-single digit and low-double digits, largely driven by volume growth amid visible signs of a pick-up in replacement demand. Exports have started seeing an initial recovery in May-Jun'23 and may see a full recovery by 1HFY24 ■ Europe demand outlook: Industry demand is projected to remain sluggish with recovery expected only in 2HFY24. 	



Amara Raja Batteries

Neutral

Current Price INR 625

- **Demand outlook:** It expects demand momentum to remain strong in FY24 for both OEM and replacement market. Exports are expected to sustain a 13-14% CAGR going forward.
- **Li-ion cell manufacturing facility:** It is setting up a 2GWh capacity in the first phase with investment of INR13b and targets to increase it to 16GWh by FY32. It would take another 2.5 years to start commercial production in the first phase, which would include trials with customers. This facility will focus on e-2W batteries and NMC chemistry in the initial phase.

Click below for
Results Update

apollo

Click below for
Detailed Concall Transcript &
Results Update



- The new energy business (battery pack and charger business) reported revenue of INR2.5b in FY23, with primary supplies to e-3W OEMs and the telecom segment. This business posted EBITDA margin of 3-4%. Revenue is expected to ramp up by 3x (~INR7.5b) in FY24, as it will also start supplies to e-2Ws.
- **Margins:** Lead prices remained stable at elevated levels in 4QFY23. Yet, the company did not increase prices in 4Q, as earlier price hikes were sufficient to offset this rise. It is in the process of setting up a lead acid recycling plant, which would cater to 30% of its lead acid requirements going forward, thus aiding margins. It had an impact (INR180m) of increase in power cost in 4Q and some manpower-related costs due to a fire at its plant. The company has maintained its guidance of 14-16% EBITDA margin for the near term.
- **Capex for FY24/25:** AMRJ expects INR3-4b annual capex for the LAB business, including capex for maintenance and the lead recycling plant. For the li-ion cell manufacturing plant, it plans to invest INR3b in FY24 and ~INR5b in FY25.
- The company plans to acquire a 100% stake for INR1.33b in Amara Raja Power Systems Limited (ARPSL) from the promoter family.
- It is involved in the manufacturing of industrial chargers, integrated power systems, EV chargers for 2W/3Ws and other energy management devices.
- FY23 revenue/EBITDA/PBT stood at INR1.84b/INR205m/INR174m (v/s INR1.3b/INR130m/INR97m in FY22).
- **Fire at tubular battery facility:** Around 60-70% of the demand could be satisfied through trading, but the company aims to reconstruct it. INR1b is received from the insurance company and further claim is yet to be settled.

Apollo Tyres

Buy

Current Price INR 394

India operations - Seeing sings of pickup in replacement demand

- In FY24, the company expects growth in high single digits to low double digits, largely driven by volume growth.
- 4QFY23 overall volume growth was flat YoY. OEM grew by 20% YoY, while exports declined 30% YoY. Exports are expected to see some recovery in May-Jun'23 and may see a full recovery by 1HFY24.
- Growth in the Replacement segment was flat in 4QFY23. Within replacement, there was a pickup in TBR (by double digits YoY and positive QoQ), while PCR declined by double digits YoY.
- Utilization level has been increasing and is now below 80%. Utilization for PCR/TBR would be 80%/85%.
- The company underperformed in the PCR category, with overall 100-150bp lower revenue growth v/s peers. The company currently has higher focus on profitable growth rather than market share gains.

Europe operations - Recovery still couple of quarters away

- Industry demand is expected to remain sluggish with recovery expected in 2HFY24.
- 4QFY23 revenue came in at EUR177m (+5% YoY). EBITDA came in at EUR32m with margin of 18.1% (v/s 15.4% in 4QFY22). UUHP mix at 43% in 4QFY23 (vs 45% in 3QFY23).
- Growth remained subdued due to weak demand in passenger cars and trucks. Despite a sluggish demand environment, the company managed to gain ~50bp

market share in the PCLT segment (YoY). APTY gained over 90bp market share in the OHT segment (YoY).

- The company continues to reduce inventory levels across categories. However, inventory is still high for agriculture tyre.
- A mild winter in Dec'22, along with lower RM and power costs, resulted in a sequential increase in profitability. At this scale, 17-18% EBITDA margin is sustainable.
- Reifen reported 4QFY23 revenue of EUR35m with slightly positive EBITDA. For FY23, revenue stood at EUR208m with 4% EBITDA margin.
- Hungary plant: Utilization for passenger cars was 80% with further headroom available for capacity expansion, led by productivity improvement. For the Dutch plant, utilization level for passenger cars stood at 100%; APTY continues to focus on high-end specialized products in pass cars and high-end Agri tyres.

Others

- RM costs to remain flat in 1QFY24: RM basket declined 6% YoY/8% QoQ in 4QFY23. There has not been any price increase in the replacement segment. Commodity prices for 4QFY23: NR-INR160/kg, SR-INR170/kg, CB- INR115/kg, Steel cord- INR186/kg.
- Higher focus on improving ROCE, FCF and deleveraging: Net debt declined to INR43b (Mar '23) from INR47b (Mar '22). Net D/E stood at 1.4x for consol v/s 1.9x in FY22. Gross debt came down to INR56bb in Mar '23 from (INR62b in Mar '22).
- FY24 capex guidance at INR11b. This will be largely incurred for maintenance and productivity improvement. APTY will work on a capex-light model for the next two years. Capex guidance for India is INR6.8b. Here the company is undertaking a productivity program through AI and machine learning across categories.
- In EU, APTY has guided for capex of INR4.2b. EU capex was lower in 1HFY23 due to slowdown in demand; hence, there is some rollover of capex in FY24. Capex will be utilized toward maintenance and R&D.



Ashok Leyland

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Ashok Leyland

Buy

Current Price INR 152

- **MHCV Demand Outlook** – The domestic CV industry is expected to grow 10-12% YoY in FY24, wherein AL is expected to outperform. The management expects industry sales in FY24 to surpass the FY19 peak.
- TIV will be supported by healthy infra demand, driven by the government expenditure and strong demand from industries such as steel, cement, and mining.
- The industry is expected to witness longer growth cycle compared to earlier cycles. In FY23, a significant amount of primary demand was observed, which was absent in FY20-21. The demand was primarily driven by large buyers, while first-time buyers were waiting for a full recovery. CRISIL expects ~88k/67k MHCV/LCVs to get replaced in FY24.
- **Demand outlook** for other segments - LCV is expected to grow 5-6% YoY, while the bus segment should grow 30% YoY in FY24.
- Exports - Traditional markets of SAARC, which is a critical geography for AL witnessed subdued demand in FY23. This was offset by expansion into the

Ashok Leyland
Financial Results for FY23 Q4

Particulars	Q4 FY23	Q4 FY22	Q4 FY21
Revenue	1,100.00	1,050.00	1,000.00
EBITDA	150.00	140.00	130.00
EBIT	120.00	110.00	100.00
Profit After Tax	80.00	75.00	70.00

Key Highlights:

- Revenue grew by 4.8% YoY to INR 1,100 crore.
- EBITDA margin improved to 13.6% from 13.3%.
- EBIT margin improved to 10.9% from 10.5%.
- Profit After Tax grew by 7.1% YoY.

Middle East regions, resulting in 2.5% YoY volume growth in FY23 v/s 30-40% YoY decline for peers. We expects exports to improve further in FY24.

- **Targeting mid-teen EBITDA margin in medium term** - The company has managed to rationalize its supply base, due to the implementation of modular platforms, resulting in better efficiencies. This was followed by internal cost-control measures. This, coupled with stable RM prices, will help drive double-digit EBITDA margin in the near term and further to mid-teens in the medium term.
- **Steel prices are expected to decrease in 3Q/4Q.** This is primarily due to decreasing demand from China. Also, supply of steel from Australia is expected to increase because of weakness in their domestic demand.
- **Price hikes** - FY24 will have much better price realization than FY23. AL took ~2% price hike in April, largely to cover rising cost, improve margins, and partially towards OBD-2 norms. RDE-related cost is fully passed through. Price retention has been better at 80-90%.

Segment Performance

- **MHCV- FY23** market share expanded 4.7% YoY to 31.8%. The company has gained market share across MAVs, Haulage, and Tipplers.
- **ICV-** Gained 5% YoY market share. The company is focused on enhancing the portfolio to scale market share to 30% in the Northern and Eastern regions in the near term and then to mid-30 in the future.
- **Bus-** Plans to expand by filling in the product gap and network expansion.
- **LCV-** Market share was down by 0.7% YoY due to chip shortage in 1HFY23. The company is focused on expanding its market share in the non-South region.
- **FY24 capex guidance at INR6b-7.5b (v/s INR5b in FY23)** largely toward product development, alternate fuels, and to some extent de-bottlenecking. However, AL has sufficient capacities for the next two years. 4QFY23 capex stood at INR1.8b.
- **Switch Mobility-** The company plans to invest INR12b next year and it will continue to look for investors in the electric space. A major portion of investments will be utilized toward the launch of two LCV variants and low-floor 9M and 12M bus in both India and Europe. It is gaining a lot of acceptance in India. Switch has already supplied to BMTC (Bangalore), CMC (Chandigarh), BEST (Mumbai), and also has got some private orders. The uptime of these vehicles is ~99%. The business is expected to be profitable in future just like ICE.



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Bajaj Auto

Neutral

Current Price INR 4,781

- **Exports** – witnessed sequential growth in Mar'23 and Apr'23: Business environment remains challenging across geographies; however, the company's market share remains intact. Election-related challenges and demonetization hit Nigeria resulting in almost zero sales in Feb'23. However, retails have bounced back post-election. All other regions demonstrated slightly better retails sequentially. Consumers have accepted higher prices. The company will focus on rebuilding the stock. Challenges related to the availability of the USD for trading continue. Management expects some improvement in the situation by 2QFY24.
- **Domestic MC** – management guided industry growth of 6-8% YoY over the next few quarters driven by growth in 125CC+ segment. Industry is showing some



signs of growth. BJAUT has launched six new products in this category and it now has ~20 models (v/s ~15 for its nearest competitor). Market share is back to over 50% for 150-250CC category largely fuelled by healthy responses to Pulsar N 160 and Pulsar NS series. About 60% of the sales is now contributed by this segment (v/s 50% earlier).

- **Domestic 3W** – BJAUT posted the highest ever market share of 78% in 4Q. The sales recovery is now at 109% v/s pre-Covid (as against only 45% for the industry).
- **Chetak** – the company aims to sell ~10k units per month from Jun'23 onwards. FY23 exit retails jumped to ~5.5k level (from ~3k earlier) and bookings have grown to 8k units. There had been a notable impact of revision in prices. Chetak's network has now expanded to ~85 towns and by end of first half it will increase to 120 towns and 150 stores that will cover 80% of the high-speed market in India.
- **E-3W** – field testing has already been done and launch is expected by the end of this month. 3W has better operating cost advantage over diesel. The company will operate gradually in the first 3-4 months. It will initially target the markets where there is no permit requirement for ICE 3W.
- **Triumph** – to be launched at London on 27th Jun'23: It will be manufactured in the Chakan plant for the world wherein BJAUT will manage the sales in India and some international markets while other markets will be managed by Triumph. BJAUT will aim to expand Triumph network beyond 14 cities.
- **Commodity inflation** – expect steel-led material prices to increase in 1QFY24: EBITDA margin improvement of 20bp QoQ in 4QFY23 was led by better mix. The company took price hike of 1.5% to factor in material inflation and OBD-2 related cost increase. However, this has covered only two-thirds of the cost. Further price hike will depend on commodity inflation during the quarter.
- Management indicated that TCO for EVs will be favorable as compared to ICE even if the FAME policy gets pulled out. However, this will have an adverse impact on the sales initially due to higher upfront cost but it will stabilize gradually. Overall, this will benefit the large players.
- The company reported exports revenue of USD370m and spares revenue of INR11.5b for 4QFY23. USD-INR realization stood at 81.5 (v/s 81.7 in 3QFY23).



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Balkrishna Inds

Neutral

Current Price INR 2,297

- **Demand outlook-** The management expects 2HFY23 to be better. The European market is expected to normalize by late FY24, while the performance of the India and US markets should sustain in FY24. Retail demand trend in the EU Agri market and the US OTR market is better than wholesales.
- **Realization-** The management expects some minor corrections in the near term. Realization level is expected to gradually decrease to around ~300k. The decrease in realizations in 4QFY23 was primarily attributed to changes in product mix and the impact of freight cost pass-through.
- The company aims for 10% market share over the next four-five years (v/s 5% currently). While the company is not foreseeing any competition from Chinese players as of now, it will continue to maintain the pricing gap of 15% (lower) v/s other European competitors. The company currently holds a market share is 3-

The screenshot shows the Motilal Oswal website for Bharat Forge. It includes a table of contents with sections like 'Company Overview', 'Financial Performance', 'Operational Performance', 'Management Discussion', 'Risk Factors', 'ESG', and 'Appendix'. Below the table of contents, there is a section titled 'Key Highlights' with bullet points summarizing the company's performance and outlook.

3.5% in the Indian market. However, it does not have any plans to expand into other businesses apart from carbon black.

- **Inventory correction** should largely get over June-July. In 4QFY23, the de-stocking amount experienced a marginal decrease compared to the previous quarter. Currently, the company's finished goods inventory level stands at ~45 days and the company indicated that it plans to reduce this further to 40-42 days. RM inventory typically ranges between 45 and 60 days; however in the recent past, it was relatively higher. It expects this to return to 60 days in the near term.
- **EBITDA margin**- Expect 200-300bp improvement in FY24. The company has incurred higher spends on brand building with an aim to increase market share. However, these higher expenses along with higher freight costs negatively impacted the margins. The management expects RM costs to decline 1-2% in the next quarter. The company might pass on some of the benefits resulting from softening RM costs.
- **Gross debt level stood at INR32b in FY23**, while gross cash and cash equivalents stood at INR20.75b. The management expects gross debt to decline further. The company intends to use cash reserves exclusively for expansion purposes or potential acquisition opportunities. It does not plan to allocate cash toward debt repayment.
- **Capex- FY24** guidance of INR5.5-6b including maintenance capex of INR2.5-3b and new products such as rubber tracks and giant solid tyres.
- The advanced carbon black project of 30k MT is delayed and the company expects to complete the same in 2HFY24.
- The brownfield capacity of 25k MTPA at Waluj has been successfully completed. The full ramp-up of this capacity is expected to be achieved over a period of six months. Waluj has total capacity of 55k MT/annum. At the company level, the achievable capacity currently stands at 360k MTPA.
- **Ended the year with 301k MT in FY23**. The company would need to increase its capacity to achieve its aim of 10% market share globally. There is ample room in Bhuj for further capacity expansion. Brownfield expansions will take 15-20 months to become operational.
- **Hedge rate for 4QFY23/FY23 was INR86.5/85.3**. FY24 hedge rate should be INR88-89. The next 8-10 months have already been hedged (~80% of the exposure).
- **Carbon black sales** to third parties account for 6% of the company's total revenue for the full year. The utilization rate of the carbon black plant stands at 85-90%.



KALYANI

BHARAT FORGE

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Bharat Forge

Current Price INR 809

Buy

- **Demand outlook** - Domestic CV industry for FY24 is expected to grow by single digits. Demand is expected to remain positive over the next two to three years. The company anticipates that the next two to three quarters will be favourable, primarily due to reduced channel inventory and increased demand from infrastructure-related projects.
- **PV segment** both global and domestic - The PV segment, both internationally and domestically, experienced a decline in sequential performance, due to certain challenges related to supply and demand adjustments. The company is



optimistic about recovering from this setback as no significant structural issues have been identified so far.

- **Global truck business** - Demand is stable but seeing supply-side challenges. US - Demand is still holding up, while order backlog too is strong.
- There have been some supply chain difficulties that are not just specific to semiconductor and despite this the company has managed to increase its market share across various areas. Europe - Similar condition in EU wherein demand is strong but supply chain issues are affecting build. Rest of the year will be strong and should remain at a similar level. South America - Seeing some decline there but BHFC's base is very low.
- **Industrial - FY24** projection is yet to be out. Construction and mining industry are growing rapidly. Many companies are moving production to India and it is soon expected to become a major export hub to Africa, Australia, and South East Asia. Domestic mining would ~10% of the total industrials. The Oil & gas sector outlook is steady.
- **New order** wins worth INR15b for standalone business across component business and industrial verticals.
- **Defense** - This is the biggest inflection point for the company. All the IPs are home grown. It currently has exports order of over INR20b and received AOM for 300 ATAGS guns. Also, the company has significant orders for Protective vehicle, components, and consumables across India and globally. This business will cross USD100m this year with solid profitability and return ratios. Guns are approved and ready for trial. This is only the initial order (for four years), overall order will be huge. The new mega plant will be ready by Jan-Feb'24. By March'24, facility will be ready for the production. The company will have 3x capacities by that time. Profitability will be positively surprising for everyone as BHFC controls the IP and the entire value chain.
- **Aerospace** - Has grown more than 100% YoY in FY23. It is expected to grow by 30-50% this year as well. Now the business accounts for 11% of the revenue. The target of achieving INR5-6b per year is well within reach.
- **AI forging facility** is overbooked- There has been a 25-40% increase in prices, and as a result, the company is currently in the process of cost recovery from multiple customers. This process is expected to be finalized within the next 1-1.5 months. Utilization stands at ~50% and the company is targeting mid-teen EBITDA margin by 2HFY25. Should see black numbers from 1Q in EU and from 3Q in US.
- **JSA-** Revenue of INR438cr in first year. Won INR4b plus orders and expect this business to substantially ramp up in the next two years. Acquisition of new unit in Coimbatore (ISML) will close in the next two weeks. Led by the capex in JSA and ISML, the company will increase capacity by more than double (from 40k tons to 120k tons) in the next two years and revenue will also more than double in the next two years.
- **E-mobility- Tork-** The company has successfully sold more than 1000 bikes without any safety incidents or recalls. They have also received incentives as most of the parts used are locally sourced, except for the batteries. Furthermore, the company is actively increasing its production capacity, with a new plant being operational for the past six weeks. The current aim is to increase the production capacity to 1800 bikes from the current 1500 and then to over 2000.



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BOSCH

Neutral

Current Price INR 18,990

- **Mobility business grew 23.7% YoY in 4QFY23** largely led by growth in market demand and low base v/s 4QFY22. Within the business, revenue for Powertrain solutions jumped 27.5% YoY, Aftermarket rose 14.5%, and 2Ws increased 17.6%.
- **Beyond mobility business grew 7.8% YoY** in 4QFY23 driven by healthy demand and execution of high number of orders. Within the business, revenue for consumer goods segment grew marginally by 1.8% YoY while the Building technologies (BT) grew 44% YoY.
- **Outlook: Management indicated revenue growth of ~15% YoY in FY24E.** This would be driven by stable growth in MHCVs and PVs along with increasing content per vehicle. The company has seen record acquisition of projects in FY23 catering to TREM5 and OBD2 regulations. This should result in strong order book for the next 3-5 years. BOS won new orders for different categories such as fuel injection systems, brakes, connectivity, etc.
- **Content per vehicle is expected to grow consistently:** BOS continues to see an increase in content per vehicle due to components supplied for exhaust gas treatment (EGT) and implementation of BS6 stage 2. Implementation of TREM5 across the category will further drive the content. Electronics is another example wherein there has been a huge content enhancement. Earlier there used to be just one ECU per car which has now risen to multiple ECUs for different functions.
- **Trade cost for RM** has gone up sequentially in 4QFY23 led by higher trading content in OBD2 norms and mix. However, the focus on localization will continue.
- GDI is an important technology and it has become standard in advance markets. With dominance of diesel coming down in India, growth will be seen for GDI especially in segments such as PVs.
- EBITDA margin of recent years are not directly comparable with historical EBITDA margins. Diesel mix has been going down for domestic PV industry (20% now vs 48% few years ago) which is affecting margins for BOS adversely. However, despite reduction in SUV mix, the company has grown by double digits.
- The Board has recommended a final dividend of INR280/share. With this, the total dividend payout for FY23 would be INR480/share (including interim dividend of INR200/share) vs INR210/share for FY22. FY23 dividend was exceptional (on completion of 100 years) and hence is not sustainable at the same rate.
- While the supply situation now is relatively stable than FY22, challenges are still sustaining.

CEAT

Buy

Current Price INR 1,968

- **4QFY23 overall grew 6% YoY/7% QoQ** wherein replacement/OEM/exports grew 5%/8%/15% QoQ. FY23 volumes grew 11% YoY. Replacement/OEM/exports mix stands at 51%/32%/18% now. The company is putting a lot of efforts on exports, which will drive exports mix beyond 18% and will be margin lucrative. Looking at 1.5x market share gains in TBR, market leadership in PCR and eventually will move close to it in FY24.

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The screenshot displays a financial table for CEAT. The table includes columns for various financial metrics such as Revenue, EBITDA, and Net Profit, along with their respective growth rates. The data is presented in a structured format with alternating light and dark blue rows.

- **Demand outlook** looks stable but non-farm segment in rural is yet to see recovery. OEM growth should remain strong especially in commercial and passenger segments while 2W would be lower. Exports- Channel de-stocking is largely over. Believe exports to be a key growth contributor. There is an improvement in USD availability in developing economies, but there are recessionary pressures in EU and NA.
- **RM costs fell 8-9% in 4QFY23 v/s 3QFY23.** CEAT was largely able to hold on to the prices. RM basket to move in a narrow band, slightly inching up by 1Q end. The company indicated EBITDA margin to stay at low double digits over next few quarters.
- **Reduced capex guidance for FY24 (v/s FY23);** expect capex to be INR7-7.5b (including project capex of INR5-5.5b) largely toward Ambernath Agri radial expansion and downstream assets in Chennai and Nagpur.
- **Incurred growth capex of INR7b** in FY23 with total capex at INR8.9b (in line with broad guidance of INR9b). The company has sufficient capacities to take care of the near-term growth. Spent INR2.1b of capex in 4QFY23 (including INR1.28b of project capex).
- **Current utilization levels:** The largest factory is in Halol and its current utilization is ~80%. Utilization is similar in Nagpur and Chennai. Ambernath is in the expansion phase. In Chennai utilization level is ~60%. Overall, the utilization is 75-80% and there is headroom left for capacity increase in most of the plants.
- **Net working capital reduced by INR2.21b in 4Q vs 3Q despite capex.** Overall working capital reduced by INR1.70b in FY23 vs FY22 led by lower inventory and higher payables. Consol net debt declined to INR20.93b (vs INR20.97b in FY22). Ended year with D/E of 0.6x and Debt/EBITDA at 2.1x.
- **Ambernath plant-** To install additional 20% capacity in next couple of quarters. Current capacity is 105 tons per day and aims to increase to 150 tons per day by end of the year. Order book is healthy hence sales will catch up faster. Also adding capacity in **Bhandup** for the bias range of agri and OTR.
- **The company currently has around 750 STUs-300 radial and 250 bias and 200 OTR.** Added 20 SKUs in 4QFY23 and adding another 20 in 1QFY24. Focus is on getting into new segments such as forestry, lawn and garden, agro industrial application, puddling, etc. All this is largely for the exports market.



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Craftsman Automation

Buy

Current Price INR 3,964

- **Management indicated 20% YoY growth on value additions for FY24E** (slightly higher for Aluminum and Industrials divisions) largely driven by growth in volumes for existing customers and new customers/product additions. While 1HFY24E growth will be driven by CV/PV, the other segments such as Farm Equipment and Construction will witness traction from 3QFY24E onwards.
- **DR Axion India – Expect 10-15% YoY growth in FY24** driven by product mix and growth in customer base. One of the customers is looking to setup a new plant in the western part for which if the company gets the order then growth will be higher. EBITDA margin for 4QFY23 was marginally below 11% and is likely to be in the range of 14-15% in FY24. Capacity utilization as of Dec'22 was 80% of installed capacity. DRAIPL has incurred a capex of INR300-350m resulting in capacity expansion by 10%. It has further headroom to grow by 20-25%.

Craftman Automation

Q4 FY23 (12 months ending 31st March 2023)

Particulars	Q4 FY23	Q4 FY22	Q4 FY21
Revenue	1,00,00,00,000	95,00,00,000	90,00,00,000
EBITDA	15,00,00,000	12,00,00,000	10,00,00,000
EBIT	10,00,00,000	8,00,00,000	7,00,00,000
Profit before tax	8,00,00,000	6,00,00,000	5,00,00,000
Profit after tax	6,00,00,000	4,00,00,000	3,00,00,000

Management Commentary: The company has achieved a strong performance in Q4 FY23, driven by increased demand and improved operational efficiency. The net block is expected to increase by INR1b, and growth on value addition would be over 20% resulting in improving ROCE.



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Eicher Motors

Q4 FY23 (12 months ending 31st March 2023)

Particulars	Q4 FY23	Q4 FY22	Q4 FY21
Revenue	1,00,00,00,000	95,00,00,000	90,00,00,000
EBITDA	15,00,00,000	12,00,00,000	10,00,00,000
EBIT	10,00,00,000	8,00,00,000	7,00,00,000
Profit before tax	8,00,00,000	6,00,00,000	5,00,00,000
Profit after tax	6,00,00,000	4,00,00,000	3,00,00,000

Management Commentary: The company has achieved a strong performance in Q4 FY23, driven by increased demand and improved operational efficiency. The net block is expected to increase by INR1b, and growth on value addition would be over 20% resulting in improving ROCE.

- **Capex – Guidance for FY24 at INR3.2b** (v/s INR3.09b in FY23) largely towards refurbishment of old equipment and increasing semi-automation in material handling. While the net block is expected to increase by INR1b, growth on value addition would be over 20% resulting in improving ROCE.
- **New business opportunities or ramp up** – Business in Aluminum division is likely to grow due to ramp up in order from Stellantis in 3Q. Further, the company is going through the validation phase for supply of a critical part for one of the domestic SUV that is likely to start from Jul'23.
- **Cash conversion cycle has come down to 50 days from 60** for standalone business. However, at consolidated level, working capital cycle for FY24 is expected to increase as DRAIPL has raised RM inventory to 30 days (from 3-4 days earlier) considering the decline in aluminum prices.
- **The company reported ~27% YoY growth on value additions for 4QFY23 standalone business.** Value additions for Powertrain/Aluminum/Industrial divisions grew ~24%/37%/38% YoY to INR2.41b/0.79b/0.73b.
- **PBIT margin for Aluminum division has improved to 11.4% in 4QFY23** (v/s 6.3% in 4QFY22). This was largely driven by increase in value addition to net block at ~76% in 4QFY23 (v/s ~59% in 3QFY23 and average of ~42% for entire FY23). For Powertrain division, value addition to net block stood at 103% in FY23 (v/s 106% for FY22). At overall level, it stood at 93% in FY23 (v/s 78% in FY22).
- **D/E has increased to 0.72x as of FY23-end** (from ~0.63x). However, the debt is expected to come down by INR2b at consolidated level in FY24 resulting in finance cost to be in the range of INR1.5-1.6b for FY24.

Eicher Motors

Neutral

Current Price INR 3,727

- **Domestic demand for RE** is quite resilient, supported by new products. Overall 2W demand is still slow and as it improves RE will also see broad-based growth in its portfolio. It has a strong line-up of launches for FY24.
- **Exports:** Hunter 350 has been launched across APAC, Europe, and Americas, whereas Super Meteor 650 has been launched in Europe and will soon be launched in APAC and Americas as well. The company has expanded its CKD operations to Brazil, taking the total number of CKD operations to four (Argentina, Columbia and Thailand being other countries).
- **Realizations growth in 4QFY23 was driven by** a) higher exports share, and b) full benefit of price hikes of Nov-22. It has taken a 1.5% price hike for the key models from 1st May 2023 (though there is price protection offered to open bookings) in anticipation of cost inflation on commodities.
- **Gross margins improvement of 120bp QoQ was driven by** a) RM savings of 90bp QoQ, b) price hikes of Nov-22, c) higher exports and d) cost-cutting initiatives.
- **Super Meteor has received tremendous response globally.** It has dispatched over 4,000 globally and production is expected to be ramped up in the coming weeks. Super Meteor is a pure cruiser and may not be an upgrade product for existing Classic 350cc customer.
- **Hunter 350** was launched in A & B class cities in the initial phase, but now the company's focus is on launching it in other cities as well. Hunter production ramp-up is almost complete.

- **Non-motorcycle revenues grew 29% YoY in FY23 to INR20.4b**, driven by 32% growth in accessories business. To further enhance customer experience, the company is adding more SKUs in accessories and apparel. Additionally, the company has bought in an online configurator for accessories, which is expected to boost accessories sales. The company believes there is significant headroom to increase the penetration of non-motorcycle revenues in the export markets.
- **Sales network in India is now at 1,090 large stores** (v/s 1,063 in FY22) and 969 (v/s 1,055 in FY22) studio stores across ~1,750 cities. The company's focus is on optimizing retail network.
- Financing penetration stood at 55% in FY23.
- Bullet 350 is currently compliant with OBD norms and is expected to transition to the J Platform in the future.
- The company plans a capex of INR10b in FY24 for new products in ICE and EVs, as well as toward establishing EV manufacturing facilities.
- **For EVs**, the company's focus is on product development and not on capacity creation. It has space at the Vallam plant for EV line. The company is focused on creating disruptive product in EVs and developing a supply eco-system. It has put in place a strong capable team and investing in all enabling areas. Also, its recent strategic investment of EUR50m in high-performance electric motorcycle maker, Stark Future SL, would focus on collaborative R&D of electric motorcycles, technology sharing, technical licensing, and manufacturing.
- **CVs**: It expects double-digit growth in FY24 for the CV industry, driven by a) higher infra spend, b) replacement demand (for >6 years old) due to productivity issues, d) continued recovery in HD trucks and buses (which are still materially lower than the previous peak). In buses, it expects strong growth from a) STUs for replacing the old fleet, and b) the school segment.



ENDURANCE
Complete Solutions

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Endurance Technologies

Buy

Current Price INR 1,520

India business

- Consumer sentiment indicates that the 2W industry is expected to grow 10-12% YoY; however, uncertainties remain. ENDU is focusing on getting new orders in EVs and ICEs.
- ENDU won new orders worth INR9.35b from OEMs in FY23 (ex-BJAUT), including HMSI, HMCL, Ather, MM, Hero Electric and Tata Motors. These orders include INR7.8b of new business and INR1.55b of replacement business.
- Since FY20, in India, the company has won new orders worth INR28.88b, including new business worth INR21.06b and replacement business worth INR7.82b. Out of INR21.06b, orders worth INR4.41b have been executed in FY23 and INR6.92b in FY24 and the balance will be done in INR9.73b in FY25-26.
- EV- Total business win for EVs till date is INR6b (excluding Maxwell) and includes new business worth INR3.77b from Ather, Ampere and Hero electric in FY23.
- For CVT, the product is at the final stage of testing with HMCL, where traction is less than expected. Hence, the company is still evaluating prospects. Dual channel ABS (for BJAUT) is expected to start from 2QFY24.

EU business

- While demand sentiment is not very positive, overall sentiment is improving gradually. Production in the EU market grew 17% YoY in Apr'23. Production in

the German market increased by 29%/24%/67% YoY in Jan/Feb/Mar'23. OEMs are stocking back.

- It won orders worth EUR83.87m mainly from VW, Daimler and Stellantis. It has won order worth EUR158m in the last two years.
- ENDU achieved EBITDA margin of 17.8% in 4Q, led by 100% recovery of energy cost and 45% of credit assets given by the Italian government. The government has reduced the contribution to 20% from Apr'23. However, ENDU expects the margin trajectory to remain positive as the reduction in incentive should be offset by falling energy costs, which declined 25% QoQ.

Maxwell

- It reported FY23 revenue of INR180.29m and an operating loss of INR118.51m.
- The company won new BMS business worth INR1.290b in FY23, including orders worth INR700m from Hero Electric (supply to start from Jul'23) and INR495m from Ampere (supply to start from Sep'23) in FY23. It has won orders worth INR496m till date in FY24 and currently has RFQs worth INR1310m. Since FY22, Maxwell won orders worth INR3.28b (expected to fully realize in FY26).

Others

- Aftermarket sales grew 2.9% YoY to INR4.3b in FY23. Aftermarket contributes ~6.5% of India sales and the target is to take it to 10% by FY26.
- Exports fell 5.6% YoY to INR2.1b in FY23. ENDU is currently exporting to 31 countries and wants to add five more countries in FY24. The company believes a recovery will start from Jun-Jul'23 as the situation has already started improving in countries like Sri Lanka, Bangladesh and Africa.
- New EV orders contributed ~42% of total business (including Maxwell).



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Results Update



Escorts Kubota

Neutral

Current Price INR 2,230

- FY24 domestic tractor volumes are likely to post low-to-mid single digit growth, despite weak 1QFY24, due to: a) good MSP prices, b) high water reservoir levels, and c) healthy growth in non-Agri tractor sales.
- Tractor PBIT margin to reach 14-15% level by 4QFY24 driven by: a) further savings in RM cost, b) mix improvement and c) cost-cutting initiatives. It is expecting further softening of prices for steel, casting and rubber (yet to see the benefit of correction in rubber prices). The entire cost inflation has been passed on without contribution margins.
- Tractor sales to non-Agri segment, which is ~30% of the market (including 15-20% for pure haulage use), is expected to see 15-20% growth in FY24 driven by higher investments in infra.
- 4QFY23 retails grew 14%, which were lower than expected, benefitting from Navratras but hit by unseasonal rains. However, inventory levels are normal at 4.0-4.5 weeks as retails were higher than wholesales.
- Tractor PBIT margin improved 160bp QoQ (-550bp YoY) to 9.9%, led by better realization and soft commodity cost.
- Domestic tractor market share improved 40bp QoQ to 10.9% in 4Q.
- Exports through Kubota channel was at ~40% of total export in 4QFY23 (30% for FY23).
- Manufacturing JV is currently exporting components to a few countries. This JV also imports parts of engines, which will be localized as more products get

introduced over next 2-3 years. This will further aid exports of components from India.

- Market share improvement would be driven by new products for domestic and exports, most of which will be launches by FY26. Modification to existing products may happen earlier.
- Trem-4 would result in cost increase of 10-15% in >50hp tractors; however, price increases will be gradual as these tractors get introduced.
- Over the next five years, ESC will increase capacity to 300k by adding a Greenfield plant from current capacity of 170k (incl. 50k at JV).
- Construction Equipment business is likely to grow 10-12% in FY24, with margins expanding further over FY23 levels led by RM savings and operating leverage.
- Railways business to grow in double digit driven by new products and exports. ESC's Mar'23-end order book stood at INR10.5b. It expects localization benefits on the new products to reflect in P&L only in FY25, driving margin improvement.
- Merger of two JVs with Kubota is delayed due to delay in regulatory approvals and is now expected by Dec'23-Jan'24. Merger would be w.e.f. 1st Apr'23.



Click below for
Results Update

The screenshot shows the financial results of Exide Industries Limited for the fourth quarter (Q4) and full year (FY) 2023. The table includes various financial metrics such as Revenue, Profit Before Tax (PBT), Profit After Tax (PAT), and Earnings Per Share (EPS) in both Indian Rupees (INR) and US Dollars (USD). The data is presented in a structured format with columns for the period, metric, and values.

Exide Inds.

Buy

Current Price INR 212

- EXID's 4QFY23 domestic sales grew led by OEM demand, but replacement demand was moderate. Industrial demand was healthy across segments. Exports were weak though.
- For FY24, management expects replacement market to pick-up and exports to recover as well.
- Industrial segment is witnessing 20-30% growth in FY23 in UPS, Solar and traction verticals (70% of total industrial).
- Margins were hit by higher RM cost and higher freight rates. Lead price was higher by 4% QoQ, impacting margins adversely by 2pp.
- It is focused on expanding margins through a) calibrated price hikes, b) mix optimization (product and channel mix) with higher share of premium products, and c) increasing operational efficiencies through digitalization initiatives.
- Li-ion project is progressing well with necessary approvals in place and construction is underway at Bengaluru. It has so far invested ~INR7.15b of INR40b capex for the first phase of 6GW plant. This plant is likely to start operations by end-FY25, and stabilize in 6-8 months. Homologation process takes 12-18 months, and is on-going in 2Ws, 3Ws, CVs and Telecom segments. It will leverage SVolt for sourcing materials. A commercial with SVolt involves fixed technical fees as well as royalty linked to sales (quantum not disclosed).
- Nexcharge (battery pack assembly business) has orders of INR6-7b for execution in the next 12-15 months for modules and packs. It has a capacity of 1.5GWh at Gujarat for modules and packs. It expects revenues of INR4-5b from this order to accrue in FY25.
- Capex: FY24 capex for core lead acid batteries is expected to be INR5-6b. Li-ion cell business (part of its subsidiary) is in the process of placing orders and would invest materially in FY24/25.



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Hero MotoCorp

Buy

Current Price INR 2,957

Expect domestic 2W industry to clock double-digit revenue growth in FY24

- While the premium segment is outperforming, the management expects demand revival in the commuter segment. The initial recovery is good, with rural too seeing growth. Marriage season demand will further help. Apr'23 and May'23 have been good months and HMCL expects well-balanced growth this year.
- Market share has been improving for the last 4-5 months. In 4Q, HMCL increased its market share by 3% QoQ/2% YoY.
- Its largest dealership network and strong retail finance penetration (currently at ~59%) should drive rural growth. Moreover, effects of the government's capex will come with a lag. Consumer spending is increasing in segments like hospitality, indicating healthy consumer confidence.

Segment/product-wise performance

- Xoom- Supplies have been ramped up. It gained market share in the 110CC segment and expects to see growth as supplies improve.
- Market share in Motor cycle was 51%. Its market share in 125CC increased to 22% (v/s 14% earlier). The company plans several product launches in the premium segment. It expects improvement in market share for the entry level segment as well.

EV- Plans to roll out Vida across 100 cities in CY23

- Prices have declined across the industry. However, the management expects the price correction should boost demand.
- EV capacities are quite fungible and can be increased if demand ramps up. EV penetration is happening faster. Initial 3-4 months for Vida were just a set up.
- Raw Materials: Cost escalation in the commodity (the way it has happened in the past) is unlikely. Out of 190bp YoY improvements in EBITDA margin, 70-80bp was due to op leverage, commodity cost reduction and LEAP savings. HMCL took a cumulatively price hike of INR4k/vehicle in FY23 and INR600/vehicle in Apr'23.

Inventory level currently stands at six weeks (stable QoQ).

- HMCL plans to launch a new product every quarter. It has hinted at record launches this fiscal year. Harley Davidson too will be launched this fiscal.
- Exports: HMCL is currently present in 40 countries. It aims to increased exports contribution to 10-15% of revenue. Exports mix for the industry is 25% while for HMCL it is much lower at 5%.
- Parts revenue stood at INR12.71b in 4QFY23 (v/s INR12.50b in 3QFY23 and INR11.50b in 4QFY22) and INR48.35b in FY23 (v/s INR39.34b in FY22). Export revenue for FY23 came in at INR11.50b.
- EBITDA margin target is 14-16% (same as earlier) in the long run. The underlying portfolio seems more margin lucrative.
- The Premium and EV categories are going to have major scope of growth. The company might consider M&A if it sees any healthy growth potential.

Mahindra CIE

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Mahindra

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Mahindra CIE

Buy

Current Price INR 506

India business:

- India revenue growth was despite a mix-market scenario.
- **Margin in India has further room for improvement**, led by recovery in 2W volumes. In the short term, it aspires to align India margin with CIE global level margin of 18% and in the medium term to 19% (v/s 1QCY23 reported margin of 16.7%).
- **For India EVs, MACA** has received several orders from M&M and TTMT. Further, it is working with 5-6 2W OEMs, as well as a few e-3W OEMs. Moreover, it is commencing EV components production in India, for supply to the EU, of certain steel-forged and pre-machined components.
- Management reiterated its aspiration of beating underlying industry growth by 5-10pp, with 25% of sales coming from new orders.

Europe business:

- Sales remained strong despite the uncertain market environment, as underlying PV industry grew 17.5% YoY. Favorable EUR-INR added 6% to the growth.
- **Metalcastello**: It is investing in capacity, especially for critical equipment. It is seeing weakness in the US (70% of Metalcastello sales) in the coming quarters.
- It expects growth to normalize for the market, with marginal growth going ahead.
- **EU EBITDA margin** benefitted from lower energy prices (one-third contribution), operating leverage (one-third) and internal efficiencies (one-third). It expects margin to sustain at current levels (but for seasonality).
- German forging business's (held for sale) strong performance was led by several one-offs. The sale process is ongoing and it expects outcome in 1-2 quarters.
- **The EU EV business acquisition**: MACA is working with several customers and already received a new battery packs business for a CV OEM. About 33% of its order book is made of EV components based on steel and aluminum forging (EV components and structural parts).
- The EU business has seen increase in interest cost as interest rates for MACA have gone up from 1QCY23.

Other

- India business is expected to grow 5-10pp above underlying market, whereas the EU business is likely to remain stable.
- M&A: It is actively looking for inorganic opportunities in light-weighting solutions in India. It typically looks at an RoNA of 15% in 3-5 years' timeline.

Mahindra & Mahindra

Buy

Current Price INR 1,406

Autos:

- **Open bookings for SUV stand at ~292k units.** XUV700/Scorpio-N bookings stand at 78k/117k units. Cancellations are less than 8%. The company lost ~10k volumes due to semiconductor issues in 4QFY23.
- **The current SUV capacity is ~39k, which is on track to reach 49k by 4QFY24.** However, the semiconductor shortage is impacting production by 10-12% largely for Scorpio and XUV700. Post that, the capacity of Scorpio-N and XUV700 will be 10k units each. Some capacity will come in for Thar and for its

The image shows a screenshot of a Mahindra & Mahindra financial report. It includes a table with multiple columns and rows of financial data, likely representing quarterly or annual performance metrics. The text is small and partially obscured, but the layout is typical of a corporate financial statement.

launch of a 5-door variant. Substantial investments will be done for creating EV capacity over the next 3-4 years, in addition to the existing target of 49k units.

- **More than 40% of the product portfolio is rural-focused.** Within the existing portfolio, Bolero Neo (~9k units per month), Scorpio Classic (~4k), XUV300 (~50% of the mix) and Thar (30-40%) are focused on rural/semi-urban areas.
- **XUV400:** The current order book stands at over 20k units. It has sold ~3k units since the launch. MM is receiving feedback on improving infotainment and interiors. It is focusing on stabilizing quality and back-end the supply by 2HFY24. MM aims for a run rate of ~1k units/month for the next 2-4 months and ~18k units this year. The company said the production for first lot of born EVs will start in 4QCY24, with the launch expected in early CY25.
- **Market share:** 4QFY23 SUV revenue market share at 19.6% (+170bp YoY); FY23 at 19.1% (+370bp YoY). LCV- FY23 market share at 45.5% (+520bp YoY). E3W- Highest ever volumes of 14.7k in 4QFY23 with market share of 67%.

Tractor/FES

- **Outlook:** MM expects the industry to grow by low single digits in FY24, led by healthy reservoir levels, growth in government spending in rural areas and positive monsoon predictions.
- **El-Nino:** Average tractor industry growth in El-Nino-affected years has been 8%. There were 5 LPAs in El-Nino years, of which 2 years had seen volume decline.
- **Market share:** 4QFY23 at 40.7% (+230bp YoY), highest in the last 12 years; FY23 at 41.2% (~300bp gain in last 2 years). It is focusing on lightweight tractors (industry size 50-60k units/year), where MM's market share is lower than its average share.
- **Swaraj lightweight tractor platform** (for 25HP and 29HP lightweight tractors) will be launched on 2nd Jun'23. The focus will be on lightweight products for specialist spraying and inter culture.
- **Mahindra Oja (K2 platform):** A global launch is scheduled for 15th Aug'23 and it will happen in phases in India, as well as globally.
- **Farm machinery:** FY23 revenue grew 38% YoY to INR6b in M&M, and subsidiary 'Mitra' (sprayers) added another INR0.5b. FY23 market share at 16.5% (350bp gain); launched medium segment rotavator.
- The company targets 15-20% market share in Brazil (vs 5-6% now). Geographies like Brazil, Africa and Turkey have high scope for growth, while the K2 platform will aid growth in the ASEAN market.

Others

- **Capex:** MM incurred a capex of INR34.4b in FY23. It has increased capex guidance by INR16b/INR11.25b for Auto division/MEAL investments over FY22-24E. Capex in the auto division would be attributed to capacity expansion (including pickups) and regulatory changes such as six air bags.
- **FES margins:** There were no major commodity benefits accrued in 4Q as rubber prices did not fall. It is seeing some inflation in 1QFY24 sequentially. There was a 160bp impact on PBIT margin due to the farm machinery business.
- **Capital allocation correction:** Most of the exits have been done while a turnaround of MANA (Auto) and Pininfarina (carrying at Zero value now) is pending.



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Results Update

Table with 4 columns: Particulars, FY23 Actual, FY24 Actual, and FY24 Estimate. Rows include Sales, Profit, and other financial metrics.

Maruti Suzuki

Buy

Current Price INR 9,711

- Demand is healthy, especially in urban and rural areas. In FY24, MSIL expects to grow faster than the industry. Driven by new product launches, MSIL is aiming for SUV segment market leadership in FY24.
- As per SIAM estimates, FY24 PV industry growth is expected to be 5-7%, but MSIL expects to grow much ahead of the industry thanks to new product launches. MSIL expects small car volumes to remain flat in FY23.
- It lost 170,000 units in FY23 due to the chip shortage, which is expected to ease in the next three quarters.
- The current order backlog stands at 412,000 units (v/s 366,000 units in Dec'22), of which CNG is 33%.
- Inventory levels at 2-3 weeks are much lower than normal.
- The contribution of green vehicles (CNG+ Hybrids) to domestic market sales increased to ~37% (~27% in FY22), with CNG penetration at ~20%. CNG sales have seen traction post recent changes in CNG prices.
- Discounts in 4Q stood INR13,300/unit (v/s INR11,100 in 4QFY22 and INR18,300 in 3QFY23).
- RM costs increased in 4QFY23 due to higher sourcing from Suzuki's Gujarat plant and Toyota. Commodity costs have been stable and JPY was slightly adverse. Going forward, it has seen signs of some inflation in steel prices, whereas some commodities like precious metals have corrected.
- CAFE-2: MSIL has the cleanest fleet with the lowest CO2 value.
- The FY23 customer mix has seen a slight increase in replacement car buyers (21% vs 19% in FY22), whereas first-time buyer was stable at 42% and additional car buyer was at 37%.
- FY24 capex is expected to be INR80b (v/s INR63.5b in FY23) for a new Sonipat plant, new models/projects, and maintenance capex, among others.
- In addition to the on-going greenfield plant at Haryana, the board has given in-principle approval for adding up to 1m p.a. capacity. However, details are yet to be worked out.



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Table with 4 columns: Particulars, FY23 Actual, FY24 Actual, and FY24 Estimate. Rows include Sales, Profit, and other financial metrics.

Motherson Wiring

Buy

Current Price INR 58

- Order schedules are stable. The company expects its EBITDA margin to improve, led by significant improvement in costs and the increased number of new launches.
- It has added two new plants at Noida and one new plant at Chennai. The ramp-up phase of new facilities is over and the utilization is expected to scale up in the upcoming quarters. These facilities would have to add more manpower, in case of an increase in demand.
- Focus will be on scaling up the businesses in new facilities. Usually, the company looks for capacity expansion, when the utilization level crosses 80%.
- EV – The company already has a significant number of RFQs already. Currently, the company is supplying to two out of the top three e-PV OEMs in India as well as two of the Top five e-2W OEMs in India.
- The company participated in the 23 new launches and 17 facelifts that took place in FY23 across PV, CV, and 2W segments.
- For e-2W harness, the initial import content was higher. However, localization is increasing and the industry is targeting at least 50% localization going forward.
- The working capital is expected to decline in terms of days. However, on an absolute basis, it is expected to increase due to the ramp-up of the business.



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Samvardhana Motherson

Buy

Current Price INR 80

- Developed markets production was 20% below the pre-Covid level, implying limited downside due to macro uncertainties. Emerging markets are back to the pre-Covid level.
- SMRPBV's net order book increased to EUR19.7b (v/s EUR18.2b in 2QFY23 and EUR16.1b in 4QFY22), with EVs accounting for 39% of orders.
- SAMIL's automotive division has booked business of USD29.6b (excl USD39.5b at SMRPBV) with a share of EVs at 20%. The average duration of these booked businesses is 5-6 years.
- Capex in FY24 is expected to be INR30b (v/s INR21.8b in FY23) to support growth, especially in the Indian market. It is investing in seven greenfield plants (six in India and three for emerging businesses).
- Net debt (Ex-lease liabilities) was down INR10b QoQ to INR74.7b. It expects further moderation in working capital, as supply chain improves.
- Supplies to EVs were 7%/6% in 4Q/FY23.
- Energy prices were stable at the end of 4QFY23 but 3-3.5x higher than the pre-Covid level. It has been able to share an elevated cost structure with customers.
- The company witnessed improvement in production across key geographies. China volumes declined due to extended New Year holidays post Covid.
- Wiring harness: Revenue growth was driven by 1) good demand for agri-equipment and off-highway in North America, 2) sustained demand for heavy duty trucks in North America and Europe, and 3) PV growth in the Indian market.
- Modules and Polymer products: Revenue growth was driven by improved volumes in Europe and North America due to easing supply chain. Margins improved on account of 1) softening in energy prices, though still remain elevated, and 2) volatility in commodities and general inflationary pressure.
- Vision System sustained revenue QoQ, as a decline in volumes in China was offset by a recovery in Europe. Margin recovery was driven by higher operating leverage, efficiency improvements and partial pass-through of cost inflation.

SONA BLW Precision

Neutral

Current Price INR 533

- EV mix continues to expand. BEV revenue grew 37% YoY to INR2.04b in 4QFY23, contributing ~28% to consolidated revenue. For FY23, BEV contributed ~26% to revenue (v/s 25%/14% in FY22/21), with revenue growth of ~33% YoY to INR6.7b. The company added one new program during the quarter, resulting in a total of 42 programs at the end of FY23. Out of this, 10 programs have fully ramped up, 10 are in the ramp-up phase and the remaining 22 are not yet in production.
- SONACOMS won new order for Class 4 electric CVs worth INR5.01b, with SOP from 4QFY24. It will supply final drive differential, intermediate gears and input rotor/shafts. Realization for the company's current product portfolio is between USD600-900.
- Total order book stands at INR215b at the end of 4QFY23, with EV now accounting for ~77% of the order book. SONACOMS added new orders worth INR80b in FY23 as it won 35 programs and added seven new customers.
- SONACOMS generated FCF of INR1.99b in FY23, and the entire capex of INR3.5b incurred through internal accrual. Moreover, the management has guided for a capex of INR10-11b over the next three years.

- Benefits of PLI are not expected to realize in FY23. The government has come up with SOP in Apr'23, and currently the company is evaluating the same. It has already applied for product approval and expects to receive benefits in FY24. If the benefits are accrued in the coming years, it would be in a prospective manner rather than retrospective.
- The company is seeing a softening in prices of most RMs, except for Alloy steel prices, which remain high (YoY).
- SONACOMS aims to reduce customer concentration going forward. Currently no customer contributes more than 20% of revenue. The management hints at bringing this down to not more than 15%.
- While uncertainty around growing EV penetration will sustain due to a possibility of calling off FAME subsidies, the company believes growth in traction motor business would largely be driven by gaining incremental market share.
- Progress on magnet-less motor: It is still in the validation phase, while the company is also working on several technologies. The company had shown one of the motors during the Auto expo as well.

TATA MOTORS

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Company	Current Price (INR)	Change (%)
Tata Motors	568	1.2
Maruti Suzuki	10500	0.5
Hero Cycles	1200	0.8
TVS Motor	850	0.3
BSNL	150	0.1
Reliance	2500	0.2
Wipro	450	0.4
Infosys	1800	0.1
Adani	1200	0.6
Coal India	350	0.2
Oil India	200	0.1
ONGC	150	0.3
Power Grid	100	0.1
Power Finance	80	0.2
Power Trans	60	0.1
Power Dev	50	0.1
Power Infra	40	0.1
Power Sec	30	0.1
Power Trans	20	0.1
Power Dev	10	0.1
Power Infra	5	0.1
Power Sec	2	0.1
Power Trans	1	0.1
Power Dev	0.5	0.1
Power Infra	0.2	0.1
Power Sec	0.1	0.1

Tata Motors

Buy

Current Price INR 568

- **JLR expects gradual improvements in chip supply** to continue during FY24. It is likely to achieve EBIT margin of over 6% in FY24 (v/s 2.4% in FY23). It has guided for a capex of GBP3b (v/s GBP2.35b in FY23), FCF of GBP2b (v/s GBP0.52b in FY23) and net debt of <GBP1b by FY24 (v/s GBP3b as of Mar'23). FCF generation would be driven by strong operating cash flow as well as support from working capital release (in 2HFY24).
- **JLR wholesales are likely to be ~400k units in FY24** with 1HFY24 wholesales run-rate to be similar to 4Q level of ~95k/qtr. As production improves, it expects ~5,000 units/month reduction in the current order book of 200k units in 1HFY24. This will enable them to stimulate demand by increasing VME by small extent to increase sales.
- **In FY23, JLR witnessed cost inflation due to commodities** (~150bp impact), semi-conductor (~110bp), energy (70-80bp) and other areas (30-40bp). Its expectation of >6% EBIT margin in FY24 is based on: a) volume recovery-led operating leverage, b) mix, c) moderation in commodity/energy prices, d) moderation in premium chip prices, and e) reduction in compensation to vendors for lower volumes. However, adverse FX and rise in VME would dilute the benefits of the above drivers.
- **EV launches:** First BEV RR will start taking orders from end-CY23, but production would commence from end-CY24 and deliveries to begin from early-CY25. Likewise, first of the three electric Jaguars will be unveiled in CY24 and deliveries to start in CY25.
- **China's business profitability in FY23 was the highest** in the last five years, despite two months of lockdowns. Its market share in PV industry (at 3%) and large SUV segment (at 9%) is stable over the last three years.



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The screenshot displays a detailed financial report for Tube Investments of India. It includes sections for 'Key Highlights', 'Financial Performance', and 'Management Discussion'. The report covers various financial metrics such as revenue, profit, and cash flow, along with a management commentary on the company's performance and future outlook.

Tube Investments

Buy

Current Price INR 2,900

- Volumes grew in high-single digit but pass through of deflationary RM costs hurts revenue growth: RM prices moderated in 2Q/3QFY23, and this decline was passed on to the customers in 4Q, resulting in lower revenue (for both Engineering and Metal formed business). However, absolute volumes in engineering and metal formed business have grown by high single digits on a YoY basis.

Metal Formed business

- Railways is in the process of scheduling production plans and it expects to release tenders in 2QFY24. TI will be focusing on passenger coaches. While the company already has products in the freight segment, Railways is undergoing its DFC plan and the company will be ready to take on that demand once the plan is out.
- Mobility business – The loss on the bicycle was a one-time impact and it would have been on a YoY basis. This one-time impact was booked in 4Q.

EV business

- 3W launches have already been done in Karnataka, Kerala, and Andhra Pradesh. Currently, the company is in the process of ramping up production. However, due to change in the standards dictated by the government, the company had to homologate the products, which delayed the process.
- Tractor - The company is in the process of developing the products. Trials will be done in June-July. Heavy Duty - Products have already been homologated. Currently, the company is in the process of selling the trucks. Manufacturing will take place at the new facility in Manesar.
- Capacities - 3W-90k annually, tractor-25k in phase one, and 2.5k-3k for Heavy Duty.
- TI-CMPL has raised capital, which will be utilized toward product development and manufacturing. Currently, the company is facing a PBIT loss (INR280m in 4QFY23 and INR1.02b in FY23) and it foresees that it will take at least two years from now to reach EBIT breakeven. The company expects the 3W and Heavy Duty segments to achieve the breakeven status before others.
- S/A Capex for FY24 at INR8b, of which, INR2.85b would be for CDMO and INR2.33b for Lotus Surgical, and the remaining will be largely used for core businesses. Further, it would incur a capex of INR3-4b in the EV sub for product development and capacity enhancement.
- RM price had moderated in 2Q/3Q and the price decline had partially been passed on to the customers. The remaining will be passed through in 1Q.
- The management indicated TI-1 will grow by 12-15% per year.
- Exports mix within SA business is 17%. The company aims to double the contribution from exports over the long term.
- CDMO business has a huge potential as it is being currently done in China, where large players are 10x the size of the largest player in India. Due to geopolitical changes, it provides huge opportunity for Indian players. They have taken a very long term view (20-25 years) for this business.



Click below for
Results Update

The screenshot shows a detailed financial report for TVS Motor Company. It includes sections for 'Key highlights at a glance', 'Financial performance', and 'Operational performance'. The report covers the period from FY2023 to FY2024, with specific data points for sales, production, and financial metrics. The overall tone is positive, highlighting growth and operational improvements.

TVS Motors

Neutral

Current Price INR 1,348

Domestic – Urban recovery visible, rural continues to remain weak

- Retail sales grew ahead of the dispatches. While there is urban recovery, rural continues to remain slow. Healthy demand revival is contingent on good monsoon. Management expects TVSL to outperform both domestic and exports markets.
- Ronin is doing 2.0k-2.5k per month. Raider's run rate is now over 30k/ month and Jupiter has over 25k/month. Raider/Jupiter 125/Ntorq are likely to grow further as 125CC industry too is doing well. Management is making constant efforts to see which product is doing well and then will decide on increasing the capacity. It has maintained channel inventory of 25-30 days in most part of the year.

Exports – Most of the inventory correction is over now

- Ensured retail sales were better than wholesales resulting in inventory correction. 2W export industry volumes declined in 4QFY23 due to issues related to Fx availability, and higher inflation.
- Most of the export geographies will see growth in the second half of the year. Further, the company has plans to expand in LatAm and the Middle East markets.
- Aims to start supplying iQube by 2QFY24-end or 3Q beginning.

EV – Order book stands at 30k units

- Sales: Domestic industry growth of 3.1x YoY in FY23. TVS' domestic sales were 97k units in FY23 v/s 11k units last year. For 4QFY23, the company sold 43k iQube v/s 29k in 3Q.
- Supply chain shortage: Some small set of suppliers in electronic components faced challenges. Momentum to improve from May'23. As per the new EV norms, the company has transitioned to AIS-156. As a result, the production for Apr'23 was hit by supply chain shortages. But it is confident to regain the growth momentum.
- Network – It has 235 touch points in 135 cities. TVSL will be launching a series of new products between 5.0kW and 5.5kW in 9-15 months. It has scope to increase the capacity.
- 3Ws – Both passenger and cargo are getting ready and it will be launched in the upcoming quarters.
- Goodwill benefit scheme to cost INR200m: TVSL refunded the amount of INR1.7k/vehicle to the customers under the goodwill benefit scheme wherein the overall cost impact would be less than INR200m for the company. This announcement has come on the back of FAME-II compliance issue that noticed OEMs working around the policy by selling the charger separately.
- RM and price hikes – Commodity prices are expected to remain in the same level or slightly lower. The company has taken price hikes of 0.5% in 4QFY23 and ~1% in Apr'24 for the OBD2 norms. There was a further price hike of 0.8-1% in May'23 as well. Management expects moderate price increase in 1QFY24.

Other highlights

- TVS Credit has a book size of INR205b. Collections have been robust. For FY23, PBT stood at INR5.11b (v/s INR1.51b last year); 4QFY23 was at INR1.4b (v/s INR0.75b in 4QFY22).
- TVS' PBT stood at INR500m in FY23 v/s INR300m last year.
- 4QFY23 Spares revenue was INR6.67b (10% of 4QFY23 revenue) while FY23 was INR26.40b (~10% of the FY23 revenue). Exports revenue was INR13.66b.
- Management has guided a capex of INR9-10b towards both ICE and EVs. Expect investments be to the tune of INR7b.
- Norton - The company has hired the right talent pool and a lot of work is going on. Management is confident to launch new products in super premium category.

CEMENT



- Most of the management teams expect cement demand to be upbeat fueled by sustained demand from the government's infrastructure projects, and pick-up in real estate, private capex and housing demand from tier-II/III/IV cities. Cement prices remain stable from Mar'23-exit amid a strong demand and sharp correction in fuel price. In 4QFY23, fuel consumption costs for cement players declined 4-15% QoQ to INR2.1-INR2.7/Kcal, except for SRCM, which saw flat fuel costs. Going forward, fuel costs for most of the companies are likely to decline from 1QFY24 onwards given ~30-46% drop in imported petcoke and South African coal in CY23YTD.

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Insights and future outlook FY24	Capex plans
UltraTech Cement	<ul style="list-style-type: none"> ■ Cement demand was strong during 4QFY23 and the momentum continued in Apr'23 as well. All the regions contributed to strong volume growth. Cement capacity utilization stood at 84%/95%/100% in FY23/4QFY23/ Mar'23. Clinker capacity utilization stood at 83%/91% in FY23/4QFY23. ■ Cement demand should grow 7-8% YoY in FY24. UTCEM is likely to register 400-500bp higher growth than the industry, aided by its capacity expansions. ■ Cement prices remained stable despite high demand in 4Q. Prices are expected to remain stable, though the industry does not have a strong pricing power. ■ Fuel prices have been softening; however, given the volatility it is difficult to predict the movement. Average fuel cost was INR2.5/Kcal vs. INR2.6/kcal in 3QFY23. 	<ul style="list-style-type: none"> ■ UTCEM completed Phase-I expansion and its total domestic grey cement capacity stands at ~130mtpa. ■ Work on phase-II expansion of 22.6mtpa cement capacity has started and civil work is in full swing at most sites. Commercial production from these capacities is expected to start in a phased manner by FY25-26. ■ In FY23, UTCEM's capex stood at INR60b and it is estimated to remain at similar levels for the next two years. ■ It targets to increase WHRS capacity to 380MW by FY24 from 210MW currently. Every new capacity will have a WHRS facility and ~55% of the power requirement for the new plants can be met through WHRS.
Ambuja Cements	<ul style="list-style-type: none"> ■ In the Mar'23 quarter, the company redefined its supply chain and logistics in Himachal Pradesh, which affected supply into these markets for ~50 days. However, the outcome was positive with a reduction in freight costs. ■ Industry growth is estimated at 6-7%, while the company would post higher growth than the industry. ■ The management targets cost reductions of INR300-400/t through optimizing energy costs, transportation costs and other costs. ■ Kiln fuel costs declined 10% QoQ to INR2.21/Kcal (from INR2.45/Kcal), with a change in the coal mix and group synergies on coal procurement. ■ Its share of direct sales increased from 64% to 78%, while that of rail coefficient increased from 26% to 30%. 	<ul style="list-style-type: none"> ■ ACEM aims to double its capacity in the next five years to 140mtpa. This will require the addition of 40mtpa clinker capacity. It has outlined the first phase of expansion spread over seven locations. ■ ACEM plans to add capacity in a uniform approach, with most of the clinker line having a capacity of 4mtpa and grinding facilities of 2mtpa. The capacity expansion will be fully funded through internal accruals. ■ Out of total 10 clinker lines (4mtpa each), nine lines will be at exiting locations (brownfield expansion) and one at Mundra, Gujarat (Greenfield expansion). The Mundra Greenfield expansion will generate significantly higher IRR.
Shree Cement	<ul style="list-style-type: none"> ■ Cement demand is expected to remain healthy, mainly driven by the government's thrust on infrastructure development, improving demand in the commercial and industrial segments as well as the housing segment given the expectations of a normal monsoon. Volume guidance at 36mt implies 13% YoY growth in FY24. ■ The average fuel consumption cost was flat QoQ at INR2.53/Kcal (INR2.62/kcal in FY23 vs. INR1.69 in FY22). The spot petcoke price declined to INR1.8/Kcal (thermal cost at INR2/Kcal). It expects the fuel cost to come down to INR2.4-2.3/Kcal in 1QFY24, with a further decline expected in 2Q. 	<ul style="list-style-type: none"> ■ SRCM targets to increase domestic grinding capacity to 80mtpa by 2030, largely through the organic route. ■ The grinding unit in Purulia, West Bengal, (3mtpa capacity) will be commissioned by Jun'23. The integrated plants in Nawalgarh, Rajasthan (clinker/cement capacity of 3.8mtpa/3.5mtpa) and Guntur, Andhra Pradesh (clinker/cement capacity of 1.5mtpa/3mtpa) will be commissioned in 3QFY24 and early-FY25, respectively.
Dalmia Bharat	<ul style="list-style-type: none"> ■ In FY23, volume growth was ~1.5x of industry demand growth. The company recorded double-digit volume growth in the South and East regions and was able to enhance its market share in South without adding capacity. The industry is likely to grow 8-9% YoY in FY24. ■ Cement prices were stable in the East, Northeast, and West regions, while it softened in some markets in South in 4QFY23. 	<ul style="list-style-type: none"> ■ The company has entered into definitive agreements to acquire the remaining cement assets (clinker/cement capacity of 3.4mtpa/4.2mtpa) from JP group. In 3QFY23, it signed an agreement to acquire clinker/cement capacity of 3.3mtpa/5.2mtpa from the group. Regional expansion plans were reconsidered

	<ul style="list-style-type: none"> The fuel cost in 4Q was INR2.06/kcal (INR2.21/Kcal in FY23). The company expects a 5-6% reduction in the fuel cost in 1QFY24 and another 10% reduction in 2Q. 	<ul style="list-style-type: none"> after the JP acquisition and GU in Bihar, with 2.5mtpa capacity deferred. The total grinding capacity would reach 56mtpa by FY24-end. FY24 capex is estimated at INR50-55b, which includes the JP acquisition (except Super Dalla).
The Ramco Cement	<ul style="list-style-type: none"> It target volume growth of ~20% in FY24 (vs. ~35% YoY in FY23). IHB demand is healthy, while demand from infrastructure is estimated to be resilient supported by expectations of a good monsoon; increased allocation towards infrastructure and PMAY in Union Budget 2023. Blended fuel cost per Kcal was INR2.21 vs. INR1.88/INR2.43 in 4QFY22/3QFY23. TRCL changed 19% of the wind power capacity under 'Sale to grid' to 'Captive Use' and plans to convert the entire capacity for captive usage in FY24. 	<ul style="list-style-type: none"> The company commissioned RR Nagar line-III with clinker capacity of 1.04mtpa and cement capacity of 1mtpa in Mar'23. Given strong demand, the company would continue to operate older kiln at RR Nagar. Grinding capacity expansion at Haridaspur, Odisha (by 0.9mtpa to 1.8mtpa) is expected to be commissioned in 3QFY24. The company has commissioned one dry-mix mortar plant in Tamil Nadu in Dec'22 and another plant in Feb'23. The other two units in Andhra Pradesh and Odisha are likely to be completed in FY24. Capex of FY23 included INR6b for Kurnool, AP, and INR5b for RR Nagar, TN.
J K Cement	<ul style="list-style-type: none"> Industry growth is expected to be at ~10% YoY in 1QFY24; however, JKCE expects to grow at a higher rate, supported by capacity additions. It targets grey cement volume growth of ~15% YoY in FY24. Cement prices in most markets have been flat or down marginally from Mar'23- exit. However, prices should increase after the monsoon season. Petcoke (landed cost) is expected to decline from INR2.3-2.4/Kcal to INR2.1/Kcal in Jun'23 and further to INR1.8-1.9/Kcal. 	<ul style="list-style-type: none"> It is expanding grey cement capacity by setting up greenfield grinding units - 1) at Ujjain with a capacity of 1.5mtpa, which is likely to be commissioned in FY24; and 2) at Prayagraj with a capacity of 2mtpa, which is likely to be commissioned by 2QFY25. The increase in Panna's kiln capacity from 8,000tpd to 10,000tpd is expected to be completed after the monsoon season, which will support clinker requirements for these upcoming grinding units. Capex in FY24/FY25 is pegged at INR13-14b/INR7b.
JK Lakshmi Cement	<ul style="list-style-type: none"> Capacity utilization was at 89% vs. 77% in 3QFY23. Cement volume growth should be at 19% YoY in FY24E. Cement prices are largely flat so far. The average fuel cost stood at INR2.42/Kcal vs. INR2.57/kcal in 3QFY23. It is expected to decline further to INR2.31/Kcal in 1QFY24. The average fuel cost stood at INR2.57/kcal v/s INR2.3 in 2QFY23 (benefitted from low-cost fuel inventory in 1HFY23). The fuel cost is expected to remain flat QoQ in 4QFY23 and decline from Apr'23 onward. 	<ul style="list-style-type: none"> Capacity expansion (1.5mtpa clinker and 2.5mtpa grinding capacity) of UCWL is going as per schedule. The clinkerization line of 1.5mtpa is likely to be commissioned in 3QFY24, while the grinding capacity is expected to be commissioned in 2QFY25. A capex of INR8.5b has been incurred on this expansion until Mar'23 v/s total estimated capex of INR16.5b. Capex is estimated to be INR5b/INR3b in FY24/FY25. It will finalize its brownfield expansion plan at Durg, Chhattisgarh in FY24E and further expansion in UCWL in the next one year.
Birla Corporation	<ul style="list-style-type: none"> It targets volume growth of 15% YoY in FY24. Volume growth will be fairly spread, with a higher share from the Mukutban unit and rationalization of clinker utilization at existing units in Rajasthan, West Bengal and Central India. Cement prices are stable, and any significant price hike is unlikely in FY24 as players are looking to maintain their market positions. 	<ul style="list-style-type: none"> The Mukutban plant turned EBITDA positive in Mar'23 with monthly volume of 0.10mt (CU of ~31%). The aim is to achieve average monthly volume of 0.15-0.16mt with exit-monthly volume of 0.20mt in FY24. It aims to expand grinding capacity to 25mtpa from 20mtpa now and up to 30mtpa going forward, although a timeline has not been provided for the same. The priority would be to add a second line at Maihar, MP.



Click below
Results Update

The screenshot shows a detailed financial results table for Ambuja Cement. The table includes various financial metrics such as Revenue, Earnings Before Interest and Taxes (EBIT), Earnings Before Tax (EBT), and Net Profit, broken down by quarter and year. The data is presented in a structured format with columns for different financial indicators and rows for specific periods.

Ambuja Cements

Neutral

Current Price INR 455

Capex plans and future strategies

- The company aims to double its capacity in the next five years to 140mtpa from 70mtpa currently. This will require addition of 40mtpa clinker capacity. The company has outlined the first phase of expansion spread over seven locations. ACEM plans to add capacity in a uniform approach, with most of the clinker line having a capacity of 4mtpa and grinding facilities of 2mtpa. The company shortlisted a set of equipment suppliers and will place orders in the near term. The capacity expansion will be fully funded through internal accruals.
- Out of total 10 clinker lines (4mtpa each), nine lines will be at exiting locations (brownfield expansion) and one line at Mundra, Gujarat (Greenfield expansion). The Mundra Greenfield expansion will generate significantly higher IRR. It plans to use limestone sludge at this facility, which it will buy from a sister company.
- ACEM also revisited its EPC strategy to EPLC, as by breaking projects into parts could result in more savings. Ordering is at an advance stage and estimated cash outflow for expansion is INR70b in FY24.
- The Ametha clinker unit of 3.3mtpa and grinding capacity of 1mtpa are expected to be completed in 2QFY24. Another 1-2mtpa capacity addition is expected through debottlenecking in FY24. While the majority of the capacity expansion will be completed after FY24.

Targeting EBITDA/t improvement through operational efficiencies

- Management targets cost reductions of INR 300-400/t through optimizing energy costs, transportation costs and other costs.
- In the energy cost reduction, ACEM is increasing WHRS capacity from 70MW to 175MW by 2QFY25. It is increasing the share of AFR from 8.5% currently to 30% in the medium term (with target of ~15% by FY24-end). It is adding renewable energy capacity of 200MW by FY24-end. ACEM is entering into a long-term tie-up for domestic coal supplies. The company has captive coal mines Gare Palma with a capacity of 1.2mtpa and Dahegaon Gowari with a capacity of 2mtpa. These two coal mines together cater to 50% of current kiln coal demand. In the medium term, the company targets to acquire few coal mines and long-term supply contracts. All these initiatives will substitute ~30% of coal requirements (including coal requirements for CPP). The other area of cost reduction is fly-ash sourcing. For the current requirement of ~14mt, the company is considering long-term supply agreements, including with the group. These initiatives will result in cost reductions of INR250/t.
- In transportation cost savings, the company has three focus areas – 1) reduce lead distance; 2) optimize warehouse between ACC and ACEM; and 3) rail road mix optimization. The company is doubling the number of grinding capacity to 70 from 30, targeting average lead distance of 150km. The company has reduced road lead distance from 177 to 173 for ACEM and 165 to 161 for ACC. For warehouse optimization, the company targets to increase the share of direct dispatches from grinding units. The warehouse count declined to 670 from 943, and volume of direct dispatch increased to 55% from 50%. The company is buying 10 rakes and also exploring a sea route for transportation. These initiatives will drive savings of INR100/t.

- In sales and marketing – 1) the company identified 10 growth states to focus on with an aim to position either #1 or #2 in the segment; 2) it is increasing the share of B2B from current 21% to 25% by FY27 (growing faster than the trade segment), 3) it is increasing the share of premium products from current 22% to 29-30% and maintain leadership in the home buyer segment. These initiatives to help the company double the topline and expand EBITDA margin by 600bp (from last three years average).

Operational highlights (Consolidated)

- In the Mar'23 quarter, the company redefined supply chain and logistics in Himachal Pradesh, which affected supply into these markets for ~50 days. However, the outcome was positive with a reduction in freight costs.
- The share of blended cement increased to 92% from 91% in the previous quarter. The share of premium cement as a % of trade sales volume stood at 22%. Trade sales volume improved by 1% QoQ to 79% of total sales volume. Power and fuel costs declined by 18% QoQ. Kiln fuel costs reduced 10% QoQ (to INR2.21/Kcal from INR2.45/Kcal), with a change in the coal mix and group synergies on coal procurement.
- The share of direct sales increased from 64% to 78%, while that of rail co-efficient increased from 26% to 30%.
- Working capital improvement remains in focus and working capital turnover improved by 8 days.
- The company expanded its green product portfolio by launching two new products ACC ECOMaxX an Expert Green Concrete.
- Industry growth is estimated at 6-7%, while the company would post higher growth than the industry.



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Detailed Concall Transcript &
Results Update



Birla Corp

Neutral

Current Price INR 1,228

Highlights of Mukutban operation

- The company's objective is to ramp up the Mukutban plant with profitability. The plant became EBITDA positive in Mar'23. FY23 was a challenging year due to higher costs and muted pricing in Maharashtra. As a result, the company was not able to spread volumes across markets and refrained from pushing more volumes into the infrastructure segment, which is seeing major demand for OPC cement under non-trade.
- The focus is to increase volumes and ramp up capacity utilization as costs have started coming down. The variable cost of this plant has declined to INR2,800/t now from INR4,500/t when the plant was started. The commissioning of WHRS and capacity ramp-up will further help to control costs of this plant.
- Cement volume of this plant reached to 0.1mt in Mar'23 (cement capacity utilization of ~31%) and the management targets a monthly run rate of 0.15-0.16mt in FY24 (exit volume of 0.2mt i.e. ~62% capacity utilization). Clinker utilization is expected to be higher as the company will swap clinker for its grinding units in other regions.

Demand and pricing outlook

- Cement demand is expected to remain healthy, driven by higher government spending toward infrastructure development. Demand is healthy in the West

region, with the Gujarat markets witnessing exponential growth due to multiple infrastructure projects such as Bullet train, construction of Expressways, etc. The Maharashtra, Madhya Pradesh and Uttar Pradesh markets will witness higher pre-election government spending for infrastructure development. Government housing scheme PMAY is expected to increase demand in Rajasthan. BCORP has a good presence and market reach in these markets.

- The aim is to achieve 15% YoY volume growth in FY24. Volume growth will be fairly spread, with a higher share from the Mukutban unit and rationalization of clinker utilization at existing units in Rajasthan, West Bengal and Central India.
- Cement prices are stable and any significant price hike is unlikely in FY24, as players are looking to maintain their market position.
- Cement capacity utilization stood at 81%/89% in FY23/4QFY23. Its blended cement share remained high at 89%/90% in 4Q/FY23, aided by higher trade sales at 77% in 4Q/FY23 (each). Premium cement share stood at 54% (up 10% YoY) in 4Q and 51% (flat YoY) in FY23.

Profitability improvement

- The company expects a reduction in power and fuel costs by at least INR250/t YoY (v/s full year-average), driven by higher green energy share (commissioned WHRS at Mukutban) and increasing captive coal mining production. Currently Green energy share stand at ~22% of total power consumed. Further, BCORP is investing in kilns to equip them to consume AFR (industrial, agricultural and municipal waste).
- The company managed to control fuel costs by ramping up coal extraction from RCCPL's Sial Ghoghri captive coal mine and optimizing fuel mix. Production of coal at Sial Ghoghri increased to 0.35mt, up 72% YoY in FY23.

Capacity expansion

- The company aims to expand grinding capacity to 25mtpa from 20mtpa now and up to 30mtpa going forward, although a timeline has not been provided for the same. The priority would be to commission the second line at Maihar, MP. It has identified few locations for setting up grinding units, which will be dependent on market conditions. The Kundanganj GU rated capacity is 1mtpa which can be ramped up to 2.5mtp through internal optimization.

Incentive benefits

- The company is eligible for state incentives for its Mukutban expansion. It is eligible for 100% SGST incentive of up to 100% of project costs, which can be utilized in 20 years. As the company is availing input tax credit on capex, GST is not being paid, and hence incentives are not accruing. It expects incentive of INR600/t to start accruing from 2HFY24.
- Incentive benefits for its existing plant at Kundanganj will expire by end-FY24.



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Dalmia Bharat

Current Price INR 2,168

Buy

JPA assets acquisition status

- DALBHARA has entered into share purchase agreement (SPA) for acquiring 74% shareholding of Bhilai Jaypee Cement, having clinker/grinding capacity of 1.1mtpa/2.2mtpa, for an enterprise value of INR6.66b.
- It has signed a long-term lease agreement (having a term of seven years) with Jaiprakash Power Ventures for its Nigrie Cement Grinding Unit of 2 mtpa in

The image shows a screenshot of a financial statement for Dalim Bharat. It includes a table with columns for various financial metrics and rows for different periods. The table is partially obscured by a watermark, but the structure is clear. The metrics include revenue, profit, and assets, with values listed in Indian Rupees (INR).

Madhya Pradesh. The company has an option to purchase the unit anytime within the lease period at an enterprise value of INR2.5b.

- Additionally, the company has entered into a definitive agreement for acquiring JP super, having clinker capacity of 2.3mtpa, at an enterprise value of INR15b, and other costs up to INR1.9b. The ongoing JP super Dalla dispute is currently in arbitration between JPA and UTCCEM. The acquisition will depend on the final resolution of the matter.
- Earlier in 3Q, the company signed a definitive agreement to acquire JP group's clinker/cement capacity of 3.3mtpa/5.2mtpa at an enterprise value of INR32.3b.
- As per the management, these agreements are subject to fulfilment of certain conditions. However, the company is confident of starting operations in a couple of months, as these assets are not under IBC proceedings and will require only lenders' permission.

Demand and pricing outlook

- It is anticipated that the strong demand momentum will persist, bolstered by the government's focus on infrastructure development. In FY23, the volume growth of DALBHARA was ~1.5x of industry demand growth. The company recorded double-digit volume growth both in the South & East regions and was able to enhance its market share in the South without adding any capacity. The industry is estimated to grow at 8-9% YoY in FY24.
- Cement price was stable in East, North-East, and West regions while it softened in some markets in the Southern region in 4QFY23.

Operational highlights and cost insights

- Fuel consumption cost increased to USD198/t in FY23 from USD141 in FY22. Peak consumption cost was USD218/t, which fell to USD174/t in 4Q. Petcoke price currently stands at USD140/t, which can effectively be used in 2QFY24. In 1QFY24, petcoke consumption cost should be at USD165/t. Fuel cost in 4Q was INR2.06/kcal (INR2.21/Kcal in FY23). The company expects 5-6% reduction in fuel cost in 1QFY24 and another 10% reduction in 2Q. Every USD10 movement in petcoke price impacts cost by INR30-35/t for the company.
- The cost of raw materials increased as a result of holding expensive inventory, and elevated prices for fly ash and slag. Other expense increased due to increased 1) depots cost by INR200m, 2) packaging cost by INR200m; and 3) marketing spend by INR350m.
- Blended cement sales stood at 84%/88% in FY23/4QFY23 v/s 79% in FY22. C:C ratio increased to 1.7x in FY23 from 1.63x in FY22. Various government departments have started accepting blended cement. It aims to produce 100% blended cement in the next few years. Industry average blended cement share increased to 71-72%.
- The availability of limestone at Murli industries is now estimated to be 18-20 years. Capacity utilization stood at ~60% in Mar'23, which is estimated to reach over 60% in FY24. It commissioned 7MW of WHRS and 4.5MW of Solar, and its full benefit is expected to reflect from FY24.
- The Kalyanpur, Bihar plant has undergone a turnaround and makes one of the highest profit contributions in the Eastern region. In addition, 4MW of WHRS and 4MW of Solar power plant have been commissioned at this unit.

Expansion plans and capex

- Cement capacity has increased 15% to 41.1mtpa at present from 35.9mtpa in Mar'22. It commissioned 2.7mtpa in FY23 and 2.5mtpa in April-23.
- Regional expansion plans were reconsidered after the JP acquisition and the grinding unit in Bihar with a 2.5mtpa capacity was deferred. The total grinding capacity is expected to reach 56mtpa by FY24-end. The Tuticorin, Tamil Nadu plant will be completed in Jun'23, while Kadappa, Andhra Pradesh and Ariyalur, Tamil Nadu will be completed by Mar'24 (combined capacity of 4mtpa). The capex for FY24 is estimated at INR50-55b, which includes the acquisition of JP (except Super Dalla). The total acquisition cost for JPA assets including Super Dalla will be INR56.6b and INR8-10b will be spent on other efficiencies/WHRS projects (final cost of acquisition will be ~US\$70/t). The company will start sharing its roadmap for the next phase of expansion in the next few months.
- The company reiterated its capacity expansion target of 75mtpa by FY27 and long-term target of 110-130mtpa by FY31. Its key area of focus in FY24 will be: 1) timely completion of ongoing capex + integration of JP assets, 2) HR transformation with focus on leadership development, 3) digital transformation and 4) long-term fuel security. The company has appointed Sameer Nagpal as the COO. He is coming from Dalmia Refractories.
- The company has increased its total renewable power capacity to 166MW from 63MW in FY22. It has added WHRS/Solar power capacity of 35MW/68MW in FY23. Its FY23 closing WHRS/Solar power capacity stood at 66MW/100MW. Renewable power share in the total power mix increased to ~25.2% v/s 24% in 3QFY23 (20.9% in FY23 v/s 10.1% in FY22).

Other key highlights

- The company's gross debt stood at INR37.6b in 4QFY23 v/s INR31.4b in Mar'22. Net debt stood at INR6.6b in 4QFY23 v/s net cash of INR14.2b in Mar'22. The company's net debt to EBITDA stood at 0.29x in 4QFY23 v/s 0.39x as of Dec'22 (0.59x as of Mar'22).
- The average cost of borrowing was 7.6% in 4QFY23 v/s 5.7%/7.5% in 4QFY22/3QFY23.
- Co2 emission came down to 463kg per ton of cement in FY23 from 489kg per ton in FY22.



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**Grasim Industries****Buy****Current Price INR 1,768****VSF segment**

- The viscose industry witnessed a recovery on the sequential basis with the reopening of the China markets, which led to a pick-up in demand. VSF segment utilization improved to 93% in 4QFY23 v/s 74% in 3QFY23. It expects the VSF business to operate at over 90% in the near term. VSF reported EBITDA in 4QFY23 as compared to an operating loss in an exceptionally weak 3QFY23.
- VSF business profitability will take time to reach the normal level given the current macro environment – higher energy and RM prices, global demand slowdown due to higher inflation and supply chain disruption. Further, there is no anti-dumping duty on VSF in India now. Imports also increased with normalization of shipping rates. Cotton prices have also come down from the peak in May'22, which



impacted VSF prices too. These multiple factors have impacted pricing as well as margin in the VSF business.

- Margins are expected to increase going forward but are not likely to reach at EBITDA/kg of INR25 in the near term. Cotton prices will gradually get back to the normal level, which will also pull up fiber prices.
- Representation made to the government for the resumption of anti-dumping duty on imports from Indonesia and China was not accepted by the Finance Minister. However, the Ministry of Textile has introduced a quality certificate for VSF imports, which has reduced VSF imports in India for the time being.
- Grey VSF's Mar'23 exit price at USD1.68 per kg was down 6% YoY but up 2% compared to 4QFY23 average price. Specialty fiber share stood at 19% in FY23 v/s 25% in FY22 due to lower demand across markets.
- Major Capex in the VSF business was completed with Vilayat expansion in FY22. Now the pending capex for de-bottlenecking of fiber capacity will be completed in 1HFY24. The company is planning to increase Lyocell fiber capacity but it is at the planning stage.

Caustic Soda and advance material business

- Caustic soda price has declined due to oversupply (both international and domestic markets) in Chlor-Alkali, coupled with flat demand. Average quarterly spot prices (CFR SEA) for caustic were lower by 25% QoQ to USD518/t, which affected profitability. Chlorine realizations remained negative due to subdued demand from major consuming industries.
- Chlorine Integration increased to 60% from 58% in FY22 (at 58% in 4Q v/s 60% in 3QFY23). Chlorine Integration should reach 72% after the commissioning of ongoing projects and increasing contribution from specialty chemical segment.
- Many downstream chlorine industries are dependent on textile, agrochem and aluminum refining. These industries are facing slowdown, which is resulting in increased negative realization of chlorine.
- However, profit of the specialty chemical businesses, mainly epoxy resins, doubled in the last four quarters.

Paints business

- Plant construction is progressing as per schedule at all six sites and all requisite approvals are in place. A state-of-art R&D laboratory and a pilot plant are fully operational. A commercial launch should start in 4QFY24 in phases.
- Grasim intends to become a strong player in the building materials markets. The building material sector is the second largest sector (USD300b) and constitutes about 9% the country's GDP. Paints market size is about USD9b. The building material industry doubles in about seven to eight years and paint is growing at almost 1.6x of building material industry. It wants to fill the gap in the market by being a strong national player, which can simultaneously supply materials in urban and rural markets through its pan-India presence.

B2B E-commerce

- It started a pilot-scale operation in 4QFY23, which has shown satisfactory results and a full-scale platform launch is on track (likely in 2QFY24).
- Active development across various technology works (i.e. facilitating commerce transactions, enabling credit and order fulfillment) is underway. It is conducting

closed user group sessions across buyers and sellers to validate the product's market fit.

- Strategic partners and service providers for customer support, logistics, lending etc. have been finalized.
- A go-to-market strategy and an outreach plan have been finalized. It is building teams across sales, marketing, category and operations for the initial launch in the states of Maharashtra and Madhya Pradesh.

Capex and debt position

- Total capex stood at INR43.07b in FY23, largely for chemical and paints (INR20b) businesses. Capex will be higher in FY24. To fund capex, the company has already entered into long-term loan agreements of INR50b. The detailed capex plan of FY24 will be shared once it is finalized and approved by the board.
- The existing operational businesses continue to generate free cash.
- Standalone net debt (excluding investment in new business- Paints and B2B E-commerce) stood at INR17.8b v/s a net cash of INR5.53b in FY22. Net debt to EBITDA stood at 0.5x.

Sustainability and Other highlights

- The share of renewable energy in power consumption increased to 8% in FY23 from 5% in FY22. Renewable energy capacity increased to 744MW from 551MW in FY22 and the target is to increase it by 17% YoY to ~2GW in FY24.
- Fresh water consumption intensity was reduced by 15% as compared to FY22 and GHG emission also reduced by 6% compared to baseline of FY19.
- The company continues to provide differentiated sustainable solutions and developing MMCF (man-made cellulosic fibre) from textile waste. It has achieved commercial production of fibre, which was made using up to 31% of textile waste raw material.



[Click below for Results Update](#)

JK Cement

Buy

Current Price INR 3,284

Demand and pricing trends

- Cement demand growth will be supported by the government's focus on infrastructure development, rising demand for rural and urban housing, and higher pre-election spending. Industry growth is expected to be at ~10% YoY in 1QFY24; however, JKCE expects to grow at a higher rate, supported by capacity addition. It targets grey cement volume growth of ~15% YoY in FY24.
- Cement prices in most markets have been flat or down marginally from Mar'23-exit. However, prices should increase after the monsoon season.

Operational highlights

- Its Central India plant achieved 60% capacity utilization and reported EBITDA in the first full quarter of operation. Premium products sales as a % of trade sales stood at 10% v/s 9% in 3QFY23. It targets to increase premium products share to ~15% in FY24. Premium products pricing is higher by INR20-40/bag compared to normal PPC brand, and they generate incremental EBITDA/t of INR100.
- Green energy usage/thermal substitution rate stood at 44%/13% in FY23 v/s 32%/11% in FY22. It targets to increase green energy/TSR to 75%/35% by FY30.
- Petcoke (landed cost) is expected to decline from INR2.3-2.4/Kcal to INR2.1/Kcal in Jun'23 and further to 1.8-1.9/Kcal. Fuel shipments booked at USD120-125/t will come in 2QFY24 and will be consumed in 3Q.

- Lead distance declined to 438km from 470km in 3QFY23, benefitting from lower lead distance at the Central India plant. However, the transportation cost is higher in central India, which led to a 1% QoQ increase in freight cost/t. The rail-road mix stood at 16:84 in 4QFY23 v/s 19:81 in 3QFY23.
- Blended cement sales increased to 68% from 62% in 3QFY23 and trade sales rose to 69% from 67% in 3QFY23. The increase in trade sales and premium cement sales and lower clinker sales helped JKCE improve realization QoQ.
- EBITDA/t is expected to improve for the industry, as well as JKCE, by INR100/t in 1QFY24. JKCE expects its EBITDA/t to increase to INR1,000 in 2HFY24.
- The company started a brand building journey two and a half years ago, which yielded desired results in terms of increased trade share and premium products share, improved pricing and market share gains.

Capacity expansion and Capex update

- Central India capacity utilization stood at 60%/80% in 4QFY23/Mar'23. The company focuses on improving efficiency at the new plant, which will further drive improvement in EBITDA/t.
- The company is expanding its grey cement capacity by setting up greenfield grinding units - 1) at Ujjain with a capacity of 1.5mtpa, which is likely to be commissioned in FY24; and 2) at Prayagraj with a capacity of 2mtpa, which is likely to be commissioned by 2QFY25. The increase in Panna's kiln capacity from 8,000tpd to 10,000tpd is expected to be completed after the monsoon season, which will support clinker requirements for these upcoming grinding units.
- Capex in FY24/FY25 is pegged at INR13-14b/INR7b. In FY24, it will spend INR1.5-1.6b for setting up WHRS at South plant, INR1.2-1.5b pending capex for WHRS at Panna, INR3b for Ujjain GU, INR1.5b for Prayagraj GU and INR3b of routine maintenance capex. In FY25, there will be spill over capex of INR500m for Ujjain GU, major capex of INR3.25b for Prayagraj GU and INR3b of routine maintenance capex.

Debt and other highlights

- Consolidated gross debt (long term) was at INR45.3b v/s INR34.3b as of Mar'22, while net debt stood at INR29.1b v/s INR21.5b as of Mar'22. The net debt-to-EBITDA ratio stood at 2.20x v/s 2.24x in Mar'22. Short-term borrowings stood at INR2b. Net debt at INR34b seems to have peaked out as major expansions have been completed.
- Paint business revenue would be INR1.5-1.8b in FY24 and INR2.7-3b in FY25. It has guided for gross margin of 28-30%, in line with the industry. However, it expects an operating loss in the initial period (estimated to be not more than INR500m) mainly due to spends toward brand building, which will benefit in the long run.



[Click below for Results Update](#)

JK Lakshmi Cement

Buy

Current Price INR 731

Demand and pricing

- Cement demand is estimated to be strong considering the government's focus on infrastructure development, and initiatives towards housing and road construction. Cement prices have remained flat after Mar'23.
- Capacity utilization was at 89% in 4QFY23 v/s 77% in 3Q. The target is to achieve cement volume growth of 19% YoY in FY24.

The image shows a screenshot of a financial report for J K Lakshmi Cement. The report includes a table with multiple columns and rows of data, likely representing financial performance metrics. The text is in Hindi, and the table contains numerical values and percentages. The report is dated 31st March 2023.

- The company has additional grinding capacity (on a rented basis) having cement production capacity of 15-20K tonne/month, which it currently uses based on the clinker availability and demand scenario. Post-completion of the ongoing expansion at UCWL, the company will use this facility on a regular basis to ramp-up utilization of new clinker capacity.

Operational highlights

- Standalone sales volume came in at 3.06mt. UCWL's sales volume stood at 0.59mt. Consolidated sales volume (after eliminating inter-company sales) stood at 3.39mt.
- Non-cement revenue was INR1.28b v/s INR1.03b/INR1.16b in 4QFY22/3QFY23. RMC revenue was INR620m v/s INR480m/INR560m in 4QFY22/3QFY23. EBITDA margin of non-cement sales stood at ~5%.
- Average fuel cost was at INR2.42/Kcal v/s INR2.57/kcal in 3QFY23. It is expected to decline further to INR2.31/Kcal in 1QFY24. JKLC's fuel mix in 4QFY23 was 44% petcoke, 40% coal (combined imported and domestic) and 16% others. The company uses 100% domestic coal in the east plant and 100% imported coal at the north plants.
- Blended cement and trade sales share stood at 55% in FY23. Lead distance was 398km in FY23 (400km in 4QFY23). Premium products sales stood at 26% of trade volume in 4QFY23 (~11% of total volume in FY23).
- The aim is to improve EBITDA/t by INR200-250 through revenue growth, logistics cost optimization and plant efficiency measures in the next 18 months.
- The company prioritizes its key initiatives – geo-mix optimization through maximizing sales in the West region as the profitability is better there in the non-trade sales v/s North and central regions. Further, it is trying to increase trade sales in the West region, which will help to improve overall profitability. It targets 60% of the profitability improvement to come through revenue growth.
- Secondly, JKLC's focus will be to reduce lead distance to 375km from the current at 400km. It targets a savings of INR65-70/t via network optimization, which includes savings through lead distance reduction, warehouse optimization, increasing direct dispatch, and digitization.
- The balance will be through plant efficiencies as the company is setting up capabilities for increasing AFR usage, increase in green energy share and reduction in heat consumption.

Capacity expansion and capex plans

- Capacity expansion (1.5mtpa clinker and 2.5mtpa grinding capacity) of UCWL is going as per schedule. The clinkerization line of 1.5mtpa is likely to be commissioned in 3QFY24, while the grinding capacity is expected to be commissioned in 2QFY25. A capex of INR8.5b has been incurred on this expansion until Mar'23 (INR6.3b in FY23) out of the total estimated capex of INR16.5b. Capex is estimated to be INR5b/INR3b in FY24/FY25.
- At standalone level, capex is estimated to be INR2b/INR1.5-2b in FY24/FY25. The company proposes to issue Green Bonds of INR2b to fund its green projects. Its green projects comprise: 1) increasing WHRS capacity by 3.5-4MW through debottlenecking at Sirohi plant; 2) increasing TSR % from 4% to 16% (initial target of 10% by Dec'23 and 16% in next year), and 3) a tie up with a private player under PPA for the solar power capacity of 40MW/7MW for Durg/Sirohi plants.

- The company has brownfield expansion plans at Durg, Chhattisgarh (will finalize the expansion plan in FY24E) and further expansion in UCWL (for which decision will be taken in next year). Apart from that the company has growth plans (Greenfield opportunities) at Nagaur (North) and Kutch (West), where it has started land acquisitions.

Other highlights

- UCWL's rights issue of INR4.5b is expected to be finalized by Jun-Jul'23. This will be used for ongoing expansion in the company. JKLC will subscribe this rights issue; also any shortfall in retail investors' demand will be fulfilled by JKLC. It will not have to take any loan for subscribing to this rights issue.
- UCWL's peak debt will be INR15b v/s INR11.7b as of Mar'23. Consolidated gross debt stood at INR18.5b as of Mar'23 and net debt stood at INR10b.
- JKLC is setting up a putty plant (grinding unit of 0.1mtpa) at Alwar, Rajasthan, at a capex of INR650-700m. This is likely to be commissioned by Oct'23. It is already in putty business through an outsourced unit.



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The Ramco Cements	
Particulars	Q4 FY23
Revenue	1,100.00
Operating Profit	150.00
Profit Before Tax	140.00
Profit After Tax	100.00
EPS	10.00
Dividend	5.00
Net Debt	10.00
Capital Expenditure	5.00
Free Cash Flow	10.00

The Ramco Cements

Neutral

Current Price INR 921

Demand and pricing

- In the Southern region, demand has improved in both trade and non-trade (mainly in road projects) sectors. However, in the Eastern region trade demand remained flat, while it increased in the non-trade segment.
- The target volume growth in FY24 is ~20% after achieving ~35% YoY growth in FY23. IHB demand is healthy, while infrastructure demand is estimated to be resilient supported by expectation of good monsoon; increased allocation towards infrastructure and PMAY in Union Budget 2023.

Operational highlights

- Capacity utilization stood at 85%/73% in 4QFY23/FY23 v/s 66%/57% in 4QFY22/FY22. The capacity utilization of clinker plant at Kurnool, AP stood at 83% in 4QFY23 v/s ~55% in 3QFY23.
- OPC sales were at 30% of total volumes v/s 29% in FY22. While, the share of non-trade sales increased to 34% from 29% in FY22.
- The company continues to focus on the strategy of right products for right applications to make its brands stronger. Its premium products share rose 3pp YoY to 25% in FY23 and stood at 28%/16% in South and East regions.
- Lead distance was at 310kms v/s 326Kms/299km in 4QFY22/3QFY23. Rail: Road mix was at 12%:88% v/s 15%:85% in 4QFY22 and 10%:90% in 3QFY23. In FY23, average lead distance declined 8% YoY to 298Kms. Rail: Road mix was at 11%:89% v/s 13%:87% in FY22. Resumption of busy season surcharge by Indian Railways led to a cost increase of ~INR50/t in 2HFY23.
- Blended fuel consumption cost stood at USD178/t v/s USD191/t in 3QFY23 and USD177/t in FY23 v/s USD125/t in FY22. It used 56% petcoke (v/s 52% in 4QFY22 and 59% in 3QFY23), 31% coal (v/s 33% in 4QFY22 and 32% in 3QFY23) and 13% alternate fuel (v/s 15% in 4QFY22 and 9% in 3QFY23). Blended fuel cost per Kcal was at INR2.21 v/s INR1.88/INR2.43 in 4QFY22/3QFY23.
- Clinker/cement production stood at 11.87mtpa/14.86mtpa in FY23, which implies C:C ratio of 1.25x.

- Green energy contributed 23% of power requirements v/s 16%/20% in 4QFY22/ 3QFY23, respectively. The company increased captive use of wind power capacity to 33MW in FY23 from 17MW in FY22, which helped increase overall green power share in total power consumption. It targets to increase green energy share to 34% by FY24.
- In FY23, power generation from the wind plant was down 4% YoY. Revenue was down 19% YoY at INR595m, mainly due to 19% of the wind power capacity under sale to grid was changed to captive use. EBITDA declined 27% YoY to INR272m in FY23.

Capex and project update

- Grinding capacity expansion at Haridaspur, Odisha (by 0.9mtpa to 1.8mtpa) is expected to be commissioned in 3QFY24.
- The company commissioned RR Nagar line-III with clinker capacity of 1.04mtpa and cement capacity of 1mtpa in Mar'23. Given the strong demand, the company would continue to operate older kiln at RR Nagar.
- WHRS capacity of 8MW in Kurnool was commissioned in FY23 and the balance 4MW will be commissioned in May'23. Thermal power plant of 18MW and railway siding at this plant will be commissioned in FY24.
- The company has commissioned one dry-mix mortar plant in Tamil Nadu in Dec'22 and another plant in Feb'23. The other two units in Andhra Pradesh and Odisha are likely to be completed in FY24E.
- In 4QFY23, TRCL's capex stood at INR3.85b (v/s INR17.65b in FY23). Capex of FY23 included INR6b for Kurnool, AP and INR5b for RR Nagar, TN. It maintains a capex guidance of INR8.5b for FY24E. It will prioritize Line-2 expansion at Kurnool, Andhra Pradesh with a clinker capacity of 2.25mtpa and grinding capacity of 2-3mtpa over Karnataka Greenfield expansion. Land acquisition approval for the Karnataka unit has been obtained.

Debt and other highlights

- Net debt declined INR2.7b QoQ to INR43b. It expects INR1b working capital release in FY24 due to decline in fuel prices.
- Dry mortar volume was 0.07m/0.2m in 4QFY23/FY23.



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Results Update



Shree Cement

Neutral

Current Price INR 25,769

Cement demand and pricing

- Cement demand is expected to remain healthy led by the government's thrust on infrastructure development (will be the main demand driver), improving demand in both commercial and industrial segments as well as housing segment given the expectations of normal monsoon. Volume guidance at 36mt implies 13% YoY growth in FY24. Capacity utilization was 78% v/s 71%/72% in 4QFY22/ 3QFY23. Capacity utilization stood at ~80% in North, 82% in East and ~65% in the South region. Capacity utilization in FY23 was 70% v/s 64% in FY22.
- Cement realization rose 2% YoY (flat QoQ) in 4QFY22; realization improved 3% YoY in FY23.

Operational highlights

- Average fuel consumption cost was flat QoQ at INR2.53/Kcal (INR2.62/kcal in FY23 v/s INR1.69 in FY22). The spot petcoke price has declined to INR1.8/Kcal (thermal cost at INR2/Kcal) and the benefit of the same will reflect in the next two

The image shows a screenshot of a financial report for Shree Cement. It includes a table with columns for various financial metrics and rows for different periods. The table is partially obscured by a watermark and some text, but it appears to be a standard financial statement format.

quarters. It expects fuel cost to come down to INR2.4-2.3/Kcal in 1QFY24 and further decline is expected in 2Q. The company consumed 76% petcoke in 4QFY23 v/s 50%/58% in 4QFY22/3QFY23. As petcoke is becoming cheaper, it is increasing the use of petcoke.

- Green power share stood at 54.6% v/s 50.1% in 4QFY22 and 53% in 3QFY23. It has added 122MW solar and wind power in different states in FY23 and its total RE capacity rose to 385.5MW in FY23. It plans to add another 93MW of green power in FY24-25. The company aims to increase green power share to >55% over FY24-25.
- Thermal substitution rate has improved to 4.35% from 4.20% in 4QFY22. It targets to increase TSR % to ~15% by end-FY24.
- Trade sales were at 80%. Sales of premium products stood at 7.5% in 4QFY23 v/s 7.2% in 3QFY23. SRCM targets to increase this to 15% in the next one year. Recently, the company launched a new product in the coastal markets of Orissa by the brand name of ROCKSTRONG Concrete Special.
- SRCM's average lead distance was at 463km v/s 473km in 4QFY22 and 450km in 3QFY23.

Strategic priorities

- In terms of strategic priorities the company aims to become one of the biggest cement manufacturers in the country. Secondly, from current operations it targets to extract more value for shareholders. This will be in two parts: 1) by offering better products at better pricing and 2) brand building, as the company initiated the process of strengthening brand equity by engaging with experts to advise in its future strategy. And thirdly, SRCM continues to expand capacity. It targets to reach 80mtpa capacity through organic routes in the coming years, which will make it a pan-India player.
- The company is also migrating from Oracle to advance IT tools like SAP HANA, which will simplify workflow and processes. In manufacturing operations, SRCM implemented a planned data management system (known as BPM), to capture data from IoT sensors and generate automated KPI reports to bring overall efficiency in the operations. It is also digitizing HR operations by implementing a tool known as Urban Box.

Capacity expansion and Capex update

- The company increased grinding capacity at Saraikela, Jharkhand unit to 3mtpa from 2.5mtpa by process optimization, de-bottlenecking and productivity enhancement initiatives. Its total grinding capacity has increased to 46.9mtpa.
- SRCM targets to increase domestic grinding capacity to 80mtpa by 2030, largely through organic route (mix of brownfield and Greenfield expansions).
- The grinding unit in Purulia, West Bengal (3mtpa capacity) will be commissioned by Jun'23. The integrated plants in Nawalgarh, Rajasthan (clinker/cement capacity of 3.8mtpa/3.5mtpa) and Guntur, Andhra Pradesh (clinker/cement capacity of 1.5mtpa/3mtpa) will be commissioned in 3QFY24 and early-FY25, respectively.
- Capex stood at INR33b in FY23. Capex is pegged at INR33b-INR35b for FY24E and will be funded through internal accruals (SRCM has net cash of INR57b).



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Results Update



Ultratech Cement

Buy

Current Price INR 8,153

Demand and pricing outlook

- Cement demand was strong during 4QFY23 and the momentum continues in Apr'23 as well. All the regions contributed to the strong volume growth for the company. Cement capacity utilization stood at 84%/95%/100% in FY23/4QFY23/Mar'23. Clinker capacity utilization stood at 83%/91% in FY23/4QFY23.
- Cement demand should grow 7-8% YoY in FY24E. UTCEM is likely to register 400-500bp higher growth than the industry, aided by its capacity expansions.
- Cement prices remained stable despite high demand in 4Q. Prices are expected to remain stable; though the industry does not have a strong pricing power. Premium product share stood at 20.4% of trade sales; up 26% YoY. Premium product average price per bag is higher by INR10.

Operational highlights

- White cement volume was up 19%/16% YoY/QoQ to 0.5mt, whereas revenue grew 22%/16% YoY/QoQ to INR6.64b. RMC revenue increased 34% YoY and 14% QoQ to INR11.4b. UTCEM has a total of 231 operational RMC plants (spread across more than 100 cities) in 4QFY23 v/s 202 in 3QFY23. It has added 54 new RMC plants in FY23 and eying to double this number soon. Construction chemical revenue stood at INR5.5b in FY23 and it has 39 physical locations.
- Trade sales were at 66%; however, blended cement sales were at 69% v/s 68% in 3QFY23. Blended cement is being accepted in a few infra projects. Clinker conversion ratio stood at 1.42x. Conversion ratio cannot be raised significantly when demand is coming from the infra sector. The highest clinker to cement ratio for the company has been at 1.44x and it can again improve to 1.45x. In FY23, blended cement share stood at 70%, up 2.4% YoY. Clinker conversion ratio was at 1.41x.
- Fuel prices have been softening; however, given the volatility it is difficult to predict the movement. Imported coal prices are still trending higher than petcoke (in Kcal value). China has still not started importing coal; though, their economy has started recovering from Mar'23.
- Blended fuel consumption cost (CV 7500) was at USD194/t v/s USD164/USD200 in 4QFY22/3QFY23. UTCEM maintains 45-50days of fuel inventory.
- Average fuel cost was at INR2.5/Kcal v/s INR2.6/kcal in 3QFY23. Petcoke share was at 52% v/s 49%/43% in 4QFY22/3QFY23. The US coal is preferred as Australian coal becomes uneconomical.
- Green energy (renewable power + WHRS) fulfilled 25% of total power requirements v/s 20% in 3QFY23. The company's WHRS capacity rose to 210MW (added 43MW WHRS capacity addition in FY23). Other renewable power capacity (solar and wind) increased to 345MW (76MW addition in FY23). It targets to increase WHRS capacity to 380MW by FY24E. Every new capacity will have WHRS facility and ~55% of the power requirement for the new plant can be met through WHRS.
- The company is on track to reach its target to meet ~34% of energy requirement through renewable sources by FY24. The company's CO2 emission reduced to 557Kg/t of cement in FY23 from 583Kg/t of cement.

Expansion and Debt position

- UTCEM commissioned 12.4mtpa cement capacity and 8.1mtpa clinker capacity (phase-I expansion) in FY23, spread across North, East, West and Central India. It recently commissioned 2.2mtpa grinding capacity at Patliputra, Bihar. Currently, its total domestic grey cement capacity stands at 129.2mtpa. Remaining capacity under Phase -1 expansion ~2mtpa (upgradation/ brownfield) is under trial-run and will be completed in 1QFY24.
- Work on phase-II expansion plan (22.6 mtpa grinding capacity) has started and Civil work is in full swing at most sites. Commercial production from these new capacities is expected to go on stream in a phased manner by FY25/FY26. In FY23, UTCEM's capex stood at INR60b and it is estimated to remain at similar levels for the next two years.
- Management has taken a lot of initiatives to reduce cost in terms of digitization, optimizing lead distance and improvement programs in maintenance cost, power consumption and mining operations. In FY23, the company has spent INR12.8b towards these initiatives.
- Net debt declined to INR27.0b as of Mar'23 from INR77.2b in Dec'22. In 4QFY23 working capital release was of INR23b.

Other highlights

- Super Dalla asset with clinker capacity of 2.3mtpa is under arbitration. Limestone reserves at this plant will be approx. 100mt.
- The company started rebranding RAK White cement to Birla White and cement is being imported into India from this plant. This has led to improvement in market share for the company and there has been an improvement in white cement prices in India too.
- Sri Lanka operations have also seen recovery and the outstanding amount of INR2.6b at the peak of the crisis has completely been recovered.



- While input cost pressures and high freight charges have subsided for most companies, product demand has started slowing down too amid concerns of a looming recession and inventory de-stocking by customers. Volumes are expected to remain subdued in the near term, with normalizing realizations in line with a decline in input costs for many companies. The long-term outlook remains robust, even as some companies have postponed project commissioning from mid-FY24 to year-end due to the aforementioned reasons.

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook for FY24	Quarterly snapshot
Clean Science	<ul style="list-style-type: none"> ■ The management said it would focus on increasing sales and making inroads in export markets, with an aim to capture 30% of the domestic market share in HALS701 & HALS770. ■ Demand from the agrochemical industry was soft and CLEAN has unused capacities of PBQ currently with expectation of a recovery by 3QFY24. 	<ul style="list-style-type: none"> ■ CLEAN reported in-line EBITDA in 4QFY23. Gross margin expanded to 70.5% (vs. our expectation of 66.9%), primarily due to lower raw material costs. EBITDAM stood at 48.5% (vs. 45.6% in 3QFY23). ■ While Pharma & Agro Intermediates reported growth, Performance Chemicals and FMCG Chemicals were weaker QoQ in 4QFY23.
Deepak Nitrite	<ul style="list-style-type: none"> ■ DN would also commission BTC/BTF products in the Photo Chlorination and Fluorination chemistries by 3QFY24. ■ The management expects a strong performance in the AI segment as the global supply chain shifts to India, despite input prices remaining at elevated levels. 	<ul style="list-style-type: none"> ■ EBITDA margin stood at 17.7%, still at multi-quarter lows. Phenolic division margin declined by 50bp YoY but expanded QoQ. The AI segment also experienced a YoY decline of 860bp. ■ The company has announced project delays at its MIBK/ MIBC plants, which would now be commissioned in 1QFY25. Debottlenecking of the Phenol plant was also delayed by a quarter to 1QFY24.
Galaxy Surfactants	<ul style="list-style-type: none"> ■ The management expects total volumes to recover in FY24 as local Egypt volumes are getting better and customers are confident of volumes recovery in Turkey as well. ■ The management raised its EBITDA guidance to INR21-22/kg from INR16-18/kg for FY23 in the previous quarter. 	<ul style="list-style-type: none"> ■ GALSURF reported EBITDA/kg of INR26.4 (vs. our estimate of INR19.3), due to export benefits, sourcing gains because of a steep reversal in raw material costs and freight rates. ■ Total volumes were flat YoY at 58.4tmt, led by a decline in volumes in the AMET and RoW regions (both down 6% and 9% YoY, respectively).
Navin Fluorine	<ul style="list-style-type: none"> ■ The management has informed about planned annual shutdowns at the HFO plant in Dahej and the HF plant in Surat in Apr'23, which could lead to a softer 1QFY24 performance. ■ The pharma molecule that the company was going to commission in the MPP plant has also been dropped from the immediate plans of the management, while there is another agrochemical molecule that is under consideration and might commence in 2HFY24. 	<ul style="list-style-type: none"> ■ EBITDA margin expanded 130bp QoQ to 28.9% on account of a better product mix and operating leverage. ■ High-performance products (HPP) and CDMO businesses (up 91%/105% YoY) grew strongly, fueled by an increase in sales volumes in HFO and better price realization. ■ The Specialty Chemicals business jumped 28% YoY, primarily due to new product introductions, with agrochemical intermediate achieving optimal capacity utilization during the quarter.
NOCIL	<ul style="list-style-type: none"> ■ The outlook of domestic tyre companies remains robust, with the industry expected to grow ~10% annually over the next several years. ■ Optimal capacity utilization for its expanded capacity is uncertain and would go beyond FY24, given the uncertain global macro environment (earlier guidance of full utilization by Sep'23). 	<ul style="list-style-type: none"> ■ EBITDA/kg was at INR35.6, up 6% QoQ, with realization down 4% QoQ to INR285/kg. ■ Sales volumes increased 26% QoQ to 13.8tmt, primarily driven by the recovery of export volumes.
Vinati Organics	<ul style="list-style-type: none"> ■ Management expects a muted FY24, with ATBS demand unlikely to bounce back before end-FY24. ■ However, VO has started commercial supply of Antioxidants, which should start contributing to revenues in 1QFY24. 	<ul style="list-style-type: none"> ■ VO reported lower-than-estimated revenues (6% below our estimates) in 4QFY23 because of inventory built-up at customers' end. ■ The sales mix for 4QFY23 stood at: ATBS (44%), IBB (19%), Butyl Phenol and other IB derivatives (16%), Customized products (7%), IB & HPMTBE (9%), and the rest were others.



Alkyl Amines Chemicals Limited

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Results Update



Alkyl Amines

Neutral

Current Price INR 2,506

Operational performance

- The company has been able to maintain its market share in FY23.
- Some industries showed volatility, especially Pharma, with input prices also being on elevated levels. However, most of the issues appear to have settled as of now.
- Volumes grew 10% YoY in FY23 and expected to be on the higher side of 10-15% YoY in FY24.
- Operating expenses were higher because of elevated coal prices; at INR14,000/t in FY23 and currently at INR11,000/t.
- Ethylamines has also been disappointing in terms of performance in FY23
- Average ACN plant utilization stood at 60-65% for FY23.

Outlook

- The pharma industry seems to be more optimistic after couple of years of drag because of overproduction during Covid
- Now it is back to the normal curve at pre-pandemic levels
- Pharma penetration is also low in India that provides a huge opportunity to grow
- Current realizations of ACN stand at INR150/kg. In terms of USD, this is the lowest value observed due to glut in the market
- Expect ACN prices to bounce back in FY24
- Ammonia is 15-20% of overall RM cost and company could save 5-6% if prices remain at current level

Project updates

- Capex for FY24 would be INR2b and INR3b for FY25
- Ethylamines expansion plant is almost ready for commissioning in 2QFY24 (by Jul'23)
- Di-Ethyl Ketone (one of the five new products announced in 2QFY23) plant has stabilized now (it was started in Feb'23); it is not part of the amine family
- A couple of other products would be derivatives and the rest would be specialties, which are yet to be commissioned
- The market for DEK is small although growing and AACL would look to capture 50-60% market share in the next 18 months
- DEK would contribute 3-5% of the overall revenue
- The new 4-5 products would be value-driven rather than volume-driven and would contribute 20-25% of AACL's revenue

Other highlights

- Other amine chains (C4-C6) comprise less than 5% of the total revenue for AACL
- These are majorly imported from both China and Europe
- They are niche products and therefore go for niche usages (for e.g. rubber chemicals)
- Methylamines is hardly imported into the country while 30-40% of ACN consumed is imported
- Average 10-15% of the total products of AACL are imported into India.



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Clean Science Technology

Neutral

Current Price INR 1,400

Operational highlights

- Good response from the domestic market seen in HALS
- Good volume growth and increased realization across all products in FY23
- New products contributed 9% in FY23 whereas the same was 4% in FY22
- Lot of the customers were holding onto inventory due to fear of another lockdown a couple of quarters back
- Current quarter saw a lot of destocking and with RM prices also softening, it had an adverse effect on the total sales.

Outlook

- Focus to increase sales gradually in coming months and make inroads in export market as well
- Stiffer competition to be seen with global economy opening up
- No competitor is adding capacities with focus on consolidation in FY24
- Management confident of capturing 30% of domestic market share in HALS
- CLEAN has started supplying in tonnages too
- Also started to talk to customers in Europe and has got an order from an MNC
- Contribution from agrochem industry is on the slower side and therefore it has unused capacities in p-BQ
- Volume growth guidance to be back on track from 3QFY24

Capex updates

- A majority of the capex is going to HALS and upgrading of existing equipment for efficient functioning of all the plants
- As all capex continues to be funded through internal accruals
- Management implemented all projects on time until now and is confident that in future also the trend would continue.
- There is maintenance capex in parent company and INR1.8b capex is primarily for HALS in subsidiary, a majority of which would be spent in FY24.
- Total capacity of HALS in Unit IV would be of 13ktpa with 2ktpa in parent company at Site III, taking the total capacity of HALS to 15ktpa

Other highlights

- CLEAN remains net debt free even after huge capex undertaken in FY23
- Continues to improve share of renewable energy as a new 5MW solar plant was commissioned in 4QFY23 with total capacity now at 17.4MW
- HALS701 is not a domestic market product while HALS770 is a domestic market focused product
- New products would be in the Performance chemicals category while some might go into water treatment and some into pharma as well
- These would not specifically go into polymers usage.

Deepak Nitrite

Neutral

Current Price INR 2,126

Operational performance

- Healthy demand from end-user industries seen in FY23.
- AI demand remained good from end-user industries.
- The management expects strong performance in the AI segment as the company shifts the supply chain to India
- New product introductions would drive growth in the coming years
- Input prices remain at elevated levels
- DPL surged because of better pricing and plant efficiency
- Highest-ever quarterly domestic sales recorded in 4QFY23
- Healthy demand and improved product acceptance seen in Phenolics



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Motilal Oswal
CAPITAL MARKETS

Q3 FY23 Results

Deepak Nitrite

Q3 FY23 Results | **Q3 FY23 vs Q3 FY22** | **Q3 FY23 vs Q3 FY21** | **Q3 FY23 vs Q3 FY20** | **Q3 FY23 vs Q3 FY19** | **Q3 FY23 vs Q3 FY18** | **Q3 FY23 vs Q3 FY17** | **Q3 FY23 vs Q3 FY16** | **Q3 FY23 vs Q3 FY15** | **Q3 FY23 vs Q3 FY14** | **Q3 FY23 vs Q3 FY13** | **Q3 FY23 vs Q3 FY12** | **Q3 FY23 vs Q3 FY11** | **Q3 FY23 vs Q3 FY10** | **Q3 FY23 vs Q3 FY09** | **Q3 FY23 vs Q3 FY08** | **Q3 FY23 vs Q3 FY07** | **Q3 FY23 vs Q3 FY06** | **Q3 FY23 vs Q3 FY05** | **Q3 FY23 vs Q3 FY04** | **Q3 FY23 vs Q3 FY03** | **Q3 FY23 vs Q3 FY02** | **Q3 FY23 vs Q3 FY01** | **Q3 FY23 vs Q3 FY00** | **Q3 FY23 vs Q3 FY99** | **Q3 FY23 vs Q3 FY98** | **Q3 FY23 vs Q3 FY97** | **Q3 FY23 vs Q3 FY96** | **Q3 FY23 vs Q3 FY95** | **Q3 FY23 vs Q3 FY94** | **Q3 FY23 vs Q3 FY93** | **Q3 FY23 vs Q3 FY92** | **Q3 FY23 vs Q3 FY91** | **Q3 FY23 vs Q3 FY90** | **Q3 FY23 vs Q3 FY89** | **Q3 FY23 vs Q3 FY88** | **Q3 FY23 vs Q3 FY87** | **Q3 FY23 vs Q3 FY86** | **Q3 FY23 vs Q3 FY85** | **Q3 FY23 vs Q3 FY84** | **Q3 FY23 vs Q3 FY83** | **Q3 FY23 vs Q3 FY82** | **Q3 FY23 vs Q3 FY81** | **Q3 FY23 vs Q3 FY80** | **Q3 FY23 vs Q3 FY79** | **Q3 FY23 vs Q3 FY78** | **Q3 FY23 vs Q3 FY77** | **Q3 FY23 vs Q3 FY76** | **Q3 FY23 vs Q3 FY75** | **Q3 FY23 vs Q3 FY74** | **Q3 FY23 vs Q3 FY73** | **Q3 FY23 vs Q3 FY72** | **Q3 FY23 vs Q3 FY71** | **Q3 FY23 vs Q3 FY70** | **Q3 FY23 vs Q3 FY69** | **Q3 FY23 vs Q3 FY68** | **Q3 FY23 vs Q3 FY67** | **Q3 FY23 vs Q3 FY66** | **Q3 FY23 vs Q3 FY65** | **Q3 FY23 vs Q3 FY64** | **Q3 FY23 vs Q3 FY63** | **Q3 FY23 vs Q3 FY62** | **Q3 FY23 vs Q3 FY61** | **Q3 FY23 vs Q3 FY60** | **Q3 FY23 vs Q3 FY59** | **Q3 FY23 vs Q3 FY58** | **Q3 FY23 vs Q3 FY57** | **Q3 FY23 vs Q3 FY56** | **Q3 FY23 vs Q3 FY55** | **Q3 FY23 vs Q3 FY54** | **Q3 FY23 vs Q3 FY53** | **Q3 FY23 vs Q3 FY52** | **Q3 FY23 vs Q3 FY51** | **Q3 FY23 vs Q3 FY50** | **Q3 FY23 vs Q3 FY49** | **Q3 FY23 vs Q3 FY48** | **Q3 FY23 vs Q3 FY47** | **Q3 FY23 vs Q3 FY46** | **Q3 FY23 vs Q3 FY45** | **Q3 FY23 vs Q3 FY44** | **Q3 FY23 vs Q3 FY43** | **Q3 FY23 vs Q3 FY42** | **Q3 FY23 vs Q3 FY41** | **Q3 FY23 vs Q3 FY40** | **Q3 FY23 vs Q3 FY39** | **Q3 FY23 vs Q3 FY38** | **Q3 FY23 vs Q3 FY37** | **Q3 FY23 vs Q3 FY36** | **Q3 FY23 vs Q3 FY35** | **Q3 FY23 vs Q3 FY34** | **Q3 FY23 vs Q3 FY33** | **Q3 FY23 vs Q3 FY32** | **Q3 FY23 vs Q3 FY31** | **Q3 FY23 vs Q3 FY30** | **Q3 FY23 vs Q3 FY29** | **Q3 FY23 vs Q3 FY28** | **Q3 FY23 vs Q3 FY27** | **Q3 FY23 vs Q3 FY26** | **Q3 FY23 vs Q3 FY25** | **Q3 FY23 vs Q3 FY24** | **Q3 FY23 vs Q3 FY23** | **Q3 FY23 vs Q3 FY22** | **Q3 FY23 vs Q3 FY21** | **Q3 FY23 vs Q3 FY20** | **Q3 FY23 vs Q3 FY19** | **Q3 FY23 vs Q3 FY18** | **Q3 FY23 vs Q3 FY17** | **Q3 FY23 vs Q3 FY16** | **Q3 FY23 vs Q3 FY15** | **Q3 FY23 vs Q3 FY14** | **Q3 FY23 vs Q3 FY13** | **Q3 FY23 vs Q3 FY12** | **Q3 FY23 vs Q3 FY11** | **Q3 FY23 vs Q3 FY10** | **Q3 FY23 vs Q3 FY09** | **Q3 FY23 vs Q3 FY08** | **Q3 FY23 vs Q3 FY07** | **Q3 FY23 vs Q3 FY06** | **Q3 FY23 vs Q3 FY05** | **Q3 FY23 vs Q3 FY04** | **Q3 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FY23 vs Q3 FY43** | **Q3 FY23 vs Q3 FY42** | **Q3 FY23 vs Q3 FY41** | **Q3 FY23 vs Q3 FY40** | **Q3 FY23 vs Q3 FY39** | **Q3 FY23 vs Q3 FY38** | **Q3 FY23 vs Q3 FY37** | **Q3 FY23 vs Q3 FY36** | **Q3 FY23 vs Q3 FY35** | **Q3 FY23 vs Q3 FY34** | **Q3 FY23 vs Q3 FY33** | **Q3 FY23 vs Q3 FY32** | **Q3 FY23 vs Q3 FY31** | **Q3 FY23 vs Q3 FY30** | **Q3 FY23 vs Q3 FY29** | **Q3 FY23 vs Q3 FY28** | **Q3 FY23 vs Q3 FY27** | **Q3 FY23 vs Q3 FY26** | **Q3 FY23 vs Q3 FY25** | **Q3 FY23 vs Q3 FY24** | **Q3 FY23 vs Q3 FY23** | **Q3 FY23 vs Q3 FY22** | **Q3 FY23 vs Q3 FY21** | **Q3 FY23 vs Q3 FY20** | **Q3 FY23 vs Q3 FY19** | **Q3 FY23 vs Q3 FY18** | **Q3 FY23 vs Q3 FY17** | **Q3 FY23 vs Q3 FY16** | **Q3 FY23 vs Q3 FY15** | **Q3 FY23 vs Q3 FY14** | **Q3 FY23 vs Q3 FY13** | **Q3 FY23 vs Q3 FY12** | **Q3 FY23 vs Q3 FY11** | **Q3 FY23 vs Q3 FY10** | **Q3 FY23 vs Q3 FY09** | **Q3 FY23 vs Q3 FY08** | **Q3 FY23 vs Q3 FY07** | **Q3 FY23 vs Q3 FY06** | **Q3 FY23 vs Q3 FY05** | **Q3 FY23 vs Q3 FY04** | **Q3 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- The company received INR112m against insurance claim for damages caused by a fire in Nandesari plant in 4QFY23 and INR138m in Apr'23
- The company is currently operating its plant at full capacity and plans to expand it further while also venturing downstream.
- The company has piloted various products, which have been approved by customers and is in advanced discussions for supplying these downstream products
- End-users are currently showing a decline in demand for dyes and pigments
- There is increased demand from Oil & gas, explosives, Personal Care, Food, Rubber and infrastructure
- Pharma and agro are neutral with regards to volume
- Revenue has started pivoting back to India to some extent although demand from export market also remains robust
- An oversupply of certain products is being observed due to increased production from China.
- However, China is not a threat for phenol and acetone business in India. China has never been an exporter of phenol as all its production is consumed domestically.
- In 3QFY23, the margin spreads for phenol were adversely impacted due to a feedstock supplier shutting down its plant for an extended period. As a result, the company had to purchase Cumene from international markets
- These challenges did not occur in 4Q, resulting in an improvement in phenol spread.

Outlook

- It is expected that DNL's performance in FY24 will be similar to its performance in FY22.
- Higher productivity and production is expected in FY24 and the company is confident of catering to higher demand without its losing market share.
- Government incentive income is a recurring item for setting up the project and is likely to persist for the next five to six years.
- The price of Ammonia is expected to be remain subdued in the near term due to upcoming capacities and fertilizer inventory build-up
- The company expects to double revenue in the next four years.

Project and capex updates

- The company has planned a capex of INR25b over the next two years, and the payback period is expected to be faster than in the previous capex cycles.
- The debottlenecking of the Phenol plant took place in 1QFY23
- Implementation of Advance Process Control project in DPL has been approved by the board and is to be commissioned in 2QFY24
- The successful commissioning of the SAC unit would contribute to the sustainability of operations in Nandesari
- The Nandesari plant is running at full operations, other plants are also running at higher utilization.
- Photo chlorination and Fluorination are expected to be completed in 3QFY24 (BTC/ BTF) with Acid plant to be completed in 4QFY24.
- MIBK (40ktpa)/ MIBC (8ktpa) plant is expected to be completed in 1QFY25 (earlier it was 4QFY24).
- Delayed due to delay in equipment sourcing
- Expect the entire volume to be consumed in the domestic market, to capture 100% market share of the domestic market

Other Highlights

- India remains the most expensive buyer of Ammonia, but prices have decreased since their peak last year



GALAXY SURFACTANTS LTD.

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- In a stable year, Sodium Nitrate and associated nitrates are expected to have a volume growth of 15%
- After debottlenecking the current capacity from 200ktpa to 300ktpa, the company will require a new Phenol plant.
- An investment of INR1b was necessary to increase the capacity from 200ktpa to 250ktpa through debottlenecking.

Galaxy Surfactants

Buy

Current Price INR 2,667

- Fatty alcohol forms 50-55% of entire raw materials
- Price of fatty alcohol halved YoY during 4QFY23 but was flat QoQ
- Revival of rural demand and entry of new player should drive domestic market demand
- AMET region (excluding Egypt) posted 7% YoY volume growth in 4QFY23
- Egypt volumes have started stabilizing now
- Volumes were flat over the past three years and earnings were driven by improving product mix
- Management's volume growth guidance is at 6-8%.
- Domestic volume growth should be around 8-10%
- EBITDA growth should be faster than volume growth
- Management would not be giving EBITDA/mt guidance going forward as the company will be focusing on volume growth
- The company targets to maintain ROCE of 22%
- The US demand has been hit due to inventory management by customers
- Demand expected to improve from 2QFY24 onwards
- Maintenance capex at INR300-400m.
- Palm oil sourcing should not be an issue unless adverse weather hits production
- Average capacity utilization was at 65% in FY23
- Performance surfactants segment includes all products, which have fatty alcohol as feedstock

Navin Fluorine

Neutral

Current Price INR 4,704

Operational highlights

- Commercial production of two new molecules began in 4QFY23 at MPP plant
- At least one more new molecule in FY24E
- Working capital rose during the year due to commencement of NFASL plant
- It did not experience pricing pressures in molecules related to pharma end-markets since the company worked with innovators instead of generic manufacturers
- One molecule in specialty segment saw demand being hit in 4QFY23 and had almost zero sales
- However, demand has now started picking up in 1QFY24
- Around INR150m of one-time expenses were part of other expenses in 4QFY23, which would not continue going forward.

Outlook

- Planned annual shutdown of HFO plant at Dahej & HF plant at Surat happened during Apr'23
- NFIL's 1QFY24 performance could be a bit softer due to shutdowns
- HPP segment priorities in the foreseeable future:
- Ramping up utilization
- Debottlenecking – at least 20% additional capacity expected post-debottlenecking
- Working on new molecules with Honeywell

- Depreciation should be around INR800-900m annually going forward based on current capitalization
- Annualized FY23 margins should keep on improving as capacities are added
- ESOP charge expected to be around INR310m for FY24 and should come down substantially after that

Capex updates

- Approved capex of INR4.5b for setting up a new 40ktpa HF capacity at Dahej
- Expected to come online in two years
- Most of HF will be consumed internally
- Within 3-4 years, almost all of it will be consumed internally as the company is working on downstream molecules
- Three agro molecules were produced in 4QFY23 at MPP plant
- The fourth molecule expected to happen in FY24
- The fifth new molecule is also under consideration in agro end-market, which is expected to commence in 2HFY24
- No immediate plans to commence the previously announced pharma molecule.



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NOCIL

Buy

Current Price INR 221

Operational highlights

- Volume increase has largely come from the non-latex market in 4QFY23
- Global recessionary trends and inflationary pressures in FY23 adversely impacted performance
- The company achieved its highest ever quarterly volumes and revenues in 1QFY23
- Subsequently, as the global slowdown started, the following two quarters proved to be challenging for the company
- Increased prices for its products offset the decline in volumes in FY23
- Domestic revenues were INR11b in FY23 v/s INR10b in FY22. Revenue grew ahead of the rubber consumption in the country
- Decreased production in the latex market in SE Asia hit the volumes as export volumes declined 21% in FY23
- Exports revenue stood at INR4.9b v/s INR5.7b in FY22

Outlook

- Inflationary pressures still persist
- Would focus on maintaining EBITDA/kg, growing volumes, and increasing wallet share with the customers
- Domestic tyre companies have strong growth plans
- At least grow by 10% on an annual basis for the next several years
- The non-tyre segment is also looking good
- The market share in the US is at low single digits, but has grown 3x on a base of 100 since FY19. Chinese import duty into the US still exists

Capex updates

- Capex for FY24 and FY25 would be mainly for debottlenecking capacities (5-10% increase in capacity) and maintenance activities
- Debottlenecking to be completed in FY24

Other Highlights

- Expansion of product portfolio with the customers in the past few months
- Europe contributes 20% of total export sales for the company
- No guidance on timelines for optimum capacity utilization
- Average capacity utilization at 66-68% for 4QFY23 with the same being 62% for FY23
- Cash in hand at INR2b as of Mar'23



CONSUMER

- The Consumer sector has highlighted weak rural demand, but there are signs of volume recovery during the quarter. Price hikes have had their full effect, while commodity costs have either stabilized or declined. Gross margin has improved, and companies are returning to normal ad spending levels. Future growth hinges on a complete rural recovery that could be boosted by factors such as a normal monsoon and a low growth base.

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Salient takeaways from the 4QFY23 performance	Outlook for FY24
Asian Paints	<ul style="list-style-type: none"> ■ Asian Paints reported 16% volume growth in the India Decorative business. ■ The company has reported double-digit volume growth in rural and urban markets. T1 and T2 cities have reported slightly higher growth rates. ■ APNT now has ~150k retail points. The management targets to add 10k-15k retail points in FY24, mainly in small cities and suburbs of large cities. 	<ul style="list-style-type: none"> ■ APNT is going to invest INR20-23b in FY24 and it will expand capacity by ~2.2-2.5 lakh KL. ■ It has maintained EBITDA margin guidance of 18-20%. ■ The company has rolled out 50 stores in the Home décor segment, accounting for 4-5% of revenue. The management indicated an aggressive target of 8-10% revenue contribution from this segment by FY26.
Britannia	<ul style="list-style-type: none"> ■ Volume growth for the quarter was ~2% and it is expected to pick up in FY24. The number of rural distributors rose to 28,000 in FY23 from 26,000 in FY22. ■ BRIT continues to gain share in rural markets. Direct reach has gone up by 200,000 outlets to 2.7mn outlets. Its non-biscuit portfolio is growing at 1.5x the biscuit portfolio. ■ Total direct milk collection is now 70,000 liters and milk collection is 200,000 liters per day. 	<ul style="list-style-type: none"> ■ Overall capex will be ~INR5-6b in FY24 on enhancing dairy capacity, setting up new facility and investments in existing facility. ■ PLI in this quarter for FY22 and FY23, which amounted to INR900m. The company expects to receive ~INR150m-200m every quarter going forward.
Dabur	<ul style="list-style-type: none"> ■ Gross margins contracted 160bp, mainly due to a lower contribution of the high-margin health supplement business and the impact of adverse currency movements on the international business. ■ E-commerce sales grew 34% and contributed 9% to total sales. Modern trade channel sales grew in double digits. Direct reach now stands at 1.4m and total reach (including indirect reach) stands at 7.7m outlets. Its village coverage has increased to 1 lakh villages. 	<ul style="list-style-type: none"> ■ The company has approved INR9b capex in Nepal for the next five years. The current capex is only INR0.9b for the juices category. ■ With a softening in commodity prices and an expected increase in gross margins, the first priority would be to increase A&P spends to perk up growth. ■ Current sales of foods brand stands at INR1.2b. Along with Badshah, the company targets INR10b in sales in the foods category in the next five years.
Godrej Cons.	<ul style="list-style-type: none"> ■ GCPL reported underlying volume growth of 6%. Gross margin improved 180bp sequentially in Q4. Cost savings in FY23 stood at ~150bp. GCPL is integrating technology in decision-making and is tracking metrics such as cost/reach and cost/incremental/reach and is trying to reduce it. ■ Employee costs – fixed components of salary would increase, while variable pay would be lower. However, longer-term incentives would be higher. ■ Indonesia macros are turning favorable and the management is confident of growth in this region. 	<ul style="list-style-type: none"> ■ FY24 growth would be led by volumes, with low price growth. The Indian business is expected to witness lower pricing growth, while the international business could see higher pricing growth. The tax rate is expected at 22-23% in FY24 and 25-26% in FY25. ■ FY25 growth would be led by both volume and value. Operating scale benefits are likely to drive EBITDA.
Hindustan Unilever	<ul style="list-style-type: none"> ■ FMCG industry volume declined in FY23, while HUL volume grew by 5% YoY. ■ FMCG industry price growth stood at 11-12% for the year. Urban markets continued to lead overall industry growth. ■ Rural areas saw an increase in value growth, but a decline in volume; however, the rate of decline slowed compared to the previous period. 	<ul style="list-style-type: none"> ■ The management expects volatility to continue in the near-term operating environment. Inflation is expected to ease as a result of a high base and a gradual decline in select commodity prices, leading to a rebalancing of price and volume growth. ■ The company maintains competitive investments in its brands and has increased advertising and promotion (A&P) spending.
Marico	<ul style="list-style-type: none"> ■ Domestic volume grew 5%, while constant currency international sales grew 16% during the quarter. ■ Gross margins expanded YoY as well as sequentially, with a moderation in input prices and a more favorable portfolio mix in the domestic business. 	<ul style="list-style-type: none"> ■ The company expects to reach INR8.5b in revenue in the Foods category by FY24, driven by improved urban demand, innovative new products, and expansion of the food distribution channel.

Pidilite	<ul style="list-style-type: none"> VAM consumption costs in 4QFY23 stood at USD1,300/ton, down from USD2,000/ton in 3QFY23. The current ordering rate is, however, much lower at USD1,100/ton. VAM accounts for ~25% of total raw material costs. It witnessed a sharp fall on easing supply concerns. 	<ul style="list-style-type: none"> The company is on track to achieve an EBITDA margin of 22-24% going ahead. The management expects to grow its core categories at 1-2x of GDP and growth categories are 2-4x of GDP in the long term.
UNSP	<ul style="list-style-type: none"> Royal Challenge American Pride is available now in 75% plus salient Upper Prestige market. It is the fastest-growing brand and adding absolute incremental market share gains for Diageo India QoQ. Lower Prestige (McDowells) and Popular (DSP black) have seen inflationary pressure, leading to a lack of uptrading trends in their respective segments. 	<ul style="list-style-type: none"> The management targets double-digit sales growth, along with EBITDA margin of ~15% in FY24, and expects it to gradually increase to 16.5% thereafter. In glass, the management is seeing green shoots due to lower natural gas prices after the government's intervention. The management expects to distribute dividends in FY24 on account of net cash.



Click below for
Results Update

The screenshot shows a research report for Asian Paints. It includes a table of financial data and a summary of the company's performance. The report is dated 19 May 2023.

Asian Paints

Neutral

Current Price INR 3,224

Performance and outlook

- APNT delivered a strong performance in 4Q and FY23, led by strong double-digit volume growth of ~16%.
- In FY23, volume growth stood at ~14% in spite of flat performance in 3QFY23. Value growth was ~20% owing to a favourable product mix and price hikes.
- A 3-year volume CAGR was ~23% at the end of 4QFY23.
- Tier 3/4 cities grew at the same pace as tier 1/2 cities.
- Unorganized players lost market share amid the stressed environment due to supply chain issues. However, with a stable environment now, they would regain their share and the market share ratio would be back to 65-70% organized and 35-30% unorganized.
- At present, the overall market size is ~INR700-750b and the management expects it to grow to INR1000b in the next five years.
- Growth in FY24 would be led by increase in the per capita consumption of paints.

Segmental highlights

- Economy, premium and luxury segments largely grew in double digits, while emulsion and waterproofing saw much faster growth.
- The management targets to increase the contribution from the home décor business to 8%-10% of architectural turnover by FY26 from 4-4.5% currently.
- White Teak – It did a business of INR1.1b. TAM of this category is ~INR11b.
- Adhesives – started six years back and APNT is currently the number two player.
- Enlarged the waterproofing market by reaching more households.

Cost and margins

- Gross margin expanded owing to a decrease in material costs, sourcing efficiencies and a decent overall product mix.
- EBITDA margin would remain in the range of 18%-20%. The management would wait for six months before revisiting the guidance.
- On a standalone basis, advertising expenses would be ~3.5% of revenue.
- Auto and industrials differential in margins – due to price increases in superior offerings.

Distribution and new products

- APNT has the largest service footprint across the globe. It services ~170k customers across 600 towns via service programs like painting service and trusted contractor services.

- It now has ~150k retail points. The management targets to add 10k-15k retail points in FY24, mainly in small cities and suburbs of large cities.
- The company operates in many categories in home décor. As present, it has 50 operational stores across the country and plans to increase it to 100 stores in two years.
- 'Beautiful Homes' outlets are in more than 30 cities at present and the company plans to expand to 50-60 cities in near future.
- APNT has also launched tiles in the home décor business. It is more of a portfolio completion launch.
- Furnishing – It has increase the number of retail points from 100 to 900 in two years. APNT is already the number two player here.

Capex

- Capex for FY24 would be ~INR20-23b.
- About 2-2.3 KL of capacity would be added in FY24.
- The current utilization rate is ~75-78%.
- Depot addition – 41 warehouses in last three years; size of the ware houses has doubled to 1-1.2 lac sq.ft.

Other

- The company did ~250 innovations in the past seven years, which contribute more than 10% to the total turnover. It has also filed for 106 patents.
- APNT's share of voice outstrips competition.
- It is water positive and the renewable energy level is at ~63%.
- Overall hiring at the company level has been very aggressive in the last three years and it would hire ~1,000 interns/campus placements.



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& Results Update**



MOTILAL OSHWA

Birnia Industries

11th Floor

11th Floor, 11th Floor, 11th Floor

Financials (₹ Lakhs)

Particulars	2017-18	2018-19
Revenue	1,00,00,000	1,00,00,000
Operating Profit	10,00,000	10,00,000
Net Profit	5,00,000	5,00,000

Particulars	2017-18	2018-19
Revenue	1,00,00,000	1,00,00,000
Operating Profit	10,00,000	10,00,000
Net Profit	5,00,000	5,00,000

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Key Ratios

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Revenue	1,00,00,000	1,00,00,000
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Revenue	1,00,00,000	1,00,00,000
Operating Profit	10,00,000	10,00,000
Net Profit	5,00,000	5,00,000

Britannia Inds

Neutral

Current Price INR 4,893

Operating environment

- BRIT has been consistently gaining market share. Expanding its distribution channel, maintaining the freshness & quality of the product, and leveraging the inherent strength of its brand are all contributing to the company's growth in market share.
- Volume growth for the quarter was ~2% and it is expected to pick up in FY24. Nonetheless, the management's emphasis will be on selling more packs.
- Cake, rusks, dairy, and bread segments of the company are all roughly the same size, with each segment generating around ~INR7b revenue. The International segment generates ~INR7-8b revenue.
- Number of packs sold grew 12%.
- Competitive intensity has not changed substantially QoQ.
- India has around 2,500 manufacturers of rusks and a few local players are gaining prominence. To address this competition, the management has now revised its strategy and focusing on the regional markets for this product.
- NPDs contribute 3-3.5% to the total revenue. It aims to increase this figure to 4% as it continues to scale up its efforts.

Input costs, pricing and margins

- Flour, palm oil, laminates and corrugated boxes constitutes 60% of input costs.
- Flour, which has the highest salience in inputs, has witnessed a price increase of 4% QoQ and 21% YoY.

- Dairy inflation stood at 20% QoQ. Sugar was flattish QoQ; however, there are some signs of inflation.
- Weighted average inflation is expected to be ~3% as per management estimates.
- Price actions were taken to cover inflation; however, it is expected to moderate going further.
- The increase in 'Other operating income' was attributed to the receipt of PLI in this quarter for FY22 and FY23, which amounted to INR900m. The company expects to receive ~INR150m-200m every quarter going forward.
- Gross margin is expected to hover around in the same range as FY23.

Product and innovations

- Golmal is now available in south and west markets.
- Milkbikis classic is witnessing healthy sequential growth.
- Croissants are doing well and growing more than 50% in the base market of TN and WB.
- Milk shakes are made from fresh milks.
- Winkin Cow is now a INR1.5b brand.
- Rusks – The company is in the process of commercializing three new rusk product lines, in addition to the one that is already available.
- Currently, the company collects ~70,000 liters/day directly from farmers (2,987farmers) and 130,000 liters/day is procured in bulk.

Other points

- The share of LUPs has remained consistent compared to the pre-pandemic period.
- The company has ~28,000 rural distributors at the end of FY23
- The rural market share is 1.4x of the rest of the India.
- The number of direct reach outlets now stands at 2.7m.
- Capex for FY24 is guided to be ~INR5-6b.
- In-house manufacturing is expected to go up to 65% from 57% in the medium term.



COLGATE-PALMOLIVE

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Results Update



Colgate

Neutral

Current Price INR 1,636

Performance and Outlook

- The company has given the strategy of Growth, Strengthen and Simplify for FY24.
- It has four Strategic pillars: 1) lead in the toothpaste category in terms of volume and grow the core, 2) premiumization, 3) lead in the toothbrush & devices category, and 4) build personal care.
- CLGT increased the prices of toothpaste from INR63-69 in the last 7-8 months.
- In rural area, toothpaste of INR20 is doing well. About 55% rural households do not brush daily.
- Only 20% urban Households brush twice a day, having scope of expansion.
- The Toothpaste category continues to face volume pressure, falling to low single digits in FY23. Urban areas showed growth but rural declined by mid-single digits.
- The Toothbrush category also sees volume pressure and has not seen any price benefits.

Cost and Margins

- EBITDA margin may be affected in 1QFY24 by higher Ad spends due to new product launches.
- The management commented that EBITDA will grow on the full year basis.
- CLGT has controlled overhead expenses.

Segmental Data

- In Colgate max fresh, 21mn consumer homes added in FY23, HH penetration increases by 580bp, and it grows 5x faster than the market.
- Naturals were down 30bp from the pre-Covid level.
- Colgate Active salt reach increases by 700bp and it is the first company salt category to have shown growth.
- In Whitening category, Visible White o2 has 30x faster growth than the market.
- Colgate Gentle grew 4x faster than the category and its market share is 1.8x of 2020.
- Non-oral care has a low single-digit share in total sales. Its sales are down in Q4.

New Launches- Re-launches

- CLGT has re-launched Colgate strong teeth in May'23 as it gives both value and Volume growth. It is patented with arginine technique and offers the best in cavity protection. The product has 1.2 x penetration in rural areas. In addition to cleaning, it nourishes teeth.

Others

- New Commerce saw an 18% CAGR in FY18-22. It allows more premiumization as it has 460bp more premium contribution than Non-new commerce.
- The company has reached 1through70m children by 'Bright smiles Bright Future program' and targets to add 10m more by 2030.
- Total distribution points increased by 30% YoY.
- Toothbrush market is shifting toward softer and premium products.



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**Dabur****Buy****Current Price INR 556****Environment and outlook**

- The operating environment was challenging in 4QFY23 and volumes declined for the overall FMCG sector. Volumes started to pick up at the end of the quarter.
- Rural markets continue to lag behind urban markets, due to inflation and down-trading. However, some green shoots were visible at the end of the quarter.
- A demand revival was seen in UP and Bihar (central market), whereas south markets experienced a bit of pressure while east and west did better.
- E-commerce grew 30% YoY and contributed 9% to revenue.
- MT grew in double digits.
- Direct reach now stands at 1.4m and 7.7m outlets in total, including indirect reach, and village coverage has increased to 100,000.
- Secondary growth in the quarter was in double digits.

Costs and margins

- Material inflation was 6% and the company also took a 6% price hike.
- Sequentially, the pressure on gross margin is reducing.
- Operating profit was affected by an increase in media spends (up 16% in India).
- One-off expenses in other expenses:
 - ~INR200m on account of FX loss on Sri Lanka
 - ~INR100m phasing CSR expense
- Variable expenses increased in line with case sales growth (up 11%).



- Spices inflation has gone up; however, management has done some rationalizing in other costs.
- The product mix change toward the low-margin business also impacted margin adversely.
- Operating margin may inch up going ahead; however, most of the gains from gross margin expansion will be invested back in media spends.
- Media investments are currently 5-5.5% and will go up to 7-8% gradually.

Additional segmental highlights

- Beverages continued its strong growth trajectory, outperforming the industry significantly. Real Juices crossed the INR2b mark.
- A slight moderation may be witnessed in the F&B business going ahead due to a high base.
- Oral Care – Dabur Red continued gaining market share and every second household is now a Dabur oral care household. The Naturals segment account for 30% of oral care. The Sensitive segment is also growing.
- The hair oils market declined 2.8%, whereas Dabur grew 2% and gained market share, led by perfumed oil. Coconut oil would be INR3b currently.
- Honey grew 6-7% YoY, while chawanprash declined 35% on account of a high base due to omicron.
- The Honey category grew 7%, while the honey market declined, thereby gaining market share.
- Hajmola and Pudinhara delivered robust performances.
- Secondary sales of HPC grew 7%.
- Baby care ended the year with INR200m in revenue, which is expected to increase to INR500m in FY24.
- The Healthcare portfolio should improve as the high base fades going ahead.

Other points

- On an average, sales return would be 1% of total sales.
- A total of 180 SKUs were culled down in the past six months.
- Odonil has a 33% market share, which is the same/slightly higher compared to the nearest competitor.
- Management is targeting revenue of INR5b from the foods business in FY24 and INR10b in the next five years.
- For the overall F&B vertical, management targets revenue of INR40-45b in the next five years.
- Turkey an Egypt recorded exceptional CC growth; however, due to currency translation impact, growth in INR terms was minimal.



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Emami

Buy

Current Price INR 394

Environment and outlook

- HMN expects growth in FY24 with a moderation in inflation, good monsoon and government intervention.
- The management expects that the domestic business will grow ~8-10% and the international business will grow above ~20% in FY24.
- The company expects ~50-60% growth from new businesses in FY24, mainly from the Man Company (grew ~40% in FY23).
- The management expects profit from The Man Company portfolio in FY24.
- It has taken a price hike of 3-3.5% in 4QFY23.
- Domestic volumes grew 2% YoY in 4QFY23.
- Volume growth is negative for the organic business.

Emami

Key Metrics:

- Revenue: ₹1,100.00 Cr.
- EBITDA: ₹250.00 Cr.
- EBITDA Margin: 22.7%
- Net Profit: ₹100.00 Cr.
- Net Profit Margin: 9.1%

Financial Ratios:

- Debt to Equity: 0.50
- Current Ratio: 1.50
- Operating Leverage: 1.20

Management Commentary:

The management expects that owing to MAT credit entitlement, tax liability for FY24 would be same as FY23. They added 31,000 chemists in FY23 increasing the total to 130,000. It reaches ~52,000 towns and villages and intends to add another 8,000 in FY24.

Costs and margins

- Due to lower input costs, both gross margin and EBITDA margin are likely to improve in FY24.
- Full-year EBITDA margin is likely to be ~27%, excluding The Man Company.
- Ad spends will be ~16-17% in FY24.
- The integration of The Man Company and the distribution project undertaken by HMN led to an increase in other expenses and staff costs in 4QFY23.
- In standalone, other expenses increased due to the cancellation of the dividend declared by its subsidiary in Bangladesh, but it will not affect the subsidiary growth.

Segmental Performance

- In FY23, the company launched 20 new products with a majority of digital brands in the Zandu platform.
- Male grooming products grew 29% YoY due to a weak base affected by Covid.
- Kesh King Business is doing well in 4QFY23 and if parameters remain the same, it will grow by 10% in FY24.
- Healthcare business will grow 15-20% in FY24.
- The new business contribution in sales was 10% in Q4FY23 and 6% in FY23.

Other points

- Unseasonal rain has affected the summer portfolio, while other products are doing well.
- Both e-commerce and modern trade performed well growing 64% and 18% YoY respectively.
- The share of MT and e-commerce in sales was 19% in FY23.
- The management expects that owing to MAT credit entitlement, tax liability for FY24 would be same as FY23.
- They added 31,000 chemists in FY23 increasing the total to 130,000. It reaches ~52,000 towns and villages and intends to add another 8,000 in FY24.



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Godrej Consumer

Key Metrics:

- Revenue: ₹1,100.00 Cr.
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- EBITDA Margin: 22.7%
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Godrej Consumer

Buy

Current Price INR 1,066

Performance and outlook

- The Indian branded business performed well at 16% value growth, partly driven by healthy growth and the remaining due to seasonality (base was negatively impacted while the current was not).
- The management believes that the HI category performed well, and it expects the category to continue experiencing a high growth phase for the next 15-20 years. Within the HI category, mosquitoes are the management's first priority, followed by cockroaches and out-of-home HI.
- Hair colour and Hair care had explosive growth.
- Globally, hair colour penetration levels are at around 60%, while in India, it is currently stands at 50-55%. GCPL is currently focused on converting customers from powder to crème format as the crème portfolio is only about 20% penetrated in India due to the high salience of powder colors.
- Indonesia macros are turning favorable and management is confident of growth from this region.
- Africa operations were adversely affected by the impact of elections and demonetization in Nigeria, with the latter causing significant disruptions in the months of February and March.
- GCPL led the category creation of powder to liquid hand wash, which has since been adopted by many other players in the market. However, the company faced some challenges on powder to liquid body wash and is currently working on addressing them.

Costs and margins

- Controllable cost savings in FY23 stood at ~150bp.
- They are integrating technology in decision making and are tracking metrics such as cost/reach and cost/incremental/reach and are trying to reduce the same.
- Employee costs – fixed component of salary would increase, while variable pay would be lower. However, longer-term incentives would be higher.

FY 24 Strategy

- Overall strategy remains unchanged. The company will concentrate on category development activities, simplification of business, and on people & planet.

Category development activities would include:

- Driving relevance,
- Investment in brand (share of voice is up ~1400bp over FY21),
- creating access (example – INR15 crème sachets and Good Night chottu liquid at INR50 price points),
- Improving distribution (Nigeria is up 1.8x and Kenya is up 2x of FY22 levels) and,
- Educative sampling (3m household sampled in FY23 and targeting 6m in FY24).

Simplification of business:

- The company is focusing on reducing the costs that are not visible to consumers, such as selling/distribution costs, employee costs, and admin costs.
- In Indonesia, the company has moved to distributor models and currently has 140 distributors. About 30% of the sales is through 110 distributors.
- The company has implemented a single distributor partner model in Nigeria, which has helped to increase distribution by 2x and the number of warehouses. As a result, lead time has been reduced by 4x
- In Kenya, they had 2000 SKUs, which is now reduced by 70%.
- The company is incorporating technology into its decision-making process. For example, media planning would rely more on an algorithmic model than a judgement-based model.

People and planet:

- The company's focus is on building stronger performance culture, wherein input metrics would weigh more than output metrics. Mantra is "when you focus on input, output happens."
- To have net zero emission by 2023, use 60% renewable energy, etc.
- The company is targeting to be included in DJSI by FY26.

Outlook

- FY24 growth would be led by volumes with low price growth. The Indian business is expected to experience lower pricing growth, while the international business could see higher pricing growth.
- The management is expecting FY24 to be steady for the HI category.
- Gross margin would be back to its average levels.
- FY25 growth would be led by both – volumes and value.
- Tax rate for FY24 would be ~23% and for FY25, it would be ~25%.

Other points

- Under the simplification strategy, the number of subsidiaries would reduce to 25-30 from its current 60 in the next 12-18 months.



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Hindustan Unilever

Buy

Current Price INR 2,715

Operational environment

- Topline growth for the year was significantly ahead of the market.
- Volume grew 5% YoY for the year, while the FMCG industry volume declined for the year.
- The management's focus is on creating more superior products, almost 2x more superior products v/s 2019.
- Worst of the inflation is behind; however, inflation continues to linger on.
- FMCG industry price growth stood at 11-12% for the year.
- The urban market continued to lead the overall industry growth.
- Rural areas – there has been an increase in value growth, but a decline in volume; however, the rate of decline has decreased compared to the previous period.
- 75% business winning market share. The management will not be compromising on its market share and will maintain and grow its market share.
- The management anticipates a decline in price growth going ahead, while expecting volumes to recover.
- 'Surf' became the first brand to cross turnover of USD1b.

Additional segmental highlights

- Growth was led by premium portfolio in the home care category for the year. Homecare volume growth was over 9% for the year.
- Beauty volume grew in low single digits despite declining market volumes.
- Launched three new beauty brands during the year – 'Acne Squad', 'Find Your Happy Place', and 'Novology'.
- Divested the salt and atta business.
- The company strengthened its market leadership in Tea and widened the gap between itself and the second player.
- HFD market was adversely impacted due to high inflation in milk.
- Premium tea saw much larger inflation compared to loose tea, thereby leading to down-trading by consumers.
- Ice Creams – 37% yearly growth. This quarter was adversely impacted by unseasonal rainfalls; however, the management believes the demand will be back to normal in summers.
- Horlicks – It has 3.6gms of added sugar per 27gms.

Costs and margins

- The management will continue to focus on gross margin.
- A&P spends will gradually be back to normalized levels.
- Price reductions were taken in soaps portfolio.
- 'Other income' increased due to higher yields.
- Effectively lost 600bp due to commodity cost inflation and have recovered 290bp as of now.

Other points

- Shikhar is now in 1.2m outlets.
- Launched 60SKUs during the year through Agile Innovation Hub.
- The A class SKUs, which is around 80% of the turnover, is manufactured in 3.5 days.

[illegible]

Current Price INR 1,464

- INDIGOPN crossed the milestone of INR10b on a net sales basis in FY23.
- Sales growth was largely in line with industry growth in 4QFY23.
- Value and volume growth was largely in sync during the quarter.
- Growth in tier 1/2 cities was double compared to other markets in 4QFY23.
- Apr'23 was exceptionally well, and May'23 is going in the same direction.
- The company has recently launched a complete range of waterproofing products and it is on the shelves of dealers since last week.
- Management has taken various initiatives internally to drive revenue growth to 1.5x-2x of industry growth.
- It is focusing on big towns, holding more contractor programs, and cautiously selecting dealers (focusing on them by extending aggressive schemes). These initiatives have started yielding the result.
- Its overall pan-India market share in the decorative paints business would be ~2%.
- Apple Cheime is a fast-growing company in construction chemicals and waterproofing segments. It has a wide range of products that complement INDIGOPN's products. Apple Cheime caters to the institutional space and is currently concentrated in few states only. INDIGOPN now plans to gradually expand its footprint across India.
- The management expects waterproofing to contribute ~8-9% of sales in the next 2-3 years. The total addressable market of the waterproofing and construction chemicals space would be ~INR150b (50% retail).

- A favorable product mix boosted the profitability of the company.
- It has continued to spend on A&P aggressively. The absolute amount is largely the same as it was in FY22 and hence was down on percentage of net sale basis. Going forward the absolute amount would gradually increase; however, on percentage of net sales basis it will reduce.
- INDIGOPN's gross margin has always been the highest in the industry on account of a large portfolio of differentiated products. These products contributed ~31% of sales.
- For the last few years, freight expenses have decreased from 11.5% to 9.5% currently, and are expected to fall gradually going forward.
- Trade discounts – the overall quantum of discounts was lower than larger peers; however, in the last six months, the management has decided to become aggressive and now it stands at par with the industry.

- The company is working on increasing throughput per active dealer. Active dealer network now stands at 16,496 with tinting machines at 8,273.

- INDIGOPN has started trial production in the Tamil Nadu plant recently and commercial production should start in a few weeks.
- It is planning a new water-based plant of 90,000 KLPA capacity in Jodhpur.



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Financials



Q4 FY23		Q4 FY22		Q4 FY21	
Revenue	1,01,10,00,000	98,50,00,000	95,00,00,000	90,00,00,000	85,00,00,000
Operating Profit	15,00,00,000	14,00,00,000	13,00,00,000	12,00,00,000	11,00,00,000
Net Profit	10,00,00,000	9,00,00,000	8,00,00,000	7,00,00,000	6,00,00,000
EPS	10.00	9.00	8.00	7.00	6.00



Jyothy Labs

Neutral

Current Price INR 204

Performance and outlook

- The company's overall volume growth stood at 3.3% for the quarter and 3.0% for the full year. In value terms, growth for the quarter stood at 9.5% and 10.5% for FY23.
- The company is delivering consistent double-digit growth for the last 10 quarters, as well as a double-digit growth for the full year.
- On a two and three-year revenue CAGR basis, the company has been delivering double-digit growth.

Costs and margins

- The commodity prices are still volatile and the company is targeting to maintain its current year gross margin for the upcoming years.
- A&P spend as a percentage of sales stood at 7.5% and it is expected to remain in the same range.
- 10% of the company's turnover comes from a combination of both modern trade and e-commerce.

Segmental details

- The company has launched three new variants of Margo Neem Naturals with three new variants of Lime, Jasmine, and Rose and aims to grow in double-digits in the coming future.
- In Q4, Mr White and More Light registered a robust double-digit growth compared to the same period last year, with both brands crossing the sales milestones of over 1b for the company.
- The Laundry business reached sales of INR 500m and for the last few quarters, it's been running on a breakeven, and this year, it is expected to turn profitable.

Other points

- The company's direct reach has now crossed 1.1 million outlets.
- The management has now strengthened their distribution network by implementing an advanced distributor management system, supported by the head of technology. It is now focused on brand building.
- Each of the categories has grown in double digits except HI. Ex-HI value growth stands at 17.8%.
- The tax rate for FY23 was 20.4% and is expected to remain the same in the future, but due to the sales of some assets, it increased to 27.4% in 4QFY23.
- The ratio mix of rural v/s urban is 40:60 and the company is targeting equal shares in both the segments.
- The company has reached 100% villages with a population of 10,000. Going forward, it wants to increase its penetration rather expanding to smaller villages.
- It plans to expand its manufacturing facility of detergent powder line at the Pitampur plant in Madhya Pradesh.
- The company has not taken any price cut in the last quarter.

Marico

Buy

Current Price INR 550

Business environment and outlook

- There has been a gradual recovery in FMCG consumption due to moderation in input costs.
- Food continues to drive the growth for the sector.
- The rural sector seems to have bottomed out during the quarter.

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Results Update



The screenshot displays the 'Marico' financial results for Q4 FY23. It includes a table with financial metrics such as Revenue, EBITDA, and Net Profit, along with management commentary on the company's performance. The commentary highlights the company's focus on growth and its strategic initiatives in the FMCG space.

- Volume growth will be better in FY24 than FY23.
- In the overall FMCG space, food products tend to be geared toward urban consumers, while the HPC products tend to be more geared toward rural consumers. Whenever there is an impact on consumption, HPC tends to be more affected than foods.
- GT declined to low-single digits and management expects it to grow in FY24.
- MT and e-commerce grew in double digits.

Segmental performance

Parachute coconut oil

- Parachute coconut oil gained 70bp market share during the quarter.
- Branded coconut oil category turned positive this quarter.

Saffola edible oil

- Stability trends in the global oil market would help the category.
- Continues to witness a healthy uptick.
- Mid-high single-digit growth is expected, if the environment remains conducive.

VAHO

- It has significant rural salience.
- It has consistently been gaining value market share and has gained ~60bp market share in 4QFY23.
- The category started seeing an uptick from mid quarter and is expected to see further improvement due to a favorable environment going forward.
- Aloe crossed a revenue of INR1b.
- A few more launches are planned for FY24.
- The management aspires this segment to grow in double digits over the next three years; however, it depends on rural growth too.

Foods

- Revenue came in at ~INR6b in FY23. It is expected to reach INR8.5b in FY24.
- Masala Oats reaches 2,00,000 outlets.
- It is open to inorganic growth in the category.

Digital-first brands

- Digital-first brands are performing as per internal targets.
- It aspires to reach a revenue of ~INR4b by FY24.

International business

- Inflation has moderated a bit in Bangladesh.
- MENA delivered double-digit constant currency growth.

Material costs, margin and guidance

- Gross margin expanded on the back of moderation in input prices and favorable product mix.
- The company has also passed on the decrease in prices to the consumers.
- The company has increased its A&P spends and this will further increase going forward.
- Gross margin may increase by 200-250bp and EBITDA margin increase by ~100bp YoY in FY24E.
- Employee costs were up during the year due to additional cost related to acquisitions and the base was lower due to reversal of provision of management incentives for not reaching targets.



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Page Inds

Neutral

Current Price INR 39,236

Performance and demand environment

- Demand was subdued during the quarter even on a QoQ basis. At present, it is seeing some improvement in demand.
- 4QFY23 was also affected by the ARS implementation. It will take some more time to fully implement ARS as it has 4,800+ distributor accounts. There will be an impact for two more quarters.
- The management is focusing on intensifying GT distribution, growing online business, ensuring robust supply chain and improving customer experience.
- Volume declined 14.6% YoY and 19.2% QoQ in 4QFY23.
- E-Commerce business grew 34% YoY.
- The management believes that customers are postponing their purchases.
- It does not see the need for immediate price intervention.
- Secondary sales were marginally higher YoY during the quarter.
- PAG has a ~17-18% market share in the men's category and in high single digits in other categories.
- Denim – Market feedback has been good for it.

Distribution channels and supply chain

- Channel expansion was in line with internal management plans.
- It added 1,222 MBOs in 4QFY23, increasing the total count to 120k+.
- PAG added 61 EBOs in 4QFY23 and expanded its footprint to 431+ cities. There are total 1,289+ EBOs with 48/78 exclusive for woman/children.
- LFS is now present with 24 partners in 3,062+ stores.

Costs and margins

- Aggressive measures were taken to control costs during the quarter.
- EBITDA margin was affected by higher production costs and lower absorption of other costs due to lower revenue.
- Advertisement costs normalized during the quarter.

Other points

- Inventory is nearly at an all-time high with inventory days at ~120 v/s 92 YoY. Inventory days are higher also on account of lower revenues and volume. Page Inds purchased advance inventory in anticipation of growth, which did not come. It will take a bit longer to liquidate the inventory. However, high-cost inventory is now fully consumed.
- Trade inventory at present is ~48-50 days. Inventory days have corrected by 20-25 days at the distributor level and they are now ~45-50 days.

Pidilite Industries

Neutral

Current Price INR 2,654

Demand environment and outlook

- 4Q revenue growth was primarily driven by domestic demand.
- Demand improved in the rural and semi-urban markets.
- In the Consumer and Bazaar (C&B) segment, PIDI increased prices by 8-10% in FY23 and 4-5% in Q4FY23.
- International demand is soft currently, while domestic demand is robust.
- Demand uncertainty in the international market is due to fears of recession in the west and currency crises in some developed countries.

MOTILAL OSWAL
Pidlite Industries

Key Highlights:

- Revenue growth of 10% in FY23.
- EBITDA margin improved to 20% from 18% in FY22.
- Net profit grew by 15% in FY23.

Management Discussion:

The company has achieved significant growth in FY23, driven by strong volume growth and improved margins. The management is optimistic about the future and expects continued growth in FY24.

- Management highlighted that they are investing in five major areas: 1) route-to-market, 2) increasing advertisement expense and sales promotion, 3) taking Digital initiatives by expanding e-commerce, 4) innovation and 5) people.
- In the long term, PIDI aims to achieve growth of 1.2x-1.4x of GDP.

Cost and margin

- The moderation in input costs led to improvement in gross margin.
- VAM consumption costs in 4QFY23 fell to USD1,300/ton from USD2,000/ton in 3QFY23. The current ordering rate is ~USD1100/ton.
- EBITDA margin would be in the range of 20-24% going ahead.
- There is no further price hike expected in the near term.

Segmental

- Domestic C&B business revenue grew by 10%, underpinned by strong volume growth of 7%.
- B2B businesses faced headwinds due to lower exports and muted demand from export-related businesses.
- Araldite – There was RTM change in the distribution of araldite wherein a layer of distribution has been removed. Due to this, primary sales were affected in 4QFY23, while there was no impact on secondary sales.

Others

- PIDI has launched decorative paint with the brand name 'Haisha' in selected geographies.
- No additional teams are placed for the paint division. It is using the current dealership network.
- The company has been in the paint business for a long time.
- PIDI aims to be a one-stop shop for all home improvement products.
- FY24 growth would be driven by volume and improvement in the mix.
- Capex is broadly 3-5% of sales. It commissioned three plants in 4QFY23 and is on track to commission five more before Jun'23.
- It is optimistic about future owing to an increase in construction activities and government initiatives to increase capex and boost rural consumption.
- PIDI has a digital app wherein dealers can order directly with distributors. It crossed INR10b revenue from the C&B business.

TATA CONSUMER PRODUCTS

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Tata Consumer Products

Buy

Current Price INR 823

India Packaged Beverages

- The India Packaged Beverages business witnessed revenue growth of 1% YoY in 4QFY23, backed by 3% volume growth. In FY23, revenue declined 5% YoY and volume fell 1% YoY due to weakness in some of the key markets.
- Overall, the premium tea segment recorded growth in FY23, while the economy segment was affected by rural slowdown. The premium tea portfolio performed better than the mass economy segment. The company retained market leadership in tea in the E-commerce channel.
- **Tea:** The segment witnessed a market share loss of 113bp YoY. However, management is witnessing some green shoots in the India tea business, with volume coming back. It expects the segment to witness mid-single digit volume growth going ahead.
- Coffee continued its strong performance, with revenue growth of 31% YoY in FY23.

India Foods business

Tata Consumer Products

Key Highlights:

- Revenue grew 26% YoY (constant currency growth)
- Volume grew 8% YoY
- India Foods business is now larger than the International business
- Tata Soufful portfolio more than doubled during the year
- Tata Sampann portfolio witnessed another strong quarter with 35% YoY growth
- The segment tapped into the health & wellness trend with the launch of Makhana

Financial Performance (INR Crores):

Particulars	Q4 FY23	Q4 FY22	Q4 FY21
Revenue	1,10,000	87,000	85,000
Operating Profit	15,000	12,000	10,000
Net Profit	10,000	8,000	7,000

- The business registered 26% YoY revenue growth in 4QFY23 and FY23. The segment recorded volume growth of 8% YoY during the quarter.
- The India Foods business is now larger than the International business.
- Tata Soufful portfolio more than doubled during the year, led by distribution gains for the existing portfolio and new innovations.
- Tata Sampann portfolio witnessed another strong quarter with 35% YoY growth, led by a broad-based performance across all the categories. In FY23, the segment witnessed 29% YoY growth.
- The segment tapped into the health & wellness trend with the launch of Makhana. It also launched Indori style poha, a localized version catering to regional tastes.

India Salt

- The salt portfolio maintained its momentum with 24% YoY growth during the quarter on a high base of last year (4QFY22 growth of 15%). In FY23, the business grew 25% YoY, primarily led by pricing actions.
- The salt business gained 76bp of market share YoY.
- Management expects volumes to grow in mid-single digits going ahead.
- The value-added salts portfolio grew ~4.5x in FY23 on the back of new innovations like Tata Salt Immuno (salt fortified with zinc). Accordingly, the share of value-added salts has increased to ~5% in FY23 from under 1% in FY20.
- Gross margins are returning to the normal range of ~32-37%.

Tata Coffee (including Vietnam ex EOC)

- Revenue grew 13% YoY (constant currency growth), driven by strong growth in the extractions business.
- The extractions business grew 20% YoY (constant currency growth) during the quarter. For FY23, the business registered growth of 26% YoY. Margins expanded on YoY basis, led by a good performance in the Vietnam business.
- Revenue from the plantation grew 11% YoY for 4QFY23 and 17% YoY for FY23, primarily led by higher realization in coffee.

NourishCo

- NourishCo sustained its robust growth momentum with revenue growth of 79% YoY to INR1.81b on the back of broad-based growth across product and geographies. Revenue for FY23 grew 80% YoY to INR6.2b.
- Tata Copper witnessed revenue growth of 2.2x YoY, while Himalayan grew 74% during the quarter.
- The business has reached ~650k outlets.
- NourishCo currently has presence in ~75-80% of the country. Management expects to increase its distribution network and targets revenue of more than INR10b in FY24.
- The continued cost-saving initiatives led to better margins over previous year despite steep inflation.
- Tata Gluco+ continued to expand its footprint and rolled out its first national campaign during the quarter.

JV: Starbucks

- Tata Starbucks saw strong revenue growth of 48% YoY during the quarter. For FY23, the business grew 71% YoY, although the base was affected by the pandemic.

- The business was EBIT positive for the year and added ~71 stores (the highest ever annual store addition), taking the count of total stores to 333. The business entered 15 new cities during the year and is currently present in 41 cities.

US business

- **Coffee:** Revenue declined 4% YoY (constant currency) in 4QFY23, while the business recorded 7% growth for FY23.
- The business saw strong sequential margin improvement during the quarter.
- The company has a ~4.2% market share in the coffee bags segment.
- Tea: Revenue grew 5% YoY (constant currency) in 4QFY23.
- Tetley outpaced category growth in 4QFY23, led by the hot black tea segment. Teapigs continued to outpace the specialty tea segment.
- Others: The company is gearing up for the mainstream launch of Tata Raasa after the successful launch in ethnic channels.

Canada business

- Revenue grew 5%/9% YoY (constant currency) in 4QFY23/FY23, with the market share of 27.7% as on Mar'23.
- Revenue in the Specialty tea category declined 12% YoY during the quarter.
- The company took price hikes to mitigate inflation, leading to strong margin improvement sequentially.
- The company launched 'Live teas' specialty range and Tata World Foods portfolio during the year.

UK business

- Revenue grew 8% YoY (constant currency) in 4QFY23 but remained flat YoY in FY23.
- The company has increased prices by ~15% across the portfolio from Feb'23, leading to strong margin improvement on a sequential basis.
- The company has completed the integration of Teapigs with the UK business to drive synergies.
- The business has a value market share of ~19.1% in the everyday black segment.

Other highlights

- The direct reach of the company increased to 1.5m outlets in FY23 from 0.5m outlets in FY20.
- It is set to double its total reach to ~4m outlets by Sep'23. Total outlets currently stand at ~3.8m as on FY23.
- It will increase bandwidth at the front-end through splitting routes for salesmen in towns with over 1m population.
- The company is planning to move to 50,000+ towns, which will further increase its direct distribution network.
- Growth businesses as a percentage of the India branded business increased to 15% in FY23 from 6% in FY20.
- **International business:** The company has taken pricing actions across the markets. Overall international EBIT margin in 4QFY23 was just down 100bp YoY and on track to return to normal levels. Going ahead, management expects margins of the international business to come back strong in 1HFY24.
- **Losses from joint ventures:** A higher loss in the North India plantation business led to heavy losses in joint ventures. However, this was partially offset by a better performance from Starbucks (a joint venture).



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United Breweries

Sell

Current Price INR 1,502

Environment and outlook

- Volume growth was 3% in 4QFY23. It continued to face RTM headwinds. Volume growth was 17% ex-RTM headwinds (ex-Delhi, Chhattisgarh, AP, and Tamil Nadu).
- Premium segment volume share would be ~21-22%.
- The management remains committed toward revenue management activities and are already reaping its benefits.
- Lower demand in the northern region is attributed to unseasonal rains.
- The company lost low-single digit market share ex-Tamil Nadu.
- The company has lost market share in Karnataka due to the growth of economic segment. Additionally, due to the recent elections, there have been some administrative and supply issues in the region.
- Premium portfolio market share was flat during the quarter.
- Price increases taken across multiple states. They got double-digit price increase in Rajasthan in March.
- The company is in the process of discussion with other states for price increases.

Costs and margins

- Gross margin is under pressure due to barley and packaging costs and the adverse impact of state-mix.
- 1QFY24 would continue to see headwind on margins.
- The company is experiencing pressure on bottling costs, which is expected to persist, primarily due to a shortage of supply in the market.
- New barley crop is of good quality; however, there is a bit of moisture.
- They have already started purchasing the new barley and procurement prices are near about management estimates.

Other points

- Regional volumes: North grew 14%, West grew 10%, East grew 29%, and South declined 10%. Capex for FY24 would be ~NR2.5-3b.

United Spirits

Neutral

Current Price INR 875

Operational environment and outlook

- In line with its new strategy, UNSP focuses on reshaping the portfolio, along with value chain efficiency. Portfolio activation was fully aligned with the strategy.
- Pricing, productivity and mix management drove growth in FY23.
- The management expects to distribute dividends in the coming financial years thanks to cash in books.
- About 35% of growth came from the mid and upper prestige segments. However, demand remains weak in the lower end of the prestige portfolio.
- Mid-prestige/Upper prestige/Luxury premium grew 43%/32%/37% in FY23.
- Socializing is back with a bang, with more consumers coming to upper segments. UNSP is also seeing a lot of tourist traffic. These factors will drive demand.
- RTM changes are hurting sales. Delhi and Chattisgarh saw RTM changes in FY23.
- The management targets double-digit sales growth in FY24.

The image shows a screenshot of a financial report for United Spirits. It includes a table with columns for various financial metrics and a detailed text section below it.

Costs and margins

- An effective price increase of 6-7% was obtained in Telengana.
- UNSP would continue to make A&P investments to drive growth. Going ahead, it will be in the range of 9-10% of sales.
- The company is seeing persistent inflation headwinds in the lower premium and prestige.
- Glass costs – There have been some green shoots after a correction in natural gas prices after government intervention.
- ENA prices remain high.
- Monocarton removal will reach its full realization during FY24.
- The first milestone is to achieve EBITDA margin of ~15% in FY24.
- Employee costs will be in the range of INR5.5-6b.
- To counter inflation every year, UNSP has a policy to combat ~50% of inflation by management initiatives and the rest 50% by pricing growth and mix improvement.
- The supply chain agility program should boost margin by 1-1.5% once it is fully implemented.
- Operating deleveraging should continue until Sep'24. However, operating leverage from the retained portfolio would reduce the impact.

New launches/re-launches

- Royal Challenge American price – It has a 75% share in the upper prestige market and it is delivering exceptionally well. About 79% customers like it and there are many repeat customers.
- Signature – Last year it delivered the highest growth in the last five years. UNSP is concentrating on expanding the footprint. The management is happy with the performance and has closed the year on a high note.
- The new re-imagined antiquity is performing well. It is launched in West Bengal, Assam and UP. The management is targeting a national rollout by Jul'24.
- Royal Challenge recorded ~40% growth during the year.
- McDowell's – There is inflation in this category; however, it grew ahead of the category for three years in a row.
- Jonnie Walker – It launched a new brand offering i.e. JW Blonde. It is the biggest ever launch and was launched in several states, including Maharashtra, Goa, UP and Chattisgarh. They are tapping the next generation of non-scotch consumers here.
- Godavan was launched in New York last month.



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Varun Beverages

Buy

Current Price INR 1,647

New Products

- The energy drink product has garnered significant share in the overall sales mix. The company has firmly established its leadership position in the category.
- The company has turned its focus toward new performers such as Value Added Dairy, Sports Drinks, and Juice segments to sustain the growth momentum.
- The management expects these products to fuel the company's next leg of growth as their products continue to be well received by consumers
- Sting has experienced exceptional double-digit volume growth rates. According to the management, there is still significant room for expansion in the distribution outlets for this product.

MOTILAL OSWAL
Varun Beverages

Financial Statement for the period ending 31st March 2023

Key Metrics:

- Revenue: ₹1,000.00
- Profit: ₹150.00
- Margin: 15.00%

Table with 10 columns: Item, FY 2022, FY 2021, FY 2020, FY 2019, FY 2018, FY 2017, FY 2016, FY 2015, FY 2014.

Items include: Revenue, Cost of Sales, Gross Profit, Operating Expenses, Operating Profit, Financial Expenses, Financial Income, Profit Before Tax, Tax Expense, Profit After Tax, Dividend, Retained Earnings, etc.

Juices and Value added dairy

- The management indicated that the next key growth driver will be Juices, VAD, and sports drink segment.
- The company is setting up two plants in Maharashtra and UP to increase capacity in both these categories, which will be commissioned next year.
- VAD is already available nationwide but due to capacity constraint, the company could not scale up much. However, with new capacity coming in, the company will be able to scale it up.
- Margins in VAD are as good as the soft drink business and selling price of VAD is also much higher than that of soft drinks.
- The dairy business is very profitable for the company and also, the same machine can make both Juice and Dairy.
- Gross margins of the Juices and VAD are at par and even better than the overall business.
- Currently, the company has only one plant in Pathankot, which serves the product in North India.
- The company is involved in the value-added dairy segment, and the availability of milk is not an issue, even if it comes at a slightly higher cost.

Competitive Intensity

- The management is confident that there is ample space for every player in the market and it does not expect significant competition from Reliance's Campa.
- Also, the company is continually expanding its distribution network, which will safeguard them against any potential competition.

Energy and Sports Drink

- Energy drink (not particularly Sting) is becoming 15% of the company's product portfolio, which is at par with industry levels.
- Sports drink – as more and more people are becoming health conscious, there is a huge growth opportunity for this segment in India. The company will have capacities next year and can tap on this opportunity.
- Gatorade: The company is looking to expand the market. The company has diversified the product into different pack sizes. The company will expand its distribution reach. The company can make sports drink from any bottling plant.

Expanding distribution network

- The company will continue enhancing its visi-coolers along with increasing distribution touch point year on year. The management has indicated the majority of 70,000-80,000 visi-coolers planned for CY23 has already been installed.
- Management estimates the distribution to have increased by 10%, i.e., 300-400k outlets in 1QCY23.
- The company has ~2,400 distributors, which will continue to grow alongside its distribution outlets, i.e., 10-12%.

Capex

- The company has commissioned its Greenfield production facility at Kota, Rajasthan and brownfield expansion at six facilities, while the additional Greenfield plant in Jabalpur, MP, is expected to be operational very soon.
- Varun Beverages
- In order to expand its international operations, the company has also started construction of a new production facility in DRC. The facility is expected to be operational before the year end.

- The management has guided a total capex of INR15b in CY23, a significant portion of which has already been utilized.
- The company is already setting up two plants in Maharashtra and UP for dairy and Tropicana and a third plant will be coming up in Orissa in the coming years. Also, the construction of a new production facility in DRC has already started.
- The management stated that, if the company desired to achieve a growth rate of 10-12%, capex equivalent to depreciation would be adequate. However, if the company aims to grow at 20-24%, it would need to invest in capex equivalent to two years' combined depreciation.

Others

- Rural growth has started bouncing back and now rural growth is ahead of urban
- Net Debt as of 31st Mar'23 is INR40b, which the management expects to decline in the June quarter (seasonality factor). The company guided that till the time it maintains its current growth rate, debt will continue to be a part of its books. If the company aims to grow at 10-12%, it would not require any further debt for its expansion.
- The management believes that the company is well-positioned to achieve sustainable growth in the mid to long term, on the back of its expanding manufacturing capacities, increasing distribution reach, and strong execution capabilities.
- The company's subsidiaries are performing well, except for some regions which have been affected by one-off weather events. The company's international margins are higher, primarily due to shifting 90% of its business in Zimbabwe to USD denomination.
- The main reason for the increase in realization is the change in product mix and also there has been a slight reduction in water mix.
- VBL is not witnessing any margin impact due to increase in ad spends by PepsiCo.
- Increase in Finance cost in 1QCY23 are due to two factors: 1) In Q1, the company was implementing two greenfield plants, which led to increased borrowing. However, now that both these plants have been commissioned, the company anticipates a decline in borrowing costs going forward; and 2) increase in borrowing rate.
- The company will keep on adding new products and categories to continue its growth momentum.
- The company witnessed a growth of 200-250bp in its ROCE and now it stands at around 30%. The company expects it to improve by 100-125bp every year for the next few years, following which they will review it.
- The company can continue adding more products in the Indian markets from the PepsiCo's global product basket as and when needed.
- The prices of key raw materials such as PET and sugar have remained range bound.
- The snacking plant is at 100% utilization. VBL does only packaging for PepsiCo.

FINANCIALS/BANKS



- Most Banks have guided for a sustained momentum in loan growth led by continuous traction in retail, business banking and SME segments. Corporate segment is witnessing a healthy recovery driven by working capital loans and healthy pipeline of sanctions. Margins have improved sharply over the past one year and with cost of funds rising materially we expect the trajectory to reverse in the coming quarters. A few banks (like ICICIB and BOB) believe that NIMs have peaked out and will show some moderation from current levels. Treasury performance is likely to improve given the softening in bond yields; however, opex could remain elevated. SMA book stands benign while slippages from the restructuring book have been controlled, which coupled with healthy PCR and contingency buffers will keep the credit costs in check.

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook for FY24	Asset quality and collection efficiency
Axis Bank	<ul style="list-style-type: none"> ■ The bank has a strong pipeline in the corporate book and thus expects healthy traction in corporate growth to continue. ■ AXSB remains committed to bring down the cost-to-assets ratio to 2% over the medium term. ■ FY24 loan growth is likely to be 400-600bp higher than the industry. ■ The bank is planning to add ~500 branches in FY24. 	<ul style="list-style-type: none"> ■ Adoption by the customers of Citi has been encouraging. Deposits from these customers have grown 4% since Jan'23. ■ Integration progress is underway. The bank has contacted all the 1,600 corporates with whom salary accounts are operational and are now fully integrated. ■ Management has identified 60 synergy possibilities of which work has started on 20 opportunities.
HDFC Bank	<ul style="list-style-type: none"> ■ The bank expects to benefit from continued re-pricing, which is likely to support its margins. ■ Retail deposits grew 23% YoY and 7% QoQ, with the bank garnering ~INR1.07t in deposits in 4QFY23. The bank remains focused on garnering retail deposits and expects healthy momentum. ■ The C/I ratio is likely to hover around its current level over the medium term. 	<ul style="list-style-type: none"> ■ Restructuring book stands at INR50b (31bp of loans). Further, additional facilities of these borrowers stood at INR9.7b (6bp of loans). ■ The bank made additional contingent provisions of INR3b. Thus, the total contingent provision stands at INR97b and floating provisions stands at INR14.51b.
ICICI Bank	<ul style="list-style-type: none"> ■ The bank has identified strong growth opportunities in Retail, SME and Business Banking in the upcoming fiscal years. Additionally, the corporate segment provides good opportunities in some sectors such as NBFC and real estate. ■ NIM rose to 4.9% in 4QFY23 from 4.65% in 3QFY23. The bank believes that NIM has more or less peaked out and will moderate from this level. ■ CoD rose to 3.98% in 4QFY23 from 3.65% in 3QFY23. A lag in deposit re-pricing will lead to an increase in the cost to deposits in upcoming quarters as well. 	<ul style="list-style-type: none"> ■ Net additions to GNPA stood at INR0.14bn in 4QFY23. There was a net addition of INR8.73bn to GNPA in the Retail, Rural, and BB portfolios. On the other hand, there was a net deletion of INR8.59b to GNPA in the corporate and SME portfolios. ■ In 4QFY23, the bank reported recoveries and upgrades of INR42.8bn, with INR11.36bn coming from Corporate and SME Book. ■ The bank sold INR2.01b of NPAs in 4QFY23 vs. Nil in the previous quarter for cash. ■ Non-fund based outstanding to borrowers classified as NPAs stood at INR37.8b in 4QFY23 vs. INR38.69b in 3QFY23.
IndusInd Bank	<ul style="list-style-type: none"> ■ The C/I ratio is likely to remain elevated at ~45% for the next few quarters but will moderate to 41-42% as efficiency kicks in. ■ Loan growth is expected to be ~18-23%, with the retail loan mix at 55%. The branch network is likely to expand to ~3,250-3,750 by FY26 vs. 2,606 in FY23. The mix of retail deposits is likely to be ~45-50% by FY26 vs. 43% in FY23. Margin is likely to be in the range of 4.25-4.35% over FY23-26. ■ Credit cost is likely to be 110-130bp over FY23-26. ■ It aims to deliver RoA of ~1.9-2.2% during FY23-26. ■ The 30+ PAR book stood at 1.2% of total loans vs. 2.1% QoQ. Stress in the MFI business, including the restructuring book, is now behind. 	<ul style="list-style-type: none"> ■ Slippages were led by higher recognition from the MFI business. ■ The bank has made additional SR provisions of INR5b in 2HFY23. ■ The bulk of the restructured book is in the Vehicle and Secured retail segments. ■ SMA 1 and 2 stood at 0.32% of loans. ■ Gross slippages are expected to be ~INR9-12b going ahead (1.7% of assets). ■ Credit cost is likely to be ~110-130bp over FY23-26.

Kotak Mahindra

- The bank aspires to grow ~1.5-2.0x of the nominal GDP on a sustainable basis.
- The interest rate trajectory depends on the monsoon. If it is good, the management expects rates to moderate in 2HFY24.
- KMB plans to add ~150 branches in FY24 vs. 100 added in FY23.
- The bank expects margins at ~5%+ in FY24.
- SME/NBFC continue to grow in high-teens; large/ mid-corporates and CRE are facing challenges.
- Asset quality in both SME and NBFC continues to improve, with improving collections.
- The focus remains on risk-adjusted underwriting and returns, which led to a sharp reduction in credit costs and superior asset quality.
- Demand in tractor finance has improved, with CE at pre-Covid level. KMB has increased its market share to 11% and will continue to focus on gaining further share in this segment.

SBI

- Credit growth is expected to be ~12%-14% in FY24.
- RoA is likely to be around FY23 levels of 0.96%.
- The bank believes that it has some cushion in terms of MCLR re-pricing, which will support margins.
- Fee income from loan processing charges stood at INR50b in FY23 and expected to reach USD1b in the medium term.
- About 64% of savings accounts are sourced digitally through its YONO platform. The bank is utilizing data analysis and is targeting a particular customer segment. The YONO platform will see further upgrades in the upcoming quarters.
- Credit cost came in at ~32bp for FY23 and is likely to remain similar in FY24.
- The slippage ratio improved 34bp YoY to 0.65% in FY23. The bank expects recoveries to be higher than slippages going forward.
- The bank is confident that the ECL provision is well under the management of the bank and will not have a significant impact on the P&L.



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AU Small Finance Bank

Buy

Current Price INR 763

Balance sheet and P&L related

- The bank has been able to deliver on key parameters despite uncertain macro and a challenging environment.
- The bank received a favorable tax order, which resulted in a tax reversal.
- The RBI has granted the bank an AD Cat 1 license for offering Forex and cross-border trade related services. It will also help the bank acquire new customers.
- The ratio of fixed-rate to floating-rate loans has decreased to 66:34 v/s 74:26 as on Mar'22. This is expected to moderate to 50% over the next three years.
- Average LCR for 4QFY23 stood at ~128%.
- The focus remains on garnering granular deposits and current accounts.
- The bank has garnered INR52b in deposits from branches, which are <1 year old.
- As the bank is investing in the business, the cost-to-income ratio is expected to remain high at the current level for the next 12-18 months.
- The bank continues to make investments (INR 1.56b in Q4FY23 v/s INR 1b in Q4FY22) toward digital initiatives, namely credit cards/QR/video banking (70%), distribution expansion (19%) and brand campaign (11%).
- Margins are likely to remain under pressure over FY24 as the cost of funds has been increasing and the peak is not over yet. The same may moderate by ~30-40bp in FY24.
- Incremental yields increased by ~85bp in FY23 and ~100bp in 4QFY23 v/s 4QFY22.
- The credit card business is expected to break-even in the next 12-18 months.
- The bank has installed ~1m QR codes and has started QR-based lending, with disbursements amounting to INR2b till 4QFY23.
- The bank continues to focus on technological innovations and updating technological capabilities.
- The digital insurance and wealth business is gaining healthy traction.
- The bank added ~108 touch points in FY23.

- The bank saw a 90% increase in app registrations to ~1.9m users, with more than 1m active users in Mar'23. Website traffic has grown by 2.7x YoY.
- Video banking: SA accounts saw a 100% YoY increase to ~0.29m accounts, with deposits of INR11.5b. About 15% of these customers are holding additional products. It has started offering CA accounts as well.
- Around 0.1m credit cards have been issued with the use of video banking.
- Monthly spending in credit cards has reached INR10b, and the bank has been issuing ~15k cards per month. About 84% of the cards are active, with average spending of 20k per card per month.
- The bank has disbursed personal loans worth ~INR1.46b in 4Q and INR8b since the inception through the digital platform AU0101.
- The bank saw disbursements of INR17.5b in the used vehicle segment in 4QFY24.
- The Home Loan book has grown by 63% YoY, taking the total outstanding to INR43.8b with the ATS of INR1.2m. The bank disbursed INR22b in housing loans in FY23, with a GNPA ratio of 0.33%.
- The Agri Business/NBFC Funding Book have seen disbursements of INR8b/INR6b in 4QFY23.
- The bank expects the SBL book to grow by 20-21% annually. Total disbursements in the SBL book stood at INR22b with the ATS of INR1.16m and GNPA of 2.5%.
- REG book disbursements stood at INR4.42b.
- Wheels mix: Personal car 40%; Taxi 12%; Tractor 10%; two-wheeler 2%
- RoA is likely to remain at ~1.8-2% going ahead.
- Fee income to average assets is expected to improve over the next few years v/s 1.3-1.4% at the current level.
- Loan growth is expected to be ~28% going ahead with the SBL book likely to grow ~20-22%.
- Banca partnership: 0.6m policies sold with premium of INR6.4b.

Asset quality

- The credit cost is expected to remain below the normalized level in FY24.



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Axis Bank

Buy

Current Price INR 976

Balance sheet and P&L

- The bank continues to remain focus on GPS strategy and gaining market share in the chosen segments
- AXSB successfully delivered its aspirational RoE of 18.8% for FY23 (on adj. basis)
- The bank added ~3m new liability relationships in 4QFY23 (+23% YoY/3% QoQ). A total of 10.8m new liability relationships were added in FY23 (+26% YoY)
- The bank saw a 33% YoY increase in new salary labels
- AXSB saw an increase of 870bp in the mix of Retail premium savings accounts while outflows were lower by 550bp
- Mid-Corporate segment grew strongly at 38% YoY and 10% QoQ. Mid-Corporate + SME + SBB grew 32% YoY and formed 20% of the total loan book
- The bank has a strong pipeline in the corporate book and thus expects healthy traction in corporate growth to continue
- AXSB saw its largest issuance of credit cards that stood at 1.13m in 4QFY23 with a total of 4.2m cards being added in FY23

- The bank had a market share of 26% in the merchant acquiring business in FY23
- Retail disbursements stood at an all-time high in 4QFY23
- NIM included an impact of 3bp due to interest on income tax refund. 2QFY23 had a one-off impact of 5bp on NIMs
- LCR stood at 129% in 4QFY23 v/s 116% in 3Q. The bank had an excess LCR amounting to INR750b in 4QFY23. LCR will come to normal level in next quarter
- Cost of funds is expected to inch up further in 1QFY24
- RIDF deposits stood at 2.3% of total assets v/s 3.5% in Mar'22
- AXSB is completely PSL compliant across all segments and at total level in FY23
- Increase in opex mix YoY: Volume related (28%), Tech and growth related (34%), Integration related (16%) and BAU (22%)
- Technology expenses grew 27% YoY and formed 8.7% of total opex
- AXSB remains committed to bring down the cost-to-assets ratio to 2%
- Loan growth for FY24 is expected to be 400-600bp higher than the industry
- The bank is planning to add ~500 branches in FY24E
- ~42% of the fixed rate book matures in the next 12 months

Asset quality

- Adoption by the customers of Citi has been encouraging. Deposits from these customers have grown 4% since Jan'23
- Integration progress is underway. The bank has contacted all the 1,600 corporates with whom salary accounts are present and are now fully integrated
- Management has identified 60 synergy possibilities of which work has started on 20 opportunities
- Total expenses of INR124.9b for Citi's acquisition included the below which have been charged as one-off via P&L
 - Amortization of Intangibles and Goodwill of INR 119.5b
 - Harmonization of policies in provisions and contingencies of INR2.32b
 - Harmonization of policies in operating expenses of INR1.29b
 - One-time acquisition costs recognized in operating expenses of INR1.79b.



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Bank of Baroda

Buy

Current Price INR 187

Balance Sheet and P&L

- Going forward, growth in the international book should be in line with the overall book
- Retail loan growth is expected at 1.5x of total loan growth. Overall, management has guided for an advances growth of 13%-14% in FY24.
- Margin for FY24 is likely to remain around the FY23 level (3.31% for FY23).
- Home loans have grown by 19% YoY in 4QFY23, which have NPA of 1.5%
- Corporate segment will be contributing more to the growth of the bank going forward despite a decline in share in FY23
- Domestic CD ratio stood at 75% as on 4QFY23 and the bank expects a higher utilization of deposits going forward
- Operating matrix is kicking in leading to higher profits at operational as well as post-tax levels
- Opex was high due to wage revision and performance-linked bonus that have been accounted for in 4QFY23
- Wage revision provision stood at INR5b in FY23 (for five months from Nov'22)

- The bank expects deposit growth to be self-sufficient to take care of advances growth for FY24
- Credit card subsidiary: Bank is looking for strategic investors. The subsidiary reported a 76% YoY growth in FY23 with ~0.27m new credit cards being issued in 4QFY23.
- The bank has guided for an ROE of 16%-18% and ROA of 1% for FY24E.
- The bank is looking to list its life Insurance subsidiary in the near term and has received the approval from SEBI for filing of DRHP

Asset quality

- SMA 1 and 2 book stood at 0.32% while restructured book was at 1.5% amounting to INR160b
- Recoveries are expected to be more than the slippages in FY24 and beyond
- NACL – no account has been settled in FY23. For FY24, 5-6 accounts are under process
- The bank has guided for a credit cost of ~1% under normal cycle. ECL requirement is likely to be ~1.0%-1.5% of total loans.
- Bank has made provisions of INR5b for the stressed airline, which is still a standard asset. The bank holds a tangible security and guarantee amounting to INR10b.



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Bandhan Bank

Neutral

Current Price INR 265

Balance sheet related

- The bank has reached 30m customers by adding 1.4mn customers in 4QFY23.
- Loan Book growth: Retail book has grown 133% YoY in 4QFY23, while the Commercial Banking and Housing book has grown 72%/13% YoY, respectively, in 4QFY23.
- The bank is focusing on Retail Deposits, which constitutes 71% of Total deposits as on 4QFY23. The bank will focus more on granular deposit growth in FY24.
- Collection Efficiency (Excluding NPA) for the bank stands at 98.5% as on 4QFY23. On-time repayment rate stands at 97% as on 4QFY23 for the loans lent in FY22 and FY23.
- CV, LAP, and the government business will be the key focus areas for FY24. The government business will be an important segment since the bank has invested in sector-specific people and technology.
- The bank will focus on improving its geographical mix by issuing more loans primarily in UP, Bihar, and Telangana, and shifting its focus from Assam.
- The bank plans to add 250-275 more branches by 2QFY24.
- The MFI portfolio stands at INR570b as on 4QFY23, out of which, 60% has been re-priced.
- 70% of the bank's portfolio is fixed rate book.
- CD Ratio is expected to be 95-97% going forward.

P&L related

- NIM increased 80bp QoQ to reach 7.3% v/s 6.5% in 4QFY23.
- The bank will raise its interest rates by 100bp in FY24. The bank is currently offering MFI loans at 22.95%.
- COF remained flat QoQ at 5.8% as on 4QFY23. The stability in COF was maintained due to the change in the deposits mix, with higher growth in CASA deposits. The bank expects the cost of funds to increase in FY24.

- Non-Interest income: INR1.3b from the sale of 3rd party products and collection fees from ARCs amounted to INR0.6b for 4QFY23.
- C/I has reached its peak at 42% as on 4QFY23. The bank will take ~1 year to reduce this C/I ratio to below 40%, since it is looking at further investments in the upcoming quarters.

Asset quality related

- GNPA/NNPA declined 228bp/69bp to 4.9%/1.2% as on 4QFY23.
- The total SMA Book has declined to 5.6% in 4QFY23 from 8.1% in 3QFY23. The SMA book is expected to reach 3% in the medium term.
- Slippages in the EEB book amounted to INR7.3b and recoveries/upgrades amounted to INR2b in 4QFY23. 99% of the EBE book slippages are from the existing book.
- 100bp of the total EEB book has been provided for against a requirement of 25bp by the regulator. Contingency provisions & total provision stand at INR5b and INR51b as on 4QFY23.
- ARC sale was done in the last two quarters of FY23. INR4.1b was received from ARC and investors, out of which, INR3.4b has already been recovered from the sold accounts.
- Total stressed book stands at INR55b as on 4QFY23, out of which, INR38b amounts to the provision covered and INR17b is CGMFU.

Others

- 94% of the transactions are conducted digitally. About 31% of deposits are coming through digital sources.
- In 4QFY23, the bank migrated the housing finance book to a new system and will be looking to transform the remaining books by 2QFY24.



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Canara Bank

Buy

Current Price INR 315

Balance sheet and P&L related

- RAM credit grew 13% YoY in 4QFY23 to INR4.8t
- Retail credit grew 10.91% YoY, primarily driven by the growth in the Housing loan and Gold loan segments (14.27%/33.8% YoY).
- The bank has guided for 1% ROA for FY24.
- NIM guidance for FY24 stands at 3.05% v/s 2.95% in FY23.
- RAM: Corporate Mix to be 55:45. +2% diversion will be there depending upon the opportunities available for the bank.
- 49% of the loan book is MCLR linked, of which 40-45% are yet to be re-priced as these are linked to one-year MCLR
- Credit growth guidance for FY24 stands at 10.5%.
- CRAR stands at 16.7% and the bank does not expect any equity requirement for the next 1-2 years.
- The board has approved a capex (for IT) of INR12b for FY24.
- The bank has a high HTM holding of INR2.7t, with a yield of 6.63%.
- CASA ratio stands at 33.48% as on 4QFY23 with a guidance of 35% for FY24.
- More than 90% of the deposits have been re-priced. Further, bulk deposits are likely to be re-priced at a lower rate. Thus, COD is likely to be maintained at the current level, depending on the CASA growth in the next three months.

- The bank has given a go ahead for Canara Robecco AMC and Canara HSBC life Insurance businesses to be listed with the stock exchange.

Asset quality related

- Although the NNPA guidance stands at around ~1.2% for FY24, it is optimistic about achieving 1% by the same fiscal year.
- Credit cost guidance stands at ~1.2% for FY24.
- INR7.2b of other provisions created by the bank was to strengthen the B/S for future shocks/discrepancies.
- The bank aims to improve the PCR by 100bp every quarter to create additional cushion to the B/S.
- If implemented, the total requirement under IND-AS is expected to be ~INR420b, which is expected to be distributed over a span of five years. Thus, an additional provision of INR80b will be required for the first year (20%). The bank expects the additional provisions to be met with net profits.
- Slippages mix: Agri (INR9.8b-10b), MSME (INR14.5b), Retail (INR5b), and had nil corporate slippages. It guided for slippage ratio of 1.3% for FY24.
- Recoveries from the IL&FS group amounted to INR6b-6.5b from two accounts and the bank is expecting some more resolutions in FY24.

DCB BANK

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DCB Bank

Neutral

Current Price INR 121

Balance sheet and P&L related

- The focus remains on doubling the balance sheet in four years to ~INR1t from INR500b in FY23.
- Fee income from PSLC has witnessed a steep decline. However, despite that, other income has been healthy aided by third party distribution fees and processing fee income
- PSLC income moderated to INR200m in FY23 from INR800m in FY22
- Quarterly disbursements have witnessed a healthy sequential pick up and the bank expects this to improve further going ahead
- Provisions mix – NPA-related (INR390m), Floating provisions (INR40m) and balance being others related to standard assets, etc.
- Based on the current environment, the bank does not expect any further rise in TD rates
- Opex growth is expected to moderate in FY24 v/s FY23
- C/I ratio is likely to moderate to ~55% over the next 1.0-1.5 years
- The bank will look to add ~25-30 branches on an annual basis
- Cost of deposits is likely to rise in FY24 that will lead to moderation in margins
- Management does not expect to raise capital in the next 12-15 months
- Loan book is likely to double in the next 2.5-3.0 years
- NIMs are expected to be ~3.65-3.75% on a sustainable basis

Asset quality related

- Recoveries and upgrades have remained strong that has aided a reduction in provisioning cost
- Slippages have reverted to pre-Covid levels (ex of gold loans) and management expects the same to be at ~2% of loans (ex of gold loans).
- Credit cost is expected to remain ~40-45bp on a sustainable basis.



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The screenshot shows the financial results and management discussion for Equitas Small Finance Bank for FY24 Q4. The table includes various financial metrics such as Total Assets, Total Liabilities, and Capital. The management discussion highlights the bank's performance, including its focus on digital development and expansion into new businesses like PL, Credit cards, and forex.

Equitas Small Finance

Buy

Current Price INR 87

Operating environment and business

- Advances are expected to grow 25%-30% in FY24 (up 33% in FY23).
- MFI book currently stands at 18.7% of total loans as of FY23 and is expected to decline to 4-5% in the next five years.
- It has guided for RoA of 2-2.25% in FY24 (2.28% in 4QFY23).
- In SBL book, disbursements grew 66% YoY. SBL blended yields stood at ~17%. SBL ex-bucket collection efficiency stood at 99.6% as of 4QFY23.
- PV sales hit an all-time high of 3.6m units. CE for Vehicle Finance stood at 99%. MFI ex-bucket CE was at 99.6%.
- Profit on the sale of investments came in at INR29m as of 4QFY23.
- The C/I ratio for 4QFY23 stood at 58.9% and, excluding ARC sale, the C/I would be ~62%. The bank will maintain the C/I ratio at the current level as it looks to enter new businesses, such as PL, Credit cards and forex, and look for further digital developments.
- Security Receipts have been 100% provided for and any receipt will be recorded as other income.
- COF increased by 20bp in 4QFY23. It will rise by 4bp-5bp in the next few months.
- Increased lending rates and operating efficiency helped the bank achieve stable NIM (+10bp in 4QFY23) despite rising COF.
- NIM will be ~9% for the next 2-3 quarters (9.1% in 4QFY23). NIM will moderate in the next three years as the bank introduces new products with higher ATS.
- The cost to assets will moderate over the next 3-4 years, depending on the bank's product mix. For FY24, it will be similar to the FY23 level of 6.3%.
- 15 liability branches and ~30 asset branches will be added in FY24. The bank plans to leverage its existing branch network and will limit branch expansion in FY24.
- 550 employees were added in 4QFY23, taking the total to 20,562 as on 4QFY23.
- The merger has been completed and the bank will apply for a Universal Banking license after regulatory approval.
- Expected Loan Mix: Mortgage 50%, Vehicle 20-25%, MFI to 15% in FY24.

Asset quality

- GNPA/ NNPA ratios improved by 87bp/61bp to 2.76%/1.21% as of 4QFY23.
- The credit cost stood at 1.5% in FY23, in line with guidance. The bank expects a credit cost of 1.2-1.25% in FY24.
- PCR improved to 56.9% in 4QFY23. The bank aims to achieve 70% PCR in the next few quarters.
- Slippages declined to INR1.9b as of 4QFY23 (INR2.9b as of 3QFY23) and the bank expects a further decline in the subsequent further.
- The bank sold INR5.8b of MFI loans to an ARC in 4QFY23 and recorded INR0.7b as other income and reversed excess provisions of INR0.1b on these ARC loans.
- Restructured book stood at INR2.3b as of 4QFY23, out of which INR1.8b has been classified as NPAs (88% of NPAs have been provided for).
- SMA 1 and 2 book declined to 3.19% in 4QFY23 from 3.88% in 3QFY23.



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Federal Bank

Buy

Current Price INR 126

Balance sheet

- In terms of the cost of deposits, a large part of the liability book (~80%) has already been re-priced in 4Q and some of it will be re-priced in 1QFY24.
- Credit growth is expected to be in high-teens in FY24, driven by higher growth from new business and Fintech partnerships.
- Gold loans are expected to grow ~20-25% in FY24, with the capping of mix at ~15% of loans (~10-11% at present).
- Blended cost of term deposits would be ~6.2%.
- There remains a possibility of further expansion in yields on the MCLR book. ~15% of the book could be re-priced further going ahead.
- RWA assets increased due to risk adjustment being done for the un-rated borrowers.
- LCR ratio stands at ~120% as on 4QFY23.
- Retail deposit share has come down to 85% in 4QFY23 from 92% in 4QFY22, as NRE customers have moved a large part of their savings balance to TD due to the difference in interest rates.
- CD Ratio is expected to be 82%-84% in FY24 (currently ~81-83%).

P&L

- The bank expects RoA of ~1.3-1.35% in FY24.
- NIM is expected to be ~3.3-3.35% in FY24 (3.31% in 4QFY23), with higher margin in the second half v/s the first half.
- The credit cost is expected to be in the controlled range of ~40-50bp in FY24 (Reported 40bp for FY23).
- 75 branches were added in FY23 and the bank is looking to add ~100 branches in FY24.
- The C/I ratio moderated to 49% as on 4QFY23 and is expected to moderate by 100bp in FY24.
- Slippages are expected to trend at ~1% of gross advances.
- The focus remains on improving the fee income pool by broadening the scope and deepening the relationship with corporates. Fees from corporate book grew ~35% YoY.
- Loan processing fee is stable at INR1.3b in 4QFY23. Fees related to third-party products grew sequentially to INR3.8b in 4QFY23. FX fee is an opportunistic source for the bank as it keeps fluctuating QoQ.

HDFC Bank

Buy

Current Price INR 1,608

Opening remarks

- Economic activity remains modest, with most indicators showing a health traction
- The overall environment remains challenging with risks emanating from the global slowdown
- The government's encouraging spending initiatives bode well for capex activity
- There is a shift in customer preferences toward high-value products
- Retail card spends grew 31% YoY
- The bank has ~3.9m payment acceptance terminals, which grew 30% YoY



- Wealth management services are now available at 923 locations, reflecting an increase of 232 locations on a QoQ basis
- CRB book bow covers ~90% of districts and the bank has expanded to 0.17m villages with a target to reach 0.4m
- The bank is now underwriting gold loans from 4,182 branches, reflecting a 3x increase from FY23
- The bank has added ~2.6m new liability partnerships in 4QFY23, with 10.6m added in FY23
- The bank has added ~1.4m cards in 4QFY23, with a total card base of ~18m
- The website recorded 132m visits per month with 106m unique visits
- PayZapp 2.0 is available for a wider audience, while SmartHub continues to add new features, which are driving strong traction in merchant acquisition. The bank added 1.5m small businesses in 4Q

P&L and balance sheet

- Retail deposits grew 23% YoY and 7% QQ with the bank garnering ~INR1.07t worth of deposits in 4QFY23
- LCR for the quarter stood at 116%
- Express car loans are gaining strong traction and now form 20% of the new car loan volumes
- The bank remains focused on garnering retail deposits and expect healthy traction to continue
- Some increase in employee expenses is attributable to ESOPs and RSU cost (INR3b), which is expected to continue
- 45% of the book is fixed in nature with a duration of ~3-4 years
- Around 6% of the bank's loan book is linked to MCLR, with most of linked to higher tenure loans
- The bank expects to benefit from continued re-pricing, which is likely to support its margins going forward
- C/I ratio is likely to remain around its current level over the medium term

Asset quality

- Slippages for the quarter came in at INR49b (28bp of loans)
- Recoveries and upgrades came in at INR33b (22bp of loans), while write-offs came in at INR24b (17bp of loans)
- Restructuring book stands at INR50b (31bp of loans). Further, additional facilities of these borrowers stands at INR9.7b (6bp of loans)
- The bank made additional contingent provision of INR3b. Thus, the total contingent provision stands at INR97b and floating provisions stands at INR14.51b

Subs performance

HDB Financials

- HDB added 71 branches in 4QFY23
- HDB added ~2.0m customers in the past one year

HDFC Securities

- It has a customer base of ~4.5m
- 94% of its clients are digitally active.



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ICICI Bank

Buy

Current Price INR 940

Operating environment, balance sheet and P&L

- The maximum single borrower outstanding to an account rate BB & Below is less than INR5b.
- Retail portfolio grew 22.7% YoY (5.4% QoQ), which is 45.7% of the total portfolio outstanding (Including Non-Fund Based) as on 4QFY23.
- BB grew 34.9% YoY and SME grew 19.2%YoY. The increase in the SME and the BB portfolio is due to leveraging of the branch network and technological development such as Instabiz application.
- Domestic Corporate portfolio grew ~21% YoY, driven by growth across well-rated financial and non-financial corporates.
- Growth across various other books: Retail Mortgage 17.6% YoY. Auto 23.3% YoY, CV 5.2%, PL and Credit card 43.2% YoY (12.3% of loan book), Overseas declined by 23.8% (3.3% of the loan book).
- The total outstanding to NBFC and HFC stood at INR835b (8% of total advances) as on 4QFY23. The increase in disbursements to NBFC is mainly to entities owned by well-established corporate houses.
- Builder portfolio amounting to INR398.87bn (4% of total loan portfolio) is to well-established builders.
- The bank has identified strong growth opportunities in the Retail, SME, and Business Banking in the upcoming fiscal years. Additionally, the corporate segment provides good opportunities in some of the sectors such as NBFCs and real estate.
- The bank has registered a treasury loss of INR0.4b in 4QFY23 v/s a gain of INR0.36b in 3QFY23.
- NIM has grown to 4.9% in 4QFY23 from 4.65% in 3QFY23. The bank believes that the NIM has more or less peaked out and will continue to moderate from this level.
- Interest on Income tax refund was nil in 4QFY23 as compared to 1bp in 3QFY23.
- COD has increased to 3.98% in 4QFY23 from 3.65% in 3QFY23. Lag in Deposit re-pricing will lead to increase in the Cost to deposits in upcoming quarters as well.
- Dividend income from subsidiaries and associates was INR2.73b in 4QFY23. (Includes dividend income from ICICI Prudential AMC and ICICI bank Canada).
- As of 4QFY23, the bank has a total of 129,000 employees, having added 23,200 employees in FY23. However, the bank has adopted a cautious approach toward provisions related to retirement benefits, which has resulted in an additional Employee Benefit Expense of INR3.35bn.

Asset quality

- Net additions to GNPA stood at INR0.14bn in 4QFY23. There has been a net addition of INR8.73bn to GNPA in the Retail, Rural, and BB portfolios. On the other hand, there has been a net deletion of INR8.59b to GNPA in the corporate and SME portfolios.
- Contingency provision amounted to INR131bn (1.3% of total loans) as on 4QFY23.
- In 4QFY23, the bank has reported recoveries and upgrades amounting to INR42.8bn, with INR11.36bn coming from the Corporate and the SME Book.



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- GNPA written off during the quarter amounts to INR11.58b.
- The bank sold INR2.01b of NPAs in 4QFY23 v/s Nil in the previous quarter for cash.
- Non-Fund based outstanding to borrowers classified as NPA amounted to INR37.8b in 4QFY23 v/s 38.69b on 3QFY23.

IDFC First Bank

Buy

Current Price INR 74

Balance sheet and P&L

- The bank reported a Core PPOP of INR13b in Q4FY23 (2.36% of average assets v/s 1.86% in 4QFY22).
- CASA + TD <INR50m constitute 83% of the total deposits, while Retail deposits constitute 76% of the total deposits.
- The LCR ratio is stable at 120% and the bank aims to maintain it at >110%.
- IDFCFB aims to reduce the legacy long-term borrowings from INR177b in FY23 to INR48b in FY26.
- PPOP is likely to see a ~40% CAGR over FY23-25 v/s 50% growth in FY23.
- Loan Growth across segments: Home loan book grew by 39% YoY. Wheels business grew by 53% YoY. Consumer loans grew by 20% YoY growth. Rural business grew by 48% YoY, while Corporate (Non-Infra) book grew by 9% YoY.
- Credit card business grew by 74% YoY (low base) to INR35b in 4QFY23. IDFCB has issued 1.5m cards from Jan'21 to Mar'23 and has reached monthly spends of INR18b.
- Credit card business is expected to breakeven by FY25. ~24-25% of the credit card book is revolvers. EMI + Revolver mix would be ~50% of the total loans.
- Legacy Infrastructure book declined by 32% YoY and constitutes 2.9% of total funded assets as on 4QFY23.
- The bank has a high CE of 99.6% as on 4QFY23 and a low cheque bounce rate of 6.6%. It does not expect CE to drop below 99.5% due to stringent underwriting policies.
- Retail fees constitute 91% of the total fees income, which is granular and sustainable.
- Treasury income came from the redemption of venture capitalist investment that the bank was holding.
- The Retail C/I ratio improved to 55% from 63% in FY22, while the Wholesale book C/I ratio improved to 31.6% from 38%. IDFCFB expects the C/I ratio to improve further with an increase in customers and deposits.
- The bank expects RoE to reach 13-15% by FY25.

Asset quality

- GNPA/NNPA ratios of the Retail and Commercial book stood at 1.65%/0.55% as on FY23.
- The Restructured book declined to 0.6% v/s 0.9% in 3QFY23 with provision coverage of 25%.
- SMA 1 and 2 in retail book stands at 1% as on 4QFY23 v/s 2.2% YoY, while SMA 1 and 2 in the corporate book stands at 0.2%.
- The bank reported a credit cost of 1.26% in FY23 v/s guidance of 1.5%.



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Indian Bank

Buy

Current Price INR 282

P&L and balance sheet related

- The bank is focusing on growing mid corporate segment as it has better margins.
- NIM for FY23 stood at 3.41% and the bank expects margins to hover around similar levels.
- While credit growth guidance stands at 10-12% and deposit growth stands at 8-10% for FY24.
- LCR is stable at 158% as on 4QFY23. Further, the bank has excess SLR of INR350b as on 4QFY23.
- UPI transactions from mobile banking have increased 109% to INR2b in FY23.
- The bank has increased churning in its investment book, and hence, the yield from the ATS investment has been higher
- Loan Mix: MCLR (59%), Repo linked (34%), and Fixed rate book (6-7%). Around 40% of the total book is tied to the one-year MCLR and 14% is linked to six-months MCLR, which is expected to boost yields.
- INR16b has been spent on technological developments in FY23 and INR5b is expected to be spent in FY24.
- The bank has created higher standard provision this quarter, and hence, the DTA increased in 4QFY23.
- Higher employee cost of INR1b is due to wage revision provision.
- The bank saw an interest reversal of INR2.36b in 4Q v/s INR1.3b in 3Q.

Asset quality

- The bank has guided for GNPA of less than 5% by FY24.
- In the subsequent quarters, the NPA provision will reduce substantially, since the NNPA has reduced below 1%.
- SMA 1 and 2 book stands at INR24b, i.e., 0.54% of loans.
- Slippages from the MSME book came in at INR13b, of which, INR7b has slipped from the restructuring book.
- Total slippage from the ECLGS book has been at INR5.3b.
- The bank expects a higher provision requirement for the restructured book and the SMA book under the ECL provisioning requirement.
- Accounts amounting to INR62b have been identified by NARCL and half of the accounts have been transferred. The bank has made a 100% provision for these accounts and will only recognize income when it receives cash payments against it.
- Covid Restructuring book stands at INR110b as on 4QFY23. Restructuring book has seen an NPA of 7-8%.

IndusInd Bank

Buy

Current Price INR 1,311

Balance sheet and P&L related

- Credit growth is expected to moderate given the lagged deposit growth
- Financial stability risk in India is contained
- All retail segments are growing at a healthy pace and IIB will continue to focus on scaling up the key domains
- Deposits within the Affluent and NR segments surged 23% and 28%, respectively

The image shows a screenshot of a presentation slide for Indusind Bank, titled 'FY23-24 Q1 Financial Results'. The slide contains a table with financial data and a summary of key highlights. The table includes columns for 'FY23-24 Q1', 'FY23-24 Q4', 'FY23-24 Q3', and 'FY23-24 Q2'. The data is presented in a structured format with various financial metrics and their corresponding values for each quarter.

- C/I ratio is likely to remain elevated at ~45% for the next few quarters that will eventually moderate to 41-42% as efficiency kicks in
- Focus remains on building a granular liability franchise and IIB has demonstrated a healthy progress in building the same
- Focus remains on building digital capabilities that will drive superior engagement and experience. Vehicle segment is likely to be entirely digitalized
- 74% of incremental deposits over FY20-23 were from Retail TD and CASA
- Concentration of top 20 depositors moderated to 16% from 23% in FY20
- The bank saw a moderation in SA balance as one large government account is moving out

Asset Quality

- Slippages were led by higher recognition from the MFI business
- The bank has made additional SR provision of INR5b during 2HFY23
- Bulk of the restructured book is in the Vehicle and Secured retail segments
- SMA 1 and 2 book sands at 0.32% of loans
- Gross slippages is expected to be ~INR9-12b going ahead (1.7% of assets)
- Credit cost is likely to be ~110-130bp over FY23-26E.

MFI business

- MFI business witnessed a bounce back and grew 30% QoQ
- The 30+ PAR book stands at 1.2% of total loans v/s 2.1% QoQ. Stress within the MFI business, including the restructuring book, is now behind
- Merchant advances stood at 11% of total MFI book. Merchant advances is likely to be a key focused segment over PC-6, which have a very high yield and fee income proposition
- New slippages increased INR590m QoQ with stress within the 30-90 DPD book coming off.

Vehicle segment

- CV, CE and Equipment financing grew 30% QoQ while Cars, 3Q, UVs grew at 20% QoQ
- Gross slippages declined 40% QoQ while net slippages were down 76% QoQ
- Outlook remains positive with increasing utilization that will continue to drive the overall demand
- Market share in vehicle segment stood at 11.5% in terms of disbursement and 10.7% in terms of outstanding book

Corporate

- Growth in the corporate book is led by Mid and Small corporates that will continue to grow at a healthy pace
- Corporate growth was driven by sectors such as Gems & Jewelry, Power, and Petroleum
- IIB saw an account of INR1.75b being slipped into NPA from the restructuring book due to technical reason (not meeting the governance reason – customer is still paying).

Guidance

- Loan growth to be ~18-23% with Retail loan mix at 55%.
- Margins are likely to be in the range of 4.25-4.35% over FY23-26.
- Branch network is likely to expand to ~3,250-3,750 by FY26 v/s 2,606 in FY23.
- Mix of Retail deposits is likely to be ~45-50% by FY26 v/s 43% in FY23.
- The bank's endeavor is to deliver an RoA of ~1.9-2.2% over FY23-26.



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Kotak Mahindra Bank

Neutral

Current Price INR 1,938

Balance sheet and P&L

- The bank aspires to grow ~1.5-2.0x of the nominal GDP on a sustainable basis
- The trajectory of interest rate curve depends on monsoon. If monsoon is good, management expects rates to moderate from 2HFY24
- Given the current situation, the bank expects margins to be ~5%+ for FY24
- KMB is planning to add ~150 branches in FY24 v/s 100 branches added in FY23
- Sustainability and Resilient are the key mantra for the bank with focus on building a strong bank over the long term
- Investments in building digital capabilities is likely to continue with focus on providing a superior customer experience
- Employee expenses moderated due to drop in pension annuity rates which resulted in lower retiral provisions
- Similarly, non-employee expenses were also down due to higher commercial spends in 3QFY23 vs 4QFY23
- The bank received a favorable income tax order, which resulted in reversal of provisions of INR1b in 4QFY23
- Wholesale business: Due to asset sell down in the DCM book and exit from low yielding short term assets, the growth has moderated
- Spread compression continues to remain due to competitive pricing
- SME and NBFC segments continue to grow in high teens while Large and Mid-corporates and CRE are seeing growth challenges
- Asset quality in both SME and NBFC continues to improve with improving collections
- The growth in CRE business was suppressed due to focus on additional collections on project finance segment which resulted in accelerated prepayment
- ECLG book continue to see a stable performance. A strong recovery of INR3b in an old SME account further suppressed the credit cost
- CV business is showing improving traction and higher disbursements across most segments. KMB has gained market share in this segment
- Demand in tractor finance has improved with CE at Pre-Covid level. KMB has increased its market share to 11% and will continue to focus on gaining further in this segment.
- Collection efficiency across product segments have now reverted to Pre-Covid levels
- SA balance saw a moderation as customers shifted towards Debt MF and Insurance to take benefits before the budgetary changes kick in
- Granular retail SA balance with deposits of less than INR1m continues to grow at a healthy pace of 10% YoY and 3% QoQ
- RWA stands at 76% of total assets
- Macroeconomic fundamentals are healthy and the overall economy remains resilient
- Risks to banking system remains due to external challenges while domestic situation is much better

- The focus remains on risk-adjusted underwriting and returns that has enabled a sharp reduction in credit cost and superior asset quality
- The bank remains focused on building a resilient and strong performance over the long term

Others

- The focus remains on growing the alternate assets which has grown to INR460b vs INR200b in FY22
- Profitability on Kotak Prime was down due to change in policy where KMB up fronted the brokerage cost which impacted the PAT by INR1.63b for FY23. Further, FY22 saw Covid provisions reversals which were negligible in FY23
- Kotak Prime has witnessed a good year with demand up 25% YoY despite a weak 1Q. Mar'23 has seen a healthy demand while Apr is seeing flat trends. The business is expected to grow marginally in FY24
- Kotak Life: EV grew 17% YoY while VNB grew 53%. VNB margins came in at 38.8%
- The bank will be open for an acquisition if it adds customers and value to the franchise and its customers.



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Punjab National Bank

Neutral

Current Price INR 52

Operating environment and business

- Gross business increased by 12%; savings accounts grew by 2.72%.
- The CASA ratio declined 72bp QoQ due to movement of funds from CASA to TD due to a high difference in interest rates. PNB maintains its CASA ratio guidance of 43-44%.
- The RAM portfolio forms 55.3% of total loans in 4QFY23 v/s the target of 55% provided in 3QFY23.
- The bank expects NIM to remain around 2.9%-3% in FY24.
- There is a rise in employee costs due to INR12.4b in AS 15 provisions, out of which INR2.7b for wage revision and the remaining for the impact of this wage revision on outstanding pension and gratuity amounts.
- PNB has fully provided for government guaranteed SR.
- NDTL growth stood at 7% YoY.
- Modified duration for AFS and HFT book stands at 2.53 years v/s 2.73 in 3QFY23
- LCR ratio stands at ~150%-160%.
- The bank expects 12-13% loan growth in FY24.
- Interest on the income tax refund stood at INR8.7b for 4QFY23.
- The bank has provided ROA guidance of 0.5-0.6% in FY24.
- Advances mix: 85.2% floating, 35% MCLR and 10% TBLR.
- One-time restructuring book stands at OTR1- 31.7b and OTR2-77.6b.
- PNB expects the loan re-pricing to take place immediately and deposit re-pricing to take place on a later date.

Asset quality

- GNPA/NNPA ratios stood at 8.7%/2.7% v/s 3QFY23 guidance of 9%/3%.
- GNPA/NNPA ratios are likely to be at <7%/<2% by FY24.
- RAM breakup: Agri (INR31cr), MSME (INR38cr), Retail (INR1cr)
- PNB feels comfortable about its SMA book: SMA 0 at INR526b, SMA 1 at INR172b and SMA 2 at INR8.5b.



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- Credit cost stood at 1.72% and is expected to be at 1.52% in FY24.
- The bank had total recovery of INR290b in FY23 v/s INR320b guidance.
- PNB expects recovery of INR220b in FY24.
- There has been an increase of 100bp in CRAR.
- The bank estimates to recover INR500cr in 1Q and INR1,300cr in 2Q of FY24 from the NCLT.
- PNB exceeded (103%) its disbursement target of PMMY for FY23.

RBL Bank

Neutral

Current Price INR 176

P&L and balance sheet

- Disbursals other than the Cards business amounted to INR44b in 4QFY23, wherein the MFI book saw a monthly disbursement rate of INR8b.
- Housing and Vehicle book also saw an increase in disbursements to INR9b and INR3b, respectively.
- The Retail and Small Business deposits stood at 42.8% as on 4QFY23.
- Deposits below INR20m grew by 19% YoY.
- The bank has reported its highest-ever profit and has achieved full normalcy in business. It expects the operating profits to improve further.
- NIMs expanded due to optimum utilization of excess LCR deposits and improvement in yields due to interest rate changes v/s a lag in re-pricing the cost of deposits.
- The LCR ratio declined to 126% from 144% in 3QFY23 and the bank expects to maintain the LCR at the same level.
- The bank aims to continue to grow in the Commercial Banking, Credit Card and MFI business.
- RBK plans to add 50-75 branches every year.
- It has 821 distribution points of RBL Finserv and 517 bank branches, which are focused on a single product. RBL Finserv focuses on MFI lending, while the bank branches focus on liability and third-party income.
- As the bank acquires new customers, it expects the revolver rates to improve by 100-200bp, while the EMI base is expected to remain stable.
- Spends in cards grew by 24-25% in FY23 and are expected to grow ~20-22% going ahead.

Asset quality

- Slippages for the Wholesale/Cards book amounted to INR1.2b/INR2.4b, while recoveries amounted to INR1.3b/INR2.4b.
- Net restructured advances stood at 1.2% of the total advances.
- The bank expects a credit cost of 1.5% for FY24.

Guidance for FY24-26

- RBK expects a 20%+ CAGR in advances and deposits.
- The bank aims to increase the share of Housing, Wheels, Gold and Small Business loans to 30% of total loans by FY26 from 8% in FY23. Growth in these businesses will account for half of deposit growth.
- It targets to increase the mix of retail deposits by ~3% each year to reach 50% by FY26 from 43% in FY23. The average CASA ratio is expected to increase by 1-2% every year.
- RBK expects ROA and ROE to increase by 10-20bp and 100-150bp each year until FY26.



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Results Update

The screenshot displays a financial report for State Bank of India. It includes a table with columns for 'FY23', 'FY24E', and 'FY25E'. The table lists various financial metrics such as 'Total Assets', 'Total Liabilities', 'Net Income', and 'EPS'. The report also contains a section titled 'Key Highlights' and a 'Conclusion' section.

State Bank of India

Buy

Current Price INR 589

Balance Sheet and P&L

- Credit growth to continue at 12%-14% in FY24 (17% in FY23)
- The bank has excess SLR of INR4t; this along with the profits of FY23 ploughed back will be sufficient to fund the credit growth in FY24E and hence SBIN is not looking to raise funds in the near term.
- The bank is mindful of the International book due to lower NIMs and is focusing on credit quality.
- C/I ratio stood at 53% for 4QFY23, which is higher due to INR5b monthly allocation of wage revision. Net of wage revision, C/I was ~50%. Bank has rigidity in its cost which is due to higher retirement benefit costs.
- SBIN might see further increase in the opex due to branch additions and technological developments.
- The bank increased interest rates in deposits in the months of Nov'22/Dec'22 which is much delayed than other banks, leading to better margins.
- The bank reported ROA of +1% for three quarters in a row. ROA in FY24 to continue at the same level (ROA at 0.96% for FY23).
- Fee income from loan processing charges amounted to INR50b in FY23 and expected to reach USD1b in the medium term.
- About 64% of savings accounts are sourced digitally through its YONO platform. The bank is utilizing data analysis and is targeting a particular customer segment. YONO platform will see further upgrades in the upcoming quarters.
- Xpress credit book crossed INR3t in 4QFY23. More than 83% of the Xpress credit customers are employed in Army or government jobs and 12% of the customers are in well reputed corporate jobs.
- Provision for employees includes wage revision provision of INR25b and also on account of change in actuarial liability as on 4QFY23. Wage revision provision is estimated to be ~INR5b per month calculated at ~10%
- Exposure to the NBFC sector amounted to INR3.6t as of 4QFY23 v/s INR2.7t in 4QFY22. Agri and Corporate loans registered YoY growth of 13.31% and 12.52%, respectively.

Asset quality

- GNPA ratio in FY23 has been the lowest in 10 years. GNPA/NNPA ratio moderated to 2.78%/0.67% as of 4QFY23.
- Slippage ratio for FY23 improved 34bp YoY and stood at 0.65%. The bank expects recoveries to be higher than the slippages going forward.
- Credit costs stood at 32bp for FY23. Credit costs in FY24 to be at FY23 levels.
- Restructuring was at INR244b, which formed 0.8% of total advances.
- SMA 1 and 2 within the restructured book stood at 11% that is provided at 30% as against a 15% requirement by the RBI.
- The bank is confident that the ECL provision is well under the management of the bank and will not have a significant impact on the P&L.
- SBIN normally does write-offs in 3Q and 4Q and thus the same stood at INR67b in 4QFY23.



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SBI Cards & Payment Services

Buy

Current Price INR 926

- India's digital payment market is expected to reach USD10t by FY26 from USD3t
- Credit cards continue to drive the overall digital payments space
- Card spends have grown 28% YoY with spends being more than INR1t for the past many months
- FY23 saw the highest ever spends at INR14t. Further, FY23 also saw the highest ever festive season spends of INR1.29t and a strong winter holidays aided travel spends.
- The bank added the highest ever new accounts at ~5.2m in FY23
- The company remains focused on adding ~900k-1m accounts on a quarterly basis going ahead
- Travel spends in 4QFY23 stood higher than the 4QFY20 levels
- Average spends of newly acquired customers are higher than the earlier vintage customers
- The company is witnessing a higher mix of corporate spends and thus the market share in spends have been sluggish v/s market share in o/s cards
- Cost of funds is expected to increase by another 10-15bp in 1QFY24. If there are no further hikes, cost of funds could see some moderation over 2HFY24
- Margins are likely to stabilize over 1HFY24 and could see some expansion in 2HFY24
- Cost of acquisition is down 10%+ aided by higher sourcing from the Banca channel
- Operating cost is expected to trend downward gradually in the coming quarters
- Spends in the industry is likely to grow at ~22-25% and SBICARD would try to grow higher than the industry growth rate
- .Spends conversion to EMI has been higher v/s the Pre-Covid levels that is driving the higher mix of EMI book. Revolver book is expected to witness a gradual recovery
- Rental spends have an average ticket size of INR22-24k with a share of mid-teens in total spends
- The company revised its ECL model that resulted in an additional credit cost of 20bp (INR200m). Ex of that, the credit cost is on guided basis of ~5.8-6.2%
- The bank has taken accelerated action in some of its legacy portfolio, which has been resulting in higher slippages over the past few quarters
- Newly vintage customer performance has been in line with the expectations
- Overall, the company expects credit cost to moderate gradually over the next few quarters.

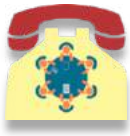
Union Bank of India

Buy

Current Price INR 72

Business Performance, Balance Sheet, and P&L related

- The bank is focused on building digital capabilities with an aspiration to garner ~57% of the RAM book completely digitally
- Similarly, on the liability side, the bank expects to garner ~INR1t worth of liabilities completely digital
- NIMs are expected to remain flattish with a slight negative bias over FY24 (~3%)



Particulars	Amount (₹)
Total Assets	1,00,000.00
Total Liabilities	1,00,000.00
Capital	10,000.00
Reserves	90,000.00
Provisions	10,000.00
Other Income	10,000.00
Other Expenses	10,000.00
Net Profit	10,000.00

- Of the total MCLR book, half of the book is yet to re-price, which will support the margins
- Employee expenses includes wage-related provision of ~INR11b
- The bank is carrying DTA of INR85b as on FY23
- Loan growth is expected to be ~10-12% in FY24
- The bank has provided 100% on the SR book
- Restructured book stands at ~INR180b, on which, the bank is carrying a PCR of ~10%
- The corporate book of the company has a robust pipeline of INR350b, which has already been sanctioned. In addition, there is another INR150-200b in the pipeline that is awaiting sanction
- Loan mix is expected to remain at ~55% Retail and 45% corporate

Asset quality related

- Of the total provisions of INR40b, NPA-related provisions stood at INR35.67b
- Recoveries in FY24 are expected to remain around the FY23 levels
- The recovery from written-off loans includes an upfront cash income of INR9.3b, which is related to loans that were sold to an ARC.

FINANCIALS/NBFC



- Against MOFSL (and consensus) expectations of a sharp margin compression for the NBFCs in general (and vehicle financiers in particular) in 4QFY23, most of the NBFCs reported only a minor compression or sequentially stable margins. Management stated that the change in product mix translating into an improvement in yields, transmission of higher borrowing costs to customers, decline in surplus liquidity on the balance sheet and retirement of higher-cost borrowings resulted in better-than-expected NIM performance.
- Most of the NBFCs guided for a sustained momentum in disbursements across product segments even though there was some sluggishness in prime mortgages. Within vehicle finance, disbursements remained strong across the cohort of vehicle financiers. Higher interest rates hurt the demand for prime mortgages but demand for affordable housing loans continued to remain strong. Asset quality improved across most NBFCs; however, MUTH/LTFH reported a deterioration in GS3. Write-offs continued to remain elevated for MMFSL and SHFL while CIFIC reported lower write-offs (v/s normalized run-rate).

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook for FY23/FY24	Asset quality and others
360 ONE	<ul style="list-style-type: none"> ■ Target of INR400b net flows into ARR assets is backed by: 1) ~INR150b in 360ONE Plus (erstwhile IIFL One), 2) ~INR150b in AMC and 3) INR100-150b in distribution assets. This would be partially offset by some redemptions (of which, 60% is likely to be retained). INR200-250b will be in the form of new flows from existing/new customers, while rest would arise from transition of AUM from TBR to ARR. ■ By 2QFY24, mid-market proposition is expected to be launched. In addition, 360ONE plans to expand into 10 new cities and establish offices in Dubai and Singapore by end-FY24. Further, the company aims to expand into five more cities by 1HFY25. 	<ul style="list-style-type: none"> ■ Distinctive features for mid-market proposition are: 1) set of differentiated, curated as well as approved products on the platform and 2) to increase the span of control of RMs to 100 clients from 50. ■ Mid-market proposition would have ~10-20bp higher retention rate than for advisory services. It would also have higher technology cost and then higher employee cost in the initial years. On reaching scale, CIR is expected to settle at ~35-36%.
Angel One	<ul style="list-style-type: none"> ■ The current broking revenue progression of ANGELONE's acquired cohort shows that in pre-digital era if the broking revenue was INR100, it tended towards INR47 in year 2 and INR32 in year 3. However, in post-digital era, the same revenue tends towards INR86 in year 2 and INR77 in year 3. ■ SIP flows in mutual funds have doubled post-launch of the super app. The other products that the company focuses to undertake in FY24 are unsecured retail lending and insurance distribution. ANGELONE, through its super app strategy, is well positioned to partner and offer multiple products. 	<ul style="list-style-type: none"> ■ The company has received an in-principal approval from SEBI in Feb'23 to launch its mutual fund. Technically, it would take about six quarters more for the mutual fund business to go live.
Bajaj Fin.	<ul style="list-style-type: none"> ■ Management guided for ~40-50bp NIM compression in FY24, assuming one more rate hike. However, this can be offset by lower opex and credit costs. ■ It guided for an AUM growth of 28-29% YoY and NII-to-opex of ~34.0% in FY24. ■ BAF guided for total new customer additions of ~11-12m in FY24. It expects to disburse 35m loans (up 20% YoY) in FY24. 	<ul style="list-style-type: none"> ■ The company expects credit costs to remain benign in FY24. ■ BAF has a subvention market share of >50% (by value). The company has augmented its B2B infrastructure and the company is likely to post an improvement in market share.
CAMS	<ul style="list-style-type: none"> ■ CAMS expects a strong uptick in revenue from Non-MF businesses, such as Account Aggregator, Insurance repository and AIF/PMS RTA in FY24. ■ CAMS Rep is scaling new highs in eIA and e-policy. The potential policy market size is ~500m and the revenue potential is likely to be ~INR2-5b. CAMS has the necessary capacity in place to scale the business as and when the mandate comes from IRDAI. ■ With the new tax rule in debt segment, it became unattractive for retail investors but the reality is 	<ul style="list-style-type: none"> ■ For Apr'23, net sales rose INR90-100b, almost 2% up in a month. The reasons for the same are 1) debt segment had not witnessed intense selling pressure, and 2) expectations that the high interest rate increase regime is coming to an end.

	counter intuitive as CAMS' debt portfolio grew almost 8- 9%. This was backed by intense selling.	
ICICI Sec.	<ul style="list-style-type: none"> Future growth levers include wealth management, derivatives segment, distribution of loans and distribution of insurance. Broking rates are likely to increase as compliance costs have gone up. If IE brokerage is included in TER, it will have a near-term impact, which will be offset by higher volumes in the longer term. 	<ul style="list-style-type: none"> MTF book and MF market share remained stable in FY23. The company continues to focus on quality clients, which have enabled it to improve the market share The new regulations announced this year shall benefit the industry over the medium term as they safeguard investor interest.
Mahindra Finance	<ul style="list-style-type: none"> MMFS will be comfortable with a leverage of 5.5-6x, it guided for a target RoE of 15%. The company expects opex to remain high since it has been investing in legal toolkits and various IT platforms. Opex ratio of 3.2% peaked out and it should remain range bound for at least one more year. 	<ul style="list-style-type: none"> Cash collections declined to 35% from 65% over the last few years and it guided that the proportion of cash collections will decline further. Management is aggressively working on leveraging priority sector lending (PSL)-eligible loans as a means to reduce its CoF.
Muthoot Fin.	<ul style="list-style-type: none"> MUTH has guided for over 15% YoY growth in gold loan for FY24. It expects the yields to remain around the current levels. MUTH guided for spreads of 10.0% (+/- 50bp) Management has guided for an opex ratio of 3.5%. 	<ul style="list-style-type: none"> Gold NPAs increased as they crossed the 12+3M period. These customers have paid partial interest and requested for time to redeem their gold jewelry. MUTH does not expect any loss of accrued interest. High NPAs should not translate into a large block of gold auctions in 1HFY24. MUTH had the RBI approval to open 150 new gold loan branches and it has already opened 122 branches over the last three quarters. It plans to add 100-150 branches every year.

360 ONE

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360 One WAM

Buy

Current Price INR 422

Financials

- ARR assets grew 15.7% YoY in FY23. The share of ARR AUM now stands at 61%. The ARR net flows for FY23 stood at INR 280b. ARR assets grew 2.5 times in the last three years.
- Recurring revenues now account for 67% of the total revenue. From 1QFY24, the carry revenue would be recognized as recurring revenue (recognition only on a very conservative basis).

Business

- Carry income will not have much impact on retentions. 360ONE has maintained a retention rate of 80-90bp on managed accounts, 45-50bp on MF investments, and a retention rate of 90-100bp on PE investments. Over the last 2-3 years, a significant amount of capital was raised for PE investments, and replacing these investments could potentially impact the AUM for unlisted securities (~33% of total AUM).
- Total net worth stands at ~INR25b (excl. goodwill). Of this, ~INR 14-15b is deployed in lending business. ~INR 11b is invested in own AIF, which is causing aberrations in the 'other income'. 360ONE intends to decrease this to ~INR4.5-5b in the next 12-18 months. (initially, clients had expected 360ONE to invest significant amount of funds in new funds. This expectation has been lowered and the current investment amount per new fund is ~INR50m)
- Distribution asset trail fees have come down to ~37bp from ~40bp. This is because of 1) the higher share of debt in the last three months compared to

equity has led to a decrease of ~0.7bp and 2) the distribution assets of private equity moving away has led to a decrease of ~2-2.5bp.

- The reason for lower NIMs on the loan book is due to the fact that only 40-50% of interest rate increase was passed on to customers while the remaining 50-60% was deferred until the end of Mar'23.

Guidance

- The decline in earlier guidance from a PAT of INR8.4b to INR8b in FY24 is on account of a conservative 'other income' and a decrease in TBR income (INR 3b is conservative and can increase by INR 0.5b depending upon market).
- Target of INR400b net flows into ARR assets is backed by 1) ~INR150b in 360ONE Plus (erstwhile IIFL One), 2) ~INR150b in AMC and 3) INR100-150b Distribution assets. This would be partially offset by some redemption (of which, 60% is expected to be retained). INR200-250bn will be in the form of new flows from existing/new customers, while rest would arise from transition of AUM from TBR to ARR
- 360ONE plans to expand into 10 new cities and establish offices in Dubai and Singapore by the end of FY24. Furthermore, the company aims to expand into 5 more cities by 1HFY25. The recruitment for the same has been ongoing for the past 3-6months.

360ONE Plus (erstwhile IIFL One)

- The declining retentions for 360ONE Plus are expected to stabilize. The Advisory services, including non-discretionary PMS, should have a retention rate of approximately of ~35-40bp (with the exception of corporate treasury, which has a lower retention rate). With the change in debt taxation, direct mandates were shifted from equity to debt in Mar'23, and thus, impacted the retention rate.
- Advisory assets will outpace distribution assets especially for large clients (INR1b+ wallet share). For INR50-500m clients, the focus is on distribution assets.

Mid-Market Proposition

- Distinctive features for mid-market proposition are 1. Set of differentiated curated as well as approved products on the platform and 2. to increase the span of control of RMs from 50 clients to 100 clients.
- This would have ~10-20bp higher retention rate than for advisory services. It would also have higher technology cost and then higher employee cost in the initial years. On reaching scale, CIR is expected to settle at ~35-36%.
- Over a period of time, advisory and discretionary PMS have become increasingly tailored to clients with a profile of ~INR 500m profile, making it challenging to maintain longer-term retentions of 40-45bp. On the flip side, client profiles with INR50-500m or INR100-500m have slightly higher retentions. 360ONE has worked hard over the last nine months to crack this segment.



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Aavas Financiers

Neutral

Current Price INR 1,390

Shareholding

- Promoters of Aavas — Kedaara and Partners Group — have not sold any shares since 2021 and have no plans to sell any shares in the coming year.
- The company mentioned that as of Mar'23, 3.9% of its shares were held by employees and board members. However, it has also noted that this figure does not include ESOPs that have been granted in recent times.

The image shows a screenshot of a financial report titled 'AAVAS Financials'. It includes a table of contents and a detailed financial statement. The table of contents lists sections such as 'Company Overview', 'Financial Performance', 'Risk Management', and 'Appendix'. The financial statement includes a balance sheet, income statement, and cash flow statement. The report is dated 31st March 2023.

- AAVAS has issued 1.45m ESOPs under three schemes in the last three years, which are not included in the current shareholding of the company.

Business Strategy

- The company has a three-pronged growth strategy: 1) expansion across geographies; 2) launching new products; and 3) employing a trained and skilled workforce to drive business growth.
- AAVAS expects growth in existing geographies to be above the normal rate, and expects a gradual expansion into new geographies such as Karnataka and Uttar Pradesh. This indicates a steady and cautious approach to growth, with a focus on maintaining the quality of the loan book.

Guidance

- AAVAS has guided for AUM growth of 20-25% and is confident of achieving this by scaling up its granular loan book across various geographies and product segments.
- The management has guided for steady state spreads of 5%.
- Opex ratios will moderate as the cost of opening and operating new branches in tier III-V towns is relatively low. Branch rentals range from INR20-25k per month.
- It has guided that by FY25, the product mix will be Home loans at 70% and non-home loans in the range of 30-35%.

Borrowings

- The company borrowed INR47.6b in FY23 at an average rate of 7.25%. Lender support remains strong as AAVAS continues to grow.
- The company has maintained sufficient liquidity of INR32.75b in the form of cash and cash equivalents and un-availed sanctions.

Yields and CoF

- AAVAS increased its prime lending rates (PLR) by ~160bp in FY23 and ~40bp in Apr'23.
- Out of the 160bp rate hike in FY23, only ~50bp is reflecting in the reported yields. The transmission of PLR hikes in new business originations takes effect with a lag.
- Average CoF for FY23 stood at ~7.6% on outstanding borrowings of INR125.2b.
- Incremental Yields: Non-Home Loans at 13-15% and Home Loans at 10.5%-12%

Asset Quality

- GS3 of 0.92% includes 0.11% of <90dpd assets, which have been categorized as GNPA based on the RBI's Nov'21 notification.
- Accounts forming part of OTR 2.0 with outstanding amount of ~INR885m as on Mar'23 have been classified as Stage 2 and provided for as per regulatory guidelines. Out of ~INR885.2m under OTR 2.0, ~INR676m is in the 0-30dpd bucket.
- Total ECL provisioning (including management overlay and provisions for OTR) stood at ~INR1.7b as of FY23.
- Previously, the company used to classify repossessed assets as assets held for sale, but now it classifies them as NPAs.
- Total write-offs over the last 12 years stood at INR250m (~12bp of AUM).
- The company has a strong middle management team, especially on the sourcing and credit side, with employees who have been with the company for a fairly long time.

- About 71% of employees on the sourcing side and 78% on the credit side have a vintage of more than three years.
- The company follows a touch-and-feel underwriting model for the self-employed non-professional customer segment to effectively manage stress.

Others

- One-year old branches yield RoE of 12%, while branches with vintage of 3+ years have RoE of ~20%.
- The company has posted disbursement growth of over 25% in Gujarat, Maharashtra and Rajasthan in FY23.
- Average EMI stands at INR12k and has increased by INR500-1000 for ~10% of customers, depending on their tenors and interest rates.



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Aditya Birla Capital

Buy

Current Price INR 174

Capital Raise

- ABCAP intends to raise capital with the primary objective of supporting growth in the lending and the insurance businesses. It will also be deploying the capital for advancing its digital initiatives.
- Capital will be available to all the businesses for growth and a large part of the capital will be deployed for the lending businesses.

Business Update

- One ABC and One P&L approach. Three-pronged strategy of: 1) One Customer, 2) One Experience and 3) One Team
- Focus is on working together as one team to leverage synergies to drive cross-sell. Aligned the incentives of the senior management team to reflect this approach.
- It continues to expand its branch network. It will continue to increase its presence across One ABC locations.
- About 75% customers were on-boarded digitally in FY23. Around 87% business is delivered with auto underwriting in the Health Insurance business.
- ABCAP formed a wholly owned subsidiary, Aditya Birla Capital Digital, in Mar'23. This is to develop an omni-channel Direct to Customer (D2C) platform. This platform will serve existing customers, acquire new customers and act as a one-stop solution to deliver Protecting, Investing, Financing and Advising (PIFA) solutions to customers. Also, collaborating with NPCI for payment solutions.
- Comprehensive digital platform for MSME ecosystem, Udyog Plus, went live in Mar'23. It offers paperless digital journey for business loans and loan disbursement of up to INR1m. Udyog Plus has been integrated with government ecommerce websites via Open Credit Enablement Network (OCEN) and with private ecommerce websites to provide credit facilities to sellers on these platforms. More than 2,500 registrations on Udyog Plus in a month since its launch.
- 4QFY23 consolidated PAT grew by 35% YoY to ~INR6.1b.

NBFC

- NBFC Lending book grew 46% YoY and 10% QoQ to INR805.6b.
- Business Loans comprise nearly 33% of the disbursement mix followed by personal and consumer loans at 31%. 58% of the consumer loans were sourced digitally.

- Added 164 new branches with total branch count of 323; in line with the target for Mar'23.
- 4QFY23 CIR was maintained at the same levels as last year.
- Next leg of growth will be driven by enhance frontline distribution capability and enhance digital sourcing channels.
- Udyog Plus, a comprehensive digital platform for MSME ecosystem, went live in Mar'23.
- Asset quality has shown a consistent improvement over the last year. GS3 declined to 3.12%.
- 4QFY23 credit costs stood at 1.49%, down 25bp QoQ. It was elevated in the last quarter because of the new ECL policy.
- Looking at all the opportunities in the Personal and Consumer segments. Depending on what the customer needs and the product segmentation, it will continue to build a mix of both secured and unsecured businesses.
- Unsecured portfolio is 30% of the book. 87% of the personal and consumer loans are disbursed to customers with CIBIL score of over 700.
- NBFC GS2 + GS3 declined by 315bp YoY to 5.8%; Track the performance on a weekly basis.
- Digital disbursements are ~19% of the overall disbursements in the NBFC subsidiary; Tenor of 15-18 months on the unsecured business loans; Check-out financing is 6-9 months; It is a churn business;
- 62% of the NBFC business is direct; In digital partnerships, though the sourcing is done by the digital partner, the entire ownership of the customer is with Aditya Birla Finance.
- >40% repeat customers in the unsecured business
- NBFC: 87% of customers in personal and consumer loans have a credit score of 700+. ABCL has built credit engines and it leverages alternate data for credit decisions.
- Average ticket sizes in Consumer Loans stood at INR20K and in Personal Loans it stood at INR300K
- Within the secured business, the average ticket size is INR18m.
- Total retail folios remained flat QoQ at ~8.1m
- Improving product mix towards personal, consumer and MSME loans to drive margin improvement.

Housing

- FY23 RoA was 1.94% and 13.2%
- FY23 disbursements grew 42% YoY to INR53b
- NIM expanded by ~45bp YoY to 5% in 4QFY23 and ~75bp YoY to 5.1% in FY23
- Asset quality continued to improve with gross stage 2 and 3 assets declining by ~270bp QoQ and ~375bp YoY to ~5%
- Focusing on granularity with ticket sizes across 25-30 lakhs
- CIR stood at 42% reflecting accelerated investments in technology and franchise.
- Maintained healthy spreads of ~3.8%.
- Partnerships - ABCL owns the customer and the customer data
- Digital partners in the NBFC business; Works with agents and bancassurance in the insurance businesses

- Data ownership is with ABCL; In all channels it has a direct contact with the customer and the customer gets to experience the products and services of ABCL directly

AB Capital Digital

- The Super-app will be housed under the subsidiary AB Capital Digital. One-stop solution for customers across Protecting, Investing, Financing and Advising (PIFA). It will even offer payment solutions - collaboration with NPCI.
- The company will position the Aditya Birla Capital Digital app as a one-stop solution .for all the financial needs of the customer across their lifecycle.

AMC

- Total Mutual Fund AUM stood at INR2.86t
- Total retail folios remained flat QoQ at ~8.1m
- Declared dividend of INR5.25/share ; full year dividend of INR10.25/share.

Life Insurance

- Upsell and cross-sell contributed 25% to FYP in FY23. The company is focusing on maximizing cross-sell and up-sell.
- Individual FYP grew by 37% YoY to INR30.2b in FY23, significantly ahead of industry YoY growth of 19%.
- 13th month persistency continued to improve and was 87% in Mar'23, compared to 85% in Mar'22.
- Net VNB at INR8b in FY23 was more than double the VNB in FY22.
- Net VNB margin expanded by ~8pp YoY to 23.0% in FY23.
- Traditional Business: 81% and ULIP: 17%
- Group new business premium grew by 30% YoY to INR41.9b in FY23. Group Life business is growing at >100%.
- 13th month persistency continued to improve and was 87% in Mar'23 and 61st month persistency stood at 54%.
- Upsell and cross-sell contributed 25% to FYP in FY23. The company is focusing on maximizing cross-sell and up-sell.
- The company plans to drive growth from both proprietary and partnership channels.

Health Insurance

- Combined ratio improved from 127% in FY22 to 110% in FY23
- Growth powered by retail business aided in improving overall share among SAHIs to ~10.4% (improvement of ~210bp YoY)
- Partnership with PSU: UCO bank and Punjab Sind bank for bancassurance, taking total partnerships to 17
- The company plans to utilize its unique "health first" model to enhance risk selection and risk pool management, diversify its distribution mix, and leverage its digital capabilities to achieve hyper-personalization at scale.

Others

- Term Loans are externally bench-marked and it is not compromising on the ALM. Most bank term loans are linked to MCLR and/or T-bills and not to Repo rates.
- The company has more than 200k channel partners, which fulfill the lifecycle needs of customers.
- The company added 75 branches in the quarter and total branch count now stands at 1,295.



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Angel One

Current Price INR 1,457

Buy

Super app and new initiatives

- The fundamental principle at ANGELONE has been to stay focused on unit economics and run a profitable business, keeping clients at the center while enhancing their experience and “wow” quotient with the ANGELONE app.
- The company has fully transitioned to super app successfully in 4QFY23. The super app currently enjoys 4.1 rating. The total capex for building the super-app has been capitalized (~INR300m).
- ANGELONE, through its super app strategy, is well positioned to partner and offer multiple products. The business model is robust to deliver profitable unit economics across all cohorts.
- SIP flows in mutual funds have doubled post-launch of the super app. The other products that the company focuses to undertake in FY24 are unsecured retail lending and insurance distribution.

Financials

- Of the total cash and cash equivalents, INR40b has been from client’s funds.
- The Board has declared an aggregate dividend of INR3.3b in FY23, translating into a payout of 37% of PAT.
- Ancillary transaction charges will rise in line with ADTO increase. Interest income has been re-classified that includes income from MTF book and income generated from its own proprietary book.
- Employee expenses have come down due to reversal in variable cost that the company has provided during FY23. Of the total employee cost, 30-35% would be variable and the rest was fixed in nature. The entire ESOP reversal was on account of the CEO’s exit. ESOP cost for FY24 is estimated to be INR1.1b.
- Other expenses, being elastic in nature, included customer acquisition cost and cloud cost that were linked to overall turnover. The CAC is expected to breakeven within two quarters.

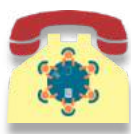
Business

- ANGELONE’s market share in FY23 rose 366bp to 18.4%. The company enhanced its client base by 3.6x in last three years to 13.8m with continued focus on underpenetrated tier 2 and 3 cities.
- The cash segment helps to grow MTF book and the company is working towards developing new products in this segment.
- MCX has been introducing various innovative products on options side. ANGELONE has gained market share in commodities segment as it had the first mover advantage in introducing these products to the clients over smartphones.
- SEBI Board meeting held on Mar’23 has allowed up-streaming of client funds. Cash, earmarked deposits or units of MFs are allowed; however, bank guarantees have been kept outside the purview. The company would require additional working capital of INR8b on annualized basis and the cost of the same will be about INR500-550m.
- The robustness of ANGELONE’s fintech model demonstrates a very healthy LTV:CoA of 7.8x based on the first three years of aggregate client revenue. As clients increase their engagement on the platform, the LTV:CoA will have a long runway of growth.

- Investments in augmenting technology and talent pool will continue, thus enabling the business to reach its aspiration by leveraging the power of data and technology.
- The business model is geared towards on-boarding young cohorts, who have limited access to capital markets. These young digital natives have a long runway in their careers with sustainable revenue potential.
- The current broking revenue progression of ANGELONE's acquired cohort shows that in pre-digital era if the broking revenue was INR100, it tended towards INR47 in year 2 and INR32 in year 3. However, in post-digital era the same revenue tends towards INR86 in year 2 and INR77 in year 3.
- All regulatory changes introduced helps in strengthening broking industry and will enhance confidence among retail participation. Small- and medium-sized brokers would get hit as compliance cost increases with more regulations being introduced. This shall ensure consolidation in the broking industry with scale players gaining market share.
- ANGELONE believes that implementation of ASBA for the secondary market is still far away. This shall definitely have an impact on the float income. However, as smaller brokers may not be able to implement the same, this will help digital brokers to gain market share.
- The Board has appointed Mr. Amit Majumdar as an Executive Director for strategic initiatives. He has been associated with ANGELONE in the past.
- The company has received the in-principal approval from SEBI in Feb'23 to launch its mutual fund. Technically, it would take about six quarters more for the mutual fund business to go live.

BSE

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BSE

Neutral

Current Price INR 566

Business

- Major steps taken to increase market share in various segments include 1) the 1-paise tick for stocks with price less than INR100 – there has been an increase in market share from 9% before this measure to 11% in the recent past. Also, the delivery volumes in the segment are significant at 80%; 2) Currency derivatives – the introduction of the 10-paise strike price has started playing out well but major traction should be seen over the longer term; and 3) Equity derivatives segment - Reduced the lot size for S&P BSE Sensex and S&P BSE Bankex, changed the expiry day to Friday from Thursday to scale up derivatives volumes and reduce concentration risk within the overall industry.
- BSE has discontinued the liquidity enhancement scheme (LES) for the derivative segment as the past spending did not yield commensurate results. Now the exchange will focus on product development, which will drive incidental gains both on P&L and RoI. Also, the company has discontinued the colocation hardware and software support. Cumulative savings from these initiatives will be INR320m on the standalone basis and INR380m on the consolidated basis.
- Transaction charges are at subsidized rates in many areas such as equity options, currency options (one-tenth) and currency futures (one-fifth). Colocation was all free earlier. BSE will increase charges once adequate scale is achieved.

- Star MF fee structure has two parts: 1) transaction charges for processing, and 2) recovery of the costs. Various slabs exist for transaction charges and overall recovery is INR4 per transaction.

New Businesses

- Gift City IFSC – ADTO for FY23 came in at USD13.1b, with a market share of 90%+ for BSE. USD70b notes and USD50bn bonds have been listed. A lot of changes are expected in this space and BSE will be a part of it.
- New exchanges – The social stock exchange will not generate revenue. The bullion exchange is a separate exchange and Gold has a great potential. Currently, India is not a price setter in spite of a large share in global trade. Its EGR product is in early days but has a huge potential if tax issues are resolved. The power exchange is not generating revenue as it is a new exchange and will take time to scale up. However, BSE is providing technology services and earns revenue for it.

Financials

- Increase in other securities services was mainly driven by higher income from the clearing corporation. While other operating income saw an increase from healthy business growth in the Tech subsidiary.
- Other income was higher owing to an income tax refund and an expense reversal of INR20m.
- Going ahead, employee expenses will increase due to inflation and efforts to retain talent. Tech spending will see normal inflation, along with certain essential upgrades.



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Bajaj Finance

Buy

Current Price INR 7,080

Performance Update

- Core AUM grew 29% YoY and New Loans booked grew 20% YoY to 29.6m.
- GNPA is the lowest ever in the history of the company. NNPA stood at 0.34%.
- In 4QFY23, B2B disbursements grew 21% YoY to INR159b and Apr'23 is tracking strong. This was despite a slowdown in smartphone shipments and sales volumes.
- 4QFY23 annualized RoA/RoE stood at 5.4%/24%.
- The board has recommended a dividend of INR30/share.

Customer Franchise and Geographic Footprint

- It added 19 new locations and 10,800 distribution points in 4QFY23. It added ~230 new locations in FY23. It will be adding 150 new locations and over 300 standalone gold branches in 1QFY23.
- The highest-ever customer additions of 11.57m in FY23. Confident of adding 11-12m new customers in FY24.
- 3Q and 1Q are peak quarters in terms of customer addition, but 4QFY23 was reasonably better than 4Q of previous many fiscal years.

Guidance

- There was no impact on margins in FY23. However, it expects a 40-50bp moderation in NIM in FY24, assuming one more rate hike. However, this can be offset by lower opex and credit costs.
- Guided for NII-to-opex of 33.7-34.0% in FY24. The credit cost should remain benign.

- It does not expect a significant impact on RoA/RoE. RoA could decline by 5-10bp.
- BAF expects to disburse 35m loans (up 20% YoY) in FY24.

Omnipresence Strategy

- The final sprint of its app platform has gone live in a staggered manner in Apr'23.
- The final release of its Web platform is on track for Apr'23 end. From 2QFY24 onward, features on the app and web platform will go live simultaneously.
- Rewards will go live between 3Q/4QFY24 and social will go live in 1QFY25.

Payments

- A scalable UPI infrastructure has gone live on the consumer app platform, which will help improve performance.
- BAF accelerated merchant QR deployment in 4Q. It deployed 413,000 merchant QRs in 4QFY23 and total QR deployed stood at 627,000 as on Mar'23. It plans to deploy 2.1-2.4m merchant QRs in FY24 (v/s 30m-31m merchant QRs across India).
- Bajaj EDC machines will be launched in 1QFY24 with features like merchant onboarding, merchant lifecycle management and merchant services. These will be enabled with CC/DC, EMI Card, Bajaj Wallet, UPI, invoice and product financing.

Penal Charges

- Penal charges, which it collects, are not for profiteering. It just collects these penal charges to account for the cost it incurs on collections. Large proportion of the Service and Admin charges (disclosed in annual report) is primarily from penal charges.

Impact of Bajaj Auto setting up its own NBFC

- The Auto business (which is essentially captive) is ~5% of AUM. Bajaj Auto has applied for an NBFC license. It does not expect any change over a 24-month horizon.
- It is clocking 11,000-13,000 accounts every month from the open architecture and expects this to scale up to 250,000-300,000 accounts.

B2B Sales Business and subvention Market Share

- The company has looked at capacity planning a lot more closely across business and more particularly in the sales finance. It has significantly ramped up staffing both at the stores as well as people who manage them.
- AF has a subvention market share of >50% (by value). The company has augmented its B2B infrastructure and it is likely to see its market share grow.

Bajaj Housing

- Growth is slowing in Home Loans at the industry level. Despite this, BHFL AUM grew 30% YoY to INR692b.
- In 4QFY23, the overall approvals grew by 21% YoY.
- 4QFY23 PAT grew by 53% YoY to INR3.02b.
- The company shared that it is indeed witnessing some moderation in the mortgages segment. There has been slowness in uptake in the ~INR5m ticket size segment. Inventory is at an all-time low. Demand remains strong in the luxury and premium segments.

Others

- BAF does not expect the product mix to change significantly and it can grow profitably with the current product mix.



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- It has an unsecured credit market share of 7-8% and there is very strong opportunity in this segment. However, there is a reason to be worried, given how some of the peers are growing in unsecured PL.
- The company continues to augment the leadership bench. Both Anup Saha and Rakesh Bhatt are senior leaders and Deputy CEOs. They have been appointed on the Board to augment the leadership bench.
- BAF had taken rate hikes of 60-70bp until Dec'22. It did not take any rate hikes in 4QFY23.
- At a design level, BAF was very tight in terms of risk filters over the last three years. The risk filters are data determined and that is how it continues to do business.

Can Fin Homes

Buy

Current Price INR 749

Outlook on Mortgage Demand

- Interest rate hikes have affected EMIs and demand. There has been some rethink by customers and postponement of demand. With expectations of stable interest rates, demand should improve by 2HFY24.

Transmission of interest rates

- CANF has increased interest rates by 135bp (50bp + 50bp + 35bp). The last tranche of a ~35bp rate hike was taken in Nov'22.
- INR100b of the loan book has experienced the entire rate hike. The remaining ~INR180b is yet to experience one/two interest rate hikes.
- INR55b of loans in 1QFY24 and INR75b of loans in 2QFY24 will be re-priced to existing retail PLR of the company.
- New loans are being disbursed at >9.8%.

Restructured Book

- 78% of restructured customers who have exited the moratorium have started servicing their loan installments.
- 75% of the customers are yet to come out of the moratorium. (Entire restructured book will exit moratorium/restructuring by Nov'23).

NIM and Spreads

- Interest rate resets on existing customers and incremental disbursements at higher interest rates have helped CANF improve yields.
- CANF expects the impact of the rate hikes to reflect in the asset book over the next two quarters.
- Yield re-pricing should continue for the next two quarters, while the CoB should not increase from here.
- A part of the portfolio will see an 85bp increase in yields and another portfolio will see a ~35bp increase in yields.
- Incremental CoF will decline in 1QFY24.

Guidance

- Loan book growth of 18-20% and disbursement growth of 20% in FY24
- NIM to improve to 3.5% and cost-Income ratio of 16-17% in FY24
- Credit costs of 5-10bp
- Effective tax rate of 22%

Effective Tax Rate

- More than 90% of the book is long-term housing and Section 36 (1) (8) benefit of long-term housing comes at the end of the fiscal year. Crystallization of actual tax liability led to a lower effective tax rate in 4QFY23.

Asset Quality

- CANF has conservatively built additional standard provisions during the quarter to increase the PCR ratio.
- Total ECL provisions stood at INR3.12b (PQ: INR2.9b)
- Restructured book stood at INR6.95b. Repayments have resumed in Feb'23 and it expects good collections from this book.
- The company will look to improve the provisioning cover on standard loans and NPA loans whenever there is an opportunity.
- In FY23, there was INR520m of roll-forward and INR540m of roll-back of loans. In 4QFY23, the company had ~INR160m of NPA recoveries and slippages of ~INR80m.

Distribution and Branches

- CANF has branch presence in metro and urban towns, and hence the ticket sizes for CANF are higher than those for GRUH, which has branches in deeper pockets.
- CANF has not added branches over the last three years because of Covid. CANF has a wide geographical presence. It will be looking to gradually add 10-15 branches every year.

Sourcing Mix

- While the company's DSA business will continue to constitute a sizable proportion of its sourcing mix.
- About 65% of the book is coming from southern states. It has guided for a geographical mix of 60:40 between southern and non-southern states.

Capital raise

- Internal accruals should also accrete to the capital. It has an enabling clause in the AGM for raising equity capital.
- If the loan growth is strong, it might need to raise equity capital. However, it does not foresee the need to raise equity capital within the next 3-4 quarters.

Liabilities and ALM

- Apr'23 to Jun'23 bucket mismatch stood at ~INR30-35b. Sanctioned undisbursed limits (~INR46b) from the banks take care of the short-term liquidity management. The company does not have to pay any charges to banks on the sanctioned limits.
- Sanctioned CP limits cannot be considered for computing the ALM statement.
- CP is used as a cost-hedging tool. Since the debt markets were not favorable in 4Q, the company chose to leverage other borrowing instruments.
- About 43% of the bank borrowings are linked to repo and the remaining is linked to T-Bill and MCLR.
- It raised NCD of ~INR10b at 8.45%, which has led to an increase in the marginal cost of funds.

Others

- The team is stable and well-experienced. The process and the audits are very well in place.
- CFO has already been appointed, and they will be looking to appoint an external CRO.
- 4QFY23 BT-OUT stood at ~INR1b. No extraordinary pressure on BT-OUTS.
- It received a CLSS subsidy of ~INR2.72b in FY23, which resulted in rundown of the loan book.



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- Total investment income stood at ~INR1.09b. LCR is ~100% (v/s regulatory requirement of 60%). CANF does not expect any impact on margins because of the graded increased in regulatory LCR over the next few years.
- Penal charges (which were not levied during Covid) have now been reinstated.

Cholamandalam Inv. & Finance

Buy

Current Price INR 1,073

Business Update

- Strong growth in the non-vehicle product segments should help reduce the cyclicity in Vehicle Finance over time.
- GS3 declined ~50bp QoQ to 3.5%. GNPA under IRACP declined to 4.63 (PQ: 5.37%).
- FY23 RoE stood at 20.6% (PY: 20.4%).
- The board has recommended a final dividend of INR0.7/share and earlier it had declared an interim dividend of INR1.3/share.
- Initiated its maiden public NCD issue amounting to INR10b and it was subscribed by 2.3x within three days of the issue.

Capital Raise

- CAR stood at 17.1% (Tier 1: 14.8%).
- CIFC will review equity capital requirement in the current financial year (FY24).
- In FY24, it will be looking to raise both equity capital and Tier 2. It intends to keep the CRAR at 18% and but one of the reasons why it declined below 18% is because the company has not optimally leveraged Tier 2 capital.
- Securitization was effectively leveraged during the quarter, which led to lower capital burn of Tier 1.

Guidance

- It has guided that by FY26, the product mix will be VF at 50%, Home Loans and LAP at 30-35% and New Businesses at 15%.
- Even if the rates were to go up by another 25bp, it does not expect any significant increase in its CoB. There is some NIM compression possible but it will work toward sustaining NIMs at current levels.
- Opex is in the range of 3.0% of average assets. It will keep it in the range of 3.0-3.1% (as % of average assets).
- Credit costs will range between 0.75%-1.2% over a cycle but the average credit costs should be at ~1% across cycles.
- Opex reduction will be higher than the increase in credit costs.

Strategic Insights from Mr. Vellayan Subbiah

- Mr. Vellayan does the broad direction setting and gives strategic insights. Implications of technology will be significant and Chola will continue to invest in technology.
- Diversification in new lines of business and future steps will be technology-led, along with growth in traditional businesses as well. It has a significant opportunity to maintain high level of profitable growth.
- Growth will be a function of the industry growth and expansion of geographies and roll-out of HL/LAP/New Businesses to more branches of VF.

Sustainability of Growth

- Most of the growth and expansion is coming from T3/T4 cities since all the businesses are going deeper into T3/T4 cities.

- Dependence is not just on vehicle finance (VF) anymore and there is secular growth across all the six businesses.

Liabilities and Margins

- It has guided for NIM of 7.0-7.5%. Levers include 1) business mix (proportion of new and pre-owned vehicles and moving towards higher yielding product segments), and 2) ability to pass on rate hikes in non-vehicle product segments include Home Loans, LAP and the three new businesses.
- CIFC has renegotiated with banks and capitalized on the PSL demand through securitization.
- Last year, new vehicle sales were high and a larger proportion of the Disbursement Mix in Vehicle Finance was skewed in favor of new vehicles.
- CIFC has taken interest rate hikes of 200bp in LAP and 150bp in Home Loans.

Newer Businesses

- T3/T4 centers are geographies where the company has always been present in Vehicle Finance. Even in new businesses, the first thing that they did was to build out the collection processes and infrastructure.
- There are significant opportunities in new businesses and it will roll out them to more branches of VF in FY24.
- Net Credit Costs (NCL) will increase from new businesses but will be offset with lower opex and higher margins.
- Within CSEL, the provisioning is very aggressive in unsecured loans. It is maintaining 100% PCR on 180dpd+.
- RoA from new businesses will start going up and will be accretive to the RoA at the company level.
- SBPL - There could be new to credit customers but ticket sizes are between INR200K-500K.

CSEL

- FLDG - Wherever it is permitted by regulations, they get FLDG arrangements. But wherever it is not permitted, it is compensated through higher service fees and yields.
- Business Loans ATS is INR700-800K. Stringent credit policy at the sourcing and underwriting stage. Business Loans are given to self-employed, while Personal loans are given to the salaried class.
- Without credit history, it does not give loans in the CSEL segment.
- Within Personal Loans, 96% customers have a CIBIL of >700 and 85% have a CIBIL score above 725. Only 4% have a CIBIL score of about 675-700 and it does not lend to customer below a CIBIL score of 675.
- The rejection rate is ~70% in the CSEL Business.

Home Loans

- CIFC is in the affordable segment. During FY23, it has expanded across geographies and to all VF branches.
- Going forward, it is going to see numbers doubling every financial year.
- It selected good markets, which did well in terms of portfolio quality. With good experience on asset quality, it will be expanding to more branches of VF. Growth will be driven by expansion to new geographies.
- ATS of INR1.5m and self-construction/plot will be the segment where it is going to scale its disbursements.

- Last year it expanded Affordable Housing to North, East and West. Within the next few years, HL will be expanded to all the branches of VF. LAP is currently being done from ~55% of VF branches.
- CIFC does not plan to do any inorganic acquisitions in Housing Finance.

Asset Quality

- Write-offs in 4QFY23 stood at ~INR1b and in FY23 at ~INR5.5b.

Collections

- Vehicle Finance has a very robust collection infrastructure. New businesses are headed by individuals who were earlier Zonal Heads of Vehicle Finance at Chola.
- In affordable Housing, they have a dedicated collections vertical, which works closely with the sales team.
- Without the collections infrastructure, Chola does not expand into new businesses.



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Computer Ages Management

Buy

Current Price INR 2,180

MF business

- Overall AUM for 4QFY23 was at INR28t (marginal increase over 3QFY23). Equity AUM share of CAMS-serviced funds continues to grow with the share rising to 65.3% in 4QFY23 from 64.8% in 3QFY23. Share of equity net sales has improved 9.6% in 4QFY23 (73.3% market share). Equity AAUM grew 18% YoY to INR13t. Navi MF, one of the leading digital first MF, has fully migrated to CAMS platform.
- Strong growth in SIP registrations for the quarter with 4.03m new registrations has led to an improved market share of 62% (+5% QoQ). SIP inflows were strong in 4Q, reaching a historical high of INR246b for CAMS-serviced funds (+6% QoQ).
- With the new tax rule in debt segment, the segment has become unattractive for retail investors but the reality is counter intuitive as CAMS debt portfolio grew almost 8-9%. This was led by intense selling. For Apr'23, net sales rose INR90-100b, almost +2% in a month. The reasons for the same are: a) Debt segment had not witnessed intense selling pressure and b) expectations that the high interest rate regime is coming to an end.

Non-MF business

- Alternatives: Alternatives business has shown consistent financial performance. Annual revenue grew 26% YoY. Fintuple Technologies continues to make inroads with large ticket wins from marquee clients. CAMS GIFT City signed up with nine clients. Assets under service grew to INR1.5t. CAMS WealthServ is a digital onboarding platform that transforms client onboarding (75+ signups)
- Account Aggregator: CAMS to go live as FIP Gateway in 1QFY24. It has a leadership position in the industry on FIP integration. It is creating newer use cases – Bank account Validation through AA. It has 79 AA/TSP wins with ~20 win 4QFY23. The acquisition of Think360.ai will help enhance offering in the AA+TSP ecosystem. CAMS360 is processing SMS data to gain consumer insights that will continue to bolster the bank statement analyzer (four sign ups with CAMS).
- NPS - CAMS NPS continues to retain the no. 2 position with 9% market share in eNPS segment.
- CAMSPay delivered a stellar year with 27% growth in revenue driven by increase in transaction volumes and a slew of new product offerings. It has received the RBI's in-principle authorization to be a Payment Aggregator in Feb'23.

- myCAMS holds fort among the Top 2 fintech apps with close to 6m downloads. Daily API hits on MF Central crossed 20,000 a day (expect this to scale up 2x during FY24).
- Insurance Repository - CAMSRep is scaling new highs in eIA and epolicy and ramps up deep contact tracing services (~5m E-Insurance policies - growth of ~35% in FY23). The potential policy market size is about 500m and the revenue potential is expected to be ~INR2-5b (~25x growth). CAMS has the necessary capacity in place to scale the business as and when the mandate comes from IRDAI. In terms of pricing, currently it is not very competitive but as and when market opens up, price depletion will happen. If prices reduce 50% from current level, then the market size would be ~INR 2.0-2.5b. Even without the mandate, the growth in revenue and policies is likely to be strong in the current year.

Financials

- Payments services continued to grow on back on increased mandates and transactions processed. CAMS continues to remain bullish on KRA business. It is on course to achieve the target of 15% non-MF share with all businesses seeing strong traction and also acquisitions such as Think360.
- Yields were stable YoY in FY23. However, yields declined marginally in previous two quarters. Yields would decline due to: a) telescopic pricing, b) product mix changes and c) negotiations for price reductions. During the quarter, a couple of players got merged and thus telescopic pricing had impacted yields. Negotiations for most of the contracts are re-priced. The product mix had an impact of equity yields.
- Other expenses are generally fixed in nature. These include – legal & professional fees (~INR50m related to deal structuring – one-off in 4QFY23), compliance fees (various audit expenses – ~INR40-50m in 4Q), increase in admin infrastructure to support the business, and marketing and promotional spends for CRA and AA platforms (at ~INR 60m). These expenses have reached their higher limits and the increase going ahead would be inflation-related.
- ESOP cost for FY23 was INR267m. There are four ESOP plans ongoing and the ESOP cost for FY24E would be ~INR140m.



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HDFC

Buy

Current Price INR 2,650

Demand Momentum

- The robust growth can be attributed to the strong momentum in the economy.
- In Mar'23, the company recorded its highest ever monthly individual loan disbursements in HDFC's history. It guided for this positive momentum to continue.
- Growth in home loans was seen in all segments of the market. 90% of the loan applications were received digitally.
- Individual disbursements in 4QFY23 were a little below INR500b and grew 16% YoY in FY23.
- Interest rate fluctuations have had a relatively insignificant impact on mortgages, as the tenors are typically extended during periods of rising interest rates and shortened when the interest rates decline. Additionally, about 10-11% of the loans are pre-paid ahead of schedule every year.



Update on the Merger

- The management expects the effective date of the merger to be in July 2023, based on the current progress.
- The Warrant Holder who was entitled to receive HDFC Ltd Share will receive the HDFC Bank shares in the same proportion of 1.68x as previously announced during the merger.
- The LCR will be determined by the fluctuations in the next 30 days outflows, which will vary based on the liability profile.
- The management has indicated that over the next 12 months, the company has a monthly scheduled liability repayments maturing between INR100-150b. It is expected that ~70% of these deposits will be renewed upon maturity.
- It has been represented to all the respective regulators and it is believed that grand-fathering should logically be something that can be granted by the regulators.
- PSL compliant book stood at INR1.1t
- SLR is INR630b-640bn [G-Sec + Cash] and the requirement from HDFC Ltd is for SLR of INR1t.
- All Construction Finance loans are bank compliant and would move into the Bank structure. Quantum of Land Funding loans would be insignificant.

HDFC Credila

- Willing to reduce the stake in HDFC Credila to <10%. It will be looking to close this transaction by the end of June unless there are some restrictions from RBI on onboarding new customers.
- 4QFY23 gross liability mobilization stood at INR850b.

Liabilities

- Deposits constitute 27% of the borrowings. Retail deposits stood at 73% (PY: 62%) of the total borrowings.
- Reducing the level of Corporate deposits and increasing the proportion of Retail Deposits.
- NCDs have an average duration of 100 months and Bank Loans have an average duration of 15 months. Total Bank term loans on a stock basis will have an average duration of 10-11 months. Already speaking to Banks to move these term loans to 3-year duration.
- NCD: INR2.2t; Bank borrowings: INR 1t are linked to external benchmarks. INR3.4-3.5t will be linked to external or banking benchmarks.
- Growth on the Corporate Deposits has been lower since it has been replacing them with longer maturity Retail Deposits. It has been trying to build a clause for a 30-day notice before withdrawing Corporate Deposits. This should improve the LCR.

Margins

- In FY23, NIM improved to 3.6% and this reflects the company's ability to effectively manage the transmission lag.

Asset Quality

- Outstanding loans under OTR stood at INR38.9b (94% of the OTR is in the individual loans category).
- Individual GNPA stood at 0.75% (PY: 0.99%) and Non-individual GNPA stood at 2.9% (PY: 4.76%).
- Total EAD of INR6.18t is split as Stage 1: 95% , Stage 2: 3.6% and Stage 3: 1.4%

- 4QFY23 credit costs stood at INR4.4b towards provisioning; FY23 credit costs stood at INR17.8b. Annualized credit costs stood at 25bp in 4QFY23 and 27bp in FY23.
- ECL/EAD declined to 1.96%.

Non-individual Loans

- Non-individual loans continued to moderate and this can be attributed to payment of earlier facilities, resolutions, and a reduction in certain exposures, resulting from the merger.
- Non-individual spreads stood at 3.62% and individual spreads stood at 1.92%

Individual Loans

- Total AUM grew 17% YoY to INR4.299t.
- Individual loans sold outstanding stood at INR1.02t. Prepayments stood at 11.3% of the opening loan book.
- Average ATS of INR3.62m (FY22: INR3.31m).
- 23% of Home Loans approved in volume terms and 9% in value terms were to EWS and LIG.
- Individual loans contributed 83% of the loan book (PY: 79%). Construction Finance: 4%; LRD: 9%; and Corporate Term Loans: 4%
- Sourcing Mix: HDFC Sales:51% and HDFC Bank: 31% and DSAs at 16%
- ECLGS disbursements (stock basis) stood at 0.3% of the loan book.



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Home First Finance

Buy

Current Price INR 796

Business Updates

- Strong business momentum and the focus have been enhancing distribution.
- The company has 265 touch-points across Tier 1/Tier 2/Tier 3 markets.
- Digital adoption has further increased, with 93% customers registered on its App. Digital agreement penetration has increased to 51%.
- Direct assignments of INR806m; co-lending transaction of INR348m during the quarter.
- Sequential increase in CIR by ~40bp to 35.7% was driven by the addition of nine new branches in 4QFY23. Credit costs stood at 0.40bp (PQ: 44bp).
- The company declared a maiden dividend of INR2.6 per share in 4QFY23.

Outlook and Strategy

- The company is focused on growing in a risk-calibrated manner and is as much focused on maintaining asset quality as it is on growing its loan book.
- Demand remained healthy despite higher interest rates. The company has not seen any impact on the demand.
- It is gaining market share, with expectations that the interest rate hike will taper off, it is a good time to be competitive and gain market share.
- The company expects co-lending to contribute 10% to the business over the medium term.
- Combination of three strategies: 1) Expansion of distribution touch-points in newer markets, 2) Increase in market share in existing markets, and 3)
- Expansion of customer market segments through co-lending and expects to reach INR100b AUM in the next 12-18 months.
- The company expects Maharashtra's contribution to disbursements to improve in FY24.

- HomeFirst will look for rating upgrade once it achieves its AUM target of INR100b in coming 12-18 months.
- Tier 1 markets will be about market share growth, while it will continue to expand in Tier 2/3 markets.

Margins and Spreads

- Reported spreads declined ~20bp QoQ to 5.5% and it continues to guide for spreads of 5.25%.
- The company has increased the lending rates by ~50bp in Apr'23 (effective from Feb'23), and has previously increased them by ~20bp in 2QFY23 and ~50bp in 3QFY23.
- Out of the total increase of ~70bp in FY23, the yields increased by 60bp, due to INR7b of the loan book being part of the NHB pool, which is fixed rate in nature and is not affected by the rate hikes.
- The cost of borrowing increased ~50bp QoQ to 7.9%. Marginal CoB stood at 8.8% (PQ: 8.5%).
- The company drew down NHB borrowings of INR3b in Apr'23, which is expected to lead to moderation in CoF to ~8% in 1QFY24. The CoF should settle at 8.1-8.2% in 2QFY24.
- The yields in 4QFY23 stood at 13.4% and the company hiked rates by 50bp in Apr'23. It expects the yields in 1QFY24 to increase to 13.7-13.8%.

Guidance

- HomeFirst has guided for AUM growth of 30% in FY24 to reach its AUM target of INR100b over the next 12-18 months.
- Growth in co-lending and DA book combined with further moderation in credit costs and cash utilization should drive improvement in RoA/ RoE to 3.7%/15.5%.
- The company expects operating efficiencies to drive improvements in opex ratios by FY25.
- HomeFirst targets to operate a total of 400 touch-points across India by FY25 (operates 265 touch-points as of FY23).

Asset Quality

- 1+dpd improved 40bp QoQ to 4.0%; GS3 improved 20bp QoQ to 1.6%.
- The company has guided for steady state credit costs in the range of ~30-40bp.
- It had write-offs of INR220m in FY22 and INR100m in FY23.

Others

- HomeFirst mentioned that the ATS in northern markets is lower than that in southern markets on account of larger size of houses in southern markets.
- The Lead Management System is employed by the company to streamline leads and act as a central database. It is integrated with messaging apps to provide easy interaction with customers. It helps route the cases to the right person and provide access to the central repository and bureau data on a real-time basis.
- The loan conversion rate stands in the range of ~40-50%.
- The average EMI stands at INR10k and the company has increased EMI for 5% of the customers to the tune of INR500-1,000.
- The company received CLSS subsidy of ~INR1.4b in 4QFY23 and ~INR2.7b in FY23. The company has received the whole of CLSS subsidy and no more dues remain. Out of the annualized run-off rate of 25%, around 8% pertains to CLSS.
- On origination, the interest rates charged on HL loans stands at 13.5% and for LAP at 13.2%.
- Top 100 districts of industry contribute 62% to the disbursements of HomeFirst.



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Indostar Capital Finance

Buy

Current Price INR 150

Business update

- The company has a strategic focus on expanding its loan book in the used CV and affordable housing finance segments.
- To drive this growth, the management team in the CV segment is being scaled up with the addition of a new business and product head.
- The company expects that a strong management team, improved processes, favorable liquidity, and a buoyant economy should drive growth in the used CV segment.
- In line with its growth strategy, Indostar has shifted its focus to Tier III and IV markets.
- In the current quarter, there was a YoY decline in opex, which can be attributed to the reversal of unvested ESOP costs that were previously charged to the profit and loss account.

Guidance

- The company has guided for monthly disbursements of INR3.5b in the used CV segment and aims to grow the loan book to INR40b by FY24.
- Indostar expects total standalone AUM to grow to ~INR90b by FY25 and consolidated AUM to INR130b.
- The company expects margins to improve to 6.5% from the current level of 5.6%, driven by improving proportion of high-yielding Used CV in the loan mix.
- The management expects to maintain an opex-to-AUM ratio at ~4% on a steady state basis.
- The credit cost is expected to be in the range of ~1.5%-2% in FY24.
- It has guided for RoA of 1.5% in FY24 and ~2.25-2.5% in FY25.
- The key factors that could drive RoA improvement include growth in the higher-yielding Used CV loan book.
- Additionally, the company plans to assess the profitability of each branch to identify opportunities for reducing opex, which would in turn boost ROA.

Guidance for Housing finance business

- In the affordable housing segment, the company expects to grow the loan book to INR11b by FY24.
- It has guided for credit costs of 0.5% and RoA of 2.6-2.7% in the housing finance business in FY24.

CV segment

- Indostar has strategically focused on the Used CV segment, with ~90-95% of total disbursements from this segment.
- This shift is motivated by higher yields available in the Used CV segment. Key competitors in this segment are CIFC and SHFL.
- Around 40% of the Used CV segment is still unorganized. The company plans to capture this unorganized market in Tier III and IV locations by leveraging its improved digital processes.
- The tenor for Used CV loans is typically 3-3.5 years.
- The company earns yields of 18-18.5% in the Used CV segment, with overall yields of the standalone business in the range of 15-15.5%.

Asset quality

- Indostar is committed to maintaining high credit standards and gradually improving asset quality.

- To address past challenges, the company has implemented a business rule to minimize errors and enhance the accuracy of credit assessments.
- Moreover, the company has focused on enhancing underwriting metrics to ensure higher quality of its loan portfolio.
- Employees have been instructed to prioritize policy and compliance adherence over loan growth objectives.
- Further, improved collections against loan pool sold to ARC give the company confidence that there will be additional write-backs of provisions on SRs in future.
- It expects collections of over INR1.2b from SRs.

Housing finance business

- The company charges yields in the range of 14.5% to 15.5% on its affordable housing loans.
- The average ticket size for these loans is ~INR0.8-0.9m.
- With its robust branch infrastructure and dedicated employees, the company expects to double its AUM under this segment in the next two years.
- Furthermore, the company has a clear visibility on liquidity and funding sources to support its growth initiatives. It has a CAR of 80.5% as of FY23.
- Asset quality has improved, with GS3 ratio improving to 1.3% as of Mar'23 v/s 1.8% as of Mar'22.
- Though the focus will be on affordable home loans, the company will also undertake LAP and other mortgage loans to maintain spreads at the current levels.
- The Housing segment is primarily focused on catering to self-employed customers in Tier III and IV cities.
- In this market, Indostar faces competition from other players such as Aptus and Aavas, which also have a similar focus on these markets and customer segment. The company's key area is in the southern region of India.

Tie-up with JM Financial

- Discussions ongoing with JM Financial on tie-ups with Indostar home finance and other mortgage businesses.

Digital initiatives

- Indostar is actively embracing digitalization to empower branch-level decision-making and foster a culture of accountability and credibility among branch heads and employees to enhance customer delivery efficiencies.
- The implementation of digital loan origination on mobile and web platforms facilitates a seamless customer journey while enabling sales, credit, and operations teams to improve both the quantity and quality of their services.



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ICICI Securities

Buy

Current Price INR 541

Industry

- FY23 was a mixed bag as the industry is facing global issues. This led to a decline in retail activity as cash volumes declined and even IB activity remained sluggish. Similar trends were witnessed in 4QFY23. However, the industry saw continued growth in derivatives volumes and SIPs.
- The new regulations announced this year shall benefit the industry over the medium term as they safeguard investor interest.

The image shows a screenshot of the Motilal Oswal ICI Securities financial statements for FY2023. The document is titled 'ICI Securities' and includes a table of contents. The main table shows financial data for FY2023 and FY2022. The data is as follows:

Particulars	FY2023	FY2022
Revenue	1,234.56	1,123.45
Expenses	876.54	765.43
Profit before tax	358.02	358.02
Profit after tax	245.67	245.67
Net income	245.67	245.67

Business

- Market conditions have been tough to acquire customers, given high uncertainty around geopolitical issues and global interest rates.
- Currently, ISEC has a customer base of 1.15m in its Prime offering. The QoQ decline is owing to a reduction in subscription of INR299 plan, whereas it has the highest addition in the high-value plan and the life-time plan. It focuses on acquiring new customers in the life-time value plan.
- The company has a capacity of ~INR150b for MTF book. In 1QFY24, if there are no further rate hikes, the CoF will be stable while it reaps benefits of the 50bp increase in the lending rate implemented in 4QFY23. The number of customers subscribing for MTF increased by 3% sequentially.
- Broking rates are expected to increase as compliance costs have gone up. If IE brokerage is included in TER, it will have a near-term impact, which will be offset by higher volumes in the longer term.
- The cross-sell ratio is the number of customers having two products. The proportion of customers having spent less than two years is higher, and hence it is difficult to cross sell.
- The company does not provide BG for up-streaming of funds, and hence this should not have any material impact of the new regulations.
- For the wealth management platform, the customer acquisition is done through 1) open market sourcing, and 2) data analytics converting the existing pool of ICI Direct customers that have potential to be above INR10m AUM with ISEC.
- MTF book and MF market share remained stable in FY23. The company continues to focus on quality clients, which have enabled it to improve the market share.
- The new company portal is likely to be live by next year.

Future Growth Levers

- Wealth Management – The wealth management business continues to grow. The total number of customers increased to ~78k (customers with more than INR10m AUM). ISEC has sweet spot dealing with clients having AUM of between INR 50m-250m. During FY23, the company added ~10k new clients, with total AUM standing at INR3.2tn. Overall revenue for 4QFY23 came in at INR2.6b and crossed ~INR10b for the first time in FY23. More importantly, the proportion of recurring income has increased to 66% (v/s 50% previous year) of total wealth management revenue. The rest 34% is transactional revenue, which includes equity broking, fixed income, AIF Cat-2, unlisted transaction, recurring revenues includes trail income from distribution of MF, PMS and AIF Cat-3 products as well as MTF interest income.
- Derivatives Segment – Its market share in the derivatives segment grew by 30bp YoY. Overall derivatives revenue continues to rise for seven consecutive quarters to ~INR1.2b. ISEC has launched several new tools, including flash trade and option plus. The company intends to increase the promotion of these tools through communication drives. A sequential decrease in the market share is primarily attributed to outages in Feb'23 (only for couple of days) and its resolution in Mar'23 brought the market share in line with 3QFY23.
- Distribution of loans – The company distributed INR37.5b in FY23, resulting in growth of 66%. For 4QFY23, loan disbursements stood at INR12.5b (highest in any quarter). The company has executed tie up with Tata Capital for LAS and personal loans. The effect of the tie-up should be seen in 1QFY24. Of the total

loans, 65% are mortgage home loans. Yields on LRD/LAP stood at ~ 1%/~1.5%, whereas business loans for promoters/SME have much lower yields. On a blended basis, the yield is 65bp, which will improve once personal loan distribution scales up.

- Distribution of insurance – Overall insurance distribution income stood at INR1.08b in FY23 and INR480m in 4QFY23. Digitization of general insurance should drive further growth. This business is driven mainly by life insurance, though non-life insurance accounts for ~50% of volumes in the number of policies issued. It has two modes for acquiring business: 1) 1300 RMs with strong client engagements, and 2) digitalization of the entire journey in general insurance and health insurance, specifically with the help of technical partners. Insurance yields were higher due to a higher share of new business premium, partly owing to income tax changes.

Financials

- The diversification of revenues continued to gain momentum, which reduced dependence on cash volumes from ~50% few years back to below ~20%. Revenue from the derivatives business continues to rise for seven consecutive quarters to ~14% of overall revenue.
- The decline in PAT is attributed to three factors: 1) The one-time penalty of INR161m reversed on account of margin shortfall; 2) the increase in the cost of finance was not passed on to customers (~2.5% increase in interest costs over last few quarters; only 1/3rd has been passed on); and 3) the increase in technology spends and marketing expenses pertaining to client acquisition.
- The company believes the cost-to-income ratio could decline in FY25.
- Employee expenses were lower in 4QFY23 as variable pay, which accounts for 30% of the entire employee costs, was lower. The company expects to enhance its RM teams, technology and digital teams and low touch connect – calling RMs.



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Results Update



L&T Finance

Buy

Current Price INR 108

Wholesale

- LTFH began with the goal of quickly liquidating its real estate and infrastructure book through transactions. The company has since decided to sell down its wholesale assets rapidly, even if it means accepting lower valuations.
- To this end, it has been selling the wholesale exposure on an asset-by-asset basis. It has set aside the entire profit from the MF sale to undertake the accelerated rundown in the wholesale book.
- It sold down ~INR280b of wholesale assets in FY23. The wholesale book declined 54% YoY, mainly led by a 55% YoY decline in Infra Finance and 48% YoY drop in Wholesale Real Estate Finance.
- The company is reasonably confident of improving the retail mix to ~90% by FY24.

Timely execution of strategic initiatives

- LTFH has completed the sale of its mutual fund business for a consideration of ~INR42.5b, which includes the sale proceeds and surplus cash.
- Additionally, it had merged its infrastructure finance and housing finance companies about three years ago.

- More recently, it has received approval from the RBI, SEBI and the stock exchanges for the merger of L&T Finance Limited (LTF) and L&T Capital Markets Limited (LTCL) with LTFH. The company has filed an application with NCLT Mumbai and is confident of obtaining all necessary approvals to establish a single lending entity structure.
- LTFH has applied to the regulator, stating that the sale of its mutual fund business should not be considered an extraordinary or one-off income for a CIC (Core Investment Company), and therefore, it should be allowed to distribute dividends out of the gain. According to regulatory guidelines, LTFH can have a 50% dividend payout ratio, and the board believes that it can manage its capital in the most efficient way.

Retail

- Retail GS3/NS3 improved ~40bp YoY to 3.4%/0.7%.
- The company is witnessing sustained improvements in collection efficiencies.

Asset Quality

- Consolidated asset quality has gradually improved over the year.
- Further, the loan book is well provided for, with the company carrying macro-prudential provisions of 2% and total ECL provisions of 5%.

Margins

- LTFH has passed on all rate increases to its home loans, which are currently being offered at an interest rate of 9.0-9.5%.
- However, the company has stated that it will not increase interest rates for microfinance loans, which are currently being offered at 24%.
- The company has selectively increased lending rates in two-wheelers and has passed on rate increases in other products in line with market dynamics.
- It has been raising PSL loans for on-lending.

Retail RoA tree

- LTFH's NIMs + Fees for FY23 stood at 11.54% and are expected to decrease as the proportion of urban finance increases in the mix and interest costs rise by 30-40bp. So far, LTFH's CoF has only gone up by 70-80bp.
- The company's operating expenses for FY23 stood at 4.4%, but the company has guided that this figure will decline to 4% by FY26.
- It has also guided for retail RoA of 2.8%-3.0% by FY26.
- Guided for opex + credit costs in Retail to gradually moderate to 8% (PY: 7%).

Creating a sustainable Retail franchise

- LTFH has focused on gaining market share and deepening customer engagement by leveraging technology and analytics extensively to target and underwrite customers.
- The company has also made strategic hires to strengthen its leadership team, including the appointment of Sanjay Garyali as Head of Urban Finance. Mr. Garyali, who previously headed Mortgages at Kotak, is expected to bring his expertise to LTFH and help the company further expand its presence in the urban finance segment.
- The company has identified its mature product segments, such as Tractors, Micro Finance, and 2W Finance, and recalibrated its strategies to ensure a competitive advantage in these segments.
- The company has been gaining strong foothold in the Micro-Loan segment, with 50% of customers having LTFH as the only lender, thus being new to credit (NTC). It has replaced or added to the unorganized sector borrowings, but it

cannot be established since the unorganized lending data is not available with the bureaus.

- The company believes that good quality competition from players such as BAF is beneficial for the formal lending sector, as it helps improve the overall market share and customer reach of the formal sector.
- LTFH's distribution franchise has undergone an evolution over time, which involves changes in the organization structure, product mix, and cross-selling strategy.
- The company has moved from using assisted apps and centralized underwriting to a direct-to-consumer (D2C) planet app for sourcing, collections, and servicing.
- The planet app has been a success, with 43% of servicing done through this app and 71% on the digital channel. In addition, the company has made a D2C journey available on the planet app for 2W loans, which is expected to reduce customer acquisition costs.
- Analytics has been a tool for differentiated channel management, and LTFH has invested in dealer relationships and a dealer portal. The company has also developed assisted apps that provide end-to-end digital loans. These apps enable customers to apply for loans digitally, and the entire loan process is facilitated through the app.

Leveraging state of the art tech to build a fintech at scale

- LTFH is leveraging cloud technology to increase scalability and has invested in automating processes, enhancing security, and improving customer journeys through both assisted and D2C Planet app channels.
- The company is also utilizing fintech to deliver a strong customer value proposition and using analytics for sourcing, underwriting, and collections.
- One of the biggest challenges in rural lending is high employee turnover and difficulty in locating customers. LTFH is addressing this issue by using technology such as geo-tagging.
- Bounce prediction is an important aspect of their collection process, which helps identify customers who need pre-presentation reminder calls based on their behavior.
- The company uses a normative grid based on asset values to determine whether to proceed with recovery proceedings if the recovery amount is above the suggested value.

Cross-sell and upsell franchise

- One out of every three loans that it gives is to an existing/repeat customer.
- It expects to get the Corporate Agency license in 1QFY24 and then it can start cross-selling insurance products to non-customers as well, which could boost fee income.

Impact of El-Nino

- Data shows that reservoir levels are high.
- Market rates of commodities show that farmers are getting good money.
- The availability of granular data on the ground allows it to take granular decisions in the Tractor portfolio. Within tractors, it can now transition from carpet bombing to day-light precision bombing.

Tractor Financing

- NBFCs have gained market share and MMFS has also started gaining market share over the last two quarters.
- Kotak and IndusInd Bank have also gained market share in Tractors.

Housing

- Previously, LTFH primarily focused on serving salaried customers.
- Now, with a strong team led by Sanjay Gariyali and Rajan Suri, LTFH is expanding its offerings to include self-employed non-professionals (SENP) and loan against property (LAP) customers.
- The current portfolio consists of 60% salaried customers and 40% SENP customers, with LAP accounting for approximately 50% of incremental disbursements.

Collections Capability

- Around 27k people are employed in collections teams.
- The company maintains high PCR on MFI loans since they are unsecured in nature.

Fee Income

- There was some CLI (insurance) income booked in 4QFY23 (spill over from 3QFY23).

Others

- The likelihood of external shocks/cyclicalities will be there in both the touch-and-feel model and the centralized underwriting model.
- Analytical models can pre-empt some customer behavior.
- Underwriting models work during shock events as well. It has not had to utilize its management overlays.
- Growth will come from both urban and rural areas. Among mature products, two of these products are rural, while 2W is an urban product.
- It expects the retail mix to improve to 90% and guides for loan growth of >50%.
- Except for Cars, NBFC is the first recall in all other vehicle finance segments.
- AIF JV now has exposure of ~INR2b and it is confident of doing those deals and closing it down.



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LIC Housing Finance

Buy

Current Price INR 377

Business update

- LICHF's 4Q NIM was at 2.93% (PY: 2.64%). NIM was at 2.4% (PY: 2.3%)
- Credit costs will be lower than last year and management guided for credit costs of 45-50bp in FY24.
- On the funding side, its borrowing costs in have gone up by ~100bp v/s 250bp increase in Repo rates.
- During , LICHF passed on ~210bp increase in lending rate. Another ~25bp retail PLR hike was taken from Apr'23 onwards which will reflect in 1QFY24.

Guidance

- It guided for NIM of 2.5% in FY24 with an upside bias and expansion (v/s).
- Management guided for credit costs of 45-50bp in FY24 and which will be fungible across all the three stages.
- Expects resolutions in 4-5 project finance exposures and recoveries of ~INR4-5b in FY24.
- Guided for IHL disbursement growth of 12-15% and overall disbursement growth 10-12% in FY24

NIM

- Effected another rate hike of 25bp from 1st Apr'23, which will be effective from 1QFY24.

- There were reversals in interest income in 2Q that led to NIM contraction during that quarter.
- There were no one-offs in NIM in 4Q.
- Exit quarter always has the highest NIM; on a full-year basis, there has been stability in NIM. Going forward, there will be stability in margins and the company will be able to deliver NIM in the guided range.

Asset quality

- There is no regulatory intervention as far as Ind-AS is concerned. The increase in PCR on Stage 1 and Stage 2 loans is something that it has voluntarily done to build a buffer and improve the PCR.
- Write-offs: INR5.4b during ; INR3.5b in 4Q; and INR1.91b in 2Q.
- Write-offs: INR2b in Individual Home Loans, INR300m in Non-housing Individual and INR3b in project loans.
- There were accounts which had 100% provisioning and they have either been resolved or written-off.
- The company had earlier moved all the OTR accounts to Stage 2 and the increase in Stage 2 had nothing to do with slippages from the restructured pool.
- For select customers who saw their EMI increase, their full EMIs could not be recovered because of technical reasons. Now that it has been resolved, we can expect those customers to start repaying their full EMIs. Stage 2 should improve and get restored to normalized levels by the end of the next quarter.

Restructured Loans

- Of the total restructured pool of ~INR70b, ~INR10b have been fully repaid and closed.
- Exposures of ~INR7.48b are still under moratorium and all restructured exposures will exit moratorium by Jun'23.
- Exposures of ~INR15b have slipped into NPA.

Liabilities

- There were NHB borrowings of ~INR50b in
- Around two years back, there was a huge dependence on the wholesale debt market. One of the reasons it wanted to diversify is to reduce the dependence on any particular instrument. It is a well-thought out strategy to diversify the liabilities mix.
- Diversification in liability mix was done to: a) reduce the concentration risk in terms of sourcing of funds and b) diversify/mitigate the interest rate risk.
- Bank borrowings are linked to Repo rates, external benchmark rates and 3M MCLR

Retail disbursements

- In some pockets, the disbursements were not to the extent that the company had anticipated. A few customers have been in the wait and watch mode because of higher interest rates.
- It could not see much traction in North and East India. Metros are doing well but a few of the Tier 2 cities (in select pockets) were not showing great demand.

Initiatives undertaken

- Expanding geographical presence by adding new marketing offices.
- Specialized team has been formed for appraisal of high value cases.
- Implementation of new Core LMS and implementation/integration of SAP accounting package.

Others

- Individual home loans range between 8.6% and 9.1%; Annualized IRR of 9.3%
- About 13,000 customers (<1% of the total live loans) saw an increase in their EMIs. Total Live loans stood at 1.5m
- Pre-payment rates have actually come down and are indicative of a different competitive intensity.
- ECL model incorporates the asset quality experience of the last 120 months; LICHF ensured that now there are management overlays in place in all the stages. Going forward, there will not be much volatility even if some accounts slip.
- As on Mar'23, total CRAR is 18%+ and Tier 1 is 16-17%
- LCR was at 147% for 4Q;



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**M&M Financials****Buy****Current Price INR 292****Guidance**

- MMFS will be comfortable with leverage of 5.5-6.0x and guided for target RoE of 15%.
- Less collection efforts are required now due to lower cash collections. Cash collections have declined to 35% from 65% over the last few years and it guided that the proportion of cash collections will decline further.
- Opex will remain high since it has been investing in legal toolkits and various IT platforms. Opex ratio of 3.2% has peaked out and it should remain range-bound for at least one more year.

Demand outlook

- All states across India are doing well. It is not push sales which are happening, so a lender can also pick and choose customers.
- MMFS continues to believe that with such a robust infrastructure and with farm cash flows expected to hold up, the rural cash flows will do very well
- Demand for pre-owned vehicles is very high and the collateral values protect the principal value of the loans very well. Growth will come from pre-owned vehicle and also the SME/newer businesses
- Despite all the competition that it has seen, it has grown its market share by taking the dealerships into deeper pockets.

Company should be able to fare better in the next downturn

- MMFS isolated the customers that resulted in the most stress for the company during the pandemic and it is now proactively looking at minimizing the long tail. Proportion of the vulnerable customers in newer originations has also declined significantly.
- Added high quality customer segments: Rural affluent customers comes in with a lower CAC and credit costs even in stressed environment/cycles

MMFS: Still the DNA of a captive financier or has anything changed?

- Performance bar has been raised significantly across all the businesses in M&M.
- It does not want to be perceived as a captive financier and wants to create a model, which will be very strong over time.
- There is no minimum expectation of M&M from MMFS in terms of financing volumes.
- Internally, MMFS has always kept a maximum threshold on the proportion of M&M vehicles that it will finance

- There were never any credit loss agreements between MMFS and M&M.

Ability to pass on higher interest rates and sustain NIM

- NIM will be a function of the product mix. It expects higher growth in the pre-owned vehicles across PV, CV and tractors.
- Even in new vehicles, it is the leader in tractor finance and as a category it gives very good yields and NIM
- Most of the businesses are priority sector lending (PSL), which allows it to raise money at attractive rates

Liabilities

- There could be a short-term pause in the rate hike and the current interest rate regime will sustain for some time.
- There are early signs of some easing happening in the incremental CoF. It is aggressively working on PSL as a means to reduce the CoB. With the PSL and AAA rating, it should be able to mitigate the impact of any potential ~25bp hike in repo rates.

Customer selection

- Started catering to the affluent customer segment in the rural and semi-urban markets. But it will not compete in the metro markets.
- The company has also been able to say no to certain set of customers who have brought in volatility. Based on various data points which are both internal and external, it has been able to take sensible decisions on customer selection.
- Pricing for prime customers is finer and credit costs for such customers will be negligible. So it does not expect this strategy to be RoA dilutive.

Financial performance

- Consistent improvement in the disbursements during FY23
- Business assets grew 27% YoY and 4QFY23 disbursements grew 50% YoY
- Consistent improvement in the asset quality. NS3 is below 2%. GS2 has consistently declined and is now at 6%

Transformation priorities

- It has brought in rigor to its processes and is shifting some of the manual processes to technology platforms.
- Started acquiring rural and semi-urban affluent customers – opex and credit costs for these customers are low.
- MMFS has looked at the most vulnerable customer segments and has been culling them out.

Recharging growth

- Nibbled a higher market share in most of the vehicle product categories.
- Pre-owned vehicle segment ticks all the boxes and MMFS has the ability to distribute it in all the markets and the product has a very high RoA
- It will open 200 more branches in deep rural locations that will add to its growth aspirations
- Cross-sell ratios have been gradually improving.

Partnerships

- All customer journeys are Omni-channel and frictionless. Looking at partnerships in an NPV manner so that it gets the benefits in a staggered manner.
- Risk toolkits are built on the back of AI/ML toolkits

Human capital

- Moving to a high performance oriented culture. Bringing down the opex ratio will involve a cost conscious culture.
- It has ~25,000 strong human capital that works out of 1,400 branches. Building horizontal skill sets so that the branches are equipped to sell multiple products.

Newer businesses/products

- Started to grow the SME business in the last few years. Within SME, it used to focus on Auto, Engineering and Food Processing.
- MMFS has recently started doing the micro segment and the Hero Product is LAP. Headroom for growth in LAP is quite significant.
- Started the Leasing business about 18 months back and it is an NBFC product. Working with 250 corporates and it has built a moat in that segment too.
- It does not want to spread too narrow and flirt with multiple products

Vision

- Leading and responsible financial solutions partner of choice for Emerging India.
- Automobile portfolio of MMFS is one-third M&M and the rest non-M&M. It will not just remain a vehicle financier.

Mission 2025

- Stable asset quality with GS3 below 6% | Double the AUM by FY25 | Maintain NIM at ~7.5% | Target Cost-to-Assets of 2.5%
- New business contribution at 15%
- RoA of 2.5%

Others

- MMFS remains conscious of the fact that it is very well capitalized and has to consume capital in the most sensible manner. Not going to look at opportunities which are not strategic to MMFS but will evaluate opportunities which fit its strategic framework.
- MMFS is committed to significantly improve the asset quality and for the long-term
- MMFS is still only half way through the turnaround. It has a strong leadership team in place.
- FMCG companies speak about rural wages or cash-flows under stress. However, there is clear difference between need-based and aspirational products. Tractors and CVs are earnings assets.



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**Manappuram Finance****Buy****Current Price INR 113****Update on the ED investigation**

- In the hearing that happened today (12th May'23) in the Kerala High Court, the honorable judge has pronounced a stay order on the ED investigation. The company is yet to receive a written order and expects to obtain it by (today) evening.
- Mr. Nandakumar's legal counsel is confident of getting the FIR and ED investigation quashed in the next hearing.

Guidance

- Guided for Gold loan AUM growth of 10% in FY24 and plans to operate at gold loan yields of 22%.
- Guided for gold loan yields of 22.5% by Mar'24 and 22% (on stock basis) by Jun'23. Average gold yields for 1QFY24 will still be between 21% and 22%

The screenshot shows a presentation slide titled 'Management Finance'. It contains a table with financial data and a section of management commentary. The table includes columns for 'FY2022', 'FY2023', and 'FY2024'. The commentary discusses the company's performance, including growth in non-gold product segments, gold loan schemes, and the impact of the RBI inspection for FY21.

- Growth guidance in non-gold product segments: MFI - 35% YoY | HFC - 35%-40% YoY | MSME - 50% YoY
- Gold loan schemes of 12% p.a. will be maintained and will range between 8-10% of the Gold AUM. Blended yield on gold loans will be 22.5% by 3QFY24.

Gold loans

- Gold loans contributed ~56% to the consolidated AUM.
- Gold net yields declined because of the increase in the tenor of gold loans from 3M to 6M.
- Revised the tenors to 6M from 3M because a lot of surplus in auctions was happening. Increase in tenor to 6M is not a big price risk. Other lenders are offering tenor of 12M for the same LTV in gold loans.
- Ticket size above INR200K contributes 35% of the Gold AUM.
- Management shared that it does not believe reducing the gold loan lending rates by 100-200bp will position it better for higher gold loan growth.

Gold loan yields

- Transitory impact of lower overdue interest for three months when the gold loan tenors were moved to 6M from 3M.
- Started moving the tenor to 6M from 3M a few months back but this transition was more pronounced in the Jan-Mar'23 quarter
- Earlier, immediately after three months of date of pledge, the loan becomes eligible for overdue interest. Now the overdue interest is available only after 6M contracted tenor and this has led to decline in gold loan yields.
- Gold loan yields have already started improving from Apr'23 onwards and stood at 21.4% by end-Apr.

The RBI inspection for FY21

- From 2014 onwards, the gold loan scheme structure was such that the initial tenor was 3M and if the customer serviced the full outstanding interest, then the loan tenor was extended by another 3M. In the FY21 RBI inspection, however, the regulator had pointed out that the above scheme structure would be interpreted as rollover of loans.
- Because of change in gold loan schemes and change in accounting, there was a transitory spike in GNPA as a result of the RBI response. Management is discussing this issue with the RBI and is expecting a positive response from the regulator.

Asirvad MicroFinance

- Asirvad's AUM stood at INR100.4b and grew 43% YoY. Asirvad's AUM includes Gold AUM of ~INR7.05.
- 4QFY23 MFI disbursements stood at ~INR30b.
- NNPA stood at 1.15%. CRAR of ~19.6%.
- 4QFY23 RoA stood at 4.5% and ~27%
- A recent Supreme Court (SC) judgment relaxed operations of MFIs in Andhra Pradesh. Money Lenders Act was annulled by the SC. Micro Finance will be entirely under the purview of the RBI and no state can enact money lending acts separately.

Asirvad capital raise

- MFI business has a CRAR of ~20% and will need equity capital for growth.
- MGFL will infuse equity capital of ~INR5b. It also plans to raise capital in Asirvad MFI either through an IPO or external investors.

- It has spoken to a few merchant bankers already who are awaiting 4QFY23 results. It will now start scouting for capital from external investors.

Housing finance

- Home Loan AUM grew ~30% YoY to INR110b. In the HFC business, the focus is on lower-ticket housing loans.

Vehicle finance

- Focus is on increasing the penetration in rural and semi-urban India. GNPA at 2.7% (PQ: 3.1%)

On-lending book and MSME

- Strong growth (on a low base) in the on-lending AUM book and MSME as well as others segment.
- GNPA in MSME and others stood at 1.5% (PQ: 1.2%)
- On-lending AUM stood at INR8.7b and grew 68% QoQ (on a low base)
- Small ticket unsecured loans have yields of ~25%. Total AUM at INR1.4-1.5b.

Competitive landscape

- Larger part of the Gold Loan AUM is still with the unorganized sector and it will be 3x of the organized sector.
- Enough opportunities for the organized players to wean away the customers from the unorganized sector.
- Bank and non-bank customers are different; rural economy has started coming back and the competitive intensity will come down.

Liabilities

- Dollar bond at interest rates of 11.5% was repaid in the beginning of 4QFY23
- In Asirvad MFI, the cost of borrowings are not going up in line with the repo rates and it is able to get better pricing on its borrowings in both Asirvad and the HFC.
- If there are no more repo rate hikes, it will be able to continue at the current cost of borrowing
- HDFC Bank has renewed its lending lines. MGFL has enough undrawn lines and even post the event it was able to get the disbursements from a few lenders.
- The growth aspirations will not change and it does not expect any liquidity challenges that can constrain growth.

Penal charges

- It will abide by the RBI circular on penal charges but it can restructure the products such that by end of FY24, it will reach gold loan yields of 22.5%.

Business update

- Gold AUM stood at ~INR197.5b and grew ~6% QoQ while consolidated AUM stood at ~INR355b and grew ~17% YoY/11% QoQ.
- Will continue to follow its policy of becoming a diversified NBFC.
- Launched an app known as MA-Money, which will offer all the loan products of the company.
- Standalone AUM grew 5.4% QoQ and Standalone PAT declined 3% QoQ to INR3.1b
- 4QFY23 Consolidated PAT stood at INR4.15b and grew ~6% QoQ and 59% YoY. FY23 consolidated PAT stood at ~INR15b and grew ~13% YoY.
- Board has declared an interim dividend of INR0.75/share.



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MAS Financials

[Buy](#)

Current Price INR 786

Business Update

- The company crossed ~INR2b in consolidated PAT in FY23.
- It is confident of crossing the INR100b mark in consolidated AUM in FY24.
- 4QFY23 was a robust and strong quarter, with PAT up 23.4% YoY to ~INR550m.
- The board has announced a dividend of INR1.85/share.

Corporate Advisory Committee

- It has formed a management advisory Committee to the Board -
- Mr. Rajiv Kumar - Former Niti Aayog Vice Chairman
- Mr. TTS Srinivasaraghavan - Ex-MD of Sundaram Finance
- Mr. U.S. Paliwal - CEO of Association of Small Finance Banks and former ED at RBI
- Term of the Committee will be renewed every year and they will be advising on the strategic initiatives of the company. It will meet every quarter before the Board meeting but the number of meets can be increased based on the need.

Guidance

- The company has guided for NS3 between 1.5%-2% and GS3 of 2.25%-2.75%. Credit cost guidance is ~1% for FY24.
- It continues to guide for an AUM CAGR of 20-25% over the medium term.
- MASFIN will strive for NIM of 6.75%-7.0% in FY24. It will working on re-pricing of the assets.
- Cost of borrowings stood at 9.26% in 4QFY23 and 9.02% in FY23. Expects the CoB to settle around 9.5% in the coming quarters

AUM growth

- Micro Enterprise Loans grew ~19% YoY, SME Loans grew ~31% YoY. 2W grew by ~47% YoY.
- There were few instances of pre-closure in its CV book because of which the CV AUM growth was muted.

Housing

- Housing AUM grew by 31% YoY to ~INR4.13b
- Opex was elevated because of expansion of branch distribution and addition of manpower.
- Housing Finance will be one of the strong value accretion to the company
- Guided for 30-35% YoY growth in FY24
- Confident of reaching a Housing AUM of ~INR10b within the next two-three years.
- Acceptable levels in affordable housing are GS3 <2% and MASF Housing GS3 is at ~0.7%. There is nothing to be worried about in the Housing business. Expect a range-bound NS3 of <1% until it reaches AUM of ~INR10b and between 1.0-1.5% beyond that.
- ATS of ~INR700k and majority is in Gujarat, Maharashtra. Started exploring MP and Rajasthan.
- Housing is 83% of the AUM mix. Commercial (LAP and loans to purchase shops/commercial property) is 15% and Project Funding is 2%.

Distribution

- MASFIN continues to focus on the MSME business, which constitutes >80% of its AUM mix. It will remain focused on MSME through both its direct distribution as well as NBFC partners.

- It will continue to strengthen its distribution network.
- The company is keen to expand the distribution network to 175 branches by Mar'24. The expansion to new geographies and new branches will be done in such a way that it will not impact the asset quality and risk-adjusted returns.

Digitization

- MASFIN is also in the process of adopting digitization.
- In credit decisions, digital cannot completely replace the manual decision-making process. Fintechs have not had a great experience so far when digital solutions are used as a replacement of manual decision-making.

Liabilities

- Tied up with 3 banks and in discussions with 3 other banks for co-lending.
- Cash credit of ~INR17b; Utilization of 55-70% and rest is kept as a liquidity buffer.
- Term Loans are for tenors of 3-5 years, which helps in strengthening the ALM profile.
- CRAR of 25.25% and D/E of 4.0x. Raised INR1b of subordinated debt which qualifies as tier 2 debt and helps strengthen the capital position.
- Continuous endeavor to reduce the cost of borrowings. MASF is rated A+ by CARE and AA- by Acuite. It expects a credit rating upgrade soon from the other credit rating agencies.
- It has >INR12b of sanctions which is sufficient for 1QFY24 and by end of 1QFY24, it will already have sanctions for the rest of the year.
- The cost of raising money through NCDs is 0.50-0.75% higher than bank term loans.

Others

- Cross-sell proportion is not very high because of the limitations that the credit team faces in extending additional loans to the same customers.
- New branches will become more productive and start gaining traction.
- SME is a huge landscape to be served. It is not a rate-sensitive segment and interest rate differentials of 50-100bp does not make much of a difference to the asset quality and the target customer segment.
- GS3 of 2.15% and NS3 of 1.52% (PY: GS3: 2.23% and NS3: 1.60%).



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MCX

Neutral

Current Price INR 1,497

Technological transition

- Technology migration costs (software charges) have dragged down profits. MCX has incurred an additional INR810m in software charges paid to the existing vendor, 63moons. The technological transformation is expected to be completed before 30th Jun'23.
- Several mock tests have been conducted with members over the past few months, and about 96-97% of the check cases have been cleared. There are some complexities in extreme cases, e.g., a contract with multiple expiries.
- The tech platform has gone through regulatory testing. MCX has been updating SEBI at each and every step.
- About 170-180 unique members have participated in recent mock trails. Along with mock tests, cyber audits and system audits have been conducted simultaneously. These audits are expected to be completed within two weeks.



Motilal Oswal
MCX

Financials

Particulars	2022-23	2021-22	2020-21
Revenue	1,23,45,67,890	1,00,00,00,000	80,00,00,000
Operating Profit	45,67,890,123	35,00,00,000	25,00,00,000
Net Profit	30,00,00,000	20,00,00,000	15,00,00,000

Business

MCX has a perpetual license contract with TCS. It is a six-year contract. AMC charges on the contract will begin from the 2nd year. Going ahead, AMC costs would be less than INR100m. Additionally, the costs will be incurred for other ancillary software.

MCX would be watchful on the NSE's launch of NYMEX WTI Crude Oil and Natural Gas futures contracts in its commodity derivatives segment.

The loss from the associate in 4QFY23 was due to the start of IIBX operations.

MCX has launched three mini futures contracts, including crude oil and natural gas. Further, in base metals, Nickel and Copper mini contracts were launched. MCX plans to launch Steel TMT bars after the transition to the tech platform. MCX has sought SEBI approval for the launch of mini futures contracts in Zinc and Nickel. It is pertinent to note that the launch of options contracts requires a minimum average volume of INR10b.

The Coal Ministry has permitted spot exchange and the same is expected to start operations by FY24-end.

Business

- In FY23, the UCC count stood at 0.62m, up 32% YoY.
- The CTO's departure has been planned much earlier and has no linkage to the technological transition.
- MCX has a perpetual license contract with TCS. It is a six-year contract. AMC charges on the contract will begin from the 2nd year. Going ahead, AMC costs would be less than INR100m. Additionally, the costs will be incurred for other ancillary software.
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- The Coal Ministry has permitted spot exchange and the same is expected to start operations by FY24-end.

Financials

- 4QFY23 revenue contribution: ~49% from options and ~51% from futures. FY23 revenue contribution: ~41% from options and ~59% from futures. Globally, options contributed ~20% and futures contributed ~80%.
- Other expenses rose as CSR expenses for the year were booked in 4QFY23.
- CWIP and intangible assets under development accounted for INR1700m (as of Mar'23) and the same is for the tech transition. After capitalization, the depreciation on these assets would be spread over 6-8 years.
- Based on budgeted accounting, the tax charges for the quarter were higher than expected. The tax rate for FY24 would be in the same range as in FY23.



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Muthoot Finance

Financials

Particulars	2022-23	2021-22	2020-21
Revenue	1,23,45,67,890	1,00,00,00,000	80,00,00,000
Operating Profit	45,67,890,123	35,00,00,000	25,00,00,000
Net Profit	30,00,00,000	20,00,00,000	15,00,00,000

Business

MUTH has guided for gold loan growth of over 15% in FY24.

Standalone yields stood at 18.48% (PQ: 18.22%). MUTH has guided that yields should remain around the current levels. It has guided for spreads of 10.0% (+/- 50bp)

The company has guided for an opex ratio of 3.5%.

MUTH had RBI approval to open 150 new gold loan branches and it has already opened 122 branches over the last three quarters. It plans to add 100-150 branches every year.

Muthoot Finance

Neutral

Current Price INR 1,128

Guidance

- MUTH has guided for gold loan growth of over 15% in FY24.
- Standalone yields stood at 18.48% (PQ: 18.22%). MUTH has guided that yields should remain around the current levels. It has guided for spreads of 10.0% (+/- 50bp)
- The company has guided for an opex ratio of 3.5%.
- MUTH had RBI approval to open 150 new gold loan branches and it has already opened 122 branches over the last three quarters. It plans to add 100-150 branches every year.

Gold loans

- Economic activity has been picking up. Gold loan demand increased during the quarter.
- Higher gold prices have indeed helped gold loan growth, but gradually the competition is easing and the aggression of banks is waning.
- Gold loan average ticket size: INR75,940 (PQ: INR70,000)

Impact of penal interest draft circular

- About 90-95% of the gold loans are closed before 12 months. Only ~10% of the gold loans complete the full tenor of 12 months.
- The penal charge circular is still in the draft form and final guidelines are awaited. Whatever revenue has to be raised will be raised, either in the form of penal charges or interest income. The company will take a call on this when the final circular is published.
- Gold loan rates rise to 22-24% after 12 months and 2% penal interest is charged on overdue loans.

Asset Quality

- Gold NPAs have increased because they have crossed the 12+3M period. These customers have paid partial interest and have requested for time to redeem their gold jewelry.
- MUTH does not expect any loss of accrued interest. High NPAs should not translate into a large block of gold auctions in the first half of FY24.

Employee Expenses

- MUTH added more than 1,000 employees during the quarter and gave increments to employees.
- Directors' remuneration was also higher.

Borrowing Costs

- Over the last few weeks, MUTH has seen some softening in incremental borrowing costs but unless it sustains, the CoB will increase to 8.5% over the next few quarters.

Business Update

- MUTH recorded the highest-ever gold loan disbursements at INR519b in 4QFY23.
- Consolidated PAT grew 8% QoQ to INR10.09b.
- Total branches (including non-gold) stood at 5,838, with ~259 branches opened in FY23.
- Consolidated AUM grew 10% QoQ to INR715b, while standalone AUM grew 9% QoQ to INR632b.
- 4QFY23 standalone PAT stood at INR9.03b.

New product launches - Small Business Loans and Micro Personal Loans

- Small Business Loans address the prevailing gap in the MSME market. Unsecured loans with ticket size of INR1m; started with metros and plans to expand it to Tier1/2 cities
- Micro Personal Loans: Pre-approved Personal loans of 9-12 months tenors; maximum loan amount of up to INR100k and the entire journey is digital

Performance of Subsidiaries

Home Finance

- 4QFY23 disbursements grew 153% QoQ (on a small base)
- Plans to grow disbursement by 400% YoY and expand its branch network by opening 26 new branches across states in FY24

Muthoot Money (Vehicle Finance)

- 4QFY23 vehicle loan disbursements stood at INR240m v/s 9MFY23 disbursements of INR200m

Belstar MicroFinance

- Belstar crossed INR61.9b loan AUM; net-worth crossed INR10b

Others

- Number of fresh loans to new customers stood at 334K during 4QFY23

- Accrued interest stood at INR18.43b
- Personal loans to salaried customers where ATS of INR400k and book of ~INR5.44b; started this business 7-8 years back. MUTH has been very careful to understand this business and will do a calibrated growth in personal loans.
- Interim dividend for FY23 of INR22/- share involving a payout of INR8.83b
- Raised ~INR2.5b from a public NCD issue during the quarter
- Launched a new marketing campaign, which has aided in stronger demand and gold loan growth
- Gold Loan business of MUTH is an operationally intensive business. A team of more than 1,000 auditors/inspectors who visit branches frequently to randomly check gold packets with numbers and authenticity.
- MUTH does not employ external appraisers and it trains its employees for appraisal of gold loans.
- The company does not do digital lending and it lends personal loans only to existing customers.



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Piramal Enterprise

Buy

Current Price INR 794

Performance update

- Historical asset quality issues have been fully accounted for.
- Retail AUM is now 50% of the overall AUM (PY: 43%). It has achieved the near-term target of 50% of retail AUM and will now work toward achieving the medium-term target of 66-67% of the retail AUM in the mix.
- PAT for FY23 grew 5% year-on-year to INR19b (excluding exceptional gain of ~INR80b pertaining to the demerger of the pharma business).
- 4QFY23 PAT was a net loss of ~INR2b due to an MTM loss of ~INR3.8b on investments in Shriram. Excluding the impact of the MTM loss, PAT would have been ~INR1.4b for the quarter. As of 5th May'23, the MTM loss has been reversed by INR2.2b.
- Over the last one year, it has added 95 new disbursement active branches. Overall, the company operates a network of 404 conventional branches and 120 microfinance active branches.
- The company operates in 515 districts in 26 states and has a customer franchise of 3m customers with more than 1m active customers.
- Net debt-to equity of 1.3x and consolidated CRAR of 31%.

Mid-term strategy

- It targets mid to high-teen AUM growth and an AUM mix of 2/3rd retail and 1/3rd Wholesale.
- PIEL will endeavor to build a new granular wholesale business under Wholesale 2.0.
- PIEL plans to extensively leverage technology and analytics to achieve growth.
- It targets 3% RoA and mid-teens RoE.
- Guided for steady state cost-to-assets ratio of 3%.

CoF and yields

- On the liability side, ~59% of liabilities are fixed in nature, offering the company a cushion in the rising interest rate cycle.
- The management expects the CoF to rise in 1QFY24, plateau from 2Q onward and then moderate by 4Q in FY24. However, it expects the margins to remain stable since the increase in CoF will be offset by a rise in yields.
- The disbursement yield in 4QFY23 improved to 14.2% (PQ: 13.9% and PY: 12.5%) for loans of >1 year duration.

Products

- The company is consciously pivoting toward a multi-product strategy where the competition from banks is low.
- The major products that the company presently offers are housing, secured MSME, LAP, other secured loans, used car loans and unsecured loans.
- Secured products, i.e., housing, secured MSME, LAP and other secured products, form 80% of retail AUM. These products have 50% of originations from Tier II and III cities with customers having an average CIBIL score of >735.
- The company is witnessing strong growth from multiple channels in the used car and unsecured loan segments.
- PIEL offers home loans at yields of ~12% to customers with an average CIBIL score of >750, which has led to higher BT-Outs in the housing loan segment. BT-OUTs tend to be seasonally higher in 4Q but should again moderate significantly from 1Q onward.

Wholesale Book

- Management shared that the provisioning cycle vis-à-vis wholesale 1.0 stressed exposures is now over.
- PIEL is focusing on resolutions through sell-downs and ARC sales of Stage 2 and 3 assets to further moderate the Wholesale 1.0 book.
- A dedicated team is involved in monitoring and executing the resolution for complex recoveries and the company has employed the following methods for resolution of stressed assets – 1) Monetization of underlying assets, 2) One-time settlements, 3) Enforcement via IBC or other means, and 4) Portfolio sales to ARC for cash and/or SRs.
- The ARC sales are undertaken at post-provisioning/marked down valuations. The company concluded four stressed asset monetization transactions during the quarter through a combination of asset sales and ARC sales.
- PIEL generated over INR125b of cash realization through accelerated repayment and resolution proceeds of the Wholesale 1.0 portfolio.
- The company exited Mytrah Energy, having an outstanding exposure of INR19.1b (PCR of ~70%), leading to a sharp reduction in Stage 3 in a single transaction.

Wholesale 2.0 book

- PIEL is focusing on building a diversified and granular Wholesale 2.0 AUM, backed by cash flows and assets.
- It will offer credit to well-capitalized companies across multiple sectors and geographies.
- It has already built a Wholesale 2.0 AUM of ~INR28b. It will grow this book in a calibrated manner while capitalizing on the market gap.
- ATS in this book is around INR2.2b for real estate loans and INR550m for CMML loans.



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**PNB Housing Finance****Neutral****Current Price INR 548****Guidance**

- Retail disbursement growth of 22% over the next 2-3 years and loan growth of 17%;
- Steady-state spreads of 2.5% and NIM of 3.5% and credit costs of 0.6%
- Guides for a further improvement in RoA and should be comparable to any other good HFC. It should be able to cross 2% RoA but RoE can be sustained at current levels;

The screenshot displays the financial statements of PNB Housing Finance. Key sections include:

- Our Vision:** To become the leading NBFC in the housing finance sector.
- Key Metrics:**
 - Gross NPAs: 4.9%
 - Net NPAs: 2.57%
 - Capital Adequacy Ratio: 22.25%
- Business Overview:** Details on the company's operations, including its focus on affordable housing and retail loans.

- Gearing stood at 4.9x as on Mar'23 (~4.0x after the capital raise); comfortable with leverage of 6.0x
- In the medium term, it expects affordable housing to contribute 25% to the disbursement mix, but only ~10-12% in FY24.
- Guides for retail PCR of 30-35%

Retail Loans

- During the quarter, retail disbursements grew 22% YoY and loan book grew ~10% YoY.
- Retail GNPA stood at 2.57% (PQ: 2.86%)

Corporate

- Reducing the book and working on resolutions; corporate book has declined by 27% QoQ.
- Corporate GNPA stood at 22.25% and declined 69% QoQ, driven by ARC sales and write-offs.
- Total Corporate GNPA of INR8.46b across two accounts. One account, which accounts for 92% of GNPA, is backed by a large Real Estate developer. It is still working on resolutions in these two accounts and expects them to be resolved in FY24.
- Expects good resolutions even from the written-off pool of Corporate NPAs.
- It will restart the Corporate business in a very measured way and the idea of starting this business is to increase the retail penetration. The corporate book will not exceed 10% of the loan mix. It will do Corporate business strategically; select developers and select markets; It will start at the end of this year.

Consolidated Loan Book

- FY23 total disbursements grew 33% YoY and total loan book grew ~2% YoY.

Customer Segment

- PNBHF changed the segment from super prime to prime. It has guided for an ideal mix of 70:30 between salaried and self-employed. Incrementally, it would want to get to a zone where the focus is on home loans and more to salaried customers rather than self-employed and SENP.
- There was a lot of attrition in the super-prime segment. The Affordable Housing segment will help it build the book at higher yields; affordable housing yields are ~200bp higher than the prime segment.

Capital Raise

- The company raised a capital of ~INR25b, which will be utilized for growth in prime and affordable segments.
- It is engaging with credit rating agencies and they should positively look at an upgrade.

Borrowing Costs

- Access to cheaper funds from NHB is available since its GNPA/NNPAs have come down drastically over the last year. It should now be able to tap the debt markets as well.
- Expects CoB to decline 40-50bp, driven by an expected credit rating upgrade.

Restructured Book

- Retail restructured pool stood at INR18.7b. It is carrying provisions of 12-13%. Out of this, ~INR3b is 90+ dpd and the rest is standard.
- All accounts have exited the moratorium.
- Wholesale restructured stood at INR1.08b (which is regular and repaying).

Yields

- PNBHF has passed on higher interest rates to customers at the end of 4QFY23 and beginning of 1QFY24. A drop in yields will be reversed in the next quarter. About 94% of the book is retail, and the benefit of the interest rate increase in the last two months will reflect from 1QFY24 onward.
- It has guided for yields of 10% in Prime and 11.5-12% in affordable housing.
- Banks' MCLR increase in Jan/Feb'23 was significantly higher than the PLR increase by PNBHF. Spreads on the securitized pool came down in 4QFY23.
- The share of retail went up and the share of the Corporate book declined; Core interest income was flat QoQ.
- Affordable Housing disbursements stood at INR1.37b in 4QFY23 with yields of 11.5%-11.6%.

Retail Asset Quality

- Recoveries in retail are more than in slippages. It has guided that retail asset quality will continue to gradually improve.
- About 4-6 quarters from now, it will be comparable with some of the best HFCs in the country, with an ideal retail GNPA of 1.25-1.35%.

Operating Expenses

- The opex-to-ATA ratio stood at 0.8%. Most of the investments related to the affordable segment - infrastructure and manpower - have already been completed. So the current level of the opex-to-ATA ratio is sustainable.

Others

- The securitized book has to take into consideration the impact of changes in interest rates.
- Incremental CoB stood at 8.0%-8.1%.
- Provisioning coverage declined primarily because of a decline in the Corporate Book.
- The Affordable Housing segment has 82 branches, which are completely operational, and the company expects a good contribution from the segment in the incremental disbursement mix.



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**Poonawalla Fincorp****Buy****Current Price INR 349****Performance update**

- PFL recently received the long-term credit rating upgrade to AAA from CRISIL
- Expects the HFC sale to get approvals with the next 1-2 months
- PFL is not disbursing to NTC customers and disbursing to customers with CIBIL above 700
- RoA grew ~50bp QoQ to 5%. Low-risk customers (lower credit costs) and low opex (lean/digital business model) support higher RoA.
- Short-tenor loans are also driving customer acquisition for the future.
- Productivity improvement and rationalization of branches/employees have led to reduction in operating expenses.

AUM

- Focused AUM stood at INR152b and grew 73% YoY
- Achieved 151% YoY increase in 4QFY23 disbursements despite employee headcount declining 53% YoY.

Operating expenses

- ESOP cost for 4QFY23 stood at INR290m and for FY23 it stood at INR1.5b.

Asset quality

- Extra provisioning/management overlay of INR460m

- New book continued to perform well and it had one of the best performing portfolios in the industry (as per bureau data). It has GS3 of 0.4% on the new book.
- About 50% of the restructured book is in the 0 bucket

Guidance

- Sustainable credit costs of 0.8%-1.2% and <1% in FY24
- It does not see any impact on margins. Guided for 15-20bp increase in CoB in 1QFY24 and it should subsequently decline ~30-35bp from 2QFY24 onwards.

Sourcing and origination

- DDP's contribution in disbursements increased to 81% in 4QFY23 (v/s 66% in 3QFY23, 54% in 2QFY23, 39% in 1QFY23 and 24% in 4QFY22)
- Digital partnerships contributed ~15% of the total AUM and it guided that this should decline to 10% in FY24
- PFL entered into 2-3 small and mid-sized partnerships during the quarter.
- Direct and Digital: 50%, Partnerships: 30% and DSA: 20%
- Partnerships: No concentration in any of the partnerships. Received FLDG from all the Fintech partnerships. 90+dpd across all partnerships have never crossed 2%. Achieved FLDG of 15-20% from the digital partners.

Liabilities

- Passed on the higher borrowing costs selectively to customers in certain product segments;
- CoB increased ~40bp QoQ to 7.9% and NIM increased to 11.3%, up ~60bp QoQ
- Started raising CP in the last two quarters.
- Over the next two-three quarters, PFL will look to prepay its legacy high-cost
- Magma borrowings (@ 10.5%) of ~INR10b.

Others

- It has 2m live customers and added INR600K customers in 4QFY23
- The company expects to receive ~INR900m from sale of insurance business and ~INR31b from sale of the housing subsidiary in 1QFY24
- Focus is on cash flows and industry trends and PFL is taking a complete call on the customers.
- Management guided that the legacy/discontinued book will become insignificant by Sep'23. It does not any expect any impact on the P&L if and when the residual legacy book is sold.
- Strong opportunity is available in unsecured loans – small business loans and small personal loans.
- The company offered zero pre-payment penalty to customers right from its inception
- There are co-lending partnerships with Fintechs/Consumer-techs. All the ecosystem partners are also giving the choice of rejection to PFL; reduced all the partnerships to the short-tenor loans expect for secured products
- Consolidated distribution to 100 branches. Employees have declined to 2,452 (as on Mar'23) from 5,184 (as on Mar'22).



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Repco Home Finance

Neutral

Current Price INR 286

Business updates

- The AUM grew 6% YoY and 2% QoQ while disbursements rose ~20% QoQ to ~INR8.4b (PQ: ~INR7.0b).
- The new software launched in Feb'23 is expected to be an enabler in scaling up disbursements and has been positively accepted in pilot branches.



Particulars	2022-23	2021-22
Assets		
Fixed Assets	1,00,00,00,000	1,00,00,00,000
Current Assets	1,00,00,00,000	1,00,00,00,000
Liabilities		
Equity	1,00,00,00,000	1,00,00,00,000
Debt	1,00,00,00,000	1,00,00,00,000
Profit/Loss		
Operating Profit	1,00,00,00,000	1,00,00,00,000
Net Profit	1,00,00,00,000	1,00,00,00,000

- The C/I ratio improved to ~24% in 4QFY23 (PY: 23.5%) and the same is expected to moderate further driven by productivity improvement.

Guidance

- REPCO guided for loan book to grow ~12% YoY and disbursements & sanctions to increase ~20% YoY in FY24.
- The GNPA is expected to reduce by ~INR1b in FY24.
- The margins for 4QFY23/FY23 stood at 5.1%/ 4.8%. Management guided for steady state margins of ~4.8%.
- The home equity book contributes ~21% to the loan book and the same is expected to increase to ~25% of the mix. Management plans to scale up the home equity book without compromising on the quality of the same.
- REPCO plans to open 10 new branches and 10 new satellite centers in FY24E.
- Management guided for maximum credit costs of INR250m in FY24.
- It expects to start witnessing growth in Gujarat and Maharashtra in FY24.

BT-Outs

- In FY23, the company experienced BT-Outs of ~INR3.7b, which accounted for ~3% of the opening AUM. However, during the same period, the company also recorded BT-Ins of ~INR2b.
- The company has established a dedicated team to monitor BT-Outs and is making conscious efforts to effectively manage BT-Outs.
- The BT-Ins were driven by the company's improved customer servicing and competitive pricing, which have proven to be attractive to customers seeking balance transfers.

Yields

- The company has implemented an increase in its minimum lending rates (MLR), which has resulted in a sequential improvement in margins.
- Previously the reset of interest rates happened every six months on the back book. However, the company has transitioned from bi-annual resets to quarterly resets for the re-pricing of its loans.
- The incremental CoF for 4QFY23 was at 8.1%. The company expects QoQ improvement in yields and NII as it has reduced its re-pricing period and increased MLR.

Asset quality

- REPCO's outstanding restructured book currently stands at INR7b, of which ~INR2b has slipped.
- Out of the outstanding restructured book of ~INR4b as of Mar'23, ~INR1.5-2.0b formed part of Stage 2 loans.
- The company is witnessing accelerated repayments from the restructured book and anticipates that it will not have a notable impact on asset quality in FY24.
- REPCO carries provisions of 0.5% on Stage 1 book and ~6.5% on Stage 2 book.
- The Stage 2 book is ~12-13% of the gross assets and the Stage 3 forms ~5.8% of the gross assets.
- The Stage 2+3 book stands at ~18% on which the company carries provisions of ~4.2%.
- It has created a separate collection team of 66 employees on Apr'23 and is confident that the same will lead to improvement in collections and arrest flow to higher buckets.
- The company expects Stage 2+3 to improve to below 10% in FY24.



Detailed Concall Transcript & Results Update



Shriram Finance

[Buy](#)

Current Price INR 1,406

Performance Update

- The merger process has been successfully concluded, with the complete integration of IT and workforce.
- Disbursements grew 27% YoY and 6% QoQ and to INR310b (PQ: INR292b).

Guidance

- The management has guided for AUM growth of ~15% in FY24.
- The company reported credit costs of 2% in FY23 and has maintained its guidance for credit costs at 2% for FY24.
- The combined entity now has access to many locations that can be leveraged to drive growth in the MSME sector, which is a focus area for the company. The management seems confident that with this expanded reach, it will be able to deliver strong growth in this segment.

Impact on NII

- The company reported a benefit of INR1.45b in NII owing to two less working days (which affected interest income) and high loan bookings in the latter half of Mar'23.

Asset Quality

- The portfolio mix will affect PD and LGD numbers.
- The company conducted a stress test on the entire portfolio after the merger, which resulted in a one-time impact of around INR2.95b during the quarter. This impact was due to the waivers provided to customers, who were affected during the Covid-19 pandemic.
- Write-offs for 4QFY23 stood at INR8.05b, while for FY23 write-offs stood at INR26.15b.

Impairment of intangibles

- SHFL had created INR15.13b of intangible assets for using the branch network of SCUF. In FY23, there was an impact of ~INR3.03b on account of amortization of the intangibles.
- It will now be amortizing it over the next four years over the life of the useful asset. The impairment impact will be smoothened with INR750m impact every quarter and INR3b per annum.
- The company mentioned that goodwill will be tested for impairment at the end of every fiscal year, but it is unlikely to get impaired within the next few years. It also clarified that there is no tax break on goodwill, but there is a tax break on intangible assets.

Higher effective tax rate

- The effective tax rate will remain elevated at ~27% for the next few years.

Two wheelers

- The company financed 1.2m 2Ws in FY23 and it expects this to grow by 10-12% in FY24 depending on the 2W industry growth.
- Southern markets are currently experiencing a decline in performance, while markets in Bihar, Uttar Pradesh, Madhya Pradesh, Rajasthan, and West Bengal are showing improved performance.

Personal Loans

- Cross-sell to customers who have either completed a cycle or completed >75% of their existing loans.

- Average ticket size of ~INR55K; Average tenor of 20 months; It has done data mining on ~4.5-5.0% of the eligible database of its customers and plans to further penetrate and cross-sell personal loans to the eligible customer base.

Gold Loans

- The company is currently in the process of scaling up its gold loan book and is setting up the necessary infrastructure and training its workforce accordingly.
- The company does not plan to employ appraisers on a contractual basis; instead, it trains its own employees to appraise gold loans.
- New branches will add to the gold disbursements in the subsequent quarters.

Shriram Housing

- Shriram Housing AUM grew by 50% YoY and 12% QoQ to ~INR80.5b.

Liabilities and liquidity

- Total borrowings stood at ~INR1.6t, with securitization forming ~14% of the borrowing mix.
- CoB has increased to 8.82% in 4QFY23 from 8.77% in 3QFY23.
- Borrowing for the quarter stood at INR200b at a cost of 9.0% through different instruments.
- SHFL had INR176.6b of liquidity, and as per the company policy, it will continue to maintain liquidity equivalent to three months of liability repayments.
- The company mentioned that if the RBI increases the repo rate by 25bp in the next quarter, the incremental cost of funds could increase by 10bp. Regarding borrowing instruments, the company stated that it currently has no plans to issue a dollar bond in the near future as the blended costs are higher compared to other borrowing options.

INSURANCE



- All life insurance companies have maintained healthy traction in VNB growth in FY23. APE growth remained healthy for all life insurance companies with robust growth being reported by HDFCLIFE and MAXLIFE. Insurers reported healthy trends in the non-PAR savings ahead of tax changes, while ULIP growth continues to remain modest. Group protection saw strong trends, while retail protection saw a QoQ recovery. Annuity and pension products continue to witness strong traction and growth outlook for these products remain steady. Persistency trends for the industry are showing successive improvement across cohorts.

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook for FY24	Others
LIC	<ul style="list-style-type: none"> ■ The share of non-par increased in FY23 due to a change in customer demand. It intends to grow the non-par share without ignoring the par business. ■ The economic variance was negative because of both equities and debt segment movements. ■ In FY23, INR272.4b of PAT was transferred from the non-par book to shareholders funds pertaining to accretion on available solvency margin surplus. ■ The wage revision is done once in five years, and it does not impact EV as only 10% cost is apportioned in the par business. 	<ul style="list-style-type: none"> ■ In FY23, INR272.4b of PAT was transferred from the non-par book to shareholders funds pertaining to accretion on available solvency margin surplus. ■ Dividend policy – The dividend distribution has doubled YoY to INR3 per share. LIC is looking for growth opportunities, and hence would continue to need more capital. ■ Group business NBM was driven by robust growth in APE and VNB. APE growth was 22%. VNB grew with better persistency experience and greater longevity. APE per scheme improved, and the loss ratio has declined after Covid. These factors give confidence for further improvements.
HDFC Life	<ul style="list-style-type: none"> ■ In FY24, HDFCLIFE is confident of VNB growth coming in line/higher than APE growth. In the long term, it will see margin expansion as HDFC Bank's share increases and there exists a lot of optionality from new products that could come through under new regulation and also from GIFT City. ■ The interest rate curve has been higher, which will lead to a better unwind rate in FY24. ■ Protection and annuity will be key drivers going ahead and will see strong growth in FY24 on an adjusted base of FY23 (INR10b adjustment for bump-up in Mar'23). 	<ul style="list-style-type: none"> ■ Banca grew 25% based on Individual APE. It expects higher growth going ahead, with HDFC Bank as well as other banks opening more branches. ■ The agency channel has seen a 5-year CAGR of 34% and will look to expand in new territories, especially with the acquired entity. ■ The Pension category will revive under new EOM regulations, which will act as a feeder for growth for the annuity business. ■ Enthused about new EOM regulation, higher allowances in renewal will help to improve persistency. The regulator is looking to move toward long-term products wherein HDFC Life has a large market share.
SBI Life	<ul style="list-style-type: none"> ■ SBI Life expects to sustain growth momentum with 20-25% growth in FY24 as demand remains strong. EOM regulation changes will lead to creative product designing for customers and distributors. ■ Margins can rise only up to a certain point and are likely to be in the range of 29-30%. The focus will be on growing VNB and EV. ■ Product mix will be a factor of the demand environment. Non-Par pick-up was driven by a new product launch a year ago. ULIP will be based on the return as SBI Life has delivered strong returns. 	<ul style="list-style-type: none"> ■ Banca – Non-SBI partners are growing at a healthy pace and are likely to sustain. It will look to add more partners going ahead. ■ SBI, Agency and other banks are the key channels for achieving growth. ■ It added 62k agents in FY23, taking the total to 208k agents. It has one of the most productive agency channels among private players. Penetration within SBI customers is low, and hence growth opportunity remains large.
Max Financial services	<ul style="list-style-type: none"> ■ Growth in FY24 is likely to be in double digits (higher than FY23). The Banca channel too is expected to grow in double digits going ahead. ■ Margins are likely to moderate and sustain at ~27-28% over the medium term. ■ Max Life expects the transaction with Axis Bank to be completed in FY24. ■ Product mix in 4QFY23 was skewed in favor of Non-Par due to pre-budgetary changes. Going ahead, it is expected to moderate to ~40%. ■ It aims to grow the protection business at 20%+. 	<ul style="list-style-type: none"> ■ Proprietary channels have grown by a healthy 21%, while the banca channel grew 11% over the past five years. ■ The company maintains its leadership in online sales. Online business grew 44% YoY in FY23, with online savings business up 5x in FY23. ■ Growth in proprietary channels was driven by an increase in advisors/agents and productivity. ■ Open architecture within the AXSB channel has settled, with the bank maintaining its share of ~70% over the past 15 months. Going ahead, growth is likely to be in line with the growth of the bank.

ICICI Prudential Life	<ul style="list-style-type: none"> IPRU does not expect commissions/expenses to go up in the current regulation as the key intent of the regulator is to bring down the cost. The Union Budget move to restrict section 10(D) benefits to INR0.5m should not impact a great deal. ULIP taxation too did not impact the product mix significantly. The company is preparing for a regime where no tax incentives will be given. A composite license will be good for customers and IPRU will look to enter 1) Health insurance, 2) wellness and allied business, and 3) InsurTech and FinTech businesses. Margins could get a positive boost from a higher share of protection and within that the higher share of retail protection vs. group protection. 	<ul style="list-style-type: none"> Persistency improved across all cohorts on YoY basis. This should drive benefits into renewals. However, renewals have been impacted by low NBP growth in the past few years. New banks added in the past couple of quarters got operationalized only in Mar'23 and hence have not yet contributed to growth. Over 24% growth was seen from Non-ICICI bank customers in 4QFY23. Retail Protection has been a slow process due to a change in underwriting guidelines, a lot of re-learning being done, re-launch of products, increased focus on INR5m to INR10m policies as focused area. Access to the mass affluent category was also better. Don't foresee any price hikes in retail protection. In fact, expecting a price cut from reinsurers in due course.
ICICI Lombard	<ul style="list-style-type: none"> The company has announced a 19% price hike in retail health only for renewal book. This shall improve loss ratios (restricted by health inflation). Over the longer term, health indemnity loss ratio is likely to be in the range of 65-70%. Investment income was driven by a shift toward higher yielding assets in the portfolio. The company's overall investment duration stands at 4.99 and YTM of the investments stands at 7.2%. The company is optimistic about achieving its target combined ratio of 102% by FY25. 	<ul style="list-style-type: none"> With the increase in overall prices in group health, businesses have moved to players providing better underwriting services. Investment in health business has led to stronger growth in retail health.
Star Health	<ul style="list-style-type: none"> Company will soon launch its new product offering on the wellness side and sees this as a big opportunity for which it is working with an Insure Tech firm. It will be a structural and organized program with a focus to reduce the intensity of claims in certain segments and geographies. FY23 growth in retail health was a mix of 50:50 in terms of volumes (NOP growth of 9%) and value; for FY24 growth will be driven more by value than volume (60:40) because of the price hikes implemented. 	<ul style="list-style-type: none"> Management has maintained its FY23 guidance for combined ratio to be in the range of 93-95% and claims ratio at 63-65%. Star Health will continue to grow faster than the industry in terms of premium, while combined ratio will be definitely better than FY23. There will be 1.3% improvement in loss ratio due to fraud detection. This initiative started in 2HFY23; FY24 will see full benefits.



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HDFC Life

Current Price INR 595

Neutral

VNB

- For FY24E, management is confident of VNB growth to be in line with APE growth leading to stable VNB margin. While over the longer term, there will be margin expansion as the share of HDFC Bank increases and there exists a lot of optionality from new products that could come through under new regulation and also from the Gift City.
- VNB will be primarily driven by APE growth. Margin accretion will come from nuances of product changes, fructification of investments in partnerships with banks over the past few quarters, efficiencies from technology and human resource costs spent in the recent past and higher share of longer-term product sale with protection growth. These factors will be balanced by investments in technology and partners.
- Intense competition was seen in Mar'23 with extreme pricing in the Non-PAR products but HDFCLIFE did not participate in the same. No major change in product level margins was seen.

EV

- In spite of the increase in new business strain, EV saw strong growth as there was a 27% growth in back book surplus.

- Interest rate curve has been higher that will lead to better unwind rate in FY24.

APE growth

- The proposition of long-term products continued to remain strong even on post-tax basis. In Mar'23, below INR0.5 policies grew 50%. Post-ULIP regulation, the share of ULIPs has gone up indicating decoupling between tax rate of products and APE growth of those products; for HNIs, tax has not been a driver.
- Protection and annuity will be key drivers going ahead and will see a strong growth in FY24E on an adjusted base of FY23 (INR10b adjustment for bump up in Mar'23).
- Yes Bank, Bandhan Bank and other partners have seen strong growth and management expects growth to sustain for these partners. HDFC Bank will provide an uptick, leading to a growth faster than the industry.
- The business was more granular 4-5 years ago. Hence, it is going to increase the number of policies.

Distribution

- Banca grew 25% based on Individual APE. Expect higher growth going ahead with HDFC Bank as well as other banks opening more and more branches.
- Agency channel has seen a five-year CAGR of 34% and will look to expand in new territories especially with the acquired entity.

Subsidiaries

- Pension subsidiary doubled its AUM in 1.5 years to INR340b.
- HDFC International received approval to set up a branch in Gift City; it will commence operations from 1QFY24.

Protection

- Total protection share has increased to 29% in FY23 from 24% in FY22, with a 20% growth driven by credit life (that was at 50% among 360+ partners). Going ahead, management expects retail protection to see strong growth.
- Growth in protection has been strong across all channels (most noteworthy being banca channel) and beyond the top 10 cities as well.
- The management was more enthused by growth opportunity for protection in HDFC Bank channel with products such as RoP.
- Credit protection was well spread with share of MFIs being at one-third and HDFC Bank being slightly less than one-third.
- Share of RoP rose to 20% with increase in business from tier 2 and tier 3 cities.
- Reinsurers are getting active and are looking to participate in the growth.

Annuity

- APE grew 59% in Annuity, which maintained its market share in the segment. Annuity rose 18% on NBP basis v/s 2% for the industry.
- There was a fairly frequent re-pricing in the market given the interest rate volatility. It will be able to maintain margins at a level higher than the company-level margins.
- Pension category will revive under the new EOM regulations that will act as a feeder for growth for the annuity business.

New regulations

- Management is enthused about new EOM regulation; higher allowances in renewal will help improve persistency. Regulator is looking to move towards longer-term products wherein HDFCLIFE has a large market share.

- Impact of regulation changes has been favorable for HDFCLIFE and in each of the past disruptions, with the company delivering 1.5x- 2x premium growth v/s the industry.
- Share of high ticket (INR0.5m+ premium) was at 12-14% for FY23, while in 4QFY23 it was at 35%. As compared to actual growth of 27%, normalized growth was at 16%. Large share of the jump came in the second week of Mar'23 and the delta was of INR10b.
- Composite license – Management is hopeful that the bill will get passed post which regulator will have to form regulations around it. HDFCLIFE does not want to redistribute the pie and will compare between life and health products with innovation.

HDFC Bank – HDFC Ltd merger

- Uncertainty removed, looking forward to collaborate with the parent especially with robust branch expansion.
- With a major expansion in tier 2 and tier 3 cities, different mortality assumptions will be needed for this cohort.
- Counter share at HDFC Bank should start inching up going ahead as per the communication with HDFC Bank. In various platforms both entities have mentioned about wallet share being increased to 70%. Expect to see sequential growth on a sustained basis for the same.
- No concrete discussions have been done yet on fresh issue v/s secondary, but probability of secondary transaction growth is better. Aberdeen has a last 1.6% stake and the sale should materialize over the next 1-2 months.

Costs

- Increased investment in technology will continue. INR1b each will be spent in FY24-25 for project Inspire; INR0.5b has been spent so far. These costs can be easily absorbed within the new EOM regulations.

Others

- Niraj Shah has been elevated to the Board as the ED and CFO.
- Persistency 61st month is lower because of the merger. Other cohorts continue to see strong growth and should be sustainable.



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ICICI Lombard

Buy

Current Price INR 1,255

Industry

- In FY23, the industry registered a premium growth of 16.4% YoY, the highest in the last five years and expect strong growth going ahead, given the underpenetrated Indian market.
- The industry's combined ratio for 9MFY23 came in at 116.2% v/s. 119.2% for 9MFY22. Motor insurance is showing signs of improvement with the combined ratio at 118% in 3QFY23 v/s. 123.5% in 1HFY23.

Motor segment

- The company is considering underwriting older books of businesses, even though the loss ratio is higher, as the expense ratio is lower, and this strategy is expected to be RoE accretive.
- ICICI Lombard has taken a price hike in Motor OD, but other players are yet to follow the same.

- With the increase in overall prices in group health, businesses have moved to players providing better underwriting services.
- Investment in health business has led to stronger growth in retail health. Agency retail health grew 30% YoY. The company has announced a 19% price hike in retail health for renewal book only. This shall improve loss ratios (restricted by health inflation). Over the longer term, health indemnity loss ratio is likely to be in the range of 65-70%.
- While the investments in retail health is expected to continue, management expects productivity gains in the investments made so far.
- The company plans to strategically expand its agency channel over the coming years, taking advantage of opportunities to increase its market share.
- While the loss ratio for retail health stood at 69% in 4QFY23 (64% for FY23), the loss ratio for group health stood at 93.5% in 4QFY23 (95% for FY23).

- Banca channels saw strong growth with ICICI bank growing at 14% YoY and non-ICICI bank channel growing 32% YoY. The partnerships with HDFC Bank and Axis Bank continue to scale up with the share of wallet increasing every month.
- ILTakeCare App has registered 4.6m downloads with ~1m incremental downloads during the quarter. This has resulted in ~INR 550m GWP collection in 4QFY23, registering a growth of 68% QoQ.
- Commercial lines will see a challenging phase with reinsurance rates hardening by 45-60%. Also, the regulator is pushing toward free pricing (removing of floor). The overall profitability of commercial lines is expected to decrease due to the fire business.
- Digital one team grew 19.4% YoY. Currently, digital revenues stand at INR 3.14b (~6% of overall GDPI).
- EOM for 4QFY23 stands at 31.4% (reporting is on the basis of earlier regulations, which is based on GDPI). EOM, under new regulation, wherein the calculation is based on GWP stands at 29.5% for 4QFY23, and falls within the acceptable limits. For FY23, reported EOM of 29.6% will be at 29% under the new EOM regulations.
- The EOM gap between SAHIs and GI companies is not a concern as SAHIs only deal with single product, whereas GI companies have multi-line products that help to balance out cost across segments (distribution costs is lower in other segments than the health segment)
- Investments witnessed MTM drop in unrealized yield. Cap gains for the quarter stands at INR 1.59b v/s INR 1.36b in 3QFY23. The sequential in investment income was driven by a shift toward higher yielding assets in the portfolio. The overall duration of investments stands at 4.99 (slightly lower than 3QFY23) as premium in 4QFY23 did not find way into investments and made its way in cash balance. YTM of investments stands at is 7.2%



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- In FY24, the company does not intend to grow its crop business aggressively just on the back of EOM regulations.
- The company is optimistic of achieving its target combined ratio of 102% by FY25.

ICICI Prudential Life

Buy

Current Price INR 508

Industry

- The Expenses of Management (EOM) regulation will increase flexibility and improve the focus on profitable products. It would encourage longer-term products, incentivize renewals (align investor and distributor interest), and incentivize protection
- IPRU does not expect commissions/expenses to go up in the current regulation as the key intent of the regulator is to bring down the cost.
- The Union Budget move to restrict section 10(D) benefits to INR0.5m should not have a material impact. ULIP taxation too did not affect the product mix. The company is preparing for a regime where no tax incentives will be given.
- More than 50% of the annuity products are purchased by the affluent segment, which will be affected by the new income tax regulation. Almost 50%+ sales happen in SA protection policies of INR10m. The customer is not averse to pay tax and demand a product on its merit.
- The increase in sales of policies of INR0.5m+ was higher in Mar'23 v/s Feb'23 in FY23 (similar to FY22).
- Direct sourcing of customers – current product regulation already suggests that savings have to be passed on to customers. Thus, nothing major changes with the new regulation.
- A composite license will be good for customers, and IPRU will look to get into 1) Health insurance, 2) wellness and allied business, and 3) InsurTech and FinTech businesses.

VNB/EV

- Four years ago the company had given a vision for doubling VNB. That goal has been achieved as IPRU posted a 4-year CAGR of 20.1% in VNB.
- The unwind rate is a function of the yield curve and portfolio composition. As the composition is moving toward non-linked, the unwind rate has moved up.
- Operating assumption was negative due to an increase in renewal unit costs, the removal of loading in the group term business levied in the last year due to Covid and lower ULIP surrender rates beyond five years.
- The economic and investment variance was due to a shift in the yield curve and negative returns in equity markets.
- Change in VNB: 3.5% was due to an increase in the non-linked business, 1% due to operating assumption change in surrender rates of ULIP, -0.5% due to yield curve movement.
- EV Compounding: IPRU is confident of growth going ahead. It expects short-term volatility in markets, which will aid EV growth. The ability to grow EV and predictability of the same is stronger going ahead.
- ULIP VNB margins have declined due to the yield curve shift and high expenses in the year. Two years ago the ULIP margins were at similar levels and FY22 margins were higher because of lower expenses.

- Protection margins – the share of group has been higher. Incrementally, IPRU is underwriting the group business, which has high profitability.
- Margins in non-linked savings have increased because of an increase in the mix of non-par over the past few years. A change in the yield curve will not hurt margins. The important thing is to monitor the spreads.
- Overall margins could get a boost from a higher share of protection, and within that a higher share of retail protection v/s group protection.

Distribution

- The strategy in the agency channel is to ring-fence the top performing advisors. Over FY23, it added 33k new advisors, 13 banks (17,500 partner bank branches), 113 non-bank partnerships (taking to 900+), and digital assets, including the website and the app.
- New banks added in the past couple of quarters got operationalized only in Mar'23 and hence have not yet contributed to growth. About 24%+ growth came from non-ICICI bank customers in 4QFY23.
- ICICI Bank has been generating stable business at INR1b a month and is now at a stage where the impact of a further decline will not move the needle.

Product mix

- IPRU has broadened its product mix with product launches across protection, annuity and savings.
- A decline in ULIP was mitigated by strong growth across other products and became a dominant player in the protection segment with a 15% market share in 11MFY23.
- Supply-side concerns are now behind and protection has seen sequential growth for three quarters consecutively. Protection + annuity contribution was at 47% v/s 27% four years ago.
- New products launched: IPRU Gold par product savings + protection; linked savings category 2 new funds: 1) Midcap and 2) midcap hybrid growth fund (70:30 – equity: debt)
- The number of policies has not grown due to a decline in ICICI Bank and a decline in retail protection.
- Retail Protection has been a slow process due to 1) a change in underwriting guidelines, 2) a lot of re-learning being done, 3) re-launch of products, and 4) increased focus on INR5m to INR10m policies as a focus area while access to the mass affluent category was also better.
- IPRU does not expect any price hikes in retail protection. In fact, it expects a price cut from reinsurers in due course.

Finance

- Persistency improved across all cohorts on the YoY basis, which should support renewals. However, renewals have been hit by low NBP growth in the past few years.
- IPRU is well above the industry on ULIP persistency.
- Cost/TRWP is likely to remain elevated in the coming years as it will continue to invest in creating capacity for growth.



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Life Insurance Corporation

Buy

Current Price INR 601

Business performance, product and distribution mix

- The share of non-par reduced in FY23 due to a change in customer demand. LIC plans to grow the non-par share without ignoring the par business and has launched new plans in the non-par segment.
- About 20.4m new policies were sold in FY23, down 5.9%. The fall was expected as the company altered some products and the number of policies in the agency channel declined by 4%.
- Around 96% of policies were sourced via the agency channel, while 96%+ NBP share was from agency.
- For annuities, two rate changes were made in FY23, leading to higher sales by agents.
- Other non-par products are also gaining traction within agency channels, and LIC expects to accelerate this in FY24.
- Large ticket policies: No of policies 0.04%, 3.5% in terms of premium, large portion of this comes from par segment and hence no major impact on VNB margins
- It has modified certain products where persistency has been lower – eight products were modified last year.
- Health business persistency has been lower than the overall company level. LIC has modified two products to improve persistency. Lower ticket size has lower persistency; revised modes of payments and pricing for these products.
- Banca and other alternate channels saw strong growth of 26%. LIC aims to increase business from this channel. Outside banks saw strong traction, which should continue in FY24.
- LIC targets to add more new partners going ahead in the banca channel, but more focus is on growing the existing channel in the near term.
- Digital initiatives – Ananda app saw 196% growth in policies sold to 0.8m.

EV, VNB and Margins

- Group business NBM margin was driven by robust growth in APE and VNB. APE growth was 22%. VNB has grown with improved persistency experience and greater longevity. APE per scheme has improved, and the loss ratio has reduced post Covid. A combination of these factors gives confidence for further improvements.
- A rate increase to 25bp is the primary assumption change.
- The unwind rate increase was due to a higher change in RFR in 4-20 year rates on the yield curve; also actual returns have been better than RFR.
- The economic variance was negative because of both equities and debt segment movements.
- A 90bp impact in VNB was because of a change in the benefit in non-par.

Others

- In FY23, INR272.4b of PAT has been transferred from non-par book to shareholders funds pertaining to accretion on available solvency margin surplus.
- Dividend policy – The dividend distribution has doubled YoY from INR1.5 per share to INR3 per share. It is looking for growth opportunities and hence would continue to need more capital.
- Taxation – post bifurcation the cost of bonus of par policies can be taken as tax deduction.



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- The wage revision is done once in five years, and it does not impact EV as only 10% of cost is apportioned in the par business.

Max Financial Services

Neutral

Current Price INR 703

Business metrics

- The company has witnessed a healthy trend in persistency across cohorts and aims to deliver a consistent improvement in the persistency ratio.
- Investment in digital infrastructure has led to higher business and operational efficiency, which resulted in cost savings.
- MAXLIFE expects double-digit growth in FY24 (higher than FY23).
- Due to budgetary changes, additional sales of policies of over INR0.5m stood at ~INR3-3.5b.
- VNB margin moderated sequentially due to higher sales in high-ticket size Non-PAR products, which carry a lower margin.
- Overall, margin is likely to moderate from current levels and sustain at ~27-28% over the medium term.
- It expects the transaction with Axis Bank likely to be completed in FY24.
- The company has transformed its IT Infra, with 56% of the business operating on cloud infrastructure now as compared to 46% in FY22.
- Last year, the back book was hit by Covid. On the normalized basis, the back book growth is 20%.

Product mix

- The recently launched Non-PAR savings product has achieved a milestone of INR10b in the shortest time. Further, the launch of other products is aiding the overall growth.
- The product mix in 4QFY23 was skewed in favor of Non-PAR due to budgetary changes. Going ahead, the Non-PAR mix is expected to moderate to ~40%.
- The company expects over 20% growth in the protection business.
- Annuity is a key focus area, with its share rising to 5% in FY23 from 1%.
- Retail protection was affected by supply-side challenges. Tech and analytics have been used for enhancing underwriting. It expects strong growth ahead.

Distribution mix

- The proprietary channels have seen healthy 21% growth, while the banca channel grew 11% over the past five years.
- The company maintains its leadership in online sales. The online business grew 44% YoY in FY23, with online savings business up 5x in FY23.
- Growth in proprietary channels was driven by an increase in advisors/agents and productivity.
- Open architecture within the AXSB channel has settled, with the bank maintaining its share of ~70% over the past 15 months. Going ahead, growth is likely to be in line with that of the bank.
- The bank added two new distribution channels, namely DCB Bank and Capital SFB, in 4Q. Thus, it added four banca partners and six brokers in FY23. Thus, the Banca channel is expected to grow in double digits going ahead.



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SBI Life Insurance

[Buy](#)

Current Price INR 1,246

Overall business

- ~2.2m new policies were sold in FY23 (up 14%) and the company has a leadership position on an NOP basis. Sum assured grew 13% YoY v/s 12% YoY for the private industry.
- **Growth outlook** – As demand remains robust, growth momentum is expected to sustain at a rate of 20-25% in FY24. EOM regulation changes will lead to designing products creatively for customers as well as distributors
- **Commission payouts** – The company will review commission payouts to all distribution partners with the objective to grow each channels. NOP growth has been healthy for SBI Life, and much higher than the competition. Distributors that add value to the company will be eligible for higher payouts.
- **No deduction regime** – The seasonality of insurance business is declining, indicating a reduction in usage of 80c benefits for insurance purchases. Also, the range of products that qualify for 80c benefits has expanded over time. Hence, even in a no deduction regime, demand for insurance is expected to remain strong.

Products

- **Protection** – Retail protection growth weakened in 4Q due to the prevalent focus on taxation, resulting in a shift toward savings products. SBI Life will continue to maintain its focus on Protection. Credit Life was INR20b in FY23 v/s INR17b in FY22 (INR6.2b in 4QFY23 vs INR5.7b in 4QFY22)
- **ULIP business** – SBI Life has a wide choice of products for customers. For FY23, it has been flattish, as the year has been influenced by higher demand for long-term guaranteed return products. Management expects some growth in the ULIP business for FY24. ULIP mix has changed from 60:40 debt: equity in the past to 48:52. Equity story for ULIPs should sustain in the near future.
- Product mix will be influenced by the prevailing demand environment. The rise in Non-Par products was due to the introduction of a new product a year ago. ULIP will be based on the return, wherein SBI Life has delivered strong returns.
- There are no foreseeable difficulties in hedging the Non-PAR business and the majority of the business is in the premium paying term of 7-10 years.

VNB and EV

- Product mix drove VNB margins and the company maintains a healthy growth in VNB
- Margins can increase only up to a certain point and it is expected that margins would remain in the range of 29-30%. The primary emphasis of the company will be on expanding VNB and EV.
- SBI Life has not changed equity market return assumptions.
- The unwinding rate is dependent on the composition of portfolio and the shape of the yield curve. The portfolio has shifted toward Non-Par business, which has longer-term tenures and the yield curve has risen.
- EV has become more sensitive to interest rates because of long-term Non-Par products, which need higher reserving, leading to excess assets. Hedging also has played a role in the same. Excess net worth has no liabilities, and causes more volatility.



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- Positive operating variance is a mix of expenses, persistency, and reinsurance.

Distribution

- Banca – Non-SBI partners are growing at a healthy pace and the momentum is likely to sustain. The company will look to add more partners going ahead.
- SBI, Agency, and other banks are the key channels for achieving growth.
- In FY23, the company added 62k agents, taking the total count to 208k. The agency channel is highly productive and one of the best among private players. Since the penetration of insurance among SBI customers is currently low, there is significant potential for growth opportunity remains large.

Star Health

Buy

Current Price INR 538

Business

- There is a strong start to the new financial year, for Apr'23 the premium growth so far is about 27% – management expects a 25% growth for the full month and the loss ratio is likely to be lesser than last year
- STARHEAL's retail health grew 18% YoY v/s 15.3% YoY for the industry in FY23. In 4QFY23, it witnessed a growth of 15.2% v/s 16.0% for the industry. Resultantly, market share in 4Q was at 35% in retail health and for FY23 it was at 34% and 33% in FY22. The company aspires to grow market share every year.
- Agency business contributed 82% with agency count of 626k, and addition of 16k in 4QFY23 and 76k in FY23.
- Corporate Agency including banks saw a strong growth of 43% YoY. New tie ups included Standard Chartered, India Post Financial Bank and further additions are expected from NBFCs in the near term.
- Digital initiatives sourcing saw 28% growth in FY23 contributing to INR6.3b of premium. App downloads reached 2m and 95% growth was seen in website visits.
- Sum Assured per policy rose 13% YoY to INR0.9m and the share of policies with Sum Assured of INR0.5m+ increased to 70% v/s 64% in FY22.
- Benefit products grew 53% YoY and the share has increased 61bp to 2.3bp from 1.7bp.
- STARHEAL will soon launch its new product offering on the wellness side and sees this as a big opportunity for which it is working with an InsureTech firm. It will be a structured and organized program with a focus to reduce the intensity of claims in certain segments and geographies. For policyholders, it will be as a part of their policy.
- About 2.5% policies are long-term policies and in the digital channel 50% of new customers come for long-term products. Its focus is likely to increase on this.

Claims

- Four-pronged approach is planned to improve loss ratios: 1) prudent claim settlement, 2) well negotiated pricing arrangement with network hospitals (volume-based), 3) technology, and 4) risk-based pricing.
- About 73% of the claims were cashless v/s 63% in FY22 in terms of volumes. In terms of value, 80% of the claims were cashless v/s 71% in FY22.
- Turnaround time for 90% of the claims was within two hours, while 21% of the hospitals representing 59% of cashless claims have been on-boarded under auto adjudication of claims.

- Share of hospitals with pricing arrangement was at 67% v/s 64% in FY22.

Financials

- Expense ratio cut back in spite of lower share of group business
- Further ESOP issuances will be at market price
- Excluding ESOP costs, RoEs for FY23 will be higher and 16-18% can be achieved in FY24.
- Under IFRS, RoEs will further improve by 300-400bp as costs are also amortized

Guidance

- The company has maintained its FY23 guidance for combined ratio to be in the range of 93-95% and claims ratio at 63-65%. Star will continue to grow faster than the industry in terms of premium, while combined ratio will definitely be better than FY23.
- There was 1.3% improvement in loss ratio in FY23 because of fraud detection; initiative started in the second half of FY23, while FY24 will see the full benefits.
- Combined ratio improvement will be driven by mix, EOM regulations and banca channel growth
- Volume growth has been healthy in Apr'23; growth has been heterogeneous in both retail and group segments. Group segment growth is mainly driven by the profitable SME segment.
- Growth in retail health for FY23 was a mix of 50:50 in terms of volumes (NOP growth of 9%) and value. In FY24, growth will be driven more by value than volume (60:40) because of the price hikes implemented.

HEALTHCARE



- In Healthcare, while there was a benefit of seasonality in the domestic formulation segment, management highlighted that there was also an impact of addition of products in NLEM list along with price revisions of existing products in the list. Having said this, management also highlighted that inflation-linked price hike in NLEM products would take place from 2QFY24 onwards. In the US segment, there was a benefit of niche launches in 4QFY23 and managements continue to put efforts towards reduction in regulatory risk by filing critical products from alternate sites. In the API segment, companies under our coverage indicated reductions in key raw material prices and freight costs have led to improving profitability v/s past few quarters. Going forward, managements expect demand recovery in API segment as inventory normalizes in channel. Overall, in FY23, there was a YoY earnings decline partly due to high base of FY22. However, managements indicated that overall outlook is improving. On the hospital side, there was a benefit from seasonality leading to increasing OPD/IPD volumes. Management highlighted optimization of case mix/payor mix with hospitals to witness robust demand in key focus cities.

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook for FY23/FY24	US Business - Update
Aurobindo Pharma	<ul style="list-style-type: none"> ■ ARBP has guided for double-digit YoY growth in Eugia revenue in FY24. ■ ARBP expects to launch g-Revlimid in 3QFY24. ■ ARBP plans to spend USD130-140m for the Pen-G project in FY24 (USD120m spent in FY23). ■ ARBP intends to file b-Herceptin for the US market by 4QFY24. 	<ul style="list-style-type: none"> ■ The US base business continued to witness reduced price erosion.
Cipla	<ul style="list-style-type: none"> ■ The management has guided for an EBITDA margin of 22% in FY24. ■ It expects the USFDA inspection classification from mid-May'23 at Indore. ■ Cipla has started work on de-risking plan for g-Advair by constructing a manufacturing line at an alternate in-house site. It may require an inspection at the alternate site for ANDA approval from the USFDA. 	<ul style="list-style-type: none"> ■ The US segment witnessed strong traction in the differentiated portfolio, including market share gains from products.
Dr. Reddy's Labs	<ul style="list-style-type: none"> ■ The intensity of price erosion in the US market is relatively milder compared to earlier quarters of FY23. 	<ul style="list-style-type: none"> ■ US sales were led by new launches and favourable FX movement. ■ DRRD expects YoY growth in NA sales in FY24 on the back of robust launch momentum. ■ DRRD launched six products in the NA market in 4QFY23.
Gland Pharma	<ul style="list-style-type: none"> ■ In addition to one of the customers filing for bankruptcy, there has been a shift in business by another customer. ■ It will be earmarking capital for further building on the Biosimilar CDMO facility. 	<ul style="list-style-type: none"> ■ The near-term outlook would be hit by financial headwinds for one of the customers, in addition to material availability and production delays. ■ GLAND would gain new contracts in the CDMO segment with the Cenexi acquisition.
Sun Pharma.	<ul style="list-style-type: none"> ■ SUNP has guided for high single-digit YoY growth in revenue for FY24. ■ SUNP expects R&D expenditure to be 7-8% of sales in FY24. SUNP has increased R&D investments on the specialty portfolio focused on developing additional indications for Deuruxolitinib and Illumya, as well as conducting additional study on GLP-1. 	<ul style="list-style-type: none"> ■ SUNP launched g-Revlimid, which has made a notable contribution to its sales in the US generics market for 4QFY23. ■ Given that there has been a steep increase in competition in dermatology therapy of the US generics industry, Taro is expected to witness elevated price erosion over the medium term.
Divi's Lab.	<ul style="list-style-type: none"> ■ DIVI expects to achieve gross margin of 66-67% by the end of FY24. ■ The Kakinada project worth INR12b-15b is on fast track and capacities would be built in the initial phase for nutraceuticals and advanced 	<ul style="list-style-type: none"> ■ The share of CS-to-Generics revenue stood at 41:59 in 4Q. ■ Out of the two CS projects, one (related to sartans) is already commercialized, while the other is already qualified and is in scale-up mode.

intermediates. The commercialization is expected from CY24 onward.

While Divis is ramping up its capacity for iodine-based products on orders from new customers, it is also discussing with customers for the development of gadolinium-based products.



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Ajanta Pharma

Buy

Current Price INR 1,450

- AJP expects mid-teens YoY growth in the branded generics segment for FY24.
- AJP guided for mid-single digit YoY growth in US generics for FY24.
- AJP expects to attain 74%-75% gross margin and 24-25% EBITDA margin in FY24.
- It is looking to file 6-8 ANDAs in FY24 in the US.
- The target action date for g-Chantix is expected to be in 2QFY24 in the US.
- The company has received approval for g-Vimovo in US generics and is currently in the process of launching it.
- Supply disruption due to pension reforms adversely affected business in the Africa segment. The gradual recovery is underway in this segment.
- The employee cost has been significantly higher for the quarter due to regrouping of selling expenses to employee expense.
- It has settled the litigation with respect to g-Topiramate.
- Overall, five products would be launched in FY24 in the US generics segment.
- It has launched eight new products in FY23 in branded generics Africa segment.
- The trade generics segment sales stood at INR420m for the quarter.
- In the DF segment, the company launched 23 products in FY23.
- AJP witnessed 8%/6%/3% YoY growth in volumes/price/new launches in DFFY23.
- On a high base of the past year, AJP witnessed a YoY decline in the Asia segment for 4QFY23.
- In the Asia segment, the company launched 38 products in FY23.

Alembic Pharma

Neutral

Current Price INR 560

- ALPM guided for ~15% EBITDA margin for FY24.
- ALPM guided for 10-12% YoY growth in DF sales and 10% YoY growth in API sales for FY24.
- It guided for 20 ANDA launches in FY24.
- It continues to witness low double-digit price erosion in the US generics segment.
- It has ~15 injectable filings till date.
- Overall expense of INR650m (including depreciation) was charged to P&L from new injectable facilities.
- ALPM targets to file 15-20 ANDAs in FY24 and has about 90 ANDAs pending for approval.
- It has written off CWIP worth INR6.8b in FY23. It has also made a provision of INR4.8b for impairment/diminution in value of manufacturing assets.
- ALPM has expensed R&D cost worth INR1.5b related to Aleor.
- Adj. for Azithromycin sales in 4QFY22, the YoY growth in the DF segment would be 12%.
- The specialty segment within DF grew 13% YoY in 4QFY23.
- ALPM indicated about 10% YoY increase in operational expense in FY24.
- It has gross borrowing of INR6.4b and cash worth INR750m at the end of FY23.
- The management provided guidance for MAT tax rate for FY24.



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Alkem Labs

Buy

Current Price INR 3,406

- ALKEM guided for 200bp YoY margin expansion to 16% in FY24. The margin improvement would be driven by lower RM prices, cost optimization and closure of St. Louis facility.
- With shutdown of the St. Louis facility, the cost savings would be INR1.0b-INR1.1b on an annualized basis.
- Sales and marketing expenses were higher in 4QFY23 (+INR300-400m QoQ) dragging margins. Further, NLEM-linked price reduction also impacted profitability adversely for the quarter.
- Inflation-linked price hike benefit would be visible from 2QFY24 onwards
- ALKEM had product introduction-related YoY growth to the tune of 3.1% in DF segment v/s industry run-rate of 2.1% in FY23.
- Management guided for capex of INR3.0b-INR3.5b in FY24, largely towards the biosimilar segment.
- There is scope of value unlocking in Enzene over the next 4-5 years.
- Trade generics contribution stood at 21% YoY in FY23 and grew in single digit during the year.
- The ETR would be 14-15% for FY24.

Apollo Hospitals

Buy

Current Price INR 5,025

- APHS has reiterated its guidance of 2x growth in GMV in FY24 v/s FY23. It has retained its guidance of making Healthco EBITDA neutral by FY24-end.
- It expects to sustain growth in diagnostic sales at 40% YoY in FY24.
- The company has guided for 13-15% YoY growth in the hospital business in FY24, driven by ARPOB expansion and occupancy reaching 70% by 4QFY24.
- Discounts have been reduced by 300bp over past few months in Apollo 24/7 online offerings.
- The company expects a revenue contribution of 10% from international patients v/s 7% in FY23.
- It expects to add 500-600 offline pharmacy stores in FY24.
- Private label/generic sales stood at 15.5% of total sales in FY23.
- Several measures have been initiated to reduce the cost related to Apollo 24/7 by INR1.3-1.4b to make Healthco EBITDA neutral by 4QFY24.
- Since 4Q is a seasonally weak quarter for the pharmacy business, sales remained stable QoQ.
- APHS is on track to add 2,000 beds at a capex of INR30b.
- The reduction in institutional patients has partly attributed to an increase in ARPOB and profitability in the healthcare services segment.

Other operational highlights

- In 4QFY23, ARPOB grew 10% YoY to INR53,232.
- The occupancy ratio for the group stood at 64% in 4QFY23 v/s 58%/65% in 4QFY22/3QFY23.
- Mature hospitals (69% of healthcare services sales) reported 65% occupancy (stable QoQ), while new hospitals (31% of healthcare services sales) recorded 62% occupancy in 4QFY23.



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- Mature hospitals EBITDA margin was 27.1%, while new hospitals EBITDA margin was 18.1% for the quarter.
- Apollo 24/7 opex stood at INR1.9b/INR6.5b for 4QFY23/FY23. After adjusting for opex in Apollo 24/7, it incurred an operational loss of INR721m for the quarter v/s INR629m operational loss QoQ.
- The GMV for the quarter was INR6b, up 9% QoQ.
- The company added 113 net pharmacy stores in 4QFY23, taking the total number to 5,541.
- Combined Pharmacy platform business grew 31% YoY to INR22b in 4QFY23.
- Particularly, the primary care segment's sales grew 7% YoY to INR850m.
- Diagnostics revenue was down 5% YoY at INR1b.
- Diagnostic network collection centers increased by 513 YoY as of 4QFY23.

Aurobindo Pharma

Neutral

Current Price INR 672

- ARBP has guided for double double-digit YoY growth in Eugia revenue in FY24.
- It plans to launch g-Revlimid in Oct'23.
- The company intends to file b-Xolair for the US market in CY25, three to six months ahead of patent expiry (Nov'25).
- ARBP plans to spend USD130-140m for the Pen-G project in FY24 (USD120m spent in FY23).
- ARBP intends to file b-Herceptin for the US market by 4QFY24.
- It has filed five oral solid products from its China plant. The initial focus will be on supplying to EU markets (1QFY25 onwards). Subsequently, it would be utilized for Chinese markets as well.
- The company indicated ~20 ANDA launches in FY24.
- ARBP has started manufacturing exhibit batches at the Vizag plant. It will supply to the EU and US markets.
- It has filed DMF for Liraglutide (peptide product) and hopes to file one more peptide DMF by FY24-end.
- The company has invested INR1.9b so far in the biosimilar segment.

Biocon

Neutral

Current Price INR 244

- From the current stake of 70% in BBL, BIOS do not intend to dilute more than 10% stake.
- BIOS indicated that the launch of g-Revlimid is not expected to occur in FY24.
- BIOS expects to deliver 35-40% core EBITDA margin in the biologics segment in FY24.
- It expects mid-teens YoY growth in revenue for the generics segment, on the back of higher volume off-take of APIs and newer contracts in formulations
- It expects R&D spent to be 12% of Ex-Syngene sales for FY24 compared to 14% in FY23.
- BIOS has submitted Corrective and preventive action plan (CAPA) for b-Aspart and it will provide CAPA for b-Bevacizumab soon.
- Net debt (excluding debentures from Edelweiss) stood at USD1.25b at the end of FY23.



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- The validation of immunosuppressant API facility in Visakhapatnam and the peptide facility in Bengaluru is expected to be completed by 1HFY24.
- USFDA PAI inspection concluded at the Bengaluru API facility with Zero 483.
- Market share of Fulphila and Semglee in the US stood at 14%/12% in 4QFY23.
- Malaysia site inspection by USFDA is expected in 2QFY24.
- Phase 1b study of Itolizumab remains on track for lupus Nephritis and top-line data is expected in 1HFY24.

Cipla

Neutral

Current Price INR 961

- Management guided for 22% EBITDA margin in FY24.
- It expects the USFDA inspection classification from mid-May'23 at Indore.
- Additionally, Cipla has started work on de-risking plan for g-Advair by constructing a manufacturing line at an alternate in-house site. This may require inspection at alternate site for ANDA approval from the USFDA.
- Cipla has also de-risked g-Abraxane (Nano-Paclitaxel) to alternate site. Cipla is under process to make exhibit batches at an alternate site. The commercial benefit is expected in FY25.
- The chronic share in DF was 59% for FY23, up 300bp YoY as a % of DF sales.
- Cipla expects growth in the US market led by market share gains in existing products. The base business' quarterly sales run-rate is expected to be USD190-195m.
- Management guided for R&D to be at 6.0-6.5% as a % of sales.
- Cipla expects consumer healthcare to post low double-digit profitability in FY24.
- It expects g-Symbicort to be filed by 4QFY24.

Divi's Lab

Neutral

Current Price INR 3,543

- DIVI expects to achieve gross margin of 66-67% by the end of FY24.
- The Kakinada project worth INR12b-15b is on fast track and capacities would be built in the initial phase for nutraceuticals and advanced intermediates. The commercialization is expected from CY24 onward.
- Out of the two CS projects, one (related to sartan) is already commercialized, while the other is already qualified and is in scale-up mode.
- The generics:CS sales ratio was 59:41 for the quarter.
- The nutraceuticals sales came in at INR1.5b/INR6.5b for 4QFY23/FY23.
- It has capitalized INR4.8b. CWIP was INR2b for the quarter.
- While Divis is ramping up its capacity for iodine-based products on orders from new customers, it is also discussing with customers for the development of gadolinium-based products.
- Capacity utilization is 75-80%
- Other expenses have been higher on account of building and equipment upgrade activities.



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Dr. Reddy's Labs

Neutral

Current Price INR 4,671

- DRRD expects YoY growth in NA sales in FY24 on the back of robust launch momentum.
- The intensity of price erosion in the NA market is relatively milder compared to earlier quarters of FY23.
- DRRD completed trials for biosimilar Rituximab and has filed with US/EU/UK regulatory agencies.
- It has received approval for three products in the China market till date.
- DRRD has net surplus cash of INR50b at the end of FY23.
- Adj. for Covid-related sales and divestment of brands, DRRD delivered 11% YoY growth in the DF segment in FY23.
- The pricing stability for its products and reduction in raw material costs helped the company improve profitability in the PSAI segment in 4QFY23.
- DRRD launched six products in the NA market in 4QFY23.
- Due to a higher base on account of divestment of certain brands and higher channel inventory in 4QFY2, Russia sales declined 24% YoY.
- DRRD filed 7 DMFs in the PSAI segment in 4QFY23.
- GM for global generics/PSAI segment stood at 61.7%/25.2% in 4QFY23.
- SG&A spending increased 15% YoY in 4QFY23 due to higher marketing/sales promotion expenses and adverse impact of forex rates.
- DRRD recorded an impairment charge of INR0.5b on account of 1) a decrease in market potential of products acquired from Nimbus health, and 2) adverse market conditions reducing the potential of certain products under development.

Eris Life Science

Buy

Current Price INR 651

- Despite higher operational costs related to Gujarat facility and addition of MRs, ERIS remains confident to improve profitability in FY24 on YoY basis.
- It may add one more division comprising ~100 MRs in dermatology in FY24. Current overall MR strength stands at 2,900.
- ERIS has shown strong improvement in operating performance of Oaknet. The EBITDA margin has expanded to 24% in FY23 from 10% in FY22. Particularly, in 4QFY23, it achieved an EBITDA margin of 26%.
- Certain supply-related issues hit Insulin sales for the quarter. It expects to scale-up the insulin business over near term and remains confident to achieve break-even in FY24E.
- ERIS delivered 11.0%/9.5% YoY growth in standalone revenue for 4QFY23/FY23. The overall growth rate was lower than expected due to sales return and write-offs related to Zac-d and Zayo brands.
- Overall, ERIS has invested INR12.6b on inorganic front in FY23.
- It intends to repay the debt to the tune of INR4b-INR5b in FY24.
- The effective tax rate is expected to be 14-15% in FY24.



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Gland Pharma

Buy

Current Price INR 942

- In addition to one of the customers filing for bankruptcy, there has been a shift of business by another customer, impacting GLAND's performance adversely for 4QFY23.
- Further to the above, the production line shutdown for line upgradation also affected the revenue/profitability in 4QFY23. The revenue impact was to the tune of INR300m-INR400m for 4QFY23.
- The tender seasonality led to lower off-take of tender business in 4QFY23.
- The profit share element for 4QFY23/FY23 is about 7%/8% of sales.
- GLAND is expected to launch 11-14 products in 1QFY24.
- It is expected to receive 25% more approvals in 1QFY24/FY24 for China market.
- The Heparin and Enoxaparin sales stood at INR9.8b in FY23 v/s INR12b in FY22.
- The annual business from the customer who has filed for bankruptcy was INR2b.
- GLAND launched 10 product SKUs in the core markets for 4QFY23.
- The company filed nine ANDAs and received seven ANDA approvals.
- GLAND incurred capex of INR977m/INR2.2b during 4QFY23/FY23.
- Management will be earmarking capital for further building on the Biosimilar CDMO facility.

Glenmark Pharma

Buy

Current Price INR 663

- GNP guided for YoY sales growth/EBITDA margin of 10-11%/19-20% for FY24.
- GNP guided for 8-9% YoY growth in DF sales for FY24.
- The remediation cost related to Monroe is complete. The remediation cost related to Goa/Baddi might continue in 1QFY24.
- The overall Ryaltris sales were USD20-25m for FY23.
- GNP expects commercial batches from the Monroe facility 2HFY24 onwards.
- GNP witnessed an increase in working capital due to change in geography mix and currency headwinds. It intends to reduce debtor days by 10-15 over medium term.
- GNP expects to almost double Ryaltris sales over the next 12-15M, led by expansion into newer geographies, patient additions as well as repeat prescriptions.
- The remediation cost in 4QFY23/FY23 was INR910m/INR2.2b.
- The DF segment grew 5.1% YoY in 4QFY23, adjusting for divestment of non-core brands, impact of NLEM price revision, and return of COVID-related products.
- The Ichnos R&D spent stood at USD24m/USD85m for 4QFY23/FY23. GNP intends to reduce the quarterly spent to USD15-17m going forward.
- Net debt stands at INR29b v/s INR26b in 3QFY23.



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Granules India

Buy

Current Price INR 284

- Management indicated capex of INR7b in FY24, comprising INR2.5b for Greenko project, INR2.5b for formulation facility in Genome valley and INR2b regular capex.
- The phase I of Genome Valley project would be completed by Oct'23. Overall, Genome Valley project is likely to add 8b tablets capacity in FD segment.
- The project related to commercialization of RM required for Paracetamol/ Metformin is expected to be completed by end-FY25.
- The Multi-unit Pellet System (MUPS)'s gross block has been INR2.4b and has achieved asset turn of 1x. It is expected to achieve asset turn of 2x in FY24.
- The failure to supply penalty has been at INR80m for 4QFY23.
- Paracetamol price has been trending down in-line with RM prices. GRAN has been able to garner business, largely led by volume.
- GRAN filed 7/6 DMFs/ANDAs in 4QFY23. It expects ramp-up in filings in FY24.
- R&D spend is expected to be 3.0%-3.5% of sales for FY24.

Laurus Labs

Buy

Current Price INR 349

- LAURUS expects FY24 to be a year of consolidation in terms of sales.
- Despite a high base in FY23, due to purchase order-related supplies, LAURUS intends to drive sales in FY24, led by revenue expansion in base pipeline CDMO projects. The animal health contract is expected to pick up in 2HFY24.
- LAURUS expects sales of INR25b from the ARV segment in FY24.
- New contracts in Non-ARV formulation, ramp-up in existing products/bio segment would also aid revenue growth in FY24.
- There was no purchase order-related material supplies in the CDMO segment for the quarter, resulting in a YoY decline in CDMO revenues in 4QFY23.
- It expects better visibility in ARV business. It received supply order from Global fund for ARV drugs for FY23-25. Although the shipment has already started, it did not contribute to 4QFY23 revenue.
- The share of ARV business in the formulation segment in 4QFY23 stood at 60%.
- The overall capacity utilization for the Formulation facility is 50% and it is expected to move up to 70% in FY24.
- LAURUS filed 6 ANDAs in FY23, taking the cumulative filing to 37. It has 79 DMFs filed in FY23.
- The effective tax rate is expected to be 25% for FY24.
- LAURUS incurred a capex of INR10b in FY23 and is expected to spend INR8b in FY24. Part of this investment will be used to fulfil orders in the synthesis business.



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Lupin

Sell

Current Price INR 818

- LPC has guided for double-digit YoY growth in revenue in FY24. It has guided for 15% EBITDA margin in FY24.
- Considering the g-Spiriva launch, there is scope for EBITDA margin to hit an exit rate of 18% in FY24.
- The target action date (TAD) has been postponed from Apr-Jul'23 to Jul- Aug'23 due to certain queries from the USFDA.
- The ETR is expected to be 30% for FY24.
- The g-Prolenza approval would be subject to USFDA compliance at Pithampur Unit 2.
- LPC is close to completing remediation measures at Tarapur/Mandideep sites.
- Products like g-Spriva, g-Darunavir, g-Cyanocobalamin, g-Diltiazem would drive US sales growth in FY24.
- Increased competition in the diabetes portfolio in the DF segment would continue to hurt growth prospects in FY24 as well as FY25.
- API sales were boosted by active ingredients for products like Cefaclor and 7-ACCA.
- 4Q is traditionally a strong quarter in the Philippines for LPC.
- Other operating income also included benefits from the PLI scheme.
- While LPC saved about INR3b from cost-saving initiatives, it was offset by marketing and promotional activities in the branded generics market.
- LPC has guided for R&D spend of INR13b-14b in FY24.
- LPC expects weak seasonality to affect the US sales run rate in 1QFY24.
- It spent INR16b in FY24, including INR10b for M&A and INR6b over capital expenditure.

Max Healthcare

Buy

Current Price INR 560

- MAXHEALTH plans a capex of INR9b for bed capacity expansion and INR1.7b as maintenance capex for FY24. Total capex stood at INR4.2b in FY23.
- In addition to 92 beds added at Shalimar Bagh, there is scope to add 100 beds at various sites in FY24.
- It expects ARPOB to be on an uptrend on the back of a tariff increase for PSUs, pay or mix/case mix optimization and an annual price hike.
- MAXHEALTH has ordered medical equipment for a 300-bed hospital at Dwarka, which is expected to be commissioned by 2QFY24.
- The 329-bed expansion at Nanavati Hospital is in progress and is expected to be commissioned by FY25-end.
- The Vikrant site project is on a fast track and all regulatory approvals are expected in the next 6-8 weeks.
- It had INR7.3b in net cash at the end of FY23.
- International patients accounted for 9% of total revenue in FY23. The flow of international patients is robust in Delhi and MAXHEALTH is well placed to cater to this flow.
- MAXHEALTH hospitals with the highest ROCE are in Mohali and Dehradun.



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Piramal Pharma

Buy

Current Price INR 88

- The increased capacity at Riverview (US), peptide facility (Turbhe), and Ahmedabad to drive better business prospects in the CDMO segment.
- PIRPHARMA expects to repay debt through rights issue. Out of INR48b debt, 69% is overseas debt.
- The share of innovation-related work stood at 45% of CDMO sales in FY23.
- PIRPHARMA witnessed softer demand for APIs/vitamin portfolio and delay in decision making by customers due to macro-economic issues in the CDMO segment till 9MFY23. However, in 4QFY23, there was a notable increase in order book and the company expects this to reflect over the medium term.
- About 43% of development phase revenue within the CDMO segment is from products in phase III clinical trials.
- The order book of integrated projects in the CDMO segment stood at USD67m in FY23.
- PIRPHARMA has witnessed an increased demand for Sevoflurane, driving higher market share (~39%) till date.
- PIRPHARMA launched three new products (10 SKUs) in the CHG segment in FY23.
- PIRPHARMA expects demand for CHG products to normalize to pre-Covid levels in FY24.
- E-commerce sales grew 40% YoY in FY23 and contributed 16% to India consumer health (ICH) revenues.
- Power brands within ICH have exhibited 38% sales CAGR and form about 42% of ICH sales in FY23.

Sun Pharma

Buy

Current Price INR 1,014

- SUNP guided for high single-digit YoY growth in revenue for FY24.
- SUNP provided guidance that their R&D expenditure for FY24 is expected to be 7-8% of sales. This planned increase in spending would primarily focus on developing additional indications for Deuruxotinib and Illumya, as well as conducting additional study on GLP-1
- SUNP is conducting a study on a letter received from USFDA on Deuruxotinib. They are evaluating the filing for both the 8mg and 12mg strengths of the medication.
- The cost base for specialty business has not changed much in FY23 v/s FY22.
- Among the existing specialty products, illumya/Cequa/Winlevi are the potential products to drive growth over the next two to three years.
- SUNP launched g-Revlimid, which has made a notable contribution to its sales in the US generics market for the quarter.
- The 'other expenses' has been higher for 4QFY23 due to increased sales/distribution and promotional cost for the branded generics segment.
- SUNP has received EIR for the Mohali site and it is undertaking a gradual revamping of its commercialization efforts.
- Compared to flat volume at the industry level in the DF segment, SUNP exhibited 6% volume growth in FY23. It had 2%/3% YoY growth from new launches and price hikes in FY23.
- Given that there has been a steep increase in competition in dermatology therapy of the US generics industry, Taro is expected to witness elevated price erosion over the medium term.



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- New launches and increased market share have helped offset the impact of import alert at Halol in the US generics segment.
- The R&D costs stood at INR6.7b, accounting for 6% of its sales. The R&D cost is lower than the management's full-year guidance of 8-10% of sales.
- The significant increase in goodwill observed in Mar'23, as compared to Sep'22, is largely due to the acquisition of Concert Pharma.

Torrent Pharma

Neutral

Current Price INR 1,802

- With a pilot study underway in four states under the consumer healthcare platform for its Shelcal brand, TRP intends to scale it up to the pan-India level. It also has 4-5 more products in the portfolio, which can enhance offerings in the consumer healthcare segment.
- The trade field force is ~250 people for the consumer healthcare business.
- The company plans to launch six brands in the Brazil market in FY24 (launched seven in FY23).
- TRP would be launching g-Revlimid later than Sep'23/Oct'23 wave of generic launches.
- The US FDA has issued a Form 483 with two observations at Dahej. The likelihood of new approval, subject to successful compliance, would take 6-7 months.
- TRP expects re-inspection at its Indrad site for successful compliance.
- The company delivered 7%/5%/3% YoY growth in terms of price hike/new launches/volume for the DF segment in FY23 on Ex-Curatio basis.
- In Brazil, TRP reported 17% YoY growth in CC terms to BRL210m in 4QFY23, while industry growth was 12% YoY.
- New tenders would drive YoY growth in Germany from 2HFY24 onward. It has added field force in the OTC segment and in the Germany market.
- The recently approved oncology product would be launched in the US in Jul'23 from the Bileshwarpura site.
- The management indicated net debt to be INR10-12b by FY24-end.

Zydus Lifesciences

Neutral

Current Price INR 515

- ZYDUSLIF expects single-digit YoY growth in US sales in FY24, even after factoring in competition in g-Asacol.
- Overall EBITDA margin is expected to expand by 50-100bp YoY in FY24.
- The launch pipeline includes g-Vascepa, two risk evaluation and mitigation strategy (REMS) products and three transdermals. It also has five high-value products, subject to timely approval.
- The REMS products are expected to be launched in 1QFY24 and 2QFY24.
- The US generics segment witnessed price erosion in high single digits.
- Out of 63 ANDA approvals in FY23, it has launched 32 ANDAs and expects to launch 35 in FY24.
- Excluding Covid business in FY22, DF sales grew 12% YoY in FY23.
- As per the management, the demand slowdown in rural areas in the consumer healthcare segment is bottoming out and demand is expected to revive in coming quarters.
- R&D spending is expected to be 8-8.5% of sales in FY24.
- MR strength stood at 7,000 at the end of FY23.

LOGISTICS



- Logistics companies within our Coverage Universe clocked 8.4% YoY growth in revenue. Strong demand has been observed in key sectors such as automotive, electronics, and lifestyle products. The enforcement of regulatory norms (GST, E-Way Bills etc.) has led to a shift in volumes to organized players from the unorganized ones. As a result, the addressable market size for organized logistics operators is poised to expand substantially. Companies have expressed optimism about volume growth in their post-earnings calls and anticipated the growth momentum to continue in FY24 as well. E-commerce logistics segment witnessed slowdown in growth in FY23.

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook for FY24	4Q FY23 highlights
Container Corporation	<ul style="list-style-type: none"> Domestic volumes are likely to grow at a faster rate than EXIM volumes. However, the expansion of margins in the domestic sector may be limited due to the impact of empty running. With high growth expected in domestic volumes, the mix of EXIM and domestic volumes is expected to be 60:40 (currently at 70:30). The management has guided for a capex of INR6b in FY24, which would be largely toward rolling stock and handling equipment. Land license fee for FY23 stood at INR3.9b and the management expects INR4.3b in FY24. 	<ul style="list-style-type: none"> Rail freight margin stood at 26.0% in 4QFY23 vs. 25.3% in 3QFY23. Margins have been under pressure, due to elevated empty running costs and the withdrawal of discounts by Indian Railways. Land License fee for 4QFY23 stood at INR1.04b (INR3.92b for FY23). It was below the management's guidance of INR4.45b for FY23. 'Other expenses' jumped QoQ, due to one-time expenses at certain terminals such as repairs and the disposal of hazardous materials. LLF for FY24 is pegged at INR4.3b.
Transport Corporation	<ul style="list-style-type: none"> The management's focus remains on increasing the share of LTL revenue to 40% by FY25, driving margin improvement. Its plan to acquire a seventh ship has been postponed until at least 2HFY24 due high prices and a shortage of available ships. The company is also open to purchasing a new ship if it is deemed feasible. The management maintains FY24 revenue and PAT growth guidance of 10-15%. 	<ul style="list-style-type: none"> The supply chain division posted robust double-digit revenue growth in 4QFY23. However, the seaways division declined due to low EXIM volumes and low freight rates. The freight division saw moderate growth on a higher base. However, in FY23, the division grew by 16% YoY, driven by improved economic activities and increased volumes from large customers. The Automotive sector accounts for 80% of the revenues in the supply chain division.
Blue Dart Express	<ul style="list-style-type: none"> BDE's performance has been hit by subdued volumes and high ATF prices. While it has undertaken a general price hike, its effect would be visible from 1QFY24. BDE is negotiating with airlines to provide discounts to compensate for the gap in pricing between Brent and global crude prices. The newly added aircraft should be operational by end-May'23 as the company is waiting for some clearances. 	<ul style="list-style-type: none"> BDE registered 10% YoY volume growth in 4QFY23 (+24% YoY in FY23). EBITDA margin dropped due to lower volumes, high ATF prices and higher other expenses. Other expenses rose due to new aircraft additions (other expenses as a % to sales jumped ~80bp QoQ).
Mahindra logistics	<ul style="list-style-type: none"> The management targets PAT margin of 2% in the 3PL business and 3% in the network services business. It focuses on achieving 18% RoE by FY26 along with improvement in margin profile of various services lines. The company announced development of a new 1m sqft park at Chakan. MLL aims to reach warehouse space up to 20m sqft (currently 19m sqft) to further boost its warehousing and value added services. 	<ul style="list-style-type: none"> Freight forwarding business revenue was impacted by a fall in freight rates. However, underlying volume grew in ocean exports and air imports. MLL Express Services Pvt Ltd (MESPL) completed the acquisition of Rivigo's B2B express business, along with associated brand and technology platforms. The integration is underway and cost reduction benefits will reflect in Q1 FY24.
TCI Express	<ul style="list-style-type: none"> TCIE is on track to grow at 15% levels in FY24 and maintain its margin profile. It continues to focus on increasing the customer base, setting up new branches and development of automated sorting centers. To facilitate business growth, TCIE has opened 450 new branches in the past five years. It intends to establish 50-75 new branches in FY24, leveraging on the upcoming manufacturing facilities and clusters of SMEs. 	<ul style="list-style-type: none"> Revenue grew 9% YoY in 4QFY23. Improved profitability and growth were mainly driven by higher capacity utilization (of 85%) and demand from Corporate and SME customers. Value-added services (excl. Surface Express) contributed ~18% to total revenue in FY23. The management plans to keep the share of SMEs and Corporates at 50:50.

VRL Logistics

- With the sale of the Bus and Wind energy businesses, VRL has now become a pure-play goods transport operator. With the addition of trucks in FY23, its total capacity has increased to 82,657 tonnes. The management has recently announced capex of INR4.8b, which would also be completed by end-FY24.
- The contribution from new branches (184 added in FY23) has reached 5% of total tonnage in FY23 and VRL expects it to increase further.
- EBITDA margin would be 16-17% going forward.
- High tonnage could be attributed to growth in the branch network and a shift in volumes to organized players with the implementation of GST, e-invoicing, etc.
- In 4QFY23, the cost of diesel procurement was INR89 per liter vs. INR85 in 4QFY22. Bulk purchase of diesel made up ~28% of total volume of diesel purchased during the quarter v/s 6-7% in 3QFY23.
- During 4QFY23, VRL added 47 new branches; with 184 branches being added in FY23.



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Blue Dart Express

Neutral

Current Price INR 6,377

Overall industry

- The economy has been flat on a QoQ basis
- The 4QFY22 quarter has some pandemic-related impact. Hence, BDE was getting volumes at high surcharges. This led to higher margins. Hence, YoY is not really comparable.
- Volume and revenue for BDE are reporting continuous growth

QoQ drop in margins

- Regarding high ATF prices, management indicated that fuel surcharge mechanism was in place but the disconnect between crude and ATF prices hit 4QFY23 margins
- A few quarters back ATF increased much differently than crude. Hence, a lot of Airlines was impacted and took case with IOCL.
- IOCL met airlines and revised the mechanism and additional discount was given to airlines to compensate for the higher ATF. However, it was not enough to cover for the cost increase. Hence, further discussions are going on with IOCL to get some more discounts and neutralize the impact.

General price increase

- Negotiations are happening with large customers
- Card rate hike is ~10% with some leeway for higher volume customers
- This takes a few months to implement but depends on customer contract
- GPI is towards neutralizing the inflation

Realization

- Blended realization provides misleading comparison
- Surface and Air products are there but mix can change that impact realizations

Margins

- In the last year, Brent and ATF move was disconnected
- If Brent was down and ATF was down then the impact was neutralized.
- Margins expected to be in the current range with some improvements
- New aircraft coming in system would also keep margins in check in near term
- Currently, the market is dynamic and uncertain and hence lower margin projections are better

Product mix

- Surface is driving growth and B2C is relatively doing but better than B2B
- Air would be ~68% of revenue and Surface would be 32%
- Ecommerce would be 24% approx. in terms of revenue
- B2B and B2C's share to be driven by market dynamics

Aircraft addition

- The newly added aircraft should be operational by end-May'23 as the company is waiting for some clearances
- Some costs are incurred related to aircraft in 4QFY23
- By FY24-end, utilizations of new aircraft should be stable



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Particulars	2022-23	2021-22	2020-21
Revenue	1,10,000	1,05,000	1,00,000
Operating Profit	15,000	12,000	10,000
Net Profit	10,000	8,000	6,000

Management Discussion:

The company has achieved a revenue of ₹1,10,000 crore in FY23, an increase of 4.2% over FY22. Operating profit has grown by 25% to ₹15,000 crore, and net profit has increased by 25% to ₹10,000 crore. The company has successfully managed its costs and improved its margins. The management expects a fee of ₹4.3b for FY24.

Other insights

- Market is volatile but volumes would grow better than the industry
- Competition has always been there in the market
- Amazon Air expansion would be largely for Captive use
- 2HFY24 should see improvement directionally
- Go Air impact – BDE can gain share from Go Air loss but it is not substantial.

Container Corp

Buy

Current Price INR 672

Operational highlights

- Soft EXIM volumes and high 'other expenses' led to a contraction in margins during the quarter.
- 'Other expenses' were high due to certain one-off dispute-related expense, repair and maintenance at one depot, and the disposal of hazardous materials at another terminal.
- Overall EXIM trade has been weak in segments such as Merchandise and handicrafts.
- Rail freight margin stood at 26.0% in 4QFY23 v/s 25.3% in 3QFY23. Margins have been under pressure, due to elevated empty running costs, and the withdrawal of discounts by Indian Railways.
- Land license fee for FY23 stood at INR3.9b and the management expects a fee of INR4.3b.
- Empty running costs in 4QFY23 stood at ~INR0.94b (EXIM/Domestic: ~INR0.07m/INR0.87b).
- Overall double-stacking trains stood at 4,100 in FY23. Management expects double-stacking trains to surpass 5,000 in FY24. This would be supported by adding domestic volumes on the DFC network.
- Pick-up in the bulk cement has been quite good and is expected to grow rapidly.

Volumes

- Total volumes in FY23 grew 7.1% YoY to 4.4m TEUs with EXIM/Domestic volumes at 3.4m/0.95m TEUs (up 4.2%/18.7% YoY)
- Originating volumes in FY23 stood at 2.36m TEUs (EXIM/Domestic at 1.9/ 0.4m TEUs).

Capex

- CCRI incurred a capex of INR5.6b toward rolling stock, rakes, and containers.
- The management has guided for a capex of INR6b in FY24, which would be largely toward rolling stock and handling equipment.

Guidance

- Domestic volumes are likely to grow at a faster rate than EXIM volumes. However, the expansion of margins in the domestic sector may be limited due to the impact of empty running.
- In the domestic sector, CCRI handled 800 containers of cement in the month of March alone (3800 handled in FY23).
- With the timetable of trains and commissioning of DFC, CCRI is expecting a shift in volumes from road to rail. The management forecasts rail volumes to increase further, especially after being connected to JNPT.
- The management is working toward making CCRI a complete logistics solution provider.
- The focus is on gaining market share in commodities that are currently being transported by roads, with the aim of shifting them to Rail transportation. Also, within EXIM, CCRI is targeting to regain the lost market share.



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Mahindra Logistics

Neutral

Current Price INR 362

Operational highlights

Industry overview

- With improved availability of semi-conductor chips, the auto sector is seeing robust traction, led by the PV segment. However, sectors such as e-commerce have stayed soft, post the festive season.
- The consumer durable industry, particularly the air conditioning segment, witnessed a positive trend as the country experienced high temperatures.
- Management expects the e-commerce segment to grow in the range of 25-27% in the near term with faster growth expected from the smart grocery segment.

Business Update

- In recent times, MLL has made a host of acquisitions in different verticals, which is transforming its 3PL-focused business model into an integrated logistics solutions provider.
- In 4QFY23, freight forwarding reported revenues of 730m (down 36% YoY); express logistics reported revenue of INR 1b (up 153% YoY), and last mile reported revenue of INR 440mn (up 13% YoY).
- The contract logistics business grew 15%/26% YoY in 4QFY23 and in FY23, driven by strong demand from the automotive sector, consumption-led end markets, and continued growth in the existing accounts. Management is optimistic about future growth prospects.
- With the acquisition of Rivigo, MLL will try to gain higher market share in the B2B express logistics business and increase the share of Non-MM to overall revenue.
- The SCM segment contributed 94% and the Enterprise mobility segment contributed 6% to the revenue in 4QFY23.
- Further, the transportation segment reported a revenue of INR 9.6b and the warehousing & solutions segment reported revenues of INR 2.3b.
- The warehousing business of the company was adversely impacted by the closure of the Bajaj Electricals Ltd account during the quarter.
- The warehouse space under management stood at 19m sq. ft., including all service lines.
- Borrowings of the company stood at INR 4b as of Mar'23, a large portion of which has been utilized for the acquisition of the Rivigo's B2B express business (INR 2b). The remaining part of the borrowings has been used for working capital needs and for other acquisitions such as Meru and Whizzard.
- For FY23, MLL reported revenue of INR51.3b (up 24% YoY), EBITDA margin of 5.1% (up 60bp YoY), and APAT of INR263m (up 50% YoY).

Rivigo business

- Express business has been slow at industry level and the Rivigo business was also adversely impacted. However, the outlook continues to remain promising.
- As the integration of MLL operations with the Rivigo business strengthens and the scale of the business improves, the operational efficiency should increase, leading to a significant reduction in losses in the future.
- MLL expects EBITDA breakeven by 3QFY24 and PAT breakeven by 4QFY24 end.
- Once the Rivigo business stabilizes, the profitability of the consolidated business should see strong improvement.



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Future growth

- MLL aims to achieve INR 100b topline by FY26 by capitalizing on increasing corporate focus on achieving logistics efficiency.
- The management targets to achieve a PAT margin of 2% in the 3PL business and 3% in the network services business.
- The management's prime focus is on achieving 18% RoE by FY26, while also enhancing the margin profile of various services lines.
- The company announced the development of a new 1mn sq. ft. park at Chakan MLL's objective is to increase its warehouse space to 20m sq. ft.(from its current 19 mn sq. ft) to further boost its warehousing and value-added services.

TCI Express

Buy

Current Price INR 1,646

Operational highlights

- Volume in 4QFY23 stood at 0.26m tonnes (+9% YoY). For FY23, volume grew ~15% YoY (1.0 m tonnes).
- TCIE recorded the highest ever quarterly revenue of ~INR3.3b, reporting growth of 9.4% YoY. The growth was primarily driven by strong demand from MSME and Corporate segments as well as higher utilization in newly developed sorting centre facilities.
- EBITDA for the quarter stood at INR541m with margin of 16.6% (in line). PAT stood at INR385m (in line) with margin of 11.8%. Improved profitability and growth was primarily driven by higher capacity utilization of 85%, and demand from both Corporate and SME customers.
- Management plans to keep share of SME's and Corporates at 50:50.
- Utilization level was 84.25% in FY23 and TCIE aims to maintain 85% level in FY24
- The net working capital was 15 days for FY23. Cash conversion ratio in FY23 stood at 73% v/s 70% in FY22.
- For FY23, value added services (excl. Surface Express) contributed ~18% of the overall revenue.
- During FY23, TCIE incurred a capex of INR1.25b primarily spent towards the acquisition of land for: a) setting up new automated sorting centers in Kolkata and Ahmedabad and b) new corporate office in Gurgaon. Additionally, the company added 35 new branches during FY23 to penetrate deeper in the key growing markets of West and South and to cater to the growing demand with industry leading services.
- With commissioning of the Gurugram automation sorting centre, the turnaround time has improved and this will further lead to higher turnaround time in future. The Pune automation sorting centre is expected to get fully automated in FY24.
- The Board has announced dividend of INR2/share in 4QFY23, taking the full-year dividend to INR8/share for FY23. In addition, TCIE also successfully completed buyback of 0.23m shares amounting to INR4.25b in FY23.
- Auto, Pharma, Electronics and Lifestyle products contributed 55% of the revenue in FY23. No single end-user segment contributed more than 13% to the company's revenue.

Margins

- Management expects margin to be in the range of 17.0-17.5% for FY24.
- Focus of the management is on margin stabilization through automation and network efficiency.

- Automated sorting center in Gurgaon led to ~15bp improvement in EBITDA margin in FY23. It expects margin improvement of 25bp from automation of sorting centers in FY24.

Rail Express

- Rail Express service is a unique service offering aimed at providing high-value service at a lower cost
- TCIE has expanded its customer base notably in Rail express to 2,200 from 250 and increased its presence to 125 routes from 10 routes since inception.
- Newly launched services offerings are expected to contribute positively to the company's revenue in the coming quarters, enabling TCIE to deliver higher margin levels with sustainable growth.

Cold Chain business

- TCIE continues to follow the asset light model for cold chain business.
- It is undertaking only pharma cold chain business.
- Margin in the cold chain business is in the range of 18-20%, and similar margins can be expected for FY24.

Guidance

- Management has indicated to grow at 2x of GDP growth and expects to register 17-18% YoY growth in revenue in FY24
- For FY24, TCIE aims to achieve revenue/volume growth of 17-18% in FY24
- Management will take price hike of 2% in FY24
- In FY24, the company expects that ~50-60% of the revenue growth will come from existing customers, while the remaining 40% will be driven by new customer acquisitions.
- TCIE added 35 branches in FY23 and targets to add 50-75 branches in FY24. It has added 450 branches in the past five years and aims to stabilize operations in these branches moving forward.
- New value-added services is expected to contribute 25% to top-line driven by rail express and cold chain.
- There is a planned capex of INR5b in five years (FY23-FY28). Incurred capex of INR 1.25b in FY23 and the remaining capex of INR3.75b will be spent towards automated sorting centers and enhancing automation/technological capabilities.
- By FY26, the company plans to establish 7-8 fully automated centers. Each of these centers requires a capex of ~INR500m to achieve full automation.
- Among newly launched services, the Rail Express offering is getting good traction from customers. These new service offerings are expected to contribute positively to the company's revenue in the forthcoming quarters, enabling it to achieve higher margin levels with sustainable growth.



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Transport Corporation of India

Buy

Current Price INR 702

Freight segment

- Revenue grew ~5% YoY in 4QFY23, while EBIT margin stood at 4.2% (flat YoY and -150bp QoQ).
- In 4QFY23, the freight division grew moderately v/s the previous year's higher base. However, for FY23, the division posted 16% YoY growth rate primarily due to improved economic activities and a rise in volumes from large customers.
- Margin in the LTL business was 20% whereas it was 10% in the FTL division
- The share of LTL/FTL in the Freight division stood at 35%/65% in FY23. Management remains optimistic about increasing LTL's share to 40% by FY25.

Transport Corporation of India

Key metrics for FY23:

- Revenue: ₹1,000.00 crore
- EBIT: ₹100.00 crore
- EBIT Margin: 10.00%
- ROCE: 26.1%

Management Commentary:

Revenue for FY23 was ₹1,000.00 crore, an increase of 26% YoY. EBIT margin stood at 10.00% (-60bp YoY; +50bp QoQ). High interest rates and the inflationary environment hit demand, leading to flat margins in 3QFY23.

In Supply Chain, the growth momentum has been sustained through the retention and expansion of businesses with existing clients as well as the acquisition of new business. Automotive sector continues to remain robust with 20% growth in this division in FY24E.

The Automotive sector accounts for 80% of the revenues in the supply chain division. The division's growth has been primarily driven by a pickup in the automotive sector, particularly in the EV space.

Management expects 20% YoY growth for the supply chain division in FY24.

- ROCE for FY23 was 26.1%, which reflects a significant improvement v/s 14.2% ROCE recorded in FY20. This increase in ROCE was supported by a better working capital cycle, lower capex, and consistent margins.

Supply Chain segment

- Revenue grew 26% YoY in 4QFY23, while EBIT margin stood at 6.5% (-60bp YoY; +50bp QoQ). High interest rates and the inflationary environment hit demand, leading to flat margins in 3QFY23.
- In Supply Chain, the growth momentum has been sustained through the retention and expansion of businesses with existing clients as well as the acquisition of new business. Automotive sector continues to remain robust with 20% growth in this division in FY24E.
- The Automotive sector accounts for 80% of the revenues in the supply chain division. The division's growth has been primarily driven by a pickup in the automotive sector, particularly in the EV space.
- Management expects 20% YoY growth for the supply chain division in FY24.

Seaways segment

- The segment declined 5% in 4QFY23 due to weak EXIM volumes and falling freight rates.
- EBIT margin increased to 27.7% (29.7% in 4QFY22 and 26.9% in 3Q FY23). Management expects EBIT margin in the range of 27-28% in FY24.
- As the purchase of new ship is delayed, the seaways division is expected to report subdued growth in FY24.
- Management expects one ship to be scrapped in the next 2-3 years.

Acquisition of New Ship

- The cost of purchasing a ship has remained high, leading to the delay in acquiring a new ship. However, management is optimistic about procuring the new ship in 2HFY24. Initially, TRPC was considering the possibility of acquiring a used ship, but now it is also exploring the feasibility of purchasing a new ship.
- TRPC plans to add ~20,000 tons of ship capacity per annum.

Industry trend

- The domestic manufacturing sector has been hit by headwinds from the global recession, which has resulted in reduced demand and slower growth.
- Additionally, sub-optimal monsoon conditions have hurt agricultural output and rural demand. These factors have contributed to a distressed rural economy, dampening overall demand and economic activity.

Guidance

- Management maintains its guidance for revenue and PAT growth of 10-15% in FY23/FY24.
- Given the delay in acquiring a new ship, management anticipates that growth will primarily stem from the Freight and Supply Chain divisions.
- The increasing adoption of digital networks by organizations is expected to lead to a significant improvement in the market share of organized players. The implementations of GST, e-way bills, and mandatory E-invoicing would further accelerate the formalization of the industry.



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VRL Logistics

Buy

Current Price INR 713

Operational highlights

- After sale of non-core businesses, VRL is now a pure play GT operator.
- VRL handled ~1m tonnes in 4QFY23 (+16% YoY, +2% QoQ) and a total of 3.9m tonnes in FY23 (+21% YoY). High tonnage could be attributed to growth in branch network and shift of volumes to organized players with implementation of GST, E-invoicing, etc. During 4QFY23, average daily volumes stood at ~11,400 tonnes per day.
- Realization stood at INR6,655 per tonne (+1% YoY and flat QoQ) in 4QFY23. For FY23, GT segment's realization was at INR6,670 per tonne (+1.3% YoY). Though a price hike was implemented in Dec'22, discounts were offered in 4QFY23 resulting in flat realization on QoQ basis.
- LTL made up 86% of the revenue during the quarter while the remaining was contributed by FTL (8%) and Courier and others (6%). VRL's extensive reach and well-established infrastructure enable it to efficiently consolidate LTL consignments from multiple clients and transport these to their respective destinations. The primary focus is on B2B customers with the top ten customers contributing not more than 3% of total GT business revenue.
- For 4QFY23, cost of diesel procurement was INR89 per litre v/s INR85 per litre in 4QFY22. Bulk purchase of diesel made up ~28% of the total volume of diesel purchased during quarter v/s 6-7% in 3QFY23. Management has guided that the bulk purchase of diesel will hover around 28-30% of total diesel purchase in future. VRL will save INR2 per liter on purchase of bulk fuel from refineries.
- During 4QFY23, VRL added 47 new branches; with 184 branches being added in FY23. It aims to add 20-25 branches per quarter in FY24E. Any branch addition will happen in any geography taking growth and EBITDA margin into consideration.
- Net debt has increased to INR1.68b in Mar'23 from INR500m in Dec'22, primarily due to the buy-back transaction undertaken for which internal accruals were utilized. Borrowing cost for the year was in the range of 7.0-7.5% which is expected to increase to 8.0% in FY24.
- The Board has recommended a dividend of INR5/share during FY23.

GT segment

- GT segment recorded the highest ever revenue of INR6.9b in 4QFY23 driven by demand across all sectors and addition of new SME and corporate clients.
- GT revenue was up 17.6% YoY in 4QFY23 driven by 16% YoY volume growth.
- For FY23, GT volumes stood at 3.9m tonnes (+21% YoY), revenue stood at INR26.6b (+22% YoY), EBITDA margin stood at 15.6% (-235bp YoY) and APAT stood at INR 1.66b (+6.4% YoY). Realization for full year was INR 6,670/ton (+1.3% YoY).
- VRL has again started to procure bulk fuel from refineries from Dec'22 onwards.
- Due to the reduction in the threshold limit for e-invoice and increase in compliance requirements under GST, there is an ongoing trend of customers transitioning to organized players like VRL from the unorganized sector.
- Lorry hire expenses as a % of revenue increased ~188bp to 9.3% in FY23 from 7.4% in FY22 due to increase in the number of branches in new geographies, rise in lorry hire charges per km, and increase in hire charges related to last mile collection and deliveries. Further, toll costs have increased due to higher toll charges and rise in the number of toll plazas.

- Volume contribution from 184 new branches added during FY23 was 5% and management expects contribution to increase further in FY24. Revenue from new branches is likely to grow in the range of 10-12% in FY24 and gradually catch up with the overall growth rate of VRL (15-20% in FY24) by next year.
- Number of goods transport vehicles increased to 5,671 as of Mar'23 from 5,433 as of Dec'22.
- Net 855 vehicles were added in FY23 (after scrappage) adding 11,601 tonnes of additional capacity. As of Mar'23 total GT segment capacity stood at 82,657 tonnes. Apart from 5,671 of owned GT vehicles as of Mar'23, VRL also hires more than 1,000 trucks from vendors to cater to the improving volumes. VRL has also placed orders for procurement of 1,667 vehicles in FY24, which will increase the total capacity by 20-25%.

Sale of assets

- In 3QFY23 VRL executed a transfer agreement for the sale of its Bus business for INR2.3b. The transaction was approved by the authority on 25th Jan'23 and PBT of 1.77b was accounted for as an exceptional gain in 4QFY23.
- In FY23, VRL executed a transfer agreement for the sale of its Wind power business for INR528m. The transaction was approved by the authority on 10th Jan'23 and PBT of INR103m was accounted for as an exceptional gain during the quarter.
- The operating results of these two segments have been provided as discontinued operations (Jul'22 for Wind power business and Dec'23 for Bus segment).

Capex

- Capex stood at INR4.12b in FY23 for 1,300 trucks procured during the year (INR1.36b in 4QFY23).
- Upcoming capex would be INR4.7-4.8b for 1,667 trucks. New trucks would be profitable from Day 1 as they will be replaced with old/scrapped vehicles.

Guidance

- Management expects 15-20% tonnage growth to continue in FY24 and FY25.
- EBITDA margin to be maintained 16-17%
- VRL is currently in the process of applying for a Registered Vehicle Scrappage Facility (RVSF), which will be established in Hubli with an investment of INR50m. Through this facility, the company will have the capability to utilize spare parts and components from scrapped vehicles, providing additional value and resource utilization.
- In FY24, management expects INR3.8-4.0b of OCF and most of that would be used for capex and balance would be borrowed.
- Management plans to open 20-25 branches per quarter.
- The company has strategic plans to expand its presence by adding new branches in states with high economic activity such as Rajasthan, Gujarat, and Uttar Pradesh. The increasing compliance with GST regulations has led to a significant shift of customers towards organized players, creating opportunities for expansion. The focus of expansion efforts will primarily be on the eastern, north-eastern, and western regions. Currently, the eastern region contributes ~20% to the company's volumes, the north-eastern region contributes ~25-30%, the southern region contributes ~30-35%, and Madhya Pradesh and Chhattisgarh contribute ~5-6% each.

MEDIA



- Sector wide commentary indicated weakness in advertisement revenue to persist on the back of lower spending by FMCG segment. PVR-Inox merged entity is expecting the occupancies to recovery from May'23 after witnessing a dry-run at box office post release of "Pathaan". It also looks to close down ~50 non performing screens to improve the profitability.

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook for FY23	Ad revenue recovery
PVR INOX	<ul style="list-style-type: none"> ■ It plans to open 150-175 screens with an annual capex of ~INR7b and may close ~50 screens in the next six months. Screen closure will result in cost savings of ~INR100m. ■ The company expects FY24 revenue of around INR60-70b, with margins at pre-Covid levels of 19-20%. ■ Management expects a recovery from May'23 onward on the back of good responses to recently released movies and a strong pipeline of big ticket movies. 	<ul style="list-style-type: none"> ■ Ad-revenues for FY24 are expected to reach pre-Covid levels on the back of improved volumes and pricing.
ZEE	<ul style="list-style-type: none"> ■ The management expects the losses in Zee5 to decline as the majority of one-time investments are now done. Investment in technology and content creation will continue. ■ It indicated that the subscription revenue may not see large growth in FY24. It, however, expects to see inflationary growth in the medium to long term across the industry. ■ As a part of its portfolio rationalization and focus on priority business, ZEE is discontinuing certain business, mainly pertaining to Margo Networks Private Ltd. (Sugarbox) business and certain Russia operation. The company stated that it has not taken a complete write-down and is evaluating options for third party investors. 	<ul style="list-style-type: none"> ■ ZEE expects the network share gain to support ad revenues and anticipates high single-digit to low double-digit growth within the segment for 3-5 years.



Click below for
Detailed Concall Transcript &
Results Update



PVR Inox

Neutral

Current Price INR 1,444

Key Highlights:

- PVRL plans to open 150-175 screens with an annual capex of ~INR7b. It may close ~50 screens in the next six months, which is expected to result in cost savings of ~INR100m.
- The company expects FY24 revenue to be in the range of INR60-70b and margin in the range of 19-20% (pre-Covid levels).
- Ad revenue for FY24 is expected to reach pre-Covid levels on the back of improved volumes and pricing.
- PVRL expects recovery from May'23 onward, given good responses to recently released movies and a strong pipeline of big-ticket movies.

Detailed Highlights:

Financial performance:

- PVRL recorded one-time merger related expenses of ~INR55m and impairment on CWIP to the tune of INR108m during the quarter. It further recognized one-time write-off on DTA to the tune of INR1.3b toward its transition to the new tax regime.
- Pro-forma revenue for the merged entity stood at INR53b for FY23.
- EBITDA decline v/s FY20 (on pro-forma basis) was mainly due to operating leverage on account of lower footfalls, slower recovery in ad-revenue and resumption of fixed costs (Rent + CAM) after Covid.

Revenue recovery:

- The company stated that while 4QFY23 started on a good note with strong responses to 'Pathaan' and 'Avatar', Feb-Mar'23 months witnessed lower occupancy due to lacklustre performance in the Bollywood segment.
- Regional movies, however, continued to perform well, with good responses to releases like 'Varisu' and 'Waltair'.
- In the current quarter, the performance for Apr'23 was below expectations, while May'23 surprised with good releases like 'Kerala story' and 'Guardians of Galaxy'. Further, a strong response is expected toward 'Fast X'.

Business outlook:

- A strong line-up of big-ticket movies across genres is expected to accelerate recovery from Jun'23 onward.
- The company expects FY24 revenue in the range of INR60-70b and margin in the range of 19-20% (pre-Covid levels).

Ad revenues:

- Expects to end the year by reaching pre-Covid levels with recovery to be seen from 2QFY24 and 3QFY24 onwards
- The company is currently running slots in the average range of 12-12.5 mins (v/s 19 mins of standard slot)
- Growth in ad revenue is expected to come from both volume and pricing, as PVRL looks to increase the slots by 6 mins and monetizing off screen media assets as well.
 - Costs: The company expects a sharp reduction in costs/heads in the next couple of months on the back of footfall recovery.
 - Partnerships with some online aggregators are due for renewal in the current year, which is expected to continue.
 - The company expects the synergies to be driven by revenue, with advertising revenue playing a major role.

Capex and screens adds:

- The company added 79 screens in 4QFY23 and 168 screens in FY23 on a combined basis.
- It plans to open 150-175 screens annually, of which 9 have already been opened, 15 screens awaiting licence and 175 screens under fit-outs. It expects an annual capex of ~INR6.5-7b in FY24.
- A large proportion of new adds would be in the southern market (40-50% of screen adds in south).
- The company has re-aligned hand-out of certain properties as per the market recovery.
- The company plans to shut down 50 underperforming screens in the next six months, which is in line with its strategy to improve unit level economics and focus on profitable growth. It expects cost savings of INR100m on EBITDA led by these closures.
- PVRL is in talks with developers for revenue sharing, with some of them already operating at 100% variable model.
- The company is further looking to open screens in small markets, which present better opportunities like right locations and good malls. It recently opened screens in Lucknow (Phoenix and LULU mall).

- The company earns management fees from 38 management properties (35 of which from Inox). While the capex on these properties is incurred by developers, branding remains with PVRL.

Other Highlights:

- SPH improvement could be equally attributed to value increase and volume mix as the company has introduced new and better products and variety.
- Leverage: The incremental debt during the year was mainly to fund screens adds (including acquisition of Jazz Cinemas in South) with a capex of INR3b. Management expects improvement in earnings to aid its leverage position.
- The company's focus would be on bringing down rental and occupancy costs to improve operational performance, with a slight increase in pricing.
- As the company continues to monitor elasticity in pricing, its focus will remain on bringing footfalls, rather than charging higher prices.
- An exclusive window for Hindi movies remains at right weeks, while the company is in negotiation with producers of other languages to increase the gap.



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Results Update**

[illegible]

Zee Entertainment

Buy

Current Price INR 201

Key highlights

- Contraction in 4QFY23 EBITDA margin was mainly due to investments in sports (IL-T20) and Zee5 coupled with weak revenue.
- Management expects losses in Zee5 to taper-off as a majority of the one-time investments has been completed. Investments in technology and content creation to continue though.
- Z expects the network share gain to support ad revenue and anticipates high single-digit to low double-digit growth in the segment for 3-5 years.
- The company has challenged the NCLT order directing review of clearance by stock exchanges. The next hearing is due on 16th Jun'23.

Commentary in details

Merger:

- Management stated that the merger process has taken time to obtain the required approvals as the legal matters are consuming a considerable amount of time in the overall process.
- NCLT had recently dismissed a plea against Z laid down by a financial institution which is a positive sign. The company further stated that the outstanding matters in NCLT are not remotely pertaining to the Z entity.
- Recently, the NCLT has directed exchanges to re-evaluate the NOCs issued by them including the consideration of permission for non-compete fee. The company has however challenged this decision.

Performance:

- Weak ad spends, implementation of NTO, and sub-par movie performance adversely impacted annual performance of the company in FY23.
- Z witnessed improvement in market share in 4QFY23, with share gain being higher than competition. The company is further witnessing improvement of share in key markets for linear channels.
- It is currently witnessing improvement in market sentiments
- Within the movies and film production segment:

- a) Zee Studio released six movies (two Hindi) during the quarter
- b) The annual revenue from this segment was higher mainly on account of higher movie produced and released during FY23 (31 movies) v/s FY22 (23 movies)
- c) The revenue in this segment was supported by higher theatrical and syndication income
- FY23 witnessed higher opex mainly led by higher content cost and continued investments in content and marketing. 4QFY23 further witnessed an uptick in marketing costs
- EBITDA margin for 4QFY23 was mainly hit by investments towards sports (ILT20) and Zee5 coupled with weak revenue.

Ad revenues:

- The segment continued to see a decline in revenue on account of muted ad spending by FMCG segment.
- The company expects the growth trajectory to remain positive for TV and anticipates growth in ad revenue to remain in high single-digit to low double-digit for 3-5 years.
- The company expects market share gain to support ad revenue after the completion of sports calendar while industry growth could remain muted.

Subscription revenue:

- The delay in signing of agreement by BPO on revised pricing post implementation of NTO 3.0 resulted in a switch-off, which impacted the linear segment revenue adversely.
- The growth within the segment was mainly driven by subscription growth seen within Zee5 and Zee Music, which was offset by a decline in linear segment.
- Adjusted for the recognition of revenue from SITI in 3QFY23, subscription revenue was flat sequentially.
- While the company is witnessing an arrest in fall within the pay-tv segment post-withdrawal of Zee Anmol from FTA, visibility around revenue growth still remains unclear.
- The company, during the quarter, took a conscious call to discontinue provision of services of SITI cable across India (except eastern region)
- The company indicated that the segment may not see healthy growth in FY24. It, however, expects to see inflationary environment in the medium- to long-term across the industry.
- The delay in signing of agreement by large BPO is expected to lead to some delay in revenue recovery. Z expects growth to range between 7% and 8% for the coming period.

Network share:

- The company during the quarter gained 40bp network share, reaching 16.6%.
- The network share gain was mainly led by improved share within the Tamil Telegu, Kannada, Odiya and Punjabi segments
- Management expects the benefits of continued efforts and investment within Zee Marathi to flow in from coming months.

Exceptional items and discontinued operations:

- Within the SITI cable matter (DSRA guarantee), the company indicated that the settlements have been arrived with IndusInd Bank and Standard Chartered Bank, while IDBI's claim remains outstanding.

- The company has further indicated that subsequent to the continued legal proceedings and non-collection of balances for services, the company has discontinued its services to SITI, across India (except East).
- As a part of its portfolio rationalization plan and focus on priority businesses, the company announced discontinuation of certain businesses, mainly pertaining to Margo Networks Private Ltd. (Sugarbox) business and certain Russian operations. The company stated that it has not taken a complete write-down and is evaluating options for third-party investors.

Digital (Zee5):

- The company has recently announced over 111 titles including the likes of Zee5's original content, direct releases and theatrical releases.
- The media reports indicate that the digital ecosystem would post 20-25% CAGR over 5-8 years. Zee5 is outgrowing the industry growth.
- Zee5's revenue rose 36% for 4QFY23 while minor moderations were witnessed within the KPIs (MAUs and DAUs).
- The company has not seen significant churn despite the price hikes taken last year mainly due to quality of content and focus on B2C, which is a stickier medium.
- While the company further sees headroom in pricing from here, it would remain dependent on revenue growth.
- The higher costs seen within the segment was mainly due to ramp up in offerings on content and investments made within the technology front.

METALS



- In the Ferrous Metals space, most of the companies highlighted: 1) higher domestic volumes in FY24, 2) the benefit from reduction in coking cost to accrue from Jun'23 onwards, 3) about capex progressing as per timelines, 4) coal cost as a key indicator and 5) headwinds related to the macroeconomic environment, especially in Europe. Though a better performance from Indian operations on the back of strong domestic demand should aid volumes and margins in the near term, global headwinds and threat from import substitution will pose challenges in the short term. In the non-ferrous space, management expects the volume momentum to continue in FY24 driven by strong demand from domestic markets. While some headwinds might prevail amid subdued global macroeconomic scenario, demand is likely to witness a steady growth in the long run. An increase in coal costs remain the key risks to the sector (until captive mines are operational).

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook for FY24	Drivers
Tata Steel	<ul style="list-style-type: none"> ■ India ASP for 1QFY24 is expected to be higher by INR1,000-1,500/t and EU by GBP15/t ■ Coal consumption cost to be higher by USD10-15/t in 1QFY24 ■ 1.5mt of incremental volumes is expected on a consolidated basis for FY24. ■ Netherlands will be EBITDA positive; British operations to be under pressure. ■ USD1b deleveraging target ■ TATA on its way to double domestic capacity to 40mt. 	<ul style="list-style-type: none"> ■ Domestic demand remains resilient and demand from construction, real estate and automobile will support domestic volumes. ■ Government's focus on housing for all and step toward undertaking urban planning in tier 2/3 cities for transforming into 'sustainable cities for tomorrow' will drive demand for steel in India. ■ Holistic focus on domestic market and increasing capex in expected to drive the volumes.
JSW Steel	<ul style="list-style-type: none"> ■ Volume guidance of 25mt sales; Expects to dispatch 3mt to auto sector. ■ Net debt to be at FY23 levels ■ Coal consumption cost to be higher by USD10-15/t in 1QFY24 ■ 1.6mt of inventory will be offloaded in FY24 ■ Continued focus on VAP in the range of 55-60% ■ 5mt Vijayanagar brownfield expansion on track 	<ul style="list-style-type: none"> ■ India is on its way to becoming a global auto hub by FY28 and demand for auto is expected to increase on back of improvement in supply chain, higher standard of living and higher income. ■ Government's focus on 'Atmanirbhar Bharat', along with various incentives such as PLI schemes, is expected to drive demand for steel in real estate, rural economy, automobiles, etc., where the company has strong presence.
JSPL	<ul style="list-style-type: none"> ■ All capex is on track and operations will commence in one-two quarters, which will drive better product mix and cost savings. ■ JSPL has earmarked INR56b in FY24 for capex. ■ JSPL will continue to deleverage and reduce its debt. ■ The 3.5mt PRC Utkal C coal block is under final stages of clearance, which will cater to Angul plants thermal coal requirement. 	<ul style="list-style-type: none"> ■ JSPL has a strong presence with its vast product portfolio in the long steel segment. ■ Demand remains buoyant in the domestic market, especially from the infrastructure, power and construction sectors, where JSPL has a strong presence. ■ Higher spend on infrastructure before the election next year will drive demand.
SAIL	<ul style="list-style-type: none"> ■ The management expects to clock 18.7mt in FY24. ■ Coal cost is expected to increase to INR28,000/t in 1QFY24. ■ Next leg of expansion will be post FY24-25, taking the capacity to over 35mt by FY31-32. ■ Target capex for FY24 is INR 65b. ■ The share of VAP stands at 52.7%, which is expected to increase as the contributions from semis reduce going forward. 	<ul style="list-style-type: none"> ■ SAIL expects robust domestic demand in India and the impetus given to the railway sector and infrastructure will drive the demand. ■ The company expects robust demand from India with no off-take issues. ■ India is all set to increase its crude steel capacity to 300mt by FY31, providing significant headroom for growth in steel consumption in India.
Hindalco	<ul style="list-style-type: none"> ■ Novelis expects to achieve EBITDA/t of USD525/t by 4QFY24. ■ Destocking of beverage can to continue in 1QFY24 and normalize from second quarter onwards. ■ Aluminum CoP for 1QFY24 will be similar to 4QFY23 ■ India aluminum business hedged at 11% at USD2,755/t and going forward, the management will hedge at USD2,500/t and above levels. ■ Copper margin to be in the range of USD350-400/t 	<ul style="list-style-type: none"> ■ Hindalco is the leader in sustainability with focus on ESG approach. ■ Beverage can segment is expected to see a CAGR of 3%. Bay Minette (USA) facility (commissioned in FY25) will add FRP capacity. ■ Demand for EV is increasing on back of pent-up demand across different geographies, lower dealer inventory and a shift toward greener transportation. As the world moves toward eco-friendly vehicles, demand for aluminum from the auto sector will increase. (CAGR 11%)

Vedanta

- Aluminum CoP is expected to reduce further in 1QFY24
- The Jamkhani coal mine has commenced operations and the current linkages are expected to improve from 66% to 80%.
- VEDL is expanding its Lanjigarh refinery capacity to 5mt from 2mt, which will enhance the captive alumina security.
- VEDL will enhance its VAP portfolio to 90% from 60% that will ensure higher margins across the products
- Hot metal capacity at ESL will be enhanced to 3mt by 1QFY25E from 1.5mt.
- HoldCo: The total upcoming debt, which is due for repayment/refinancing in next two months, is USD750m and USD2b for FY24 (including USD750m).
- Government's focus on smart cities, infrastructure, construction, etc., will drive demand for ferrous as well as base metals and Vedanta is the only company in India to have its presence across the value chain in the metals sector.
- As demand for corrosion resistant steel increases, it will drive demand for zinc, which finds application to manufacture high VAP steel. HZL (subsidiary of VEDL) will gain for it.
- Volume momentum to continue in FY24, driven by strong demand from domestic markets.



Hindustan Zinc Limited

[Click below for Results Update](#)

The screenshot shows a detailed financial results table for Hindustan Zinc, including various metrics like revenue, profit, and production volumes across different segments.

Hindustan Zinc

Neutral

Current Price INR 306

Guidance on volume and CoP retained

- Management has maintained zinc CoP guidance at USD1,125-1,175/t for FY24 after a cost reduction of USD79/t in 4QFY23 due to the softening in coal prices and a better operational performance.
- HZ expects to clock mined metal production in the range of 1,075-1,100kt and refined metal production in the range of 1,050-1,075kt.
- HZ expects to clock saleable silver production in the range of 725-750kt, and as the mined metal production improves, the production of saleable silver will gradually inch toward the 850-1,000kt mark.
- Management expects robust demand in silver on the back of higher demand from industrial manufacturers, an increase in the 5G set-up, higher usage in EVs, increased usage in RE, etc.
- It expects INR100b CF generation in FY24.
- No clear guidance on future dividend payments as it would depend on the cash flow.

Brand fees

- Brand fee came into effect from Oct'22 and the total outflow was ~INR3.2b.
- Brand fee is 2% of the revenue and is payable to VEDL.
- Total expected brand fee for FY24 is ~INR6.5b.
- CoP does not take into consideration the 2% brand fees.

Cash and Debt

- Cash and cash equivalent as on Mar '23 stands at INR112b.
- Total debt stands at INR118b.
- During FY23, HZ went on from being a cash rich company to having a net debt of INR6b.
- HZ expects to pare off the debt from internal CF generation or investments.
- All the investments are in high quality debt instruments.

Acquisition of Zinc international

- HZ is working on the proposed transaction and the transaction is not called off.
- Management is keen to execute the transaction as it considers it to be value accretive for HZ.

Capex

- The project capex of USD175-200m for FY24 will be utilized for a fertilizer facility and setting up RE power.

- The maintenance capex is expected to be in the range of USD400m, which will be utilized for mine development and the purchase of mining equipment.
- The next phase of expansion/capex will take the installed capacity to 1.5mt and will be announced within a month.
- The roaster at Debari is expected to commence production in 1QFY24.
- Construction work at the Rajpura Dariba mill is at an advanced stage, and the mill is expected to commence production in 1QFY24.

Other updates

- 100% RE power at the Pantnagar metal facility will support its goal to become a net-zero emission company by 2050.
- Total ore reserves stand at 173.5mt. Total R&R stand at 460.1mt, containing 30.8mt of metal content.
- HZ has become the fifth largest silver company globally, with metal and silver production crossing the 1mt mark.
- Four mines won 5-star 'A' rating by IBM.
- The management did not provide clear direction about OFS and the pledge of shares.
- It has signed a power delivery agreement for sourcing 450mw RE.



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Detailed Concall Transcript &
Results Update




MPHASIS
CONSULTING

Q4 FY23

Quarterly Financial Results

Hindalco

10

Cash Receipts TP: 38,121.21 Cr (FY23)

Revenue in four, Q4 FY23 before interest, marketing expense

- increase of 4% over Q4 FY22
- increase of 10% over Q4 FY21
- increase of 10% over Q4 FY20
- increase of 10% over Q4 FY19
- increase of 10% over Q4 FY18
- increase of 10% over Q4 FY17
- increase of 10% over Q4 FY16
- increase of 10% over Q4 FY15
- increase of 10% over Q4 FY14
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- increase of 10% over Q4 FY29
- increase of 10% over Q4 FY28
- increase of 10% over Q4 FY27
- increase of 10% over Q4 FY26
- increase of 10% over Q4 FY25
- increase of 10% over Q4 FY24
- increase of 10% over Q4 FY23

• Revenue in four, Q4 FY23 before interest, marketing expense is 1,10,000 Cr (FY23)

• Revenue in four, Q4 FY23 before interest, marketing expense is 1,05,000 Cr (FY22)

• Revenue in four, Q4 FY23 before interest, marketing expense is 1,00,000 Cr (FY21)

• Revenue in four, Q4 FY23 before interest, marketing expense is 95,000 Cr (FY20)

• Revenue in four, Q4 FY23 before interest, marketing expense is 90,000 Cr (FY19)

• Revenue in four, Q4 FY23 before interest, marketing expense is 85,000 Cr (FY18)

• Revenue in four, Q4 FY23 before interest, marketing expense is 80,000 Cr (FY17)

• Revenue in four, Q4 FY23 before interest, marketing expense is 75,000 Cr (FY16)

• Revenue in four, Q4 FY23 before interest, marketing expense is 70,000 Cr (FY15)

• Revenue in four, Q4 FY23 before interest, marketing expense is 65,000 Cr (FY14)

• Revenue in four, Q4 FY23 before interest, marketing expense is 60,000 Cr (FY13)

• Revenue in four, Q4 FY23 before interest, marketing expense is 55,000 Cr (FY12)

• Revenue in four, Q4 FY23 before interest, marketing expense is 50,000 Cr (FY11)

• Revenue in four, Q4 FY23 before interest, marketing expense is 45,000 Cr (FY10)

• Revenue in four, Q4 FY23 before interest, marketing expense is 40,000 Cr (FY09)

• Revenue in four, Q4 FY23 before interest, marketing expense is 35,000 Cr (FY08)

• Revenue in four, Q4 FY23 before interest, marketing expense is 30,000 Cr (FY07)

• Revenue in four, Q4 FY23 before interest, marketing expense is 25,000 Cr (FY06)

• Revenue in four, Q4 FY23 before interest, marketing expense is 20,000 Cr (FY05)

• Revenue in four, Q4 FY23 before interest, marketing expense is 15,000 Cr (FY04)

• Revenue in four, Q4 FY23 before interest, marketing expense is 10,000 Cr (FY03)

• Revenue in four, Q4 FY23 before interest, marketing expense is 5,000 Cr (FY02)

• Revenue in four, Q4 FY23 before interest, marketing expense is 0,000 Cr (FY01)

• Revenue in four, Q4 FY23 before interest, marketing expense is 0,000 Cr (FY00)

• Revenue in four, Q4 FY23 before interest, marketing expense is 0,000 Cr (FY99)

• Revenue in four, Q4 FY23 before interest, marketing expense is 0,000 Cr (FY98)

• Revenue in four, Q4 FY23 before interest, marketing expense is 0,000 Cr (FY97)

• Revenue in four, Q4 FY23 before interest, marketing expense is 0,000 Cr (FY96)

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• Revenue in four, Q4 FY23 before interest, marketing expense is 0,000 Cr (FY88)

• Revenue in four, Q4 FY23 before interest, marketing expense is 0,000 Cr (FY87)

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• Revenue in four, Q4 FY23 before interest, marketing expense is 0,000 Cr (FY84)

• Revenue in four, Q4 FY23 before interest, marketing expense is 0,000 Cr (FY83)

• Revenue in four, Q4 FY23 before interest, marketing expense is 0,000 Cr (FY82)

• Revenue in four, Q4 FY23 before interest, marketing expense is 0,000 Cr (FY81)

• Revenue in four, Q4 FY23 before interest, marketing expense is 0,000 Cr (FY80)

• Revenue in four, Q4 FY23 before interest, marketing expense is 0,000 Cr (FY79)

• Revenue in four, Q4 FY23 before interest, marketing expense is 0,000 Cr (FY78)

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Hindalco Inds

Buy

Current Price INR 422

Guidance:

- The Indian aluminum business is hedged at 11% at USD2,755/t and going forward, the management will hedge at USD2,500/t and above levels.
- It expects the beverage can debottlenecking to continue in 1QFY24 and will start to stabilize from 2QFY24 onward.
- With easing supply chain constraints and higher demand for value-addition products and light-weight metal, the automobile segment is witnessing huge demand and is expected to clock a CAGR of 11% over the next five years.
- The Copper unit is currently the under planned maintenance shutdown, which will impact the margin in 1QFY24. Margin is expected to be in the range of USD350-400/t.
- Aluminum CoP for 4QFY23 was down 6% and is expected to be in the similar range in 1QFY24.
- The Chakla mine is expected to come on stream in FY25 and the work is progressing as per the timeline.
- Disciplined capital allocation will continue for both Indian operations and Novelis. New capex will be subject to incremental internal accruals only.
- Treasury for FY24 is expected to be in similar range as FY23.

Copper Tc/Rc:

- HNDL has long-term linkages of up to 80% from Chile, Peru and Indonesia.
- Spot Tc/Rc stood at USD21c/lb in 4Q FY23 (v/s USD22/lb in 3Q FY23).

Capex:

- HNDL incurred INR30b of capex in FY23.
- The company is expected to incur INR50b in capex in FY24.
- The 30kt extrusion facility at Silvassa is expected to come on stream in FY24, which will augment the VAP downstream capacity of HNDL. Full benefits will accrue in FY25.

Coal linkages:

- During 4QFY23, ~52% of coal requirement was met via linkage, 44% via e-auction and the remaining via a mix of own mines and imports.
- E-auction premium, which was ~400% in previous quarters, has now declined and as the supply of coal improves, it is expected to normalize to pre-Covid levels.
- HNDL carries 22 days of coal inventory and even though the prices have cooled off, the management will build its coal inventory before the monsoon season to keep the coal cost unchanged in 1QFY24.
- As the Chakla mine comes on stream by FY25, it will reduce the dependency on procurement of coal from external sources.

Global/domestic demand:

- Global aluminum production for 1QCY23 (4QFY23) was up 2% YoY to 17.1mt, primarily driven by a 4% increase in production from China.
- Global aluminum consumption during the quarter was down 6% at 16mt, leading to a surplus metal balance of 1.1mt.
- Indian aluminum demand is expected to be ~1.17mt (up 13% YoY), primarily driven by higher demand from the packaging and construction sector, which was offset by lower demand from the consumer durable sector.
- Global copper production during the quarter grew by 4% YoY to 6.3mt and consumption grew by 2% YoY to 5.7mt, a surplus of 0.6mt. Market demand in India was relatively better at 199kt (up 16% YoY).
- Domestic demand is expected to be robust in India, with the thrust on infrastructure, better manufacturing sentiment, higher demand for automobiles, etc., which will keep the demand for copper and aluminum elevated.



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Particulars	Q4 FY23	Q4 FY22	Q4 FY21
Revenue	1,10,000	1,05,000	1,00,000
EBITDA	15,000	14,000	13,000
PAT	8,000	7,000	6,000
Cash Flow	10,000	9,000	8,000

Key highlights from the management commentary:

- Revenue growth of 5% YoY, primarily driven by higher demand from the packaging and construction sector.
- EBITDA margin improved to 13.6% from 13.3% in Q4 FY22.
- PAT margin improved to 7.3% from 6.7% in Q4 FY22.
- Cash flow remained robust, contributing to a strong balance sheet.

Jindal Steel & Power**Buy****Current Price INR 532****Costs and ASP**

- The iron ore cost during the quarter was high, which was marginally offset by the lower coking coal cost.
- The steel price was better in 4QFY23, which increased the ASP by 3%, but it was offset by higher SMS costs, which hurt JSP's performance.

Impairment in Australian subsidiary

- JSP during the quarter had taken an impairment charge of INR2.5b in its Australian subsidiary and an inventory write-down of INR2.5b in India.
- This impacted EBITDA and APAT of the company.
- EBITDA, after adjusting inventory write-down, would have been ~INR24.5-25b.
- APAT, after adjusting write-down and impairment, would have been ~INR9.5-10b.
- JSP will keep a close watch on its inventories and fixed assets and if in future the book value of the investment is lower than the market value, JSP will undertake an impairment or write-off at an appropriate time.

Domestic demand

- Demand remains buoyant in the domestic market, especially from the infrastructure, power and construction sectors, where JSPL has a strong presence.

- JSP expects higher infrastructure spending by the government before elections next year.
- Currently, customers who had pushed buying steel in the last couple of months are sitting on low inventory and JSP expects the demand to pick up from these customers.

Coal mines

- The Utkal C coal block is under the final stages of clearance. It is expected to be operational at PRC of 3.5mt p.a. and will cater to thermal coal requirement of the Angul plant.
- Similarly, the Gare Palma coal block, once operational, will also have PRC of ~3.5-4mt.
- This will further drive down the cost going forward.

Net debt and cash

- JSP has reduced its net debt considerably by ~82% in the last five years and the company continues to chart the same course.
- The net debt-to-EBITDA ratio is currently at 0.7x and JSP aims to keep it under 1.5x.

Capex and timelines

- All the expansions are on track and the 6mt pellet plant and the 3mt HSM Phase I are expected to be operational in the next one-two quarters, which will drive better product mix and cost savings.
- Until the BoF comes on stream, JSP will manufacture downstream products from the HSM.
- JSP will first commence production at its pellet plant, thereafter start coal excavation from the mines followed by HSM and slab caster and finally by the end of FY24 it will commence production from BoF at Angul. The company will follow the above sequence, which ensures higher productivity and cost savings.
- Currently JSP has earmarked INR56b in FY24 for capex; however, details would be known in few weeks.



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JSW Steel

Neutral

Current Price INR 730

Guidance

- In 4QFY23, the coking coal cost was down by USD6/t QoQ for JSTL. In 1QFY23, JSTL expects the coking coal cost to increase by USD10-15/t. Coking coal prices have corrected sharply in last couple of months and its benefits are expected to accrue from 2QFY24.
- JSTL expects to sell around 25mt of steel in FY24 and expects dispatches to the auto sector to be around 3mt.
- For FY24, JSTL targets to retain its net debt around the FY23 levels.
- JSTL has around 1.6mt of inventory on its book, which will be offloaded in FY24.
- JSTL achieved 100% of production target for FY23 in India. On the company level, it was able to achieve 97% of the yearly target.

Capex

- Capex for FY23 stood at INR142b, below the expected level of INR150b.
- JSTL has earmarked a capex of ~INR190b in FY24, mainly for the Vijayanagar facility, BPSL phase II expansion, the development of new mines and enhancement of downstream capacities.

- FY24 capex will be funded via internal accruals and CF generation.
- Moreover, JSTL has also lined up INR331b of capex over FY25-26, which will be used across various projects, and cost-saving initiatives, which will eventually help JSTL enhance its domestic capacity to 37mt.

Strong focus of VAP

- The share of VAP currently stands at 60% of India's volume.
- Going forward, JSTL expects the share of VAP to be in the range of 55-60%. The company plans capex across its facilities to enhance VAP volume, which will further drive margin.

Capacity enhancement

- The Vijayanagar 5mt brownfield expansion is on track to be completed in FY24. JSTL will commence a phased commissioning by 4QFY24 and its full benefits will accrue from FY25-26.
- Coke oven Battery B at Vijayanagar is expected to commission in 2QFY24.
- BPSL has completed its Phase I expansion, taking its total capacity to 3.5mt, and Phase II expansion is expected to be completed in FY24, which will enhance its capacity to 5mt.
- Civil work and structural erection for a new wire rod mill (mill 2) and SMS-2 projects are on schedule.
- JSTL is also undertaking a 0.25mt color-coating line project at Rajpura (Punjab) and the production is expected to commence from May'23. This will cater to the construction and infrastructure sector.
- In addition, JSTL is also setting up a 0.12mt plant in J&K and is expected to commence production from FY24.
- The new plate mill at Anjar will cater to the wind energy sector.

Preferred supplier to auto sector

- JSTL's dispatches to the auto sector grew 36% YoY to ~2.6mt in FY23.
- The auto sector accounts for 14% of consolidated Indian operation volume.
- JSTL is expected to sell 3mt in FY24 to the auto sector.
- JSTL is currently negotiating pricing for the contract renewal with auto majors and the price is expected to increase in the recent rounds of negotiations.
- The approval process by auto majors is quite stringent and time consuming, acting as an entry barrier to other steel manufacturers, thereby providing a competitive edge to JSTL.
- JSTL is developing flat as well as long products for the auto sector and expects to increase the revenue contribution from the sector going forward.

Coal block

- JSTL was declared a preferred bidder for three coal blocks in Jharkhand and Chattisgarh: 1) Sitanala coking coal block, 2) Parbatpur Central coking coal block (Jharkhand), and 3) Banai/Bhalumuda coal block (Chattisgarh).
- The coal blocks in Jharkhand have a PRC of 1mt, which will cater to 5% of JSTL's total coal requirement.
- The Parbatpur Central coking coal block is expected to commence from FY25 and the smaller Sitanala coking coal block will take another 2.5 years.

Capacity and Utilization

- After the ongoing capex, the capacity would increase to 37mt.
- In FY23, JSTL operated at capacity utilization of 90% (company level) and 96% for Indian operations.

Macro scenario:

- Though global steel consumption is facing headwinds due to inflationary pressures, high interest rate pressures, the Russia-Ukraine conflict and a slowdown in China, steel demand is robust in the domestic market.
- Global steel demand is expected to grow in CY23 (ex-China) and India is expected to contribute around 38% of the growth.
- Low energy prices, higher investment by the private sector, higher spending on infrastructure and easing inflation should drive steel demand in India.
- In order to meet its decarbonization target, China over the last few years has been continuously reducing its steel production. In order to meet its green target for the current year, China needs to reduce production by ~6mt p.m. to achieve the yearly target.
- Though India is currently facing an import threat from global manufacturers, prices in the international market will rebound when the demand-supply mismatch is resolved by China shutting down its excess capacity.



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Particulars	2022-23	2021-22	2020-21
Production (mt)	46.4	44.8	44.8
Sales (mt)	46.4	44.8	44.8
Revenue (INR b)	1,100	1,050	1,050
Operating Profit (INR b)	150	140	140
Net Profit (INR b)	100	90	90
EPS (INR)	10	9	9
Dividend (INR)	5	5	5

NMDC**Buy****Current Price INR 110****Guidance**

- NMDC is expected to produce and sell around 46-49mt of iron ore in FY24E.
- Apr'23 was the best first month for the company and the momentum is expected to continue even in May'23 with the best ever May production and dispatch.
- NMDC expects to clock the highest 1QFY24 production and sales.
- NMDC expects to register a net profit of ~INR55b in FY24E.
- NMDC might continue the volume growth; however, the iron ore is facing certain headwinds and expects pricing pressure in the first two quarters.
- Receivables of INR25.4b recorded under non-current assets belong to NMDC Steel and the same is expected to be received as soon as the steel plant starts its production. The entire amount is expected to be received in FY24E.

Capex

- NMDC has earmarked INR20b as capex for FY24E, and intends to spend INR30b p.a. thereafter. These investments will contribute to increasing the capacity to 100mt over the next six to seven years
- Currently, 24km of pipeline for the slurry project has already been laid and an additional 24km are in the process of being aligned. NMDC has also acquired pipes for another 24km. The project is expected to be completed by FY25.
- NMDC is also contemplating setting up two more pipelines between Nagarnar to Vizag and Nagarnar to Raipur, with each project costing INR70-80b. This would be a game changer for NMDC.
- 110km of the KK line is already completed and the remaining is expected to be completed over the next few months, taking the total handling capacity to 40mt from 28mt.
- NMDC has multiple capex projects on its drawing board, which are under various stages of approval, tendering or execution, such as slurry pipelines, mine expansion, beneficiation plant, and coal blocks.

Export

- As prices in the international market has corrected in the last few months and as iron ore export attracts up to 30% of duty, NMDC finds it feasible to sell in the domestic market.
- Considering the current iron ore rate, it will not be feasible to export up to USD130/t rate.
- NMDC has not exported in 4QFY23.

Panna diamond mine

- The mine is expected to commissioned in Oct'23
- Expected to breakeven by FY25

Major customers

- 80% of the sale is to top four customers, of which JSTL, AM/NS, and RINL contribute the most.
- All the major clients of NMDC are undertaking expansion of their steel plants and thus offtake should not be an issue for NMDC.
- NMDC steel plant is expected to procure 5mt p.a. from NMDC.
- Due to the segregation of the iron ore market based on geographic presence, NMDC will focus on its existing customers unless there is new capex from a new client in close proximity to the mines.

Receipt from monitoring committee

- NMDC received INR9.6b from monitoring committee toward 10% of the amount withheld between 01/01/19 and 31/03/22
- An amount of INR19b is still outstanding for a period prior to 01/01/19
- NMDC has approached the court for recovery of the same.



सेल SAIL

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The image shows a screenshot of a financial results table for SAIL. The table includes columns for various financial metrics and their values. The text is small and partially illegible, but it appears to be a detailed financial statement or report.

SAIL**Neutral****Current Price INR 85****Guidance:**

- The company expects robust demand from India with no off-take issues and expects to sell 18.7mt in FY24E (15% YoY growth).
 - Apr'23 sales volume stands at around 1.3mt.
 - Coal cost which was around INR25,500/t in 4QFY23 is expected to increase to INR28,000/t in 1QFY24.
 - Benefits from reduction in coking coal cost will accrue from Jun'23 onwards.
 - NSR in 1QFY24 has declined INR2,000/t for flats as well as longs and is near its 3QFY23 levels.
 - Price correction in long steel is a concern
 - The share of VAP stands at 52.7%, which is expected to increase as the contribution from semis reduce going forward.
 - The management expects to sell 2mt of sub grade iron ore fines (Jharkhand)
- Capex:**
- Capex of INR65b is earmarked for FY24 and INR50-55b for FY25.
 - SAIL has set a target to achieve 35mt of crude steel production by FY31-32. To support this growth ambition, the company has allocated a capex of INR1tr. This investment will be utilized for both debottlenecking and growth capex over the next seven to eight years.
 - Major capex will accrue between in FY27 and FY29.

- SAIL will undertake the debottlenecking exercise and ramp up the capacity by 3mt in the next three to four years.
- After the debottlenecking is completed, SAIL is expected to undertake a mega expansion at its IISCO facility and increase its capacity by another 4.5mt.
- SAIL also has 3mt expansion plan at its Bokaro unit.
- SAIL has received in-principle approval from the 'Board' and will submit the DPR in the next six months, post which, the company will acquire stage I clearances and will invite tenders.
- SAIL is gearing up for order placement by the end of FY24E.
- A major portion of the current capex are utilized toward maintenance and growth capex will start within the next three years.

Tax:

- All the previous year tax benefits are exhausted.
- Will incur tax at 25% going forward.

Debt built up:

- The current net debt is around INR302b, which almost doubled YoY.
- SAIL currently has D/E of 0.6:1 and is considering a mammoth capex of INR1tr., which will be utilized over the next few years. SAIL will leverage a maximum of up to 1:1 D/E.

Coal:

- SAIL has procured coking coal mines in Mozambique via JV and has forayed into buying Russian coal.
- Benefits from reduction in coking coal cost will accrue from Jun'23 onwards.
- The prices should normalize going forward.
- SAIL is developing Tasra Coking coal mine, which will supply around 1.5mt of coal to SAIL, thus reducing its dependence on import.
- 80-85% of the coal requirement is met via imports from Mozambique, Australia, and the US.
- SAIL usually has 75-80 days of coal cycle (import from the US takes up to 45days and Australia up to 25days)

Railways:

- Typically, pricing decisions are made at the conclusion of the fiscal year
- Rail pricing for FY22 has not been received yet and SAIL has billed at an average rate of INR67,500/t
- Pricing for FY23 is near similar levels and it will be finalized in coming months.
- Once the payment from the government is released, it will help increase the profitability of the company.



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**Tata Steel****Neutral****Current Price INR 112****Management guidance for 1QFY24 and FY24**

- Realization for India in 1QFY24 should be higher by INR1,000-1,500/t and Europe should be higher by GBP15/t.
- Coking coal consumption cost is expected to be higher by USD10-15/t in 1QFY24 and the benefit from lower coking coal prices should reflect from 2QFY24 onwards.
- Volumes for domestic as well as TSE are expected to be lower for 1QFY24.

The screenshot displays a financial report for Tata Steel. It includes a table with various financial metrics such as Revenue, EBITDA, and Net Debt, along with a section titled 'Highlights from the management commentary'.

- The Netherlands will continue to be EBITDA positive; however, the UK operations will be under pressure and continue to face near-term headwinds.
- One of the BoFs at the Netherlands is undergoing scheduled shutdown and will resume operations in end of 1QFY24.
- NINL has been steadily ramping up and is presently operating at a run rate of 1mt (crude steel + pig iron)
- About 1.5mt of incremental volumes are likely on consolidated basis for FY24E
- As TSE has hedged its natural gas position, it will take another two quarters for the benefit to accrue from lower natural gas prices.
- TATA will deleverage USD1b of net debt in FY24E (most of the deleveraging will occur in second half).
- Management plans to explore west Bokaro mines for clean coal and targets to reach 4-5mt of clean coal over the next few years.

Pension in TSE

- About 62% of the BSPS scheme has been de-risked and liabilities have been insured.
- Remaining 38% of the liabilities should be de-risked in the next 3-4 months.
- This is likely to have similar elevated levels of non-cash deferred tax expenses.
- Once completed, the UK business will be fully de-risked from any pension exposure.

Debt

- Gross debt reduced INR28b to INR849b (v/s INR876b in 3QFY23) and net debt stood at INR678b. Net debt/EBITDA came in at 2.07x.
- Though the company was not able to achieve its annual deleveraging target of USD1b in FY23, management has retained their stance on the same for FY24E.

Capex

- All the projects are progressing as per the timelines.
- Pellet plant at Kalinganagar has commenced production, which will help reduce the merchant dependency of pellets for TATA and aid in cost saving.
- CRM and the GP line will take another two years to be fully ramped up and should add incremental value to the product mix.
- Volumes at Kalinganagar should increase in a phased manner and once the caster is operational, it should start adding incremental volumes; however, full benefit from BoF at Kalinganagar will be accrued from FY26 onwards.
- TATA incurred INR141b of capex in FY23 and the budgeted capex for FY24 is INR160b that will be utilized for Kalinganagar expansion (INR70b), sustenance capex (INR30b), the Netherlands operations (INR30b) and rest across other subsidiaries such as Tinplate and Tata Metaliks.

European operations:

- Out of the incremental 1.5mt volumes expected in FY24, Europe is likely to contribute 50%. There is an inventory buildup at Europe and temporary shutting down of BoF at the Netherlands will not impact the sales adversely.

A. The Netherlands:

- The Netherlands is expected to be EBITDA positive and generate its own CF
- The expansion at the Netherlands can be supported with the help of internal CF generations
- Over the last 15 years, the Netherlands operation has never taken support from the Indian parent and business is fundamentally very strong.

- Net cash availability stood at USD600m
- The Netherlands will gradually shift from coal-based BoF to gas-based DRI and eventually to hydrogen.

B. The UK:

- No major progress on discussions with the UK government
- The UK operation is under severe stress and if no feasible solution is reached, TATA would take a business call in the next 12-24 months.
- Upstream assets are nearing their end of usage lives in the next 12-24 months and TATA would only operate the downstream facility.

Doubling the capacity in India by 2030

- TATA is on its way to double its crude steel production in India to 40mt by 2030 from 21mt.
- Flat product portfolio to rise to 27mt from 16mt and longs to 13mt from 5mt.
- Iron ore mining is expected to reach 60-65mt from the current capacity of 30mt.
- Downstream is also expected to witness a doubling of capacity: Tubes are expected to reach 4mt (current 1mt), Wires to 1mt (current 0.45mt), Tinplate to 1mt (current 0.38mt) and DI pipes to 1mt (current 0.2mt).
- TATA is also setting up 0.75mt EAF facility at Punjab

Domestic demand

- Domestic demand remains resilient.
- Demand from auto, industrial construction and commercial real estate sector will support domestic demand growth.
- Demand from infrastructure sector is expected to be robust for the next 3-5 quarters.
- In the long run, demand from downstream products is expected to be robust.
- TATA will continue to dominate the domestic market and will grow in tandem with domestic demand for steel.



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Vedanta

Neutral

Current Price INR 278

Aluminum CoP and capex:

- Aluminum CoP stood at USD2,059/t (down USD90/t), which is expected to reduce further in 1QFY24 with: a) better coal linkages, b) higher operational and buying efficiencies, and c) better volumes.
- The Jamkhani coal mine has commenced operations and the current coal linkages (66%) is expected to improve to 80% by 4QFY24, thus driving CoP further down.
- VEDL is undertaking multiple expansions to enhance the alumina and aluminum capacities at a capex of over USD1b over the next two years.
- VEDL is expanding its Lanjigarh refinery capacity to 5mt from 2mt, which will enhance the captive alumina security. To meet the bauxite requirement, VEDL has recently emerged as a successful bidder for Sijimali bauxite mines with proven reserves of ~311mt.
- The company is also undertaking expansion at Balco and debottlenecking to expand its aluminum capacity to 3mt that will be commenced in phases from 1QFY25E.
- VEDL will enhance its VAP portfolio to 90% from 60% that will ensure higher margins across the products.

- It is on track to achieve self-sufficiency in thermal coal and expects the Kurloi North 8mt mine to commence from 4QFY24, Radhikapur (W) 6mt mine to commence from 1QFY25 and Ghogharpalli 20mt mine to start from 2QFY25.
- VEDL commissioned 120ktpa billet line at Jharsuguda and will eventually ramp it up to 580ktpa.

Ferro vertical:

- Commissioned the new 60ktpa furnace that has enhanced the total capacity to 140ktpa.
- Further expansion will be undertaken in phases, which will enhance the ferrochrome capacity to 300ktpa and eventually to 450ktpa.

Other verticals:

- Hot metal capacity at ESL will be enhanced to 3mt by 1QFY25E from 1.5mt.
- VEDL will undertake seismic acquisition across Northeast, Cambay, Rajasthan and offshore basins. The company is also exploring 10 wells, which are expected to have 250mmboe of R&R.
- Opencast mine at Gamsberg will expand to 8mt under Phase II that will ensure additional 200ktpa MIC.
- Karnataka ROM production is likely to enhance to 7.2mt from 6mt and Bicholim mines are expected to be operational in the second half of FY24.
- All the expansions are on track and the total capex earmarked for FY24 stands at ~USD1.9-2b

Dividend:

- For FY23, the Board has declared a dividend of INR101.5 per share.
- No guidance on future dividend payment has been provided.

Debt and cash balance:

- Net debt stood at INR445b (up 115% YoY) due to: a) dividend payout and b) higher capex.
- Cash and cash equivalent stood at INR218b.
- VEDL's Net debt/EBITDA was at 1.3x (up from 0.5x in Dec '22).
- The average maturity of debt has been 3.5 years and the average RoI, which debt carries, stands at ~7.8%

Debt at HoldCo (Vedanta's promoter entity):

- The total upcoming debt, which is due for repayment/refinancing in next two months, is USD750m and USD2b for FY24 (including USD750m).
- Management is committed to repay/refinance the entire amount at the HoldCo level and has already deleveraged USD2b YTD and USD3b to date.



OIL & GAS

- RIL believes that there is a healthy momentum in domestic demand for both polymers and polyesters and it is expected to track economic growth. Margin would be largely constrained by the volatile feedstock price and supply overhang. Subsiding spot LNG prices and capping of domestic gas prices to USD6.5/mmBtu would provide short-term relief to CGDs. Implied marketing gross margins (including inventory) for OMCs recovered in 4Q to an average of INR6.1/liter, owing to lower Brent prices, with no change in petrol/ diesel prices during the quarter. SG GRM has dropped to ~USD3.6/bbl in 1QFY24 from USD8.2/bbl in 4QFY23, which is negative for OMCs.

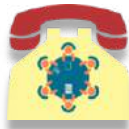
KEY HIGHLIGHTS FROM CONFERENCE CALL

Oil & Gas	Outlook for FY24	Quarterly snapshot
GAIL	<ul style="list-style-type: none"> ■ The management expects incremental benefits of INR15b in the transmission segment due to an increase in tariffs to INR58.6/mmBtu in FY24 from ~INR43/mmBtu in FY23. ■ Transmission volumes are also expected to increase to 118mmscmd in FY24 from 107mmscmd in FY23. 	<ul style="list-style-type: none"> ■ EBITDA at INR3.1b came in 80% below our estimate of INR15.1b due to high feedstock costs in petrochem segment and a weak performance in the transmission segment due to one-off items.
Upstream	<ul style="list-style-type: none"> ■ First oil from ONGC's FPSO is expected in Aug'23 with the worst case being Oct'23. Every year, 6-8% new gas production comes from APM fields which would command 20% premium as per new pricing policy. ■ ONGC expects to gain 26mmtoe by 2040 through EOR and life cycle gain of 94mmtoe at capex of INR612b. ■ OINL's production target of 3.4mmt of crude and 3.3bcm of gas in FY24 and target of 4mmt of crude and 5bcm of gas by FY25. NRL expansion to 9mmtpa from 3mmtpa with 1640km crude pipeline for INR280b by Dec'24. 	<ul style="list-style-type: none"> ■ ONGC's reported EBITDA stood at INR163.4b (-12% YoY, -20% QoQ), 22% below our estimate, due to higher other expenses in 4QFY23. Net loss came in at INR2.5b (vs. our PAT est. of INR109.3b), led by exceptional items of INR92.4b for provision-related ongoing dispute regarding the applicability of service tax and GST on Royalty. ■ OINL reported lower-than-estimated EBITDA at INR24b (+20% YoY) in 4QFY23 due to higher-than-expected employee benefits and other operating expenses. Oil sales volumes were in line with our estimates at 0.77mmt, while gas sales volumes were 9% below our estimates at 0.59bcm. Net oil realization, after accounting for the impact of windfall tax, came in at USD76.1/bbl for the quarter.
CGDs	<ul style="list-style-type: none"> ■ IGL management expects volumes to reach 9mmscmd in FY24, driven primarily by growth from new GAS. CNG conversions are also expected to increase, driven by the stability in CNG prices and the introduction of new CNG vehicle models by OEMs. ■ MAHGL management expects EBITDA/scm to remain at current levels for the next few months. Management also highlighted that CNG penetration in commercial goods carriers stands at a meager 2-3%. It is expected to improve going forward, led by the launch of company-fitted CNG goods carriers and a substantial improvement in CNG availability on highways. ■ GUJGA's long-term gas contract of ~1mmscmd with Vedanta expired during the quarter, which aided margins with increased share of cheap spot LNG in the volume mix. The spot LNG price continued to fall to USD11/mmBtu for May'23 delivery from USD15.6/mmBtu in 4QFY23, which can result in further recovery in volumes. 	<ul style="list-style-type: none"> ■ IGL reported in-line EBITDA of INR4.7b in 4QFY23, with EBITDA/scm at INR6.3 (down 13% YoY/up 9% QoQ). Volumes rose 7% YoY to 8.3mmscmd. ■ MAHGL reported higher-than-estimated EBITDA of INR3.9b (est. INR2.6b), mainly led by higher-than-estimated EBITDA/scm of INR12.8 (est. INR8.2). Volumes were in line with our est. at 3.4mmscmd in 4QFY23. EBITDA/scm improved 57% QoQ due to a lower portion of spot gas in the sourcing mix ■ GUJGA's total volumes at 8.9mmscmd were broadly in line with our estimate. EBITDA margin at INR7/scm beat our estimate of INR6/scm. Morbi volumes improved substantially to 3.6mmscmd in 4QFY23 (v/s 2mmscmd in 3QFY23) due to the narrowing price gap between natural gas and alternate fuels as a result of price cuts taken by GUJGA in 4QFY23.
Reliance Inds	<ul style="list-style-type: none"> ■ Management believes that the recent announcement of oil production cuts by OPEC+ could hurt demand if prices remain high, with Indian downstream demand getting affected adversely by potential economic contraction in the developed regions of the world. ■ The Government of India revised the ceiling price for Kg-D6 to USD12.1/mmBtu in 1HFY24. E-auction for the sale of 6mmscmd of gas is complete and RIL believes that new production from MJ field provides growth visibility. 	<ul style="list-style-type: none"> ■ RIL's consolidated revenue grew 3% YoY (-2% QoQ; inline), while EBITDA rose 23% YoY/9% QoQ (5% beat) in 4QFY23 fueled by a big beat in the standalone segment. ■ O2C's EBITDA came in 11% above our estimate at INR181b (+24% YoY) in 4QFY23. EBITDA/mt for O2C stood at ~USD85.5 (-2% YoY, +19% QoQ). However, the outlook remains murky amid global capacity additions expected in both refining and petrochem segments.



INDRAPRASTHA GAS LIMITED

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Indraprastha Gas

Neutral

Current Price INR 468

- In FY23, IGL added 3.1 lakh PNG domestic consumers, 81 new ROs (~50% in new GAs), 3,400km of MDPE pipeline.
- IGL currently has a total of 791 ROs
 - Will add ~100 ROs in FY24 (50% in new GAs)
- Vehicle conversions stand at 13-14k per month
- The company has entered into an MoU with Acme for green hydrogen development.
- Gas sourcing mix for the priority sector in FY23 is 89% from APM/non-APM, 2% from HPHT, and the remaining is RLNG.
 - 2/3rd RLNG volumes are term contracts, while 1/3rd is spot
 - In 4QFY23, 87% was APM-non-APM, with HPHT at 5%
 - The company is looking at term contracts for the future
- Guiding for INR7-8/scm of EBITDA; benefit of lower gas price (Kirit Parikh reco) has only started coming from early Apr'23
- Currently, ~85% of total 8.1mmscmd sales volume comes from NCR
 - Over the longer term, the company expects 40% of incremental volumes come from new GAs.
- IGL is currently examining the recent order by the PNGRB, regarding the allocation of disputed GAs and is considering the possibility of challenging it in court.
- Delhi is ~65% of total volumes, while Haryana is 5%
- Targeting to increase volume by 1mmscmd in FY24
 - Addition of new GAs would be the main driver
 - Stability in price would raise CNG conversions, aided by new OEM launches
 - Domestic connections, industrial sales
- 25,000 private buses, DTC/DIMTS buses at 7,500 in Delhi, 350 EV buses in operations
 - The state has plans for more EV buses, but there appears to be some issues related to the tender
 - EVs are not an immediate threat to the market; however, they could have a long-term impact on the industry.
 - Buses account for 20% of total CNG sales (1.2mmscmd) - 10% is from DTC/DIMTS
 - Uttarakhand has expressed interest in introducing 200 CNG buses into their transportation system – highlights the potential for CNG as a fuel option, particularly for long-haul buses.
 - Avg gas cost is expected to be around INR27-28/scm in FY24, less than from INR35/scm in FY23; this is expected to result in EBITDA/scm expansion
- Capex target for FY24 stands at INR16b
 - INR20b has been spent in new areas and 50% of new capex would be in new GAs
 - There seems to be a significant potential in Western UP
- CNG is 46% cheaper than petrol and 26% cheaper than diesel in Delhi
 - In certain areas, the saving potential is lower due to higher transportation charges of CNG.



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Reliance Industries

Buy

Current Price INR 2,498

Operating performance and key metrics

- Operating revenue grew 14% YoY to INR255b and ARPU increased 7% YoY to INR178.8 led by a) tariff hike, b) better subscriber mix and c) data add-on within select customer cohorts.
- The company have gained healthy subscriber traction with 439.3m subs. Net subscriber addition was 29.2m for FY23 with monthly churn at ~2%.
- Data traffic grew 23% YoY to 30.3b GB and voice traffic rose 8% YoY to 1.31bminutes.
- Per capita data and voice traffic were robust at 23.1GB per subscriber per month and 1,003 mins per subscriber per month, respectively.
- Quarterly data traffic over two years jumped 1.8x to 30.3b GB

5G rollout

- RJio has started 5G rollout with five cities in Oct'22 and then expanded into +2,300 cities in Apr'23. The company is on track to complete the pan-India rollout by Dec'23E.
- Currently +60k sites deployed across 700/3500MHz band with +250k 5G cells. This is the fastest 5G rollout in the world.

Strategy: 5G and fixed broadband to be the focus areas

- To drive the next leg of growth, RJio has: a) strengthened leadership in mobility market, b) uplifted ARPU from higher customer engagements, c) accelerated Home & SMB connects with AirFiber and d) deployed Platform Solutions at Scale for Enterprises business by offering 5G bundled service.
- To drive the market share gain in postpaid category RJio have launched JioPlus Postpaid Family Plan, which allows family of four people to try services free of cost for a month.
- For the entire family, there will be a single charge and single plan. For this, RJio has introduced a category of gold-standard priority service and it is free of a security deposit.
- Plan is starting at INR 399/month with additional three connections available at INR99/month. This plan allows an entire family of four to try the services free of cost for a month.
- Expanding the market and boosting customer acquisition in the Home segment
- It is targeting to expand the market and has launched a plan for INR 198/month and to accelerate the market share gain they will be partnering with LCO and using Air fiber solution
- Market Expansion – It is increasing the customer base by providing a lower entry price-point plan
- Positioned as Back-Up Plan – It is gaining clients from competing businesses. This is comparable to the occurrence of the second Sim. The Home Fibre Plan is offered at the lowest price of INR198. It anticipates that consumers will gradually come to view this as a primary plan, same to how they did with prepaid.
- High interest especially in Tier-2/3 towns - Taking benefits of high-quality fixed broadband to the masses
- Plan starting at INR198, which offers unlimited 10Mbps home broadband and unlimited landline voice call. User can upgrade broadband speed instantly with

one-click using vouchers starting at INR21/day. Users can also get unlimited entertainment at INR 100 / 200 additional per month (up to 550+ Live TV channels, 14 OTT Apps).

- Airfiber will accelerate the connected home strategy through 5G
- Target 100m (Fibre+ 5G FWA) connected homes
- The commercial launch will be in the coming months
- This has the ability to provide speed, capacity and indoor coverage due to differentiated spectrum holding
- Jio is targeting MSME businesses to provide end-to-end solution.
- It began by offering solutions to small hospitals and clinics (for instance, by offering the C-square solution, the best pharmacy administration system).
- It targets to bundle the other services and sale to the MSME enterprises. It helps MSME to save cost and improve margin.
- The end-to-end solution includes connectivity + device + services + cloud.
- Jio Cinema, its media service, has created a glass-to-glass infrastructure that provides seamless action and a special feature such as the viewer's choice of camera angle.
- This technology was first introduced for the Women's Premier League 2023 on JioCinema, where it reached an MAU base of ~45m and an average time spent of 50 min/user/day throughout the 26 matches. This technology is presently used to enable uninterrupted broadcasting of the IPL.

Acquisition

- Radisys Corporation, a wholly owned subsidiary of Jio Platforms Limited, announced the acquisition of Mimosa Networks, Inc. for USD 60m on a debt free, cash free basis.
- Mimosa has a diverse portfolio of point-to-point and point-to-multi-point products based on WiFi 5 and the newer WiFi 6E technologies.
- These solutions have use cases in the backhaul requirements for 5G and FTTX/FWA rollouts.



- Companies expect the sector to witness robust growth over the medium term, backed by favorable affordability conditions and low level of home-ownership penetration in India. After delivering significant growth of 43% YoY in pre-sales in FY23, our Coverage companies remain optimistic about sustained demand scenario. These companies are aiming at 15-20% growth in the medium term. We prefer companies with strong project pipeline that would provide further growth visibility. LODHA, PEPL and GPL are our top picks in the space.

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Business scenario and FY24 outlook	Upcoming Projects
DLF	<ul style="list-style-type: none"> DLFU reported record bookings of INR85b in 4QFY23, up 3x YoY, driven by the successful launch at Sector 63, Gurugram (Arbour), with bookings of INR80b. The company reported bookings of INR150b in FY23, doubling YoY, driven by major launches in Gurugram and Chandigarh Tri-city, which accounted for 80% of total sales. DLFU plans to launch 11msf of projects in FY24 with sales potential of INR197b. 	<ul style="list-style-type: none"> While DCCDL's non-SEZ portfolio continues to perform well, with occupancy up 200bp QoQ to 92%. New leasing in SEZ assets is expected to remain muted for 3-4 quarters. The management noted that retail growth is expected to be robust in India, given the rising consumption power of middle class diaspora. It plans to double its retail portfolio over the next four-five years by developing malls in Delhi, Gurugram, New Gurugram, Chennai, and Goa.
Godrej Prop.	<ul style="list-style-type: none"> GPL reported its highest-ever sales bookings for the second consecutive quarter, with pre-sales of INR40b (up 25% YoY/QoQ). For FY23, bookings stood at INR122b (up 56% YoY) and surpassed its full-year guidance of INR100b. The company has stated that it will launch a 20msf project pipeline in FY24 and expects to deliver INR140b of sales bookings in FY24 (up 15% YoY). 	<ul style="list-style-type: none"> GPL exited FY23 with the highest-ever bookings of INR122b. It expects demand will continue to be aided by favorable affordability. In the medium term, the management expects the sector to witness robust growth, backed by under-penetration of home-ownership in India. Branded players like GPL will be the key beneficiary of this trend.
Macrotech Dev.	<ul style="list-style-type: none"> LODHA posted a 12% YoY decline in pre-sales to INR30b. In FY23, total/residential pre-sales rose 33% YoY to INR121b/ INR112b and exceeded the guidance of INR115b/INR105b. In line with its medium-term target, the company expects to deliver 20% growth in pre-sales to INR145b in FY24. In FY23, LODHA added INR198b GDV of projects and spent INR24b. In FY24, the management expects to spend a similar amount to add projects with GDV of INR175b, leading to a healthy surplus of ~INR25b for the debt reduction. 	<ul style="list-style-type: none"> The management highlighted that despite the rate hikes, footfalls have remained strong throughout the year. It witnessed the highest ever walk-ins of 1L customers in FY23, which is 15% higher than that in FY22. Conversions increased to 7.5% in FY23 from 6.8% in FY22. This, coupled with 8% price growth at the portfolio level, helped LODHA deliver 33% growth in bookings in FY23.
Oberoi Realty	<ul style="list-style-type: none"> OBER has taken approvals under the new DCPR for both the projects in Thane. The Experience center, including a show flat, is completed at both sites and the company is gearing up for the launch of its Kolshet road project in 2QFY24. OBER's larger project at Pokhran road is expected to be launched in 2Q/3QFY24. The management targets to launch another tower at Goregaon during the FY24 festive season. 	<ul style="list-style-type: none"> OBER has not witnessed any slowdown due to rising property costs and mortgage rates.
Mahindra Lifespace	<ul style="list-style-type: none"> The company has had very successful launches over the last four quarters with appropriate pricing and offerings. The result of these launches will reflect in the company's P&L statement over the next six to eight quarters. MLDL had BD pipeline of INR55b and despite converting a couple of projects, the pipeline has been replenished to INR55b. Due to limited bandwidth, it focuses on evaluating the right projects rather than bulking up the pipeline. 	<ul style="list-style-type: none"> The company is planning new launches across nine projects, including Kandivali, Citadel Ph-2, and the recently acquired redevelopment projects. Dahisar and Thane projects are not part of the launch plan in FY24.

BRGD	<ul style="list-style-type: none"> Citing strong sales momentum, the company is planning to launch 7.5msf of residential projects in FY24 with a revenue potential of INR60b. A bulk of these launches are expected in 2H and the launch at TVS land, Chennai, will contribute 25% of the launch value. 	<ul style="list-style-type: none"> While the company has abstained from giving annual pre-sales guidance, it aims to register a CAGR of 20% over the next five years and is building the organizational capability on similar lines.
Sobha	<ul style="list-style-type: none"> SOBHA reported another record performance with best-ever sales booking of INR14.6b, up 32% YoY. For FY23, pre-sales jumped 34% YoY to INR52b and ahead of its guidance of 15-20% growth. 	<ul style="list-style-type: none"> Demand remains healthy and SOBHA wants to keep up with the momentum. It plans to launch 7-8msf of projects in FY24: 5msf in Bengaluru, 1msf in NCR and the remaining in other markets.
Phoenix Mills	<ul style="list-style-type: none"> Consumption across PHNX's mall portfolio increased 32% YoY to INR22b and 28% on an LFL basis. FY23 consumption of INR92.5b was 33% ahead of FY20 (pre-Covid) run-rate (19% on LFL basis) and surpassed the management's guidance of INR90b. 	<ul style="list-style-type: none"> PHNX expects consumption across its retail portfolio to grow to INR115b, of which INR12b will be contributed by Indore and Ahmedabad malls. Thus, LFL growth is expected to be 12.5%. Adjusting for inflation and timing difference of occupancy, trading density is expected to increase by 8-10%. Trading occupancy at existing malls should ramp up to 93-95% by Diwali.



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Brigade Enterprises

Buy

Current Price INR 573

Residential:

- 1msf of plotted development projects launched during the year were fully sold out. New launches contributed 60% of sales in 4QFY23 and 40% for FY23.
- Market mix** – Bengaluru contributed 82% to FY23 pre-sales, Chennai contribution was at 10%, Mysore plotted project contributed 4%, the remaining was from Hyderabad.
- Launch mix** – Most of the projects were launched in East and North Bangalore markets. The company has also launched two projects in South Bengaluru, which also did well
- Business development** - BEL added 8.7msf of new land during the year with a total revenue potential of INR50b. The company continues to be aggressive on pursuing land opportunities in its core markets.

Commercial

- Concerns of recession in Europe and the US have led to delay in decision making.
- Physical occupancy has increased and is in the range of 45-65% across the office parks.
- The company's non-SEZ assets are fully leased out and vacant spaces remain in all three SEZs, i.e., Brigade Tech Garden, WTC Chennai, and GIFT City.
- The company is working actively with existing and new tenants to convert their demand from non-SEZ to SEZ space.
- Asset under development – Twin towers** will be delivered on Mar'24 and the company is witnessing good traction through RFPs. It will attract rentals of over INR75/sf. Brigade Padmini Tech Park is a 1.2msf development, of which, the first phase of 0.28msf will be delivered on Sep'23. Two more towers of 0.73msf and 0.35msf are currently under excavation. The management expects rentals of INR65-70/sf. Brigade Square, Trivandrum will take two years to complete and rentals are expected to be INR55/sqft.

Retail

- The portfolio reported a 106% YoY increase in footfalls and the average rentals for large malls have increased by 13% YoY.



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Hospitality

- Expect the hospitality segment to do well due to mega events such as G20 summit and World Cup, which will ensure that occupancy in the top cities remain healthy.
- All hotels except GIFT City and Kochi are doing well, and hence, expect some bit of efficiency to kick in further.

Cash flows

- Collections breakup - Residential - INR9830m, Commercial sale - 380m, Commercial lease - 1610m, Retail - 530m, Hotel- 1450m, PMS - 740m.

DLF

Neutral

Current Price INR 496

Impact of potential exit of key tenant

- Cognizant currently occupies 5% of the overall space and over the years, it has already vacated 20-25% of the initial area leased. While there may be some short-term impact if Cognizant vacates the remaining leased space, there is also the potential to realize a MTM gain of 20-25%
- Moving forward, there is a clear trend of declining third-party IT service provider
- against rising GCCs share in India. Most of the DCCDL's new buildings in Gurugram and Chennai amounting to 9msf are predominantly taken up by GCCs

Retail Expansion

- The company has plans to double its retail portfolio, and is currently working on two projects. One is the construction of 1.5msf space at Avenue Mall, Goa, and the other is a high street shopping center in DLF 5 and Midtown
- Mall of India (2.6msf), Gurugram, is at its advanced stage of planning and management will provide more details in 1QFY24.
- Additionally, the company is expanding at its existing locations. Emporio and Promenade malls collectively have 0.5msf of additional development potential, due to the availability of additional FAR. However, construction will commence only after the work on the Mall of India is stabilized.
- DLF Avenue Saket has 0.2msf additional potential and it will happen once the existing stores stabilize.

The Arbour

- The initial plan for Arbour was to launch INR30b in 4Q and the remaining in FY24. But the company was seriously overwhelmed by the strong response received from customers.
- The pricing was fair given the realization in the micro-market. It was 20-25% ahead of the whole Golf course extension market. Most of the other projects were priced at INR14k/sft and the company set the benchmark at INR18k/sft.
- Around 20% of the company's overall sales are contributed by NRIs (not just Arbour). Despite initial purchases being seen as investments, there have been multiple instances, where customers return after a few years to settle back in India, with DLF properties providing the desired lifestyle.

Camellia

- Prices at Camellia increased to INR50-60k/sft, depending on the floor, with ticket size of INR450-550m. Demand continues to remain healthy and the management does not expect the new tax rules to have any impact on sales.

Existing land parcels with large potential:

- The company has a large land parcel in Sector 69 and another large parcel in Southern peripheral road (100+acres, across sectors 70-75), which are suitable for both residential and commercial projects. The development of these parcels is a priority for the company, and they plan to undertake it in FY24.
- The auction in Global city doesn't interest the company given the price point decided by the Haryana government. It continues to participate in small auctions, depending on how it fits in the overall strategy.



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Godrej Properties

Neutral

Current Price INR 1,445

New launches:

- Management intends to launch ~20msf in FY24E, which include key projects at Ashok Vihar (Delhi), Worli and Mahalaxmi. Management has good visibility on the launch pipeline although some projects could get delayed that will be replaced by new projects
- A few quarters back, the company acknowledged its sub-par performance in Bengaluru and MMR and it is now on track to gain traction in these cities given healthy launches lined-up on the back of strong BD done so far

Competition

- With growth back in the sector, there could be some increase in competition but developers with scale and execution capability will remain in favor.
- GPL's aggression in BD is also on account of rising completion as it intends to lock in the project pipeline at early stage of the cycle

Pricing

- Demand and pricing trajectories will remain healthy over medium term. Management expects low double-digit price growth but has not factored in the same for sales guidance
- In terms of land prices, NCR has witnessed a sharp appreciation and across other cities too, prices have gone up.

Macrotech Developers

Buy

Current Price INR 593

Digital Infra

- Regarding the warehousing platform signed with PE investors, the investment period is expected to be between 3.5 and 4 years and the business will scale upto a mature level by the 5-6th year after the deal signing.
- Beyond this too, the company remains positive toward monetizing land parcel worth INR5b each year.

Sales mix and profitability

- During the quarter, JDA contributed 26% to overall sales and will move to 40% in FY24.
- Sales mix remains largely consistent across categories with 33% coming from RTM, 34% from Ongoing, and 32% from the new launches
- Management expects its RoE (on pro-forma basis) to inch up to 20% in FY24.

Pricing trend

- At a portfolio level, realization growth stood at 8% in FY23.

Mahindra LIFESPACES

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- The company witnessed good price growth in RTM inventory along with Pune and eastern suburbs projects. Overall, the pricing trend was consistent across segments/markets without much deviation within them.

Impact of rising rates

- The 1BHK segment has been the most affected by the rising interest rates, but the company was compensated by strong traction observed in 2BHK and above category.
- With interest rates now stabilizing, company expects the lower segments such as the 1BHK to witness a rebound.

Mahindra Lifespace

Buy

Current Price INR 463

- **P&L Margin:** Historically, the company's marketing cost was significantly lower than industry standards. However, it is now catching up, given the robust project pipeline and the investments in brand building. Additionally, the company has now appointed a Head of Marketing.
- The company has had very successful launches over the last four quarters with appropriate pricing and offerings. The results of these launches will be apparent over the next six to eight quarters in the company's P&L statement.
- **EBITDA Margin** across all recent projects are in the range of 18-20% and recent project additions including the redevelopment projects will be margin accretive.
- **Launches** – The company is planning new launches across nine projects including Kandivali, Citadel Ph-2, and the recently acquired redevelopment projects. Dahisar and Thane projects are not part of the launch plan for FY24.
- Thane could spill over to FY25 as the company is waiting for some policy enactment, which can potentially increase the value of project at Thane
- **BD** – The company had INR55b BD pipeline and despite converting a couple of projects, the pipeline has been replenished to INR55b. Due to limited bandwidth, the company is focused on evaluating the right projects rather than bulking up the pipeline.

Oberoi Realty

Buy

Current Price INR 980

- **New Launches:** The company has taken approvals under the new DCPR for both the projects in Thane. The Experience Centre, including a show flat, is completed at both the sites and the company is gearing up for the launch of Kolshet road project in 2QFY24.
- OBER's larger project at Pokhran road is expected to be launched in 2Q/3QFY24. Lastly, the management is also targeting to launch another tower at Goregaon during the festive season of FY24.
- **Pokhran road project** development will comprise residential, hotel, and international school. Work will commence simultaneously on all segments, and the cumulative development in Phase 1 will be 3-4msf.
- The management also has plans to develop a high-end sports club (akin to Worli project) at this location.
- **Cash flow:** With Mulund achieving 100% revenue recognition, the remaining collections are recorded as receivables (which has increased significantly) and as possessions materialize, this should come down to historical levels.



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Particulars	Q3 FY24	Q3 FY23	Q3 FY22	Q3 FY21
Revenue	1,212.1	1,188.5	1,188.5	1,188.5
EBITDA	188.5	188.5	188.5	188.5
EBIT	188.5	188.5	188.5	188.5
Profit before tax	188.5	188.5	188.5	188.5
Profit after tax	188.5	188.5	188.5	188.5
EPS	188.5	188.5	188.5	188.5

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- OCF is expected to remain strong and the management continues to evaluate multiple BD opportunities in Mumbai and beyond.
- **Pricing:** The company has taken healthy price hikes at Elysian. In Mulund, the increased ASP is a function of GST getting absorbed in price and the company selling higher floors. The management is targeting to liquidate unsold inventory at Mulund in two to three years.

Phoenix Mills

Buy

Current Price INR 1,621

Retail:

- **Category wise growth** – Jewelry reported +164% growth, F&B +64%, Fashion and Accessories +62%, Family Entertainment center +61%, and Electronics +58% YoY growth.
- Trading occupancy at Citadel Indore should cross INR1,000/sqft and the same at Palladium should reach INR1,200-1,300/sqft
- Trading occupancy for new assets – New malls should scale up to trading occupancy of 85-90% within the first 8-9 months

Commercial

- About 0.18msf of office space is under fit-out stage and should start contributing from 3QFY24
- **Rentals for upcoming office assets** – Hebbal office should clock rentals of over INR80/sqft; Wakad office should post over INR70/sqft rentals, Chennai should report INR65/sqft rentals, Whitefield office should post INR75-80/sqft rentals and Phoenix Rise should register INR300+/sqft rentals.
- **Leasing target** – Management expects to ramp-up the upcoming office assets to 70% occupancy within first 7-8 months post-OC. Tenants will take 2-3 months for fit-out and hence, rental contribution should scale-up within 3-10 months post-OC for initial 70% occupancy.

Retail

- The company awaits clarity on TDR policy before launching Tower 8-9 at One Bangalore West.
- The Kolkata project is under design and development phase and should take at least 8-9 months for launch.

Cash flows

- PHNX has pending capex of INR46b across ongoing retail and office assets and it expects to incur INR20-23b annually on capex and land investments.

Sobha

Buy

Current Price INR 545

Gurugram projects:

- Added a new project in NCR, near the existing land parcel at Dwarka-expressway and another launch is from an old land in New Gurugram.

Cash flow

- Focus on cash flows led to record reduction in net debt in FY23. Debt level is far more comfortable and the optimistic economic environment will compel the company to focus on growth.
- The management expects an increase in expenditure on construction and acquiring new land, and hence, we do not expect a similar reduction in debt. Any debt reduction is expected to be gradual over time.

Metric	Q4 FY24	Q3 FY24	Q4 FY23
Revenue	1,100	1,050	1,000
EBITDA	250	240	230
EBIT	200	190	180
Net Profit	150	140	130

Key Highlights:

- Revenue growth of 5% QoQ and 10% YoY.
- EBITDA margin of 22.7%.
- EBIT margin of 18.2%.
- Net Profit margin of 13.6%.
- Impact of Covid-19 pandemic on revenue and margins.
- Focus on monetization of large land.
- Role of the promoter in the company's growth.

Margins

- The revenue recognized now corresponds to the sales made prior to the onset of the Covid. However, the costs incurred during this period were affected by an inflationary environment, resulting in lower margins.
- Expect margins to more than double to over 6% post 4QFY24.

Monetization of large land

- Hosur –The company was gearing up to launch a plotted development project in Hosur, but unfortunately it faced unexpected roadblocks. Despite these setbacks, the project should be back on track in the next couple of quarters, with the aim to launch it in FY24 and it has not yet been included in the pipeline of 7-8 msf projects.
- Hoskote – It's under accumulation and initial design phase right now. The company is currently identifying a land parcel which can be launched in multiple phases. The management will crystalize its plans in 2HFY24.

Promoter role

- Ravi Menon is moving to the UAE business to take over the baton from PNC Menon. Going forward, Ravi Menon's role in India will shift toward a strategic focus. The company has always been professionally managed, with the promoters serving as a guiding force. Therefore, this transition should not be perceived as anything negative.

RETAIL



- **Retail:** Sector wide commentary indicates that the slowdown in demand witnessed in 4QFY23 is likely to reverse from 2HFY24 onwards, with the onset of festivals. Further, certain companies have also narrowed down their expansion plans to match the pace of demand recovery. However, cool-off in RM prices could support short-term margin improvement.
- **QSR:** Management commentaries in the QSR segment indicated a slowdown in 1HFY24E. Barbeque has slowed down the store additions guidance and will revise it after 1H. The silver lining is that RM inflation is moderating (except milk-related products). KFC has taken a price hike in Apr'23 by ~3.5%, which can be margin accretive.

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Business scenario and FY24 outlook	Footprint addition
Aditya Birla Fashions*	<ul style="list-style-type: none"> ■ Slower revenue growth is expected to reverse from 2HFY24 onward with the onset of the festive period. ■ ABFRL expects to see the benefits of improving RM pricing, which has partially been passed on to customers. ■ It expects the debt levels to rise in the coming period, given continued investments in new businesses. 	<ul style="list-style-type: none"> ■ The management has reduced Pantaloons store addition guidance to 40-50 stores in FY24 from 60-70 stores in FY23, given the soft market condition. It will look to increase the pace once the demand environment eases out.
Shoppers Stop	<ul style="list-style-type: none"> ■ The company expects to sustain gross and EBITDA margins, aided by an increased share of private brand, successful negotiations with vendors to secure higher margins, and the optimization of discounts. ■ The management expects revenue growth to fall within the mid-double digits, aided by high single-digit SSSG, footprint expansion, and improved share of private labels. ■ It expects revenue of INR1.8-2b in FY24 in the distribution segment under beauty, with the addition of three international beauty brands to its distribution network and partnerships with 10 key retailers. 	<ul style="list-style-type: none"> ■ The company targets to open 10-12 departmental stores annually with a capex of INR1.5-2.0b.
V-Mart	<ul style="list-style-type: none"> ■ The management expects revenue growth to be driven by 1) LFL growth at mid-high single digits, and 2) improved share of the online business to 8%-10% going ahead from 2% currently. ■ While the consumption impact in the lower income group persists, the company expects it to improve over the next couple of quarters, in line with improved agriculture produce. ■ The management has reiterated its investment cap of 20% of group EBITDA expenses (INR500-600m) toward LimeRoad. 	<ul style="list-style-type: none"> ■ VMART expects footprint additions of 15-16% annually, with 60 stores expected to be opened in FY24. ■ It closed 16 non-performing (13 V-Mart) stores and is assessing any such stores on an ongoing basis. However, the closures were carried out largely and VMART should not see any further significant closures.
Bata	<ul style="list-style-type: none"> ■ The demand outlook seems promising amid moderating inflation, which should drive a recovery in products below ASP of INR1,000. This category declined 10% over FY20 (pre-Covid), which constituted 40% of BATA's revenue (vs. 50% earlier). ■ The company is aiming for the next phase of expansion by growing the Red Label portfolio, offering apparels at an appealing price point of INR799-1499, expanding the Floatz collection, introducing outside the Bata banner, and concentrating on women's collections. ■ BATA is likely to spend ~INR300m in capex for IT in FY24. In the next few years, marketing costs could rise to 3.0% from 2.6%. The management expects staff costs to see some benefit in FY24. 	<ul style="list-style-type: none"> ■ The management stated that it will be reaching the target for 500 franchisee stores a year in advance. It has already reached 419 stores so far.
Campus	<ul style="list-style-type: none"> ■ It plans to address the lower-end price point products (INR699-INR999 ASP) by introducing a sub-brand under the Campus umbrella. ■ The management has indicated that 2HFY24 should be the pivotal time for the macro improvement. It has guided for 49-51% GM. Further, as and when operating 	

	<p>leverage kicks in, EBITDA margin is expected to reach 20-22% in the medium term.</p> <ul style="list-style-type: none"> ■ It expects 90 days of WC cycle in the near term and 75-80 days in the medium term. 	
Metro Brands	<ul style="list-style-type: none"> ■ The management has retained GM guidance of 55-57%, EBITDA margin of ~30% and PAT margin of +15%. Delta between pre and post IndAS EBITDA is between 8% and 9%. ■ For FILA, the management expects to clean up old inventory and reset product offerings and earnings by 2HFY24. In the three to five years, the top global sportswear company plans to open 300-400 stores. ■ The company also expects to maintain a healthy GM in FILA to be similar to Metro. It is targeting a 20% share of non-apparels to drive growth. 	<p>The company targets to open 200 new stores over the next two fiscal years, excluding FitFlops's and FILA stores.</p>
Vedant Fashions	<ul style="list-style-type: none"> ■ It expects SSSG to be in the range of mid-to-high single digits annually. Gross and EBITDA margins are expected to be in the range of 66-67% and 30%, respectively. ■ The company will look to deploy additional cash toward growth and dividend distribution. It will also look at any external M&A opportunities. ■ VFL expects to launch the Phase 2 of its digital transformation in the next 2-3 months. It will look to integrate online demand with offline stores to improve offerings and experience. 	<p>VFL expects to open 8-10 stores of Twamev and 10-15 stores of Mohey on the pilot basis to monitor the performance for a further scale-up.</p>
Titan	<ul style="list-style-type: none"> ■ Gross margins declined 100 bps YoY owing to the company selling gold bullion to the tune, which is a low margin segment. ■ The management emphasized that there has been a significant increase in new customer additions in the lower price point category for Tanishq, with less than INR1 lakh, and for Mia and Caratlane, with approximately INR 50,000. ■ The management opened 11 new stores in Q4FY23 and plans to add space in 15 existing stores in FY24. Additionally, they aim to open more than 40 new stores in FY24. 	<ul style="list-style-type: none"> ■ The management reported that the demand for jewelry during the initial weeks of April was relatively low due to the fluctuating prices of gold. However, there was a significant improvement in demand during the latter part of the month, primarily attributed to strong sales during the auspicious occasion of Akshay Tritiya. ■ The management maintaining healthy EBITDA margins in the range of 12-13%

KEY HIGHLIGHTS FROM QSR- CONFERENCE CALL

	Salient takeaways from the 4QFY23 performance	Outlook
Barbeque Nation	<ul style="list-style-type: none"> ■ Overall SSSG declined by 2.6% despite dine-in SSSG of +2.1% (albeit soft) and mature stores' SSSG of ~3.5%. overall SSSG was pulled down by the underperformance of the delivery channel. ■ Lower SSSG pulled down EBITDA margin by 350bp despite 17% store adds. Revenue from mature stores stood at INR66m (5-6% below expectation). 	<ul style="list-style-type: none"> ■ Overall industry-wide demand remained soft, with Jan'23 doing well but Feb-Mar'23 declining. However, the management has seen ~15% MoM growth in volumes in Apr-May'23. ■ Barbeque has reduced the store addition target to 20 stores in FY24 and will revisit the guidance by 1HFY24 based on the demand outlook. This, along with store renovations, will lead to annual capex of INR800m.
Devyani International	<ul style="list-style-type: none"> ■ SSSG was 1.9% for KFC (est. of 2%) and -3.2% for Pizza (est. -7%). ■ The moderation in inflation in FY23, along with recent RM price cool-off, should result in a gradual demand recovery and better margins. Further, steady 300 store additions should drive footprint. 	<ul style="list-style-type: none"> ■ Store additions for FY24 to range around 300, with 100 stores for KFC and Pizza Hut each, 60-70 for Costa Coffee and the rest for the smaller portfolio. ■ KFC's GM is expected to reach 69% in the coming quarters due to price hikes in Apr'23, introduction of value category and improvement in RM pricing.
Sapphire Foods	<ul style="list-style-type: none"> ■ RM inflation has cooled; hence, the management expects GMs to improve. Starting from Apr'23, the company has implemented a price increase of 3.5% for KFC. ■ The company's SSSG was weak, with KFC seeing 2% 	<ul style="list-style-type: none"> ■ The management has maintained its previous guidance of 130-160 store additions per year and expects it to double in the next three to four years. ■ The company is taking a more cautious approach to

	growth and PH declining by 4%, due to the challenging business environment (vs. est. 1% growth in KFC/6% decline for PH). As a result of cooling off of inflation, the company posted a sequential improvement of 90bp in margins.	expanding its footprint in Sri Lanka over the next 12 months. However, a recovery is expected to drive margin improvement in the next 12-24 months, with the expectation of margins exceeding 20%.
Jubilant Foods	<ul style="list-style-type: none"> ■ Cheese prices may remain high for the next couple of quarters, but other commodity prices are stable. ■ It aims to unlock LFL growth by strengthening value offering, which, along with cost efficiency and improved productivity, should improve EBITDA. 	<ul style="list-style-type: none"> ■ JUBI does not plan to increase prices for the next few quarters. ■ It targets to open 200-225 Dominos stores and 30-35 Popeyes stores in India annually. Capex would remain elevated at INR7-8b.
Restaurants Brand Asia	<ul style="list-style-type: none"> ■ The company closed FY23 with 391 India restaurants - opened 88 and closed 12 restaurants, net open 76. Fifteen restaurants are now under construction and 38 in the R&D pipeline. ■ New extension of products with the new proposition starting at INR99. 	<ul style="list-style-type: none"> ■ It expects to increase the store count to 450 in India by FY24, with 10% SSSG target. The target for the Indonesia business is to become cash breakeven and to invest more in Popeyes Indonesia. ■ Indonesia and India are seeing a decline in inflation. RBA anticipates GM to reach 67% in FY24 and then increase by another 2% in the following years.
Westlife Foodworld	<ul style="list-style-type: none"> ■ Non-metro towns continue to grow at over 1.3x on pre-Covid base. ■ The company typically raises prices by 2-3% annually, but it did not do it in 4QFY23 (raised by 7% in CY22). 	<ul style="list-style-type: none"> ■ GM (excluding processing fees) improved 320bp as a result of the one-time volume delivery incentive, cost savings, and prior-price increases. The management does not anticipate significantly increased pressure on commodity prices. ■ The management anticipates a high single-digit SSSG and plans to add 40-45 new restaurants in FY24, with a target to reach 580-630 new restaurants by 2027.



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Aditya Birla Fashions

Buy

Current Price INR 207

Key Highlights:

- ABFRL is witnessing demand pressures across premium and value segments, with Tier 2 and below cities witnessing the impact of inflation.
- Revenue growth is expected to pick up from 2HFY24 onward with the onset of the festive period.
- Net debt as of Mar'23 increased to INR14.2b due to lower-than-anticipated revenue and higher investments in new businesses.
- It reduced Pantaloons store addition guidance from 60-70 stores in FY23 to 40-50 stores in FY24, given the soft market condition. It will look to increase the pace once the demand environment improves.

Detailed Highlights:

Financial Performance:

- EBITDA margin for the quarter was lower YoY mainly and lower than the typical range of 16-17%, mainly on account of:
- Impact of one-off and rent concessions during 4QFY22
- Additional ad expenses (~200bp), investment in subsidiary and sluggish revenue growth
- Pre Ind AS-116 EBITDA for FY23 is expected to range around INR570m.
- ABFRL witnessed a strong 77% YoY growth in E-com sales, mainly aided by improved B2B partnership and enhanced 'brand.com' performance. The company also launched Lifestyle's Super App during the quarter.

Revenue growth:

- Revenue growth in mid-teen in 4QFY23 on a lower base of 4QFY22 reflected a slower recovery rate due to the impact of a slowdown across segments.
- The company expects demand to recover in the festive period (2HFY24)

- ABFRL expects to see the benefits of improving RM pricing, which has partially been passed on to customers.
- Marketing spend for FY23 increased by INR3.5b over FY22 levels.
- The company stated that it is currently witnessing demand pressures in the value and premium segments. Demand in tier 2 and below cities remains under pressure given the inflationary impact.

Leverage position and working capital:

- Net debt as of Mar'23 increased to INR14.2b, mainly on account of continued investments in its operations and new business segments.
- The increase in debt was higher than anticipated due to lower sales and investments in the subsidiary.
- Inventory days increased in FY23, while payable days declined as ABFRL slowed down purchases during the quarter. Inventory as on Mar'23 was higher by ~INR3b than expected levels.
- It expects debt to rise in the coming period due to continued investments in new businesses.

Segment performance:

Lifestyles:

- The segment reported its highest-ever 4th Quarter sales, backed by strong growth in the retail and e-com segments.
- Growth in the retail segment was driven by 128 store adds and improved SSSG, while the E-com segment grew 49% YoY.
- Within Lifestyle, the Women wear category grew over 70% in FY23.
- The wholesale channel reported subdued revenue, impacted by accounting changes. While these changes are expected to be a one-time adjustment, ABFRL remains optimistic about growth prospects of the channel, mainly due to a change in the model from the sale basis to the consignment basis for better inventory management. WC remained neutral as inventory was offset by deposits from franchises.

Pantaloon:

- The segment reported a healthy 13% LTL growth despite the demand slowdown in the value segment.
- The company stated that demand within the Tier-2 and below cities remains sluggish, while metros continue to support growth.
- The segment's store adds remained healthy with 25 stores added in Q4FY23.
- Operating margins were lower during 4QFY23 due to sluggish revenue growth.
- The company opened 63 stores (50% in Metro and Tier 1) and closed 9 stores, as against guidance of 60-70 stores in FY23. It plans to add 40-50 net stores in FY24, given weaker demand in smaller cities.
- The share of franchise stores stood at 18-20% for Pantaloon. The company expects this to remain range-bound and not increase further given the complexities in terms of operating large stores and inventory management.

Other:

- The segment reported a healthy 81% YoY growth in revenue for Q4FY23.
- The Innerwear segment reported revenue growth of 33% YoY on the back of 175 EBO adds.

Youth Fashion:

- American Eagle reported revenue growth of 89% YoY, backed by 67% LTL growth and six new stores adds. Total store count stands at 37.
- Under Forever 21, the company added nine stores in 4QFY23.
- The premium brand segment 'The Collective' reported revenue growth of 60% YoY, with LTL growth of 41% LTL.
- The D2C subsidiary 'TMRW' is expected to report losses for a couple of years. The company had committed INR5b toward the funding, of which INR3.5b has already been invested in FY23. The company indicated that any further equity infusion and loss funding in this segment will be done through external sources.

Ethnic Wear:

- The company stated that it will continue to invest in brand building and store openings in this segment.
- Sabyasachi added two new stores, while the company's in-house brand TASVA expanded its store presence to over 50 stores (6-7 stores FOFO). The segment will continue to see expansion through COCO for 12 months as the company looks to fine-tune the business model and business aspects before handing over franchises.
- ABFRL expects primary losses within TASVA to continue for 12-18 months until the brand achieves scale.
- The Jaypore segment reported revenue growth of 90% YoY and added eight stores, taking the total store count to 18 stores.
- The company announced the acquisition of a 51% stake in TCNS, which operates in the women ethnic wear segment, which will complete its ethnic wear portfolio.

Capex:

- The company expects the capex for FY24 to remain in the similar range as that of FY23, with most of the capex attributed to the addition of retail stores, renovation or adding Store-In-Store across businesses.
- The company expects capex for setting up premium LFS 'Galeries Lafayette' to run into FY25 as well, with the format expected to become profitable from the 2nd year onwards.



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**Barbeque Nation Hospitality****Neutral****Current Price INR 678****Demand environment**

- In FY23, the management witnessed a demand slowdown, which led to a decline in EBITDA margins, coupled with operating deleveraging. With growth in demand, the management expects EBITDA to recover.
- Overall, industry-wide demand remained soft, with Jan'23 performing well but Feb-Mar'23 declining. However, the management has seen ~15% MoM growth in Apr-May'23. Both delivery and dine-in channels picked up in Apr/May'23.
- The company shut down seven stores that did not surpass the threshold revenue limit in 2HFY23 (five of them in the T3 market). As a result, it is taking a cautious approach in the T2/3 markets while concentrating on the T1 market. Additionally, some stores were closed as a result of the collapse of malls.

The image shows a financial report for Barbeque Nation Hospitality. It includes a table with financial data and a summary of key performance indicators. The table has columns for various financial metrics and rows for different periods. The summary section highlights key points about the company's performance, including revenue growth, EBITDA, and store openings.

Performance

- Revenue/EBITDA grew 43%/49% YoY in FY23. The Dine-in business grew by 62% YoY, offset by a 17% YoY decline in the delivery business.
- Growth in the Dine-in business was driven by volumes and price increase, while the delivery business declined due to a decrease in Average Order Value.
- In 4QFY23, dine-in SSSG was +2.1% (v/s -2.6% for overall business). Overall business SSSG declined due to the underperformance of the delivery channel. Some mature stores reported SSSG of ~3.5% in 4QFY23.
- Despite inflation, gross margin grew thanks to pricing growth and cost management.
- BARBEQUE has generated pre-Ind-AS OCF of INR1.15b and incurred a capex of INR 1.45b.
- It incurred INR70m of capex in CWIP, INR100m for maintenance, INR100m toward the biryani business and the balance toward adding 39 new sites and 10 renovations.
- The company targets to open 20 stores in FY24, and the renovation of some stores could lead to annual capex of INR800m (INR600m for store adds (3cr per store), INR100m toward maintenance).

Other formats

- The company continues to invest in Core BBQ and other brands.
- The DumSafar business is gaining traction as it has crossed the revenue run rate of INR20m per month and expects INR30m.
- The International business is delivering strong SSSG and EBITDA.
- Toscano reached the revenue milestone of INR1b annually (~INR70m per store). Management is receiving positive customer feedback. The price increase helped SSSG growth in the format. The management is looking to open five new stores (36% YoY store add) in FY24 and expects a 25% CAGR growth over the next two years.
- BBQ mature portfolio is doing well. The company expects INR70m per outlet revenue, which is currently 5% lower.
- The share of delivery in the overall business decreased to ~14% in 4QFY23 v/s ~18% in 4QFY22.

Guidance

- BARBEQUE has reduced its store opening guidance to 20 stores in FY24 (opened net 31 stores in FY23), with a focus on increasing capacity utilization at existing stores.
- Of the 20 expected new stores, 12 are BBQN restaurants (the bulk in the T1 market and about 3-4 stores in the T2 market), five are Toscano restaurants, and three are BBQ International restaurants. The management will monitor results over the next few quarters before increasing the store count.
- Higher volume and better capacity utilization will drive SSSG (because price growth is slower in FY24).
- The revenue target for old stores is around INR70m, with 21% ROM EBITDA (v/s 19% in FY23). New stores are expected to generate 10% ROM EBITDA (v/s ~3% in FY23). The consolidated EBITDA margin is expected to be around 13-14% in the medium to long term.

Bata

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Others

- It is improving the guest experience with price reductions, the introduction of Happy Meals on Monday/Wednesday, and the 1+1 beverage offer.
- The ratio of H1 to H2 revenue is typically 42:58.

Bata India

Neutral

Current Price INR 1,592

Key highlights

- The outlook seems promising with moderating inflation that should drive a recovery in products below ASP of INR1,000. This category declined 10% over FY20 (pre-Covid), which constituted 40% of BATA's revenue (v/s 50% earlier).
- Sales contribution by COCO is near 70%, franchisee – 8%, MBO – 14% and online business – 10% in FY23 v/s 74%/7%/19% for COCO/online/others in FY22. This was due to the expansion in franchisee and MBO network. Online channel grew the fastest at 2.2x YoY in FY23.
- The throughput of franchisee stores is over 1.7x of COCO shops, aided by ~50% smaller store size. Subsequently, it will reach 500 stores, a year before its target (reached 411 stores in FY23).
- The company is aiming for the next phase of expansion by growing the Red Label portfolio, offering apparels at an appealing price point of INR799-1499, expanding the Floatz collection, introducing outside the Bata banner, and concentrating on women's collections.

Segmental performance

Product growth

- Revenue mix between <INR 1,000 and above ASP stood at 50:50 during pre-Covid while currently the mix is 20% from < INR500, 15-20% from INR 500-1000 while remaining 60% from >INR 1,000 categories.
- Revenue for footwear below ASP of INR1,000 declined 10% over FY20 (pre-Covid), which constituted about 40% of the revenue v/s 50% earlier.
- Premiumization is supported by Hush Puppies.
- Sneakers/ Hush Puppies/ Comfit/ Floatz categories surged 1.16x/ 1.36x/ 1.35x/ 4.68x in 4QFY23 YoY
- Schools and sneakers categories have exceeded the pre-Covid level.

Outlook

- The outlook seems promising with moderating inflation that should drive a recovery in products below ASP of INR1,000.
- The company plans to increase the number of MBOs, which could lead to growth revival.
- BATA is likely to spend ~INR300m in capex for IT in FY24. In the next few years, marketing costs could rise to 3.0% from 2.6%. Management expects the staff costs to have some benefit in FY24.

Steps to drive the next leg of growth

- Red label portfolio – The portfolio has good profitability supported by strong footfalls, and positive customer feedback. It is witnessing visits of the younger generation. The company is focusing on new locations.
- Apparel – Since 1.5m customers are visiting the stores, management expects apparels to be a good growth driver. It will be launching the products in a couple of months at attractive price points of INR800-1,500.

- Floats - Targeting to expand the collection and to move outside the Bata banner. It has 60% penetration in the FRN stores.

Margins-

- Blended price increased 15% YoY in 4QFY23 and 13% YoY in FY23 led by price hike, premiumization and mix impact.

Store counts

- Extended to 2,053 stores (incl. SIS) in 698 cities led majorly by franchisees. Sneaker Studios were implemented in 533 stores.
- Will be reaching the target for 500 franchisee store a year in advance. Have reached 419 stores.
- It has shut down almost 90 unprofitable COCO stores v/s pre-Covid
- As the inflation is stabilizing and greater demand is anticipated, the pace of MBO addition will start to accelerate.

Developments

- The organization has implemented the Jamalpur 3PL warehouse project to create an effective supply chain.
- Focusing more towards ladies collection and hence launched Value Added Category for ladies
- The School category has bounced back strongly.
- Continuous investment in digital marketing drove footfalls, online sessions & orders.

Distribution channel

- Sales contribution by COCO is near 70%, franchisee – 8%, MBO – 14% and online business – 10% in FY23 v/s 74%/7%/19% for COCO/online/others in FY22:
- COCO store revenue per sqft grew 30% YoY in FY23 and 7% YoY in 4QFY23
- Online business grew 2.2x YoY to INR3.5b in FY23
- Digital channel grew ~1.5x YoY and 3.7m customers visit on the online channel
- In-Store business grew 1.2x YoY in 4QFY23.
- Contribution margin on per pair basis was higher in franchisee stores rather than COCO stores.
- Franchisee stores were at a revenue scale of 0.5x lower v/s COCO stores.



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Campus Activewear

Buy

Current Price INR 318

Key highlights

- The sports and Athleisure industry is ~INR120b in size, of which the current split is 50-50 between organized and unorganized markets. However, the share of organized market in the mix is improving at a very fast pace. In FY23, the overall industry grew ~15-16% while Campus's revenue rose 24% YoY, implying market share gain.
- The company is planning to address the lower-end price point products (between INR699-INR999 ASP) by introducing a sub-brand under the Campus umbrella. The market size of this category is ~INR10b. Campus's market share is ~20% in this category, which should benefit the company.
- 2HFY23 should be the pivotal time for the macro improvement. Management guided for 49-51% GM. As and when operating leverage kicks in, the EBITDA margin is expected to reach 20-22% in the medium term.

The image shows a screenshot of a financial report for 'Campus ActiveWear'. It includes a table with columns for 'Particulars', 'FY22', 'FY23', and 'FY23 v/s FY22'. The table lists various financial metrics such as Revenue, Profit, and Expenses. Below the table, there are several paragraphs of text providing a detailed analysis of the company's performance, including discussions on revenue growth, operating margins, and the impact of various factors like advertising and sales promotion expenses.

- Revenue growth was aided by improving mix of products that were above INR1,050 ASP (grew 45% YoY), women and kids wear (grew 49% YoY), better performance in Metro and T1 cities and D2C business (grew 49% YoY).

Detailed takeaways

Performance

- Overall revenue grew 24% YoY in FY23 to INR14.8b led by 22% YoY increase in volume and 2% YoY increase in ASP.
- It incurred advertising and sales promotion expenses of INR1.6b in the last 24 months (6% of sales).
- Higher marketing expenses and higher labor costs (converting cost) led to higher SG&A. Campus could not be able to pass on the higher converting cost to the end-consumer in FY23.
- The following four items contributed 90% to other expenses: a) conversation cost (INR300-INR350m), b) advertisement expenses of ~6.0-6.5%, c) online commission in D2C online channel and d) increase in freight costs.
- Margin in the Trade distribution category was ~17-18% while it was 200-300bp higher in D2C online business. EBO margin was higher too at 24-25%.

Distribution channels

- Trade distribution grew 10% YoY to INR8.2b (55% revenue mix in FY23 v/s 62% in FY22)
- D2C online grew 42% YoY to INR 5.6b (38% revenue mix in FY23 v/s 33% in FY22)
- Online volumes rose 44% YoY to 15.6m pairs while offline volumes grew 13% YoY to 7.9m pairs in FY23.
- D2C offline surged 2x YoY to INR 1.1b (7% revenue mix in FY23 v/s 5% in FY22) since the store counts have doubled to 202 stores

ASP mix

- Semi-premium and premium products contributed the maximum to revenue growth while entry-level products' revenue declined.
- Premium products' revenue grew 30% YoY to INR6.3b (42% of mix)
- Semi-premium products' revenue jumped 73% YoY to INR4.4b (30% of mix)

Gender wise

- The mix improved towards Women and Kids to 80:20 men : women in FY23 v/s 83:17 in FY22
- Women and Kids category revenue jumped 50% YoY to INR3b in FY23 (20% share)
- Menswear revenue grew 20% YoY to INR11.8b in FY23 (80% share)

Region wise

- South India contributed 10%, West (around 20%), East (15%) and North and Central India together contributed 55% of the total revenue.
- From e-commerce standpoint, North and Central contributed ~40% while the remaining three territories contributed 20% each.
- Trade distribution network has similar footprint as the aggregate numbers
- The addition of outlets will be more across Central India, West India and Southern India markets.

Environment

- Campus could have increased market share while the overall industry is weak. The unorganized industry contracted in FY23.

- Campus had seen a K-shaped recovery (specifically in UP/ Bihar) – the Metro and T1 cities saw premiumization while T2/3 cities saw down-trading.
- Higher interest rate and inflation hurt the mass segment while the Premium segment has not faced the impact. This led to a delay in recovery for non-metro cities.
- The lower end of footwear may benefit by the new BIS implementation. Hence, the company is targeting the price point of INR699-999.
- West and South markets are doing better while the North declined due to the volatile macro environment (and not due to the distribution setup).

Strategy

- To address the K-shaped recovery, the company is targeting four strategies-
- Concrete action pricing plan – To address the lower-end price point between INR699 and INR999, the company targets to introduce a sub-brand under the umbrella of Campus. The Campus brand will be focused on premiumization. The new brand will be launched as a pilot in next quarter and after that looking at the progress, the company will launch the brand on Pan-India basis.
- Product portfolio expansion – Targets to extend the casual range and premium open footwear collection, Casual range did well and hence Campus will increase the SKU's
- Market expansion – Since the core markets (UP /Bihar) have declined, the company is taking necessary steps to improve the trade distribution category
- Export market – on a selective basis, it will target the export market opportunity.

Guidance

- Management expects gross margin to remain in the range of 49-51% as the company is able to maintain the same for the last few years.
- It expects operating leverage to kick in when the revenue will increase and expect margin between 20% and 22% in the medium term.
- Macro improvement should take place in 2HFY23. Expect D2C channel to grow while Trade distribution business is shaping up well.
- It expects 90 days of WC cycle in the near term and 75-80 days in medium term
- The company does not expect any major capex in FY24
- It expects 50:50 mix between trade distribution and D2C business.



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Devyani International

Buy

Current Price INR 181

Key Highlights

- Demand environment is improving led by receding general inflation and falling RM prices, but dairy prices still remain elevated that may drag the profitability.
- Store additions for FY24 to range around 300 with 100 stores for KFC and Pizza Hut (PH) each, 60-70 for Costa Coffee (CC) and rest towards smaller portfolio.
- KFC's GM is likely to reach 69% in the coming quarters due to price hike effected in Apr'23, introduction of value category and improvement in RM pricing.
- Management maintains its SSSG guidance of 5-6% for KFC and 7-8% for PH in the medium to long term.

The image shows a screenshot of a financial statement for Motilal Oswal Devyani International. It includes a table with various financial metrics and a detailed narrative section below it. The table lists items like Revenue, Profit, and other financial indicators. The narrative section discusses the company's performance, mentioning revenue growth, inflationary pressures, and operational challenges.

Detailed Highlights:

Company performance

- The company's consolidated revenue reached ~INR30b in FY23, backed by store adds and healthy performance from existing stores
- The high inflationary environment led to short-term impact on demand in 2HFY23 along with impact on GM.
- Lack of operating leveraging in core business (due to weak SSSG), increased marketing spends and higher store operating costs led to operating margin contraction in 4QFY23.
- Higher employee cost for 4QFY23 was mainly led by a one-off provision for statutory bonus in FY23. This is estimated to have an impact of ~1% on profitability across brands.
- ONDC: The company on-boarded PH onto the ONDC platform; while KFC remains under evaluation.

Outlook

- The company is witnessing initial signs of stability with 2HFY24 to see better spending
- It expects inflation to bottom out in the next few quarters, as the staples category that is seeing a recovery.
- Within raw material, the company is witnessing improvement in chicken pricing, oil, wheat flour and packing material that should aid margins going ahead. However, milk and cheese prices continue to remain a concern and should stabilize in six months
- The company in addition to expanding footprint also targets to foray into the value segment that should lead to long-term benefits. It recently launched KFC lunch and rolls within value category, which has seen strong traction.
- Dubai subsidiary: It expects to expand in international market but no concrete plans as of now.
- The company will not make any incremental investment in Nigeria due to currency issue; hence, capex for this region will be funded through internal cash generation only.

Store count and capex

- Total store count stood at 1,243 across portfolio, which has seen over 100% growth in last three years.
- The company opened 305 net new stores across portfolio in FY23 of which 66 stores were added in 4QFY23
- It is now seeing a shift towards non-metro with nearly 53% of its core stores present in non-metro regions.
- Store additions for FY24 to range around 300 with 100 stores for KFC and Pizza Hut (PH) each, 60-70 for Costa Coffee (CC) and rest towards smaller portfolio.

Brand-wise performance:

KFC

- The sequential impact in demand was mainly due to impact of lower days and a shift in festive period.
- Sustained raw chicken prices and other RM prices were not passed on to customers, which resulted in GM decline. The recent correction in oil has reflected in Apr'23 while the chicken price correction impact would be seen next month due to presence of higher-priced inventory.

- Deleverage and higher operating cost led to EBITDA decline
- Product pricing: KFC recently took a price hike in Apr'23 to the tune of ~3-3.5%.
- Further with introduction of value layer in KFC and cooling off in RM pricing, the management expects margins to reach historical levels of 69% in coming quarter.

Pizza Hut (PH)

- The higher pricing within Cheese and milk products along with other RM hit margins as the company did not pass this on to customers.
- The segment saw addition of 10 new pizzas with refreshed menu and sizing in Apr'23 which has led to marginal increase marketing spends.
- While the segment is seeing return of smaller brands and local brands, there hasn't been an emergence of a national-level player.

Costa Coffee (CC)

- The segment surpassed 100 stores mark during 4QFY23 as it doubled its store count 112 stores from 55.
- The decline in GM was mainly on account of inflation witnessed in coffee and milk-related RM, while rapid expansion impacted brand contribution
- The company does not plan to focus on mass play such as core brands within this category and expansion would be attributed to metro and tier 1 category.
- SSSG
- The company continues to maintain its SSSG guidance of 5-6% within KFC and 7-8% within PH for medium to long term.
- SSSG decline for PH v/s KFC is mainly because of pizza being price sensitive that was hit by inflation.
- Strong element of store expansion coupled with SSSG to aid Average Daily Sales.



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Jubilant Foodworks

Buy

Current Price INR 493

Raw material prices

- JUBI has maintained growth despite food inflation across categories.
- Cheese prices surged 40%, flour prices were up 20%, chicken and paper prices jumped 30% over pre-Covid. Cheese prices may remain elevated for the next two quarters as well.
- Despite high cheese prices, the company maintained its gross margins (down only 20bp QoQ).
- JUBI does not plan to hike prices for the next few quarters.

New product/innovation

- JUBI continues to strengthen value offering and product innovation. Pizza Mania introduction seeing good response and expects new customer addition.
- It introduced 13 items in the value range starting from INR49-169. This should not impact gross margins.
- The company focuses on cost efficiency and improvement in productivity.
- The 20min order delivery in Bangalore was driven by a reduction in processing time due to technology (helps in getting more orders from a driver). This does not impact gross margin. Bangalore saw double-digit growth LFL.
- Popeyes's newly launched products – Smoky Pepper and Sweet Chilli received good response from customers. Popeyes customer response is positive in Chennai.



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Stores

- JUBI continues to invest in new stores, which performed well in existing cities; opportunity to open stores in new cities.
- Proactive investment led to a decrease in operation time and improved cost efficiency, which should see faster recovery.
- About 40% of new stores are in existing cities.
- It opened 84 split stores during the year.
- The number of orders grew in double digits and LFL orders were positive.
- JUBI targets to grow Popeyes systemically in South and then in other parts.
- It targets to open 200-225 Dominos stores and 30-35 Popeyes store in India annually.
- The delta between LFL and SSSG could be 300bp.
- Capex would remain elevated at INR7-8b.

Metro Brands

Buy

Current Price INR 978

Key highlights

- The strong 58% revenue growth in FY23 was led by 8% price increase and ~47% volume growth on a low base of FY22. The management expects an annual price increase of 5-7%.
- The company targets to open 200 new stores over the next two fiscal years, excluding FitFlops's and FILA stores.
- The management has also retained GM guidance of 55-57%, EBITDA margin of ~30% and PAT margin of +15%. Delta between pre and post IndAS EBITDA is between 8% and 9%.
- For FILA, the management expects to clean up old inventory and a reset of product offerings and earnings by 2HFY24. In the three to five year period, the top global sportswear company plans to open 300-400 stores. It also expects to maintain a healthy GM similar to Metro and is targeting a 20% share of non-apparels to drive growth.

Detailed notes

Strategy

- The company is on track to attain the Strategic objective of premiumization. Additionally, it is focused on maintaining its gross margin (GM) in line with its targets.
- Contribution from INR3,000+ ASP grew to 44% in FY23 v/s 40% in FY22 and 34% in FY20
- Indian economy growth is in line with the management expectation
- The company has ample opportunity for expansion, with the potential to reach 300-400 cities v/s 174 cities in FY23
- The growth will be supported by the increasing middle class income and growth in T1 and T2 cities. Customer preference toward branded products is increasing.
- The management expects 200 new store additions in the next two years. (100 store p.a. in FY24/25)
- The company is currently focused on the Southern and Western regions

Environment:

- The management observing moderation in the near-term sales growth, which can be attributed to the pent-up demand observed between Oct'21 and Jun'22.

- The management did not see any disproportionate demand trend between T1/T2/T3 cities.

Fila

- After clearing the old inventory, the company aims to reset the Fila brand. The company has 400 distribution points, which can be leveraged.
- Currently, there are 300-500 mono brand store (global sportswear brands similar to Fila) in operation. Fila, on the other hand, has 25 EBOs, which could contribute to the growth of Fila's sales.
- It has already placed a team headed by Mrs. Alisha Malik to grow the brand.
- The management expects INR320-350m expense for the cash flow mismatches. The company is turning around slowly and modernizing the loss from 2HFY24 onwards. FY25 can be the year, where Fila can fund its own growth plans.
- An average store size could be in the range of 1,500-2,000 sqft.
- The average selling price of Fila is expected to be between INR 5,000 and INR8,000.
- The rationale behind the demerger of Fila brands in CBL is to leverage cost efficiencies and improve operational synergies.

Key priorities for FY24:

- The management expects moderation in CBL loss from 2HFY23 onwards.
- Integrate Fila with the MBL eco-system to leverage cost efficiencies and improve operational synergies.
- Focus on liquidation of current excess inventory and improve cash conversion cycle.
- Evaluate means to improve sales throughput at all existing sale channels (i.e., EBO's/LFS).

Performance:

- Increase in volume (40-45% YoY) led to sales growth of 58% YoY in FY23. Around 14-14.5m pairs were sold in FY23. While the overall ASP growth (including accessories) stood at 3%, ASP growth (excluding accessories) stood at about 7-8%. Long-term ASP growth is around the same range as that of inflation.
- For FY23, standalone revenue grew 29% YoY, while the store growth stood at 18% YoY. This could be attributed to higher teen SSSG for Metro Standalone.
- The company does not feel any need to lower the ASP even for the Walkaway business.
- The guidance remains the same for GM at 55-57%, EBITDA margin at 30%, and PAT margin at +15% annually.
- Ecommerce grew by 48% YoY.

Footwear industry has come under the purview of BIS implementation:

- The Department for Promotion of Industry and Internal Trade (DPIIT) issued BIS Quality Control Order (QCO) for footwear's, which will be mandatory from July 2023.
- MBL has front-loaded inventory buying to circumvent any potential supply chain disruption leading to higher inventory in 1HFY24.



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Sapphire Foods

Current Price INR 1,436

Buy

Summary notes

- The management has maintained its previous guidance of 130-160 store additions per year and expects it to double in the next three to four years.
- RM Inflation has cooled down, hence, the management expects GMs to improve. Starting from Apr'23, it has taken a price increase of 3.5% in KFC.
- The company is taking a more cautious approach to expanding its footprint in Sri Lanka over the next 12 months. However, a recovery is expected to drive margin improvement in the next 12-24 months, with the expectation of exceeding 20%.

Detailed notes

Performance

- Over FY21-23, the company experienced a 30% CAGR growth in restaurant numbers, while Sales/Adjusted EBITDA registered a CAGR of 49%/2.6x over the same period.
- 4QFY23 Consol restaurant sales grew 13% YoY, wherein India Restaurant Sales delivered a robust growth of 23% YoY.
- The management has maintained its previous guidance of 130-160 store additions per year and expects it to double in the next three to four years.
- Consol Restaurant EBITDA has remained flat YoY and margin was 16.2%. This was primarily due to the adverse Sri Lanka impact. India Restaurant EBITDA grew 19% YoY and margin was 16.5%.
- ESOP cost is expected to about 0.7-0.8% of the company's revenue.
- A new store for the company garners 75-80% of the overall brand average in year one. It takes about three to four years for new stores to scale up toward brand average.

Sri Lanka Impact

- Despite challenges, sales for Pizza Hut grew 48% YoY in LKR for FY23. However, in INR terms, sales declined by 9% due to the depreciation in SLR.
- Despite 100% inflation in Sri Lanka, the restaurant EBITDA remained flat in LKR terms. The company had to take a 50-60% price increase, due to inflation, which resulted in a decline in transactions.
- The company is adopting a more cautious approach on new restaurant expansion in the next 12 months in Sri Lanka.
- Operational constraints such as the ability to import cheese to availability of utilities, have been reduced, and operating conditions have largely returned normal.
- Things have started stabilizing in the country. However, the impact on customers wallets are very high. Has seen big transaction drops on the brand.
- The company believes that the EBITDA margin of 14% could be the bottom, and it is hopeful that over the next 12-24 months, the EBITDA margin will increase to above 20%.

KFC priorities

- The company has recently introduced new innovative menu items such as Chizza and Chicken popcorn, all at a value price point. Additionally, they have added Chicken Rolls starting at INR99, which adds to both value and snacking options. The benefits of the marketing and new product initiatives will become apparent in 3-6 months.

- The company has launched value entry and value innovation initiatives, which are expected to drive growth in transaction volume and SSSG.
- The management targets to double the restaurant count in the next three to four years
- It remained a tough quarter with post-Diwali demand challenges, also the 9 days of Navratri and Ramazan in 4QFY23 affected the growth and SSSG reported at 2%
- GM has improved by 120bp from 2QFY23. This is an improvement over the inflation rate.
- Restaurant cost efficiency has enabled them to deliver best efficiency at EBITDA level.

PH priorities

- Slowdown post Diwali has adversely impacted Pizza Hut more. Pizza Hut has performed well in 1HFY23, while the last six month were slow. The company expects to continue with its marketing campaigns going forward.
- The company has revamped its core pizza and appetizer range, with the launch of 10 new and exciting pizzas, while the Flavour Fun value range continues to well. The launch of 10 New Pan Pizzas, 2 new Pastas, Keema Garlic Bread at a value price point and customer feedback were positive.
- The raw material prices are now recovering for PH as well, except the dairy which is still under pressure.
- Restaurant EBITDA has declined due to negative operating leverage, led by a decline in SSSG.
- The management expects to double the restaurant count in the next three to four years with focus on opening 1200sqft / 1000 sqft stores. Previously, the company had 2,500 sqft legacy stores, but it has now decided to convert these stores to 1,200 sqft, which resulted in an 8-10% reduction in capex.



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Shoppers Stop

Neutral

Current Price INR 780

Key Highlights:

- The company anticipates the current elevated gross and EBITDA margins to sustain. This is attributed to factors such as an increased share of private brand, successful negotiations with vendors to secure higher margins, and the optimization of discounts.
- The management expects revenue growth will fall within the mid-double digits, aided by high single-digit SSSG, footprint expansion, and improved share of private label.
- The company targets to open 10-12 departmental stores annually with capex ranging between INR1.5b and INR2b.
- The management expects revenue of INR1.8-2b in FY24 within the distribution segment under beauty, falling the addition of three international beauty brands to its distribution network, as well as partnerships with 10 key retailers.

Business recovery:

- The company achieved its highest sales in the quarter as demand began to recover from Jan'23 onwards, following a moderation period during Diwali. Additionally, there are signs of green shoots in Apr'23, indicating a positive trend.

- The company indicated that the higher inflation in advanced economies and tightening of budgets in Tier 2 could negatively impact the revenue growth. However, the company believes this to be a temporary situation.
- The growth in other income for 4QFY23 was due to increase in income from loyalty program and income from lenders and banks.
- LFL growth for 4QFY23 was 32% YoY on a lower base of 4QFY22, due to adverse impact of omicron. FY23 LFL growth stood at 57%.

KPIs:

- ATV grew by 6% YoY, mainly led by a change in mix skewed toward premium categories. ASP, too, grew 7% YoY, driven by improved product mix and improved pricing.
- Items per bill remained flat YoY, while Bill counts increased 27% YoY.

Cost and Margins:

- LFL cost on a YoY basis saw a growth of 13%, mainly due to increased marketing spends.
- The company has observed an increase in other costs, mainly on account of the expansion of its footprint, resulting in higher rent and electricity expenses.
- Gross Margin improvement: The company stated that the margin improvement is attributed to factors such as an increased share of private brand, successful negotiations with vendors to secure higher margins, and the optimization of discounts. The company expects the margins to sustain going ahead.

Strategic pillars:**First Citizen:**

- The increasing demand for personalized retail has led to improved growth within its loyalty and first citizen program.
- Within its loyalty program of Black Card members:
- ABV for these members is 2x the first citizen members
- Spends increase ~3x as compared to first citizen members
- The company has undertaken various Exclusive engagements.
- The company, during 4QFY23, redeemed ~30% of inactive member base, which contributed to 3% revenue growth.

Private label

- The segment reported its highest ever annual sales with a revenue of INR1.6b for 4QFY23 and INR7.2b for FY23, registering a 35% YoY growth.
- The share in overall revenues increased 30bp YoY to 13.5% (14.3% for FY23 with 60bps expansion)
- The company launched a private brand “U R You”, which has received a good response. The company plans to expand this to over 50 stores.
- Its private label brand “STOP” crossed INR2b revenue while “Bandeya” too recorded robust sales.

Beauty:

- The segment reported a revenue growth of 29% YoY with overall share in revenue standing at 17%.
- It undertook 112k makeovers, generating a revenue of ~INR400m in 4QFY23.
- It launched 40 new SKUs under its private label brand “Arcelia”

Distribution:

- The company on-boarded three international businesses within its exclusive range, taking the overall count to 15 premium exclusive brands.

- The company is currently in the process of appointing retailers and has already tied-up with 10 key retailers. It may add 4-5 more retailers in 1QFY24.
- The company expects revenue from this vertical to range between INR1.8-2b for FY24.
- The company opened 1 Beauty store along with the launch of its exclusive website “SSbeauty.in” and app for first citizen in 4QFY23.
- Within this segment, the company is placed in the premium segment and looks to cater to the upper middle class people.

Omni

- The company recorded double-digit sales within the digital segment
- In 4QFY23, it announced the launch of SS beauty website and app to commensurate with offline sales and provide omni-channel experience.

Capex and WC:

- The company opened two new departmental and one beauty store in 4QFY23. Further, one store was opened in Apr’23 and one is expected to open in May’23, with some delay in the expansion plans.
- About 14 stores were shut down for the period of FY20-23, majorly during the Covid period. FY22 witnessed two store closures.
- The company indicated that the store closure may continue but at a muted pace as majority of store clean-up was taken care of during the Covid period.
- The company expects the annual capex to hover around its current range of INR1.5-2b going ahead.
- The company has managed to achieve a lower capex per square foot for its newer stores, with a range of INR 2,200-2,300. These stores have a payback period of 2-2.5 years and an ROCE of 20%. The total capex per store ranges between 7cr and 10cr, depending on the size and location of the stores.
- Digital spend has reduced in the last two Quarters as SAP implementation was completed along with the implementation of retail and finance module.
- The increase in inventory was mainly on account of
- Store adds, which required incremental inventory (added 11 stores in FY23),
- Growth in private labels, which requires higher inventory,
- Successful negotiations with vendors of beauty brands and some apparel players.

Guidance and outlook:

- For FY24, the company expects a revenue growth of mid double-digits and an SSSG of mid-single digits.
- The company re-iterated its plan to double its revenue from FY20 levels by FY26.
- The growth will be driven by
- Primarily focussing on the expansion of private brands with overall share in revenue reaching 20% of total sales and 25-30% of apparel segment
- Continuing to grow SS beauty stores along with boutique beauty stores for certain brands like “Estee lauder”
- Expanding its footprint as the company plans to add 10-12 departmental stores annually.
- ROCE sustainability: The company expects ROCEs to range between 20% and 23% in the next 1-2 years. Reduction in spend per store (35% reduction of capex on per sq ft basis) and bulk procurement to aid improve the returns. In new

cities, the company is negotiating with landlords and convincing them to bear the cost of capex.

- The company expects LFL growth to originate from increased number of new smaller stores in the next two to three years.

Others:

- The company is witnessing a reduction in shopping for family and improved individual purchase. Resultantly, it will continue to bring brands to accommodate this shift.
- The company has on-boarded four new brands in stores on an exclusive basis, catering to D2C to attract younger customers. It will further launch a street-wear brand “break bounce”, targeting the younger audience.



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MOTILAL OSWAL		TITAN COMPANY	
Quarter	Year	Quarter	Year
Q1 FY24	Q1 FY23	Q1 FY24	Q1 FY23
Revenue	1,04,000	Revenue	1,04,000
Profit	1,04,000	Profit	1,04,000
EPS	1,04,000	EPS	1,04,000
Dividend	1,04,000	Dividend	1,04,000
ROCE	1,04,000	ROCE	1,04,000
ROE	1,04,000	ROE	1,04,000
Debt to Equity	1,04,000	Debt to Equity	1,04,000
Current Ratio	1,04,000	Current Ratio	1,04,000
Net Debt to Capitalization	1,04,000	Net Debt to Capitalization	1,04,000
Operating Leverage	1,04,000	Operating Leverage	1,04,000
Financial Leverage	1,04,000	Financial Leverage	1,04,000
Operating Leverage	1,04,000	Operating Leverage	1,04,000
Financial Leverage	1,04,000	Financial Leverage	1,04,000
Operating Leverage	1,04,000	Operating Leverage	1,04,000
Financial Leverage	1,04,000	Financial Leverage	1,04,000

Titan

Buy

Current Price INR 2,905

Performance and outlook

- Rise in gold price impact – Demand weakened in March and carried over to the first half of April. However, with the onset of the festive period (Akshay Tritiya) and promotional offers, demand picked up momentum once again. Anticipating a positive outlook for May and June, given the upcoming wedding season with a higher number of wedding dates.
- Volatility in demand linked to gold prices continues.
- There has been a revision in franchisee terms. The old structure was 15 years old and there were several developments in the past 15 years. It will have minimal impact on the profitability of TTAN.
- One nation one gold price – the company has opted not to adopt a uniform gold pricing strategy across the nation, as there is significant variation in gold rates across different regions. Instead it is focused on remaining competitive on a region-by-region basis.
- Dividend payout for the year stood at ~26-27%, falling within the company's dividend distribution policy of 25%-40%.
- New customers are majorly gold buyers and in the price band of sub INR50,000.
- Robust revenue in watches is on the back of strong investments in the category.

Margins

- The jewellery segment's margin benefited from the low-cost diamond inventory for the current year, which may not be available next year.
- The watches segment's margin was affected by some impact from actuarial calculations. Target margins going ahead are ~12-13%.
- Margins in the wearables business is slightly lower than the watches segment; however, it is more than its competitors.

Additional segment details

- Targeting double-digit same store sales growth in the jewellery segment.
- International business is performing well. Currently, the company has six stores in the UAE and one in the US. It plans to expand to 25 stores in FY24 with many stores in the GCC region.
- Titan eye+ in Dubai is seeing around 20-25% non-Indian customers.
- Mia – It has done exceptionally well in FY23. Revenue was up 3x in FY23. It did business of ~INR7.4b in consumer price terms and is targeting INR13b-13.5b in

FY24. 40% of the business is from standalone stores and the remaining is from Tanishq. The management targets to double the number of stores by FY24.

- Most of the stores are in top 30-40 towns only.
- Studded jewellery – The sales ratio of studded jewellery has almost returned to pre-pandemic levels. Studded inventory turns are lower than gold.

Other points

- There is opportunity for 100 new Tanishq stores in the next two years. However, the company would be adding 30-40 new stores per year for the next two years and would be expanding a few retail stores.
- TTAN targets to open around 100 stores in the next 8-9 months in the eyewear business.
- Inventory during the wedding period is higher in the stores.
- Wedding business contributed 19% to the jewellery business in FY23 (a slight decline from FY21 levels of 20%).
- The company recorded encouraging enrolments in the golden harvest scheme, growing in double digits.



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Results Update



The screenshot shows the V-Mart Retail financial results for FY24 Q1. The table includes various financial metrics such as Revenue, Profit, and Earnings Per Share (EPS) for both FY24 Q1 and FY23 Q1. The data is presented in a structured format with columns for the metric and the corresponding values for the two periods.

V-Mart Retail

Buy

Current Price INR 2,037

Key highlights

- Management expects revenue growth to originate from LFL growth at mid-high single digits and improved share of online business to 8%-10% going ahead from 2% currently.
- VMART expects footprint additions of 15-16% annually with 60 stores expected to open in FY24.
- It closed 16 non-performing (13 V-Mart) stores and is assessing any such stores on an ongoing basis. However, the closures were carried out largely and VMART should not see any further significant closures.
- Capex of INR2.7b for FY23 was mainly attributed to building of new warehouse (INR1.1b) that is expected to be operational by end-May'23.

Business Environment:

- While the consumption impact within lower income group persists, the company expects this to improve over the next couple of quarters in line with improved agriculture produce.
- The UP and Bihar segments are witnessing a transition whereby the informal business economy is seeing some impact due to formalization of the economy. The company expects this to normalize by next year. Whereas, East and North east regions have seen a good rebound in terms of demand.
- While there has been a surge in store opening witnessed within the Tier 2 and below cities (50-60% new stores built by organized players within the tier2), management sees a strong opportunity within that segment.

Business Initiatives:

- The company is currently working on models such as improved Fabric sourcing, inventory management and digitalization, with a view to improve customer experience.
- It plans to improve its reading on market demands and build a core design team internally, track similar fashion trends and incorporate a separate sourcing

department as well as a quality control team. It expects to see the benefits of such steps from the upcoming Autumn Winter period.

Guidance

- Management expects revenue growth to originate from LFL growth at mid-high single digits and improved share of online business to 8%-10% going ahead from 2% currently.
- It does not plan to raise or dilute equity and expects to manage the investment in online business internally based on the investment cap.

New Business Segments:

Unlimited Segment:

- The company has seen strong response to the newly set up stores. It will continue its focus on expanding within the underpenetrated Tier 3 markets.
- It closed 16 non-performing (13 V-Mart) stores and is assessing any such stores on an ongoing basis. However, the closures were carried out largely and VMART should not see any further significant closures.
- The improved margins within the segment are mainly on the back of dual pricing model (improved pricing in South) and strong cost controls adopted. It expects further improvement to come from improved SSSG and setting up of newer stores with V-Mart's cost measures.

LimeRoad:

- The segment witnessed a growth of 88% in its top-line since acquisition and is currently operating at better-than-planned EBITDA
- The company is looking to build deeper right-to-win within the value market segment within the next few quarters.
- Current focus within the segment lies towards improving: 1) supply chain, 2) search and discoverability, 3) building trust online and 4) improved P&L.
- The overall costs of INR440m included an onetime cost to the tune of INR120m
- Majority of the expenditure within the segment are attributed to marketing, tech building and fulfillment costs. The company will look to reduce cost/order and expects to see QoQ improvement in profitability.

Financial performance:

- The company's revenue reported a strong growth of 30% YoY backed by SSSG of 10% for 4QFY23.
- The quarter witnessed outperformance by the Tier 1 cities while Tier 2 and below markets are witnessing a slower recovery
- The gross margin decline in 4QFY23 was mainly on account the 5% price correction undertaken by the company

Operating profits:

- EBITDA margin decline was mainly due to a contraction in gross margin and incremental expenses incurred towards online business (~INR380m) for 4QFY23. Excluding this, expenses reported a growth of 23% on YoY basis.
- The higher EBITDA margins of 11.9% for Unlimited were mainly due to non-allocation of admin costs.
- Working Capital improved during the year led by increase in payable days and inventory control

Store adds:

- It closed 16 non-performing (13 V-Mart) stores and is assessing any such stores on an ongoing basis. However, the closures were carried out largely and VMART should not see any further significant closures.
- Majority of the store closures came from stores opened in FY20, which failed to pick-up post-Covid period.
- The company guided to add 15-16% footprint going ahead. It plans to add 60 stores in FY24.
- Capex of INR2.7b for FY23 was mainly used for: a) building of new warehouse (INR1.1b) which is expected to be operational by end of May'23, b) refurbishment of existing stores (INR2-3m per store) and c) store additions.



VEDANT FASHIONS
— LIMITED —

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The screenshot shows the financial results for Vedant Fashions for Q4 FY23. The table includes various financial metrics such as Sales, Profit, and Cash Flow, along with their respective percentages and year-over-year changes. The data is presented in a structured format with multiple columns and rows, providing a comprehensive overview of the company's performance for the quarter.

Vedant Fashions**Buy****Current Price INR 1,291****Key Highlights**

- Emerging brands witnessed good traction in terms of footfalls and conversion ratios. VFL expects to open 8-10 stores of Twamev and 10-15 stores of Mohey on the pilot basis to monitor the performance for a further scale-up.
- It expects SSSG to be in the range of mid-to-high single digits annually and gross and EBITDA margins to be in the range of 66-67% and 30%, respectively.
- VFL will look to deploy additional cash toward growth and dividend distribution. It will also look at any external M&A opportunity.
- The company expects to launch the Phase 2 of its digital transformation in the next 2-3 months. It will look to integrate online demand with offline stores to improve the offerings and experience.

Detailed Notes**Company performance:**

- FY23 sales to customers grew 26.3% YoY on the back of 18.3% SSSG. 4QFY23 sales to customers rose 21% YoY, backed by SSSG of 14% YoY.
- VFL continued to generate strong cash:
- Cash conversion ratio (OCF to PAT) was 105% for 4QFY23 (83% for FY23) with a ROCE of 95.3% for FY23.
- OCF stood at 116% of net working capital as on Mar'23.

Product and channel mix:

- VFL stated that ~40-45% of annual business comes from grooms or brides wear.
- The online segment remains a strong channel for non-wedding sales, with a 40% CAGR in the last three years.
- Shelf space for Mohey within the flagship stores (>3,000 sq.ft.) remains at 25% of store space. Inventory for Twamev is kept together with Manyavar.
- The company is witnessing a strong uptick in international revenue with a 26% CAGR from pre-Covid levels in international stores.

SSSG

- The effective SSSG for FY23 is expected to be ~8% (v/s ~16% area adds) as 60-65% of area addition was done in 2HFY23 (full revenue would be reflected in corresponding year).
- The company is witnessing better SSSG for stores in vicinity of competitors and also gaining share from the unorganized segment.

- Going ahead, the company expects SSSG to be in the range of mid-to-high single digits.

Expenses and Margins:

- The decline in employee costs on YoY basis was due to the restructuring of Director Remuneration (to 1% from 2.1% earlier).
- Other expenses moderated as marketing costs in Q4FY23 declined compared to Q3FY23, mainly due to bigger events and campaigns. Advertising & Promotion costs for year stood at ~5%.
- The company expects to sustain gross margins at around 66-67% in the long term, with PATR margins in the range of 30%.
- Within emerging brands, the company is building efficiency with scale, which will not dilute margins.

Emerging brands and competition:

- Independent stores in Twamev are expected to go live in 1QFY24. The company will open four Twamev stores in 1QFY24, while Mohey stores are in the pipeline and are expected to open soon.
- Within these brands, the company is witnessing strong SSSG over company average and an improved conversion rate and inventory rate.
- The company expects to open 8-10 stores in Twamev and 10-15 stores in Mohey on the pilot basis and will monitor performance for a further scale-up.

Digital Transformation:

- The Phase 1 has been launched already and is live on Manyavar.com. The company is witnessing good numbers on back-end.
- VFL expects to launch the Phase 2 in the next 2-3 months, which will connect digital to physical stores.

Expansion:

- The company extended its footprint by 75k sqft retail area in 4QFY23. It also expended its international footprint by adding two EBOs during the quarter.
- The company opened a flagship store of 20,000sqft in Jubilee Hills. The company is now calibrating the inventory in smaller stores within the vicinity of larger stores to improve store efficiency.

Advertising campaign:

- The company continues to run its flagship campaign "Taiyar ho ke aaiye", starring Ranveer Singh across all platforms.
- It has also signed Kiara Advani as a brand ambassador of Mohey. The campaign is receiving good traction across all platforms.
- Cash Deployment:
- The company will look to deploy the additional cash (unless any M&A) for the expansion and dividend payment.



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Westlife Foodworld

Neutral

Current Price INR 847

Strategy

- The company continues to focus on improving sales through Menu, meals, and branding, and helped the company to post 36% SSSG for FY23
- Core focused categories to increase the ADS are Burger, Chicken, and coffee.
- The Chicken category is currently available only in South India, but is gradually expected to expand to West India as well.

The image shows a screenshot of the Motilal Oswal Westlife Foodworld financial statement for FY2023. The document is titled 'Westlife Foodworld' and 'FY2023'. It includes a table of contents and a detailed financial statement. The table of contents lists sections such as 'Financial Statement', 'Management Discussion and Analysis', 'Risk Factors', 'Corporate Governance', and 'Financial Information'. The financial statement includes a table of financial data for FY2023 and FY2022, with columns for 'Particulars', 'FY2023', and 'FY2022'. The data includes various financial metrics such as Revenue, Profit, and Assets. The document is dated 28th May 2023.

- The company believes there is significant room for growth in the beverages category.

Performance

- McDonald's is receiving a positive response in the smaller cities and towns, as a result of its aspirations.
- Non-Metro towns continue to grow at over 1.3x on the pre-Covid base.
- The dine-in and McCafe are performing better than in the pre-Covid period. Additionally, it is expected that all the stores will be equipped with the Experience of the future (EOTF) technology.
- On-premise business grew 85% YoY (v/s 25% in FY20) led by strong recovery in Dine-in, while Off-premise business grew by 11 % YoY (v/s 98% in FY20) led by Delivery and Drive thru
- Digital sales improved to ~57% with over 24m cumulative App downloads.

Guidance

- The management expects high single-digit SSSG and plans to add 40-45 new restaurants in FY24, with a target to reach 580–630 new restaurants by 2027.
- Management expects annual capex of INR 2-2.5b.

Price hikes and margins-

- While the company usually takes a price hike of 2-3% every year, it has not taken any price hike in 4QFY23.
- The price hike taken by Westlife is in line with the long-term inflation of India. Hence, the goal is now to grow its average unit volume.
- As per the management, gross margin change could be in the range of -100bp to +100bp
- The company has outsourced some of its processing work to a job worker, resulting in a reclassification of GM. Adjusting to that, the cool-off in inflation and one-time volume delivery incentive, cost savings, and earlier price hikes lead to 320bp improvement in GM (excluding processing charges)

TECHNOLOGY



- IT Services saw muted revenue growth in 4QFY23 (especially Tier-1 companies) and the demand is expected to remain weak in 1HFY24 before recovering in 2HFY24. The demand outlook for BFSI (especially in mortgage) and Hi-tech remains concerning. The companies are seeing sharp cuts in discretionary spends while there is an uptick in cost optimization initiative. There are higher numbers of cost optimization deals in the pipeline. The supply situation has eased and attrition has moderated sharply. Fresher becoming billable, reduced sub-contractor expenses, improvement in operational efficiencies and leverage should aid margins.

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Revenue outlook for FY24	Sustaining margin (%)
HCL Tech	<ul style="list-style-type: none"> ■ HCLT is seeing delays and ramp downs on discretionary spends. Client budgets are contracting for industries that are witnessing high inflation. There is a huge uptick in cost optimization and vendor consolidation deals in pipeline. ■ Management guided for FY24 USD revenue growth of 6-8% YoY in CC (6.5%-8.5% YoY in CC for Services). 	<ul style="list-style-type: none"> ■ Management expects FY24 margin at 18-19% earlier. It has reiterated its medium-term margin target of 19-20%.
Infosys	<ul style="list-style-type: none"> ■ For FY24, the company has given USD CC revenue growth guidance of 4-7% YoY, citing increased uncertainty for the wider guidance band. ■ Overall the deal pipeline remains healthy with a few mega deals being actively pursued, which gives confidence to the management to achieve the upper-end of the revenue guided range. The demand for cost take-out and vendor consolidation deals is extremely strong. 	<ul style="list-style-type: none"> ■ INFO has guided for FY24 EBIT margin to be around 20-22%.
TCS	<ul style="list-style-type: none"> ■ Demand in the UK and Europe is relatively stronger than that in the US. The decision-making process and sales cycles have improved, especially in the Europe region where demand was significantly weak in Q3. The company witnessed a large number of deal closures in Europe compared to the US. ■ Clients in the North American region are deferring projects, which are not critical in nature and in some cases completely pausing discretionary spending. 	<ul style="list-style-type: none"> ■ The management expects several margin levers to support in FY24; the sub-con cost is expected to be replaced by full-time employees. With travel becoming more flexible, it would replace onsite resources, while the key focus would be on utilizing the existing bench effectively.
Tech Mahindra	<ul style="list-style-type: none"> ■ The macro environment remains weak; TECHM is seeing slower decision-making for projects and cuts in discretionary spending. ■ TECHM expects the macro environment to remain weak and clients to maintain caution in 1HFY24 before recovering in 2HFY24. 	<ul style="list-style-type: none"> ■ Margin levers include normalization of sub-contractor expenses, offshoring, divesting non-strategic assets, automation, pyramid optimization and large deals maturing.
Wipro	<ul style="list-style-type: none"> ■ The macro environment remains challenging and clients are hit by the prolonged impact. WPRO is seeing cuts in discretionary spending in Banking, Insurance and Technology. However, it should see a good bounce-back once macro stabilizes. ■ Deal conversion to revenue is happening but being offset by high cuts in discretionary spending. ■ WPRO's 1QFY24 guidance was disappointing at -3.0% to -1.0% in CC terms, which includes India business now (50bp contribution to revenue). 	<ul style="list-style-type: none"> ■ IT Services margin was flat in 4QFY23. Management expects similar margin in 1QFY24. ■ The company will continue to focus on internal fulfillment. Utilization has further room to improve.

CYIENT

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Cyient

Buy

Current Price INR 1,352

- Consolidated services (incl. acquired entities) revenue came in at USD176.2b, up 3.2% in CC. Core services (ex of acquired entities) revenue growth came in at 2.6% CC QoQ.

Commentary on verticals

- Transportation:** The recovery in aerospace remains healthy, aided by growth in defence spending. However, the outlook on Rail is muted, as it expects mid-single digit growth for Rail transportation. Auto is expected to grow in double-digits in FY24.
- Connectivity:** The earlier project closure in Q4 led to a decline, with some softness in telecom vertical. Demand remained strong for development and deployment of private, public and enterprise.
- Sustainability:** There is a strong demand for EN&U companies to transition to a lower carbon emission system. There is an increased demand for mining automation, digital twins, and AI enabled plant/site design, which are becoming the growth drivers for this segment.
- Growth Areas:** The segment includes Auto, medical, semicon and Hi-Tech. Auto continued its strong momentum for SDV, EV and other alternative energy vehicles.
- The management remains hopeful of demand in FY24. While healthcare has taken a pause in specific areas, demand for predictive and personalized healthcare remains healthy. Semicon is expected to be little volatile in FY24.
- Overall, from a macro standpoint, there is no material impact on the business, except in few sub-segments. However, it remains watchful on the demand environment as some projects might be paused (it does not have visibility at the current juncture). It has maintained some caution on energy, medical and sustainability verticals.
- Aerospace growth is likely to be supported by the supper investment cycle (3 years) that will provide an opportunity to procure engines and design aircrafts, leading to an increase in after-market and MRO services in the space. Additionally, the aviation sector is transitioning to de-carbonization for reducing emission, hence imposing a strong mandate for upgrading platforms.
- CYL is still defending the legal suit and incurred INR162m in Q4 v/s INR 89m in Q3. The management indicated that it will get more clarity in the next quarter in terms of the suit.
- The current order book does not include the order intake from the acquired entities.

Commentary on Margin

- The operating margin on the consolidated services came in at 15.1%, while group margin came in at 14.3%, which implies a margin dilution on acquired businesses.
- The FY24 margin guidance (100-200bp YoY) on consolidated services includes the wage hike component.
- An improvement in margin in FY24 would be supported by execution capability, ability to draw price hikes, offshoring, fixed price projects and strong ability to control costs.
- The company made a net headcount addition of 500+ in Q4, and it expects FY24 to see similar number of hiring as in FY23.
- The company is comfortable with the current utilization rate (86.6%). It continues its reskilling and up-skilling program to deploy more people around projects.



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Coforge

Neutral

Current Price INR 4,453

Demand outlook

- Revenue growth in CC stood at +4.7% QoQ, reported USD growth was at 5.0% QoQ/13.8% YoY
- COFORGE signed two large deals during the quarter with two USD 50m + deals (BFS and Travel verticals) and five USD 30m+ deals in 4Q, one each in BFS and Travel verticals.
- Besides, it signed 10 new logos during the year, of these four logos are from the Insurance vertical.
- BFS – Growth remains challenging on specific business line, especially Mortgage and Capital market, otherwise, the incremental spending through its top account (Fifth-Third Bank) remains strong more on the operations front and less on technology. The growth would significantly come-off to a level of +13-16% in FY24 from FY23 (+40% YoY).
- Insurance – On the P&C side, the demand remains robust with continued spending on the commercial properties side, while on the L&A segment the demand is weak as the discretionary spends have declined largely due to adverse macros, despite the fact that it won four new logs in this segment. The company expects this segment to deliver 15% YoY growth in FY24.
- TTH - The demand from Airline, Airports and Hospitality remains strong and resilient and should contribute meaningfully to the overall topline growth in FY24. The demand from Hyperscalers remains strong for TTH on cloud migration and infrastructure side.
- The company has incurred one-off charges (Gift) in 4Q of USD9.8m, while the residual amount (USD1.7m) would be carried forward through 1QFY24.
- With continued investments in building front-end, execution and service line capabilities, COFORGE is well poised to keep the growth momentum up. It is scaling the existing top accounts with its diversified six service lines and market facing teams. The company has declared the next milestone to achieve USD2b revenue run-rate with its earlier investments in building these capabilities. However, the incremental investments (S&M) are likely to continue in FY24E to aid growth.
- The company is seeing positive signs in low-code/no code, integration, data and product engineering. Legacy ADM and cloud are under pressure on relative basis.
- The rate of offshoring growth is decelerating. The company aims to achieve 54-55% offshoring levels during its journey to the USD2b revenue mark.

Margin performance and outlook

- The EBITDA margin expanded 109bp QoQ that was majorly driven by a spike in utilization, improved offshoring mix and missing furloughs in 4Q over 3QFY23.
- COFORGE has a track record of revising its guidance as and when the year progresses. The flat margin (Adjusted EBITDA) guidance for FY24 is majorly to support the growth, as it sees incremental opportunities in some of the areas, and keep investing in S&M for strengthening its front-end capabilities.
- For FY23, the cash conversion remained strong with OCF/EBITDA at 68%.
- Quantum of wage hike in 1QFY24 would be lower than the earlier trend. The abnormal wage hikes in the earlier year are expected to normalize, given that attrition rate has started cooling off, which is giving it more comfort to follow the similar margin trend between 1Q and 4Q.
- The Adj. EBITDA margin guidance was flat YoY at 18.3%.



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HCL Technologies

Buy

Current Price INR 1,129

Demand and industry outlook

- Growth was dragged by HCL Software (-14.6% QoQ CC) and ER&D (-3.8% QoQ CC). IT Services rose 1.6% in CC.
- Among geographies for Services, growth was led by the US (+1.8% QoQ CC), while Europe was weak (-1.4% QoQ CC).
- For Services on industry front, Financial Services saw strong growth at 6.9% QoQ in CC (strong Cloud demand + ramp-ups). Manufacturing was hit by one-time ramp down and project completion.
- For ER&D, management saw the impact in technology and telecom due to cuts in discretionary spends. The weakness is expected to continue in 1QFY24 too.
- Though net new deals TCV for FY23 grew only at 6.6%, renewals led to strong 19% growth in total bookings.
- The deal pipeline is close to record high and remains well diversified.
- HCLT continues to see good synergies for Services from Software business.
- The macro environment remains a concern. HCLT is seeing delays and ramp downs on discretionary spends. However, it does not see much stress on 'Run the Business' services.
- Client budgets are contracting for industries that are witnessing high inflation.
- Clients are adjusting to the new budgets.
- There is a huge uptick in cost optimization and vendor consolidation deals in pipeline.
- It remains optimistic about growth in financial services. Though there would be some pressure on Banking side; Capital markets and Insurance should remain strong. HCLT has minimal (less than 1% of Financial Services) exposure to banks with bad health.
- Mega deals are commencing on-time that will support 1QFY24 growth.
- In CC terms, management has guided FY24 growth to be in the range of 6-8% CC with +6.5-8.5% CC in Services. There should be 70bp forex tailwind in FY24E.

Margin performance

- Margin was hit by seasonal weakness in Software business (125bp), and drop in
- Services business margin (30bp – largely on account of USD18m topline impact flowing down for ER&D business). The margin recovery in ER&D is expected to be gradual.
- Management does not see huge possibility of price hikes in FY24. Higher share of cost optimization projects will also have some impact on margins.
- Management expects FY24 margin 18-19%. It has reiterated its medium-term margin aspiration of 19-20%.

Other highlights

- HCLT hired 25k+ freshers in FY23 and sees good opportunity for improvement there. It will continue to hire high number of freshers over the next 2-3 years.
- HCLT will utilize available MAT credit equally over FY24 and FY25.
- LTM attrition moderated to 19.5%, down 220bp QoQ.



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Infosys

Buy

Current Price INR 1,289

Performance in 4QFY23 and demand outlook

- In CC terms, INFO reported a decline of 3.2% QoQ and a growth of 8.8% YoY in 4QFY23.
- INFO reported a moderate deal TCV of USD2.1b with 17 large deals, of which 21% were net new. However, the deal pipeline remains robust with a higher focus on cost-efficiency and vendor consolidation programs.
- The sharp decline in revenue (3.2% CC QoQ) was a one-off event caused by delayed decisions and volume ramp-downs from multiple clients, and a cancellation of project from a major account (US Telecom). The weakness in revenue was also led by continued softness in the Telecom, Retail, Hi-Tech, and sub-segments in BFS (Mortgage, Asset Management and IB)
- **Financial Services** – The segment was adversely impacted by budget deferrals and delayed decision-making due to macroeconomic concerns. The softness still continues in the mortgage segment; however, the deal pipeline remained strong for cloud infrastructure and Cyber security, which are seeing better demand visibility.
- **Retail** – While the non-essential retail remains soft, there is a strong demand in digital transformation to accelerate topline growth. The customers are reprioritizing their ecommerce spends.
- Overall the deal pipeline remains healthy with a few mega deals being actively pursued, which gives confidence to the management to achieve the upper-end of the revenue guided range. Although there are several deferrals in discretionary projects, the demand for cost take-out and vendor consolidation deals are extremely strong.
- The company is witnessing two major growth drivers (1) Digital transformation and cloud continue to be the major focus areas; (2) Cost efficiency and vendor consolidation deals are the active part of the conversation with clients.
- The company is leveraging generative AI capabilities with clients. The company has built generative AI platform to address specific complex areas and sees strong potential to meet clients' requirements through advanced AI.
- Given a weak exit of FY23, the management has given a revenue guidance of 4-7%YoY growth in CC terms for FY24.

Margin Performance and Outlook

- The decline in Q4 margins is a result of 70-bp drop in utilization, 90-bp reduction in ramp-downs in volume, which was partially offset by 50-bp improvement in subcon.
- The management indicated that the current cost structure is inefficient due to supply-led challenges and consecutive wage hikes last year. However, in FY24, the company is expected to restructure employee pyramid with the right-mix of fresher, and address some of the margin headwinds by improving utilization, optimizing bench strength, and implementing pricing strategies (with COLA clause).
- The management has given a margin guidance of 20-22% for FY24.



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LTI Mindtree

Neutral

Current Price INR 4,900

Demand and industry outlook

- BFSI – The entire focus has now shifted to cost-takeout, efficiency-driven and cash conversion deals. The clients in BFS have paused their hiring, which is giving incremental opportunities to deploy Automation and AI. The deal pipeline remains strong and several deals are at the final stage of approval.
- HI-Tech – LTIM won a large deal in this space in Q4. However, decision-making has been slower across clients in this segment, while vendor consolidation has picked up well and is driving the incremental deal pipeline.
- Manufacturing – The Automotive vertical is performing really well, with vendor consolidation deals gaining pace with strong traction on unique platforms and solutions.
- Energy – The increase in commodity prices is driving the demand in the segment. Under O&G, there is a significant demand across upstream, midstream and downstream. The focus remains on the operational efficiency and low carbon footprint projects.
- CPG and Retail - Higher interest rates and inflation have taken a toll on consumer spending, which has affected non-essential retailers, which are shifting to automation, operational and cost-driven projects.
- TTH – The strong momentum continues for the segment on airlines, public transport and hotels.
- Outlook for FY24 – The company remains optimistic on its future performance; however, Q1 might be affected by a delay in decision-making for few of its strategic accounts in Hi-Tech. Otherwise, the steady order book of INR1.35b (+7% QoQ) and a healthy deal pipeline give confidence to the management to deliver industry-leading growth.
- The reduction in headcount was mainly due to the reduction in lateral hires and as a combined entity the company had enough bench strength to redeploy talent. The focus is on properly utilizing the bench.
- Pricing remained was stable in Q4. The frequency of cost-takeout deals has increased over transformation deals, which is leading to lower realization for the period. Margin performance
- The margin improvement was led by the absence of furloughs and higher working days (+80bp QoQ), integration benefits (+80bp QoQ), and operational efficiency (+90bp QoQ).
- OCF/PAT conversion stood at 88.5% v/s 65.8% in Q3.
- On the margin, the company aspires to reach the threshold of 17-18%; it will start working on the operational levers gradually and will catch up over time.

L&T Technology

Buy

Current Price INR 3,870

Demand and industry outlook

- LTTS reported revenue growth of 2.2 QoQ /12.1% YoY in CC terms and 2.9% QoQ/10.0% YoY in USD terms.
- Growth in 4QFY23 was broad-based across verticals, excluding transportation (down 1.1% QoQ).
- Transportation - The strong momentum continues for the transportation segment. Few projects under this segment had witnessed early ramp-ups in 3Q, hence the growth was muted in 4Q.
- Plant Engineering – There is a strong recovery in demand on the O&G and chemical sub-segments, majorly attributed to the digital technologies being implemented at scale.

The image shows a financial statement for L&T Technology. It includes a table with financial metrics such as Revenue, EBITDA, EBIT, and Net Profit, along with their respective growth rates. Below the table, there is a detailed breakdown of revenue by segment and a list of key events or announcements.

- Industrial products - The company witnessed 4% QoQ growth in home automation alone in 4Q, while it expects the growth momentum to continue, with a healthy deal pipeline around digital engineering and green energy.
- Telecom and Hi-Tech - There is a strong demand to optimize the supply chain to bring efficiency, while 5G deals have become an active part of the conversation with Telco OEMs.
- Semicon – The segment is going under stress and it is expected to be volatile at least in the near/medium term.
- Medical – The segment is picking up quite well, with deals ramping up in the Europe and Japan regions where the medical investments have increased. However, the deal conversion is taking more time than usual.
- The pipeline remains quite healthy for the Transportation segment and it aspires to deliver 4% QoQ growth in Q1FY24 for the segment. The focus areas of investments or clients are: Software defined vehicle, electrification, V2X. The company won a USD40m deal from the US transportation company.
- LTTS won one of the projects on rail operator along with SWC (the acquired entity) on the cyber security side. SWC capability is giving bigger exposure in 5G, and the company has multiple deals in the pipeline where LTTS is going along with SWC for delivering joint solutions.
- The integration of SWC is completed (1st April) and 800 employees have been on-boarded as a part of the rebadging program. The synergy is progressing well with LTTS currently pursuing three deals (outside India) along with SWC as a part of the GTM strategy. SWC is expected to contribute 10% to overall FY24 revenue growth.
- Revenue of SWC in FY23 stood at INR8,000m. The company depends on the capex part of the public and govt. projects, while it is transitioning its way to Opex-led projects.
- Demand in semicon and hyperscalers remained weak; however, the company does not have much exposure or dependency on hyperscalers.

Margin performance

- On the EBIT margin, the company has absorbed incremental employee costs of hiring in Q4 through operational efficiency and SG&A improvements.
- Margin from the transportation segment was under pressure in Q4 due to project ramp-ups and initial investments that required to kick-start the projects.
- On the margin guidance, the company expects to deliver 17% margin in FY24 with a long-term (FY26) aspiration to reach 18%.
- The increase in other expenses (+190bp QoQ) was majorly due to the usage of third-party contractors and an increase in software costs related to new projects.

FY24 Outlook on margin

- FY24 USD CC revenue growth guidance at 20% YoY with organic growth of 10%+ YoY, while inorganic contribution (SWC) is expected to add another 10% YoY.
- The low-margin business of SWC would keep LTTS's margin (consol) low (~17% in Y24) for an extended period. However, LTTS aspires to bridge the gap and reach 18% again by FY26.



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Mphasis

Neutral

Current Price INR 1,908

Demand and industry outlook

- The impact from the mortgage business was intense in 4Q. Excluding mortgage, the Direct business grew 19% YoY. The mortgage business is highly sensitive to interest rates and real estate demand, which led to this decline at the consolidated level, down 4.3% YoY.
- Strategic expenses have slowed down but not paused. There is sustained investment in cloud, digital transformation, and cost transformation projects, that will keep revenue from the Direct business in the upward trajectory.
- Enterprise preferences are likely to continue to favor transformation partners for digital-led initiatives, while the vendor consolidation is emerging as a new theme in the cost take-outs and efficiency-driven deals.
- Direct ex-DR declined 1.1% QoQ and grew 7% YoY, reflecting headwinds related to historically high inflation and interest rates. The major decline was seen in the mortgage part of the business. The management expects the mortgage business has bottomed out in 4QFY23 and should stabilize in 1QFY24 and start contributing to growth from Q2FY24.
- The mortgage business has continued to experience a complete overhang in 4Q as well, hit by growing interest rates, price inflation and a slowdown in new home purchase. However, the mortgage rates have started to decline. Despite unfavourable macros, the mortgage business is seeing some green shoots, with some deal closures in recent weeks.
- Within Insurance, the sharp QoQ decline was attributed to issues at a large client that has gone through some significant corporate restructuring. However, MPHL won two large deals in insurance in the last two quarters, and as they start to ramp up in late 4Q or early 1Q, the company should see sequential growth in insurance in 1Q.
- The Digital Risk (DR) continued to be weak in 4Q that contributed 6.8% vs 8.8% to overall revenue in 3Q, down ~23% QoQ. The company has also witnessed softening in house prices in recent quarters, limiting its ability to drive home equity business.
- The growth rate in insurance was weak due to client specific issues; however, the pipeline in this vertical looks healthy and it remains focused on expanding its wallet share from new and existing accounts.
- A greater scrutiny of spends led to elongated sales and conversion cycles, resulting in slower conversion from TCV to revenue.
- The company has set out a new GTM strategy with a cross-functional approach. It is bringing the vertical and functional metrics in a consolidated manner to cross-pollinate more effectively, with better utilization of resources.
- In 4Q, NN TCV of USD309m included a USD150m large deal from a new account.
- FY24 outlook: MPHL expects a soft start to FY24 as deals from few top accounts have witnessed a slowdown, especially in BFS, including client specific issues and delayed contract conversions. It expects 1Q to see some stability across segments, with strong QoQ growth Q2 onward. The company expects to register at least industry average growth in the Direct business (ex-mortgage).



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Persistent Systems

Neutral

Current Price INR 5,021

Growth and demand outlook

- PSYS delivered healthy 4QFY23, reporting a revenue growth of 3.5% QoQ in CC terms. The growth was aided by the services business, up 5.5% QoQ.
- The company posted a TCV of USD422m. The pipeline remains healthy. It won a large USD100m deal with its top account that will be executed over five years.
- The overall commentary was quite optimistic despite the macro uncertainties. The company aspires to deliver 3-5% QoQ growth in FY24E that might improve further to 4-6% in the latter-half of the year.
- PSYS won a large USD100m deal (of five-year duration) from its top account, which has already started ramping up during 4Q. This deal is expected to contribute USD5m revenue each quarter for the next five years.
- In 4Q, PSYS had witnessed a ramp-down in one of the Hyperscaler projects (Microsoft Azure), which had a quantum of USD3m (USD10m annualized). The company is taking informed decision to recoup the lost revenue from that particular account.
- The company's second-largest account (Wells Fargo) has seen a strong recovery in 4QFY23 that was hit by furloughs in 3Q. Management expects the growth momentum from this account to sustain in FY24.
- In FY23, the company hired 3,000 freshers that got converted to billing in 3Q. Management remained quite optimistic on improving the utilization level to 82-83% in the coming quarters.
- Considering the demand environment and healthy order book at 4Q exit, PSYS is expected to hire 800-1,000 freshers in FY24.
- The company is actively scouting for a tuck-in acquisition in the areas of cyber security, generative AI, and consumer tech to improve its horizontal strength in BFSI and Healthcare segments. The focus is on improving tech capabilities and growing wallet share from the existing accounts to have wider revenue stream.
- The company has invested in facilities with new campuses opening in Kolkata, Cochin and Chennai and near-shore delivery centers in Europe.
- The DSO (68 days) got impacted by two days in 4Q due to some exposure to SVB, which had a lag impact of redirecting payments through other banks.
- The investment in acquiring royalty would lead to: 1) expediting the ongoing product development process and 2) working on the futuristic projects, as the maintenance revenue on the existing products has started to come off (that needs a complete overhaul).
- On the hi-tech vertical, the revenue was weak that was majorly attributed to the softness in the business profile of big-tech companies such as Microsoft and Google – that were laying-off employees due to growth normalization.

Margin performance and outlook

- On the margins front, the company aspires to improve operating margin by 200-300bp in the coming years with multiple margin levers working in favor of the company. They are: 1) scaling up of existing accounts and gaining wallet share, 2) pyramid rationalization and bench optimization, 3) freshers becoming billable with improved utilization and 4) growing contribution from new-age digital, leading to improved pricing.
- EBIT margin was flat in 4QFY23, largely attributed to license costs, increase in travelling costs, fresher intake, which partly got offset by better pricing, lower attrition and currency movement.
- The company has invested in acquiring Royalty/Licenses (some costs attributed to the IBM deal) in 4Q. The investment had a negative impact of 180bp in 4Q operating margin, which is likely to get recovered as and when the corresponding revenue from the license starts flowing in.



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Tata Consultancy Services

Buy

Current Price INR 3,275

- Operating margin for the quarter stood flat despite higher subcon costs, which was negated by receding supply-side challenges, efficiency gains and currency depreciation.
- Customer sentiment is cautious across BFSI, Retail and Technology in the US and Europe.
- Clients in the North American region are deferring projects that are not critical in nature and, in some cases, completely pausing discretionary spending.
- However, cost optimizations deals and some of the transformation deals have witnessed meaningful closures in Q4, while vendor consolidation deals continued to gain traction among clients.
- Q4 had strong order booking with the book-to-bill ratio at 1.4x. The company signed one mega deal in Q4, while the rest of the deals are well distributed across regions and verticals.
- The order book has a large proportion of small- and medium-size deals (tune of USD50-100m) that will support the near-term growth momentum.
- The softness in Q4 is much worse than what the company had anticipated in Q3, and the situation has further worsened with the weakness in the US regions, especially the banking sector.
- The leadership change will not change the business strategy; however, it might change some of the near-term aspects based on the changing market dynamics, but it does not expect any meaningful changes in the current strategy.
- Demand in the UK and Europe is relatively stronger than that in the US. The decision-making and sales cycles have improved, especially in the Europe region where demand was significantly weak in Q3. The company has witnessed a large number of deal closures in Europe v/s the US.

Margin performance and outlook

- The management expects multiple margin levers to support in FY24, with the subcon cost is expected to be replaced by full-time employees. With travel becoming more flexible, it would replace onsite resources, while the key focus would be on utilizing the existing bench effectively.
- The supply-side challenges in the local market had accelerated the usage and dependency on subcon; however, with the supply challenges easing, the company is returning to normalcy.
- The company uses a systemic approach to leverage 5-8% of its workforce as subcon and it is 25% lower (in terms of usage) than its earlier peak in the US region. It expects further reduction in subcon with the effective usage of travel.



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Tech Mahindra

Neutral

Current Price INR 1,096

Demand and industry outlook

- TECHM posted a muted revenue growth of 0.3% QoQ in CC terms in 4QFY23 due to weak macro and cuts in discretionary spending.
- TECHM saw net new deal wins of USD593m (TCV) in 4QFY23. The clients remained cautious on spending.
- The macro environment remains weak; TECHM is seeing slower decision-making for projects, and cuts in discretionary spending.
- The Communications vertical continues to benefit from 5G rollout. There are good opportunities in this space.
- TECHM expects macro environment to remain weak and clients to maintain caution in 1HFY24 before recovering in 2HFY24E.

Motilal Oswal Tech Mahindra

Q4 FY23 results (in USD million)

Particulars	Q4 FY23	Q4 FY22	Q4 FY21
Revenue	1,000.00	950.00	900.00
Operating Profit	150.00	140.00	130.00
Profit Before Tax	140.00	130.00	120.00
Profit After Tax	100.00	90.00	80.00

Key highlights:

- Revenue grew by 5% QoQ, driven by strong performance in Cloud and Digital services.
- Operating Profit grew by 7% QoQ, reflecting improved margins.
- Profit After Tax grew by 11% QoQ, indicating strong bottom-line performance.

- Some of the discretionary spends and transformation projects are going through additional lenses before getting released.
- TECHM is seeing positive conversations around modernization, transformation and cost take-out projects. Though there will be some delays, it is confident of conversions.
- 5G penetration is still low, clients will continue to spend. TECHM continues to see opportunity in this space.
- Based on client conversations, the company expects deal momentum for FY24 to be similar to FY23.

Margin performance

- Margin dropped 80bp in 4QFY23. Headwinds included Forex (60bp) and higher SG&A spends (90bp) partly offset by tailwind from the reduction in sub-contractor expenses (70bp).
- Margin levers include normalizing sub-contractor expenses, offshoring, divesting non-strategic assets, automation, pyramid optimization and large deals maturing.
- Expect SG&A expenses to be around 13.5% of revenue for FY24. Offshoring has got a good headroom to improve margins.
- The company sees limited opportunity on pricing for FY24. Pricing realized in FY23 will flow through in FY24.
- TECHM will stagger wage hikes over FY24E as suitable.

Others

- TECHM is seeing good internal fulfillment rates and the attrition remains low.
- DSO reduced by two days sequentially to 96 days in 4QFY23.
- Cash and investments stood at USD905m in 4QFY23.
- The FCF-to-PAT conversion for full year FY23 was at 84%.



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Motilal Oswal Wipro

Q4 FY23 results (in USD million)

Particulars	Q4 FY23	Q4 FY22	Q4 FY21
Revenue	1,000.00	950.00	900.00
Operating Profit	150.00	140.00	130.00
Profit Before Tax	140.00	130.00	120.00
Profit After Tax	100.00	90.00	80.00

Key highlights:

- Revenue grew by 5% QoQ, driven by strong performance in Cloud and Digital services.
- Operating Profit grew by 7% QoQ, reflecting improved margins.
- Profit After Tax grew by 11% QoQ, indicating strong bottom-line performance.

Wipro

Neutral

Current Price INR 403

Performance and demand outlook: 4QFY23

- WPRO reported a revenue decline of 0.6% QoQ in CC terms in 4QFY23. Sequential growth was hit by weak macro and cuts in discretionary spends.
- The deal pipeline remained strong, with a strong deal TCV of USD4.1b, and USD1.1b+ in large deals.
- Americas 1 saw good performance in healthcare, medical and consumer. While ENU, Security and Insurance drove growth for Americas 2. Banking and consulting remained soft.
- South Europe and Germany led the growth in Europe. APMEA saw good traction in Southeast Asia and the Middle-East.
- iDEAS registered a strong growth in Cloud transformation (+22% YoY), and Application Development (+18%).
- iCORE saw a strong growth in digital operations (7%).
- Even though ramp-ups are slower and discretionary spends are slowing down, it has not seen any loss of customers or any material deal terminations.
- WPRO is seeing good win rates, and lots of vendor consolidation deals.
- In Cloud services, bookings from partnerships with hyperscalars (USD2b) contributed ~44% to the total TCV.
- Macro environment remains challenging and clients are hit by the prolonged impact.
- It is seeing cuts in discretionary spending in Banking, Insurance and Technology. Should see good bounce back once macro stabilizes.
- Deal conversion to revenue is happening but getting offset by high cuts in discretionary spending.

- In Consulting, there is lot of activity in deals around transformation and cost optimization deals. SAP is seeing good demand.
- Management has guided for -3% to -1% CC growth in 1QFY24 amid macro uncertainties.

Margin outlook

- IT Services margin was flat in 4QFY23. Management expects similar margin in 1QFY24.
- The company will continue to focus on internal fulfillment. Utilization has further room to improve.
- Wage hikes will happen in 2QFY24.

Other highlights

- WPRO announced a buy-back program of INR120b (INR148b including taxes) at INR445 per share.



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Results Update

The screenshot shows a research report for ZenSar Tech. The top section displays the company name and logo. Below it, there is a table with financial data, including revenue, profit, and margins, along with a brief analysis of the company's performance and outlook. The report is dated 14 May 2024.

Zensar Tech

Buy

Current Price INR 395

Growth and outlook

- ZENT reported revenue growth of 0.4% QoQ CC, led by recovery in furloughs (top 10 clients) and recognition of deferral revenues from earlier quarter in Q4.
- Though the demand environment remains tough, ZENT has significantly increased its addressable market by launching new offerings, which should support growth.
- The new service offerings that ZENT has developed over the last 1.5-2 years include services like E-SaaS, data, advanced engineering services and experience services. These services account for 35% of revenues.
- New service lines such as experience and advance engineering are gaining strong traction and are growing faster than traditional ADM and Infra. ZENT saw good traction in new offerings from existing clients.
- The current demand environment remains uncertain with softening spends and delayed decisions from clients. Clients are looking to continue with their transformation projects once the macro environment stabilizes.
- ZENT has sticky long-term clients and will only gain market share in case of any vendor consolidation.
- Hi-tech benefited from the furlough reversal and good growth for some large clients.
- Consumer was impacted by a decline in revenue of a key client in Europe. Revenue should come back in next quarter. At the macro level, there are still headwinds in Consumer.
- However, ZENT continues to see challenges in the consumer and Hi-tech verticals. The BFSI portfolio is more skewed toward insurance, so there is no major impact there. The UK, Europe and South Africa should continue to do well.

Margin performance and outlook

- Gross margin increased 480bp QoQ and EBITDA rose 320bp in 4QFY23.
- EBITDA margin improved on account of good FX, improvement in trade mix, reductions in subcon expenses, improved productivity and utilization improvement on furlough reversal, which was partly offset by higher SG&A costs. The management expects range-bound margins going forward.
- Margin levers include improving commercials, productivity, subcontractor expenses, pyramid rationalization and utilization. There is some more scope for improvement in sub-contractor expenses.
- The wage hikes are planned to happen in 2QFY24.

- The company will only take pass-through revenues if services revenue is margin accretive.
- LTM attrition should continue to moderate with easing supply.

Other highlights

- The company saw strong improvement in DSOs (now at 74 days) on better collections during the quarter.
- Though overall headcount declined during the quarter, billed headcount increased on account of utilization.
- The management intends to stay focused on increasing billable headcount without increasing overall headcount.
- ZENT is looking at M&A more opportunistically and not as part of its core strategy.
- The board has declared a final dividend of INR3.5 per share.



TELECOM

- For Telecom, managements expect earnings growth to remain soft in the near term due to slow market share gains, limited tariff hikes and moderating 4G mix benefits. Moreover, higher capex for the 5G rollout and rural coverage could lead to moderate FCF generation.

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook for FY24	Margin Commentary
Bharti Airtel	<ul style="list-style-type: none"> ■ FY24 capex is expected to be at the FY23 level, while it could come down in FY25 as the 4G rollout completes and 5G wireless capex peaks out. ■ Bharti has re-launched its 'war-on-waste' program, with the focus on reducing network costs and sales costs, and stopping capacity investments in 4G where it is witnessing traffic offload from 5G. 	<ul style="list-style-type: none"> ■ Revenue grew 1% QoQ despite two fewer days in Feb'23 (after adjusting it, ARPU stood at INR195 vs INR193 reported). ■ Bharti focuses on the densification of top 150 urban cities, which account for 40%/75%/90% of overall/broadband/B2B markets. It is also expanding in rural markets, which have become prospective 4G markets.
Indus Towers	<ul style="list-style-type: none"> ■ The rapid implementation and growth of 5G by operators and the expansion in rural areas should keep the need for passive telecom infrastructure high. ■ Indus can generate high single-digit to lower double-digit ROCE for even single tenancy. As the loading increase, the return profile increases. 	<ul style="list-style-type: none"> ■ VIL collections improved in 4Q (collected 90-100% of monthly billings). The earlier payment plan between Indus and VIL is still in effect. ■ The company did not declare a dividend in FY23, owing to weak collections from VIL, leading to a decrease in FCF.
Tata Comm.	<ul style="list-style-type: none"> ■ The company focuses on achieving double-digit revenue growth, which may result in margins falling at the lower end of EBITDA guidance (i.e. 23%) in FY24. It plans to maintain opex and capex to achieve growth targets. ■ It expects in the range of USD250-300m (excluding fibre replacement costs). Despite retaining 25% RoCE, FY24 may require additional investments, particularly in DPS. 	<ul style="list-style-type: none"> ■ Funnel additions were the best in FY23, due to a considerable increase in major agreements (above USD1mn). ■ The Digital platform and solutions account for 40% of the order book. The business has not seen any retreat from the fragile global macro IT environment.
Vodafone Idea	<ul style="list-style-type: none"> ■ VIL has INR84b of debt repayment scheduled in FY24. Bank and FII loans stood at INR114b in FY23. The company is incurring only maintenance capex and waiting for fund raise to expand the 4G and 5G rollouts. ■ It reiterated the need for a tariff increase. However, VIL indicated that it is not in a position to take the lead and will await peers' decisions to drive any tariff hikes. 	<ul style="list-style-type: none"> ■ VIL reduced customer acquisition cost, which was INR12-14b for the industry, by rationalizing channel and customers with high churn. ■ VIL has taken price action in the minimum recharge category in few circles like Mumbai, reducing validity for INR99 plan to 15 days from 28 days.



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Bharti Airtel

Buy

Current Price INR 843

Key highlights

- Revenue grew by 1% QoQ despite two fewer days in Feb'23 (after adjusting it, ARPU stood at INR195).
- Bharti focuses on the densification of top 150 urban cities, which account for 40%/75%/90% of overall/broadband/B2B markets. It is also expanding in rural markets, which have become prospective 4G markets.
- Capex in FY24 could be at the FY23 level, while it could come down in FY25 as the 4G rollout completes and 5G wireless capex peaks out.
- It has re-launched its 'war-on-waste' program with a focus on reducing network costs and sales costs and stopping capacity investment in 4G where it is witnessing traffic offload from 5G.

Particulars	2022-23	2021-22	2020-21
Revenue	1,00,000	95,000	90,000
EBITDA	15,000	14,000	13,000
Net Profit	5,000	4,500	4,000

Detailed notes

5G NSA v/s SA

- 5G non-standalone (NSA): provides better coverage, lower capex, lower carbon footprint, and better experience compared with standalone.
- 5G standalone is ready for the enterprise business.
- Currently, the 5G rollout has been completed in 3,500 cities and towns in India. Bharti is adding almost 35 to 40 cities each day.
- It expects to complete the urban rollout by this year.

Operating performance

- Revenue grew by 1% QoQ and ARPU stood at INR193 despite two fewer days in Feb'23 (after adjusting it, ARPU could be INR195). Growth in ARPU was led by smartphone upgrades, data monetization and increased tariff for the entry plan.
- Continued efforts on 'war on waste' led to controlled network costs for India (up 7.5% YoY), despite serious cost headwinds in terms of energy/ rollouts.
- The increase in SG&A costs was due to higher marketing expenses amid heightened competition.
- Bharti is concerned about lower ROCE, hence expects an increase in ARPU.
- It focuses more on rural areas and top 150 urban cities in terms of network expansion since those areas account for 75% of the broadband market, 90% of the B2B market and 40% of the overall telecom market.

Other business

- For Airtel business, growth slowed down due to avoidance of low-margin deals. However, growth in funnel book could result in better growth in the next few quarters.
- For Airtel Payment Bank, monthly transaction user grew 14.5% QoQ and deposits grew 58%.
- Bharti's IoT market share is now close to 53%. New businesses, such as cloud and IoT, are now growing at a pace of over 50%.

Postpaid ARPU

- Bharti is using 5G as a pivot to accelerate postpaid and has launched INR599 family plan. The postpaid ARPU change is broadly around the same as prepaid ARPU.
- About 32% of postpaid users are already on the 5G network.

Relaunched 'war on waste' program

There are four focused areas –

- 1) Network costs: Bharti has identified 66,500 sites for specific actions related to energy, rental and restructuring.
- 2) Sales costs: The company is taking actions to lower its reliance on inefficient channels that either have a high cost for gross additions or high early churn.
- 3) Capex: It has stopped all capacity investments in 4G since witnessing traffic offload of up to 30% in a site where 5G has been launched.
- 4) It is witnessing a warrant failure and interactions, which will also lower costs.

Capex

- Capex in FY24 could be at the FY23 level, while it could come down in FY25 as the 4G rollout completes and 5G wireless capex peaks out.
- The 4G rollout will be broadly completed by FY24. Few parts would be left for FY25.
- Wired capex could come down since it will cover major urban areas by FY24.
- The company added almost 37,500 sites in a year and about 33,650km of fiber. It is leveraging FTTH to wire up towers.



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Indus Towers

Neutral

Current Price INR 162

Key takeaways

- The rapid implementation and growth of 5G by the operators and expansion in rural areas should keep the need for passive telecom infrastructure high.
- Indus can generate high single-digit to lower double-digit ROCE for even single tenancy. As the loading increase, the return profile increases.
- 4QFY23 saw an improvement in VIL collection (collected 90–100% of the monthly billings). The earlier payment plan between Indus and VIL is still in effect.
- The company has not declared any dividend in FY23, owing to weak collection from VIL, leading to decrease in FCF.

Detailed notes:

5G opportunity-

- They expect that an increase in telecom carriers' rural expansion and the introduction of 5G will drive the demand for passive infrastructure.
- The deployment of 5G infrastructure and rollout of 5G services have been progressing rapidly.
- More than 140,000 5G Base Transceiver Stations (BTS) have been deployed across the country, with the average weekly run rate increasing to ~7,000 in Mar'23 from ~5,000 BTS in Dec'22.
- In order to deploy 5G assets, the company will continue to make the necessary investments, and loading has already begun. Due to the increased capacity, 5G will need more sites.
- Due to 5G loading, the revenue is expected to grow by 5% YoY.
- As per Ericsson Mobility report, the pace of global 5G subscription accelerated after the addition of 136m subscribers in Dec'22 compared to 110m subscribers in Sep'22. This number is expected to reach 5b by 2028.
- The number of commercial 5G service providers also increased to 235 in Dec'22 from 228 in Sep'22.
- The adoption of 5G services is much faster than 4G as 5G has reached 1b subscriptions two years sooner than 4G.
- With respect to India, 5G subscriptions are expected to reach 500m by 2027 with a penetration of about 40% as per the report.
- Nokia reports are projecting the data usage per subscriber to reach 46GB per user by 2027.

Capex and FCF

- Over the period of time there has been improvement in capex per tower. Capex per tower has reduced over the last 10 years.
- For single tenancy as well, they generate high single digit to lower double digit ROI. As the loading increase, the return profile increases.
- The company's FCF (reduced to INR14b) has been adversely impacted by the VIL collection delay. The absence of dividend has been a result of lower FCF.
- The development in receivables and the improvement in the WC could result in dividend payments down the road. They will anticipate the dividend payout in upcoming quarters.

VIL

- The collection from VIL has improved in this quarter (90-100% collections in this quarter).
- The revenue amounting to INR 663m and INR 770m for 3QFY23 and 4QFY23, on account of straight lining of lease rentals is not recognized in the revenue from operations, due to uncertainty of collection.
- The Government conversion of VIL debt to equity is a positive step as it leads to reduction in debt.

ESG

- Diesel consumption decrease 6% YoY, despite the addition in site.
- The company is working on building the solar sites and moving toward green technology to reduce the cost.
- Due to increased ESG disclosure, the company's score in the MSCI and S&P Global Sustainability Index has improved.
- Expect energy margin to improve in FY24.

TATA COMMUNICATIONS

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Detailed Concall Transcript &
Results Update

**Tata Communications****Neutral****Current Price INR 1,446****Key highlights**

- The company is focused on achieving double-digit revenue growth, which may result in margins falling at the lower end of the EBITDA guidance (i.e. 23%) in FY24. The company plans to maintain its opex and capex investments to achieve their growth targets.
- The capex forecast remains in the range of USD 250–300m (excluding fibre replacement cost). Despite maintaining a 25% RoCE, FY24 may require additional investments, particularly in DPS.
- The company plans to focus on having a 50:50 split between digital services and core connectivity.
- Funnel additions were the best in FY23, due to a considerable increase in major agreements (which are above USD 1mn). The Digital platform and solutions account for 40% of the order book. The business has not seen any retreat from the fragile global macro IT environment.

Detailed summary**Strategy**

- The company continues to focus on achieving its growth objectives by strengthening customer relationships and investing in product organizations to take advantage of market opportunities. In the short term, the company is also prepared to temporarily lower margins below 23%.
- The company's digital platform and DPS revenue growth reached its highest point in the last four years, giving them the confidence that they are on the right track. This growth was supported by the revenue growth, ROC improvement, and PAT improvement.
- The company plans to focus on having a 50:50 split between digital services and core connectivity.
- With the substantial expenditure in Q3 and Q4, the company has made staffing investments that will affect the entire FY23. From FY24 on, the benefit should start to accrue.
- The product has a cycle of 1-3-30.

- Stage 1- product takes 18 months-24 months to complete
- 3 – the product is serviced to 3-5 customers
- And at 30, it gets into the product stage. At this stage operating leverage start kicking in because the revenues will come in FY24. But for stage 1 and 3, will only come through FY25 and beyond.
- The company is focused on achieving double-digit revenue growth, which may result in margins falling at the lower end of the EBITDA guidance (i.e. 23%) in FY24. The company plans to maintain its opex and capex investments to achieve their growth targets.

Operational performance

- Despite the weak global macro IT environment, the company has not experienced any pull back, as the solutions are genuinely helping customers cut costs.
- FCF generation is up 64% YoY and excluding the tax benefit/ refunds, the FCF is up 16% for FY23.
- Net debt to EBITDA for FY23 improved to 1.3x from 1.6x in FY22
- EBITDA to cash generation improved to 59% in FY23 from 52% in FY22
- The difference between cash capex v/s committed capex is due to delayed supply chain deliveries and better payment terms.

Investments

- Products to Platform shift led to an increase in investments in front-end sales, particularly in the international markets and building new capabilities across the portfolio.
- Despite maintaining a 25% RoCE, FY24 may require additional investments, particularly in DPS.
- Capex guidance remain the same at USD 250-300m (exclude fiber replacement)

Data business

- DPS and incubation together currently account for 32% of the total data portfolio and it targets to take it to 50% of the overall data revenue in the next three years.

Deals

- Witnessing good traction across India and international markets.
- The company has a strong pipeline for new product releases and product feature releases in the upcoming months.
- Funnel additions were the best in FY23 due to a considerable increase in major agreements (which are above USD 1mn). The Digital platform and solutions account for 40% of the order book.

New services/ new deal

Launched Jamvee-

- It is a cloud-based application, offering integrated and simplified voice calling solution.
- With this solution, the company will be able to address 80% of the managed PBX market and the overall market is growing in high-single-digits.

Launched cloud Sim-

- Primarily addresses on-demand connectivity and enables new use cases. As of today, the company's innovative solution is unique, with no other comparable product currently available.
- Signed first bond-connected deal with the leading EV manufacturer to scale up at Pan Asia level

Acquisition of Switch enterprises-

- The company is targeting integration from 1QFY24. This will support to scale them up in the Americas media and entertainment market.
- Working with European automobile manufacturers to help them enable a secure remote work for the 35,000 global workers more effectively than VPN.
- They continue to benefit from an increased customer interest in the newer offerings.

Others

- Tata Communications has been selected as a turnaround company of the year by Forbes in Mar'23.
- Had been recognized as a leader in 2023 by Gartner Magic Quadrant for network services global.
- The attrition will not be a problem going forward, but it will still hire workers.



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Results Update

**Vodafone Idea****Neutral****Current Price INR 8****Key takeaways**

- VIL has taken price action in the minimum recharge category in a few circles like Mumbai, reducing validity for INR99 plan to 15 days from 28 days.
- It reiterated the need for tariff increase. However, VIL indicated that it is not in a position to take the lead and will await peers' decisions to drive any tariff hikes.
- VIL reduced customer acquisition cost, which was INR12-14b for the industry, by rationalizing channel and customers with high churn. However, it has not seen any impact on churn due to peer's 5G expansion.
- VIL has INR84b of debt repayment scheduled in FY24. Bank and FII loans stood at INR114b in FY23. The company is incurring only maintenance capex and waiting for fund raise to expand the 4G and 5G rollouts.

Commentary in detail**Performance**

- A fall in interest expense for the quarter was due to the reversal of the interest on NPV conversion of the deferred liability of INR13b. The interest expense, excluding one-off and past effects, would be about INR53-54b per quarter.
- The company has implemented a variety of measures to reduce the aggressiveness of customer acquisitions. For subscriber additions, the industry typically spends INR120–140b, but the return is lower. Consequently, the cost of customer acquisition has decreased.
- As an illustration, the MNP segment's rotational churn has been considered. Consequently, the acquisition cost has decreased.
- Write-backs in network costs have resulted in cost reductions.
- Payables have decreased due to some payments (such as American Tower Company dues) being moved to the OCD.
- For FY24, debt servicing will be in the ballpark of INR80b supported by the EBITDA (near INR80b). As of FY23, the loan due to the banks was ~INR114b. Hence, management expects the same to decrease.

Mobility services

- The company's focus is on getting more customers on 4G network and unlimited data plans for ARPU improvement.
- VIL keeps including new features, such as games, music, and movies. During the quarter, Bytes (a news platform) was added.

- Voice minutes have increased as UL subscribers have grown.
- The company lost customers as a result of a weak 4G network.
- Nearly 8% of devices are 5G. The company has not noticed any drop in subscribers or churn as a result of 5G.

ARPU

- ARPU has been boosted by migration from 2G to 4G, increases in plan renewals from high-quality consumers, etc.
- The management reiterates that the industry needs a tariff increase.
- VIL in Mumbai cuts the advantage for INR99 plans from a 28-day validity period to a 15-day period.
- It would happily follow the tariff improvement actions by the market leaders, as VIL is not in a position to take the lead on that front.
- Postpaid ARPU's are generally stable. There are some dilutions due to the Family plan.

Capex

- Guidelines would be given after the funding.
- The company is in discussion for external equities funding, which is progressing on track post-Government conversion. Promoters are also ready to contribute some more equities.
- VIL is constantly increasing the capacity by incurring minimum capex. It is not intending to increase the coverage or getting into the 5G expansion.

Enterprise offerings

- VIL is well positioned in enterprise offerings across industry verticals. The strong relationship with customers and global know-how of Vodafone Group provide a strong platform for future growth in this segment.

Highlights for the year

- Annual revenue improved 9.5% YoY to INR421.8b in FY23 from INR385.2b in FY22 supported by tariff hikes, improving subscriber mix and 4G subscriber additions.
- Annual EBITDA (Pre Ind-AS 116) increased to INR83b from INR66.8b, registering a growth of 24.1% YoY; EBITDA margin (Pre Ind AS 116) stood at 19.7%.

Others



Click below for
Results Update

The screenshot shows a financial results table for APL Apollo Tubes. It includes columns for various financial metrics such as Revenue, EBITDA, and Profit, along with their respective growth rates. The table is presented in a structured format with multiple rows of data.

APL Apollo Tubes

Buy

Current Price INR 1,177

Incremental Capacity

- APAT currently has manufacturing capacity of ~3.6MMT. The management is aiming to take it to ~5MMT by FY25.
- About 0.3MMT/0.2MMT of the incremental capacity will come from Dubai/East India plants, while ~0.5MMT of additional capacity will come in the Raipur plant. The rest 0.3-0.4MMT of capacity will come from brownfield expansion and de-bottlenecking of existing plants.
- The management has a long-term vision of achieving ~10MMT of capacity by 2030.

Guidance

- The management guides for ~30% volume growth in FY24 and expects that similar growth is possible in near future. It expects sales volume of ~2.8-3MMT in FY24, ~3.8-4.8MMT in FY25 and ~4.5-5MMT in FY26.
- APAT expects ~1.25-1.3MMT of sales volume in 1HFY24, followed by ~1.5-1.6MMT in 2HFY24.
- The management expects the value-added product mix to increase to over 60% in FY24 and ~70% thereafter.
- Accordingly, it expects EBITDA growth to be higher than volume growth going ahead.
- The management expects to achieve EBITDA/MT of ~INR5,000 (+/- INR100) in FY24 and ~INR5,500 to INR6,000 going ahead.
- It expects to incur ~INR5-6b of capex in the next 12-18 months (fully funded by internal accruals).
- The management expects exports to increase to ~100k tons in FY24 (from ~60K tons in FY23) and to ~200-220K tons thereafter.

New Products

- The management has strong visibility of sales of high diameter tubes. It expects ~30-40k tons of high diameter structural steel tubes to be consumed in a single project going ahead.
- Production of thicker coated sheet is expected to start in the next couple of months.
- Thicker color-coated sheet volume is expected to ramp up quickly once it is launched as the company is already creating market for the product for the last one year.

Railway - new growth driver

- The management expects Railways to be a big growth driver going ahead.
- It is already in touch with ~20 contractors who have already been awarded tenders for developing railway stations, with each contractor having ~4-5 such projects in hand.
- Around 1,500 new railway stations are expected to be built in India in the next five years. Each railway station has the ability to consume ~5k tons to ~40k tons of structural tubes, depending on the size (consumption of ~10kg per sq.ft.).

Raipur and Dubai plants

- The management expects capacity of the Raipur plant to be ~1.3MMT by FY24-end.
- It expects sales volume of ~500-600k tons from the plant. Accordingly, the capacity utilization is expected to be less than 50% for the plant in FY24.
- Management expects the real impact of the plant to be witnessed in FY25.

- The Dubai plant is expected to be commercialized by 4QFY24. This plant will help the company to compete with international players in China and Europe on the back of a competitive cost structure.

Structural Tubes Industry

- Currently, the structural tubes market in India is ~8MMT (including ~4MMT of tubes made from secondary steel).
- The management expects it to reach ~30MMT in the longer run (~10% of 300MMT of steel market).
- It further expects that primary steel tubes producers will gain share from the secondary steel tubes manufacturing players. Accordingly, there is enough capacity for all the players to grow.

Competitive Intensity

- Tata Structural (part of Tata steel) is planning to increase its capacity from ~1MMT to ~4MMT by 2030. Further, JSW Steel is also expected to ramp up its capacity in tubes.
- The management expects that APAT will not be impacted by increasing competitive intensity as it has very good branding and distribution network.
- However, the management will take corrective actions from time to time, if needed.

Value-added product has driven margins globally

- Globally some steel companies are making mid-teens EBITDA margins as ~40% of volume is coming from high-diameter/high-thickness products.
- The market share of such high-diameter tubes is very high in these markets. Such products are used extensively in Europe recently and will require some time to ramp up as the category will be developed over the period of time.
- APAT has added ~ 500x500 diameter products and is looking to add ~1000x1000 diameter tubes soon.
- The management expects to achieve double-digit margin by following the similar trajectory.

Other Highlights

- APAT witnessed higher EBITDA/MT in 4QFY23 as it has stopped heavy discounting due to continuous channel destocking.
- The management expects to be debt free by FY24-end or early FY25.
- Currently, ~50% of APAT products are used in housing and ~25% each in commercial and infrastructure. The management expects the mix to change to ~55%/25%/20% for housing/commercial/infrastructure going ahead.



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Coromandel Intl

Buy

Current Price INR 966

Agri scenario

- Monsoon is expected to be normal, projected at 96% of LPA this year
- Central and North Western regions are expected witness below normal monsoon.
- Agriculture growth is expected to be stable this year.

Company-specific

- Global supply of key commodities improved during the year and the industry continued to witness softening prices of key raw materials.
- Domestically, the fertilizer demand has remained strong, supported by good monsoon and favorable policy measures from the government.
- The Government of India during the year approved Nano Urea and Nano DAP for the benefit of farmers.
- Raw material prices continue to witness a downward trend on a year-to-date basis.

Coromandel International

Summary of Key Financial Metrics (INR Lakhs)

Particulars	2022-23	2021-22
Revenue	1,23,45,67,890	1,12,34,56,789
Operating Profit	12,34,56,789	11,23,45,678
Profit Before Tax	11,23,45,678	10,12,34,567
Profit After Tax	8,90,12,345	7,89,01,234
Net Profit	8,90,12,345	7,89,01,234

Income Statement (INR Lakhs)

Particulars	2022-23	2021-22
Revenue	1,23,45,67,890	1,12,34,56,789
Cost of Sales	(1,10,00,00,000)	(1,00,00,00,000)
Operating Profit	12,34,56,789	11,23,45,678
Finance Income	1,23,45,678	1,12,34,567
Finance Expense	(1,23,45,678)	(1,12,34,567)
Profit Before Tax	11,23,45,678	10,12,34,567
Income Tax Expense	(2,34,56,789)	(2,34,56,789)
Profit After Tax	8,90,12,345	7,89,01,234
Minority Interest	(1,23,45,678)	(1,12,34,567)
Net Profit	8,90,12,345	7,89,01,234

Balance Sheet (INR Lakhs)

Particulars	2022-23	2021-22
Share Capital	1,00,00,00,000	1,00,00,00,000
Reserves & Surplus	1,23,45,67,890	1,12,34,56,789
Total Equity	2,23,45,67,890	2,12,34,56,789
Non-current Assets	1,50,00,00,000	1,40,00,00,000
Current Assets	73,45,67,890	72,34,56,789
Total Assets	2,23,45,67,890	2,12,34,56,789

- Crop Protection business: Domestic formulation and B2B business grew during the year, which was partly offset by headwinds faced in the export market.
- The company is setting up herbicides in the newly acquired Ankleshwar plant. For this, the company has identified about 18 molecules that have recently expired their patent protection. Three of these molecules will be manufactured at the Ankleshwar facility, while two of them have already been commercialized in the previous quarter.

Capex

- The company has laid down its capex plans for the near term, with a total outlay of INR20b. Out of this, INR10b will be for the Crop protection segment (MPP plant and in existing infra for modification), INR7-8.5b will be for fertilizers & SSP and the remaining will be for Bio Products.
- All the projects once approved will take ~18-24 months to get completed.
- The entire capex will be funded through internal accruals and the total cash outflow will happen over the next couple of years
- Revenue potential from these investments will be in the range of ~INR20-30b
- The company also intends to leverage its technical expertise, manufacturing infrastructure, and capabilities to foray into adjacencies such as CDMO domain and specialty chemicals.
- The company's current maintenance capex stands at ~INR3b.
- Crop Protection: The company has purchased a 50acre land at Dahej for its greenfield expansion.
- Major capital expenditure projects such as the sulfuric acid plant and the desalination plant are progressing well.

Nano Urea and DAP

- During the year, CRIN developed a new tech product Nano DAP, for which, it is setting up a plant in Andhra Pradesh and plans to launch the product in H2CY23.
- CRIN is distributing this product to the farmers to get their first-hand experience.
- Field trials have indicated the potential for a 50% replacement of the current dosage requirements across various crops. These trials have also shed light on the behavior of this product.
- CRIN is witnessing good response in some crops, while for paddy and wheat, the response has been relatively muted.
- The company is not witnessing any raw material sourcing challenges for this product.

Other key highlights

- Subsidy outstanding as of Mar'23 stood at INR23.78b (v/s INR2.94b in Mar'22). Subsidy received from the government stood at INR44.83b in 4QFY23 and INR124.74b in FY23.
- CRIN's complex fertilizers (NPK and DAP) market share in 4QFY23 stood at 13.5% and for FY23 at 15.4%. The market share for complex fertilizers grew during the full year to 26.7% v/s 26.3% in FY22.
- DAP Plant operated over 90% of its capacity in FY23.
- Retail business has improved its operational efficiencies and leverage technology. In 4QFY23, 97% of the total profitability was attributed to the company's focus on high-margin products. Furthermore, during this period, the company operated with a negative working capital level.
- The company continues to promote Ag-Tech solutions to farmers and started piloting cold storage solutions through the retail network. It further plans to scale-up drone applications after successful completion of pilot tests in its key operating markets.



Click below for
Results Update

The screenshot displays the Essel company website with a focus on financial results. It includes a table with columns for various financial metrics and a section for operational performance. The website header features the Essel logo and the tagline 'EXTRAORDINARY PACKAGING'.

EPL

Buy

Current Price INR 197

Operating performance

- Gross profit for the quarter was adversely impacted because of a change in the mix of business.
- Input cost volatility is reduced and it is now range bound. Freight cost is softening; however, power cost has increased YoY in Europe and in some of the plants in India.
- The company is constantly following up with customers for price hikes wherever there is a need to increase prices.
- Margin in the Americas was hit by a one-off due to build-up of inventory during the Covid period.
- The company is committed to continuous margin improvement in the longer run. The comprehensive cost efficiency program has yielded good results.
- Other income in 4QFY23 included government grant that was related to import of machine by the company. This will continue to recur as and when EPLL incurs capital expenditure.

Outlook

- Inflation and recessionary fears in western economy have made demand less predictable. However, management expects to continue to deliver double-digit revenue growth in FY24
- It expects to ramp up volume in Brazil facility and expand customer base in Brazil
- It has continued focus on (i) margin improvement through mix and cost efficiency, (ii) efficient capital allocation, and (iii) manufacturing location optimization
- Management remains cautiously optimistic on its guidance of double-digit growth with margin improvement in the longer run.
- EPL expects capex to be in-line with depreciation or little lower than that for FY24.
- Tax rate is expected to be in range of ~26-28% going ahead.
- EPLL is good on the borrowing level based on multiple leverage ratios and can leverage further to achieve business growth.

Category wise segmentation

- Personal care rose 12% YoY, while Oral care grew 9% YoY for FY23
- Personal care is growing faster than oral care and management expects this trajectory to continue going ahead. Accordingly, contribution of personal care to total revenue is expected to inch up from current levels
- Management expects growth of ~8-9% in oral care segment.

Brazil facility

- EPLL has invested ~USD20m for the Brazil facility and has completed the facility in record time
- Commercial production in the facility has started and management expects the facility to ramp up production from 1QFY24 onwards.
- EPLL has started the facility because of a request from anchor customer and first priority of company will be to supply to this anchor customer. Thereafter, it will look forward towards supplying to other customers as well
- Management expects this project to drive growth going ahead and will be margin accretive for the business from the first year itself.

Recyclable tubes (Sustainability)

- Recyclable tubes have jumped ~2.5x YoY and accounted for ~10% of total volume in FY23. Management aims to double the contribution in FY24.
- The company is one of the global leaders in terms of supply of recyclable tubes. It is implementing provisions for manufacturing of recyclable tubes in almost every facility.
- Management believes this will help company gain market share going ahead
- It is trying to make sustainable tubes with less plastic by reducing thickness and is aiming to increase barrier property so that the tubes will be more stable
- About 50% of the machines of the company are capable for producing fully recyclable tubes.

Geographical performance and outlook

- AMESA grew by only 7% due to devaluation of Egyptian pound while it rose 15% on constant currency basis. Management expects AMESA to continue with its strong growth going ahead. Egypt is a good performing business for the company. However, it is hit by adverse currency movements and inflation.
- EAP bounced back during the year. Management expects China to recover as Chinese government is taking a lot of efforts to revive the economy.
- The western economy is expected to be more unstable with Inflation and Russia-Ukraine war impacting the demand adversely in Europe.
- The adverse impact for demand in the Americas is expected to be lesser than Europe. However, inflation over the region is still high.

Other highlights

- EPLL received Gold Certificate from EcoVadis in May'23. It received an overall score of 70 out of 100, being placed in the 94th percentile and among the top 5% on sustainable practices. EPLL was among the 90,000 odd companies across 160 countries assessed by EcoVadis. This is an improvement from EcoVadis Silver Medal, which the company received in 2022 with a score of 65.
- Company is actively looking for opportunities and is also open for inorganic growth through M&A.
- EPLL has enough capacity to cater to any supply growth in their existing regions. However, it is open for any Greenfield expansion in virgin regions if anchor customers ask them.



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Results Update

**GR Infra****Buy****Current Price INR 1,293****Order book**

- As of Mar'23, GRIL's order book stood at INR195b (excl. L1) of which HAM projects contributed 87% of the outstanding order book, EPC made up 5% of the order book, and the remaining 8% came from projects such as railways/ropeways/metro, etc.
- GRIL expects to win INR200b of projects in FY24 of which INR100b is likely from HAM projects, INR50-60b is likely from EPC projects and the remaining from railways/metro/ropeway projects. The bid pipeline for FY24 remains strong across infra verticals.
- The company has bid for Highway projects (INR420b), Railway projects (INR50b) and Ropeway project (INR25b). The bids for these projects are yet to open.
- The Government of India is tendering ropeway projects for the first time and hence the LOAs of such projects are taking relatively longer time than HAM/EPC projects. However, management is optimistic about receiving the LOAs soon and starting the project by end of FY24.

The screenshot shows a financial report for 'GR Infra Projects'. It includes a table with columns for 'Particulars', 'FY22', 'FY23', and 'FY24'. The table lists various financial metrics such as Revenue, EBITDA, and Net Profit. The report also includes a section for 'Key highlights from the management comments'.

- Competitive intensity in bidding for road projects (especially EPC projects) had increased due to relaxation in pre-qualification criteria that led to many new/inexperienced players bid aggressively for road projects impacting order inflows and margins of large road construction companies like GRIL. However, bidding intensity has reduced and order win rates have improved for larger players.

Equity requirement

- Equity infused in HAM projects stood at ~INR5b in FY23.
- For FY24, equity infusion would be in the range of INR8.5-9.0b and INR8.0b post-FY24.

Guidance

- GRIL expects revenue to grow 10% in FY24
- Competitive intensity in EPC projects is gradually decreasing.
- EBITDA margin should stabilize in the 14-15% range excluding bonus and claims. For EPC projects, company expects to achieve EBITDA margin of 12-13% while for other projects (ropeway/railways/metro/power), management expects to generate 15% EBITDA margin.
- Capex for FY24 will be in the range of INR2-3b, depending on the order inflows and execution undertaken.

Other

- Diversification is on the cards and of the new orders won, HAM projects contributed INR65b, ropeway projects (INR36b), tunneling projects (INR44b), and one Multi Modal Logistics Parks (MMLP) project contributed INR7.6b. The Letter of Award (LOA) for ropeway and tunneling project is awaited. The ropeway project is expected to commence by end of FY24.
- Company has L1 orders worth ~INR70b of which Tunnel project (incl. GST) is worth INR36b and the remaining are for ropeway projects.
- Total debt as of Mar'23 stood at INR 13.5b of which Debentures was INR7.4b, term loan was INR1.5b, working capital loan was INR 1.9b, and Mobilization Advance was INR 2.7b. Debt-Equity ratio stood at 0.26x as of Mar'23 (flat YoY).
- Working Capital days for FY23 increased to 104 (v/s 82 in FY22) primarily due to high receivables days (82 days in FY23 v/s 45 in FY22). It expects working capital to stabilize.



Click below for
Detailed Concall Transcript &
Results Update



Godrej Agrovet

Neutral

Current Price INR 438

Palm Oil Business

- The segment witnessed strong volume growth; however, both the topline and profitability were adversely impacted by a sharp decline in crude palm oil prices.
- Average prices of crude palm oil (CPO) /palm kernel oil (PKO) declined 28%/41% YoY to INR85,427/INR1,11,647 per MT.
- The segment witnessed revenue as well as operating profitability growth for full year FY23 on account of consistent volumes and improved operational efficiencies.
- Pass through of prices was the major concern in the segment.
- The management is expecting steady margins from the segment going ahead.

Animal Feed (AF)

- GOAGRO witnessed volume growth of 5%/10% YoY to ~364K/1458K tons in 4QFY23/FY23. The growth was primarily led by the Cattle feed category (up 11%/13% YoY in 4QFY23/FY23) on account of market share gains.
- The segmental margin was adversely impacted by volatile commodity price movements and limited transmission, on account of pricing pressure in the poultry feed.

The image shows a screenshot of a financial statement for Godrej Agrovet, prepared by Motilal Oswal. The document is titled 'Godrej Agrovet' and 'FY23'. It includes a table with multiple columns representing different financial metrics and rows for various segments and totals. The table is partially obscured by a watermark and some text, but it appears to be a comprehensive financial report.

- The government interventions led to a decline in prices of raw materials in Q1. Accordingly, the profitability for the full year FY23 was significantly impacted as the high cost inventory had to be consumed. However, margin profile has improved sequentially.
- The management expects the poultry feed segment to be under pressure for the next couple of months; the Fish feed segment will take some time to establish. 'Samruddhi', a product developed by the company through long R&D process, now accounts for ~30% of the cattle feed volumes. Accordingly, the management is focusing on the newer R&D projects to add new products to the portfolio.

Crop Protection

- Revenue grew on account of higher sales of Gracia and in-house herbicides portfolio and lower returns as compared to 4QFY22.
- However, the profitability was adversely impacted, due to the lower sales of Plant Growth Regulators (PGR) category and pricing pressure.
- The segment witnessed improvement in the working capital cycle and collections in FY23 on the back of concentrated efforts in maintaining credit hygiene.
- The company recovered ~INR10b and generated good cash flow from the segment.

Astec Lifesciences:

- Revenue was severely impacted by sluggish demand for key enterprise products and sharp drop in realizations.
- Inventory pile up in the channel and erratic weather conditions led to tepid demand during the quarter.
- Further, the company has witnessed a significant drop in prices of some of the key products over the past few months, ranging from ~40-60%.
- The company has faced various challenges in the last two quarters; however, the management is confident that the enterprise business will bounce back once the demand picks up.
- The management believes that expanding the product portfolio is crucial for the company's growth and in tackling the competition from China. The company is actively working on expanding its product range.
- The CDMO business of the company, which will collaborated with innovators globally, is expected to be the key driver for the segment. The CMO business grew ~1.9x YoY in line with the company's expectation.

Dairy business:

- The dairy business achieved a revenue of over INR15b. The management expects the business to breakeven with a revenue of ~INR20b.
- The management is expecting high growth in the segment and accordingly expects the business to breakeven soon.
- The segment witnessed robust volume growth in value-added products (up 30%/37% YoY in 4QFY23/FY23)
- VAP salience increased to 32% of revenue in FY23 from 29% in FY22.
- The management expects the value-added segment to grow further by ~25-30% in FY24.
- However, the profitability was adversely impacted due to only partial pass-through of rising milk procurement costs.
- The company has made structural changes to shift from commodity to brand in the segment.



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Godrej Tyson Foods (GTFL):

- Revenue from the segment grew 22% YoY to INR2.5b, on the back of strong volume growth in branded business (especially Real Good chicken).
- However, margins were adversely impacted due to considerably lower live bird prices.
- In FY23, branded categories, Real Good Chicken (RGC) and Yummiez achieved volume growth of 53% and 34% YoY, respectively.
- Profitability improved for the full year FY23, on the back of consistent growth in RGC margins.

Capex

- The company is in the process of formulating capex plans for FY24 and FY25.
- The company is in its initial phase of developing a multi-purpose plant with a capex of ~INR5b. This plant is likely to commercialize by Dec'24.

IndiaMart Intermesh

Buy

Current Price INR 5,649

Collections and customer additions

- Collections grew 48% YoY and deferred revenue was up 28% YoY in 4QFY23.
- The performance was driven by strong demand. 90-day repeat buyers stood at 53% for 4QFY23.
- In 4QFY23, the company added 8.4k paid customers. Going forward, it expects that customer additions will exceed 8k while maintaining the churn at current levels for the next year.
- Renewals are at ~90% of pre-covid levels. Platinum and Gold renewals are back to pre-Covid levels.
- Churn on Platinum and Gold continues to be less than 1% per month. For the Silver Annual pack, the churn is around 3% per month, while for the Silver monthly pack, the churn continues to be elevated at ~5% per month levels.
- Improving macro and increasing internet penetration should support its growth ambitions going forward.

Accounting ecosystem

- Busy Infotech clocked INR177m in billing and INR116m in revenue for 4QFY23.
- Deferred revenue stood at INR273m.
- EBITDA stood at INR 7m with INR14m in PAT, on the back of continued investments in BUSY.
- It added 8k licenses, taking the total number of licenses to 331k.
- It achieved the target of doubling the growth rate in FY23.
- It has launched the first in a kind in India native mobile app and is targeting underpenetrated geographies.
- The primary focus for BUSY will be on growth before exploring cross-selling opportunities to its existing customer base.

Cost and margin

- The company has made up for the investments that were deferred during the Covid pandemic in FY23. Going forward, the addition of new employees would be in-line with customer additions, which should help drive margins.
- The management is confident of getting back to 28% margin shortly and targets to achieve 30% margin by the end of FY24.
- The 4Q margin was adversely impacted by the annual wage hikes (~15%) and higher upfront incentives on higher collection seasonality in 4Q.
- ARPU saw a good jump during the quarter. The management is confident of 6-7% ARPU growth going forward.

IHCL

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Particulars	Q4 FY23	Q4 FY22	Q4 FY21	Q4 FY20
Revenue	1,12,121	1,08,121	1,08,121	1,08,121
EBITDA	15,121	14,121	14,121	14,121
EBIT	12,121	11,121	11,121	11,121
Net Profit	8,121	7,121	7,121	7,121

- The company has not taken any significant price hikes, the jump in APRU was due to customers using additional city categories.

Other highlights

- The company is closely working with Vyapar; every new customer on boarded on IndiMart is offered six months of free trial for Vyapar.
- The board declared a final dividend of INR20 and announced a bonus share for every one share held.

Indian Hotels

Buy

Current Price INR 396

Operating performance

- RevPAR growth in Mumbai/Bengaluru/Goa/Delhi & NCR stood at 38%/31%/59%/30% in 4QFY23 v/s 4QFY20.
- In the domestic business, ARR/occupancy/RevPAR grew 18%/36%/60% v/s pre-Covid levels (4QFY20).
- For the standalone business, occupancy increased by 1,630bp YoY and 260bp QoQ to 74.7% in 4QFY23 (up 1,280bp from 4QFY20 levels). ARR grew 60% YoY and 9% QoQ, to INR16,915 (up 33% from 4QFY20 levels).
- Occupancy (LFL) in the Business/Leisure came in at 77%/62% in 4QFY23, 9pp/6pp above 4QFY20 levels, while the same for Palaces/Ginger was lower by 1pp/4pp at 49%/60%.
- Payroll costs/corporate overheads as a percentage of revenue decreased to 27.0%/5.8% in 4QFY23 from 33.0%/8.6% in 4QFY20.
- In FY23, key domestic subsidiaries such as Piem/Roots/Benares witnessed revenue growth of ~29%/44%/49% and EBITDA growth of ~2.2x/2.3x/80% over the pre-Covid levels.
- CFO for FY23 was INR16.2 v/s INR6.7b in FY22. Net cash stood at INR10b in FY23 v/s INR1.1b in FY22.

Outlook

- Overall, demand in the industry is growing faster than supply. Hotel demand grew by 11.1% in FY23 as compared to FY20, while supplies grew by ~4.5% over the same period (as per STR).
- Foreign tourist arrival has not yet come back fully. However, domestic demand is driving the sector.
- G20 is expected to boost demand for rooms and the F&B segment. This will be further driven by the cricket world cup and an increase in foreign tourist arrivals.
- IH is very well position to capture the increase in demand on the back of its strong addition in inventory. Accordingly, IH will keep up with the pace of its signing and expects to open minimum ~20 hotels in FY24.
- HVS Anarock has given a strong outlook for the Indian hospitality industry, with ~70% occupancy and ARR of INR7,983 in FY25.
- Management aims to have ~200 operational hotels globally in FY24.

International business

- RevPAR in the UK/US/Maldives/Dubai stood at ~104%/97%/127%/144% of pre-Covid levels.
- Key international subsidiaries such as St James Court, London, witnessed revenue/EBITDA growth of ~19%/8% in FY23 over the pre-Covid levels. UOH Inc, USA, witnessed a marginal revenue decline; however, it delivered EBITDA of INR120m in FY23 against a loss of INR180m in FY20.
- The company is looking at opportunities in South East Asia and the UK and is looking to enter international locations with a large Indian diaspora.

New businesses

- Qmin has crossed GMV of INR1.5b since inception and is present in 24 cities. Ginger accommodates ~50% of Qmin outlets, in line with the company's aim of 'Qminization of Ginger'.
- Ama stay and trials has ~114 properties across 50+ locations. The portfolio grew by 42% YoY in FY23.
- Chambers added over 150 members in FY23, taking the total number to ~2,600. The businesses recorded 52% revenue growth over FY20 levels and had flow-through of more than 80%. The company has opened chambers in London and plans to open one in Bengaluru in FY24.
- The company will use some of the free cash flows to drive growth in such new businesses going ahead.
- Once the existing new business matures, the company will look forward to add more new businesses.

Capex

- Management expects capex to be in the range of ~5-6% of the revenues going ahead.
- The company is looking to build hotels and execute a 'sale and manage back' contracts going ahead.
- Intelligent use of capex is a critical factor to drive margins and gives IH a competitive advantage over its peers.

Ginger

- Ginger reported revenue of INR3b and EBITDA of ~INR1.2b in FY23. Ginger Santacruz (Mumbai) with ~375 rooms is expected to open up in Oct'23 and management expects ~50% margin from the hotel.
- New Ginger hotels are operating on the 'lean luxe' model. Accordingly, IH expects margins from Ginger hotels to go above 50% in the next few years.

Taj Sats

- Management expects Taj Sats to do well on the back of an increasing number of airports and a rising share of Tata group in airlines. Productivity of kitchens, i.e., meals per employee, has gone up significantly (~40%) over pre-Covid levels.
- Further, the company is changing the business model to a central kitchen mode where the food will be made in the central kitchen and then delivered to other kitchens where it will be repacked and delivered. This will significantly bring down the cost.

Others highlights

- Taj Hotels hit the landmark of 100 hotels from ~31 hotels five years ago.
- In FY23, the company opened 16 hotels and signed ~36 hotels. It has a robust pipeline of ~75 hotels going ahead. Overall, the company has ~263 hotels as on Mar'23 (including pipeline).
- IH has just signed another Vivanta hotel in Delhi-NCR and is opening a new hotel in Vikroli, Mumbai, in FY24. Management believes these national and commercial capitals of our country have huge growth potential and the company will continue to expand in these cities.
- IH will increase hotels on an asset-light model going ahead.
- The company expects the balance of owned and leased portfolio to reach 50:50 ratio in the current year. This will boost margin.
- Management expects margins to be in line with its target of ~33%. Margins will be lower in Q1/Q2 (seasonality factor) but will be stronger in Q3/Q4.
- As per HVS Anarock, IH has executed the highest number of signings and opening of properties in CY22 among the top 5 brands in the country.

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Info Edge

Neutral

Current Price INR 4,184

Recruitment

- The caution in hiring for IT Services continues and the slowdown is expected to continue for the next few months. Apr'23/May'23 continued to be weak for IT hiring.
- Management is hopeful of a recovery in IT hiring in 2HFY23. Further, it sees some opportunity for IT in GCCs and captives.
- The demand for the Non-IT segment continues to remain robust. There is strong demand in BFSI, retail, construction, real estate, and travel and hospitality domains while consumer durables, FMCG, healthcare and education have seen some growth moderation.
- It is optimizing the search and recruitment engine on the platform to focus more on non-IT hiring as there are good opportunities in this space. It remains confident of a healthy growth from the non-IT segment.
- During the recession, generally, jobs slow down first, but in the long term, more jobs get outsourced to India. Thus, industry might see a strong comeback in IT.
- If the economy grows at healthy rates (6-7%) it is confident of growing in 20%+ levels.
- It currently operates only in 40-45 cities and plans to expand its offerings in smaller cities that can generate healthy contribution in the longer term.
- It has reduced discounts and increased pricing in 4QFY23 though it had to provide some discounts in IT hiring side due to the ongoing slowdown. It expects pricing on IT to revert once the growth normalizes.
- INFOE is confident of sustaining current margins if the billings grow at least by 14-15%.

Real Estate

- There was a broad based volume-driven growth across new homes, resale, commercial properties, etc
- The real estate market remains stable with inventories at an all-time low, new launches and good demand for new homes.
- There was a strong growth in number of enquires and traffic aided by the improvements made on the platform, despite cuts in marketing spends and heightened competition.
- It is seeing strong trends in new home category which can drive healthy demand for the next 2-3 years. For large customers, it follows listing charges + cost per lead model.

Other highlights

- Rebound in domestic demand drove strong growth in Siksha.
- There was a significant reduction in ad spends in Jeevansathi. It recorded good engagement and high traffic as its chat feature became free. Competitive intensity remained high and competitors continued to spend aggressively.
- It is constantly working on finding ways to monetize improved traffic on the Jeevansathi platform.

Interglobe Aviation

Neutral

Current Price INR 2,420

- 1HFY23 was hit by high fuel prices and a forex loss.
- INDIGO aims to double the size and scale of its operation over the next decade.
- A second wide-body aircraft commenced operations from Mumbai to Istanbul yesterday.
- Expanded to 78 domestic locations and 28 international locations.



InterGlobe Aviation	
QoQ	YTD
Revenue	1,000
Profit	100
EPS	10
Dividend	5
Payout Ratio	50%
ROE	15%
ROA	10%
Debt to Equity	0.5
Current Ratio	1.5
Operating Margin	10%
Net Margin	10%
EBITDA Margin	15%
Capex	100
Opex	500
Free Cash Flow	200
Operating Assets	500
Operating Liabilities	200
Net Assets	300
Net Liabilities	100
Net Equity	200
Net Debt	100
Net Cash	100
Net Receivables	100
Net Payables	100
Net Inventory	100
Net Prepaid	100
Net Other	100
Net Total	1,000



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IRB Infrastructure	
QoQ	YTD
Revenue	1,000
Profit	100
EPS	10
Dividend	5
Payout Ratio	50%
ROE	15%
ROA	10%
Debt to Equity	0.5
Current Ratio	1.5
Operating Margin	10%
Net Margin	10%
EBITDA Margin	15%
Capex	100
Opex	500
Free Cash Flow	200
Operating Assets	500
Operating Liabilities	200
Net Assets	300
Net Liabilities	100
Net Equity	200
Net Debt	100
Net Cash	100
Net Receivables	100
Net Payables	100
Net Inventory	100
Net Prepaid	100
Net Other	100
Net Total	1,000

- First Indian airline to start an international flight from Bhubaneswar. Will start flights from Delhi to Singapore and Bhubaneswar to Singapore
- Pending order book of 500 planes
- Fleet age is 3.5 years, which is one of the youngest and most fuel-efficient.
- Some aircraft were grounded during the quarter due to a shortage of spare engines in the market.
 - Grounded airlines in high 30s range
- Capacity growth of 19% in FY23
 - Targets to grow in mid-teens range in FY24
- Targets to serve 100m customers in FY24
 - Hiring 5,000 employees
- International operations have lower cost/unit compared to domestic operations
- Yield was lower QoQ due to seasonality
- It does not expect a substantial increase in lease costs, but there may be a marginal increase due to increasing interest rates.
- ~30 planes were added in FY23
 - Looking for net additions of 40-50 planes in FY24
- New planes will come with LEAP engines instead of Pratt & Whitney

IRB Infra

Neutral

Current Price INR 29

- The order book stood ~INR206b at the end of 4QFY23, of which EPC order book was ~INR88.6b comprising 43% of the total order book.
- The tender pipeline is extremely robust and IRB is expecting INR60-70b worth of new projects in FY24.
- In 3QFY23, it received appointed date for the Ganga Expressway project and its execution is progressing according to the planned schedule.
- NHAI is expected to award HAM projects amounting to ~INR4t, BOT projects worth INR200b, and TOT bundles totaling INR400b by FY24.
- During the bidding process, IRB's priority is to focus on BOT projects, followed by TOT, and then HAM projects. However, considering the current bid pipeline and market conditions, the company is open to taking on additional HAM projects if necessary.
- As part of the strategy to enhance returns, IRB has successfully refinanced three BOT projects held by a Private InvIT. By fixing rates for five years, the company has achieved cost savings and anticipates an additional cash surplus of INR5.5b over the next five years.
- In FY23, the Mumbai-Pune Expressway witnessed a substantial revenue growth of 16% YoY without any tariff revision.
- Toll collections across projects have been robust with improvement in traffic and also increase in toll prices. IRB expects the traffic momentum to continue. Over the next few years it sees traffic growth of 5-6% annually.
- IRB's margins are protected against the escalation in raw material prices. Sufficient increase has been considered in IRB's estimated cost for BOT projects, to cover the rise in material prices.
- The Equity contribution from IRB for pending BOT projects stands at INR10b for FY24 excluding ToT project. For Hyderabad project it would be INR15b. Management is confident on meeting the committed investments.
- It expects to capitalize on the strong liquidity position, which will aid the company to bid for several new projects.



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KNR Constructions

Buy

Current Price INR 243

Overview

- The construction of national highways in FY23 was affected by an extended monsoon season, which lasted until mid-Nov'22 in certain regions.
- Order inflows in FY23 were affected by competitive intensity and overcrowding in the market. However, the company is now seeing opportunities in sectors such as railways, metros, and irrigation.
- During the quarter, execution was primarily driven by HAM projects (~40%).
- The order book stood at INR89b as of 4QFY23-end.
- In FY24, KNRC expects an order inflow of INR40b-50b. It is actively exploring various opportunities in other sectors such as urban development projects, metro & railways, etc., and is also considering bidding in western regions, such as Maharashtra.
- KNRC incurred capex of ~INR400m in 4QFY23.

Irrigation projects

- Irrigation revenue for 4Q FY23 stood at INR3b (25.73% of revenues) and made up ~25% of total revenue in FY23.
- The pending receivables in Irrigation stand at INR5b, down from INR6.5b as of 3QFY23-end.

Guidance

- KNRC expects revenue of over INR40b in FY24 with margins in the range of 18-19% in FY24.
- The company has a total equity requirement of INR7.3b for its secured HAM projects, with INR2.96b already invested as of Mar'23, INR2.6b planned for FY24, INR1.6b for FY25 and the remaining INR1.7b scheduled for FY26.
- It will spend ~INR1.4b in capex in FY24 (INR1.4b in FY23).
- Irrigation revenue is expected to be ~INR 9b-10b in FY24 and is expected to account for 25-30% of total revenues in the future.
- Free cash flow generation is expected to be INR5.5b in FY24.

Other details

- The standalone cash on books stood at INR2b.
- At Mar'23-end, inventory stood at INR2.3b and payables at INR3.8b.
- Receivables at the end of Mar'23 stood at INR9.8b, including INR5b from the Irrigation segment.
- Retention money stood at INR2.4b and mobilization advances stood at INR1.6b.

Lemon Tree Hotels

Buy

Current Price INR 93

Operational highlights:

- In 4QFY23, employee benefits/F&B/power & fuel/other expenses as a percentage of revenue declined 820bp/320bp/200bp/590bp vs. 4QFY20 levels, leading to an expansion in EBITDA margin by 19.3pp (vs. 4QFY20) to 55.7%.
- During the quarter, the company signed nine new management and franchise contracts, adding 538 new rooms to its pipeline.
- The current operational inventory includes 88 hotels and 8,382 rooms, with 3,285 rooms and 42 hotels in the pipeline.
- LEMONTRE's RevPAR grew 55% vs. 4QFY20, while the industry saw 41% growth for the same period.

Metric	FY23	FY20
Revenue	INR 358m	INR 205m
EBITDA	INR 179m	INR 102m
EBITDA Margin	50%	50%
ROCE	20%	20%
Debt-to-Equity Ratio	0.0x	0.0x

- The company recovered faster than the industry in 4QFY23 vs. 4QFY20 in Mumbai, Hyderabad, Delhi and Pune.
- Fees from managed hotels grew 74% to INR358m in FY23 v/s INR205 in FY20. Managed rooms, as a percentage of total inventories, stood at 39.8% in FY23, up 410bp from 35% in FY20.
- Current occupancy in Mumbai (1QFY24) is higher than 4QFY23 level, indicating a strong demand scenario.

Roadmap for next 5 years:

- LEMONTRE targets to have over 20,000 rooms and over 300 hotels by CY28 (including the pipeline).
- It is planning a rapid expansion at negligible costs through its asset-light growth model. Accordingly, it expects over ~70% of hotels to be managed/franchised properties.
- The company expects ROCE of ~20% and aims to be a debt-free company in the next five years.
- EBITDA margins will be sustained at 50% levels in the next five years.
- The company will leverage four separate revenue streams without increasing the cost:
- Improving OR and ARR in LTH and Red Fox
- Renovation in Keys and old Lemon Tree hotels will command higher ARR from H2FY24
- Management fee is expected to see a significant hike in FY24 and FY25
- Operationalization of Aurika MIAL will drive strong revenue and margin growth, as it will contribute ~40% of total EBITDA.

Simplifying Group structure

- The company plans to simplify its group structure by merging Carnations into Lemon Tree and transferring all owned/leased properties from standalone to Fluer.
- Through this transfer, the company will be diluting its ownership in the owned portfolio (while retaining majority shareholding) through public markets / strategic investors, which will help to monetize/unlock cash.
- Further, the company plans to list Fluer via IPO/REIT/INVIT by CY28.

Market scenario:

- In 4QFY23, occupancy for Delhi/Gurugram/Hyderabad/Bengaluru/Mumbai/Pune improved 1,540bp/1,280bp/1,310bp/580bp/2,500bp/1,140bp/1,160bp to 88%/77%/77%/63%/84%/72%/70%.
- Further, occupancy for Aurika hotels and resorts/Lemon Tree premier/ Lemon Tree hotels/Red Fox/Keys improved 3,990bp/1,800bp/850bp/1,580bp/320bp to 69%/81%/74%/78%/56%.
- Demand-supply dynamics remain favorable, with demand growing by 9.7% (i.e. 1.42x of India real GDP growth) and supply expected to grow only 5.2% over FY23-27.
- The strong demand is attributed to an expected increase in the average household (HH) income by ~1.4x to INR0.732m p.a. by CY30, along with growth of affluence, especially in Tier 2/3/4 towns.



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Management guidance:

- The company will be investing significantly in renovations, especially the Keys portfolio. Accordingly, its operating expenses are likely to increase by ~2-2.5% in FY24.
- In FY24, margins will be ~50%+, lower than FY23, mainly due to renovation expenses. Aurika MIAL will be stabilized in 4QFY24, which will have some impact on margins.
- The company expects RevPAR growth of 15-16% (excluding Aurika, MIAL).
- EBITDAR margins in Delhi are expected to be stable at ~60-62%.
- With FTA coming back to pre-Covid levels, it can increase OR by 15%, which could lead to a 30% increase in ARR.
- Debt: Total debt as of FY23-end stood at INR17.5b (up 3% YoY).
- Lemon Tree standalone will be debt free by FY26 and Fluer by FY28.

One 97 Communications

Buy

Current Price INR 727

Balance sheet

- Paytm remains focused on becoming free cash flow positive over the near to medium term.
- UPI incentives for all four quarters of FY23 were received in 4Q and stood at INR1.82b (INR1.33b for 9MFY23).
- Its financial and payment businesses are witnessing healthy growth, aided by subscription revenue and higher merchant adoption.
- UPI is gradually expanding its product proposition, with other payments options being added such as Credit card, PPI, etc.
- The imposition of interchange fees on PPI wallet transactions will further result in additional revenue for Paytm. However, the actual benefits will depend on the usage of Paytm wallet on non-Paytm QR codes at the merchant level.
- Distribution of co-branded credit cards continues to grow at a healthy pace, which will aid the commerce and cloud revenues.
- Net payment processing margin remains ~7-9bp of GMV.
- The disbursement growth has now become more broad-based, with healthy momentum in consumer and merchant loans.
- The penetration to MTU and merchant base remains low, which will continue to drive healthy momentum in disbursements.
- The quality of portfolio improved in 4Q v/s 3Q, with a reduction in bounce rates and a moderation in ECL costs.
- Marketing business is witnessing deterioration; however, it forms just 3% of total revenue and thus should not impact the growth trajectory.
- Paytm is planning to launch a Rupay credit card, which will further enhance its value proposition.
- Paytm has launched 4G-enabled Soundbox and also upgraded dynamic QR devices, which will further improve the customer and merchant experience and the ease of payment transactions.
- With wallet interoperability going live, it makes Paytm universally acceptable on all UPI QR codes and online merchants, which will enable an additional pool of transactions.



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Company	Current Price (INR)	Change (%)
PI Industries	3,678	0.00
Others		

- Paytm has tied up with seven partners, five NBFCs and two banks. It is looking to add more partners to expand its financial product distribution. Some of the tie-ups would be announced in 1QFY24.
- Since the portfolio performance has performed better than the estimate, the ECL assumption has moderated, which has resulted in some decline in gross take rate. However, on net basis, revenue and EBITDA remain intact as payment processing charges also moderate.
- Contribution margin is expected to remain around similar levels with a slight positive bias going ahead.
- Operating leverage will continue to play, which will drive improvements in adjusted EBITDA margin over the medium term.
- Rental active subscription devices form ~90% of total devices, while 85% are active on the transaction side.
- About 4-4.5m users are using post-paid loans on a monthly basis.

PI Industries

Buy

Current Price INR 3,678

Operational Overview

- Newly launched brands, such as Distruptor®, Brofrefya®, Sectin®, Provide®, Dinoace™, Taurus® and Tomatough®, are getting good traction and acceptance.
- The major impact, mainly led by the reopening of China market, is seen in the US, mostly for generic products.
- There has been a significant increase in raw material prices and realization in the last one year, but a favorable product mix and operating leverage helped the company maintain higher margins. However, margins in 4Q were hurt by the product mix sequentially.
- Net profit jumped 46% YoY due to EBITDA growth and a lower effective tax rate.
- Inventory declined in terms of days of sales to ~79 days. Inventory declined to INR14b. Trade working capital in terms of days of sales declined to 79 days v/s 103 days as of Mar'22 on the back of multiple initiatives taken by the company on the inventory side, and the management has guided for further room to reduce WC in both domestic and export businesses.
- Inflationary and deflationary trends are all product specific. The overall scenario is mixed.
- The company has taken multiple initiatives to increase the plant throughput and capital efficiency, which is reflected in the improvement in the asset turns (0.9x in FY23 v/s 0.8x in FY22). However, they indicated that initiative intensity will not be as it was before.

Exports (CSM)

- In another 15 years or so, India is expected to be a market of USD850-1,000b, accounting for about 10-12% of global share. Specialty chemical exports from India are expected to surge 10x during FY23 to FY30, in line with the growing consumption in the consumer, agri and industrial segments.
- Indian AgChem is slated to grow 10% to 12% in FY24, with exports accounting for 50%. Concurrently, the 'China plus one' phenomena and the decline in the EU, the chemical industry powerhouse will support growth for India.
- PI has commercialized four new products in exports in FY23, with more than 40 products at different development stages.
- About 25% of the new enquiries received by PI are from the non-agchem space.
- The CSM business order book has been maintained at ~USD1.8b, exhibiting good visibility for the future.

- The global inventory situation for generics is worse than it is for innovative products, and PI is currently not witnessing any significant change in the demand scenario for its products.
- The Freshness Index (share of products launched in last 4-5 years) stood at ~17-18% of total revenue in FY23 v/s 16-17% in FY22.
- PI guides for the launch of four to five molecules yearly and the scale-up of its existing molecules.

Domestic Agri inputs

- PI launched seven products in FY23 and will launch five products in FY24. All these products are specialty products with a mix of wheat, rice, horticulture crops and biological products. Some of these products are multi-crop and multi-segment products with huge potential.
- Newly launched brands, such as Distrupator®, Brofrey®, Sectin®, Provide®, Dinoace™, Taurus® and Tomatough®, are getting good traction and acceptance.
- Domestic Channel stress: Channel inventory is being maintained as per the strategy and PI is not witnessing any abnormality.
- Seasonality: The domestic business is majorly (60%) done in H1, while exports are evenly distributed between H1 and H2.

Pharma:

- Both acquisitions are being done through PI Health Sciences Ltd. (PIHS), a 100% subsidiary of PI.
- PIHS will combine R&D capabilities of the acquired businesses with the brand-new integrated pharma research centre being developed in IKP Hyderabad for CRO and CDMO offerings.
- The pharma business will take at least 2.5 to 3 years to reach current ROCE levels.
- The management is projecting annual INR5-6b of revenue with 15-18% of EBITDA margins from Therachem's business after the finalization of the transaction. The margin expectation is lower for initial years due to integration expenses.

Guidance:

- Capex: PI incurred a total capex of INR3.4b in FY23. The management has guided for a capex of INR8-9b in FY24, which includes INR3b of spillover capex from FY23. The balance INR6b capex will be for the core business of CSM and domestic business.
- The major part of this capex is for capacity building where the company is adding two more multi-purpose plants (MPPs). The other part of the capex is for further automation, R&D, qualitative improvement and technical upgrades. Benefits of this capex will be realized from FY25 onward.
- Capital allocation: PI has identified several strategic initiatives for long-term growth, and cash on books will be deployed over the years. New initiatives include: 1) expanding global manufacturing footprint in India, 2) strengthening its products portfolio in domestic market, and 2) some initiatives on the pharma business.



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Results Update](#)

Quess Corp

Neutral

Current Price INR 429

4QFY23 performance

- The demand environment remained muted, except for BFSI and FMCG in 4QFY23. There were headwinds in the IT and retail space, due to a slowdown.
- It won 175 new customers in 4QFY23, out of which, 45 were cross-sell wins.



- WFM won 239 new clients in FY23. Manufacturing contributed 50% of the new client wins. It expects good demand in Manufacturing. It is also seeing good tailwinds from auto engineering, BFSI, and consumer durables. PAMP was stable during the quarter. IT staffing remains under pressure; IT staffing mandates were down 80% from 1QFY23. It is seeing opportunities in higher margin in demand IT skills.
- GTS has a strong order book, while the connect business clocked the highest ever orders. CLM and the non-voice BPO showed robust growth. Additionally, the collections business has registered strong growth at 13% QoQ. The focus for the North America platform business will be to improve margins and expand its healthcare segment. It has already added two large Fortune 500 in North America and has received 100 open position mandates at the start of 1QFY24.
- In OAM, IFMS (facility management) saw good demand from manufacturing, BFSI, and public infra. The focus will be to grow in logistics, public infra, and healthcare. PAMP increased 10% YoY for FY23.
- In the products business, Foundit registered strong growth. It saw 4x growth in candidates in FY23. It expects strong growth in FY24, on the back of investments made in FY23.

Margin

- The 16bp margin improvement was driven by lower SG&A spends and improved efficiency. The margin expansion was adversely impacted by continued investments in North America (INR30m), investments in Product-led business, and muted IT staffing.
- The higher depreciation was primarily due to the impact of IndAS pertaining to a new rental facility in the GTM business.
- The profitability in the products business is in line with expectations. The cash burn in Foundit is expected to decrease in the upcoming quarters to break even by 4QFY24.

Outlook and other highlights

- FY23 OCF/EBITDA guidance stood at 71%, which was in line with its guidance of 70% conversion.
- Income tax matter pertaining to FY17-18 is with ITAT (hearing in mid-June), while the assessment for FY18-19 is at the DRP stage.



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SIS

Buy

Current Price INR 402

Quarterly performance

- SECIS witnessed robust revenue growth and healthy margins in 4QFY23 and expects further margin expansion in the future.
- The company is experiencing significant client additions and robust business from its existing clients.
- The Security services industry has grown around 12-14% in the last few years. SECIS has grown faster than industry at 20% and gained market share over the years.
- With a current market share of 5% in security services, the company aims to grow its share to 10% over the next few years through robust organic growth and acquisitions.

MOTILAL OSWAL
15 May 2023
SRF

Investment Thesis
SRF is a leading specialty chemicals company in India, with a strong focus on the Fluorochemicals and Agrochemicals segments. The company has a robust track record of delivering consistent growth and has a strong market position in the specialty chemicals industry.

Key Financial Metrics (FY23)

Metric	Value
Revenue (INR)	1,100.00
EBITDA (INR)	150.00
EBITDA Margin (%)	13.6%
Net Profit (INR)	100.00
Net Profit Margin (%)	9.1%
Operating Cash Flow (INR)	120.00
Free Cash Flow (INR)	100.00
Debt/EBITDA	1.7x

Key Highlights

- Strong performance in the Fluorochemicals segment, driven by robust demand for HFCs and PTFE.
- Successful launch of new products in the Agrochemicals segment, including the launch of the new product 'SRF Agro 134a/P'.
- Robust financial performance, with EBITDA margin of 13.6% and Net Profit margin of 9.1%.

- In cash logistics business, unlike peers, 80% of the revenue comes from bank process outsourcing and 20% comes from ATM business (~80% from ATM for peers).
- Increasing share of organized retail is supporting growth in doorstep banking. Doorstep banking will continue to grow as penetration of organized retail increases.
- The company will prioritize underpenetrated markets for cash logistics business, which will enhance density for better route optimization and ultimately improve margins.
- The company will continue to enjoy tax benefits under Section 80JJAA.
- Henderson is seeing good traction and is expected to stabilize in a few quarters.
- VProtect, the company's alarm monitoring business, currently operates with margins exceeding 15%, and serves 15,000 connections. The management aims to expand its customer base to 50,000 connections in the near term.

Outlook

- The management is confident of returning to 6% EBITDA margins for India Security and Facility management business as the gross margins remain intact.
- During the Covid pandemic, the company's international business benefited from high margin Covid related contracts and the management expects margins to stay at pre-Covid levels.
- Overall, the decreasing contribution of International business should positively impact the company's blended margins. The company plans to gradually revert to pre-Covid margins.
- The Net debt/EBITDA has moderated to 1.7x from 2.1x in 3QFY23. SECIS is comfortable at around 1.5x Net debt/EBITDA.

SRF

Neutral

Current Price INR 2,567

Chemicals segment:

- The Specialty Chemicals business delivered a robust performance, on the back of: 1) new products commercialized (in FY23, SRF launched four products in Agro and two in the Pharma segment), 2) strong sales of key products and derivatives, led by an increase in customer demand for complex and advanced products, and 3) commissioning of new plant during the year, which will also aid future volume growth.
- The Fluorochemicals business reported a healthy growth, on the back of strong traction for Ref gases, higher realizations of major HFCs, and record sales for Dhymel® HFA 134a/P with and expanded geographical footprint across over 20 countries.
- SRF commissioned several new plants during the year including CMS2, CPP, and CaCl₂, which will be ramped up in FY24. Also, the PTFE facility is expected to get commissioned in FY24 and PX-1/PX-2 capex is on track.
- SRF is focusing on building an export portfolio in CMS to offset the margin pressure caused by the slowdown in the domestic market and oversupply situation.
- The management is confident of delivering over 20% growth in the segment. However, the ROCE level may moderate from its current levels.
- SRF already has CWIP of over INR20b for this segment. The intensity of capex is likely to continue going ahead.



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- The management is expecting to launch ~7-8 AI products in the next two years.
- Although the Generic products coming from China to America are priced lower, majority (~80-85%) of SRF's products are innovative. Hence, the company is not witnessing any demand slowdown.
- Starting January 2024, the US will reduce its consumption and production of HFCs by around 30%. However, it will still be a net importer of HFCs. Additionally, there will be a gradual reduction in the GWP equivalent over the next five years.
- The EU has initiated discussions about regulating certain types of Fluorochemicals. However, SRF can serve multiple Fluorochemicals products, including fluoropolymers.
- New plants in specialty chemicals is likely to be capitalized in 2HFY24.
- PTFE facility is likely to be commissioned by Jun'23. Revenues from the facility is likely to start from 3QFY24.
- Revenue from Specialty chemicals/Fluorochemicals stood at INR42b/INR32b in FY23. Margins in both the segment have expanded in FY23.
- The company is considering acquisitions in the Pharma division to enhance its capabilities.

Market Outlook:

- Chemical business: The global demand outlook for refrigerant gas remains strong and sustainable with the Indian chemical industry poised for further growth on the back of 'China plus one' and 'Europe plus one'.
- The company is witnessing healthy opportunities in key markets of India, USA, and Middle East; however, raw material prices and supply chain constraints remain key challenges
- The management is expecting some impact on HFC volumes in 1QFY24 on account of a weak summer season.
- Packaging Film business: The management expects pressure on margin to continue in FY24. The company expects global suppliers with multi-locational facilities and better customer relationships to witness positive traction. Sustainability initiatives are likely to gain momentum in FY24.
- Technical Textiles Business: The demand for Nylon Tyre Cord Fabric is improving. Further, the demand for Belting Fabrics is expected to remain healthy due to enhanced focus on infrastructural development.

Packaging Film segment

- The segment continued to face headwinds as margins faced pressure due to significant supply addition. This was further impacted by global demand slowdown and steep energy costs in Europe.
- The operations in Hungary were significantly impacted in FY23.
- Capacity utilization for the segment stood at ~92-95% in FY23. However, for the Hungary plant, it was ~69%.
- SRF has expanded its customer footprint and focused on VAP sales in order to navigate through the uncertainties.
- Aluminum Foil project is progressing as per schedule. However, the cost of project has increased as the company is ensuring higher output and better quality of products. The plant is expected to commercialize by 2QFY24.
- SRF has commercialized 10 new products in the year (4 in BOPET and 6 in BOPP)

- Annual contracts have started to kick in and margin expansion will continue in FY24. The company expects current Realizations to be sustained in FY24.
- The US would continue to lead in terms of margins and volumes.
- TCNA supplies mainly to Canada, US and Mexico, which is its domestic market. The company exports to Latin America, Far East and, to some extent, Southeast Asia.
- The company is not witnessing any demand pressure so far, as its exit from ANZSAC is concerned. US contracts are fully sold out.
- TCNA does 1/3rd of total exports from the US, which will come down in the next three years as the company exited from ANSAC.
- Both domestic and export realizations have gone up and will be more visible in 1QFY24 results.
- Lower domestic volume this quarter was mainly due to higher exports.
- The company is in the final stage of finishing the debottlenecking planning. It intends to add ~400kt of capacity, which will come on stream in 24-28 months once initiated.

TCEHL

- Revenue came in at INR7.1b, up by 23% YoY.
- Total sales volumes declined by 18% YoY.
- Realizations witnessed a marginal reduction sequentially by 2% to GBP453/MT (up 54% YoY). EBITDA/MT improved by 6.9x YoY/54% QoQ to GBP144, largely due to cost moderation and a shift toward fixed-margin contracts.
- Margins will moderate and will stabilize to normal profitable levels, but this will be at a higher level than pre-Covid.
- Soda Ash volumes declined 15% YoY/9% QoQ to 60kt. Sodium Bicarb volumes declined 23% YoY/4% QoQ to 23kt, while Salt volume declined 18% YoY to 75kt (flat QoQ).
- The company benefited from the lower cost hedge of gas this quarter that was being placed till Mar'23.
- Most of the supplies of the company are in the UK. It has not seen any adverse demand-supply mix in the UK from Turkey's capacity.
- TCEHL is moving more and more to value-added salt segments. The pharma salt capacity is coming on stream by the end of FY24.
- Solvay highlighted a slowdown in flat glass demand in the Europe region; however, the company does not supply to any flat glass player in the UK, and the company only sells to container glass plants.
- The company has contracted fully for CY23.

TCAHL

- Revenue came in at INR2.1b, up 22% YoY, led by a strong performance in realization, which was up 31% YoY to USD401/MT. Sequentially realizations have been tapering off from the high seen in 2QFY23 at USD431/MT. Volumes decreased 16% YoY/9% QoQ to 63kt.
- EBITDA/MT came in at USD176 v/s USD108 in 4QFY22 and USD219 in 3QFY22.
- TCAHL became debt free in FY23.
- Margins will moderate to normal levels but will be higher than pre-Covid levels.

Demand

- Strong demand growth is expected from new applications such as solar glass and lithium-ion-batteries.
- Soda Ash demand to remain balanced over the medium term, led by demand growth (2-6%) outpacing supply growth. China's reopening is a key demand driver for new applications such as solar glass and lithium-ion-battery. However, Mongolia capacity (~1.5MMT) would absorb some domestic demand in China in coming years as they are located far from the port.
- All growth drivers are sustainability drivers such as solar glass and lithium-ion battery.
- Annual global soda ash demand growth is ~1.5-2MMT, while supply growth is at par or below the required additional demand.

Other Highlights

- Rallis witnessed a difficult quarter, with revenue growth of only 3% YoY to INR5.2b and an operating loss of INR650m. The management expects Rallis to report a strong FY24.
- Net debt: The company repaid more debt in FY23 than it guided. In FY24, the company plans to repay ~USD200-250m of debt.
- Limestone reserves. The US has a reserve life of over 1,000 years, while China's reserves will last for another 20-25 years and Turkey's reserves are much lower than China's.
- Sodium Bi-carb continues to grow in the range of 5% to 7%. It finds application into multiple sectors, including animal feed, poultry, human feed, food applications, and pharmaceutical applications.



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Team Lease

Buy

Current Price INR 2,218

General Staffing

- TEAM saw good growth in Financial services, telecom, and FMCG. It expects growth to continue in those areas.
- With all the investments and capacity expansions in manufacturing space, it expects good growth there.
- The funding freeze is expected to have an impact on the start-up space, leading to subdued demand in both startups and the e-commerce sector.
- The pipeline remains strong and TEAM has good growth visibility in 1HFY24.
- Digitalization efforts continue to bring efficiencies. FTE saw good improvement of 11% in 4QFY23.
- TEAM added 39 new logos in 4QFY23.

Specialized Staffing

- On a full-year basis, the hiring in IT Services was down 60%.
- Tech in non-tech is picking up well. TEAM captured a decent market share in that area.
- The macro environment is not conducive for the companies to resume hiring.
- TEAM's on-going dialogue with its customers suggests near-term impact due to uncertain macro conditions.
- It added a total of 53 new logos in FY23, 23 of which were large clients with the potential of multi-year contracts.
- It does not see much pressure on margins at gross realization levels.
- Amid the headwinds, TEAM aims to maintain its current revenue numbers in FY24. It has completed the cost optimization initiatives and if the demand does not weaken further, it expects improved margins going forward.

NETAP

- The headcount dropped by 9k in 4QFY23, due to the impact from the discontinuation of the NEEM program. A further drop is expected in 1HFY24 and downsizing will complete in 2QFY24.
- TEAM plans to ramp up in other programs but that will take time to scale up and will kick off only from 2QFY24.
- The discontinuation of the NEEM program had ~20bp impact on margins in 4QFY23.

Margin and outlook

- The larger clients are growing faster (42% volume contribution in 4QFY23 v/s 38% in 3QFY23). As larger clients negotiate lower PAPM, the same dropped by INR 15 in 4QFY23. The clients remain cautious on margins, resulting in limited opportunities to improve pricing. TEAM plans to cross-sell and up-sell to improve PAPM.
- PAPM for medium/small clients is 1.5x/2x of large clients.
- 80% of the clients are on fixed PAPM model and the rest of the clients are on a flexible PAPM model.
- INR 40m impact from wage hikes is expected in 1QFY24.



Click below for
Results Update

The screenshot shows a detailed financial results table for UPL for Q4 FY23. It includes various metrics such as Revenue, Profit, and other financial indicators, presented in a structured table format with multiple columns and rows of data.

UPL**Neutral****Current Price INR 694****UPL Corporation**

- Revenue grew 4% YoY (+1% volume; -3% price, +6% FX). Sales innovation accounted for ~14% of sales in FY23.
- Differentiated & sustainable portfolio grew 12% YoY in FY23, led by growth in volumes. The company is on the path to achieve 50% of the revenue from differentiated portfolio by FY27 v/s 28% in FY23.
- UPLL has launched Feroce (insecticide) and Evolution (fungicide) during the year, which has contributed to ~INR4.0b/INR7.1b of revenue in FY23.
- Management expects the momentum of new blockbuster product launches to continue in FY24.
- Contribution margin was lower by ~660bp as compared to last year due to rapid decline in post-patent prices and clearance of higher-cost inventory (~INR3-3.5b).
- Conscious decision was taken to conserve cash and improve working capital, resulting in idle capacity cost (~INR2-2.5b) during the quarter.
- The company has strong pipeline with risk-adjusted peak sales of ~USD8.5b. Peak pipeline value grew ~16% YoY. Differentiated and Sustainable solution formed 78% of the pipeline while balance is Post Patent Solutions
- UPL Corporation has much improved inventory position than its peers due to its strategic decisions.

UPL SAS

- UPL SAS has a highly penetrated pan-India presence. Herbicide segment is the biggest segment with ~36% revenue share.
- The company has ~600 Unimarts (experience store) and ~340 business partners. UPL SAS is covering ~90% of farmers and ~90% of geographical locations in India 'Nuture.farm' offers agri services to the farmers and is currently servicing ~3m farmers across India. Company also has a retail variant of 'Nuture.farm' with ~9,000 SKUs and 85,000+ retailers.

- Management plans to reduce the EBITDA loss by ~50% for Nuture platform by FY24 and then break even by FY25
- Sperto is the biggest selling product in Brazil and the company is launching it in India in the current year.
- Differentiated and sustainable solutions revenue share stood at 35% during FY23
- The company has a range of bio fertilizer, bio stimulant, silica based product, etc.

Advanta Enterprise

- Field Corn/Grain and Forage sorghum/Sunflower and canola accounted for ~45%/23%/14% of revenue share for FY23.
- Globally, sorghum covers ~45-50m hectares. Management expects sorghum land cover to increase to ~70m hectares going ahead as it required significantly less water than other crops.
- The company witnessed strong traction in Grain Sorghum in Argentina, Australia and the US driven by proprietary technologies – ‘Igrowth’ and ‘Aphix’
- Accordingly, it has been able to increase its market share in sorghum crops of Argentina to ~67% from ~14-15% four years ago
- The company is working on various R&D products such as increasing the protein content of the Sorghum
- It has presence in ~84 countries, out of which ~15-20 are key countries. It has capability to increase its presence in other countries as well.
- Vegetable and fresh corn segment is muted across the world. The company expects the acreages to come back in a years’ time.

Specialty chemical and manufacturing

- The company supplies chemicals to 600+ external B2B clients (~15% of platform revenue) including large MNC and domestic companies operating in high-growth sectors (Agchem, Pharma, Paints, etc.)
- Major Chemistries include Grignard Reaction, Nitration, Phosphorus and Sulphur Derivatives, Chlorination, Hydrogenation, Phosgenation, Cynatio, etc.
- Going forward, the company is looking to enter new chemistries and expand capacities for existing molecules.
- The company is looking to enter into more external B2B collaborations

Geographical performance

- LATAM: Revenue grew 13% YoY during the quarter, driven by strong growth in the volumes of insecticide segment. Growth in Brazil was driven by volume growth in products such as ‘Perito’, ‘Feroce’ and ‘Evolution’.
- Europe: Revenue grew 7% YoY despite the unfavourable weather and macroeconomic challenges in the region. Volume was flat on YoY basis despite the product ban (Mancozeb) in the region.
- India: Revenue grew 16% YoY during the quarter, led by herbicides and bio solutions segment. Herbicides such as ‘Sweep power’ and ‘Ferio’ led the growth during the quarter.
- North America: Revenue declined ~13% YoY during the quarter on account of rapid decline in glufosinate prices. Low on-ground movement due to delayed spring hit the herbicides and insecticides segments in the region.

Guidance

- Management has guided for revenue/EBITDA growth of 6-10%/8-12% for FY24 on group level; while ROCE is expected to increase by ~125-175bp.
- UPL Corporation has guided for revenue/EBITDA growth of 4-8%/6-10% for FY24. It has long-term ambition to grow its revenue by ~7-10% p.a. and aims to achieve over 50% of revenues from high-margin differentiated and sustainable solutions by FY27.
- UPL SAS has guided for revenue/EBITDA growth of 12-16%/14-18% for FY24. It expects to increase its reach to ~5m farmers/120,000 retailers and 800+ experience centers.
- Advanta Enterprise has guided for revenue/EBITDA growth of 11-15%/14-18% for FY24
- Specialty Chemicals manufacturing revenue/EBITDA is expected to grow at 10-14%/12-16% for FY24.

Working Capital and Debt

- The company's focus on expediting cash collections and better inventory management drove lower inventory (~95 days v/s 104 days LY) & receivable days (~102 days v/s 114 days LY).
- Accordingly, its net working capital days reduced to ~64 in FY23 from ~69 in FY22.
- The company has sold receivables of ~INR115b as of Mar'23 v/s INR121b as of Mar'22.
- As on FY23, gross debt stood at INR230b while net debt stood at INR169b. UPLL has cumulatively reduced net debt by ~INR96b and has returned over ~INR40b of cash to shareholders over FY19-23.

Other highlights

- Currently, China has an overcapacity. These capacities came online after the pandemic-related restrictions were lifted. Further, China is trying to liquidate certain AI. Therefore, management expects a challenging 1QFY24 due to continuing pricing intensity.
- Management has guided for USD350m capex in FY24 with ~USD160m for specialty chemical and manufacturing division, ~USD20m for Advanta and rest for intangibles for the crop protection global business.
- UPLL's EBITDA grew 10% YoY during FY23 against guidance of ~15-18% due to subdued profitability in 4QFY23. Accordingly, ROCE came in at ~15.3% (down 30bp YoY) v/s guidance of ~17-17.5%.
- The company has robust R&D pipeline focused on delivering its 2027 target, by leveraging its Best-in-Class technology. UPLL's OpenAg makes it efficient in bringing new AIs, technologies and concepts to market
- Management aims to grow faster than the market in Bio solutions for the next five years with 14 new molecules in the development pipeline (Bio solutions is expected to register over 11% CAGR in FY22-27)

zomato

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Detailed Concall Transcript &
Results Update



Zomato

[Buy](#)

Current Price INR 75

Demand and growth outlook

- Zomato's 1QFY24 should see healthy growth momentum. On a longer term basis, it remains bullish as the market is still under-penetrated.
- MTUs declined QoQ because of lesser working days, Zomato Gold (clubbing of orders in same household) and due to cities being dropped during the quarter. MTU impact will continue to remain from Zomato Gold. On net basis, it expects MTUs to grow from current levels.
- Zomato Gold accounted for 30% share in the number of orders for Mar'23. Ordering frequency for non-gold members has stayed flat QoQ.
- Dine-out business is scaling up well but remains a small part of the P&L. It will take a few more quarters to be meaningful.
- AOV trended upwards in 4QFY23 despite range bound inflation. AOV should remain flat (if not improve) in FY24.
- On Woyu and ONDC - the penetration is low and it doesn't see much impact there.
- For Hyper pure, - management expects strong growth to continue. Losses should continue to come down on strong operating leverage. It is currently not planning to expand in newer cities. Focus will be to grow and become profitable in existing cities before venturing to newer cities. Also, the business model has to be different for smaller cities.
- Number of login hours for riders is growing linearly.

Margins

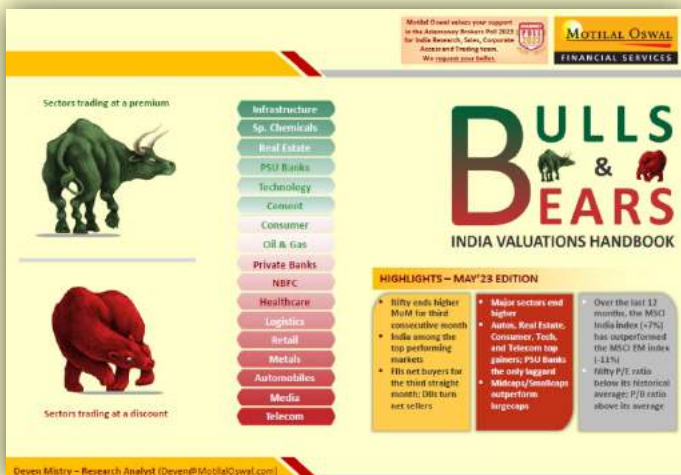
- Zomato saw healthy cost per order reduction in 4QFY23. It is trying to look at all possible levers to improve efficiencies.
- Employee cost came down on lower ESOP charge in 4QFY23. ESOP charges would not be liner in nature.
- Margin improvement levers for FY24 - 1) expect delivery cost to come down at faster rate than last year; 2) other variable cost also should come down in FY24; and 3) strong operating leverage. It still remains behind the competition on take rates and aims to close the gap over time.
- Margin improvement initiatives had little to no impact on growth.

Blinkit

- Blinkit saw good improvement in SKU mix (with more high moving low involvement goods).
- It will focus on scaling existing cities before expanding into newer cities as there is still a lot to cover in existing cities.
- Blinkit's disruptions in Delhi NCR area had no material impact. The stores were shut down for a few days. The rider logins are not back to 100%, partly attributable to high temperatures in northern part of India.
- For Blinkit, AOV of new users is generally low and increases overtime. It saw AOV improvement in the last part of 4QFY23. AOV fluctuations will continue as per festive trends.
- Dark store replenishment cost should remain flattish on absolute basis but go down on per order basis on increased through-put.

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GALLERY



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

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