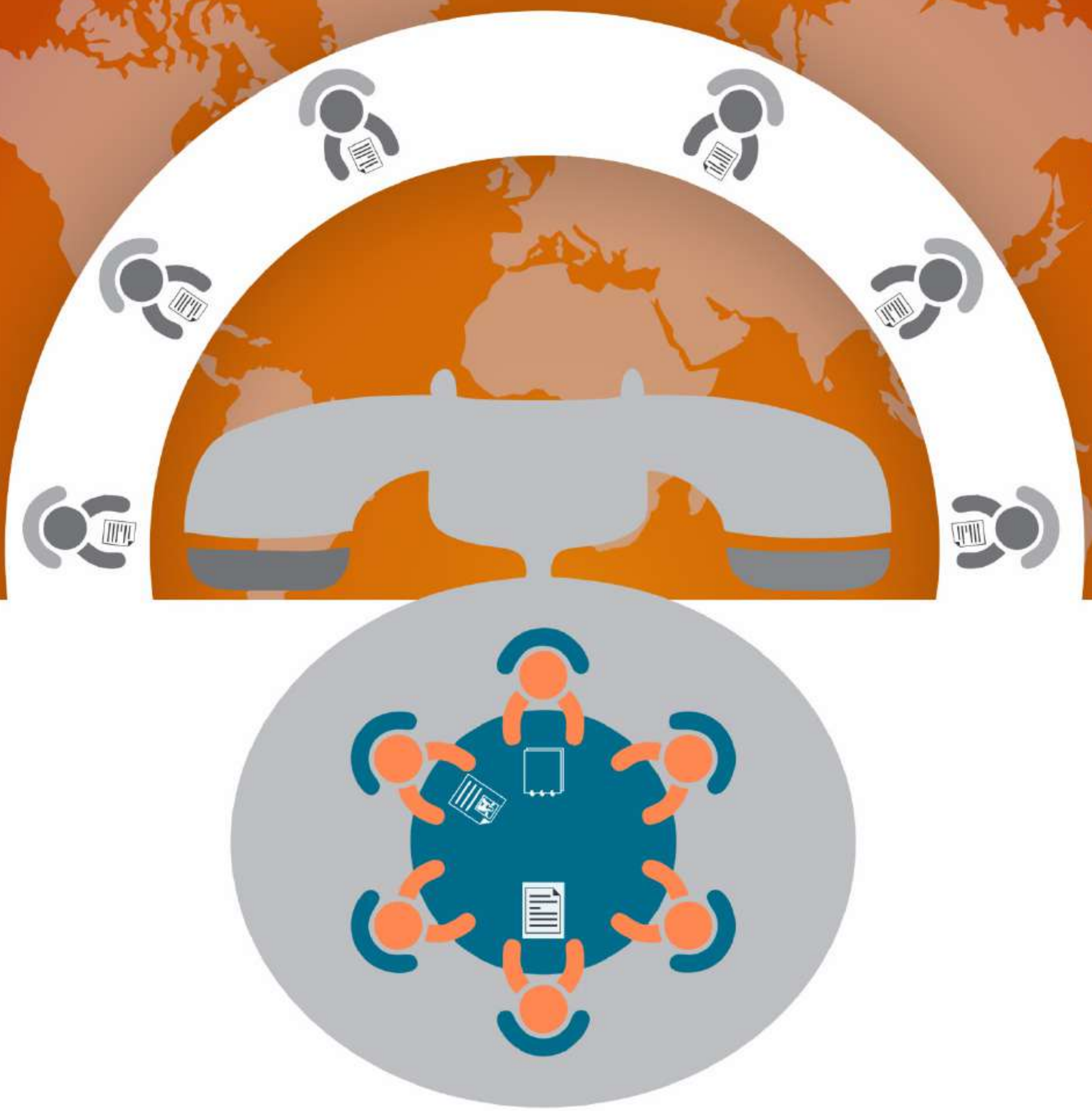
1QFY24 | August 2023

VOICES



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 195 companies, with links to the full earnings call transcripts
- Links to our Results Updates on each of the companies included

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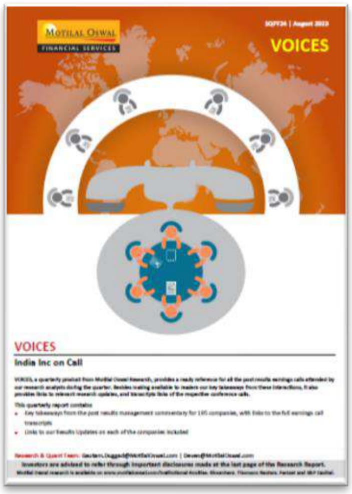
Note: All stock prices and indices are as on 24th August 2023, unless otherwise stated.

Voices

BSE Sensex: 64,887 **S&P CNX: 19,266**



Domestic cyclicals propel growth; heavyweights on the march

In this report, we present the detailed takeaways from our 1QFY24 conference calls with various company managements as we refine the essence of India Inc.'s 'VOICES'.

- **Corporate earnings – BFSI and Auto drive the quarter, as expected:** Corporate earnings for 1QFY24 came in strong and could underpin the underlying overall optimistic narrative of India. After a solid 23% earnings CAGR over FY20-23, the Nifty posted 32% earnings growth in 1QFY24, beating our estimate of 25% growth. MOFSL Coverage Universe in 1QFY24 recorded the highest earnings growth in the last eight quarters, fueled by domestic cyclicals, such as BFSI and Auto.
- **Banks** have guided for consistent growth momentum in loans, primarily driven by steady traction in the retail, business banking and SME segments. The Corporate segment is witnessing a gradual recovery, led by working capital loans and a robust sanction pipeline. While most banks have experienced NIM stagnation or decline, company managements expect the rising cost of funds to lead to further moderation in margins over the next few quarters.
- Within the **NBFC/HFC** sector, managements highlighted the following: 1) Early signs of higher delinquencies and/or stress in rural personal loans, 2) Relatively higher compression in Vehicle Finance NIM in 1QFY24 because of higher competitive intensity and higher proportion of new vehicles in the disbursement mix, 3) Strong demand momentum across product segments. For the upcoming quarters, the managements shared that a) there will be a minor increase in borrowings costs followed by bottoming out of the margins, b) there could be a minor impact on collections from flooding in the Northern India but no Early Warning signals as yet.
- **Automobiles** companies expect domestic demand to remain intact in the coming quarters across segments, while exports are expected to see a gradual recovery from 3Q onward, followed by some mixed trends within the segment. A stable macro outlook should drive low double-digit growth in MHCVs, while LCV growth should be flat or in low single digits YoY. In PVs, managements expect some signs of demand weakness for lower-end models; however, the execution of the healthy order book should drive 5-7% YoY growth in FY24 volumes.
- **IT** companies indicated that the unfavorable macro environment affected discretionary spending, which is leading them to reprioritize activities in enterprises' core operations. The managements believe that the weakness is expected to continue for a couple of quarters, although they have maintained margin guidance and see multiple levers that will optimize margins in FY24.
- **Consumer** companies have highlighted recovery in the performance of rural areas amid a softening in inflation, which drives volume growth. However, the managements indicated that they would watch out for the impact of El-Nino, erratic weather pattern and spatial distribution of rainfall. The managements highlighted that A&P spending returned to the normal level with the benefits of GP margin expansion.
- In **Healthcare**, companies focusing on US generics indicated a considerable reduction in the intensity of price erosion witnessed over the past couple of months. Managements highlighted that pricing pressure is reducing from double digits to mid-to-high single digits in 1QFY24.

- In the Ferrous **Metals** space, managements highlighted: 1) lower ASP for 2QFY24, 2) lower coking coal costs, 3) macroeconomic headwinds due to slowdown in China, and 4) development of captive raw material mines.
- For **Cement**, most companies remained positive about cement demand, led by sustained demand from the government's infrastructure projects, pick-up in real estate, private capex and housing demand from tier-II/III/IV cities.

Autos

- Most of the company managements expect domestic demand to remain intact in the coming quarters across segments, while exports are expected to see a gradual recovery from 3Q onward, followed by some mixed trends within the segment. A stable macro outlook will drive low double-digit growth in MHCVs, while LCV growth should be flat or in low single digits YoY. In PVs, managements expect some signs of demand weakness for lower-end models; however, the execution of the healthy order book should drive 5-7% YoY growth in FY24 volumes. The 2Ws segment is expected to see sustained recovery in domestic demand as rural demand is expected to come back and exports are likely to see a gradual pickup. Tractors are expected to grow by low single digits YoY due to a high base of last year. Major benefits of a softening in RM costs were factored in 1QFY24. For companies with global operations (especially in EU), inflationary pressure continues to moderate. However, a broad-based recovery is expected in 2HFY24 once demand stabilizes in key geographies.

Cement

- Most of the company managements remained positive about cement demand, led by sustained demand from the government's infrastructure projects, a pick-up in real estate, private capex and housing demand from tier-II/III/IV cities. Cement prices have largely been stable since Jun'23-exit across regions, except for north, where prices increased in Jul'23. In 1QFY24, fuel consumption costs for cement players declined by 1-15% QoQ to INR2.0-INR2.4/Kcal and will further decline in coming quarters given sharp correction in fuel prices.

Chemicals Specialty

- Input costs and freight charges eased for many companies, but realization was lower as the benefits of low RM costs were passed on to customers. Demand remains weak due to aggressive pricing by Chinese competitors, impacting domestic firms that are unable to compete. Near-term volumes are likely to stay low due to ongoing destocking, particularly in developed markets. The long-term outlook remains strong, though some firms postponed project commissioning from mid-FY24 to year-end due to these factors.

Consumer

- Consumer companies highlighted a recovery in rural areas amid a softening in inflation, which drives volume growth. However, managements will watch out for the impact of EI-Nino, erratic weather pattern and spatial distribution of rainfall. Managements highlighted that A&P spending returned to the normal level with the benefit of GP margin expansion. Companies have also passed on the benefits of raw material prices to consumers through price corrections. Small players have also returned and intensified the competition at local levels. Premiumization, easing Inflation and government spending would lead future growth.

Financials

Banks

- Most banks have guided for consistent growth momentum in loans, primarily driven by steady traction in the retail, business banking and SME segments. The corporate sector is witnessing a gradual recovery, led by working capital loans and a robust sanction pipeline. While most banks have experienced NIM stagnation or decline (except for UNBK), managements expect the rising cost of funds to lead to further moderation in margins over the next few quarters. Portfolio yields are likely to increase at a calibrated pace only as repo-linked loans have already been re-priced, while the re-pricing of MCLR-linked loans (a smaller proportion for private banks) will happen gradually. Banks, especially PSUs, reported better treasury performance with the softening in bond yields; however, opex ratios remain elevated on account of wage provisions for PSU banks and continued investments in branch expansion and technological advancements. SMA pool remains low, while slippages from the restructuring book have been controlled, which, coupled with healthy PCR and contingency buffers, will keep a check on credit costs, thus supporting earnings.

NBFC

- Within the **NBFC/HFC** sector, managements highlighted the following: 1) Early signs of higher delinquencies and/or stress in rural personal loans, 2) Relatively higher compression in Vehicle Finance NIM in 1QFY24 because of higher competitive intensity and higher proportion of new vehicles in the disbursement mix, 3) Strong demand momentum across product segments. For the upcoming quarters, the managements shared that a) there will be a minor increase in borrowings costs followed by bottoming out of the margins, b) there could be a minor impact on collections from flooding in the Northern India but no Early Warning signals as yet.

Insurance

- Private life insurers witnessed a muted quarter as growth in premiums was affected by new taxation rules for INR0.5m+ ticket size policies. This led to a drop in the share of the non-par segment sequentially for the listed private life insurers. However, management commentary indicated that the magnitude of impact has been much lower than perceived initially. As reinsurers are now comfortable with the underwriting practices (post COVID) and the impact of price hikes is in the base, the momentum is expected to sustain. Demand for ULIPs has started gaining traction with equity markets doing well.

Healthcare

- In Healthcare, companies focusing on US generics indicated a considerable reduction in the intensity of price erosion witnessed over the past couple of months. Managements highlighted that pricing pressure declined from double digits to mid-to-high single digits in 1QFY24. Interestingly, companies have new business opportunities as well due to regulatory/financial issues at peers. Companies with focus on the domestic formulation segment indicated mixed bag in terms of growth prospects. The anti-infective therapy has seen some moderation in growth due to adverse seasonality. Further, the downward revision in prices due to the expansion in the national list of essential medicines (NLEM) further affected the performance of companies for the quarter. Companies indicated some benefits of a reduction in raw material costs as well as logistics costs. Companies in the API segment indicated a reduction in API prices to pass on the fall in key starting material prices to some extent. Hospital companies indicated that the structural drivers like increased healthcare awareness, enhanced insurance penetration and companies' effort toward cost management would help to sustain improvement in profitability over the next 2-3 years.

Logistics

- In the Logistics space, managements highlighted demand moderation in the e-commerce segment and subdued capacity utilization in 1QFY24. They cited high inflation and low discretionary spending as key reasons. In the near term, managements expect a demand pickup in 2QFY24 (as the festive season kicks in), stable operating costs ahead, and continued focus on capacity enhancement. Over the long term, companies remain optimistic about sector growth, driven by the advantages of e-way bills, GST implementation, expanded routes on Dedicated Freight Corridor (DFC), and enhanced connectivity of major ports, which would drive businesses toward the organized sector.

Metals

- In the ferrous metals space, managements across companies highlighted: 1) lower ASP for 2QFY24, 2) lower coking coal cost, 3) macroeconomic headwinds due to slowdown in China, and 4) development of captive raw material mines. Though a better performance from Indian operations on the back of strong domestic demand should aid volumes and margins in the near term, managements believe the global headwinds due to a slowdown in China will pose challenges to international steel and base metal prices in the short term. In the non-ferrous space, managements expect CoP reduction and the volume momentum to continue in FY24, driven by strong demand from domestic markets.

Oil & Gas

- Reliance believes demand for domestic polymer and polyester is rising with economic growth, but margins could be limited by higher Chinese supply. Lower spot LNG prices in 2QFY24 TD may boost CGD margins. BPCL's management highlighted that GRM of the Mumbai refinery is relatively lower since it cannot process more than 20% of Russian crude in its crude basket.

Real Estate

- After delivering strong growth of 43% YoY (32% ex-DLF) in pre-sales in FY23, companies remain optimistic about the demand scenario and aim for 15-20% growth in the medium term. At the start of FY24, most of the players already had inventory of less than 12 months and with 1Q performance being largely driven by robust sales, inventory has further declined, which can potentially trigger acceleration in new launches. Management commentaries indicate that key big ticket launches for all companies would materialize in 2HFY24. There is consensus among companies to maintain steady price growth and affordability at the same time.

Retail

- **Retail:** Sector-wide management commentary indicated that the demand slowdown continued in 1QFY24 on the back of a higher base of 1QFY23, persistent inflationary pressure and the absence of wedding dates. The demand recovery is, however, expected in 2HFY24 with the onset of the festive period. Apparel players like Shoppers Stop, V-Mart and ABFRL have indicated an increase in debt in 2QFY24, which would come down thereafter.

- **QSR:** Management commentaries in the QSR segment indicated that the slowdown is expected to continue in 2QFY24E owing to Hindu festivals. BBQ guides for a slowdown in store additions. PH players (Sapphire/Devyani) expect lower store adds vs. FY23. The silver lining is that RM inflation is moderating.

Technology

- Managements across the IT pack indicated that the unfavorable macro environment affected discretionary spending, which is leading them to reprioritize activities on enterprises' core operations. Weak growth in Q1 was due to a softness in key verticals, with BFS, Retail, Communication and Hi-Tech seeing major declines. Managements have alluded that project deferrals, delayed approvals and deal scrutiny have become more prominent, while deal TCV remains steady. Managements believe that the weakness is expected to continue for a couple of quarters, although they have maintained margin guidance and see multiple levers that could optimize margins in FY24.

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

- **Most of the company managements expect domestic demand to remain intact in the coming quarters across segments, while exports are expected to see a gradual recovery from 3Q onward, followed by some mixed trends within the segment. A stable macro outlook will drive low double-digit growth in MHCVs, while LCV growth should be flat or in low single digits YoY. In PVs, managements expect some signs of demand weakness for lower-end models; however, the execution of the healthy order book should drive 5-7% YoY growth in FY24 volumes. The 2Ws segment is expected to see sustained recovery in domestic demand as rural demand is expected to come back and exports are likely to see a gradual pickup. Tractors are expected to grow by low single digits YoY due to a high base of last year. Major benefits of a softening in RM costs were factored in 1QFY24. For companies with global operations (especially in EU), inflationary pressure continues to moderate. However, a broad-based recovery is expected in 2HFY24 once demand stabilizes in key geographies.**

KEY HIGHLIGHTS FROM CONFERENCE CALL

	FY24 Outlook	EVs
Ashok Leyland	■ **FY24 demand outlook:** M&HCV industry is likely to grow 8-10% YoY and LCV industry is projected to grow 5-6% YoY. Management sees a scope to increase market share in: a) North and East India to 30% from 25%, and b) product-specific areas like in ICV buses (66% of the bus industry) where it has just 15% market share. This can help in increasing the overall market share to 35% (from 32% in FY23).	■ **Switch Mobility:** In 1QFY24, AL provided loans of ~INR2.15b to Switch Mobility (its EV sub). For FY24, it plans to provide financial support of up to ~INR12b (incl. debt and equity) as FY24 will have several EV launches.
Bajaj Auto	■ **India 2W outlook: Downward volume trend has arrested –** Stability in domestic market was fueled by improvement during the marriage season and continued momentum in the 125CC segment. **3Ws** – Monthly sales run rate stood at ~32k per month in 1QFY24 (vs. ~30k units pre-Covid). This resulted in 1QFY24 market share of 80%. ■ **Exports: Cautiously optimistic outlook for 2QFY24 –** Industry retails for BJAUT's foothold motorcycle market grew ~2% QoQ vs. the company's growth of ~5% QoQ.	■ **EVs: Cautiously optimistic outlook for 2QFY24** – We believe the industry should continue to grow but at low double-digit rate. Further, consolidation is expected with the share of top 5- 6 players in the market rising to 80% from 50% in FY23.
Eicher Motors	■ **2Ws: Domestic retail demand** is improving gradually. Festive demand is expected to be positive and now discretionary spending is expected to improve. **Exports:** EU continues to face headwinds. While APAC is not growing, RE has managed to gain market share. ■ **CVs:** Expect industry to grow led by healthy infra demand and good monsoon. Demand for buses is strong and higher demand is coming from STUs and schools.	■ The company has grown its engineering team over the last few years. Moreover, the company is growing the commercial side of the EV team including distribution.
Hero MotoCorp	■ **Domestic 2W industry:** Maintained its earlier guidance of double-digit revenue growth for FY24. Several favorable factors contribute to the demand outlook: a) significantly elevated government spending over the past two years, with the associated benefits typically manifesting with a time lag; b) inflation and interest rates have peaked, and c) favorable monsoon conditions have prevailed.	■ It is also working on interoperable charging network with Ather electric thus widening the charging network. It is working on launching EVs in the mid- and entry-level segments and would be using EVs as a launch pad for some of the export markets.
M&M	■ **FES:** FY24 outlook for the industry is too early to predict, though there are positives in the form of: a) good rains until Jul'23, b) good Kharif sowing, and c) improving terms of trade for farmers. However, high base and one less Navratri in FY24 are the negatives. ■ **SUV:** MM is witnessing a moderation in demand in its portfolio of products priced <INR1m (Bolero and XUV300).	
Maruti	■ **Demand outlook-** At present, demand is normal and the momentum should continue, driven by new product launches. The order book at the end of the quarter stood at 355k units (vs. 412k in 4QFY23). Visibility about the supply situation is still not clear, but it seems to be improving.	

Tata Motors	▪ **JLR:** 2Q production and cashflow are expected to be lower than 1Q due to the annual summer plant shutdown. However, wholesales and profitability (EBIT margin of 6.5%-7.5%) are expected to be more in line with recent quarters. ▪ **CV**: It expects demand to improve sequentially for the rest of FY24, with focus on gaining retail market share and delivering double-digit EBITDA in FY24 by improving realization and cost savings. For 2Q, it expects 5-10% YoY growth, driven by strong growth in buses, double-digit growth for HCVs and muted growth in ILCVs. ▪ **PV outlook**: It expects demand for the PV industry to remain steady with the onset of the festive season, with TTMT expected to grow ahead of the market.	▪ The EV business profitability is likely to improve in 2HFY24, driven by cell price correction to start reflecting from 2QFY24, PLI incentives in 2HFY24, localization initiatives taken in the last two years to drive cost reduction, and gen 2 of aggregates/ components to be at significantly lower costs.
TVS Motor Co.	▪ **Domestic demand outlook**: TVSL expects moderate growth in rural areas but healthy growth in urban markets. Delayed monsoon was a concern initially but it seems normal now. An even distribution of rainfall would be important, and the government's support on high MSP will aid buying sentiment in rural areas. ▪ **Exports**: Retails were higher sequentially. It expects export market to recover in 2QFY24 and many markets should return to normalcy in 2HFY24.	▪ **EVs:** FAME subsidy reduction hurt industry demand in Jun'23; however, there has been some demand improvement in Jul'23. By 2HFY24, demand is likely to become normal. It is ramping up iQube production and is confident of reaching ~25k units per month.
Tube Investments	▪ **Domestic:** TI-1 is expected to register a CAGR of 15% over the next few years. This will largely be driven by engineering and metal formed division. It is adding new capacities in West, as logistics cost is higher; hence, local penetration is important. ▪ **Exports:** It has improved QoQ, as the export share now stands at 15% vs. 13% in 4QFY23. In the EU, there are some weaknesses, but overall, there is a belief that growth should be sustained. It is expected that exports will grow in FY24.	▪ The company has recently begun accepting orders for e-3Ws, and it already has an order book of over 1,000 units. Additionally, it has provided heavy trucks to customers for trial purposes. The annual production capacity for the trucks is 3-3.6k units/annum, while for e-3W/e-tractor, it stands at 70k/25k.
BHFC	▪ **Global Autos:** The management possesses clear demand visibility for US/EU CVs over the next 12 months. This visibility reveals strong demand, primarily driven by healthy build rates and inventory levels. PVs are also maintaining a solid position, bolstered by the addition of new customers. ▪ **Domestic Auto demand is stable:** PV revenue during the quarter declined 19% YoY to INR620m, due to discontinuation of one of the models by its customer. BHFC believes that the revenue should get back to the earlier range of INR800m in the coming quarters.	
BIL	▪ **Demand challenges to continue in 2Q:** Recessionary pressure and heatwaves would negatively impact the overall volumes in both the US and EU. The company has indicated softening of demand in both- Agri and OTR. Channel inventory is now close to the normal level. Demand in the Indian market is better off.	
APTY	▪ **India demand outlook**: A recovery is visible in the replacement segment for the TBR/PCR category. The company expects domestic demand growth to remain stable. Export volumes declined 30% YoY. Improvements were slow in the ME, SEA, EU and US markets. However, the company expects 2HFY24 to be much better. ▪ **Europe demand outlook**: APTY expects demand to remain weak in the coming quarter and projects some recovery from 3Q onward. As inventory is higher than normal, the company will focus on de-stocking.	

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Amara Raja Batteries — Neutral

Current Price INR 625

- **Revenue from LAB grew 4% YoY,** wherein 4W/2W rose ~5%/9% YoY while revenue from inverters and other applications declined ~20% YoY due to weak season and fire impact in Jan'23.
- **Aftermarket division grew 7-8%** while OEM was stagnant. Exports were muted due to weakness in some of the regions and anti-dumping in the ME. Exports are expected to recover in the coming quarters.
- **2W aftermarket grew 12-13% YoY** (AMRJ grew 1.5-2% higher). 4W aftermarket grew 6-7% YoY (AMRJ grew 0.5-1% higher) due to slowdown in PV demand over the last 3-4 quarters.
- **Revenue mix stood at 70%** from automotive and 30% from industrials.
- **New energy business contributed ~4%** to revenue in 1QFY24 (~1% in 1QFY23). The new energy business has been transferred to Amara Raja Advanced Cell Technology (fully-owned subsidiary of ARBL) w.e.f. 1st Jun'23.
- The business includes battery pack for e3Ws (Piaggio), battery chargers for e3Ws (M&M and Piaggio) and stationary application.
- It is currently preparing packs for e2Ws and high voltage segments.
- **Margin contracted ~110bp QoQ due to:** i) high trading mix (15-16%), ii) increased insurance cost (~INR60-70m impact) and iii) contributions from new energy business.
- It was partially offset by reduction in power cost by INR100-150m due to high use of renewable power (~20% of the power requirement).
- Lead prices stood at an average of INR194 per kg. The company has not taken any price correction in the aftermarket.
- It has received INR1b from the insurance company (against the recognized loss of INR4.39b in 4QFY23) and management is confident of realizing the balance amount. Inventory-related claim is expected to be realized in next 2-3 months.
- Capex guidance of INR4b for LAB in FY24 is attributable to lead recycling and ongoing capacity expansion.
- Operating utilization stood at 75% for Auto and 95-97% for industrials.
- Plastic component merger is under progress. It is expected to occur by 1st half of next quarter. The business is likely to be EPS and margin accretive.
- Tubular plant is expected to start in next 18-20 months. It hopes to have its own factory ready for FY25 season.
- **Li-ion cell:** It has acquired land, ~70km away from Hyderabad. It has developed its own NMC cell and tied up with other agencies for different cell chemistries.
- **Capex for FY24/25:** Phase 1 includes customer qualification plant, which will start from end of FY25, and R&D lab, all put together will cost INR15b. The company expects to incur INR2.5-3.0b for initial construction in FY24 followed by a major capex (~50% of the total) in FY25.
- Asset turns can go up to 1.3-1.5x (v/s earlier expectations of just 1-1.2x).
- Expect cell realization of USD100-110/KWh in the initial phase and then it should decline to USD70-80/KWh.
- It will have a peak capacity of 500MWh, which can be increased to 1GWh and further to 2GWh with peak annual revenue of INR20b.
- Management believes 10-12% is the achievable EBITDA margin based on sourcing, technology and mix.

Apollo Tyres — Buy

Current Price INR 395

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Detailed Concall Transcript &
Results Update

- **Domestic-** A recovery is visible in the replacement segment for the TBR/PCR category. The company expects domestic demand growth to remain stable. Replacement volumes grew ~3% YoY and the recovery should sustain. OE volumes also grew YoY in 1QFY24. Inventory remains at a comfortable level.
- **Exports:** Volumes declined 30% YoY. Improvement was slow in ME, SEA, EU and US. However, APTY expects 2HFY24 to be much better. The share of exports in 1QFY24 stood at ~11% vs. 17% in 1QFY23.
- **EU business outlook:** Revenue declined ~5% YoY to EUR144m with EBITDA of EUR19m. The company reported EBITDA margin of 13.4% in 1QFY24 vs. 18.1% in 4QFY24.
- Believe demand to remain weak in the coming quarter and some recovery from 3Q onwards. As the inventory is higher than the normal, the company will focus on de-stocking.
- Despite a sluggish demand environment, the company's market share is up 15bp YoY in the PCLT segment and up 20bp in the OHT segment.
- **1Q EBITDA margin reflects benefits of a softening in RM costs** (down ~2% QoQ). RM prices should remain stable in the next 2-3 quarters.
- Current prices of key commodities- Natural Rubber INR157/kg, Synthetic Rubber- INR167/kg, Carbon black- INR106/kg and nylon tire steel- INR180/kg.
- Expects margins to sustain at the healthy level, led by stable RM prices and cost control. EU, on the other hand, has a high proportion of fixed costs and there is a lag in RM costs.
- **Capacity utilization for India/EU stood at 75%/80%. TBR utilization was 77-78%.**
- **Capex guidance of INR10b at consol level**, including INR7b for India. The company is focusing on improving return ratios by enhancing capacity utilization and debottlenecking.
- **Net debt declined to INR38b in 1QFY24** (vs. INR43b in 4QFY23). Net Debt to EBITDA stood at 1.1x. Expects deleveraging to continue.
- **Rifen- 1QFY24 revenue stood at EUR55m** (vs. EUR35m in 4QFY23), with EBITDA margin of 4.5%.
- **EVs-** The company added 9 SKUs and also introduced new generation polymers and low rolling components for EV customers in Europe.

Ashok Leyland — Buy

Current Price INR 186

Ashok Leyland

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Results Update

- **Outlook:** M&HCV industry is likely to grow 8-10% and LCV industry is projected to grow 5-6%.
- **Net price hike in 1QFY24** was ~2%, as price retention has been improving. Net price realization reported an average rise of 1.5-2.0% per quarter for the last four quarters, with reduction in gross discounts at 10-12%.
- Management sees a scope to increase market share in: a) North and East India from 25% to 30%, and b) product-specific areas like in ICV buses (66% of the bus industry) where it has just 15% market share. This can help in increasing the overall market share to 35% (from 32% in FY23).
- **Defence:** There is a healthy build-up in pipeline for defence business and it just got order of INR8b. AL expects healthy growth in FY24/25, after a weak FY23.

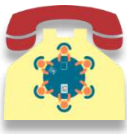

Ashok Leyland

- EBITDA margin: AL aims near-term EBITDA margin to be in double digits. Margin in 1QFY24 was driven by price increases, mix and cost-cutting initiatives.
- **RM cost inflation** had some impact in 1Q but was offset by efficient inventory management. It expects benefits of lower steel prices to reflect in 2HFY24 margin.
- Tax rate in 1QFY24 was lower due to deferred tax credit of INR1.72b for transition to the new tax regime. Tax rate for remaining 9M would be ~35% and it will migrate to the new regime from FY25.
- Capex for 1QFY24 was ~INR950m, with FY24 capex guidance being maintained at INR6.0-7.5b.
- In 1QFY24, it provided loans of ~INR2.15b to Switch Mobility (its EV sub). For FY24, it plans to provide financial support of upto ~INR12b (incl. debt and equity) as FY24 will have several EV launches.
- **Net debt jumped to INR14.7b** (vs. net cash of INR2.4b as of Mar'23), due to seasonal increase in working capital (from two days in Mar'23 to nine days in Jun'23).

Bajaj Auto — Neutral

Current Price INR 4,624

Click below for
Detailed Concall Transcript & Results Update




Bajaj Auto

- **Exports – Cautiously optimistic outlook for 2Q:** Industry retails for BJAUT's foothold motorcycle market grew ~2% QoQ vs. the company's growth of ~5% QoQ. Geography wise – Recovery over 4QFY23 was driven by 14% growth in Africa on a low base; LatAm has remained steady; South Asia and ME are improving except Bangladesh, which was down sequentially; ASEAN volumes were significantly lower due to temporary dislocation in the market. Brazil – Dominar 400 has been accepted well, as its market share is now at ~15% in its segment and currently has an order backlog of two months.
- **Domestic – Downward volume trend has arrested:** Stability in domestic market was fuelled by improvement during the marriage season and continued momentum in the 125CC segment. BJAUT has surpassed industry growth in both marriage and non-marriage markets. Mix of 125CC is expected to improve further for the company which is currently at 70% (vs. 60% last year).
- **3Ws – Surpassed pre-Covid level volumes in domestic market:** Monthly sales run rate stood at ~32k per month in 1QFY24 (vs. ~30k units pre-Covid). This led to 1QFY24 market share of 80%; it was largely driven by growth in CNG segment.
- **EVs – 2W industry volumes in Jun'23 dropped due to FAME subsidy reduction**. Average monthly sales stood at ~72k units in 1QFY24, which was similar to 4QFY23. We believe industry should continue to grow but at low double-digit rate (vs. triple digit rate earlier). Further, consolidation is expected with the share of top 5-6 players in the market rising to 80% from 50% in FY23.
  - BJAUT's focus is on expanding channels from 100 cities to 120 cities with 140 stores, covering 75% of the industry by 2QFY24.
  - 3Ws - Launched passenger/cargo version in Agra/Pune. There has been a positive response for the models. Range has exceeded expectations. The company will scale up in a phased manner from Sep'23. Focus will be on regions which have restrictions on ICE models. Out of 1,000 RTOs, 300 have full or partial restrictions on ICE.

- **Triumph – garnered over 17k bookings from 15 centers**. By 2QFY24, the plan is to expand it to 44 towns with 50 stores (vs. 17 towns now). The company aims to hit the run rate of ~5k units/month by 2QFY24-end (likely by Sep'23).
  - Looking forward to export it from Oct'23. Accessibility of the global markets will be done by Triumph. Total production capacity is 25k units per month in Chakan plan, which will be fungible between Triumph and KTM. Launched two models in Triumph and the company will continue to launch one model/annum from hereon.
  - The company aims to cover 60% of the addressable market through at least one store in the location by the end of this year.
- **Core metal basket** is stable now. There was a slight uptick in core metal prices initially in 1Q, but later it slowed down. Now the commodities are turning back to 4QFY23 levels. The company took price hike of 1% in 1QFY24 and marginal price increase in 2QFY24E. Going forward, there can be a negative impact of the product mix, which can partially be offset by operating leverage benefits.
- **Other financials:** The company reported exports revenue of USD400m and spares revenue of INR12b in 1QFY24. USD-INR rate for 1QFY24 stood at INR82.1 vs. INR81.5 in 4QFY23 and INR77.4 in 1QFY23.

Balkrishna Inds — Neutral

Current Price INR 2,383

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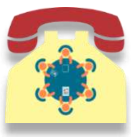

- Volumes in 1QFY24 were negatively impacted by 4-5k MT due to two main factors: i) a suspension of operations at the Bhuj plant for ~5 days, and ii) disruptions at the Mudra port, which affected dispatches for all the plants until the end of June. Looking ahead, the company anticipates a relatively weak 2Q as it is a seasonally slow quarter with tepid demand. However, the management does not expect any major impact of spill-off from these disruptions.
- Aims to increase market share to ~10% (vs. 5-6% now), in 3-4 years post commercialization of the next round of capex, which is yet to be announced.
- Outlook: Challenges to continue in 2Q- Recessionary pressure and heatwaves would negatively impact the overall volumes in both the US and EUR. The company has indicated softening of demand in both the segments- Agri and OTR. Demand in Indian market is better off and the company has won new orders in the Indian market.
- Channel inventory has come off and it is now close to the normal level.
- Maintain EBITDA margin guidance of 26-28% (vs. ~23% in 1QFY24) Major driver of the margin expansion would be growth in volumes and product mix.
- RM cost should remain stable with no significant benefits expected in the near term. The company has already exhausted its high cost inventory from the previous quarter.
- The company has a higher share of contractual labor. Hence, employee cost was low due to lower volumes.
- ASPs are expected to drop down to INR300k-305k/MT by the end of this year assuming the lowest case, largely led by pass-through of material prices. Realizations were down in 1QFY24 as the company had to pass-through the benefits of softening RM costs and also due to the increasing competition across geographies.

- Capex guidance of INR5.5-6b for FY24. Out of this, routine maintenance capex will be INR2.5-3b.
- The balance will be spent toward new product development such as rubber tracks, giant solid tires to widen product basket in end markets along with higher investments in brand building and marketing efforts.
- Capitalized portion of interest cost, which is related to capex, and is to the tune of 8-10%. Last year it stood at 30%.
- Gross debt stands at INR28.50b. The long-term debt will be repaid as per the current schedules.
- EUR-INR hedge rate for FY24 is 87-88.
- Utilization level is 85-90% of the current carbon black.

Bharat Forge — Buy

Current Price INR 1,042

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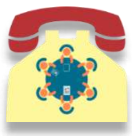

- Global Auto- Have demand visibility in US/EU CVs for next 12 months - The management possesses clear demand visibility for US/EU CVs over the next 12 months. This visibility reveals strong demand, primarily driven by healthy build rates and inventory levels. The order books of OEMs have not been initiated for CY24. PVs are also maintaining a solid position, bolstered by the addition of new customers. The introduction of new emission norms and the renewal of new fleets will further generate additional prospects for growth.
- Domestic Auto demand is stable- PV revenue during the quarter declined 19% YoY to INR620m, due to discontinuation of one of the models by its customer. The company believes that the revenue should get back to the earlier range of INR800m in the coming quarters.
- Defence- The company achieved a reported revenue of INR 2.5b in 1QFY24. The company has initiated exports of systems and components in this quarter, encompassing both capital and revenue elements. Furthermore, the company has secured new orders worth INR 2.8b during the same quarter.
- Total order pipeline currently stands at INR22-23b, largely for exports. It is to be executed over the next 18 months.
- This year, it should contribute ~10% of our overall revenue and will keep increasing going forward. From the profitability aspect, it is accretive to overall business. Asset turns would also be significantly higher.
- KSSL would source 30-40% of the components from BHFC.
- Expect positive PBT for overseas subs in FY24-
- There was a turnaround in the EU business, and the facility is currently operating at 50% of overall capacity. The US was similar to the previous year as the facility was set up two years after EU. It is still under the ramp up phase and should see a turnaround from 4QFY24 onwards.
- Expect profitability at PBT level for full-year basis in FY24 with high single-digit margin by the exit quarter for EU.
- Aerospace- Expect revenue growth of 30% YoY in FY24. Margin profile is good. The company is using existing forging capacity to make parts and has dedicated facility for machining.
- Oil and gas- There was a one-time de-stocking impact of INR800m in 1Q, due to some product changes. Revenue growth for FY24 is anticipated to remain stagnant YoY due to robust demand, although there is a noticeable trend of increased prudence in investment decisions.

- JS Auto has successfully acquired Indo shell for a cash consideration ofINR550m. This strategic move is projected to yield a peak annual revenue ofINR2b, while also expanding the capacity by 2.5x. This acquisition significantly bolsters the company's position in the casting sector, further solidifying its presence in this industry.
- Capex- Guidance of INR10b over FY24-1HFY26 for India business, which will be incurred toward core business, EV components & systems and defence. A significant portion of demand is originating from EU. The company is actively catering to a diverse array of industrial segments and continuously expanding product offerings while also acquiring new customers.
- Kalyani powertrain (KPTL)- The company is investing INR1.5b for setting up capacity in the new entity, which is expected happen over a two year period. Presently, the company is engaged in the development of numerous prototypes, a process akin to its endeavors in the defenses sector. It is estimated that it will take approximately 2-3 years to achieve a high level of proficiency in execution.

Others

- The company has won new orders worth INR2b in 1FY24 for core business (ex – defence), driven by new orders in PVs and the industrial division.
- Net cash as of 1QFY24 stands at INR7b. The company also plans to repay overINR10b debt in the next two years through internal accrual.
- Aims to take consolidated EBITDA margin to high teens vs. ~16% now.

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BOSCH — Neutral

Current Price INR 18,323

- **Spark plugs export opportunity** is emerging as the parent company shifts sourcing from Russia to India. While there may be potential for similar opportunities in other products, it is still early to discuss this at this point.
- **E-Axle:** Globally, it has a very wide portfolio for e-axle, especially in China. It is in the process of aligning specification of its global products with the Indian requirement. It is yet to decide on whether this product would be sold through the listed entity or not.
- **EBITDA margins:** The content in EGT and CRDI has been increasing; however, the level of localization is not yet in line with mechanical pumps, resulting in impacted margins. Localization levels are expected to improve as production of child parts in India is ramped up. The company expects a change in the product mix towards more own-manufactured goods starting from 1QFY24, which should aid margin expansion.
- It is scheduled to showcase the BS6 stage 2 hydrogen engine truck by early CY24.
- **Capex** for FY24 would be INR4.5b-5b, mainly for plant and equipment.

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CEAT Buy

Current Price INR 2,378

- **1QFY24 performance: OEMs contributed 27% of volumes, while the remaining was shared by replacement and exports, which improved 2-3pp.**
  - Overall volumes grew 1.5% YoY and 3% QoQ (Replacement/exports grew 4%/11% QoQ).
  - TBR grew 5% YoY, led by 35% YoY growth in OEMs. Exports saw a single-digit decline in TBR. LCV/SCV also declined YoY.
  - OHT grew in double digits in both OEMs and exports.
  - 2Ws saw low single-digit growth, replacement was flat, and OEM/Exports saw high single-digit growth.
  - PCR: Low single-digit growth for the overall PCR segment, as OEM volumes declined due to the planned transition from small rim to large rim tyres. Replacement demand grew in high single digits.
- **A moderate decline in blended realizations**, led by OEM price adjustments and a ~2% QoQ decline in export realizations. Prices in the replacement market were stable.
- **Exiting low-margin small rim PCR in OEM segment:** It has decided to exit smaller rim size Tyres (12-14" Tyres; 50-60% volume contribution) and focus only on higher rim sizes (better margin profile), which is expected to ramp up by 3QFY24.
- **Domestic demand outlook positive;** monsoons to play a key role: 2W demand is picking up to high single digits or low double digits. PCR is in high single digits, driven by higher rim size Tyres. CVs remain uncertain in replacement and OEMs.
- **RM cost basket declined 1.5% QoQ, leading to 97bp gross margin expansion.** Despite crude oil moving from USD75/barrel to USD83/barrel in 2Q, CEAT expects the RM basket to remain stable in 2QFY24.
- **Capex-** It incurred a capex of INR2.2b in 1QFY24 while maintaining full-year capex guidance of INR7.5b. Further it plans to resume a capex of INR7b over the next few years (INR1.5b already incurred in 1QFY24) for Chennai TBR capacity of 90k tyres/annum as Halol capacity has reached 90% utilization.
- **Export demand steady, likely to improve in 2HFY24:** It expects a recovery in the Middle East and SAARC markets, whereas EU markets remain weak and US/LATAM are doing good. PCR is 2m p.a largely from EU. TBR range is launched in EU and is doing well in LatAm. It will be launched in the US in 4QFY24. CEAT targets to improve the export mix to 25% (from 18% in FY23) by FY26, driven by OTR, PCR and US markets.
- **Debt reduction continues:** Healthy cash generation led to a debt reduction of ~INR970m sequentially to INR19.9b. Interest rates are expected to rise by 20-30bp. Working capital remained at negative INR1.42b during the quarter.
- **New strategies yielding results:** The revenue contribution of the PV D2C segment now stands at 6%. The revenue share of four premium tyre platforms is now 28% and would continue to inch up going forward.
- **OTR strategy:** Presently, its SKUs cover 80% of global Agri market demand. The current capacity of 81tpd would increase to 105tpd in 2QFY24. Further, it would expand to 160tpd by investing INR3.85b (for 55tpd).
- **Capacity utilization at 75% for PCR and 2Ws.**

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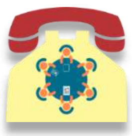

CIE Automotive — Buy

Current Price INR 517

India business:

- Revenue was muted, in line with the underlying market segments, growing at just 0.4% YoY (-1.2% QoQ). On QoQ basis, it underperformed due to product mix (M&M's newer products doing well vs. older products) and customer mix (Bajaj's performance hit by weakness in 2W exports). However, management expects growth across segments in 2HCY23.
- CIE Hosur has already incurred a capex of INR1.7b. Its present turnover stands at ~INR1b/year and management aims to double the same in a short span of time.
- Exports remained in the 13-15% range. Exports have grown faster than the domestic market in 1HCY23. Exports contribution is likely to improve from these levels.
- One of the targets for the India business is to match the global margin of CIEINDIA's parent (at 18-19%).

Europe business:

- Revenue in EUR terms was flat owing to the weakness in Metalcastello business as well as a levy of EUR100/ton surcharge on scrap. Metal Castello's revenue declined 15% QoQ, hit by slowdown in the US. Management expects the weakness to continue in 2HCY23. European PV volumes are likely to be flattish over the next 12-18 months.
- EV order book for the EU: Metalcastello has two EV orders with an annual revenue potential of EUR25-30m and the supplies are expected to commence from 4QCY23. In forging business, it has won orders for battery plates of e-CVs and aluminum forging components for chassis.
- The German CV forging business (held for sale) had INR1.1b insurance claim, which boosted PAT to INR846m in 2QCY23. Operating performance of this business has been improving with EBITDA margin of 8-10% in 2QCY23. The process to sell this business is progressing well and management expects a deal to happen sooner rather than later. The business transferred an excess cash of INR2.6b, as the deal is expected to be on debt and cash-free basis.

Other highlights

- For sunroof business, the parent's strategy in India is yet to be finalized (currently housed in the parent-owned subsidiary).
- At consol. level, CIEINDIA turned net cash at INR1.6b in 2QCY23 (vs. net financial debt of INR1.45b as of Dec'22).
- Capex in 1HCY23 was at 5.4% of sales and full year is expected to be in the 5-6% range. A large part of this capex is towards growth capex in India and Mexico.
- The EU business has provided excess cash of ~INR4.4b in its books as a loan to the parent, under cash pooling mechanism, at 4% interest rate.

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Craftsman Automation — Buy

Current Price INR 4,949

- **Powertrain business:** While the CV segment remained weak in 1QFY24, the Tractors and construction equipment (CE) segments showed muted performance. However, the CV and CE segments are expected to pick up in 3QFY24, with tractors already showing signs of recovery in 2Q. The operating deleverage significantly impacted the PBIT margins of these segments, as utilization rates declined to 60% (vs. 70% in 4QFY23).

- **Aluminum die-casting:** In the standalone business, both 2Ws and the PV segment performed well; industrial aluminum was adversely impacted by export weakness. It operated at a 70% utilization in 1Q and expects further ramp-up in the coming quarters.
- **Industrial & Engineering business:** Storage solutions (47% of segment revenues) declined 10% YoY, whereas engineering business grew 28% YoY. It is confident of achieving 15-20% YoY growth in this segment, despite a weak 1Q, as orders have started to come in 2QFY24.
- **DR Axion** witnessed strong traction and successfully realized synergies with CRAFTSMA, resulting in impressive 18% EBITDA margins in 1QFY24. The management expects EBITDA margins to sustain at 16-17% range.
- **Foundries:** With limited capacity expansion taking place in the ferrous casting foundries in India and strong traction visible in export opportunities, CRAFTSMA may look to invest in a foundry to support export opportunities. For export orders, one needs to showcase adequate spare capacity and willingness to invest.
- **Capex:** Capex for 1QFY24 stood at INR810m and FY24 guidance remains unchanged at INR3.2b-INR3.3b. Out of this, INR1.5b is allocated for maintenance capex and the remaining amount will be dedicated to automation and growth capex.
- Net debt was ~INR10.5b (which includes INR3.75b for DR Axion acquisition).

Eicher Motors — Neutral

Current Price INR 3,335

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- **Domestic-** Retail demand is improving gradually. Festive demand is expected to be positive and now discretionary spending is expected to increase. The company has a market share of 32.9% in the 125CC+ segment. The company foresees additional opportunities for growth in the volumes for Hunter.
- **Exports-** Despite challenging macros, the company gained market share across most of the regions. EU continues to face headwinds. RE's market share in America/APAC/EMEA stands at ~8%/9%/9%. The company has inaugurated a new CKD facility in Nepal, which is the 5th CKD unit. It has already sold 1300 units through the facility. In most of the CKDs, the company has started operating with single shifts and has scope to ramp up in the future. It is also evaluating opportunities to set up CKD facilities in priority markets in APAC and LATAM regions.
- **The company took a price hike of 1.5% in May and another 1.5% in July** for selected models. Of the total EBITDA margin expansion, ~1.5% impact was due to the price hike and 0.8% due to savings. Employee cost increased during the quarter, due to new year increments and increase in the number of employees.
- **The increasing competition might impact overall market share**. However, entry of new players in the segment will increase the size of the market, ultimately benefiting overall volumes of the company.
- **Network-** Added 10 new dealerships in India with a total network of 2,034 dealers and also added 22 in International markets with a total network of 1,029 outlets. International market includes 210 exclusive stores and 819+ multi-brand outlets.

- **EVs-** The company has grown its engineering team over the last few years. Also, the company is growing the commercial side of the EV team including distribution.
- Finance penetration now stands at 60%.
- **Non-MC segment revenue-** Spare part sales grew 25% YoY to INR4.78b (25% growth YoY)
- Expect CV industry to grow led by healthy infra demand and positive monsoon.
- Demand for buses are strong and higher demand is coming from STUs and schools. The company executed delivery of 9-metre electric buses to Kerala STUs.
- Gained market share in LMD with 36.9% in 1Q (vs 31.2% YoY). Market share in HD and buses stands at 9.4%/25.1% respectively.

Endurance Technologies — Buy

Current Price INR 1,652

ENDURANCE
Complete Solutions

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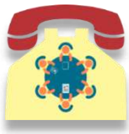

India business

- New orders- The company has won new orders worth INR3.07b from OEMs (other than Bajaj). It has INR24.9b worth of requests from OEMs.
- EV orders- Cumulative orders of INR6b (including Bajaj Auto). The company has added HMSI as a customer for front fork.
- Since FY20, ENDU has won INR31.9b of business, of which ~INR24.1b (76%) is new business and the balance is replacement. The new business is expected to peak in FY25-26, which is mainly for suspension, castings and brick assemblies.
- New businesses to start in FY24: TVS - INR4.4m (suspension) by 3Q, RE - INR395m (alloy wheels) by 3Q, Hero electric - INR489m from Sep'23, Okinawa - INR273m by 4QFY24, Greaves Electric - INR194m (suspension) and INR290m (brake business) from Sep'23.
- Aftermarket sales stood at INR922m (vs. INR963m in 1QFY23). Revenue declined due to lower sales in the domestic market.
- Content in new 2W launches: Triumph – content per vehicle of INR28k and revenue of INR3.3b based on 120k peak annual volumes; HD - content per vehicle of INR10k and revenue of INR0.85b based on 120k peak annual volumes. Content in Chetak is INR10k/vehicle.
- ABS: Started supplies to BJAUT and RE and already at 400k/annum run-rate. Added 200k capacity and 1.2m by 2HFY25. Dual-channel ABS testing has taken longer time and expects supplies from end of 3QFY24.

EU business

- Demand: While most countries in the EU reported double-digit growth, it was not seen across major OEMs. Certain key customers reported low/mid-single digit growth. Against this backdrop, 1Q sales grew 12.6% YoY in EURO terms. Demand is very weak due to high inflation and interest rate. Expects production to go down vs. registrations.
- Won new orders worth EUR17m in 1Q, including a key order from VW for EV motor cover.
- Out of EUR237m of cumulative orders won in the last five years, orders worth EUR86m (36%) are for EV applications and EUR112m (47%) for Hybrid Applications. ICE end-use accounted for 45% of Endurance Europe revenues in FY23, which is expected to reduce to 22% in FY27.

Maxwell

- Trial production commenced for BMS boards at Waluj. It would generate peak revenues of INR800m and is in the standalone entity.
- In the last two years, the company has booked orders with annual sales of INR3.4b, which is expected to peak in FY26.

Others

- The consol net cash balance as of 1QFY24 stood at INR5.09b.
- Incurred capex of INR1.6b in 1QFY24, including EUR10m of Europe capex
- Capex guidance: India at INR325-350cr p.a and EU will EUR60m for EV capacity. EUR60m is not steady state capex. It is one-off for large capacity addition for EV products. Steady state is EUR30m.

Escorts Kubota — Neutral

Current Price INR 2,991

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- **Domestic demand- FY24** domestic tractor volumes are likely to post low-to-mid single digit growth on a YoY basis. While the rainfall has been positive so far, it will partially get offset by reducing state subsidies. After the price hike in higher than 50HP segment due to TREM norms, the company has witnessed higher demand for the 40-50HP segment.
- **Exports-** The company expects exports volume to pick up from 2HFY24. Presently, exports are under pressure due to a slowdown in EU and the US, especially in the compact category. Contribution of exports through the Kubota channel was ~32%.
- **Margins to sustain** in the coming quarters- RM prices have been declining over the last three quarters and is currently ~2.5% lower than its peak in 2QFY23. The company has implemented a price hike of ~1% in mid-June. These, coupled operating leverage and cost-control measures should help sustenance of EBITDA margin over the next few quarters.
- **Inventory currently stands at 4-6 weeks** and aims to bring it down further.
- Construction Equipment business- The company has guided for high single-digit margin in FY24. The current growth is driven by healthy demand from infrastructure and there has been a shift to higher capacity cranes. The recent price increase has been received well as the demand trend remains strong.
- **Railway-** Expect double-digit growth in FY24. The current order book stands at INR9.5b. Demand seems healthy from railways for manufacturing passenger coaches and freight wagons. The company has commercialized two products in 1Q- brake pads and brake disks. Margins benefitted due to a better product mix and operating leverage. Spares and exports mix were 12-16% and 4-6%, respectively. The company has won orders for electric panel in 1Q, and working on many such products.
- **Implement-** The business has witnessed a significant growth of 30-40%, though at a low base. With the addition of combined harvesters and transplanters through the JV, it is expected to become a substantial part of the company's operations. The company foresees generating INR4b revenue from the division from next year.
- **Kubota JV-** The execution process is expected to take an additional six months, considering the company's application with the NCLT. The main focus of localization efforts will be on the engine, which will be facilitated by the

greenfield capacity starting from FY26. The company has indicated an initial margin dilution of 1.5-2%, following the commencement of JV operations.

Hero MotoCorp Buy

Current Price INR 2,926

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- **Demand environment:** The company has maintained its earlier guidance of double-digit revenue growth for FY24. This would be aided by a) interest rates having peaked up; higher disposable income in the hands of consumers b) inflation seeing downward trend c) government's push toward infrastructure d) rainfall evenly spread across the country. Urban demand persists as a strong performer, with rural demand expected to catch up, due to favorable macroeconomic conditions. In terms of segments, commuter entry-level segment continues to see stress, while the premium segment is doing better. Replacement demand has also started picking up and is at 10% of overall volumes (vs. 4-5% in the last two years).
- **Retail market share improved 300bp QoQ to 36.1%:** 4QFY23 saw the transition to OBD-2 norms, hence, wholesales were ahead of retails for HMCL. 1QFY24 saw the effect of inventory destocking, and hence, retails were ahead of wholesales, leading to inventory reduction to six weeks. The company is geared up for a longer festival season and should see strong inventory stocking in 2Q/3QFY24.
- **HD 440X response:** It has stopped taking fresh bookings after reaching 25k bookings. It would be focusing on providing a superior customer experience and fulfilling these order. HD-owned stores currently are present in 26 cities and Hero would add 100 more stores for distribution (incl Hero Premia and Hero 2.0 stores).
- **New products would be driving growth and market share:** New products such as Xoom100cc and Destini Prime 125cc has seen good acceptance in the scooter segment. Super Splendor Xtec 125cc is seeing increased volumes in the 125cc segments. New Glamour 125cc dispatches have started in states such as AP/Telengana and North Eastern states. Passion Pro has been among the top 10 motorcycle selling models in Jun/Jul and sold 10k units in a span of 15 days. It has been launched in the western and southern markets and soon would see dispatches to other markets. Further, premium products such as Karizma and cross-badged model based on HD X440, which is slated to launch in 4QFY24, would drive growth. New product launches would take anywhere between four and eight weeks to see retail market share improvement.
- **Margins:** ICE margins target would be 14-16% (earlier target maintained), which it has attained in 1QFY24 at 14.5%. EV business would see investment of ~1pp. RM cost increase in 1QFY24 was due to a time lag on cost and mix effect. The commodity basket is expected to remain stable in the coming quarters.
- **Vida to be sold in 100 cities by the end of CY23** (vs. 36 cities presently). It is also working on interoperable charging network with Ather electric thus widening the charging network. It is working on launching EVs in the mid- and entry-level segments and would be using EVs as a Launchpad for some of the export markets.
- **Hero 2.0:** Around 38 dealerships are opened on a pilot basis and feedback has been positive. Target is to onboard 200-300 dealers. Vida and HD would be sold through Hero 2.0 dealerships.

Mahindra

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Mahindra & Mahindra — Buy

Current Price INR 1,543

Autos:

- Open bookings of SUVs at 281k+ (as of 1st Aug'23; vs. 292k+ as of 1st May'23), with average new bookings of 48k/month in 1QFY24 (vs. 57k/month in 4QFY23). Moderation in new bookings visible in XUV300/400 (6k/month from 10k/month in 4QFY23), Thar (10k/month from 14k/month in 4Q) and Bolero (9k/month from 10k/month in 4Q). Momentum in XUV700 and Scorpio remains intact. Average cancellation rate was at <8% in 1QFY24.
- MM is witnessing a moderation in demand in its portfolio of products priced <INR1m (Bolero and XUV300).
- MM's 1QFY24 volumes hit by ~5k units in SUVs and ~2K units in pick-ups due to: a) short-term disruption in engine-related parts (non-semiconductor issue), and b) semiconductor supply constraints on air bag ECU. Supply situation has improved, as reflected in SUV billing volume (incl. imports) of 37.5k unit in Jul'23. It is on track to achieve 4QFY24 exit capacity of 49k/month (vs. 4QFY23 exit capacity of 39k).

Tractor/FES

- FY24 outlook for the FES industry is too early to predict, though there are positives in the form of: a) good rains until Jul'23, b) good Kharif sowing, and c) improving terms of trade for farmers. However, high base and one less Navrtras in FY24 are the negatives. Management will wait for the festive season demand to share its revised view on the industry.
- It is looking for further market share gains in tractors by plugging the gap in lightweight tractor (50k market size) where it has 30% market share (vs. 41-42% overall). It will be launching OJA and Swaraj Target in this segment in Aug'23.

RBL Bank investments:

- Financial services business is a core area for MM. This investment is based on a long-term view (7-10 years), with an objective to understand banking, which will enable it to enhance the value of its financial services business. It is not looking to invest more (beyond 3.5%) in foreseeable future unless it sees compelling strategic value at some point. MM is not looking to have a Board seat.
- Today, the company does not have enough understanding to make decision on whether it would like to diversify itself into a bank. Though it is not looking to be a bank today, it might think of becoming one in the next 5-7 years, given the likely size of MMFSL.
- MM has approval from the Board to take a 4.9% stake, but it refrained from taking a higher stake as of now.
- Its capital allocation discipline has not changed, but in fact has got even stronger. MM maintains a policy of not investing auto/farm cash flows for other businesses/ investments (services).

Others

- Dividend payout has increased to 30-40% range. It will wait for further increase as it needs to invest materially in EVs. It will finalize its capex (incl. investment) plans for FY25-27 by end of FY24E.

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Results Update

Maruti Suzuki — Buy

Current Price INR 9,570

- Demand outlook- At present, the demand is normal and the momentum should continue, driven by new product launches. The high base of last year in 2Q will keep YoY growth in check.
  - Retail sales stood at 308k units during the quarter (+8% YoY).
  - The number of first-time buyers has come down to 40% (vs. 42-44% last quarter).
  - CNG penetration was 27%.
- **There was a production loss of 28k units during the quarter** due to the semiconductor shortage. Visibility about the supply situation is still not clear, but it seems to be improving. Dealer inventory stands at 125k units, i.e. ~4 weeks.
- **The order book at the end of the quarter stood at 355k units.**
  - Order book breakup- Brezza 48k, Grand Vitara 27k, Jimny 23k, Fronx 23k, Ertiga 93k, Invicto 8k.
  - Fronx is recording sales of 9k units per month and exports have just started to LatAm, ME and Africa.

Operational cost highlights:

  - Commodity prices have largely stabilized. While there was an uptick in steel prices (~50% of the commodity) in the 1Q, they are now stabilizing. Precious metals have seen a sharp correction of 18-20%.
  - One-off items related to employees retention related payments had an 80bp impact and will not be repetitive in nature.
  - Launches-related costs too resulted in high other expenses.
- **SMG plant deal:** The agreement states that the purchase consideration would be at the net book value, which stood at INR127b as of Mar'23. The book value will be computed again after the approval process.
  - The plan is to bring in entire production under MSIL to improve efficiency. This will make the decision-making agile and the company will be able to change production plans as per the requirement.
  - It aims to complete the transaction in the current financial year. It will seek majority approval of the minority shareholders.
  - The EV manufacturing facility is part of SMG and will be included in the deal.
  - However, cell manufacturing is not part of SMG. It is owned by 100% subs of Suzuki - Suzuki R&D India. Its JV for batteries is also not part of this transaction.

Others

- **Discounts-** Slightly up at INR16,214 per vehicle in 1QFY24 vs. INR12,748 in 1QFY23 and INR13,269 in 4QFY23.
- **Royalty rate for the quarter stood at 3.8%.**
- **JPY hedging**- 50% of the exposure is covered. Always look for opportunities to hedge.
- SMG contributed ~200k units during the quarter i.e. ~40% of overall volumes.
- Exports for the quarter stood at INR37.6b.

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Results Update

Motherson Wiring — Buy

Current Price INR 60

- While the new capacities have begun to contribute to revenue growth, their utilization is not yet fully capacity. In the first quarter, one plant operated at 55% utilization, and it is anticipated to increase by 10-15% in the second quarter. On the other hand, the utilization of the other plant is reaching 80%.
- Maintenance shutdown, coupled with continued challenges of supply chain, has restricted growth.
- While copper prices have started to cool off, inflationary pressures on wages and salaries remain.
- With cost-reduction initiatives already implemented and ongoing negotiations with customers for cost pass-through, there is a positive outlook for improved performance in the upcoming quarters.
- It is seeing significant traction for EV (PV and CV), with 3x YoY growth in 1QFY24. It started supplies to 2 leading OEMs in the EV commercial segment.
- Capex for FY24 is expected to be INR1.25b (excluding land and building, which would be on lease from SAMIL).

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Results Update

SONA BLW Precision — Neutral

Current Price INR 590

- BEV revenues grew 13% YoY (-10% QoQ) to INR1.8b in 1QFY24 and revenue share was at 26% (vs. 28% in 4QFY23), hurt by reduction in FAME-2 subsidies for e-2W from Jun'23. EV formed 78% of the order book.
- Non-BEV Revenue surged 28% YoY while light vehicle sales in its top-3 markets grew 15% YoY.
- Impact of FAME-2 incentive reduction on e-2Ws: As compared to its budget, the company estimated a loss of revenue of INR250m in 1QFY24 and INR1.0-1.2b in FY24. However, it expects traction motors business to be much bigger than ICE starter motor business in three years.
- Order book stable, despite orders going into execution: It won four new orders worth INR13b, taking the total order book to INR220b (vs. INR215b in 4QFY23). Of these orders three were in EVs. EV orders were for a) differential assembly for Class 5 CVs (INR4b, SOP 4QFY25) from new age OEM, b) hub-wheel motor for e-2W from existing customer (INR3.6b, SOP from 4QFY24), and c) mid-drive traction motor & controller for electric OHVs/3Ws from existing customer in India (INR0.9b, SOP 4QFY24). Further, it won an order in global recreation OHV segment for a final drive assembly (INR4.3b, SOP 2QFY25).
- Business mix changes in 1QFY24: a) e-2W/3W declined to 2.5% of sales from 4% in 4QFY23, b) PVs increased to 72% from 69%, c) Asia (ex-India) further declined to 5% from 7% in FY23, whereas EU increased to 23% from 20%, and d) Diff. gears increased to 37% from 32%, whereas conventional starter motors declined to 11% from 15%.
- It is expanding capacity for traction motors to 600k from 400k, and putting up capacity of 500k for PCB at Chennai by investing ~INR1b. This capacity is for e-2W/3W traction motors as well as to cater to its partnership with Equipmake, and will be ready by FY25.
- Partnership with Equipmake for traction motors for buses, LCVs and PVs: It has recently entered into partnership with Equipmake for high voltage motor-

controller segment in 100-140kW range. Equipmake partnership would help the company enter into the high voltage motor-controller segment. Equipmake's technology offers best power density in this segment globally. SONACOMS has exclusive right for India, Thailand and select South Asian market, and will also manufacture in India for Equipmake's global requirement. Commercial production is expected to start in 2025.

- No customer is >20% and top-5 customers are <60% of revenue. Even in EVs, the largest customer contributes 70-75%.
- Capex guidance of INR4b p.a. for the next two years.

TATA MOTORS

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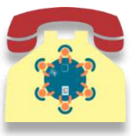
Results Update



Tata Motors — Buy

Current Price INR 611

- **JLR outlook:** 2Q production and cash flow are expected to be lower than 1Q due to the annual summer plant shutdown. However, wholesales and profitability (EBIT margins of 6.5%-7.5%) are expected to be more in line with recent quarters. It will review EBIT margins guidance (6%) post 2QFY24, as it would like to get more clarity on the operating environment.
- **Demand is strong for three key models;** however, the order book does not capture the demand strength in the US, Middle East and China. Further, its VME and FME are very low, which it plans to increase to stimulate demand if it weakens in the latter part of the year.
- **Over the medium term**, it expects to increase marketing spending (both VME and FME) by 2-3pp from very low levels currently to stimulate demand. It plans to offset this by reducing variable costs through a) material cost reduction, b) manufacturing efficiencies, and c) reducing warranty costs.
- **R&D capitalization** rate in 1QFY24 was 61%, up from 53% in 4QFY23. With three new product programs lined up over FY24-26, it expects R&D capitalization to stay in the 50-60% range for the next few quarters.
- **BEV+PHEV volume** share declined from 16% in 4QFY23 to 13% in 1QFY24 due to supply constraints for PHEV availability.
- 1QFY24 underlying EBIT margins were at 7.5% (vs. reported margin of 8.6%), due to benefits of higher production than wholesales by 10k units.
- **Commodity costs**, especially Aluminum and some metals, are seeing corrections, which would benefit in 2HFY24 but would be offset by an increase in VME/FME.
- **Dividend to TTMT** would be considered by the board after FY24, post achieving a near-zero net debt level.

INDIA

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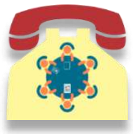
Tube Investments — Buy

Current Price INR 2,771

- **Outlook- TI-1** is expected to grow by 15% YoY over the next few years. This will be largely driven by the growth in the engineering division, followed by metal formed division. Adding new capacities in West, as logistics cost is higher, and hence, local penetration is important. Other focus areas would include- a) Adding more products such as large dia., b) expanding service levels and value addition, and c) exports.
- **Engineering business-** Revenue was adversely impacted QoQ, due to pricing of steel. Volumes grew by ~6%, which was offset by a decline in realizations. EBITDA margin contracted largely due to an unfavorable product mix.




Tube Investments of India

- The company is witnessing good traction and running close to its full capacity. It is adding capacities by ~30% across all the three businesses of engineering.
- **Metal formed business-** TIINDIA has begun receiving railways tenders since the end of last month, and it anticipates securing orders starting from 2Q.
- 2W industry in 1Q was under pressure. The company's market share in OEM remains intact and it is currently supplying to just 3 OEMs. It is now working on aftermarket. In EVs, chain will be required for frame-mounted motors rather than hub-mounted.
- **Exports-** It has improved QoQ as the mix now stands at 15% vs. 13% last quarter. . In the EU, there are some weaknesses, but overall, there is a belief that growth should be sustained. It is expected that exports will grow in FY24.
- **EVs-** Making steady progress with revenue growth going forward.
- EV will take some time to pick up. It is currently building four new businesses and it will take some time.
- **3W/truck business-** The company has recently begun accepting orders for e-3Ws. Additionally, it has provided heavy trucks to customers for trial purposes.
- **Jayem Auto:** The recent acquisition of Jayem, a company specializing in R&D for EVs and e-LCV, marks a significant milestone for TIINDIA's EV portfolio. With this acquisition, TIINDIA now covers the entire gamut of B2B focused segments in the EV market. As part of its expansion plans, the company aims to launch its e-LCV by 1QFY25 end. Currently the product is in the homologation stage.
- Distribution- The distribution strategy for electric products will not follow a one-size-fits-all approach. The truck business will operate on a direct B2B model. On the other hand, e-3W/e-LCV will be distributed through retail channels, targeting urban and suburban markets. Meanwhile, the distribution of electric tractors will focus on rural areas, serving the specific needs of that market segment.
- **Surgical-** TIINDIA aims to invest in businesses that are poised for sustained growth over the next 20-25 years. The company's primary strategy involves establishing a strong presence in the domestic market for most of its businesses before venturing into international exports. In these markets, the competition is primarily dominated by foreign brands.
- **Lotus Surgicals:** The management is confident of delivering 20% CAGR in revenues and expand margins under TIINDIA parentage. In 1QFY24, revenues INR39cr vs 35cr YoY, PBT INR6cr vs INR5cr YoY. TIINDIA sees opportunities not only in import substitution but also in the exports market.
- **CDMO-** It is at a very nascent stage. India is just picking up and will see growth over the next 20-25 years. Most of the business is going to China; now India is playing China + 1 strategy. The division will require a capex of INR3b.
- The peak debt level should not be more than 2x of annual FCF. TIINDIA is placing a strong emphasis on capital allocation and capital efficiencies. To enhance its operations, the company has formed a strategic partnership with Premji for surgical business. Additionally, it secured funding of INR 10-12 billion from multiple sources to support its expansion in the EV (electric vehicle) business.
- Guided cumulative capex of INR3-3.5b per segment or INR10b for three products. Only INR2b is yet to be spend. 1QFY24 capex spent was INR0.7b for TI1 vertical and INR0.2b for 3W EVs.
- Capacities across verticals- 70k/year for 3W, 3-3.6k/year for trucks, tractors-25/year.

TVS Motors — Neutral

Current Price INR 1,363

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Results Update

- Domestic- Expect rural growth to be moderate while urban to do better
- Delayed monsoon had been a cause of worry initially but now it seems normal. An even distribution of rainfall would be important; however, the government's support on increased MSP will help buying sentiments in rural.

Exports- 1QFY24 retails were higher sequentially

- TVSL expects export markets to recover in 2QFY24 and many markets should come back to normalcy in 2HFY24. The company aims to maintain channel inventory of 30-35 days. Export revenue stood at INR16.65b in 1QFY24.
- RM costs unlikely to increase this quarter, might benefit 2Q/3Q
- TVSL has increased prices by 0.5% in 2QFY24.
- Other expenses are not comparable vis-à-vis last year. This year, marketing expenses have gone up by INR150m. Similarly, investments in R&D and product development have gone up by another INR150m.
- Employee expenses: Salary costs rose INR400-450m due to appraisals. For EV and other areas, TVSL has recruited new employees in software and EV side. Hence, this can be the sustainable run rate.
- EVs- FAME subsidy reduction had an impact on industry demand in Jun'23; however, there has been some demand improvement in Jul'23. By 2HFY24, demand is likely to become normal.
- Ramping up iQube production and confident of reaching ~25k units per month by Aug'23. The company has started retailing to Nepal wherein initial feedback has been positive.
- Added 74 more touch point last month with total of 309 touch points so far and expects to take this to 600 by the end of FY24. TVSL customers have access to 2k+ charging touch points.
- New launches- i) TVSL will launch a new vehicle in the range of 5kW to 5.5kW and some launches are expected in the current quarter. ii) 3W EV is getting ready and will be launched in the upcoming quarter. iii) BMW unveiled its latest e2W product- CE02. The product platform is designed, developed and manufactured by TVSL and it is working jointly with BMW for global markets.
- Added strategic partnership with Zomato to deploy 10k e2W over the course of next two years. It already has partnerships with Swiggy, Amazon, Rapido and few others. This will include a combination iQube and new products.

Investments during the quarter

- Invested INR2b in TVS credit.
- Invested INR4.15b in Singapore. Out of this, invested INR1.86b in SEMG against 25% stake from other owners, and now it has become 100% subsidiary. Other investments include Norton (product development) and TVS Digital.

Other highlights

- TVS Credit: It currently has book size of INR220b. It reported 1QFY24 PBT of INR1.57b vs. INR1.11b 1QFY23. Collected INR50b in 1QFY24 vs. 38b in 1QFY23. Net worth stands at INR30b. Out of the total book size, the share of TVS vehicle financing is only 20-25%.
- TVS Credit entered into an agreement to raise INR4.8b from Premji Investments. After this, TVSL's holding will come down to 81%.
- Capex guidance of INR9-10b, including EVs, for FY24. It has already incurred investments of INR4b in 1QFY24 and expects to incur total investments of INR8.5-9b in FY24.
- The interest cost increase was driven by the rise in the effective rate by 30bp. Additionally, borrowings have increased by INR2.5b.
- Monthly sales of Ronin stands at ~3k units.

CEMENT

- **Most of the company managements remained positive about cement demand, led by sustained demand from the government's infrastructure projects, a pick-up in real estate, private capex and housing demand from tier-II/III/IV cities. Cement prices have largely been stable since Jun'23-exit across regions, except for north, where prices increased in Jul'23. In 1QFY24, fuel consumption costs for cement players declined by 1-15% QoQ to INR2.0-INR2.4/Kcal and will further decline in coming quarters given sharp correction in fuel prices.**

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Insights and future outlook FY24	Capex plans
UltraTech Cement	■ Cement consumption remained high, and industry volume growth is expected to be in double digits in FY24. ■ Marginal price increases have happened in the North and West markets in Jul'23, though the South and East markets are still not showing any traction in prices. Prices are expected to increase in the near term. ■ Average fuel cost was INR2.34/kcal vs. INR2.5 in 4Q. Fuel costs would fall 25-30% YoY in FY24 if petcoke prices sustain at current levels.	■ UTCEM is increasing grinding capacity by 4mtpa through debottlenecking in FY24. ■ It is increasing grinding capacity by 22.5mtpa under Phase-II expansion by FY25. It will announce the next phase of growth plans in Sep/Dec'23. ■ In 1QFY24, UTCEM's capex stood at INR18b and is pegged at INR60-70b. ■ It targets to raise WHRS capacity to 425MW by FY24E and other renewable power capacity to 1.25GW by FY26E.
Ambuja Cements	■ Consolidated volume growth of 9% YoY in 1QFY24 was in line with the industry. It targets consolidated volume growth of 10-15% in FY24. ■ The company targets a cost reduction of INR400/t through reduced energy, freight, and other costs. ■ Kiln fuel costs declined 17% YoY to INR2.07/Kcal as the company benefitted from its tie-ups with different sources. Fuel cost will decline further with increasing usage of coal from its captive coal mines.	■ It has outlined capacity addition of 14mtpa, which will be completed in the next 24 months. ■ The expansion at ACC (subsidiary) of 3.1mtpa clinker and 1mtpa cement will be completed in 2QFY24. ■ Capex in FY24 is estimated to be INR70b, out of which, 60-65% is for ACEM and balance for ACC.
Shree Cement	■ Cement demand is expected to remain strong and volume growth should be in double digits in FY24. ■ Average fuel consumption cost stood at INR2.37/Kcal vs. INR2.64/INR2.53 in 1QFY23/4QFY23. The spot petcoke price is around INR1.8-INR1.85/Kcal (thermal cost at INR2/Kcal) and the benefit of the same will reflect in the next two quarters. The company consumed 81% of petcoke vs. 76% in 4QFY23.	■ SRCM announced clinker/cement capacity expansion by 7.3mtpa/12mtpa spread across North, Central and South regions. Estimated capex is INR70b (cost of USD70/t) and projects are likely to be completed by 4QFY25. ■ Current ongoing expansions Greenfield integrated plants at Nawalgarh (Rajasthan) and Guntur (Andhra Pradesh) are likely to be commissioned by 3QFY24/2QFY25. ■ SRCM announced strategic diversification with entry into the ready mix concrete business by setting up five RMC plants in FY24.
Dalmia Bharat	■ Estimated volume growth of 15-17% in FY24 (ex-additional volume from JPA under tolling arrangement). ■ Exit-cement prices are weaker in the East and a few pockets of the South region (down by INR5/bag). ■ Fuel consumption cost stood at INR1.98/Kcal vs. INR2.06/Kcal in 4QFY23. Fuel cost/t is likely to decline USD20/t in 2Q and further USD5-10/t after that.	■ The trial-run production of 2mtpa Greenfield grinding unit in Tamil Nadu has started. ■ Certain external approvals are still pending to complete the acquisition of cement plants of JP group. This acquisition, except for JP Super Dalla clinker plant which is under arbitration, is expected to complete by FY24-end (earlier guidance was of 1QFY24). ■ Capex stood at INR9.1b in 1QFY24; further INR6-7b will be spent in 2Q and the estimated capex for FY24 is INR63b (including INR33–35b for JP acquisition). Capex for FY25 is estimated to be INR30-35b as of now.
Birla Corp	■ Volume growth is expected to be at 15% YoY in FY24. The capacity utilization (ex-Mukutban) stood at +105% at exiting plants. ■ Cement prices to remain soft in 2Q due to the monsoon season. However, prices are likely to remain stable in FY24.	■ The focus is on ramping up operations at Mukutban plant and any expansion plan will be undertaken later. It plans to add one more line at Maihar, Madhya Pradesh, debottlenecking of capacities at Rajasthan plant and a grinding unit in proximity to Mukutban plant. However, no timeline has been provided yet. ■ Capex pegged at INR10b in FY24 including pending capex for Mukutban plant.

J K Cement	▪ Grey cement volume growth should be around 15-20% YoY in FY24. Volumes in Jul'23 were lower due to the monsoon season and maintenance shutdowns. ▪ There has been some improvement in cement prices in the North region (increased by INR7-10/bag) in Jul'23; however, prices in the Central and South regions remained unchanged. ▪ Fuel cost was at INR2.2/kcal in 1QFY24 vs. INR2.5/kcal in 4QFY23. This should decline by INR0.2/kcal each for the next two quarters. The company used 60% petcoke and the balance was others, including alternative fuel.	▪ Greenfield grinding units at 1) Ujjain with a capacity of 1.5mtpa is likely to be commissioned in 3QFY24 and 2) at Prayagraj with a capacity of 2mtpa is likely to be commissioned in 3QFY25. ▪ The increase in Panna's kiln capacity to 10,000tpd from 8,000tpd is expected to be completed in 3QFY24. ▪ Capex guidance has been maintained for FY24/FY25 at INR13-14b/INR7-8b. Capex stood at INR3b in 1QFY24 (including some spill over capex of INR1.5b for Panna expansion).
JK Lakshmi Cement	▪ It maintains the cement volume growth target of 19% YoY in FY24, led by clinker expansion at UCWL and long-term external supply arrangements at different locations ▪ Average fuel cost stood at INR2.23/Kcal vs. INR2.42/kcal in 4QFY23. It is expected to decline further to INR2.12/Kcal in 2QFY24. JKLC's fuel mix in 1QFY24 was 43% petcoke, 40% coal (imported and domestic) and balance others.	▪ Capacity expansion at UCWL is going as per schedule. It has commenced trial runs for the clinkerization line of 1.5mtpa and expects clinker production to start from Oct'23. The entire project is likely to be completed by 2QFY25. ▪ Standalone capex is estimated to be INR4b in FY24 for WHRS and AFR projects at Sirohi (Rajasthan), AAC block project at Alwar (Rajasthan), renewable energy (solar power projects), railway siding and conveyor belt at the East plant.

Ambuja Cement

Click below
Results Update

Ambuja Cements — Neutral

Current Price INR 449

Capacity expansion and capex guidance

- It maintains its guidance of its doubling capacity to 140mtpa by FY28. In the first phase, the company has outlined capacity addition of 14mtpa, which will be completed in the next 24months. It has placed orders for two clinker lines of 4mtpa each for Bhatapara (Chhattisgarh) and Maratha (Maharashtra) locations. With these clinker lines, six grinding units will be commissioned at Sankrail, Kharagpur, Farakka (will be backed from Bhatapara unit), and Jalgaon, Amravati and Pune (will be backed from Maratha unit). It also plans to increase Bhatinda (Punjab) grinding unit capacity by 1mtpa.
- The expansion at ACC (subsidiary) of 3.1mtpa clinker and 1mtpa cement is nearing completion and should be commissioned in 2QFY24.
- The company is also planning to set up an integrated cement plant at Mundra, Gujarat with a clinker/cement capacity of 2.3mtpa/4mtpa. It has already procured land and environmental clearances. This plant's location offers a
- significant competitive advantage, enabling multi-model logistic supply chain and easy access to abundant raw materials.
- Capex (consolidated) stood at INR5.7b in 1QFY24. Out of this, INR3b pertains to ACEM and the remaining INR2.7n for ACC. Cash and cash equivalent (consolidated) stood at INR119b as of Jun'23.
- Capex in FY24 is expected to be INR70b, out of which, 60-65% is for ACEM and the remaining for ACC. Capex includes both capacity expansion and cost-reduction initiatives.

Operational highlights

- The company has successfully achieved reduction in costs, driven by a 27% YoY decline in energy costs, made possible through strategic coal tie-ups. Additionally, kiln fuel costs declined 17% YoY to INR2.07/Kcal. Further cost reductions were achieved through measures such as optimizing packing costs, terminating technical know-how fees to the Holcim group, and implementing other effective cost-cutting measures.

- The company targets a cost reduction of INR400/t through reduced energy, freight, and other costs. Reduction in energy costs (targeting reduction of INR250/t) will be driven by increasing WHRS capacity to 175MW by 2QFY25, AFR share from 7.5% to 30% (15% by FY24), other renewable power (increasing solar power plants capacity to 00MW) and increasing production at captive coal mines (Gare Palma and Dahegaon Gowari).
- It targets INR100/t savings in logistics cost, through lead distance reduction (targeting average lead distance of 150Km from 170Km at present), warehouse footprint optimization by increasing direct dispatches (increased to 51% from 44% in Sep'22) and rail : road mix optimization.
- The company is aiming to achieve cost savings amounting to INR50/t. The company plans to undertake several strategic measures, such as realigning the employee hierarchy, eliminating redundancy in roles, implementing debottlenecking initiatives, and making changes to the product mix.

Birla Corp — Buy

Current Price INR 1,142

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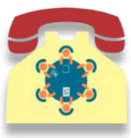


Birla Corporation

Highlights of the Mukutban operations

- The company continues to steadily ramp up production at the Mukutban plant and dispatches increased 21% QoQ. It plans to gradually expand its presence beyond Vidarbha region such as to Nashik, and Aurangabad markets.
- It witnessed significant decline in production cost at Mukutban plant supported by not only increasing volumes but also efficiency measures such as increasing captive power usage (CPP and WHRS), ramping up mining operations to increase limestone availability from captive mine, improving clinker quality that led to reduction in third-party/inter-unit clinker purchases. Cost is further estimated to decline in the coming quarters.
- Mukutban plant's lead distance is 150-200km for dispatches in Maharashtra markets, while average lead distance for the entire plant is ~384km as the company is supplying in other markets like Southern part of Madhya Pradesh, Gujarat and Telangana. Going forward, lead distance will come down to 340-350km as sales volume increased in other parts of Maharashtra.
- About 40-50% of trade sales from Mukutban plant are of premium products (Perfect Plus). Mukutban plant has ~65% of direct dispatches. Management guided for an exit-monthly volume of 0.2mt from Mukutban plant at FY24-end.

Demand, pricing and other operational highlights

- Volume growth is expected to be at 15% YoY in FY24. The capacity utilization (ex-Mukutban) stood at +105% at exiting plants. Overall cement capacity utilization stood at 91% vs. 88% in 1QFY23.
- Cement prices to remain soft in 2Q due to the monsoon season. However, prices are likely to remain stable in FY24. Its premium brand 'Perfect Plus' is a national flagship brand and its sales jumped 38% YoY in the quarter. In Madhya Pradesh, the premium product sale was low over the the last few quarters, but sales grew ~21% YoY in 1QFY24.

- The company started fly-ash transportation through specialized lead-proof BTAP rakes that led to cost savings. Fuel cost was INR1.95/Kcal in 1QFY24 and is likely to decline to INR1.7-INR1.73 in the next couple of quarters. It maintains to achieve EBITDA/t guidance of INR850 by FY24E.

Capacity expansion and capex

- The focus is on ramping up operations at Mukutban plant and any expansion plan will be undertaken later. It plans to add one more line at Maihar, Madhya Pradesh, debottlenecking of capacities at Rajasthan plant and a grinding unit in proximity to Mukutban plant. However, no timeline has been provided.
- Capex pegged at INR10b in FY24 including pending capex for Mukutban plant. Cement capacity at year-end will remain same at 20mtpa.
- Company's net debt stood at INR36b and cost of borrowing was 8.02%. It targets a net debt/EBITDA of <3x on a sustainable basis.

Incentive benefits

- It has booked inventive of INR450m in 1QFY24 largely from Kundanganj plant and this plant's incentive benefit will get over by end-FY24. The company is eligible for state incentive for its Mukutban expansion. This incentive is estimated to be higher than the Kundanganj plant and will compensate for any incentive loss at Kundanganj.

Dalmia Bharat — Buy

Current Price INR 1,996

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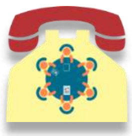
Results Update



Demand and pricing outlook

- While demand growth looks robust, price is range-bound. In 1QFY24, pan-India demand grew between 8% and 10% YoY. DALBHARA's performance in the Southern region was significantly better, resulting in a notable improvement in market share. It is expecting volume growth of 15-17% in FY24 (ex-additional volume from JPA under tolling arrangement).
- Exit-cement prices are weaker in the East and a few pockets of the South region (down by INR5/bag). The company tried to improve prices in the Eastern region, which led to a loss in market share. This also led to a decline in clinker conversion ratio, and thus, higher energy costs.
- South and North-East markets have been performing well in terms of premium product sales and trade mix. North-East has registered a CAGR of ~15% over the last few years and the demand in the region is expected to grow at 20-25% going forward. This led to the announcement of capacity addition in the region.

Operational highlights and cost insights

- Employee cost increased due to annual increment and rise in headcounts on account of commissioning of new capacity at different locations.
- Raw material costs increased ~9% to INR768/t, primarily driven by higher slag/fly ash prices, which surged by 20% and 9%, respectively. Additionally, freight costs increased due to two factors: 1) a busy season surcharge imposed by railways and 2) the shutdown of a plant for de-bottlenecking, resulting in clinker being supplied from longer distances.
- Energy cost increased 1% QoQ, despite fuel price correction, mainly due to higher power cost. The company realized the benefit of USD10/t in pet coke prices, which positively impacted its operations. However, there was also an increase in power cost for two main reasons: 1) higher power rates in few states due to

increase in fuel surcharge, and 2) higher usage of grid power as captive power became expensive at that time, primarily due to higher fuel rates.

- Current spot price of pet coke is at USD115/t and the benefits of lower prices are expected to accrue from mid-3QFY24. Pet coke consumption cost is expected to decline by USD20/t in 2Q and further USD5-15/t after that. Fuel consumption cost/kcal stood at INR1.98 vs. INR2.06 in 4QFY23.
- Captive power has now become a viable option, leading to a significant increase in its usage once again. The increase in grid power consumption was mostly in the South region.

Expansion plans and capex

- It commissioned 2.25mt grinding capacity (line-II) in Jharkhand and 0.6mtpa in West Bengal (through debottlenecking) in 1QFY24. It has started trial-run production of 2mtpa greenfield grinding unit in Tamil Nadu. Grinding capacity has increased to 41.7mtpa and this will further increase to 46.6mtpa by Mar-24 through organic expansions.
- Certain external approvals are still pending to complete the acquisition of cement plants of JP group. This acquisition, except for JP Super Dalla, clinker plant which is under arbitration, is expected to complete by FY24-end (earlier guidance was of 1QFY24).
- However, the company has initiated tolling arrangements with a few of the JP plants in the Central region. It has also started appointing dealers, setting up distribution network and making logistics arrangement which will expedite the ramp-up of capacity utilization once the acquisition gets completed. Under the tolling arrangement, JP plants are operating as a contract manufacturer and the cement is being sold under the Dalmia brand.

Other key highlights

- Gross debt increased by INR6.2b to INR44b. Net debt to EBITDA increased to 0.52x vs. 0.29x as of Mar'23. Exit debt at FY24-end should be at INR65-70b, if the acquisition of JP plant gets completed by mar-24.
- The company has received INR1.6b as part of the divestment of its Refractory business. To cover the remaining amount, NCDs have been issued. Also, INR1.2b will be received in Dec'23 as part of the divestment of Hippo stores. Its investment into equity shares of IEX is also a non-core asset and will be divested later, though the company did not share any timelines for the same.

Grasim Industries — Buy

Current Price INR 1,777

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VSF segment

- Global sentiments have hit textile exports in the near-term and textiles exports from India was down 10% YoY/9% QoQ in 1QFY24. Domestic demand for Textiles is also subdued due to delayed festive season. Demand slowdown led to 5% YoY decline in VSF sales volume.
- The company is working on sustainable products – used garments are being recycled and it is working closely with a few international brands on whether these raw materials (30% recycled content) will be used with the fibre.

- VSF imports are negligible, but Viscose yarn is coming from China as consumption there is lower than production. The company has 95% market share in VSF in India and would want to maintain this at current levels.
- Viscose demand in India is increasing at a faster pace led by intensive business development initiatives and support to textile value chain under “LIVA” brand by the company. Viscose has huge growth potential as its share in global fibre basket is merely at 6%. India viscose industry is reporting a CAGR of 2x compared with other fibres. Jun-exit VSF price in global market was 1% lower than 1QFY24 average price. The margins have largely bottomed out. The company is trying to maintain/improve volumes.
- RM cost like Pulp, Caustic and coal prices have declined than last year and 4QFY23. Realization is also in a declining trend. Inventory level in China is coming down. Dissolving wood pulp prices are at USD840-850/t currently.

Caustic Soda and advance material business

- Lower international prices and domestic oversupply situation as well as higher imports have hit caustic realization. There was a strong recovery in epoxy business led by better contribution margins and higher sales volumes. Demand from caustic consuming industries is likely to be subdued in 2HCY23.
- Lubrizol India will start construction of Phase-I of 100K MTPA CPVC resin manufacturing unit at Vilayat plant in FY24 and construction will get completed in FY25. This will help in improving chlorine integration. The company is also increasing the portfolio of chlorine VAPs. Chlorine Integration will reach to 72% post-commissioning of the ongoing projects vs. 61% in Jun’23 (60% in FY23).
- There should not be much pressure on caustic prices; though most likely 2Q’s realization will be lower than 1Q. However, margins seem to be sustaining at current levels with change in product-mix.
- Revenue break-up: Chlor-Alkali: 55% vs. 61%/57% in 1Q/4QFY23; Specialty Chemicals: 25% vs. 23%/25% in 1Q/4QFY23; Chlorine Derivatives: 20% vs. 17%/18% in 1Q/4QFY23.

Paints and E-commerce businesses

- Three plants of Paints with a combined capacity of 0.63m litres will be commissioned by FY24-end and Grasim’s long-term goal is to become the second-largest player in this business, which is growing at double-digits. Branding, Marketing and Go-to-market strategy are progressing as per plans.
- Total capex for the Paint business stood at INR36.4b as of Jun’23 (~36% of the planned outlay for paints business). Capex stood at INR10.5b in 1QFY24 and Grasim will further invest INR32.4b in 9MFY24. Most of the capex (planned capex: INR100b) will be completed by FY25
- Grasim has launched its E-commerce website “Birla PIVOT” across Madhya Pradesh, Maharashtra and Delhi. It plans to expand the reach to 18 more cities in the next 2-3 quarters. The company will provide end-to-end (Quote to Financing solutions) offering for B2B MSMEs in building materials segment. It has on-boarded 130+ brands and the initial response is encouraging. It will also explore opportunities for private-level manufacturing. B2B is not a capex heavy business.

Other highlights

- Financial Services industry is doing well; so capital requirement will be there. The company participated in the preferential allotment and invested INR10b in Aditya

Birla Capital. The fundraise should meet the growth requirements for next two-three years. There is no plan to invest in other subsidiaries as of now.

- Capex in FY24 will be INR57.9b and it has already spent IN12.8b in 1QFY24.
- Standalone net debt stood at INR35.2b vs. INR17.8b in Mar'23. Net debt to EBITDA stood at 1.11x vs. 0.42x in FY23.

Sustainability and other highlights

- The share of renewable energy in power consumption increased to 11% in 1QFY24 from 8% in FY23 and 5% in FY22.
- Renewable energy capacity increased to 854MW from 744MW in FY23 and the target is to increase this to ~2GW by FY24.

JKcement

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JK Cement Buy

Current Price INR 3,141

Demand and pricing trends

- Grey cement volume growth should be around 15-20% YoY in FY24. Volumes in Jul'23 were lower due to the monsoon season and maintenance shutdowns.
- There has been some improvement in cement prices in the North region (increased by INR7-10/bag) in Jul'23; however, prices in the Central and South regions remained unchanged. Realization should increase by INR50-70/t QoQ in 2QFY24.

Operational highlights

- Its Central India plant achieved 75% capacity utilization and EBITDA/t was in line with grey cement EBITDA of other plants. WHRS of 22MW has been commissioned at this plant and, going forward, AFR usage will also be increased. The entire benefits of WHRS will start reflecting in 3QFY24 as stabilization will take time. This should boost profits of this plant.
- Green energy usage/thermal substitution rate stood at 45%/15.6% in 1QFY24 vs. 44%/13.9% in FY23. It targets to increase green energy/TSR to 75%/35% by FY30. Currently, the company's renewable energy capacity stood at 46MW, which will increase to 100-110MW in FY25.
- Fuel cost/t is expected to decline by INR250-300/t in FY24. In 1QFY24, savings in fuel costs stood at ~INR150/t as the company procured domestic coal at cheaper rates. There should be saving of INR65-70/t each in fuel costs for the next two quarters. However, petcoke prices have started firming up again (increased to USD135/t after falling to USD105-110/t; most of the deals happened at USD115-120/t and few deals happened at USD105-110/t) and hence, would need to watch out for its movement.
- Fuel cost was at INR2.2/kcal in 1QFY24 vs. INR2.5/kcal in 4QFY23. This should decline by INR0.2/kcal each for the next two quarters. The company used 60% petcoke and the balance was others, including alternative fuel.
- Lead distance declined to 426Km vs. 438km in 4QFY23. The rail:road mix stood at 14:86 in 1QFY24 vs. 16:84 in 4QFY23.
- Other operating income increased due to higher subsidies. Overall, government subsidies will be at INR2.5b in FY24 (quarterly run-rate of INR600m-INR650m) available for its Panna, Hamirpur, Aligarh and Nimbahera plants. Also, scrap sales led to an increase in other operating income in 1QFY24.
- Blended cement sales stood at 68% and trade sales stood at 66% in 1QFY24. Clinker factor should further improve by 2-3% after the commissioning of Ujjain

and Prayagraj grinding units. However, this will also depend on demand trends as currently incremental demand is coming more from the non-trade segment. Premium products sales as a % of trade sales stood at 11% vs. 10% in 4QFY23.

Capacity expansion and Capex update

- 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 3QFY24 and capex YTD stood at INR1.5b; and 2) at Prayagraj with a capacity of 2mtpa, which is likely to be commissioned in 3QFY25 and capex YTD stood at INR380m. Environmental Clearance has been received for Prayagraj GU and orders have been placed for the main plant & equipment. Work will start after the monsoon season.
- The increase in Panna’s kiln capacity from 8,000tpd to 10,000tpd is expected to be completed in 3QFY24, which will support clinker requirements for these upcoming grinding units.
- Capex guidance has been maintained for FY24/FY25 at INR13-14b/INR7-8b. Capex stood at INR3b in 1QFY24 (including some spill over capex of INR1.5b of Panna expansion). Decision on Panna (line-II) expansion will be taken by end-FY24 or FY25-beginning.
- Setting up a plant in Jaisalmer will be a long-term strategy as new mines are not available at existing plants. Limestone quality of this mine is very good and the company is trying to work on transportation issues (subsidy from the state government) as the mine is situated at a far-off place. The company is still awaiting government approval for mining lease for Toshali Cement acquisition.

Debt and other highlights

- Consolidated gross debt (long-term) was at INR45b vs. INR45.3b as of Mar’23. Net debt stood at INR30.3b vs. INR29.1b as of Mar’23. The net debt-to-EBITDA ratio stood at 2.30x vs. 2.21x in Mar’23. Short-term borrowings stood at INR4b. Net debt has peaked out at current level.
- Putty market size in India is 1mtpa. Installed capacities of White Cement are 1.4-1.5mtpa and some imports also take place mainly from UAE (RAK White and JK Cement, Fujairah). Putty market has become very competitive as Paints players believe it to be a very lucrative business.
- Market share of the company is 22-23% in Putty, while UTCEM and JKCE hold 50% market share each. The White Cement segment’s 12-15% of EBITDA came from value added products.

JK LAKSHMI CEMENT

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JK Lakshmi Cement — Buy

Current Price INR 665

Demand and pricing

- Volume was partly impacted by cyclone in Gujarat, and later in Rajasthan. The company sold ~75% of its total volume in North and West regions. Although, in east region volume growth was healthy.
- Clinker/cement capacity utilization stood at 97%/85% in 1QFY24. Cement volume growth should be at 19% YoY in FY24, supported by clinker expansion at UCWL and long-term external supply arrangements at different locations.

Operational highlights

- Standalone sales volume was up 5% YoY at 2.93mt. UCWL's sales volume declined 6% YoY to 0.52mt. Consolidated sales volume (after eliminating inter-company sales) grew 6% YoY to 3.21mt.
- Non-cement revenue stood at INR1.33b vs. INR1.18b/INR1.28b in 1Q/4QFY23. RMC revenue was INR630m vs. INR550m/INR620m in 1Q/4QFY23. EBITDA margin of non-cement revenue stood at ~4%.
- Average fuel cost was at INR2.23/Kcal vs. INR2.42/kcal in 4QFY23. It is expected to decline further to INR2.15/Kcal in 2QFY24. JKLC's fuel mix in 1QFY24 was 43% petcoke, 40% coal (imported and domestic) and balance others. The company is carrying fuel inventory of ~100 days. In 1Q, WHRS generation was lower due to some break-down, but this is expected to improve in coming months, which will drive cost savings.
- Blended cement share stood ~66%, while trade sales share stood at 55% in 1Q. Lead distance was 400km (in north lead distance is around 430km and in east this is around 300Kms).
- Premium products sales stood at ~27% (of trade volume) in 1QFY24 vs. 26% in 4QFY23 (~21% in 1QFY23).
- EBITDA/t should reach at INR1,000/t in the next 18 months through realization improvement and cost efficiency measures.

Capacity expansion and capex plans

- Capacity expansion (1.5mtpa clinker and 2.5mtpa grinding capacity) at UCWL is going as per schedule. It has commenced trial runs for the clinkerization line of 1.5mtpa and expects clinker production to start from Oct'23. The entire project is likely to be commissioned in 2QFY25.
- Standalone capex is estimated to be INR4b in FY24 for WHRS and AFR projects at Sirohi (Rajasthan), AAC block project at Alwar (Rajasthan), renewable energy (solar power projects), railway siding and conveyor belt at the east plant.
- The company has received approval to set up a railway siding at its Durg, Chhattisgarh (east) plant. It will take 9 to 12 months to set up the railway siding. So, now the company will look to expand capacity in east.

Other highlights

- UCWL has successfully completed the rights issue of INR4.5b in Jul'23. The proceeds will be used for the ongoing expansion at UCWL.
- Standalone net cash stood at INR1.3b, while consolidated net debt stood at INR10b (similar level of Mar'23).

Shree Cement — Neutral

Current Price INR 23,852

Shree Cement

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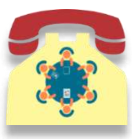

Cement demand and pricing

- Cement demand is expected to remain strong given the government's focus on infrastructure development, higher spending by the government ahead of general elections and demand from the housing segment. A better monsoon season will lead to improvement in rural demand, and volume growth should be in double digits in FY24. Capacity utilization was ~80% in 1QFY24: ~92% in East, 80% in North and ~68-70% in the South region.

- Blended realization was up 3% YoY (5% above estimates) as the company generated additional revenues from the sale of a coal shipment. However, cement realization was down 4% YoY (and 2% QoQ) in 1QFY24.

Operational highlights

- Average fuel consumption cost was at INR2.37/Kcal vs. INR2.56/INR2.64 in 1Q/4QFY23. The spot petcoke price is around INR1.8-INR1.85/Kcal (thermal cost at INR2/Kcal) and the benefit of the same will reflect in the next two quarters. The company consumed 81% of petcoke vs. 76% in 4QFY23.
- Green power share stood at 56% vs. 46%/54.6% in 1QFY23/4QFY23. It is adding a significant capacity of green power in the next 12 months, which will further increase green power share.
- The company is also steadily increasing the usage of alternative fuels, with an aim to increase the thermal substitution rate (TSR %) to ~15%.
- Trade sales stood at 79% in 1QFY24. Sales of premium products stood at 8.8% vs. 6.3%/7.5% in 1Q/4QFY23. SRCM targets to increase this to 15% by FY24-25.
- Lead distance declined by 14Kms YoY during the quarter.

Capacity expansion and strategic diversification

- The company accelerated its growth plans and has announced a fresh capacity expansion of clinker/cement capacity by 7.3mtpa/12mtpa spread across North, Central and South regions. The estimated capex is INR70b (cost of USD70/t) and projects are likely to be completed by 4QFY25. Clinker capacity will also have waste heat recovery (WHRS) of ~44MW (22MW each).
- Apart from that, current ongoing expansions greenfield integrated plants at Nawalgarh (Rajasthan) and Guntur (Andhra Pradesh) are likely to be commissioned by 3QFY24/2QFY25, respectively.
- After the completion of the expansion, SRCM's domestic cement capacity will increase to 68.4mtpa by end-FY25 from 49.9mtpa currently.
- SRCM targets to increase domestic grinding capacity to 80mtpa by 2030, largely through the organic route (mix of brownfield and Greenfield expansions).
- Capex is pegged at INR35b for FY24E/FY25E each and will be funded through a mix of internal accruals and debt.
- SRCM announced strategic diversification with the entry into the ready mix concrete (RMC) business by setting up of five RMC plants in FY24. It will focus on high-performance concrete as there are not many suppliers, and hence the competition is limited in this segment.

Ultratech Cement — Buy

Current Price INR 8,212

UltraTech CEMENT The Engineer's Choice

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Demand and pricing outlook

- Cement consumption remained high, and industry volume growth is expected to be in double digits in FY24. Dispatches have seen some disruptions due to erratic monsoons recently, but the economic condition (increase in FDI, controlled inflation, pause in interest rate hikes etc.) is improving.
- Infrastructure in the country is improving rapidly. The government has directed almost 80% of budgeted allocation for roads to be spent by Dec'23 (~46% of that has been spent by mid-Jun'23) and the balance will be completed as per schedule. The government wants to achieve a road construction target of 40km/day in FY24.


UltraTech Cement

- UTCEM recorded capacity utilization of 85%+ across regions, outperforming its peers in all markets, except the South. Clinker utilization was 90% in 1QFY24. Rural sales, which form 65% of total trade sales, grew 24% in 1Q.
- Marginal price increases have happened in the North and West markets in Jul'23, though the South and East markets are still not showing any traction in prices. Prices are expected to increase in the near term. The East markets will remain balanced in terms of demand and supply despite the commissioning of new capacities.

Operational highlights

- The C:C ratio improved 3% YoY and the company achieved the highest-ever C:C ratio of 1.44x. An improvement in clinker factor by 0.04x will generate additional volumes of 3mtpa.
- It aims to increase WHRS capacity to 425MW by FY26 (currently 232MW). It is participating in a hybrid solar wind project of 648MW, which will help to increase renewable power capacity to 1.25GW by FY26. After the completion of these projects, green energy will fulfil +60% of total power requirements (25% from WHRS and 35% from other RE) on expanded capacities.
- The company will invest INR3b via equity in SPV for green power sourcing from group companies. Average landed cost of power would be ~INR5.25 per unit vs. current average cost (from CPP and grid average) of INR7-8 per unit.
- In 1Q, fuel consumption cost was USD178/t vs. USD194 in 4Q. Current pet coke price stands at USD115/t, up from USD100/t a week ago. Given 45-60 days for shipping, 10 days of inland movement and inventories of 45-60 days, the orders booked at spot rates come into consumption only after five to six months. Also, landed cost is ~10% higher on account of moisture loss.
- Fuel mix for 1Q was 42% pet coke (vs. 52% in 4QFY23), 46% imported coal, 7% domestic coal and the rest Lignite/AFR. Average fuel cost was INR2.34/kcal vs. INR2.5 in 4Q. Lower pet coke consumption was due to lower availability. Heat waves in China and Europe are leading to high coal consumption and fuel costs may further increase when China opens up and starts imports. There should be savings of 25-30% YoY if pet coke prices sustain at current levels. Fuel inventory stood at 55 days vs. 38 days at 4QFY23-end.

Expansion and debt position

- 4.3mtpa grinding capacity (part of Phase-I expansion) was commissioned in 1QFY24, which will strengthen its positioning in North, East and West regions.
- Grinding capacity will be increased by 4mtpa in FY24 through debottlenecking, which will increase the total domestic grey cement capacity to 135.25mtpa. The company is on course to reach 159mtpa by FY26 (after completion of Phase II expansion as announced in Jun'22 and debottlenecking). It will announce the next phase of growth plans in Sep/Dec'23.
- Barring the East markets, the company does not see any challenges in the for an inorganic growth opportunity as and when it comes.
- Capex stood at INR18b in 1QFY24. Capex is pegged at INR60-70b (including spending for capacity expansion, modernization, routine maintenance, WHRS and efficiency improvement capex).
- Consolidated net debt reduced by INR2b QoQ to INR25b.

- **Input costs and freight charges eased for many companies, but realization was lower as the benefits of low RM costs were passed on to customers. Demand remains weak due to aggressive pricing by Chinese competitors, impacting domestic firms that are unable to compete. Near-term volumes are likely to stay low due to ongoing destocking, particularly in developed markets. The long-term outlook remains strong, though some firms postponed project commissioning from mid-FY24 to year-end due to these factors.**

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook for FY24	Quarterly snapshot
Clean Science	▪ The current p-BQ utilization is around 20%, below our expectations. Recovery is likely in three months, leading to a fall in p-BQ imports. ▪ The HALS expansion in Unit IV will cost INR1.8b and is scheduled to be commissioned by Dec'23, adding 15ktpa of capacity.	▪ CLEAN missed our 1QFY24 EBITDA estimate, with a gross margin of 61.4% (vs. expected 69.8%), due to increased raw material costs and decline in sales. EBITDAM stood at 40.5% (vs. 39.0% in 1QFY23). ▪ FMCG Chemicals grew QoQ in 1QFY24, while Performance Chemicals and Pharma & Agro Intermediates declined.
Deepak Nitrite	▪ Supply of Phenol in the domestic market is expected to remain in excess, thereby putting pressure on segment margin going forward. ▪ DN has not lost market share in any of the products. Its capex plans are on track, which would be funded through a mix of internal accruals and debt.	▪ The quarter was hit by slower-than-anticipated demand from key customers amid additional supply from China, slowdown in the Eurozone and inventory destocking. ▪ There was a sharp contraction in the margin of the Phenolic segment while the AI segment posted a fairly stable margin sequentially DN had to pass on the benefit of lower input prices to its customers in the AI segment.
Galaxy Surfactants	▪ Management remains optimistic about higher double-digit volume growth supported by the belief that the company has overcome the most challenging phase in developed markets. AMET also expected to recover in 2HFY24. ▪ EBITDA/kg guidance at INR20-22.8 for FY24 with the company's focus being majorly on volumes.	▪ The ongoing inventory destocking in North America hit the performance of the subsidiary. Strong double-digit volume growth was visible in the Performance segment. ▪ Domestic volumes remained resilient, with AMET volumes being flat YoY and RoW volumes declining in slow single digits YoY.
Navin Fluorine	▪ Management highlighted that the miss on volumes in HFO would be recovered in the next couple of quarters with the full-year offtake by Honeywell remaining unchanged. ▪ The company expects margin to rebound in the coming quarters with higher utilization at its various plants.	▪ Multiple shutdowns at the new HFO plant as well as a planned shutdown at the AHF plant hurt performance in 1Q. Demand for R22 remained weak as well. ▪ Specialty Chemicals continued to do well with order book remaining strong. It continues to strengthen the long-term visibility of the segment.
NOCIL	▪ Management foresees pricing normalization in 2HFY24 when China's domestic demand is expected to recover. ▪ Optimal utilization of the expanded capacity is uncertain and may extend beyond FY24	▪ Sales volumes declined 2% QoQ to 13.5tmt due to lower export volumes caused by inventory destocking and recessionary pressures. ▪ A decline in latex volumes was partly offset by increased off-take from tyre companies. European tyre manufacturers are also facing demand challenges.
Vinati Organics	▪ Management expects a muted performance in ATBS in FY24, with major destocking being seen industry-wide, especially in the Oil & Gas sector. Contribution from AOs to partially offset weakness in ATBS. ▪ All capex being undertaken on track to be completed by end-FY24.	▪ VO's revenue came in below our estimate in 1QFY24 because of lower offtake of ATBS. About 90% of revenue decline was due to a drop in volumes and 10% was due to realization. ▪ Demand for IBB was good in 1QFY24 with other products also doing fairly well.

Clean Science Technology — Neutral

Current Price INR 1,401

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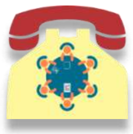


Clean Science & Technology

- This year is expected to be characterized by benign inflation and a stable supply chain.
- As a result, destocking is likely to occur, making this year a buyers' market, in contrast to the sellers' market experienced last year
- Leading to reduced volumes and sales realization
- No significant loss in market share of the company. Overall market has declined because of which volumes have declined in the quarter.
- One-time gain of INR90m was recorded in 1QFY23, which got adjusted in last years' consolidated results.
- Therefore, earnings declined only 6% YoY even as sales is down 20% YoY in 1QFY24.
- All capex continues to be incurred through internal accruals.
- 2/3rd decline because of volumes and 1/3rd decline because of prices in 1QFY24
- Current prices are the worst ever seen by the company and the management does not expect further decline in prices.
- FG prices are not expected to go below current prices with crude prices also increasing once again.
- The DCC plant is currently operating at 80% utilization, and Guaiacol has seen significant demand due to issues with cough syrup in Indonesia and Iraq, both of which are being supplied by India.
- Taiwan and Chinese customers are expected to offset lost volumes from Indian customers.
- The company could go for plan B if pharma demand for Guaiacol does not pick up fast enough.
- HALS offtake is currently slower due to slower-than-expected demand for master batches of the product worldwide.
- Less than 50% capacity utilization, expect to touch 50% capacity utilization by the next two quarters.
- Revenues to start flowing in from the new HALS capacities (under the WOS) from FY25.
- 'Other income' was higher because of forex gain of INR56m and treasury gain of INR60m.
- TBHQ was primarily undertaken to cater to the demand of the existing customers of BHA and AP.
- Hydroquinone is being sourced through the overseas market by the customers.
- The company is facing issues with obtaining the specific color (yellow) required for P-BQ, leading to an increase in imports into the country, while domestic supplies are currently limited.
- Management expects these issues to subside within the next three months.
- P-BQ utilizations stands at 20%.
- Average utilization levels stood at 60%/ 62%/ 70% for Performance Chemicals/ Pharma & Agro Intermediates/ FMCG Chemicals.
- Demand issues continue to exist in 2QFY24 as well; management expects markets to rebound in 2HFY24.
- New products would be in performance Chemicals and pharma and agro intermediates.

GALAXY SURFACTANTS LTD.

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Galaxy Surfactants

Galaxy Surfactants — Buy

Current Price INR 2,672

- Easing inflation pressures and the EU's adjustment to the evolving paradigm, both are expected to contribute to the projected recovery.
- Consumption to make a comeback from FY24.
- Growth to make a comeback in 2HFY24 in Turkey and Egypt.
- The ongoing inventory destocking in North America further impacted the performance of the subsidiary
- 2HFY24 to be better than 1HFY24
- EBITDA/kg guidance of INR20-22.75 for FY24
- Domestic volume growth should sustain, unless adverse rains affect demand
- Premiumization at play in India which company would also focus on
- Egypt plant running at 68-70% utilization
- Capex would involve investments in both India and Egypt, spanning across both the segments of the company
- With food inflation on the rise once again, there is a looming risk of an increase in prices for Fatty Alcohol and Fatty Acid.
- Decline in lower RM prices have been passed on to the customers.
- Management remains optimistic, supported by the belief that the company has overcome the most challenging phase in developed markets.
- GALSURF's premium offerings are integrated into sulphate-free shampoos, a product category that commands a higher price point in comparison to conventional shampoos.
- Backward integration will not help in increasing margin stability.

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Navin Fluorine International

Navin Fluorine — Neutral

Current Price INR 4,535

- All businesses continued to perform well except for some product-specific headwinds
- Business to run on normalized basis from 2QFY24
- Higher depreciation and interest charges because of new capacities in NFASL
- New CEO to be appointed for CDMO business in the next few weeks
- Have identified two internal candidates, no external candidate to be made CEO
- Most of NFIL's molecules do not have Chinese competitors; hence, dumping would not significantly impact the company

Specialty Chemicals business

- Higher ever sales for the quarter
- Two new plants in Dahej: one dedicated for agrochemical (running at full capacity) and the other one being MPP (not running at full capacity right now)
- All four molecules in the MPP have been supplied, three of them being approved while the last one is in the stage of approval
- A few molecules had some issues
- One large molecule is seeing headwinds, demand for which had come down to zero (being supplied from Surat-standalone business)
- Would start running at full capacity once again from 3QFY24 due to demand recovery
- Sales forecasts are changing on a monthly basis from the customers
- Primary growth coming from volumes and not because of pricing
- Molecules with higher margins are being commercialized now

- Current contribution is significantly from agrochemicals and performance materials and a smaller percentage from pharma
- It has not been working actively on any new pharma molecules (low-margin generic pharma molecules)
- Going forward, contribution from performance materials to increase while Agro chemical contribution to remain stable at current levels on an overall basis

HPP

- Overall growth was restrained because of shutdown
- AHF plant also had a planned shutdown in congruence with the HFO planned shutdown in Apr'23
- Purification section of the HFO had some issues because of which shutdown was effected in Jun'23
- Planned shutdown in 1QFY25E of the HFO plant
- R22 demand was muted with ref gas being hit both in the domestic market as well as exports
- 1Q and 4Q tend to be the peak season, if these two quarters get missed out then it will be difficult to recover in 2Q and 3Q
- Demand uptick to be seen in 3Q
- This is specific to R22 going into emulsive applications
- Volumes lost in 1Q would be covered up in next two quarters. No change in full-year volume offtake by the company
- HFO plant to run at optimal capacity now
- Debottlenecking discussion with Honeywell to be completed by CY23-end and small capex to be undertaken that would be required to expand existing capacity

CDMO

- Various late stage opportunities identified in the business
- Three patented stage molecules in the CDMO business with Fermion (non-exclusive contract)
- Expected to create new growth opportunities for the company
- Revenue of ~USD40m in the three years of the contract
- One of the molecules is already commercialized
- Already supplied qualification batches and the first molecule has been approved to be supplied by end of 3QFY24 (smaller quantities)
- This is a non-fluorinated molecule
- One of the other molecules would be in fluorination; however another molecule wouldn't be in fluorination chemistry
- These would be supplied from CGMP-4
- No significant sales being seen from larger repeat businesses
- Would be required by them from start of CY24

Capex updates

- AHF project is progressing as planned
- Basic engineering technology signed
- Allows NFIL to cater to the increasing demand in pharma and agro and also battery chemicals in the EV space
- Agro specialty capex (INR5.4b) also progressing as planned and would be commissioned by Dec'23
- R32 plant stabilization in progress and sales to start from 2QFY24

Capability capex:

- Revenue of INR450m on annualized basis from FY26
- Plant to be completed in the next 15-20 months.

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NOCIL Buy

Current Price INR 216

- Decline in export volumes because of inventory unwinding and recessionary trends
- Ongoing discussions with the customers to provide opportunities once global macro headwinds subside
- Latex volumes have declined but offset by offtake from tyre companies
- Chinese producers are dumping at cheaper prices due to muted demand in the domestic market
- Pricing may normalize in 2HFY24 as China's domestic demand rebounds
- Increasing demand for new vehicles and continued government investments to support the rubber industry
- 20-25% of NOCIL's products are specialty
- Having specialized applications
- Having incremental value to customers and margin accretive than other products, which are not specialized
- Utilization at 63%-65%
- Exports : domestic sales — 31%: 69%
- Volumes expected to be around 1QFY24 levels in 2Q
- 55% imports from China into India currently
- Peak utilization timeline still uncertain for the company
- Latex forms 10-15% of export volumes of the company; declined 56% YoY in 1Q
- European tyre manufacturers are facing demand headwinds
- 50% of expenses are variable for the company
- China accounts for 30-40% of total tyre chemicals demand but 70% of global supply.

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Vinati Oragnics Buy

Current Price INR 1,806

- 2HFY23 saw high offtake from customers, particularly from MNCs, which resulted in high sales, which would normalize in 1HFY24.
- Major de-stocking is seen industry-wide, majorly from the oil & gas sector.
- 15% of revenue contribution from O&G sector for VO
- 5-10-year outlook from the segment remains strong
- ATBS demand is likely to normalize in 2HFY24 (to start from Oct'23 onwards)
- Prices have not fluctuated too much and the decline has been more on the volumes front.
- Demand for IBB is expected to remain steady in FY24.
- Continue to see good demand in 1QFY24 as well
- One of the Indian competitors exited the business.
- Butyl Phenol (BP) is also expected to do well in FY24.
- BP + AOs revenues to be INR9-9.5b.
- External sales of BP are ~INR3b and AOs is ~INR6b.
- EBITDAM ~15-20%
- Customized product portfolio is also expected to record revenue of INR1.5-1.8b in FY24.
- Decline in sales was 90% because of volumes while 10% due to realizations.
- Revenue contribution at 20% IBB, 40% ATBS, 17% BP and the rest others.

- 80-90% would be repeat customers for the company.
- Sales to be ~INR20b for FY24 with ~20-25% YoY growth in FY25
- 2QFY24 performance would be similar to 1QFY24.

VAL

- Commercial production and supply has started
- INR1.5b revenue in FY24, with INR3b in FY25
- Currently running at 25% of capacity utilization because of lower demand for AOs right now
- Both local and exports market being looked at. Opportunity size is of INR100b.

VOL

- Capex of INR2.6b MEHQ, Guaiacol and Iso Amylene and Anisole
- Anisole capacity would be 5ktpa and MEHQ and Guaiacol put together would be 3ktpa
- Targets to capture 25-30% of the market share
- Commissioned by Mar'24

Other capex updates

- ATBS expansion by end of FY24
- Customers have committed for long-term offtake, hence capex has not been shelved
- Additional solar plant of 11MW by Sep'23
- Working on other products as well in VAL and VOL baskets, which are in the R&D pipeline right now

- **Consumer companies highlighted a recovery in rural areas amid a softening in inflation, which drives volume growth. However, managements will watch out for the impact of EI-Nino, erratic weather pattern and spatial distribution of rainfall. Managements highlighted that A&P spending returned to the normal level with the benefit of GP margin expansion. Companies have also passed on the benefits of raw material prices to consumers through price corrections. Small players have also returned and intensified the competition at local levels. Premiumization, easing Inflation and government spending would lead future growth.**

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Salient takeaways from the 1QFY24 performance	Outlook for FY24
Asian Paints	■ Asian Paints reported 10% volume growth in India Decorative business. ■ Economy and premium segments are thriving, while the luxury category faces challenges and might lower prices. ■ The rural growth is getting better and was nearly on par with the urban market growth in 1QFY24. ■ The company added about 6k retail points, reaching a total of around 1.6 lac retail touch-points, which is higher than the earlier guidance of adding 10k to 15k retail points for the full year FY24.	■ It maintained an EBITDA margin band guidance of 18-20%. ■ The company currently operates 44 Beautiful Home stores nationwide, and this number is expected to grow to 65 to 70 stores by the end of the year. ■ The company plans to spend INR87.5b over the next three years for capacity expansion.
Britannia	■ Volume growth was flattish for the quarter due to slowdown in the traditional markets (both rural and urban). ■ The company widened the gap with the second-largest player as the latter had lost share last quarter ■ BRIT maintained its momentum in extending direct distribution, achieving coverage across 2.67mn outlets. Additionally, the company expanded its rural preferred dealer tally to 28k.	■ BRIT is setting up factories in Barabanki, UP and Tirunelveli, Tamil Nadu in 1QFY24.Each will have five product lines. ■ Tamil Nadu government gave incentive of INR70-80m in 1QFY24 and BRIT will further receive incentives from Tamil Nadu and UP governments. ■ Capex for FY24E will be ~INR4-4.5b.
Dabur	■ Volume has seen an uptick in both urban and rural markets, led by a moderation in inflation. Total volumes grew 3% in 1QFY24. ■ The Healthcare and HPC portfolios registered double-digit growth, while beverages saw a decline due to unseasonal rains in northern and western India. ■ In the Health portfolio, the recently established therapeutics division is targeted to reach 70k allopathic doctors (current reach of 70k Ayurvedic doctors).	■ The management expects volume growth in mid-single to high-single digits in FY24. ■ Capex stood at ~INR1.6b in 1QFY24 and is expected to be ~INR4-4.5b in FY24. ■ Distribution changes in international markets have been resolved, and the company anticipates good double-digit growth in FY24. ■ The company has sufficient cash on the balance sheet for an acquisition and will acquire a target when suitable.
Godrej Cons.	■ GCPL volumes up 10% YoY. India business grew 9% YoY led by 12% volume growth. ■ The home care segment was led by double-digit volume and value growth in the household insecticides (HI) segment. ■ The Raymond consumer care business reported muted sales of INR450m in 1Q on account of 1.5 months of operation, down stocking and returns. ■ Indonesia had a strong quarter despite another round of down stocking in modern trade. Volumes grew 12% YoY (15% CC)	■ Over the upcoming 18 to 36 months, GCPL is strategizing an investment of ~INR9b in domestic organic manufacturing infrastructure in India. The primary motivations for this investment are twofold: to drive volume expansion and enhance logistical efficiency. ■ The company's blueprint includes establishing fresh manufacturing facilities in Tamil Nadu and Madhya Pradesh. ■ GCPL aims to bolster its home and personal care production capabilities by around 20%. This expansion will be financed through internal resources and debt.
Hindustan Unilever	■ HUVR's volume growth for the quarter was 3%, while the FMCG industry volumes grew in mid-single digit. ■ Competitive intensity is rising as the share of smaller players increases in certain categories, driven by lower inflation. ■ Rural recovery appears promising, exhibiting volume growth during the quarter. However, it is crucial to monitor the current weather-related risks.	■ Management is cautiously optimistic about demand as weather-related risk and high levels of cumulative inflation continue. ■ In FY24, revenue growth will primarily be led by volume growth, while price growth will be flat to marginally negative as it passes on the input cost benefits. Overall margins are likely to improve gradually and will be led by falling raw material prices.

Marico	■ MRCO's domestic volume growth at 3% YoY in 1Q was below management's expectations largely due to channel inventory adjustments. ■ Gross margin expansion was led by moderation in input prices and favorable product mix. MRCO also passed on price declines to consumers.	■ In FY24, gross margin is expected to rise by ~200-250bp and EBITDA margin to improve by ~100-150bp YoY; it is targeting around 20% EBITDA margin. ■ The company aspires to clock ~10% contribution of domestic revenue from digital-first brands in FY24.
Pidilite	■ The underlying volume growth was 8% YoY, adjusting for the product mix and price changes. However, actual volume growth was 19% YoY. ■ PIDI achieved overall growth of 1.5x-2.0x of GDP. Its core categories grew 1.5x of GDP and new categories surged 2-3x of GDP. ■ VAM's consumption cost in 1QFY24 was USD1,150/t vs. USD2,250/t in 1QFY23. The current ordering rate is ~USD850-900/t.	■ Management stated that improved demand was seen in both urban and rural markets in Q1 and they expect it to remain healthy going ahead too. ■ Management expects the company to grow at 1-2x of GDP in FY24 and estimates EBITDA margin in the 20-24% range.
UNSP	■ The P&A segment continued its strong performance, driven by improvements in product mix and ongoing efforts to reshape the portfolio through innovations and renovations. Notably, there was a balanced growth in both volume, at 10% YoY, and price/mix, at 11% YoY. ■ The underperformance of popular portfolios, with a 12% decline in volume YoY and contributing to around 10% of the total revenue share, is concerning. This decline is attributed to broader macro concerns, particularly the impact of inflation. ■ A tax hike of approximately 20% in Karnataka will result in a 14-15% increase in the MRP across the product portfolio.	■ The company maintains a target of a +15% EBITDA margin for FY24. ■ UNSP has wiped out all accumulated losses in 1QFY24 and will soon come up with a dividend distribution policy.

asianpaints

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Asian Paints — Neutral

Current Price INR 3,226

Performance and outlook

- APNT delivered a strong performance in 1Q, led by strong double-digit volume growth of 10%.
- Value growth was 8%, owing to a favourable product mix and price hikes.
- A four-year volume CAGR stood at 17.5% and Value CAGR stood at 17.0% at the end of 1QFY24.
- The economy and premium categories are largely growing, while the luxury category is facing challenges and may consider reducing prices, if necessary.
- Rural growth is getting better and was almost catching up to urban market growth in Q1.

Segmental highlights

- Strong growth in the demand for wood finishes, especially in the premium segment, is observed. Similarly, enamels with a premium component are experiencing a significant rise in popularity.
- Economy immersions also performed well, attracting customers from the unorganized sector to the organized sector.
- The safe painting service, which includes a highly contractor service, has been successfully expanding its reach and is now available in over 650 towns. Revenue doubled in Q1.
- The kitchen business's components segment faced a decline, with a 12% decrease in revenue, primarily attributed to the high base of price increases in the previous year.
- Despite the challenges, the company's margins improved in the kitchen business, registering an adjusted loss of about INR 20mn.

- The management targets to increase the contribution from the home décor business to 7-8% of decorative sales by FY25-26.
- Sales at White Teak grew 28.4% YoY to INR 260mn, while Weather seal's sales more than doubled to INR 98mn.
- As part of their staggered buyout plan, the company acquired an 11% stake in White Teak from its existing shareholders for INR 538mn, resulting in White Teak becoming a subsidiary of the company.

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 auto sector, including both two-wheelers and four-wheelers, is showing promising signs of growth with the emergence of additional production lines and the rise of electric vehicles (EVs).
- The company expects the uptick in overall demand to continue in this area.

Distribution and new products

- In Q1, the company added about 6k retail points, reaching a total of around 1.6 lac retail touch points, which is higher than the earlier guidance of adding 10k to 15k retail points for the full year FY24.
- New products have contributed 11%-13% of the overall revenues, and this trend continued in the current quarter with an 11% contribution.
- The company has launched Nilaya Naturals, a super luxury product that is exclusive in India.
- It is a completely organic emulsion with 90% organic materials that are environmentally friendly, and it is available in over 200 shades.
- The company currently operates 44 Beautiful Home stores nationwide, and this number is expected to grow to 65 to 70 stores by the end of the year.
- The company is the second-largest player in the fabric and furnishing business. It has established co-branding arrangements with various brands such as Pure, ACE Design, Sabyasachi, Sarita Handa, and Jaipur Rugs.
- Expanded into new categories such as wallpaper, lighting, flooring, and UPVC doors and windows.

Capex

- The company plans to spend INR 87.5b over the next three years for capacity expansion.
- The current capacity expansion projects are progressing well and are on schedule for the current year.

Britannia Inds — Neutral

Current Price INR 4,544

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Operating environment

- In 1QFY24, local regional players have increased their market share, leading to a further expansion of the gap between largest competitor and BRIT.
- Volume growth was flattish in tonnage terms in 1QFY24. Volumes grew 9% YoY in transaction terms.
- There is a slowdown in recovery in traditional trade in the rural market.
- Price cut of 1.8% taken in 1QFY24 to remain competitive. It will further take price cuts in future also.
- NPDs contributed 4% to the total revenue. It aims to increase this figure to 4-5% as it continues to scale up its efforts.

- NPDs in dairy portfolio contributed 10% of revenue.
- MT and E-commerce performed well.

Input costs, pricing and margins

- Overall commodity cost remained stable in 1QFY24 as flour & sugar prices slightly increased while, prices of palm oil, laminates and corrugated boxes softened YoY.
- Government will take initiatives to calm sugar inflation while flour inflation needs to be monitored.
- A&P spend is 3. 5-4.0% of revenue if exclude selling expenses. It will be 4.0-4.2% of revenue in FY24.
- ICD on Jun'23 stood at ~INR7.6b between Bombay Dyeing and Bombay Burmah.

Segmental Performance

- Cake and Rusk portfolio was sluggish due to local players as there are 2,500 regional players across India.
- The management is optimistic on the cheese portfolio as it is strengthening its in-house production.
- Winkin's Cow showed healthy growth driven by distribution.

International Markets

- The Middle East and Africa grew in double digits with improved margins.
- The rest of International business showed double-digit profitability led by America.
- Nepal continued to grow in high double-digit and expand margins.
- Egypt showcased high-double digit growth while Kenya stabilized.

Other points

- BRIT is setting up factories in Barabanki, UP and Tirunelveli, Tamil Nadu in 1QFY24. Each will have five product lines.
- Tamil Nadu government gave incentive of INR70-80m in 1QFY24 and BRIT will further receive incentives from Tamil Nadu and UP governments.
- Capex for FY24 will be ~INR4-4.5b.
- The company had ~28,000 rural distributors in 1QFY24.
- The number of direct reach outlets now stands at 2.67m.
- The focused state has 2.2x higher growth than rest of India.

Dabur — Buy

Current Price INR 565

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Environment and outlook

- Volume saw an uptick in both urban and rural markets, led by a moderation in inflation.
- Rural volume grew 8% (vs. 4% growth for industry) and urban volume grew 10%.
- India FMCG volume grew 3% in 1QFY24. The management has guided for volume growth in mid-single to high-single digits in FY24.
- The MT contribution was 18% and E-commerce contribution was 9%.
- New product contribution was 3% of revenue. It has 10% salience of E-commerce sales.
- The company gained market share in 90% of its portfolio.
- The management is positive about the rural recovery on the back of good Kharif sowing, increasing MNEREGA wage rates, Elections, etc.
- Inflation has eased to a low-single digit from a high-single digit, but food inflation remained at 11%, while spices at 19%.

- The Healthcare and HPC portfolios registered double-digit growth, while beverages saw a decline due to unseasonal rains in northern and western India.
- Its growth strategy includes investing in power brands, introducing new products, and exploring potential acquisitions, particularly in the D2C (Direct-to-Consumer) space.

Costs and margins

- A&P spends increased by 30% YoY on absolute basis owing to lower spending in the base quarter due to inflation.
- A&P spends will be 8-9% of revenue in FY24.
- The management maintains EBITDA margin guidance at 19-19.5%.
- Gross margin improvement was due to strategic inventory and deflation in raw materials and packaging.

Additional segmental highlights

- Volume growth across verticals — Beverages: negative; healthcare: 6-7%; HPC: 7-8%.
- The Foods business, especially the Homemade brand, performed well with 35% growth, supported by the Badshah acquisition (up 24%).
- Baby care category revenue stood at ~INR200m in FY23 and is expected to ~INR500m in FY24.
- In the Oral care portfolio, the natural category has 30-31% share. Growth in the Natural category was 9%, ahead of market growth of 2%.
- Volume growth in oral care was 8%, ahead of market growth of 2.5%.
- Ayurveda Tea revenue will be ~INR 100-110m in FY24.
- The share of OTC and Ethical is same in revenue and margins.
- The Healthcare segment is expected to achieve double-digit growth, with price increases and mid-single digit volume growth in FY24.
- In the Health portfolio, the recently established therapeutics division is targeted to reach 70k allopathic doctors (current reach of 70k ayurvedic doctors).
- In hair care, the launch of Dabur Cool King received good market reviews. It received 25-35% repeat orders despite muted summer and gained 15% market share in the states where it was launched.

Other points

- Direct reach now stands at 1.4m, targets to reach 1.5m by FY24, and village coverage has increased to 100,000.
- The company has sufficient cash on the balance sheet for an acquisition and will acquire a target when finds synergies.
- Capex stood at ~INR1.6b in 1QFY24 and is expected to be ~INR4-4.5b in FY24.
- Last year, the MT business was affected by a controversy with Reliance, which has been resolved now.
- Distribution changes in international markets have been resolved, and the company anticipates good double-digit growth in FY24.
- DABUR has taken adequate steps to defend the lawsuit filed in the US for the usage of a hair relaxer product that led to harmful effects.
- The management commented on the news that Dabur Honey has undergone stringent testing and complies with all regulations.

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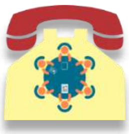

Emami — Buy

Current Price INR 516

Performance and Outlook

- The domestic volume grew 3% YoY.
- The unexpected rains have adversely impacted the performance of the summer portfolio.
- In 1QFY24, Modern Trade (MT) achieved a remarkable 45% growth, while E-commerce saw a strong growth of 47%. This growth, attributed to the lower base, is expected to stabilize at 15-20% in the near term.
- Combined, MT and E-commerce accounted for 19.4% of total sales, with each holding a salience of 9.7%. The management plans to increase this contribution to 25-26% within the next two to three years.
- The rural market continues to pose challenges, and it is important to closely monitor inflation.
- NPDs made up 2.5% of sales in 1QFY24, with an anticipated increase to 3% in FY24.
- The summer portfolio has contributed 41% of the overall sales in 1QFY24. GT is flat due to higher contribution from summer portfolio.

Cost and Margins Analysis:

- Favourable trends in the prices of key raw materials have contributed to the expansion of GP margins.
- The "Depreciation and Amortization" category includes Kesh King in the base quarter, but not in 1QFY24.
- The Man Company has transitioned into a subsidiary in 2QFY24.
- The management indicates an expansion of EBITDA margin by 200-250bp for FY24.
- The margin gap between GT and MT is anticipated to narrow down over the course of the year.

Segmental Performance:

- Despite the disruptive impact of unseasonal rains, Dermicool has shown improvement, primarily due to its extensive distribution network.
- If not for the impact of unseasonal rains, Dermicool would have achieved a growth rate of 18-20% YoY.
- Navaratna Cool Talc, in conjunction with Dermicool, reached sales of approximately INR 3b in 1QFY24, displaying a strong base.
- Cooling oil recorded a total sales figure of INR 50-60 million.
- Over the next two to three years, Kesh King is anticipated to achieve a growth rate of 7-8%. While oil sales are stable, shampoo sales are exhibiting strong growth.
- While Boroplus' contribution was relatively low in 1QFY24 sales, the major growth driver stemmed from the soap segment.
- The D2C channel experienced remarkable growth of 27% in 1QFY24 and is expected to contribute 4-5% to FY24 sales.
- Male grooming's growth has remained steady due to a high base effect, but the management expects double-digit growth starting from 2QFY24.
- Health care products currently contribute 10-12% to overall sales and are poised for double-digit growth.

- Both Helios and TMC companies have shown substantial growth in 1QFY24, with an impressive increase of nearly 27%. TMC has reached the breakeven point.

Other Points

- The growth in the international market is being propelled by existing brands, with stability achieved through increased A&P expenditure.
- Among international brands, sales are led by Navratna, Fair and Handsome, Creme 21, 7 Oils in One, Boroplus, and OTC products.
- The International Business is expected to achieve a steady growth rate of 15% in the long term.
- Presently, 1/3 of doctors are allopathic practitioners. The management aims to enhance coverage both in terms of numbers and throughput. While there's no immediate plan to increase allopathic doctor numbers, this strategy will be pursued gradually.
- Direct reach encompasses ~1m outlets. The throughput per store is projected to increase through trade marketing efforts.
- The pledge percentage is expected to remain within ~18-20%; currently, the existing pledge stands at around 33%.

Godrej | CONSUMER PRODUCTS

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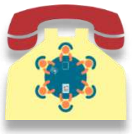

Godrej Consumer — Buy

Current Price INR 1,041

Performance and outlook

- GCPL remains steadfast in its FY24 strategy, focusing on category development through increased investments in brands, with a significant 125% boost in advertising spend, alongside a planned INR 9b capex for the organic portfolio.
- The company has streamlined operations by partnering with a national distributor in Nigeria and achieving inventory day reduction from 98 to 58 days in Indonesia.
- Demonstrating its commitment to both societal and environmental aspects, GCPL has introduced a reasonably priced magic floor cleaner.
- Underlying sales growth was affected by the pricing deflation in soap and the currency depreciation in Nigeria.
- The management has outlined growth metrics: 1) organic underlying volume growth, 2) organic constant currency growth, 3) operating cash flows, and 4) EBITDA including Forex
- Value growth is lower than volume growth, as the company has passed on the benefits of lower input costs to customers.

Costs and margins; Segmental performance

- HI achieved double-digit growth driven by favourable conditions in the northern region, compensating for the weaker summer and the investment made in market development.
- Magic Hand Wash delivered strong double-digit volume growth.
- Hair Colour saw mid-single digit growth due to a high base. It launched a new ~INR15 Godrej Expert Crème access pack.
- Consolidated Ad-spends increased by 59% on an absolute basis.
- The RCCL business incurred an operating loss due to reducing inventory levels from 80-90 days to 10 days. However, the management aims to achieve equivalent profitability to the organic business.

International Markets

- Indonesia saw good growth despite inventory down-stocking in MT.
- The effects of the Naira's devaluation became evident in the latter part of June 2023. The exchange rate was 450 Nigerian Naira/USD in May 2023, and it has subsequently risen to 750. GCPL procures at an average rate of 650 Nigerian Naira/USD.
- The difference in the exchange rate was shown as a forex loss. There is an accounting impact when converting to INR terms, and it affects 200bp at the consolidated sales level.
- There will also be inflation as increases in the exchange rate cost will be passed on to customers.

Other points

- A capex of INR 9b is planned for the organic portfolio within the next 18-36 months.
- GCPL has increased in-house investment due to: 1) high-scale production in the industry, 2) sufficient capability, 3) differentiation in margins across categories, and 4) production becoming less labour-intensive and more automated. Coil business does not require this criterion so it continues to outsource.
- The company plans to incur capex to increase volume growth, move working capital to automate the production and change logistics.

Hindustan Unilever — Buy

Current Price INR 2,580

Hindustan Unilever Limited

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Results Update

Operational environment

- HUVR's volume growth for the quarter was 3%, while the FMCG industry volumes grew in mid-single digits. However, on a two-year basis, while HUVR volumes registered a CAGR of 5%, industry volumes were flat.
- The company's volume growth on a two-year CAGR basis is 5% ahead of the market.
- The company is focused on increasing its customer base and sustaining its volume growth.
- Rural recovery appears promising, exhibiting positive volume growth during the quarter. However, it is crucial to monitor the current weather-related risks.
- Currently, the business is capturing an impressive 75% market share both in volume and value.
- Price growth would remain flattish or decline if the RM costs continue at their current levels.
- FMCG industry price growth was 22% in the last two years.
- The company expects a gradual recovery in volume, due to the high level of cumulative inflation.
- Competitive intensity rising as the share of smaller players rises in certain categories, driven by lower inflation.

Costs and margins

- Commodity cost benefit led the gross margin expansion both on a QoQ and YoY basis.
- A&P spends return to pre-Covid levels to revive volume growth.

- The company has experienced a significant impact from commodity cost inflation, resulting in a loss of 600bp. However, there has been a partial recovery of 400bp as of now.
- The YoY increase in 'Other expenses' is attributed to a step-up in investments, the impact of new royalty incentives, and favorable benefits in the base quarter.
- Consumers are purchasing higher-priced inventory due to the company's destocking strategy.
- Price reduction benefit will be visible in the next two-three quarters.

Segmental highlights

Home care

- Volumes grew in mid-single digits.
- Market development and premiumization led the double-digit growth in both fabric care and household category.

Beauty and personal care

- BPC grew in mid-single digits
- Strong performance in premium portfolio led to double-digit growth in skin care and color cosmetics.
- The Hair Care segment achieved a mid-single-digit UVG, driven by the strong performance of brands like Tresemme, Indulekha, and Clinic Plus.
- Skin Cleansing had a modest volume-led growth with Lux and Hamam continuing to outperform. Additionally, the company implemented price reductions during the quarter.
- The Oral Care segment delivered strong double-digit growth, led by Closeup.
- The company's new launches included Dove Men+ Care range, Indulekha Soap, and Pond's Anti Pigmentation Serum.

Food & Refreshment

- The tea segment witnessed modest volume-led growth as consumers continued to downgrade their choices, opting for loose tea over premium teas due to higher inflation in the latter.
- The Health Food Drinks (HFD) category experienced strong growth, driven by the strong performance of both Horlicks and Boost.
- The food segment achieved mid-single digit growth, primarily fueled by the strong performance in Ketchup and Food Solutions categories.
- The Ice Cream segment recorded mid-single digit growth, despite facing exceptionally high base and the impact of unseasonal rains.
- The company's new launches include Horlicks Millet Biscuits, range of Knorr Chinese Sauces, and Bru Cold Coffee.

Other points

- In 1QFY24, the effective tax rate stood at 26.5% and is expected to decrease on a full-year basis.

Indigo Paints — Buy

Current Price INR 1,531

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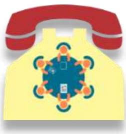

Indigo Paints

Performance and outlook

- Indigo Paints achieved over 3x industry growth in sales.
- Sales expansion in Tier-1 and Tier-2 cities outpaced Tier-3 and Tier-4 rural areas by 1.5x.
- The management anticipates a projected 38% revenue contribution from Tier-1 and Tier-2 cities.
- Witnessed substantial growth across all product categories, encompassing putty, primers, distempers, enamels, and emulsions.
- The Primer + distemper combination falls within the low category product range. Distempers, specifically, are low-value products that are sold in high volume. Consequently, the category's YoY value growth of 43.6% lags behind its YoY volume growth of 52.6%.
- The launch of a comprehensive range of waterproofing products has demonstrated strong sales traction.

Costs and margins

- Indigo Paints continues to uphold robust advertising endeavours to enhance its brand presence but ad-spends as a percentage of net revenue declined from 9.4% to 7.6%.
- The company's focus remains on expanding networks, enhancing dealer throughput, and increasing the deployment of tinting machines. They are also introducing new distribution centers to enhance the effectiveness of their distribution operations.
- The company is focused on improving throughput per active dealer; it currently has 16,693 active dealers and 8,657 tinting machines in operation.
- The company's continued emphasis on network expansion is evident through the addition of two new depots in northern India.

Apple Chemie (Acquired entity)

- Synergies between Indigo Paints and Apple Chemie are being realized in sales, purchase, finance, and distribution.
- Apple Chemie shows considerable potential for promising B2B growth in the near future.
- Historically concentrated in Maharashtra, the company has been serving major clients including L&T and Shapoorji Pallonji.
- Anticipating a 40% growth within the existing region, the management is capitalizing on well-established customer relationships.
- Nationwide expansion aligned with India's robust infrastructure investments.
- The company is currently in the process of strategically expanding its sales and marketing team across 8-9 states, with the goal of attaining a wider market presence.
- New regional orders expected to initiate in Q2.
- The company is aiming to clock a revenue of INR2,000m within a couple of years.

Other points

- Capex projects progressing well, with successful trial production in Tamil Nadu and a new plant in Jodhpur.

Jyothy LABORATORIES LIMITED

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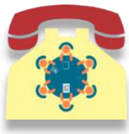

Jyothy Labs — Neutral

Current Price INR 328

Performance and outlook

- JYL has witnessed a stable demand environment with moderated input costs.
- In 1Q, it increased prices by 6% and reported 9% volume growth.
- The management expects double-digit revenue growth in FY24, led by volume growth.
- The ratio of sales volume in rural vs. urban was 40:60 in 1Q.
- Rural market impacted by inflation has shown signs of recovery.
- The company focuses on LUPs and rural distribution to recover sales in the rural market.
- LUPs' contribution is around 25-30% of total volume.
- The company's pricing strategy has received good response from customers and places the company to a premium pricing vs. competitors.
- The management does not expect any weather impact on the demand-supply chain.

Costs and margins

- JYL expects EBITDA margin of 15-16% in FY24.
- The softening in raw material prices helps in GP margin expansion.
- Media spending stood at 7-8% of sales in 1QFY24.
- Raw material prices have come down but are still at the elevated level and remain volatile.
- Other Income included a one-off item of ~INR90m related to land sale of a plant.

Segmental details

Fabric Care

- Expanded distribution reach increases sales across India..
- Launched Ujala liquid detergent to strengthen its premium portfolio
- Cut prices in some products

Dishwashing

- LUP's bar category gaining acceptance in the rural market.
- Focus on the larger pack in dishwash liquid category
- JYL aims for double-digit growth.

Household Insecticides

- Seasonal variations and illegal incense sticks impacting demand
- Focus on Liquid vaporizers and coils as safer options for illegal incense sticks
- The contribution ratio of Coil and LV was 60:40 in 1QFY24
- Increases media spending for the category

Personal Care

- Original Margo Neem contributed more to growth in 1QFY24 compared to new launches.
- Increase in distribution, rural penetration and seasonality supported growth.

Other points

- It expects to increase its total reach by ~100k outlets in FY24.

Motilal Oswal

marico

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Marico

Buy

Current Price INR 564

Business environment and outlook

- The management expects volume-led growth, led by diversification, go-to-market transformation, and digital capability building.
- Domestic volume growth was muted at 3% due to one-off channel inventory adjustment.
- Downtrend in retail inflation continues and currently stood at ~4.8%.
- Rural recovery has been slower than expected due to higher prices still weighing on rural demand.
- The management is optimistic about rural demand due to: 1) moderating inflation, 2) near-normal monsoons, 3) MSP hikes, and 4) higher government spending.
- Erratic weather patterns, early onset of El-Nino and spatial distribution of rainfall could influence recovery.
- Revenue growth would be flat in 2Q but could improve in 2HFY24, led by the bottoming out of domestic portfolio price deflation.
- The company will focus more on premiumization.
- MT and e-commerce grew in double digits, while GT declined in mid-single digit.
- The management expects to shift more toward Foods compared to edible oil to de-risk the volatility in commodity prices.

Material costs, margin and guidance

- The gross margin expansion was ahead of expectation, led by incrementally softer input costs.
- The company has increased its A&P spends and will be 9-10% of sales in FY24.
- Gross margin may increase by 200-250bp and EBITDA margin by ~100-150bp YoY in FY24E.
- The management expects +20% EBITDA margin in FY24.
- Other Income included a one-off item of ~INR140m pre-tax from the sale of fixed assets.
- The margin expansion was led by food portfolio margin improvement, premiumization, good performance of international business.

Segmental performance

Parachute coconut oil

- Volume declined by 2%.
- Expects to grow owing to healthy market share and good penetration level.

Saffola edible oil

- A downturn in vegetable price oil led to a price cut of 30% YoY.
- Expects to improve in 2HFY24.

VAHO

- Affected by a slowdown in rural personal care demand.
- Focus is more on the mid and premium segment of the portfolio.

Foods

- Growth led by core and new franchises.
- Food margins are expected to improve.

Digital-first brands

- It aspires to reach revenue of ~INR4b (excluding Livon & setwet) by FY24.
- Expects ~10% contribution to domestic revenue in FY24.

Plix brands Acquisition

- Acquired a 58% stake in Satiya Nutraceuticals Private Ltd owned 'Plant Fix- Plix', a digital-first, clean label, plant-based nutrition brand.
- Pre-money valuation for the acquisition is at ~4x of ARR of ~INR1,500m.
- Acquisition is made in plant protein as India is good driver of growth.
- Plix satisfies the growth drivers of nutraceuticals business, i.e; 1) Heart and weight management, 2) Diabetes or sugar management, 3) Gut health, and 4) Bone health.

International business

- Margin Expansion led by copra gain in Bangladesh.
- Vietnam affected by slowdown in HPC category.
- Expects double-digit growth in FY24.

Page Inds — Neutral

Current Price INR 39,983

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Performance and demand environment

- Despite the current market challenges, the management has effectively increased margins by improving the quality aspects of their inventory.
- Volumes reached 55.8mn, up 31% QoQ and down 11.5% YoY.
- Excess inventory accumulation in the industry is impacting the ecosystem and sustainable business practices.
- The E-commerce channel witnessed substantial growth of 43%.
- The implementation of ARS is making significant progress.
- Subdued demand seems to be a transient phase. The company is taking a proactive approach and making continued investment in shaping the future.
- The women's category in the organized market has low penetration, particularly in the premium segment, where PAG is focusing on increasing its market share and penetration, and raising awareness.
- The expansion into modern trade and exclusive brand outlets is underway.
- Strategic focus on expanding B2C operations.

Distribution channels and supply chain

- There are total 1,330+ EBOs, with 51/81 exclusive for woman/children.
- Presence extended to over 120k+ MBOs.
- Expanding its footprint to 2,849+ cities/Towns.
- Targeting metro and tier 2 and 3 cities for expansion; focus on gauging potential pin codes for expansion.

Costs and margins

- GP margins decreased due to subdued demand, higher sales in 1QFY23, product costs and conversion charge adjustments in 1QFY24.
- An improvement in EBITDA margin due to lower product costs and better overhead absorption.
- Advertising expenses increased to ~2.5% for Q1 FY24 from ~1.9% in Q4FY23.
- The management has upheld its EBITDA margin guidance range of 19% to 21%.

Other points

- Expansion efforts, including in Odisha, are progressing. Odisha projects are expected to commence operations by 4QFY24, starting with trial production and transitioning to commercial production. Karnataka plants are already operational.

- Inventory duration declined to 105 days by Jun'23 end from 164 days in 4QFY23, in line with the management's annual target.
- The distributor count declined due to distribution consolidation. No attrition observed; distributor numbers increased from 1350+ to 1736 channel partners.
- ARS impact not reflected in primary sales; primary and secondary sales nearly equal; Secondary sales decreased by 9%.
- Employee attrition mainly impacts workers, not regular employees.

Pidilite

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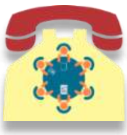

Pidilite Industries — Neutral

Current Price INR 2,521

Demand environment and outlook

- PIDI's 1QFY24 revenue growth was mainly driven by volume growth in domestic C&B business.
- Rural market growth rate is 1.5x of urban markets.
- The underlying volume growth was 8% YoY, adjusting for the product mix and price changes. However, actual volume growth was 19% YoY.
- The company has been prioritizing innovation across divisions (Fevicol, Fixit, and Consumer Products Division).
- PIDI achieve overall growth of 1.5x-2.0x of GDP. Its core categories grew 1.5x of GDP and new categories surged 2-3x of GDP.
- Management indicated that it has not seen any competition from regional or local players.

Cost and margin

- Gross margin expanded due to moderation in input costs and operational efficiencies. Partial benefits were invested in A&P spends and growth incentives.
- A&P spends were 3.6% of sales in 1QFY24 vs. 2.1% in 1QFY23.
- VAM's consumption cost in 1QFY24 was USD1,150/t vs. USD2,250/t in 1QFY23. The current ordering rate is ~USD850-900/t.
- EBITDA margin will be maintained in the range of 20-24%.
- Management indicated that there is no difference in Profits and RoCE of rural and urban markets.
- Rural market has higher freight & logistics charges while in urban market, more discount scheme needs to be offered to remain competitive.
- Working capital remained healthy and improved since Mar'23.

Segmental

- C&B business volume grew ~12% YoY with double-digit growth in both rural and urban.
- B2B business faced headwinds from lower exports and lower demand from business dependent on exports. However, domestic B2B business has shown healthy growth.
- Waterproofing portfolio contributed 15-18% to sales.
- Management indicated that waterproofing has been used in organized real estate market by 7/10 households, 5/10 in urban markets and 2/10 in rural markets.
- The ratio of core vs. new category products is 60:40.

Others

- Management indicated that rainfall has disrupted Jul'23 sales. It has seven plants in Himachal Pradesh and one warehouse in Ambala.

- PIDI continues to focus on distribution expansion and reach to 17,000 villages directly and reaches to 8,000+ villages under the Pidilite ki Duniya program.
- The decorative paint brand ‘Haisha’ has all the range of paint products.
- PIDI’s online dealer app ‘Pidilite Genie’ contributed 25% to sales.
- The company plans to increase its supply chain; currently it has 70 own manufacturing facilities and plans to increase this by 3-4 every year.
- Capex will be 3.5-4.5% of sales.
- Currency challenges and local inflation hit international performance.
- The management indicated that price cut is taken on the basis of PIDI’s price premium to the product. The company maintained a price premium of 10-15%.

TATA CONSUMER PRODUCTS

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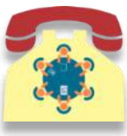

Tata Consumer Products — Buy

Current Price INR 844

India Packaged Beverages

- The India Packaged Beverages business witnessed a revenue growth of 2% YoY in 1QFY24 (four-year revenue CAGR of ~7%), backed by 3% volume growth. The market share declined by ~110bp on a YoY basis.
- Tea: The segment witnessed a market share loss of 110p YoY. Tata Tea Premium and Tata Tea Agni recorded strong volume growth during the quarter.
- Within the modern trade channel, the growth of tea sales outpaced the overall category growth by 1.7x across the top four customers.
- Coffee continued its strong performance, with a revenue growth of 21% YoY in 1QFY24.

India Foods business

- The business registered a 24% YoY revenue growth in 1QFY24. The segment recorded a volume growth of 6% YoY during the quarter.
- TATA Soulfull has doubled its revenue in FY23 and has registered ~50-55% growth in 1QFY24. It has a market share of mid-to-high single digit in the cereals category and strong double-digit share in the masala oats category.
- It has entered new categories with exciting new launches, expanding its Total Addressable Market (TAM). Soulfull witnessed the highest quarterly revenue in modern trade (the fastest growing channel for the category).
- Tata Sampann portfolio witnessed another strong quarter with 51% YoY growth, albeit on a soft base (Q1FY23 growth was 6%). Dry fruits witnessed another strong quarter with over 100% YoY growth.
- It continued the innovation momentum with recent launches such as South Hing (specially customized for south market), Rava Idli/Dosa, and Daliya.

India Salt

- The salt portfolio maintained its momentum with 18% YoY growth during the quarter on a high base of last year (1QFY23 growth of 20%).
- The salt business lost 30bp of market share YoY.
- Looking ahead, the management expects volumes to grow in mid-to-high single digits.
- Salt Immuno and Shuddh continued to witness strong traction, while rock salt recorded the highest monthly volumes in Jun’23.

Tata Coffee (including Vietnam ex EOC)

- Revenue grew 11% YoY (constant currency growth), driven by growth in the plantation business.

- Revenue from the plantation grew 31% YoY for 1QFY24, on account of higher Arabica sales and coffee trading revenues.
- The extractions business grew 2% YoY (constant currency growth) during the quarter, as unprecedented inflation in coffee prices adversely impacted demand.

NourishCo

- NourishCo sustained its robust growth momentum with a revenue growth of 60% YoY to INR2.93b, on the back of strong growth from Tata Copper+/Tata Gluco+ (up 71%/61% YoY).
- The business witnessed significant improvement in profitability, led by effective cost management and the utilization of operating leverage.
- The management is targeting a revenue of ~INR10b from NourishCo in FY24; it is expected to be driven by expansion in distribution network and product portfolio.
- NourishCo has a strong presence in Andhra, Telangana, Orissa, and Tamil Nadu. Last year, the company initiated its expansion into the East and North regions of India. As parts of its growth plans for this year, the company is further expanding its operations into the Western and remaining Southern regions of the country.
- The company's market share in the water category currently stands at less than mid-single digits. This indicates a significant growth opportunity in the category, as it has a long runway to expand its market share further.

JV: Starbucks

- Tata Starbucks revenue grew 21% YoY in 1QFY24. The business remained EBIT positive despite strong store additions during the quarter.
- It added 16 new net stores in 1QFY23, taking the total count to ~348 stores. Starbucks entered four new cities during the quarter, including Agra and Aurangabad, taking the overall presence to 46 cities.

US business

- **Coffee:** Revenue declined 5% YoY (constant currency) in 1QFY24, on the back of price increases and continued softness in the category. The company has a ~4.1% market share in the coffee bags segment.
- **Tea:** Revenue declined 3% YoY (constant currency) during the quarter. Tetley continued its outperformance vs. the mainstream black category

Canada business

- Revenue declined 7% YoY (constant currency) in 1QFY24, with the market share of 27.5% as on Jun'23.
- Revenue in the Specialty tea category declined 13% YoY during the quarter.
- Tetley continued to outperform the regular tea category during the quarter.

UK business

- Revenue grew 1% YoY (constant currency) in 1QFY24. However, all the three brands, Tetley, Teapigs, and Good Earth gained value market share.
- The region has started witnessing benefits of restructuring during the quarter.

Other highlights

- TATACONS is witnessing improving demand trends for its core categories and remain cautiously optimistic going forward. However, rural recovery and monsoon will be the key monitorables.

- Going forward, the Tea and Salt segments are projected to achieve mid-to-high single-digit volume growth. While, the 'growth businesses' (NouishCo/Tata Soullful/Tata Sampann/Yummside) are expected to grow at much faster pace.
- The company is witnessing an increase in the contribution margins in the new business. The margin profile of the new business is expected to improve as it scales up. However, the company's main focus lies on achieving a higher growth rate in the category.
- Management has guided for expansion in depth (over 1m split routes) as well as width (~20,000 trade accounts) of distribution network.
- Within the international businesses, pricing actions and structural interventions have led to a sequential margin improvement over the last three quarters. However, softness in demand continues to be a key monitorable.
- The company expects to complete the integration of the Tata Coffee business in the current financial year, subject to approval from NCLT.

United Breweries — Sell

Current Price INR 1,533

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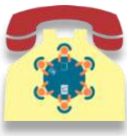

Environment and outlook

- Volume declined ~12% in 1QFY24. Volume mainly declined in Apr-May'23, but saw a strong recovery in Jun'23.
- The management also sees good volume improvement in Jul'23.
- Supply constraints in Telangana and Haryana were due to an administrative issue related to getting license for production.
- UBBL has resolved the license issue in Karnataka, while some approvals are needed in Haryana.
- The volume base will be normalize in Q3. Volume is affected by RTM change last year in Sep'22.
- The hike in excise duty in Karnataka led to a 3-5% price increase.
- The company may see disruptions due to elections, but it is not much concerned about it.
- UBBL has an 80% overall market share, excluding RTM states (Delhi, AP, Chhattisgarh and Tamilnadu).
- RTM states have 10% salience in total volume.
- Currently, non-alcoholic beverages have a low contribution to total sales, but it will improve further.
- Prices were hiked in several states. In Karnataka, prices were increased by a mid-single digit in May'23.
- Maharashtra saw improvement owing to premiumization.
- Kingfisher Ultra Max reported mid-teens volume growth.
- Heineken Silver contributes 30% of total Heineken franchise volume.

Costs and margins

- The Barley cost softens as new crops are coming. It will improve in Q2 and Q3.
- The demand- supply issue still affects the glass cost.
- Other expense per case declined followed by 1) improving efficiency, 2) interstate transportation benefits, and 3) volume improvement.
- A&P spending was lower in 1QFY24 than in 1QFY23.

Other points

- The capex guidance for FY24 remains unchanged at ~INR2.5-3b.
- The company will disclose information about a new CEO in Sep'23.

- Regional Volumes - North (-15%), East (-8%), South (-18%), West (+2%).

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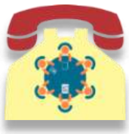

United Spirits — Neutral

Current Price INR 1,019

Operational environment and outlook

- Despite the volatile macro-economic environment, UNSP’s performance remained steady thanks to resilient consumption during the quarter.
- The tax rate hike in Karnataka is not a good move, as the state already has a higher tax rate and is seeing demand pressure.
- The management indicated that a 20% increase in the tax rate would result in a 14-17% increase in the MRP of products but not in company realization.
- UNSP is confident about the performance of the Women Cricket Team as it is expected to be profitable in the next 8-10 years.
- The company recorded a profit of INR3,000m from the Men IPL team, while it recorded a loss of ~INR900m from the Women IPL team.
- It may see an uplift in the coming quarter due to the Cricket World Cup.
- The Popular segment remains under pressure due to higher inflation.
- The management targets double-digit sales growth in FY24.

Costs and margins

- Gross margin benefitted from write-back; adjusting for it, gross margin would be 43% (est. 42.6%).
- A&P spending was lower in 1Q, but it is expected to normalize to 9-10% of sales.
- The company expects to achieve EBITDA margin of 14.5-15% in FY24.
- Employee cost was lower at INR1,250m during the quarter due to an actuarial valuation, retirement and other reasons, but management commentary of INR1,400-1,500m per quarter has been maintained.
- UNSP has wiped out all accumulated losses in 1QFY24 and will soon come up with a dividend distribution policy.
- Glass cost is highly inflated due to 100% glass industry utilization.
- The unwinding of natural gas relief is causing inflation in soda ash prices.
- Delayed impact of El Nino: effects on rice sowing may manifest in the next two to three months.

New launches/re-launches

- UNSP introduced Godawan 100 and produced only 100 bottles. Each bottle is different and is sold immediately at INR90k per bottle.
- Godawan was launched in New Jersey and New York in May’23, and is available presently across 40+ outlets.
- Royal Challenge American pride is now present in 80%+ of the markets in the country, with expansion in Odisha and Chandigarh.
- Renovated Royal Challenger continues to expand its footprint and has received a good response.
- Jonnie Walker Global Innovation was launched in India, along with Thailand and Brazil, and was one of the first markets for the biggest-ever global innovation launch of Johnnie Walker in the premium portfolio.

Others

- RTM policy change affects the Delhi market, but the management see stabilization in that market and a demand pick-up in other parts of country.
- The slump sale of the popular segment led to reduced salience in Karnataka.

- Southern states are less premium compared to northern and western states as North India represents 60% of the scotch market.
- There is a little shift in seasonability compared to the pre-Covid level as reflected in a shift in Jan-Jun/Jul- Dec sales ratio to 46:54 from 49:51.

Varun Beverages — Buy

Current Price INR 884

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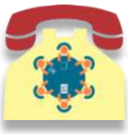

Operating performance

- The company witnessed resilient performance in the quarter, despite facing a soft demand environment in India due to abnormally high unseasonal rains.
- Despite weak demand from the North region in India, the company managed to achieve modest growth compared to the previous year, owing to improved performance in other regions.
- The growth during the quarter was attributable to strong performance from international territories.
- VBL witnessed notable improvement in Net realization due to continued increasing share of smaller SKUs.
- Gross margins improved ~200bp because of softening PET chips prices.
- PAT growth was driven by growth in revenue from operations and improvement in margins.
- The company continues to remain optimistic regarding full-year CY23 performance, factoring the lower seasonality in the business, following the integration of West and South territories.

Juices and Value-added dairy

- NCB volume declined on a YoY basis as demand in North India was adversely impacted by unseasonal rainfalls.
- VBL exclusively caters juices to northern markets, as its manufacturing facilities for juices are located only in North India. Additionally, the company refrains from transporting these products to other regions due to the high freight costs involved.
- However, as plants for this product category are being established in other parts of India, it is expected that the current situation will not repeat in the future.
- VBL is tripling its capacity in the dairy-based beverages category. It will utilize distribution (~1m visi-coolers) and supply chain of existing products for its dairy-based beverages. No other player in the dairy industry has such a large scale distribution network.

New and upcoming plants

- The company has operationalized its newly established greenfield plants and brownfield manufacturing lines during the quarter.
- In line with its commitment to meet the increasing demand especially for juices and value-added dairy products, VBL is currently in the process of establishing greenfield facilities in the States of Uttar Pradesh, Maharashtra, and Odisha.
- These new facilities, along with the upcoming facility in DRC, are expected to be fully operational before the peak season of next year.

International business

- All the international territories for VBL are performing well.
- Morocco and Zimbabwe has witnessed strong growth.
- The company has incorporated a new subsidiary in South Africa to explore the business of manufacturing and distribution of beverages.

Capex

- In 1HCY23, the net capex amounted to INR19b, which includes INR8.5b for setting up of new greenfield production facilities in Rajasthan and MP, INR6.5b for brownfield expansion at six of the existing facilities in India, INR3b for capex in international subsidiaries, and INR1b for land acquisition.
- The net capex includes capitalization of CWIP and capital advances amounting to ~INR12b paid during CY22. Further, as on 30th Jun'23, the company has CWIP and Capital advances of ~INR9b, primarily toward greenfield expansion in Maharashtra, UP, and Odisha
- The management expects a total capex of ~INR24-25b in India for full-year CY23.

Others

- The management expects new products such as energy drinks, Tropicana, Sugar free drinks (Pepsi black), and Gatorade to perform well going ahead.
- The company has reduced the prices of Gatorade to INR20 and expects to receive significant traction from this product going ahead.

- **Most banks have guided for consistent growth momentum in loans, primarily driven by steady traction in the retail, business banking and SME segments. The corporate sector is witnessing a gradual recovery, led by working capital loans and a robust sanction pipeline. While most banks have experienced NIM stagnation or decline (except for UNBK), managements expect the rising cost of funds to lead to further moderation in margins over the next few quarters. Portfolio yields are likely to increase at a calibrated pace only as repo-linked loans have already been re-priced, while the re-pricing of MCLR-linked loans (a smaller proportion for private banks) will happen gradually. Banks, especially PSUs, reported better treasury performance with the softening in bond yields; however, opex ratios remain elevated on account of wage provisions for PSU banks and continued investments in branch expansion and technological advancements. SMA pool remains low, while slippages from the restructuring book have been controlled, which, coupled with healthy PCR and contingency buffers, will keep a check on credit costs, thus supporting earnings.**

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook for FY24	Asset quality and collection efficiency
Axis Bank	■ The bank has a strong deposit franchise and grew 400bp faster than that of the industry. ■ AXSB remains committed to bring down the cost-to-assets ratio to 2% by FY25. This 2% is excluding the Citibank-related expenses and integration costs. ■ COD grew 31bp QoQ to 4.6% in 1QFY24 and it expects this to rise further in upcoming quarters while the pace of COD growth will moderate going forward. ■ Citibank business will be ROE accretive while the cost ratios are likely to be higher due to the retail business.	■ GNPA improved 6bp QoQ to 1.96% while Net NPA increased 2bp QoQ to 0.41%. PCR moderated 127bp QoQ to 80%. ■ Credit cost is higher during the quarter due to seasonally higher agricultural slippages and stood at 0.5%. ■ Fresh slippages came in at INR39.9b (INR33.8b in 4QFY23) and recoveries from written-off accounts amounted to INR5.5b in 1QFY24. ■ Restructured loans stood at 0.21%. The bank carries 21% provisioning on these loans.
HDFC Bank	■ In the medium term, distribution reach will be the key and hence, its C/I grew 80bp QoQ to 42.8% in 1QFY24. But the bank expects the C/I ratio to decline in the long term and aims to reach 30% by FY30. ■ C/D ratio for the merged entity stood at 109%, which will run-down to normal within the next 3-4 years. ■ The bank is aiming for 1.9-2.1% ROA for the merged entity and anticipates the advances to grow at 17%-18% in FY24.	■ GNPA/NNPA ratio increased 5bp/3bp QoQ to 1.17%/0.30% as of 1QFY24. PCR declined 81bp QoQ to 74.9% as of 1QFY24. ■ HDFC Bank reported a 35bp slippage ratio amounting to INR58b for 1QFY24. Excluding agriculture, slippage ratio stood at 26bp amounting to INR42b. ■ Restructuring assets formed 27bp of the net advances amounting to INR42.7b as of 1QFY24. ■ Contingent and floating provisions amount to INR112b while general provisions amount to INR72b as of 1QFY24.
ICICI Bank	■ NIM moderated to 4.78% from 4.90% in 4QFY23. Management believes that NIMs will see further moderation in the upcoming quarters. ■ About 75-80% of the book is retail and the bank has seen a strong growth in this segment. Retail portfolio grew 22% YoY (4.5% QoQ). ■ CoD increased to 4.31% in 1QFY24 from 3.98% in 4QFY23. Lag in deposit re-pricing will lead to increase in the cost to deposits in upcoming quarters as well.	■ Net additions to GNPA amounted to INR19.32b in Retail, Rural and BB portfolio and Net deletion to GNPA amounted to INR1.25b in the corporate and SME portfolio. ■ The bank reported INR35.1b of recoveries and upgrades in 1Q, of which INR3.71b were from the Corporate and SME Book ■ Contingency provision amounted to INR131bn (1.3% of total loans) as of 1QFY24. ■ Non fund-based outstanding to borrowers classified as NPA amounted to INR37.04b in 1QFY24 vs. 37.08b as of 4QFY23.
IndusInd Bank	■ C/I ratio is likely to remain elevated at ~45% for the next eventually moderate to 41-42% as efficiency kicks in. ■ The bank expects the retail mix to be 55-57% and corpor forward. ■ CoD is likely to dip 10-15bp in the coming quarters. ■ The bank is expanding its affordable housing segment, w escalation. ■ The comfort level of CD ratio is 86-89% for the bank. ■ MFI book is likely to grow 18-20% going forward while ov be 18-23% by FY26.	■ The bank reported INR13.8b of slippages in 1QFY24 led by higher slippages from the vehicle business. ■ The bank has made additional SR provision of INR1.3b during 1QFY24 and has utilized INR2b of contingency buffer. ■ SMA 1 and 2 books as a percentage of loans stood at 4bp and 19bp, respectively, as of 1QFY24. ■ Credit cost is likely to be ~110-130bp over FY23-26E.

Kotak Mahindra

- Deposits have picked up owing to ActivMoney launched by KMB and it now forms 7-8% of the total deposits. In the long term, flow of deposits will rise due to this product and ensure customer stickiness.
- Cost of SA deposits stood at 3.5-3.6% while cost of TD stood at 7.0-7.3% as of 1QFY24. ActivMoney cost was at 5.0-5.5%.
- NIM of 5.8% in 4QFY23 was at its peak and the bank reported an 18bp decline in NIM to 5.6% in 1QFY24. It expects this to moderate further going forward.
- The bank reported higher ROA of 2.8% in 1QFY24 due to a one-time non-interest income and expects this to moderate in 2QFY24.
- The bank consumed COVID provisions amounting to INR500m and holds outstanding COVID provisions of INR3.37b in 1Q.
- Credit cost came in at 50bp in 1QFY24 and is expected to moderate in the upcoming quarters.
- Bank reported slippages amounting to INR12.1b as on 1QFY24 while upgrades amounted to INR2.9b.
- SMA 2 book was at INR2b and formed 6bp of net advances.

SBI

- Credit growth is expected to be ~12%-14% in FY24.
- The bank reported an ROA of 1.2% in 1QFY24 and expects RoA for FY24 to be around the FY23 levels (0.96% in FY23).
- SBI might see further increase in the opex due to branch additions and technological developments. Bank is aiming to add 300 branches in the upcoming quarters.
- COD stood at 4.5% in 1QFY24 and is expected to remain constant after some increase in the upcoming quarters as within the next 1year entire term deposit book will be re-priced.
- Credit cost came in at ~32bp for 1QFY24 and is likely to remain similar for FY24.
- Slippages breakup: INR24b is Retail, INR23b is Agri, and INR24b is SME; while recovery amounted to INR7b for retail and INR6b for SME.
- Slippage ratio for 1QFY24 improved 44bp YoY and stood at 0.94%. The bank expects recoveries to be higher than the slippages going forward.
- Restructuring book stood at INR227b as of 1QFY24 and formed 0.7% of total advances.

AU Small Finance Bank — Buy

Current Price INR 745

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Balance sheet and P&L related

- The bank has been able to deliver on key parameters despite the uncertainty in macroeconomic environment and challenging conditions.
- Average LCR for 1QFY24 stood at ~139%.
- The bank has maintained 39% additional liquidity compared to the regulatory requirement.
- The bank has reduced its peak deposits rates by 25bp across SA and TD.
- The quarter saw a 29-bp increase in the cost of funds with Q1FY24 CoF at 6.6% as deposits continue to re-price.
- NIM was adversely impacted by 38bp on a QoQ basis, primarily due to an increase in deposit costs and the drag from excess liquidity buffers.
- The bank expects the margin decline to be gradual with a majority of the deposit already re-priced.
- Disbursement yield increased by 29 bps on a QoQ basis and is expected to support margins in the future.
- The ratio of fixed rate to floating rate loans is at 66%:34%. The fixed rate book is expected to have a positive impact on margins once the interest rate cycle turns.
- Retail asset account for 89% of the advances and 91% of the advances are secured in nature. Retail term deposit of the bank grew 8% QoQ.
- The bank plans to open an additional 50+ branches and touch points in FY24.
- In 1QFY24, the bank on-boarded ~3.7L new customers, of which, 45% were through digital products and channels.
- The bank has issued 120k credit cards and has opened ~49K savings accounts via Video Banking during the quarter.
- The bank got its AD1 license in April. Post operationalization of AD-I license and transaction banking build-out, the entire customer offerings of the bank will be complete by the end of FY24.

Asset quality

- The GNPA increased 10 bps during the quarter to 1.76%. Restructured assets reduced to 1% of gross advances in 1QFY24.
- The bank expects GNPA to be ~1.5%-1.75% and NNPA to be ~0.5%-0.6%.
- The bank is carrying a contingency provision of INR280m and a provision of INR1b against standard restructured assets.
- NPAs from the Covid restructuring book remains below 13% and restructured advances of INR300m is upgraded during the quarter.
- The GNPA of the business banking stood at 0.2%, while for Agri banking, GNPA stood at 0.4%.
- The outstanding restructured portfolio declined to INR6.3b, corresponding to 1.0% of advances (vs. 1.2% in 4QY23). The bank is carrying provisions of INR1.0b on the restructured book.
- **GNPA breakup:** The GNPA book is secured and granular, and skewed toward Retail. The Wheels segment constitutes 42% of GNPAs, while SBL constitutes 46% of GNPAs.
- The bank carries contingent reserves of ~INR0.3b and 16% coverage on restructured assets as on 1QFY24.

Axis Bank — Buy

Current Price INR 982

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Balance sheet and P&L

- The bank continues to remain focused on its GPS strategy and is actively working toward gaining a larger market share in selected segments
- The bank's deposit franchise grew 400bp faster than that of the industry.
- Over the last three years, there has been a 52% increase in the number of districts covered, and in 1QFY24, the bank successfully acquired 1.26m new SA accounts.
- MSME continues to remain the key focus segment of the bank. It grew 22% YoY, while the Corporate and Retail book grew 26%/21% YoY.
- Retail: Corporate book stands at 58:42 as on 1QFY24.
- Within Retail, Cards and PL book grew 93%/21% YoY and rural loans grew 21% YoY in 1QFY24.
- Digital banking performance has been strong for the bank with a 56% increase in deposits and the bank expects it to increase by 3x to 4x by FY27.
- Citibank is now well integrated and synergies can be observed with improving trends across credit card spends and vehicle loans disbursements.
- The bank net accreted CET 1 by 36bp in 1QFY24.
- NIMs have moderated by 12bp QoQ:
- 9bp moderation due to rising cost of deposits
- 3bp due to Interest on income tax refund, which was received in 4QFY23.
- COD grew 31bp QoQ to 4.6% in 1QFY24. The bank foresees further growth in COD during the upcoming quarters of FY24, although the pace of growth is expected to moderate in the future.
- Opex grew 10% QoQ due to higher technological, integration, and network expenses.
- Technological expenses forms 8% of the total operating expenses in 1QFY24.
- On an average, new branch becomes profitable in 1-2 years depending on the granular customer accretion.

- LCR stands at 123% as on 1QFY24 vs. 129% in 4QFY23.
- Fee income grew 25% YoY to INR45b, which consists of 37% YoY growth in retail banking fees, 12% growth in corporate and commercial banking fee, and 17% YoY growth in Forex and trade fees.
- The bank incurred 3.9b integration expenses in 1QFY24 and estimates total integration expense to be INR20b for the 15-18 months period.
- The bank has guided for a 2% cost-to-asset ratio by FY25 (excluding CITI bank expense and integration costs), which currently stands at 2.32%.
- Citi business will be ROE accretive, while the cost ratios are expected to be higher due to retail business of Citi.

Asset quality

- GNPA improved by 6bp QoQ to 1.96%, while Net NPA increased 2bp QoQ to 0.41%.
- PCR moderated 127bp QoQ to 80%.
- Credit cost is due to seasonally higher agricultural slippages.
- Fresh slippages came in at INR39.9b (INR33.75b in 4QFY23), due to higher retail slippages. Recoveries from written-off accounts amounted to INR5.5b in 1QFY24.
- 1QFY24 net credit cost (annualized) stood at 0.50%.
- Restructured loans stood at 0.21%. The bank carries 21% provisioning on these loans.

Bank of Baroda — Buy

Current Price INR 192

बैंक ऑफ़ बड़ौदा Bank of Baroda

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Balance Sheet and P&L

- Gross advances grew 2.2% QoQ (+18% YoY), which is a strong growth despite 1QFY24 generally being a seasonally weak quarter.
- Retail book jumped 25% YoY, while Corporate/ MSME /Agri book grew 15%/ 12%/15%.
- Within the retail book: home loans grew 18% YoY, auto loans rose 22% YoY and personal loans jumped 82% YoY (on lower base).
- BOB expects the retail segment to grow 4-5% higher than the industry average.
- Total advances growth is expected to be 14-15% for FY24 within which:
  - **corporate book to rise 12%-13%**
  - **retail book to grow 18%-20%**
  - **international book to increase 15% YoY**
  - **Retail: Wholesale book stood at 65%:35% as of 1QFY24.**
- BOB expects a 10bp increase in YOA for FY24 with re-pricing of the MCLR book and change in retail mix.
- NIM to be stable at 3.3% for FY24 (3.3% for FY23 too). Rising COD will put pressure on margin but will be offset by further re-pricing of MCLR book.
- BOB has made INR4.6b of wage revision provision during the quarter. AS 15 provision made in 1QFY24 was in-line with that made in 4QFY23.
- C/I ratio stood at 45% as of 1QFY24 and is likely to be lower in the subsequent quarters.
- The bank has maintained its RoA guidance at 1% for FY24 (1.11% in 1QFY24).

- Fee income growth is a focus area, with 18% YoY growth, which is the highest ever for the bank. Even if margin compresses in the upcoming quarters, fee income will help the bank maintain a 1% RoA.
- Tax is elevated in 1QFY24 due to prudent tax provisions taken by the bank to strengthen its Balance Sheet.
- Divestment plan of the credit cards business is continuing and is in its due diligence stage. BoB will proceed with its listing post-obtaining the required regulatory approvals.
- CASA ratio moderated during the quarter to 40% as seen across the industry but BOB will continue to focus on garnering granular CASA deposits going forward.
- Bulk TD grew 11% YoY while Retail TD has stayed flat.
- BOB is long on the power sector despite reduction in the power sector holdings during the quarter.

Asset quality

- GNPA/NNPA ratios improved 29bp/11bp QoQ to 3.5%/0.8%.
- Fresh slippages stood at INR24.5b vs. INR22.4b in 4QFY23. PCR improved 132bp QoQ to 78.5%.
- Credit cost grew 56bp QoQ due to:
- Floating provision of INR2b made during the quarter.
- Provision relating to specific accounts amounting to INR4.2b in 1QFY24.
- Collection efficiency (excluding agriculture) stood at 97% as of 1QFY24.
- Restructured book outstanding was INR130b out of which BoB is carrying a provision of INR11.5b as of 1QFY24.
- The Airline account which was declared insolvent in 4QFY23 has been adequately provided for: 30% exposure is backed by ECLGS, 30% is collateral backed and the balance has been provided for (INR639b as of 1QFY24). Recovery is likely to be in full based on primary and collateral assets.
- Credit cost for normal cycle will be 1%.
- SMA 1&2 (>50m) stood at 48bp of advances as of 1QFY24 and excluding the aviation account it stood at 29bp.
- The bank expects recoveries/upgradation to be at INR120b in FY24.

Bandhan Bank — Neutral

Current Price INR 235

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Balance sheet related

- The bank expects improvement in rural demand despite higher monsoons in the upcoming quarters.
- Loan book has declined 6% QoQ due to:
- The decline in MFI book, as a result of seasonal factors and weather disturbance in a few states.
- Short term loan against FD of 1 big government account amounting to INR21.5b being repaid during the quarter which has caused de-growth of advances
- Secured book has grown to 46% of the total loan book in 1QFY24 and is expected to grow to 50% by FY26.
- Housing finance book grew 10% YoY to INR270b and the bank is expecting higher growth from this book going forward.

- Retail TD has grown by 17% YoY to INR382b in 1QFY24 as the bank continues to focus on garnering granular deposits. EEB deposits contribute just 4% of the Total Deposits in 1QFY24.
- 130 branches and 0.7m new customers were added by the bank during the quarter and the bank aims to reach 1,700 branches by 4QFY24.
- The bank has seen 12% YoY increase in liability customers. Value and volumes of customer transactions have increased 50% YoY each.
- CASA deposits have declined 8% QoQ due to the seasonal nature, as well as an industry-wide decline, caused by higher TD rates. NIM stands unchanged QoQ at 7.3% in 1QFY24.
- The bank has made heavy investments in technology and branches and is focusing higher on cross-sell.
- MFI loans disbursed declined to INR80b in 1QFY24 from INR212b in 4QFY23.

P&L and Asset Quality related

- Interest accrued for ECLGS-linked advances now classified as NPA were reversed earlier, and hence, there was no interest reversal for these advances during the quarter.
- C/I Ratio has increased to 46% due to the addition of 130 branches during the quarter and a QoQ decline in the total income.
- GNPA/NNPA ratio deteriorated 189bp/101bp QoQ to 6.8%/2.2%. PCR declined 757bp QoQ to 69.2%.
- Rise in NPA is primarily due to classification of ECLGS covered advances as non-performing pursuant to RBI IRAC circular. These advances were earlier classified under the SMA 2 pool.
- Hence, SMA 2 book has declined to 1.4% in 1QFY24 from 2.4% in 4QFY23.
- CE, excluding NPA customer, moderates 50bp QoQ to 98% in 1QFY24.
- ECLGS loans disbursed amounted to INR5.8b, which were 100% guaranteed by the government. Out of this, INR5b is outstanding as on 1QFY24.
- CGMFU claims should be recovered by July-end or by August first half, while ECLGS claims is expected to be recovered in the next three to six months. 86% of these CGMFU and ECLGS loans have been provided for by 1QFY24.
- The bank reported INR13.6b slippages during the quarter, out of which, INR9.2b belongs to the EEB book, INR2.2b to the housing book, and INR2.2b from others.
- Actual recoveries for the bank amounts to INR5.5b in 1QFY24. Out of this, INR2.7b has been paid to ARC and CGMFU, and hence, the remaining INR2.8b is accounted by the bank.
- The bank has made total collections of INR4.2b from the ARC sale in Dec'23 tranche and expects to repay this tranche by 2QFY24. Hence, any further recoveries from this portfolio will flow into the P/L.

Guidance for FY24

- The bank expects a loan growth of 20% in FY24 with MFI book to grow at 17%.
- Deposits growth is expected at 24% with focus on the retail segment.
- The bank aims to achieve a CASA Ratio of 40% going forward, which stands at 36% as on 1QFY24.
- The bank estimates a credit cost at 2% with a variance of 20bp. Incremental credit cost for EEB customers is expected to be 2.5%.
- NIM guidance for FY24 stands at 7-7.5%.

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Canara Bank

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Canara Bank — Buy

Current Price INR 332

Balance sheet and P&L related

- The bank has recorded its highest ever operating profit and net profit with a growth of 15%/75% YoY, respectively.
- RAM credit grew 13% YoY in line with the overall gross advances growth. Retail credit grew 10.6% YoY. Housing book grew 14% YoY.
- Corporate: RAM mix is maintained at 45:55% in 1QFY24.
- Gold loan grew 30% YoY to INR1.3t with an average yield of 8.1%. 85% of the gold loan book consists of Agri-gold loans.
- 60% of the bank's branches are in rural and sub-urban geographies. 9,200 branches are retail branches out of which 6,000 branches sell the Gold loan products.
- The bank has a CD ratio of 75% as on 1QFY24 and can increase it to 78% for FY24.
- PSLC income grew 66% YoY (4.9x YoY) to INR18.5b in 1QFY24 and this is expected to decline in the upcoming quarters.
- Under the GECL scheme, the bank has sanctioned loans amounting to INR210b, of which 190b has been disbursed. However, INR8b of the disbursed amount has been classified as NPA.
- The bank does not feel the need to raise funds through fresh equity due to growing TD and additional utilization of CD ratio.
- The bank has provided an additional INR3.5b for wage revision in the quarter, taking the total provision on wage revision to INR7b.
- C/I has improved 220bp to 43.6% in 1QFY24.
- 80% of the corporate book re-pricing has been completed by 1QFY24.
- 52% of the total book is MCLR linked.
- The bank has enlisted the services of a consultant to address the revised calculations, and based on their assessment, the ECL provision effect is expected to be in the range of 2% to 2.25% of advances.

Asset quality related

- GNPA/NNPA ratio improved 20bp/16bp QoQ to 5.2%/1.6%.
- PCR improved 165bp QoQ to 70.6% in 1QFY24.
- Slippages increased 15% QoQ to INR34.3b, while recoveries and upgrades moderated 45% to INR38.6b.
- Slippages breakup: INR13.8b MSME slippages, INR8b Agri slippages, INR6b retail slippages, and INR4b of mid-corporate slippages.
- Restructured book stands at INR160b as on 1QFY24, out of which, INR34b are PA advances.

Guidance for FY24

- The bank has guided for 1% ROA and a 19.5% ROE for FY24.
- Global NIM is expected to be ~3.05%, while credit cost would be 1.2% for FY24.
- The bank had guided for GNPA/NNPA to moderate to 4.5%/1.2% by FY24, but expects to achieve this by 2QFY24.
- The bank wants to achieve a PCR of 90% for FY24.
- Advances are expected to grow by 12%-14% YoY for FY24.

DCB BANK

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DCB Bank — Neutral

Current Price INR 116

Balance sheet and P&L related

- The bank expects to double the balance sheet in 3-4 years.
- NIM is expected to be at ~3.65-3.75% on a sustainable basis.
- The C/I ratio is expected to moderate to ~55% over time.
- YOA declined by 12bp to 11.55% in 1QFY24.
- Provisions mix – Standard asset (INR40m), NPA related (INR300m), Floating provisions (INR40m)
- There has been a reduction in headcount to 9,579 in the current quarter.
- The bank has made 15% of provisions in the restructured book and much of the slippages came from the home loan business in the current quarter.
- Some parts of the restructured book that is in moratorium will be over by the end of Aug'23.
- Opex growth is expected to be slower than income growth and the bank expects difference of 2%-3% between cost and income growth.
- MSME and SME disbursements stood at INR3.8b vs. INR8.4b in 4QFY23.
- Fee income from PSLC has almost disappeared.
- Top-20 deposits contribute 6.97% of the total deposits.
- The cost of funds stood at 6.7% in 1QFY24 vs. 6.4% in 4QFY23.

Asset quality related

- The bank expects the credit cost to remain under control.
- GNPA/NNPA ratios deteriorated by 15bp/7bp QoQ to 3.3%/1.2%. Provisions declined 28% QoQ to INR377m.
- Standard restructured advances O/S as at 1QFY24 stood at INR14.1b.

equitas
Equitas Small Finance Bank

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Equitas Small Finance Bank — Buy

Current Price INR 85

With respect to operating environment and business

- 40-42% of savings account comprises salaried account customer.
- ~83% of the book is of fixed-rate instruments. Incremental disbursement has gone up by 40bp.
- C/I ratio for 1QFY24 stood at 65.05%. The bank has provided a guidance of 63-65% C/I ratio as it will be looking to enter new businesses, such as PL, Credit cards, forex and look for further digital developments.
- The bank has provided cost of funds guidance of 7.5% (6.94% in 1QFY24).
- The CD ratio of the bank stood at 95% in 1QFY24 and the bank expects it to come down to 85% in the next couple of years.
- Average SA cost is 6.18%; Average cost for up to the 5lakh bucket is 4.7%-4.8%; customers are shifting from SA to TD.
- Average maturity of asset is 2.5yrs. The bank has added 150-200k incremental customer.
- The bank expects 7-8 bp movement in savings rate and more than 35% of CASA ratio to sustain going forward.
- SME is contributing 5% of the book. NPA in this segment is on a higher side.
- In ~60% of the book, the rate of interest offered by the bank is 50 bp more than that of peer groups.
- 60% of the book is majorly re-priced and the remaining 40% will be re-priced once it gets mature.

- The bank has provided a full-year NIM guidance of 8.5% for FY24.
- Disbursement mix: 61% in Tamil Nadu and 39% in others.
- Opex growth is expected to decline in the remaining three quarters of FY24. The bank allocated INR75m in advertisement spending during IPL in 1QFY24.
- About 70% of the fee income is linked to disbursement, which remained healthy.
- TD mix: 78% is retail and 22% is bulk.
- The institution business has crossed INR70b business and has CASA of 30%.
- MFI book currently stands at 19% of the total loans as on 1QFY24.
- ROA 2%-2.25% guidance for FY24 (2.10% for 1QFY24).
- SBL book disbursement grew 39% YoY. SBL Ex-bucket Collection Efficiency stands at 99.5% as on 1QFY24.

With respect to asset quality

- GNPA/ NNPA remained stable at 2.8%/1.2% as on 1QFY24.
- The bank expects the Gross slippages to be a ~3%, calculated on a daily basis.
- The bank expects the ECL provision to be lower than IRAC norm provision.
- Credit cost stood at 0.84% in 1QFY24. Credit cost to be 1.2-1.25% for FY24.
- PCR improved to 58% in 1QF24. The bank aims to achieve 70% PCR in the next few quarters.
- Restructured book stands at INR2.13b as on 1QFY24 (0.72% of gross advances). 97% provision on NPA is arising from restructured book.

FEDERAL BANK

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Federal Bank — Buy

Current Price INR 141

Balance sheet related

- The bank saw sequential growth and it is confident that the growth momentum will sustain.
- Growth in advances was 18-20%, which the bank expects to sustain in FY24.
- FB posted 21% YoY growth in deposits, mainly due to the withdrawal of INR 2,000 currency notes related deposits.
- Remittance and NR deposit share, which was muted in FY23, has recovered in FY24. The bank expects NRE deposit to grow going forward.
- About 50% of incremental deposits of the bank come from Fintechs. The incremental TD cost stood at 6.4%.
- On the cost of deposits, a large part of the liability book has already been re-priced in 1QFY24.
- Loan mix by benchmark- Repo linked is +49% and MCLR is 14%
- Yield on advances stood at 9.21% in 1QFY24 and the bank expects it to be ~9.27% by 2QFY24.
- Around 45% of total deposits come from outside of Kerala. Also, the rate of growth is higher outside of Kerala.
- Retail assets of the bank are growing in the high-margin business. High slippages in retail were due to the moratorium period, which ended on 31st Mar'23. Nearly 30% of slippages were from the restructured portfolio.
- In the Home loan segment, the bank is facing pressure on pricing due to competition, but this segment is concentrated mainly in 5-6 geographies, which are not seeing any slowdown.

- The incremental cost of term deposit is currently at 6.4% and the bank expects it to go up by 10bp to 6.5%.
- The retail deposit is currently 85% and the bank expects it to be in the range of 85-88%.
- Medium-term target of the bank: Unsecured loan to be not more than 10%.
- MSME mix has a higher share of Corporate banking and lower share of business banking. FB targets to tap vendors and dealers going ahead.
- The blended saving account rate of the bank is 3.05%.

P&L and asset quality related

- FB expects FY24 NIM to be 3.3% and margin expansion of 7-8bp by 2QFY24 due to the expansion in yield.
- The bank has given credit cost guidance of 40bp for FY24.
- It has guided for a 5-10bp increase in ROA by FY24.
- FB has made 15% provision for O/S restructured book, with its peak restructured book standing at INR36b and it has provided an additional overlay of 10%.
- The bank reported INR1.64b of miscellaneous income: INR250m from recovery of written-off assets, INR150m from dividend paid by subsidiaries, INR120m from profit on investment, and INR520m from PSL gains.
- FB expects the cost of fund in the 5.3%-5.4% range by 2QFY24.

HDFC BANK

HDFC Bank — Buy

Current Price INR 1,579

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Results Update

- The merger between HDFC Bank and HDFC Ltd. became effective on 1 July 2023. This merger aims to enhance the opportunity for upselling a range of HDFC Bank products to existing Home Loan customers of HDFC Ltd.
- Economic activity is strong in 1Q with healthy GST collections and continuous growth in remittances, retail, and consumer spends.
- The bank has seen 14% growth in RTGS/ NEFT transactions, while 44% growth in UPI transactions in 1QFY24.
- CRB distribution has reached 0.19m villages as on 1QFY24 and the target is to reach 0.20m villages in the near term.
- Payzapp reported 13m transactions during the quarter.
- Express car loan volumes contributes 30% of the total car loans acquired during the quarter.

P&L and Balance sheet

- The bank has added 39 branches during the quarter, taking the tally to 7,860 branches as on 1QFY24.
- In the medium-to long-term distribution, reach is key, and hence, C/I has grown by 80bp to 42.8% in 1QFY24.
- Mortgage loan of HDFC Ltd will be moved to EBLR-linked Repo-based loans.
- 1.5m cards were issued by the bank in 1QFY24, taking the tally to 18.4m total cards. The bank has seen a 30% YoY increase in card spends during the quarter.
- Retail deposits grew 20.6% YoY and forms 83% of total deposits for the merged entity as on 1QFY24. The bank added 2.4m new liability relationships during the quarter.
- TD penetration has grown by 50bp to 14.5% among the bank's customers as on 1QFY24.

- 93% of the fees and commission is from retail customers.
- Credit-to-Deposit Ratio for the bank stands at 84% for the quarter. Merged entity CD ratio stands at 109% as on 1QFY24; however, it is expected to gradually decrease and reach normal levels within the next three to four years.
- CRB book continues healthy momentum at 29% YoY. Personal loans grew 20% YoY to INR1.8t.
- The bank had several opportunities in the wholesale book, but does not want to negotiate on pricing, and hence, has reported a QoQ decline in this book.
- Merged entity loan book grew 19% YoY to INR22.45t, while the deposits grew 16% YoY to INR20.65t.
- LCR for the standalone entity stood at 126% as on 1QFY24 vs. 116% in 4QFY23. Combined basis LCR stands at 120% as on 1QFY24.
- The bank is aiming at an ROA of 1.9-2.1% for the merged entity.
- The bank is estimating a 17-18% credit growth going forward.
- The first quarter is typically a slow quarter. Mortgages post-merger are 20% more than what was seen before.

Asset Quality

- GNPA/NNPA ratio increased 5bp/3bp QoQ to 1.17%/0.30% as on 1QFY24.
- PCR declined 81bp QoQ to 74.9% as on 1QFY24.
- The bank reported a 35bp slippage ratio, amounting to INR58b for 1QFY24. Excluding agriculture, slippage ratio stood at 26bp, amounting to INR42b.
- Restructuring assets forms 27bp of the net advances, amounting to INR42.7b as on 1QFY24.
- Recoveries formed 19bp of gross advances, whereas write off stands at 14bp, amounting to INR21b as on 1QFY24.
- Contingent and floating provision amounts to INR112b, while general provisions amount to INR72b as on 1QFY24.
- The bank has reported a credit cost of 51bp in 1QFY24 vs. 91bp in 4QFY23. Decline in credit cost can keep up with the higher investment in subsidiaries and technology.

Subsidiaries performance

HDB Financials

- HDB loan book stood at INR736b in 1QFY24 vs. INR618b in 1QFY23.
- 7.3m customers were added during the quarter and the total number of branch count stands at 1,581 branches as on 1QFY24.
- PCR on stage 3 book reported stands at 66%.
- HDB reported an ROA of 3.2% and an ROE of 19.4% as on 1QFY24.
- HDB Financials is well capitalized with CAR of 19.8%.

HDFC Securities

- HDFC Securities added 0.6m clients in the last 12 months.
- HSL reported revenue of INR5b and a PAT of INR1.9b in 1QFY24.
- HSL has 207 branches across 147 cities in the country.

ICICI Bank

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Detailed Concall Transcript &
Results Update

ICICI Bank — Buy

Current Price INR 969

Operating environment, balance sheet and P&L

- The maximum single borrower outstanding on an account rate BB & Below is less than INR5b.
- The LCR of the bank stood at 124% in 1QFY24.
- Domestic Corporate portfolio grew by ~19% YoY, driven by growth across well rated financial and non-financial corporates.
- Growth across various other books: Retail Mortgage 16.6% YoY, Auto 23.7% YoY, CV 8.1% YoY, PL and Credit card 40.6% YoY (12.8% of loan book). Overseas declined by 32.1% (3.1% of the loan book).
- The total outstanding to NBFCs and HFCs was INR874b (8% of total advances) as on 1QFY24. The increase in disbursements to NBFCs was mainly to entities owned by well-established corporate houses.
- Builder portfolio of INR427.1b (4% of total loan portfolio) is also to well established builders.
- There was a treasury gain of INR2.52b in 1QFY24 vs INR0.36b in 1QFY23.
- Retail portfolio grew by 21.9% YoY (4.5% QoQ,) which is 45.9% of the total portfolio outstanding (Including Non Fund Based) as on 1QFY24.
- Dividend income from subsidiaries and associates was INR2.91b in 1QFY24 vs. INR3.47b in 1QFY23.
- Interest on Income tax refund was INR0.96b in 1QFY24 compared to INR0.05b in 4QFY23.
- Cost of funds increased 30bp QoQ to 4.6% and the bank expects it to increase in the coming quarters as well.
- COD increased to 4.31% in 1QFY24 vs. 3.98% in 4QFY23. A lag in deposit re-pricing will lead to an increase in the cost to deposits in upcoming quarters as well.
- NIM moderated to 4.78% vs. 4.9% in 4QFY23. The bank believes that NIM will moderate in upcoming quarters as well.
- The increase in yields on advances is due to benefits of the last repo hike and the increase in yield on investment is due to repricing of floating rate portfolio.
- 75%-80% of the book is retail and the bank has seen a strong growth in this segment. 31% of loan is fixed interest rate.
- Domestic NIM stood at 4.88% vs. 5.02% in previous quarter.
- 9% of operating expenses are related to tech expenses. 70% of trade transactions are done digitally in the current quarter.
- The bank continues to hold provisions of INR12.24b on borrowers under resolution.
- The bank has 135,000 employees as of 1QFY24. The bank has taken a conservative approach for the provisions related to retirement benefits, resulting in an additional employee benefit expense of INR3.35b.

Asset quality

- Net additions to GNPA stood at INR19.32bn in Retail, Rural and BB portfolio and Net Deletions to GNPA stood at INR1.25b in the corporate and SME portfolios.
- Contingency provisions stood at INR131bn (1.3% of total loans) as on 1QFY24.
- The bank reported INR35.1b in recoveries and upgrades in 1QFY24, out of which INR3.71b were from the Corporate and the SME Book.

- GNPA written off during the quarter stood at INR11.69b. Addition in NPA of INR6.7b from Kisan credit card portfolio.
- There has been no sale of NPAs in 1QFY24 vs. a sale of INR2.01 of NPAs in 4QFY23.
- Non-Fund based outstanding to borrowers classified as NPA amounted to INR37.04b in 1QFY24 vs. INR37.08b on 4QFY23.

IDFC FIRST Bank

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IDFC First Bank — Buy

Current Price INR 92

Balance sheet and P&L

- Overall Balance Sheet of the bank grew 24% YoY to INR2.5t.
- 28% of total funded asset is backed by mortgages, consumer loan is 13%, credit card is 2%, SME is 5%, and emerging corporate is 7%.
- LCR ratio for the bank stood at 125% and the bank aims to maintain it at >110%.
- On account of capital infusion, ROA was adversely impacted and stood at 1.26%.
- Average cost of savings deposit is 5.6%.
- CASA + TD <5cr constitutes 81% of total deposits while the Retail deposit constitutes 77% of the total Deposits and 23% is wholesale.
- The bank has added branches during the quarter, taking the total to 824 as on 1QFY24 as against its guidance of 800-900 branches by FY25.
- Loan Growth across segments: Home loan book grew 31% YoY. Wheels business grew 45% YoY. Consumer loans grew 15% YoY growth. Rural business grew 46% YoY.
- Retail fees constitutes 91% of the total fees income, which is granular and sustainable.
- The bank expects the margins to remain stable going forward.
- Credit card business grew 68% YoY on a lower base, amounting to INR39b in 1QFY24. The bank has issued 1.7m cards from Jan 21 till June 2023.
- The legacy borrowings are costing the bank 8.91%.
- CASA ratio for the bank stood at 46.5% and the bank expects it to be ~50% after FY24.
- The Core Cost to Income Ratio has improved to 71.9% in 1QFY24 from 73% in FY23. The bank expects the C/I ratio to improve further with the increase in customers and deposits.
- The bank expects the credit card business to breakeven by FY25. 24-25% of the credit card mix are revolvers.
- The bank expects to reach 13-15% ROE by FY25 and 1.4-1.6% ROA by FY25.

Asset quality

- GNPA/NNPA ratios have improved 33bp/15bp QoQ to 2.17%/0.70%, and hence, the PCR has improved to ~67% as on 1QFY24.
- GNPA/NNPA of the Retail and Commercial book was at 1.53%/0.52% as on 1QFY24.
- The bank's restructured book has reduced to 0.47% vs. 0.59% in 4QFY23. Net stressed assets reduced significantly to only 0.7% of total assets.
- The bank has a high collection efficiency of 99.5%.
- SMA 1 and 2 in retail book stands at 0.85% as on 1QFY24 and the SMA 1 and 2 in the corporate book stands at 0.2%
- Net slippages of the bank is down 20% sequentially and stood at INR3.8b.

- The bank reported a credit cost of 1.2% in 1QFY24 vs. a guidance of 1.5%.

Indian Bank — Buy

Current Price INR 403

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P&L and balance sheet related

- RAM book grew 13% YoY, out of which, Retail book grew 16% YoY and Agri book grew 16% YoY and MSME book grew 7% YoY.
- Corporate book grew 12% YoY to INR174b in 1QFY24.
- Total Advances grew 13% YoY and including write-offs, advances grew 15%-16% YoY.
- The bank has guided deposit growth of 8%-10% for FY24 and expects advances to grow at 10%-12% YoY.
- RAM: Corporate mix stands steady at 61:39 as on 1QFY24.
- The bank has extended gold loan lending facilities to 1,800 to 2,000 branches, resulting in a 4% QoQ growth to INR54b.
- COD grew 27bp QoQ to 4.6% and despite that the bank maintained its NIM at 3.6% as on 1QFY24.
- The bank has a INR350b excess SLR as on 1QFY24, while LCR for the bank stands at 131%.
- The bank is working on mobilizing granular retail deposits to fund the loan growth and wants to maintain its CD ratio at ~77%-~78%.
- The bank has recently ventured into several businesses, including NRI services and remittance business. Additionally, it has established various strategic partnerships, and the benefits of these initiatives are expected to accrue in the next 12 months.
- The bank added 11 branches during the quarter, taking the tally to 5,798 branches as on 1QFY24.
- The C/I ratio as on 1QFY24 stands at 44% and aims to maintain it at this level, even with the ongoing expansion of the branches.
- CASA ratio moderated by 173bp QoQ to 40.3%, due to growth in TD and moderation in CASA deposits.
- Fee income grew 7% YoY to INR6.7b in 1QFY24.
- The bank has undertaken various digital initiatives during the quarter and generated E-business worth INR92b, out of which, RAM advances amounted to INR67.3b and deposits to INR24.5b.
- Capital Adequacy Ratio for the bank stood at 15.8%, while CET 1 ratio stood at 12.3% in 1QFY24.

Asset quality

- GNPA/NNPA ratio improved 48bp/20bp QoQ to 5.5%/0.7% and the bank had guided for below 5%/0.9% by the end of FY24.
- PCR improved 216bp to 87.8% in 1QFY24.
- Fresh slippages declined 28% QoQ to INR18.5b, while recoveries were flat QoQ at INR38b, thereby reporting a net slippages of (INR20b).
- Slippages Breakup: INR4.3b in retail advances, INR3.2b in Agri, INR7.8b in MSME book, and INR2.3b in the corporate book.
- Covid restructured book has moderated to 2.3% of total advances from 2.5% in 4QFY23.
- The bank expects the credit cost to moderate further going forward.

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IndusInd Bank — Buy

Current Price INR 1,425

Balance sheet and P&L related

- The bank's primary focus area was loan growth, which grew 22% YoY. Both the Consumer and Corporate segments experienced equal growth during this period.
- Retail deposit as per LCR stood at 43% in 1QFY24 and the bank expects the same to be ~45-50% by FY26.
- The bank expects the retail mix to be 55-57% and corporate mix to be 43-45% going forward.
- The SR stood at INR13.3b and Non-MFI, i.e, merchant advances stood at INR42b.
- Deposits within the Affluent and NR segments grew strongly at 22% and 39% respectively.
- The bank has hired 12,600 employees, which is reflecting higher opex growth.
- 86-89% is the comfort level of CD ratio for the bank.
- Market share of the bank is above 3% in the NR segment.
- The customer acquisition cost has decreased, particularly in the loan segment, where it has reduced to 60-62%.
- NIM stood at 4.3%, which was supported by re-pricing on the asset side.
- Renewal happen at a higher rate and re-pricing of liabilities led to an increase in the cost of deposit.
- All retail segments are growing at a healthy pace and the company plans to continue focusing on scaling the key domains.
- C/I ratio is likely to remain elevated at ~45% for the next few quarters, which will eventually moderate to 41-42% as efficiency measures take effect.
- The company's focus continues to remain on building a granular liability franchise and it has demonstrated a healthy progress in building the same.
- The cost of fund is expected to remain high for the next quarter as well.
- The cost of deposit is expected to decline 10-15bps in the coming quarters.
- The bank is expanding its affordable housing segment, which is expected to result in some cost increases.

Asset Quality

- Slippages were led by higher defaults in the vehicle segment.
- The bank has made additional SR provisions of INR1.3b in 1QFY24.
- The contingency buffer of INR2b has been utilized by the bank.
- SMA 1 and 2 book stands at 4bps and 19bps of loans.
- Asset quality improved for all businesses except the vehicle business due to its seasonality.
- Credit cost is expected to be ~110-130bp over FY23-26.

MFI business

- MFI growth is expected to be 18-20% going forward.
- Merchant advances stands at 13% of total MFI book.
- ~540k new customers have been added.
- Net collection efficiency stood at 99.2%.
- Gross slippages of the segment stood at INR3.7b in 1QFY24.

Vehicle segment

- CV and Equipment financing grew 4.1%/3.7% QoQ, while 3W loans grew 2.9% QoQ.
- Slippages are expected to moderate coming forward.
- Gross slippages of the segment stood at INR5.8b in 1QFY24.

Corporate

- Growth in the corporate book is led by Mid and Small corporates, which are expected to continue growing at a healthy pace
- Small corporate book grew 14% QoQ and is expected to grow ~20% going forward.
- Gross slippages of the segment stood at INR430m in 1QFY24.
- Yields increased 10 bps in the current quarter.
- Small business is expected to grow to 20% from 10% in the coming quarters.

Guidance

- Loan growth to be ~18-23% by FY26 vs. 22% in 1QFY24.
- The bank expects to add 100-300 branches going forward.
- 82% YoY growth in Mobile transaction volume in 1QFY24.
- Branch network is likely to expand to ~3,250-3,750 by FY26 vs. 2,606 in 1QFY24.
- Customer base to be >50m by FY26 vs. 35m in 1QFY24.

kotak

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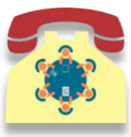


Kotak Mahindra Bank

Kotak Mahindra Bank — Neutral

Current Price INR 1,780

Balance sheet and P&L

- Macroeconomic fundamentals are doing good and the overall economy remains resilient ("The Stars have aligned for India").
- Deposits have picked up driven by ActivMoney product launched by KMB and has grown by 24% QoQ. ActivMoney forms 7% to 8% of total deposits. In the long term flow of deposits will increase due to this product.
- Cost of SA deposits stands at 3.5%- 3.6%, while cost of TD stands at 7%-7.3% as of 1QFY24. ActivMoney cost stands at 5%-5.5%.
- Kotak Funds launched an Activ Indian Midcap fund overseas, especially targeting the Japanese market. AUM of the fund has crossed USD2.5b as of 1QFY24, with fresh inflows of USD600m during the quarter.
- NIM declined 18bp QoQ to 5.6% in 1QFy24 from the peak of 5.8% in 4QFY23. The bank expects NIM to moderate further going forward.
- Consol PAT grew 51% YoY to INR42b in 1QFY24 vs. INR28b in 1QFY23.
- Other Income includes trading gains of INR2.4b due to MTM reversals during the quarter. Dividends from subsidiaries amounted to INR3b for the standalone bank.
- Opex grew 26% YoY, primarily due to higher technological and promotional expenses.
- The standalone balance sheet crossed INR5t as of 1QFY24.
- The customer base increased to 43.5m in 1QFY24 from 34.5m in 1QFY23.
- Wholesale book performed well, especially MNC and NBFC segments, which outperformed others during the quarter.
- CV disbursements grew 21% YoY and its collection efficiency remained stable.
- Construction Equipment book grew 17% YoY, while the tractor book was flat QoQ. CE is stable in tractor book.

- MFI disbursements grew 69% YoY, with a customer base of 1.6m unique borrowers.
- Unsecured retail advances as a % of net advances stood at 10.7% as of 1QFY24 vs. 7.9% in 1QFY23 and the portfolio continues to hold well.
- Credit card advances grew 67% YoY to INR114b as of 1QFY24. KMB has launched a co-branded credit card with Myntra in the quarter and is also live with a Rupay credit card in UPI to increase its active card base.

Asset Quality

- The GNPA ratio improved by 1bp to 1.77%, while net NPA deteriorated by 3bp to 0.4%.
- PCR moderated 130bp QoQ to 78%.
- KMB reported fresh Slippages of INR12.1b in 1QFY24, out of which INR2.9b were upgraded during the quarter itself.
- SMA 2 book stood at INR2b as on 1QFY24.
- KMB reported a credit cost of 50bp in 1QFY24 and expects this to be low going forward.
- The bank consumed Covid-related provisions of INR500m (INR3.37b outstanding now).
- The bank will be open to an acquisition if it adds customers and value to the franchise and its customers.

Subsidiaries

- Kotak Securities reported PAT of INR2.2b, with its market share increasing to 7.5% in1QFY24 from 4.1% in 1QFY23. Mobile trading increased 3x YoY.
- Kotak Prime reported PAT of INR2.2b in 1QFY24, with the vehicle book growing by 31% YoY.
- Kotak AMC reported PAT of INR1.1b in 1QFY24, with AUM up 23% YoY.

Punjab National Bank — Neutral

Current Price INR 63

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Operating environment and business

- Gross business rose 14.3% YoY; savings account grew 3.74% YoY in 1QFY24.
- NII growth was the highest in the history of PNB. The bank expects to maintain NII at the same level.
- The bank expects its full-year profit to double in FY24 from that of FY23.
- On account of deposit repricing, NIMs will be hit as the whole of deposit has not been repriced yet (20-25% of total term deposit is yet to be repriced).
- Management has provided a full-year NIM guidance of 2.9-3.0% for FY24.
- CASA ratio for the bank moderated 108bp QoQ to 41.90% due to movement of funds from CASA to term deposit due to difference in interest rates. The bank maintains its CASA ratio guidance of ~43% for FY24.
- There was a rise in the Employee cost due to AS-15 provision amount INR12.4b, out of which INR2.8b belonged to wage revision and the remaining was due to the impact of this wage revision on outstanding pension and gratuity amounts.
- The bank made disbursements of INR40b after revamping of PAPL.
- Currently, PNB has 28.15% stake in PNB Housing and it has no plan to reduce the stake, which is within the regulatory guidance of below 30%.
- Management has provided guidance of 12-13% credit growth and 10-11% deposit growth in FY24. The bank has excess liquidity of 600bp.

- The bank expects the AS-15 provision to be not more than INR4-5b, if the rate of interest remains unchanged; but the wage revision of INR2.8b will remain constant.
- The amount sanctioned under GECL facility stood at 219b out of which 100.5b remained outstanding as of 1QFY24.
- In NARCL – 35 accounts are under discussion, of which one account has been resolved, two are in finalization stage and 23 accounts are such where bids are yet to be received.
- Management expects 10-12% operating profit in FY24.
- Total priority sector advances stood at 42.5% of ANBC against the norm of 40%.
- The One-time restructuring book stood at: OTR1 – INR32b and OTR2 – INR73b and ~10% provision of the entire book has already been made.

Asset quality

- GNPA/NNPA ratio stood at 7.7%/1.98% as against FY24 guidance of 7%/2%.
- GNPA/NNPA ratio is likely to be at 6.5%/<1% by end of FY24.
- PCR stood at 89.8% as against 1QFY24 guidance of 90%.
- Credit cost stood at 1.99% and is expected to be at ~1.5%-1.75% by end of FY24.
- The bank expects the recovery to be twice that of addition in NPA and provides a guidance recovery of INR220b for FY24.
- PNB is comfortable of its SMA book. SMA2 stood at INR17.2b in 1QFY24.
- GNPA as a % of retail advances stood at 2.86%, in which housing stood at 3.72%.

RBLBANK

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RBL Bank — Neutral

Current Price INR 229

With respect to business performance and assets

- Net Advances grew 21% YoY in 1QFY24, out of which retail advances grew higher at 34% YoY to INR409b as on 1QFY24.
- Wholesale advances grew 8% YoY (flat QoQ) as the bank is increasing its focus on growing the retail book.
- Retail book disbursals in 1QFY24: INR41b of retail book other than cards, INR22b MFI loans, INR3b loans in the rural vehicle segment, INR7b in the housing loans.
- Retail deposits stand at 43.7% of the total deposits as on 1QFY24.
- The CASA ratio remains steady QoQ at 37.3% in 1QFY24, and the bank continues to focus on growing granular deposits.
- NIM has moderated by 17bp QoQ to INR4.8% due to TD re-pricing in 1QFY24. Most of the TD will be completed by 2QFY24, and hence, the bank expects the NIMs to inch up to 5% after 2QFY24.
- C/I ratio has improved 200bp QoQ to 66.5% in 1QFY24 and the bank expects the same to increase in the next 2 quarters and then moderate substantially.
- CAR has declined 22bp QoQ to 16.8% in 1QFY24 as the bank is aiming to utilize higher capital.
- New asset products such as rural vehicle finance business to be profitable in the next 12-18 months. 4% market share in rural vehicle finance within the geographical locations where it has a presence.
- The bank has implemented significant improvements in underwriting, collections, and data analysis, with a specific focus on cross-selling its products.
- Branch-led retail disbursements are expected to grow at INR1.5b run rate.

- The process of assets re-pricing is almost complete and the yields are expected to improve further due to a shift in the loan mix in favor, favoring the retail book. The bank has maintained its pricing on the fixed rate book.
- Retail LCR mix is expected to improve by 2%-3% p.a.
- The bank has added three branches in 1QFY24 and aims to add 70-80 branches in FY24.
- The bank has issued 150k Bajaj co-sponsored credit cards and 60k other than Bajaj cards. It takes 15-18 months for the card business to breakeven.
- TD cost has increased 30bp in the quarter with COD rising by 34bp in 1QFY24. The bank has launched a non-callable TD for the retail segment where the bank offers 20bp higher interest rates.
- The bank is currently comfortable in meeting the PSL requirements, achieving 40% as of 1QFY24. This is a significant improvement from two years ago when the bank was facing a shortfall in meeting these requirements.

Asset quality related

- Gross NPA/NNPA ratio improved sequentially by 15bp/10bp to 3.22%/1.00%.
- PCR improved 157bp QoQ to 69.6%.
- The bank reported slippages of INR5.6b in 1QFY24 vs. INR6.8b in 4QFY23. Additionally, there were recoveries and upgrades amounting to INR2.7b, with INR0.65b recovered from written-off
- Slippages in the MFI book amounted to INR 0.4b along with recoveries amounting to INR 0.3b as on 1QFY24.
- While the Credit Card book reported slippages amounting to INR3.1b, there were recoveries of INR0.4b during the same period.
- Restructured book stands at 1.05% as on 1QFY24 from 1.21% in 4QFY23.
- SMA 2 book stands at 40bp of advances as on 1QFY24.

Guidance for FY24-26

- The bank expects the Advances to grow 20%-22% YoY with higher growth in retail advances at 33%-35%YoY for FY24 and 20%+ CAGR over FY24-FY26.
- FY24 to exit with an ROA of 1.2% and 1.4%-1.5% by FY26.
- ROE is expected to improve to 14%-15% by FY26 from 8.4% as on 1QFY24.
- CD Ratio to be around 85%-87%, which currently stands at 85% as the bank aims to increase its deposit utilization.
- Deposits growth rate is expected to be slightly below the overall loan growth rate at a 20% for FY24 and at a CAGR of +20% over FY24-FY26.
- With remaining TD to re-price in 2QFY24, the bank expects COD to rise by 10-15bp in the short term.
- NIMs to improve in the upcoming quarters with the average for FY24 projected to be at ~5%.

State Bank of India — Buy

Current Price INR 577

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Balance Sheet and P&L

- Credit growth to continue at 12%-14% in FY24.
- C/I ratio stood at 50% for 1QFY24, which is higher due to INR5b monthly allocation of wage revision. The bank faces cost rigidity, which is due to higher retirement benefit costs.


State Bank of India

- The bank holds an excess SLR of INR4t, and combined with the profits from the previous year, it will be sufficient to fund the credit growth in FY24.
- In 1QFY24, 63% of savings accounts and 35% of retail asset accounts were acquired through YONO.
- The bank has provided full-year NIM guidance of 3.47% for FY24.
- The bank’s market share in home loans is 33.4% and auto loans is 19.5%.
- SME book grew 16% YoY; Rural book grew ~13% YoY. NPA in the rural book is 11% and the bank expects it to moderate further and come down to single digits.
- The bank might see a further increase in the opex, due to branch additions and technological developments.
- The bank is mindful of the International book due to lower NIMs and is focusing on credit quality.
- Xpress credit book stood at INR3.1t in 1QFY24. ~94% of the Xpress credit customers are salaried employee, most of which are employed in Army or government jobs and 4-5% of the customers are in well reputed corporate jobs.
- Wage revision provision is estimated to be ~INR5b per month calculated at ~10%.
- 74% of the loan book is floating and 26% is fixed rate book.
- Yields on advances has gone up to 8.8%, due to MCLR repricing. Average tenure of MCLR is 6 months.
- The bank is looking to add 300 odd branches in the upcoming quarters. Digital transaction stood at ~87%.
- 60% of the total employees have a defined contribution and the balance 40% are in defined benefit.
- 30% growth in NBFC is from well-rated NBFC and also the growth in book is coming from the renewable sector and infrastructure. The bank expects to see growth in steel going forward.
- The bank is utilizing data analysis and is targeting a particular customer segment. YONO platform will see further upgrades in the upcoming quarters.
- COD stood at 4.5% in 1QFY24 and going forward, the bank expects it to remain stable after some time. Within the next one-year, the entire term deposit book is re-priced.
- The bank reported an ROA of 1.2% in 1QFY24.

Asset quality

- GNPA/NNPA ratio moderated to 2.76%/0.71% as on 1QFY24.
- PCR stood at 74.8%. CRAR is at 14.56%, CET-1 at 10.1%, which is well above the regulatory requirement.
- Slippages breakup: INR24b is retail, INR23b is Agri, INR24b is SME, and there is INR7b recovery in retail, INR6b in SME.
- Slippage Ratio for 1QFY24 improved 44 bp YoY and stood at 0.94%. The bank expects recoveries to be higher than the slippages going forward.
- Credit cost stood at 32bp for 1QFY24. Credit costs in FY24 to remain at the same level.
- Restructuring loans stood at INR227b, which forms 0.7% of total advances.

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SBI Cards & Payment Services — Buy

Current Price INR 831

Related to business performance

- Transaction volumes in digital payments jumped 56% YoY in FY23 and are likely to surge 4x by FY27.
- As per the RBI, 89m cards are o/s in the country as of 1QFY24 and total spends in the month of Jun'23 stood at INR1.37t.
- The company surpassed 17m outstanding cards in 1QFY24 with the market share being at 19.6%; SBICARD aims to keep the share at ~20% going forward.
- Share of new sourcing channel for credit card stood at 54:46 for Banca:Open market v/s 56:44 in 4QFY23.
- The strategy for open source channel is to use partnerships to deliver more cards.
- SBICARD has a geographical reach of 250-300 cities/towns as of 1QFY24.
- Spends per average card for retail have grown to INR134,000 driven by travel, dining and entertainment spends which grew 11%.
- Market share in credit spends stood at 17.8% as of 1QFY24.
- COF grew 37bp to 7.1% due to higher interest rates and increase in long-term borrowings. COF would be 5-10bp higher in 2QFY24.
- NIM stood at 11.5% as of 1QFY24 and is expected to be stable in 2QFY24.
- Yield on EMI book increased 120-150bp due to interest rate hikes.
- Revolver mix is currently stable at 24% and the company does not see any significant changes in the mix within the next 6-12 months (+/- 50bp).
- Income from subscriptions and fees income grew 23% YoY and formed 49% of the total revenue from operations.
- Business development incentives are long-term business deals with partners for achieving various milestones set for the company (up 22% YoY to INR1.7b).
- Spends from the CY20 and above cohorts are higher than that of the previous vintage books with an increasing EMI book.
- PayTm Rupay SBI Cards have been launched, which will lead to significant transaction volumes going forward.
- Average credit limit for a customer is ~INR90,000 as of 1QFY24 for the entire portfolio.

Related to asset quality

- GNPA/NNPA ratio increased slightly by 6bp/2bp QoQ to 2.4%/0.9%. PCR stood stable at 63.8%.
- CE has not reverted to pre-Covid level due to change in customer behaviour.
- Credit costs grew 60bp QoQ, of which 14bp increase was due to stress in CY19 sourcing cohort that stood at 16% of assets and over 20% of NPA in 1QFY24.
- Credit costs are declining on a monthly basis with Jun'23 and Jul'23 already witnessing improvements as proportion of newer or better quality vintage increases. Credit costs in 2HFY24 would be back in the range of 5.8%-6.2%.
- New vintage book has a better asset quality but the revolver rate is lower in these advances.

Union Bank
of India

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Union Bank of India — Buy

Current Price INR 91

Business Performance, Balance Sheet, and P&L related

- The company continues to enhance its digital capabilities, aiming to achieve ~50% of its RAM book, completely through digital means.
- The credit cost of the bank came down to 97bps in 1QFY24.
- The bank has seen a growth of 20% in digital account additions. Further, there has been a remarkable 65% growth in the creation of digital FDs.
- With 94% of MSME accounts being renewed digitally, the bank has achieved a substantial reduction in opex and manpower requirements.
- The bank is aiming to build partnerships with ONDC going forward and has already made partnership with many fintechs.
- Of the total MCLR book, 25% of the book has been re-priced in the current quarter.
- The bank expects 30% growth in non-interest income going forward.
- NIM for 1QFY24 stood at 3.1% and the bank provides full-year NIM guidance of 3% for FY24.
- The bank has fully provided the expected tax of INR75b.
- 16% of the loan book is linked to EBLR.
- PSLC income stood at INR5.5b in 1QFY24 and Outstanding ECLGS stood at INR87b
- The bank has provided medium-term ROA guidance of 1% by FY25.
- Operating expenses includes absorption of one-time pension cost in the current quarter.
- Loan growth is expected to be ~10-12% in FY24.
- The bank has provided 100% on the SR book.

Asset quality related

- The bank has provided GNPA/NNPA guidance of below 6%/1% for FY24.
- The differential in ECL provision is primarily arising from SMA2 accounts, which the bank expects to reduce in the coming quarters.
- Recoveries in FY24 are expected to remain around the same levels as in 1QFY24.
- In NARCL, the bank has successfully settled three accounts, with a combined total amount of INR9.9b. Out of this settlement, the bank has managed to recover 46% of the total amount.

FINANCIALS/NBFC

- **Within the NBFC/HFC sector, managements highlighted the following: 1) Early signs of higher delinquencies and/or stress in rural personal loans, 2) Relatively higher compression in Vehicle Finance NIM in 1QFY24 because of higher competitive intensity and higher proportion of new vehicles in the disbursement mix, 3) Strong demand momentum across product segments. For the upcoming quarters, the managements shared that a) there will be a minor increase in borrowings costs followed by bottoming out of the margins, b) there could be a minor impact on collections from flooding in the Northern India but no Early Warning signals as yet.**

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook for FY23/FY24	Asset quality and others
360 ONE	▪ Field force expansion – 1) Senior private bankers – these professionals are responsible for originating and managing large clients; they can independently manage their client portfolio and have the support of junior bankers; the total count of senior private bankers is between 70 and 75, and they play a significant role in business origination, 2) Junior bankers – There are around 160 to 170 junior bankers. 3) The Asset Management team currently comprises 20-25 members who are dedicated to servicing the INR650b AUM. Additions to the force are expected across the three categories. ▪ The company expects to secure a couple of large mandates in the institutional advisory segment within the next nine months. To maintain profitability, it has decided to let go of certain businesses due to unfavorable pricing conditions.	▪ In the domestic MF business, the company will look out for differential product opportunities, while expanding its distribution reach. 360ONE has been conservative on distribution payouts in this business and is in no hurry to grow the same with a hit on profitability.
Angel One	▪ The company had highlighted its strategy to increase focus on AP network for scaling the business. As per the management, while APs will not be empaneled for broking, ANGELONE can still empanel new APs for distribution of products. ▪ Mr Deepak Chandani, who has previous experience at Apple, is now associated with ANGELONE. It is possible that he may introduce some of the successful customer journey strategies implemented by Apple into ANGELONE's operations. ▪ ANGELONE has expanded its offerings by introducing new services (MF, IPOS, and ETFs). To cater to the different segments within the broking segment, the company is implementing differentiated programs for each cohort (delivery vs trading – will have different approaches).	▪ The company has received the in-principal approval from SEBI in Feb'23 to launch its mutual fund.
Bajaj Fin.	▪ Management guided for ~10-15bp NIM compression in each of the next two quarters and expects it to stabilize thereon. ▪ BAF guided for 29-31% AUM growth in FY24 and RoA of 4.6-4.8%. ▪ Gold loans stood at INR32b and could grow to INR50-55b by Mar'24. If the first half goes well, the company might even accelerate gold loan branch expansions.	▪ The company expects credit costs to remain benign at 155-165bp in FY24. ▪ Rural B2C has exhibited minor stress and management has trimmed the business to mitigate risk. BAF has taken actions in Rural B2C, which has resulted in muted growth. It will remain this way until Nov/Dec'23.
CAMS	▪ Decline in yields is led by resetting of commission charges for some large customers. The maximum impact has been accounted for in 1QFY24 and some incremental impact could be seen in 2Q. Yields are expected to remain steady post-2Q. Outside of the telescopic structure (expect for few resetting AMCs), yields are holding up well. ▪ CAMS expects ~20% contribution from the non-MF business over the next few years. At an aggregate level, EBIDTA margins stand up at mid to higher 20's (with AIFs in 40s). The margins are expected to scale up gradually. ▪ CAMS has partnered with Temenos for Multifonds (leading fund administration platform used by nine out of the top 15 global asset servicers) to bolster service offering to domestic and GIFT city clients.	▪ Think360.AI is the only Indian company recognized by Fintech Global in the Third Edition of the AIFintech100 list. CAMS has a call option in think360.AI that can be exercised over the next three to four years

	margins stand up at mid to higher 20's (with AIFs in 40s). The margins are expected to scale up gradually. ■ CAMS has partnered with Temenos for Multifonds (leading fund administration platform used by nine out of the top 15 global asset servicers) to bolster service offering to domestic and GIFT city clients.	
BSE	■ BSE had re-launched derivative contracts on Sensex and Bankex in May'23. It is witnessing healthy traction from market participants. BSE charges INR500 per INR10m of premium turnover. This is likely to change once it gains sustainable momentum in overall equity derivatives volume. ■ Equity derivatives segment registered a notional turnover of INR44.2t with 67.3m contracts in 1QFY24. BSE charges INR500 per INR10m of premium turnover. This shall change once BSE gains sustainable momentum in overall equity derivatives volumes. ■ BSE has revised transaction charges for currency futures, which is now in line with the market. This revised transaction charges shall apply with effect from 1st Sep'23.	■ BSE is witnessing significant demand for co-location racks and this might increase the capex requirements for the company.
Mahindra Finance	■ Management does not expect CoF to come down to facilitate better margins. Margin improvement or stability will come from better yields driven by a change in product mix. ■ Management guided that PrimeX segment will not be more than 10-12% of the customer mix and compression in NIM from PrimeX customer base will be more than offset by lower opex/credit costs.	■ MMFS mentioned that it will take one more year for the PCR across different stages to decline further. Product/customer mix change will also support lower PCR. ■ MMFS did not observe any blip in collection efficiency in the Northern part of the country despite the floods. However, there could be temporary delinquencies but the collection efficiency will rebound quickly.
Muthoot Fin.	■ Management guided for NIM of ~11% and spreads of 10%. MUTH admitted that ~12% spreads achieved in the past are not sustainable. ■ MUTH guided that Housing Finance AUM would grow to INR18-19b and Belstar MFI AUM would grow to ~INR90b by Mar'24. ■ Yields stood at ~18.1% (PQ: 18.48%) and the company plans to increase its lending rates to maintain its spreads/margins.	■ Gold NPAs rose as they crossed the 12+3M period. These customers have paid partial interest and requested for time to redeem their gold jewelry. ■ There is a high churn in gold loans and the company endeavors to get the inactive customers to take gold loans again or get new customers to take gold loans.

360 One WAM — Buy

Current Price INR 512

360 ONE

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Business

- In the domestic MF business, the company will look out for differential product opportunities, while expanding its distribution reach. 360ONE has been conservative on distribution payouts in this business and is in no hurry to grow the same with a hit on profitability.
- 360ONE believes that it has a significant market share in the INR500b revenue opportunity in the wealth management business.
- During the quarter, 70% of inflows were driven by promoter activity (IPOs and OFS), while the remaining portion consisted of transfers from other wealth and new AUM. A large portion of promoter-driven flows is currently not generating yield; however, there is a positive outlook for improvement in the next couple of quarters. It is estimated that about INR35b in NDPMS and INR50-55b should convert into fee-paying in the second half of FY24.
- Traction on credit and real estate is picking up momentum in terms of gross flows, but outflows from Special Opportunities funds are offsetting the same. In the medium term, the growth from RE, credit and listed equities should be strong.

- NDPS has seen an outflow of about $125m from one client, primarily driven by liquidity concerns. However, it is anticipated that these funds will be returned over the next six months.

Target audience

- India has a base of about 35-40k families in the UHNI segment, of which, 360ONE is servicing about 2,800-3,000 and are in contact with another 3,000-4,000. The tailwinds for this segment include disproportionate growth of wealth in this segment and increasing acceptance of professional wealth management (share now stands at ~50%).
- In the HNI segment, there are about 150k-160k families. 360ONE is already in touch with about 3,000 families. While it has had a slow start, the management expects to scale up and capture a market share of 7-8% over the coming years.

Finance

- Currently, there is no compelling reason to alter the guidance that was provided in the previous quarter. In the worst-case scenario, revenues in the range of INR750-1,000m could potentially shift from ARR to TBR.
- Expenses were higher during the quarter, owing to one-time marketing initiatives. The company maintained cost-to-income ratio guidance of 43.5-45%.
- Field force expansion – 1) Senior private bankers – these professionals are responsible for originating and managing large clients; they can independently manage their client portfolio and have the support of junior bankers; the total count of senior private bankers is between 70 and 75, and they play a significant role in business origination, 2) Junior bankers – There are around 160 to 170 junior bankers. 3) The Asset Management team currently comprises 20-25 members who are dedicated to servicing the INR650b AUM. Addition to the force is expected across the three categories.
- While gross inflows have been steady, volatility in outflows has led to volatility in net inflows.
- The company aims to significantly reduce the share of transaction revenues, which currently stands at about INR3.7b. However, about INR2b of this revenue cannot be easily shifted due to the nature of certain businesses, such as equity broking.
- Out of the total increase in employee costs, INR100m was allocated to new additions to the workforce, while the remaining amount was attributed to existing employees. For FY24, admin costs are not likely to exceed INR2.15b.

Aavas Financiers — Neutral

Current Price INR 1,581

Business Update

- AUM grew 23% YoY. Disbursements stood at ~INR10.6b and declined 2% YoY.
- In 1QFY24, the new LOS handled 33,000 files seamlessly. AAVAS is now ready for the next leap of transformation.
- Opex was elevated because of an increase in the headcount and higher ESOP costs in addition to the investments in technology.
- Two new branches were added in 1QFY24.
- CRAR of 47.3%

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Disbursements

- Completed a pan-India Salesforce rollout across all its branches, which led to overall softer disbursements in 1QFY23. The system stabilized in Jun'23, with disbursements up 17% YoY.
- AAVAS went through a big transformation project. May'23 was the stabilization period and Jun'23 saw 17% YoY growth in disbursements. After the system stabilization and availability of state-of-art technology, it should be able to deliver higher disbursement volumes.

Asset Quality

- 1+dpd stood at 3.7% (PY: 4.7%).
- GS3 includes ~0.13% of <90dpd assets, which were categorized under Stage3 following the RBI's notification.
- A resolution plan was implemented under RBI Resolution Framework 2.0. From the OTR 2.0 pool, based on perceived risk and prudence, an amount of INR844m (as on Jun'30) has been classified in Stage 2 and provided for based on regulatory guidelines. Out of this, INR640m is within the 0-30dpd bucket.
- Total ECL provisioning (including Covid impact and restructuring provisions) stood at INR766m. Well placed to deliver industry-leading asset quality.

Operating Expenses

- One-off items in employee expenses included ~INR12.5m due to a KMP retiral benefits.
- In 4QFY23, there was a INR50m reversal of ESOP expenses. In 1QFY24, there was an ESOP expense of INR70m.
- Guides for opex to average assets of ~3.7% in FY24. Opex will remain elevated in FY24 because of investments in technology but opex (as % of average assets) should start improving by ~20-25bp every year from FY25 onward.

Liabilities

- 20-25% of the incremental borrowings will be from NHB. Received a new sanction, which is ~20% of the overall borrowing program.
- PLR rate hike of ~40bp was taken in 1QFY24. Guides for stabilization in the CoB.

MSME Loans

- All MSME loans are backed by collateral/property and 95% of the customers live in those houses. LTV between 45-50% and yields of ~15%.

TAT

- The main objective of the new technology platform was to make systems more stable and scalable, and provide the right customer experience
- TAT can be brought down to 6-7 days from 12-13 days currently.

Underwriting

- The new system will only support the underwriter for all the peripheral checks and clerical work. There is no change in the underwriting. An underwriter will now be able to do the prioritization of the cases.

Others

- No attrition in senior management or (CXO - 1) or (CXO -2) levels. Attrition is primarily in the front-line sales, which is commonplace across the industry.
- 1QFY24 BT-OUT stood at ~1.4% (guidance of ~0.5% BT-OUT per month).
- Guides for 65:35 mix between Home Loans and Non-Mortgage loans.
- Non-conventional channels contributed ~10% to the Sourcing Mix. Expects the contribution of non-conventional channels to improve because of this technology transformation.

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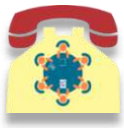

Aditya Birla Capital — Buy

Current Price INR 184

Business Update

- One ABC and One P&L approach. Three-pronged strategy of a) One Customer, b) One Experience and c) 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.
- Continues to expand its branch network and will continue to increase its presence across One ABC locations.
- 99% of the customers were on-boarded digitally in 1QFY24. 86% of the business is delivered with auto underwriting in the Health Insurance business.
- Omni-channel Direct to Customer (D2C) serves existing customers, acquires new customers and acts as a one stop-solution to deliver Protecting, Investing, Financing and Advising (PIFA) solutions to customers.
- 1QFY24 Consolidated PAT grew by 51% YoY to ~INR6.5b.
- The company raised ~INR30b in 1QFY24.

NBFC

- Expects to double the book by next three years
- Improving product mix toward personal, consumer and MSME loans to drive margin improvement. Guides for improvement in margins to 7.5% over next three years
- CoF expected to increase over next two quarters but increase in yields to offset the same, leading to largely stable spreads
- The quality of portfolio sourced through both direct and digital channels is healthy and within the range of the underwriting standards of the company.
- The RBI allows 5% FLDG, and the company is in discussion with partners of leveraging the same.
- On a sustained basis, the share of SME and personal loans would be 25% and corporate at 75% of the loan mix.
- NBFC Lending book grew 49% YoY to INR858.9b.
- Business Loans comprise nearly 40% of the disbursement mix, followed by personal and consumer loans at 36%.
- Added 9 new branches with total branch count of 332
- 1QFY24 CIR improved to 30.5% (PY: 32.8%)
- Next leg of growth will be driven by enhance frontline distribution capability and enhance digital sourcing channels
- Asset quality has shown a consistent improvement over the last year. GS3 declined to 3.8%.
- 1QFY24 credit costs stood at 1.5%, stable QoQ.
- 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.

Housing

- 1QFY24 RoA was 1.9% and 13.2%
- 1QFY24 disbursements grew 83% YoY to INR16.2b
- NIM expanded by ~35bp YoY and ~10bp QoQ to 5.1% in 1QFY24.

- Asset quality continued to improve with gross stage 2 and 3 assets declining by ~20bp QoQ and ~400bp YoY to ~4.8%
- Focusing on granularity with ticket sizes across 2.6 lakh
- CIR increased to 53% (PQ: 45%) reflecting accelerated investments in technology and franchise.
- Accelerating the digital efforts across the entire ecosystem. Launched a seamless Loan Origination System and enhancing the digital capabilities in analytics
- 95% of the disbursements are to customers with CIBIL Scores of >700 or New to Credit
- Housing: 88% of the sourcing is from customers with bureau scores >700
- RoA will continue to improve in the Housing business as the proportion of affordable improves.

Udyog plus

- Udyog plus developed to specifically cater to MSME segment customers. As on date 48k MSMEs have registered on the platform.
- It offers paperless digital journey for business loans and loan disbursement of up to INR1m.
- The app 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.

AMC

- Total Mutual Fund AUM stood at INR2.97t;
- Added 0.1m folio in the quarter with Total folios at ~7.9m

Life Insurance

- Upsell and cross-sell contributed 27% to FYP in 1QFY24. The company is focusing on maximizing cross-sell and up-sell.
- Individual First-Year Premium (FYP) grew by 32% YoY to INR5.4b in 1QFY24 (vs. industry growth of 2%).
- 13th month persistency continued to improve and was 88% in Jun'23, compared to 83% in Jun'22.
- Net Value of New Business (VNB) at INR780m in 1QFY24 grew 6.5x YoY (PY: 120m).
- Net VNB margin expanded by ~9.4pp YoY to 11.8% in 1QFY24.
- Traditional Business: 84% and ULIP: 16%
- Group new business premium grew by 20% YoY to INR10.6b in 1QFY24.
- The company plans to drive growth in both proprietary and partnership channels
- New products launched in last 12 months contributed to 44% of Individual FYP for 1QFY24.

Health Insurance

- Combined ratio improved to 117% in 1QFY24 vs. 110% in 1QFY23.
- Growth powered by retail business aided in improving overall share among SAHIs to ~11.6% (improvement of ~120bp QoQ).
- 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

- In case of sourcing through partners, the company starts with small-ticket short-tenor loans and after gaining confidence, it moves to personal loans.
- It never on-boards customers who have delayed payments in the past
- Sourcing mix.

Angel One — Buy

Current Price INR 1,710

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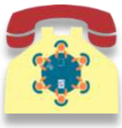

Broking

- MTF book focus – is more of a product offering and has limited acceptance in retail population vs HNI customers. If the same scales up with Retail, Angel One will have a meaningful presence.
- Despite the absence of a market-wide limit, the company has developed contingency plans to address potential scenarios that may arise.
- Angel One is strengthening its network of APs even further. With a network of over 21,000+ Aps, the company boasts the largest network in the country. It has upgraded its digital platform to provide Aps with enhanced tools and resources. This upgrade aims to improve the overall offerings, thereby fostering customer retention. The company is hiring senior resources to grow this segment.

New offerings

- AMC business launch – Angel One is in the process of creating the entire infrastructure and has incorporated the Trustee and AMC. It expects to file final papers for approval with SEBI in the next three weeks. Generally, SEBI takes about two quarters for final approval, post which immediate product launches can be expected.
- MF strategy - The Associated Person channel primarily focuses on stock broking services. However, by venturing into the distribution business, the company can scale its operations and increase customer loyalty. Additionally, a considerable number of inactive customers have expressed interest in scaling up SIPs with Angel One.
- Consumer credit - Angel One will soon be launching personal loan distribution, followed by credit cards. The company plans to focus only on distribution and not take any risk on own balance sheet. It plans to leverage AI/ML model to support lenders identify high quality customers. Currently, the management is in discussion with top banks. With respect to collection, Angel One's role will be restricted to nudging customers for reminders of payment dues. TSP is a highly competitive segment and currently, the company has no plans to venture into the segment.
- BSE Derivative s – BSE has started weekly options; Angel has started working on the same and will be integrating it into the system by the start of 3QFY24.
- Account aggregator – Angel One has successfully implemented an account aggregator as a FIU. With more and more FIUs and FIPs coming on board, it will create a mutually beneficial environment for all the participants. Angel One is actively evaluating additional use cases for leveraging this technology.

Customer-centric strategies

- Angel One has expanded its offerings by introducing new services (MF, IPOS, ETFs). In order to cater to the different segments within the broking segment, the company is implementing differentiated programs for each cohort (delivery vs trading – will have different approaches). Education tools play a crucial role in driving customer activation and engagement in these programs.

- Usage of AI/ML – Angel One leverages AI/ML technologies throughout the customer journey, encompassing customer support, acquisition (during KYC – such as signature verification), activation stages. Mr Deepak Chandani, who has previous experience at Apple in his six year stint, is now associated with Angel One. At Apple, he was instrumental in building iTunes big data platform and multiple core Business Intelligence products. It is possible that he may introduce some of the successful customer journey strategies implemented by Apple into Angel One's operations.

Finance

- Employee expense - variable expenses are spread over the year, 1/4th costs apportioned in the four quarters each.
- ESOP cost is likely to be INR500-550m for FY24.
- Angel One maintained its guidance on add-on interest costs due to up streaming of client funds of about INR400m for FY24 (5-7% variance expected).
- Decline in borrowings – This is primarily attributed to in T+7 and reduction in MTF. As these decreased, the company has experienced an increase in generated cash flow. The increased cash flow has been utilized to reduce borrowings further.

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BSE — Neutral

Current Price INR 904

Equity derivative segment

- Transactional charges are related to premium turnover and do not have a direct relation with notional turnover. Equity derivatives segment registered a notional turnover of INR44.2t with 67.3m contracts in 1QFY24.
- Equity derivatives were re-launched in May'23. BSE charges INR500 per INR10m of premium turnover. This shall change once BSE gains sustainable momentum in overall equity derivatives volumes.
- Several brokers are in the process of integrating with BSE. About 212 brokers traded last Friday and this number is increasing. The mix is well spread between market participants.

Business

- Primary market segment – fund raising by Indian Corporates picked up in Jun'23.
- BSE has revised transaction charges for currency futures, which is now in line with the market. This revised transaction charges shall apply with effect from 1st Sep'23.
- BSE Star MF platform processed 830m transactions in 1QFY24 resulting in a growth of 39% YoY (with ~88% market share among exchange distribution platform).
- BSE is looking to charge AMC fees from its authorized persons.
- It is witnessing significant demand for co-location racks and this might increase the capex requirements for the company. At this point, co-location is not a profit center.
- Operational revenue grew 15% YoY to INR2.15b with EBITDA margin improving to 33% in Jun'23. Net profit margin expanded to 27% in Jun'23 from 20% in Jun'22.

- For cash segment, BSE continues to engage with stakeholders for blocks. This shall be the next leg of growth in equity cash segment with increased focus towards FPIs. During the quarter, BSE registered ADTO of INR40.25b in equity cash segment.
- It has completed 5% stake sale in CDSL at a price of INR991 for a total consideration of INR5.18b. Considering the same, the Board has approved 3.39% buyback via tender route.
- The liquidity enhancement charges for 1QFY24 are for BSE Gift City exchange and this is expected to continue.
- Volumes in BSE power exchange see an up-move during 1Q and 2Q of every year.

Bajaj Finance — Buy

Current Price INR 7,135

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Business update

- Excellent quarter across all portfolio and financial metrics. Added 9.94m new loans and the Finserv app now has 40.2m net users.
- The highest-ever AUM growth in 1QFY24 and guidance of 29-31% AUM growth in FY24.
- The highest-ever customer franchise additions and it is confident of adding 12-13m new customers in FY24
- Overall franchise stood at 73m customers and cross-sell franchise stood at ~44m

NIM

- CoF stood at 7.6%, up 22bp in 1QFY24. Net impact on NIM sequentially was 11bp; it continues to expect gradual moderation in NII through FY24 and expects a reversal from FY25 onwards
- It is re-pricing old borrowings at higher rates and is unable to pass on the higher CoF since the lending rates are already at pre-Covid levels; BAF expects 10-15bp NIM compression each for the next two quarters and it could settle thereon.

Asset quality

- Risk metrics across all businesses, except Rural B2C business, were Green.
- Rural B2C has exhibited a minor stress and the management has cut the business for risk mitigation. The management has taken actions in Rural B2C, which has resulted in muted growth. It will remain this way until Nov/Dec'23. Post that, even Rural B2C should start growing strongly.

Credit costs

- Management overlay release of ~INR1.2b in 1QFY24. Total credit costs of ~INR11.15b (INR9.95b + INR1.20b) were translated into annualized credit costs of ~1.7%
- Credit costs for the quarter included, a) ~INR60b of additional assets (relative to 4QFY23) created in 1QFY24 that required ~INR350m of standard ECL provisioning, b) one-time provisions of ~INR150m on the Manipur portfolio and c) overlay to further strengthen the ECL model: additional provision of ~INR500m towards redevelopment of the ECL model. Because of the redevelopment, ECL provisions for the full-year could be ~6-8bp higher than the normal run-rate.

Personal loans

- Quantum of personal loan growth is troubling the management. It is monitoring the same closely and acting on it in a nuanced manner. It is taking pre-emptive

measures by looking at both secured leverage and unsecured leverage of customers. Credit models should be optimized going forward.
- The market pie has expanded in personal loans; across all the top 1,000 cities there is competitive activity across all ticket sizes and this competitive intensity is across public banks, private banks and NBFCs.
- Supply is all pervasive in a reasonable manner across all asset classes.

Gold loans
- Gold loans stood at INR32b and could grow to INR50-55b by Mar'24. If the first half goes well, it can even accelerate gold loan branch expansions.
- BAF will expand to 640 standalone gold loan branches by Jul'23
- Gold loans are currently classified under Rural B2C. Rural B2C Personal Loans grew 19% YoY.

BHFL
- AUM was up 29% at INR741b. Home loans AUM grew 19% YoY, LAP grew 5% YoY, LRD rose 83% YoY, developer finance grew 76% YoY and rural mortgages rose 16% YoY in 1QFY24.
- PAT grew 46% YoY to INR4.6b in 1QFY24 (PY: INR3.2b). Adjusted for reversal of deferred tax liability (DTL) of INR730m, PAT growth was 23% YoY.
- INR730m released into the P&L from the deferred tax liability. Now that the Covid period is over, BHFL has decided that it will not dip into the DTA for provisions. As a result, INR730m of DTA has been reversed into the P&L. Blended tax in Housing business can be ~2% lower than the national tax rate.
- ~INR100b of liabilities are linked to external benchmark and they are largely linked to the Repo rates.

Omnipresence metrics
- Management expects to be scale up to 3.0-3.5m QRs at the Merchant PoS by the end of the fiscal year.

Liabilities
- 25% of the bank borrowings are Repo-linked; 30% MCLR-linked and 55% are linked to T-Bill and external benchmark.
- At the consolidated level, BAF has ~INR740b of bank borrowings (of this, ~INR230b is Repo-linked).

Rewards
- Building a rewards ecosystem for closed-group architecture. Scratch a card and voucher infrastructure was built at BAF. Membership program will allow for a set of discounts. Rewards will be another funnel that the company is investing in.
- Social - Photos/Videos - will redirect to the App/Web ecosystem. A separate business unit (separate from marketing team) is working on Social marketing.

Employee attrition
- Employee headcount stood at 46,567 (BFL, BHFL & BFSL) as of Jun'23. The company added 3,420 employees in 1QFY24. Annualized attrition in the quarter was 13.8% (PY: 14.5%). Annualized attrition at ~19% in FY23.

Others
- While BAF continues to invest in digital and technology, it expects to see operating leverage come through every quarter from hereon.
- BAF's business model is now organized for an RoE of 22-23% and RoA of 4.6%-4.8%.

- New car business has already been launched in 80 cities across India. There could be INR2.0-2.5b of monthly disbursements by Mar'24.
- Across the nine lines of business, there has been no change in the product mix and it does not foresee any significant change in future.
- Recoveries will be very low from the IL&S Building in the GIFT city.
- Any customer that moves into 30+ dpd will never get categorized in the Cross-sell franchise.

Can Fin Homes — Neutral

Current Price INR 748

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Guidance

- The management has guided for RoA of ~2% and RoE in the range of 17-18%. The company plans to maintain a gearing ratio of 8x.
- It expects to maintain the PCR based on the provisions required under the ECL guidelines on a long-term basis.
- The management has guided for 20% growth (vs. las year) in disbursements to INR105b. Considering prepayments, it expects net accretion of ~INR65b in the loan book, which translates into 18-20% growth in loans.
- Around 10% of growth will flow from improving branch efficiency and remaining from an increase in ticket size and inflation.
- The credit cost is projected to be around 10bp.

Asset quality and Restructured book

- In the quarter, CANF posted total slippages of INR300m. Out of this total, ~INR185m resulted from slippages in the restructured book, while the remaining was due to seasonal impact observed in the first quarter.
- Regarding the restructured book, an amount of INR4.75b exited the moratorium, and out of this, INR2.5b has been out of the moratorium for more than three months. Out of INR2.5b, INR185 slipped during the quarter.
- Presently, the company holds provisions of INR670m on the restructured book, along with an additional management overlay of INR170m.
- ~INR2.2b remains in the restructured book, and it is expected to exit the moratorium by Nov'23, with around 50% of it likely to be resolved by Aug'23.
- The company anticipates that slippages from the restructured pool will decrease in the coming quarters. Accordingly, it plans to reduce the provisions carried on the restructured pool after evaluating the performance of the restructured book.
- The management is confident in its ability to maintain NPAs below 0.7% levels.

Yields and Margins

- Margin improvement was driven by the effect of rate hikes on INR55b of the loan book in the quarter. Going forward, the company expects a ~5bp gain in margins.
- The entire loan book is anticipated to re-price by Dec'23. The lending rate currently commences at ~9.6%.

CoF and borrowings

- The majority of bank borrowings are linked to repo rates and CANF is in talks with banks to moderate the spreads on repo rates.
- The company is able to raise incremental NCDs at lower rates. The above factors aided the company in improving CoF in the quarter.

- The loan book grew by ~INR10b in the quarter, while borrowings increased by ~INR7b. Total borrowings at the end of 1QFY24 stood at INR297b.

Branches

- Out of the 15 planned branch additions by the company, a survey has been conducted for 12 branches, and four of them are in the advanced stage of opening.
- Eight out of the 12 surveyed branches are scheduled to be opened in the next two quarters, while the last three branches will be opened in the fourth quarter of the year.

Opex

- The board has approved a budget of INR2.5b, which includes INR600m for capex and the remaining for opex spread over seven years.
- The company pays ~43bp to DSAs for sourcing loans, with DSA dependence of ~80% in FY23.
- The company has been in talks with developers for tie-ups to ramp up its internal sourcing and reduce DSA dependence to 60%.

Average ticket size (ATS)

- Regarding ATS of home loans, it currently stands at INR2.2m (vs. INR2.4m in previous year), and 5% of growth is anticipated to come from an increase in ATS.
- The company expects ATS to rise to the range of INR2.5-2.7m in the future.
- Further, once the ATF projects and builder tie-ups are executed, the company expects to witness improving traction in the INR2.5m-10m ATS segment.

Others

- In each quarter, normal pre-payments typically amount to INR1-1.5b, out of which ~250-300m is through BT-OUTs.
- The mix of salaried to non-salaried borrowers is expected to remain largely unchanged.
- The company is currently observing an uptick in demand for higher ticket size properties and is confident that this demand will be sustained.

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Cholamandalam Inv. & Finance — Buy

Current Price INR 1,085

Business Update

- 1QFY24 disbursements grew 50% YoY to ~INR200b. Business assets grew 40% YoY.
- NBFC Retail industry growth is expected at 18-20%. Secured NBFC Retail is forecast to grow at 14-16%. CIFC's growth momentum in 1QFY24 continued across its diversified business segments.
- PBT RoA of 3.3% and RoE of ~20%
- Strong liquidity position with ~INR71b of cash balance (including ~INR31b invested in G-Sec and T-Bills)
- GS3 rose only ~5bp QoQ to 3.06%.
- CRAR was at 17.44% (Tier 1: 15.14%). The board has approved a proposal for an equity capital raise of ~INR40b via QIP.

Credit Growth

- CIFC is demonstrating such strong growth in the new businesses because of the low base. The Home Loan segment continues to see very strong potential for growth because it was underserved and has good demand.

- Like Vehicle Finance, in new businesses also, the company will take a micro market and cautious view in areas where there is some stress (or over supply in some pockets).

Guidance

- Guides for >20% disbursement growth with potential upside to this guidance
- Vehicle Finance has started exhibiting lower NCLs; guides for <1% credit costs in Vehicle Finance in FY24. Stage 3 in VF is not going up and Stage 2 is exhibiting better performance.
- Jul'23 is panning out well and it has maintained its strong disbursement momentum.

Liabilities and Margins

- Does not anticipate any further increase in the cost of borrowings unless there are Repo rate hikes.
- About 10% of bank borrowings are fixed-rate. The rest are MCLR, Repo and T-Bill linked rates. In Repo rate linked loans, it is negotiating for lower spreads over the Repo rates. Shifted its focus on doing more securitization and did ~INR88b of securitization during the quarter.
- Consciously increased Tier 2 capital by adding more sub-debt and perpetual debt. Securitization is not treated as debt and it is adjusted against the risk weighted assets. Under Ind-AS, securitization is shown as borrowings and it does not move the needle on the debt-equity ratio.
- At any point in time, the cumulative mismatches in the various ALM buckets are never negative (even though regulations allow for it).

New Businesses

- Personal Loans and Business Loans in CSEL are behaving in the same manner as they were in the past. Bounce rate at 5.6% is still lower than the industry's rate and collection efficiency is 99.5%. Gross credit costs in new businesses were higher because of higher standard asset provisions and contra entry of the FLDG arrangement recoveries.
- New businesses are still in early stages of growth. Such low levels of NPAs are not sustainable levels and will increase over a period of time with credit costs between 1.2-1.5%. NCLs in new businesses will be higher but will be more than compensated by the higher yields.
- FLDG recovery of INR350 is shown under the Income line. Standard asset provisioning also resulted in slightly higher provisioning. No significant increase in the credit costs in new businesses.

CSEL

- Partnership Business: Small ticket Size and Small Tenor book. Disbursements to customers with 720+ CIBIL scores.
- Personal Loans: It has not done much of personal loans. CAT A/B/C customers are served by banks. CAT D/E are served by NBFCs. Only going to be doing personal loans with the Direct Sales team and the existing customers and much lower through partnerships.

Home Loans

- Focus is 60% on Southern part of the country and 40% in Non-South.
- Affordable Home Loans will continue to grow at a strong rate for the next 3-4 years.

LAP

- Launched smaller-ticket LAP because SARFAESI is now available up to ticket sizes of INR200m.
- LAP is now being done across 600 branches (vs. 150 branches in the past). It will be expanded to another 600 branches over a course of time.

Asset Quality

- CIFC has been pursuing FLDG recoveries with Fintech partners. Because of the change in the RBI guidelines on Fintechs/FLDG, cumulative FLDG has been accounted for in this quarter. The write-offs and recoveries (from FLDG arrangements) were separately accounted for in this quarter.
- Restructured pool of INR3bn in Stage 1, INR15b in Stage 2 and INR5bn in Stage 3

Operating Expenses

- Employee expenses declined QoQ. This is because any additional incentives are also paid out in 4Q. In 2Q, certain amount of increments/incentives/promotions are factored in, which is an annual phenomenon effective Jul'23.

Computer Ages Management — Buy

Current Price INR 2,437

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MF business

- CAMS wins RTA mandates from Angel One and Torus Oro Mutual Fund, solidifying its position as the preferred partner for new age AMCs. CAMS has won four out of the last six new to the market MF RTA mandates.
- 1QFY24 was marked with increased QoQ MF AuM share from 68.3% to 68.7%, riding on higher share of net sales in both equity and debt segments. CAMS Share in equity net sales increases from 73% to 99% QoQ and from 37% to 78% QoQ in debt net sale.
- SIP registrations and SIP Inflows reached a life-time high in 1QFY24, added ~2m net SIPs. The new SIP registrations grew 17% QoQ with 65.2% share in 1QFY24.

Non-MF Business

- CAMS expects 20% contribution from the non-MF business over the next two to three years. At an aggregate level, EBIDTA margins stand up at mid to higher 20's (with AIFs in 40s). The margins are expected to scale up gradually.
- CAMS invests ~INR 180-200m annually in the non-MF business in the following order of preference - account aggregator business, NPS business, MF Central, and then insurance.
- CAMS Alternatives revenue grew ~19% YoY in 1QFY24, despite a challenging macro environment. 1QFY24 saw 27 new wins in the vertical, of which, 11 were new-to-CAMS logos, and came on the back of accelerated signings and rapid adoption of CAMS WealthServ & Fintuple's offerings. 400+ funds services across 150+ fund houses with assets under service at INR 1.75t. CAMS has partnered with Temenos for Multifonds (leading fund administration platform used by 9 out of the top 15 global asset servicers) to bolster service offerings to domestic and GIFT city clients. ~60-70% of the AIF charges are linked to a number of investors.
- CAMS finserv (account aggregator platform) – The focus is on driving sales wins, with 25 deals signed up in 1QFY24. CAMS finserv leads the industry in FIP integration with 82 FIP signups. CAMS is the first AA to go live with Mutual

funds. CAMS catapulted to a leadership position in the industry on FIP integration.

- CAMS-Pay delivered a 25% YoY revenue growth in 1QFY24. Expanded digital footprint through its API, E-mandate, and UPI auto-pay offerings, which will significantly increase revenues from recurring mandates.
- CAMS KRA's revenues grew 40% YoY in 1QFY24, emerging as the preferred KYC partner for Fintechs and fast-growing capital market participants. It launched a '10-Minute KYC' an Industry First AI-embedded KYC solution to onboard customers instantly.
- CAMS Rep continued to strengthen its leadership position with improved insurer solutions with 100% YoY growth in EIA and policy additions. Any final regulation form IRDAI on dematerialization of policies is yet to come. Digital Loan Assignment (digitizing the entire loan policy assignment process) to be launched soon by CAMS. Loan against insurance does not have IRDAI permission. As of now, it is not a revenue source for CAMS.
- Think360 wins digitalization mandate from India's fourth largest public sector bank, Canara Bank, for its Kwik.ID product. With this, 3 of the top 10 PSBs have awarded their digitization mandates to Kwik.ID. Think360's flagship alternative credit scoring product, Algo360, has won the mandate from SBI Cards (the country's second largest credit cards issuer) and Kreditbee (one of the Top 5 lending Fintechs). Think360.AI is the only Indian company recognized by Fintech Global in the 3rd Edition of the AIFintech100 list. CAMS has a call option in think360.AI that can be exercised over the next three to four years. Think360.AI is a completely bootstrapped and debt-free company. Currently, it generates INR 280-300m of revenue annually and it is expected to grow in high double digits.
- CAMS NPS continues to retain the second position in the eNPS segment. CAMS NPS makes inroads into the POP and corporate segment with 48% of its new subscriptions coming from the retail POP channel.
- MF Central - CAMS digital properties clocked 8% growth over the last quarter and have a share of 7% of overall investor-initiated transactions. myCAMS continues to hold fort among the top fintech Apps with 6m + registrations. MF-Central APIs to intermediaries continue to gain momentum with over 1.5m hits a month. It delivered 1.5x growth over the last quarter.

CreditAccess Grameen

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CreditAccess Grameen — Buy

Current Price INR 1,396

Management guidance

- The company reiterated its annual guidance of achieving 24-25% loan book growth.
- Additionally, it expr confidence in maintaining the cost-to-income (C/I) ratio within the guided range of ~34-35%.
- For FY24, the company has guided for margins of 12-12.2%.
- However, it stated that it will reassess and re-evaluate this guidance throughout the year based on market trends and its performance in the upcoming quarters.

Business operations

- CREDAG witnessed ~98% YoY growth in disbursements, reaching ~INR47.7b (PY: ~INR24b; PQ: ~INR71.7b). AUM grew ~4% QoQ/40% YoY to ~INR218b (PQ: ~INR210b).

- The healthy YoY disbursement growth was driven by improved customer acquisition.
- To maintain a robust quality of the unsecured book, the management clarified that the unsecured loan portfolio will not exceed 5-7% of the overall portfolio and is offered only to higher vintage, retained customers.
- In the quarter, the ATS of disbursements stood at INR 44-45k.
- The company observed single-digit or lower double-digit growth in its top three states, while newer geographies exhibited faster growth.
- As part of an internal policy, the company establishes a new branch for improved customer management once a branch surpasses 7k customers,.
- To ensure better customer relationships, each loan officer manages not more than 5-6 centers and a maximum portfolio of INR18-22m, depending on the geography and vintage of customers.

CoF and margin expectations

- During the quarter, the average cost of borrowing and marginal cost of borrowing for the company were at 9.6% and 9.7% respectively.
- The reported yields showed a significant increase of ~100bp QoQ, resulting in an expansion of around 80bp in margins, bringing it to around 13%.
- The company stated that it expects the CoF to increase by ~20-40bp in the coming two quarters, driven by the following factors:
- Increase in long term borrowings;
- The company has drawn down USD100m under the social loans facility, with interest rates ranging from 9.5% to 10%, based on the geography and type of lender. ~39% of the drawdowns in 1QFY24 were sourced from foreign lenders and raised in the last week of June. The impact of this drawdown is expected to be observed in the upcoming quarter.
- The company will raise the second tranche of its public NCD before Nov'22
- The share of foreign borrowings in the company's portfolio increased to 19% in Jun'23 from 14% in the previous quarter.

Promoter stake sale in Jun'23

- In Jun'23, the promoters of the company sold ~9m shares, representing a 5.7% stake. This strategic transaction facilitated the expansion of the shareholder base and increased free float of the company's shares.
- Following the stake sale and issuance of shares to MMFL shareholders as per the share swap arrangement post-merger, the promoter holding now stands at ~66.8% as of Jun'23.
- Institutional shareholding in the company has risen to 27% as on Jun'23 from ~22% in Mar'23. The transaction garnered strong interest from both existing and new investors.

Appointment of Mr. Narayan as CEO

- Effective 1 Aug'23, Mr. Ganesh Narayan has been appointed as the CEO, while Mr. Hebbar will continue to serve as the MD.

Asset quality

- In 1QFY24, credit costs stood at ~INR760m, out of which ~INR76m is related to management overlay carried by the company on the legacy book of MMFL.
- The annualized credit costs for 1QFY24 moderated by ~75bp sequentially, reaching 1.4% (PQ: 2.2% and PY: 2.5%). The moderation in credit costs was supported by bad debt recovery of ~INR120m in 1QFY24.
- GNPA/NNPA improved ~30bp/15bp QoQ, standing at ~0.9%/ 0.3%. ECL/EAD declined ~20bp QoQ to ~1.6%.
- PAR 90+ at 0.7% demonstrated an improvement of ~20bp QoQ (PQ: 0.9%).

Operating expenses

- The company foresees an increase in the cost-to-income (C/I) ratio in the upcoming quarters as it continues to invest in IT, branches, and manpower to fuel expansion.
- Nevertheless, it remains confident in maintaining the C/I ratio within the guided range of ~34-35%.
- The company plans to reassess and re-evaluate the guidance after 1-2 quarters.

Progression of new products

- The company has piloted various new products and many of them are expected to scale up in FY24.
- In the upcoming quarters, individual business loans, LAP, and 2W loans are expected to scale up, while gold loans will continue to run as a pilot program.
- The company plans to initiate a pilot for affordable housing loans this year.
- The new loans constitute 1% of the business as of Jun’23.

Customer mix

- The company observed healthy performance across all geographies. ~47% of the total customer additions in the quarter came from outside of the top three states.
- In terms of customer mix, unique customers account for 34%, customers with 1+ lenders make up 32%, 2+ lenders comprise 20%, and 3+ lenders represent 14%.
- ~75% of the company's customers have a FOIR of < 40%.

Fusion Micro Finance — Buy

Current Price INR618

Fusion Microfinance

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Business Update

- 1QFY24 disbursements remained at the 4QFY23 level.
- NIM stood at 10.9%; there is still scope for NIM expansion before it stabilizes.
- RoA of 5% and RoE of 20.2%; confident of delivering RoA of 4.25-4.5% and RoE of ~20% on a sustainable basis
- Management overlay now stands at ~INR580m and it will keep building this management overlay in quarters where the operational performance is good.
- Witnessed floods in Northern India - Hopeful that credit costs will normalize after two more quarters.
- Top 5 states contribute ~70% to the AUM mix and going forward this concentration will reduce with the contribution from new states.
- The number of borrowers stood at 3.64m as on 1QFY24.
- A healthy mix of new and existing customers as reflected in average disbursement ticket size of INR42.4k
- The company has slightly increased its first cycle ticket size - it did not increase the ticket size in the last three years. Any such change will be done keeping in mind the risk/prudence and it will be very organic.

Collection Efficiency

- CE in the Top 5 states is above 99%. States like MP, TN and Odisha have also exhibited improvement in CE. Gradually CE will normalize at the industry level.

Asset Quality

- The company is used to handling floods in Bihar and Odisha for the last many years. Many geographies have faced the flooding situation for the first time this year. There have been some disruptions from the floods but the company is closely monitoring it.
- Bihar, UP, MP, TN, Odisha - Significant improvement in CE
- FUSION does not fund the customers that have more than five lender relationships.
- INR680m of the pre-Covid portfolio will run down in the next two quarters

- Credit cost is still elevated and the company will share the guidance on credit cost in the next quarter. Credit cost will normalize from 3QFY24 onward.
- Over the longer term, FUSION expects the normalized credit costs to remain between 1.5-2.0%
- State-wise 90+ DPD: Bihar: 0.7% | UP: 1.0% | Odisha: 2.8% | TN: 3.6% | MP: 3.0%
- Haryana (because of prolonged challenges - Farmer Agitation, COVID waves and recent uneven rainfall) has CE of ~94% and Punjab is also at similar levels.
- PAR 90+ of the post-Mar'21 portfolio is <2%. 40% of this comes from 2-3 states where there have been floods.
- Current policy allows it to write-off only after 365 days. Policy to write-off up to 275 days has been approved and we can see faster write-offs going forward.

Ticket Sizes

- Still below the ATS of the sector. As a strategy, FUSION does not give multiple loans. It is maturing in many geographies and the ticket size can increase to INR45-46k by Mar'24. There can be 10-12% growth in the ticket size over the next three quarters.
- Average ticket size in the first cycle is still ~INR37.5k (even though the maximum ticket size in the first cycle has been increased from INR30k to INR40k).
- The highest loan amount given by FUSION is ~INR85-90k. It is evaluating how it can offer higher ticket sizes to its matured/vintage customers. Vintage customers who need higher ticket sizes will be catered to by the MSME Team.

Customer Mix

- Customers with a loan of >INR100k are 20% of FUSION’s customer mix.
- Unique customers stood at 33-34%; Fusion + 1 lender: 30%; Fusion + 2 lenders: 20%; Fusion + 3 lenders: 15%. Customers with loans from more than 4 or 5 lenders are 2.1%.

Yields, CoB and Margins

- Under the new pricing guidelines, rates were changed in May'22 and NIM will expand over the next two quarters before it stabilizes. Average tenor of 17 months and the wholesale book will churn over this tenor.
- Passed on ~40bp to the customers and has become effective from loans disbursed from 7th July 2023 onwards.

Cross-selling

- More focused on cross-selling of trampoline and mobile products. Products where the amount is >INR1000 is funded by the company. Cross-selling is primarily to retail the customers.

Financial Performance

- Interest income rose 6.3% QoQ. Total income grew 6.2% QoQ. Fee/commission income rose because of higher cross-sell income. Marginal CoF rose ~7bp QoQ.
- In FY24, the endeavor will be to maintain the same levels of borrowings costs.
- Opened 17 branches across India; CIR rose ~10bp QoQ.
- PPoP stood at INR2.35b, up 96% YoY and 6% QoQ.
- Write-offs of ~INR600m (~0.16% of closing AUM) and it has de-recognized interest income of INR194m in 1QFY24.
- Restructured pool stood at INR74m (~0.1% of the portfolio).
- Direct assignments of INR3.4b during the quarter.

Others

- >3 year old branches contribute 63% to volumes and 65% to the AUM mix.
- Retention level of 70-72%
- Within the next three quarters, the contribution of the Top 5 states to the AUM mix will become stable and start declining from thereon.
- Karnataka is a new geography and positively looking at AP and Telangana now after the favorable Court order.

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Home First Finance — Buy

Current Price INR 866

Guidance

- The company continued to guide for 30% AUM growth
- CoB will peak at 8.2-8.3% and spreads can be retained above 5.25%
- Guidance for operating cost to AUM of 3.0-3.2% for the next two years
- 1+dpd and 30+dpd will remain stable and improve hereon
- Guided for an RoE of 15%

Business update

- Remained focused on Housing Loans, which formed ~87% of the AUM mix
- 1+dpd increased to 4.3% (PQ: 4%)
- Systemic tech-led control has been implemented across all the processes
- Added 112 employees in 1QFY24; 358 employees (33% of total) now have ESOPs

Financial performance

- Delivered RoE of 15% in 1Q;
- Timely drawdown of NHB funds led to Marginal CoB at 7.6% (including NHB) and overall at 8.8% (excluding NHB)
- Total CRAR was 46% (Tier 1: 45.5%); D/E at 3.0x;
- Management remained conservative and the company carried provision overlay over and above the ECL provisions
- Direct assignments of INR790m and Co-lending transactions of INR350m

Spreads and margins

- ~50bp increase in PLR did not completely reflect in the yields because a portion of the loans which was linked to NHB borrowings was not re-priced.
- Last PLR hike was ~50bp effective 1st Ap'23, which has already been reflecting in the yields.

Process

- Most of the reconciliations were done through use of multiple systems and processes.
- Focusing on systemic controls right from the start – centralized disbursements – with no manual checks and balance.
- Penny drop in the customer's bank account – disbursements are done to the bank account of the person who holds the title to the property.

Asset quality

- Increase in 1+dpd and 30+dpd is more seasonal in nature.
- Delinquencies inch up a little bit in the first two quarters and then they settle down; bounce rates were higher primarily because of seasonality.

Impact of rate hikes on EMI

- 60-65% of the customers have not seen any increase in EMI; 30% of the customers have seen their EMI increase by upto INR1,000 and the remaining ~5% have seen an EMI increase of >INR1,000.

Others

- Increase in BT-OUT is not alarming and is within the guided range of 4-6%. BT-OUT is triggered by customers who are interested in getting a lower interest rate. BT-OUTs are primarily to large commercial banks like ICICI, SBI and BoB.
- There were 2,500 active connectors in 1QFY24.
- Ticket-sizes above INR2.5m are increasing because of co-lending; INR1.0-1.5m segment is increasing within the disbursement mix which is inflation-linked

increase in the ticket size. Co-lending can result in further increase in the >INR2m ticket size.

- Advanced stages of discussion with NHB for incremental borrowing lines.
- The company has increased the retail PLR by ~125bp since the interest rate hikes have started and the attempt is to maintain yields between 13% and 14%;
- Maintaining LAP disbursals at <15% of the disbursement mix;
- 10% of the Housing loans are fixed rate in nature because they are linked to the NHB borrowings.

L&T Finance — Buy

Current Price INR 126

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Detailed Concall Transcript &
Results Update


L&T Finance Holdings

Change in management

- Mr. Dinanath Dubhashi, the current MD & CEO, is retiring on 30 Apr'24. Following his superannuation, Mr. Sudipta Roy has been appointed as the Chief Operating Officer (COO) of the company.
- Effective 24 Jan'24, Mr. Sudipta Roy will take on the role of MD & CEO of LTFH.
- However, Mr. Dubhashi will continue to be a Director on the Company's Board until his superannuation, where he will oversee and provide assistance in ensuring a seamless leadership transition. During this period, he will also act as a special advisor to the Chairman of the Board.
- Mr. Sudipta Roy brings with him extensive experience in the consumer banking and payments sector, having accumulated over 24 years of service in the financial services industry. Before joining LTFH, he held the position of Group Head at ICICI Bank, where he successfully managed various business divisions, including Unsecured Assets, Cards, Payment Solutions, Student Ecosystem, E-commerce and Merchant Ecosystem, Millennial Banking, and API Banking.
- His career path also includes work with Citibank and Deutsche Bank. Throughout his professional journey, Mr. Roy has developed a profound understanding of consumer finance, retail loans, cards, lending, and payments technology systems.

Guidance

- The management expressed confidence of sustaining margin at a minimum of 11.5% and does not anticipate margin to fall below this threshold level.
- The company foresees a gradual improvement in credit costs and operating expenses, and is aiming to maintain an ROA of 3%.
- LTFH has set a target of maintaining credit costs and operating costs at 7% levels across different economic cycles.
- LTFH closely monitors the 0 DPD levels across its product portfolio, demonstrating diligent efforts to manage collections and control credit costs.

Strategies to enhance customer retention and grow Retail book

- LTFH has introduced the Kisan Suvidha top-up and refinance options, aiming to improve customer retention by offering enhanced benefits and financial support to farmers.
- The company has launched an end-to-end digital journey for Warehouse Receipt Finance, initially as a pilot in four states. This move aims to streamline and digitize the financing process for select commodities, catering to 14 different agricultural products.

- LTFH has initiated a pilot program for Rural LAP in the Madurai district of Tamil Nadu, aiming to explore opportunities and cater to the financial needs of customers in the region.
- The company has successfully reached a penetration rate of 30% for SKL (Salaried, Self-employed, and Business Category) and VIP (Very Important Person) customers. This has resulted in a higher share of creditworthy customers, contributing to improved loan quality and risk management.
- LTFH is placing emphasis on increasing the contribution from LAP and SENP segments, as these areas present potential growth opportunities.
- The company has expanded its geographical footprint to 28 locations from the previous 16 locations in 4QFY23, indicating a strategic move to reach a broader customer base and tap into new markets.

Leveraging state-of-the-art technology to build a Fintech @ Scale

- LTFH is harnessing the power of cloud technology to ensure scalability and has made significant investments in automating its processes, enhancing security measures, and optimizing customer experiences through both assisted and direct-to-consumer (D2C) applications like the Planet app.
- The company is effectively utilizing fintech partnerships to deliver a compelling and competitive customer value proposition, providing innovative financial solutions and services.
- Further, LTFH is leveraging advanced analytics to optimize various aspects of its operations, including sourcing, underwriting, and collections processes. By harnessing the insights from data analytics, the company can make informed decisions, improve risk assessment, and enhance overall efficiency in these critical areas.
- Bounce Prediction plays a crucial role as it determines the selection of customers who will receive pre-presentation reminder calls based on their behavior.

Geographical expansion plans

- Business expansion decisions for different geographies are made based on data analytics, which involves a comprehensive analysis of borrower credit quality, literacy levels, credit availability, and various other parameters. These insights are crucial in determining the feasibility of opening new branches or centers in specific locations.
- Following the Telangana High Court order, LTFH is planning to cautiously start the microfinance/rural finance business in AP and Telangana.

Wholesale book

- Apart from the sale of INR5b in wholesale assets to an ARC, all other wholesale assets sold are classified as Stage 1 loans.
- The wholesale GS3 amounted to INR10.65b as of Jun’23. LTFH had a total exposure of ~INR15b to Supertech, out of which, ~INR5b was sold to an ARC. The company has made provisions of 57% on this exposure.
- The rest of the standard book is fair valued and does not necessitate provisioning on the same. At the end of each quarter, the exercise of calculating Fair Value is undertaken and the value of closing book is the Fair Value as of Jun’23.

- Total SR book from inception is ~INR65b out of which the company expects significant recoveries in FY24. The recoveries in SRs of Real Estate are faster than Infra assets.

Cross sell and up-sell

- The company has an active customer franchise of ~8.9m and it acquired ~0.7m new customers in the quarter.
- About 41% of the total customers were identified as potential cross-sell customers.

LIC Housing Finance — Buy

Current Price INR 421

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Business Update

- Improving the credit process by building superior credit appraisal structure.
- The company is experiencing teething issues since it transitioned to its technological platform. Things are improving fast and the company is expected to deliver positive results in the coming quarters.
- Demand across all sectors is witnessing buoyancy and is likely to remain that way in the coming quarters.
- Margins rose because of the impact of passing on the PLR hikes in 4QFY23 and 1QFY24.
- A marginal decline in the (absolute) Stage 3 of project loans - Visibility on recoveries in Stage 3 has also improved.

Guidance

- FY24 margins of 2.7-2.8%. CoB will largely remain flat.
- Disbursement growth of 12-15% in FY24 and RoA will be between 1.3% and 1.4%.
- Guided for more stabilization in the ECL provisioning and FY24 credit costs of ~40-50bp.
- Guided for a 50:50 mix between fixed and floating borrowings. Now that HDFC Ltd. is not present in the debt markets, it expects to benefit in its debt market borrowings.
- NIM of ~3.2% is purely operational and is a function of PLR hikes taken over the last one year.
- Incremental CoB is very close to the weighted average CoB. Borrowing cost should remain largely stable within a band of 10-15bp.
- Margins will expand YoY and there will be a substantial increase in the NIM for the full year. There could be a minor reduction in the lending rates because of the outlook of stability in the interest rates.

Asset Quality

- The deterioration of ~60bp in GS3 is because of Individual Housing Loans. The technological changes it undertook resulted in some technical glitches, which, in turn, slightly affected the collection of EMIs.
- About 85% of the EMIs are collected from the E-NACH and NACH mode. Because of technical glitches, the presentment of demand could not happen and this led to lower collections.
- Asset quality deterioration is only transitory; Stage 3 NPAs will definitely come down from what they are now.

Liabilities

- ~50% the liabilities are on fixed-rate instruments and ~97% of the assets are on the floating side.
- Floating Rate Liabilities can offer certain benefits when they are re-priced lower.

Disbursements

- Back on track from June onwards wherein disbursement run-rate in June was ~INR50b. July has been in line with expectations.

Restructured Book

- ~INR72b of cumulative OTR; <INR1b of exposures has still not exited moratorium as yet.
- From the cumulative restructured pool, INR56b is still outstanding and the remaining has already been paid/closed.
- Stage 3 from the restructured pool stood at 18-20%

Project Loans

- Collection of more than ~INR1b from the Project Loans. Additionally, it has received ~INR800m of positive order from NCLT.
- The total quantum of project loans in NCLT is ~INR23b (comprising of 22 accounts).
- Until now, LICHF was not aggressive in OTS and ARC Sales. The company has come up with an ARC policy within the organization and will also be looking at doing technical write-offs within project loans in the subsequent quarters.

Others

- Opex is high because of the IT interventions, which were done over the last 18 months (in consultation with BCG). The management has guided for cost-income ratio to come down next year.
- 50 New Sales offices opened in Tier 2 and 3 towns and 44 new cluster offices. Restructuring of cluster offices were done to streamline loan sanctions and disbursement operations. This will help improve the TAT.

M&M Financials — Buy

Current Price INR 304

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Results Update

Demand outlook

- Overall economic activity and projects are in full swing - Excellent cash-flow position on the ground. Monsoon spread has been decent in all the relevant states. Support price will be good because of the elections around the corner.
- In the remainder of this year - Good festival season followed by a good harvest can lead to MMFS repeating the healthy performance of the previous year.

PrimeX segment

- This segment's margins are lower than the 'earn and pay' segment but it also has lower opex and credit costs. PrimeX will not be more than 10-12% of the customer mix. The compression in NIM will be more than offset by lower opex and credit costs.

Yields, CoF and margins

- Management does not expect CoF to come down for it to generate better margins. Increase in borrowing costs is caused by maturing liabilities being replaced with higher-cost borrowings. Margin improvement or stability will come from better yields driven by a change in product mix.

- Yields will start moving upwards gradually (because of re-pricing and change in product mix) but it is unlikely that margins will increase to the guided levels of ~7.5% quickly.
- MMFS has passed on a marginal increase in lending rates in select products.
- Higher yielding book (like tractors) could have matured, which would have led to the decline in the yields.
- There is no drastic shift away from the earn-and-pay customer segment. Faster growth in pre-owned vehicles will offset any margin compression.

Asset quality

- MMFS did not see any blip in the collection efficiency in the Northern part of the country despite the floods. However, there could be temporary delinquencies but the collection efficiency will rebound quickly.
- MMFS now does write-off every quarter (v/s earlier practice of doing it every six months).
- GS3 will continue to improve from hereon; no major disruptions on the ground; it will not see large write-offs (vs. what was done in the past).
- No significant interest income reversals; Under Ind-AS, interest accrual keeps happening on a net basis
- Restructured pool stood at ~INR18b as of Jun'23.
- GNPA (under IRACP) has also remained range-bound. Restructured assets of ~INR4.64b have been cured and classified under Stage 1 (from Stage 2).
- It will take one more year for the PCR across different stages to come down. Product/Customer mix will also have a role to play here.

Operating expenses

- Opex stood at 2.8% (as a % of average assets) and management expects it to inch up closer to ~3.0% for FY24.

Others

- The company has not experienced any significant difference in the door-to-door maturities of the loan book.
- ~42% of the borrowings are at floating rate.
- Tier 1 has declined ~100bp QoQ, which is because of higher disbursements/loan growth.

Manappuram Finance — Buy

Current Price INR 142

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Business update

- MGFL reported a net profit of ~INR4.98b, which grew 77% YoY.
- Consolidated AUM stood at ~INR371b, which grew 4.6% QoQ and ~21% YoY
- Home Loan AUM stood at ~INR12b, +38% YoY.
- Share of non-gold verticals stood at 44% and was in line with the strategic guidance of reaching 50:50 mix between gold and non-gold verticals.
- CP exposure was NIL in the Standalone entity. Standalone CoB rose ~18bp QoQ.
- The Board has declared an interim dividend of INR0.8/share

Guidance

- MGFL guided for gold loan yields between 21% and 22% and gold loan growth of 10-12% (via new customer acquisitions and rise in ticket sizes).
- Standalone CoB has gone up by ~20bp; expect a similar increase in CoB in 2QFY24 as well.


Manappuram Finance

- Guided for Asirvad AUM growth of 30-35% in FY24.
- The company is evaluating various options for raising growth capital in Asirvad MFI. Promoter does not plan to sell any stake but it is still deliberating whether to go for an IPO or raise equity capital from a private equity investor.
- Guided for consolidated RoA of ~5%

Gold loans

- Gold AUM at ~INR206b (grew 4.3% QoQ and flat YoY)
- MGFL added 446K new gold loan customers; the company is adding 5,000-5,300 customers every day and it is seeing an improvement in customer acquisition trajectory.
- ~90% of the gold loan portfolio has yields above ~12%.
- Bank customer profile for gold loans is different from NBFCs. Size of gold loans in Banks will be 3x that of NBFCs.
- Gold loan average tenor is at 90-100 days - there is no significant change in the tenor.
- Gold auctions in 1QFY24 were relatively lower at INR140m
- Gold loan disbursements stood at ~INR390b (across 5.05m accounts)

Borrowing costs

- Incremental CoB in the standalone business was between 8.7% and 8.75%
- Consol. CoF increased ~65bp QoQ to 8.9% in 1QFY24. The rise in CoF was mainly on account of ~50bp QoQ increase in CoF of MFI segment while standalone CoF rose ~20bp

Asirvad MFI

- Asirvad MFI reported a 1QFY24 PAT of ~INR1.11b; share of Micro Finance in the overall profit pie will keep improving;
- AUM of Asirvad MFI stood at INR101.4b (including Gold loan AUM of ~INR7.9b). Collection efficiency stood at ~102%. CRAR improved to ~22.6%
- There were write-offs of ~INR570m in the MFI book which led to higher credit costs in 1QFY24. However, credit costs will remain within guided levels of 2.0-2.5% for FY24.
- Consolidated CoB has increased ~60bp because of the increase in the CoB at Asirvad MFI. Interest rates on a few of the bank lines were reset during the quarter and two-year term loans are coming at ~10%.
- Incremental CoB in Asirvad is at 9.75%-10.0%
- Yields stood at ~25% in the Micro Finance business
- Asirvad had slowed down its disbursements for 30-45 days. There was some sluggishness in 1QFY24 since the company initially had some concerns around funding availability, but the disbursements have now recovered.

ED investigation

- FIR has been quashed. As per the law, even the secondary investigation should also be stopped subsequently. Expecting that the secondary investigation will also be quashed within the next 10 days.

The RBI Show Cause Notice

- This show cause notice was issued by the RBI on account of the pending auction surplus which has now declined to INR370m (v/s INR530m earlier).
- The company will continue its efforts to identify such customers who have an auction surplus, which need to be refund to them. A large chunk of the customer accounts pertains to pre-2018 and the amounts (to be refunded) are

also very small. MGFL is following up with the customers to en-cash their refund cheque.

Vehicle Finance

- AUM of INR28.1b, which grew ~14% QoQ and 60% YoY
- RoA: 2.2% | CE (including arrears): 100% | GNPA: 2.9%

MSME and Allied businesses

- AUM of ~INR24b | RoA: 3.2% | CE: 97% | GNPA: 1.8%

On-lending

- Disbursals of INR470m during the quarter

Others

- Opex to AUM should directionally decline.

MAS Financials — Buy

Current Price INR 817

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Results Update


MAS Financial Services

Business update

- Strong consolidated AUM growth of ~26% YoY.
- Asset quality stable with GS3 at <1.5% and CRAR of ~25%.
- Strengthened its distribution – MASFIN now has 10,000 centers and 150 NBFC partners.
- Strong growth for the quarter accompanied by healthy profitability
- Digitization: Well aware of the necessity of digitization; moving towards APIs and account aggregators, which will help in stronger risk management
- The company has been able to maintain its NIM despite the rise in the cost of borrowings
- AUM stood at INR84.2b; ~12% of the portfolio share is from 2Ws and Commercial Vehicles; 84% is MSME Loans and 4% from Salaried Personal Loans
- SME Loans grew ~26% YoY; 2Ws grew 48% YoY, CV rose 35% YoY and Salaried Personal Loans surged on a small base.

Guidance

- The company is able to pass on the rate hikes to the borrowers and guided for NIM of 6.75%-7.0% (v/s NIM of 6.8%).
- Guided for opex between 2.2% and 2.5% led by investments in direct distribution; guided for RoA of 2.75%-3.0%
- Credit costs have recently been around ~1%. Currently, partial credit costs are absorbed by the NBFC partners but the revenue is also shared with the NBFC partners. As the proportion of direct distribution improves, credit costs will increase to 1.5-1.7% but will be mitigated by higher yields (because of lower revenue sharing).

Asset quality

- Asset quality was largely stable in both the standalone and HFC subsidiary. It carries management overlay of INR215m in the Standalone business
- Majority of the asset quality improvement was driven by upgrades from the Micro and Small Enterprise businesses.

Liability management

- Cash and cash equivalents stood at ~INR7b and unutilized cash facility was at ~INR3.75b
- ~INR6b of direct assignment transactions happened during 1QFY24.
- Direct assignment and co-lending contributed ~21% of the total AUM. Guidance to maintain the off-book AUM between 20-25%

- Debt-equity was at 3.8x during the quarter
- Majority of the MCLR resets have happened in the bank term loans. CoB stood was at 9.65% (PY: 8.8% and PQ: 9.3%). Expect CoB to settle between 9.75% and 9.85% in the current year.
- Guided for 15-20% of cash credit limit in the liability mix – 30-35% from Bank Term Loans and 12-15% from debt capital markets. Lots of traction on assignments given that the portfolio qualifies for priority sector lending (PSL).

Distribution

- Direct distribution is increasing at a faster pace relative to its distribution through NBFCs. In the medium term, direct distribution will contribute 70-75% of the sourcing mix and 20-25% will come from NBFC partners.
- NBFC distribution is currently at ~37%. In the near term, it will decline to 30% and over a five-year horizon it will dip to ~25%.

MSME loans

- In the MSME portfolio, the company takes current assets for hypothecation. Unsecured portfolio will be 25% of the total AUM mix.

Personal loans

- Personal loans will contribute 5-7% to the AUM mix in the medium term. This being a new product, the company will be very cautious in making any changes to their credit screens.
- In Personal loans, the ATS is ~INR200K and it caters to CAT B/C employees. Average yields at ~21%.

Vehicle finance

- CV portfolio is related to economic growth. Management guided for strong growth and better asset quality.
- Yields will be between ~16-19%.

MCX — Neutral

Current Price INR 1,590

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Software transition

- The non-completion of necessary audits and other compliances delayed the software transition.
- EOD and BOD calculate several obligations, margins, and some file processing obligations to members. Some EOD and BOD issues cropped up and fixing of these issues has been done by the company. Now, MCX has kept pre-EOD checks as a preventive measure.
- Though the mocks were not conducted with members in the last month, internal mocks had been conducted (though not exposed to the member brokers). In Aug'23, MCX plans to conduct mock runs for member brokers.
- Earlier the audits were done as a parallel activity but now the systems are audited sequentially. The target is to Go Live early. The audit process is expected to take three weeks to complete.
- MCX plans to introduce more options contract once the software transition is completed.
- Going ahead for any additional feature that the new software or Clearing Corporation would require, the company would propose the same to TCS to add or will float an RFP for each of the new features or any addition to be done to the existing feature.

Business

- The total transaction charges for the quarter were INR1.2b, of which 50% was constituted by options.
- FPI has already started trading on the platform and the volumes have been increasing MoM (though not material compared to total volumes).
- The total number of UCCs (in the retail segment) was 0.39m in Jun’23 vs. 0.35m in Mar’23.
- Peak margin regulations were one of the reasons for the decline in futures volumes. Additional margins are imposed on futures contracts and hence there is a shift to the options contracts. This resulted in more contribution to SGF.
- MCX has two slab rate charges for options volumes: a) INR50 for a turnover upto 50m and b) INR40 for a turnover above 50m.
- Because of the delays, the licensing cost of the third-party will go up. This cost will be capitalized until MCX goes live with new software.
- In order to get tax benefits, the equipment was depreciated fully in 4QFY23 and hence, there was a sequential decline in depreciation.
- There are no approvals for electricity derivatives contracts; new contracts would only to be launched in the new system.
- Mini contracts have not contributed much to the overall volumes. Nickle contract lost liquidity on account of LME. MCX is promoting mini contracts to different stakeholders including MSME’s for the purpose of hedging.
- MCX had ~INR9b in cash & investments on the books. ~INR7b has been invested for a longer term instrument (amortized cost method) with yields at ~7.7%.

Muthoot Finance — Neutral

Current Price INR 1,264

Muthoot Finance

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Results Update

Business update

- Consolidated AUM stood at INR768b and grew 21% YoY. Consolidated PAT stood at INR10.45b for 1QFY24 and grew 27% YoY.
- Standalone PAT stood at INR9.75b and grew 22% YoY
- Gold Loan AUM grew 18% YoY and 7% QoQ
- Received permission from the RBI in Jul'23 to open ~140 new branches

Guidance

- Continued to guide for Gold AUM growth of ~15% and there could be upside risks to this guidance.
- Guided for NIM of ~11% and Spreads of 10%; Spreads of ~12% achieved in the past are not sustainable.
- Guided for Housing Finance to grow to INR18b-19b and Belstar MFI to ~INR90b by Mar'24.

Gold loans

- Gold loan auctions stood at ~INR1.1b and Interest accrued stood at INR18.7b;
- The company has been adding various celebrity endorsements. It further started doing more local marketing initiatives;
- There is a high churn in gold loans - Endeavor is to get the inactive customers to take gold loans again or get new customers to take gold loans

Gold loan split by ticket size

- <INR100K: 35%
- INR100K-300K: 38%
- >INR300K: 27%

Spreads and margins

- CoB for the quarter stood at 8.4% (PQ: ~8.0%). Gradually the CoB should move towards the MCLR of the banks which is at 8.6-8.65%
- Yields stood at 18.08% (PQ: 18.48%) - Company will increase its lending rates to maintain its spreads/margins.
- Yields will be a function of the borrowing costs - lending rates will increase in line with the increase in the CoB. The endeavor will be to maintain the spreads/ margins.

Asset quality

- The company has been quite supportive of the customers and has been collecting part interest only from many of the Stage 3 customers;
- Customers who have slipped into Stage 3 have also paid part interest - MUTH is supporting customers who request their gold jewelry not to be auctioned.

Competitive landscape

- MUTH has been able to demonstrate healthy gold loan growth despite competition from banks

Belstar Microfinance

- Improvement in the disbursements MoM to ~INR7b per month
- Gross loan AUM surpassed ~INR70b. Collection Efficiency on regular accounts stood at 99.4%
- GNPA/NNPA at ~1.6%/0.2%
- Expansion in Non-Tamil Nadu states initiated to reduce concentration in Tamil Nadu (Home State). This is in line with its long-term strategy to reduce concentration to ~ 35% (from current ~49%) by FY26
- Yields stood between 24% and 25%; CoB stood at 10%
- CRAR at ~20%; it is evaluating various fund-raising options in Belstar MFI
- Belstar is on the SHG model. Asset quality in the SHG group is better than JLG groups. Unlike JLG model, in SHG model, the customers come and deposit the money.

Muthoot Money

- The company has approved equity infusion of INR4b in Muthoot Money Limited, a wholly owned subsidiary.
- Continuous decline in NPA through physical collections witnessed consistently throughout the quarter. NPA declined to ~2.5% from 3.7%.
- Gross loan assets increased to INR5b from INR3.9b QoQ
- Branch network increased to 185 (PQ: 149)
- Yields in 2Ws - 22-23% | Cost of Borrowings would be 8.3-8.5%
- Focusing purely on the retail customers with products like 2W and Used Cars. Discontinued CV and CE around two years back.

Piramal Enterprise — Buy

Current Price INR 1,056

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Buyback transaction

- The Board of Directors has approved a buyback of up to 14m shares, representing 5.87% of the pre-buyback, fully paid-up equity shares at a price of INR1,250 per share, aggregating to INR17.5b.
- The company will maintain a well-capitalized position, with a consolidated CRAR of ~31% even after the buyback.

- The promoter and the promoter group will not participate in the buyback transaction.

Retail Lending

- The average CIBIL score of customers in the secured segment stands at 738.
- To foster growth in the retail business, the company is making strategic investments in manpower, branch infrastructure, and analytics.
- During the quarter, the company opened 19 new branches, with the total branch count of 423 conventional branches and 136 microfinance branches.
- It plans to expand to 500-600 branches by over the medium term.

Guidance

- The company guided for pre-tax RoA of 4%.
- PIEL is actively seeking potential merger and acquisition opportunities in the small business lending, microfinance, and gold loans segments. The company aims to utilize its surplus liquidity to achieve organic growth in these areas.

Wholesale lending

- The company has been able to reduce the wholesale book by ~38% YoY to INR260b.
- Generated INR24.3b of net cash realization in the quarter through accelerated repayments and resolution proceeds of Wholesale 1.0 portfolio.
- Completed the sale of specific wholesale loans (including loans acquired from DHFL) through 2 separate ARC transactions in 1QFY24, with a total exposure of INR60.9b.
- The wholesale AUM has experienced a rise in non-income earning assets, resulting in decreased yields. As the proportion of these assets decline, it anticipates an improvement in wholesale book yields.
- The company anticipated no unforeseen developments in the wholesale lending book, and reassures that the book is adequately provisioned for. In the upcoming quarters, efforts to recover loans will intensified to further enhance the recovery process.

Security receipts

- PIEL issued SRs worth INR20b, and after a mark down of 62%, the cash received amounted to INR3.2b.
- The outstanding SRs as of Jun’23 stood at ~INR53.7b with 30% being retail in nature.
- The company expects a reduction in the SR portfolio going forward, through a combination of sales, enforcement actions, and collections at the carrying value.

Unsecured portfolio

- The 90+ dpd in unsecured book has increased to 1.6% (PQ: 1.1%) despite the high rate of growth.
- A large portion of increase in delinquencies in the unsecured book is from the partnership businesses and the net impact of it in the P/L is ~90bp.
- The company is closely monitoring this book and will be careful about the same in the subsequent quarters.

Goodwill

- The goodwill write-off of INR2.7b pertain to a FY14 transaction, wherein the company had set up funds for investing in real estate.
- The tenor of the funds is over and the goodwill write-off amount pertains to a book entry to remove these funds from the balance sheet.

- The total amount of goodwill outstanding on the balance sheet amounts to INR20m as of Jun'23.

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PNB Housing Finance Neutral

Current Price INR 648

Business update

- Sequential drop in disbursements driven by seasonality
- PNBHF continues to see a lot of traction in the affordable space. It increased the affordable Housing disbursements to INR2.28b (PQ: INR1.37b).
- Recorded the highest loan book growth in the last 15 quarters; retail loan book grew 3% QoQ to INR570b while the overall loan book grew 2% QoQ to INR604b.
- There was significant improvement in customer retention on a YoY basis; Book run-off declined to ~16.6% (PY: 23%)
- Retail ticket size less than INR10m increased to 85.3% (PY: 81%)
- It is trying to increase its proportion of the loan mix from the Southern region to further diversify the geographical mix
- Affordable housing branches stood at 88 (across Tier 2 and 3 cities). In affordable housing finance, it plans to reach 100 branches in a quarter or two.

Guidance

- Guided for Retail loan book growth of 17-18% YoY and retail disbursement growth of ~22% YoY.
- Long-term steady state guidance: Spreads of 2.5%; NIM of 3.5%; Credit costs of 0.6% in FY24 and 0.4% from FY25 onwards. Corporate write-backs are not factored in this credit cost guidance.
- NIM should sustain at the current levels of 3.7-3.8% over the next few quarters; RoA should steadily improve from current levels of ~2.1%
- GNPA should become comparable to the peers in the mortgage industry within the next 4-5 quarters;
- Management is comfortable with leverage up to 6.0-6.5x; it will take 3-4 years to reach the leverage of 5x (from current levels of 3.8x)
- Guided for INR1t loan book within the next 3.5 years;
- Prime and Affordable disbursement mix to be at 90:10
- Salaried: Self-employed mix to be at 65:35 over a course of time

Asset quality

- Good pool of retail loans is ready for auction; It has guided for a healthy reduction in the NPA pool in subsequent quarters and retail GNPA will continue to decline
- No new slippages/additions to Corporate GNPA. Corporate GS3 increased to ~25% (PQ: 22.2%) because of decline in the Corporate book.
- Credit costs of 0.36% in 1QFY24 were primarily towards increasing the PCR on both Retail and Corporate loan books.

Wholesale

- Corporate GS3: INR8.54b (one account constitutes 93% of the Wholesale GNPA and the company is confident of resolution within the next two quarters).
- Corporate book declined 10% QoQ. It is constantly working on resolutions and the wholesale book should run down within the next 3-4 quarters.

Margins and the liability mix

- Yields: 10.59% (PQ: 10.41%), and CoB: 7.97 (PQ: 7.76%). Incremental CoB stood at ~8.0%.
- RoA was 2.07% (PQ: 1.71%); CRAR was ~30% and gearing was 3.82x

- The company will have access to the NHB funds, which will come at a lower cost; a few banks have reduced the spreads over MCLR given the improvement in its performance. It is working with different credit rating agencies for a credit rating upgrade.

Focus areas

- Focus was more on salaried customers and home Loans; remains resolute on improving the asset quality and bringing it at par with the peers within the next 4-5 quarters;
- Focus of PNBHF will remain on Prime and Affordable-Income base.
- It is focused on ticket sizes below INR10m and it has stopped doing higher-ticket size LAP.

Others

- Demand is robust and traction is there across all the markets.
- PNB is the promoter and it plans to continue as the promoter (Promoter shareholding: 28.2%).
- Ticket size in the affordable segment will be INR1.6-1.7m and in the Prime segment it will be INR2.6-2.8m.
- The company will have dedicated branches and separate channel partners as well as sourcing/underwriting/collections teams in the affordable housing segment.

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Poonawalla Fincorp — Buy

Current Price INR 442

Business Strategy

- PFL continues to focus on building a consumer and MSME-oriented retail lending franchise. The healthy growth is supported by the contributions from LAP and unsecured business, as well as Supply Chain finance.
- The portion of short-term products in the loan mix currently stands at 26% and is projected to remain within the range of 20-25%.
- Regarding the sale of the Housing Finance subsidiary, the company has obtained all necessary approvals, and the transaction is anticipated to be finalized within the next one week.
- The company is leveraging its existing customer database to facilitate cross-selling. There has been a notable improvement in cross-selling activities, with the company even initiating the sale of third-party products.
- The company has already finalized a partner bank for a co-branded credit card and applied before the RBI. Expects to launch co-branded credit card and EMI card before the end of Dec'23.
- Over the quarter, the company achieved a 5% reduction in manpower by effectively leveraging technology.

Asset Quality and Credit costs

- Out of the total INR2.45b of GS3 assets, the discontinued book amounts to INR1.04b, the legacy book is ~INR0.4b, and new originations account for ~INR1.01b.
- GS3 under new originations of INR1.01b can be further categorized into partnerships (INR260m), acquired assets (INR520m), and internal originations (INR230m).
- The company has initiated a cleanup process for the legacy book, which involved scaling down Magma employees from 8,000 at the time of acquisition to 3,000

as of the current date. Additionally, the number of branches has been reduced from 300 to 100 as part of the cleanup efforts.
- The management has guided for credit cost of 0.8-1.2% across economic cycles.
- The company further stated that short-term personal loans (STPL) will be facilitated through the company's D2C model utilizing its own app. It has guided for credit costs of 2% in the STPL segment.

Guidance
- The company has provided guidance for strong growth, with AUM growth of 35-40% and earnings growth of 30-35% on a YoY basis.
- On a steady state basis, the company expects RoA of above 4% and NIM of over 10%.
- Regarding credit costs, the company expects them to stabilize in the range of 0.8%-1.2% in the steady state.
- For FY24, the company has guided for Opex/AUM of ~4%, including an ESOP charge of INR880m. ESOP charges are expected to decline in the subsequent years.

CoF and borrowing
- The outstanding borrowing under legacy book stands at INR8.3b as of Jun'23 and it carries interest rate of ~9.7%. The company is working towards pre-closing legacy borrowings (by using receipts from sale of housing subsidiary), which should provide advantage of ~10bp to the CoF.
- The company foresees further ~10bp benefit in CoF over the next two quarters, driven by its plans to raise short-term funding in the form of CPs.

MSME Loans:
- Business Loans have an ATS of less than INR2m, while Professional Loans have an ATS of less than INR1.5m, and Personal Loans less than INR0.5m.
- The maximum turnaround time for processing these loans is two days.
- For loans that are more than 90 days overdue, the rate is 0.15%.
- Unsecured MSME Business Loans carry an interest rate of 18.7% and additional fees of 1% for insurance and 1.8% for processing. The ATS for these loans is INR1.7m, with a tenor of 36 months, and an average tenor of 30 months. These loans are entirely digital and follow a cash-flow lending approach.

Sourcing mix
- The sourcing mix consists of DDP accounting for 86%, while the remaining 14% is sourced through branches and DSAs for LAP and pre-owned car book.
- Within the DDP category, 61% is sourced from partnerships and digital sourcing, while the remaining 25% is sourced directly from non-partnership digital channels like SMS, chat-bot, etc.

Super-app
- The company plans to launch the Super app on 15 Aug'23. The app would help the company penetrate further into the unsecured digital lending ecosystem and short-term loans segment.
- It is focused on maintaining a strong product proportion and is building straight-through processing (STP) on its D2C app, ensuring no manual intervention until ticket size of INR300k.
- The company offers zero prepayment charges and ensures there are no hidden fees for its customers.

Collections
- The company has established a dedicated call center and increased manpower for collections.

- The acquisition of Magma was primarily driven by the desire to strengthen the collection infrastructure. As a result, the company now possesses an extensive collections infrastructure across India, with a workforce of over 500 individuals dedicated to collections.

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Repco Home Finance — Neutral

Current Price INR 389

Business Update

- The AUM grew ~7% YoY and ~2% QoQ, while disbursements grew ~7% YoY to ~INR6.4b (PY: ~INR6.4b).
- In the current quarter, there were no DA transactions. When we exclude the INR700m DA transaction from 1QFY23 disbursements, the disbursements in the current quarter exhibited a YoY growth of 20%.
- The company effectively transferred the rise in borrowing costs to customers, leading to improved spreads.
- Incremental yields stood at ~11.6% (vs. ~11.1% in 4QFY23).
- Disbursement mix

Guidance

- Guided for disbursements of INR36b in FY24 as against disbursements of INR30b in FY23.
- Guided for AUM (net of BT-OUTs) to reach INR140b by FY24. Although the first quarter is traditionally a seasonally slow period, loan and disbursement growth is predicted to gain momentum in subsequent quarters.
- GNPA reduced by INR240m QoQ in 1QFY24, and the company guided for a reduction of INR1b for FY24.
- The margins for 1QFY24 stood at 5.1% and the management guided for steady state margins of ~4.7%-4.8% in FY24.
- Notably, Tamil Nadu accounts for 50% of the AUM mix, and the company intends to maintain this contribution. Repco plans to open 6-7 satellite centers in TN and 9-10 branches in other regions over the year with the target of reaching 200 outlets by the end of the year.
- Guided for maximum credit costs of INR250m in FY24.
- Expects to start witnessing growth in the Gujarat and Maharashtra regions in FY24.

AUM mix (%)

- The rise in the share is primarily attributed to the home equity book, which constitutes ~23% (PQ: 21%). This increase is a result of re-classification prompted by adjustments in guidelines.
- The guidelines required reclassification of reimbursement home loans as home equity portfolio.
- Home equity consists of LAP, Commercial construction, and commercial real estate loans.

BT-OUTs

- In 1QFY24, the company experienced BT-Outs of ~INR440-500m. However, during the same period, the company also recorded BT-INs of ~INR780m.
- 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.

Asset Quality

- Out of the outstanding restructured book, ~INR1.5-2b forms part of Stage 2 loans.
- The company is witnessing accelerated repayments from the restructured book and anticipates that it will not have a significant impact on asset quality in the FY24.
- INR250-300m slipped in Stage 3 from the restructured book in the current quarter.
- Slippages for the quarter amounted to INR560m, while the company saw recoveries of INR240m, leading to a net reduction of INR240m in the quarter. Out of the INR560m slippages, ~50% were from the restructured book.

Opex

- The new software launched in Feb’23 is expected to be an enabler in scaling up disbursements and has been rolled out across all branches. The Mobile app will be rolled out after security checks.
- The C/I ratio was stable QoQ at ~24% in 1QFY24 (PY: 26%).
- During the quarter, the company revised staff salaries across the organization in Jan’23, which could have resulted in slightly higher employee expenses.
- The company anticipates a decrease in attrition rates moving forward.

Verticalization and collection infrastructure

- The company is undergoing organizational structural adjustments, with the outcomes expected to become apparent in the upcoming quarters.
- Previously, Repco lacked verticalization; however, the collection vertical has now stabilized. The sales vertical is currently in progress, and plans are also underway to establish a credit vertical.
- There is potential for further improvement in branch productivity. Previously, Repco did not follow a "feet on the street" model. However, all branches now have dedicated sales staff exclusively for sales activities.
- The collection vertical, consisting of 85 employees dedicated solely to collections, has now achieved stabilization.

Shriram Finance **Buy**

Current Price INR 1,876

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Performance Update

- Disbursements grew 24% YoY to INR305b (PQ: INR310b).
- Business environment is quite positive and is expected to remain buoyant for the rest of this year as well.
- HCV demand has improved, but the demand for LCVs has declined. PVs are down ~19% YoY and 2W sales are up 11% YoY.
- Consumer demand and appetite is good; tractor sales are up 19% YoY.
- MSME Credit demand is on the rise; individuals who previously borrowed from money-lenders are now turning to NBFCs for their financing needs. While MSME lending was primarily concentrated in the Southern regions, there has been an expansion, and now STFC branches are also actively sourcing MSME loans.

Guidance

- Retained the guidance of ~15% AUM growth and will revisit the guidance after one more quarter.
- Expects the credit cost to reduce to below 2% for the full year;
- NIM can see a very minor compression, but will broadly remain at current levels.

- FY23 operating expenses stood at INR47.74b, the company has provided a guidance of 20% YoY increase in FY24.
- The company has guided for a cost-income-ratio of 27%-28% and RoE of 15%-16% in FY24.

Impact on NII

- Positive impact on NII is INR730m (PQ: INR1.45b).

Personal Loans

- Earlier, personal loans were exclusively offered by the former SCUF team. However, currently, even employees of STFC have begun sourcing personal loans.
- Personal Loans is still a cross-sell product to the existing customers.

Operating Expenses

- Opex was elevated because a) of the addition of ~3300 employees during the quarter, b) rationalization of salaries for the erstwhile SCUF employees, and c) annual increments of ~10%.
- Over the last quarter, the company added 240 gold loan branches. These branches are still in the process of building up their loan volumes.
- Over the last one year, STFC expanded its services, with 498 branches now offering gold loans. The company had recruited an additional 1500 employees for the operations. To ensure quality service, a quality check team has been established for the gold loan segment. In total, 1750 employees have been hired to support the growth in gold loans over the last year.

Asset Quality

- Total management overlay stood at INR10.08b as on and ~INR990m has been consumed in this quarter. The entire overlay will be utilized or will be written back to the P&L by Mar'24.
- Farm Equipment will have a higher GNPA, but the credit costs are not as high. The financing of the tractors follows the EMI model.

What led to a strong 1Q despite it being a seasonally weak quarter?

- Freight rates have been firm and remunerative; increased government spending in infrastructure; wage bill increased across sectors
- Within the used CV segment, Utilization levels have increased notably. Better Road infrastructure is allowing truck drivers to cover longer distances, contributing to enhanced utilization rates.

Liabilities and liquidity

- CoF (on the balance sheet) has gone up by 7bp QoQ. Due to maturing lower-cost liabilities, the company had to replace them with higher-cost borrowings.
- SHFL does not expect any further increase in the CoB. It could increase by 5-7bp because of re-pricing of the older maturities.
- There has been a slight change in the asset mix - Onboarding of customers on the new vehicle platform. During this quarter, the company disbursed a higher quantum of new vehicles and construction equipment loans, resulting in lower yields. For these customers, the pricing offered was slightly lower than the pricing for used vehicles.
- Borrowing costs on Capital market borrowings have slightly increased; deposit rates have increased slightly; bank term loans have been flat.
- The company has started borrowing through commercial papers (CPs) because of a higher proportion of gold loans/personal loans.

PayTM Partnership

- Start with lending to merchants on the PayTM platform. ~700K merchants on the PayTM platform have been active on the platform for more than a year.
- Extend working capital to merchants based on their financials as a term loan of ticket sizes up to INR200K.
- No credit risk sharing; they will share leads with SHFL and it is up to the company to lend to them.
- For any credit extension exceeding 180 days, SHFL employs field visits to the customer's location as a standard practice.
- Repayments will be on a weekly, fortnightly, or monthly basis and it will have an escrow with the bank.
- Also engaging with Airtel Payments Bank for tie-ups.
- Net yields of 15-18% (excluding the fee/commission paid to PayTM)
- Idea is to get into MSME lending across the country by creating a wider reach.

Others

- Over the last two/three years, higher vehicle prices forced employees to postpone their purchases. New vehicles are also being added in the aggregator segment. Aggregator buying of vehicles has almost doubled over the last year.
- Cross-selling: Increase in Gold loans and PL is because of the increase in manpower and network from STFC.

SPANDANA

Spandana Sphoorty — Buy

Current Price INR 810

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Business Strategy

- The company has successfully completed its senior hiring agenda and now boasts a robust management team in place.
- The company's focus is on growth in 7 states: Rajasthan, Uttar Pradesh, Bihar, West Bengal, Gujarat, Haryana, and Tamil Nadu. 26% of new borrowers in the quarter were from these 7 focus states.
- It aims to achieve 23% of its AUM from these seven states by FY24 end and further targets a significant increase to 45% by the end of FY25.
- Out of net 188 branches opened over the past two quarters, most were opened in these focused states.
- The incremental branches opened by the company (irrespective of the state) will be following a weekly collection model instead of the previous monthly model.
- The company will gradually phase out existing medium- and small-sized branches from monthly to weekly collection model.

Guidance

- Expects to achieve AUM target of INR125b by FY25
- The management guides for margins of ~14% and expects yields to witness marginal improvement over the next two quarters and stabilize at ~24%
- Expects credit costs of ~1.5-1.6% in FY24
- Guides for long-term cost-to-income ratio of 35-39%
- Guides for RoA of >4% over the long term

Opex

- The increase in headcount and annual incremental cycle has led to higher employee expenses, but the company expects these costs to normalize over the course of the year.

- Budgeted IT up to FY25 of INR750m, divided into INR200m for capital expenditure and the remaining for operational expenditure.

CoF and borrowings

- The company borrowed INR15.4b in 1QFY24. The marginal CoF for the quarter moderated to 12.3% as against 12.6% in the previous quarter.
- The company continues to strengthen its relationship with existing lenders as it builds new relationships with other lending partners.

Risk Management

- It is experiencing favorable economic conditions and government spending and does not expect significant quality issues in the microfinance segment.
- As a part of its risk management strategy, the company is working on reducing concentration risk in regions with higher delinquencies. It aims to limit the contribution of each state to less than 11-12% by FY25.
- The write-offs in the quarter amounted to INR210m, with an impact of INR58m in the P/l. Recoveries out of the write-off pool amounted to INR230m.

Other products

- The company has launched LAP in new geography of Rajasthan.
- In 2QFY24, the company has plans to launch 'Nano Enterprise Loans', a product aimed at retail customers, with a targeted ATS ranging from INR60k to INR100k. The focus of this initiative will be on providing lower ticket size loans to customers outside the Joint Liability Group (JLG) business segment.
- For the Nano segment, even though the yields may be lower compared to the MFI segment, the longer tenor of these loans is expected to result in more stable and sticky AUM.

INSURANCE

- **Private life insurers witnessed a muted quarter as growth in premiums was affected by new taxation rules for INR0.5m+ ticket size policies. This led to a drop in the share of the non-par segment sequentially for the listed private life insurers. However, management commentary indicated that the magnitude of impact has been much lower than perceived initially. As reinsurers are now comfortable with the underwriting practices (post COVID) and the impact of price hikes is in the base, the momentum is expected to sustain. Demand for ULIPs has started gaining traction with equity markets doing well.**

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook for FY24	Others
LIC	▪ In the group business, the annuity component has contributed favorably, which led to improvement in margins. Moreover, the products are being reviewed and modified regularly to make the offerings more competitive. Also, LIC is working on various innovative designs to fill in product gaps. ▪ In Jul'23, LIC launched a very competitive product (return of premium product) on the protection side. Protection share is expected to improve from the direct and online channel. ▪ In 1QFY24, LIC also launched a single-premium closed-ended product, which has exhibited favorable performance. Further, LIC has undertaken a pricing revision for its cancer healthcare product.	▪ LIC re-priced its term policy rates last year, which had an impact on sales. The re-pricing was implemented to enhance product competitiveness. The adjustment period has now passed, and we anticipate a rebound in sales moving forward.
HDFC Life	▪ As guided earlier, margin neutrality was achieved in FY23. Margins were hit in 1QFY24 owing to front-ending of the business in Mar'23. The company has guided for a flat VNB margin in FY24. ▪ Experience in the non-par segment was better than earlier envisaged and the company expects stronger growth in 2HFY24 in this segment. ▪ For HDFC Bank, there has been 50-100bp increase in wallet share during 1QFY24 and the company expects steady improvement going ahead.	▪ With regards to synergy with Exide Life, focus was on reducing costs wherein duplication of branches and corporate expenses were cut. Exide had a strong presence in tier 2 and tier 3 towns in South India and the company is now taking those learnings to other parts of the country.
SBI Life	▪ Management maintained the guidance of better-than-industry premium growth (expected growth of about 20-25%) and a range-bound VNB margin between 28% and 30%. ▪ The company acknowledged that in the near term, product-level margins are probably at optimum levels and the mix will be a key driver for the margin trajectory ▪ The share of non-SBI banks is at about 3% and has seen a 5% growth on a high base of 86% growth last year. The company expects 20%+ growth in this channel going ahead.	▪ The agency channel's growth momentum is expected to pick up due to several factors, including an increasing number of agents and the positive impact of structural changes implemented over the past few quarters.
Max Financial services	▪ After the Axis Bank deal, the solvency margin is expecte ample capital for future growth. Although growth has b channel, the counter share has not declined for Max Lif ▪ Focus will be on protection and annuity, where capital other products. ▪ Protection growth has been strong on the back of 1) a f upswing in demand 3) enhancements in the supply side with reinsurance partners. This has granted flexibility re ability to underwrite diverse cohorts.	▪ Over last 7-8 months, Max Life has added five small size banks as its partners. The challenging phase in the banca segment is coming to an end, with the potential for new banks to contribute standing at an approximate 6-7% share.

ICICI Lombard	■ The discontinuation of IIB rates affected the loss ratio for the Commercial segment; thus, the Fire segment saw a higher loss ratio in 1QFY24. The Fire segment saw rate pressure (~5-7% fall); however, inherent growth remained intact. Industry growth will continue to be strong. ■ On a YoY basis, GDPI mix for 2W increased but declined for commercial vehicles, as there is no revision in Motor TP base premium for FY24. EOM would rationalize expenses for the Motor OD segment. There was a continuous improvement in Motor OD due to better sourcing and claims management using data analytics.	■ Investments have been made to accelerate growth in Health distribution. Pricing accretion has been seen in Group Health.
Star Health	■ STARHEAL hiked the price of the Family health optima plan (renewal plan), with effect from 1st May'23. The earnings benefits would accrue in 2HFY24. ■ The price arrangement with network hospitals is factored into the price hike. There were no material price revision arrangements with hospitals in the last six months. ■ The group business focuses on the SME segment and is expected to double in FY24. The Banca segment of the group business is doing better than expected. The contribution of non-agency stands at ~30% and is growing aggressively.	■ It has re-launched its Star Power app, which provides free tele services, network hospitals search, etc. The organic traffic to the website grew 43% YoY. The company has been actively recruiting its tech team. The expense ratio has increased on account of high fixed costs and lower NEP, considering seasonality in 1QFY24.

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HDFC Life — Neutral

Current Price INR 631

Products

- HDFCLIFE saw 12% growth in Ind WRP which was at 1.5x of industry growth. It has steadily increased its market share to 16.5% currently from 12.5% in FY19 among the private sector players.
- Experience in the non-par segment was better than earlier envisaged and the company expects stronger growth in 2HFY24 in this segment.
- The company expects growth acceleration from 2QFY24 and also expects to see strong growth in 2HFY24 on an adjusted base (for elevated sales in Mar'23).
- During the quarter, the company launched new products in the pension and ULIP categories to address the demand from customers.
- The share of above INR0.5m premium products was at high single digit vs. a normalized level of 12% seen in FY23. In the INR0.2 to INR0.4m ticket size, HDFCLIFE posted a 30% YoY growth. Average ticket size in tier 1 was at INR130k, while the experience in Tier 2 and tier 3 was at INR85k, which was better than expectations.
- Protection growth has been driven by customer demand, which is sustainable and is reflected in the increase in name search (for HDFCLIFE) and product search on the web.
- There has been an increase in Return of premium (ROP) products in tier 2 and tier 3 cities. Even credit life has seen strong demand trends with rising disbursements. The strong growth is without any changes to pricing or underwriting practices.
- In the earlier period, HDFCLIFE was reluctant to underwrite in lower tier cities owing to reinsurance challenges and improper documentation. It has, however, learnt from NBFCs' financial underwriting practices.

Distribution

- For HDFC Bank, there has been 50-100bp increase in wallet share during 1QFY24 and the company expects steady improvement going ahead. It has identified some branches that were lagging, where focus is likely to be increased. Also, focus will increase on selling protection products in the channel wherein a fair bit of in-roads have already been made.
- Merger of Exide Life was successful and with the arrangement between HDFC Bank and HDFC Ltd being completed, HDFCLIFE is now a subsidiary of HDFC Bank, which holds 50.4% stake.
- Retail protection saw 45% YoY growth and is expected to see sustainable growth going ahead.
- Individual APE from agency channel saw 1.5x company-level jump and during the quarter 15,000 agents were added.

VNB

- As guided earlier, margin neutrality was achieved in FY23. Margins were hit in 1QFY24 owing to front-ending of the business in Mar'23. The company has guided for a flat VNB margin in FY24.
- Unwind rate is at 8%, which is similar to last year. Yields have changed across fixed income products tenure but there has been no major change in weighted average. High equity returns have been incorporated in the unwind rate but it has been offse t by Exide's book that had a lower share of equities.
- Of the INR8.1b investment variance, INR5.0b was due to equity segment where 10% return was earned vs. expectation of 2.5%, while debt segment saw INR2.6b to INR2.7b change.

Others

- HDFCLIFE will continue to invest in tech transformation project 'Inspire'. Diagnostics with respect to which projects it to be implemented has been done and the company is now searching for partners for the same. Overall, the project is expected to see INR2.5b outlay, of which INR0.5b was spent last year, and INR1b is expected to be spent in FY24 and FY25 each.
- Pension category will revive under the new EOM regulations that will act as a feeder for growth for the Annuity business.

ICICI Lombard — Buy

Current Price INR 1,334

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Business & Financials

- ICICIGI accreted market share across Fire, Engineering, Liability and Health.
- GDPI stood at INR63.8b, up 18.9% vs. industry growth of 17.9%. Excluding Crop, GDPI grew 19.2% vs. industry growth of 17.4% in 1QFY24.
- PBT grew 11.8% to INR5.2b in 1QFY24 vs. INR4.7b in 1QFY23.
- The discontinuation of IIB rates affected the loss ratio for the Commercial segment; thus, the Fire segment saw a higher loss ratio in 1QFY24. The Fire segment saw rate pressure (~5-7% decline); however, inherent growth remained intact. Industry growth will continue to be strong.
- The combined ratio stood at 103.8% in 1QFY24 vs. 104.1% in 1QFY23. Excluding the INR0.35b impact of the cyclone, the combined ratio was 102.9% in 1QFY24.
- The company has started receiving claims related to floods in north India, but based on past experience, claims do not seem to have any material impact.

Motor Segment

- On a YoY basis, GDPI mix for 2W increased but declined for commercial vehicles as there is no revision in base premium for Motor TP for FY24.
- With no price hikes in Motor TP, some part of the Motor TP portfolio has become unviable.
- EOM would rationalize expenses for the Motor OD segment. There is a continuous improvement in Motor OD on account of better sourcing and claims management using data analytics.
- Growth in new private cars has come back on a relatively better claims ratio. The company expects better growth in the coming quarters.

Health Segment

- The segment grew 40.4% YoY vs. industry growth of 20.7%.
- Investments made toward accelerating growth in areas of distribution. Retail Health grew 25.6% for 1QFY24.
- The compan y increased prices in Retail Health Indemnity renewal book of ~19% in Feb'23.
- Bancassurance and Key Relationship Groups grew 27.3% in 1QFY24.
- The loss ratio for the employer-employee Group Health segment is expected to be in the range of 95-100%. For the SME business, it runs at 90-95%. Overall loss ratios are expected to be in the range of ~95%.

Digital

- ICICIGI moved entirely to cloud in FY22. As of Jun'23, downloads for ILTakeCare App stood at 5.6m. (4.6m as of Mar23). Though the share of ILTakeCare App in GDP is not material (~1% of GWP), but growth is ~4x YoY. There is a potential to up-sell and cross-sell Health and Motor insurance products.
- The digital channel accounts for ~4.9% of the total business.
- About 57% cashless authorization is done through AI (61.9% in Mar'23). Around 99.4% of policies are issued electronically (96.7% in FY23).

ICICI Prudential Life — Buy

Current Price INR 544

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Results Update

Business

- Under the new MD & CEO Mr Anup Bagchi, IPRU would focus on driving VNB growth via premium growth rather than margin expansion. The transformation with respect to diversification of products and distribution is largely complete. Protection and annuity will continue to be the growth drivers.
- Regulator extended the timelines for 'use and file', which will enable insurers to move swiftly with macroeconomic changes.
- IPRU launched new products including I-shield (a combination of life and health insurance), two new optional attachments: accident disability and death riders, and a constant maturity fund.
- IPRU is implementing a 4D strategy along with erstwhile 4P strategy – data analytics, digitalization, depth in partnerships, and diversified propositions.
- Data analytics – IPRU has invested in AI/ML, which will aid in cluster-based targeting of customers, streamlining claims, and better underwriting. The tools have been extended to partners as well.
- Diversified products – launched new products to meet customer demands.

- Digitalization - IPRU is investing in a digital transformation journey, wherein the endeavour is to create hassle-free experience for customers. More than 99% of policies are logged digitally.

Distribution

- IPRU added 7,481 advisors in 1Q; the company expanded its reach through various tie-ups, providing access to more than 19,000 bank branches. Furthermore, it has formed 957 non-bank partnerships, with 49 of them established in 1Q
- The company increased its agency managers count from 3,000 to 4,000, with 4-5% contribution in 1Q coming from new agency managers hired.
- Non ICICI Bank and Agency channels saw a growth of 20%+ in May and June.

Finance

- The rise in expenses can be attributed to ongoing investments in capacity expansion. The increase in employee costs was primarily due to investments made in agency managers to facilitate the addition of agents. Additionally, opex was higher due to ma rketing initiatives aimed at promoting the company products and services.
- With respect to EOM regulations, the management believes that commission costs will eventually rise, but would get offset by lower expenses. However, in some cases, commission costs have already experienced an increase.
- With respect to managing risks, 1) mortality experience has been within expectation, 2) 0.2% of fixed income investments are in below AA, and 3) 74.7% of liabilities largely pass on market performance to customers.
- The VNB Margin was impacted by a change in taxation regulations in 4Q. This change resulted in a shift toward less profitable products, such as ULIP and PAR products. Consequently, this shift more than offset the positive impact of a higher share of protection products on the VNB margin.

Products

- Retail protection growth has come from policy ticket size as well as higher sum assured.
- Within the group protection segment, credit life has continued to exhibit growth. However, the employer-employee sub-category has faced challenges due to higher pricing. Nevertheless, with the removal of COVID loadings, improvements in growth are expected in the future.
- Protection pricing is an ongoing exercise and the management does not expect demand impact because of the same.
- ULIPs are witnessing a resurgence in demand due to the unchanged tax advantage they offer compared to the changes in taxation for debt MFs. To cater to this increased demand, a constant maturity product was launched.
- By regulation, ULIP margins can be in a narrow range and cannot see a high double-digit margin.
- Decline in annuity premium in 1Q was on a high base of 1QFY23, wherein a 60%+ growth was reported because of new product launches. Segregating annuity between Single premium and Regular pay, single premium saw a decline due to high deposit rates, while regular pay products saw 30-40%+ growth. IPRU expects demand to rebound in the single premium product.

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Life Insurance Corporation — Buy

Current Price INR 655

Group Business

- In the group business, the annuity component has contributed favorably, and hence, driving up the margins.
- In the group segment, LIC is continuously reviewing and modifying its group product to make them more competitive. Also, LIC is working on various innovative designs to fill in product gaps.

Protection

- In July, LIC launched a very competitive product (return of premium product) on the protection side.
- The management expects the protection share to improve through the direct and online channels.
- LIC re-priced its term policy rates last year, which had an impact on sales. The re-pricing was implemented to enhance the competitiveness of the products. The adjustment period has now passed, and we anticipate a rebound in sales moving forward.

Others

- LIC has a 40.84% market share in the individual business and 72.5% market share in the group business.
- The Yield on policyholder's funds, excluding unrealized gains improved to 8.78% as against 7.74%.
- On a YoY basis, death claims declined 10% and maturity claims increased by 11%.
- A total of ~3.2m policies were sold in the individual segment during the quarter, compared to ~3.7m sold in 1QFY23.
- In 1QFY24, LIC also launched a single premium closed-ended product, which has exhibited favorable performance. Furthermore, LIC has undertaken a pricing revision for its cancer healthcare product.
- The business mix is progressively shifting toward non-par business. The re-pricing of products due to competition has led to a decline in NVB margin to 43.3%. However, the overall margins are expected to continue their upward trajectory.
- Solvency Level for LIC is at 1.87x, which is at record high, while the internal target is still maintained at 1.6x.
- Wage revision for employees happens every four to five years. Last year, the Board decided an upfront full-cost revision (previously it was amortized), and hence, employee cost declined during the current quarter.
- ~200bp increase in VNB margin is due to the positive impact of assumptions.
- LIC has re-priced annuity products twice and currently rates offered are as on Mar'23. The re-pricing was mainly to make the products competitive. There were no downward revisions so as to cut competition.
- In 1QFY24, J&K bank and Saraswat Urban Co-operative bank have been on-boarded as banking partners. Also, nine brokers and one corporate agent have been on-boarded.
- LIC has a very minimal impact of INR 0.5m ticket size policies (very small part in the overall mix).

- LIC to undergo digital transformation this year. Digital marketing for customer acquisition is more focused on the direct channel.
- LIC has 34-35% share in the women segment. LIC has witnessed growth in women buying policies. There is no distinction in premiums for men and women.

Max Financial Services — Neutral

Current Price INR 905

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Distribution

- During the quarter, the company successfully on-boarded six new partners, including South Indian Bank and five Corporate Agents.
- Prop channel recorded a substantial growth of 23%, reaffirming the company's market leadership for protection within the online domain. Additionally, an encouraging uptick in market share is observed in the savings sector, signifying expansion in this area as well.
- 44%growth in ecommerce; 18% growth in agency channel.
- Significant investments will continue across channels. 100 new offices are likely to be added in FY24.
- For the NRI business, the company has completed FATCA implementation on the website.
- Two of the largest banca partners of Max Life have adopted open architecture over the past couple of years and have now stabilized. From here on, the premium growth from these partners will mirror the growth reported by the respective banks.
- Over last 7-8 months, Max Life have added 5 small size banks as its partners.
- The challenging phase in the banca segment is coming to an end, with the potential for new banks to contribute to an approximate 6-7% share.

Products

- The introduction of the innovative Swag Par design has resulted in a notable increase in participating (Par) policies
- Max Pension AUM has reached INR2.3b and has been among the fastest growing within new pension managers.
- Protection growth has been strong on the back of 1) a favorable low base effect, 2) an upswing in demand 3) enhancements in the supply side, facilitated by renegotiations with reinsurance partners. This has granted flexibility regarding sum assured and the ability to underwrite diverse cohorts.
- For 2Q, ULIP and non-par will be the key focus areas. The long-term goal is to attain a non-participating (non-par) policy share of around 40%.
- Credit life has increased because of new partner tie ups. Growth stood at 27% YoY and should strengthen going ahead.

Axis Bank

- After the Axis Bank deal, the solvency margin is expected to increase by 39%, providing ample capital for future growth.
- Although growth has been muted within the Axis Bank channel, the counter share has not declined for Max Life.
- The last 1% stake will be a secondary transaction.
- 26% higher resources deployed with Axis Bank as compared to last year.
- Deal completion could happen in the next three to six months. IRDAI, CCI, and PFRDA approval will be needed.

- The demerger and subsequent separate listing are projected to occur within the next 18-24 months following the completion of the ongoing transaction

Utilization of fresh capital

- Specific plans are in place to drive growth upward of 20% over the medium term (3-4 years).
- In FY24, the company is aiming for double-digit growth in premium. For 2Q, the target is to realize a growth rate of 20%.
- Focus will be on protection and annuity where capital requirement is higher than other products.

VNB/EV

- The margin guidance was maintained by the company and expects the margin to stay between 27% and 28%.
- For FY24, strategy will be skewed toward prioritizing growth over maintaining margins.
- In spite of improvement in the mix, the margin expansion was limited because of investments in the channels and profitability impact of interest rate curve change.
- The company has taken pricing correction in the past few months.
- Economic variance stood at INR1.33b during the quarter.
- Margin profile of group annuity products is slightly weaker than other annuity products.

Other

- EOM creates more flexibility and there will be a change in how commissions and expenses are recognized, but there will be no change in overall expense.
- IFRS implementation – will be among the first ones to implement the same. Engaged with Deloitte and KPMG for the same.
- No major impact of the new taxation rules for premium above INR0.5m taxation has been witnessed in 1QFY24.
- NPS improved to 53 from 52 in Mar 23.
- Industry best persistency in 13th month, 2nd best in 25th month, and the 3rd best in 61st month on the number of policies basis.

SBI Life Insurance — Buy

Current Price INR 1,294

SBI Life INSURANCE With Us, You're Sure

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Management change

- The Board of Directors has granted approval for the appointment of Mr. Amit Jhingran as the new Managing Director & CEO of the company. The date on which he will officially assume charge in this capacity will be determined and communicated once all the required regulatory approvals are received. In order to ensure a seamless transition, the company is committed to facilitating a smooth handover process between the outgoing and the incoming CEOs.

Overall business

- During the quarter, the company sold 419k policies, reflecting its continued growth trajectory. Over the past decade, the company has maintained consistent growth. Furthermore, the company's Sum Assured witnessed a significant growth of 44% during the quarter, surpassing the industry growth rate of 42%.
- The persistency data revealed a slight decline in 13th and 25th month persistency, but there was significant improvement in 35th and 85th month


SBI Life Insurance

persistency. The company has initiated efforts to enhance 13th and 25th month persistency through continuous engagement with its customers. The company is optimistic and expects its persistency levels to normalize from 2QFY24 onwards.

- The company expects the share of non-par to increase going ahead to last year levels of about 24%.
- The individual annuity segment has experienced strong growth, primarily driven by competitive annuity rates and the effective efforts of the sales team in raising awareness of the product among customers. The product team is committed to regularly resetting annuity rates in line with the prevailing market rates.
- The higher surrender ratio is primarily attributed to the ULIP products introduced four years ago.
- Credit life insurance accounted for 45% of the group protection segment, with the remaining portion contributed by group GTI offerings.

Distribution

- Agency count has reached 282k and saw a growth of 32% YoY. 14,048 agents were added during the quarter.
- The share of non-SBI banks is at about 3% and has seen a 5% growth on a high base of 86% growth last year. The company expects 20%+ growth in this channel going ahead.
- The agency channel's growth momentum is expected to pick up due to several factors, including an increasing number of agents and the positive impact of
- structural changes implemented over the past few quarters. The results of these strategic changes are expected to reflect over the next three quarters, with initial signs becoming apparent from 2Q itself. SBILIFE has the most productive agency force among the private players.

Guidance/VNB

- The decline in VNB margins was primarily attributed to the product mix, with the proportion of ULIPs increasing and the share of non-par products declining.
- The company maintained its guidance of better-than-industry premium growth (growth of about 20-25%) and range-bound VNB margins between 28% and 30%.
- The company acknowledged that in the near term, product-level margins are probably at optimum levels and the mix will be a key driver for the margin trajectory.

Star Health — Buy

Current Price INR 618

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Business

- In 1QFY24, the overall health industry grew 21% YoY, with group health growing 23% YoY and retail health growing by 18% YoY.
- Retail health segment for STARHEAL grew 19% YoY vs. 18% for the industry. New business growth stood at 15%.
- Agency network accounts for ~81% of business. In 1QFY24, the company added 16,728 new agents. The corporate segment grew 35%.
- The turnaround time for 94% of the claims is within two hours, while 28% of the hospitals, representing 67% of cashless claims, have been on-boarded under auto adjudication of claims.
- The company settled 60,000 claims in 1QFY24, up 34% QoQ.

- Competition is intense in retail health business. With EOM benefits, STARHEAL may venture into different products as other players focus on reducing EOM.
- The company has tightened its underwriting strategy in certain areas. There is a shift in its long-term strategy toward incentivizing distribution partners.
- There have been talks with regulator for the implementation of IFRS, which is expected by 2025. STARHEAL has to submit its first impact analysis to the regulator by 30th Sep'23.
- It has re-launched its Star Power app, which provides free tele services, network hospitals search, etc. The organic traffic to the website grew 43%.
- The company has been actively recruiting its tech team. The expense ratio has increased on account of high fixed costs and lower NEP considering seasonality in 1QFY24.
- STARHEAL would continue to invest in marketing and advertising costs. It has identified ~1,000 sales management stations, of which 400 became operational in 1QFY24.
- The investment yield for 1QFY24 stood at 7.45% vs. 7.11% in 1QFY23. This was higher on account of booking of gains in the ETF segment.

Price hike

- STARHEAL hiked the price of the Family health optima plan (renewal plan), with effect from 1st May'23, is in line with the company's strategy. The earnings benefits would accrue in 2HFY24.
- The price arrangement with network hospitals is factored in the price hike. There are no material price revision arrangements with hospitals in the last six months.
- If a customer shifts from Family Health Optima to other retail plan, it is counted under the renewal plan. The retention ratio is better than expectations.

Group Health

- The group business focuses on the SME segment and is expected to double in FY24. The Banca segment of the group business is doing better than expected.
- The contribution of the non-agency stands at ~30% and is growing aggressively. The company has partnered with AU Small Finance Bank, Godrej Housing Finance and Bank of Maharashtra in 1QFY24.

HEALTHCARE

- **In Healthcare, companies focusing on US generics indicated a considerable reduction in the intensity of price erosion witnessed over the past couple of months. Managements highlighted that pricing pressure declined from double digits to mid-to-high single digits in 1QFY24. Interestingly, companies have new business opportunities as well due to regulatory/financial issues at peers. Companies with focus on the domestic formulation segment indicated mixed bag in terms of growth prospects. The anti-infective therapy has seen some moderation in growth due to adverse seasonality. Further, the downward revision in prices due to the expansion in the national list of essential medicines (NLEM) further affected the performance of companies for the quarter. Companies indicated some benefits of a reduction in raw material costs as well as logistics costs. Companies in the API segment indicated a reduction in API prices to pass on the fall in key starting material prices to some extent. Hospital companies indicated that the structural drivers like increased healthcare awareness, enhanced insurance penetration and companies' effort toward cost management would help to sustain improvement in profitability over the next 2-3 years.**

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook for FY23/FY24	US Business - Update
Aurobindo Pharma	▪ ARBP has guided for ex-Revlimid margins to be at 18% for FY24. ▪ ARBP guided for Eugia sales to be USD100m/ USD130m per quarter in the US/global segments for FY24. ▪ ARBP expects to sustain growth momentum in the EU segment on product launches, market share gains as well as increased reach.	▪ The US base business continued to witness reduced price erosion/higher volume offtake ▪ It has re-initiated the restructuring of the Eugia business to unlock the inherent value of its injectable business. ▪ ARBP intends to launch g-Revlimid in 3QFY24.
Cipla	▪ For FY24, Cipla raised its EBITDA margin guidance to 23% from 22% earlier. Further, it raised its NA base business quarterly run-rate guidance to USD210-215m vs. USD195m earlier. ▪ Cipla indicated to launch 4-5 peptides over the next 15-18M for NA market.	▪ The US business has witnessed reduced competition and lesser price erosion.
Dr. Reddy's Labs	▪ DRRD expects gross margin to be 56-59% for FY24. ▪ DRRD remains on track in terms of filings/ approval for the China market.	▪ In 1QFY24, excluding g-Revlimid, the US sales witnessed robust growth driven by market share gains in key products, reduced price erosion, and volume-based growth ▪ The USFDA inspection concluded successfully at four sites during the quarter ▪ DRRD launched eight products in the NA market in 1QFY24
Gland Pharma	▪ GLAND indicated one limited competition product launch in 4QFY24/ 1QFY25. ▪ Cenexi entered into a new CDMO contract for a Liposomal product. ▪ Cenexi's facilities are expected to have shut down for four weeks in 2QFY24. ▪ GLAND expects to launch one product in China in near term. Further, management expects one more approval over near term	▪ The pricing scenario has been stable QoQ in the US. ▪ It has launched 23 molecules in the US (7 are new launches and the remaining are re-launches). About 12-13 products would be launched subsequently.
Sun Pharma.	▪ SUNP has taken steps to accelerate phase III trials for Ilumya in terms of patient enrolments. ▪ SUNP would be starting phase II trials for GL0034 shortly.	▪ SUNP launched two generic products in the US (ex-Taro). ▪ The pace of product filings has been hurt by ransom-ware issues in the recent past. ▪ Supplies from Mohali are yet to pick up and remained adversely affected by regulatory issues at the site. ▪ The seasonality related to levulan hit specialty sales to some extent for the quarter
Divi's Lab.	▪ DIVI is working on contrast media API registrations in various geographies. The validations by customers are also underway. DIVI intends to capture the gadolinium-based contrast media opportunity from FY25 onward. ▪ Contrast media products, Sartans and near to medium-term patent expiry products are key growth drivers for DIVI over the next 2-3 years.	▪ The generics: CS sales ratio was 60:40 for 1QFY24. Nutraceutical sales stood at INR1.8b.

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Ajanta Pharma — Buy

Current Price INR 1,720

- While AJP achieved 27.6% EBITDA margin in 1QFY24, it maintained its margin guidance of 25% (+/- 1%) for FY24.
- Management indicated price erosion at high-single digit compared to earlier double-digit rate in the US generics segment.
- AJP guided for mid-teens YoY growth in branded generics segment for FY24.
- Management indicated mid-single digit YoY growth in the US sales for FY24. This is excluding any potential benefit from g-Chantix.
- It expects to launch 4-5 products in the US generics in FY24.
- It guided for a capex of INR2b for FY24.
- AJP guided that the R&D expenditure would be 6% of sales for FY24.
- There is a benefit to the tune of 200bp as a % of sales due to lower RM cost
- Freight cost is now at pre-Covid levels at 4% of sales vs. 6% in FY23.
- It launched three products in DF and two in Asia segment during the quarter.
- AJP is expected to launch g-Chantix in 4QFY24/1QFY25 subject to regulatory approval.
- The company expects a revenue run-rate ~INR2.1b for the next three quarters in the US generics segment.
- With improved sales outlook and stable MR count, its productivity is expected to improve going forward.

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Alembic Pharma — Neutral

Current Price INR 749

- Management guided for 20+ launches in the US in FY24. It had six launches in 1QFY24.
- There could be certain opportunities to ALPM from drug shortages in the injectable space.
- Management indicated 10-15% YoY growth in the API segment for FY24.
- ALPM has expanded its field force by 200 in animal health business and would be catering mainly to large cattle segment.
- The DF specialty segment grew 12% YoY, while acute segment rose 16%YoY for the quarter as per ORG data.
- ALPM has 5K+ medical representatives for DF market at the end of 1QFY24.
- Management indicated a capex of INR4b for FY24.
- ALPM incurred INR1b in R&D expense for 1QFY24. It indicated FY24E R&D expense to be INR5b.

Alkem Labs — Neutral

Current Price INR 3,712

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- ALKEM guided for high-single digit YoY growth in DF segment vs. earlier guidance of double-digit growth for FY24.
- ALKEM maintained its overall EBITDA margin guidance of 16% for FY24.
- The US generics witnessed price erosion of high-single digit vs. double-digit decline experienced earlier.
- The Enzene biosciences (biotech arm) garnered sales of INR570m for 1QFY24. Management guided for FY24 sales of INR2.4b (vs INR1.6b in FY23).
- ALKEM expects Enzene breakeven by FY25.
- Management guided for gross margin to be at 59.0%-59.5% for FY24
- The effective tax rate is expected to be 17-19% for FY24.
- The MR strength is ~12k and productivity at INR5.4L PCPM.
- ALKEM's volume/price/new launches grew 1%/3%/2.3% YoY in 1QFY24
- It continues to work on addressing raw material issues related to dabigatran for the US market.
- ALKEM makes about 18-20% EBITDA margin in overall chronic segment.
- Capex for the year to be INR3.5-4b
- R&D spend for the year to be 5% of sales
- Capex for the quarter is INR800m.

Apollo Hospitals — Buy

Current Price INR 4,919

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- APHS has revisited the orders (less than INR200 per order) as well as certain pin codes, wherein the business is not viable currently. This has reduced the GMV as well as associated cost. Accordingly, APHS has been able to reduce the operational loss by 20% QoQ in Healthco.
- In 1QFY24, Apollo 24/7's online discount declined to 13-14% vs. 17-18% earlier. In offline business, discount is nearly 12-13%.
- APHS guided for combined Pharmacy EBITDA margin to improve due to breakeven from new stores. APHS plans to add 500-600 stores in FY24.
- APHS indicated further scope for ARPOB growth to 60K (from current INR57K) with optimization in case/payor mix.
- In 1QFY24, Insurance has reached 44% while self-pay share has reached 38% of healthcare services sales.
- APHS expects occupancy to increase to 70% by FY26.
- It intends to achieve 10% of revenue from international patients vs. 7% in 1QFY24. For Delhi, in particular, this share is 15% of revenue.
- APHS has effected tariff revisions and expects margins to rise in next quarters.
- It remains on track to add 2,000 beds with capital expenditure of INR30b over the next 2-3 years.
- In 1QFY24, Out-patient (OPD) volume in Tamil Nadu declined 8% YoY due to holiday season and restricted travel to Chennai.
- 20% of overall pharmacy stores are yet to reach breakeven.
- On 24/7 app, transacting user base grew 31% YoY to 1.1m (vs. 0.9m in 1QFY23) and 15% QoQ (1m in 4QFY23).
- Private label/generic sales stood at 16% of sales for 1QFY24.

Other operational highlights

- In 1QFY24, ARPOB grew 11% YoY/8% QoQ to INR57,760.
- The occupancy ratio for the group stood at 62% in 1QFY24 vs. 60%/64% in 1QFY23/4QFY23.
- In 1QFY24, Mature hospitals (69% of healthcare services sales) reported 63% occupancy (stable YoY/QoQ), while new hospitals (31% of healthcare services sales) recorded 60% occupancy (vs. 55% in 1QFY23).
- Mature hospitals' EBITDA margin was 26.8%, while new hospitals' EBITDA margin was 16.7% for the quarter.
- Apollo 24/7's opex stood at INR1.7b. After adjusting for opex in Apollo 24/7, it incurred an operational loss of INR566m v/s INR721m operational loss QoQ.
- The GMV for the quarter was INR6b, up 5% QoQ.
- The company added 32 net pharmacy stores in 1QFY24, taking the total number to 5,573.
- Combined Pharmacy platform business grew 24% YoY to INR22.5b in 1QFY24.
- Particularly, the primary care segment's sales were flat YoY (organic growth: 23%) to INR847m.
- Diagnostics revenue grew 32% YoY at INR1b.
- Diagnostic network collection centers increased 581 to 1,910 at end-1QFY24.

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Aurobindo Pharma — Neutral

Current Price INR 834

- Ex-Revlimid, ARBP guided EBITDA margin of 18% for FY24.
- The improvement in EBITDA margin (from 16.8% in 1QFY24) is expected to be driven by higher volume offtake/reduced price erosion in base portfolio, PLI benefit and enhanced production from the Puerto Rico facility.
- ARBP expects to sustain healthy growth in the EU segment on the back of product launches, market share gains as well as increased reach. It has achieved mid-teen margins in this segment for the quarter.
- ARBP guided for Eugia sales to be USD100m/USD130m per quarter in the US/global segments for FY24. ARBP has re-initiated the restructuring of the Eugia business to unlock the inherent value of its injectable business.
- Gross margin improvement was adversely impacted to some extent due to higher sales from EU and lower API Non-betalactum sales for the quarter.
- PLI cumulative capex is USD160m till now with USD34m in 1QFY24.
- Net cash at the end of 1QFY24 stood at USD178m.

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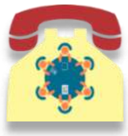

Biocon — Neutral

Current Price INR 260

- Higher rebates in Pegfilgrastim (USD15m) based on legacy contracts with select customers and phasing of the tender business in emerging markets affected biocon biologics performance for the quarter.
- BIOS indicated a gradual than expected traction/market share gain in Hulio (b-adalimumab). BIOS continues to work on interchangeability status as well for Hulio.
- BIOS indicated mid-teens YoY growth in generics sales for FY24.
- Clinical trials for b-Ustekinumab/b-Denosumab are on track.
- BIOS submitted a comprehensive and preventive action (CAPA) with respect to the Malaysia facility in Jul'23 to the USFDA.
- Work on a new injectable facility and the expansion of peptide/fermentation capacities commenced in Bengaluru. It would take two years for commercialization.
- Biologics segment would have capex of USD150m, generics would have capex of USD80-100m, and research services would have capex of USD 80m for FY24.
- Currently, Formulations: API share is 30:70 of the generics segment sales.
- Net debt (excluding structured investments) stood at USD1.2b as of 1QFY24.

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Cipla — Neutral

Current Price INR 1,219

- For FY24, Cipla raised its EBITDA margin guidance to 23% from 22% earlier. Further, management raised its NA base business quarterly run-rate guidance to USD210-215m from USD195m earlier.
- Cipla indicated an encouraging outlook in NA business driven by reduced competition and subsequently lesser extent of price erosion. Further, certain revisions in buying programs have also aided growth in the NA segment.
- Management indicated that 4-5 peptides would be launched and a couple of products would be filed in the next 18M for the NA market.
- Cipla indicated that it filed a new amendment with respect to g-Advair.
- Cipla has de-risked the Abraxane opportunity by adding an alternate site in its ANDA application.
- With certain price revision in g-Leuprolide, Cipla expects a market share gain going forward.
- For India business, Cipla added 250-300 MRs in 1QFY24 and plans to add 250 in 2QFY24.
- g-Revlimid sales has been stable on a QoQ basis.
- Cipla guided for a capex of INR1.0-1.5b for FY24.

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Divi's Lab — Neutral

Current Price INR 3,658

- The generics:CS sales ratio was 60:40 for 1QFY24. Nutraceutical sales stood at INR1.8b.
- DIVI continues to work on contrast media API registrations in various geographies. The validations by customers are also underway. DIVI intends to capture the gadolinium-based contrast media opportunity FY25 onward.
- Manufacturing capacity for Unit III would comprise key starting material, nutraceutical APIs, advanced intermediates and certain complex products.
- A decline in logistics cost aided profitability to some extent.
- CWIP related to the Kakinada facility was INR1.3b till date.
- Contrast media products, Sartans and near to medium term patent expiry products are key growth driver for DIVI over the next 2-3 years.

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Dr. Reddy's Labs — Neutral

Current Price INR 5,903

- DRRD expects gross margin to be 56-59% for FY24.
- In 1QFY24, excluding g-Revlimid, US sales witnessed robust growth, driven by market share gain in key products, reduced price erosion, and volume-based growth.
- Adjusted for divestment of brands, DRRD garnered high single-digit YoY growth in the DF segment for 1QFY24.
- DRRD indicated that its quarterly R&D expenditure is ~INR5b. Around 20% of this R&D spend is allocated to the biosimilar segment, and the company foresees further scaling up of investments in this area in the future.
- DRRD Launched eight products in NA in 1QFY24 and expects the launch momentum to continue in the coming quarters.
- It had 27 new launches in EM in 1QFY24. Favourable seasonality during the quarter was partly attributed to the YoY growth in the Russia segment.
- DRRD is working on 11 biosimilars at portfolio level.
- USFDA inspection concluded successfully at four sites during the quarter.
- DRRD remains on track in terms of filings/approval for the China market. The outlook would be much better FY25 onwards.
- DRRD expects ETR to range between 24% and 25% for FY24.

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Eris Life Science — Neutral

Current Price INR 825

- Organic sales growth is expected to be in low double digits YoY in FY24.
- ERIS expects EBITDA margin at around 35% in FY24.
- With 1QFY24 sales of INR90m from Insulin, it intends to reach INR500m in FY24. The company also intends to achieve EBITDA break-even in 4QFY24.
- ERIS would also be re-launching FCM injection after the favorable litigation verdict.
- About 8-10 launches are lined up in the remainder of FY24 in the dermatology category.
- ERIS has achieved company-level EBITDA margin in its Oaknet portfolio.
- It has an active pipeline of 10 fixed-dose combinations, with R&D expenses of INR300m.
- ETR would be 13-16% for FY24.
- Net debt stood at INR6.7b as of 1QFY24.

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Gland Pharma — Buy

Current Price INR 1,574

- The profit share for the quarter was 11% of standalone sales vs. 7% QoQ.
- Management indicated one limited competition product launch in 4QFY24/ 1QFY25.
- On an overall basis, ~11%/4% YoY growth was due to new launches/volume.
- The pricing scenario has been stable QoQ in the US.
- GLAND witnessed 14% YoY reduction in power and fuel costs in the quarter.
- It has launched 23 molecules in the US (7 are new launches and the remaining are re-launches). About 12-13 products would be launched subsequently.
- Cenexi entered into a new CDMO contract for a Liposomal product.
- GLAND has launched one product in China and expects to launch one more in near term. Further, management expects one more approval over near term.
- It has filed four complex products in FY23 and expects to file another eight in the next 12-14M.
- For 1QFY24, Cenexi reported revenue/ EBITDA of INR3.2b/INR347m. It reported a gross profit margin of 76%.
- Cenexi's facilities are expected to have shut down for four weeks in 2QFY24.
- During 1QFY24, cash flow from operation was INR629m vs. INR3.3b in 1QFY23 due to normalization of working capital cycle at Cenexi, post-acquisition.

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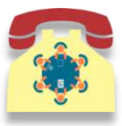

Glenmark Pharma — Neutral

Current Price INR 750

- GNP has guided for YoY revenue growth of 10-11%.
- The overall margin guidance for FY24 is 19-20%.
- The company expects mid-single digit YoY growth in US sales for FY24.
- It expects the DF segment to grow 8% YoY (excl. divestment and NLEM impact) for FY24
- Ryaltris sales would be USD40-45m for FY24.

- GNP expects to sustain the healthy growth momentum in EU, with 25-30% YoY growth in FY24.
- It intends to close at least one out-licensing deal in the innovation pipeline.
- While the remediation measures are ongoing at the Monroe facility, GNP does not expect further meaningful financial expenses for the resolution of USFDA issues.
- Net debt stood at INR29.5b as of 1QFY24.
- Glenmark's partner in Mainland China aims to complete the ongoing Phase 3 study in China for Ryaltris and submit the marketing authorization application in the second half of FY24.
- Capex for the quarter stood at INR1.3b. Capex for the year is expected to be INR6-7b.
- R&D investment of 8-8.5% of sales for the year.

Granules India — Buy

Current Price INR 295

GRANULES

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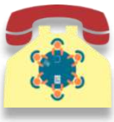

- The loss of sales due to the IT incident in 1QFY24 stood at ~INR1.5b.
- While GRAN has addressed the IT ransomware attack, the business is expected to normalize from 3QFY24 onwards.
- GRAN in on track to add formulation capacity (8b units per year) at Genome valley and is expected to start commercial benefit from May'24 onwards.
- GRAN is currently in the process of constructing a pilot plant for DCDA (key raw material for Metformin), with plans for commercialization expected to commence from FY25 onwards.
- Likewise, it is currently in the process of building a pilot plant for PAP (key raw material for Metformin) with plans for commercialization expected to commence from FY25/FY26 onwards.
- The inventory correction affected the performance of emerging markets for the quarter.
- The price erosion continued for GRAN products, albeit at a lower intensity in regulated markets.
- The API business growth was primarily driven by higher volume offtake of Paracetamol.
- It incurred a capex of INR740m in 1QFY24 and remains on track to implement a capex of INR7b for FY24.
- Net debt as on 1QFY24 stood at INR8.6b.
- The IT incident expense is INR50m till date.
- GRAN expects debt to increase in FY24, driven by an increase in working capital requirement and the ongoing CAPEX cycle.
- GRAN expects R&D expense to increase in the remaining FY24. In 2QFY24, it will be ~INR0.5b and in 3Q /4QFY24, it will be more than INR0.5b. Moreover, GRAN expects employee expenses to increase in 2Q/3QFY24.

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Laurus Labs — Buy

Current Price INR 390

- While Laurus started FY24 on a weak note, it maintained its sales guidance (Stable YoY) for FY24.
- Ramp-up across CDMO/FDF (Non-ARV as well as ARV) is expected to drive better sales outlook for the remaining quarters of FY24.
- ARV business for 1QFY24 stood at INR6b (50% of sales). The prices have been stable QoQ. The volume offtake is expected to pick up 2QFY24 onwards.
- Laurus secured its first-ever multi-year contract with a global crop protection company. The manufacturing operations under this contract are expected to commence from 2HFY25 onwards.
- In the animal health CDMO segment, Laurus Labs is set to begin the commercial validation batches in 2HFY24. Following this, the company plans to scale up its operations starting from FY25.
- Laurus has 60+ projects across various stages of development in the CDMO segment.
- The non-ARV formulation business of Laurus is expected to pick up due to two key factors. First, the company expects improved volumes in its existing products in the European market and secondly, the company is looking forward to obtaining new product approvals in the North America market.
- New capacity (R2) related to the Biotech business has been implemented in 1QFY24 and is expected to ramp up over the near term.

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Lupin — Sell

Current Price INR 1,089

- LPC guided for launching g-Spiriva in 2QFY24 and the ramp-up is expected to be gradual. Interestingly, there is no authorized generic launch yet in the market.
- The filing for g-Risperdal consta is expected in 2QFY24 and the launch timeline is anticipated to 2+ years from that point.
- The API segment has witnessed a higher off-take of 7-ACA and cephalosporin, driving YoY growth in the API segment.
- USFDA compliance at Pithampur unit 2 provides improved visibility of g-Prolensa launch.
- There are about nine products under development in the injectable segment.
- About 20%/20%/10% of R&D spend is on inhalation/injectable/biosimilar segment.
- R&D spend is expected to be stable on an absolute basis at the current quarterly run-rate.
- Ondero would be off-patent over the near term, affecting DF growth to some extent. Having said this, LPC has enhanced efforts to outperform the industry, going forward. It intends to add 500MRs annually FY25 onwards.
- Three out of five sites have been cleared of the warning letter from USFDA.

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Max Healthcare Buy

Current Price INR 563

- On a QoQ basis, there is an increase in opex due to annual increments. Additionally, 1Q is a seasonally weak quarter when compared to 4Q. Despite these factors, the EBITDA per bed remains consistent QoQ at INR7m.
- In Max Shalimar facility, revenue/EBITDA grew 37%/43% YoY in 1QFY24 on the back of bed additions (~122 in recent months) and superior case mix.
- The 180-bed Mohali hospital has excavation activities underway. The management indicated that the hospital would be completed in 4QFY25.
- The Nanavati 300-bed hospital is also expected to be completed by 4QFY25.
- At the end of 1QFY24, the FCF from operations stood at INR2.6b, of which INR0.4b was deployed toward ongoing capacity expansion projects. Net cash position improved to INR9.6b.
- Apart from the inclusion of 44 new beds at Shalimar Bagh, there are plans to further increase the total number of beds by an additional 40 for FY24.
- Management highlighted routine capex of INR1b for FY24 (spent INR700m in 1QFY24). The overall capex is expected to be INR9b for FY24.
- International patients formed 9% of the revenue and 5% of the bed share.

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Piramal Pharma Buy

Current Price INR 100

- 2H is expected to be better than 1H in terms of revenue and profitability.
- In the CDMO segment, the Formulations: API ratio is 45:55 on full year basis.
- PIRPHARM incurred capex of INR1.5b for 1QFY24.
- The net debt stood at INR47b at the end of 1QFY24. After the rights issue, net debt is expected to decline by INR10b.
- The rights issue price would be INR81 and the entitlement ratio would be 5:46.
- The ICH segment was EBITDA positive in 1QFY24.
- PIRPHARM had a successful USFDA inspection at its Pithampur facility.
- As compared to 1QFY24, PIRPHARM's other income had higher FX gains in 1QFY23.

Sun Pharma — Buy

Current Price INR 1,117

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- Guidance maintained for R&D expense (as a % of sales) at 7-8% for FY24.
- SUNP has taken steps to accelerate phase III trials for Ilumya in terms of enrolments of patients.
- The seasonality related to levulan affected specialty sales adversely to some extent for the quarter.
- SUNP did not witness any adverse impact of Humira biosimilar on Ilumya.
- SUNP would be starting phase II trials for GL0034 shortly.
- The YoY growth in domestic formulation segment has been hit by increased competition in Sitagliptin and revision in prices of products under NLEM.
- R&D expense for specialty portfolio was 34.5% of overall R&D expense for the quarter.
- The pace of product filings has been hurt by ransom-ware issues in recent past.
- Employee expense has increased 16% YoY due to annual increment and Alchemee consolidation.
- SUNP om Mohali are yet to pick up and remained adversely affected by regulatory issues at the site.

Torrent Pharma — Neutral

Current Price INR 1,961

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- TRP witnessed price stability in the US generics segment compared to price erosion over the past quarters.
- With a good response to its pilot program for Shelcal 500 in the consumer healthcare segment, TRP is geared up to start a national campaign for it.
- In the DF segment, TRP reported 7% growth in prices and 4.5% growth in new launches YoY, while volume declined by 3% YoY for the quarter.
- The seasonality in gastro-intestinal therapy affected YoY growth in the DF segment to some extent for the quarter.
- TRP has been able to improve profitability of Curatio by 700bp since the acquisition. It has a strategy in place to further improve the profitability.
- TRP launched one product in Brazil and intends to launch five more in the remaining FY24.
- New tender wins would further drive YoY growth in Germany in 4QFY24.
- TRP expects a favourable response from the USFDA for its Dahej site and awaits re-inspection at the Indrad site.
- The company would repay net debt of INR6b in FY24.

zydus
Dedicated To Life

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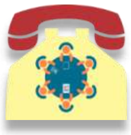

Zydus Lifesciences — Neutral

Current Price INR 641

- ZYDUSLIFE guides for US business growth in the high single digits to low double digits in FY24.
- It expects the DF segment to grow in line with market growth.
- The company guides for EBIDTA margin expansion of 150-200bp in FY24.
- It expects the g-Vascepa launch in 3QFY24. REMS products would also be launched in 3QFY24.
- Two transdermal launches in the US are expected at FY24 end.
- R&D would be 8% of sales in FY24.
- Strong volume traction in key brands like lipaglun, Bilypsa and Ujvira.
- Unseasonal rain in north India impacted key summer-oriented brand Glucon-D.
- In the domestic market, the company would expand in Biosimilars and some discovery-led products.
- Volume expansion in base portfolio, revlimid traction and new launches led to growth in US business.
- Pricing pressure was stable in US in 1QFY24.
- Tronkindi has started getting competition in US market.

LOGISTICS

- **In the Logistics space, managements highlighted demand moderation in the e-commerce segment and subdued capacity utilization in 1QFY24. They cited high inflation and low discretionary spending as key reasons. In the near term, managements expect a demand pickup in 2QFY24 (as the festive season kicks in), stable operating costs ahead, and continued focus on capacity enhancement. Over the long term, companies remain optimistic about sector growth, driven by the advantages of e-way bills, GST implementation, expanded routes on Dedicated Freight Corridor (DFC), and enhanced connectivity of major ports, which would drive businesses toward the organized sector.**

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook for FY24	1Q FY24 highlights
Container Corporation	■ Domestic volumes are likely to grow at a faster rate than EXIM volumes. However, margin expansion potential in the domestic sector may be limited due to the adverse impact of empty running. ■ The discount provided by CCRI for double-stacked containers is aimed at attracting new traffic. ■ Land license fee for FY23 stood at INR3.9b and the management expects a fee of INR5b.	■ The company's performance has been mixed, resulting in lower turnover and margins. ■ Despite gaining momentum from May'23 onwards, the domestic business suffered due to the Orissa train accident in Jun'23 on the eastern front. ■ Rail freight margin during the quarter was 26.19%, which increased from 25.6% in 1QFY23. ■ Land License fee for 1QFY24 stood at INR1.3b.
Transport Corporation	■ Management aims to boost LTL share to 40% by FY25 to generate improved margins. ■ The addition of 50 branches in FY24 will accelerate revenue growth in the freight division. ■ Anticipating higher seaways capacity in FY24, TRPC plans to add one ship to boost the segment. ■ Revenue and PAT growth guidance of 10-15% retained for FY24; EBIT margin to remain stable in FY24.	■ Supply Chain division maintains growth via client focus; targeting 20% growth in FY24E. ■ Freight division's 1QFY24 LTL/FTL split stood at 36%/64%. ■ The Seaways division coped with reduced West coast rates and the BIPARJOY cyclone. It maintained margins and ROCE through cost efficiency despite fuel price-dependent revenue.
Blue Dart Express	■ Ground express is anticipated to exhibit faster growth than air express, with ground express likely to achieve double-digit expansion while air express will experience high single-digit growth. ■ High ATF prices or the disparity between Brent and ATF prices will not significantly hurt margins in future.	■ Performance in 1QFY24 was hurt by muted volumes/higher costs related to aircraft additions. ■ Margins came in lower owing to subdued volumes and certain start-up costs related to addition of two new aircraft. ■ The new aircraft started operations in Jun'23 and became operational for the last 10 days of 1QFY24.
Mahindra logistics	■ B2B Express faced volume decline; it is aiming for recovery in 2HFY24, especially during festivities. ■ E-commerce expected to grow 25-27%, especially in smart grocery. ■ MLL targets 18% ROE by FY26; it emphasizes mid-teens growth in 3PL, and is aiming for INR65b 3PL revenue through extensive network expansion.	■ SCM posted revenue of INR12.1b (+6% YoY) and EBIT of INR22m in the quarter. ■ During 1QFY24, Freight Forwarding reported revenue of INR770m (-29% YoY); Express Logistics posted revenue of INR850m (+81% YoY), and Last Mile clocked revenue of INR480m (+14% YoY). ■ The auto/farm business from M&M represented ~50-51% of the contract logistics business, while 35% of the business originated from non-M&M auto volumes
TCI Express	■ For FY24, TCIE aims to achieve 13% volume growth. ■ The company targets to achieve an annual margin expansion of 100bp, with efforts to improve margins by around 75-80bp in FY24. ■ With the introduction of new value-added services such as rail express, the company targets a 16.5% margin in FY24.	■ Revenue grew 9% YoY to ~INR3.3b. Improved profitability and growth were primarily driven by higher capacity utilization of 85% in 1QFY24 and demand from both Corporate and SME customers. ■ EBITDA for the quarter stood at INR541m with margin of 16.6%. ■ Value-added services now form 17% of revenue; it is aiming for 25% by FY25E.
VRL Logistics	■ Management remains optimistic on achieving volume growth of 15%+ in FY24/FY25. ■ EBITDA margin to be maintained at 16-17%. ■ Management plans to open 20-25 branches per quarter. ■ The company is planning to expand its operations by adding two more owned fuel pumps in Delhi and Ambala, which will complement the existing six pumps. This strategic move is expected to help the company in better controlling fuel costs and ultimately leading to an improvement in EBITDA margin.	■ In 1QFY24, VRL managed ~1m tonnes of cargo, reporting 11% YoY growth (-3% QoQ). This tonnage rise was driven by branch expansion, GST's impact, and changes in e-invoicing rules. ■ The EBITDA benefited from lower fuel expenses, with average procurement cost dropping to INR87.5/liter during the quarter from INR 93/liter in 1QFY23. Direct refinery procurement stood at ~32% in 1QFY24.

BLUE DART

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Blue Dart Express

Blue Dart Express — Buy

Current Price INR 6,473

Business updates

- In terms of sectors, strong performances were observed in life sciences, healthcare, consumer electronics, e-commerce, BFSI, and consumer durables.
- BDE's 1QFY24 performance has been aligned with internal expectations and has seen a consolidation period focused on enhancing infrastructure and capacity. This strategic preparation ensures that when volumes pick up in 2HFY24, BDE will be well-equipped with expanded capacity and the necessary infrastructure.
- Elevated ATF prices have mainly contributed to increased costs. Additionally, capacity expansion has incurred associated expenses, resulting in higher costs.
- Blended realization does reflect a QoQ decline in ATF prices. It is also due to higher share of surface express.
- BDE is managing about 1.2m shipments daily. Management maintains a positive outlook for the entire express logistics sector.
- A noteworthy aspect of BDE's business is the diversified customer base spanning various sectors.

Impact on profit margins

- Margins were hit starting from 3QFY23, a trend that persisted into 1QFY24.
- The company is engaged in discussions with oil refinery firms and customers. Certain interim fuel charges were applied to customers.
- High ATF prices or the disparity between Brent and ATF prices will not significantly impact margins in future.
- As capacity gradually increases, standalone EBITDA margins are anticipated to hover around 12%.

Expansion of fleet

- The investment in aircraft amounted to INR 4.5b.
- During the final 10 days of the quarter, the new aircraft assumed some of the volumes previously handled by commercial aircraft. Consequently, BDE realized revenue from these new aircraft only during the last 10 days of 1QFY24, while costs associated with them impacted the entire quarter adversely.
- The positive impact of new aircraft deployment started to manifest at the end of Jun'23, with subsequent quarters poised to benefit.

Other insights

- BDE operates in the air express market, offering door-to-door pickup and delivery services while utilizing Indigo's belly space services.
- Amazon's decision to utilize dedicated freighters is not expected to significantly hurt BDE's volumes. BDE collaborates closely with Amazon, mainly handling smaller shipments.
- Determining average realization is complex due to the various services provided in both air and surface express segments. Air services are approximately three times costlier than surface services.

Guidance

- The goal is to outpace industry growth and expand market share. Enhanced commercial volumes have the potential to drive growth beyond market averages.
- The industry's growth, roughly 1.2x that of GDP, motivates BDE to exceed market growth and augment its market presence.
- Ground express is anticipated to exhibit faster growth than air express, with ground express likely to achieve double-digit expansion while air express will likely experience high single-digit growth.

- The development of more airports, increased aircraft availability, and enhanced logistics infrastructure, coupled with healthy competition will create a favorable environment for BDE. The overall market is expected to expand, and BDE is actively expanding both its infrastructure and capacity to seize this growing opportunity.

Container Corp — Buy

Current Price INR 665

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Container Corporation

Operational highlights

- The company's performance has been volatile during the quarter, resulting in weakness in volumes and margins. Despite gaining momentum in April and May 2023 onwards, the domestic business suffered due to the Orissa train accident in June 2023 on the eastern front. Further, the ban on rice exports is impacting both domestic and EXIM traffic, but overall demand is now improving.
- Also, unusual rainfall across India negatively affected domestic demand during 1QFY24.
- The demand has rebounded and is showing positive trends. The management is confident that the company would achieve its volumes guidance provided at the start of FY24.
- The operations of DFC are now stable, and the travel time between Dadri and Mundra has stabilized to 30 hours. The reduction in travel time is facilitating the movement of lightweight cargo, and thereby, improving efficiency.
- The discount provided by CCRI for double-stacked containers is aimed at attracting new traffic, not cutting rates. This discount has contributed to the company's growth.
- Domestic containers are now being operated by CONCOR in double-stack trains.
- Rail freight margin during the quarter stood at 26.19%, which has increased from 25.6% in 1QFY23.
- LLF for 1QFY24 stood at I NR1.3b and the management expects LLF fee of INR5b for FY24.
- The implementation of double-stack containers in Dadri is expected to result in savings, which will be passed on to customers without compromising the company's margins.
- Out of a total of 1,184 double-stack trains that were operational in 1QFY24, the Dadri facility managed 238 trains on its own.
- CONCOR's market share at various ports is as follows: JNPT - 60%, Mundra - 37%, Pipavav - 45%.

Volumes

- Total volumes increased 8% YoY to 1.09m TEUs with EXIM/Domestic volumes at 0.84m/0.25m TEUs (up 7%/up 10% YoY).
- Blended realization decreased 10% YoY to INR17,550/TEU. EXIM/Domestic realization stood at INR14,631/INR37,305 per TEU (down 12%/down 8% YoY).
- Originating volumes in 1QFY24 stood at 0.57m TEUs (EXIM/Domestic at 0.47/ 0.1m TEUs).

Capex

- CCRI incurred a capex of INR5.6b in FY23 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 shipment volumes are projected to outpace EXIM volumes. However, the potential for margin expansion within the domestic sector could be limited due to the impact of empty running.
- The primary objective is to capture a larger market share in commodities currently being transported by road, with the intention of transitioning them to rail transportation.

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Mahindra Logistics — Neutral

Current Price INR 382

Operational highlights

Industry overview

- PVs/EVs continue to show strength, although certain segments of auto sales are experiencing softness. Demand in the 2W segment remained subdued.
- There has been a demand slowdown for specific categories in the automotive segment such as LCV vehicles, attributed to high inflation.
- For the FMCG industry, the stress in demand in semi-urban and rural areas appears to have reached its lowest point.
- The long-term prospects for e-commerce remain very positive, though there might be an increase in competitive intensity in the short term. Due to demand moderation in the short term, capacity utilization is likely to remain low with high inventory levels.

Business update

- SCM posted revenue of INR12.1b (+6% YoY) and EBIT of INR22m in the quarter.
- During 1QFY24, Freight Forwarding reported revenue of INR770m (-29% YoY); Express Logistics posted revenue of INR850m (+81% YoY), and Last Mile clocked revenue of INR480m (+14% YoY).
- MLL Express faced challenges due to the integration of Rivigo's business and high transportation costs for the B2B business. This resulted in a loss during the quarter.
- During 1QFY24, the Contract Logistics business grew 6% YoY driven by strong demand from the consumer durables, FMCG and select auto segments. There is a potential to increase revenue further in the Contract Logistics business, primarily driven by growth in the automotive and manufacturing segments. The order intake in 4QFY23 was INR1.0b, and order intake in 1QFY24 is likely to be INR1.30-1.4b, with rvenue from these orders likely to kick in during 2HFY24.
- EM segment reported revenue of INR795m (+39% YoY) and operating loss of ~INR17m in 1QFY24. The mobility business is witnessing a significant increase in airport-based services, primarily driven by higher travel activities and a moderate pick-up in employee transportation management.
- SCM segment contributed 94% and Enterprise mobility segment contributed 6% to the revenue in 1Q FY24.
- The warehousing business of the company was hit during the quarter and reported revenue of INR2.4b (-11% YoY) primarily due to closure of the Bajaj Electricals Ltd account. Warehouse space under management stood at 19m sq. ft. including all service lines.

Other highlights

- The aviation traffic volume is expected to grow by 17%, which will positively impact the company's airport service business.
- Management is focusing on the recovery of volumes in the express business, which experienced a loss of 25-30% on baseline volume during integration.

Volumes have already started to recover from Jul'23, and the aim is to achieve breakeven at EBITDA level by 2HFY24.

- The mobility business outlook indicates growth in the airport business driven by in-airport growth and expanding universities, with an expected revenue growth of 15-20%. In 1QFY24, the bigger impact was from new accounts rather than people returning to offices, and the Mobility business is expected to be profitable on a full-year basis in FY24.

Future growth

- The B2B Express business experienced a drop in volumes. Management is focused on cost reduction, and expects volumes to start recovering from 2HFY24, particularly benefiting during the festive period. Volumes have already started to rebound in Jul'23.
- With headwinds in industry growth, management plans to increase volumes through larger exposure to high-end PV vehicles (both Mahindra and non-Mahindra brands) and robust demand in MCV, trucks, and buses. The company also expects positive contributions from e-commerce, consumer durables, and FMCG segments.
- Management expects the e-commerce segment to grow in the range of 25-27% in the near term with faster growth likely from the smart grocery segment.

TCI Express **Buy**

Current Price INR 1,399

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Operational highlights

- Volume in 1QFY24 stood at 0.24m tonnes (up 4% YoY).
- E-commerce's contribution to revenue reduced to 2% from 5% in 1QFY23. Total contribution of value-added services now stands at 17%, up from 15.5% in 1QFY23.
- The management expects 20-25% contribution to revenue from new value-added services by FY25.
- With a diversified client base spanning corporate and MSME clients, the company plans to continue expanding its branch network in Tier 1 and 2 cities.
- The utilization level stood at 83.5% plus in 1QFY24 and TCIE aims to maintain 85% level in FY24.
- The Pune center, which began its operations in 2021, is poised to undergo automation implementation by 4QFY24. This strategic move is expected to significantly reduce downtime, streamlining processes and improving overall operational efficiency.
- Five new branches were added in 1QFY24 to cater to the growing demand in the key growing markets in the West and South region.

Margins

- The management expects the margin to be in the range of 16.5% 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. The management expects further margin improvement of 25bp from automation of sorting centers in FY24.

Rail Express

- TCIE has expanded its customer base notably in Rail express to 2,700 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

- The management has indicated to grow at 2x of GDP growth and expects to register 14-15% YoY growth in revenue in FY24.
- For FY24, TCIE aims to achieve a volume growth of 13% in FY24.
- The company aims to achieve an annual margin expansion of 100bp, with efforts to improve margins by around 75-80bp in FY24. Utilization is expected to remain above 85%, and with the introduction of new value-added services such as rail express, the company targets a 16.5% margin in FY24.
- The management has taken a price hike of 75-100bp in 1QFY24 and will take another hike of 75-100bp in the remainder of FY24, taking the total price hike in FY24 to 2%.
- A margin target of 17.5-18% is set for FY25, alongside a revenue target of INR 17.5b. Due to rising interest rates, inflation, and elevated diesel prices since last Diwali, the management has revised its revenue target for FY25 to INR 17.5b from INR 20b.
- 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.
- New value-added services are expected to contribute 25% to the 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 plans to incur INR 9-10b of capex in FY24. Most of the capex will be spent toward automated sorting centers and enhancing automation/technological capabilities.

Transport Corporation of India — Buy

Current Price INR 796

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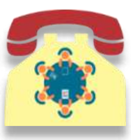
Detailed Concall Transcript &
Results Update



Industry trend

- Headwinds from the global recession on domestic manufacturing, distressed rural demand, and delays in private investments are anticipated.
- SAARC's performance is somewhat weakened due to currency issues and election-related matters in Bangladesh.

Freight segment

- Revenue grew ~3% YoY in 1QFY24, while EBIT margin stood at 3.3% (-20bp YoY and -90bp QoQ).
- The freight business witnessed moderate growth, especially in the LTL segment, and TRPC plans to open 50 new branches to strengthen its network. Despite this expansion, the margins and ROCE are anticipated to remain stable due to favorable freight rates and the implementation of an asset-light model.
- The shift from unorganized to organized has been driven by e-way bills and e-invoicing. The LTL business has a large customer base with small ticket size, resulting in higher margins.
- The share of LTL/FTL in the Freight division stood at 36%/64% in 1QFY24. Management remains optimistic about increasing LTL's share to 40% by FY25.


Transport Corporation of India

- ROCE for 1QFY24 was 27.6%, which reflects a significant improvement vs. the 17% 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 increased 20% YoY in 1QFY24, and EBIT margin stood at 6.3% (+80bp YoY; -20bp QoQ).
- The Supply Chain Division maintained its growth momentum by focusing on retaining and expanding business with both existing clients and new acquisitions. Conducting over 100 multimodal auto-rakes operations per month contributed to high customer traction, led by the advantage of low emissions.
- The Automotive sector accounted for 80% of the revenue in the division. The shortage of chips has significantly decreased, benefiting this division.
- TRPC is confident of maintaining its growth rate at 20% YoY in FY24.

Seaways segment

- The segment declined ~18% YoY in 1QFY24 due to weak EXIM volumes and falling freight rates.
- EBIT margin increased to 29.2% (30.2% in 1QFY23 and 27.7% in 4Q FY23). Management expects EBIT margin in the range of 28-29% in FY24.
- The Seaways division faced lower freight rates on the West coast and was affected by the BIPARJOY cyclone, but it managed to maintain steady margins and ROCE due to efficient cost management.
- The division's revenue is linked to fuel prices, and with changes in fuel prices, revenue is expected to be impacted.
- As the purchase of the new ship is delayed, the division is expected to report flattish growth in FY24. Further, TRPC aims for a ROCE of 40% in this division.

Other Highlights

- The company's plan to acquire a seventh ship has been postponed until at least 2HFY24 due to high prices and a shortage of available ships. The company is also open to purchasing a new ship if it is deemed feasible.
- The Cold Chain business remained flat as the company deliberately let go of some customers in the e-commerce segment.
- As of Jun'23, the company had a cash balance of INR2.75b.
- Contracts typically last for 3+ years in the Supply Chain business and ~1 year in the Freight division.
- TRPC has diversified into many verticals, including commodities, automotive etc., while also providing a single-window solution to offer controlled towers to certain customers, which is gaining significant traction.
- In the pharma industry, several companies have joined forces to develop cold chain structures. Additionally, areas such as defence and aviation have also experienced notable growth traction.

Guidance

- Management maintains guidance for revenue and PAT growth of 10-15% in FY23/FY24. EBIT margin is expected to be at similar levels for FY24.
- With the addition of 50 new branches in FY24, revenue growth in the freight division is expected to pick up. The transition from FTL to LTL is also underway.
- The Seaways division faced lower freight rates on the West coast and was hit by the BIPARJOY cyclone, but it managed to maintain steady margins and ROCE due to efficient cost management.

VRL LOGISTICS LIMITED

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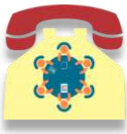
Results Update



VRL Logistics — Buy

Current Price INR 674

Operational highlights

- After sale of non-core businesses, VRL is now a pure play GT operator.
- VRL handled ~1m tonnes in 1QFY24 (+11% YoY, -3% QoQ). Tonnage growth was primarily due to growth in branch network and shift of volumes to organized players with implementation of GST, reduction of turnover limit of e-invoicing, etc.
- Realization stood at INR6,729 per tonne (+1% YoY and QoQ each) in 1QFY24. New branches are offering competitive rates on the connected routes.
- Net debt has increased to INR1.94b in 1QFY24 from INR1.68b in Mar'23, primarily due to the buy-back transaction undertaken. Borrowing cost is expected to increase to 8.0% in FY24.

GT segment

- In 1QFY24, the number of GT vehicles decreased to 5,628 as of Jun'23 from 5,671 as of Mar'23. During the same period, a total of 254 new GT vehicles were added. Additionally, 297 vehicles were sold or scrapped.
- The decline in fuel costs positively impacted EBITDA. The average fuel procurement cost decreased to INR87.5/lit in 1QFY24 from INR93/lit in 1QFY23. During the current quarter, ~32% of the fuel was procured directly from refineries (~28% in 4QFY23).
- VRL added 21 new branches during the quarter which significantly expanded its presence in untapped markets. The company's focus on achieving volume growth will persist through the expansion of its branch network.
- As a result of the inc rease in capex and the adoption of Ind AS 116 accounting standard, a portion of rent has been reclassified as depreciation leading to higher depreciation expense during the quarter.
- Increase in number of employees due to addition of new branches and internal promotions on selective basis led to increase in employee costs during the quarter.
- VRL has introduced a barcode/QR mechanism for handling consignments. Although there were some initial interruptions, the operations are now back on track. The implementation of QR codes has significantly improved the turnaround time for vehicles, reducing it to 2-3 hours from 4-5 hours.
- 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.

Scrappage of vehicles and capex

- VRL is taking a proactive approach to prepare for the Scrapping policy by implementing an aggressive capex plan. As of Jun'23, the company possessed 981 vehicles older than 15 years, with a combined capacity of 9,990 tons.
- The company invested INR870m in capex during the quarter and expects to incur capex to the tune of INR850-900m per quarter in FY24.

Guidance

- Even though the internal changes and the introduction of barcoding/QR coding systems affected the volumes in 1QFY24, management remains optimistic about achieving volume growth of 15%+ in FY24/FY25.
- EBITDA margin to be maintained at 16-17%.
- Management plans to open 20-25 branches per quarter.
- The company is planning to expand its operations by adding two more owned fuel pumps in Delhi and Ambala, which will complement the existing six pumps.

This strategic move is expected to help the company in better controlling fuel costs and ultimately leading to an improvement in EBITDA margin.

- Since VRL is expanding in new geographies, it will focus on increasing its market share and customer addition. Management indicated that price hike will only be taken in case EBITDA margin falls below 16%, otherwise the company will focus on expansion and market share gains.

MEDIA

- **Sector wide commentary indicated recovery in ad revenues to improve on exit basis. However, a full fledge recovery is expected to be seen from 3QFY24 onwards with the festive period push. PVR has indicated the recovery in occupancies to remain strong for 2QFY24 on the back of healthy response seen towards recent releases.**

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook for FY24	Ad revenue recovery
PVR INOX	■ Expects recovery in occupancies from 2QFY24 backed by MoM improvement seen from Jun'23 and strong response to recent big ticket releases. ■ Added gross 46 screens as on date in FY24 which led to increase in debt on sequential basis; Maintained screen add guidance of 150-160 screens for FY24. ■ SPH synergies are moving in-line with plans and ATP synergies are expected to flow in from 2QFY24.	■ Expects ad revenue to revive from 3QFY24 aided by the festive period.
ZEE	■ Net subscription revenue growth to remain moderate given the incremental marketing costs incurred by the company. ■ Sequential rise in EBITDA loss for Zee5 during 1QFY24 was due to lower revenue that caused negative operating leverage. ■ The company stated that it does not expect any significant impact of the disqualification of Mr. Punit Goenka on the merger process. ■ Management stated that in addition to the INR3b worth of investments being written down, 1QFY24 saw some foreclosure expenses to the tune of ~INR300m towards discontinued operations of "Sugarbox". The company does not see any further losses coming in from this segment.	■ Ad revenues, which witnessed moderate growth early on, are now witnessing improvement on exit basis. Expects strong recovery from 3QFY24 onwards with onset of festive period. ■ The ad revenue segment is witnessing green shots on exit basis with FMCG spends seeing some pick up.

Click below for
Detailed Concall Transcript &
Results Update

PVR Inox — Neutral

Current Price INR 1,734

Key Highlights:

- Expects recovery in 2QFY24 backed by MoM improvement from Jun'23 and strong responses to recent big-ticket releases.
- Added gross 46 screens as on date in FY24, which led to an increase in debt on a sequential basis; maintains screen addition guidance of 150-160 in FY24.
- SPH synergies moving in line with plans and ATP synergies expected to flow in from 2QFY24 onward.
- Expects ad revenues to revive in 3QFY24 on the back of the festive period.

Detailed Highlights:

Performance:

- 1QFY24 started on a slower note mainly due to weak content release, but it picked up in May'23 with good performances by Kerala Story, PS-II and some Hollywood movies.
- The company reported its highest-ever weekend admission in Jun'23 thanks to Adipurush, and thereafter it is witnessing better trends on MoM basis with reduced volatility in Hindi films' performance.
- The company expects a strong recovery in 2QFY24 on the back of robust content across languages and the success of Mission Impossible, Oppenheimer and Rocky Rani Ki Prem Kahani.
- Apart from the strong outperformance in recent Hollywood releases like Barbie and Oppenheimer, Imax and premium formats across metro cities have also seen good traction.

- Convenience Fee: The company stated that the contract with BMS ended in early 1QFY24. The revised contract is based on revenue sharing (vs. minimum guarantee earlier), which led to a decline in convenience fee for the quarter.

Ad revenues:

- The company has seen improvement in ad revenues in 2QFY23. It expects 3QFY24 to see recovery amid the festive season.
- It stated that sectors like telecom and durables expected to come back.
- The company indicated that the weak recovery was mainly due to long-term deals, which are expected to reverse in the coming period with improved box office performance.
- Does not see any structural impact; expects recovery with improved performance in box office.

Capex and Debt

- The company has opened 16 screens in 2QFY24 (46 screen adds in 1HFY24). It has maintained its target of 150-175 screen adds in FY24.
- The company closed 17 screens in 1QFY24, which is in line with its strategy of closing unprofitable screens. A bulk of screens that will be shut down are old properties where there are low chances of revival.
- The company sees further headroom for growth in the premium and luxe format screens. The expected share of these screens is expected to reach 15-20% going ahead.
- The company will look to increase penetration in Southern India. Out of total new screens to be added, 40-45% screen will be added in South India. It also looks to enter new cities.
- Most of new screens are mainly on minimum guarantee and revenue share. The company is also re-negotiating terms for some existing underperforming screens with landlords.

KPIs and operating parameters:

Spend Per Head (SPH):

- The company indicated that a lot of work has already been done toward SPH synergies.
- In addition to this, new SKUs at improved pricing have also been added to the offerings, e.g., few Inox properties are now selling non-veg SKUs.
- The recent price cut in food and beverages is seeing good response.

ATP:

- 3% QoQ growth in ATP was healthy as it grew despite the lack of blockbuster movies.
- It expects 2QFY24 to make up for ATP growth.
- The trailer show initiative witnessed good reaction with 22% occupancy. It stated that 40% audience who attended these shows went on to book movies ticket for trailers they watched.

Others:

Alternate content:

- PVR-Inox is in process of signing contract to screen ICC WC matches.
- Historically, may shows were mainly booked by corporates, which helped in keeping up with occupancy.

- The company confirmed that all merger-related expenses have been done with and none of them have been recognized in 1QFY24.

Merger synergies:

- The company stated that while SPH synergies are moving in line with plans, bulk of ATP synergies are expected to flow in from 2QFY24 onward.
- Advertising revenues have been lagging, which will see some recovery with improved performance at the box office.
- Employee cost is expected to grow in line with inflation and depreciation expenses will move in line with screen addition.

Loyalty program:

- The company has close to 20m members each under the loyalty program.
- It is now looking to re-vamp its loyalty program in Sep’23 with a view to push for higher consumption.

Zee Entertainment — Buy

Current Price INR 272

Click below for
Detailed Concall Transcript &
Results Update

Key highlights:

- NCLT has reserved its order w.r.t merger and is expected to announce the judgment on 10th Aug’23. The company does not foresee any major impact of MD’s disqualification on merger process.
- Ad revenue, which posted a moderate growth early on, is now showing improvement on exit basis. Management expects a strong recovery from 3QFY24 onwards with the onset of festive season.
- Subscription revenue growth on net basis to remain moderate given the incremental marketing costs incurred by the company.
- Sequential rise in operating loss for Zee5 during 1QFY24 was due to lower revenue, which led to operating deleverage.

Detailed Notes:

Merger proceedings:

- The Mumbai bench of NCLT had reserved its order for 10th July w.r.t the proposed merger which is expected to be pronounced on 10th Aug’23. The company has already received all the necessary regulatory and shareholder approvals for the merger.
- The company stated that it does not expect any significant impact of the disqualification of Mr. Punit Goenka on the merger process.

Ad revenue:

- The quarter witnessed muted ad spending earlier, which was also hit by IPL during Apr-May’23.
- The segment is however witnessing green shoots on an exit basis with FMCG spends seeing some pick up.
- The company expects this trend to continue in 2QFY24 with major chunk of recovery coming in from 3QFY24 onwards with the start of festive period.

Subscription:

- Revenue growth within the linear Subscription segment improved due to implementation of NTO 3.0. Management believes that it would take a couple of quarters for the revenue to settle.

- While gross subscription revenues may surpass inflation rate, incremental market spends by the company within the segment will drag the net revenue growth in near term.

Other revenues:

- The YoY growth in other revenue was mainly due to higher number of releases. However, revenue moderated sequentially due to the share of cricket league revenue and some incremental revenue being recorded in 4QFY23.
- The company released seven movies during the quarter which included three Hindi and four Regional movies.
- The management stated that industry wide music revenue could witness some near-term softness as the segment is moving towards subscription model gradually.

Viewership:

- The 90bp viewership share gain for the month of Jun'23 to 17.9% was despite discontinuation of business to SITI Cable.
- The Malayalam GEC channel, which was launched in 2018, has now become number 2 within the segment.
- While the company has gained share in eastern market, it is working on improving the market share within the Zee TV and Zee Marathi segments by replicating the content that is successful in other markets.

Zee5:

- The number of total subscribers for 1QFY24 has grown on YoY and QoQ basis, with improved watch time.
- The company, as an experiment to monetize the content, decided to make fresh TV content across four languages beyond Pay-wall. This was done with a view to improve the stickiness on linear TV and to improve SVOD model for digital segment
- The sequential rise in operating loss during 1QFY24 was due to lower revenue which caused operating deleverage.
- The company stated that the cost base for digital to remain fairly steady, while investment in content and IT may continue in future.

Cost and Profitability:

- The operating cost reduced QoQ due to lower content cost and strong cost management, however, on YoY basis it was higher owing to higher content cost and marketing costs towards NTO 3.0 roll out.

Other Highlights:

- The Cash and Treasury balance as on Jun'23 stood at INR5.3b which consisted of cash balance of INR3.9b and Fixed Deposits of INR1.4b
- Management stated that the recovery from Dish TV receivable was as per plans and outstanding amount as of Jun'23 stood at INR622m.
- **Bank litigation:** The company stated that two of the three DASRA claims have been settled. While the claims related to Standard Chartered is progressing as per agreed timeline, the matter related to IDBI remains sub-judice. The company expects the settlement amount to suffice as per the provision made.
- **Investment in Sugarbox:** The company stated that in addition to the INR3b worth of investments being written down, 1QFY24 saw some foreclosure expenses to the tune of ~INR300m. Management does not see any further losses coming in from this segment.

METALS

- **In the ferrous metals space, managements across companies highlighted: 1) lower ASP for 2QFY24, 2) lower coking coal cost, 3) macroeconomic headwinds due to slowdown in China, and 4) development of captive raw material mines. Though a better performance from Indian operations on the back of strong domestic demand should aid volumes and margins in the near term, managements believe the global headwinds due to a slowdown in China will pose challenges to international steel and base metal prices in the short term. In the non-ferrous space, managements expect CoP reduction and the volume momentum to continue in FY24, driven by strong demand from domestic markets.**

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook for FY24	Drivers
Tata Steel	▪ Domestic ASP is expected to be lower by USD40/t and EU is likely to be lower by USD48/t in 2QFY24. ▪ Domestic coal cost is expected to be lower by USD57/t and EU is expected to be lower by USD46/t in 2QFY24. ▪ EU volumes are projected to be similar QoQ in 2QFY24. ▪ About 1.5mt of incremental volume is expected on a consolidated basis for FY24	▪ Domestic demand remained resilient driven by construction, real estate and automobile. ▪ Government's focus on housing for all and urban planning in tier 2/3 cities for transforming into 'sustainable cities for tomorrow' will drive the demand for steel in India.
JSW Steel	▪ Volume guidance of 25mt kept unchanged. ▪ Domestic coal cost is expected to be lower by USD45-50/t in 2QFY24. ▪ Maharashtra and Goa's iron ore mines are expected to commence production in the coming quarters ▪ FY24E capex is expected to be ~INR188b and FY25E capex is expected to be around INR185b	▪ Steel demand in the domestic market is expected to grow over 10%, while production is expected to grow 8-9% in FY24 to reach 130mt. ▪ Higher investment by the private and public sectors, higher spending on infrastructure, higher automobile demand and higher manufacturing capex should drive steel demand in India.
JSPL	▪ Domestic ASP is expected to be lower in 2Q FY24 ▪ Gare Palma IV/6 and Utkal C with PRC of 7.37mt are expected to commence in the next couple of quarters ▪ JSPL will continue to deleverage and reduce its debt ▪ JSP has elongated its tentative capex timelines by few quarters and is now expected to be concluded by the end of FY25.	▪ 2Q is seasonally a slower quarter; however, higher spend on infrastructure before the election next year will drive demand. ▪ Demand remained buoyant in the domestic market, especially from infrastructure, power and construction sectors.
SAIL	▪ SAIL expects to clock a production of 19mt in FY24. ▪ Coal cost is expected to reduce to INR22,000-23,000/t in 2QFY24 ▪ ASP in 2QFY24 is likely to be lower and is projected to improve from Sep'23 ▪ SAIL expects deleveraging of ~INR40b in FY24 (from Mar'23 levels)	▪ SAIL expects robust domestic demand in India and the impetus given to the railway sector and infrastructure will drive the demand ▪ The company projects robust demand from India with no off-take issues
Hindalco	▪ Novelis has revised its EBITDA/t guidance upwards to USD450-500 from USD425- 450 and expects to achieve EBITDA/t of USD525/t by 4QFY24. ▪ Channel destocking of beverage can is almost completed ▪ Domestic coal cost to reduce by 3% in 2QFY24 ▪ Downstream EBITDA/t to be over USD200/t going forward.	▪ Beverage can demand is expected to post a CAGR of 3% and automobile demand is expected to clock a CAGR of 11%. ▪ Domestic demand is projected to remain robust aided by higher demand from consumer durables, EVs and higher public and private sector capex.
Vedanta	▪ Aluminum CoP is likely to reduce further in 2QFY24. ▪ Vedanta acquired Kurloi (N), Radhikapur, and Ghogharpalli blocks with PRC of ~34mt. All these mines are likely to commence production between two and eight quarters. ▪ Post-expansion, it will take the VAP portfolio of VEDL Aluminum to 90% from 60%. ▪ Management has maintained its zinc CoP guidance at USD1,125-1,175/t for FY24 ▪ HZL targets to clock mined metal production in the range of 1,075-1,100kt	▪ Government's focus on smart cities, infrastructure, construction, etc., will drive the demand for ferrous as well as base metals. ▪ As the demand for corrosion resistant steel increases it will drive the demand for zinc, which finds application in manufacturing of high VAP steel. HZL (subsidiary of VEDL) will gain for this.

Hindustan Zinc Limited

Click below for Results Update

Hindustan Zinc — Neutral

Current Price INR 316

Guidance on volume and CoP retained

- Management has maintained its zinc CoP guidance at USD1,125-1,175/t for FY24 (with focus on lower end of the band) after a cost reduction of USD20/t in 1QFY24.
- HZ targets 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. Management expects to report saleable silver production in the range of 725-750kt.
- The company expects robust demand in silver on the back of higher demand from industrial manufacturers, higher usage in EVs, increased usage in RE, etc.
- HZ expects INR80b CF generation in FY24.
- If the Zinc LME is not able to sustain the USD2,000/t level, majority of the zinc manufacturers across the globe would have to shut down their business due to non-viability.
- No change in royalty is expected in the medium term.

Brand fee

- Brand fee is 2% of the revenue and is payable to VEDL.
- The change in the brand fee in future will be subject to Board approval.

Cash and debt

- Cash and cash equivalent as of 1QFY24 stood at INR97b.
- Total debt has been reduced in 1QFY24 and stood at INR93b.
- HZ expects to pare-down the debt from internal CF generation or investments.
- All the investments are in high-quality debt instruments.

Acquisition of Zinc International

- There was no update on acquisition of Zinc International business from Vedanta.

Capex

- The project capex of USD175-200m for FY24 remains unchanged, which will be utilized for a fertilizer facility and setting up RE power.
- The maintenance capex is expected to be in the range of USD375m, of which USD90m has already been incurred in 1QFY24.
- Installation work and cold commissioning at Rajpura Dariba mill is expected to be completed in 2QFY24.
- All the work orders for Debari Roaster have been placed and the EPC is expected to commence from 2QFY24.
- A partner has been selected for the fertilizer facility and the remaining orders are expected to be completed in 2QFY24.
- HZAPL's mechanical installation and cold commissioning of alloy plant have been completed and the production is expected to commence in 2QFY24.

Other updates

- The company now controls ~75% of India's primary zinc market.
- The average mine life is around 25 years.
- Domestic zinc demand remains robust driven by higher demand from construction and infrastructure projects.
- Domestic lead demand is expected to increase due to higher demand from automobile sector, industrial battery segment and infrastructure development.
- Exploration is likely to enhance mine R&R by 15mt in FY24E and 40mt in FY25E.

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Hindalco Inds — Buy

Current Price INR 456

Guidance:
- Coal cost declined 2% QoQ and is likely to further reduce by 3% in 2QFY24.
- Hedge position has remained unchanged at 11% at USD2,755/t and the company does not find it feasible to hedge at these levels.
- Management expects LME to remain range bound at USD2,100-2,300/t
- Domestic demand is expected to remain robust aided by higher demand from consumer durables, EVs and higher public and private sector capex.
- Once the captive mines are on stream, coal cost is expected to reduce further.

Capex:
- HNDL's FY24 domestic capex is likely to be ~INR40-45b (INR8b spent in 1QFY24) and Novelis' capex is expected to be ~USD1.6-1.9b (USD333m spent in 1QFY24).
- The Silvassa facility (of 34kt) is likely to come on stream in FY24 and the domestic downstream aluminum capacity is expected to reach 600kt in the next two years
- The extrusion facility at Silvassa is expected to augment the VAP downstream capacity of HNDL. Full benefits to accrue in FY25.

Coal linkages:
- During 1QFY23, ~41% of coal requirement was met via linkage, 53% via e-auction and the remaining via a mix of own mines and imports.
- Going forward linkages are expected to improve to ~57-60% and are expected to remain at similar levels.
- As the Chakla mine comes on stream by FY25, it will reduce the dependency on procurement of coal from external sources.
- Meenakshi mine is still awaiting allotment and has taken more than requisite time due to land acquisition issues under 'The Coal Bearing Areas (Acquisition and Development) Act'.
- However as a backup plan, HNDL has recently been a preferred bidder for Meenakshi West mine at ~33% premium, which has a PRC of 6-7mt.
- Once Meenakshi mine is allotted it would take around two years to fully ramp up the mine.

Global/domestic demand:
- Global aluminum production for 2QCY23 (1QFY24) was up 1% YoY to 17.3mt and consumption rose 2% YoY to 17.7mt mainly led by higher demand from China.
- Domestic aluminum business is expected to remain robust driven by strong demand in EV, construction, infrastructure and consumer durables.
- Domestic demand in 1QFY24 reached 1.14mt (as against 1.0mt in 1QFY23).
- Global copper production during the quarter grew 3% YoY to 6.2mt and consumption improved 6% YoY to 6.7mt, a deficit of 0.5mt. Market demand in India was relatively better at 190kt (up 10% YoY).

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Results Update

Jindal Steel & Power — Buy

Current Price INR 649

Costs and ASP

- The iron ore cost during the quarter was low, which was marginally offset by the higher coal cost.
- The domestic steel price in 1QFY24 was lower by ~10-11% and domestic ASP is further expected to be slightly lower in 2QFY24.

Coal mines

- During the quarter, JSP signed mining lease for Gare Palma IV/6 and Utkal C, with total R&R of 294mt.
- EC for these mines is 7.37PRC p.a. and the mines are expected to commence in the next couple of quarters.
- Once operational, they will reduce JSP's dependence on the import of coal and merchant miners.

Net debt and cash

- JSP has reduced its net debt considerably by ~83% in the last five years and the company continues to chart the same course.
- Net debt stood at INR68b (down ~INR1.4b QoQ), the lowest in the last 15 years.
- The net debt-to-EBITDA ratio stood at a comfortable level of 0.75x and D/E ratio at 0.3x.

Capex and timelines

- JSP has elongated its tentative capex timelines by few quarters and is now expected to be concluded by the end of FY25.
- JSP is still contemplating between BoF-III and EAF and the same will be finalized in the next few months.
- The total capex for FY24E is expected to be around INR56b and JSP expects to spend ~INR150b over the next three-four years.
- After the expansion, the total installed capacity will be 15.9mt and the pellet capacity will be 21mt.
- The product mix will also change after all the facilities are on stream. HSM which is currently 33% of the total volumes will increase to ~56% and BRM will reduce to 16% from 36%.

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Results Update

JSW Steel — Neutral

Current Price INR 788

Guidance

- In 1QFY24, the coking coal cost was up by USD11/t QoQ for JSTL and the company expects the cost to reduce by USD45-50/t in 2QFY24.
- Coking coal prices have corrected sharply from their high in Feb'23 and its benefits are expected to accrue from 2QFY24.
- Iron ore prices have not corrected much and JSTL expects them to decline in the coming quarters and remain range-bound going forward.
- FY24 sales target stands unchanged at 25mt.
- JSTL has around 338kt of inventory due to channel destocking and climate disruption in western India. The channel destocking is almost completed, which will help to offload the inventory in 2QFY24.
- 2QFY24 performance is expected to be better than 1QFY24 as global sentiments have been improving for the last few weeks.

- JSTL believes the steel prices bottomed out in 1QFY24 and expects improvement in the prices from 2QFY24 onward.
- 2QFY24 is likely to see higher sales volumes vs. 1Q FY24.

Capex and capacity enhancement

- Capex stood at INR41b in 1QFY24 and JSTL has earmarked a capex of ~INR188b for FY24 and INR185b for FY25.
- The near-term capex will be driven by a brownfield expansion at Vijayanagar, BPSL and JISPL. JSTL is also undertaking greenfield EAF capex at Kadapa (Andhra Pradesh) and is at an advanced stage to finalize a 13mt greenfield expansion in Odisha, which will be over and above the ongoing capex.
- The Vijayanagar and BPSL brownfield expansions are on track to be completed in FY24.
- JSTL will commence phased commissioning by 4QFY24 and its full benefits will accrue from FY25-26.

Mergers and acquisitions

- The JSPL and JSTL merger has been approved by NCLT and is expected to be concluded by 2QFY24.
- The company concluded the merger of National Steel and Agro, which will further strengthen JSTL's downstream capacity by around 330kt (flat steel galvanized products).
- JSTL completed the merger of Vallabh Tinplate and Vardhaman Industries with JSW Coated products, thereby consolidating the downstream color-coated portfolio into a single company.

Coal and iron ore block

- JSTL focuses on raw material security and is currently enhancing its captive iron ore and coking coal linkages.
- JSTL recently won six iron ore blocks in Maharashtra, Goa and Karnataka (2 blocks in each state).
- The Maharashtra and Goa blocks are progressing well and should be operational soon; however, JSTL is currently undertaking exploration in Karnataka and the exact date of commencement will be updated in coming quarters.
- JSTL has also recently won two coal blocks with a total PRC of 1mt, which will help JSTL meet around 5-7% of its clean coking coal requirement.

Capacity and Utilization

- After the ongoing capex, the capacity would increase to 37mt by FY25 and 50mt by FY31.
- In 1QFY24, JSTL operated at capacity utilization of 92% and achieved 100% of its quarterly production target.

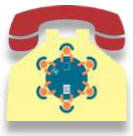
Macro scenario:

- Global sentiments seem to be improving due to lower inflationary pressure, reduction in energy prices and lower input costs.
- Steel demand in the domestic market is expected to grow over 10%, while production is expected to grow 8-9% in FY24 to reach 130mt.
- Higher investment by the private and public sectors, higher spending on infrastructure, easing inflation, realignment of supply chain, higher automobile demand and higher manufacturing capex should drive steel demand in India.
- Higher private sector demand, low inventory at vendors/traders and lower coking coal and input costs should further drive the margins in 2QFY24.

SAIL — Neutral

Current Price INR 87

Click below for
Detailed Concall Transcript &
Results Update



Guidance:

- The company expects robust demand from India with no off-take issues and expects to sell ~19mt in FY24E.
- Coal cost, which was ~INR25,800/t in 1QFY24, is expected to reduce to INR22,000-23,000/t in 2QFY24.
- ASP in 2QFY24 is expected to be lower than 1QFY24 by ~INR1,000/t; but prices are expected to improve from Sep'23 onwards.
- SAIL has an inventory of 1.4mt (0.35mt added in 1QFY24) and expects to offload the same by Mar'23.
- Employee cost is expected to be in the range of INR115-120b for FY24
- The company plans to increase the share of domestic coal and gradually reduce its reliance on imported coal.

Capex:

- Capex of INR68b is earmarked for FY24
- SAIL has set a target to achieve 35mt of crude steel production by FY31-32. To support this massive growth, the company currently has plans to increase production ia debottlenecking (3-3.5mt), capacity enhancement at IISCO by 4.5mt and capacity increase at BSL (Bokaro) by 3mt.
- SAIL has received in-principle approval from the 'Board' and Stage I clearance for IISCO is expected to be submitted by 4QFY24. SAIL is gearing up for order placement by the end of FY24E.
- Management has also finalized the product mix at Durgapur going forward.
- SAIL is also planning to set up ~7mt pellet plants at numerous locations and expects to place the order for the same in FY24.
- Expansion at Bokaro is likely to consume less time as it would be a brownfield expansion.
- Major capex will accrue between in FY27 and FY29.

Debt built up:

- The current debt is around INR294b, increase of ~INR38b QoQ.
- SAIL currently has D/E of 0.6:1, however, it expects to reduce its current borrowing by INR40b in FY24 (from Mar'23 levels).
- SAIL has not increased the borrowings in Jul and Aug'23.
- A majority of the deleveraging would be undertaken in 2H.

Coal:

- Coal cost is expected to reduce in 2QFY24.
- Coal cost, which was around INR25,800/t in 1QFY24, is expected to reduce to INR22,000-23,000/t in 2QFY24.
- SAIL imports ~85% of its coal and the rest is procured from domestic sources. SAIL wants to increase the contribution from domestic merchant miner to 20%, thereby reducing its dependency on imports.
- SAIL also has approached BCCL to set up washeries for supply of high-quality coal.
- It is developing Tasra Coking coal mine, which will supply around 1.6-1.7mt of coal to SAIL, thus reducing its dependence on import.

TATA STEEL

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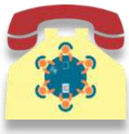
Detailed Concall Transcript &
Results Update



Tata Steel | Neutral

Current Price INR 118

Management guidance for 2QFY24 and FY24

- Realizations (ASP) for domestic operations are expected to be lower by around USD40/t and European operations ASP is expected to be lower by USD48/t.
- However, the coal cost is expected to decrease by USD57/t for India and USD46/t for Europe. This reduction should offer some cushion against the decline in ASP.
- Due to relining of BF-6 at the Netherlands, the operations for 2QFY24 is expected to be subdued; however, the Netherlands operations is expected to turn EBITDA positive in 2HFY24.
- Moderation of higher energy prices at European operations would take one more quarter to normalize.
- Volumes for European operations in 2QFY24 are expected to be similar to the 1QFY24 level.
- TATA is adding SMS caster at Kalinganagar, which should augment the volumes by 0.5mt in FY24
- BoF at Kalinganagar is expected to commercialize in Feb-Mar'24 and the benefits of incremental volumes is expected in FY25.
- GP line at Kalingangar would become operational over the next few quarters.
- TATA has maintained its unchanged incremental volume target of 1.5mt, driven by NINL and the additional volumes from Kalinganagar.
- One of the BoFs at the Netherlands is undergoing scheduled shutdown and will resume operations at the end of 1QFY24.
- NINL has been steadily ramping up and is presently operating at a run rate of 1mt (crude steel + pig iron).
- TATA has kept its annual deleverage target of USD1b of net debt unchanged (most of the deleveraging will occur in the second half).

Planned shutdown at Netherlands

- TATA in Apr'23 had undertaken planned maintenance relining shutdown at BF-6 at its Netherlands facility, which adversely impacted almost 3.5mt of its production.
- The BF-6 facility is expected to commence production after 2QFY24, and hence, the volumes are expected to be lower from the Netherlands in 2QFY24.
- As the facility was shutdown, the fixed cost was spread across lower sales, thereby increasing the manufacturing cost; however, the same is expected to normalize once the BF-6 is operational.
- The spreads at TSE are currently around USD260-270/t, which is higher than the historical average of USD225-230/t.
- The Netherlands facility is expected to turn EBITDA positive in 2HFY24, driven by improved volumes, better productivity, and reduction in energy cost.
- BF-7 is due for relining shutdown in FY26-27 and the capex for the same would be funded by CF generation at the Netherlands and support from the local government.

Captive iron ore mines

- 100% of iron ore requirement are met via captive mines and TATA is planning to double its captive capacity to 60-65mt by FY30, in line with doubling its domestic capacity.

- The majority of mines owned by TATA are nearing the end of their lease term by FY30. TATA holds the ROFR, which will enable the company to retain these existing mines.
- TATA is also continuously scouting newer mines via auction, which will help the company to ramp up its capacity by FY30.

Debt

- Gross debt increased INR55b to INR904b (vs. INR849b in 4QFY23) and net debt stood at INR714b.
- Net debt-to-EBITDA came in at 2.9x (up 85bp QoQ) and net debt-to-equity at 0.7x (up 8bps QoQ).
- The management has kept its annual deleverage target of USD1b of net debt unchanged (most of the deleveraging will occur in the second half of FY24).

Capex

- All the projects are progressing as per the timelines.
- The pellet plant at Kalinganagar has commenced production, which has helped TATA reduce the merchant dependency of pellets and aid in cost saving.
- Production at CRM facility has already commenced in a phased manner. The full benefits from this initiative will be realized once the BoF is fully ramped up by FY25.
- TATA is also setting up 0.5mt SMS caster at Kalinganagar, which will help achieve the incremental volume target for FY24.
- Once BoF is fully ramped up at Kalinganagar, it will help TATA to increase its presence across sectors, such as oil and gas, automobiles, and renewable energy.
- TATA has earmarked INR160b as capex for FY24, of which, INR41b has been incurred in 1QFY24.
- 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.
- 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.

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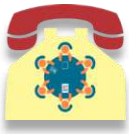

Vedanta — Neutral

Current Price INR 238

Aluminum CoP and capex:

- Aluminum CoP stood at USD1,932/t (down USD127/t QoQ and USD721/t YoY), which is expected to reduce further in 2QFY24 with: a) lower alumina costing, b) higher operational and buying efficiencies, and c) better volumes.
- VEDL is undertaking multiple expansions to enhance the alumina and aluminum capacities over the next two years, which will augment the alumina capacity to 5mt and smelting capacity to 2.8mt.
- To meet the bauxite requirement, VEDL has recently acquired Sijimalli bauxite mines with proven reserves of ~311mt, which is expected to commence production from 3QFY25.
- VEDL is also strengthening its captive coal requirement and has acquired Kurloi (N), Radhikapur, and Ghogharpalli blocks with PRC of 8mt, 6mt, and 20mt, respectively. All these mines are expected to commence production between two and eight quarters.
- The power requirement at the smelters, including the additional capacity, will be met through captive coal mines.
- The first phase, Train-I, with a capacity of 1.5mt at Lanjigarh, is expected to be operational in 3QFY24. Following that, Train-II, an additional 1.5mt capacity, is projected to be operational by the end of FY24.
- Post expansion, it will take the VAP portfolio of VEDL Aluminum to 90% from 60%.
- Alumina cost was higher in 1QFY24 due to increased utilization of imported bauxite and supply disruptions from OMC. However, with the situation normalizing, the cost is expected to reduce by USD50/t in 2QFY24.

Zinc India (HZ) Guidance:

- The management has maintained its zinc CoP guidance at USD1,125-1,175/t for FY24 (with focus on lower end of the band) after a cost reduction of USD20/t in 1QFY24.
- HZ targets 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. The management expects to report saleable silver production in the range of 725-750kt.
- The company expects robust demand for silver, driven by increased demand from industrial manufacturers, higher usage in EVs, and its growing application in RE sectors, among other factors.

Foray in semiconductor and display glass vertical

- VEDL's foray into the semiconductor and display glass vertical marks a significant transition for the company, evolving it from a pure metal and mining enterprise into a technology-focused company.
- VEDL is planning to set up a first integrated chip facility at Dholera (Gujarat) and is awaiting the government's approval.
- VEDL is set to benefit from the government's PLI scheme, which will provide subsidies covering 50% of its capital expense from the central government and an additional 20% from Gujarat state government.

Asset monetization

- VEDL is contemplating multiple options to monetize various assets such as ESL, iron ore blocks at Karnataka, Odisha and Liberia, Pig iron facility at Goa and coke facilities at Gujarat.
- VEDL has roped in financial consultants and plans to either divest completely or a part of these assets and monetize the same.

Net zero conglomerate by 2050

- Since FY21, VEDL has experienced a substantial increase in its usage of RE, quadrupling its renewable energy utilization. At present, the company has agreements in place for a total capacity of 838mw of renewable energy.
- The company has already signed PDA of 1,826mw in Jun'23.
- VEDL aims to reduce its carbon footprint by 25% by FY30 and aims to utilize 2.5gw of RE power across the group by FY20.
- VEDL aims to be a carbon neutral entity by FY50 and have a PDA of 4gw.

Debt and cash balance:

- Net debt stood at INR592b and cash and cash equivalent stood at INR143b.
- VEDL's Net debt/EBITDA stood at 1.88x (up from 1.3x in Mar'23).
- The average maturity of debt has been three years and the average RoI, which debt carries, stands at ~8.7%.

- **Reliance believes demand for domestic polymer and polyester is rising with economic growth, but margins could be limited by higher Chinese supply. Lower spot LNG prices in 2QFY24 TD may boost CGD margins. BPCL's management highlighted that GRM of the Mumbai refinery is relatively lower since it cannot process more than 20% of Russian crude in its crude basket**

KEY HIGHLIGHTS FROM CONFERENCE CALL

Oil & Gas	Outlook for FY24	Quarterly snapshot
GAIL	■ The benefit of the recent tariff hike is expected to increase going ahead as volumes ramp up further. Management expects gas transmission volumes to reach 123mmscmd by the end of FY24 from 116mmscmd currently.	■ GAIL reported a miss on our EBITDA estimate due to a weak petchem segment performance. ■ Petchem reported an EBIT loss for the fourth consecutive quarter due to a weak pricing environment.
Upstream	■ As per earlier guidance, ONGC's management expects oil production from KG-DWN98/2 to commence by Aug'23 in an optimistic scenario and by Oct'23 in a worst-case scenario. ■ We build in gas price assumptions of USD6.7/mmBtu for FY24-FY25. Additionally, ~6-8% of APM gas production comes from new wells that will attract 20% premium as per the new pricing policy.	■ ONGC's reported EBITDA was above our estimate, due to slightly higher gas realization and lower profit from petroleum. ■ Oil India (OINL) reported in-line EBITDA in 1Q. Oil sales volumes were below our estimates while gas sales declined YoY due to lower offtake from customers amid maintenance shutdowns
CGD's	■ Spot gas cost for the company has declined to USD10.5-11/mmBtu in 2QFY24'TD from USD13/mmBtu in 1QFY24, which could benefit margins in the current quarter. Additionally, global propane prices are also set to increase 18% MoM to USD470/mt in Sep'23. ■ The company has set up an SPV with Baidyanath LNG to install 5-6 LNG stations over the next 12-18 months. The company has also signed an MOU with BMC for setting up a compressed biogas plant having capacity of 1,000mt/d. ■ IGL's management expects volumes to reach 9mmscmd by end-FY24, driven primarily by growth in new GAs. Volume growth will be aided by improved CNG conversions to ~14,000/month currently from lows of ~8,000/month when gas prices were high.	■ GUJGA's EBITDA came in below our estimate due to lower-than-estimated volumes and EBITDA/scm. EBITDA/scm declined QoQ as the company had to sharply cut gas prices to stay competitive against propane. ■ MAHGL reported higher-than-estimated EBITDA led by an all-time high EBITDA/scm of INR16.8. The conversion for commercial vehicles declined to 1,200 in 1QFY24 from 1,300 last quarter ■ IGL's EBITDA beat our estimate in 1QFY24, aided by higher-than-estimated EBITDA/scm. Volumes increased YoY.
Reliance Inds	■ Gas prices are expected to remain volatile in CY23 due to demand uncertainties in Europe and Asia. Higher EU storage levels coupled with high nuclear outputs from Japan and France may hurt demand. ■ As per IEA estimates, global oil demand is estimated to grow 2.2mb/d in CY23 to 102.1mb/d despite the macro headwinds, with China accounting for 70% of total incremental demand. Increased tourism and improved seasonal demand due to summer in major markets could also propel demand in CY23.	■ RIL's consolidated revenue declined due to the sharp decline in O2C segment that was offset by continued growth in consumer business and increase in volumes from O2C and Oil & Gas businesses. ■ O2C's EBITDA came in below our estimate. The outlook continues to remain murky as capacity additions from China are likely to keep product spreads under pressure.

Reliance
Industries Limited

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Results Update

Reliance Industries — Buy

Current Price INR 2,479

RJio – key takeaways from the management interaction

Key operating metrics: Growth led by rising customer base and engagement

- Sustained subscriber growth across mobility and wireline services led to revenue and EBITDA growth for the connectivity business. In addition, growth in digital services platform with newer services like Managed Video Broadcast and Cloud solutions, drives JPL's consolidated revenue growth.
- The 5G adoption and FTTH ramp-up led to strong 28.3% YoY / 9.6% QoQ growth in data usage, which continue to grow on a rapid pace. 1QFY24 was benefitted by IPL too.
- Rapid adoption of 5G leads to an increase in data consumption per user. Per subscriber data traffic grew 8% QoQ to 25GB/month.
- Voice consumption per user rose marginally by 0.5% QoQ to 1,001mins/month.
- In 1QFY24, net port-ins for Jio stood at 2.7x of the nearest competitor.

5G expansion: rollout on track

- Jio has deployed over 115,000 sites with ~690,000 5G cells covering >90% census towns.
- Expects to complete the pan-India rollout before Dec'23.

Jio accelerates '2G-mukt Bharat' Vision with 'JioBharat' phone platform

- To target the bottom-of-the-pyramid subscribers, the company announced a product known as 'JioBharat', which will cost less than INR1000.
- Online streaming and UPI service are available in this device. Hence, the customers stuck in 2G device can move to 4G ecosystem. The company is targeting 250m feature phones customers through this product.
- It is targeting the entry-level phones for partnering with other phone brands, with initial trials of 1m devices.

Jiofibre: Strong subscriber momentum continues

- It drives 80% of the incremental wired broadband additions and has partnered with LCOs in 1,000+ towns.
- Subscribers grew 50% YoY led by new tariff plans and superior product offerings while the high engagement drove 64% YoY growth in data traffic for JioFibre.
- About 98% of the new acquisitions are Postpaid in nature.

Airfibre: Accelerating home broadband customers (100m connected premise)

- It created a dedicated mobility site for home needs.
- It is upgrading Wi-Fi offering to WiFi-6 along with Set Top box and bundled offering of media/OTT application.
- It is integrating the same with service centers to address the customer-related problems.

JPL: Creating a unique user experience

- During IPL, JioCinema's capabilities reflected 157b+ minutes watch time.
- New technologies such as: a) glass-to-glass technology, b) 8K production, c) 12 languages, d) multi-camera, etc. were implemented during IPL'23.
- Since the platform was free, the company introduced Jio Ads for monetizing purpose.

IOT Platforms: Slowly gaining adoption

- It is working in partnerships with BMW, Volkswagen, Ather, Amul, Havells, Tata power, Mahindra, etc.

Others

- Jio also launched JioDive, which is a smartphone-based virtual reality (VR)headset. JioDive converts a phone into a 100-inch virtual theatre; one can enjoy the 360-degree view of live sporting events.

Reliance Retail – key takeaways from the management interaction

Segmental performance and footprint additions:

- The segment's strong growth in both digital and physical footprints coupled with strong engagement with customers led to higher footfalls of 249m, up 42% YoY.
- The segment reported 28% YoY growth in registered customers to 267m, while the number of transactions at 314m rose 43% YoY.
- The company opened 555 stores in the quarter taking the total count to 18,446 stores.
- Segment wise, Grocery business witnessed sustained performance with 59% YoY growth, while Consumer Electronics (excl. Devices) and Fashion & Lifestyle delivered 14% and 15% YoY growth, respectively.
- The company's investments in infrastructure and people over the years continue to drive its growth and efficiencies thereby enabling sustained performance.
- The company announced the completion of the acquisition of Metro Cash and Carry India during the quarter.
- Contribution of Digital & New Commerce stood at 18% of sales in 1QFY24.

Business segmental highlights

Consumer Electronics

- The business segment continued to maintain its growth momentum led by improved conversions and higher Adjusted Bill Value (ABV).
- The segment witnessed broad-based growth across categories led by air care, phones and appliances that helped in driving market share gains.
- The segment's own brands/Private Brands launched new products across categories with merchant base growing 2.4x on a YoY basis.
- The company's service brand "resQ" continued to deliver strong growth and surpassed a milestone of 1,000 service centers.
- JMD's growth remained robust, which was led by phones and large appliances. Its merchant base jumped 71% YoY during the quarter.

Fashion & Lifestyle

Apparel and Footwear:

- The segment continued to report steady performance during the quarter with improved focus on premiumization.
- The segment's off-line business continued to do well, driven by a pick-up in store traffic and ABV.
- The newly launched segments, Azorte, Avantra, Kalanikethan, Centro and Portico continued to scale up and perform well.
- As stated, category wise, both casual and formal are doing well. Further, the company is planning to enter into smart casuals and Athleisure.
- AJio segment reported yet another strong quarter with 2m customers added during the period along with several new brand launches across categories.

Partner Brands

- The company launched Pret-a-Manger, the iconic British chain, known for its coffee, salads, sandwiches et al.

- Ajio Luxe delivered a strong performance with 85% growth in options and its portfolio has crossed 550 brands.

Other segments:

Jewel:

- Jewel segment sustained growth across all town classes, which was mainly led by wedding season and regional festivals.
- The company continued to focus on strengthening its product offerings with new collections like ‘Thanjavur’, providing regional festive collections in East India and Wedding collection “Vivaham” among others.

Lingerie

- The segment continued to strengthen its product portfolio through new launches like Athleisure, ribbed crop tops, Disney sleep and loungewear.
- It is further looking to improve its online customer experience through new features, functionality and improvement in UI/UX.

Grocery

- The grocery segment performed strongly led by Smart and Smart Bazaar formats.
- Category wise, non-food continues to grow rapidly with improving share in the overall business.
- Apart from synergy benefits expected to be derived from the integration of Metro Cash & Carry, the company is looking to regionalize the assortment and focus on premiumization to drive higher ABV.

Consumer Brands

- The company’s focus on expanding distribution and engagement in General Trade channel has helped deliver ~8x YoY revenue growth within the segment.
- The company looks to bolster its portfolio across categories with new product launches and strategic partnerships such as launch of Alans Bugles (international corn chip brand) in partnership with General Mills and a deodorant range in partnership with Europer perfumes.

JioMart and Milk Basket:

- The company continued with its focus on catalogue expansion with its option count surging ~6x YoY and seller base increasing ~4x YoY.

- **After delivering strong growth of 43% YoY (32% ex-DLF) in pre-sales in FY23, companies remain optimistic about the demand scenario and aim for 15-20% growth in the medium term. At the start of FY24, most of the players already had inventory of less than 12 months and with 1Q performance being largely driven by robust sales, inventory has further declined, which can potentially trigger acceleration in new launches. Management commentaries indicate that key big ticket launches for all companies would materialize in 2HFY24. There is consensus among companies to maintain steady price growth and affordability at the same time.**

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Quarterly Snapshot	Outlook for FY24
DLF	■ DLF reported bookings of INR20.4b, which was flat YoY. However, there was a sequential decline of 76% in bookings compared to the record-breaking performance in 4QFY23. ■ Sales at DLF's ultra-luxury Camellias project revived, contributing INR5.6b to the overall sales from bookings of 13 units. Additionally, the company resumed sales at ONE-Midtown, Delhi, recording bookings worth INR6.6b	■ DLF is planning to launch ~10msf in the residential segment with most of it expected to materialize in 2HFY24. Key projects include – 3.5msf super luxury high rise in DLF5, 1.2msf high rise luxury in Chennai, mid/high rise in sector 76/77 of Gurugram, and a low rise project in Chandigarh. Company has guided for INR130b of pre-sales in FY24
Godrej Prop.	■ GPL reported pre-sales of INR22.5b, down 11%/44% YoY/QoQ. Sales volume declined 20%/57% YoY/QoQ to 2.25msf, while blended realizations improved 12% YoY, aided by higher contribution from MMR (30%) and NCR (24%) markets. ■ Muted performance was led by lower launches and limited sustenance inventory of ~12msf or INR90-100b, which contributed ~80% of sales by value	■ GPL is on track to launch 19msf of projects in the remainder of FY24 with further upside potential from the launch of recently added Gurugram projects. Management reiterated its guidance to achieve INR140b of pre-sales in FY24.
Macrotech Dev.	■ LODHA's sales bookings in 1QFY24 grew 17% YoY/11% QoQ to INR33.5b. Residential performance was healthy as pre-sales grew 30% YoY/10% QoQ to INR32b, despite unfavorable seasonality, indicating continued demand momentum	■ LODHA launched 1.8msf of projects in 1Q and the total launch pipeline now stands at 11.2msf vs. 10.6msf indicated in 4QFY23. ■ Demand remains buoyant, with the conversion rate above 8%. Management believes that the sector is in the third year of its 15-year uptrend and the company is well placed to deliver sustainable growth of 20% in medium term.
Oberoi Realty	■ Oberoi Realty (OBER) had a subdued quarter with sales bookings of INR4.8b down 37%/29% YoY/QoQ. Muted performance was driven by a YoY drop in sales velocity across projects in Borivali, Goregaon, and Mulund and the absence of any sales in 360-west as compared to three units sold in 4QFY23.	■ Sales in FY24 will be driven by launch of both the projects in Thane along with new tower launch at Goregaon.
Mahindra Lifespace	■ MLDL reported bookings of INR3.5b down 43%/4% YoY/QoQ due to absence of any major launches. The company launched a phase of plotted development project at Lakewoods, Chennai (0.37msf) at the end of the quarter, which received a strong response (71% sold out) but bookings were spilled over to 2QFY24.	■ MLDL laid out a growth roadmap where it plans to grow its pre-sales (Residential + IC&IC) by 5x over the next five years. Bulk of that growth is expected to come from residential business with IC&IC leasing likely to remain stagnant at INR5b. ■ To achieve its growth plan, the company is targeting a project pipeline with revenue potential of INR400-500b over the next four years of which INR150-160b is already signed up including 68 acres land at Thane (INR80b), M&M land at Kandivali and Citadel, Pune
BRGD	■ Brigade Enterprises (BEL) reported a steady quarter of bookings with pre-sales of INR10b, up 22% YoY. However, pre-sales declined 33% QoQ due to absence of any new launches in 1QFY24 ■ Collections were flattish YoY at INR12.4b but down 15% QoQ. Sustained high spends on construction led to 28% decline in OCF at INR2.7b	■ While BEL did not launch any new phase/project during the quarter, it has ~8msf of residential projects lined up to be launched over the next 12 months. This is likely to drive pre-sales growth in FY24. ■ Upcoming launches are spread out across price points between INR7,000 and INR10,000/sqft. The GDV of ~8msf of launch pipeline is at INR67b with BEL's share at INR44b. The TVS land in Chennai is on track for 4QFY24 launch.

Sobha	■ SOBHA reported the highest ever pre-sales of INR14.65b, which was up 28% YoY and flat QoQ, despite seasonality ■ A large part of this growth was attributed to improved pricing, as sales volume remained relatively stable YoY at 1.4msf (down 6% QoQ)	■ The 15msf forthcoming pipeline will be launched over the next two years and Sobha has an 80% share in it. The company is aiming for double-digit value growth in FY24 and the quantum of growth depends on how launches materialize
Phoenix Mills	■ Consumption across PHNX's mall portfolio increased 18% YoY to INR25.7b. Excluding the contributions from the recently opened malls in Indore and Ahmedabad, consumption was up 9% YoY. In Jul'23 it was up 6% YoY at INR9.3b.	■ Trading occupancy for all malls will be at 95%+ by 3QFY24 (89% now) and the commencement of new malls will complement consumption. Historically, the company has witnessed 8-10% SSG at high trading occupancy and expects a similar trend to pan out. A strong content pipeline, subsiding monsoon, and long weekends along with festivals will further drive consumption growth in 2QFY24

BRIGADE

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Brigade Enterprises — Buy

Current Price INR 583

Hyderabad land:

- BEL won the bid for land at Neopolis, Hyderabad with development potential of 3.5msf as the company intends to use FSI upto 8. INR7b is the total cost including stamp duty. First installment is INR2b, which will be paid by next week and full payment to be done in 90 days.
- Currently projects in Kokapet micro-market are selling at 8-8.5k/sft which increased to INR10k/sft post the auction. Expect the project to make 25-30% EBITDA margin
- BEL had evaluated the first auction in Neopolis a few years back but was not convinced about pricing and surrounding infra. Since then, the micro-market has seen good development and hence the company went ahead with purchase.

Annuity

- In 1QFY24, 12% LfL growth was seen in retail consumption across malls. Electronics, eyewear, cosmetics, Jewelry, travel gear etc. witnessed average growth of 25% YoY. Multiplex segment declined 37% YoY due to muted movie content
- The company is also exploring data center project on 25-acre plot in North Bengaluru. It will be a BTS asset and BEL will share more details once plans are finalized.

P&L

- The government change in Karnataka has led to delay in approvals and issuance of OC, which impacted launches and revenue recognition adversely.
- Physical occupancy has increased and is in the range of 45-65% across the office parks. Multiple projects with total 4,500 units over 5msf and valued at INR30b are near completion and these have relatively high margin. Hence, P&L should improve from 2QFY24.

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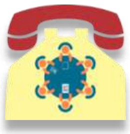

DLF — Neutral

Current Price INR 484

Mumbai Project

- Due to the past experience at Tulsiwadi project, which is now facing challenges, the company has decided to adopt a different approach. Instead of waiting for the entire project to become developable, the company plans to expedite the launch of the first phase and commence sales promptly. This strategic shift is aimed at initiating the cash flow cycle early on, and thus reduce reliance on external financing and mitigating potential financial risks.
- DLF is considering the possibility of up-streaming its investments made in the project (INR4b) to the parent level. However, this decision will likely be executed once the ongoing restructuring exercise is completed.

Camellia

- Flats at Camelia selling at 60k/sqft and the secondary sales are happening at ~INR65k/sft. Only 20-30 units remains unsold and the management expects the realization to touch INR100k/sqft.

Annuity assets

- The company has concluded the master planning for the Mall of India in Gurugram and the construction is expected to commence in 3QFY24.
- DLF expects the Ministry of Commerce to soon provide clarity on SEZ floor-wise de-notification, post which, the company expects the leasing traction to improve in the SEZ portfolio.

Gross Margin

- In 1QFY24, gross margin drops to 52% from 57% in 4QFY23, largely driven by product mix. The management expects it to remain at 50%+ in FY24.

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Godrej Properties — Buy

Current Price INR 1,614

Gurugram market:

- Very strong market with robust demand and significant pricing growth. Existing project inventories are nearly depleted, and the introduction of new projects will facilitate their replenishment.
- The company has enough projects under the belt with the recent spree of new acquisitions and will now focus on markets like Bengaluru.
- Recently, the company acquired three new land parcels at a total cost of INR16b. and company anticipates achieving INR15-25k/sft.

Prices, margin and completion

- The company continues to witness consistent price growth across markets. It achieved a QoQ growth of 2-4% in MMR, 2-3% in Bengaluru, and 3-5% in Pune and NCR.
- Over the medium term, the management intends to achieve a PAT margin of 12-15%, which will lead to 20%+ RoE.
- Project completions will be spread across different quarters with balanced 2Q/3Q and strong 4Q.

Godrej Summit, NCR

- The company made a provision of INR1.5b for repair and other ancillary cost and the company has made a buy-back offer to customers.

- The buy-back price is on the basis of price at which it was sold (INR5000-7000/sft) and the company will have the opportunity to re-sell it post fixing the issues.
- GPL achieved sales of INR10b from this project and the management believes that very few customers will opt for buy-back.

LODHA

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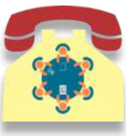

Macrotech Developers **Buy**

Current Price INR 682

- **Demand and conversion:** Demand remains buoyant, with the conversion rate above 8%. The management believes that the sector is in the third year of its 15-year uptrend and real estate will be one of the largest GDP growth drivers over the next few years.
- The company saw 1% growth in realization and has maintained its target of a 6-
- 7% price hike in FY24.
- **Alibaug foray:** The micro-market is similar to Hamptons for Mumbai and it lacks presence of large developers. The large land parcel will see development of multiple projects in different segments. LODHA expects to launch it in 3-4 quarters. The company intends to position this project as a second-home destination similar to Belmonde project in Pune.
- **EBITDA Margin:** The embedded EBITDA margin stands steady at 31% in 1QFY24 and will improving from FY26 due to price hikes
- **Annuity business:** The FMS business will be RoE accretive, given the low capex and 10%+ margins. Similarly, the digital infra business will bring in additional income in the form of management fee, boosting RoE. In the office and retail segment, the strategy is to build, lease and monetize as it does not match the management's RoE targets. It will only hold on to assets where there is good visibility on rental growth.

Western suburbs and Thane

- The western suburbs have a market size of INR250-300b with a vast range of offerings. The company's market share rose to 5-6% from less than 1% three years ago. In the near term, LODHA aims to increase its share to 20%+.
- In Thane, the company holds a large market share despite strong competition from other players.
- Between Thane and western suburbs, the company has 1,000 personnel working in various functions.

Bengaluru

- So far the company has been positively surprised on price growth over the next 12 months. This will further improve the profitability of projects already signed.
- Given the presence of well-established players in the city, LODHA will get access to well-trained talent, which will help it expand its presence in the city.
- On PBT basis, Mumbai projects will have 200bp higher profitability compared to Pune and Bengaluru.

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Mahindra Lifespace — Buy

Current Price INR 528

- New launches: The Kandivali launch is not contingent on Supreme Court's verdict as the company already has plan B in place. The first phase will be launched by end-2QFY24 having a GDV of INR12b. The second phase of the Pune project will also be launched by 3QFY24 having a GDV of INR7b.
- Both the recently acquired redevelopment projects will be launched by 4QFY24and the company is awaiting approvals for the Dahisar project.
- Thane: MLDL has made good progress on the IIPP policy and it expects to launch the project over the next 4-6 quarters. The policy mandates 50:50 mix of residential and commercial development with both assets required to be delivered at the same time.
- As things stand, the overall sales potential is INR80b.
- IC segment: Management continues to target INR5b worth of annual leasing beyond FY25 too. Launch of Pune Park can happen over the next 12 months and at Ahmedabad, search is still on for an anchor tenant.
- In MWC Jaipur, management is trying to get 570 acres of SEZ land converted into DTA, which could lead to significant value unlocking.

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Oberoi Realty — Neutral

Current Price INR 1,098

Mulund Projects:

- Now that the project is fully complete, the sales traction should improve in 1 or 2 quarters. Similar to the company's completed project in Goregaon, Esquire, which experienced a surge in velocity after completion, the Mulund projects are expected to follow a similar trajectory aided by strong demand for RTM inventory

Borivali Mall:

- The entire civil work at the Borivali mall is now complete and the common area fit-out is currently under execution. Tenat fit-out will commence by Feb'24 and the mall will commence operation by FY25 festive season.

Commerz III:

- The company received part OC in Comm 3 and handed over the area for fit-outs to anchor tenant (Morgan Stanley).
- Hence, as per accounting rules, the revenue recognition has commenced to the tune of INR500m/quarter and this will continue from here on.

South Mumbai projects

- Peddar road – it is a redevelopment project and negotiations are pending with final 1 or 2 tenants. The company will declare the launch plans soon.
- Tardeo – Done with rehab building and will be handed over in CY24, post which work on for-sale area will commence.

THE PHOENIX MILLS LIMITED

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Phoenix Mills — Neutral

Current Price INR 1,758

Margin:

- Increased occupancy and event fees drove margin expansion in malls. Similarly, rising occupancies in hotels and office assets contributed to margin expansion.
- PHNX expects a further gain of 100-150bp, post which it should stabilize.

Category trends:

- Category-wise growth: +31% YoY in Jewelry, +24% in F&B, +17% in Fashion and accessories, +3% in Family entertainment center, +2% in Electronics, and 88% in Gourmet stores.
- PHNX is allocating a bigger area for fast-growing categories. The Fashion and accessories category accounts for 55% of overall leased area. Jewelry accounts for 1% area but contributes 11% to consumption. F&B accounts for 10% of area and contributes 11%.

Status of new assets:

- The company has received OC for new malls in Pune and Bengaluru. Fit-outs at Millennium Mall, Pune, are under progress for 0.7msf (190 stores). The office tower will commence in FY25.
- Similarly, 0.7msf (214 stores) is under fit-outs at Mall of Asia, Bengaluru. The first phase of office with 0.8msf area will commence by the end of FY24.
- Ahmedabad is a premium development compared to Indore. The avg. rentals at Indore will stabilize at INR87-90/sqft vs. INR145+/sqft in Ahmedabad.
- Although the size of the asset is small, it will continue to contribute significantly to rentals, driven by higher rentals.

SOBHA

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Sobha — Buy

Current Price INR 586

- **Launches:** The 15msf forthcoming pipeline will be launched over the next two years and Sobha has an 80% share in it. There has been a delay in approvals in Karnataka due to a change of government. The company had previously envisaged 7msf launches in FY24, but expected it to be slightly less, given the current approval scenario. In any case, the company aims to launch 6-7msf in FY24.
- **Demand and Target:** There is strong demand in the premium housing, which is reflected in the company's sales mix. The ticket size of INR30m and above generated 37% sales in 1Q and this was less than 5% a few years back.
- The company is aiming for double-digit value growth in FY24 and quantum of growth is dependent on how launches materialize.
- Sobha achieved sales of 5.6msf in FY23 and the mid-term target is to reach 8msf+ sales and if everything works, the company would scale it up to 10msf.
- **P&L Performance:** Projects delivered in 1QFY24 were booked at a pre-Covid price, but due to increased post-Covid costs of construction, they have adversely impacted the margins.
- **Expect financial performance to improve from FY25**, by when the legacy real estate developments along with low margin contractual projects will be completed. The newly generated sales at the current pricing are expected to yield a gross margin of 35%, a significant improvement from the previous 20%, which will be reflected in the P&L performance.

RETAIL

- **Retail: Sector-wide management commentary indicated that the demand slowdown continued in 1QFY24 on the back of a higher base of 1QFY23, persistent inflationary pressure and the absence of wedding dates. The demand recovery is, however, expected in 2HFY24 with the onset of the festive period. Apparel players like Shoppers Stop, V-Mart and ABFRL have indicated an increase in debt in 2QFY24, which would come down thereafter.**

- **QSR: Management commentaries in the QSR segment indicated that the slowdown is expected to continue in 2QFY24E owing to Hindu festivals. BBQ guides for a slowdown in store additions. PH players (Sapphire/Devyani) expect lower store adds vs. FY23. The silver lining is that RM inflation is moderating.**

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Business scenario and outlook FY24	Footprint addition
Aditya Birla Fashions*	■ Despite near-term challenges, management expects the market to rebound in 2HFY24 following the festive period. ■ Completed the integration of Reebok. The segment is currently at break-even levels and is expected to turn profitable by FY24. ■ Losses within TMRW (on annual basis) are expected to be in the range of INR800m-INR1b. The company is likely to raise fund by the end of FY24. ■ Net debt stood at INR21b (vs. INR14b as of Mar'23) due to higher capex, working capital and loss funding. Management projects net debt to reach INR28b by Mar'24.	
Shoppers Stop	■ Expects subdued revenue growth for 2QFY24, mainly attributed to a shift in the festive period. However, a recovery is expected from 3QFY24 onwards. ■ Net debt at INR900m is likely to go up to INR1.2b by Sep'23 and then taper off. ■ The company maintained its margin guidance, expecting it to be in high-single digits. Despite making newer investments, the company does not foresee significant dilution in margins.	■ Launched the value fashion category "In-Tune" on a trial basis. Expects to add 10 stores by the end of Sep'23. ■ Management reiterated its store addition guidance. It is planning to add 10/12 departmental stores and Beauty stores. The allocated capex for these expansions is set at INR2b.
V-Mart	■ V-Mart expects LFL growth of 5% on value and 8-9% on volume terms for FY24. It expects recovery to flow in from 3QFY24 onwards with the onset of festive period. ■ It expects the debt levels to go up by end-2QFY24 as it will build inventory for the festive period, which will then be normalized by the end-FY24. ■ Management reiterated its cap of 20% of overall EBITDA to fund losses in the online segment.	■ The company opened nine new stores (one in South) during the quarter and closed one store in Karnataka..
Bata	■ Inventory optimization and early EOSS led to a decline in gross margin. The stores are now stocked with new merchandise being sold at full price, which could potentially result in normalized margins. ■ The company is targeting to start an apparel Athleisure category in the price range of INR800-1,100. It is still in the pilot phase, but once the product gains acceptance, the company plans to widen its coverage.	■ The company's target to achieve 500 franchise stores remains intact. ■ It expects the ratio of COCO:FOFO stores to be maintained at 80:20.
Campus	■ Macro environment has been weak since the last 12-14 months. However, the upcoming election, strong monsoon, and the impending festive season could revive revenue growth and margin improvement in 2HFY24. ■ The GM improved as a result of better sourcing and an improved channel/product mix. Management expects margins to expand as 2HFY24 (the closed footwear season) approaches. Hence, it anticipates an increase in EBITDA margin to 19.5%–20.5%. Post this, management expects margin to expand 100bp annually.	
Metro Brands	■ Integration with FILA is progressing as planned and the company expects to liquidate the old inventory by end of 3QFY24. ■ Management indicated that 1QFY24 impact was mainly due to the higher base of last year, but consumer demand in premium	■ Plans to add 200 stores (excl FILA) over the period of two years. It would additionally look to add 300-400 stores under FILA in the long run. ■

	segment remained strong. Moderation in ASP and GM mainly due to EOSS could see GM retracing to 55-57% from 58.1% in FY23. ■ While any clarification around BIS norms is yet to be received, it expects some disruption in supply due to its implementation and has hence frontloaded some inventory.	
Vedant Fashions	■ Performance was weaker in 1QFY24 on account of fewer wedding dates; expects recovery from 2HFY24. ■ Maintains its long-term target to achieve mid to high single-digit SSSG, with gross margin likely to remain at similar levels.	■ Launched three exclusive stores under Twamev brand, along with the introduction of women wear category; plans to open ~10 stores by FY24 on pilot basis and then expand accordingly ■ The EBO launch for Mohey is expected in early 3QFY24. This would be followed by the opening of a couple of stores by end- FY24 on pilot basis.

KEY HIGHLIGHTS FROM QSR- CONFERENCE CALL

	Salient takeaways from the 1QFY24 performance	Outlook
Barbeque Nation	■ SSSG likely to remain weak in 2QFY24 due to Hindu festivals; it is expecting a recovery from 2HFY24.	■ BARBEQUE has reduced the store addition target to net 10 stores in FY24. On a gross basis, it expects to add 20 stores – 5 Toscano. 3 BBQ International and 12 BBQ India.
Devyani International	■ The company has took a very small pricing of <1% on PH just to neutralize the slightly margin dilutive value category. Similarly, they had taken price hike of 3% in the last quarter for KFC. ■ 2QFY24 SSSG for KFC could be lower owing to Hindu festivals. However RM prices in KFC has largely stabilized and the cheese and milk prices for PH/CC started to stabilize.	■ Aiming to add 275-300 stores in FY24 and to reach target of 2,000 stores by FY26 implying 17% store adds from FY23-26E. ■ Within the target, expecting 70-75 store adds for PH, Costa coffee to add 60-70 stores and KFC to add 120-125 stores p.a.
Sapphire Foods	■ The majority of the RM inflation had already taken place and it does not see any significant GM improvement. However, the company's focus will remain on attaining 20%+ EBITDA margins for KFC. ■ 2QFY24 SSSG for KFC could be lower owing to Hindu festivals, with Sri Lanka likely to recover in FY24.	■ Management reiterated its previous guidance to double the store in the next three to four years, implying a 15-25% store CAGR. PH store additions are expected to be lower in FY24 compared to FY23.
Jubilant Foods	■ Persistently high prices of milk and milk-related products YoY and the recent increase in vegetable prices pose some challenges. Overall basket prices moderated sequentially. ■ The current demand environment is still unpredictable. JUBI continues to launch new ranges of products to meet volume and value-based demand.	■ JUBI is aiming for a long-term EBITDAM of 23-24%. It is difficult to generate 25-26% margin, which was seen during the Covid period. Further, volatile RM prices make it difficult to give gross margin guidance. ■ The company has a strong pipeline for store additions in FY24, with 200-225 new stores for Dominos and 30-35 for Popeyes.
Restaurants Brand Asia	■ Despite adding margin dilutive value meals, GM is maintained due to the Café segment's 100bp margin accretion. However, no price increase was taken. ■ Marketing spend is around 5% of topline on an annual basis, although 1Q is typically higher (incurred 6.8% in 1QFY24). The company anticipates increased efficiencies in employee spending going forward.	■ Guidance for India business remains intact with target to reach 450/700 stores by FY24/FY27, SSSG of ~10%/8% in FY24/FY25 onwards and GM of 67% for FY24 with 200bp improvement from FY25. ■ For Indonesia, the company is: a) rationalizing BK Indonesia, b) targeting cash breakeven in FY24 and c) expect to reach 325 stores by FY27. Popeyes is seeing good response and likely to add 45 stores by Dec'23.
Westlife Foodworld	■ Target is to create a strong portfolio across chicken, burgers and coffee products and continue to innovate the menu by launching new products. ■ The company has not seen any major impact of milk, cheese and vegetable inflation since it was already anticipated and planned.	■ The company maintains its guidance to achieve INR40-45b revenue by FY27, driven by high-single digit SSSG and 580-630 total stores count. On a steady state basis, the margin is expected to be in the 18-20% range. ■ The company is on track to open 40-45 new stores in FY24. OCF rose during the quarter, driven by a release in working capital and operating performance.

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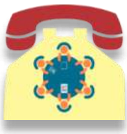

Aditya Birla Fashions — Neutral

Current Price INR 220

Key Highlights

- Demand pressure within the value segment and higher yarn prices impacted Pantaloons' performance adversely.
- Despite near-term challenges, management expects the market to rebound in 2HFY24 following the festive period.
- It completed the integration of Reebok. The segment is currently at break-even levels and is expected to turn profitable by FY24.
- Losses within TMRW (on an annual basis) are likely to be in the range of INR800m-INR1b. The company expects to raise funds by the end of FY24.
- Net debt stood at INR21b (vs. INR14b as of Mar'23) due to higher capex, working capital and loss funding. It expects net debt to reach INR28b by Mar'24.

Business performance

- The slowdown within the discretionary categories that started last year continued during 1QFY24.
- The business posted growth over last year driven by performance across established businesses along with new business additions of last year.
- EBITDA for 1QFY24 was hit by muted sales along with high fix cost, incremental marketing spends and aggressive growth investment in subsidiaries (mainly in TMRW), which was not in the base last year.
- Despite near-term challenges, management expects the market to rebound in 2HFY24 following the festive period.

Madura:

- Lifestyle retail channel growth remained resilient with 2% YoY growth while Wholesale segment showed a robust growth of 20% YoY led by growth in trade and departmental store businesses.
- American Eagle saw a strong performance with 49% revenue growth YoY led by a strong distribution expansion and attractive product propositions. The brand added three new stores to the network and is now available across 40 exclusive brand outlets.
- The company completed its integration with Reebok during the quarter and reported a growth of 43% YoY led by 11% LFL growth and 10 store adds. The segment is currently at break-even levels and is expected to turn profitable by FY24.

Pantaloons:

- Demand pressure within the value segment and higher yarn prices impacted Pantaloons' performance adversely.
- EBITDA margin was hit by weaker demand, which led to negative operating leverage.
- The segment mainly has costs, which are fixed in nature and as a result, the company sees limited cost-saving avenues.

Other Brands/segments:

- Innerwear business in 1QFY24 posted a LFL growth of 3% on YoY basis.

Ethnic Wear:

- Ethnic wear segment grew 33% YoY and the company continues to invest in brand building initiatives and new store openings, with net additions of 12 stores during the quarter.
- Jaypore continued to expand its store network with additions of two stores during the quarter and is now present in 20 stores.
- The new Mumbai store launch in Apr'23 is witnessing good customer traction.
- House of Masaba added three stores to the network and posted 32% revenue growth over last year.
- With regards to TCNS acquisition, share purchase agreement with
- promoters and a conditional public open offer are on track and have received regulatory approvals. The company is in process to commence open offer.

Debt

- Net debt as of Jun'23 stood at INR21b. The company expects this to reach INR28b by Mar'24.
- The higher debt was mainly attributed to capex undertaken along with some portion used towards working capital and loss funding.

Barbeque Nation Hospitality — Neutral

Current Price INR 701

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Operating performance

- The company reported 3% sales growth due to the higher base impact of last year.
- The focus was to drive growth through volume and hence volume grew 20% QoQ while the dine-in realization contracted 5% QoQ.
- Volume growth could be achieved by: a) reducing the prices, b) upgrading the restaurant design, c) strengthening service culture and d) enhancing guest satisfaction.
- On the delivery side, the AOV was at INR500 (excl. GST and discounts).
- The company opened two BBQN India stores, one BBQ international store and one Toscano outlet while it closed eight stores due to poor store economics. The company is considering renegotiation of rent for opening two stores.
- **Guidance –** It could add 10 stores on net basis in FY24 and 20 on gross basis. There could be closure in 2QFY24 as well.
- On a gross level, Toscano can add around five stores, BBQ International can add three and BBQ India can add 12 stores.
- Out of 212 stores, around 152 stores are matured ones.
- The stores are split equally among East, West, South and North
- The company is looking for both organic (volume growth) and inorganic opportunities to drive revenue
- Lower price realization led to lower ROM in this quarter.

Current environment -

- SSSG is likely to remain weak in 2QFY24 due to Hindu festival season and the management is expecting a recovery from 2HFY24.
- Before Covid, the delta between 1Q and 4Q remained at -8%, where -5% would be contributed from volume and -3% from realization.
- Further, delta between 1Q and 2Q was at 4-5%.

- Once the environment improves, the company can increase the pace of store adds.

Capex

- Capex per outlet has gone up to INR31m and a store requires 40 staff on an average.
- Quarterly run-rate of reported depreciation would be around INR370m and INR180m on pre-Ind AS basis (i.e. INR4m/outlet per year)

Others

- Dumsafar – there was a MoM increase in ADS of INR5k
- The company has two commissaries in India – in Mumbai and in Delhi.
- Around 50% of the revenue comes from the existing customers and average group size is 4-5 people.

Bata India Neutral

Current Price INR 1,709

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Key highlights

- Inventory optimization and early EOSS led to a decline in gross margins. The stores are now stocked with new merchandise being sold at full price, which could potentially result in normalizing margins.
- Revenue has been adversely impacted by the weakness in the mass segment, primarily attributed to elevated inflation rates, a reduced number of wedding days, a high GST rate, and no price hike taken in the last eight months.
- India contributes 1/3rd of the global Bata production, but still a large part of the products is sourced from China. The company is consciously diversifying out of China, and hence, India is a preferred sourcing hub.
- The company is targeting to start an apparel Athleisure category in the price range of INR800-1100. It is still in the pilot phase, but once the product gains acceptance, the company plans to widen its coverage

Management interaction in details

Current environment

- The management is observing signs of inflation stabilization, which is expected to contribute to an upturn in demand in the forthcoming period.
- Early EOSS led to a reduction in the inventory and now the company is able to sell the goods at full price.
- The company has placed its field force in the retail channel network and implemented key account management for the top 2,000 MBOs in order to increase throughput.

Product wise

- Floatz achieved its all-time highest quarterly sales, exhibiting a 2x YoY growth. This achievement significantly enhances Bata's value proposition and has successfully penetrated into 80-85% of Bata network.
- Northstar/Hush Puppies/Comfit grew 1.15x/100%/100% YoY.
- Sneakers could be contributing 20% of sales, Comfit at 8%, and Hush Puppies at 20%.
- The average human consumes 7-10x as much clothing vs. Footwear. They introduced the line with typical garment prices between INR 800 and INR 1300.

Store addition

- The company's footprint has now expanded to encompass 2100 points of sale (including shop-in-shop setups), reaching out to over 700 cities and beyond

- The company's target to achieve 500 franchised stores remains intact.
- Expect the ratio between COCO:FOFO stores to be maintained at 80:20
- Sneaker Studios implemented in 565 stores.
- Company will continue store innovation capex for the next few quarters
- FOFO store economics- Franchise owner generates 30-35% margin and the fixed/operational cost is borne by the franchise owner. Also, inventory risk and capex is borne by the partner.

Macro opportunity
- While India contributes a significant one-third of Bata's global output, the majority of items are still supplied by China. India has been chosen as a sourcing base as part of a strategic move by the company to intentionally diversify its sourcing away from China.
- With established supply chain connections in place, individuals can now approach procurement from India with greater confidence.

Others
- The Company can go live with the new technology by 4QFY24.
- The company plans to establish a warehouse in the South India.

Campus Activewear — Buy
Current Price INR 295

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Campus Activewear

Current environment-
- Demand environment is gradually improving, while Eastern UP and Bihar still remain weak.
- Macro environment has been weak since the last 12-14 months. However, the upcoming election, strong monsoon, and the impending festive season could revive revenue growth and margin improvement in 2HFY24.
- BIS will be implemented from 1st Jan'24. There is a possibility that the margins will improve due to BIS implementation.
- BIS implementation would reduce the imports from China and Vietnam. This would lead to improvement in Make in India initiative.
- Campus' supply chain may not be disrupted because it already procured goods from high-quality players.

Channel and brand mix-
- Trade distribution channel declined 5.5% YoY, D2C online grew 10% YoY while D2C offline jumped 82% YoY due to store additions.
- Company continues to open majority of the stores via FOFO channel.
- Out of 225 stores, 90-95 stores would be COCO stores. The new store additions would be 70:30 for FOFO:COCO.
- The share of semi-premium and premium products increased to 72% in 1QFY24 from 68% in 1QFY23.
- The mix of Men : Women & kids remained same at 80:20.
- The share from Central and North India remained high at 50-55% while West contributed 23%, East 17% and South 11-12%.

Operating performance-
- The GM improved as a result of better sourcing and an improved channel/ product mix. Management expects margins to improve as 2HFY24 (the closed footwear season) approaches.

- LTM ROE/RoCE stood at 22.3%/23.5%
- It anticipates an increase in EBITDA margin to 19.5%–20.5%. Post this, management expects margin to expand 100bp annually..
- Marketing expenses are likely to remain at 6% for brand building.
- There is a minor increase in the working capital led by slightly high inventories (expects to leverage in the upcoming festive season).

Others

- The company launches 300 designs every year leading to total designs of 600 SKUs.

Devyani International — Buy

Current Price INR 194

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Detailed Concall Transcript &
Results Update

Key Highlights

- DEVYANI targets to add 275-300 stores in FY24 and to increase the total store count to 2,000 by FY26, implying a 17% CAGR in store adds over FY23-26E. It plans to add 70-75 stores p.a. for PH, 60-70 stores for Costa Coffee and 120-125 stores for KFC.
- The company has increased prices in PH by less than 1% just to neutralize the slightly margin-dilutive value category. Similarly, it hiked prices in KFC by 3% last quarter.
- KFC's SSSG in 2QFY24 could be lower owing to Hindu festivals. However, RM prices in KFC have largely stabilized and cheese and milk prices for PH/CC have started to stabilize.
- The company intends to strengthen the PH model by continuing marketing expenditure (6% of sales), developing customer franchisees and innovating products.

Detailed Highlights:

Strategy

a) Stores expansion

- DEVYANI targets to add 275-300 stores in FY24 and to increase the total store count to 2,000 by FY26, implying a 17% CAGR in store adds over FY23-26E. It plans to add 70-75 stores p.a. for PH, 60-70 stores for Costa Coffee and 120-125 stores for KFC.
- The store expansion would not have a material impact on operating margins and the funding will be done via internal accruals.
- The company continues to favor non-metro destinations (52% of total store count). New stores take time to stabilize and reach the maturity level, and hence this has impacted the overall brand performance. The company expects it to stabilize in the due course of time.

b) Formats growth

- The innovation pipeline remains strong and expect to introduce new products in the upcoming quarters.
- Expects Vaango (South Indian brand) to become the INR1b brand by FY24. The management expects the brand can do well in high footfall locations, and hence the focus area is Airports, Food court in mall, etc. The store size is expected to be bigger and marketing spend is required.

Performance

- Gross margin at 69.7% was higher by 1.1% QoQ due to a marginal price increase at the beginning of the quarter, along with stable input material costs. Costa Coffee GM has been impacted due to milk and coffee bean pricing inflation.
- Brand contribution margin stood at 21.1%, improved by 3.6% QoQ, due to better leveraging.
- A rise in minimum wage in some states and increment in Apr'23 led to high employee costs.
- Devaluation in Nigerian currency impacted P&L, accounted as an exceptional tem of INR470m. There is no cash impact.

Expect RM prices to remain stable

- In KFC, prices of key RMs, such as chicken, oil, flour, and packing material, are stabilizing.
- In PH, the cheese and milk prices were increasing and now the cheese prices and milk prices started to stabilize. There is excess supply of milk now in the country.
- Hence, expects the demand environment to pick up in 3QFY24.

KFC

- 2Q is seasonally the slowest quarter and this time it is affected by Hindu festivals.
- High pent-up demand last year impacted SSSG this quarter.
- The introduction of the value meal layer in KFC is slightly margin-dilutive, but on a combo meal basis, it gets neutralized.

PH

- The company has increased prices in PH by less than 1% just to balance the overall mix and the headwinds from the Fun Flavor launch last year.
- With inflation likely to stabilize, premium pizzas are getting good responses.
- With milk and cheese prices stabilizing, the management expects an increase in store margins going forward.
- There is nothing fundamentally wrong with the pizza market as it is still growing despite being the largest QSR segment in the country. It is just kind of demand getting balanced out with the other formats available (McD/BK/KFC has expanded a lot). Also, pizza is one of the most expensive subcategories and high inflation led to people down-trading.
- From a brand perspective, the company is spending 6% of revenue on marketing and new product launches.

Jubilant Foodworks — Buy

Current Price INR 487

JUBILANT FOODWORKS

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Strategy

- The company has a strong pipeline for store additions in FY24. For Jubilant, the network guidance continues at 200-225 new stores, and 30-35 stores for Popeyes.
- It is targeting tier-1/3 cities. Key criteria for store selection are 1) a payback period of less than two years, and 2) in-line margins.
- The Eating-out market is USD50b and pizza as a category is about USD1.0b. The company aims to convert the unorganized market share into the organized


Jubilant FoodWorks

market and has taken the following steps: a) including a spicy product range, b) superior technological effort, and c) store network expansion.

Current scenario

- The demand environment is still unpredictable. Malls were doing well in the previous quarter, but now they appear subdued.
- Their Tier-4 store is doing better than expected.
- Dominos has the advantage of a) quick delivery, b) low-value offerings, and c) reward points, which can help it perform relatively better than peers.

RM cost- Inflation remains elevated

- Prices of key ingredients remain elevated in this quarter. Cheese prices are high vs. last year and the recent increase in vegetable prices poses some challenges.
- Milk prices declined marginally but remained higher than last year. Overall basket saw moderation sequentially.
- The company is able to expand its operating margins sequentially on account of higher productivity-led cost optimization initiatives.

New product launch to improve ticket size

- JUBI has launched a new line of Domino's Red Hot Spicy Pizzas during the quarter, with four pizzas starting at INR179.
- Prior to this, it launched Pizza Mania, with prices ranging from INR49 to INR149. The new line will spur growth in value and volume while luring clients away from the unorganized sector.
- In addition to launching Domino's Roasties, a tasty entry-level product that combines stuffed roasted bread with a lovely local Sri Lankan touch, the company also launched Choco Breadstick in Bangladesh.
- Growth in Hong's Kitchen was driven by the number of orders and increasing ticket size.
- The popularity of Sandwich, bone-in chicken, is growing at Popeyes.

Performance

- While the ticket size reduced in 1QFY24, sales growth was driven by order-led growth.
- GM gain was driven by the company's internal efficiency (efficient systems and processes), despite key RM prices remaining weak.
- LFL growth-
  - Lower footfalls in mall stores may have contributed to flat growth in the dine-in business.
  - Delivery in 20 minutes or less increased LFL growth and delivery channel repetition rates. Delivery channels may clock stronger LFL growth after the rainy season.
- Orders, ratings, and downloads of apps have increased, and conversion rates have improved.
- Higher labor costs were caused by factors like the increase in minimum wage, store expansion and the mix effect of variable labor costs.

Others

- A majority of Dominos outlets are located in Bangalore, and the 20-minute delivery option is also available.
- In Bangalore, it has opened its first Popeyes location.
- From Aug'23 onward, JUBi expects to open a commissary that will serve more than 750 stores. The company spent INR2.7b on the commissary.

- Since it was previously using third-party contracts, this could have resulted in some operating cost reductions, but it will increase the depreciation cost, hence the benefit will be neutral.
- Since sales increased after Suryakumar Yadav's century, the company wants to capitalize on the World Cup in 2023.

metro BRANDS

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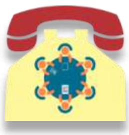

Metro Brands Buy

Current Price INR 1,030

Key highlights

- The company plans to add 200 stores (excl FILA) over the next two years. It would additionally look to add 300-400 stores under FILA in the long run.
- The integration with FILA is progressing as planned and the company expects to liquidate old inventory by the end of 3QFY24.
- The management indicated that the quarter was affected mainly by a high base last year, but consumer demand in the premium segment remained strong. A moderation in ASP and gross margin going ahead in 2Q and 4Q, mainly due to EOSS is expected to retrace gross margin to 55-57% vs 58.1% in FY23.
- While any clarification around BIS norms is yet to be received, the company expects some disruption in supply due to its implementation and has hence frontloaded some inventory.

Detailed notes

Business performance:

- The quarter witnessed normalized growth, with standalone revenue growing 12% YoY. Revenue growth compared to 1QFY20 stood at ~80% as against 43-44% footprint growth.
- Modest YoY growth in revenue was mainly a result of a higher base in 1QFY23, due to pent-up demand in the first normalized quarter after Covid.
- The trend of premiumization has been playing out, as sales of items with a price over INR3,000 saw improved share. Apart from this, the online segment, too, witnessed strong growth.
- Expenses now seem to have normalized with the resumption of business activities. The quarter witnessed normalization of rental expenses as against rent waivers received earlier. It expects Ad spends to remain in the historical range of 3-4% of revenue.
- The company stated that it is yet to receive any clarity around BIS norms, which are to be implemented in Jan'24. It, however, foresees some potential risk in supply and has, hence, frontloaded some inventory.
- Discount sales in 1QFY24 stood below 5%. It expects the annual share of discounted sales to remain within the historical range with some variations on quarterly basis.
- Lower sales in the Men's category were mainly due to the re-classification of crocs sales (classified under unisex).

Store opening:

- The company opened 27 stores during the quarter, taking the total store count to 766 stores (excl FILA and Pro-line). This is in line with the company's growth guidance.
- It plans to add 200 stores (Excl FILA) over the next two years.

- The lower revenue thru-put in newly opened stores in Tier 2 and 3 towns is being compensated by lower opex and capex, which helps maintain store-level profitability. The company is further looking to add more Fit-flop and Croc stores, which have higher thru-put.
- The company will continue its store expansion through mainly three strategies, viz.:
  - Cluster-based approach: growing in similar cities wherever there is scope for expansion
  - Backfilling: adding Crocs and Fitflop stores alongside Metro and Mochi stores
  - Entering new cities
- The company further looks to expand crocs stores going ahead. It has seen some delay in store opening during the quarter mainly due to a delay in the mall openings.

FILA and Cravatex:

Cravatex:

- The implementation of ERP module, which is also present in Metro, saw some loss of sales due to transition.
- The loss is expected to be to the tune of INR140m.

FILA:

- The company has indicated that the FILA integration is on track and the liquidation of old inventory is in process, which is expected to be completed by the end of 3QFY24.
- After the liquidation, the company is looking to revamp the pricing, which is expected to range between INR4,000 and INR6,000.
- The company will look to focus on catering to premium customers, with focus on growing its premium category and rationalize distribution.
- The company has access to global tech and design, which can be leveraged on the domestic business. It will look to fill the gaps in designing with the help of its in-house designing team.

Demand/Growth outlook:

- Incremental growth for the quarter came from the contribution of new stores added last quarter and improved sales from outside brands (30% of sales), which have higher ASP.
- It did not impact gross margins, as a majority of growth came from Crocs and Fit-flops, which have higher margins and existing tie-up with the company.
- The management has further indicated that Q2 and Q4 could see some moderation in ASP and GM mainly due to EOSS.
- Despite higher margins seen recently, the company has maintained its GM target in the range of 55-57%.

Inventory:

- About 70% of inventory in the system pertains to core business.
- Product designs are either its own or collaborated with vendors. Wherever the company makes any tweak in designs, it is kept proprietary.

Pricing:

- The blended ASP witnessed grew merely 1% mainly due to improved share of lower ASP category and growth in Online business, which operates at an ASP of INR1,000.

- Excluding this factor, footwear ASP grew ~6-7%, whereas on store level (including accessories) it stood at 3%.
- ASP for Crocs (excl Jibits which has ASP of INR250-300) grew from INR2,900 to INR3,000.

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Sapphire Foods — Buy

Current Price INR 1,367

Summary notes

- The management has reiterated its previous guidance to double the store count in the next three to four years, implying a 15-25% store CAGR. PH store additions are expected to be lower in FY24 compared to FY23.
- The company said the majority of RM inflation had already been factors in and it does not see any significant GM improvement. However, the company will focus on attaining 20%+ EBITDA margins for KFC.
- The company intends to strengthen the PH model by a) increasing marketing expenditure (particularly on television), b) developing customer franchisees and c) innovating products.
- 2QFY24 SSSG for KFC could be lower owing to Hindu festivals, with Sri Lanka expected to recover in FY24

Detailed notes

Witnessing RM cooling off in all the formats

- The company said the majority of RM inflation had already been factors in and it does not see any significant GM improvement. However, the company will focus on attaining 20%+ EBITDA margins for KFC.
- In addition to the RM cool-off benefit, the firm has tightened cost control, resulting in KFC delivering the highest ever ROM at 20.8%.
- Lower RM costs also benefited the PH and SL formats.
- In SL, the condition is now improving, and the company expects GM to stabilize and not to witness any significant increase in costs.

KFC format-

- The price hike in Apr'23 had no effect on SSSG (as every year it hikes prices), but SSSG was impacted by strong pent-up demand last year.
- 2QFY24 is expected to remain weak due to Hindu festivals.
- The company maintains its guidance to double the store count in 3-4 years (on the base of CY21), implying a 15-25% store add CAGR.
- The company wants to create a value range option for the snacking category, therefore it started the menu from INR99.

Pizza Hut format

Current environment

- 1HFY23 was the best for PH, but after Diwali, the format delivered low returns; hence, ADS is hovering around INR50k.
- The company is delivering negative SSSG, although the number of transactions is not decreasing. High competition in Pizza from both national and local players could be a factor contributing to low SSSG.
- SAPPHIRE expects store adds for the year would be lower vs. FY23.

To strengthen the format, the company is planning to

- Continue marketing spending, particularly through television and the launch of a new app

- Create a customer franchisee through new geographies and trade areas
- Innovate new range of products (including value options) and expand the delivery channel
- Improve accessibility by opening 1,000sqft stores and densify in top 6 cities
- Maintains its guidance to double the store count in 3-4 years (on the base of CY21), implying 15-25% store add CAGR.
- Had already reduced the transaction value from INR700/order to INR 450/order in the last 3 years.

Sri Lanka format

- A recovery is expected to begin in FY24, with the country posting positive GDP growth and single-digit inflation.
- Consumer demand is currently being hampered by high taxes and inflation. However, the operating condition of the format remains stable.
- Inflation stabilized from 18-19% in Oct'22 to 10% in Jun'23.
- Dining segment improved to 29% in 1QFY24 vs. 22% in 1QFY23.

New products launched

- The company continues to focus on delivering value and product innovation in the KFC and PH formats.
- In KFC, it has launched KFC Snackers, a range of seven products at INR99, which include Chicken Rolls, Longer Chicken Burger, Popcorn, Fries and Beverage options.
- In PH, it has launched a range of 10 new core pizzas and fries. It targets to serve Indian and International flavors in Pizza.

Others

- Last year it did not pay any tax and this year it deferred tax expenses; hence, there will not be any cash outflow.
- New store contribution in KFC is roughly 75% of old store ADS, while the contribution in PH is roughly 75-80% of old PH stores.
- According to the management, any location that saw double-digit inflation experienced a year-long impact on customer demand, which gradually normalized.
- Pizza Hut has been recognized by YUM! as No.1 franchisee globally for Guest Experience Score.
- SAPPHIRE was recognized by YUM! among top 3 in food safety.

Shoppers Stop — Neutral

Current Price INR 811

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Key Highlights:

- Launched Value fashion category "In-Tune" on a trial basis. The company plans to add 10 stores by the end of Sep'23.
- Expects subdued revenue growth for 2QFY24, mainly attributed to a shift in the festive period. However, a recovery is expected begin from 3QFY24 onwards.
- Maintained its margin guidance, expecting it to range between high single digits. Despite making newer investments, the company does not foresee significant dilution of margins.
- Re-iterated its store addition guidance, planning to add 10/12 Departmental stores and Beauty stores. The allocated capex for these expansions is set at INR2b.

- Net Debt at INR900m is expected to go up to INR1.2b by Sep'23 and then taper off.

Detailed highlights:

Retail Market Scenario

- Following Diwali, the apparel market has shown some moderation, impacting the company's performance. As a result, the quarter presented a mixed bag scenario with the beauty segment experiencing growth, while the apparel segment remained soft.
- Apr-May'23 witnessed a subdued performance, dragging revenues for 1QFY23. However, there has been an improvement in Jun'23, with a noticeable MoM growth seen.
- 1QFY23 had pent up demand post Covid, which further led to moderate growth on a YoY basis.
- The company has stated that the mass and masstige segment is expected to experience muted growth.

Financial performance:

- The company stated that the moderation in EBITDA was mainly due to investment in new initiatives and higher offers in the mass and masstige segment in 1QFY24.
- ATV reported a growth of 8% YoY, led by continued premiumization across brands. ATV reported 13th consecutive quarter of growth.
- ASPs, too, grew 5% YoY, on the back of continued focus on premiumization.
- The Non-apparel segment reported a double-digit sales growth with the watches category for prices >INR15k improving its share from 11% to 23% in 1QFY24
- The company further stated that items per transaction have seen improvement along with higher footfalls being witnessed on account of early start of EOSS.
- The company witnessed an 8% YoY growth in footfalls in stores (11.4m in 1QFY24 vs. 10.5m in 1QFY23)
- Volume levels remained flat in 1QFY24. The company, in the medium term expects volume growth to resume and reach high single digits or low double digits.

Cost and Margins

- During the quarter, the company experienced higher costs, primarily attributed to investment in new initiatives such as footwear (Pvt brands) and the introduction of new format "In-tune" in Jun'23. Excluding this, costs would have grown 6-7% on a YoY basis.
- The decline in absolute amount of 'other expenses' in 1QFY24 was mainly a result of reducing lease rental expenses and implementing various cost-control measures.
- The company has maintained its margin guidance to hover around in high single digits. Despite new investments, it does not expect significant dilution in margins.
- ESOP expenses for FY24 are expected to fall within the range of INR100m and INR110m, while FY25 is expected to incur significantly lower expenses towards ESOP. The company expects a dilution of no more than 1.8% over the next four years due to ESOP.

Strategic Pillars:

First Citizen:

- The contribution of loyalty customers improved to 80% in offline and 42% online.
- First Citizen contribution at standalone beauty door stood at 71%.
- The company under took ~150 engagement activities during the quarter, which led to strong growth in sales. Inactive customer base generated 4% revenue from these engagements activities.
- Redemption sales for the quarter contributed to ~11% of the total sales.
- Contribution of Black card customer sales improved to 13% in 1QFY24.

Private brands

- The segment saw some impact due to apparel demand pressure. However, it managed to sustain its share at 14% of overall sales (21% in apparels)
- Category wise, Indian wear outperformed other categories, while categories such as Denims and sleepwear within the women wear did not perform well.
- The company's in-house brands, Haute Curry and Kashish, grew 42%/14% YoY, while Men's brand Fratini reported a 39% YoY growth on an overall basis.

Launch of "In-Tune"

- In Jun'23, the company launched "Fashion For All" category through In-tune, offering 100% in-house assortments with focus on apparels across all categories.
- The segment is currently running on a trial basis and the company has opened three stores as on date.
- The early response to the category is encouraging and the company will continue to add stores as part of its trial. It intends to have 10 stores by the end of 2QFY24.

Beauty:

- The segment remains one of the fastest growing categories.
- The company undertook ~160k makeover in stores which has resulted in double-digit revenue growth
- The company's in-house brand "Arcelia" launched 80 new SKUs during the quarter.
- It has further I=introduced "Virtual Try On and Skin Analyzer" at SS-Beauty store for virtual try on make-up experience
- Apart from being present within the 98 departmental stores, the company currently operates 89 standalone beauty boutiques.

Beauty Distribution:

- The company has on-boarded "Armani" (L'Oreal Group) along with a couple of fragrances brands
- The segment reported revenues of INR150m with EBITDA reaching break-even levels.

Omni:

- The company's online portal "ShoppersStop.Com" has seen a good quarter with 16% YoY growth.
- The company has stated that the build investment within the "SSBeauty.in" has already been done and it is expected to pick up from here onwards.

Capex and Store adds:

- The opening of two to three departmental stores were delayed due to regulatory approvals. It expects to open two departmental stores in the next two to three weeks.
- It expects to open five stores in 2QFY24 and further three in 3QFY24 with ~75% of stores to be present in Tier 2 and some in Tier 1.
- It has maintained its annual store opening guidance of 10/12 Departmental/Beauty stores with an expected annual capex ~INR2b, which will be internally funded
- The company, during the quarter, incurred a capex of ~INR550m.
- In addition to above, the company will open a large beauty format in Kolkata in early 4QFY24 with an estimated store size of ~9000 sq. ft.

Working Capital and Debt:

- The inventory increase during the quarter was mainly due to the transition from SOR to the outright model within the beauty segment, as well as lower sales in apparel.
- The company expects inventory levels to normalize from Jul'23 onwards within the private brands category, while inventory under beauty is expected to remain at current levels.
- The current net debt of INR900m is expected to rise to INR1-1.2b by Sep'23 due to a shift in the festive period. However, the company expects to turn cash surplus from Dec'24 onwards.

TITAN

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Titan Company

Titan — Buy

Current Price INR 3,060

Performance and outlook

- Management focuses on brand building across different dimensions through 1) regional developments in Tamil Nadu, Telangana, West Bengal, Odisha, etc. in their local languages, 2) high-value studded collection, 3) wedding collection, and 4) gold exchange program.
- Currently, the company has 7% market share; it targets to achieve a double-digit share in 3-4 years.
- The company is pursuing a regionalization strategy, not solely focused on the South.
- Demand in Jun'23 was good compared to Apr'23 and May'23 due to volatility in gold prices.
- Gold exchange program was initiated to attract customers and it is a robust engine for growth. The whole cost of exchange program is absorbed by the company and not by partners.
- In 1QFY24, Non-Tanishq contribution was 35% (normally 30-31%) and Tanishq was 15% (normally 9-10%) through gold exchange program.
- Management commented that normally 1Q is weak on margin front.
- Management highlighted quarter wise sales pattern: 1Q has more gold contribution, therefore has slightly lower margin, 2Q & 4Q have high studded contributions, while 3Q is the urban wedding season that is highly margin accretive.

- Volume is driven by growth in customers, with a keen eye on new and repeat buyer metrics.
- E-commerce had 6-7% contribution to total sales. It included both in-house and Flipkart, Amazon, etc. On Flipkart and Amazon, the company mostly sells lower-end FastTrack sunglasses.
- The Adhik mass in Jul'23 is not much of a concern due to strategic intervention by the company.
- Management highlighted that revenue growth will be better than earnings growth in FY24.

Cost and margins

- There is no margin differential in old and new jewellery. Old jewellery is not margin dilutive, the customer offer is given based on the condition.
- Management highlighted that margin protection will be from geography and channel mix.
- It focuses on light weight and modern jewellery, and richer and studded jewellery which will enhance customer sentiments in volatile environment and help to improve margins.
- Management guided for an unchanged 12-13% EBIT margin in jewellery division for FY24.
- 1QFY24 margins were hit by the 100bp one-time inventory gain in base quarter.
- Management commented that margins were normally high in FY23.
- Capital employed was high due to high inventory and debtor.
- International market had healthy margins but hit by a one-time provision for developmental costs and smartwatch-related expenses.

Segmental information

- In Watches segment, volume growth for analogue declined while wearable category saw good volume growth.
- Jewellery had healthy store expansion. Management plans to upgrade the existing stores and expand new stores significantly. Historically, it added 32-40 new stores every year.
- The wearables market is estimated to be around INR9k crore to INR10k crore and is growing rapidly. The company's growth in the wearables segment is also significant.

International markets

- TEAL has a very strong order book. The investment requirement will be met through borrowing or internal funds; equity fusion will not be required.
- Management is looking for store expansions in the international market. It plans five stores in the US, and 13 in GCC to take the count to 24-25 stores in FY24
- International market is doing better than expectation on profitability front.
- Inventory is generally higher than normal level. Each store will have an inventory of USD6-8m.
- The company is considering sourcing locally in Dubai, and currently, about 10% of sales in the GCC are sourced from Dubai.

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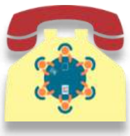

V-Mart Retail

Buy

Current Price INR 2,193

Key highlights

- The company expects LFL growth of 5% on value and 8-9% on volume terms for FY24; expects recovery to flow in from 3QFY24 onwards with the onset of festive period.
- Incurred a capex of INR560m toward the establishment of a new warehouse and store opening; expects some disruption in sales due to a shift in warehouse, which may take six months to normalize.
- Anticipates a rise in debt levels by the end of Q2FY24, primarily due to inventory buildup for an upcoming festive period. The intention is to subsequently normalize the debt levels by the end of FY24.
- Reiterated its cap of 20% of overall EBITDA to fund losses in the online segment.

Demand Scenario

- Overall, industry growth has been muted, as brands reported lower footfalls and conversion due to economic pressure.
- The management stated that it is seeing MoM improvement in the demand scenario, attributed to a recent reduction in pricing. Geographically, the eastern region of India has demonstrated promising progress, whereas the UP belt grapples with challenges stemming from the transition to a formal from an informal economy, compounded by weather disruptions during the quarter, which shortened the summer season.
- Within the Southern region of India, there has been a decline in growth for Telangana and Andhra Pradesh, whereas Tamil Nadu and Kerala have experienced noteworthy expansion.

Performance

- The corrected pricing mix during the quarter aided in 23% improvement in footfalls and same store volumes growth of 6%
- The share of Digital (Limeroad +Online) within the overall mix stood at 5% in 1QFY24 from 3% earlier. The company expects this share to go up in the near term.
- Tier 3 stores have faced adverse effects from reduced sales, primarily due to inflationary pressures that have strained household budgets. Additionally, the increased presence of new retailers has contributed to heightened supply in the market.
- The newer stores in the South recorded ~27% higher sales performance as compared to other stores.

Lime road

- The recent projects initiated within this segment have received a positive response.
- The company is witnessing improved operating efficiencies within the segment with 43% QoQ growth in NMV being seen in 1QFY24.
- The company has launched “fashion first LR studio” for women, within which, it has identified best sellers, which will be incorporated within the V-Mart stores.
- The company will maintain its emphasis on category supply, as well as search and discoverability, in order to enhance the overall customer experience and provide greater value to its customers.

- The segment ASP currently ranges between ~INR600 and INR650. Going ahead, it will look to soften ASP with focus on improving the items per cart, backed by cross selling.

Capex and store adds

- The shift towards newly operational warehouse led to disruptions in its supply chain, leading to a sales loss during the period of 45 days in Jun-Jul'23.
- The management expects six months for the warehouse to stabilize and see results with better turnaround time and inventory replenishment.
- The company opened nine New stores (one in South) during the quarter and closed one store in Karnataka.
- The company incurred an overall capex of INR560m toward the new warehouse completion, nine new store openings, and some store refurbishments.

Expenses

- Expenses for the quarter included ~INR530m toward online spends (LR +online channel) mainly pertaining to marketing cost. Excluding this, expenses for the quarter grew 8% YoY.
- The company foresees a consolidation of marketing expenditures in the upcoming period, with the majority of integration efforts focused on the online business now nearing completion.
- Decline in EBITDA was mainly due to higher inflation and lower gross margins.
- 20% of Group EBITDA limit losses of Online.

Working Capital

- The quarter reported a reduction in Inventory by INR1500 QoQ, which helped improve working capital cycle. Of this, 10% inventory was from partner brands, which had no risk.
- The inventory pertaining to Kirana was higher, due to the presence of some inventory at warehouse.
- Store-level inventory stands at ~50 days and this does not include perishable commodity, which has lower shrinkages.

Leverage

- The management stated that it anticipates a rise in debt levels by the end of Q2FY24, primarily due to inventory buildup for an upcoming festive period. The intention is to subsequently normalize the debt levels by the end of FY24.

Other highlights

- The company is currently grappling with challenges stemming from changes in the behavior of rural customers, attributed to increased availability of products and information.
- It further stated that it continues to focus on its existing customer base, rather than shifting its focus toward ultra-modern customers. It also expressed that it does not anticipate any significant cannibalization of existing customers by these new players.
- The new design and sourcing team is settling in and new autumn collection has been launched in certain stores.

VEDANT FASHIONS
– LIMITED –

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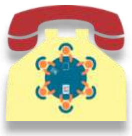

Vedant Fashions — Buy

Current Price INR 1,216

Key Highlights

- Witnessed weaker performance in 1QFY24 on account of lower number of wedding dates; Expects recovery from 2HFY24 onwards.
- Launched three exclusive stores under Twamev brand, along with the introduction of women wear category; plans to open ~10 stores by FY24 on pilot basis and then plans to expand accordingly
- Maintains its long-term target to achieve mid-high single digit SSSG, with gross margins expected to remain at similar levels.

Detailed notes

Financial performance:

- The weaker performance in 1QFY24 was on account of fewer wedding dates and a higher base in FY23.
- The company generated a healthy cash conversion ratio of 78% (OCF/PAT) in 1QFY24.
- Working capital days as of Jun'23 stood at 85 days (TTM basis).
- The higher differential between customer sales and revenues for 1QFY24 was mainly on account of new stores opened.
- Other expenses for the company are pre-dominantly variable (job work, carriage and marketing expenses). Revenue share under lease is mainly in case of malls, which is very miniscule.
- The company expects gross margins to remain in the current range going ahead.
- It has maintained its target to achieve mid to high single-digit SSSG in the long term.

Demand Scenario

- The company stated that demand slowness is an industry-wide phenomenon as reflected in a 40% decline in the company's MBO channel.
- VFL, however, feels that demand has been deferred and not lost and expects a recovery in 2HFY24 with the onset of the festive and wedding seasons.
- It has also indicated that the number of wedding dates in 2HFY24 is expected to be 30-40% higher vs. 2HFY23.

Under the emerging brands segment:

- Twamev saw better growth on the back of a lower base and increased store presence.
- Women wear brand Mohey too witnessed decent growth with improved presence in seven new flagship stores.

Emerging brands

Twamev

- The company, during the quarter, launched three EBOs for Twamev spanning across 22,000sqft in aggregate.
- The segment further witnessed the launch of women wear. Early trends indicate a strong response to this category, with a revenue mix between 'Men: Women' at 55:45.
- The company, through this segment, looks to target families with an annual income of over INR5m.
- It will come out with a brand film soon.

- The company will continue to follow the bottom-up approach on designing, which would be based on demand.
- It is further looking to on-board new talent by scouting from places across hospitality and is training them to sell the products.
- The premium product category in this segment has enabled ASPs for the segment to range around 2-3x that of Manyavar and Mohey. Further, the average basket value is 3x of the flagship brand.
- In addition to the three new stores, the company plans to launch two new stores in the next three months. It also plans to sign 3-4 stores. The company will monitor these pilot stores and accordingly plan its expansion strategy.

Mohey

- The brand is witnessing increasingly better demand for products and is recording improved conversion rates and supply chain matrix.
- The EBO launch for the brand is expected to be launched in early 3QFY24. This would be followed by the opening of a couple of stores by the end of FY24 on the pilot basis.

Footprint addition

- The company continued to increase retail footprint in 1QFY24 and opened 13 new stores during the quarter.
- Within India, the company has a store presence of 646 across 248 cities.
- During the quarter, the company opened its largest flagship store of 22,000sqft in Bangalore.
- The three Twamev EBOs and the recently opened flagship store have been taken on lease on the company's book given the strategic importance of the locations.

westlife™

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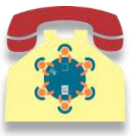

Westlife Foodworld — Neutral

Current Price INR 901

Guidance

- Targeting revenue of INR40-45b with 580-630 store addition and better profitability by 2027 on the back of its meals strategy, Omni channel business model and right network expansion.
- On a steady state basis, WLDL is confident of delivering high single-digit SSSG and 12-13% store growth, along with 18-20% EBITDA margin.
- For FY24, it is on track to open 40-45 new stores.
- All the stores (except the food court) will be converted to EOTF stores over the next three to four years. Royalty increased by 50bp as advised earlier.
- Targeting 30 to 50 stores every year to be converted into EOTF stores

New product launch

- Menu innovation is the key for growth:
- WLDL launched Piri Piri McSpicy range limited-time offer in April.
- Introduced Jain-friendly option to democratize the menu, which did quite well in West market.
- It wants to build the portfolio in burgers, chicken and coffee.
- Established partnership with Jr. NTR as the brand ambassador for chicken products and introduced chicken sharers in the South.
- McCafe's growth is being boosted by cold drinks like frappe, shakes, and coolers.

Performance

- SSSG stood at 7% YoY, led by product innovation and McSaver Value platform launched in Jun’23. It has not taken any price hike or price cuts in the portfolio.
- Operating profit and the release of working capital led to increased cash position in Jun’23.
- Sales growth in metro was higher than in non-metro towns on YoY basis; however, on the pre-Covid level, non-metro towns grew much faster.
- Overall growth is reported across metros, tier 1 and smaller towns.

Current environment-

- The demand situation is still weak but the company’s focus on the meal strategy and tie-ups with aggregators helped it outperform the peers.
- Collaborative partnerships with aggregators helped it improve delivery sales.
- The impact of inflation has been mitigated by robust supply chains.
- WLDL has not seen any surprise from milk and milk-related products as it has already factored in the impact.
- Vegetable inflation, which is a seasonal effect and was anticipated, did not have a significant impact either.
- Digital channel grew by 64% YoY. The majority of growth came from walk-thru, with sales up 3x by Kiosk.
- Its brand strength, product portfolio, consistent strategic approach, and real estate portfolio quality continue to give WLDL an edge over others.
- Real estate is challenging, looking at the store size (especially in Mumbai), but it will stick with the existing store size.

TECHNOLOGY

- **Managements across the IT pack indicated that the unfavorable macro environment affected discretionary spending, which is leading them to reprioritize activities on enterprises' core operations. Weak growth in Q1 was due to a softness in key verticals, with BFS, Retail, Communication and Hi-Tech seeing major declines. Managements have alluded that project deferrals, delayed approvals and deal scrutiny have become more prominent, while deal TCV remains steady. Managements believe that the weakness is expected to continue for a couple of quarters, although they have maintained margin guidance and see multiple levers that could optimize margins in FY24.**

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Revenue outlook for FY24	Sustaining margin (%)
HCL Tech	■ The cuts in discretionary spends and delays in projects for telecom and technology continued to hit ER&D in 1QFY24. ■ Though deal wins were down 25% QoQ in 1QFY24, the pipeline remained at an all-time high and should translate into strong conversion in 2QFY24. ■ For FY24, it has maintained revenue growth guidance at 6-8% YoY in CC (6.5-8.5% CC for Services)	■ EBIT margin guidance has been retained at 18.0-19.0%.
Infosys	■ INFO expects the softness to persist in the areas of mortgage, asset management, investment banking and card payments. ■ Large banking clients have become cost conscious and are delaying discretionary and transformation programs. ■ INFO has sharply lowered its FY24 revenue growth guidance to 1.0-3.5% YoY CC from 4.0-7.0% YoY CC earlier	■ Despite the sharp cut in revenue guidance, the company remains confident of achieving EBIT margin in the range of 20-22%.
TCS	■ The demand softness was broad-based across multiple pockets as clients continued to reprioritize projects with higher ROA, hence creating near-term revenue leakages. ■ The deal pipeline remained strong with healthy booking of USD10.2b (BTB 1.4x), with a balanced mix of vendor consolidation, transformation and integration projects. ■ The current environment is making enterprises cautious, which is leading to pauses and deferrals in non-critical projects.	■ The management sees further scope of improvement in utilization, productivity, discretionary spending, and pricing, which are some of the levers to play out in improving margins. ■ It is confident to improve margin to 25% in FY24E.
Tech Mahindra	■ Under CME, management believes that the worst is behind for the space and it should see a gradual recovery from hereon. It expects 2Q to stabilize and 2H to see a recovery for the segment. ■ The deal pipeline is healthy at this moment; however, the conversion remains a challenge as the enterprise business is witnessing slower decision-making.	■ The company touched upon multiple margin levers and expects a gradual recovery from the current level due to: (1) juniorization of pyramid, (2) drive offshoring up by 400-500bp in the medium term, (3) divesting in non-strategic portfolio, and (4) reducing subcon % of revenue by 400bp to 10% from the current level.
Wipro	■ The consulting business is significantly hit by the slowdown in discretionary spends and WPRO expects the consulting-related spends to resume once the macro headwinds start receding ■ The weak guidance in 2Q is majorly attributed to macro uncertainty and no near-term demand visibility. Clients are maintaining caution at this moment; otherwise business transformation remains integral to CIOs and CXOs.	■ It aspires to reach 17.0-17.5% operating margin in the medium term and it continues to progress toward achieving the thresholds, but near-term uncertainty weighs on the improvement.

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Cyient — Buy

Current Price INR 1,585

Commentary on verticals

- **Transportation:** Under Aerospace, the management is seeing strong signs of spending super-cycle (which happens once in a decade) as the current aircraft platforms (25 years old) are due for upgrades, along with other new programs.
- **Connectivity:** Connectivity was soft on account of client-specific issues in the wireless business, which is expected to recover in a couple of quarters. Although the wireline business remains strong, telecom providers have reduced their spending on 5G as they are awaiting earlier investments to get monetized.
- **Sustainability:** There is a strong demand form EN&U companies on the green energy and hydrocarbon. The overall pipeline remains strong, which is expected to drive incremental growth going forward.
- **Growth Areas:** Demand for Auto remains strong and the outlook remains robust with two large deals singed during the quarter (software defined vehicle for commercial vehicle manufacturing company and perception management system for a construction major).
- On the other side, the Hi-tech and semi-conductor business dragged down growth. Hi-Tech is expected to remain weak. Demand in healthcare was also soft; however, growth is expected in the latter half of the year. The management remains hopeful of demand improvement 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.
- The current Fibre penetration is 55% in the US and is expected to go up to 65% on the back of government projects. There are similar projects in other geographies as well.
- Overall, from a macro standpoint, there is no material impact on the business, except in few sub-segments. CYL has maintained some caution on Healthcare, Semicon and Hi-Tech.

Commentary on Margin

- CYL was able to deliver strong margin performance on the back of a sharp decline in SG&A expenses. This included rationalization of some office infrastructure and computer hardware and equipment.
- Gross margin (DET business) was negatively impacted by merit increases and adverse business mix. The business mix is expected to reverse going forward.
- On the back of strong margin performance in 1QFY24, the management has revised the normalized EBIT margin guidance to 150-250bp vs. 100-200bp earlier.
- The wage hikes will be spread over the quarters and the management remains confident to deliver margins within the guidance band.

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Coforge — Neutral

Current Price INR 5,391

Demand outlook

- The demand environment continues to be stressed. However, the deep vertical presence and differentiated horizontal offerings are insulating the company against the current environment. COFORGE remained confident on finding the right avenues and achieving growth within the guided band of 13-16%.
- Management indicated that Travel, Transport and Hospitality (TTH) vertical is doing significantly well. It has not just sustained the volume from its existing

accounts, but also gained higher wallet share from those accounts. However, TTH vertical is facing a supply crunch at this moment due to higher demand.

- Within BFS, the banks are struggling to take decisions in the short- to medium-term and they are monitoring the macros closely. Outside mortgage, asset wealth management and Retail & Commercial banking remained weak.
- The Mortgage part of the BFS is very small to have any meaningful impact on revenue; it does not foresee any worse from hereon for the mortgage business.
- On the insurance front, P&C is performing well on the Duck Creek side, where the client Onboarding is strong and even the revenue stream is widening.
- Management was quite confident to get the order backlog executed on time as all these deals are signed contracts and hold integrity. It does not expect any material slippages to have any meaningful impact on its growth trajectory.
- The first quarter recorded higher order intake of USD531m; with that COFORGE has marked the sixth straight quarter of USD300m+ order intake. The intake included a five-year USD300m deal and another USD65m deal (both in BFS space).
- The USD300m deal is originating from a strong three-year old client relationship and it is on the vendor consolidation side, which has USD60m lock-in revenue every year for the next five years. Moreover, the deal is margin accretive.
- While another USD65m deal was won against one of the incumbents and it has 50% scope of Net New component.

Margin performance and outlook

- During the quarter, the company rolled out annual wage hikes for all the employees and honoured all commitments to on-board campus hires. The compensation revision also included annual bonus and ESOP components.
- The margin contraction was in anticipated line of the company. It expects the margins to follow an earlier trend of wage hike cycle, where the impact in 1Q is prominent followed by gradual recovery for the rest of the year.
- It has maintained the full-year EBITDA (Pre-RSU) guidance of 18% in FY24.
- The company reiterated to improve its gross margin by 50bp and reclaim 18% operating margin in FY24.
- The substantial contraction in margin was due to wage hikes, visa cost, continued investment in talent, and increasing bench strength in anticipation of growth in top accounts.

HCL Technologies — Buy

Current Price INR 1,171

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Demand and industry outlook

- Growth in 1QFY24 was dragged down by ER&D (-5.2% QoQ CC). IT Services declined 0.1% sequentially in CC. 1QFY24 is generally a weak quarter for HCLT due to productivity commitments.
- Among geographies for Services, growth was dragged down by RoW and Europe (down 6.2% and 2.4% respectively).
- For Services on the industry front, Financial Services, Manufacturing and Life Sciences performed well, while Telecom and Technology declined 14.4% and 7.8% QoQ on CC basis, respectively.
- Gains from the execution of large deals were offset by cuts in discretionary spending in IT Services business.
- The cuts in discretionary spending and delays in projects for telecom and technology continued to impact ER&D in 1QFY24. The management believes that telecom and technology verticals have stabilized and should start to recover from 2QFY24 and the worst is already over for the ER&D vertical.

- On HCL Software, the management is focusing on client success, renewals, and GTM partners. About 10% of bookings for 1QFY24 were driven by partners.
- Though deal wins were down 25% QoQ in 1QFY24, the pipeline remains at all-time high and should translate to strong conversion in 2QFY24 as many deals are already in advanced stages. The pipeline remains well diversified.
- The macro environment remains a concern. HCLT is seeing delays and ramp-downs in discretionary spending. However, there is an uptick in cost optimization and vendor consolidation deals.
- HCLT is currently working on 140+ Generative AI projects. HCLT expects to see an uptick in Gen AI projects. The management believes that the deflationary pressure from Generative AI is still 2-3 years away.
- The management has maintained FY24 growth guidance in the range of 6-8% CC, with +6.5-8.5% CC in Services, despite weak 1QFY24, due to visibility of faster revenue conversion of deals in 2QFY24.

Margin performance

- The negative margin impact from the dip in HCL Software was offset by a one-time gain on the intangible reversal. Sequentially, the margin impact was driven by a 10bp negative impact from forex, 36bp on lower utilization, 33bp on travel and other one-time costs, and 42bp from the absence of one-time benefit compared to last quarter.
- Delays in deal commencement in the later part of the quarter impacted utilization during the quarter.
- To maintain margins, the management has decided to skip management level increments (E4 and above; large part of wage bill) and defer increments for others.
- Higher fresher intake and the release of some productivity commitments will support margins in 2QFY24.
- The management has maintained its FY24 margin guidance at 18-19%.

Other highlights

- On LTM basis, HCLT generated USD2.5b in OCF, translating to 135% of net income.
- LTM attrition moderated to 16.3%, down 320bp QoQ.

Infosys — Buy

Current Price INR 1,425

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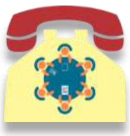

- Financial Services – INFO expects the softness to persist in the areas of mortgage, asset management, investment banking and card payments. Large banking clients have become cost conscious and are delaying discretionary and transformation programs. Nevertheless, the company sees a healthy pipeline for the segment.
- Retail – The inflationary environment is making enterprise clients cautious about costs and they are approaching vendors to drive efficiency in supply chain while leveraging AI and Automation.
- Communication- Budget cuts and delayed decision-making are slowing down project ramp-ups. Cost takeout has become the priority for major telco OEMs and is drawing focus on innovating new business models.
- Energy and Utility – Overall, spending continues for the segment; however, decision-making is a little slower on large-scale transformation projects. Utility clients are focusing on investing in new energy areas and value differentiation.
- Manufacturing – Strong traction on Engineering, Cloud ERP and Digital. The focus is on increasing production in a smart factory. Demand in Europe, Germany and UK is driving volume for the segment.
- The key reasons for the cut in revenue guidance were:

- ➢ The mega deals that the company was anticipating to execute in the second half of the year have been pushed out and delayed for a longer interval.
- ➢ A significant cut in discretionary spending across segments, mainly BFS, Retail, Telecom and Hi-Tech.
- ➢ Volume from the mega deals that are currently under execution is slowing down due to macro challenges in major economies.
- ➢ The decision-making has slowed down, which is affecting timely deal ramp-ups and creating a slack in revenue conversion.

- The 1Q performance was below the company's expectations as certain projects saw unexpected deferrals that are discretionary in nature and have been pushed out to a later stage.
- Despite the soft 1Q performance, the deal pipeline remains healthy, with multiple large and mega deals being pursued actively in the areas of cost efficiency, vendor consolidation and process optimization.
- Considering the macro headwinds, clients in the Banking vertical remain cautious about costs and are opting not to spend. Weakness is prominent in sub-verticals like Mortgage, Asset Management and Investment Banking.
- Europe is holding up quite well compared to the US. There is a strong traction for Manufacturing in Europe. However, softness is visible in verticals like sub-segment on Financial Service, Telcos and some part of Retail.

Margin Performance and Outlook

- Salary hikes are under active consideration. It is evaluating individual performances but has not provided any timeline on the same.
- Despite an uptick in utilization, the management sees further room for improvement and support for margins going forward.
- Despite the sharp cut in revenue guidance, the company remains confident of achieving EBIT margin in the range of 20-22%.

LTIMindtree

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LTIMindtree — Neutral

Current Price INR 5,170

Demand and industry outlook

- Adjusted for seasonal pass-through in 4QFY23, LTIM grew 0.9% QoQ CC in 1QFY24.
- The deal wins remained strong at USD1.41b, up 16.9% YoY with a higher share of efficiency-focused deals. The deal pipeline was up 13% vs. 4QFY23.
- Client budgets remained intact but revenue conversion was impacted by slower decision-making and cuts in discretionary spending. LTIM expects clients to utilize their budgets as macro environment stabilizes.
- Data, which is pre-requisite for leveraging generative AI, is large service line for LTIM and will drive strong growth. LTIM launched canvas.ai and is seeing strong productivity benefits in ADM (40-60%) and campaign management (time decreased from weeks to days), and achieved 1st parse accuracy document summarization, which was not possible though manual process.
- BFSI remains resilient despite weak macro as the nature of engagements is core. There is a strong vendor consolidation trend, but decision-making remains slow, coupled with hiring freeze at certain banks. Insurance continues to do well.
- Hi-Tech should remain strong for LTIM going forward on the back of strong deal wins. It expects increased spending in the later part of the year. There is a positive shift toward AI-based products; cost reduction and vendor consolidation remains in focus. 2QFY24 should remain strong for Hi-Tech.
- Manufacturing is seeing continued investments in supply chain. There is strong traction for IoT and data.

- For Energy, there are significant investments happening in core modernization. CPG and Retail – there are increased commitments for longer-term products and ERP and platform roll-out. Retail still remains a soft spot as it is lot more connected to inflation.
- Travel is seeing strong traction in leisure travel, while business travel is yet to recover. The traction in restaurant chains and hotels remains strong.
- Healthcare companies are divesting lower-margin businesses. Spending continues in areas such has regulatory requirements and value-based care.
- There is increasing traction for as-a-service model.
- LTIM will continue to focus on cross-selling and up-selling opportunities and Focus 100 accounts. It is confident of the leader's quadrant profitable growth for FY24.
- The management indicated higher growth in 2QFY24 vs. 1QFY24 and suggested growth in 2HFY24 to be similar to 2HFY23.

Margin performance

- The 30bp EBIT margin improvement was led by 170bp improvement in gross margin (out of which 120bp on account of reclassification), including 50bp on account of increased efficiency and 20bp hit on account of increased visa costs.
- Below gross margin level, reversal of 120bp reclassification cost and 20bp increase in marketing expenses in SG&A negatively impacted EBIT margin.
- The changing nature of deals to longer-tenure deals provides good lead time to plan talent and better manage the ramp-up costs.
- Wage hikes will be done in Jul'23, as planned. The management is confident of delivering 17-18% exit margin even after building for wage hikes.
- The management expects a further dip in LTM attrition as quarterly attrition has stabilized.

L&T Technology — Buy

Current Price INR 4,397

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Demand and industry outlook

- LTTS reported organic growth at 0.6% CC QoQ, missing our estimate of 2.4% CC QoQ. Reported growth was down 2.9% QoQ/up 9.1% YoY. The company has successfully integrated SWC (within Telecom vertical) in 1Q.
- Some of the deals for plant engineering were delayed in terms of decision-making as they were signed toward Jun'23 end. However, these deals have gone into execution, and some deals are in the pipeline, which are expected to be closed in 2Q.
- There is persistent weakness in semicon. In order to drive incremental growth, the company is moving up the capacity across spectrum. It is partnering with chip companies.
- There are several deals in the pipeline currently, which the company is pursuing and expects to close in 2Q, which gives confidence to the management to deliver growth within the guided range.
- Delays in decision-making and deal push-out led to a muted quarter. However, deal signing activities improved at the end of the quarter.
- The deal scrutiny has increased. The deal in semicon would close faster than it has seen in 1Q.
- On GCC, there is a strong transition of work from China to India. A large number of manufacturing companies are actively hiring talent and opening up labs in India to drive cost efficiency.

- The company has integrated SWC in 1Q, and LTTS has built a dedicated sales team in the US, Canada and Middle East to shift its (SWC) mode of operations from domestic to international.
- The SWC business delivers higher revenue in the second half of the year compared to the first half due to seasonality.
- The integration of SWC has added one large account of USD130m and three additional accounts of USD10m+ in 1Q.

Industry-wise commentary

- **Transportation –** It will continue to deliver strong growth, driven by its earlier investments in SDV and EV. There is a strong order pipeline, which is expected to be closed in 2Q.
- **Industrial segment –** Clients are actively pursuing deals under digital engineering, software platform, and AI for shop floor application. However, it believes that growth will continue, but not at the same rate as that of transportation.
- **Plant Engineering –** LTTS expects growth to return given strong backlog created in 1Q as Enterprises are approaching for designing and expansion of plants.
- Telecom & Hi-Tech – The company is confident of recovering growth in Telecom and Hi-Tech, with strong order bookings in 1Q. The large deal (USD 50m) comes under the Hi-Tech segment, but growth in semicon is uncertain and difficult to call out at this moment.
- **Medical –** There is a strong traction around connected devices, remote telepathy and diagnosis. Spending on medical is improving, with global enterprises shifting from the prescriptive model to a value-based health recovery model. Spending has improved in certain areas, but difficult to commit its longevity.

Margin performance

- LTTS aspires for EBIT margin of 17% in FY24. The SWC model is domestic-oriented and hence the realization is low, which is affecting operating margin.
- SWC has strong dependency on fixed price (35.6% vs. 29% in 4Q). SWC is majorly executed on the fixed-price model.
- The company is flexing several margin levers in terms of utilization, offshore and fixed pricing to driven operational strength and execution efficiency.

FY24 Outlook on margin

- FY24 USD CC revenue growth guidance has been maintained at 20% YoY, with organic growth of 10%+ YoY and inorganic contribution (SWC) of 10% YoY.
- The low-margin business of SWC would keep LTTS's margin (consol) low (~17% in FY24) for an extended period.

Mphasis The Next Applied

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Mphasis — Neutral

Current Price INR 2,462

Demand and industry outlook

- The weakness in BFS continued to impact 1QFY24. The Mortgage business continued to decline but at a slower pace compared to 4QFY23. Direct ex-DR was also soft.
- MPHL saw record deal closure activity in 1QFY24 at USD707m, 2x the average run rate. Artificial Intelligence accounted for about one-third of the deal wins. The company won seven large deals (five non-BFS deals, four deals above USD100m TCV).
- Canada, though a small market, saw strong traction, with new deal TCV of USD40m, revenue doubling QoQ and the deal pipeline up 500% YoY.
- Despite the record deal closures, the deal pipeline continues to expand (up 6% QoQ), suggesting strong deal originations. The pipeline remains well distributed,


Mphasis

with a significant portion of TCV coming from accounts beyond the Top-10. The pipeline for healthcare was up 63% YoY.

- The mortgage business is bottoming out and the management is seeing early signs of a pick-up, with increasing volumes and fresh capacity commitments from clients. Mortgage should add to incremental growth in FY24.
- Though revenue conversion remained slow during the quarter, it has started to pick up and should improve as the year passes.
- The trends in Mphasis.AI, its AI platform, remain encouraging, with healthy AI advisory engagements with clients about the uses and impact of AI. MPHL sees a good opportunity for the implementation, configuration and security around generative AI and LLM models.
- Early trends in deal wins in areas such as embedded AI in business operations, process management, documentation and models that require significant training (e.g., Fraud detection, sanction screening) are encouraging.
- There is a good opportunity for the Home equity business as prices are stabilizing. There has been a pick-up for diligence services, which should continue. As the interest rate cycle enters the last stage, MPHL sees demand picking up for the restructuring business.
- Though the DXC subsidiary's acquisition is small compared to the size of MPHL, it could drive strong synergies and will help the company build a partnership with Microsoft, along with expanding its presence in Europe.
- MPHL continues to gain wallet share with its clients despite spending cuts. It will benefit from consolidation and higher revenue share once spends start to pick up.
- The current focus remains on wallet share gains among existing clients, along with expanding the addressable market.
- With the mortgage business bottoming out, early signs of increasing volumes and record conversions, the management is confident of a pick-up in growth in 2QFY24, which will continue for the later part of the year.

Margin performance

- MPHL was able to improve margins by 10bp QoQ despite a sharp decline in revenues.
- The management is confident of maintaining margins in a narrow band of 15.25-16.25% in all four quarters, with an upward bias in anticipation of strong growth ahead.

Persistent Systems — Neutral

Current Price INR 5,118

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Growth and demand outlook

- Management indicted that, the company is undergoing a stressed environment. As a result, 1QFY24 marked a few instances of deal push-outs and deferrals, as enterprise clients are maintaining a cautious approach in the near-term. Although, there was no deal cancellation or material ramp down in projects during the quarter.
- BFSI is expected to remain soft despite the healthy growth reported this quarter, while healthcare and Hi-Tech are likely to continue their growth momentum. Within healthcare vertical, the company won a five-year large deal of USD50m.
- On BFS vertical, the company has witnessed some deal pushbacks as the decision making has been delayed and projects are not seeing timely ramp ups. Management expects the near-term slowdown to continue for 2-3 quarters more before the deal signing activities revert to the earlier level.

- Management expects to deliver top-quartile growth on the face of macro uncertainties. However, it remains watchful of a slowdown in the key economies, while maintaining a close proximity to the customers, who are cost-focused and to drive efficiency.
- Management is confident of driving 2-4% growth in a tough economy despite some slippages it has witnessed in 1QFY24. However, those projects have not been lost completely and are expected to recover once the challenging macro situation subsides.
- The focus is on driving healthy and profitable growth with continued investments in S&M, AI, Cloud and Security. On lateral utilization, the company is currently at 78% and it is expected to improve even further to 83% as the fresher pool has been retrained and redeployed to the billable projects.
- The company has penetrated into the tier-2 and tier-3 cities in order to have better pyramid rationalization benefits, which would again be the incremental margin levers apart from deploying fresher talent pool.

Margin performance and outlook

- The EBIT margin impact was primarily attributed to: 1) visa cost (-40bp), 2) regulating work from office while keeping a close proximity to employees (-20bp), and 3) provision for doubtful debt (10bp).
- It continued to deploy freshers into projects, which are leading to underutilization of resources in the near term. However, the company remains quite comfortable to reclaim the earlier mark of utilization (80%+) in the medium term. It expects to on-board 800 additional freshers in 3Q/4QFY24.
- The company would rolled out a full-year wage hike in 2QFY24 with 7.5% hike in India and 3.5% outside India.
- It has maintained its long-term aspiration of improving operating margins by 200-300bp.

Tata Consultancy Services — Buy

Current Price INR 3,389

TATA CONSULTANCY SERVICES

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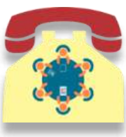

1QFY24 performance and demand outlook

- TCS reported revenue growth of 7% YoY and flat QoQ CC. The demand softness was broad based across multiple pockets as clients continued to reprioritize projects with higher ROA, hence creating near-term revenue leakages.
- For BFS, large banks are driving growth; however, there is some softness in the Mortgage, Capital Markets and P&C (Insurance) segments.
- In Manufacturing, demand is led by Automotive in the area of improving supply chain. The company is also gaining market share in the space.
- Retail is witnessing signs of bottoming out. Essential retail remains healthy, while luxury and speciality have been impacted by the structural softness in consumer spending.
- In CME, revenue profiles of Telcos are weak as the earlier investments in 5G have not played out meaningfully, hence clients have moved to the cost optimization phase.
- The deal pipeline remained strong with healthy booking of USD10.2b (BTB 1.4x), with a balanced mix of vendor consolidation, transformation and integration projects. However, small and medium size deals form the major proportion of the pipeline in the range of USD50-60m.
- The current environment is making enterprises cautious, which is leading to pauses and deferrals in non-critical projects. It expects transformation projects to gain strength once the macro headwinds start to ease.

- Small deals are getting scrutinized more and ramping up slowly. However, there are no instances of deal cancellations or a meaningful ramp-down in projects.
- Despite having a healthy deal pipeline, the management is seeking more visibility in the current environment to see any further uptick in demand for H2.

Margin performance and outlook

- The management sees further scope of improvement in utilization, productivity, discretionary spending and pricing, which are some of the levers to play out in improving margins.
- 100% variable pay is given to 70% of employees in 1Q, while the rest 30% would be evaluated on the BUs' performance in Q2.
- It is confident to take margin to 25% in FY24.

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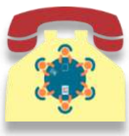

Tech Mahindra — Neutral

Current Price INR 1,199

Demand and industry outlook

- TECHM posted a revenue decline of 4.2% QoQ CC in 1QFY24, majorly attributed to IT Service, down 5.0% QoQ CC. BPO was up 1.3% QoQ CC.
- The revenue decline was on accounts of multiple key factors: (1) Reprioritization of spending on the IT service side and network part of the Telecom space, (2) Cyclicality in the Comviva business, (4) Anticipated multiple project closures in Q1, (4) Bankruptcy filed by one its clients, impacted the topline by ~USD6-7m in Q1, and (4) Slowdown in decision-making on the digital transformation projects and cost takeout deals.
- Under CME, the management believes that the worst is behind for the space and it should see a gradual recovery from here. As the global telcos keep a tight budget, reprioritizing opex and cutting discretionary spends, it affected TECHM's revenue growth in Q1. The management expects 2Q to stabilize and 2H should see a recovery for the segment.
- The company expect sustainable growth for manufacturing. Demand in Automotive and Aerospace is driving the overall segmental performance. There is a massive shift from Mechanical to EV, which is creating incremental opportunities around connectivity, embedded software and mobility, while the increase in air traffic volume is augmenting engineering work under Aerospace.
- On a geo stand point, Europe has more exposure to the CME vertical, which led the sharp decline (6.7% QoQ) in Q1. The reprioritization of digital projects, opex on 5G and business support system saw the major hit in the region.
- In ROW, the Comviva seasonality and the anticipated project closure led the decline.
- The deal pipeline is healthy at this moment, however, the conversion remains a challenges as the enterprise business is witnessing slower decision-making. Otherwise, the company is chasing multiple deals and many of them are under the maturity stage.
- The weakness in the NN deal TCV for 1Q was on account of unanticipated deal push outs due to slower decision-making and restructuring activities at a client.
- The company believes that digital transformation projects are taking a pause at this moment due to the macro onset and not getting stopped completely.
- The company is focusing on growing the BFSI proportion of the overall pie in the US region.

Margin performance

- The substantial margin impact was on accounts of: (1) provision created for the bankruptcy filed by one of its clients (~200bp QoQ), (2) missing operating leverage due to revenue decline (~100bp QoQ), (3) wage hike impact (130bp QoQ), and (4) cyclicality in Comviva (~50bp QoQ).

- The majority of the wage hikes have been rolled out during the quarter at the junior and mid-level, while the proportion for the senior leadership team would be given out in 2Q.
- The company is reducing subcon expenses while replacing the same with the similar skillset of full-time hire.
- The company touched upon multiple margin levers and expects a gradual recovery from the current level: (1) Juniorization of pyramid, (2) Drive offshoring up by 400-500bp in the medium term, (3) Divesting in non-strategic portfolio, and (4) Reducing subcon % of revenue by 400bp to 10% from the current level.

Wipro — Neutral

Current Price INR 413

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Performance and demand outlook: 1QFY24

- IT Services USD revenue declined 2.8% QoQ in CC to USD2.78b. Despite muted growth, the company was able to largely maintain the IT service margin at 16% (down 30bp QoQ).
- Hi-Tech, Consumer and BFSI are the sectors that have been affected the most due to higher dependency on discretionary spends, especially in North America 1 where the slowdown is pronounced. However, demand is positive for Healthcare and Energy & Utility verticals.
- The management indicated that the demand slowdown is partly attributed to the strong uptick during the pandemic, which is currently normalizing, The focus is shifting to cost optimization, vendor consolidation and automation.
- The weak guidance in 2Q is majorly attributed to macro uncertainty and no near-term demand visibility. Clients are maintaining caution at this moment, otherwise business transformation remains integral to CIOs and CXOs.
- The large deal signings remain strong at USD1.2b (up 9% YoY CC), aided by the restructuring service lines with four global business units in last Q. The management was quite optimistic about maintaining the momentum in deal flows as it has built a strong account executive team for large deal mining activities.
- The consulting business is significantly hit by the slowdown in discretionary spends and it expects the consulting-related spends to resume once the macro headwinds start receding.

Margin outlook

- The company is osts. WPRO believes that it has further room for improvement in utilization in the coming quarter.
- It aspires to reach 17-17.5% operating margin in the medium term and it continues to progress toward achieving the thresholds, but near-term uncertainty weighs on the improvement.
- Despite muted 2Q growth guidance, the company expects to stabilize operating margin in 2Q at the current level through multiple margin levers.
- The management indicated that the wage hike cycle would defer to 3Q.

Other highlights on Generative AI

- Wipro has launched an AI 360 platform and it has 2,000+ global engagement in Gen AI. The company is building a full range of capability solutions, services, platforms, and partnerships to fuel growth in this area.
- The company plans to invest USD1.0b over three years in Generative AI. The investments would be a combination of accelerators, capabilities, methods and

trainings in AI, with some portion of inorganic investment through M&A activities.

- It is planning to train all its employees in the Generative AI technology within 12 months.

Zensar Tech — Neutral

Current Price INR 516

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Growth and outlook

- ZENT reported revenue growth of 1.3% QoQ CC, led by Manufacturing and BFSI.
- New service lines, such as experience and advance engineering, are gaining strong traction. ZENT has also launched its generative AI offering, AI Buddy, on the Azure marketplace.
- Order book was strong in 1QFY24 at USD154.2m, aided by multiple new wins and healthy renewals. ZENT saw good traction in new deals from existing clients thanks to cross-selling initiatives.
- Europe saw strong sequential growth on the back of deal ramp-ups.
- In BFSI, ZENT saw good growth owing to new deal wins in the past few quarters and as enterprises look for low-cost vendors like ZENT.
- Clients are scaling back on budgets, delaying projects, cutting discretionary spending and reducing scope for projects in Hi-Tech, Manufacturing and Consumer. The management expects the demand environment to remain soft for these verticals. On the other hand, ZENT has a good deal pipeline in these verticals, which could get converted in the near term.
- The current demand environment remains uncertain amid a softening in spending and delayed decisions from clients. However, ZENT has significantly increased its addressable market in the last few quarters by launching new offerings.
- The near-term demand environment is unlikely to improve over the next two quarters. The management remains optimistic about long-term demand.

Margin performance and outlook

- EBITDA margin improved on account of R&D credit received during the quarter (100bp), improved utilization, efficiency improvements, and resizing of sales and support staff.
- Pyramid rationalization, optimized onsite mix and lower sub-contractor expenses helped ZENT reduce the delivery cost.
- The management indicated that current savings from SG&A will be re-invested for growth.
- The company gave wage hikes at the start of July. The wage hikes were lower compared to last year amid a challenging demand environment.
- ZENT expects to maintain margins in the mid-teens going forward and re-invest above that levels for growth.

- **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	▪ Capex will remain elevated due to frontloading in 1QFY24 and probably in 2QFY24. Expect major capex to be completed by Nov/Dec'23. Company is not deploying any 4G capacity capex other than the coverage-related capex i.e. rollout of rural sites. ▪ In the short to medium term, the use of cash is essentially to deliver sources of finance, reduce the interest cost and dividend payment. There is no necessity to call for rights residual monies.	▪ Since most of the costs are of fixed element, the company can witness operating leverage to kick in supported by: a) war on waste program that reduces opex, and b) capacity investments in rural areas.
Indus Towers	▪ The company is now holding-off dividend payment, given that capex will remain elevated for the next 12 months and there is uncertainly on VIL. It is comfortable at INR50b of net debt. ▪ Collection level from VIL was maintained in 1QFY24 vs. 4QFY23; 1QFY24 had an impact of non-recognition of revenue equalization assets.	▪ Macro towers generated high single-digit IRR on a single tenancy unlike double digit earlier, so it is now putting linear towers that offer high double-digit SSSG with additional loading revenue.
Tata Comm.	▪ Core connectivity expects to grow at low to mid-single digit. DPS will contribute 50% of the data business. ▪ The company continues to focus on healthier balance sheet with +25% ROCE. It may be diluted by some significant investments, but there is long-term room for growth.	▪ Margins may remain soft in the short term (1-2 years), below its 23-25% EBITDA margin guidance. This is primarily due to the recent acquisition and ongoing investments made by the company in pursuing growth opportunities.
Vodafone Idea	▪ In the absence of investment in: a) expanding 4G coverage and b) launching 5G coverage, the company has been unable to arrest the market share loss. Capex guidance is largely dependent on funding. ▪ The expected cash outflow could predominantly be covered through organic growth and the promoter's support of INR20b. Expect bank debt to reduce over the coming quarters, and VIL will be able to pay INR70b of annual repayment in the current fiscal year.	▪ VIL has taken price action in the minimum recharge category in 11 circles, reducing validity for INR99 plan to 15 days from 28 days and increasing the entry-level plan to INR127 in the Haryana circle.

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Bharti Airtel — Buy

Current Price INR 869

Key highlights

- Monetization levers remain intact, with 1) a shift from feature phones to smartphones, and from prepaid to postpaid, 2) data monetization, and 3) price hikes. BHARTI has achieved its INR200 ARPU goal and now targets a longer-term ARPU goal of INR300.
- Capex will remain elevated due to the frontloading of capex in 1QFY24 and probably 2QFY24. It expects major capex will be done by Nov/Dec'23. The company is not deploying any 4G capacity capex other than coverage related capex, i.e., rollout of rural sites.
- In the short to medium term, BHARTI will use cash to essentially deliver sources of finance, reduce interest costs and pay dividends. There is no necessity to call for residual rights monies.

- Since most of the costs are fixed, the company can witness operating leverage kick in, supported by a) the war-on-waste program, which reduces opex; and b) capacity investments in rural areas.

Detailed notes

Strategy

- It targets to leverage green energy in rural expansion, which will reduce diesel emission in the network by ~48%.
- War-on-waste program: India network opex declined by 50bp despite aggressive rollouts (identified 150k sites that cost more than 100k per month). It has taken measures to reduce the cost by a) reallocation, b) rental negotiations, and c) solar batteries. The operating cost per site per month is now actually lower vs. prior quarters.
- 5G radio rollout, transport infrastructure, broadband rollout and data centers, all have massive opportunities for future growth.
- It focuses on the first 150 cities and rural India. In rural BHARTI has identified 60k villages to expand the network and win 4G subscribers, while in top 150 cities, it will focus on a) postpaid broadband customers, which are more than 80%, and b) almost 100% of B2B customers.
- Leveraging data science to estimate demand across all our businesses so that customer leakage is minimal.
- Airtel Finance has begun testing in marketplaces. AI and ML models prepared by Airtel had been tested by banks and NBFC and they are leveraging Airtel models.

Performance

- EBITDAM expansion was aided by 50bp QoQ improvement owing to the war-on-waste program.
- BHARTI added 5.6m 4G subscribers and saw growth in post-paid subscribers, contributing ~26% of overall net adds (833k) for the quarter.
- It has achieved the INR200 ARPU goal, and now aims for a longer-term ARPU goal of INR300. The organic increase in ARPU was due to a) premiumisation, b) prepaid to postpaid movement which almost doubled ARPU, and c) data consumption and monetization.
- The company lost 28k customers in the DTH segment due to seasonality, led by the pullback of cricket.
- Airtel business won multiple deals during the quarter, including a banking customer and cloud service for a state government.
- Payments Bank reached a quarterly revenue rate of INR4b. Deposit growth stood at 48% YoY.
- Digital businesses are on track to achieve an annual run rate of INR12b.

Risk of Jio phone

- Feature phones account for 80% of BHARTI's total revenue. The company shifts its focus to 4G customers from 2G customers.
- As per the management, a postpaid customer changes a phone in every four years and the price of Jio phone is expensive than other phones.
- BHARTI does not plan to build any feature phone.

5G penetration

- Seeing 30% of the offload from 4G networks to 5G networks, which is still less.
- 5G shipments are ~48% of total shipments and moving slowly.

Capex

- Not putting any 4G capacity capex other than the rollout of rural sites, i.e., coverage-related capex.
- Due to the capex frontloading, capex remains high for 1QFY24 and probably 2QFY24.
- The percentage of capex to revenue needs to be at the level that can be self-sustainable and can lead to monetization of ARPU.

- BHARTI expects the major rural rollout by Nov/Dec'23. The cost of network is lower in rural markets.
- In the short to medium term, the use of cash is essentially to deliver sources of finance, reduce the interest cost and pay dividends. There is no necessity to call for rights residual monies.

Postpaid

- Only 6% of BHARTI customers use postpaid in India, whereas in markets like Brazil/Thailand the number is high at 40-50%.
- So the opportunity is vast in this segment and it should be a growth lever.
- SA vs. NSA
- NSA technology gives 30% improvement in coverage. Also, the mobile phone user has an adequate bandwidth of 4-6 mbps. So if the company provides speed of +4 mbps, it will be indifferent unless downloading a heavy file.

Indus Towers — Neutral

Current Price INR 164

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Key takeaways

- Demand for new sites increased due to a) aggressive 5G rollout and b) increase in leaner towers in the urban area. This will lead to an increase in business of the passive telecom infrastructure.
- Macro towers used to generate high double-digits IRR on a single tenancy, but the returns have decreased to high single-digits now. As a result, the focus has shifted toward installing linear towers, which not only offer high-double digit SSSG but also provide additional loading revenues.
- The company is currently deferring dividend payments due to the anticipated high capex over the next 12 months and the uncertainty surrounding VIL. It is comfortable maintaining a net debt of INR50b.
- In 1QFY24, the collection level from VIL was maintained at the same level as in 4QFY23. However, 1QFY24 results were affected by the non-recognition of revenue equalization assets.

Detailed notes:

Tower and Co-Location base & additions

- The majority of sites had their leases renewed last year, extending the tenancy agreement by another 10 years. The payback period will decrease and the IRR will increase with additional loading on the tower.
- Around 10% of the contracts are pending for renewal in the upcoming year.
- Macro towers currently generate a high single-digit IRR on a single tenancy, while linear towers likely yield high-double digit IRR, especially with additional loading revenues, which further improves the overall IRR.
- Since new towers are rolling out on single tenancy, the tenancy ratio decreased from 1.785 to 1.75.
- Indus owned and operated 198,284 macro towers with 347,879 macro co-locations
- In 1QFY24, the company added 5,410 macro towers and 5,048 corresponding co-locations.
- Also, net lean co-location additions were 936 and lean co-locations stood at 7,854.
- Exits in 1QFY24 were 518 and had reported an average sharing factor of 1.77 per tower.

Rapid progress in 5G

- The demand for new sites increased due to a) aggressive 5G rollout and b) increase in leaner towers in the urban area. This will lead to an increase in business of the passive telecom infrastructure.

- Both Airtel and Rjio continue to aggressively rollout 5G nationwide and has rolled out a network over 3,500 cities and towns.
- The operators have already deployed ~275k 5G BTS and have increased the average weekly deployment rate from ~7,000 in Mar'23 to nearly 12,000 in Jun'23.
- Out of 275k BTS, Indus share would be slightly higher than 1/3rd
- And 5G sites market share of Indus is lower than the 4G sites as one of the operators independently deployed 150k BTS.
- It may take two to three years before 100% of the sites are fully rolled out with 5G technology.
- As per Ericsson Mobility report, total subscriptions are now expected to reach 5b by the end of 2028 and 5G subscriptions in India are expected to reach 700m by Mar'28 with 57% penetration.

Operating performance

- Working on optimizing both opex and capex, since energy cost is around 50% of total opex
- Initiatives have yielded an 8% YoY reduction in diesel consumption in 1QFY24, despite an increase in load from 5G installation
- The company has also added solar and pipe natural gas energy solutions. It is also looking for batteries for power supply.
- Energy margins were lower due to increased seasonality impact of diesel consumption

Capex and net debt

- Capex of INR22b is distributed between INR14b for macro rollouts and the remaining toward 5G towers, replacement, sustainability, etc.
- Leaner tower capex is significantly lower, while the margins are high, providing higher ROIC of mid-single digits.
- The increased demand from customers, especially from rural areas, is expected to remain robust for the next 12 months, driving the capex.
- The company is comfortable at a net debt of INR50b.
- Given the high capex environment and the uncertainty surrounding VIL, dividend distribution has been temporarily put on hold.

TATA COMMUNICATIONS

Tata Communications — Neutral

Current Price INR 1,830

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Key highlights

- Margins may remain soft in the short term (1-2 years) below its 23-25% EBITDA margin guidance. This is primarily due to the recent acquisition and ongoing investments made by the company in pursuing growth opportunities.
- Strong pipeline with good product traction is likely to drive steady growth.
- Core connectivity expects to grow at low to mid-single digit. DPS will contribute 50% of the data business
- The company continues to focus on healthier balance sheet with +25% ROCE. It may be diluted by some significant investments, but there is long-term room for growth.

Detailed summary

Acquisition of Switch and Kaleyra sharpen its portfolio

- The company has completed the acquisition of Switch. With the help of Switch, TCOM targets to reach top-tier US sporting event venues and gain strong foothold in North America.
- This acquisition is enhancing its Media capability.
- witch helps provide joint offering to Europe and US customers and the response of customers is quite positive. Hence, funnel growth looks good.

- Acquired Kalyera (Global CPAAS player) - Combined with DIGO will help them to boost the contact play.

Operational performance

- The reported revenue reflects certain forex benefits from the strengthening of the dollar. Upon normalizing for these forex benefits, the revenues grew by 6.9% YoY and 4.3% QoQ. Additionally, there was a positive impact on consolidated EBITDA margins, increasing by 30 bp
- Normalizing for both the switch consolidation and M&A-related expenses, the normalized EBITDA margins are 23.1% well within the ambition.
- Increase in 'Other income' to INR1.9b vs. INR620m last quarter is due to the interest on IT refund.
- Increases in the funnel and order book are the main drivers of data revenue growth. However, certain deliveries and conversion were delayed due to semiconductor issues. In comparison to recent quarters, the conversion of the funnel is longer in 1Q. As a result, the majority of the offerings have strong demand drivers.
- The APAC market has experienced higher demand, resulting in significant growth in the data segment.
- One of the India's leading passenger car manufacturers utilized DIGO to transform their broker and car insurance venture
- InstaCC benefited from increased usage and the addition of new logos in the Middle East and deal wins in the healthcare segment
- Media- seeing rapid expansion in Japan and Nordic markets with more in-region demand for global content
- Cloud business – Due to the increasing trend of customers adopting multi- cloud strategies, the company is taking steps to address this potential. Recognizing that customers do not prefer to be tied down to a single cloud provider, the company plans to introduce its software-defined multi-cloud connect service.
- Cloud business is largely focused in India.

Guidance

- Margins may remain soft in the short term due to ongoing investments and this impact will likely be visible for the next one to two years until the synergies take effect. However, the company remains focused on growth, and even if the margins decline from the guidance of 23-25%, the company is willing to bear this in pursuit of its growth strategy.
- Core connectivity expects to grow at low to mid-single digits. Expect core connectivity and DPS to share 50:50 mix in the data portfolio.
- Mix effect and M&A-related investments led to a decline in underlying EBITDA margin.
- The global presence of TCOM and Switch production capabilities have helped them increase the deal funnel across the US and Europe customers. This translates to a good pipeline with higher ACV deals.

Others

- The Switch acquisition resulted in an addition of 128 employees to the total workforce.
- Reported 3800 franchisee ATMs in its portfolio.

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Vodafone Idea — Neutral

Current Price INR 8

Key takeaways:

- VIL has taken price action in the minimum recharge category in 11 circles, reducing validity for INR99 plan to 15 days from 28 days and increasing the entry-level plan to INR127 in the Haryana circle.
- It reiterated the need for tariff increase, particularly for higher-tier plans, and anticipates that the tariff hike will lead to a rise in revenue. VIL indicated that it is not in a position to take the lead and will await peers' decisions to drive any tariff hikes.
- In the absence of investment in a) expanding 4G coverage and b) initiating 5G investment, the company is unable to arrest the market share loss. Capex guidance is depending largely on the funding.
- Cash outflow could be largely met with the organic growth and the promoter's support of INR 20b. The management expects a reduction in bank debt over the upcoming quarters, enabling the company to fulfill the INR70b annual repayment within the current fiscal year.

Commentary in detail:

Strategic initiatives

- The company continues to focus on investment toward 17 circles that contribute 93% of the industry revenue and 98% of the VIL revenue.
- Broadband network and capacity have been expanded to cater to 4G customers, primarily driven by the addition of new unique broadband towers
- The company had earlier decreased the validity of entry-level plan of INR 99 from 28 days to 15 days in Mumbai. By Jul'23, the company extended it to 11 circles and plans to further increase in circles going forward.
- In Mumbai, the strategic initiative is showing positive movement, while other circles are at the initiative stage.
- In Haryana, the company has increased the tariff to INR127 from INR 99, keeping the validity the same (28 days).
- The company continues to invest in marketing-related initiatives, while expanding alliances. Additionally, it is maintaining a strategic focus on the MSME segment with the launch of a comprehensive 360-degree program.
- Industry-wide churn rates have escalated, and the management acknowledges this churn across all customer segments.
- Current high SG&A cost reflects the competition intensity.

Investment in 4G/5G

- In the absence of investment regarding a) expanding 4G coverage and b) initiating 5G investment, the company is unable to arrest the market share loss. Only upon the commencement of the investment, the company has the potential to capture market share.
- The company expects the Equity funding in the next few quarters and for debt funding, it is in discussion with the consortium of banks.
- Capex guidance is largely dependent on the funding.
- Management reiterated the need for tariff increase for higher-tier plans
- However, VIL indicated that it is not in a position to take the lead and will await peers' decisions to drive any tariff hikes.

- Post fund raising, the company may initiate the tariff hike.

Liquidity position

- The company cash outflow for the next three quarters could be to the tune of INR27b vs organic INR60b cash inflow (INR20b EBITDA pre-Ind AS per quarter)
- INR3-4b could be the quarterly finance cost outflow. Expects the bank repayment to come down in the next few quarters.
- For the next 12 months (2QFY24-1QFY25), INR70b is pending for debt repayment.

Click below for Results Update

APL Apollo Tubes

Buy

Current Price INR 1,656

Operational performance

- APAT witnessed inventory destocking in 1QFY24, due to the volatility in raw material prices.
- Accordingly, the company was not able to achieve its targeted EBITDA of ~4,800 to 5,000/MT during the quarter on account of channel discounting.
- However, raw material environment is normalized in July and the month of August and September look promising going ahead.

Capex

- APAT will incur ~INR5-6b of capex in FY24 to achieve its target of taking total manufacturing capacity to ~5MMT. (INR1.8b already incurred in 1QFY24)
- However, on an operational basis, the company is expected to reach a capacity of ~5MMT by FY26.
- The upcoming facilities is expected to commercialize by Mar'24 (except the East India Plant).
- Post that, the company will look to add another 5MMT of capacity by FY30, if the total production reaches ~4MMT by FY25.

Guidance

- APAT has guided for sales volume of ~1.5-1.6MMT in 2HFY24.
- It also targets to achieve FY24 EBITDA of ~INR14-15b.

Raipur Plant

- Currently, APAT has ~1MMT capacity in the Raipur plant, out of which ~600KMT is fully operational with the remaining ~400KMT expected to be operational within the next one month.
- The management expects the Raipur plant to contribute ~0.5-0.6MMT of volumes in FY24.
- EBITDA spreads from the Raipur plant is expected to be ~INR6,000-7,000/MT once the plant is fully stabilized (it will take ~2-2.5 years more). At the current utilization level of ~30%, the EBITDA/MT is ~INR3,000-4,000.
- APL has been awarded a total incentive of INR5b from the Chhattisgarh government to paid equally over the five-year period (i.e., INR500m annually)

Growth opportunities from Railways

- Generally, a railway project consists of four key structures, viz, station building (platform + 1 floor for commercials), Foot over bridge (FOB), Celling roofs and complexes.
- Out of these, APL's tubes can be used extensively for the FOB and celling & roofing.
- The Tirupati railway station project has been approved with all the four structures utilizing structural tubes.
- New Delhi railway station project is under bidding and has a potential of ~20-30KMT structural tubes consumption.

Other key highlights

- APAT has been awarded the contract for manufacturing 50 overhead water tank
- Structural tubes will take only 2-4 months for end-to-end erection of the water tank as against ~4-6 months traditionally taken by a RCC structure.
- The company is working on bringing down its employee cost per MT from ~INR900 to ~INR700. Further, it aims to bring down its current freight cost of ~INR1,400-1,500/MT to ~INR1,000/MT.

Coromandel
FUTURE POSITIVE

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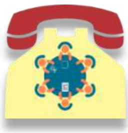

Coromandel Intl — Buy

Current Price INR 1,095

Agri scenario

- SW monsoon picked up in the last one month, currently 7% above its LPA.
- Witnessing improved crop sowing majorly in paddy and maize
- Reservoir levels are constantly improving and at ~111% of LPA as of 28th Jul'23.
- The company is expecting healthy Indian agriculture scenario going forward.

Company-specific

- The company maintains it EBITDA/MT guidance for FY24 at ~INR5,500-INR6,000/MT for manufacturing fertilizers (NPK and DAP).
- Global supplies of key commodities dropped from 2022 peak but are not stable
- Decline in revenue by 1% YoY was due to a dip in raw material prices along with lower subsidy rate this quarter v/s 1QFY23.
- Revenue mix of Subsidy and Non-subsidy stood at 86:14 v/s 83:17% in 1QFY23
- EBITDA subsidy share in 1QFY24 was 84% v/s 77% in 1QFY23
- The company received subsidy of INR20.7b in 1QFY24 v/s INR1.36b in 1QFY23
- Outstanding subsidy as of Jun'23 is INR28.2b v/s INR27.3b in 1QFY23
- The company earned Net Interest Income of INR110m v/s INR220m in 1QFY23.
- Significant moderation has happened in the subsidies rate, while MRP has remained the same that resulted in a fall in raw material prices.
- Benefit of the decline in raw material prices will reflect in the next quarter but will be partly offset by decline in Subsidy rates.
- For SSP, there has been a good traction from the government for incentivizing the product. Major raw materials of SSP are rock phosphate and sulphuric acid.
- The rock phosphate prices are holding closer to last year prices while sulphuric acid prices have fallen. However, Rock phosphate's prices are trending down slowly but not at the same pace of other raw materials. This can have an impact on the SSP margin.
- Generally, SSP margin hovers around INR2,000-2,500/MT but this time it will be ~INR2,000/MT.

Nano Urea and DAP

- Government is supporting Nano DAP and Urea and it is focusing on drone application
- During the quarter, the company conducted soft launch of 'Nano DAP', a cutting-edge nanotechnology-based fertilizer, developed at its R&D center.
- The product is expected to be introduced in 2HFY24 and can provide impetus to sustainable farming practices by providing site-specific nutrition and improving nutrient's use efficiency.
- Raw materials for Nano DAP and Urea are indigenously available
- The company is setting up a plant in Kakinada that will be operational by Oct'23.
- CRIN will be initially targeting products with high vegetation such as tomato.
- Initial capacity for Nano DAP and Urea will be ~20m bottle p.a. to be produced from its Kakinada plant.

Drone

- In addition to strengthening its core business activities, the company is focusing on new opportunities in adjacent and step out areas.
- As part of this approach, CRIN acquired a majority shareholding in Dhaksha Unmanned Systems Pvt. Ltd (Dhaksha), a Chennai-based differentiated drone start-up.
- Dhaksha is a leading player in drone space in India, providing complete range of Unmanned Aerial Systems (UAS) technology solutions across Agriculture, Defense, Surveillance and Enterprise applications.

- Dhaksha received an order for 400 drones from ISCO for emergency area.
- Dhaksha can also supply drones to defense sector but this will happen in the later stage of the company's evolution.
- This investment made by CRIN in Dhaksha is very future oriented
- The company will use drone for CRIN's liquid fertilizer, specialty nutrient, crop protection business.
- CRIN's role is to support them to reach a scale in the next one to two years.

CDMO

- The company has received enquiries from the Japanese and European clients
- Some of them have done due diligence too.
- The company can do the CDMO business in either of their existing plant or at the new plant in Dahej
- Management's initial focus will be on Agchem only
- The company will first start with contract manufacturing of primary active ingredients and then move up the value chain towards research and development with innovator

Other key highlights

- Major capital expenditure projects like Sulphuric acid and desalination plant are progressing as per schedule and are expected to be commissioned in Aug'23
- Phos Acid price contracted for 2QFY24 at ~USD850
- Export business performed well with 17% YoY growth during the quarter – majorly coming from LATEM
- The Bioproducts business is expanding its non-Azadirachtin portfolio and CRIN is working on its alternate plant extract-based product. Pilot trials have been successful, and business expects to commercialize the product during the year.
- CRIN's complex fertilizers (NPK and DAP) market share in 1QFY24 stood at 13.7% v/s 11.9% in 1QFY23.

EPL — Buy

Current Price INR 199

Click below for Results Update

Operating performance

- Company witnessed broad based growth across all regions during the quarter
- Personal care and beyond contributed to ~49% of total sales in 1QFY24
- This was the fourth straight quarter of improvement in margins sequentially
- Region wise, margins cannot be compared on QoQ basis due to seasonality and change in product mix.

Outlook

- Demand within India remained strong while company continues to remain watchful regarding demand scenario in China.
- Global environment is looking more stable going ahead. However, there is some softening of demand in western geographies (US and Europe)
- Company is cautiously optimistic about delivering double digit growth with margin improvement
- The sequential recovery in margin witnessed in recent quarters is likely to continue going ahead led by active price management, mix improvement and cost productivity

AMESA

- The demand growth was little subdued (~5% YoY) on account of short term challenges in Egypt. Further, devaluation of Egyptian pound is also impacting the revenues.

- India has grown by ~7% YoY during the quarter. Management do not think that company is losing market share in India.

America

- Company has witnessed loss of margin in the region due to high inflation. However, it is confident of increasing the margins on back of cost optimization, growing sales and few structural changes undertaken by company.
- Also, there was a one off impact of health insurance on margins in 1QFY24.

Brazil Plant

- EPLL's brazil plant is now fully operational and is steadily ramping up
- Several potential customer has shown keen interest for the products from the region
- There is small delay in ramping up of plant as 1QFY24 was relatively softer in terms of volume.
- However, the region has witnessed strong traction from Jul'23.

Other key highlights

- EPL continues its efforts on innovation and has won 3 awards for the same
- Company focused on margin reduction and cost optimization during past few quarters.
- Price hikes are majorly completed. Going ahead, there can be tampering of prices, especially for contracted customers
- Effective tax rate for FY24 is expected to be ~27%.
- Revenue growth is driven by volume, price and mix. Company is trying to accelerate the growth though all three verticals.
- EPLL is creating flexibility in supply chain to get small volume customers
- Company will also be launching neo-seam technology across regions
- EPLL is working closely with multiple customers to support their sustainability goals.

GR Infra Buy

Current Price INR 1,270

GRIL

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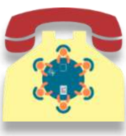


G R Infraprojects

Business updates

- GRIL secured concession agreements for three HAM projects and one MMLP project during the quarter.
- The company currently holds a total of 34 BOT projects. Out of these, 10 are operational, 13 are under construction, and 11 are awaiting the appointed dates (excluding L1 projects).
- The projects that were won in FY23 are expected to have their appointed dates by 3QFY24.
- During 1QFY24, bids totaling INR124b were submitted; of which INR107b worth of bids was for road projects and INR13b was for other projects.
- The InVIT has received final approval from SEBI and is scheduled for launch by Sep'23.
- Standalone borrowing at the end of Jun'23 amounted to INR8.8b, including short-term borrowing of INR430m, resulting in a debt/equity ratio of 0.16x.
- Cash and cash equivalents as of Jun'23 stood at INR 4.36b.
- Mobilization advance at the end of Jun'23 was ~INR2.6b.
- The limit utilization currently stands at 40-45% for both fund-based and non-fund-based aspects.

Order book

- As of 30th Jun'23, the order book stood at INR268.5b, including INR72.5b of three L1 projects that are yet to receive LoA. Road and highway projects constitute 60% of the total order book.
- The L1 projects valued at INR72.5b include two ropeway projects and one NHPC civil work project. Excluding L1 projects, order book was at INR196b of which Road projects contributed 90% of the outstanding order book.
- The company's bidding pipeline includes projects worth INR900b, with the roads sector accounting for INR750b.
- Of the INR900b of order pipeline, EPC projects should range between INR200-250b, while HAM projects should make up 50% of the order pipeline. The bidding phase for the order pipeline is set to be completed by Oct'23, with most of the bidding activity anticipated in the next two months.
- In the transmission segment, the company's order pipeline was at ~INR50b.

Equity requirement

- Equity infusion requirement for HAM projects is INR 23.8b.
- Management expects equity infusion of nearly INR6.5b in FY24 and INR8-9b each in FY25 and FY26.

Guidance

- For FY24, the company is targeting 5-10% growth. This growth estimate is based on the current order book, with the potential for higher growth if more EPC orders are secured in 1HFY24.
- Competitive intensity in EPC projects is gradually decreasing because of larger size of projects. Also, for HAM projects, competition is gradually diminishing due to capital requirement.
- GRIL expects to win INR200b of projects in FY24 of which INR100b is expected from HAM projects, INR 50-60b is expected from EPC projects and the remaining from railways/metro/ropeway projects.
- Capex for FY24 will be in the range of INR2-3b, depending on the order inflows and execution undertaken.

Havells India — Buy

Current Price INR 1,335

HAVELLS

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Demand

- Consumer demand remains muted due to unseasonal weather and affected B2C demand adversely. Healthy growth was seen in professional lighting; but consumer lighting remained impacted. Traction in Lloyds remained strong.
- Currently, it is seeing traction in the Urban side (tier I to III cities) more supported by pickup in construction activity as well as increased infrastructure spends. Rural demand is yet to pick-up. Management is hopeful that the rural sector should also start seeing better demand in 2HFY24.
- Fan segment has undergone a tough period in the last one year as rating changes by BEE created uncertainties amongst trade channels. HAVL is making investments in distribution enhancement, R&D and developing new products. Recovery in the fans segment is expected in 2HFY24.

Lloyd

- Lloyd has gained market share in in the air conditioners (ACs) and remains among the top three players in the industry. Market share in other product categories is very low though it is increasing at a decent pace.
- Over the past five years, the company has invested in branding, distribution, manufacturing and R&D that helped improve its brand positioning. Lloyd will be

competing against the best brands in the industry over the next few years in terms of consumer perception as well as product pricing.

- Lloyd's opportunity size is around INR1t and HAVL wants to be a meaningful player not only in ACs, but in all other categories, though, it may take a longer period. The focus continues to be on market share gain for Lloyds. There should be margin improvement as RM cost is coming down.

Margin

- Commodity prices have relatively softened but the impact has not been fully reflected in the margins. On QoQ basis, there was price reduction in cables and wires and LED lighting.
- The endeavor remains to achieve EBITDA margin of 13-15% (ex-Lloyd).
- In Fans, margin could have been better in 1Q if there were no unseasonal rains as this led to some under-absorption of manufacturing overhead. Margins should improve in 2HFY24.
- In lighting segment, the contribution margin was not affected much and drop in EBIT margin was mainly due to lessor growth in the consumer lighting. Demand should improve going forward leading to margin improvement. Contribution margin is being maintained at 30-31%.

Capex and other highlights

- HAVL has planned INR6b capex for FY24. The capex intensity will be higher towards Havells as the new capacity for cables and wires is coming up in Karnataka (likely to be on stream by end-FY24). Underground cables segment is operating at a very high utilization rate as demand momentum is strong for last six months.
- The company established AC plant in the South and now will commission a plant for Cables & Wires. Market share is strong in the South region, but freight
- component is higher as products are bulky. The company is trying to balance on other parameters including freight while deciding the location.
- Market share in premium segment remains high in the fans category and most of the business comes from this category. The endeavor is to provide better quality fans even in the base category. BLDC fans contribute 15% of total fans' volumes.
- Other income includes non-recurring part of income of sale of property of INR100m. While other SG&A expense is slightly higher due to increase in rental expenses. The company required additional warehousing space due to inventory build-up in the AC segment which led to higher rental expense. Also, normalcy in the travelling expenses led to higher other expenses.
- Channel inventory is not high for fans as there was some recovery in demand in Jun-23 when secondary sales increased and primary sales were limited.

IndiaMart Intermesh — Buy

Current Price INR 3,133

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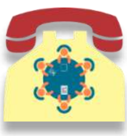

Collections and customer additions

- Collections grew 26% YoY and deferred revenue was up 25% YoY in 1QFY24.
- The performance was driven by continued demand and discount reversals taken in the middle of the quarter. With this price hike/discount reversals, INMART has been back at FY18 price levels for Silver package.
- The price hikes are taken only for new customers. With current level of churn, it will take 1.0-1.5 years for all customers to be at new pricing.
- In 1QFY24, the company added 5k paid customers, which were lower due to the loss in productivity on account of price hikes taken. From 3QFY24, however, the


IndiaMART

company expects to add 7-8k paid subscribers (in line with earlier level) as it takes a few months to recoup the lost productivity.
- Improving macro and increasing internet penetration should support its growth ambitions going forward.
- Currently revenue from platinum package is more than 10% of the overall revenue and the churn is less than 1% per month.
- Around 60% of collections come from metro cities as the company has higher proportion of gold and platinum clients in those cities.
- INMART is likely to see higher growth rates as it is planning to expand its geographical presence.
- Emergence of LLM will help improve buyer matching. Predictive AI and not generative AI will help INMART in the medium to long term.

Accounting ecosystem
- Busy Infotech clocked INR230m in billing (up 94% YoY) and INR130m in revenue (up 26% YoY) for 1QFY24. Deferred revenue stood at INR360m for the quarter.
- It added 9k licenses, taking the total number of licenses to 340k.
- For Busy, INMART is trying to make desktop version available on Cloud. SaaS offering will take time to develop and is not happening anytime soon.

Cost and margin
- Management is confident of achieving 30% margin by 4QFY24 and 28% in FY24.
- ARPU surged during the quarter on account of price hikes.
- Other income was higher because of fair value gains on treasury.
- Management expects margin to stabilize at ~30% levels in the near term as cost pressures from talent and tech continue to remain high.
- Predictive AI models can help INMART improve its margin profile over the medium to longer term.

Other highlights
- The Board has announced a buy-back amount not exceeding INR5b at INR4,000 per share.
- The promoters will also participate in the buy-back program.

IHCL

Indian Hotels — Buy

Current Price INR 402

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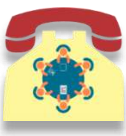


Indian Hotels

Operating performance
- RevPAR growth in Mumbai/Bengaluru/Goa/Delhi & NCR/Chennai stood at 12%/14%/ 12%/15%/18% YoY in 1QFY24
- In the domestic business, ARR/occupancy/RevPAR grew 10%/190bp/13% YoY.
- For the standalone business, occupancy increased by 430bp YoY (flat QoQ) to 74.7% in 1QFY24. ARR grew 11% YoY (down 25% QoQ) to INR12,614.
- Payroll costs/corporate overheads as a percentage of revenue increased/flat to 28.3%/5.9% in 1QFY24 from 27.8%/5.9% in 1QFY23.
- In FY23, key domestic subsidiaries such as Piem/Roots/Benares witnessed revenue growth of ~8%/12%/30%, while EBITDA for Piem/Roots declined by 2%/1% YoY and for Benares grew by 31% YoY
- Net cash stood at INR8.9b as of June'23 vs. INR10b as of Mar'23.
- IH is consistently leading the industry growth with LFL ARR/OR/RevPar of INR9,400/70%/INR6,500 vs. Industry LFL of INR6,800/62%/INR4,400 in 1QFY24.

Outlook
- IMF has upgraded the CY23 growth outlook for India to 6.1% from 5.9% earlier.

- Overall, demand in the industry is growing faster than supply. Hotel demand grew 8% in 1QFY24 vs. FY20, while supply grew ~6.7% over the same period (as per STR).
- This is led by demand factors such as Miss World Pageant, G20, B20, ICC World Cup, and Tourism Summit in Q1 in Goa, among other events happening in India.
- Foreign tourist arrival has not yet come back fully. However, domestic demand is driving the sector.
- G20 is starting in Sep'23, so 2QFY24 will also witness some increase in OR and ARR.
- IH has maintained its guidance of signing and expects to open minimum ~20 hotels in FY24.

Costs

- Other costs as % of revenue increased from 26.9% to 28.5% YoY in 1QFY24 as ~2/3rd increase is variable viz license fees, stores & supplies, and other costs related to increase in business volumes.
- The company is doing more marketing activities for new business. It has created a new team for new business and will do aggressive marketing for these businesses, which can put some pressure on margins.
- The company is looking into this business from a five- to ten-year perspective.

International business

- RevPar growth in US/UK/Cape Town/ Dubai stood at 2%/21%/33%/32% in 1QCY23 vs. 1QCY22.
- Key international subsidiary St James Court, London, witnessed revenue/EBITDA growth of ~29%/39% YoY in 1QFY24. UOH Inc, US, saw revenue growth of 9% YoY, while EBIDTA declined by 74% YoY to INR50m.

New businesses

- Qmin has crossed GMV of INR1.7b since inception and is present in 19 cities. Ginger accommodates ~50% of Qmin outlets, in line with the company's aim of 'Qminization of Ginger'.
- Ama Stay and Trials has over 125 properties across 50+ locations.
- Chambers added over 50 members in 1QFY24, taking the total number to ~2,650. The businesses recorded 10% revenue growth vs. FY23 levels and had a flow-through of more than 80%.

Ginger

- IH plans to upgrade seven hotels in FY24, with Qminizing 19 outlets of Ginger.
- The management maintains its guidance of opening Ginger Santacruz during Oct'23-Nov'23.
- Revenue of Lean Luxe Ginger was 30% higher than old Ginger's. In Mumbai, it is 40%.

Taj Sats

- Taj Stats recorded revenue/EBITDA of INR2.05b/INR500m (up 55%/161% YoY). EBITDA margin was the highest in the industry and its highest-ever at 24.5% (up 10pp YoY). The management expects to sustain this margin levels or even increase from current levels.
- Taj Stats remains the market leader with 59% market share (by number of meals).
- Factors driving up margins include: increase in international customers; charter facilities to goa; entire non-airline catering (institutional catering) also growing at good pace.

Board approvals

- The board of directors has granted in-principle approval for IHCL or one of its subsidiaries, subject to receipt of requisite approvals, to purchase 100% equity

of Pamodzi Hotels Plc (presently a listed company in Zambia) from an international subsidiary of Tata International Ltd.
- Pamodzi Hotels Plc has long-term lease hold rights for Taj Pamodzi, Zambia. IHCL presently operates this hotel.
- The enterprise value (purchase consideration) of Pamodzi Hotel is USD15m which is to be paid to Tata International in three tranches i.e. 15% upon execution of Sale purchase agreement, 40% after 12 months and balance 45% after 24 months.
- The board has also accorded its approval, subject to requisite regulatory approvals as required, to enter into a lease agreement, for operation of a hotel in Frankfurt, Germany, for a period of 20 years with the right of two renewals of five years each.

Others highlights
- IH opened five hotels and signed 11 hotels in 1QFY24. Of the signed hotels, seven are conversions and brownfield, which will open in 24 months.
- The management has guided for capex of INR6b in FY24.
- IH has a robust pipeline of ~79 hotels (11,203 rooms) going ahead. Overall, the company has ~270 hotels as of June’23 (including pipeline).
- IH will add hotels on an asset-light model going ahead.
- The company expects the balance of owned and leased portfolio to reach 50:50 ratios in the current year. This will boost margin.
- IH is building capabilities to drive D2C offering. It currently has ~4.6m customers — 3x growth in active members since the program went live in Apr’22.
- Indian hotel rates are still very low compared to international locations, i.e., not even at 10-20% of these locations. The management aspires the rates to be at least 35-40% of those locations.

Info Edge — Neutral

Current Price INR 4,249

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Recruitment
- The caution in hiring for IT Services continues and the hiring is expected to remain weak given that IT companies have witnessed a slowdown in revenues and cut backs in discretionary spending, while they have a larger bench.
- The management is hopeful of a recovery in IT hiring. Further, it identifies opportunities for IT within GCCs, although this segment continues to constitute a smaller portion of the overall business.
- The demand for the Non-IT segment continues to remain good for BFSI, healthcare, manufacturing, and infrastructure.
- The company is experiencing delays in renewals by clients. Non-IT demand slowed down in Jul’23.
- If the economy grows at a healthy rate (6-7%), the company is confident of growing at 20%+ levels.
- Due to the skill demands, significant personnel mobility is anticipated in the field of Generative AI. This movement could be advantageous for the company, provided it does not adversely impact the traditional IT services business of companies.
- It currently operates only in 40-45 cities and plans to expand its offerings to smaller cities and expand to 60-70 cities in the next two years. This can generate a healthy contribution in the long term.
- The company will continue to invest in Job Hai for longer-term opportunities and to ensure that the market is not open to competitors.

- If there is an increase in infrastructure spending, promising opportunities can emerge in sectors such as cement, metals, oil and gas, and industrials. While currently a smaller segment for Naukri, the manufacturing sector has the potential to experience substantial growth in the next 5-7 years if its activity gains momentum.

Real Estate

- The real estate market remains strong with low inventory levels, more demand, bigger developers, RERA enforcement, higher income levels, more demand for bigger homes, and reasonable interest rates.
- Developers, builders, and brokers are becoming savvy to using online platforms. Ad spends are growing and there is shift to online spends.
- There was a strong growth in the number of enquiries and traffic despite heightened competition. The company also took some price hikes.
- Strong topline growth along with controlled cost helped to reduce burn in 99 Acers.
- The moderation in realization was due to high user additions in 1Q. New users have lower monetization as they do not opt for longer duration and high-end products upfront. The realization improves with upselling to these customers.

Other highlights

- INFOE experienced delays in renewal processes for its Shiksha business. Despite these delays, the company remains committed to making long-term investments in the Shiksha business.
- 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 2,483

IndiGo

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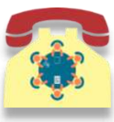

- About 26.2m customers flew in the quarter with IndiGo
- May'23 - milestone of 0.3m customers serviced in a single day
- Well positioned to expand its network and mission of boosting economic growth
- Order book would help the company achieve its target
- Cancellation at 0.3% during the quarter
- New connections in the US market would enhance the network of IndiGo
- 79th destination to be launched in Aug'23
- Six new destinations in Asia and Africa announced
- Starting operations soon at these destinations
- First flight to Nairobi on 5th Aug'23
- Capacity guidance of achieving mid-teens growth for FY24 intact
- Target to reach 100m customers in FY24
- Increased scale of operations, efficiency in operations, lower fuel costs and favorable forex led to the robust performance in 1QFY24
- Liquidity has improved for the company
- CASK (ex-fuel) increased 9% YoY due to increase in cost on engine issues
- Engine repair would affect aircraft in a phased manner and management is in constant discussion with OEMs
- Management doesn't know the precise impact and would refrain from speculation
- 40 aircraft of IndiGo have been impacted as on date (30 in the previous quarter)
- About 25% capacity YoY to be added in 2QFY24

- Launching a venture capital for investments into startups operating in aviation, consumer and allied sectors.
- Load factor going to be better than previously seen by the company
- But yield could dip by 15% YoY in 2Q due to seasonality
- Company has accumulated tax losses of INR160b
- All engines are now CFM LEAP engines that the company is procuring
- These are on par with the P&W engines on fuel efficiency front.

IRB Infra — Neutral

Current Price INR 28

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- The order book stood at ~INR337b at the end of 1QFY24, with the EPC order book at ~INR84.2b (25% of total order book). The toll assets in IRB grew 15% YoY in 1QFY24. Lower traffic growth in the Mumbai-Pune region was attributed to construction activities on the expressway.
- The tender pipeline is robust and IRB expects INR50-60b worth of new projects in FY24.
- IRB was awarded the Hyderabad ring road project based on a ToT model, with an upfront payment of INR73.8b to the Hyderabad Metropolitan Development Authority. The company would undertake this project in private InVIT with a 51% share in the project. The project would have a concession period of 30 years and an O&M order book of INR145b over the concession period.
- During the bidding process, IRB's priority is to focus on BOT projects, followed by TOT projects, and then HAM projects. The company's focus is to establish a stable order book with a higher share of ToT projects.
- NHAI plans to award 6,000km of projects and monetize 40 packages of TOT projects in FY24. The company will allocate more resources to revenue-generating assets. NHAI is expected to award HAM projects worth ~INR4t, BOT projects worth INR200b, and TOT bundles totalling INR400b by FY24.
- The construction vertical is expected to clock a CAGR of ~15-20% over the next two-three years with stable EBITDA margins.
- Private InVIT has gross debt of INR95b, with most of the debt being project debt. The existing private investment portfolio has started generating surplus cash flow. With the existing cash flow, IRB plans to distribute dividends to shareholders and keep significant cash flow available for further bidding.
- The company plans to infuse equity of INR8-10b in FY24 and INR3-5b in FY25, (excluding the Hyderabad project in FY24 and FY25). The Hyderabad project will require an infusion of approximately INR15b.

Kajaria Ceramics — Buy

Current Price INR 1,458

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Demand and pricing

- Demand was subdued in Apr-May'23 while it improved in Jun'23. In Jul'23, however, demand has been hit by excessive rainfalls (transport issues). Industry volume is estimated to remain flat in 1QFY24; however, KJC's volume grew 7% YoY. Demand should pick up from Sep'23 led by real estate growth and infra demand as lots of positive triggers are being witnessed on the ground. Volume growth should be at 13-14% YoY and value growth should be at 14-16% YoY in FY24. EBITDA margin is expected to be between 14-16% in FY24.

- Exports of tiles from India remained very strong and grew 23% YoY to INR48b in 1QFY24. Presently, the US, the UK, Israel, Mexico, Kuwait and the UAE are the countries where export is seeing improved traction. Export market is expected to grow 20% YoY to INR210b in FY24 led by rising global demand for Indian tiles. Higher exports will also ease pressure in domestic market from the Morbi-based players.
- Prices were largely stable in 1QFY24 and should remain steady; though, the company is offering some discounts to dealers for gaining market share. KJC's price is higher by 6-7% from the number 2 player and 20-25% (~45% pre-GST) from Morbi players.

Operational highlights

- The 1QFY24 average fuel price stood at INR39/scm. Regional break-up was: INR39 in North, INR44 in South and INR37 in West. In Morbi, landed gas price was INR41/scm and Propane price was also at similar level. Bio-fuel share in North stood at ~33% and 20% at an overall company level in 1QFY24.
- Lower gas prices should lead to a savings of INR1.5-1.75b in FY24, of which INR500m will be passed on to the dealers and the balance INR1b will be retained by KJC.
- The company is looking for aggressive Ad spends in FY24 and expects Ad spends to be at INR1.3b-INR1.35b v/s INR1.1b in FY23. The company spent INR250m in 1QFY24 and will start aggressive advertising from the 1st week of Aug'23.
- Reduction in depreciation YoY/QoQ was due to the divestment of entire stake in Vennar Ceramics (subsidiary company in 4QFY23).

Capex and expansion

- Expansion-cum-modernization for bigger size Glazed Vitrified Tiles with latest technology at Sikandrabad plant is completed and is expected to commence production in early-Aug'23. The total capacity of the plant has increased to 11 MSM from 8.40 MSM.
- Modernization of Galipur, Rajasthan facility by replacing two of the exiting kilns with latest kilns having capacity to produce bigger size tiles is expected to be completed by Aug'23.
- Expansion in Kajaria Bathware, which will raise the sanitaryware capacity by 0.6m pcs p.a. is likely to be completed by Mar'24.
- Capex in FY24 should be at INR3.7b which will be incurred for expansions (tiles and bath ware), and maintenance and development of KJC's corporate office.

Other highlights

- Revenue from plywood segment is estimated to be INR1b in FY24 vs. INR77m in FY23. An experienced professional has joined the company and is in the process of strengthening the sales team.
- The aim is to increase dealers' network to +2,000 out of which 500 will be exclusive.

KNR Constructions — Buy

Current Price INR 266

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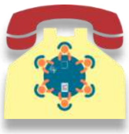
Overview

- Order inflows in 1QFY24 have followed the seasonal trend of being subdued at this time of the year. Nevertheless, the company is currently identifying promising opportunities in sectors such as railways, metros, and irrigation.
- The order book stood at INR80b as of 1QFY24-end.



- KNRC is targeting INR50b of order inflows in FY24. The tender pipeline across sectors currently stands at INR450b, out of which, INR250b is from NHAI Road projects. KNRC is expecting most projects from the Road HAM segment.
- During the quarter, execution was primarily driven by HAM projects.

Irrigation projects

- Revenues from Irrigation projects have been negligible in 1QFY24, but are expected to pick up from 2QFY24 onwards. The Irrigation order book stands at INR15b.
- The pending receivables in Irrigation stands at INR6.9b.

Guidance

- KNRC expects revenue of over INR40b in FY24 with margins in the range of 18-19% in FY24. The margins could be lower if the execution of high margin irrigation is slower than expected.
- KNRC has an overall equity requirement of INR7.3b for its HAM projects. To date, INR4b has already been invested, leaving INR1.5b earmarked for the remainder of FY24, INR1.6b allocated for FY25, and the remaining funds scheduled for FY26.
- It will spend ~INR1.5b in capex in FY24. The capex for FY25 would be based on orders received ahead.
- In terms of diversification. KNRC is looking at bidding in other states. It is also looking at bidding for tunneling projects and would also be examining metro projects.

Other details

- The standalone cash on books stood at INR0.85b with no debt.
- At consolidated levels, debt stood at INR5.8b with a cash balance of INR1b.

Lemon Tree Hotels — Buy

Current Price INR 109

lemon tree HOTELS

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Operational highlights:

- During the quarter, LEMONTRE signed six new management & franchise contracts, which added 548 new rooms to its pipeline.
- As of Jun'23, the operational inventory included 90 hotels with 8,491 rooms, and the company has a pipeline of ~46 hotels with ~3,724 rooms.
- Network revenue for LEMONTRE (i.e. total system revenue of owned, managed & franchised hotels) stood at INR3.5b in 1QFY24 vs. ~INR3b in 1QFY23.

Demand outlook

- The company has witnessed a better performance (occupancy of ~74%) in Jul'23 as compared to 1QFY24.
- Typically, 2Q is the worst quarter for the hotel industry. However, 2QFY24 is expected to be better than 1QFY24 for LEMONTRE.
- The rains have not impacted occupancy, except for the regions that faced landslides and natural calamities.
- Further, the digitalization of the sales process is helping the company grow faster. This is expected to provide a competitive advantage to the company, going ahead.

Guidance

- LEMONTRE aims to have ~10,500 operational rooms in inventory by FY24 end.
- It expects to sign ~40 hotels in FY24.
- Price hike in 2QFY24 is expected to be similar to that in 1QFY24 (~8-9% YoY). Further, the hike in 3Q could be ~15% on YoY basis.

Margins

- Margin during the quarter was slightly down as the company incurred major renovation expenses for its Keys portfolio during the quarter.
- Further, employee expenses as a % of sales increased YoY as the company beefed up the business development team. Also, the salary hike for the year resulted in higher employee costs.
- Power costs as a percentage of sales declined despite the company using DG sets for power cuts in Gurgaon.

Aurika MIAL

- Aurika Mumbai's entire inventory (~669 rooms) will be ready by Oct'23 end. It will be available for the peak season of Diwali (in Nov'23).
- Occupancy and ARR for the hotel is expected to rise gradually.
- The hotel is expected to generate EBITDA of INR1.7b by FY26.
- It is expected to register occupancy of ~80% (in line with occupancy witnessed by other LEMONTRE hotels in Mumbai).
- The hotel is likely to be EBITDA accretive in 4QFY24.
- Aurika Mumbai has a large banquet facility, which will further contribute to revenues from the hotel.

Region-wise performance

- In 1QFY24, occupancy for Delhi/Gurugram/Hyderabad/Mumbai/Pune improved 150bp/1,130bp/1,110bp/1,180bp/20bp to 74%/68%/84%/86%/72%. Bengaluru witnessed a ~520bp YoY decline in occupancy to 71%.
- The company witnessed better-than-industry RevPAR for the majority of Key locations, except for Bengaluru, New Delhi and Hyderabad.
- The higher share of Keys portfolio (~380 rooms) dragged down the performance of Bengaluru, which the management expect to continue unless the renovation work of the keys portfolio is complete.
- Delhi did well on the industry level as the 5-star hotels of large brands benefited due to ongoing G20 meetings.

Other key Highlights

- The company is looking to increase the retail side of the business to ~66% of its total business in the next four years.
- International travel, which forms ~10% of demand, is still ~40% lower than pre-Covid levels.
- ~75% of renovation is considered as opex, while only ~25% is treated as capex.

One 97 Communications — Buy

Current Price INR 904

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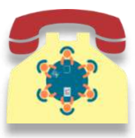

Balance sheet related

- Based on market conditions, the increase in cash reserves and better business performance, Paytm expects to be free cash flow before the end of FY24.
- MTU grew 23% to 92m in 1QFY24 and Paytm added 1.1 merchant subscriptions.
- ATS on loans is increasing due to higher renewal rates as the lender is confident of disbursing higher ATS loans to 2nd time customers. ATS for new customers remains at the same level.
- FLDG model circular is a very positive move from the regulator. Paytm has never given FLDG rather just acts as an intermediary for its finance partners and is not looking to offer FLDG going forward.


One 97 Communications

- The number of credit cards grew 27% QoQ, with 0.75m active cards as on 1QFY24. The company has launched a Paytm co-branded SBI Rupay credit card last month and with credit card acceptance on UPI being in high demand, this could add extra margins to the credit card business.
- Commerce GMV grew by a subdued 10% YoY to INR25.4b as on 1QFY24 due to a decline in movie industry & entertainment industry and a decline in Play store vouchers industry.
- Hence, take rate in the commerce business moderated to 5%-6% in 1QFY24 but is expected to increase in 2HFY24 due to seasonality of business.
- Innovations in the payment ecosystem, such as UPI Lite, Rupay credit cards on UPI, and multi-bank EMI aggregation, will be key growth drivers in the business.
- India still has low penetration of mobile payments on the merchant side and loan distribution products, providing a huge opportunity for the company.
- Paytm Money has launched a bond trading platform for retail investors.
- In 1QFY24 the company on-boarded Shriram Capital as a finance partner, which will be operational in the upcoming quarters after the software integration is complete. In FY24, a total of 3-4 partners will be added to the lending business.
- The company does not track o/s loan book but estimates it to be 33% of the disbursements made during the quarter.
- The focus is to ensure the best quality portfolio for finance partners with the RBI displaying discomfort in unsecured loans.

Related to P&L and Others

- Paytm delivered 39% YoY growth in total revenue to INR23.4b. Contribution margin grew to 56%, led by payment business and business margin.
- Software expense as a % of revenue is declining QoQ as the company has moved to a new system, which is cost effective for the company.
- Net payment processing margin remains at ~7-9bp of GMV despite no UPI incentives in 1QFY24 due to: 1) an increase in GMV of non-UPI instruments such as EMI and cards, and 2) lower interchange cost for wallets post interoperability circular by NPCI.
- Paytm post-paid ECL% has improved to 65b-85bp from 75bp-100bp in 4QFY23.
- Marketing expenses increased due to expenses on sponsorships for events such as IPL during the quarter.
- Sales employee count grew by 38% YoY to ~30k as the company is reaching new geographies (100 new geographies added in the last 12 months) and the company sees the TAM for the merchant devices and subscriptions revenue increasing constantly.
- Inter-change was reduced by 50bp last quarter and the company has taken a hit on take rate due to changes in the repo rate.
- Take rate in the lending business is 3.5%-3.75% (including collection incentives given by the lender) and the company expects it to improve going forward.
- Excluding GST, Paytm charges ~INR100 per month as subscription fees on the sound box and ~INR300-INR500 per month on the POS card machines, depending on the device model.

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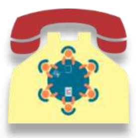

P I Industries Buy

Current Price INR 3,685

Operational Overview

- Margin improvement this quarter was driven by operating leverage and a better product mix.
- Global crop protection industry is witnessing an inventory glut along with steep price reduction.
- The domestic business was muted, led by the delayed onset of monsoon; however, the company effectively managed the working capital during this period.
- Raw material deflation is not uniform across all products. However, whenever there is substantial change in prices (up or down), the company plans to incorporate these changes in the pricing of the next contract.
- Inventory Situation for CSM: the company does not anticipate any significant challenges for its products. However, there are a few products that show certain indications of challenges. The company's customers are not reporting any notable issues either.
- Inventory Situation for Domestic – the company remained cautious in terms of placement. From July onwards, demand is coming out stronger. The company is watchful of the scenario.
- Farmer-level demand remains robust, even for generic products, indicating no demand challenges. The primary challenge arises from channel destocking caused by substantial price reductions resulting from excess inventory.

Exports (CSM)

- During this quarter, PI successfully introduced a new molecule to the market. The company remains on track to achieve its annual guidance of commercializing a total of 4 to 5 new molecules this year.
- Global industry headwinds, particularly in the generic space continues.
- The company holds a cautiously optimistic stance regarding the potential expansion in demand for both its existing and newly commercialized products.
- R&D pipeline progressing well with 4 to 5 products to be commercialized every year.
- Capacity expansion in line with plan, leading to 9.6% enhancement in overall capacity through: 13 Top molecules identified for capacity enhancement; BCT optimized via eliminating stoppages & delays; throughput improvement- batch size & yield improvement.

Domestic Agri inputs

- From July'23 onwards, positive momentum has built up.
- The company plans to launch four new products in FY24, of which, one has already been launched in 1QFY24
- **Product Launched:** EKETSU - 1st 3-way Rice Herbicide Mixture of three proven chemistries to provide maximum weed control efficacy.
- **Biological products –** PI will be launching one product this month and one in 3QFY24. The management is seeing good traction from this segment and is expecting to grow in doubling digits. This segment is not facing any inventory-related issues as with generics.
- Horticulture-related agricultural chemicals (Agchem) accounted for approximately 30% of the company's domestic revenue. In the broader context of India's Agchem market, horticulture products contribute around 25% of the total market share.

Pharma:

- PI Health Sciences Ltd. (PIHS) acquired Archimica S.p.A., Italy on 27th April 2023. PIHS also completed the acquisition of Therachem Research Medilab (India & US) and Solis Pharmachem (India) on 2nd June 2023.
- PIHS will combine the acquired businesses' R&D capabilities with the brand-new integrated pharma research centre being developed in IKP Hyderabad for CRO and CDMO offerings.
- One-time integration expense incurred in 1QFY24 is INR120m.
- Pharma Revenue in 1QFY24 stood at INR443m comprising: Archimica S.p.A revenue INR374m (from 27-Apr-23) and Therachem group revenue INR69m (from 2-Jun-23).
- Overheads of INR384m includes one-time acquisition, integration, and initial business set-up expenses.
- Operating loss before working capital changes is INR38m.
- Inventory levels stood at INR1,216m and trade working capital at INR2,242m, net of customer advances.

Guidance:

- The management targets 18-20% revenue growth, accompanied by improved margins. The revenue generated from the Pharma segment will be additional to this stated guidance
- Agrochemical Capex will be ~INR8.5-9.0b for FY24.
- There is potential for further improvement in Working Capital Days across certain areas.

QUESS
WINNING TOGETHER

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Quess Corp Neutral

Current Price INR 428

1QFY24 performance

- The business environment remains weak for IT and FMCG, while BFSI, manufacturing, and telecom are expected to do well.
- WFM was negatively impacted by a slowdown in permanent hiring (down 30% QoQ). Manufacturing contributed 50% of the new client wins and expects good demand in Manufacturing. PAPM was stable during the quarter (670-700). It is hiring in anticipation of a strong festive demand 2Q and 3Q. Though demand for IT services remains weak, it is seeing good demand from GCCs.
- GTS saw strong growth on the back of strong order book. F&A saw strong 59% YoY growth. CLM and the non-voice BPO also witnessed robust growth with revenues up 29% and 31%, respectively. The focus for the North America platform business will be to improve margins and expand its healthcare segment. It is planning to launch new HRO products over the coming quarters.
- 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. The headcount in securities business declined as it rationalized low margin clients. Expect strong demand from 5G roll-out to continue.
- In PLB, Foundit's performance aligns with the management's objectives to achieve breakeven in 4QFY24. With the cost structure now stabilized, the catch-up on revenues is expected to drive the break-even milestone (1Q is seasonally weak).
- Income tax matter pertaining to FY17-18 is with ITAT (hearing in current month), while the assessment for FY18-19 is at the DRP stage (order expected before Sept'23)

Margin

- For WFM, 1QFY24 margin was adversely impacted by merit increases, muted permanent hiring, and a slowdown in the North America business. The margin is expected to recover as IT has bottomed out, merit increases are behind, and high burn in North America is expected to moderate (highest in 1QFY24). This should help QUESS to recover margin to 2.8%, before reaching the 3% mark. Recovery in IT services and contribution from North America should help inch up margins to 3.2%. Though it is experiencing project delays in the North American business, the guidance to breakeven in 1HFY24 remains intact.
- For OAM, strong growth and cost reduction should aid margin. The margin can go up to 5.5%.
- The management indicated that implementing price hikes in the industry is not currently feasible. It mentioned that unless there is more consolidation and increased compliance among other players, raising prices would continue to be challenging.
- 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.

SIS — Buy

Current Price INR 451

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Quarterly performance

- SECIS witnessed decent revenue growth and healthy margins in 1QFY24 and expects further margin recovery in the future.
- The company has placed tremendous focus on margin improvement, with the India Security business experiencing a significant 40bp QoQ improvement. A similar margin improvement approach is also being applied to the Facility Management business, which is expected to witness a strong margin recovery in the coming quarters.
- There has been significant wage hike in the Australia business. Due to the lag in price increases compared to wage hikes, there may be some near-term pressure on margins. However, the management anticipates that margins will revert to their normal levels once the contracts are re-negotiated.
- In Australia, there were delays in a few contracts, resulting in muted revenues during the period. However, these contacts are expected to resume in the coming quarters.
- Cash flow conversion was lower due to higher DSOs caused by collection delays typically observed in April and May, following collections made in March. The management expects this to normalize in the coming quarters.
- In FY22, due to strong focus on growth, SECIS decided to top up branch costs, leading to an impact on margins. Additionally, the return of travel expenses and higher wage costs also contributed to margin pressures. However, the management is confident of continued margin recovery. Looking ahead, the company expects to leverage various margin-improvement factors, including securing new contracts with better margins, a robust solutions business (high margin), and optimizing SG&A expenses.
- In cash logistics business, unlike peers, the company generates 80% of its revenue from bank process outsourcing and 20% from the ATM business. Over the years, the company has successfully transformed from a traditional cash-focused business to a primarily bank outsourcing-oriented enterprise.

- Consolidation of players in cash management helps improve pricing and route density, and reduce competition.
- In the cash logistics segment, SECIS is also working with a few micro-finance companies, which presents a promising growth opportunity for the business.
- VProtect, the company's alarm monitoring business, currently operates in double-digit margins.

Outlook

- The management is confident of restoring EBITDA margins for all businesses to pre-covid levels, primarily because the gross margins remain unaffected.
- The growth in underlying businesses remains strong, and the management remains confident of strong growth ahead.

SRF — Neutral

Current Price INR 2,310

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Chemicals business:

- The Specialty Chemicals segment was hit by inventory rationalization by customers. However, despite inventory unwinding, the segment delivered healthy growth in revenue and margins.
- The ongoing expansion projects within the segment are as per schedule and are likely to be commissioned over the next few quarters. These will contribute positively going forward.
- SRF maintained its strong engagement with customers for complex downstream products/AIs. It has launched two new products in Agro and Pharma each during the quarter. Going ahead, SRF expects to commercialize ~6-7 AIs by FY25.
- Prices of certain key raw materials are softening; however, they are still higher than their long-term averages.
- Fluorochemicals segment was hit by weak domestic summer season and Chinese dumping across geographies (on account of weak local demand in China). Accordingly, it witnessed a decline in revenue YoY due to weaker volumes and price reduction.
- Management expects short-term pressures in HFCs. However, underlying potential remains strong due to production cuts in the US and strong traction for the products.
- Management expects 2QFY24 to be better than 1QFY24. Further, it expects significant improvement in 2HFY24 v/s 1HFY24.
- Moreover, mandatory installation of AC systems in truck cabins is expected to bolster the domestic demand for ref gases in future.
- Industrial chemicals witnessed lower demand during the quarter due to stagnant pharma and agro industry.

Packaging Film business

- The company expects the demand-supply mismatch to continue, especially in BOPET films. However, it is banking on its Value Added Portfolio (VAP) to ensure differentiation against its peers.
- The business continues to face significant margin pressure as falling commodity prices led to inventory corrections.
- Hungary operations witnessed improvement on sequential basis though.
- Aluminum foil project is on schedule and is likely to be commissioned by 3QFY24. Full benefit of the aluminum foil project is expected to be witnessed from FY25.

- Management expects ROCE of ~15-16% from the business going ahead.

Technical Textile business:

- Revenue from the business was hit by lower Caprolactum prices. However, the same was partly offset by sequential improvement in NTCF volumes.
- The business witnessed improved performance of Belting Fabrics and Polyester Industrial Yarn and management is focusing on high-end VAP sales.

Other businesses:

- SRF's coated fabric business maintains its leadership position within the domestic market by achieving the highest ever domestic sales and EBITDA on the back of increased demand from VAP. The demand scenario is likely to stay positive in near future.
- In the laminated business, SRF is operating its plant at full capacity and retained its price leadership. Demand is expected to remain stable in this business.

Market outlook:

- **Chemicals business:** The company expects the current inventory rationalization within specialty chemicals segment to be transitory in nature and can last for a couple of quarters. It is focusing on commissioning and ramping up of new plants within the segment.
- **Within Fluorochemicals**, strong demand outlook for HFCs is likely to continue. SRF expects better performance in 2HFY24. Long-term growth story continues to remain intact. It is focusing on PTFE product approvals in order to ramp up the plant. Industrial chemical prices may continue to witness pressure in the near term.
- **Packaging Film business:** Management expects pressure on margin to continue due to demand-supply mismatch. However, it expects the industry down cycle to be at its peak and over capacity within the industry to taper off over the period. Management will continue to focus on sustainability initiatives, cost optimization and value added products.

Capitalization:

- Management has indicated that the company will capitalize ~INR11b/INR14-15b of capex for its Fluorochemicals/Specialty Chemicals businesses in FY24.
- Further, it will also capitalize ~INR4b towards the Aluminum foil project (Packaging Film business) during the year.

Tata Chemicals — Neutral

Current Price INR 1,016

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Operating Performance

- Higher consolidated revenue on account of better realizations were partly impacted by lower volumes (dispatches in India impacted by cyclone Biparjoy for 10 days).
- EBITDA growth was driven by higher realizations.
- PBT was low mainly due to higher finance costs, while PAT was low due to higher taxes in some geographies. Many geographies are now profitable so the company does not have any tax credits left.
- Gross debt declined from USD770m to USD720m due to the prepayment of USD95m in overseas units during the year, partly offset by higher leases.
- Net debt was high due to the usage of cash for dividend, capex, etc.

Demand-supply scenario

- Soda ash prices dropped due to customer purchase delays linked to anticipated Inner Mongolia supplies.
- Slow post-Covid growth in China and weakened industrial production in developed nations aggravated the situation.
- Agile pricing was adopted by the company to boost volumes and capacity utilization.
- The sustainability trend is expected to drive demand for applications like solar glass and lithium in the medium to long term.
- The Inner-Mongolia capacity came early (5-6 months), which also impacted the demand supply dynamics
- India demand was driven by sustainability demand coming from all sectors. However, it was mainly impacted by surging imports (doubled).
- Also, in some parts of the world, there was a delay in purchase decisions amid expectations of inventory management due to supply chain concerns, which have eased now.
- China: Manufacturers that are located near ports will mostly focus on exports. Since exports of soda ash are less remunerative than domestic sales, exports will normalize. Accordingly, the demand-supply situation will normalize in the next 15-18 months.

Capex

- Capex during the quarter stood at INR4.26b.
- It has completed the entire capacity expansion for salt, i.e., 330KTPA and 45KTPA of Soda in FY23.
- The ongoing capacity expansion is on track with:
- Bicarb capacity expansion of 70KTPA by end of H1FY24
- For Soda Ash, the balance 185KTPA will be completed by end of FY24.
- Total capex as of Jun'23 stood at INR22b, and the company targets to spendINR7b by Mar'24.
- For FY24-27, the company has planned incremental capex of INR20b for the capacity expansion of Soda Ash/Bicarb/Silica by ~30%/40%/5x.
- In Kenya, capex will be mainly aimed at debottlenecking (~USD20-25m).
- For US, capex of ~USD80-100m will be done largely for process improvement and some de-bottle necking. The capacity will be ~400KTPA, and the management is still being watchful whether to increase this further or not.
- The expansion of Pharma grade salt in UK is expected to be completed by FY24 end.

India

- Revenue came in at INR11.4b, down 7% YoY/13% QoQ.
- EBITDA margins declined 700bp YoY to 25.5% (up 560bp QoQ).
- Realization was low due to price drops during the quarter.
- Volumes were low due to cyclone and some volume alterations (dispatches in India impacted by cyclone Biparjoy for 10 days).
- There was a sharp fall in caustic soda prices in India.

TCNA

- In North America, revenue came in at INR14.8b, up by 33% YoY, mainly driven by 32% improvement in realization to USD337KMT. Volumes fell 6% YoY to535KMT.
- EBITDA/MT stood at USD108 vs. USD63 in 1QFY23.

- Overall US volumes remained strong (~84% capacity utilization), led by growth in export volumes (up 7% YoY to 295kt). Domestic volumes declined by 18% YoY to 240kt.
- For the contracted customers, if the price erosion is significant, then there will be revision in the contracts.
- For domestic supply, there was a controversy about container glass, which led to shutdowns at few furnaces–this led to some demand impact
- A slowdown in domestic volumes was due to the container glass issue but the company was able to manage margins and customer orders.
- Contract Period: Domestic – annual contract

TCEHL

- Revenue came in at INR6.5b, up by 22% YoY.
- Realization was up 51% YoY to GBP418/MT (declined 8% QoQ).
- EBITDA/MT declined sequentially by 50% to GBP73 (up 43% YoY).
- Total sales volumes declined by 15% YoY.
- The cost has more or less stabilized now; however, the company will remain watchful on UK energy prices.
- There will be some unwinding of inventory as the company holds ~3-4 months of inventory.
- Soda Ash/Sodium Bicarb/Salt volumes declined 12%/14%/18% YoY to57kt/24kt/72kt.

TCAHL

- Revenue came in at INR1.8b, down by 29%/16% YoY/QoQ.
- EBITDA/MT stood at USD142, down 24%/19% YoY/QoQ.
- Sequentially, realization has been tapering off from the high seen in 2QFY23 at USD431/MT. Realization in 1QFY24 was USD387/MT. Volumes decreased 34% YoY/13% QoQ to 55kt.
- The company witnessed a softening in volume and prices during the quarter, due to certain supply chain issues and increased pressure from Chinese supplies.
- A major impact came in from Thailand and South Africa regions as Chinese supplies were heavy in these regions.

Other Highlights

- Rallis margins remained intact thanks to a better product mix.
- Specialty Products faced certain challenges.
- In standalone Specialty Products, silica business performed as expected i.e. positive EBITDA number. While the major issue was in Nutraceutical business as orders were delayed, leading to production slowdown and low capacity at plants.
- Silica running at 85% capacity, while Nutraceutical plant at ~50%
- Plans to add another 10k capacity in Silica because it is a profitable business.
- Continues to work on the chemical side of the EV battery requirements and is working with multiple Tata companies.
- For a 1000TPD solar plant, ~200TPD of soda ash is required.

TeamLease™ Putting India to work

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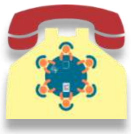
Detailed Concall Transcript &
Results Update



Team Lease — Buy

Current Price INR 2,318

General Staffing

- TEAM saw good growth in 1QFY24 on account of scaling up of large accounts.
- Consumer and BFSI registered strong growth in 1QFY24.
- TEAM saw clients returning and there is increased push for compliance, which is positive for TEAM.
- Telecom, BFSI and FMCG should see strong growth ahead. Manufacturing presents a big opportunity with the PLI scheme.
- The pipeline for 2QFY24 remains strong and demand for 3QFY24 should be better than 2QFY24 on account of festivals. The management believes that 25-30k headcount addition is possible for FY24.

Specialized Staffing

- Specialized staffing remains muted as IT Services companies slow down hiring while focusing on improving utilization levels.
- The open positions are down 40-50% from the normal levels. TEAM is seeing green-shoots of demand from GCCs and expects to mitigate the impact on IT by growth in GCCs and Tech in non-tech space.
- Amid the current environment, companies remain cautious on hiring and the situation is not expected to improve in the near term.

Degree apprenticeship

- The headcount dropped by 8k in 1QFY24, due to the impact from the discontinuation of the NEEM program. There are around 10k associates under NEEM, which will be released over next two quarters.
- TEAM is seeing green-shoots of growth in other programs, which should help drive net growth at 2Q-end.

Other HR Services

- The business was impacted by seasonality in Ed-tech business. Usually 90% of the billing happens in last three quarters of the year.
- It has association with 26 universities in FY23, the management is expecting to add 10-12 universities this year.
- TEAM sees strong 30% YoY growth with 8% EBITDA margin in this business for FY24.

Margin and outlook

- 1Q margin was impacted by NEEM headcount reduction, wage hikes for core employees and seasonality in other HR services.
- Larger clients continue to grow faster, which puts pressure on PAPM. TEAM was able to maintain PAPM during the quarter, with the help of cross-selling and up-selling initiatives.
- The management is confident of maintaining the core headcount, along with strong growth in FY24, which will help expand margins.
- In specialized staffing, TEAM maintains additional capacity to meet upcoming demand. The demand revival will boost productivity and improve margins.
- The management suggested that the new programs (under DA) come with lower PAPM than NEEM app, and thus have a low margin profile. The discontinuation of NEEM program will have INR40m impact over the next two quarters.
- For general staffing, Tech and Digitalization aspects will continue to help improve margins.
- The management remains confident of improving margins going forward.

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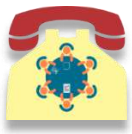


UPL — Neutral

Current Price INR 586

UPL Corporation

- Revenue declined 24% YoY (down 17% volume; down 10% price, up 3% FX), led by a significant decline in herbicide volume and prices, and product bans in Europe.
- Revenue share of differentiated and sustainable portfolio grew to 35% vs. 24% in the previous year.
- Channel inventory is expected to normalize as the company is witnessing strong demand from the grower's level.
- Generally, Q1 is the weakest quarter for UPL Corporation. Going ahead, the company expects channel demand to remain weak for 2QFY24 with a possible recovery in 2HFY24.
- UPLL will undertake a cost-reduction initiative of USD100m over the next 24 months. It expects ~50% of the benefit to be realized in FY24.

Geographical performance

- **LATAM:** Revenue declined 14% YoY to INR29.71b, led by a decline in non-selective herbicides in Brazil. However, it was partly offset by higher volume from differentiated products.
- **Europe:** Revenue declined 27% YoY to INR12.6b, due to lower volumes and the adverse impact of product ban (bifenazate). The ongoing challenge of channel inventory remains a significant obstacle, leading to a decline in certain regions of Europe.
- **North America:** Revenue declined 52% YoY to INR8.7b, due to channel inventory-led challenges coupled with lower volumes and pricing pressure in glufosinate, s-metolachlor, and clethodim products.
- **RoW:** Revenue grew 3% YoY to INR 18b despite high channel stock and pricing pressure from Chinese suppliers in SE Asia and Africa.

UPL SAS

- Revenue declined 14% YoY (down 7% volume; down 7% price) due to delayed Kharif sowing activities, pricing pressure on post-patent side, and high channel inventory.
- Differentiated portfolio fared better, led by traction in new launches and helped curtail margin impact.
- Going ahead, the company expects much better performance in 2QFY24, on the back of demand recovery, due to improved monsoon from June-end onwards.
- During the quarter, the company has taken strategic actions to streamline the portfolio of nurture.retail and nurture.farm platforms and optimize cost.

Advanta Enterprise

- Revenue grew 26% YoY (up 14% volume; up 9% price, up 3% FX), driven by robust traction in field corn (across India, Thailand, Ecuador, and Peru), fresh corn (in Indonesia) and grain sorghum (in USA).
- Contribution margin expanded ~520bp YoY, due to improved mix and good recovery in India vegetable business.
- Management expects healthy demand for the rest of FY24.

Specialty chemical and manufacturing

- Revenue declined 20% YoY due to a slowdown in the agrochemical as well as the broader chemical industry.

- The company entered a new chemistry during the quarter by commissioning and commencing production at the phosgene plant in Dahej.
- Going ahead, the segment is expected to perform better and in line with the recovery in the agro and specialty chemicals markets.

Guidance

- 2QFY24 is expected to witness a similar price decline (high single digit), while volume decline is expected to moderate.
- Revenue and EBITDA growth is expected to turn positive in 2HFY24.
- Management has guided for revenue/EBITDA growth of 1-5%/3-7% for FY24 on a group level.
- Management expects a volume growth of ~15-20% in FY24.
- Management has guided for ~USD300m of capex in FY24. It will focus on conserving cash and might postpone some capex if needed.

Working Capital and Debt

- Gross debt decreased to INR300.8b Jun'23 vs. INR301.2b as on June'22, while Net debt declined to INR261.9b in Jun'23 vs. INR264.8b in June'23 (i.e., reduced by USD160m).
- Debt has increased sequentially due to seasonality. The company will work on reducing the debt in FY24.
- Net Working Capital days in 1QFY24 increased to 122 from 108 days in 1QFY23, on the back of lower payable days (127 v/s 145) and a reduction in non-recourse factoring by INR17.1b on a YoY basis.
- Working capital is expected to peak by 3QFY24 and then decline in 4QFY24. Working Capital days by the end of FY24 is expected to be ~65-70days.
- Debt is also expected to move in sync with working capital.

Other highlights

- The exports from China are reducing due to strong local demand there. Further, the pace of capacity addition in China has reduced.
- In the last few weeks, the Inventory levels across channel partners in USA has normalized. Channel partners in North America are expected to restock for the next season in 3Q and 4QFY24.
- S&P Global estimates the global agrochemical market to decline by 5% in CY23.
- Average finance cost in 1QFY24 stood at ~6% vs. 3.5% in 1QFY23.
- Tax rate for FY24 is expected to be at the lower end of 15-18%.
- New products such as Evolution and Feroce are doing well for the company.

zomato

Zomato — Buy

Current Price INR 94

Click below for Detailed Concall Transcript & Results Update

Demand and growth outlook

- In general, any increase in viewership of any event has positive impact on revenue, but given the scale of the business, the contribution from IPL did not materially drive revenue. The seasonality is largely due to school holidays and weather.
- The management is confident of achieving 40%+ organic growth over the next couple of years, assuming that the demand slowdown is over for the company. Most of this growth will be driven by an uptick in the number of users.
- Hyperpure saw strong growth despite churning of small players due to an increase in the minimum order value requirement on the platform. It is seeing


Zomato

healthy growth, both on restaurant and seller side. Churning of smaller players helped to improve profitability of the business.

- The management is still exploring synergies between delivery fleet of food delivery and quick commerce, where the overlap is high between the two.
- Though food inflation remains high, smaller players are increasing ad spends on the platform to support growth, which also aided AOV for 1QFY24.
- 30% of AOV was driven by Zomato Gold. Gold users have slightly higher AOV and very high order frequency.
- The company wants to maintain healthy cash levels and there are no current plans for any shareholder return.

Margins

- The management is confident of achieving 4-5% EBITDA margin (% of GOV) over the next few quarters in the food delivery business.
- The decrease in employee expenses was on account of right sizing done in Dec'22. 1QFY24 saw full quarter benefit from the same, as 4QFY23 had some severance payments. The wage hikes will happen in Jul'23 so its impact will reflect in 2QFY24.

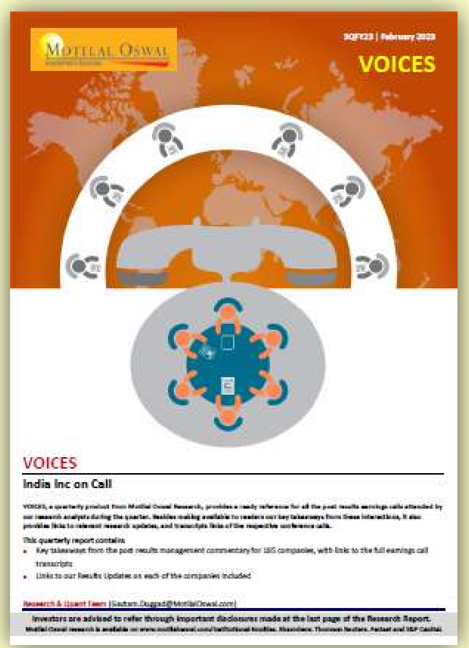
Blinkit

- The movement in AOV is seasonal in nature and fluctuates depending on the business mix as it provides a wide range of products. Higher ad sales during the quarter also helped to inch up AOV. 25% of AOV increase was on account of supply constraints faced by Blinkit during the quarter.
- Due to the disruptions in Delhi, few stores were shut for two days and saw low delivery partner traffic, which impacted operations in April-May.
- Starting Apr'23, Blinkit evened out compensation to delivery partners. This did not have much impact on the delivery cost. The delivery cost is expected to remain in similar lines going forward.
- Blinkit continues to widen its product offering, which should boost revenue and margins.
- Along with store additions in new areas, the management is also adding stores in locality where there is very high volume.
- Margin levers for break-even over the next four quarters include wallet share gains and strong operating leverage.

NOTES

GALLERY

4QFY23 | June 2023
VOICES
VOICES
India Inc on Call



3QFY23 | February 2023
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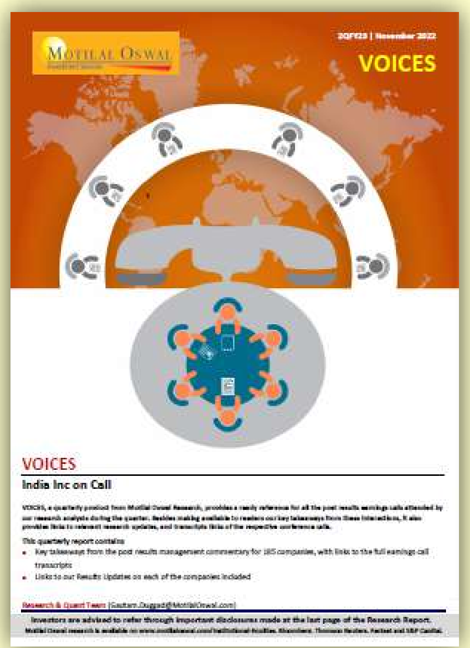

2QFY23 | November 2022
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HIGHLIGHTS – JUL'23 EDITION
Deven Mistry – Research Analyst (Deven@MotilalOswal.com)

Equity
FUND FOLIO
Indian Mutual Fund Tracker
INR87b
Net equity inflows improve 18.3% MoM
INR46.4t
MF industry's AUM jump 4.5% MoM and scale new heights
Amount garnered through SIPs
INR152.5b
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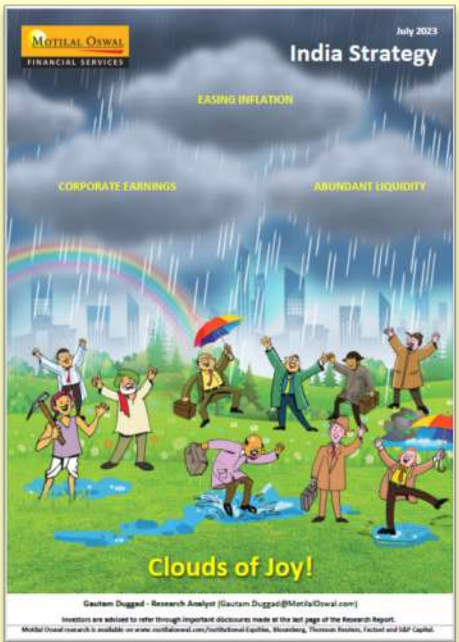

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ABUNDANT LIQUIDITY
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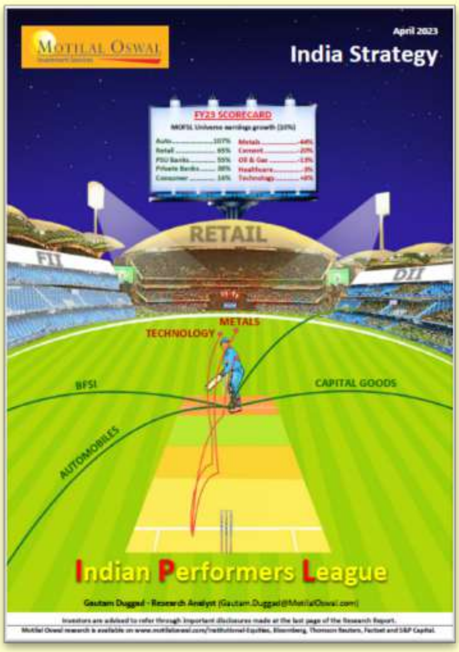

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CAPITAL GOODS
AUTOMOBILES
Indian Performers League

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SELL	< - 10%
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Correspondence Address: Palm Spring Centre, 2nd Floor, Palm Court Complex, New Link Road, Malad (West), Mumbai- 400 064. Tel No: 022 71881000. Details of Compliance Officer: Neeraj Agarwal, Email Id: na@motilaloswal.com, Contact No.:022-40548085.

Grievance Redressal Cell:

Contact Person	Contact No.	Email ID
Ms. Hemangi Date	022 40548000 / 022 67490600	query@motilaloswal.com
Ms. Kumud Upadhyay	022 40548082	servicehead@motilaloswal.com
Mr. Ajay Menon	022 40548083	am@motilaloswal.com

Registration details of group entities.: Motilal Oswal Financial Services Ltd. (MOFSL): INZ000158836 (BSE/NSE/MCX/NCDEX); CDSL and NSDL: IN-DP-16-2015; Research Analyst: INH000000412 . AMFI: ARN .: 146822. IRDA Corporate Agent – CA0579. Motilal Oswal Financial Services Ltd. is a distributor of Mutual Funds, PMS, Fixed Deposit, Insurance, Bond, NCDs and IPO products.

Customer having any query/feedback/ clarification may write to query@motilaloswal.com. In case of grievances for any of the services rendered by Motilal Oswal Financial Services Limited (MOFSL) write to grievances@motilaloswal.com, for DP to dpgrievances@motilaloswal.com.