

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

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

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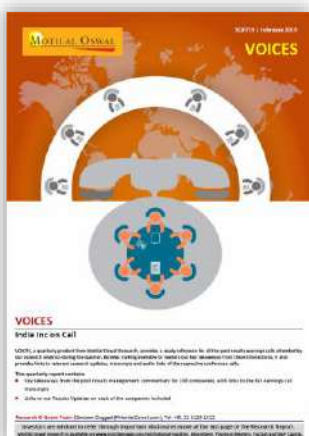
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**Note:** All stock prices and indices are as on 20<sup>th</sup> February 2024, unless otherwise stated.

BSE Sensex: 72,623

S&amp;P CNX: 22,055



## Domestic cyclicals propel growth; earnings beat expectations

In this report, we present the detailed takeaways from our 3QFY24 conference calls with various company managements as we refine the essence of India Inc.'s 'VOICES'.

- **Corporate earnings – Financials and Autos drive earnings:** The 3QFY24 corporate earnings ended on a strong note, with widespread outperformance across aggregates, driven by continued margin tailwinds. Domestic cyclicals such as Autos and Financials, along with global cyclicals (i.e., Metals and O&G) drove the beat. Technology posted a marginal decline in earnings, its first in 26 quarters.
- Many **banks** have indicated a consistent trajectory of loan growth, driven primarily by ongoing momentum in the Retail, Business Banking, and SME segments, coupled with improved utilization of sanctions in the corporate sector. Despite this positive outlook, concerns persist regarding deposit mobilization, leading banks to increasingly turn to bulk TDs and CDs to fund asset growth.
- Within the **NBFC/HFC** sector, managements highlighted the following: 1) Adjusting growth trajectory in the personal loans segment due to sector-wide elevated delinquencies in the small-ticket personal loans segment; 2) Anticipating a moderation in disbursement volumes for Select Vehicle Financiers in FY25 (relative to FY24); 3) CoB has largely peaked out or may experience a slight uptick for one more quarter before stabilizing; and 4) Asset quality is expected to remain favorable and 5) Operating leverage will start playing out especially for entities that have made substantial investments in technology upgradation and distribution expansion in recent years.
- Most of the **Automobile** managements have guided for the near-term demand headwinds in both domestic and global markets. Near-term challenges withstanding in 4QFY24, FY25 volume growth should be in the range of 4-6% YoY for most of the segments due to high base and moderation in demand. However, 2Ws and SUVs should outperform the auto pack with 8-12% YoY growth in FY25.
- **Management of IT** companies remain cautious on the near-term demand environment for key verticals (BFSI, Retail). While a few companies have witnessed early signs of recovery, they are hesitant to label it as a definitive trend. The management indicated that the reprioritization of projects and execution deferrals on discretionary areas continue to exert significant pressure on revenue conversion.
- Revenue growth of consumer companies remain subdued due to weakness in the rural market and competition from the local and regional players. The management highlighted the delayed onset of winter adversely impacted the winter portfolio during the quarter. Companies continuously passed on the benefits of lower commodity prices across categories such as soaps, detergents, paints, oils, and biscuits. The management anticipates volume recovery in FY25 and has also highlighted that gross margins have already rebounded satisfactorily for most companies in 9MFY24.
- In **Healthcare**, companies indicated sustained growth momentum in the chronic category of therapies in the domestic formulation segment for the quarter. The weak seasonality adversely impacted the off-take of products in acute therapies

as per the management. Companies witnessed the benefit of lower raw material cost for the quarter. They expect this benefit to sustain over the near term.

- In the ferrous **Metals** space, managements across companies pointed to: 1) higher coking coal costs; and 2) development of captive raw material mines. Though a better performance from Indian operations backed by strong domestic demand should aid volumes and margins in the near term, managements believe that global uncertainties might pose challenges to international steel, base metal, and raw material prices in the short term. In the non-ferrous space, managements maintained their CoP and EBITDA guidance for FY24.
- For **Cement**, most managements have guided for industry volume growth of ~8-9% YoY in FY25. Cement prices have corrected in Dec'23 across regions and this weakness persisted in Jan-Feb'24.



### Autos

- Most of the managements have guided for the near-term demand headwinds in both domestic and global markets. Near-term challenges withstanding in 4QFY24, FY25 volume growth should be in the range of 4-6% YoY for most of the segments due to high base and moderation in demand. However, 2Ws and SUVs should outperform the auto pack with 8-12% YoY growth in FY25. The macro environment remains uncertain due to geopolitical tensions. However, the continuing devaluation of emerging market currencies has eased now. The companies have hinted toward stable commodity prices in 4QFY24. While the Red Sea crisis has not had any material impact on any of the coverage companies so far, there was an indication toward a rise in logistics costs in 4Q and shipping times to increase by about 3-4 weeks.



### Capital Goods

- EPC companies reported robust visibility from sectors such as power T&D, renewable energy, data centers, real estate, and defence. In international markets such as the Middle East, companies have guided for a better-than-expected tendering pipeline, chiefly from Saudi Arabia, UAE, Kuwait, Qatar. Margin guidance has been revised slightly downward, with the expectation that a return to double-digit levels will take a few quarters. This is due to the winding down of legacy projects nearing completion, while newer projects are yet to the margin recognition threshold. Accordingly, double-digit performance has been deferred to 2HFY25. Most of the companies reported healthy order inflow and execution growth during the quarter, largely led by up-fronting before the election schedule kicks in. Most companies foresee a temporary slowdown in government ordering in the ensuing one to two quarters; however, private sector should not really be affected by the same. Product companies have seen improving margins, led by easing RM inflation and favorable product mix, especially for genset players. International geographies have been a mixed bag for companies with continued weak exports for Cummins, while L&T, Kalpataru, Triveni Turbine witnessed strong traction.



### Cement

- Cement demand was subdued in 3Q due to multiple reasons (festive season, labor unavailability, excessive rains, flood and state elections in a few regions, fiscal challenges). However, demand has improved in Jan'24, supported by government-led infrastructure projects and pick-up in housing demand. Most managements have guided for industry volume growth of ~8-9% YoY in FY25. Cement prices have corrected in Dec'23 across regions and this weakness





persisted in Jan-Feb'24. Fuel consumption costs for cement players declined 5-15% QoQ (except for ACC and ACEM, which reported 1-2% QoQ increase) to INR1.50-INR2.05/Kcal in 3QFY24. Companies expected fuel cost to either remain flat or decline 4-5% in 4Q.

### Chemicals Specialty

- Chemical companies mentioned that destocking intensity is down and in some cases, it is almost over. However, there were no signs of revival in demand as mentioned by most of chemical company and it could be sometime away till there is a sustained demand recovery. Chinese dumping is still very much an issue and therefore pricing pressure still exists for most companies. Some firms experienced declining input costs, leading to lower product prices eventually. Management anticipates recovery in FY25, although some projects have been postponed further.



### Consumer

- Revenue growth of consumer companies remain subdued due to weakness in the rural market and competition from the local and regional players. Management highlighted the delayed onset of the winter season adversely impacted the winter portfolio during the quarter. Companies continuously passed on the benefits of commodity prices in categories such as soaps, detergents, paints, oils, and biscuits. This resulted in the sequential improvement in volume growth in 3QFY24. The trajectory of gross margin expansion remained strong. EBITDA margin expansion is trailing behind gross margin growth, primarily attributed to increased investments in marketing and distribution. Management anticipates volume recovery in FY25. Additionally, it has also highlighted that gross margins have already rebounded satisfactorily for most companies in 9MFY24.



### Financials

#### Banks

- Many banks have indicated a consistent trajectory of loan growth, driven primarily by ongoing momentum in the Retail, Business Banking, and SME segments, coupled with improved utilization of sanctions in the corporate sector. Despite this positive outlook, concerns persist regarding deposit mobilization, leading banks to increasingly turn to bulk TDs and CDs to fund asset growth. The industry-wide CASA mix has been declining, resulting in a sequential increase in funding costs. While several banks have faced stagnation or decline in NIM, they anticipate that the rising cost of funds will contribute to further margin moderation in the upcoming quarters, albeit at a more moderate pace.
- PSU Banks have reported enhanced asset quality, although elevated opex ratios persist due to wage provisions for PSU banks and ongoing investments in branch expansion and technological advancements. The SMA pool remains low, and controlled slippages from the restructuring book, combined with a robust PCR and contingency buffers, are expected to mitigate credit costs and support earnings. Provisioning expenses have generally remained manageable for most banks, and although there is vigilance regarding the turn in the delinquency cycle for unsecured loans, the expectation is that credit costs will remain under control in the coming quarters.

**NBFC**

- Within the NBFC/HFC sector, managements highlighted the following: 1) Adjusting growth trajectory in the personal loans segment due to sector-wide elevated delinquencies in the small-ticket personal loans segment; 2) Anticipating a moderation in disbursement volumes for Select Vehicle Financiers in FY25 (relative to FY24); 3) CoB has largely peaked out or may experience a slight uptick for one more quarter before stabilizing; and 4) Asset quality is expected to remain favorable and 5) Operating leverage will start playing out especially for entities that have made substantial investments in technology upgradation and distribution expansion in recent years.

**Capital Markets**

- With strong traction in equity markets, capital market activity measured in any parameter (demat accounts, ADTO, NSE active clients, SIP monthly run-rate) continues to remain upbeat. Most players are indicating investments into the business, which is restricting the benefits of scale. Companies have also been expanding their presence deeper into lower tier cities and also launching new products to diversify their revenue streams.

**Insurance**

- Life insurance companies alluded to changing product mix toward lower profit products as the key reason for muted VNB margin trajectory during the quarter. Going ahead, managements are conscious of the ensuing change in surrender charge regulations, which could dent margins further. On the other hand, players are expecting strong traction in premiums from FY25. Health insurance players saw elevated loss ratio in 3QFY24, but expect normalization in 4QFY24. They continue to remain upbeat on growth in premiums, particularly retail health.

**Healthcare**

- In **Healthcare**, companies indicated sustained growth momentum in chronic category of therapies in domestic formulation segment for the quarter. The weak seasonality adversely impacted the off-take of products in acute therapies as per management. Companies witnessed the benefit of lower raw material costs for the quarter. They expect this benefit to sustain over the near term. Considering the inflation scenario, companies do not expect any benefit from WPI-linked price changes for FY25. For the US generics space, management indicated low intensity of price erosion (mid-single digit on a QoQ basis) in their base portfolio. The filings are inclined toward complex products, and thus, there is reduction in overall pace of filings as per management. On the hospitals front, the festivals period led to lower planned In-patients (IPDs) on a QoQ basis. The management continues to indicate robust demand in North India. Companies indicated the benefit being accrued on account of revision in realization for patients under the Central government healthcare scheme (CGHS) category. Overall, the healthcare space continues to witness tailwinds on account of niche pipeline in the US and limited availability of hospital services in certain regions of India. The DF is witnessing seasonality led by some slowdown over the near term.

**Logistics**

- In the logistics sector, demand activity remained low due to an extended holiday season and weak economic conditions. The management anticipates improved operational performance after the elections, particularly with reduced fuel charges and stable operating costs. However, ongoing issues in the Red Sea

could disrupt the supply chain and cause container shortages, though the overall impact on port volumes is expected to be minimal. In the long term, companies are optimistic about sector growth, driven by e-way bills, GST implementation, expanded routes on the Dedicated Freight Corridor (DFC), and enhanced connectivity of major ports, which are expected to encourage businesses to move toward the organized sector.



### Metals

- In the ferrous **Metals** space, managements across companies pointed to: 1) higher coking coal costs; and 2) development of captive raw material mines. Though a better performance from Indian operations backed by strong domestic demand should aid volumes and margins in the near term, managements believe that global uncertainties might pose challenges to international steel, base metal, and raw material prices in the short term. In the non-ferrous space, managements maintained their CoP and EBITDA guidance for FY24.



### Oil & Gas

- RIL anticipates strong global oil demand, especially in transportation fuel, despite potential short-term challenges in downstream chemical margins. Major expansions for OMCs will conclude within the next two years, paving the way for significant growth. CGDs are concerned about volumes due to lower-than-expected Morbi uptake and increasing competition from EVs. However, domestic gas demand remains robust, with expectations of increased transmission volumes. Upstream companies are poised to benefit from new production wells, with strong guidance for future growth.



### Real Estate

- Amid strong demand tailwinds, companies continue to remain confident of achieving 15-20% growth over the medium term and are developing a project pipeline that can support their growth ambitions. There are no supply-side concerns at least in the near term and while the realization growth on account of product mix will continue, companies remain disciplined on taking calibrated price hikes on an LFL basis.



### Retail

- **Retail:** Sector-wide management commentary indicated that the continued demand slowdown (weak SSSG) and the revenue growth is driven largely by footprint addition. 4QFY24 further saw early onset of EOSS, as retailers looked to liquidate the old inventory due to soft demand.
- **QSR:** QSR companies sustained sluggish performance as growth metrics (SSSG, ADS) remained weak despite Cricket World Cup and various other initiatives. Most companies have maintained the aggressive store addition in 3QFY24 and the momentum is expected to sustain into 4Q. We expect QSR companies to sustain growth weakness in the near term, which will likely keep operating margins under pressure.



### Technology

- **IT** companies' management remain cautious on the near-term demand environment for key verticals (BFSI, Retail). While a few companies have witnessed early signs of recovery, they are hesitant to label it as a definitive trend. The management indicated that the reprioritization of projects and execution deferrals on discretionary areas continue to exert significant pressure

on revenue conversion. Weak growth in 3Q was attributed to the impact of furloughs and ongoing softness in key verticals, notably BFS, Retail, and Hi-Tech, which experienced significant weakness. Although deal signing activities moderated in 3Q due to furloughs, the management pointed out that the earlier wins (mega deals) in 9MFY24 have built a strong foundation for FY25 and should support growth. Additionally, despite the slowdown in revenue growth, management expressed confidence in sustaining margins in FY25.



### Telecom

- Earnings growth continued to remain moderate due to limited tariff hikes. Market consolidation continues to favor Bharti/RJio. Companies remain focused on deleveraging their balance sheets, as capex peaked out in 3QFY24. Bharti/RJio have completed the rollout of 5G rollout in the majority of India.



## Key takeaways from management commentary

### AUTOMOBILES



- Most of the managements have guided for the near-term demand headwinds in both domestic and global markets. Near-term challenges withstanding in 4QFY24, FY25 volume growth should be in the range of 4-6% YoY for most of the segments due to high base and moderation in demand. However, 2Ws and SUVs should outperform the auto pack with 8-12% YoY growth in FY25. The macro environment remains uncertain due to geopolitical tensions. However, the continuing devaluation of emerging market currencies has eased now. The companies have hinted toward stable commodity prices in 4QFY24. While the Red Sea crisis has not had any material impact on any of the coverage companies so far, there was an indication toward a rise in logistics costs in 4Q and shipping times to increase by about 3-4 weeks.

#### KEY HIGHLIGHTS FROM CONFERENCE CALL

	Demand outlook	Other key takeaways from the call
Ashok Leyland	<ul style="list-style-type: none"> <li>FY24 volumes are estimated to be below FY18 peak as 4QFY24 is expected to see some moderation in growth due to the high base of last year.</li> <li>The management expects volumes moderate till elections (1QFY25) as the tendering process across underlying industries slow down. However, macro indicators, including GDP growth, government focus on infrastructure, are intact for the underlying CV industry growth.</li> </ul>	<ul style="list-style-type: none"> <li><b>Various cost-control measures are in place</b> to reduce overheads. It would be focusing on market share expansion, on the back of launch of new products and expansion of dealer network, but not at the cost of profitability.</li> <li>The company would not compromise on the profitability of the ICE business as cash flows from the ICE business would be used to fund new EV businesses.</li> </ul>
Bajaj Auto	<ul style="list-style-type: none"> <li><b>India 2W outlook:</b> The management expects industry volumes to grow 8-10% in the coming months.</li> <li><b>Export 2W outlook:</b> The macro environment remains uncertain due to geopolitical issues. However, the continuing devaluation of emerging market currencies has started to subside. Exports currently stand at 70% of the peak FY22 volumes. The sluggish performance in Africa and South Asia is dragging down the recovery.</li> </ul>	<ul style="list-style-type: none"> <li><b>Red Sea issue-</b> Freight has doubled and supply has been delayed by three weeks for LatAm and Africa. As of now, it is not expected to impair the performance on a continuous basis unless there is a wild escalation.</li> <li><b>Triumph-</b> Scrambler 400X sales are 50% of the total Triumph sales. Both models put together retailed 2,800 units in just 40 cities.</li> </ul>
Eicher Motors	<ul style="list-style-type: none"> <li><b>RE launched two new models</b>, Himalayan 450 and ShotGun650, in 3Q. Although the management refrained from giving out any guidance on bookings, it indicated that these models received healthy bookings during the quarter. The order book is healthy at 3-4 weeks, depending on models and variants.</li> <li><b>Exports-</b> The management expects demand to recover from key export markets after 2-3 quarters.</li> </ul>	<ul style="list-style-type: none"> <li>On account of the Red Sea crisis, RE is seeing some impact on logistics costs, which have gone up by 25-30% in specific routes and the shipping time has increased by 30 days.</li> <li><b>VECV-</b> Regarding EV orders for buses from STUs, the management has clarified that it would not bid aggressively to win contracts just for market share gains in this segment.</li> </ul>
Hero MotoCorp	<ul style="list-style-type: none"> <li>Overall 2W industry revenue should grow in double digits in FY25 and HMCL expects to outperform the industry with its new launches, thereby implying market share gains. Industry growth is likely to be driven by the 125cc+ segment in FY25 as well.</li> </ul>	<ul style="list-style-type: none"> <li><b>Margins:</b> ICE margins stood at 16% in 3Q. The margin impact of EV sales was high in 3Q (200bp) due to the festive season and is likely to be at 100- 150bp in FY24. While input costs would remain stable, the management expects margins to be on a gradual uptrend with an improved mix.</li> </ul>
M&M	<ul style="list-style-type: none"> <li><b>Automotive:</b> Expects the SUV portfolio to grow by mid-to-high teens in FY25 vs. SIAM's industry projection of 3-4% for overall PVs and 10-12% for UVs. Expects 4Q run rate to be flat due to XUV300 ramp-down for mid-cycle enhancement.</li> <li><b>Tractor/FES:</b> Expects tractor volumes to decline 10% YoY in 4QFY24 and 5% YoY in FY24. Guidance for FY25 tractor demand directionally positive. Retail demand is currently weak. Dealer inventory is slightly higher than 30 days and the company expects to bring it down in the next three months.</li> </ul>	<ul style="list-style-type: none"> <li><b>Open bookings</b> stand at 226k units (vs. 286k units in 2QFY24), including ~101k/71k/35k open bookings for Scorpio/Thar/XUV700. <b>Farm:</b> Expects tractor volumes to decline 10% YoY in 4QFY24</li> <li><b>Last-mile mobility (LMM)-</b> LMM business has qualified for both PLI and FAME. Products are ready and will get the first disbursement in 1Q. NIIF's India-Japan Fund (IJF) invested at a valuation of INR66b, 10% higher than the previous valuation.</li> </ul>
Maruti	<ul style="list-style-type: none"> <li>Preliminary estimates by SIAM indicate that PV volumes in FY25 should be ~4.3m units (vs. 4.18-4.20m in FY24E). The small car segment is shrinking both in absolute and percentage terms. The first-time buyer mix is ~41% now</li> </ul>	<ul style="list-style-type: none"> <li>EVs: MSIL will start the production of BEV in 2024. The mid-SUV model will be sold in the domestic market, along with the exports market, such as Japan and Europe. The model is an upmarket EV. It is bigger</li> </ul>

	vs. a low of 38% in the last quarter.	than the Grand Vitara, and has a higher range of 550km with a battery of 60kWh.
<b>Tata Motors</b>	<ul style="list-style-type: none"> <li>CV outlook: Fleet utilization continues to be at a healthy level. Transporters’ profitability remained stable. The management is witnessing a drop in government spending due to the election, and seeing a pause in growth in 4QFY24. It expects 4Q volume to decline by a single digit, followed by a soft 1QFY25.</li> <li>PV outlook: FY25 industry growth will be challenging, and the industry is likely to grow by less than 5% YoY.</li> </ul>	<ul style="list-style-type: none"> <li>JLR – Demand: Not seeing any demand issues in the US, while Europe is relatively stable. The management is not seeing any change in the pace of EV penetration. It continues to expect operating cash flow to support net debt of less than GBP1b by the end of FY24, and anticipates a net cash in FY25.</li> </ul>
<b>TVS Motor Co.</b>	<ul style="list-style-type: none"> <li><b>Domestic:</b> The management expects positive demand momentum to continue into 4Q, driven by healthy growth in rural areas despite some challenges encountered in sowing activities. Retail financing has also been favorable. TVSL believes growth will be significant in urban and semi-urban regions.</li> <li><b>Exports:</b> A recovery in international markets should continue as inflation is settling down; however, currency availability is still an issue in African markets. Customer retails are happening. Sri Lanka has started opening up.</li> </ul>	<ul style="list-style-type: none"> <li><b>Red sea crisis:</b> The pricing of containers has gone up due to the ongoing supply chain crisis.</li> <li><b>iQube:</b> The company currently has 400 touchpoints and it aims to double that in the next three months. New product launches are likely to follow. Gross margins are positive and will continue to improve.</li> </ul>
<b>Tube Investments</b>	<ul style="list-style-type: none"> <li><b>Metal formed</b> - Tenders are coming back; however, the business is getting competitive. Margins seem to be under pressure in the near term. If the announcement of converting 40k wagons to Vande Bharat standard gets implemented, then it will boost demand and add to revenue.</li> <li><b>Mobility-</b> Taking steps to diversify into exports. However, it will take some time for customer approval as it needs to go through an entire process.</li> </ul>	<ul style="list-style-type: none"> <li><b>Capex for standalone business-</b> Incurred capex of INR2.2b in 9MFY24, of which, INR1.6b was for the engineering division.</li> <li><b>Guided for capex of INR3.5b in FY25.</b> It is currently operating at the utilization level of 85% and is expected to reach 95% by the end of this year.</li> </ul>
<b>BHFC</b>	<ul style="list-style-type: none"> <li>As per the management, the near-term outlook is mixed. While demand for PV exports, industrial, and defense sectors remains robust, CV demand from Europe is tapering off.</li> <li>Oil and gas demand is also weak. While domestic CV demand remains weak, the management is confident of a revival in the medium to long term.</li> </ul>	<ul style="list-style-type: none"> <li>The management indicated that emission norms will be effective in the US Class8 segment in CY27. Hence, it expects pre-buying to get triggered in 2025 and 2026.</li> <li>Overseas subsidiaries are likely to post mid- to- high single-digit EBIDTA margin in FY25E.</li> </ul>
<b>BIL</b>	<ul style="list-style-type: none"> <li><b>Retail demand outlook improving:</b> With the demand slowly picking up, the company did not undertake any price hikes. Both India and EU markets remained stable. While the Indian market continues to grow, the company does not expect the business share from India to surpass the current levels of 30%.</li> </ul>	<ul style="list-style-type: none"> <li>RM prices to remain stable: Softness in crude oil prices was offset by pickup in natural rubber prices, and hence, do not expect any major effect on the gross margins.</li> </ul>



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### Amara Raja Energy Neutral

Current Price INR 852

- Revenue from LAB grew 12% YoY, led by 4W/2W volume growth, while industrials grew 6-7% YoY. The telecom sector exhibited a growth of 2-3%, surpassing the average growth rate. Additionally, trading accounted for around 7% of revenues, primarily driven by sales in tubular batteries.
- 4W- Revenue for the aftermarket grew 11% YoY, while OEM grew 2% YoY marginally.
- 2W- Aftermarket grew 15% YoY, while OEM revenue grew 30% YoY.
- Home inverter segment - growth was stagnant as the company is meeting requirements through the trading route.
- Exports: 4W exports grew 25% YoY. The company has commenced shipments to North American geography for 4W AGM batteries.

**Margins:**

- Lead prices during the quarter were around INR200k/ton, which is 8-9% higher on a YoY basis, adversely impacting margins.



- There were no price hikes taken during the quarter in the B2C segment but the B2B segment had some cost pass through. If lead remains at USD2150-2200/ton, then it may have to take price hikes.
- Other costs were higher due to a) a quarterly insurance cost of INR100m and b) consultancy charges aimed at improving the efficiency within the plant.

**New energy business:**

- Revenues have doubled during the period. The Battery pack segment contributes 80% of the revenues, supplying to both e-2Ws and e-3Ws. Furthermore, the company has initiated supply of Li-ion battery packs to telecom players (supply operations already underway for BSNL) and meeting industrial backup storage requirements. It is working on battery pack and chargers for higher voltage requirements for PVs. The current pack capacity is at 500MW, which it plans to take it 2GW. This is not a capital-intensive business. It has the capacity to do INR2b/quarter of revenues (vs. INR1.5b currently).
- Supplying chargers to 3W OEMs such as Piaggio and M&M. Supply to e-2W OEMs is still low.
- 9MFY24 revenues stood at INR4b.

**Cell manufacturing plant:**

- This plant would be operational by FY26. Considering the current lead prices and the capex requirements, this business has the potential to achieve 10-11% EBITDA and a ROE of 10-11%, once it scales up to 7-9GW. Achieving these targets might pose challenges if the business operates below this specified scale.
- Initially, the company will initiate the supply of NMC chemistry cells and eventually progress into LFP chemistry cells. The company anticipates that, in the future, LFP chemistry will constitute 60% of the market, with the remaining share contributed by other chemistries.
- There are few changes in the second cell PLI bidding for 10GW where ARE&M would participate.
- Capex in FY24 for LAB business would be INR2.5b and INR2.5-3b for the lead recycling plant (expected to commence in 1QFY25) and new energy business. FY25 total capex would be INR6b (INR2.5-3b for LAB and INR3-3.5b for new energy business).
- Integration of plastic component business has been complete with the effective date of merger as Feb 01, 2024.



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**Apollo Tyres** **Buy**  
 Current Price INR 518

**India performance highlights**

- Overall, APTY saw a mid-single digit volume growth in 3Q.
- While truck volume growth in 3Q was 3%, PCR was 7%. Further, truck replacement growth was 8% and cars replacement was 4%. However, CV OE segment's demand remained flat YoY as the MAV segment, where Apollo has a strong position, has underperformed the industry
- As per the management, exports are now seeing signs of pick-up for the first time and have seen QoQ growth. If not for the disruption caused by the Red Sea crisis, Apollo would have seen higher growth in exports QoQ.
- Management indicated that while APTY has maintained its market share in the PCR segment, it is likely to have lost market share in the TBR segment.

**Outlook - India business**

- Management has indicated that the near-term volume outlook for the domestic India business appears muted. However, exports momentum is likely to continue in the coming quarters as per the management.
- The company would continue to ramp-up its presence in the higher-inch premium segments. The 14-inch tyre is now the largest selling tyre for Apollo. APTY has also launched the Vredestein brand in India for luxury brands like BMW, Audi and Mercedes and is seeing good acceptance in the domestic market. It also targets to open up independent Vredestein retail stores soon.
- Input cost is expected to remain fairly stable QoQ. They have not taken any price hike in 3Q and do not expect to take any hike in 4Q as well
- More importantly, industry continues to observe good pricing discipline which has sustained over many quarters now
- They would continue to focus on posting strong operating performance in coming quarters on the back of soft input costs and focus on premiumization.

**European performance – update**

- The all-season segment has registered a double-digit growth in 3Q.
- The PCT segment in Europe is seeing some marginal growth
- APTY has gained market share across all segments in Europe
- The mix of UHP and UUHP has crossed 45% now in Europe for Apollo

**Outlook – European business**

- Management expects marginal growth in PCR in near term and anticipates the segment to post much better 2HCY24 performance.
- Freight costs have gone up by 30-40% and transit times to Europe have increased as well by 14-15 days. However, management has indicated that if this situation prevails, the company will pass on this cost increase to the end distributor, as was done post-Covid.
- Hence, APTY expects operating performance to remain healthy in Europe

**Outlook – Consolidated business and capex guidance**

- Management has maintained its capex guidance for FY24 at INR11b (INR5b already spent in 9MFY24).
- Given that capacity utilization both in Europe and India is in the mid-to-high 70% levels, no new major capex would be announced in the near term. APTY would continue to sweat the existing assets and ramp-up productivity further, thereby reducing debt and improving RoCE.



Ashok Leyland

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**Ashok Leyland**

Buy

Current Price INR 173

- **MHCV growth outlook:** Domestic MHCV industry grew 9% YoY in 9MFY24 (1HFY24 growth was 10% while 3Q saw low growth of 7%). 3Q performance was affected due to elections in five major states. FY24 volumes are estimated to be below FY18 peak as 4QFY24 is expected to see moderation in growth due to the high base of last year. It expects volumes to see moderation till elections (1QFY25) as the tendering process across underlying industries slow down. However, underlying macro indicators such as GDP growth and government focus on infrastructure are intact for the underlying CV industry growth.
- **LCVs:** Domestic LCV industry for AL's addressable market has declined 3% YoY for 9MFY24, while AL has seen a growth of 2% YoY, indicating market share gain.





- **Future drivers for growth for MHCV industry:** Buses should continue their growth momentum for the next six to eight months. There is also a considerable shift occurring from multi-axle vehicles to tractor-trailer category, alongside notable growth in the tipper segment, driven by infrastructure development.

**Buses**

- Bus demand to be driven by several factors, including the replacement of existing buses, the growing need for public transport, and increasing demand for school/staff transportation services. TIV for the bus industry has grown by 38% in 3Q vs. AL’s growth of 65% YoY.
- Electric buses are seeing a lot of traction with government focus on converting diesel buses to electric buses. It is also participating in the PM’s e-bus Seva orders as it currently has a range of products under Switch Mobility division. It is also actively working with the government to sort out the payment security mechanism hurdle for participation in the tenders.

**Margin expansion drivers:**

- Better product mix, higher price realizations, and softer RM costs aided better gross margin expansion in 3QFY24. Various cost-control measures are in place to reduce overheads.
- It would be focusing on market share expansion, on the back of launch of new products and expansion of dealer network, but not at the cost of profitability.
- Price hike- The company has been taking calibrated price hikes in each of the three quarters in 9MFY24, both in MHCVs and LCVs. It has also taken a price hike in Jan’24.
- Focus on distribution: It has partnered with TVS for network expansion in the NCR region. It has added 44/37 new dealers/authorized service centers in 9MFY24, taking the total count to 491/399 for domestic MHCV business. Target is to scale it to 1,000 centers. Similarly, for the LCV business, it added 17/23 new dealers/authorized service centers, taking the total count to 690.

**Investment in EVs:**

- The board has already approved INR12b of equity investment in Optare PLC (holding company of Switch and Ohm mobility). It has invested INR6.6b in 3QFY24 into Optare PLC/Switch, driven by the promising prospects of e-LCVs and eBuses.
- The company would not compromise on the profitability of the ICE business as cash flows from the ICE business would be used to fund new EV businesses.
- It is actively looking for an external investor for funding, but is very keen on the quality of the investor.
- Target is to be cash neutral in Switch Mobility India by the end of 4QFY25.

**E-trucks:**

- Displayed BOSS 14T electric truck for medium distance transportation. Market trials for 55T tractor trailer are going on. The company is not currently focusing on volumes, but it is more focused on the application and target markets, before a large commercial rollout. Presently, TCO vs. diesel truck is five to seven years, which the company plans to bring it to less than five years. Electric trucks sales would be accounted in the standalone entity.
- The first batch of e-LCVs will roll out in a few months. It has signed MoU with customers for ~12-13k units. Similarly, it has an order book for ~1,000 e-buses.
- HLFL- The total book for HLFL stands at INR450b. Disbursed ~INR179b and PAT is at around 13%. NPA stood at 2.6-2.8%.



**Other data:**

- Exports grew 7% YoY despite weak global macros. Aftermarket sales grew 30% YoY to INR6.6b in 3QFY24. Power genset volumes grew 24% YoY to 7.3k units.
- Defence business should be doing INR9-10b in FY24.
- Operating WC stood at INR20b (grew INR8.5b from 2QFY24 from INR11.1b) as of Dec'23.
- Capex for 3QFY24/9MFY24 stood at INR900m/INR2.9b.
- Consol net debt at the end of Dec'23 stood at INR17.5b (grew INR6.1b QoQ), which is post infusion of INR9.5b in Switch and Ohm.



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**Bajaj Auto** **Neutral**  
Current Price INR 8,293

- **Domestic 2W-** Retails grew 11% YoY for the industry in 3QFY24 and the management expects industry volumes to grow by 8-10% in the coming months. Festive demand was strong and it was further supported by healthy retails in Dec'23.
- **Exports-** The macro environment remains uncertain due to geopolitical tensions. However, the continuing devaluation of emerging market currencies has eased now. Exports currently stand at 70% of peak FY22 volumes. However, volume grew ~2% sequentially during the quarter. Africa and South Asia are dragging the recovery. LATAM, Middle East, and Philippines have crossed their previous peak volumes. Recorded highest ever retail in Mexico.
- Pulsar's mix increased from 19% 3QFY23 to 28% 3QFY24. Export revenue grew 10% YoY, despite a 4% volume decline, due to a better mix and Fx.
- Geography mix- Africa 45-48%, LatAm ~25%, South Asia 15-18%, Middle East and North America is 19%.
- Brazil – Starting new a new plant wherein production is expected to start by end of 1Q.
- Red Sea issue- Freight has doubled and supply has been delayed by 3 weeks for LatAm and Africa. As of now, it is not expected to impair the performance on a continuous basis unless there is a wild escalation. Alternate routes are being put in place.
- **Chetak-** BJAUT has a presence in 140 cities, with 160 all exclusive dealerships covering 80% of the high-speed market. Retail market share has reached 14%, which is the third largest. The company aims to achieve 15k units per month sales mark, which will be driven by new launches and network expansion. The segment reported revenue of INR10b in 9MFY24.
- **Triumph-** Scrambler 400X sales are 50% of the total Triumph sales. Both models put together retailed 2,800 units in just 40 cities. In places like Bangalore and Kerala, market share of BJUAT has reached 20% in the category. It plans to grow footprint beyond 100 cities, covering 50% of the market. The current capacity now stands at 10k units per month and is being increased to 20k units, with a target to reach ~30k units in 1HFY25.
- **3W business-** BJAUT's overall market share stands at 77%, while it is ~85% for the passenger segment. CNG now contributes ~60% of the industry and BJAUT's market share in the category is 80%.

- **3W EV-** Currently the company has a presence in 23 cities and it plans to expand to 50 cities in 4Q and 400 cities before the season in 2024. Capacity has already been put in position.
- Payback for CNG 3W is just 6-9 months and BJAUT aims to leverage the growing CNG infrastructure of ~4000 stations. As CNG is more efficient vs. petrol, the company is also working on 2W CNG.

**Others**

- The USD-INR situation rate is stable as it stood at 83.2 vs. 82.6 in previous quarter and 81.7 in 3QFY23.
- Current cash balance stands at INR18.5k crore.
- Spares revenue stood at INR13b, with domestic revenue of INR10b and exports at INR10.5b; Export revenue stood at USD450m.



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**Balkrishna Inds** **Neutral**  
 Current Price INR 2,294

- **Red sea crisis:** Due to the red sea crisis and geopolitical issues, 4Q volumes would be flat on a YoY/QoQ basis. This would have an impact on the margins in the near term. Retail demand at the end markets remain stable and showing gradual improvement. Retail inventory at the dealers' end is around 30-45 days and the company is watchful how the crisis unfolds.
- Presently, there is no shortage of customers, but there is an uptick in freight costs. Normally, freight costs are 3-4% of sales, but if there is a significant change, then it takes ~two quarters to pass on to the end customer. Owing to this uncertainty, the company has not given any volume guidance for FY25; however, it has ample capacity to cater to the sudden demand if it comes. It sees an opportunity to capture EU markets also as companies who import RM from Asia would get affected due to this crisis.
- **3Q operational highlights:** With the demand slowly picking up, the company did not undertake any price hikes. Both India and EU markets remained stable.
- **India market showing resilience:** The Indian market continues to grow, the company does not expect the business share from India to surpass the current levels of 30%. This expectation is rooted in the belief that as the overall market picks up, economies across the board would perform well, thereby maintaining a similar contribution from various regions.
- Softness in crude oil prices was offset by pickup in natural rubber prices, hence, we do not expect any major effect on the gross margins.
- **Carbon black sales:** 9MFY24 carbon black sales were 7.5% of the total revenues. This is expected to scale up to 8-9% in FY25. India has ample carbon black capacity, but EU has seen some shortage as major supply would come from Russia before the war. Current BIL capacity for carbon black stands at 170k tons, which is expected to reach 200k tons. Capacity utilization stands at ~85-90%.
- Gross debt stood at INR28.8b as on Dec'23, with 65% of it contributing to working capital requirement. Cash on the balance sheet stands at INR3.3b.
- The EUR-INR hedge rate stood at 89-90 in 3Q and 91-92 in FY25.



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**Bharat Forge** Buy  
 Current Price INR 1,121

**Outlook – near-term outlook mixed**

- As per the management, the near term outlook is mixed. While demand for PV exports, Industrial and defense in healthy, CV Europe demand is tapering off. Also, oil and gas demand is weak. While domestic CV demand remains weak, the management is confident of a revival in the medium to long term.
- However, the management expects its growth momentum to sustain in the medium to long term on the back of strong growth drivers for Industrial segment, castings, and new export opportunities in both domestic and export markets, including in aerospace segment.
- The management has indicated that given the macro-economic challenges globally, it expects revenue growth to moderate in FY25 and they would continue to outperform industry growth.

**Defense and aerospace update**

- Defense revenue in 3Q stood at INR3.5b.
- The management indicated that they are working on multiple new programs in defense, which include artillery guns, vehicle, naval, aerospace, components, and MRO.
- BHCF is now participating in few large development programs which have huge business potential if these fructify.
- The company expects to receive the domestic ATAG order anytime now as the bidding process is in its final stages.
- It sees a significant growth opportunity in the aerospace segment and expects this business to double every 2 years (80% exports mix)
- The company expects the defense segment to garner INR10b in revenues in FY24, which is expected to ramp up to INR25b in the next 2-2.5 years.
- Defense business on an aggregate basis has strong double-digit margins.

**CV exports outlook**

- The management indicated that emission norms will be effective in the US Class8 segment in CY27. Hence, BHFC expects pre-buying to get triggered in 2025 and 2026. Hence, over the next three years, the US Class8 industry is expected to clock 1mn sales, as per the management.
- Hence, while the economic outlook remains uncertain, the US Class8 industry is likely to see steady demand in coming years, led by pre-buying.
- However, demand for Europe EV segment remains weak.

**Update on overseas subsidiary**

- The management has indicated that it is passing on the impact of cost increases to customers. Accordingly, it expects Europe margins to significantly improve in FY25. While US margins are also expected to improve, it will happen with a lag.
- Overseas subsidiaries are likely to post mid to high single digit EBIDTA margin in FY25E.
- While the US subsidiary is operating at 50% utilization, the Europe subsidiary is operating at 70% utilization.

**Update on JS Auto Cast**

- Although offtake from its key customer Vestas has declined, BHFC continues to get new business wins and has secured INR2b worth of new business already across segments.

- Also, after the acquisition of Indo-Shell, BHFC has a lot of capacity to ramp up in coming years.
- The management expects JS Auto Cast margins to improve from hereon.

**Update on EV business**

- The management targets to supply a slew of products in the EV CV segment in India, including motor, inverter, convertor and casting, chassis components, etc.
- It expects content per vehicle to significantly increase in EVs in coming years.
- While initial margins may not be good, BHFC expects a significant increase in content supplied to EVs going forward.



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**BOSCH** **Neutral**  
 Current Price INR 29,134

- **Outlook for FY25:** IMF has predicted the global growth to be 3.1% in CY24, with India seeing a higher growth rate at 6.5% due to solid domestic demand. Considering the high base of last year and upcoming general elections, BOS believes auto segment growth to see some moderation. Most of the advanced economies are not doing well, in addition to the Red Sea crisis.
- **Segmental performance:** 3QFY24 witnessed stable demand across segments with 4% YoY growth (except 2Ws). There was 19% YoY growth in 2Ws due to a low base effect.
- In autos, powertrain segment solutions grew 20% YoY. The segment outperformed the broader industry, driven by increased content per vehicle mainly of exhaust gas treatment (EGT) components, higher preference for UVs and MHCVs. 2Ws business grew 7% QoQ (vs. industry decline of 1%). Automotive aftermarket grew 8.6% YoY due to higher sales of spark plugs, filters, other BS6 requirements, and higher lubricant sales.
- The non-auto segment grew ~32.5% YoY, led by 30% YoY growth in consumer products and building technologies growth of 18% YoY. Growth was driven by increased market demand for blue tools and accessories and execution of higher number of orders for installation of security systems.
- The company took another step in localization as it assembled and set up its first fuel cell power module (FCPM). It would aid in testing fuel cell requirement in domestic market. 3QFY24 saw a drop in traded goods on YoY basis to 51% from 55%, indicating the company's focus on localization.
- Other expenses: There has been a reduction of INR470m due to the sale of 'project house mobility solutions' business, which the company transferred in 2QFY24. There has also been a reduction of warranty expenses on a YoY basis. There is also a revaluation of payables, which may lead to an increase or decrease in other expenses. There are also expenses due to BOS's effort to service clients, hence an increased income from services may lead to a rise in these expenses. There are technical fees that BOS charges to its customers, which were higher on a QoQ basis, indicating BOS's focus on localization. The company has a target to maintain other expenses as % of sales at 14.5% in a normal business scenario.
- **TREM V guidelines for tractors:** The consensus view of the tractor OEMs is that the guidelines are due in CY26. BOS is ready to supply to OEMs without much delay.
- **Electrification:** BOS believes that the domestic commuter scooter segment will see significant electrification. It is already supplying hub motors to OEMs and



has been localizing production lines of motors for OEMs so that customers receive PLI benefits. Globally, EV is a low margin business and so BOS is taking a calibrated approach toward profitability, moving in tandem with customers. As the tier-1 supplier in China, it has just broken-even despite China being the largest EV market. In India, it has qualified for the PLI scheme with Bosch Auto Automotive electronics (contract manufacturer for BOS), but disbursements have not started yet.

- **Hydrogen truck:** This is the easier platform for OEMs to adopt as there are modifications to the existing ICE platform. Hydrogen is highly corrosive gas, with high safety requirements needed for its smooth operation. BOS believes, despite numerous challenges, pilot vehicles should be out in the next one year. There are challenges even on the distribution side of hydrogen.



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**CEAT**

Buy

Current Price INR 2,888

- **Outlook:** Rabi sowing has been normal and all economic macro indicators are positive. OEM volumes should see a slower growth in CY24, due to high base effect of CY23. However, replacement and exports should continue performing well.
- 3QFY24 volumes grew 12.5% YoY, driven by 11%/9%/25% YoY growth in replacement/OEM and exports.
- **Replacement-** The industry experienced double-digit volume growth in scooter tyres, with CEAT securing an increased market share in this segment. PVs/CVs witnessed low double-digit growth, while 2Ws exhibited over 20% volume growth. TBR tires showed growth on a small base of last year. OHT remained weak in terms of performance.
- Overall volumes registered a 2% decline QoQ wherein OEMs experienced a decline and other segments remained relatively flat or showed a slight positive trend.

**Exports**

- Export volumes grew 25% YoY (flat QoQ). The EU is facing a challenging environment in EU due to the shift from summer to winter tyres (with customers already having old winter tyres at home). Volumes are anticipated to rebound in 4Q to cater this demand. Additionally, the company would be launching two of its tyre categories (PCR and TBR) in the US/LatAm markets, leveraging its presence in OHT. Operations in Africa and the Middle East are performing well. In Sri Lanka, the business witnessed a strong revenue growth and profits on a YoY basis with the local currency stabilizing.
- Plans to double exports revenue in the next three years. This would be on the back of a) Market-specific products b) strong distribution partner c) investments for branding in the geographies (e.g., IPL in India)
- It would be focusing on the value segment of the market. It reduced prices in the export markets to stay competitive v/s Korean peers as market may see down-trading, due to a weak environment and CEAT may gain market share. Despite these, Chinese tyres are the cheapest in the market and European tyres the most expensive ones. However, despite the price correction, margins of export markets remain attractive.



- Freight rates would be affected due to Red Sea crisis both on the import and export side. But it would be more significant on the western side, particularly in the EU, as opposed to China/South-east Asia, where CEAT's most imports happen. Hence, the major influence will likely be felt on the export side, mostly to EU, rather than affecting countries such as the US/LatAm. It sees steel radial opportunity even in OHT, which should pan out in the next 12-15 months.

#### **Replacement market:**

- CEAT has able to maintain prices in the replacement market.
- Its market share in PV has increased to 16% now (vs. 11% in FY19). After two years of strong OEM growth in PVs, the replacement side of business should be picking up where CEAT is seeing premiumization playing out in terms of higher rim sizes of tyres. It also has brands such as Secura Drive, and CrossDriveAT to cater to this demand.

#### **OEM market**

- There were some price corrections attributed to indexation-related changes occurring every quarter, with an anticipated reversal in 4Q due to elevated RM costs in 3Q.
- It has a 40% market share in EV OEMs across categories.
- RM prices remained elevated in 3Q and saw a 2.5% growth sequentially. RM costs are expected to remain stable at these levels in 4Q.
- Margins to remain range bound at ~14% despite good growth in the domestic replacement and focus on exports.
- New launch of steel radial tyres for domestic premium motorcycles (an import substitution opportunity): Presently, only 3% of the motorcycles use steel radial tyres and they are mostly in the premium segment (1000cc segment). Steel radial tyres are expected to see a strong growth in the coming years as people are travelling long distances and the requirement of these tyres are higher. It has already launched these tyres with RE 450/650cc motorcycles.

#### **Capex-**

- Maintained earlier guidance of INR8b (9MFY24/3QFY24 capex incurred at INR6.05b/INR2.1b). The company anticipates reaching INR10b in FY25, although a reassessment will be conducted at a later stage.
- The OTR segment to see expansion to 160tons/day from 105tons/day with a capex of INR1.6b.

#### **Others-**

- Working capital during the quarter came down by INR1.1b, driven by improvement in receivables. Ended quarter with a negative WC of INR2.5b. However, due to the recent Red sea crisis, WC cycles may get disturbed owing to longer shipping times to customers.
- Capacity utilization at all plants stood at 75-80% levels (vs. TBR which is at 95% levels).
- Net debt stood at INR17.3b as of Dec'23 (-INR1.6b vs 2Q). D/E stood at 0.4x and D/EBITDA at 1.05x. Would be comfortable at D/EBITDA at 1x.



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**Craftsman Automation** Buy  
 Current Price INR 4,452

- Powertrain- Expects high single-digit growth in FY25 as end-user industries are likely to witness flat growth. However, it should see healthy double-digit growth in FY26. There was a marginal increase in demand; however, overall it was a weak quarter. The weakness in the market was due to the election year, and hence there can be some reduction in volumes, especially in the construction side and flat performance in CVs next year.
- TREM-V norms in the construction industry were supposed to come in Apr'23; however, the government has deferred the timeline because of a huge cost impact, especially on the farm sector. The company has already invested in these lines and some of the products are totally new.
- It has increased its capacity by 10% and has also refurbished old equipment, which are more than 15 years old. About 70% of refurbishment has been done so far and the balance will be done over the next two quarters.
- The company won new orders for cylinder blocks from an SUV manufacturer who was importing from Italy. It has already started supplying from last month. The segment is going to benefit from the focus of large MNC players in India.
- Aluminum Casting- Expects the division (including DR Axion) to grow by high teens in FY25. With the new facility coming up, FY26 growth should be over 20%. Peak revenue from the new plant stood at INR3b. Healthy growth was led by 2Ws, while the PV segment has not picked up materially during the quarter.
- Expects EBITDA margin to sustain in the range of 16-18%.
- The company is looking at the global scale of operations in aluminum. The size of top 10 players is between USD1b to USD4b, and the company aspires to scale up its operations to at least USD500m over the next 2-3 years.
- Industrials- Expects the storage segment to grow by ~15% in FY25 on a lower base.
- The storage division's turnover stood at INR2.61b (vs. INR2.71b) due to low investments in the warehouse industry. It is expected to recover in FY26.
- The company is now looking for backward integration by doing castings of more critical parts of windmill gearbox housing. It is at an advanced stage of negotiations and should get LoA in the next few months with a sizable order.

**Financials**

- EBITDA for Powertrain/aluminum/industrial categories stood at INR3.33b/ INR1.27b/INR0.68b. Value add for the segments stood at INR2.37b/INR0.97b/INR0.73b, respectively.
- The company believes the current D/E of 0.86x and debt/EBITDA of 1.6x are at comfortable levels.
- Incurred capex of INR3.95b as of Dec'23 to address new opportunities expected to come in the near future. Looking at capex of INR5b in FY24. FY25 capex will depend on the operations of its plant in the north region.

**Details about the two new plants-**

- Kothavadi- This is a 50-acre campus and it will house all three segments. The size of the foundry is ~2k ton. Construction activity is in line with the timeline and the company is looking to fast track the start-up production process, which was earlier expected in 24-36 months.

- NCR- Making a composite unit in the vicinity of NCR for major customers in the auto sector and for the storage solutions segment. The company has already progressed with two clients and is under discussions with two more. The company already has one bid in the auction in the Rajasthan industrial land where it has got the allocation.



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**Eicher Motors**

**Neutral**

**Current Price INR 3,828**

**Royal Enfield:**

- RE launched two new models, Himalayan 450 and Shotgun650, in 3Q. Although the management refrained from giving out any guidance on bookings, it indicated that these models received healthy bookings in 3Q.
- RE's order book remains healthy at 3-4 weeks, depending on models and variants.
- While RE continues to have a healthy launch pipeline, the management indicated that the bulk of its important launches are done and it would target to leverage on these launches and get more revenues from existing products.
- RE has seen retail sales growth of 13% in this festive season.
- Export wholesales were down 24% YoY and retails declined 11% YoY, as RE undertook inventory corrections given the slowing demand in key regions.
- The management expects export demand to recover from key markets after 2-3 quarters.
- The management indicated that the enquiry rate has increased by 15-16% YoY in 3Q and bookings grew by 11-12%.
- RE has maintained its market share in key geographies: 8-9% in Europe; 9% in APAC; and 8% in the Americas.
- The all-new Himalayan, which has many segment-first features, will be exported to Europe in the coming months.
- RE targets to launch multiple models on this new 450cc platform over time.
- It has now launched two customer-friendly programs: 1) assured buyback (industry first) and 2) REOwn. RE has almost 6mn active customers as per the management. These programs are expected to facilitate their upgrade cycle.
- RE has won the Indian Motorcycle of the Year award for the 4th consecutive time in the last six years.
- The management has refrained from giving any guidance on the launch timeline for its EV project.
- On account of the Red Sea crisis, RE is seeing some impact on logistics costs, which have gone up by 25-30% in specific routes and the shipping time has increased by 30 days.

**VECV:**

- VECV gained market share in most major segments in 3Q.
- It sold 20,706 units in 3Q, up 12.4% YoY.
- In the HD segment, VECV posted 18% YoY growth to 6,210 units and gained market share to 9.6%.
- In the LMD segment, it posted 6% growth and gained market share to 34.5%.
- In the bus segment, it posted strong 50% YoY growth to 3,409 units.

- VECV has unveiled its EV SCV in the 2-3.5T segment at the Bharat Mobility Conclave, which is likely to be launched by 1QFY25. It will have an addressable market of 300k units p.a. and would cater to last-mile delivery.
- VECV also commenced delivery of their first EV truck in the 5.5T segment.
- Regarding EV orders for buses from STUs, the management has clarified that they would not bid aggressively to win contracts just for market share gains in this segment.



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## Endurance Technologies

Buy

Current Price INR 1,831

- **Demand:** 2Ws should be doing 21m units in FY24 compared to the peak of 24.5mn in FY19. While 1H was weak, demand momentum picked up in 3Q, and 4Q is also looking encouraging.
- **3Q performance:** ENDU reported 25% YoY growth in revenue compared with 16% YoY growth in total vehicles. This outperformance was driven by the execution of its order backlog in brakes, suspension, casting, and alloy wheels.

### New order wins:

- In 9MFY24, the company won new business worth INR9410m from OEMs other than BJAUT (~60% new business and the rest was replacement). These orders would peak in FY26.
- In the last five years, ENDU won business worth INR39b (70% new order wins).
- In 9MFY24, business wins from PVs stood at INR1285m (orders from Punch Powertrain, TTMT, M&M and JLR).
- INR17.3b worth of RFQs received from OEMs.
- New order wins from OEMs:
- **EV orders - India:** ENDU has so far won orders worth INR6.8b in EVs (HMSI/Ather Energy/BJAUT/Hero Electric/Greaves Electric/Bounce). This is apart from new order wins of INR3.8b by Maxwell.

### Expansion in manufacturing:

- Commenced commercial production of surface mounting technology-based battery management systems for Maxwell at Waluj in Feb'24. The peak value of this business is 1,200m per annum, which would be achieved in FY26.
- AI forging capacity at Waluj has been expanded to 1250 tpa in FY24. The addition of another new press shall take the capacity to 1750 tpa in 1QFY25, which would generate additional business of INR750m.
- ABS capacity has been increased from 400,000 to 640,000 units per annum and the company plans to increase it to 1.2m single/dual channel ABS by 2HFY25.
- Alloy wheel capacity to increase from 4.5mn to 5.5mn wheels per annum by 1QFY25.
- Established a new assembly line for scooter suspensions in Waluj for a Japanese OEM.
- Expanding Vallam/Waluj plants to cater to machined aluminum casting needs of EV scooters for a Japanese/Indian OEM, respectively.
- Structural Aluminum castings: Last year, it started a niche business of structural aluminum castings, like swing arms, sub-frames, etc., for both EVs and ICE models. This was done for BJAUT/TVSL and Piaggio. SOP for TVSL would start in 1QFY25, which would peak in FY25 with business value of INR1b. This would have a higher content for ENDU.

- Targets to increase 4W revenue contribution from 26% to 45% by FY30: ENDU targets to increase its 4W mix by increasing penetration in AI castings/forgings, suspension, and brake assembly. Alloy wheel in 4W is another area, which ENDU is exploring. The products would be powertrain agnostic and ENDU is open to collaborations, acquisitions or JVs to gain access to OEMs or acquire new technology.

**EU:**

- Orders worth EUR29m won in 9MFY24 from VW/Mercedes.
- Out of EUR113m of cumulative orders won in last 21 months; EUR60m (36%) from BEVs, for which penetration in Europe has increased to 15% now.
- There has been a slight delay in SOPs, especially in EVs, but this is expected to be temporary and should normalize in the coming years, as per management.
- ENDU plans to invest EUR50m to increase manufacturing capacity in EU.

**Maxwell:**

- Orders worth INR1.2b won in FY23 and INR792m in 9MFY24 for BMS. RFQs worth INR1b received from OEMs. Since FY22, orders worth INR3.8b have been won by Maxwell, which would be fully realized in FY27.
- Won a new BMS order worth INR300m from RE; SOP would start in Jan'25.
- Due to localization issues, ENDU's major EV customer Hero Electric (LOI worth INR700m) is seeing a slow ramp-up in the current fiscal. The management expects its ramp-up to resume in FY25.
- As ENDU is a late entrant in EVs, it is taking longer than expected to enter mainstream 2Ws, like BJAUT/TVSL.



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**Escorts Kubota Neutral**

Current Price INR 2,928

**Agri machinery update:**

- Domestic tractors could see a 6-7% YoY decline in volumes in FY24, led by a high base of last year and erratic and deficient rainfall. Commercial demand is also soft due to a weakness in construction and mining. This translates to a volume decline of 12-13% YoY in 4Q.
- Inventory for ESCORTS stands at ~35-37 days (vs. 40-45 days for the industry) and the company targets to maintain inventory at current levels going forward.
- The company is focusing on ramping up its dealer network in Maharashtra and Gujarat, which contribute to about 20-21% of industry volumes.

**Exports:**

- Tractor industry exports declined 30% YoY as demand remained weak in the US/EU. High inflation in these markets is hurting demand. There is also stiff competition from Indian and Korean OEMs.
- Currently 47% of the company's exports are done through the Kubota channel. It targets to ramp up exports to 20-30k units in the next 2-3 years (from current 7-8k units). It is in the process of dealer consolidation and the whole process should be over by next year.
- Product gaps in the portfolio are currently being addressed and this should aid growth in FY25.
- Farm equipment exports are already happening to US/Thailand and this generates INR1-1.5b revenues.



- Regulations: Upcoming TREM 5 norms for less than 50HP tractors have been postponed to Apr'26. Post the implementation of TREM 4 norms in the above-50HP segment, there has been a shift toward the 40-50HP segment given the sharp price increases. The contribution of the above-50HP segment in the overall industry stands at 2% (vs. 7% pre-TREM 4 norms).
- It has incorporated its captive NBFC last month and would take 6-8 months for approval from RBI.
- Replacement cycle for Agri tractor is 5-7 years and for Agri + commercial tractors is 3-6 years.

**Update on Construction Equipment Segment**

- While the long-term growth outlook remains strong, demand is likely to be weak till Q1FY25 given the upcoming elections.
- Note that BS-5 norms would be applicable from Jan'25, which could affect demand due to price hikes.

**Update on Railways segment**

- The order book stands at INR9b currently, up 40-50% in 3Q vs. 1HFY24 levels.
- The management expects this demand momentum to continue in FY25 as well, given the government's long-term plans to revamp Indian Railways.



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**Hero MotoCorp**

Buy

Current Price INR 4,661

- **Demand outlook-** Overall 2W industry revenues should be growing in double digits in FY25 and HMCL expects to outperform the industry on the back of its new launches, thereby implying market share gains. Also, industry growth is likely to be driven by 125cc+ segment in FY25 as well.
- Its inventory remains comfortable at 4-6 weeks.
- **New launches and distribution strategy:** While the management refrained from giving out an order book number, it indicated that online searches for Xtreme 125R are higher than those for peer brands. HD X440 has an order book of 3-4 months. The company also launched Maverick 440, for which bookings would commence this month and delivery is expected to start in Apr'24. The expansion of Hero 2.0 stores is underway and the target is to scale up to 400 stores by the end of 4QFY24 (vs. 300 currently) and 500 by FY25. The scale up of its distribution network and new launches is expected to have a positive rub-off on its existing models as well.
- **Electric scooters:** The company plans to launch more products in different price points starting 1QFY25. It would launch one in the affordable category (possibly priced closer to INR100k) and another in the mid segment (possibly priced closer to INR125k). It would not look at discounting in EVs, like peers. The company rather aims to expand the distribution; it is present in 100 cities/150 dealers /3-4 formats. It has 18 Vida hubs — small-format exclusive dealerships, which HMCL plans to scale up to 100 by FY25. It is also ramping up capacities to scale up fast in FY25.
- **Electric motorcycles:** The management expects the EV transition to continue to pick up pace in scooters and may not see any material ramp-up in motorcycles in the near term, given unfavorable TCO economics for commuter electric motorcycles at current prices. It would focus on premium electric motorcycles in collaboration with Zero Motorcycles.

- **Margins:** ICE margins stood at 16% in 3Q. As per the management, the impact of EV sales on core was higher in 3Q (200bp) given the festive season and is likely to be at 100-150bp in FY24. While input costs should remain stable, the management expects a gradual uptrend in margins with improved mix.
- **Financing:** Finance penetration stands at 60-65% for the industry. Given that financing remains one of the key growth drivers for the industry, HMCL has now started a pilot e-Fin platform, where all financiers are present on a single platform for the ease of finance availability for customers.
- **Parts/accessories/merchandise revenues for 3QFY24 stood at INR1.43b (vs. INR1.3b in 3QFY23).** It has approved an investment of INR6b over the next two years to set up a global parts center (2.0) with a storage capacity of 36.7k SKUs in Andhra Pradesh, which will take the total spare-parts revenues to INR10b. This investment would be funded through internal accruals. Spare-parts sales are expected to grow in double digits over the next few years. It would be launching exclusive merchandise for HD X440/Maverick to enhance the premium buying experience.
- **Focus on alternative fuels:** It is investing in R&D at a double rate vs. competition. It is also working on flex fuel and new battery technologies. It is also focusing on improving mileage of its vehicles.



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## Mahindra & Mahindra

Buy

Current Price INR 1,852

- **Auto:** Expects MM's SUV portfolio to grow by mid-to-high teens in FY25 vs. SIAM's industry projection of 3-4% growth for PVs and 10-12% growth for UVs.
- **Open bookings now stand at 226k units** (vs. 286k units in 2QFY24), including ~101k/71k/35k open bookings for Scorpio/Thar/XUV700. Cancellations were 10% in 3QFY24 due to year-end VIN change; however, they have now normalized to ~8% in Jan'24.
- **Average monthly bookings continue** to be in the range of ~50k and delivery average has increased to 40k units per month.
- **On track to achieve 4QFY24-exit capacity of 49k units per month.** However, MM would not be able to scale up to 49k units wholesales due to variant level demand-supply mismatch. 4Q is also likely to see some softness in wholesales due to XUV300 ramp-down for mid-cycle enhancement.
- **Product-wise bookings:** i) Thar- healthy bookings of 71k units; 2WD contributes 50% of overall volumes. Not been able to ramp up 2WD production due to engine-related capacity issues; ii) XUV700- 70% of the orders from higher-end series. They would now target to advocate capacity and supplies for entry and mid-level variants as well to get more breadth of customers in the same model. The company is now reaching out to old XUV500 customers and focusing on lower-end XUV700 models; iii) Scorpio Classic- continues to see better-than-expected momentum despite the launch of Scorpio N series.
- **New launches-** MM is mindful of having a strong ICE portfolio. Two new launches are coming in FY25: Thar 5 door and XUV300 mid-cycle refresh.
- **LCV-** 3QFY24 market share stood at 49.6%, up 3.1% YoY.
- **M&M enjoys market leadership** in 3W EVs with 59.5% market share. EV in L5 category now stands at 11.6% for YTD and the management expects this segment to see rapid electrification in the coming quarters.

- **Farm- MM expects tractor** volumes to decline 10% YoY in 4QFY24 and 5% YoY in FY24. Guidance for FY25 tractor demand is directionally positive. Some of the positive indicators for FY25 demand revival include: expectations of healthy monsoon, positive terms of trade for farmers, and normalized festive period next year.
- Retail demand is currently weak. Dealer inventory is slightly higher than 30 days and the company expects to bring it down in next 3 months. Weak tractor demand was partly attributed to reduced govt spending in rural regions in the recent past, as per the management.
- Tractor margins have been relatively low in FY24 due to adverse regional mix. The management indicated that Telangana, Karnataka and Maharashtra have underperformed other regions and these states see a higher mix of high-HP tractor sales, which have higher margins.

#### EVs

- PV EV industry has recently seen aggressive price cuts by competition due to reducing battery prices and in response to MM's re-launch of XUV400.
- CAFÉ norms- Likely to meet the norms comfortably in FY24.
- LMM business has qualified for both PLI and FAME benefits. NIIF's India-Japan Fund (IJF) invested in LMM at a valuation of INR66b, 10% higher than the previous valuation.
- For the EV SUV business, MM is expected to meet the localization norms by 2QFY25 and then it will apply for PLI.
- **Truck and bus business-** Market share has increased from 2.2% to now 3.2%. Out of the top-40 dealers, 8 or 10 have more than 10% market share in their respective regions. MM expects to gradually ramp up its dealer network in CVs going forward while focusing on dealer viability. This business already has a revenue of INR30b with a 3% market share and MM targets to get to INR10b in revenue and 7% market share, which would make the business profitable.
- **Farm machinery business-** As per management, this business is 1.5 to 2 years away from breakeven; by the time, it is expected to meaningfully contribute to revenue.
- **Red Sea issues-** The only minor impact for MM is the delay in exports of Oja tractor to North America by 4-5 weeks, which is now factored in by distributors as well. MM does not see any material increase in input costs or any material disruptions in its supply chain currently.



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### Maruti Suzuki

Buy

Current Price INR 11,446

- **Demand outlook:** Preliminary estimates by SIAM indicate that PV volumes in FY25 should be ~4.3m units (vs. 4.18-4.20m in FY24E).
- The small car segment is shrinking both in absolute and percentage terms. Recovery will largely depend upon the improving income level of the customers of those segments.
- The first-time buyer (FTB) mix reached the highest of 47% in FY21 and it went to a low of 38% in the last quarter. It has now increased to 41%, however, the outlook still remains uncertain.
- **Semiconductor shortage** is over for the foreseeable future. However, there are some minor bottlenecks, which are holding up CNG supplies.



- **Exports:** The company aims to sell ~750k units in the exports market by the end of the decade (vs. ~270k in CY23).
- **Africa** is turning out to be a good market. The Middle East has picked up quite well. The government is also signing FTA's due to which the company has got benefits of duty in UAE and gulf countries. Top MSIL models in exports are Baleno, Dzire, Jimny, Swift and Vitara.
- The Red Sea crisis is impacting the overall logistics arrangement adversely, and has also resulted in a minor increase in the cost.
- CNG mix was 16.5% in 3QFY24 (vs. 15% in 2Q) for the industry and ~30% for MSIL. The company has a portfolio of 14 vehicles in the segment. MSIL sold ~127k units in 3QFY24.
- MSIL is seeing further headroom for penetration as there are key models with higher CNG penetration such as Ertiga (57%), WagonR (50%), and Dzire (44%). Delhi, Mumbai and Gujarat have been traditional CNG markets and now markets like Pune are also picking up.
- **EVs:** MSIL will start the production of BEV in 2024. The mid-SUV model will be sold in the domestic market, along with the exports market, such as Japan and Europe. The model is an upmarket EV. It is bigger than the Grand Vitara, and has a higher range of 550km with a battery of 60kWh.
- **Capacity expansion-** As mentioned earlier, the company is planning a two-fold increase in its annual production capacity to ~4m units by FY31.
- It is setting up a greenfield at Kharkhoda and construction is already in progress for its first plant with a capacity of 250k units, to be operational in 2025.
- It also plans to set up four such plants with total capacity of 1m units.
- It has signed an MoU with the Gujarat government to set up a new manufacturing plant, with an aim to start production in FY28-29.
- **Inventory level** stood at ~45k units at the quarter end after de-stocking happened in Dec'23, wherein it reduced the stock by ~115k units. The pending order backlog stood at ~215k units (vs. ~288k units in 2QFY24).

**Other highlights**

- MSIL's retailed ~530k units in 3QFY24.
- Discount for the quarter stood at INR23,300/vehicle in 3QFY24 vs. INR17,700/vehicle in 2QFY24.
- Announced price hikes of 0.4-0.5%.
- Commodity: Steel prices may show upward movements, while management expects continuation of the past benefits of palladium, rhodium, etc.



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**Motherson Wiring** Buy

Current Price INR 72

- 3Q performance and demand: Strong revenue growth was driven by healthy demand for feature-rich models, leading to higher content per vehicle. This was achieved despite maintenance shutdowns and no impact of copper price pass-through at customer's end. The company is seeing stable demand from 2Ws, PVs, buses, and SCVs, while truck demand is muted.
- Focus on localization: MSUMI is working in tandem with customers to localize parts, but there are some parts that are still imported. The company has





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localized connectors and is setting up a new plant to localize a new range of electric wires, which are as per global standards.

- The share of EVs in the total mix remained stable QoQ. The US/EU are seeing some weakness in EVs, but India is doing fine.
- New capacities are ramping up well and the company would further expand capacity to fulfil future demand.
- FY24 capex would be ~INR1.25b, with plans for FY25 still being evaluated.

**Samvardhan Motherson**

**Buy**

Current Price INR 113

- **3QFY24 performance-** Global automotive PV volumes remained positive overall. Production grew YoY across geographies.
- Contribution from acquisitions: 3QFY24 revenues/EBITDA of INR257b/INR23.7b included INR39.9b/INR4.1b of revenues/EBITDA from acquired assets (vs. INR18.25b/INR1.8b in 2QFY24).
- **Outlook:** Truck demand is softening in EU but remains strong in the US.
- The devaluation of Argentina’s currency (Argentina Peso/USD at 808 as of Dec’23 end vs. 203 as of Mar’23 end) affected the company’s EBITDA/PAT. It led to an impact of INR690m in other expenses (EBITDA margins would have been 2-3% higher) and INR1.2b loss in net monetary position (accounted in increased interest expenses) in subsidiaries. Discussions are going on with customers to address the currency devaluation situation.
- **Recent acquisitions of Yachio/Cirma/ADI group/Lumen** are expected to yield EUR1.2-1.3b in revenues in FY25. Depreciation costs are also expected to remain high for the next 3-4 years due to the acquisitions.
- **Finance costs** would remain elevated as loans with lower interest rates are getting refinanced at higher rates and the Argentina Peso devaluation led to a rise in interest costs. A EUR300m bond payout due in Jun’24 would be refinanced at a higher rate. However, the average yield on debt should decline.
- **Net debt-to-EBITDA ratio is at 1.7x** (vs. 1.9x at the end of Sep’23 vs. target of 1.6x at end of 4QFY24). Net debt declined by INR8.7b QoQ to INR12.55b despite M&A payouts of Dr. Schneider, Deltacarb, and SMAST.
- **Red Sea crisis:** The company has passed on the majority of freight costs to customers.
- Out of INR45b capex guidance for FY24, it has already spent INR33b in 9MFY24 (INR18b is growth capex, of which 50% is spent in India). To cater to the rising demand, the company is setting up 11 greenfield plants in India, which would be operational by FY25.
- **RoCE for 9MFY24 stood at 17%**, excluding the acquisitions and the greenfield plant (vs. 16% in 1HFY24 and 12% in FY23).





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**SONA BLW Precision** **Neutral**  
Current Price INR 639

- **Outlook:** North America (39% contribution) and EU (25% contribution) light vehicle markets (70% revenue contribution in 9MFY24) appear promising going ahead, with major OEMs focusing their attention on electrification (70% of new model launches in CY24/25 are EVs). Further, NA customers are offered USD7,500 tax rebate (USD 3,750 for PHEV), providing an incentive that is expected to drive demand among end users. In contrast, the India market remains a mixed bag with CVs anticipated to experience a decline due to election year and weakness in the off-highway segment. However, PVs are expected to remain stable. The current impact of the Red sea crisis remains negligible; however, it may lead to higher inventories and longer delivery time to NA and EU customers.
- **3Q operational highlights:** Revenue growth stood at 13% YoY (vs. 11% YoY growth in top-3 markets of NA, India, EU). Weakness in the domestic off-highway segment resulted in a decline in revenues for both differential gears and differential assemblies during the quarter. Some e-2W OEMs offered aggressive discounts (expected to continue for a few more months), which led to a decline in sales for SONACOMS customers, thus impacting the contribution from traction motors. Additionally, the company incurred a revenue loss of INR250m due to the UAW strike in NA in Oct'23. And it expressed confidence in partially recovering this loss 4Q.
- **Raised EBITDA margin guidance to >28% (vs. 25-27%) quoted in earlier interactions.**
- **BEV contributed 30% of the revenue (vs. 27% in 2QFY24) at INR2.2b in 3QFY24,** resulting in 28% YoY growth.
- **Added 5 new EV programs (including 2 new EV customers):**
- New order book has increased to INR240b at the end of 3QFY24 vs. INR221b by 2QFY24-end, 79% of which is EVs.
- Won an order from Indian ICE & EV 2W customer of INR3.45b for integrated motor controller. The SOP is scheduled for 1QFY26.
- Received another order from an existing customer (Global OEM of EVs for electric SUV) for spool gears, with an order size of INR5.7b. The SOP is set for 4QFY24.
- Received another order from an existing customer (North American new age OEM of electric PVs) for epicyclic geartrain and rotor shaft with an order size of INR990m; SOP from 1HFY27.
- **Added a new product- Integrated motor controller** which would be supplied to e-2W OEMs. The product has a compact design and better thermal management system, which would improve electric powertrains.
- Currently, it is testing and validating EV bus motors with Equipmake; planned launch by 4QCY25/1QCY26
- Its global market shares in differential gears/starter motors stood at 8.1%/4.2% in CY23 (vs. 7.2%/4.1% in CY22).

## TATA MOTORS

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## Tata Motors

Buy

Current Price INR 926

### Outlook

- Demand- Not seeing any demand issues in the US while Europe is relatively stable. Not seeing any change in the pace of EV penetration.
- EBIT margin expected to be over the 8% target for FY24.
- Investment spending is expected to be GBP3.2b in FY24.
- It continues to expect operating cash flow to support net debt of <GBP1b by the end of FY24, and anticipates net cash in FY25.
- Decline in Defender sales in 3Q (27.1k unit's v/s 30.5k units in 2QFY24) was due to supply-side issues and not due to demand contraction.
- Gross margin was higher due to favorable product mix and seasonality. There was a one-off employee cost incurred by TTMT. The company has concluded a deal with the labor union for a 3% base pay increase plus a fixed bonus and 3.5% bonus with company performance-related bonus in the second year amounting to 11% over two years, if the targets are met.

### Performance

- Order book continues to reduce as production increases followed by a focus on building demand as supply constraints ease. OB stands at 150k units (vs. 168k units in 2QFY24).
- EV Range Rover's electric waiting list opened up in Dec'23 with 16k clients (the no. of deposits taken from these clients).
- Investing GBP70m in an underbody facility opened at Solihull to accommodate production.
- There will be no change in JLR's EV plan due to UK government's change in stance for EVs.
- Red Sea crisis: 15% of sales in China goes through the Red Sea route. There is an initial impact and TTMT will keep an eye on it
- Expect some increase in VME from 2.5% but not materially high. Would expect little bit working capital in 4QFY24.
- Range Rover BEV is expected to be in the market in the next 12 months.
- Breakeven will increase over the next 18 months as mix move away from Defender. However, it will not change materially.
- EBIT margin guidance of 10% by FY26.
- Tax rate is volatile and is trending at ~22%. It should be around 25% in the coming years.

## Tube Investments

Buy

Current Price INR 3,716

- **Metal form-** Tenders are coming back; however, the business is getting more competitive. Margins seem to be under pressure in the near term. If the announcement of converting 40k wagons to Vande Bharat standard gets implemented, then it will boost demand and will add to revenue.
- Hyundai will use its Gujarat plant for the door frame project and the company has already submitted the samples. However, this should take another one year.
- **Mobility-** Taking steps to diversify into exports. However, it will take some time for customer approval as it needs to go through an entire process. It is also

focusing on other accessories business like spares. Cost reduction efforts are being undertaken and business should start showing positive momentum in the next couple of quarters.

- **Engineering-** 2W segment is seeing growth revival, but the company is diversifying into PV, HCV, and 3Ws as well.
- **TICMPL-** The company plans to raise funds in the near term. It has incurred a capex of INR3b in 9MFY24 and targets a capex of INR4.6b in FY25 for all businesses. The company has incurred a capex of INR17.7b in 9MFY24.
- **3Ws-** it is in the process of expanding its dealership network and increasing production, while supply chain issues have already been addressed. Received a healthy response in south and currently in the process of adding dealerships in the north. Expects to have 75 dealers by 4Q-end vs. 40 by 3Q-end.
- **HCV-** Added 1 large order and delivery should start in 4Q. For SCV, the company will incur costs related to tooling for the cabin and factory build-out in 3Q.
- **Tractors-** It is in the process of homologation of tractors and expected to launch in the market by Sep'24. The factory is 85% build-out and it will require some more costs around homologation and factory build-out over the next 3 quarters.
- **Standalone business-** Incurred capex of INR2.2b in 9MFY24, of which INR1.6b was for the engineering division. Guided for capex of INR3.5b in FY25. It is currently operating at a utilization level of 85% and is expected to reach 95% by end of this year. The capex cycle time is 12-15 months. Exports (15% to revenue) is back to normal in terms of customer uptake. However, currently there are supply challenges due to the Red Sea crisis.
- The current net debt stands at INR2b. The company will generate FCF of ~INR6.5b on a standalone basis.
- **Jayem-** It is leading the development of first SCV, which is of 3.5-ton. It will develop three products on that platform.
- **Lotus Surgical-** Lot of investments are going into building the sales team and getting certifications. It is also investing in Europe. The company expects the business to pick up in future. Amortization of intangible assets is impacting EBIT margin; however, it is already generating cash.
- **CDMO-** The company has already developed a couple of products, which will go into the facility.
- **Large diameter-** Capex is half way through and is expected to be completed by 2QFY25. Trials are happening on the capex that has already been completed and it is in the process of getting products approved by customers. There is a good headroom available for the export market.



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**TVS Motors** **Neutral**  
Current Price INR 2,119

- **Domestic-** The management expects positive demand momentum to continue in 4Q, driven by healthy growth in rural areas despite some challenges in sowing. Retail financing has also been favorable. TVSL believes growth will be significant in urban and semi-urban regions.
- **Exports-** A recovery in international markets should continue as inflation is settling down; however, currency availability is still an issue in African markets. Customer retails are happening. Sri Lanka has started opening up.



- **Red sea crisis-** The pricing of containers has gone up due to the ongoing supply chain crisis.
- **iQube-** The company currently has 400 touchpoints and it aims to double that in the next three months. New product launches are likely to follow. Gross margins are positive and will continue to improve. Capacity is in place and got a supportive supply chain as well; hence, it will take just 3-4 months to increase the capacity if required.
- **Norton-** Coming out with a very clear product plan and the focus will be in India as well. It will take 6-8 quarters to realize the product benefits.

**Financials-**

- Spares parts revenue stood at INR7.92b for 3Q and exports at INR18.82b.
- Retail finance penetration for the quarter stood at 65%.
- USD-INR rate stood at INR83.
- Investments- TVSL has invested INR800m in Norton, INR1-1.2b in other subsidiaries, and some investments in Killwatt and TVS Digital.
- The company has guided for capex of INR20b (including INR10b for EVs) for FY24.
- **TVS credit-** PBT grew 75% to 2.29b in 3QFY24. Gross book size stands at INR250b with GNPA at 3.1% and capital adequacy ratio of 8.6%. Disbursements stood at INR70b vs. ~INR60b in 3QFY23.

CAPITAL GOODS



- EPC companies reported robust visibility from sectors such as power T&D, renewable energy, data centers, real estate, and defence. In international markets such as the Middle East, companies have guided for a better-than-expected tendering pipeline, chiefly from Saudi Arabia, UAE, Kuwait, Qatar. Margin guidance has been revised slightly downward, with the expectation that a return to double-digit levels will take a few quarters. This is due to the winding down of legacy projects nearing completion, while newer projects are yet to the margin recognition threshold. Accordingly, double-digit performance has been deferred to 2HFY25. Most of the companies reported healthy order inflow and execution growth during the quarter, largely led by up-fronting before the election schedule kicks in. Most companies foresee a temporary slowdown in government ordering in the ensuing one to two quarters; however, private sector should not really be affected by the same. Product companies have seen improving margins, led by easing RM inflation and favorable product mix, especially for genset players. International geographies have been a mixed bag for companies with continued weak exports for Cummins, while L&T, Kalpataru, Triveni Turbine witnessed strong traction.

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook	Domestic Capex Cycle
Siemens	<ul style="list-style-type: none"> <li>■ Decline in order inflow for DI business</li> <li>■ Expect this to normalize 3QFY24 onwards</li> </ul>	<ul style="list-style-type: none"> <li>■ Capex demand across segments, largely driven by capex spending in Public Infrastructure, continues to be good. Private capex is also beginning to pick up.</li> </ul>
Cummins	<ul style="list-style-type: none"> <li>■ Maintained double-digit revenue growth guidance for FY24 with ~100bp margin expansion</li> </ul>	<ul style="list-style-type: none"> <li>■ Robust demand from commercial and residential real estate, data centres, etc.</li> <li>■ Muted demand from the railways segment</li> </ul>
KOEL	<ul style="list-style-type: none"> <li>■ Expect some amount of pre-buying in 4QFY24</li> <li>■ Reiterated strategy of 2X3Y by FY25</li> </ul>	<ul style="list-style-type: none"> <li>■ Strong demand across key industries</li> <li>■ B2C business too expected to ramp up in the coming quarters</li> </ul>
Larsen and Toubro	<ul style="list-style-type: none"> <li>■ FY24 revenue and OI guidance revised upwards on the back of strong YTD performance</li> <li>■ Healthy prospect pipeline in the MENA region</li> </ul>	<ul style="list-style-type: none"> <li>■ Outlook remains robust on the back of government spending and stable macroeconomic situation. Some transient slowdown can be expected due to elections.</li> </ul>
Thermax	<ul style="list-style-type: none"> <li>■ While base ordering momentum is stable, large orders will start flowing in FY25 onwards</li> </ul>	<ul style="list-style-type: none"> <li>■ Strong domestic order pipeline, especially from power and steel. Cement is fairly decent, but still below levels seen two years ago. FY25 to see pick-up in steel and power (both utility and captive).</li> </ul>
BEL	<ul style="list-style-type: none"> <li>■ Maintained FY24 revenue growth guidance of 15% and order inflow guidance of INR250b for FY25 and FY26 each.</li> </ul>	<ul style="list-style-type: none"> <li>■ NA</li> </ul>
Triveni Turbine	<ul style="list-style-type: none"> <li>■ Robust prospects for exports and aftermarkets for near to medium term</li> <li>■ Domestic order inflows to improve in 4QFY24</li> </ul>	<ul style="list-style-type: none"> <li>■ Witnessing a healthy uptick in private sector capex, which seems to be sustainable</li> </ul>
Hitachi Energy	<ul style="list-style-type: none"> <li>■ Maintained guidance of double-digit margin by FY25</li> </ul>	<ul style="list-style-type: none"> <li>■ Robust traction in power T&amp;D, renewables, data centers, etc.</li> </ul>



<p><b>Kalpataru</b></p>	<ul style="list-style-type: none"> <li>4QFY24 will see a 25% revenue growth, leading to an overall FY24 growth of 20-21%. The order book is expected to touch ~INR520b-530b by FY24-end</li> </ul>	<ul style="list-style-type: none"> <li>Strong domestic and international T&amp;D pipeline, driven by the shift towards renewable energy</li> <li>Healthy traction in real estate, data centers, water, etc.</li> </ul>
<p><b>KEC International</b></p>	<ul style="list-style-type: none"> <li>FY24 margin and order inflow guidance cut; double-digit margin to be achieved in 2HFY25</li> </ul>	<ul style="list-style-type: none"> <li>T&amp;D pipeline in both India and international is very strong; expect 1 or 2 HVDC projects to be awarded in FY25.</li> </ul>



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**Cummins India**

**Buy**

Current Price INR 2,629

- Domestic demand:** Domestic demand traction is robust across key industries, such as commercial and residential real estate, data centers, infrastructure, manufacturing, etc. Data centers will continue to see strong capacity additions, driven by 5G rollouts, better connectivity, and expansion of the telecom network, which will lead to higher data consumption and therefore higher storage demand. Similarly, real estate, which had underperformed in the past, is now seeing healthy momentum. All these factors are translating into a strong demand environment for Cummins and other players.
- Export markets:** Exports witnessed a sharp decline in 3QFY24 due to muted market sentiments across key geographies, e.g., the Middle East, Europe, LatAm and APAC. The weakness in exports can be partly attributed to seasonality because of the festive period and inventory corrections, which typically take place in 3Q. The company believes exports have bottomed out, and we expect exports to start recovering in the coming quarters.
- Distribution segment:** The distribution segment is exhibiting robust growth with higher demand for spares. There is a higher requirement of service and O&M as customers are more sensitive to downtime in case of any product glitches.
- Industrial segment:** There is a marked slowdown in the domestic railways business (part of Industrial segment) and the company is entering into segments, in which it lacks a meaningful presence.
- 3QFY24 performance:** The current quarter witnessed a record-high operational performance on the back of a favorable revenue mix (higher share of HHP and aftermarket), commodity benefits, and cost reduction initiatives. Notably, there was a delivery of a lumpy order from the data centers side, which provided a boost to revenue and margins. By its very nature, data centers will continue to be a lumpy business and there is robust visibility for the coming 2-3 years.
- CPCB IV+ transition:** The contribution of CPCB IV+ in the current quarter was less than 25%, with ~3,000 units sold in the regions where emission norms are more stringent. It would, therefore, be premature to extrapolate any pricing trends. While the company was able to fully pass on price hikes for ~3,000 units, more clarity will emerge once the entire transition takes place by 1QFY25.
- Supply chain:** The Red Sea crisis and other geopolitical tensions have not had a material impact on the company's operations and have only led to a marginal increase in shipping costs and delays (2-4 weeks). The slowdown in China has ensured better availability of electronic components; however, some issues persist. If the situation in China improves, supplies of such components might be affected.



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- **3QFY24 revenue breakup:** Industrial – INR4.12b (+ 20% YoY), Powergen – INR10.7b (+51% YoY), Distribution – INR6.6b (+26% YoY), HHP exports – INR1.4b (-38% YoY) and LHP exports – INR1.5b (-44% YoY).
- **Guidance:** The management has maintained double-digit revenue growth guidance for FY24, with a ~100bp margin expansion on the base of past three years’ average.

### Hitachi Energy

Sell

Current Price INR 6,100

- Management highlighted that macroeconomic indicators continue to be robust, and growth drivers such as renewables, T&D, railways, data centers, steel, cement, etc. are expected to witness a long-term growth trajectory on the back of government’s thrust on capex and manufacturing-led growth.
- During the quarter, order inflow momentum remained strong from renewables and data centers, while transmission and railways saw some moderation. However, the long-term outlook remains intact with a healthy investment pipeline in the form of HVDC, TCBP projects, metros, HSR, electrification, etc.
- Management maintained its double-digit EBITDA margin guidance by the end of FY25. Margin improvement will be driven by higher share of exports, services and operating leverage benefits from ramping up of recently-added capacities. The share of exports is at ~25% and services is ~9-10% in the current order book. 3QFY24 margin had an adverse impact of forex loss of INR98m.
- The Board has approved related-party transactions for an aggregate value up to INR7b, involving the purchase and sale of products and services to Hitachi Energy Sweden AB on an arms’ length basis. Since it is above the threshold of 10% of previous year’s revenue, minority shareholders’ approval is being sought for the same (68% of INR7b has already been spent to date). Management assured that this transaction is not expected to have any bearing on the margin trajectory.
- Out of overall exports, ~50-60% are done to the parent entity and the balance to the third parties. Exports accounted for ~25% of the order book of INR75.5b.
- Revenue recognition for the Mumbai HVDC project will commence by 4QFY24 based on milestone completion. Similarly, the STATCOM project has an execution timeline of ~24 months. Revenue recognition can start upon receipt of technical, design and other approvals which are expected to take two quarters.
- Capacity utilization across various facilities is in the range of ~75-90%, and the new facilities are expected to ramp up soon, which should support further margin expansion.

### Kalpataru Projects

Buy

Current Price INR 925

- **Strong domestic T&D pipeline:** There is a very robust T&D pipeline in India and international markets given the shift towards renewable energy and relative underinvestment in the past few years. There is a domestic pipeline of INR400b in the near term basis the announcements by REC and PFC for renewable projects. LatAm, the Middle East. and Africa to provide healthy visibility, and herefore, clocking in 15-20% revenue growth should not be a challenge.



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- **Non-T&D outlook is also strong:** On the non-T&D side as well, there are strong prospects across the Buildings & Factories, Water and Oil & Gas segments. B&F is benefiting from investments taking place in airports, commercial and residential real estate, data centers, industrial plants, educational institutes, etc. Similarly, there is a healthy execution of water supply projects and ordering is expected to pick up next year. The railways segment continues to see heightened competition, and smaller players are bidding aggressively owing to which the company has adopted a selective approach. Management doesn't expect any material improvement in FY25 either.
- **Ordering to see some impact of election:** The company has managed to achieve ~95% of the targeted order inflows for FY24 in 9MFY24 itself. Though 4Q is expected to see some slowdown owing to the general elections, international non-T&D ordering can offset the same. The company is confident of the 3QFY24 L1 position of ~INR60b getting converted to order inflows in 4QFY24. By end-FY24, the order book is expected to touch ~INR520b-530b.
- **Guidance on revenues:** 4QFY24 execution growth is expected to be above 25%, and therefore overall FY24 growth should be in the region of 20-21%.
- **Capex:** The company has incurred capex of ~INR2b in 9MFY24 with another ~INR1b earmarked for 4Q. for FY25, initial capex guidance stood at ~INR4-5b.
- **Fixed and variable pricing contracts:** The current order book of INR517.5b has a fixed/variable component of 35%/65%. However, the variable component in B&F is much higher at 90%.
- **Non-core divestment still some time away:** In terms of divesting non-core businesses, the company expects to exit the Indore project by Dec'24 and has already appointed bankers for the road project (VEPL). However, Shubham Logistics will not be divested earlier than FY26, while the other two road assets will be concluded at a later date.

**KEC**  
KEC INTERNATIONAL LIMITED

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**KEC International** **Neutral**  
Current Price INR 654

- Management indicated healthy opportunity pipeline in T&D segment for both India and the Middle East led by investments taking place towards renewable energy and strong budgetary support for infrastructure. There is a domestic T&D pipeline of ~INR250b from TBCB projects and one or two HVDC projects in Gujarat, Rajasthan and Madhya Pradesh. KEC expects to bag at least one such project in FY25. However, ordering activity could slow down in the election period.
- Similarly, the situation in the Middle East remains sanguine, especially in Saudi Arabia, Oman, UAE, Kuwait, etc. on the back of a continued capex thrust in the region. Compared to domestic tenders, the eligibility criteria are very stringent and hence competition isn't as intense as India. The company has an order book + L1 of ~INR65b in the Middle East. Notably, demand is robust in other countries such as Chile, Colombia, Australia, etc. and the company has earmarked a capex of ~INR600m to expand its Dubai conductor's facility by 20%.
- The company has an order book of INR301.1b and is L1 in an additional ~INR8b of tenders. Order inflow during the quarter slowed down to ~INR38.5b vs. ~INR45b in 2QFY24. Given the robust momentum in T&D, the company opted to bid selectively for civil and railways orders where competition is rising. Given

weaker-than-expected order inflow and 4QFY24 being impacted by elections, KEC might not be able to achieve its earlier order inflow guidance for FY24.

- Given the below-expected margins, management slightly revised its FY24 margin guidance downwards and double-digit performance has been deferred to 2HFY25. Legacy orders will largely be over by 1QFY25. Similarly, tentative revenue guidance for FY24 was ~INR180b-190b.
- Though Civil segment order inflow was on the lower side, management maintained its target of achieving 30% revenue growth in FY25 on a healthy base of FY24. The confidence stems from healthy opportunities across commercial and residential real estate, data centers, water, etc.
- Working capital situation has improved marginally to 129 days in 3QFY24. Management expects a further reduction to ~110 days by 4QFY24. Net debt (including acceptances) reduced sequentially by ~INR3b to ~INR60b.



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### Larsen & Toubro

Buy

Current Price INR 3,354

- **Record high order book:** Driven by a strong capex trend in the Middle East, 9MFY24 order inflows at INR1.8t for core E&C (+65% YoY) surpassed the FY23 level, taking the total order book to a record INR4.7t (+22% YoY). International orders accounted for 39% of the order book. Order inflows came mainly from the hydrocarbon, solar EPC & power transmission, water utilities, buildings & factories, and minerals & metals sectors. The domestic order book is comprised of orders from the central government (12%), state government (31%), state PSUs (35%), and private players (22%). About 18% of the order book is funded by multilateral agencies. The Middle East accounted for 92% of the international order book, with 80% of orders coming from Saudi Arabia. LT's exposure to Saudi Arabia stood at ~INR1.34t.
- **Core E&C performance:** Revenue grew 25% YoY to INR393b. Margin contracted ~80bp YoY to 7.7% on the back of legacy order execution and new jobs yet to reach the margin recognition threshold. The order inflow was robust at INR601.6b (+32% YoY). Near-term order prospects have improved to INR6.3t for 4QFY24 vs. INR4.9t in 4QFY23, largely driven by improving prospects in the Middle East.
- **4Q ordering pipeline robust:** The management has indicated a strong improvement in the prospect pipeline for 4Q at INR6.3t, especially from the hydrocarbon space in the Middle East. The infrastructure pipeline stood at INR4.1t spread across transportation (28%), metals and mining (17%), buildings & factories (19%), power T&D (4%), and heavy civil infra (16%). The energy segment pipeline stood at INR2t, comprising hydrocarbon (INR1.7t) and power (INR0.3t). High-tech manufacturing prospects stood at INR0.16t (flat YoY due to subdued progress in nuclear jobs).
- **Hyderabad Metro:** Average ridership improved to 444k pax per day vs. 394k in 3QFY23. Sequentially, however, it was lower vs. 462k pax per day due to fewer holidays in 2QFY24. Inter-corporate debt of ~INR30b was converted into equity, which could potentially result in interest cost savings of ~INR2.4b on Hyderabad Metro books.
- **Capex:** Electrolyser capex will be in the range of INR5-6b. On the data center front, ~INR6.5b has been capitalized, with a further planned investment of ~INR14b. Similarly, investment in semiconductors could be to the tune of



INR8b/USD100m over the next two years; a part of this investment could potentially be earmarked for an inorganic expansion.

- **Guidance:** Since 9MFY24 order inflows have already surpassed the initial FY24 guidance, LT has increased the full-year guidance by 20% vs. FY23. Similarly, FY24 revenue growth guidance has been raised to high-teens from 10-12% earlier. However, given the job mix and completion stage, there would be a deferral of margin recognition to FY25. Accordingly, LT has revised core E&C margin guidance to the range of 8.25-8.5% vs. 8.5-9% earlier. The NWC-to-sales ratio will be broadly in the same range as the 3QFY24 level of 16.6%.
- **Outlook:** General elections could result in a temporary slowdown in domestic ordering momentum in 4QFY24 and 1QFY25. Private capex, though, is witnessing green shoots, but it is yet to see a full recovery. However, the order inflows from the Middle East remain strong in the hydrocarbon and renewable energy segments. Other geographies are a mixed bag in light of geopolitical tensions, inflation, economic slowdown, etc.



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**Thermax** **Neutral**  
 Current Price INR 3,511

- **Order pipeline:** The domestic order pipeline and inquiries are strong in sectors such as power and steel; however, no major orders are expected in 4QFY24. Cement is fairly decent but is still below levels seen two years ago. Ethanol is a slight concern because of the policy shift, and the refinery business continues to be flattish. FY25 is likely to see a significant uptick, especially in greenfield expansion in steel and thermal power orders from both utility and captive projects. On the international front, the Middle East is witnessing robust activity, largely in the hydrocarbon and downstream areas. Notably, the base business continues to be growing at a healthy pace, while large orders are expected to flow in from FY25 onwards only.
- **Segmental outlook:** Industrial Products – Margin expansion levers as Water and other businesses scale up. Core boiler and heating business is also picking up but competition is fast catching up. Industrial Infra – much headroom to expand margins as Bio CNG projects have the potential to achieve better profitability vs. historical levels. Sugar/ethanol can do much better if India is to achieve the EBP20 targets. Chemicals – volume growth can be significant; however, not much scope to improve margins that are at healthy levels already. Green Solutions – will continue to report losses until 2HFY25 as FEPL sees a turnaround and better operational performance.
- **Margin weakness:** Order inflow, execution, and margin for certain EPC projects were below expectations and dragged down the overall performance. There was a mismatch in the company’s quotation vs. actual cost incurred for an order worth ~INR100m (Sulphur Recovery Unit) that was booked two years ago. This led to a poor margin performance.
- **Subsidiary performance:** Danstoker – profitability is improving and the company is taking on orders with better margin profile. Focus would be on profitability and not on topline growth. PT TI – still reporting losses; however, order prospects have improved that should narrow the losses. TOESL – ordering momentum has slowed down but execution, margin, and return ratios are in line with expectations. TBSPL – subsidiary is going through a challenging period as bio CNG projects in the order book have come at a cost. However, there has



- been a steep learning curve for the company on the rice husk side which should hold in good stead for upcoming projects.
- **Acquisition of TSA Process Equipment:** Demand for ultra-pure water is expected to improve in a meaningful way from semiconductors and food & beverage. The recent acquisition will provide synergies in the form of technology access and capabilities that Thermax did not possess.
- **Coal gasification:** Despite the budgetary announcement on coal gasification, there is no imminent activity and it is still at the discussion stage. The company is in talks with government entities as to the extent of VGF it can avail. Carbon Capture is even further away however the company is confident it will be implemented sooner or later in order to make coal gasification environmentally viable.
- Zero-liquid discharge (ZLD) too has a healthy pipeline across industries. Flexi-boilers are also doing very well however there is a transient slowdown due to the policy shift on ethanol. It may pick up in around two quarters.



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**Triveni Turbine** Buy  
Current Price INR 451

- There is robust traction across renewable energy, industrial turbines, API turbines, biomass, and aftermarket services, which is visible in the inquiry book (+14% YoY).
- The company believes domestic private capex is showing encouraging signs and there isn't a sudden spurt in investment, which is expected to be more sustainable going forward.
- The foray into the US market via the incorporation of a wholly owned subsidiary is expected to open up vast opportunities in the US and adjacent geographies. The subsidiary will cater to the installed base of turbines, primarily on the aftermarket side. Notably, consolidation in the steam turbine industry has led to underservicing of customers. Vis-à-vis product sales, refurbishment presents faster scaling-up potential, which the company envisages to focus on. There will be more clarity on this entity in 4QFY24.
- Given the entry into the US market, there would be certain upfront costs in terms of personnel and setting up a local presence. On a consolidated basis, staff costs are likely to go up by 15% in FY24 and 20% in FY25 as the higher share of aftermarket calls for a significant addition to the existing employee base.
- Though 3QFY24 domestic revenues declined by 7% YoY, on a 9MFY24 basis it was flattish as order finalizations got delayed owing to the festive period and weak enquiry levels in 2QFY24. There aren't any structural concerns in the domestic market and the company expects the growth momentum to continue.
- Barring East Asia which is muted, other international geographies such as MENA, Turkey, SE Asia, Europe, etc. are witnessing robust traction from industrial, renewable, API turbine, and aftermarket sides.
- Margin expansion levers for the near-to-medium term are very much intact, as the company intends to improve the product mix and further increase the share of aftermarket and export revenue.
- Owing to the global change in energy mix, the company sees ample opportunities to continue its growth trajectory. The company aspires to sustain the growth momentum witnessed in the past two years going forward.

**CEMENT**



- Cement demand was subdued in 3Q due to multiple reasons (festive season, labor unavailability, excessive rains, flood and state elections in a few regions, fiscal challenges). However, demand has improved in Jan'24, supported by government-led infrastructure projects and pick-up in housing demand. Most managements have guided for industry volume growth of ~8-9% YoY in FY25. Cement prices have corrected in Dec'23 across regions and this weakness persisted in Jan-Feb'24. Fuel consumption costs for cement players declined 5-15% QoQ (except for ACC and ACEM, which reported 1-2% QoQ increase) to INR1.50-INR2.05/Kcal in 3QFY24. Companies expected fuel cost to either remain flat or decline 4-5% in 4Q.

**KEY HIGHLIGHTS FROM CONFERENCE CALL**

	Insights and future outlook FY24	Capex plans
<b>UltraTech Cement</b>	<ul style="list-style-type: none"> <li>■ There are substantial construction activities across the country and demand has started to improve since mid-Dec'23. Capacity utilization should improve to 80-85% in 4Q and industry volume growth is estimated to be ~8-9% in FY24.</li> <li>■ Avg. fuel cost stood at INR2.05/kcal in 3QFY24 vs. INR2.18 in 2Q. Fuel cost is expected to decline further by 7-8% in the next six months.</li> </ul>	<ul style="list-style-type: none"> <li>■ The company is expanding capacity under Phase II (24.4mtpa) and Phase III (21.9mtpa) to reach ~180mtpa by FY27 through organic routes.</li> <li>■ Capex is pegged at INR90b for FY24/FY25 each and INR70b for FY26. Debt increased in 3QFY24, but it should reduce by Mar'24 with an improvement in cash flows and reduction in working capital.</li> </ul>
<b>Ambuja Cements</b>	<ul style="list-style-type: none"> <li>■ The company's consolidated volume grew 3% YoY. Demand growth should be at 7-8% in the mid-term and current capacities will help the group to match industry demand growth.</li> <li>■ Cost savings of INR400/t achieved after the acquisition and it anticipates the possibility of achieving additional savings of INR300/t in the next two years.</li> </ul>	<ul style="list-style-type: none"> <li>■ The company's cement capacity increased to 77.4mtpa and another ~32mtpa expansion (consolidated) is underway at various stages. These expansions will help it reach 110mtpa capacity by FY27 (consolidated).</li> <li>■ Capex in FY24 is estimated to be INR35b and every year INR50-60b will be spent. All these capex plans will be met through internal sources.</li> </ul>
<b>Shree Cement</b>	<ul style="list-style-type: none"> <li>■ Volume growth is estimated at ~11% in FY24 (vs. 13% YoY in 9MFY24). It is targeting ~13% volume growth in FY25.</li> <li>■ Revamped its brand strategy and launched 'Bangur' as the master brand for all product categories across markets. Streamlined premium offerings, with only one premium product 'Bangur Magna'.</li> </ul>	<ul style="list-style-type: none"> <li>■ Greenfield integrated cement plant at Guntur, Andhra Pradesh, with clinker/grinding capacity of 1.5mtpa /3.0mtpa, is likely to be commissioned by Mar'24.</li> <li>■ It expects grinding capacity to increase to 56mtpa/62mtpa /75mtpa by Mar'24/Mar'25/Mar'27 from 53mtpa currently. Cumulative capex is pegged at INR125b for the next three years. The capex plans will be funded by internal accruals and the current cash balance of INR60b.</li> </ul>
<b>Dalmia Bharat</b>	<ul style="list-style-type: none"> <li>■ It expects volume growth in mid-teens in FY25. Further, in Jan'24, cement prices were weak. The prices could be volatile in the near term, but in the long term, it expects a 1.5% CAGR.</li> <li>■ Fuel consumption costs stood at INR1.50/Kcal vs. INR1.58/Kcal in 2QFY24. It expects a further reduction of ~3% QoQ in fuel costs in 4QFY24.</li> </ul>	<ul style="list-style-type: none"> <li>■ Capex stood at INR21b in 9MFY24 and total capex in FY24E should be INR30b. Additional cash outflow is expected to be INR33b for JPA cement asset acquisition by Mar'24-end (one month here and there). Capex guidance for FY25 is INR30-35b (incl. expansion in east and north-east region).</li> <li>■ It targets to increase capacity to 75mtpa by FY27, and a detailed plan will be shared in the next earnings call.</li> </ul>
<b>The Ramco Cements</b>	<ul style="list-style-type: none"> <li>■ Guided sales volume of 5mt in 4QFY24 (up ~7% YoY) and ~19- 20mt in FY25 (up 6-11% YoY).</li> <li>■ Cement prices are under pressure in its key markets. However, the prices are expected to improve going forward.</li> <li>■ Blended coal consumption cost was USD138/t (INR1.64/kcal) vs. USD148/t (INR1.75/kcal) in 2QFY24. In 4QFY24, fuel cost is estimated to be at similar levels as in 3QFY24.</li> </ul>	<ul style="list-style-type: none"> <li>■ Announced brownfield expansion of clinker/cement capacity of 3.15mtpa/1.5mtpa at its Kurnool (Andhra Pradesh) plant (including 15MW of WHRS) at an estimated capex of INR12.5b. It is likely to be completed by 4QFY26.</li> <li>■ The grinding capacity at Haridaspur, Odisha, is being increased from 0.9mtpa to 1.8mtpa. This project is expected to be completed in Mar'24.</li> <li>■ In 9MFY24, capex stood at INR16.1b and further INR4b will be spent in 4QFY24. Capex is pegged at INR17b in FY25E.</li> </ul>
<b>J K Cement</b>	<ul style="list-style-type: none"> <li>■ Grey cement volume should be at 16.5mtpa+ in FY24, which indicates a growth of 16% YoY (4%+ in 4QFY24). Cement demand growth has been estimated between 7% and 9% in the medium term.</li> <li>■ Fuel cost was INR1.8/kcal in 3Q vs. INR1.9 in 2QFY24. Further cost savings of INR30-40/t are expected in 4QFY24. It is carrying a fuel inventory of 60-75 days and benefits of the recent decline in fuel price will reflect from 1QFY25E.</li> </ul>	<ul style="list-style-type: none"> <li>■ It announced capacity expansion of 6mtpa spread across the Central and East (Bihar) regions, which are likely to be commissioned by FY26.</li> <li>■ Capex stood at INR9b in 9MFY24, and it should be INR12b in FY24. Capex pegged at INR22b (including INR12b for the recently announced expansion) and INR18b in FY25 and FY26, respectively.</li> </ul>

<p><b>Birla Corp</b></p>	<ul style="list-style-type: none"> <li>BCORP marginally cut its volume growth guidance to ~13% from ~15% in FY24. It maintained its EBITDA/t guidance at INR850 in FY24.</li> <li>The Mukutban plant is seeing steady progress. It achieved a capacity utilization of +60% in Jan'24. It expects total dispatches from Mukutban plant of ~0.6mt in 4QFY24 vs. 0.49mt in 3QFY24 (growth of ~22% QoQ).</li> </ul>	<ul style="list-style-type: none"> <li>It is setting up a greenfield grinding unit of 1.4mtpa in Prayagraj, Uttar Pradesh, with an investment of INR4b. This unit is likely to be commissioned by FY25-end and start commercial production from the beginning of FY26.</li> <li>The next expansion plan includes doubling of clinker capacity at Maihar, MP, and setting up of grinding units in Bihar/Uttar Pradesh or in West markets. It targets to increase the capacity to 25mtpa/30mtpa by FY27/FY30.</li> </ul>
<p><b>JK Lakshmi Cement</b></p>	<ul style="list-style-type: none"> <li>Cement volume growth (consolidated) should be at ~10% YoY in FY24 (vs. earlier estimated ~12-15%). The Eastern region continues to see higher growth, driven by the IHB segment. Cement prices were soft in both Jan-Feb'24.</li> <li>Average fuel cost stood at INR1.75/Kcal vs. INR2.04/Kcal in 2QFY24. It is expected to decline up to INR1.70/Kcal in 4QFY24.</li> </ul>	<ul style="list-style-type: none"> <li>Grinding capacity of 2.5mtpa at Udaipur cement works (UCWL), a subsidiary of the company, is likely to be commissioned by Mar'24-end. Further, brownfield expansion of 1.35mtpa grinding capacity at its GU in Surat, Gujarat, is as per schedule.</li> <li>It announced an expansion of 4.6mtpa in east and central regions at an estimated capex of INR25b. Also, it approved the acquisition of an 85% equity shareholding in Agrani Cement, which has limestone reserves in Assam.</li> </ul>



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**Ambuja Cements** **Neutral**  
Current Price INR 589

**Operational highlights**

- About 12% of ACEM's standalone clinker capacity was under maintenance, and one kiln experienced a breakdown. This led to INR150-200/t impact on EBITDA (maintenance expense, higher sales of traded goods, consumption of clinker). Blended cement sales was 87% and premium cement contributed 22% to sales volumes.
- Energy cost/t declined 21% YoY, led by better fuel management and kiln fuel cost declined 22%. Direct dispatches increased to 52% vs. 50% in Dec'22 and transport through railways stood at 26%. Capex incurred was at INR10.5b and acquisition of Sanghi industries led to cash outflow of INR38b. Consolidated cash balance stands at INR85.9b.
- EBITDA/t guidance: EBITDA/t should reach INR1,400+ for ACEM. This does not consider price hikes. It expects RoCE of 19% and OPM of 25-26% by FY28.

**Capacity expansion and capex plan**

- Clinker capacity has increased to 51mtpa, post commissioning of the Ametha unit (3.3mtpa) and the acquisition of Sanghi Industries (6.6mtpa). Grinding capacity increased to 77.4mtpa, post commissioning of 1mtpa plant at Ametha, the acquisition of 6.6mtpa plant of Sanghi and stake increase in Asian Concrete (1.5mtpa).
- Bhatapara clinker unit of 4mtpa is expected to get commissioned by 4QFY25, which will cater to grinding units of Sankrail (2.4mtpa) and Farakka (4.8mtpa). The Maratha clinker unit of 4mtpa is expected to get commissioned by 2QFY26. The Board has approved clinker capacity expansion of 2.25mtpa at Mundra and grinding units of 2.5mtpa each at Hoshiarpur, Amravati, Jalgaon, Warisaliganj, and Pune. Completion of these plants will help the company reach a grinding capacity of 110mtpa.
- Debottlenecking will be done at Clinker plant of ACC at Wadi, Karnataka. Further, brownfield expansions at clinker plants have been considered and the company is awaiting the completion of public hearings (expected by Jun'24). Brownfield clinker expansion will be completed within 18-20 months, following the receipt of EC.

- Capex: Capex in FY24 is estimated to be INR35b and every year INR50-60b will be spent. All these capex plans will be met through internal sources.

#### Cost reduction and future targets

- It has achieved cost savings of INR400/t after acquisition of ACC and ACEM plants. WHRS capacity has been increased to 119MW, which was at 40MW at the time of acquisition and will further be increased to 186MW by Mar'25.
- It will commission renewable energy (RE) capacity of 1GW (200MW by FY24'end) by FY26 and green energy will help to fulfil 60% of power requirements. This will lead to cost savings of INR90/t by FY28.
- The company had captive coal mine at Gare Palma and has further won 2mtpa coal mine in Maharashtra. Both these mines will fulfil 40-50% of its coal requirements.
- The target is to reduce lead distance to 100kms (currently at 284km vs. 291km at the time of acquisition - 277km for ACEM and 295km for ACC). Direct dispatches continue to increase and it was at 52% vs. 50% in Dec-22.
- The company is also procuring 11 general purpose wagons (7 delivered and 4 will be procured by FY24-end). Additionally, 26 rakes have been ordered, facilitating the movement of fly ash. Vehicles have been tagged with GPS to help efficient tracking/movement (98% completed).
- Another INR300/t of savings will come in the next 12-24 months, led by 1) INR90/t through green power, 2) INR50-60/t through logistics, 3) INR50/t in RM procurement and 4) INR50/t through footprint optimization. Own fuel procurement will further add to profitability.

#### Update on subsidiaries and other highlights

- **ACC:** A lot of inefficiencies have been addressed; footprint optimization is also being done. Profitability gap between ACEM and ACC has narrowed.
- **Sanghi Industries:** Capacity utilization will increase to 75-80% vs. 25-30% as of now. It will install a conveyor belt from the plant to Jetty, which will entail a capex of INR2b. The entire sales have been shifted into the brands of ACC and ACEM. This plant has limestone reserves of 1b tons and would help further expansion of capacities. The group will also try to sell in parts of coastal Maharashtra and coastal areas of the Southern region.
- **MSA volumes:** Total MSA volumes stood at 2.9mt (1.7mt from ACC to ACEM and 1.3mt from ACEM to ACC). Every year, 10-15% new capacities are being added, which can help drive MSA volumes.
- **Industry growth:** Industry volumes grew ~3.5%YoY in 3QFY24. Demand growth should be at 7-8% in the mid-term and current capacities will help the group to match industry demand growth. Additional growth is expected to materialize from the capacities that have been announced.
- **Arrangement with Dahej plant:** Adani Cement's grinding unit at Dahej is being operated as a tolling unit (INR350-400/t tolling charges).



### Birla Corp

Buy

Current Price INR 1,700

#### Highlights of the Mukutban operations

- Mukutban plant is seeing steady progress and beating the projections. It achieved a capacity utilization of more than 60% in Jan'24 (vs. Mar'24, which was estimated



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earlier). In Jan'24, the company crossed 0.2mt of dispatches from Mukutban plant. It estimates total dispatches from Mukutban plant of ~0.6mt in 4QFY24 vs. 0.49mt in 3QFY24 (growth of ~22% QoQ).

- Mukutban plant remained EBITDA positive through 9MFY24 and management expects improvement going forward. Premium products contributed ~40% of the trade volumes from this plant.
- The company has substantially increased its presence in Gujarat markets by leveraging Mukutban plant. Gujarat market seeing huge growth led by various government-led infra projects. Similarly, it increased presence in the Southern Madhya Pradesh and other adjacent markets (like Chhattisgarh and Telangana) through supplying from Mukutban. Although, it continues to sell ~65% of the sales volume of Mukutban plant in the Maharashtra markets.
- State incentives for the Mukutban plant are likely to accrue in 4QFY24, and these incentives will help to reach its annual EBITDA/t guidance of INR850/t in FY24E.

**Demand and pricing outlook**

- Sales volume and realizations were partly hurt by unseasonal heavy rainfall and assembly elections in key markets in Nov'23. Prices increased during Sep-Oct'23, and partially rolled back in the later part of the quarter.
- Cement demand was subdued in Jan'24 due to extreme winter and fog across north India. This also led to correction in cement prices in the past few days. Volumes are expected to pick up in the coming days; however, upcoming general elections and the imposition of model code of conduct may adversely impact demand in short-term.
- Accordingly, the management cut volume guidance marginally to ~13% YoY in FY24E (implying volume growth of ~12% in 4QFY24) vs. earlier estimate of ~15%. The major increase in the volumes will come from Mukutban plant.

**Operational data points and progress on cost saving initiatives**

- The company's capacity utilization stood at 85%/86% in 3QFY24/9MFY24 v/s 74%/79% in 3QFY23/9MFY23.
- Blended cement sales stood at 83%/85% of total volumes in 3QFY24/9MFY24 v/s 89%/90% in 3QFY23/9MFY23.
- Premium products contributed to 52%/53% of total volumes in 3QFY24/9MFY24 v/s 51%/49% in 3QFY23/9MFY23.
- The company stepped up generations of its captive power plants and share of captive power increased to ~60% of the power requirements of integrated unit v/s 12% in 3QFY23, supported by falling coal prices. Further, share of renewable power stood at ~23% (flat QoQ) in 3QFY24.
- Operations at Bikram coal block is expected to commence from 2QFY25, which will further reduce dependency on imported coal. During the quarter share of imported coal came down from 31% to 25% sequentially and balance was domestic coal (linkage and captive mines).
- "Project Shikhar" has yielded ~INR55/t of cost savings so far led by improvement in operating efficiency and cost optimization.
- "Project Unnati" mainly focused on reduction in logistics cost, increase in share premium product, identify high contribution zone with focus on "Go-to-Market" strategy, and network optimization.



- Despite capacity addition by peers, the company not only retained its market share in its key markets (eastern UP, MP) but also increasing premium product sales.

**Capacity expansion and net debt**

- The company is setting up a greenfield grinding unit of 1.4mtpa in Prayagraj, Uttar Pradesh with an investment of INR4b. This unit is likely to be commissioned by FY25-end and start commercial production from beginning of FY26.
- The next expansion plan includes doubling of clinker capacity at Maihar, MP and setup grinding units in Bihar/Uttar Pradesh or in West markets. The company targets to increase the capacity to 25mtpa/30mtpa by FY27/FY30. The capex guidance will be communicated post the board approval, which is likely in FY25-beginning.
- Capex stood at INR4.5b in 9MFY24 and estimated full-year (FY24) capex at ~INR7b. BCORP’s net debt stood at INR34.7b as of Dec’23, and the company expects this to reduce to INR34b by FY24-end.



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**Dalmia Bharat** **Buy**  
Current Price INR 2,082

**Demand and pricing outlook**

- The company’s volume grew 8% YoY, with ~2% YoY volume growth in its core markets after adjusting for volume on tolling basis (0.4mt) from JP group plants. Despite demand softness in the east markets, the company’s volume grew, which indicates some market share gain. It anticipates mid-teens volume growth in FY25.
- Cement prices increased in its core markets (South and East) in 3QFY24, which led to a ~4% QoQ increase in realization. However, prices declined by 3Q-end, and Dec’23-exit price was similar to Sep’23-exit price. In Jan’24, prices remained weak. The prices could be volatile in the near term, but in the long term, the company expects a 1.5% CAGR in cement prices.

**Operational highlights and cost insights**

- The cost of raw materials consumed was largely flat QoQ/YoY at INR781. However, due to increasing volume with JPA (under tolling arrangement), the purchase of traded goods increased, leading to an overall increase in total RM costs.
- Power and fuel costs declined due to a softening in fuel prices. Fuel consumption costs stood at INR1.50/Kcal (decline of USD50/t YoY) vs. INR1.58 in 2QFY24. It expects further reduction of ~3% QoQ in fuel costs in 4QFY24. Renewable energy share dropped to ~25% vs. ~29% in 2QFY24 due to RE plant shutdown, which has again normalized. DALBHARA expects green energy share to increase to ~35% by FY25. Green energy capacity stood at 177MW and the company aims to increase it to 202MW/328MW+ by FY24/FY25.
- Freight costs increased QoQ due to an increase in lead distance (+6km QoQ to 283km) and a busy season surcharge by Indian railways on rail freight. Road:Rail mix was at 86:16. It does not expect a material change in lead distance.
- Blended cement sales stood at 84% vs. 88% 2QFY24. The C:C (clinker to cement conversion) ratio stood at 1.66x vs. 1.71x, and the company remains focused on increasing the C:C ratio. Trade share stood at 63% and premium product sales stood at 43% of trade volume in 3QFY24.

- Incentives accrued stood at INR690m in 3QFY24, and incentives received stood at INR153m. For 9MFY24, incentive accrual stood at INR2.2b and incentives received stood at INR2.2b. Incentives receivable stand at INR7.2b as of Dec'23. For FY24, total incentive accruals should be between INR2.5b and INR3.0b.

**Expansion plans and capex**

- Capex stood at INR21b in 9MFY24 and total capex in FY24E should be INR30b. Additional cash outflow is expected to be INR33b for JPA cement asset acquisition by Mar'24-end (one month here and there). Capex guidance for FY25 is INR30-35b (included expansion in east and north-east region). The company targets to increase capacity to 75mtpa by FY27, for which a detailed plan will be shared in the next earnings call.
- The company commissioned 0.9mtpa grinding capacity at Belgaum, Karnataka, in 3QFY24. Its total clinker/grinding capacity stood at 22.4mtpa/44.6mtpa. Further, brownfield expansion of 1mtpa (each) at Ariyalur, Tamil Nadu, and Kadapa, Andhra Pradesh, is likely to be completed in 4QFY24. Post completion of these expansions, the company's grinding capacity will increase to 46.6mtpa.
- The approval process for the JPA acquisition from various banks is pending and this transaction is expected to be finalized by Mar'24.

**Debt and other key highlights**

- Gross debt stood at INR49.3b vs. INR52.9b in Sep'23. Net debt stood at INR431m vs. INR15b in Sep'23. Its net debt to EBITDA stood at 0.16x vs. 0.59x as of Sep'23. The company has surplus cash, hence repaid some of short-term debt in 3QFY24.
- The company received the second installment of INR3.2b for the sale of its stake in the refractory business and the final installment of INR1.2b for the sale of Hippo stores (non-core businesses) from the promoter group companies. The balance INR3.2b for refractory business divestment will be received in Sep'24.



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**Grasim Industries**

Buy

Current Price INR 2,193

**VSF segment**

- VSF business is making new strides in the area of sustainability. The business has received first rank in Canopy's Hot Button Report 2023 with a rating of 'Dark Green Shirt'. The business has implemented the EU bet technology at Kharach Unit and achieved its feat of pioneering circular solutions in the fashion industry. It has made its first shipment of Lyocell fibre produced with recycled cotton waste for use in the textile value chain, and the response has been promising, with repeat orders.
- The Viscose business saw a strong YoY growth, partially due to a low base (as 3QFY23 was an exceptionally weak quarter). However, the realization was further hit by cheaper imports from China. VFY sales, which are used in embroidery and home furnishing, witnessed lower demand in 3QFY24.
- VSF plants' operating rate in China improved to 88% from 85% in 2QFY24, with a decline in inventory days (10 days in 3QFY24 vs. 12 in 2QFY24).
- VSF's capacity utilization was >95%, though the value chain is still concerned about poor realization amid higher inventory levels.
- The company sold 92% of VSF volumes in domestic markets vs. 90% in 2QFY24. Specialty fibres contributed 19% of total volumes (similar to last quarter).

**Caustic Soda and advance material business**

- International Caustic Soda spot prices (CFR SEA) increased 6% QoQ to USD444/t in 3QFY24. Prices had improved to USD488/t in Oct '23, but the quarter exit price declined to USD423/t. The sharp YoY decline in caustic prices appears to be bottoming out at current levels of about USD400 to USD450 level. However, the market remains oversupplied due to large capacity additions in FY23.
- The company has completed an expansion of specialty chemicals capacity (epoxy polymers and curing agents). It doubled the capacity to 246KTPA in Dec'23. This will enable it to meet the growing demand in value-added products and specialty chemicals. Chlorine integration will increase to ~70% from the current level of ~63%.

#### Paints business

- The Paints business has started trial production at three plants; Ludhiana, Cheyyar, and Panipat. The brand architecture under Bila Opus is complete and the full range of products will be launched in FY25. Each location has a capacity of ~200mlpa and one facility also has a capacity of 30mlpa of solvent paints.
- Management plans to roll out the Paints business gradually, starting with North and a few areas of South, and gradually rolling it out nation-wide.
- The sub-brand portfolios, across multiple categories of luxury, premium and economy segments and development work for design, package, artwork, consumer communication etc. have been completed.
- The supply chain, logistics, and distribution network is also in place to support the launch. It would offer a complete range of high-performance, superior products in the premium, midrange, and mass markets that are favorably placed across multiple price points.
- The dealer on-boarding has already commenced. It is largely on-boarding existing paint dealers, but could also add new dealers as well.
- Capex for the Paints business stands at INR60b till now (INR34b in 9MFY24).

#### B2B E-commerce (Birla Pivot)

- Birla Pivot – B2B E-commerce achieved monthly revenue run-rate of INR1.2b in Dec'23. The private label 'Birla pivot tiles' are gaining good response and is now launching private label in plywood and doors categories.

#### Capex and debt position

- Capex in 3QFY24/9MFY24 stood at INR14.3b/44.6b, including INR10.9b/INR34b for the Paints business. The budgeted capex for FY24 is INR59.3b (including INR42.8b for the Paints business).
- Standalone net debt stood at INR57.3b vs. INR44.6b/INR17.8b in Sep'23/ Mar'23. The company maintains its guidance to keep the net debt/EBITDA below 3.5x, including the Paints business.



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### JK Cement

Buy

Current Price INR 4,205

#### Demand and pricing trends

- Grey cement capacity utilization stood at 75% in 3QFY24. Grey cement volume should be at 16.5mtpa+ in FY24, which indicates a growth of 16% YoY (4%+ in 4QFY24). Cement demand growth should be between 7% and 9% in the medium term and capacity addition is estimated to be lower than the incremental

demand. It can achieve a minimum incremental volume of 2mt annually with its capacity expansion plans.

- Realization in Jan'24 has been marginally lower than the 3QFY24-exit. However, there are expectations of price hikes.



**Operational highlights**

- WHRS at Muddapur, Karnataka plant is under trial run, and the entire benefits will accrue from 1QFY25. Current capacity of WHRS is 64MW, which will rise to 82MW post-commissioning of the 18MW plant at Muddapur. The company will also set up WHRS with new clinker line at Panna, MP. Overall, additional 50MW of renewable power (25MW WHRS at Line II, Panna and 25MW Solar power plant) will be commissioned in FY25E/26E.
- Green energy/thermal substitution rate stood at 50%/14.6% YTD vs. 44%/13.9% in FY23. It targets raising green energy/TSR to 75%/35% by FY30.
- Fuel cost was INR1.8/kcal in 3Q vs. INR1.9 in 2QFY24. Further cost savings of INR30-40/t are expected in 4QFY24. It is carrying a fuel inventory of 60-75 days and benefits of the recent decline in fuel price will reflect from 1QFY25E.
- Freight cost increased due to a rise in lead distance by 9-10km (as it extended dispatches in eastern UP and Bihar) and change in market mix. Freight cost is expected to remain at similar levels in the near term. Freight cost could decline post-commissioning of the GU in Prayagraj, UP.
- Blended cement sales stood at 66% vs. 69% in 2QFY24, and trade sales stood at 62% vs. 69% in 2QFY24. Premium product sales as a % of trade sales stood at 12% vs. 13% in 2QFY24. There has been an improvement in trade market share of the company in new markets. Non-trade sales increased due to higher demand in that segment.
- Employee cost rose due to provisioning for variable payouts. Employee cost should be marginally lower in 4QFY24.
- State incentives will be between INR750m and 800m every quarter. Total incentive for the Panna project should be INR3.5b, and there are fiscal incentives for grinding units as well. Overall cumulative incentive of INR3b should continue for the next few years.
- Clinker factor should be at 62%-64% until FY26E. The company has tie-ups for blending materials for all grinding units and it is in the process of finalizing a long-term supply agreement for the upcoming Bihar grinding unit.

**Capacity expansion and capex update**

- The Greenfield grinding unit at Prayagraj, UP, with a capacity of 2mtpa will be commissioned in 2QFY25, after which the total grey cement capacity will increase to 24.2mtpa.
- Work on the recently announced capacity addition of 6mtpa will start in Mar-Apr'24 and it should be commissioned by FY26E in a phased manner. JKCE has identified a few locations for its Greenfield grinding unit in Bihar, but the process is yet to start (land should be finalized in 3-4 months and land acquisition/EC will take 6-9 months, after which the plant should get commissioned within 12 months). Order finalization for the main plant and machinery is expected within 3-4months. Capex is estimated to be INR22b for clinker line – II (including WHRS) at Panna, MP and INR6.0-6.5b for the grinding units.



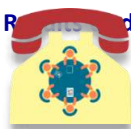
- The company has further expansion opportunities at Panna, MP; Mudappur, Karnataka; Jaisalmer, Rajasthan and then at Toshali, Odisha, if acquisition gets completed.

**Debt and other highlights**

- Gross debt was INR45.9b as of 31st Dec’23. Net debt/EBITDA was 1.64x vs. 2.21x in Mar’23. Gross debt is likely to increase to INR55-56b post-commissioning of the recently announced capacity expansion.
- There is a steep competition in white cement; especially in the Putty segment. Volume of this segment grew 5% YoY in 9MFY24. Profitability is not improving and OPM is expected to be ~15-18%.
- Ramp up of the paints business is happening and it has crossed a turnover of INR1b in 9MFY24 (INR460m in 3QFY24). It targets a revenue of INR1.5b+ in FY24; though; there would be an operational loss of INR200-250m (INR150m in 9MFY24). Gross margin of this business is as per initial plans. In FY25, the turnover should be ~INR2.5-3b with a marginal profit or loss. This business should generate EBITDA in FY26E when the turnover reaches INR4-5b.
- The company is working on the turnaround of Fujairah plant. A decline in fuel cost has also aided in the improved performance of this plant. It launched value-added products. EBITDA was at INR210m in 3QFY24 vs. INR250m in 2Q. The sustainable EBITDA for this plant should be at INR300-400m annually.



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**JK Lakshmi Cement**

Buy

Current Price INR 943

**Demand and pricing**

- Clinker/cement capacity utilization (standalone) stood at 105%/79% in 3QFY24. Cement volume growth (consolidated) should be at ~10% YoY in FY24 (earlier guidance of 12-15%). Extreme cold, fog, restrictions on construction adversely impacted volume in the northern market. The Eastern region continues to see higher growth, driven by the IHB segment.
- It believes the company’s volume growth would surpass that of the industry’s, aided by commissioning of grinding capacity in UCWL by Mar’24-end (clinker was already commissioned in 2QFY24). Industry growth is estimated at ~8% in FY25; however, JKCE is expected to register double-digit growth (consolidated).
- Cement prices were soft in Jan’24 and in Feb’24 as well, varying for different markets.

**Operational highlights**

- Standalone sales volume was up 2% YoY at 2.36mt. Consolidated sales volume (after eliminating inter-company sales) grew 8% YoY to 2.96mt.
- Non-cement revenue stood at INR1.34b vs. INR1.16b in 3QFY23. RMC revenue stood at INR670m vs. INR560m in 3QFY23. Margin stood at ~5%.
- Average fuel cost stood at INR1.78/Kcal vs. INR2.04/Kcal in 2QFY24. It is expected to decline up to INR1.7/Kcal in 4QFY24. Its green energy share stood at ~44%.
- Blended cement share stood at ~65%, while trade sales share stood at ~58%. Lead distance was 377km (declined from 387km in 2QFY24).

**Capacity expansion and capex plans**

- Grinding capacity of 2.5mtpa at Udaipur cement works (UCWL), a subsidiary of the company is likely to be commissioned by Mar’24-end. Further, brownfield



expansion of 1.35mtpa grinding capacity at its GU in Surat, Gujarat is as per schedule.

- It announced an expansion of 4.6mtpa in phases, which includes – 1) brownfield clinker/cement expansion of 2.3mtpa/1.2mtpa at Durg, Chhattisgarh; and 2) greenfield split location grinding units with an aggregate capacity of 3.4mtpa at three different locations Prayagraj, Uttar Pradesh, Madhubani, Bihar, and Patratu, Jharkhand. This will be funded through a mix of debt (up to INR17.5b) and internal accruals. In Phase – I, it plans to commission grinding capacity of 1.2mtpa at Durg and Bihar (each) in the next two years.
- It is setting up a railway siding at its Durg, Chhattisgarh Plant (in phases) at a capex of INR3.25b, which will be funded through a mix of debt and internal accruals. Phase – I is likely to be completed by Sep’24 and Phase – II is expected by Mar’26.
- The board also approved the acquisition of an 85% equity shareholding in Agrani Cement, which, along with its subsidiary, holds rights to limestone reserves of 335mt in Assam. The acquisition cost amounts to INR3.25b, and it is expected to be completed by Mar’24-end. In Phase – I, the company has plans to set up 1mtpa/1.5mtpa clinker/cement capacity.

**Other highlights**

- Standalone net debt stood at INR500m, while consolidated net debt stood at INR11.4b. Peak net debt (consolidated) is estimated at INR26b, considering the announced expansion plans. Also, the company aims to maintain a net debt to EBITDA ratio of less than 2.5x.
- AFR project at the Sirohi plant achieved TSR of ~11% in Jan’24 and it will further increase to ~13-14% in the upcoming months. In the next phase, it targets to increase this share to ~16-17% by FY25-end.



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**Shree Cement** **Neutral**

Current Price INR 26,525

**Cement demand and pricing**

- Cement demand is expected to remain robust in the medium term on account of rising expenditure on infrastructure and housing. Capacity utilization stood at 77% in 3QFY24 vs. 72%/76% in 3QFY23/2QFY24. Volume growth is estimated at ~11% in FY24 (vs. 13% YoY in 9MFY24). Demand grew 12-13% YoY in the north region, ~11% in the south and west regions, and ~7-8% in the east region. It is targeting ~13% volume growth in FY25 to achieve sales volume of 40mt.
- Cement realization increased 3% QoQ to INR5,006/t in 3QFY24.

**Operational highlights**

- Average fuel consumption cost/kcal stood at INR1.76 vs. INR2.5/INR2.05 in 3QFY23/2QFY24. The management estimates the average fuel cost to be flat QoQ in 4QFY24, based on the carrying inventory. The company’s fuel mix during the quarter was 73%/15% petcoke/coal and remaining was alternative fuel.
- Green power share stood at 57% in 9MFY24 vs. 51% in FY23. The green power capacity stood at 474MW and further addition of green power capacities (WHRS, solar and wind) will help to increase green power share to 65% by FY25.
- Trade sales stood at 76% in 3QFY24 and blended cement share stood at 72%. Sales of premium products stood at 9.5% vs. 7.2% in 3QFY23.

- Lead distance declined to 448km vs. 472km in 2QFY24. The company now has highly professional logistics teams, who are continuously trying to improve the lead distances. It expects the lead distance to further decrease after the commissioning of new grinding units.
- Revenue from the power business stood at INR3.5b and EBITDA margin was ~10% in 3QFY24. In 9MFY24, power business revenue stood at INR11.73b and EBITDA margin was at ~10%.

**Capacity expansion and capex plans**

- Capex stood at INR26b in 9MFY24 and is estimated to be INR6b in 4QFY24. The Greenfield expansion at Nawalgarh (Rajasthan), having clinker/grinding capacity of 3.8mtpa/3.5mtpa, has been commissioned in 3Q and it started commercial dispatches in Jan'24. Greenfield integrated cement plant at Guntur, Andhra Pradesh, with clinker/grinding capacity of 1.5mtpa/3.0mtpa, is likely to be commissioned by Mar'24.
- It expects grinding capacity to increase to 56mtpa/62mtpa/75mtpa by Mar'24/ Mar'25/Mar'27 from 53mtpa currently. Cumulative capex is pegged at INR125b for the next three years. The capex plans will be funded by internal accruals and the current cash balance of INR60b.

**Revamped brand strategy**

- In last one year it has worked comprehensively to revamp its brand strategy and has redefined business objectives. During the quarter, the company undertook a major initiative of revamping its brand identity with 'Bangur Cement' as the master brand. This was implemented with a new brand identity through a new logo and pack graphics, along with a new premium product launch - Bangur Magna. A new multi-media advertising campaign has been launched across television, outdoor, print, digital, and retail touchpoints.



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**The Ramco Cement** **Neutral**

Current Price INR 884

**Capex and project update**

- A brownfield expansion of clinker/cement capacity of 3.15mtpa/1.5mtpa will be carried out at its Kurnool (Andhra Pradesh) plant (including 15MW of WHRS), which will entail a capex of INR12.5b. It is likely to be completed by 4QFY26. In 9MFY24, capex stood at INR16.1b and further INR4b will be spent in 4QFY24.
- Capex is pegged at INR17b in FY25E towards brownfield expansion at Kurnool, Andhra Pradesh (INR7.5b), land acquisition for a greenfield project in Karnataka (INR2b), maintenance capex (INR3b), and the balance for debottlenecking, WHRS at RR Nagar, and the leftover Kurnool project (line I).
- Clinker capacity was increased by 0.65 MTPA at Kurnool, Andhra Pradesh and 0.35mtpa at Ariyalur, Tamil Nadu through the pyro-process optimization in 3Q. Cement capacity will be increased by 1mtpa through debottlenecking. Expansion of Dry Mortar Plant 2 units (capacity of 80t/hour for each plant) in Andhra Pradesh and Odisha will be completed in Mar'24. It has acquired 500 acres of mining land in the states of Karnataka till date.
- The grinding capacity at Haridaspur, Odisha is being increased to 1.8mtpa from 0.9mtpa. This project is expected to be completed in Mar'24.
- The thermal power plant of 18MW will be commissioned in Mar'24 and the railway siding will be commissioned during Jun'24.

**Cement demand trend and volume guidance**

- Heavy rainfall and the subsequent flooding due to cyclone "Michaung" adversely affected the cement demand in Tamil Nadu and Andhra Pradesh. While in the eastern market, demand was hit by festival holidays. Cement capacity utilization stood at 74% vs. 70%/82% in 3QFY23/ 2QFY24, respectively. In 9MFY24, capacity utilization stood at 78% vs. 69% in 9MFY23. Dry-motor sale volume grew 22% YoY and 1% QoQ.
- It expects to clock a sales volume of 5mt in 4QFY24 (growth of ~7% YoY), which will lead to a 20%+ growth in FY24. It expects to clock a volume of ~19-20mt in FY25E.

**Operational highlights**

- The share of premium products was at 29% vs. 30% in 3QFY23 in the South region. In the East region, the share of premium products was at 20% vs. 16% in 3QFY23.
- OPC share was ~33% of total volumes in 3QFY24 vs. 32%/31% in 3QFY23/ 2QFY24.
- Blended coal consumption cost was at USD138/t (INR1.64/kcal) vs. USD191/t (INR2.43/kcal) in 3QFY23. It used 51% petcoke vs. 59%/53% in 3QFY23/ 2QFY24.
- Green energy contributed 36% of power requirements vs. 20%/38% in 3QFY23/2QFY24. Green power share is likely to reach 42% in FY25 and 48% in FY26, post-commissioning of WHRS of 10MW at the Tamil Nadu plant.

**Debt and other highlights**

- Net debt increased to INR50b (including working capital loan) from INR42.9b in Mar'23. The average cost of borrowing has increased to 7.8% for 9MFY24 vs. 6.2% in 9MFY23 due to increase in market rates.
- Net debt is estimated to peak at INR50b as the future expansions will largely be funded through internal accruals.



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**Ultratech Cement**

Buy

Current Price INR 9,984

**Demand and pricing outlook**

- Industry demand growth in 3Q should be 3-4%, partly impacted by elections in four major states, fiscal challenges in Bihar/West Bengal, a construction ban in Delhi-NCR, and floods/rains in few states. Also, the first two days of Jan'24 were impacted by truckers' strike. Amongst its regional capacity utilization; 83-84% was the highest in one region, while the lowest regional capacity utilization was 73-74%. The south region is witnessing improvement in capacity utilization and industry capacity utilization has reached above 70% vs. earlier ~50%.
- There are substantial construction activities across the country and demand has started to improve since mid-Dec'23. Capacity utilization should improve to 80-85% in 4Q and industry volume growth is estimated to be ~8-9% in FY24. Demand has improved in all regions, except the North region. UTCEM's volume growth would continue to be higher than industry growth.
- Cement prices saw some improvement in 3Q but corrected to a large extent by Dec'23-end. Prices should increase when demand recovers.

### Operational highlights

- The clinker-to-cement conversion (C:C) ratio stood at 1.42x vs. 1.44x in 2Q. The company continues to focus on improving the C:C ratio and plans to launch new products. Its blended cement share stood at 68% vs. 70% in 2QFY24. Trade share stood at ~64% vs. 67% in 2QFY24. Premium cement share increased by 130bp QoQ to 23%.
- Total 44 kilns are operational as of now, out of which 29 kilns have WHRS. WHRS is being set up for five more kilns. The company will have 48 kilns (considering greenfield lines) by FY27E; out of which 41 kilns will be covered by WHRS. All future kilns will have WHRS and the company will not add a new thermal power plant. 16 to 20MW of WHRS capacity will be commissioned by Mar'24. Its green power share stood at ~24% and this will be doubled by FY25E. It aims to increase green power share to 60%/85% by FY26/FY30, largely through other renewable sources (solar and wind).
- In 3Q, fuel consumption cost was USD150/t vs. USD162/t in 2QFY24. Fuel mix was 44% pet coke (vs. 39% in 2QFY24), 46% imported coal, 6% domestic coal and the rest was AFR. Average fuel cost stood at INR2.05/kcal vs. INR2.18/kcal in 2Q.
- Lead distance declined to 397km vs. 413km/403km in 3QFY23/2QFY24. Benefits of lead optimization and operating efficiencies absorbed busy season surcharge on rail freight.
- White cement volume rose 18% YoY to 0.48mt, whereas revenue grew 13% YoY to INR5.9b. RMC revenue increased 29% YoY to INR12.9b. EBITDA margin in RMC was ~4%.
- Other expenses in 3Q were higher due to the advancement of maintenance work at few plants amid a demand slowdown in Oct-Nov'23.

### Expansion and debt position

- Some expansion projects are running ahead of the schedule. It has placed orders for the main plant and machinery for Phase III expansion. Civil work has also started at few sites.
- Capex is pegged at INR90b for FY24/FY25 each and INR70b for FY26. Capex stood at INR69b in 9MFY24. Working capital has increased due to the purchase of coal/petcoke. Debt increased in 3QFY24 but should reduce by Mar'24 with improvement in cash flows and reduction in working capital. The management maintains its target of becoming net cash positive by Mar'25 (without considering INR20b debt due to acquisition of Kesoram). The company has organic opportunities available post phase III expansion and capex/t will be below USD90-100.
- Consolidated net debt increased to INR55b vs. INR49b as of Sep'23.
- In Phase-III, clinker capacities of 10-12mtpa will be added in East, North and South (in Phase II clinker addition is 14mtpa). All grinding capacity additions are clinker backed. The company will have state incentives for expansion in Rajasthan, Bihar, Uttar Pradesh, and Punjab. IRR of 15% for expansion plans does not consider incentives.

**Others**

- Kesoram cement asset acquisition: The CCI application will be filed by Jan'24-end, after which the NCLT process will start. The effective date of the merger would be 1st Apr'24. The company looks for profitable growth opportunities, which should be value accretive. This asset has good limestone quality and markets are also attractive.





- Chemical companies mentioned that destocking intensity is down and in some cases, it is almost over. However, there were no signs of revival in demand as mentioned by most of chemical company and it could be sometime away till there is a sustained demand recovery. Chinese dumping is still very much an issue and therefore pricing pressure still exists for most companies. Some firms experienced declining input costs, leading to lower product prices eventually. Management anticipates recovery in FY25, although some projects have been postponed further.

## KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook	Quarterly snapshot
Clean Science	<ul style="list-style-type: none"> <li>The management highlighted that the sequential improvement in revenue was on account of higher volumes. Realization remained flat due to downward pressure from China and is expected to remain subdued in the near term amid capacity additions in China.</li> <li>Commercial production from CFCL is expected to commence in 4QFY24 and the company expects HALS utilization to reach 80% in three years. Commercial production of pharma intermediate is expected to commence in 3QFY25 and will cater primarily to Indian customers.</li> </ul>	<ul style="list-style-type: none"> <li>Clean Science's (CLEAN) reported EBITDA in 3QFY24 came in line with our estimate at INR866m, with a gross margin of 66.8% (vs. est. 68.5%). EBITDAM contracted to 44.5% from 45.6% in 3QFY23. Revenue contribution of FMCG Chemicals contracted QoQ in 3QFY24, while that of Performance Chemicals and Pharma &amp; Agro stood flat.</li> <li>Revenue from Pharma Chemicals stood at INR370m (down 3% YoY), while that from Performance Chemicals came in at INR1.3b (down 23% YoY). Revenue from FMCG Chemicals stood at INR370m (down 11% YoY).</li> </ul>
Deepak Nitrite	<ul style="list-style-type: none"> <li>The management has reiterated that the Polycarbonate compounding, fluorination, acid, MIBK, and MIBC projects are expected to commence operations by end-CY24, with all these plants projected to achieve optimal utilization from FY26 onward. New projects currently underway are expected to yield incremental margins of 2-3% compared to historical margins. Additionally, the greenfield Phenol plant is expected to be commissioned in CY27.</li> </ul>	<ul style="list-style-type: none"> <li>Deepak Nitrite (DN) delivered a miss in 3QFY24, led by a weaker-than-expected performance in advance intermediate (AI). The quarter saw persistent pricing pressure by Chinese suppliers in chemical intermediates. EBITDA at INR3b missed our estimate by 15%, while PAT stood at INR2b vs. our estimate of INR2.5b. Margin also declined YoY due to the AI segment.</li> </ul>
Galaxy Surfactants	<ul style="list-style-type: none"> <li>The quarterly volumes were adversely impacted by the Red Sea escalations, because of which some orders have shifted to 4QFY24. Further escalations of the Red Sea issue remain one of the biggest threats as of now. Freight costs and lead times have gone higher than usual, which may in turn lead to slower-than expected recovery in North America.</li> <li>The management is confident of achieving volume growth in the guided range of 6-8% in FY24 with both Performance Surfactants and Specialty Care Products doing well in 9MFY24. EBITDA/kg guidance remains at INR19.5-20.5 for FY24, however, the company will re-look at the margin guidance in 1QFY25. We remain confident on the long-term growth trajectory of the company.</li> </ul>	<ul style="list-style-type: none"> <li>Galaxy Surfactants (GALSURF) reported EBITDA/kg of INR17.8, down 33% YoY (our estimate of INR21.2). The company achieved a total volume growth of ~8% YoY to 63.3tmt (our est. of 62.9tmt) with volume momentum sustaining in India and AMET regions. Subsequently, EBITDA stood at INR1.1b (down 27% YoY), while PAT came in at INR714m (down 33% YoY).</li> <li>Total volumes in 3Q stood at 63.3tmt (est. of 62.9tmt, up 8% YoY). Implied realization stood at INR148.7/kg (est. of INR154, down 20% YoY) with EBITDA/kg at INR17.8 (our est. of INR21.2, down 33% YoY).</li> </ul>
Navin Fluorine	<ul style="list-style-type: none"> <li>There was pricing pressure in R22 exports and the management expects it to stabilize by 1QFY25. The HFO plant is also taking longer than expected to ramp up and the management</li> </ul>	<ul style="list-style-type: none"> <li>Navin Fluorine's (NFIL) EBITDA/adj. PAT in 3QFY24 came in 40%/45% lower than our estimates due to subdued performances in the Specialty Chemicals/Navin Molecular Businesses YoY. Gross margin stood at 53.9%,</li> </ul>

	<p>is in discussion with the customer about the delay. AHF capacity expansion is well on track, with NFIL announcing the doubling of R32 capacity with an investment of INR840m to be commissioned by Feb'25.</p>	<p>while EBITDA margin dipped 12.5pp YoY to 15.1%. The postponement of some key molecules and channel inventory destocking led to subdued performance in the quarter.</p> <ul style="list-style-type: none"> <li>Domestic sales made up 32% of total revenue in 3QFY24, while exports accounted for 68% (75% in 2QFY23). HPP business contributed 42% to domestic sales, while Specialty Chemicals business contributed 32%. Exports accounted for 100% of revenue of the CDMO business.</li> </ul>
<b>NOCIL</b>	<ul style="list-style-type: none"> <li>The tyre industry seems to be well-positioned in the automotive sector with India being the third largest automotive market globally and the fastest growing one. Tyre exports have been making slow recovery, barring some hiccups because of the Red Sea issue.</li> <li>No new capacity expansion is planned for the next few years. Going forward, only maintenance capex is expected.</li> </ul>	<ul style="list-style-type: none"> <li>NOCIL's EBITDA/kg stood at INR38.3 in 3QFY24, up 13% YoY, missing our estimate. Sales volumes increased 14% YoY to 12.5mt. The management believes there would be positive volume growth in 4Q on a sequential basis. Realization stood at INR274/kg, down 8% YoY. Consequently, EBITDA stood at INR477m (up 28% YoY) with a PAT of INR298m (up 59% YoY).</li> </ul>
<b>Vinati Organics</b>	<ul style="list-style-type: none"> <li>The management highlighted that destocking in ATBS is almost over now, and VO expects demand to normalize in the coming months. The management has guided a strong 30% YoY growth in ATBS sales in FY25, with the plant currently running at 60-65% utilization.</li> <li>There has been a decent growth in Butyl Phenol, with IBB sales also picking up, and the management expects sales to be higher in FY25.</li> </ul>	<ul style="list-style-type: none"> <li>Vinati Organics (VO)'s 3QFY24 revenue came in above our estimate due to better-than-expected sales in IBB and the customized product portfolio. Gross margin contracted 280bp YoY to 47.2%, while EBITDAM was down 300bp YoY to 25.6%. EBITDA was INR1.1b, while PAT stood at INR770m (our est. INR649m) during the quarter.</li> <li>Sales mix in 3QFY24 stood at 30% for ATBS, IBB (20%), BP &amp; IB Derivatives (20%), IB (10%), and AO &amp; other products (including customized ones) at 20%.</li> </ul>
<b>FINEORG</b>	<ul style="list-style-type: none"> <li>The ongoing slowdown in the US and Europe is expected to persist for another quarter. There have been no specific changes in contracts with customers thus far. Freight costs for exports to the US and Europe have risen due to the Red Sea crisis.</li> <li>Currently, vegetable oil prices are steady due to subdued demand, with expectations for peak prices in Nov-Dec. RM prices are likely to decrease once fresh crops enter the market around Mar'24.</li> </ul>	<ul style="list-style-type: none"> <li>Fine Organics (FINEORG) reported in-line EBITDA at INR924m in 3QFY24. EBITDAM contracted 160bp YoY to 21.7%, while gross margin improved 660bp YoY to 41.8%, primarily due to a sharp decline in raw material costs. In a declining input cost scenario, the company would have to pass on the benefits of the same to the customers, and therefore, we expect its margin to contract further in the coming quarters.</li> </ul>



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## Clean Science Technology

Neutral

Current Price INR 1,406

- QoQ revenue growth was driven by higher volumes.
- However, realization remained flat amid continued dumping from China.
- The share of principal products increased to 78% in 3QFY24 from 73% in 2Q.
- YoY revenue declined 18%, of which 5% was due to volume and 13% due to realization.
- Segment-wise revenue trends:
  - Performance chemicals revenue declined YoY due to lower realizations.
  - Pharma and agro intermediates were steady as volume-led growth offset lower realization.
  - FMCG chemicals revenue declined due to lower realization.
  - Commercial production from Clean Finochem expected in 4QFY24.



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- Margins for MEHQ and BHA have reached pre-Covid levels in percentage terms; however, they are still lower compared to pre-Covid levels on per kg basis
- All 10 HALS products can be manufactured from 1st day at the new plant; however, the company will start with one product at a time and will not start all products simultaneously.
- CLEAN is not planning to start entire HALS capacity and will be starting just 25% initially.
- Even if HALS demand remains subdued, the company expects to sell enough quantity to utilize 25% of installed capacity.
- HALS utilization is expected to reach 80% in three years.
- The destocking trend is most likely over; however, demand concerns persist.
- MEHQ utilization is at 60-65%.
- Commercial production of new pharma intermediates will start in 3QFY25 and will cater primarily to domestic customers.

**Deepak Nitrite** **Neutral**  
 Current Price INR 2,357

- The chemical industry continued to face headwinds in 3QFY24.
- Stretched cash conversion cycles and cost optimization measures have been taking place on the customers' end.
- Therefore, global consumption trends have been impacted.
- Persistent pricing pressure by Chinese suppliers on intermediates of various chemicals
- Volume gains and improved realization in DPL
- Debottlenecking via software and hardware continues for the company
- Utilization of Phenol plant at a new benchmark now.
- AI has reflected subdued demand in agrochem, textiles, and dyes & pigments industries
- Construction, infra, and home care segments continue to show healthy demand
- Prices of some RMs have declined, but prices of petchem-linked RMs remain firm due to operating rates in refineries and war premiums on crude.
- Lot of capacities have come up in China and the ME, which was expected.
- The Red Sea issue has divided the world in half in terms of logistics ☒ Asia is the world's largest manufacturer of petchem.
- Company buys Benzene at n-1 and sell Phenol at market rates, which gives company a breathing room of 1-1.5 months.
- Polycarbonate compounding, fluorination, acid and MIBK projects are expected to come online by end-CY24.
- Expect all these plant to run at optimal utilization from FY26 onward.
- New projects would be with an incremental margin of 2-3%.
- Force majeure in Germany in the INEOS Phenol plant and this is not permanent. Some benefits in terms of wallet share gain and increased volumes being seen
- Greenfield expansion of Phenol expected to be commissioned by CY27 and of almost the same capacity as the initial Phenol capacity back in CY18.
- No ADD on any of the existing products in the portfolio as of now.



GALAXY SURFACTANTS LTD.

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**Galaxy Surfactants**

Buy

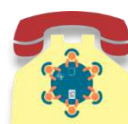
Current Price INR 2,544

- The receding effects of inflation and emerging signs of demand recovery would be key going forward
- The second half of December was dampened by challenges in the Red Sea region, leading to a spill-over of volumes into 4Q
- An increase in freight costs and lead time could have an adverse impact on the company's volumes
- India continues to be the bright spot although rural demand remains muted
- AMET region has grown at 2.3% for 9MFY24
- The RoW region has registered a 7% volume growth in 9MFY24
- Both Performance Surfactants and Specialty segments have done well in 9MFY24
- There was an EBITDA margin of INR 70m due to higher freight costs resulting from the ongoing challenges in the Red Sea region Excluding this, the EBITDA/kg would have been within the guided range of the management
- Export incentives were only accounted for in cash, with INR 210m received for 3QFY23, but none for 3QFY24.
- Commodity prices in Egypt have begun to decrease. The management anticipates a positive trajectory for Egypt in the future.
- In North America, destocking has probably bottomed out and new demand and orders are being seen
- Seeing signs of revival in North America
- 9MFY24 capex of INR900m and full-year guidance remains the same
- Average capacity utilization stands at 70% currently
- Overall export on consol revenues is 65% and 35% is domestic sales.



NOCIL LIMITED

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**NOCIL**

Neutral

Current Price INR 292

- The ongoing global recessionary trend, coupled with the growing influx of Chinese imports, resulted in volume remaining flattish QoQ
- Subdued demand in international markets, including China, is putting pressure on sales volumes in both China and export markets.
- The tyre industry is well positioned in the automotive sector
- India is the third largest automotive market and fastest growing in the world.
- Tyre exports have been making slow recovery, barring some hiccups because of Red Sea issue.
- Domestic OEM and replacement sales volumes in the tyre industry is expected to register a CAGR of 3-6% over FY24-26E.
- Production is bound to improve next year and the management expects to grow at least in line with the market growth if not more.
- The Non-tyre sector also looks promising according to the management.
- Short-term challenges remain, but long-term outlook for rubber chemicals intact
- The Specialty segment currently accounts for around 15-17% of the total revenue
- Exports constitute a smaller portion of overall revenues



- No major impact on the business for NOCIL because of the Red Sea issue, but freight costs are on the higher side.
- Had to plan for abnormal times, but no major negative effect on the RM sourcing front.
- The company has not lost market share in India.
- The Latex industry has bottomed out and there is some recovery being seen.
- Contributes 15-16% to the overall volumes for NOCIL
- Some incremental volumes from the Latex market could also be expected from FY25
- 4QFY24 volumes could be better than 3Q volumes
- Lanxess possesses rubber chemicals capacity in India for a couple of products that overlap with NOCIL's manufacturing portfolio.
- For 3Q domestic: export= 61%:31% and for 9MFY24, domestic: exports= 66%:34%



Vinati Organics Limited

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### Vinati Organics

Buy

Current Price INR 1,712

- NCLT sanctioned the scheme of amalgamation of VAL with VO from 1st Apr'21. Therefore, numbers restated were of previous periods.
- Expect 4Q numbers to slightly improve or be on similar lines compared to 3Q
- ATBS destocking almost over now
- Capacity expansion of 50% to be completed by Dec'24
- Demand to normalize in coming months
- FY25 sales expected to be 30% higher than in FY24
- ATBS 60-65% utilization rate for 9MFY24
- VO has not lost market share in ATBS because of LT contracts with the customers
- BP has reported a decent growth
- Most of the Di-BP to be captively used to produce AOs
- Sales of IBB also picked up
- Next higher numbers compared to this year
- NaATBS and IB sales also stabilized
- AO business sales to be ~INR1-1.2b (at 25% capacity utilization) in FY24.
- Revenue to double in FY25 and reach INR2.5b
- Global market has been going through weakness in past 15-18months
- But have made meaningful inroads in the market despite headwinds
- Doubly backward-integrated company in AO
- Growth driver for the company
- Full utilization in the next 2-3 years
- Both export and domestic markets are being catered to
- Long-term outlook remains intact
- Domestic demand is 12-14ktpa
- Hindustan Polyamides is a competitor based out of North India (5ktpa capacity)

### VOL

- Total capex of INR4.8b [MEHQ (2ktpa), Guaiacol (1ktpa), 4-MAP (1ktpa), Anisole (5ktpa, making through Phenol and Methanol) and Iso Amylene]
- MEHQ and Guaiacol plant to be commissioned by Mar'24 (to be made through Anisole and Hydrogen Peroxide)



- Rest products to be commissioned by 2HFY25 (by Dec'24)
- RoI @15-20% with ATR @1x, blended margin to be ~20%
- Another 5MW captive power plant to be commissioned in 1HFY25
- Revenue CAGR of 15-20% during the next 2-3 years
- Sales mix in 3QFY24: ATBS: 30%, IBB: 20%, BP and IB derivatives: 20%, IB: 10%, AO and other products (includes customized products): 20% □ FY24'YTD: ATBS 32% IBB 18% others are more or less similar to 3Q
- Sustainable EBITDAM: 25-27%
- Capex of INR3b for FY24'td with INR4.5-5.0b capex for FY25E
- IBB running at 65% with IB running at 100% utilization levels.



CONSUMER

- Revenue growth of consumer companies remain subdued due to weakness in the rural market and competition from the local and regional players. Management highlighted the delayed onset of the winter season adversely impacted the winter portfolio during the quarter. Companies continuously passed on the benefits of commodity prices in categories such as soaps, detergents, paints, oils, and biscuits. This resulted in the sequential improvement in volume growth in 3QFY24. The trajectory of gross margin expansion remained strong. EBITDA margin expansion is trailing behind gross margin growth, primarily attributed to increased investments in marketing and distribution. Management anticipates volume recovery in FY25. Additionally, it has also highlighted that gross margins have already rebounded satisfactorily for most companies in 9MFY24.

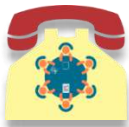
KEY HIGHLIGHTS FROM CONFERENCE CALL

	Salient takeaways from the 3QFY24 performance	Outlook for FY24
Asian Paints	<ul style="list-style-type: none"> <li>Asian Paints maintains its commitment to a double-digit volume trajectory on a four-year CAGR basis</li> <li>A 3QFY24 price decrease of ~1%, combined with a prior reduction of 0.3%, results in an overall reduction of 1.3%. This pricing strategy aims to boost demand in smaller towns.</li> <li>Distribution footprint expands to over 1.62 lakh touchpoints, with another 2,000 added in 3QFY24.</li> </ul>	<ul style="list-style-type: none"> <li>The Home Décor business contributed 4% of revenue during the quarter, with a target to increase it to 8-10% by FY26.</li> <li>The management has maintained its EBITDA guidance of 18-20%.</li> <li>Capex is expected to reach ~INR20b by the end of FY24.</li> </ul>
Britannia	<ul style="list-style-type: none"> <li>The volume growth was 5.5% during the quarter. The volume growth in terms of the pack was 3-3.5%. The company has taken price cuts of 3-4% on a YoY basis and 2-2.5% on a QoQ basis.</li> <li>The management commented that local players will not remain longer in the market. They operate by giving price benefits to customers and margin benefits to distributors and retailers.</li> <li>The number of direct reach now stands at 2.76m outlets, with a focused effort to strengthen rural distribution by reaching 29k distributors.</li> </ul>	<ul style="list-style-type: none"> <li>The company expects to achieve a high single-digit or double-digit volume growth.</li> <li>With expanded distribution reach, cheese has the potential to generate ~INR10b in revenue over the next five years.</li> </ul>
Dabur	<ul style="list-style-type: none"> <li>Rural growth stands at 6-6.5%, surpassing urban growth at around 3.8%. This consolidates to an overall growth of about 5%.</li> <li>The current direct reach is 1.42m outlets, and it is set to rise to 1.5m by the end of the fiscal year. Village coverage stands strong at 1.17lakh villages, backed by the support of over 18,700 yodhas.</li> <li>The company is allocating a capex of INR 1.35b to establish a new greenfield plant in South India and is focusing on expanding the capacity for Red Toothpaste, Odonil, and Honey.</li> </ul>	<ul style="list-style-type: none"> <li>Dabur is extending its presence to Madhya Pradesh and Rajasthan, leveraging its distribution network. The international business, currently at 5-6% of Badshah sales, is set to mirror Dabur's model, aiming for almost 30% contribution.</li> </ul>
Godrej Cons.	<ul style="list-style-type: none"> <li>GCPL's volumes expanded 8% YoY, while sales grew 2% YoY, driven by organic underlying volume growth of 5%.</li> <li>The company's EBITDA margin has surpassed 20%, with ongoing structural cost reduction actions expected to drive further improvement.</li> <li>The launch of Fab Liquid Detergent at an INR99 per liter category-defining price has commenced in select markets and will gradually expand to others.</li> </ul>	<ul style="list-style-type: none"> <li>The company has introduced Goodknight Agarbatti with an exclusive new molecule (RNF), which is ~2x more effective than most other molecules. The launch is aimed at tapping the INR12b incense stick market (growing at 10%) that is largely dominated by unorganized players.</li> <li>GCPL anticipates over 20% growth in operating cash flow and EBITDA, while PAT growth may be hit by net tax credits and other factors.</li> </ul>
Hindustan Unilever	<ul style="list-style-type: none"> <li>Urban markets (3% growth) consistently outpaced rural markets (1% growth).</li> <li>Urban-rural disparities are evident in consumption patterns across different sales channels and price segments, with modern trade outperforming others.</li> <li>The premium portfolio remains the primary driver of growth, expanding at a rate more than 2.5x that of the mass portfolio.</li> </ul>	<ul style="list-style-type: none"> <li>The beauty and personal care business will be separated into two independent business units, namely beauty &amp; well-being and personal care in Apr'24.</li> <li>The ETR for FY24 anticipates to be slightly over 26%.</li> </ul>

<p><b>Marico</b></p>	<ul style="list-style-type: none"> <li>■ Demand trends remained steady, and there was no apparent improvement from the previous quarter. FMCG volume growth, on a four-year CAGR basis, remained in low single digits.</li> <li>■ Digital businesses amounted to INR4.5b- 5b, and the company anticipates a double-digit EBITDA from them in the next two to three years.</li> </ul>	<ul style="list-style-type: none"> <li>■ The food business has consistently excelled and is expected to reach a minimum of INR7.5b by the end of FY24.</li> <li>■ Digital-first brand Beardo is expected to generate EBITDA this year, while Just Herbs and True Elements could break-even in the coming year.</li> </ul>
<p><b>Pidilite</b></p>	<ul style="list-style-type: none"> <li>■ Both urban and rural markets expanded, with rural and small-town markets outperforming urban areas.</li> <li>■ The paints business, as consistently stated, solely focuses on small towns and rural areas.</li> <li>■ The waterproofing paint market is growing at a faster pace; therefore, the company will not lose market share due to the entry of new players.</li> </ul>	<ul style="list-style-type: none"> <li>■ The lending business pilot is underway and will be launched in a southern Indian city in Feb'24.</li> </ul>
<p><b>UNSP</b></p>	<ul style="list-style-type: none"> <li>■ The demand environment is muted sequentially; however, premiumization trends continue.</li> <li>■ Despite the festive season, Cricket World Cup, and the wedding season, demand has not picked up as consumers are cutting down on the number of occasions to better manage their finances.</li> </ul>	<ul style="list-style-type: none"> <li>■ The company maintains its guidance of double-digit sales growth.</li> <li>■ The management guides EBITDA margins ahead of 15% for FY24 and expects to achieve mid-to-high-teens margin in the next two to three years.</li> </ul>



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**Asian Paints** **Neutral**

Current Price INR 3,012

**Performance and outlook**

- The Decorative business witnessed a 12% volume growth, driven by double-digit increases in both urban and rural markets, supported by festive demand. Sustaining a 4year CAGR double-digit volume growth trajectory.
- The volume and value growth gap persists, primarily due to an 80% contribution from the economy and premium segments compared to luxury segments. The management anticipates a continuation of a 3-4% gap in volume and value growth.
- Rural markets, initially stressed in 2QFY24, demonstrated recovery in 3QFY24. Economy range products exhibited growth, particularly in Tier-3 and Tier-4 cities. While luxury products thrive, premium products experience a slower pace of growth.
- Distribution footprint expands to over 1.62 lakh touchpoints, with another 2,000 added in 3QFY24. Innovation accounts for 12% of the overall revenue in the same period.
- Projects and institutional business growth continues, with key contributions from builders, factories, and government sectors.
- A 3QFY24 price decrease of ~1%, combined with a prior reduction of 0.3%, results in an overall reduction of 1.3%. This pricing strategy aims to boost demand in smaller towns.

**Segmental highlights**

- The Home Décor business contributed 4% of revenue during the quarter, with a target set to comprise 8-10% of the decorative business by FY26.
- The Kitchen business delivered flat revenue, while the bath business exhibited a 5% decline in growth due to weak demand trend at industry level. The company has retained this business as its integration helps in strengthening the Beautiful home network. It complements the decorative and paints business of the company.
- White Teak (Offering Decorative & Designer Lights) and Weatherseal (uPVC Windows and Doors) demonstrated robust performance, marked by network expansion and a two-fold increase in business value for Weatherseal.

- Industrial business, including auto refinishes and protective paints, maintains a strong growth trajectory. The general industrial business is getting doubled in three years.

#### Cost and margins

- In 3QFY24, there has been a 0.2% decrease in the deflation of material prices.
- Margins experienced a substantial increase driven by the growth in luxury products and a decline in raw material prices. This was further complemented by operational, formulation, and sourcing efficiencies in Q3.
- The management maintained the EBITDA guidance of 18-20%.
- The company will be deploying higher money toward marketing, ATL spends, and on brand building.
- Generally, the overall margins in the projects business tend to be lower than in the retail business. However, the profitability can vary based on the nature of projects; for instance, premium luxury projects delivered higher margins.

#### Capex plans

- The capex is expected to reach ~INR20bn by the end of FY24.
- The backward integration plan with Cement is scheduled to be completed by Dec'25 and the integration with VAM is expected to follow 4-5 months after the completion of the cement integration.
- The softening in raw material prices will continue as the consumption at global level decrease. However, continuous monitoring will also be required on the crude derivatives.
- Brownfield expansions at both Khandala and Kasna have been completed with installed production capacity increasing from 300,000 KL p.a. to 400,000 KL p.a. and 80,000 KL p.a. to 100,000 KL p.a., respectively.

#### International Business

- The international business reported a flat sales growth in INR terms, but a demonstrated growth of 5.2% in constant currency (CC) terms.
- The Middle East and Africa markets have exhibited a positive growth trajectory, and there has been notable improvement observed in Sri Lanka.
- Persistent high inflation and currency devaluation in Egypt continued to exert an impact on the business.
- Sales in Nepal remained muted due to liquidity crunch, and macro uncertainty is expected to continue, affecting Bangladesh.



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### Britannia Inds

Neutral

Current Price INR 4,924

#### Business environment and performance

- The company has taken pricing actions in their key SKUs and also taken promotions to drive the consumption and remain competitive.
- The volume growth was 5.5% during the quarter. The volume growth in terms of pack was 3-3.5%.
- BRIT aspired to achieve a high single-digit or the double-digit volume growth.
- It has taken price cuts of 3-4% on YoY and 2-2.5% on QoQ basis.
- In 9MFY24, the ratio of India biscuit portfolio of company and others is 65:35.
- It more focus on the growth of Non-biscuit category and aspiration of 50% higher growth than the base biscuit business.
- The company will not take any further price hike. However, commodity prices continue to remain a key monitorable.



- The company continues to face competitive intensity from the local players and modern trade.
- Management commented that the local players will not remain longer in the market. They operate by giving price benefit to customers and margin benefit to the distributors and retailers.
- The growth in urban area is outpacing rural growth.
- The company continues to gain market share mainly in the Hindi belt states driven by premium portfolio.

**Cost and margins**

- Cost reduction stepped up to 7x in FY24 compared to FY14.
- Overall commodity cost remains soft during the quarter. It reduces 3-4% on QoQ basis.
- Management focusing more on top line growth compared to margin expansion.
- The EBITDA margin of 19% is at the peak level.

**Segmental performance**

- The new launches are Tiger Krunch coconut, Britannia Treat, Cake and energy protein bars Be you. It contributes ~INR2b in topline on an annualized basis.
- Rusk volume has recovered on back of product restage and distribution focus.
- Differentiated cheese formats continue to gain traction and it contributes 10% of the cheese business.
- Cheese can achieve ~INR10b in revenue over the next five years by expanding distribution reach. Currently, BRIT has 13% market share in the cheese category.

**Others**

- The number of direct reach now stands at 2.76m outlets and also strengthening rural distribution reach to 29k distributors.
- E-commerce and quick commerce seen good growth mainly in B2C. It contributes 2.9-3% of business.
- Company not focus E-commerce on B2B side as it disrupted the supply chain.
- Double-digit profitable growth across markets of Middle East & Africa, and Rest of International.
- Nepal stays on consistent growth both in revenues & profitability.
- It set up a packing unit in the Egypt.
- Companies factory efficiency has been increased to 7000ton/month from 1800/month.
- The mega plant at Ranjangaon has 17 food lines and average factory output is 20,000ton/month including dairy production.



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**Dabur** **Buy**  
 Current Price INR 548

**Environment and outlook**

- The FMCG sector experienced a consistent YoY increase in volume growth, although certain areas faced challenges due to liquidity issues and delayed winters.
- The impact of pricing decelerated as the effects of previous price hikes were integrated into the baseline, and growth was primarily driven by volume.
- The current direct reach is 1.42m outlets, and it is set to rise to 1.5m by the end of the fiscal year. Village coverage stands strong at 1.17lakh villages, backed by the support of over 18,700 yodhas.





- Dabur experienced a resurgence in rural demand, outpacing urban growth by 200bp.
- Rural growth stands at 6-6.5%, surpassing urban growth at around 3.8%. This consolidates to an overall growth of about 5%.
- The company is allocating a capex of INR 1.35b to establish a new greenfield plant in South India and is focusing on expanding the capacity for Red Toothpaste, Odonil, and Honey.
- Legal costs during the quarter stood at INR 220m. Dabur affiliates or products are not addressed in this case. Their impact is negligible, making up less than 1% of the turnover, and their influence is confined to the US market.

**Cost and margins**

- The gross margin experienced a robust expansion of approximately 300bp, driven by material deflation observed during the quarter.
- There has been a 36% increase in A&P investments, emphasizing the importance of media investments for long-term sustainable growth and maintaining market leadership.

**Segmental highlights**

**HPC**

- The HPC portfolio experienced a 6.6% YoY growth during the quarter, maintaining a four-year CAGR of 8.2%.
- Home care demonstrated a 6.6% YoY growth, propelled by double-digit increases in odomos, resulting in a 1,000bp gain in market share.
- Odonil strengthened its No. 1 position in the air fresheners category, with a market share increase of over 180bp.
- Hair oil achieved a 4.5% growth, and the market share for the hair oils portfolio improved 140bp, reaching 17.1%.
- Market shares for coconut oils saw a 50bp increase.
- Dabur holds a 16-17% market share in the hair oil category.
- In the hair care category, shampoo is growing at 3%, while Dabur's growth stands at ~11%.
- Dabur's market share in shampoos is at 7%.
- Dabur Fresh Gel, launched a couple of months ago, generated a turnover of INR 170m and secured a market share ranging from 1-1.5%.

**Healthcare**

- The healthcare portfolio maintained a four-year CAGR of 7% with a 3% growth.
- The delay in the onset of winters had a slight impact on the Healthcare and Winter portfolio.
- Market shares increased in the health supplement portfolio, with Chyawanprash gaining 151bp.
- Dabur Honey showed a 33bp improvement for the quarter.
- The Digestives category experienced a 15% growth, driven by the strong performance of the Hajmola franchise.
- The OTC portfolio, including Lal Tail, Health Juices, and Shilajit, performed exceptionally well.
- The Therapeutic portfolio is performing well and remains on track.

**Foods and Beverages**

- The Foods business, including Badshah, achieved a 22% growth for the quarter, maintaining a four-year CAGR of 12.4%.

- Real Fruit Juice delivered a strong performance, with Real Activ experiencing double-digit growth.
- Badshah is experiencing a volume growth of 20-23%, while the corresponding value growth is 9-10%.

**International business**

- With moderation in inflation and distribution changes in the international business, a robust recovery has been witnessed, resulting in a 11.7% constant currency growth.
- This growth is attributed to substantial increases across regions, including the MENA region at 14.3%, Nigeria business at 52%, Egypt business at 43.1%, Turkey at 43.8%.



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**Emami** Buy  
Current Price INR 467

**Performance and outlook**

- Revenue was hit by subdued demand in the rural market, and the late onset of winter hurt the winter portfolio.
- The volume growth remained flattish (down 0.9%) during the quarter.
- Demand should improve in FY25E, owing to benign inflation and rising government spending to revive the rural economy.
- In 3QFY24, e-commerce grew 15% YoY, while Modern Trade saw 10% YoY growth. Both channels together contributed more than 22% of sales.
- Emami launched 90 new products in the last three years and 20 products in 9MFY24.
- Management aspires to achieve 6-8% volume growth.
- The company is continuously reducing the dependency on seasonality by launching new non-seasonal products.

**Cost and margins**

- GP margin expanded due to the favorable input cost. Further, there is no pressure on material costs during the quarter.
- Margin improvement in modern trade was below expectation during the year. Therefore, there is still headroom for the expansion.

**Segmental information**

- The company launched five digital-first portfolios on Zanducare D2C platform i.e., Zandu Mahabhingraj Tel, Zandu Shilajitprash, Zandu Livital-Ayurvedic Liver Syrup & Tablets, and Zandu Dantveer Ayurvedic Toothpaste.
- The healthcare range growth remained flattish during the quarter hit by the delayed winter. Excluding Chwayanprash, it rose 3% YoY.
- The BoroPlus range continued to maintain its leadership position at 60.5% in the Antiseptic cream category.
- The Kesh King category declined 13% during the quarter. The Hair Oil category is striving but management believes that it will bounce back going forward.
- Emami 7 Oils in One was down 5% YoY in 3QFY24, and remained flattish in 9MFY24.
- The Man Company's operating margin became positive, and Brillare's operating margin improved to -20% from -45% in 3QFY24.

**Other points**

- The company had a good cash balance of INR4b.

- The promoter's stake was reduced to 12% after the disinvestment of the promoter's majority stake in AMRI Hospital. Management plans to bring it down to a single digit.
- The international market delivered 8% YoY growth (11% in CC term) led by the MENAP region, despite currency fluctuations and geopolitical disturbances in key geographies.
- The effective tax rate would be in the range of 7-8% for FY24E and ~10% for FY25E.



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**Godrej Consumer** Buy  
 Current Price INR 1,228

**Performance and Outlook**

- GCPL's volumes expanded 8% YoY, while sales grew 2% YoY, driven by organic underlying volume growth of 5%.
- Despite a steady performance, revenue growth lagged volume growth due to personal wash price declines.
- Hair color, air fresheners, and fabric care all experienced robust double-digit growth, contributing to market share gains in these categories.
- The hair color business exhibited improvement, especially in shampoo hair colors.

**Cost and margins**

- A&P increased 200bp YoY during the quarter.
- The company's EBITDA margin has surpassed 20%, with ongoing structural cost reduction actions expected to drive further improvement.
- The current year anticipates over 20% growth in operating cash flow and EBITDA, while PAT growth may be hit by net tax credits and other factors.

**RCCL business updates**

- The integration of Raymond's consumer business is now complete, with cost synergies flowing, operating at around 30% of the overheads.
- RCCL achieved sales of INR400m during the quarter.

**International market updates**

- In Indonesia, there was a consistent performance with 9% volume growth, 8% revenue growth, and 12% EBITDA, including Forex growth.
- In Indonesia, the hair color business is relatively small, but it is experiencing rapid growth, particularly through shampoo hair color.
- The East Africa reorganization is progressing as planned; it is set to conclude by 4QFY24-1QFY25.
- The demand for shampoo hair color in Indonesia is exceptionally high, prompting the company to commence domestic manufacturing.

**New launches**

- GCPL has entered the INR12b market of anti-mosquito incense sticks, dominated by unorganized players.
- Goodnight Agarbatti, India's only government-registered, active-based anti-mosquito agarbatti, utilizes the highly effective Renofluthrin molecule.
- The legal instance represents between 15% and 20% of this market and is growing rapidly at 15%.
- In the laundry liquid category, GCPL holds a market share of 15% to 20%.

- The launch of Fab Liquid Detergent at an INR99 per liter category-defining price has commenced in select markets and will gradually expand to others.
- The hair color market, including hair crème and shampoo hair color, is anticipated to endure and achieve double-digit volume growth.
- Air Freshener is identified as a high-potential growth strategy in India. The company has achieved a significant market share, positioning itself as the leader. The category has consistently grown at 20% for the past two years, and the anticipation is for continued growth in the high-teens to early 20%.

**Others**

- The company has a long-standing strategic partnership with the manufacturer of Renofluthrin, a unique molecule developed in India. The company holds exclusive rights for this molecule in India for the medium term.
- The company is introducing a new product, RNF, an Indian-patented molecule, entirely developed within India.



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**Hindustan Unilever** Buy  
 Current Price INR 2,403

**Operational environment**

- The impact of the uneven monsoon on Kharif crops was adverse and hit agricultural yields and rural incomes. Concerns persist over lower reservoir levels for Rabi crops despite recovering crop sowing rates.
- Weather anomalies continued with a delayed and less-severe winter and above-average temperatures. The subsequent effects on winter crop categories will be discussed later.
- Compared to 2021, the corporate value market share was up by nearly 200bp.
- The premium portfolio remains the primary driver of growth, expanding at a rate more than 2.5x that of the mass portfolio.
- The premium beauty business unit, the Horlicks Plus range, the mayo, butter, and peanut butter in foods, and the premium laundry portfolio are experiencing robust double-digit growth.
- Cumulative market volumes reported a marginal 2% CAGR over last two years.
- Subdued rural consumer sentiment, due to lower agriculture yields and uncertainty, led to unmet expectations from the festive season.
- Urban markets consistently outpaced rural markets, growing at 3% vs. rural growth of 1%. Urban-rural disparities are evident in consumption patterns across different sales channels and price segments, with modern trade outpacing traditional trade.
- Market dualism was evident as certain segments recovered faster than others, with urban growth consistently outpacing rural growth.
- Market price growth has sequentially reduced, moving from +8% in the June quarter to marginally negative in the current quarter. Over a three-year period, pricing remains relatively high due to unprecedented commodity inflation.
- More than 75% of the business experienced penetration, both in absolute and relative terms, indicating an expansion of the consumer base.
- Over 80% of the businesses have either been growing or maintaining brand power scores, showcasing success in terms of mental reach and brand recognition.
- FMCG market trends have remained stable, mirroring the previous quarter.

- The company achieved a steady underlying volume growth of 2% YoY, despite market conditions.

#### **Costs and margins**

- Advertising and promotional investments rose to 10.7%, a 270bp YoY rise. Absolute A&P investments were almost INR4b higher than last year. In the first nine months of this fiscal, A&P has been 33% higher than the same period last year.
- Categories that are price driven will require higher ATL and BTL.
- Current EBITDAM is healthy, and hence expansion would be well calibrated.

#### **Segmental highlights**

##### **Home Care**

- Due to price cuts implemented during the year, there was a slight decline in USG for home care, while built-in personal care maintained a flat trajectory.
- Home care achieved a robust 14% revenue growth on a two-year CAGR basis, propelled by high single-digit UVG.
- Fabric Wash volumes witnessed a mid-single-digit growth.
- Home Care segment's margin was at 18% during the quarter.

##### **Beauty and personal care (BPC)**

- BPC achieved a mid-single-digit volume growth for the quarter.
- Skin Cleans declined YoY due to pricing actions, as lower commodity price benefits were passed on to the consumers.
- Body Wash is scaling up well with good growth, and Healthcare had a strong quarter.
- The non-winter premium portfolio remained strong, with Lakme and Ponds experiencing double-digit volume growth driven by impactful innovations.
- Oral care delivered a mid-single-digit growth led by Close Up.
- BPC reported a healthy margin of 26%.

##### **Food & Refreshment**

- In Foods and Refreshments, there was a low single-digit decline in UVG, mainly attributed to pricing adjustments made during the year to counter the impact of increased commodity costs. As a result, USG stood at 1%.
- Within F&R, three-quarters of the portfolio consisted of coffee and tea where volume recovery was yet to be observed.
- Commodity inflation is hurting the tea business, and consumers are shifting to lower-tier options in tea, driven by the price difference between premium and regular tea.
- Coffee achieved double-digit growth, primarily driven by pricing strategies; while Health Food Drinks demonstrated competitive price growth fueled by the 'plus' range.
- Mayonnaise and peanut butter continued to attract strong consumer interest, and food solutions maintained the robust double-digit growth momentum.
- Despite an overall muted performance, tea strengthened its market leadership with significant gains in both value and volume.
- In the F&R segment, strategic price increases were implemented throughout the year to counter inflation, resulting in a slight YoY decline in volumes.
- Challenges persisted in the business as consumers continued to downgrade, but Green tea and flavored tea delivered positive performance.
- F&R margin was at 19%.



**Other points**

- HUVR has a direct reach to 3m outlets; the distribution network covers 2.3m outlets, while Shakti Entrepreneurs handle the remainder in rural areas.
- From 1st Apr'24, the beauty and personal care business will transition into two independent business units, namely beauty & well-being and personal care.
- Beauty and well-being business unit will comprise skin care, premium beauty, hair care, color cosmetics, and health & well-being categories, while personal care will include skin cleansing, oral care, and deodorants.
- Management anticipates the full-year ETR to be slightly over 26%.
- Rural income growth and winter crop yields will be the key factors that will determine the pace of recovery.
- Commodity prices remain at their current levels; management expects prices to decline a bit in the March quarter.
- Other income from 1st Jan'24 will not have an impact of GSK's distribution fees.



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**Indigo Paints**

Buy

Current Price INR 1,502

**Performance and outlook**

- Sales grew at more than 3x-4x the industry growth rate, indicating significant market share gain.
- Sales growth at Tier1/2 cities continues to exceed the growth in Tier3/4 cities and rural areas.
- The gradual premiumization in the emulsions has boosted value growth, surpassing volume growth.
- There is no price change in the cement paints and putty category.
- The company continues to focus on waterproofing and construction chemicals. These segments have begun to gain good sales traction in Jan'24, and we anticipate this trend to continue in the following quarters.
- Market share gain is mainly from the organized players. However, due to smaller size gain, it is not noticeable by larger players.
- The price-cut initiatives is normally taken by the industry leaders.
- Industry had a taken price cut in Jan'24, mainly in the premium portfolio. However, it has had no major impact on Indigo Paints, due to its lower share in the premium category.
- The company is confident of achieving INR13.5-14b sales in FY24. In 9MFY24, it has already achieved INR9.2b and the fourth quarter is a seasonally strong quarter.
- Management has targeted to achieve INR20b sales in FY25.

**Costs and margins**

- A&P spends increased during the quarter due to marketing efforts related to the World Cup series.
- It has recently launched a new advertisement campaign with cricketer MS Dhoni to promote Waterproofing products.
- Gross and EBITDA margins are generally quite high in 4Q, compared to other quarters.
- Management guided 18.5% EBITDA margin for FY24.
- Depreciation also increased due to commissioning of the new plant at Tamil Nadu, which went on stream in Sep'23.

- Freight costs depend on both the distance from the factory and premium product sales.

#### Distribution Network

- The company added two more depots (one each in North India & East India) to improve its distribution efficiency. As of Dec'23, the company has a total 53 depots.
- It added 396 tinting machines, taking the total to 9,510 in 3QFY24 from 9,114 in 2QFY24.

#### Other points

- On the B2B front, during the past three quarters, Apple Chemie has been steadily investing in salesforce expansion and has established its presence in seven to eight more states. Apple Chemie is expected to clock healthy sales in 4QFY24.
- Civil work is progressing well in the proposed new water-based paint plant at Jodhpur, which is expected to commence operation in Mar'25.
- The capacity at Jodhpur plant will be 10-11k ton/month for putty, 1,200 tons/month for cement and 12k Kl/annum for solvent-based paint. Capacity will increase to 90k Kl/annum from 54k Kl/annum for waterproofing paints.
- Currently, the capacity of waterproofing paint at Cochin plant stands at 42k Kl/annum and at 55k Kl/annum for the Tamil Nadu plant.
- Southern region has contributed more than 25% of overall sales due to increased contribution from Kerala.
- The company has seen a healthy contribution from the west and east regions. While the northern region's contribution has been less, it is expected to improve gradually following the establishment of the new water-based plant at Jodhpur.
- Dealers receive higher margins on Indigo Paints products compared to those of peers.
- The entry of a new competitor is not expected to significantly impact existing players, given the high barriers of entry in the industry.



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### Jyothy Labs

Neutral

Current Price INR 470

#### Performance and outlook

- Demand environment is mixed. Consumer spending has diminished due to inflation, which has intensified competitive pressures.
- The recovery in demand from rural India has not yet gained momentum.
- The overall growth is primarily led by volume growth at 11% YoY. The company has not taken any major price cuts during the quarter.
- The company continues to invest in brand building, direct distribution, and augmentation of its manufacturing capacity.
- The company operates across all channels, which helps in the growth of both premiumization and LUPs.
- The three key initiatives are – increasing the distribution reach, including direct distribution, enhancing the digital spends on other platforms such as social media, newspapers, in addition to TV for a wider reach, and focusing on R&D, which resulted in new launches such as liquid detergent Ujala and Henko.
- The management aspires to achieve INR 50b revenue in the next four years.



- Direct distribution reached 1.1m outlets in FY23 and the company targets to add 75k-100k outlets in FY24.
- The E-commerce contribution is 5-6% of sales. All SKUs are available on the e-commerce platform.

**Costs and margins**

- The prices of raw materials such as soda ash and palm oil prices have been stable during the quarter, which helped sustain margins.
- A&P spends increased 45% YoY in 3QFY24 to 9% of sales. The management plans to maintain 8-9% going forward.
- The management maintains an EBITDA guidance of 16-17% in FY24.

**Segmental details**

**Fabric Care**

- The segment has seen healthy growth across post wash and main wash brands and liquid detergent launched last year.
- Good demand seen in the mid-price detergent powder.
- The company continues to distribute Mr. white and More light to increase the brand penetration across geographies.
- Ujala detergent powder is also expanding its reach beyond Kerala to other states.
- Henko liquid growth was higher than the category growth.

**Dishwashing**

- Category primarily faces competition from local and regional players. However, it performs better than the other organized players.
- Category also faces pressure in the rural market.
- The company continues focus on LUPs, enabling it to reach a broader consumer base.
- Premium SKUs supported by the OFOs and e-commerce.
- Pril has consistently registered high growth on e-commerce channels.

**Household Insecticides**

- The company continue to focus on innovations such as liquid format and the automatic features of the machine.
- The market share of coil is 23.9% in CY23 vs 23.3% in CY22 and liquid vaporizer is 8.5% in CY23 vs 8.9% in CY22.
- The category has a higher market share in eastern India such as Bihar, Eastern UP, and Bengal.

**Personal Care**

- Good consumer attraction seen in Neem-based Margo soaps along with its new variants of Rose, lemon, and jasmine. It delivered double-digit growth.

**Other points**

- The management is more focused on the organic business growth, recognizing the untapped potential for further expansion in that segment.
- In the event of any M&A, the company intends to explore opportunities within the FMCG product category.
- Currently, the company has 23 manufacturing plants and is not looking for more capacity extensions.
- Capex for the development of new category in FY25 is expected to exceed INR 300-400m.



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## Marico

Current Price INR 536

Buy

### Business environment and outlook

- During the quarter, demand trends remained steady, and there was no apparent improvement from the previous quarter. FMCG volume growth, on a four-year CAGR basis, remained in low single digits.
- The mass home and personal care categories closely followed the subdued rural demand, while packaged foods led due to higher urban salience and penetration-driven growth.
- Rural demand remained subdued, while urban demand maintained its modest growth path.
- The current consumption growth pattern, resembling a K-shape, has widened the gap between general trade and organized retail.
- GT faced low growth, rising costs, and challenges in profitability and liquidity.
- The India business reported a 2% volume growth, decreasing sequentially due to stock reductions in key portfolios to support GT channel partners.
- There was a 5% volume growth on a four-year basis, and sequential growth improved for the core portfolio.
- Over 3/4th of the business is either gaining or maintaining market share and penetration levels.
- The performance of the new food business has consistently excelled and is expected to reach a minimum of INR 7.5b by year-end.
- True Elements and Plix have been experiencing significant growth in their respective categories.
- Beardo is expected to generate EBITDA this year, while Just Herbs and True Elements are anticipated to approach breakeven in the coming year.
- Management is optimistic about a gradual improvement in consumption trends over the next 4-5 quarters.
- In the overall digital business, there are growth drivers and significant GT potential and MRCO initiated this journey with Beardo in a small way.
- The company is consistently implementing a 2% to 3% price increase across the portfolio. It has had a minimal impact on volume. Considering these factors, management is confident of achieving a double-digit revenue growth in FY25.

### Material costs, margin and guidance

- Despite an increased brand-building investments in both core and new businesses, the gross margin is likely to expand by 450-500bp in FY24.
- Management expects an EBITDA margin expansion of ~250bp YoY in FY24.

### Segmental performance

#### Parachute coconut oil

- Volume was up 3%.
- Gained ~40bp in market share on a MAT basis.
- Management anticipates a gradual improvement in volume growth, driven by an upward bias in input costs and stable consumer pricing.

#### Saffola edible oil

- Edible oil posted a mid-single-digit volume decline on a high base and extended sluggishness in trade sentiment, resulting in lower inventory levels YoY.
- There was a mid-twenties YoY decline in revenue, attributed to pricing corrections over the last 12 months that had not yet impacted the base.

- The foods business delivered a steady performance with 18% YoY value growth.
- Saffola Oats maintained its category leadership, while Honey and Soya Chunks have been scaling up on expected lines.

#### VAHO

- VAHO value growth was 3%, indicating a slower recovery in rural demand.
- Value growth on a four-year CAGR basis was at 6%.
- The VAHO portfolio showed mixed trends, with bottom-of-the-pyramid segments being subdued and mid-to-premium segments growing in the mid-to-high-single digits.

#### Premium-personal care

- The premium Personal Care sustained its strong double-digit growth trajectory during the quarter.
- The Digital-first portfolio reported an annual recurring revenue of ~INR4b+ in 3QFY24.
- Foods and Premium Personal Care's strong growth positions us to achieve 20% of domestic revenues from these portfolios this year.
- Digital businesses amounted to 4.5b- 5b, and the company anticipates a double-digit EBITDA from them in the next two to three years.
- For foods and digital, the gross margin has been higher than that of the core portfolio this year.
- Plix makes a far higher margin than normal food because wellness brands get to make higher margins.

#### International business

- Bangladesh saw a 6% decline in CC growth due to transient macroeconomic challenges.
- Shampoo and baby care portfolios experienced healthy growth.
- Anticipate improved business performance in Bangladesh in the upcoming quarter.
- South-East Asia achieved 4% CC growth, hit by slower HPC demand in Vietnam.
- MENA sustained strong growth, delivering a 26% CC growth, with double-digit growth in the Gulf region and Egypt.
- South Africa recorded a 33% CC growth, primarily driven by the ethnic hair care segment.
- NCD and Exports exhibited a robust 16% growth.
- In the Middle East, North Africa, and other markets with potential for improved operating margin expansion, the goal is to sustain double-digit bottom-line growth in the coming year.



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### Page Inds

Neutral

Current Price INR 36,415

#### Performance and demand environment

- Overall the retail sector experienced subdued demand with consumer expenditures shifting toward travel and leisure.
- The apparel industry has seen low-single digit growth across categories.
- The ARS system reduces overall inventory level, helping improve inventory mix and better ROI at the distributor level.
- Athleisure category has excess inventory due to weak demand post covid.
- The e-commerce channel witnessed 28% growth in 9MFY24 and 39% in 3QFY24.





- The company refrains from discounting products for clearing its inventory.
- Management focuses on the penetration of women’s innerwear, which currently lags behind men’s innerwear. Initiatives such as product innovation, and increased marketing investment will be undertaken to improve the category.
- The company will not take price increases in the near future, despite the inflationary pressures seen in input cost.

**Costs and margins**

- Despite the lower cost of fresh fabrics, GP margins continue to be affected due to the accumulation of inventory at elevated prices.
- Marketing investments on online and offline channels has been consistent over the last three years. In overall marketing spends, 13-15% is on e-commerce business.
- Employee cost is on a decline due to increased efficiency. Several initiatives have been taken to reduce throughput time.
- The management has maintained the EBITDA margin guidance of 19%-21%.
- EBITDA Margins were adversely impacted during the quarter due to subdued demand. However, measures such as controlling operating expenses and efficiently managing inventory have been undertaken.

**Distribution channels and supply chain**

- Distribution network expansion aligns with the company’s plans, boasting 110,000+ MBOs, 1,394 EBOs, and 2,300+ large format stores as of December. Strategic focus includes metros and tier two/three cities.
- There are total 1,390+ EBOs with 42/62 exclusive for woman/children. The Women EBOs were down due to consolidation of stores.
- Presence has been extended to over 114k+ retail network.
- Expanding its footprint to 2,750+ cities/Towns.
- There is a minor drop in the outlets due to closure of non-traditional outlets opened during the pandemic. However, management continues to focus expansion.
- The company is on track to open 150-200 EBOs in FY24, as guided earlier.

**Other points**

- Inventory duration reduced to 95 days by the end of Dec’23, down from 122 days in the beginning of FY24.
- Net working capital days is INR9,278m in 3QFY24 vs INR7,680m in 4QFY23.
- The Cash balance stands at INR3b as on Dec’23.
- BOD declared the third interim dividend of INR100/share.



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**Pidilite Industries** **Neutral**

Current Price INR 2,745

**Demand environment and outlook**

- Strong revenue growth was supported by a robust 10.4% volume increase, as the C&B and B2B segments posted double-digit volume growth.
- The four-year volume CAGR is 12-12.5%, primarily attributed to inorganic growth, with a significant contribution from the inclusion of Araldite.
- Revenue growth of 4.6% was achieved by passing on the moderation in input prices through pricing adjustments.



- Both urban and rural markets expanded, with rural and small-town markets outpacing urban areas.
- Domestic subsidiaries posted strong sales growth, with double-digit increases in both the C&B and B2B segments.
- Domestic subsidiaries such as IPCA and Nina Percept are showing normal YTD business performance. They are on a healthy growth and profit trajectory in their respective sectors.
- Excluding the Pidilite USA business, the subsidiaries collectively reported modest sales growth, with EBITDA doubling in absolute terms compared to the same period last year. EBITDA margins showed improvements YoY and QoQ.
- Three years ago, Pidilite Ki Duniya covered 2,000 to 2,500 rural areas. Presently, in villages with populations ranging from 5,000 to 10,000, there are now 12,000 stores.
- In the B2B segment, the price cut is higher, while in the B2C segment, it is lower. Woodworking adhesives, with their maximum impact, are prevalent not only within this category but also in other areas.

**Cost and margin**

- VAM’s consumption costs stood at USD900/t vs. USD2,000/t in 3QFY23.
- Gross margins are consistently similar across all categories.
- EBITDA margin would be in the range of 20-24% for FY24.

**Lending business**

- The lending business pilot is underway and will be launched in a southern Indian city in the next 15 to 20 days.
- A dedicated team, separate from Pidilite employees, is established at an arm's length.
- The INR1b commitment over two years remains unchanged, depending on the pilot's success.

**Paint Business**

- The paints business, as consistently stated, focuses solely on small towns and rural areas.
- It commenced in Andhra Pradesh and Orissa and has expanded into Tamil Nadu and Karnataka.
- The management sees an opportunity in the lower segment of the market due to its extensive distribution network.

**Others**

- The growth proportion in Pioneer compared to Core increases by about 5% each quarter. The initial years’ objective of 60-40 is currently tracking around 55-60 for Pioneer and 40-45 for Core.
- Growth drivers in new categories include tile adhesives, wood finishes, and joinery businesses. PIDI plans to achieve growth rates 2x-4x GDP.
- It is constructing larger factories for existing products, with two massive ones recently built in Vizag. The most recent facility in Vizag is now its largest adhesives factory, while the newly commissioned factory in Vizag is its biggest coatings factory.
- Pidilite has introduced two major products. In the Fevicol division, the premium variant Fevicol Hyperstar, a new range of sealants two years ago, and in the waterproofing business, new offerings include a variety of roof ceiling and exterior products at different price points.

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## Tata Consumer Products

[Buy](#)

Current Price INR 1,154

### India Packaged Beverages

- The India Packaged Beverages business witnessed revenue growth of 4% YoY in 3QFY24 (four-year revenue CAGR of ~8%), backed by 2% volume growth. Premium and sub-premium brands outperformed popular and economy brands.
- Tea: The segment witnessed a market share loss of 70p YoY. TATACONS continued its hyperlocal strategy for Tata Tea Premium, with the launch of Madhya Pradesh packs.
- Coffee continued its strong performance, with a revenue growth of 32% YoY in 3QFY24.

### India Foods business

- The business registered 13% YoY revenue growth in 3QFY24. The segment recorded a volume growth of 5% YoY during the quarter.
- Tata Sampann portfolio witnessed another strong quarter with 40% YoY growth, aided by robust volume growth (four-year revenue CAGR of ~29%). Multiple Sampann categories, such as Pulses and Poha, registered their highest-ever sales.
- Dry fruits witnessed yet another robust quarter, up over 70% YoY.
- TATACONS Cold Pressed Oils witnessed strong consumer response, clocking 6x of launch value in Dec'23.

### India Salt

- The salt portfolio grew by 6% YoY during the quarter (four-year CAGR of 16%), led by ~5% YoY volume growth.
- Salt saw its highest-ever quarterly volume market share in Q3FY24. However, in value terms, the company lost ~10bp of market share YoY.
- Value-added salts grew 23% YoY, in line with the premiumization agenda.
- The company expects a huge runway to gain market share in salt. Around 87-88% of the salt volume comes from the basic salt category (non-value added product).

### Tata Coffee (including Vietnam ex EOC)

- Revenue grew 3% YoY (constant currency growth) on account of 44% YoY growth in the plantation business (primarily led by higher coffee realizations).
- The Vietnam business continued to deliver strong sales with improved profitability, driven by higher sales of premium products.
- Revenue for the extractions business declined 3% YoY; however, the business witnessed significant improvement in margins.
- Tata Coffee (inc. Vietnam) revenue growth for 9MFY24 was driven by a run-up in coffee prices, while volume declined by 3% over the period.

### NourishCo

- NourishCo witnessed revenue growth of ~34% YoY to INR1.59b in 3QFY24. For 9MFY24, NourishCo witnessed revenue growth of ~41% YoY.
- 3Q is generally a weak quarter for NourishCo due to lower sales in Northern India
- Profitability improved significantly on YoY basis, on account of higher scale and strong cost control.

**JV: Starbucks**

- Tata Starbucks revenue grew 7%/14% YoY in 3QFY24/9MFY24. QSR sector were under pressure during 3QFY24.
- The company added 22/59 new net stores in 3QFY24/9MFY24, taking the total count to ~392. Starbucks entered six new cities during the quarter, taking the overall presence to 55 cities.

**Distribution**

- The company expanded its total reach to 3.9m outlets as of Dec'23, with a direct reach of ~1.5m outlets.
- The company is witnessing higher throughput in towns where it has implemented the salesmen split-routes strategy.
- With all 50k+ population towns now having a direct distributor, TATACONS will now focus on 10k/20k+ population town, where it is appointing distributors.
- TATACONS has put up 45 new SKUs on shelf in modern trade.

**Guidance**

- The company expects to take the contribution of new business (including Capital foods and Organic India) to 30% of India Branded business, led by a 30% revenue CAGR.
- It is confident of delivering revenue of INR9-10b in NourishCo.
- The company aims to expand the store network of Starbucks to ~1,000 stores by FY28.

**International operations**

- US business – Coffee revenue declined 8% YoY (constant currency) due to stress on the demand side. However, volume growth has started to come back. Tea revenue declined 14% YoY in 3QFY24.
- UK business revenue grew 14% YoY (constant currency) in 3QFY24. Reported revenue grew 24% YoY. Market share in the Fruit & Herbal tea category reached 8.9% during the quarter.
- Canada business revenue stood flat on YoY basis. However, revenue of specialty tea business grew 3% YoY. Overall tea market share (in value terms) stood at ~27.7%.
- International businesses is margin-accretive as compared to India (but will witness slower revenue growth). Margins have started to pick up in International business.

**Other highlights**

- The company witnessed EBITDA margin expansion on consolidated level on account of pricing interventions in most of the international markets, softening of commodity costs, and strong operating cost controls
- Standalone EBITDA Margin expansion was led by Premiumization, favorable business mix, softness in input prices and operating leverage.
- Growth business (includes Tata Sampann, NourishCo, Tata Soulfull, the RTE/RTC business) recorded combined YoY growth of ~42% in 3QFY24. The share of growth businesses within the total India branded business stood at ~17% in 3QFY24 vs. ~13% in 3QFY23.
- Tea prices in North India were stable, while it was down ~10% YoY in southern India for 3QFY24

- Arabia coffee prices witnessed a sharp uptick in 3QFY24 on the back of tight global supplies. The surge in prices continued in Jan'24. Robusta coffee prices also witnessed sharp uptick in Jan'24.
- TATACONS has completed the integration of capital foods in Feb'24. Capital Foods front-end sales integration was substantially completed within 2 days of the transaction closing date. Capital Foods's product has started to move into TATACONS common warehouse and network.
- Net cash stood at ~INR29.45b (up 40% YoY).
- Exceptional items include costs related to UK pension and acquisition.



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## United Breweries

Sell

Current Price INR 1,729

### Environment and outlook

- Net sales increased 13%, driven by an 8% rise in volume across diverse markets including Tamil Nadu, Telangana, Orissa, Maharashtra, and Rajasthan, with additional tailwinds observed in Delhi and Kerala.
- Premium volume remains robust, with a 14% surge, particularly driven by strong double-digit growth in key premium brands such as Ultra and Ultra Max.
- The price mix has increased from 3% to nearly 5%, attributed to premiumization efforts and appropriate pricing strategies.
- UBBL is building further category growth, while driving the share of Premium category in the company's portfolio remains a key focus area.
- Beer consumption in India remains low, with only 85-90m people consuming beer, compared to 200m people who consume any type of liquor.
- Despite facing supply challenges in Karnataka, UBBL managed an increase in shares by ~200-300bp from the previous quarter.
- The rise in excise duty in Karnataka is not expected to have a significant impact on the MRP.
- For 4QFY24, a mid-to-high-single-digit volume growth is expected with mid-single-digit pricing growth.

### Costs and margins

- The GP margin expanded on lower input cost and price hike taken by the company.
- Spending on A&P increased by nearly 300bp in 3QFY24 compared to the previous quarter due to the World Cup campaign.
- The level of bottle returns fell short of expectations, leading to the purchase of new bottles at increased costs.
- Over the medium term, there will be an improvement in margins.

### Other points

- Nearly INR1.3b has already been invested in supply chain initiatives.
- Volume growth was strong across regions: 22% in the East, led by Orissa and Jharkhand; 10% in the South, driven by Tamil Nadu, Karnataka, Telangana, Andhra Pradesh, and Kerala; 9% in the West. However, the North experienced a decline mainly due to issues in Delhi that need to be addressed locally.
- UBBL is currently awaiting approvals in Karnataka to initiate a new manufacturing line for 'Heineken'. Management anticipates that it will receive the approvals within a few weeks.





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## United Spirits

Neutral

Current Price INR 1,143

### Operational environment and outlook

- The demand environment is muted sequentially; however, premiumization trends continue.
- Despite the festive season, the Cricket World Cup, and the peak wedding season, demand has not increased as the consumers are reducing the number of occasions to manage their budgets.
- The demand environment remained subdued in Jan'24. However, there is no down trading compared to 3QFY24.
- P&A growth stood at 10% YoY, with double-digit growth in its scotch portfolio.
- Price mix stood at 9.3% driven by premiumization focus, the flow-through impact of headline pricing, and other revenue growth initiatives.
- The hike in excise duty in Karnataka is adversely impacting the volume growth.
- The company will continue to drive its double-digit growth guidance.

### Costs and margins

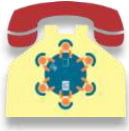
- The ad-spends was up 18.4% YoY in 3QFY24, driven by the festive quarter, the peak wedding season, and the Cricket World Cup.
- It is expected to remain elevated in 4QFY24 due to the IPL, promotion of the new launch 'Don Julio', and increased investment in popular brands that have not performed well.
- The ENA prices experienced inflation during the quarter, which was partially offset by the stability in the other commodity prices. However, it is expected to remain elevated.
- The glass cost remained stable during the quarter.
- The company is looking to offset inflation through internal management productivity and advocating with the government for price increases.
- The GP margin remained flat sequentially despite a rise in the ENA prices due to high salience of the P&A segment during the quarter.
- The management maintained the EBITDA guidance ahead of 15% for FY24.
- The guidance for the next two to three is to achieve mid-to-high-teens margins.

### Brands/New launches/re-launches

- The Royal Challenger American pride expanded to three new markets, i.e., Himachal Pradesh, Arunachal Pradesh, and Uttarakhand.
- The company launched a new bundle of Antiquity Blue, which is performing well in launched markets and adding to the steady performance of Signature and Royal Challenge American Pride.
- The company launched the MacDowell's No. 1 Premium Smooth variant in Assam, which is at a premium to the core MacDowell's No. 1 luxury in the state.
- The company's global brand portfolio continues to witness healthy premiumization trends, with premium and luxury offerings growing ahead of the prestige segment.
- The company is scaling up investment in Don Julio to play the role of a market maker for the segment.



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## Varun Beverages

Buy

Current Price INR 1,438

### Operating Performance

- Net Revenue from operations grew 22% YoY in CY23, driven by volume growth in both Indian & International markets and an increase in net realization per case.
- Net realization per case increased 7% in CY23, driven by continued improvement in the mix of smaller SKUs (250ml) in Indian Markets and improved realization per case in International markets.
- Gross margins improved during the year, primarily because of softening of PET chips prices, although sugar prices increased slightly during the year. EBITDA margin improved in CY23, led by increased realization and higher gross margins.
- Working capital days have remained steady with both inventory days and trade payable days reducing slightly.

### Outlook

- The period from Mar to Jul is the peak season for the company. Even after witnessing a washout peak season in CY23, the company delivered healthy volume growth of ~14% in CY23. This, coupled with an increase in capacity, gives management the confidence to continue the growth momentum.
- Going ahead, the company will focus on improving the go-to-market (expanding to 400-500k outlets every year) and adding more chilling equipment. It will focus on going deeper into the existing market.

### Capex

- In CY23, the net capex capitalized amounted to ~INR21b. This primarily includes (a) the establishment of new greenfield production facilities in Bundi (Rajasthan) & Jabalpur (MP) for INR8.5b (b) Brownfield expansion at six existing facilities in India for ~INR8b (c) the acquisition of land in Bihar and Andhra Pradesh for construction of plant in the future, amounting to INR1.5b.
- Balance capex comprises international projects, factoring in write-offs and forex fluctuations
- Post this capex, the company expects capacity in CY24 to increase by ~45% over CY22 capacity.
- The company expects to incur a capex of ~INR12b in CY24.

### Debt

- Net debt stood at INR47.3b as on 31 Dec'23 vs. INR34.1b as on 31 Dec'22.
- Net debt majorly increased due to an increase in CWIP and capital advances (incremental addition by ~INR12b). This increase was on account of a new facility in Maharashtra, which was about near completion (commissioned on 25th Jan'24).

### African business

- VBL already got approval from Botswana for setting up a facility and is awaiting approval for Namibia and South Africa, which is likely to be expected by the end of February'24.
- PepsiCo's share is ~1.5% in the African market, while BevCo's share is ~12%.

### Sting

- Generally, energy drink mix constitutes ~14-15% of the total beverage market in most countries. Sting has achieved a market share of ~14-15% within the overall volume of PepsiCo at VBL.
- Sting has reached ~3.5m outlets in India.

**Dairy segment**

- Going ahead, VBL is expecting huge growth in Gatorade, Juice, and value-added dairy segment as the production capacity has increased by 200%.
- Currently, the Dairy share is just ~0.5% of the total volume and the company expects to double this in CY24.
- Currently, the dairy plant was just within the Northern part of India. Now the company has commissioned a plant in the Western region and will be soon setting up a plant in the Eastern market.

**Others**

- VBL's PET recycling plant will start production in CY25 and will cater to ~25% of the volume.
- VBL's new facility in Maharashtra is already being commissioned and the Gorakhpur facility is likely to commission in Mar/Apr'24.
- The international market has grown by ~16%/18% for 4QCY23/CY23. Zimbabwe has grown by ~23% YoY in CY23.
- The company is looking to add ~30m cases in DRC.
- The company has incorporated a new subsidiary - 'VBL Mozambique, SA' in Mozambique, South Africa, to carry on the business of distribution of Beverages.
- In Oct'23, the company has acquired a 5.03% shareholding in Lunarmech Technologies Private Limited for a purchase consideration of INR100m, taking its total holding in the company to ~60.07%.



## FINANCIALS/BANKS

- Many banks have indicated a consistent trajectory of loan growth, driven primarily by ongoing momentum in the Retail, Business Banking, and SME segments, coupled with improved utilization of sanctions in the corporate sector. Despite this positive outlook, concerns persist regarding deposit mobilization, leading banks to increasingly turn to bulk TDs and CDs to fund asset growth. The industry-wide CASA mix has been declining, resulting in a sequential increase in funding costs. While several banks have faced stagnation or decline in NIM, they anticipate that the rising cost of funds will contribute to further margin moderation in the upcoming quarters, albeit at a more moderate pace.
- PSU Banks have reported enhanced asset quality, although elevated opex ratios persist due to wage provisions for PSU banks and ongoing investments in branch expansion and technological advancements. The SMA pool remains low, and controlled slippages from the restructuring book, combined with a robust PCR and contingency buffers, are expected to mitigate credit costs and support earnings. Provisioning expenses have generally remained manageable for most banks, and although there is vigilance regarding the turn in the delinquency cycle for unsecured loans, the expectation is that credit costs will remain under control in the coming quarters.

### KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook for FY24	Asset quality and collection efficiency
Axis Bank	<ul style="list-style-type: none"> <li>■ AXSB has also suggested that it will continue to invest in the business, taking advantage of controlled credit costs. This will keep cost/asset ratios elevated, much higher than the earlier guidance of reaching ~2% cost/assets by the end of FY25.</li> <li>■ The bank expects the LCR ratio to be ~115-120% going forward.</li> <li>■ AXSB has maintained its guidance of 400-600bp differential between the bank's growth and industry growth over the medium term.</li> <li>■ CD ratio stands at ~93%; high CD ratio will constrain credit growth, while continued re-pricing of deposits will likely exert pressure on margins over the coming quarters.</li> </ul>	<ul style="list-style-type: none"> <li>■ The GNPA ratio improved 15bp QoQ to 1.58%, while the net NPA ratio stood stable at 0.4%. PCR moderated 165bp QoQ to 77.8%.</li> <li>■ Fresh slippages came in at INR37.2b (vs. INR32.5b in 2QFY24). Recoveries from written-off accounts amounted to INR6.35b in 3QFY24.</li> <li>■ Restructured loans stood at 0.16%. The bank carries 20% provisioning on these loans.</li> </ul>
HDFC Bank	<ul style="list-style-type: none"> <li>■ Margins stood largely flat even as the bank deployed excess liquidity and significantly drew down the LCR ratio. Margin is currently at the lower end of the spectrum and should recover to 3.7% in the next 18-24 months.</li> <li>■ About 84% of deposits were retail. A shift toward a more retail-focused mix is expected to result in improved margins going forward.</li> <li>■ The RoE/RoA stood at 15.8%/2% in 3QFY24 and the same is expected to improve going forward.</li> <li>■ The CASA ratio is expected to increase going forward as customer spending is expected to decline at some point, and new customers are being acquired. Deposit rates have reached their peak, and the bank expects deposit repricing to end in the next two quarters.</li> </ul>	<ul style="list-style-type: none"> <li>■ GNPA/NNPA ratio improved 8bp/4bp QoQ to 1.3%/0.31% as of 3QFY24.</li> <li>■ HDFCB has reported a credit cost of 49bp in 3QFY24 vs. 74bp in 3QFY23. The decline in credit cost will allow for higher investments in subsidiaries and technology.</li> <li>■ Contingent and floating provisions amounted to INR154b, and general provision amounted to INR104b as of 3QFY24. Additional contingent provision of INR12.2b was provided for in 3QFY24. The bank reported a 26bp slippage ratio amounting to INR70b for 3QFY24.</li> </ul>
ICICI Bank	<ul style="list-style-type: none"> <li>■ NIMs declined 10bp to 4.43%. The impact of interest on the income tax refund was 4bp in 3QFY24. It expects FY24 margins to be at similar levels as of FY23. The management expects some moderation in margins, but at a slower pace vs. 3QFY24.</li> <li>■ On unsecured loans, the bank has refined credit parameters and has increased pricing on PL by 20-25bp. The bank expects growth to moderate from its current levels.</li> <li>■ The bank added 123 branches in the quarter. It</li> </ul>	<ul style="list-style-type: none"> <li>■ Gross NPA stood at 2.3% and Net NPA ratio at 0.44% as of Dec'23 (vs. 2.48% in 2QFY24).</li> <li>■ The bank holds INR131b of contingency provisions, same as 2QFY24.</li> <li>■ Slippages in retail, rural, and BB increased. There is no stress on the retail side as of now. Retail additions should go up as the portfolio grows. On the corporate side, we saw an upgrade in 3Q, largely offset by AIF provisioning.</li> </ul>

	plans to follow a bottom-up approach, and does not have a target for branch addition.
<b>IndusInd Bank</b>	<ul style="list-style-type: none"> <li>Loan growth is expected to be ~18-23%, with the retail loan mix at ~55%-60%. Customer base to be &gt;50m by FY26 vs 38m in 3QFY24.</li> <li>The bank's LCR has improved to 122% in 3QFY24 from 117% in 2QFY24.</li> <li>The bank's CD ratio is in line with the banking industry and there has been no communication from the regulator regarding any adjustments. The bank is managing its CD ratio at 86-90%.</li> </ul> <ul style="list-style-type: none"> <li>The bank expects slippages to normalize to around INR12b going ahead. Slippages in VF is normalizing; however, the bank expects the slippages to be lower in the corporate segment.</li> <li>The bank has utilized INR2.2b of contingent provisions; it has created contingent provisions on the part of one large account, which may get upgraded on Feb 2024 and the bank may not utilize this buffer.</li> </ul>
<b>Kotak Mahindra</b>	<ul style="list-style-type: none"> <li>The bank expects RoA to sustain at ~2-2.1% going forward.</li> <li>Deposits have picked up, driven by ActivMoney product launched by KMB six months ago. CASA ratio stood at 47.7% in 3QFY24 vs 48.3% in 2QFY24.</li> <li>NIM remained stable at 5.22% in 3QFY24, with a 3-4bp differential attributed to the CRR impact addressed in the previous quarter. The primary reason for the stable NIMs is the change in the mix of advances.</li> </ul> <ul style="list-style-type: none"> <li>NNPA ratio improved 3bp to 0.34% with GNPA ratio remaining stable at 1.7% in 3QFY24. PCR improved 150bp QoQ to 80.6% in 3QFY24.</li> <li>The bank reported slippages amounting to INR11.8b as on 3QFY24, while upgrades stood at INR2.9b.</li> <li>The bank holds outstanding Covid provisions of INR2.95b.</li> </ul>
<b>SBI</b>	<ul style="list-style-type: none"> <li>Wage revisions increased to 17% from 14%; 10% was provided from Nov'22 onwards. The bank had provided INR88.9b as of Sep'23 and provided an additional INR63.13b in 3Q. Total provisions thus stood at INR127.18b in FY24. The bank expects to make residual INR54.08b of wage-related provisions in 4Q.</li> <li>CET-1 ratio stands at 10.38% and the bank is open to raising more capital if growth trends demand. The bank is also reviewing AT1 prices and will make sure that the capital will not be a constraint for growth.</li> <li>The bank believes that credit growth will be at 14-15%. The bank has enough elbowroom to grow at the pace of INR7.5t per year (18-20% growth). The bank's CD ratio is 66% and LCR too is healthy at 131%.</li> </ul> <ul style="list-style-type: none"> <li>GNPA/NNPA ratios moderated to 2.42% (lowest in &gt;10 years) or 0.64% as of 3QFY24.</li> <li>The slippage ratio improved 5bp YoY to 0.67%. Credit cost stood at 0.25%; improved 12bp in 9MFY24.</li> <li>The bank does not expect any lumpy recoveries in AUCA accounts. On NCLT recoveries, the bank has to depend on the consortium and ecosystem.</li> </ul>



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### AU Small Finance Bank

Buy

Current Price INR 600

#### Balance sheet and P&L

- Deposit repricing continued, and the cost of funds rose by 20bp QoQ to 6.90% with average CoF of 6.74% as of 9MFY24.
- The bank has maintained LCR in the range of 120%+, with additional liquidity in high-quality non-LCR instruments.
- The bank has brought down the CD ratio to 83%. CASA+RTD stood at 64% of total deposits.
- Gross advances grew 20% YoY and were marginally lower due to a high base effect as there was no major securitization in 3QFY23. However, securitization picked up in Mar'23 and thus the base effect for gross advance growth will normalize from the next quarter.
- The bank has created a new banking unit, Swadesh, to focus on rural areas.





- The bank securitized INR27.4b of loans in 3Q across Wheels and Home loans. The total securitized book stood at INR85.5b as on 3QFY24. Last year’s securitization was recognized in the current year.
- The bank has seen a sustainable growth, with deposits crossing INR800b; loan portfolio, gross of securitized assets, crossing INR750b, and the balance sheet crossing INR1t.
- The cost of funds increased by 77bp in 9MFY24 and 20bp in 3Q. Disbursement yield increased by 38bp YTD.
- Differential between home loan yield and credit card yield stands at 40bp.
- It has diversified away from the fixed-rate loan book to achieve a 62:38 ratio of the fixed rate and floating rate loans, which will help the bank manage the cycles better and reduce earnings volatility.
- Apart from investments in digital initiatives and wealth and transaction banking, 3Q saw an increased spending on brand and marketing in the festive season.
- The bank has taken cautious steps on Unsecured lending (4–5%), even though it is a high-yielding and scalable segment. After the merger, the bank wants its MFI book to be ~10% of overall loan book.
- A higher percentage of the fixed-rate book will help the bank increase its margins once the interest rate cycle reverses.
- Interest rates remain elevated amid persistent competition for deposits.
- The bank remains confident about its liquidity, with highly liquid non-SLR book and LCR ratio at 123%.
- The entire portfolio of two-wheeler and personal car is now migrated to the SFDC + FICO platform.
- Excluding securitized book, NIM moderated 30bp in the current quarter. However, including the securitized book, NIM stood at 5.5% in 3Q.
- Overall issuance to NTB customers stands at ~75%. It added more than 16k wealth customers during the quarter.
- Yield are down on credit card book as there is a regulation that the bank cannot charge interest on interest.
- 45% of new customers in Q3FY24 were acquired via digital products. Credit card business will support the bank’s liability business.
- Merger with Fincare SFB is on track and has received CCI approval earlier this week. The bank is awaiting approval from the RBI.
- Operating expenses on new investments are largely related to credit cards, which account for ~50-60% of overall growth in expenses. The bank expects these expenses to remain similar going forward.
- The bank avoided partnerships with fintech firms for digital lending and piloted its own digital products and services.

**Asset quality**

- Credit costs, net of recovery, for the quarter normalized at 61bp as the bank wrote off INR1.2b of its portfolio in 3QFY24.
- Asset quality remained range-bound with no specific pockets of stress or any EWS.
- SMA book declined by ~250bp over the last 18 months, reflecting de-risking of the portfolio – from 14.49% in Jun’22 to 11.95% as of Dec’23.

- Excluding credit cards, the net credit cost normalized to 0.44% in 3Q. As the credit card book attains a size and gets seasoned, the credit cost will normalize and it is currently in line with the industry average.
- The GNPA ratio increased by 7bp in 3Q to 1.98%. Adjusting for the securitized book, it was at 1.83%.
- Standard restructured assets declined to 0.7% of gross advances. Provision + write-offs on credit cards stood at INR450m.
- The bank has INR830m of provisions against contingency and standard restructured assets, and INR410m of floating provisions.
- The bank has INR0.83b of contingency and standard restructured assets.

**Guidance**

- NIM is expected to be at the lower end of the guided range of 5.5%- 5.7% for FY24.
- The C/I ratio for FY24 is expected to stay flat YoY vs. FY23
- AUSFB expects loan growth to be ~26-27% YoY by the end of FY24.
- Normalized credit cost is expected to be ~0.5%-0.6% going forward. Once the merger happens, the bank expects a credit cost of 3% in the MFI book.



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**Axis Bank**

**Neutral**

Current Price INR 1,088

**Business performance, balance sheet and P&L**

- Retail term deposits continued to grow at ~17%. 1.47m retail term deposits acquired in 3QFY24.
- The bank has gained incremental market share of 6.7% in the last three years.
- AXSB added 100 branches in 3QFY24, taking the total branch count to 5,252.
- It has made full provisions for its entire AIF investments of INR1.82b (46% in government-related securities).
- The bank has not utilized its Covid provisions during the quarter.
- The share of low-yielding RIDF bonds declined to 1.8% as a % of total assets.
- Nearly 60% of incremental deposits came from non-retail term deposits.
- Subsidiaries contributed 9bp to consolidated RoA and 54bp to consolidated RoE.
- Bulk deposit prices are inching up as system liquidity remains tight, and the bank expects this to continue.
- In wholesale banking as well, the bank has launched Axis Neo cards in the current quarter. Sparsh is embedded across customer touchpoints, processes, and metrics.
- Integration expenses contributed 4% to YoY growth in opex and accounted for 13% of total opex.
- The bank has no intention of raising capital in the near term.
- It has launched a new digital savings account proposition, which provides spending-based rewards with a nominal fee.
- About 93% of fees are granular. The fee-to-total assets ratio stood at 1.5% in 3QFY24.
- Unsecured disbursements were 22% of retail disbursements in 3Q. 75% of retail book is secured in nature.
- ETB mix in retail portfolio: Personal loan-81%, LAP-76%, Auto loan-65%, credit card-52%, SBB-39% in 3QFY24.

- MSME remains a key segment of the bank, which grew 26% YoY (4.2% QoQ). The Retail book grew 27.4%.
- The loans, which are linked to the repo rate, grew at a healthy pace, as a majority of retail, all of SME book, and some part of corporate book are repo linked. About 69% of loans are floating rate.
- On incremental disbursements of personal loans, the bank has increased its prices, taking into account the RBI regulation on risk weights.
- The bank will continue to invest in the franchise, which will increase the cost.
- Fee income grew 29% YoY to INR51.7b. About 72% of the bank's fee income is retail fees.
- Salaried customers account for 100% of PL and 78% of Credit Cards portfolio.
- In 9MFY24, around 33% of credit cards were acquired through the known-to-bank (KTB) channel.
- The CD ratio stood at 92.8% in 3QFY24 vs. 93.9% in 2QFY24.
- About 77% of the book is rated SME3 or better.
- Technology-related expenses formed 9% of total operating expenses in 3QFY24.
- Treasury gains stood at INR2.9b in 3QFY24 due to a reversal of MTM book and a good performance in trading.

#### Asset quality

- The GNPA ratio improved by 15bp QoQ to 1.58%, while the net NPA ratio stood stable at 0.4%. PCR moderated 165bp QoQ to 77.8%.
- RWA to total assets increased to 71%. There has been a 370bp impact of regulatory changes in risk weights.
- Fresh slippages came in at INR37.2b (vs. INR32.5b in 2QFY24). Recoveries from written-off accounts amounted to INR6.35b in 3QFY24.
- 3QFY24 net credit costs (annualized) stood at 28bp, aided by higher recoveries. Gross credit, which stood at 54bp, should be monitored.
- Restructured loans stood at 0.16%. The bank carries 20% provisioning on these loans.

#### Guidance

- The bank expects LCR ratio to be around 115-120% going forward.
- It expects credit growth to taper down and deposit growth to be constrained going forward.
- AXSB has maintained its guidance of 400-600bp differential between bank and industry growth over the medium term.
- The bank expects deposit repricing to continue through FY24, but the pace of increase will reduce. Deposit repricing also to spill into 1QFY25.
- The bank expects recoveries and upgrades to decline and credit costs to move up going forward.

#### Subsidiaries' performance

- Axis Finance: It has been investing in building a strong customer-focused franchise. Its overall assets under finance grew 38% YoY. Retail book grew 45% YoY and constituted 44% of total loans.
- Axis AMC: Quarterly average AUM grew 6% YoY to INR2.6t. 9MFY24 PAT stood at INR2.97b.
- Axis Capital: It completed 71 investment banking transactions in 9MFY24.
- Axis Securities: In 9MFY24, broking revenue grew 42% YoY to INR7.57b and PAT grew 31% YoY to INR1.98b.



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## Bank of Baroda

Buy

Current Price INR 273

### Balance sheet and P&L

- Global advances grew 13.6% YoY, domestic advances rose 13.4% YoY and international advances increased 14.4% YoY. The bank expects international advances to grow at a slower pace, in line with overall advances growth.
- PL growth moderated in 3Q at 8% QoQ vs. 16% QoQ in 2Q, but it was in line with the bank's strategy and guidance.
- Bulk deposits declined 6.6% QoQ, which was NIMs-accretive and led to a 3bp QoQ improvement in NIMs in 3Q.
- RoA stood at 1.2%, higher than the bank's guidance of 1%.
- Yields on advances improved 8bp QoQ and the cost of deposits increased 4bp QoQ. The bank guides for a slower pace of increase in the deposit cost going ahead.
- BoB expects NIMs at around 3.15% (+/- 5 bp) in FY24.
- RWAs went up due to the RBI's measure on risk weights and as a result, the CRAR ratio declined to 14.7% vs. 15.3% in 2QFY24. LCR is comfortable at 133%.
- The bank has introduced new types of differentiated savings accounts during the festive season to attract customers.
- It expects healthy deposit growth in 4Q.
- BoB World is only one of the digital channels and the bank has increased other channels for sourcing customers. For BoB World, the bank is already in compliance with the RBI.
- BoB had more than adequately provided for wage provisions. It has made provisions of INR4.2b for wage provisions in 3Q. The bank has total wage provisions of INR17.45b.
- Growth in CASA has been low. The bank has reduced its dependency on bulk deposits. It expects credit growth of 14-16%. The bank focuses on maintaining margins.
- Standard asset provision reversals have continued as the bank's restructured book continued to run down.
- Restructured book stood at INR99b. Every quarter, the book declines by 15-20% and as a result, provisions also come down.
- The CD ratio stood at 82% and is expected to be around 80%.
- 4Q advances growth will be at 14-16% and will depend on the resource mobilization strategy. On the liability side, the bank has different options for deposits, as well as raising bonds, which can support advances growth.
- In terms of yields, levers like MCLR repricing and the improvement in yields of NBFC should help BoB improve the yields.
- The bank has increased rates for the below 1-year TD. After May'24, the bank expects the liquidity scenario to change.
- BoB is going to introduce MIBOR deposits and all these measures will reduce the pressure on retail TDs.

### Asset quality

- GNPA/NNPA ratios improved by 24/6bp QoQ to 3.08%/0.7%.
- Slippages stood at 0.95% in 3Q vs. guidance of 1-1.2%.

- SMA1 and 2 remained under control and the bank indicates no signs of stress yet.
- Slippages stood at 1% in retail (INR5.53b). NPAs in retail were lower, while there was no NPA from co-lending.
- Recoveries for the bank dropped in 3Q, but the target recoveries have already been achieved. There is no big NCLT recovery in the pipeline, but the bank has been aggressive on recovery.

**Guidance for FY24**

- BoB guides for NIMs at 3.15% (+/- 5bp). The bank, as previously guided, continues to reduce its dependency on bulk deposits.
- International book is expected to grow 15% YoY.
- BoB guides for RoA to be above 1%.
- Total advances growth is expected to be 14%-16% in FY24. The bank looks to reduce growth in the PL segment.
- BoB maintains its deposit growth guidance of ~12-13% in FY24.
- The bank expects the domestic CD ratio to be in the range of 80%.



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**Bandhan Bank** **Neutral**

Current Price INR 203

**Balance sheet**

- Advances grew 18.6% YoY and 7.7% QoQ, driven by a demand uptick across all asset verticals.
- Retail book grew 17% YoY/15% QoQ, commercial banking grew 60% YoY/9% QoQ, and housing book grew more than 7% YoY (adjusting for sale to ARC, up 9% YoY).
- Currently ~44.5% of the book is secured in nature, which the bank plans to increase through geographical expansion and internal sourcing, where cross-offering is possible.
- About 66% of the retail book is secured in nature, with the bank focusing more on the affordable housing yield. The LCR ratio stood at 142% in 3QFY24.
- Deposits grew 15% YoY, a tad stronger than industry growth. The retail-to-total deposits ratio declined to 71%.
- CASA deposits grew 14% YoY but declined 2% QoQ. The bank's CASA ratio stood at 36.1% despite the tight liquidity condition in the market.
- MFI customers contribute 4% of total deposits.
- The bank added 600k new borrowers in EEB and onboarded total 900k new borrowers.
- Wholesale savings stood at ~INR50b of total deposits, and the balance were retail savings.
- There is a 100bp differential between retail TD and non-retail TD. Bulk deposit rate is slightly above 8%.
- Deposit growth is mainly funded by non-retail TD; the bank is not worried about the near-term growth whether it is from wholesale or retail.

**P&L and asset quality**

- CE stood at 98%, EEB (ex-NPA stood at 99%, up from 96% a year ago).
- The bank sold housing NPAs of ~INR7.2b to ARC in 3QFY24.



- GNPA is high in the rest of India compared to West Bengal and Assam. From an industry perspective, Maharashtra and UP are facing issues. BANDHAN has taken corrective measures to improve asset quality in other areas as well.
- The bank added 26 branches in 3Q and has presence across 35 states and UT.
- CGFMU was availed in FY21 (not taken after that); from this, the bank disbursed INR208b (CGFMU) and INR19.50b in ECLGS. Nearly 85% of the portfolio has been repaid, however, the balance is in the stress pool. Against the stress pool, the bank has ~89% of provisions.
- As per the guidelines, the insurance claim can be 15%, i.e., INR31b. The bank's total claim in both tranches is INR22b, of which INR9.17b has been claimed and received. However, with respect to the additional claim of INR12.96b in 2QFY24, NCGTC made some observations, which were inadequate (per the bank), and hence it conducted an additional audit (forensic), which is expected to be completed in the next few months and the bank remains confident of recovering the amount from CGFMU.
- The cost of fund is likely to come down in the future, which will keep margins healthy.
- Credit costs came in at 2.45% in 3Q vs. 2.41% in 2Q.
- Recoveries from EEB stood at INR1.78b vs. INR1.39b in 2Q. By FY24 end, recoveries are expected to normalize.
- GNPA stood at 7.0%, led by improvements in the housing segment.
- During the quarter, out of total slippages of INR13.9b, slippage in the EEB book stood at INR9.9b; ~45% came in Oct'23 on account of system migration followed by the festive season.
- BANDHAN reported PAT of INR7.3b, up 152% YoY. NII grew 21.4% YoY to INR25.3b vs. INR20.8b in 3QFY23.
- The bank has delivered RoA at 1.9% and RoE at 14% in 3QFY24.
- Geographical diversification of the EEB portfolio is on track – the contribution of West Bengal and Assam is less than 45%.
- About 85% of total EEB book is live and is disbursed in FY23-24.
- The slippages run rate is expected to go down going forward.

#### Guidance for FY24

- The cost-to-asset ratio is expected to be around ~3.5%-3.7% going forward.
- The bank has guided for ~7%-7.5% NIMs in 4QFY24.
- It guides for long-term RoA of ~2.5-2.8% and RoE of ~14%-18%.
- BANDHAN expects 50% of the loan book to be secured by FY26.
- Due to stringent norms undertaken by the bank, INR3b-5b additions to DPD are expected in the next couple of quarters.

#### Digital

- Around 92% of savings accounts are opened digitally and 95% of retail transactions are digital.
- The bank has completed its migration to the core banking system, and has increased employee productivity on the digital platform.
- It has appointed the second executive director, and the new CFO is also expected to be on-boarded soon.



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## Canara Bank

Buy

Current Price INR 569

### Balance sheet and P&L

- In 9MFY24, PAT stood at INR108b, which has surpassed the full-year profit of FY23.
- Business growth was in double digits in 3Q, with gross advances up 12.8% YoY.
- RAM credit grew 14.56% YoY. Retail grew 12.14% YoY, Agriculture grew 19.26% YoY, Housing loan grew 12.1% YoY, and Vehicle loans grew 13.2% YoY.
- Mix of RAM: Corporate stood at 56:44 in 3QFY24.
- LCR stood at 135% in 3QFY24 and the bank remains comfortable with its liquidity conditions.
- The C/I ratio was high due to wage revision settlement at 17% as the bank fully provided the shortfall of wage revisions as of Dec'23.
- The bank made additional provisions of INR7b — INR2.5b for actuarial pension and INR4.5b for wage revisions over and above, which should have been previously made.
- Earlier, provisions were made for a 15% wage revision. After the 17% wage revision, INR1.29b per month shall be provided.
- The bank expects two disinvestments to happen in FY25, one of which has already been announced by the bank.
- The bank's UPI transactions per month stood at ~830m as of Dec'23.
- RoA/RoE stood at 1.01%/21.95% in 3QFY24 as against guidance of 1%/19.5%.
- Advances/deposits growth stood at 11.7%/8.6% YoY in 3QFY24 as against guidance of 10.5%/8.5%.
- NIMs improved 3bp QoQ to 3.03%, but the bank expects margins to remain under pressure as the cost of funds rises.
- The bank is yet to raise about INR61b from the market.
- Of the bank's total loan book, it has 51% book as MCLR and 38% as RRLR.
- Due to RBI regulation on risk weights, the bank has seen an impact of ~52bp.
- NBFC exposure has come down in large corporates due to the increase in risk weights.
- CASA remains a concern for the bank and it aims to reach to ~35%.
- The bank expects faster growth in the RAM segment than in the corporate segment. In FY25 as well, corporate growth will be broadly similar.
- The bank has increased its C/D ratio to 75% and expects to maintain this level going forward.

### Asset quality

- GNPA fell 150bp YoY to 4.39% and NNPA declined 64bp YoY to 1.32%.
- Written-off accounts stood at INR690b — INR520b in NCLT book and remaining in RAM and other cases.
- Credit costs declined to 1% for the first time as against its guidance of 1.2%.
- The bank aims to maintain similar write-offs going forward as well.
- Recovery from written-off accounts was mainly from small loan accounts and NCLT recovery of INR4.50b.
- Slippages breakup: INR10b as Agri slippages, INR12b as MSME, INR4b as retail slippages.
- Total restructured book stood at INR240b, of which INR170b was standard.

- The bank maintains aggressive provisions and expects the policy to be continued. The bank has a PCR of 89% and expects it to be at 90% in FY24.

**Guidance for FY24**

- CBK expects to sustain NIMs at 3.0%.
- The bank remains confident of growing advances at 12%+ YoY.
- It guides for deposit growth at 8%+ YoY.
- CBK expects C/I to be maintained at the range of 45%.
- The bank has maintained ~10% target growth for corporate book.

**DCB BANK**

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**DCB Bank**

**Neutral**

Current Price INR 136

**Balance sheet and P&L related**

- During 3Q, the bank's advances grew 18% YoY, while deposits rose 19% YoY.
- NIM contracted 21bp QoQ to 3.48% in 3QFY24 due to increase in cost of funds, which will persist for one more quarter before it stabilizes.
- CASA ratio improved 109bp to 26.13% in 3QFY24.
- The bank expects cost of fund to stabilize in 4-5 months from now, which will stabilize margins gradually.
- Transition from home loans to loan against property has not yet completed, which gives the bank an additional yield.
- The bank is aiming for 100bp differential between LAP and home loans.
- SME is itself contributing to ~INR3b to disbursals.
- There is no material one-off during the quarter. Co-lending (much of which is low rate) has led to a decrease in yield on advances.
- Co-lending of the bank is based on partnership with originators, who are either in different segment or different geography.
- Co-lending growth will be similar to asset growth going forward.
- 53% of the book were mortgages. Product mix change will lead to an increase in yield on advances going forward.
- The bank will continue to grow Deposit base higher than the advances base. Incremental loans are priced right so as to be high-yielding advances.
- Within co-lending, most of it is gold loans which are low rate loans; change in mix of co-lending will also lead to an improvement in yields (of advances).
- The bank is not actively increasing its CV book and some decline will be seen in this.
- It is digitally acquiring NTB customers in partnership with Niyo. The bank has a separate team to focus on the Retail CASA deposits.
- Bank has launched a product named DCB Happy in which the customer gets cashback on UPI transaction, which is attracting a lot of customers.
- Margins have been impacted by TD rates only. The bank doesn't expect the higher SA rates to impact the margins adversely.
- Most of old deposits have already been repriced. Part of book which is not yet repriced from mortgages will also be repriced that will support margins.
- Mortgages (Home Loan + LAP), MSME, Gold Loan, Co-lending, AIB, Construction Finance are expected to lead the growth.
- Top 20 deposits have come down to 6.75% of total deposits in a tight liquidity market.

- The bulk of SA account balances for the bank comes at the lower-bucket pricing band. The bank offers higher rates on higher-bucket ticket sizes to attract customers for SA.
- Income has been hit by NIM compression, but as this is bottoming out, the goal is to increase the deposit base in line with loan growth.
- The impact of RBI regulation on risk weights was ~20bp on capital adequacy ratio of the bank.
- It is not looking to grow in the corporate book, but will keep it at a similar level.
- Organic portfolio is starting to show growth and will have monthly disbursements.
- 45% retail mortgage, 8% of gold, 8% of SME will be the key growth drivers.
- On the deposits front, the bank aims to focus on CASA and for this the bank has launched new products; effective fintech tie-ups have resulted in higher SA deposits.
- Majority of the deposits are coming from retail and not bulk, otherwise cost will be impacted adversely.
- If EBLR rate gets cut going forward, the bank will have saving deposit where rates can be cut to maintain its margins.
- Collection efficiency is improving and the bank expects this to improve going forward as well.

#### Asset quality related

- GNPA ratio increased 7bp QoQ while NNPA ratio moderated 6bp QoQ to 1.22%. PCR nevertheless improved 232bp QoQ to 65.1%.
- The bank has guided for GNPA of below 2.50% and NNPA of 1.00%.
- Bank expects the upgrades to be higher than the recoveries. Recoveries and upgrades have gone up to 79% in 3QFY24.
- Management guided for credit cost of ~45-55bp.
- Slippages, excluding gold, stood at 2.55% in 3QFY24 vs. 2.69% in 2QFY24. Most of the slippages are coming from the restructured book. The bank expects recoveries and upgrades to stay healthy.

#### Guidance related

- The bank guided for RoA of 1% or above and RoE closer to 14% in the near term.
- The bank guided for C/I ratio of 55% or below in the near term and cost-to-average assets at 2.4% to 2.5%.
- Management targets for 20% growth. The bank aims to double the book in the next 3-4 years.
- Bank will continue to add the headcount to continue to fund the growth, for branch addition, the bank will look to add 25-30 branches every year. NIMs likely to stabilize after FY24. The bank guided for 3.65-3.75% of NIMs.



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### Equitas Small Finance Bank

Buy

Current Price INR 106

#### Operating environment, balance sheet and P&L

- AUM growth was healthy at 32% YoY/5% QoQ, with growth across all business segments.
- NIM stood at 8.37%, impacted by increased balance sheet liquidity as the CD ratio improved.
- About 77% of incremental deposits in 3Q came from retail term deposits.



- **EQUITAS** sees good demand across all product segments. All lead indicators remain healthy and give comfort about a healthy growth pace going forward.
- On the CV segment, the bank focuses on LCV and small CV. In used cars, the bank focuses on personal used cars.
- The CASA ratio moderated 85bp QoQ to 32.7% and the bank expects CASA to remain under pressure going forward as well.
- NII grew 21% YoY, other income grew 35% YoY, Opex grew by 21% YoY, and the C/I ratio declined to 63.6%. PPOP grew 29% YoY. PAT grew 19% YoY.
- RoA stood at 1.98% and RoE stood at 14.4%.
- CRAR was healthy at 20.2%, Tier 1 stood at 19.7%, and Tier 2 stood at 0.6%.
- The bank expects that interest rates could marginally go down in the next quarter, which may dent margins. It expects NIMs to improve from next financial year if the interest rate remains stable.
- Interest rates have increased in SBL, vehicle finance and MFI book. Affordable housing has seen a marginal hike in interest rates in the current quarter.
- The bank's ability to raise retail deposits has been stable and is strengthening on the basis of prices it offers. So the bank is confident of acquiring retail deposits.
- In Q3FY24, the bank securitized/assigned advances worth INR13.9b.
- Bulk term deposits accounted for only ~23% of incremental deposits.
- ~85% of the portfolio is fixed rate loans with an average tenure of 2.5 years.
- Disbursement yields improved, with yields at 18.8% in Q3FY24. SBL –17.16%, MFI-25%, Used CV at 19.56%, New CV at 13.69%.
- The bank has adequate eligible advances available to raise funds through refinance or IBPC whenever required, which provides strong cushion to ALM position of the bank.
- The profit from the sale of investments was INR269m. Income from the sale to ARC stood at INR700m.
- The bank expects the cost of branch expansion to be very low going forward, but it will be investing in tech, and therefore the cost will remain at the current level.
- In SBL business growth, non-Tamil-Nadu disbursements rose 46% YoY in 3Q.
- The bank remains comfortable about liquidity, with LCR of 211.6%.

**Asset quality**

- GNPA increased to 2.5%, NNPA at 1.1%, PCR remained at 56% in 3QFY24.
- Slippages were high due to heavy floods in Tamil Nadu and high slippages in vehicle finance and micro finance.
- Collection efficiency for the bank will remain healthy in 4Q.
- 9MFY24 credit cost run rate is 90bp. Credit cost stood at 1.05% in 3QFY24.
- Normal slippage run rate is 3-4%. Including securitization book, GNPA would stand at 2.29%.
- The increase in disbursement yield of SBL has not led to deterioration in asset quality.
- The bank is not seeing any stress in the portfolio and should be consistent. It expects the credit cycle to be good in FY24.

**Guidance**

- The bank guides for healthy growth in advances in the range of 25-28% for FY24.
- It expects a CD ratio of ~85% by FY25.



- Credit cost guidance for FY24 stood at ~1.25%.
- The bank retains its earlier NIM guidance of 8.5% for FY24.
- The bank expects the interest cost to move up in FY25. The bank has increased interest rates in the last few months, which will have benefits going forward. The bank expects disbursements to stay strong, which will result in better fee income.
- The banks expected to sustain RoA at 2.25%; it has been able to maintain RoA at this level in the past too.



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## Federal Bank

Buy

Current Price INR 154

### Balance sheet

- FB added 65 branches in 9MFY24; added 30 in 3QFY24.
- In terms of the cost of deposits, the bank expects a challenging environment. Retail deposits still stand strong. The bank is confident about its business growth trajectory.
- FB expects challenges, like AIF and higher wage provisions, to stay in 4QFY24.
- The regulator is looking to push banks to moderate their C/D ratio to a comfortable level of 80% and FB expects to achieve this target by CY24 end by rebalancing its business mix.
- The bank is aiming for a C/D ratio of 80% and 18% in its advances portfolio.
- It expects the cost of deposits to remain high as liquidity conditions remain tighter and so does the competition.
- The bank's co-lending business is starting out, and it has done some work in the MFI space. The bank's underwriting through partners is of the same standard as the bank.
- The increase in risk weight (RWA) in 3Q was due to a regulatory change.
- FB has not revised anything in unsecured loans. While it has only tightened the filters, it expects to sustain 40-50% growth in unsecured. The unsecured segment has been scaled up to 4.5% of the overall book. In credit cards, out of 100 spending transactions, 30 are EMI and 30 are revolver, while the remaining 40 are transctors. Hence, better growth in unsecured does not necessarily translate into better NIMs.
- In 3QFY24, INR450b of IBPC was done, and the bank is looking at IBPC in terms of funding mobilization. FB wants to leverage on the PSL front, and as a result it had done higher IBPC in 3Q.
- The cost of NBFC has gone up and the bank has repriced its existing book. The cost of deposits increased by about 30-35bp. Many NBFCs are qualifying for PSL.
- Partnerships on the liability side is filtering out, but the bank does not expect any impact on fee income.
- In NRE deposits, the behavior has changed and the bank is changing its strategy to gain the share. The bank will continue to grow and will invest in branches.
- PL loans are pre-approved based on the CIBIL score. FB does not do open-market sourcing in PL and credit cards.

### P&L

- Credit cost was slightly higher but still lower than the previous guidance.
- Along with NIMs, the bank wants to focus on RoA and RoE as it aims to deliver RoA of ~1.4%. The bank has doubled its RoA in the last five years.

- FB had planned 15% of wage provisions and pension; some part of the pension provision will be carried out in future quarters. The bank has fully provided for the wage provisions.
- The yield on advances is stagnant despite the bank moving to higher-yielding segments. FB expects yields to move upward going forward as the mix of higher-yielding segments improves.
- Other income has been higher amid gains from the FedFina stake sale.

**Asset Quality & Others**

- One account of INR7.8b has slipped in 3Q and will be upgraded in 4Q; the account had some challenges, which have now been resolved.
- Retail slippages are only a tad higher; the retail book is also growing at a healthy pace.
- The recovery from the ADAG group is expected in 4Q. The exposure for NBFC is about INR10b and other is INR18b.
- For succession planning, the board has already started the process. The bank will submit candidate names to the RBI in the coming months and is open to considering external candidates as well.



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**HDFC Bank**

Buy

Current Price INR 1,454

**Opening remarks**

- Economic activity is strong in 3QFY24, with healthy GST collections and continuous growth in remittances, retail, and consumer spending.
- HDFCB has launched separate journeys for savings accounts, consumer durables and credit card, which help customers open accounts with just one click.
- After watching for two cycles, the bank will look to have partnerships with fintechs and also intends to do small elements of co-lending.
- The bank will launch its new app and start offering a 10-second NTB personal loan, credit cards, and business loans.
- The bank added 2.2m customers and the customer base stood at 93m in 3QFY24.

**P&L and balance sheet**

- HDFCB has added 150 branches during the quarter, taking the tally to 8,091 branches as of 3QFY24.
- C/I moderated 13bps to 40.3% and the cost-to-asset ratio stood at 1.9% in 3QFY24.
- The bank will not take its eyes off the granular liability franchise and will focus on having the low-cost deposits.
- LCR ratio stood at 110%. Due to temporary liquidity issues, deposits growth was modest in 3QFY24.
- Retail deposits grew 2.9% QoQ; however, non-retail deposits fell 3.3% QoQ.
- ~84% of deposits are retail. A change in mix towards retail will lead to better margins going forward.
- About 500-550 branches are in pipeline by the end of FY24.
- Retail current deposits formed 72% of total deposits as of 3QFY24.
- CRB book continues its healthy momentum at 6.7% QoQ, while the other wholesale book grew at 2% QoQ in 3QFY24.
- The RoE/RoA stood at 15.8%/2% in 3QFY24 and the same is expected to improve going forward.

- The bank is aiming to sustain an RoA of ~2% by the end of FY24.
- Management said that margin is currently at the lower end of the spectrum and should recover to 3.7% in 18-24 months
- The bank is confident of its growth as it has been able to maintain its incremental market share of ~16-20% despite an increase in bank size.
- CD ratio is more than 110% and therefore to reduce this, the bank is trying to grow deposits more than that of loans.
- The bank has provided an LCR guidance of 110-120%.
- Management indicated that it aims to sustain a CASA mix of 39-40% over the next 18-24 months.
- CASA ratio is expected to increase going forward as customer spending will abate in some point of time and new customers are coming in.
- Deposit rate has peaked and the bank expects deposit repricing to end in two quarters.
- The bank has provided a C/I ratio guidance of 35% over the long term.
- The bank is ensuring that the mix of funding moves more towards deposits to bring down its CD ratio.

#### Asset quality

- GNPA/NNPA ratio improved 8bp/4bp QoQ to 1.3%/0.31% as of 3QFY24.
- Recoveries stood at INR45b, whereas write-offs were at INR31b as of 3QFY24.
- Bank reported a 26bp slippage ratio amounting to INR70b for 3QFY24.
- There has been no sale of NPA accounts during the quarter.
- HDFCB has reported a credit cost of 49bp in 3QFY24 vs. 74bp in 3QFY23. The decline in credit cost will allow for higher investments in subsidiaries and technology.
- Contingent and floating provisions amounted to INR154b, and general provision amounted to INR104b as of 3QFY24.
- Additional contingent provision of INR12.2b was provided for in 3QFY24.

#### Subs performance

##### HDB Financials

- HDB loan book stood at INR840b, up 29% YoY and 8% sequentially.
- 14.6m customers were added during the quarter and the total branch count stood at 1,618 as of 3QFY24.
- The quality of the book remained healthy with Gross Stage 3 assets improving to 2.25% compared to 3.73% in the prior year.
- HDB reported an RoA of 3.1% and an RoE of 19.9% as of 3QFY24.
- HDB Financials is well capitalized with a CAR of 18%.

##### HDFC Securities

- HDFC Securities serviced 5m customers.
- HSL reported a revenue of INR7b and a PAT of INR2.3b in 3QFY24.
- HSL has 193 branches across 143 cities in the country

##### HDFC Life Insurance

- 288k individual policies were sold during the quarter; up 8% from the prior year and overall 16m lives were insured during the quarter
- HDFC Life reported a total premium income of INR155b and a PAT of INR3.7b in 3QFY24.
- Solvency Ratio stood at 190% in 3QFY24.



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**ICICI Bank** Buy

Current Price INR 1,049

**Operating environment, balance sheet and P&L**

- Profit before tax (ex of treasury) grew 23.4% YoY to INR135.5b in 3Q. Profit after tax rose 23.6% YoY to INR102.72b.
- Core operating profit increased by 10.3% YoY to INR146.01b.
- Domestic loans grew 18.8% YoY and 3.8% QoQ, Retail loans grew 21.4% YoY and 4.5% QoQ, and Retail portfolio stands at 46% of the total loan portfolio.
- The bank believes in 'one bank, one team'.
- Average LCR stands at 121%.
- It has made INR6.3b of provisions related to alternative investment funds as per the RBI circular dated 19th Dec'23.
- CET-1 stands at 16.03%, including 9M and after taking the impact of increase in risk weights on unsecured and NBFC loans.
- Deposits grew 18.7% YoY, while CASA ratio moderated by 60bp to 39.4% in 3Q.
- Of the total domestic loan book, 31% has fixed interest rate, 49% has interest rate linked to repo rate, 2% has interest rate linked to other external benchmarks, and 18% has interest rate linked to MCLR and other older benchmarks.
- The bank has 6.8% of the advances toward NBFCs and HFCs, while 4% belongs to the builder portfolio.
- In opex, non-employee expenses are growing as per the business trends, while marketing expenses were high in 3Q due to the festive season. Headcount addition will see some moderation from hereon.
- ICICIBC does not expect any inch-up in the credit cost in the near term.
- The bank is monitoring its risk exposure to NBFCs and this exposure has been adequately priced in. There were some pre-payments by a couple of NBFCs in the current quarter.
- There is competitive intensity in interest rates. In Q3, most of the products are facing competition in terms of rate, but the bank is focusing on being disciplined in the pricing and working on the relationship value of clients, rather than solely focusing on loan growth. The bank does not see any decrease in mortgage yields as of now.
- The bank's LCR and NFSR are well above the regulatory requirements, which are key parameters for a bank's CD ratio. The bank also has to look at overseas operations where the deposit inflow is low. Higher capitalization leads to a higher CD ratio for a bank.
- Reductions in the NBFC portfolio were rated A and above; hence, the bank saw a decrease in the portfolio. Upgrades in the quarter led to an increase in the BBB portfolio share.
- The bank added 123 branches in the quarter. It plans to follow a bottom-up approach, and does not have a target for branch addition.
- CASA is weak across banks. ICICIBC is doing better on the CA side due to better payment products, while the SA is more of a function of rates and consumption. It will wait for a couple of quarters to see how the CASA ratio moves.

**Margins**

- NIMs declined by 10bp to 4.43% due to an increase in CoF. The impact of interest on the income tax refund was 4bp in 3Q.

- Retail deposit rates have remained stable for a quite long time. 3Q saw some hardening in wholesale deposit rates. The current systemic liquidity is running in negative.
- ICICIBC expects FY24 margins to be at the similar levels of FY23 and expects some moderation in margins in 4Q but at a slower pace.
- Yield impact was also due to KCC slippages, which were higher in 3Q. The share of the high-yielding portfolio is also not very high, while there has been competition in auto and corporate rates.
- The cost of deposits increased in 3Q, which will flow into 4Q and possibly in 1QFY25, but the run rate should be less than the previous quarter's run rate.

#### Unsecured portfolio

- The unsecured loan mix: The bank has refined credit parameters. It has moved pricing on PL by 20-25bp. Growth may continue to moderate from the current levels. The bank does not expect to have much impact on P&L.
- The performance of the unsecured portfolio is unchanged as of now, but the bank is looking at it closely in the bottom cohorts. Given the overall situation, the bank plans to trim the portfolio.

#### Asset quality

- Gross NPA stood at 2.3% and Net NPA ratio at 0.44% as of Dec'23 (vs. 2.48% in 2QFY24).
- PCR declined to 80.7% vs. 82.6% in 2QFY24.
- The bank holds INR131b of contingency provisions, same as 2QFY24.

#### Subsidiaries

- ICICI Pru Life reported VNB of INR14.5b in 9MFY24, with VNB margin of 26.7%.
- ICICI Lombard's gross direct premium income (GDPI) grew 16.5% YoY to INR187.03b in 9MFY24.
- ICICI Securities retail equity market share increased to 13.1% in 3QFY24 from 12.8% in 2QFY24.
- ICICI AMC's AAUM grew 25.9% YoY to INR6.1t in 3Q. It has a market share of 13.3% as of Dec'23.



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## IDFC First Bank

Neutral

Current Price INR 82

### Balance sheet and P&L

- CASA ratio improved 40bp QoQ to 46.8%; 79% of the book is now retail deposits.
- Asset-side book is well diversified; mortgage book forms 28% of the overall book, VF at 10%, CV at 3%, Rural at 11%, Consumer loan at 14%, etc.
- The bank has not been impacted by the RBI's recent AIF investment guidance.
- In Oct'23, the bank successfully raised INR30b through QIP.
- The balance sheet expanded 22% YoY; lending and deposit mobilization stay strong.
- Customer deposits grew 43% YoY and retail deposits grew 47% YoY in 3QFY24.
- Overall funded assets grew 24.5% YoY in 3QFY24.
- The bank issued more than 2.2m credit card as on 3QFY24.
- NIM increased 10bp QoQ to 6.42% vs 6.32% in 2QFY24.
- The bank has maintained LCR on consistent basis. Average LCR stood at 121% in 3QFY24.





- Cost-income ratio is higher at 73.1%, as the bank is in the expansion phase. The drag is mainly coming from the liability side of the book and the bank expects it to improve successively from FY25-end.
- The bank's tier 1 ratio has decreased due to the RBI regulation on risk weights despite raising capital in Oct'23.
- The bank is focusing more on used car finance as there are less margins in new car finance. Also, credit quality is better in used car loans.
- CD ratio stood at 101.6%, which the bank expects to come down to below 100 by the end of FY24.
- Incremental CD ratio for the quarter was just 60% and 80% for the year.
- In FY25, the bank expects opex to increase by ~20% and income to increase by ~24-25%.
- By FY29-end, the bank expects C/I ratio of ~58% and margins to remain stable.
- Digital loan portfolio, portfolio buyout and revolver book are growing well.
- In credit cards, the bank expects to break-even by FY25 and report profit by FY26.
- Retail deposits are growing at a faster rate. TD too grew faster at 59% YoY as customers are looking to lock in at a higher rate.
- The bank expects positive momentum in C/I ratio, RoA and RoE by FY25, and therefore the expense ratio will decline going forward.
- Funded assets grew 24.5% YoY. Infra book is 1.6% of the overall asset. Retail book grew 29% YoY, SME grew 16% YoY.

**Asset quality**

- On retail side, GNPA was 1.5% and NNPA was 0.5% in 3QFY24.
- ~0.35% of funded asset is restructured book. More than 90% of restructured book is secured in nature.
- Gross slippages of the bank stood at INR14b and net slippages stood at ~INR8.50b.
- Credit cost stood at 1.26% for 9MFY24 and the bank has guided for 1.5-1.6% going forward.

**Guidance 2.0 (FY24-FY29)**

- IDFCB unveiled Guidance 2.0, under which it targets a 24.8% CAGR in deposits and 20.3% CAGR in loans over FY24-29.
- The bank has guided for 1.9-2.0% RoA and 17-18% RoE.
- It has guided for GNPA/NNPA ratio to be ~1.5%/0.4% by FY29.
- IDFCB expects consistent balance sheet growth of ~20% with profit of INR120b-130b by FY29.
- In next five years, the bank expects to open ~1,700-1,800 branches.



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**Indian Bank** Buy

Current Price INR 538

**P&L and balance sheet**

- Business grew 11% YoY and deposits grew 10% YoY and advances grew 13% YoY. CASA grew by 8% YoY and TD by 11% YoY.
- RAM advances grew 13% YoY, Retail was up 14% YoY, Agri increased 14% YoY, MSME grew 7.5% YoY, and Corporate grew 10% YoY.
- PAT jumped 52% YoY, backed by NII growth of 6% and other income grew 11%. PPOP grew modestly by 1% due to wage provisions.



- IBA has agreed for 17% wage provisions; the bank has also made provisions for retirement benefits, and made a total provision of INR5.62b in 3Q. INBK cumulatively holds a total of INR12.52b provisions towards wage provisioning. Close to INR3.42b of additional wage provisions were made towards this in 3Q. The bank had 21% of provisions against the 17% of wage provisions that was finalized. Management believed that it had not over provided in wage provisioning. Further, INBK believes that if pension costs arise then there will be some minor increase in opex.
- For wage provisioning increase, the bank will incur an additional average expense of INR750m per month i.e. INR2.2b per quarter.
- Margins reduced 3bp QoQ to 3.49%, Yield rose 3bp, cost of deposits grew 10bp, and as a result NIMs reduced 3bp. The bank is still 10-13bp higher than the overall NIMs guidance.
- The bank endeavors to reduce the cost of deposits and it has been successful in managing the same.
- INBK has 15.58% of CRAR; the bank has raised INR40b of capital through QIP, it has been adequately capitalized.
- The bank's 57bp of capital was hit by an increase in risk weights. The RBI increased 25% risk weights on NBFCs and unsecured loans, as a result 57bp of capital was hit. But this cannot be passed on to the NBFCs at uniformity.
- The bank is increasing the exposure to the AFS book and it expects the 10-year G-sec to soften. This will provide an opportunity to make money in treasury.
- The bank has been focusing on the CASA deposits to manage the costs. The current environment for the deposits remains a challenge, but the INBK is taking various steps to sustain healthy deposit growth.
- The bank's LCR is at 142% and on the LDR side the bank can still go up by 2% from the current levels. The bank will continue to grow on the deposits and the advances.

**Asset quality**

- The bank guided for recoveries to be at INR80b, i.e. INR20b per quarter.
- It maintained the trend of recoveries more than slippages, and expects the trend to continue in FY24.
- The asset quality may continue to improve with NNPA already at lower levels.
- MSME and corporate recoveries are from NCLT, OTS, ARC sale. The bank expects the recoveries to be ahead of the overall slippages.
- The exposure at BGR Energy, which has defaulted, was already provided in 2Q and the bank holds 96-97% of the PCR.
- Ten districts were hit by floods and natural calamities, and the bank has already doing some restructuring on the same, but it doesn't have much of the exposure in these accounts. The bank has done some small restructuring in the state of Manipur. INBK has INR500-600m of restructuring in 3QFY24.

**Guidance**

- Bank guided for 8-10% YoY of deposits growth, while guidance for credit growth is maintained at 10-12% YoY. Credit growth will be broad-based across all the sectors. The bank will move towards the 63% of RAM advances, which will be better in yields and lower in risk.
- Management guided for 3.41% +/- 10bp of NIM (supported by MCLR repricing); the NIM is still above the guidance. The bank will try to get the benefit of the MCLR repricing.

**Digitization Initiatives**

- It launched 15 journeys in 3Q vs. 12 journeys in 2Q and the bank now has totally 78 journeys.
- Mobile banking users have gone up by 47% YoY, UPI users have grown 38% YoY, the remitter transactions grew 72% YoY. Net banking users have grown 78% YoY, debit card users grew 10% YoY and credit card users grew 19% YoY.
- The bank is planning 8-10 digital journeys in the march quarter.
- The bank's digital business grew INR 520 b, with RAM and deposits business too doing healthy.
- The bank targeted INR 700 b of business target through digitization. The NPA levels in these loans are usually lower in these loans while the data is kept handy in these types of loans.
- The bank has got final approval in the subsidiary for which bank has already started to hiring the new team, which will improve
- The bank will incur INR5b cost every year on the tech side.



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**IndusInd Bank** Buy

Current Price INR 1,504

**Balance sheet and P&L related**

- NIM stable at 4.29%, up 2bp YoY. The management expects the NIMs to stay healthy at 4.3%. While the bank expects the margins to improve as the interest rate cycle reverses.
- Repricing on retail has helped to improve the yields on the overall assets. The bank is currently in the last stage of deposits repricing.
- The bank's overall revenue grew 17% YoY. While opex grew 6% QoQ, the bank's employee base grew 5% QoQ.
- Retail deposits as per LCR stands at a healthy 45%, and the bank aims to maintain it around 45-50% under PC-6. The bank reduced some of the CDs in 3Q.
- CASA ratio is stable at 38.5%. The bank is one of the few banks that has been seeing accretion in the SA book.
- The bank conducted an aggressive marketing campaign during the ODI Cricket World Cup and intends to maintain its strong focus on marketing. The bank is currently deriving benefits from the marketing project and the benefits are expected to surpass the associated costs.
- The bank's share of borrowings in total liabilities stands at 8%.
- The bank's LCR has improved to 122% in 3QFY24 from 117% in 2QFY24.
- The bank has acquired 0.8m customers through Indie, opening one account every five seconds. The bank also offers NRI services and a credit card proposition in the Indie market.
- CRAR has reduced due to RBI's measure of increase in risk weights.
- Retail deposits growth has been bright and the bank aims to maintain its retail deposits at levels of 45-50%.
- The bank expects the lending margins to be 4.2-4.3%.
- Fixed rate book is market driven, and the bank does not expect any increase in the lending rates.

- The bank expects C/I ratio to stabilize at 41-43% in the next two years. While the bank will keep retail book below 55-60%.
- The bank's CD ratio is in line with the banking industry and there has been no communication from the regulator regarding any adjustments. The bank is managing its CD ratio at 86-90%.
- Smaller banks have been offering higher deposits rate and growing the book. The bank acknowledges that there is a degree of sensitivity to these elevated deposit rates.
- Net Security Receipt stands at 37bp at INR12.1b.

#### Asset Quality

- Slippages Break-up: Corporate at INR3.12b (INR 1.4b pertaining to one large account), Consumer at INR 14.5b (of which, VF at INR6b, SME/BB at INR0.8b, 3 large LAP account at INR0.4b, Agri had extra slippages of INR 0.25b, while Merchant acquiring business had INR0.3b of extra slippages in 3Q). Net slippages has been adversely impacted due to higher slippages from the VF book.
- The bank expects slippages to normalize to around INR12b going ahead. Slippages in VF is normalizing; however, the bank expects the slippages to be lower in the corporate segment.
- Restructured book continues to run down at 0.5% of the book. Annualized provision has come down to 119bps in 3Q.
- SR reduced to 37bp. The bank has made additional provisions of INR1.37b in 3Q.
- The bank has maintained PCR at 71% in 3Q.
- The bank has used contingent provisions on the back of reduced stress from the telco exposure.
- The bank is not expecting delinquencies from the upcoming election. It has diversified its portfolio to eliminate the concentration risk.
- The bank has utilized INR2.2b of contingent provisions; it has created contingent provisions on the part of one large account which may get upgraded on 8th Feb 2024 and the bank may not utilize this buffer.

#### MFI business

- Loan book is growing at 24% YoY. The bank is focused on not over leveraging the customers through top-up or extra loans.
- MFI business grew 20% YoY; net slippages reduced to 0.55%.
- MFI collection efficiency stands at 98.6%.
- MFI 30-90DPD book stands at 1.7%.

#### Vehicle segment

- Business growth robust, with the segment recording the highest ever disbursements. Book grew 20% YoY.
- 2Ws demand improves on the back of rural demand.
- Doubled the auto loan book and now have a market share of 4%.
- MHCV demand is looking dull in the quarter. The bank is looking to grow in used CVs and auto loans. Tractor is growing slow and looks dull.
- 11k employees are deployed in the VF business.
- The bank will do INR140b disbursements in the VF segment and it aims to grow its book by 20% in FY25E.

**Retail**

- In retail book, LAP book grew at 10% YoY/ 3% QoQ, while other retail loans grew 54% YoY/ 5% QoQ.
- The bank expects the share of unsecured to stay at the current levels.
- Credit cards business is growing at healthy levels of 33% YoY and the credit cost is fairly in line with the industry.

**Corporate**

- The corporate segment continues to grow 15% YoY, led by small corporates. Large corporates grew 2% QoQ and are in line with the bank's expectations.
- A & above rated book at 77%.
- The bank has witnessed INR1.4b of slippage from one corporate account.

**Guidance**

- The bank aims for 45-50% of Retail deposits under PC-6.
- Loan growth is expected to be around ~18-23% in PC-6 cycle.
- Customer base to be >50m by FY26 vs 38m in 3QFY24.



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**Kotak Mahindra Bank**

**Neutral**

Current Price INR 1,763

**Balance sheet and P&L**

- Opex grew 14% YoY, primarily due to higher employee-related expenses (majorly due to retiral cost) in 3QFY24 and also because of commercial and marketing expenses.
- Consolidated PAT grew 6.1% YoY to INR42b as on 3QFY24 vs. INR39.5b as on 3QFY23.
- Provision of INR649m with respect to Security Receipts is classified as Non Performing Investments (NPI) during the quarter, which was earlier accounted as Mark-to-Market losses under 'Other Income'. Accordingly, this has no impact on profit after tax.
- AFS+HFT book as a % of investment book stood at 81% and modified duration is 1.1 years.
- Unsecured book accounts for 11.6% of the total advances as on 3QFY24.
- Total customers of the bank as on 3QFY24 stood at 48m vs 39m in 3QFY23.
- 3QFY24 results include INR1.4b provision (post tax) on applicable Alternate Investment Fund (AIF) investments pursuant to RBI's circular.
- AIF investments totaling INR1.9b, with downstream exposure to debtor companies of the bank, has been fully provided. As of 3QFY24, the bank's funded o/s to such companies stands at INR650m.
- The bank has no investments in subordinated units with priority distribution.
- LCR stood at 120% for the bank and 127% for the group level in 3QFY24.
- 56-58% of the book are repo linked. If the repo rate falls, the deposits are likely to be repriced.
- Over 76% of CA-OD transaction volumes and over 98% of savings account transaction volume occurred through digital channels.
- Deposits have picked up, driven by ActivMoney product launched by KMB 6 months ago. CASA ratio stood at 47.7% in 3QFY24 vs 48.3% in 2QFY24.
- Unsecured retail advances (incl. Retail Micro Finance) as a % of net advances stood at 11.6% as on 3QFY24 vs. 9.3% in 3QFY23 and the portfolio continues to hold well.



- CV disbursements have grown 30% YoY and the Collection Efficiency continues to be stable for this book.
- Construction Equipment book grew 38% YoY and the Collection Efficiency for this book also continues to be stable with the bank expecting 4QFY24 growth momentum to remain healthy.
- MFI book disbursements grew 66% YoY, serving a customer base of 1.8m unique borrowers.
- Agriculture SME side growth was muted and the management expects this to increase going forward.
- Overall, the risk matrix is stable in unsecured advances and is appropriately priced; however, there is some observed risk on the credit card side, which is also taken care of by the bank.
- Unsecured advances grew 40% YoY and 9% QoQ. Delinquencies in both secured and unsecured business banking remains stable.
- NIM stood stable at 5.22% in 3QFY24, with a 3-4bp differential attributed to the CRR impact addressed in the previous quarter with the major reason for stable NIMs being change in the mix of advances.
- Overall, funded asset grew 7.7% QoQ, including credit substitutes.
- Among various segments, mid-market and the SME segment grew robust. A majority of mid corporate book is working capital intensive. However, some pricing-related challenges can be seen in the SME side.
- The bank has seen some challenges in deal closure, therefore income was subdued this quarter.
- KMB has been successful in migrating all CMS customers to the new CMS platform.
- Cost of term deposits stood at 6.5-6.7%. SA account deposit starts to see some positive growth.
- CD ratio stood at 88% in 3QFY24, however, the bank's industry-leading tier-1 ratio, consisting entirely of equity, remains a positive factor.
- The bank expects RoA to sustain at ~2-2.1% going forward.
- There has been no recent change in the PSL framework. The bank largely fulfills the PSL requirements, with only a slight shortfall in one category.

#### **Asset Quality**

- NNPA ratio improved 3bp to 0.34% with GNPA ratio remaining stable at 1.7% in 3QFY24.
- PCR improved 150bp QoQ to 80.6% in 3QFY24.
- The bank reported slippages amounting to INR11.8b as on 3QFY24, while upgrades stood at INR2.9b.
- SMA 2 book stood at INR2.1b as on 3QFY24.
- The bank reported a credit cost of 40bp in 3QFY24 (incl. standard provision, excluding the reversal of Covid & restructuring).

#### **Subsidiaries**

- Kotak Securities reported a PAT of INR3.1b in 3QFY24 with its market share increasing to 10.3% in 3QFY24 vs. 5.8% in 3QFY23.
- Self-trading customers accounted for 65% of cash market volume and 99% of derivatives market volume of Kotak Securities.

- Kotak General Insurance had an agreement with Zurich Insurance for the company to take majority stake (51%) and increase that to 70% over the coming years.
- Kotak prime reported a PAT of INR2.4b in 3QFY24 with the vehicle book growing by 30% YoY.
- Kotak AMC reported a PAT of INR1.5b in 3QFY24 with a 32% YoY increase in Equity-AUM.
- With an AUM of USD3.9b, Kotak Funds – India Midcap Fund continues to be the largest India focused offshore funds (actively managed with daily liquidity).



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**Punjab National Bank** **Neutral**  
 Current Price INR 130

**Operating environment and business**

- Business grew 10.8% YoY, Deposits grew 9.35% YoY, and advances grew 12.9%.
- RAM share in the overall book increased to 55.07%, up 113bp YoY.
- PAT stood at the highest level in 15 quarters.
- NIMs improved by 4bp in 3Q; guides for NIMs to be in the range of 3%.
- Credit cost was 1.26%, as NPA provisions further declined in 3Q.
- CRAR declined to 14.63% due to an increase in RWA due to the NBFC portfolio. PNB raised INR11.53b in Tier-1. CET stands at 9.86%.
- PNB has approval of raising INR120b, of which Tier 1 is INR70b and tier 2 is INR50b.
- The cost of deposits increased by 10bp to 4.96%.
- The C/I ratio declined in 3Q to 51.2%.
- The bank made AS-15 provisions of INR3.22b and extra provisions of INR8b for a 17% wage settlement. The bank has been making provisions for pensions and has increased liability provisions. In 2Q, the bank made INR6.9b in provisions toward the wage revision.
- The C/D ratio is 69.2%. The bank is not raising the bulk deposits. It has excess SLR. As a result, deposits will never be a constraint for PNB.
- On the recovery part, PNB has around INR5-6b impact on NII-line items in every quarter. In 3Q, there was an extra recovery of about INR1b.
- One account was shifted from NPA to standard account. As a result, there was a MTM loss on the treasury part.
- NBFC exposure has increased. PNB expects higher pricing negotiations with NBFCs.
- The bank may look at growing its corporate book. There is demand in infra and roads. The bank guides for 12-13% of growth in advances.
- Unsecured loans stand at INR268b, of which INR35b are education loans and the remaining are personal loans. The bank expects housing and vehicle loans to grow at the same pace. RAM will grow at 15-16%.
- The bank is currently following the old tax regime and is discussing with its tax consultant for transition to the new tax regime.
- PNB guides for 1% RoA by FY25-end.
- PV01 as on 3Q would be INR100m.
- On restructuring - OTR-1 stands at INR29.4b, OTR-2 at INR 67.3b.
- Fee income is under pressure; the bank will not compromise on the asset quality, rather it will compromise on yields.

**Asset quality**

- GNPA declined to 6.24%, NNPA fell to 0.96% (below 1%).
- Slippages declined to 0.81%, reducing consequently for the past eight quarters.
- Slippage breakup – Agri at INR 4.39b, MSME at INR7.09b, Retail at INR 4.34b, Others at 0.13b and INR1.98b from existing NPA.
- Recovery from NCLT was INR18.31b in 3Q; guides for recovery of more INR12b in 4Q from NCLT.
- The bank expects recoveries to be at 2x of slippages. The bank expects the recovery trend to continue at a healthy pace.
- PNB has PCR of 94%, and expects credit cost to be below 1%.
- From NCLT, the bank recovered two major accounts in 3Q. It expects INR40-50b recovery every year, with INR12b expected in 4Q.
- There was an account in technical write-off, but it was restructured, resulting in an increase in GNPA in the energy account.



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**RBL Bank**

**Neutral**

Current Price INR 263

**Business performance and assets**

- Advances grew 20% YoY, within which Retail growth was faster at 33% YoY.
- Disbursements stood at INR60b vs. INR50b in 2QFY24 and INR35b in 3QFY23. MFI disbursements were flat QoQ, housing loan disbursements stood at INR14b. The bank went slow in MFI disbursements in 3Q due to elections in some states, while it expects to ramp up MFI disbursements in 4Q.
- RBK will look to monetize surplus PSL over the next few quarters.
- The bank ran down its mortgage loans as it started direct sourcing of loans. It has a market share of 4-5% in Rural VF and in the area where the bank operates, while the bank will look to expand in new states.
- 575k cards were issued by the banks in 3Q. It will add more partners to source cards business. About 65% of the sourcing is done by Bajaj and the bank will look to ramp up its internal sourcing to 50%. It will look at expanding the co-branded business. RBL is looking for other co-brand partners and will announce a couple of new partners in the next 30-40 days.
- The bank has seen broad-based retail growth and has expanded footprints in new areas.
- Deposits grew 13% YoY/3% QoQ, with 23% YoY growth in deposits below INR20m (45% of overall deposits, aims to increase to 50%). Further, it will look for granular deposits to fund the advances growth.
- NII was up 21% YoY/5% QoQ, Other income was up 26% YoY/11% QoQ. Opex grew 17% YoY/7.6% QoQ, while PAT grew 11.5% YoY.
- NIM was 5.52%; the bank expects NIM to be in the same range in 4Q.
- CET-1 stands at 14.58% and CRAR at 16.4%. The 57bp of impact in CET-1 was due to regulatory changes.
- The cost of deposits was higher by 10bp, while the bank believes that NIM would be maintained in 4Q as a part of the better-yield portfolio was back-ended in the quarter.
- RBK expects to sustain the CD ratio at the same level, while deposit growth is expected to be faster than advances growth.

- The bank is expanding its housing loan category, with a focus on small LAP with better yields, thus would be beneficial in terms of overall yields.
- The bank has agreement with BFIL in place and plans to bring down this partnership to 40%. Further, the bank aims to add several partners and will reveal new partners in a couple of months.
- RBK has disclosed that RoA for Bajaj portfolio cards is slightly lower vs. internally sourced cards. The RoA range is broad for both Bajaj and non-Bajaj portfolio.
- The bank has recently sold few NPA credit card portfolios to Kotak Bank at a haircut.
- The customers that are on-boarded through partners are customers of the bank, but they can be tapped by other partners to cross sell.
- The bank's credit card customers with less than INR25k spending would be around 3-4% of the total credit card customers.

#### Contingent provisions on AIF Investments

- The bank took INR4.6b of extra provisions, with INR1.15b on AIF (total exposure at INR1.20b). These AIF investments are venture debt funds. RBK does not see any issue in these debt funds.
- AIF investments are fully provided for. Excluding these provisions, PAT would have increased 53% YoY and RoA would be 1.03%.
- The bank has partnered with venture debt funds in the last 10 years. On the three funds that the bank has invested in, the bank has been getting good returns. While extra AIF provisions are solely due to regulatory requirements and there are no signs of discomfort regarding these investments.

#### Asset quality

- Gross slippages stood at INR6.66b, of which Cards at INR3.7b, MFI at INR1b, and Other retail assets at INR1.5b.
- RBK's asset quality ratios were largely flat, with GNPA at 3.12%, NNPA at 0.80%, PCR at 75.1%.
- The bank had some impact from lower recoveries. Some recoveries were affected in some states by state elections. The bank is not seeing any impact on its MFI business, and its collection efficiency is healthy.
- Overall collection efficiency is also healthy at 99.41%.

#### Guidance for FY24-26

- Advances growth is expected to be healthy at 20% YoY, which will be led by retail business.
- NIM for 4Q is expected to be at the similar level of 3Q on a conservative side.
- Granular deposits will grow faster in overall deposits.
- Deposit growth is expected to be healthy, while the bank will not tweak any deposit rates. The bank is sourcing well from existing branches, and it has started cross-selling in deposits.



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### State Bank of India

Buy

Current Price INR 760

#### Balance sheet, P&L and others

- The global economy is expected to grow by 3.1% in FY24 and 3.2% in FY25. The projected growth is below the historical average of 3.8%.
- Real GDP growth is expected to be 7.3%.



- 3Q net profit stood at INR 91.64b after absorbing the additional liability of INR71b, which comprised INR54b for pension at a uniform rate and INR17b provisions for ex-gratia benefits and neutralization of Dearness Relief to pre-Nov’02 retirees and family pensioners.
- The bank is mindful of its liability profile and expects to reduce the dependency of wholesale deposits.
- Excess SLR stands at INR4t and LCR is healthy at 131%, well above the regulatory requirement.
- Advances witnessed healthy growth across all segments in 3Q.
- About 59% of savings accounts were opened through the YONO app. SBIN continues to focus on CA accounts too.
- CET1 ratio stands at 10.38% and the bank is open to raising more capital if growth trends demand.
- With inclusion of profits, CRAR would have been 14.31%, CET-1 at 10.38%, RoE growth at 19-20% and loan growth would have been 14-15%. The bank is open to raising capital from all types of avenues. It is also reviewing AT1 prices. The bank will make sure that capital will not be an obstacle for growth.
- The bank believes that credit growth will be at 14-15%. The bank has made total provisions of ~INR200b in FY24. Despite this, RoE is 19.5%.
- The bank has enough elbowroom to grow at the pace of INR7.5t per year (18-20% growth).
- The bank’s CD ratio is 66% and LCR too is healthy at 131%.
- RBI decisions are independent of the FOMC. The bank expects repo rate cuts in 2Q or 3Q.
- The bank is reporting a 14% CAGR and will reach the INR50t mark in few years.
- SBIN is leveraging analytics and possible applications of Gen-AI and using tech for the benefits of employees. The bank will be in a position to create a new opportunity.
- SBIN’s Chairman aims for a profit of INR1t in the next few years to become the highest profit making entity in the country.
- A credit pipeline of INR4.6t is available in the corporate loan segment and the bank will be happy to cater to the corporates. The bank has not received any communication from private banks for the sale of corporate assets.
- A revised regulatory framework for the valuation of its investment portfolio vide RBI circular dated 12th Sep’23 is estimated to add ~ 50bp to CET-1 in Apr’24.
- The CD ratio increased but the margins did not, as majority of the growth was back-ended in 3Q. And as a result, its benefits will be seen in 4Q.

**Margins**

- SBIN expects margins to remain similar to that of 3Q level and hence there could be only 1-2bp of decline in NIMs from hereon.
- Most of the deposits have already been repriced; hence, there should not be any pressure from deposit repricing.

**Asset quality**

- GNPA/NNPA ratios moderated to 2.42% (lowest in >10 years) or 0.64% as of 3QFY24.
- The slippage ratio improved by 5bp YoY to 0.67%. Credit cost stands at 0.25%, improved by 12bp in 9MFY24.



- The bank has worked on credit costs and strengthened the mechanism for underwriting the risk. The bank is clear in terms of portfolio composition and selection. The bank has improved its loan management system and is controlling the quality of the overall book.
- The bank does not expect any lumpy recoveries in AUCA accounts. On NCLT recoveries, the bank has to depend on the consortium and ecosystem.
- The bank had lumpy recovery of INR2b in FY24.

**Wage revisions and one-offs**

- Wage revisions increased to 17% from 14%; 10% was provided from Nov'22 onward. SBIN had provided INR88.9b as of Sep'23 and provided additional INR63.13b in 3Q. Total provisions stand at INR127.18b in FY24. Going forward, the bank expects additional wage-related provisions of INR54.08b in 4Q.
- In 3Q, there was a one-time item of INR71b due to differential pension at 40% or 50%, while this order was pending from 2002. Since this event was bound to happen, the bank made INR54b and another of INR17b for neutralization of DA relief for pre-Nov'02 retirees and family pensioners.
- The bank will get the tax benefits for the additional provisions.
- The INR17b one-time item was related to DA relief, which can be applicable to all other banks.
- The bank has done all settlements and the wage bill will be INR660b in FY25E vs. INR770b (total at INR 770b+ INR 71b {one offs} = INR 841b) in FY24.
- The employee cost was higher vs. other PSUs as there have been pensioners in the bank. But the bank expects efficiency to improve further and employee costs should moderate.



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**SBI Cards & Payment Services** **Neutral**

Current Price INR 740

**Business performance**

- Credit card industry has been witnessing robust growth and the highest-ever credit card spending.
- Regulatory measures, such as the increase in risk weights, will have prudent credit growth and good asset quality.
- Outstanding cards-in-force stood at 185m (up 16% YoY, market share at 18.9%, added 1.1m new accounts). Spending grew 41% YoY to INR986.6 (market share at 18.4%), and Receivables increased by 26% YoY / 8% QoQ to INR488.5b.
- Rolled 22,200 offers across 200 cities in 3Q. UPI on Ru-pay is gaining traction; monthly avg UPI spending increased to INR12k.
- SBICARD has launched a new co-branded credit card with Reliance, which is available online and at all Reliance retail stores.
- State Bank of India's YONO customers can now get SBI cards digitally.
- Revenue and profit growth remained healthy. Revenue at INR47.42b was up 30% YoY, and PAT at INR5.49b was up 8% YoY.
- CoF increased to 7.6% vs. 7.1% in 3QFY23 amid a higher borrowing rate and also due to an increase in RWAs from NBFCs. The rates have gone up by 25-30bp. CoF will increase in 4Q as the full quarter will be impacted.
- CRAR stood at 18.4%. Profits will continue to improve capital adequacy (above RBI's guidance of 15%). The company has increased its tier-2 bonds to meet this increase.

- RoA stood at 4.1%, impacted by increased credit cost and CoF.
- CoF is guided to be higher in 4Q, but the company will try to minimize the compression.
- The company will not look at curtailing growth in credit cards but will look at the district level and area level data for limiting the growth.
- SBIC does not serve new-to-credit customers in the open market but can acquire from the SBI.
- The festival season spending in retail grew 20% QoQ. In Oct'23, spending was at the peak, with some moderation in Nov-Dec'23.
- Corporate spending does not impact NIMs.
- NIMs stood flat QoQ, but cost pressure due to the increase in risk weights is expected to impact margins in 4Q.
- SBICARD has a comfortable level of Tier-1 capital and has raised tier-2 in this week and will be further looking to add.
- From 2QFY25, the cost of funds is expected to stabilize.
- The credit cost guidance was 6% in 1QFY24, but now the company is already at 7.5%, amid the RBI's caution on rising delinquencies in unsecured retail.
- The company acquires customers who have a bureau score of around 720-750, but as and when customers become vintage, the score may move toward 600.
- The company does not expect a slowdown in the credit card industry and expects growth to remain healthy.
- The company aims to maintain its current customer acquisition run rate going forward.

#### Asset quality

- GNPA was at 2.64%; credit cost stood at 7.5%.
- Credit bureau suggests some increase in delinquencies in credit cards and PL. There is an increase in 30+ DPD as stated by the bureau report and the RBI has taken certain measures.
- The company has refined underwriting practices when accounting for delinquencies.
- When an account gets into NPL, the credit limit gets reinstated and the company looks at bureau data.
- In 3Q, credit cost increased by INR1.40b and is expected to stay high. But the company may look at the data for the next two quarters.
- The company will look at the bureau behavior for the movement in asset quality. The company also looks at various cohorts like age, geography, income level, etc.
- The ECL model requires validation on annual basis. The company continues to refresh the model as and when required.



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### Union Bank of India

Buy

Current Price INR 141

#### Business performance, balance sheet, and P&L

- UNBK has earlier made wage provisions to reflect a 15% wage hike, which has now increased to 17%. Hence, the bank in 3Q provided INR2.33b for 11 months. The bank has been providing INR1.3b per month for extra wage provisions (INR3.9b in 3Q).



- The cumulative wage provisions stood at INR17.54b, and the bank has an additional INR5b of wage provisions. UNBK has not made any retirement benefit provisions but will consider it in future quarters.
- The bank had been maintaining a CD ratio of 76-77%, which can go up to 78%. The bank will continue to maintain LCR at 125% going ahead.
- UNBK has already raised INR50b and has approval for QIP of INR30b, which is expected to come out next year.
- Treasury income is dependent on the benchmark yield. The bank will maintain healthy treasury yields.
- CRAR was impacted by 60bp due to an increase in risk weights by the RBI.
- The bank will file tax rates based on a 25% run rate for FY24. The bank had provided at 25% in FY23 too.
- The banking sector is facing challenges in garnering deposits. UNBK is re-pricing its NBFCs portfolio at a higher rate to maintain the margins. The bank has raised 15-20bp on the NBFC portfolio.
- Risk-weighted assets for the bank stood at INR6,580b.
- The bank has increased TD rates on shorter-term maturity TDs. The cost of deposits has increased by 6bp, while yields has declined by 6bp. The bank is not seeing any major increase in the cost of deposits. While it expects some improvements in yields due to MCLR repricing.
- The bank expects a credit cost of 50bp over the next few quarters.
- The C/I ratio is already at the lower end and is expected to be at the lower end.
- Bulk deposits increased in 3Q, but the bank is confident of maintaining margins at 3% and above.
- The bank successfully raised capital of INR50b in 2QFY24.

**Asset quality related**

- GNPA/NNPA improved by 155bp/22bp YoY to 4.8%/1.1% in 3QFY24.
- The bank has minimal exposure to BGR Energy Systems, which defaulted in 3Q.
- UNBK made INR59b of total recoveries in 3Q vs. INR55b in 2Q. The recovery consists of technical write-offs at INR9.95b and interest components at INR9b.
- The accounts that slipped in 3Q were mainly from the textile and infra sectors.

**Guidance for FY24**

- Gross recoveries guidance stands at INR160b; the bank is already at INR140b and will surpass the stated guidance.
- Slippages are expected to be at INR120b; 9M slippages stood at INR85b.
- UNBK expects to sustain margins at ~3%; its current margins are already above the guided range.
- Advances growth is expected to be 10-12% and deposit growth is likely to be ~8-10%.
- The bank has given guidance of retail and wholesale mix of 55:45 for FY24.
- It targets business growth of 1.5x of GDP growth.
- RoA guidance is 1% for FY25; the bank has already achieved this.



FINANCIALS/NBFC

- Within the NBFC/HFC sector, managements highlighted the following: 1) Adjusting growth trajectory in the personal loans segment due to sector-wide elevated delinquencies in the small-ticket personal loans segment; 2) Anticipating a moderation in disbursement volumes for Select Vehicle Financiers in FY25 (relative to FY24); 3) CoB has largely peaked out or may experience a slight uptick for one more quarter before stabilizing; and 4) Asset quality is expected to remain favorable and 5) Operating leverage will start playing out especially for entities that have made substantial investments in technology upgradation and distribution expansion in recent years.

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook for FY24	Asset quality and others
360 ONE	<ul style="list-style-type: none"> <li>■ The next six to nine months is going to be an investment phase for 360ONE WAM. The company recently added 35 new hires to its wealth sales team. Typically, wealth sales teams mature and achieve breakeven within 15 to 18 months.</li> <li>■ The launch of the HNI and global propositions are progressing as planned. These initiatives have the potential to generate INR 100b of flows (65-70% from HNI and rest from global platform). Yields from these new businesses are expected to fall within the range of 70-75bp.</li> <li>■ The company anticipates a further decrease in CIR to 45% by FY26 from current levels of around 49%, due to new business initiatives and the commencement of revenue generation by newly established teams.</li> </ul>	<ul style="list-style-type: none"> <li>■ Out of the total INR 2.21t ARR assets, ~INR 1.85t is fee earning and the remaining INR 350b is non-fee paying. Of the non-fee paying, ~50% (INR 170b) would convert to fee paying and it typically takes about two to three quarters.</li> <li>■ Carry income should be ~150m every quarter (broadly 15bp of the carry AUM).</li> <li>■ For the quarter, operating costs rose 8% QoQ and 24.3% YoY. The employment cost rose 8.1% QoQ on account of additional headcount, including certain senior-level hires in the ultra HNI segment, which is not supported by corresponding revenues at this stage.</li> </ul>
Angel One	<ul style="list-style-type: none"> <li>■ Angel One is focused on scaling up the assisted business and building an ecosystem to offer a full product suite. It will be leveraging NXT (an in-house developed technology platform) to enhance partner engagement and user personalization for high impact.</li> <li>■ It is awaiting MF license from SEBI and is setting up processes for AMC business.</li> <li>■ Angel One has also strategically planned higher investment in client acquisition to capitalize on robust market environment.</li> </ul>	<ul style="list-style-type: none"> <li>■ Change in tariff structure for the cash intraday segment led to a marginal decline in net broking income.</li> <li>■ The anticipated INR400m rise in net finance costs for FY24 is attributed to the heightened borrowing for substituting the underlying collateral for bank guarantees. ~INR160m has been incurred between Jul'23 and Dec'23 and it is estimated to incur another INR150m.</li> <li>■ Customer Acquisition costs for AngelOne have not increased, and thus, life-time value justifies the cost of acquisition. The breakeven for cost of acquisition is steady at six months.</li> </ul>
Bajaj Fin.	<ul style="list-style-type: none"> <li>■ Rural B2C delinquencies is inside out; BAF will not shy away from cutting business/risk in this segment</li> <li>■ The company continues to make substantial investments and expects the digital platforms to get fully refreshed by Jun'24. It anticipates a growth trajectory from 5m to 10m monthly downloads on the App.</li> <li>■ Ambition is to dominate all digital platforms and deliver ~25% of business volumes.</li> </ul>	<ul style="list-style-type: none"> <li>■ Guided for gross credit costs of ~175-185bp (which is the pre-COVID levels of credit costs).</li> <li>■ Except Rural B2C, all other products segments have delinquencies, which are within acceptable levels.</li> <li>■ Bounce-rate in Urban B2C and Rural B2C are materially lower than pre-Covid, but flow rates are higher than pre-Covid.</li> <li>■ Urban B2B and Rural B2B are not showing any signs of stress.</li> </ul>
BSE	<ul style="list-style-type: none"> <li>■ BSE is developing a colocation facility – a strategic investment in the short term that will benefit in the long term.</li> <li>■ 2024 will be a transformational year as BSE is committed to growing in new areas such as expansion of data centers, new MF platform, improving clearing &amp; settlement services, and enhancing index and data services.</li> <li>■ In order to further reduce clearing and settlement costs, the exchange is trying to review the contract terms with NSCL and</li> </ul>	<ul style="list-style-type: none"> <li>■ Two factors adversely impacted profitability: 1) Core SGF of INR917m, ~67% higher than previous year; 2) Clearing and settlement charges of INR638m in standalone financial statements vs. INR438m in consolidated financials</li> <li>■ Sensex derivatives broke its recorded orders of 22m and achieved 180m trades with 8b+ contracts.</li> <li>■ In the MF segment, the market share is more</li> </ul>

	increase its institutional presence.	than 85% among the exchange platforms and is reaching new heights as the volumes are increasing day by day.
<b>Mahindra Finance</b>	<ul style="list-style-type: none"> <li>Expects incremental CoB in 4Q to remain at the same levels as 3Q.</li> <li>Looking to maintain opex to average assets at ~2.8% in the foreseeable future and then bring it down to ~2.5%</li> <li>Disbursements in FY25 are expected to be less robust compared to FY24, with the company anticipating tempered performance in FY25 compared to FY24.</li> </ul>	<ul style="list-style-type: none"> <li>Will be looking to deliver credit costs &lt;1.5% in FY25 (vs. guidance of 1.5-1.7% in FY24)</li> <li>Guided for the PCR and LGD levels to decline/normalize by 3QFY25.</li> <li>During 3QFY24, MMFSL updated the ECL model for its retail vehicle loans by including multi-factor macroeconomic variables, and product classification of loan portfolio.</li> <li>Guided for much lower volatility in Stage 3 even when the external environment gets tough or the cycle gets adverse.</li> </ul>
<b>Muthoot Fin.</b>	<ul style="list-style-type: none"> <li>Continued to guide for ~15% YoY gold loan growth in FY24 and has guided for same growth in the next year as well</li> <li>Cost of bank borrowings might converge from 8.55% (now) to ~9% over the next three-four months.</li> <li>Unless the cost of borrowings goes up substantially, it will not increase the gold loan yields, but will instead mitigate it with better operational efficiency.</li> </ul>	<ul style="list-style-type: none"> <li>Outstanding value of SR receipts declined to INR2.3b (PQ: ~INR6b). When the SRs completely run-down, recoveries over and above the outstanding principal will also be shared in the same 85:15 proportion.</li> <li>Floods in TN had a minor impact on Belstar's asset quality in Nov/Dec'23, but it got corrected in Jan'24.</li> </ul>

# 360 ONE

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## 360 One WAM

Buy

Current Price INR 706

### Business

- ARR AUM came in at INR2,200b, up 32.6% YoY. This growth was driven by strong net flows of INR 88.65b during the quarter. Wealth ARR AUM stood at INR1,510b, up 41% YoY, while AMC ARR AUM stood at INR691b, up 17% YoY.
- Out of the total INR 2.21t ARR assets, ~INR 1.85t is fee earning and the remaining INR 350b is non-fee paying. Of the non-fee paying, ~50% (INR 170b) would convert to fee paying and it typically takes anywhere from 2-3 quarters.
- Recurring revenues increased 10.8% YoY at INR3.38b and up 9.2% at INR9.73b in 9MFY24.
- 9MFY24 recurring revenue comprises 76% of overall operating revenue. 9MFY24 retention on ARR assets was 67bp, while wealth ARR retentions stood at 63bp and AMC retentions at 74bp.
- Excluding carry, the ARR retentions have remained stable at 61bp.
- Carry income should be ~INR150m every quarter (broadly 15bp of the carry AUM).
- The lag between inflows and the conversion to a steady-state retention does continue, particularly considering prevailing market conditions. However, there has been strong growth in active ARR AUM, accompanied by improving retentions. Management expects this positive trend to continue over the next few quarters as well.
- The top 10 cities would be accounting for ~88% to 91% of the business two years back, today, it would be closer to 80% to 83%.
- Active discussions are currently underway regarding institutional mandates, and the company anticipates the conversion of 2-3 mandates over the next 6-9 months.



- In 9MFY24, 360ONE WAM on-boarded 400 new clients (clients with INR50m plus of ARR AUM) and the number of clients with ARR AUM above INR500m increased by over 100 for the same period.

#### Cost

- For the quarter, operating costs rose by 8% QoQ and 24.3% YoY. The employment cost rose by 8.1% QoQ, on account of additional headcount, including certain senior level hires in the ultra HNI segment, which is not supported by corresponding revenues at this stage.
- The cost-to-income ratio is expected to gradually settle down over the next few quarters as the new business initiatives and new teams start generating revenues.
- The wealth sales team has recently added 35 new hires, bringing the total count to 85-90. From a capacity perspective, with this addition, 360One is theoretically well positioned to manage around about 8000-9000 families with assets above INR50m, compared to the current capacity of ~4000 families.
- The CIR is expected to reduce to 47-47.5% from the current 49% and from FY26, the company aims to reduce it further to 45%.

#### Asset Management Business

- The AMC business witnessed planned outflows during 9MFY24. The performance of funds across the different strategies and vintages continues to rank in the top quartile. The company maintains a robust pipeline of new products to be launched in the upcoming quarters.
- To augment investment capabilities, 360ONE is investing in deepening channel presence in the domestic market, specifically through MFDs.
- Management expects better mutual fund outcome in the next 12 to 24 months.
- The SOF12 fund is set to launch this week. By the end of this quarter and the subsequent one, the fund is anticipated to reach a size of at least ~ INR30-40b on the late-stage PIP side. Additionally, the healthcare fund AUM are expected to reach INR115b. A credit fund is also slated for launch in the next 10-15 days, with an estimated size of ~INR 20-25b.

#### New business

- The launch of the HNI proposition in the new businesses is progressing as planned, with an expanded pilot underway over the next couple of months. The development of the Go-to market and sales teams is also progressing well.
- This segment remains highly attractive and underpenetrated and opens an additional prospective client base of approximately 160k-170k households in the domestic market.
- The next six to nine months is going to be an investment phase. The wealth sales teams typically mature over and break even in 15 to 18 months.
- From a business construct perspective opportunity, 360One remains quite convinced in investing that extra 2-3% cost-to-income through the next year.

#### Flows

- It expects flows to end the year with INR 350-400b and for the next year at least 20-30% higher (excluding new business). But more importantly to push the active number closer to the 65% to 70% of the ARR flows.
- New business can potentially add INR 100b (65-70% from HNI and the remaining from the global platform). Yields are expected to be range bound at 70-75bp.
- ARR net flows continues to be very strong at over INR270b for 9MFY24. This is equivalent to our full FY23 business net flows.

**360ONE Plus**

- ~80% of these ARR net flows are coming to flagship advisory Proposition 360 One plus, with retentions on active ARR for this proposition gradually increasing and standing at 35bp for the last quarter.
- From FY25, the yields shall stabilize at 29-30bp on the active non-discretionary assets. Yields shall move to 35bp with all the new mandates coming in closer to 35-40bp. So on a blended basis, 40-45bp for 360ONE Plus.



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**Aavas Financiers** **Neutral**  
 Current Price INR 1,437

**Business Updates**

- Login-to-Sanction TAT declined to 9 days from 13 days, which will give more bandwidth to the business teams to work on newer opportunities.
- AAVAS is working on E-Mitra Tie-up (in parts of Rajasthan) which is an opex-light model. Existing geographies have enough opportunities for penetration and it will continue its contiguous expansion.
- 9MFY24 RoA/RoE stood at 3.22%/13.5%

**Yields, CoB and Spreads**

- Spreads stood at ~5.1% and were maintained above the guidance of ~5%, despite competitive pricing pressure.
- CoB rose ~9bp QoQ to 7.95%. Incremental CoB was 8.0% (vs. 8.35% in 2QFY24). Ex-NHB, the incremental CoB stood at ~8.2%.
- Management guided that it is almost at the peak levels of CoB, given that the portfolio CoB and incremental CoB are now converging
- AAVAS last raised its PLR by ~40bp in Apr'23
- It is working with its business team to improve its core product of ~INR750K ticket size which has better yields. It is reinforcing this product and targets to increase it in the disbursement mix by ~5%.

**Opex**

- Opex to Assets moderated from a peak of ~3.8% (in 1QFY24) to 3.5% (in 3QFY24). CIR was ~45% (vs. ~47% in 1QFY24). Guided that it will bring down the Opex to Assets in a gradual manner to ~3%.

**Tech Transformation**

- Tech Transformation right from LoS, LMS and ERP - LMS is under implementation and will take 3-4 months for them to go live. Ability to have ~30% lead generation coming from digital channels.
- Tech transformation and behavioral transformation across 350 branches takes some time to settle down. There are early green-shoots from improvement in the TAT and moderation in cost ratios.
- Lead generation of ~14600 applications and ~INR22b in Jan'24. MoM improvement in the number of logins.
- Sanction to disbursement ratio has also increased to 83% (vs. 79-80% earlier)
- Salesforce, FlexCube and Oracle Fusion are in the opex model - It will keep paying to the vendor - No inflation on software costs for the next years

**Disbursements and AUM growth**

- MoM growth in disbursement even in Jan'24
- Disbursal growth to catch up which will enable it to deliver its guided AUM growth of 20-25% and expects doubling of AUM in the next 3 years

**Asset Quality**

- GS3 at ~1.1% and NS3 stood at ~0.8%. Asset quality remains pristine - GNPA's are broadly stable with seasonality impact of ~5bp QoQ.
- Guided for 1+dpd to be <5%
- Restructured accounts with an outstanding amount of ~INR713m as of Dec'23 have been classified under Stage 2 and have been provided as per regulatory guidelines

**Liabilities**

- Raised INR41.9b at ~8.14% during 9MFY24 and ~INR12.2b at ~8% during 3QFY24
- Introduced newer liability products wherein it got ~10-15 tenor money from the banks at low interest rates, and also partly drew down from NHB during the quarter. Borrowed ~INR3b from NHB during 3QFY24.

**Others**

- Employee count stood at ~6,000
- Another 15-20 branches will be added in 4QFY24, both across older and newer states
- Strengthening the Regional Rural Officer (RRO) model wherein only when there are volumes from touchpoints, it considers opening a branch
- BT-OUT is ~6% of the opening AUM
- No manpower additions on the collection side
- CAR was hit by ~277bp on account of a new regulation on non-housing portfolio which is ~15% of the total AUM.



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**Aditya Birla Capital**

Buy

Current Price INR 184

**Business update**

- Lending businesses' AUM grew 34% YoY and 6% QoQ
- Consolidated PAT grew 39% YoY to INR7.36b
- There is a B2B platform for MSMEs, Udyog Plus, with more than 400K registrations as of Dec'23. Integrated Udyog Plus with ABG ecosystem to provide channel financing to dealers. Udyog Plus has clocked disbursements of ~INR1.8b till date with ABG ecosystem contributing >60% of the business. Total AUM of Udyog Plus reached ~INR1b as of Dec'23
- Branch expansions are targeted at Tier 3 and 4 towns
- Tightening the underwriting in the personal and consumer (P&C) loans; QoQ growth has declined to ~1% in P&C
- Consumer loans (including BNPL) declined to ~INR27b at the end of Dec'23 from ~INR41b (in Sep'23).

**NBFC**

- Disbursements grew ~26% YoY to INR165.5b
- Loan portfolio grew ~35% YoY and 5% QoQ to INR986b
- RoA was at ~2.4% and RoE was at ~17%
- Infused ~INR8.5b in the NBFC business in 3QFY24. So far it has infused ~INR16b into ABFL.
- Tightened underwriting and will continue to dial-down the consumer loans portfolio
- Consumer loans portfolio sourced from PayTM is <1%
- All the digital sourcing journeys are designed for end-to-end control with complete control over customers

- The business loans segment was the largest contributor; 50% of the disbursements in business loans segment is done directly.
- Asset quality has shown consistent improvement; GS3 at 2.95% and enhanced PCR to ~50% (PQ: 48%)
- BNPL will be dialed down further - dialed down before it could see any deterioration in asset quality.
- Recent developments increased the Branch Network, Udyog Plus and D2C App which is being launched next month
- Lot of focus is on the Secured SME segment even as it is dialing down the Consumer Loan Book
- Not looking at any fintech for large ticket loan sourcing since it requires a physical evaluation
- SIDBI guarantees ~75% of the principal outstanding in unsecured business loans. It takes ~12 months for the money to come from SIDBI in case of any defaults.
- Majority of the allocation from the earlier capital raise will be towards the lending businesses and does not foresee any capital raise till Mar'25.
- Sourcing Mix: Secured Business Loans: 61% Direct and 29% through DSAs; Unsecured Business Loans: 53% DSA, 41% Digital and 6% Direct; P&C loans: ~84% of P&C is through digital journeys and ~5% Direct sourcing
- Sourcing Mix at the overall NBFC level: Direct is ~45%; ~22% and ~32% from digital
- Increased its lending rates by 20-25bp across product/customer segments

### Housing

- There was a sustained robust momentum in disbursements. Disbursements grew 45% YoY to ~INR20b
- AUM grew by 27% YoY and 7% QoQ to INR165.4b
- RoA/RoE of 2%/14.6%
- NHB mix in the borrowings has improved to ~23% (PY: 17%)
- CoB has sustained at ~7.65%
- HFC now has 130 branches across 19 states. Contribution of ABG ecosystem in HFC disbursements has improved to ~9%
- Launched channel engagement program across 24 cities covering 1,600+ partners
- HFC sector is at ~18.5t and ABHFL has a very small market share. Acceleration is coming at the cost of market share gains from the competition
- Competitive intensity will remain high in the last quarter - HFC also launched a host of exciting products

### AMC

- Monthly SIP flows grew by 7% YoY to ~INR10b for Dec'23

### Life Insurance

- Consistent growth of >20% in both individual and group business
- Commenced business with newer partner banks like IDFC First and Bank of Maharashtra. Signed Corporate Agency agreement with Axis Bank during the quarter.
- Net VNB margin was 15.6% (broadly flat YoY) over 9MFY24
- Digital collections account for ~80% of the renewal premiums
- ~28% AUM is in Equity and ~72% is in debt

### Health Insurance

- Expects the Combined Ratio to decline YoY/QoQ in 4QFY24.

- Does not envisage the need for any equity infusion.
- 9MFY24 loss ratio is trending well for both Retail as well as Group. Loss Ratios are trending well compared to the last financial year.

**Others**

- Aditya Birla Capital App is in CUG and it will be launched next month.



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**Angel One**

Buy

Current Price INR 3,150

**Financials**

- Angel One recorded the highest ever client additions in 3QFY24 at 2.5m, a growth of 16.2% QoQ.
- Client base grew 14% QoQ to ~19.5m, primarily driven by superior tech advancements. Gross client additions are counted only when the customers complete the KYC process for demat opening and not for SIP registrations.
- ADTO grew to INR 36t in 3QFY24 vs. INR 29.6t in 2QFY24, up 21.4% QoQ.
- Angel One’s consolidated total gross revenue increased to INR 10,608m in 3QFY24 vs INR 10,493m in 2QFY24, flat QoQ.
- Change in tariff structure for the cash intraday segment led to a marginal decline in net broking income. The main purpose here is to gain market share in new geographies.
- Angel One’s consolidated EBDAT came in at INR 3,641m in 3QFY24 vs. INR 4,185m in 2QFY24, a decline of 13% on a QoQ basis. EBDAT Margin (as % of Net Income) stood at 44% in 3QFY24.
- Consolidated PAT grew to INR 2,603m in 3QFY24 vs. INR 3,045m in 2QFY24, a decline of 14.5% on a QoQ basis.

**Expenses**

- Overall expenses for the quarter increased 17% QoQ and 75% YoY.
- ESOP cost for the quarter came in at INR 1.7b. This is on account of headcount addition in asset management business, data & analytics, technology and operations functions.
- Higher depreciation during the quarter was on account of commissioning of network infrastructure.
- Angel One has also strategically planned higher investment in client acquisition to capitalize on robust market environment. In 3QFY24, the company incurred higher spends on tech infrastructure, demat charges, and CSR.
- It believes that these strategic investments in client acquisitions and new businesses should reap benefits of better operating leverage.
- Customer acquisition cost for Angel One has not increased, and thus, life time value justifies the cost of acquisition. The breakeven for cost of acquisition is steady at 6 months Angel One is expected to experience some cost impact as new businesses are still at their nascent stage.
- The anticipated INR400m rise in net finance costs is attributed to the heightened borrowing for substituting the underlying collateral for bank guarantees. These funds are directed toward margins with the clearing corporation. ~INR160m has been incurred between Jul’23 and Dec’23 and it is estimated to incur another INR150m. This is due to the fact that most of the BGs with collateral as client funds matured by the end of Sep’23 and the requirement for incremental borrowings went up after this.



**Assisted Partner Network**

- Angel One will be leveraging NXT (an in-house developed technology platform), to enhance partner engagement and user personalization for high impact.
- Angel One is focused on scaling up the assisted business and building an ecosystem to offer a full product suite. This shall be achieved by deepening the channel partner network with multiple products and expanding geographical reach.

**Super App**

- Super App has witnessed huge traction since its launch. The Super App, along with its incredible feature enhancements, has resonated well with clients. This success is instrumental in Angel One's efforts to expand the client's product portfolio, thereby enabling access to a variety of new financial products. Open Interest data and Stock discovery feature has been launched on the app, which has improved client engagement on the platform.
- It is consistently ranked among the top 10 finance apps on the play store.
- Angel One soon plans to roll out charts with tick-by-tick data and an aggregate portfolio, further enhancing its product stack.

**Others**

- Angel One during 3QFY24 has on-boarded multiple senior personnel across AMC and broking businesses.
- The data does not suggest that tier-3 clients take a longer period to breakeven than tier-1 clients. The quality of client acquired through an authorized person surpasses than that of digitally acquired customers.
- Ancillary income has declined sequentially on account of 3 less trading days in the quarter.
- Angel One has started offering consumer credit products by offering unsecured consumer loans (ticket size ~INR 0.1m).
- Angel One is awaiting MF license from SEBI and is setting up processes for AMC business.

**BSE**

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**BSE****Neutral****Current Price INR 2,297****Future investments**

- Invested in the expansion of core data centers, which will solidify its performance and the on-boarding of new members.
- BSE is developing a colocation facility - a strategic investment in the short term to benefit in the long term.
- 2024 will be a transformational year as BSE is committed to growing in new areas such as expansion of data centers, new MF platform, improving clearing & settlement services, and enhancing index and data services.
- For the GIFT City merger, the company is working to expedite the process; however, timelines cannot be predicted as it needs multiple regulatory approvals.
- The company is implementing a colocation project and the racks are expected to be delivered in 1QCY24. The current focus is on setting up the infrastructure and facilitation of brokers to utilize the services. Eventually, the rack rates will be in line with industry rates.



**Derivatives**

- BSE is now the second biggest global exchange in terms of volumes and Sensex is the fourth largest product globally.
- Sensex derivatives broke its recorded orders of 22m and achieved 180m trades with 8b+ contracts.
- BSE is now focusing on the diversification of participation base and building volumes in longer-dated contracts.
- Active UCCs stand at 2.3m for Sensex derivatives and 0.2m for Bankex derivatives.
- About 82% of total volumes come from Sensex options and the rest from Bankex.
- Pricing in the derivatives segment will not be dependent on benchmarking with NSE. Liquidity and rise in bid-ask spread owing to increase in charges is critical for pricing decision.

**Finance**

- Two factors impacted profitability – 1) Core SGF of INR917m, ~67% higher than previous year; 2) Clearing and settlement charges of INR638m in standalone financial statements vs. INR438m in consolidated financials.
- In the primary market, it enabled transactions worth INR4.1t (equity, bonds, CPs).
- SGF for currency volumes went up in spite of falling volumes as the concentration risk increased.
- In order to further reduce clearing and settlement costs, the exchange is trying to review the contract terms with NSCL and increase its institutional presence, for which it is closely working with FPIs as DIIs do not have a lot of scope to increase activity.
- Net cash balance on the funding side stood at INR20b.

**StAR MF**

- In the MF segment, the market share is more than 85% among the exchange platforms.
- The MF business is reaching new heights as the volume of transactions is increasing day by day (434m transactions in Jan'24) and it will remain the focus area of the company.



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**Bajaj Finance**

Buy

Current Price INR 6,769

**Business Update**

- Credit costs were elevated because of: a) elevated Rural B2C delinquencies, and 2) lower collection efficiencies of Urban B2C.
- GNPA/NNPA stood at 0.81/0.37%
- RoA/RoE in 3QFY24 stood at 4.9%/~22%
- Capital adequacy stood at ~23.9%. Tier-1 capital was ~22.8%. On 16th Nov'23 the RBI increased risk weights on consumer credit exposure from ~100% to ~125% which had an impact of ~290bp on the CRAR.

**Guidance**

- Guided for gross credit costs of ~175-185bp (which is the pre-COVID levels of credit costs). BAF has ~INR5.9b of management/macro overlay and will give a final guidance on management overlay in 4Q results.



**Update on the Regulatory matter**

- BAF does ~250-280K loans per month between market-place and e-comm loans.
- BAF temporarily suspended the sanction and disbursal of new ‘eCOM’ loans and loans on ‘Insta EMI Card’ effective 16th Nov’23. It has also temporarily suspended sourcing and issuance of EMI cards to new customers and levy of annual renewal fees on existing EMI cards.
- The digital signature on every KFS account and vernacular description is still pending. BAF expects to complete it within the next few weeks and will be filing with the RBI for compliance purpose.
- BAF has already made initial submissions to the RBI (except for digital signatures and vernaculars), and expects the final submission (including digital signatures and vernaculars) to happen within the next few weeks.

**Key Senior management portfolio changes**

- Anup Saha has been re-designated as the Deputy MD. He will continue to oversee all businesses of the company (excluding LAS and Commercial lending). He will also have expanded functional responsibilities and will be assisted by three new COOs. Anup will report to the MD.
- Appointment of three COOs with all of them reporting in the Deputy MD
- Deepak Bagati: President Debt Management Services is being promoted to Chief Operating Officer. In his new role, he will continue to oversee Debt Management Services. He will also have expanded leadership responsibility for Operations, Service and Public Relations.
- Sandeep Jain: CFO promoted to COO and CFO. He will oversee Finance, FP&A, Treasury and Investor Relations. Henceforth, he will also have expanded leadership responsibility for Human Resources, Administration and Legal.
- Anurag Chottani: Chief Information Officer promoted to COO. He will continue to oversee Technology and Corporate Strategy and will also have expanded leadership responsibility for Marketing and Digital Platforms.
- Three COO positions are new positions, which have been created to build a mature organization.

**Personal loans (B2C businesses)**

- BAF has taken preventive actions in Urban B2C, which is reflective of ~3% lower growth.
- BAF has the latitude to calibrate between these three dimensions - Growth (Tailwind), Margin (Headwind) and Risk (Headwind). Continues to pivot and re-pivot between growth, margin and risk. Out of the monthly industry PL disbursements of ~INR700b, BAF just does ~INR40-50b.
- Absolute size of the PL market has grown 89% (from pre-COVID to now)
- Sweets spot in Urban B2C PL is INR200K-400K and in Rural B2C is INR125-350K. It does not disburse PL of <INR50K ticket sizes. Rural B2C delinquencies is inside-out; BAF will not shy away from cutting business/risk in this segment
- In the B2C businesses, the ability to pick and choose is what has changed, given significant competitive activity and strong supply predominantly from public sector banks.

**Asset quality**

- Except Rural B2C which is amber, all other products segments are in green
- Bounce-rate in Urban B2C and Rural B2C are materially lower than pre-Covid but flow rates are higher than pre-Covid.
- Urban B2B and Rural B2B are not showing any signs of stress

**Newer products scaling up well**

- LAP monthly disbursements at ~INR2.5b
- New auto loans across 85-90 locations and auto monthly disbursements at ~INR2.0-2.5b
- 2W open architecture: ~25-27K accounts a month; 250 locations; 50-55% are existing customers;
- MFI is clearly an LRS view; BAF will take its time to build out the MFI vertical and it will be longer-haul
- Gold loans in Rural B2C is growing at >100% YoY.

**Co-branded credit cards**

- The RBI has granted one-year renewal; the RBI has communicated that it has observed some deficiencies in the co-branded credit cards; BAF will work with RBL Bank to get these deficiencies ironed out

**LRS 2024-28****Additions to business construct**

- Customer Share: To grow its share of customer's wallet by offering all products and services in a frictionless manner and deliver highest Customer Satisfaction (CSAT) Score and Products Per Customer (PPC).
- Technology & Data-first: Technology and data-first as an organization culture to solve all problems. Be an early adopter and invest in emerging technologies and data practices.

**Update on LRS 2023-27**

- Products: The company has launched five new product initiatives so far in FY24.
- Geography: added 139 locations in UP, Bihar and North-East.

**Strategic Construct**

- On products, ambition is to be amongst top 5 players in each product line in LRS period. BAF has planned nine new product initiatives in the LRS period.
- On geography, the company will continue to strive to get all products in all locations in a sustained manner
- On platforms, its ambition is to dominate all digital platforms and deliver ~25% of business volumes. The strategy is to grow from 5m to 10m monthly downloads on App, originate 1b organic traffic on Web and deeply invest in marketplaces, social and rewards platforms.

**Others**

- Continues to invest deeply and expects the digital platforms to be fully refreshed by Jun'24. Expects to grow from 5m a month to 10m monthly downloads on the App. Ambition is to dominate all digital platforms and deliver ~25% of business volumes
- BAF has taken a decision that by Mar'24 it will do a KFS and vernacular for all its products;
- Increased yields by ~25bp across all products (both secured and unsecured).
- SME is instead MSME for BAF. Up to ~INR500m of turnover, present in 2,000 cities in India where it serves businesses, traders and professionals.
- Commercial business with customers having >INR2.5b turnover. Prime pricing and compete head-on with leading banks.
- In the LAS business, average client exposures will be ~INR50m and this product is very low on Retail and predominantly HNI.



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**Can Fin Homes**

**Neutral**

Current Price INR 798

**Business update**

- Process changes (including centralization of disbursements and reconciliations) impacted Oct'23 disbursements. Dec'23 disbursements reached a run rate of ~INR7b.
- Received a credit rating upgrade from ICRA to AAA from AA+. This would aid the company's borrowing costs. Moreover, the management also expects to receive sanctions from NHB this year.
- NIMs and spreads expanded QoQ due to the repricing of last tranche of loan book (of ~INR67b), leading to higher yields.

**Guidance**

- Guides for FY24 spreads of ~2.6% and NIM of ~3.7-3.8%. However, it expects spreads to moderate to ~2.5% and NIM to ~3.5% as it pursues loan growth in higher ticket sizes.
- Targets to bring down the DSA sourcing mix to ~60% over a period of time.
- Guides for GS3 to decline by INR200-300m in 4QFY24, resulting in GS3 of 0.75-0.8% by Mar'24.
- FY24 guidance for CIR is revised to ~16% (from 18% earlier) due to the postponement of IT transformation costs. However, it continues to guide for CIR of 18.0-18.5% in FY25.
- Expects disbursements of ~INR25-28b in 4QFY24 (vs. ~INR25b in 4QFY23), which would lead to AUM growth of 13-14%.
- Guides for disbursements of ~INR120b in FY24. Loan growth will be lower than ~20% in FY25 but targets a CAGR of ~20% in loans over the next four years.
- Salaried mix would remain above 70%.
- The company will not require additional ECL provisioning in 4QFY24, but the PCR coverage will be decided by the Board.

**Yields and Margins**

- CANF has received board approval to transition from an annual interest rate reset to a quarterly reset policy effective Jan'24 for all new loans disbursed. Existing customers have also been given a choice to transition to a quarterly reset.
- Even in a declining interest rate environment, it should be able to maintain its spreads since it expects benefits on the borrowing side.

**Opex**

- Opex declined QoQ to ~INR490m in 3QFY24 due to annual incentives and one-time process change-related expenses in the prior quarter. Guides for quarterly opex run rate of INR520-530m (excluding IT transformation cost of INR150-200m in FY25).

**AUM & Disbursement**

- Disbursements have been centralized wherein scheduled disbursements are verified and documentation is checked. For disbursements scheduled before 2pm, demand drafts are generated and delivered to the branches on the same day by 5pm. However, for cases received after 2pm, DDs are delivered to the branches next day.
- Guidance of strong disbursements/loan growth is predicated on a) the tie-up with CRM and lead-sourcing from digital channels, b) new branches (~15



branches planned in FY24) becoming productive, and c) higher ticket sizes through the developer channel.

- In higher ticket-size loans, affluent customers would have a propensity to pre-pay but this segment also offers opportunities for top-up loans and cross-selling.

**Asset Quality**

- CANF board and management have reversed (or utilized) the management overlay. This led to high credit costs in 3Q; to extend provisions on new slippages from the restructured pool.

**Branches**

- Opened five branches in north and west India. Looking to expand in north and west India to bring down dependency on the southern region.
- Will target Gujarat, Maharashtra, Punjab, and Haryana to expand footprint in North and South.

**Other**

- CANF acquires ~4.0-4.2k customers every month.
- Its exiting IT system (which is 12 years old) has been beefed up to generate more reports to perform better monitoring. Cluster-level monitoring (focusing on 18 parameters) has been introduced.
- Non-performing DSAs have been de-empaneled. It will continue to churn and remove the DSAs who are not performing.
- Yields will be lower for loans sourced from developers. CANF is offering interest rates of ~8.95% for loans with a ticket size of >INR2m.
- DSA payouts are around 0.3-0.65% (blended of ~0.43%). Developers expect 0.1-0.25% of commission payouts.
- Opex (acquisition costs) - Average quarterly payout to DSAs is INR60-65m.



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**Cholamandalam Inv. & Finance**

Buy

Current Price INR 1,100

**Performance Update**

- 3QFY24 disbursements stood at ~INR224b and grew 27% YoY and 4% QoQ.
- PAT at ~INR8.8b grew 28% YoY. 9MFY24 PAT rose 30% YoY to INR23.7b.
- Vehicle Finance (VF) disbursements in 3QFY24 were at INR123.5b and grew 18% YoY. LAP disbursements grew 51% YoY and Home Loans disbursements grew by 48%, driven by branch expansion into Tier 3 and 4 locations.
- Disbursement in the three new businesses grew ~33% YoY.
- CRAR was at ~19.4% with T1 at ~15.6% and T2 at ~3.8%.
- Board of Directors of the Company approved the payment of Interim dividend of ~INR1.3/share.

**Guidance**

- LAP and HL will grow faster than other product segments.
- The Cost to Assets guidance stands at ~3%. Although it is currently on an upward trend, the company anticipates that operating leverage will begin to yield benefits from next year onwards.
- Guided for RoTA (PBT) of 3.5%, but the endeavor will be to improve the RoA from next year onwards.

**Vehicle Finance**

- CIFIC has a presence across both new and old tractors, enabling it to demonstrate healthy growth in the tractor segment despite the overall decline in industry volumes.

- Marginal book yield is 100bp higher than portfolio yields and the company the improvement in VF NIM to sustain
- Tamil Nadu floods did not have any significant impact on the portfolio.
- ~30% of the disbursements in VF comes from existing customers. There is hardly any cross-sell between the businesses.
- Industry growth in CV will be in single digits. The management is confident of achieving a growth rate between 15-20% in Vehicle Finance.

#### **New Businesses**

- The GS3 in CSEL (traditional) stood at ~0.6%, while in CSEL (Partnerships), it was 2.7%. The company has reduced the disbursements from four partners, leading to a decrease in the monthly run-rate of CSEL disbursements from INR5.5-6.0b to INR2.5-3.0b.
- Tightened the underwriting standards with the existing partners and the company has been sharing flow data with them.
- In the newer businesses, FLDG is restricted to ~5%. After the change in regulations, CIFC has been keeping a higher interest income to mitigate the impact of lower FLDG (post change in guidelines).
- As the fully provided loans in the CSEL segment were written-offs, the provision cover declined. Newer businesses include SME, SBPL, and CSEL and the current provision cover will be adequate.
- Chola makes 50% provisions on 90+ dpd and 100% provisions on 180+dpd. Post 180+dpd, the loans are written-off because it then becomes eligible for FLDG and tax benefits. Unless the loans are written-off, NBFCs do not get tax benefits.
- FLDG recoveries are shown under 'Other income'. To the extent of write-offs, the FLDG income of ~INR120m was recognized in 'other income'.

#### **LAP**

- LAP business has ATS of ~INR5m and LTV of ~50%.
- The robust growth in LAP is attributed to a) branch expansions, b) Micro-LAP catching up and c) contributions from the East Zone.
- Delinquencies are continuously coming down in LAP and the implementation of SARFAESI has also facilitated resolutions.

#### **Home Loans**

- In Tier 2 and 3 towns, the company maintains slightly higher rates, aiming to operate at those yields so that it can adequately price them going forward.
- In the Home Loans segment, the ATS is ~INR1.32m, with a tenor of 14 years and LTV ratio of ~50% (Home Loans and Self-construction). The expansion of Home Loans in non-South regions contributed to the increase in yield, along with the repricing of a portion of the existing book.

#### **Liabilities and CoB**

- Cost of bank borrowings have not gone up significantly since they are linked to EBLR and the spreads on EBLR have remained stable.
- CoB has peaked out, and unless there are significant changes, the company does not anticipate any further increases. It does not anticipate any interest rate cuts and expects the CoB to hover around the current levels.
- Priority Sector Loans are linked to EBLR and non-PSL loans are linked to MCLR. 15% of the bank borrowings are fixed-rate, 25-30% are MCLR-linked, and the remaining are EBLR-linked.
- In this quarter, the company secured loans from IFC amounting to USD150m. Additionally, it has issued Retail debentures and is now leveraging multiple

sources for raising liabilities. As a result, the company expects better traction in liabilities, and it reassures that there is no such deficit in systemic liquidity which will constrain its growth.

**Others**

- The restructured book is currently classified under Stage 2B. Now that these loans have completed more than one year, discussions with auditors are underway to explore the possibility of reclassifying the performing loans under Stage 1.
- Earlier, the company the insurance agency license, and the insurance distribution business was booked in the subsidiary, reflecting in Chola's 'other income' from the dividends received from subsidiaries. Now, with the acquisition of insurance agency license, Chola can directly book the insurance commission as fee income within its standalone entity.



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**Computer Ages Management**

Buy

Current Price INR 2,860

**MF business:**

- Out of the last seven mutual fund mandates, CAMS won five mandates. Helios MF and Zerodha Fund House went live in 3QFY24. Recently, CAMS won a major fund RTA mandate of Unifi Capital, based in Chennai.
- CAMS MF AUM stood at INR33.95t, up 22% YoY. The overall market share is 68.2%. CAMS Equity AUM stood at INR16.9t, up 31% YoY.
- CAMS Equity AUM market share grew by 140bp YoY to 66%. Live SIP book grew 29% YoY, faster than the rest of the industry, which saw 19% growth.
- Net inflows into equity assets increased by 18.8 % YoY in 9mFY24. Inflows through SIPs increased by 29.1% YoY vs. 19% growth for the industry. SIP registrations reached a lifetime high, taking the live SIP stock to ~43.9m.
- CAMS MF segment in 3Q marked the historic high in transaction volume to ~153.5m and a consistent increase in equity AUM and new investor count.

**Non-MF business:**

- Beyond MF, the consistent focus on expanding non-MF businesses led to a 330bp increase YoY in the share of non-MF revenue to ~13% of total revenue.
- Non-MF revenue grew 59% YoY (41% growth on constant base, excluding contribution of Think360.ai), with major contributions from AIF and CAMSPay.
- CAMS continues to be the market leader in the Alternatives Services space, catering to 180+ fund houses. The business grew by 21% YoY. It added 32 new mandates, including four in the current quarter in the GIFT City (total 15). In the AIF segment, CAMS has even bought multi-currency funding capability, moving some of the existing and new clients to that platform.
- CAMSPay on-boarded LIC as an exclusive partner to execute customer account authentication.
- Revenue for CAMS KRA grew 129% YoY. The 10-minute KYC feature has been the foundational component, which has helped it penetrate into brokerages and FedEx.
- CAMSRep has gained entry into the non-life segment with digital KYC mandate from Oriental Insurance, a joint offering from CAMS Rep and Think360.
- Progress in the Bima Central app is not as fast as the company expected but the first few insurance companies are now fully integrated into the program.

- In the EIA segment, CAMS maintains a market share of 39% in policies and 31% in EIA accounts. The transaction revenue has not kicked in yet as the business is close to a breakout and will start making profits in 1QFY25.
- CAMS Finserve gains a 13.3% market share for customers successfully linked to AA ecosystem. On the funding accounting side, it services almost 70 to 80 unique consumers. The management is confident that the company has the right offering, the right go-to-market strategy and the right teams to continue to scale up this segment.
- Algo360 is the flagship product of Think360, which is live with SBI Cards. It has contracts with top 10 PSU banks. CAMS has developed Affluence360, a geographic data product to help businesses strategize and prioritize market expansion and customer experience.

**Margins:**

- EBIDTA margins stood at 44.8%, up 30bp YoY, on strong sales and operating performance. It is expected to improve 20-30bp in the next few quarters. Of this, currently 10% comes from the non-MF segment and the balance from the MF segment.
- The management expects margins in the non-MF segment to increase to ~25% in the next few quarters as the contribution from the segment grows.
- Costs:
- Total costs increased by ~INR50m in 3Q as ESOP costs grew by INR17m QoQ and out-of-pocket expenses in KRA and MF business rose INR25m. About 2.5%-3% of increase in costs was due to annual appraisals. The rest of expenses were in line with the company strategy.
- CAMS plans to spend ~INR50-60m on platform building in the non MF segment and launching new AIF products. On the MF side, the company targets to spend more on scaling up the manpower and leadership teams, cybersecurity, and other data-related expenses.



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**CreditAccess Grameen** Buy

Current Price INR 1,499

**Business update and financial performance**

- Successfully completed the core banking system upgrade; business momentum was temporarily affected for 2-3 weeks because of the CBS upgrade.
- Got a credit rating upgrade to AA- from CRISIL in Nov'23 while Ind-Ra and ICRA already had an AA- rating on CREDAG.
- Customer base grew 19% YoY while AUM jumped ~31% YoY
- Opex-to-AUM stood at 4.4%
- CE (excl. arrears) stood at 98.3% (PQ: 98.7%). PAR 90+ stood at 0.75% (PQ: 0.6%) while PAR 30+ stood at 1.2% (PQ: 0.9%)
- RoA/RoE stood at 5.5%/23.6% (PQ: 5.6%/24.7%) in 3QFY24.

**Guidance**

- Guided that the CoB has peaked out and will remain stable in the near-term
- Opex-to-AUM was in the range of 4.5-4.6% and cost-to-income ratio was at 31-32%
- The company reiterated its FY24 AUM growth guidance of 25%
- Equity Raise
- It does not expect to raise equity capital for 2-3 years and will raise equity capital when CRAR is below 20%

**Asset Quality**

- Fresh PAR accretion of 1.2% (1.6% annualized) during Mar-23 to Dec-23 is within the guided range
- Sep-23 to Dec-23 PAR increase is primarily driven by a) business as usual PAR accretion due to seasonality, b) higher steady-state PAR outside Karnataka (Karnataka PAR 0+ is 1.0%) and c) TN flood impact
- PAR in flood-impacted TN continues to decline
- Expects PAR to revert to normalcy from 4Q onwards and remain within the guided range
- Slightly higher PAR in parts of Northern Gujarat, and Rajasthan was a bit of an aberration.

**NIM**

- CRED reduced its lending rates by ~50bp in both MFI and Retail Finance.
- Drivers for rate reduction were: a) consistent improvement in operating efficiency, b) cost of borrowing having peaked out in 2Q/3QFY24 and is anticipated to remain stable from 4QFY24 onwards
- Does not anticipate any change in its NIM and return ratios guidance because of the ~50bp reduction in the lending rates since a) full impact of the revised pricing on the portfolio yield will be gradual over the coming 18-20 months, and b) strong control on the cost of borrowing on the back of a diversified liability profile and continued access to PSL-linked funds

**Branch additions**

- Most of the branch additions have been outside the Top-3 states. Within its Top-3 states, the branch expansions have predominantly come from splitting the branches.

**Liabilities**

- Marginal CoB is broadly stable and the bank borrowings have declined from 53% to 50%. Bank borrowings will continue to decline towards ~45% in the near-to-medium term. However, bank borrowings will increase in 4Q since it is planning to drawdown all the undrawn bank sanctions.
- The marginal CoB from banks was 9.4-9.5% and from DFI was 9.3-9.5%

**Retail Finance**

- Total Retail Finance was ~2%, o/w ~80% were unsecured loans and ~20% were secured loans.
- LAP ATS was ~INR550K and as the proportion of LAP increases, the ATS in retail finance will increase.
- Medium-term guidance of ~12-15% of the GLP mix from Retail Finance and ~6-7% by FY26/FY27.
- Attrition of customers who do not want a new loan or customers which CREDAG does not want to retain is 8-10% and 4-5% because the company did not have a product to retain them.
- Retail products have been launched to stem customer attrition who move out because of their need for a higher-ticket loan.

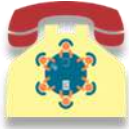
**Others**

- Customer acquisition of ~330K in 2QFY24 and ~270K in 3QFY24. 3Q customer acquisition impacted by implementation of CBS.
- It will take 2-3 quarters for the benefits of the CBS upgrade to start showing up.
- CREDAG has a Board-approved pricing policy in place which is reviewed every quarter. Pricing depends on credit costs, funding costs and capital costs.
- Customers unique to CREADAG stood at 33-34%. If it attracts customers from other MFIs, the unique customers will come down. But over a course of time, many customers become unique to CREADAG.





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## Fusion Micro Finance

Buy

Current Price INR 555

### Business update

- AUM grew 24% YoY to INR107b.
- Disbursements stood at ~INR27.2b and grew ~16% QoQ despite calibrating its growth in some geographies and maintaining one of the lowest ticket sizes in the industry.
- Added ~78 new branches in 3Q; 70% of the new branches were added in Non-Top 5 states.
- Total customer base stood at 3.8m, which grew ~11% YoY (in line with the guidance of 10-12%).
- FUSION has a credit rating of A+ from all three credit rating agencies.
- 3QFY24 PAT of ~INR1.26b grew ~23% YoY and 9MFY24 PAT of INR3.7b grew ~37% YoY.

### Guidance

- On track to deliver AUM growth of mid-20s in FY24.
- Confident of FY24 credit costs to be contained at ~3.5% and normalized credit costs from FY25 onward.
- Guides for cross-cycle RoA of 4.25%-4.5% and RoE of ~18-20%.
- Disbursement momentum will continue despite calibration in few states.
- GS3 of 1.75%-2.0% is sustainable - there is still a pool of loans, which would be written-off.

### Yields, CoB and Margins

- CoB declined ~10bp QoQ to 10.45%. It will look to further diversify its liability mix to reduce dependence on bank loans.
- NIM expanded ~42bp QoQ to 11.54%, in line with guidance of ~11.2-11.5%.
- Once it sees benefits on CoB, it might pass on the benefits to customers, but there are no such immediate plans to reduce lending rates.

### Asset Quality

- FUSION in its 2Q earnings call highlighted lower CE in Rajasthan, Gujarat, and Haryana.
- 60+dpd in Punjab was >20% as of Jan'24.
- GS3/NS3 stood at ~3.05%/0.77%.
- Punjab portfolio of ~INR805m was reclassified from Stage 1 to Stage 3. Fusion has ~16% provisions on the Punjab portfolio.
- Targets to open total 200 branches in FY24 (including 150+ branches opened in 9MFY24).
- 270+dpd loans were written-off particularly from the Punjab portfolio.
- Front-loaded some of the asset quality stress and credit costs so that it can start FY25 on a clean slate. It does not plan to utilize the management overlay in the next quarter.
- Out of ~102 branches in TN, only ~19-20 branches were impacted by the floods; however, collections have started recovering in those branches too.

### Updates on Punjab/Haryana portfolio

- Only certain districts of Punjab were impacted by the narrative of loan waivers.
- CE in Punjab stood at ~82% in Dec'23 but dropped by 5-6% in the first few days of Jan'24. CE has now stabilized and may not deteriorate further.
- Completely stopped disbursements in Punjab since Dec'23

- Expects some slippages in 4Q from in Punjab and Haryana; Collection patterns have stabilized in the last 10-12 days
- Engaging with the Punjab administration and reaching out to customers to educate them against these mischievous elements. MFIN delegation has met the Finance Minister of Punjab and there could be some action soon.
- Two Fusion MFI veterans are looking into Punjab collections. Also, it is engaging local people to impress upon customers the impact it can have on their bureau scores and their inability to borrow from other MFIs as well.

**Others**

- About 70% of new branches were added in non-Top 5 states. 67 branches (out of 156 branches) were added in AP, Telangana, and Karnataka.
- It remains committed to new states like Karnataka, AP, and Telangana - for the long term, it focuses on its strategy of diversification.
- Derecognized interest income of ~INR188m because of reclassification of a Stage 1 portfolio into Stage 3.
- The cost-income ratio rose by ~40bp QoQ due to the opening of 78 branches Pan-India and additional manpower of 1,155 in the quarter.
- Average outstanding stood at INR27.2k (which is one of the lowest in MFI industry as per MFIN data).
- Top 5 States form ~70.4% of the AUM. UP stood at INR23.3b, Bihar at INR20b, Odisha at INR12.17b, MP at INR9.7b and TN at INR6.9b.
- Average yields of ~23% and loan processing fees of ~1.25% on two-year loans.
- ~60% of the MSME book (AUM of INR4.6b) is secured.



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**Home First Finance**

**Buy**

Current Price INR 930

**Guidance**

- AUM CAGR of 30% in the medium term and management targets to achieve AUM of ~INR200b by FY27.
- Guided for yields between 13-13.5% and spreads between 5%-5.25%. The business model works best from a growth perspective with this range of spreads.
- Leverage [Assets/Equity] can go up to 5.5x-6.0x. Targets RoA of 3.5-3.6% and RoE of 17-18% with leverage of 5x. NIM will decline as the leverage/debt on the balance sheet increases.
- The company guided for CoB to increase by ~10bp and it expects the CoB to stabilize at ~8.3% in the next quarter.
- Management does not foresee any equity capital raise over the next two years.

**Yields and spreads**

- There has not been any significant repricing of the back-book. Only a few customers who explicitly request for repricing get revised rates.
- Yields compressed by ~8bp QoQ of which NHB borrowings contributed ~5bp, co-lending contributed ~2bp and ~1bp from BT-out.
- New business from NHB, disbursed at 10.5% yields, contributed to lower yields for HFFC. Spreads of ~5.5% on the NHB borrowings deployed for lending. When the company receives NHB funds, customer interest rate is adjusted downward, leading to lower yields.

- Origination yields do not include co-lending yields. Yields are similar across ticket sizes, but as ticket sizes go up, yields would typically decline.
- CoF benefits will be passed on to customers. CoF have peaked out, but there are ongoing MCLR adjustments with banks.
- Incremental spreads at 5.3% are within the guided range. Any borrowing cost reductions will be passed on to customers, aiming to keep spreads between 5% and 5.3%.

#### **Asset Quality**

- Asset quality looks very stable and there are no concerns on delinquencies in affordable housing segment
- The fluctuation in the bounce rates is within the 100-150bp range, but it is not a cause for concern. Increase in the bounce rate is not specific to any particular region.
- No headwinds seen in collections. No concerns in Rajasthan and MP markets; overall asset quality remains stable.
- BT-outs have declined marginally, predominantly due to efforts to retain customers, and BT-out is expected to decline to historical levels. The majority of BT-outs are directed towards banks.

#### **Underwriting**

- Customer (bank) account statement received from an account aggregator guarantees authenticity and expedites the process.
- Only ~10% of business comes from customers with credit scores below 700.

#### **Branches**

- The company has ~305 touchpoints and plans to increase it to ~500 over the next three years. Plans to add 25 branches each year to take the total to 200 over next three years.
- Gujarat disbursement market share stood at 3.0-4.0% and Maharashtra stood at 1.0-1.5%. Will endeavor to increase market share to ~3.0% where it is 1.0-1.5% and in areas with a 3.0-3.5% share, efforts will be made to increase it to ~5.0%.
- Management looks to expand in existing states and penetrate in northern states of Rajasthan, UP and MP. Currently, there are ~2,900 active connectors with 800 RMs.

#### **Others**

- Co-lending accounts for 5-6% of disbursements and targets to increase it to ~10%. If interest rates start trending down, spreads on the co-lending portfolio should improve, making it RoE-accretive
- INR1-2m ticket-size segments are growing faster than smaller ticket size segments.
- Employee attrition stood at 30-35%.
- Cautious stance on LAP but strong credit performance provides ample room for growth.
- Investments as on Dec'23 were higher than prior quarter. Liquid funds carry a ~100% risk weight and fixed deposits have a ~0% risk weight. Impact of ~2pp on CRAR was because of investments in liquid funds and ~3% from organic growth. This will revert back by Mar'24.
- There is no clarity on increase in risk-weights on the LAP product. If there is indeed an increase in the risk-weights on LAP, it will impact the CRAR of HomeFirst by ~2pp.



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## L&T Finance

Buy

Current Price INR 174

### Business Update

- LTFH registered the highest-ever quarterly retail disbursements.
- PAT grew 41% YoY to INR6.4b
- Subsidiaries L&T Finance and L&T Infra Credit have been merged into LTFH. The combined entity will be renamed as L&T Finance, which will be one entity for all the lending businesses of the company.
- LTFH has been working on its key pillars of 1) enhancing customer acquisition, 2) sharpening credit underwriting and continuously reducing credit costs, 3) heightened brand building, and 4) capability building.
- Festive-led demand was healthy in 3QFY24. Consumption remained stable in high income groups. Hopeful of a recovery in FY25 on account of an expected increase in rural outlay of the government.

### Status check on Lakshya Goals

- Achieved all its Lakshya 2026 targets in FY24. Retail mix stood at 91% and it expects to maintain this positive momentum going forward.
- Retail asset quality metrics are well within guided levels, with GS3 at 2.95% and NS3 at 0.64%.
- Retail RoA stood at ~3.4% in 3QFY24.

### Financial performance

- Retail NIM + Fees remained at ~12.1%.
- Retail disbursements grew 25% YoY to INR145.3b. Retail loan book grew ~31% YoY to ~INR750b.
- Retail GS3/NS3 stood at 2.9%/0.64%.
- Consol. PAT in 3QFY24 stood at INR6.4b, up 41% YoY. CRAR stood at ~24.9%. Consol. NIM +Fees stood at 10.93%.
- 3QFY24 credit costs declined to 2.52% (vs. 2.67% in 3QFY23).
- Guided for a consistent and sustained improvement in the RoA profile. Confident that by FY26 end, it should be able to improve consol. RoA to 2.8%-3.0%.
- Guided for unsecured (MFI, Personal loans and SME) mix of 45-50%.

### Retail

- Monthly disbursement run rate maintained at ~INR18b in microfinance.
- Urban Finance - 2W, Personal Loans, Home Loans and LAP - Urban loan book grew 29% YoY. 2W disbursements crossed INR25b (up 20% YoY). Personal Loans disbursements grew 36% YoY to ~INR8.5b. Home Loans grew 33% YoY.
- There was a temporary pause in personal loan disbursements - During the quarter, it sharpened the credit funnel and improved the digital journey of customers. It also improved the regulatory compliance in terms of Video KYC. Will resume its strong growth trajectory in personal loans.
- Launched 56 new locations in SME business and total locations rose to 109.
- Retail credit costs declined to ~2.6% in 3QFY24 (2Q: 2.74%). LTFH is trying to shift the portfolio toward prime customers (Bureau score of 750+ and loans of >INR150k).
- Within Urban businesses, ~94% of the collections are digital and within rural businesses, 19% of the collections are digital.

- Guided for retail credit costs of 2.5%-2.7% and credit costs will continue to trend down secularly. It has ~INR12b of macro-prudential provisions for any localized deterioration in pockets or particular product segments.

### Housing

- The average ticket size is INR6.0-6.5m; It focuses on three channels for sourcing home loans: 1) developer tie-ups (APF), 2) DSA, and 3) channels partners/digital. It is present in prime to near-prime customer segment.
- LTFH can compete in the prime space because of its lower cost of funds.
- Healthy end-user demand in some markets; objective is to sharply define its product proposition; focus is to grow this business to a reasonable scale.

### Micro Finance and Rural Businesses

- The monthly collection model has worked well for LTFH. Emphasis on collections in the first half of the month gives it ample room to focus on new business in the rest of the month.
- LTFH has a decade-long experience in the rural businesses and its collection discipline is very strong. Because of the experience, its credit engine is designed in such a way that it has ~45% approval rates.
- Rural business loans are given specifically for business purpose; the RBI's RWA circular talks about unsecured personal loans and higher risk weights, which will not apply to rural business loans (MFI) book of LTFH.

### Personal Loans

- LTFH is implementing video KYC, which will make consumer loans 100% digital KYC enabled.
- Yields on personal loans have increased by 1% over the last one year. LTFH has not re-priced its personal loans after the RBI RWA circular.
- In personal loans, the asset quality and collections remain good. LTFH never offered BNPL loans. The focus was on building a credit risk engine, and it is extremely conservative in scaling up the loan book.
- Internal discussions: It would look to create macro prudential provisions on the unsecured book (Personal loans and SME) as well.
- Sharpening credit underwriting and credit funnels; Focus on new customer acquisition and cross-selling; Tightened business, credit and regulatory compliances. It will grow the personal loans business in a risk calibrated fashion.

### Two wheeler

- LTFH does not have any significant presence in rural two wheelers. It is predominantly present in urban and semi-urban segments.
- Prime customer share (in 2W) has improved from ~41% (vs. 35% in 3QFY23).

### Wholesale

- Continued accelerated reductions in the wholesale book, which declined to ~INR70b (~9% of the loan book).
- Overall wholesale book sold to ARCs was INR190b. Out of this, ~INR40b was received in cash. SRs have total provisions of ~INR73b and the net value of SRs (~INR77b) is ~40% of the original value of wholesale assets.
- Recovered ~INR4.2b from SRs in 3QFY24. Net SRs stood at ~INR77b and expects SRs to get resolved within 15-18 months.
- Credit costs from the wholesale book will not exceed INR500m in any quarter, and it guided for ~INR2b annual credit costs from the wholesale book.
- Wholesale book has loans which are standard. The target is to increase the retail mix to 95%. Wholesale should decline to <INR50b by Mar'24.



**Liabilities**

- CoB is quite stable. LTFH expects CoF to increase by 10-12bp over the next one year because of RBI RWA guidelines.

**Customer acquisition**

- Horizontal expansion and vertical penetration: The company is expanding to villages where it did not have a presence. LTFH added 693k customers in 3Q (vs. 650K customers added in 2Q).
- Active customer franchise stood at 9.3m. Share of cross-sell in personal loans stood at ~33% in the quarter.
- Planet App: Leveraging it not just for customer acquisition but also for cross-selling and customer servicing.

**Others**

- LTFH added experienced new leaders across business lines and new Chief Digital Officer. It expects to announce key new leadership hires in Technology and Digital teams shortly. The company is working on reimagining and redrawing various customer journeys.



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**LIC Housing Finance**

Buy

Current Price INR 639

**Macro outlook**

- Liquidity in the market was tight in Jan'24, so short-term yields remained elevated.
- Yields will continue to stabilize due to the government's lower borrowing program.
- Recent Budget announcements for incentivizing affordable housing in rural/urban areas will strengthen demand for home loans over the next several years.

**Business update**

- 3QFY24 NIM stood at 3% (vs. 2.4% in 3QFY23 and 3.04% in 2QFY24).
- It has made some significant changes in the organizational structured in 1Q/2Q. Few clusters have crossed ~75% of the annual business targets.
- Sanctions in the wholesale segment inched up, though disbursements were still muted.
- No write-offs were taken during the quarter.
- Major changes on the technological front as well as the organizational level; Did organizational restructuring - opened 44 new cluster offices and made them the centers of the company (earlier 24 such offices). This was done with the intent of improving the TAT through decentralization.
- Launching an affordable housing product to meet high demand.

**Guidance**

- Guided for NIM of 2.8%-3.0% in 4QFY24. However, NIM might moderate in FY25 in case of a declining interest rate cycle.
- Guided for credit costs of ~50-55bp in FY24 and expects the credit costs to trend lower next year.
- Mortgage demand is good and no significant downtrend; both the initiatives (tech upgradation and organization restructuring) take some time to stabilize; QoQ it has been growing and confident that 4Q disbursements will be much better

### Disbursements

- Disbursements stood at ~INR45b in Oct'23, INR47b in Nov'23, INR57b in Dec'23 and ~INR46.5b in Jan'24.

### Asset Quality

- Guided for the improvement in the asset quality to sustain.
- Credit costs/Provisions should stabilize and the Board has asked the company to improve its S3 PCR to ~50% by Mar'24.
- A large wholesale account (~INR4.5b) slipped from Stage 2 to Stage 3 (excluding this account there was a reduction of ~INR4b in Stage 3).
- Making good progress on resolution of stressed developer accounts.
- LICHF has finalized its ARC policies and an ARC committee has been formed in its central office. The company has also appointed a consultant who will help it evaluate ARC proposals and take it forward. On the pilot basis, LICHF will take 10 large stressed accounts to ARCs this fiscal year. Next year, it might take an even bigger loan pool to ARCs, depending on the outcome of the pilot.
- Only those accounts that are fully provided for will be pursued for ARC. Provision reversals will happen when accounts get resolved through the ARC route.
- Earlier, LICHF maintained higher PCR on some accounts in Stage 1 because of the curing period. Now that those accounts have been closed or repaid, it has reduced the PCR on Stage 1 loans.
- Total ~230-240 builder loans in the Developer segment. Out of this, ~40-50 accounts (~INR20b) are in Stage 3. Developer NPAs are the highest in Mumbai, Bangalore and NCR.
- 40-50 developer loans are in the NPA pool. LICHF is taking legal recourse - Many big developer accounts are negotiating and trying to come to a closure. LICHF is open to one-time settlements (OTS) to resolve these accounts. Expecting some resolutions to come through from IBC and NCLT. Expects 10-12 (worth ~INR1-1.5b) developer accounts to be resolved/regularized within the next 2-3 months.

### Developer Loans

- No attempts on LICHF's side to rundown the developer book. Not going to be aggressive in developer loans so as to not repeat the mistakes it made in the past.
- LICHF has already given ~INR45b of sanctions in the developer book but will remain measured.
- A huge rate war in the Developer segment and some peers are giving developer loans at ~8.75%, which essentially suggests that the pricing is not right.

### Liabilities

In Jan'24, it did 10-yr NCDs at ~7.82%, while in Feb'24, it expects to borrow 10-yr NCD at ~7.7% (post Budget).

- All floating home loans are linked to internal PLR. ~50% of the liabilities are fixed and NIM might see compression in a declining interest environment.

### Others

- No plans of raising equity capital or issuing any bonus shares.
- Technical transformation and organization restructuring are settled now and will no longer be excuses for lower disbursements going ahead.
- Incremental yields for LICHF (including all products) stood at ~9.6%.



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## IIFL Finance

Buy

Current Price INR 600

### Business Update

- Liquidity has been tight and interest rates have peaked. However, the impact on IIFL has not been as much. It expects that the interest rate will start declining in the later part of CY24.
- Affordable housing growth has been slower and there are signs of pick-up.

### Equity Raise

- IIFL board has approved a resolution (valid for one year) to raise equity capital at an opportune time.

### Guidance

- Guided for a stable NIM trajectory and the asset quality continues to improve. NIM stability will be aided by an expected decline in CoF across its three entities and the product mix change in favor of higher-yielding products.
- Expects credit costs to remain around 2%.
- Stopped branch expansions in Home Finance, while branch expansions will be slower in Gold loans and Microfinance.
- Expects gold loan growth to improve in 4Q.
- CRISIL has upgraded its outlook to AA (Positive) and it expects credit rating upgrade over a period of time. This should help the company bring down its borrowing costs for its three entities.

### Financial Performance

- Consolidated AUM grew 34% YoY and 6% QoQ to INR774b. Core AUM grew 35% YoY and it contributes ~96% to the total AUM. HFC crossed the milestone of ~INR250b in Home Loans.
- NNPA stood at 0.9%. PCR (total ECL provisions) on NPA stood at ~151%.
- In line with its capital optimization strategy, it has a ~39% off-book mix and will see a higher proportion of co-lending emerging in the mix.
- CoB rose ~5bp QoQ to 9.1%.
- Executed marketing and branding campaigns in 3Q, which impacted its opex and cost-income ratio, but expects operating leverage to start kicking in now.
- 3QFY24 RoA/RoE stood at 3.8/19.7%.

### Digital Loans - Personal Loans

- In the last quarter, IIFL scaled down and discontinued many of its fintech partners. Incrementally, it is doing personal loans only as a cross-sell product to its existing non-personal loan customers.
- Short-duration supply chain financing and invoice discounting are 2-6-month duration products. It will also have an impact on the yield of digital loans since supply chain financing is typically done at yields of 11-14%.
- Digital loans segment continues to see forward flows from the lower-ticket personal loans, which were done in partnership with fintechs in FY23.
- In digital loans, the customer profile is largely traders and shop-keepers.

### Gold Loans

- Gold loan ticket sizes have gone up, driven by higher gold prices. Gold loan yields would moderate in 4Q given that it is a peak quarter for gold loans and competitive intensity among gold lenders will increase.

- LTV of 68-69% in gold loans against the regulatory capping of ~75%. Gold tonnage stood at ~64tonne.
- Bullet loan portfolio in Gold loans is a very small proportion of the overall gold loans. Most of them will be monthly/quarterly interest repayment loans. This allows the company to do gold loan assignment transactions, which are otherwise not allowed in bullet repayment gold loans.



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## M&M Financials

Buy

Current Price INR 290

### Performance update

- MMFS had planned a very smooth and structured transition to Raul Rebello - MD&CEO designate. Mr. Ramesh Iyer will be around for one more quarter given that he will be retiring in Apr'24.
- 3Q had the added benefit of festive volumes; MMFS continued to maintain leadership position in Tractors, Pre-owned vehicles, Passenger vehicles and Three-wheelers. Business assets grew ~25.5% YoY.
- Net Total Income (as % of Assets) improved to 6.8% (PQ: 6.5%). NIM as on 9MFY24 stood at 6.7% (v/s 7.6% YoY) primarily because of higher CoB.
- In 3QFY23, there was a provision release of INR3.4b while in 3QFY24, there was a provision release of only INR1.2b.
- 9MFY24 PPop grew 7% YoY to ~INR30b while PAT declined ~12% YoY to ~INR11.4b. 9MFY24 disbursements increased 14% YoY.
- MMFS has not lost market share in the tractor business and the decline in tractors is in line with what is seen at the overall industry level. Retail SME has not declined and only the wholesale SME has declined.
- Most of the benefits on NII came from Fee Income. It has taken a marginal rate hike of ~20bp during the quarter.
- Overall, the new-to-credit customers and sub-prime customers have declined. VF demand is coming from prime customers; management is cognizant of what should be the ideal level of prime customer sourcing to protect its margins.

### Guidance

- Continued to guide for FY24 credit costs of 1.5%-1.7% (as % of assets)
- Guided for the PCR and LGD levels to decline/normalize by 3QFY25.
- Expects incremental CoB in 4Q to remain at the same levels as 3Q.
- Looking to maintain opex to average assets at ~2.8% in the foreseeable future and then bring it down to ~2.5%
- Will be looking to deliver credit costs <1.5% in FY25 (vs. guidance of 1.5-1.7% in FY24)
- FY25 disbursements will not be as buoyant as in FY24 and it expects FY25 disbursements to be tempered vs. FY24.

### Yields, Spreads and NIM

- Yield improvement reflects the interest rate hikes that MMFS has started taking, while CoB continues to increase
- There were some benefits on the yields from the conversion of trade advances into retail customer loans.
- While the loans are fixed-rate, as the borrowing costs begin to come down, it will see the benefits in the NIM.

**Asset Quality**

- During the current quarter, MMFSL updated the ECL model for its retail vehicle loans by including multi-factor macroeconomic variables, and product classification of loan portfolio. Because of the ECL model refresh, the ECL provisions were lower by INR860m and resulted in a ~15bp QoQ decline in Stage 1 cover and ~5bp QoQ decline in Stage 2 PCR.
- Provision release in 3QFY24 is incidental to the refresh of the ECL model. This refresh exercise will be carried out in 3Q of every fiscal year.
- There are no management overlays in the ECL provisions. Provision write-backs during the quarter were because of the refinement in the ECL model.
- ECL model incorporates a ~42-month historical record and if MMFS has had higher write-offs in the past, it reflects in higher PCR but will moderate over the next 3-4 quarters
- Guided for a declining trend in GS3, as it works on settlements/resolutions of stressed loans and the incremental slippages from a better customer mix will be lower and GNPL (IRAC norms) stood at ~5.5%

**Opex**

- Will continue to make investments – will not shy away from digital transformation – and will be in a parallel run for a very efficient opex franchise.
- Opex guidance of ~2.5% by FY25 is aggressive and aspirational.

**Liabilities**

- ~46% of the total borrowings are floating-rate borrowings (including linked to EBLR) and ~54% of the borrowings are fixed.
- Excessive liquidity buffer leads to a negative carry and it will continue to calibrate its liquidity levels.
- Portfolio Weighted Avg. CoB stood at 7.8% and Incremental CoB is ~8%. Guided that incremental CoB will hover around the current levels.
- Liquidity environment has remained tight. Availability of funding has not been a problem but the rates are definitely higher than 2Q levels. Regulators (both the Fed and the RBI) do not seem to be in any hurry to reduce the benchmark rates.
- Not all bank borrowings are PSL-linked, and there will be instances where the banks will push for rate increases after the RBI RWA circular.
- Commentary on growth outlook in Vehicle Finance
- Passenger Vehicles: Seeing inventory levels at dealerships increase back to 2 months. Expects a <10% growth in Passenger Vehicles. Volume growth might be lower but ticket sizes are going up because of preference for SUVs. Slew of new models are coming up that are creating demand-side upsides.
- Used CV: As more formalization happens, there has been an increase in finance penetration in used CV.
- New CV: MMFS is not a very heavyweight player in CVs but it has been increasing its market share. Bus segment is exhibiting good demand.
- Tractor: Tough spot - After two years of very high growth, it is exhibiting de-growth in FY24. With the RABI crop not doing too well, it will rub-off on tractor demand. Does not anticipate any significant growth in tractors.
- 3W: Seeing movement towards EV and has been looking to participate.



- Shared that the rural markets continue to be exhibit positive sentiments. There have been discussions about lower farm output but the support prices will ensure that rural cash flows do not suffer.

#### SME

- SME play is largely in Retail LAP and Business Loans. Focus is now on enterprises with turnover <INR250m and large part of the business happens through LAP.
- Has been doing bill-discounting for the vendor/dealer ecosystem of M&M.
- New LAP Head has joined MMFS about three months back. The LAP business has been carved out as a separate SBU, which will have separate/dedicated underwriting and collections.
- Focus now will be on Micro/Small and has reduced focus on medium enterprises with turnover >INR250m.

#### Branch expansions

- No major branch additions have happened over the last few quarters. Now it will be opening more branches as part of its overall distribution and growth plans. Branch expansions have been factored in its guidance on opex ratios.

#### Personal and Consumer Durable Loans

- Taken a call to pause consumer durable loans in December. As a late entrant, the entry barriers are too high. Sunset the consumer durables business and will not be pursuing it anymore.

#### Mission 2025

- Guided for NIM of ~7% by FY25 (had re-calibrated it from earlier guidance of ~7.5%)
- Stable asset quality with GS3 < 6% (9MFY24 at 4%)
- 2x AUM from FY22 levels (9MFY24: 1.5x)
- New business contribution of ~15% (9MFY24 at ~5%)

#### Others

- Fee income/Other income item is not lumpy in nature and MMFS expects these levels to sustain.
- Not added any headcount in collections as collections are healthily moving towards digital. As a matter of fact, it has released some employees from collections for sales functions
- Continues to remain committed to get its Rural Housing business in order. Objective is to get the asset quality under control. Mortgage is an important theme in lending and it will play to its potential in mortgage.



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## Manappuram Finance

Buy

Current Price INR 184

#### Business update

- Consolidated AUM stood at INR404b, which grew ~4% QoQ and 27% YoY. Gold Loans grew ~12% YoY and remained flat QoQ.
- Consolidated PAT stood at INR5.75b, which grew 46% YoY, driven primarily by profitability in gold and MFI businesses.
- Consol. RoA/RoE of 5.2%/21.2% and leverage of ~2.9x
- Non-gold businesses now contribute ~49% to the consol. AUM mix
- Standalone PAT stood at INR4.17b and grew ~35% YoY
- GS3 in standalone business rose to ~2.0% (PQ: 1.6%)



- Board has declared an interim dividend of INR0.9/share for the quarter.

**Guidance**

- Continues to guide for 8-10% AUM growth in gold loans
- Increase in risk weights on bank loans to NBFCs resulted in a ~20bp QoQ increase in standalone CoB. There could be a further ~10-20bp CoB increase in 4Q as well.

**Yields, CoB and Margins**

- Standalone CoB rose by ~20bp QoQ in 3QFY24.
- Increase in the CoB because of RBI risk weight circular; MGFL will look to pass it to customers to maintain steady NIM
- Proportion of term loans has been increasing and MGFL is also trying to raise ECBs.

**Gold Loans**

- Gold AUM stood at INR208b, flat QoQ and up ~12% YoY
- Gold loan portfolio LTV of ~61% (PQ: ~66%)
- Gold loan live customers stood at 2.5m and it added 403K new gold loan customers in 3Q
- Gold auction of ~INR1.24b (PQ: INR150m) in 3QFY24
- Gold loan disbursements stood at INR261.9b (PQ: ~INR271.9b)
- Auction surplus in gold loans has declined to INR235m (PQ: INR300m). In touch with the regulator, applied for 300 new branches and hopes that it will be able to get approval in the near future.
- Increase in CoB is being passed on to the customers and MGFL is catering to smaller-ticket size customers
- During the quarter, GNPA in gold loans rose since it got requests from borrowers to delay the gold auctions.

**MFI**

- Asirvad AUM of INR115.6b (including Gold loan AUM of INR8.28b), up 34% YoY.
- PAT of INR1.27b grew 80% YoY. Share of MFI in the overall profit pie is set to go up going ahead
- CRAR stood at ~23.2%
- Write-offs stood at INR1b in 3QFY24 (vs. INR0.6b in 2QFY24).
- TN has been impacted to a certain extent by flood, and there are problems in Punjab, Haryana, Rajasthan and Gujarat

**Vehicle Finance**

- VF AUM grew ~15% QoQ / 70% YoY
- Collection efficiency stood at ~98% | GNPA rose to ~2.6% (PQ: 2.5%).

**Housing Finance and LAP**

- Home Loans AUM of ~INR14.2b and grew 9% QoQ/41% YoY
- GNPA rose to ~2.7% (PQ: ~1.8%). It has initiated SARFAESI actions and expects good improvement in asset quality in 4Q.

**MSME and PL**

- AUM stood at INR28.6b; Disbursements of INR4.6b in 3QFY24
- Collection efficiency (CE) at 102%
- GNPA stood at ~1.5% (including digital personal loans stood at ~2.3%)
- Encountered issues in collections of digital personal loans where it has calibrated the underwriting.



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**Others**

- Manappuram Insurance Brokers (Insurance Broking subsidiary) is doing well. Insurance companies can pay more commissions because of liberalized commission dispensation from the regulator.
- Recorded 3QFY24 profit of ~INR280m from the fee-based business (vs. INR170m in 2QFY24).

**MAS Financials**

**Buy**

Current Price INR 1,006

**Reflections on the consolidated AUM milestone of INR100b**

- MASF is adequately leveraged and has generated good return on capital deployed over the last two decades.
- There is no sense of complacency. It has miles to go and is continuously working on strengthening the franchise.
- Utilized the capital very judiciously and has delivered non-dilutive growth so far.
- It is enabling technology capabilities in place to support future growth

**Equity raise**

- Capital raise will depend on the right valuations and the right set of investors. The idea is to have the enabling resolution and then meet merchant bankers who can suggest the right time and right investors to raise equity capital.
- It has a capital adequacy of ~24% (based on on-book loans) and plan will be to keep the capital adequacy above 20% (based on AUM).
- MASF will look to raise equity capital within this calendar year, and it could be as early as this quarter or next quarter.
- Enabling Board resolution to raise ~INR7b of equity capital as and when required; this is for the next phase of growth and management will decide the opportune time and opportune amount (in one or more tranches) for this capital raise

**Financial performance**

- Consolidated AUM stood at INR102.2b and consolidated PAT stood at INR640m
- Standalone AUM as of Dec'23 stood at ~INR97b
- MEL and SME contributed ~80%, Wheels (CV and 2W) contributed ~14% and salaried personal loans contributed ~6% to the AUM mix.
- GS3 stood at 2.23% and the company held ~INR190m of management overlay (~0.25% of the on-book loans)

**Guidance**

- Guided for NIM of ~7% and RoA of 2.75%-3.25%
- NIM will improve, and so will the opex and credit costs, but the RoA/RoE will be along the guided lines
- The RoE is likely to be 16-18% over the medium term
- MASF will want to become a well-diversified lender. With economy entering a phase of steady growth, it sees the wheel's portfolio and the Housing Loans portfolio also contributing to the strong growth
- Guided for an AUM mix of ~10-15% in Housing, 25% in Wheels, and ~60-65% in MEL and MSME

**Distribution**

- It has 181 branches for direct distribution and 167 NBFC partnerships. Direct distribution is growing faster than NBFC partnerships.
- Will look to double the branches to 300-350

### Housing

- HFC's AUM stood at INR5.4b and grew 36% YoY. 3QFY24 PAT in the HFC stood at INR20m and grew 25% YoY
- GS3 stood at 0.81% (PQ: 0.79%). Management overlay was at ~INR30m in the HFC subsidiary
- Readiness from an operational standpoint and better understanding of the demography have now given confidence to the management to grow its Housing book at a strong pace
- Housing AUM will grow at 30-35% over the next few years. It has pristine portfolio quality in the HFC. The HFC AUM will be ~INR15b within the next three years (~30-35% AUM CAGR). The parent will infuse equity capital as and when required.
- In the HFC, profit growth is lagging loan growth because of higher operational costs from investments in distribution and building the franchise. HFC in steady-state can deliver an RoA of 2.0-2.5% and RoE of 14-16%.

### Salaried personal loans

- Salaried personal loans were 5-6% of the overall AUM and it expects to keep it <10% of the AUM mix
- GS3 in salaried personal loans was ~2.38%. A majority of the sourcing in personal loans is done from feet on street and some sourcing is done through DSAs.

### Impact of the RBI RWA circular

- The Priority Sector Lending has been excluding the increase in risk weights from bank loans to NBFCs. MASF receives term loans from banks for on-lending to the PSL sector. It does not expect any significant rise in its CoB because of the RBI RWA circular.
- Four states now contribute ~90% of the branches but it will have a more evenly spread branch network going ahead

### Liability management

- Sanctions on hand of INR20b (including term loans, NCD and direct assignment)
- Liabilities: It has a very strong liability franchise and is focused on diversification of liabilities. Within 3-5 years, liabilities will also be very well diversified just like its assets.

### Others

- The record date for the bonus shares is 22nd Feb'24, and bonus shares will be credited within seven days of the record date.
- The company plans to introduce used-car loan as a new product
- It declared a dividend and bonus share to reward its shareholders. Management is in the process of strengthening the company for the next phase of business growth.
- It continues to enjoy the confidence of the core team. More than 500 people have been at MASF for more than five years, and the founding team has been with MASF for over 25 years.



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## MCX

Neutral

Current Price INR 3,709

### Technology costs

- MCX successfully absorbed the entire technology exceptional item (63moons payment) due to its robust volume trajectory. Going forward, costs will no longer be linked to volumes, resulting in relatively stable costs going forward.
- INR2.4b was capitalized for TCS software, and the amortization for server and network equipment will span over five years, whereas the platform's amortization will extend to 10 years.

### FPIs

- DMA for FPI category 1 has been launched, while testing for FPI 2 (individual) is underway and is expected to go live in 4QFY24.
- The advantages for institutional FPIs trading in India include 1) price arbitrage opportunities due to non-uniform price movements across global markets, 2) contracts denominated in rupees, eliminating currency risk and 3) variations in calendar spreads, providing potential for profit through strategic trading.

### SGF Contribution

- The company's contribution to SGF is more stringent as against other exchanges. Two variables determine SGF contributions i) Open interest rates - higher open interest results in higher contributions and ii) members are required to contribute in accordance with SEBI guidelines, typically at 25%, subject to approval by the exchanges. These uncertainties constitute the key factors in SGF contributions.
- At present, MCX does not take contribution from the members. In 3QFY24, the company's SGF contribution stood at INR ~131m vs. INR114m in 2QFY24. In this quarter, the open interest rate was the highest (INR500b+ vs. INR420b in 2QFY24).
- The SGF can be determined by two methods: i) based on the exposure of the top two members ii) by taking 50% of the total member exposure. MCX calculates SGF based on the second option.

### New product launches

- Steel product has been launched.
- Options on mini NG and crude oil has been approved and will be launched soon.
- Gold monthly is not being considered immediately.
- Electricity futures approval is yet to be received.
- Work is in progress for index options.
- For the Coal spot exchange contract, the company is planning to venture into it and is actively engaged with ministry and awaiting approvals.

### Finance related

- License fees to CME has a fixed component and ad valorem, which kicks in after a certain threshold of volumes. During this quarter, the threshold was crossed, and hence, ad valorem payout happened as well.
- The total transaction cost stood at INR 1.56b, of which, INR 550m is from futures and the remaining INR 1.01b from Options.
- Depreciation amount reported this quarter was INR ~113m and a slight increase is expected in the next quarter.
- Other operating expenses remain largely in line with the last quarter, with the exception of the inclusion of CSR expenses. Additionally, travelling expenses have increased this quarter.



- Other income reduced due to higher SGF contributions; however, there is an expectation that trading volumes will rise, resulting in increased revenues.
- Margins on gold are about 8%, about 34% on crude oil, and around ~20% on Natural Gas (+ 1.25% exchange loss margins, if any).
- The term of Managing Director and CEO, Mr Reddy, concludes on May 09, 2024.



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## Muthoot Finance

Neutral

Current Price INR 1,338

### Business update

- Gold AUM grew ~22% YoY, Belstar AUM grew 65% YoY and Muthoot Home Finance AUM grew 27% YoY
- Opened 487 new branches across the group (including subsidiaries) in 9MFY24

### Gold loans

- Continued to guide for ~15% YoY gold loan growth in FY24 and guided for same growth in the next year as well
- Gold auctions stood at INR3.81b (PQ: INR2.36b); Accrued interest stood at ~INR19.21b (~2.8% of outstanding gold loans)
- Gold LTV declined as gold prices have increased; Tonnage increase of ~1% QoQ has also helped in gold loan growth.
- Gold loan yields have hovered around ~18% (+/-15bp) over the last one year. Unless the cost of borrowings goes up substantially, it will not increase the gold loan yields but will instead mitigate it with better operational efficiency

### Update on ARC sale done in 2QFY24

- Outstanding value of SR receipts declined to INR2.3b (PQ: INR5.95b). Whatever it collects from SRs will reflect as a decline in the investments. No income was booked in this quarter from the recoveries in SRs. When the SRs completely run-down, recoveries over and above the outstanding principal will also be shared in the same 85:15 proportion.

### Gold loan split by ticket size

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

### Borrowing Costs

- Cost of bank borrowings might converge from 8.55% (portfolio yields) to ~9% (incremental cost of bank borrowings) over the next three-four months.

### Microfinance

- MFI SRO is strong and all member MFI institutions have aligned to reduce the lending rates

### Belstar

- Belstar Stage 2: ~1.03% and Stage 3 stood at ~1.9%
- Early trends in 4Q suggest that delinquencies are stabilizing in the MFI book
- Bulk of the MFI book is in South India and TN has ~50% of the MFI book
- Floods in TN had a minor impact in Nov/Dec'23 and it got corrected in Jan'24

### Branch Expansion

- Opened 150 branches in FY23. Subsequently, it got approval for opening additional 114 branches which it expects to be opened by Mar/Apr'24. It will again approach the RBI for approval to open new branches.



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## Piramal Enterprise

Buy

Current Price INR 886

### Guidance on asset quality and opex

- Guided for credit costs of 1.7%-2.0% and opex to AUM to moderate to ~3%
- Gross credit costs were flat QoQ in 3Q. Smaller recoveries from Wholesale 1.0 in 3Q led to higher net credit costs. PIEL should continue to expect strong recoveries in profitability over the next few quarters.

### Retail Lending

- Retail AUM grew 54% YoY; Quarterly disbursements rose ~50% YoY
- AUM of its flagship mortgage business (home loans and LAP) stood at ~INR300b.
- The yield in housing loan disbursements stood at 11.2%.
- LAP disbursements almost doubled YoY with ATS of INR2.5. Yields in LAP are ~50bp higher than those in mortgage loans.
- AUM of other secured loans (used car loans) surged 3x YoY.
- Unsecured book stood at ~INR100b. Disbursement volumes have been under control. 90+ delinquency has been between 1.4-1.6% for the last three quarters.
- Personal Loans below INR50k have 2-3x higher delinquency rate than those with ATS higher than INR50k. These loans are ~10% of the consumer unsecured.
- Unsecured consumer AUM with ATS <INR50k stood at ~INR6.2b and the remaining consumer AUM stood at ~INR55b.
- Added 28 new disbursement active branches. ~95 branches added over 12 months and the company now has 470 conventional branches
- Branches with 1-2-year vintage have 2x higher productivity than branches with vintage of 6-12 months.
- Fintech business is being done at 14.0-14.5% IRR and ~90% of the Fintech business is largely protected through FLDG. Business done through partnerships has better economics and PIEL will continue to invest in its own channel.

### Wholesale Lending

- Wholesale 2.0 is focused on building a granular book; Prepayments stood at ~INR9.8b since inception of Wholesale 2.0
- ATS is ~INR1.57b for Real Estate and ~INR0.57b for Corporate Mid-Market Lending
- Confident of full recoveries from AIF investments; Piramal has recovered ~INR11.4b as interest and principal payment on these AIF units cumulatively and ~INR7b over the last 3 quarters; ~INR35b of adjustments are an accounting provision; Because they have written-down AIF to zero, there will be extraordinary recoveries from these AIFs through P&L.
- AIFs came into being in 2020 and at inception, AIF investment stood at ~INR80b (now down at ~INR35b) and the portfolio comprised of ~35 loans, in which Piramal had exposure. Since then, 22 such loans have been exited and there are ~13 loans in which both AIF and Piramal have exposure. All 13 loans are residential real estate project finance loans and none of these loans are unsecured or backed by land parcels. PIEL continues to work on underlying loans and with underlying partners.
- One wholesale account slipped into Stage 2 and that is why it has taken higher provisions. It does not expect this account to be upgraded over the next 1-2 quarters and likewise, it does not expect this exposure to slip into Stage 3.

**Business Updates**

- Granular Wholesale 2.0 has grown to ~INR55b.
- Legacy portfolio - Wholesale 1.0, SRs and Erstwhile AIF investments - is being run down by the company. Legacy portfolio was ~28% of AUM.
- Wholesale 1.0 has declined 57% since FY22 to <INR190b.
- ~72% AUM share from the growth businesses of ~INR490b.
- Announced the sale of ~20% stake in Shriram Investment Holdings to SOT at ~INR14.4b. Transaction is in line with its focus on monetizing non-core assets.
- Had earlier shared that it targets to build AUM of INR1.2-1.3t by FY28. RoA of 3.0-3.3% and Retail-Wholesale Mix of 70%:30%. Excluding the impact of AIF provisions, total AUM grew 6% QoQ and 9% YoY to over INR700b.
- Retail: Wholesale Mix of 64%:36% as of Dec'23.
- In 3QFY24, NIM improved and the opex-to-average AUM ratio moderated to ~3.8% (vs. 3.9% in 2Q)
- PPOp to AUM stood at 2.0% (vs. 1.1% in 2Q).
- GNPA/NNPA ratios declined ~35bp QoQ to 2.4%/1.1%. Retail 90+dpd was stable or declined across all products.
- Credit costs stood at 1.6% (still running below long-range guidance of 1.7-1.8%).
- Consolidated CRAR of ~24.3% (after the impact of the AIF provisions).

**Financial Performance**

- NIM expanded ~28bp QoQ.
- Fee income was up 23% QoQ and included one-off ~INR640m of interest income from IT refunds.
- PPOp rose ~55% QoQ to INR3.89b. However, PPOp, excluding dividend income and interest income from IT refunds, grew ~33% QoQ to INR3.15b.
- PIEL has taken full provisions for its two AIF investments;
- Fixed and Floating mix improved to 51%:49%. CoB rose ~10bp QoQ; Marginal CoB stays between 9.0-9.5% but has gone up by 20-25bp because of the RBI RWA circular.

**Shriram Investments**

- PIEL still has stake in general insurance (beneficial interest basis, ~13.3% stake) and life insurance (beneficial interest basis, 14.9% stake) businesses, with a total book value of ~INR17.1b.

**Deferred tax assets**

- It is in active conversations with the tax authorities and expects some benefits from the DTA pool.

**Land parcel**

- Land monetization negotiations are in process and there is nothing material to report at this point in time.



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## PNB Housing Finance

Buy

Current Price INR 743

### Business update

- Reported 3QFY24 PAT of INR3.38b grew 26% YoY but declined 12% QoQ
- Business had an impact from floods in Tamil Nadu. Expect to resume its growth momentum from 4Q onwards.
- Retail is ~96.5% of the Loan mix and Corporate was ~3.5%. Continues to restrict retail ticket sizes to <INR10m.
- India Ratings had upgraded PNBHF's credit rating to AA+
- Received sanction of ~INR30b from NHB and has drawn down ~INR8b in 3QFY24.
- Disbursements in 3QFY24 were impacted because of certain challenges, which were both internal and external. PNBHF has fixed the leadership and team. Some impact on disbursements also arose from the Chennai floods.

### Guidance

- Revised the retail loan growth guidance to ~15% for FY24 but for FY25, it retained retail loan growth guidance of ~17%
- Starting from 4QFY24 onwards, there will be write-back opportunities for the next 3-4 quarters.
- Across the different asset quality buckets, there has been an improvement in collection efficiency. New book, which has been originated, is of better quality and management expects credit costs at 31-32bp in FY24 and at similar levels of 30-35bp in FY25/FY26. Write-back opportunity is not budgeted in this credit cost guidance.
- Guided for NIM of 3.5% and fee income of ~30bp
- Continued to guide for RoA of >2% and leverage to increase to 6x within the next few years

### Spreads and margins

- MCLR changes led to an adverse impact of ~INR160m in interest income from the securitized pool
- NII (excluding one-offs) was flat YoY because of the increase in retail mix over last year. Book retention (to stem BT-OUTs) and competitive dynamics impacted the yields adversely. In select geographies, the company also did lending at lower interest rates. Impact on yields was from the decline in Corporate book.
- Excluding one-offs, yields stood at 10.3%, CoF stood at ~8%, Spreads at 2.3% and NIM at 3.65%
- Spreads can improve going forward from a decline in the CoB from a credit rating upgrade and NHB borrowings. Company is also working with Banks to negotiate a decline in spreads on MCLR.

### Asset quality and credit costs

- PNBHF has a good pool in the auction bucket. In 3QFY24, there was a lot of focus on auctions which will exhibit results from 4Q onwards.
- Written-off pool in Corporate was ~INR17b and in Retail was ~INR5b. There could be write-backs from a few accounts that were earlier written-off and accounts which are in final stages of resolution. Expects write-backs from both Corporate and Retail to continue for 3-4 quarters starting from 4QFY24.
- Expects complete resolution of a Corporate NPA account in 4Q.

**Branch expansion and introduction of a new vertical**

- Targets to increase the branch network across both Roshini and Prime. Opened ~160 Roshni branches and ~140 prime branches with a total network of ~300 branches.
- Planning to come up with 40-50 emerging-market branches which will focus on slightly higher-yield business.
- Three verticals across a) Prime, b) Roshni and c) emerging markets (wherein yields will be 35-40bp higher than prime customer yields)
- Emerging market Strategy: Tier 2 and 3 markets where the customer segment will be between Roshni and Prime. Yields will be 35-40bp higher in this customer segment.

**Liabilities**

- SLR is at 15.5% (v/s the current regulatory requirement of ~13%)
- The company will be looking to grow its deposits since the borrowing costs from deposits is lower
- Management guided for a floating: Fixed liabilities mix of ~70%:30%

**Others**

- Incremental costs for Roshini vertical will be the Branch premises and investments in manpower. Does not expect significant increase in opex as it builds out the affordable finance vertical
- PNBHF is not growing its loan book faster than ~17% since it wants to balance loan growth with profitability. PNBHF is still through its transformation journey.
- Run-off has declined from 21% (one year back) to 16.0-16.5% now. BT-Outs stood at 7-8%.
- Incremental retail yields of 9.6% and salaried mix is 61% (and on incremental loans, salaried mix is 63-64%)
- Both 3QFY24 and 3QFY23 had one-offs from the securitized pool.



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**Poonawalla Fincorp**

Buy

Current Price INR 469

**Financial performance**

- Highest ever quarterly disbursements of INR87.3b, which grew 12% QoQ
- PCR stood at ~47% and the CoB was flat QoQ at ~8%
- Opex-to-AUM of ~4% in 3QFY24, which includes an ESOP charge of 0.44%
- PAT stood at INR2.65b and grew ~76% YoY/15% QoQ

**Business updates**

- PFL is present across 19 states with 103 branches. Its portfolio is well diversified across MSME and consumer segments.
- Started disbursing instant personal loans through its cutting-edge mobile app.
- The longer-tenor LAP book and the longer-tenor loans will continue to grow with guidance of 70-75% long-tenor loans.
- Short-tenor loans constitute ~22% of the book (in line with the guidance of 20-25%)
- The digital business concentration in pre-owned cars has increased to ~10%, and it plans to increase its digital penetration in other secured products as well
- PFL surpassed INR3.5b+ monthly disbursement run-rate in LAP.



**Upcoming products**

- Received approval for co-branded credit card and expects it to go-live in the current quarter
- Products in pipeline: Dropline flexi Loans and EMI cards
- PFL App and WhatsApp journey have also been launched in the last quarter.

**Asset Quality**

- New book GNPA stood at 0.42% and Legacy book GNPA at 4.88%
- GNPA/NNPA (for loan-sourced partnerships) stood at 1.76%/0.93%

**Guidance**

- Guided for steady-state NIM of ~10% (v/s ~11% in 3QFY24). In the medium-term, NIM may contract marginally but management is confident of delivering its RoA guidance.
- Credit costs guidance of 0.8-1.2% on a steady-state basis
- Guided for opex to AUM of <3.5% from FY25 onwards.

**Margins**

- CoB has declined to <8% despite tight liquidity conditions and higher interest rates in the system.
- Legacy borrowings at ~INR3b, which, as it runs down will help the company maintain its current CoB.
- LCR stood at 127% (against the regulatory requirement of 85%). Continued to maintain a healthy NIM.
- NIM might contract marginally but it will continue to deliver risk-adjusted return ratios in line with the guidance
- Benefits of recoveries from the written-off portfolio has reflected in provision write-backs.

**AUM growth**

- AUM growth has come from market share gains in existing products. It will strive to maintain its long-term guidance of 35-40%. Focus will be on increasing NIM, reducing opex, and improving profitability.

**App launch**

- The app was launched in the last quarter and PFL has ~2,000 customers. The company also has a healthy active user base of ~15%.

**Co-branded credit cards**

- Received approval for co-branded credit cards in the last quarter. This will help it engage with customers in the day-to-day transactions. PFL will target only the pre-approved set of customers and expects this to be launched in Mar'24. Joining and annual fees will be zero in both the variants.

**Others**

- Continues with its DIY policy; its app provides another self-service channel to the customers. Pioneer in providing credit bureau records to customers through WhatsApp. Using WhatsApp actively for lead generation and will start offering full loan journey on WhatsApp within 2-3 weeks.
- Robust collection infrastructure across all its locations: Strong hybrid structure with in-house collections of ~400 employees supported by external agencies.
- Does not require any additional branches until it crosses AUM of INR500b. AUM per employees was at ~INR100m. Current branch count of ~103 will suffice even for the secured products that it is doing.

- The RBI has shown concerns around consumption credit and that too in lower ticket sizes. Impact of higher risk weights is ~220bp on the capital adequacy.
- As per credit bureau records, the Retail loan book has almost doubled in the last five years driven by unsecured personal loans. Prime + Digital Prime customers contributed ~33% of the customers who got loans disbursed from fintechs.



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## Repco Home Finance

Neutral

Current Price INR 481

### The three-year roadmap

- To reach AUM of INR200b by FY27 through opening of ~40 branches every year under the normal growth model.
- GNPA to be reduced to ~2% by FY27E.

### Business update

- Structural changes incorporated across the organization are beginning to yield results.
- Sanctions stood at ~INR7.8b during the quarter.
- Ratio of exposure between salaried and non-salaried stood at 51:49.
- Housing loan contribute ~75.6% of the total book.
- Total provisions of ~INR5.3b with PCR of 60% on stage 3.
- O/s restructured portfolio stood at INR5.5b of which INR1.7b are in stage 3
- Stage 2+Stage 3 exposure is INR15b (12% AUM). Aim to bring this down to 10%.
- Company maintained spread of ~3.4% by increasing yields.
- ROA and ROE stood ~3.1% and ~15.8% for 3QFY24.
- Cost to income ratio stood at ~22%. (PQ:~23.2%)
- New software completely integrated across branches and stabilized. Implementation of 12 applications for internal purposes to be completed in two phases by Sep'24.
- INR220m spent on software implementation for the quarter.

### Guidance

- Likely to reach disbursements of ~INR32b organically (excluding DA transaction) and AUM of ~INR135b by Mar'24
- Guided for an AUM growth of ~9% for FY24.
- Guided for reductions of INR1b every year for the next three years to achieve a GNPA of ~2%.
- Margin might dip in 4QFY24 but it will maintain margins at ~5.1% in FY25.
- Might reduce the spreads to ~3% to retain and attract good quality customers
- Cost to income ratio to be maintained at ~22%.
- Incurred INR220m on software implementation to date. Expect another INR220m to be incurred next year

### Branches & manpower

- As of Dec'23 have 200 touchpoints, comprising 166 branches and 34 satellite centers.
- Plans to add 40 new branches every year as a part of its 3-year roadmap and to expand its team to target new and existing customers.
- Of the 40 new branches to be opened in FY24, 50% will be opened in Tamil Nadu and rest will be opened in existing geographies. From second year onwards, the company will explore newer geographies.

**Asset quality**

- Planned reduction of INR1b of GNPA for entire FY24, achieved the same within 9 months.
- Split the recovery department into collection and legal. Legal team to follow up on SARFAESI related measure.
- In recovery department there are 18-20 people who will handle 1+dpd. Confident that GNPA and flow from stage 2 to stage 3 will improve.
- New book is holding well. Disbursed ~INR56b under new book since Jan'22, slippage is only INR0.2b.
- BT- Out stood at ~INR300m per month and BT-Ins are at same level.
- Recoveries for the quarter stood at ~INR760m and slippages stood at ~INR570m.
- Going forward REPCO plans to release provisions of ~INR400-500m as no stress is seen in the new book.
- No plan to pursue ARC sales as of now.

**AUM & disbursements**

- Under the three-year roadmap, aim is to grow at 12% in the first year, 14% in second and 17% in third year. Post that the growth is expected to be ~20%. Growth rate to be more than 20% if supported by external factors such as government support.
- Received subsidies for the schemes announced earlier by the government.
- Does not plan to lose grip in Tamil Nadu and would want to maintain the current level of contribution to AUM
- Might explore co-lending later, however all the guidance given is excluding external factors.

**Others**

- Auction to be used as a threat rather than pro-recovery measure. It will be used as a tool to pressurize the borrower to bring them to discussion table.
- Not accounting for Penal income, as the income is earned the same is credited to P&L.
- Expect sanction approval from NHB next year.
- No write-backs undertaken till date. Might take some from next year.
- The Board to discuss dividend policy in its next meeting



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**Shriram Finance****Buy****Current Price INR 2,419****Performance update**

- Encouraging quarter; multi-products being offered across the branch network;
- AUM grew 21% YoY/6% QoQ to INR2.14t. 3QFY24 disbursements stood at ~INR378b and grew 29% YoY
- Reported NIM was at ~9% (PY: 8.52% and PQ: 9.93%). Cost-to-income ratio stood at ~25.7% during the quarter.

**Guidance**

- Management does not expect the CoB to rise any further. With a change in product mix and the ability to pass on the higher borrowing costs, it expects to be able to hold on to the NIM of 8.9%.
- Guided for a 12-15% growth in CV; does not expect elections to impact the CV growth which depends on infrastructure and economic activity



- Continued to guide for full-year credit costs of ~2%. Does not anticipate it to inch up as the proportion of 2W and personal loans increase in the AUM mix.
- Guided for ~20% AUM growth in FY24, and it provided a longer-term AUM growth guidance of ~15%
- SHFL will keep personal loans below 6% of the AUM mix. SHFL has a 3m eligible customer base (based on income sources and credit track record) for personal loans. Going forward, personal loans should grow at 20-25%

**Asset quality**

- The company's 3QFY24 write-offs stood at INR7.25b, and ECL provisions were at INR5.25b (mainly on Stage 1 assets)
- Stage 1 provisions have gone up in MSME, 2W and PL segments. Provision requirement depends on the LGD/PD assumptions.

**Liabilities**

- Total liabilities stood at INR1.77t. ECB stood at ~13% and Bank Loans stood at ~28% in the borrowing mix
- Portfolio wtd. average CoB stood at 8.96% (has gone up by 9bp QoQ)
- Incremental borrowings stood at INR240b (v/s INR210b in 2QFY24) and incremental CoB stood at 8.95% (PQ: 8.7%)
- Fully-hedged cost of the ECB will be 9.5% and after grossing up it will be ~10%.
- After the RBI RWA circular, though 2-3 banks have increased their lending rates, most of the other banks have said that only on incremental lending they will increase the rates. Management does not see any significant rise in the borrowing costs from banks or debt markets.

**Personal loans**

- About 99% of the incremental personal loans are disbursed to 2W customers or repeat customers who have completed 2W or personal loans.

**Comments on the economy**

- Rural economy and monsoons: The Rabi crop sown in the country was 4.4% higher than the previous Rabi season. Expects healthy rural economy going forward.
- Government spending on infrastructure continues to remain strong
- Strong rural and semi-urban demand for 2W
- Both rural activity and agri-income will continue to grow, which will result in better mechanized farming demand and robust demand for credit

**Shriram Housing**

- Co-lending with one PSU Bank and one Private Banks. Total DA and co-lending volume was 20-21% of the total AUM.
- Looking for capital infusion in Shriram Housing; Looking at all possible options for growth capital in Shriram Housing
- HFC is focused on only eight states and it will be looking to add one more state in this fiscal. All HFC branches are exclusive to the HFC subsidiary.
- Strategy of focusing and going deep into the respective territories has helped it demonstrate strong AUM growth. Going forward, the AUM growth might moderate to ~25-30%.
- Shriram Housing has 3,500 employees

**Others**

- In 2W, additional growth is coming from states of Odisha, WB, North East, and Parts of UP where SCUF did not have a distribution network. QoQ growth in 2W was stronger because of the festive season.

- Gold loans have been introduced in ~600 CV branches but they have not reached the full potential as yet. Expects to introduce gold loans in another ~600 CV branches next year
- Gold and MSME will continue to grow strongly; the strong growth in PL was because of the expanded network and distribution
- Tied up with PayTM for doing merchant loans but the company is still finding its way around; It has not fully scaled up as yet
- Demand from both personal mobility vehicles and commercial passenger vehicles have been strong and is helping it grow faster in passenger vehicles
- Added 156 branches in the last 12 months, which is a combination of conversion of rural centers and new branches
- It does have a large bus segment which it finances; it does not lend much to Tourist buses and normal transportation buses where the government has monopoly.



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## Spandana Sphoorty

Buy

Current Price INR 996

### Business Update

- Spandana has crossed the AUM milestone of INR100b, with its AUM as of Dec'23 standing at INR104b.
- 3QFY24 PPop stood at INR2.4b, down 7% QoQ because of lower income of INR200m from direct assignments (vs. INR420m in 2QFY24).
- ICRA and CRISIL have upgraded the credit rating outlook on Spandana from A (Stable) to A (Positive).
- There is some disruption in the environment in Punjab and Haryana. Haryana has been dropped from the list of focus states. It will now focus on Bihar, Rajasthan, Uttar Pradesh, West Bengal, Tamil Nadu, and Gujarat.
- Spandana has not cut its lending rates. The company is already in the process of reducing interest rates for customers who are in the sixth/seventh cycles. There has been no formal communication from the regulator to reduce yields.

### Guidance

- Management guides for sustainable NIM of 13.5%.
- It wants to make the organization and distribution model scalable and expects to end FY25 with AUM of ~INR150b, a credit loss of <2%, and RoA of >4.5%.
- Guides for ~25% AUM growth in FY25 vs. industry growth of 22-23%. Guides for RoE of 17-19%. Maximum growth will come from the six focus states and AUM contribution from top 3 states will decline to 35-36% (v/s ~42%). Targets to scale up to AUM of INR280b by FY28.
- Does not expect any significant rise in cost ratios because of the transition to the weekly model (vs. monthly model now).
- Stress of ~INR600m from the legacy book (pre-Apr'21) which will come over the next 2-3 quarters.

### Project Parivartan

- Launched Project Parivartan across 730 branches (AUM of ~INR55b) which covered 1.6m customers.
- Before Project Parivartan, repayments were monthly, the collection cycle was from 1st to 10th of the month, and disbursements were focused from 11th to 20th of the month. Under Project Parivartan, customer repayments have been changed from date of the month to the day of the week.



- In Oct'23, disbursements were INR4b-4.5b below expectations but normalized in Nov-Dec'23.
- About 49k borrowers who are part of the SMA bucket are under Project Parivartan (~61% of the customers in the respective bucket).
- Confident that within 3-4 months, it would have regularized the situation. Temporary inconvenience for a better tomorrow.

#### Asset Quality

- GS3 rose to 1.6% (vs. 1.4% in 2Q) and ~56% contributed by the Parivartan branches. There could be pain for one more quarter because of Project Parivartan. NS3 stood at ~0.5% (up ~5bp QoQ).
- Gross slippages stood at INR1.13b in 9MFY24 (~1.1% of the AUM) and INR660m in 3QFY24. PCR stood at ~70%.
- Net CE was 97.2%
- Parivartan branches customers in GNPA bucket accounted for INR870m (out of INR1.55b). In the SMA bucket, Parivartan branches accounted for ~INR1.47b (out of total SMA loans of INR2.49b).
- ~INR560m which slipped into the GNPA bucket because of Project Parivartan. Forward flows into the NPA bucket led to interest income reversals of ~INR60m in 3QFY24.
- BAU credit cost was ~1.4% in 9MFY24. The company also provided for DA, ARC and legacy cases during the year, which contributed another ~1.5% in credit costs. As a result, credit costs stood at ~2.9% in 9MFY24.
- Recoveries of ~INR720m from the written-off pool in 9MFY24 and expects recoveries of ~INR1b in FY24. Targets recoveries of INR1.5b (including from the SR pool) in FY25.

#### Branch Openings

- Opened 72 branches in 3Q and the total branch count rose to 1,574 (including 375 weekly branches). Includes ~80 branches opened for LAP and MSME loans in the subsidiary Criss Financial.
- AUM of ~INR5.74b in the weekly branches which had a collection efficiency of ~99.7% in 3QFY24.
- Opened 375 branches during the year, which have weekly repayments and contributed ~16% to disbursements in 3QFY24. Expects ~40-45% contribution from monthly branches to disbursements in FY25.

#### Customer Acquisitions

- Focus on new customer acquisition is absolutely supreme. Added 340k new customers in 3QFY24. Acquired 950k customers in 9MFY24.
- Total customers stood at 2.96m, up 32% YoY and 10% QoQ.

#### AUM Growth and Mix

- AUM grew 52% YoY/6% QoQ to INR104b.
- Geographical concentration risk - Maximum contribution from any state should not be more than 11-13% by FY28. Currently, there are two states - Odisha and MP - which have a higher contribution to the AUM mix.

#### Assets & Liabilities

- Weighted average CoB stood at ~12.3% and Spandana targets to reducing it to <12%.
- The company has introduced shorter-tenor loans of 12 to 18 months. The period of average maturity of assets has declined. The average duration of liabilities stood at ~12 months and for assets at ~10 months.

**Elections**

- Stable economic environment - political machinery, judiciary, regulatory have all been very supportive.
- Customers are mature and understand that there is nothing called a loan waiver. Central elections should not disrupt collections in the MFI sector.

**Others**

- It will continue to make progress on customer acquisition-led growth and is moving all the branches toward the monthly repayment model. The JLG model works better in a weekly model. The weekly model is the first to come out of a crisis as seen in past events like demonetization and Covid.
- The company had a higher cash balance in 3Q, which resulted in higher investment income.
- The ticket size is one of the measures to look at an institution's lending business, but it is not necessarily the best measure. However, Spandana looks at the indebtedness of customers. Spandana's maximum cycle ticket size is ~INR80k and has no plans to increase it.
- Philosophy of muted ticket sizes and shorter lending tenors. The company introduced 12-month and 18-month tenors and ~83% of the total loans are in the 24-month tenor. In new branches, which have the weekly repayment model, ~88% of loans have the 12-month and 18-month tenors, while ~12% have the 24-month tenor.
- For incremental disbursements in 3QFY24, ~30% of customers were unique to Spandana, ~30% had one other lender, ~25% had two other lending relationships, and ~14% had loans from four or more lenders.



**INSURANCE**

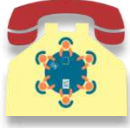
- Life insurance companies alluded to changing product mix toward lower profit products as the key reason for muted VNB margin trajectory during the quarter. Going ahead, managements are conscious of the ensuing change in surrender charge regulations, which could dent margins further. On the other hand, players are expecting strong traction in premiums from FY25. Health insurance players saw elevated loss ratio in 3QFY24, but expect normalization in 4QFY24. They continue to remain upbeat on growth in premiums, particularly retail health.

**KEY HIGHLIGHTS FROM CONFERENCE CALL**

	Outlook for FY24	Others
<b>HDFC Life</b>	<ul style="list-style-type: none"> <li>The company remains optimistic about its growth prospects, driven by 1) sustained growth in less than INR0.5m ticket size, 2) anticipated stability in the macro environment, 3) the forthcoming full-year impact of counter share at HDFC Bank developments, 4) the expansion of new relationships and 5) addition of new branches.</li> <li>The company is aiming for a double-digit growth in 4Q, excluding the INR10b premium garnered in Mar'23 due to the tax change.</li> <li>The management aims to grow the banca channel with strengthened market share through its strategic partnership with HDFC Bank, branch expansions, and new tie-ups.</li> </ul>	<ul style="list-style-type: none"> <li>Growth in the tier 2 and tier 3 towns has been 2x that of the company and has accounted for 65% of the overall topline. The VNB margin was positively influenced by several factors, including: 1) the increase in sum assured associated with linked products, 2) improvement in persistency rates, 3) adjustment of pricing for non-linked products in line with profitability objectives, and 4) growth in the proportion of protection products.</li> </ul>
<b>SBI Life</b>	<ul style="list-style-type: none"> <li>With a view to garner higher market share in the affluent segment, SBI Life has launched two return of premium (ROP) products with higher Sum Assured – 'SBI Life - Saral Swadhan Supreme' and 'SBI Life - Smart Swadhan Supreme'.</li> <li>For FY25, SBI Life expects VNB margin to be in the range of 28% and APE growth of ~18%. APE growth would be driven by protection and non-par segments.</li> </ul>	<ul style="list-style-type: none"> <li>The decline in margin is primarily on account of a change in product mix. Product-level margins have seen marginal improvement on the back of rising share of longer-term products.</li> <li>Protection New Business Premium has increased 17% YoY to INR 29.7b in 9MFY24 from INR 25.5b in 9MFY23 due to 25% YoY growth in group protection business to INR 23.1b in 9MFY24.</li> </ul>
<b>Ipru Life</b>	<ul style="list-style-type: none"> <li>On the base of 4QFY23 (INR33b APE with 26% YoY growth), IPRU expects to register a double-digit growth in APE 4QFY24. For FY25, it is aiming for a mid-teen growth.</li> <li>IRDAI issued a draft circular proposing an increase in the surrender value on non-par insurance products. IPRU would experience a lower impact from this change, given that the share of products incentivizing surrenders is much lower than the industry average.</li> </ul>	<ul style="list-style-type: none"> <li>VNB margin during the quarter compressed due to: 1) change in product mix, 2) increased competition 3) price correction in group term, and 4) higher unit costs.</li> <li>The ICICI Bank channel declined 4.8% YoY. Business from the ICICI Bank channel has settled at INR0.8-1.0b per month. On a YoY basis, the banca channel has grown in double digits (ex- ICICI Bank).</li> </ul>
<b>Star Health</b>	<ul style="list-style-type: none"> <li>In order to increase the penetration in lower tier cities, Star plans to open 1,000 sales manager stations; these are small individual service centers and sales distribution centers, of which, 839 have already become operational in 9MFY24.</li> <li>Price hikes on renewal policies would help improve the claims ratio. Similarly, with selective underwriting in the group health segment, particularly the SME segment, the loss ratios tend to see improvement.</li> </ul>	<ul style="list-style-type: none"> <li>The average sum insured of new policies has increased 11% YoY. Total long-term policies sold by Star Health increased to ~6% (includes benefit and indemnity products) vs. 4% earlier.</li> <li>There was a significant increase in the instances of fever and infections in Sep'23 and Oct'23, resulting in a rise in incurred claims. However, Covid cases are not a cause of concern.</li> </ul>



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**HDFC Life** **Neutral**

Current Price INR 588

**Business growth**

- The quarter witnessed lower-than-expected growth because of weaker growth in the higher ticket size segment. The traction in below INR0.5m ticket size continues to be strong. Some of the cohorts under INR0.5m have seen 3x the company-level growth. Recently, there has been traction in the higher ticket segment, especially in the newly launched products.
- The shift in allocation toward equity and a slight delay in purchasing decisions, due to high interest rates, have collectively impacted the overall demand.
- The growth rate of the number of policies stood at 9% YoY, surpassing the industry average. It provided coverage for more than 50m lives so far through both individual and group products.
- Growth in the tier 2 and tier 3 towns has been 2x that of the company and has accounted for 65% YoY of the overall topline.
- Retail protection grew 36% YoY and credit protection grew 21% YoY. Overall and retail sum assured grew 38% and 54%, YoY respectively.
- The company launched the Click to Achieve product (non-par) in the latter part of 3QFY24, offering a lot of flexibility to customers. The product garnered INR1b in revenue within four weeks of its launch.
- The non-par share stood at 30% exit rate in Dec 2023 compared to 28% for the first nine months.
- The company remains optimistic about its growth prospects, driven by 1) sustained growth in less than INR0.5m ticket size, 2) anticipated stability in the macro environment leading to increased allocation to insurance products, 3) the forthcoming full-year impact of counter share at HDFC Bank developments, 4) the expansion of new relationships (most relationships in the past HDFC Life have achieved a counter share of 30-35% within 15 months) and 5) the expected benefits for the agency channel through the addition of new branches.
- The sequential decline in group protection is due to credit life rather than group term. HDFC life has been discerning in its approach to group-term products, given the intensifying competition in pricing. Additionally, post RBI regulations, there has been a slowdown in disbursements in the credit life segment.
- The low base of protection played out in 1HFY24 and will see a normalized growth going ahead. However, pricing discipline will be maintained.
- The share of premium with ticket size above INR0.5m has gone down from 12% last year to 6% in 9mFY24.
- Company is aiming for a double digit growth in 4Q excluding the INR10b premium garnered in Mar'23 due to the tax change.

**Distribution**

- The company has recently tied up with Karnataka Bank, Karur Vysya Bank, and NKJSB Bank.
- The total agency count declined in 3QFY24 vs 2QFY24 due to the removal of agents not meeting specific business size criteria. Despite this, the company added more than 50k new agents during 9MFY24.

- The management aims to grow the banca channel with strengthened market share through its strategic partnership with HDFC Bank, branch expansions, and new tie-ups.
- The slow growth in the banca channel was a result of base effect, wherein large relationships had scaled up meaningfully in 3QFY23. During this period, banks were also focused on CASA. The impact was observed in the deceleration of growth in the INR0.5m and above segment.
- In the banca channel, the growth in up to INR0.5m ticket size in 3Q was 20%. NOP has grown in double digits in the channel. Market share in HDFC Bank was in mid-60s.

#### Consultation paper on surrender charges

- Aligning with the regulator's philosophy, the company adheres to principles regarding payouts to policyholders. Some parts of the consultation paper include shorter tenured products and exemptions from GST for specific ticket sizes. To mitigate potential impacts, product constructs can be designed to provide customers with choices, such as opting between liquidity and IRR.
- If the new regulation on surrender charges come in the current form, it will take significant time to recalibrate the product construct.

#### Financials

- The company has seen improved profitability across product segments. Profitability of ULIPs is significantly higher than what was there two to three years ago.
- Margin improvement was positively influenced by several factors 1) the increase in sum assured associated with linked products, 2) improvement in persistency, 3) aligning pricing of non-linked products with profitability objectives, and 4) an increase in the share of protection products.
- Increase in costs is because of operating deleverage, as the company has built a capacity for a 15% growth, while the actual delivery is much lower.
- Commission payout conversations based on EOM regulations with partners have been completed and there have been no detrimental impact on customers.
- RoEV has declined because of lower contribution from VNB and the base effect resulting from capital infusion in the previous year.



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### ICICI Lombard

Buy

Current Price INR 1,650

#### Vision statement from Sanjeev Mantri

- The industry is in the midst of exciting times and sees a multi-decadal growth story supported by regulatory push for 'Insurance for All' by 2047.
- A new philosophy is being implemented 'One IL one team'. Examples of this include value-added services and data analytics, which were earlier done take-on-project basis but are now embedded into the related lines of businesses. This would benefit revenue and profitability over the medium term.
- The customer-centric approach and balancing profitability with growth will continue.

#### Business

- Healthy growth in auto sales continued in 9MFY24 driven by improvement in rural demand and robust investments in infrastructure driving CV sales.





- The Motor segment’s loss ratio for the industry in 1HFY24 was at 119.4% vs. 123.5% in 1HFY23.
- In the Health segment, ILOM is focusing on higher tickets. New product launches are expected in 4QFY24.
- Bancassurance and key relationships grew 13%. ICICI group saw 16% growth.
- The loss ratio in group health was 93.1% in 3QFY24 vs. 98.9% in 3QFY23 and 95.8% in 9MFY24 vs. 95.8% in 9MFY23. In retail indemnity, the loss ratio was 66% in 3QFY24 vs. 68% in 3QFY23 and 65.6% in 9MFY24 vs. 65.2% in 9MFY23. The company has seen no major impact of Covid claims yet.
- Some semblance has been seen with respect to competition in the motor segment, which is reflected in loss ratio declining from 93% to 87% on YoY basis.
- ICICIGI expects motor OD loss ratios to be in 60-65% range, while for Motor TP segment 65-70% is the comfortable zone. Resultantly, aggregate motor segment loss ratio will be in the range of 65-67%.
- The period of limitation on motor TP claim will be introduced, wherein no claim can be entertained beyond the period of six months from the date of the accident. This is pending before the Supreme Court. However, most of the states are in favor of implementing the limit. If it is implemented, a reduction in frequency can be expected at the industry level. ILOM works with 12-13% claim inflation assumption in reserve creation, which is higher than industry, and hence the benefit will be higher compared to the industry. The positive impact of this might keep the regulator from taking motor TP price hike.
- The share of EVs is 4.2% for ILOM vs. 3.5% for the industry in 9MFY24. ILOM has an 18% market share in passenger car EVs and a 28% market share in 2W EVs.
- Commercial lines loss ratio increased because of flood events.
- Market share in new private cars is 12%, while in new two wheelers it is at 22%. The management expects the motor business to grow in line with the industry.
- Agency count increased to 125k vs. 122k QoQ.

**Financials**

- During 9MFY24, three major catastrophic events were seen. Excluding cat losses, the combined ratio was 102.6% in 9MFY24 (vs. reported 103.7%) and 102.3% in 3QFY24 (vs. reported 103.6%).
- ICICIGI has maintained its guidance of a combined ratio of 102% for FY25 and will consider revising the guidance in the ensuing quarter.
- For FY25, the reinsurance negotiations are in the process and the company does not expect the cost increase to be as high as it was in the previous year.



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**ICICI Prudential Life**

**Buy**

Current Price INR 522

**VNB and APE**

- VNB margin during the quarter compressed due to: 1) product mix shifting from non-par to ULIP and par (share of non-par is down to less than 50% in 9MFY24 from two-thirds last year), 2) increased competition in non-par savings that led to a fall in absolute margin in the product, 3) price correction in group term, and 4) higher unit costs as IPRU has invested in creating a capacity for higher growth.
- The increase in commission was on account of the changes in the norms.



- On the base of 4QFY23 (INR33b APE with 26% YoY growth), IPRU expects double-digit growth in 4QFY24. Management is aiming for mid-teen growth in APE for FY25.
- The ultimate objective is absolute VNB growth, while the VNB margin would purely be a function of product mix.
- Further, the compression in IRR led to a lower demand in group products. The gains on retail protection side are being offset by losses in group term business.

**Business**

- IRDAI issued a draft circular proposing an increase in the surrender value on non-par insurance products. IPRU would have a lower impact of the same as the share of products that entice surrenders is much lower than the industry.
- On the product front, ICICI Pru Guaranteed Pension Plan Flexi with Benefit Enhancer was introduced. This is the industry’s first annuity product, which provides customers the option to receive a 100% refund of premiums paid. Here, the margins are similar to the other products in the category.
- Premium growth: IPRU continues to build capacity and enhance efficiency in proprietary channels. It focuses on new partnership additions and to grow the annuity line of business. On account of the base effect, management expects normalized growth in retail protection business.
- The approach of delivering the right product to the right customer has yielded the desired results, which is reflected in 13th and 49th month persistency of 87.4% and 67.1%, respectively, in Dec’23. It is also visible in the claim settlement ratio of 98.1% in 2QFY24, with an average turnaround time of 1.27 days. This puts IPRU at the top position among the private sector life insurers.
- The digital infrastructure has enabled the company to pay out commissions to select advisors on the same day of the policy issuance.
- The 9MFY24 retail protection APE came in at INR3.43b (surpassed the FY23 retail protection APE of INR3.26b). The Retail New Business Sum Assured (NBSA) grew 43.7% YoY to INR1.6t in 9MFY24.
- About 80% of the policies were issued by using digital KYC in 3QFY24. IPRU issued ~40% of the policies on the same day to customers who purchased long-term savings products.

**Distribution**

- The ICICI Bank channel declined 4.8% YoY. Business from the ICICI Bank channel has settled at INR0.8-1.0b per month. On YoY basis, the banca channel has grown in double digits (ex- ICICI Bank).
- On a YoY basis, ICICI Bank’s share in credit life business is in double digits.
- No single distributor channel contributed more than 5% APE (excluding ICICI Bank). The share of ICICI Bank in total APE was stable at ~13%.
- IPRU took longer time to eliminate agents from its network than the industry and thus the agent productivity does not provide a correct picture.
- A multi-channel distribution network is crucial, it provides the last mile connectivity to customers.



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## Life Insurance Corporation

Buy

Current Price INR 1,041

### Business

- The total premium income for 9MFY24 was INR3.2t as compared to INR3.4t for 9MFY23. The Total Individual Business Premium for 9MFY24 increased to INR2.09t from INR2t for 9MFY23. The Group Business total premium income for 9MFY24 was INR1.13t vs. INR1.41t for 9MFY23.
- PAT for 9MFY24 was not comparable to 9MFY23, as the last year's PAT included an amount of INR45b (net of tax) pertaining to the accretions on available solvency margin, which was transferred from the non-par fund to the shareholders account.
- In terms of market share measured by First Year Premium Income FYPI (as per IRDAI), LIC continues to be the market leader in Indian life insurance business with an overall market share of 58.9%. For 9MFY24, LIC had a market share of 38.7 % in Individual business and 72.2% in the group business.
- For 9MFY24, the expense ratio stood at 15.28%. The Solvency Ratio for 9MFY24 improved to 193% as against 185% for 9MFY23.
- The yield on investments on policy holders funds excluding unrealized gains was 9.14% for 9MFY24 8.58% for 9MFY23.
- LIC will focus more on alternate channels, considering its current share of less than 1%. The banca channel has witnessed a strong growth, and that is expected to continue.

### APE & VNB

- On APE, the total premium was INR357b for 9MFY24. Of this, 65.67% (INR235b) was for the Individual Business and 34.33% (INR123b) for the Group Business.
- Within the Individual Business, the share of Par products on APE basis was 85.96% (INR202b) and balance 14.04% (INR32.9b) was due to Non Par products.
- The Non-Par APE has increased to INR33b for 9MFY24 from INR22b for 9MFY23, registering a growth of 49%. Therefore, the Non-Par share of Individual APE, which was 9.45% for 9MFY23, has grown to 14% for 9MFY24.
- VNB for 9MFY24 was INR59.4b vs. INR54.8b for the 9MFY23, registering a growth of 8.4%. The net VNB margin for 9MFY24 was 16.6 % vs. 14.6% for 9MFY23. The change in product mix led to improvement in margins.
- New product launches introduced in 9MFY24 - LIC's Group Post-Retirement Medical Benefit, LIC's Dhan Vriddhi, LIC's Jeevan Kiran and LIC's Jeevan Utsav (collected premium of more than INR10b). These products are highly competitive and are gaining traction. LIC believes that VNB margins are sustainable.
- Margins in Par segment have declined marginally. The movement in risk free rates have also impacted this decline. Directionally, the focus is more towards non-par segment.
- LIC has repriced the annuity products twice this year, which has impacted its VNB margin.
- In the protection segment, LIC has revised its pricing and thus margins have improved. Loss ratios in group segment have declined and thus profitability has improved.



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- The decline in the fund-based business led to a decline in the group segment. The profitable segments, such as annuity and GTL, are growing in line with expectations.

**Max Financial Services**

**Neutral**

Current Price INR 964

**Business**

- During 9MFY24, MAXLIFE’s individual adjusted first year premium grew 19% to INR42.85b and APE grew 23% to INR45.6b, leading to a market share gain by 59bp to 9% and helping the company regain the 4th rank among private players in 9MFY24 after a gap of 21 months.
- For 9MFY24, renewal premium income (including for the Group) rose 12% to INR118.2b, taking the gross written premium to INR187.9b, an increase of 16%.
- In 3QFY24, MAXLIFE launched Smart Total Elite Protection (STEP) exclusively for the affluent segment with an in-built terminal illness cover and the option to get back all premiums at no cost. This resulted in growth of 82% in Retail Protection and Health segment in 3QFY24 and 65% YoY in 9MFY24.
- It plans to launch new products in the non-par segment with a higher ticket size. It also plans for a new term offering for the affluent category.
- ULIPs have seen margin contraction due to sales of certain products in certain channels. Non-par products continue to face margin pressure owing to high competitive intensity.
- Group Credit Life sales grew by 120% in Q3FY24 and 59% in 9MFY24. Overall protection mix improved from 13% in 9MFY23 to 16% in 9MFY24, backed by partner additions. The company has strategically focused in growing the Group Credit Life segment.
- The margin contraction was mainly driven by changes in the product mix, with a decline in non-par and an increase in ULIPs. The company will continue to focus on growth. VNB margins are expected to be around 26-27%.

**Distribution**

- In proprietary channels (~50% agency), new business premiums grew by 44% YoY to INR18.1b, growing for the 3rd consecutive quarter. As a result, the contribution of proprietary channels to total new sales increased from 34% in 9MFY23 to 40% in 9MFY24. All three channels, e.g., agency, direct and e-com, have been growing at 40%+ YoY.
- In banca channels, new business premiums grew by 10% to INR26.7b in 9MFY24. The company has maintained its counter share in Axis Bank and Yes Bank. Growth in Axis Bank was lower in 3QFY24; however, a strong pickup in the banca channel is expected in Jan’24.
- MAXLIFE posted YoY growth of ~52% in Annuity business on APE basis.
- There is a bias to drive growth in the business and market share gain. The company has invested in the expansion and strengthening of its distribution network.
- It maintained its leadership position in online protection and was ranked 2nd in online savings in 9MFY24.
- MAXLIFE successfully on-boarded 8 new partners in 3Q - 1 Online, 2 Corporate Agents & 5 GCL.

**Capital infusion by Axis Bank**

- MAXLIFE received IRDAI approval for capital infusion by Axis Bank through the issuance of equity shares for an aggregate investment of INR16.12b, which will help the company support its future growth ambitions, augment its capital position and improve solvency margins. The transaction is expected to conclude within the next 90 days.
- The solvency ratio stands at 179%. The capital infusion will improve the solvency ratio by ~35%.



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**SBI Life Insurance**

Buy

Current Price INR 1,513

**Business**

- SBI life has maintained its leadership position in Individual Rated Premium of INR 127.9b, with 26.5% private market share in 9MFY24.
- New Business Premium grew 21%YoY to INR 260b in 9MFY24, aided by 35% YoY growth in individual annuity business.
- Protection New Business Premium has increased 17% YoY to INR 29.7b in 9MFY24 from INR 25.5b in 9MFY23 due to 25% YoY growth in group protection business to INR 23.1b in 9MFY24.
- Gross Written Premium grew 19% YoY to INR 561.9b in 9MFY24, mainly due to 25% YoY growth in Single Premium and 17% YoY growth in Renewal Premium in 9MFY24.
- Strong growth was observed in the 49th-month and 61st-month persistency in 9MFY24, with increases of 151 bp and 449 bp, respectively. This positive trend can be attributed to a dedicated focus on improving the quality of business and fostering customer retention.
- The company expects higher growth in individual protection in the coming quarters. Currently, the group term business is witnessing strong growth.
- Going ahead, the company would focus on the non-par segment – both savings and protection.
- There has been a minor tweak in commission ratio for the agency channel, and hence, there is no major change in cost ratio. On 9MFY24 basis, commission ratio increased on account of higher growth in long-term plans.
- The decline in margin is primarily on account of a change in product mix. Product-level margins have seen marginal improvement on the back of rising share of longer-term products.
- For FY25, SBI Life expects VNB margin to be in the range of 28% and APE growth of ~18%.
- SBI Life believes that there would not be any major impact of draft surrender value regulation, owing to lower mix of non-par products.
- The average ticket for non-par products is INR 90,000 and for ULIPs, it is above INR 0.1m.
- Re-pricing of non-par products is based on change in interest rates (already re-priced three times over the last nine months)

**Distribution**

- The company has a strong distribution network of ~0.3m trained insurance professionals along with widespread operations with 1,028 offices.



- APE channel mix for 9MFY24 - bancassurance channel 65%, agency channel 24%, & other channels 11%.
- Agency channel has grown 15% in 9MFY24. The agency is one of the focus areas for increasing distribution reach.
- ~39% of the business comes from rural and semi-urban areas. SBI, with its extensive reach, shall help SBI Life penetrate deeper into tier 3-4 towns.
- While all branches of SBI are equipped to sell Life Insurance products, there is a need to enhance activation, and this will be the key focus area.

**New Launches**

- SBI Life last week launched two ROP products with higher Sum Assured – ‘SBI Life - Saral Swadhan Supreme’ and ‘SBI Life - Smart Swadhan Supreme’. This product is competitive in nature and is margin accretive. The company is looking to launch some more savings product in the non-par segment in the next three to six months.



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**Star Health** Buy  
Current Price INR 566

**Business**

- In 9MFY24, Star Health registered a 33% market share in Retail Health (flat YoY), which is more than 3x the second-largest player in the industry.
- The average sum insured of new policies has increased 11% YoY.
- Total long-term policies sold by Star Health increased to ~6% (includes benefit and indemnity products) vs. 4% earlier.
- Being risk averse to long-term policies, Star Health has entered into a reinsurance agreement for the Health Quota Share Treaty. Star intends to grow its long-term portfolio.
- Increase in shareholder’s investment was on account of capital gains booked during the quarter (~INR 300m).

**Claims**

- There was a significant increase in the instances of fever and infections in Sep’23 and Oct’23, resulting in a rise in incurred claims. However, Covid cases are not a cause of concern.
- Medical inflation at the industry level remains elevated. Price hikes in a couple of products during the quarter contribute to ~10% of the premium.
- Price hikes on renewal policies would help improve the claims ratio. Similarly, with selective underwriting in the group health segment, particularly the SME segment, the loss ratios tend to see improvement.
- In terms of the claims amount paid, 69% of the paid claims are cashless for 9MFY24. Cashless TAT came in around 94%, i.e., claims settled within two hours’ time.
- The auto adjudication of claims helps drastically reduce the turnaround time. 34% of agreed network hospitals representing 74% of the cashless claims have been on boarded under authorized adjudication initiative. Anti-fraud digital initiatives have produced good savings in the claims.

**Distribution**

- In order to increase the penetration in semi urban and the rural geographies, Star plans to open 1000 sales manager stations; these are small individual

service centers and sales distribution centers, of which 839 have already become operational in 9MFY24. Of the 19,000 PIN codes in India, we are now present in 17,000 odd PIN codes via agency network.

- Agency business contributed around 82% of the overall business for 9MFY24. Agency's strength has increased to 6,84,000 agents with a net addition of close to 63,000 agents in 9MFY24.
- Star health has slowed down on inwards portability of customers from the agency channel and continues to focus on quality. There is no decline in fresh agency business.
- The Bancassurance growth in fresh business is at 40% in 9MFY24 (now contributes 5% of the total premium). Here, the attachment business contribution is significant and the indemnity plans largely from PSU banks. Fresh business through Bancassurance and the digital business has grown by close to 33% in 9MFY24. Digital initiatives account for ~7.2% of the total premium.

HEALTHCARE



■ In Healthcare, companies indicated sustained growth momentum in chronic category of therapies in domestic formulation segment for the quarter. The weak seasonality adversely impacted the off-take of products in acute therapies as per management. Companies witnessed the benefit of lower raw material costs for the quarter. They expect this benefit to sustain over the near term. Considering the inflation scenario, companies do not expect any benefit from WPI-linked price changes for FY25. For the US generics space, management indicated low intensity of price erosion (mid-single digit on a QoQ basis) in their base portfolio. The filings are inclined toward complex products, and thus, there is reduction in overall pace of filings as per management. On the hospitals front, the festivals period led to lower planned In-patients (IPDs) on a QoQ basis. The management continues to indicate robust demand in North India. Companies indicated the benefit being accrued on account of revision in realization for patients under the Central government healthcare scheme (CGHS) category. Overall, the healthcare space continues to witness tailwinds on account of niche pipeline in the US and limited availability of hospital services in certain regions of India. The DF is witnessing seasonality led by some slowdown over the near term.

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook for FY24	US Business - Update
<b>Aurobindo Pharma</b>	<ul style="list-style-type: none"> <li>■ ARBP is confident of achieving 20% EBITDA margin in FY24.</li> <li>■ ARBP indicated the production of PLI project to start from 1QFY25 and initial output would be used for internal consumption.</li> <li>■ ARBP's China plant would start production from 1QFY25 onwards.</li> <li>■ ARBP is expected to complete recruitment for phase III trials of b-Xolair (Omalizumab) by Oct'24.</li> </ul>	<ul style="list-style-type: none"> <li>■ ARBP witnessed low single-digit price erosion on a QoQ basis in 3QFY24.</li> <li>■ With respect to the recent USFDA inspection at Eugia Unit-3, ARBP indicated to restart non-aseptic production lines in the next few weeks. The Aseptic production line would take a month or two.</li> <li>■ About USD20m business would be adversely impacted in 4QFY24 because of the temporary shutdown at Eugia Unit-3 to address USFDA regulatory issue.</li> </ul>
<b>Cipla</b>	<ul style="list-style-type: none"> <li>■ It has guided for EBITDA margin of 23-24% in FY24.</li> <li>■ The company also plans to launch four peptide assets in FY25. Two assets do not have IP-related issues.</li> <li>■ Given that alternate site filing would require clinical trials to be done again for g-Abraxane, CIPLA will focus on ANDA filed for g-Abraxane from the Goa site. A successful re-inspection would be key for approval.</li> </ul>	<ul style="list-style-type: none"> <li>■ CIPLA would be the sole player to receive approval for a peptide asset, which is expected to be approved by USFDA in the near term.</li> <li>■ The price erosion in the US base portfolio has been about 4-6%.</li> <li>■ CIPLA has filed two respiratory products for the US market in 3QFY24, with one being g-Symbicort.</li> </ul>
<b>Dr. Reddy's Labs</b>	<ul style="list-style-type: none"> <li>■ The management expects the base business in India to grow in double digits YoY in the coming quarters.</li> <li>■ It aims for biosimilar product launches in the US/EU starting in CY27.</li> </ul>	<ul style="list-style-type: none"> <li>■ DRRD expects to launch 26 products in the US over the next two years. Of these, about two products are from FTO-3.</li> </ul>
<b>Gland Pharma</b>	<ul style="list-style-type: none"> <li>■ GLAND has completed an integration review and identified the areas of improvement and further capex required at Cenexi.</li> <li>■ It continues to explore avenues for value creation in the India market.</li> </ul>	<ul style="list-style-type: none"> <li>■ GLAND launched nine molecules in the US market.</li> <li>■ GLAND filed 10 ANDAs and received approvals for three ANDAs.</li> </ul>
<b>Sun Pharma.</b>	<ul style="list-style-type: none"> <li>■ Ex-milestone income, SUNP's global specialty sales grew 24% YoY, led by better traction in Illumya, Cequa, and Levulan.</li> <li>■ SUNP witnessed healthy growth across major therapies in DF, driving better-than-industry growth for the company. It has exhibited superior performance in in-licensed products as well.</li> </ul>	<ul style="list-style-type: none"> <li>■ While specialty sales led to healthy growth in the US market, it was partly offset by regulatory issues at Halol/Mohali.</li> </ul>
<b>Divi's Lab.</b>	<ul style="list-style-type: none"> <li>■ 3QFY24 witnessed the inclusion of significant business from two major contracts with an</li> </ul>	<ul style="list-style-type: none"> <li>■ The generics: CS ratio was 54:46 for the quarter.</li> <li>■ The nutraceutical sales were INR1.5b during the</li> </ul>

innovator customer, contributing to the growth of the CS segment. DIVI expects this business to scale up in the coming quarters. The products are patented, providing strong visibility for the business.

- DIVI has a capacity that can be allocated for GLP1 products after qualification by customers

quarter, up 11% YoY.



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### Ajanta Pharma

Buy

Current Price INR 2,115

- AJP guided for gross margin to sustain at 75%. AJP upped its EBITDA margin guidance to 27%+-1% for FY24.
- AJP guided for low teens/mid-to-high single digit YoY growth in Asia/Africa branded generics market for FY24.
- AJP intends to file 8/10-12 ANDAs in FY24/FY25.
- The price/volume/new launches YoY growth for AJP was 3.9%/4%/3.7% vs 4.3%/2.6%/3% for IPM for 12M ending Dec'23.
- Other expenses may increase 7% QoQ due to Red-sea issue and higher marketing spend in the branded generics market.
- About 12% of AJP's portfolio in the DF segment is under NLEM.
- AJP launched 15/5 products in 9MFY24 in Asia/Africa branded generics market
- AJP would be launching one product in the US generics market in 4QFY24.
- The YoY growth in the cardiology segment within DF space was lower, primarily due to the inclusion of one brand under NLEM.



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### Alembic Pharma

Neutral

Current Price INR 1,047

- ALPM delivered better-than-industry growth in Gynecology, Gastrointestinal, Anti-Diabetic, and Ophthalmology.
- The company launched 11 products in 3QFY24 and targets to launch five more in the US generics segment in 4QFY24.
- ALPM is also working on GLP-1 products as it also has peptide capability.
- USD57m is the new base for the quarterly sales run rate in the US generics segment.
- About 14.6% of its DF portfolio is under NLEM.
- The total number of MRs for its domestic business has been stable at 5,000+ in 9MFY24.
- ETR would be 17-18% for FY25.
- ALPM has gross debt of INR5.2b and cash of INR3.5b at the end of 3QFY24.
- The company has established a new division for animal healthcare (350 headcount), which should help ALPM sustain growth in this segment.



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### Alkem Labs

Neutral

Current Price INR 5,403

- ALKEM expects 17% EBITDA margin in FY24 and is making efforts to improve margins from these levels going forward.
- Other expenses fell QoQ due to lower distribution expenses related to freight.
- The company plans to invest INR2.5b to build a manufacturing facility in the US for the biosimilar segment.
- With improved traction in biosimilar products (7 launched in India), the company would introduce these products in other geographies as well.
- ALKEM expects Pen-G prices to remain high.
- ALKEM witnessed low single-digit price erosion in US generics base business.
- The company outperformed the industry in GI as well as anti-diabetic segment in the DF segment.
- It has no plans to add MRs over the medium term in the DF segment.
- Chronic therapies formed 17% of DF segment for the quarter.
- NLEM portfolio is about 32% of DF segment.



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### Apollo Hospitals

Buy

Current Price INR 6,762

- APHS guided for GMV to grow 75% YoY to INR28b for FY24. It expects 60-70% YoY growth in GMV in FY25. 3Q has been an exceptional period in terms of GMV and we anticipate improvements going forward.
- APHS remains confident of achieving 14% YoY growth in revenue in healthcare services in FY24. It expects to achieve 15% YoY growth in healthcare services revenue in FY25.
- With health-co EBITDA break-even in 3QFY24, it expects Apollo 24/7 to achieve EBITDA break even in six to eight quarters.
- It remains on track to add 2K beds over the next two to three years
- It added 119 pharmacy stores in 3QFY24, taking the total number of stores to 5,790.
- Transacting user base grew 18% YoY to 1.2m for Apollo 24/7.
- The overall ARPOB grew 9.5% YoY for the quarter. The in-patient volume grew moderately by 5.7% YoY, while out-patient volume reduced 2% YoY.
- Net debt stood at INR15.5b at the end of 3QFY24.

#### Other operational highlights Hospitals segment (51% of sales)

- In 3QFY24, ARPOB grew 10% YoY to INR56k, and occupancy increased 100bp YoY to 66%. Total operating beds increased 1% YoY to 7,911.
- In metro cities, APHS had 4,543 operating beds with an ARPOB/occupancy of INR69k/67%. In non-metro cities, APHS had 3,368 operating beds with an ARPOB/occupancy of INR39k/62%.



**Healthco (offline/online pharmacy and Apollo 24/7; 42% of sales)**

- In 3QFY24, Healthco turned EBITDA positive vs a loss of INR629m in 3QFY23. It was due to cost optimization and growth in operational revenue coming from Pharmacy distribution.
- In 3QFY24, 119 net new stores were opened, taking the total count to 5,790.
- GMV of Apollo 24/7 stood at INR6.6b (up 21% YoY, down 9% QoQ).

**AHLL (7% of sales)**

- In 3QFY24, Diagnostics/Primary care/Specialty care revenue grew 19%/5%/3% YoY to INR1b/INR0.9b/INR1.5b.
- Footfalls per day in Diagnostics increased 28% YoY. In Specialty care, footfalls per day increased 32%/10% YoY in Fertility/Cradle segments. Within primary care, the Dialysis segment witnessed 16% YoY growth in footfalls per day.



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**Aurobindo Pharma Neutral**  
Current Price INR 1,053

- With respect to recent USFDA inspection at Eugia Unit-3, ARBP indicated to restart non-aseptic production lines in the next few weeks. The Aseptic production line would take a month or two.
- About USD20m business would be adversely impacted in 4QFY24 because of the temporary shutdown at Eugia Unit-3 to address USFDA regulatory issue. Eugia Unit-3 contributed about 40% of the Eugia business.
- ARBP is also working with third-party consultants to provide the optimum solution to address regulatory issues at Unit-3.
- ARBP is confident of achieving 20% EBITDA margin in FY24.
- The QoQ increase in Eugia's specialty business is largely driven by the growth in sales of g-Revlimid.
- ARBP witnessed low single-digit price erosion on a QoQ basis in 3QFY24.
- ARBP indicated the production of PLI project to start from 1QFY25 and initial output would be used for internal consumption.
- ARBP's China plant would start production from 1QFY25 onwards
- ARBP is expected to complete recruitment for phase III trials of b-Xolair (Omalizumab) by Oct'24.
- It recently received approval for btrastuzumab from the Indian regulatory agency
- ARBP has completed three biosimilar filings with the European medicines agency. Additionally, ARBP has submitted a couple of biosimilar filings to the UK-MHRA as well as Canada regulatory agency.

**Biocon Neutral**  
Current Price INR 282

- The INR3.8b impairment for the quarter was related to Rh-Insulin.
- BIOS received its first generic product approval in China.
- It has secured new contracts in the US for b-Pegfilgrastim, b-Trastuzumab, and b-Adalimumab.
- The company received four product approvals in API and formulations, including one approval in the US, one in the UK, and two in RoW.
- BIOS received a complete response letter (CRL) recently for b-Bevacizumab.



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- It has witnessed an uptick in un-branded sales of glargine through the closed-door pharmacy network.
- Its Peptide facility in Bengaluru has successfully completed validation activities. Process validation would begin in Hyderabad for synthetic APIs.
- The company launched bevacizumab in Brazil (mkt size – USD175m).
- BIOS has total net debt of USD1.3b, out of which USD200m were repaid in 3QFY24 after the receipt of the existing contractual receivable arrangement.

**Cipla** Buy

Current Price INR 1,452

- CIPLA would be the sole player to receive approval for a peptide asset, which is expected to be approved by USFDA in the near term.
- The company also plans to launch four peptide assets in FY25. Two assets do not have IP-related issues.
- Given that alternate site filing would require clinical trials to be done again for g-Abraxane, CIPLA will focus on ANDA filed for g-Abraxane from the Goa site. A successful re-inspection would be key for approval.
- CIPLA would be using an alternate site for filing g-Advair and expects to file the same by mid-FY25.
- It has guided for EBITDA margin of 23-24% in FY24.
- The price erosion in the US base portfolio has been about 4-6%.
- CIPLA has filed two respiratory products for the US market in 3QFY24, with one being g-Symbicort.
- The company has garnered a market share of 20% in Lanreotide.
- The chronic segment grew 11% YoY vs. 9.5% YoY at the industry level.
- Particularly, respiratory/cardiac/Urology grew 11%/11%/16% YoY vs. industry growth of 5%/9%/12% YoY for the quarter.

**Divi's Lab** Neutral

Current Price INR 3,711

- 3QFY24 included certain business from two major contracts from an innovator customer, which boosted CS segment growth. DIVI expects this business to scale up in the coming quarters. The products are under patent and thus provide good visibility for the business.
- DIVI has the capability to develop protected amino acids and is working with innovators to improve business prospects.
- DIVI has a capacity that can be allocated for GLP1 products after qualification by customers.
- DIVI has spent INR4.5b YTD in capex at Kakinada.
- Capacity utilization stood at ~80% in 3Q.
- In API segment, DIVI has considerably increased its capacity for products in the base business. Further, the patent expiry would add new molecules in this segment.
- Nutraceutical sales was INR1.5b for the quarter. CWIP is INR7b at the end of 3QFY24.

- The market size of Iodine-based contrast media products is USD4b. The market size of Gadolinium-based contrast media products is USD5b.
- The ongoing Red Sea crisis has disrupted the global supply chain, leading to increased freight costs and extended timeline for transport.

**Dr.Reddy's**

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**Eris**  
POWER OF EMPATHY  
TRUTH OF SCIENCE

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**Dr. Reddy's Labs**

**Neutral**

Current Price INR 6,377

- DRRD expects to launch 26 products in the US over the next two years. Of these, about two products are from FTO-3.
- It aims for biosimilar product launches in the US/EU starting in CY27.
- Management expects the base business in India to grow in double digits YoY in the coming quarters.
- DRRD has strong capabilities in developing and manufacturing peptides, and the company is well-positioned to monetize GLP-1 opportunities, considering relevant patent situations.
- SGA expenses were up 12% YoY due to investments in sales/marketing/digitization and other new initiatives. The benefits of the same are expected from FY25 onwards.
- It received three product approvals in China during the quarter, taking the cumulative approvals to nine for FY24YTD.
- DRRD has 12/8 launches/filings in NA for FY24YD.
- DRRD posted double-digit YoY growth in the PSAI segment on ex-Covid basis.
- The OTC contribution was 10% of the overall revenue.
- It expects ETR to be at 24-25% for FY24.

**Eris Life Science**

**Neutral**

Current Price INR 853

- Swiss Parenterals works on the distribution-led model. The same sales channel would also be used to leverage the existing portfolio of ERIS.
- The investment of INR400m would be required in Swiss Parenterals towards manufacturing capacity as well as enhancing the front end.
- The Swiss Parenterals' portfolio comprises antibiotics, general injectables as well as inhaled Anesthesia.
- The portfolio acquired from Biocon did not have a meaningful benefit in 3QFY24. ERIS would be able to garner 70% gross margin on this portfolio from 4QFY24 onwards. Further, the sales force would enable better operating leverage going forward.
- ERIS secured approvals for Liraglutide and Glargine and these are expected to be launched in 1QFY25.
- ERIS' R&D pipeline comprises 26 products (first to market by ERIS as well First to market by the industry).
- Tayo has an annual sale of INR800m, growing at 45% on YoY basis. Gluxit has grown at 21% on a YoY basis.
- ERIS targets to achieve INR1b of revenue from the India market, utilizing products of Swiss Parenterals.
- Overall tangibles/intangibles addition due to Swiss Parenterals acquisition would be INR6.3b.



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## Gland Pharma

Buy

Current Price INR 1,966

- GLAND has completed an integration review and identified the areas of improvement and further capex required at Cenexi. Over the near term, GLAND is working on rebalancing capacities and shifting certain products to different lines, which would take time due to the regulatory process.
- GLAND launched nine molecules in the US market. Further, additional market share in Enoxaparin and element of profit share/milestone also led to better sales in the US market for the quarter.
- The cash conversion cycle reduced to 182 in 9MFY24 from 256 in FY23. The CFO was INR6.3b in 9MFY24.
- GLAND filed 10 ANDAs and received approvals for three ANDAs.
- It continues to explore avenues for value creation in the India market.
- GLAND spent INR2.8b in capex for 9MFY24. It intends to invest INR3b in FY25
- The R&D spent was 4.8% of sales for 3QFY24.

### Profitability on rising trajectory over the medium term Growth in core markets through portfolio expansion complemented by steady pricing environment

- In 9MFY24, GLAND's core market (ex-Cenexi) sales grew 6% YoY to INR30b. Including Cenexi, core markets jumped 60% YoY to INR33.8b.
- The growth is due to market share gains in the base portfolio and stable pricing.
- During 9MFY24, GLAND filed 16 ANDAs. It also received approvals for 18 products and launched 50 products (including re-launches).
- The future growth will be from the new product launches, portfolio expansion, and market penetration through the partner-led approach.
- Despite the longer approval process, GLAND continues to identify products from the US basket that have the potential to enter new geographies, such as Australia and Europe.
- Moreover, GLAND has a solid order book of new programs that it has signed. It is currently in various stages of tech transfer and approval.
- Overall, we expect 11% sales CAGR in the core markets to reach INR40.7b over FY24-26. This would be supported by additional sales of Cenexi, which is likely to grow at 9% to reach INR19b over FY24-26.
- Increase in market share and geographical expansion to drive ROW market
- In 9MFY24, RoW markets witnessed 62% YoY growth to INR8.4b. This growth was due to the Cenexi acquisition. Ex-Cenexi, RoW market sales declined 5% YoY to INR4.9b.
- GLAND registered Zoledronic Acid, Rocuronium Bromide, and Voriconazole in new geographies during the quarter.
- Over FY24–26, we expect ROW sales to report 11% CAGR to reach INR6.9b, led by expansion in new geographies and new launches.



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**Global Health**

Buy

Current Price INR 1,401

- Medanta added 159/94 doctors in developing/mature hospitals in 9MFY24.
- In the Noida project, ~82% of super structure work is completed and it is ontrack to commence operations by end FY25. Since it is a single-tower facility,the company can scale up this site much faster.
- Medanta has not increased prices at Lucknow/Patna since inception.
- Lucknow has witnessed strong demand, so the company added 150 beds. It has also exhibited robust operating efficiency.
- Medanta launched advanced NICU ambulance and child development center at Lucknow.
- Medanta expects to increase bed capacity in Patna to 450 from 358 currently. In Patna, it has started a comprehensive cancer institute in Patna and has the most advanced radiation oncology machine, first of its kind in the country.
- Patna hospital would start treating patients from government agencies.
- The due diligence with respect to Indore hospital is underway. Medanta is waiting for its partners to get necessary approvals.

**Other operational highlights**

- In 3QFY24, ARPOB grew 3.8% YoY to INR60k, primarily driven by an increase in realizations at the Gurugram unit.
- Revenue from international patients increased 6% YoY to INR473m, driven by higher volumes and realization.
- ALOS stood at 3.3 days (vs. 3.3/3.0 days in 3QFY23/2QFY23).
- IPD/OPD volumes increased 13%/20% YoY for the quarter.
- OPD Pharmacy revenue increased 28% YoY to INR224m.

**Glenmark Pharma**

Neutral

Current Price INR 894

- GNP implemented changes in its overall distribution model through theconsolidation of stock points and rationalization of channel inventories forthe DF market. This has led to a one-time impact on sales.
- The US sales were hit in 3QFY24 due to the continued price erosion in thebase business and a lack of significant new product launches in thepreceding quarters.
- GNP launched seven ANDAs in 3QFY24. IT has five injectable products in theUS market. The company has filed two ANDAs for generic nasal sprays.
- GNP is hoping to restart commercialization of further injectable productsfrom the Monroe manufacturing site from FY25 onwards.
- GNP expects to file ANDA with respect to g-Flovent in 1QFY25. GNP also plans to file at least one more generic respiratory PMDI in the US in FY25.
- Marketing applications for RYALTRIS have been submitted in more than 70 countries across the world. The product has been commercialized in 31 markets. GNP's commercial partner, Hikma, continued to see strong new prescriptions with a full-strength field force focusing on the high-prescribing physicians.
- The transaction with respect to the sale of API business (Glenmark Life Sciences) is subject to customary closing conditions precedent, including receipt of regulatory and shareholder approvals.
- Net Debt was INR35b at the end of 3QFY24.





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## Granules India

Buy

Current Price INR 464

- GRAN expects FY24 revenues to be stable on YoY basis. It expects growth to revive FY25 onward.
- The share of core molecules fell to 72% in 3QFY24 from 84% at FY23 end.
- With 4-5 launches in the US for YTD, GRAN expects to launch 3 products in 4QFY24. Particularly, the g-Toprol launch is being delayed as geo-political issues have affected transportation.
- Inventory corrections in the market and the loss of tenders by GRAN's customer affected its business in LATAM.
- The pilot plant for DCDA is expected to start in Mar'23. The commercial benefits are expected to accrue in FY26.
- The inventory level is expected to build up in 1HFY25 for the Europe market. While sales realization is lower for its product in the Europe market, margins have been intact due to lower raw material prices.
- The US accounts for a significant share of business in the FDF segment currently.
- GRAN incurred capex of INR1b/INR2.8b for 3QFY24/9MFY24.
- Net debt stood at INR9.3b (down INR600m QoQ) and Net Debt to EBITDA at 1.16x.
- R&D spending stood at INR470m, 4% of sales, in 3QFY24.



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## IPCA Labs

Neutral

Current Price INR 1,236

- Branded Exports business was adversely impacted by the delay in obtaining licenses. Further, the Red sea issue affected the business in West Africa. IPCA expects 10% YoY growth in branded exports business in FY25.
- IPCA delivered 15.9% YoY growth in the chronic category against 11% YoY growth at industry level for 12M ending Dec'23. It exhibited 11% YoY growth in acute category against 9% YoY growth at industry level.
- IPCA expects 13-14% YoY growth in DF in FY25.
- IPCA has seven approved ANDAs, which can be commercialized in 1QFY25 in the US generics segment. About 8-9 ANDAs can be launched in the next 12M, considering the revalidations. Overall, 16-17 products can be launched over the next two years.
- At Dewas, some products are filed with EU authority. It would take few months for 5-6 product approval.
- The API business has been adversely impacted by reduced off-take of Sartans' APIs.
- IPCA is engaged in various initiatives, which include expanding market reach, refining API processes, and scaling up production capabilities to improve the overall prospects of Unichem business.



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## Laurus Labs

Buy

Current Price INR 401

- The performance across segments is likely to improve from 4QFY24 due to scheduled multiple launches in the formulation segment (FDF), volume gains in existing products across the US/Europe, validation batches for products under animal health contract, scheduled CMO delivery, as well as strong volumes in ARV/Onco-API segments.
- The operational cash flow for 9MFY24, at INR3.7b, was less than INR4.7b in 1HFY24, due to increased working capital needs because of inventory build-up.
- The operational cash flow for 9MFY24 at INR3.7b is less than INR4.7b in 1HFY24 due to increased working capital needs on account of inventory build-up.
- LAURUS needs to validate about 20 products under the animal health contract. It has done three to date and expects to complete the rest over the next 12-15M.
- There has been a transitional shipment impact and subdued pricing in the Non-ARV API segment, thereby affecting its performance for the quarter adversely.
- It has filed one ANDA and one DMF in 3QFY24 and has filed 39 ANDAs to date.
- The Net debt was about INR25b at the end of 3QFY24
- LAURUS incurred capex of INR1.9b for the quarter. The gross block at the end of FY24 would be INR60b.
- R&D spending for 9MFY24 stood at INR1.7b, which was 4.8% of sales
- Positive RFP flow continued with the increased commercial opportunities for several late-phase NCE projects.
- Integrated capability expansion on track – Animal health unit started commercial validation supplies. The R&D center is coming online by Jun'24-end
- The new R3 site (microbial fermentation) ground broken at MYQ – Stepwise construction to start next quarter with target to operationalize Phase 1 capacity by Jun'26
- As of 31st Dec'23, the cash balance stood at INR370m
- Developed market filings over 9MFY24: Six product dossiers were filed and seven approvals were received (including tentative approvals).



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## Lupin

Neutral

Current Price INR 1,589

- LPC guided for ~40% market share in g-Spiriva in FY25. The company does not anticipate any generic competition in Spiriva over the next two years.
- LPC intends to achieve at least a high single-digit to low double-digit YoY sales growth of the US generics in FY25.
- Management expects a response from the USFDA on g-Dulera over the next three months.
- Injectables and ophthalmic products such as Glucagon, Fosphenytoin, and prednisolone would be the potential products for LPC in the US generics segment over the medium term.
- LPC expects to grow 20-30% better than the industry in the DF segment.
- The field force in DF was about 8,000 at the end of 3QFY24. LPC is planning to add divisions to increase the reach/expand therapies.
- Management indicated that international freight costs are higher by 30%-35% due to the ongoing geopolitical issue around Red Sea.



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- LPC has received CRL on Pegfilgrastim recently. Management would be responding on it to the regulatory agency soon.

### Max Healthcare

Buy

Current Price INR 866

- The 15% CAGR in ARPOB over the past three years comprise price hikes (3%), increased OPDs (2%), oncology-led growth (3%), payor mix, and other specialities (6-7%).
- International patients formed 5.8% of the bed share and witnessed a notable 9% YoY increase in realization during the quarter.
- Max is poised for significant expansion with a) the addition of 300 beds from Dwarka (FY24), b) another 300-bed addition from Gurgaon (FY25), c) an increase of 329 beds from Nanavati (FY25), and d) the incorporation of 190 beds at Mohali (FY25). Further, an addition of another 250 beds is anticipated in Lucknow once the deal is finalized.
- Max recorded a gain of INR140m in 3QFY24 due to a price revision for institutional patients
- Oncology retained its position as a major indication for Max (26% of sales) and grew 27% YoY for 9MFY24
- Max lab services are now available in 41 cities vs. 36 cities in 2QFY24.
- Max Shalimar Bagh reported 36%/42% YoY growth in revenue/EBITDA for the quarter with average occupancy of 74%.
- It has surplus cash of INR13b at the end of 3QFY24.



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### Piramal Pharma

Buy

Current Price INR 132

- PIRPHARM maintains its guidance of high-teens YoY revenue growth in 2HFY24, with a meaningful margin expansion.
- Sales growth of 14% YoY in 3QFY24 implies 12-15% YoY sales growth in 4QFY24. 4Q is historically the strongest quarter for PIRPHARM.
- The company indicated strong demand for Anti-drug Conjugate (ADC), and the current ADC contract has already commenced.
- While PIRPHARM has reduced its debt through a rights issue, the increase in interest rate has led to elevated interest expenses for the quarter.
- The company has seen healthy demand for inhalation anesthesia products in non-US markets like UK, France, Vietnam, and Thailand.
- It has a pipeline of injectable products at different stages of development. It launched three products in US and EU markets during the quarter.
- ICP segment growth was affected by unfavorable seasonality, dragging down sales of Tetmosol brand.
- PIRPHARM launched three products and three SKUs in ICP segment in 3QFY24.
- ETR would be 25% for FY25.
- Gross debt stood at INR45b as of Dec'23. About 78% of debt is from foreign sources.
- Revenue breakup from CDMO business is 33% each from biotech, large pharma and mid-small size pharma.



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- In CDMO the revenue breakup from API: Formulation is 60%:40% and in terms of Innovation: generic is 45%:65%.
- Capex would be USD20-24m for 4QFY24.

### Sun Pharma

Buy

Current Price INR 1,539

- Ex-milestone income, SUNP's global specialty sales grew 24% YoY, led by better traction in Illumya, Cequa, and Levulan.
- While specialty sales led healthy growth in the US market, it was partly offset by regulatory issues at Halol/Mohali.
- SUNP witnessed healthy growth across major therapies in DF, driving better-than-industry growth for the company. It has exhibited superior performance in in-licensed products as well.
- The branded formulation segment in the EM market grew 5.2% YoY in local currency terms for the quarter.
- The specialty R&D expenditure stood at 39% of total R&D expenditure for the quarter.
- The PDUFA date for Deuroxolitinib is Jul'24. SUNP has completed phase I clinical trials for GL0034 and phase II is expected to start in 2HCY24.
- The topline data for psoriatic arthritis for Illumya is expected in 2HCY25.
- While the number of patients for melanoma and non-melanoma skin cancer is sub-10K, the opportunity would be interesting for Nidlegly.
- The milestone income in the global specialty segment is derived from the ROW market.

### Torrent Pharma

Neutral

Current Price INR 2,644

- TRP expects to clock EBITDA margin of 31.8% in the base business going forward. We believe that new approvals in the US and improved utilization of recently added MRs in DF/Brazil provide scope for further margin improvement.
- New launches in US generics would start in 1QFY25. About 7-8 launches can be expected in FY25.
- TRP indicated about two potential launches in the chronic space in the DF segment over the next 12-15 months.
- About 15 products are awaiting approval in Brazil. TRP intends to build field force for dermatology for the Brazil market.
- TRP continues to expand its distribution network for the consumer healthcare segment in DF.
- It intends to sign 1 in-licensing deal for the DF market on an annualized basis.
- The company witnessed low single-digit price erosion in the US generics market.
- TRP has launched seven products in Germany in YTD and recent tender wins would drive growth in 2QFY25.
- The net debt-to-EBITDA ratio stood at 0.88x at the end of 3QFY24.
- TRP has guided for R&D spending of 5.5% of sales in FY25.





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**ZyduS Lifesciences** **Neutral**

Current Price INR 896

- ZYDUSLIF exhibited healthy growth in volume/new launches, driving superior performance in the DF segment. The company plans to add 700MRs to expand its portfolio and enhance its market reach.
- ZYDUS expects slower build-up for Sitagliptin (Zituvio) in the US market.
- ZYDUS launched 11 ANDAs, which includes its first 505b2 product and 2 transdermals.
- The integration of Ligmeds is on track.
- The efforts by ZYDUSLIF are intended towards launching 1-2 potential opportunities annually over the next two to three years
- While the consumer wellness segment witnessed muted performance for 3QFY24, it expects good traction, led by a favorable summer season over the near term.
- ZYDUSLIF has increased its share of chronic therapies by 140bp YoY to 41% in CY23.





**LOGISTICS**

- In the logistics sector, demand activity remained low due to an extended holiday season and weak economic conditions. The management anticipates improved operational performance after the elections, particularly with reduced fuel charges and stable operating costs. However, ongoing issues in the Red Sea could disrupt the supply chain and cause container shortages, though the overall impact on port volumes is expected to be minimal. In the long term, companies are optimistic about sector growth, driven by e-way bills, GST implementation, expanded routes on the Dedicated Freight Corridor (DFC), and enhanced connectivity of major ports, which are expected to encourage businesses to move toward the organized sector.

**KEY HIGHLIGHTS FROM CONFERENCE CALL**

	Outlook for FY24	3Q FY24 highlights
<b>Adani Ports &amp; SEZ Ltd</b>	<ul style="list-style-type: none"> <li>■ The management has guided for 400 MMT of cargo for FY24.</li> <li>■ Revenue and EBITDA is forecasted to be ~INR 250b and ~INR 150b, respectively, in FY24. Capex for FY24 is projected to be ~INR 74b, keeping net debt-to-EBITDA ratio at 2.5x.</li> <li>■ The company is targeting 500 MMT of cargo volumes by the end of CY25, and the company is on track to achieve this goal.</li> </ul>	<ul style="list-style-type: none"> <li>■ On YTD basis (Apr-Dec'23), APSEZ has handled 311 MMT (+23% YoY) of cargo vis-à-vis its FY24 guidance of 400 MMT.</li> <li>■ A 44% YoY increase in cargo volume drove a 45% YoY revenue growth to INR 69.2b in 3QFY24.</li> <li>■ In 3QFY24, Port revenues grew 41% YoY to INR55.4b. EBITDA margins stood at 71% in 3QFY24 (70% in 3QFY23).</li> <li>■ Logistics revenues grew 8% YoY to INR6b. EBITDA margins stood at 28% in 3QFY24 (29% in 3QFY23).</li> </ul>
<b>Container Corporation</b>	<ul style="list-style-type: none"> <li>■ The company maintained its FY24 guidance. It expects 15% volume growth in the domestic segment and 10% in the EXIM segment.</li> <li>■ The DFC connection to JNPT is expected to increase rail coefficient from the current 18-19% to 25-30% in the next two years.</li> <li>■ CCRI aims to reach 80-85% in First Mile Last Mile (FMLM) in another two years from ~30% currently.</li> <li>■ LLF provisioning is likely to be ~INR4b for FY24.</li> </ul>	<ul style="list-style-type: none"> <li>■ Total volumes increased 6% YoY to 1.15m TEUs, with EXIM/Domestic volumes at 0.9m/0.25m TEUs (up 8%/down 1% YoY).</li> <li>■ Blended realization improved ~5% YoY to INR19,161/TEU. EXIM/Domestic realization stood at INR15,915/INR30,966 per TEU (+5%/+8% YoY).</li> <li>■ The land license fee for 3QFY24 stood at INR719m (INR2.9b in 9MFY24).</li> </ul>
<b>Transport Corporation</b>	<ul style="list-style-type: none"> <li>■ The management has reduced its revenue/PAT growth guidance to 5-10% in FY24 from 10-15% earlier.</li> <li>■ The management expects capex of INR 2.5b in FY24 and INR 2-3b annually in the next two to three years.</li> <li>■ The management expects 10-15% growth rate for revenue and PAT in FY25, which is likely to continue for the next three to four years.</li> <li>■ The tax rate is expected to be around 12-13% from FY25 onwards.</li> </ul>	<ul style="list-style-type: none"> <li>■ The supply chain division grew 16% YoY, driven by client retention and new business. The management is confident of sustaining double-digit growth in FY24.</li> <li>■ Seaways division revenue declined 16% YoY due to lower freight rates; two new vessels are expected between Jan and Mar 2026.</li> <li>■ LTL revenue share in the freight division is targeted to increase to 40% by FY25 for margin improvement.</li> <li>■ Margins and ROCE in the freight business have experienced a slight decline due to flattish revenue growth.</li> </ul>
<b>Blue Dart Express</b>	<ul style="list-style-type: none"> <li>■ Standalone EBITDA margin is expected to be in the low double-digit range, with a potential 5-6% growth in realization.</li> <li>■ The two aircraft would operate in the existing network where BDE operates currently. Additionally, BDE would add Guwahati to its network using these new aircraft.</li> <li>■ The general price hikes were implemented at the start of the year. The management expects to push a 5% price hike on a blended basis, post-negotiation with customers.</li> </ul>	<ul style="list-style-type: none"> <li>■ BDE faces slow growth and intensified competition; However, the management expects a volume increase in FY25 and FY26 as demand rises and new aircraft stabilize.</li> <li>■ The festive-led demand was spread between 2QFY24 and 3QFY24.</li> <li>■ BDE handled 0.31m tonnes of cargo volume (+3% YoY), while the realization improved ~1% YoY to INR 44/kg. It carried 92m shipments in 3Q.</li> <li>■ EBITDA margin came in at 9.7% in 3QFY24. The margin was lower by ~160bp YoY, mainly due to higher 'other expenses' and employee costs. EBITDA declined ~11% YoY to INR1.3b (vs. our est. of INR1.5b).</li> <li>■ The soft operating performance was partially offset by high 'other income' and a lower tax outgo.</li> </ul>
<b>Mahindra logistics</b>	<ul style="list-style-type: none"> <li>■ Due to high competition and slower volume growth, the express business continued to report elevated loss at operating level.</li> <li>■ MLL now expects EBITDA breakeven by end-1HFY25 and PAT breakeven by the end of FY25 for the MLL</li> </ul>	<ul style="list-style-type: none"> <li>■ In 3QFY24, the 3PL Contract Logistics business grew 6% YoY. The contract logistics business secured an order intake of ~INR1.5b during the quarter.</li> <li>■ Enterprise Mobility Services (EMS) reported revenues of</li> </ul>

	<ul style="list-style-type: none"> <li>Express business (Rivigo).</li> <li>MLL targets 18% ROE by FY26; it prioritizes mid-teens growth in 3PL, and aims to achieve INR65b in 3PL through extensive network expansion.</li> </ul>	<ul style="list-style-type: none"> <li>INR 839m (up 29% YoY) and EBIT of ~INR 4m. MLL achieved a successful turnaround in the mobility sector. The market is experiencing recovery with consolidation in the B2B segment, and there is a notable shift in B2C toward EVs.</li> <li>In 3QFY24, Rivigo received funding of INR 500m to support the EBITDA loss of INR 224m during the quarter and address some working capital needs.</li> </ul>
<p><b>TCI Express</b></p>	<ul style="list-style-type: none"> <li>For FY24, TCIE aims to achieve a volume growth of 3-4% in FY24 without any hike in realization. Furthermore, low single-digit revenue growth is expected in 4QFY24, with an outlook for double-digit revenue growth in FY25.</li> <li>Margins in 4QFY24 are expected to improve 50bp sequentially, witnessing traction in Jan-Feb 2024. Despite the challenges faced in FY24, revenue and EBITDA are projected to remain consistent with those of 3QFY24.</li> <li>There is a planned capex of INR5b in five years (FY23-FY28)</li> </ul>	<ul style="list-style-type: none"> <li>Volumes in 3QFY24 stood at 0.25m tonnes (down 1% YoY), while realization stood at INR 12,474 per ton (flat YoY and down 2% QoQ).</li> <li>The volumes were adversely impacted by the weak macroeconomic environment, muted festive demand, and the long holiday season during the quarter.</li> <li>EBITDA for the quarter stood at INR456m with a margin of 14.6%. Margins were adversely impacted by lower volumes handled.</li> <li>Total contribution of value-added services now stands at ~17%, compared to 15% in Jun'23.</li> </ul>
<p><b>VRL Logistics</b></p>	<ul style="list-style-type: none"> <li>VRL is looking to increase prices post general election as fuel prices are expected to change. VRL expects a tonnage growth of 15% in FY25 as demand picks up.</li> <li>Tonnage growth rate for 4QFY24 and FY24 is projected to be around 8-10%, and 15% plus in FY25. Revenue growth is expected to be stronger in FY25 with higher tonnage growth and higher freight rates.</li> <li>EBITDA margin is expected to be around 13-14% in 4QFY24 and FY24.</li> </ul>	<ul style="list-style-type: none"> <li>Volumes increased 8% YoY to 1.09m tons in 3QFY24.</li> <li>The sluggish demand in Southern States, attributed to an unfavorable spread of the monsoon, affected volume growth. Realization per ton stood at INR 6,669 (flat YoY and QoQ).</li> <li>EBITDA margins stood at 12.8%. The margins were adversely impacted by higher employee costs. Further, increased costs have not been passed on to customers, leading to pressure on EBITDA margins. EBITDA stood at INR944m.</li> </ul>



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**Adani Ports & SEZ**

Buy

Current Price INR 1,300

**Operational highlights**

- A 44% YoY increase in cargo volume drove a 45% YoY revenue growth to INR 69.2b in 3QFY24. The domestic port's EBITDA margin expanded ~170 bp, resulting in a 39% YoY EBITDA growth to INR 41.9b.
- In 3QFY24, Port revenues grew 41% YoY to INR55.4b. EBITDA margins stood at 71% in 3QFY24 (70% in 3QFY23).
- Logistics revenues grew 8% YoY to INR6b. EBITDA margins stood at 28% in 3QFY24 (29% in 3QFY23).
- Net Debt stood at INR379b at the end of 3QFY24 (INR399b at the end of FY23).
- A USD 325m bond buy-back in 9MFY24 improved the Net Debt-to-EBITDA ratio to 2.5x as of Dec'23, compared to 2.8x in Sep'23. The company aims to maintain this ratio as a milestone.
- Container cargo experienced a 27% YoY growth, followed by dry cargo at 25%, and liquid & gas at ~20% YoY during 9MFY24. Market share in containers has seen a significant increase.
- The Haifa port successfully managed 9.3 MMT of cargo in 9MFY24 and 3 MMT in 3QFY24. There has been no noticeable slowdown in the traffic flow at the Haifa port, located in the northern region of Israel.

**Port Vertical**

- While a prolonged issue in the Red Sea may disrupt the overall supply chain and lead to container shortages, the impact on overall volumes is expected to be marginal, given that only 10% of the company's total container volumes move

through the Red Sea route. Some container volumes may be affected due to the Red Sea issue.

- APSEZ reached a record quarterly cargo volume of 108.6 MMT, with Mundra, its main port, achieving the highest-ever monthly volume for any Indian port in Oct'23.
- Domestic cargo growth was over 2.5x India's growth rate, with nine of the company's domestic ports/terminals recording their highest ever cargo volumes in 9MFY24.
- Key factors driving cargo volume growth include strong demand across the Indian economy, an active capex cycle evident in power, steel production, and an increase in exports of manufactured goods.
- The volumes at the Mundra Port experienced 34% YoY growth, driven by an uptick in cargo across various categories. This increase, combined with a 3% YoY improvement in realizations, contributed to the rise in both revenue and EBITDA during the quarter. Additionally, the EBITDA margins saw an improvement, reaching 66% in 3QFY24, compared to 59% in 3QFY23.
- Mundra's strategic advantage over the Pipavav port and JNPT is its proximity to NCR (100kms closer to NCR over Pipavav and 350kms closer than JNPT).
- The proportion of non-Mundra domestic ports in the overall cargo distribution increased to 56% in 9MFY24 from 54% in 9MFY23.

#### Logistics Business

- Adani Logistics Ltd (ALL) achieved its highest-ever Rail (+22%) and GPWIS (+46%) volumes in 9MFY24.
- Logistics rail volumes demonstrated a growth of 17% YoY, reaching 0.16m TEUs. GPWIS cargo volumes experienced a significant 53% YoY growth, totaling 5.3 MMT.
- The total number of rakes at the end of Dec'23 increased to 115 (104 rakes at the end of Sep'23) and is further expected to rise to 128 by the end of FY24.
- The total warehousing capacity in 9MFY24 expanded to 2.4m sq. ft. with the inclusion of warehouses in NRC and Indore.
- During the quarter, there was a notable increase of 9 trains in traffic.
- The count of Multi Modal Logistics Parks (MMLP) has risen to 11, with the addition of Loni ICD and Valvada ICD. It is expected to further increase to 12 by the end of FY24 with the commissioning of Virochannagar MMLP.
- By the end of FY24, with the commissioning of Samastipur and Darbangha agri silos, APSEZ's total silo capacity is projected to grow to 1.2 MMT.
- In the logistics business, initiatives include adding two more MMLP in North India and Mumbai (to be commissioned in the next two to three years), and increasing the rake count from 115 to 300 by FY28, primarily driven by GPWI and followed by the container business.

#### Guidance

- The management has guided for 400 MMT of cargo for FY24.
- Revenue and EBITDA is forecasted to be ~INR 250b and ~INR 150b, respectively, in FY24. Capex for FY24 is projected to be ~INR 74b, keeping net debt-to-EBITDA ratio at 2.5x.
- On YTD basis (Apr-Dec'23), APSEZ has handled 311 MMT (+23% YoY) of cargo vis-à-vis its FY24 guidance of 400 MMT. The company is targeting 500 MMT of cargo volumes by the end of CY25, and the company is on track to achieve this goal.
- Logistics growth is expected to continue to grow at the current pace or even faster, with significant opportunities in container, bulk, and agri businesses. The

current growth rate is considered the minimum, and APSEZ aims for a much faster growth rate in its logistics business.

- Increasing the weight of the agro silo business is expected to enhance EBITDA margins, with an overall margin target of 15% for the Agro Silo business.



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## Blue Dart Express

Buy

Current Price INR 6,337

Volume:

- Volume growth over the past nine quarters has been modest, with 9MFY24 shipments growing by 9% YoY and volume in tonnage increasing by 3% YoY. Growth is slower YoY as the previous year had some international charter, which was due to the pandemic. Adjusted for that, growth has been decent.
- The two aircraft are seeing a pickup in utilization levels. However, the market has been slow and BDE expects the coming quarters to show better performance QoQ.
- The two aircraft would operate in the existing network where BDE operates currently. Additionally, BDE would add Guwahati to its network using these new aircraft.
- The Air to Surface Express ratio was similar to the last quarter. Surface Express is experiencing faster growth, and the documents business is also showing a notable increase in growth rate. However, the Surface business has been competitive of late and BDE would be positioning this accordingly.
- Sequential growth was seen in shipments in both the B2B and B2C segments. However, better growth is expected going forward.

### Operations

- The general price hikes were implemented at the start of the year. Management expects to push a 5% price hike on a blended basis, post-negotiation with customers.
- B2C is experiencing a faster rate of growth. Surface Express serves as a growth driver for the company, with a significantly better growth percentage compared to Air Express. This is attributed to improved infrastructure.
- The utilization levels of the two new aircraft showed an increase in volume in the air business, aligning with the company's planned utilization.
- The festive-led demand was spread between 2QFY24 and 3QFY24.
- Growth in document shipments has been in mid-single digits on YoY basis
- Surface Express contributed ~25%-30% to the overall revenue and the balance came from Air Express.
- Passenger Aircraft could add some capacity. Pure Cargo players are not adding much capacity.
- BDE added capacity and the volumes would flow in the coming period. It is never an immediate ramp-up.

### Guidance:

- Two Aircraft have been added and would take some time to get optimally utilized.
- Margins are expected to improve once optimum utilization levels for the new aircraft are achieved.
- Standalone EBITDA margin is expected to be in the low double-digit range in next couple of years (the current level is 9.5-10.0%)
- The realization could increase by 4-5% due to GPI.
- BDE aims to cater to B2B and B2C segments without compromising on profitability. The goal is to outpace industry growth and expand market share.



- Over long-term, the Surface Express is anticipated to exhibit faster growth compared to Air Express, with the former likely to achieve double-digit expansion while Air Express will likely experience high single-digit growth.
- The overall market is likely to expand, and BDE is actively expanding both its infrastructure and capacity to seize this growing opportunity.



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## Container Corp

Buy

Current Price INR 999

### Operational highlights

- The LLF for 9MFY24 stood at INR2.9b. CCRI has reversed INR360m of LLF provisions for the previous years; hence, LLF provisioning is likely to be ~INR4b for FY24. The ongoing reconciliations with Indian Railways and provisioning reversal of previous years may keep LLF in a tight range going forward. Further, CCRI has surrendered a small portion of land near Baroda, leading to potential reductions in its LLF costs.
- Rail freight margin during 3QFY24 was 24%, which has contracted from 27% in 2QFY24. The decline in rail freight margin was primarily due to a lag of 40 days in passing the busy season surcharge by the Indian Railways to end-customers. However, margins are expected to stabilize as surcharge has been passed on to the customers from Nov'23 onwards.
- CCRI's market share at various ports is as follows: Mundra – 36%, Pipavav – 45%.
- Empty running costs in 3QFY24 stood at ~INR1.4b (EXIM/Domestic: ~INR353m/INR988m).
- Lead distances in 3QFY24: EXIM – 724km, Domestic – 1,413km, Total – 827km. Lead distances in both EXIM and domestic segments are increasing.
- LNG trucks are operational, with 75 already in use and an additional 50 trucks to be added.
- The number of double-stacked trains stood at 1,376 during the quarter.
- Additional five rakes have been added during 3QFY24, bringing the total to 12, with plans to add four more in FY24.
- An MoU has been signed with NTPC for the development of solar energy products at the company's terminals, and another MoU with a German company has been signed for the advancement of EXIM trades.
- The disruption in the Suez Canal has hit EXIM volumes, but stabilization is expected by Jan'24, with full stability by the first week of Feb'24.
- In terms of EXIM volumes, imports continue to show strength and are expected to remain steady throughout the remainder of FY24, while exports are weaker due to geopolitical factors. Management has guided for EXIM volume growth of 10% in FY24.
- CCRI maintains a market share of 55-60% in EXIM container volumes. The primary focus is on delivering high-quality service to customers, with market share expected to remain at similar levels.
- The DFC connecting Dadri to Mundra became operational in May'23. CCRI is running timetable trains on this route, and this development saw a significant shift in the portion of its business from road to rail.

### Volumes

- Total volumes increased 6% YoY to 1.15m TEUs with EXIM/Domestic volumes at 0.9m/0.25m TEUs (+8%/-1% YoY).
- Blended realization improved ~5% YoY to INR19,161/TEU. EXIM/Domestic realization stood at INR15,915/INR30,966 per TEU (+5%/+8% YoY).
- Originating volumes in 3QFY24 stood at 0.64m TEUs (EXIM/Domestic at 0.53/0.11m TEUs).



- Double stacking has increased by 38% YoY in 9MFY24.

**Capex**

- CCRI has already spent INR4.7b in 9MFY24.
- Management expects to surpass its FY24 capex guidance of INR6b, which is the highest capex done in a fiscal year. This allocation will be directed towards ensuring a steady supply of containers, acquiring new trains, and commissioning terminals.

**Guidance**

- The company maintained its FY24 guidance. It expects 15% volume growth in the domestic segment and 10% in the EXIM segment.
- The DFC connection to JNPT is expected to increase rail coefficient from the current 18-19% to 25-30% in the next two years.
- CCRI aims to reach 80-85% in First Mile Last Mile (FMLM) in another two years from ~30% currently.
- The company is constructing a 100-acre logistics park near Ahmedabad, facilitating the handling of double-stacked trains.



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**Mahindra Logistics** **Neutral**

Current Price INR 402

**Operational highlights**

**Industry overview**

- The quarter witnessed a period of moderate demand, where sustained growth in the engineering and FMCG sectors was offset by sluggish expansion in other markets.
- Although the festive season saw an increase in volume, it was negatively impacted by reduced volumes due to capacity consolidation and heightened shutdowns, particularly in E-commerce and certain Automotive OEM customers.

**Business update**

- The SCM segment contributed and the Enterprise mobility segment contributed 94% and 6%, respectively, to the company's revenue in 3QFY24.
- Supply Chain management recorded revenues of ~INR 13.1b (up 3.9% YoY) and EBIT loss of INR 99m.
- Enterprise Mobility Services (EMS) reported revenues of INR 839m (up 29% YoY) and EBIT of ~INR 4m. MLL achieved a successful turnaround in the mobility sector. The market is experiencing recovery with consolidation in the B2B segment, and there is a notable shift in B2C towards EVs.
- In 3QFY24, the 3PL Contract Logistics business grew 6% YoY. The contract logistics business secured an order intake of ~INR1.5b during the quarter.
- In 3QFY24, Freight Forwarding reported a revenue of INR600m (down 24% YoY). MLL reported ocean freight volume of ~2,362 TEU's and air freight volume of ~1,610 tons in 3QFY24. Significant volatility was observed in cross-border freight prices during the quarter. Additionally, the Charter Broking entity (VLink) executed three charters during the reported period.
- Express Logistics posted revenue of INR956m (up 5% YoY). There is a robust pipeline in both corporate and retail sectors, accompanied by an improvement in service levels. The primary focus of the management is on achieving volume recovery and enhancing utilization. As volumes increase in the coming months, the losses would reduce.
- Last Mile Delivery clocked a revenue of INR610m (up 1% YoY), led by enhanced operating performance in Whizzard. The management is focused on growing the non-e-commerce business and optimizing fleet utilization.

- Revenue from warehousing solutions amounted to ~INR 2.8b in 3QFY24. Higher seasonal labor and start-up costs adversely impacted yields in the warehousing solutions business in 3QFY24, but stabilization is expected in the coming quarters.
- Nine new facilities were opened during the quarter, adversely impacting margins due to pre-operational costs.

**Other highlights**

- For MLL Express Business (Rivigo), EBITDA breakeven is now expected by 1HFY25, and PAT breakeven is anticipated by the end of FY25, due to integration issues.
- Rivigo received funding of INR 500m to support the EBITDA loss of INR 224m in 3QFY24 and address working capital needs.
- Warehouse space under management stood at 18.7m sq. ft. in the 3PL business, and the company’s multi-client warehousing expansion is progressing as per plan, with new expansion announcements totaling 1.1m sq. ft.
- Future growth
- The management remained optimistic regarding robust growth, fueled by order intake across businesses, ongoing enhancements in the express business, and the integration of the Rivigo acquisition in the coming quarters.
- B2B express (Rivigo) is focusing on business turnaround, having successfully completed integration and adding 23 new accounts. Fleet utilization is currently operating at sub-optimal levels.
- MLL aims for a revenue of INR100b and RoE of 18% by FY26, with a focus on growing the 3PL business in the mid-teens. This involves generating INR65b of revenue from the 3PL business as well as rapidly expanding its network services.



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**TCI Express** Buy

Current Price INR 1,217

**Operational highlights**

- Volume in 3QFY24 stood at 0.25m tonnes (down 1% YoY). Apart from the pharma and engineering sectors, all other sectors experienced a slowdown in 3QFY24.
- Total contribution of value-added services now stands at 17% (flat QoQ). The management expects 20-25% contribution to revenue from new value-added services by FY25.
- The utilization level stood at 83.5% in 3QFY24 and TCIE aims for similar levels in FY24.
- TCIE generated CFO of INR 750m in 9MFY24.
- In 9MFY24, a capex of INR 250m was invested in expanding the branch network, implementing automation, and enhancing IT infrastructure.
- The average fleet size in the mid-mile segment is 15-16 tons, with 2,000 trucks currently in use.
- The ongoing automation in the Pune sorting center is on track for completion by the end of FY24 and will enhance the company’s operational efficiencies and margins in the forthcoming quarters.
- After the automation of the Pune sorting centre, the management is planning to fully automate the Ahmedabad sorting centre in FY25, and then, the Mumbai and Chennai sorting centres in FY26. This strategic move is expected to significantly reduce downtime, streamline processes, and improve overall operational efficiency.

- 15 new branches were added in 9MFY24 to deepen the presence in key growing markets of West and North region, enhancing market reach and customer accessibility for the company.

**Rail Express**

- TCIE has expanded its customer base notably in Rail express to 4,000 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 FY25.

**Guidance**

- For FY24, TCIE aims to achieve a volume growth of 3-4% in FY24 without any hike in realization. Furthermore, low single-digit revenue growth is expected in 4QFY24, with an outlook for double-digit revenue growth in FY25.
- Margins in 4QFY24 are expected to improve 50bp sequentially, witnessing traction in Jan-Feb 2024. Despite the challenges faced in FY24, revenue and EBITDA are projected to remain consistent with those of 3QFY24.
- The management has indicated to grow at 2x of GDP in the long run.



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**Transport Corporation of India**

Buy

Current Price INR 856

**Industry trend**

- The past few months witnessed a slowdown, particularly in the consumer and engineering sectors, resulting in a flattish performance for 3QFY24.
- The festival season shift and high stocking in Oct’23 led to muted volume numbers in Nov ’23.
- The declaration of three new corridors in the Union Budget 2024-25 is anticipated to benefit the economy, especially TRPC, since the company is present in multi-modal logistics services.

**Freight segment**

- Revenue remained flattish YoY in 3QFY24, while EBIT margin stood at 3.1% (-260bp YoY and -30bp QoQ).
- During the quarter, revenues have remained relatively stable amid diverse sectorial patterns, showing a slight improvement in the LTL segment.
- TCI added 30 new branches during 9MFY24 to strengthen the network further. However, margins and ROCE have experienced a slight decline due to the flattish revenues.
- The share of LTL/FTL in the Freight division stood at 37%/63% in 9MFY24. The management remains optimistic about increasing LTL’s share to 40% by FY25 and improving margins of the LTL segment by 100-200bp in the next two years.

**Supply Chain segment**

- Revenue increased ~16% YoY in 3QFY24, and EBIT margin stood at 6.5% (+50bp YoY). The automotive sector continues to perform well, contributing around 80% to the segment.
- The growth momentum persisted amid varied upward trends in the automotive sector, coupled with the retention and expansion of business both with existing clients and through new business acquisitions.

- There has been notable traction in multimodal services, along with the expansion of the hub-and-spoke network for automotive finished goods.
- The recent acquisition of a client in the FMCG space is expected to reflect on revenue and margins in near future.
- Further, the reduction of rail haulage by 33% for SUV rail movements is expected to have a positive impact on margins.

#### Seaways segment

- The segment declined ~16% YoY, with EBIT margin down 480bp YoY. The management expects EBIT margin to be in the range of 22-23% in FY24.
- Freight rates experienced a decline due to a temporary buildup of capacity.
- Concurrently, there was a temporary volume decrease attributed to delays in infrastructure projects in the Andamans.
- The delivery of two new ships is expected between Jan'26 and Mar '26.

#### Other Highlights

- The company handled 1,700 rakes in 9MFY24, a significant increase from the corresponding period last year.
- The company remains net debt-free with INR3b in cash.
- The Red Sea issue has not seen a major impact on business so far
- TRPC would continue to look for a second-hand ship to build on its capacity.
- JVs showed mixed results, with Rail JV growing 6% YoY, Cold Chain rising 25% YoY, and Tran-System increasing 50% YoY in revenue in 9MFY24.
- Growth in the Trans system JV is credited to the contribution from Japanese OEMs.

#### Guidance

- The management has reduced its revenue/PAT growth guidance to 5-10% in FY24 from 10-15% earlier.
- Management expects capex of INR 2.5b in FY24 and INR 2-3b annually in the next two to three years.
- Expectations of 10-15% growth rate for revenue and PAT in FY25, which is likely to continue for the next 3-4 years.
- Strategic decisions of the management involve avoiding low-margin businesses and maintaining a robust pipeline of customers across various sectors.
- In the Freight business, TCI is looking to achieve 23-25% ROCE in FY25 and a 40% contribution target for LTL by FY25.
- The tax rate is expected to be around 12-13% from FY25 onwards.



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### VRL Logistics

Buy

Current Price INR 598

#### Operational highlights

- VRL handled ~1.09m tons in 3QFY24 (+8% YoY, +4% QoQ). Tonnage growth primarily stemmed from the expansion of the branch network and a transition of volumes to organized players following the implementation of GST, along with the reduction in the turnover limit for e-invoicing, etc.
- Among the product segments, agro-commodity volumes declined 5% YoY during the quarter, while textile goods saw a 14% growth in 3MFY24 (3% in 9MFY24). Organized players represent 20-25% of the agro commodities and textile transportation market, with unorganized players dominating the remainder.
- Realization per ton stood at INR 6,669 (flat YoY and QoQ) due to stable fuel prices.
- The contribution of new branches to tonnage growth stood at ~4% in 3Q and 2.7% in 9MFY24.



- Net debt increased to INR2.7b as of Dec'23 from INR1.7b in Mar'23, primarily due to an increase in lease liabilities, resulting from the addition/expansion of new branches.
- Depreciation and finance costs are increasing due to IND AS accounting, adversely impacting PAT margins.
- Interest expenses other than IND AS adjustments was ~INR 60m, while depreciation due to IND AS adjustments is ~INR360m, with a total impact of ~INR 500m in 3QFY24.
- Utilization levels from hub-to-hub transportation are approximately 60-65%.
- Capex was lower in 3QFY24 due to subdued tonnage growth. Management expects capex of INR 2.6b in FY24 (INR 2.2b spent in 9MFY24).

**GT segment**

- In 3QFY24, the number of GT vehicles increased to 5,966 as of Dec'23 from 5,782 as of Sep'23.
- VRL opened net 23 branches in 3QFY23, taking the total branch network to 1,188 as of Dec'23. The company's volume handling capacity increased to 87,477 tons (+10% YoY and QoQ).
- The company incurred capex of INR 250m during the quarter.
- 118 new branches contributed around ~4% to total tonnage in 3Q.
- Diesel consumption increased 9.8% due to the addition of new vehicles and their increased mileage. The average procurement cost per liter of diesel decreased ~1% YoY to INR 88.83 in 3QFY24 from INR 89.34 in 3QFY23.
- Procurement from refineries as a percentage of total quantity increased by 14.5% to 21.9% in 3QFY24 from 7.4% in 3QFY23.
- Toll charges increased due to an increase in toll plazas to 1,367 in 3QFY24 from 1,204 in 3QFY23 and also due to an increase in toll tariff for owned vehicles.
- The company will continue to focus on newer branches and interstate movements, which are already yielding positive results.
- The increase in employee costs was driven by the addition of new employees at new branches, as well as salary increments.

**Guidance**

- VRL did not increase the freight rate as retail fuel prices remained stable in India for more than a year. However, management expects fuel prices to fluctuate following the general elections, providing an opportunity to implement freight price increases.
- Tonnage growth rate for 4QFY24 and FY24 is projected to be around 8-10%, and 15% plus in FY25. Revenue growth is expected to be stronger in FY25 with higher tonnage growth and higher freight rates.
- EBITDA margin is expected to be around 13-14% in the 4QFY24 and FY24.
- VRL plans to continue its strategy of expanding branches, aiming to add 25-30 branches per quarter.
- The target ROCE during favorable conditions is around 25-26%, primarily driven by higher freight rates and some tonnage growth.
- An annual capex of INR 2.8-3b is projected for FY25. Capex cycle of the company is directly proportionate to tonnage growth. Higher capex can be expected in the event of increased tonnage growth.
- Network expansion will continue, with significant potential for branch growth in the eastern, northern, and western parts of India.



**MEDIA**



- Sector wide commentary indicated that while ad revenues has seen improvement on the back of improved spending, majority of it was attributed to the sports segment which led to moderate growth within the general entertainment segment. PVR expects the strong performance to moderate in 2HFY24 given that 2QFY24 remained an exceptional quarter for the company.

**KEY HIGHLIGHTS FROM CONFERENCE CALL**

	Outlook for FY24	Ad revenue recovery
<b>PVR INOX</b>	<ul style="list-style-type: none"> <li>■ The first half of 3QFY24 witnessed a decline in ticketing revenue due to lower releases during the World Cup, which reversed post-completion of the tournament. Jan'24 has seen sustained momentum, on the back of healthy performances of Hanuman and Fighter.</li> <li>■ Management maintains its screen addition guidance of 160-170 screens for FY24; it aims to close 77 non-operating screens during during the period.</li> </ul>	<ul style="list-style-type: none"> <li>■ Lower operating margin despite a healthy growth in operating matrix, was due to lower footfalls that have failed to create an operating leverage.</li> <li>■ The management plans to expand its pilot loyalty program on pan-India basis with better pricing, to improve footfalls.</li> </ul>
<b>ZEE</b>	<ul style="list-style-type: none"> <li>■ Expects 8-10% revenue CAGR with 18-20% EBITDA margins byFY26 in a stable macro profile; however, near-term margins may experience some impact due to implementation of new plans.</li> <li>■ Undertook 6-8% price increase across bouquet, which aided revenue growth; expects the subscription revenue growth to range in mid-to-high single digit going ahead.</li> </ul>	<ul style="list-style-type: none"> <li>■ Ad revenues remained weak as the uptick from the festive period was offset by a shift toward cricket in 3QFY24; the company is seeing gradual improvement in ad spending from the FMCG segment.</li> <li>■ The management expects the investment in the OTT segment to have peaked and expects the operating losses to narrow down.</li> </ul>



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**PVR Inox** **Neutral**

Current Price INR 1,375

**Key Highlights:**

- The first half of 3QFY24 saw an impact on ticketing revenue due to lower releases because of the World Cup, which reversed post-completion of the tournament. Jan'24 has seen a continued momentum on the back of healthy performances of Hanuman and Fighter.
- Management retains its screen addition guidance of 160-170 screens for FY24; would also look to close 77 non-operating screens during FY24.
- Lower operating margin despite a healthy growth in operating matrix, was due to lower footfalls that have failed to create an operating leverage.
- Management plans to expand its pilot loyalty program on Pan-India basis with better pricing, to improve footfalls.

**Detailed Highlights:**

**Performance and Outlook:**

- Box office collections grew 12% growth YoY, surpassing pre-Covid levels, while developed nations such as the US, South Korea, and China continued to remain below pre-Covid levels.
- The company continues to focus on improving ROCE going forward
- Ad revenue growth sequentially was mainly supported by festive period and long term deals (30-35% of ad revenues) undertaken by companies. Company expects revenues to cross pre-pandemic levels in next 2-3 quarters.

- The film hire cost increase was mainly on account of bonus share (variable cost) to producers for movies exceeding the specified threshold and increased share of 3D movies.
- The lower operating margins during the quarter despite a healthy growth in operating matrix was mainly on account of lower footfalls which has failed to create an operating leverage.
- INR350m of other income was related to write-down of lease for closed properties, which is one-off income for the year.
- Jan'24 has started off in decent note supported by Hanuman and Fighter. Company remains optimistic on performance based on healthy lineup of movies across languages.
- The company sees a healthy room for improvement in occupancies going forward with healthy line-up and improved consumption pattern seen.

**Content:**

- The first half of quarter was impacted by cricket world cup due to lower releases, which saw a reversal post-completion of the tournament. Dec'23 was the highest grossing month for the quarter supported by decent performances across movies like Sam Bahadur, Animal, Salaar and Dunki.
- 9MFY24 has seen an average occupancy of 26.2%; the volatility in content supply has led to irregular footfalls and occupancies. This is likely to continue in near term till the content line-up is stream lined.
- Management expects strong 4QFY24 under PVR pictures after seeing a tepid 9MFY24 with improved investments in the content. Will look to scale up the segment in order to expand top-line and profitability.

**Screen addition and other KPI:**

- Added/closed 29 screens each during the quarter. The company maintained its screen addition of 160-170 screens in FY24.
- The company, currently has over 70 screens under fit-puts, of which, four screens have already been opened in Jan'24. Over 40%-45% of new screen additions are expected to take place in South India.
- 50% screen additions would be in Metros, while 20% would be in Tier 1 cities and 30% in Tier 2 and below markets.
- It further plans to close 77 screens for FY24, of which it has already closed 62 screens as a part of rationalizing old non-performing screens.
- It will continue to rationalize screens by 1-2% annually growing forward, thereby closing the gap between gross and net screen opening.
- ATP growth is expected to be driven by healthy pricing seen within the big-ticket Bollywood and various regional movies as well.
- Occupancies during the month of Dec'23 stood at 37% which was higher than 3QFY24 average of 25%.

**Other Highlights:**

- The company does not see any impact from OTT, given that these platforms will majorly be used for shows and not movies. Further, the exclusive window of eight weeks would aid in theatrical collections.
- The old loyalty programs of providing points was not working which the company has reformed its program and introduced the passport program. The company plans to come up with a pan India program with much sharper benefits and pricing to improve the footfalls.

- The company has re-iterated its plan on debt reduction which would majorly be through utilization of FCF for the year.
- The company has achieved significant progress in technological synergies through integration of platforms for both the companies in addition to various cost synergies and branding exercises undertaken. The company expects the synergies to improve the operating performance.



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## Zee Entertainment

Neutral

Current Price INR 193

### Key Highlights:

- Ad revenues remained weak as the uptick from the festive period was offset by a shift toward cricket in 3QFY24; the company is seeing gradual improvement in ad spending from the FMCG segment.
- Expects an 8-10% revenue CAGR with 18-20% EBITDA margins by FY26 in a stable macro profile. However, near-term margins may experience some impact due to the implementation of new plans.
- Implemented a 6-8% price increase across the bouquet, contributing to revenue growth; expects the subscription revenue growth to range in the mid-to-high single digits going ahead.
- Expects that investments in the OTT segment have reached their peak and expects operating losses to diminish.

### Detailed Notes:

#### Financial and operating performance:

- Festive season trend was partially offset by the Cricket World Cup in terms of ad revenues.
- Ad spending by the FMCG segment saw improvement, resulting in sequential growth of revenues; however, this remained lower on a YoY basis
- The company is seeing some recovery in the last few months, while certain brands continue to see slower growth due to rural slowdown.
- The company implemented 6-8% ASP hike across its bouquet on a blended basis, resulting in ~3% revenue growth.
- Broadcasting business remained healthy as 78% of portfolio in 9MFY24 gained market share. Zee Marathi segment has seen improved share, aided by various initiatives undertaken.
- On an overall basis, the company gained 40bp network share on YTD basis and stood at 17.1%

#### Zee5:

- The company continued to grow at a healthy pace of 31% YoY in 9MFY24. The sequential decline in revenues was mainly due to syndication deal in 2QFY24.
- Prudent cost management led to narrowing down of QoQ losses within the segment.
- The company expects the investment in the OTT segment to have peaked and expects the operating losses to narrow down.

#### Way forward:

- The company, going forward, looks to achieve profitable growth by implementing a) frugality, b) cost optimization, and c) delivery of quality content.

- The company will look to improve value delivery for advertising partners, improved avenues for monetizing content, along with sharp focus on the delivery of quality content.
- The company anticipates a gradual recovery in margins starting from 2HFY25. Furthermore, it expects to achieve an 8-10% revenue CAGR with 18-20% EBITDA margins in a stable macro profile by FY26.
- The company expects some margin pressure in the near term, primarily attributed to the implementation of one-time costs for revised strategic plans.
- The company expects the subscription revenue growth to range in mid-to-high single digits.

**Other highlights:****Zee-Sony Merger:**

- The company's proposed merger was terminated by Sony via letter dated Jan 22, 2024.
- The company has undertaken appropriate steps, including approaching NCLT for direction in forward matters.
- Ad revenues continued to remain weak due to weak macro conditions; however, the company is now seeing headwinds easing in the market, although the recovery is expected to be gradual.
- Zee studio released 6 movies (3 Hindi and 3 regional). The fewer number of releases in 3QFY24 led to a decline in 'other income' revenues in 3QFY24.
- Content Inventory, Advances, and Deposits declined in 3QFY24, driven by optimized acquisition.
- The company has not seen any attrition in the recent period; while there are no plans for any job cuts, the company will continue to monitor any overlaps in profiles across businesses.

## METALS



- In the ferrous Metals space, managements across companies pointed to: 1) higher coking coal costs; and 2) development of captive raw material mines. Though a better performance from Indian operations backed by strong domestic demand should aid volumes and margins in the near term, managements believe that global uncertainties might pose challenges to international steel, base metal, and raw material prices in the short term. In the non-ferrous space, managements maintained their CoP and EBITDA guidance for FY24.

## KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook for FY24	Drivers
Tata Steel	<ul style="list-style-type: none"> <li>■ Domestic coal consumption costs are likely to increase by USD10/t in 4QFY24.</li> <li>■ Domestic ASP are expected to decrease INR1,000/t in 4QFY24.</li> <li>■ ASP for Netherlands is expected to be lower by USD18/t, whereas coal cost is expected to increase by USD18/t in 4QFY24.</li> <li>■ ASP for the UK is expected to increase by USD51/t and coal cost is expected to increase by USD11/t in 4QFY24.</li> </ul>	<ul style="list-style-type: none"> <li>■ Domestic demand remained resilient, driven by construction, real estate, and automobile sectors.</li> <li>■ The India steel consumption is expected to grow ~10-12% in FY24, driven by higher spending on infrastructure and construction.</li> </ul>
JSW Steel	<ul style="list-style-type: none"> <li>■ Volume guidance of 25mt remained unchanged.</li> <li>■ Domestic coal cost is expected to be higher by USD20-25/t in 4QFY24.</li> <li>■ FY24E capex guidance slightly trimmed down to ~INR180b.</li> <li>■ JSW is enhancing its RM integration by expanding EC at its existing mines in Karnataka by 4mt to 11mt.</li> <li>■ The aim is to increase the share of captive iron ore to 50% from its current 33% over the next few years.</li> </ul>	<ul style="list-style-type: none"> <li>■ Domestic demand is driven by sectors, such as infrastructure, real estate, RE, and automobile.</li> <li>■ JSW expects the demand to further pick up before elections.</li> <li>■ Domestic prices are now close to parity with international prices, which would also limit the imports going ahead.</li> </ul>
JSPL	<ul style="list-style-type: none"> <li>■ Domestic coal costs are expected to be higher by USD10-12/t in 4QFY24.</li> <li>■ Coal excavation at Gare Palma IV/6 is expected to reach a run rate of 3.5mt by Mar'24.</li> <li>■ Capex for the next three years is expected to be in the range of INR75-100b every year.</li> </ul>	<ul style="list-style-type: none"> <li>■ Higher spending on infrastructure before the election is expected to drive demand.</li> <li>■ Demand is expected to remain buoyant in the domestic market, especially in infrastructure, power, and construction sectors.</li> </ul>
Hindalco	<ul style="list-style-type: none"> <li>■ Novelis has maintained its EBITDA/t guidance and is expected to achieve EBITDA/t of USD525/t by 4QFY24.</li> <li>■ Channel destocking of beverage can is now fully completed.</li> <li>■ Novelis has increased the total capex outlay for Bay Minette by ~65% to USD4.1b (from USD2.5b) due to increase in civil and structural cost. All the equipment for the Bay Minette facility have been ordered and most of the materials used in the constructions have been contracted.</li> </ul>	<ul style="list-style-type: none"> <li>■ The demand for beverage can from South America has also witnessed a growth due to pick-up in summer season consumption.</li> <li>■ The demand for luxury and high-end vehicles is robust across geographies and with EV remaining strong in Asia and North America, the segment is expected to register a CAGR of 7% till FY28.</li> <li>■ The demand is expected to remain robust, supported by multi-year backlog for aircraft order delivery, driven by fleet replacement and route expansion.</li> </ul>
Vedanta	<ul style="list-style-type: none"> <li>■ Following the capacity expansion in the aluminum business, the share of VAP is expected to rise to ~90%. Management has guided for an EBITDA/t guidance of USD1,000/t for its aluminum business with a conversion cost of ~USD1,600/t.</li> <li>■ Capex for FY24 is expected to be ~USD1.5-1.6b.</li> <li>■ The management expects to ramp up its Zinc International volumes to 500kt in the near term.</li> <li>■ VEDL is increasing its power portfolio to 4,780mw from 2,580mw by setting up the 1,000mw Meenakshi, and 1,200mw Athena power plants.</li> <li>■ The management has guided for an EBITDA potential of USD7b p.a. from all the verticals.</li> </ul>	<ul style="list-style-type: none"> <li>■ The government's focus on smart cities, infrastructure, construction, etc., will drive the demand for ferrous as well as base metals.</li> <li>■ As the demand for corrosion-resistant steel increases, it will drive the demand for zinc, which finds application in the manufacturing of high VAP steel. HZL (subsidiary of VEDL) will gain from this.</li> </ul>





Hindustan Zinc Limited

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**Hindustan Zinc** **Neutral**

Current Price INR 311

**Guidance on volume**

- Management has kept its FY24 mined metal volumes unchanged at 1,075-1,100kt.
- Silver production, which was guided around 725-750t, is expected to surpass the guided volumes in FY24. However, 4QFY24 silver volumes will depend on the mined metal grade.
- As HZ reaches its yearly mined metal target of 1.2mt from the current ~1.05mt, silver volumes can reach ~800t and to achieve 1,000t of silver production, HZ needs to increase its mined metal volumes to 1.5mt.
- The Fumer facility is expected to add 30kt of silver production from FY25E onwards (achieve 30kt run rate by 4QFY24).
- Once the alloy facility is completely operational, it will increase the VAP to 25% by 1QFY25 from the current 18-20%.

**Guidance on CoP**

- 3QFY24 marked the fourth consecutive quarter of consistent CoP improvement and the lowest in last 10 quarters. Better coal linkages and softening of coal prices led to improved CoP.
- HZ has kept its CoP guidance unchanged at USD1,125-1,175/t for FY24.
- This solidifies HZ's position as the global cost leader and is now in the first decile in the global zinc mining.

**Capex**

- Fumer and alloy plants are currently operational with the complete ramp up expected in 4QFY24.
- 160kt roaster at Debari is progressing as per timelines and is expected to be commissioned by 4QFY25.
- Once the roaster is operational, it will help HZ achieve refined metal capacity of 1.2mt.
- 510kt of DAP/NPK Fertilizer Plant at Chanderiya is progressing as per timelines.

**Silver demand**

- Industrial silver demand is expected to touch 632m oz in CY23, on the back of higher investments in photovoltaics, power grid, 5G networks, consumer electronics, and automobiles.
- Global silver demand is expected to witness a deficit as it reaches 1.14b oz with lower-than-estimated mined output in CY23.
- Since FY14, HZ has increased its ranking in global silver leadership from rank number 23 to being the fifth largest producer globally.
- Considering robust silver demand, the outlook looks robust.

**Other developments**

- The proposed demerger of HZL's corporate structure to unlock value by establishing distinct legal entities for Zinc & Lead, Silver, and Recycling business units is currently in advanced stage of discussion by the BoD and the company would arrive at a decision by Mar-Apr'24.
- HZ expects the debt to be reduced by INR20b in 4QFY24.
- The demand for zinc remains robust, driven by strong infrastructure push from countries such as India, Vietnam, and Mexico.
- Demand for lead is expected to remain strong, driven by increased demand from the automobile segment.
- HZ domestic primary zinc market share stands at ~79%.
- HZ anticipates to elevate the utilization of domestic coal to ~45%, a move which is expected to further improve the CoP.



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## Hindalco Inds

Buy

Current Price INR 512

### Guidance:

- The improvement in performance in the aluminum business was due to a reduction in input costs, especially lower coal costs. Total cost was down by ~3.3% QoQ and is expected to remain stable in 4QFY24.
- HNDL has hedged 22% at USD2,636/t for 4QFY24 and 5% for FY25 with a base of USD2,200/t and ceiling of USD2,500/t.
- Capex in India will be in line with the capital allocation framework of the company, and it will be linked to cashflow generation.
- HNDL has commenced operations at its first-of-its-kind copper and e-waste recycling project at Dahej.
- The capex allocation in the recent Union Budget towards growth-enabling sectors will keep the domestic demand robust going forward.

### Coal linkages:

- In 3QFY24, ~60% of coal requirement was met via linkage, 36% via e-auction and the remaining via imports.
- Coal cost is expected to remain under check as HNDL usually carries around 60-90 days of coal inventories.
- The Chakla mine is progressing as per timelines, and the box cut is expected to come on stream by Dec'24. Chakla mine is expected to start production in FY25 and is expected to exit FY25 with a production of ~1mt.

### Global/domestic demand:

- Global aluminum: During CY23, China housing sector continued to struggle thereby impacting the aluminum demand, however improvement in solar RE and EV verticals has led to an improvement in consumption by 5%YoY in China at 42.8mt. However, Geo political tensions and inflationary conditions led the global consumption to remain slow which increased by 1% YoY at 70.1mt. Globally except automobile sector all the other sectors such as machineries, construction, etc. continues to remain under pressure. Global beverage can sector continues to recover after a prolonged period of destocking witnessed over last few quarters.
- Domestic aluminum: Indian aluminum demand is expected to grow ~6-7% YoY driven by strong demand from new age mobility (EV), electrical and construction sector which would partially be offset by weakness in export markets and slowdown in packaging and cookware segment. Indian demand in 3QFY24 improved by 106kt YoY at 1.27mt. In FY24, domestic FRP market is expected to remain flattish on back of weakness in packaging sector. Domestic demand is expected to remain robust, aided by higher private sector capex and increased spend on infrastructure and construction sector.
- Global copper: The global copper production in CY23 increased 3.7% YoY to 25.6mt and consumption improved 2.4% YoY to 25.4mt, thereby having ~0.2mt of surplus. Demand in China exceeded production that led to a deficit of ~3mt in China which was partially offset by slower demand in RoW which witnessed a surplus of 3.1mt.

### Bay Minette capex:

- Novelis has increased the total capex outlay by ~60% to USD4.1b (from USD2.5b) due to increase in civil and structural cost. Management is 85% confident that there won't be any further significant cost escalation.
- Most of the equipment for the Bay Minette facility has been ordered, and most of the materials used in the constructions have been contracted.
- The capex includes support from the local and state government which is already embedded in the capex, however any further support received under 48C of IRA will be additional to Novelis.



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- Usually there is 30% on the support received under IRA; however, the actual amount can vary as per specific situation as there are instances of capping of the support by the authorities.

## Jindal Steel & Power

Buy

Current Price INR 760

### Coal Costs and captive coal mines

- Coal cost had increased ~USD32/t in 3QFY24 (USD281/t in 3QFY24 vs. USD249/t in 2QFY24).
- Coal cost on consumption basis is expected to increase by USD10-12/t in 4QFY24.
- Gare Palma IV/6 coal mine achieved a production of ~1mt during the quarter and is expected to reach a run rate of over 3.5mt by Mar'24.
- JSP commenced production from Utkal C coal block within a record time of 12 months (from vesting order) and is expected to reach optimal production level in 4QFY25 and is gradually ramping up the production to full capacity.
- The entire incremental benefits from the Utkal C coal block is expected to accrue in FY25E.
- The Utkal B1 and B2 mines are under various stages of clearances.

### Capex and timelines

- All the tentative capex timelines are progressing as per schedule with 6mt HSM already commissioned.
- JSP has already planned for the ramp-up curve for the HSM plant and is expected to end the year with 50% capacity run rate.
- Plant construction of BOF-II is progressing as per timelines and is expected to come on stream by 2QFY25 and BOF-III, which is expected to commence production by 4QFY25 will be set up in the same vicinity.
- JSP has placed orders for both the BOFs.
- JSP will increase its total finished steel capacity from 7.25mt to 13.75mt by FY26 at a total capex of INR310b.
- JSP is expected to incur an annual capex of INR75-100b over the next three years (INR60b already incurred till Dec'23).

### Other highlights

- JSP internally utilized the pellet volumes and did not sell much pellet in the external market during the quarter, and going forward, if the company has excess pellet production, the same would be supplied to RINL.
- The 1050mw ACP-III (monnet power plant) is expected to come on stream by 2QFY25.
- The increase in net debt in 3QFY24 was partially due to increase in working capital requirement, due to receivables (INR5b) and increase in coking cost (INR8b).
- Even though the debt increased during the quarter, finance cost was down QoQ as JSP was able to replace certain high cost debt with lower interest rate debt.
- Iron ore consumption is usually 1.6x the crude steel production (~14mt iron ore requirement in FY23).
- Tensa mine supplies ~3mt of iron ore and Kasia mine supplies ~6mt of iron ore with the rest procured from OMC and NMDC.



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- The partnership with RINL is strategic in nature as it bridges the gap between internal availability of steel and external metallic resources.

**JSW Steel**

**Neutral**

Current Price INR 821

**4QFY24 and FY24 guidance:**

- Coking coal cost, which was up USD21/t in 3QFY24, is expected to further increase by USD20-25/t in 4QFY24.
- JSTL could achieve lower-than-guided coal cost in 3QFY24, on the back of better blending. JSTL blended coal cost is usually lower than the benchmark premium HCC.
- Iron ore prices though have cooled off over the last few weeks, it is expected to remain higher than it was in 3QFY24.
- JSTL has maintained its production and sales guidance of 26.3mt and 25mt, respectively, for FY24.
- Higher domestic volumes, better product mix, better overseas subsidiaries performance and higher exports are expected to mitigate the increase in input cost.
- The share of VAP stood at 60% (down from 62% in 2QFY24) and JSTL expects to keep the share of VAP over 50% (post expansion).
- Net debt in 3QFY24 increased INR100b to INR792b and the same is expected to reduce in the coming quarters as working capital gets released.

**Capex:**

- JSTL incurred over INR130b as capex in 9MFY24 and is expected to incur an additional INR50b in 4QFY24, taking the yearly capex to ~INR180b.
- Management has revised the capex guidance from its earlier INR200b, due to some payments spilling over to the next quarter.
- 1.5mt BPSL facility is expected to commence production from the end of Feb'24 and the full benefit of ramp up in volumes will be from FY25 onwards.
- The 5mt Vijayanagar facility is expected to commence production from 2Q-3QFY25 onwards.
- Post completion of the ongoing expansion, JSTL expects to undertake brownfield expansion projects at Vijayanagar, Dolvi, and BPSL. Each of these locations holds a growth potential of 4.5-5mt.
- JSTL would also undertake 4mt green steel expansion in two phases with 2mt EAF expected to come on stream by FY30.
- JSTL has planned to increase its domestic presence from the current ~28mt to ~50mt by FY31E.
- The slurry pipeline is expected to be commissioned in FY26.

**Iron ore linkages:**

- JSTL has nine mines in Karnataka with existing EC of ~7mt and the company has applied for an additional 4mt EC, which is expected to take the total production to 11mt in the near term.
- JSTL has recently won three new mines, which has EC of ~4.5mt and are expected to come on stream by FY25.
- JSTL also has four mines at Odisha with a potential of ~20-25mt, thus taking the total iron ore from captive mines to ~40mt.

- JSTL currently has ~33% of iron ore linkages and the rest is procured from merchant miners. The company expects the same to reach 50% levels.

**Domestic demand:**

- Domestic demand continues to remain robust and is expected to grow at 8-10% YoY in FY24.
- The demand is driven by sectors such as infrastructure, real estate, RE, and automobile.
- JSTL expects the demand to further pick up before elections.
- Though the steel imports had increased and touched a recent high in Nov'23, they have since subdued over the last few weeks. As export realizations improve, JSTL expects to dispatch higher volumes in exports in 4QFY24.
- Domestic prices are now close to parity with international prices, which would also limit the imports going ahead.



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**NMDC** Buy  
 Current Price INR 241

**Guidance**

- 77NMDC has maintained its FY24 guidance largely unchanged at 47 mt. The company is currently awaiting approval for the enhancement of the Kumaraswamy mine. If it gets the approval for the same in the next few days, 47 mt would be comfortably achieved. If not, it would still attempt to clock this volume number.
- NMDC is targeting 1mt of production from the Kumaraswamy mines once the enhanced approval is received.
- NMDC FY25 guidance stands at 50-51mt, with a possibility to increase the same to 53-55mt. The incremental production will be driven by Kumaraswamy mines, which will contribute ~2mt and Kirandul Mine, which will contribute 1-2mt of production.
- Post FY25, NMDC's volume is expected to remain largely stable until FY28E. After this period, there will be a sharp increase in volumes as all ongoing capex projects are completed.

**Capex and mine developments**

- NMDC has earmarked capex of INR17.5-18b for FY24 and INR20-21b for FY25.
- Capex is expected to jump in FY26.
- 15mt slurry pipeline from Bailadila to Nagarnar is progressing well with almost all the approvals received.
- The Beneficiation plant and pellet plant are expected to come on stream by the end of FY25.
- The Tokisud North coal mine is under CBA and once the requisite permissions are received, it would take 16-18 months for the mine to come on stream (expected to come on stream in FY26). No such permissions are required for the Rohne coal mine.
- The 12mt Screening Plant-III at Kirandul has been delayed.
- The 2mt Screening Plant at Bacheli is gradually ramping up, which will help enhance the production going forward.

**Environment Clearance**

- Currently, NMDC has EC for 51mt (~19mt at Kirandul, ~18.8mt at Bacheli, and the rest at Karnataka).



- NMDC is expected to enhance the EC at Kirandul to 30-35mt over the next four to five years. Similarly, Bachel too is expected to reach 30mt over the next four to five years.

**Other highlights:**

- NMDC will not engage in the exploration of rare earth minerals and will not engage in domestic auction route for lithium. Rather, it will explore international geographies for lithium mining.
- Even though the capex is expected to jump going forward, the entire capex funding will be done through internal sources.
- Dividend payout is expected to remain at ~40%.
- JSW contributes ~28% of the total volumes, AM/NS at ~18% and RINL at ~15%.
- Net cash as on date stands at INR115b.
- Flagship projects by government such as Har Ghar Jal, PM Awas Yojana, SagarMala Project are expected to have incremental demand of ~100mt of steel over the next four to five years.
- Domestic demand for steel is expected to remain robust over the next decade.
- Currently, domestic market fares better than the export market (considering 30% duty on high grade iron ore along with 21-22% royalty and INR1,500-1,700/t of freight and shipping, which are levied on export prices).



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**Steel Authority of India**

**Neutral**

Current Price INR 130

**Guidance:**

- Coal cost, excluding the CDI (on consumption basis), stood at INR26,500/t in 3QFY24 (INR27,800/t in 1QFY24 and INR23,271/t in 2QFY24).
- Coal cost on consumption basis for Jan'24 stood at INR26,633/t and is expected to be in similar range for 4QFY24.
- Demand in Jan'24 has been better than the average monthly demand in 3QFY24. SAIL dispatched around 1.49mt in Jan'24 and the demand momentum is expected to continue around the same range.
- SAIL currently holds finished goods inventory of ~1.7mt, with plans to gradually liquidate it going forward. This initiative is expected to unlock working capital for the company.
- The prices for long steel for Jan'24 is ~INR51,900/t and flats is ~INR53,000/t. The domestic prices are at par with international prices.
- SAIL, which had, iron ore inventory at Odisha and Jharkhand, has already started liquidating the inventory at Odisha post the receipt of the requisite permission and has recently received permission to move the ore, which will be used internally in Jharkhand.
- Bhilai caster implementation is going on, post which the total capacity will be 19.5-20mt.
- Royalty for iron ore is linked to the IBM prices and is expected to increase in 4QFY24.
- SAIL currently employs 56,873 individuals and aims to reduce its workforce by ~3,000 employees annually. Consequently, the salary expenses, which amount to ~INR30b per quarter, are expected to gradually decrease going forward.

**Capex:**

- SAIL is currently operating at a capacity utilization rate of 92-95%.
- SAIL has set a target to achieve 35mt of crude steel production by FY31-32 and as a step in this direction, it plans to enhance the capacities at IISCO, Bokaro, and Durgapur.
- SAIL plans to set up 4.1mt Greenfield flat steel facility at IISCO, predominantly focused on HRC. The construction of the CRC facility will be undertaken at a later stage. The expansion project has received approval from the Board.
- SAIL has also submitted a proposal to the board for expansion of 1mt TMT facility at Durgapur. Once commissioned, this will reduce the share of semis at Durgapur.

**Debt:**

- The debt in 3QFY24 has increased INR26b to INR281b, primarily due to lower realizations and higher coal cost leading to increase in working capital debt.
- Debt as at the end of Jan'24 stands at INR290b.
- Liquidation of finished steel inventory is expected to unlock some working capital, which is expected to reduce the debt by the end of 4QFY24.



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**Tata Steel** **Neutral**  
 Current Price INR 141

**Management guidance for 4QFY24 and FY24**

- Realizations (ASP) for domestic operations in 4QFY24 are expected to be lower by INR1,000/t and coal cost, which increased by ~USD4/t in 3QFY24, is expected to increase further by USD10/t for domestic operations
- Management expects the sectors like transportation, industrial construction, railways, and infrastructure to drive steel demand in India.
- ASP for the Netherlands is likely to be lower by GBP14/t (USD18/t) in 4QFY24 due to the long-term contracts, and annual contracts entered at lower rates in 3QFY24. Coking coal consumption cost in the Netherlands is expected to increase by USD18/t in 4QFY24
- As the UK business is linked to changes in spot prices, the 4QFY24 ASP for the UK business is anticipated to increase by GBP40/t (USD51/t), and coal cost is expected to increase by USD11/t.
- TATA uses a linear blend of coal and as the spreads between premium HCC and the blend increases, it is beneficial for TATA. Usually on a consumption basis, blended coal for TATA is ~USD50-60/t lower than the premium HCC.
- The Netherlands is expected to produce ~6.5-6.9mt in FY25.

**Kalinganagar expansion**

- Phased commissioning of 5mt Kalinganagar (TSK) facility has already commenced.
- The BF at Kalinganagar is one of the largest in India at 5,870 Cu.mts.
- The second caster has already started production, which gives TATA an additional volume opportunity.
- TATA expects BF completion by 4QFY24
- TSK is expected to add 0.7mt of additional domestic volumes in FY25 and the complete ramp-up is expected in FY26.
- Post-completion of the TSK capacity expansion, employee cost per tonne is expected to reduce from this facility.

**The Netherlands**

- ASP for 3QFY24 was ~GBP50-60 lower on sequential basis (~USD65-75/t).
- The delay in commissioning of BF#6 affected the volumes, cost and the product mix in 3QFY24.
- The BF#6 furnace lining has started and is expected to start operations by the end of Jan '24.
- The Netherlands is expected to add 0.1mt of incremental volumes in 4QFY24, and it is anticipated to produce ~6.5-6.9mt in FY25.
- The Netherlands is expected to generate EBITDA in FY25, driven by lower energy expense and coal cost.
- The overhang of high-cost inventory at the Netherlands is over.

**TATA UK facility**

- ASP for 3QFY24 was ~GBP15 lower on a sequential basis (~USD17-19/t).
- The operations were hit by production shortfalls arising from the end-of-life assets in the UK.
- The two BFs and coke ovens in the UK are expected to close in a phased manner, with the first BF likely to close in 1HCY24 and the second in 2HCY24.
- The CAPL line too is expected to shut down by Mar'25.
- Shutting down of BF in a phased manner is expected to cut the losses arising from the UK in FY25.
- The engineering and design work for the new EAF facility has already begun and advance discussions are currently going on with the national grid for power supply.
- Around 2,800 jobs would be impacted with ~2,500 jobs getting impacted over the next 18 months. TATA will endeavour to maximize voluntary redundancies and has committed GBP130m towards comprehensive support packages in excess of GBP100m funding, which is set up by the UK and Welsh government.
- The downstream facilities would continue to operate and TATA would primarily procure steel from the Netherlands or India. As long as the steel is procured from within the organization, it will help mitigate the pricing risk.

**Capex**

- Post-completion of TSK, TATA is planning to expand NINL capacity from 1mt to 5mt and also is planning to undertake capacity expansion at Meramandali.
- Simultaneously, TATA would also undertake Phase-III expansion at TSK which will increase the total capacity to 13mt.
- As NINL capacity expansion will be for long steel products, it will be at a lower cost (on a per tonne basis) vs. Kalinganagar expansion.
- Similarly, Meramandali expansion too would be at a lower cost vs. Kalinganagar expansion; however, for Phase II of Meramandali, which will take the total capacity to 10mt, additional land needs to be procured.
- TATA is also setting up a rolling mill at Jamshedpur.
- A major portion of the TSK capex was earmarked for CRM complex of around INR60b, and with all the upcoming capex facilities having focus on HR or rolling, the overall outflow is expected to be lower.
- As the Netherlands' BF#6 relining will be completed in FY24, TATA will only incur sustenance capex for the Netherlands for FY25E.
- TATA incurred INR47b as capex in 3QFY24 and INR134b in 9MFY24.

**Domestic operations and demand**

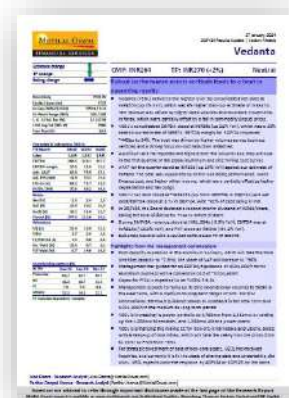
- TATA utilizes around 20% of captive coal and the rest is procured either from outside or imported.
- The amalgamation of all the subsidiaries with TATA is almost completed with NCLT sanction wait for 'The Indian Steel & Wire Products Ltd.' and 'TRF Ltd'.
- Increase in inventory value of chrome ore during the quarter was only an accounting adjustment with no impact on the financials as the classification was as per accounting standards.
- Domestic steel demand is robust and is expected to increase by 10-12% in FY24.
- TATA is expected to capitalize on the domestic growth opportunity as additional capacities come on stream.

**Debt**

- Gross debt declined INR15b QoQ to INR882b (vs. INR897b in 2QFY24), while net debt stood at INR774b with liquidity position of ~INR233b.
- There was a release of working capital on a consolidated level, which was absorbed by the losses in the European operations.



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**Vedanta** **Neutral**  
Current Price INR 270

**Aluminum CoP and capex:**

- Aluminum CoP has decreased by ~USD79/t QoQ and USD918/t since 1QFY23. The CoP currently stands at USD1,735/t
- Aluminum EBITDA has improved ~USD175/t QoQ to USD578/t, and VEDL envisages the same to reach USD1,000/t in the coming years.
- VEDL produced the highest ever 9M aluminum at 1,772kt. It is now in the first quartile of the cost curve among the global aluminum manufacturers.
- Lanjigarh expansion from 2mt to 5mt is on track and 1.5mt Train-I is expected to commence in 4QFY24. Following that, Train-II, with an additional 1.5mt capacity, is projected to be operational by 2QFY25. After all these expansions, VEDL expects the share of VAP to increase to 90% from 60%.
- The 6mt Radhikapur mine has already received Stage-I clearance and is awaiting Stage-II clearances, while 8mt Kurloi mine is currently awaiting its Stage-I clearances. The commercial commencements of both of these mines are on track and are anticipated to come on stream by 2QFY25.

**Zinc International:**

- Zinc International is enhancing its production to 500kt within the next two years, and after that it plans to take the total production to 1mt.
- Gamsberg is expected to contribute around 450kt of production while BMM production is expected to remain stagnant going forward.
- The vertical achieved the highest ever recovery at Gamsberg at 82.3%
- VEDL expects the OBR issue to be resolved over the next two quarters, and the operations are likely to be back to normal levels.
- All the expansions are anticipated to come on stream by FY25-26.

**Power:**

- In order to capture the ever-growing need for power, VEDL is adding power portfolio of 2,200mw by FY26, which will take their portfolio to 4.8gw.
- In Jul'22, VEDL acquired the 1,200mw Athena power via NCLT and in Aug'23, it acquired the 1,000mw Meenakshi power.
- Post-completion of both these acquisitions, VEDL will be the second largest private power player in terms of installed thermal capacity.

**Iron and steel:**

- The Karnataka iron ore mines' EC is getting enhanced to 10mt from 7.2mt, and Liberia to 5mt from 1.5mt.
- The steel vertical reported better volumes post-completion of capex undertaken in FY23. The vertical's revenue has been consistently increasing while maintaining the EBITDA margin in the range of 4.8-5.0%.
- The steel vertical currently has a capacity of 1.5mt, which is well on track to increase to 3mt by FY25E and pig iron capacity will be increasing to 1.1mt from 0.9mt during the same period.
- For strategic divestment or sale of non-core assets, VEDL has received some inquiries and currently it is in the stage of sharing data and undertaking site visits. It expects some concrete response by 4QFY24 or 1QFY25 on the same.

**Proposed demerger into 'pure-play' commodity companies**

- VEDL in Oct'23 announced its plan to demerge its existing business verticals into six independent 'pure-play' companies. This move aims to unlock stakeholder value, simplify corporate structure with improved focus on transparency, attract strategic investment, and improve competencies.
- The company has submitted the scheme to the SE and the proposal is on track. Post-receiving the necessary approvals from the SE, the scheme will be filed with NCLT.

**Debt at VEDL and HoldCo. level**

- VEDL's net debt increased INR47b QoQ and stood at INR625b.
- 82% of the total borrowings are in INR-denominated debt.
- About USD3b bonds at HoldCo. have been extended by around three years and the company has USD1.8b of debt coming up for repayment over the next few months (including USD800m interest).
- The average RoI at HoldCo. stood at ~13%
- After this exercise, the liquidity position of the company has strengthened.

**EBITDA potential:**

- Management has guided for an EBITDA potential of USD7b p.a. from all the verticals, which can be achieved by VEDL. The break-up is as under:
  - Aluminum vertical: USD2.6b
  - HZ: USD2.1b
  - Zinc International: USD285m
  - Iron ore: USD400m
  - Steel: USD301m
  - Power: USD216m
  - FACOR: USD100m
  - Copper: USD108m
  - Oil and Gas: USD750m
- VEDL also indicated that once copper and Zinc International business scales, the potential from these two verticals is ~USD1b.

**HZ guidance on volumes and COP**

- Management has kept its FY24 mined metal volumes unchanged at 1,075-1,100kt.
- Silver production, which was guided around 725-750t, is expected to surpass the guided volumes in FY24. However, 4QFY24 silver volumes will depend on the mined metal grade.
- As HZ reaches its yearly mined metal target of 1.2mt from the current ~1.05mt, silver volumes can reach ~800t and to achieve 1,000t of silver production, HZ needs to increase its mined metal volumes to 1.5mt.



- The Fumer facility is expected to add 30kt of silver production from FY25E onwards (achieve 30kt run rate by 4QFY24).
- Once the alloy facility is completely operational, it will increase the VAP to 25% by 1QFY25 from the current 18-20% level.
- 3QFY24 marked the fourth consecutive quarter of consistent CoP improvement and the lowest in last 10 quarters. Better coal linkages and softening of coal prices led to an improved CoP.
- HZ has kept its CoP guidance unchanged at USD1,125-1,175/t for FY24.
- This solidifies HZ's position as the global cost leader and is now in the first decile in the global zinc mining.



## OIL &amp; GAS

- RIL anticipates strong global oil demand, especially in transportation fuel, despite potential short-term challenges in downstream chemical margins. Major expansions for OMCs will conclude within the next two years, paving the way for significant growth. CGDs are concerned about volumes due to lower-than-expected Morbi uptake and increasing competition from EVs. However, domestic gas demand remains robust, with expectations of increased transmission volumes. Upstream companies are poised to benefit from new production wells, with strong guidance for future growth.

## KEY HIGHLIGHTS FROM CONFERENCE CALL

Oil & Gas	Outlook	Quarterly snapshot
Gas	<ul style="list-style-type: none"> <li>■ GAIL anticipates a robust domestic gas demand, projecting gas transmission volumes to reach 124mmscmd by end-FY24. Forecasts indicate a continued annual growth of 10-12% in volumes for FY25-26, with projected figures of 133mmscmd for FY25 and 141mmscmd for FY26 in the segment.</li> <li>■ The expansion of the Dahej terminal expansion from 17mmt to 22.5mmt is expected to be completed by Mar'25, after which it would be available for use. While there is no specific completion date for the petchem project, it has received board approval with a capex of INR207b. The management highlighted that the Coimbatore-Krishnagiri gas connectivity will be completed by the end of CY24</li> <li>■ GUJS' HP gas grid is also up for a tariff revision and might benefit from the tariff reforms announced last year. The proposed capex for the HP gas grid stands at INR45.4b for up to FY32, which would facilitate gas transportation from new LNG terminals and obviate the need for a tariff cut.</li> </ul>	<ul style="list-style-type: none"> <li>■ GAIL reported EBITDA of INR38.2b in 3QFY24, 10% above our estimate of INR34.7b. It was driven by stronger-than-expected performances in the gas transmission, LPG, and petchem segments. PAT stood at INR28.4b, beating our estimate of INR24.2b (up 12x YoY).</li> <li>■ Petronet LNG (PLNG) recorded lower-than-est. adj. EBITDA (ex of use or pay charges) of INR11b (our est. of INR12.5b) during the quarter. There was a sharp rise in 'other expenses' as the company allocated funds (amounting to INR2.3b) for certain provisions related to UoP in 3Q. Dahej utilization increased to 99% (vs. 70% in 3QFY23), while utilization at Kochi stood at 22% (up 160bp YoY).</li> <li>■ Gujarat State Petronet (GUJS)'s 3QFY24 EBITDA was in line with our est. at INR3.8b, led by higher realization of INR1,628/mmscm. EBITDAM was 110bp lower than our estimate at 83.3%. Volumes were lower than our estimate at 29mmscmd due to lower offtake by the power sector.</li> </ul>
Upstream	<ul style="list-style-type: none"> <li>■ ONGC management has guided for a 5% CAGR in overall production over the next three years, mainly driven by KG 98/2 and Daman upside development. Gas production from the KG 98/2 asset, which will begin in 3QFY25, is expected to ramp up to 10mmscmd in FY25.</li> <li>■ OINL management highlighted that there was accelerated drilling in some of the fields. It expects to double the number of wells in FY25 and incremental wells to be drilled in FY26 as well, which would take oil production to 4mmt in FY26. Management guided oil production of 3.35-3.40mmt in FY24, and 3.8mmt in FY25 (after taking into account the natural decline of 8-10% from existing fields in all three years).</li> </ul>	<ul style="list-style-type: none"> <li>■ ONGC's reported EBITDA stood at INR171.6b (-16% YoY), 4% below our estimate, mainly due to higher-than-expected exploratory well write-offs in 3QFY24. PAT was 4% higher than our estimate, mainly aided by higher other income and a lower-than-expected tax rate.</li> <li>■ Oil India (OINL) reported an EBITDA of INR21.1b in 3QFY24, which was 8% lower than expected and down 26% YoY. This decrease was primarily due to higher other expenses compared to the previous year. Total sales volumes were in line with our estimates, with net oil realization at USD74.3/bbl. Reported PAT, at INR15.8b (down 9% YoY), was above our estimate due to higher-than-expected other income and lower tax rate.</li> </ul>
CGDs	<ul style="list-style-type: none"> <li>■ GUJGA expects CNG penetration to grow from 11% in CY23 to 18% in CY27, with better availability of supplies, new CNG model launches, the strengthening of CNG infrastructure, and a reduction in CNG prices.</li> <li>■ MAHGL does not expect CNG volumes to be meaningfully impacted by INR5-10/lit cut in petrol prices. However, the diesel price cut may affect commercial vehicle conversions and the company may consider price cuts in case volume declines significantly.</li> <li>■ IGL is focusing on converting ICE dumpers in its GAs to CNG in order to drive volume growth since dumpers consume</li> </ul>	<ul style="list-style-type: none"> <li>■ GUJGA's EBITDA came in below our estimate at INR4b in 3QFY24 as both margin and volumes were weak. EBITDA/scm stood at INR4.8 and total volumes came in at 9.2mmscmd</li> <li>■ Mahanagar Gas Ltd.'s (MAHGL) EBITDA increased by 75% YoY to INR4.5b in 3QFY24, mainly driven by a 63% YoY rise in EBITDA/scm to INR13.3. Volumes grew 8% YoY to 3.7mmscmd driven by CNG and I/C-PNG.</li> <li>■ Indraprastha Gas' (IGL) EBITDA came in below our est. at INR5.6b in 3QFY24, primarily due to lower-than-expected EBITDA/scm of INR7.2 (vs. our est. of INR8.5). Volumes increased 4% YoY to 8.5mmscmd.</li> </ul>

~80-100kg of CNG per day. The company may also consider launching schemes similar to MAHGL's CNG Mahotsav to drive further growth.

RIL

- Global oil demand for CY24 is likely to be at 103mnbopd (up 1.2mnbopd YoY). Gasoil cracks are anticipated to remain firm due to the strength in jet fuel demand and the limited availability of heavy crude. Further voluntary cuts by OPEC+ and geopolitical tensions are expected to keep price and margin high.
- The global downstream chemical markets are likely to remain well-supplied in the near term. However, domestic demand is expected to remain resilient amid strong economic activities. RIL also has an edge over its peers, as a majority of its focus lies in the domestic market for Polymer and Polyester products.
- Reliance Industries (RIL)'s consolidated revenue/EBITDA/PAT grew 4%/15%/9% YoY to INR2.2t/INR407b/INR173b in 3QFY24 (6% miss/in line/in line) led by growth across segments. A fall in Brent oil prices led to a revenue miss, while healthy margins in the telecom and retail segments resulted in 190bp YoY margin expansion.
- Standalone EBITDA stood at INR175.6b in 3QFY24 (8% below our estimate) because of lower gas price realization and a lower downstream margin. O2C's earnings in 4QFY24 may improve sequentially since 3Q earnings were hit by maintenance shutdowns.

OMCs

- OMCs are estimated to be generating a marketing margin of INR11/8.6 per lit on petrol/diesel in 4QFY24 till date. However, margins may be affected by retail fuel price cuts in the wake of upcoming elections and/or a rise in crude oil prices due to quota management by OPEC+.
- HPCL management highlighted that refinery throughput should be above 22mmtpa in FY24, and marketing sales volume should be about 44mmtpa. The marketing sales volume should reach 45mmtpa in FY25.
- BPCL management highlighted that Mozambique force majeure is expected to be lifted by Jun-Jul'24. The quarterly run rate of employee benefit expenses should be INR7.5b. MS consumption growth should be at 5% over the next five years and diesel growth should be at 1.5-2% despite increasing EV adoption.
- IOCL reported beat on our EBITDA at INR155b (up 2.9x YoY), led by better than-expected GRM at USD13.5/bbl (vs. our est. of USD10.2/bbl) and higher marketing GM at INR4.5/lit. (vs. our estimate of INR3.1/lit).
- HPCL missed our EBITDA estimate for 3QFY24 due to a lower-than-expected marketing margin of INR2.7/lit (est. of INR3.4/lit) led by suppressed margins on diesel.
- BPCL's reported GRM came in 14% above our est. at USD13.4/bbl in 3QFY24, while implied marketing margin came in 9% above our est. at INR3.5/lit. Despite higher-than-estimated margins, EBITDA was in line with our estimate due to higher employee benefit expenses.



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**Bharat Petroleum**

**Neutral**

Current Price INR 658

- Distillate yield at 84% was one of highest among Indian refineries.
- GRM was at a premium to SG GRM on account of optimization of refinery production, product distribution, and crude procurement.
- High Sulphur crude accounted for 83% of crude mix.
- Portion of Russian crude was at 40%.
- Bina and Kochi refineries can handle up to 100% high Sulphur crude and 50% Russian crude.
- 50-55% of crude requirements of the company are met through long-term contracts.
- 400ktpa of the PP project at Kochi has been approved at the cost of INR50.4b.
- Current output of propylene will be sufficient for production of 400ktpa of PP.
- Petchem product plate after the completion of the petchem project will consist of HPDP, LLDPE, PP, Benzene, Toluene, and small portion of Bitumen.
- The company is not impacted by the ongoing Red Sea issue.
- 15-day maintenance shutdowns have been planned at Kochi and Bina refineries during FY25.
- Mozambique force majeure is expected to be lifted by Jun-Jul'24.



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- The quarterly run rate of employee benefit expenses should be INR7.5b.
- MS consumption growth should be at 5% over the next five years and diesel growth should be at 1.5-2% despite increasing EV adoption.

### Castrol India

Buy

Current Price INR 207

- Volume stood at 55m liters, with the automotive segment contributing 85% and industrial segment contributing 15%.
- Advertisement expenses stood at 2-3% of sales.
- The company has passed on a reduction in input costs to end-customers.
- It keeps the selling prices in a specific band and will continue with the same pricing strategy going forward as well.
- The domestic lubricant market generally grows by 4-5% annually.
- The company intends to grow faster than the overall market.
- CSTRL has launched auto care products under its own brand name and is no longer working with 3M.
- It expects a gestation period of 4-5 years before auto care products contribute meaningfully to revenue.
- Base oil prices stood at USD1000/mt in 4QCY23 vs. USD1150-1200/mt in 4QCY22.
- For CY23, base oil price was at USD1100/mt vs. USD1100-1150/mt in CY22.
- Capex is expected to increase by 50% in CY24.

### Hindustan Petroleum

Buy

Current Price INR 563

- HPCL's 3Q performance was hit by the:
- Planned maintenance shutdown at Vishakhapatnam for 55 days
- Inventory loss on crude due to the declining trend in the quarter
- Suppressed marketing margins on diesel
- However, the first month of 4QFY24 has been stable, and recovery is expected in the upcoming quarter
- Refinery throughput should be above 22mtpa in FY24, and marketing sales volume should be about 44mtpa
- The marketing sales volume should reach 45mtpa in FY25
- There is a firm plan on value unlocking from the lubricant business. This is expected in the next 8-10 weeks
- The output from Vishakhapatnam refinery stood at 40-42tmt/day
- The CDU has stabilized, and the hydrocracker is under stabilization process
- The mechanical completion process for bottom upgradation will start in 1QFY25
- The completion of bottom upgradation will improve the distillate yield
- The physical completion of Rajasthan refinery at 75%
- A few units have already been commissioned
- Mechanical completion by mid-CY24
- Production of refined products should start by Dec'24
- Petrochemical production should commence in CY25
- HPCL's GRM should be USD3-3.5/bbl above SG GRM



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- The Red Sea issue will not impact the supply of crude under term contracts at least until Mar-Apr'24
- The Vishakhapatnam refinery has higher inventory days of 60 due to longer voyage time.
- The 9MFY24 capex stood at INR104b.
- Capex should be at INR150-160b. in FY24-25.

### Indraprastha Gas

Sell

Current Price INR 440

- EBITDA/scm declined QoQ due to 9% reduction in APM gas allocation
- During the quarter APM gas constituted 78% of the volume, while HPHT was at 4%, term contracts was 17%, and the remaining was from spot contracts.
- Conversions were steady at 15k vehicles/month
- Gas sales volumes have clocked 9mmscmd over the past few days
- The company expects to clock 10mmscmd volumes by FY25-end
- It is planning to set up 10 new LNG stations in the near term
- The company working on conversion of dumpers to CNG in order to drive volume growth
- Dumpers consume ~80-100 kg/day of CNG
- The company may also consider launching schemes similar to MAHGL's CNG Mahotsav
- However, the company will first concentrate on setting up adequate infrastructure
- 63% volumes come from Delhi and 37% from non-Delhi
- Delhi volumes are growing at just 2-3% in Delhi due to DTC conversions to EVs
- Non-Delhi volumes are growing at 7-8%
- New GA's have substantially higher growth rate albeit at a very small base
- Uttar Pradesh has agreed to commission 60 long-haul CNG buses
- Uttarakhand has agreed to commission 45 buses
- Rajasthan has agreed to initiate a pilot project of 20 buses
- Ongoing discussions with Haryana for the commissioning of more buses are in progress
- The company is targeting EBITDA/scm of INR8
- However, the company's core focus will be on achieving volume growth, and it will refrain from increasing prices if it significantly
- I/C-PNG volumes expected to ramp up due to increase in alternate fuel prices.

### Mahanagar Gas

Buy

Current Price INR 1,512

During the quarter,

- 118,215 domestic households were connected, taking the total to 2.37m.
- 90km of steel & PE pipelines were laid, taking the total length to 6,742km.
- 98 I/C customers were added.

In Raigad GA,

- 75,432 households were added.
- 11km of pipeline was laid, taking the total length to 404km.
- As of Dec'23, 320 CNG stations were operational, including 32 in Raigad GA.



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- Volume growth in the industrial segment was driven by high consumption by new customers.
- The company has launched new schemes to attract new industrial customers.
- MAHGL guarantees a 10% discount on gas prices compared to alternate fuels for the first three years to all new customers in GA3 and customers with high consumption in GA2.
- Vehicle conversions increased to 22.4k in 3Q from ~20k in 2Q and ~15k in 1Q.
- Commercial vehicle conversions also increased to 1,400 in 3Q from 1,100 in 1Q.
- 300-400 new MSRTC buses will be commissioned over the next few months, which should drive CNG growth.
- APM shortfall during the quarter was at 20% — 18% was met through HPHT and ~2% through spot
- The company spent INR100m in 3QFY24 on the 'CNG Mohatsav' scheme and plans to spend around INR200m in 4QFY24.
- There was a 30% uptick in sales to CNG passenger vehicles due to the scheme.
- For passenger vehicles, the scheme ended on 31st Dec'23, but it is still continuing for commercial vehicles.
- The company will invest INR1-1.5b in UEPL in FY25.
- UEPL's volumes grew 18-20% in past year.
- CNG is 50% cheaper than petrol and 18-19% than diesel
- The company does not expect a huge impact on CNG volumes even after INR5-10/lit price cut on petrol.
- However, the diesel price cut may have an adverse impact.
- MAHGL may consider CNG price cuts if volumes fall due to price cuts by OMCs.
- 10 new CNG stations were commissioned during 9MFY24.
- The company targets to add 45 new CNG stations per year.
- 9MFY24 capex stood at INR5b. FY24 capex is expected to be INR7.5-8b.



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**Oil India** Buy  
 Current Price INR 605

**4mmt oil production target:**

- Accelerated drilling in some fields
- FY25: will double the amount of wells, even more wells to be drilled in FY26
- This should take production to 4mmt by FY26
- 3.35-3.4mmt in FY24, 3.8mmt in FY25 and 4+mmt in FY26
- These targets are given after taking into account a natural decline of 8-10% from the existing fields

**Gas production:**

- Target achievement timelines will be same or even earlier than oil.

**Production increase:**

- Drilling activity or development wells in old areas driving production growth
- The company has applied new technologies

**Baghjan field:**

- Constructing a gas servicing station
- 5bcm in the next three years mainly from Baghjan
- Has a very high gas potential in the long term

**IGGL update:**

- As of now, gas production in 1Q suffered due to non-connectivity with mainland India
- Several customers are seasonal as of now
- Post-IGGL, OINL will be able to market gas outside NE
- Have proposed one more line besides IGGL
- Commercial commissioning – phase I in 1QFY25 latest
- Up to Guwahati should be ready soon

**Capex:**

- FY25: INR60b
- Includes INR10b equity investment in NRL
- 55-60% of capex in exploration and development
- Rest in various capital equipment etc.
- Included INR0.250-0.3b for Mozambique also in this
- NRL's full capex is INR280b
- Actual investment in NRL is INR150b
- Refinery expansion is 55-60% complete

**Other expenses:**

- More or less should stay at current levels; FX can provide some volatility
- Exploration write-off in the quarter stood at INR2.5b
- Higher dry well w/off across assets
- NRL:
- High utilization and lower distillate yield has contributed
- NRL has given some interim dividend; that should come through next quarter
- NRL GRM does not include excise duty benefit – core GRM
- Excise duty benefit will be ~USD15/16 per bbl for 9MFY24
- NRL new capacity commissioning by Sep'25; agreement with other OMCs, pvt marketers, evacuation via NRL delivery pipeline which is being expanded to 2.5mmt from 1.7mmt
- Has laid 1mmt diesel pipeline to Bangladesh

**Mozambique:**

- Complete asset has undergone re-structuring and the new structure is applicable for all companies
- ECB taken by Oil India will not be impacted as the company will invest in BREML (USD1.5b invested until now)
- Structuring below BREML level will undergo a change

**Dividend:**

- One interim dividend already declared
- The Board will decide if more dividend has to be paid

**DDA rise:**

- In line with higher production; new reserve estimation will be done at end of the year

**Marketing for gas:**

- Lots of other factories in NE where OINL can sell gas and it is targeting those
- Can now sell volumes up to Guwahati; in discussion with customers
- All the gas produced is APM gas; provision for 20% higher gas price from new wells but awaiting guidelines on that

**Subsidy on gas:**

- Only certain class of customers get subsidy; 40% of gas price
- Limited to legacy allocations made and no incremental additions to those allocations
- Seismic costs for the quarter:
- INR1.3b in 3QFY24
- In 3QFY23 this was INR1.1b

**GST-related amount:**

- Appears to be higher than 18% on royalty as it includes the interest outstanding amount
- The entire amount has not been paid – only INR140b deposited with the Govt
- Rate of interest is as per GST Act.



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**ONGC****Buy****Current Price INR 277****Exploratory well write-offs:**

- Higher exploration expenses in 3QFY24 due to increase in unsuccessful wells in Mahanadi basin and W offshore

**KG98/2**

- Crude oil prod commenced from KG98/2 in Jan'24

**Gas price in FY25 should be higher YoY****Volume growth:**

- FY24 production expected to be flat or high vs. FY23
- Projecting 15% increase in production in next 3 years
- Pursuing 22 development/infra projects with outlay of INR600b
- Old mature fields saw 6-7% decline; trying to reverse the decline

**20% premium to gas price for new wells:**

- Any well intervention or new well in existing nomination field is eligible for 20% premium pricing
- 3-4% of our current gas prod is from new wells currently but will rise to 20% in next three years

**KG 98/2:**

- Cost of production for oil and gas:
- Total capex was USD5bn; INR280b incurred; small cost escalations
- Management do not think there will be a major cost escalation
- Cost of production: per unit cost varies with production; overall higher than W offshore but not too high
- FPSO day rate was USD 718K per day for KG98/2
- Gas prod by Jun/Jul'24, so per bbl cost should go down

**Rig rates:**

- Revised upward only when contract duration ends
- JU rig rate now up from USD40-50k per day to USD70-90k

**Production:**

- Earlier 4-5% decline rate; last year only 0.5% decline
- 5% volume CAGR over next 3 years, driven by Daman upside + KG 98/2
- Plateau production:
- For 2-3 years typically after which decline kicks in

**Capital allocation:**

- Dividend: paying 40% of PAT typically; 41% pay out in 9MFY24; no major change here
- Have good realizations even post SAED; should have good CF position; beyond normal capex of 30K Cr and dividend; will invest in other areas such as Green Energy, OPAL

**Capex:**

- INR330b in FY24 and ~INR350b in FY25 (Standalone capex)

**OVL:**

- Russia: dividends still stuck in Russia; trying to engage with Rosneft so can settle abandonment obligation via roubles instead of USD
- Venezuela: sanctions lifted till April 2024; got proposal from PDVSA; exploring how to ease fund flow in and out of the country; trying to secure pending dividends in barrels.



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**Petronet LNG****Neutral****Current Price INR 281**

- Efficiency in operations and higher utilization led to decent performance in the quarter.
- Long-term contracts: Cargoes coming from Qatar does not have any threat from Red Sea
- Contracts originating from the US may face challenges due to the Red Sea issue, but the management does not foresee any threat to PLNG ports
- UoP settlement reached by the customers
- PLNG provided customers with a three-year window to bring volumes to their terminal
- If the target volumes for CY21 and CY22 are achieved by Dec'24 and Dec'25, respectively, PLNG would waive the UoP
- In the meanwhile, they have to give bank guarantees to PLNG for the UoP charges (principally agreed between parties)
- Provision of INR2.3b has been made as opex for UoP charges. Last year, the provision stood at INR900m
- Service revenue stood at INR6.2b
- There is a INR1.4b-impact on gross margins; a forex loss of INR10m and a reversal of rent expenses of INR80m; depreciation of INR840m; and a finance cost of INR690m
- Gorgon volumes in Dahej FY24'YTD stood at 14.4Tbtu
- Trading gains stood at INR400m in 3Q (INR190m in 2QFY24) and inventory gains at INR147crs in 3Q

**Update on expansion projects**

- Dahej terminal expansion is expected to be completed by Mar'25, and would be available for use after that
- While there is no specific completion date for the petchem project, it has received board approval with a capex of INR207b
- Coimbatore to Krishnagiri gas connectivity will be completed by the end of CY24
- Rasgas contract price has increased by 5% from 01 Jan'24 onwards.
- Kochi regasification charges will also increase by 5% from 01 Apr'24 onwards.



## Reliance Industries

Buy

Current Price INR 2,941

### Summary highlights

- 5G, JioAir Fiber and JioBharat are the three big growth engines for Jio.
- Jio has completed 5G rollout and accelerating subscriber addition led by 5G migration.
- JioAir Fiber is now available in over 4,000 cities/ towns with pan-India coverage expected to complete in 1H CY24. Early signs of customer engagement have been encouraging, especially in tier 3/4 towns and rural areas.
- JioBharat has +45% market share in the <INR 1,000 price segment.

### Detailed highlights:

#### 5G expansion: Jio has completed the fastest rollout of 5G services in India

- 5G rollout has accelerated the subscriber addition momentum and data usage.
- ~90m subscribers have been migrated to RJIO 5G network
- RJIO 5G network is contributing 25% of wireless data traffic.
- Jio’s superior network attracting subscribers with:
  - Jio 5G availability 3x that of the nearest competitor
  - Overall download speed 2x that of the nearest competitor.
  - Better network resulted in customer base growth for Jio. It dominated the market with a net port of 2.5x of the nearest competitor
- Jio continues to gain a majority share of new 5G devices because of its superior coverage and capacity
- ‘JioBharat’: Rapidly gaining market share in the feature phone segment
- JioBharat has +45% market share in the <INR 1,000 price segment.
- JioBharat platform now has three SKUs with price points ranging from INR999 to INR2,599.
- JioPhone Prima (latest addition) gives access to apps like YouTube, Facebook and WhatsApp, along with Jio Entertainment Apps. Discussions are going on with multiple partners/OEMs to expand the platform further.
- JioBharat expanding its financial inclusion: JioBharat users contributed to 60% of total UPI123 Pay transactions in Dec’23.
- Accelerating Jio leadership in the rural markets: Since the launch, Jio’s wireless rural net additions have grown 5.2x that of the nearest competitor

#### JioFiber: Scaling up the Home business

- JioAir Fiber is now available in over 4,000 cities/towns with pan-India coverage likely to be completed in 1H CY24.
- Early signs of demand and customer engagement have been encouraging, especially in the underserved tier 3/4 towns and rural areas.
- Content bundling is driving a ~30% higher per capita usage on JioAir Fiber vs. JioFiber.

#### Enterprise business: focus on increasing wallet share

- About 33% of the large named enterprises use two or more Jio services
- ~50% branches of Top10 Banks in India run on Jio network
- Jio’s digital services account for ~20% of new deal wins
- There has been a 1.3x increase in revenue from Top100 accounts and 1.5x increase in the number of accounts in INR50m+ revenue bucket.





## REAL ESTATE

- Amid strong demand tailwinds, companies continue to remain confident of achieving 15-20% growth over the medium term and are developing a project pipeline that can support their growth ambitions. There are no supply-side concerns at least in the near term and while the realization growth on account of product mix will continue, companies remain disciplined on taking calibrated price hikes on an LFL basis.

## KEY HIGHLIGHTS FROM CONFERENCE CALL

	Quarterly Snapshot	Near term Outlook/launch pipeline
DLF	<ul style="list-style-type: none"> <li>DLF reported its highest-ever pre-sales of INR90.5b in 3QFY4, up 4x YoY/QoQ and 21% above our estimate. The strong performance was driven by three new launches during the quarter, which contributed over INR86b to overall bookings. For 9MFY24, bookings stood at INR133b, doubled YoY, and exceeded the company's full-year guidance of INR130b.</li> </ul>	<ul style="list-style-type: none"> <li>The launch of the second phase of DLF Privana can happen in March. Once the timing is ascertained, the company will accordingly provide guidance for FY25. But it will target certain growth over FY24 pre-sales.</li> <li>Key project launches for the next year include a luxury project in DLF 5, a subsequent phase of Privana, a high-rise project in Chennai, and the first phase of the Mumbai project.</li> </ul>
Godrej Prop.	<ul style="list-style-type: none"> <li>Godrej Properties (GPL) reported the highest ever bookings of INR57b, up 76%/14% YoY/QoQ and 14% above our estimate. For 9MFY24, pre-sales stood at INR130b, up 59% YoY.</li> <li>GPL's performance was led by new phases/project launches that generated ~73% of total sales. <b>It launched eight new project/phases</b> with a combined saleable area of ~6.75msf. Total launches stood at 13msf in 9MFY24.</li> </ul>	<ul style="list-style-type: none"> <li>GPL will comfortably exceed its full-year guidance of INR140b, and is also on track to deliver 12.5msf in FY24. Over the medium term, it is confident of sustaining 15-20% YoY growth.</li> </ul>
Macrotech Dev.	<ul style="list-style-type: none"> <li>Macrotech Developers (LODHA) achieved sales of INR34b (7% below our estimate), up 12% YoY, but down 4% QoQ. Pre-sales for 9MFY24 stood at INR103b, up 14% YoY. The residential business generated bookings of INR32b in 3Q (up 5% YoY) and INR99b in 9MFY24 (up 16% YoY).</li> </ul>	<ul style="list-style-type: none"> <li>LODHA's current cash flow run-rate and the B/S strength are sufficient to achieve its targeted growth of 20% YoY over the medium term.</li> </ul>
Oberoi Realty	<ul style="list-style-type: none"> <li>The company achieved pre-sales of INR7.9b (up 25% YoY, but down 18% QoQ), 51% below our estimate. For 9MFY24, bookings stood at INR22b, down 12% YoY. The decline in sales at Sky City (Borivali) and 360 West impacted the company's overall performance as the company failed to sustain its usual quarterly run-rate of INR9-10b despite the new launch at Thane.</li> </ul>	<ul style="list-style-type: none"> <li>Expect the Forestville project to generate annual bookings of INR5-7b. The large project on Pokhran road is scheduled to be launched during the festive season (2QFY25) of FY25.</li> </ul>
Mahindra Lifespace	<ul style="list-style-type: none"> <li>Mahindra Lifespace (MLDL) achieved bookings of INR4.4b, flat YoY/QoQ (13% lower than our estimate). Sales volume stood at 0.5msf, down 13% YoY. Bookings for 9MFY24 stood at INR12b, down 14% YoY. During this period, the share of sustenance sales increased 3x to INR9b vs. INR3.3b in 9MFY23.</li> </ul>	<ul style="list-style-type: none"> <li>The company is set to witness multiple launches in 4QFY24, including its key project at Kandivali (already launched). New projects at Pune and Bengaluru are at an advanced stage of approvals and are likely to be launched in 4Q. The GDV of all new launches is in excess of INR25b.</li> </ul>
BRGD	<ul style="list-style-type: none"> <li>Brigade Enterprise (BEL) reported bookings of INR15.2b, up 51% YoY/22% QoQ (6% above estimate). For 9MFY24, pre-sales jumped 44% YoY to INR37.7b (90% of FY23 pre-sales). Growth was driven by strong sustenance sales, as new launches contributed 50% to the overall pre-sales value in 3QFY24 and 44% in 9MFY24.</li> </ul>	<ul style="list-style-type: none"> <li>BEL is gearing up to launch ~2.6msf of projects in 4QFY24 with a GDV potential of INR20b across its existing projects in Bengaluru. The Mount Road project in Chennai is expected to be launched in 1QFY25. Overall, the company is rolling 12 months residential launch pipeline of 11msf with a GDV of INR100b.</li> </ul>

<p><b>Sobha</b></p>	<ul style="list-style-type: none"> <li>■ SOBHA reported the highest ever quarterly bookings of INR19.5b (in line with our estimate of INR19b), up 37% YoY/13% QoQ. For 9MFY24, bookings stood at INR51b, up 37% YoY.</li> <li>■ Since 2QFY22, the company has consistently delivered QoQ growth in each quarter. The performance was driven by launches of 3.8msf across two projects.</li> </ul>	<ul style="list-style-type: none"> <li>■ SOBHA is planning to launch 3msf in 4QFY24 and most of it will materialize toward the end of the quarter. The management is targeting the launch of 17msf of projects by FY25-end. Beyond this, the company is also working on the next 20msf of projects from existing land reserves in Bengaluru.</li> </ul>
<p><b>Prestige Estates</b></p>	<ul style="list-style-type: none"> <li>■ PEPL reported pre-sales of INR53b in 3QFY24, up 111% YoY (7% higher than estimate), driven by the successful launch of its Prestige City project in Hyderabad, which generated sales of INR25b. Overall, PEPL launched three new projects with a developable area of 15msf.</li> </ul>	<ul style="list-style-type: none"> <li>■ In addition to a few projects in Bengaluru, PEPL could also launch a new phase at Mulund (MMR) in 4QFY24. Given the relatively moderate launch pipeline for 4Q, the performance will be largely driven by sustenance sales and the management is confident of achieving INR200b bookings in FY24.</li> </ul>
<p><b>Phoenix Mills</b></p>	<ul style="list-style-type: none"> <li>■ Consumption across PHNX's mall portfolio was up 25% YoY in 3QFY24 at INR33b and up 21% in 9MFY24 at INR85b. On the like-for-like basis, consumption grew 5% in 3QFY24</li> <li>■ Phoenix Mills (PHNX) reported a revenue of INR9.8b, up 44% YoY/13% QoQ (6% ahead of our estimate), driven by the contribution from four new malls totaling 4msf. Revenue for 9MFY24 stood at INR26.7b, up 40% YoY.</li> </ul>	<ul style="list-style-type: none"> <li>■ Trading increased across all major malls and reached the all-time high level in 3QFY24. As it further inches up in new malls, the management remains confident of achieving consumption of INR112-INR115b in FY24. The rental growth beyond FY25 will be driven by incremental area addition through the densification of existing malls in Mumbai (Palladium) and Bengaluru and new retail space in Project Rise at Palladium, Mumbai.</li> </ul>



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**DLF**

**Neutral**

Current Price INR 864

- **Launches:** Key project launches for next year include a luxury project in DLF 5, a subsequent phase of Privana, a high-rise project in Chennai, and the first phase of the Mumbai project. Additionally, the company will launch small projects in Goa and Panchkula.
- **Land purchase:** DLF has acquired 29 acres of land by taking over INR8.5b of debt from erstwhile lenders of IREO developers. The land parcel is located on the Golf Course extension road and has a development potential of 7.5msf. DLF expects to spend INR2500/sft to take the complete ownership of the land. It plans to launch the project in the next 12 months.
- **Guidance and margin:** Launch of 2nd phase of DLF Privana can happen in March. Once the timing is ascertained, company will accordingly provide guidance for FY25. But it will target certain growth over FY24 pre-sales. With higher realizations blended margins will increase to 45-50% versus 35% currently.



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**Godrej Properties**

**Buy**

Current Price INR 2,301

- **Guidance:** GPL will comfortably exceed its full-year guidance of INR140b, and is also on track to deliver 12.5msf in FY24. Over the medium term, it is confident of sustaining 15-20% YoY growth. Sector 89 & Sector 146 (Gurugram), Kandivali (MMR), and OMR Road (Bengaluru) are the key projects along with a few others that are slated for launch in 4QFY24.



- **Business development:** GPL has spent INR19b towards new additions of INR80b so far in the year. In 4QFY24, it expects an outflow of INR12-13b towards land/FSI cost (including INR6b for Ashok Vihar land). While the company will conclude a few more deals in 4Q, management believes that the company has a strong project pipeline and hence can deliver sustainable growth over the next 2-3 years, even without aggressive spending on BD.
- **NCR performance:** GPL’s current portfolio will certainly enable it to sustain its improved performance in the market. GPL has made significant new additions in Gurugram and Noida and expects 1-2 projects to be launched each quarter. It is mindful of the sharp rise in overall demand and pricing witnessed in the NCR market and currently does not see any demand concerns. Management does not expect the trajectory of sharp price growth to continue and current levels will form a base for gradual hikes in future.

**Cash flow:**

- In order to capitalize on the scale of opportunities available in the housing market, GPL would want to maintain 0.5-1x net D/E while redeploying capital strengthen the pipeline
- Can even go beyond this level temporarily if any good BD opportunity arises, which complements the internal growth ambitions

**Mumbai projects**

- A lot of existing tenant movements happened in the Worli project, and GPL is expecting to launch the project in FY25. While Bandra is also making a good progress, GPL does not expect it to be launched in FY25
- Continues to see a lot of opportunities across the spectrum of outright/JD in South Mumbai, and some good additions will happen in this market over the next few quarters.
- The Mahalaxmi project has sold INR7b worth of inventory since it was launched four months ago.

**Pricing and Demand:**

- A lot of the growth reflected in blended realization can be attributed to nature of products being brought to the market, which are skewed towards the premium segment.
- Going forward, the volume and value growth should be largely in line with each other.



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**Macrotech Developers**

Buy

Current Price INR 1,118

- **Fund Raise:** LODHA’s current cash flow run-rate and the B/S strength are sufficient to achieve its targeted growth over the medium term. However, if any inorganic opportunities arise that complement the internal growth targets, it is prudent to raise the required capital to capture the same. Hence, the Board has passed an enabling resolution to raise equity capital of up to INR50b.
- Funds will only be raised if it comes across opportunity, which will enable it to grow beyond the targeted growth rate of 20% or if it improves the longevity of growth that the company can deliver.
- **Bengaluru:** Preference for premium housing has been growing at a rapid pace in the city, as the share of homes with INR15m+ ticket size is at 25% currently vs. 10% a few years back.



**Mahindra LIFESPACES**

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- LODHA will continue to focus on premium and luxury segments and is targeting to achieve INR30-35b annual sales over the next few years.
- **Annuity business:** The avenues for rental income are FMS business, the Warehousing/logistics business, and selective office/retail assets. The rental income would be INR15b by FY30E – 25% will be from FMS, 30% from warehousing and balance from office/retail.

**Mahindra Lifespace** **Neutral**  
Current Price INR 602

- **New launches:** The company is set to witness multiple launches in 4QFY24, including its key project at Kandivali (already launched). New projects at Pune and Bengaluru are at an advanced stage of approvals and are likely to be launched in 4Q. The GDV of all new launches is in excess of INR25b.
- **BD:** The pipeline continues to remain strong at INR50-60b, of which, ~60% is in MMR and 20% each in Bengaluru/Pune. The immediate goal is to get a fair share of the market in the existing three markets, before venturing out in NCR (and other cities).
- **MLDL** is also actively exploring the possibility of plotted projects at all the land parcels in the IC vertical and there will be multiple projects launched in this segment at Chennai and at other locations.
- **IC Segment:** The company continues to look for an anchor at Ahmedabad, while remaining open to the possibility of an outright sale in the event of a large transaction. It is not inclined toward engaging in small leases of 2-5 acres, as it may dilute the overall potential of the park.

**Oberoi Realty** **Neutral**  
Current Price INR 1,310

- **Thane:** Expect the Forestville project to generate annual bookings of INR5-7b. The large project on Pokhran road is scheduled to be launched during the festive season (2QFY25) of FY25. However, the company will soon initiate work on the residential area, luxury hotel, and the International School.
- **Gurugram:** Management intends to successfully launch the new project before acquiring additional projects in the micro-market. It has so far paid INR1b toward the land, with the remaining payments linked to certain milestones.
- The accounting method for revenue recognition will be finalized closer to the launch. As of now, both the methods are being followed in the market.





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Particulars	Q3 FY24	Q2 FY24	Q3 FY23	Q2 FY23
Revenue	1,164	1,164	1,164	1,164
Operating Profit	1,164	1,164	1,164	1,164
Net Profit	1,164	1,164	1,164	1,164



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Particulars	Q3 FY24	Q2 FY24	Q3 FY23	Q2 FY23
Revenue	1,385	1,385	1,385	1,385
Operating Profit	1,385	1,385	1,385	1,385
Net Profit	1,385	1,385	1,385	1,385

## Prestige Estates

Buy

Current Price INR 1,164

### Mumbai and Pune

- PEPL has signed a term sheet in Pune for a large project. In Mumbai, it has a lot of projects, including few large ones. But given the nature of the market, the management is being selective in the kinds of projects it wants to develop. It is looking at western and eastern suburbs to add a mid-income/affordable projects to its Mumbai portfolio.
- It has sold almost 40% of launched inventory at Ocean Tower without any price aggression and expects to launch the second quarter after six months.

### Bengaluru

- At the Bidadi location in Bengaluru, PEPL sees potential for another Prestige City. All land parcels are suitable for development and Mangaluru land is the only one that is expected to be monetized on the outright basis.
- The Goa land parcel has potential for a large mixed-use development and it expects approvals to be received in 1HFY25.

### Fund raise

- While there are no plans to raise equity capital, it is evaluating the monetization of its hotel business. The proposal will be placed before the board in the next quarter.

## Sobha

Buy

Current Price INR 1,385

- **Launches:** SOBHA is planning to launch 3msf in 4QFY24 and most of it will materialize towards the end of the quarter. Management is targeting the launch of 17msf of projects by FY25-end. Beyond this, the company is also working on the next 20msf of projects from existing land reserves in Bangalore. These will soon be added to the pipeline

- **Rights issue:** The promoters' intention to participate in the fund raise was one of the factors to opt for the Rights issue. The majority of the land owned by the company is concentrated in Bengaluru, and the funds will be used to grow SOBHA's presence in the NCR, Pune and Hyderabad.

- **Cash flows:** Management expects the outflow towards construction to increase, but since collections are linked to milestones, the OCF run-rate could remain steady or improve. Additionally, given the higher anticipated spending on growth opportunities, the company may not generate as much net free cash flow in the future.





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## Sunteck Realty

Current Price INR 483

Buy

- Launches:** Towards the end of the quarter, SRIN launched one tower at Kalyan and effected bookings of INR730m. On an annual basis, SRIN can generate INR2.5-3.0b pre-sales from the project. It will launch the third tower at Mira Road along with a new phase launch at Naigaon in 4Q, which will help the company in meeting its target of INR20b sales. With the launch of the Napean Sea Road project in FY25, SRIN can surely achieve 25% growth in pre-sales.
- Business development:** The company is acquiring adjacent plots at the Napean Sea Road project, which will double the project size. SRIN is also in talks for a few new projects in South Mumbai and Bandra, which could be announced soon. Further, key approvals for the Borivali project are likely to be received soon. Management is confident that all these projects will help it add INR100b of new GDV to the existing pipeline.
- Commercial:** In FY25, SRIN will launch the residential towers at Avenue 5, and cash flows from the same will be utilized towards funding capex for the office assets.

## RETAIL



- **Retail:** Sector-wide management commentary indicated that the continued demand slowdown (weak SSSG) and the revenue growth is driven largely by footprint addition. 4QFY24 further saw early onset of EOSS, as retailers looked to liquidate the old inventory due to soft demand.
- **QSR:** QSR companies sustained sluggish performance as growth metrics (SSSG, ADS) remained weak despite Cricket World Cup and various other initiatives. Most companies have maintained the aggressive store addition in 3QFY24 and the momentum is expected to sustain into 4Q. We expect QSR companies to sustain growth weakness in the near term, which will likely keep operating margins under pressure.

## KEY HIGHLIGHTS FROM CONFERENCE CALL

	Business scenario and outlook FY24	Footprint addition
<b>Aditya Birla Fashions*</b>	<ul style="list-style-type: none"> <li>■ The management is targeting a high single to low double-digit (10%-12% indicatively) revenue growth in the medium term for existing businesses.</li> <li>■ Improvement in Gross Margins (GM) and lower mark down during the quarter led to EBITDA margin expansion.</li> </ul>	<ul style="list-style-type: none"> <li>■ The company targets to reach 200 stores under Tasva in two to three years adding 30-40 stores annually.</li> <li>■ Pantaloons' distribution channels in smaller towns could pose a challenge to its growth trajectory.</li> </ul>
<b>Shoppers Stop</b>	<ul style="list-style-type: none"> <li>■ The management has indicated a mid-single-digit growth range for revenue in 4QFY24 and targets a LFL growth ranging between mid to high single digits upon the resumption of demand.</li> <li>■ SHOP opened four new stores under beauty and departmental stores and targets to add 56 stores in FY24, of which 32 have already been added.</li> </ul>	<ul style="list-style-type: none"> <li>■ The company plans to end FY24 with 24 stores for Intune and plans to add 14 stores for 4QFY24.</li> </ul>
<b>V-Mart</b>	<ul style="list-style-type: none"> <li>■ EBITDA losses in "Limeroad" will continue to see 25-30% reduction on a QoQ basis with an aim to reach break-even by the end of FY25.</li> <li>■ In addition to three stores closed, the company will look to close ~20 stores in 4QFY24, of which, majority of them would be in the VMart segment (75% of store closure).</li> </ul>	<ul style="list-style-type: none"> <li>■ The company looks to add 10 stores in 4QFY24 and close ~20 stores, implying net 20 stores addition in FY24. In FY25, the company targets to add gross 50 stores, and 30-40 net stores adjusted for the potential store closure.</li> </ul>
<b>Bata</b>	<ul style="list-style-type: none"> <li>■ Marketing cost is expected to reach 300bp of sales; expects the investment within marketing to translate into improved demand.</li> <li>■ Same-store sales remained flat YoY as improved pricing (range of mid-single digit growth) led by improved product mix and channel mix was offset by volume decline.</li> </ul>	<ul style="list-style-type: none"> <li>■ Omni business which remained restricted to coco has now been expanded to franchisee outlets as well (80% franchise stores).</li> </ul>
<b>Campus</b>	<ul style="list-style-type: none"> <li>■ The marketing spend increased to 10% in 3QFY24 compared to the typical range of 5-6%, led by Big Billion Days. The company's targeted marketing cost stands at 6-6.5%.</li> <li>■ The company has indicated its aspiration to take EBITDA margin to two years back levels.</li> </ul>	<ul style="list-style-type: none"> <li>■ Prioritizing the recovery of volume loss experienced in O2O/B2B channels in 2QFY24 by focusing on a) marketplace presence and b) restocking in the primary distribution channel, which had previously undergone destocking.</li> </ul>
<b>Metro Brands</b>	<ul style="list-style-type: none"> <li>■ Fila inventory stands at INR300m on cost and is expected to be liquidated by Jun'24.</li> <li>■ Foot Locker- Expects the productivity to be similar/higher compared to Metro. The company would open 3,000/5,000 sqft stores in metro and Tier 1 cities.</li> </ul>	<ul style="list-style-type: none"> <li>■ The management has reiterated its guidance of 55-57% gross margins, +30% EBITDA margin, and 15-17% NP margin. Revenue growth would be ~18%, led by store adds and SSSG.</li> </ul>
<b>Titan</b>	<ul style="list-style-type: none"> <li>■ Same-store growth remained consistent for CaratLane, Tanishq, and some Mia stores. However, Tanishq experienced some sluggishness in the sub-100K segment, possibly due to economic challenges faced by modern, digitally inclined consumers in this category.</li> <li>■ EBIT margin was within the indicated range of 12% to 13%.</li> </ul>	<ul style="list-style-type: none"> <li>■ Tanishq stores are currently located in 265 towns and are expected to expand to 300 towns within the next couple of years.</li> </ul>

<p><b>Vedant Fashions</b></p>	<ul style="list-style-type: none"> <li>Early trends in Jan'24 have indicated a soft demand; however, improved demand traction in Q4FY24 is expected, given the higher spread of wedding dates.</li> <li>The company is now looking to enter the South Indian market with the introduction of new format and re-calibrating merchandising to suit the demand within the region.</li> </ul>	<ul style="list-style-type: none"> <li>Within emerging brands, the company will look to open another two to three stores for Twamev in addition to the flagship store for Mohey.</li> </ul>
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**KEY HIGHLIGHTS FROM QSR- CONFERENCE CALL**

	Salient takeaways from the 3QFY24 performance	Outlook
<p><b>Jubilant Foods</b></p>	<ul style="list-style-type: none"> <li>The current slowdown seems to be cyclical. Performance was strong in Nov'23, but subsided after Diwali and in Dec'23. Jan'24 also remained weak.</li> <li>Domino's has gained market share. Competition has increased, but Domino's was able to gain market share.</li> <li>Out of 14 pizza chains, which have a combined ~4,000 stores, JUBI has a 69.7% revenue share and a 46.8% store share.</li> </ul>	<ul style="list-style-type: none"> <li>JUBI maintains guidance to add 200 stores in FY24.</li> <li>The company reduces the number of split stores, given the slow growth in mother stores; focusing on increasing the number of cities.</li> </ul>
<p><b>Devyani International</b></p>	<ul style="list-style-type: none"> <li>Despite the festive season, there was some contraction in consumer sentiments, reflecting broader economic concerns and a cautious approach to mass discretionary spending.</li> <li>Pizza Hut faces competition from the local players; however, the company is taking proactive measures to enhance the overall consumer store experience.</li> </ul>	<ul style="list-style-type: none"> <li>The company will open 250-275 stores in 4QFY24 and is on track to achieve its target of 2,000 stores by FY24.</li> <li>Thailand business margins are at 15%, lower than the India business of 20%. The management is confident of achieving the margins equal to that of India over a period of time.</li> </ul>
<p><b>Sapphire Foods</b></p>	<ul style="list-style-type: none"> <li>The macro environment remains tough for the QSR category. The company will slow down on its rate of store expansion, but continue to invest in refurbishments to maintain customer experience.</li> </ul>	<ul style="list-style-type: none"> <li>KFC store expansion will be steady; however, PH store expansion will be muted in FY25 as the company focuses on ADS and profitability.</li> </ul>
<p><b>Barbeque Nation</b></p>	<ul style="list-style-type: none"> <li>Demand environment is challenging, which led to a decline in same-store-sales of 4.9% YoY.</li> <li>Oct'23 has been adversely impacted by a higher number of vegetarian days.</li> <li>Dine-in sales were flat YoY, and up 10% sequentially, largely driven by higher volumes. Delivery sales was up 5.2% YoY and 8.4% sequentially, mainly driven by Dum Safar.</li> </ul>	<ul style="list-style-type: none"> <li>In FY25, capex would be ~INR800-900m, including the maintenance operation. The capex requirement will be financed by the company internally.</li> <li>The operating margin is expected to return to the range of 13-14%.</li> </ul>
<p><b>Restaurants Brand Asia</b></p>	<ul style="list-style-type: none"> <li>Increase in India restaurant traffic boosted SSSG. RBA has been seeing healthy traffic for the last three quarters.</li> <li>Most of the store adds were in the second half of Dec'23. Hence, the benefit from the store adds would be seen in the upcoming quarters.</li> </ul>	<ul style="list-style-type: none"> <li>The management has maintained its GP margin guidance of 67% for FY24 and aims to achieve 69% by FY27.</li> <li>The company has cut SSSG guidance by 300bp to 3% for FY24.</li> </ul>
<p><b>Westlife Foodworld</b></p>	<ul style="list-style-type: none"> <li>Demand was hit during the quarter due to subdued consumer sentiments and the floods in Chennai.</li> <li>Reported same-store sales dropped 9% due to continuing weakness in dine-in trends, external challenges, and a high base. Adjusted for the external issues, same-store sales declined 3%.</li> </ul>	<ul style="list-style-type: none"> <li>The company aims for a high-single-digit SSSG by FY27.</li> <li>It targets to open 45-50 stores in FY25 with a focus on South India, smaller towns, and Drive-throughs. It aims to reach 580-630 restaurants by FY27.</li> </ul>



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**Aditya Birla Fashions**

**Neutral**

**Current Price INR 235**

**Key Highlights:**

- Improvement in GM and lower mark down during the quarter led to EBITDA margin expansion.
- For Pantaloons, the presence of distribution network channels in smaller towns could remain a challenge for growth given the weaker demand within the region.
- ABFRL plans to increase its store count to 200 for Tasva in 2-3 years by adding 30-40 stores annually.



- The company targets revenue growth of 10%-12% in the medium term for the existing businesses.

**Detailed Highlights:**

**Financial performance and Demand scenario:**

- Market remains subdued due to the inflationary environment as footfalls across stores remained low. Oct'23 and Dec'23 were impacted by fewer weddings, inauspicious period, and delayed winter.
- Revenue growth was primarily driven by new lines of business, which included revenue from TCNS business.
- The company's net loss widened on account of high depreciation and finance costs due to higher borrowings.

**Brand performance:**

**Lifestyle:**

- Achieved the highest 9M EBITDA level as it discontinued unprofitable channels, which had a minimal impact on revenue.
- The segment added net 36 stores during the quarter as the brand continued expansion in key markets.

**Youth:**

- American Eagle: 34% revenue growth YoY, driven by distribution expansion and 10 store addition (59 stores currently)
- Forever 21: Continued to see headwinds
- Reebok: Available across 160 stores and has scaled up e-com players with deeper partnership with many platforms

**Innerwear/Athleisure:**

- Shifting consumer focus impacted demand in the athleisure segment, which impacted the sales.
- The company added 2,000 trade outlets, with total 34,000 outlets.
- Premium part continues to show resilience (16% growth YoY); The collective.in witnessed a growth of 50% YoY.

**Pantaloons:**

- Inflationary demand continues to impact the value fashion category, particularly in Tier 2 and below markets.
- Poor presence of distribution channels in smaller towns could be a challenge.
- Pantaloons revenue grew by 12% YoY with LTL growth of 3%.
- Margin expanded to 18.1%, mainly driven by healthy revenue growth, cost-control measures, and optimization of mark-down.
- Online business contributed around 3-4% of sales.

**Ethnics:**

- Sabysachi reported a revenue growth of over 40% YoY, led by a good response in the jewelry segment (25-30% of sales). Expects the share of jewelry to improve in sales.
- Shantanu & Nikhil business reported a growth of 42%, mainly driven by 20% LTL growth.

**TMRW:**

- The company expects the segment to break even in next 3 years.
- With large part of capital already allocated, the company would look to add some smaller brands under the umbrella.
- It would also look at fund raising option under the segment in FY25.

**Other highlights:**

**Store expansion:**

- Company’s total store count stood at 4,753 (21 stores international) spanning across 12.2m sq. ft.
- The company is looking to rationalize stores across various segment within the market where it does not see improved demand.
- ABFRL has guided for annual store addition of 25-30 for Pantaloons.
- The company does not have any fund raise programs apart from the receivable portion from GIC in near term.
- It is not looking at any inorganic business opportunities in the near future and would look to grow the existing businesses.
- The effective interest rate on borrowings stood at 7.7% (+10bp QoQ); The company has borrowed INR17b for the acquisition of TCNS.
- Net debt as on Dec’23 stood at INR40b; company plans to bring it down to ~INR28b by end of FY24.
- The company would target 9%-12% revenue growth in the medium term for its existing businesses.



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**Barbeque Nation Hospitality**

**Neutral**

Current Price INR 613

**Operating environment**

- Demand environment is challenging, which led to a decline in same-store-sales of 4.9% YoY.
- Revenue growth has been adversely impacted by a decline in same-store-sales, slower store expansion, and network rationalization.
- Oct’23 has been adversely impacted by higher number of vegetarian days.
- Dine-in sales were flat YoY, and up 10% sequentially, largely driven by higher volumes.
- Delivery sales was up 5.2% YoY and 8.4% sequentially, mainly driven by Dum Safar.
- The Corporate business has shown improvement in Dec’23.

**Stores and expansion**

- Opened 8 restaurants including 6 salt restaurants and closed 4 restaurants during the quarter.
- Currently, 5 restaurants are under construction and 10 more are in an advanced stage of the pipeline.
- The new store expansion in FY24 is slower.
- The management expects to add 25-30 new stores in FY25.
- In 9MFY24, 2 new restaurants were added to the international market and 2-3 more stores are expected to open in FY25.

**Costs and margins**

- The 120bps expansion in the GP margin is attributed to the reclassification of costs and structural enhancements in the business.
- Out of 120bp GP margin expansion, 80bp is due to reclassification adjustment of employee cost. It has no impact on the EBITDA margin. The remaining 40bp is due to the structural improvement in the business. The food cost per cover has reduced with the reduction in packaging cost.



- The EBITDA margin expansion of 110bp is due to the benefits derived from GP margin expansion, rationalization programs, cost initiatives, and the benefits of operating leverage.
- The operating margin is expected to return to the range of 13-14%.

**Other points**

- In FY25, capex would be ~INR800-900m, including the maintenance operation.
- The capex requirement will be financed by the company internally.
- Cash generation amounted to INR380m in 3QFY24 and INR 800m in 9MFY24 vs INR1,050m in 9MFY23.
- Salt restaurants have generated INR620m revenue and INR10m in operating profit in the last two months.
- There have been 6.5m cumulative app downloads, with ~26.7% of system revenues originating from app and web bookings.



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**Bata India** **Neutral**

Current Price INR 1,439

**Key highlights**

- Marketing costs are likely to reach 300bp of sales; management expects the investments within marketing to translate into improved demand.
- Outperformance of the premium category was offset by continued softness in the value segment (ASP <INR1,000) for 3QFY24.
- Same-store-sales remained flat YoY as higher pricing (mid-single digit growth) led by improved product mix and channel mix was offset by volume decline.
- The omni business, which remained restricted to CO-CO, has now been expanded to franchisee outlets as well (80% franchise stores).

**Management interaction in details**

**Financial and operating performance**

- Premiumization playing out:
- Premium brand category has seen outperformance while value categories have continued to drag.
- The share of value category (<INR1,000) stood at 30% v/s 34% earlier; however, this is now seeing improvement and the company will look to capture the demand revival in the coming period.
- Growth was mainly driven by improved pricing (mid-single digit growth) led by improved product mix and channel mix, offset by volume decline.

**Marketing Spends:**

- Investment in marketing campaign received muted response on consumer perspective. However, these campaigns have seen improved signs of brand matrix.
- BATA expects this to translate into higher outputs in coming period.
- The company is further making investments in marquee properties to improve the visibility of the brand.
- Advertising spending is expected to reach 300bp of the sales range.
- The implementation of EVA plant in Batanagar is expected to improve cost efficiency in coming period.
- The company has kept a tight control on costs and continues to invest in marketing.

- IT-related expenses witnessed a growth in YoY terms mainly due to recognition of ERP cost in opex.

#### Outsourcing

- Continued outsourcing of non-core area with south warehouse (300 headcount) has now been translated, which is expected to improve efficiency.
- The company has completed the VRS for Southcan (Bangalore) Factory which had a headcount of ~140-150.

#### Brands

- Floatz: The segment has a presence across 10 stores and will continue to expand offerings

#### Hush Puppies:

- The company has piloted new concept stores under the brand which is giving encouraging result.
- It will look to undertake renovation of other stores and will also look to expand franchise model under kiosk for the segment.

#### E-Commerce and Digital

- The segment has seen improved performance with share reaching double digit from e-commerce platform
- The company has implemented order fulfilment through BATA stores and warehouses
- The omni business, which remained restricted to CO-CO, has now been expanded to franchisee outlets as well (80% franchise stores). The company expects this to improve the share of the segment in coming period.

#### Other highlights

- Merchandising project has gone live with pilot model running, the company expects commercialization in coming months.
- Apparel segment has been launched within 60 active stores and the company is monitoring the demand within these stores to see if it generates delta and contributes to SSSG. The segment is expected to see expansion post mid-Sep'24.
- Nine-west would be implemented in 50 Bata Stores during current quarter. Will look to open EBO stores at a later stage.

#### Store expansion and renovation:

- The company will continue to invest in COCO model while franchise stores have now crossed 500 stores.
- It has maintained its target to renovate 30-40 stores on quarterly basis.
- Average age of stores, which is ~7.5 years, is now expected to come down to 6.0-6.5 years in the coming period.



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### Campus Activewear

Buy

Current Price INR 245

#### Revenue recovery

- Revenue recovered in 3QFY24, overcoming the disruptions caused by B2B and O2O channels business model in 2QFY24.
- The company focused on a) harnessing the potential of the marketplace and boosting marketing efforts and b) stimulating demand and restocking primary distribution markets, which had experienced suppression in 2QFY24 due to destocking and inventory adjustments.



- There is an element of O2O catering to very small retailers who likely have accumulated inventory. Hence, the recovery of sales from this segment might extend over another quarter.

**Market share**

- The company lost some market share in UP/Bihar, led by new players but has gained market share in West/Central/South states.
- Focus on new segment- ‘Sneaker’ in the name of Campus OG.
- The company aspires to restore the EBITDA margin to the levels achieved two years ago.

**Current environment**

- The company’s performance is aligning with the market sentiments observed in the FMCG sector. While certain segments are experiencing growth, others remain muted. As a result, guidance for 4QFY24 is mixed.
- 1H of 3QFY24 was good, but 2H was weak, which led to a 1% YoY decline in volumes.
- FY22 and FY23 saw muted demand, particularly in the value segment category.
- There has been a shift in channel dynamics from traditional distribution to online channels, and from mass-market to premium segments.

**Quarterly performance**

- Gross margins for 3QFY24 stands at 38.3%, compared to 37.6% both in 2QFY24 and 3QFY23.
- The marketing spends (online campaigns, TV and print media channel) increased to 10% in 3QFY24, notably higher than the typical range of 5-6%. This increase was driven by events like big billion days. The company’s targeted marketing cost is 6-6.5%. Apart from marketing spent, reclassification of lease (INR20m), inventory obsolesce (INR70m), inflation, CSR spent, increase in number of EBO have led to an increase in SG&A.

**Balance sheet items**

- The company has repaid the debt of INR1.1b in 3QFY24 and now the net debt stands at INR483m.
- Also, the working capital days has reduced to 68 days in 3QFY24 from 150 days in 2QFY24. Inventory stands at INR4b.

**Revenue mix**

- Gender base revenue mix was 75:25 for Men: Women & Kids
- ASP revenue mix has shifted toward the premium category, with 49% now contributing to ASPs of INR1500+ vs 40% in 3QFY22.
- INR1000-1500 contributes 30% and entry level (<INR1000) contributes 20%.



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**Devyani International**

Buy

Current Price INR 166

**Business Environment**

- Despite the festive season, there was some contraction in consumer sentiments, reflecting broader economic concerns and a cautious approach to mass discretionary spending.
- The management is optimistic that weak consumer sentiments and depressed summer spending are temporary and will witness recovery over the next few quarters.
- Currency devaluation in Nigeria continues to impact the profitability.



- The company is not changing its growth aspirations in India despite a subdued macro environment.
- American-based brand is getting more affected due to geo-political issues.
- Food aggregators such as Zomato, swiggy have broadened the reach of local players, escalating competition in the market.

**Store Expansion**

- It opened 94 stores during the quarters, reaching a total of 1,452 stores. Including the 283 KFC Thailand stores, the total number of stores stood at 1,735.
- The company will open 250-275 stores in 4QFY24 and is on track to achieve its target of 2,000 stores by FY24.

**Cost and margins**

- The corporate expenditure has been increased, considering the impact of Nigeria currency devaluation.

**Segmental information**

**KFC**

- EBITDA margin contracted 70bp YoY, due to weak SSSG and lower ADS.

**Pizza Hut**

- It added 30 stores during the quarter, lower than the earlier guidance.
- The brand has faces competition from the local players; however, the company is taking proactive measures to enhance the overall consumer store experience.

**Costa coffee**

- Coffee penetration is substantial, with a strong presence in airports and high-footfall locations. Due to the resilience of air travel, it has been comparatively less affected than other sectors.
- The performance of stores at airports differs from those on the street. Street stores align with the trends observed in KFC and Pizza outlet.

**Acquisition - Restaurants Development Co Ltd (RD), KFC at Thailand**

- The acquisition of Restaurants Development Co Ltd (RD), KFC in Thailand is a great deal as Thailand is not yet a developed economy in the eastern world and out-of-home consumption is also 8-9x compared to India.
- Management aspired to double the count of stores in the region in the next seven to eight years.
- Thailand business margins are at 15%, lower than the India business of 20%. The management is confident of achieving the margins equal to that of India over a period of time.
- Thailand is a tourist country and still suffers from the adverse impact of Covid-19. It gives opportunity of growth during recovery.
- Out-of-home consumption includes dine-in and local street food. As income levels rise, consumers are likely to gravitate towards premium brands.
- The consolidation with the business will start from 4QFY24.

**Jubilant Foodworks**

**Neutral**

**Current Price INR 508**

**Current Environment**

- The current slowdown seems to be cyclical. The performance was strong in Nov’23, but subsided after Diwali and in Dec’23. Jan’24 also remained weak.



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- However, Domino’s has gained market share. This is on the basis of aggregator data, the company’s internal method, and comparison with other listed companies.
- Out of 14 pizza chains, which have combined ~4,000 stores, JUBI has a 69.7% revenue share and a 46.8% store share.
- Around 60-70% of the deliveries are under 20 minutes. Faster delivery led to faster growth.

**Market size**

- In India’s USD50bn food service industry, pizza represents only USD1bn; hence, the company will invest in brand building and marketing.
- Two-thirds of the food service industry is unorganized, which would act as a tailwind.

**Guidance**

- Continues to invest in Popeyes and technology and expects a turnaround in Domino’s.
- Maintains guidance to add 200 stores in FY24.
- The company will keep investing in stores as inflation is moderating.
- Expects gross margins to sustain at this level
- Reduces the number of split stores given slow growth in mother stores; focusing on increasing the number of cities.

**Quarterly update**

- Delivery is the preferred channel and is much ahead of its own pre-Covid performance.
- Recorded the highest ticket in the last six quarters without price hikes, primarily led by combo pack sales.
- GM improved due to the launch of Project Vijay.

**Bangladesh commissary**

- Building supply chain is a focus area for the company.
- Investing in an asset-heavy capex model of commissaries rather than partnering with multiple vendors to build the supply chain.
- The facility is designed to serve 750 Domino's stores, 300 stores of Popeyes and Dunkin, as well as a cold warehouse at the supply chain center.
- The Bangalore Food Park has large factories within the factory for chicken toppings, chicken marination, bakery products, central kitchen operations and seasoning manufacturing inside the factory.



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**Metro Brands** Buy  
 Current Price INR 1,150

**Key highlights**

- Guidance: The management has reiterated its guidance of 55-57% gross margins, +30% EBITDA margin and 15-17% NP margin. Revenue would grow ~18%, led by store adds and SSSG.
- SSSG could remain weak in 4QFY24: There has not been any economic headwind for target customers. The decline in same-store sales was due to a high base of last year’s post-Covid demand, which could impact 4QFY24 as well.





- Fila inventory stands at INR300m on cost and is expected to be liquidated by Jun'24.
- Foot Locker- Expects the productivity to be similar/higher compared to METRO. The company would open 3,000/5,000 sqft stores in metro and Tier 1 cities.

**Detailed notes**

**Macro environment**

- No economic headwinds for the business as the premium product (INR3000+) which Metro caters are doing well.
- A higher base due to pent-up demand last year led to a decline in same-store sales for the quarter, which is expected to continue in 4QFY24.
- The company is witnessing unusually high discounts in the footwear space offered by their peers in this quarter. The company continues to follow its 'no discount' policy.

**Fila**

- Fila has started a marketing campaign and is on track to liquidate its inventory by Jun'24 (INR300m inventory on cost).
- The company expects to close most of the existing FILA stores by Jun'24 (19 stores as of Dec'23)
- In FY25, it will focus on the re-launch of FILA by leveraging Metro/ Mochi MBOs.

**Foot Locker**

- Multi-decade-long licensing agreement with auto renewal clauses
- Exclusive rights to own and operate Foot Locker stores in India; the company would initiate Foot Locker stores in metro and Tier 1 cities with higher price points.
- There are 2 type of stores METRO will focus on: a) 3,000sqft - Foot Locker stores, and b) 5,000sqft - Power stores.
- Expects productivity for Foot Locker to be similar/higher compared to METRO.
- Metro to pay royalty on Footlocker sales in India.

**BIS Quality Control Order**

- Mandatory from 1st Jan'24 for most categories of footwear.
- BIS QCO implementation is deferred until further notice for micro and small industries as defined under the MSME Act.
- This could lead to a slightly higher cost for METRO.
- In order to circumvent any potential supply-chain disruptions, METRO has front-loaded inventory to some extent, which would lead to higher inventory levels till Jun'24.



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**Raymond**

Buy

Current Price INR 1,770

**Current environment**

- The quarter started on a strong note with the festive season, marked by Navratri in October and Diwali in November; however, post Diwali, the festive demand could not sustain, leading to subdued consumer demand in the market. The outlook for 4QFY24 indicates a moderate uptick in consumer demand.
- 4QFY24 appears to indicate a moderate uptick in consumer demand.
- Discretionary spending on fabric and apparel was adversely impacted primarily due to inflationary pressures.



- US, UK & Europe: Order book remained healthy for formal wear category in garmenting despite significant challenges of global inflation.
- Demand levers: China+1 strategy adoption and consolidation of vendors by major brands, coupled with favorable currency (USD).

**Demerger update**

- The company received SEBI approval and shareholder meeting will be held on Feb 26, 24 to seek approval for the demerger.
- Expect demerger of the engineering business once the business gets matured.

**Guidance**

- The company plans to expand its retail store network through the FOFo model and plans to open 250-300 stores in the next 12-18 months. Over the next three years, Ethnix has plans to expand and could reach up to 300 stores.
- The company would continue to spend incremental INR650-700m advertisement expenses p.a.
- The Home segment clocked around INR1.5-1.6b revenue and expects to double it in the next three to four years. The strategy would be to grow via premiumization, expanding distribution channels, and establishing a robust institutional model.
- The global denim market experienced a slowdown in this quarter. However, the company's order book remains robust for the next six months, with the addition of new customers and expansion into new geographies (Europe and Japan).

**Lifestyle business**

- Branded textile revenue remained consistent in 3QFY24 compared to the previous year, despite muted customer demand and challenging market conditions, especially post Diwali.
- Casualization-focused approach and store additions led to increase in branded apparel (BA) revenue.
- BA margin will improve due to scale benefits. Improvement in scale is led by higher advertisements and growth in all the three channels (EBO, LFS, MBO)
- BA had reported positive SSSG/LFL vs other companies in the segment, reporting flat/negative SSSG. This is supported by casualization.
- The company had around 20% COCO stores and that share is expected to continue.
- The Garmenting business has exhibited healthy momentum in order book maintained, driven by the adoption of China+1 strategy and the addition of newly acquired global customers.

**Restaurants Brand Asia**

Buy

Current Price INR 112

**India business**

- An increase in India restaurant traffic boosted SSSG. RBA has been seeing healthy traffic for the last three quarters.
- Most of the store adds were in the second half of Dec'23. Hence, the benefit from the store adds would be seen in the upcoming quarters.
- ROM margins increased 180bp YoY to 12.2%, in which 50bp improvement YoY was led by a decrease in marketing expenses.
- India business achieved PBT breakeven on Pre IND-AS 116 basis for the second consecutive quarter.



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**Cost and margins**

- RBA has tightened expenses at the store level, which led to a moderation in other operating expenses despite store additions.
- Marketing expenses are distributed differentially throughout the quarter, yet total expenditure for the full year is 5%.
- The management cut the SSSG guidance by 300bp to 3% for FY24 (earlier 6%).
- It has maintained the GP margin guidance of 67% for FY24 and targets to achieve 69% by FY27.

**Indonesia business**

- Indonesia business was impacted by geopolitical headwinds (Israel-Palestine war).
- ADS declined 24% in 3QFY24, which was slowly building up and resulted in a 7% decline QoQ.
- Delivery now contributes +40% in revenue share.
- In Indonesia, the fried chicken market is highly competitive, and success in this category hinges on product quality.
- Demand weakened after Oct'23, with the dine-in business down 30-32%.
- The management targets to achieve 60% gross profit margin in the next three years, with Burger King stores currently delivering 57-58% margin and Popeyes exhibiting stronger gross margins.
- Anticipated improvements in gross profit margins with the opening of additional Popeye stores.
- The company closed 20 Burger King stores during the quarter, resulting in lower occupancy and lower other expenses.

**Indonesia strategy**

- Indonesia is a crispy chicken market.
- Strategic pillar growth: Focus remains on chicken, burgers, and desserts with value proposition.
- Due to geopolitical headwinds, RBA has shifted its breakeven guidance to FY25.
- Capital allocation will be focused on Popeyes rather than Burger King.

**New products launched**

- Added price point of INR149 for Chicken Meals
- Launched Boss Whopper LTO, Crunchy Chicken Nuggets
- Renovated BK Chicken patty which has 50% more chicken
- Strengthened Café Food/Dessert portfolio with launch of New Softer and Fluffier Muffins
- Indonesia- Indulgent desserts innovation every 2-3 months

**Others**

- The company is using a single-price menu strategy for its delivery business at attractive pricing, and has increased its visibility on the platform. As a result, traffic in the delivery channels jumped almost 40%.
- Cafe is a long-term project that will slowly convert customers into buyers of combos and coffee.
- The company is launching premium wraps at a price point of INR199, which is consistent with the King's Collection menu.



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## Sapphire Foods

Buy

Current Price INR 1,407

### Business environment

- Demand conditions in the QSR industry have generally been subdued, with muted growth.
- The company is confident that the macro environment is stabilizing, which is expected to result in an improved growth outlook later in the year.
- Despite intense competition, this performance is still relatively stronger, driven by the success of KFC and stability in Sri Lanka.
- The company will slow down on its expansion pace but continue to invest in refurbishments to maintain customer experience.
- There is a MOM improvement in the number of orders served within 20 minutes.

### Cost and margins

- The company aims to reduce labor costs by evaluating store performance and encouraging underperforming stores to align with the cost efficiency of better-performing ones.
- The company is dedicating resources to innovation, marketing, and enhancing customer experience in order to revitalize the Pizza Hut brand.

### Segmental information

#### KFC

- It added 25 stores during the quarter.
- During the quarter, the dining mix accounted for 43%, while delivery comprised 38%, which is 200bp higher than last year.
- Same-store sales declined 2%, despite overall restaurant growth of 16%.
- Average daily sales (ADS) amounted to INR135,000, inclusive of 25% new store additions.
- KFC's primary focus is to enhance the relevance of fried chicken and expand its lunch and snacking menus.
- KFC store expansion will be steady; however, PH store expansion will be muted in FY25 as the company focuses on ADS and profitability.
- KFC can sustain ~20% ROM if demand does not decelerate further.

#### Pizza Hut

- PH continues to face challenges in this quarter.
- It added 8 stores India and 3 store in Sri Lanka during the quarter.
- The company intends to reduce the pace of expansion.
- The dining mix accounted for 35%, while delivery stood at 49%.
- Same-store sales declined 19%, with an overall revenue decline of 4%.
- ADS amounted to INR58,000.
- Focusing on late-night deliveries and the lunch day part activation. The rollout of lunch activations has been completed, and now over 90% of stores are open for late-night deliveries.
- The brand has been facing competition from local players.

#### Sri Lanka business

- SSSG was 1%, while overall revenue growth stood at 7%.

**Others**

- Two years ago, the company successfully launched Momo Pizza. Additionally, it introduced Flavor Fund, which experienced a significant upside for six to nine months.
- The company recognizes that in a highly competitive space, it must start upping the ante to revive consumer interest in PH.
- The business will become profitable within three years. Break-even has occurred in the first quarter of its operation, with double-digit profitability achieved by year one. By year three, profitability approaches the brand average, albeit slightly below. The cycle continues as older stores contribute to profitability, while new stores are added.



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**Shoppers Stop**

**Neutral**

Current Price INR 759

**Key Highlights:**

- Overall LFL growth declined 1% for 3QFY24, despite a healthy LFL growth of 4% and revenue growth of 9% seen during the festive period.
- Margin contraction was mainly due to inventory clean up (60bp GM impact), higher discounts within private labels, and operating deleverage.
- Management has suggested a mid-single-digit growth range for revenue growth for 4QFY24 and aims to achieve a LFL growth ranging between mid-high single-digit in the long term with resumption of demand.
- SHOP would look to grow Intune through its own stores initially and later explore the franchise model after attaining scale.
- SHOP opened four new stores under beauty and departmental stores and targets to add 56 stores in FY24, of which 32 have already been added.

**Detailed highlights:**

**Financial performance and demand:**

- The company indicated healthy traction within the festive period as LFL growth stood at 4%, while overall LTL growth declined 1% for 3QFY24. The Premium category witnessed growth during the festive period
- Sales grew 9% YoY during the festive period with premium portfolio growth of 6% in 3QFY24.
- The company stated that there has been some impact on winter apparels due to the delayed winter, and it has further indicated some softness in demand to persist.
- The softness is mainly attributed to the shift in consumer spending towards travel and experiences rather than apparels.
- During 3Q, 14 stores (8 stores launched in FY20-22) achieved the highest sales mainly led by non-apparel categories as apparel continues to have muted growth.
- The contraction in gross margin was mainly due to the impact of cleanup of inventory to the tune of INR90-100m (60bp impact) and higher discounts in private brands during EOSS.
- LFL operating costs grew 4% YoY, which was mainly in line with inflation. EBITDA margins witnessed a drag due to lower gross margin and negative leverage due to fixed cost of rentals.



- The significant decline in other income on YoY basis was mainly due to GST reversal of INR170m, which was a one-off in 3QFY23.
- ATVs for 3QFY24 grew 6% YoY while IPT (items per ticket) rose 5% YoY.

#### **Strategic Pillars:**

##### **First Citizen**

- The segment achieved 78% contribution (65% from repeat customers)
- It has 9.7m memberships, will reach 10m shortly
- Beauty contribution is growing rapidly, 5% growth in first-time category shoppers

##### **Private label and In-tune**

- Challenges continue in women's western wear and some categories under men's wear
- Sales declined 6% YoY (excluding Intune) and contribution declined to 13%
- Indian women's wear is doing well along with Kids wear. Women's western wear remained weak due to overall slowdown in demand. Will look at offering differentiated products and clearing of inventory to improve traction.
- Working with Axis Bank to roll out co-branded cards

##### **Intune:**

- The company currently operates 11 stores under Intune, of which four stores were opened in 3QFY24.
- There was a delay in opening of two stores due to regulatory approvals, of which one has been opened in Jan'24
- The company is currently working on understanding the customer's behaviors to improve KPIs as early signs have been encouraging towards merchandise
- The segment continues to garner positive EBITDA at store levels
- The company will add own stores initially and after achieving a scale, it will look to expand through the franchise model
- The company plans to end FY24 with 24 stores for Intune and plans to add 14 stores for 4QFY24
- Full-priced sales stood at 65%, will see some liquidation of inventory but will not resort to heavy EOSS.

##### **Beauty:**

- The segment achieved the highest ever quarterly sales during 3QFY24 with overall share improving to 18% of overall revenue.
- The company opened four stores including one large store in Bangalore Airport
- Management believes that the beauty market in India remains underpenetrated and sees a huge opportunity within this fast growing segment

##### **Distribution business:**

- The company has stated that the segment remains EBITDA positive with single-digit EBITDA margin aided by decent GM.
- It stated that the segment could see an expansion in margins with increased volume and expects to reach a range of high single-digit to low double-digit margin in the long term.

##### **Omni and Home Stop:**

- The company will continue to invest in omni channel capabilities as it continues to be a major channel under beauty
- Home Stop: The company is seeing improved sales within the segment and will look to revamp the business with introductions of new product lines

**Capex and working capital:**

- Total capex for the quarter stood at INR510m. The company opened four new stores under beauty and departmental stores during the quarter. It is targeting a total store addition of 56 in FY24 of which 32 stores have been added up to Dec'23.
- The company is looking to renovate 7-8 stores in the coming year. It further stated that by FY25, 75% of old stores would be renovated.

**Outlook:**

- The company expects to grow well within the non-apparel (mainly beauty) segment in 4QFY24 and expects revenue growth to range in mid-single digit growth in revenue for 4QFY24. It further aims to achieve a mid-high single-digit LFL growth in stores in the long term with resumption in demand.
- There could be some impact of EOSS in Jan'24.
- It expects to open 100 new stores in FY25
- Demand revival within the discretionary category is expected to be supported by non-apparel and premiumization.



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**Titan** Buy

Current Price INR 3,682

**Performance and Outlook**

- The significant growth was propelled by the jewelry and watches sectors, whereas sales growth in the eye care, ethnic wear, and perfume categories faced challenges.
- During Nov-Dec'23, there was an increase of INR200 per gram in gold prices. In comparison to Dec'22, the rise amounted to INR800 per gram.
- For the sub-100K portfolio comprising Tanishq, CaratLane, and Mia, there is an observed stability in buyer growth from Sep to Nov'23, extending through Dec'23 and Jan'24.
- The subsidiary primarily operates in two sectors: manufacturing services, crafting highly precise components for the aerospace and defense industry with clients such as Collins and Pratt & Whitney; and automation solutions, providing customized automation using robotics, vision cameras, and welding for diverse industries, with a significant focus on the automotive sector.
- In most of the international locations, ticket sizes are notably higher than in India, often reaching around 21k per customer.
- In the US, these ticket sizes can surpass even those in the GCC. Additionally, the studded ratios are generally higher than those observed in India.
- The payback period for an L2 or L3 franchisee is favorable, typically turning positive within the first two to three years.
- In the future, there is potential for further expansion on the L2 side.

**Cost and margins**

- The lower margin this quarter in the jewelry business can be attributed to a decrease in the studded ratio or studded mix. Additionally, heightened competitive intensity accompanies a significant 16% YoY increase in gold prices during 3Q, impacting sales in a season marked by eager sellers.
- The increase in A&P spend this quarter is due to advertising and promotional activities related to the festive season and weddings.

- In the quarter, elevated marketing expenditures on watches have had an impact on profit margins.
- EBIT margin was within the indicated range of 12% to 13%.
- Tanishq stores are currently located in 265 towns and are expected to expand to 300 towns within the next couple of years.

#### Segmental Information

- 36 Tanishq stores were opened domestically, with the remaining seven dedicated to international locations. Additionally, 50 Mia stores and 40 CaratLane stores were opened.
- Titan opened 60+ eye care stores, but also rationalized underperforming ones. Industry-wide slowdown from mid-September to November, with December showing even better results, setting positive expectations for the upcoming months.
- Same-store growth remained consistent for CaratLane, Tanishq, and some Mia stores. However, Tanishq experienced some sluggishness in the sub-100K segment, possibly due to economic challenges faced by modern, digitally-inclined consumers in this category.
- In the wearables sector, Titan achieved over INR5b turnover last year at the consumer price level.
- This year, Fastrack smartwatches have shown remarkable growth across channels and in e-commerce marketplaces. The market share has increased from 5%-6% to 8%-9% from quarter one to the present.
- In wearables, Titan offered well-styled products in the INR1,500 to INR3,500-INR4,000 range.
- A significant campaign in quarter two boosted Fastrack smartwatches' visibility and focus will be on the Fastrack smartwatches in the INR2,000-INR3,000 range and Titan smartwatches in the INR8,000 to INR15,000 range.



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### V-Mart Retail

**Neutral**

Current Price INR 2,007

#### Key highlights

- In Tier 3 cities, sales/sq. ft. grew 3% YoY in 3QFY24, which is encouraging given the higher presence of company stores.
- In 9MFY24, the company added net 30 stores. In 4Q, it plans to add 10 stores and close ~20 stores, implying net store addition of 20 in FY24. In FY25, VMART targets to add gross 50 stores, and 30-40 net stores after adjusting for potential store closures.
- Operating losses in Limeroad will continue to see a 25-30% reduction on QoQ basis, with an aim of achieving a break-even by the end of FY25.
- In 3Q, ASP declined 6% YoY, mainly impacted by the company's value-driven pricing strategy and a slower start to winter.

#### Demand scenario:

- Seeing good traction in the winter season (which saw shift by 20 days) currently in North India, which is resulting in improvement in demand on sequential basis.
- While the company continues to see some stress, particularly in food and staples due to inflation, various government schemes (PLI, MSP improvement, free rationing) should boost revenue, which will in turn improve consumption.



- VMART has stated that the premium segment is seeing some stress (moderation in growth on LFL basis), while the value segment is seeing some traction with the introduction of new brands.
- The company is now seeing some competition with the introduction and expansion by various players (Reliance, Shoppers Stop); the company may do some margin re-jig to improve its competitive positioning.
- Tier 1 markets continue to outperform Tier 2 and below markets. However, Tier 3 cities saw 3% growth YoY in sales/sq. ft. in 3QFY24, which is encouraging given the higher presence of company stores in these segments.

**Financial performance:**

- The Unlimited segment saw soft growth mainly due to price cuts, which did not reflect in volume growth. The company is now seeing a gradual improvement in demand in the segment.
- ASP declined 6% YoY, mainly impacted by the company’s value-driven pricing strategy and a slower start to winter.
- Operating losses in Limeroad will continue to see a 25-30% reduction on QoQ basis, with an aim of reaching a break-even. Digital marketing costs declined and the company will look to rationalize these expenses.
- Gross margin declined in the Unlimited segment, due to higher provisioning of old inventory.

**Store expansion and working capital:**

- The company opened 20 new stores (16 VMart and 4 Unlimited) and closed 3 non-performing stores (2 VMart and 1 Unlimited); VMART maintains its annual store addition target of 50 stores going forward.
- In 9MFY24, the company added net 30 stores; In 4Q, the company plans to add 10 stores and close ~20 stores, which will bring the net store addition to 20 in FY24.

**Store closure:**

- In addition to 3 store closures, the company plans to close ~20 stores in 4QFY24, of which majority of them would be VMart stores (75%). It expects the bulk of clean-up to be completed in FY24.
- VMART will look to shift or close around 50 stores, which are lagging behind in the performance. 23 stores have already been identified for closure/shift in 4QFY24; Will look to take decision on remaining stores in 1QFY25.
- Bulk of stores that are expected to be closed (~7-8 stores) are in Tier 3 cities, which were opened in the last 2-3 years and where the footfalls were not up to the mark.
- Spent INR1b on warehouse and renovation of new stores.
- Higher inventory as on the closing basis was mainly impacted by delayed winter sales.

**Other Highlights:**

- While ~62% of sales for V-Mart came from repeat buyers, the share of new customers (nos.) improved to 48%.
- Focusing on product designs and sourcing, along with supply chain and warehouse management. Warehouse operations have become normal now, which will help the company improve the supply chain in Jan’24, which remained impacted in Dec’23.



**VEDANT FASHIONS**  
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- The company is closely working on product differentiation/innovation, along with quality to gain the competitive edge.
- The company, through Limeroad, will focus on improving profitability by reducing expenses and will look to turn profitable. It is further working on omni-channel offerings, which will be announced in 4QFY24.

**Vedant Fashions**

**Neutral**

Current Price INR 980

**Key Highlights**

- Sales was adversely affected by weaker performance in Oct'23 and from the latter half of Dec'23 (mainly in Tier 2 and below cities); however, festive sales grew 30.7% on a YoY basis.
- Early trends from Jan'24 suggest continued softness in demand; however, improved demand traction is expected in 4QFY24, primarily driven by the increased prevalence of wedding dates during the period.
- Within emerging brands, the company will look to open another 2-3 stores for Twamev in addition to the flagship store for Mohey.
- The company is now looking to enter the South Indian market by introducing a new format and re-calibrating merchandising strategies to align with the specific demands within the region.

**Detailed notes**

**Financial performance:**

- The company witnessed an 11.1% YoY growth in sales to customers for 3QFY24, with the month of October being significantly impacted by the "Shraadh" period and weaker demand from December 16, 2023.
- However, EBO sales reported a 30.7% YoY growth during the 60-day period commencing from Navratri, led by strong Diwali sales.
- General economic slowdown (majorly in Tier 2 and below cities), reduced number of wedding dates nationally and a higher base adversely impacted the performance of 9MFY24 on a YoY basis.
- Early trends from Jan'24 suggest a softening in demand; however improved demand traction is expected in 4QFY24, attributed to the increased prevalence of wedding dates during the period.
- Gross margin contraction for 9MFY24 was mainly on account of change in product mix. The company does not foresee any major concerns around the margin profile in the long run.
- The wedding dates for 1HFY25 appear to be weak, but an improvement is anticipated in 2HFY25, with the overall number of dates in FY25 being higher by 2-3 days.
- Employee costs decline YoY and it is mainly due to the decline in director remuneration in Jul'23.

**Capex and Store addition:**

- The company continues to maintain its FY25 footprint addition guidance to remain in the range of 15-16% with no changes seen in franchise inquiries.
- The company has replaced old smaller stores (<1,000 sq. ft.) with new bigger stores (>3,000 sq.ft.) over the last one year. It has further identified another 20 stores, which could be replaced/churned, depending on the demand within the region.



**Emerging brands:****Twamev:**

- The newly opened stores in the segment are receiving healthy response, and in the short term, the focus will be on growth in the top 10-15 markets in India.
- The company has signed agreements for an additional two to three stores, in addition to the four stores that have already been opened. The average store size for the segment is expected to range around 6,000-6,500 sq. ft.
- The overall increase in ASP at the company level was mainly account of higher availability of Twamev products.

**Mohey:**

- The delay in the opening of the flagship store was mainly on account of several external factors. However, the company expects the store to go live in the coming quarter.
- The company continues to monitor the three pilot stores opened and will look to add various stores in the coming period.

**Other:**

- Opportunity within the South:
  - The company is increasing its focus on the Southern Region, given the strong opportunity and will continue to work on improving the merchandising, which is expected to re-inforce the brand visibility.
  - The company has further announced entry into the South Indian market with “Vivaham” collection during the quarter with brand ambassadors such as Ram Charan.
  - The company has taken multiple changes within the product portfolio for the southern region, which includes inclusion of sarees within the Mohey segment.
- Cash conversion ratio for the company stood at 85% for the period of TTM Dec’23.
- The company stated that the non-groom segment has helped improve footfalls for the existing stores in the last one to two years.
- The company’s strategic focus for the next 5-10 years would remain concentrated around apparels.
- The company will continue to invest in newer segments and Project Manthan in addition to the dividend being paid to utilize the cash in the balance sheet.
- Despite increased competition and the opening of a higher number of stores by competitors, the company has not observed any significant impact on store performance in Tier 2 and below cities.



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**Westlife Foodworld****Neutral****Current Price INR 805****Performance and Outlook**

- Demand was hit during the quarter due to subdued consumer sentiments and the floods in Chennai.
- Reported SSS dropped 9% due to continuing weakness in dine-in trends, external challenges, and a high base. Adjusted for the external issues, SSS declined 3%.



- About 30% of the stores across West and South are hit by external issues. These stores have witnessed 10-50% decline in daily sales from mid-Oct'23 onwards, leading to contrasting SSSG trends.
- Dine-in as well as Delivery saw a dip in orders sequentially.
- The company reinforced its value platform with its extra value meal promotion at INR149, leading to a healthy improvement in customers visiting its restaurants.
- Pricing interventions were made in Nov'23 and Dec'23.
- The company aims for a high-single-digit SSSG by FY27.

**Expansion and launches**

- WLDL reinforced the Everyday McSaver Meals platform with new meal offerings at better price points.
- It introduced the premium Cheesy Italian Burger as a limited-time offer.
- McSpicy Fried Chicken sustained strong performance in the South.
- It collaborated with Mondelez to launch the Cadbury Gems desserts.
- In 3QFY24, 11 stores were opened and one store was closed. In 9MFY24, a total of 23 stores were opened. It is on track to add 40-45 stores in FY24.
- It targets to open 45-50 stores in FY25 with a focus on South India, smaller towns and Drive-throughs. It aims to reach 580-630 restaurants by FY27.

**Cost and Margins**

- On the normalization of inflation, management does not expect any further adverse impact on the gross margin.
- Despite the addition of stores, employee expenses and other expenses remained unchanged, due to rationalization of fixed expenses.

**Others**

- Off-premise business grew 3% YoY led by Delivery & Drive-throughs.
- On-premise business declined 5% YoY, largely led by lower footfalls in the affected stores.
- There are multiple price points across the value platform, medium meals, and premium meals.

TECHNOLOGY



- IT companies' management remain cautious on the near-term demand environment for key verticals (BFSI, Retail). While a few companies have witnessed early signs of recovery, they are hesitant to label it as a definitive trend. The management indicated that the reprioritization of projects and execution deferrals on discretionary areas continue to exert significant pressure on revenue conversion. Weak growth in 3Q was attributed to the impact of furloughs and ongoing softness in key verticals, notably BFSI, Retail, and Hi-Tech, which experienced significant weakness. Although deal signing activities moderated in 3Q due to furloughs, the management pointed out that the earlier wins (mega deals) in 9MFY24 have built a strong foundation for FY25 and should support growth. Additionally, despite the slowdown in revenue growth, management expressed confidence in sustaining margins in FY25.

KEY HIGHLIGHTS FROM CONFERENCE CALL

	Revenue outlook for FY24	Sustaining margin (%)
HCL Tech	<ul style="list-style-type: none"> <li>The pipeline remained healthy and well distributed across the large and mid-sized deals. The strong bookings beyond the mega deal wins, coupled with vendor consolidation opportunities, are driving the overall growth momentum</li> <li>Management was confident enough to sustain the margin band and even aspired to achieve and sustain a 20% margin trajectory in the longer term</li> <li>HCLT narrowed its FY24 USD revenue growth guidance to 5.0%-5.5% YoY in CC (vs. 5.0-6.0% YoY earlier, including ASAP) for both consolidated and Services segment.</li> </ul>	<ul style="list-style-type: none"> <li>EBIT margin guidance has been retained at 18.0-19.0%.</li> </ul>
Infosys	<ul style="list-style-type: none"> <li>The management sees strong traction in the large deal pipeline, despite an adverse demand environment.</li> <li>However, the weakness was visible in parts of Financial, Comm, Retail and Hi-Tech</li> <li>The company narrowed its FY24 revenue growth guidance band to 1.5%-2.0% YoY CC from 1.0%-2.5% YoY CC earlier</li> </ul>	<ul style="list-style-type: none"> <li>Despite revising the revenue guidance, INFO has maintained its FY24 EBIT margin guidance at 20-22%.</li> </ul>
TCS	<ul style="list-style-type: none"> <li>Management commentary regarding the spending environment in IT services remains unchanged, with continued pause in discretionary deals adversely affecting business</li> <li>While the company views its deal pipeline and booking as robust, it continues to expect improvement in client sentiment after the positive commentary by the US Fed in Dec'23</li> </ul>	<ul style="list-style-type: none"> <li>It expects, with continued optimization of workforce and ongoing moderation in attrition, the pressure on operating margin should further ease, helping it improve EBIT margin over the next two years</li> </ul>
Tech Mahindra	<ul style="list-style-type: none"> <li>TECHM management continues to see growth headwinds in the key Communications vertical</li> <li>On the communication segment, the management indicated that it will continue to be volatile for a couple of more quarters before it sustains and delivers steady growth.</li> </ul>	<ul style="list-style-type: none"> <li>The management indicate that the combination of low profitability (adjusted) and elevated operational metrics, would provide limited upside to margin improvement.</li> </ul>
Wipro	<ul style="list-style-type: none"> <li>The management commentary on higher deal wins in the Consulting vertical indicates that the drag from that segment is now bottoming out, which should help improve overall growth</li> <li>The management alluded that the market has not changed fundamentally in terms of demand. It is witnessing some stabilization in technology-related spending. While a major slowdown is seen in discretionary areas, especially in smaller projects</li> <li>The short-term demand environment remains cautious, with enterprise clients still being conservative on investment decisions.</li> </ul>	<ul style="list-style-type: none"> <li>WPRO maintained its IT Services EBIT margin at 16.1% (flat QoQ), ahead of our expectation of 15.1% due to better cost control and lower employee count.</li> </ul>

# CYIENT

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## Cyient

Buy

Current Price INR 2,013

### Commentary on verticals

- **Transportation:** The segment was hit by a slowdown in Rail. The government-led spending is getting prioritized toward defense instead of building rail infrastructure. Otherwise, there is strong demand for Aero within MRO, designing, and Engineering areas.
- **Connectivity:** Although 3Q remained soft, it stabilized after witnessing a sequential decline over the last two quarters. The government spending has started kicking in the fiber connectivity areas, and it expects the segment to see a recovery in 4Q. The investments in fiber expansion, improving ARPU, and cost-reduction initiatives will support government spending programs going forward.
- **Sustainability:** The demand in terms of cost reduction, asset management, and alternate energy sources (including hydrogen, ammonia, carbon capture, and nuclear) continued to see a strong momentum.
- **New growth areas:** This remained muted in 3Q, but the auto segment has started recovering, while the semicon and hi-tech segments remain challenging. Within semicon, demand is expected to recover in 2HFY25, as the GenAI will be the catalyst to drive future demand for chips. Within Healthcare demand remained soft, while personalized patient care, connected devices, and digital platforms continued to do well. The segment should achieve a single-digit growth in FY25.
- **Auto segment –** The segment has grown by 25% YoY 9MFY24. It may see some softness for a quarter and should bounce back in 1QFY25, but it expects FY25 should be a growth for Auto.

### Demand and Outlook

- Management continues to see macro challenges due to the economic slowdown in key geographies led by higher interest rates and elevated inflation that are making its customers more cautious towards spending, although in selected verticals. The decisions are getting delayed with more scrutiny and approvals being raised for deal closure activities
- CYL is also seeing some green shoots in a few verticals. The company expects that some of the spending patterns should return (by the latter half of FY25), as the interest rates start coming down, and inflation already showing signs of a recovery
- The intensity of the slowdown across connectivity/communication, and new growth areas were higher than anticipated at the beginning of 2H. Considering the weakness in multiple segments and having captured more visibility on 4Q, the management has revised its guidance downward.
- Despite this fact, CYL was quite confident to grow in double digits (10-20%) in the coming years. It also remains confident in its ability to sustain margin at the current level
- The company made a provision of USD6m towards the lawsuit, which is more than sufficient to meet the future costs for settlement. Additionally, it believes that the lawsuit will not have any adverse impact on the operating performance of CYL
- The company recorded the highest ever order intake of USD297.3m (21.9% YoY) with eight large deals in 3QFY24. The order intake includes bookings from its acquired entities. The normalized growth rate stood at 13% YoY.



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## Coforge

Neutral

Current Price INR 6,659

### Demand outlook

- The demand environment continues to be challenging, with clients evaluating their budgets. The IT budgets are likely to be flat or improve slightly over CY23. However, the budget might have a positive bias in the latter half of the year once the macro challenges recede.
- The third quarter had an extreme furlough impact, which hit the TTH and Insurance verticals. The top-10 clients are banking-heavy accounts, where the furlough impact has been higher than anticipated.
- Competition has been intense within the TTH vertical, and there was some normalization impact from its peak last year. Additionally, out of its two major clients in the US, one client has taken a significant budget cut, while the other has undergone M&A restructuring, which has reduced its IT budgets.
- Within BFS, some of the areas are quite resilient to the macro headwinds. The areas of software delivery, and compliance & regulatory are seeing some green shoots with clients ramping up within the space.
- The Insurance vertical remains in good shape, and the majority of the wins are happening in the ISV space, where it has partnerships with Duck Creek, Snowflake, and other software solution providers.
- Airline and Airports are leading the spending; however, the spending around the Logistics segment remains low. Cost optimization and efficiency-driven projects are more in the pipeline vs. transformation projects.
- Europe is performing well on Banking and Travel, while BFS is slightly doing better than Travel. Europe has always been a lucky territory for COFORGE, and it is chasing multiple opportunities within the existing vertical.
- Given the extreme furlough impact in 3QFY24, and pain within the ex-BFS vertical, the fourth quarter requires a significant heavy lifting to reach the middle or upper-end of the guidance band. Management was comfortable delivering FY24 growth at the lower end of the guidance band of 13-16%.
- The GenAI has not been deflationary. Over the last six months, the company engaged with 60 customers with 22-23 pilots generating live revenues. At this moment, the small projects are kicking off and ramping up quite well, which have a huge potential to scale up even further.

### Margin performance and outlook

- The margin is expected to see a sharp improvement of 150-200bp in 4Q, partly driven by the reversal of furlough impact. The third quarter had a furlough impact of 40-50bp on margin.
- The company is comfortable in keeping the SG&A % revenue at 15% for investing in the marketing and sales team. Hence, the incremental cost would reach its threshold level, which will provide another lever for margin improvement going forward.
- Utilization has further headroom to improve (by 100-150bp) over time. However, it is difficult to exceed the 81% mark.
- The ESOP plan has been exhausted, which led to the normalization of ESOP for the quarter. However, the Board has approved a 3% pool for further evaluation on the method of allotment.





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## HCL Technologies

Buy

Current Price INR 1,663

### Demand and industry outlook

- The inorganic contribution (ASAP integration) to the topline was ~110bp QoQ in 3QFY24, which translated into a consolidated organic USD growth of 4.8%; while ER&D and IT Services' organic growth stood at 2.5% and 2% QoQ, respectively.
- Telecom and Media growth was fuelled by a large deal ramp-up, followed by Manufacturing aided by ASAP integration. The FSI declined due to higher furloughs.
- Management expects small projects in Gen AI to ramp up going forward. The company reported 30 wins in Gen AI-related projects.
- The pipeline remained healthy and well distributed across the large and mid-sized deals. The strong bookings beyond the mega deal wins, coupled with vendor consolidation opportunities, are driving the overall growth momentum. The company is also witnessing strong traction around big tech clients, and many of them are growing above the company's average growth rate.
- Management has been confident to sustain the growth momentum for the ER&D business. Although the ER&D spending has not witnessed any meaningful increase, it is the earlier investments in capabilities that are enabling the company to participate in the broader service lines and geographies.
- Management was confident to deliver a healthy growth in 4QFY24 over a 3Q high base, due to: (1) the absence of furloughs, (2) continued momentum in the ER&D and other portfolio businesses, and (3) continued ramp-up of mega deals. The P&P business would normalize in 4Q from a seasonal uptick in 3Q, despite the fact that management believes the service business growth will achieve the upper end of the ask-rate band.
- Management indicated that the P&P business is gradually progressing from the earlier trend of muted growth. The P&P business delivered a 5% YoY growth in CC terms in 3Q, which is expected to improve even further. The strategy has been playing out well in transforming the part of the P&P portfolio from a perpetual license model to a subscription & support model.

### Margin performance

- The third quarter has witnessed exceptional margin improvement for the consolidated business. The substantial growth in P&P drove the sharp improvement (186bp QoQ) in margin, which was partly offset by the ~50bp QoQ decline in the Service business, although ER&D contributed quite meaningfully to the margin improvement.
- Management was confident enough to sustain the margin band and even aspired to achieve and sustain a 20% margin trajectory in the longer term.



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## Infosys

Buy

Current Price INR 1,684

### Performance in 3QFY24 and demand outlook

- The Financial Services segment remains under pressure due to elevated inflation, reprioritization of cost programs, and uncertainty around recovery of macros. The banking and capital market clients continue to focus on costs and efficiency-related programs while defocusing on digital and transformation programs.
- The Energy vertical remains cautiously optimistic due to market consolidation, while renewable power projects are gaining traction within the ER&D space. ENU growth is expected to improve as the pipeline in the ER&D space remains solid.



- The Manufacturing segment is performing strongly on the back of new deal closures and ramp-up of earlier deal wins. Strong capabilities and earlier investments in the space are helping Infosys gain market share in the space.
- Discretionary spending is weak, while the decision cycle is elongated. However, the large deal win momentum remains strong, which is building a strong foundation for medium to long-term growth visibility.
- The management has indicated that GenAI has become an integral part of the discussion among clients, and every large deal that it has signed has some component of GenAI.
- Given the macro challenges and demand slowdown, clients are deviating from digital and transformation initiatives while paying more attention to costs and efficiency-driven and vendor consolidation projects. Hence, the decline in revenue from the earlier trend is compensated by the strong momentum in other segments.
- Geography-wise, the company was more optimistic about an early demand recovery for the Europe region vs. North America. Growth in North America is lagging despite having a strong pipeline and robust deal-signing activities, while Europe sustains its momentum.
- The company signed 23 large deals in 3Q, including one mega deal. 3Q deal TCV stood at USD3.2b. NN component in the overall large deal TCV was 71%.
- The softness in revenue was due to the impact of furloughs during the quarter. The Telecom and Hi-Tech verticals are facing stress, while the Manufacturing, Utility and Life Science verticals are performing well.
- There is strong traction in GenAI across clients. Its Topaz platform is augmenting its capability for multiple use cases. Currently, 100k employees have been trained for GenAI skills.

**Margin performance**

- The margin impact of 130bp QoQ in 3Q was mitigated to a large extent by various other items. Out of 130bp, 70bp was due to salary revisions and 60bp due to a cyber-incident, which was largely offset by 60bp of tailwinds (50bp due to cost optimization and better utilization, and 10bp due to re-depreciation).
- The company was confident of achieving its margin guidance owing to the following levers: Automation, GenAI, pyramid rationalization, and utilization.
- Overall the pricing remains steady, as it has not improved meaningfully due to competitive landscape and demand moderation. Infosys remains quite confident about pricing stability, which is expected to drive overall margin improvement.



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**LTIMindtree**

**Neutral**

Current Price INR 5,502

**Demand and industry outlook**

- BFSI – The segment was impacted by higher furloughs than anticipated. The actual QoQ impact in BFSI was even higher as there were some pass-through components in 3Q. Clients maintain their cautionary approach toward new spending in BFSI, whereas the Insurance vertical remains in good shape.
- Manufacturing – The vertical was resilient and reported sequential growth despite excluding the pass-through component.
- Healthcare – The segment is seeing a consolidation opportunity while considering the supply chain transformation. Since the pipeline within the vertical also remains strong, it is expected to maintain its growth momentum.
- The 3Q performance was affected by higher furlough than anticipated. The demand environment is further intensifying due to challenging macros.



- The management has provided a weak outlook for 4Q and expects growth to be similar to that in 3Q. 4Q growth is expected to be impacted by a further extension of furloughs to 4Q, as the furlough impact is deeper and wider across industries. 4Q would also include some pass-through components, which will create incremental pressure on margin.
- The challenging macro environment is making clients caution, slowing decision-making and delaying deal-closure activities. Additionally, discretionary spending has ramped down across its client base and will take time to recover. Hence, the company expects the growth recovery to happen gradually in 4Q.
- However, the management has indicated that it has a good pipeline of deals and the majority of them are cost-optimization and efficiency-related deal, which usually take more time to achieve full potential, unlike transformation deals.
- The company added more than 500 freshers in 3Q and it is hiring on a real-time basis.
- LTIM has witnessed a significant uptick in its large deal pipeline, which stands at USD4.6b (+30% YoY). The company is actively pursuing 30+ advisory deals with some of the large players in different verticals, as reflected in the order book.
- The company has trained 10k employees in GenAI.

**Margin performance**

- The margin was affected by higher furloughs (200bp impact) and seasonal pass-through revenue, which was offset by 80bp SG&A absorption and another 60bp through operating efficiency.
- The management believes that utilization has peaked at the current level and there is no scope of further improvement, which is less likely to complement margins. Additionally, it would require further investments in building SG&A and improving bench strength to capture the market opportunity. The re-investments would allow LTIM participate actively as and when the incremental spending returns in the medium to long term.
- Given incremental investments and the absence of growth, the management has extended its timeline of achieving 17-18% EBIT margin by a couple of quarters.



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**L&T Technology** Buy

Current Price INR 5,411

**Demand and industry outlook**

- **Transportation** – The momentum continues within the segment, and the clients continue to engage in new technologies. LTTs is partnering with AWS, auto OEMs, and Tier-1 suppliers for SDV and embedded engineering, while also helping them with integration and software architecture. Avionics is also gaining pace, and overall it won three large deals in the Transportation segment.
- **Plant Engineering** – It is witnessing significant traction for all three sub-segments (FMCG, O&G, Chemical). LTTs has partnered with BP for low-carbon emission and green-energy initiatives. The pipeline within the space remains healthy and growth momentum in the segment is expected to continue in the coming quarters.
- **Industrial** – Building automation remains a challenge within the space; instead, clients are more interested in higher productivity and efficiency-related activities. Optimizing supply chain is another area in which demand is emerging.
- **Telecom** – It is witnessing early signs of a recovery for semicon, as demand is picking up slowly. LTTs won a large deal for semicon (VLSI chip set), and another deal for cybersecurity (jointly with SWC), which is the second largest deal in the



global market. Telcos are actively looking for cost take-out initiatives, and LTTS sees a strong pipeline in the space.

- **Medical** – Growth was aided by large deal ramp-ups in 3Q. Digital manufacturing and supply chain automation are gaining pace. It is also witnessing strong traction for AI embedding into medical devices with active participation by customers. However, for medical, the budget is a constraint and the momentum in deal signing should help LTTS deliver growth in the medium term.
- In CY24, the spending outlook from customers should either improve slightly or remain unchanged. However, given its engineering and designing capabilities, LTTS is confident of sustaining growth from potential accounts as it has a major play on contractual work vs. project-based work.
- The deal velocity remains as strong as it was in 2Q, and even the pipeline remains healthy. The management expects revenue growth to rebound in 4Q and is confident of achieving its FY24 guidance, given (1) the existing ramp-up of large deals; (2) absence of furlough impact, and (3) expectations of the closure of few large deals and immediate ramp-ups from such deals. The current growth guidance translates to an ask rate of 4-7% QoQ CC growth in 4Q.



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**Mphasis** **Neutral**  
 Current Price INR 2,765

**Demand and industry outlook**

- The pipeline for both BFS and non-BFS remained healthy; the company won one large deal in 3Q within Telecom segment, while the majority of 3Q wins have gone beyond top-10 client categories
- The pipeline to TCV conversion remained strong, but TCV-to-revenue conversion remained steady. The banking-heavy top accounts have maintained caution; especially the mortgage, investment banking, and IPO volumes remained weak, which has been adversely impacting the spending.
- The weakness in 3Q organic growth was attributed to the (1) furloughs impact (2) weakness in mortgage business and (3) continued slowdown in discretionary spending.
- Management was quite confident to reverse the 3Q revenue impact (due to furloughs) in 4Q, while over and above it maintains the conversion rate (TCV to revenue) to improve, which will be another leg of growth driver in 4Q.
- The weakness in the top account (down 5.3% QoQ) was led by softness in regional banks and cyclicity in the mortgage business. The recent development on the Fed rate hike has rebuilt a caution among mortgage-heavy top accounts
- and has de-prioritized their spending towards it. However, MPHL's investments in building capabilities, hiring leadership team, and rationalizing delivery personal are showing sign of synergy which is likely to play out going forward.
- The decline in Hi-Tech vertical was majorly on account of furloughs; it expects the Hi-Tech and BFS verticals to contribute meaningfully in 4Q. The company does not see any extended furlough in 4Q, while the ramp up of deal wins in 3Q would support the growth in 4Q



- The management indicated that GenAI has become an integral part of the discussion among clients, and every deal that is getting signed has some component of GenAI.
- Silverline incrementally contributed USD15m to the overall revenue in 3Q, resulting in USD organic growth of -2.8% QoQ.

**Margin performance**

- The 3Q margin had an adverse impact of 110bp, which was majorly on account of the Silverline integration that incrementally added direct cost and G&A expenditure. Additionally, the D&A expenditure saw a slight uptick as a result of the Silverline integration. 3Q furloughs did not have any impact on the margins.
- The company has maintained its margin band of 15.25%-16.25%, as it sees multiple operating levers to play around, maintaining the band, despite rigorous investments to drive future growth.



PERSISTENT

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**Persistent Systems**

**Neutral**

Current Price INR 8,699

**Growth and demand outlook**

- The demand environment remains fluid with account mining and new deal wins serving as the major drivers for growth. Both existing and newly acquired accounts played a significant role in driving top-line growth in 3Q. While there are sees some green shoots on the discretionary spends, it is not yet substantial.
- North America has witnessed strong deal wins in 3Q, aided by robust deal pipeline. About 75% of the deal TCV is attributed to North America and it has witnessed a higher number of renewals that lead to stronger ACV and TCV in3Q.
- The net headcount addition of ~500 QoQ is attributed to a 75% surge in lateral hiring, with the remaining portion accounted for by the addition of freshers. Specifically, the company brought on board 400 freshers in 3Q.
- The robust healthcare growth in 3Q is driven by the substantial contribution from medical devices, with pharma and healthcare provider businesses taking the lead in the US region. Additionally, the company has made strategic investments in the payer domain, which is expected to get materialized over the course of time.
- The management indicated that while crossing a \$1b mark revenue, the company gets to participate in the bigger projects through global Fortune-50 enterprises that will lead to change in revenue and client-mix over the future course.
- Despite the macro headwinds, the growth has been resilient, which is attributed to a lower concentration of discretionary elements to its business mix, while pivoting upon annuity and IP-led revenues
- The company is working around 75+ POCs for GenAI. It is collaborating with the Hyperscalers to generate industry-wide use-cases, while leveraging cloud and cybersecurity infrastructure. However, it is difficult to evaluate on the number POCs that would lead to production in a given timeframe.
- The company has on boarded 3000+ data engineers and experts to mission critical projects.

**Margin performance and outlook**

- The improvement in margin was led by seasonality in the IP business, contributing an 80bp increase (includes +30 bp rise in utilization). Additionally, there was a +60 bp improvement attributed to SG&A optimization. However, this was partially offset by furloughs and ramp-ups in the onsite mix (led to increase in subcon).



- The management reiterated its aspiration of 200-300 bp margin improvement over the next two to three years. key drivers: (1) The earlier investments in on-campus and lateral talent hiring are yet to yield their full productivity. It believes that the utilization rate is expected to improve from 81.5% to 85%, and every 100 bp improvement in utilization would lead to a 30 bp margin improvement. (2) The company acknowledges an overinvestment in SG&A in terms of hiring senior leadership, talent reskilling, and building newer capabilities. These investments are anticipated to deliver results in the coming years.
- The onsite project ramp up led to an increase in subcon for 3Q and it will continue to be the part of the cost until it turns the projects to offshore overtime. The company is flexing on multiple levers to improve margins.
- The improvement in segmental margin for hi-tech vertical is majorly due to strong IP-revenue recorded this quarter. Also, hi-tech concentration on IP-Led deals is relatively higher vs other verticals.



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## Tata Consultancy Services

Buy

Current Price INR 4,030

### 3QFY24 performance and demand outlook

- The overall demand environment remains positive (barring furlough impact), with strong deal-signing across the board. The deal ramp-ups and execution have been timely with few exceptions, and the revenue conversion remains strong.
- The softness in BFSI was due to furloughs and the closure of a large program in North America. Hence, revenue growth declined in 3Q. TCS expects BFSI to gain momentum in 4Q and will continue to strengthen going forward.
- Within BFSI, insurance and P&P (products & platform) are performing well, while banking and capital market remain soft. The company is witnessing a strong opportunity on the cost optimization front and is gaining market share over its peers.
- Overall, the proportion of discretionary and non-discretionary revenue remains similar, which indicates balanced growth in both the spending buckets.
- Clients are evaluating their investment after having invested in new-age technologies. Given the current macro challenges, clients are more comfortable investing in projects that yield benefits in the short term. However, TCS firmly believes that enterprise spending should resume as the macro headwind recedes.
- The deal-signing momentum improved YoY in 3Q. The company signed two mega deals in 3Q, and it is not seeing any sign of softness in deal-signing activities.
- Some verticals, especially Retail, have started showing green shoots, while Manufacturing, Energy & Utility and Life Science are performing well and are expected to maintain their growth momentum.
- The BSNL deal is progressing well, and TCS has started commissioning with the delivery of 2,500 equipment, and is rolling out radio in few circles.

### Margin performance and outlook

- Seasonality affected margins by 80bp in 3Q, which was more than offset by efficiency and productivity improvements (60bp) and reduction in subcon (70bp).
- The management remains committed to achieving the margin band of 26-28% in the long term, with disciplined execution, productivity, improved utilization, and better realization.



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- Additionally, the company is focusing on further optimizing its subcon expenses (below pre-Covid) while rationalizing its employee pyramid and putting more freshers into the billing cycle.

**Tech Mahindra**

**Neutral**

Current Price INR 1,320

**Three-pillar strategy**

- TechM is exercising a long-term strategy to deliver sustainable and profitable growth. It is embarking on three broad tracks.
- The company is right-sizing the SBUs to 6 from 12 to eliminate the low-potential areas, enhancing realization, and fostering synergies. Additionally, it believes the top accounts within individual SBUs were underinvested, and it is making incremental efforts to drive those accounts to their full potential and revamp the smaller accounts.
- The company is focused on driving margin improvement across individual business units that has high potential for scale.
- The company is focused on driving organizational development for future growth through decentralized decision-making and by instilling an entrepreneurial culture.
- The management alluded that it is building strengths through turnaround efforts to improve revenue and margins. It will continue to invest in people and strategy for a definitive outcome. With a reinforced leadership team and substantial new additions, the company anticipates gaining fresh connections and opportunities.

**Demand and industry outlook**

- In 3Q, there was a one-time boost in revenue due to a significant increase in the product business (incl. Comvivia) compared to the 2Q seasonality. This boost is not expected to recur in 4Q. The positive impact on revenue was 140 bp QoQ, resulting in a normalized, but muted (-0.3% QoQ) revenue growth in 3Q.
- On the communication segment, the management indicated that it will continue to be volatile for a couple of more quarters before it sustains and delivers steady growth. It would be too early to call out any green shoots for the sector. However, the management believes that the worst is behind for the segment. Although the segment is expected to register a decline in growth in 4QFY24 and 1QFY25, the degree of decline in growth would be much lower than in the earlier quarters
- Additionally, it believes that, it possesses robust communication capabilities, considering it a pivotal aspect of TechM. However, the sector is currently under stress, with tight spending observed across telcos and OEMs. The management expects the cost-take out deal to enhance ARPU and reap benefits from GenAI
- Europe growth was majorly driven by the one-off revenue recorded in 3Q. Otherwise, manufacturing is doing well in the region, while it has also made significant investments to fuel incremental growth within BFSI. The company is adopting systematic approach to improve top accounts in Europe.
- The manufacturing segment has been performing well with proactive investments around industry manufacturing and design engineering. Since it is carrying the physical and digital manufacturing capabilities, the green factory, the factory of future, supply chain management, D2C areas are driving the growth for the segment. Additionally, the company is benefited by its Group (M&M) in terms of relationships and connects with chip and automotive OEMs.

**Margin performance**

- Normalized EBIT margin in 3Q stood at 7%, adjusted for investments made in reorganization. The reorganization initiative also includes pruning the contracts that do not fit into the long-term strategic vision of the company. 4Q will have additional impact on margins due to impairment charges.
- The company is flexing on multiple margin levers: rationalizing pyramid, increasing offshoring, minimizing subcontracting, improving utilization, and controlling overhead costs. Additionally, the company is looking at the business mix, the nature of contracts, outcome-based engagements, automation, and GenAI as a tool for managing operating expenditure.
- The management indicated that it is more focused on bringing quality revenues vs trade-offs, which will directly benefit the margins in terms of improvement in realization and managing costs.
- The decline in headcount is more to do with the 3Q seasonality and BPO business. However, the company maintains an active hiring approach for fresh talent, especially for reskilling initiatives within the IT business.

**GenAI**

- Until now, the company has trained 16k employees for GenAI. It plans to train all its employee for GenAI by 2025, thereby improve the delivery experience and the operating margin.
- It increasingly identifies use-cases for GenAI in doc summarization, optimizing energy consumption, repairing and maintaining remote assets, and updating online store catalogues
- It has witnessed significant progress in GenAI, compute vision use cases, and email amplification. These are only a few of the ongoing applications in progress.



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**Wipro** **Neutral**

Current Price INR 532

**3QFY23 performance and demand outlook**

- The company booked 14 large deals with total TCV of UD3.8b in 3Q. The company's efforts to build a strong leadership team are paying off well, as its winning rates and ability to participate in complex transformation deals have improved significantly.
- It is also winning new logos, apart from what it gets to associate with new clients through vendor consolidation opportunities. In 3Q, the company booked transformation deals worth USD300m.
- The management alluded that the market has not changed fundamentally in terms of demand. It is witnessing some stabilization in technology-related spending. While a major slowdown is seen in discretionary areas, especially in smaller projects.
- The short-term demand environment remains cautious, with enterprise clients still being conservative on investment decisions. They continue to look for optimization and cost saving opportunities, while return on investments remains a common theme across clients.
- Nonetheless, the company has witnessed green shoots in discretionary spending, as few accounts have started investing (although not meaningfully) in the consulting service line. The company's consulting business units, Capco and Rising, have delivered growth in 3Q.

- EN&U is performing well and is witnessing progressive investments in the areas of plant engineering and IT services. Additionally, GenAI is also supporting the overall demand trend and getting embedded into remote equipment

**Margin outlook**

- The company’s strategy to trim the low-margin business and low-potential accounts is progressing well. The APMEA region witnessed strong and sustainable margin improvements over the last couple of quarters, which is also aiding consolidated-level margins.
- It continues to streamline business operations and leverage automation, AI and analytics tools to further optimize operations and improve margins.
- The management indicated that GenAI is now moving from an experimental stage to a commercial stage, where every large deals has some components of GenAI to develop use cases and AI models.
- The company has built certain level of resilience in its margin profile and it is confident of sustaining its margins going forward. The earlier cost-control measures are helping the company hold margins despite a slowdown and competitive landscape.



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**Zensar Tech** **Neutral**  
Current Price INR 528

**Growth and outlook**

- The furlough impact was deeper and wider in 3Q, which led to a significant decline in the performance of the hi-tech and healthcare verticals. ZENT expects the furlough impact to reverse for other verticals (except for hi-tech) in 4Q.
- The management believes that the verticals (except hi-tech) have bottomed out and should start contributing to revenue growth. Apart from furloughs, 3Q saw multiple deal closures, which affected the verticals.
- The management has indicated that it has taken strategic measures to pull additional horizontal service lines: customer EX, engineering services, and eSAP, and that it has seen good growth over the last couple of quarters. With these new service lines, the management expects to build a strong deal pipeline in digital and transformation-led initiatives, which have already started resonating across its client base, and the company has started seeing some green shoots. ZENT aspires to deliver top-quartile growth in the next three years.
- The company has announced a new vertical, Healthcare. It has started exploring the med-tech and life science segments that have a broader scope for innovations compared to the payer segment, which is highly saturated. The company’s provider segment is large and focuses on selective deals.
- The deal TCV improved YoY by USD34m. The company has improved farming and hunting engines, which look encouraging in terms of deal singing from existing and new accounts. From a strategic perspective, ZENT is reaping the benefits of its earlier investments in SG&A as it is wining strategic Fortune-500 accounts and new logos.
- With organic investments, the company is also looking for strategic M&A activities in its healthcare vertical.
- ZENT is currently working on more than 100 POCs within GenAI, and a lot of these deals are small and have a strong potential to scale up.

**Margin performance and outlook**

- 3Q furloughs had an impact of 200bp QoQ on margins, partly offset (+100bp QoQ) by the provision for doubtful debt (PDD).

- The management reiterated its aspiration to keep the margin guidance band of 14-16%, while anything over and above would be re-invested to drive future growth. The company was working around few large deals, which had an impact on margins in 3Q.





## TELECOM

- Earnings growth continued to remain moderate due to limited tariff hikes. Market consolidation continues to favor Bharti/RJio. Companies remain focused on deleveraging their balance sheets, as capex peaked out in 3QFY24. Bharti/RJio have completed the rollout of 5G rollout in the majority of India.

## KEY HIGHLIGHTS FROM CONFERENCE CALL

	Outlook for FY24	Margin Commentary
Bharti Airtel	<ul style="list-style-type: none"> <li>■ Capex is expected to remain elevated throughout the year, led by investments in 5G infrastructure and rural expansion initiatives. From next year, the capex is expected to moderate.</li> <li>■ Significant rollouts are expected in five circles (MP/CG, MH, GJ, WB and Kerala), where there exists an 18% gap between BHARTI and the leading player. In DTH, the focus will be mostly on MH, WB, and the southern regions.</li> </ul>	<ul style="list-style-type: none"> <li>■ BHARTI need not call up the rights issue money. FCF will be allocated toward ongoing deleveraging efforts for the next four to six quarters. Following this period, the company aims to initiate dividend payments.</li> </ul>
Indus Towers	<ul style="list-style-type: none"> <li>■ Order book is healthy and is expected to grow for the next couple of quarters. Hence, capex may remain elevated.</li> </ul>	<ul style="list-style-type: none"> <li>■ VIL collections improved in 3QFY24 and the company recognized INR3b against past overdue in addition to 100% monthly collections, which resulted in the reversal of provisions for doubtful debts.</li> </ul>
Tata Comm.	<ul style="list-style-type: none"> <li>■ The management reiterates the long-term target of 23-25%, but in the short term, margins are expected to decrease due to recent acquisitions</li> <li>■ Cash capex is expected to exceed accrued capex for the next couple of quarters, with overall capex intensity remaining high to push growth.</li> </ul>	<ul style="list-style-type: none"> <li>■ Cost synergies realized in 3QFY24 have resulted in a positive EBITDA for Kaleyra in the first quarter itself. In the medium term, the company expects double-digit EBITDA margin for Kaleyra.</li> </ul>
Vodafone Idea	<ul style="list-style-type: none"> <li>■ Following the reduction in bank loans, the company's primary focus will shift toward the repayment of creditors/vendors.</li> <li>■ The company observed a loss of subscribers due to the shortened validity plan, prompting a strategic shift toward promoting unlimited plans.</li> </ul>	<ul style="list-style-type: none"> <li>■ The company continues to upgrade non-4G sites to 4G sites, by reframing the spectrum. Expects 5G to roll out in the next six to seven months.</li> </ul>



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## Bharti Airtel

Buy

Current Price INR 1,144

## Key highlights

- Capex is expected to remain elevated during the year, led by 5G and rural. From next year, the capex is expected to moderate. Globally, its capex-to-revenue ratio is 15-20%.
- A significant rollout is expected in five circles (MP/CG, MH, GJ, WB and Kerala), where the gap between BHARTI and No. 1 player is 18%. In DTH, the focus will be mostly on MH, WB, and the south region.
- The company need not call up the rights issue money. FCF will be used for continuous deleveraging for the next 4-6 quarters and then BHARTI targets to pay a dividend. It targets to reduce the debt-to-EBITDA ratio to 2x from 2.52x currently.
- The monetization levers remain intact, aided by 1) a shift from feature phone to smartphone and from prepaid to postpaid, and 2) data monetization. The company is trying to keep price increases below 10% to avoid losing customers.



**Capex-**

- Capex is expected to remain elevated during the year, led by 5G and rural. Other capex parts are data center and fiber deployment. From next year, capex could moderate. Globally, the capex-to-revenue ratio is 15-20%.
- Mobility capex- Radio capex is large, so FY24 capex is expected to remain higher. Transportation capex is less lumpy, while core is the small part of the capex. The company has a three-year blueprint for transportation infrastructure investments, which include laying fiber, electronics, and lighting up fiber.
- Non-wireless capex- Home broadband/ DTH capex is directly linked to the cost of home passes and routers.
- B2B capex is lumpy due to the implementation of data centers land and cables.
- A significant rollout is expected in five circles (MP/CG, MH, GJ, WB and Kerala), where the gap between Airtel and the No. 1 player is 18%. In DTH, the focus will be mostly on MH, WB and the south region.
- In the future, BHARTI will shift from NSA to SA.
- It would reform the 4G spectrum and reform to 5G when the traffic will shift from 4G to 5G.

**Capital allocation**

- BHARTI need not call up the rights issue money.
- FCF will be used for continuous deleveraging for the next 4-6 quarters and then BHARTI targets to pay a dividend. It targets to reduce the debt-to-EBITDA ratio to around 2x from 2.52x currently.
- It has prepaid high-cost debt of INR83b in Jan'24, making the total repayment of INR163b in FY24 to the DoT toward part prepayment of deferred liabilities pertaining to spectrum acquired in 2015 auction.
- BHARTI remains focused on its strategy of top 150 cities for B2B/B2C businesses: a) 60m homes in 150 cities contribute 35% of industry revenue and b) Top 500 companies contribute 50% of industry revenue.

**2G**

- 2G contribution for BHARTI is around 17%.
- Circles like GJ, MH, Mumbai, and Delhi contribute only in single digits, while it is high in circles like Bihar, UP, and MPCG.
- Spectrum used for 2G is limited, and it works with 4G network with the same radio.

**India Mobile**

- Premiumization is working well owing to three reasons: 1) a shift from prepaid to postpaid, 2) 3G/4G to 5G, and 3) data monetization.
- 5G users- BHARTI has around 65m 5G users in its portfolio.
- 5G phones- Around 15-16% of total phones are 5G phones and the company expects the number to reach to 25%.
- Shipments- Currently 60-80% of total shipments are 5G phones.

**Pricing strategy**

- To keep price increases below 10% to avoid losing customers.
- The monetization levers remain intact, aided by 1) a shift from feature phones to smartphones, 2) from prepaid to postpaid, 3) data monetization (via data and international roaming)
- Leverage 5G-enabled devices and offer something at a slightly higher price.
- Product Development
- The company is launching new products, including a credit card and a post-paid plan.
- The company is stepping up investments in products and SI integration across CPaaS, IoT, cloud and security.

**ESG**

- Nxtra Data Ltd. has achieved a 58% increase in renewable energy use in FY23 and reduced operational emissions by 5% from its FY21 baseline.
- Target is to improve the power use by 10% by FY25 vs 20% improvement in last 5 years.

**Other segments**

**Digital TV**

- It has more than 210m MAUs across digital assets – Thanks, Xstream and Wynk. Digital services span across B2B and B2C and include Ads, Cpaas, Airtel IQ, IoT, Cloud, SD-WAN and Airtel Finance.
- Airtel Xstream Play crossed 5m paid customers in Oct'23 and continues to be the fastest-growing OTT aggregator.

**Home**

- Over 40% of the adds happened in Airtel Black.
- This converged plan helps BHARTI offer customers more than one service and reduces churn.

**Enterprise**

- IoT is the growth driver in the domestic business.
- It has entered into a deal with Adani for connectivity of 20m smart meters.



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**Indus Towers**

**Neutral**

Current Price INR 222

**Key takeaways**

- VIL collections improved in 3QFY24 and the company recognized INR3b against past overdue in addition to 100% monthly collections, which resulted in the reversal of provisions for doubtful debts.
- Recognition of interest income: Indus has an adjusted interest receivable of INR3.3b from VIL, which resulted in an increase in interest income, and correspondingly a similar amount of provisions for doubtful debts has been created. Hence, the effect is netted off from P&L.
- Order book is healthy and is expected to grow further for the next couple of quarters. As a result, capex may remain elevated.
- Renewal of portfolio: In FY23, Indus renewed ~33% of total portfolio and thereafter, it has not done any major bulk renewals. But about 50%-60% of its portfolio will come up for renewal in the forthcoming years.

**Collection improved in 3Q**

- Collected and recognized INR3b against past overdue in addition to the 100% monthly collection, which resulted in the reversal of provisions for doubtful debts of the same amount. Also, trade receivables decreased by INR1.7b due to higher collections from VIL.
- Additionally, it has adjusted a part of the monthly collections with interest receivable to the extent of INR3.3b during the quarter. As a result, interest income increased, and correspondingly a similar amount of provision for doubtful debts has been created.
- The reported provisions for doubtful debts in the books, hence, reflect the net effect of the additional provisions of INR3.3b and the reversal of INR3b.

**How is VIL provision accounted?**

- Collections are accounted on FIFO basis, i.e., first accounted toward old invoices.
- Amount overdue more than the credit period that is agreed in the MSA is provided in the books. So, if there are any reductions in the receivables because of better collections, then it results in unwinding of provisions.
- Indus is not recognizing long-term revenues based on India's lease accounting for VIL.

**Swift deployment of 5G**

- 5G rollouts have been happening at a swift pace, with 5G services now available to customers across India.
- Almost 400,000 5G base transceiver stations have been deployed so far, with the weekly run rate of deployments standing at more than 7,000 in Nov'23.
- As per the Ericsson Mobility report, 163m 5G subscriptions were added globally in 3QCY24 (total 1.4b) and they are estimated to exceed 5.3b by 2029.
- In comparison, 4G subscriptions grew by only 6m in 3Q. The adoption of 5G services has been much faster than 4G, as 5G reached 1b subscriptions two years sooner than 4G. 5G subscriptions in India are expected to grow to 860m by 2029, with a penetration of about 68% as per the report.

**Tower and Co-Location base & additions**

- Indus owned and operated 211,775 macro towers with 360,679 macro colocations in India.
- Expects order book to remain strong for the next few quarters.
- During the quarter, net macro co-locations increased by 7,217.
- Exits during the quarter were 655.
- Indus had average sharing factor of 1.72 per tower.
- During the quarter, net lean colocation additions aggregated to 1351. Lean colocations stand at 9,994.

**4 Strategic pillar**

- Market share- Leaner co-location increased 2x YoY, led by an aggressive rollout by Bharti, especially in rural areas.
- In FY23, the company renewed ~33% of its total portfolio and thereafter, has not done any major bulk renewals. But about 50%-60% of the portfolio will come up for renewal in the forthcoming years.
- Cost efficient- Reductions in cost initiatives continued in 3Q, such as reduction of diesel consumption 7% YoY.
- Network uptime- 99.97% prime for customers despite weather changes.
- ESG- Using solar sites and other initiatives to reduce the emission.

**Leaner tower**

- The leaner tower is deployed by a single user.
- The company expects 5G loading revenues to be supplemented by demand for new sites once a certain penetration level is achieved to aid network decongestion.

**TATA COMMUNICATIONS**

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**Tata Communications****Neutral****Current Price INR 1,821****Key highlights**

- Margin trajectory: The management has reiterated its long-term target of 23-25%, but in the short term, margin would decrease due to acquisitions.
- Kaleyra profitable: Cost synergies in 3QFY24 led to positive EBITDA in Kaleyra for the first quarter itself. In the medium term, TCOM expects double-digit EBITDA margin for Kaleyra.
- Macro condition: The funnel is improving, but customers are taking more time in decision-making, which leads to a lower customer conversion rate.
- Capex: Cash capex would be higher than accrued capex for a couple of quarters.

**Detailed summary****Strategy**

- Macro condition is not favorable for TCOM.
- The company is looking for a bigger opportunity in the international market and is ready for organic and inorganic growth.

**Financials**

- Data revenue crossed INR40b, with digital services contributing 45%, in line with the company’s strategy.
- TCOM expects double-digit margin in Kaleyra in the medium term.
- Cash capex is expected to be higher than approved capex as cash capex paid last year was lower.

**Recent acquisitions**

- Kaleyra has turned EBITDA positive in the first quarter itself. The successful integration was due to:
  - Reduction in costs due to synergies, i.e., Kaleyra was listed in USA, hence costs declined.
  - A combined portfolio of DIGO, Insta CC and Kaleyra, i.e., CIS will generate revenue.
  - Switch is currently loss-making but is expected to achieve EBITDA breakeven going forward.

**Others**

- TCOM has 4,600+ ATMs, including ~128 its own ATMs.
- It has exited the contract with TCTS, which was not profitable.

**New deals**

- Singapore Airlines partners with TCOM to enhance customer experience for their discerning customers.
- JLR to digitally transform its organization through partnership with TCOM.



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**Vodafone Idea**

**Neutral**

Current Price INR 16

**Key takeaways**

- Following the reduction in bank loans, the company’s primary focus will shift toward the repayment of creditors/vendors.
- Expanded the tariff hike to include 16 circles by reducing the validity from 28 days to 15 days in the base plan. The company observed a loss of subscribers due to the shortened validity plan, prompting a strategic shift toward promoting unlimited plans.
- The company continues to upgrade non-4G sites to 4G sites by reforming the spectrum. Expect 5G to roll out in 6-7 months.
- Out of the total INR54b debt payable in the next one year, INR16b pertains to OCD (with repayment contingent on the occurrence of conversion). The remaining portions represent unconditional payments.

**Commentary in detail**

**Upgrading to 4G**

- The company continues to upgrade non-4G sites to 4G sites by reforming the spectrum (added 700 4G towers in one year and 5200 4G broadband sites). This has increased the broadband coverage and expanded the capacity.
- The company has shut down 3G services in five circles of Gujarat, Andhra Pradesh, Maharashtra, Mumbai, and Kolkata by reforming the spectrum in these circles to 4G.
- The company continues to close 3G sites and expects to close all 3G sites in another year.
- Discussions are ongoing with various partners to develop 5G infrastructure and 5G use cases. Expect 5G to roll out in 6-7 months.

**Subscriber reduction**

- Expanded the tariff hike to include 16 circles by reducing the validity from 28 days to 15 days in the base plan. The company observed a loss of subscribers



due to the shortened validity plan, prompting a strategic shift toward promoting unlimited plans.

- Continues to focus on its priority 17 circles, which covered 98% of VIL revenue and 92% of industry revenue.
- Leveraging Vi app for a) entertainment, food, shopping b) flights booking and c) recharges. Planning to add hotel booking in Vi app.

#### **Financials**

- Following the reduction in bank loans, the company's primary focus will shift toward the repayment of creditors/vendors.
- Network cost was lower during the quarter due to the seasonal effect and reduction in energy cost.
- The company reported a gain of INR7.6b from Telecom Disputes Settlement and Appellate Tribunal (TDSAT) ruling. This ruling pertains to the excess amount paid during the merger, which has now received approval from the DOT. This will be adjusted towards spectrum/AGR dues.
- Reduction in subscriber is apparently due to two reasons- a) high base of 2QFY24 as the company has seen lower net loss due to subscriber adds, led by Indira Gandhi scheme and b) increase in the base-level plan tariff.

#### **Near-term repayment**

- Out of the total INR54b debt payable in the next one year, INR16b pertains to OCD (with repayment contingent on the occurrence of conversion). The remaining portions represent unconditional payments.



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## APL Apollo Tubes

Buy

Current Price INR 1,440

### New facilities

- Raipur facility: A large part of the facility was commissioned in Dec'23, with the last few lines to be commissioned in Jan'24.
- The company has been able to create market for its products and scale up the utilization. It aims to maintain the momentum going ahead.
- Heavy structural tubes witnessed a utilization rate of ~50% in Dec'23, while super light tubes saw utilization levels of ~30%.
- Coated sheets reached utilization levels of ~70%, reflecting strong brand value of APAT.
- Overall, the Raipur plant is running at utilization of over 50%.
- Dubai plant was also commissioned in Dec'23 and initially, APAT witnessed healthy traction in the region.
- The plant has capacity of ~300KMT (~100KMT commissioned; the rest to be commissioned soon).
- The company expects production of ~30KMT from the Dubai plant in 4QFY24 (~8/8-10/12KMT in Jan/Feb/Mar'24).

### Demand scenario and outlook

- Several factors led to tepid volumes and a miss in volume guidance. Some of them are given below:
  - Production at the Raipur Plant was fully commissioned in early Jan'24, which was earlier planned for Jul'23. Similarly, the Dubai plant was supposed to be commissioned in Sept'23, but it was commissioned in Dec'23.
  - Further, in the first eight months of FY24, APAT witnessed a tough environment as steel prices were lower.
  - Retail sales in the building material segment were weak, especially in 2QFY24 and 3QFY24.
  - Oct/Nov'23 also witnessed poor performance as global steel prices came down significantly while domestic steel prices remained high, which impacted volumes in Nov'23. However, the company saw a volume recovery in Dec'23 and Jan'24.
- The management expects to achieve volume of ~700KMT in 4QFY24.

### Export market

- The company aims to increase exports to ~1MMT by FY26 (~0.5 MMT in Dubai and ~0.5MMT exports from India).
- APAT will create warehouses in four key foreign cities (Liverpool, Melbourne, Antwerp and Houston).
- The company will witness cost competitive advantages (~2-3% less RM cost/manufacturing expense as compared to global peers).
- APAT has SKUs ranging from ~15mm to 300mm, which will be a key advantage for the company in global markets.
- EBITDA/MT for exports is higher than blended EBITDA/MT for the company.

### Guidance

- APAT expects to increase manufacturing capacity to ~4MMT by the end of this year and ~5MMT by next year.

- The company can grow its revenue by ~20-25% p.a. on the back of its own capabilities. Further, it can grow even at a higher pace if industry tailwinds support growth.
- The company maintains a sales volume target of 5MMT by FY26.
- The general segment will not account for more than 1.5MMT in FY26, while VAPs and super VAPs will account for ~3.5MMT. Therefore, the share of VAPs will improve to ~70% of total sales by FY26.

#### General structural products

- The difference in primary and secondary steel prices has narrowed to ~INR12,000.
- However, the company is able to maintain its volume despite such a narrow gap in primary and secondary steel prices.
- The secondary steel market is phasing out as margins within the industry are narrowing. Further, the increasing production of HRCs will lead to a further shift in the primary steel market.
- APAT is focusing on marketing and branding and is witnessing healthy demand within the general structural category as well.

#### Indian structural steel tube market

- Structural steel tube market as a % of total steel market in India is expected to grow from ~5.5% in CY23 to ~8.3% by CY30.
- Indian structural tube market is expected to grow to ~17.3 MMT by CY30 from ~7.7MMT in CY23 (registering ~12% CAGR over CY23-30E).
- Further, the HR coil-based steel tube market (of ~4.1MMT) is expected to register an ~18% CAGR over CY23-30, reaching ~13.3MMT by CY30.
- APAT has a ~55% market share in the HR coil-based steel tube market, which is likely to sustain going ahead.

#### New growth drivers

- Railways, Airport and Solar can be large growth drivers for APAT going ahead.
- The company is already witnessing healthy orders for the Railways segment. It has already supplied to ~4-5 railway station development projects.
- It is actively in discussion about accelerating its work in the solar segment.
- Further, new products from the Raipur plant and new geographies (especially in Eastern India) should accelerate the growth trajectory.

#### Capex

- APAT incurred capex of ~INR5b in 9MFY24, which was largely funded by internal accruals.
- The company expects capex of ~INR1b in 4QFY24 and ~INR3.5b in FY25.

#### Other key highlights

- The company is strengthening its retail channel by offering various incentives, such as foreign travel for achieving certain sales volumes.
- APBL reported sales volumes of ~115KMT and EBITDA of ~INR45,000/MT in 3Q.
- APAT will utilize free cash flows to repay the existing debt and expects to be debt free by the end of FY25.



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## Avalon Technologies

Buy

Current Price INR 502

### Indian business

- Indian operations witnessed ~12% YoY revenue growth in 9MFY24.
- The Indian manufacturing segment (~77% of total manufacturing) continues to remain profitable, with EBITDA margin of ~12.8% and PAT margin of 7.8% in 9MFY24.
- However, losses in the US operations are temporarily outstripping the healthy performance of Indian operations, and are affecting the consolidated results.
- Growth within the domestic business of Avalon is lesser as compared to that of the industry as traditionally, Avalon has an export-oriented business (with ~70% of exports). It has started focusing on domestic business over the last few years.
- Management believes that the growth story in India has just begun, and it will accelerate going ahead.
- The company expects a strong traction from railways (Signaling system, Kavach, Vande Bharat), Industrial, and Energy industry in the domestic market. It is also witnessing a traction within the EV space.

### US business

- The US operations continue to witness significant challenges and accordingly recorded a loss of INR200m in 9MFY24
- The company is actively addressing the challenges. Accordingly, it is focusing on shifting production from the US to India and rationalizing cost within the US business. However, Avalon is already witnessing tractions from some of the customers in the US.
- Going ahead, the US market is expected to witness a recovery in demand in 1HFY25m, which will be further accelerated in 2HFY25.

### Guidance

- For FY24, the company is expecting a revenue decline of ~8-10% YoY due to challenges in the US business. Avalon expects subdued EBITDA margin of 7-8% for FY24.
- However, the gross margin of ~46% in 9MFY24, reflects a high profitability within the business model. The company will report an improvement in margins with the increase in revenue
- Going ahead, the company expects to grow its revenue by ~20-25% p.a.

### Capacity expansion

- Management is planning to expand its existing domestic facilities for addressing the increasing domestic business
- One new manufacturing plant at Chennai is expected to be commissioned by 1QFY25.
- The company expects a capex of ~INR350-400m every year

### Orders

- Order book as on Dec'23 stood at ~INR12.75b. The orders are executable over next 12-14 months. However, it includes long duration orders of ~INR8.4b, which will be executed over the next couple of years.
- Major wins in the US and India across sectors such as Power, Industrial, Clean energy, Automotive and Rail
- The order book of the company is equally split. It is witnessing increasing orders from the domestic business.

**Railway Segment**

- Signaling system, Kavach and Vande Bharat will be the key growth drivers within the railway segment
- The Railways has approved three domestic and two international players for deployment of Kavach.
- Avalon is actively working with one of the international players within the space. However, it will take some time for orders to flow in.

**Others**

- The company is focusing on its Indian business with an aim to increase the domestic share of revenue to ~50%. The share of domestic revenue has increased to ~47% in FY24 from ~41% in FY23.
- Avalon is now a strategic manufacturing partner for C-DAC, playing a pivotal role in advancing India's capabilities in High-Performance Computing through, the 'RUDRA' program.
- The company has successfully delivered the first wiper blade assembly sample, marking a key milestone in the Aerospace segment.
- The company has not taken any decision regarding the semiconductor business as of now.
- Avalon has fully utilized the IPO funds
- Working capital days stood at ~155 in 3QFY24. Going ahead, the company expects to reduce working capital by ~10-15 days.




**Coromandel Intl** **Buy**  
 Current Price INR 1,095

**Agri scenario**

- India witnessed below-average North-East monsoon, with cumulative rainfall measuring below 8% of the long-period average (LPA).
- The states of Karnataka, Andhra Pradesh and Maharashtra were adversely impacted.
- The all-India reservoir levels stood at ~95% of LPA with reservoir levels of southern regions standing at ~70%

**Operating performance**

- Lower revenue was attributable to the lower subsidy rates and lower volumes during the quarter
- Increasing raw material prices, lower subsidy rates, MRP being held, and tepid season led to a lower EBITDA/MT.
- NBS rate witnessed steep downward revision during the quarter.
- Nutrient business witnessed improved market share in 3QFY24
- CRIN's DAP and Complex fertilizer market share stood at ~15%/15.5% in 3QFY24/9MFY24 v/s ~14.8%/15.9% in 3QFY23/9MFY23. Capacity utilization for the quarter stood at ~96%.
- SSP volumes stood at ~143KMT/535KMT in 3QFY24/9MFY24 v/s ~216KMT/619KMT in 3QFY23/9MFY23

**Subsidy**

- Subsidy EBITDA mix stood at ~37%/74% in 3QFY24/9MFY24 v/s ~74%/77% in 3QFY23/9MFY23



- The company has received subsidy of ~INR7.2b/INR70b in 3QFY24/9MFY24 v/s ~INR39.9b/INR79.9b in 3QFY23/9MFY23
- Outstanding subsidy at the end of quarter stood at ~INR24b

#### **Crop Protection business**

- CRIN witnessed significant volume growth but price erosion was steep during the quarter.
- The company has forged partnership with some of the Japanese innovators and is looking to diversify its specialty chemical business.
- Currently, company has one product under the biotech segment. It is under the process of bringing up new products during the quarter.

#### **Backward Integration**

- The Board has approved the company's plan to expand its backward integration capabilities by setting up integrated Phosphoric acid plant (~200KTPA) at its Kakinada Fertilizer unit, subject to receiving regulatory approvals (expected to receive over next 2-3 months).
- This will further improve the company's cost efficiencies, raw material security and can contribute towards the Government's vision of an Atma Nirbhar Bharat.
- Management will incur capex of ~INR30b for this plant
- The company currently imports ~400-450KTPA of Phosphoric Acid and post commissioning of this plant

#### **Pricing control guidelines by the government**

- Government has come up with pricing control guidelines on non-urea fertilizers which fixes the profit margins. There have also been guidelines by the government to fix the MRP
- The margins given in guidelines are adequate margins and the government is encouraging the companies to do a backward integration.
- All imports of fertilizers have to be shown separately and the company will continue this practice going ahead
- PBT margin on imports will be ~8% and for rest of the integrated manufacturing of the company it will be ~12%
- CRIN will be treated as an integrated manufacturer under this and will not have any impact from this guideline on its margins, as the company is well below it
- There has been a clarification that GST will not be a part of the cost for calculating margin.

#### **Promoting usage of drones**

- Coromandel is also actively promoting usage of drones in agriculture through its 'Gromor Drive' program and through its retail chain.
- Further, the company's subsidiary Dhaksha, a differentiated drone start-up, has built a strong order book from the Defense, Agriculture & Enterprise customers and is ramping up its production capacity during the current year.

#### **Nano DAP**

- The company has inaugurated the Nano development center in Coimbatore
- It received encouraging response from farmers for Nano DAP

#### **Retail stores**

- CRIN retail stores adopted crop specific product focused approach and operated well during the quarter despite the reduced crop acreage, enabling it to sustain and improve the earnings.
- Overall, ~97% of the stores of the company were profitable during the quarter.

- In continuation, to serve the farming community, the business is expanding its footprint in new markets by adding ~50 stores by end of this year.

**Other key highlights**

- The company does not have any plans to add new capacities; however, it will be the first to invest in several debottlenecking options to increase capacity from the existing plants
- RM prices started increasing since Aug'23 and the company expects upward revision in subsidy rate from Jan'24. The industry bodies are making representation to the government. If the subsidy doesn't increase in Jan'24 then the same can be witnessed in Apr'24.
- Inventory loss during 3QFY24 stood at ~INR300m.



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**Cyient DLM**

Buy

Current Price INR 787

**Operating performance**

- The company has witnessed the highest ever quarterly revenue. Growth was primarily led by the Aerospace and Defense sectors.
- The Defense segment grew more than 100% YoY, while Aerospace grew ~75%YoY.
- Temporary slowdown in demand led to a YoY decline in Industrial & Med Tec revenues by 34% and 9%, respectively
- Margins have improved sequentially driven by a favorable business mix and implementation of a few strategic initiatives by the company during the quarter.
- EBITDA margin was slightly lower on a YoY basis due to higher employee cost (due to planned SG&A investments, i.e., appointment of CXOs). Further, during the quarter, the company has begun incorporating ESOP expenses in the SG&A category.
- However, the company has almost completed its investments in SG&A and accordingly expects margin improvements from the next quarter.
- EBITDA margins can reach ~10-10.5% levels in the short term (4QFY24) and can move to 11-12% in the long term.

**Order Book**

- Order book stood at ~INR22.9b as on 3QFY24 vs. ~INR22.5b as on 3QFY23.
- Order intake for 3QFY24 stood at ~USD41.8m (INR3.3b). Further, the company has won new awards (in addition to order intake) worth USD10m, which will be spread over the next three to four years.
- The current order book is expected to be executed over the next 12-18 months
- The Aerospace and Defense segments form a significant portion of total order book.
- Pipeline is very healthy with several large deals at advanced stages. The management expects the order book to further grow in the upcoming quarters.
- The order book is sufficient for the company to post healthy revenue growth inFY25.

**Working capital and Cash flow**

- Net working capital has risen to ~118 days in 3QFY24 vs. ~79 days in 3QFY23. However, the company plans to bring it down to ~100 days in the short term and ~90 days in the medium term.
- DIO is expected to go down to 120 days by 4QFY24, while DSO is also expected to decline by next quarter.
- Free cash outflow for 3QFY24 stood at ~INR342m due to an increase in consumption of working capital due to revenue growth.

- The company is expecting to reach close to break-even in terms of cash flows for full-year FY24.

#### Capacity utilization and expansion

- Capacity utilization was ~50% in 3QFY24. Some of the facilities such as Hyderabad has much lower capacity utilization.
- The company has inaugurated new precision machining facility in Bangalore with 36,000 sq ft of manufacturing area. The expansion has elevated the capacity to ~180K hours p.a.
- It has also identified a new facility (leased premise) in Mysore to support its growth in the medical and industrial sectors. The company plans to invest around a couple of million dollars in capex for the establishment of this facility.
- The company is expanding (despite lower utilization rate) in order to ensure that they keep up the pace of growth of key clients in that particular location.
- The company has initiated expansion plans toward cable & Box build business.

#### Others

- The company is working on strengthening its leadership team. Accordingly, it has appointed CTO and Head of Supply Chain Management during the quarter.
- New CTO (Mr. Kaushal Jadia) will focus on design-led solutions for key clients going ahead.
- The company has been working with some of the key clients, helping them design the solutions on their ESG initiatives.
- Gross debt by the end of Dec'23 stood at ~INR2.5b (including debt from parent company).
- Finance cost is expected to come down significantly in 4QFY24.
- Cyient Ltd and Cyient DLM are two different companies in different businesses, but operate in the same segments. Cyient Ltd will support Cyient DLM on an arm's-length basis.
- While Cyient DLM concentrates on manufacturing, Engineering and Technology remains a key focus area for Cyient Ltd.
- The company has not witnessed any impact on its business due to the Red Sea attacks. However, there is a marginal increase in international freight cost.

### DATA PATTERNS

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### Data Patterns

Neutral

Current Price INR 2,040

#### Order book

- The consolidated order book grew 8% YoY to INR9.6b (with production/development/service contracts accounting for ~33%/63%/4% of order book)
- DATAPATT received order inflows of ~INR991m in 3QFY24. Around 43% of the orders were for production contracts, ~55% were for development contracts, and the rest 1% were for service contracts.
- The company received major orders from DRDO (INR439m/INR167m development/production orders) and DoS (INR101m development order) during 3QFY24.
- The order flows in 3QFY24 has been a little slower due to a delay in expected contracts from BEL and a few other organizations.
- DATAPATT is working with these clients for finalization of the contract. Accordingly, it is expecting orders worth INR6-8b over the next couple of quarters.
- The company expects the order book as on end of FY24 to be higher than that in FY23. It will get more clarity on order flows for FY25 by the next quarter.
- The company is participating in large value tenders with MoD under Make 1 and 2 categories. MoD tenders will start over the next few years.



- The company has established an in-house infrastructure tailored for processing BrahMos orders efficiently, enabling swift deliveries.

**Guidance**

- The management maintained the topline growth target of 20-25% for the next two years. It is expecting a lot of repeat orders going ahead.
- It expects to maintain a sustainable high EBITDA margin of ~40%.
- The decline in inventory days (led by normalization of supply chain) will result in improvement in working capital days. The company is targeting working capital days of ~240-270 over the next two years.
- DATAPATT aims to sustain a robust order pipeline and uphold its status as a net-debt free entity. The company expects to achieve RoE and RoCE levels above 20%.

**Exports**

- Within the defense segment, DATAPATT is looking forward to replicate its India model within the export markets.
- Currently, it has contracts from the UK and the EU. The UK contracts are deliverable over ~2-3 years. It also has orders from S. Korea.
- Within the non-defense space, the company expects to manufacture critical systems and advanced technological products. Currently, it does not have any orders in the non-defense space and the company is presenting its product to the customers.
- Strategy focus on key areas over next two years
- Capitalizing on promising opportunities within the radar electronic warfare and satellite markets
- Pursuing greater expansion plans within the export markets
- Actively pursuing various prospects in collaboration with domestic competitors
- Actively participating in contracts worth at least INR20b to INR 30b over the next three to four years.

**Others**

- Cash and cash equivalence stood at ~INR6.9b as of Dec'23
- The company is not focusing on the semiconductor manufacturing segment right now.
- DATAPATT is actively considering the succession planning at various levels. It is also strengthening the HR team
- The company is building unique products from the proceeds of the QIP



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**EPL** Buy

Current Price INR 194

**Operating performance**

- India standalone business grew 4.2% YoY in 3QFY24, despite that AMESA witnessed a decline due to challenges within Egypt (inflation and currency devaluation)
- Volume growth in 3QFY24 was much better than revenue growth, as the company witnessed decline in realizations
- Over the past few quarters, the company focused on margin recovery. Now it will focus on revenue growth and margin will improve naturally with operating leverage.
- Personal Care and beyond contributed ~48% of total sales in 9MFY24
- The company is on track to double its fully recyclable tube sales in FY24, with a mix of 20% of total volume, and targets 3x volume by FY26 v/s ~19% mix for 9MFY24.



- The Pharma segment is performing very well. India witnessed the highest sales within Pharma segment in Dec'23.

**Outlook**

- Soft commodity prices will continue to put pressure on revenue in near term. However, the company maintains its long-term ambition of double-digit revenue growth.
- The company has continued with its EBITDA margin improvement for the fifth quarter in a row. It is undertaking multiple steps to achieve the targeted margin of ~20%.

**Focus on regional players**

- The company is actively targeting to sell its products to regional/smaller players, especially within the personal care segment.
- The cost of producing smaller quantities for regional players tends to be higher. However, the company charges more to these customers and therefore generates better margins.
- The EPL team in China has effectively utilized this strategy to acquire 'local kings' (key regional players with strong local presence) and accelerate sales growth.

**Europe**

- Europe had a softer third quarter due to the holiday season (the second half of December does not generate much sales due to the Christmas holidays)
- On absolute terms, EBITDA has risen on a YoY basis, reflecting the growth within the region

**Brazil**

- The Brazil plant, commissioned in the last quarter, has been stabilized in 3QFY24
- The company is witnessing significant interest for products from its Brazil plant. The capacity utilization will be ramped up over a period of time.
- Margins for the Brazil business are accretive as compared to the margins for the overall America business.

**Others**

- The focus of customers to swiftly move to recyclable tubes will work in favor of the company
- The impact of Red Sea conflict on freight costs and in-turn on margins of EPL is not significant. However, the lead time has increased resulting in EPL carrying a higher inventory.
- The company monitors customer-level gross margin on a monthly basis, and has active discussions with the customers. Therefore, it does not expect significant margin erosions in the future.
- The headroom for growth in beauty & personal care and Pharma segments is much higher than oral care.
- Mergers and Acquisition (M&A), and Greenfield & Brownfield expansions will all contribute to the growth of the company going ahead.
- The company does actively look for M&A opportunities. However, the current conditions are not conducive for an acquisition.
- The price difference between 50 dia tubes in Europe and ~16 dia tubes in India can be ~20-25x. Therefore, volume growth will not be a correct parameter to track growth.
- A decline in pricing does not affect the gross or EBITDA margins of the company. It just has an adverse impact on the revenue number. Accordingly, growth in absolute EBITDA will be the correct metrics to track growth of the company.





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## Godrej Agrovet

Neutral

Current Price INR 517

### Palm Oil

- Lower prices of end-products and a drop in FFB arrival volumes (down 4% YoY) impacted revenue and operating profitability in the segment.
- Average prices of crude palm oil (CPO)/palm kernel oil (PKO) declined 9%/12% YoY to INR76,186/INR1,00,630 per MT.
- The oil extraction ratio (OER) for 3QFY24 improved on YoY as well as QoQ basis.
- For 9MFY24, the healthy volume growth (up 8% YoY) was offset by lower prices of crude palm oil and palm kernel oil.
- The company has set up a refinery, which is now fully operational. Accordingly, it expects the volatility within the business to come down.
- GOAGRO will continue its downstream investments in the segment and will keep on coming with more value-added products going ahead.
- Going ahead, the company will focus on improving FFB yields (FFB per hectare). It has set up over 7-8 Samadhan centers and is witnessing an increased yield over the region, where such a center has been set up. It is looking ahead to set up ~14-15 more such centers in FY25.

### Animal Feed

- Sales volume grew 2% YoY to ~390k tons in 3QFY24 as the segment achieved the highest ever quarterly volume.
- Sustained growth in cattle feed volumes (+8% YoY) was partly offset by lower poultry feed sales.
- Margin was adversely impacted by unfavorable commodity price movements in the poultry and cattle feed categories.
- The company expects EBITDA/MT in 4QFY24 to be better than that in 9MFY24.
- It expects ~5-6% volume growth in FY24 and ~8-9% volume growth in FY25. Margins will expand with volume growth.

### Crop Protection

- The standalone segment delivered robust growth in revenue and operating performance in 3QFY24, primarily led by higher sales of in-licensed portfolio and Plant Growth Regulators (PGR) products, coupled with lower returns compared to last year.
- Profitability during 9MFY24 was largely driven by 'Hitweed' and 'Hitweed Max' (revenue up ~70% YoY). The company targets to sustain the current robust growth rate of these products in FY25.
- The in-licensed products are also doing well and healthily contributed to the overall profitability of the segment.

### Astec Lifesciences:

- Astec Lifesciences witnessed significant realization and demand headwinds during the quarter.
- Its subdued performance in 3QFY24 was due to persistent weakness in key enterprise products.
- However, the company remains on track to commercialize new products in the upcoming quarters.
- It will look to work on long-term contract basis with customers even within the enterprise product segment in order to protect its margins.
- The price erosion in the export market has abated. However, prices remain at these low levels. The company will focus on liquidating the existing inventory and will manufacture products as per orders received by it.
- It is diversifying its enterprise portfolio with the help of its R&D center.

- CDMO business margins continued to improve during the quarter. The company is on track to achieve targeted growth in the CDMO business.
- CDMO business can grow by over ~40-50% every year (or even double considering the smaller base).

**Dairy business:**

- The revenue growth in the segment was driven equally by volumes as well as realizations. Revenue from value-added products grew 20% YoY.
- Dairy business continued to be EBIT positive in 3QFY24. The segment witnessed robust improvement in margins, led by significant operational efficiencies and lower raw material costs.
- In 9MFY24, Dairy business achieved a significant turnaround in its profitability. Saliency of value-added products has improved to 36% of total sales from 32% in the previous year.

**Godrej Tyson Foods (GTFL):**

- GTFL revenues and profitability were hampered by a sharp drop in live bird prices on account of excess supply in 3QFY24 vs. 3QFY23.
- The management expects prices to normalize by Jun/Jul'24.
- However, the branded business maintained healthy growth of ~15% YoY in 3Q.
- The Real Good chicken category continued to witness improvement in margins.

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**GR Infra**

Buy

Current Price INR 1,183

**Business Updates**

- GRINFRA has signed one HAM concession agreement with NHA in 3Q. As of Dec'23, the company has 36 BOT projects, of which 10 are operational, 13 are under construction, and 13 projects are awaiting ADs.
- As of Dec'23, the order book stood at INR193b, with an executable order book of ~INR96b. Roads and highway projects constitute 83% of the order book.
- The standalone debt-to-equity ratio was 0.2x as of Dec'23 vs. 0.26x as of Mar'23.
- Net block of PPE was INR13.9b as of Dec'23.
- In 9MFY24, GRINFRA's equity infusion into HAM projects stood at INR4.5b and the additional equity requirement is INR21b, which is expected to be infused equally in the next three fiscal years.
- Net working capital declined to 97 days as of Dec'23 from 104 days as of Mar'23.
- Trade receivables as of Dec'23 totaled INR13.7b, down from INR18.8b in Mar'23. SPV debtors represent INR11b of the total debtors.
- Standalone trade payables as of Dec'23 stood at INR9.3b.
- Unbilled revenue was INR3.25b as of Dec'23.
- Mobilization advances stood at INR2.5b as of Dec'23, down from INR2.7b as of Mar'23.
- HAM/EPC projects mix stood at 75%/25% in 3Q FY24.
- The delay in ADs and land acquisition led to lower execution in 3Q, with expectations of ADs for 5-6 HAM projects in FY25.
- The company is in an advanced stage of starting an MMLP project and expects ADs by the last week of Mar'24 or the first week of Apr'24.
- ADs are yet to be declared for projects worth INR90b.
- The company is consistently working on diversification efforts.
- Projects worth less than INR10b in the EPC category face intense competition and the company is looking to bid for projects exceeding INR10b ticket size.

- The current tender pipeline is ~INR2t and GRINFRA expects to win INR150b of projects in FY25.
- Cash and cash equivalents as of Dec'23 stood at ~INR4b.

**Guidance**

- Order inflow guidance: INR40-50b in 4QFY24 and INR150b in FY25
- There is a strong pipeline of projects worth INR2t.
- Targeting flat revenue growth in FY25 and 20-25% growth in revenue in FY26 with margins in the range of 13-14%.
- Capex in 9MFY24 was INR800m and the management does not expect to exceed INR1b of capex in FY24.
- The management expects a capex of INR1.25b in FY25 mainly for office building construction in Gurgaon and PPE.



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**Havells India**

Buy

Current Price INR 1,395

**Demand and key segment performance**

- Sustained demand from infrastructure led to growth in the B2B segment. It is witnessing higher spending from the government sector and there is a notable improvement in private capex as well. However, B2C as well as residential areas have been witnessing a demand slowdown in the last one or two years. It believes that was more because of an inflationary impact (higher raw materials prices), which has now started declining. In the residential segment, especially on the premium side (more in the urban area), the company is seeing good traction. The management foresees the realization of deferred purchases in the B2C category going forward.
- Small domestic appliances category benefited with festive demand. But, higher base for Fans led to a muted growth in the ECD segment. It expects normalcy in demand and a positive impact on the summer season, aided by the low base.
- Lighting: The company participated in several projects in professional lighting, which led to a strong volume growth. However, price deflation remained a significant drag, adversely impacting value growth.
- Cable and wire – Margins in wires has been better than the cables. In 3Q, the cable growth has been slightly higher than that of the wire, which led to a margin drop QoQ. The company faces capacity constraints in the underground cables, and hence, it is increasing underground cables capacity by ~25%.
- Further, in domestic wires, it is setting up a facility to cater to the demand in the southern markets.
- Switchgear- The company has successfully maintained its market share in the switchgear segment. Both the project and the retail segments experienced growth during the quarter and registered an increase in market share. However, the Telecom OEM segment registered a decline in sales and the exports experienced some slowdown due to demand weakness in a few strong markets, particularly in the Middle East and Africa. Further, the company does not have any capacity constraints in Switchgear.
- It does not anticipate any further price increases in both AC and fan products categories.

**Lloyd**

- Lloyd has gained market share in 9MFY24 and delivered a strong CAGR of ~30% in the last two years. Further, the company positioned itself as a mass premium brand in the Middle East region owing to increased competition from China.
- Inventory levels in the trade channel are not elevated, reflecting subdued enthusiasm due to weak demand in the last season. Despite this, channel

stockings are currently within normal levels compared to historical levels. It is expecting a strong performance in 1HCY24, for both AC and fan products.

- Improvement in margins on QoQ is a combination of cost-saving initiatives and lower commodity cost. RAC story is long term and the current losses might continue into the next year as well.



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### IndiaMart Intermesh

Buy

Current Price INR 2,778

- The slowing customer growth is primarily attributed to the churn that has intensified in the Silver bucket, which is also leading to slower growth in collections. The subscriber addition to 5k-6k per quarter would result in 20% YoY growth in collections going forward.
- Despite the churn witnessed in the Silver bucket, ARPU has seen a consistent sequential increase for the last two quarters. About 33% of the subscribers in the silver bucket are on the new tariff, and additionally, 50% of the subscribers are Platinum and Gold, which keeps ARPU stable, as the churn in the Gold and Silver buckets is at an all-time low.
- To address the churn in the Silver bucket, the company has hired senior managers; however, it will take a couple of quarters to reduce that degree of churn.
- The churn in monthly subscribers has usually been high. The company wants to follow a disciplined approach and would like to move to annual subscription for tier-3 and tier-4 cities.
- In terms of unique business enquiries, the YoY growth decelerated. The company has experimented (through WhatsApp, social media apps) in the past to improve unique business enquiries. The company firmly believes that it will achieve the earlier YoY growth rate in unique business enquiries.
- Busy InfoTech's performance has been within the anticipated range. The company has acquired senior resources for sales and marketing, which is helping the company generate overall leads.

### Cost and margin

- The increase in employee costs was mainly due to wage revisions in 3Q (Dec'23) — ideally the wage revision cycle is executed in 4Q. Additionally, the company is shifting employees from the third-party payroll to the company payroll, which is again leading to a consistent increase in employee costs.
- The company has been implementing automation and optimization tools to improve margins. The management alluded that it is striving to introduce ML/AI mechanism in the space, in which a large number of manual resources get occupied that can be automated.
- It is planning to introduce a decentralized management structure under which a state head would be solely responsible for managing its P&L. The part of the margin contribution would be utilized for re-investing in better management and setting up system protocols.



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### Indian Hotels

Buy

Current Price INR 548

### Operating performance

- RevPAR growth in Mumbai/Delhi & NCR/Bengaluru/Goa stood at 25%/15%/18%/11% YoY in 3QFY24. Kolkata, Rajasthan and Hyderabad witnessed RevPAR growth of ~22% each.





- In the domestic business, ARR/occupancy/RevPAR grew 12%/160bp/15% YoY to INR11,792/69.6%/INR8,212.
- For the standalone business, occupancy increased by 470bp YoY to 76.8% in 3QFY24. ARR/RevPAR grew 17%/25% YoY to INR18,111/INR13,918.
- Payroll costs/corporate overheads as a percentage of revenue declined to 23.4%/4.7% in 3QFY24 from 24.3%/4.8% in 3QFY23.
- RevPAR for Taj/Selections & Vivanta/Ginger grew ~15%/13%/12% YoY in 3QFY24

**Outlook**

- The company has witnessed a healthy demand in Jan'24, in line with that of 3QFY24. Demand pick-up in Feb'23 was also strong. Management expects a healthy performance in 4QFY24, and it has guided for a double-digit revenue growth in FY25.
- Overall macro tailwinds are strong and ARR is expected to increase going ahead.
- IH is on-track to achieve INR4.5b of management fees in FY24
- Management expects double-digit revenue growth to continue in FY25 led by growth in portfolio, growth within new brand and business, and growth in traditional business aided by effective asset management
- Not like-for-like growth is expected to be over 30% in FY25. Better asset management will drive the profitability going ahead.
- The company expects to achieve ~300 hotels guidance given under AVHAAN, around one year before the target.
- Further, IH will launch new hotel brand to accelerate growth in Tier 2 and Tier 3 cities.

**New and re-imagined business**

- The company has embarked on a journey of diversifying its top line. The share of new and re-imagined businesses stood at ~8.1%/11% of 9MFY24 consolidated revenue/EBITDA.
- New and re-imagined businesses witnessed ~34% YoY growth in 9MFY24 (~2x that of traditional business, 17%). The growth is likely to continue going ahead.
- Company expect new and reimagined business to grow at ~30% p.a. going ahead
- Ama's: IH is strengthening the Ama's brand. It recently invested in four villas for Ama's stay & trails. Ama's revenue is expected to double in FY25
- Ginger: Around 67% of the Ginger portfolio is now operating on lean luxe model and is commanding ~25%+ premium in terms of room rates.
- Ginger brand is expected to generate ~INR6b in brand revenue in FY25 (with Ginger Santacruz expected to contribute ~INR1b)
- Qmin: GMV for 9MFY24 stood at ~INR720m. It is expected to generate GMV of ~INR1b/INR1.25b in FY24/FY25. Around 49% of Qmin outlets are within the Ginger hotels.
- TajSATs continued its record performance (Revenue/EBITDA growth of ~34%/68% YoY to INR2.33b/INR0.6b in 3QFY24) and is expected to cross INR10b of revenues in FY25.
- With the Airports in India doubling and increasing supply of planes in India, the growth opportunities are huge for TajSATs.
- TajSATs is looking to serve 2 new international airlines. Further, the growth from Air India will also come into play

**Management contracts**

- Management contracts accounted for ~42% of the operational inventory, while it accounted for ~76% of the pipeline.
- Management fees increased to ~INR1.34b/INR3.19b in 3QFY24/9MFY24 v/s ~INR1.19b/INR2.76b in 3QFY23/9MFY23



- Management Contract operational inventory increased 75% in FY24 as compared to FY20. Going ahead, increase in hotels under management will fuel the management fee growth.

#### International business

- International business is doing well with the UK and South Africa being profitable.
- Within the US, New York market has been a challenge (not recovered to pre-Covid level), while San Francisco is now stabilizing
- Among key international subsidiaries, Revenue/EBITDA for St James (London, UK) grew 13%/52% YoY to INR1.3b/INR0.4b. For UOH Inc (US), revenue grew 2% YoY to INR2.2b, while EBITDA grew 88% YoY to INR320m.

#### New openings and pipeline

- IH witnessed opening of the 200th operational hotel during the quarter
- IH has already opened ~16 hotels in 9MFY24 and expect to open 4 more in 4QFY24
- The company has a pipeline of ~85 hotels. The pace of opening hotel is going to accelerate with an average of ~2 hotels opening per month
- Ginger, Santacruz witnessed an OR of ~80% and ARR over INR6,500+. Currently only 260 rooms are operational in Ginger Santacruz and in few days entire property will be launched.
- Company is opening ~3 hotels in Ayodhya and 2 hotels in Lakshadweep
- First hotel in Ayodhya will open in less than 12 months. While, Vivanta and Ginger hotel in Ayodhya will take ~20 months to open
- Developing hotels in Lakshadweep will take ~3-5 years as company is practically developing 2 islands over there

#### New brands

- IH will launch a new brand to accelerate growth in Tier 2 and Tier 3 cities.
- The company will continue to accelerate opening of Ginger hotels. However, Ginger hotels is unable to do lot of banqueting and weddings because of its positioning. Therefore, company will opt for one more full service brand.
- Price point (ARR) of new brand is expected to be higher than Ginger but lower than ~INR10k mark (~INR8-9k)
- Whenever the company launches a brand, they expect to quickly add at least 50 hotels in short term.

#### Others

- The industry is expected to witness a CAGR of 8-10% in hotel demand and a CAGR of 5-6% in supply for the next five years. New supply in key micro markets is very minimal.
- STR in their conference mentioned that Mumbai and Delhi ARR growth are still low than other Cities in APAC region
- An ARR increase of 10-15% in FY25 will not surprise the management with strong demand traction and launch of multiple catalysts such as convention centers, improvement in airports, roads and connectivity
- IH has been working on its existing assets (renovations and premiumization) and will be able to charge premium from the customers
- It is focusing on effective asset management. Under this strategy, IH has completely renovated Taj Delhi and now the hotel is financially much more viable. Accordingly, company is relaunching more such hotels
- F&B revenue has grown at lower pace than the increase in room revenue. Company is actively focusing on outdoor catering opportunity and expect F&B revenue to grow healthily going ahead.

- Domestic spending ability is strong and increasing the rates should not impact the demand.
- Convention centers is playing a big role in demand. One event in Bharat Madapam/Jio convention center lead to all the nearby hotels being sold out.
- Capex for 9MFY24 stood at ~INR4.7b. Going ahead, capex will be in-line with the depreciation (i.e., INR7.5-8b).

infoedge

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**Info Edge**

**Neutral**

Current Price INR 5,317

**Recruitment**

- Within Recruitment business, the growth was adversely impacted by continued slowdown in the IT segment. The non-IT business continues to perform well with pharma, healthcare, manufacturing, BFSI having delivered healthy growth in 3Q. The numbers of new onboarding on the platform was primarily led by IIMJobs, up 19% YoY in 3Q. It continues to invest in AI and improve user experience and product offerings on its platform to complement Naukri business.
- In the Real Estate sector, growth momentum persisted in 3Q across both the primary and secondary markets, with robust demand and limited inventory. The company plans to further invest within the space to improve user experience and drive monetization through improved search engine capabilities, driven by AI and Machine learning.
- In 3Q, Jeevansaathi and Shiksha observed a significant decline in operating and marketing-related expenditure, resulting in the mitigation of operating losses for both segments. However, the focus is to drive higher growth and improve monetization strategies.
- It has not witnessed any recovery in the hiring trend for IT. The continued slowdown in demand is deteriorating the consulting-related hiring. Despite the attrition rate moderating from its peak, the hiring trend is not gaining any strength. Otherwise, the hiring trend under certain pockets or non-IT business remains strong. The company maintained caution regarding the near-term recovery of the IT business.
- On the pricing front, it has not seen any improvement in pricing and it is difficult to revise pricing upward in a weak demand environment, and it is even more difficult to improve the volume. The company has undergone strategic initiatives and has added non-IT customers in smaller towns (tier-2 and tier-3). If the volume picks up within those areas, then it can reconsider price negotiation.
- The management believes that the hiring trend within GCCs are primarily led by the smaller GCCs having overall headcount of less than 500. However, the bigger GCCs within BFS, Retail, Consumer have slowed their recruitment engines. Ideally, the company gets sizable volume from the bigger GCCs vs the smaller ones.

**Margin Outlook**

- The company witnessed sharp margin improvement within 99Acres and Jeevansaathi in 3Q. This was primarily achieved through substantial reductions in advertising expenditure and the implementation of cost-controlling measures, effectively leveraging operating capabilities.
- It would continue to invest in building sales engine within tier-2 and tier-2 cities, irrespective of growth within those segments. It is working on monetizing the platforms and moved to a freemium model. Some of earlier experiments have paid off well; additionally, it has internal targets to breakeven the loss-making units.



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**IRB Infra** **Neutral**

**Current Price INR 66**

- As of Dec'23, the company's order book stood at INR 362b. In the order book, the EPC segment accounted for INR69b, providing robust revenue visibility for the construction segment of the company for the next two to three years. The O&M order book is close to INR292b.
- Awarding by NHAH has been muted in FY24 with only 1,000 kms of projects awarded until date. Despite this, IRB has secured orders worth INR 160b crore YTD FY24.
- IRB's Private InvIT was awarded TOT-12 and TOT-13 projects in Madhya Pradesh and Rajasthan.
- The company is set to receive arbitration cash award of INR16.8b. Historically, it has taken 1-1.5 years for the funds to be disbursed from such awards.
- IRB secured the Lalitpur Lakhnadon NH44, TOT-12 project in Madhya Pradesh, marking its entry into the 12th Indian state. The Concession Agreement with NHAH has been signed for this project, representing the most extensive continuous stretch of National Highway awarded on a TOT basis to date.
- Furthermore, the company obtained the Kota Bypass and Cable Stay Bridge stretch on NH76 in Rajasthan, along with the Jhansi Gwalior NH44 in Madhya Pradesh under the TOT-13 bundle of NHAH.
- IRB received the appointed date for the Samakhiali Santalpur BOT Project in Gujarat and initiated tolling and construction on the project from Dec'23. The Samakhiali Santalpur BOT project has been granted the Appointed Date, marking the commencement of construction and tolling activities.
- In 3QFY24, the total toll collection stood at INR 13.7b (+25% YoY). The rise in toll collection is attributed to both an increase in tariff and higher traffic volume.
- IRB Infrastructure Trust successfully concluded the debt refinancing for its five project SPVs, totaling INR 63.9b. This will lead to a reduction in the interest rate by 1.1% and savings of ~INR 10b in amortization over the next five years.
- The company's interest rates are linked to MCLR. As MCLR rates decrease, it is expected that the company's interest rates will also decrease. The current cost of funding for the company stands at ~10%.

**Guidance:**

- The construction vertical is expected to clock a CAGR of ~15-20% over the next two-three years with stable EBITDA margins.
- During the bidding process, IRB's priority is to focus on BOT projects, followed by TOT projects, and then HAM projects.
- Execution of BoT projects is more challenging than EPC. The bidding for such projects is less aggressive due to the substantial equity requirements. There are typically 6-7 bidders for BoT projects.
- The pattern of project awarding by NHAH will shift, with BOT projects having a greater share in NHAH's awarding activity in the coming quarters. It is anticipated that 40% of NHAH's awarding activity will be via BOT projects.

# Kajaria

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## Kajaria Ceramics

Buy

Current Price INR 1,246

### Operational highlights and outlook

- The management remains confident of achieving 5-6pp higher growth than the industry average in FY25. Demand should increase as spending have been higher in the infrastructure and real estate sectors for the last 2-3 years. Tile sales happen with a lag and hence, recovery is expected now. At present, demand is weak in both local and export markets. Industry volume has remained flat for the last few months. There has not been any recovery in Jan'24 too, as the north market has been impacted by cold weather. In 4Q, volume growth should be ~7% for KJC. Consumer preference would be for branded products.
- India's tile exports grew 49% YoY to INR123b during Apr'23 to Oct'23; however, exports have slowed down since Oct'23 due to the Suez Canal issue, which led to a jump in ocean freight. Average monthly exports from India stood at INR13b during Nov'23-Jan'24 vs. a monthly run rate of INR18b earlier. Freight costs to UK increased to USD4,000 per container vs. USD600 in Dec'23. The transit time has also increased to 40days from 20days earlier.
- The company has achieved its EBITDA margin guidance of 14-16%, with EBITDA margin of 15.8% in 9MFY24. It expects to achieve EBITDA margin of around 15-17% if conditions are favorable in FY25.

### Segmental highlights

- Adhesives business should achieve a turnover of INR500m in FY24, which should increase to INR750-800m in FY24 and INR2b in the next 2-3 years.
- Adhesives, as of now, are generally sold by its existing dealers and it has appointed a new marketing team, who will target adhesive dealers. Plywood and laminates have different distribution networks from Tiles.
- Plywood business should achieve a turnover of INR1b in FY24 vs. INR770m in FY23. This should increase to INR1.5b in FY25.
- Plywood business reported losses due to supply chain issues and other problems. KJC is acquiring a 51% stake in a plywood company in the north region for INR420m, which will ensure consistency in supplies and quality. This plant has a capacity of 2.14msm and could generate revenues of INR900-1,000m on full utilization. Laminates will continue to be outsourced as of now. It expects to achieve breakeven in the plywood business by FY26.
- Bathware segment generated 8% margin in 9MFY24 and it should be around 9-10% in FY24.

### Other operational highlights

- Average gas price was INR39/scm in 3QFY24 (INR41/scm in North, INR42/scm in South and INR34/scm in the West). Gas prices have remained stable for the last 2-3 months. KJC is using 30% biofuel in the north plant. Overall, biofuel, coal and propane meet ~25% of fuel requirements (propane is nil as of now).
- Morbi manufacturers have not hiked prices despite a 17% increase in Gujarat gas price since Aug'23. Tile prices have come down by 2-3% in the last few months.
- Ad spending will continue to be ~3% of revenues.
- The company's sales mix is ~30% from institutional sales that are related to government or contracts with builders, and the rest 70% is from the retail segment, through dealers and distributors.
- In 3QFY24, Ceramics, PVT and GVT contributed 39%, 26% and 35% to revenue and 43%, 25% and 32% to sales volumes, respectively.
- North, South, West and East contributed 40%, 30%, 18% and 12% to sales volumes, respectively.

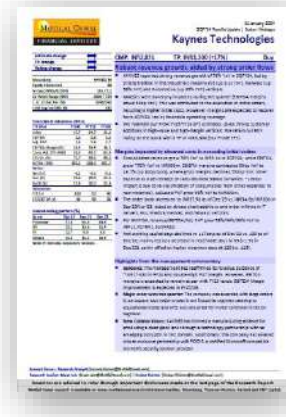
- Demand is coming from both the renovation and new projects. KJC generates 20% revenues from Metro cities, 30% each from Tier 1 & 2 cities, 15% from Tier 3 cities and rest from Tier 4 cities. Contribution from Tier 3 & 4 cities should improve going forwards as lot of new construction activities are happening. Demand from new construction projects is ~75%.

**Capex and investment**

- The company will invest up to INR500m for the acquisition of a 90% stake in Keronite Tiles Pvt Ltd. (KTPL) in Gujarat, which has a production capacity of 6msm of GVT. Sales from KTPL are expected to start in two months after the machinery upgrade.
- The company will invest up to INR300m in Kajaria Ultimate Pvt Ltd (KUPL) to purchase land in Morbi. KUPL plans to set up a large-format tile manufacturing capacity within 15-18 months. Slab tiles have a big market for exports as well as in India.



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**Kaynes Technology** Buy

Current Price INR 2,779

**Diversified order inflows and collaborations**

- Major order wins this quarter: The company won large orders in Aerospace; two major orders in the industrial segment catering to educational robots and UPS; and an order for motor controller in the EV segment.
- New Collaborations: KAYNES has formed a manufacturing alliance for producing a clear glass lens through a technology partnership with an emerging disruptor in this domain. Additionally, the company has entered into an exclusive partnership with FiDO-2, a certified Microsoft-compatible biometric security solution provider.
- FiDO-2 is a phishing proof password less authentication protocol, defined by the FiDo alliance and the Worldwide Web consortium. The technology has already been approved by the public financial management system under the Ministry of Defense, Ministry of Finance. These collaborations will help the company position itself as a single-stop solution provider, ensuring a strong presence in the complex product landscape and solidifying its position as an industry leader with a favorable margin profile.
- KAYNES become the first company to deliver 4th gen CKD server board for global OEM.
- The company in this quarter has done acquisition of Digicom Electronics. Digicom has a couple of SMT lines and a complex product profile. With this acquisition, KAYNES will be able to target complex and technologically advanced product profile in the North American market too.
- KAYNES also invested a significant stake in the US startup working in Silicon Photonics.
- Kaynes is expecting additional orders from Railways and Aerospace segment. These orders will be executed in FY25.

**Capacities and funding's**

- Existing ESDM business- IPO money raised by the company is sufficient for the existing ESDM business to register a CAGR of 45% over the next few years. The company will invest the entire IPO proceeds by the end of FY25.
- OSAT/PCB – The company is on schedule for the project and in two years' time, it will start commercial production, i.e., by mid-FY26. However, full-fledged revenue is expected to flow in from FY27/28. The company plans to utilize some part of the PCB capacity for captive use.



**OSAT**

- The company has started construction work of the OSAT plant in Telangana; however, the company have not yet received the subsidy approval from the government.
- The company has spent INR460m for land in Telangana for OSAT purposes, including the construction of a shed, which was not expensive. The company will not spend more than INR1b on land and building for this project. The management is confident of getting the subsidy/announcement of subsidy before the election.
- In the worst case scenario, if the subsidy is delayed, the building erected by the company can be used for other businesses of the company.
- Once the plant is commissioned, the company will start with regular semiconductors assembly, i.e., starting with certain packages, which are very popularly used in most of the industrial and critical applications. And then quickly move on to the second stage, to what is known as advanced packaging and compound semiconductors, etc.
- In the second stage, KAYNES will require a lot of technology partnerships, and it has already announced a couple of them.

**Guidance**

- The management reaffirmed its revenue guidance of ~INR17-18b in FY24, while EBITDA margins is expected to be at par with FY23 levels. PAT guidance remains the same for FY24.
- The management indicated that 17% EBITDA margins is possible in a quarter if the company executes railways and aerospace orders.
- Export mix in this quarter is ~15-20% (similar for both Orderbook and revenue) and is expected to go up to ~25% in FY25, driven by new orders from railway and aerospace.

**Railway**

- Kavach- The company is working with the government agency to develop this product. It is expected to take ~6-12 month before showcasing the product to the government. The commercial activity will happen after 1-1.5years.
- The company is focusing on developing a ODM kind of solution under Kavach so that KAYNES can make this product for other companies/organization apart from the Indian railways.
- Base margins for railway orders are ~11% initially and post stabilizing, it can increase by 2-3%.



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**KNR Constructions****Buy****Current Price INR 271****Overview**

- During the quarter, execution was primarily driven by the Road HAM projects.
- The current order book stands at ~INR67b, with roads (HAM) making up 57%, roads (Others) at 20%, and irrigation projects at 23%. KNRC has a portfolio of five HAM projects in its current order book.
- In 9MFY24, KNRC has not obtained any orders. The pace of awarding contracts by NHAH has been sluggish due to land availability issues. However, the order pipeline is promising, totaling INR450b, and KNRC anticipates winning new projects worth INR20-30b in FY24.
- Projects worth INR17.8b (included in the order book) are yet to receive the appointed date (AD). These are HAM projects for which AD is expected to be received by the end of Mar'24.



- Revenue contribution from irrigation projects was lower during the quarter at INR1.3b. Management expects similar revenue from irrigation in 4Q FY24.
- Net working capital days have reduced to 61 days in Dec'23 from 65 days in Sep'23.
- The focus remains on optimizing liquidity and resolving pending irrigation receivables.
- KNR is currently identifying opportunities in sectors such as railways, metros, irrigation projects in other states, and other construction-related projects.
- The total equity requirement for HAM projects is INR9.9b. This would be as follows: 4QFY24 – INR900m, FY25 – INR2.9b, FY26 - INR650m.
- Standalone cash position as of Dec'23: INR300m

**Irrigation projects**

- Execution of irrigation projects, which are in the order book, should pick up once KNRC gets more clarity on the payments from the authorities.
- Pending receivables from the Telangana government for irrigation projects stand at INR6.5b as of Dec'23.
- KNR has bid for irrigation projects worth INR11-12b in Telangana, but bids for irrigation projects remain pending due to the recently concluded state elections.

**Guidance**

- Management has guided a revenue of INR12b in 4QFY24 and ~10% YoY growth in revenue in FY25.
- EBITDA margin could improve if execution of irrigation projects picks up pace.
- KNR has undertaken a capex of INR700m during 9MFY24. FY24 capex is pegged at INR0.9-1b and ~INR1b for FY25.
- The government maintains its focus on infrastructure development, with an 11.1% YoY increase in the budget of 2024-25. Asset monetization is crucial for NHA to finance upcoming projects, with a target of INR400b for FY25, the highest ever set by NHA.
- KNR is exploring EPC opportunities in new regions, which is a key focus area for diversification. Further, the company is exploring state road projects in Maharashtra, with bidding in alternative regions if necessary.
- Continuous pursuit of railway projects, BoT projects, state road projects, and exploration of EPC opportunities in solar projects is planned.



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**Lemon Tree Hotels**

Buy

Current Price INR 139

**Operational highlights:**

- During the quarter, the company opened five hotels, adding ~298 rooms in its inventory.
- LEMONTRE signed nine new management & franchise contracts in 3QFY24, thereby adding 621 new rooms to its pipeline.
- As of 31st Dec'23, total operational inventory comprised 100 hotels with 9,687 rooms and the pipeline comprised 55 hotels with 3,746 rooms.

**Guidance**

- LEMONTRE expects mid-teen ARR growth in FY25 with the occupancy rate of over 70%.
- It expects further increase in ARR within key brands such as 'Lemon Tree Premier' and 'Lemon tree hotels'. 'Lemon tree hotels' can also witness an increase in occupancy going ahead.
- The company expects to incur a capex of ~INR1b/INR400-500m in FY25/FY26.

**Margins**

- Margins in 3QFY24 was dragged down due to higher expenses of recently launched Aurika MIAL and higher planned renovation expenses.
- Staffing cost has increased during the quarter, partly due to the opening of Aurika MIAL hotel and partly due to the salary hike extended to the employees (which have been pending for a long time).

**Aurika Mumbai Sky City**

- The newly opened Aurika Mumbai Sky City (launched in Oct'23) witnessed occupancy below 40% in 3QFY24. However, the management expects occupancy of ~60% within the hotel in 4QFY24.
- The hotels occupancy rate is expected to be in line with the company average in FY25.
- The management expects the EBITDA margin of ~60% from this hotel.
- This hotel has a very large airline crew base with an average room rate of INR7,700.
- For FY25, the management expects ~100 rooms to be occupied by crew contracts, ~150 rooms to be taken up by corporate clients, and retail clients expected to occupy ~200-250 rooms.

**Region-wise performance**

- In 3QFY24, occupancy for Gurugram/Hyderabad/Bengaluru improved 240bp/340bp/70bp YoY to 70%/78%/55%. Mumbai/Pune witnessed a 2600bp/370bp YoY decline in occupancy to 53%/65%. While, occupancy for Delhi remained flat at ~81%.
- The occupancy within Mumbai experienced a significant decline, primarily due to the recent opening of Aurika Sky City (launched in Oct'23), which comprises ~669 out of 972 rooms within the city. The occupancy is expected to increase gradually as Aurika Sky City ramps up over time.

**Renovation and Capex**

- The company expects to spend ~INR400m on renovation in FY24. Currently, ~300 rooms are shut for renovations.
- The company expects to renovate even a larger part of the portfolio in the coming summers.
- LEMONTRE expects to complete renovations in majority of Keys and Premier hotels by Apr'25
- The company has renovated ~50% inventory of Lemon Tree Premier in Delhi. The company has witnessed improved ARR for the renovated hotels (~INR10,000 from previously earned INR8,000) and will complete the renovation of the balance inventory within the hotel.
- The company has a policy, wherein it is targeting a ~2-year payback period for any renovation.

**Industry Scenario**

- Supply is growing at ~5% p.a., while demand is growing at a much faster pace on pan India level.
- As per the management, the Indian Hotel industry is not into an upcycle as All India occupancy rate is ~60% and until this crosses 70%, this period will not have classified as an upcycle period.
- LEMONTRE expects the RevPAR growth to be in mid-teens with ~70-75% flow through within the segment, where the company is operating.

- Industry occupancy rate is expected to be ~65%/75% in FY25/FY26.

**Aurika, Shimla**

- The company was constructing a 69-room Lemon tree premier hotel in Shimla. However, it has decided to convert it to an Aurika brand hotel.
- Accordingly, it will now launch Aurika hotel in Shimla with an inventory of ~100 rooms. The construction of hotel is expected to complete over the next 12-15 months.

**Other key highlights**

- The company expects to end FY24 with debt: equity ratio of ~3.7x. The same is expected to further decline below 2.5x by FY25 and 1.5x by FY26. The debt is expected to reach its peak within 4QFY24.
- Aurika Sky City, Mumbai, was built with INR3b of debt and INR6b of self-accrued funds.
- This hotel is built on lease land from the government with lease rentals of ~INR30m escalating this year. These rentals are expected to increase further over the coming years.
- Discounting by the rate of interest, the NPV for 30-year lease is estimated to be ~INR500m.
- The company aims to bolster demand for its keys portfolio starting from 2HFY25.
- LEMONTRE standalone entity is expected to earn ~INR1b of management fees from fleur hotels.
- The company can consider a suitable option of listing Fluer hotels separately, where it can have a separate set of investors.
- The company is building hotels at religious places. For example, it is actively looking to build small Aurika Hotels at the ghats of Varanasi.



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**One 97 Communications**

**Neutral**

Current Price INR 376

**Balance sheet, P&L and others**

- Revenue was up 38% YoY, partly due to the festive season. Contribution profit grew 45% YoY, while contribution margin stood at 53%. Contribution margin is expected to remain mid-50 over the near term. EBITDA is further expected to improve in 4Q. PAT improved by INR1.7b YoY to INR2.2b. The company remains focused on reporting a profit in the near future.
- Employee costs (ex of ESOP) stood at INR8.1b. Sales employee costs jumped 50% YoY. Further, the company does not expect the employee count to go up significantly. With AI delivering significant efficiency by automating a large spectrum of workflows, it expects significant operating leverage from employee costs going forward.
- The company is focusing on achieving operating efficiency through AI and as a result, employees-related costs have declined, especially related to on-ground sales teams.

**Payments business**

- Net payment margin stood at INR7.5b and payment processing margin stood at 7-9bp.
- Merchant subscription reached to 10.6m.

- Payment processing margins do not include subscription revenue. The company had previously guided to a moderation in processing margin, but so far margins have been better than expected.
- The company might have lost INR5 per device in the recent quarter in order to acquire customers. But it expects the rent per device per month to stay at INR100 per month.
- Soundbox is seeing healthy competition. The company is focusing on product differentiation like faster settlements vs. competition. Success and accuracy are key differentiators for Paytm.
- The company is also tracking the device de-activation to understand and improve on the feedback. At present there are currently 19 alternatives available in the market to Paytm's soundbox.

#### **Lending Business**

- Disbursements under Paytm postpaid moderated on expected lines and 4Q will have full impact.
- Portfolio quality in the lending business remained stable and healthy.
- Merchant loans and Personal Loans continue to show healthy growth trends.
- Paytm has more than 20m whitelist users and the company aims to expand the list of potential customers as well as platform partners. 3Q saw disbursements of INR4.9b in the high-ticket PL segment, with INR2b in disbursements in Dec'23.
- These 20m whitelist customers are highly credit-worthy customers and are credit tested by the system. The approval rates are higher — 40% for high-ticket-size customers vs. 15-20% for low-ticket-size customers.
- ECL for the postpaid business should be in the range of 0.65% to 0.85% in 3Q.
- High-ticket loans have a low rejection rate vs. low-ticket loans. The company expects the high-ticket business to perform better than the low-ticket business. The company expects this business to grow materially over the coming years.
- The company is going to abide by the regulatory environment and will not make any changes in the product to calibrate the environment.
- Early momentum is seen in product fit of insurance, in embedded as well as merchant insurance products.
- Equity broking is seeing a gradual scale-up of F&O and equity trading customers.
- The company has been seeing some issues with the spending patterns of its postpaid customers, and hence has stopped offering services to them.
- The use cases in Paytm postpaid are coming down and will continue to come down in 4Q and 1QFY25, post which the business is expected to stabilize, though according to Paytm it is too early to predict as of now. The business impact from Paytm postpaid on P&L and the overall lending business is very marginal.
- Postpaid business has higher opex and thus the moderation in disbursement run rate will have a limited impact on EBITDA.
- There is no change in delinquencies in postpaid (remain range bound). The company reduced disbursements in Paytm postpaid as lending partners were not comfortable in a ticket size less than INR50k.

#### **Commerce and cloud**

- Revenue in marketing services stood at INR5.1b, up 22% YoY.
- In this business, merchants sell discount deals, gift vouchers and other digital goods like tickets to Paytm users. GMV of the items sold on Paytm app was up 48% YoY at INR33.9b.
- The company here offers brand marketing, advertising and loyalty services to brands and businesses.



- About 1.01m Paytm consumers acquired credit cards of partner banks as of Dec'23 (25% YoY growth).
- The company expects RuPay card issuance to significantly go up. The number of merchants who are ready to accept the MDR are increasing continuously. The company remains optimistic in this business.
- For 3QFY24, commerce GMV grew 48% YoY to INR33.9b, while revenue grew 22% YoY to INR5.1b. Take rate remained in the 5-6% range.

**Key focus area:**

- Leveraging the power of CoPilot AI to create a high-quality product at an accelerated pace.
- Driving operating leverage by AI-led efficiencies across businesses, operations and risk functions.

**Payments & Financial Services:**

- Focusing on monetizable incremental user acquisition, leveraging UPI credit, Autopay, etc.
- Multi-device led strategy to further strengthen merchant acquisition leadership
- Expanding high-ticket loans and addition of new lending partners.
- Scaling up embedded insurance and merchant insurance offerings
- Cross-selling equity trading to Paytm consumer base

**Marketing Services:**

- Offering deals, gift vouchers, loyalty and enabling commerce services to merchants
- Advertising on Paytm App for various brands, businesses and credit card issuers



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**PI Industries** Buy

Current Price INR 3,683

**Operational Overview**

- Overall, the revenue growth was driven by ~13% YoY growth in exports (CSM). The major drivers were new products in both Agchem and Pharma, which contributed ~60% of the exports.
- Gross Margin stood at 53.6% (up 640bp YoY), led by better product mix, but also included a one-time impact of recovery of theft materials worth INR0.4b.
- The increase in overhead costs was mainly attributable to developmental costs for the newly acquired Pharma business and is not comparable on a YoY basis.

**Global Agrochemical Scenario**

- The global agrochem industry has seen China offloading materials in global markets. Consequently, trade channels are yet seeing high inventory, and the flow of products for manufacturers is, therefore, impaired.
- Certain geographies are more impacted than others internationally, but overall, generic products are the most impacted, declining MoM.

**Exports (CSM)**

- The company is witnessing a continued scale-up in demand for newly commercialized products.
- Volume growth will drive the overall growth within the segment.
- The company had a solid R&D pipeline of a diversified portfolio of agchem, electronic, imaging, and other specialty chemicals. It expects to commercialize ~4-5 products every year.

- PI becomes the first Indian company to receive approval from International Organization for Standardization (ISO) for a ground-breaking insecticide, named "PIOXANILIPROLE".
- Outlook: A continued scale-up in demand of the newly commercialized products to drive growth in next quarters. It has a solid R&D pipeline of diversified portfolio of agchem, electronic, imaging and other specialty chemicals (four to five products to be commercialized every year; ~30% from non-Agchem). PI expects the capacity expansion in line with its plan to commission two plants in next one year.

#### Domestic Agri inputs

- The domestic business was subdued (revenue down ~6% YoY) due to delayed and erratic spread of monsoon.
- However, the favorable product mix and improved working capital management helped PI contain the financial impact.
- The company launched ~five innovative brands in 9MFY24 (an insecticide, herbicide, two fungicides, and biological product). Overall, it expects to launch ~six new brands in FY24.
- A robust pipeline of over 20 products under registration and development.
- Outlook: The monsoon deficit in south and low reservoir levels; Elevated inventory levels in the industry for row crop agchem products and price pressure from generics to continue; and integrated crop solution approach with focus on quality of revenue and efficient NWC management.
- Pharma:
- Revenue stood at INR1.3b (~7% of total revenue) in 3QFY24. Gross margins stood at 51%.
- Proforma EBITDA for 9MFY24, before development spending of ~INR350m, works out to ~16%.
- Development expenses were related to augmenting resources, R&D, business development, setting up new systems and scopes.
- Inventory declined to INR865m from ~INR1.2b as on Sep'23.
- Capex for 9MFY24 stood at INR1,008m.

#### Capex and capacity utilization

- Total capex for 9MFY24 stood at INR9b (including the Pharma acquisitions of ~INR5b). Excluding the same, capex stood at ~INR4b (vs. ~INR2.6b in 9MFY23).
- The company continued its focus on driving higher capacity utilization by improving the throughput.
- PI plans to invest INR6-8b annually to grow organically.

#### Guidance

- The management has maintained its revenue growth guidance of 18-20% p.a.; however, it expects to end FY24 at the lower end of the guidance.
- The management targets ~25% of export revenue to come from the non-agrochemical segments, including pharma, over the next four to five years.
- EBITDA margins to be in the range of 25-26% going ahead. Capex spends to be ~INR6-8b annually going ahead.
- The tax rate for FY24 to be ~14%-15%.



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**Qess Corp** **Neutral**

Current Price INR 526

**3QFY24 performance**

- The environment was positive in industrial, BFSI, retail, and telecom, whereas e-commerce and FMCG saw a net headcount decline that was attributed to the festival season concluded in 3Q.
- General Staffing Business added 13k headcount in 3Q, led by the manufacturing, telecom and BFSI sectors. The vertical focus strategy has continued to incentivize excellent growth; manufacturing and BFSI grew 8% each on QoQ basis. The momentum is expected to continue for the BFSI and manufacturing segments. The management indicated that the pipeline remains healthy, which will drive the headcount in the coming quarters.
- The Indian IT staffing and collection business remains impacted by global headwinds. Focus continues to be on niche profiles, GPC, BFSI and digital, and on maximize the market penetration in strategic focus areas.
- The platform business has demonstrated economic sustainability and positive momentum toward higher value-added earnings. The business closed an order book of over INR1,100mn EBITDA in 3Q, implying sustained revenue growth in the coming quarters. BFSI accounted for 35% of total annual contract value-added. The company also saw encouraging green shoots in the auto, retail and consumer goods sectors.
- In the International CSM business, growth momentum is expected to continue in4Q as well, leveraging further revenue realization from leading North American customers. Additionally, the company is witnessing green shoots in healthcare, manufacturing and infrastructure and will continue to focus on sales sector.

**Margin**

- The improvement in EBITDA margin was driven by three elements: (1) Spending reduction in marketing product development; (2) Growth in profitability in TTS vertical and improved margins due to business mix in OEM vertical; (3) Volume growth and rigorous cost-control measures.
- The improvement in gross margin was attributed to improving operational efficiencies and the mobilization of contracts won during H1FY24.
- Cash management and debt repayment continued in 3Q. Gross debt declined by INR530mn in 3Q to INR4,190mn, the lowest in the last 10 quarters.

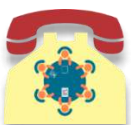
**SIS** **Buy**

Current Price INR 452

**Quarterly performance**

- The management believes that the FM business has a potential of 30%+ growth, which was the trend before Covid. Weak growth in the FM business is attributed to the company's conscious decision to trim some of the contracts that are fault fee, have low margin, and carry a huge penalty. We believe that it will take a couple of quarters for SECIS to achieve the turnaround.
- The management remains selective in wining contracts from the existing or a new account. The company would look to play around annuity-based or outcome-based contracts that are stickier in nature with longer terms and higher tenure. Additionally, the margin profile of those contracts is superior to that of resource-led contracts.

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- In outcome-based contracts, the company gets to work on ancillary services with a layer of solution on top, including digitization, automation, and mechanization, to deliver the outcome.
- In cash logistics, the ATM business, which is subsidizing, contributes 20% to the overall segment, while 80% of revenue comes from the non-ATM business or bank outsourcing services. The ATM count has gone down by 100+ in 3Q, which did not impact its revenue growth. However, the company believes the number of ATM routes it serves with density will not have any adverse impact going forward.

**Outlook**

- The management is confident of sustaining EBITDA margin of 6% for its India Security business. However, the sequential trend could be volatile due to the contact mix.
- For the alarm monitoring business, the company generates 15%-20% EBITDA margin, while it believes route-based cash logistics business with huge productivity and high density could fetch 20%+ EBITDA margin.

**SRF Neutral**

Current Price INR 2,383

**Chemicals business:**

- The specialty chemicals segment witnessed headwinds due to inventory rationalization. However, it witnessed improved performance in the later part of the quarter.
- Going forward, management is expecting a significant recovery in 4QFY24.
- Overall demand outlook for mid-to-long term remains strong
- Fundamentally, the specialty chemicals business remains in good stead. China +1 and global customers' de-risking theme will continue to benefit the company.
- The company has maintained its strong customer engagement for complex downstream products. It has launched three new products in the agro vertical.
- SRF has capitalized ~INR11b of capex in 9MFY24 with ~INR7b being scheduled for commissioning in 4QFY24. Such large capex reflects company confidence within the business
- Fluorochemicals segment witnessed subdued performance due to the seasonally weak quarter.
- Lower realizations across HFCs in key global market led to pressure on margins. Pricing are expected to be more rationale going ahead.
- The sluggish growth in the agrochemical and pharmaceutical industries hurt demand for some industrial chemicals
- Going ahead, the company expects improvement in performance in 4QFY24 led by healthy upcoming season and rebound in exports in key regions.
- The company have capitalized its PTFE and R32 plant in 3QFY24 and will focus on ramping up of the same going ahead.
- First quarter of a fiscal year is the strongest quarter for the Fluorochemicals market from domestic demand perspective.
- Domestic HFCs market is witnessing growth. There are no major player (other than SRF) in the domestic HFC space. Some of the export markets of HFCs are also witnessing growing.

**Packaging film business**

- The business continued to face supply overhang in both BOPP and BOPET, resulting in pressure on margins

- The demand-supply imbalance and margin pressure are expected to continue in the near term.
- Persistent competition from Chinese players is expected to continue within Southeast Asia while Red sea crisis is leading to logistic issues and therefore European customers are preferring local suppliers.
- However, management believes the down cycle is at its peak and the industry's overcapacity will taper over time.
- Going ahead, SRF's focus remains on cost optimization, increasing operational efficiencies, and improving share of the value-added products.
- SRF has commissioned the Aluminum foil facility on 1st Jan'24 at the cost of INR5.4b. It will focus on ramping up the sales over the upcoming quarters. The company is expecting global approvals to come through for its aluminum foil products over the next 6-12 months.

#### Technical textile business:

- The business recorded healthy performance in 3QFY24 (despite the cyclone impact on the Manali plant), led by improved domestic demand for NTCF.
- The Manali plant operations were adversely impacted in Dec'23 by the Cyclone Michaung. All the employees were safe and the operations were largely resumed by end of Jan'24.
- The company also witnessed an improved performance in Belting fabrics and Polyester Industrial Yarn.
- Going ahead, management is expecting stable demand in NTCF, while domestic demand of belting fabrics is also expected to be strong.
- SRF's witnessed strong demand for its coated fabric business. The demand is expected to remain stable going ahead.
- SRF posted notable growth in the value-added products leading to healthy margins during the quarter.

#### Capex:

- SRF has sanctioned multiple projects worth INR11b. The remaining capex for these projects will be incurred in FY25/ FY26
- The company expects overall capex of ~INR20-22b in FY25 (~80% in chemical business and balance in others)
- Management is focusing on adding capacities for the complex and value-added products; the desirable IRR is witnessed after 5-10 years of commissioning of the project. However, management has witnessed an expected or even better-than-expected IRR in the previously completed projects.

#### Other key highlights:

- On overall basis, margins for 4QFY24 are expected to be better than that of 3QFY24.
- The company has further diversified its raw material supply source
- Effective tax rate (ETR) for the standalone entity will be ~25.5%-25.8%.



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## Syrma SGS Technology

Buy

Current Price INR 511

#### Guidance

- The company has guided for revenue of ~INR30b in FY24, with EBITDA margins of ~7-7.5%.
- It is confident of maintaining the revenue growth trajectory of ~40-45% in FY25 on the back of a strong order book and a rebound in the healthcare segment. EBITDA margins are expected to be in the range of ~7-8% in FY25.





- The company aims for RoCE of ~25%+ (EBITDA of ~INR3-3.5b on INR14-15b capital deployed).
- Going ahead, SYRMA will focus on maintaining and increasing the margin profile of each vertical.
- The company expects to achieve an asset turn of ~6x by FY25-end and targets an asset turn of ~6-7x going ahead.
- Going ahead, the company expects the automotive, consumer and industrial verticals to be key growth drivers, contributing to ~75% of the total revenue.

**Operating performance**

- SYRMA witnessed lower-than-expected sales growth due to a delayed execution of orders worth INR1.1b in the consumer and automotive segments. Revenue from this order is likely to be booked in 4QFY24.
- Lower-than-expected sales impacted operating leverage and resulted in lower margins. Further, it also led to a marginal increase in working capital requirements.
- Moreover, gross margins were adversely impacted by a change in the product mix. However, contribution margins for all verticals were stable.

**Order book**

- The order book stood at ~INR45b as of Dec'23 vs. ~INR38b/INR35b in Sep'23/Jun'23.
- The consumer/industrial/automotive/healthcare segments accounted for 40-45%/30-35%/18-20%/8-10% of total orders as of Dec'23, with segments such as IT and railways accounting for the rest.
- Export orders accounted for ~20% of the total order book.
- Orders worth ~INR45b (including ~INR9b export orders) are executable over the next 12-15 months.
- The order book for the healthcare segment includes orders from Johari as well (newly acquired company).

**Capacity expansion**

- The company has increased SMT capacity to ~6.3m components from ~3.2m earlier.
- Further, it is in the process of setting up a new facility in Bawal and Pune each. Cumulatively, these facilities will add a manufacturing area of ~0.35m sqft.

**Railways**

- SYRMA has got approval from RDSO for delivering the signaling system. It also received an order for INR350m in 2QFY24, which was expected to ship out in Mar'23. However, it was delayed due to the shortage of key components globally.

**Healthcare**

- SYRMA expects revenue of ~INR3.75-4b from the healthcare vertical in FY25.
- Johri Digital (newly acquired company) recorded a revenue of ~INR300 in 3QFY24 with margins of ~30%.
- SYRMA expects ~25-30% revenue growth for Johari Digital in FY25. This company will contribute less than 5% to total revenue in FY25. However, the contribution to EBITDA will be significant.
- The company has hired a new CEO for Johri Digital in Jan'24. He was previously working with Tata Elxsi.

**Exports**

- Exports accounted for ~28% of total sales in 3QFY24.
- Exports for 9MFY24 stood at INR5.5b. The company expects this number to grow strongly in the coming years, led by renewed growth in the healthcare segment and new client additions in 9MFY24.

**Other key highlights**

- **Capex:** SYRMA incurred a capex of ~INR2.4b in 9MFY24 and expects to spend an additional ~INR400-500m in 4QFY24. After this capex, the company will still be left with unutilized IPO proceeds of ~INR2b.
- **Net working capital** days stood at ~72 in 3QFY24 vs. 70 in 2QFY24. SYRMA expects to end FY24 with working capital days of less than 70. With the increasing mix of high-volume orders, the company expects to bring down the net working capital to ~60 days going ahead.
- **Debt:** Gross debt increased to ~INR4.9b as of Dec'23 from ~INR3.3b as of Dec'22. Net debt stood at ~INR656m as of Dec'23 (vs. net cash of ~INR5.6b as of Dec'22).
- **Other points:** SYRMA has hired consulting company McKenzie to get better insights for driving operational efficiency and growth in upcoming years.
- The company will continue to invest in people and process.
- Revenue from ODM accounts for ~19% of the total revenue during the quarter.
- Gross block as of Dec'23 stood at INR7b. Out of this, assets worth INR1.5b have not been deployed for use yet. Therefore, operational gross block stood at ~INR5.5b.



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**Tata Chemicals** **Neutral**

Current Price INR 983

**Operating performance**

- Revenue for the quarter declined due to lower volumes and subdued pricing of soda ash.
- Within the US, volumes declined 80,000 MT due to plant shutdowns and rail car shortages. This led to lower absorption of fixed costs and adversely impacted operating profitability.
- Market demand remains tepid across all key regions and segments
- Container and flat glass sectors are significantly impacted in Europe while LATAM is experiencing a slowdown, especially in lithium.
- Further, industry witnessed surge in Turkish producer's exports to Asian markets, especially in India, China and Southeast Asia.
- Current demand-supply situation is likely to persist in short to medium term
- Rallis' domestic business witnessed volume growth with healthy improvement in margins. Although, the international business of the company is facing some challenges.

**Capex**

- The company will incur a capex of ~INR5b in 4QFY24.
- Currently, TTCH is expanding its Soda Ash/Bicarb/Salt capacity by ~230KTPA/70KTPA/330KTPA. This phase of expansion will be completed by end of FY24.
- Thereafter, TTCH expects to incur capex of ~INR20b (till FY27) to increase Soda Ash/BiCarb capacity by ~30%/40% and Silica capacity by ~5x.

**India**

- The company is sequentially expecting better/stable performance from Indian operations.
- Contracts in India are on quarterly basis (contributes ~50% of the total volumes)
- Imports in India are ~800-850KTPA.
- New soda ash plant (250KTPA) is expected to be commissioned by May'24 taking total capacity to ~1MTPA.
- A few of the power plants have started operations.

**TCNA**

- The US volumes were lower by 80,000 MT due to plant shutdown and rail car shortage. The Impact of the same was ~USD10m with contribution margin of USD125-130/MT.
- Shutdown continued for ~3-4 weeks which impacted half the volume and balance half was due to rail car shortage
- The US soda ash export market witnessed subdued pricing during the quarter
- While export contracts have seen a sharp erosion, the contribution is expected to be down by ~USD100 in the coming quarter
- There is an overall reduction in market volumes, which is in sync with the company

**TCEHL**

- Several customers in the EU have moved to fixed pricing contracts where the risk is with the company.
- TTCH expects margin compression of ~GBP100 in the coming quarter
- The major demand side challenge is from Western EU. The region lost 1MTPA of demand which is getting dumped elsewhere.
- Demand in EU declined from 6.5MTPA to ~5.5MTPA as most of the consumption industry is under stress coupled with war-like scenarios.
- This scenario is likely to continue in medium term and the supply within the region needs to be rationalized to balance the demand

**Other Highlights**

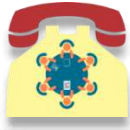
- Mongolia Capacity addition: Situation is static with capacity which was expected to commission have come on stream. China market remains balanced or slightly short
- Global Capacity utilization of the Industry is ~90% and the company expects this scenario to continue in FY25.
- TTCH witnessed higher Power and fuel cost in 3QF24 as it did not hedge the same
- TTCH is not witnessing any challenges in the Salt and Soda bicarb business.



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**Team Lease****Buy****Current Price INR 3,180****Demand and Growth Outlook**

- The IT service sector continued to experience reduced hiring over the past several quarters, further intensified by the impact of furloughs in 3Q. This decline is partially offset by the uptick in hiring for GCCs and Product companies. Notably, 66% of the net revenue in 3Q is contributed by GCCs.



- The deceleration in net headcount addition (up 2.5% QoQ) was attributed to (1) the strategic emphasis on high-margin business, and (2) a general slowdown in hiring for IT service vendors.
- In 3Q, hiring was primarily driven by the Manufacturing vertical, with some early signs of ramp-up observed in the BFSI sector. However, the management maintains cautious optimism for at least the next two quarters in BFSI. Positive trends are also noted in the consumer and telecom sectors, indicating a potential increase in hiring in the upcoming quarters. The growth in BFSI was largely impacted at the end of the quarter.
- The management believes the two aspects that are expected to drive the future growth are (1) resumption of specialized staffing demand for IT service providers (2) and addressing issues related to attrition and productivity for large enterprises through cross-selling and up-selling initiatives.
- Within IT services, the leakage in terms of employee attrition is quite high with muted hiring activities. However, this leakage is partially offset by continued hiring on the GCC front. The management also indicated that there is not much difference on the pricing front for GCC vs IT service providers; however, the bill rates are higher for GCC, leading to higher realization.
- The management anticipates a monthly attrition of 100k NEEM employees and foresees the majority of NEEM exits by 1QFY25. Meanwhile, the non-NEEM pipeline remains healthy. As the number of NEEM employees decreases, the company sees an improved opportunity to involve Apprenticeship and achieve higher realizations.
- In the EdTech sector, the management expects a 30% YoY growth with an EBITDA margin ranging from 8-10%. For HR Tech, it expects a growth of 20%, and it might breakeven with marginal productivity in FY25. Overall, it expects another quarter of growth, partly aided by GCC and a healthy deal pipeline for other businesses.

**Margin Outlook**

- The company anticipates a margin for specialized staffing within the range of 6.5%-6.7%. The margin is expected to return to the earlier band (8-9%) once demand resumes for the IT service lines. It is also evaluating margin aspects before acquiring and executing on any incremental deals.
- Generalized staffing EBITDA margin was adversely impacted by the transition mandates of low margin telecom staff. Additionally, the company disbursed a one-time bonus in 3Q, which had a bottom-line impact of INR 10m.
- Even in 4Q, the management expects a positive shift in margins, driven by operating leverage emerging from the HR Tech and EduTech segments.
- Margin improvement was partly driven by higher PAPM (but lower volume) for the mid and lower client buckets; large enterprise clients have lower PAPM, but higher volume. Similar dynamics are expected to continue and should balance the margin equation going forward.



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**UPL** **Neutral**

Current Price INR 499

**UPL Corporation**

- Revenue and EBITDA for 3Q continued to be impacted by global channel destocking and ongoing pricing pressure in post-patent space exacerbated by higher rebates.
- Liquidation of high-cost inventory, higher rebates to support channel partners, and accepting failed returns impacted contribution margin.
- Destocking continued to weigh on the global agrochemical market. Overall, prices remained stable QoQ in the crop protection business but came off



significantly vs. the high base of previous year amid intense post-patent price competition.

- The company is witnessing a pick-up in volumes in Latin America and double-digit growth in revenue in the RoW region.
- Contribution margins were down marginally YoY, adjusted for the short-term impact of high-cost inventory liquidation and higher rebates to channel partners.
- The management expects normalized business performance in 2QFY25.
- It reduced SG&A expenses by 19% YoY to INR22.7b and is on track to reduce SG&A by USD100m in FY25 (from the base of FY23). The major part of this reduction will be sustainable.
- There will be some impact of high-cost inventory in 4QFY24, but the impact will be lower than in 3QFY24. Going into FY25, the proportion of high-cost inventory will be low on the books.

**Geographical performance**

- Pricing pressure and destocking impacted performance in the Americas and Europe.
- UPLL continued to gain share in the key markets and the level of destocking is expected to reduce going ahead.
- Brazil and North America also face margin pressure due to rebates.
- In Brazil, its market share increased to 9.1% from 8.5% in FY23.
- In RoW, NPP (Natural Plant Protection) was up by ~20% YoY, mainly led by volume growth.

**UPL SAS**

- The company expects Glufosinate demand to recover in the upcoming Kharif season.
- India business performance was poor compared to peers as key crops for UPL such as cotton and pulses were hit badly this year.
- The company is slowly returning to normal inventory levels.

**Working Capital and Debt**

- Working capital days increased by 34 days YoY to 155 days as on Dec’23, primarily due to a decline in payable days (lower by 16 days) and a sharp decline in procurement.
- The company witnessed a reduction in non-recourse factoring by INR28.3b on YoY basis, led to an increase in receivable days
- Working capital days at FY24-end are expected to be higher YoY due to lower payables and lower factoring.
- The company has recently announced a rights issue of up to USD500m and is exploring capital raise opportunities in addition to operational cash flows.
- The average cost of borrowing for 9MFY24 was ~7% p.a.
- Net debt stood at USD3.77b as of Dec’23. Adjusted for lower factoring (down USD346m YoY), net debt was largely flat YoY despite lower payables (down by USD568m YoY).
- The company targets to bring down net debt to USD2.5b (ex of rights). Post rights, this can be further reduced to USD2-2.2b.

**Guidance and Outlook**

- UPLL expects 4QFY24 to be weaker YoY; however, it expects margin improvement on QoQ basis.



- The management believes that 3QFY24 was the most challenging quarter.
- It expects the price challenge to continue until 1QFY25, as lower pricing from China is expected to continue in the near term.

**Other highlights**

- It will be challenging for the company to retain its current credit rating with the reported and expected profitability.
- For the top 15 molecules, UPLL is cost competitive vs. China (at least 15%). And for the rest of the molecules, UPL is on a par with China in terms of costs. In one molecule, it is a little behind China.
- There is only one season for this industry, and if that is adversely impacted, then the impact is seen in the remaining three quarters.
- The company is not seeing any consolidation in the industry; however, many global players are operating at low utilization.
- In FY25, UPLL will be running plants at a slightly higher utilization level vs. FY24.
- UPLL posted lower volume YoY; however, the cost component was a little high.
- Inventory value stood at ~INR170b as of Dec'23 vs. INR200b last year.



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**Voltas** Buy

Current Price INR 1,106

**Operational data and demand trends**

- The domestic business has seen a recovery; however, provisions on account of delayed collections and cost overruns especially in Qatar hit the overall performance. VOLT availed a term loan to finance the capacity addition for RAC and commercial refrigeration along with investments directed towards the PLI scheme.
- RAC demand was supported by key festivals and the wedding season in a historically lean quarter. Strategic partnerships with channel partners, price calibration, and expanded product portfolio led to higher-than-industry growth in 3Q. RAC volumes grew 27% YoY surpassing the industry growth of 20-22% YoY. The company continues leadership in window and split AC category with YTD market share of 19% in Dec'23.
- Growth of commercial refrigerator category was tepid led by higher base of last year and reduced investments by OEMs particularly in the chocolate category. However, the growth outlook remains strong on account of expansion of retail chains and increased penetration of cold beverages, chocolates and ice creams.
- VOLT air coolers remain at the second position in the industry and had a market share of 8.9% in Nov'23, up 1.7pp from Mar'23 level. New launch water heaters witnessed good acceptance. Commercial AC had a robust growth for chillers, VRFs, ducted and packaged ACs, both from the retail and healthcare sectors. A mandatory quality control order compliance may impact sales amid price escalations for few categories. Though, increased commercial activities across the country should help overall growth for this category.

**Unitary Cooling Products (UCP)**

- Demand for RAC, commercial refrigerators, air coolers and home refrigerators is expected to improve in the upcoming summer season which along with positive consumer sentiments should support growth. This may also help in strengthening the market share.
- Commodity prices spiked in last two years, which the industry was not able to pass on to the consumers. Margin direction for UCP remains better and the company would continue to remain a leader in margins. There are chances of

50-60bps of further margin improvement. The company may take a minimal price hike when there are cost increases led by higher R&D expense.

- 60 brands are in markets for RAC and they are fighting for market share. Its market share for window AC is between 35-40% for last few quarters; whereas; market share in split AC should be ~19%. 90% of the company's business comes from split ACs. These market share are generally for multi-brand outlets; however; this share will not move much (+/-0.1%) including all sales channels (MBOs, EBOs, offline and online channels).
- The company has changed its distribution strategy which earlier was largely focused on conventional channel and distribution. With rising acceptance of e-commerce and modern trade, it has roped in all partners including modern trade, organized trade, regional trade, e-commerce channel partners, EBOs etc.

#### **Electro-Mechanical Projects and Services (EMPS)**

- Domestic project business registered as strong growth of 83% YoY led by healthy order book and timely execution of the projects. Order inflow and order book in domestic business stands at INR4.82b and INR52.75b, respectively. Delay in collections and cost overruns for projects, especially in Qatar led to a loss of INR1.43b in international projects. International order book stands between INR25-30b.
- There are few projects in Qatar where the issues happened. The company executed most of the contracts and handed over to the main contractor. In few cases, they have not made the payments and in few cases, bank guarantees are being encash. Total provisions for Qatar projects are between INR3-4b. The company has taken legal routes to recover the collections and expects that the verdict will come in that favor. This will also help to reverse these provisions. Generally, decision in legal cases take 24-30months.
- The business is running as usual in other regions and profits are at normal levels. EBIT margin should be between 4-4.5%. Other business verticals are performing better than expectations. Headwinds in the international business may continue due to adverse global conditions; though efforts are underway to reduce the adverse impacts. Headwinds in the international business may continue due to adverse global conditions; though efforts are underway to reduce the adverse impacts.

#### **PES segment**

- Demand for crushing and streaming equipment and revival of iron ore sector led to improvement in PES segment. Investment in textile sector led by PLI schemes and revival of export demand offers robust outlook for this segment.

#### **Voltas Beko**

- VoltBeko has crossed cumulative sales volumes of 4.5m units since the launch of commercial sales and became the fastest brand to achieve this milestone. Volumes grew 65% YoY, led by the robust festive demand and improved consumer sentiments. In 9MFY24, this segment posted 45% YoY volume growth. Its market share stood at 3.3% for refrigerators (up 1pp YoY) and 5.5% for washing machines (up 2.1pp YoY). Its market shares in semi-automatic washing machines stood at 12.2% as of Dec'23.
- Favorable product-mix and cost rationalization measures led to improvement in gross margins for VoltBeko and loss/unit narrowed despite significant investment in AD spends. The company received significant export orders from its overseas subsidiary in the quarter. These orders were mainly for frost-free refrigerators and dishwashers.
- VoltBeko would have a turnaround, if two years would not have been wasted due to Covid-19.



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## Zomato

Buy

Current Price INR 161

### Demand and growth outlook

- The management continues to maintain the annualized revenue growth guidance of 40% YoY; however, the near-term scenario might be optimistic and can deliver 50%+ YoY growth. The key driver for the 40% YoY growth is the quick commerce business.
- The take rate remained flat or has not witnessed any meaningful increase, as the platform fee, ad revenues, and commission revenue have gone up, which are compensating it. However, it might see a decline on a net basis
- Blinkit continued to be a faster-evolving business with increasing use cases, although it remained shy about providing any growth guidance on the business. Zomato continues to explore the space, with incremental categories getting added to the platform by addressing more and more solutions to customers.
- Quick Commerce performance has been healthy, which is a function of Zomato's expansion strategy. It makes sure the utilization of stores reaches a threshold of 50-60%, before opening up a new store, despite the fact that it believes achieving a 5% margin is difficult in the near to medium term.
- Within food category, it believes that the top 8 cities provide a huge runway for growth. The next 1,000 stores would find their place in the top 3 cities. The key focus is to improve footprints in the large cities.
- The company is evaluating the possibility of expansion of quick commerce through supply & demand trend along with the acceptance of quick commerce. It is currently experimenting and if required, it will build infrastructure to target those cities.
- Management indicted that Quick Commerce is a more resilient and sustainable growth driver than the food delivery business. The demand for food delivery business is discretionary in nature, while Quick Commerce is a critical element for any household.
- It expects NPC to be a big growth driver. It sees more frequent transaction on the platform, it will keep on adding more and more customers in the future
- Cloud kitchen contributes majorly to the increase in the number of restaurants on its platform, while it expects the physical and dine-in restaurants to continue to grow at its earlier pace of 20% YoY.
- Within food delivery, the improvement in the contribution margin is primarily attributed to the increase in average order value, ad revenue, and platform fee, while cost factors have not meaningfully contributed to such improvement.

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# GALLERY

20F24 | November 2023

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This quarterly report contains:

- Key takeaways from the past results management commentary for 215 companies, with links to the full earnings call transcripts.
- Links to our Insights updates on each of the companies included.

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20F22 | August 2023

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**HIGHLIGHTS – JAN'24 EDITION**

- Nifty consolidates in Jan'24
- Major economies avoid recession
- FII record outflow after two consecutive months of inflows. FIIIs recorded the 6th consecutive month of inflows
- Midcaps/smallcaps outperform
- Largecaps
- QoQ decline in 2023 Banks, Real Estate, Utilities, and Infrastructure top gainers
- Media, Private Banks, and Consumer top losers
- India's share in the world's AI cap at all-time high
- Over the last 12 months, the Nifty India Index (+28%) has outperformed the Nifty 500 Index (+5%)

Sectors trading at a discount

Infrastructure  
Real Estate  
Sp. Chemicals  
Banks - PSU  
Capital Goods  
Technology  
Logistics  
Cement  
Healthcare  
Metals  
Oil & Gas  
Consumer  
NBFC  
Banks - Private  
Retail  
Auto  
Media  
Telecom

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FINANCIAL SERVICES

**FUND FOLIO**  
Indian Mutual Fund Tracker

INR5 2.7t MF industry's AUM up 3.9% MoM

INR24.6t Equity AUM at a new peak

Amount garnered through SIPs at a new high: **INR188.4b**

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February 2024

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January 2023

**India Strategy**

**On a roll!**

Gautam Duggal – Research Analyst ([Gautam.Duggal@MotilalOswal.com](mailto:Gautam.Duggal@MotilalOswal.com))

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October 2023

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**Mastering the game!**

Index	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																		
Nifty 500	12.1	14.1	11.1	13.1	10.1	12.1	9.1	11.1	8.1	10.1	7.1	9.1	6.1	8.1	5.1	7.1	4.1	6.1	3.1	5.1	2.1	4.1	1.1	3.1	0.1	2.1	1.1	3.1	2.1	4.1	3.1	5.1	4.1	6.1	5.1	7.1	6.1	8.1	7.1	9.1	8.1	10.1	9.1	11.1	10.1	12.1	11.1	13.1	12.1	14.1	13.1	15.1	14.1	16.1	15.1	17.1	16.1	18.1	17.1	19.1	18.1	20.1	19.1	21.1	20.1	22.1	21.1	23.1	22.1	24.1	23.1	25.1	24.1	26.1	25.1	27.1	26.1	28.1	27.1	29.1	28.1	30.1	29.1	31.1	30.1	32.1	31.1	33.1	32.1	34.1	33.1	35.1	34.1	36.1	35.1	37.1	36.1	38.1	37.1	39.1	38.1	40.1	39.1	41.1	40.1	42.1	41.1	43.1	42.1	44.1	43.1	45.1	44.1	46.1	45.1	47.1	46.1	48.1	47.1	49.1	48.1	50.1	49.1	51.1	50.1	52.1	51.1	53.1	52.1	54.1	53.1	55.1	54.1	56.1	55.1	57.1	56.1	58.1	57.1	59.1	58.1	60.1	59.1	61.1	60.1	62.1	61.1	63.1	62.1	64.1	63.1	65.1	64.1	66.1	65.1	67.1	66.1	68.1	67.1	69.1	68.1	70.1	69.1	71.1	70.1	72.1	71.1	73.1	72.1	74.1	73.1	75.1	74.1	76.1	75.1	77.1	76.1	78.1	77.1	79.1	78.1	80.1	79.1	81.1	80.1	82.1	81.1	83.1	82.1	84.1	83.1	85.1	84.1	86.1	85.1	87.1	86.1	88.1	87.1	89.1	88.1	90.1	89.1	91.1	90.1	92.1	91.1	93.1	92.1	94.1	93.1	95.1	94.1	96.1	95.1	97.1	96.1	98.1	97.1	99.1	98.1	100.1	99.1	101.1	100.1	102.1	101.1	103.1	102.1	104.1	103.1	105.1	104.1	106.1	105.1	107.1	106.1	108.1	107.1	109.1	108.1	110.1	109.1	111.1	110.1	112.1	111.1	113.1	112.1	114.1	113.1	115.1	114.1	116.1	115.1	117.1	116.1	118.1	117.1	119.1	118.1	120.1	119.1	121.1	120.1	122.1	121.1	123.1	122.1	124.1	123.1	125.1	124.1	126.1	125.1	127.1	126.1	128.1	127.1	129.1	128.1	130.1	129.1	131.1	130.1	132.1	131.1	133.1	132.1	134.1	133.1	135.1	134.1	136.1	135.1	137.1	136.1	138.1	137.1	139.1	138.1	140.1	139.1	141.1	140.1	142.1	141.1	143.1	142.1	144.1	143.1	145.1	144.1	146.1	145.1	147.1	146.1	148.1	147.1	149.1	148.1	150.1	149.1	151.1	150.1	152.1	151.1	153.1	152.1	154.1	153.1	155.1	154.1	156.1	155.1	157.1	156.1	158.1	157.1	159.1	158.1	160.1	159.1	161.1	160.1	162.1	161.1	163.1	162.1	164.1	163.1	165.1	164.1	166.1	165.1	167.1	166.1	168.1	167.1	169.1	168.1	170.1	169.1	171.1	170.1	172.1	171.1	173.1	172.1	174.1	173.1	175.1	174.1	176.1	175.1	177.1	176.1	178.1	177.1	179.1	178.1	180.1	179.1	181.1	180.1	182.1	181.1	183.1	182.1	184.1	183.1	185.1	184.1	186.1	185.1	187.1	186.1	188.1	187.1	189.1	188.1	190.1	189.1	191.1	190.1	192.1	191.1	193.1	192.1	194.1	193.1	195.1	194.1	196.1	195.1	197.1	196.1	198.1	197.1	199.1	198.1	200.1	199.1	201.1	200.1	202.1	201.1	203.1	202.1	204.1	203.1	205.1	204.1	206.1	205.1	207.1	206.1	208.1	207.1	209.1	208.1	210.1	209.1	211.1	210.1	212.1	211.1	213.1	212.1	214.1	213.1	215.1	214.1	216.1	215.1	217.1	216.1	218.1	217.1	219.1	218.1	220.1	219.1	221.1	220.1	222.1	221.1	223.1	222.1	224.1	223.1	225.1	224.1	226.1	225.1	227.1	226.1	228.1	227.1	229.1	228.1	230.1	229.1	231.1	230.1	232.1	231.1	233.1	232.1	234.1	233.1	235.1	234.1	236.1	235.1	237.1	236.1	238.1	237.1	239.1	238.1	240.1	239.1	241.1	240.1	242.1	241.1	243.1	242.1	244.1	243.1	245.1	244.1	246.1	245.1	247.1	246.1	248.1	247.1	249.1	248.1	250.1	249.1	251.1	250.1	252.1	251.1	253.1	252.1	254.1	253.1	255.1	254.1	256.1	255.1	257.1	256.1	258.1	257.1	259.1	258.1	260.1	259.1	261.1	260.1	262.1	261.1	263.1	262.1	264.1	263.1	265.1	264.1	266.1	265.1	267.1	266.1	268.1	267.1	269.1	268.1	270.1	269.1	271.1	270.1	272.1	271.1	273.1	272.1	274.1	273.1	275.1	274.1	276.1	275.1	277.1	276.1	278.1	277.1	279.1	278.1	280.1	279.1	281.1	280.1	282.1	281.1	283.1	282.1	284.1	283.1	285.1	284.1	286.1	285.1	287.1	286.1	288.1	287.1	289.1	288.1	290.1	289.1	291.1	290.1	292.1	291.1	293.1	292.1	294.1	293.1	295.1	294.1	296.1	295.1	297.1	296.1	298.1	297.1	299.1	298.1	300.1	299.1	301.1	300.1	302.1	301.1	303.1	302.1	304.1	303.1	305.1	304.1	306.1	305.1	307.1	306.1	308.1	307.1	309.1	308.1	310.1	309.1	311.1	310.1	312.1	311.1	313.1	312.1	314.1	313.1	315.1	314.1	316.1	315.1	317.1	316.1	318.1	317.1	319.1	318.1	320.1	319.1	321.1	320.1	322.1	321.1	323.1	322.1	324.1	323.1	325.1	324.1	326.1	325.1	327.1	326.1	328.1	327.1	329.1	328.1	330.1	329.1	331.1	330.1	332.1	331.1	333.1	332.1	334.1	333.1	335.1	334.1	336.1	335.1	337.1	336.1	338.1	337.1	339.1	338.1	340.1	339.1	341.1	340.1	342.1	341.1	343.1	342.1	344.1	343.1	345.1	344.1	346.1	345.1	347.1	346.1	348.1	347.1	349.1	348.1	350.1	349.1	351.1	350.1	352.1	351.1	353.1	352.1	354.1	353.1	355.1	354.1	356.1	355.1	357.1	356.1	358.1	357.1	359.1	358.1	360.1	359.1	361.1	360.1	362.1	361.1	363.1	362.1	364.1	363.1	365.1	364.1	366.1	365.1	367.1	366.1	368.1	367.1	369.1	368.1	370.1	369.1	371.1	370.1	372.1	371.1	373.1	372.1	374.1	373.1	375.1	374.1	376.1	375.1	377.1	376.1	378.1	377.1	379.1	378.1	380.1	379.1	381.1	380.1	382.1	381.1	383.1	382.1	384.1	383.1	385.1	384.1	386.1	385.1	387.1	386.1	388.1	387.1	389.1	388.1	390.1	389.1	391.1	390.1	392.1	391.1	393.1	392.1	394.1	393.1	395.1	394.1	396.1	395.1	397.1	396.1	398.1	397.1	399.1	398.1	400.1	399.1	401.1	400.1	402.1	401.1	403.1	402.1	404.1	403.1	405.1	404.1	406.1	405.1	407.1	406.1	408.1	407.1	409.1	408.1	410.1	409.1	411.1	410.1	412.1	411.1	413.1	412.1	414.1	413.1	415.1	414.1	416.1	415.1	417.1	416.1	418.1	417.1	419.1	418.1	420.1	419.1	421.1	420.1	422.1	421.1	423.1	422.1	424.1	423.1	425.1	424.1	426.1	425.1	427.1	426.1	428.1	427.1	429.1	428.1	430.1	429.1	431.1	430.1	432.1	431.1	433.1	432.1	434.1	433.1	435.1	434.1	436.1	435.1	437.1	436.1	438.1	437.1	439.1</

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

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