MOTILAL OSWAL FINANCIAL SERVICES

23 May 2024

MORNING INDIA

Market snapshot

Equities - India	Close	Chg .%	CYTD.%
Sensex	74,221	0.4	2.7
Nifty-50	22,598	0.3	4.0
Nifty-M 100	52,168	0.2	13.0
Equities-Global	**Close**	**Chg .%**	**CYTD.%**
S&P 500	5,307	-0.3	11.3
Nasdaq	16,802	-0.2	11.9
FTSE 100	8,370	-0.5	8.2
DAX	18,680	-0.2	11.5
Hang Seng	6,818	0.0	18.2
Nikkei 225	38,617	-0.8	15.4
Commodities	**Close**	**Chg .%**	**CYTD.%**
Brent (US$/Bbl)	81	-1.0	4.0
Gold ($/OZ)	2,379	-1.7	15.3
Cu (US$/MT)	10,295	-4.2	21.6
Almn (US$/MT)	2,580	-3.5	10.0
Currency	**Close**	**Chg .%**	**CYTD.%**
USD/INR	83.3	0.0	0.1
USD/EUR	1.1	-0.3	-2.0
USD/JPY	156.8	0.4	11.2
YIELD (%)	**Close**	**1MChg**	**CYTD chg**
10 Yrs G-Sec	7.0	-0.04	-0.1
10 Yrs AAA Corp	7.6	-0.04	-0.2
Flows (USD b)	**22-May**	**MTD**	**CYTD**
FIIs	-0.1	-3.65	-3.3
DIIs	0.12	4.71	23.0
Volumes (INRb)	**22-May**	**MTD***	**YTD***
Cash	1,299	1103	1169
F&O	5,02,906	3,39,317	3,81,159

Note: Flows, MTD includes provisional numbers.
*Average

Today's top research idea

HDFC Life Insurance: Weathering industry challenges through product innovation and distribution reach

Upgrade to Buy

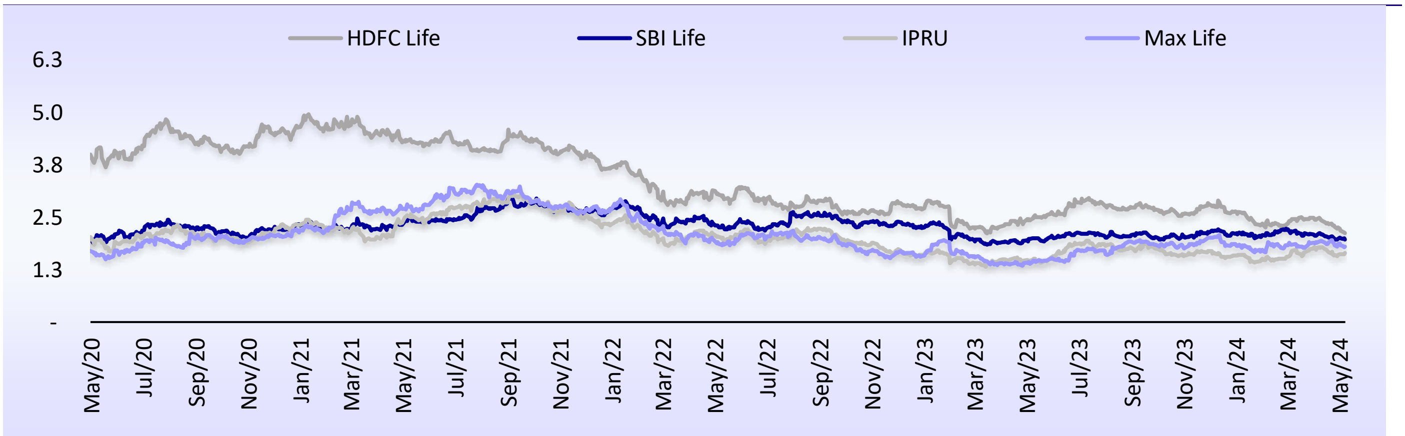
- HDFC Life expects the insurance industry to grow at a historical average rate of 12-15% in FY25 and expects its own growth at a higher end of that range. The election result and subsequent budgetary/regulatory announcements will bring clarity about the near-term growth outlook. In the medium term, the company continues to expect to double all the key metrics, including revenue and profitability, every four years. Annuity and protection put together contributed to nearly half of overall new business premium in FY24. Given the strong growth in NPS customer base and increasing population at the superannuation stage, the annuities segment will continue to see robust growth.
- While the agency channel saw a decline of 9% in FY24 due to a high base of FY23 (non-par growth), HDFCLIFE registered APE growth in a high-single digit for less than INR0.5m ticket size. During FY24, HDFCLIFE opened 75 branches, of which the majority of branches were opened in tier 2 and tier 3 cities.
- Restricting life insurance will not solve the problem of the credit deposit ratio that the bank is facing currently. Hence, this would not pose a challenge for future growth. With regards to Surrender charges, considering the consultative process, it is expected that the impact of the final regulations, if any, is likely to be absorbed by the industry. Over FY24-26, we expect HDFCLIFE to report a CAGR of 15.2/16% in APE/VNB. We upgrade our rating to BUY with a one-year price target of INR700.

Research covered

Cos/Sector	Key Highlights
HDFC Life Insurance	Weathering industry challenges through product innovation and distribution reach; Upgrade to Buy
Other Updates	Sun Pharma | Hitachi Energy | Deepak Nitrite | Jubilant FoodWorks | Gland Pharma | One 97 Communications | PNB Housing | The Ramco Cements | Galaxy Surfactants | Grasim Industries | Max Healthcare | Petronet LNG | Metro Brands | Indigo Paints | Oil & Gas

Chart of the Day: HDFC Life Insurance (Upgrade to Buy)

P/EV comparison of private insurers



Source: MOFSL, Company

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In the news today

Kindly click on textbox for the detailed news link

1

RBI board approves record surplus transfer of Rs 2.11 lakh crore to government for FY24

The dividend, transferred in 2024-25, is sharply higher than what the government had expected. It will reflect in the government's account for FY25

2

Disney said to sell stake in Tata Group's $1-billion Tata Play

Tata Group took full control of the TV platform after buying the 29.8% stake from Disney, said the people, who asked not to be identified as the information is private

3

Slowing EV sales are upending banker climate strategies

The global electric vehicle market faces challenges as China leads in EV development, impacting sales in Europe and US. Policy interventions are expected due to China's dominance and US tariff increases on Chinese imports.

4

NHPC expects to complete all 4 units of Parbati-II hydro electric project by Dec 2024

NHPC, a state-owned company, provided updates on its hydroelectric projects. Firstly, the Parbati-II project in Himachal Pradesh, with a total capacity of 800 MW, is expected to have all four units completed by December 2024.

5

Oil India signs agreement with NRL for transportation of additional petroleum products through NSPL

Oil India Limited (OIL) and Numaligarh Refinery Limited (NRL) signed a new long-term Definitive Agreement for transporting additional petroleum products through OIL's Numaligarh-Siliguri Product Pipeline (NSPL). Effective for 25 years from the commencement of augmented pipeline operations, the agreement aims to enhance capacity from 1.72 MMTPA to 5.50 MMTPA. Since its establishment in 2008-09, the NSPL has been vital for evacuating products from NRL .

6

Uneven rainfall affected rural demand, says HUL chairman Nitin Paranjpe

Hindustan Unilever (HUL) reported a strong performance in the last fiscal year despite challenges in the macroeconomic environment, including erratic rainfall affecting agricultural output and rural demand.

7

Suzlon secures orders for development of 402 MW wind energy projects for Juniper Green Energy

Girish Tanti, Vice Chairman, Suzlon Group, said, "Juniper Green Energy has been a long-term, repeat customer for us, and we are delighted to partner with them again. This order helps us expand our footprint in Rajasthan."

Weathering industry challenges through product innovation and distribution reach

FY25 APE growth at ~15%; stable VNB margins; Upgrade to Buy

We met with Ms. Vibha Padalkar, CEO & MD, and Mr. Kunal Jain, Head of IR and Business Planning, at HDFC Life, to discuss the company's growth outlook, the impact of regulatory changes, profitability goals, and other key focus areas. Here are the key takeaways from the discussion:

Industry premiums likely to grow 12-15%; HDFCLIFE to grow at higher end of the range

FY24 had its own set of challenges, wherein the INR0.5m+ ticket size saw a sharp decline. Additionally, amid strong equity market performance, customer demand shifted to ULIP products. FD rates remained high, while non-par savings products adjusted the returns as per the movement in the yield curve, reducing relative attractiveness vs. FDs. The eventual outcome of flat premium growth in FY24 on an actual basis (adjusted for the one-time spike in Mar'23, growth was in double digits) was better than earlier expected. For FY25, the company expects the industry to grow at a historical average rate of 12-15% and HDFCLIFE expects to grow at a higher end of that range. The election result and subsequent budgetary/regulatory announcements will bring clarity about the near-term growth outlook. In the medium term, the company continues to expect to double all the key metrics, including revenue and profitability, every four years.

HDFC Life Insurance

Ms. Vibha Padalkar, MD & CEO, HDFC LIFE

Ms. Padalkar has been with HDFCLIFE since Aug'08. She qualified as a member of the Institute of Chartered Accountants of England and Wales in 1992, and is also a member of the ICAI. Prior to HDFC Life, she worked in various sectors, such as global business process management, global FMCG, and in an international audit firm.

Protection, annuity products will drive product mix in medium term

ULIPs: For 1HFY25, the share of ULIPs is expected to be on the higher side amid continued buoyancy in equity markets. For the industry, ULIPs have also picked up momentum across channels, especially the online channel.

Retail protection: The customer journey for protection begins with group term, credit protect, and then savings with higher protection cover (e.g., UL). For pure retail protection, customer mindset has been tilting toward getting return of premiums (ROP), driving up demand for ROP and limited-pay products. HDFCLIFE too has seen an increase in the share of ROP products to about 25-30% of retail protection. To further enhance the profitability of the product segment, the company has a targeted approach of increasing the attachment of riders, which resulted in strong growth of 47% in individual sum assured in FY24.

Credit protect: This has been a fast-growing segment and the company expects to sustain the momentum in the near term. At the industry level, there is sufficient scope for increasing attachment, and HDFCLIFE expects healthy disbursement growth.

Group term: Group term business has turned highly competitive in the recent past. HDFCLIFE continues to take a calibrated approach.

Annuities: Annuity and protection put together contributed to nearly half of overall new business premium in FY24. Given the strong growth in NPS customer base and increasing population at the superannuation stage, the annuities segment will continue to see robust growth. However, rates are very competitive, with some companies offering unsustainable rates in some cases.

HDFC Life is strategically positioned to capitalize on market demand trends while balancing VNB margins. For FY25, HDFC Life aims to achieve synchronized growth in VNB alongside annual premium equivalent (APE), ensuring sustainable VNB margins. Profitability will also be cushioned with the focus on increasing the share of rider attachments, improving the long-term par products mix, and increasing the life cover in ULIPs.

Agency channel share to increase in the distribution mix amid focus on tier 2/3 cities

Agency: With granular premium growth, agency will be the bedrock of the company's distribution strategy. The aim is to increase the share of agency from one-fifth now to one-fourth in the medium term. In FY24, HDFCLIFE was the second largest private insurer in terms of gross agent additions (~83k for HDFCLIFE). About 80-90% of the new agent hiring is in tier 2 and tier 3 cities. The company has already invested in agent hiring and new branch openings, which will drive scale benefits and improve the channel's profitability. While the agency channel saw a decline of 9% in FY24 due to a high base of FY23 (non-par growth), HDFCLIFE registered APE growth in a high-single digit for less than INR0.5m ticket size. Also, the channel has seen robust growth of 14% on a two-year CAGR basis.

Tier 2/tier 3 strategy: For the low-tier cities, the strategy is fairly nuanced, with a focus on the higher end of the income bracket. During FY24, HDFCLIFE opened 75 branches, of which the majority of branches were opened in tier 2 and tier 3 cities. Two-thirds of HDFC Life's new business in FY24 (vs. 58% in FY21) came from non-tier 1 cities (overall unadjusted growth was 1%; growth from tier 2/3 was 13%). On NOP basis, tier 2/tier 3 markets contributed to three-fourths of business in FY24. Following HDFC Bank's expansion into semi-urban and rural areas, HDFC Life has increased its focus on volume growth, as evidenced by an 11% YoY increase in the number of policies in FY24. This is ~5x the overall industry growth.

HDFC Bank: APE from the bancassurance channel for HDFC Life grew 17% YoY in FY24. A strong pickup in ULIPs has supported growth in the channel. The counter share was strong at HDFC Bank (~63%), and other banca partners' contributions remained steady. HDFC Bank's life insurance premium to retail deposits was ~2% in FY24. Restricting life insurance will not solve the problem of the credit deposit ratio that the bank is facing currently. Hence, this would not pose a challenge for future growth.

Regulatory moves likely to be favorable

Surrender charges: The interactions between regulators and insurance companies with regards to surrender charges have been increasing in recently and some changes can be expected in the near term. Considering the consultative process, it is expected that the impact of the final regulations, if any, is likely to be absorbed by the industry. In terms of the tax change (INR0.5m+ taxation), the impact on HDFC Life's VNB margins was much lower than that on the industry, and the same scenario is expected to pan out even this time, considering the conservative actuarial assumptions and higher special surrender values. While trail-based commission products can be used to offset the impact of surrender charges, acceptance from the distributors is still low.

RBC: Risk-based capital has been a priority for IRDAI and the company expects its implementation in 12-18 months. As and when this is implemented, it should result in the release of some capital for future growth.

Investment regulations: Some relief has come in the recently announced regulations. However, the movement of investment regulations to the purview of the regulator vs. them being embodied in the Insurance Act, as they are currently, will help speed up the pace of changes.

Other takeaways:

- HDFC Life is implementing its Project INSPIRE, a comprehensive technological transformation. This project is aimed at enhancing the overall experience for customers, distributors and employees while increasing operational efficiency.

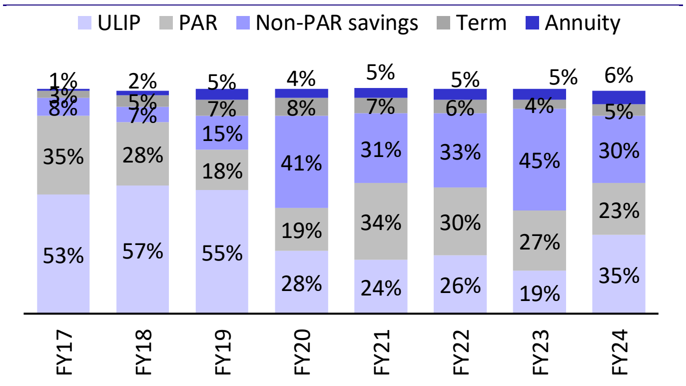
- The company will continue to invest in branch expansion, technology, and head count additions at HDFC Bank, which will continue to increase costs.
- HDFC Life will raise funds if solvency goes below 180%. It has space to raise sub debt, which is more cost effective than equity.

Valuation and view: Upgrade to BUY; surrender charges risk priced in more than adequately

HDFCLIFE has corrected 20% in the past five months, while all other private listed players have been range-bound. We note that the de-rating of the stock has been steeper after the announcement of the exposure draft on surrender charges and more recently when media reports about the same. The key reason for HDFCLIFE's premium to other players has been its ability to weather adverse regulations relatively better than other players through its product innovation and a strong distribution network. In terms of valuations, the one-year forward P/EV of HDFCLIFE at 2.2x has been the lowest since Jan'23. We believe the company will wade through these changes positively. Over FY24-26, we expect HDFCLIFE to report a CAGR of 15.2/16% in APE/VNB. **We upgrade our rating to BUY with a one-year price target of INR700.**

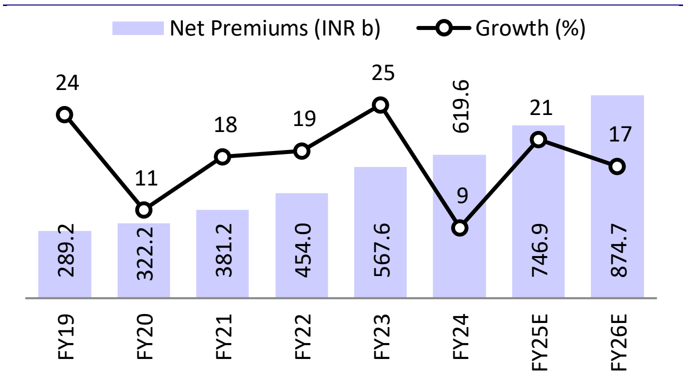
Story in charts

Product mix in Individual APE



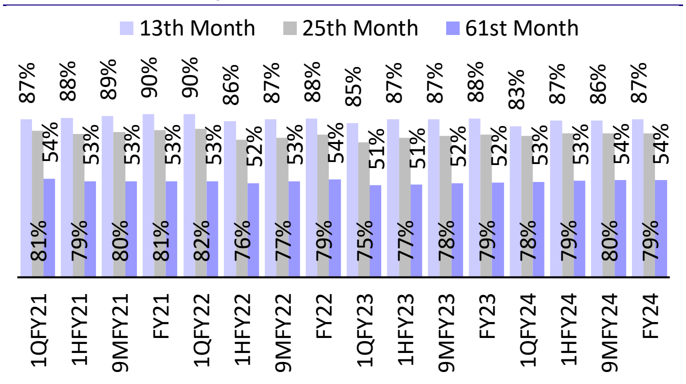
Source: MOFSL, Company

Expect steady growth in net premium



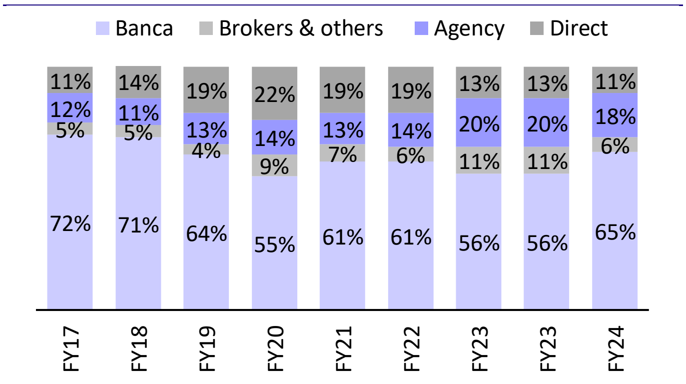
Source: MOFSL, Company

Trend in Persistency ratios



Source: MOFSL, Company

Trend in Distribution mix



Source: MOFSL, Company

Sun Pharma

Estimate change	↔
TP change	↑
Rating change	↔

Bloomberg	SUNP IN
Equity Shares (m)	2399
M.Cap.(INRb)/(USDb)	3693.2 / 44.3
52-Week Range (INR)	1639 / 923
1, 6, 12 Rel. Per (%)	-1/14/41
12M Avg Val (INR M)	3058

Financials & valuations (INR b)

Y/E MARCH	FY24	FY25E	FY26E
Sales	477.6	532.6	594.6
EBITDA	122.5	139.1	165.4
Adj. PAT	99.7	113.2	138.5
EBIT Margin (%)	20.3	21.3	23.3
Cons. Adj. EPS (INR)	41.4	47.0	57.6
EPS Gr. (%)	15.8	13.5	22.4
BV/Sh. (INR)	264.6	304.9	355.7
Ratios			
Net D:E	-0.12	-0.16	-0.25
RoE (%)	16.7	16.5	17.4
RoCE (%)	12.5	13.5	13.5
Payout (%)	14.0	14.2	11.6
Valuations			
P/E (x)	37.7	33.2	27.2
EV/EBITDA (x)	29.5	25.7	21.1
Div. Yield (%)	0.3	0.4	0.4
FCF Yield (%)	3.0	1.5	3.0
EV/Sales (x)	7.6	6.7	5.9

Shareholding pattern (%)

As On	Mar-24	Dec-23	Mar-23
Promoter	54.5	54.5	54.5
DII	18.8	19.5	19.3
FII	17.7	17.1	16.9
Others	9.0	8.9	9.4

FII Includes depository receipts

CMP: INR1,539 TP: INR1,810 (+18%) Buy

The US and India businesses drive earnings growth

Investments to step-up in the global specialty segment

- Sun Pharma (SUNP) reported a slight miss at the operational level for 4QFY24. This was due to lower-than-expected sales in the ROW market and higher-than-expected opex for the quarter. SUNP has surpassed USD1b sales in the global specialty segment in FY24 vs. USD430m in FY20. This was backed by enhanced efforts towards product offerings/marketing activities in the regulated markets.
- We retain our FY25/FY26 estimates. We value SUNP at 30x 12M forward earnings to arrive at our TP of INR1,810. We expect an 18% earnings CAGR over FY24-26, driven by 12-13% sales CAGR in the Domestic Formulation (DF)/EM/ROW markets, 9% sales CAGR in the US market, and 220bp margin expansion.
- SUNP continues to work on enhancing its specialty pipeline in the areas of dermatology, ophthalmology, and onco-dermatology. In fact, the target action date of Jul'24 is the key near-term trigger with respect to Deuruxolitinib. SUNP has also consistently outperformed the branded generics markets, which provides a healthy visibility for better earnings prospects. **Reiterate BUY.**

Superior product mix benefits partly offset by higher R&D expenses

- SUNP's sales grew 10.7% YoY to INR118b (vs. our est. of: INR122b). Domestic formulation (DF) sales grew 10.2% YoY to INR37b (31% of sales). The US sales grew 12% YoY to INR39.5b (USD476m, up 10.7% in CC terms; 33% of sales). EM sales rose 12% YoY to INR20.3b (17% of sales). The ROW sales grew 3% YoY to INR16.3b (14% of sales) during the quarter.
- Gross margin expanded 90bp YoY to 79.8% for the quarter.
- EBITDA margin expanded 70bp YoY to 24.7% (vs. our est. of: 25.2%) as better GM was offset by higher other expenses (up 120bp as a % of sales). Employee expenses were down 100bp as a % of sales.
- Accordingly, EBITDA grew 13.8% YoY to INR29b (vs. or est. of: INR30.8).
- After adjusting for the exceptional item of INR1.6b, Adj. PAT grew 32.7% YoY to INR28b (vs. our est. of: INR24.8b) for the quarter.
- **During FY24,** SUNP's sales/EBITDA/PAT grew 11%/11%/16% YoY to INR477.5b/INR122.5b/INR99.6b.

Highlights from the management commentary

- SUNP guided for high single-digit YoY growth in revenue for FY25.
- It would have investments towards product launch in the US, and R&D investments for both specialty and generic products.
- There were no pending queries regarding Deuruxolitinib that SUNP had not responded to.
- SUNP indicated 8-10% of sales as R&D spent for FY25.
- About 42% of total R&D spent was on specialty portfolios.
- Illumya's share in the total psoriasis and biologics market would be ~1%.

Quarterly Performance (Consolidated) (INR b)

Y/E March	FY23				FY24E				FY23	FY24	FY24E	Var
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	%
Net Revenues	**106.4**	**108.1**	**110.0**	**106.7**	**117.9**	**120.0**	**121.6**	**118.1**	**431.2**	**477.6**	**122.4**	**-3.5**
YoY Change (%)	10.1	14.0	12.1	13.7	10.7	11.0	10.5	10.7	12.4	10.8	14.7	
Total Expenditure	80.2	77.5	82.3	81.0	86.1	89.8	90.3	88.9	321.1	355.1	91.6	
EBITDA	**26.2**	**30.5**	**27.6**	**25.7**	**31.7**	**30.2**	**31.3**	**29.2**	**110.1**	**122.5**	**30.8**	**-5.2**
YoY Change (%)	-2.6	19.2	7.6	21.2	21.1	-1.0	13.2	13.8	10.7	11.3	**20.0**	
Margins (%)	24.6	28.3	25.1	24.1	26.9	25.2	25.7	24.7	25.5	25.6	25.2	
Depreciation	5.9	6.1	6.6	6.7	6.5	6.3	6.2	6.5	25.3	25.6	6.3	
EBIT	**20.3**	**24.5**	**21.0**	**19.0**	**25.2**	**23.9**	**25.1**	**22.7**	84.8	96.9	24.6	
YoY Change (%)	-7.1	20.3	4.4	21.4	24.1	-2.2	19.2	19.8	8.7	14.3	29.5	
Interest	0.1	0.2	0.5	0.9	0.8	0.5	0.3	0.7	1.7	2.4	0.4	
Net Other Income	1.2	2.3	3.1	5.8	3.6	4.8	4.7	7.8	12.4	20.9	4.7	
PBT before EO Exp	**21.4**	**26.5**	**23.7**	**23.8**	**28.0**	**28.2**	**29.5**	**29.7**	**95.5**	**115.5**	**28.9**	**2.8**
Less: EO Exp/(Inc)	-1.5	2.4	-1.0	1.4	3.2	0.3	-0.5	1.6	1.4	4.6	0.0	
PBT	**22.8**	**24.1**	**24.7**	**22.4**	**24.8**	**27.9**	**30.0**	**28.2**	**94.1**	**110.9**	**28.9**	
Tax	1.9	1.5	2.8	2.2	4.7	3.9	4.3	1.5	8.5	14.4	4.3	
Rate (%)	8.8	5.7	11.9	9.4	16.7	13.8	14.7	5.0	8.9	12.5	14.8	
PAT (pre Minority Interest)	**21.0**	**22.6**	**21.9**	**20.2**	**20.1**	**24.0**	**25.7**	**26.7**	**85.6**	**96.5**	**24.6**	
Minority Interest	0.3	0.0	0.2	0.3	-0.1	0.3	0.4	0.1	-0.9	0.7	-0.3	
Reported PAT	**20.6**	**22.6**	**21.7**	**19.8**	**20.2**	**23.8**	**25.2**	**26.5**	**84.7**	**95.8**	**24.9**	**6.7**
Adj Net Profit*	**19.3**	**24.9**	**20.8**	**21.1**	**22.8**	**24.0**	**24.8**	**28.0**	**86.1**	**99.7**	**24.9**	**12.7**
YoY Change (%)	-3.4	21.5	9.3	33.6	18.5	-3.4	19.2	32.7	**14.4**	**15.8**	17.8	
Margins (%)	18.1	23.0	18.9	19.8	19.4	20.0	20.4	23.7	19.7	20.1	20.3	

Key performance Indicators (Consolidated)

Y/E March	FY23E				FY23E				FY23	FY24E	FY24E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE
Domestic formulations (INRb)	33.9	34.6	33.9	33.6	35.6	38.4	37.8	37.1	136.0	148.9	37.1
YoY Change (%)	2.4	8.5	7.1	8.7	5.1	11.1	11.4	10.2	6.6	9.5	10.4
US sales (INRb)	32.4	32.9	34.7	35.3	38.7	35.5	39.7	39.5	135.4	153.5	41.4
YoY Change (%)	15.8	22.9	16.6	20.8	19.3	7.9	14.6	11.9	19.0	13.4	17.3
ROW (INRb)	33.6	35.1	36.7	33.9	37.5	40.4	38.7	36.6	139.4	153.3	40.0
YoY Change (%)	13.0	10.1	16.8	17.5	11.6	15.1	5.5	7.9	14.3	10.0	17.9
APIs (INRb)	6.0	4.7	5.2	3.9	5.4	5.0	4.7	4.2	19.7	19.2	5.4
YoY Change (%)	16.3	8.5	9.4	-6.9	-9.9	5.1	-9.6	7.9	7.5	-2.7	39.5
Cost Break-up											
RM Cost (% of Sales)	27.2	25.1	25.5	21.1	23.4	23.2	22.5	20.2	24.7	23.4	22.4
Staff Cost (% of Sales)	19.5	18.5	18.5	20.4	20.4	19.7	19.4	19.5	19.2	20.4	19.0
R&D Expenses(% of Sales)	4.3	5.3	6.1	6.2	5.8	6.4	6.8	7.6	5.5	5.8	7.3
Other Cost (% of Sales)	24.3	22.9	24.8	28.2	23.5	25.4	25.5	28.0	25.0	23.5	24.6
Gross Margins(%)	72.8	74.9	74.5	78.9	76.6	76.8	77.5	79.8	75.3	76.6	77.6
EBITDA Margins(%)	24.6	28.3	25.1	24.1	26.9	25.2	25.7	24.7	25.5	25.6	25.2
EBIT Margins(%)	19.1	22.6	19.1	17.8	21.4	19.9	20.6	19.2	19.7	20.3	20.1

Hitachi Energy

Estimate changes	↑
TP change	↑
Rating change	↑

Bloomberg	POWERIND IN
Equity Shares (m)	42
M.Cap.(INRb)/(USDb)	438 / 5.3
52-Week Range (INR)	12380 / 3739
1, 6, 12 Rel. Per (%)	26/106/139
12M Avg Val (INR M)	409

Financials Snapshot (INR b)

Y/E MARCH	FY24	FY25E	FY26E
Net Sales	52.4	65.2	88.8
EBITDA	3.5	6.2	10.8
PAT	1.6	3.7	7.0
EPS (INR)	38.6	86.8	165.4
GR. (%)	74.4	124.7	90.6
BV/Sh (INR)	320.7	407.5	572.9
Ratios			
ROE (%)	12.0	21.3	28.9
RoCE (%)	13.6	21.7	28.9
Valuations			
P/E (X)	267.7	119.1	62.5
P/BV (X)	32.2	25.4	18.0
EV/EBITDA (X)	125.7	70.2	40.1
Div Yield (%)	-	-	-

Shareholding pattern (%)

As On	Mar-24	Dec-23	Mar-23
Promoter	75.0	75.0	75.0
DII	9.8	8.5	7.9
FII	3.5	4.1	4.8
Others	11.8	12.4	12.3

FII Includes depository receipts

CMP: INR10,340 TP: INR9,900 (-4%) Upgrade to Neutral

Earlier than expected margin recovery

Hitachi Energy's 4QFY24 result beat our estimates, driven by sharp margin outperformance. The company reported 27%/91%/124% YoY growth in revenue/EBITDA/PAT. Revenue growth was driven by a strong order book, while operating leverage benefits resulted in double-digit margins at 10.7%, a year ahead of the company's guidance. The company remains a key beneficiary of the uptick in spending across transmission, renewables, data centers, and railways. It is also improving its exports and services. With upcoming bidding for HVDC projects and improved traction in data center orders, we increase our order inflow estimates. We also raise our margin estimates to factor in the 4Q performance and prospects of further margin improvements on improved volumes and pricing in the transmission sector. Our revised TP stands at INR9,900, based on 60x Mar'26E EPS. This is still at a discount to other players like Siemens and ABB. We upgrade our rating to Neutral from Sell. Key risks to our estimates and recommendation would come from delays in ordering and lower-than-expected recovery in margins.

Beat on all fronts; margins in double-digit territory

Revenue at INR16.9b (+27% YoY) came in ahead of our estimates, led by robust execution of the opening order book of INR75.5b. The company managed to expand EBITDA margin by 360bp to 10.7% on the back of a better product mix, higher volumes and operating leverage. Accordingly, EBITDA grew 91% YoY to INR1.8b. PAT at INR1.1b clocked in YoY growth of 124%, aided by strong operational performance. Order inflows during the quarter stood at INR14b, up 11% YoY. The order book stood at INR72b, up 2% YoY. For the full year, revenue/EBITDA/PAT grew by 17%/48%/74%, while OCF came in at INR2.5b vs. INR53m in FY23. FCF stood at INR1.6b vs. an outflow of INR66m in FY23.

We expect Hitachi Energy to be a key beneficiary of HVDC ordering

Hitachi Energy has a high market share in HVDC projects, and with limited players in the HVDC space such as Hitachi Energy, Siemens and GE T&D, we expect the company to be a potential beneficiary of at least 1-2 key HVDC projects, which are in the final stages of awarding. The company has achieved localization of products required for HVDC and STATCOM in its Chennai facility and its portfolio is nearly 80% localized. From its facilities in India, the company also supplies key products for the parent's requirements in the international market. We, thus, believe that it will continue to benefit from both domestic and export opportunities on the HVDC side.

Ordering momentum continues; data centers and industries lead the charge

Order inflows during the quarter grew by 11% YoY to INR14b, led by healthy contributions from data centers and industries. Transmission orders, however, declined by 32% YoY on a high base of 4QFY23. For FY24, order inflows at INR55.3b declined 19% owing to the high base created by the Adani HVDC order bagged in FY23. Key order wins in 4QFY24 included a) 765 kV ICT & Reactor, Karera TBCB & 765 MVA Reactor, TBCB Rajasthan, b) 7x500 MVA ICT & 2x500 MVA ICT Khavda TBCB, c) 62 Nos 4.5 / 4 MVA, 33kV dry type transformers for semiconductor manufacturer, d) Three Phase Technology Locomotive Transformers for rail manufacturer, e) 12 units 33 kV CVD & 10 units 33 kV UT for Jamnagar, and f) 10x50 MVA, 132 kV Trafos, TBCB Madhya Pradesh.

Macro drivers intact; translating into a robust opportunity pipeline

The company is well-placed to benefit from the government's thrust on renewable energy, with its offerings of transformers, HV products, STATCOM, HVDC, grid automation, etc. There has been a marked emphasis on augmenting and expanding the T&D network in order to evacuate renewable energy. This will necessitate investments in grid stability and grid automation solutions, coupled with demand for substations, switchgears, transformers, conductors, et al. As per industry sources, at least 1-2 HVDC projects are expected to be finalized in FY25, which is Hitachi Energy's core competency. As per the NEP, an investment of INR2.4t is envisaged for augmenting the T&D network by 2027. This provides Hitachi Energy robust visibility across its range of offerings.

Financial outlook

We increase our order inflow estimates for FY25/FY26 to INR97b/INR121b from INR74b/INR84b earlier, factoring in a higher share of HVDC projects. We build in operating leverage benefits in line with the way it has panned out for other MNC players as scale moves up. This would result in a 100bp improvement in EBITDA margin to 9.5%/12.1% for FY25/FY26 vs. our earlier assumption of 8.5%/11%.

Valuation and view

The stock is currently trading at 119x/62x FY25E/FY26E EPS. We upgrade our recommendation to Neutral (from Sell) with a revised TP of INR9,900, based on 60x Mar'26E EPS.

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

Y/E March	FY23				FY24				FY23	FY24	FY24E	Est
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	Var (%)
Net Sales	**9,860**	**11,146**	**10,339**	**13,340**	**10,401**	**12,280**	**12,742**	**16,953**	**44,685**	**52,375**	**15,271**	**11**
Change (%)	25.8	31.3	-7.9	19.8	5.5	10.2	23.2	27.1	NA	17.2	14.5	
EBITDA	**256**	**757**	**395**	**951**	**337**	**653**	**680**	**1,820**	**2,359**	**3,490**	**1,099**	**66**
Change (%)	-28.1	3.5	-36.1	43.5	31.3	-13.7	72.4	91.4	-24.1	47.9	15.6	
As of % Sales	2.6	6.8	3.8	7.1	3.2	5.3	5.3	10.7	5.3	6.7	7.2	
Depreciation	205	184	202	211	223	225	227	225	802	900	216	4
Interest	84	75	130	112	110	107	137	112	401	466	142	-21
Other Income	53	4	71	23	29	2	22	39	151	93	22	75
PBT	**21**	**502**	**134**	**651**	**34**	**324**	**338**	**1,522**	**1,308**	**2,217**	**764**	**99**
Tax	8	131	88	143	10	76	108	385	369	579	218	
Effective Tax Rate (%)	36.5	26.0	65.8	21.9	28.7	23.6	32.0	25.3	28.2	26.1	28.5	
Extra-ordinary Items												
Reported PAT	**13**	**371**	**46**	**508**	**24**	**247**	**230**	**1,137**	**939**	**1,638**	**546**	**108**
Change (%)	-91.8	8.1	-92.6	-1.6	79.9	-33.3	401.5	123.7	-44.0	74.4	7.5	
Adj PAT	**13**	**371**	**46**	**508**	**24**	**247**	**230**	**1,137**	**939**	**1,638**	**546**	**108**
Change (%)	-91.8	8.1	-92.6	-1.6	79.9	-33.3	402	123.7	-44.0	74.4	7.5	

Deepak Nitrite

Estimate change	↓
TP change	↑
Rating change	↔

Bloomberg	DN IN
Equity Shares (m)	136
M.Cap.(INRb)/(USDb)	336 / 4
52-Week Range (INR)	2620 / 1900
1, 6, 12 Rel. Per (%)	6/1/3
12M Avg Val (INR M)	965

Financials & Valuations (INR b)

Y/E March	FY24	FY25E	FY26E
Sales	76.8	86.5	92.8
EBITDA	11.2	14.5	16.5
PAT	7.5	9.4	10.5
EPS (INR)	55.1	69.2	77.3
EPS Gr. (%)	-11.7	25.5	11.7
BV/Sh.(INR)	351.7	412.2	479.7
Ratios			
Net D:E	-0.1	0.0	0.1
RoE (%)	16.9	18.1	17.3
RoCE (%)	16.0	16.6	15.4
Payout (%)	12.6	12.6	12.6
Valuations			
P/E (x)	44.6	35.5	31.8
P/BV (x)	7.0	6.0	5.1
EV/EBITDA (x)	29.7	23.2	20.7
Div. Yield (%)	0.3	0.4	0.4
FCF Yield (%)	0.3	-0.7	-0.8

Shareholding pattern (%)

As On	Mar-24	Dec-23	Mar-23
Promoter	49.1	49.1	49.1
DII	19.3	18.9	15.1
FII	6.7	6.5	7.7
Others	24.9	25.5	28.1

FII Includes depository receipts

CMP: INR2,464 TP: INR2,320 (-6%) Neutral

Guidance remains subdued with focus on new projects

- Deepak Nitrite (DN) delivered a miss in 4QFY24 with EBITDA missing our estimate by 5% and stood at INR3b (-13% YoY), while adj. PAT stood at INR2b (estimate of INR2.1b, -16% YoY). Gross margin and EBITDAM also declined YoY. EBIT margin declined YoY in DPL while it improved for the AI segment. Management highlighted that the discretionary segments are seeing a gradual recovery.
- Despite weak Phenol prices, DPL improved its margin due to its highly integrated manufacturing infrastructure. Management stated in the concall that its efforts to improve plant efficiency led to higher volumes of Phenol, Acetone, Cumene, and IPA in FY24. DPL's volumes grew 12% YoY in FY24. Continuous efforts are underway to further optimize plant operations.
- The Advanced Intermediates (AI) segment achieved higher volumes with product diversification and focus on end-user categories that witnessed better demand. Management is confident that the backward integration projects would elevate the performance of the segment. DN continued to maintain its market share across most products despite tough market conditions.
- Management highlighted that destocking and overcapacity in China, which led to suppliers dumping products in India, adversely impacted supplies to major customers of DN in FY24. This situation is expected to ease gradually. However, margin pressure is expected to continue over the next two quarters, with better performance anticipated from 2HFY25 as additional projects are commissioned.
- Due to the underperformance in 4QFY24, we have cut our EBITDA/ EPS estimate by 7%/8% for FY25 and by 10%/12% for FY26. Our EBITDAM stands at 16.8%/17.8% for FY25/26. The stock trades at ~32x FY26E EPS of INR77 and at ~21x FY26E EV/EBITDA. We reiterate our Neutral rating, valuing the stock at 30x FY26E EPS to arrive at our TP of INR2,320.

EBITDA miss due to higher RM costs and other expenses

- Revenue stood at INR21.3b (our est. INR20.3b, up 8% YoY), including incentive income of INR230.9m.
- EBITDA stood at INR3b (our est. of INR3.2b, down 13% YoY); adj. for incentive income, EBITDA stood at INR2.8b (down 20% YoY). Gross margin came in at 30.7% (down 420bp YoY), while EBITDAM stood at 14.2% (vs. 17.7% in 4QFY23).
- Reported PAT stood at INR2.5b (our est. of INR2.1b, up 9% YoY). However, adj. PAT stood at INR2b (7% below our estimate)- INR798m has been recorded as an exceptional item related to the settlement of a fire claim in Mar'24 and also the company received approval from the insurance company for the loss of profit due to "business interruption."
- **For FY24**, revenue stood at INR76.8b (down 4% YoY), EBITDA at INR11.2b (down 13% YoY) and reported PAT at INR8.1b (down 5% YoY). However, adj. PAT was INR7.5b (-12% YoY). EBITDAM stood at 14.6% (down 160bp YoY).

- Phenolics EBIT stood at INR6.4b (up 8% YoY) with margin at 12.9% (up 90bp YoY). EBIT in the AI segment stood at INR4.5b (down 20% YoY) with margin at 16.4% (down 190bp YoY).
- The board has declared a final dividend of INR7.5/share for FY24.

Segmental details

- Phenolics EBIT margin stood at 14.1%, with EBIT at INR2.1b. Advanced Intermediates (AI) EBIT margin came in at 20%, with EBIT at INR1.3b.
- Revenue mix of Phenolics stood at 69% in 4QFY24, with AI share at 31%. EBIT mix for AI stood at 39% (vs. 44% in 4QFY23), with the contribution of Phenolics at 61% (vs. 56% in 4QFY23).

Other highlights

- On Mar 20, 2024, **DN raised its equity stake in Deepak Oman Industries (SFZ) LLC (DOIL)** from 31.7% to 51% for a consideration of INR107m. DOIL has been treated as an associate of the company till Mar 19, 2024 and subsequently a subsidiary.
- **Deepak Chem Tech (DCTL)** has commenced manufacturing operations of the fluorination plant in Mar'24 at Dahej. It has also commenced production of specialty salts for niche application in chemicals and petchem industry at Sankarda, Vadodara. The above businesses are part of the AI segment.
- **The board has approved the acquisition of OXOC Chemicals** for INR100k. OXOC will become a wholly owned subsidiary of DN. OXOC manufactures polycarbonate (PC) compounds and began manufacturing activities in Mar'24 (turnover of INR606k in FY24). This will expedite DN's foray into the PC compounds business. The acquisition is expected to be completed by the end of Jul'24. The directors and their relatives hold 100% of the shareholding in OXOC, but the transaction is being conducted at arm's length.

Valuation and view

- The company aims to become the largest player in Solvents, with a play on import substitution. It has announced its foray into MIBK (40ktpa), MIBC (8ktpa), Sodium Nitrite/ Nitrate. These are taking shape and would be commissioned as per plan. Some other previously announced capex projects have already been commissioned (fluorination plant, specialty salts unit).
- DN is aggressively pursuing both backward and forward integration projects in order to de-risk its business model and also expand its product portfolio. However, its entire product portfolio consists of commodities and current valuation appears expensive.
- The stock trades at ~32x FY26E EPS of INR77 and at ~21x FY26E EV/EBITDA. We reiterate our Neutral rating, valuing the stock at 30x FY26E EPS to arrive at our TP of INR2,320.

Consolidated - Quarterly Snapshot (INR m)

Y/E March	FY23				FY24				FY23	FY24	FY24	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	(%)
Gross Sales	**20,580**	**19,617**	**19,911**	**19,614**	**17,683**	**17,781**	**20,092**	**21,262**	**79,721**	**76,818**	**20,326**	**5%**
YoY Change (%)	34.8	16.7	15.6	4.8	-14.1	-9.4	0.9	8.4	17.2	-3.6	3.6	
Gross Margin (%)	33.9%	30.2%	32.8%	34.8%	30.8%	34.4%	31.7%	30.7%	32.9%	31.8%	32.4%	-1.8%
EBITDA	**3,560**	**2,709**	**3,146**	**3,480**	**2,098**	**3,023**	**3,047**	**3,011**	**12,894**	**11,178**	**3,186**	**-5%**
Margin (%)	17.3	13.8	15.8	17.7	11.9	17.0	15.2	14.2	16.2	14.6	15.7	-1.5
Depreciation	419	424	411	409	381	394	417	465	1,663	1,657	421	
Interest	86	59	58	45	18	27	29	44	248	118	48	
Other Income	96	120	134	126	319	170	136	191	476	816	134	
PBT	**3,151**	**2,346**	**2,810**	**3,152**	**2,017**	**2,772**	**2,736**	**3,492**	**11,459**	**11,017**	**2,850**	**23%**
Tax	805	601	720	813	518	721	715	953	2,939	2,908	743	
Rate (%)	25.5	25.6	25.6	25.8	25.7	26.0	26.1	27.3	25.6	26.4	26.1	
Reported PAT	**2,346**	**1,745**	**2,091**	**2,339**	**1,499**	**2,051**	**2,020**	**2,538**	**8,520**	**8,108**	**2,107**	**20%**
YoY Change (%)	-22.5	-31.4	-13.8	-12.5	-36.1	17.5	-3.4	-16.3	-20.1	-11.7	-9.9	
Margin (%)	11.4	8.9	10.5	11.9	8.5	11.5	10.1	9.2	10.7	9.8	10.4	-1.2
Segmental Revenue (INR m)												
Advanced Intermediates	7,300	6,853	8,178	8,005	7,083	6,702	6,743	6,711	30,336	23,036	5,257	28%
Phenolic	13,349	12,841	11,816	11,699	10,679	11,201	13,493	14,661	49,705	36,356	15,219	-4%
Segmental EBIT (INR m)												
Advanced Intermediates	1,327	1,384	1,475	1,365	1,149	1,034	937	1,339	5,551	4,224	619	116%
Phenolic	1,877	1,027	1,270	1,770	876	1,704	1,798	2,061	5,945	4,067	1,622	27%
Segmental EBIT Margin (%)												
Advanced Intermediates	18.2%	20.2%	18.0%	17.1%	16.2%	15.4%	13.9%	20.0%	18.3%	18.3%	11.8%	8.2%
Phenolic	14.1%	8.0%	10.7%	15.1%	8.2%	15.2%	13.3%	14.1%	12.0%	11.2%	10.7%	3.4%

Jubilant FoodWorks

Estimate changes	↑
TP change	⟷
Rating change	⟷

Bloomberg	JUBI IN
Equity Shares (m)	660
M.Cap.(INRb)/(USDb)	316.5 / 3.8
52-Week Range (INR)	587 / 421
1, 6, 12 Rel. Per (%)	8/-24/-21
12M Avg Val (INR M)	1337

Financials & Valuations (INR b)

Y/E March	2024	2025E	2026E
Sales	56.5	78.0	88.2
Sales Gr. (%)	9.6	38.0	13.0
EBITDA	11.4	16.2	19.0
EBITDA Margin (%)	20.2	20.8	21.6
Adj. PAT	2.6	3.8	5.5
Adj. EPS (INR)	3.9	5.7	8.4
EPS Gr. (%)	-32.9	45.1	46.1
BV/Sh.(INR)	32.9	35.0	37.2
Ratios			
RoE (%)	12.0	16.4	22.5
RoCE (%)	11.6	9.9	11.9
Valuation			
P/E (x)	121.7	83.8	57.4
P/BV (x)	14.6	13.7	12.9
EV/EBITDA (x)	31.0	21.6	18.3
EV/Sales (x)	6.3	4.5	4.0

Shareholding pattern (%)

As On	Mar-24	Dec-23	Mar-23
Promoter	41.9	41.9	41.9
DII	26.1	22.1	21.9
FII	23.6	28.0	25.6
Others	8.4	8.0	10.6

FII Includes depository receipts

CMP: INR480 | **TP: INR 480** | **Neutral**

Weak margin; focus on expanding the store network

- Jubilant Foodworks (JUBI)'s sales grew 6% YoY to INR13.3b (in line) in 4QFY24. Domino's LFL turned positive after four quarters at 0.1% (in line). The delivery business performed well, growing at 12% YoY and increasing its share to 68%, while dine-in sales contracted 6% during the quarter. The waiver of delivery charges shifted dine-in demand to delivery.
- Domino's added 67 new stores and entered 14 new cities in 4Q. The company has a store network in 421 cities. The store expansion spree for Domino's and other brands will continue in FY25.
- Due to the ongoing pressure on operational metrics (ADS) and reinvestment in the business, including waiver of delivery fees, the operating margin deteriorated further. Despite gross margin expansion (130bp YoY to 76.6%), EBITDA margin contracted 100bp YoY to 19.1%. Weak operating margin was further hit by higher deprecation (investments in backend). PBT declined 45% YoY and margin came in at 3.8% in 4QFY24.
- Consolidated revenue/GP/EBITDA was up 24%/26%/25% YoY due to DP Eurasia acquisition. However, higher depreciation (store additions) and interests (debt of INR9.5b for the acquisition) led to a 42% YoY dip in PBT.
- The QSR industry is witnessing demand challenges; thus, near-term growth metrics will be key monitorables. **Reiterate Neutral with a TP of INR480.**

Sales in line; weak operating margin

- **LFL turns positive:** JUBI's sales grew 6% YoY to INR13.3b (in line) in 4QFY24. **Domino's LFL turned positive after four quarters at 0.1% (in line); however, underlying SSS would still be negative (~2% dip)**. The delivery channel revenue rose 12% YoY, which was offset by a 6% decline in the dine-in business.
- **Store expansion continues:** It opened 89 net stores in India, taking the count to 2,096. Domino's opened 67 stores, taking the count to 1,995 stores. Popeyes opened 10 new stores, taking the count to 42. Hong's Kitchen opened six stores, taking the count to 28; and Dunkin' Donuts opened six new stores, taking the count to 31 stores.
- **Weak EBITDA margin:** Standalone gross profit grew 8% YoY to INR10.2b (est. INR 10.1b). Gross margin improved 130bp YoY to 76.6% (est. 76.1%) led by commodity deflation. However, EBITDA margin contracted 100bp YoY/180bp QoQ to 19.1% (est. 20.8%). This contraction was attributed to increased investments in technology, supply chain enhancements, and operating deleverage. Additionally, the company intensified its value proposition by offering free delivery. EBITDA inched up 1% YoY to INR2.5b (est. INR2.8b) during the quarter.
- **Decline in PBT/PAT:** PBT (before exceptional) declined 45% YoY to INR508m (est. INR721m). PBT margin was 4% vs. 6% 3QFY24 and 7% 4QFY24. Adj. PAT declined 44% YoY to INR345m (est. INR511m).
- **In FY24,** revenue grew 6% YoY, while EBITDA/PAT declined 6%/38% YoY.

Consolidated business

- Consolidated revenue was up 24% YoY to INR15.7b, mainly due to the acquisition of DP Eurasia's business.
- Gross profit was up 26% YoY to INR12.0b. GM expanded 160bp YoY to 76.6%.
- EBITDA rose 25% YoY to INR3.1b. EBITDA margin remained flat YoY at 19.7%.
- Higher depreciation (up 28% YoY) and interests (up 116% YoY) on debt for DP Eurasia acquisition led to 42% YoY decline in PBT to INR487m. PBT margin came in at 3.1% in 4QFY24 vs. 6.7% in 4QFY23.

Highlights from the management commentary

- Delivery continues to set new quarterly records, with its share of total orders now at 67.9%. Channel revenue increased 12% YoY, driven by a mid-teen-level growth in delivery orders.
- The acquisition of the business in Turkey accounted for 23% of consolidated revenue on an annualized basis.
- COFFY became one of the fastest growing profitable café brands in Turkey; it has risen to become the fifth-largest brand in Turkey, boasting nearly 100 stores with a medium-term potential to reach 350 stores.
- For FY25, Domino's plans to open 180 stores in India, 50 stores in Turkey, and 20 stores in Bangladesh.

Valuation and view

- We incorporate our earnings estimates into our financial projections, with the acquisition of the DP Eurasia business. Therefore, our EPS estimates for FY25 and FY26 have risen by 10% and 25%, respectively.
- We value the India business at 60x P/E and the international business at 40x P/E on FY26E to arrive at our unchanged TP of INR480.
- **We reiterate our Neutral rating;** we believe the India business recovery will be more critical for the stock's performance.

Quarterly Standalone Performance (INR m)

Y/E March	FY23				FY24				FY23	FY24E	FY24	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	(%)
No of stores (Dominos)	**1,625**	**1,701**	**1,760**	**1,816**	**1,838**	**1,888**	**1,928**	**1,995**	**1,816**	**2,016**	**1,977**	
LFL growth (%)	**28.3**	**8.4**	**0.3**	**-0.6**	**-1.3**	**-1.3**	**-2.9**	**0.1**	**8.9**	**2.0**	**-0.5**	
SSSG (%)	**114.2**	**26.3**	**6.0**	**0.0**	**114.2**	**26.3**	**26.3**	**26.3**	**6.0**	**0.0**	**26.3**	
Net Sales	**12,403**	**12,868**	**13,166**	**12,523**	**13,097**	**13,448**	**13,551**	**13,313**	**50,960**	**53,409**	**13,260**	0.4%
YoY change (%)	41.1	16.9	10.3	8.2	5.6	4.5	2.9	6.3	17.7	4.8	5.9	
Gross Profit	**9,514**	**9,811**	**9,937**	**9,426**	**9,956**	**10,275**	**10,387**	**10,200**	**38,688**	**40,817**	**10,092**	1.1%
Gross margin (%)	76.7	76.2	75.5	75.3	76.0	76.4	76.7	76.6	75.9	76.4	76.1	
Other Expenses	-6,469	-6,686	-7,037	-6,904	-7,192	-7,468	-7,560	-7,657	27,096	29,876	-7,332	
% of Sales	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
EBITDA	**3,045**	**3,125**	**2,900**	**2,522**	**2,764**	**2,807**	**2,827**	**2,543**	**11,592**	**10,941**	**2,761**	-7.9%
EBITDA growth %	44.0	9.2	-8.6	-12.9	-9.2	-10.2	-2.5	0.8	4.9	-5.6	9.5	
Margins (%)	24.6	24.3	22.0	20.1	21.1	20.9	20.9	19.1	22.7	20.5	20.8	
Depreciation	1,050	1,123	1,298	1,282	1,328	1,379	1,465	1,511	4,753	5,684	1,502	
Interest	459	485	501	505	513	534	583	609	1,951	2,239	589	
Other Income	106	103	93	195	91	69	40	86	497	285	51	
PBT	**1,642**	**1,619**	**1,194**	**930**	**1,014**	**963**	**819**	**508**	**5,385**	**3,303**	**721**	-29.5%
PBT margin (%)	13.2	12.6	9.1	7.4	7.7	7.2	6.0	3.8	10.6	6.2	5.4	
YoY Change (%)	85.0	-1.0	-34.8	-39.6	-38.2	-40.5	-31.4	-45.3	-8.6	-38.6	**-22.5**	
Tax	366	428	309	254	262	241	209	132	1,356	844	209	
Rate (%)	22.3	26.4	25.8	27.4	25.8	25.1	25.6	26.0	25.2	25.6	29.0	
Adjusted PAT	**1,217**	**1,192**	**885**	**621**	**752**	**721**	**610**	**345**	**3,914**	**2,428**	**511**	-32.5%
YoY change (%)	78.6	-2.9	-35.6	-46.74	-38.2	-39.5	-31.2	-44.38	-12.0	-38.0	-17.6	

E: MOFSL Estimates

Gland Pharma

Estimate change	↓
TP change	↓
Rating change	↔

Bloomberg	GLAND IN
Equity Shares (m)	165
M.Cap.(INRb)/(USDb)	295.3 / 3.5
52-Week Range (INR)	2196 / 861
1, 6, 12 Rel. Per (%)	0/-10/77
12M Avg Val (INR M)	963

Financials & Valuations (INR b)

Y/E MARCH	FY24	FY25E	FY26E
Sales	56.6	63.8	69.9
EBITDA	13.5	16.0	18.6
Adj. PAT	7.8	9.6	11.2
EBITDA Margin (%)	23.8	25.1	26.6
Cons. Adj. EPS (INR)	47.6	58.1	68.1
EPS Gr. (%)	(5.6)	22.1	17.3
BV/Sh. (INR)	529.7	587.8	655.9
Ratios			
Net D:E	(0.2)	(0.1)	(0.1)
RoE (%)	9.4	10.4	11.0
RoCE (%)	9.4	10.0	10.6
Payout (%)	-	-	-
Valuations			
P/E (x)	37.7	30.9	26.4
EV/EBITDA (x)	20.8	18.1	15.4
Div. Yield (%)	-	-	-
FCF Yield (%)	(1.4)	(3.3)	0.3
EV/Sales (x)	5.0	4.5	4.1

Shareholding pattern (%)

As On	Mar-24	Dec-23	Mar-23
Promoter	57.9	57.9	57.9
DII	25.2	24.2	23.2
FII	3.6	4.0	4.3
Others	13.3	13.9	14.6

FII Includes depository receipts

CMP: INR1,793 TP: INR2,070 (+15%) Buy

Superior execution in the base business during 4QFY24

Cenexi drags the overall performance

- Gland Pharma (GLAND) posted lower than expected 4QFY24 earnings. Weak Cenexi performance dragged down overall profitability for the quarter. Having said this, GLAND continued to exhibit strong traction in the base business (ex-Cenexi) aided by relaunches that went off-market due to issues at its partner's end.
- We cut our earnings estimates by 11%/9% for FY25/FY26, factoring in: 1) the extended operational challenges, 2) slower progress in the China business, and 3) a higher effective tax rate. We value GLAND at 27x 12M forward earnings to arrive at our TP of INR2,070. **Reiterate BUY.**
- While GLAND is implementing efforts to turnaround the Cenexi business, it has not only stabilized its base business but also built levers in terms of product pipeline/newer contracts to further scale-up the base business. It is also focusing on obtaining regulatory approvals for its biologics facility for subsequent scale-up of the business. Accordingly, we expect 11%/17%/20% CAGR in revenue/EBITDA/PAT over FY24-26 to INR70b/INR18.5b/INR11.2b.

Product mix benefits offset by reduced operating leverage

- GLAND's 4QFY24 revenue jumped 96% YoY to INR15.4b (est: INR16b). The base business (ex-Cenexi) grew 49.5% YoY to INR11.7b for the quarter. The core market sales surged ~2x YoY to INR11.8b (78% of sales). The RoW sales grew 64% YoY to INR2.8b (18% of sales). However, India sales declined 18.7% YoY to INR526m (3% of sales) for the quarter.
- Gross margin (GM) expanded 750bp YoY to 61% due to a change in product mix and the addition of a higher-GM Cenexi business.
- EBITDA margin expanded 190bp YoY to 23.3% (our estimate: 24.6%), as superior GM was offset by higher employee costs (up 980bp YoY as a % of sales). Other expenses were lower by 420bp YoY, as a % of sales. On ex-Cenexi basis, the EBITDA margin was 36.4% (+1,490bp YoY/+ 250bp QoQ).
- Consequently, EBITDA surged ~2x YoY to INR3.6b (our est: INR3.9b).
- Adj. PAT grew at a lower rate of 61.7% YoY to INR1.9b (our estimate: INR2.6b) due to higher depreciation, finance costs, and tax expenses.
- **For FY24,** Revenue/EBITDA grew 56%/30% YoY to INR56.6b/13.5b. However, PAT declined 5.6% YoY to INR7.8b.

Highlights from the management commentary

- GLAND indicated to grow 14-15% on an annual basis in the base business going forward.
- It intends to achieve a high-teen EBITDA margin in the Cenexi business over the next 1-2 years.
- Milestones income would be higher going forward due to the increased share of business from complex products.
- Management expects competition in Eribulin in the US market over the next six months.
- There will be a planned shutdown in Cenexi's business in Aug'24.

Consol. - Quarterly perf. **(INRm)**

Y/E March	FY23				FY24				FY23	FY24	FY24	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	
Net Sales	**8,569**	**10,444**	**9,383**	**7,850**	**12,087**	**13,734**	**15,452**	**15,375**	**36,246**	**56,647**	**16,057**	-4.3
YoY Change (%)	-25.7	-3.3	-11.8	-28.8	41.1	31.5	64.7	95.9	-17.6	56.3	104.6	
Total Expenditure	5,870	7,366	6,487	6,166	9,147	10,493	11,710	11,788	25,888	43,138	12,105	
EBITDA	**2,699**	**3,079**	**2,895**	**1,684**	**2,940**	**3,241**	**3,742**	**3,587**	**10,358**	**13,509**	**3,952**	-9.2
YoY Change (%)	-38.1	-18.2	-17.0	-51.7	8.9	5.3	29.2	113.0	-31.4	30.4	134.7	
Margins (%)	31.5	29.5	30.9	21.4	24.3	23.6	24.2	23.3	28.6	23.8	24.6	
Depreciation	349	367	376	375	653	813	1,053	926	1,467	3,446	891	
Interest	9	17	26	22	49	60	53	100	74	262	47	
Other Income	744	656	615	389	375	532	374	421	2,405	1,702	324	
PBT before EO expense	**3,085**	**3,351**	**3,108**	**1,676**	**2,613**	**2,899**	**3,009**	**2,982**	**11,220**	**11,503**	**3,338**	-10.6
One-off income/(expense)	0	120	0	565	0	0	178	0	685	178	0	
PBT	**3,085**	**3,231**	**3,108**	**1,111**	**2,613**	**2,899**	**2,832**	**2,982**	**10,536**	**11,325**	**3,337**	-10.6
Tax	793	828	789	325	672	958	913	1,058	2,735	3,601	728	
Rate (%)	25.7	25.6	25.4	29.2	25.7	33.0	32.2	35.5	26.0	31.8	21.8	
Reported PAT	**2,292**	**2,402**	**2,319**	**787**	**1,941**	**1,941**	**1,919**	**1,924**	**7,800**	**7,724**	**2,610**	-26.3
Adj PAT	**2,292**	**2,511**	**2,319**	**1,186**	**1,941**	**1,941**	**2,039**	**1,918**	**8,307**	**7,839**	**2,610**	-26.5
YoY Change (%)	-34.6	-16.9	-15.1	-58.5	-15.3	-22.7	-12.1	61.7	-31.4	-5.6	120.1	

E: MOFSL Estimates

Key performance Indicators (Consolidated)

Y/E March	FY23				FY24				FY23	FY24
INRm	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Core Markets	7056	7475	6626	5498	8564	10198	12000	11938	26851	42641
YoY Growth (%)	0.2	12.4	-0.4	-22.7	21.4	36.4	81.1	117.1	-8	59
India	510	726	814	647	647	876	761	526	2501	2810
YoY Growth (%)	-77.5	-60.4	-58.3	-67.9	26.9	20.7	-6.5	-18.7	-60	12
Rest of the world	1002	2243	1943	1705	2876	2660	2842	2802	6984	11239
YoY Growth (%)	-55.0	-3.4	-4.3	-10.4	187.0	18.6	46.3	64.3	-18	61
Cost Break-up										
RM Cost (% of Sales)	43.7	49.1	45.5	46.5	37.5	38.0	38.8	39.0	46.3	38.4
Staff Cost (% of Sales)	11.4	9.7	10.8	13.1	21.1	22.2	22.3	22.9	11.1	22.2
Other Cost (% of Sales)	13.4	11.8	12.8	19.0	17.1	16.2	14.7	14.8	14.0	15.6
Gross Margins(%)	56.3	50.9	54.5	53.5	62.5	62.0	61.2	61.0	53.7	61.6
EBITDA Margins(%)	31.5	29.5	30.9	21.4	24.3	23.6	24.2	23.3	28.6	23.8
EBIT Margins(%)	27.4	26.0	26.9	16.7	18.9	17.7	17.4	17.3	24.5	17.8

One 97 Communications

Estimate change	↓
TP change	↓
Rating change	↔

Bloomberg	PAYTM IN
Equity Shares (m)	635
M.Cap.(INRb)/(USDb)	234.5 / 2.8
52-Week Range (INR)	998 / 310
1, 6, 12 Rel. Per (%)	-4/-74/-71
12M Avg Val (INR M)	3538

Financials & Valuations (INR b)

Y/E March	FY24	FY25E	FY26E
Revenue from Op	103.0	96.7	116.4
Contribution Profit	58.6	48.6	58.9
Adjusted EBITDA	8.8	3.3	7.2
EBITDA	(5.9)	(8.5)	1.6
PAT	(8.8)	(11.4)	(1.2)
EPS (INR)	(13.8)	(17.6)	(1.8)
EPS Gr. (%)	(50.8)	NM	NM
Ratios			
Contribution Margin %	55.5	50.3	50.6
Adjusted EBITDA Margin %	5.6	3.4	6.1
EBITDA Margin (%)	(9.1)	(8.8)	1.4
RoE (%)	(6.7)	(8.8)	(0.9)
RoA (%)	(4.9)	(6.5)	(0.7)
Valuations			
P/E(X)	(26.8)	NM	(205.5)
P/BV (X)	1.8	1.9	1.9
P/Sales (X)	2.3	2.5	2.1

Shareholding pattern (%)

As On	Mar-24	Dec-23	Mar-23
Promoter	0.0	0.0	0.0
DII	6.9	6.1	3.2
FII	60.4	63.7	71.8
Others	32.7	30.2	25.0

FII Includes depository receipts

CMP: INR369 TP: INR400 (+8%) NEUTRAL

Business metric softens; 1QFY25 to mark the bottom

Adj. EBITDA beat estimates; contribution margin declines

- PAYTM reported a net loss of INR5.5b in 4QFY24 (adj. net loss at INR3.2b; our est. of INR4.7b loss), due to impairment of INR2.27b in carrying value of PPBL investment and a conservative approach to small-ticket loan disbursements.
- Total revenue, thus, declined 3% YoY/20% QoQ to INR22.7b (24% higher than MOFSLe), driven by better than expected GMV (modest 8% QoQ decline) and relatively steady subscription revenues. Disbursements declined sharply by 54% YoY/63% QoQ.
- Net payment margin grew 24% YoY/14% QoQ to INR8.5b (net payment, adj. for UPI incentives, declined 24% QoQ to INR5.7b), which, coupled with a decline in financial services and commerce revenue, resulted in a dip in adj. contribution margin to 50.5% (est. 55.6%).
- We cut our adj. EBITDA estimates by 24%/44% for FY25/FY26, and we expect PAYTM to turn profitable in FY27. We, thus, estimate PAYTM to report EBITDA of INR7.2b in FY26. **Retain Neutral with a revised TP of INR400.**

GMV growth healthy; moving toward distribution-led credit model

- PAYTM reported a net loss of INR5.5b (adj. for loss on impairment, net loss stood at INR3.2b vs. our est. of INR4.7b loss). GMV stood at INR4.7t (19% higher than MOFSLe). Loan disbursements took a hit as PAYTM took the conscious decision to focus on the distribution-led credit model while forgoing collection incentives.
- Total revenue declined 3% YoY/20% QoQ to INR22.7b (24% higher than MOFSLe) as GMV and subscription revenue came in better than our estimates.
- Revenue from payment and financial services fell 3% YoY/19% QoQ to INR15.6b, as revenue from financial services declined sharply by 50% QoQ owing to a sharp decline in loan distribution (down 54% YoY/ 63% QoQ).
- Revenue from marketing services (commerce and cloud services) too declined by 23% QoQ to ~INR4b. Cloud business is largely driven by advertising services and co-branded credit cards, while marketing cloud business continues to decline. The number of active cards increased by 0.17m to ~1.18m.
- The company expects payment processing margins to settle at around 5-6bp vs. the historical rate of 7-9bp as 80-85% of the payment GMV now comes from UPI. Net payment margin grew 24% YoY/14% QoQ to INR8.5b (excluding UPI incentives, it declined 24% QoQ to INR5.7b; 12bp of GMV vs. 15bp in 3Q).
- Direct expenses declined to 43% of total revenues (47% in 3QFY24), due to the impact of PPBL products and a conservative approach to certain lending products. Contribution profit stood at INR12.9b, with contribution margin of 57% (adj. for UPI incentive, contribution margin stood at 50.5%).
- Adjusted EBITDA stood at INR1b vs. INR2.2b in 3QFY24. Adjusted EBITDA margin declined to 4.5% from 7.7% in 3QFY24.

Highlights from the management commentary

- On account of embargo on PPBL products, EBITDA impact should be ~INR5b. Most of the impact will start from 1QFY25 as these products were operational during most part of 4QFY24.
- Due to temporary disruptions in operating metrics and conservative lending practices, there will be incremental impact of INR1b to INR1.5b in 1QFY25.
- Incremental EBITDA impact of INR0.75-1b in 1QFY25 due to temporary impact basis various measures in line with regulatory guidance.
- Expects 1QFY25 revenue to be in the range of INR15-16b and EBITDA, excluding ESOP, to be a loss of INR5-6b. This includes investments in marketing to acquire customers.

Valuation and view: Maintain Neutral with a TP of INR400

PAYTM reported a weak quarter after regulatory actions compelled a severe course correction, resulting in multiple strategic changes by the company to enable long-term sustainable growth while adhering to robust governance and compliance standards. Loan disbursement thus declined sharply even as GMV was better than our estimate. Most KPIs, e.g., value of loans, MTUs and revenue growth, exhibited softness and the management suggested that business metrics will bottom out in 1QFY25 and start improving thereafter. Merchant attrition was lower than estimated and the company added merchants in 4Q despite business uncertainties. Adjusting for UPI incentive, contribution margin moderated as financial revenue declined; however, it was partly offset by a decline in payment processing charges. Adjusted EBITDA came in better than our estimates. We estimate overall disbursements to decline 8% YoY in FY25 as the company follows a distribution-led model and stays away from low-ticket postpaid loans. Merchant and personal loan segments are already seeing a recovery; however, take rates will moderate as the company forgoes collection incentives. We cut our earnings estimates and project PAYTM to achieve EBITDA breakeven in FY26. We value PAYTM based on 15x FY28E EBITDA and discount the same to FY26E at a discount rate of ~15%. We thus value the stock at INR400, which implies 2.3x FY26E P/Sales. **We revise our TP to INR400 and retain our Neutral rating.**

Quarterly performance (INR b)

	FY23				FY24				FY23	FY24	FY24E	V/s our
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	Est
Payment Services to Consumers	5.2	5.5	5.1	5.2	5.5	5.8	6.0	4.4	21.1	21.7	3.8	0.2
Payment Services to Merchants	5.6	6.2	6.4	9.2	8.4	9.2	10.8	11.2	27.4	39.6	6.6	0.7
Financial Services and Others	2.7	3.5	4.5	4.8	5.2	5.7	6.1	3.0	15.4	20.0	1.1	1.8
Payment and Financial Services	**13.5**	**15.2**	**16.0**	**19.2**	**19.2**	**20.7**	**22.9**	**18.6**	**63.8**	**84.2**	**13.8**	**0.4**
% Change (Y-o-Y)	95.4	80.6	43.2	58.6	42.4	36.1	43.0	-3.0	65.5	31.9	-28.2	-0.9
Commerce and Cloud Services	**3.3**	**3.8**	**4.2**	**3.9**	**4.1**	**4.2**	**5.1**	**4.0**	**15.2**	**17.7**	**4.3**	**-0.1**
% Change (Y-o-Y)	64.8	54.6	23.8	22.7	22.0	12.5	22.4	0.5	37.6	16.4	8.6	-0.9
Revenue from Operations	**16.8**	**19.1**	**20.6**	**23.4**	**23.4**	**25.2**	**28.5**	**22.7**	**79.9**	**103.0**	**18.3**	**0.2**
% Change (Y-o-Y)	88.7	76.2	41.7	51.5	39.3	31.6	38.2	-2.9	60.6	28.9	-21.5	-0.9
Direct Expenses	9.5	10.7	10.2	10.5	10.4	10.9	13.3	9.8	40.9	44.4	7.4	0.3
Contribution Profit	**7.3**	**8.4**	**10.5**	**12.8**	**13.0**	**14.3**	**15.2**	**12.9**	**39.0**	**58.6**	**10.9**	**0.2**
% Change (Y-o-Y)	197.4	223.4	131.0	138.1	79.3	69.2	45.1	0.3	160.4	50.2	-14.8	-1.0
Indirect Expenses	10.0	10.1	10.2	10.5	12.2	12.7	13.0	11.9	40.8	49.8	11.4	0.0
Adjusted EBITDA	**-2.7**	**-1.7**	**0.3**	**2.3**	**0.8**	**1.5**	**2.2**	**1.0**	**-1.8**	**8.8**	**-0.5**	**-3.2**
EBITDA	**-6.3**	**-5.4**	**-3.3**	**-1.3**	**-2.9**	**-2.3**	**-1.6**	**-2.2**	**-16.3**	**-5.9**	**-4.3**	**-0.5**
PAT	**-6.4**	**-5.7**	**-3.9**	**-1.7**	**-3.6**	**-2.9**	**-2.2**	**-5.5**	**-17.8**	**-8.8**	**-4.7**	**0.2**
% Change (Y-o-Y)	68.5	20.4	-49.6	-77.9	-44.5	-49.9	-43.9	227.6	-25.9	-50.7	178.7	0.3
Adj. PAT	**-6.4**	**-5.7**	**-3.9**	**-1.7**	**-3.6**	**-2.9**	**-2.2**	**-3.2**				
Operating Parameters												
GMV (INRt)	3.0	3.2	3.5	3.6	4.1	4.5	5.1	4.7	13.2	18.3	3.9	0.2
Disbursements (INR b)	55.5	73.1	99.6	125.5	148.5	162.1	155.4	58.0	353.8	523.9	50.6	0.1
GMV Growth (%)	101.5	62.6	38.4	39.8	36.8	41.5	47.4	29.6	55.2	38.4	8.6	
Disbursements Growth (%)	778.8	481.8	356.6	253.3	167.3	121.7	56.0	-53.8	364.2	48.1	-59.7	
Asset Quality												-
Contribution Margin	43.3	44.0	50.8	55.0	55.7	56.6	53.3	56.8	48.8	55.5		
Adjusted EBITDA Margin (%)	-16.3	-8.7	1.5	10.0	3.6	6.1	7.7	4.5	-2.2	5.6		
EBITDA Margin (%)	-37.7	-28.1	-16.0	-5.5	-12.5	-9.2	-5.5	-9.9	-20.4	-9.1		

E: MOFSL Estimates

PNB Housing

BSE SENSEX	S&P CNX
74,221	22,598

Ghar Ki Baat

Stock Info

Bloomberg	PNBHOUSI IN
Equity Shares (m)	260
M.Cap.(INRb)/(USDb)	193.6 / 2.3
52-Week Range (INR)	914 / 452
1, 6, 12 Rel. Per (%)	-4/-22/34
12M Avg Val (INR M)	591

Financials Snapshot (INR b)

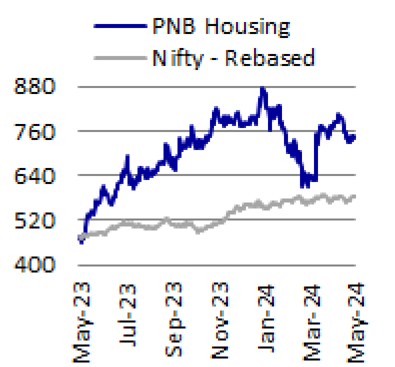
Y/E March	FY24	FY25E	FY26E
Total Income	24.8	29.6	35.0
PPP	21.3	25.7	31.6
PAT	15.1	18.5	22.8
EPS (INR)	58	71	88
EPS Gr. (%)	-6	23	23
BV (INR)	577	648	724
Valuations			
NIM (%)	4.1	4.2	4.2
C/I ratio (%)	24.0	23.6	22.6
RoAA (%)	2.2	2.3	2.4
RoE (%)	11.6	11.7	12.8
Valuations			
P/E (x)	12.8	10.4	8.5
P/BV (x)	1.3	1.1	1.0

Shareholding pattern (%)

As On	Mar-24	Dec-23	Mar-23
Promoter	28.1	28.1	32.5
DII	6.9	7.9	3.7
FII	25.0	24.7	24.3
Others	40.0	39.3	39.5

FII Includes depository receipts

Stock's performance (one-year)



CMP: INR745 **TP: INR1,015 (+36%)** **BUY**

Showcasing the means to healthy growth and profitability

At its analyst/investor conference, PNB Housing Finance (PNBHF) highlighted 1) the progress it has made in building capabilities for its underwriting/collection verticals, 2) its readiness to accelerate growth in affordable business, and 3) its medium-term growth targets.

- PNBHF aims for a CAGR of ~17% in loans over the medium term, with a focus on profitability and asset quality. The company will shift to higher-yielding segments through the affordable housing and emerging market verticals. It plans to continue to invest in technology.
- A change in the business mix and better visibility on borrowing costs (after credit rating upgrades) will help PNBHF improve its NIM profile. Combined with benign credit costs, the management guided for RoA to improve to 2.4%-2.6% by FY27, which will help enable RoE of ~15% on a steady-state basis.

Key takeaways from the meet

- The management shared that it targets to grow its total loan book to ~INR1t and ramp up its affordable housing business to ~14-16% by FY24 (vs. ~3% in FY24). By FY27, it expects the incremental share of emerging and affordable segments in total disbursements to improve to ~50% (vs. ~28% in FY24).
- Within affordable, it aims to increase the proportion of the informal customer segment to ~60% (FY24: ~25%) and self-employed customers to ~50% (FY24: ~37%) in the medium term. This should help yields improve to 13%+ in FY27.
- Bolstered by credit rating upgrades to AA+ from three credit rating agencies, improved debt market access and resumption of NHB borrowings, there is visibility to bring down the incremental CoB by ~15-20bp.
- PNBHF guided for NIM of ~3.5% (FY24: ~3.75%) in the near term, primarily from a run-down of the corporate book and retention strategies in the prime segment. However, the change in mix toward the higher-yielding affordable and emerging verticals, an increase in the share of non-housing loans and improvement in affordable segment yields will boost NIM in the medium term.
- Credit costs are likely to remain benign over the foreseeable future with further benefits of recoveries from the written-off pool across both retail as well as corporate. Asset quality will become the best in class, with a target to achieve GNPA of 1.0-1.1% over the next one year.
- The company will resume corporate disbursements in 2HFY25 but will keep it below ~10% of the loan mix, even at its peak. The difference in profitability between the corporate book and the affordable book will not be high. It will only be doing construction finance for select builders and geographies with ticket size of around INR1b-2b.
- Within prime and emerging segments, credit underwriting has been de-centralized to a large extent. In its affordable segment, PNBHF will have a credit manager stationed in each branch. From its earlier model of hubs doing the credit underwriting, it has moved to a decentralized underwriting, which will give it better control over TAT. However, to prevent collusion and fraud, it has put in place necessary guardrails in the business.

Valuation and View

- Subtle changes like moving away from higher-ticket housing and LAP loans to more granular ticket sizes, focusing more on non-metros, and expanding into Tier 3 and Tier 4 cities for better growth and yields in affordable housing will help PNBHF deliver healthy growth and improvement in profitability.
- The management shared that it does not expect any significant increase in opex despite a higher proportion of affordable business (which inherently is opex-intensive) because of shared resources across its prime, emerging and affordable segments. Likewise, despite moving to higher-yielding and riskier segments like self-employed and informal segment customers, PNBHF remains confident of delivering credit costs of ~30bp (excluding any recoveries from written-off pool).
- While we delve deeper into the capabilities built by PNBHF in the later section of this report, the exhibition of these capabilities vindicates our thesis (refer our previous Report) that PNBHF is a strengthening the franchise, wherein the risk-reward is favorable.
- PNBHF is well equipped to successfully navigate near-term headwinds in NIM, and further offset them with product mix improvements. We expect the company to deliver a healthy ~18% CAGR in loans and ~23% CAGR in PAT over FY24-26, with RoA/RoE of 2.4%/13.0% by FY26.
- The company trades at 1.0x FY26E P/BV, and we believe that there will be a further re-rating in the valuation multiple as investors gain more confidence in its sustained execution in retail (especially emerging and affordable). **Reiterate BUY with a TP of INR1,015 (based on 1.4x FY26E P/BV).**
- **Key risks:** a) a slowdown in the economy leading to lower demand for housing and moderation in loan growth, and b) subsequent seasoning in the affordable loan book leading to asset quality deterioration.

The Ramco Cements

Estimate change	↓
TP change	↓
Rating change	↔

Bloomberg	TRCL IN
Equity Shares (m)	236
M.Cap.(INRb)/(USDb)	182.9 / 2.2
52-Week Range (INR)	1058 / 743
1, 6, 12 Rel. Per (%)	-4/-34/-35
12M Avg Val (INR M)	498

Financial Snapshot (INR b)

Y/E Mar	FY24	FY25E	FY26E
Sales	93.5	102.5	111.3
EBITDA	15.5	18.7	21.5
Adj. PAT	3.9	5.8	7.7
EBITDA Margin (%)	16.6	18.3	19.3
Adj. EPS (INR)	16.7	24.6	32.6
EPS Gr. (%)	15.0	47.5	32.2
BV/Sh. (INR)	302	323	353
Ratios			
Net D:E	0.7	0.7	0.6
RoE (%)	5.7	7.9	9.6
RoCE (%)	6.0	7.2	8.0
Payout (%)	15.0	14.2	10.7
Valuations			
P/E (x)	46.3	31.4	23.7
P/BV (x)	2.6	2.4	2.2
EV/EBITDA(x)	13.9	12.1	10.4
EV/ton (USD)	114	115	105
Div. Yield (%)	0.3	0.5	0.5
FCF Yield (%)	-0.5	-0.1	2.0

Shareholding pattern (%)

As On	Mar-24	Dec-23	Mar-23
Promoter	42.3	42.1	42.3
DII	35.6	36.3	35.9
FII	7.4	7.9	7.6
Others	14.7	13.6	14.3

FII Includes depository receipts

CMP: INR774 TP: INR870 (+12%) Neutral

EBITDA in line; weak pricing an overhang

Reduces capex guidance to INR12b in FY25 from INR17b previously

- The Ramco Cements (TRCL)'s 4QFY24 EBITDA was in line with our estimates, as higher-than-estimated volume offset lower-than-estimated realization. Its EBITDA grew 1% YoY to INR4.2b (est. INR4.0b). EBITDA/t stood at INR760 vs. estimated INR794. OPM was down 50bp YoY to 15.6% (est. 16.1%). PAT was at INR1.2b vs. our estimate of INR1.1b due to lower-than-estimated depreciation and tax rates.
- Management has reduced its capex guidance by INR5b to INR12b for FY25. Its capacity utilization stood at ~96% in 4QFY24 aided by strong demand in both eastern and southern regions. It is expanding its clinker/grinding capacities at it Kurnool, Andhra Pradesh plant by 3.15mt/1.5mtpa at a capex of INR12.5b. Its net debt declined INR2b sequentially to INR48b and net debt-to-EBITDA was 3.0x in FY24.
- We cut our EPS estimates by 5% (each) for FY25/FY26. **We value TRCL at 12x FY26E EV/EBITDA to arrive at our revised TP of INR870 (earlier INR940). We reiterate our Neutral rating on the stock.**

Volume rises 17% YoY; EBITDA/t at INR760 (est. INR794)

- Revenue/EBITDA/PAT stood at INR26.7b/INR4.2b/INR1.2b (up 5%/up 1%/ down 20% YoY and 8%/4%/14% above our estimates) in 4QFY24. Sales volume at 5.5mt grew 17% YoY (9% above our estimate). The realization at INR4,869/t (down 11% YoY and 8% QoQ) was 1% below our estimate.
- Opex/t declined 14% YoY, due to an 18% decline in variable costs and a 6% decline in employee expenses. Conversely, freight costs/other expenses increased 2%/4% YoY. OPM was down 50bp YoY to 15.6%, and EBITDA/t was down 14% YoY to INR760.
- **In FY24,** TRCL's revenue rose 15% YoY, driven by 23% volume growth and a 7% decline in realization. EBITDA grew 31% YoY to INR15.5b. EBITDA/t was up 7% YoY to INR844. OPM surged 2pp YoY to 16.6%. PAT grew 15% YoY to INR3.95b. Its OCF increased 35% YoY to INR19b. Capex stood at INR19.2b vs. INR17.7b in FY23, resulting in an FCF outflow of INR279m vs. INR3.6b in FY23.

Highlights from the management commentary

- Cement volume is expected to recover post-elections, supported by robust demand from housing and commercial segments. Cement prices are under pressure in TRCL's key markets (except Odisha).
- Blended fuel consumption cost was USD141/t (INR1.65/kcal) vs. USD178 (INR2.1/kcal) in 4QFY23.
- Management reduced its FY25 capex guidance to INR12b vs. INR17b earlier.

View and valuation

- We estimate the company's volume growth to moderate to ~8% CAGR over FY24-26 vs. ~29% over FY22-24. Pricing pressure in its key markets, higher leverage, and low return ratios (RoE/ROCE estimated in high single digits in FY25) will remain an overhang on the stock.
- At CMP, the stock trades fairly at 12x/10x FY25E/FY26E EV/EBITDA. **We value TRCL at 12x FY26E EV/EBITDA and reiterate our Neutral rating with a revised TP of INR870 (vs. INR940 earlier).**

Quarterly Performance (INR b)

Y/E March	FY23				FY24				FY23	FY24	FY24	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	(%)
Sales volume (m ton)	3.31	3.35	3.64	4.70	4.30	4.61	4.00	5.49	15.02	18.40	5.04	9
YoY Change (%)	54.6	23.5	21.1	45.5	29.9	37.7	9.9	16.8	34.8	22.5	7.2	
Realization (INR/ton)	5,298	5,253	5,515	5,464	5,212	5,053	5,265	4,869	5,384	5,081	4,932	(1)
YoY Change (%)	(6.2)	(2.5)	7.3	3.4	(1.6)	(3.8)	(4.5)	(10.9)	1.3	(5.6)	(9.7)	
QoQ Change (%)	0.3	(0.9)	5.0	(0.9)	(4.6)	(3.1)	4.2	(7.5)			(6.3)	
Net Sales	**17.7**	**17.8**	**20.1**	**25.7**	**22.4**	**23.3**	**21.1**	**26.7**	**81.4**	**93.5**	**24.9**	8
YoY Change (%)	44.3	19.5	29.7	50.3	26.4	30.5	4.8	4.0	36.0	14.9	(3.3)	
Total Expenditure	14.7	16.0	17.2	21.6	19.0	19.3	17.1	22.6	69.5	78.0	20.8	8
EBITDA	**3.0**	**1.8**	**2.8**	**4.1**	**3.4**	**4.0**	**4.0**	**4.2**	**11.8**	**15.5**	**4.0**	4
Margins (%)	17.0	10.3	14.2	16.1	15.2	17.1	18.8	15.6	14.5	16.6	16.1	
Depreciation	1.1	1.2	1.4	1.4	1.5	1.6	1.7	1.7	5.0	6.4	1.7	(1)
Interest	0.5	0.6	0.6	0.8	0.9	1.2	1.0	1.0	2.4	4.2	1.0	0
Other Income	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.4	0.4	0.2	(14)
PBT before EO expense	**1.5**	**0.2**	**1.0**	**2.1**	**1.1**	**1.4**	**1.3**	**1.6**	**4.7**	**5.4**	**1.5**	11
PBT	**1.5**	**0.2**	**1.0**	**2.1**	**1.1**	**1.4**	**1.3**	**1.6**	**4.7**	**5.4**	**1.5**	11
Tax	0.4	0.0	0.3	0.5	0.3	0.4	0.4	0.4	1.3	1.5	0.4	
Prior year tax	-	-	-	-	-	-	-	-	-	-	-	
Rate (%)	27.0	28.4	30.7	26.3	27.0	26.7	30.8	25.2	27.5	27.3	27.4	
Reported PAT	**1.1**	**0.1**	**0.7**	**1.5**	**0.8**	**1.0**	**0.9**	**1.2**	**3.4**	**3.9**	**1.1**	14
Adj PAT	**1.1**	**0.1**	**0.7**	**1.5**	**0.8**	**1.0**	**0.9**	**1.2**	**3.4**	**3.9**	**1.1**	14
YoY Change (%)	(33.6)	(94.7)	(18.4)	23.7	(29.7)	783.2	38.6	(20.4)	(41.8)	15.0	(30.4)	
Margins (%)	6.3	0.6	3.4	5.9	3.5	4.3	4.4	4.5	4.2	4.2	4.3	

Per ton analysis (incl. Dry mortar) (INR/t)

Net realization	**5,355**	**5,331**	**5,519**	**5,467**	**5,212**	**5,053**	**5,265**	**4,869**	**5,416**	**5,081**	**4,932**	(1)
RM Cost	798	806	764	1,130	760	959	820	1,132	894	934	1,008	12
Employee Expenses	327	335	310	241	294	300	342	227	306	286	273	(17)
Power, Oil & Fuel	1,584	1,991	1,929	1,635	1,758	1,358	1,384	1,128	1,772	1,389	1,240	(9)
Freight cost	1,087	1,040	1,087	1,063	1,064	1,025	1,073	1,082	1,067	1,062	1,066	2
Other Expenses	650	610	646	521	541	546	658	541	590	567	550	(2)
Total Expenses	**4,447**	**4,782**	**4,737**	**4,589**	**4,418**	**4,188**	**4,277**	**4,110**	**4,629**	**4,238**	**4,137**	(1)
EBITDA	**908**	**549**	**782**	**878**	**794**	**865**	**988**	**760**	**787**	**844**	**794**	(4)

Source: Company, MOFSL Estimates

Galaxy Surfactants

Estimate changes	⟷
TP change	⟷
Rating change	⟷

Bloomberg	GALSURF IN
Equity Shares (m)	35
M.Cap.(INRb)/(USDb)	89.9 / 1.1
52-Week Range (INR)	2989 / 2241
1, 6, 12 Rel. Per (%)	-4/-24/-25
12M Avg Val (INR M)	74

Financials & Valuations (INR b)

Y/E March	FY24	FY25E	FY26E
Sales	37.9	43.2	49.5
EBITDA	4.6	5.5	6.3
PAT	3.0	3.5	4.1
EPS (INR)	85	99	115
EPS Gr. (%)	-20.9	15.9	16.7
BV/Sh.(INR)	615	688	773
Ratios			
Net D:E	-0.0	-0.1	-0.1
RoE (%)	14.8	15.1	15.7
RoCE (%)	14.1	15.0	15.8
Payout (%)	25.9	25.9	25.9
Valuations			
P/E (x)	29.9	25.8	22.1
P/BV (x)	4.1	3.7	3.3
EV/EBITDA (x)	19.3	16.1	13.8
Div. Yield (%)	0.9	1.0	1.2
FCF Yield (%)	4.0	2.5	3.0

Shareholding pattern (%)

As On	Mar-24	Dec-23	Mar-23
Promoter	70.9	70.9	70.9
DII	12.7	12.4	12.7
FII	3.8	3.6	2.9
Others	12.6	13.0	13.5

FII Includes depository receipts

CMP: INR2,542 TP: INR3,450 (+36%) Buy

Volume and margin guidance remains intact

- Galaxy Surfactants (GALSURF) reported EBITDA/kg of INR16.7 in 4QFY24, down 28% YoY (our estimate of INR22.5). The company achieved a total volume growth of ~5% YoY to 60.8tmt (our est. of 60.4tmt), with healthy volume growth in India and RoW regions. Subsequently, EBITDA stood at INR1b (down 24% YoY), while PAT came in at INR775m (down 14% YoY).
- The management has guided that lead times have increased due to the Red Sea crisis, but it has not affected the demand for its products. The total impact of volumes was 2.5ktpa. GALSURF expects a full revival in volumes in Jun'24. Demand is normalizing in the AMET market and the currency is also stabilizing in Egypt.
- Barring any further escalations in geopolitical issues, the management expects 6-8% volume growth going forward, with EBITDA growth outpacing volume growth and earnings growth exceeding EBITDA growth. Volumes are expected to tilt toward premium specialty products in FY25. EBITDA/kg guidance, including other income, is at INR20.5-21.5 for FY25.
- The outlook for the business remains positive and the structural story remains intact. There has been improvement in accessibility of products due to quick commerce and the headroom for growth in the HPC segment is huge. The management believes that the momentum in the mass and masstige categories will remain intact, with accelerated approvals leading to volume growth.
- We have not made material changes to our estimates as our margin assumption is well within the management guidance. The stock is currently trading at ~22x FY26E EPS of INR115 and ~14x FY26E EV/EBITDA. We value the company at 30x FY26E EPS to arrive at a TP of INR3,450. We reiterate our BUY rating on the stock.

Miss across the board; margins contract YoY

- Revenue stood at INR9.3b (our est. of INR9.6b, -5% YoY).
- EBITDA came in at INR1b (est. of INR1.4b, -24% YoY). Gross margin was 32.6% (-10bp YoY), with EBITDAM at 10.9% (-280bp YoY).
- PAT came in at INR775m (est. of INR869m, -14% YoY).
- **During FY24**, revenue was INR37.9b (-15% YoY), EBITDA stood at INR4.6b (-19% YoY), while PAT was at INR3b (-21% YoY). EBITDAM was 12.2% (-60bp YoY).
  - The board declared a final dividend of INR22/share for FY24.
- The board has also approved setting up of two overseas subsidiaries in North America/LATAM. GALSURF would be the sole shareholder in the subsidiaries.
  - The objective is to promote business interests in the areas of surfactants, specialty ingredients, active, and proteins (including the businesses of investment holding, trading & marketing, distribution, manufacturing, project execution, implementation, etc.).

Operational highlights

- Total volumes in 4Q stood at 60.8tmt (est. of 60.4tmt, up 5% YoY).
  - The revenue shares from performance surfactants accounted for 56% of the overall revenue, with the remainder coming from specialty care products.
  - The revenue shares from MNCs stood at 49%, regional players at 9% and local & niche players at 42%.
  - India accounted for 38% of the overall revenues, while the AMET region contributed 21% and the share from the RoW stood at 41%.
- Implied realization stood at INR152.7/kg (est. of INR158.6, down 10% YoY), with EBITDA/kg at INR16.7 (our est. of INR22.5, down 28% YoY).

Valuation and view

- The continued focus on R&D (with an annual expenditure of INR400-500m) and increased wallet share from its existing customers and acquisition of new customers should drive volume growth. Margin is also expected to expand gradually with a higher share of premium specialty products volume.
- We estimate a volume CAGR of 9% over FY24-26, led by robust volumes in the domestic market and a recovery in specialty care products volumes in the developed markets, which have already started growing.
- The stock is currently trading at ~22x FY26E EPS of INR115 and ~14x FY26E EV/EBITDA. We value the company at 30x FY26E EPS to arrive at a TP of INR3,450. We reiterate our BUY rating on the stock.

Consolidated - Quarterly Snapshot (INR m)

Y/E March	FY23				FY24				FY23	FY24	FY24	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	(%)
Gross Sales	**11,589**	**12,365**	**10,851**	**9,796**	**9,418**	**9,831**	**9,405**	**9,290**	**44,601**	**37,944**	**9,575**	**-3%**
YoY Change (%)	*40.2*	*40.9*	*16.8*	*-7.0*	*-18.7*	*-20.5*	*-13.3*	*-5.2*	*21.0*	*-14.9*	*-1.7*	
Gross Margin (%)	*30.8%*	*27.2%*	*31.9%*	*32.8%*	*32.4%*	*31.5%*	*31.8%*	*32.6%*	*30.5%*	*32.1%*	*36.8%*	*-4.1%*
EBITDA	**1,480**	**1,317**	**1,540**	**1,345**	**1,232**	**1,249**	**1,125**	**1,017**	**5,683**	**4,622**	**1,356**	**-25%**
Margin (%)	*12.8*	*10.7*	*14.2*	*13.7*	*13.1*	*12.7*	*12.0*	*10.9*	*12.7*	*12.2*	*14.2*	*-3.2*
Depreciation	189	205	216	225	238	247	251	262	835	998	267	
Interest	44	56	56	61	57	54	59	54	217	224	64	
Other Income	-20	11	37	70	25	27	64	239	99	355	57	
PBT	**1,227**	**1,067**	**1,307**	**1,129**	**962**	**975**	**878**	**940**	**4,729**	**3,755**	**1,081**	**-13%**
Tax	223	228	245	224	210	201	165	165	920	740	212	
Rate (%)	*18.2*	*21.4*	*18.7*	*19.8*	*21.8*	*20.6*	*18.8*	*17.5*	*19.4*	*19.7*	*19.6*	
Reported PAT	**1,004**	**839**	**1,062**	**905**	**752**	**774**	**714**	**775**	**3,810**	**3,015**	**869**	**-11%**
YoY Change (%)	*30.7*	*100.0*	*132.7*	*-8.0*	*-25.1*	*-7.7*	*-32.8*	*-14.4*	*45.0*	*-20.9*	*-4.0*	
Margin (%)	*8.7*	*6.8*	*9.8*	*9.2*	*8.0*	*7.9*	*7.6*	*8.3*	*8.5*	*7.9*	*9.1*	*-0.7*
Total Volumes (tmt)	**55.3**	**59.3**	**58.4**	**57.9**	**59.4**	**65.1**	**63.3**	**60.8**	**230.8**	**248.6**	**60.4**	**1%**
Operating Performance (INR/kg)												
Implied realization (INR/kg)	209.7	208.6	185.9	169.3	158.6	151.0	148.7	152.7	193.3	152.7	158.6	-4%
Gross margin (INR/kg)	64.6	56.7	59.3	55.4	51.4	47.5	47.3	49.8	58.9	48.9	58.3	-15%
EBITDA (INR/kg)	26.8	22.2	26.4	23.2	20.8	19.2	17.8	16.7	24.6	18.6	22.5	-26%

Grasim Industries

BSE Sensex	S&P CNX
74,221	22,598

Conference Call Details

Date: 23th May 2024
Time: 11:00 IST
Dial-in details:
+ 91 22 6280 1127
+ 91 22 7115 8028
Link for the call

Financials & Valuations (INR b)

Y/E MARCH	FY24	FY25E	FY26E
Sales	258.5	293.8	314.1
EBITDA	23.2	26.9	34.8
Adj. PAT	16.2	14.5	16.3
EBITDA Margin (%)	9.0	9.2	11.1
S/A Adj. EPS (INR)	24.3	21.9	23.9
S/A EPS Gr. (%)	(23.5)	(9.9)	9.3
Consol EPS (INR)	95.8	98.0	105.4
BV/Sh. (INR)	784.9	818.4	850.4
Ratios			
Net D:E	0.1	0.1	0.1
RoE (%)	5.1	3.9	3.9
RoCE (%)	6.2	5.4	6.2
Valuations			
P/E (x)	100.1	111.2	101.7
P/BV (x)	3.1	3.0	2.9
EV/EBITDA (x)	7.2	5.9	4.8
Div. Yield (%)	0.4	0.2	0.3
FCF Yield (%)	(2.5)	(1.2)	(0.8)

CMP: INR2,437 **Buy**

EBITDA in line; VSF margin higher than estimate

- Grasim Industries 4QFY24 EBITDA grew 24% YoY to INR5.3b (est. INR5.1b) and OPM surged 1.4pp YoY to 7.8% (est. ~8%). Higher other income led to 36% beat in adjusted profit (adjusted for tax write-back of INR515.4m and INR7.2b write-offs towards the subsidiary, AV Terrace Bay Inc, Canada) to INR2.3b (up 2.4x YoY).
- VSF segment's revenue was in line with our estimates, though EBITDA at INR4.6b (up 3.2x YoY) came in 21% above our estimates, led by lower costs. Mar'24-exit price of VSF was ~4% higher than 4QFY24 average price.
- We have a **BUY** rating on the stock. We will review our assumptions after the concall.

OPM up 1.4pp YoY to 7.8%; higher other income led to profit beat

- Standalone revenue/EBITDA/Adj. PAT stood at INR67.7b/INR5.3b/INR2.3b, (+2%/+24%/+145% YoY and +5%/+3%/+36% vs. our estimate) in 4QFY24.
- Sales volume of the VSF segment rose 8% YoY (in line), while blended realization dipped 7% YoY (in line). EBITDA at INR4.6b (up 3.2x YoY) came in 21% above estimates, led by lower costs. OPM surged 8.5pp YoY to 12.3%. EBITDA/kg was INR21 vs. INR14/INR19 in 4QFY23/3QFY24.
- Chemical segment volumes increased 8% YoY in 4Q, though realization was down 19% YoY. EBITDA at INR1.95b (-47% YoY) was below our estimate of INR3b. OPM was 9.4% (-6pp YoY) vs. estimated 14.6%.
- In FY24, revenue declined 4% YoY, while EBITDA dropped 27% YoY to INR23.2b as the Chemical segment's EBITDA was down 54%. OPM dipped 2.9pp YoY to 9.0% as the Chemical segment's OPM dropped 9pp YoY to 12.8%. Adjusted profit was down 23% YoY at INR16.2b.

Highlights from the management commentary

- VSF prices improved marginally in China, reflecting an improving demand scenario and stable operating rates (~85%). However, export prices softened due to global overcapacity and lower raw material prices. The VSF business remains impacted by increased cheaper imports from China in an already weak demand market.
- Average spot prices of international caustic soda (CFR-SEA) improved QoQ for the third consecutive quarter from the lows of USD415/ton to USD451/ton in Q4FY24. However, caustic soda prices in domestic markets remain impacted due to the oversupply situation.
- In the paint business, it is holding dealer meets and expos across the country as part of the pan-India launch plan. Commercial production commenced at three plants in Apr'24, while the construction of the other three plants is progressing as per schedule.
- Net debt stands at INR62b vs. INR17b/INR57b in Mar'23/Dec'23. Capex in FY24 was INR55.3b vs. INR40.2b in FY23. Total capex on paint business since inception is INR70.6b.

Valuation and view

- We have a **BUY** rating on Grasim based on SoTP valuation. We will review our assumptions after the concall on 23th Feb'24 (Link)

Standalone quarterly performance (INR b)

Y/E March	FY23				FY24				FY23	FY24	FY24	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4Q	(%)
Net Sales	**72.5**	**67.5**	**62.0**	**66.5**	**62.4**	**64.4**	**64.0**	**67.7**	**268.4**	**258.5**	**64.3**	5
YoY Change (%)	92.8	36.7	7.1	4.2	(14.0)	(4.5)	3.3	1.8	28.7	(3.7)	(3.2)	
EBITDA	**13.2**	**9.6**	**4.8**	**4.3**	**6.7**	**5.9**	**5.2**	**5.3**	**31.8**	**23.2**	**5.1**	3
Margin (%)	18.2	14.2	7.7	6.4	10.8	9.2	8.2	7.8	11.8	9.0	8.0	(19)
Depreciation	2.6	2.7	2.8	3.0	2.9	2.9	3.0	3.4	11.0	12.2	3.1	9
Interest	0.9	0.9	0.9	1.1	1.1	1.1	1.1	1.2	3.7	4.4	1.1	9
Other Income	0.4	7.6	1.0	1.2	1.2	7.6	1.2	2.6	10.2	12.6	1.3	105
PBT before EO Items	**10.2**	**13.6**	**2.2**	**1.4**	**4.0**	**9.6**	**2.4**	**3.3**	**27.3**	**19.2**	**2.2**	50
Extraordinary Inc./(Exp.)	-	(0.9)	-	-	-	-	-	(7.2)	(0.9)	(7.2)	-	
PBT after EO Items	**10.2**	**12.7**	**2.2**	**1.4**	**4.0**	**9.6**	**2.4**	**-3.9**	**26.5**	**12.0**	**2.2**	(278)
Tax	2.1	3.1	-0.4	0.4	0.4	1.6	0.0	0.5	5.2	2.6	0.5	
Rate (%)	20.9	24.2	(19.7)	30.9	10.2	16.8	1.2	(13.5)	19.7	21.3	22.7	
Reported PAT	**8.1**	**9.6**	**2.6**	**0.9**	**3.6**	**7.9**	**2.4**	**-4.4**	**21.2**	**9.5**	**1.7**	(362)
Prior period tax/DTL reversal	-	-	(1.0)	-	-	-	-	-	(1.0)	-	-	
Adj. PAT	**8.1**	**10.3**	**1.6**	**0.9**	**3.6**	**7.9**	**2.4**	**2.3**	**20.9**	**16.2**	**1.7**	36
Margin (%)	11.1	15.3	2.6	1.4	5.7	12.3	3.7	3.4	7.8	6.3	2.6	
YoY Change (%)	81.3	8.8	(67.1)	(73.2)	(56.1)	(22.9)	46.9	145.3	(6.2)	(22.8)	80.0	

Segmental performance

Y/E March	FY23				FY24				FY23	FY24	FY24	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4Q	(%)
VSF segment												
Sales Volume (KT)	207	182	164	203	196	221	215	219	756	851	214	2
YoY Change (%)	73.2	9.5	(3.8)	6.4	(5.3)	21.6	31.7	7.8	16.9	12.7		
Net Sales (INR b)	43.0	39.0	31.8	37.6	35.8	38.9	37.1	37.6	151.5	149.5	37.2	1
YoY Change (%)	104.5	29.9	(4.6)	(0.1)	(16.7)	(0.4)	16.8	(0.1)	24.1	(1.3)		
EBITDA (INR b)	5.0	3.2	0.6	1.4	3.9	4.7	4.0	4.6	10.3	17.2	3.8	21
EBITDA (%)	11.6	8.3	2.0	3.8	10.9	12.0	10.8	12.3	6.8	11.5	10.3	199
Chemical segment												
Sales Volume (KT)	278	296	284	286	292	306	299	308	1,144	1,205	303	2
YoY Change (%)	16.3	16.5	1.8	4.4	5.0	3.4	5.3	7.7	9.6	5.3		
Net Sales (INR b)	27.3	27.1	25.8	24.0	21.5	19.9	20.0	20.8	104.2	82.1	20.4	2
YoY Change (%)	90.3	66.5	10.5	(3.6)	(21.5)	(26.6)	(22.7)	(13.1)	32.1	(21.2)		
EBITDA (INR b)	8.1	6.1	4.9	3.7	3.6	2.4	2.6	2.0	22.7	10.5	3.0	(34)
EBITDA (%)	29.5	22.5	18.9	15.4	16.7	11.9	13.2	9.4	21.8	12.8	14.6	(519)

Max Healthcare

BSE SENSEX	S&P CNX
74,221	22,598

Conference Call Details

Date: 23rd May 2024
Time: 5:00 pm IST
Dial-in details:
Call details: Link

Financials & Valuations (INR b)

Y/E MARCH	FY24	FY25E	FY26E
Sales	68.2	83.7	100.3
EBITDA	18.7	23.4	28.5
Adj. PAT	13.3	17.4	21.1
EBIT Margin (%)	23.3	23.8	24.6
Cons. Adj. EPS (INR)	13.7	18.0	21.8
EPS Gr. (%)	18.6	30.8	21.3
BV/Sh. (INR)	95.9	113.9	135.7
Ratios			
Net D:E	(0.0)	(0.0)	(0.2)
RoE (%)	15.3	17.1	17.5
RoCE (%)	13.5	15.1	15.9
Payout (%)	0.0	0.0	0.0
Valuations			
P/E (x)	61.0	46.6	38.4
EV/EBITDA (x)	43.3	34.6	27.8
EV/Sales (x)	11.9	9.7	7.9
FCF Yield (%)	0.9	(0.2)	2.3

CMP: INR839

In line with estimates

- For 4QFY24, Max network revenues (including trust business) grew 15.6% YoY to INR18b (in line).
- EBITDA margin dipped 40bp YoY to 27.6% (our est. 27.3%).
- Accordingly, EBITDA grew 15% YoY to INR4.9b (in line).
- Adjusted PAT grew 5% YoY to INR3.3b (our est. INR3.5b), as robust operational performance was offset by higher depreciation.
- EBITDA per bed (annualised) stood at INR7.8m (+11.4% YoY and +1% QoQ)
- In FY24, Revenue/EBITDA/PAT grew 15%/16.5%/19% to INR68b/INR18.7b/INR13b.

Other highlights:

- For the hospitals business, **ARPOB stood at INR78K in 4QFY24 (+10% YoY/+2% QoQ)**. ARPOB growth was driven by
  - Oncology, liver transplant, and renal sciences; and price revision including those for the institutional segment.
- **Occupancy came in at 73% in 4QFY24.**
- Payor mix improved considerably with
  - International revenue growing 14% YoY to INR1.6b and forming 9% of revenues.
  - TPA and the Corporate segment revenue share increasing 160bp YoY to 39.5%.
  - Institutional revenue share remaining flat at 17.7% YoY due to price revision in the institutional segment
  - and the Cash segment revenue share declining 170bp YoY to 33.9%.
- Max Lab gross revenue stood at INR390m for 4QFY24 (+26% YoY/15% QoQ)
- Max@Home gross revenue stood at INR460m (+25% YoY, +3% QoQ) for 4QFY24.

Case mix Snapshot for the quarter

(INRm)	% revenue	4QFY24	4QFY23	YoY growth (%)	3QFY24	QoQ growth (%)
Oncology	24	3,569	3,018	18	3,578	-0.3
Cardiac sciences	13	1,918	1,598	20	1,540	24.6
Neuro sciences	10	1,413	1,192	19	1,332	6.1
Orthopedics	9	1,398	1,293	8	1,332	5.0
Renal sciences	9	1,323	1,090	21	1,207	9.7
Liver and biliary sciences	4	565	456	24	485	16.4
Internal medicine	8	1,115	875	27	1,179	-5.4
OBGY and pediatrics	5	758	748	1	749	1.3
MAS and general surgery	5	729	609	20	694	5.1
Pulmonology	5	729	659	11	541	34.7
Others	9	1,353	1,141	19	1,234	9.6
Total IP revenue	**100**	**14,870**	**12,680**	**17**	**13,870**	**7.2**

Payor mix Snapshot for the quarter

(INRm)	% revenue	4QFY24	4QFY23	YoY growth (%)	3QFY24	QoQ growth (%)
Self Pay	34	6,071	5,514	10.1	5,606	8.3
TPA and Corporates	40	7,074	5,855	20.8	6,560	7.8
International	9	1,594	1,410	13.1	1,581	0.8
Institutional	18	3,170	2,711	16.9	3,078	3.0

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

Y/E March	FY23				FY24				FY23	FY24	FY24E	% var
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	
Gross Sales	**13,903**	**14,717**	**14,640**	**15,490**	**16,220**	**17,190**	**16,820**	**17,910**	**58,750**	**68,150**	**17,802**	**0.6**
YoY Change (%)	5.5	9.6	13.5	26.9	16.7	16.8	14.9	15.6	13.6	16.0	14.9	
Total Expenditure	10,228	10,712	10,590	11,150	11,930	12,350	12,170	12,970	42,680	49,420	12,941	
EBITDA	**3,675**	**4,005**	**4,050**	**4,340**	**4,290**	**4,840**	**4,650**	**4,940**	**16,070**	**18,730**	**4,861**	**1.6**
Margins (%)	26.4	27.2	27.7	28.0	26.4	28.2	27.6	27.6	27.4	27.5	27.3	
Depreciation	650	630	630	690	640	660	700	840	2,600	2,840	707	
Interest	200	140	70	-20	-30	-170	-140	-40	390	-380	-126	
Other Income	30	100	130	30	70	130	60	90	290	350	46	
PBT before EO expense	**2,855**	**3,335**	**3,480**	**3,700**	**3,750**	**4,480**	**4,150**	**4,230**	**13,370**	**16,620**	**4,326**	
Extra-Ord expense	110	120	180	-20	190	190	40	250	390	670	0	
PBT	**2,745**	**3,215**	**3,300**	**3,720**	**3,560**	**4,290**	**4,110**	**3,980**	**12,980**	**15,950**	**4,326**	
Tax	456	-1,896	610	530	660	910	730	870	-300	3,160	794	
Rate (%)	16.6	-59.0	18.5	14.2	18.5	21.2	17.8	21.9	-2.3	19.8	18.4	
Minority Interest & Profit/Loss of Asso. Cos.	0	0	0	0	0	0	0	0	0	0	0	
Reported PAT	**2,289**	**5,111**	**2,690**	**3,190**	**2,900**	**3,380**	**3,380**	**3,110**	**13,280**	**12,790**	**3,532**	
Adj PAT	**2,381**	**2,835**	**2,837**	**3,173**	**3,055**	**3,530**	**3,413**	**3,327**	**11,226**	**13,324**	**3,532**	**-5.8**
YoY Change (%)	15.6	31.6	12.2	53.5	28.3	24.5	20.3	4.9	27.5	18.7	11.3	
Margins (%)	17.1	19.3	19.4	20.5	18.8	20.5	20.3	18.6	19.1	19.6	19.8	

E: MOFSL Estimates

Petronet LNG

BSE SENSEX	S&P CNX
74,221	22,598

CMP: INR310 Neutral

Conference Call Details

Date: 23 May 2024
Time: 12:00 am IST
Dial-in details:
+91 22 7195 0000

Reported EBITDA in line; operational momentum strong

- Revenue came in at INR137.9b (est. INR123.8b, -1% YoY) in 4QFY24.
- EBITDA stood at INR11b (est. INR11b, +17% YoY). In FY24, PLNG provisioned INR3.6b for current year use-or-pay (UoP) dues (4Q: INR0.4b).
- PAT was INR7.4b (est. INR7.4b, +20% YoY).
- **Operational performance:** Total volumes stood at 234Tbtu (est. of 234.8Tbtu, +27% YoY). Dahej utilization came in at 99% (+21.7pp YoY), while Kochi utilization at 23.7% (+3.2pp YoY) was above our estimates.
  - **UoP** dues of INR18.3b (net provision INR14.7b) were included in trade receivables as of 31st Mar'24. The company has obtained bank guarantees from customers to recover UoP charges for FY22 and FY23.
- The board has recommended a final dividend of INR3/share (30% of FV) for FY24.
- **For FY24**, revenue stood at INR527.3b (-12% YoY), EBITDA at INR52.1b (+7% YoY), and PAT at INR35.4b (+9% YoY).

Standalone - Quarterly Earning Model

(INR b)

Y/E March	FY23				FY24					Var	YoY	QoQ
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE	4QAct	(%)	(%)	(%)
Net Sales	**142.6**	**159.9**	**157.8**	**138.7**	**116.6**	**125.3**	**147.5**	**123.8**	**137.9**	**11%**	**-1%**	**-6%**
YoY Change (%)	65.9	47.8	25.2	24.3	-18.3	-21.6	-6.5	-10.8	-0.6			
EBITDA	**10.6**	**11.7**	**16.8**	**9.4**	**11.8**	**12.1**	**17.1**	**11.0**	**11.0**	**0%**	**17%**	**-35%**
Margin (%)	7.5	7.3	10.6	6.8	10.1	9.7	11.6	8.9	8.0			
Depreciation	1.9	1.9	1.9	1.9	1.9	1.9	2.0	1.9	1.9			
Interest	0.8	0.8	0.8	0.9	0.7	0.7	0.7	0.9	0.7			
Other Income	1.4	0.9	1.8	1.5	1.5	1.6	1.6	1.7	1.6			
PBT before EO expense	**9.4**	**9.9**	**15.9**	**8.2**	**10.6**	**11.0**	**16.0**	**9.9**	**10.0**	**1%**	**22%**	**-38%**
PBT	**9.4**	**9.9**	**15.9**	**8.2**	**10.6**	**11.0**	**16.0**	**9.9**	**10.0**	**1%**	**22%**	**-38%**
Tax	2.4	2.5	4.1	2.0	2.7	2.8	4.1	2.5	2.6			
Rate (%)	25.2	25.1	25.5	24.9	25.6	25.8	25.5	25.2	25.9			
Reported PAT	**7.0**	**7.4**	**11.8**	**6.1**	**7.9**	**8.2**	**11.9**	**7.4**	**7.4**			
Adj PAT	**7.0**	**7.4**	**11.8**	**6.1**	**7.9**	**8.2**	**11.9**	**7.4**	**7.4**	**0%**	**20%**	**-38%**
YoY Change (%)	10.3	-9.6	3.2	-18.1	12.7	9.9	0.9	20.2	20.1			
Margin (%)	4.9	4.7	7.5	4.4	6.8	6.5	8.1	6.0	5.3			
Key Assumptions												
Regas volume (Tbtu)	94	77	47	60	123	102	110	95	108	14%	80%	-2%
Sales volume (Tbtu)	114	115	120	124	107	121	122	140	126	-10%	2%	3%
Total Volumes (Tbtu)	208.0	192.0	167.0	184.0	230.0	223.0	232.0	234.8	234.0	0%	27%	1%
Dahej utilization (%)	88.6%	82.3%	69.6%	77.3%	98.1%	95.0%	98.6%	100.4%	99.0%	-1.3%	21.7%	0.5%
Kochi utilization (%)	19.0%	15.8%	20.6%	20.6%	20.6%	20.6%	22.2%	20.4%	23.7%	3.3%	3.2%	1.6%

Metro Brands

BSE SENSEX	S&P CNX
74,221	22,598

Conference Call Details

Date: 23rd May 2024

Time: 03:30PM IST

Financials & Valuations (INR b)

Y/E March	FY24	FY25E	FY26E
Sales	23.6	28.2	34.3
EBITDA	7.0	8.6	10.9
Adj. PAT	4.1	4.2	5.4
EBITDA Margin (%)	29.7	30.6	31.9
Adj. EPS (INR)	15.1	15.6	19.8
EPS Gr. (%)	13.2	3.8	26.6
BV/Sh. (INR)	70.2	83.4	100.1
Ratios			
Net D:E	0.1	0.1	0.1
RoE (%)	24.0	20.8	22.1
RoCE (%)	17.7	14.9	15.4
Payout (%)	14.9	17.6	17.6
Valuations			
P/E (x)	76.0	73.2	57.8
EV/EBITDA (x)	45.9	37.2	29.3
EV/Sales (X)	13.6	11.4	9.4
Div. Yield (%)	0.2	0.2	0.3

CMP: INR1144 — Buy

EBITDA up 10% (beat) led by controlled expenses

Productivity declines, but less sharply

- Consolidated revenue grew 7% YoY to INR5.8b (in line), mainly driven by footprint additions (15% YoY) as revenue/sqft (-5% YoY) remained a drag.
  - **Metro's revenue (excluding FILA) grew 11% YoY**.
  - **SSS continued to decline due to a higher base in FY23; however, the productivity declined less sharply, falling from -10% YoY in 9MFY24 to -5% YoY in 4QFY24.**
- Gross profit increased 8% YoY to INR3.3b (in line), and margin expanded 50bp YoY to 56.4%.
  - **GM continued to remain higher due to higher sales from INR3,000+ ASP products and higher sales contribution from own brand products.**
  - The company's annual guidance stood at 55-57%.
- **EBITDA increased 10% YoY to INR1.6b (10% beat)** led by controlled employee and other expenses. Margin improved 80bp YoY to 27.2%.
  - Metro's EBITDA (adjusting for FILA losses), was up 10% YoY with 29.4% margin (flat YoY).
- Depreciation/finance costs grew 18%/16% YoY, while other income rose 30% YoY.
- Resultantly, PBT increased 10% YoY to INR1b (32% beat).
- PAT surged 2.3x YoY to INR1.5b led by tax adjustment of INR690m. **Adjusting for the taxes, PAT grew 26% YoY to INR866m (significant beat) with 14.8% PAT margin.**
  - Tax adjustments were due to: a) recognized and utilized tax assets of INR430m on carry forward business losses of Fila, and b) reduction in tax charge on reversal of DTL of INR260m on certain intangible assets due to the demerger.
- **During FY24,** revenue/EBITDA/PAT grew 11%/3%/14% YoY. EBITDA rose merely 3%, dragged by lower margins from Cravatex and higher opex.
- OCF grew 81% YoY to INR3.8b led by lower tax and release of WC. Capex increased 21% YoY to INR1.1b resulting in an FCF of INR2.7b (up 2.3x YoY). The Board paid a dividend of INR1.2b and hence, the net cash position stood at INR9b.
- The company further announced a dividend of INR2.3 per share.

Store adds

- The company added 21 stores (one new city) in 4QFY24 and closed 11 stores, thus taking the net store additions to 10, and the count to 836 (excluding FILA).
- The company has closed 11 FILA stores during the quarter and it is operating three COCO FILA stores (vs. 25 EBOs during the acquisition of CBL).
- **This led to a net closure of one store in 4QFY24, and the total store count to 839.**

Cravatex brands (CBL) update

- FILA's revenue for 4QFY24 stood at INR60m, which contributed ~1% of Metro revenues.
- Operating loss stood at INR110m (vs losses of INR120m in 3QFY24 and INR100m in 4QFY23).
- **Liquidation of excess inventory of FILA is slightly delayed and will be substantially completed by the end of the next EOSS in 2QFY25.**
- **As management guided earlier, in FY25, the focus would be to relaunch FILA by leveraging Metro / Mochi MBOs' distribution network. And from FY26, post-stabilization of FILA operations, the company will restart opening FILA EBOs.**

Update on BIS:

- The Department for Promotion of Industry and Internal Trade (DPIIT) issued a notification that the purchase of footwear from factories, which have applied for BIS certification are allowed until Jul'24.
- In order to circumvent any potential supply chain disruptions, Metro has front-loaded inventory buying to some extent, which is expected to lead **to higher inventory levels until Jul'24.**

Consolidated - Quarterly Earnings (INR m)

Y/E March	FY23				FY24				FY23	FY24	FY24E	Est
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	Var (%)
Revenue	**5,080**	**4,763**	**5,987**	**5,441**	**5,825**	**5,557**	**6,355**	**5,830**	**21,271**	**23,567**	**5,950**	**-2.0**
YoY Change (%)	286.6	46.7	23.8	35.0	14.7	16.7	6.1	7.1	58.4	10.8	9.4	
Total Expenditure	3,251	3,292	3,935	4,006	3,959	4,003	4,365	4,244	14,483	16,571	4,502	-5.7
EBITDA	**1,829**	**1,472**	**2,052**	**1,436**	**1,866**	**1,554**	**1,990**	**1,586**	**6,788**	**6,996**	**1,448**	**9.5**
EBITDA Margin (%)	36.0	30.9	34.3	26.4	32.0	28.0	31.3	27.2	31.9	29.7	24.3	-2.9
Depreciation	390	414	504	502	543	572	586	591	1,810	2,291	600	-1.5
Interest	134	148	173	175	185	197	204	203	631	789	223	-9.0
Other Income	93	118	146	187	144	162	160	244	544	708	161	51.2
PBT	**1,397**	**1,027**	**1,521**	**946**	**1,282**	**946**	**1,359**	**1,036**	**4,891**	**4,624**	**786**	**31.8**
Tax	345	253	394	267	353	275	379	-508	1,257	499	217	-333.6
Rate (%)	24.7	24.6	25.9	28.2	27.5	29.1	27.9	-49.0	25.7	10.8	27.7	
MI & Profit/Loss of Asso. Cos.	5	5	2	8	6	5	7	12	20	30	0	
PAT pre-MI	**1,052**	**774**	**1,128**	**680**	**929**	**671**	**981**	**1,544**	**3,634**	**4,124**	**569**	**171.5**
Adj PAT post-MI	**1,058**	**779**	**1,130**	**688**	**935**	**676**	**988**	**866**	**3,654**	**3,465**	**569**	**52.3**
YoY Change (%)	-973	41	11	-1	-12	-13	-13	26	70.4	-5.2	-17	

E: MOFSL Estimates

Indigo Paints

BSE SENSEX	S&P CNX
74,221	22,598

Conference Call Details

Date: 23th May 2024
Time: 12:30pm IST
Dial-in details:
+91 22 6280 1144 /
+91 22 7115 8045

Diamond Pass

Financials & Valuations (INR b)

Y/E March	2024	2025E	2026E
Sales	13.1	15.2	17.4
Sales Gr. (%)	21.7	16.0	15.0
EBITDA	2.4	2.7	3.1
EBIT Margin (%)	18.2	17.9	17.5
Adj. PAT	1.5	1.7	1.9
Adj. EPS (INR)	31.3	35.4	39.9
EPS Gr. (%)	28.8	13.3	12.5
BV/Sh.(INR)	190.9	220.4	252.3
Ratios			
RoE (%)	17.7	17.2	16.9
RoCE (%)	17.5	17.1	16.8
Valuation			
P/E (x)	45.7	40.4	35.9
P/BV (x)	7.5	6.5	5.7
EV/EBITDA (x)	27.7	23.7	20.8
Div. Yield (%)	0.2	0.4	0.6

CMP:INR1,431

Sales in line; miss on profitability

Consolidated performance

- **Sales growth above industry:** Net sales grew 18.3% YoY to INR3,849m (est. INR3,990m). Indigo Paints has witnessed over 3-4x higher growth than the industry, indicating a market share gain by the company.
- **Healthy gross margin expansion:** Gross margin improved 210bp YoY and 70bp QoQ to 48.9% (est. 49.0%) aided by a favorable product mix. As a percentage of sales, high employee costs (up 30bp YoY) and 'other expenses' (up 180bp YoY) led to flat YoY EBITDA margin of 22% (est. 22.3%).
- **Double-digit growth in EBITDA/PBT/PAT:** EBITDA grew 18% YoY to INR846m (est. INR888m). PBT increased 11% YoY to INR727m (est. INR768m). Adj. PAT rose 12% YoY to INR544m (est. INR574m).
- **In FY24**, net sales/EBITDA/Adj. PAT increased 22%/31%/29%.

Highlights from the presentation

- The company added six depots in FY24 to improve its distribution efficiency. Total depots reached 53 as of Mar'24.
- It also added 332 tinting machines, bringing the total to 9,842 in 4QFY24 vs. 9,510 in 3QFY24. Active dealers also rose by 360 during the quarter.
- On the B2B front, Apple Chemie has grown over 24% in FY24, and the growth is expected to accelerate further.
- In Jodhpur, there are plans for a new solvent plant with a capacity of 12,000 KLPA and a water-based plant with a capacity of 90,000 KLPA. Additionally, the putty plant's capacity in Jodhpur will be doubled. These developments, once completed, will provide ample infrastructure to meet demand for the next five years.

Outlook

- The company anticipates maintaining its revenue growth at 3-4x the industry average. Management aims to sustain the current gross margin throughout FY25, acknowledging potential quarterly fluctuations due to seasonal product mix changes.
- Despite increased spending on digital advertising, the overall Advertising & Promotional expenses are expected to marginally decline as a percentage of revenue for FY25.
- EBITDA margin for FY25 is likely to expand 50-100bp, although quarterly variations may occur due to shifts in product mix and advertising expenditure.
- Apple Chemie is poised for significant revenue growth in FY25, driven by higher sales and marketing efforts across multiple states.

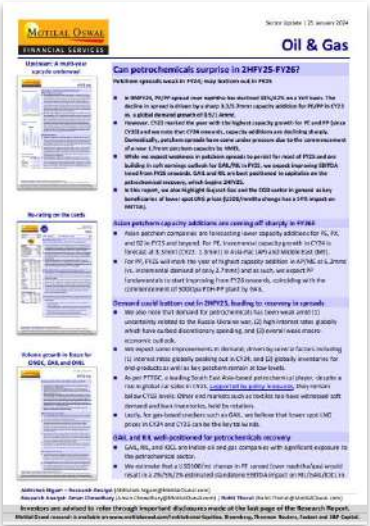
Consolidated Quarterly Performance (INR m)

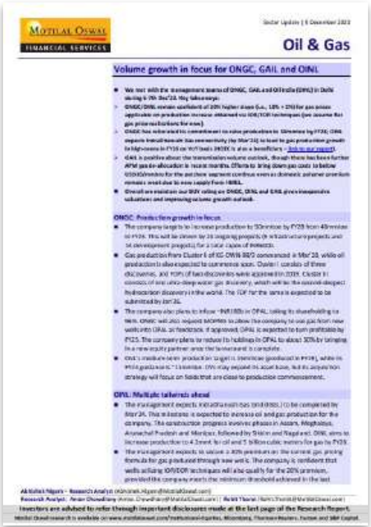
Y/E March	FY23				FY24				FY23	FY24	FY24	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	(%)
Net Sales	**2,240**	**2,426**	**2,813**	**3,255**	**2,884**	**2,790**	**3,538**	**3,849**	**10,733**	**13,061**	**3,990**	-3.5%
Change (%)	43.6	23.7	6.0	12.9	28.8	15.0	25.8	18.3	18.5	21.7	22.6	
Raw Material/PM	1,228	1,414	1,580	1,731	1,519	1,519	1,833	1,968	5,952	6,839	2,033	
Gross Profit	**1,012**	**1,012**	**1,233**	**1,524**	**1,365**	**1,271**	**1,705**	**1,881**	**4,781**	**6,222**	**1,956**	-3.9%
Gross Margin (%)	45.2	41.7	43.8	46.8	47.3	45.6	48.2	48.9	44.5	47.6	49.0	
EBITDA	**353**	**338**	**406**	**717**	**491**	**421**	**622**	**846**	**1,815**	**2,381**	**888**	-4.8%
Margin (%)	15.7	13.9	14.4	22.0	17.0	15.1	17.6	22.0	16.9	18.2	22.3	
Change (%)	74.9	44.5	4.9	33.4	39.2	24.8	53.5	17.9	33.5	31.2	23.8	
Interest	4	3	3	4	5	6	6	5	14	21	5	
Depreciation	84	85	87	87	101	113	146	156	343	516	146	
Other Income	5	32	38	28	38	32	31	42	101	142	30	
PBT	**269**	**282**	**353**	**654**	**423**	**335**	**501**	**727**	**1,558**	**1,986**	**768**	-5.4%
Tax	70	74	91	168	108	81	125	183	402	497	194	
Effective Tax Rate (%)	26.0	26.4	25.7	25.6	25.6	24.3	25.0	25.1	25.8	25.0	25.3	
Adjusted PAT	**199**	**208**	**263**	**487**	**310**	**253**	**376**	**544**	**1,156**	**1,489**	**574**	-5.2%
Change (%)	71.5	53.2	8.1	40.7	55.9	22.1	43.0	11.8	37.5	28.8	17.9	

E: MOFSL Estimates

Oil & Gas

Our latest O&G updates





Refining bottoming out; marketing margins remain robust

- Refining has had a slow start in 1QFY25, but we anticipate a recovery as the summer driving season begins in the US (from Jul'24) and oil demand growth improves in 2HFY25. The marketing margins have remained robust, with oil declining to USD83/bbl in May'24YTD. The current MS and HSD marketing margins are ~INR5/lit each vs. our assumptions of INR3.3/lit each for both MS and HSD.
- With oil prices declining to near USD83/bbl recently, the focus remains on OPEC's upcoming meeting in early Jun'24. With OPEC's spare capacity at a multi-year high and strong non-OPEC supply growth, we believe the likelihood of OPEC not extending production cuts is increasing. As such, we believe oil prices will remain within a specific range in the coming months.
- HPCL, GAIL, and Oil India remain our top picks in the oil and gas sector. We favor HPCL due to: 1) a favorable marketing margin environment and an expected improvement in GRM with the commencement of the bottom upgrade project in 3QFY25, 2) significant volume growth from the Rajasthan refinery (+27% increase for HPCL on a proportionate basis), and 3) potential value unlocking from the demerger of the lubricant business.

Oil demand stable; non-OPEC supply response strong

- The IEA recently released its monthly oil report, in which it revised down its estimates for global oil demand growth for CY24 by 140kb/d to 1.1mb/d, even as demand growth projection for CY25 was raised to 1.2mb/d (from 1.1mb/d in Apr'24).
- In 2024, the global oil supply is anticipated to increase by 580kb/d (vs. +770kb/d est. in Apr'24). This increase is attributed to a 1.4mb/d growth in non-OPEC+ output (vs. 1.6mb/d est. in Apr'24). Conversely, OPEC+ production is expected to decline by 840kb/d (vs. 820kb/d est. in Apr'24), assuming that voluntary cuts are maintained.
- In Mar'24, global oil inventories increased by 34.6mb (+43.3mb in Feb'24), with oil stored at sea reaching its highest level since the pandemic. Conversely, on land stocks decreased 5.1mb, reaching their lowest point since at least 2016.
- Total OECD stocks decreased 8.8mb, reaching a 20-year low, while non-OECD inventories rose for the first time since Nov'23. Preliminary data suggests that global oil stocks continued to rise in Apr'24.

Refining GRMs weak for now but bottoming out

- Refining has had a slow start in 1QFY25YTD with SG GRM averaging USD3.86/bbl vs. 4QFY24 average of USD7.32/bbl. In 1QFY25YTD, diesel GRM has averaged USD17.2/bbl vs. 4QFY24 average of USD24.3/bbl. In contrast, gasoline GRM has remained strong at USD16.1/bbl vs. 4QFY24 average of USD14.64/bbl.
- The recent weakness in GRMs might be attributable to weaker-than-expected global oil demand growth. Further, the middle distillate markets experienced a spring sell-off, causing the global refining margins to fall to nearly two-year lows.

- The IEA expects refinery activity to pick up pace, with annual growth projected to increase from slightly above zero in 1QCY24 to 500kb/d in 2QCY24 and further to 1.8mb/d in 2HCY24. As such, we foresee a stronger refining GRM environment in 2HCY25.
- Meanwhile, the current gross marketing margins are INR5/lit for HSD and MS, even as we are building in gross marketing margin of INR3.3/lit for both MS and HSD.
- As such, we believe, OMCs/MRPL/RIL are on course to post weaker refining performance sequentially even as marketing business profitability for OMCs, currently, is largely in line with their reported 4QFY24 results.

Petrochemicals stable but could rebound in 2HFY25

- HDPE and PP spreads over naphtha have averaged USD290/t and USD302/t in 1QFY25YTD, down 5% QoQ and up 1% QoQ, respectively.
- Average HDPE price in 1QFY25YTD is USD988/t vs. 4QFY24 price of USD990/t, even as spot LNG price has risen by 7.4% QoQ to USD10.1/mmbtu in 1QFY25YTD.
- While key petchem spreads have largely remained flat QoQ, we do believe petchem segment is bottoming out as capacities globally are coming off sharply and the excess supply situation continues to correct. Refer to our report titled "Can petrochemicals surprise in 2HFY26".

Our top picks in the Oil and Gas sector are HPCL, GAIL, and Oil India.

- **HPCL** remains our preferred pick among the three OMCs. We model a marketing margin of INR3.3/lit in FY25-26E, while MS and HSD marketing margins are INR5.3/lit and INR4.7/lit, respectively, at present. We see the following as key catalysts for the stock: 1) demerger and potential listing of lubricant business, 2) the commissioning of its bottom upgrade unit, and 3) the start of Rajasthan refinery in 4QFY25.
- HPCL currently trades at 1.2x FY26E PB, which we think offers a reasonable margin of safety as we estimate FY26 ROE at 17.6%. We value the stock at 1.4x FY26E P/BV to arrive at our TP of INR600. **Reiterate BUY.**
- **For GAIL**, during FY24-26E, we are modeling PAT to report a 9.8% CAGR driven by: 1) rising natural gas transmission volumes to 142mmscmd in FY26 from 120mmscmd in FY24; and 2) substantial improvement in petchem segment's profitability over 2HFY25-FY26 as new petchem capacity will be operational and low inventories globally will drive re-stocking demand.
- We remain positive on GAIL (our top pick in CY24), valuing the core business at 13x FY26E adj. EPS of INR15. Adding the value of listed and unlisted investments of INR40, we arrive at our revised TP of INR235. Our TP implies FY26E P/B of 2x. The stock is currently trading at an FY26E P/B of 1.7x. **Reiterate BUY.**
- **Oil India** remains a strong conviction BUY with a 1.3x FY26E P/B (standalone) valuation. It is a unique play to benefit from the strong multi-year upcycle in both upstream and refining. The stock currently trades at a P/E multiple of 8x FY26E EPS and 5.8x FY26E EV/EBITDA. We value the stock at 7.9x FY26E standalone adj. EPS and add investments to arrive at our TP of INR694. **Reiterate BUY.**

Hitachi Energy : Less than Rs2,000 cr out of current order book is in HVDC; N Venu, MD & CEO

- High Revenue growth helped margin expansion and accretion
- Taking necessary actions to shield portfolio from higher metal prices
- 25-30% export contribution to sustain
- Price Hike to offset high metal prices

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Rategain Tech : we have Doubled contract wins in FY24; Bhanu Chopra, MD

- Acquisition to close in a quarter or two
- FY25 organic growth guidance at20% vs FY24 organic growth of more than 30%
- North America decline was due to seasonality in Adara
- we have Doubled contract wins in FY24

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Galaxy Surfactants : Seeing Greenshoots in demand in US and Europe; K Natarajan, ED

- Looking at volume growth of 6-8% and EBITDA/mt between Rs20,500 -21,500 in FY25
- Africa, west Asia volumes are not critically impacted
- Volume in Egypt got impacted and higher freight rates led to higher capex
- 38% of our revenues come in from specialty products

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JK Tyre : Expect 8-10% growth in sales in FY25; Raghupati Singhania,

- Tyre Industry expected to grow 6-8% in FY25
- Net debt has come down by 18% in FY24, currently at Rs3,700 Cr
- Expect some more increase in raw material prices in Q1
- Company has undertaken big expansions, moving more towards premiumisation

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VA TECH WABAG : Strong order visibility ahead, not seen any issue in execution; Rajiv Mittal, Chairman & MD

- Will Remain asset light and focus on emerging countries
- Strong order visibility ahead, not seeing any issues in execution
- Focus on more free cashflows and lower debts going ahead
- Operating efficiency and adding more o&m to reach 20% of total and reducing construction activity helping in improving the margins

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SELL	< - 10%
NEUTRAL	> - 10 % to 15%
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