Market snapshot

Equities - India	Close	Chg .%	CYTD.%
Sensex	80,429	-0.1	11.3
Nifty-50	24,479	-0.1	12.6
Nifty-M 100	56,285	-0.6	21.9
Equities-Global	**Close**	**Chg .%**	**CYTD.%**
S&P 500	5,556	-0.2	16.5
Nasdaq	17,997	-0.1	19.9
FTSE 100	8,167	-0.4	5.6
DAX	18,558	0.8	10.8
Hang Seng	6,195	-0.9	7.4
Nikkei 225	39,594	0.0	18.3
Commodities	**Close**	**Chg .%**	**CYTD.%**
Brent (US$/Bbl)	82	-1.1	5.8
Gold ($/OZ)	2,410	0.5	16.8
Cu (US$/MT)	9,047	-0.5	6.9
Almn (US$/MT)	2,240	-0.1	-4.5
Currency	**Close**	**Chg .%**	**CYTD.%**
USD/INR	83.7	0.0	0.6
USD/EUR	1.1	-0.3	-1.7
USD/JPY	155.6	-0.9	10.3
YIELD (%)	**Close**	**1MChg**	**CYTD chg**
10 Yrs G-Sec	7.0	0.00	-0.2
10 Yrs AAA Corp	7.5	0.00	-0.2
Flows (USD b)	**23-Jul**	**MTD**	**CYTD**
FIIs	-0.4	4.36	5.1
DIIs	0.17	0.24	28.5
Volumes (INRb)	**23-Jul**	**MTD***	**YTD***
Cash	1,818	1506	1285
F&O	5,36,610	3,54,624	3,75,883

Note: Flows, MTD includes provisional numbers.
*Average

Today's top research theme

Union Budget 2024-25: Government remains focused on long-term macro stability

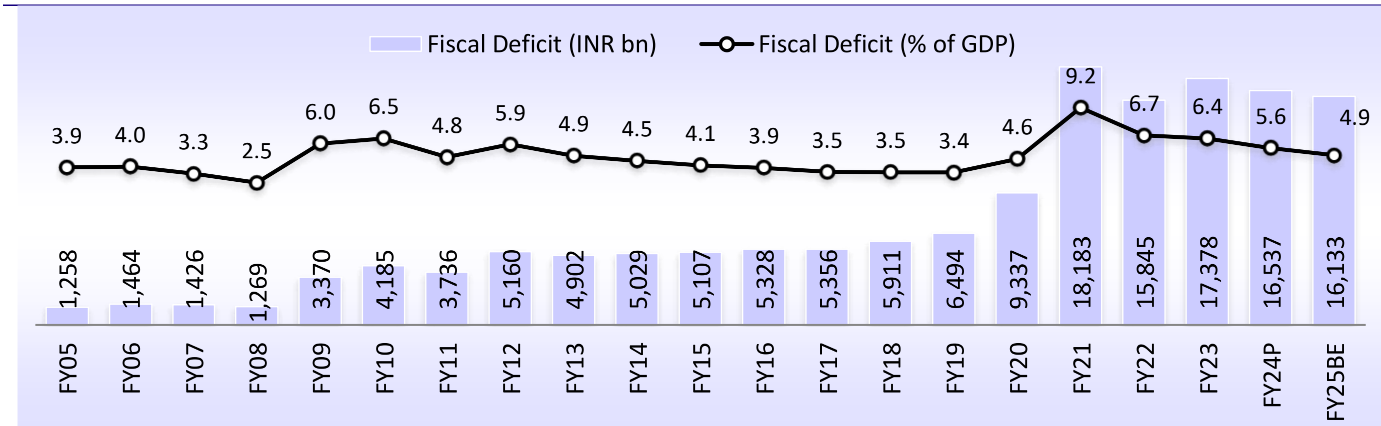
- The new government presented its first Union Budget on 23rd Jul'24. Anticipation was high for some consumption-boosting initiatives, as the Government of India (GoI) received additional resources from the Reserve Bank of India (RBI). Nevertheless, akin to the Interim Budget of 1st Feb'24, and the Budget of 2023, the GoI refrained from introducing any major schemes to stimulate consumption and instead focused on fiscal deficit consolidation. With higher receipts and a slower increase in spending, GoI's fiscal deficit is budgeted at INR16.1t (or 4.9% of GDP) for FY25BE, implying a consolidation of 70bp from 5.6% in FY24P.
- As mentioned above, the fiscal deficit was budgeted at INR16.9t (or 5.1% of GDP) during the Interim Budget in Feb'24. The nominal GDP growth is kept unchanged at 10.5% YoY in FY24 (the same as in Feb'24). Overall, despite having additional resources, the GoI's ability to resist any major boost to consumption is highly commendable.
- Nearly 60% of the additional resources (mainly from the RBI dividends) are allocated to reducing the fiscal deficit, while the rest is utilized to enhance spending (mainly through transfers to states). Further, considering that the GoI has budgeted a fiscal deficit of 4.9% of GDP for FY25 (after surpassing its target in FY24), achieving the target of 4.5% of GDP in FY26 appears feasible.

Research covered

Cos/Sector	Key Highlights
Union Budget 2024-25	Government remains focused on long-term macro stability
Hindustan Unilever	In-line show; earnings to further improve in 2HFY25
Other Updates	Bajaj Finance | Torrent Pharma | ICICI Prudential Life Insurance | Coforge | Blue Dart Express | Kajaria Ceramics | Zensar | Mahindra Logistics | United Spirits | SRF

Chart of the Day: Union Budget 2024-25 (Government remains focused on long-term macro stability)

Trends in fiscal deficit over the past two decades; fiscal deficit expected to decline to 4.9% of GDP in FY25BE



Source: Government, MOFSL

Research Team (Gautam.Duggad@MotilalOswal.com)

Kindly click on textbox for the detailed news link

1

Spending gets rural springboard: More money in consumer's hand will lead to a rise in demand for consumer goods

The Indian government's budget focuses on infrastructure, rural outlay, and tax savings, which are expected to boost rural demand for packaged consumer goods and two-wheelers.

2

Budget 2024: Imported phones may become cheaper on 5% customs duty cut

The cost of imported high-end smartphones will come down by 5.0-5.5% if brands pass on the benefit of the reduced customs duty to consumers, experts said. India is estimated to import around $1 billion worth of high-end phones a year, with 98% of those coming from China.

3

BSNL gets major share of telecom Budget at Rs 82,916 crore

Of the total proposed allocation, over Rs 1 lakh crore is meant for BSNL and MTNL-related expenses, including Rs 82,916 crore infusion in BSNL for technology upgradation and restructuring at BSNL

4

Hike in STT on F&O trades a dampener, impact to be felt with a lag, say traders

STT on the sale of an option in securities has been hiked from 0.0625 percent to 0.1 percent of the option premium.

5

Mamaearth pushing excess stock into general trade, claim distributors

Honasa Consumer refuted the allegations, saying it is committed to fostering "long-term partnerships with its distributors"

6

GCCs boosting services exports, second only to IT services

GCCs have now become vital to India's economic framework, contributing more than 1% to the country's GDP.

7

PLI for toys, leather and footwear gets nod, Rs 6,000 outlay seen for scheme till FY32

The PLI for toys will have an outlay of Rs 3,489 crore, while the footwear and leather sector will receive Rs 2,600 crore. These schemes are pending cabinet approval, with a token allocation provided for this year

Union Budget 2024-25

Government remains focused on long-term macro stability

Committed to achieving a fiscal deficit of 4.5% of GDP by FY26E

The new government presented its first Union Budget on 23rd Jul'24. Anticipation was high for some consumption-boosting initiatives, as the Government of India (GoI) received additional resources from the Reserve Bank of India (RBI). Nevertheless, akin to the Interim Budget of 1st Feb'24, and the Budget of 2023, the GoI refrained from introducing any major schemes to stimulate consumption and instead focused on fiscal deficit consolidation.

How does FY25BE compare with the estimates presented in the Interim Budget?

Broadly speaking, there were six key differences: 1) as expected, the GoI increased its dividend income from the financial institutions (including the RBI) by INR1.3t in FY25. With broadly unchanged gross taxes and non-debt capital receipts, the GoI's total receipts have been revised up by INR1.3t, 2) about 57% of these additional resources have been used to reduce fiscal deficit (by INR722b), while the remaining 43% (INR547b) have been used to increase total spending, 3) within total spending, capital spending has been kept unchanged at INR11.11t, implying that revenue spending has been raised by INR547b, 4) subsidies and grants to states/UTs have seen an increase of INR187b and INR473b, respectively, while interest expenditure has been revised down by INR275b, 5) within capital spending, while loans & advances to states have been increased by INR209b, the Center's capital outlays have been reduced by the same amount, and 6) lastly, with a lower deficit, the GoI has revised down its net market borrowings (including treasury bills) by INR1.1t and NSSF financing by INR460b, a part of which has been funded by the drawdown of its cash balances.

Fiscal deficit is budgeted at 4.9% of GDP in FY25BE, down from 5.6% of GDP in FY24P

With higher receipts and a slower increase in spending, GoI's fiscal deficit is budgeted at INR16.1t (or 4.9% of GDP) for FY25BE, implying a consolidation of 70bp from 5.6% in FY24P. As mentioned above, the fiscal deficit was budgeted at INR16.9t (or 5.1% of GDP) during the Interim Budget in Feb'24. The nominal GDP growth is kept unchanged at 10.5% YoY in FY24 (same as in Feb'24). The total liabilities of the GoI are likely to ease to 55.7% of GDP in FY25BE from 57.1% of GDP in FY24RE, owing to lower national small saving funds (NSSF). The GoI has budgeted gross market borrowings (GMBs) at INR14.0t in FY25BE vs. INR15.4t in FY24RE. The net market borrowings (NMBs) and NSSF are reduced to INR11.6t and INR4.2t, respectively.

Total receipts are budgeted to grow 15% YoY in FY25BE, with 10.8% YoY growth budgeted in gross taxes

As expected, the GoI has revised its receipt estimates for FY25BE by INR1.3t entirely because of the RBI dividends, implying that the non-tax revenue receipts are budgeted to grow 36% YoY. At the same time, gross taxes are budgeted to grow 10.8% in FY25BE, following 13.4% growth in FY24P. Within gross taxes, direct taxes are budgeted to grow 12.8% (primarily led by 13.6% YoY growth in personal income taxes) and indirect taxes are budgeted to increase 8.2% (with 11% growth in goods & services taxes). It means that gross taxes are budgeted to rise to a 17-year high of 11.8% of GDP in FY25BE and only a tad lower than the all-time peak of 11.9% of GDP in FY08. However, despite only a small rise in the tax-to-GDP ratio, higher non-tax receipts push total receipts to 9.8% of GDP in FY25BE, vs. 9.4% of GDP in FY24P.

The GoI continues to focus on better spending quality

At a time when there were high expectations to announce measures to support the rural sector, to provide tax relief to low-income earners, and to boost consumption in general, the GoI resisted all such demands once again. The GoI's revenue expenditure is budgeted to grow 6.2% YoY and propelled capital expenditure (capex) at a higher pace this year. Excluding interest payments and subsidies, revenue expenditure is budgeted to grow 6.5% YoY in FY25BE, slightly better than 2.2% in FY24P. The GoI's capital spending, however, is budgeted to grow 17.1% YoY in FY25BE, following an average of 30% YoY during FY21-FY24P. It implies that total spending is budgeted to decline to 14.8% of GDP in FY25BE from 15.0% in FY24P, and the share of capital spending is budgeted to rise to 23% of total spending, marking the highest share in the past three decades.


EcoScope
The Economy Observer

IEBR capex is finally expected to grow 12.5% YoY in FY25BE, after four years of consecutive declines

Notably, as highlighted in our recent report, a large portion of the GoI's higher capex is re-allocated from the internal and extra-budgetary resources (IEBR) of central public sector enterprises (CPSEs). After declining at an average of 10% during the last four years, IEBR capex is expected to grow 12.5% YoY in FY25BE. If so, the combined capex of the center (excluding loans & advances and equity infusion to BSNL) and CPSEs is budgeted to grow 11.7% YoY this year, lower than 13.2% in FY24P. It also implies that the combined capex is budgeted at 3.6% of GDP in FY25BE, the same as in FY24P.

Overall, despite having additional resources, the GoI's ability to resist any major boost to consumption is highly commendable. Nearly 60% of the additional resources (mainly from RBI dividends) are allocated to reducing the fiscal deficit, while the rest is utilized to enhance spending (mainly through transfers to states). Further, considering that the GoI has budgeted a fiscal deficit of 4.9% of GDP for FY25 (after surpassing its target in FY24), achieving the target of 4.5% of GDP in FY26 appears feasible. This clearly demonstrates the GoI's strong commitment to long-term macroeconomic stability, even if it means sacrificing short-term growth.

Market strategy

- The Finance Minister presented her first budget after the Modi-led NDA Govt. took charge for an unprecedented third term. Given the nature of the 2024 mandate and an additional bounty of ~INR1.5t from the RBI dividend, there was a widespread anticipation of the government providing some freebies or relief measures for the rural economy to boost consumption demand ahead of the key state elections in Oct-Nov'24. However, the govt. eschewed populism, once again and instead continued on the path of fiscal consolidation and capex push. There were several key and welcome announcements pertaining to incentives for employment generation and skilling of youth, the benefits of which will be accrued in the years to come, in our view.
- In an unexpected move, the government: 1) increased the long-term and short-term capital gains taxes for equities from 10% and 15% to 12.5% and 20%, respectively, 2) raised the STT for the F&O segment, and 3) also made significant changes in the taxation for other asset classes. Equity markets, after an initial knee-jerk reaction to the proposed increase in capital gains taxes, made a sharp recovery and closed flattish.
- The nominal GDP is likely to grow at 10.5% in FY25. The government continued to focus on fiscal consolidation and utilized the extra bounty from the RBI dividend to reduce the fiscal deficit from 5.1% of GDP in the Interim Budget to 4.9% of GDP in FY25BE and reiterated its commitment to achieve the 4.5% fiscal deficit target by FY26. This augurs well for India's already healthy macro backdrop and should help keep the 10-year yields under check. Additionally, it can kickstart the influx of capital and accelerate private capital investment. Meanwhile, the budget maintained its emphasis on capex, with a 17% higher allocation of INR11.11t in FY25BE, up from INR9.5t in FY24.
- While the absence of the much-expected direct boost to consumption was a disappointment, increased focus on employment generation through skill development and marginally higher income in the hands of salaried class via adjustments in tax slabs in the new tax regime and higher limits for standard deduction may indirectly benefit consumption demand marginally, in our view.
- With markets at a new high, the budget further bolsters India's strong macro-micro positioning amid a fragile world economy. The combination of ~7% GDP growth and ~15% Nifty earnings CAGR in FY24-26, stable currency, moderating inflation, and buoyant retail participation may keep sentiments strong. However, valuations appear fair for Nifty-50 and expensive for mid/small caps. The Midcap index is now trading at a P/E of 33x, at a 60% premium to the Nifty.
- We anticipate the market to quickly discount the budget and shift its focus to the trajectory of corporate earnings growth, which has remained marginally below our expectations so far in 1QFY25. We continue to expect 15%+ earnings growth for Nifty over FY24-26. Valuations for Nifty remain in line with its LPA at 20.4x one-year forward earnings. Industrials and Capex, Consumer Discretionary, Real Estate, and PSU Banks are our key preferred investment themes. We remain OW on PSU Banks, Consumption, Industrials, and Real Estate. We recently raised IT to marginal OW from UW and cut Auto from OW to UW. We also turned OW on Healthcare from Neutral, while maintaining UW on Private Banks and Energy in our model portfolio.
- **MOFSL Top Ideas: Largecaps** – ICICI Bank, SBI, L&T, M&M, HCL Tech, Coal India, Titan, Mankind Pharma, Hindustan Unilever and Hindalco; **Midcaps and Smallcaps** – Indian Hotels, Ashok Leyland, Godrej Prop., KEI Ind., PNB Housing, Cello World, Kalyan Jewelers, Persistent Sys., Angel One, and Metro Brands.

Hindustan Unilever

Estimate changes	↔
TP change	↑
Rating change	↔

Bloomberg	HUVR IN
Equity Shares (m)	2350
M.Cap.(INRb)/(USDb)	6499.8 / 77.7
52-Week Range (INR)	2812 / 2170
1, 6, 12 Rel. Per (%)	9/1/-18
12M Avg Val (INR M)	4780

Financials & Valuations (INR b)

Y/E March	2024	2025E	2026E
Sales	619.0	656.3	715.6
Sales Gr. (%)	2.2	6.0	9.0
EBITDA	146.6	158.7	175.4
EBITDA mrg. (%)	23.7	24.2	24.5
Adj. PAT	102.7	112.6	126.1
Adj. EPS (INR)	43.7	47.9	53.6
EPS Gr. (%)	0.7	9.6	11.9
BV/Sh.(INR)	217.9	222.4	229.5
Ratios			
RoE (%)	20.2	21.8	23.7
RoCE (%)	27.9	30.0	32.4
Payout (%)	96.1	93.9	89.5
Valuations			
P/E (x)	63.3	57.7	51.6
P/BV (x)	12.7	12.4	12.1
EV/EBITDA (x)	43.8	40.6	36.6
Div. Yield (%)	1.5	1.6	1.7

Shareholding pattern (%)

As On	Jun-24	Mar-24	Jun-23
Promoter	61.9	61.9	61.9
DII	14.2	13.3	11.6
FII	11.9	12.7	14.5
Others	12.1	12.2	12.1

FII Includes depository receipts

CMP: INR2,766 TP: INR3,250 (+17%) Buy

In-line show; earnings to further improve in 2HFY25

- Hindustan Unilever's (HUVR) 1QFY25 performance was in line with our estimates. Net sales rose 2% YoY, with 4% volume growth (est. 3%). Demand trends saw steady improvements with a gradual rural recovery. The focus remains on volume-led growth through consistent new launches and aggressive spending on marketing.
- Home Care segment maintained high-single-digit volume growth with 4% revenue growth. Fabric Wash remained the key growth driver. Beauty & Wellbeing segment clocked mid-single digit volume growth with 3% revenue growth. Hair Care portfolio reported double-digit volume growth.
- Personal Care posted low-single digit volume growth with a 5% decline in revenue. Pricing actions in Skin Cleansing hurt growth. Food & Refreshment (F&R) posted flat volume with 1% revenue growth. A severe summer affected the beverage portfolio. Nutrition drinks a saw weak performance.
- Gross margin expanded by 150bp YoY to 52% (in line), out of which 100bp was reinvested in A&P (up 12% YoY). EBITDA margin was flat YoY at 23.8% (in line). EBITDA margin is expected to improve moderately in the medium term. We model ~24-25% margin for FY25 and FY26.
- We model volume growth acceleration in FY25, driven by own initiatives and improvement in demand trends. Revenue growth is expected to improve to high-single digits in 2HFY25, driven by growth in volume and prices. With an improving earnings trajectory, we continue to expect valuation re-rating. **We reiterate BUY rating with a TP of INR3,250 (60x on Jun'26E EPS, close to five-year average P/E).**

Beat in volume growth, overall in-line

- **HUVR reported** 2% YoY growth in net sales to INR155b (est. INR153b). **Underlying volumes grew 4% YoY (est. 3%).** EBITDA grew 2% YoY to INR37.4b (est. INR37.1b), PBT grew 2% YoY to INR35.8b (est. INR35.4b), and PAT (bei) was up 3% YoY at INR26.4b (est. INR26.4b).
- **Segmental performance**:
  - Home Care (36% of total sales) revenue rose 4.6% YoY to INR56.7b and margin expanded 130bp YoY to 20%.
  - Beauty and Wellbeing revenue (21% of total sales) grew 3.5% YoY to INR32.8b and margin contracted 180bp YoY to 30.5%.
  - Personal Care revenue (15% of total sales) was down 4.5% YoY at INR23.9b and margin contracted 20bp YoY to 17.8%.
  - F&R sales (25% of total sales) were up 1.4% YoY at INR38.5b and margin expanded 120bp YoY to 19.1%.
- **Gross margin** expanded 150bp YoY to 52% (est. 52%). As a percentage of sales, ad spends rose 100bp YoY to 10.7% and other expenses grew 70bp YoY to 13.2%, whereas staff cost fell 40bp YoY to 4.2%. As a result, **EBITDA margin was flat at 23.8%** (est. 23.9%).

Management conference call highlights

- There is improvement in demand trends with the UVG of 4% in 1Q. With the forecast of a normal monsoon and better crop realization, the gradual recovery in rural demand has been sustained.
- HUVR expects price growth in low-single digits in 2HFY25.
- EBITDA margin is expected to improve moderately over the medium term, driven by operating leverage, mix improvement and growth in premium portfolio.
- Lux and Lifebuoy were re-launched with superior product formulations, aimed at enhancing their market performance.
- HUVR's distribution channels include 70% through GT, 20% through MT, and 10% through e-commerce and quick commerce. In the top metro cities, modern trade would be ~40-50%. The premium portfolio's contribution was up by ~300bp over the last three years.

Valuation and view

- There is no material change in our EPS estimates for FY25 and FY26.
- HUVR's wide product basket and presence across price segments should help the company achieve a steady growth recovery.
- Under the new leadership of Mr. Rohit Jawa, HUVR is expected to take corrective actions to address the white space, particularly in BPC and F&R. The company commands strong leadership in Home Care, which can be capitalized during improving macros.
- We estimate 10%/12% EPS growth for FY25/FY26. We reiterate our BUY rating with a TP of **INR3,250, based on 60x Jun'26E EPS (earlier 55x),** close to last five-year average P/E**.**

Quarterly performance (Consolidated) **(INR b)**

Y/E March	FY24				FY25E				FY24	FY25E	FY25	Var.
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	
Domestic volume growth (%)	**3.0**	**2.0**	**2.0**	**2.0**	**4.0**	**4.5**	**5.5**	**6.0**	**2.3**	**5.0**	**3.0**	
Revenue	**155.0**	**156.2**	**155.7**	**152.1**	**157.1**	**163.9**	**168.6**	**166.6**	**619.0**	**656.3**	**155.5**	1.0%
YoY change (%)	*6.0*	*3.2*	*-0.2*	*0.0*	*1.4*	*4.9*	*8.3*	*9.5*	*2.2*	*6.0*	*0.4*	
COGS	76.8	73.5	74.8	72.6	75.5	77.4	79.6	79.3	298	312	74.7	
Gross Profit	**78.2**	**82.8**	**80.9**	**79.5**	**81.6**	**86.6**	**89.0**	**87.3**	**321.4**	**344.5**	**80.9**	
Margin %	*50.4*	*53.0*	*52.0*	*52.3*	*52.0*	*52.8*	*52.8*	*52.4*	*51.9*	*52.5*	*52.0*	
EBITDA	**36.7**	**38.0**	**36.7**	**35.4**	**37.4**	**39.9**	**41.1**	**40.3**	**146.6**	**158.7**	**37.1**	0.9%
YoY change (%)	*7.7*	*9.1*	*-0.8*	*-1.1*	*2.2*	*5.0*	*12.1*	*14.1*	*3.6*	*8.3*	*1.3*	
Margins (%)	*23.7*	*24.3*	*23.5*	*23.2*	*23.8*	*24.3*	*24.4*	*24.2*	*23.7*	*24.2*	*23.9*	
Depreciation	2.9	3.0	3.1	3.2	3.3	3.2	3.3	3.3	12.2	13.0	3.2	
Interest	0.5	0.9	0.9	1.1	0.9	0.9	0.9	0.9	3.3	3.6	0.9	
Other income	1.8	1.8	2.1	2.3	2.6	2.6	2.5	2.5	8.1	10.1	2.3	
PBT	**35.1**	**36.0**	**34.8**	**33.4**	**35.8**	**38.3**	**39.5**	**38.7**	**139.2**	**152.2**	**35.4**	1.2%
Tax	9.2	9.3	9.4	8.6	9.2	9.6	10.1	9.7	36.4	38.7	8.9	
Rate (%)	*26.1*	*25.9*	*27.0*	*25.7*	*25.6*	*25.2*	*25.7*	*25.2*	*26.2*	*25.4*	*25.2*	
PAT bei	**25.8**	**26.6**	**25.3**	**25.0**	**26.5**	**28.6**	**29.3**	**28.9**	**102.7**	**112.6**	**26.4**	0.1%
YoY change (%)	*8.0*	*-1.1*	*-2.0*	*-1.6*	*2.5*	*7.6*	*15.8*	*15.8*	*0.7*	*9.6*	*2.4*	
Reported Profit	**25.5**	**26.6**	**25.1**	**25.6**	**26.1**	**28.6**	**29.3**	**28.9**	**102.8**	**113.0**	**26.4**	

E: MOFSL Estimates

24 July 2024

1QFY25 Results Update | Sector: Financials

Bajaj Finance

Estimate change	↓
TP change	↓
Rating change	⟷

Bloomberg	BAF IN
Equity Shares (m)	619
M.Cap.(INRb)/(USDb)	4164.1 / 49.8
52-Week Range (INR)	8192 / 6188
1, 6, 12 Rel. Per (%)	-10/-20/-35
12M Avg Val (INR M)	8466

Financials & Valuations (INR b)

Y/E March	FY24	FY25E	FY26E
Net Income	363	447	562
PPP	239	298	380
PAT	144	171	223
EPS (INR)	234	275	359
EPS Gr. (%)	23	18	30
BV/Sh. (INR)	1,240	1,491	1,803
Ratios			
NIM (%)	10.4	9.8	9.9
C/I ratio (%)	34.0	33.5	32.4
RoA (%)	4.4	4.0	4.2
RoE (%)	22.0	20.2	21.8
Payout (%)	15.4	14.8	13.1
Valuations			
P/E (x)	28.8	24.4	18.7
P/BV (x)	5.4	4.5	3.7
Div. Yield (%)	0.5	0.6	0.7

Shareholding pattern (%)

As On	Jun-24	Mar-24	Jun-23
Promoter	54.7	54.7	55.9
DII	14.3	14.4	12.9
FII	21.2	20.7	20.2
Others	9.8	10.2	11.0

FII Includes depository receipts

CMP: INR6,727 TP: INR7,500 (+11%) Neutral

Navigating stress in B2C; credit costs elevated

Earnings in line; NIM continued to moderate but fee income healthy

- BAF's 1QFY25 reported PAT grew 14% YoY to ~INR39.1b (in line). NII grew 25% YOY to ~INR83.6b (in line). Non-interest income stood at ~INR20.5b (+21% QoQ and +22% YoY) due to the resumption of EMI card sourcing and one-off recovery from written-off pool of loans of INR450m.
- BAF's 1QFY25 NIM contracted ~23bp QoQ to ~9.8%. Out of this, ~13bp was on account of rise in CoF and ~10bp due to change in AUM composition.
- AUM growth in 1Q was supported by mortgages, commercial (ex LAS), SME, and new product segments such as cars and LAP. Higher growth in the secured product segments will likely keep yields under pressure in the near term. The management guided that the change in the AUM mix is expected to stabilize by Oct'24, which will result in stable NIMs. We estimate NIM of 9.9%/10% in FY25/FY26.
- We cut our FY26 PAT estimate by ~3% to factor in higher steady-state normalized credit costs. We estimate a CAGR of ~27%/24% in AUM/PAT over FY24-FY26 and expect BAF to deliver RoA/RoE of ~4.2%/22% in FY26.
- Upside risks: 1) Stronger AUM growth vs. its guidance of ~26-28%; and 2) the situation improving in the B2C business, resulting in lower-than-guided credit costs for FY25.

AUM up ~31% YoY; robust new customer acquisition

- BAF's total customer franchise stood at ~ 88.11m, up ~21% YOY and ~5% QoQ. New customer acquisitions surged to ~4.5m (vs. ~3.8m YoY and ~3.2m QoQ). New loans booked rose ~10% YoY to ~10.97m (vs. ~9.9m in 1QFY24).
- Total AUM grew 31% YoY and ~7% QoQ to INR3.5t. The rural B2C business continued to exhibit muted AUM growth given that BAF has cut business volumes in this segment amid higher delinquencies.

Slippages into Stage 2; credit costs elevated

- BAF's GS3/NS3 remained stable at ~0.85%/0.4%. However, the Stage 3 PCR further declined ~1pp QoQ to ~56%.
- Net credit costs in 1QFY25 stood at ~2pp (PY: ~155bp). Credit costs were elevated primarily due to muted collection efficiencies and ECL provisions for continuing slippages into Stage 2. BAF utilized ~INR1.1b from its macro-economic overlay.
- The management guided for gross credit costs of 1.75-1.85% in FY25. We model net credit costs of 185bp/170bp in FY25E/FY26E.

Highlights from the management commentary

- AUM growth guidance remains unchanged at 26-28% for FY25, but it will remain watchful of high delinquencies in certain segments.
- At the industry level, there has been some moderation in personal loans. ~35-40% of the total lending in the unsecured lending segment is from the PSU banks. BAF has lost some market share in the PL segment (which has declined ~30bp to ~6.7%).

Valuation and view

- The management's guidance for FY25 is below its long-term guidance on several metrics, such as AUM growth, credit costs, RoA and RoE. BAF's key product segments (until now) have been the secular growth segments. However, its foray into multiple new products such as cars, tractors, CVs, and MFI, could (in future) make its growth vulnerable to cyclicality despite having a well-diversified product mix.
- Despite a healthy PAT CAGR of ~24% over FY24-FY26E and RoA/RoE of 4.2%/22% in FY26E, we see limited upside catalysts. Consequently, we maintain **our Neutral rating on the stock with a TP of INR7,500 (premised on 4.2x FY26E BVPS).**

Quarterly Performance (INR m)

Y/E March	FY24				FY25E				FY24	FY25E	1Q FY25E	Act V/S Est
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
Interest Income	1,08,211	1,17,340	1,25,233	1,32,301	1,40,492	1,49,764	1,60,248	1,71,036	4,83,066	6,21,540	1,41,165	0
Interest expenses	41,025	45,371	48,680	52,171	56,839	61,215	65,806	69,781	1,87,247	2,53,641	56,710	0
Net Interest Income	**67,186**	**71,970**	**76,553**	**80,130**	**83,653**	**88,549**	**94,441**	**1,01,255**	**2,95,819**	**3,67,899**	**84,455**	-1
YoY Growth (%)	27.4	30.0	29.3	28.1	24.5	23.0	23.4	26.4	28.7	24.4	25.7	
Other Operating Income	16,795	16,477	16,436	17,019	20,531	19,501	19,891	19,562	66,759	79,486	17,740	16
Net Income	**83,980**	**88,447**	**92,989**	**97,149**	**1,04,185**	**1,08,051**	**1,14,333**	**1,20,817**	**3,62,578**	**4,47,385**	**1,02,195**	**2**
YoY Growth (%)	33.3	26.3	25.1	25.0	24.1	22.2	23.0	24.4	25.7	23.4	21.7	
Operating Expenses	28,544	30,100	31,567	33,028	34,709	36,306	38,303	40,373	1,23,252	1,49,691	34,680	0
Operating Profit	**55,437**	**58,347**	**61,422**	**64,121**	**69,475**	**71,745**	**76,030**	**80,444**	**2,39,326**	**2,97,693**	**67,516**	3
YoY Growth (%)	37.0	30.0	26.6	25.3	25.3	23.0	23.8	25.5	27.9	24.4	21.8	
Provisions and Cont.	9,953	10,771	12,484	13,100	16,847	17,371	17,543	17,797	46,307	69,558	14,252	18
Profit before Tax	**45,512**	**47,578**	**48,955**	**51,051**	**52,654**	**54,374**	**58,486**	**62,664**	**1,93,036**	**2,28,153**	**53,264**	-1
Tax Provisions	11,143	12,070	12,566	12,806	13,534	14,083	15,148	14,726	48,584	57,490	13,795	-2
Net Profit	**34,369**	**35,508**	**36,390**	**38,245**	**39,120**	**40,291**	**43,338**	**47,938**	**1,44,452**	**1,70,662**	**39,469**	-1
YoY Growth (%)	36.8	27.7	22.4	21.1	13.8	13.5	19.1	25.3	25.5	18.1	14.8	
Key Operating Parameters (%)												
Fees to Net Income Ratio	20.0	18.6	17.7	17.5	19.7				18.4	17.8		
Credit Cost	1.57	1.56	1.69	1.66	1.99				1.6	1.9		
Cost to Income Ratio	34.0	34.0	33.9	34.0	33.3				34.0	33.5		
Tax Rate	24.5	25.4	25.7	25.1	25.7				25.2	25.2		
Balance Sheet Parameters												
AUM (INR B)	2,701	2,903	3,110	3,306	3,542				3,306	3,542		
Change YoY (%)	42.3	32.9	34.7	33.6	39.7				33.6	39.7		
Loans (INR B)	2,653	2,857	3,064	3,263	3,497				3,263	3,497		
Change YoY (%)	44.1	34.3	35.9	34.7	40.6				34.7	40.6		
Borrowings (INR B)	2,352	2,544	2,639	2,895	3,048				2,895	3,048		
Change YoY (%)	47.8	38.8	31.1	34.4	39.9				34.4	39.9		
Loans/Borrowings (%)	112.8	112.3	116.1	112.7	114.7				112.7	114.7		
Asset Quality Parameters (%)												
GS 3 (INR B)	23.5	26.5	29.6	28.2	30.5				27.4	37.5		
Gross Stage 3 (% on Assets)	0.87	0.91	0.95	0.85	0.86				0.83	0.88		
NS 3 (INR B)	8.3	9.0	11.4	12.1	13.4				11.8	16.1		
Net Stage 3 (% on Assets)	0.31	0.31	0.37	0.37	0.38				0.36	0.38		
PCR (%)	77.4	66.0	61.7	57.0	-43.9				56.8	57.0		
Return Ratios (%)												
ROAA (Rep)	5.42	5.16	4.92	4.84	4.63				4.4	4.0		
ROAE (Rep)	24.47	24.1	21.95	20.48	19.86				22.0	20.2		

E: MOFSL Estimates

23 July 2024

1QFY25 Results Update | Sector: Healthcare

Torrent Pharma

Estimate change	↓
TP change	↓
Rating change	↔

Bloomberg	TRP IN
Equity Shares (m)	338
M.Cap.(INRb)/(USDb)	1062.2 / 12.7
52-Week Range (INR)	3177 / 1771
1, 6, 12 Rel. Per (%)	7/11/38
12M Avg Val (INR M)	735

Financials & Valuations (INR b)

Y/E March	FY24	FY25E	FY26E
Sales	107.3	123.0	141.2
EBITDA	33.7	40.6	47.6
Adjusted PAT	15.9	21.7	27.7
EBIT Margin (%)	23.9	26.1	27.5
Cons. Adj EPS (INR)	47.1	63.4	82.0
EPS Gr. (%)	26.7	34.6	29.3
BV/Sh. (INR)	202.6	488.8	488.8
Ratios			
Net D-E	0.6	0.4	0.3
RoE (%)	24.4	28.7	33.5
RoCE (%)	16.3	20.9	26.0
Payout (%)	34.8	35.7	36.1
Valuation			
P/E (x)	67.1	49.9	38.6
EV/EBITDA (x)	32.7	26.9	22.8
Div. Yield (%)	0.4	0.6	0.8
FCF Yield (%)	2.8	1.8	3.1
EV/Sales (x)	10.3	8.9	7.7

Shareholding pattern (%)

As On	Jun-24	Mar-24	Jun-23
Promoter	71.3	71.3	71.3
DII	7.3	7.3	8.3
FII	14.2	14.1	12.8
Others	7.3	7.4	7.6

FII Includes depository receipts

CMP: INR3,139 TP: INR3,340 (+6%) Neutral

India/Germany businesses drive earnings

ANDA approvals to pick up pace over medium term

- Torrent Pharma (TRP) delivered largely in-line 1QFY25. TRP posted robust 14.7% YoY growth in domestic formulation (DF) segment. However, this was partly offset by floods in some provinces in Brazil and the lack of approvals in US generics segment. TRP delivered the highest gross margin in the past 20 quarters.
- We maintain our FY25 earnings estimate. We raise our FY26 earnings estimate by 3% to factor in a) the benefit of ANDA approvals, b) the addition of products in OTC segment in India, and c) the shift to the new tax regime. We value TRP at 36x 12M forward earnings to arrive at a TP of INR3,340.
- TRP remains a promising play in the pharma space, with 64% of its revenue derived from branded generics and sustainable outperformance to industry in DF/Brazil. ANDA approvals are expected to pick up, which would not only boost revenue growth but also improve profitability of the US generics segment. Accordingly, we estimate a 32% earnings CAGR over FY24-26. We maintain our Neutral stance as the valuation provides limited upside from the current levels.

Product mix/operating leverage drive margins YoY

- Sales grew 10% YoY to INR28.6b (est. INR29.8b). India formulations revenue grew 14.7% YoY to INR16.4b (57% of sales). ROW+CDMO sales grew 14.4% YoY at INR4.9b (17% of sales). Germany sales rose 10.1% YoY to INR2.8b (10% of sales). LATAM business increased by 3.2% YoY to INR2b (7% of sales). US generics business declined 11.6% YoY to INR2.6b (9% of sales).
- Gross margin expanded 80bp YoY to 75.7% due to a better product mix.
- EBITDA margin expanded at a higher rate of 180bp to 32.3% YoY due to lower other expense (down 100bp as % of sales).
- Accordingly, EBITDA grew 16.8% YoY to INR9.2b (est. INR9.4).
- Adjusted for a one-off expense of INR200m related to exploring an inorganic opportunity, PAT grew 24.6% YoY to INR4.7b (est. INR4.9b).

Highlights from the management commentary

- DF business growth (+14.7% YoY) is sustainable over the medium term.
- TRP expects 7-8 approvals in FY25, driving better business prospects in US generics segment.
- While Brazil performance was affected by floods in 1Q, TRP indicated a 12-13% annualized growth rate in this business.
- TRP plans to add one more product in OTC segment by the end of the year.
- On the current MR base of 5,700, TRP would add 300-400 in FY25.
- For the year, R&D expenses would be ~5% of sales.
- The one-off expense of INR200m for the quarter was related to exploring an international opportunity.

Quarterly performance (Consolidated) **(INR b)**

Y/E March	FY24				FY25E				FY24	FY25E	Est.	Var.
INRb	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	vs Est
Net Revenues	**25.9**	**26.6**	**27.3**	**27.5**	**28.6**	**30.5**	**31.1**	**32.8**	**107.3**	**123.0**	**31.7**	**-4.0**
YoY Change (%)	12.2	16.1	9.7	10.2	10.3	14.7	13.8	19.4	12.0	14.6	22.2	
EBITDA	**7.9**	**8.3**	**8.7**	**8.8**	**9.2**	**10.0**	**10.4**	**11.0**	**33.7**	**40.6**	**9.0**	**-1.8**
YoY Change (%)	17.4	21.5	17.6	19.8	16.8	21.3	19.1	24.3	19.1	20.5	13.2	
Margins (%)	30.5	31.0	31.8	32.2	32.3	32.8	33.3	33.5	31.4	33.0	28.3	
Depreciation	1.9	2.0	2.1	2.0	2.0	2.1	2.2	2.3	8.1	8.5	2.1	
EBIT	**6.0**	**6.2**	**6.6**	**6.8**	**7.3**	**7.9**	**8.2**	**8.7**	**25.6**	**32.1**	**6.9**	**-0.7**
YoY Change (%)	15.6	20.9	20.2	25.7	21.2	26.8	24.9	27.8	20.7	25.3	14.5	
Margins (%)	23.2	23.5	24.0	24.8	25.4	25.9	26.4	26.5	23.9	26.1	21.7	
Interest	1.0	0.9	0.8	0.8	0.8	0.7	0.6	0.5	3.5	2.5	0.8	
Other Income	0.3	0.3	-0.3	0.3	0.2	0.2	0.2	0.2	0.6	0.8	0.2	
PBT before EO Expense	**5.3**	**5.6**	**5.4**	**6.3**	**6.8**	**7.4**	**7.8**	**8.4**	**22.6**	**30.3**	**6.3**	**0.0**
One-off expenses	0.0	0.0	-0.9	0.0	0.2	0.0	0.0	0.0	-0.9	0.2	0.0	
PBT after EO Expense	**5.3**	**5.6**	**6.3**	**6.3**	**6.6**	**7.4**	**7.8**	**8.4**	**23.5**	**30.1**	**6.3**	
Tax	1.5	1.7	1.9	1.8	2.0	2.2	2.3	2.3	7.0	8.8	1.8	
Rate (%)	28.8	30.9	34.6	28.8	29.4	29.5	29.7	27.6	30.7	29.0	27.8	
Reported PAT	**3.8**	**3.9**	**4.4**	**4.5**	**4.6**	**5.2**	**5.5**	**6.1**	**16.6**	**21.3**	**4.6**	
Adj PAT	**3.8**	**3.9**	**3.8**	**4.5**	**4.7**	**5.2**	**5.5**	**6.1**	**15.9**	**21.5**	**4.6**	**-3.5**
YoY Change (%)	15.0	23.7	19.1	51.0	24.6	35.2	43.5	34.9	26.7	34.6	20.5	
Margins (%)	14.6	14.5	14.0	16.4	16.5	17.1	17.6	18.5	14.9	17.4	14.4	

E: MOFSL Estimates

Key performance Indicators (Consolidated)

Y/E March	FY24				FY25E				FY24	FY25E	Est.
INRm	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE
India formulations	14.3	14.4	14.2	13.8	16.4	16.5	16.3	16.0	56.7	65.2	16.0
YoY Change (%)	14.5	18.0	12.4	9.8	14.7	14.5	15.0	16.0	13.7	15.0	12.5
US generics	2.9	2.5	2.7	2.6	2.6	2.7	3.3	3.7	10.8	12.3	2.8
YoY Change (%)	12.3	-15.1	-5.8	-6.4	-11.6	10.4	21.2	40.3	-7.2	14.3	-3.7
Latin America	1.9	2.5	3.1	3.7	2.0	3.6	3.7	4.4	11.3	13.5	3.3
YoY Change (%)	3.3	36.2	25.8	17.0	3.2	42.0	17.0	17.0	20.4	20.3	75.0
Europe	2.6	2.7	2.7	2.8	2.8	2.9	2.9	3.9	10.7	12.5	3.0
YoY Change (%)	20.6	20.9	12.0	10.7	10.1	9.0	8.0	39.0	15.7	16.8	15.0
Others (ROW+CDMO)	4.2	4.5	4.6	4.5	4.9	4.8	4.9	4.9	17.8	19.4	4.6
YoY Change (%)	19.2	21.6	2.2	17.4	14.4	6.0	7.0	7.6	14.3	8.8	9.0
Cost Break-up											
RM Cost (% of Sales)	25.1	24.8	25.5	24.7	24.3	24.6	24.7	24.8	25.0	24.6	24.9
Staff Cost (% of Sales)	19.3	18.9	18.2	17.7	19.2	18.1	17.8	17.0	18.5	18.0	17.8
R&D Expenses(% of Sales)	5.0	5.3	5.1	5.1	4.7	4.1	3.9	3.9	5.1	4.1	4.2
Other Cost (% of Sales)	25.1	25.3	24.5	25.4	24.2	24.5	24.2	24.7	25.1	24.4	25.7
Gross Margins(%)	74.9	75.2	74.5	75.3	75.7	75.4	75.3	75.2	75.0	75.4	75.1
EBITDA Margins(%)	30.5	31.0	31.8	32.2	32.3	32.8	33.3	33.5	31.4	33.0	31.6
EBIT Margins(%)	23.2	23.5	24.0	24.8	25.4	25.9	26.4	26.5	23.9	26.1	24.6

E: MOFSL Estimates

23 July 2024
1QFY25 Results Update | Sector: Financials

ICICI Prudential Life Insurance

Estimate change	↑
TP change	↔
Rating change	↔

Bloomberg	IPRU IN
Equity Shares (m)	1442
M.Cap.(INRb)/(USDb)	920.5 / 11
52-Week Range (INR)	674 / 463
1, 6, 12 Rel. Per (%)	1/18/-8
12M Avg Val (INR M)	1180

Financials & Valuations (INR b)

Y/E MARCH	FY24	FY25E	FY26E
Net Premiums	417.6	475.7	548.3
Surplus / Deficit	13.5	14.9	16.7
Sh. holder's PAT	8.5	9.4	10.9
APE growth - (%)	4.7	23.4	16.0
Tot. Premium gr. (%)	8.3	13.8	15.2
VNB margin (%)	24.6	24.5	24.5
RoEV (%)	18.8	19.8	20.1
Total AUMs (INRt)	2.9	3.5	3.9
VNB (INRb)	22.3	27.4	31.7
EV per share	294	353	423
Valuations			
P/EV (x)	2.2	1.8	1.5
P/EVOP (x)	18.3	14.5	12.3

Shareholding pattern (%)

As On	Jun-24	Mar-24	Jun-23
Promoter	73.2	73.2	73.3
DII	8.8	8.5	6.3
FII	13.2	13.4	15.4
Others	4.8	4.9	4.9

FII Includes depository receipts

CMP: INR638 TP: INR740 (+16%) Buy

APE, VNB miss estimates; margin down 600bp YoY

Minimal impact of surrender charges

- In 1QFY25, ICICI Prudential Life Insurance (IPRU) reported 34.4% YoY growth in APE to INR19.6b (4% miss). APE in ULIPs grew 78% YoY, while protection and ex-ULIP individual savings segments reported a moderate APE growth of 3.2% YoY and 10% YoY, respectively.
- VNB grew 8% YoY to INR4.7b (6% miss). VNB margins declined to 24% in 1QFY25 (down 600bp YoY) vs. our estimate of 24.5%.
- Considering the 1Q performance, we have cut our VNB margin estimates for FY25 and FY26. However, we have raised our APE growth estimates to factor in a strong trajectory in proprietary channels.
- We expect IPRU to deliver a 19.4% CAGR in VNB over FY24-26. Going ahead, the company's ability to sustain strong premium growth and VNB margins will be vital for re-rating of the stock. Retain BUY with a TP of INR740 (based on 1.7x Mar'26E EV).

Shift in product mix toward ULIPs

- IPRU's gross premium grew 12.3% YoY to INR82.8b (14% miss) in 1QFY25, with renewal/first-year/single premium up 4.3%/48.8%/10.6% YoY.
- APE grew 34.4% YoY to INR19.6b in 1QFY25. The protection and ex-ULIP individual savings segments reported a moderate growth of 3.2% YoY and 10% YoY, respectively. ULIPs grew 78% YoY. Retail protection as a percentage of total APE came in at 5.7% in 1QFY25 vs. 7.5% in 1QFY24.
- VNB grew 8% YoY to INR4.7b (6% miss). VNB margins declined to 24% (down 600bp YoY) vs. our estimate of 24.5%. The decline in VNB margins was owing to the shift in the mix toward ULIPs and high cost assumptions.
- On the distribution side, the share of agency/direct channels increased YoY to 29.4%/15.2%. Corporate agents and group channels declined YoY to 11.5%/15.1%. The share of banca channel was broadly flat YoY at 28.8%.
- Gross business from ICICI Bank channel is stable at INR1b per month. The focus on retail protection has increased within the ICICI Bank channel.
- Cost-WRP rose 480bp YoY to 32.5%. PAT grew 8.9% YoY to INR2.3b (6% miss).
- On premium basis, YoY persistency improved across all cohorts. 49th month and 61st month persistency stood at 69.3% and 65.2%, respectively.
- AUM grew 15.9% YoY to INR3.09t, while the solvency ratio moderated to 187.9%.

Highlights from the management commentary

- Agency growth was driven by 1) the addition of more than 12k agents, 2) the launch of new products: trail-based ULIP and 100% money-back annuity product, and 3) improvements in productivity led by tech initiatives.
- IPRU has recently launched a product in ULIP, which will have claim-based commissions, and it has seen good acceptance. The impact of surrender charges is not likely to be material as the share of non-linked business, and non-par within that, is significantly lower than the industry level. Any impact would be absorbed through changes in product and commissions.
- IPRU's own online channel and web aggregators are significant contributors to retail protection and this channel is seeing high degree of competition. Pricing has been changed, which has affected the demand in the short term. IPRU expects growth to come back in the medium term.

Valuation and view

IPRU has been delivering strong growth in the past three quarters and has been gaining market share. VNB margins have been under pressure owing to the product mix (higher share of ULIPs) and the allocation of costs, but scale benefits should help to offset the impact. In terms of surrender charges, the company expects a minimal impact. Considering the 1Q performance, we have cut our VNB margin estimates for FY25 and FY26. However, we have raised our APE growth estimates to factor in a strong trajectory in proprietary channels. We expect IPRU to deliver a 19.4% CAGR in VNB over FY24-26. Going ahead, the company's ability to sustain strong premium growth and VNB margins will be vital for re-rating of the stock. Retain BUY with a TP of INR740 (based on 1.7x Mar'26E EV).

Quarterly performance **(INR b)**

Policy holder's A/c (INR b)	FY24				FY25E				FY24	FY25E	FY25E 1QE	A v/s E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
First year premium	10.2	15.3	15.3	29.5	15.2	19.0	19.4	35.7	70.3	90.4	14.3	6%
Growth (%)	*-1.5%*	*5.9%*	*11.3%*	*11.9%*	*48.8%*	*24.1%*	*26.7%*	*21.1%*	*8.3%*	*28.5%*	*39.9%*	
Renewal premium	41.6	58.9	60.8	84.3	43.3	65.2	65.2	86.9	245.6	271.7	54.3	-20%
Growth (%)	*6.8%*	*4.4%*	*5.7%*	*16.6%*	*4.3%*	*10.7%*	*7.2%*	*3.1%*	*9.0%*	*10.6%*	*30.7%*	
Single premium	21.9	30.1	26.7	37.8	24.3	33.8	28.6	40.3	116.5	130.0	27.2	-11%
Growth (%)	*-5.9%*	*7.0%*	*0.9%*	*20.7%*	*10.6%*	*12.5%*	*7.1%*	*6.8%*	*6.7%*	*11.7%*	*24.1%*	
Gross premium income	**73.7**	**104.3**	**102.8**	**151.5**	**82.8**	**118.0**	**113.2**	**162.9**	**432.4**	**492.1**	**95.9**	**-14%**
Growth (%)	*1.5%*	*5.4%*	*5.2%*	*16.6%*	*12.3%*	*13.2%*	*10.1%*	*7.6%*	*8.3%*	*13.8%*	*30.0%*	
PAT	**2.1**	**2.4**	**2.3**	**1.7**	**2.3**	**2.4**	**2.5**	**2.5**	**8.5**	**9.4**	**2.4**	**-6%**
Growth (%)	*32.9%*	22.4%	3.1%	*-26.0%*	*8.9%*	0.0%	11.5%	*45.9%*	5.1%	10.2%	15.9%	
Key metrics (INRb)												
New Business APE	14.6	20.6	19.1	36.2	19.6	30.1	22.3	36.8	90.5	111.6	20.4	-4%
Growth (%)	-3.9	3.2	4.7	9.6	34.4	46.2	17.1	1.9	4.7	23.4	39.7	
VNB	4.4	5.8	4.4	7.8	4.7	7.5	5.6	9.5	22.3	27.4	5.0	-6%
Growth (%)	-7.0	-7.1	-29.4	-26.4	7.8	30.6	29.6	21.8	-19.5	22.8	14.2	
AUM	2,664	2,719	2,867	2,942	3,089	3,183	3,274	3,459	2,942	3,459	3,019	2%
Growth (%)	15.8	11.3	13.8	17.1	15.9	17.1	14.2	17.6	17.1	17.6	13.3	
Key Ratios (%)												
VNB Margins (%)	30.0	28.0	22.9	21.5	24.0	25.0	25.3	25.7	24.6	24.5	24.5	

Coforge

Estimate change	↓
TP change	↔
Rating change	↔

Bloomberg	COFORGE IN
Equity Shares (m)	67
M.Cap.(INRb)/(USDb)	412.1 / 4.9
52-Week Range (INR)	6847 / 4287
1, 6, 12 Rel. Per (%)	11/-16/9
12M Avg Val (INR M)	3212

Financials & Valuations (INR b)

Y/E Mar	2024	2025E	2026E
Sales	91.8	102.9	118.1
EBITDA Margin (%)	16.3	17.1	18.6
PAT	8.1	9.6	13.0
EPS (INR)	130.6	151.4	204.3
Adj. PAT	8.3	9.6	13.0
Adj. EPS (INR)	133.2	150.3	202.8
Adj. EPS Gr. (%)	2.0	12.8	34.9
BV/Sh. (INR)	584.5	643.5	743.5
Ratios			
RoE (%)	24.0	24.3	28.8
RoCE (%)	22.2	22.5	27.1
Payout (%)	52.5	50.0	50.0
Valuations			
P/E (x)	46.4	41.1	30.5
P/BV (x)	10.6	9.6	8.3
EV/EBITDA (x)	25.6	21.9	17.4
Div Yield (%)	1.1	1.2	1.6

Shareholding pattern (%)

As On	Jun-24	Mar-24	Jun-23
Promoter	0.0	0.0	26.6
DII	47.3	54.3	37.2
FII	41.4	35.0	24.8
Others	11.3	10.7	11.4

FII Includes depository receipts

CMP: INR6,179 TP: INR6,100 (-1%) Neutral

Organic business continues to do well

However, we stay Neutral amid uncertainties around Cigniti integration

- COFORGE reported 1QFY25 revenue growth of 1.6% QoQ in CC terms, in line with our estimate. Reported revenue stood at USD291m (up 1.6% QoQ/7.2% YoY). The company reported order intake of USD314m in 1Q with two large deals, resulting in a robust 12-month executable order book of USD1070m (+19% YoY). EBIT margin, adjusted for transaction-related costs of INR953m, came in at 13.6% (est. 13.3%). PAT stood at INR1.3b (-41% QoQ/-27% YoY) due to high transaction-related costs and lower other income. Adj. PAT came in line with our est. of INR2.3b.
- **COFORGE had a robust quarter.** Growth was led by the transportation vertical, whereas BFS had a breather after ~10-12 quarters of strong growth. We believe COFORGE's organic business is in great shape, and its executable order book over the next 12 months (up 19% YoY) provides confidence in FY25 growth. The demand environment, especially in BFS, is improving, which should strengthen COFORGE's growth trajectory for FY26 too.
- **On Cigniti,** the management indicates that the company could cross-sell its own services to Cigniti clients, which could help Cigniti grow faster than COFORGE. For the medium to long term, however, we are slightly wary of the Cigniti acquisition largely because functional testing as a service line could be facing threats from GenAI, and while cross-selling may work in the short term, we look for more evidence of this business being future-proof.
- While **the management has maintained its guidance of 50bp YoY gain in full-year EBITDA margins**, we believe the ask rate from hereon is steep. Though we acknowledge that COFORGE's second-half margins are markedly better, we build in a slight disappointment (30bp margin expansion). We have reduced our FY25 EPS estimates by 11% (driven by one-off transaction related expenses) and kept FY26 estimates unchanged. This would lead to a ~25% INR PAT CAGR (adjusted for one-offs) over FY24-26.
- We believe the company's healthy executable order book and a rebound in BFS client spending bode well for its organic business. But we remain cautious about Cigniti's integration and its medium-term revenue trajectory. As a result, **we maintain our Neutral rating on COFORGE with a TP of INR6,100, based on 30x FY26E EPS.**

Growth led by transport vertical; BFS outlook strong

- USD revenue grew 1.6% QoQ CC (est. 1.5% CC). Reported USD growth was 1.6% QoQ.
- Growth was led by the transportation segment (+4.5% QoQ). BFS declined 4.1% QoQ. The insurance vertical's performance was muted (+0.7% QoQ).
- Order intake was USD314m, returning to its normal run rate (-60% QoQ from the all-time high in the previous quarter). The 12-month executable order book rose 19% YoY at USD1070mn. It signed two large deals in 1Q.

- EBITDA (pre RSU) declined 6.0% YoY to INR3.3b and EBITDA margin (pre RSU) came in at 13.9%, down 470bp QoQ owing to transaction-related costs of INR953m. Adjusted for this, EBITDA margin came in at 17.9% (est. 17.5%).
- Utilization declined 10bp QoQ to 81.6%. Net employee addition stood at 1,886, up 7.6% QoQ. Attrition was down by 10bp QoQ at 11.4%
- Adj. PAT came in at INR1.3b (est. INR2.3b), down 40.7% QoQ due to high transaction-related costs and lower other income.
- Declared a dividend of INR19 per share.

Key highlights from the management commentary

- Demand is picking up. The demand outlook for financial services has materially improved. It is also strong for the travel and aviation segment. There is a rebound in the insurance business too. There was weakness in the top five customers in 1Q (largely banking-heavy clients). The BFS business has normalized after 12-13 quarters of strong growth.
- Growth in the executable order book was in line with the growth in deals. Over the next few quarters, the correlation with revenues should remain stable.
- Europe-based banking clients are normalizing between programs, hence a decline; but there is no change in spending patterns and the client spending outlook remains strong.
- The travel vertical is expected to do better than last year. Airlines expect a 10% YoY increase in passenger demand, and they are undergoing a technological overhaul.

Valuation and view: Organic business remains strong, medium-term risks persist

- We believe the company's healthy executable order book and a rebound in BFS client spending bode well for its organic business. But we are cautious about Cigniti's integration and its medium-term revenue trajectory. As a result, we maintain our Neutral rating on COFORGE with a **TP of INR6,100, based on 30x FY26E EPS.**

Quarterly Performance (Ind-AS) **(INR m)**

Y/E March	**FY24**				**FY25E**				**FY24**	**FY25E**	**Est.**	**Var.**
(Consolidated)	**1Q**	**2Q**	**3Q**	**4Q**	**1Q**	**2QE**	**3QE**	**4QE**			**1QFY25**	
Rev. (USD m)	**272**	**278**	**282**	**287**	**291**	**303**	**315**	**328**	**1,119**	**1,237**	**291**	**0.1**
QoQ (%)	2.8	2.3	1.4	1.7	1.6	4.1	3.6	4.1	11.7	10.6	1.5	15bp
Revenue (INR m)	**22,210**	**22,762**	**23,233**	**23,585**	**24,008**	**25,319**	**26,240**	**27,324**	**91,790**	**1,02,891**	**24,289**	**-1.2**
YoY (%)	21.4	16.2	13.0	8.7	8.1	11.2	12.9	15.9	14.5	12.1	9.4	-126bp
GPM (%)	**30.7**	**32.5**	**33.1**	**34.1**	**33.0**	**33.0**	**33.5**	**34.0**	**32.6**	**33.4**	**32.5**	**45bp**
SGA (%)	**14.7**	**14.9**	**15.1**	**15.5**	**19.1**	**14.5**	**14.5**	**14.0**	15.1	**15.4**	15.0	407bp
EBITDA (INR m)	**3,329**	**3,473**	**4,012**	**4,163**	**3,134**	**4,477**	**4,771**	**5,241**	**14,977**	**17,623**	**4,024**	**-22.1**
EBITDA Margin (%)	15.0	15.3	17.3	17.7	13.1	17.7	18.2	19.2	16.3	17.1	16.6	-351bp
EBIT (INR m)	**2,572**	**2,701**	**3,201**	**3,317**	**2,319**	**3,515**	**3,774**	**4,203**	**11,791**	**13,810**	**3,223**	**-28.0**
EBIT Margin (%)	11.6	11.9	13.8	14.1	9.7	13.9	14.4	15.4	12.8	13.4	13.3	-361bp
Other income	-152	-295	-257	-452	-272	-283	-294	-306	-1,156	-1,155	-243	12.0
ETR (%)	20.0	21.9	17.5	19.7	31.9	20.0	20.0	20.0	19.7	21.9	18.8	70.3
Minority Interest	-104.0	-69.0	-48.0	-55.0	-61.0	-61.0	-61.0	-61.0	-276.0	-244.0	-69.6	-12.4
Adj. PAT	**1,831**	**1,809**	**2,380**	**2,246**	**1,332**	**2,524**	**2,723**	**3,057**	**8,266**	**9,636**	**2,351**	**-43.3**
QoQ (%)	-21.3	-1.2	31.6	-5.6	-40.7	89.5	7.9	12.3			5.1	-4579bp
YoY (%)	22.0	-10.3	4.3	-3.5	-27.3	39.5	14.4	36.1	1.7	16.6	29.3	-5656bp
Adj. EPS (INR)	**29.2**	**29.0**	**38.1**	**36.2**	**20.8**	**39.4**	**42.5**	**47.7**	**133.2**	**150.3**	37.9	-45.2

Mahindra & Mahindra Financial

Estimate change	⟷
TP change	↓
Rating change	⟷

Bloomberg	MMFS IN
Equity Shares (m)	1236
M.Cap.(INRb)/(USDb)	365.5 / 4.4
52-Week Range (INR)	327 / 237
1, 6, 12 Rel. Per (%)	-7/-6/-29
12M Avg Val (INR M)	1173

Financials & valuations (INR b)

Y/E March	FY24	FY25E	FY26E
NII	71.4	85.8	102.2
PPP	41.8	52.9	65.5
PAT	17.6	27.9	34.7
EPS (INR)	14.3	22.6	28.1
EPS Gr. (%)	-11	58	24
BV/Sh.(INR)	155	171	191
Ratios			
NIM (%)	7.2	7.1	7.3
C/I ratio (%)	41.4	38.3	35.9
RoA (%)	1.7	2.2	2.4
RoE (%)	9.9	13.9	15.5
Payout (%)	44.2	31.1	28.5
Valuations			
P/E (x)	20.8	13.1	10.6
P/BV (x)	1.9	1.7	1.6
Div. Yield (%)	2.1	2.4	2.7

Shareholding pattern (%)

As On	Jun-24	Mar-24	Jun-23
Promoter	52.2	52.2	52.2
DII	30.7	28.6	27.0
FII	10.2	12.1	14.1
Others	7.0	7.2	6.8

FII Includes depository receipts

CMP: INR296 TP: INR350 (+18%) Buy

Operationally weak; earnings in line due to low credit costs

NIM contracts ~45bp QoQ as yields decline

- Mahindra & Mahindra Financial's (MMFS) 1QFY25 PAT grew ~45% YoY to ~INR5.1b (in line). NII stood at INR17.8b (5% miss), up ~13% YoY. Other income rose ~63% YoY to ~INR1.5b, driven by healthy fee income.
- NIM (calc.) declined ~45bp QoQ to ~6.6%. Credit costs stood at ~INR4.5b, translating into annualized credit costs of ~1.7% (vs. ~2.5% in 1QFY24).
- Business momentum in 1Q was muted due to heatwaves in the north region, general elections in May'24, and floods in the northeastern region in Jun'24. The management exuded confidence that the disbursement momentum will improve going ahead. We estimate a ~16% CAGR in AUM over FY24-FY26.
- Improvements in collection, reduction in repossession and settlement losses would result in a moderation in the loss given default (LGD), which will further help to reduce the required provision cover (PCR). This will translate into a reduction in ECL provisions and corresponding credit costs. We estimate a ~40% PAT CAGR over FY24-FY26, with FY26E RoA/RoE of 2.4%/15.5%. **Retain BUY with a TP of INR350 (based on 1.8x FY26E BVPS).**
- **Key risks:** a) Muted yields because of higher competitive intensity and higher proportion of prime customers, b) Asset quality volatility because of floods in certain parts of the country

Yields under pressure from competition; incremental CoF to moderate

- Intense competition in PVs, especially from PSU banks, has not allowed vehicle financiers to take the requisite price hikes. As a result, the yield (calc.) declined ~45bp QoQ to 14.3%, leading to a ~45bp fall in spreads.
- Borrowing costs (CoB) stood at ~7.8% in 1QFY25. The management shared that it expects CoB to remain stable at the current level and will benefit from any cut in interest rates. We do not see NIM improvement levers with MMFS and estimate NIM to decline in FY25 and then expand to 7.3% in FY26 (vs. 7.2% in FY24).

Key takeaways from the management commentary

- MMFS has increased the lending rates in the last two quarters, which the company expects will boost yields over the rest of FY25.
- The management has guided business asset growth of around 17%-20%.
- The company expects credit costs of ~1.4% in FY25, which may decline to ~1.2-1.3% in FY26 and beyond.

Valuation and View

- MMFS would hopefully now start demonstrating more predictability in its earnings performance. A strong liability franchise and deep moats in rural/semi-urban customer segments position MMFS well to reap the rewards of the hard work that is going into evolving this franchise.
- MMFS currently trades at 1.6x FY26E P/BV. Risk-reward is favorable for a PAT CAGR of ~40% over FY24-FY26E and FY26 RoA/RoE of 2.4%/15.5%. Maintain BUY with a TP of INR350 (based on 1.8x FY26E BVPS).

Quarterly Performance **(INR M)**

Y/E March	FY24				FY25E				FY24	FY25E	1QFY25E	v/s est
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
Interest income	30,349	31,535	33,733	35,471	36,122	38,289	40,778	42,904	1,31,088	1,58,093	37,280	-3
Interest Expenses	14,505	15,665	16,750	17,351	18,286	19,328	20,391	21,170	64,269	79,175	18,426	-1
NII	**15,844**	**15,870**	**16,983**	**18,121**	**17,836**	**18,961**	**20,387**	**21,734**	**66,818**	**78,917**	**18,854**	-5
YoY Growth (%)	5.3	9.6	9.4	13.2	12.6	19.5	20.0	19.9	9.4	18.1	19.0	
Other income	905	870	1,172	1,590	1,480	1,497	1,693	2,212	4,537	6,882	1,041	42
Net Total Income	**16,750**	**16,740**	**18,155**	**19,710**	**19,316**	**20,458**	**22,080**	**23,946**	**71,355**	**85,799**	**19,895**	-3
YoY Growth (%)	6.9	8.7	10.1	14.4	15.3	22.2	21.6	21.5	10.1	20.2	18.8	
Operating Expenses	6,750	7,312	7,530	7,980	7,970	8,116	8,283	8,500	29,572	32,869	7,290	9
Operating Profit	**10,000**	**9,428**	**10,625**	**11,730**	**11,345**	**12,342**	**13,797**	**15,446**	**41,783**	**52,930**	**12,605**	-10
YoY Growth (%)	5.7	9.2	6.4	24.2	13.5	30.9	29.9	31.7	11.4	26.7	26.1	
Provisions	5,264	6,266	3,284	3,415	4,482	4,382	3,719	2,918	18,228	15,500	5,519	-19
Profit before Tax	**4,735**	**3,163**	**7,341**	**8,315**	**6,864**	**7,960**	**10,078**	**12,528**	**23,555**	**37,430**	**7,086**	-3
Tax Provisions	1,209	811	1,813	2,126	1,734	2,030	2,570	3,211	5,959	9,545	1,807	-4
Net Profit	**3,527**	**2,352**	**5,528**	**6,190**	**5,130**	**5,930**	**7,508**	**9,317**	**17,596**	**27,885**	**5,279**	-3
YoY Growth (%)	58.2	-47.5	-12.1	-9.5	45.5	152.2	35.8	50.5	-11.3	58.5	49.7	
Key Operating Parameters (%)												
Yield on loans (Cal)	14.9	14.6	14.7	14.7	14.3				14.7	14.6		
Cost of funds (Cal)	7.5	7.6	7.8	7.8	7.8				8.0	8.0		
Spreads (Cal)	7.4	6.9	6.9	7.0	6.5				6.7	6.6		
Credit Cost (Cal)	~	2.8	1.4	1.4	1.7				2.0	1.4		
Cost to Income Ratio	40.3	43.7	41.48	40.49	41.3				41.4	38.3		
Tax Rate	25.5	25.6	24.7	25.6	25.3				25.3	25.5		
Balance Sheet Parameters												
Loans (INR B)	832	899	934	992	1028				992	1172		
Change YoY (%)	42.6	29.3	27.2	24.8	31.0				24.8	18.2		
Borrowings (INR B)	790	849	864	922	953				919	1085		
Change YoY (%)	43.6	26.0	21.9	23.1	28.9				22.6	18.1		
Loans/Borrowings (%)	105.4	106.0	108.0	107.6	107.8				108	108		
Debt/Equity (x)	4.5	5.0	4.9	5.1	5.1				4.8	5.1		
Asset Quality Parameters (%)												
GS 3 (INR B)	37.7	40.2	38.5	34.9	37.9				34.9	38.7		
Gross Stage 3 (% on Assets)	4.3	4.3	4.0	3.4	3.6				3.4	3.2		
NS 3 (INR B)	15.0	15.6	14.4	12.9	15.2				12.9	17.4		
Net Stage 3 (% on Assets)	1.8	1.7	1.5	1.3	1.5				1.3	1.5		
PCR (%)	66.9	61.2	62.7	63.2	-40.2				63.2	55.0		
ECL (%)	4.0	4.0	3.8	3.3	3.3				3.8	3.3		
Return Ratios (%)												
ROAA	1.4	0.9	2.1	2.2	1.8				1.7	2.2		
ROAE	8.2	5.5	12.8	13.9	11.1				9.9	13.9		

E: MOFSL estimates

Blue Dart Express

Estimate change	↓
TP change	↔
Rating change	↔

Bloomberg	BDE IN
Equity Shares (m)	24
M.Cap.(INRb)/(USDb)	186.2 / 2.2
52-Week Range (INR)	8980 / 5487
1, 6, 12 Rel. Per (%)	-3/-2/-16
12M Avg Val (INR M)	182

Financial Snapshot (INR b)

Y/E MARCH	2024	2025E	2026E
Sales	52.7	59.7	72.0
EBITDA	5.2	6.0	9.0
Adj. PAT	2.9	3.3	5.3
EBITDA Margin (%)	9.8	10.1	12.5
Adj. EPS (INR)	121.6	137.1	223.5
EPS Gr. (%)	-21.2	12.7	63.0
BV/Sh. (INR)	606.2	683.4	846.9
Ratios			
Net D:E	-0.1	-0.1	-0.1
RoE (%)	21.4	21.3	29.2
RoCE (%)	23.1	23.1	30.8
Payout (%)	20.6	43.8	26.8
Valuations			
P/E (x)	64.5	57.2	35.1
P/BV (x)	12.9	11.5	9.3
EV/EBITDA(x)	34.8	29.7	19.5
Div. Yield (%)	0.3	0.8	0.8
FCF Yield (%)	2.0	1.3	1.8

Shareholding pattern (%)

As On	Jun-24	Mar-24	Jun-23
Promoter	75.0	75.0	75.0
DII	12.7	11.7	11.1
FII	5.4	5.4	4.2
Others	7.0	7.9	9.6

FII Includes depository receipts

CMP: INR7,800 TP: INR9,500 (+21%) Buy

Capacity utilization of new aircraft to improve; outlook bright

High freight handling costs drag down EBITDA

- Blue Dart Express's (BDE) revenue grew 8% YoY to INR13.4b in 1QFY25 (in line). BDE handled 0.31m tons of cargo volume (+9.6% YoY). The realization decreased 1% YoY to INR42.9/kg. It carried 90.2m shipments in 1Q.
- EBITDA margin came in at 8.1% in 1Q (est. 11%), down 100bp YoY and ~240bp QoQ, due to a sharp increase in freight handling costs as a percentage of revenue. EBITDA decreased by 3% YoY to INR1.1b (est. INR1.5b). APAT declined 14% YoY to INR515m (est. INR837m).
- During the quarter, Surface volumes grew at a faster rate than air volumes. The margin contraction was due to lower margins in the surface segment (vs. air) amid competition. Newly added routes like Guwahati are still ramping up.
- 1Q was a challenging quarter in terms of margins as capacity utilization of new aircraft is still ramping up. We decrease our EBITDA/APAT estimates for FY25 by 12%/13%, factoring in lower EBITDA margins and low profitability in the near term. We retain our estimates for FY26 and maintain BUY with a TP of INR9,500 (based on 24x FY26E EV/EBITDA). With high capacity in place and utilization expected to pick up, we believe BDE is well placed to capitalize on the growth opportunity ahead.

Newly added routes ramping up; segments like surface/ecommerce witnessing strong growth

- As the festival season kicks in, the capacity utilization of new aircraft is expected to pick up. As they reach optimal utilization levels, efficiency will improve, leading to higher margins. New routes like Guwahati are starting to ramp up and should pick up pace in coming quarters.
- BDE continues to expand in the surface express segment, which forms 30% of its total revenues. The surface express segment is expected to be a key growth driver for BDE as it is expected to grow faster than the air segment.

Highlights from the management commentary

- Margins in 1Q were affected due to the competitive nature of the surface segment, which currently generates lower margins compared to the air segment. The company is in an investment phase, resulting in elevated cost structure in the near term.
- The two newly added aircraft capacities have replaced third-party volume with in-house operations. The share of third-party cargo has declined from 20-25% to 10-11% currently. The Guwahati market is still ramping up and the new aircraft are expected to break even in the next few quarters.
- Depreciation may rise from the existing levels, due to capex in infrastructure and IT integration. Air fleet-related depreciation should remain steady.
- PBT margins are expected to be in the range of 7-8% going forward. No margin impact is anticipated from the expansion of hubs.

Valuation and view

- Enhanced utilization of newly added aircraft, increased volumes on newly introduced routes, and network expansion are expected to lead to higher volumes for the company.
- With an increasing market share of BDE in the surface express segment along with network expansion, we expect BDE to register a CAGR of ~17%/32%/36% in revenue/EBITDA/PAT over FY24-26. **We retain our estimates for FY26 and maintain our BUY with a TP of INR9,500 (based on 24x FY26E EV/EBITDA).**

Quarterly snapshot - Standalone INR m

Y/E March (INR m)	FY24				FY25E				FY24	FY25E	FY25	Var.
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	vs Est
Net Sales	**12,376**	**13,245**	**13,829**	**13,229**	**13,427**	**14,870**	**15,984**	**15,403**	**52,678**	**59,685**	**13,633**	**(2)**
YoY Change (%)	-4.3	-0.1	3.4	8.7	8.5	12.3	15.6	16.4	1.8	13.3	10.2	
EBITDA	**1,133**	**1,305**	**1,343**	**1,394**	**1,094**	**1,450**	**1,686**	**1,782**	**5,175**	**6,012**	**1,505**	**(27)**
Margins (%)	9.2	9.9	9.7	10.5	8.1	9.7	10.5	11.6	9.8	10.1	11.0	
YoY Change (%)	-40.6	-19.8	-10.8	8.7	-3.4	-1.0	25.6	27.8	-18.2	16.2	32.8	
Depreciation	444	456	473	500	523	535	540	559	1,873	2,157	501	
Interest	45	48	47	53	70	63	65	62	193	259	70	
Other Income	157	151	228	183	191	184	192	187	718	754	185	
PBT before EO expense	**801**	**952**	**1,050**	**1,024**	**693**	**1,036**	**1,273**	**1,348**	**3,828**	**4,351**	**1,119**	
Extra-Ord expense	0	0	0	0	0	0	0	0	0	0	0	
PBT	**801**	**952**	**1,050**	**1,024**	**693**	**1,036**	**1,273**	**1,348**	**3,828**	**4,351**	**1,119**	
Tax	204	240	235	263	178	260	320	339	942	1,096	282	
Rate (%)	25.4	25.2	22.4	25.7	25.7	25.1	25.1	25.1	24.6	25.2	25.2	
Reported PAT	**598**	**713**	**816**	**761**	**515**	**776**	**954**	**1,009**	**2,886**	**3,254**	**837**	
Adj PAT	**598**	**713**	**816**	**761**	**515**	**776**	**954**	**1,009**	**2,886**	**3,254**	**837**	**(38)**
YoY Change (%)	-49.0	-22.5	-6.2	8.1	-13.8	8.8	16.9	32.7	-21.2	12.7	40.0	
Margins (%)	4.8	5.4	5.9	5.7	3.8	5.2	6.0	6.6	5.5	5.5	6.1	

23 July 2024

1QFY25 Results Update | Sector: Cement

Kajaria Ceramics

Estimate change	↓
TP change	⟷
Rating change	⟷

Bloomberg	KJC IN
Equity Shares (m)	159
M.Cap.(INRb)/(USDb)	229.7 / 2.7
52-Week Range (INR)	1524 / 1110
1, 6, 12 Rel. Per (%)	3/-7/-23
12M Avg Val (INR M)	351
Free float (%)	52.5

Financial Snapshot (INR b)

Y/E MARCH	FY25E	FY26E	FY27E
Sales	49.6	55.8	63.4
EBITDA	7.9	9.5	11.0
Adj. PAT	4.7	5.9	7.0
EBITDA Margin (%)	15.9	16.9	17.4
Cons. Adj. EPS (INR)	30.7	38.0	44.8
EPS Gr. (%)	13.0	23.6	17.9
BV/Sh. (INR)	180	201	227
Ratios			
Net D:E	(0.6)	(0.7)	(0.8)
RoE (%)	17.4	19.5	20.5
RoCE (%)	20.2	22.8	24.2
Payout (%)	45.5	42.1	40.2
Valuations			
P/E (x)	46.8	37.9	32.2
P/BV (x)	8.0	7.1	6.3
EV/EBITDA(x)	28.5	23.5	20.0
EV/Sales (x)	4.5	4.0	3.5

Shareholding pattern (%)

As On	Jun-24	Mar-24	Jun-23
Promoter	47.5	47.5	47.5
DII	27.8	24.9	25.2
FII	16.2	19.2	18.0
Others	8.5	8.4	9.3

FII Includes depository receipts

CMP: INR1,442 **TP: INR1,670 (+16%)** **Buy**

Result in line; sequential margin expansion likely

Low double-digit volume growth in FY25E

- Kajaria Ceramics (KJC)'s consol. revenue grew 5% YoY to INR11.1b (in line). EBITDA dipped 1% YoY to INR1.7b (est. INR1.6b). Tiles volume grew 8% YoY (+2% vs. est.), while realization dropped 3.6% YoY (+1% vs. est.) in 1QFY25. OPM contracted 90bp YoY to ~15% (in line). PAT fell 16% YoY to INR0.9b (in line).
- Management was positive on the demand outlook for the tile industry. With the recent budget announcements, it expects an increase in demand from Bihar, Andhra Pradesh, and urban housing. It projects 5-6% industry volume growth, while KJC's volume would outperform with 11-12% growth. KJC expects the tile price to have stabilized as it largely remained flat in 1QFY25 vs. 2HFY24. It guided EBITDA margin in the range of 15-17% for FY25.
- We cut our EPS estimates by ~6% for FY25 due to moderate volume growth guidance and gradual margin improvement sequentially. However, we maintain our FY26E EPS and introduce FY27E. We **reiterate our BUY rating** on the stock with a TP of INR1,670 (premised on 43x Jun'26E EPS).

EBITDA margin contracts 90bp YoY to 15% (in line)

- KJC's consol. revenue/EBITDA/PAT stood at INR11.1b/INR1.7b/INR0.9b (+5%/-1%/-16% YoY and +1%/+3%/-4%% vs. our est.). Tile sales volume rose 8% YoY to 27.0MSM, while realization dipped 3.6% YoY to INR372/sqm.
- Gross margin improved 1pp YoY to 38.5%, led by lower raw material costs. Employee costs increased 23% YoY (12.5% of revenue vs. 10.7% in 1QFY24). Other expenses rose 6% YoY (11.0% of revenue vs. 10.9% in 1QFY24). OPM was down 90bp YoY to 15.0% in 1Q.
- Depreciation increased 38% YoY, while finance costs declined 11% YoY. Other income grew 10% YoY during the quarter.

Highlights from the management commentary

- Despite the softness in domestic demand due to elections, the company's tile volumes grew ~8% YoY in 1QFY25 vs. 3-4% for the industry.
- Gas prices remained unchanged in 1QFY25 and were similar to the last quarter, with the average price being around INR37/scm. However, average fuel cost declined to INR37/scm from INR39/scm in 4QFY24.
- The Nepal project has been delayed due to heavy rains. It is now expected to start by Sep'24, with a GVT and ceramic production capacity of 5.1MSM.

View and valuation

- We estimate KJC's revenue/EBITDA/PAT CAGR at 11%/16%/18% over FY24-27. We estimate the tile volume to clock ~11% CAGR over FY24-27. We expect its RoE/RoCE to improve to 20%/24% by FY27 from 17%/20% in FY24.
- The stock is currently trading at 38x FY26E EPS. KJC is estimated to maintain its premium valuation multiple given the healthy earning CAGR, leadership position in the industry, and strong balance sheet as well as return ratios. We **reiterate our BUY rating** on the stock with a TP of INR1,670 (premised on 43x Jun'26E EPS).

Consolidated quarterly performance

(INR m)

	FY24				FY25				FY24	FY25E	FY25	Var.
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	(%)
Net sales	**10,642**	**11,216**	**11,518**	**12,408**	**11,137**	**11,800**	**12,469**	**14,176**	**45,784**	**49,575**	**10,978**	1
YoY change (%)	5.6	4.1	5.6	3.0	4.6	5.2	8.3	14.2	4.5	8.3	**3.2**	
Total expenditure	8,950	9,419	9,730	10,688	9,466	9,995	10,511	11,731	38,787	41,703	**9,354**	1
EBITDA	**1,692**	**1,797**	**1,788**	**1,720**	**1,671**	**1,805**	**1,958**	**2,445**	**6,997**	**7,872**	**1,625**	3
Margin (%)	15.9	16.0	15.5	13.9	15.0	15.3	15.7	17.3	15.3	15.9	**14.8**	20.0
Depreciation	305	361	389	425	421	428	431	443	1,480	1,724	**425**	(1)
Interest	53	43	50	66	47	40	45	53	211	185	**45**	4
Other income	93	83	113	174	102	125	135	193	462	555	**140**	(27)
PBT before EO expense	**1,427**	**1,477**	**1,462**	**1,403**	**1,304**	**1,462**	**1,617**	**2,142**	**5,768**	**6,518**	**1,295**	1
Extra-ord expenses	0	0	0	0	0	0	0	0	0	0	**0**	
PBT after EO Expense	**1,427**	**1,477**	**1,462**	**1,403**	**1,304**	**1,462**	**1,617**	**2,142**	**5,768**	**6,518**	**1,295**	1
Tax	336	366	379	354	327	364	403	528	1,435	1,621	**322**	
Rate (%)	23.5	24.8	25.9	25.2	25.0	24.9	24.9	24.6	24.9	24.9	**24.9**	
Reported PAT	**1,091**	**1,110**	**1,083**	**1,050**	**978**	**1,098**	**1,214**	**1,614**	**4,334**	**4,897**	**972**	1
Minority interest	16	31	41	25	48	20	25	29	113	122	**35**	36
Adj. PAT	**1,075**	**1,080**	**1,042**	**1,024**	**898**	**1,078**	**1,189**	**1,579**	**4,221**	**4,744**	**937**	(4)
YoY change (%)	16.5	60.8	40.2	-2.3	-16.4	-0.1	14.1	54.1	24.7	13.1	**(12.8)**	
Margin (%)	10.1	9.6	9.0	8.3	8.1	9.1	9.5	11.1	9.2	9.6	**8.5**	

Quarterly summary

	FY24				FY25					
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE	YoY (%)	QoQ (%)
Sales Volumes-mn sqm:										
Own Manufacturing	13.8	14.8	15.3	16.1	14.9	15.9	16.6	18.6	8	(7)
JVs	4.8	4.8	5.3	6.1	5.5	5.2	5.8	7.1	15	(10)
Trading	6.4	6.9	6.5	7.4	6.6	7.4	7.1	7.2	2	(11)
Total sales volumes	**25.0**	**26.5**	**27.1**	**29.6**	**27.0**	**28.5**	**29.5**	**32.9**	8	(9)
Revenue Mix (INR m)										
Own Manufacturing	5,393.2	5,705	5,791	6,062	5,585	5,875	6,204	6,984	4	(8)
JVs	1,340	1,825	1,995	2,255	1,999	1,874	2,119	2,595	49	(11)
Trading	2,833	2,469	2,343	2,599	2,312	2,546	2,474	2,591	(18)	(11)
Sanitaryware / faucets	837.1	853	922	1,023	910	1,066	1,153	1,414	9	(11)
Plywood	143.1	235	340	327	172	293	374	466	20	(47)
Adhesives	95.9	130	128	143	152	146	147	126	59	7
Total	**10,642**	**11,216**	**11,518**	**12,408**	**11,130**	**11,800**	**12,469**	**14,176**	**5**	**(10)**
Realization/sqm (INR)										
Own Manufacturing	391	386	380	377	375	370	373	376	(4)	(1)
JVs	279	379	375	369	362	362	365	367	30	(2)
Trading	442	360	360	352	352	345	349	357	(20)	(0)
Blended Realization	**386**	**383**	**379**	**374**	**372**	**367**	**371**	**373**	(4)	(0)
Growth (% YoY)	-1.7%	-3.1%	-2.9%	-4.4%	-3.6%	-4.1%	-2.1%	-0.1%		
Growth (% QoQ)	-1.2%	-0.9%	-1.0%	-1.2%	-0.4%	-1.5%	1.0%	0.7%		

Zensar

Estimate change	⟷
TP change	⟷
Rating change	⟷

Bloomberg	ZENT IN
Equity Shares (m)	227
M.Cap.(INRb)/(USDb)	172 / 2.1
52-Week Range (INR)	840 / 456
1, 6, 12 Rel. Per (%)	-3/24/32
12M Avg Val (INR M)	944

Financials & Valuations (INR b)

Y/E Mar	2024	2025E	2026E
Sales	49.0	53.9	61.1
EBIT Margin (%)	15.0	14.0	14.7
PAT	6.6	6.4	7.5
EPS (INR)	29.1	28.2	32.8
EPS Gr. (%)	102.7	-3.3	16.3
BV/Sh. (INR)	157.3	177.4	201.2
Ratios			
RoE (%)	20.3	17.0	17.4
RoCE (%)	15.9	14.3	15.2
Payout (%)	24.0	24.0	24.0
Valuations			
P/E (x)	26.4	27.3	23.4
P/BV (x)	4.9	4.3	3.8
EV/EBITDA (x)	18.4	18.3	14.9
Div Yield (%)	0.9	0.9	1.0

Shareholding pattern (%)

As On	Jun-24	Mar-24	Jun-23
Promoter	49.2	49.2	49.2
DII	19.1	17.5	17.3
FII	15.7	16.5	12.6
Others	16.1	16.8	20.9

FII Includes depository receipts

CMP: INR759 **TP: INR750 (-1%)** **Neutral**

Healthy beat on revenues

Mid-teens EBITDA margin guidance remains unchanged

- ZENT reported a strong 1QFY25, with revenue growth of 4.3% QoQ in CC (est. 1.9%) driven by sequential growth across all verticals. Deal TCV came in at USD154m (-15% QoQ/flat YoY). EBIT declined 4% QoQ/9.0% YoY to INR1,714m and EBIT margin was down 130bp at 13.3% (-130bp QoQ). Margin fell short of our estimate of 13.9%, due to higher SG&A (+110bp QoQ, one-off due to bad debt provisions) and higher cost of delivery. PAT of INR 1,579m (-8.9% QoQ) beat our estimate of INR1,454m, led by revenue growth and higher other income.
- ZENT reported healthy growth across its portfolio, with all verticals growing for the second consecutive quarter. The management expects BFSI vertical to maintain its pace as large projects are ramping up well. However, Hi-tech, which accounts for 25% of revenues, may face constraints due to anticipated furloughs in 2QFY25, in our view. We expect growth to moderate due to underperformance in Hi-tech (owing to extended furloughs). We estimate FY25 revenue growth of 8.4%, which will pick up in FY26. We factor in a USD revenue CAGR of 10.8% over FY24-26E.
- ZENT reported a one-off impact (110bp) of doubtful debts from a customer's bankruptcy filing. Adjusting for this, the company reported a margin of 16.3%, in line with its mid-teens margin guidance. The management aims to maintain mid-teens EBITDA margins and reinvest above that level for growth. We expect ZENT to deliver 15.9%/16.7% EBITDA margin in FY25/FY26. This will result in an INR PAT CAGR of 6.0% over FY24-26E (partially on high FY24 base).
- We increase our EPS estimates by 6.2% for FY25 on the back of growth surprise in 1Q. We largely maintain our EPS estimate for FY26. Our TP of INR750 implies 23x FY26E EPS. **Retain Neutral.**

Beat on revenues, miss on margin performance driven by one-offs

- USD revenue stood at USD154.4m, up 4.3% QoQ CC, ahead of our estimates of 1.9% QoQ CC. Reported USD revenue was also up 4.2% QoQ.
- Growth was driven by Healthcare & Life Sciences (up 6.9% QoQ CC) and BFSI (up 6.8% QoQ CC). Manufacturing & Consumer services/ Telecom, Media and tech rose 2.7%/1.2% QoQ CC. In terms of regions, the US registered strong 6.6% QoQ CC growth, while Europe was down 0.1% QoQ CC.
- Deal TCV: bookings came in at USD 154m (-15% QoQ/flat YoY) and the book-to-bill was 1x.
- EBITDA declined 3.9% QoQ/16.0% YoY to INR1,962m and EBITDA margin came in at 15.2% (-130bp QoQ), against our estimates of 16.4%, due to higher SG&A (+110bp QoQ, *one-off due to bad debt provisions*) and higher cost of delivery.
- During the quarter, 855 gross employees were added, bringing the total headcount to 10,396 (up ~1% QoQ growth). LTM attrition was 10.6% (-30bp QoQ). Utilization was up 20bp QoQ at 83.9%.

- PAT of INR1,579m (-8.9% QoQ) beat our estimate of INR1,454m, led by revenue growth and higher other income.
- Cash stood at USD280.9m (~14% of MCap).

Key highlights from the management commentary

- The company witnessed good momentum across its portfolio. Growth in overall company revenue was driven by sequential growth across all verticals for the second quarter in a row.
- Growth is primarily coming from cross-selling, which is working well for the company.
- Margin outlook for FY25 remains unchanged at mid-teens EBITDA margins.
- ZENT has entered into a definitive agreement to acquire a 100% stake in Bridge View Life Sciences, a Pennsylvania-based technology and consulting solutions company in the Life Sciences industry. This move reinforces ZENT's focus on the Healthcare and Life Sciences vertical.

Valuation and view

- We believe the company's exposure to Hi-tech vertical could continue to weigh on growth in the near term; however, it will be offset by a recovery in BFS. We increase our EPS estimates by 6.2% for FY25 on the back of growth surprise in 1Q. We largely maintain our EPS estimate for FY26. Our TP of INR750 implies 23x FY26E EPS. **Retain Neutral.**

Quarterly performance (INR m)

Y/E March	FY24				FY25E				FY24	FY25E	Est.	Var.
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QFY25	(%/bp)
Revenue (USD m)	**149**	**150**	**145**	**148**	**154**	**158**	**162**	**168**	**592**	**642**	**151**	**1.9**
QoQ (%)	1.2	0.6	-3.7	2.3	4.3	2.2	2.7	3.7	-2.0	8.4	2.3	196bp
Revenue (INR m)	**12,272**	**12,408**	**12,041**	**12,297**	**12,881**	**13,255**	**13,612**	**14,114**	**49,018**	**53,862**	**12,636**	**1.9**
YoY (%)	2.0	0.5	0.5	1.4	5.0	6.8	13.0	14.8	1.1	9.9	3.0	199bp
GPM (%)	**33.6**	**31.8**	**31.1**	**30.6**	**30.4**	**32.5**	**33.0**	**33.0**	**31.8**	**32.2**	**33.5**	**-312bp**
SGA (%)	14.9	13.2	13.9	14.1	15.2	16.5	16.7	16.8	14.0	16.3	17.1	-195bp
EBITDA	**2,301**	**2,308**	**2,076**	**2,030**	**1,961**	**2,118**	**2,216**	**2,284**	**8,715**	**8,579**	**2,072**	**-5.4**
EBITDA Margin (%)	**18.8**	**18.6**	**17.2**	**16.5**	**15.2**	**16.0**	**16.3**	**16.2**	**17.8**	**15.9**	**16.4**	**-118bp**
EBIT	**1,878**	**1,942**	**1,764**	**1,793**	**1,714**	**1,862**	**1,953**	**2,011**	**7,377**	**7,541**	**1,756**	**-2.4**
EBIT Margin (%)	**15.3**	**15.7**	**14.6**	**14.6**	**13.3**	**14.1**	**14.3**	**14.2**	**15.0**	**14.0**	**13.9**	**-59bp**
Other income	224	306	356	493	383	171	176	182	1,379	912	164	133.2
ETR (%)	25.7	22.7	23.8	24.2	24.7	23.6	23.6	23.6	24.1	23.9	24.3	
Adj. PAT	**1,562**	**1,738**	**1,616**	**1,733**	**1,579**	**1,554**	**1,626**	**1,676**	**6,649**	**6,435**	**1,454**	**8.6**
QoQ (%)	30.9	11.3	-7.0	7.2	-8.9	-1.6	4.7	3.0			-16.1	
YoY (%)	108.0	206.0	111.2	45.3	1.1	-10.6	0.6	-3.3	102.9	-3.2	-6.9	
EPS (INR)	**6.8**	**7.6**	**7.1**	**7.6**	**6.9**	**6.8**	**7.1**	**7.3**	**29.1**	**28.2**	**6.4**	8.5

Mahindra Logistics

Estimate change	↓
TP change	⟷
Rating change	⟷

Bloomberg	MAHLOG IN
Equity Shares (m)	72
M.Cap.(INRb)/(USDb)	37 / 0.4
52-Week Range (INR)	555 / 347
1, 6, 12 Rel. Per (%)	4/8/2
12M Avg Val (INR M)	144

Financial Snapshot (INR b)

Y/E MARCH	FY24	FY25E	FY26E
Sales	55.1	63.1	79.2
EBITDA	2.3	3.2	4.2
Adj. PAT	-0.6	0.5	1.4
EBITDA Margin (%)	4.2	5.1	5.3
Adj. EPS (INR)	-8.2	6.6	19.2
EPS Gr. (%)	-322.8	-181.0	190.3
BV/Sh. (INR)	68.8	72.9	89.7
Ratios			
Net D:E	0.5	0.2	0.0
RoE (%)	-11.0	9.1	23.2
RoCE (%)	7.5	10.7	20.5
Payout (%)	-28.7	37.7	13.0
Valuations			
P/E (x)	NA	78.3	27.0
P/BV (x)	7.5	7.1	5.8
EV/EBITDA(x)	17.4	11.8	8.9
Div. Yield (%)	0.5	0.5	0.5
FCF Yield (%)	5.9	5.5	3.5

Shareholding pattern (%)

As On	Jun-24	Mar-24	Jun-23
Promoter	58.0	58.0	58.0
DII	17.5	17.4	17.0
FII	5.5	5.8	11.5
Others	19.0	18.8	13.5

FII Includes depository receipts

CMP: INR514 TP: INR510 (-1%) Neutral

Operating performance in line; express business continues to struggle

- **Mahindra Logistics (MLL)'s 1QFY25 revenue grew ~10% YoY to INR14.2b (in line). EBITDA margin came in at 4.7% (vs. our est. of 4.5%), down 50bp YoY but up 80bp QoQ. EBITDA was flat YoY at INR663m (in line) in 1QFY25.**
- **MLL posted adj. net loss of INR93m in 1QFY25 vs. adj. net loss of INR86m in 1QFY24 (our est. of INR19m profit). The higher tax outgo hit APAT.**
- **The supply chain management recorded a revenue of INR13.4b (+10.4% YoY) and an EBIT loss of INR42m. Enterprise Mobility Services (EMS) reported a revenue of INR800m (+0.7% YoY) and an EBIT of INR17m.**
- **Despite a muted demand environment, 1QFY25 saw healthy order bookings in the 3PL and cross-border businesses. The cross-border business gained traction led by higher demand for inbound ocean cargo. The mobility, last mile delivery, and auto outbound logistics businesses also delivered strong performance. However, earnings were hit by extended start-up costs and higher manpower & warehousing lease expenses.**
- **The express business continued to struggle due to lower volumes. The company expects volumes to recover from 2QFY25 as some lost businesses from existing accounts have been restored. It expects the businesses to breakeven at the EBITDA level in the next few quarters.**
- **While MLL's performance was in line, the express business struggled with lower tonnage. MLL is hopeful of better volumes from 2QFY25. We cut our APAT estimate by 22% in FY25 to factor in the weak performance and delayed breakeven in the express business. We broadly retain our FY26E EBITDA/PAT. We estimate a 20%/35% CAGR in revenue/ EBITDA over FY24-26. Reiterate Neutral with a TP of INR510 (premised on 26x FY26E EPS).**

Express business weak at industry level; MLL aims to achieve EBITDA breakeven in a few quarters

- The express logistics business posted a revenue of INR870m (up 2% YoY). The quarter was challenging for the industry. Despite low volumes, contribution margin improved 300bp. Losses at the PBT level reduced YoY.
- In the B2B express business, service levels improved. MLL expects 15% volume improvement in the coming quarter, with EBITDA breakeven soon.

Highlights from the management commentary

- Volumes for 1QFY25 were hit by an overall slowdown in the industry, particularly, the B2B express business.
- The company recorded an order intake of INR2.1b during 1Q. Seven key orders were won in this period. The order environment remained positive.
- The express business is likely to achieve 15% QoQ growth, with 8-9% volumes being generated from the existing customers (which were lost in 1QFY25) and 7-8% from the new accounts. Almost half of the growth is expected from the FMCG segment.

- The company continued its cost improvement efforts, aiming to improve EBITDA margins on a sequential basis.
- The current pricing environment is very tight, presenting a real challenge in improving yields.

Valuation and view

- With improved capacity utilization in the B2B express business and strong order intake in 3PL, the long-term growth outlook appears promising.
- **We cut our APAT estimates by 22% in FY25 to factor in the weak performance and delayed breakeven in the express business. We broadly retain our FY26E EBITDA/PAT. We estimate a 20%/35% CAGR in revenue/ EBITDA over FY24-26. We reiterate our Neutral rating with a TP of INR510 (premised on 26x FY26E EPS).**

Quarterly snapshot INR m

Y/E March (INR m)	FY24				FY25E				FY24	FY25E	FY25	Var.
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	vs Est
Net Sales	**12,932**	**13,648**	**13,972**	**14,508**	**14,200**	**15,652**	**16,174**	**17,029**	**55,060**	**63,056**	**14,436**	**(2)**
YoY Change (%)	7.8	2.9	5.1	14.0	9.8	14.7	15.8	17.4	7.4	14.5	11.6	
EBITDA	**666**	**536**	**522**	**566**	**663**	**795**	**841**	**941**	**2,290**	**3,240**	**650**	**2**
Margins (%)	5.2	3.9	3.7	3.9	4.7	5.1	5.2	5.5	4.2	5.1	4.5	
YoY Change (%)	1.4	-20.7	-16.8	-11.2	-0.5	48.4	61.0	66.2	-11.8	41.5	-2.5	
Depreciation	545	518	515	513	550	535	530	519	2,090	2,134	525	
Interest	178	165	164	174	195	155	140	132	682	622	140	
Other Income	62	66	23	29	57	40	60	58	179	215	38	
PBT before EO Items	**6**	**-82**	**-134**	**-92**	**-25**	**145**	**231**	**348**	**-302**	**699**	**23**	
Extra-Ord expense	0	0	-38	0	0	0	0	0	38	0	0	
PBT	**6**	**-82**	**-96**	**-92**	**-25**	**145**	**231**	**348**	**-340**	**699**	**23**	
Tax	89	73	68	27	53	37	58	82	257	231	6	
Rate (%)	1,556.1	-89.2	-71.4	-29.2	-213.6	25.2	25.2	23.7	-75.5	33.0	25.2	
PAT before MI, Associates	**-83**	**-155**	**-164**	**-119**	**-78**	**109**	**173**	**265**	-597	468	16.9	
Share of associates/ Minority Interest	-3	-5	-10	-9	-15	7	7	7	-27	6	2	
Reported PAT	**-86**	**-159**	**-174**	**-128**	**-93**	**116**	**180**	**272**	**-624**	**474**	**19**	
Adj PAT	**-86**	**-159**	**-212**	**-128**	**-93**	**116**	**180**	**272**	**-586**	**474**	**19**	**NA**
YoY Change (%)	NA	PL	PL	NA	NA	NA	NA	NA	NA	NA	NA	
Margins (%)	-0.7	-1.2	-1.5	-0.9	-0.7	0.7	1.1	1.6	-1.1	0.8	0.1	

United Spirits

BSE SENSEX	S&P CNX
80,429	24,479

CMP: INR1,332

In-line revenue; beat in EBITDA

- Standalone net sales increased 8% YoY to INR23.5b (est. INR23.6b) in 1QFY25, with P&A revenue growth of 10% (90% revenue mix). Popular revenue declined 3% YoY as inflation continued to affect the price-sensitive segment.
- Volume growth stood at 3.5%, with P&A volume up 5.1% to 11.5mn cases (est. 11.4mn cases) and Popular volume down 5% to 2.2mn cases (est. 2.4mn cases).
- Gross margin was up 90bp YoY at 44.5% (est. 43.2%). Excluding a one-off benefit of INR130m due to a write-back in the 1QFY24, gross margin expanded 150bp YoY.
- Employee and A&P expenses were up by 7% and 19% YoY, respectively, while other expenses declined by 4% YoY.
- As a percentage of sales, advertising costs rose 60bp YoY to 7%, staff costs remained flat at 6%, and other expenses were down 150bp YoY at 12%.
- **EBITDA margin was up 170bp YoY at 19.5%** (est. 17.5%). Excluding the one-offs in the 1QFY24, EBITDA margin expanded 230bp YoY. EBITDA grew 19% YoY to INR4.6b (est. INR4.1b).
- Higher other income resulted in 25% YoY growth in PBT and APAT to INR4.0b and INR3.0b, respectively (est. INR3.5b/INR2.6b).

Concall Details

Date: 24th July 2024
Time: 4:00PM IST
Dial in:
+9122 6280 1250 /
+9122 7115 8151
Diamond Pass

Financials & Valuations (INR b)

Y/E March	2024	2025E	2026E
Sales	106.9	117.1	127.8
Sales Gr. (%)	3.1	9.5	9.1
EBITDA	17.1	19.0	21.3
Margin (%)	16.0	16.3	16.7
PAT	13.1	13.6	15.4
EPS (INR)	18.1	18.7	21.1
EPS Gr. (%)	42.7	3.3	12.9
BV/Sh.(INR)	95.8	114.6	135.7
Ratios			
RoE (%)	18.9	16.3	15.6
RoCE (%)	26.2	23.4	22.1
Payout (%)	38.6	48.1	56.8
Valuations			
P/E (x)	61.0	59.1	52.3
P/BV (x)	11.5	9.7	8.2
EV/EBITDA (x)	45.7	40.9	36.0

Acquisitions approved by the board

V9 Beverages Pvt. Ltd. (Sober)

- Sober is engaged in the business of developing, producing, marketing and selling zero-proof alcohol beverages under the brand name ‘Sober’.
- UNSP aims to give consumers a wider choice of drinks on social/ personal occasions. With this investment, the company continues to partner with breakthrough start-up entrepreneurs to experiment in the emerging consumer trends of the category.
- UNSP has subscribed to 1,972 compulsory convertible preference shares and 10 equity shares of Sober equivalent to a 15% stake for an aggregate consideration of INR22.9mn (turnover in FY24/FY23/FY22 – INR5.6mn/INR5.9mn/INR1.6mn).

Indie Brews and Spirits Pvt. Ltd. (Quaffine)

- Quaffine is engaged in the business of development, marketing and selling specialty cold-brew coffee liqueurs. It is a mid-proof alcohol in the premium craft segment. It uses Indian coffee beans and has the potential to cater to wider drinking occasions, where casual-moderate drinking is on the rise.
- UNSP has subscribed to 4,016 compulsory convertible preference shares and 10 equity shares of Quaffine equivalent to a 25% stake for an aggregate consideration of INR50mn (turnover in FY24/FY23/FY22 – INR5.6mn/INR6mn/Nil).

Quarterly Performance (INR m)

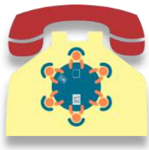
Y/E March (Standalone)	FY24 1Q	FY24 2Q	FY24 3Q	FY24 4Q	FY25E 1Q	FY25E 2QE	FY25E 3QE	FY25E 4QE	FY24	FY25E	FY25 1QE	Var. (%)
Volume growth %	**5.8**	**1.0**	**-1.8**	**3.7**	**3.5**	**6.5**	**7.6**	**5.7**	**1.9**	**5.9**	**4.2**	
Total revenues	**21,719**	**28,647**	**29,893**	**26,660**	**23,520**	**31,425**	**33,032**	**29,126**	**1,06,920**	**1,17,102**	**23,550**	-0.1%
YoY change (%)	-1.0	-1.4	7.5	6.9	8.3	9.7	10.5	9.2	3.1	9.5	8.4	
Gross Profit	**9,474**	**12,437**	**12,979**	**11,550**	**10,460**	**13,670**	**14,402**	**12,408**	**46,440**	**50,939**	10,173	2.8%
Margin (%)	43.6	43.4	43.4	43.3	44.5	43.5	43.6	42.6	43.4	43.5	43.2	
Total Exp	17,868	23,946	24,979	23,040	18,940	26,216	27,404	25,513	89,840	98,073	19,433	
EBITDA	**3,851**	**4,701**	**4,914**	**3,620**	**4,580**	**5,208**	**5,628**	**3,613**	**17,080**	**19,029**	**4,117**	11.2%
Margins (%)	17.7	16.4	16.4	13.6	19.5	16.6	17.0	12.4	16.0	16.3	17.5	
EBITDA growth (%)	42.4	6.3	33.6	7.1	18.9	10.8	14.5	-0.2	20.4	11.4	6.9	
Depreciation	650	653	628	710	650	666	641	793	2,640	2,750	663	
Interest	193	262	164	290	220	198	188	244	910	850	232	
Other income	209	388	461	2,290	320	290	300	1,793	3,350	2,703	280	
PBT	**3,217**	**4,174**	**4,583**	**4,910**	**4,030**	**4,634**	**5,099**	**4,369**	**16,880**	**18,132**	**3,502**	15.1%
Tax	814	1,068	1,102	760	1,040	1,166	1,283	1,100	3,740	4,533	881	
Rate (%)	25.3	25.6	24.0	15.5	25.8	25.2	25.2	25.2	22.2	25.0	25.2	
Adj. PAT	**2,397**	**3,183**	**3,481**	**4,073**	**2,990**	**3,468**	**3,816**	**3,269**	**13,140**	**13,599**	**2,620**	14.1%
YoY change (%)	8.1	20.7	61.0	91.7	24.8	9.0	9.6	-19.7	49.2	3.5	9.3	

E: MOFSL Estimate

SRF

BSE SENSEX	S&P CNX
80,429	24,479

Conference Call Details



Date: 24th July 2024
Time: 3:00pm IST
Dial-in details:
Click Here

CMP: INR2,361 — Neutral

Earnings in line with estimates

- SRF reported total revenue of INR34.6b (est. INR32.9b) in 1QFY25, up ~4% YoY. Chemical business revenue declined 11% YoY to INR14.8b. Packaging film /technical textile revenue grew 22%/13% YoY to INR13.4b/INR5.3b.
- EBITDA margins contracted by 360bp YoY to 17.9% (est. 19.7%). As a percentage of sales, RM costs stood at 52.7% in 1QFY25 (vs. 50.9% in 1QFY24), employee costs at 7.3% (vs. 6.5%), power costs at 9.9% (vs. 10.6%), and other expenses at 12.2% (vs. 10.4%).
- EBITDA stood at INR6.2b (est. of INR6.5b), down 14% YoY.
- EBIT margin in Chemical/Technical Textile businesses contracted 700bp/20bp YoY to 20.7%/12.9%, while Packaging margins expanded 180bp YoY to 6.5%.
- Adj. PAT declined 30% YoY to INR2.7b (est. of INR3.1b).

Segmental Performance

- The Specialty Chemicals business faced challenges due to sluggishness in the agrochemicals segment, caused by inventory rationalization by key customers. The Fluorochemicals business was hit by low margins in the Chloromethanes segment, but the domestic refrigerant gas business saw improvement, boosting overall results.
- The BOPP films segment's performance met company expectations, while the BOPET films segment continued to face an oversupplied market.
- The Technical Textiles business posted a strong performance, achieving the highest ever sales of tyre cord dipped fabrics.

Consolidated - Quarterly Earning Model (INR m)

Y/E March	FY24				FY25E				FY24	FY25E	FY25E	Var.
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1Q	%
Net Sales	33,384	31,774	30,530	35,697	34,641	35,423	37,494	44,350	1,31,385	1,51,908	32,860	5
YoY Change (%)	-14.3	-14.8	-12.0	-5.5	3.8	11.5	22.8	24.2	-11.6	15.6	-1.6	
Total Expenditure	26,184	25,320	24,691	28,581	28,435	28,234	29,596	34,724	1,04,777	1,20,989	26,389	
EBITDA	7,200	6,453	5,839	7,116	6,207	7,189	7,898	9,627	26,608	30,920	6,471	-4
Margins (%)	21.6	20.3	19.1	19.9	17.9	20.3	21.1	21.7	20.3	20.4	19.7	
Depreciation	1,566	1,612	1,689	1,859	1,882	1,950	1,950	2,180	6,726	7,962	1,900	
Interest	656	793	674	900	965	750	760	832	3,023	3,307	700	
Other Income	118	291	188	234	253	280	220	296	830	1,049	200	
PBT before EO expense	5,095	4,339	3,664	4,591	3,612	4,769	5,408	6,911	17,689	20,699	4,071	
Extra-Ord expense & DO	237	191	181	158	172	0	0	0	767	172	0	
PBT	4,858	4,148	3,483	4,433	3,440	4,769	5,408	6,911	16,922	20,527	4,071	
Tax	1,265	1,140	949	211	918	1,168	1,325	1,694	3,565	5,105	997	
Rate (%)	24.8	26.3	25.9	4.6	25.4	24.5	24.5	24.5	20.2	24.7	24.5	
Reported PAT	3,593	3,008	2,534	4,222	2,522	3,600	4,083	5,217	13,357	15,422	3,074	
Adj PAT	3,830	3,199	2,715	4,380	2,695	3,600	4,083	5,217	14,124	15,595	3,074	-12
YoY Change (%)	-39.5	-38.1	-48.4	-25.8	-29.6	12.5	50.4	19.1	-37.7	10.4	-20	
Margins (%)	11.5	10.1	8.9	12.3	7.8	10.2	10.9	11.8	10.8	10.3	9.4	

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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