

## Market snapshot



| Equities - India | Close    | Chg .%   | CYTD.%   |
|------------------|----------|----------|----------|
| Sensex           | 80,369   | 0.5      | 11.3     |
| Nifty-50         | 24,467   | 0.5      | 12.6     |
| Nifty-M 100      | 56,251   | 0.9      | 21.8     |
| Equities-Global  | Close    | Chg .%   | CYTD.%   |
| S&P 500          | 5,833    | 0.2      | 22.3     |
| Nasdaq           | 18,713   | 0.8      | 24.7     |
| FTSE 100         | 8,220    | -0.8     | 6.3      |
| DAX              | 19,478   | -0.3     | 16.3     |
| Hang Seng        | 7,418    | 0.4      | 28.6     |
| Nikkei 225       | 38,904   | 0.8      | 16.3     |
| Commodities      | Close    | Chg .%   | CYTD.%   |
| Brent (US\$/Bbl) | 71       | -1.2     | -8.1     |
| Gold (\$/OZ)     | 2,775    | 1.2      | 34.5     |
| Cu (US\$/MT)     | 9,388    | -0.1     | 10.9     |
| Almn (US\$/MT)   | 2,627    | 0.6      | 12.0     |
| Currency         | Close    | Chg .%   | CYTD.%   |
| USD/INR          | 84.1     | 0.0      | 1.0      |
| USD/EUR          | 1.1      | 0.1      | -2.0     |
| USD/JPY          | 153.4    | 0.0      | 8.7      |
| YIELD (%)        | Close    | 1MChg    | CYTD chg |
| 10 Yrs G-Sec     | 6.9      | -0.01    | -0.3     |
| 10 Yrs AAA Corp  | 7.4      | -0.01    | -0.4     |
| Flows (USD b)    | 29-Oct   | MTD      | CYTD     |
| FII              | -0.1     | -10.13   | 1.0      |
| DII              | 0.09     | 11.90    | 52.6     |
| Volumes (INRb)   | 29-Oct   | MTD*     | YTD*     |
| Cash             | 1,100    | 1149     | 1287     |
| F&O              | 4,68,437 | 3,91,168 | 3,81,503 |

Note: Flows, MTD includes provisional numbers.

\*Average



## Today's top research idea

### Bharti Airtel: Strong 2Q on tariff hike flow-through

- ❖ Bharti Airtel (BHARTI) reported a strong 2Q driven by flow-through of tariff hikes in the India wireless business (ARPU: +11% QoQ, vs. 7% QoQ for RJio) and robust incremental margins. Bharti's FCF generation (before spectrum prepayments) improved further to INR98b on improvement in operational cashflows and further moderation in capex.
- ❖ We build in FY24-27 CAGR of ~13%/16% in consolidated revenue/EBITDA, driven by more frequent tariff hikes in India wireless business, ramp-up of FWA services and steady growth in B2B and Airtel Africa.
- ❖ We continue to like Bharti's superior execution on the premiumization agenda. Further, with moderation in capex intensity, Bharti is likely to generate significant FCF (INR330b/430b in FY25/FY26), which should lead to significant deleveraging and improvement in shareholder returns.
- ❖ We reiterate Buy on Bharti, with SoTP based TP of INR1,900. We ascribe ~13x FY27 EV/EBITDA for India wireless and homes business, 6x for DTH, 10x for Enterprise and value Bharti's stake in Indus Towers and Airtel Africa at 25% discount to our TP/CMP.



## Research covered

| Cos/Sector    | Key Highlights  |
|---------------|---|
| Bharti Airtel | <b>Strong 2Q on tariff hike flow-through</b>  |
| Other Updates | Maruti Suzuki   Adani Ports & SEZ   Cipla   Canara Bank   Marico   SBI Cards   Hitachi Energy   GSK Pharma   APL Apollo Tubes   LIC Housing Finance   J K Cement   Indraprastha Gas   Five Star Business Finance   CAMS   Kalpataru Projects   Qness Corp   SIS   Restaurant Brands Asia   NOCIL   Prestige Estates Projects   Voltas   Container Corporation of India   Kaynes Technologies   Star Health   Vedant Fashions   Godrej Agrovet   V-Mart Retail   MTAR Technologies   UDS |

## Chart of the Day: Bharti Airtel (Strong 2Q on tariff hike flow-through)

### Bharti's risk-reward skew (INR/share)

| Bharti Valuation scenarios                       | Base         | Bear         | Bull         |
|--|--------------|--------------|--------------|
| <b>India business (INR/share)</b>                |              |              |              |
| <b>India wireless (including Hexacom)</b>        | <b>1,730</b> | <b>1,416</b> | <b>2,064</b> |
| Less: Hexacom minority (30% minority)            | 39           | 34           | 42           |
| Homes  | 99           | 81           | 118          |
| <b>India wireless + homes attributable value</b> | <b>1,790</b> | <b>1,463</b> | <b>2,140</b> |
| DTH  | 16           | 13           | 19           |
| Enterprise                                       | 158          | 142          | 173          |
| <b>Indus Towers attributable value</b>           | <b>63</b>    | <b>55</b>    | <b>77</b>    |
| Other investments                                | 24           | 24           | 69           |
| <b>India business enterprise value</b>           | <b>2,051</b> | <b>1,697</b> | <b>2,478</b> |
| India business net debt                          | 203          | 211          | 174          |
| Network I2I perps                                | 21           | 21           | 21           |
| <b>India business equity value (a)</b>           | <b>1,827</b> | <b>1,466</b> | <b>2,284</b> |
| <b>International business (INR/share)</b>        |              |              |              |
| <b>Airtel Africa attributable value</b>          | <b>31</b>    | <b>28</b>    | <b>45</b>    |
| Robi Axiata + Dialog SL attributable value       | 3            | 3            | 3            |
| <b>International business equity value (b)</b>   | <b>34</b>    | <b>31</b>    | <b>48</b>    |
| <b>Dividends (c)</b>                             | <b>39</b>    | <b>31</b>    | <b>48</b>    |
| <b>Bharti Airtel TP (d) = (a) + (b) + (c)</b>    | <b>1,900</b> | <b>1,525</b> | <b>2,400</b> |
| Upside/downside skew                             | 16           | -7           | 46           |

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

Motilal Oswal research is available on [www.motilaloswal.com/Institutional-Equities](http://www.motilaloswal.com/Institutional-Equities), Bloomberg, Thomson Reuters, Factset and S&P Capital.



Kindly click on textbox for the detailed news link

1

### TCS signs 15-year deal with Irish govt to manage pensions of 800K workers

Tata Consultancy Services (TCS) said on Tuesday it has won a 15-year contract from Ireland's Department of Social Protection to implement and support the country's new auto enrolment retirement savings scheme known as 'My Future Fund'.

2

### JSW Group, Korea's POSCO announce deal to set up steel plant in India

Sajjan Jindal-led JSW group on Tuesday announced a joint venture (JV) with South Korea's Posco that will collaborate in steel, battery materials, and renewable energy in India

3

### Festive boost: Flipkart records 7.2 billion customer engagement visits

E-commerce firm Flipkart recorded an overall 7.2 billion visits in terms of customer engagement this festive season between September 1 till October 28.

4

### Fortis Healthcare gets CCI nod to acquire stake in Agilus Diagnostics

CCI on Tuesday approved Fortis Healthcare's proposal to acquire an additional 31.52 per cent stake in Agilus Diagnostics.

5

### India's pharma and meditech industry set to double by 2030: Pharma Secretary

Pharma Secretary Arunish Chawla highlighted that this growth is driven by India's expanding CRDMO (Contract Research Development Manufacturing Organisation) ecosystem, which is developing rapidly and is set to contribute significantly to the country's economic and employment landscape.

6

### ZincMoney secures \$25.5 million in seed funding to transform overseas education financing

ZincMoney's vision, described by Founder and CEO Prashanth Ranganathan, is to create a robust financial framework—called "Eduwealth"—to support families in navigating the complex financial needs associated with international education.

7

### SpiceJet clears TDS dues till September

The airline resolved a \$131.85 million dispute with Horizon Aviation 1, Horizon II Aviation 3, and Horizon III Aviation 2 (under Babcock & Brown Aircraft Management) for \$22.5 million.



# Bharti Airtel

|                 |   |
|-----------------|---|
| Estimate change | ↔ |
| TP change       | ↔ |
| Rating change   | ↔ |

**CMP: INR1,637 TP: INR1,900 (+16%) Buy**

## Strong 2Q on tariff hike flow-through

|                       |                |
|-----------------------|----------------|
| Bloomberg             | BHARTI IN      |
| Equity Shares (m)     | 6085           |
| M.Cap.(INRb)/(USD\$)  | 9802.7 / 116.6 |
| 52-Week Range (INR)   | 1779 / 895     |
| 1, 6, 12 Rel. Per (%) | 1/15/51        |
| 12M Avg Val (INR M)   | 8827           |

### Financials & Valuations (INR b)

| Y/E March         | FY24  | FY25E | FY26E |
|-------------------|-------|-------|-------|
| Net Sales         | 1,500 | 1,672 | 1,895 |
| EBITDA            | 783   | 894   | 1,039 |
| Adj. PAT          | 113   | 206   | 275   |
| EBITDA Margin (%) | 52.2  | 53.5  | 54.8  |
| Adj. EPS (INR)    | 19.7  | 35.9  | 45.4  |
| EPS Gr. (%)       | 37    | 83    | 26    |
| BV/Sh. (INR)      | 147   | 160   | 204   |

### Ratios

|                 |      |      |      |
|-----------------|------|------|------|
| Net D:E         | 2.4  | 1.9  | 1.2  |
| RoE (%)         | 14.2 | 24.0 | 27.0 |
| RoCE (%)        | 9.6  | 13.4 | 14.7 |
| Div. Payout (%) | 61.6 | 42.0 | 55.1 |

### Valuations

|                |      |      |      |
|----------------|------|------|------|
| EV/EBITDA (x)  | 14.7 | 12.6 | 10.9 |
| P/E (x)        | 84   | 46   | 36   |
| P/BV (x)       | 11.2 | 10.2 | 8.0  |
| Div. Yield (%) | 0.5  | 0.9  | 1.5  |

### Shareholding pattern (%)

| As On    | Sep-24 | Jun-24 | Sep-23 |
|----------|--------|--------|--------|
| Promoter | 53.1   | 53.2   | 54.8   |
| DII      | 18.8   | 19.3   | 19.8   |
| FII      | 25.2   | 24.7   | 21.9   |
| Others   | 2.9    | 2.9    | 3.5    |

FII Includes depository receipts

- Bharti Airtel (BHARTI) reported a strong 2QFY25, driven by flow-through of tariff hikes in the India wireless business (ARPU: +11% QoQ, vs. 7% QoQ for RJio) and robust incremental margins (~71% vs. 60% for RJio).
- FCF generation (before spectrum prepayments) improved to INR98b as operational cash flows rose and capex moderated further.
- Our FY25-26 earnings estimates are broadly unchanged. We build in FY24-27 CAGR of ~13%/16% in consolidated revenue/EBITDA, driven by more frequent tariff hikes in India wireless business, ramp-up of FWA services and steady growth in B2B and Airtel Africa.
- We continue to like BHARTI's superior execution on the premiumization agenda. Further, with moderation in capex intensity, BHARTI is likely to generate significant FCF (INR330b/INR430b in FY25/FY26), which should lead to significant deleveraging and improvement in shareholder returns.
- We reiterate BUY on Bharti with our SoTP-based TP of INR1,900. We value India wireless and homes business on DCF (implies ~13x FY27 EV/EBITDA), DTH/Enterprise at 6x/10x Dec'26 EBITDA and BHARTI's stake in Indus Towers and Airtel Africa at a 25% discount to our TP/CMP.

## Strong 2Q, market share gains continue in India wireless

- 2QFY25 consolidated revenue at INR415b (+8% QoQ, +12% YoY) was 1% above our estimate, aided by slightly better India wireless (revenue up 11% QoQ), B2B and Africa performance (2% ahead).
- India revenue at INR316b (+9% QoQ, 17% YoY) was ~1% above our estimate on better flow-through of tariff hikes in India wireless (ARPU up 11% QoQ) and better show in B2B.
- Consolidated EBITDA at INR218b (11% QoQ, 12% YoY) was 1% above our estimate, largely supported by better margins in Airtel Africa and slightly better India wireless (~150bp QoQ margin expansion).
- India EBITDA at INR173b (+11% QoQ, +19% YoY) was largely in line with our estimate as slightly better India wireless was offset by weaker B2B.
- Reported consolidated EBITDA margin expanded by ~150bp QoQ to 52.7% (flat YoY), in line with our estimate.
- Consol. capex moderated further by ~4% QoQ to INR77b (-17% YoY, 13% below our est.) on lower capex in India wireless (-18% QoQ, -30% YoY).
- Consol. free cash flow (after leases and interest payments, but excluding INR85b spectrum prepayments) improved further to INR98b (vs. INR68b QoQ), aided by improvement in operational cash flows (INR21b) and favorable working capital changes (INR11b).

### Key highlights from the management commentary

- **Tariff hike flow-through:** The flow-through of recent tariff hikes has been in line with the management's expectations. Further, the SIM consolidation and customer down-trading was lower than initial expectations.
- **Tariff repair:** The management highlighted that even after the recent tariff hikes, the industry's RoCE is sub 7% (BHARTI's ~11%), while the data outgo and ARPU remain at one of the lowest levels globally. In this context, BHARTI has reiterated its stance on the need for further tariff hikes and a change in tariff construct to usage-based plans.
- **Subscriber trends:** BHARTI's 2.9m wireless subs decline in 2QFY25, was milder than the management's expectations. The subscriber trends are normalizing, with positive net adds in Oct'24. Further, the quality of subscriber mix continues to improve with consistent ~0.8m postpaid net adds and rising proportion of data subs in mix.
- **Capex:** The management indicated that capex was lower in 1H due to seasonality and would be higher in 2H. However, it reiterated that FY25 India capex should be lower than FY24 capex (INR334b), driven by a reduction in radio capex. BHARTI will continue to invest in transport network, core, B2B especially in Cloud, Datacenters and Home broadband for FWA ramp-up.
- **Succession plan:** BHARTI has well laid out its succession plan. COO Mr. Shashwat Sharma is set to succeed Mr. Gopal Vittal as Chairman and MD of BHARTI from Jan'26. Mr. Vittal would take up a wider role as Executive Vice Chairman and would drive synergies across the group's footprint, along with ramping up its presence in digital and financial services.

### Valuation and view

- Our FY25/FY26 earnings estimates are broadly unchanged. We continue to build the next tariff hike in Dec'25 (~15% or INR50/month on base pack) and ~6% ARPU CAGR over FY27-34, in our base case.
- We build in a CAGR of 13%/16% in consolidated revenue/EBITDA over FY24-FY27, driven mainly by a ~13% ARPU CAGR in India wireless business, ramp-up in fixed wireless access in Homes, steady growth in B2B and Africa businesses.
- We continue to like BHARTI's superior execution on the premiumization agenda. Further, with a moderation in capex intensity, BHARTI is likely to generate significant FCF (INR330b/INR430b in FY25/FY26), which should lead to significant deleveraging and improvement in shareholder returns. **We reiterate BUY on BHARTI with our SoTP-based TP of INR1,900.** We value India wireless and homes business on DCF (implies ~13x FY27 EV/EBITDA), DTH/Enterprise at 6x/10x Dec'26 EBITDA and BHARTI's stake in Indus Towers and Airtel Africa at a 25% discount to our TP/CMP

**Consolidated - Quarterly Earnings Model**

(INR b)

| Y/E March                             | FY24       |            |            |            | FY25E      |            |            |            | FY24         | FY25E        | FY25E<br>2QE | Est<br>Var (%) |
|---------------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|--------------|--------------|--------------|----------------|
|                                       | 1Q         | 2Q         | 3Q         | 4Q         | 1Q         | 2Q         | 3Q         | 4Q         |              |              |              |                |
| <b>Revenue</b>                        | <b>374</b> | <b>370</b> | <b>379</b> | <b>376</b> | <b>385</b> | <b>415</b> | <b>434</b> | <b>438</b> | <b>1,500</b> | <b>1,672</b> | <b>410</b>   | 1.0            |
| YoY Change (%)                        | 14.1       | 7.3        | 5.9        | 4.4        | 2.8        | 12.0       | 14.6       | 16.6       | 7.8          | 11.5         | 10.8         |                |
| Total Expenditure                     | 178        | 175        | 181        | 182        | 188        | 196        | 197        | 197        | 717          | 778          | 194          | 1.2            |
| <b>EBITDA</b>                         | <b>196</b> | <b>195</b> | <b>198</b> | <b>194</b> | <b>197</b> | <b>218</b> | <b>238</b> | <b>241</b> | <b>783</b>   | <b>894</b>   | <b>216</b>   | 0.9            |
| YoY Change (%)                        | 18.6       | 10.9       | 7.4        | 3.6        | 0.6        | 12.0       | 20.0       | 24.4       | 9.8          | 14.2         | 10.9         | 9              |
| Depreciation                          | 97         | 97         | 101        | 101        | 105        | 110        | 113        | 113        | 395          | 441          | 108          | 1.4            |
| Net Finance cost                      | 56         | 52         | 66         | 52         | 52         | 54         | 55         | 55         | 226          | 216          | 52           | 4.2            |
| Other Income                          | 9          | 9          | 11         | 11         | 13         | 13         | 15         | 17         | 41           | 58           | 12           | 7.7            |
| <b>PBT before EO expense</b>          | <b>53</b>  | <b>55</b>  | <b>42</b>  | <b>52</b>  | <b>53</b>  | <b>68</b>  | <b>85</b>  | <b>90</b>  | <b>203</b>   | <b>295</b>   | <b>68</b>    | -1.1           |
| Extra-Ord expense                     | 34         | 16         | 1          | 25         | -7         | 9          | 0          | 0          | 76           | 1            | 0            |                |
| <b>PBT</b>                            | <b>19</b>  | <b>39</b>  | <b>41</b>  | <b>28</b>  | <b>60</b>  | <b>59</b>  | <b>85</b>  | <b>90</b>  | <b>127</b>   | <b>294</b>   | <b>68</b>    | -13.6          |
| Tax                                   | 3          | 18         | 12         | 7          | 13         | 17         | 18         | 20         | 41           | 69           | 18           | -2.2           |
| Rate (%)                              | 18.0       | 46.9       | 30.0       | 25.6       | 21.7       | 29.6       | 21.6       | 22.7       | 32.5         | 23.5         | 26.1         |                |
| Minority Interest & P/L of Asso. Cos. | -1         | 8          | 4          | 0          | 6          | 6          | 4          | 5          | 11           | 19           | 6            |                |
| <b>Reported PAT</b>                   | <b>16</b>  | <b>13</b>  | <b>24</b>  | <b>21</b>  | <b>42</b>  | <b>36</b>  | <b>63</b>  | <b>65</b>  | <b>75</b>    | <b>205</b>   | <b>45</b>    | -19.4          |
| <b>Adj PAT</b>                        | <b>29</b>  | <b>30</b>  | <b>25</b>  | <b>30</b>  | <b>29</b>  | <b>39</b>  | <b>63</b>  | <b>65</b>  | <b>113</b>   | <b>196</b>   | <b>45</b>    | -12.3          |
| YoY Change (%)                        | 91.3       | 44.2       | 25.0       | 13.9       | 0.8        | 32.2       | 152.6      | 119.8      | 38.6         | 73.6         | 50.7         |                |

E: MOFSL Estimates



# Maruti Suzuki

|                 |   |
|-----------------|---|
| Estimate change | ↓ |
| TP change       | ↓ |
| Rating change   | ↔ |

**CMP: INR11,048      TP: INR13,875 (+26%)      Buy**

## Higher discounts impact operating performance

### Sustained demand revival remains the key

- Maruti Suzuki India (MSIL)'s 2QFY25 margin was below our estimates, largely due to higher discounts. MSIL is expected to experience a 14% YoY growth starting from Shraddh till the end of the festive period. This is the first sign of demand revival in MSIL during this fiscal. Despite this, Apr-Oct retail growth remains at 3.9% YoY.
- We have lowered our FY25E/FY26E EPS estimates by 6%/9% to account for lower volumes and higher discounts. For FY26, we see multiple launch tailwinds for MSIL, which are likely to include: 1) EV launch, for India and exports; 2) hybrid variants expected; 3) one more SUV expected following the recent correction. The stock is attractively valued at 25x/22x FY25E/FY26E consolidated EPS. **Reiterate BUY with a revised TP of INR13,875 (premised on 26x Sep'26E EPS).**

### Operating margin below estimates on higher discounts

- Revenue remained flat YoY to ~INR372b (in-line) while EBITDA declined 8% YoY to INR44.2b (est. INR45.9b). Adj. PAT grew 5% YoY to INR39.1b (est. INR37b) in 2QFY25. 1HFY25 revenue/ EBITDA/ adj. PAT grew 5%/15%/22% YoY. 2HFY25 revenues/EBITDA/adj. PAT are expected to decline 2%/9%/10.5% YoY.
- Net realizations grew 2% YoY to INR687k/unit (est INR688k/unit) due to higher UVs in the overall mix and favorable FX. Volumes declined 2% YoY.
- Gross margins contracted 130bp YoY (-170bp QoQ) to 28.1% (est 29.1%).
- EBITDA margins came at 11.9% (-100bps YoY; est.12.3%). Margins were impacted by higher sales promotion (avg discount increased to INR 29,300/unit from INR 21,700/unit QoQ, +80bp impact) and higher input costs (+50bp impact). This was partially offset by the operating leverage benefit QoQ (~40bp).
- EBIT margins declined 90bp YoY to 9.9% (est 10.3%).
- Other income was higher than expected at INR14.7b (est of INR 9.8b).
- There was an extraordinary deferred tax expense of INR8.4b due to a change in the indexation benefit on LTCG of debt mutual funds.
- Adj. PAT came at INR39.1b (est INR37b), up 5% YoY.
- 1HFY25 cash inflow was INR17.45b (INR53.1b in 1HFY24)

### Highlights from the management commentary

- **Festival retail sales:** Management has indicated that during the period of Shraddha to the festive end, MSIL is likely to experience 14% YoY growth in retail.
- **Demand outlook:** Management has also indicated that it has grown 3.9% YoY in Apr-Oct'24 (vs. flat growth in H1). Considering this, the management is hopeful to witness 3-4% growth in retail for FY25E.
- The management has also indicated that by the end of this festive season, its network inventory is expected to reduce to around one month.
- The management expects commodity costs to remain stable in Q3.

|                       |               |
|-----------------------|---------------|
| Bloomberg             | MSIL IN       |
| Equity Shares (m)     | 314           |
| M.Cap.(INRb)/(USD\$)  | 3472.9 / 41.3 |
| 52-Week Range (INR)   | 13680 / 9738  |
| 1, 6, 12 Rel. Per (%) | -12/-21/-24   |
| 12M Avg Val (INR M)   | 6874          |

### Financials & valuations (INR b)

| Y/E MARCH    | 2024  | 2025E | 2026E |
|--------------|-------|-------|-------|
| Sales        | 1,409 | 1,428 | 1,577 |
| EBITDA       | 164   | 168   | 192   |
| Adj. PAT     | 132   | 136   | 156   |
| EPS (INR)*   | 429   | 445   | 501   |
| EPS Gr. (%)  | 56.8  | 3.6   | 12.6  |
| BV/Sh. (INR) | 2,671 | 2,959 | 3,310 |

### Ratios

|            |      |      |      |
|------------|------|------|------|
| RoE (%)    | 15.7 | 14.0 | 15.0 |
| RoCE (%)   | 20.5 | 19.5 | 19.8 |
| Payout (%) | 29.1 | 32.6 | 33.0 |

### Valuations

|                |      |      |      |
|----------------|------|------|------|
| P/E (x)        | 25.8 | 24.8 | 22.1 |
| P/BV (x)       | 4.7  | 4.2  | 3.8  |
| EV/EBITDA (x)  | 19.8 | 19.1 | 16.3 |
| Div. Yield (%) | 1.0  | 1.2  | 1.3  |

\*Cons. Adj.

### Shareholding pattern (%)

| As On    | Sep-24 | Jun-24 | Sep-23 |
|----------|--------|--------|--------|
| Promoter | 58.2   | 58.2   | 56.5   |
| DII      | 20.9   | 19.5   | 18.3   |
| FII      | 17.7   | 19.0   | 21.8   |
| Others   | 3.2    | 3.3    | 3.4    |

FII includes depository receipts



**Valuation and view**

- We have reduced our FY25E/FY26E EPS estimates. For FY26, we see multiple launch tailwinds for MSIL, which are likely to include: 1) EV launch, for India and exports; 2) hybrid variants expected; 3) one more SUV expected. While the bulk of input cost benefits are likely to be over, we expect MSIL to post a 90bp margin improvement to ~12.5% in FY27E, largely led by an improved mix. This would, in turn, drive a steady 10% earnings CAGR over FY24-27.
- Further, any favorable policy for hybrids by the government may drive a re-rating, as MSIL would be the key beneficiary of the same. Following the recent correction, the stock is attractively valued at 25x/22x FY25E/FY26E consolidated EPS. **Reiterate BUY with a revised TP of INR13,875 (premised on 26x Sep'26E EPS).**

**S/A Quarterly Performance**

| Y/E March                     | FY24         |              |              |              | FY25E        |              |              |              | FY24         | FY25E        | (INR b)     |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|-------------|
|                               | 1Q           | 2Q           | 3Q           | 4Q           | 1Q           | 2Q           | 3QE          | 4QE          |              |              | 2Q          |
| <b>Financial Performance</b>  |              |              |              |              |              |              |              |              |              |              |             |
| Volumes ('000 units)          | 498.0        | 552.1        | 501.2        | 583.7        | 521.9        | 541.6        | 491.2        | 530.3        | 2,134.9      | 2,084.9      | 541.6       |
| Change (%)                    | 6.4          | 6.7          | 7.6          | 13.3         | 4.8          | -1.9         | -2.0         | -9.1         | 8.6          | -2.3         | -1.9        |
| ASP (INR '000/car)            | 649.1        | 671.3        | 664.6        | 655.1        | 680.9        | 687.0        | 680.1        | 690.8        | 660.1        | 684.8        | 687.7       |
| Change (%)                    | 14.6         | 16.1         | 6.6          | 5.3          | 4.9          | 2.3          | 2.3          | 5.4          | 10.4         | 3.7          | 2.4         |
| <b>Net operating revenues</b> | <b>323.3</b> | <b>370.6</b> | <b>333.1</b> | <b>382.3</b> | <b>355.3</b> | <b>372.0</b> | <b>334.1</b> | <b>366.3</b> | <b>1,409</b> | <b>1,428</b> | 372         |
| Change (%)                    | 22.0         | 23.8         | 14.7         | 19.3         | 9.9          | 0.4          | 0.3          | -4.2         | 19.9         | 1.3          | 0.5         |
| RM Cost (% of sales)          | 72.8         | 70.6         | 70.9         | 71.4         | 70.2         | 71.9         | 71.9         | 71.8         | 71.4         | 71.4         | 70.9        |
| Staff Cost (% of sales)       | 4.5          | 3.5          | 4.0          | 3.6          | 4.4          | 3.9          | 4.2          | 4.0          | 3.9          | 4.1          | 3.8         |
| Other Cost (% of sales)       | 13.5         | 12.9         | 13.3         | 12.8         | 12.8         | 12.3         | 12.8         | 12.8         | 13.1         | 12.7         | 13.0        |
| <b>EBITDA</b>                 | <b>29.8</b>  | <b>47.8</b>  | <b>39.1</b>  | <b>46.9</b>  | <b>45.0</b>  | <b>44.2</b>  | <b>36.9</b>  | <b>41.5</b>  | <b>164</b>   | <b>168</b>   | <b>45.9</b> |
| EBITDA Margins (%)            | 9.2          | 12.9         | 11.7         | 12.3         | 12.7         | 11.9         | 11.1         | 11.3         | 11.6         | 11.7         | 12.3        |
| Depreciation                  | 7.5          | 7.9          | 7.5          | 7.3          | 7.3          | 7.5          | 7.7          | 7.8          | 30.2         | 30.3         | 8           |
| <b>EBIT</b>                   | <b>22.4</b>  | <b>39.9</b>  | <b>31.6</b>  | <b>39.6</b>  | <b>37.7</b>  | <b>36.7</b>  | <b>29.2</b>  | <b>33.7</b>  | <b>134</b>   | <b>137</b>   | <b>38</b>   |
| EBIT Margins (%)              | 6.9          | 10.8         | 9.5          | 10.3         | 10.6         | 9.9          | 8.7          | 9.2          | 9.5          | 9.6          | 10.3        |
| Interest                      | 0.5          | 0.4          | 0.4          | 0.8          | 0.6          | 0.4          | 0.5          | 0.5          | 1.9          | 1.9          | 0.5         |
| Non-Operating Income          | 10.0         | 8.4          | 9.3          | 11.2         | 9.8          | 14.8         | 9.5          | 9.9          | 38.5         | 43.9         | 9.8         |
| <b>PBT</b>                    | <b>31.9</b>  | <b>48.0</b>  | <b>40.5</b>  | <b>50.0</b>  | <b>46.9</b>  | <b>42.6</b>  | <b>38.3</b>  | <b>43.2</b>  | <b>170.4</b> | <b>179.3</b> | <b>47.7</b> |
| Effective Tax Rate (%)        | 22.1         | 22.6         | 22.8         | 22.4         | 22.2         | 28.0         | 22.9         | 23.0         | 22.5         | 22.9         | 22.5        |
| <b>Adjusted PAT</b>           | <b>24.9</b>  | <b>37.2</b>  | <b>31.3</b>  | <b>38.8</b>  | <b>36.5</b>  | <b>39.1</b>  | <b>29.5</b>  | <b>33.2</b>  | <b>132.1</b> | <b>138.3</b> | <b>37.0</b> |
| Change (%)                    | 145.4        | 80.3         | 33.1         | 47.8         | 46.9         | 5.1          | -5.7         | -14.3        | 64.1         | 4.7          | -0.5        |

**Key Performance Indicators**

| Y/E March                 | FY24  |       |       |       | FY25  |       |       |       | FY24    | FY25E   | 2QE   |
|---------------------------|-------|-------|-------|-------|-------|-------|-------|-------|---------|---------|-------|
|                           | 1Q    | 2Q    | 3Q    | 4Q    | 1Q    | 2Q    | 3QE   | 4QE   |         |         |       |
| Dom. PV Market Sh (%)     | 42.8  | 44.1  | 41.6  | 43.7  | 43.2  | 43.2  |       |       | 43.1    | 4.1     |       |
| Volumes ('000 units)      | 498.0 | 552.1 | 501.2 | 583.7 | 521.9 | 541.6 | 491.2 | 530.3 | 2,134.9 | 2,084.9 | 541.6 |
| Change (%)                | 6.4   | 6.7   | 7.6   | 13.3  | 4.8   | -1.9  | -2.0  | -9.1  | 8.6     | -2.3    | -1.9  |
| Discounts (INR '000/unit) | 16.2  | 17.7  | 23.3  | 14.5  | 21.7  | 29.3  |       |       | 18.0    | 19.7    |       |
| % of Net Realn            | 2.5   | 2.6   | 3.5   | 2.2   | 3.2   | 4.3   |       |       | 2.7     | 2.9     |       |
| ASPs (INR '000/unit)      | 649.1 | 671.3 | 664.6 | 655.1 | 680.9 | 687.0 | 680.1 | 690.8 | 660.1   | 684.8   | 687.7 |
| Change (%)                | 14.6  | 16.1  | 6.6   | 5.3   | 4.9   | 2.3   | 2.3   | 5.4   | 10.4    | 3.7     | 2.4   |
| Gross Profit (INR/unit)   | 176.6 | 197.3 | 193.4 | 187.6 | 203.1 | 193.1 | 191.1 | 194.7 | 188.9   | 195.5   | 200.1 |
| EBITDA (INR '000/unit)    | 59.9  | 86.7  | 78.0  | 80.3  | 86.3  | 81.6  | 75.2  | 78.2  | 76.8    | 80.4    | 84.8  |
| EBIT (INR '000/unit)      | 44.9  | 72.3  | 63.0  | 67.8  | 72.3  | 67.7  | 59.5  | 63.6  | 62.7    | 65.9    | 70.9  |



# Adani Ports & SEZ

|                 |   |
|-----------------|---|
| Estimate change | ↔ |
| TP change       | ↓ |
| Rating change   | ↔ |

**CMP: INR1,373      TP: INR1,780 (+30%)      Buy**

|                       |               |
|-----------------------|---------------|
| Bloomberg             | ADSEZ IN      |
| Equity Shares (m)     | 2160          |
| M.Cap.(INRb)/(USDb)   | 2965.2 / 35.3 |
| 52-Week Range (INR)   | 1621 / 767    |
| 1, 6, 12 Rel. Per (%) | 1/-4/47       |
| 12M Avg Val (INR M)   | 6368          |

### Financial Snapshot (INR b)

| Y/E MARCH         | 2025E | 2026E | 2027E |
|-------------------|-------|-------|-------|
| Sales             | 306.0 | 347.9 | 402.9 |
| EBITDA            | 181.3 | 209.5 | 242.6 |
| Adj. PAT          | 109.7 | 130.8 | 156.0 |
| EBITDA Margin (%) | 59.2  | 60.2  | 60.2  |
| Adj. EPS (INR)    | 50.8  | 60.5  | 72.2  |
| EPS Gr. (%)       | 23.0  | 19.2  | 19.3  |
| BV/Sh. (INR)      | 290.0 | 341.5 | 402.9 |

### Ratios

|            |      |      |      |
|------------|------|------|------|
| Net D:E    | 0.6  | 0.5  | 0.3  |
| RoE (%)    | 19.0 | 19.2 | 19.4 |
| RoCE (%)   | 12.3 | 13.0 | 13.8 |
| Payout (%) | 15.6 | 13.1 | 11.0 |

### Valuations

|                |      |      |      |
|----------------|------|------|------|
| P/E (x)        | 27.1 | 22.7 | 19.0 |
| P/BV (x)       | 4.7  | 4.0  | 3.4  |
| EV/EBITDA(x)   | 18.3 | 15.8 | 13.4 |
| Div. Yield (%) | 0.6  | 0.6  | 0.6  |
| FCF Yield (%)  | 2.5  | 2.7  | 3.6  |

### Shareholding pattern (%)

| As On    | Sep-24 | Jun-24 | Sep-23 |
|----------|--------|--------|--------|
| Promoter | 65.9   | 65.9   | 65.5   |
| DII      | 13.3   | 12.5   | 13.3   |
| FII      | 15.2   | 15.2   | 13.8   |
| Others   | 5.6    | 6.4    | 7.4    |

FII Includes depository receipts

## In-line performance; outlook remains bright

- Adani Ports & SEZ (APSEZ) reported a revenue growth of 6% YoY to INR70.7b in 2QFY25 (in line). Cargo volumes grew 10% YoY to 111mmt. The growth was primarily driven by containers (+19% YoY). In 1HFY25, APSEZ managed ~27% of the country's total cargo and ~45% of container cargo. EBITDA margin came in at 61.8% (est. 59%), up 90bp YoY/240bp QoQ. EBITDA grew 13% YoY to INR43.7b (in line).
- APAT rose 11% YoY to INR24.6b (in line). During 2QFY25, port revenue grew 12% YoY to INR56.4b. Port's EBITDA margin was 72% in 2QFY25 (flat YoY)
- Logistics revenues grew 22% YoY to INR5.9b. EBITDA margin in the Logistics business stood at 27% in 2QFY25 (30% in 2QFY24).
- Mundra recorded a volume of 50 MMT (+12% YoY) during 2QFY25. The share of non-Mundra domestic ports stood at 50% in 2QFY25. During 1HFY25, cargo volume grew 9% YoY to 220 MMT.
- During 1HFY25, revenue was INR140b (+9% YoY), EBITDA was INR86.1b (+13% YoY), EBITDA margin came in at 61.4%, and APAT was INR51b (+19% YoY). During 2HFY25, revenue, EBITDA, and PAT are expected to grow 20%, 16%, and 26% YoY, respectively.
- The 2Q performance was in line with our estimates. APSEZ is expected to record 1.5-2.0x of India's cargo volume growth, driven by market share gains and increased capacity. Further, the logistics business will serve as a value addition to the domestic port business, with a focus on enhancing last-mile connectivity. We largely retain our estimates for FY25/FY26/FY27. We expect APSEZ to report 10% growth in cargo volumes over FY24-27. This would drive a CAGR of 15%/15%/21% in revenue/ EBITDA/PAT over FY24-27. **We reiterate our BUY rating with a revised TP of INR1,780 (premised on 18x on Sep-26 EV/EBITDA).**

## In-line performance led by strong growth in container cargo; volumes jump ~2x of industry in 1HFY25

- During the quarter, APSEZ clocked cargo volume of 111mmt (up 10% YoY), primarily driven by containers (up 19% YoY). In 2QFY25, APSEZ managed ~27% of the country's total cargo and ~45% of container cargo.
- Mundra recorded quarterly volume of 50mmt (up 12% YoY), and EBITDA margin stood at 70% (vs. 65% in 1QFY24).
- The net debt-to-EBITDA ratio improved to 2x from 2.1x in Sep'24 despite a capex of INR40b in 1HFY25.
- APSEZ completed the Gopalpur Port acquisition and acquired an 80% stake in Astro Offshore, adding 26 offshore support vessels. Gopalpur Port will start contributing from 2HFY25.

## Last-mile connectivity to bolster growth in the logistics business

- In 2QFY25, Adani Logistics (ALL) posted ~22% YoY growth in revenue and an EBITDA margin of 27% (30% in 2QFY24).



- Rake count has risen to 132 (with 68 for Container, 54 for GPWIS, 7 for Agri, and 3 for AFTO) from 127 at the end of FY24.
- ALL expanded its services to cover container train operations, container handling in logistic parks, and warehouses offering storage and trucking solutions. With 12 multi-modal logistics parks, 132 trains, 3.1m sq. ft. of warehousing space, and 1.2mmt of grain silos, ALL aims to establish a nationwide presence by further developing logistic parks and warehouses.

#### Highlights from the management commentary

- The proportion of non-Mundra domestic ports in the overall cargo distribution increased to 52% in 1HFY25 from 56% in 1HFY24.
- The company is targeting higher market share in key commodities (e.g., iron ore and fertilizer). India's total port capacity is expected to reach 10,000 MTPA by 2047, from the current 2,500 MTPA.
- APSEZ completed the Gopalpur Port acquisition and acquired an 80% stake in Astro Offshore, adding 26 offshore support vessels. Gopalpur Port will contribute to 2HFY25 volumes.
- Vizhinjam Port will start contributing in Oct'24, with full capacity utilization expected only from FY26 onwards.
- Despite Middle Eastern geopolitical tensions, Haifa Port operates 24/7 with strong cargo volumes.
- As per the management, cargo volumes are expected to range from 460mmt to 480mmt in FY25, with EBITDA projected to be ~INR180b.

#### Valuation and view

- APSEZ continues to gain market share while generating strong cash flows and maintaining its leverage position, with a net debt-to-EBITDA ratio of 2x as of Sep'24.
- **We largely retain our estimates for FY26/27 and expect APSEZ to report 10% growth in cargo volumes over FY24-27. This would drive a CAGR of 15%/15%/21% in revenue/EBITDA/PAT over FY24-27. We reiterate our BUY rating with a revised TP of INR1,780 (premised on 18x Sep-26 EV/EBITDA).**

#### Quarterly Snapshot – Consolidated (INR m)

| Y/E March                    | FY24          |               |               |               | FY25E         |               |               |               | FY24            | FY25E           | FY25          | Var. vs Est |
|------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|-----------------|-----------------|---------------|-------------|
|                              | 1Q            | 2Q            | 3Q            | 4Q            | 1Q            | 2Q            | 3QE           | 4QE           |                 |                 |               |             |
| <b>Net Sales</b>             | <b>62,476</b> | <b>66,464</b> | <b>69,201</b> | <b>68,965</b> | <b>69,563</b> | <b>70,670</b> | <b>78,484</b> | <b>87,291</b> | <b>2,67,106</b> | <b>3,06,007</b> | <b>73,265</b> | <b>-4</b>   |
| YoY Change (%)               | 23.5          | 27.6          | 44.6          | 19.0          | 11.3          | 6.3           | 13.4          | 26.6          | 28.1            | 14.6            | 10.2          |             |
| <b>EBITDA</b>                | <b>37,537</b> | <b>38,805</b> | <b>41,860</b> | <b>40,439</b> | <b>42,445</b> | <b>43,689</b> | <b>45,442</b> | <b>49,721</b> | <b>1,58,639</b> | <b>1,81,296</b> | <b>43,226</b> | <b>1</b>    |
| Margins (%)                  | 60.1          | 58.4          | 60.5          | 58.6          | 61.0          | 61.8          | 57.9          | 57.0          | 59.4            | 59.2            | 59.0          |             |
| Depreciation                 | 9,496         | 9,745         | 9,853         | 9,791         | 10,119        | 10,766        | 10,700        | 10,772        | 38,885          | 42,357          | 10,300        |             |
| Interest                     | 7,061         | 7,153         | 6,864         | 6,766         | 6,554         | 6,886         | 6,700         | 6,534         | 27,844          | 26,674          | 6,600         |             |
| Other Income                 | 3,837         | 3,055         | 5,069         | 3,034         | 4,946         | 3,054         | 4,800         | 5,194         | 14,994          | 17,993          | 4,200         |             |
| <b>PBT before EO expense</b> | <b>24,816</b> | <b>24,962</b> | <b>30,211</b> | <b>26,916</b> | <b>30,718</b> | <b>29,091</b> | <b>32,842</b> | <b>37,608</b> | <b>1,06,905</b> | <b>1,30,259</b> | <b>30,526</b> | <b>-5</b>   |
| Extra-Ord expense            | -844          | 213           | 1,822         | 3,159         | -5,980        | 225           | 0             | 0             | 4,351           | -5,756          | 0             |             |
| <b>PBT</b>                   | <b>25,660</b> | <b>24,749</b> | <b>28,389</b> | <b>23,757</b> | <b>36,698</b> | <b>28,866</b> | <b>32,842</b> | <b>37,608</b> | <b>1,02,554</b> | <b>1,36,014</b> | <b>30,526</b> |             |
| Tax                          | 3,714         | 7,591         | 5,331         | 3,262         | 4,854         | 4,726         | 5,583         | 6,599         | 19,897          | 21,762          | 5,189         |             |
| Rate (%)                     | 14.5          | 30.7          | 18.8          | 13.7          | 13.2          | 16.4          | 17.0          | 17.5          | 19.4            | 16.0            | 17.0          |             |
| MI and Associates            | 799           | -320          | 973           | 99            | 716           | -310          | -250          | -188          | 1,550           | -33             | -250          |             |
| <b>Reported PAT</b>          | <b>21,147</b> | <b>17,479</b> | <b>22,084</b> | <b>20,397</b> | <b>31,128</b> | <b>24,450</b> | <b>27,509</b> | <b>31,198</b> | <b>81,106</b>   | <b>1,14,285</b> | <b>25,587</b> |             |
| <b>Adj PAT</b>               | <b>20,472</b> | <b>22,200</b> | <b>23,542</b> | <b>22,924</b> | <b>26,344</b> | <b>24,629</b> | <b>27,509</b> | <b>31,198</b> | <b>89,138</b>   | <b>1,09,680</b> | <b>25,587</b> | <b>-4</b>   |
| YoY Change (%)               | -2.6          | 15.2          | 51.0          | 11.0          | 28.7          | 10.9          | 16.9          | 36.1          | 16.5            | 23.0            | 15.3          |             |



|                 |   |
|-----------------|---|
| Estimate change | ↓ |
| TP change       | ↓ |
| Rating change   | ↓ |

**CMP: INR1,478 TP: INR1,420 (-4%) Downgrade to Neutral**

**2Q in-line; speed breaker ahead for growth in earnings**

**Downgrade to neutral**

| Bloomberg             | CIPLA IN      |
|-----------------------|---------------|
| Equity Shares (m)     | 808           |
| M.Cap.(INRb)/(USDb)   | 1193.3 / 14.2 |
| 52-Week Range (INR)   | 1702 / 1165   |
| 1, 6, 12 Rel. Per (%) | -5/-3/-3      |
| 12M Avg Val (INR m)   | 2591          |

**Financials & Valuations (INR b)**

| Y/E MARCH            | FY25E | FY26E | FY27E |
|----------------------|-------|-------|-------|
| Sales                | 276.4 | 298.5 | 325.0 |
| EBITDA               | 67.7  | 75.2  | 80.3  |
| Adj. PAT             | 45.9  | 50.6  | 53.4  |
| EBIT Margin (%)      | 20.7  | 21.3  | 20.9  |
| Cons. Adj. EPS (INR) | 56.8  | 62.7  | 66.1  |
| EPS Gr. (%)          | 8.3   | 10.3  | 5.5   |
| BV/Sh. (INR)         | 379.9 | 436.6 | 496.7 |

**Ratios**

|            |      |      |      |
|------------|------|------|------|
| Net D:E    | -0.1 | -0.2 | -0.3 |
| RoE (%)    | 15.0 | 14.4 | 13.3 |
| RoCE (%)   | 16.0 | 15.3 | 14.2 |
| Payout (%) | 10.6 | 9.6  | 9.1  |

**Valuations**

|                |      |      |      |
|----------------|------|------|------|
| P/E (x)        | 26.0 | 23.6 | 22.4 |
| EV/EBITDA (x)  | 16.9 | 14.8 | 13.5 |
| Div. Yield (%) | 0.3  | 0.3  | 0.3  |
| FCF Yield (%)  | 3.6  | 3.1  | 2.9  |
| EV/Sales (x)   | 4.2  | 3.7  | 3.3  |

**Shareholding Pattern (%)**

| As On    | Sep-24 | Jun-24 | Sep-23 |
|----------|--------|--------|--------|
| Promoter | 30.9   | 30.9   | 33.4   |
| DII      | 24.1   | 24.9   | 24.1   |
| FII      | 29.0   | 27.9   | 25.9   |
| Others   | 16.1   | 16.3   | 16.6   |

FII includes depository receipts

- Cipla Ltd (CIPLA)'s 2QFY25 operational performance was in line with expectations. This was the fifth consecutive quarter of slowdown in YoY growth in revenue. The superior performance in SAGA/emerging market was offset by reduced YoY growth in domestic formulation (DF)/US.
- We reduce our earnings estimate by 3%/4%/3% for FY25/FY26/FY27 to factor in: a) lower sales of Lanreotide on production modifications; b) unfavorable seasonality in DF; and c) deferral in potential ANDA approvals.
- North America (NA; 29% of FY24 sales) was one of the key growth drivers in earnings over FY22-24. However, we expect the growth trajectory to moderate for the next 12-15M considering the delay in potential approvals and scope of increased competition in g-Revlimid 4QFY26 onwards. g-Abraxane approval is subject to the classification of the recent USFDA inspection at the Goa site. The company may require 9-12M to address the issues highlighted in 483.
- CIPLA is working on filing g-Advair from its US site. The current product pipeline for FY27 launches has limited visibility to offset the competition's effect on g-Revlimid (our estimate of FY24 g-Revlimid sales to be USD180m; 20% of NA sales). Accordingly, we also lower PE multiple from 25x to 22x, considering a modest 8% earnings CAGR over FY25-FY27. We arrive at a revised TP of INR1,420.
- Considering the subdued growth prospects/valuation at 24x/22x FY26E/FY27E PE factoring the earnings upside, we downgrade to Neutral.

**Segmental mix benefit offset by higher opex on a YoY basis**

- CIPLA's 2QFY25 sales increased 5.6% YoY to INR70.5b (in-line). DF sales (42% of sales) grew 4.7% YoY to INR29.5b. US sales (28% of sales) grew 5.2% YoY to INR19.9b (USD237m, up 3.5% in CC terms). EM/EU sales (11% of sales) grew 9.8% YoY to INR8.1b. SAGA sales grew 7.6% YoY to INR10.7b.
- Gross margin expanded 230bp YoY to 67.6% (our est. 66.9%), led by lower raw material costs. EBITDA margins expanded 80bp YoY to 26.7% (our est 26.4%), as the better gross profit was offset by lower operating leverage. Employee cost/Other cost increase 80bp/90bp YoY as a % of sales.
- EBITDA increased 8.8% YoY to INR18.9bn (in-line).
- PAT grew 10.9% to INR13.0b (our est INR12.3b) due to higher other income and lower interest cost.
- Revenue/EBITDA/PAT grew 5.7%/11.6%/14.3% in 1HFY25. We expect 8.5%/3.5%/2% YoY growth in Sales/EBITDA/PAT for 2HFY25.

**Highlights from the management commentary**

- CIPLA reiterated EBITDA margin to be in the range of 24.5-25.5% for FY25. It posted an EBITDA margin of 26.2% in 1HFY25.
- CIPLA indicated US quarterly sales to moderate to ~USD220m in 3Q due to production modification at its partner's site for Lanreotide.
- Price erosion in the US base business stood at ~10% YoY/ low single digit QoQ 2QFY25.

Quarterly Performance (Consolidated)

(INR b)

| Y/E March                   | FY24        |             |             |             | FY25E       |             |             |             | FY24         | FY25E        | Est. 2QE    | % Var.     |
|-----------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|--------------|-------------|------------|
|                             | 1Q          | 2Q          | 3Q          | 4Q          | 1Q          | 2Q          | 3QE         | 4QE         |              |              |             |            |
| <b>Net Revenues</b>         | <b>63.3</b> | <b>66.8</b> | <b>66.0</b> | <b>61.6</b> | <b>66.9</b> | <b>70.5</b> | <b>71.7</b> | <b>67.3</b> | <b>257.7</b> | <b>276.4</b> | <b>70.3</b> | <b>0.4</b> |
| YoY Change (%)              | 17.7        | 14.6        | 13.7        | 7.4         | 5.8         | 5.6         | 8.6         | 9.1         | 13.3         | 7.3          | 5.2         |            |
| Total Expenditure           | 48.3        | 49.4        | 48.6        | 48.5        | 49.8        | 51.7        | 53.8        | 53.5        | 194.8        | 208.7        | 51.7        |            |
| <b>EBITDA</b>               | <b>14.9</b> | <b>17.3</b> | <b>17.5</b> | <b>13.2</b> | <b>17.2</b> | <b>18.9</b> | <b>17.9</b> | <b>13.8</b> | <b>62.9</b>  | <b>67.7</b>  | <b>18.5</b> | <b>1.7</b> |
| YoY Change (%)              | 30.7        | 24.8        | 24.2        | 12.1        | 14.9        | 8.8         | 2.6         | 4.7         | 23.0         | 7.7          | 7.0         |            |
| Margins (%)                 | 23.6        | 26.0        | 26.5        | 21.4        | 25.6        | 26.7        | 25.0        | 20.5        | 24.4         | 24.5         | 26.4        |            |
| Depreciation                | 2.4         | 2.5         | 2.3         | 2.9         | 2.5         | 2.7         | 2.7         | 2.7         | 10.1         | 10.5         | 2.7         |            |
| <b>EBIT</b>                 | <b>12.5</b> | <b>14.9</b> | <b>15.1</b> | <b>10.3</b> | <b>14.7</b> | <b>16.1</b> | <b>15.2</b> | <b>11.1</b> | <b>52.8</b>  | <b>57.2</b>  | <b>15.9</b> |            |
| YoY Change (%)              | 41.1        | 36.4        | 33.3        | 24.2        | 17.1        | 8.5         | 0.6         | 8.3         | 34.0         | 8.2          | 6.7         |            |
| Margins (%)                 | 19.8        | 22.3        | 22.9        | 16.7        | 21.9        | 22.9        | 21.2        | 16.5        | 20.5         | 20.7         | 22.6        |            |
| Interest                    | 0.2         | 0.3         | 0.3         | 0.2         | 0.2         | 0.2         | 0.1         | 0.0         | 0.9          | 0.4          | 0.1         |            |
| Other Income                | 1.4         | 1.8         | 1.3         | 1.8         | 1.6         | 1.9         | 1.5         | 1.1         | 6.2          | 6.1          | 1.4         |            |
| <b>Profit before Tax</b>    | <b>13.7</b> | <b>16.4</b> | <b>16.1</b> | <b>11.9</b> | <b>16.1</b> | <b>17.9</b> | <b>16.6</b> | <b>12.2</b> | <b>58.2</b>  | <b>62.8</b>  | <b>17.2</b> |            |
| One-time (expense)/income   | 0.0         | -0.4        | -1.4        | 0.7         | 0.0         | 0.0         | 0.0         | 0.0         | -1.1         | 0.0          | 0.0         |            |
| <b>PBT after EO expense</b> | <b>13.7</b> | <b>15.9</b> | <b>14.7</b> | <b>12.6</b> | <b>16.1</b> | <b>17.9</b> | <b>16.6</b> | <b>12.2</b> | <b>57.0</b>  | <b>62.8</b>  | <b>17.2</b> | <b>4.1</b> |
| Tax                         | 3.8         | 4.4         | 4.1         | 3.2         | 4.4         | 4.8         | 4.7         | 3.4         | 15.5         | 17.3         | 4.9         |            |
| Rate (%)                    | 27.5        | 26.8        | 25.1        | 27.3        | 27.0        | 27.0        | 28.5        | 27.5        | 26.6         | 27.5         | 28.5        |            |
| Minority Interest           | 0.0         | 0.2         | 0.1         | 0.0         | 0.0         | 0.0         | 0.0         | -0.4        | 0.3          | -0.3         | 0.0         |            |
| <b>Reported PAT</b>         | <b>10.0</b> | <b>11.3</b> | <b>10.6</b> | <b>9.4</b>  | <b>11.8</b> | <b>13.0</b> | <b>11.8</b> | <b>9.2</b>  | <b>41.2</b>  | <b>45.9</b>  | <b>12.3</b> | <b>5.9</b> |
| <b>Adj PAT</b>              | <b>10.0</b> | <b>11.7</b> | <b>12.0</b> | <b>8.7</b>  | <b>11.8</b> | <b>13.0</b> | <b>11.8</b> | <b>9.2</b>  | <b>42.4</b>  | <b>45.9</b>  | <b>12.3</b> | <b>5.9</b> |
| YoY Change (%)              | 45.1        | 37.7        | 49.4        | 22.7        | 18.3        | 10.9        | -1.1        | 6.1         | 39.0         | 8.3          | 4.8         |            |

E: MOFSL Estimates

Key Performance Indicators (Consolidated)

| Y/E March                | FY24 |       |       |      | FY25E |      |      |       | FY24  | FY25E | Est. 2QE |
|--------------------------|------|-------|-------|------|-------|------|------|-------|-------|-------|----------|
|                          | 1Q   | 2Q    | 3Q    | 4Q   | 1Q    | 2Q   | 3QE  | 4QE   |       |       |          |
| <b>INRm</b>              |      |       |       |      |       |      |      |       |       |       |          |
| Domestic formulation     | 27.7 | 28.2  | 28.6  | 24.2 | 29.0  | 29.5 | 32.4 | 24.9  | 108.7 | 115.7 | 31.6     |
| YoY Change (%)           | 11.6 | 9.8   | 11.5  | 7.0  | 4.5   | 4.7  | 13.2 | 3.0   | 10.1  | 6.5   | 12.0     |
| North America            | 18.2 | 18.9  | 19.2  | 18.8 | 20.9  | 19.9 | 18.3 | 19.2  | 75.0  | 78.2  | 19.8     |
| YoY Change (%)           | 52.0 | 29.5  | 19.8  | 11.8 | 14.5  | 5.2  | -4.7 | 2.5   | 26.9  | 4.3   | 4.7      |
| South Africa             | 7.5  | 9.9   | 8.2   | 7.6  | 7.0   | 10.7 | 9.6  | 9.4   | 30.6  | 36.7  | 7.4      |
| YoY Change (%)           | -5.1 | 13.6  | 19.9  | -8.5 | -7.1  | 7.6  | 18.0 | 24.2  | -3.4  | 20.0  | -25.0    |
| Emerging market          | 7.8  | 7.3   | 7.5   | 8.3  | 8.5   | 8.1  | 8.6  | 8.6   | 30.9  | 33.8  | 8.7      |
| YoY Change (%)           | 8.2  | -3.1  | -2.1  | 5.5  | 9.0   | 9.8  | 15.5 | 4.2   | 1.9   | 9.4   | 18.1     |
| API                      | 1.4  | 1.5   | 1.1   | 1.9  | 1.0   | 1.6  | 1.3  | 1.5   | 5.8   | 5.3   | 1.2      |
| YoY Change (%)           | 0.7  | -15.9 | -26.5 | 41.0 | -27.9 | 8.8  | 18.0 | -21.1 | 2.3   | -8.0  | -20.0    |
| <b>Cost Break-up</b>     |      |       |       |      |       |      |      |       |       |       |          |
| RM Cost (% of Sales)     | 35.3 | 34.6  | 33.6  | 33.3 | 32.8  | 32.4 | 33.4 | 33.9  | 39.6  | 38.4  | 33.1     |
| Staff Cost (% of Sales)  | 16.9 | 16.3  | 16.2  | 17.6 | 17.8  | 17.1 | 16.8 | 17.5  | 17.7  | 17.0  | 16.3     |
| R&D Expenses(% of Sales) | 5.5  | 5.7   | 6.1   | 7.2  | 5.3   | 5.5  | 6.3  | 8.2   | 6.0   | 4.5   | 6.0      |
| Other Cost (% of Sales)  | 18.7 | 17.4  | 17.7  | 20.6 | 18.5  | 18.3 | 18.5 | 20.0  | 19.5  | 17.6  | 18.2     |
| Gross Margins(%)         | 64.7 | 65.4  | 66.4  | 66.7 | 67.2  | 67.6 | 66.6 | 66.1  | 60.4  | 61.6  | 66.9     |
| EBITDA Margins(%)        | 23.6 | 26.0  | 26.5  | 21.4 | 25.6  | 26.7 | 25.0 | 20.5  | 24.4  | 24.5  | 26.4     |
| EBIT Margins(%)          | 19.8 | 22.3  | 22.9  | 16.7 | 21.9  | 22.9 | 21.2 | 16.5  | 20.5  | 20.7  | 22.6     |

E: MOFSL Estimates



# Canara Bank

|                 |   |
|-----------------|---|
| Estimate change | ↔ |
| TP change       | ↓ |
| Rating change   | ↔ |

**CMP: INR104      TP: INR125 (+20%)      Buy**

## NII in line; controlled opex drives earnings beat

### Asset quality improves further

- Canara Bank (CBK) reported 2QFY25 standalone PAT at INR40b (11.3% YoY growth, 6% beat) driven by lower opex.
- NII rose 4.6% YoY to INR93.2b (in line). NIM moderated 4bp QoQ to 2.86% during the quarter.
- Loan book grew 10.3% YoY/4% QoQ to INR9.8t, while deposit growth was modest at 9.3% YoY/0.9% QoQ to INR13.5t. CASA ratio stood at ~31.3% in 2QFY25. Management guided 11% credit growth for FY25.
- On the asset quality front, total slippages moderated to INR23.4b (INR33.4b in 1QFY25). GNPA and NNPA ratios improved 41bp and 25bp QoQ to 3.73% and 0.99%, respectively. PCR stood at 74.1%.
- We broadly retain our projections and estimate CBK to deliver FY26E RoA/RoE of 1.08%/18.9%. **Reiterate BUY with a TP of INR125 (premised on 1.1x FY26E ABV).**

### Deposit growth modest; NIM moderates 4bp QoQ

- CBK reported 2QFY25 standalone PAT at INR40b (11.3% YoY growth, 6% beat) driven by lower opex. In 1HFY25, earnings grew 11% YoY to INR79.2b (2HFY25E at INR83.4b; implying 12% YoY growth).
- NII grew 4.6% YoY to INR93.2b (inline). NIM moderated 4bp QoQ to 2.86%. Other income grew 7.5% YoY to INR49.8b (down 6.4% QoQ; in line). Treasury income stood at INR8.85b vs. INR5.03b in 1QFY25. Total revenue thus grew 5.6% YoY (in line).
- Operating expenses grew 12.2% YoY to INR66.4b (down 3.3% QoQ, 4% lower than MOFSLe). C/I ratio thus moderated 96bp QoQ to 46.5%. PPOp remained flat YoY to INR 76.5b (5% beat).
- Loan book grew 10.3% YoY/4% QoQ, led by the retail segment, which grew 10.7% QoQ. Deposit growth was modest at 9.3% YoY (0.9% QoQ), fueled by CASA deposits. CASA ratio thus increased slightly by 29bp QoQ to ~31.3%.
- GNPA and NNPA ratios improved 41bp and 25bp QoQ to 3.73% and 0.99%, respectively. PCR stood at 74.1%. Total slippages moderated to INR23.4b (INR33.4b in 1QFY25). Credit costs were 0.97% vs. FY25 guidance of 1.1%.
- The total SMA Book increased to 1.48% in 2QFY25 from 1.13% in 1QFY25, due to an increase in the SMA-2 book.

|                       |              |
|-----------------------|--------------|
| Bloomberg             | CBK IN       |
| Equity Shares (m)     | 9071         |
| M.Cap.(INRb)/(USDb)   | 941.2 / 11.2 |
| 52-Week Range (INR)   | 129 / 76     |
| 1, 6, 12 Rel. Per (%) | -2/-24/8     |
| 12M Avg Val (INR M)   | 4186         |

### Financials & Valuations (INR b)

| Y/E March     | FY24  | FY25E | FY26E |
|---------------|-------|-------|-------|
| NII           | 365.7 | 379.8 | 435.0 |
| OP            | 294.1 | 310.2 | 358.9 |
| NP            | 145.5 | 162.6 | 183.6 |
| NIM (%)       | 2.7   | 2.5   | 2.6   |
| EPS (INR)     | 16.0  | 17.9  | 20.2  |
| EPS Gr. (%)   | 37.3  | 11.7  | 12.9  |
| BV/Sh. (INR)  | 90    | 105   | 119   |
| ABV/Sh. (INR) | 80    | 96    | 111   |
| RoA (%)       | 1.0   | 1.0   | 1.1   |
| RoE (%)       | 20.2  | 19.3  | 18.9  |

### Valuations

|           |     |     |     |
|-----------|-----|-----|-----|
| P/E (x)   | 6.4 | 5.7 | 5.0 |
| P/BV (x)  | 1.1 | 1.0 | 0.9 |
| P/ABV (x) | 1.3 | 1.1 | 0.9 |

### Shareholding pattern (%)

| As On    | Sep-24 | Jun-24 | Sep-23 |
|----------|--------|--------|--------|
| Promoter | 62.9   | 62.9   | 62.9   |
| DII      | 11.7   | 11.2   | 14.9   |
| FII      | 11.3   | 11.9   | 10.2   |
| Others   | 14.2   | 14.0   | 11.9   |

### Highlights from the management commentary

- 41% of the book is linked to EBLR, and 48% is linked to MCLR.
- Management guides 11% YoY credit growth for FY25. FY25 credit cost guidance is <1%.
- O/S restructured book was INR140b, of which INR95b were standard asset, and ~INR45b were under NPA.
- The total gold loan book of the bank stood at INR1.65t. The new retail book size of the gold loan product was ~INR280b vs. INR190b in 1QFY25. Avg. yield on this was ~9.15%.
- Slippages break up: INR8b in Agri, INR10b in MSME, and INR5b in Retail.

### Valuation and view

CBK reported an earnings beat led by controlled opex, though NIM moderated 4bp sequentially. Loan growth was led by the retail segment, especially the gold loan book, while deposit growth was modest. The CASA ratio witnessed sequential improvement. There has been an improvement in overall asset quality ratios, with slippages also seeing an improvement. Management expects credit costs to be <1% for FY25. However, SMA book increased due to one central government account (metal sector) and another state government guaranteed account. We broadly retain our numbers and estimate CBK to deliver FY26E RoA/RoE of 1.08%/18.9%.

**Reiterate BUY with a TP of INR125 (premised on 1.1x FY26E ABV).**

### Quarterly performance

(INR b)

|                            | FY24         |              |              |              | FY25E        |              |              |              | FY24         | FY25E        | FY25E<br>2QE | V/S our<br>Est (%) |
|----------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------------|
|                            | 1Q           | 2Q           | 3Q           | 4Q           | 1Q           | 2Q           | 3QE          | 4QE          |              |              |              |                    |
| <b>Net Interest Income</b> | <b>86.7</b>  | <b>89.0</b>  | <b>94.2</b>  | <b>95.8</b>  | <b>91.7</b>  | <b>93.2</b>  | <b>96.3</b>  | <b>98.7</b>  | <b>365.7</b> | <b>379.8</b> | <b>92.0</b>  | <b>1</b>           |
| % Change (Y-o-Y)           | 27.7         | 19.8         | 9.5          | 11.2         | 5.8          | 4.6          | 2.2          | 3.0          | 16.3         | 3.9          | 3.4          |                    |
| Other Income               | 48.2         | 46.3         | 43.0         | 52.2         | 53.2         | 49.8         | 50.1         | 55.6         | 189.7        | 208.6        | 50.1         | (1)                |
| <b>Total Income</b>        | <b>134.8</b> | <b>135.4</b> | <b>137.1</b> | <b>148.0</b> | <b>144.9</b> | <b>143.0</b> | <b>146.3</b> | <b>154.3</b> | <b>555.3</b> | <b>588.4</b> | <b>142.2</b> | <b>1</b>           |
| Operating Expenses         | 58.8         | 59.2         | 69.1         | 74.1         | 68.7         | 66.4         | 69.0         | 74.1         | 261.2        | 278.2        | 69.4         | (4)                |
| <b>Operating Profit</b>    | <b>76.0</b>  | <b>76.2</b>  | <b>68.1</b>  | <b>73.9</b>  | <b>76.2</b>  | <b>76.5</b>  | <b>77.3</b>  | <b>80.2</b>  | <b>294.1</b> | <b>310.2</b> | <b>72.8</b>  | <b>5</b>           |
| % Change (Y-o-Y)           | 15.1         | 10.3         | -2.1         | 1.9          | 0.2          | 0.5          | 13.6         | 8.5          | 6.1          | 5.5          | -4.4         |                    |
| Other Provisions           | 27.2         | 26.1         | 19.0         | 24.8         | 22.8         | 22.5         | 23.1         | 23.8         | 97.1         | 92.2         | 21.8         | 3                  |
| <b>Profit before Tax</b>   | <b>48.9</b>  | <b>50.1</b>  | <b>49.1</b>  | <b>49.1</b>  | <b>53.3</b>  | <b>54.0</b>  | <b>54.3</b>  | <b>56.3</b>  | <b>197.0</b> | <b>218.0</b> | <b>51.0</b>  | <b>6</b>           |
| Tax                        | 13.5         | 14.0         | 12.5         | 11.5         | 14.3         | 13.9         | 13.8         | 13.4         | 51.5         | 55.4         | 13.0         | 7                  |
| <b>Net Profit</b>          | <b>35.3</b>  | <b>36.1</b>  | <b>36.6</b>  | <b>37.6</b>  | <b>39.1</b>  | <b>40.1</b>  | <b>40.4</b>  | <b>43.0</b>  | <b>145.5</b> | <b>162.6</b> | <b>38.0</b>  | <b>6</b>           |
| % Change (Y-o-Y)           | 74.8         | 42.8         | 26.9         | 18.3         | 10.5         | 11.3         | 10.6         | 14.4         | 37.3         | 11.7         | 5.4          |                    |

### Operating Parameters

|                    |        |        |        |        |        |        |        |        |        |        |        |
|--------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Deposit (INR b)    | 11,925 | 12,322 | 12,629 | 13,124 | 13,352 | 13,473 | 14,033 | 14,305 | 13,124 | 14,305 | 13,710 |
| Loan ( INR b)      | 8,551  | 8,923  | 9,206  | 9,316  | 9,464  | 9,840  | 10,120 | 10,360 | 9,316  | 10,360 | 9,765  |
| Deposit Growth (%) | 6.6    | 8.7    | 8.5    | 11.3   | 12.0   | 9.3    | 11.1   | 9.0    | 11.3   | 9.0    | 11.3   |
| Loan Growth (%)    | 14.5   | 13.2   | 12.8   | 12.2   | 10.7   | 10.3   | 9.9    | 11.2   | 12.2   | 11.2   | 9.4    |

### Asset Quality

|               |      |      |      |      |      |      |      |      |      |      |      |
|---------------|------|------|------|------|------|------|------|------|------|------|------|
| Gross NPA (%) | 5.2  | 4.8  | 4.4  | 4.2  | 4.1  | 3.7  | 3.5  | 3.4  | 4.2  | 3.4  | 4.0  |
| Net NPA (%)   | 1.6  | 1.4  | 1.3  | 1.3  | 1.2  | 1.0  | 0.9  | 0.9  | 1.3  | 0.9  | 1.2  |
| PCR (%)       | 70.6 | 71.4 | 70.8 | 70.9 | 71.0 | 74.1 | 74.3 | 74.5 | 70.8 | 74.5 | 71.4 |

E: MOFSL Estimates





|                  |   |
|------------------|---|
| Estimate changes | ↔ |
| TP change        | ↔ |
| Rating change    | ↔ |

**CMP: INR629      TP: INR750 (+19%)      Buy**

**Operationally in line; commentary remains positive**

|                       |             |
|-----------------------|-------------|
| Bloomberg             | MRCO IN     |
| Equity Shares (m)     | 1295        |
| M.Cap.(INRb)/(USDb)   | 814.6 / 9.7 |
| 52-Week Range (INR)   | 720 / 486   |
| 1, 6, 12 Rel. Per (%) | -3/14/-11   |
| 12M Avg Val (INR M)   | 1430        |

**Financials & Valuations (INR b)**

| Y/E March        | 2025E | 2026E | 2027E |
|------------------|-------|-------|-------|
| Sales            | 104.2 | 114.8 | 125.9 |
| Sales Gr. (%)    | 7.9   | 10.2  | 9.7   |
| EBITDA           | 21.9  | 24.5  | 27.0  |
| EBITDA Margin. % | 21.0  | 21.4  | 21.5  |
| Adj. PAT         | 16.4  | 18.3  | 19.6  |
| Adj. EPS (INR)   | 12.7  | 14.1  | 15.2  |
| EPS Gr. (%)      | 10.9  | 11.1  | 7.4   |
| BV/Sh.(INR)      | 30.9  | 32.6  | 34.3  |

**Ratios**

|            |      |      |      |
|------------|------|------|------|
| RoE (%)    | 42.0 | 44.5 | 45.4 |
| RoCE (%)   | 36.1 | 38.0 | 39.1 |
| Payout (%) | 88.0 | 86.4 | 88.9 |

**Valuations**

|                |      |      |      |
|----------------|------|------|------|
| P/E (x)        | 49.4 | 44.5 | 41.4 |
| P/BV (x)       | 20.3 | 19.3 | 18.3 |
| EV/EBITDA (x)  | 36.6 | 32.5 | 29.3 |
| Div. Yield (%) | 1.8  | 2.0  | 2.1  |

**Shareholding pattern (%)**

| As On    | Sep-24 | Jun-24 | Sep-23 |
|----------|--------|--------|--------|
| Promoter | 59.2   | 59.3   | 59.4   |
| DII      | 11.2   | 11.3   | 9.8    |
| FII      | 25.0   | 24.7   | 26.0   |
| Others   | 4.6    | 4.7    | 4.8    |

FII Includes depository receipts

- Marico (MRCO) reported consol. revenue growth of 8% YoY (in line) in 2QFY25. Domestic revenue growth was 8% YoY with 5% volume growth (4% in 1QFY25). International growth was 6% YoY (13% cc growth).
- Parachute coconut oil (PCNO) posted 10%/4% YoY growth in value/volume. The growth was driven by pricing adjustments at the year's start. A ~4% price increase was also implemented at the quarter's end. PCNO gained 110bp market share. VAHO revenue was down 8% YoY, affected by persistent weakness in the mass segment. Saffola oil clocked flattish volume growth, with revenue growing 2% YoY as the pricing cycle turned favorable after two years. Foods sustained strong growth of 28% YoY.
- Gross margin expanded by 30bp YoY to 50.8%. EBITDA margin contracted 50bp YoY to 19.6%. EBITDA grew 5% (in line). We model ~21% EBITDA margin for FY25 and FY26.
- With improving macro indicators, the company expects to sustain healthy growth in 2HFY25. Key initiatives include enhancing profitability for GT partners and expanding direct reach under Project SETU (targeting 1m in FY24 to 1.5m by FY27). The company intends to drive urban and premium portfolios through organized retail and e-commerce, supported by differentiated products, market penetration, and share gains.
- **Reiterate BUY with a TP of INR750 (based on 50x Sep'26E EPS). We believe that MRCO is an impressive play on volume recovery with price growth.**

**Broadly in-line performance; volume up 5% YoY**

- **In-line revenue growth:** Consolidated net sales grew 8% YoY at INR26.6b (est. INR26.6b) in 2QFY25. EBITDA/ PBT/Adj. PAT grew 5%/16%/20% YoY to INR5.2b/INR5.5b/INR4.2b/ (est. INR5.2b/5.0/INR3.7b). Domestic volumes grew 5% YoY (est. 4%).
- **Category performance:** PCNO pack registered 4%/10% volume/value growth. VAHO declined 8% in value terms amid persistent sluggishness and competitive headwinds at the bottom of the pyramid segment. Saffola edible oils registered flat volume growth, with value growth of 2%. The pricing cycle for the brand turned slightly favorable after 8 quarters. Foods delivered 28% value growth, with Saffola Oats clocking mid-teen growth. Premium Personal Care sustained its healthy growth trajectory.
- **International up 13% in CC terms:** International business delivered 13% CC growth led by Bangladesh/MENA/South Africa/Vietnam, which posted 8%/43%/20%/7% CC growth.
- **Stable margin:** Consolidated GM up 30bp YoY to 50.8% (est. 50%, 1QFY25 52.3%). As a percentage of sales, staff costs up 45bp to 8%, A&P was flat at 10.9%, and other expenditure was up 30bp to 12.3%. EBITDA margin contracted 50bp YoY to 19.6% (est. 19.6%). EBITDA grew 5% YoY (est. 5%). Other income was higher than expected at INR420m due to gains from the sale of fixed assets. Excluding this one-off, it increased 10% YoY.

### Highlights from the management commentary

- The quarter observed stable demand trends in India, with rural demand growing at 2x the urban growth. FMCG sector-wide seeing positive pricing YoY as brands raised prices in response to rising commodity costs.
- With encouraging demand trends from 1HFY25, MRCO anticipates a positive growth trajectory for 2HFY25, supported by strong monsoons, increased government rural spending, and the festive season. Despite this, food and retail inflation remains a factor to monitor. The company expects consolidated revenue growth in double digits during 2HFY25.
- MRCO remains focused on driving volume and revenue growth but may experience an EBITDA margin contraction of up to 40-50bp in FY25 due to rising raw material prices.
- MRCO aims to expand its Foods and Premium Personal Care segments aggressively, targeting a 20-25% CAGR for Foods to double FY24 revenues by FY27. The digital-first portfolio is expected to reach an ARR of ~INR6b by FY25 end, with ambitions to double this by FY27, resulting in these segments contributing ~25% of domestic revenue by FY27.

### Valuation and view

- There are no material changes to our FY25/FY26 EPS estimates.
- The improvement in market share gain, accelerated growth in Foods and Premium Personal Care, healthy growth in international business, and the normalization of price should help MRCO deliver much better revenue print in FY25-26.
- To improve its distribution reach, MRCO has also started “Project SETU,” which helps to drive growth in GT through a transformative expansion of its direct reach.
- The company has been sustaining double-digit EBITDA growth, a better scorecard for MRCO (high commodity sensitive). We estimate a 11% EPS CAGR during FY24-27E.
- We value the stock based on **50x Sep’26E EPS to arrive at our TP of INR750. We reiterate our BUY rating on the stock.**

### Quarterly Performance

| Y/E March                  | (INR m)       |               |               |               |               |               |               |               |               |                 |               |       |
|----------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|-----------------|---------------|-------|
|                            | FY24          |               |               |               | FY25E         |               |               |               | FY24          | FY25E           | FY25          | Var.  |
|                            | 1Q            | 2Q            | 3Q            | 4Q            | 1Q            | 2Q            | 3QE           | 4QE           |               |                 | 2QE           | (%)   |
| Domestic volume growth (%) | 3.0           | 3.0           | 2.0           | 3.0           | 4.0           | 5.0           | 5.5           | 6.5           | 2.8           | 5.2             | 4.3           |       |
| <b>Net Sales</b>           | <b>24,770</b> | <b>24,760</b> | <b>24,220</b> | <b>22,780</b> | <b>26,430</b> | <b>26,640</b> | <b>26,512</b> | <b>24,572</b> | <b>96,530</b> | <b>1,04,154</b> | <b>26,575</b> | 0.2%  |
| YoY Change (%)             | -3.2          | -0.8          | -1.9          | 1.7           | 6.7           | 7.6           | 9.5           | 7.9           | -1.1          | 7.9             | 7.3           |       |
| <b>Gross Profit</b>        | <b>12,380</b> | <b>12,500</b> | <b>12,420</b> | <b>11,750</b> | <b>13,810</b> | <b>13,530</b> | <b>13,521</b> | <b>12,570</b> | <b>49,050</b> | <b>53,431</b>   | <b>13,287</b> | 1.8%  |
| Gross margin (%)           | 50.0          | 50.5          | 51.3          | 51.6          | 52.3          | 50.8          | 51.0          | 51.2          | 50.8          | 51.3            | 50.0          |       |
| <b>EBITDA</b>              | <b>5,740</b>  | <b>4,970</b>  | <b>5,130</b>  | <b>4,420</b>  | <b>6,260</b>  | <b>5,220</b>  | <b>5,610</b>  | <b>4,767</b>  | <b>20,260</b> | <b>21,857</b>   | <b>5,208</b>  | 0.2%  |
| Margins (%)                | 23.2          | 20.1          | 21.2          | 19.4          | 23.7          | 19.6          | 21.2          | 19.4          | 21.0          | 21.0            | 19.6          |       |
| YoY Change (%)             | 8.7           | 14.8          | 12.5          | 12.5          | 9.1           | 5.0           | 9.4           | 7.9           | 11.9          | 7.9             | 4.8           |       |
| Depreciation               | 360           | 390           | 420           | 410           | 410           | 410           | 420           | 433           | 1,580         | 1,673           | 450           |       |
| Interest                   | 170           | 200           | 190           | 170           | 170           | 110           | 150           | 155           | 730           | 585             | 170           |       |
| Other Income               | 460           | 380           | 430           | 150           | 370           | 400           | 425           | 355           | 1,420         | 1,550           | 375           |       |
| <b>PBT</b>                 | <b>5,670</b>  | <b>4,760</b>  | <b>4,950</b>  | <b>3,990</b>  | <b>6,050</b>  | <b>5,100</b>  | <b>5,465</b>  | <b>4,534</b>  | <b>19,370</b> | <b>21,149</b>   | <b>4,963</b>  | 2.8%  |
| Tax                        | 1,310         | 1,160         | 1,090         | 790           | 1,310         | 1,190         | 1,257         | 1,096         | 4,350         | 4,853           | 1,142         |       |
| Rate (%)                   | 23.1          | 24.4          | 22.0          | 19.8          | 21.7          | 23.3          | 23.0          | 24.2          | 22.5          | 22.9            | 23.0          |       |
| <b>Adjusted PAT</b>        | <b>4,270</b>  | <b>3,530</b>  | <b>3,830</b>  | <b>3,180</b>  | <b>4,640</b>  | <b>4,132</b>  | <b>4,178</b>  | <b>3,479</b>  | <b>14,810</b> | <b>16,429</b>   | <b>3,752</b>  | 10.1% |
| YoY Change (%)             | 15.1          | 17.3          | 16.8          | 5.3           | 8.7           | 17.1          | 9.1           | 9.4           | 13.7          | 10.9            | 6.3           |       |
| <b>Reported PAT</b>        | <b>4,270</b>  | <b>3,530</b>  | <b>3,830</b>  | <b>3,180</b>  | <b>4,640</b>  | <b>4,230</b>  | <b>4,178</b>  | <b>3,479</b>  | <b>14,810</b> | <b>16,527</b>   | <b>3,752</b>  |       |

E: MOFSL Estimates



# SBI Cards

|                 |   |
|-----------------|---|
| Estimate change | ↓ |
| TP change       | ↓ |
| Rating change   | ↔ |

|                       |             |
|-----------------------|-------------|
| Bloomberg             | SBICARD IN  |
| Equity Shares (m)     | 951         |
| M.Cap.(INRb)/(USDb)   | 651.8 / 7.8 |
| 52-Week Range (INR)   | 817 / 648   |
| 1, 6, 12 Rel. Per (%) | -6/-13/-42  |
| 12M Avg Val (INR M)   | 1376        |

### Financials & Valuations (INR b)

| Y/E MARCH     | FY24 | FY25E  | FY26E |
|---------------|------|--------|-------|
| NII           | 51.5 | 61.9   | 76.4  |
| OP            | 65.2 | 74.6   | 89.4  |
| NP            | 24.1 | 20.4   | 28.6  |
| NIM (%)       | 11.2 | 11.1   | 11.6  |
| EPS (INR)     | 25.4 | 21.5   | 30.1  |
| EPS Gr. (%)   | 6.2  | (15.5) | 40.1  |
| BV/Sh. (INR)  | 127  | 146    | 174   |
| ABV/Sh. (INR) | 123  | 141    | 169   |

### Ratios

|         |      |      |      |
|---------|------|------|------|
| RoA (%) | 4.6  | 3.2  | 3.8  |
| RoE (%) | 22.0 | 15.7 | 18.8 |

### Valuations

|           |      |      |      |
|-----------|------|------|------|
| P/E(X)    | 27.0 | 31.9 | 22.8 |
| P/BV (X)  | 5.4  | 4.7  | 3.9  |
| P/ABV (X) | 5.5  | 4.9  | 4.1  |

### Shareholding Pattern (%)

| As On    | Sep-24 | Jun-24 | Sep-23 |
|----------|--------|--------|--------|
| Promoter | 68.6   | 68.6   | 68.9   |
| DII      | 16.8   | 16.5   | 17.3   |
| FII      | 9.2    | 8.7    | 9.1    |
| Others   | 5.5    | 6.1    | 4.7    |

FII includes depository receipts

**CMP: INR685 TP: INR750 (+9%) Neutral**

## Asset quality pain continues; margins contract further

### Guides for elevated credit cost in the near term

- SBI Cards (SBICARD) reported a sharp miss on PAT (31% miss) at INR4.04b.
- Margins contracted 32bp QoQ to 10.6%. The share of the revolver mix declined marginally to 23%, while the EMI mix stood at 37% (38% in 1QFY25).
- Spends grew 3.4% YoY/6.2% QoQ after a 3.2% QoQ dip in 1Q, as corporate spends saw a mild pick-up while retail continues to be healthy at 24% YoY, 6.3% QoQ.
- Asset quality continues to remain under pressure with the GNAP/NNPA ratio increasing 21bp/8bp QoQ to 3.3%/1.2%. Amidst the festive season at the end of 2Q, the opex increased 10.7% QoQ and is expected to remain elevated going forward. RoA/RoE stood at 2.7%/12.5%.
- We cut our FY25E/FY26E EPS by 22.1%/19.1%, factoring in an elevated credit cost and subdued margins. **Reiterate Neutral with a TP of INR750 (22x Sep'26E EPS).**

### NIMs to recover gradually; cost-ratios to stay elevated

- SBICARD reported a 31% miss on PAT at INR4.04b (down 32% QoQ), as other income was lower and higher opex + provisions hurt profitability. Gross credit cost/ECL came in higher at 9%/3.6% in 2QFY25. 1HFY25 PAT stood at INR9.9b (down 16.5% YoY), while 2HFY25 PAT is expected at INR10.4 (down 14% YoY).
- NII grew 15.8% YoY/ 1.7% QoQ to INR15b (in-line). NIMs contracted 32bp QoQ to 10.6%, while the decline in the T-bill rate is expected to aid margins over the coming quarters. The Revolver mix declined to 23% while the share of EMI also declined to 37%, and that of Transactor inched up to 40%.
- CoF declined marginally by 10bp QoQ to 7.4% amid the decline in the T-bill rate. We expect the CoF to start easing out as and when the rate reversal cycle begins.
- Fee income as a proportion of total income stood steady at 52%. Opex rose amid expenses related to the festive season and is expected to remain elevated in 3Q too. Thus, PPOp declined 7.5% QoQ to INR17.6b (9% miss on MOFSLe). C/I ratio inched up to 53.4% vs. 49% in 1Q.
- Cards-in-force rose 9.5% YoY/2.1% QoQ to 19.6m. New card sourcing stood flat in 2Q, with the open market channel's contribution increasing to 62% on new cards sourcing and 59% on an outstanding basis.
- Spends grew modestly 3.4% YoY/ 6.2% QoQ, while corporate spending, which was laggard, witnessed a pickup and is expected to recover further in 3Q/4Q. Retail spends stood healthy at 24% YoY/6.3% QoQ. Receivables grew 23% YoY/ 5% QoQ.
- GNPA/NNPA ratios increased 21bp/8bp QoQ to 3.27%/1.19%. PCR was broadly stable QoQ at 64.4%, supported by a 50bp QoQ rise in credit cost to 9.0%. Provisioning expenses, thus, increased 63% YoY to INR12b.

### Highlights from the management commentary

- The company anticipates credit costs to peak soon, likely within the next one to two quarters.
- Operating expenses typically peak in Q2 and Q3, particularly due to the festive season.
- Corporate spending in Q3 will see a slight increase, though the primary focus remains on the retail side, targeting more profitable retail expenditures.
- Spending growth is projected at 20-25% YoY, with asset growth anticipated at 17-20% YoY.

### Valuation and view: Reiterate Neutral with a revised TP of INR750

SBICARD reported another weak quarter, characterized by an earnings miss and high asset quality stress alongside a further contraction in margins. Opex too stood elevated amid the festive season related adjustment; however, the higher credit cost continues to dent earnings. Spending growth was modest while corporate spends witnessed a mild uptick in 2Q, expecting the momentum to continue in 3Q and 4Q. The mix of revolvers declined slightly while the management focused on expanding the EMI mix. The margin witnessed a hit due to the festive season; however, the cost of funds is expected to provide some relief as the rate cuts begin. Credit cost further inched up to 9.0% with the management guiding an elevated credit cost for FY25. The reversal in the rate cycle and improvement in the revolver mix are the key triggers, though they appear to be a few quarters away. We further cut our FY25E/FY26E EPS by 22.1%/19.1%, factoring in an elevated credit cost and subdued margins. **Reiterate Neutral with a TP of INR750 (22x Sep'26E EPS).**

### Quarterly performance

(INR b)

|                             | FY24        |             |             |             | FY25E       |              |             |             | FY24         | FY25E        | FY25E V/s our |             |
|-----------------------------|-------------|-------------|-------------|-------------|-------------|--------------|-------------|-------------|--------------|--------------|---------------|-------------|
|                             | 1Q          | 2Q          | 3Q          | 4Q          | 1Q          | 2Q           | 3QE         | 4QE         |              |              | 2QE           | Est         |
| <b>Net Interest Income</b>  | <b>12.3</b> | <b>13.0</b> | <b>13.9</b> | <b>14.1</b> | <b>14.8</b> | <b>15.02</b> | <b>15.6</b> | <b>16.4</b> | <b>51.5</b>  | <b>61.9</b>  | <b>14.9</b>   | <b>1%</b>   |
| % Change (Y-o-Y)            | 14.3        | 16.1        | 21.2        | 21.4        | 19.7        | 15.8         | 12.8        | 16.1        | 17.0         | 20.1         | 14.9          |             |
| Other Income                | 22.4        | 23.2        | 26.6        | 23.4        | 22.4        | 22.7         | 24.6        | 25.6        | 97.4         | 95.2         | 23.2          | -2%         |
| <b>Total Income</b>         | <b>34.8</b> | <b>36.2</b> | <b>40.5</b> | <b>37.5</b> | <b>37.2</b> | <b>37.7</b>  | <b>40.3</b> | <b>42.0</b> | <b>148.9</b> | <b>157.1</b> | <b>38.1</b>   | <b>-1%</b>  |
| Operating Expenses          | 19.6        | 20.7        | 24.3        | 19.2        | 18.2        | 20.1         | 22.6        | 21.6        | 83.7         | 82.5         | 18.8          | 7%          |
| <b>Operating Profit</b>     | <b>15.2</b> | <b>15.5</b> | <b>16.2</b> | <b>18.3</b> | <b>19.0</b> | <b>17.6</b>  | <b>17.7</b> | <b>20.4</b> | <b>65.2</b>  | <b>74.6</b>  | <b>19.4</b>   | <b>-9%</b>  |
| % Change (Y-o-Y)            | 17.3        | 23.9        | 33.1        | 28.2        | 25.4        | 13.3         | 8.9         | 11.1        | 25.6         | 14.4         | 24.8          |             |
| Provisions                  | 7.2         | 7.4         | 8.8         | 9.4         | 11.0        | 12.1         | 11.3        | 12.7        | 32.9         | 47.2         | 11.4          | 6%          |
| <b>Profit before Tax</b>    | <b>8.0</b>  | <b>8.1</b>  | <b>7.4</b>  | <b>8.9</b>  | <b>8.0</b>  | <b>5.5</b>   | <b>6.3</b>  | <b>7.6</b>  | <b>32.3</b>  | <b>27.4</b>  | <b>7.9</b>    | <b>-31%</b> |
| Tax                         | 2.0         | 2.1         | 1.9         | 2.3         | 2.0         | 1.4          | 1.6         | 1.9         | 8.2          | 7.0          | 2.0           | -30%        |
| <b>Net Profit</b>           | <b>5.9</b>  | <b>6.0</b>  | <b>5.5</b>  | <b>6.6</b>  | <b>5.9</b>  | <b>4.0</b>   | <b>4.7</b>  | <b>5.7</b>  | <b>24.1</b>  | <b>20.4</b>  | <b>5.9</b>    | <b>-31%</b> |
| % Change (Y-o-Y)            | -5.4        | 14.7        | 7.8         | 11.0        | 0.2         | -32.9        | -14.4       | -13.7       | 6.6          | -15.2        | -2.2          |             |
| <b>Operating Parameters</b> |             |             |             |             |             |              |             |             |              |              |               |             |
| Loan (INRb)                 | 418.1       | 435.6       | 471.6       | 490.8       | 508.1       | 536.0        | 557.6       | 581.1       | 490.8        | 581.1        | 531.8         |             |
| Loan Growth (%)             | 30.3        | 19.3        | 26.3        | 24.7        | 21.5        | 23.0         | 18.2        | 18.4        | 24.7         | 18.4         | 22.1          |             |
| Borrowings (INRb)           | 329.6       | 340.8       | 380.1       | 398.9       | 408.7       | 432.2        | 451.4       | 469.9       | 398.9        | 469.9        | 433.6         |             |
| Borrowing Growth (%)        | 32.9        | 20.9        | 29.3        | 28.2        | 24.0        | 26.8         | 18.8        | 17.8        | 28.2         | 17.8         | 27            |             |
| <b>Asset Quality</b>        |             |             |             |             |             |              |             |             |              |              |               |             |
| Gross NPA (%)               | 2.4         | 2.4         | 2.6         | 2.8         | 3.1         | 3.3          | 3.4         | 3.4         | 2.8          | 3.4          | 3.5           |             |
| Net NPA (%)                 | 0.9         | 0.9         | 1.0         | 1.0         | 1.1         | 1.2          | 1.2         | 1.2         | 1.0          | 1.2          | 1.2           |             |
| PCR (%)                     | 63.8        | 64.1        | 64.1        | 64.9        | 64.4        | 64.4         | 65.1        | 65.4        | 64.9         | 65.4         | 64.7          |             |

Source: Company, MOFSL



# Hitachi Energy

Estimate changes



TP change



Rating change



**CMP: INR14,254**

**TP: INR13,000 (-9%)**

**Neutral**

## Weak margin dents overall profitability

Hitachi Energy's 2QFY25 result came in below our estimates on account of a miss on margins. The company reported 27% YoY growth in revenue, while a miss on EBITDA margin at 7.1% vs. our estimate of 8.2% led to a sharp miss in PAT. Revenue growth was driven by a strong order book, and order inflows grew 12% YoY to INR19.5b. This was led by strong growth in transmission, industries, data centers, and renewables. We believe that Hitachi Energy will continue to benefit from energy transition initiatives across domestic and international markets. We revise our FY25/FY26/FY27 earnings estimates by -0.4%/+4%/+9% to factor in slightly higher order inflows, particularly from transmission, and higher capex as outlined by the company recently. We reiterate our Neutral rating on the stock with a revised two-year forward TP of INR13,000 (vs. INR12,800 earlier) based on DCF, as the current valuations of 91.8x/61.5x on FY26E/27E factor in most of the positives related to inflow and margin improvement.

### Result below our estimates

Hitachi Energy reported a mixed set of numbers as in-line revenue was offset by a miss on the profitability front. Revenue at INR15.5b grew 27% YoY on healthy execution of the opening order book of INR85.4b. EBITDA margin came at 7.1%, vs. our expectations of 8.2% owing to higher other expenses stemming from higher volumes and shared IT system expenses. The company has maintained its double-digit EBITDA margin guidance by FY25-end. Lower-than-expected margins and lower other income resulted in underperformance at the PAT level vs. our estimates. Order inflow for the quarter stood at INR19.5b, up 12% YoY, and order backlog stood at a record INR89.1b. Operating cash outflow came in at INR838m vs. an inflow of INR546m in 1HFY24 owing to working capital buildup. Capex increased from INR291m in 1HFY24 to INR347m in 1HFY25. For 1HFY25, the company reported revenue/EBITDA/PAT growth of 27%/59%/131% YoY. For 2HFY25, we expect revenue/EBITDA/PAT growth of 32%/70%/87% YoY.

### Order inflows lack large domestic transmission orders

While order inflows at INR19.5b grew 12% YoY with wins from utilities, substation projects, transformers, power quality, et al., as well as healthy growth in service orders, there was a noticeable lack of large, domestic orders on the transmission side, which the company has been talking about for the past few quarters. The company has participated in the bid for the Khavda HVDC project, for which PGCIL has been announced as the L1 bidder. Key order wins include: 1) 400/220kV CTU for petroleum products company, Dahej; 2) 14x 500 MVA 765 kV bulk transformer requirement by national transmission utility; 3) 2X400/33kV AIS s/s & Ebos\_202.5MWp/150MW for solar projects in Fatehgarh & Bhopalgarh; 4) 761 x LOT6500 Main Transformer for 3 Phase Locomotive Engine; and 5) 55X3150 kVA & 2X630 kVA, 33kV ELDS for leading data center and software company.

|                       |              |
|-----------------------|--------------|
| Bloomberg             | POWERIND IN  |
| Equity Shares (m)     | 42           |
| M.Cap.(INRb)/(USD\$b) | 604.1 / 7.2  |
| 52-Week Range (INR)   | 16550 / 4116 |
| 1, 6, 12 Rel. Per (%) | 11/56/207    |
| 12M Avg Val (INR M)   | 718          |

### Financials Snapshot (INR b)

| Y/E MARCH   | FY25E | FY26E | FY27E |
|-------------|-------|-------|-------|
| Net Sales   | 68.2  | 97.0  | 126.6 |
| EBITDA      | 5.8   | 10.8  | 15.5  |
| PAT         | 3.2   | 6.6   | 9.8   |
| EPS (INR)   | 75.2  | 155.5 | 232.3 |
| GR. (%)     | 94.6  | 106.9 | 49.3  |
| BV/Sh (INR) | 395.9 | 551.4 | 783.7 |

### Ratios

|          |      |      |      |
|----------|------|------|------|
| ROE (%)  | 19.0 | 28.2 | 29.6 |
| RoCE (%) | 18.7 | 27.7 | 29.1 |

### Valuations

|               |       |      |      |
|---------------|-------|------|------|
| P/E (X)       | 190.0 | 91.8 | 61.5 |
| P/BV (X)      | 36.1  | 25.9 | 18.2 |
| EV/EBITDA (X) | 103.9 | 55.9 | 38.7 |
| Div Yield (%) | -     | -    | -    |

### Shareholding pattern (%)

| As On    | Sep-24 | Jun-24 | Sep-23 |
|----------|--------|--------|--------|
| Promoter | 75.0   | 75.0   | 75.0   |
| DII      | 9.0    | 8.6    | 8.0    |
| FII      | 5.1    | 5.0    | 4.3    |
| Others   | 10.9   | 11.4   | 12.6   |

FII Includes depository receipts



### Exports and services pickup can support margins going forward

The company has witnessed a healthy share of services in order inflows at 12%, from single-digit levels in recent quarters. Similarly, it has managed to maintain the export share in the 25-30% range through its own initiatives as well as orders from group entities. This augurs well for margin improvement going ahead, as exports and services have a better margin profile compared to product sales. Key export orders during 2QFY25 include a) C&P system, Yanbu-PGGI- Hitachi Energy Sweden, b) 145 kV GIS for REE Red Electrica-26 PGHV-Hitachi Energy Spain, c) Azerbaijan Navahi S/S- 330kV AIS package-PGHV-Prime Azerbaijan, d) 145kV GIS for Electran Data Center-PGHV- Hitachi Energy Spain.

### Addressable market remains strong for the company

Hitachi Energy is poised to benefit from its presence in high-growth segments such as renewable energy, transmission, data centers, e-mobility, railways, battery storage, etc. The recently-unveiled National Electricity Plan envisages investments worth INR9.15t until FY32, where the company can participate through its offerings such as HVDC, STATCOM, GIS, transformers, HV products, grid management solutions, etc. Similarly, there is robust traction in data centers, with capacity slated to reach 2 GW by 2027. Railways capex too offers Hitachi Energy a strong opportunity potential, with investments lined up for expansion of the rail network, Vande Bharat trains, HSR, station upgradation, et al.

### Capacity expansion to take care of future growth

In order to strengthen its market presence as well as cater to increasing demand in export markets, the company has been undertaking capacity expansion in the past few years. Recently, Hitachi Energy announced a capex of INR20b towards expanding its power transformer factory and traction transformer facility, which will help the company penetrate deeper into high-growth areas such as transmission and railways. This investment will be carried out over a period of 4-5 years as part of the Hitachi Energy 2030 strategic growth plan.

### Financial outlook

We raise our order inflow and revenue estimates for FY25/26/27 to factor in the upcoming HVDC wins, while margin estimates remain unchanged at 9.5%/11.1%/12.2%. We also factor in higher capex in line with the capex plan recently shared by the management.

### Valuation and view

The stock is currently trading at 92x/62x P/E on FY26E/27E earnings. **We reiterate our NEUTRAL rating** with a revised two year forward TP of INR13,000 (vs. INR12,800 earlier) based on DCF as current valuations at 91.8x/61.5x on FY26E/27E factor in most positives related to inflow and margin improvement.

Quarterly Earnings Model (Standalone)

(INR m)

| Y/E March              | FY24          |               |               |               | FY25E         |               |               |               | FY24          | FY25E         | FY25E         | Est        |
|------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|------------|
|                        | 1Q            | 2Q            | 3Q            | 4Q            | 1Q            | 2Q            | 3QE           | 4QE           |               |               | 2QE           | Var (%)    |
| <b>Net Sales</b>       | <b>10,401</b> | <b>12,280</b> | <b>12,742</b> | <b>16,953</b> | <b>13,272</b> | <b>15,537</b> | <b>17,047</b> | <b>22,331</b> | <b>52,375</b> | <b>68,188</b> | <b>15,648</b> | <b>-1</b>  |
| Change (%)             | 5.5           | 10.2          | 23.2          | 27.1          | 27.6          | 26.5          | 33.8          | 31.7          | 17.2          | 30.2          | 27.4          |            |
| <b>EBITDA</b>          | <b>337</b>    | <b>653</b>    | <b>680</b>    | <b>1,820</b>  | <b>479</b>    | <b>1,097</b>  | <b>1,568</b>  | <b>2,675</b>  | <b>3,490</b>  | <b>5,820</b>  | <b>1,283</b>  | <b>-14</b> |
| Change (%)             | 31.3          | -13.7         | 72.4          | 91.4          | 42.3          | 68.0          | 130.6         | 47.0          | 47.9          | 66.8          | 96.4          |            |
| As of % Sales          | 3.2           | 5.3           | 5.3           | 10.7          | 3.6           | 7.1           | 9.2           | 12.0          | 6.7           | 8.5           | 8.2           |            |
| Depreciation           | 223           | 225           | 227           | 225           | 221           | 228           | 238           | 290           | 900           | 978           | 233           | -2         |
| Interest               | 110           | 107           | 137           | 112           | 109           | 164           | 145           | 145           | 466           | 563           | 94            | 75         |
| Other Income           | 29            | 2             | 22            | 39            | 1             | 1             | 9             | 24            | 93            | 34            | 29            | -97        |
| <b>PBT</b>             | <b>34</b>     | <b>324</b>    | <b>338</b>    | <b>1,522</b>  | <b>150</b>    | <b>706</b>    | <b>1,194</b>  | <b>2,264</b>  | <b>2,217</b>  | <b>4,314</b>  | <b>985</b>    | <b>-28</b> |
| Tax                    | 10            | 76            | 108           | 385           | 46            | 183           | 312           | 586           | 579           | 1,127         | 257           |            |
| Effective Tax Rate (%) | 28.7          | 23.6          | 32.0          | 25.3          | 30.8          | 25.9          | 26.1          | 25.9          | 26.1          | 26.1          | 26.1          |            |
| Extra-ordinary Items   |               |               |               |               |               |               |               |               |               |               |               |            |
| <b>Reported PAT</b>    | <b>24</b>     | <b>247</b>    | <b>230</b>    | <b>1,137</b>  | <b>104</b>    | <b>523</b>    | <b>882</b>    | <b>1,678</b>  | <b>1,638</b>  | <b>3,187</b>  | <b>728</b>    | <b>-28</b> |
| Change (%)             | 79.9          | -33.3         | 401.5         | 123.7         | 332.4         | 111.4         | 283.9         | 47.6          | 74.4          | 94.6          | 194.2         |            |
| <b>Adj PAT</b>         | <b>24</b>     | <b>247</b>    | <b>230</b>    | <b>1,137</b>  | <b>104</b>    | <b>523</b>    | <b>882</b>    | <b>1,678</b>  | <b>1,638</b>  | <b>3,187</b>  | <b>728</b>    | <b>-28</b> |
| Change (%)             | 79.9          | -33.3         | 402           | 123.7         | 332.4         | 111.4         | 283.9         | 47.6          | 74.4          | 94.6          | 194.2         |            |



# GSK Pharma

|                 |   |
|-----------------|---|
| Estimate change | ↑ |
| TP change       | ↑ |
| Rating change   | ↔ |

**CMP: INR2,630      TP: INR2,800 (+6%)      Neutral**

## Specialty and vaccines drive earnings

### Industry headwinds hurt performance of generic medicines

|                       |             |
|-----------------------|-------------|
| Bloomberg             | GLXO IN     |
| Equity Shares (m)     | 169         |
| M.Cap.(INRb)/(USD\$)  | 445.5 / 5.3 |
| 52-Week Range (INR)   | 3088 / 1385 |
| 1, 6, 12 Rel. Per (%) | 4/16/55     |
| 12M Avg Val (INR M)   | 425         |

- Glaxo Pharma (GLXO) delivered better-than-expected 2QFY25 performance. The robust growth in the specialty and pediatric vaccine segments was offset by headwinds in the generic medicine segment.
- We raise our estimates by 4%/5%/4% for FY25/FY26/FY27 to factor in: 1) new launches in the oncology segment, b) superior show in the specialty segment, and c) better operating leverage. We value GLXO at 46x 12M forward earnings to arrive at our TP of INR2,800.
- In addition to robust traction in brands such as Nucala and Trilegy within the specialty segment, GLXO plans to expand its offerings in the specialty segment. However, industry-level growth hurdles in generic medicines are offsetting some benefits of the specialty segment. Considering 13% earnings CAGR over FY25-27, and expensive valuations of 47x/41x FY26/FY27 earnings, **we reiterate our Neutral rating on the stock.**

### Financials & valuations(INR b)

| Y/E MARCH            | FY25E | FY26E | FY27E |
|----------------------|-------|-------|-------|
| Sales                | 36.7  | 40.3  | 44.6  |
| EBITDA               | 11.0  | 12.3  | 13.8  |
| Adj. PAT             | 8.5   | 9.5   | 10.9  |
| EBIT Margin (%)      | 28.1  | 28.7  | 29.4  |
| Cons. Adj. EPS (INR) | 50.2  | 56.2  | 64.6  |
| EPS Gr. (%)          | 15.9  | 12.1  | 14.9  |
| BV/Sh. (INR)         | 127.8 | 156.4 | 193.4 |

### Ratios

|            |      |      |      |
|------------|------|------|------|
| Net D:E    | -0.5 | -0.6 | -0.6 |
| RoE (%)    | 39.3 | 36.0 | 33.4 |
| RoCE (%)   | 43.2 | 39.6 | 37.0 |
| Payout (%) | 57.6 | 51.4 | 44.7 |

### Valuations

|                |      |      |      |
|----------------|------|------|------|
| P/E (x)        | 52.3 | 46.7 | 40.6 |
| EV/EBITDA (x)  | 30.5 | 26.8 | 23.5 |
| Div. Yield (%) | 0.9  | 0.9  | 0.9  |
| FCF Yield (%)  | 1.2  | 2.7  | 3.0  |
| EV/Sales (x)   | 9.1  | 8.2  | 7.3  |

### Shareholding pattern (%)

| As On    | Sep-24 | Jun-24 | Sep-23 |
|----------|--------|--------|--------|
| Promoter | 75.0   | 75.0   | 75.0   |
| DII      | 7.3    | 7.5    | 10.0   |
| FII      | 4.4    | 4.0    | 2.5    |
| Others   | 13.3   | 13.5   | 12.5   |

FII Includes depository receipts

### Operating leverage offsets segment mix and drives margins YoY/QoQ

- GLXO's revenue grew 5.6% YoY to INR10b (vs. est.: INR9.7b).
- In 2QFY25, GLXO posted 6% YoY volume growth and 1% price decline YoY.
- Gross margin (GM) dipped 100bp YoY at 62%, due to a change in product mix.
- EBITDA margin expanded 160bp YoY to 31.8% (our est: 26.1%) due to lower employee expenses/other costs (down 30bp/230bp YoY as % of sales).
- EBITDA grew 11.1% YoY to INR3.2b (vs. est. of INR3b).
- Adjusted for extraordinary income of INR47m for sale of residential property, PAT grew 13.9% YoY to INR2.5b for the quarter (our est. INR2.3b).
- In 1HFY25, GLXO's volume grew 5.5% YoY, with price hikes of 1.5% YoY.
- For 1HFY25, revenue/EBITDA/PAT grew 6%/27%/29% YoY to INR18b/INR5.5b/INR4.3b. We expect 6%/15%/5% YoY growth in Revenue/EBITDA/PAT in 2HFY25.

### Key highlights from the management commentary

- The company will launch ovarian and endometrial cancer drugs in 2HFY25.
- Management expects that the growth momentum in pediatric vaccines will sustain in 2HFY25 as well, with 13% YoY growth in 1HFY25.
- The growth of acute therapies is slightly suppressed during the quarter.
- GLXO expects that the growth in 3QFY25 in the general medicine category would be higher due to seasonality and delayed monsoon.
- To increase the penetration of adult vaccination, the company is collaborating with private clinics and hospitals.
- During 1HFY25, field force productivity improved 22% YoY.

**Qtr Perf. (Consol.)**

(INRm)

| Y/E March                                | FY24         |              |              |              | FY25E        |               |              |              | FY24          | FY25E         | FY25E<br>2QE | Chg.<br>(%) |
|--|--------------|--------------|--------------|--------------|--------------|---------------|--------------|--------------|---------------|---------------|--------------|-------------|
|  | 1Q           | 2Q           | 3Q           | 4Q           | 1Q           | 2Q            | 3QE          | 4QE          |               |               |              |             |
| <b>Net Sales</b>                         | <b>7,617</b> | <b>9,570</b> | <b>8,053</b> | <b>9,298</b> | <b>8,147</b> | <b>10,107</b> | <b>8,617</b> | <b>9,782</b> | <b>34,537</b> | <b>36,652</b> | <b>9,739</b> | <b>4%</b>   |
| YoY Change (%)                           | 2.2          | 4.4          | 0.4          | 18.1         | 7.0          | 5.6           | 7.0          | 5.2          | 6.2           | 6.1           | 1.8          |             |
| Total Expenditure                        | 6,178        | 6,675        | 5,872        | 6,725        | 5,841        | 6,891         | 6,101        | 6,833        | 25,450        | 25,666        | 6,739        |             |
| <b>EBITDA</b>                            | <b>1,439</b> | <b>2,895</b> | <b>2,181</b> | <b>2,573</b> | <b>2,305</b> | <b>3,216</b>  | <b>2,516</b> | <b>2,949</b> | <b>9,087</b>  | <b>10,987</b> | <b>3,000</b> | <b>7%</b>   |
| YoY Change (%)                           | -3.4         | 12.7         | -4.7         | 51.6         | 60.2         | 11.1          | 15.4         | 14.6         | 13.0          | 20.9          | 3.6          |             |
| Margins (%)                              | 18.9         | 30.3         | 27.1         | 27.7         | 28.3         | 31.8          | 29.2         | 30.1         | 26.3          | 30.0          | 30.8         |             |
| Depreciation                             | 164          | 181          | 171          | 181          | 164          | 169           | 178          | 185          | 697           | 696           | 180          |             |
| <b>EBIT</b>                              | <b>1,276</b> | <b>2,714</b> | <b>2,010</b> | <b>2,392</b> | <b>2,141</b> | <b>3,048</b>  | <b>2,338</b> | <b>2,764</b> | <b>8,390</b>  | <b>10,291</b> | <b>2,820</b> |             |
| YoY Change (%)                           | -4.2         | 12.8         | -5.3         | 56.8         | 67.9         | 12.3          | 16.4         | 15.6         | 13.6          | 22.7          | 3.9          |             |
| Margins (%)                              | 16.7         | 28.4         | 25.0         | 25.7         | 26.3         | 30.2          | 27.1         | 28.3         | 24.3          | 28.1          | 29.0         |             |
| Interest                                 | 3            | 4            | 3            | 8            | 4            | 3             | 3            | 3            | 18            | 12            | 4            |             |
| Other Income                             | 364          | 282          | 281          | 298          | 356          | 345           | 300          | 298          | 1,226         | 1,300         | 310          |             |
| <b>PBT before EO Expense</b>             | <b>1,637</b> | <b>2,992</b> | <b>2,287</b> | <b>2,682</b> | <b>2,494</b> | <b>3,391</b>  | <b>2,635</b> | <b>3,059</b> | <b>9,598</b>  | <b>11,579</b> | <b>3,126</b> |             |
| Tax                                      | 487          | 817          | 197          | 761          | 671          | 913           | 698          | 798          | 2,262         | 3,080         | 813          |             |
| Rate (%)                                 | 29.8         | 27.3         | 8.6          | 28.4         | 26.9         | 26.9          | 26.5         | 26.1         | 22.4          | 26.6          | 26.0         |             |
| <b>Adjusted PAT</b>                      | <b>1,150</b> | <b>2,175</b> | <b>2,090</b> | <b>1,921</b> | <b>1,823</b> | <b>2,477</b>  | <b>1,937</b> | <b>2,261</b> | <b>7,336</b>  | <b>8,499</b>  | <b>2,313</b> | <b>7%</b>   |
| YoY Change (%)                           | -1.1         | 12.5         | 18.8         | 56.1         | 58.6         | 13.9          | -7.3         | 17.7         | 20.5          | 15.9          | 6.3          |             |
| Margins (%)                              | 15.1         | 22.7         | 26.0         | 20.7         | 22.4         | 24.5          | 22.5         | 23.1         | 21.2          | 23.2          | 23.8         |             |
| One-off Expense/(Income)                 | -173         | 0            | 1,633        | -24          | 0            | -47           | 0            | 0            | 1,436         | -47           | 0            |             |
| <b>Reported PAT</b>                      | <b>1,323</b> | <b>2,175</b> | <b>457</b>   | <b>1,945</b> | <b>1,823</b> | <b>2,524</b>  | <b>1,937</b> | <b>2,261</b> | <b>5,900</b>  | <b>8,546</b>  | <b>2,313</b> | <b>9%</b>   |
| <b>Reported PAT incl disc operations</b> | <b>1,323</b> | <b>2,175</b> | <b>457</b>   | <b>1,945</b> | <b>1,823</b> | <b>2,524</b>  | <b>1,937</b> | <b>2,261</b> | <b>5,900</b>  | <b>8,546</b>  | <b>2,313</b> | <b>9%</b>   |

**KPIs (Consolidated)**

| Y/E March               | FY24 |      |      |      | FY25E |      |      |      | FY24 | FY25E | FY25E<br>2QE |
|-------------------------|------|------|------|------|-------|------|------|------|------|-------|--------------|
|                         | 1Q   | 2Q   | 3Q   | 4Q   | 1Q    | 2Q   | 3QE  | 4QE  |      |       |              |
| <b>Cost Break-up</b>    |      |      |      |      |       |      |      |      |      |       |              |
| RM Cost (% of Sales)    | 38.9 | 37.0 | 39.3 | 39.5 | 36.2  | 38.0 | 37.7 | 37.8 | 38.6 | 37.5  | 36.5         |
| Staff Cost (% of Sales) | 21.7 | 15.2 | 17.6 | 18.6 | 18.6  | 14.9 | 17.3 | 15.8 | 18.1 | 16.5  | 16.5         |
| Other Cost (% of Sales) | 20.6 | 17.5 | 16.0 | 14.3 | 16.9  | 15.2 | 15.8 | 16.2 | 17.0 | 16.0  | 16.2         |
| Gross Margin (%)        | 61.1 | 63.0 | 60.7 | 60.5 | 63.8  | 62.0 | 62.3 | 62.2 | 61.4 | 62.5  | 63.5         |
| EBITDA Margin (%)       | 18.9 | 30.3 | 27.1 | 27.7 | 28.3  | 31.8 | 29.2 | 30.1 | 26.3 | 30.0  | 30.8         |
| EBIT Margin (%)         | 16.7 | 28.4 | 25.0 | 25.7 | 26.3  | 30.2 | 27.1 | 28.3 | 24.3 | 28.1  | 29.0         |

E: MOFSL Estimates



# APL Apollo Tubes

|                 |   |
|-----------------|---|
| Estimate change | ↓ |
| TP change       | ↓ |
| Rating change   | ↔ |

**CMP: INR1,510      TP: INR1,750 (+16%)      Buy**

## Inventory losses; higher discounting hurts margins

### Earnings below our estimates

- APL Apollo Tubes (APAT) reported the fourth consecutive quarter of weak operating performance (EBITDA/MT down 62% YoY in 2Q) on account of inventory loss of ~INR1.5b (led by a fall in steel prices) and higher discounting during the quarter. Revenues grew marginally at 3% YoY led by volume growth (up 12% YoY), which was partially offset by a decline in realizations (down 8% YoY).
- With higher inventory loss being booked in 2Q, we see a lower possibility of any major inventory loss in 2H. Additionally, the company will benefit from the improving VAP mix and favorable operating leverage, resulting in a sequential recovery in margins.
- We cut our FY25E/FY26E earnings by 10%/6%, primarily due to lower EBITDA/MT (reduced by 9%/5% for FY25E/26E). We value the stock at 35x Sep'26E EPS to arrive at a TP of INR1,750. **Reiterate BUY.**

### Muted revenue growth on account of declining realizations

- Consolidated revenue grew 3% YoY while declined 4% QoQ to INR47.7b (est. INR52.6b) as volume growth (up 12%/5% YoY/QoQ to ~758KMT) was offset by a decline in realization (down 8%/9% YoY/QoQ to INR62,958). VAP mix stood at 55% in 2QFY25 vs. 55%/60% in 2QFY24/1QFY25.
- Gross profit/MT declined 27%/28% YoY/QoQ to INR7,016, while EBITDA/MT fell 62%/56% YoY/QoQ to INR1,821 (est. INR2,299) on account of higher discounting (INR493/MT), inventory losses (INR1,981/MT), and unfavorable product mix during the quarter. EBITDA declined 58%/54% YoY/QoQ to INR1.4b (est. INR1.7b).
- Adjusted PAT declined 73% YoY and 72% QoQ to INR538m (est. INR890m).
- In 1HFY25, APAT's revenue grew 6% YoY to INR97.5b, while EBITDA/Adj. PAT declined 30%/38% YoY to INR4.4b/INR2.5b; implied revenue/EBITDA/Adj. PAT growth in 2HFY25 is expected to be 33%/31%/37%, led by strong volume growth coupled with expansion of margins. CFO for 1HFY25 stood at INR1.3b vs. INR5.2b in 1HFY24.

### Highlights from the management commentary

- **Demand scenario:** The company expects a better volume offtake in 2HFY25 as the inventory with channel partners is very low. It has already rolled back the additional discounting and expects ~10% QoQ volume growth for the next few quarters going ahead.
- **Guidance:** APAT maintains its volume guidance of clocking ~4MMT/5MMT sales volume in FY26/FY27. EBITDA per ton is expected to reach ~INR5,000 over the next couple of quarters (touching ~INR5,000 by 4QFY25), and is likely to maintain it over FY26 on a conservative basis.
- **Capex:** The company has proposed to build three new Greenfield plants, which will add ~610KMT of manufacturing capacity. It expects to incur a capex of INR3-3.5b over the next 6-7 months to reach a manufacturing capacity of ~5MMT.

|                       |             |
|-----------------------|-------------|
| Bloomberg             | APAT IN     |
| Equity Shares (m)     | 278         |
| M.Cap.(INRb)/(USD\$)  | 419.2 / 5   |
| 52-Week Range (INR)   | 1774 / 1253 |
| 1, 6, 12 Rel. Per (%) | 5/-11/-35   |
| 12M Avg Val (INR M)   | 1290        |

### Financials & Valuations (INR b)

| Y/E Mar      | FY25E | FY26E | FY27E |
|--------------|-------|-------|-------|
| Sales        | 216.1 | 267.1 | 311.5 |
| EBITDA       | 11.7  | 17.5  | 22.2  |
| PAT          | 7.1   | 11.9  | 15.5  |
| EBITDA (%)   | 5.4   | 6.5   | 7.1   |
| EPS (INR)    | 25.6  | 43.0  | 55.8  |
| EPS Gr. (%)  | -3.2  | 68.2  | 29.7  |
| BV/Sh. (INR) | 149.5 | 186.5 | 236.3 |

### Ratios

|            |      |      |      |
|------------|------|------|------|
| Net D/E    | -0.0 | -0.2 | -0.4 |
| RoE (%)    | 18.3 | 25.6 | 26.4 |
| RoCE (%)   | 16.7 | 24.0 | 26.4 |
| Payout (%) | 23.5 | 14.0 | 10.8 |

### Valuations

|               |      |      |      |
|---------------|------|------|------|
| P/E (x)       | 59.3 | 35.3 | 27.2 |
| EV/EBITDA (x) | 35.7 | 23.4 | 17.9 |
| Div Yield (%) | 0.4  | 0.4  | 0.4  |
| FCF Yield (%) | 2.8  | 2.4  | 3.3  |

### Shareholding Pattern (%)

| As on    | Sep-24 | Jun-24 | Sep-23 |
|----------|--------|--------|--------|
| Promoter | 28.3   | 28.3   | 29.7   |
| DII      | 15.9   | 14.9   | 12.7   |
| FII      | 31.9   | 31.6   | 28.7   |
| Others   | 23.8   | 25.2   | 29.0   |

Note: FII includes depository receipts



**Valuation and view**

- With lower channel inventory and higher demand for primary steel products (led by the narrowing gap in primary and secondary steel prices), APAT is likely to witness continued strong volume growth. We expect margins (EBITDA/MT) to improve sequentially, led by the operating leverage and higher mix of VAP in 2HFY25.
  - We expect APAT to clock a CAGR of 20%/22%/28% in revenue/EBITDA/PAT over FY24-27. We value the stock at 35x Sep'26E EPS to arrive at a TP of INR1,750.
- Reiterate BUY.**

**Consolidated - Quarterly Earning Model**

(INRM)

| Y/E March                                     | FY24          |               |               |               | FY25E         |               |               |               | FY24            | FY25E           | FY24E         | Var        |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|-----------------|-----------------|---------------|------------|
|   | 1Q            | 2Q            | 3Q            | 4Q            | 1Q            | 2Q            | 3QE           | 4QE           |                 |                 |               |            |
| <b>Gross Sales</b>                            | <b>45,449</b> | <b>46,304</b> | <b>41,778</b> | <b>47,657</b> | <b>49,743</b> | <b>47,739</b> | <b>56,758</b> | <b>61,883</b> | <b>1,81,188</b> | <b>2,16,123</b> | <b>52,555</b> | <b>-9</b>  |
| YoY Change (%)                                | 32.2          | 16.7          | -3.5          | 7.6           | 9.4           | 3.1           | 35.9          | 29.9          | 12.1            | 19.3            | 13.5          |            |
| Total Expenditure                             | 42,377        | 43,054        | 38,982        | 44,854        | 46,727        | 46,359        | 53,319        | 57,994        | 1,69,266        | 2,04,398        | 50,811        |            |
| <b>EBITDA</b>                                 | <b>3,072</b>  | <b>3,250</b>  | <b>2,795</b>  | <b>2,804</b>  | <b>3,016</b>  | <b>1,381</b>  | <b>3,439</b>  | <b>3,889</b>  | <b>11,922</b>   | <b>11,725</b>   | <b>1,744</b>  | <b>-21</b> |
| Margins (%)                                   | 6.8           | 7.0           | 6.7           | 5.9           | 6.1           | 2.9           | 6.1           | 6.3           | 6.6             | 5.4             | 3.3           |            |
| Depreciation                                  | 409           | 413           | 471           | 466           | 465           | 469           | 560           | 603           | 1,759           | 2,097           | 535           |            |
| Interest                                      | 271           | 266           | 285           | 311           | 278           | 364           | 250           | 200           | 1,134           | 1,092           | 255           |            |
| Other Income                                  | 217           | 196           | 150           | 186           | 247           | 148           | 210           | 246           | 749             | 851             | 235           |            |
| <b>PBT before EO expense</b>                  | <b>2,608</b>  | <b>2,767</b>  | <b>2,190</b>  | <b>2,212</b>  | <b>2,520</b>  | <b>696</b>    | <b>2,839</b>  | <b>3,332</b>  | <b>9,777</b>    | <b>9,387</b>    | <b>1,189</b>  |            |
| Extra-Ord expense                             | 0             | 0             | 0             | 0             | 0             | 0             | 0             | 0             | 0               | 0               | 0             |            |
| <b>PBT</b>                                    | <b>2,608</b>  | <b>2,767</b>  | <b>2,190</b>  | <b>2,212</b>  | <b>2,520</b>  | <b>696</b>    | <b>2,839</b>  | <b>3,332</b>  | <b>9,777</b>    | <b>9,387</b>    | <b>1,189</b>  |            |
| Tax   | 672           | 738           | 535           | 508           | 589           | 158           | 715           | 839           | 2,453           | 2,300           | 299           |            |
| Rate (%)                                      | 25.8          | 26.7          | 24.4          | 23.0          | 23.4          | 22.7          | 25.2          | 25.2          | 25.1            | 24.5            | 25.2          |            |
| Minority Interest & Profit/Loss of Asso. Cos. | 0             | 0             | 0             | 0             | 0             | 0             | 0             | 0             | 0               | 0               | 0             |            |
| <b>Reported PAT</b>                           | <b>1,936</b>  | <b>2,029</b>  | <b>1,655</b>  | <b>1,704</b>  | <b>1,932</b>  | <b>538</b>    | <b>2,124</b>  | <b>2,494</b>  | <b>7,324</b>    | <b>7,088</b>    | <b>890</b>    |            |
| <b>Adj PAT</b>                                | <b>1,936</b>  | <b>2,029</b>  | <b>1,655</b>  | <b>1,704</b>  | <b>1,932</b>  | <b>538</b>    | <b>2,124</b>  | <b>2,494</b>  | <b>7,324</b>    | <b>7,088</b>    | <b>890</b>    | <b>-40</b> |
| YoY Change (%)                                | 60.5          | 35.1          | -2.2          | -15.5         | -0.2          | -73.5         | 28.4          | 46.3          | 14.1            | -3.2            | -56.1         |            |
| Margins (%)                                   | 4.3           | 4.4           | 4.0           | 3.6           | 3.9           | 1.1           | 3.7           | 4.0           | 4.0             | 3.3             | 1.7           |            |

**Key performance indicators**

| Y/E March                         | 2QFY24 | 3QFY24 | 4QFY24 | 1QFY25 | 2QFY25 | YOY     | QOQ     |
|-----------------------------------|--------|--------|--------|--------|--------|---------|---------|
| <b>Segment Volumes ('000 MT)</b>  |        |        |        |        |        |         |         |
| <b>Apollo Structural</b>          |        |        |        |        |        |         |         |
| Big Section                       | 51     | 62     | 64     | 58     | 52     | 2%      | -10%    |
| Super Heavy Section               | 5      | 7      | 8      | 11     | 11     | 122%    | -2%     |
| Light Structures                  | 113    | 95     | 102    | 110    | 127    | 13%     | 16%     |
| General Structures                | 301    | 249    | 272    | 288    | 338    | 12%     | 17%     |
| Apollo Z - Rust-proof structures  | 144    | 124    | 156    | 168    | 150    | 4%      | -11%    |
| Apollo Z- Coated Products         | 29     | 36     | 40     | 52     | 51     | 78%     | -1%     |
| Apollo Galv - Agri/Industrial     | 32     | 30     | 37     | 34     | 29     | -11%    | -16%    |
| TOTAL                             | 675    | 604    | 679    | 721    | 758    | 12%     | 5%      |
| Value Added Products              | 374    | 355    | 407    | 433    | 420    | 12%     | -3%     |
| <b>Segment EBITDA/MT (INR/MT)</b> |        |        |        |        |        |         |         |
| <b>Apollo Structural</b>          |        |        |        |        |        |         |         |
| Big Section                       | 8,481  | 8,177  | 7,845  | 7,901  | 5,541  | -35%    | -30%    |
| Super Heavy Section               | 10,014 | 9,551  | 9,210  | 9,425  | 7,069  | -29%    | -25%    |
| Light Structures                  | 6,258  | 5,771  | 5,187  | 5,169  | 2,899  | -54%    | -44%    |
| General Structures                | 2,152  | 1,771  | 1,802  | 1,944  | -24    | NA      | NA      |
| Apollo Z - Rust-proof structures  | 6,721  | 6,144  | 4,865  | 4,958  | 2,567  | -62%    | -48%    |
| Apollo Z- Coated Products         | 7,472  | 7,516  | 6,023  | 5,757  | 3,395  | -55%    | -41%    |
| Apollo Galv - Agri/Industrial     | 7,196  | 6,452  | 5,725  | 5,698  | 3,340  | -54%    | -41%    |
| <b>Cost Break-up</b>              |        |        |        |        |        |         |         |
| RM Cost (% of sales)              | 86%    | 86%    | 87%    | 86%    | 89%    | 294bps  | 302bps  |
| Employee Cost (% of sales)        | 1%     | 2%     | 1%     | 2%     | 2%     | 47bps   | 22bps   |
| Other Cost (% of sales)           | 6%     | 6%     | 6%     | 6%     | 6%     | 72bps   | -6bps   |
| Gross Margins (%)                 | 14%    | 14%    | 13%    | 14%    | 11%    | -294bps | -302bps |
| EBITDA Margins (%)                | 7.0%   | 6.7%   | 5.9%   | 6.1%   | 2.9%   | -413bps | -317bps |



# LIC Housing Finance

|                 |   |
|-----------------|---|
| Estimate change | ↑ |
| TP change       | ↓ |
| Rating change   | ↔ |

**CMP: INR637      TP: INR760 (+19%)      Buy**

## Loan growth better but still muted; NIM declines 5bp QoQ

### Earnings beat aided by benign credit costs

|                       |             |
|-----------------------|-------------|
| Bloomberg             | LICHF IN    |
| Equity Shares (m)     | 550         |
| M.Cap.(INRb)/(USD\$)  | 350.6 / 4.2 |
| 52-Week Range (INR)   | 827 / 435   |
| 1, 6, 12 Rel. Per (%) | 3/-12/16    |
| 12M Avg Val (INR M)   | 1819        |

- LICHF's 2QFY25 PAT rose ~12% YoY to ~INR13.3b (~11% beat). 1HFY25 PAT grew by ~5% and we expect 2HFY25 PAT to grow by 11% YoY. NII declined ~6% YoY to ~INR19.7b (in line). Interest income from recoveries in NPA accounts stood at ~INR860m in 2QFY25 (vs. INR900m in 1Q).
- Opex grew ~20% YoY to INR3.1b (~11% higher than MOFSLe) and the cost-income ratio rose ~225bp YoY to ~15% (PY: ~12%). PPoP at ~INR17.4b (in line) declined ~8% YoY.
- Reported yields and CoF declined ~5bp each to 9.8% and ~7.7%, respectively, leading to spreads of 2.05% (PQ: 2.1%). Reported 2Q NIM contracted ~5bp QoQ to ~2.7%. The company believes NIM likely to have bottomed out and guides for ~5-10bp improvement in NIM. We estimate NIM of 2.8%/2.7% in FY25/FY26.
- We raise our FY25 EPS estimates by ~4% to factor in lower credit costs. We estimate a CAGR of 9%/6% in advances/PAT over FY24-27 and RoA/RoE of 1.6%/13.5% in FY27.
- The company is looking to diversify its product mix by increasing the proportion of non-housing loans and the self-employed customer mix. Risk-reward is favorable at 0.9x FY26 P/BV. Reiterate **BUY with a TP of INR760 (premised on 1x Sep'26E P/BV)**.

### Financials & Valuations (INR b)

| Y/E March   | FY24 | FY25E | FY26E |
|-------------|------|-------|-------|
| NII         | 86.5 | 81.5  | 86.6  |
| PPP         | 77.0 | 71.1  | 75.1  |
| PAT         | 47.7 | 51.3  | 51.4  |
| EPS (INR)   | 86.6 | 93.1  | 93.4  |
| EPS Gr. (%) | 64.8 | 7.6   | 0.3   |
| BV/Sh (INR) | 570  | 645   | 718   |

### Ratios

|               |      |      |      |
|---------------|------|------|------|
| NIM (%)       | 3.2  | 2.8  | 2.7  |
| C/I ratio (%) | 13.0 | 15.1 | 15.6 |
| RoAA (%)      | 1.7  | 1.7  | 1.6  |
| RoE (%)       | 16.3 | 15.3 | 13.7 |
| Payout (%)    | 10.4 | 10.5 | 10.6 |

### Valuations

|                |     |     |     |
|----------------|-----|-----|-----|
| P/E (x)        | 7.4 | 6.8 | 6.8 |
| P/BV (x)       | 1.1 | 1.0 | 0.9 |
| Div. Yield (%) | 1.4 | 1.5 | 1.6 |

### Shareholding pattern (%)

| As On    | Sep-24 | Jun-24 | Sep-23 |
|----------|--------|--------|--------|
| Promoter | 45.2   | 45.2   | 45.2   |
| DII      | 20.5   | 21.2   | 21.8   |
| FII      | 22.0   | 23.2   | 21.0   |
| Others   | 12.3   | 10.4   | 12.0   |

FII Includes depository receipts

### Loan growth improves but still muted; disbursements rise ~12% YoY

- Loan disbursements in individual home loans (IHL) increased ~4% YoY, while non-housing individual/commercial disbursements rose 18% YoY. Builder/project loan disbursements jumped ~223% YoY. Total disbursements rose ~12% YoY to ~INR165b.
- Total loan book grew ~6% YoY and ~2% QoQ. Home loans grew ~7% YoY, while developer loan book declined ~42% YoY. We estimate total loan growth of ~8% YoY in FY25.
- LICHF has a strong pipeline in the developer finance segment, which LICHF anticipates to sustain in 2HFY25 as well. The company has identified select developers after taking into consideration their credibility, brand and external credit ratings. LICHF shared it will only lend to developers which have BBB or higher credit rating. It guided for the developer book in the loan mix to improve to ~4% (vs. ~3% now) by Mar'25 and to 5-6% by Mar'26.

### Highlights from the management commentary

- The company has launched a new product in the affordable space focusing on the self-employed customer segment, which has ~250bp higher yields than the prime housing yields. It also expects some benefits on yields from its tweaking the interest rates based on a smaller range of CIBIL scores.
- LICHF has ~60% floating-rate liabilities, including ones that will get repriced in one year. In addition, the company is also getting into derivative contracts and swaps to manage the fixed rate liabilities better in a declining interest rate environment.

### Asset quality improves; GNPA improves ~25bp QoQ

- GS3/NS3 improved ~25bp/15bp to ~3.1%/1.6%. Stage 1 PCR was largely stable at ~19bp (PQ: ~18bp), Stage 2 PCR increased to ~4.3% (PQ: 3.9%), and Stage 3 PCR was broadly stable at ~49.4% (PQ: ~49.6%).
- Stage 2 + 3 assets (30+ dpd) declined ~45bp QoQ to 6.9% (vs. 7.35% in 1QFY25). ECL/EAD declined ~10bp QoQ to ~1.85% (vs. 1.95% in 1QFY25).
- Annualized credit costs were benign at ~10bp (PY: ~60bp and PQ: ~20bp). We model credit costs of ~25bp/35bp in FY25E/FY26E.

### Valuation and View

- LICHF has strong moats in retail mortgages and on the liability side. It has demonstrated its ability to pass on higher borrowing costs to customers. The company is making substantial efforts towards recovery and anticipates further account resolutions moving forward.
- LICHF shared that there is one ~INR4b developer account, which has gone to the ARC and is undergoing the Swiss challenge. There are 4-5 developer accounts in various stages of resolution. Discussions are moving forward and LICHF expects one big account to get resolved in 3QFY25.
- LICHF's valuation of ~0.9x FY26E P/BV reflects its inability to deliver stronger loan growth, which improved in 2Q but it still remains muted. We estimate RoA/RoE of 1.6%/13.5% in FY27 and reiterate our BUY rating with a TP of INR760 (based on 1x Sep'26E BV).
- **Key downside risks:** a) elongated period of weak loan growth because of muted demand or high competitive intensity; and b) volatility in NIM profile and ECL provisioning.

### Quarterly Performance

| Y/E March                  | FY24          |               |               |               | FY25E         |               |               |               | FY24          | FY25E         | 2QFY25E       | Act. v/s est. (%) |
|----------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|-------------------|
|                            | 1Q            | 2Q            | 3Q            | 4Q            | 1Q            | 2Q            | 3Q            | 4Q            |               |               |               |                   |
| Interest Income            | 67,037        | 67,066        | 67,437        | 68,875        | 67,391        | 68,534        | 70,179        | 72,281        | 2,70,416      | 2,78,386      | 68,537        | 0                 |
| Interest Expenses          | 44,942        | 46,000        | 46,465        | 46,499        | 47,501        | 48,796        | 49,821        | 50,762        | 1,83,907      | 1,96,879      | 48,166        | 1                 |
| <b>Net Interest Income</b> | <b>22,094</b> | <b>21,066</b> | <b>20,972</b> | <b>22,376</b> | <b>19,891</b> | <b>19,739</b> | <b>20,359</b> | <b>21,519</b> | <b>86,509</b> | <b>81,507</b> | <b>20,371</b> | -3                |
| YoY Growth (%)             | 37.2          | 81.2          | 30.6          | 12.4          | -10.0         | -6.3          | -2.9          | -3.8          | 36.7          | -5.8          | -3.3          |                   |
| Fees and other income      | 429           | 521           | 488           | 493           | 446           | 784           | 585           | 399           | 1,931         | 2,214         | 625           | 25                |
| <b>Net Income</b>          | <b>22,523</b> | <b>21,587</b> | <b>21,460</b> | <b>22,869</b> | <b>20,337</b> | <b>20,522</b> | <b>20,944</b> | <b>21,918</b> | <b>88,440</b> | <b>83,721</b> | <b>20,997</b> | -2                |
| YoY Growth (%)             | 36.4          | 79.1          | 30.6          | 12.8          | -9.7          | -4.9          | -2.4          | -4.2          | 36.3          | -5.3          | -2.7          |                   |
| Operating Expenses         | 2,425         | 2,595         | 2,615         | 3,829         | 2,621         | 3,105         | 3,167         | 3,710         | 11,463        | 12,604        | 2,805         | 11                |
| <b>Operating Profit</b>    | <b>20,098</b> | <b>18,993</b> | <b>18,845</b> | <b>19,041</b> | <b>17,715</b> | <b>17,417</b> | <b>17,777</b> | <b>18,208</b> | <b>76,976</b> | <b>71,117</b> | <b>18,192</b> | -4                |
| YoY Growth (%)             | 38.8          | 101.1         | 39.0          | 8.7           | -11.9         | -8.3          | -5.7          | -4.4          | 40.0          | -7.6          | -4.2          |                   |
| Provisions and Cont.       | 3,608         | 4,192         | 4,358         | 4,279         | 1,431         | 773           | 1,934         | 3,145         | 16,437        | 7,283         | 3,291         | -77               |
| <b>Profit before Tax</b>   | <b>16,490</b> | <b>14,801</b> | <b>14,487</b> | <b>14,762</b> | <b>16,285</b> | <b>16,644</b> | <b>15,843</b> | <b>15,062</b> | <b>60,539</b> | <b>63,834</b> | <b>14,901</b> | 12                |
| Tax Provisions             | 3,253         | 2,920         | 2,858         | 3,854         | 3,282         | 3,355         | 3,121         | 2,817         | 12,885        | 12,575        | 2,935         | 14                |
| <b>Net Profit</b>          | <b>13,237</b> | <b>11,881</b> | <b>11,629</b> | <b>10,908</b> | <b>13,002</b> | <b>13,289</b> | <b>12,722</b> | <b>12,245</b> | <b>47,654</b> | <b>51,258</b> | <b>11,966</b> | 11                |
| YoY Growth (%)             | 43            | 290           | 142           | -8            | -2            | 12            | 9             | 12            | 65            | 8             | 1             |                   |



# JK Cement

|                 |   |
|-----------------|---|
| Estimate change | ↓ |
| TP change       | ↓ |
| Rating change   | ↔ |

**CMP: INR4,360      TP: INR5,000 (+15%)      Buy**

## Lower volume and higher costs lead to missed earnings

### Estimate gray cement volume growth between 6% and 7% YoY in FY25

|                       |             |
|-----------------------|-------------|
| Bloomberg             | JKCE IN     |
| Equity Shares (m)     | 77          |
| M.Cap.(INRb)/(USDb)   | 346.2 / 4.1 |
| 52-Week Range (INR)   | 4594 / 2996 |
| 1, 6, 12 Rel. Per (%) | 1/-/1/17    |
| 12M Avg Val (INR M)   | 582         |

### Financial Snapshot (INR b)

| Y/E MARCH         | FY25E  | FY26E | FY27E |
|-------------------|--------|-------|-------|
| Sales             | 116.9  | 131.1 | 147.6 |
| EBITDA            | 18.6   | 24.8  | 29.9  |
| Adj. PAT          | 6.2    | 9.8   | 13.3  |
| EBITDA Margin (%) | 15.9   | 18.9  | 20.3  |
| Adj. EPS (INR)    | 84.7   | 126.9 | 171.7 |
| EPS Gr. (%)       | (17.5) | 49.8  | 35.3  |
| BV/Sh. (INR)      | 762    | 859   | 1,001 |

### Ratios

|            |      |      |      |
|------------|------|------|------|
| Net D:E    | 0.8  | 0.8  | 0.6  |
| RoE (%)    | 11.1 | 15.7 | 18.5 |
| RoCE (%)   | 8.9  | 11.1 | 13.1 |
| Payout (%) | 26.7 | 23.6 | 17.5 |

### Valuations

|                |      |      |      |
|----------------|------|------|------|
| P/E (x)        | 51.5 | 34.4 | 25.4 |
| P/BV (x)       | 5.7  | 5.1  | 4.4  |
| EV/EBITDA(x)   | 20.0 | 15.0 | 12.3 |
| EV/ton (USD)   | 164  | 135  | 133  |
| Div. Yield (%) | 0.6  | 0.7  | 0.7  |
| FCF Yield (%)  | 0.1  | 1.1  | 3.1  |

### Shareholding Pattern (%)

| As On    | Sep-24 | Jun-24 | Sep-23 |
|----------|--------|--------|--------|
| Promoter | 45.7   | 45.7   | 45.8   |
| DII      | 22.5   | 22.1   | 24.3   |
| FII      | 17.5   | 17.7   | 14.4   |
| Others   | 14.3   | 14.5   | 15.5   |

FII includes depository receipts

- JK Cement (JKCE)'s 2QFY25 consolidated EBITDA was at INR2.8b (down 39% YoY) and ~22% below our estimates due to lower-than-estimated sales volume (6% miss) and higher-than-estimated opex/t (+5% vs. our estimate). Higher opex/t was partly due to: 1) higher branding expenses; 2) clinker purchases for its South plant due to the shutdown; and 3) higher maintenance costs. EBITDA/t declined 36% YoY to INR656 (est. INR787) and OPM contracted 6pp YoY to 11% (est. 14%). Adj. PAT declined 80% YoY to INR359m (60% miss).
- Management trimmed its gray cement volume guidance to ~6-7% YoY (vs. earlier estimate of ~10%). Cement demand has improved and the company expects volume growth YoY in Oct'24. The capacity expansion plan of 6mtpa is on track and expected to be commissioned in 2HFY26. Further, the company aims to realize cost savings of up to INR60/t in FY25E out of its cost-saving target of INR150-200/t in the next two years.
- We reduced EBITDA estimate 8% for FY25E and 5% for FY26E/FY27E (each) on lower volume growth and higher opex/t assumptions. We reiterate our BUY rating on the stock due to its steady expansion plans, better regional mix, and cost-saving initiatives. We value JKCE at 15x Sep'26E EV/EBITDA to arrive at our revised TP of INR5,000 (earlier INR5,270).

### Gray cement volume/realization down 3%/6% YoY

- JKCE's consolidated revenue/EBITDA/adj. PAT stood at INR25.6b/INR2.8b/INR359m (down 7%/39%/80% YoY and down 5%/22%/60% vs. our est.). Combined sales volume declined 5% YoY to 4.3mt. Blended realization declined 2% YoY (up 2% QoQ) at INR5,918/t. Gray cement volume declined 3% YoY to 3.8mt and realization declined 6% YoY to INR4,707. Other op. income/t stood at INR206 vs. INR198/INR216 in 2QFY24/1QFY25.
- Opex/t increased 4% YoY, led by a 29%/17%/13% increase in employee cost/other expenses/freight costs. Meanwhile, variable cost/t declined 9% YoY. EBITDA/t declined 36% YoY to INR656. Depreciation and interest costs increased 7% YoY (each). Other income grew 29% YoY.
- In 1HFY25, revenue/EBITDA/Adj. PAT declined 3%/12%/27% YoY. Sales volume was flat YoY, while realization declined 3%. EBITDA/t dipped 12% YoY to INR840. Based on our estimate, the implied revenue growth for 2HFY25 is ~5%, while EBITDA/PAT may decline ~8%/19% YoY. For 2HFY25, we estimate volume growth of ~10% YoY and EBITDA/t of INR1,005 vs. INR1,200 in 2HFY24.

### Highlights from the management commentary

- Gray cement realizations improved QoQ in 2QFY25, led by an improvement in the geographic and product mix and higher contribution from premium products.

- Fuel consumption cost stood at INR1.65/kcal vs. INR1.94/INR1.62/kcal in 2QFY24/1QFY25. Fuel consumption cost increased QoQ due to inflation in the fuel cost of AFR.
- Capex is pegged at INR18-19b for FY25 and INR18b for FY26. Overall capex stood at INR7.5b in 1HFY25.

### Valuation & view

- JKCE's profitability was adversely impacted during the quarter due to the demand slowdown, prolonged kiln shutdown at the South plant, and weak cement prices. However, it has shown QoQ improvement in realization, supported by a better regional and product mix. We are structurally positive on the company given its increasing scale of operation, better execution strategy, and cost reduction initiatives.
- We estimate its revenue/EBITDA/PAT CAGR at 9%/13%/18% over FY24-27, driven by a 9% CAGR in sales volume and improvement in EBITDA/t. The stock trades at 15x/12x FY26E/FY27E EV/EBITDA. We value the stock at 15x Sep'26E EV/EBITDA to arrive at our revised TP of INR5,000 (earlier INR5,270). **Reiterate BUY.**

### Consolidate quarterly performance

| Y/E March                    |             |             |             |             |             |             |             |             | (INR b)      |              |             | Var. (%) |
|------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|--------------|-------------|----------|
|                              | FY24        |             |             |             | FY25        |             |             |             | FY24         | FY25E        | FY25        |          |
|                              | 1Q          | 2Q          | 3Q          | 4Q          | 1Q          | 2Q          | 3QE         | 4QE         |              |              | 2QE         |          |
| Sales Dispatches (mt)        | 4.6         | 4.5         | 4.7         | 5.2         | 4.8         | 4.3         | 5.0         | 5.8         | 19.07        | 20.01        | 4.6         | (6)      |
| YoY Change (%)               | 25.4        | 24.5        | 13.5        | 11.3        | 4.6         | (4.6)       | 7.3         | 11.5        | 17.5         | 4.9          | 1.6         |          |
| Realization (INR/t)          | 5,968       | 6,068       | 6,238       | 5,974       | 5,801       | 5,918       | 5,946       | 5,730       | 6,060        | 5,842        | 5,821       | 2        |
| YoY Change (%)               | (2.9)       | (1.1)       | 6.1         | 0.5         | (2.8)       | (2.5)       | (4.7)       | (4.1)       | 1.2          | (3.6)        | (4.1)       |          |
| QoQ Change (%)               | 0.4         | 1.7         | 2.8         | (4.2)       | (2.9)       | 2.0         | 0.5         | (3.6)       |              |              | 0.5         |          |
| <b>Net Sales</b>             | <b>27.6</b> | <b>27.5</b> | <b>29.3</b> | <b>31.1</b> | <b>28.1</b> | <b>25.6</b> | <b>30.0</b> | <b>33.2</b> | <b>115.6</b> | <b>116.9</b> | <b>26.8</b> | (5)      |
| YoY Change (%)               | 21.7        | 23.1        | 20.5        | 11.8        | 1.6         | (7.0)       | 2.3         | 7.0         | 18.9         | 1.2          | (2.6)       |          |
| Total Expenditure            | 23.5        | 22.9        | 23.1        | 25.5        | 23.2        | 22.8        | 25.1        | 27.3        | 95.0         | 98.3         | 23.2        | (2)      |
| <b>EBITDA</b>                | <b>4.1</b>  | <b>4.7</b>  | <b>6.3</b>  | <b>5.6</b>  | <b>4.9</b>  | <b>2.8</b>  | <b>4.9</b>  | <b>6.0</b>  | <b>20.6</b>  | <b>18.6</b>  | <b>3.6</b>  | (22)     |
| YoY Change (%)               | 1.0         | 48.8        | 152.7       | 60.2        | 19.2        | -39.2       | -21.1       | 6.6         | 56.7         | -9.7         | -22.4       |          |
| Margin (%)                   | 14.8        | 17.0        | 21.3        | 18.0        | 17.3        | 11.1        | 16.4        | 18.0        | 17.8         | 15.9         | 13.5        | (243)    |
| Depreciation                 | 1.3         | 1.4         | 1.4         | 1.5         | 1.5         | 1.5         | 1.5         | 1.4         | 5.7          | 5.8          | 1.5         | (2)      |
| Interest                     | 1.1         | 1.2         | 1.1         | 1.1         | 1.1         | 1.2         | 1.2         | 1.3         | 4.5          | 4.8          | 1.2         | 3        |
| Other Income                 | 0.3         | 0.3         | 0.4         | 0.5         | 0.4         | 0.4         | 0.5         | 0.5         | 1.5          | 1.8          | 0.4         | (10)     |
| <b>PBT before EO expense</b> | <b>2.0</b>  | <b>2.4</b>  | <b>4.1</b>  | <b>3.4</b>  | <b>2.7</b>  | <b>0.5</b>  | <b>2.7</b>  | <b>3.8</b>  | <b>11.9</b>  | <b>9.7</b>   | <b>1.4</b>  | (61)     |
| Extra-Ord. expense           | 0.2         | -           | -           | (0.1)       | -           | (1.0)       | -           | -           | 0.1          | (1.0)        | -           |          |
| <b>PBT</b>                   | <b>1.8</b>  | <b>2.4</b>  | <b>4.1</b>  | <b>3.5</b>  | <b>2.7</b>  | <b>1.6</b>  | <b>2.7</b>  | <b>3.8</b>  | <b>11.8</b>  | <b>10.7</b>  | <b>1.4</b>  | 14       |
| Tax                          | 0.7         | 0.7         | 1.3         | 1.3         | 0.9         | 0.2         | 0.9         | 1.5         | 3.9          | 3.5          | 0.5         |          |
| Profit from associate and MI | (0.0)       | (0.0)       | (0.0)       | (0.0)       | (0.0)       | 0.1         | -           | -           | (0.0)        | 0.1          | -           |          |
| Rate (%)                     | 37.2        | 26.9        | 30.6        | 36.7        | 32.3        | 12.2        | 33.6        | 40.7        | 32.4         | 32.7         | 33.6        |          |
| <b>Reported PAT</b>          | <b>1.1</b>  | <b>1.8</b>  | <b>2.8</b>  | <b>2.2</b>  | <b>1.9</b>  | <b>1.3</b>  | <b>1.8</b>  | <b>2.2</b>  | <b>8.0</b>   | <b>7.1</b>   | <b>0.9</b>  | 39       |
| <b>Adj. PAT</b>              | <b>1.2</b>  | <b>1.8</b>  | <b>2.8</b>  | <b>2.1</b>  | <b>1.9</b>  | <b>0.4</b>  | <b>1.8</b>  | <b>2.2</b>  | <b>8.0</b>   | <b>6.2</b>   | <b>0.9</b>  | (60)     |
| YoY Change (%)               | (23.7)      | 59.8        | 628.0       | 90.3        | 49.3        | (80.0)      | (36.9)      | 4.6         | 87.9         | (22.1)       | (49.6)      |          |
| Margin (%)                   | 4.5         | 6.5         | 9.7         | 6.9         | 6.6         | 1.4         | 6.0         | 6.7         | 6.9          | 5.3          | 3.4         |          |

Source: Company, MOFSL estimates





# Indraprastha Gas

|                 |   |
|-----------------|---|
| Estimate change | ↓ |
| TP change       | ↓ |
| Rating change   | ↔ |

**CMP: INR417**      **TP: INR375 (-10%)**      **Sell**

## Margin risks arise as APM shortage rises

|                       |             |
|-----------------------|-------------|
| Bloomberg             | IGL IN      |
| Equity Shares (m)     | 700         |
| M.Cap.(INRb)/(USDb)   | 292 / 3.5   |
| 52-Week Range (INR)   | 571 / 376   |
| 1, 6, 12 Rel. Per (%) | -18/-18/-19 |
| 12M Avg Val (INR M)   | 1383        |

### Financials & Valuations (INR b)

| Y/E March      | FY25E | FY26E | FY27E |
|----------------|-------|-------|-------|
| Sales          | 137.2 | 142.8 | 151.7 |
| EBITDA         | 22.7  | 24.7  | 26.3  |
| Adj. PAT       | 16.1  | 16.8  | 18.0  |
| Adj. EPS (INR) | 23.0  | 24.0  | 25.7  |
| EPS Gr. (%)    | -8.1  | 4.6   | 7.1   |
| BV/Sh.(INR)    | 138.2 | 155.0 | 173.0 |

### Ratios

|            |      |      |      |
|------------|------|------|------|
| Net D:E    | -0.2 | -0.2 | -0.2 |
| RoE (%)    | 17.6 | 16.4 | 15.7 |
| RoCE (%)   | 17.0 | 15.9 | 15.2 |
| Payout (%) | 30.0 | 30.0 | 30.0 |

### Valuation

|                |      |      |      |
|----------------|------|------|------|
| P/E (x)        | 18.2 | 17.4 | 16.2 |
| P/BV (x)       | 3.0  | 2.7  | 2.4  |
| EV/EBITDA (x)  | 11.9 | 10.8 | 10.0 |
| Div. Yield (%) | 1.7  | 1.7  | 1.8  |
| FCF Yield (%)  | 1.8  | 2.7  | 3.4  |

### Shareholding Pattern (%)

| As On    | Sep-24 | Jun-24 | Sep-23 |
|----------|--------|--------|--------|
| Promoter | 45.0   | 45.0   | 45.0   |
| DII      | 28.2   | 30.1   | 26.2   |
| FII      | 19.3   | 16.2   | 20.9   |
| Others   | 7.5    | 8.7    | 7.8    |

FII includes depository receipts

- Indraprastha Gas (IGL)'s 2QFY25 earnings performance was marked by volumes exceeding our expectations but a miss at the EBITDA/scm level. With elevated spot LNG costs, continued APM de-allocation, and elections in Delhi in 4QFY25, we believe EBITDA/scm margin may remain under pressure in 2HFY25. We believe the management's guided target of average 9.5mmscmd in volumes in 2HFY25 is tough to achieve. IGL is most impacted by the recent APM gas de-allocation among the three CGDs in our coverage given: 1) its lower base margins (vs. MAHGL), 2) lower volume growth run-rate (vs Gujarat Gas), and 3) state elections being some time away (vs MAHGL), leading to price hike uncertainty lingering for longer.
- IGL's 2QFY25 EBITDA came in 9% below our estimate at INR5.4b (-18% YoY), primarily due to lower realization and higher gas cost. Volumes increased 10% YoY to 9.03mmscmd and came above our estimates.
- Key takeaways from the conference call: 1) INR5-6/kg price hike is required to meet the current EBITDA/scm run rate; 2) the company might implement price hike post the festive season; 3) the management guided for a robust 8-10% YoY CNG volume trajectory; 4) INR17b is planned to be incurred in FY25 (INR5b already incurred in 1H), of which 45%-55% shall be toward Delhi.
- Owing to the 21% APM de-allocation announced by IGL recently, we reduce our EBITDA/scm estimate for FY25 to INR7 (vs. previous est. of INR7.4). Additionally, we reduce our EBITDA/scm estimate for both FY26 and FY27 to INR7 (vs. previous est. of INR7.5/INR7.7 for FY26/FY27), leading to a 9%/11% cut in earnings in FY26/FY27.
- We reduce our valuation multiple to 13x P/E (15x P/E earlier). We value the stock at 13x Dec'26E adj. EPS and add value of JV at 25% holding company discount to arrive at our TP of INR375. We reiterate our Sell rating.

## Miss on EBITDA amid the lower-than-estimated margin

- Total volumes were in line with our estimate at 9.02mmscmd (+10% YoY).
- CNG volumes stood at 6.78mmscmd (+9% YoY) and PNG volumes stood at 2.24mmscmd (+9% YoY).
- EBITDA/scm came in 11% below our est. at INR6.5 (est. INR7.3).
- Gross margin came in at INR11.9/scm (vs. INR14.1/scm in 2QFY24).
- Opex was INR5.5/scm (vs. INR5.5 in 2QFY24).
- Resulting EBITDA stood 9% below our estimate at INR5.4b (-18% YoY), primarily due to lower realization and higher gas cost.
- Other income came in at 1.5b, 2.1x of our estimate.
- Resulting PAT came in 7% above our estimate at INR4.3b (-19% YoY).
- The Board has declared an interim dividend of INR5.5/sh (FV: INR2/sh)
- In 1HFY25, IGL's net sales/EBITDA/PAT grew 5%/17%/21% YoY to INR72b/24b/17.5b. In 2HFY25, we estimate net sales/PAT to decline 9%/12% YoY, while EBITDA to grow 7% YoY.

**Valuation and view**

- Recently, IGL announced a 21% reduction in APM gas allocation for its CNG and D-PNG businesses, respectively, effective 16<sup>th</sup> Oct'24. While IGL's volumes posted a 9.8% CAGR in FY16-24, we estimate a 7% CAGR in FY24-27.
- We reduce our valuation multiple to 13x P/E (15x P/E earlier). We value the stock at 13x Dec'26E adj. EPS and add value of JV at 25% holding company discount to arrive at our TP of INR375. **We reiterate our Sell rating on the stock.**

**Standalone Quarterly performance**

(INR m)

| Y/E March                   | FY24   |        |        |        | FY25   |        |        |        | FY24     | FY25E    | FY25   | Var. |
|-----------------------------|--------|--------|--------|--------|--------|--------|--------|--------|----------|----------|--------|------|
|                             | 1Q     | 2Q     | 3Q     | 4Q     | 1Q     | 2Q     | 3QE    | 4QE    |          |          |        |      |
| <b>Net Sales</b>            | 34,070 | 34,585 | 35,504 | 35,968 | 35,206 | 36,973 | 34,217 | 30,802 | 1,40,000 | 1,37,198 | 34,217 | 8%   |
| Change (%)                  | 6.7    | -2.7   | -4.3   | -2.3   | 3.3    | 6.9    | -3.6   | -14.4  | -1.0     | -2.0     | -1.1   |      |
| <b>EBITDA</b>               | 6,424  | 6,569  | 5,582  | 5,225  | 5,819  | 5,359  | 5,611  | 5,936  | 23,669   | 22,725   | 5,862  | -9%  |
| EBITDA (INR/scm)            | 8.6    | 8.6    | 7.2    | 6.6    | 7.4    | 6.5    | 7.0    | 7.4    | 7.7      | 7.0      | 7.3    | -11% |
| Change (%)                  | 4.0    | 24.5   | 30.3   | 13.4   | -9.4   | -18.4  | 0.5    | 13.6   | 16.3     | -4.0     | -10.8  |      |
| Depreciation                | 989    | 1,022  | 1,018  | 1,108  | 1,143  | 1,184  | 1,163  | 1,162  | 4,138    | 4,651    | 1,163  | 2%   |
| Interest                    | 24     | 25     | 18     | 26     | 22     | 23     | 21     | 16     | 92       | 82       | 21     |      |
| Other Income                | 457    | 1,340  | 610    | 1,094  | 727    | 1,493  | 673    | 600    | 3,632    | 3,493    | 709    | 111% |
| <b>PBT before EO</b>        | 5,867  | 6,862  | 5,155  | 5,187  | 5,380  | 5,645  | 5,101  | 5,359  | 23,072   | 21,485   | 5,388  | 5%   |
| Tax                         | 1,483  | 1,514  | 1,235  | 1,359  | 1,366  | 1,334  | 1,284  | 1,832  | 5,591    | 5,414    | 1,356  | -2%  |
| Rate (%)                    | 25.3   | 22.1   | 23.9   | 26.2   | 25.4   | 23.6   | 25.2   | 34.2   | 24.2     | 25.2     | 25.2   |      |
| <b>PAT</b>                  | 4,384  | 5,348  | 3,921  | 3,828  | 4,015  | 4,311  | 3,817  | 3,526  | 17,481   | 16,071   | 4,032  | 7%   |
| PAT (INR/scm)               | 5.9    | 7.0    | 5.0    | 4.8    | 5.1    | 5.2    | 4.7    | 4.4    | 5.7      | 4.4      | 5.0    | 4%   |
| Change (%)                  | 4.2    | 28.5   | 40.9   | 16.1   | -8.4   | -19.4  | -2.6   | -7.9   | 21.0     | -8.1     | -24.6  |      |
| <b>Gas volumes (mmscmd)</b> |        |        |        |        |        |        |        |        |          |          |        |      |
| CNG                         | 6.17   | 6.25   | 6.33   | 6.37   | 6.45   | 6.78   | 6.54   | 6.62   | 6.28     | 6.60     | 6.54   | 4%   |
| PNG                         | 2.03   | 2.06   | 2.15   | 2.35   | 2.18   | 2.24   | 2.23   | 2.34   | 2.15     | 2.25     | 2.23   | 0%   |
| <b>Total</b>                | 8.20   | 8.30   | 8.48   | 8.73   | 8.63   | 9.02   | 8.77   | 8.96   | 8.43     | 8.85     | 8.77   | 3%   |



# Five Star Business Finance

**Estimate changes**

TP change

Rating change



|                       |             |
|-----------------------|-------------|
| Bloomberg             | FIVESTAR IN |
| Equity Shares (m)     | 292         |
| M.Cap.(INRb)/(USD\$)  | 256.5 / 3.1 |
| 52-Week Range (INR)   | 944 / 600   |
| 1, 6, 12 Rel. Per (%) | 16/12/-9    |
| 12M Avg Val (INR M)   | 865         |

**Financials Snapshot (INR b)**

| Y/E March    | FY24 | FY25E | FY26E |
|--------------|------|-------|-------|
| NII          | 16.5 | 21.0  | 25.1  |
| PPoP         | 11.7 | 15.3  | 17.9  |
| PAT          | 8.4  | 10.8  | 12.6  |
| EPS (INR)    | 29   | 37    | 43    |
| EPS Gr. (%)  | 38   | 29    | 17    |
| BV/Sh. (INR) | 178  | 215   | 257   |

**Ratios**

|                 |      |      |      |
|-----------------|------|------|------|
| NIM (%)         | 19.9 | 19.4 | 18.3 |
| C/I ratio (%)   | 32.2 | 30.8 | 32.2 |
| Credit costs    | 0.7  | 0.8  | 0.8  |
| RoAA (%)        | 8.2  | 8.3  | 7.7  |
| RoAE (%)        | 17.5 | 18.8 | 18.3 |
| Dividend payout | 0.0  | 2.7  | 3.5  |

**Valuations**

|                |      |      |      |
|----------------|------|------|------|
| P/E (x)        | 30.7 | 23.8 | 20.4 |
| P/BV (x)       | 4.9  | 4.1  | 3.4  |
| Div. yield (%) | 0.0  | 0.1  | 0.2  |

**Shareholding pattern (%)**

| As On    | Sep-24 | Jun-24 | Sep-23 |
|----------|--------|--------|--------|
| Promoter | 21.6   | 26.5   | 31.3   |
| DII      | 9.0    | 35.9   | 42.7   |
| FII      | 56.7   | 27.7   | 15.1   |
| Others   | 12.7   | 10.0   | 11.0   |

FII Includes depository receipts

**CMP: INR877**

**TP: INR1,015 (+16%)**

**Buy**

**Macros prompt a cut in AUM growth guidance**

**Earnings in line but disbursements moderate; lending rate to be cut by ~2pp**

- Five Star Business Finance (FIVESTAR)'s 2QFY25 PAT grew 34% YoY to INR2.7b (in line). 1HFY25 PAT grew by ~36% YoY and we expect 2HFY25 PAT to grow by ~24% YoY. NII grew ~30% YoY to INR5.2b (in line), and PPOP rose ~37% YoY to INR3.8b (in line).
- Opex grew 17% YoY to INR1.6b (in line). Credit costs stood at INR218m (~28% above MOFSLe). This translated into annualized credit cost of ~80bp (PY: ~50bp and PQ: ~70bp).
- **Considering the current macro environment and the regulator's view, FIVESTAR has decided to moderate its AUM growth and lowered its AUM growth guidance to ~25% for FY25.**
- In addition, effective Nov'24, FIVESTAR has decided to reduce its lending rates by ~2pp to ~22.5%. Given the fixed-rate nature of these loans, the spread compression will happen only on the incremental disbursements. We model NIMs to decline to 18.3%/17.2% in FY26/FY27E (FY25E: 19.4%).
- We cut our FY26/FY27 PAT estimates by 3%/5% to factor in moderation in loan growth and a more accelerated compression in NIM. FIVESTAR has developed strengths and capabilities in its business model, which are difficult for peers to replicate. We anticipate that the company will maintain its best-in-class profitability, with a CAGR of ~28%/~21% in AUM/PAT over FY24-FY27E.
- FIVESTAR will command premium valuations relative to its NBFC/HFC peers due to its ability to deliver strong RoA/RoE of 7.1%/18% in FY27E (despite the moderation in return ratios). **Reiterate BUY with a TP of INR1,015 (based on 3.6x Sep'26E BV).**

**Reported NIM up ~20bp QoQ; spreads stable QoQ**

- Reported yield was flat QoQ at 24.2% and CoB was also stable QoQ at 9.7%. Reported spreads were stable QoQ at 14.5%. Reported NIM rose ~20bp QoQ to ~16.9% because of a minor decline in leverage.
- FIVESTAR is looking to increase its proportion of non-bank liabilities. To that end, it recently issued PTCs, which were subscribed to by a few large domestic mutual funds. The company has ~63% of its borrowings at a floating rate and ~37% are fixed rate in nature.
- The management guides for NIM of ~14%-15% and spreads of ~12%, on a normalized basis under steady state.

**Asset quality largely stable; cash component in collection declines**

- GS3 and NS3 increased ~5bp each QoQ at 1.5% and 0.7%, respectively. PCR declined ~25bp QoQ to ~51.8%. Stage 2 rose ~25bp QoQ to ~7%. 30+ dpd increased ~35bp QoQ to 8.45% and 1+dpd increased ~70bp QoQ to 14%. This was commendable given the quantum of stress in the microfinance segment.

- The cash proportion in collections declined ~28% (PQ: ~35% and PY: ~55%), because of strong efforts made by the company to reduce cash collections.
- The overall collection efficiency (CE) stood at 98.4% (PQ: 98.5%). Unique loan collections (due one, collect one) stood at 97% (PQ: 97.2%).

#### Disbursements moderated; AUM grew ~32% YoY

- Disbursements grew ~4% YoY and declined ~5% QoQ to ~INR12.5b. AUM grew 32% YoY/6% QoQ to ~INR109.3b. 2QFY25 RoA/RoE stood at 8.4%/19% respectively. Capital adequacy stood at 48.7%.

#### Highlights from the management commentary

- FIVESTAR did a bureau scrub of all the primary applicants on active loans. ~13.7% of its loan accounts belong to customers who are over-leveraged with three or more loans with other financial institutions.
- The company has 1,600 loans (translating into ~0.4% of its total active loans), which have exhibited lower CE in the last six months. FIVESTAR has decided to implement stricter underwriting for over-leveraged customers.

#### Valuation and view

- FIVESTAR reported decent business momentum in 2QFY25. The company has decided to slow down its loan growth in FY25, considering the current environment and the view aired by the regulator on various public forums.
- The stock currently trades at 3.4x FY26E P/BV. We believe that FIVESTAR's premium valuations will remain intact, given its niche market position, superior underwriting practices, resilient asset quality, and (still) high return metrics.
- We estimate FIVESTAR to deliver a ~28% AUM CAGR over FY24-FY27, along with NIM (as a % of average loans) of 18.3%/17.2% in FY26/FY27E.
- FIVESTAR's asset quality is expected to remain relatively resilient compared to the stress that is witnessed in the unsecured lending segment. We expect credit costs to remain benign over FY25-FY26, as the company continues to prioritize digital collections. **We reiterate our BUY rating on the stock with a TP of INR1,015 (premised on 3.6x Sep'26E BVPS).**

Quarterly Performance

(INR M)

| Y/E March                       | FY24         |              |              |              | FY25E        |              |              |              | FY24          | FY25E         | 2QFY25E      | v/s Est. |
|---------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|--------------|----------|
|                                 | 1Q           | 2Q           | 3Q           | 4Q           | 1Q           | 2Q           | 3Q           | 4Q           |               |               |              |          |
| Interest Income                 | 4,637        | 5,041        | 5,495        | 5,992        | 6,411        | 6,793        | 7,139        | 7,474        | 21,166        | 27,816        | 6,847        | -1       |
| Interest Expenses               | 962          | 1,059        | 1,287        | 1,377        | 1,582        | 1,631        | 1,726        | 1,859        | 4,685         | 6,798         | 1,704        | -4       |
| <b>Net Interest Income</b>      | <b>3,676</b> | <b>3,982</b> | <b>4,208</b> | <b>4,615</b> | <b>4,829</b> | <b>5,161</b> | <b>5,413</b> | <b>5,616</b> | <b>16,481</b> | <b>21,019</b> | <b>5,143</b> | <b>0</b> |
| YoY Growth (%)                  | 35.9         | 34.3         | 31.6         | 33.4         | 31.4         | 29.6         | 28.6         | 21.7         | 33.7          | 27.5          | 29.2         |          |
| Other Income                    | 198          | 183          | 205          | 199          | 283          | 266          | 261          | 232          | 785           | 1,041         | 213          | 25       |
| <b>Total Income</b>             | <b>3,874</b> | <b>4,165</b> | <b>4,413</b> | <b>4,814</b> | <b>5,112</b> | <b>5,427</b> | <b>5,674</b> | <b>5,847</b> | <b>17,266</b> | <b>22,060</b> | <b>5,356</b> | <b>1</b> |
| YoY Growth (%)                  | 41.3         | 38.4         | 35.5         | 33.0         | 32.0         | 30.3         | 28.6         | 21.5         | 36.7          | 27.8          | 28.6         |          |
| Operating Expenses              | 1,263        | 1,389        | 1,412        | 1,488        | 1,565        | 1,627        | 1,739        | 1,868        | 5,553         | 6,798         | 1,685        | -3       |
| <b>Operating Profit</b>         | <b>2,611</b> | <b>2,775</b> | <b>3,001</b> | <b>3,326</b> | <b>3,547</b> | <b>3,800</b> | <b>3,935</b> | <b>3,979</b> | <b>11,713</b> | <b>15,261</b> | <b>3,671</b> | <b>4</b> |
| YoY Growth (%)                  | 40.5         | 37.9         | 45.5         | 43.6         | 35.9         | 36.9         | 31.1         | 19.6         | 42.0          | 30.3          | 32.3         | 14       |
| Provisions & Loan Losses        | 152          | 106          | 102          | 194          | 185          | 218          | 242          | 232          | 554           | 877           | 170          | 28       |
| <b>Profit before Tax</b>        | <b>2,459</b> | <b>2,670</b> | <b>2,899</b> | <b>3,132</b> | <b>3,362</b> | <b>3,582</b> | <b>3,693</b> | <b>3,748</b> | <b>11,160</b> | <b>14,385</b> | <b>3,501</b> | <b>2</b> |
| Tax Provisions                  | 622          | 676          | 731          | 771          | 846          | 903          | 934          | 913          | 2,800         | 3,596         | 886          | 2        |
| <b>Net Profit</b>               | <b>1,837</b> | <b>1,994</b> | <b>2,168</b> | <b>2,361</b> | <b>2,516</b> | <b>2,679</b> | <b>2,759</b> | <b>2,835</b> | <b>8,359</b>  | <b>10,789</b> | <b>2,615</b> | <b>2</b> |
| YoY Growth (%)                  | 32           | 38           | 44           | 40           | 37           | 34           | 27           | 20           | 38.5          | 29.1          | 31.1         |          |
| <b>Key Parameters (%)</b>       |              |              |              |              |              |              |              |              |               |               |              |          |
| Yield on loans                  | 25.6         | 25.4         | 25.6         | 25.8         | 25.7         | 25.5         | 25.4         | 25.2         |               |               |              |          |
| Cost of funds                   | 9.0          | 9.3          | 9.7          | 9.1          | 9.7          | 9.6          | 9.7          | 9.8          |               |               |              |          |
| Spread                          | 16.6         | 16.2         | 15.9         | 16.7         | 16.0         | 16.0         | 15.7         | 15.5         |               |               |              |          |
| NIM                             | 20.3         | 20.1         | 19.6         | 19.9         | 19.3         | 19.4         | 19.3         | 19.0         |               |               |              |          |
| Credit cost                     | 0.9          | 0.5          | 0.5          | 0.8          | 0.7          | 0.8          | 0.9          | 0.8          |               |               |              |          |
| Cost to Income Ratio (%)        | 32.6         | 33.4         | 32.0         | 30.9         | 30.6         | 30.0         | 30.6         | 31.9         |               |               |              |          |
| Tax Rate (%)                    | 25.3         | 25.3         | 25.2         | 24.6         | 25.2         | 25.2         | 25.3         | 24.4         |               |               |              |          |
| <b>Performance ratios (%)</b>   |              |              |              |              |              |              |              |              |               |               |              |          |
| AUM/Branch (INR m)              | 196.5        | 181.2        | 186.1        | 185.4        | 189.1        | 166          | 0.0          | 0.0          |               |               |              |          |
| <b>Balance Sheet Parameters</b> |              |              |              |              |              |              |              |              |               |               |              |          |
| <b>AUM (INR B)</b>              | <b>75.8</b>  | <b>82.6</b>  | <b>89.3</b>  | <b>96.4</b>  | <b>103.4</b> | <b>109.3</b> | <b>115.3</b> | <b>121.6</b> |               |               |              |          |
| Change YoY (%)                  | 43.2         | 44.2         | 43.1         | 39.4         | 36.4         | 32.2         | 29.1         | 26.1         |               |               |              |          |
| <b>Disbursements (INR B)</b>    | <b>11.3</b>  | <b>12.0</b>  | <b>12.1</b>  | <b>13.4</b>  | <b>13.2</b>  | <b>12.5</b>  | <b>13.2</b>  | <b>14.1</b>  |               |               |              |          |
| Change YoY (%)                  | 99.1         | 50.0         | 32.8         | 20.4         | 16.5         | 3.9          | 9.0          | 5.5          |               |               |              |          |
| <b>Borrowings (INR B)</b>       | <b>43.2</b>  | <b>48.2</b>  | <b>57.9</b>  | <b>63.2</b>  | <b>67.2</b>  | <b>68.8</b>  | <b>73.2</b>  | <b>78.9</b>  |               |               |              |          |
| Change YoY (%)                  | 71.3         | 91.0         | 82.2         | 48.7         | 55.8         | 42.8         | 26.4         | 24.9         |               |               |              |          |
| Borrowings/Loans (%)            | 56.9         | 58.3         | 64.8         | 65.5         | 65.0         | 63.0         | 63.5         | 64.9         |               |               |              |          |
| Debt/Equity (x)                 | 1.0          | 1.0          | 1.2          | 1.2          | 1.1          | 1.1          | 1.2          | 1.3          |               |               |              |          |
| <b>Asset Quality (%)</b>        |              |              |              |              |              |              |              |              |               |               |              |          |
| <b>GS 3 (INR M)</b>             | <b>1,072</b> | <b>1,118</b> | <b>1,251</b> | <b>1,328</b> | <b>1,454</b> | <b>1,604</b> | <b>0</b>     | <b>0</b>     |               |               |              |          |
| G3 %                            | 1.4          | 1.4          | 1.4          | 1.4          | 1.4          | 1.5          | 0.0          | 0.0          |               |               |              |          |
| <b>NS 3 (INR M)</b>             | <b>598</b>   | <b>557</b>   | <b>572</b>   | <b>607</b>   | <b>697</b>   | <b>773</b>   | <b>0</b>     | <b>0</b>     |               |               |              |          |
| NS3 %                           | 0.8          | 0.7          | 0.7          | 0.6          | 0.7          | 0.7          | 0.0          | 0.0          |               |               |              |          |
| PCR (%)                         | 44.2         | 50.2         | 54.3         | 54.3         | 52.1         | 51.8         | 0.0          | 0.0          |               |               |              |          |
| ECL (%)                         | 1.6          | 1.6          | 1.6          | 1.6          | 1.6          | 1.6          | 0.0          | 0.0          |               |               |              |          |
| <b>Return Ratios - YTD (%)</b>  |              |              |              |              |              |              |              |              |               |               |              |          |
| ROA (Rep)                       | 8.4          | 8.5          | 8.3          | 8.4          | 8.2          | 8.4          | 0.0          | 0.0          |               |               |              |          |
| ROE (Rep)                       | 16.6         | 17.1         | 17.7         | 18.7         | 19.0         | 19.0         | 0.0          | 0.0          |               |               |              |          |

E: MOFSL Estimates





|                 |   |
|-----------------|---|
| Estimate change | ↑ |
| TP change       | ↑ |
| Rating change   | ↔ |

**CMP: INR4,330 TP: INR5,500 (+27%) Buy**

**Strong topline growth across segments**

|                       |             |
|-----------------------|-------------|
| Bloomberg             | CAMS IN     |
| Equity Shares (m)     | 49          |
| M.Cap.(INRb)/(USDb)   | 213.5 / 2.5 |
| 52-Week Range (INR)   | 4970 / 2230 |
| 1, 6, 12 Rel. Per (%) | 4/24/60     |
| 12M Avg Val (INR M)   | 1534        |

**Financials & Valuations (INR b)**

| Y/E March       | 2025E | 2026E | 2027E |
|-----------------|-------|-------|-------|
| AAUM (INR t)    | 43.5  | 50.6  | 58.9  |
| Revenue         | 14.5  | 16.8  | 19.4  |
| EBITDA          | 6.8   | 8.0   | 9.5   |
| Margin (%)      | 46.6  | 47.7  | 49.0  |
| PAT             | 4.9   | 5.9   | 7.1   |
| PAT Margin (%)  | 33    | 35    | 36    |
| EPS             | 99.2  | 119.5 | 144.0 |
| EPS Grw. (%)    | 38.5  | 20.4  | 20.5  |
| BVPS            | 221.4 | 263.2 | 313.6 |
| RoE (%)         | 48.6  | 49.3  | 49.9  |
| Div. Payout (%) | 65.0  | 65.0  | 65.0  |

**Valuations**

|                |      |      |      |
|----------------|------|------|------|
| P/E (x)        | 43.6 | 36.2 | 30.1 |
| P/BV (x)       | 19.6 | 16.4 | 13.8 |
| Div. Yield (%) | 1.5  | 1.8  | 2.2  |

**Shareholding Pattern (%)**

| As On    | Sep-24 | Jun-24 | Sep-23 |
|----------|--------|--------|--------|
| Promoter | 0.0    | 0.0    | 19.9   |
| DII      | 18.7   | 19.4   | 16.1   |
| FII      | 56.5   | 56.5   | 38.6   |
| Others   | 24.8   | 24.1   | 25.5   |

FII includes depository receipts

- CAMS reported operating revenue of INR3.6b in 2QFY25, up 33% YoY (6% beat). For 1HFY25, it grew 30% YoY to ~INR7b.
- The Non-MF businesses grew 31.9% YoY, led by strong growth in the CAMSPay, KRA, and AIF segments. The share of the Non-MF segment stood at ~12.9% of the overall revenue, and the company has maintained its guidance of 20%+ revenue growth.
- EBITDA grew 39% YoY to INR1.7b (6% beat). For 1HFY25, EBITDA grew 38% YoY to INR3.2b. EBITDA margins expanded to 46.6% in 2QFY25 vs. 44.4% in 2QFY24 (our est. of 46.5%). Management has guided to maintain EBITDA margins for FY25 in the range of ~47-47.5%.
- CAMS reported a net profit of INR1.2b, up 44% YoY (5.5% beat) in 2QFY25. The growth was driven by a YoY increase in the share of the non-MF business and an improved mix of equity AUM in the total MF AUM. For 1HFY25, PAT rose 43% YoY to INR2.3b.
- We have increased our earnings estimates by 5% each for FY25/FY26/FY27 to factor in higher-than-expected MF AUM and non-MF revenue growth. We expect revenue/PAT to post a CAGR of 20%/26% over FY24-27 and reiterate a BUY rating on the stock with a one-year TP of INR5,500, premised at a P/E multiple of 42x on Sept'26E earnings.

**Increasing focus on the Non-MF businesses**

- QAAUM grew 37.8% YoY/11.2% QoQ to INR44.8t in 2QFY25. The share of Equity AUM grew to 55.4% in 2QFY25 from 47.7% in 2QFY24 and 53.3% in 1QFY25. Equity AUM rose 60% YoY/15% QoQ to INR24.8t.
- MF segment's revenue grew 33% YoY to INR3.2b, contributing ~87.1% of the overall revenue with yields remaining stable. MF asset-based contributes ~73.3% to the total MF revenue contributions, while non-asset contributes ~13.8%.
- The company's sustained focus on expanding its Non-MF business led to 31.9% YoY growth to INR470m of revenues, which is almost in-line with the growth of the MF segment at 32.9% for the quarter.
- CAMS Alternatives posted a robust growth of 21% YoY in revenue on account of healthy signings for core businesses and rapid adoption of CAMS WealthServ and Fintuple offerings.
- CAMSPay's revenue grew 69% YoY on account of the digital payment adoption, led by UPI Auto Pay. CAMSPay has entered the education segment and expects significant scale-up in the medium term. The current share of non-MF is 40-45%.
- Bima Central (CAMSTRep) witnessed strong growth in the number of policies digitized during the quarter, which grew from 0.5m until FY24 to 1m in 2QFY25. CAMS sees huge growth opportunities in this segment.
- The overall cost grew 27.5% YoY to INR1.95b (6% above estimates). However, the C/I ratio declined to 53.4% from 55.6% on a YoY basis.

- Employee costs increased 21.4% YoY (in-line) on account of an increase in the headcount and increments. Management guides for employee cost to remain in the range of 30-32% of the overall revenue.
- Other expenses were 16% higher on a YoY basis on account of one-off charges related to the MF Central incorporation, data privacy charges, etc.
- For H2FY25, we expect Revenue/EBITDA/PAT to grow 26%/31%/35% to INR7.6b/INR3.6b/INR2.6b.

#### Key takeaways from the management commentary

- Regarding the rationalization of the commission structure and its impact on yields, CAMS does not expect any radical changes and will continue to sell at cheaper rates due to telescopic pricing. The yields were stable for the quarter.
- CAMS board has approved the formation of a joint venture with KFin Technologies Ltd to operate MF Central, an industry leading unified platform for mutual fund investors and intermediaries. The revenue split would be in the ratio of 50:50 between CAMS and KFin.
- Think360 revenue declined during the quarter because: 1) Algo360 served as a forerunner to account aggregators; however, CAMS has observed that the market for account aggregators is clearly indicating a preference and 2) one of the large US-based analytics contracts did not see the scale-up it expected.

#### Valuation and view

- Empirically, CAMS has traded at a premium to listed AMCs in terms of one-year forward P/E. The premium for CAMS is well deserved, given: 1) the duopoly nature of the industry and high-entry barriers, 2) relatively low risk of a market share loss, and 3) higher customer ownership as compared to AMCs.
- Structural tailwinds in the MF industry would drive absolute growth in MF revenue. With favorable macro triggers and right investments, revenue contribution of Non-MF businesses for CAMS is expected to increase in the next three to five years.
- We have increased our earnings estimates by 5% each for FY25/FY26/FY27 to factor in the higher-than-expected MF AUM and non-MF revenue growth. We expect revenue/PAT to grow at a CAGR of 20%/26% over FY24-27 and reiterate a BUY rating on the stock with a one-year TP of INR5,500, premised at a P/E multiple of 42x on Sept'26E earnings.

Quarterly Performance

(INR m)

| Y/E March                           | FY24         |              |              |              | FY25         |              |              |              | FY24         | FY25E        | 2QFY25E      | Act v/s Est. (%) | YoY   | QoQ   |
|-------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|------------------|-------|-------|
|                                     | 1Q           | 2Q           | 3Q           | 4Q           | 1Q           | 2Q           | 3QE          | 4QE          |              |              |              |                  |       |       |
| Revenue from Operations             | 2,613        | 2,751        | 2,897        | 3,105        | 3,314        | 3,652        | 3,725        | 3,848        | 11,365       | 14,538       | 3,447        | 6.0              | 32.7  | 10.2  |
| Change YoY (%)                      | 10.4         | 13.5         | 18.9         | 24.6         | 26.8         | 32.7         | 28.6         | 23.9         | 16.9         | 27.9         | 25.3         |                  |       |       |
| Employee expenses                   | 950          | 977          | 997          | 1,048        | 1,130        | 1,186        | 1,209        | 1,241        | 3,972        | 4,766        | 1,152.5      | 2.9              | 21.4  | 4.9   |
| Total Operating Expenses            | 1,512        | 1,530        | 1,603        | 1,671        | 1,816        | 1,950        | 1,981        | 2,021        | 6,316        | 7,767        | 1,845        | 5.7              | 27.5  | 7.4   |
| Change YoY (%)                      | 9.0          | 12.2         | 18.4         | 19.2         | 20.1         | 27.5         | 23.6         | 20.9         | 14.7         | 23.0         | 20.6         |                  |       |       |
| <b>EBITDA</b>                       | <b>1,101</b> | <b>1,221</b> | <b>1,294</b> | <b>1,433</b> | <b>1,498</b> | <b>1,702</b> | <b>1,744</b> | <b>1,827</b> | <b>5,049</b> | <b>6,771</b> | 1,601        | 6.3              | 39.4  | 13.6  |
| Other Income                        | 97           | 96           | 99           | 114          | 117          | 126          | 135          | 144          | 406          | 522          | 117          | 7.4              | 30.6  | 7.4   |
| Depreciation                        | 165          | 174          | 185          | 181          | 170          | 184          | 184          | 185          | 705          | 722          | 170          | 8.2              | 5.4   | 8.2   |
| Finance Cost                        | 20           | 20           | 21           | 21           | 21           | 22           | 22           | 23           | 82           | 88           | 21           | 1.3              | 9.7   | 1.3   |
| <b>PBT</b>                          | <b>1,012</b> | <b>1,124</b> | <b>1,187</b> | <b>1,346</b> | <b>1,424</b> | <b>1,622</b> | <b>1,673</b> | <b>1,763</b> | <b>4,668</b> | <b>6,483</b> | <b>1,527</b> | 6.2              | 44.4  | 13.9  |
| Change YoY (%)                      | 16.4         | 15.9         | 21.4         | 36.6         | 40.7         | 44.4         | 41.0         | 31.0         | 22.8         | 38.9         | 35.9         |                  |       |       |
| Tax Provisions                      | 255          | 286          | 302          | 316          | 354          | 414          | 418          | 434          | 1,159        | 1,621        | 382          | 8.5              | 45.0  | 16.9  |
| <b>Net Profit</b>                   | <b>757</b>   | <b>838</b>   | <b>885</b>   | <b>1,030</b> | <b>1,070</b> | <b>1,208</b> | <b>1,255</b> | <b>1,329</b> | <b>3,510</b> | <b>4,862</b> | <b>1,145</b> | 5.5              | 44.2  | 13.0  |
| Change YoY (%)                      | 17.1         | 16.2         | 20.3         | 38.5         | 41.3         | 44.2         | 41.8         | 29.1         | 23.3         | 38.5         | 36.7         |                  |       |       |
| <b>Key Operating Parameters (%)</b> |              |              |              |              |              |              |              |              |              |              |              |                  |       |       |
| Cost to Operating Income Ratio      | 57.9         | 55.6         | 55.3         | 53.8         | 54.8         | 53.4         | 53.2         | 52.5         | 55.6         | 53.4         | 53.5         | -0.2             | (2.2) | (1.4) |
| EBITDA Margin                       | 42.1         | 44.4         | 44.7         | 46.2         | 45.2         | 46.6         | 46.8         | 47.5         | 44.4         | 46.6         | 46.5         | 0.2              | 2.2   | 1.4   |
| PBT Margin                          | 38.7         | 40.8         | 41.0         | 43.3         | 43.0         | 44.4         | 44.9         | 45.8         | 41.1         | 44.6         | 44.3         | 0.1              | 3.6   | 1.5   |
| Tax Rate                            | 25.2         | 25.4         | 25.4         | 23.5         | 24.9         | 25.5         | 25.0         | 24.6         | 24.8         | 25.0         | 25.0         | 0.5              | 0.1   | 0.6   |
| PAT Margin                          | 29.0         | 30.5         | 30.6         | 33.2         | 32.3         | 33.1         | 33.7         | 34.5         | 30.9         | 33.4         | 33.2         | -0.1             | 2.6   | 0.8   |
| <b>Key Parameters</b>               |              |              |              |              |              |              |              |              |              |              |              |                  |       |       |
| QAUM (INR t)                        | 30.0         | 32.5         | 34.0         | 37.2         | 40.3         | 44.8         | 45.7         | 46.6         | 33.4         | 43.5         | 41.9         | 6.9              | 37.8  | 11.2  |



# Kalpataru Projects

Estimate changes



TP change



Rating change



|                       | KPIL IN     |
|-----------------------|-------------|
| Bloomberg             |             |
| Equity Shares (m)     | 162         |
| M.Cap.(INRb)/(USDb)   | 201.7 / 2.4 |
| 52-Week Range (INR)   | 1449 / 601  |
| 1, 6, 12 Rel. Per (%) | -5/-2/66    |
| 12M Avg Val (INR M)   | 517         |

## Financials Snapshot (INR b)

| Y/E MARCH   | FY25E | FY26E | FY27E |
|-------------|-------|-------|-------|
| Net Sales   | 197.6 | 242.6 | 290.9 |
| EBITDA      | 16.9  | 21.7  | 26.9  |
| PAT         | 7.6   | 10.4  | 13.8  |
| EPS (INR)   | 46.4  | 63.9  | 84.5  |
| GR. (%)     | 42.5  | 37.6  | 32.3  |
| BV/Sh (INR) | 391.1 | 448.1 | 525.6 |

## Ratios

|          |      |      |      |
|----------|------|------|------|
| ROE (%)  | 12.5 | 15.2 | 17.4 |
| RoCE (%) | 10.9 | 12.7 | 14.3 |

## Valuations

|               |      |      |      |
|---------------|------|------|------|
| P/E (X)       | 27.2 | 19.7 | 14.9 |
| P/BV (X)      | 3.2  | 2.8  | 2.4  |
| EV/EBITDA (X) | 13.6 | 10.8 | 8.8  |
| Div Yield (%) | 0.6  | 0.6  | 0.6  |

## Shareholding pattern (%)

| As On    | Sep-24 | Jun-24 | Sep-23 |
|----------|--------|--------|--------|
| Promoter | 35.2   | 35.2   | 41.1   |
| DII      | 45.9   | 45.6   | 42.7   |
| FII      | 10.7   | 10.1   | 8.5    |
| Others   | 8.1    | 9.1    | 7.7    |

FII Includes depository receipts

**CMP: INR1,242**

**TP: INR1,500 (+21%)**

**Buy**

## Second half poised to see a healthy uptick

Kalpataru Projects' (KPIL) 2QFY25 revenue was in line with our estimate. KPIL reported a revenue growth of 8% YoY, while EBITDA/PAT grew 13%/17% YoY. Execution growth was adversely impacted by delayed collections from water projects, which is likely to improve following the state elections. The company foresees an annual pipeline of ~INR600b for domestic T&D projects in the coming few years. We expect KPIL to be a key beneficiary of the robust T&D pipeline across domestic and international geographies, buoyant outlook for B&F projects, and improving international subsidiary performance. KPIL's focus on margin improvement, working capital management, and non-core asset divestment will augur well going forward. We cut our estimates by 6%/8%/5% for FY25/FY26/FY27 to factor in weaker-than-expected water segment performance; we roll forward our TP valuation to Dec'26E. We maintain our SOTP-based TP of INR1,500 based on 19x P/E for the core business on an improved prospect pipeline. Reiterate BUY.

## Results largely in line

Revenue came in line at INR41.4b (+8% YoY) in 2QFY25, primarily led by robust execution in T&D/B&F segments (up 25%/19% YoY). Water and Railways segment revenues declined 43%/40% YoY. EBITDA margin was flat sequentially at 8.4% (our est. 8.6%) but expanded ~40bp YoY. EBITDA at INR3.5b grew 13% YoY/11% QoQ. PAT at INR1.3b grew 17% YoY, aided by a lower effective tax rate (27.9% vs. 29.4% in 2QFY24), while other income grew 6% YoY. Order inflows at INR48.5b were flat YoY. The order book stood at INR606.3b (+29% YoY). NWC improved QoQ to 118 days in 2QFY25 vs. 124 in 1QFY25. The management aims to bring it down by FY25-end. Net debt eased to INR27.9b from INR29b in 1QFY25. However, it inched up vs. 2QFY24 levels of INR22.1b mainly due to higher working capital. For 1HFY25, revenue/EBITDA/PAT stood at INR78.6b/INR6.6b/INR2.5b, up 5%/7%/4%. 1HFY25 saw order inflows of INR118.6b (down 3% YoY). During 1HFY25, operating cash flows and free cash flows were impacted by higher working capital and capex of INR2.5b.

## T&D and B&F outlook continues to be robust

The outlook for T&D will continue to be robust across both domestic and international geographies, with the global focus on renewable energy. In India, there is a renewed interest in thermal power coupled with the ongoing thrust on renewable energy, which will necessitate investments in strengthening the T&D infrastructure. Similarly, B&F is witnessing healthy traction from data centers, real estate, airports, industrial capex, etc. and will be a key growth driver going ahead. Collectively, T&D and B&F segments account for 90% of the overall order inflows of INR118.6b in 1HFY25.

### Weakness in water and railways to persist

Water projects have dragged overall performance during the quarter owing to delayed collections by a few states. Some states have already started releasing payments, while collections from the remaining states will increase post-state elections. Execution of water projects thus is impacted by the build-up of working capital, and this may affect overall revenue growth too for FY25. Along with this, we also expect the railways segment to remain weak due to conscious bidding for these projects. Thus, for FY25, we expect both railways and water segments revenue growth to remain weak, leading to a downward revision in our estimates.

### Working capital rises YoY

NWC moved up to 118 days in 2QFY25 vs. 104 days in 2QFY24, despite 8% revenue growth owing to delays in payments for water projects. Sequentially, there was a slight improvement from 125 days, and management is confident of bringing it down to ~100 days by 4QFY25. Net debt also increased to INR27.9b from INR22.2b in 2QFY24, and the company expects it to come down in 2HFY25 as execution and customer collections see an uptick.

### Fund raise to achieve multiple objectives

The company is planning to raise funds up to INR10b via QIP with a view to fund capacity expansion, meeting working capital requirements, strengthening the balance sheet, and exploring any inorganic opportunities on the manufacturing side.

### Financial outlook

We cut our estimates to factor in lower water segment revenue. We expect KPIL to report a CAGR of 20%/25%/37% in revenue/EBITDA/PAT over FY24-27. This would be driven by: 1) inflows of INR264b/INR303b/INR349b in FY25/FY26/FY27 on a strong prospect pipeline, 2) a gradual recovery in EBITDA margin to 8.6%/9.0%/9.3% in FY25E/FY26E/27E, 3) control over working capital owing to improved customer advances, better debtor collections from railways, and claims settlement. Driven by improvement in margins and moderation in working capital, we expect KPIL's RoE and RoCE to improve to 17% and 14% in FY27E, respectively.

### Valuation and view

KPIL is currently trading at 19.7x/14.9x FY26E/FY27E EPS. We cut our estimates but roll forward our valuation to Dec'26E earnings. We maintain our SOTP-based TP of INR1,500, based on 19x P/E for the core business. **Reiterate BUY.**

### Key risks and concerns

Slowdown in execution, lower-than-expected order inflows, sharp rise in commodity prices, and increase in promoter pledge are some of the key concerns that can weigh on the financials and valuations of the company.



**Standalone - Quarterly Earnings Model**

(INR m)

| Y/E March                    | FY24          |               |               |               | FY25E         |               |               |               | FY24            | FY25E           | FY25          | Est       |
|------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|-----------------|-----------------|---------------|-----------|
|                              | 1Q            | 2Q            | 3Q            | 4Q            | 1Q            | 2Q            | 3QE           | 4QE           |                 |                 | 2QE           | Var. (%)  |
| <b>Net Sales</b>             | <b>36,220</b> | <b>38,440</b> | <b>41,470</b> | <b>51,470</b> | <b>37,220</b> | <b>41,361</b> | <b>51,381</b> | <b>67,656</b> | <b>1,67,600</b> | <b>1,97,618</b> | <b>41,128</b> | <b>1</b>  |
| YoY Change (%)               | 15.4          | 16.7          | 18.2          | 17.1          | 2.8           | 7.6           | 23.9          | 31.4          | 16.9            | 17.9            | 7.0           |           |
| Total Expenditure            | 33,080        | 35,360        | 38,030        | 47,470        | 34,080        | 37,877        | 47,013        | 61,751        | 1,53,940        | 1,80,721        | 37,591        |           |
| <b>EBITDA</b>                | <b>3,140</b>  | <b>3,080</b>  | <b>3,440</b>  | <b>4,000</b>  | <b>3,140</b>  | <b>3,485</b>  | <b>4,367</b>  | <b>5,905</b>  | <b>13,660</b>   | <b>16,897</b>   | <b>3,537</b>  | <b>-1</b> |
| Margins (%)                  | 8.7           | 8.0           | 8.3           | 7.8           | 8.4           | 8.4           | 8.5           | 8.7           | 8.2             | 8.6             | 8.6           |           |
| Depreciation                 | 930           | 880           | 940           | 930           | 930           | 914           | 971           | 1,070         | 3,680           | 3,886           | 971           | -6        |
| Interest                     | 750           | 850           | 830           | 940           | 860           | 998           | 942           | 967           | 3,370           | 3,766           | 919           | 9         |
| Other Income                 | 290           | 250           | 270           | 320           | 290           | 264           | 241           | 168           | 1,130           | 962             | 227           | 16        |
| <b>PBT before EO expense</b> | <b>1,750</b>  | <b>1,600</b>  | <b>1,940</b>  | <b>2,450</b>  | <b>1,640</b>  | <b>1,836</b>  | <b>2,695</b>  | <b>4,036</b>  | <b>7,740</b>    | <b>10,207</b>   | <b>1,874</b>  | <b>-2</b> |
| Extra-Ord expense            | 0             | 0             | 0             | 350           | 0             | 0             | 0             | 0             | 350             | 0               | 0             |           |
| <b>PBT</b>                   | <b>1,750</b>  | <b>1,600</b>  | <b>1,940</b>  | <b>2,100</b>  | <b>1,640</b>  | <b>1,836</b>  | <b>2,695</b>  | <b>4,036</b>  | <b>7,390</b>    | <b>10,207</b>   | <b>1,874</b>  | <b>-2</b> |
| Tax                          | 490           | 470           | 500           | 600           | 470           | 513           | 690           | 940           | 2,060           | 2,613           | 480           |           |
| Rate (%)                     | 28.0          | 29.4          | 25.8          | 28.6          | 28.7          | 27.9          | 25.6          | 23.3          | 27.9            | 25.6            | 25.6          |           |
| <b>Reported PAT</b>          | <b>1,260</b>  | <b>1,130</b>  | <b>1,440</b>  | <b>1,500</b>  | <b>1,170</b>  | <b>1,323</b>  | <b>2,005</b>  | <b>3,096</b>  | <b>5,330</b>    | <b>7,594</b>    | <b>1,395</b>  | <b>-5</b> |
| <b>Adj PAT</b>               | <b>1,260</b>  | <b>1,130</b>  | <b>1,440</b>  | <b>1,750</b>  | <b>1,170</b>  | <b>1,323</b>  | <b>2,005</b>  | <b>3,096</b>  | <b>5,582</b>    | <b>7,594</b>    | <b>1,395</b>  | <b>-5</b> |
| YoY Change (%)               | -23.2         | 8.7           | 29.7          | 52.6          | -7.1          | 17.1          | 39.2          | 76.9          | 19.1            | 36.0            | 23.4          |           |
| Margins (%)                  | 3.5           | 2.9           | 3.5           | 3.4           | 3.1           | 3.2           | 3.9           | 4.6           | 3.3             | 3.8             | 3.4           |           |



# Quess Corp

|                 |   |
|-----------------|---|
| Estimate change | ↔ |
| TP change       | ↓ |
| Rating change   | ↔ |

**CMP: INR664      TP: INR750 (13%)      Neutral**

|                       |            |
|-----------------------|------------|
| Bloomberg             | QUESS IN   |
| Equity Shares (m)     | 149        |
| M.Cap.(INRb)/(USDb)   | 98.7 / 1.2 |
| 52-Week Range (INR)   | 875 / 416  |
| 1, 6, 12 Rel. Per (%) | -9/-3/30   |
| 12M Avg Val (INR M)   | 343        |

## No major surprises

### 2H to be better in terms of margin

- Quess Corp (QUESS) delivered 3.5% QoQ/9.1% YoY growth in revenue in 2QFY25, in line with our estimate.
- The headcount addition was muted at ~11.8k net. EBITDA margin at 3.8% (stable QoQ) was in line with our estimate of 3.8%. Adj. PAT increased 34% YoY to INR921m, below our estimate of INR1,053m, largely due to lower other income and ETR (8.4% vs. 10% estimated).
- For 1HFY25, revenue/EBITDA/PAT grew 8.9%/19.2%/63.9% YoY. We expect revenue/EBITDA/PAT to grow by 10.2%/11.5%/41.4% YoY in 2HFY25.
- **We reiterate our Neutral** rating due to full valuations, taxation concerns, and limited margin expansion. Our TP of INR750 implies 20x Sep'26E P/E.

### Financials & Valuations (INR b)

| Y/E Mar           | 2024  | 2025E | 2026E |
|-------------------|-------|-------|-------|
| Sales             | 209.3 | 235.8 | 265.7 |
| EBITDA Margin (%) | 3.8   | 4.1   | 4.3   |
| Adj. PAT          | 4.1   | 5.1   | 6.0   |
| Adj. EPS (INR)    | 27.1  | 34.1  | 40.4  |
| EPS Gr. (%)       | 32.8  | 25.6  | 18.6  |
| BV/Sh. (INR)      | 260.9 | 284.1 | 317.6 |

### Our view: General staffing doing well, IT still muted

- 2Q growth was again driven by general staffing, with the management noting robust demand in manufacturing, logistics, and healthcare. While IT staffing remained subdued, GCC segment continued to expand, accounting for ~68% of IT staffing revenue. The mix is increasingly shifting toward GCC and niche skill-driven demand (carries higher margins), which we believe provides resilience against the softer IT/ITES staffing market. We anticipate a pickup in IT hiring later in FY25.
- For 3Q, the company expects net additions and quality mandates from GCCs, though Quess is facing challenges in its international business as wage inflation and regulatory issues impact visas in the APAC region, putting short-term pressure on this segment.

### Ratios

|                    |      |      |      |
|--------------------|------|------|------|
| RoE (%)            | 14.1 | 16.5 | 17.7 |
| RoCE (%)           | 15.6 | 18.0 | 19.3 |
| Payout (%)         | 56.8 | 47.0 | 39.6 |
| Dividend Yield (%) | 2.4  | 2.4  | 2.4  |

### Valuation and change in estimates

- We have kept our estimates largely unchanged. We expect EBITDA margin to gradually improve to 3.8%/4.1%/4.3% for FY25/FY26/FY27. Accordingly, we expect a PAT CAGR of 29% over FY24-27E.
- Though QUESS should benefit from medium-term tailwinds of formalization and labor reforms, the growth has already been factored into the valuations. **We reiterate our Neutral** rating due to full valuations, taxation concerns, and limited margin expansion. Our TP of INR750 implies 20x Sep'26E P/E.

### Valuations

|               |      |      |      |
|---------------|------|------|------|
| P/E (x)       | 24.7 | 19.7 | 16.6 |
| P/BV (x)      | 2.6  | 2.4  | 2.1  |
| EV/EBITDA (x) | 12.6 | 10.3 | 8.6  |
| EV/Sales (x)  | 0.5  | 0.4  | 0.4  |

### Shareholding pattern (%)

| As On    | Sep-24 | Jun-24 | Sep-23 |
|----------|--------|--------|--------|
| Promoter | 56.6   | 56.6   | 56.7   |
| DII      | 11.0   | 11.0   | 10.2   |
| FII      | 15.8   | 15.9   | 16.9   |
| Others   | 16.6   | 16.5   | 16.2   |

FII Includes depository receipts

### In-line revenue and margin

- Revenue was up 3.5% QoQ/9.1% YoY in 2QFY25, in line with our expectation of 3.3% QoQ/8.8% YoY.
- Workforce Management (WFM) grew 13% YoY; Operating Asset Management (OAM) grew 9% YoY; Global Technology Solutions (GTS) grew 7% YoY; and Product-led business (excluding Qdigi) grew 12% YoY.
- EBITDA margin was stable at 3.8%, in line with our estimate of 3.8%. For WFM/GTS/OAM, EBITDA margin was stable at 2.4%/4.8%/17.5% in 2Q.
- Adj. PAT was up 34% YoY to INR921m, below our estimate of INR1,053m, largely due to lower other income and ETR (8.4% vs. 10% estimated).
- QUESS added total ~11.8k employees in 2Q (10.5k employees in WFM).
- In WFM, 128 new contracts were added with an ACV of INR1b (74 contracts added in GS).

### Key highlights from the management commentary

- GCC revenue contribution was 68%. 3Q is expected to see net additions and quality mandates, with 74% of new business coming from GCCs. The entire mix for QUESS is changing.
- Overseas staffing saw muted growth. Headwinds continue in APAC due to regulatory issues impacting visas.
- Customer Lifecycle Management follows a strong trajectory, driven by domestic and international markets.
- Foundit registered healthy growth while seeing a decline in cash burn. Job postings have increased. Placement agencies and smaller staffing companies are not spending. Candidate services are growing. IT services saw slow growth, but the order book is seeing strong build-up. EBITDA is expected to break even before 4Q end, contributing to better EBITDA margins.
- 2H is expected to be better in terms of margin. 1H witnessed cyclicality in F&B and telecom businesses. Margins are expected to inch toward 4% in 2H. Levers for margin improvement include a recovery in international business and volume growth.

### Valuation and View: Reiterate Neutral

- Though QUESS should benefit from the medium-term tailwinds of formalization and labor reforms, the growth has already been factored into the valuations.
- We expect a gradual recovery in margins over FY25-27, which should support earnings.
- **We reiterate our NEUTRAL** rating due to full valuations, taxation concerns, and limited margin expansion. Our TP of INR750 implies 20x Sep'26E P/E.

#### Consolidated - Quarterly

(INR m)

| Y/E March                    | FY24          |               |               |               | FY25E         |               |               |               | FY24            | FY25E           | Est. 2QFY25   | Var. (% / bp) |
|------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|-----------------|-----------------|---------------|---------------|
|                              | 1Q            | 2Q            | 3Q            | 4Q            | 1Q            | 2Q            | 3QE           | 4QE           |                 |                 |               |               |
| <b>Net Sales</b>             | <b>46,002</b> | <b>47,483</b> | <b>48,418</b> | <b>49,098</b> | <b>50,031</b> | <b>51,794</b> | <b>53,111</b> | <b>54,347</b> | <b>1,91,001</b> | <b>2,09,284</b> | <b>51,678</b> | <b>0.2</b>    |
| YoY Change (%)               | 15.6          | 11.1          | 8.4           | 10.6          | 8.8           | 9.1           | 9.7           | 10.7          | 11.3            | 9.6             | 8.8           | 24            |
| Total Expenditure            | 44,463        | 45,800        | 46,608        | 47,146        | 48,147        | 49,838        | 51,053        | 52,210        | 1,84,017        | 2,01,249        | 49,707        | 0.3           |
| <b>EBITDA</b>                | <b>1,539</b>  | <b>1,683</b>  | <b>1,810</b>  | <b>1,952</b>  | <b>1,884</b>  | <b>1,956</b>  | <b>2,058</b>  | <b>2,137</b>  | <b>6,984</b>    | <b>8,035</b>    | <b>1,971</b>  | <b>-0.8</b>   |
| Margins (%)                  | 3.3           | 3.5           | 3.7           | 4.0           | 3.8           | 3.8           | 3.9           | 3.9           | 3.7             | 3.8             | 3.8           | -3.8          |
| Depreciation                 | 686           | 697           | 718           | 731           | 690           | 697           | 772           | 772           | 2,832           | 2,930           | 748           | -6.8          |
| <b>EBIT</b>                  | <b>853</b>    | <b>987</b>    | <b>1,092</b>  | <b>1,220</b>  | <b>1,194</b>  | <b>1,259</b>  | <b>1,286</b>  | <b>1,365</b>  | <b>4,152</b>    | <b>5,105</b>    | <b>1,223</b>  | <b>2.9</b>    |
| Margins (%)                  | 1.9           | 2.1           | 2.3           | 2.5           | 2.4           | 2.4           | 2.4           | 2.5           | 2.2             | 2.4             | 2.4           | 6             |
| Interest                     | 272           | 330           | 354           | 266           | 282           | 284           | 219           | 219           | 1,222           | 1,005           | 257           | 10.6          |
| Other Income                 | 41            | 151           | 52            | 50            | 102           | 44            | 137           | 137           | 295             | 419             | 204           |               |
| <b>PBT before EO expense</b> | <b>621</b>    | <b>809</b>    | <b>790</b>    | <b>1,005</b>  | <b>1,014</b>  | <b>1,018</b>  | <b>1,204</b>  | <b>1,283</b>  | <b>3,225</b>    | <b>4,519</b>    | <b>1,170</b>  | <b>-13.0</b>  |
| Recurring Tax                | 140           | 83            | -45           | -30           | 69            | 85            | 120           | 128           | 148             | 402             | 117           | -27.3         |
| Rate (%)                     | 22.6          | 10.3          | -5.7          | -3.0          | 6.8           | 8.4           | 10.0          | 10.0          | 4.6             | 8.9             | 10.0          |               |
| MI & P/L of Asso. Cos.       | 3.1           | -9.8          | -2            | 35            | 78.7          | 12.4          | 0             | 0             | 25.5            | 91.0            | 0             |               |
| <b>Adjusted PAT</b>          | <b>478</b>    | <b>735</b>    | <b>838</b>    | <b>1,000</b>  | <b>867</b>    | <b>921</b>    | <b>1,083</b>  | <b>1,154</b>  | <b>3,052</b>    | <b>4,025</b>    | <b>1,053</b>  | <b>-12.5</b>  |
| Extraordinary items          | 0             | 16            | 199           | 57            | -171          | -3            | 0             | 0             | 272             | -174            | 0             |               |
| <b>Reported PAT</b>          | <b>478</b>    | <b>719</b>    | <b>639</b>    | <b>943</b>    | <b>1,038</b>  | <b>924</b>    | <b>1,083</b>  | <b>1,154</b>  | <b>2,780</b>    | <b>4,200</b>    | <b>1,053</b>  | <b>-12.2</b>  |
| YoY Change (%)               | -22.0         | 71.0          | -27.4         | 184.8         | 117.1         | 28.5          | 69.5          | 22.4          | 23.8            | 51.1            | 46.4          | -1,793        |
| Margins (%)                  | 1.0           | 1.5           | 1.3           | 1.9           | 2.1           | 1.8           | 2.0           | 2.1           | 1.5             | 2.0             | 2.0           | -25           |



|                 |   |
|-----------------|---|
| Estimate change | ↓ |
| TP change       | ↓ |
| Rating change   | ↔ |

**CMP: INR385      TP: INR480 (+25%)      Buy**

**International business faces short-term hurdles**

**Focus on rationalizing loss-making/tail accounts; reiterate BUY**

|                       |            |
|-----------------------|------------|
| Bloomberg             | SECIS IN   |
| Equity Shares (m)     | 144        |
| M.Cap.(INRb)/(USDb)   | 55.7 / 0.7 |
| 52-Week Range (INR)   | 565 / 375  |
| 1, 6, 12 Rel. Per (%) | -2/-25/-37 |
| 12M Avg Val (INR M)   | 56         |

**Financials & Valuations (INR b)**

| Y/E Mar       | FY25E | FY26E | FY27E |
|---------------|-------|-------|-------|
| Sales         | 133.8 | 149.6 | 167.3 |
| EBITDA Margin | 4.6   | 4.9   | 5.2   |
| Adj. PAT      | 3.8   | 4.9   | 5.8   |
| EPS (INR)     | 26.3  | 33.4  | 39.9  |
| EPS Gr. (%)   | 102.5 | 27.3  | 19.4  |
| BV/Sh. (INR)  | 408.8 | 479.8 | 564.6 |

**Ratios**

|            |      |      |      |
|------------|------|------|------|
| RoE (%)    | 14.6 | 16.0 | 16.2 |
| RoCE (%)   | 11.1 | 12.2 | 13.0 |
| Payout (%) | 0.0  | 0.0  | 0.0  |

**Valuations**

|               |      |      |     |
|---------------|------|------|-----|
| P/E (x)       | 14.7 | 11.5 | 9.6 |
| P/BV (x)      | 0.9  | 0.8  | 0.7 |
| EV/EBITDA (x) | 10.0 | 7.9  | 6.2 |
| EV/Sales (x)  | 0.5  | 0.4  | 0.3 |

**Shareholding Pattern (%)**

| As On    | Sep-24 | Jun-24 | Sep-23 |
|----------|--------|--------|--------|
| Promoter | 71.9   | 71.7   | 71.6   |
| DII      | 5.3    | 3.0    | 3.1    |
| FII      | 13.6   | 16.6   | 16.3   |
| Others   | 9.3    | 8.7    | 9.0    |

FII includes depository receipts

- SIS (SECIS)'s 2QFY25 revenue was up 6.3% YoY/4.4% QoQ at INR32.68b, largely in line with our estimate of INR34.51b. Growth was led by Security Solutions – International business (up 5.6% QoQ/7.0% YoY). EBITDA margin came in at 4.4% (vs. est. 5.0%), down 30bp YoY. Margin for India Security contracted 20bp YoY to 5.5%, while the same for International Business contracted 70bp YoY due to the loss of certain high-margin contracts during the previous year.
- Consolidated adj. PAT stood at INR688m (down 8.6% YoY), below our estimate of INR1,161m, on account of higher ETR and interest expense. For 1HFY25, revenue grew 5.8% while EBITDA/PAT declined 0.5%/19.3% vs. 1HFY24. We expect revenue/EBITDA/PAT to grow 12.4%/42.8%/8.8x YoY (owing to low base) in 2HFY25. **We reiterate our BUY rating on the stock** with a TP of INR480, implying 25% potential upside.
- SECIS witnessed decent growth across all segments this quarter. The India Security business was up 6.3% YoY in 2Q and is expected to sustain its growth momentum, with guidance for mid-teens organic growth. Consistent deal wins in sectors such as Transportation, Logistics, and BFSI provide a stable growth foundation; however, profitability remains under pressure as SECIS's price growth has been limited due to wage hikes, with the company still aiming to return to pre-COVID margin levels of 6%. We expect the Indian business to clock a revenue CAGR of 13% over FY24-27.
- Additionally, Its International business, particularly the Australian business, is still under pressure and could post a modest 6.4% CAGR over FY24-27. Management expects turbulence in its International business in the near term, particularly in Australia.
- **Margins:** The margin contraction in 1QFY25 (-30bp YoY) was due to the International business (-60bp YoY) facing labor shortages, loss of high-margin contracts, and high labor costs. These trends are expected to continue in the short term, with higher wage costs and labor issues likely to take a couple of quarters to resolve in Australia. The International business is projected to have a ~3.9%-4.5% margin, while the FM business margin is expected to inch up towards 5.0%.
- Management aims to expand the EBITDA margin by focusing on rationalizing loss-making/tail accounts and SG&A rationalization. We expect overall margins at 4.6%/4.9%/5.2% in FY25E/26E/27E.
- We trim our EPS by ~8-9% to factor in ongoing pressure in the Australian business and lower profitability in Security Solutions – India Business. We value SECIS at INR480 (25% potential upside), assigning an 8x forward EV/EBITDA multiple to its international business (in line with global peers) and DCF to its Indian business. We reiterate our **BUY** rating on the stock.

### In-line revenues and margins

- SECIS's revenue grew 6.3% YoY/4.4% QoQ at ~INR32.68b vs. our est. of INR34.51b.
- Revenue growth was aided by ~6.3% YoY growth in India Security, whereas Facility Management/International Security posted a modest growth of 4.8%/3.2% YoY.
- EBITDA margin came in at 4.4%, down 30bp YoY (vs. est. 5.0%). Margin for India Security contracted 20bp YoY to 5.5%, while the same for International Business contracted 70bp YoY.
- Consolidated adj. PAT stood at IN688m (down 8.6% YoY). On a standalone basis, SECIS's current tax rate continues to be close to NIL due to the benefits accruing under Section 80JJAA of the Income Tax Act, 1961.
- Net debt amounted to INR8.6b from INR10.2b in 1QFY25. Net debt/EBITDA stood at 1.4x vs. 1.7x in 1QFY25.
- OCF/EBITDA conversion was 166.1% owing to better working capital management.

### Key highlights from the management commentary

- Revenue stood at INR32.68b, up 6.4% YoY. Growth was observed across all three segments. There are no M&A activities at an advanced stage; organic growth remains the key driver.
- Australia and India have a strong order book lined up for the 2H.
- Security Solutions – India noted margin expansion QoQ despite the full impact of annual salary revisions for back-office employees effective Jun'24, supported by focused margin management initiatives.
- The company expects mid-teens organic growth in the India Security business.
- Security Solutions – International: EBITDA margin for Q2 FY25 was 3.3%, slightly down from 3.4% in Q1 FY25, marginally impacted by the 3.75% minimum wage revision by Fair Work Australia effective July 1<sup>st</sup>.
- The Singapore acquisition is performing well, with the business at breakeven and cash/bank balances exceeding USD20m, though it remains a small part of the SECIS ecosystem.
- Net Debt/EBITDA was 1.47x at the end of 2QFY25, down from 1.76x at the end of 1QFY25, driven by the repayment of certain long-term debts and improved working capital management.

### Valuation and view

- With the liberalization and formalization of labor markets and laws, SECIS should be among the biggest direct beneficiaries. It has managed to gain market share during the last few years, and the trend is expected to continue.
- We value SECIS using SOTP: 1) DCF for the India Security business (INR291), 2) an EV/EBITDA multiple of 8x (INR130) for the International Security business (in line with global peers), and 3) DCF for the FM business (INR113) less net debt (INR106). **Consequently, we arrive at our TP of INR480. We reiterate our BUY rating on the stock.**



**Consolidated - Quarterly Model**

(INR m)

| Y/E March                      | FY24          |               |               |               | FY25E         |               |               |               | FY24            | FY25E           | Est.<br>2QFY25 | Var<br>(%/bp) |
|--------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|-----------------|-----------------|----------------|---------------|
|                                | 1Q            | 2Q            | 3Q            | 4Q            | 1Q            | 2Q            | 3QE           | 4QE           |                 |                 |                |               |
| <b>Gross Sales</b>             | <b>29,767</b> | <b>30,736</b> | <b>30,734</b> | <b>31,376</b> | <b>31,299</b> | <b>32,688</b> | <b>34,594</b> | <b>35,220</b> | <b>1,22,614</b> | <b>1,33,800</b> | <b>34,508</b>  | <b>-5.3</b>   |
| YoY Change (%)                 | 11.1          | 11.1          | 5.8           | 4.7           | 5.1           | 6.3           | 12.6          | 12.3          | 8.1             | 9.1             | 12.3           | -590bp        |
| Total Expenditure              | 28,377        | 29,292        | 29,221        | 30,537        | 29,925        | 31,241        | 32,959        | 33,495        | 1,17,426        | 1,27,619        | 32,797         | -4.7          |
| <b>EBITDA</b>                  | <b>1,390</b>  | <b>1,445</b>  | <b>1,514</b>  | <b>839</b>    | <b>1,374</b>  | <b>1,447</b>  | <b>1,635</b>  | <b>1,725</b>  | <b>5,188</b>    | <b>6,181</b>    | <b>1,712</b>   | <b>-15.4</b>  |
| Margins (%)                    | 4.7           | 4.7           | 4.9           | 2.7           | 4.4           | 4.4           | 4.7           | 4.9           | 4.2             | 4.6             | 5.0            | -50bp         |
| Depreciation                   | 358           | 404           | 416           | 486           | 427           | 420           | 441           | 459           | 1,663           | 1,748           | 469            | -10.4         |
| Interest                       | 327           | 347           | 404           | 403           | 422           | 404           | 143           | 143           | 1,482           | 1,112           | 200            | 101.8         |
| Other Income                   | 88            | 125           | 54            | 160           | 118           | 76            | 76            | 231           | 427             | 500             | 118            | -36.1         |
| <b>PBT</b>                     | <b>793</b>    | <b>819</b>    | <b>748</b>    | <b>111</b>    | <b>643</b>    | <b>699</b>    | <b>1,126</b>  | <b>1,353</b>  | <b>2,470</b>    | <b>3,821</b>    | <b>1,161</b>   | <b>-39.8</b>  |
| Tax                            | -50           | 132           | 447           | 289           | 70            | 72            | 56            | 68            | 819             | 266             | 58             | 24.0          |
| Rate (%)                       | -6.2          | 16.1          | 59.8          | 261.6         | 10.9          | 10.3          | 5.0           | 5.0           | 33.1            | 7.0             | 5.0            | 530bp         |
| MI & Profit/Loss of Asso. Cos. | 52            | 66            | 69            | 62            | 69            | 61            | 63            | 65            | 249             | 257             | 64             | -5            |
| <b>Adjusted PAT</b>            | <b>895</b>    | <b>753</b>    | <b>369</b>    | <b>-117</b>   | <b>642</b>    | <b>688</b>    | <b>1,133</b>  | <b>1,350</b>  | <b>1,900</b>    | <b>3,813</b>    | <b>1,167</b>   | <b>-41.0</b>  |
| YoY Change (%)                 | 8.4           | 11.6          | -64.3         | -112.6        | -28.3         | -8.6          | 206.8         | NA            | -45.2           | 100.7           | 55.0           |               |
| Margins (%)                    | 3.0           | 2.4           | 1.2           | -0.4          | 2.1           | 2.1           | 3.3           | 3.8           | 1.5             | 2.8             | 3.4            | -130bp        |

**Key Performance Indicators**

| Y/E March                       | FY24   |        |        |        | FY25   |        | FY24   |
|---------------------------------|--------|--------|--------|--------|--------|--------|--------|
|                                 | 1Q     | 2Q     | 3Q     | 4Q     | 1Q     | 2Q     |        |
| <b>Segment Revenue (INR m)</b>  |        |        |        |        |        |        |        |
| India Security business         | 12,291 | 13,020 | 13,180 | 13,093 | 13,375 | 13,843 | 51,585 |
| International Security business | 12,427 | 12,591 | 12,453 | 13,219 | 12,760 | 13,473 | 50,690 |
| Facilities Management           | 5,190  | 5,279  | 5,251  | 5,201  | 5,303  | 5,534  | 20,921 |
| <b>EBITDA Margin (%)</b>        |        |        |        |        |        |        |        |
| India Security business         | 5.4    | 5.7    | 6.1    | 5.5    | 5.4    | 5.5    | 5.7    |
| International Security business | 4.0    | 4.0    | 3.9    | 4.3    | 3.4    | 3.3    | 4.1    |
| Facilities Management           | 4.4    | 4.0    | 4.3    | 3.9    | 4.2    | 4.3    | 4.1    |



# Restaurant Brands Asia

Estimate change   
 TP change   
 Rating change

**CMP: INR92      TP: INR135 (+46%)      Buy**

## Overall weak performance; cost initiatives support margins

|                       |             |
|-----------------------|-------------|
| Bloomberg             | RBA IN      |
| Equity Shares (m)     | 498         |
| M.Cap.(INRb)/(USDb)   | 46 / 0.5    |
| 52-Week Range (INR)   | 134 / 91    |
| 1, 6, 12 Rel. Per (%) | -11/-16/-47 |
| 12M Avg Val (INR M)   | 353         |

### Financials & Valuations (INR b)

| Y/E March        | FY24 | FY25E | FY26E |
|------------------|------|-------|-------|
| Sales            | 24.4 | 25.9  | 31.3  |
| Sales growth (%) | 18.6 | 6.1   | 21.2  |
| EBITDA           | 2.4  | 2.7   | 4.3   |
| Margins (%)      | 9.9  | 10.4  | 13.6  |
| Adj. PAT         | -2.4 | -1.8  | -0.5  |
| Adj. EPS (INR)   | -4.8 | -3.6  | -1.0  |
| EPS Growth (%)   | N/M  | N/M   | N/M   |
| BV/Sh.(INR)      | 12.7 | 9.0   | 8.0   |

### Ratios

|          |       |       |       |
|----------|-------|-------|-------|
| RoE (%)  | -32.1 | -33.6 | -11.6 |
| RoCE (%) | -4.7  | -3.0  | 4.4   |

### Valuations

|                 |       |      |      |
|-----------------|-------|------|------|
| P/E (x)         | N/M   | N/M  | N/M  |
| P/BV (x)        | 7.3   | 10.2 | 11.4 |
| EV/EBITDA (x)   | 24.3  | 20.8 | 13.4 |
| EV/EBITDA (x) * | 226.5 | 91.5 | 27.7 |
| EV/Sales (x)    | 2.4   | 2.2  | 1.8  |

\*pre Ind-AS

### Shareholding pattern (%)

| As On    | Sep-24 | Jun-24 | Sep-23 |
|----------|--------|--------|--------|
| Promoter | 13.2   | 15.3   | 15.4   |
| DII      | 37.8   | 28.4   | 22.2   |
| FII      | 17.5   | 18.8   | 29.9   |
| Others   | 31.6   | 37.5   | 32.4   |

FII Includes depository receipts

- Restaurant Brands Asia (RBA)'s India business posted 9% YoY revenue growth (in line), led by a 15% YoY rise in store additions. Same-store sales declined by 3% amid a subdued demand environment. However, traffic growth was positive, mainly led by the value portfolio.
- India GM expanded 70bp YoY (flat QoQ) to 67.5% (in line). It was slightly affected by the introduction of a new value offering. We model ~68-69% GP margin for FY25 and FY26.
- India ROM (pre-Ind-AS) increased 8% YoY/20% QoQ to INR521m. Margins were flat YoY/up 170bp QoQ at 10.6%. EBITDA margins (pre-Ind-AS) were down 40bp YoY/up 140bp QoQ at 5.0%. Reported EBITDA margins grew 20bp YoY/160bp QoQ to 14.2% (est. 12.9%). RBA plans to continue enhancing delivery profitability by optimizing pricing, refining the menu mix, and cutting fixed costs such as utilities.
- Indonesia revenue declined 18% YoY, impacted by geopolitical crises and store closures (26 BK stores closed in FY24 and 1 in 1HFY25). Indonesia ADS for dine-in was down 22% YoY, while delivery was up 16% YoY. Indonesia ROM (pre-IND-AS) posted a loss of INR67mn in 2QFY25 vs. a loss of INR17mn in 2QFY24 and a profit of INR25mn in 1QFY25.
- Consol. EBITDA (post-IND-AS) was up 12% YoY at INR632m (est. INR653m) and margins were up 100bp YoY/30bp QoQ to 10.0% (est. 9.9%). High depreciation (up 15% YoY) and interest costs (up 21% YoY) led to a consolidated loss of INR655m vs. INR507m loss in 2QFY24 and INR522m loss in 1QFY25 (est. loss of INR494m). A partial increase in depreciation/interest was due to store closures in Indonesia.
- With an aggressive store addition outlook in India, RBA will continue to enjoy high store growth and margin expansion on cost control initiatives. The QSR industry is seeing demand challenges; hence, the near-term growth metrics for India business will see a slow recovery. RBA is taking several initiatives to control costs in Indonesia to improve its profitability. **We reiterate our BUY rating on the stock with a TP of INR135.**

## India margin expands despite weak SSSG; Indonesia remains sluggish

### India business

- **Subdued revenue growth; same-store sales decline:** India business revenue was up 9% YoY at INR4.9b (est. INR5.0b), led by 15% YoY store additions. Same-store sales declined 3% YoY (in line) due to subdued demand. ADS declined 6% YoY and 1% QoQ to INR118k.
- **Store expansion** – The company added 8 stores in 2QFY25 in India, bringing the total store count to 464 stores. The store count for BK Café reached 365 stores vs. 297 in 2QFY24 and 352 in 1QFY25. (79% of total BK stores).
- **Margin expansion** – India GP was up 10% YoY at INR3.3b (est. INR3.4); margins were up 70bp YoY and flat QoQ at 67.5%. India ROM (pre-Ind-AS) increased 8% YoY/20% QoQ to INR521m. Margins were flat YoY/up 170bp QoQ at 10.6%. EBITDA (pre-Ind-AS) was flat YoY/up 39% QoQ at INR244m, Margins contracted 40bp YoY to 5.0%.

- Reported EBITDA (post-Ind-AS) was up 10% YoY to INR700m (est. INR641m) and margins stood at 14.2% (est. 12.9%). Higher depreciation and interest resulted in a loss in the Indian business at INR166m in 2QFY25 vs. INR93m/INR269m loss in 2QFY24/2QFY25 (est. loss of INR209m).

### Consolidated business

- Consol revenue grew 1% YoY to INR6.3b (est. INR6.6b), led by weak revenue growth of both the Indian and Indonesian businesses. RBA added eight stores during the quarter, bringing the total store count to 638 (464/174 India BK/Indonesia stores).
- Consol GP was up 2% YoY at INR4.1b and margins expanded 70bp YoY and 40bp QoQ to 64.9% (est. 64.7%). Consol reported EBITDA (post IND AS) rose 12% YoY to INR632m (est. INR653m) and margins expanded 100bp YoY/30bp QoQ to 10.0% (est. 9.9%).
- High depreciation (up 15% YoY) and interest costs (up 21% YoY) led to a consolidated loss to INR655m vs. INR507m loss in 2QFY24 and INR522m loss in 1QFY25 (est. loss of INR494m).

### Key takeaways from the management commentary

- The demand environment in India remains subdued, leading to a decline in same-store sales. However, footfall is on the rise, primarily driven by the value-focused product portfolio.
- RBA's key priorities in India business include: 1) growing dine-in traffic, 2) strengthening value leadership, 3) driving digital transformation, 4) improving profitability, and 5) building new customer occasions.
- Indonesia ADS in dine-In dropped by 22% YoY. However, delivery sales saw a positive growth trend, up 16% YoY, driven by new promotions and a focus on the BK App.
- For the Popeyes brand in Indonesia, RBA aims to increase brand and product awareness by highlighting a unique menu mix of fried and grilled chicken options, appealing to a broader audience.
- RBA is maintaining profitability despite sales pressures due to effective cost management. To bolster profitability, RBA plans to continue enhancing delivery profitability by optimizing pricing, refining the menu mix, and cutting fixed costs such as utilities.

### Valuation and view

- We cut our EBITDA estimates by 8%/5% for FY25/FY26, mainly to factor in weakness in Indonesia business.
- We remain cautious about near-term QSR demand, which has adversely impacted growth and margins for most players in the industry. However, with focus on the value segment to drive traffic, RBA has been outperforming its peers.
- RBA's store addition during the quarter remained slow; however, it maintained its store addition guidance (510 stores by FY25), leading to strong store-led growth. BK Café is likely to be a key growth and margin driver over the medium term. EBITDA margin should also improve due to a recovery in dine-in traffic, better traction/penetration of BK Café, and other cost-saving initiatives.
- As more stores mature, improving the contribution of new stores in the network would also support the margin recovery. The Indonesia business should also witness a healthy revenue growth and margin expansion in the medium term.
- **Reiterate BUY with a TP of INR135, based on a 30x Sep'26E EV/EBITDA for India and 15x Sep'26E EV/EBITDA for Indonesia (Pre-Ind AS 116).**

**Quarterly Standalone Performance**

(INR m)

| Y/E March       | FY24  |       |       |       | FY25E |       |       |       | FY24   | FY25E   | FY25  | Var. (%) |
|-----------------|-------|-------|-------|-------|-------|-------|-------|-------|--------|---------|-------|----------|
|                 | 1Q    | 2Q    | 3Q    | 4Q    | 1Q    | 2Q    | 3QE   | 4QE   |        |         |       |          |
| SSSG (%)        | 3.6   | 3.5   | 2.6   | 1.9   | 3.1   | -3.0  | -1.0  | 0.9   | 2.9    | 0.0     | -3.0  |          |
| No. of stores   | 396   | 404   | 441   | 455   | 456   | 464   | 484   | 505   | 455    | 505     | 465   |          |
| Net Sales       | 4,221 | 4,535 | 4,454 | 4,391 | 4,905 | 4,921 | 4,900 | 5,002 | 17,601 | 19,728  | 4,968 | -0.9     |
| YoY change (%)  | 25.3  | 23.2  | 20.5  | 20.3  | 16.2  | 8.5   | 10.0  | 13.9  | 22.3   | 12.1    | 9.6   |          |
| Gross Profit    | 2,806 | 3,031 | 2,990 | 2,971 | 3,318 | 3,322 | 3,322 | 3,375 | 11,798 | 13,336  | 3,353 | -0.9     |
| Margin (%)      | 66.5  | 66.8  | 67.1  | 67.7  | 67.6  | 67.5  | 67.8  | 67.5  | 67.0   | 67.6    | 67.5  |          |
| EBITDA          | 485   | 634   | 708   | 551   | 618   | 700   | 769   | 663   | 2,377  | 2,749   | 641   | 9.2      |
| EBITDA growth % | 45.9  | 50.7  | 47.9  | 30.3  | 27.5  | 10.3  | 8.7   | 20.3  | 128.6  | 1,001.9 | 1.0   |          |
| Margin (%)      | 11.5  | 14.0  | 15.9  | 12.5  | 12.6  | 14.2  | 15.7  | 13.2  | 13.5   | 13.9    | 12.9  |          |
| Depreciation    | 507   | 494   | 522   | 586   | 633   | 611   | 615   | 616   | 2,110  | 2,475   | 615   |          |
| Interest        | 264   | 273   | 281   | 324   | 319   | 326   | 310   | 325   | 1,141  | 1,279   | 300   |          |
| Other Income    | 65    | 40    | 32    | 48    | 64    | 71    | 75    | 75    | 185    | 285     | 65    |          |
| PBT             | -222  | -93   | -64   | -310  | -269  | -166  | -81   | -204  | -689   | -720    | -209  |          |
| Tax             | 0     | 0     | 0     | 0     | 0     | 0     | 0     | 0     | 0      | 0       | 0     |          |
| Rate (%)        | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   | 0.0    | 0.0     | 0.0   |          |
| Adjusted PAT    | -222  | -93   | -64   | -310  | -269  | -166  | -81   | -204  | -689   | -720    | -209  |          |
| YoY change (%)  | NM    | NM    | NM    | NM    | NM    | NM    | NM    | NM    | NM     | NM      | NM    |          |

E: MOFSL Estimates

**Quarterly Consolidated Performance**

(INR m)

| Y/E March       | FY24  |       |       |       | FY25E |       |       |       | FY24   | FY25E  | FY25  | Var. (%) |
|-----------------|-------|-------|-------|-------|-------|-------|-------|-------|--------|--------|-------|----------|
|                 | 1Q    | 2Q    | 3Q    | 4Q    | 1Q    | 2Q    | 3QE   | 4QE   |        |        |       |          |
| No. of stores   | 575   | 578   | 628   | 630   | 630   | 638   | 663   | 694   | 630    | 694    | 644   |          |
| Net Sales       | 6,108 | 6,249 | 6,042 | 5,971 | 6,467 | 6,324 | 6,361 | 6,702 | 24,371 | 25,854 | 6,596 | -4.1     |
| YoY change (%)  | 24.8  | 19.1  | 14.8  | 16.2  | 5.9   | 1.2   | 5.3   | 12.2  | 18.6   | 6.1    | 5.6   |          |
| Gross Profit    | 3,912 | 4,013 | 3,891 | 3,836 | 4,171 | 4,104 | 4,152 | 4,340 | 15,651 | 16,767 | 4,265 | -3.8     |
| Margin (%)      | 64.0  | 64.2  | 64.4  | 64.2  | 64.5  | 64.9  | 65.3  | 64.8  | 64.2   | 64.9   | 64.7  |          |
| Total Exp       | 5,625 | 5,687 | 5,359 | 5,279 | 5,843 | 5,692 | 5,647 | 5,987 | 21,949 | 23,168 | 5,944 |          |
| EBITDA          | 483   | 562   | 684   | 692   | 624   | 632   | 714   | 715   | 2,421  | 2,686  | 653   | -3.1     |
| EBITDA growth % | 65.3  | 123.7 | 130.0 | 152.9 | 29.2  | 12.4  | 4.5   | 3.3   | 117.2  | 10.9   | 16.1  |          |
| Margin (%)      | 7.9   | 9.0   | 11.3  | 11.6  | 9.7   | 10.0  | 11.2  | 10.7  | 9.9    | 10.4   | 9.9   |          |
| Depreciation    | 787   | 786   | 801   | 1,187 | 916   | 907   | 925   | 891   | 3,561  | 3,640  | 925   |          |
| Interest        | 307   | 315   | 317   | 473   | 374   | 380   | 323   | 177   | 1,412  | 1,255  | 322   |          |
| Other Income    | 71    | 33    | 35    | 46    | 145   | 1     | 100   | 154   | 185    | 400    | 100   |          |
| PBT             | -541  | -507  | -399  | -921  | -522  | -655  | -434  | -198  | -2,367 | -1,809 | -494  |          |
| Tax             | 0     | 0     | 0     | 0     | 0     | 0     | 0     | 0     | 0      | 0      | 0     |          |
| Rate (%)        | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   | 0.0    | 0.0    | 0.0   |          |
| Adjusted PAT    | -541  | -507  | -399  | -921  | -522  | -655  | -434  | -198  | -2,367 | -1,809 | -494  |          |
| YoY change (%)  | NM    | NM    | NM    | NM    | NM    | NM    | NM    | NM    | NM     | NM     | NM    |          |

E: MOFSL Estimates



**Estimate changes**

TP change

Rating change



**CMP: INR274**

**TP: INR270 (-2%)**

**Neutral**

| Bloomberg             | NOCIL IN   |
|-----------------------|------------|
| Equity Shares (m)     | 167        |
| M.Cap.(INRb)/(USDb)   | 45.9 / 0.5 |
| 52-Week Range (INR)   | 336 / 211  |
| 1, 6, 12 Rel. Per (%) | 2/-7/-4    |
| 12M Avg Val (INR M)   | 345        |

**Financials & Valuations (INR b)**

| Y/E March   | FY25E | FY26E | FY27E |
|-------------|-------|-------|-------|
| Sales       | 15.1  | 17.8  | 21.4  |
| EBITDA      | 1.6   | 2.1   | 3.1   |
| PAT         | 1.3   | 1.4   | 2.1   |
| EPS (INR)   | 7.8   | 8.7   | 12.9  |
| EPS Gr. (%) | -1.1  | 11.1  | 48.7  |
| BV/Sh.(INR) | 105.9 | 111.3 | 119.3 |

**Ratios**

|            |      |      |      |
|------------|------|------|------|
| Net D:E    | -0.1 | -0.0 | -0.0 |
| RoE (%)    | 7.5  | 8.0  | 11.2 |
| RoCE (%)   | 7.1  | 7.6  | 10.6 |
| Payout (%) | 38.1 | 38.1 | 38.1 |

**Valuations**

|                |      |       |      |
|----------------|------|-------|------|
| P/E (x)        | 35.2 | 31.7  | 21.3 |
| P/BV (x)       | 2.6  | 2.5   | 2.3  |
| EV/EBITDA (x)  | 27.4 | 21.8  | 14.8 |
| Div. Yield (%) | 1.1  | 1.2   | 1.8  |
| FCF Yield (%)  | 1.8  | (0.5) | 1.9  |

**Shareholding pattern (%)**

| As On    | Sep-24 | Jun-24 | Sep-23 |
|----------|--------|--------|--------|
| Promoter | 33.8   | 33.8   | 33.8   |
| DII      | 6.2    | 4.5    | 3.6    |
| FII      | 7.9    | 7.8    | 6.4    |
| Others   | 52.2   | 53.9   | 56.2   |

FII Includes depository receipts

**Pricing pressure continues to hurt performance**

- NOCIL's EBITDA/kg stood at INR26 in 2QFY25, down 25% YoY, missing our estimate. Sales volumes increased 11% YoY to 14.3tmt. Realization was down at INR254.1/kg (down 7% YoY) due to continued pricing pressure from Chinese, South Korean, and the EU suppliers. Hence, EBITDA was at INR371m (down 17% YoY), while PAT came in at INR415m (up 54% YoY). RM prices remained marginally high in 2QFY25, with cost pass-through to the customers being difficult because of competition from China, South Korea, and the EU.
- Management highlighted that pricing pressure continues to hurt the performance of the company, although there was a healthy export demand and strong demand from the replacement market to be seen in 2QFY25. The latex business has seen a mild recovery as production of rubber gloves picked up pace in the quarter. Management remains positive on the growth opportunities, and the same old story was presented that 2HFY25 would be better than 1HFY25.
- We are left searching for many answers following the result and earnings concall on what to make out of the volume recovery scenario given that the utilization levels of the existing capacity have not picked up. Further, there is no meaningful recovery in sight, and there is a new capex that has already been announced to the tune of INR2.5b. That said, management commentary also did not provide any relief to us not only in this earnings concall but also in some of the previous quarters.
- We estimate a revenue/ EBITDA/ PAT CAGR of 14%/ 17%/ 18% over FY24-27 (primarily due to the lower base in FY24), with NOCIL not being able to cross its FY23 performance even in FY26. Volumes are likely to grow at a CAGR of 12% over FY24-27. There is heightened competition right now with no Anti-Dumping Duty (ADD) as well to support the company. Downside risks are more than the upside risks in NOCIL at the moment.
- Due to the underperformance in 2QFY25, we cut our revenue/EBITDA/EPS estimates by 7%/28%/17% for FY25 and by 7%/25%/26% for FY26. We broadly maintain our estimate for FY27 as of now, but there is a risk of earnings cut in the ensuing quarters. NOCIL currently trades at a premium of ~36% to its long-term average of 17.1x on a one-year forward P/E basis. The stock is also trading at ~32x FY26E EPS of INR8.7 and ~22x FY26E EV/EBITDA. Our target price of INR270 is based on 25x Sep'26E EPS.

**Revenue/EBITDA below estimates; PAT beat due to a re-measurement of DTL**

- Revenue came in at INR3.6b (est. of INR3.9b, +3% YoY). Gross margin was 43.3% (vs. 43.4% in 2QFY24). EBITDA stood at INR371m (est. of INR458m, -17% YoY). EBITDAM came in at 10.2% (vs. 12.7% in 2QFY24).
- PAT was INR415m (est. of INR313m, +54% YoY) due to re-measurement of DTL, as LTCCG tax on certain capital assets has reduced after 23<sup>rd</sup> Jul'24. NOCIL has subsequently recognized the credit of INR149m as a deferred tax expense in the income statement.

- Sales volume grew 11% YoY to ~14.3tmt (in line). Export volumes continued to show growth. Realization declined 7% YoY to INR254.1/kg, while EBITDA/kg declined 25% YoY to INR26. Selling prices remained muted.
- **For 1HFY25**, revenue was INR7.3b (-2% YoY), EBITDA was INR769m (-23% YoY), and PAT came in at INR687m (+14% YoY). Total volumes sold stood at 28.9tmt (+10% YoY), realization was INR254.7/kg (-10% YoY), and EBITDA/kg stood at INR26.6 (-29% YoY). **This implies a revenue growth of 11% YoY, with EBITDA/PAT decline of 6%/14% YoY in 2HFY25.**

#### Valuation and view

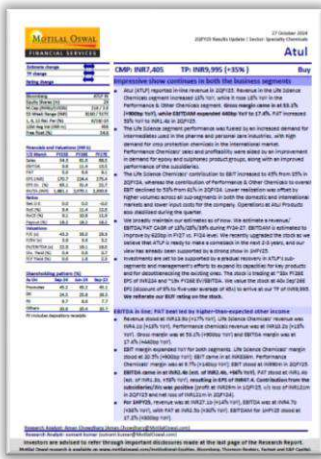
- NOCIL is expanding its capacities (20% of the current capacity of 110ktpa), in anticipation of demand being robust, which is expected to come online by Sep'26, with the top three global players also expanding their respective capacities. The pickup in China's domestic consumption is expected to play a key role in easing pricing pressure for NOCIL, though we do not anticipate this to happen in the near term. There is currently no timeline for the optimum utilization of its existing facilities.
- NOCIL currently trades at a premium of ~36% to its long-term average of 17.1x on a one-year forward P/E basis. The stock is also trading at ~32x FY26E EPS of INR8.7 and ~22x FY26E EV/EBITDA. Our TP of INR270 is premised on 25x Sep'26E EPS. **Reiterate Neutral.**

#### Standalone - Quarterly Earnings Model

| Y/E March                     | FY24         |              |              |              | FY25         |              |              |              | FY24          | FY25E         | FY25         | Var. (%)    |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|--------------|-------------|
|                               | 1Q           | 2Q           | 3Q           | 4Q           | 1Q           | 2Q           | 3QE          | 4QE          |               | 2QE           |              |             |
| <b>Gross Sales</b>            | <b>3,967</b> | <b>3,509</b> | <b>3,406</b> | <b>3,565</b> | <b>3,722</b> | <b>3,627</b> | <b>3,774</b> | <b>3,974</b> | <b>14,447</b> | <b>15,097</b> | <b>3,908</b> | <b>-7%</b>  |
| YoY Change (%)                | -22.1        | -9.9         | 4.6          | -9.2         | -6.2         | 3.4          | 10.8         | 11.5         | -10.6         | 4.5           | 11.4         |             |
| <b>Gross Margin (%)</b>       | <b>42.7%</b> | <b>43.4%</b> | <b>46.3%</b> | <b>42.1%</b> | <b>41.7%</b> | <b>43.3%</b> | <b>42.3%</b> | <b>42.0%</b> | <b>43.6%</b>  | <b>42.3%</b>  | <b>42.3%</b> | <b>0.9%</b> |
| <b>EBITDA</b>                 | <b>547</b>   | <b>445</b>   | <b>477</b>   | <b>434</b>   | <b>398</b>   | <b>371</b>   | <b>418</b>   | <b>438</b>   | <b>1,903</b>  | <b>1,625</b>  | <b>458</b>   | <b>-19%</b> |
| Margin (%)                    | 13.8         | 12.7         | 14.0         | 12.2         | 10.7         | 10.2         | 11.1         | 11.0         | 13.2          | 10.8          | 11.7         | -1.5        |
| Depreciation                  | 126          | 127          | 132          | 130          | 128          | 130          | 136          | 145          | 515           | 541           | 132          |             |
| Interest                      | 4            | 3            | 5            | 4            | 5            | 5            | 5            | 3            | 16            | 18            | 4            |             |
| Other Income                  | 44           | 45           | 61           | 249          | 100          | 88           | 110          | 143          | 399           | 440           | 96           |             |
| <b>PBT before EO expense</b>  | <b>461</b>   | <b>360</b>   | <b>402</b>   | <b>549</b>   | <b>364</b>   | <b>324</b>   | <b>387</b>   | <b>432</b>   | <b>1,771</b>  | <b>1,507</b>  | <b>419</b>   | <b>-23%</b> |
| <b>PBT</b>                    | <b>461</b>   | <b>360</b>   | <b>402</b>   | <b>549</b>   | <b>364</b>   | <b>324</b>   | <b>387</b>   | <b>432</b>   | <b>1,771</b>  | <b>1,507</b>  | <b>419</b>   | <b>-23%</b> |
| Tax                           | 125          | 91           | 104          | 138          | 92           | -91          | 97           | 109          | 458           | 207           | 105          |             |
| Rate (%)                      | 27.2         | 25.3         | 25.9         | 25.1         | 25.3         | -28.0        | 25.2         | 25.1         | 25.8          | 13.8          | 25.2         |             |
| <b>Reported PAT</b>           | <b>336</b>   | <b>269</b>   | <b>298</b>   | <b>411</b>   | <b>272</b>   | <b>415</b>   | <b>289</b>   | <b>323</b>   | <b>1,314</b>  | <b>1,300</b>  | <b>313</b>   | <b>32%</b>  |
| <b>Adj PAT</b>                | <b>336</b>   | <b>269</b>   | <b>298</b>   | <b>411</b>   | <b>272</b>   | <b>415</b>   | <b>289</b>   | <b>323</b>   | <b>1,314</b>  | <b>1,300</b>  | <b>313</b>   | <b>32%</b>  |
| YoY Change (%)                | -48.8        | -25.2        | 58.7         | 44.9         | -18.9        | 54.3         | -2.8         | -21.4        | -11.7         | -1.1          | 16.6         |             |
| Margin (%)                    | 8.5          | 7.7          | 8.7          | 11.5         | 7.3          | 11.4         | 7.7          | 8.1          | 9.1           | 8.6           | 8.0          | 3.4         |
| <b>Operational parameters</b> |              |              |              |              |              |              |              |              |               |               |              |             |
| Total Volume Sold (tmt)       | 13.5         | 12.9         | 12.5         | 14.0         | 14.6         | 14.3         | 14.1         | 15.0         | 52.8          | 39.3          | 14.9         | -4%         |
| Implied Realization (INR/kg)  | 294.6        | 272.9        | 273.5        | 255.1        | 255.3        | 254.1        | 266.8        | 264.5        | 273.9         | 384.3         | 262.9        | -3%         |
| EBITDA (INR/kg)               | 40.6         | 34.6         | 38.3         | 31.1         | 27.3         | 26.0         | 29.5         | 29.2         | 36.1          | 41.4          | 30.8         | -16%        |



Previous company updates



## ATLP completes expansion of its Liquid Epoxy Resin plant by 50ktpa

- **ATLP has announced** that it has completed the expansion of its Liquid Epoxy Resin capacity from 30ktpa to 80ktpa (+50ktpa), effective 25th Oct'24, to meet business requirements.
- Capacity utilization before the expansion was 99%.
- Total expansion capex was INR2b (excluding working capital of INR1.7b), funded through internal accruals.
- Revenue potential from this plant stands at INR8b as per earlier guidance.
- We have recently upgraded the stock to BUY as we believe that ATLP is ready to make a comeback in the next 2-3 years, and our view has already been supported by a **strong show in 1HFY25**. Investments are set to be supported by a gradual recovery in ATLP's sub segments and the management's efforts to expand its capacities for key products and debottlenecking the existing ones.
- The end-user market demand has picked up, and we believe that overall demand will also accelerate in 2HFY25. ATLP's caustic soda plant (300tpd) faced teething issues in Dec'23, which were largely resolved in 1HFY25. Anaven operations are also likely to ramp up for optimum utilization due to better offtake in FY25. ATLP aims to capture a higher market share and expand its international presence through these expansions.
- We estimate a **CAGR of 13%/28%/37% in revenue/ EBITDA/PAT during FY24-27**. EBITDAM is estimated to improve by 620bp in FY27 vs. FY24 level. The stock is trading at ~32x FY26E EPS of INR231 and ~19x FY26E EV/EBITDA. We value the stock at 40x Sep'26E EPS (discount of 11% to five-year average of ~45x). **Reiterate BUY with a TP of INR9,995.**

ATLP financial summary

| Y/E March         | FY20  | FY21  | FY22  | FY23  | FY24  | FY25E | FY26E | FY27E |
|-------------------|-------|-------|-------|-------|-------|-------|-------|-------|
| Sales             | 40.9  | 37.3  | 50.8  | 54.3  | 47.3  | 54.3  | 61.6  | 68.5  |
| EBITDA            | 9.0   | 9.2   | 9.1   | 7.7   | 6.4   | 9.6   | 11.4  | 13.5  |
| PAT               | 6.7   | 6.6   | 6.0   | 5.1   | 3.2   | 5.2   | 6.8   | 8.3   |
| EPS (INR)         | 227   | 223   | 204   | 172   | 110   | 177   | 231   | 282   |
| EPS Gr. (%)       | 57.5  | (1.6) | (8.4) | -16.0 | -35.9 | 61.2  | 30.3  | 22.1  |
| BV/Sh.(INR)       | 1,065 | 1,292 | 1,496 | 1,582 | 1,736 | 1,881 | 2,070 | 2,301 |
| <b>Ratios</b>     |       |       |       |       |       |       |       |       |
| Net D:E           | 0.0   | (0.1) | 0.0   | -0.0  | 0.0   | 0.0   | 0.0   | -0.0  |
| RoE (%)           | 22.8  | 18.9  | 14.7  | 11.1  | 6.6   | 9.8   | 11.7  | 12.9  |
| RoCE (%)          | 21.2  | 17.7  | 13.7  | 10.5  | 6.2   | 9.1   | 10.6  | 11.9  |
| Payout (%)        | 16.7  | 8.9   | 12.2  | 14.5  | 18.2  | 18.2  | 18.2  | 18.2  |
| <b>Valuations</b> |       |       |       |       |       |       |       |       |
| P/E (x)           | 32.6  | 33.2  | 36.2  | 43.1  | 67.2  | 41.7  | 32.0  | 26.2  |
| P/BV (x)          | 6.9   | 5.7   | 4.9   | 4.7   | 4.3   | 3.9   | 3.6   | 3.2   |
| EV/EBITDA (x)     | 24.4  | 23.6  | 24.1  | 28.2  | 34.5  | 22.9  | 19.1  | 16.0  |
| Div. Yield (%)    | 0.5   | 0.3   | 0.3   | 0.3   | 0.3   | 0.4   | 0.6   | 0.7   |
| FCF Yield (%)     | 2.3   | 1.8   | (1.6) | -0.8  | 0.8   | 0.0   | 1.6   | 2.3   |

Source: MOFSL, Company

## Prestige Estates Projects

BSE SENSEX  
80,369S&P CNX  
24,467

CMP: INR1,607

Buy

## Conference Call Details



Date: 30 Oct 2024

Time: 15:30 IST

Dial-in details:

+91-22 6280 1145

## Financials &amp; Valuations (INR b)

| Y/E Mar           | FY24  | FY25E | FY26E |
|-------------------|-------|-------|-------|
| Sales             | 78.8  | 104.2 | 114.3 |
| EBITDA            | 25.0  | 27.9  | 31.8  |
| EBITDA Margin (%) | 31.7  | 26.8  | 27.8  |
| PAT               | 7.1   | 7.5   | 9.8   |
| EPS (INR)         | 19.0  | 19.9  | 26.2  |
| EPS Gr. (%)       | 86.2  | 42.5  | 120.3 |
| BV/Sh. (INR)      | 301.0 | 319.3 | 344.0 |
| <b>Ratios</b>     |       |       |       |
| RoE (%)           | 6.7   | 6.4   | 7.9   |
| RoCE (%)          | 9.3   | 7.5   | 8.1   |
| Payout (%)        | 4.4   | 8.1   | 6.1   |
| <b>Valuations</b> |       |       |       |
| P/E (x)           | 84.8  | 80.8  | 61.2  |
| P/BV (x)          | 5.3   | 5.0   | 4.7   |
| EV/EBITDA (x)     | 29.3  | 29.7  | 26.1  |
| Div yld (%)       | 0.1   | 0.1   | 0.1   |

## Steady pre-sales, ask rate high for 2H but achievable

2H launch pipeline remains intact with potential GDV of INR521b

## Operational performance

- PEPL reported bookings of INR40.2b, down 43% YoY but up 33% QoQ and in line with our estimate.
- The company launched 8.2msf of area vs. 1.9msf/13.1msf in 1QFY25/2QFY24.
- Sales volume declined by 56% YoY but rose 5% QoQ to 3msf, while realizations improved 29% YoY to INR13,409/sft.
- Bengaluru contributed 51% to total sales, while Hyderabad and Mumbai contributed 21% and 26%, respectively.

## Ongoing and future pipeline

- After new launches in 2Q, PEPL's upcoming residential pipeline stands at 53.5msf (vs. 73msf in 1QFY25) with the potential GDV of INR521b.
- The upcoming pipeline includes Bengaluru (25.8msf), Hyderabad (6.6msf), NCR (14.9msf), Chennai (6msf), Mumbai (10msf) and Goa (5.6msf).
- The ongoing and upcoming office pipelines were unchanged at 23msf and 8msf, respectively; however, the ongoing and upcoming retail pipeline increased to 14msf from 12msf in 2QFY24.
- PEPL now aims to build 3,083 keys in the hospitality segment wherein PEPL's economic interest is 51.5% (1587 keys).

## Cash flow

- Total collections were up 4% YoY at INR27.4b.
- QIP funds help reduce net debt to INR35.9b; net D/E stood at 0.21x.

## Financial performance

- Revenue was up 3% YoY at INR23b (1% above our estimate). EBITDA increased 7% YoY to INR6.3b (11% above estimate), aided by ~900bp increase in EBITDA margin to 27.4%.
- Adj. PAT grew 4% YoY to INR1.9b due to the reversal of deferred tax liabilities.

Quarterly performance

| Y/E March                       | FY24          |               |               |               | FY25E         |               |               |               | FY24          | FY25E           | FY25E         | Variance   |
|---------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|-----------------|---------------|------------|
|                                 | 1Q            | 2Q            | 3Q            | 4Q            | 1Q            | 2Q            | 3Q            | 4Q            |               |                 |               |            |
| <b>Net Sales</b>                | <b>16,809</b> | <b>22,364</b> | <b>17,958</b> | <b>21,640</b> | <b>18,621</b> | <b>23,044</b> | <b>26,044</b> | <b>36,468</b> | <b>78,771</b> | <b>1,04,178</b> | <b>22,919</b> | <b>1</b>   |
| YoY Change (%)                  | -13.3         | 56.6          | -22.5         | -17.8         | 10.8          | 3.0           | 45.0          | 68.5          | -5.3          | 32.3            | 2.5           |            |
| Total Expenditure               | 11,542        | 16,439        | 12,443        | 13,363        | 10,658        | 16,731        | 19,065        | 29,805        | 53,787        | 76,258          | 17,215        |            |
| <b>EBITDA</b>                   | <b>5,267</b>  | <b>5,925</b>  | <b>5,515</b>  | <b>8,277</b>  | <b>7,963</b>  | <b>6,313</b>  | <b>6,980</b>  | <b>6,664</b>  | <b>24,984</b> | <b>27,920</b>   | <b>5,704</b>  | <b>11</b>  |
| Margins (%)                     | 31.3          | 26.5          | 30.7          | 38.2          | 42.8          | 27.4          | 26.8          | 18.3          | 31.7          | 26.8            | 24.9          |            |
| Depreciation                    | 1,655         | 1,741         | 1,797         | 1,972         | 1,905         | 2,004         | 2,064         | 2,757         | 7,165         | 8,731           | 2,000         |            |
| Interest                        | 2,382         | 2,639         | 2,932         | 4,238         | 3,461         | 3,565         | 3,387         | 1,300         | 12,191        | 11,712          | 3,288         |            |
| Other Income                    | 2,854         | 1,684         | 1,747         | 685           | 1,624         | 1,194         | 1,042         | 307           | 6,970         | 4,167           | 917           |            |
| <b>PBT before EO expense</b>    | <b>4,084</b>  | <b>3,229</b>  | <b>2,533</b>  | <b>2,752</b>  | <b>4,221</b>  | <b>1,938</b>  | <b>2,571</b>  | <b>2,914</b>  | <b>12,598</b> | <b>11,644</b>   | <b>1,333</b>  | <b>45</b>  |
| Extra-Ord expense               | 0             | 8,512         | 0             | 0             | 0             | 0             | 0             | 0             | 8,512         | 0               | 0             |            |
| <b>PBT</b>                      | <b>4,084</b>  | <b>11,741</b> | <b>2,533</b>  | <b>2,752</b>  | <b>4,221</b>  | <b>1,938</b>  | <b>2,571</b>  | <b>2,914</b>  | <b>21,110</b> | <b>11,644</b>   | <b>1,333</b>  | <b>45</b>  |
| Tax                             | 863           | 2,564         | 723           | 786           | 1,023         | -519          | 643           | 1,764         | 4,936         | 2,911           | 333           |            |
| Rate (%)                        | 21.1          | 21.8          | 28.5          | 28.6          | 24.2          | -26.8         | 25.0          | 60.5          | 23.4          | 25.0            | 25.0          |            |
| MI & Profit/Loss of Asso. Cos.  | 552           | 668           | 647           | 566           | 872           | 535           | 127           | -261          | 2,433         | 1,273           | 127           |            |
| <b>Reported PAT</b>             | <b>2,669</b>  | <b>8,509</b>  | <b>1,163</b>  | <b>1,400</b>  | <b>2,326</b>  | <b>1,922</b>  | <b>1,801</b>  | <b>1,411</b>  | <b>13,741</b> | <b>7,460</b>    | <b>872</b>    |            |
| <b>Adj PAT</b>                  | <b>2,669</b>  | <b>1,856</b>  | <b>1,163</b>  | <b>1,400</b>  | <b>2,326</b>  | <b>1,922</b>  | <b>1,801</b>  | <b>1,411</b>  | <b>7,088</b>  | <b>7,460</b>    | <b>872</b>    | <b>120</b> |
| YoY Change (%)                  | 174.0         | 397.2         | -9.0          | -69.5         | -12.9         | 3.6           | 54.8          | 0.8           | -1.7          | 5.2             | -53.0         |            |
| Margins (%)                     | 15.9          | 8.3           | 6.5           | 6.5           | 12.5          | 8.3           | 6.9           | 3.9           | 9.0           | 7.2             | 3.8           |            |
| <b>Key metrics</b>              |               |               |               |               |               |               |               |               |               |                 |               |            |
| Sale Volume (msf)               | 3.8           | 6.8           | 5.5           | 4.1           | 2.9           | 3.0           | 8.5           | 5.9           | 20.2          | 19.3            | 4             | -25        |
| Sale Value (INRb)               | 39.1          | 70.9          | 53.3          | 47.1          | 30.3          | 40.2          | 85.2          | 104.1         | 210.4         | 259.8           | 40            | 1          |
| Collections - PEPL share (INRb) | 25            | 24            | 29            | 33            | 27            | 26            | 38            | 46            | 110.5         | 136.4           | 24            | 6          |
| Realization (INR/sft)           | 10,221        | 10,369        | 9,755         | 11,452        | 10,593        | 13,409        | 10,000        | 17,747        | 10,395        | 13,480          | 10,000        | 34         |

Source: MOFSL, Company Note: We will revisit our estimates after the concall

BSE SENSEX 80,369 S&P CNX 24,467

**CMP: INR1,773** **Buy**

**Conference Call Details**



**Date:** 30<sup>th</sup> October 2024

**Time:** 12:00 pm

**Dial-in details:**

+91 22 6280 1384

+91 22 7115 8285

[Link for the call](#)

**Consol. Financials Snapshot (INR b)**

| Y/E MARCH         | FY25E | FY26E | FY27E |
|-------------------|-------|-------|-------|
| Sales             | 146.7 | 166.0 | 186.5 |
| EBITDA            | 11.5  | 14.4  | 17.5  |
| Adj. PAT          | 9.0   | 11.5  | 14.6  |
| EBITDA Margin (%) | 7.9   | 8.7   | 9.4   |
| Adj. EPS (INR)    | 27.1  | 34.8  | 44.3  |
| EPS Gr. (%)       | 274.0 | 28.7  | 27.1  |
| BV/Sh. (INR)      | 200.8 | 228.9 | 264.5 |

**Ratios**

|            |       |       |       |
|------------|-------|-------|-------|
| Net D:E    | (0.1) | (0.1) | (0.2) |
| RoE (%)    | 13.5  | 15.2  | 16.7  |
| RoCE (%)   | 13.9  | 15.1  | 16.0  |
| Payout (%) | 25.0  | 25.0  | 25.0  |

**Valuations**

|                |      |      |      |
|----------------|------|------|------|
| P/E (x)        | 65.5 | 50.9 | 40.1 |
| P/BV (x)       | 8.8  | 7.7  | 6.7  |
| EV/EBITDA(x)   | 50.4 | 40.0 | 32.4 |
| Div. Yield (%) | 0.4  | 0.5  | 0.6  |
| FCF Yield (%)  | 0.8  | 1.7  | 2.1  |

**Beat estimates led by higher revenue/EBIT in the UCP segment**

- Voltas (VOLT)'s 2QFY25 revenue grew 14% YoY to INR26.2b (5% above our estimate), led by 31%/9% growth in the UCP/PES segments revenue, while EMPS revenue declined ~5%. EBITDA was up 131% YoY to INR1.6b (+11% vs. our estimate), led by high profits in the UCP/EMPS segments. OPM expanded 3.1pp YoY to ~6% (+30bp vs. our estimate). Adj. PAT was up ~265% YoY to INR1.3b (est. 1.2b).
- The company sold 1.3m ACs in 1HFY25; reported ~52% growth YoY. The company's exit market share in RAC stood at 21.0% as of Sep'24 vs. 21.2% as of Jun'24. Voltbek Home appliances also reported strong volume growth of ~54% YoY in 1HFY25.
- We have a BUY rating on the stock. However, we will review our assumptions after the concall on 30<sup>th</sup> Oct'24.

**UCP revenue above estimate; EBIT margin at 7.3%**

- VOLT's consol. revenue/EBITDA/PAT stood at INR26.2b/INR1.6b/INR1.3b (up 14%/131%/265% YoY and up 5%/11%/8% vs. our estimate) in 2QFY25. Depreciation/interest costs grew 41%/18% YoY, whereas 'other income' grew 49% YoY.
- Segmental highlights: a) **UCP** – revenue was up 31% YoY at INR15.8b and EBIT rose 25% YoY to INR1.2b. EBIT margin contracted 30bp YoY to 7.3%; b) **EMPS** – revenue declined 5% YoY to INR8.8b. It reported EBIT of INR462m compared to the loss of INR490m in 2QFY25; c) **PES** – revenue increased 9% YoY to INR1.5b, while EBIT declined 27% YoY to INR396m. EBIT margin contracted 13pp YoY at ~27%.
- IN 1HFY25, Revenue/EBITDA/Adj. PAT stood at INR75.4b/5.9b/4.7b (up 33%/129%/182% YoY. The UCP segment revenue grew 45% YoY to INR53.8b, followed by EMP/PES revenue growth at 14%/11% YoY to INR18.3b/INR3.1b in 1HFY25. UCP EBIT grew 48% YoY to INR4.4b and EBIT margin expanded 20bp YoY to 8.2%. Its OCF declined to INR1.2b vs. INR2.3b in 1HFY24, mainly due to the increase in working capital. Capex stood at INR1.4b vs. INR1.0b in 1HFY24.

**Valuation and view**

- VOLT's UCP business is showing strong revenue growth along with an improvement in the Voltbek performance (refrigerator and washing machine seeing significant market share gain). Further, the project business has been experiencing recovery for the last two consecutive quarters, reporting positive EBIT vs. losses in FY24. We seek management commentary on the channel inventory, key achievements in its Voltbek business, and festive demand.
- **We have a BUY rating on the stock.** However, we will review our assumptions after the concall on 30<sup>th</sup> Oct'24 ([Concall Link](#)).

Quarterly performance

(INR m)

| Y/E March                          | FY24          |               |               |               | FY25          |               |               |               | MOFSL<br>2QE  | Var.      |
|------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|-----------|
|                                    | 1Q            | 2Q            | 3Q            | 4Q            | 1Q            | 2Q            | 3Q            | 4Q            |               |           |
| <b>Sales</b>                       | <b>33,599</b> | <b>22,928</b> | <b>26,257</b> | <b>42,029</b> | <b>49,210</b> | <b>26,191</b> | <b>28,431</b> | <b>42,873</b> | <b>24,917</b> | <b>5</b>  |
| Change (%)                         | 21.4          | 29.7          | 30.9          | 42.1          | 46.5          | 14.2          | 8.3           | 2.0           | <b>8.7</b>    |           |
| <b>Adj EBITDA</b>                  | <b>1,854</b>  | <b>703</b>    | <b>284</b>    | <b>1,906</b>  | <b>4,238</b>  | <b>1,622</b>  | <b>1,539</b>  | <b>4,133</b>  | <b>1,466</b>  | <b>11</b> |
| Change (%)                         | 4.7           | (30.3)        | (62.8)        | (12.6)        | 128.6         | 130.8         | 441.6         | 116.9         | <b>108.6</b>  |           |
| Adj EBITDA margin (%)              | 5.5           | 3.1           | 1.1           | 4.5           | 8.6           | 6.2           | 5.4           | 9.6           | <b>5.9</b>    | 31        |
| Depreciation                       | 113           | 117           | 128           | 118           | 134           | 164           | 179           | 127           | <b>144</b>    | 14        |
| Interest                           | 101           | 115           | 135           | 208           | 98            | 136           | 110           | 187           | <b>130</b>    | 4         |
| Other Income                       | 700           | 710           | 579           | 544           | 803           | 1,055         | 600           | 393           | <b>813</b>    | 30        |
| Extra-ordinary items               | 0             | -             | -             | -             | 0             | 0             | 0             | 0             | <b>0</b>      |           |
| <b>PBT</b>                         | <b>2,339</b>  | <b>1,181</b>  | <b>599</b>    | <b>2,124</b>  | <b>4,809</b>  | <b>2,377</b>  | <b>1,850</b>  | <b>4,212</b>  | <b>2,004</b>  | <b>19</b> |
| Tax                                | 735           | 493           | 515           | 634           | 1,165         | 726           | 496           | 1,188         | <b>537</b>    | <b>35</b> |
| Effective Tax Rate (%)             | 31.4          | 41.7          | 85.9          | 29.9          | 24.2          | 30.5          | 26.8          | 28.2          | <b>26.8</b>   |           |
| Share of profit of associates/JV's | (312)         | (321)         | (389)         | (325)         | (294)         | (323)         | (220)         | (94)          | <b>-240</b>   | 34        |
| <b>Reported PAT</b>                | <b>1,293</b>  | <b>367</b>    | <b>(304)</b>  | <b>1,164</b>  | <b>3,350</b>  | <b>1,328</b>  | <b>1,134</b>  | <b>2,930</b>  | <b>1,227</b>  | <b>8</b>  |
| Change (%)                         | 18.7          | NM            | NM            | (19.1)        | 159.1         | 262.1         | NA            | 151.6         | <b>234.5</b>  |           |
| <b>Minority Interest</b>           | <b>1</b>      | <b>(10)</b>   | <b>28</b>     | <b>(58)</b>   | <b>8</b>      | <b>(12)</b>   | <b>20</b>     | <b>(55)</b>   | <b>-10</b>    |           |
| <b>Adj PAT</b>                     | <b>1,293</b>  | <b>367</b>    | <b>(304)</b>  | <b>1,038</b>  | <b>3,342</b>  | <b>1,340</b>  | <b>1,114</b>  | <b>2,985</b>  | <b>1,237</b>  | <b>8</b>  |
| Change (%)                         | 18.7          | (62.9)        | NM            | (27.9)        | 158.5         | 265.3         | NM            | 187.6         | <b>237.2</b>  |           |

Segment Revenues (INR m)

|                                       | 1Q            | 2Q            | 3Q            | 4Q            | 1Q            | 2Q            | 3Q            | 4Q            | 2QE           | Var.      |
|---------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|-----------|
| EMP & Services                        | 6,791         | 9,242         | 9,819         | 10,979        | 9,491         | 8,799         | 10,310        | 13,526        | 10,259        | (14)      |
| Engineering products and services     | 1,423         | 1,344         | 1,548         | 1,564         | 1,608         | 1,467         | 1,687         | 1,764         | 1,479         | (1)       |
| Unitary cooling business              | 25,140        | 12,088        | 14,826        | 29,551        | 38,022        | 15,822        | 16,308        | 27,383        | 13,055        | 21        |
| Others                                | 245           | 253           | 65            | -65           | 89            | 103           | 125           | 200           | 125           | (18)      |
| <b>Total</b>                          | <b>33,599</b> | <b>22,928</b> | <b>26,257</b> | <b>42,029</b> | <b>49,210</b> | <b>26,191</b> | <b>28,431</b> | <b>42,873</b> | <b>24,917</b> | <b>5</b>  |
| <b>Segment PBIT</b>                   |               |               |               |               |               |               |               |               |               |           |
| EMP & Services                        | (519)         | (490)         | (1,200)       | (1,077)       | 675           | 462           | 206           | 553           | 308           | 50        |
| Engineering products and services     | 541           | 539           | 499           | 478           | 448           | 396           | 472           | 510           | 399           | (1)       |
| Unitary cooling business              | 2,073         | 928           | 1,229         | 2,704         | 3,270         | 1,162         | 1,354         | 2,797         | 1,044         | 11        |
| <b>Total PBIT</b>                     | <b>2,096</b>  | <b>977</b>    | <b>528</b>    | <b>2,105</b>  | <b>4,394</b>  | <b>2,020</b>  | <b>2,032</b>  | <b>3,860</b>  | <b>1,751</b>  | <b>15</b> |
| <b>Segment PBIT (%)</b>               |               |               |               |               |               |               |               |               |               |           |
| EMP & Services (%)                    | (7.6)         | (5.3)         | (12.2)        | (9.8)         | 7.1           | 5.2           | 2.0           | 4.1           | 3.0           | 225       |
| Engineering products and services (%) | 38.0          | 40.1          | 32.2          | 30.6          | 27.9          | 27.0          | 28.0          | 28.9          | 27.0          | (1)       |
| Unitary cooling business (%)          | 8.2           | 7.7           | 8.3           | 9.2           | 8.6           | 7.3           | 8.3           | 10.2          | 8.0           | (65)      |
| <b>Total PBIT (%)</b>                 | <b>6.2</b>    | <b>4.3</b>    | <b>2.0</b>    | <b>5.0</b>    | <b>8.9</b>    | <b>7.7</b>    | <b>7.1</b>    | <b>9.0</b>    | <b>7.0</b>    | <b>68</b> |



# Container Corporation of India

**BSE SENSEX** 80,369  
**S&P CNX** 24,467

**CMP: INR809**

**Buy**

## Conference Call Details



**Date:** 30<sup>th</sup> October 2024

**Time:** 11:30 AM IST

**Dial-in details:**

+91 22 6280 1384

## Financials & Valuations (INR b)

| Y/E MARCH         | 2025E | 2026E | 2027E |
|-------------------|-------|-------|-------|
| Sales             | 95.8  | 116.5 | 145.4 |
| EBITDA            | 21.5  | 29.5  | 32.1  |
| Adj. PAT          | 13.6  | 19.9  | 21.6  |
| EBITDA Margin (%) | 22.5  | 25.3  | 22.1  |
| Adj. EPS (INR)    | 22.3  | 32.6  | 35.4  |
| EPS Gr. (%)       | 9.9   | 46.1  | 8.6   |
| BV/Sh. (INR)      | 206.2 | 224.3 | 244.0 |

## Ratios

|            |       |       |       |
|------------|-------|-------|-------|
| Net D:E    | (0.3) | (0.4) | (0.5) |
| RoE (%)    | 11.2  | 15.2  | 15.1  |
| RoCE (%)   | 11.6  | 15.5  | 15.5  |
| Payout (%) | 44.6  | 44.6  | 44.6  |

## Valuations

|                |      |      |      |
|----------------|------|------|------|
| P/E (x)        | 36.2 | 24.8 | 22.8 |
| P/BV (x)       | 3.9  | 3.6  | 3.3  |
| EV/EBITDA(x)   | 20.3 | 14.4 | 12.7 |
| Div. Yield (%) | 1.2  | 1.8  | 2.0  |
| FCF Yield (%)  | 2.4  | 3.8  | 4.6  |

## Revenue in-line; lower LLF and operating costs drive EBITDA beat

- Revenues grew 4% YoY to INR22.8b during 2Q FY25 (in line with our estimate).
- Total volumes grew 6% YoY to 1.3m TEUs with EXIM/Domestic volumes at 1.0m/0.29m TEUs, respectively (+4%/+14% YoY).
- Blended realization declined ~2% YoY to INR17,516/TEU. EXIM/Domestic realization stood at INR15,232/INR25,231 per TEU, respectively (+2%/-12% YoY).
- EBITDA margins came in at 25.2% (vs. our estimate of 22.2%). EBITDA grew 7% YoY and was 10% above our estimate.
- Land license fee for 1H FY25 stood at INR1.7b.
- In line with operating performance, APAT increased 11% YoY to INR 4.0b (against our estimate of INR 3.4b)
- The company's exceptional item of INR333m was related to the amount paid against disputed claims under the Viwad se Vishwas Scheme.
- During 1HFY25, Revenue was INR43.8b (+7% YoY), EBITDA was INR10.1b (+8% YoY), EBITDA margin came in at 23%, and APAT was INR6.5b (+8% YoY).

## Other insights

- Land license fee for 1H FY25 stood at INR1.7b.
- The board has declared 2<sup>nd</sup> interim dividend of INR3.5/equity share amounting to INR1.8b.

## Standalone quarterly snapshot

| Y/E March                    | FY24          |               |               |               | FY25          |               | FY24          | FY25E         | FY25 2QE      | Var.       |
|------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|------------|
|                              | 1Q            | 2Q            | 3Q            | 4Q            | 1Q            | 2Q            |               |               |               |            |
| <b>Net Sales</b>             | <b>19,193</b> | <b>21,904</b> | <b>22,051</b> | <b>23,176</b> | <b>20,971</b> | <b>22,830</b> | <b>86,325</b> | <b>95,847</b> | <b>23,542</b> | <b>(3)</b> |
| YoY Change (%)               | -3.0          | 11.1          | 10.9          | 7.0           | 9.3           | 4.2           | 6.5           | 11.0          | 7.5           |            |
| <b>EBITDA</b>                | <b>3,916</b>  | <b>5,373</b>  | <b>5,117</b>  | <b>4,890</b>  | <b>4,319</b>  | <b>5,749</b>  | <b>19,296</b> | <b>21,529</b> | <b>5,234</b>  | <b>10</b>  |
| Margins (%)                  | 20.4          | 24.5          | 23.2          | 21.1          | 20.6          | 25.2          | 22.4          | 22.5          | 22.2          |            |
| YoY Change (%)               | -17.1         | 7.7           | 20.0          | 10.0          | 10.3          | 7.0           | 4.8           | 11.6          | -2.6          |            |
| Depreciation                 | 1,378         | 1,486         | 1,543         | 1,603         | 1,649         | 1,617         | 6,009         | 6,395         | 1,570         |            |
| Interest                     | 141           | 147           | 175           | 190           | 181           | 177           | 653           | 700           | 175           |            |
| Other Income                 | 815           | 1,025         | 1,007         | 937           | 924           | 1,301         | 3,783         | 3,983         | 1,020         |            |
| <b>PBT before EO expense</b> | <b>3,212</b>  | <b>4,764</b>  | <b>4,406</b>  | <b>4,034</b>  | <b>3,413</b>  | <b>5,256</b>  | <b>16,416</b> | <b>18,417</b> | <b>4,509</b>  | <b>17</b>  |
| Extra-Ord expense            | 0             | 0             | 0             | 71            | 0             | 333           | -71           | 333           | 0             |            |
| <b>PBT</b>                   | <b>3,212</b>  | <b>4,764</b>  | <b>4,406</b>  | <b>3,963</b>  | <b>3,413</b>  | <b>4,923</b>  | <b>16,488</b> | <b>18,084</b> | <b>4,509</b>  | <b>9</b>   |
| Tax                          | 771           | 1,187         | 1,062         | 1,017         | 859           | 1,213         | 4,037         | 4,897         | 1,136         |            |
| Rate (%)                     | 24.0          | 24.9          | 24.1          | 25.7          | 25.2          | 24.6          | 24.5          | 27.1          | 25.2          |            |
| <b>Reported PAT</b>          | <b>2,441</b>  | <b>3,577</b>  | <b>3,344</b>  | <b>2,945</b>  | <b>2,554</b>  | <b>3,710</b>  | <b>12,451</b> | <b>13,186</b> | <b>3,372</b>  | <b>10</b>  |
| <b>Adj PAT</b>               | <b>2,441</b>  | <b>3,577</b>  | <b>3,344</b>  | <b>2,945</b>  | <b>2,554</b>  | <b>3,960</b>  | <b>12,379</b> | <b>13,519</b> | <b>3,372</b>  | <b>17</b>  |
| YoY Change (%)               | -16.2         | 18.1          | 12.8          | 5.8           | 4.6           | 10.7          | 5.8           | 9.2           | -5.7          |            |
| Margins (%)                  | 12.7          | 16.3          | 15.2          | 12.7          | 12.2          | 17.3          | 14.3          | 14.1          | 14.3          |            |



|                              | 1QFY24        | 2QFY24        | 3QFY24        | 4QFY24        | 1QFY25        | 2QFY25        | YoY (%)    | QoQ (%)    |
|------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|------------|------------|
| <b>Revenue (INRm)</b>        |               |               |               |               |               |               |            |            |
| EXIM                         | 12,315        | 14,438        | 14,365        | 14,418        | 13,214        | 15,320        | 6%         | 16%        |
| Domestic                     | 6,879         | 7,467         | 7,687         | 8,758         | 7,757         | 7,510         | 1%         | -3%        |
| <b>Total Segment Revenue</b> | <b>19,193</b> | <b>21,904</b> | <b>22,051</b> | <b>23,176</b> | <b>20,971</b> | <b>22,830</b> | <b>4%</b>  | <b>9%</b>  |
| <b>Segmental EBIT</b>        |               |               |               |               |               |               |            |            |
| EXIM                         | 2,566         | 3,463         | 3,197         | 3,261         | 2,667         | 3,995         | 15%        | 50%        |
| Domestic                     | 366           | 746           | 737           | 786           | 461           | 681           | -9%        | 48%        |
| <b>Total</b>                 | <b>2,932</b>  | <b>4,209</b>  | <b>3,934</b>  | <b>4,048</b>  | <b>3,127</b>  | <b>4,676</b>  | <b>11%</b> | <b>50%</b> |
| <b>EBIT Margin (%)</b>       |               |               |               |               |               |               |            |            |
| EXIM                         | 20.8%         | 24.0%         | 22.3%         | 22.6%         | 20.2%         | 26.1%         |            |            |
| Domestic                     | 5.3%          | 10.0%         | 9.6%          | 9.0%          | 5.9%          | 9.1%          |            |            |
| <b>Total</b>                 | <b>15.3%</b>  | <b>19.2%</b>  | <b>17.8%</b>  | <b>17.5%</b>  | <b>14.9%</b>  | <b>20.5%</b>  |            |            |

|                                 | 1QFY24           | 2QFY24           | 3QFY24           | 4QFY24           | 1QFY25           | 2QFY25           | YoY (%)    | QoQ (%)    |
|---------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------|------------|
| <b>Volumes (TEU)</b>            |                  |                  |                  |                  |                  |                  |            |            |
| EXIM                            | 8,41,690         | 9,69,746         | 9,02,582         | 9,34,058         | 8,69,464         | 10,05,755        | 4%         | 16%        |
| Domestic                        | 2,51,920         | 2,61,022         | 2,48,226         | 3,10,740         | 2,89,787         | 2,97,647         | 14%        | 3%         |
| <b>Total</b>                    | <b>10,93,610</b> | <b>12,30,768</b> | <b>11,50,808</b> | <b>12,44,798</b> | <b>11,59,251</b> | <b>13,03,402</b> | <b>6%</b>  | <b>12%</b> |
| <b>Realizations (INR / TEU)</b> |                  |                  |                  |                  |                  |                  |            |            |
| EXIM                            | 14,631           | 14,888           | 15,915           | 15,436           | 15,197           | 15,232           | 2%         | 0%         |
| Domestic                        | 27,305           | 28,605           | 30,966           | 28,184           | 26,768           | 25,231           | -12%       | -6%        |
| <b>Total</b>                    | <b>17,550</b>    | <b>17,797</b>    | <b>19,161</b>    | <b>18,619</b>    | <b>18,090</b>    | <b>17,516</b>    | <b>-2%</b> | <b>-3%</b> |
| <b>EBIT (INR/TEU)</b>           |                  |                  |                  |                  |                  |                  |            |            |
| EXIM                            | 3,048            | 3,571            | 3,542            | 3,492            | 3,067            | 3,972            | 11%        | 30%        |
| Domestic                        | 1,453            | 2,858            | 2,969            | 2,530            | 1,589            | 2,287            | -20%       | 44%        |
| <b>Total</b>                    | <b>2,681</b>     | <b>3,419</b>     | <b>3,418</b>     | <b>3,252</b>     | <b>2,698</b>     | <b>3,588</b>     | <b>5%</b>  | <b>33%</b> |

## Kaynes Technologies

BSE SENSEX  
80,369S&P CNX  
24,467

CMP: INR5,243

Buy

## Conference Call Details

Date: 30<sup>th</sup> Oct 2024

Time: 10:30am IST

Dial-in details:

[Click Here](#)

## Earnings below estimates

- Consolidated revenue grew 59% YoY to INR5.7b (est. INR6b).
- Gross margin expanded 90bp YoY to 28.8%.
- EBITDA grew 68% YoY to INR821m (est. INR890m).
- EBITDA margin expanded 90bp YoY to 14.4% (est. 14.8%).
- Adjusted PAT grew 86% YoY to INR602m (est. of INR667m).

## Consolidated - Quarterly Earning Model

(INR m)

| Y/E March                             | FY24         |              |              |              | FY25         |              |              |               | FY24          | FY25E         | FY25E        | Var        |
|---------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|---------------|--------------|------------|
|                                       | 1Q           | 2Q           | 3Q           | 4Q           | 1Q           | 2Q           | 3QE          | 4QE           |               |               |              |            |
| <b>Gross Sales</b>                    | <b>2,972</b> | <b>3,608</b> | <b>5,093</b> | <b>6,373</b> | <b>5,040</b> | <b>5,721</b> | <b>8,607</b> | <b>10,834</b> | <b>18,046</b> | <b>30,202</b> | <b>6,026</b> | <b>-5</b>  |
| YoY Change (%)                        | 49.1         | 32.1         | 76.2         | 74.8         | 69.6         | 58.5         | 69.0         | 70.0          | 60.3          | 67.4          | 67.0         |            |
| Total Expenditure                     | 2,569        | 3,121        | 4,394        | 5,421        | 4,371        | 4,900        | 7,288        | 9,089         | 15,505        | 25,648        | 5,136        |            |
| <b>EBITDA</b>                         | <b>403</b>   | <b>488</b>   | <b>699</b>   | <b>952</b>   | <b>669</b>   | <b>821</b>   | <b>1,319</b> | <b>1,745</b>  | <b>2,542</b>  | <b>4,554</b>  | <b>890</b>   | <b>-8</b>  |
| Margins (%)                           | 13.5         | 13.5         | 13.7         | 14.9         | 13.3         | 14.4         | 15.3         | 16.1          | 14.1          | 15.1          | 14.8         |            |
| Depreciation                          | 53           | 65           | 60           | 74           | 84           | 86           | 113          | 124           | 251           | 406           | 97           |            |
| Interest                              | 113          | 118          | 148          | 153          | 227          | 221          | 200          | 180           | 533           | 829           | 215          |            |
| Other Income                          | 81           | 90           | 94           | 294          | 283          | 336          | 200          | 170           | 559           | 989           | 260          |            |
| <b>PBT before EO expense</b>          | <b>319</b>   | <b>394</b>   | <b>585</b>   | <b>1,019</b> | <b>641</b>   | <b>849</b>   | <b>1,206</b> | <b>1,612</b>  | <b>2,317</b>  | <b>4,308</b>  | <b>838</b>   |            |
| Extra-Ord expense                     | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0             | 0             | 0             | 0            |            |
| <b>PBT</b>                            | <b>319</b>   | <b>394</b>   | <b>585</b>   | <b>1,019</b> | <b>641</b>   | <b>849</b>   | <b>1,206</b> | <b>1,612</b>  | <b>2,317</b>  | <b>4,308</b>  | <b>838</b>   |            |
| Tax                                   | 72           | 71           | 133          | 207          | 133          | 247          | 247          | 330           | 483           | 958           | 172          |            |
| Rate (%)                              | 22.6         | 18.0         | 22.7         | 20.3         | 20.8         | 29.1         | 20.5         | 20.5          | 20.8          | 22.2          | 20.5         |            |
| Minority Interest & P/L of Asso. Cos. | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0             | 0             | 0             | 0            |            |
| <b>Reported PAT</b>                   | <b>246</b>   | <b>323</b>   | <b>452</b>   | <b>813</b>   | <b>508</b>   | <b>602</b>   | <b>958</b>   | <b>1,281</b>  | <b>1,834</b>  | <b>3,350</b>  | <b>667</b>   |            |
| <b>Adj PAT</b>                        | <b>246</b>   | <b>323</b>   | <b>452</b>   | <b>813</b>   | <b>508</b>   | <b>602</b>   | <b>958</b>   | <b>1,281</b>  | <b>1,834</b>  | <b>3,350</b>  | <b>667</b>   | <b>-10</b> |
| YoY Change (%)                        | 149.0        | 52.8         | 97.7         | 97.3         | 106.0        | 86.4         | 112.1        | 57.7          | 92.9          | 82.6          | 106.3        |            |
| Margins (%)                           | 8.3          | 9.0          | 8.9          | 12.8         | 10.1         | 10.5         | 11.1         | 11.8          | 10.2          | 11.1          | 11.1         |            |

## Star Health

BSE SENSEX  
80,369S&P CNX  
24,467

CMP: INR536

Buy

## Conference Call Details



Date: 30th October 2024

Time: 08:30am IST

[Link for the call](#)

## Financials &amp; Valuations (INR b)

| Y/E March         | 2025E | 2026E | 2027E |
|-------------------|-------|-------|-------|
| NEP               | 149.7 | 176.1 | 207.0 |
| U/W Profit        | 2.1   | 4.3   | 6.9   |
| PBT               | 14.3  | 19.0  | 25.1  |
| PAT               | 10.8  | 14.2  | 18.8  |
| <b>Ratios (%)</b> |       |       |       |
| Claims            | 66.9  | 65.7  | 65.2  |
| Commission        | 13.2  | 13.9  | 14.0  |
| Expense           | 15.8  | 15.3  | 14.8  |
| Combined          | 95.9  | 94.9  | 94.0  |
| RoE               | 15.0  | 16.9  | 18.7  |
| EPS (INR)         | 18.4  | 24.3  | 32.1  |
| <b>Valuations</b> |       |       |       |
| P/E (x)           | 29.2  | 22.0  | 16.7  |
| P/BV (x)          | 4.1   | 3.4   | 2.8   |

## Weak underwriting performance leads to 29% PAT miss; combined ratio at 103%

- Star Health's gross written premium at INR43.7b grew 17% YoY (in line with est.) in 2QFY25, driven by 15% YoY growth in retail health premium and 42% YoY growth in group health premium.
- Net earned premium grew 16% YoY to INR37b (in line with est.). For 1HFY25, net earned premium grew 16% YoY.
- Claim ratio at 72.8% (est. 70.5%) increased by 410bp YoY, driven by 22% YoY increase in net claims incurred to INR27b (5% above our est.).
- Commission ratio at 13.8% (est. 13.2%) was largely flat YoY, while net commission grew 13% YoY to INR5.5b (5% above our est.).
- Expense ratio at 16.4% (est. 16.2%) declined by 40bp YoY on account of flat other expenses, while employee expenses grew 14% YoY. Operating expenses were in line with our estimates.
- The increase in all ratios led to a 380bp YoY expansion in the combined ratio to 103% (est. 100%).
- Total investment income stood at INR3.6b (15% above est.), up 39% YoY.
- A higher-than-expected loss ratio led to a 29% miss in 2Q PAT, which declined 11% YoY to INR1.1b. For 1HFY25, PAT grew 4% YoY.
- Solvency ratio for 2QFY25 was at 2.2x vs. 2.1x in 2QFY24.

## Valuation and view

Higher incidence of monsoon-related diseases due to the prolonged monsoon, along with impact of PHC, telemedicine, OPD and wellness initiatives, likely resulted in an elevated loss ratio in 2QFY25. We remain optimistic on the overall prospects for Star Health, backed by: a) consistent growth in retail health, given its under-penetration, b) strong push from the banca channel, c) sustained growth in specialized products and deepening presence. We believe that Star Health can deliver long-term growth with the investments made in profitable channels and products. We look to review our estimates and TP after the concall on 30th Oct'24.

Quarterly Performance

(INR m)

| Y/E March                      | FY24          |               |               |               | FY25E         |               |               |               | FY24            | FY25E           | 2QFY25E       | Act v/s      |       |        |
|--------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|-----------------|-----------------|---------------|--------------|-------|--------|
|                                | 1Q            | 2Q            | 3Q            | 4Q            | 1Q            | 2Q            | 3QE           | 4QE           |                 |                 |               | Est. (%)     | YoY   | QoQ    |
| Gross premium                  | 29,486        | 37,317        | 36,058        | 49,683        | 34,759        | 43,713        | 42,549        | 58,402        | 1,52,545        | 1,79,423        | 43,288        | 1.0          | 17%   | 26%    |
| Net written premium            | 28,008        | 35,446        | 31,519        | 45,700        | 31,702        | 39,750        | 38,804        | 53,377        | 1,40,674        | 1,63,633        | 39,478        | 0.7          | 12%   | 25%    |
| Net earned premium             | 30,438        | 32,056        | 32,936        | 33,953        | 35,203        | 37,039        | 40,744        | 36,738        | 1,29,383        | 1,49,725        | 36,320        | 2.0          | 16%   | 5%     |
| Investment Income              | 1,460         | 1,510         | 1,626         | 1,810         | 1,713         | 2,103         | 1,900         | 1,640         | 6,407           | 7,356           | 1,800         | 16.9         | 39%   | 23%    |
| <b>Total Income</b>            | <b>31,898</b> | <b>33,566</b> | <b>34,563</b> | <b>35,764</b> | <b>36,916</b> | <b>39,142</b> | <b>42,644</b> | <b>38,378</b> | <b>1,35,790</b> | <b>1,57,081</b> | <b>38,120</b> | <b>2.7</b>   | 17%   | 6%     |
| Change YoY (%)                 | 13.6          | 15.0          | 15.9          | 17.1          | 15.7          | 16.6          | 23.4          | 7.3           | 15.4            | 15.7            | 13.6          |              |       |        |
| Incurring claims               | 19,909        | 22,022        | 22,295        | 21,774        | 23,789        | 26,959        | 27,095        | 22,304        | 85,999          | 1,00,147        | 25,606        | 5.3          | 22%   | 13%    |
| Net commission                 | 3,668         | 4,854         | 3,499         | 6,516         | 4,288         | 5,489         | 5,045         | 6,715         | 18,537          | 21,536          | 5,211         | 5.3          | 13%   | 28%    |
| Employee expense               | 3,577         | 3,952         | 3,861         | 4,732         | 3,739         | 4,520         | 4,036         | 5,117         | 16,122          | 17,411          | 4,224         | 7.0          | 14%   | 21%    |
| Other expenses                 | 1,829         | 2,012         | 2,140         | 1,842         | 1,984         | 2,018         | 2,212         | 2,295         | 7,823           | 8,509           | 2,171         | -7.1         | 0%    | 2%     |
| Total Operating Expenses       | 28,983        | 32,839        | 31,794        | 34,864        | 33,800        | 38,986        | 38,387        | 36,431        | 1,28,480        | 1,47,603        | 37,212        | 4.8          | 19%   | 15%    |
| Change YoY (%)                 | 14.5          | 17.0          | 16.0          | 17.1          | 16.6          | 18.7          | 20.7          | 4.5           | 16.2            | 14.9            | 13.3          |              |       |        |
| <b>Underwriting profit</b>     | 1,454         | -784          | 1,142         | -911          | 1,404         | -1,947        | 2,357         | 307           | 903             | 2,121           | -892          |              | 149%  |        |
| Operating profit               | 2,915         | 726           | 2,769         | 900           | 3,117         | 156           | 4,257         | 1,947         | 7,309           | 9,477           | 908           | -82.8        | -78%  | -95%   |
| <b>Shareholder's P/L</b>       |               |               |               |               |               |               |               |               |                 |                 |               |              |       |        |
| Transfer from Policyholder's   | 2,915         | 726           | 2,769         | 900           | 3,117         | 156           | 4,257         | 1,947         | 7,309           | 9,477           | 908           | -82.8        | -78%  | -95%   |
| Investment income              | 1,040         | 1,066         | 1,223         | 1,146         | 1,255         | 1,464         | 1,375         | 1,260         | 4,475           | 5,354           | 1,300         | 12.6         | 37%   | 17%    |
| <b>Total Income</b>            | 3,954         | 1,792         | 3,992         | 2,046         | 4,371         | 1,620         | 5,632         | 3,207         | 11,784          | 14,831          | 2,208         |              | -10%  | -63%   |
| Provisions other than taxation | 1             | 2             | 1             | 21            | 0             | 0             | -             | -             | 25              | 1               | -             |              |       |        |
| Other expenses                 | 110           | 119           | 114           | 128           | 109           | 132           | 132           | 97            | 470             | 471             | 120           | 10.3         | 11%   | 21%    |
| <b>Total Expenses</b>          | 111           | 121           | 115           | 149           | 110           | 133           | 132           | 97            | 496             | 471             | 120           | 10.4         | 9%    | 21%    |
| <b>PBT</b>                     | <b>3,844</b>  | <b>1,671</b>  | <b>3,877</b>  | <b>1,897</b>  | <b>4,262</b>  | <b>1,488</b>  | <b>5,500</b>  | <b>3,110</b>  | <b>11,289</b>   | <b>14,360</b>   | <b>2,088</b>  | <b>-28.7</b> | -11%  | -65%   |
| Change YoY (%)                 | 33.5          | 38.5          | 37.6          | 39.5          | 10.9          | -11.0         | 41.9          | .             | 36.6            | 27.2            | 24.9          |              |       |        |
| Tax Provisions                 | 965           | 418           | 981           | 474           | 1,072         | 375           | 1,375         | 763           | 2,838           | 3,586           | 522           | -28.1        | -10%  | -65%   |
| <b>Net Profit</b>              | <b>2,879</b>  | <b>1,253</b>  | <b>2,896</b>  | <b>1,423</b>  | <b>3,189</b>  | <b>1,113</b>  | <b>4,125</b>  | <b>2,347</b>  | <b>8,450</b>    | <b>10,774</b>   | <b>1,566</b>  | <b>-28.9</b> | -11%  | -65%   |
| Change YoY (%)                 | 35.0          | 34.6          | 37.6          | 39.8          | 10.8          | -11.2         | 42.5          | 64.9          |                 |                 | 25.0          |              |       |        |
| <b>Key Parameters (%)</b>      |               |               |               |               |               |               |               |               |                 |                 |               |              |       |        |
| Claims ratio                   | 65.4          | 68.7          | 67.7          | 64.1          | 67.6          | 72.8          | 66.5          | 60.7          | 66.5            | 66.9            | 70.5          | 229bp        | 409bp | 521bp  |
| Commission ratio               | 13.1          | 13.7          | 11.1          | 14.3          | 13.5          | 13.8          | 13.0          | 12.6          | 13.2            | 13.2            | 13.2          | 61bp         | 11bp  | 28bp   |
| Expense ratio                  | 19.3          | 16.8          | 19.0          | 14.4          | 18.1          | 16.4          | 16.1          | 13.9          | 17.0            | 15.8            | 16.2          | 25bp         | -37bp | -160bp |
| Combined ratio                 | 97.8          | 99.2          | 97.8          | 92.8          | 99.2          | 103.0         | 95.6          | 87.2          | 96.7            | 95.9            | 99.9          | 314bp        | 383bp | 389bp  |
| Solvency                       | 2.2           | 2.1           | 2.2           | 2.2           | 2.3           | 2.2           | -             | -             | 2.2             | 2.1             |               |              |       |        |

# Vedant Fashions

BSE SENSEX 80,369 S&P CNX 24,467

**CMP: INR1,358**

**Neutral**

## Conference Call Details



**Date:** 30<sup>th</sup> Oct 2024  
**Time:** 4pm IST  
**Dial-in details:**  
+91 22 6280 1259

### Financials & Valuations (INR b)

| Y/E March         | FY24  | FY25E | FY26E |
|-------------------|-------|-------|-------|
| Sales             | 13.7  | 14.8  | 17.7  |
| EBITDA            | 6.6   | 7.3   | 8.8   |
| Adj. PAT          | 4.1   | 4.5   | 5.5   |
| EBITDA Margin (%) | 48.1  | 49.3  | 49.8  |
| Adj. EPS (INR)    | 17.1  | 18.5  | 22.7  |
| EPS Gr. (%)       | (3.5) | 8.6   | 22.7  |
| BV/Sh. (INR)      | 64.0  | 72.9  | 84.0  |
| <b>Ratios</b>     |       |       |       |
| Net D:E           | (0.4) | (0.4) | (0.4) |
| RoE (%)           | 27.6  | 26.2  | 26.3  |
| RoCE (%)          | 23.9  | 22.1  | 23.3  |
| Payout (%)        | 49.8  | 50.0  | 50.0  |
| <b>Valuations</b> |       |       |       |
| P/E (x)           | 79.7  | 73.4  | 59.8  |
| EV/EBITDA (x)     | 50.8  | 45.6  | 37.6  |
| EV/Sales (X)      | 24.5  | 22.5  | 18.7  |

## Big beat led by better-than-expected revenue growth

### Revenue/PAT up 23%/37% YoY (10%/21% beat)

- Customer sales grew ~24% YoY to INR3.3b, driven by healthy ~17% SSSG.
- Consolidated **revenue grew 23% YoY to INR2.7b (10% beat)**, driven by: 1) a lower base (revenue -12% YoY in 2QFY24), 2) 17% SSS growth in customer sales and 7% YoY area addition, and 3) a shift in festival dates.
- Vedant Fashions (Manyavar) has closed 12 store sequentially. The closures led to reduction in Manyavar’s presence in 7 Indian and 1 international city. Total store count stood at 650, with ~1.7m sq.ft store area.
- Gross profit increased 26% YoY to INR2b (12% beat) as margin expanded 180bp YoY to 75.4%
- Employee costs were largely flat YoY, while other expenses grew 23% YoY (7% ahead). The growth in other expenses could be due to higher advertisement expenses and the launch of the new brand “Divas by Manyavar”.
- EBITDA increased 31% YoY to INR1.2b (17% beat), driven by revenue growth and GM expansion.**
- EBITDA margin expanded 300bp YoY to 45.5% (280bp beat).
- Depreciation/finance costs grew 15%/28% YoY, and other income increased 27% YoY during the quarter.
- Consequently, PAT grew 37% YoY to INR669m (21% beat).**
- For 1HFY25, Manyavar’s revenue/EBITDA/PAT declined 4%/3%/8% YoY.
- FCF stood at -INR56m (vs. +INR310m in 1HFY24). Cash outflow was due to: 1) a decline in EBITDA, and b) the amount blocked in WC.
- WC days increased YoY to 243 (vs. 215 days YoY).

### Consol P&L (INR m)

|                               | 2QFY24        | 1QFY25        | 2QFY25        | YoY%         | QoQ%          | 2QFY25E        | v/s Est (%)        |
|-------------------------------|---------------|---------------|---------------|--------------|---------------|----------------|--------------------|
| <b>Total Revenue</b>          | <b>2,183</b>  | <b>2,398</b>  | <b>2,679</b>  | <b>23</b>    | <b>12</b>     | <b>2,442</b>   | <b>10</b>          |
| Raw Material cost             | 575           | 629           | 659           | 14           | 5             | 637            | 3                  |
| <b>Gross Profit</b>           | <b>1,608</b>  | <b>1,769</b>  | <b>2,021</b>  | <b>26</b>    | <b>14</b>     | <b>1,804</b>   | <b>12</b>          |
| <b>Gross margin (%)</b>       | <b>73.6</b>   | <b>73.8</b>   | <b>75.4</b>   | <b>177.8</b> | <b>165.3</b>  | <b>73.9</b>    | <b>151.8</b>       |
| Employee Costs                | 146           | 146           | 145           | -1           | -1            | 151            | -4                 |
| Other expenses                | 533           | 496           | 656           | 23           | 32            | 610            | 7                  |
| <b>EBITDA</b>                 | <b>928</b>    | <b>1,127</b>  | <b>1,220</b>  | <b>31</b>    | <b>8</b>      | <b>1,043</b>   | <b>17</b>          |
| <b>EBITDA margin (%)</b>      | <b>42.5</b>   | <b>47.0</b>   | <b>45.5</b>   | <b>301.4</b> | <b>-146.5</b> | <b>42.7</b>    | <b>282.8</b>       |
| Depreciation and amortization | 325           | 372           | 373           | 15           | 0             | 390            | -4                 |
| EBIT                          | 603           | 755           | 847           | 40           | 12            | 652            | 30                 |
| <b>EBIT margin (%)</b>        | <b>27.6</b>   | <b>31.5</b>   | <b>31.6</b>   | <b>NM</b>    | <b>NM</b>     | <b>26.7</b>    | <b>489.9</b>       |
| Finance Costs                 | 107           | 139           | 137           | 28           | -1            | 141            | -3                 |
| Other income                  | 151           | 215           | 192           | 27           | -10           | 226            | -15                |
| Exceptional item              | 0             | 0             | 0             | NM           | NM            | 0              | NM                 |
| <b>Profit before Tax</b>      | <b>648</b>    | <b>831</b>    | <b>902</b>    | <b>39</b>    | <b>9</b>      | <b>738</b>     | <b>22</b>          |
| Tax                           | 161           | 206           | 233           | 45           | 13            | 186            | 25                 |
| Tax rate (%)                  | 24.8          | 24.8          | 25.8          | 4.3          | 4.3           | 25.2           | 2.6                |
| <b>Profit after Tax</b>       | <b>487</b>    | <b>625</b>    | <b>669</b>    | <b>37</b>    | <b>7</b>      | <b>552</b>     | <b>21</b>          |
| <b>Adj Profit after Tax</b>   | <b>487</b>    | <b>625</b>    | <b>669</b>    | <b>37</b>    | <b>7</b>      | <b>552</b>     | <b>21</b>          |
|                               | <b>2QFY24</b> | <b>1QFY25</b> | <b>2QFY25</b> | <b>YoY%</b>  | <b>QoQ%</b>   | <b>2QFY25E</b> | <b>v/s Est (%)</b> |
| <b>Total stores</b>           | <b>669</b>    | <b>662</b>    | <b>650</b>    | <b>-3</b>    | <b>-2</b>     | <b>667</b>     | <b>-3</b>          |
| <b>Net store adds</b>         | <b>7</b>      | <b>-14</b>    | <b>-12</b>    | <b>NM</b>    | <b>NM</b>     | <b>5</b>       |                    |

# Godrej Agrovet

BSE SENSEX 80,369  
S&P CNX 24,467

**CMP: INR744**

**BUY**

## Conference Call Details



**Date:** 30<sup>th</sup> Oct24

**Time:** 3:30pm IST

**Dial-in details:**

[click here](#)

## Operating performance in line

- Godrej Agrovet’s 2QFY25 consolidated revenue declined 5% YoY to INR24.5b (in line). EBITDA margin expanded 130bp YoY to 9.1% (est. 9.2%), led by 190bp YoY expansion in gross margin to 25.6%. EBITDA stood at INR2.2b, up 11% YoY (in line). Adj. PAT declined 9% YoY to INR958m\*
- Revenue declined 6% YoY to INR48b in 1HFY25, while EBITDA/Adj. PAT\* grew 14%/10% to INR4.5b/INR2.3b.
- **Note:** \*Due to the withdrawal of indexation benefit on LTCCG, the company reversed the deferred tax assets created on certain capital assets (carried at indexed cost), having a one-time non-cash impact of INR196m on Adj. PAT for 2QFY25/1HFY25 Without this, Adj. PAT grew 10%/19% YoY to INR1.2b/INR2.5b for 2Q/1HFY25.

## Segmental performance

- Animal feed (AF) business revenue declined ~3% YoY to INR12.1b. EBIT margin expanded 130bp YoY to 5.9%. EBIT stood at INR706m, up 24% YoY.
- Palm oil revenue marginally declined ~1% YoY to INR4.4b. EBIT margin expanded 135bp YoY to 16.7%. EBIT stood at INR736m, up 7% YoY.
- Crop protection (CP) revenue declined ~22% YoY to ~INR3b. EBIT margin expanded 145bp YoY to 18.6%. EBIT stood at INR551m, down 15% YoY.
- Dairy revenue marginally grew by ~3% YoY to INR4b. EBIT margins expanded by 135bp YoY to 2.1%. EBIT stood at INR84m, up 2.9x YoY.
- The poultry and processed food segment declined ~17% YoY to INR2b. EBIT margin contracted 600bp YoY to 0.3%. EBIT stood at INR5m, down 97% YoY.

## Consolidated - Quarterly Earning Model

| Y/E March                                     | FY24   |        |        |        | FY25   |        |        |        | FY24   | FY25E  | FY25E   | (INR m) |
|---|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------|---------|
|   | 1Q     | 2Q     | 3Q     | 4Q     | 1Q     | 2Q     | 3QE    | 4QE    |        | 2QE    | Var (%) |         |
| <b>Gross Sales</b>                            | 25,102 | 25,709 | 23,452 | 21,343 | 23,508 | 24,488 | 25,602 | 23,829 | 95,606 | 97,426 | 24,868  | -2      |
| YoY Change (%)                                | 0      | 5.1    | 0.9    | 1.9    | -6.4   | -4.8   | 9.2    | 11.6   | 2      | 1.9    | -3.3    |         |
| Total Expenditure                             | 23,173 | 23,694 | 21,861 | 19,863 | 21,246 | 22,254 | 23,216 | 21,732 | 88,591 | 88,448 | 22,586  |         |
| <b>EBITDA</b>                                 | 1,929  | 2,014  | 1,591  | 1,480  | 2,261  | 2,234  | 2,386  | 2,097  | 7,015  | 8,978  | 2,282   | -2      |
| Margins (%)                                   | 7.7    | 7.8    | 6.8    | 6.9    | 9.6    | 9.1    | 9.3    | 8.8    | 7.3    | 9.2    | 9.2     |         |
| Depreciation                                  | 528    | 529    | 530    | 556    | 546    | 583    | 598    | 619    | 2,143  | 2,346  | 579     |         |
| Interest                                      | 295    | 279    | 251    | 254    | 302    | 398    | 315    | 320    | 1,079  | 1,334  | 310     |         |
| Other Income                                  | 115    | 112    | 84     | 102    | 92     | 126    | 98     | 149    | 413    | 466    | 112     |         |
| <b>PBT before EO expense</b>                  | 1,222  | 1,318  | 894    | 772    | 1,506  | 1,379  | 1,571  | 1,308  | 4,206  | 5,763  | 1,505   |         |
| Extra-Ord expense                             | 0      | 0      | 0      | 0      | 0      | 0      | 0      | 0      | 0      | 0      | 0       |         |
| <b>PBT</b>                                    | 1,222  | 1,318  | 894    | 772    | 1,506  | 1,379  | 1,571  | 1,308  | 4,206  | 5,763  | 1,505   |         |
| Tax   | 353    | 369    | 191    | 220    | 345    | 541    | 395    | 329    | 1,133  | 1,610  | 379     |         |
| Rate (%)                                      | 28.9   | 28     | 21.3   | 28.5   | 22.9   | 39.3   | 25.2   | 25.2   | 26.9   | 27.9   | 25.2    |         |
| Minority Interest & Profit/Loss of Asso. Cos. | -185   | -104   | -215   | -19    | -190   | -121   | -138   | -118   | -523   | -567   | -156    |         |
| <b>Reported PAT</b>                           | 1,053  | 1,053  | 918    | 571    | 1,352  | 958    | 1,314  | 1,096  | 3,596  | 4,719  | 1,282   |         |
| <b>Adj PAT</b>                                | 1,053  | 1,053  | 918    | 571    | 1,352  | 958    | 1,314  | 1,096  | 3,596  | 4,719  | 1,282   | -25     |
| YoY Change (%)                                | 27.3   | 46.7   | 43.5   | 84.2   | 28.3   | -9     | 43     | 91.9   | 44.1   | 31.2   | 21.8    |         |
| Margins (%)                                   | 4.2    | 4.1    | 3.9    | 2.7    | 5.7    | 3.9    | 5.1    | 4.6    | 3.8    | 4.8    | 5.2     |         |



# V-Mart Retail

**BSE SENSEX**  
80,369

**S&P CNX**  
24,467

**CMP: INR4,467**

**Neutral**

## Conference Call Details



**Date:** 30<sup>th</sup> Oct 2024  
**Time:** 11:00 IST

### Financials & Valuations (INR b)

| INR million       | FY24  | FY25E | FY26E |
|-------------------|-------|-------|-------|
| Sales             | 27.9  | 33.6  | 39.3  |
| EBITDA            | 2.1   | 3.8   | 4.9   |
| NP                | -1.0  | -0.1  | 0.6   |
| EBITDA Margin (%) | 7.6   | 11.3  | 12.6  |
| Adj. EPS (INR)    | -53.5 | -3.0  | 35.7  |
| EPS Gr. (%)       | NM    | NM    | NM    |
| BV/Sh. (INR)      | 412.8 | 409.7 | 445.5 |
| <b>Ratios</b>     |       |       |       |
| Net D:E           | 1.8   | 2.1   | 2.0   |
| RoE (%)           | NM    | NM    | 8.4   |
| RoCE (%)          | 0.4   | 4.9   | 7.6   |
| Payout (%)        | 0.0   | 0.0   | 0.0   |
| <b>Valuations</b> |       |       |       |
| P/E (x)           | NM    | NM    | 125.2 |
| EV/EBITDA (x)     | 47.9  | 27.5  | 21.1  |
| EV/Sales (x)      | 3.2   | 2.7   | 2.3   |

### Strong performance driven by robust SSSG and reduction in LR losses

- Revenue grew 20% YoY to INR6.6b, driven by 15% blended SSSG and 7% YoY store additions.
  - Limeroad's revenue declined 53% YoY to INR104m. Adjusted for this, V-Mart's revenue (including the Unlimited stores) was up 23% YoY.
  - V-Mart (core)'s revenue stood at INR5.4b, up 27% YoY, with throughput of ~INR1,600/sq.ft. SSSG continued to remain strong at 16%.
  - Unlimited's revenue stood at INR1.1b (up 8% YoY), with throughput of ~INR1,400/sqft (+11% SSSG).
- V-Mart opened 21 new stores (16 in V-Mart and 5 in Unlimited) and closed two stores (of V-Mart) during the quarter, taking the total store count to 467 (V-Mart: 384 and Unlimited: 83).
- Gross profit grew 17% YoY to INR2.2b (in line), as gross margin contracted 100bp YoY to 33.6% (50bp miss).
- Employee expenses grew 21% YoY to INR865m.
- Other expenses declined 18% YoY to INR969m, mainly on account of lower losses in the online segment (Limeroad EBITDA loss down 63% YoY) and closure of the loss-making stores.
- Consequently, EBITDA stood at INR386m (30% beat) with margin at 5.8% (135bp beat).
  - Pre-Ind AS EBITDA margin came in at -2.8% (vs -9.1% in 2QFY24).
- Depreciation and interest grew 11% and 9% YoY, respectively.
- Loss before tax stood at INR580m (vs. our estimate of INR624m loss).
- V-Mart's 1HFY25 revenue/EBITDA was up 18%/2.6x YoY but still remained in loss with 1H net loss at INR444m.
- Despite an increase in EBITDA, the company's FCF (outflow) stands at INR613m in 1HFY25 (vs. -INR387m YoY) due to the amount blocked in WC and capex of INR610m. This led to a rise in net debt to INR1.38b (vs. INR781m in FY24).

### P&L (INR m)

|                               | 2QFY24       | 1QFY25       | 2QFY25       | YoY%          | QoQ%          | 2QFY25E      | v/s est (%) |
|-------------------------------|--------------|--------------|--------------|---------------|---------------|--------------|-------------|
| <b>Revenue</b>                | <b>5,494</b> | <b>7,861</b> | <b>6,610</b> | <b>20.3</b>   | <b>-15.9</b>  | <b>6,610</b> | <b>0.0</b>  |
| Raw Material cost             | 3,593        | 5,094        | 4,389        | 22.2          | -13.8         | 4,356        | 0.8         |
| <b>Gross Profit</b>           | <b>1,902</b> | <b>2,767</b> | <b>2,221</b> | <b>16.8</b>   | <b>-19.7</b>  | <b>2,254</b> | <b>-1.5</b> |
| Gross Margin (%)              | 34.6         | 35.2         | 33.6         | -101bps       | -160bps       | 34.1         | -50bps      |
| Employee Costs                | 713          | 841          | 865          | 21.4          | 2.9           | 859          | 0.7         |
| Other Expenses                | 1,182        | 937          | 969          | -18.0         | 3.5           | 1,097        | -11.7       |
| <b>EBITDA</b>                 | <b>7</b>     | <b>990</b>   | <b>386</b>   | <b>5664.2</b> | <b>-61.0</b>  | <b>297</b>   | <b>29.8</b> |
| EBITDA margin (%)             | 0.1          | 12.6         | 5.8          | 572bps        | NM            | 4.5          | 134bps      |
| Depreciation and amortization | 532          | 568          | 592          | 11.4          | 4.3           | 602          | -1.6        |
| EBIT                          | -525         | 422          | -206         | -60.7         | NM            | -305         | 32.3        |
| EBIT margin (%)               | -9.6         | 5.4          | -3.1         | 644bps        | NM            | -4.6         | 149bps      |
| Finance Costs                 | 359          | 375          | 391          | 9.1           | 4.4           | 375          | 4.4         |
| Other income                  | 20           | 46           | 18           | -11.1         | -61.9         | 56           | -68.2       |
| Exceptional item              | 0            | 0            | 0            | 0.0           | 0.0           | 0            | NM          |
| <b>Profit before Tax</b>      | <b>-864</b>  | <b>93</b>    | <b>-580</b>  | <b>-32.9</b>  | <b>-722.2</b> | <b>-624</b>  | <b>7.1</b>  |
| Tax                           | -223         | -28          | -15          | -93.4         | -47.5         | 189          |             |
| Tax rate (%)                  | 25.8         | -30.3        | 2.6          | -2325bps      | 3281bps       | -30.3        |             |
| <b>Profit after Tax</b>       | <b>-641</b>  | <b>121</b>   | <b>-565</b>  | <b>-11.9</b>  | <b>-565.5</b> | <b>-813</b>  | <b>30.5</b> |
| Total stores                  | 437          | 448          | 467          | 6.9           | 4.2           | 467          |             |
| Store adds                    | 6            | 4            | 19           | 216.7         | 375.0         |              |             |

# MTAR Technologies

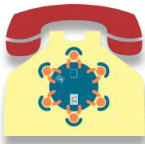
**BSE SENSEX**  
80,369

**S&P CNX**  
24,467

**CMP: INR1,592**

**Buy**

## Conference Call Details



**Date:** 30<sup>th</sup> Oct'24  
**Time:** 11:00am IST  
**Dial-in details:**  
[click here](#)

## Operating performance in line with estimates

### Performance in 2QFY25

- Consolidated Revenue grew 14% YoY and 48% QoQ to INR1.9b (est. INR1.97b).
- EBITDA grew 2% YoY and 2.2x QoQ to INR368m (est. INR385m). EBITDA margins contracted 220bp YoY, while expanded 650bp QoQ to 19.4% (est. 19.6%). Gross margins stood at 47.5% (up 190bp YoY); while employee expenses/other expenses as a % of sales stood at 15.7%/12.4% (up 170bp/250bp YoY).
- Adjusted PAT declined 8% YoY while grew 4.2x QoQ to INR188m (est. INR223m).

### Consolidated - Quarterly Earning Model

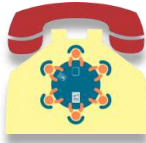
| Y/E March                                     | (INRm)       |              |              |              |              |              |              |              |              |              |              |             |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|-------------|
|   | FY24         |              |              |              | FY25         |              |              |              | FY24         | FY25E        | FY25         | Var.        |
|   | 1Q           | 2Q           | 3Q           | 4Q           | 1Q           | 2Q           | 3QE          | 4QE          |              |              | 2QE          | %           |
| <b>Gross Sales</b>                            | <b>1,526</b> | <b>1,668</b> | <b>1,184</b> | <b>1,430</b> | <b>1,283</b> | <b>1,902</b> | <b>2,013</b> | <b>2,359</b> | <b>5,808</b> | <b>7,556</b> | <b>1,969</b> | <b>-3%</b>  |
| YoY Change (%)                                | 67.6         | 32.2         | -26.1        | -27.2        | -15.9        | 14.0         | 70.0         | 65.0         | 1.2          | 30.1         | 18.0         |             |
| Total Expenditure                             | 1,180        | 1,307        | 945          | 1,247        | 1,117        | 1,534        | 1,549        | 1,771        | 4,681        | 5,970        | 1,584        |             |
| <b>EBITDA</b>                                 | <b>345</b>   | <b>361</b>   | <b>239</b>   | <b>182</b>   | <b>166</b>   | <b>368</b>   | <b>464</b>   | <b>588</b>   | <b>1,127</b> | <b>1,586</b> | <b>385</b>   | <b>-4%</b>  |
| Margins (%)                                   | 22.6         | 21.6         | 20.2         | 12.7         | 12.9         | 19.4         | 23.0         | 24.9         | 19.4         | 21.0         | 19.6         |             |
| Depreciation                                  | 56           | 58           | 58           | 59           | 61           | 78           | 65           | 75           | 232          | 279          | 62           |             |
| Interest                                      | 57           | 55           | 56           | 55           | 48           | 52           | 52           | 55           | 223          | 207          | 50           |             |
| Other Income                                  | 41           | 8            | 5            | 4            | 5            | 14           | 28           | 30           | 58           | 78           | 25           |             |
| <b>PBT before EO expense</b>                  | <b>273</b>   | <b>257</b>   | <b>129</b>   | <b>72</b>    | <b>62</b>    | <b>253</b>   | <b>375</b>   | <b>488</b>   | <b>730</b>   | <b>1,178</b> | <b>298</b>   |             |
| Extra-Ord expense                             | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            |             |
| <b>PBT</b>                                    | <b>273</b>   | <b>257</b>   | <b>129</b>   | <b>72</b>    | <b>62</b>    | <b>253</b>   | <b>375</b>   | <b>488</b>   | <b>730</b>   | <b>1,178</b> | <b>298</b>   |             |
| Tax   | 69           | 52           | 24           | 23           | 18           | 65           | 94           | 123          | 169          | 300          | 75           |             |
| Rate (%)                                      | 25.4         | 20.3         | 18.9         | 32.2         | 28.6         | 25.8         | 25.2         | 25.2         | 23.2         | 25.5         | 25.2         |             |
| Minority Interest & Profit/Loss of Asso. Cos. | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            |             |
| <b>Reported PAT</b>                           | <b>203</b>   | <b>205</b>   | <b>104</b>   | <b>49</b>    | <b>44</b>    | <b>188</b>   | <b>280</b>   | <b>365</b>   | <b>561</b>   | <b>878</b>   | <b>223</b>   |             |
| <b>Adj PAT</b>                                | <b>203</b>   | <b>205</b>   | <b>104</b>   | <b>49</b>    | <b>44</b>    | <b>188</b>   | <b>280</b>   | <b>365</b>   | <b>561</b>   | <b>878</b>   | <b>223</b>   | <b>-16%</b> |
| YoY Change (%)                                | 25.4         | -17.1        | -66.8        | -84.3        | -78.2        | -8.2         | 168.5        | 649.5        | -45.7        | 56.4         | 9.0          |             |
| Margins (%)                                   | 13.3         | 12.3         | 8.8          | 3.4          | 3.5          | 9.9          | 13.9         | 15.5         | 9.7          | 11.6         | 11.3         |             |

BSE SENSEX 80,369  
S&P CNX 24,467

**CMP: INR365**

**Buy**

**Conference Call Details**



**Date:** 30<sup>th</sup> October 2024  
**Time:** 11:00 am IST  
**Dial-in details:**  
+91 22 6280 1309  
+91 22 7115 8210

**Financials & Valuations (INR b)**

| Y/E Mar           | FY25E | FY26E | FY27E |
|-------------------|-------|-------|-------|
| Sales             | 28.4  | 33.5  | 38.4  |
| EBIT              | 1.2   | 1.6   | 2.2   |
| PAT               | 1.1   | 1.5   | 2.0   |
| Adj PAT           | 1.2   | 1.6   | 2.2   |
| EPS (INR)         | 16.3  | 22.4  | 30.3  |
| Adj EPS (INR)     | 17.8  | 24.5  | 32.6  |
| EPS growth (%)    | 21%   | 38%   | 33%   |
| BV/Sh (INR)       | 145.5 | 167.8 | 198.1 |
| <b>Valuations</b> |       |       |       |
| P/E (x)           | 22.4  | 16.3  | 12.1  |
| P/BV (x)          | 2.5   | 2.2   | 1.8   |
| RoE (%)           | 12.0  | 14.3  | 16.5  |
| RoCE (%)          | 10.6  | 11.8  | 13.6  |

**Revenue and margins in line; BSS drives growth**

Revenue/EBITDA/adj. PAT up ~13%/48%/42% YoY

**P&L highlights**

- Revenue was up 13.3% YoY and 4.3% QoQ to ~INR6.7b, in line with our estimate of ~INR7.1b.
- Revenue growth was aided by ~20% YoY growth in BSS, whereas IFM reported a growth of 10% YoY.
- UDS has witnessed a notable shift in its business mix. In 2QFY25, the IFM and BSS segments contributed ~65% and 35%, respectively, compared to ~70% and ~30% in 2QFY24.
- EBITDA margin came in at 6.4%, stable YoY (vs. est. 6.1%). IFM margin was up by 100bp QoQ at 5.2%. BSS margin declined 80bp QoQ to 5.8%.
- Consolidated adj. PAT stood at INR280m (up 42% YoY), in line with our estimates of INR264m.

**Operational highlights**

- In 2QFY25, 74 logos were added. RoCE stood at 23% on an annualized basis in Sep'24 vs. 23.5% in Mar'24.
- Denave has become a wholly owned subsidiary of UDS, and further shares were acquired in Athena (74%). Digital onboarding of retailers, virtual audits aided by technology in the retail space, sales intelligence through AI initiatives for global giants, etc. helped Denave penetrate into new avenues.
- Long-standing relationships with customers have 95%/93% retention over a 5-year window in IFM/BSS business.

**Valuation and view:** We will revisit our estimates after the earnings call.

Commentaries on the near-term outlook, verticals, and margin will be keenly watched. **We reiterate our BUY rating on the stock.**

**Consolidated - Quarterly Earnings Model**

| Y/E March                                     | FY24         |              |              |              | FY25E        |              |              |              | FY24          | FY25E         | Est. 2QFY25  | Var. (%/bp) |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|--------------|-------------|
|   | 1Q           | 2Q           | 3Q           | 4Q           | 1Q           | 2Q           | 3QE          | 4QE          |               |               |              |             |
| <b>Gross Sales</b>                            | <b>5,764</b> | <b>6,001</b> | <b>6,361</b> | <b>6,318</b> | <b>6,522</b> | <b>6,800</b> | <b>7,579</b> | <b>7,453</b> | <b>24,444</b> | <b>28,353</b> | <b>7,149</b> | <b>-4.9</b> |
| YoY Change (%)                                | 20.3         | 16.7         | 17.3         | 10.5         | 13.1         | 13.3         | 19.1         | 18.0         | 16.0          | 16.0          | 19.1         | -580bp      |
| Total Expenditure                             | 5,404        | 5,616        | 5,959        | 5,944        | 6,112        | 6,363        | 7,094        | 6,976        | 22,923        | 26,545        | 6,692        | -4.9        |
| <b>Core EBITDA</b>                            | <b>360</b>   | <b>385</b>   | <b>401</b>   | <b>374</b>   | <b>409</b>   | <b>437</b>   | <b>485</b>   | <b>477</b>   | <b>1,520</b>  | <b>1,808</b>  | <b>458</b>   | <b>-4.5</b> |
| Margins (%)                                   | 6.3          | 6.4          | 6.3          | 5.9          | 6.3          | 6.4          | 6.4          | 6.4          | 6.2           | 6.4           | 6.4          | 0bp         |
| ESOP cost                                     | 0.0          | 31.7         | 21.7         | 18.9         | 0.0          | 0.0          | 22.7         | 22.4         | 72.3          | 45.1          | 21.4         | -100.0      |
| Fair value changes                            | 31.8         | 57.2         | 31.8         | -47.4        | 0.0          | 0.0          | 0.0          | 0.0          | 105.9         | 0.0           | 0.0          |             |
| <b>EBITDA</b>                                 | <b>329</b>   | <b>296</b>   | <b>348</b>   | <b>403</b>   | <b>409</b>   | <b>437</b>   | <b>462</b>   | <b>455</b>   | <b>1,342</b>  | <b>1,763</b>  | <b>436</b>   | <b>0.2</b>  |
| Margins (%)                                   | 5.7          | 4.9          | 5.5          | 6.4          | 6.3          | 6.4          | 6.1          | 6.1          | 5.5           | 6.2           | 6.1          | 30bp        |
| Depreciation                                  | 131          | 137          | 149          | 123          | 115          | 123          | 152          | 149          | 539.6         | 538.4         | 143          | -13.8       |
| Interest                                      | 56           | 63           | 42           | 31           | 34           | 29           | 27           | 26           | 192.8         | 116.0         | 25           | 17.8        |
| Other Income, net                             | 27           | 27           | 93           | 56           | 65           | 69           | 45           | 45           | 236           | 224           | 43           | 61.5        |
| <b>PBT</b>                                    | <b>169</b>   | <b>123</b>   | <b>250</b>   | <b>305</b>   | <b>326</b>   | <b>354</b>   | <b>330</b>   | <b>324</b>   | <b>846</b>    | <b>1,333</b>  | <b>311</b>   | <b>13.7</b> |
| Tax   | 45           | 31           | 44           | 63           | 69           | 74           | 49           | 49           | 183.2         | 241.0         | 47           | 57.9        |
| Rate (%)                                      | 26.7         | 25.2         | 17.7         | 20.7         | 21.3         | 20.8         | 15.0         | 15.0         | 21.7          | 18.1          | 15.0         | 580bp       |
| Minority Interest & Profit/Loss of Asso. Cos. | -5           | -8           | -3           | -17          | 3            | -1           | 0            | 0            | -17           | 2             | 0            |             |
| <b>Adjusted PAT</b>                           | <b>202</b>   | <b>197</b>   | <b>275</b>   | <b>194</b>   | <b>256</b>   | <b>280</b>   | <b>280</b>   | <b>276</b>   | <b>885</b>    | <b>1,191</b>  | <b>264</b>   | <b>5.9</b>  |
| YoY Change (%)                                | -22.6        | -19.8        | 114.2        | -10.3        | 27.2         | 41.8         | 2.1          | 41.9         | 137.9         | 34.6          | 33.9         |             |
| Margins (%)                                   | 3.5          | 3.3          | 4.3          | 3.1          | 3.9          | 4.1          | 3.7          | 3.7          | 3.6           | 4.2           | 3.7          | 40bp        |



### **Maruti Suzuki: Expect 14% growth in retail sales during festive season; RC Bhargava, Chairman**

- Expect 14% growth in retail sales during festive season
- Final PAT is lower than last year due to change in indexation benefits
- Expect to start production in Kharkhoda plant in FY25
- Automobile industry is a bit of a difficult time

[→ Read More](#)

### **Sun Pharma: Growth has been good in the US mkt; CS Muralidharan, Group CFO**

- Expect topline data on psoriatic arthritis by FY25
- Continue to focus on strong execution, led to growth in specialty biz
- US growth was fueled by specialty biz
- Will continue to build the global specialty portfolio

[→ Read More](#)

### **Supriya Lifesciences: Red Sea issues have led to delay in consignment exports; Saloni Wagh, MD**

- Will grow more than 22% in FY25
- H2 margins could come off a little bit from H1
- Margins will be in the range of 32-34%
- By FY27 CMO will contribute 20% of revenue mix

[→ Read More](#)

### **PNB: Performance has been improving across parameters every quarter; Atul Kumar Goel, CMD**

- Sanctioned more than ₹9 lk cr of loans
- Net Interest Margin guidance for FY25 is at 2.9-3%
- Retail unsecured loan is at Rs. 27k crores
- Rs. 18k crore of recovery is the target

[→ Read More](#)

### **Indian Bank: Penal charges levied by RBI impacted net interest margin in Q2; SL Jain, MD & CEO**

- NIMs have come-down to 3.39%; due to Penal Charges
- Recovery run-rate per quarter is at Rs. 2k Cr.
- Slippages from agri segment was at Rs. 680 Cr.
- FY25 advances growth is at 11-13%

[→ Read More](#)

### **LICHF: FY25 AUM growth will be in low-double; Tribhuwan Adhikari, MD & CEO**

- FY25 AUM growth will be in low double-digits
- Q2 disbursements grew by 27% QoQ
- NIMs won't go below 2.7%

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Investment in securities market are subject to market risks. Read all the related documents carefully before investing

## NOTES

| 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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