MOTILAL OSWAL FINANCIAL SERVICES

19 November 2024

MORNING INDIA

Motilal Oswal values your support in the EXTEL POLL 2024 for India Research, Sales, Corporate Access and Trading team. We request your ballot.

EXTEL POLL 2024

Best Domestic Brokerage
Ranked Top 3 (CY21-CY23)

Market snapshot

Equities - India	Close	Chg .%	CYTD.%
Sensex	77,339	-0.3	7.1
Nifty-50	23,454	-0.3	7.9
Nifty-M 100	54,045	0.0	17.0
Equities-Global	**Close**	**Chg .%**	**CYTD.%**
S&P 500	5,894	0.4	23.6
Nasdaq	18,792	0.6	25.2
FTSE 100	8,109	0.6	4.9
DAX	19,189	-0.1	14.6
Hang Seng	7,057	1.1	22.3
Nikkei 225	38,221	-1.1	14.2
Commodities	**Close**	**Chg .%**	**CYTD.%**
Brent (US$/Bbl)	74	1.5	-4.0
Gold ($/OZ)	2,612	1.8	26.6
Cu (US$/MT)	8,955	0.8	5.8
Almn (US$/MT)	2,580	-1.8	10.0
Currency	**Close**	**Chg .%**	**CYTD.%**
USD/INR	84.4	0.0	1.4
USD/EUR	1.1	0.6	-4.0
USD/JPY	154.7	-1.0	9.7
YIELD (%)	**Close**	**1MChg**	**CYTD chg**
10 Yrs G-Sec	6.9	-0.01	-0.3
10 Yrs AAA Corp	7.3	0.00	-0.4
Flows (USD b)	**18-Nov**	**MTD**	**CYTD**
FIIs	-0.2	-2.49	-2.2
DIIs	0.28	3.42	56.7
Volumes (INRb)	**18-Nov**	**MTD***	**YTD***
Cash	955	962	1269
F&O	2,05,746	3,47,601	3,80,630

Note: Flows, MTD includes provisional numbers. *Average

Today's top research idea

Swiggy - Initiating Coverage: "Quick" commerce, delayed gratification

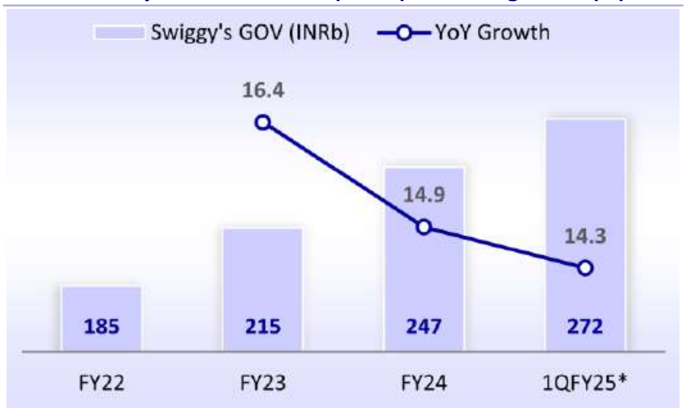
- Swiggy's unified platform has become essential for urban consumers, covering everything from food delivery to grocery needs in one app. Leveraging a unique blend of convenience, high-frequency offerings, and user stickiness, Swiggy stands out in the competitive landscape. While Zomato currently holds the lead in food delivery and quick commerce businesses, Swiggy's all-in-one app strategy enables strong cross-utilization across services and better operational efficiency.
- We believe quick commerce is a once-in-a-lifetime opportunity to disrupt how Indian consumers shop for not just groceries but a variety of essential and non-essential goods, and Swiggy could be a top 3 player in an exponentially growing market. Current numbers, however, suggest that despite being an innovator and a category inventor across both food delivery and quick commerce, Swiggy has let its leadership slip away. Tight execution and better leveraging its platform can fix these issues, in our opinion, though.
- Overall, Swiggy is well-positioned to capitalize on this growth by expanding its customer base, increasing the order volumes and values, and improving its unit economics and profitability. We initiate coverage with a NEUTRAL rating and a TP of INR475.

Research covered

Cos/Sector	Key Highlights
Swiggy	Initiating Coverage: "Quick" commerce, delayed gratification
Glenmark Pharma	India, Europe drive earnings
Lemon Tree Hotels	Healthy growth in ARR and Aurika Mumbai drive revenue
Metals Monthly	Domestic steel prices remain flat MoM; non-ferrous prices jump
Media	RIL-Disney JV: A media behemoth takes shape

Chart of the Day: Swiggy - Initiating Coverage ("Quick" commerce, delayed gratification)

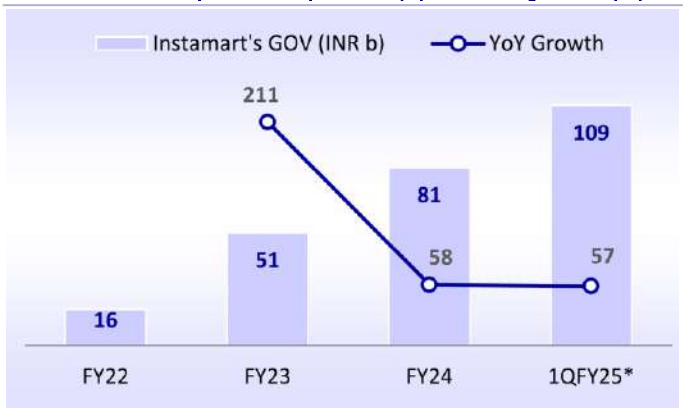
Food delivery business – GOV (INR b) and YoY growth (%)



*on annualized basis

Source: MOFSL, Company

Quick commerce (Instamart) – GOV (b) and YoY growth (%)



*on annualized basis

Source: MOFSL, Company

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In the news today

Kindly click on textbox for the detailed news link

1

MakeMyTrip to acquire Happay Expense Management Platform from CRED

As part of the agreement, Happay brand, its expense management business, and its dedicated team will transition to MakeMyTrip.

2

Fuel stock at coal-based plants up 52% this Winter

Indian coal-based power plants boast significantly higher coal reserves this winter compared to the last, thanks to improved planning and increased production.

3

Deficit of 10 million professionals & counting: Electronics companies struggle with talent shortage

India's electronics manufacturing industry is booming, projected to add 12 million jobs by 2028.

4

Gold loans may soon come with monthly payment plans

In a circular on September 30, the regulator pointed out irregularities in granting loans against gold ornaments and jewellery.

5

Quick commerce players face delivery hurdles as smog discourages workers, cuts down on manpower

Delivery services in north India, particularly in Delhi-NCR, are experiencing a surge in orders due to severe smog and pollution.

6

Small wearables brands exit market as low margins hurt

Several Indian wearable brands, including Play, Wings, Vingajoy, and Riversong, have ceased operations due to declining demand and low profit margins.

7

ED uncovers Amazon and Flipkart's direct links with sellers

The Enforcement Directorate (ED) has uncovered evidence suggesting that Amazon and Flipkart exert significant control over their preferred sellers.

Swiggy

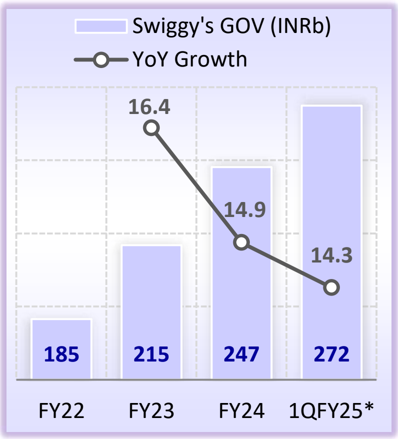
BSE Sensex	S&P CNX
77,580	23,533

Bloomberg	SWIGGY IN
Equity Shares (m)	2238
M.Cap.(INRb)/(USDb)	964.1 / 11.4
52-Week Range (INR)	489 / 390
1, 6, 12 Rel. Per (%)	-/-/-
12M Avg Val (INR M)	39089

Financials & Valuations (INR b)

Y/E MARCH	FY25E	FY26E	FY27E
GOV	303.1	387.8	463.0
Net Sales	151.6	203.2	260.1
Change (%)	34.8	34.0	28.0
EBITDA	-16.2	-3.8	10.4
EBITDA margin	-10.7	-1.9	4.0
Adj. PAT	-17.0	-6.1	5.1
PAT margin (%)	-11.2	-3.0	1.9
RoE (%)	-18.4	-5.9	4.9
RoCE (%)	-21.1	-9.1	1.9
EPS (INR)	-7.3	-2.6	2.1
EV/ Sales	6.2	4.7	3.7
Price/ Book	9.3	9.8	9.4

Food delivery business – GOV (INR b) and YoY growth (%)



*on annualized basis

CMP: INR422 TP: INR475 (+13%) Neutral

"Quick" commerce, delayed gratification

Swiggy's innovator DNA crucial to its success, but it needs better execution to catch up to its rivals

- **Swiggy's unified platform has become essential for urban consumers, covering everything from food delivery to grocery needs in one app. Leveraging a unique blend of convenience, high-frequency offerings, and user stickiness, Swiggy stands out in the competitive landscape. While Zomato currently holds the lead in food delivery and quick commerce businesses, Swiggy's all-in-one app strategy enables strong cross-utilization across services and better operational efficiency.**
- **We believe quick commerce is a once-in-a-lifetime opportunity to disrupt how Indian consumers shop for not just groceries but a variety of essential and non-essential goods, and Swiggy could be a top 3 player in an exponentially growing market. Current numbers, however, suggest that despite being an innovator and a category inventor across both food delivery and quick commerce, Swiggy has let its leadership slip away. Tight execution and better leveraging its platform can fix these issues, in our opinion, though.**
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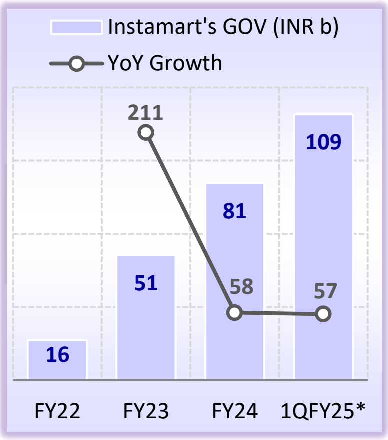
A key player in the quick commerce 'battle royale'

- We believe the quick commerce revolution could be one of the most significant innovations of the 21st century in India and will pave the way for organized retail in the country.
- Due to the peculiar characteristics of the Indian consumer and the Indian topography, Q-commerce offers the perfect balance between the highly cost-effective but impractical modern retail and the low-quality, high-priced approach of Kirana stores.
- Quick commerce is not just disrupting groceries but is also knocking at the door of e-commerce, electronics, and a whole range of other categories.
- We believe Swiggy will be one of the key players to participate in this 'battle-royale'. It may not necessarily emerge as the No. 1 player, but we expect it to be one of the top three players in this industry, and this could be quite rewarding considering the size of the Q-commerce opportunity.

Profits: Delivered in time for food; could be slower for Q-commerce

- Swiggy's food delivery business has achieved stable unit economics, and we expect margins in this business to improve gradually.
- We expect contribution margins for the FD business to improve from 6.4% currently (vs. 7.6% for Zomato) to 9.0% in FY28 (8.7% for Zomato).
- **Zomato profitability trends:** Before its IPO, Zomato's food delivery business had a contribution margin of -11.2% in FY20, which has improved to 6.9% by FY24. This increase in profitability can be attributed to higher commission (platform fees) and reduced variable costs. Additionally, the adjusted EBITDA in FY20 was -20.5%, and it has now turned positive, reaching 2.8% in FY24.

Q-commerce (Instamart) – GOV (INR b) and YoY growth (%)



*on annualized basis

- Swiggy's food delivery business model is now established, and similar to Zomato, we expect only a gradual, but continual, improvement in profitability for Swiggy over the medium to long term.
- The gap between Instamart and Blinkit, however, is enormous: Instamart's 3.2% contribution margin pales in comparison to ~4% for Blinkit.
- On a closer analysis, however, the gap is entirely attributable to: 1) lower AOVs, and 2) lower take rates. On mid-mile and last mile variable costs, Instamart is, strikingly, better than Blinkit.
- This is encouraging: Swiggy's unified platform should allow it to mine its customers better and extract higher AOVs for its Instamart business. Further, it needs to monetize this platform better for ad-sales and other value-added services for FMCG brands.
- We expect fixed costs to remain elevated as it invests in opening more dark stores.

Swiggy's unified app strategy differentiates it from competition

- Swiggy stands out as India's only unified app that seamlessly supports urban users' food-related needs, from ordering in and dining out to cooking at home—all through a single platform.
- Swiggy's approach of an integrated app offering vs. Zomato's multi-app approach (both at the back and the front end) helps it innovate faster (Instamart was born out of a similar synergy).
- We believe that the combined effects of a unified approach and its high-frequency offerings maximize cross-utilization of its user base across multiple services, promoting user stickiness. This strategy also supports the efficient and cost-effective rollout of adjacent services and new offerings.
- Admittedly, the concept of a ***super app*** has not been as successful in India as it has been in China; however, Swiggy is one of the few names to have bucked the trend.

Swiggy vs. Zomato: Currently second best, but the battle has just begun

- A cursory glance through the numbers below indicates Zomato now has market leadership across food delivery and quick commerce, the two key battleground areas for the players.
- While Zomato is undeniably Primus inter pares, the war for the wallet share of the urban affluent consumer has just begun, and it is too early to call off the game. Zomato has continued to gain market share in food delivery, but based on GOV/MTU, Swiggy's cohorts appear more mature and stickier.
- In quick commerce, despite Swiggy's Instamart inventing the category, Blinkit has taken an early lead, and Zepto continues to execute well.
- The market is nascent; however, enough avenues exist to differentiate on SKUs and strategy, making it too early to declare winners (or losers).

Key financial assumptions

- For Swiggy's food delivery business, we expect the GOV to clock 22.6%/27.9%/19.4% YoY growth over FY25E/FY26E/FY27E. The food delivery business is expected to clock an contribution margin of 6.8%/7.6%/8.5%over FY25E/FY26E/FY27E. Adj. EBITDA margin will turn positive at around 1.0%/2.4%/3.7% during FY25E/FY26E/FY27E from -0.2% in FY24.

- Quick commerce GOV is expected to generate strong growth of 64.5%/67.1%/56.0%during FY25E/FY26E/FY27E.
- Quick commerce is expected to reach a positive contribution margin, with an average margin of 2.7% projected from FY25 to FY29.
- The average adjusted EBITDA margin will improve, though it will remain slightly negative at -7.5/-3.0%/-0.9% for FY25E/FY26E/FY27E.
- Overall, Swiggy reported a PAT margin of -20.9% (loss of INR23.5b) in FY24. We expect it to turn profitable by FY27, with a PAT margin of 1.9%.

Innovator DNA crucial to success, but execution key; initiate with NEUTRAL

- We believe the quick commerce revolution could be one of the most significant innovations of the 21st century in India and will pave the way for organized retail in the country. Food delivery could yet go through a similar, if milder, S curve as consumption habits change with economic growth.
- Swiggy's, through its innovation DNA, has played a pivotal role in both food delivery and quick commerce, effectively inventing these categories and leading the way.
- That said, it has let its lead slip in food delivery and is currently behind its key rival Blinkit in quick commerce on both GOV growth and profitability. While the quick commerce race is just getting started, Swiggy's re-rating depends on accelerating GOV growth, increasing AOVs, and improving execution in the quick commerce business.
- We expect food delivery orders to grow at 12.3% annually, with an AOV growth of 1.7%, leading to a GOV growth of 14.2% over FY24-37E (21% GOV CAGR over FY24-29E). Quick commerce is expected to grow faster, with orders increasing at 22.3% annually, AOV growth at 3.3%, and GOV growth at 26.3% (55% GOV CAGR over FY24-29E).
- We value the business using DCF methodology for food delivery, quick commerce, supply chain, and distribution, assuming WACC of 12.5% and a terminal growth rate of 6.5%. Additionally, we value the out-of-home consumption segment at 1x EV/GMV. **Our DCF yields a TP of INR475** (which implies a FY27E EV/Sales of 4.1x Vs Zomato's FY27E EV/Sales of 5.5x)**, and we initiate coverage with a NEUTRAL rating on the stock.**
- **Key downside risks**: 1) Inefficient management or being unable to scale dark stores as planned may impact quick commerce profitability; 2) high user retention and acquisition costs; 3) limited ability to expand margins in food delivery and quick commerce businesses, which could delay valuation re-rating; and 4) intense competition in food delivery, quick commerce, and out-of-home sectors, which challenges its market position.
- **Key catalysts for a rating upgrade: 1) higher AOVs in quick commerce coupled with higher GOV growth, leading to market share gains; 2) improving take rates in quick commerce;** and 3) faster-than-expected GOV growth in food delivery.

Peer Comparison

	EV/GMV			EV/Sales			EV/EBITDA		
	FY25E/ CY24E	FY26E/ CY25E	FY27E/ CY26E	FY25E/ CY24E	FY26E/ CY25E	FY27E/ CY26E	FY25E/ CY24E	FY26E/ CY25E	FY27E/ CY26E
Zomato	3.9	2.5	1.6	13.2	8.0	5.5	NA	NA	NA
DoorDash	0.8	0.6	0.5	6.0	5.1	4.4	34.1	24.6	19.0
Just Eat Takeaway^	0.1	0.1	0.1	0.6	0.6	0.5	6.9	5.6	4.8
Deliveroo#	0.3	0.3	0.2	0.9	0.8	0.7	14.5	10.1	7.4
Delivery hero^	0.3	0.2	0.2	1.3	1.2	1.0	20.1	13.0	9.9
Meituan^^	-	-	-	3.1	2.6	2.3	22.3	17.3	13.9
Grab	0.5	0.4	0.3	4.4	3.8	3.3	45.5	27.8	17.8
Average	**1.0**	**0.7**	**0.5**	**4.2**	**3.2**	**2.6**	**23.9**	**16.4**	**12.1**
Swiggy	**2.5**	**1.8**	**1.3**	**7.1**	**5.3**	**4.1**	**NA**	**NA**	**NA**

Source: Bloomberg estimates, MOFSL

* All companies, except Zomato and Swiggy, have followed CY as FY. Thus, their figures are for CY24e to CY26e
** For all companies, except Zomato and Swiggy, GMV figures are estimated based on previous 3 years growth and Sales/EBITDA figures are from Bloomberg; ^Figures are converted into USD from EUR.; #Figures are converted into USD from GBP.; ^^ GMV for Meituan is not available.

Glenmark Pharma

Estimate change	↔
TP change	↓
Rating change	↔

Bloomberg	GNP IN
Equity Shares (m)	282
M.Cap.(INRb)/(USDb)	419.3 / 5
52-Week Range (INR)	1831 / 761
1, 6, 12 Rel. Per (%)	-9/38/73
12M Avg Val (INR M)	1287

Financials & Valuations (INR b)

Y/E March	FY25E	FY26E	FY27E
Sales	135.4	149.4	167.3
EBITDA	25.1	29.2	33.5
Adj. PAT	13.7	17.1	19.9
EBIT Margin (%)	15.0	16.1	16.8
Adj EPS (INR)	48.4	60.7	70.6
EPS Gr. (%)	1847.3	25.4	16.3
BV/Sh. (INR)	327.5	388.2	458.7
Ratios			
Net D-E	0.0	-0.1	-0.2
RoE (%)	16.0	17.0	16.7
RoCE (%)	18.9	17.3	16.9
Payout (%)	6.8	0.0	0.0
Valuations			
P/E (x)	30.6	24.4	21.0
EV/EBITDA (x)	16.7	13.9	11.8
Div. Yield (%)	0.2	0.2	0.2
FCF Yield (%)	-1.4	3.1	3.1
EV/Sales (x)	3.1	2.7	2.4

Shareholding pattern (%)

As On	Sep-24	Jun-24	Sep-23
Promoter	46.7	46.7	46.7
DII	13.3	14.0	10.4
FII	23.1	21.0	24.8
Others	17.1	18.4	18.2

FII Includes depository receipts

CMP: INR1,486 TP: INR1,820 (+22%) Buy

India, Europe drive earnings

Work-in-progress to resolve Monroe USFDA issue

- Glenmark Pharma's (GNP) 2QFY25 operational performance came in slightly below our estimates. Domestic formulation (DF) maintained robust growth, partly supported by a low base of past year. GNP delivered superior execution in Europe markets as well, which was offset to some extent by muted performance in the US and ROW markets.
- We largely maintain our estimates for FY25/FY26/FY27. We value GNP at 27x 12M forward earnings to arrive at a TP of INR1,820. We estimate a CAGR of 11%/16%/21% in revenue/EBITDA/PAT over FY25-27.
- GNP is expanding its product pipeline in the US markets in the respiratory and injectable segments. Further, it is also enhancing its differentiated offering in the branded generic space. Also, it has re-calibrated its spending on innovative R&D. GNP continues to make in-roads into new markets for Ryaltris, in addition to improved traction in 41 markets. Compared to earnings decline over FY22-24, GNP has made a strong comeback in FY25, thanks to improved execution and the sale of its API business. The earnings growth momentum is expected to strengthen over the next three years. Accordingly, we maintain BUY on the stock.

Improved product mix offset by higher marketing/freight costs

- 2Q revenues grew 7.1% YoY to INR34b (our est. INR33.7b). DF grew 14.3% YoY to INR12.8b (37% of sales). RoW (RoW+LatAm) sales declined 3.9% YoY to INR7b (21% of sales). EU generics revenue rose 14.6% YoY to INR6.9b (20% of sales). NA revenues were flat YoY at INR7.4b (USD91m; 22% of sales).
- Gross margins (GM) expanded 620bp YoY to 68.8% due to lower RM costs and a change in the product mix.
- EBIDTA margin expanded by 180bp YoY due to higher other expenses (up 440bp as % of sales).
- Accordingly, EBITDA grew by 19% YoY to INR6b (est. INR6.5b).
- Adj. PAT surged 2.5x YoY to INR3.5b (in line) due to higher other income and lower interest.
- In 1HFY25, revenue/EBITDA grew 7%/29% to INR66.8b/INR12b, while PAT jumped 2.8x YoY to INR7b.

Highlights from the management commentary

- Guides for INR135b-140b revenue with EBITDA margin of 19% for FY25.
- Expects approval for Ryaltris NDA in China in FY26.
- Plans to file Envafolimab in more than 20 markets in FY25 and the first market launch is expected in FY26.
- For Ichnos Glenmark Innovation (IGI), R&D spending will be USD60-70m per year going forward.

Quarterly Performance (INRm)

Y/E March	FY24				FY25E				FY24	FY25E	Estimate	
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	% Var.
Net Revenues (Core)	**30,361**	**32,074**	**25,067**	**30,630**	**32,442**	**34,338**	**34,504**	**34,125**	**1,18,131**	**1,35,409**	**33,674**	**2.0**
YoY Change (%)	9.3	6.3	-19.1	2.1	6.9	7.1	37.6	11.4	2.0	14.6	5.0	
EBITDA	**4,374**	**5,053**	**-1,444**	**5,043**	**6,102**	**6,019**	**6,625**	**6,371**	**13,025**	**25,117**	**6,499**	**-7.4**
YoY Change (%)	-7.5	-3.2	-130.5	26.7	39.5	19.1	-558.6	26.3	-20.3	92.8	28.6	
Margins (%)	14.4	15.8	-5.8	16.5	18.8	17.5	19.2	18.7	11.0	18.5	19.3	
Depreciation	1,420	1,415	1,471	1,513	1,178	1,203	1,250	1,228	5,819	4,859	1,210	
EBIT	**2,953**	**3,638**	**-2,915**	**3,530**	**4,924**	**4,816**	**5,375**	**5,143**	**7,206**	**20,258**	**5,289**	
YoY Change (%)	-9.4	-3.3	-190.4	34.3	66.7	32.4	-284.4	45.7	-32.4	181.1	45.4	
Margins (%)	9.7	11.3	-11.6	11.5	15.2	14.0	15.6	15.1	6.1	15.0	15.7	
Interest	1,116	1,215	1,343	1,486	396	485	350	206	5,160	1,436	200	
Other Income	197	17	454	7,732	315	324	410	500	8,400	1,549	100	
PBT before EO Expense	**2,034**	**2,441**	**-3,805**	**9,776**	**4,843**	**4,656**	**5,435**	**5,437**	**10,447**	**20,371**	**5,189**	**-10.3**
One-off loss/(gain)	520	3,684	1,409	4,468	220	-70	0	0	10,082	150	0	
PBT after EO Expense	**1,514**	**-1,244**	**-5,214**	**5,308**	**4,623**	**4,726**	**5,435**	**5,437**	**364**	**20,221**	**5,189**	**-8.9**
Tax	1,137	559	-718	17,695	1,221	1,181	1,413	1,511	18,673	5,326	1,718	
Rate (%)	75.1	-45.0	13.8	333.3	26.4	25.0	26.0	27.8	5,123.0	26.3	33.1	
Reported PAT	**377**	**-1,803**	**-4,496**	**-12,386**	**3,402**	**3,545**	**4,022**	**3,926**	**-18,309**	**14,895**	**3,472**	**2.1**
Minority Interest	232	204	206	40	0	3	5	38	681	45	10	
Reported PAT after Minority Interest	**145**	**-2,007**	**-4,701**	**-12,427**	**3,403**	**3,542**	**4,017**	**3,888**	**-18,990**	**14,850**	**3,462**	
Adj PAT	**1,111**	**1,397**	**-3,486**	**1,680**	**3,565**	**3,490**	**4,017**	**3,888**	**701**	**14,959**	**3,462**	**0.8**
YoY Change (%)	-34.0	-39.9	-368.6	247.6	220.9	149.8	-215.2	131.5	-81.2	NA	147.8	
Margins (%)	3.7	4.4	-13.9	5.5	11.0	10.2	11.6	11.4	0.6	11.0	10.3	
Adj. PAT from discontinued operations	**1,355**	**1,187**	**1,188**	**244**	**0**	**0**	**0**	**0**	**3,973**	**-**	**0**	**NA**
YoY Change (%)												
Overall Adj. PAT	**2,465**	**2,584**	**(2,299)**	***1923***	**3,565**	**3,490**	**4,017**	***3888***	***4674***	***14959***	**3462**	**0.8**

E: MOFSL Estimates Note: Sum of 4 quarter for FY23 will not match as 1QFY24 is not restated

Key performance Indicators

Y/E March	FY24				FY25E				FY24	FY25E	FY25E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			1QE
India formulations	10,643	11,217	2,622	9,391	11,962	12,817	11,799	11,014	33,994	47,592	11,814
YoY Change (%)	2.8	2.8	-75.6	13.4	12.4	14.3	350.0	17.3	-15.6	40.0	11.0
US	8,085	7,392	7,629	7,557	7,808	7,405	7,927	6,971	30,943	30,111	7,553
YoY Change (%)	22.0	-1.9	-8.9	-11.2	-3.4	0.2	3.9	-7.8	-0.3	-2.7	-6.6
ROW+LatAm	5,512	7,324	7,250	7,528	5,708	7,041	7,419	8,236	27,666	28,404	7,433
YoY Change (%)	30.4	19.0	10.8	9.8	3.6	-3.9	2.3	9.4	16.4	2.7	34.9
Europe	5,732	5,997	6,357	6,118	6,957	6,874	7,120	7,369	24,205	28,320	5,904
YoY Change (%)	73.7	58.4	28.9	0.7	21.4	14.6	12.0	20.4	33.8	17.0	3.0
Cost Break-up											
RM Cost (% of Sales)	39.1	37.3	41.2	32.5	34.2	31.2	31.3	31.3	37.4	32.0	32.8
Staff Cost (% of Sales)	22.4	22.8	30.0	22.9	21.9	22.9	23.0	22.2	24.3	22.5	23.1
R&D Expenses(% of Sales)	9.3	10.1	12.3	10.0	7.4	7.2	6.5	7.7	10.3	7.2	7.4
Other Cost (% of Sales)	14.7	13.9	22.2	18.2	17.6	21.2	20.0	20.2	17.0	19.8	18.1
Gross Margins(%)	60.9	62.7	58.8	67.5	65.8	68.8	68.7	68.7	62.6	68.0	67.2
EBITDA Margins(%)	14.4	15.8	-5.8	16.5	18.8	17.5	19.2	18.7	11.0	18.5	18.6
EBIT Margins(%)	9.7	11.3	-11.6	11.5	15.2	14.0	15.6	15.1	6.1	15.0	14.0

E: MOFSL Estimates

Lemon Tree Hotels

Estimate change	⟷
TP change	⟷
Rating change	⟷

Bloomberg	LEMONTRE IN
Equity Shares (m)	792
M.Cap.(INRb)/(USDb)	96.3 / 1.1
52-Week Range (INR)	158 / 112
1, 6, 12 Rel. Per (%)	4/-22/-15
12M Avg Val (INR M)	678

Financials & Valuations (INR b)

Y/E Mar	2025E	2026E	2027E
Sales	12.8	15.3	16.5
EBITDA	6.2	7.9	8.7
PAT	1.80	2.98	3.52
EBITDA (%)	48.2	52.0	52.7
EPS (INR)	2.3	3.8	4.5
EBITDA Gr. (%)	21.4	65.2	18.3
BV/Sh. (INR)	14.7	18.5	23.0
Ratios			
Net D/E	1.3	0.7	0.3
RoE (%)	17.1	23.0	21.7
RoCE (%)	11.6	16.5	19.5
Payout (%)	-	-	-
Valuations			
P/E (x)	52.6	31.9	26.9
EV/EBITDA (x)	18.9	14.2	12.4
Div Yield (%)	-	-	-
FCF Yield (%)	5.7	7.2	8.4

Shareholding Pattern (%)

As On	Sep-24	Jun-24	Sep-23
Promoter	22.8	22.8	23.3
DII	18.9	15.2	13.4
FII	21.8	27.7	24.9
Others	36.5	34.3	38.4

CMP: INR122 **TP: INR165 (+36%)** **Buy**

Healthy growth in ARR and Aurika Mumbai drive revenue

Operating performance above estimates

- Lemon Tree Hotels (LEMONTRE) reported strong revenue growth of 25% YoY in 2QFY25, primarily led by healthy growth in ARR (up 12% YoY) and the incremental contribution from Aurika Mumbai (a 669-room hotel opened in Oct'23). EBITDA rose 28% YoY, led by favorable operating leverage.
- We expect LEMONTRE to continue the strong growth momentum in 2H on account of the stabilization of Aurika Mumbai, strong wedding season (targeting ~25 weddings in the upcoming wedding season), and favorable demand-supply dynamics.
- We largely maintain our FY25/FY26 EBITDA estimates and reiterate our **BUY** rating on the stock, with our SoTP-based TP of INR165 for FY26.

Operating leverage offsets drag from higher renovation expenses

- Revenue grew 25% YoY to INR2.8b (est. in line), led by a higher ARR of INR5,902 (up 12% YoY) and incremental contributions from Aurika Mumbai (opened in Oct'23). However, the occupancy declined 330bp YoY to 68.4%, reflecting the ongoing ramp-up at Aurika Mumbai and weaker occupancy rates in Hyderabad and Bengaluru due to renovations and relatively subdued demand.
- EBITDA rose 28% YoY to INR1.3b (est. INR1.2b). EBITDA margin expanded 110bp YoY to 46% (est. ~44%) on account of favorable operating leverage, despite the drag from higher planned renovation expenses (~4.6% of 2QFY25 revenue). PAT increased 31% YoY to INR296m (est. INR266m).
- During the quarter, LEMONTRE signed 19 new management and franchise contracts, which added 1,373 new rooms to its pipeline, and operationalized five hotels, which added 193 rooms to its portfolio.
- As of 30th Sep'24, the total operational inventory comprised 112 hotels with 10,318 rooms and the pipeline comprised 75 hotels with 5,220 rooms.
- In 1HFY25, revenue/EBITDA/adj. PAT grew 23%/19%/7% YoY to INR5.5b/INR2.5b/ INR294m, while implied revenue/EBITDA growth for 2H is 12%/11% YoY.
- LEMONTRE witnessed a reduction of INR900m in debt, from INR19.1b as of Sep'23 to INR18.2b as of Sep'24.

Highlights from the management commentary

- **Guidance:** The company expects revenue growth of 15-20% YoY and EBITDA growth of over 20% YoY in 3Q. Half of the revenue growth will be demand-led, while the other half will be due to an increase in prices.
- **Aurika:** Aurika Mumbai is witnessing healthy traction. The company expects the hotel to perform better from 3Q onwards, with an occupancy of over 60%. It expects the hotel to generate an EBITDA margin of over 60% in 3Q. Further, Aurika Udaipur is likely to benefit from the strong wedding season. The company has booked 21-22 weddings in Aurika Udaipur, with some more under negotiations.

- **Renovations:** Around 530 rooms (~9-10% of owned inventory) were closed in 2Q due to renovations. In 3Q (from Diwali onwards) and 4Q, the company will not renovate any rooms except the Keys portfolio in order to benefit from the strong season. Renovation expenses will ease down in 2HFY25 but increase again in 1HFY26.

Valuation and view

- LEMONTRE is expected to maintain healthy growth momentum, led by: 1) the stabilization of Aurika Mumbai, 2) accelerated growth in the management contract (pipeline of ~5,151 rooms), and 3) the timely completion of the portfolio's renovation. We expect investments (opex) in renovations to result in improved OR, ARR, and EBITDA margins for the company.
- We expect LEMONTRE to post a CAGR of 16%/19%/33% in revenue/EBITDA/ Adj. PAT over FY24-27 and RoCE to improve to 19.5% by FY27 from ~10% in FY24. We reiterate our BUY rating on the stock with our SoTP-based TP of INR165 for FY26.

Consolidated Quarterly Performance (INRm)

Y/E March	FY24				FY25E				FY24	FY25E	FY25E	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2Q	(%)
Gross Sales	**2,223**	**2,272**	**2,887**	**3,273**	**2,680**	**2,844**	**3,496**	**3,750**	**10,655**	**12,770**	**2,799**	**2**
YoY Change (%)	15.7	15.5	23.6	29.5	20.6	25.2	21.1	14.6	21.8	19.9	23.2	
Total Expenditure	1,178	1,253	1,490	1,558	1,530	1,536	1,747	1,806	5,479	6,619	1,561	
EBITDA	**1,045**	**1,019**	**1,397**	**1,715**	**1,151**	**1,307**	**1,749**	**1,944**	**5,176**	**6,151**	**1,239**	**6**
Margins (%)	47.0	44.8	48.4	52.4	42.9	46.0	50.0	51.8	48.6	48.2	44.2	
Depreciation	228	226	333	334	346	348	350	355	1,121	1,398	348	
Interest	481	473	534	528	518	513	480	460	2,016	1,971	505	
Other Income	24	29	22	39	4	5	60	50	113	118	40	
PBT before EO expense	**359**	**348**	**552**	**892**	**291**	**451**	**979**	**1,179**	**2,151**	**2,900**	**426**	
Extra-Ord expense	0	0	0	0	0	0	0	0	0	0	0	
PBT	**359**	**348**	**552**	**892**	**291**	**451**	**979**	**1,179**	**2,151**	**2,900**	**426**	
Tax	87	86	118	50	91	102	234	281	341	708	102	
Rate (%)	24.2	24.8	21.3	5.6	31.2	22.7	23.9	23.8	15.9	24.4	23.9	
MI & P/L of Asso. Cos.	38	35	80	172	2	52	102	233	325	389	58	
Reported PAT	**235**	**226**	**354**	**670**	**198**	**296**	**643**	**665**	**1,485**	**1,803**	**266**	
Adj PAT	**235**	**226**	**354**	**670**	**198**	**296**	**643**	**665**	**1,485**	**1,803**	**266**	**11**
YoY Change (%)	34.5	35.1	-11.4	52.4	-15.6	30.9	81.8	-0.7	25.7	21.4	17.4	
Margins (%)	10.6	10.0	12.3	20.5	7.4	10.4	18.4	17.7	13.9	14.1	9.5	

Key Performance Indicators

Y/E March	FY24				FY25E				FY24	FY25E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Occupancy (%)	70.2	71.7	65.9	72.0	66.6	68.4	71.4	74.1	72.0	71.6
ARR (INR)	5,237	5,268	6,333	6,605	5,686	5,902	6,844	7,013	6,260	6,835
Change (%)	8.6	7.1	10.4	13.4	8.6	12.0	8.1	6.2	10.1	9.2
RevPAR (INR)	3,678	3,775	4,173	4,756	3,787	4,035	4,885	5,193	4,506	4,891
Change (%)	17.2	16.0	7.6	10.9	3.0	6.9	17.0	9.2		
Cost Break-up										
F&B Cost (% of sales)	5.6	5.8	5.8	6.3	6.1	6.0	5.8	5.6	5.9	5.9
Staff Cost (% of sales)	19.2	20.4	17.0	15.2	18.9	19.1	15.9	14.9	17.6	17.0
Power and fuel (% of sales)	8.7	8.4	6.9	6.0	8.7	8.0	8.3	8.1	7.3	8.3
Other Cost (% of sales)	19.6	20.6	22.0	20.1	23.3	20.9	20.0	19.5	20.6	20.7
Gross Margins (%)	94.4	94.2	94.2	93.7	93.9	94.0	94.2	94.4	94.1	94.1
EBITDA Margins (%)	47.0	44.8	48.4	52.4	42.9	46.0	50.0	51.8	48.6	48.2
EBIT Margins (%)	36.8	34.9	36.9	42.2	30.0	33.7	40.0	42.4	38.1	37.2

Indian companies valuation

	Price	EV/ EBITDA (x)		P/B (x)	
	(INR)	FY25E	FY26E	FY25E	FY26E
Steel					
Tata	141	9.5	6.8	2.0	1.9
JSW	950	11.2	7.4	2.7	2.3
JSP	887	8.2	5.3	1.8	1.5
SAIL	113	9.4	6.3	0.8	0.8
Non-ferrous					
Vedanta	448	5.3	4.6	4.7	3.8
Hindalco	651	6.3	6.2	1.6	1.4
Nalco	240	10.5	9.5	2.7	2.4
Mining					
Coal	413	5.0	3.9	2.5	2.1
HZL	496	16.6	11.8	6.5	6.1
NMDC	223	5.7	4.9	2.1	1.8

Global companies valuation

Company	M. Cap	EV/EBITDA (x)		P/B (x)
	USD b	CY24/ FY25E	CY25/ FY26E	CY25/ FY26E
Steel				
AM	22	3.6	3.3	0.3
SSAB	5	3.6	3.8	0.7
Nucor	35	8.4	7.2	1.5
POSCO	17	4.6	4.3	0.4
JFE	7	5.5	4.7	0.4
Aluminum				
Norsk Hydro	13	4.6	4.4	1.2
Alcoa	11	5.9	5.7	1.7
Zinc				
Teck	23	6.8	5.7	1.3
Korea Zinc	15	14.9	14.1	2.0
Iron ore				
Vale	45	3.4	3.3	0.9
Diversified				
BHP	132	5.1	5.1	2.4
Rio	105	4.4	4.4	1.5

Domestic steel prices remain flat MoM; non-ferrous prices jump

- During Oct'24, flat steel prices largely remained flat MoM for both HRC and CRC at INR48,250/t and INR55,700/t, respectively. This was due to by weak global prices and elevated imports into India. The gap between CRC and HRC narrowed to ~INR7,500/t in Oct'24 vs. INR7,900/t during Sept'24.
- Long steel prices improved during Oct'24, with the average rebar prices up by INR3,000/t MoM to INR53,750/t. Post-monsoon demand improvement and elevated input costs allowed players to increase prices.
- India's crude steel production (provisional) increased by 4% MoM in Oct'24 at 12.19mt. Production during 1HFY25 was impacted by maintenance shutdown at some mills ahead of monsoon.
- Our channel checks suggest that the prices have bottomed out and could increase marginally in the near term. Longs prices should improve in Nov'24, driven by a pick-up in construction activities, while flat steel prices will remain range-bound until imports start reducing in the market.
- For non-ferrous, the average alumina prices reached USD631/t, up by 18% MoM in Oct'24, led by supply disruption. The aluminum prices increased by 6% MoM to USD2,600/t amid declining inventories and increased input costs. Copper prices saw +3% MoM increase to USD9,550/t and Zinc prices rose +9% MoM to USD3,104/t during Oct'24.
- On 15th Oct'24, China announced to reduce/cancel export tax rebates over a wide range of commodities/products (effective 1st Dec'24). It would also include canceling rebate on exports of aluminum and copper. This led to an ~8% increase in Aluminum prices. With such measures, non-ferrous prices are expected to remain elevated.

Input costs inch up Oct'24

- Iron ore prices increased by +13% MoM. NMDC undertook two consecutive price hikes of INR400/INR600 per ton for lumps and INR400/t each for fines during Oct'24.
- Iron ore prices are expected to moderate in the near future, due to sluggish market sentiment and lower steel prices.
- Premium coking coal prices or HCC (CNF Paradip, India) rebound by USD20/t MoM to USD220/t in Oct'24 as global demand improved.
- Domestic coal production was up 8% YoY at ~85mt in Oct'24, while Coal India reported production growth of 2% YoY to 62.5mt.

Media

JV valuation pegged at INR704b (post-money)

RIL-Disney JV	Stake %	Valuation INR b
RIL	16.3	115
Viacom 18	46.8	329
Disney	36.8	259
Total		**704**

Source: Companies, MOFSL

The JV has ~INR780b worth of media rights for marquee cricket properties

Media rights	Cycle	Viacom 18	Star India	JV
IPL	**2023-28**	**248**	**236**	**484**
BCCI	2023-28	57		57
ICC	**2024-27**		**240**	**240**
WIPL	2023-27	9.5		10
Total		**305**	**476**	**781**

Source: Companies, media reports, MOFSL

RIL-Disney JV: A media behemoth takes shape

Reliance Industries (RIL), Viacom 18, and Walt Disney (Disney) announced the completion of the merger of Viacom's media and JioCinema businesses with Star India to form India's #1 broadcast network with over 100 TV channels, two leading OTT apps, and a large portfolio of sports rights across cricket, football, and other sports.

RIL-Disney completes transaction to form a Joint Venture (JV)

- Reliance Industries (RIL), Viacom 18, and Walt Disney (Disney) announced the completion of the merger of Viacom's media and JioCinema businesses with Star India. The RIL-Disney JV will become India's #1 broadcast network with over 100 TV channels (under Star and Colors), two leading OTT apps (Disney+Hotsar and JioCinema), and a large portfolio of sports rights across cricket, football, and other sports. Mrs. Nita Ambani will be the Chairperson of the JV, and Mr. Uday Shankar will serve as the Vice Chairman of the JV.

RIL set to become a dominant force in the Indian M&E sector

- RIL has invested INR115b into the JV for its growth. The transaction values the JV at a valuation of INR703.5b, on a post-money basis. The JV would be controlled by RIL with ~16.3% direct stake held by RIL. Viacom 18 would own ~46.8%, with the remaining 36.8% owned by Disney (Exhibit 1). The valuation for Star India business has been pegged at INR259b, possibly impacted by significant losses in the IPL/ICC media rights. In a separate transaction, RIL acquired Paramount's ~13% stake in Viacom 18 for INR42.8b, valuing the entity at INR329b and taking its direct stake in Viacom 18 to ~70.5% (Exhibit 2). RIL would effectively hold ~53% stake in the JV through its holdings in Viacom 18 and TV18 (Exhibit 3). Apart from ~53% effective stake in India's leading TV broadcaster and OTTs, RIL also has a controlling stake in digital cable through Hathway and Den Networks and owns India's largest telco (RJio), which could drive further synergies for the group.
- RIL-Disney JV would now hold the broadcast rights worth INR780b for the marquee cricket properties such as IPL, ICC, BCCI, and WIPL over the next 3-4 years (Exhibit 4). The combined entity's pro-forma revenue stood at INR260b, but both companies were in losses in FY24 on account of high spends on sports rights. We believe the merger among RIL, Viacom, and Disney will help in securing better pricing from advertisers and also will lead to cost rationalization as competitive intensity for sports rights and premium content is likely to ebb.

RIL-Disney JV could be a double whammy for Sun TV and negative for Zee

- As noted in our recent report on SUNTV, RIL-Disney JV could be a potential double whammy for SUNTV due to: 1) higher competition from the deep-pocketed player for ad revenue in the core TV business (also negative for Zee and Sony); and 2) potential downward revision in IPL media rights in the next renewal cycle (from FY29), which would significantly affect SUNTV's IPL franchise's (SRH) financials and valuations.

JV valuation pegged at INR704b (post-money)

RIL-Disney JV	Stake %	Valuation INR b
RIL	16.3	115
Viacom 18	46.8	329
Disney	36.8	259
Total		**704**

Source: Companies, MOFSL

RIL now owns ~70.5% in Viacom18

Viacom 18 share-holding	Stake %
RIL	**70.5**
TV 18	13.5
Paramount	-
Bodhi Tree	16.0
Total	**100.0**

Source: Companies, MOFSL

RIL effectively holds ~53% stake in the JV

RIL's effective stake in JV	%	INR b
RIL's effective stake	**52.9**	**372.5**
RIL direct stake	16.3	115.0
RIL through Viacom 18	33.0	232.2
RIL through TV18	3.6	25.4
TV18 through Viacom 18	**6.3**	**44.6**
TV 18 promoters / RIL	3.6	25.4
TV18 minority investors	2.7	19.2
Disney	**36.8**	**259.2**
Bodhi Tree through Viacom 18	7.5	52.6

Source: Companies, MOFSL

The JV has ~INR780b worth of media rights for marquee cricket properties

Media rights	Cycle	Viacom 18	Star India	JV
IPL	**2023-28**	**248**	**236**	**484**
BCCI	2023-28	57		57
ICC	**2024-27**		**240**	**240**
WIPL	2023-27	9.5		10
Total		**305**	**476**	**781**

Source: Companies, media reports, MOFSL

Key financial metrics for Viacom 18 and Star India

INR b	FY21	FY22	FY23	FY24
Revenue				
Viacom 18	32.8	41.5	45.5	73.6
Star India	126.6	187.0	198.6	185.9
Pro-forma revenue				**259.5**
EBITDA				
Viacom 18	6.0	7.4	1.0	-6.9
Star India	20.0	30.1	16.8	
PAT				
Viacom 18	5.8	6.8	0.1	-2.5
Star India	8.2	18.3	12.7	-125.5

Source: Companies, Media reports, MOFSL

EID Parry India : Expect Highest Single-Digit EBITDA Margin In A Decade; Muthu Murugappan

- Volume in FY25 to be >17 cr litres
- Requesting Govt for upward revision in Ethanol Prices
- CPG biz is 450 cr, +70% in H1
- Target high single digit EBITDA margin and good growth in CPG biz in a decade

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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

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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