MOTILAL OSWAL FINANCIAL SERVICES

31 January 2024

MORNING INDIA

Market snapshot

Equities - India	Close	Chg .%	CY23.%
Sensex	71,140	-1.1	18.2
Nifty-50	21,522	-1.0	20.1
Nifty-M 100	47,792	-0.4	52.3
Equities-Global	**Close**	**Chg .%**	**CY23.%**
S&P 500	4,925	-0.1	28.3
Nasdaq	15,510	-0.8	49.3
FTSE 100	7,666	0.4	2.4
DAX	16,972	0.2	21.7
Hang Seng	5,275	-2.5	-19.3
Nikkei 225	36,066	0.1	38.1
Commodities	**Close**	**Chg .%**	**CY23.%**
Brent (US$/Bbl)	84	0.2	3.2
Gold ($/OZ)	2,037	0.2	11.5
Cu (US$/MT)	8,512	0.7	1.1
Almn (US$/MT)	2,235	0.4	-5.3
Currency	**Close**	**Chg .%**	**CY23.%**
USD/INR	83.1	0.0	0.5
USD/EUR	1.1	0.1	1.2
USD/JPY	147.6	0.1	12.5
YIELD (%)	**Close**	**1MChg**	**CYTD chg**
10 Yrs G-Sec	7.2	-0.01	-0.2
10 Yrs AAA Corp	7.7	-0.02	0.0
Flows (USD b)	**30-Jan**	**MTD**	**CY23YTD**
FIIs	-0.2	6.79	21.4
DIIs	0.12	1.67	22.3
Volumes (INRb)	**30-Jan**	**MTD***	**YTD***
Cash	1,344	1220	1220
F&O	4,08,450	3,92,019	3,92,019

Note: Flows, MTD includes provisional numbers.
*Average

Today's top research idea

Larsen & Toubro: Strong order pipeline boosts growth outlook

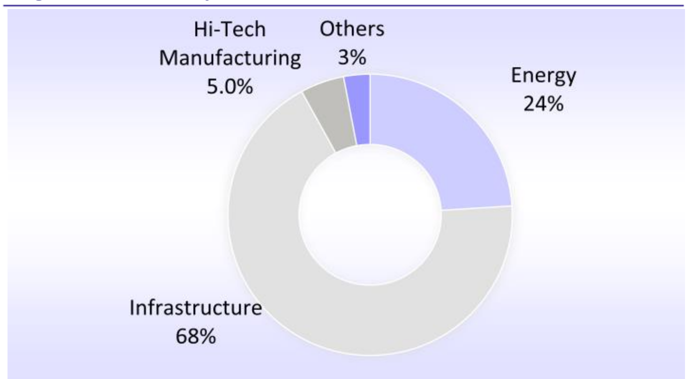
- LT's 3QFY24 revenue beat our estimates, but lower-than-expected margins led to a miss in PAT. The company reported 19%/14%/15% YoY growth in revenue/EBITDA/PAT on a consolidated basis. Core E&C revenue and EBITDA grew by 25%/13% YoY in 3QFY24.
- LT has been benefiting from strong inflows, particularly from international geographies, and has received orders worth INR1.8t during 9MFY24 for its core E&C segment. The company has maintained its focus on mega and ultra-mega projects and has been able to improve working capital YoY to 16.6% of sales. However, margins are still below the guidance owing to legacy order execution and new orders still not achieving the margin recognition threshold.
- We expect LT to continue to benefit from the strong addressable market in both India and international locations. We revise our estimates to bake in improved inflows and lower margins. We increase our TP to INR4,200 based on the SOTP methodology, valuing the core business at P/E of 28x Mar'26E EPS and a 25% holding company discount for subsidiaries. Our higher multiple takes into account the continuously improving prospect pipeline and improvements in NWC and RoE, despite margins being lower than guidance. We maintain BUY on LT.

Research covered

Cos/Sector	Key Highlights
Larsen & Toubro	Strong order pipeline boosts growth outlook
BPCL	Outlook intact amid stable performance
Dr Reddy's Labs	NA/PSAI drive earnings
Vodafone Idea	Controlled cost led EBITDA growth
Petronet LNG	Performance below expectations despite strong utilization
Other updates	M & M Fin. Serv. | BlueDart | Team Lease Serv. | Mahindra Logis. | SRF | Voltas | Coromandel Inter | Star Health | Piramal Pharma | Kaynes Tech | K E C Intl. | SIS

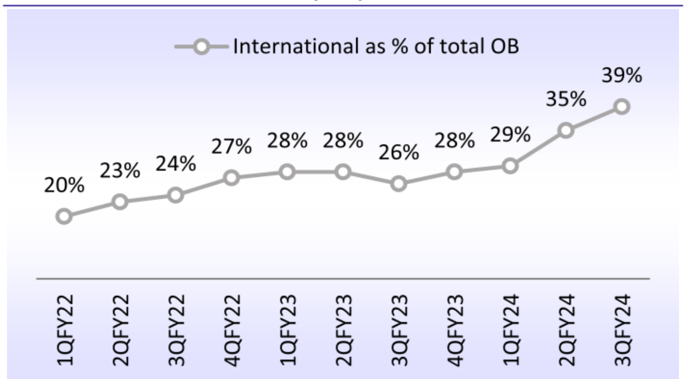
Chart of the Day: Larsen & Toubro (Strong order pipeline boosts growth outlook)

Segmental breakup of INR4.7t order book



Source: MOFSL, Company

Share of international order jumped



Source: MOFSL, Company

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In the news today

Kindly click on textbox for the detailed news link

1

TCS expands strategic partnership with Aviva with 15-year agreement in UK

As part of the partnership, the end-to-end policy administration and servicing will expand to cover over 5.5 million policies, to be managed by Diligenta, TCS' FCA regulated subsidiary in the UK, on behalf of Aviva.

2

Zee says it is not aware of any proposals regarding promoter stake hike

In response to a story published by Moneycontrol, stock exchanges had sought a clarification from the company

3

Naspers, Temasek get CCI nod to buy stakes in PharmEasy

API Holdings, through its subsidiaries, is in the business of providing healthcare services through online e-commerce marketplace PharmEasy.

4

Ahead of Budget, IMF raises India's FY25, FY26 GDP growth forecasts to 6.5%

In the latest update to its World Economic Outlook report, the International Monetary Fund said the growth upgrade for India reflects "resilience in domestic demand"

5

Omega Seiki Mobility's group co to launch hydrogen powered 3-wheelers

Hydrogen Intelligence SA, a Paris-based company, plans to commercially produce green hydrogen-powered three-wheelers in India next year.

6

FPI lobby Asifma flags concerns over Sebi's proposed T+0 settlement cycle

'Two settlement cycles could lead to liquidity fragmentation, deterioration of market quality'

7

Amid widening deficit, RBI may pump in liquidity via open market operations

Market participants said that if the government refrains from spending, the central bank might resort to other measures to infuse liquidity apart from variable rate repo auctions

Larsen & Toubro

Estimate changes	↑
TP change	↑
Rating change	↔

Bloomberg	LT IN
Equity Shares (m)	1374
M.Cap.(INRb)/(USDb)	4994.1 / 60.1
52-Week Range (INR)	3739 / 2068
1, 6, 12 Rel. Per (%)	4/28/50
12M Avg Val (INR M)	5462

Financials Snapshot (INR b)

Y/E MARCH	FY24E	FY25E	FY26E
Net Sales	2,190.5	2,533.6	2,886.6
EBITDA	236.8	289.9	342.9
PAT	129.2	167.8	206.2
EPS (INR)	94.0	122.1	150.0
GR. (%)	27.8	29.9	22.9
BV/Sh (INR)	644.6	731.4	838.1
Ratios			
ROE (%)	14.5	17.7	19.1
RoCE (%)	6.8	8.1	9.0
Valuations			
P/E (X)	38.8	30.0	24.3
P/BV (X)	5.6	5.0	4.3
EV/EBITDA (X)	25.4	20.6	17.3
Div Yield (%)	0.7	1.0	1.2

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	0.0	0.0	0.0
DII	37.2	37.1	39.6
FII	26.5	26.6	24.3
Others	36.3	35.9	36.1

FII Includes depository receipts

CMP: INR3,633 TP: INR4,200 (+16%) Buy

Strong order pipeline boosts growth outlook

3Q performance supported by robust order inflows

LT's 3QFY24 revenue beat our estimates, but lower-than-expected margins led to a miss in PAT. The company reported 19%/14%/15% YoY growth in revenue/EBITDA/PAT on a consolidated basis. Core E&C revenue and EBITDA grew by 25%/13% YoY in 3QFY24. LT has been benefiting from strong inflows, particularly from international geographies, and has received orders worth INR1.8t during 9MFY24 for its core E&C segment. The company has maintained its focus on mega and ultra-mega projects and has been able to improve working capital YoY to 16.6% of sales. However, margins are still below the guidance owing to legacy order execution and new orders still not achieving the margin recognition threshold. We expect LT to continue to benefit from the strong addressable market in both India and international locations. We revise our estimates to bake in improved inflows and lower margins. We increase our TP to INR4,200 based on the SOTP methodology, valuing the core business at P/E of 28x Mar'26E EPS and a 25% holding company discount for subsidiaries. Our higher multiple takes into account the continuously improving prospect pipeline and improvements in NWC and RoE, despite margins being lower than guidance. We maintain BUY on LT.

Revenue beat estimate, but margin was a miss

Consolidated revenue grew 19% YoY to INR551b in 3QFY24, ahead of our estimate. EBITDA rose 14% YoY to INR57.5b but came in 7% below our estimate due to lower-than-expected margins in the core E&C segment. PAT grew 15% YoY to INR29.5b. Core E&C revenue increased by 25% YoY to INR393b, ahead of our expectation. Margin declined ~80bp YoY to 7.7% vs. our expectation of 8.5%. Thus, core EBITDA grew 13% YoY to INR30b. Working capital improved further to 16.6% of sales for core E&C and RoE inched up to 15.2%. The order inflow in 3Q stood at INR601b, up 32% YoY, resulting in a strong order book of INR4.7t. For FY24, LT has guided for 20%+ growth in order inflows, revenue growth in high-teens, and margins of 8.25-8.5%.

Total 4Q prospect pipeline up 29% YoY; Middle East pipeline remains strong

LT's order book grew 22% YoY to INR4.7t, with an order book-to-revenue ratio of 3x. Overall inflows were mainly driven by international business as domestic inflows remained weak in 9MFY24. LT's prospect pipeline for 4QFY24 stands at INR6.3t, up 29% compared to 4QFY23. The pipeline has been boosted by strong order inflows in the hydrocarbon segment. The infrastructure sector forms 65% of the overall prospects, while the hydrocarbon segment makes up 27%. Stable oil prices auger well for prospects in the hydrocarbon segment and improve overall prospects in the Middle East. The company is cautiously bidding for thermal power projects. The hi-tech energy segment is still small, with a prospect pipeline of INR160b, but it will grow at a fast pace.

LT well managing risks in international and Saudi-based projects

The share of international projects in the total order book has increased to 39%, with Saudi Arabia accounting for nearly 29% of the order book at INR1.35t. The Middle Eastern regions, particularly Saudi Arabia, are witnessing strong traction in the hydrocarbon and renewable energy segments. With the share of Saudi Arabia moving up, LT is managing risks well by investing in talent and building teams in international locations for projects in the hydrocarbon and energy transition verticals. LT has relocated a senior management team for large projects and has also localized contract management teams. The company bids for new projects after taking into account the client profile, project financing, payment terms and margins, and building sufficient cushion as most of these contracts are fixed-price in nature.

Focus remains on reducing working capital and improving return profile

LT has been focusing on reducing working capital through improved collections and better customer advances. Despite reporting lower margins than the guidance, the company was able to improve RoE by 280bp YoY to 15.2% as it reduced working capital by 240bp to 16.6% of sales. With expected improvements in margins in FY25, there is scope for further RoE expansion. We expect working capital to remain comfortable at around 17-18% of sales, as the overall project mix is changing in favor of projects that have low NWC, such as international and mega and ultra-mega projects.

Improving prospect pipeline and control over working capital to drive 26% PAT CAGR over next three years

We expect a CAGR of 18%/23%/26% in revenue/EBITDA/PAT over FY23-26 for LT's core EPC division. The growth is expected to be driven by (1) 18% growth in order inflows, led by a strong prospect pipeline; (2) a gradual recovery in core EPC EBITDA margin to 9.1%/9.7% by FY25/26; and (3) control over working capital and NWC at 18% of sales. We expect the infrastructure and hydrocarbon segments to remain the key growth drivers for LT.

Valuation and view

We increase our TP to INR4,200 based on the SOTP methodology, valuing the core business at P/E of 28x Mar'26 EPS and a 25% holding company discount for subsidiaries. We maintain BUY on LT. Our higher multiple takes into account the continuously improving prospect pipeline and improvements in NWC and RoE despite margins being lower than guidance.

Key risks and concerns

A slowdown in order inflows, delays in the completion of mega and ultra-mega projects, a sharp rise in commodity prices, higher crude prices, an increase in receivables and working capital, and increased competition are a few downside risks to our estimates.

Consolidated - Quarterly Earnings (INR m)

Y/E March - INR m	FY23				FY24E				FY23	FY24E	FY24E	Est
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE	Var (%)
Net Sales	**3,58,532**	**4,27,626**	**4,63,897**	**5,83,352**	**4,78,824**	**5,10,240**	**5,51,278**	**6,50,127**	**18,33,407**	**21,90,469**	**5,38,430**	**2**
YoY Change (%)	22.2	23.0	17.3	10.4	33.6	19.3	18.8	11.4	17.1	19.5	16.1	
Total Expenditure	3,18,965	3,78,632	4,13,166	5,15,022	4,30,137	4,53,921	4,93,688	5,75,922	16,25,785	19,53,668	4,76,434	
EBITDA	**39,567**	**48,994**	**50,731**	**68,330**	**48,686**	**56,320**	**57,590**	**74,204**	**2,07,621**	**2,36,800**	**61,996**	**(7)**
Margins (%)	11.0	11.5	10.9	11.7	10.2	11.0	10.4	11.4	11.3	10.8	11.5	
Depreciation	9,634	8,602	8,252	8,535	8,305	9,099	9,208	9,932	35,023	36,543	9,770	(6)
Interest	7,561	8,357	8,025	8,130	8,514	8,640	9,042	8,165	32,072	34,360	7,241	25
Other Income	6,947	7,385	7,550	7,409	11,456	11,330	8,378	6,182	29,292	37,345	7,936	6
PBT before EO expense	**29,319**	**39,421**	**42,005**	**59,074**	**43,324**	**49,911**	**47,718**	**62,290**	**1,69,819**	**2,03,243**	**52,920**	**(10)**
Extra-Ord expense			-1,360			0	0	0	-1,360	0	0	
PBT	**29,319**	**39,421**	**43,365**	**59,074**	**43,324**	**49,911**	**47,718**	**62,290**	**1,71,179**	**2,03,243**	**52,920**	**(10)**
Tax	6,389	11,229	12,705	14,606	12,163	11,355	11,773	18,289	44,930	53,579	13,230	
Rate (%)	21.8	28.5	29.3	24.7	28.1	22.8	24.7	29.4	26.2	26.4	25.0	
MI & P/L of Asso. Cos.	5,909	5,902	5,130	4,600	6,231	6,329	6,472	1,446	21,541	20,478	4,995	
Reported PAT	**17,021**	**22,289**	**25,529**	**39,868**	**24,930**	**32,226**	**29,474**	**42,555**	**1,04,708**	**1,29,185**	**34,696**	**(15)**
Adj PAT	**17,021**	**22,289**	**24,568**	**39,868**	**24,930**	**32,226**	**29,474**	**42,555**	**1,03,705**	**1,29,185**	**34,696**	**(15)**
YoY Change (%)	44.9	27.4	19.6	10.1	46.5	44.6	20.0	6.7	19.6	24.6	41.2	
Margins (%)	4.7	5.2	5.3	6.8	5.2	6.3	5.3	6.5	5.7	5.9	6.4	

BPCL

Estimate change	⟷
TP change	⟷
Rating change	⟷

Bloomberg	BPCL IN
Equity Shares (m)	2093
M.Cap.(INRb)/(USDb)	1093.7 / 13.2
52-Week Range (INR)	518 / 314
1, 6, 12 Rel. Per (%)	13/25/29
12M Avg Val (INR M)	1990

Financials & Valuations (INR b)

Y/E March	FY24E	FY25E	FY26E
Sales	4,354.7	4,252.6	4,395.1
EBITDA	410.7	257.6	264.2
Adj. PAT	274.6	158.4	155.4
EPS (INR)	131.2	75.7	74.3
EPS Gr.%	1292.6	-42.3	-1.9
BV/Sh. (INR)	324.6	365.5	406.1
Ratios			
Net D:E	0.7	0.6	0.4
RoE (%)	45.2	21.9	19.2
RoCE (%)	23.3	12.3	11.4
Payout (%)	47.6	45.9	45.4
Valuation			
P/E (x)	3.4	6.0	6.1
P/BV (x)	1.4	1.2	1.1
EV/EBITDA (x)	2.3	3.7	3.6
Div. yield (%)	13.8	7.7	7.5
FCF yield (%)	23.3	16.1	17.1

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	53.0	53.0	53.0
DII	23.1	23.5	22.7
FII	14.5	13.3	12.9
Others	9.4	10.1	11.4

FII Includes depository receipts

CMP: INR503 TP: INR475 (-6%) Neutral

Outlook intact amid stable performance

- BPCL's reported GRM came in 14% above our est. at USD13.4/bbl in 3QFY24, while implied marketing margin came in 9% above our est. at INR3.5/lit. Despite higher-than-estimated margins, EBITDA was in line with our estimate due to higher employee benefit expenses.
- Refining throughput stood at 9.9mmt, which was more than 100% of nameplate capacity, despite a planned shutdown at Mumbai refinery. During the quarter, high Sulphur crude accounted for 83% of processed crude mix, while Russian crude made up 40% of the mix.
- Singapore GRM (SG GRM) has rebounded to USD7.2/bbl in 4QFY24 so far from USD5.5/bbl in 3QFY24, which may improve the refining performance in 4Q. Kochi and Bina refineries are planned to be shut for 15 days in FY25; however, the exact dates are still being worked out.
- Marketing sales volume (excluding exports) stood at 12.9mmt in 3QFY24 (vs. 12.2mmt in 2QFY24). During Apr-Dec'23, BPCL's market share stood at 29.62%/29.71% in petrol/diesel.
- At 1.1x FY26 P/BV, we see limited downside from the current level. However, with minimal volume growth in next two years and volatility in earnings from the marketing division, we maintain our Neutral rating with a TP of INR475, valuing the stock at 1.2x Dec'25E BV.

GRM and marketing margins above estimates

- BPCL's refining throughput was in line with our estimate at 9.9mmt (+5% YoY) during the quarter.
  - Reported GRM was higher than our estimate at USD13/bbl (vs. our estimate of USD11.7/bbl and USD18.5/bbl in 2QFY24).
- Marketing volumes, excluding exports, were in line with our estimate at 12.9mmt (+1% YoY).
  - Marketing margin (including inv.) was higher than our estimate at INR3.6/lit (vs. INR5.9/lit in 2QFY24).
- EBITDA was in line with our estimate at INR62.8b, as high employee benefit expenses were offset by high refining and marketing margins in 3Q.
- The reported PAT was in line with our estimate at INR34b in 3Q.
- Debt decreased to INR160.2b as of 3Q end from INR225.7b as of 2Q end.
- **For 9MFY24,** BPCL posted EBITDA of INR351b (vs. INR14.9b in 9MFY23) and adj. PAT of INR224.5b (vs. a net loss of INR46.1b in 9MFY23).
  - Marketing sales volume, excluding exports, grew 5% YoY to 37.9mmt, with a marketing margin at INR6.3/lit (vs. marketing loss of INR2.9/lit in 9MFY23).
  - The refining throughput was up 6% YoY at 29.6mmt, with reported GRM at USD14.7/bbl (vs. USD20.1/bbl in 9MFY23).
- BPCL had a cumulative negative net buffer of INR8487.4m as of Mar'23 due to the under-recovery on LPG cylinders. The same was recognized as part of revenue upon its recovery during 9MFY24.

Valuation and view

- BPCL's GRM has been at a premium to SG GRM on account of continuous optimization of refinery production, product distribution, and crude procurement. The advanced processing capabilities of Bina and Kochi refineries allow for the processing of 100% of high Sulphur crude and 50% Russian crude.
- At 1.1x FY25 P/BV, we see limited downside from the current level. However, with minimal volume growth in the next two years and volatility in earnings from the marketing division, we maintain our Neutral rating with a TP of INR475, valuing the stock at 1.2x Dec'25E BV.

Standalone - Quarterly Earning (INR b)

Y/E March	FY23				FY24				FY23	FY24E	FY24	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE	(%)
Net Sales	1,210.5	1,148.1	1,191.6	1,181.1	1,129.8	1,029.9	1,154.9	1,039.5	4,731.2	4,354.0	1,003.5	15
YoY Change (%)	70.7	50.3	25.3	13.3	-6.7	-10.3	-3.1	-12.0	36.5	-8.0	-15.8	
EBITDA	-49.0	20.2	43.8	111.5	158.1	130.1	62.8	65.1	126.5	416.1	63.2	-1
Margins (%)	-4.0	1.8	3.7	9.4	14.0	12.6	5.4	6.3	2.7	9.6	6.3	
Depreciation	16.1	15.6	15.8	16.0	16.1	16.0	18.2	14.8	63.5	65.2	16.5	
Interest	6.2	8.1	9.8	8.1	6.8	7.7	5.0	14.1	32.2	33.6	8.4	
Other Income	4.4	5.6	4.5	5.4	4.7	7.7	6.8	3.8	19.9	22.9	5.7	
PBT before EO expense	-76.5	-3.8	21.3	94.8	140.1	113.1	45.8	39.9	35.8	338.9	43.7	5
Extra-Ord expense	0.0	0.0	0.0	13.6	0.0	0.0	0.0	0.0	13.6	0.0	0.0	
PBT	-76.5	-3.8	21.3	81.2	140.1	113.1	45.8	39.9	22.2	338.9	43.7	5
Adj PAT	-62.6	-3.0	19.6	75.6	105.5	85.0	34.0	29.8	29.6	254.3	32.7	4
YoY Change (%)	PL	PL	-30.7	202.4	LP	LP	73.4	-60.5	-70.3	760.6	66.7	
Key Assumptions												
Refining throughput (mmt)	9.7	8.8	9.4	10.6	10.4	9.4	9.9	10.0	38.5	39.6	9.5	4
Reported GRM (USD/bbl)	27.5	16.8	15.9	20.6	12.6	18.5	13.4	9.0	20.3	13.0	11.7	14
Marketing sales vol. excld exports (mmt)	11.8	11.4	12.8	12.9	12.8	12.2	12.9	13.4	48.9	51.3	12.8	1
Marketing GM incld inv (INR/litre)	-9.1	-0.6	1.1	2.9	9.3	5.9	3.5	4.1	-1.4	5.7	3.2	9

BPCL – key assumptions

Y End: March 31	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Exchange Rate (INR/USD)	70.0	70.9	74.3	74.5	80.4	83.1	84.6	86.0
Crude cost (USD/bbl)	70.1	61.2	44.4	80.5	96.1	83.4	85.0	85.0
Domestic Market Sales (mmt)	43.1	43.1	38.7	42.5	48.9	51.3	53.3	55.5
YoY (%)	5%	0%	-10%	10%	15%	5%	4%	4%
Reported GRM (USD/bbl)	4.6	2.5	4.1	9.5	20.3	13.0	9.0	9.0
Singapore GRM (USD/bbl)	4.9	3.2	0.5	5.0	10.7	6.3	6.0	6.0
Prem/(disc) (USD/bbl)	(0.3)	(0.7)	3.6	4.5	9.6	6.7	3.0	3.0
Refinery throughput (mmt)	31.0	31.9	26.4	34.1	38.5	39.6	40.0	40.0
YoY (%)	9%	3%	-17%	29%	13%	3%	1%	0%
Marketing Margin (INR/ltr)								
Blended gross marketing margin incld inventory	4.8	4.7	6.9	5.0	(1.4)	5.7	4.1	4.1
Consolidated EPS	40.7	23.8	63.2	52.0	9.4	131.1	74.3	74.6

Source: Company, MOSFL

Dr Reddy's Labs

Estimate change	↑
TP change	↑
Rating change	↔

Bloomberg	DRRD IN
Equity Shares (m)	167
M.Cap.(INRb)/(USDb)	974.3 / 11.7
52-Week Range (INR)	5990 / 4281
1, 6, 12 Rel. Per (%)	2/-5/13
12M Avg Val (INR M)	2288

Financials & Valuations (INR b)

Y/E MARCH	FY24E	FY25E	FY26E
Sales	278.9	306.1	340.5
EBITDA	80.0	83.6	89.9
Adj. PAT	53.0	53.8	56.4
EBITDA Margin (%)	28.7	27.3	26.4
Cons. Adj. EPS (INR)	317.8	322.9	338.8
EPS Gr. (%)	29.9	1.6	4.9
BV/Sh. (INR)	1,680	1,978	2,291
Ratios			
Net D:E	-0.3	-0.6	-0.6
RoE (%)	20.7	17.7	15.9
RoCE (%)	19.6	16.8	15.7
Payout (%)	7.9	7.8	7.4
Valuations			
P/E (x)	18.4	18.1	17.2
EV/EBITDA (x)	11.3	10.1	9.1
Div. Yield (%)	0.4	0.4	0.4
FCF Yield (%)	2.1	5.7	4.2
EV/Sales (x)	3.2	2.8	2.4

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	26.7	26.7	26.7
DII	18.7	21.0	23.4
FII	44.1	42.4	38.1
Others	10.6	11.6	11.8

FII Includes depository receipts

CMP: INR5,841 TP: INR5,540 (-5%) Neutral

NA/PSAI drive earnings

Higher working capital needs reduce free cash flow for the quarter

- Dr. Reddy's Labs (DRRD) delivered a marginally better-than-expected performance for the quarter, led by healthy traction in the North America (NA) and Pharmaceutical Services & Active Ingredients (PSAI) segments. The India business has been witnessing moderation in YoY growth for three quarters now. DRRD continues to invest on its product pipeline, and marketing initiatives across key markets. The benefits are expected from FY25 onwards.
- We raise our earnings estimates by 7%/5%/4% for FY24/FY25/FY26 factoring in: 1) market share expansion in key products, 2) new launches, and 3) better operating leverage. We value DRRD on an SOTP basis (22x 12M forward P/E for the base business and adding NPV of INR90 for g-Revlimid) to arrive at our TP of INR5,540.
- Even after raising our earnings estimates, we expect a modest 3% earnings CAGR over FY24-26. Further, the product-specific concentration of earnings remains elevated for DRRD. **Reiterate Neutral.**

Higher SG&A expenses hurt margins for the quarter

- DRRD's 3QFY24 revenue grew 7% YoY to INR72b (vs. est. of INR69b).
- The US sales rose 9% YoY to INR33.5b (~USD401m; 46% of sales), led by market share expansion in existing key products and revenue from new product launches, partly offset by price erosion. The EU sales grew 15% YoY to INR5b (7% of sales). India sales rose 5% YoY to INR12b (16% of sales). This was led by new launches. However, the EM sales declined 2% YoY to INR13b (17% of sales). The business was hit by unfavorable forex movements. PSAI segment's revenue was flat YoY to INR7b (11% of sales).
- Gross margin (GM) contracted 70bp YoY to 58.5%, as the GG segment witnessed lower GM (down 260bp YoY as a % of sales) for the quarter.
- However, EBITDA margin contracted at a higher rate of 220bp YoY to 28% (our est: 27.8%) due to higher SG&A (+90bp YoY as a % of sales) and R&D (+60bp YoY as % of sales) expenses. EBITDA grew marginally by 2% YoY to INR20b (our est: INR19b).
- R&D expenses stood at INR5.6b (7.7% of sales).
- DRRD reported a PAT of INR13.8b (our est: INR12b), up 5% YoY.
- In 9MFY24, revenue/EBITDA/PAT grew 15%/24%/25% YoY to INR208b/INR61b/INR41b.

Highlights from the management commentary

- DRRD expects to launch 26 products in the US over the next two years. Of these, about two products are from FTO-3.
- It aims for biosimilar product launches in the US/EU starting in CY27.
- Management expects the base business in India to grow in double digits YoY in the coming quarters.
- DRRD has strong capabilities in developing and manufacturing peptides, and the company is well-positioned to monetize GLP-1 opportunities, considering relevant patent situations.

Quarterly Performance - IFRS **(INR b)**

Y/E March	FY23				FY24E				FY23	FY24E	Estimates	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE	% Var
Sales	**49.9**	**63.1**	**67.7**	**60.3**	**67.4**	**68.8**	**72.1**	**70.5**	**240.9**	**278.9**	**68.7**	**5.0**
YoY Change (%)	1.3	9.4	27.3	15.6	35.2	9.1	6.6	16.9	13.5	15.8	1.5	
Total Expenditure	39.5	45.0	47.1	47.1	46.9	48.8	51.9	51.2	178.8	198.8	49.6	
EBITDA	**10.3**	**18.0**	**20.6**	**13.2**	**20.5**	**20.0**	**20.3**	**19.3**	**62.1**	**80.0**	**19.1**	**6.2**
YoY Change (%)	14.5	35.0	71.1	25.4	97.8	10.7	-1.3	46.6	38.3	28.8	-7.1	
Margins (%)	20.7	28.6	30.4	21.9	30.3	29.0	28.1	27.4	25.8	28.7	27.8	
Amortization	3.1	3.2	3.3	3.2	3.6	3.8	3.9	3.9	12.7	15.2	3.9	
EBIT	**7.3**	**14.9**	**17.3**	**10.0**	**16.9**	**16.1**	**16.4**	**15.4**	**49.5**	**64.8**	**15.3**	
YoY Change (%)	19.1	43.5	91.2	32.2	131.5	8.3	-5.1	54.4	49.4	31.1	-11.8	
Margins (%)	14.6	23.6	25.5	16.6	25.0	23.4	22.7	21.9	20.5	23.3	22.2	
Other Income	2.8	0.3	0.2	1.2	1.1	1.6	2.0	1.3	4.5	5.9	1.0	
PBT before EO expenses	**10.1**	**15.2**	**17.5**	**11.2**	**18.0**	**17.7**	**18.4**	**16.7**	**53.9**	**70.7**	**16.2**	**13.3**
One-off income/(expense)	4.5	0.9	-1.1	2.1	0.5	1.4	-0.1	0.0	6.4	1.8	0.0	
Profit before Tax	**14.7**	**16.1**	**16.3**	**13.3**	**18.5**	**19.1**	**18.3**	**16.7**	**60.4**	**72.5**	**16.2**	**12.6**
PBT after EO Expenses	**14.6**	**16.1**	**16.3**	**13.3**	**18.5**	**19.1**	**18.3**	**16.7**	**60.4**	**72.5**	**16.2**	
Tax	2.8	5.0	3.9	3.7	4.4	4.3	4.5	4.4	15.3	17.7	4.1	
Rate (%)	19.0	30.9	23.7	27.6	24.0	22.7	24.5	26.6	25.3	24.4	25.3	
Reported Profit	**11.9**	**11.1**	**12.5**	**9.6**	**14.0**	**14.8**	**13.8**	**12.2**	**45.1**	**54.9**	**12.1**	**13.8**
Adjusted PAT	**8.2**	**11.4**	**13.1**	**8.1**	**13.7**	**13.3**	**13.8**	**12.2**	**40.8**	**53.0**	**12.1**	**13.7**
YoY Change (%)	43.6	14.9	84.2	23.7	66.6	16.5	5.1	51.7	39.3	29.9	-7.6	
Margins (%)	16.4	18.1	19.4	13.4	20.3	19.3	19.1	17.4	16.9	19.0	17.6	

E: MOFSL Estimates

Vodafone Idea

Estimate changes	↓
TP change	↓
Rating change	↔

Bloomberg	IDEA IN
Equity Shares (m)	48680
M.Cap.(INRb)/(USDb)	705.9 / 8.5
52-Week Range (INR)	18 / 6
1, 6, 12 Rel. Per (%)	-8/64/91
12M Avg Val (INR M)	2835

Financials & Valuations (INR b)

INR b	FY23	FY24E	FY25E
Net Sales	422	428	457
EBITDA	168	172	198
Adj. PAT	-293	-324	-274
EBITDA Margin (%)	39.9	40.2	43.4
Adj. EPS (INR)	-10.2	-11.3	-9.5
EPS Gr. (%)	3.1	10.6	-15.4
BV/Sh. (INR)	-23.2	-33.0	-41.5
Ratios			
Net D:E	-3.3	-2.4	-2.0
RoE (%)	NM	NM	NM
RoCE (%)	-3.9	-3.7	-2.4
Payout (%)	0.0	0.0	0.0
Valuations			
EV/EBITDA (x)	18.7	18.7	16.7
P/E (x)	-1.4	-1.3	-1.5
P/B (x)	-0.6	-0.4	-0.3
Div. Yield (%)	0.0	0.0	0.0

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	50.4	50.4	75.0
DII	36.2	35.0	1.3
FII	2.3	2.5	3.6
Others	11.2	13.4	20.1

FII Includes depository receipts

CMP: INR15 **TP: INR14 (-3%)** **Neutral**

Controlled cost led EBITDA growth

- VIL reported 4% QoQ EBITDA growth (pre Ind AS-116), led by reduction in network opex attributed to seasonality and decreased roaming/access cost. This is despite flat revenue growth, which was adversely affected by the loss of 4.6m subscribers. This was partially mitigated by a 2% QoQ growth in ARPU.
- VIL continues to lose market share, partly accentuated by recent tariff hikes. It continues to explore avenues for fundraising, complemented by financial support of INR20b from one of its promoters. However, the liquidity situation continues to appear bleak, given that there is a scheduled debt repayment of INR54b in the next one year, against 3QFY24 annualized EBITDA (pre IND-AS 116) of INR86b. We reiterate our **Neutral** stance on the stock**.**

Net loss continues

- VIL's revenue was flat QoQ to INR107b (in line) as 2% QoQ subscriber loss (4.6m loss) was offset by 2% QoQ ARPU growth.
- Reported EBITDA grew 2% QoQ to INR43.5b (in line), led by a drop in network expenses (by 90bp QoQ) and a decrease in roaming and access charges (by 70bp QoQ). These were offset by a rise in subscriber addition costs (up 50bp QoQ) during the quarter. Margin improved 80bp QoQ to 40.8%.
- Pre-Ind-AS EBITDA grew 4% QoQ to INR21.4b (in line) and margin improved 80bp QoQ to 20.1%.
- Adj. net loss declined to INR77b from INR87b in 2QFY24, due to higher EBITDA.
- VIL reported a gain of INR7.6b from the Telecom Disputes Settlement and Appellate Tribunal (TDSAT) ruling.
- **Net debt remained high at INR2.1t.** About 97% of this debt is attributed to Spectrum and AGR, whereas the market debt declined INR18b to INR61b.
- **Capex** spending remained at INR3.3b in 3Q and INR13b in 9MFY24.
- The 9MFY24 revenue/Pre-Ind-AS EBITDA/PAT rose 1%/was flat/up 3% YoY.

Highlights from the management commentary

- Following the reduction in bank loans, the company's primary focus will shift toward the repayment of creditors/vendors.
- Expanded the tariff hike to include 16 circles by reducing the validity from 28 days to 15 days in the base plan. The company observed a loss of subscribers due to the shortened validity plan, prompting a strategic shift toward promoting unlimited plans.
- The company continues to upgrade non-4G sites to 4G sites, by reforming the spectrum. Expect 5G to roll out in 6-7 months.
- Out of the total INR54b debt payable in the next one year, INR16b pertains to OCD (where repayment is dependent on whether conversion happens or not). The remaining portions represent unconditional payments.

Valuation and view

- VIL has experienced continued rise in ARPU, led by the shift to 4G, higher data monetization, and increase in minimum recharge vouchers. However, there has been a notable increase in subscriber churn during this period.
- The capex directed toward the rollout of 4G and 5G holds significant importance. Thus, the much-awaited capital raise continues to be crucial, as it is essential to ensure immediate liquidity and facilitate the expansion of the network.
- Further, it still holds a debt of INR2.1t with an annual installment of INR430b from FY26 onwards. This looks challenging against 3QFY24 annualized EBITDA (IND-AS 116) of INR86b.
- The significant amount of cash required to service debt leaves limited upside opportunities for equity holders, despite the high operating leverage opportunity from any source of ARPU increase. The current low EBITDA will make it challenging to service debt without an external fund infusion. Assuming 14x EV/EBITDA, with a net debt of INR2.1t, leaves limited opportunity for equity shareholders. We reiterate our Neutral rating on the stock.

Consolidated - Quarterly Earning Model (INR b)

Y/E March	FY23				FY24E				FY23	FY24E	FY24E	Est Var
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			3QE	(%)
Revenue	**104**	**106**	**106**	**105**	**107**	**107**	**107**	**107**	**422**	**428**	**107**	**-0.7**
YoY Change (%)	13.7	12.8	9.3	2.9	2.4	1.0	0.5	1.7	9.5	1.4	-1.4	
Total Expenditure	61	65	64	63	65	64	63	63	254	256	64	-1.6
EBITDA	**43**	**41**	**42**	**42**	**42**	**43**	**44**	**44**	**168**	**172**	**43**	**0.7**
YoY Change (%)	16.7	6.1	9.5	-9.4	-4.0	4.5	4.1	4.6	4.9	2.3	0.8	
Depreciation	58	57	59	57	56	57	56	60	230	229	58	-2.7
Net Finance Costs	58	60	63	49	64	65	65	64	230	258	54	19.8
PBT before EO expense	**-73**	**-76**	**-80**	**-64**	**-78**	**-79**	**-77**	**-81**	**-293**	**-316**	**-69**	**-12.9**
Extra-Ord expense	0	0	0	0	0	0	-8	0	0	-8	0	
PBT	**-73**	**-76**	**-80**	**-64**	**-78**	**-79**	**-70**	**-81**	**-293**	**-308**	**-69**	**-1.9**
Tax	0.0	0.0	0.0	0.0	0.0	8.2	0.0	0.0	0.0	8.2	0.0	
Rate (%)	-0.1	-0.1	0.0	0.1	0.0	-10.3	0.0	0.0	0.0	-2.7	0.0	
Reported PAT	**-73**	**-76**	**-80**	**-64**	**-78**	**-87**	**-70**	**-81**	**-293**	**-316**	**-69**	**-1.9**
Adj PAT	**-73**	**-76**	**-80**	**-64**	**-78**	**-87**	**-77**	**-81**	**-293**	**-324**	**-69**	**-12.9**
YoY Change (%)	-2.7	6.3	10.7	-2.3	7.4	15.0	-3.1	26.2	3.1	10.6	10.1	

E: MOFSL Estimates

Debt Break-up (INR b)

Net debt classification	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	QoQ
Spectrum debt	1,113	1,139	1,166	1,367	1,398	1,307	1,337	1,351	1,382	31
Market debt	231	181	152	151	132	114	95	79	61	(18)
Optionally Convertible Debentures	0	0	0	0	0	16	16	16	17	1
Total debt	**1,344**	**1,319**	**1,318**	**1,517**	**1,530**	**1,437**	**1,449**	**1,446**	**1,460**	**14**
Cash and equivalents	15	15	9	2	2	2	3	1	3	2
Net Debt excluding AGR	1,329	1,305	1,309	1,515	1,528	1,435	1,446	1,445	1,456	12
AGR dues	646	660	673	686	699	656	669	682	690	8
Net debt including AGR	**1,975**	**1,964**	**1,982**	**2,201**	**2,227**	**2,090**	**2,115**	**2,127**	**2,147**	**20**

Petronet LNG

Estimate change	↑
TP change	↑
Rating change	↔

Bloomberg	PLNG IN
Equity Shares (m)	1500
M.Cap.(INRb)/(USDb)	401.3 / 4.8
52-Week Range (INR)	285 / 187
1, 6, 12 Rel. Per (%)	21/7/0
12M Avg Val (INR M)	830

Financials & Valuations (INR b)

Y/E March	FY24E	FY25E	FY26E
Sales	531.3	568.9	599.3
EBITDA	51.6	52.3	56.4
Adj. PAT	34.1	34.6	37.6
Adj. EPS (INR)	22.7	23.1	25.1
EPS Gr. (%)	5.2	1.6	8.6
BV/Sh.(INR)	111.8	124.2	137.6
Ratios			
Net D:E	-0.4	-0.4	-0.5
RoE (%)	21.5	19.6	19.2
RoCE (%)	23.0	20.8	20.3
Payout (%)	46.3	46.3	46.3
Valuation			
P/E (x)	11.8	11.6	10.7
P/BV (x)	2.4	2.2	1.9
EV/EBITDA (x)	6.5	6.2	5.4
Div. Yield (%)	3.9	4.0	4.3

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	50.0	50.0	50.0
DII	11.0	5.9	4.1
FII	26.8	33.3	34.9
Others	12.2	10.8	11.0

FII Includes depository receipts

CMP: INR268 TP: INR295 (+10%) Neutral

Performance below expectations despite strong utilization

- Petronet LNG (PLNG) recorded lower-than-est. adj. EBITDA (ex of use or pay charges) of INR11b (our est. of INR12.5b) during the quarter. There was a sharp rise in 'other expenses' as the company allocated funds (amounting to INR2.3b) for certain provisions related to UoP in 3Q. Dahej utilization increased to 99% (vs. 70% in 3QFY23), while utilization at Kochi stood at 22% (up 160bp YoY).
- Management highlighted that it has successfully reached settlements with customers regarding UoP and has secured bank guarantees from them. Management also emphasized that if the target volumes for CY21 and CY22 are achieved by Dec'24 and Dec'25, respectively, PLNG would waive the UoP. However, if the targets are not met, the company would encash those bank guarantees received from the customers.
- The expansion of the Dahej terminal expansion from 17mmt to 22.5mmt is expected to be completed by Mar'25, after which it would be available for use. While there is no specific completion date for the petchem project, it has received board approval with a capex of INR207b. The management highlighted that the Coimbatore-Krishnagiri gas connectivity will be completed by the end of CY24.
- Volumes have improved substantially YoY in 9MFY24 amid cooling LNG prices. However, long-term volume growth prospects remain bleak for the company, due to intensifying competition from upcoming LNG terminals as well as increasing domestic gas supply.
- As highlighted in our previous report, sustainability of high return ratios also remains a key concern for PLNG as the ROCE for upcoming projects (Dahej expansion, Gopalpur FSRU and PDH-PP plant) is likely to be lower at 7-18%. **Hence, we reiterate our Neutral rating with a TP of INR295.**

Beat on volumes as utilization remains strong

- Total volumes stood at 232Tbtu (est. of 214.6Tbtu, up 39% YoY). Dahej Utilization stood at 99% (up 28.9pp YoY) and Kochi utilization stood at 22% (up 160bp YoY).
- Revenue stood at INR147.5b (up 7% YoY). EBITDA stood at INR17.1b (est. INR12.5b, up 2% YoY); adjusted EBITDA (ex of use-or pay charges) stood at INR 11b and was below our estimates.
- Reported PAT stood at INR11.9b (est. INR8.2b, up 1% YoY); adjusted PAT was below our expectations at INR 5.8b, partly due to strong 125% QoQ rise in other expenses.
  - The sharp rise in 'other expenses' was likely led by receivables related to provisioning.
- Income related to "Use or Pay charges" (UoP) amounting to INR6.1b for CY23 was recorded in 3QFY24 under 'other operating income'. This income was generated from lower capacity utilization by the company's customers.

- Balance confirmation against UoP dues of INR8.5b for CY22 and INR4.2b for CY21 is yet to be received. PLNG has approved a recovery mechanism of UoP dues for CY21 and CY22, pursuant to in-principle agreement with the customers.
- The management is in the process of implementing the same with the customers, including obtaining bank guarantees to secure the UoP dues.
- **For 9MFY24**, revenue stood at INR389b (up 15% YoY) with EBITDA at INR41b (up 5% YoY). PAT stood at INR28b (up 7% YoY). 9MFY24 EBITDA stood at 79% of our FY24 estimate.

Valuation and view

- Sustainability of EPS growth and high return ratios remain a concern for PLNG amid rising competitive environment. The net cash of INR57b (as of FY23) indicates that the deployment of cash may be an issue as growth opportunities in LNG terminalling have become bleaker and the company had to diversify from its core business to invest in more volatile areas such as gas-based petrochemicals, compressed biogas, as well as LNG trucking.
- The company currently trades at 11.6x FY25E EPS of INR23.1. We value the stock at 12x Dec'25E EPS to arrive at our TP of INR295. **We reiterate our Neutral rating on the stock.**

Standalone - Quarterly Earning (INR b)

Y/E March	FY23				FY24				FY23	FY24E	FY24	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE	(%)
Net Sales	**142.6**	**159.9**	**157.8**	**138.7**	**116.6**	**125.3**	**147.5**	**145.4**	**599.0**	**534.8**	**132.3**	**11%**
YoY Change (%)	*65.9*	*47.8*	*25.2*	*24.3*	*-18.3*	*-21.6*	*-6.5*	*4.8*	*38.8*	*-10.7*	*-16.1*	
EBITDA	**10.6**	**11.7**	**16.8**	**9.4**	**11.8**	**12.1**	**17.1**	**14.0**	**48.6**	**55.1**	**12.5**	**36%**
Margin (%)	*7.5*	*7.3*	*10.6*	*6.8*	*10.1*	*9.7*	*11.6*	*9.7*	*8.1*	*10.3*	*9.5*	
Depreciation	1.9	1.9	1.9	1.9	1.9	1.9	2.0	2.6	7.6	8.4	2.1	
Interest	0.8	0.8	0.8	0.9	0.7	0.7	0.7	1.1	3.3	3.3	0.8	
Other Income	1.4	0.9	1.8	1.5	1.5	1.6	1.6	1.0	5.7	5.6	1.4	
PBT	**9.4**	**9.9**	**15.9**	**8.2**	**10.6**	**11.0**	**16.0**	**11.4**	**43.3**	**49.0**	**11.0**	**45%**
Tax	2.4	2.5	4.1	2.0	2.7	2.8	4.1	2.9	10.9	13.4	2.8	
Rate (%)	*25.2*	*25.1*	*25.5*	*24.9*	*25.6*	*25.8*	*25.5*	*25.2*	*25.3*	*27.2*	*25.2*	
Reported PAT	**7.0**	**7.4**	**11.8**	**6.1**	**7.9**	**8.2**	**11.9**	**8.5**	**32.4**	**35.7**	**8.2**	**45%**
Adj PAT	**7.0**	**7.4**	**11.8**	**6.1**	**7.9**	**8.2**	**11.9**	**8.5**	**32.4**	**35.7**	**8.2**	**45%**
YoY Change (%)	*10.3*	*-9.6*	*3.2*	*-18.1*	*12.7*	*9.9*	*0.9*	*38.8*	*(3.4)*	*10.1*	*-30.2*	
Margin (%)	*4.9*	*4.7*	*7.5*	*4.4*	*6.8*	*6.5*	*8.1*	*5.9*	*5.4*	*6.7*	*6.2*	
Key Assumptions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-	0.0	0.0	
Total Volumes (TBtu)	208.0	192.0	167.0	184.0	230.0	223.0	232.0	211.6	751.0	896.6	214.6	8%
Dahej utilization (%)	*89%*	*82%*	*70%*	*77%*	*98%*	*95%*	*99%*	*90%*	*0.8*	*96%*	*91%*	*7%*
Kochi utilization (%)	*19%*	*16%*	*21%*	*21%*	*21%*	*21%*	*22%*	*19%*	*0.2*	*21%*	*21%*	*2%*

Operational highlights

Particulars	FY22				FY23				FY24			3QFY24	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	% YoY	% QoQ
Dahej Sales Volume (TBtu)													
Long term	89.0	102.0	117.0	97.0	101.0	103.0	104.0	108.0	90.0	102.0	104.0	0%	2%
Third-party regas	99.0	117.0	76.0	78.0	94.0	77.0	47.0	60.0	123.0	102.0	110.0	134%	8%
Pure short term	6.0	6.0	3.0	3.0	1.0	2.0	3.0	3.0	4.0	6.0	4.0	33%	-33%
Sub-total (TBtu)	**194.0**	**225.0**	**196.0**	**178.0**	**196.0**	**182.0**	**154.0**	**171.0**	**217.0**	**210.0**	**218.0**	**42%**	**4%**
Kochi Sales Volume (TBtu)													
Long term	11.0	14.0	12.0	12.0	12.0	10.0	13.0	13.0	13.0	13.0	14.0	8%	8%
Third-party regas	2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Pure short term	2.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sub-total (TBtu)	**15.0**	**15.0**	**12.0**	**12.0**	**12.0**	**10.0**	**13.0**	**13.0**	**13.0**	**13.0**	**14.0**	**8%**	**8%**
Total (TBtu)	**209.0**	**240.0**	**208.0**	**190.0**	**208.0**	**192.0**	**167.0**	**184.0**	**230.0**	**223.0**	**232.0**	**39%**	**4%**

MOTILAL OSWAL | MORNING INDIA

31 January 2024

3QFY24 Results Update | Sector: Financials

Mahindra & Mahindra Financial

Estimate change	↑
TP change	↑
Rating change	↔

Bloomberg	MMFS IN
Equity Shares (m)	1236
M.Cap.(INRb)/(USDb)	345.4 / 4.2
52-Week Range (INR)	347 / 216
1, 6, 12 Rel. Per (%)	2/-16/2
12M Avg Val (INR M)	1226

Financials & valuations (INR b)

Y/E March	FY24E	FY25E	FY26E
NII	71.0	87.2	102.1
PPP	41.1	54.0	65.3
PAT	18.2	27.9	34.6
EPS (INR)	14.8	22.6	28.0
EPS Gr. (%)	-8	53	24
BV/Sh.(INR)	142	156	175
Ratios			
NIM (%)	7.2	7.4	7.5
C/I ratio (%)	42.1	38.1	36.0
RoA (%)	1.7	2.2	2.4
RoE (%)	10.8	15.2	16.9
Payout (%)	37.5	35.0	35.0
Valuations	7.2	7.4	7.5
P/E (x)	18.9	12.4	10.0
P/BV (x)	2.0	1.8	1.6
Div. Yield (%)	2.0	2.8	3.5

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	52.2	52.2	52.2
DII	27.0	25.8	23.8
FII	12.8	14.2	16.3
Others	8.1	6.8	7.8

FII Includes depository receipts

CMP: INR280 TP: INR340 (+22%) Buy

Earnings on track after two quarters of setbacks

Core NIM rises ~10bp QoQ; provision release from ECL model refresh

- Mahindra & Mahindra Financial (MMFS)'s 3QFY24 PAT declined ~12% YoY and grew 135% QoQ to ~INR5.5b (in line), while 9MFY24 PAT declined 12% YoY to ~INR11.4b. Net Total Income (NII + Fee income) rose ~10% YoY to INR18.2b (in line), while PPoP grew ~6% YoY to ~INR10.6b (in line).
- Credit costs declined to ~1.4% (PQ: 2.8% and PY: 0.8%) and included write-offs of ~INR4.5b (PQ: ~INR3.5b). The total ECL provisions release of ~INR1.2b included the benefit of ~INR860m released from the ECL model refresh.
- MMFS reported a core NIM expansion of ~10bp QoQ. Including non-interest income, NIM (as a % of assets) expanded ~30bp QoQ to 6.8%.
- After two prior quarters of volatility, MMFS has delivered an earnings performance where most of the monitorables were in line except for the elevated levels of write-offs. We expect the NIM improvement to sustain and credit costs to further decline in 4QFY24. We model an 18%/20% CAGR in AUM/PAT over FY23-FY26E, with an FY26E RoA/RoE of 2.4%/17%. Reiterate BUY with a revised TP of INR340 (based on 2x FY26E BVPS).
- Key risks: a) muted yields because of higher competitive intensity and increasing proportion of prime customers, b) PCR on S2 and S3 staying elevated longer than expected because of the intricacies of the ECL model.

NIM expansion led by improvement in yields and lower negative carry

- NIMs improved ~10bp QoQ to ~7.1% aided by ~15bp rise in yields. Also, there was a healthy improvement in the fee income (non-lumpy), which is expected to sustain. MMFS also calibrated the liquidity on its balance sheet to reduce the negative carry from the liquidity buffer.
- A marginal interest rate hike of ~20bp and conversion of trade advances into retail customer loans also aided yield improvement in 3QFY24.
- Borrowing costs rose ~15bp QoQ to ~7.8%, and incremental CoF stood at ~8%. Management guided that it expects the incremental CoF to remain stable even in 4QFY24. We estimate NIM to moderate to ~7.2% in FY24 (vs. 8.3% in FY23) and then expand to 7.4%/7.5% in FY25/FY26.

Key takeaways from the management commentary

- Structural changes at MMFS will help it avoid the volatility that it exhibited in the past. It has reduced its participation in highly volatile customer cohorts. Management guided for much lower volatility even when the current benign credit cycle gets adverse.
- Management is cognizant of what should be the ideal level of prime customer sourcing to protect its NIM profile.

Valuation and View

- MMFS is still going through a transformation in its product/customer mix, and its NIM profile will change as it finds its new sustainable normal. It will hopefully now start demonstrating more predictability in its earnings performance. A strong liability franchise and deep moats in rural/semi-urban customer segments position MMFS well to reap the rewards of the hard work that is going into evolving this franchise.
- MMFS currently trades at 1.6x FY26E P/BV. The risk-reward is favorable for a PAT CAGR of ~20% over FY23-FY26E and FY26E RoA/RoE of 2.4%/17%. **Reiterate BUY with a revised TP of INR340 (based on 2.0x FY26E BVPS).**

Quarterly Performance (INR m)

Y/E March	FY23				FY24E				FY23	FY24E	3QFY24E	v/s est
	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24				
Interest income	24,372	25,163	27,947	29,344	30,349	31,535	33,733	35,578	1,06,826	1,31,194	33,648	0
Interest Expenses	9,320	10,688	12,419	13,340	14,505	15,665	16,750	17,741	45,767	64,660	16,761	0
NII	**15,052**	**14,475**	**15,528**	**16,004**	**15,844**	**15,870**	**16,983**	**17,837**	**61,059**	**66,535**	**16,887**	1
YoY Growth (%)	34.2	0.3	1.1	11.1	5.3	9.6	9.4	11.5	9.9	9.0	8.8	
Other income	614	930	969	1,223	905	870	1,172	1,495	3,735	4,441	1,073	9
Net Total Income	**15,666**	**15,405**	**16,496**	**17,227**	**16,750**	**16,740**	**18,155**	**19,332**	**64,794**	**70,976**	**17,960**	1
YoY Growth (%)	34.0	2.2	3.6	13.7	6.9	8.7	10.1	12.2	11.7	9.5	8.9	
Operating Expenses	6,208	6,768	6,513	7,786	6,750	7,312	7,530	8,285	27,276	29,877	7,727	-3
Operating Profit	**9,458**	**8,637**	**9,983**	**9,441**	**10,000**	**9,428**	**10,625**	**11,047**	**37,518**	**41,099**	**10,233**	4
YoY Growth (%)	26.3	-15.0	-6.0	5.1	5.7	9.2	6.4	17.0	0.7	9.5	2.5	
Provisions	6,453	1,985	1,551	4	5,264	6,266	3,284	1,810	9,992	16,623	3,091	6
Profit before Tax	**3,005**	**6,652**	**8,431**	**9,437**	**4,735**	**3,163**	**7,341**	**9,237**	**27,526**	**24,476**	**7,142**	3
Tax Provisions	776	1,624	2,142	2,596	1,209	811	1,813	2,408	7,138	6,241	1,821	0
Net Profit	**2,229**	**4,483**	**6,290**	**6,841**	**3,527**	**2,352**	**5,528**	**6,828**	**19,843**	**18,235**	**5,321**	4
YoY Growth (%)	-114.6	-56.2	-29.6	13.9	58.2	-47.5	-12.1	-0.2	100.7	-8.1	-15.4	
Key Operating Parameters (%)												
Yield on loans (Cal)	15.8	15.2	15.6	15.4	14.9	14.6	14.7	14.9	15.3	14.8		
Cost of funds (Cal)	6.5	6.8	7.2	7.3	7.5	7.6	7.8	7.9	7.0	8.0		
Spreads (Cal)	9.3	8.4	8.5	8.0	7.4	6.9	6.9	6.9	8.3	6.8		
Credit Cost (Cal)	3.9	1.1	0.8	0.0	2.5	2.8	1.4	0.7	1.4	1.8		
Cost to Income Ratio	39.6	43.9	39.5	45.2	40.3	43.7	41.5	42.9	42.1	42.1		
Tax Rate	25.8	24.4	25.4	27.5	25.5	25.6	24.7	26.1	25.9	25.5		
Balance Sheet Parameters												
Loans (INR B)	631	696	734	795	832	899	934	981	795	981		
Change YoY (%)	11.9	21.6	26.0	31.4	42.6	29.3	27.2	23.4	31.5	23.4		
Borrowings (INR B)	591	673	709	749	790	849	864	925	749	925		
Change YoY (%)	6.3	20.4	24.3	34.3	43.6	26.0	21.9	23.4	34.3	23.4		
Loans/Borrowings (%)	106.8	103.3	103.5	106.0	105.4	106.0	108.0	106.0	106.0	106		
Debt/Equity (x)	3.8	4.3	4.3	4.4	4.5	5.0	4.9	5.1	4.6	5.3		
Asset Quality Parameters (%)												
GS 3 (INR B)	54.4	49.4	45.9	37.2	37.7	40.2	38.5		37.2	37.2		
Gross Stage 3 (% on Assets)	8.0	6.7	5.9	4.5	4.3	4.3	4.0		4.5	3.7		
NS 3 (INR B)	22.8	20.7	18.8	15.1	15.0	15.6	14.4		15.1	14.2		
Net Stage 3 (% on Assets)	3.5	2.9	2.6	1.9	1.8	1.7	1.5		1.9	1.4		
PCR (%)	58.1	58.2	59.0	59.5	66.9	61.2	62.7		59.5	62.0		
ECL (%)	6.8	5.7	5.0	4.0	4.0	4.0	3.8		4.7	4.0		
Return Ratios (%)												
ROAA	1.2	2.2	2.8	2.9	1.4	0.9	2.1	2.5	2.3	1.7		
ROAE	5.7	11.4	15.7	16.3	8.2	5.5	12.8	15.3	12.6	10.8		

E: MOFSL estimates

Blue Dart Express

Estimate change	↓
TP change	↓
Rating change	↔

Bloomberg	BDE IN
Equity Shares (m)	24
M.Cap.(INRb)/(USDb)	153 / 1.8
52-Week Range (INR)	7650 / 5632
1, 6, 12 Rel. Per (%)	-11/-16/-22
12M Avg Val (INR M)	137

Financial Snapshot (INR b)

Y/E MARCH	2024E	2025E	2026E
Sales	53.7	62.6	73.4
EBITDA	5.3	7.5	9.3
Adj. PAT	3.0	4.5	5.8
EBITDA Margin (%)	9.9	11.9	12.6
Adj. EPS (INR)	125.8	191.5	245.8
EPS Gr. (%)	-18.6	52.3	28.4
BV/Sh. (INR)	596.9	728.4	914.2
Ratios			
Net D:E	-0.1	-0.1	-0.2
RoE (%)	22.3	28.9	29.9
RoCE (%)	24.0	30.5	31.2
Payout (%)	47.7	31.3	24.4
Valuations			
P/E (x)	51.3	33.7	26.3
P/BV (x)	10.8	8.9	7.1
EV/EBITDA(x)	27.8	19.5	15.3
Div. Yield (%)	0.9	0.9	0.9
FCF Yield (%)	1.9	2.1	3.1

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	75.0	75.0	75.0
DII	11.8	11.8	8.5
FII	5.3	4.7	5.1
Others	7.9	9.6	11.5

FII Includes depository receipts

CMP: INR6,450 TP: INR7,850 (+22%) Buy

Newly acquired aircraft to see gradual improvement in utilization levels

Revenue in line; a slight miss on margins

- Blue Dart Express (BDE)'s revenue grew 3% YoY to INR13.8b in 3QFY24 (in line). BDE handled 0.31m tonnes of cargo volume (+3% YoY), while the realization improved ~1% YoY to INR 44/kg. It carried 92m shipments in 3Q.
- EBITDA margin came in at 9.7% in 3QFY24 (v/s our estimate of 9.9%). The margin was lower by ~160bp YoY, mainly due to higher other expenses and employee costs. EBITDA declined ~11% YoY to INR1.3b (vs. our est. of INR1.5b). PAT dipped 6% YoY to INR816m (vs. our est. of INR841m). The soft operating performance was partially offset by high other income and a lower tax outgo.
- During 9MFY24, BDE reported revenue of INR39.5b (flat YoY), EBITDA of INR3.8b (-25% YoY), and APAT of INR2.1b (-28% YoY). BDE carried 0.9m tonnes of shipments (+3.1% YoY) during the period. The realization per kg stood at INR43.5 (-3.3% YoY).
- Slower growth in the industry and high competition (particularly in surface express) have hit the volumes of BDE. As the overall demand improves and new aircraft stabilize, a pickup in volumes is anticipated in FY25 and FY26. The standalone EBITDA margin, which has reduced to sub-10% level, would also improve as volume levels pick up.
- We cut our EBITDA by ~6%/3%/3% for FY24/25/26E to incorporate 3QFY24 performance and gradual improvement in utilization levels. **Reiterate BUY with a revised TP of INR7,850 (based on 20x FY26E EV/EBITDA).**

Utilization levels of new aircraft improve; surface express likely to be the key growth driver

- The introduction of two new aircraft has resulted in increased sequential volumes for the quarter. The management remains confident that the newly added aircraft will achieve optimal utilization soon, leading to improved efficiency and higher margins.
- Despite intense competition and ongoing consolidation in the surface express industry, BDE is expanding its market share. The Surface Express sector is expected to be a key growth driver for BDE, with anticipated double-digit growth.
- BDE currently holds a large market share in the document logistics segment, which posted a 7-8% YoY growth during the quarter.

Highlights from the management commentary

- Standalone EBITDA margin is expected to be in the low double-digit range, with a potential 5-6% growth in realization.
- The two aircraft would operate in the existing network where BDE operates currently. Additionally, BDE would add Guwahati to its network using these new aircraft.

- The general price hikes were implemented at the start of the year. Management expects to push a 5% price hike on a blended basis, post-negotiation with customers.
- The festive-led demand was spread between 2QFY24 and 3QFY24.
- Surface Express contributed ~25%-30% to the overall revenue and the balance came from Air Express.

Valuation and view

- BDE is facing temporary challenges, such as the costs linked to the integration of new aircraft and slow industry activity. Despite these obstacles, BDE is making efforts to achieve optimal utilization for the recently acquired aircraft and aims to increase its share in the ground express segment within the overall mix.
- With improved volumes, better realizations, and an increasing market share of BDE in the Surface Express segment, we expect the company to register a revenue/EBITDA/PAT CAGR of ~12%/14%/17% over FY23-26. **Reiterate BUY with a revised TP of INR7,850 (based on 20x FY26E EV/EBITDA).**

Quarterly snapshot - Standalone INR m

Y/E March (INR m)	FY23				FY24E				FY23	FY24E	FY24	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE	vs Est
Net Sales	**12,933**	**13,253**	**13,371**	**12,166**	**12,376**	**13,245**	**13,829**	**14,257**	**51,722**	**53,707**	**14,039**	**(1)**
YoY Change (%)	49.6	18.0	6.6	4.3	-4.3	-0.1	3.4	17.2	17.3	3.8	5.0	
EBITDA	**1,908**	**1,627**	**1,506**	**1,282**	**1,133**	**1,305**	**1,343**	**1,521**	**6,323**	**5,302**	**1,481**	**(9)**
Margins (%)	14.7	12.3	11.3	10.5	9.2	9.9	9.7	10.7	12.2	9.9	10.6	
YoY Change (%)	128.7	-18.0	-26.1	-41.2	-40.6	-19.8	-10.8	1.3	-10.2	-16.1	-6.3	
Depreciation	397	419	414	436	444	456	473	473	1,666	1,845	450	
Interest	47	42	42	44	45	48	47	49	174	189	48	
Other Income	102	121	139	143	157	151	228	146	505	682	140	
PBT before EO expense	**1,566**	**1,288**	**1,189**	**945**	**801**	**952**	**1,050**	**1,146**	**4,987**	**3,950**	**1,123**	
Extra-Ord expense	0	0	0	0	0	0	0	0	0	0	0	
PBT	**1,566**	**1,288**	**1,189**	**945**	**801**	**952**	**1,050**	**1,146**	**4,987**	**3,950**	**1,123**	
Tax	394	368	320	241	204	240	235	288	1,323	966	282	
Rate (%)	25.2	28.5	26.9	25.5	25.4	25.2	22.4	25.1	26.5	24.5	25.2	
Reported PAT	**1,172**	**920**	**869**	**703**	**598**	**713**	**816**	**858**	**3,664**	**2,984**	**841**	
Adj PAT	**1,172**	**920**	**869**	**703**	**598**	**713**	**816**	**858**	**3,664**	**2,984**	**841**	**(3)**
YoY Change (%)	298.9	-26.6	-28.9	-48.1	-49.0	-22.5	-6.2	22.0	-11.1	-18.6	-3.3	
Margins (%)	9.1	6.9	6.5	5.8	4.8	5.4	5.9	6.0	7.1	5.6	6.0	

TeamLease

Estimate change	⟷
TP change	⟷
Rating change	⟷

Bloomberg	TEAM IN
Equity Shares (m)	17
M.Cap.(INRb)/(USDb)	46.8 / 0.6
52-Week Range (INR)	3326 / 2007
1, 6, 12 Rel. Per (%)	-12/11/2
12M Avg Val (INR M)	111

Financials & Valuations (INR b)

Y/E Mar	2024E	2025E	2026E
Sales	93.9	110.9	132.8
EBIT Margin (%)	0.9	1.3	1.7
Adj. PAT	1.2	1.7	2.5
EPS (INR)	70.0	104.1	150.9
EPS Gr. (%)	7.5	48.7	45.0
BV/Sh. (INR)	548.4	649.8	796.9
Ratios			
RoE (%)	13.3	16.9	20.3
RoCE (%)	11.6	14.7	17.9
Payout (%)	0.0	0.0	0.0
Valuations			
P/E (x)	39.9	26.8	18.5
P/BV (x)	5.1	4.3	3.5
EV/EBITDA (x)	35.8	25.2	16.8
Div Yield (%)	0.0	0.0	0.0

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	31.6	31.6	31.5
DII	35.3	30.4	23.8
FII	26.3	30.5	37.3
Others	6.8	7.7	7.4

FII Includes depository receipts

CMP: INR2,792 TP: INR 3,450 (+24%) BUY

Strong Q3 delivery; margin pickup in FY25 to drive rerating

Improved margin levers offset by one-off impact in 3Q

- TEAM's 3QFY24 revenue growth of 22% YoY was ahead of our estimate. Revenue growth was led by 17% YoY growth in General Staffing (+23% YoY) and Specialized staffing (+12% YoY), while other HR services was up only 10% YoY (down 14% QoQ), due to Edtech revenue deferrals during the quarter. Specialized staffing growth was led by GCCs in 3Q. The company reported an EBITDA margin of 1.5%, ahead of our estimate of 1.4%, primarily due to higher margins in other HR services. Despite improvement in PAPM and better productivity, General Staffing margins moderated 5bp in 3Q due to the one-off impact of bonus disbursements.
- General staffing performance in 3Q exhibited a mixed trend, with better-than-expected growth, but a weaker margin profile (partially due to one-off employee bonuses impacting the revenue base). Moreover, the modest addition of 7.4k associates was attributed the company's focus on higher-margin services.
- While we continue to see robust demand in general staffing, margin improvement will be a gradual process (FY25 general staffing EBITDA margin to be up 15bp YoY). Additionally, the company should start seeing support from the recovery in DA programs, which had previously been a drag until the last quarter.
- Despite the strong growth in TEAM's specialized staffing business during this quarter, we continue to factor in meaningful improvement only by 2QFY25, given the continued weakness in IT services ecosystem. We expect the specialized staffing recovery to be a key support for profitability recovery over the next two years. We expect consolidated revenue CAGR of 19% over FY23-26E for the company.
- On the other hand, margin recovery will be more gradual than initially expected, although we still see it contributing to earnings growth over FY25-FY26E. TEAM has started to rationalize its core headcount and is also trying to cross-sell and up-sell to improve its PAPM. We are building in FY25/FY26 EBIDTA margin at 1.7%/2.0%. This should translate to healthy earnings CAGR of 30% over FY23-26E.
- We remain positive on the medium- to long-term opportunities, owing to gains from the formalization of the labor market and reiterate our BUY rating on the stock. We marginally tweak our FY24-FY26 EPS estimates post 3Q results. Our TP of INR 3,450 implies 23x FY26E EPS.

Strong execution; beat on both revenues and margins

- Revenue growth for TEAM stood at 7.6% QoQ/21.8% YoY against our estimates of 17% YoY. Growth was led by General Staffing services, up 22.7% YoY. Specialized staffing was up 12.3% YoY/9.5% QoQ. Other HR services was down 14.0% QoQ due to Edtech revenue deferrals.

- In 3Q, General staffing saw an addition of 7.4k associates, whereas specialized staffing headcount decreased 775. DA headcount witnessed an increase of 1.0k. The company expects the remaining NEEM trainees to fully attrite by 1QFY25.
- EBITDA margin stood at 1.5% in 3Q against our expectations of 1.4%. General Staffing EBITDA margin stood at 1.2% (Est. 1.3%) and Specialized staffing margin stood at 7.0% (est. 7.2%). Other HR services reported 11.7% margin (est. 6.5%).
- Adj. PAT at INR277m was down 5% YoY, against our estimate of INR287m due to higher interest cost.
- The company reported exceptional income of INR35.1m on account of PF trust reversals. Reported PAT stood at INR312m, up 7% YoY.

Key highlights from the management commentary

- The IT service sector continued to experience reduced hiring over the past several quarters, further intensified by the impact of furloughs in 3Q. This decline is partially offset by the uptick in hiring for GCCs and Product companies. Notably, 66% of the net revenue in 3Q is contributed by GCCs.
- In 3Q, hiring was primarily driven by the Manufacturing vertical, with some early signs of ramp-up observed in the BFSI sector. However, the management maintains cautious optimism for at least the next two quarters in BFSI.
- In the EdTech sector, the management expects a 30% YoY growth with an EBITDA margin ranging from 8-10%. For HR Tech, it expects a growth of 20%, and it might breakeven with marginal productivity in FY25. Overall, it expects another quarter of growth, partly aided by GCC and a healthy deal pipeline for other businesses.
- Generalized staffing EBITDA margin was adversely impacted by the transition mandates of low margin telecom staff. Additionally, the company disbursed a one-time bonus in 3Q, which had a bottom-line impact of INR10m.

Valuation and view - A key beneficiary of formalization

- Due to concerns about growth moderation and margin pressure, the stock has seen a significant de-rating in the recent past. We believe that valuations have bottomed out and already factor in near-term downsides.
- As both the central and state governments look to liberalize and formalize the labor market, TEAM should be among the biggest direct beneficiaries in the medium term.
- Strong growth and expected margin recovery should help TEAM deliver a 19% earnings CAGR over FY24-26, which should drive a significant re-rating in the stock. We reiterate our BUY rating on the stock with a TP of INR3,450, implying 23x FY26E EPS.

Consolidated quarterly performance (INR m)

	FY23				FY24				FY23	FY24E	FY24	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE	(%/bp)
Revenue	**18,794**	**19,551**	**20,083**	**20,273**	**21,716**	**22,726**	**24,454**	**24,976**	**78,700**	**93,872**	**23,517**	**4%**
YoY Change (%)	37%	28%	14%	12%	16%	16%	22%	23%	21%	19%	17%	
Total Expenditure	18,541	19,234	19,767	19,936	21,453	22,409	24,093	24,589	77,477	92,543	23,188	4%
Reported EBITDA	**253**	**317**	**316**	**337**	**263**	**318**	**361**	**387**	**1,223**	**1,329**	**329**	**10%**
Margins (%)	1.3%	1.6%	1.6%	1.7%	1.2%	1.4%	1.5%	1.6%	1.6%	1.4%	1.4%	7bp
Reported EBIT	**163**	**216**	**203**	**209**	**138**	**188**	**225**	**277**	**791**	**829**	**219**	**3%**
Margins (%)	0.9%	1.1%	1.0%	1.0%	0.6%	0.8%	0.9%	1.1%	1.0%	0.9%	0.9%	-1bp
Interest	7	12	17	21	21	25	31	20	57	96	20	54%
Other Income	123	118	100	99	140	130	100	120	439	491	100	0%
PBT before EO expense	**279**	**322**	**286**	**287**	**258**	**294**	**294**	**377**	**1,174**	**1,223**	**299**	**-2%**
Extra-Ord expense	0	0	0	23	0	0	-35	0	23	-35	0	
Reported PBT	**279**	**322**	**286**	**264**	**258**	**294**	**329**	**377**	**1,150**	**1,258**	**299**	**10%**
Tax	14	5	-4	20	1	18	18	15	35	51	12	
Rate (%)	5%	2%	-1%	8%	0%	6%	6%	4%	3%	4%	4%	153bp
Adjusted PAT	**265**	**316**	**290**	**244**	**258**	**276**	**275**	**362**	**1,115**	**1,171**	**287**	**-4%**
YoY Change (%)	-1%	-164%	-4%	-23%	-3%	-13%	-5%	49%	183%	5%	-1%	-426bp
Margins (%)	1.4%	1.6%	1.4%	1.2%	1.2%	1.2%	1.1%	1.4%	1.4%	1.2%	1.2%	-10bp
Reported PAT	**265**	**316**	**290**	**267**	**258**	**276**	**310**	**362**	**1,139**	**1,206**	**287**	**8%**
YoY Change (%)	9%	23%	-4%	-14%	-3%	-13%	7%	36%	2%	6%	-1%	783bp
Margins (%)	1.4%	1.6%	1.4%	1.3%	1.2%	1.2%	1.3%	1.4%	1.4%	1.3%	1.2%	5bp

Key performance indicators

Y/E March	FY23				FY24				FY23	FY24E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Headcount										
General Staffing associates	2,08,260	2,12,969	2,15,000	2,23,500	2,36,900	2,51,150	2,58,500		2,23,500	
Apprentices	76,847	79,592	59,000	50,350	42,600	42,100	43,150		50,350	
Specialized Staffing	9,800	8,883	9,100	8,600	8,320	8,375	7,600		8,600	
Revenue										
General Staffing	17,039	17,834	18,384	18,536	20,024	20,910	22,553	23,041	71,794	86,528
Specialized Staffing	1,444	1,407	1,408	1,399	1,398	1,443	1,580	1,567	5,658	5,988
Other HR Services	311	309	291	337	294	373	320	368	1,248	1,356
Operating Margin										
General Staffing	1.5	1.6	1.6	1.4	1.2	1.2	1.2		1.7	
Specialized Staffing	8.4	8.7	6.2	5.9	6.2	6.2	6.4		8.5	
Other HR Services	(3.1)	1.3	(1.6)	8.2	(8.9)	3.8	3.8		2.1	

30 January 2024
3QFY24Results Update | Sector: Logistics

Mahindra Logistics

Estimate change	↓
TP change	↓
Rating change	↔

Bloomberg	MAHLOG IN
Equity Shares (m)	72
M.Cap.(INRb)/(USDb)	30 / 0.4
52-Week Range (INR)	499 / 347
1, 6, 12 Rel. Per (%)	8/6/-31
12M Avg Val (INR M)	114

Financial Snapshot (INR b)

Y/E MARCH	FY24E	FY25E	FY26E
Sales	55.1	67.1	82.7
EBITDA	2.3	3.2	4.2
Adj. PAT	-0.5	0.5	1.2
EBITDA Margin (%)	4.2	4.7	5.1
Adj. EPS (INR)	-6.5	7.1	17.1
EPS Gr. (%)	-276.3	-209.3	141.8
BV/Sh. (INR)	70.0	74.6	89.2
Ratios			
Net D:E	0.8	0.5	0.0
RoE (%)	-8.7	9.8	20.9
RoCE (%)	8.5	10.7	17.8
Payout (%)	-42.1	35.3	14.6
Valuations			
P/E (x)	-64.4	59.0	24.4
P/BV (x)	6.0	5.6	4.7
EV/EBITDA(x)	13.6	9.5	6.5
Div. Yield (%)	0.6	0.6	0.6
FCF Yield (%)	0.5	5.2	8.8

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	58.0	58.0	58.1
DII	15.7	14.6	15.5
FII	5.9	12.1	15.6
Others	20.3	13.5	10.9

FII Includes depository receipts

CMP: INR417 | TP: INR380 (-9%) | Neutral

MLL Express's subpar performance negatively impacts the overall performance

- **Mahindra Logistics (MLL)'s 3QFY24 revenue grew ~5% YoY to INR13.9b (6% below estimates). EBITDA margin came in at 3.7% (vs. est. of 4.4%) in 3QFY24 (down 100bp YoY and down 20bp QoQ). EBITDA declined ~17% YoY to INR522m (vs. est. of INR646m) during the quarter.**
- **The company posted a net loss of INR212m in 3QFY24 vs. APAT of INR14m in 3QFY23 (our loss estimate was INR3m).**
- **The company's EBITDA and PAT were adversely impacted by MLL Express's weak performance (Rivigo B2B express business) and high tax outgo. The division reported elevated EBITDA loss of INR224m in 3QFY24.**
- **Due to high competition and slower volume growth, the express business continued to report elevated loss at operating level. MLL now expects EBITDA breakeven by end-1HFY25 and PAT breakeven by the end of FY25 for the MLL Express business (Rivigo). We cut our EBITDA margin estimates for FY24/FY25/FY26 by 30bp/20bp/10bp to factor in the extended losses in the express business. We expect MLL to clock a revenue/EBITDA CAGR of 17%/18% over FY23-26. We reiterate our Neutral rating with a revised TP of INR380 (premised on 22x FY26E EPS).**

MLL's express business to see delayed EBITDA breakeven than initially expected; funding infused to support losses

- Express Logistics posted a revenue of INR956m (up 5% YoY). For Rivigo, EBITDA breakeven is now expected by 1HFY25, and PAT breakeven is anticipated by the end of FY25. Earlier, the EBITDA breakeven was expected by the end of FY24.
- In 3QFY24, Rivigo received funding of INR 500m to support the EBITDA loss of INR 224m during the quarter and address some working capital needs.

Highlights from the management commentary

- In 3QFY24, the 3PL Contract Logistics business grew 6% YoY. The contract logistics business secured an order intake of ~INR1.5b during the quarter.
- Enterprise Mobility Services (EMS) reported revenues of INR 839m (up 29% YoY) and EBIT of ~INR 4m. MLL achieved a successful turnaround in the mobility sector. The market is experiencing recovery with consolidation in the B2B segment, and there is a notable shift in B2C toward EVs.
- Warehouse space under management stood at 18.7m sq. ft. in the 3PL business, and the company's multi-client warehousing expansion is progressing as per plan, with new expansion announcements totaling 1.1m sq. ft.

Valuation and view

- Though the B2B express business continues to drag overall profitability, management remains optimistic regarding turnaround of the business in the next few quarters. The other businesses are also expected to improve going ahead, in line with improved industry outlook.
- Given slower-than-expected recovery in the express logistics segment, we cut our revenue/EBITDA/PAT estimates for FY26 by 1%/3%/11%. We estimate MLL to achieve a revenue/EBITDA CAGR of 17%/ 18% over FY23-26. **We reiterate our Neutral rating with a revised TP of INR380 (premised on 22x FY26E EPS).**

Quarterly snapshot — INR m

Y/E March (INR m)	FY23				FY24E				FY23	FY24E	FY24	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE	vs Est
Net Sales	**11,999**	**13,263**	**13,296**	**12,725**	**12,932**	**13,648**	**13,972**	**14,504**	**51,283**	**55,056**	**14,849**	**(6)**
YoY Change (%)	35.9	28.4	17.0	16.9	7.8	2.9	5.1	14.0	23.8	7.4	11.7	
EBITDA	**657**	**676**	**627**	**637**	**666**	**536**	**522**	**584**	**2,598**	**2,308**	**646**	**(19)**
Margins (%)	5.5	5.1	4.7	5.0	5.2	3.9	3.7	4.0	5.1	4.2	4.4	
YoY Change (%)	61.8	43.8	38.4	23.8	1.4	-20.7	-16.8	-8.3	41.0	-11.1	3.0	
Depreciation	409	436	498	553	545	518	515	531	1,895	2,109	522	
Interest	89	107	150	169	178	165	164	161	516	668	180	
Other Income	31	34	56	38	62	66	23	69	159	219	50	
PBT before EO Items	**190**	**167**	**36**	**-46**	**6**	**-82**	**-134**	**-40**	**345**	**-249**	**-6**	**(194)**
Extra-Ord expense	0	0	0	0	0	0	-38	0	0	-38	0	
PBT	**190**	**167**	**36**	**-46**	**6**	**-82**	**-96**	**-40**	**345**	**-211**	**-6**	
Tax	53	47	19	-48	89	73	68	-10	71	220	-2	
Rate (%)	28.1	28.5	53.0	104.3	1,556.1	-89.2	-71.4	25.4	20.6	-104.0	25.2	
PAT before MI, Associates	**136**	**119**	**17**	**2**	**-83**	**-155**	**-164**	**-29**	**274**	-431.3	-4.5	
Share of associates/ MI	-1	3	-3	-10	-3	-5	-10	23	-11	6	2	
Reported PAT	**135**	**122**	**14**	**-8.2**	**-85.5**	**-159**	**-174**	**-6**	**263**	**-425**	**-3**	
Adj PAT	**135**	**122**	**14**	**-8.2**	**-85.5**	**-159**	**-212**	**-6**	**263**	**-463**	**-3**	**NM**
YoY Change (%)	310.9	132.2	-21.5	-111.1	NA	PL	PL	NA	49.7	-276.3	-118.3	
Margins (%)	1.1	0.9	0.1	-0.1	-0.7	-1.2	-1.5	0.0	0.5	-0.8	0.0	

SRF

BSE SENSEX	S&P CNX
71,140	21,522

CMP: INR2,223 Neutral

Conference Call Details

Date: 31st January 2024
Time: 3:00pm IST
Dial-in details:
Click Here

Operating performance below estimates

- SRF reported overall revenue of INR30.5b (est. of INR32.7) in 3QFY24, down ~12% YoY. The revenue for Chemical biz/Packaging film business witnessed a decline of 21%/9% YoY to INR13.9b/INR10.9b. The Technical Textile business grew 8% YoY to INR4.6b.
- EBITDA margins contracted 540bp YoY to 19.1% (est. of 19.4%); RM cost as a percentage of sales stood at 50.9% in 3QFY24 vs. 48.8% in 3QFY23, employee cost: 8% vs. 6.1%, power cost: 10.5% vs. 9.9%, and other expenses: 11.5% vs. 10.7%.
- EBITDA stood at INR5.8b (est. of INR6.4b), down 31% YoY.
- EBIT margin in the Chemical biz/Packaging film business contracted 900bp/570bp YoY to 23.1%/4.1%, while margins for the Technical Textile business expanded 700bp YoY to 15%.
- Adj. PAT declined 48% YoY to INR2.7b (est. of INR3b).
- For 9MFY24, Revenue/EBITDA/Adj. PAT declined 14%/27%/42% YoY to INR95.7b/INR19.5b/INR9.7b.

Consolidated - Quarterly (INR m)

Y/E March	FY23				FY24E				FY23	FY24E	FY24E	Var
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3Q	%
Net Sales	**38,947**	**37,278**	**34,697**	**37,781**	**33,384**	**31,774**	**30,530**	**40,728**	**148,703**	**136,416**	**32,741**	**-7**
YoY Change (%)	44.3	31.3	3.7	6.4	-14.3	-14.8	-12.0	7.8	19.6	-8.3	-5.6	
Total Expenditure	28,749	29,226	26,211	28,185	26,184	25,320	24,691	31,733	112,371	107,929	26,373	
EBITDA	**10,198**	**8,052**	**8,486**	**9,596**	**7,200**	**6,453**	**5,839**	**8,995**	**36,332**	**28,487**	**6,368**	**-8**
Margins (%)	26.2	21.6	24.5	25.4	21.6	20.3	19.1	22.1	24.4	20.9	19.4	
Depreciation	1,307	1,393	1,507	1,546	1,566	1,612	1,689	1,770	5,753	6,637	1,700	
Interest	325	445	620	659	656	793	674	740	2,048	2,863	770	
Other Income	99	327	100	223	118	291	188	309	749	905	110	
PBT before EO expense	**8,665**	**6,542**	**6,460**	**7,614**	**5,095**	**4,339**	**3,664**	**6,794**	**29,280**	**19,892**	**4,008**	
Extra-Ord expense & DO	249	361	150	280	237	191	181	0	1,040	609	0	
PBT	**8,416**	**6,181**	**6,309**	**7,334**	**4,858**	**4,148**	**3,483**	**6,794**	**28,240**	**19,283**	**4,008**	
Tax	2,336	1,371	1,200	1,709	1,265	1,140	949	1,663	6,617	5,017	981	
Rate (%)	27.0	21.0	18.6	22.5	24.8	26.3	25.9	24.5	22.6	25.2	24.5	
Reported PAT	**6,080**	**4,810**	**5,109**	**5,625**	**3,593**	**3,008**	**2,534**	**5,131**	**21,623**	**14,266**	**3,026**	
Adj PAT	**6,329**	**5,171**	**5,259**	**5,905**	**3,830**	**3,199**	**2,715**	**5,131**	**22,663**	**14,875**	**3,026**	**-10**
YoY Change (%)	63.1	42.9	11.4	-0.6	-39.5	-38.1	-48.4	-13.1	24.8	-34.4	-42.5	
Margins (%)	16.2	13.9	15.2	15.6	11.5	10.1	8.9	12.6	15.2	10.9	9.2	

Voltas

BSE SENSEX	S&P CNX
71,140	21,522

Conference Call Details

Date: 31 January 2024

Time: 16:30 IST

Dial-in details:

+ 91 22 6280 1144

+ 91 22 7115 8045

[Link for the call]

Consol. Financials Snapshot (INR b)

Y/E MARCH	FY24E	FY25E	FY26E
Sales	116.9	128.5	141.9
EBITDA	6.4	8.7	11.0
Adj. PAT	4.9	6.9	9.2
EBITDA Margin (%)	5.5	6.8	7.8
Adj. EPS (INR)	14.8	20.9	27.7
EPS Gr. (%)	29.1	41.3	32.5
BV/Sh. (INR)	175.3	191.8	214.3
Ratios			
Net D:E	(0.0)	(0.0)	(0.1)
RoE (%)	8.4	10.9	12.9
RoCE (%)	9.9	11.5	12.9
Payout (%)	30.0	25.0	25.0
Valuations			
P/E (x)	69.0	48.8	36.9
P/BV (x)	5.8	5.3	4.8
EV/EBITDA(x)	52.6	38.5	30.0
Div. Yield (%)	0.4	0.5	0.7
FCF Yield (%)	0.5	1.0	2.1

CMP: INR1,020 **Buy**

Weak performance; higher losses in the EMPS segment

- Voltas (VOLT)'s 3QFY24 revenue stood at INR26.3b (up 8% vs. estimate); up 31% YoY, led by 51%/31%/21% growth in the EMPS/PES/UCP segments. However, EBITDA declined 63% YoY to INR284m (down 75% vs. our estimate), due to higher losses in the EMPS segment. OPM contracted 2.7pp YoY to 1.1% (est. 4.6%). The company reported a net loss of INR304m vs. adj. PAT of INR270m in 3QFY23.
- Volume growth in UCP was ~22% YoY (overall); while, RAC volume grew 27% YoY. The company's YTD market share in RAC (both split and window AC) stood at 19% as of Dec'23.
- **We have a BUY rating on the stock. However, we will review our assumptions after the concall on 31st Jan'24.**

UCP performance better than our estimates

- VOLT's consolidated revenue was up 31% YoY to INR26.3b and was 8% above our estimates. However, EBITDA declined 63% YoY to INR284m, 75% below our estimate. EBITDA margin came in at 1.1% (est. 4.6%). Depreciation/interest cost was up 16%/111% YoY, whereas 'other income' grew 89% YoY. The company reported a net loss of INR304m vs. adj. PAT of INR270m in 3QFY23.
- Segmental highlights: a) UCP: revenue was up 21% YoY to INR14.8b and EBIT was up 37% YoY to INR1.2b. EBIT margin expanded 1pp YoY to 8.3%. b) EMPS: revenue up 51% YoY to INR9.8b. The company reported a loss before interest and tax of INR1.2b (vs. loss of INR461m in 3QFY23) because of unreasonable delays in the release of due receivables and prolongation of execution timelines in international projects, which resulted in cost overruns. c) PES: revenue increased 31% YoY to INR1.5b; while EBIT was up 8% YoY to INR499m. EBIT margin was down 6.8pp YoY to 32%.
- In 9MFY24, revenue was up 27% YoY to INR82.8b; however, EBITDA declined 20% YoY to INR2.8b. OPM contracted 2pp YoY to 3.4%. The UCP segments' revenue was up 17% YoY to INR52b, while EBIT margin was up 65bp to 8.1% during the period.

Valuation and view

- The company's UCP performance has improved; however, significantly higher losses in the EMPS segment dragged overall profitability.
- **We have a BUY rating on the stock.** However, we will review our assumptions after the concall on 31st Jan'24 (Concall Link).

Quarterly performance (INR m)

	FY23				FY24				MOFSL	Var.
Y/E March	**1Q**	**2Q**	**3Q**	**4Q**	**1Q**	**2Q**	**3Q**	**4QE**	**3QE**	
Sales	**27,680**	**17,684**	**20,056**	**29,568**	**33,599**	**22,928**	**26,257**	**34,083**	**24,321**	**8**
Change (%)	55.1	4.7	11.8	10.9	21.4	29.7	30.9	15.3	21.3	
Adj EBITDA	**1,770**	**1,008**	**764**	**2,182**	**1,854**	**703**	**284**	**3,561**	**1,129**	**(75)**
Change (%)	30.4	(21.9)	(50.9)	(16.4)	4.7	(30.3)	(62.8)	63.2	47.9	
Adj EBITDA margin (%)	6.4	5.7	3.8	7.4	5.5	3.1	1.1	10.4	4.6	(356)
Depreciation	85	97	111	104	113	117	128	138	120	**7**
Interest	40	67	64	124	101	115	135	69	100	**35**
Other Income	268	644	307	467	700	710	579	548	613	**(6)**
Extra-ordinary items	-	(1,064)	(1,374)	-	0	-	-	-	0	
PBT	**1,913**	**423**	**(478)**	**2,420**	**2,339**	**1,181**	**599**	**3,902**	**1,523**	**(61)**
Tax	508	195	300	706	735	493	515	274	384	**34**
Effective Tax Rate (%)	26.6	13.1	33.5	29.2	31.4	41.7	85.9	7.0	25.2	
Share of profit of associates/JV's	(316)	(303)	(325)	(275)	(312)	(321)	(389)	(91)	(325)	
Reported PAT	**1,089**	**(74)**	**(1,104)**	**1,439**	**1,293**	**367**	**(304)**	**3,537**	**814**	**(137)**
Change (%)	(10.6)	n/a	n/a	(21.2)	18.7	n/a	NM	145.8	-173.7	
Adj PAT	**1,089**	**990**	**270**	**1,439**	**1,293**	**367**	**(304)**	**3,537**	**814**	**(137)**
Change (%)	(10.6)	(4.5)	(71.8)	(21.2)	18.7	(62.9)	NM	145.8	201.0	

Segment Revenues (INR m)

	1Q	**2Q**	**3Q**	**4Q**	**1Q**	**2Q**	**3Q**	**4QE**	**3QE**	**Var.**
EMP & Services	4,547	5,540	6,484	7,458	6,791	9,242	9,819	9,600	8,965	10
Engineering products and services	1,243	1,374	1,179	1,424	1,423	1,344	1,548	1,426	1,210	28
Unitary cooling business	21,622	10,477	12,160	20,486	25,140	12,088	14,756	22,655	13,901	6
Others	268	292	233	200	245	253	134	401	245	(45)
Total	**27,680**	**17,684**	**20,056**	**29,568**	**33,599**	**22,928**	**26,257**	**34,083**	**24,321**	8
Segment PBIT										
EMP & Services	(125)	143	(461)	(140)	(519)	(490)	(1,200)	613	-269	NA
Engineering products and services	509	480	460	559	541	539	499	660	472	6
Unitary cooling business	1,662	765	895	2,057	2,073	928	1,229	2,114	1,154	7
Total PBIT	**2,046**	**1,388**	**893**	**2,475**	**2,096**	**977**	**528**	**3,387**	**1,357**	(61)
Segment PBIT (%)										**bp**
EMP & Services (%)	(2.7)	2.6	(7.1)	(1.9)	(7.6)	(5.3)	(12.2)	6.4	(3.0)	(922)
Engineering products and services (%)	40.9	35.0	39.0	39.3	38.0	40.1	32.2	46.3	39.0	(678)
Unitary cooling business (%)	7.7	7.3	7.4	10.0	8.2	7.7	8.3	9.3	8.3	3
Total PBIT (%)	**7.4**	**7.9**	**4.5**	**8.4**	**6.2**	**4.3**	**2.0**	**9.9**	**5.6**	**(357)**

Coromandel International

BSE SENSEX	S&P CNX
71,140	21,522

Conference Call Details

Date: 31st Jan, 2024

Time: **12:00pm** IST

Concall link:

Click here

CMP: INR1,050 — Buy

Operating performance miss estimates

- CRIN reported overall revenue of INR54.6b (est. INR63.5b) in 3QFY24, down 34% YoY. Nutrient & other allied business revenue declined 36% YoY to INR49b, while revenue from the crop protection business declined 6% YoY to INR6.2b.
- EBITDA margins contracted 280bp YoY to 6.5% (est. 8.6%); RM cost as a percentage of sales: 79.1% in 3QFY24 vs. 80.5% in 3QFY23, employee cost: 3.4% vs. 2%, freight cost: 5% vs. 4% and other expenses: 8.8% vs. 4.1%. EBITDA declined 54% YoY to INR3.6b (est. INR5.4b).
- EBIT margin for Nutrient & other allied business contracted 390bp to 5.1%, while for the crop protection business, it expanded 130bp YoY to 13.7%.
- **Volumes:** Total manufacturing volumes (NPK+DAP) declined 4% YoY to 876KMT, while total phosphate fertilizer manufacturing volumes (including SSP) declined 10% YoY to 1,019KMT. Total phosphate fertilizer volumes (including trading) also declined 11% YoY to 938KMT during the quarter.
- Adj. PAT stood at INR2.3b (est. INR3.5b), down 56% YoY.

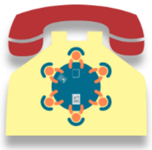
Quarterly Performance (INR m)

Y/E March	FY23				FY24				FY23	FY24E	FY24	Var
Consolidated	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE	%
Net Sales	57,291	1,01,134	83,096	54,758	56,934	69,881	54,642	51,812	2,96,279	2,33,268	63,508	-14
YoY Change (%)	56.4	64.5	63.8	29.5	-0.6	-30.9	-34.2	-5.4	55.0	-21.3	-23.6	
Total Expenditure	50,437	90,564	75,290	50,726	49,842	59,294	51,063	47,800	2,67,017	2,08,000	58,064	
EBITDA	6,854	10,570	7,806	4,032	7,092	10,587	3,578	4,011	29,262	25,268	5,443	-34
Margins (%)	12.0	10.5	9.4	7.4	12.5	15.2	6.5	7.7	9.9	10.8	8.6	
Depreciation	446	457	471	446	481	540	635	500	1,820	2,156	525	
Interest	266	542	568	524	405	462	381	280	1,900	1,529	320	
Other Income	536	311	396	469	445	448	585	328	1,711	1,806	277	
PBT before EO expense	6,678	9,881	7,163	3,531	6,651	10,033	3,147	3,559	27,253	23,390	4,876	
Extra-Ord expense	0	0	0	0	0	0	0	0	0	0	0	
PBT	6,678	9,881	7,163	3,531	6,651	10,033	3,147	3,559	27,253	23,390	4,876	
Tax	1,703	2,481	1,794	901	1,674	2,450	776	896	6,879	5,796	1,227	
Rate (%)	25.5	25.1	25.0	25.5	25.2	24.4	24.7	25.2	25.2	24.8	25.2	
Minority Interest & P/L of Asso. Cos.	-15	-6	100	166	36	15	61	174	245	287	105	
Reported PAT	4,991	7,406	5,269	2,464	4,940	7,569	2,310	2,489	20,129	17,308	3,544	
Adj PAT	4,991	7,406	5,269	2,464	4,940	7,569	2,310	2,489	20,129	17,308	3,544	-35
YoY Change (%)	47.8	42.6	38.1	-15.0	-1.0	2.2	-56.2	1.0	31.7	(14.0)	(32.7)	
Margins (%)	8.7	7.3	6.3	4.5	8.7	10.8	4.2	4.8	6.8	7.4	5.6	

Star Health

BSE SENSEX	S&P CNX
71,140	21,522

Conference Call Details



Date: 30st Jan 2024

Time: 04:00pm IST

Link for the call

Financials & Valuations (INR b)

Y/E March	2024E	2025E	2026E
NEP	131.2	157.4	188.2
U/W Profit	0.7	3.1	5.1
PBT	11.1	15.2	19.0
PAT	8.3	11.4	14.3
Ratios (%)			
Claims	65.5	64.9	64.9
Commission	13.6	13.6	13.6
Expense	17.0	16.2	15.5
Combined	96.1	94.7	94.1
RoE	11.9	14.3	15.4
EPS (INR)	14.3	19.6	24.5
Valuations	34.0	37.2	25.4
P/E (x)			
P/BV (x)	39.6	28.9	23.0

CMP: INR565 **Buy**

Adjusted PAT beat of 24%; combined ratio in line with estimates

- Net earned premium at INR33b (YoY growth of 15%) was broadly in line with our expectations. GDPI grew 16% YoY to INR 36b.
- During the quarter, the net retention ratio (NWP/GWP) declined to 87.41% vs. 95% in 3QFY23 and 94.9% in 2QFY24. This decline was attributed to the company entering into a Reinsurance for Health Quota Share Treaty with a 50% share for its long-term retail health products, effective from April 01, 2023.
- Incurred claims and claims ratio were broadly in line with our estimates. Claims ratio came in at 67.7%, up 400bp YoY and down 100bp QoQ.
- Commission ratio at 11.1% was lower than our expectations of 13.7%; and expense ratio was at 19%, higher than our expectations by 190bp. While absolute expenses were in line with expectations, the deviation in ratio was owing to the reinsurance treaty. Overall, the combined ratio at 97.8% was better than our forecasts of 98.8%. This was 94.8% in 3QFY23.
- Investment income in the policyholders' account, amounting to INR1.6b, aligned with our forecasts, whereas shareholders' investment income at INR 1.2b exceeded estimates by 9.7%.
- Profit for the quarter stood at INR2.9b, as compared to our estimate of INR1.9b, registering a beat of 49%. Adjusted for a one-time gain from reinsurance treaty, PAT came in at INR 2.4b, 24% higher than our estimates.
- Solvency ratio for 3QFY24 stood at 2.23, as compared to 2.17 in 3QFY23.

Valuation and view

We remain optimistic on the overall prospects for Star Health, backed by: a) strong 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 post the concall on January 31, 2024.

Quarterly Performance (INR m)

Y/E March	FY23				FY24			3Q FY24E	Act v/s Est. (%)	YoY	QoQ
	1Q	2Q	3Q	4Q	1Q	2Q	3Q				
Gross premium	24,637	31,929	30,967	41,992	29,486	37,317	36,058	36,231	-0.5	16%	-3%
Net written premium	23,441	30,389	29,434	39,932	28,008	35,446	31,519	34,456	-8.5	7%	-11%
Net earned premium	26,871	27,948	28,672	29,125	30,438	32,056	32,936	32,956	-0.1	15%	3%
Investment Income	1,220	1,233	1,157	1,405	1,460	1,510	1,626	1,661	-2.1	41%	8%
Total Income	**28,090**	**29,181**	**29,829**	**30,530**	**31,898**	**33,566**	**34,563**	**34,616**	**-0.2**	16%	3%
Change YoY (%)	20.6	16.1	13.9	11.4	13.6	15.0	15.9	16.0			
Incurred claims	17,811	19,060	18,278	18,054	19,909	22,022	22,295	22,410	-0.5	22%	1%
Net commission	3,220	3,964	4,026	5,618	3,668	4,854	3,499	4,720	-25.9	-13%	-28%
Employee expense	2,774	3,590	3,805	4,368	3,577	3,952	3,861	4,185	-7.8	1%	-2%
Other expenses	1,498	1,465	1,306	1,739	1,829	2,012	2,140	1,697	26.1	64%	6%
Total Operating Expenses	25,303	28,079	27,415	29,780	28,983	32,839	31,794	33,013	-3.7	16%	-3%
Change YoY (%)	-4.8	-4.3	-20.3	4.9	14.5	17.0	16.0	20.4			
Underwriting profit	1,568	-131	1,258	-654	1,454	-784	1,142	-57	NA	-9%	N.A
Operating profit	2,788	1,102	2,415	751	2,915	726	2,769	1,604	72.6	15%	281%
Shareholder's P/L											
Transfer from Policyholder's	2,788	1,102	2,415	751	2,915	726	2,769	1,604	72.6	15%	281%
Investment income	838	846	914	790	1,040	1,066	1,223	1,115	9.7	34%	15%
Total Income	3,626	1,948	3,329	1,541	3,954	1,792	3,992	2,719		20%	123%
Provisions other than taxation	1	-	2	8	1	2	1	-			
Other expenses	745	741	509	173	110	119	114	123	-7.6	-78%	-5%
Total Expenses	746	741	512	180	111	121	115	123	-6.4	-78%	-5%
PBT	**2,880**	**1,207**	**2,817**	**1,361**	**3,844**	**1,671**	**3,877**	**2,596**	**49.3**	38%	132%
Change YoY (%)	-202.8	-151.9	-136.7	-217.5	33.5	38.5	37.6	-7.9		-1.3	0.0
Tax Provisions	747	276	713	343	965	418	981	649	51.2	38%	135%
Net Profit	**2,132**	**931**	**2,105**	**1,018**	**2,879**	**1,253**	**2,896**	**1,947**	**48.7**	38%	131%
Key Parameters (%)											
Share in GWP											
Health-Retail	92.1	92.3	91.4	92.9	91.7	91.9	91.6			0.1	-0.4
Health-Group	6.4	6.2	7.0	5.6	6.9	6.6	7.0			0.0	0.4
PA	1.5	1.5	1.6	1.5	1.4	1.5	1.4			-0.2	0.0
Claims ratio	66.3	68.2	63.7	62.0	65.4	68.7	67.7	68.0	-0.3	3.9	-1.0
Commission ratio	13.7	13.0	13.7	14.1	13.1	13.7	11.1	13.7	-2.6	-2.6	-2.6
Expense ratio	18.2	16.6	17.4	15.3	19.3	16.8	19.0	17.1	2.0	1.7	2.2
Combined ratio	98.2	97.9	94.8	91.4	97.8	99.2	97.8	98.8	-0.9	3.0	-1.4
Solvency	1.9	2.0	2.2	2.1	2.2	2.1	2.2			0.1	0.1

Piramal Pharma

BSE SENSEX	S&P CNX
71,140	21,522

Conference Call Details

Date: 31st Jan 2024
Time: 5:00 PM IST
Dial-in details:
Link

Financials & Valuations (INR b)

Y/E MARCH	FY24E	FY25E	FY26E
Sales	79.2	89.0	100.3
EBITDA	11.5	13.3	15.8
Adj. PAT	1.9	4.0	6.1
EBIT Margin (%)	5.7	6.8	8.1
Cons. Adj. EPS (INR)	1.5	3.0	4.6
EPS Gr. (%)	NA	107.8	54.2
BV/Sh. (INR)	67.2	70.5	75.7
Ratios			
Net D:E	0.5	0.5	0.4
RoE (%)	2.6	4.9	7.0
RoCE (%)	3.3	4.7	5.9
Payout (%)	20.3	17.6	17.6
Valuations			
P/E (x)	95.9	46.1	29.9
EV/EBITDA (x)	19.8	17.2	14.3
Div. Yield (%)	0.2	0.3	0.5
FCF Yield (%)	0.0	0.0	0.0
EV/Sales (x)	2.9	2.6	2.2

CMP: INR139

Earnings below our estimate

- PIRPHARM's revenue grew 14% YoY to INR19.6 b (our est: INR20b) for the quarter.
  - CDMO segment's (58% of total sales) revenue grew 12% YoY to INR11b.
  - Complex hospital generics segment's (CHG; 29% of total sales) revenue grew 12% YoY to INR5.8b.
  - India consumer healthcare segment's (ICH; 13%) revenue grew 11.5% YoY to INR2.5b.
- Gross margin expanded 200bp YoY to 65.5% due to a change in product mix.
- EBITDA margin expanded 670bp YoY to 13.7% (our est: 15.3%), largely due to lower employee costs and other expenses (down 190bp/280bp as a % of sales).
- As a result, EBITDA grew 2x YoY to INR2.7b (our est: INR3b) for the quarter.
- Interest costs rose 12% YoY to INR1.1b.
- After adjusting the one-off provision against a supplier of INR323m, PIRPHARM registered profit of INR350m vs. a loss of INR578m in the previous quarter (our est. profit was at INR821m).
- For 9MFY24, Revenue/EBITDA grew 14%/77% YoY to INR56b/INR6.7b, while Adj loss decreased to INR585m from INR1.3b.
- During the quarter, Revenue/EBITDA/PAT missed the Bloomberg estimates by 3%/14%/55%.

Other highlights

- PIRPHARM witnessed continued order inflow in the CDMO segment. Recently, it has received order inflows with more innovative work. During the quarter, the company received the first integrated anti-body drug conjugate (ADC) order involving monoclonal antibodies. Three sites were involved – Lexington, Grangemouth and Yapan.
- PIRPHARM is witnessing steady growth in the CHG business primarily on account of a healthy volume-led growth in Inhalation Anesthesia (IA) products. It is experiencing increased traction in the non-US business too. It has a pipeline of 25 products at various stages of development, and the company launched three injectable products in the US and Europe in 3QFY24.
- PIRPHARM's e-commerce grew at about 16% YoY in 3QFY24 and contributed 16% to ICH revenue. It launched six new products and three new SKUs during the quarter. Power Brands – Littles, Lacto Calamine, Polycrol, Tetmosol and I-range – grew 12% YoY in 9MFY24 and contributed 41% of ICH sales.

Consolidated - Quarterly Earning Model INR m

PPL Income statement (INRm)	FY23				FY24E				FY23	FY24E	FY24E	% var
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE	
Revenues	**14,820**	**17,200**	**17,160**	**21,636**	**17,489**	**19,114**	**19,586**	**23,041**	**70,816**	**79,229**	**20,043**	**-2%**
growth YoY(%)	13.0	9.0	11.5	1.5	18.0	11.1	14.1	6.5	8.0	11.9	16.8	
Expenses	13,969	15,475	15,962	18,123	16,165	16,457	16,902	18,224	63,529	67,749	16,976	
CDMO	7,700	9,400	10,100	12,850	8,980	10,680	11,340	13,578	40,160	44,578	11,435	**-1%**
CHG	5,080	5,620	5,140	7,020	6,170	5,890	5,760	7,555	22,860	25,375	6,168	**-7%**
ICP	2,110	2,270	2,260	2,060	2,390	2,560	2,520	1,807	8,590	9,277	2,440	**3%**
EBITDA*	**851**	**1,726**	**1,197**	**3,513**	**1,323**	**2,657**	**2,684**	**4,817**	**7,286**	**11,481**	**3,067**	**-12%**
margin (%)	5.7	10.0	7.0	16.2	7.6	13.9	13.7	20.9	10.3	14.5	15.3	
growth YoY(%)	-34.3	-12.2	-46.9	-11.7	55.5	54.0	124.1	37.1	-23.3	57.6	156.1	
Depreciation	1,617	1,662	1,644	1,844	1,736	1,845	1,863	1,526	6,767	6,970	1,760	
EBIT	**-766**	**64**	**-447**	**1,669**	**-413**	**812**	**821**	**3,292**	**520**	**4,511**	**1,307**	**-37%**
Other income	719	462	825	245	383	492	615	410	2,251	1,900	510	
Interest expense	623	830	947	1,043	1,185	1,099	1,059	742	3,442	4,085	890	
Share from Asso. Co	199	111	156	78	144	191	140	91	543	565	140	
PBT	**-471**	**-193**	**-412**	**949**	**-1,071**	**396**	**516**	**3,050**	**-128**	**2,891**	**1,067**	**-52%**
EO Expenses/(gain)	680	70	324	-	-	-	323	-	1,074	323	-	
Taxes	**-61**	**111**	**165**	**448**	**-85**	**345**	**93**	**546**	**663**	**899**	**245**	
Tax Rate (%)	5.3	-42.2	-22.5	47.2	8.0	87.3	47.8	17.9	-55.2	35.0	23.0	
Reported PAT	**-1,091**	**-373**	**-902**	**501**	**-986**	**50**	**101**	**2,504**	**-1,865**	**1,670**	**821**	**-88%**
Adj. PAT	**-446**	**-274**	**-578**	**501**	**-986**	**50**	**350**	**2,504**	**-798**	**1,919**	**821**	**-57%**
Change (%)	NA	NA	NA	-75.4	NA	LP	LP	399.7	NA	NA	LP	

E: MOFSL Estimates

MOTILAL OSWAL | MORNING INDIA

RESULTS FLASH

30 January 2024

Results Flash | Sector: EMS

Kaynes Technology India

BSE SENSEX	S&P CNX
71,140	21,522

CMP: INR2,828 — Buy

Conference Call Details

Date: 31st January 2024

Time: 2:30pm IST

Dial-in details:

Click Here

Earnings in-line with estimates

- Consolidated revenue grew 76% YoY and 41% QoQ to INR5.1b (est. INR4.9b)
- Gross Margins declined 550bp YoY and 360bp QoQ to 24.3%
- EBITDA grew 70% YoY and 43% QoQ to INR699m (est. INR703m).
- EBITDA margins declined 50bp YoY, while grew 20bp QoQ to 13.7% (est. 14.3%).
- Adjusted PAT grew 98% YoY and 40% QoQ to INR452m (est. of INR446m).
- For 9MFY24, Revenue/EBITDA/Adj. PAT grew 53%/46%/89% YoY to INR11.7b/INR1.6b/INR1b.

Consolidated - Quarterly Earning Model (INR m)

Y/E March	FY23				FY24				FY23	FY24	FY24E	Var
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE	%
Gross Sales	**1,993**	**2,732**	**2,891**	**3,645**	**2,972**	**3,608**	**5,093**	**5,905**	**11,260**	**17,578**	**4,915**	**4**
YoY Change (%)	NA	NA	57.6	52.8	49.1	32.1	76.2	62.0	59.4	56.1	70.0	
Total Expenditure	1,747	2,299	2,479	3,052	2,569	3,121	4,394	4,942	9,578	15,026	4,212	
EBITDA	**246**	**432**	**412**	**593**	**403**	**488**	**699**	**963**	**1,682**	**2,552**	**703**	**-1**
Margins (%)	12.3	15.8	14.2	16.3	13.5	13.5	13.7	16.3	14.9	14.5	14.3	
Depreciation	46	47	46	48	53	65	60	77	187	255	72	
Interest	73	103	92	81	113	118	148	120	349	499	115	
Other Income	7	7	26	74	81	90	94	70	114	335	80	
PBT before EO expense	**134**	**289**	**300**	**536**	**319**	**394**	**585**	**836**	**1,259**	**2,133**	**596**	
Extra-Ord expense	0	0	0	0	0	0	0	0	0	0	0	
PBT	**134**	**289**	**300**	**536**	**319**	**394**	**585**	**836**	**1,259**	**2,133**	**596**	
Tax	34	79	71	124	72	71	133	210	308	486	150	
Rate (%)	25.2	27.3	23.7	23.2	22.6	18.0	22.7	25.2	24.5	22.8	25.2	
Minority Interest & P/L of Asso. Cos.	2	-2	0	0	0	0	0	0	0	0	0	
Reported PAT	**99**	**212**	**229**	**412**	**246**	**323**	**452**	**625**	**951**	**1,647**	**446**	
Adj PAT	**99**	**212**	**229**	**412**	**246**	**323**	**452**	**625**	**951**	**1,647**	**446**	**1**
YoY Change (%)	NA	NA	112.7	107.6	149.0	52.8	97.7	51.8	-547.7	73.2	95.1	
Margins (%)	5.0	7.7	7.9	11.3	8.3	9.0	8.9	10.6	8.4	9.4	9.1	

RESULTS FLASH

31 January 2024
3QFY24 Results Flash | Sector: Capital Goods

K E C International

BSE SENSEX	S&P CNX
71,140	21,522

CMP: INR626 Neutral

Conference Call Details

Date: 31st January 2024
Time: 10:00am IST
Dial-in details:
Diamond pass

Financials & Valuations (INR b)

Y/E March	2024E	2025E	2026E
Sales	210.5	242.2	277.4
Sales Gr. (%)	21.8	15.0	14.5
EBITDA	13.8	18.5	23.4
EBITDA Margin (%)	6.6	7.6	8.4
Adj. PAT	4.3	7.7	11.2
Adj. EPS (INR)	16.9	30.0	43.6
EPS Gr. (%)	146.5	77.7	45.4
BV/Sh.(INR)	161.8	188.5	227.4
Ratios			
RoE (%)	10.9	17.1	21.0
RoCE (%)	12.4	15.0	17.6
Payout (%)	0.0	0.0	0.0
Valuations			
P/E (x)	34.9	19.7	13.5
P/BV (x)	3.6	3.1	2.6
EV/EBITDA (x)	14.5	10.8	8.5
Div. Yield (%)	-	-	-

Weak performance continues; miss on all fronts

- KEC International's results were below our expectations on lower-than-expected ramp-up in execution and weaker-than-expected margins. PAT growth stood at 449% YoY, below our estimates.
- Revenue growth of 14% YoY was driven by a healthy order book, which stood at INR301.6b. T&D/non-T&D mix in the OB stood at 49%/51%.
- Gross margin expanded ~110bp YoY to 20.7%, while sequentially there was a 330bp contraction. Staff costs stood at 7.2% of sales, largely flattish YoY. Other expenditure as a % of sales contracted ~50bp/140bp YoY/QoQ.
- EBITDA margin stood at 6.1% for 3QFY24, up ~160bp YoY (flat QoQ). This was below management guidance of a sequential improvement.
- Interest expenses as a % of sales came in at 3.3% vs. 3.4% in 3QFY23.
- PAT growth stood at 449% YoY on a low base, while there was a 74% QoQ growth.
- Order book (OB) stood at INR301.6b, while OB + L1 position stood at INR380b.

Consolidated - Quarterly Earnings Model (INR m)

Y/E March - INR m	FY23				FY24E				FY23	FY24E	FY24E	Est
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE	Var (%)
Net Sales	**33,181**	**40,640**	**43,746**	**55,250**	**42,436**	**44,990**	**50,067**	**70,468**	**1,72,817**	**2,10,525**	**52,631**	**(5)**
YoY Change (%)	30.6	13.3	31.0	29.2	27.9	10.7	14.4	27.5	25.8	21.8	20.3	
Total Expenditure	31,497	38,861	41,747	52,415	39,992	42,247	46,988	65,382	1,64,520	1,96,726	49,105	
EBITDA	**1,684**	**1,779**	**1,999**	**2,835**	**2,444**	**2,743**	**3,079**	**5,086**	**8,298**	**13,799**	**3,526**	**(13)**
Margins (%)	5.1	4.4	4.6	5.1	5.8	6.1	6.1	7.2	4.8	6.6	6.7	
Depreciation	393	399	408	415	418	465	488	462	1,615	1,808	462	6
Interest	1,000	1,277	1,493	1,616	1,587	1,778	1,644	1,505	5,386	6,543	1,673	(2)
Other Income	80	161	17	55	28	158	260	36	313	257	36	631
PBT before EO expense	**371**	**266**	**115**	**859**	**467**	**658**	**1,207**	**3,156**	**1,610**	**5,710**	**1,429**	**(16)**
Extra-Ord expense												
PBT	**371**	**266**	**115**	**859**	**467**	**658**	**1,207**	**3,156**	**1,610**	**5,710**	**1,429**	**(16)**
Tax	62	-287	-62	137	44	100	239	941	-151	1,370	286	
Rate (%)	16.6	-107.9	-53.8	15.9	9.4	15.2	19.8	29.8	-9.4	24.0	20.0	
Reported PAT	**309**	**552**	**176**	**722**	**423**	**558**	**969**	**2,215**	**1,761**	**4,340**	**1,143**	**(15)**
Adj PAT	**309**	**552**	**176**	**722**	**423**	**558**	**969**	**2,215**	**1,761**	**4,340**	**1,143**	**(15)**
YoY Change (%)	-32.9	-52.0	-81.2	-35.6	36.8	1.0	449.5	206.9	-53.1	146.5	548.5	
Margins (%)	0.9	1.4	0.4	1.3	1.0	1.2	1.9	3.1	1.0	2.1	2.2	

SIS

BSE SENSEX	S&P CNX
71,140	21,522

Conference Call Details

Date: 31st January 2024
Time: 14:00 IST
Dial-in details:
+91-22-6280 1457/
+91 22 7115 8137

Financials & Valuations (INR b)

Y/E Mar	2024E	2025E	2026E
Net Sales	125.5	144.9	167.4
EBITDA	6.1	7.7	9.3
Adj. NP	3.4	5.4	6.8
EPS (INR)	22.7	35.7	45.9
EPS Gr. (%)	-2.2	57.3	28.3
BV/Sh. (INR)	390.7	469.5	569.1
RoE (%)	13.5	18.3	19.2
RoCE (%)	10.4	14.1	15.5
Payout (%)	0.0	0.0	0.0
Div. Yield	0.0	0.0	0.0

CMP: INR522

Miss on revenue, in-line margin expansion

SIS's revenue increased by 5.8% YoY (est. +10.6%); EBITDA up 19.8% YoY (est. +22.5%); Adj. PAT down 64% YoY (est. -4.3%)

India Security drove the revenue growth

- Revenue was up 5.8% YoY and flat QoQ at ~INR30.7b, below our estimate of 10.6% YoY growth.
- Revenue growth was aided by ~10% YoY growth in India Security. Facility Management grew 6% YoY, while International Security growth was weak at 2% YoY.
- Major wins for India Security in 3Q came from the BFSI, Energy, Retail, Healthcare, and Hospitality sectors.

In-line margin performance, but higher ETR

- EBITDA margin at 4.9% was up 50bp YoY (vs. est. 4.8%).
- Margin for India Security surged 120bp YoY due to a focused execution of margin management initiatives. Margin for International Security was a tad lower by 10bp YoY, while margin for Facility Management was up 30bp YoY due to the shedding of low-profit contracts and overhead management.
- PBT stood at INR748m (+16.4% YoY), below our estimates of INR1,003m, led by higher finance costs and lower other income.
- Consolidated adj. PAT stood at INR369m (down 64.3% YoY). The tax rate was exceptionally high at 60% due to a substantial increase in deferred tax to INR405m due to the absence of 80JJAA benefits on account of lower growth.
- Net debt increased to INR10.6b from INR9.9b in 3QFY23. Net debt/EBITDA stood at 1.9x vs. 2.1x in 3QFY23. OCF/EBITDA conversion was strong at 111.7%.
- SIS announced a plan to unlock the value of its cash JV.

Valuation

- We await management commentary before taking a relook at our estimates. The growth outlook on the macro environment and various key operating segments would be the key monitorable.

Consolidated - Quarterly Earnings Model (INR m)

Y/E March	FY23				FY24				FY23	FY24E	Est.	Var
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QFY24	(%/bp)
Gross Sales	**26,782**	**27,677**	**29,043**	**29,957**	**29,767**	**30,736**	**30,734**	**34,221**	**1,13,458**	**1,25,458**	**32,108**	**-4.3**
YoY Change (%)	12.6	13.9	11.7	13.1	11.1	11.1	5.8	14.2	12.8	10.6	10.6	**-470bp**
Total Expenditure	25,575	26,579	27,779	28,610	28,377	29,292	29,221	32,484	1,08,543	1,19,373	30,560	-4.4
EBITDA	**1,207**	**1,098**	**1,264**	**1,347**	**1,390**	**1,445**	**1,514**	**1,737**	**4,915**	**6,085**	**1,548**	**-2.2**
Margins (%)	4.5	4.0	4.4	4.5	4.7	4.7	4.9	5.1	4.3	4.9	4.8	10bp
Depreciation	286	331	342	388	358	404	416	451	1,347	1,628	415	0.2
Interest	247	275	310	317	327	347	404	88	1,149	1,166	250	61.7
Other Income	67	81	30	149	88	125	54	183	327	450	120	-54.9
PBT	**742**	**572**	**642**	**791**	**793**	**819**	**748**	**1,381**	**2,747**	**3,741**	**1,003**	**-25.4**
Tax	-80	-80	-379	-77	-50	132	447	69	-616	599	50	792.3
Rate (%)	-10.7	-14.1	-59.0	-9.7	-6.2	16.1	59.8	5.0	-22.4	16.0	5.0	5,480bp
MI & P/L of Asso. Cos.	4	22	13	64	52	66	69	48	102	235	37	88
Adjusted PAT	**825**	**674**	**1,034**	**931**	**895**	**753**	**369**	**1,360**	**3,465**	**3,377**	**989**	**-62.7**
YoY Change (%)	59.0	7.7	35.5	-4.4	8.4	11.6	-64.3	46.0	20.2	-2.5	-4.3	
Margins (%)	3.1	2.4	3.6	3.1	3.0	2.4	1.2	4.0	3.1	2.7	3.1	-190bp

Automobiles

“Rural demand in the car segment has not depressed. The rural growth is slightly higher than urban. About 44% of our total sales come from the rural area. Going ahead, I think the bulk of the growth will continue in the rural areas..”

Retails likely to grow for all segments, except CVs

2W demand is recovering on a wider scale, PV demand remains weak

- Our interactions with leading channel partners indicate a positive trend in Jan’24 for all segments, except CVs, as retails are likely to grow YoY. 2W demand is now recovering on a wider scale, with healthy growth in key rural belts. Since HMCL is the market leader in rural areas, it will be the key beneficiary of rural growth and should see market share recovery. PV demand, on the other hand, is largely driven by SUVs, which should drive 3-5% YoY growth in Jan’24. A sharp inventory correction in Dec’23 has led to normal inventory levels, especially for low-end models, while discounts remain slightly higher. We are already seeing some weakness in CV demand as we are seeing a halt in government orders before elections. However, sentiment is still positive across end-user industries and the commencement of new orders in 2QFY25 would be crucial. Tractor retails are likely to see 14-16% YoY growth. However, we believe this is largely seasonal demand. For Jan’24, we estimate dispatches to grow 23%/12% YoY for 2Ws/3Ws and decline ~4%/14% YoY for PVs/tractors. CV dispatches are expected to remain flat.
- **2Ws:** Retail demand remained intact in 2Ws, with retails likely to grow 10-12% YoY in Jan’24. We note that key northern regions such as UP, MP, and Rajasthan would perform better than other regions, indicating a recovery in rural belts. We note that HMSI continues to face supply-related issues that have been affecting its wholesales, which is beneficial for HMCL in the motorcycle category and TVSL in the scooter category. However, the success of HMCL’s Xtreme 125R in the tightly contested executive 125cc segment is seen with skepticism by rival brands and they will wait for customer feedback. RE dealers believe that RE’s wide distribution network and strong after-sales support are difficult to replicate by HD/Triumph in the near term. Inventory stands at 35-40 days for HMCL, 25-30 days for TVSL/BJAUT, and less than 20-25 days for HMSI. We expect dispatches for HMCL/BJAUT/TVSL to grow 26%/22%/26% YoY. RE is likely to post a 3% YoY decline in dispatches.
- **PVs**: Jan’24 retails are expected to grow 3-5% YoY. Enquiries are mostly driven by UVs, with little interest in the entry-level portfolio. TTMT has received a decent response to its new electric Punch, with the waiting period going up to 8-10 weeks. Nexon DCA Petrol is seeing high demand with a waiting period of 8-10 weeks. MSIL’s UVs are readily available and dealers believe MSIL’s Grand Vitara would face stiff competition from refreshed Hyundai Creta. Inventory levels for MSIL/MM/TTMT declined to normal 25-30 days, after year-end stock clearance happened in Dec’23, supported by higher discounts. The waiting period for MM XUV700’s top variants stands at ~6 months (2-3 months in some locations), while that of lower variants stands at ~3months. Scorpio N’s top-end variants command a waiting period of 1 month, while lower variants have a higher waiting period, implying the company is prioritizing production of higher-end variants over lower-level variants. We expect dispatches to decline ~7%/1% YoY for MSIL/TTMT and grow by ~3% YoY for M&M (including pickups).

- **CVs:** MHCV retails are expected to decline by 7-9% YoY. Key sectors like cement, steel, and logistics remain weak, while mining has been stable. We noted some improvement in demand from auto carriers. Most of the new tenders are expected to commence in 2QFY25. Freight demand is showing signs of weakness. CV discounts have been stable on a MoM basis, with bigger fleet operators benefiting more than small operators. Bus segment is likely to witness healthy double-digit growth of over 50% YoY in Ja'24, led by seasonal demand. Inventory currently stands at 3-4 weeks across OEMs. We expect dispatches to remain flat for TTMT CVs, decline ~5% YoY for AL, and grow 5% YoY for VECV.
- **Tractors:** Our channel checks suggest Jan'24 retails to grow by 14-16% YoY. However, we believe this is largely seasonal demand. Untimely rains in Jan'24 in most parts of Maharashtra and Gujarat led to some loss of rabi output. The lack of disbursement of subsidies has led to the postponement of demand for most of the farmers. Inventory stands at ~4 weeks. We expect dispatches for MM/ESC to decline ~15%/8% YoY.
- **Valuation and view:** We prefer 2Ws within the sector over other segments. We are already witnessing a reversal in demand patterns, especially in the 2W segment, in which we anticipate better growth potential compared to other segments over FY23-25E. On the other hand, we turn cautious on PV growth outlook due to a demand slowdown and a high base. HMCL and MM are our top OEM picks. Among auto component stocks, we prefer ENDU.

Snapshot of volumes for Jan-24

	YoY			MoM									
Company Sales	**Jan-24**	**Jan-23**	**YoY (%) chg**	**Dec-23**	**MoM (%) chg**	**FY24YTD**	**FY23YTD**	**(%) chg**	**FY24E**	**Gr. (%)**	**Residual Gr. (%)**	**Residual Monthly Run rate**	**FY24 YTD Monthly Run rate**
Maruti Suzuki	**1,60,249**	**1,72,535**	**-7.1**	**1,37,551**	**16.5**	**17,11,681**	**16,23,772**	**5.4**	**21,34,867**	**8.6**	**23.6**	**2,11,593**	**1,71,168**
Mahindra & Mahindra	**92,155**	**93,251**	**-1.2**	**79,326**	**16.2**	**10,08,556**	**9,20,304**	**9.6**	**12,38,383**	**12.0**	**23.8**	**1,14,914**	**1,00,856**
UV (incl. pick-ups)	58,530	56,825	3.0	52,510	11.5	5,97,037	5,18,611	15.1	7,36,983	17.0	25.8	69,973	59,704
LCV & M&HCV	2,345	938	150.0	2,371	-1.1	12,994	7,480	73.7	13,662	36.1	-73.9	334	1,299
Three-Wheelers	6,693	6,562	2.0	5,307	26.1	67,196	47,473	41.5	84,269	44.0	54.5	8,536	6,720
Tractors	24,587	28,926	-15.0	19,138	28.5	3,31,329	3,46,740	-4.4	4,03,470	-1.0	18.6	36,070	33,133
Tata Motors	**80,572**	**81,069**	**-0.6**	**77,855**	**3.5**	**7,84,822**	**7,83,873**	**0.1**	**9,77,549**	**2.4**	**12.9**	**96,363**	**78,482**
HCV's	16,412	15,057	9.0	17,591	-6.7	1,45,436	1,37,678	5.6	1,92,840	6.6	9.9	23,702	14,544
LCV's	16,305	17,723	-8.0	16,589	-1.7	1,73,687	1,92,473	-9.8	2,19,416	-5.7	13.6	22,864	17,369
CV's	**32,717**	**32,780**	**-0.2**	**34,180**	**-4.3**	**3,19,123**	**3,30,151**	**-3.3**	**4,12,256**	**-0.3**	**11.7**	**46,566**	**31,912**
Cars	14,517	15,281	-5.0	13,160	10.3	1,40,760	1,48,358	-5.1	1,72,218	-2.8	9.2	15,729	14,076
UV's	33,338	33,008	1.0	30,515	9.3	3,24,939	3,05,364	6.4	3,93,075	8.0	16.4	34,068	32,494
Hero MotoCorp	**4,49,429**	**3,56,690**	**26.0**	**3,93,952**	**14.1**	**46,78,461**	**44,14,744**	**6.0**	**56,05,347**	**5.2**	**1.4**	**4,63,443**	**4,67,846**
Bajaj Auto	**3,50,089**	**2,88,130**	**21.5**	**3,26,806**	**7.1**	**36,32,446**	**33,56,231**	**8.2**	**43,41,848**	**10.5**	**24.1**	**3,54,701**	**3,63,245**
Two-Wheelers	2,97,593	2,43,242	22.3	2,83,001	5.2	31,08,699	29,60,648	5.0	37,09,177	7.7	24.5	3,00,239	3,10,870
Three-Wheelers	52,496	44,888	16.9	43,805	19.8	5,23,747	3,95,583	32.4	6,32,672	30.4	21.8	54,462	52,375
Domestic	2,17,831	1,75,405	24.2	1,90,919	14.1	22,75,224	17,66,971	28.8	26,66,308	26.6	15.1	1,95,542	2,27,522
Exports	1,32,259	1,12,725	17.3	1,35,887	-2.7	13,57,223	15,89,260	-14.6	16,75,541	-8.0	37.2	1,59,159	1,35,722
Ashok Leyland	**16,340**	**17,200**	**-5.0**	**16,324**	**0.1**	**1,54,756**	**1,49,708**	**3.4**	**2,02,827**	**5.5**	**13.1**	**24,036**	**15,476**
M&HCV	10,498	11,050	-5.0	10,800	-2.8	98,234	94,668	3.8	1,32,555	6.8	16.6	17,161	9,823
LCV	5,843	6,150	-5.0	5,524	5.8	56,523	55,040	3	70,272	3.2	5.3	6,875	5,652
TVS Motor	**3,42,030**	**2,75,115**	**24.3**	**3,01,898**	**13.3**	**34,70,495**	**30,88,766**	**12.4**	**42,19,127**	**14.6**	**26.6**	**3,74,316**	**3,47,049**
Motorcycles	1,54,934	1,21,042	28.0	1,48,049	4.7	16,34,032	14,65,763	11.5	19,79,117	14.2	29.0	1,72,543	1,63,403
Scooters	1,36,367	1,06,537	28.0	1,03,167	32.2	13,26,688	11,00,283	20.6	16,19,722	21.4	25.4	1,46,517	1,32,669
Mopeds	40,844	37,131	10.0	38,848	5.1	3,84,056	3,72,323	3.2	4,63,520	4.0	8.2	39,732	38,406
Three-Wheelers	9,885	10,405	-5.0	11,834	-16.5	1,25,719	1,50,397	-16.4	1,56,768	-6.3	84.4	15,524	12,572
Eicher Motors													
Royal Enfield	72,504	74,746	-3.0	63,387	14.4	7,57,563	6,91,116	9.6	9,35,805	12.1	24.0	89,121	75,756
VECV	7,573	7,184	5.4	8,026	-5.6	67,401	60,431	11.5	89,369	12.2	14.5	10,984	6,740
Escorts Kubota	**6,117**	**6,649**	**-8.0**	**4,536**	**34.9**	**80,722**	**85,174**	**-5.2**	**1,02,257**	**-1.0**	**18.9**	**10,768**	**8,072**

Comparative valuations

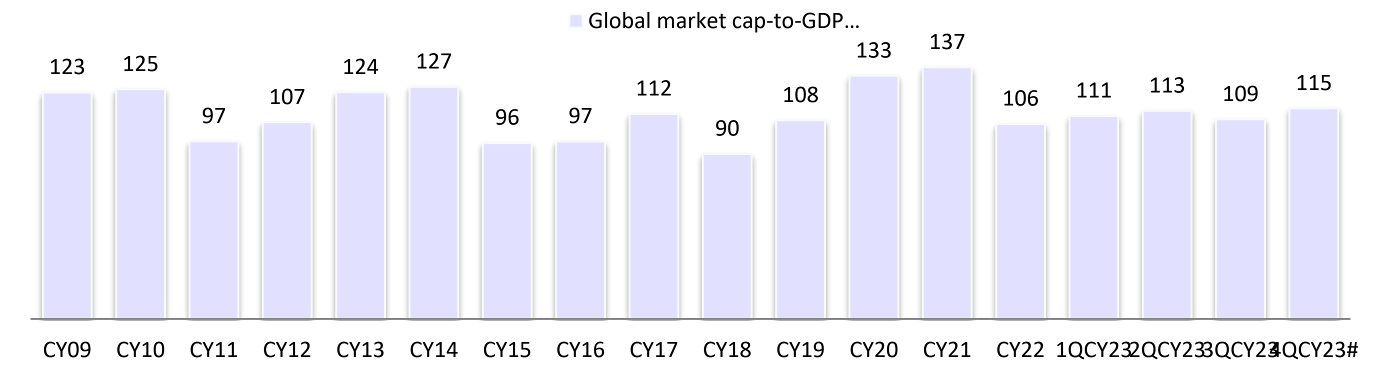
	Rating	Mcap	CMP	TP	P/E (x)			EV/EBITDA (x)			PB (x)			FY25 Yield (%)		EPS CAGR
Auto OEM's		(INR b)	(INR)	(INR)	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	Div	FCF	(%) FY23-26E
Bajaj Auto	Neutral	2,141	7,567	6,775	27.3	24.3	21.7	21.2	18.4	16.3	7.6	7	6.3	2.6	3.3	17.4
Hero MotoCorp	Buy	918	4,587	4,590	23	21.3	18.9	15.4	13.4	11.6	4.9	4.4	3.9	2.4	4.7	18.3
TVS Motor	Neutral	930	1,958	1,880	43.8	36.4	31	27	21.9	18.7	11.8	9.2	7.3	0.3	2.5	27.3
Eicher Motors	Neutral	1,014	3,706	3,815	25.1	22.2	19	22.9	19.4	16.7	5.7	4.8	4.1	1.3	4.2	22.1
Maruti Suzuki	Buy	3,131	9,957	12,055	22.7	21.8	19.8	14.9	13.5	12.1	4.2	3.3	2.9	1.2	2.3	22.9
M&M	Buy	1,941	1,620	2,005	18.1	17.2	15.5	12.9	11.1	9.6	1.9	1.6	1.4	1.4	5.3	17.1
Tata Motors	Buy	3,159	859	900	19.9	17.4	14.1	6.2	5	4.1	5.5	4.1	3.2	0.5	4.3	201.7
Ashok Leyland	Buy	507	173	215	19.6	15.8	14.1	11.1	9.5	8.2	6	3.9	3.2	1.2	6.6	39.1
Escorts	Neutral	369	3,014	2,900	33.4	28.9	25.1	25.9	20.2	17.1	4	3.6	3.2	0.3	3	32.7
Auto Ancillaries																
Bharat Forge	Buy	563	1,209	1,385	43.6	30.1	27.1	22.2	17.7	16.1	7.3	6.1	5.1	0.5	3.7	55.9
Exide Industries	Neutral	270	318	340	25.5	20	17.4	14.4	11.8	10.5	2.3	2.1	1.9	1	4.5	19.7
Amara Raja	Neutral	143	837	780	17.5	15.6	14.8	9.4	8.4	7.8	2.4	2.2	2	1.8	4.7	9.6
BOSCH	Neutral	703	23,841	20,115	42.8	33.3	29.3	33.3	25.1	21.5	5.7	5.2	4.7	1.4	1.8	18.8
Endurance Tech	Buy	291	2,071	2,160	42.7	33.5	28.8	21.8	17.8	15.4	5.8	5.1	4.4	0.4	1.8	27.3
Samvardhana Motherson	Buy	774	114	120	26.7	22.2	20	10.6	9.1	8.4	3.2	2.9	2.6	1.4	8.7	34.7
CIE Automotive	Buy	182	479	555	21.5	18	15.6	12.4	10.5	8.9	3.1	2.8	2.4	0.9	4.2	19.4
CEAT	Buy	107	2,650	3,250	15.2	14	12.2	7.3	6.5	5.7	2.6	2.2	1.9	0.7	7.5	61.3
Balkrishna Ind	Neutral	474	2,452	2,360	36.1	26.7	21.8	22	17.4	14.4	5.7	5	4.4	1.4	2.6	29.1
MRF	Sell	597	1,40,723	104185	26.1	26.3	23.7	12.7	12.1	10.8	3.5	3.1	2.8	0.1	2.4	48.4
Apollo Tyres	Buy	338	532	535	19	16.1	14.5	7.9	7.1	6.3	1.9	1.7	1.5	1	7.5	28.8
Sona BLW	Neutral	349	596	610	66.4	50.3	42	37.1	28.6	24.1	13.1	11.1	9.4	0.6	1	27.8
Tube Investments	Buy	741	3,951	3,945	66.7	53.9	47.2	29.5	24.5	21.5	15.5	12.5	10.2	0.3	2.5	27.3
MSUMI	Buy	281	64	70	45.2	35.4	30.7	27.8	22.1	19.1	16.9	13.5	11.1	1.7	2.4	23.4
CRAFTSMAN	Buy	95	4,519	5,395	27.3	22.8	17.3	11.8	9.7	7.8	5.8	4.8	3.8	0.4	3.9	30.4

Global Economy Update – 4QCY23

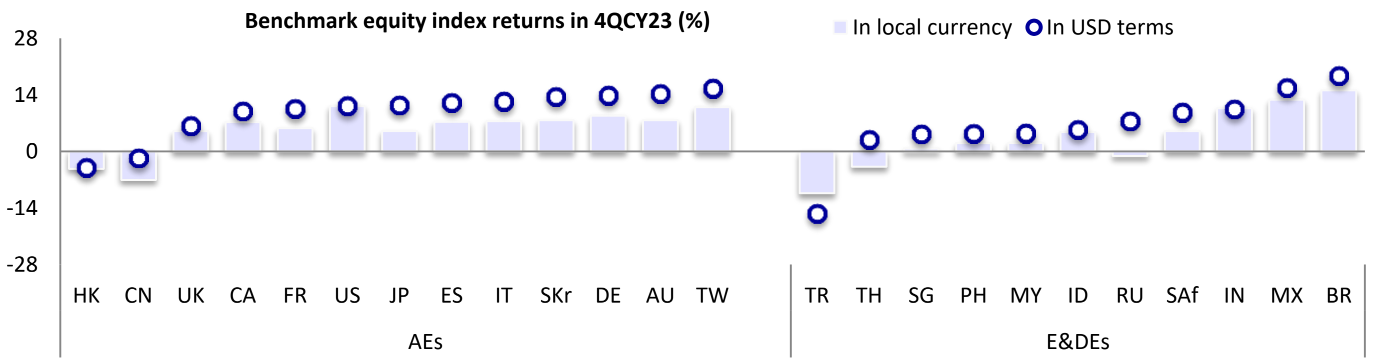
Key highlights of 4QCY23

- In 4QCY23, global financial markets saw a risk-on scenario: equity markets rose, bond yields have fallen and the US Dollar weakened. There is a buoyant start to 2024, as the global equity market indices are at all-time highs, though the USD has strengthened in Jan'24.
- Global real GDP growth eased in 3QCY23 led by China, while India was among the fastest-growing nations in 9MCY23 in our sample of economies. Global headline and core inflation have moderated in 4QCY23, providing a major relief to the policymakers.
- The global fiscal deficit has narrowed further in 3QCY23 led by AEs and the monetary stimulus has also continued to fall, as evident from the shrinking balance sheet of the Central Banks. However, the global broad money supply continued to grow at a faster pace (though still muted).
- Further, most of the major central banks have reached peak rates, with the rate-cut narrative gaining ground. While the markets expect the US Federal Reserve to cut rates in Mar/May'24, we do not see the RBI following it anytime soon.
- Lastly, there are some signs of softness in the US housing market and its labor market; however, it is not threatening right now, as job vacancies still remain high.

Global m-cap-to-GDP ratio increased to a seven-quarter high of 115% in 4QCY23



Almost all the economies have posted growth in both local currency and USD terms in their equity markets in 4QCY23 (except HK, TR and CN)



Assuming 3% YoY growth in world nominal GDP in 4QCY23

* Point-to-point comparison (31st Dec'23 over 30th Sep'23)

Source: Bloomberg, CEIC, MOFSL

MGL: Volumes have picked up and this growth is sustainable; Ashu Shinghal, MD

- Volumes have picked up and this growth is sustainable
- Margins are in the comfortable zone right now
- Car conversion has picked up to 22,400; even more MSRTC buses are expected to come on the road
- No decision yet on any new acquisition; looking to integrate Unison acquisition first

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CSB Bank: Net interest margin will be above 5% for FY24; Pralay Mondal, MD

- NIMs will be above 5% for FY24
- We are on the track to reach the NIMs guidance for FY24
- Focused on businesses where NIMs were not sacrificed
- There are certain NPA provision write backs, which has helped in NIMs as well

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RR Kabel: Growth is coming from cable exports; Rajesh Jain, CFO

- Volume growth expected to grow at 20%, which is higher than industry
- Margins expected to be around 8% going ahead
- Exports might increase to 30% of revenue going ahead
- Will introduce new products in FMEG segment

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Latent View: Hope to reach a 25% EBITDA margin range in a couple of quarters; Rajan Sethuraman, CEO

- Have seen pushback against pricing requests, overall pricing growth should be around 3%
- US based clients would see prices higher by 0-2%
- Q4 should be better than Q3, see 16%+ YoY growth for FY24 vs FY23
- Hoping to reach 25% EBITDAM range in couple of quarters

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Dodla Dairy: Will maintain 12-15% growth rate in Q4; Sunil Reddy, MD

- Target value-added products to move from 25.6% to 28% in contribution
- Will maintain 12-15% growth rate in Q4
- The animal feed business would be worth ₹100-120 cr revenue in FY25
- Will maintain 12-15% growth rate in Q4

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Mahindra Logistics: Margins in steady state for most of the business; Rampraveen Swaminathan, MD & CEO

- Margins is steady state for most of the business
- Rivigo acquisition also impacted financials
- Strong orders expected in Q4
- See revenue growth in double-digits in 2 quarters
- Freight forwarding business largely bottomed out

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