Market snapshot

Equities - India	Close	Chg .%	CYTD.%
Sensex	54,053	-0.4	-7.2
Nifty-50	16,125	-0.6	-7.1
Nifty-M 100	27,595	-0.6	-9.4
Equities-Global	**Close**	**Chg .%**	**CYTD.%**
S&P 500	3,941	-0.8	-17.3
Nasdaq	11,264	-2.3	-28.0
FTSE 100	7,484	-0.4	1.4
DAX	13,920	-1.8	-12.4
Hang Seng	6,883	-2.0	-16.4
Nikkei 225	26,748	-0.9	-7.1
Commodities	**Close**	**Chg .%**	**CYTD.%**
Brent (US$/Bbl)	114	-0.1	47.0
Gold ($/OZ)	1,866	0.7	2.0
Cu (US$/MT)	9,459	-1.4	-2.9
Almn (US$/MT)	2,875	-2.0	2.5
Currency	**Close**	**Chg .%**	**CYTD.%**
USD/INR	77.6	0.1	4.4
USD/EUR	1.1	0.4	-5.6
USD/JPY	126.8	-0.8	10.2
YIELD (%)	**Close**	**1MChg**	**CYTD chg**
10 Yrs G-Sec	7.4	-0.03	0.9
10 Yrs AAA Corp	7.8	-0.03	0.8
Flows (USD b)	**24-May**	**MTD**	**CY21**
FIIs	-0.31	-4.40	-21.44
DIIs	0.25	4.94	19.33
Volumes (INRb)	**24-May**	**MTD***	**YTD***
Cash	555	579	674
F&O	81,737	1,04,795	98,604

Note: *Average

Today's top research idea

Sapphire Foods: Available always in all ways

- We initiate coverage on SAPPHIRE with a BUY rating. Its new scalable Restaurant economic model is a game-changer. Its omnichannel strategy and reduction in store sizes have led to a big shift in unit economics.
- KFC India's business is on a strong footing, with a healthy ADS and profitability. We expect it to register 31% sales CAGR over FY22-24E driven by rapid store additions and strong SSSG.
- PH's India business is seeing a turnaround, with a higher focus on delivery, while retaining its dine-in edge. We expect it to register 35% sales CAGR over FY22-24E with a resultant improvement in its Restaurant EBITDA margin. Overall, SAPPHIRE is poised to deliver strong growth with valuations at a considerable discount to peers.

Research covered

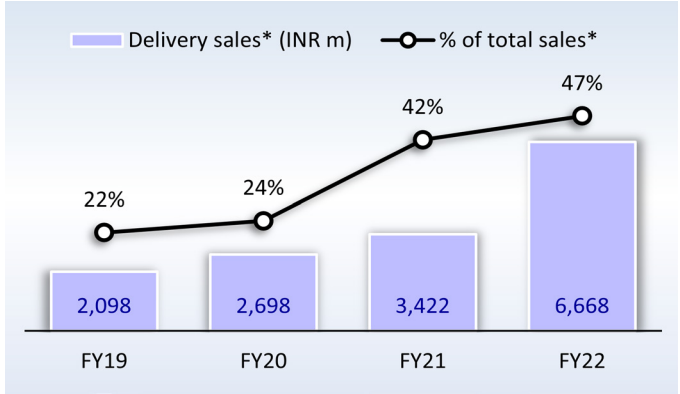
Cos/Sector	Key Highlights
Sapphire Foods - Initiating Coverage	Available always in all ways
Grasim	Weak quarter; capex in Paints to be 2x of the earlier plan
Sail	Earnings beat driven by lower RM costs
Aditya Bir. Fas.	Strong growth momentum continues
Ipca Labs.	Operationally in line quarter
Other Notes	Jyothy Labs | Kaveri Seeds | Strides Pharma

Piping hot news

Govt allows duty-free import of 20 lakh tn per year of crude soyabean, sunflower oil: The government on Tuesday exempted customs duty and agriculture infrastructure development cess on 20 lakh metric tonnes yearly import of crude soyabean and sunflower oil, to ease domestic prices.

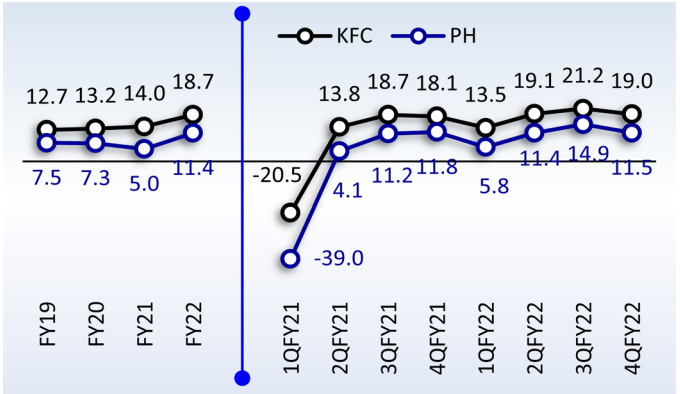
Chart of the Day: Sapphire Foods - Initiating Coverage (Available always in all ways)

Increasing contribution of the delivery channel aided by the COVID-19 pandemic



Source: Company, MOFSL

Improving adjusted Restaurant EBITDA margin for both KFC and PH



Source: Company, MOFSL

Research Team (Gautam.Duggad@MotilalOswal.com)

In the news today

Kindly click on textbox for the detailed news link

1

Govt allows duty-free import of 20 lakh tn per year of crude soyabean, sunflower oil

The government on Tuesday exempted customs duty and agriculture infrastructure development cess on 20 lakh metric tonnes yearly import of crude soyabean and sunflower oil, to ease domestic prices. The duty-free import of 20 lakh MT per year will be applicable for two…

2

Grasim Industries doubles capex to Rs 10,000 crore to set up paints business

Aditya Birla Group firm Grasim Industries on Tuesday said it has doubled the Capex for its foray into the paints business to Rs 10,000 crore and expects to start production from the fourth quarter of 2023-24. In August last year, Grasim Industries' board had approved a Rs 5,000 crore capital expenditure (CAPEX) plan to set up a paints business. However, market dynamics of the decorative paints sector have changed with new capacities being announced backed by strong growth and outlook, it added…

3

Oyo said to shelve plans for IPO in 2022

Oyo Hotels, the once high-flying Indian startup, is shelving plans for an initial public offering in 2022 after a market downturn that would hurt its valuation, according to people familiar with the matter. The board of Oyo, formally known as Oravel Stays Ltd., talked through a change in the offering's timing during multiple meetings last week and earlier this week…

4

Consumers compelled to buy coal at high prices to keep plants running: CCAI

Expressing concerns over consumers being compelled to buy coal at high prices just to keep their plants running, Coal Consumers' Association of India (CCAI) has sought the government's intervention to provide ailing industries a new lease of life. The statement comes amid certain parts of the country…

5

Record bookings pour in for luxury cars in India

Inflation seems to have a disproportionate impact on mere mortals – not the swish set from SoBo, for instance. A cursory glance at the sales charts of luxury carmakers amply demonstrates that prices are rarely a deterrent for those loaded with cash. The Indian market is firing on all cylinders for the likes of Mercedes to Lamborghini – and everyone else in between. For them, price tags are irrelevant…

6

Credit card spending online Rs 30k cr higher than swipes in March: RBI data

Credit card spending online was nearly Rs 30,000 crore more than the spending done through swipes at points of sale in March, indicating an increased preference among people for e-commerce purchases. Latest data from the Reserve Bank of India (RBI) showed…

7

Exports rises 21% to USD 23.7 bn during May 1-21

The country's exports rose by 21.1 per cent to USD 23.7 billion during May 1-21, on account of healthy growth in various sectors, such as petroleum products, engineering, and electronic goods, an official said. During the second week of this month (May 15-21), the exports grew by about 24 per cent…

Sapphire Foods

BSE SENSEX	S&P CNX
54,053	16,125

SapphireFoods

Stock Info

Bloomberg	SAPPHIRE IN
Equity Shares (m)	63.5
M.Cap.(INRb)/(USDb)	65.8 / 0.8
52-Week Range (INR)	1535 / 974
12M Avg Val (INR M)	383
Free float (%)	48.7

Financials Snapshot (INR b)

Y/E Mar	2022	2023E	2024E
Sales	17.2	22.7	28.8
Sales Gr. (%)	68.8	31.6	27.0
EBITDA^	3.1	4.0	5.8
Margins (%)	17.7	17.5	20.1
Adj. PAT	0.5	0.7	1.5
Adj. EPS (INR)	7.2	10.7	24.1
EPS Gr. (%)	L/P	47.4	126.0
BV/Sh.(INR)	158.5	169.2	193.3
Ratios			
RoE (%)	6.2	6.5	13.3
RoCE (%)	8.0	7.9	11.6
Valuations			
P/E (x)	138.2	93.8	41.5
P/BV (x)	6.3	5.9	5.2
EV/Sales (x)	3.5	2.7	2.0
EV/EBITDA^ (x)	19.7	15.2	10.1
Pre-IND AS 116 EV/EBITDA (x)	33.2	25.9	15.7

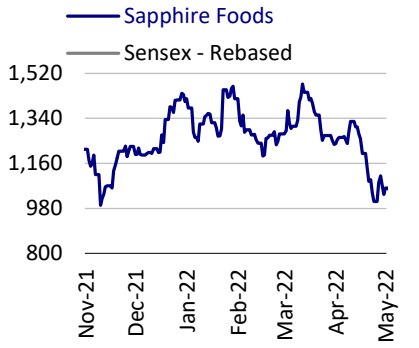
^post-IND AS 116

Shareholding pattern (%)

As On	Mar-22	Dec-21
Promoter	51.3	51.3
DII	10.8	8.6
FII	14.3	16.0
Others	23.6	24.2

FII Includes depository receipts

Stock performance (one-year)



CMP: INR1,000 TP: INR1,420 (+42%) Buy

SAPPHIRE is one of the two franchisees of Yum! Brands (Yum) in India. Yum operates brands such as KFC, Pizza Hut (PH) and Taco Bell. It has a global presence with more than 53,000 Restaurants in over 150 countries. SAPPHIRE develops and operates KFC/PH stores in 10/11 Indian states. It also has an international presence in Sri Lanka and Maldives. Set up in Sep'15 with the acquisition of 250 KFC and PH stores in India and Sri Lanka, it is promoted by a group of leading Private Equity firms, led by Samara Capital, Goldman Sachs, CX Partners, Creador, and Edelweiss. It operates a total of 579 stores across all brands and geographies as of 31st Mar'22.

Available always in all ways

On the cusp of a turnaround, valuations attractive

SAPPHIRE offers an exciting investment opportunity in the Indian Quick Service Restaurant (QSR) space on account of the following factors:

- **The Indian Food Service Industry (FSI) is expected to clock 9% CAGR in the coming years, with QSRs likely to grow faster at 23% CAGR over FY20-25.**
- **SAPPHIRE's new scalable Restaurant economic model is a game-changer. Its omnichannel strategy and reduction in store sizes, along with other elements of the model, have led to a big shift in SAPPHIRE's unit economics.**
- **KFC India's business is on a strong footing, with a healthy ADS and profitability. We expect it to register 31% sales CAGR over FY22-24E driven by rapid store additions and strong SSSG aided by a smart recovery post-Covid.**
- **PH's India business is seeing a turnaround, with a higher focus on delivery, while retaining its dine-in edge. We expect it to register 35% sales CAGR over FY22-24E with a resultant improvement in its Restaurant EBITDA margin.**
- **Overall, SAPPHIRE is poised to deliver strong growth with 29%/43% sales/EBITDA (pre-Ind AS 116) CAGR over FY22-24E.**
- **SAPPHIRE's valuations are at a considerable discount to peers. We initiate coverage with a Buy rating and TP of INR1,420 per share (27x/17x FY24E EV/EBITDA for KFC/PH) which is at a significant discount to the target multiples for DEVYANI's KFC/PH at 45x/35x.**

Large opportunity in FSI with an established right-to-win for QSRs

- The INR4.2t Indian FSI is expected to clock ~9% CAGR over FY20-25. Within FSI, the QSR segment is expected to grow at the fastest pace (23% CAGR) over FY20-25. The segment is expected to see its market share increase to 54% in FY25 from 47% in FY20 within the organized space.
- QSRs have established their right-to-win through their competitive advantages, which include: a) scale, b) aspirational positioning, c) offering new cuisines, d) higher convenience through delivery, on-the-go, and in-transit consumption, and e) greater trust.
- As elaborated in our FSI thematic note in Dec'21, the organized Indian FSI is witnessing enhanced growth prospects after the lifting of COVID-related restrictions, led by several tailwinds.

SAPPHIRE's new scalable Restaurant economic model is a game-changer

- SAPPHIRE has developed a new model in consultation with Yum, which is critical for the growth of KFC and the turnaround of PH.
- Its omnichannel strategy has led to an increased focus on delivery and takeaway channels, which are crucial in terms of driving unit economics. This has led to a rise in the contribution of delivery sales in the domestic business to 47% in FY22 from 22% in FY19, though partially aided by the COVID-19 pandemic.
- At the same time, SAPPHIRE has reduced the size of both KFC and PH stores by ~45% in FY20-22, without materially impacting its revenue capacity. This has further improved unit economics, with considerably improved payback periods from 5-6 years for KFC and 8-9 years for PH to about 3-4 years for both.
- The other elements of the new Restaurant economic model are: a) enhanced value and affordability proposition, b) continuous focus on cost efficiencies, c) robust internal process for store additions, and d) additional incentives for network expansion.

KFC India: On a strong footing

- With the new Restaurant economic model in place, KFC is now accelerating the pace of store additions. While SAPPHIRE added only 29/16 KFC stores in FY20/FY21, it added 60 stores in FY22. We expect this pace of store addition to continue in FY23/FY24 as well.
- With an elevated delivery channel boosting ADS, KFC saw a good recovery with ADS at a record high of INR144k in its 3QFY22 before moderating to INR132k in 4QFY22 which is still healthy given COVID-led disruptions in Jan'22. It registered an SSSG of 31% in FY22 and is expected to post double-digit SSSG in FY23 and a low-single digit in FY24.
- With a strong SSSG and rapid store expansion, we expect KFC India to deliver 31% sales CAGR over FY22-24.
- The new Restaurant economic model has helped push KFC's Restaurant EBITDA margin to high teens in recent quarters from low teens earlier.
- Margin (adjusted for one-off incentives) stood at 18.7% in FY22, aided by robust ADS. We expect KFC's healthy profitability to sustain in the years ahead.

Pizza Hut India: Omnichannel focus pivoting a turnaround

- PH is retaining its dine-in differentiation, while at the same time increasing its focus on the delivery channel. This is boosting its ADS and narrowing the gap with Domino's. Delivery's contribution is up to 57% in FY22 from 33% in FY19, aided by tailwinds from the COVID-19 pandemic.
- Just like KFC, PH too is seeing a strong ADS recovery and rapid store additions. We expect PH to register 35% sales CAGR over FY22-24.
- Due to its erstwhile weak unit economics, EBITDA margin for PH were in single-digits in FY19-21. However, under the new Restaurant economic model, the EBITDA margins for PH are in double-digits (11.4%) in FY22 (adjusted for one-off incentives). As PH's ADS improve in the years ahead, we expect the margin to improve further, though the current commodity environment may be a near-term dampener.

Poised for strong growth

- With healthy SSSG and rapid store additions, we expect SAPPHIRE to deliver strong double-digit sales growth in the years ahead (29% CAGR over FY22-24).
- SAPPHIRE's efforts on the omnichannel model, with a reduction in store sizes, have evidently led to a turnaround in its profitability, with overall EBITDA margin (pre-Ind AS 116) improving from low single-digits in FY19-21 to 11% in FY22. We forecast 43% EBITDA CAGR over FY22-24.
- It has delivered a net profit in FY22 after incurring losses over FY19-21. We expect it to improve its net profit margin to 5.3% in FY24 from 2.7% in FY22.

Valuation and view

- SAPPHIRE has strengthened KFC and turned around the PH businesses through its new Restaurant economic model comprising: a) an omnichannel strategy, b) store size optimization, c) enhanced value proposition, d) continuous focus on cost efficiencies, e) robust internal process for store additions, and f) additional incentives for network expansion.
- Both KFC and PH are poised for strong growth due to their rapid network expansion and healthy SSSG over the next few years. We expect KFC/PH to clock 31%/35% sales CAGR over FY22-24. There is considerable potential for an upside to our forecasts as our estimated FY24 ADS levels had already been surpassed in 3QFY22 (albeit, an outlier).
- SAPPHIRE's operational profitability improved in FY22 due to its: a) robust ADS growth, b) improved unit economics under the new Restaurant model, and c) focus on cost savings. We expect this trend to sustain going forward as well. However, the recent challenges on commodity inflation and the Sri Lanka crisis may apply some pressure on near-term profitability.
- We have assigned an FY24E EV/EBITDA (pre-Ind AS 116) multiple of 27x to the KFC business on account of its robust metrics (ADS and brand contribution margin), and 17x to the PH business. These are at a significant discount to the target multiples for DEVYANI's KFC/PH (45x/35x) on account of the disadvantages that SAPPHIRE faces in terms of trade: a) its territorial rights in KFC are largely in states with a higher vegetarian population, and b) DEVYANI can venture into SAPPHIRE's territories with PHD format stores, which require lower capex. While the discount multiples are justified given the above mentioned reasons, the earnings growth opportunity is attractive enough to warrant an investment case. We assign a Buy rating with a TP of INR1,420 on a SoTP basis.

SoTP-based TP of INR1,420 per share

Pre-IND AS 116 EBITDA (INR b)	FY24E	Multiple	EV
KFC	2.7	27x	73.1
PH	0.5	17x	8.9
Sri Lanka	0.6	5x	3.0
Other Business	0.0	1x	0.0
Total EV	**3.9**	**22x**	**85.1**
Net debt	FY24E		-5.2
Equity value			**90.4**
TP			**1,420**
Upside (%)			**42**

Source: Company, MOFSL

Grasim

Estimate change	↓
TP change	↓
Rating change	↔

Bloomberg	GRASIM IN
Equity Shares (m)	657
M.Cap.(INRb)/(USDb)	923.4 / 11.9
52-Week Range (INR)	1939 / 1347
1, 6, 12 Rel. Per (%)	-13/-12/-4
12M Avg Val (INR M)	1947

Financial Snapshot (INR b)

Y/E MARCH	2022	2023E	2024E
Sales	208.6	218.8	222.3
EBITDA	32.2	36.5	38.6
Adj. PAT	22.3	25.0	26.5
EBITDA Margin (%)	15.4	16.7	17.4
S/A Adj. EPS (INR)	33.9	37.9	40.2
S/A EPS Gr. (%)	150.1	12.0	5.9
Consol EPS (INR)	108.3	109.8	115.4
BV/Sh. (INR)	738.4	767.4	798.1
Ratios			
Net D:E	-0.0	-0.0	-0.1
RoE (%)	12.0	12.0	11.5
RoCE (%)	13.2	13.8	13.7
Valuations			
P/E (x)	41.4	37.0	34.9
EV/EBITDA (x)	1.9	1.8	1.8
Div. Yield (%)	0.5	0.6	0.6
FCF Yield (%)	0.1	1.4	2.0

Shareholding pattern (%)

As On	Mar-22	Dec-21	Mar-21
Promoter	42.8	42.5	41.8
DII	14.4	14.7	16.8
FII	12.9	13.1	14.6
Others	29.9	29.7	26.7

FII Includes depository receipts

CMP: INR1,403 TP: INR1,875 (+34%) BUY

Weak quarter; capex in Paints to be 2x of the earlier plan

VSF segment's performance below our estimate; Chemical in line

- Grasim's 4QFY22 result was significantly below our estimates with EBITDA at INR7.5b (v/s estimated INR9.1b) and OPM at 11.8% (v/s estimated 14.2%). VSF segment's OPM stood at 6.7% (down 5pp QoQ) v/s estimated 10.5%. Chemical segment's margin, at 20.1%, was in line with our estimate of 20.5%. Adjusted Profit stood at INR3.5b (v/s estimated INR4.7b).
- The planned capex in the Paints business has been raised to INR100b from INR50b earlier and the installed capacity will be 1.33m kl. The rise in capex is due to higher capacities and cost inflation. Production is likely to commence from 4QFY24E. The management targets an IRR of 20% from this business.
- We reduce our FY23/24E EBITDA by ~5% each considering the cost pressures that lead to a 7%/8% cut in our EPS estimates, respectively. We expect the company to benefit from its capex plans; **maintain BUY.**

Margins under pressure in VSF; improve in the Chemical segment

- Grasim's standalone revenue/EBITDA/Adj. PAT stood at INR63.8b/INR7.5b/ INR3.5b (+45%/-7%/-28% YoY and nil/-17%/-26% v/s our estimate), respectively.
- The VSF segment posted a volume/realization growth of 21% YoY each. However, cost pressure (up 48% YoY) led to 60% YoY dip in EBITDA of this segment with 17.5pp YoY drop in OPM. EBITDA/kg at INR13.2 fell 67% YoY.
- The Chemical segment revenue increased 69% YoY as ECU realization improved 2x YoY. This led to 2.7x YoY increase in EBITDA, while OPM improved 7.5pp YoY (but down 2.5pp QoQ).
- In FY22, EBITDA rose 106% YoY with 2.8pp improvement in OPM to 15.4%. EBITDA of the VSF and Chemical segments rose 45%/160% YoY, respectively. Adj. Profit increased 150% YoY in FY22.
- CFO was at INR26.6b v/s INR24b in FY21; whereas, capex stood at INR25.4b v/s INR11.9b in FY21. FCF was at INR1.2b v/s INR12b in FY21. Net cash increased to INR8.5b from INR1.2b in FY21.

Highlights from the management commentary

- Investments in the Paint business would now be at INR100b, 2x of the earlier plan. According to the earlier plan, the recently announced capacities (1.33m kl) would have been achieved in six to seven years v/s three years now. Demand growth in this sector seems to be very strong.
- Grasim has launched a brand "Navyasa" for sarees. The India saree segment consumes ~1m tons of fiber with VSF's current share being only 1% of the saree market. The aim is to increase this VSF share to 7% in the next five years.

Valuation and view

- Grasim is likely to benefit from capacity expansions in VSF and the Chemical segments. We expect 11% volume CAGR in both VSF and Caustic Soda over FY22-24.

- Grasim's large capex plan in Paints indicates its commitment towards becoming a serious player in this segment. We expect the company to leverage the strong distribution network of Birla White (UltraTech).
- We value the standalone business at 6x FY24E EV/EBITDA and other listed subsidiaries at a 40% holding company discount to arrive at our TP of INR1,875 (v/s INR1,950 earlier). Our TP for Grasim includes a 5% premium to its underlying SoTP in order to capture the potential upside from its Paints business. **We maintain our BUY rating on the stock.**

Standalone quarterly performance (INR m)

Y/E March	FY21				FY22				FY21	FY22	FY22	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	(%)
Net Sales	**13,357**	**29,598**	**36,966**	**43,943**	**37,627**	**49,330**	**57,847**	**63,764**	**1,23,864**	**2,08,568**	**63,985**	0
YoY Change (%)	-73.3	-38.3	-4.2	18.4	181.7	66.7	56.5	45.1	-33.4	68.4	45.6	
EBITDA	**-2,257**	**3,346**	**6,445**	**8,109**	**7,402**	**8,012**	**9,221**	**7,526**	**15,643**	**32,162**	**9,063**	-17
Margin (%)	-16.9	11.3	17.4	18.5	19.7	16.2	15.9	11.8	12.6	15.4	14.2	-236
Depreciation	2,029	2,056	2,051	2,145	2,018	2,075	2,218	2,829	8,282	9,140	2,320	22
Interest	658	649	516	536	581	551	534	806	2,360	2,472	528	53
Other Income	992	2,816	638	692	649	7,024	406	874	5,137	8,953	394	122
PBT before EO Items	**-3,951**	**3,456**	**4,515**	**6,119**	**5,453**	**12,411**	**6,875**	**4,764**	**10,139**	**29,503**	**6,609**	-28
Extraordinary Inc./(Exp.)	-577	0	0	-233	0	0	0	-691	-810	-691	0	
PBT after EO Items	**-4,529**	**3,456**	**4,515**	**5,886**	**5,453**	**12,411**	**6,875**	**4,073**	**9,329**	**28,812**	**6,609**	-38
Tax	-1,414	175	1,208	1,256	993	2,942	1,985	-4,063	1,224	1,857	1,917	
Rate (%)	31.2	5.1	26.7	21.3	18.2	23.7	28.9	-99.7	13.1	6.4	29.0	
Reported PAT	**-3,115**	**3,281**	**3,308**	**4,630**	**4,459**	**9,469**	**4,890**	**8,136**	**8,104**	**26,954**	**4,692**	73
Adj. PAT	**-2,538**	**3,281**	**3,308**	**4,863**	**4,459**	**9,469**	**4,890**	**3,488**	**8,914**	**22,306**	**4,692**	-26
Margin (%)	-19.0	11.1	8.9	11.1	11.9	19.2	8.5	5.5	7.2	10.7	7.3	
YoY Change (%)	-151.6	-37.7	66.5	462.1	-275.7	188.6	47.8	-28.3	-43.0	150.2	-3.5	

SAIL

Estimate change	↓
TP change	↓
Rating change	↔

Bloomberg	SAIL IN
Equity Shares (m)	4,130
M.Cap.(INRb)/(USDb)	306.9 / 4
52-Week Range (INR)	146 / 72
1, 6, 12 Rel. Per (%)	-21/-26/-47
12M Avg Val (INR M)	5543
Free float (%)	35.0

Financials & Valuations (INR b)

Y/E Mar	2022	2023E	2024E
Net Sales	1,035	1,177	1,087
EBITDA	213	109	155
PAT	138	51	88
EPS (INR)	33.4	12.3	21.4
Gr. (%)	155	-63	74
BV/Sh (INR)	131.2	136.1	150.0
RoE (%)	27.7	9.2	15.0
RoCE (%)	22.3	9.5	14.6
P/E (x)	35.8	69.3	39.1
P/BV (x)	2.2	6.0	3.5
EV/EBITDA (x)	0.6	0.5	0.5

Shareholding pattern (%)

As On	Mar-22	Dec-21	Mar-21
Promoter	65.0	65.0	65.0
DII	10.2	10.6	16.7
FII	4.6	4.4	4.3
Others	20.2	20.0	14.0

FII Includes depository receipts

CMP: INR74 TP: INR90 (+21%) Buy

Earnings beat driven by lower RM costs

- SAIL reported an in line revenue at INR308b (up 32% YoY and 22% QoQ) in 4QFY22, driven by an improved mix of higher ASP and sales volume. Reported EBITDA was greater than our estimate as consumption of higher-cost coal will occur in 1QFY23.
- Recently, the government announced various measures to cool down prices (refer Exhibit 1). This resulted in an 11% correction in the stock. It has corrected by ~50% from its 52-week high on fears of waning demand, input cost inflation, and the recent imposition of export curbs. However, the underlying demand cannot be deferred forever. The CMP factors most of the risks, if not all.
- Coking coal has been hovering above USD500 for the last four months, The La-Nina phenomenon in Australia is over. Coking coal supplies from China are improving. We expect coal prices to start correcting, which will support profitability for SAIL. We maintain our Buy rating with a TP of INR90/share, at 5x FY23E EV/EBITDA. There could still be short-term pain, but the risk-reward ratio is now in its favor as most of the negatives are priced in.

Coking coal cost will catch up in 1QFY23

- Adjusted EBITDA fell 24% YoY, but rose 26% QoQ to INR48b due to higher volumes at nearly flattish ASP. Adjusted EBITDA/t, at INR10,122 (down 29% YoY, but up 3% QoQ), was significantly higher than our estimate as SAIL did not consume the highest-cost coking coal in 4QFY22. The same will now be consumed in 1QFY23. This contributed to the EBITDA beat on our estimate. The entire EBITDA beat can be explained in the lower-than-expected RM cost.
- SAIL's financial performance is extremely sensitive to coking coal costs due to a higher percentage of coal cost in its RM mix as compared to its peers. We expect its 1QFY23 result to be adversely impacted by higher coking coal cost.
- Adjusted PAT, at INR24b (down 32% YoY, but up 41% QoQ), was higher than our estimate, driven by EBITDA beat.
- In FY22, revenue/EBITDA/adjusted PAT stood at INR1,035b/INR213b/INR123b, up 50%/68%/140% YoY, largely driven by higher ASP.
- SAIL carries an inventory of 60 days of coal, including that on the high seas. Hence, the surprise to our numbers.

Highlights from the management commentary

- **Guidance for FY23:** The management expects railway contracts to be finalized soon. The same will be beneficial for SAIL as the last revision occurred in FY19. Capex for FY23 is pegged at INR80b, even though it does not have specific projects to that extent. Given the changing market dynamics, it is unlikely to incur a capex of more than INR50b in FY23.

- The company has not made any changes to its FY23 volume guidance, though we believe there could be a possible reduction this fiscal.
- The wage settlement has happened, and its FY23 wage bill will be ~INR120b (in line).
- Coking coal costs in 1QFY23 will be higher by ~15%, though the management plans to partly mitigate rising coal costs through: a) higher procurement of coal from Russia at a discount, b) higher injection of PCI coal as a replacement of coke, and c) increased procurement of coal from BCCL and its JV company ICVL.
- Borrowings on a net basis, excluding lease liabilities, now stand at INR134b. Further deleveraging could be challenging under the current steel/coal price scenario.

Standalone quarterly performance (INR b)

Y/E March	FY21				FY22				FY21	FY22	FY22E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE
Sales (mt)	2.2	4.2	4.1	4.4	3.3	4.3	3.8	4.7	14.9	16.2	4.8
Change (YoY %)	-31.1	33.6	1.4	16.2	48.7	1.8	-7.4	8.3	5.0	8.1	9.3
Realization (INR/t)	40,534	40,237	47,813	53,531	62,045	62,680	65,745	65,304	46,255	64,042	66,933
Change (YoY %)	-11.1	-10.3	18.2	23.9	53.1	55.8	37.5	22.0	6.8	38.5	25.0
Net Sales	**90.7**	**169.2**	**198.3**	**232.9**	**206.4**	**268.3**	**252.5**	**307.6**	**691.1**	**1,034.7**	**318.1**
Change (YoY %)	-38.8	19.8	19.9	44.0	127.7	58.5	27.3	32.1	12.1	49.7	36.6
Change (QoQ %)	-43.9	86.6	17.2	17.4	-11.4	30.0	-5.9	21.8			26.0
NSR to RM Spread (INR/t)	22,562	19,483	29,694	37,119	45,342	41,261	36,531	30,167	27,913	37,743	26,095
EBITDA	**-4.0**	**19.0**	**50.8**	**61.5**	**65.6**	**70.2**	**34.1**	**43.3**	**127.3**	**213.2**	**17.6**
Change (YoY %)	NA	63.9	409.0	214.9	NA	269.2	-32.8	-29.6	123.6	67.5	-71.4
Change (QoQ %)	NA	NA	167.2	21.2	6.7	6.9	-51.4	27.0			-48.5
EBITDA/t (INR)	**-1,801**	**4,518**	**12,241**	**14,145**	**19,728**	**16,395**	**8,881**	**9,196**	**8,519**	**13,197**	**3,697**
EBITDA/t (USD)	-24	61	165	194	267	221	118	122	115	177	50
Interest	8.9	7.2	6.7	5.4	5.0	4.4	3.2	4.4	28.2	17.0	2.9
Depreciation	9.7	9.9	9.8	11.6	10.3	10.6	10.5	11.4	41.0	42.7	10.5
Other Income	2.8	2.0	2.2	3.2	1.1	2.3	2.5	4.5	10.1	10.4	2.2
PBT (before EO Inc.)	**-19.8**	**3.9**	**36.4**	**47.7**	**51.4**	**57.5**	**22.9**	**32.0**	**68.2**	**163.9**	**6.4**
EO Income/(exp.)	0.0	2.2	0.0	-1.7	0.0	0.0	-3.6	0.1	0.6	-3.5	0.0
PBT (after EO Inc.)	**-19.8**	**6.1**	**36.4**	**46.1**	**51.4**	**57.5**	**19.3**	**32.1**	**68.8**	**160.4**	**6.4**
Total Tax	-7.1	2.2	23.6	11.6	12.9	14.5	4.9	7.9	30.3	40.2	1.6
Tax (%)	36.0	35.6	64.8	25.3	25.2	25.2	25.3	24.7	44.0	25.1	25.3
Reported PAT	**-12.7**	**3.9**	**12.8**	**34.4**	**38.5**	**43.0**	**14.4**	**24.2**	**38.5**	**120.2**	**4.8**
Adjusted PAT	**-12.7**	**2.5**	**25.7**	**35.7**	**38.5**	**43.0**	**17.2**	**24.1**	**51.2**	**122.8**	**4.8**
Change (YoY %)	NA	NA	NA	1,124.9	NA	1,621.4	-33.3	-32.4	NA	139.8	-86.6
Change (QoQ %)	NA	NA	928.8	38.7	7.9	11.8	-60.1	40.5	0.0	0.0	-72.2

Aditya Birla Fashion and Retail

Estimate changes	↑
TP change	↔
Rating change	↔

Bloomberg	ABFRL IN
Equity Shares (m)	915
M.Cap.(INRb)/(USDb)	250.2 / 3.2
52-Week Range (INR)	322 / 182
1, 6, 12 Rel. Per (%)	-1/5/32
12M Avg Val (INR M)	966

Financials & Valuations (INR b)

INRb	FY22	FY23E	FY24E
Sales	81.4	118.6	137.0
EBITDA	11.0	18.5	21.6
Adj. PAT	-1.2	3.1	3.6
EBITDA Margin (%)	13.5	15.6	15.7
Adj. EPS (INR)	-1.3	3.3	3.9
EPS Gr. (%)	-84.0	-360.2	15.2
BV/Sh. (INR)	29.7	33.1	36.9
Ratios			
Net D:E	0.2	0.0	0.0
RoE (%)	-4.4	10.7	11.0
RoCE (%)	5.2	18.7	19.5
Payout (%)	0.0	0.0	0.0
Valuations			
P/E (x)	-211.1	81.1	70.4
EV/EBITDA (x)	26.8	16.4	13.8
EV/Sales (x)	3.3	2.3	1.9
Div. Yield (%)	0.0	0.0	0.0
FCF Yield (%)	2.4	-0.8	8.1

Shareholding pattern (%)

As On	Mar-22	Dec-21	Mar-21
Promoter	56.1	56.1	56.1
DII	19.9	19.2	18.1
FII	13.7	14.0	14.5
Others	10.3	10.7	11.4

FII Includes depository receipts

CMP: INR267 TP: INR350 (+31%) Buy

Strong growth momentum continues

The building blocks for long-term growth remain firmly in place

- A strong recovery in business, particularly the Lifestyle segment, saw 59% YoY jump in ABFRL's 4QFY22 EBITDA backed by 25% YoY revenue growth and 210bp gross margin improvement. Net debt at INR5b too was comfortable even after building inventory for the upcoming season and new stores.
- With healthy recovery and growth momentum across verticals, we raise our FY23E/24E EBITDA by 7-8%, modeling strong 40% EBITDA CAGR over FY22-24E. The INR22b fundraise from GIC should ensure a well-capitalized balance sheet and act as an enabler of the next 3-/5-year growth story. However, the 7.5% dilution and risk of capital mis-allocation could play havoc in the near term. **Retain BUY.**

Adj. EBITDA up 49% YoY aided by strong revenue recovery and healthy gross margin (significant beat)

- ABFRL's consolidated revenue grew 25.3% YoY to INR22.8b (in line), despite the adverse impact of Omicron in the first half of the quarter, aided by strong 34% YoY growth in the Lifestyle segment. Revenue grew 25% v/s the pre-Covid levels of 4QFY20 .
- Gross margin improved 210bp YoY to 55.7%, better than the normalized margin of ~52% in 4Q historically. Adjusted for the one-time rental waiver of INR221.6m during 4QFY22, EBITDA grew 49% YoY to INR3.5b (48% beat) with 240bp margin improvement, on strong gross margin and lower cost of retailing.
- Subsequently, net profit stood at INR308m as against a loss of INR2b in 4QFY21 (v/s our estimated net loss of INR669m).
- Net debt (excluding lease) reached INR5b v/s net cash position of INR1.18b as of Dec'21 and INR5.3b as of Mar'21, since the company stocked inventory for the upcoming season and new stores.
- Lifestyle Brands' revenue/EBITDA growth of 33.8%/77% YoY was 25% above pre-Covid level, led by strong 13% retail LTL growth and revival in wholesale business as well as 570bp margin improvement. Pantaloons' revenue rose 13% YoY to INR6.8b (8% above pre-Covid), while its EBITDA declined 4.7% YoY to INR820m due to the adverse impact of Omicron-led restrictions on large format stores.

Highlights from the management commentary

- ABFRL's capex for FY23E is likely to be INR7-8b with major focus on expansion of stores (Pantaloons to add 70-75 stores) under various formats and improving digital and back-end infrastructure.
- Margin improvement originated from lower discounting and improved LTL sales. Margins to moderate going ahead due to increased marketing expenses and resumption of some cost items.
- Inventory and Payables were higher mainly to build stock for the upcoming season and new stores.
- The INR22b fresh capital from GIC will be used to strengthen the balance sheet and fuel growth of existing formats over the next 3-5 years.

Valuation and view

- ABFRL's robust execution capability is reflected in its ability to scale up a series of strong brands during the last 10 years with healthy growth.
- The recent announcement of INR22b preferential issue to GIC (in addition to the rights issue and a strategic stake sale to Flipkart coupled with improved working capital efficiencies), should further reduce its leverage position (excluding lease liability) of INR5b and fuel growth in a wide array of new categories.
- We raise our EBITDA by 7-8% for FY23/24E led a healthy recovery and growth momentum, factoring in revenue/EBITDA CAGR of 30%/40% over FY22-24E.
- Ethnic Wear turning EBITDA positive along with continued momentum in other businesses, including Innerwear, remains the key positive. However, new investment in fresh categories is diluting cash flows and will be a key monitorable.
- We value ABFRL on an SOTP basis, assigning EV/EBITDA of 21x to Lifestyle Brands, 18x to Pantaloons, and EV/sales of 1x to other businesses on FY24E**.** Subsequently, we arrive at our TP of INR350. **Maintain BUY**.

Consolidated - Quarterly Earnings Model **(INR m)**

Y/E March	FY21				FY22E				FY21	FY22	FY22	Est
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	Var (%)
Revenue	**3,230**	**10,281**	**20,762**	**18,216**	**8,120**	**20,543**	**29,871**	**22,828**	**52,489**	**81,362**	**22,431**	**1.8**
YoY Change (%)	-84.4	-55.4	-19.6	-0.6	151.4	99.8	43.9	25.3	-40.3	55.0	23.1	
Total Expenditure	6,834	10,358	17,116	15,863	9,807	17,408	24,050	19,098	50,171	70,363	20,054	**-4.8**
EBITDA	**-3,604**	**-76**	**3,646**	**2,353**	**-1,687**	**3,135**	**5,821**	**3,730**	**2,318**	**10,999**	**2,378**	**56.9**
Change, YoY (%)	-214.8	-102.3	-10.7	56.6	-53.2	-4,203.8	59.7	58.5	-80.9	374.5	1.0	
Depreciation	2,369	2,415	2,311	2,533	2,378	2,416	2,509	2,668	9,628	9,970	2,454	
Interest	1,262	1,449	1,106	1,209	852	876	884	895	5,026	3,507	900	
Other Income	1,785	1,432	570	177	243	252	243	267	3,963	1,006	84	
PBT	**-5,449**	**-2,509**	**798**	**-1,212**	**-4,674**	**96**	**2,671**	**435**	**-8,372**	**-1,473**	**-893**	**NM**
Tax	-1,346	-626	214	743	-1,156	37	727	127	-1,015	-266	-223	
Rate (%)	24.7	25.0	26.8	-61.3	24.7	38.5	27.2	29.3	12.1	18.0	25.0	
Reported PAT	**-4,104**	**-1,883**	**584**	**-1,955**	**-3,518**	**59**	**1,944**	**308**	**-7,357**	**-1,207**	**-669**	**NM**
Adj PAT	**-4,104**	**-1,883**	**584**	**-1,955**	**-3,518**	**59**	**1,944**	**308**	**-7,357**	**-1,207**	**-669**	**NM**
YoY Change (%)	-2,003.3	-944.6	-14.9	33.4	-14.3	-103.1	232.6	-115.7	2061.3	-83.6	-65.8	

E: MOFSL Estimates

Ipca

BSE SENSEX	S&P CNX
54,053	16,125

Conference Call Details

Date: 25th May 2022

Time: 3:30 pm IST

Dial-in details:

+91-22-6280 1384

Financials & Valuations (INR b)

Y/E MARCH	2022	2023E	2024E
Sales	58.3	61.2	70.4
EBITDA	13.3	14.4	17.3
Adj. PAT	9.1	10.6	12.8
EBIT Margin (%)	18.8	19.8	21.1
Cons. Adj. EPS (INR)	35.8	41.7	50.4
EPS Gr. (%)	-19.4	16.6	20.8
BV/Sh. (INR)	214.9	250.4	293.2
Ratios			
Net D:E	-0.1	-0.2	-0.2
RoE (%)	17.9	17.9	18.5
RoCE (%)	17.8	17.5	18.2
Payout (%)	17.6	18.3	18.1
Valuations			
P/E (x)	26.8	23.0	19.1
EV/EBITDA (x)	17.9	11.0	17.5
Div. Yield (%)	0.7	0.8	1.0
FCF Yield (%)	2.3	2.8	3.3
EV/Sales (x)	4.1	2.7	2.9

CMP: INR960 — Buy

Operationally in line quarter; earnings below estimate on higher tax rate

- Ipca's 4QFY22 sales rose 15.6% YoY to INR12.9b (in line with our estimate).
  - Domestic formulation's sales rose 27.3% YoY to INR5.5b (43% of sales).
  - Exports (brsanded formulation) grew 2% YoY to INR1b (8% of sales).
  - Exports (generics formulation) rose 2% YoY to INR1.6b (13% of sales).
  - API sales were largely flat YoY at INR2.6b (20% of sales) for 4QFY22.
  - Exports (institutional sales) grew 5% YoY to INR800m (6% of sales).
  - Other operating income and revenue from subsidiaries grew 60% YoY to INR1.3b.
- Gross margin (GM) contracted 270bp YoY to 64.7% due to raw material inflation.
- EBITDA margin contracted 350bp YoY to 17% (our est: 17.1%), due to lower GM and higher other expenses (+90bp YoY as a % of sales).
- EBITDA declined 4% YoY to INR2.2b (in line).
- PAT dipped 19% YoY to INR1.3b (our estimate: INR1.7b), due to higher depreciation, lower other income and higher tax rate.
- For FY22, Ipca's revenue grew 7.6% YoY to INR58b; whereas EBITDA/Adj. PAT declined 14%/19.7% to INR13b/INR9b, respectively.

Key monitorables

- Sustainability of domestic business growth momentum given that the pandemic is subsiding steadily.
- Outlook on GM given the raw material prices increased in the recent past.
- Any further update from the USFDA on import alerts.
- The order book for the Institutional Anti-Malaria business.

Quarterly Performance (INR m)

Y/E March	FY21				FY22				FY21	FY22	Est.	% Chg
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	
Net Revenues (Core)	**15,344**	**13,611**	**14,098**	**11,147**	**15,658**	**15,444**	**14,305**	**12,891**	**54,200**	**58,298**	**13,177**	**-2.2**
YoY Change (%)	42.3	6.0	16.2	3.8	2.0	13.5	1.5	15.6	16.6	7.6	18.2	
EBITDA	**5,883**	**3,602**	**3,669**	**2,289**	**4,165**	**3,852**	**3,078**	**2,193**	**15,444**	**13,289**	**2,248**	**-2.5**
YoY Change (%)	196.1	35.5	34.1	4.2	-29.2	6.9	-16.1	-4.2	61.2	-14.0	-1.8	
Margins (%)	38.3	26.5	26.0	20.5	26.6	24.9	21.5	17.0	28.5	22.8	17.1	
Depreciation	510	521	535	525	559	570	587	609	2,092	2,324	523	
EBIT	**5,373**	**3,081**	**3,134**	**1,764**	**3,607**	**3,282**	**2,492**	**1,584**	**13,352**	**10,964**	**1,726**	**-8.2**
YoY Change (%)	252.0	42.5	40.7	13.2	-32.9	6.5	-20.5	-10.2	78.6	-17.9	-2.2	
Margins (%)	35.0	22.6	22.2	15.8	23.0	21.3	17.4	12.3	24.6	18.8	13.1	
Interest	27	23	23	17	18	11	14	34	90	77	14	
Other Income	121	-16	154	199	210	181	129	145	457	666	180	
PBT before EO Expense	**5,466**	**3,041**	**3,265**	**1,946**	**3,799**	**3,452**	**2,607**	**1,695**	**13,719**	**11,553**	**1,891**	
One-off (gain)/ Expense	0	-171	0	0	0	-196	0	0	-171	-196	0	
PBT after EO Expense	**5,466**	**3,212**	**3,265**	**1,947**	**3,799**	**3,256**	**2,607**	**1,695**	**13,890**	**11,357**	**1,891**	
Tax	999	526	567	309	708	679	573	288	2,401	2,248	213	
Rate (%)	18.3	17.3	17.4	15.9	18.6	19.7	22.0	17.0	17.5	19.5	11.3	
Reported PAT	**4,468**	**2,686**	**2,698**	**1,637**	**3,091**	**2,577**	**2,033**	**1,405**	**11,488**	**9,110**	**1,675**	**-16.1**
Minority Interest	-7	-16	-43	-25	-24	-75	-64	-106	-91	-269	64	
Adj PAT after Minority Int	**4,461**	**2,528**	**2,655**	**1,612**	**3,067**	**2,697**	**1,970**	**1,302**	**11,255**	**9,037**	**1,740**	**-25.2**
YoY Change (%)	263.5	30.9	34.4	19.3	-31.2	6.7	-25.8	-19.2	73.6	-19.7	8.0	
Margins (%)	29.1	18.6	18.8	14.5	19.6	17.5	13.8	10.1	20.8	15.5	13.2	

Jyothy Laboratories

Estimate change	⟷
TP change	⟷
Rating change	⟷

Bloomberg	JYL IN
Equity Shares (m)	367
M.Cap.(INRb)/(USDb)	55.4 / 0.7
52-Week Range (INR)	187 / 130
1, 6, 12 Rel. Per (%)	0/7/-4
12M Avg Val (INR M)	102

Financials & Valuations (INR b)

Y/E March	2022	2023E	2024E
Net Sales	22.0	24.4	26.5
Sales Gr. (%)	15.1	11.0	8.9
EBITDA	2.5	3.0	3.7
EBITDA Margins (%)	11.3	12.5	13.8
Adj PAT	1.6	1.9	2.3
Adj.EPS (INR)	4.3	5.1	6.3
EPS Gr. (%)	-25.7	18.3	23.2
BV/Sh (INR)	39.3	40.9	42.4
Ratios			
RoE (%)	11.1	12.8	15.2
RoCE (%)	10.8	12.5	15.0
Payout (%)	69.8	70.8	76.6
Valuation			
P/E (x)	34.8	29.4	23.9
P/BV (x)	3.8	3.7	3.6
EV/EBITDA	22.0	17.6	14.3
Div. Yield (%)	1.7	2.0	2.7

Shareholding pattern (%)

As On	Mar-22	Dec-21	Mar-21
Promoter	62.9	62.9	62.9
DII	16.9	18.3	16.9
FII	10.9	9.9	12.5
Others	9.3	8.9	7.8

FII Includes depository receipts

CMP: INR151 TP: INR150 Neutral

Material cost pressures continue

- Sales in 4QFY22 were in line. Gross margin was affected due to elevated raw material prices. The impact was reflected in EBITDA margin, which stood at 10.6% (est. 12%).
- Revenue growth is key for a company with sales of only ~INR22b. The likelihood of a consistent 15% sales growth (essential for any re-rating) continues to appear difficult, despite JYL's efforts to ramp up its total and direct reach. Sales CAGR have been a tepid at 5.5% for the preceding five years ending FY22.
- With margin likely to remain under pressure over the next few quarters due to high input costs, its earnings growth prospects remain weak. We maintain our **Neutral** rating.

In line result, RM cost pressure led to a contraction in gross margin

- Standalone net sales grew 10.3% YoY to ~INR5.4b (in line).
- EBITDA declined by 18.6% YoY to INR568m (est. INR630m).
- PBT declined by 18% YoY to INR437m (in line).
- Adjusted PAT declined by 23.7% YoY to INR385m (in line).
- **Gross margin contracted by 500bp YoY (-100bp QoQ) to 40.1%.** As a percentage of sales, lower ad spends/staff cost/other expenses at 7.2%/10.6%/11.7% (-60bp/-20bp/-50bp YoY) led to a **380bp contraction in EBITDA margin to 10.6%** (an eight quarter low).
- Sales grew 15%, while EBITDA/adjusted PAT fell ~21%/27% YoY in FY22.
- **Consolidated segmental performance**: Fabric Care/Dishwashing/Household Insecticides/Personal Care grew ~17.9%/12.2%/-9.1%/11.7% YoY to INR2.1b/INR1.9b/INR793m/INR467m in 4QFY22.

Highlights from the management commentary

- JYL has taken various price hikes in the range of 6-7% and has also reduced grammage. It has also taken a minor price increase in Apr'22.
- Volume growth stood at 3.6%/9% in 4Q/FY22.
- There is a marginal decline in rural demand (40% of JYL's sales accrues from the rural market). The management expects potential rural offtake recovery on the back of a good monsoon.

Valuation and view

- We lower our FY23 EPS estimate by 7.9% on continued raw material pressure and our FY24 EPS estimate by less than 2%.
- For a company that has a far lower sales base of INR21.9b in FY22 (v/s its peers), its performance over the past five years has been consistently lackluster (at 5.5%/-0.5% sales/operating profit CAGR).
- RoCE, at 11% in FY22, remains far inferior v/s its peers. No marked uptick is visible over the medium term. We assign a 15x EV/EBITDA target multiple to our Mar'24E target, resulting in a TP of INR150 per share. We maintain our **Neutral** rating.

Standalone quarterly performance (INR m)

Y/E March	FY21				FY22						FY22E	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	FY21	FY22	4QE	(%)
Net Sales	**4,287**	**4,996**	**4,694**	**4,873**	**5,219**	**5,783**	**5,287**	**5,374**	**18,850**	**21,663**	**5,255**	2.3
YoY change (%)	4.1	7.6	15.3	27.5	21.8	15.7	12.6	10.3	13.2	14.9	7.8	
Gross Profit	**1,968**	**2,373**	**2,269**	**2,197**	**2,250**	**2,296**	**2,170**	**2,154**	**8,807**	**8,869**	**2,283**	-5.6
Margin (%)	45.9	47.5	48.3	45.1	43.1	39.7	41.0	40.1	46.7	40.9	43.4	
EBITDA	**782**	**889**	**798**	**698**	**650**	**671**	**605**	**568**	**3,167**	**2,495**	**630**	-9.8
EBITDA growth %	19.4	12.4	22.6	73.9	-16.9	-24.5	-24.2	-18.6	26.8	-21.2	-9.8	
Margin (%)	18.3	17.8	17.0	14.3	12.5	11.6	11.4	10.6	16.8	11.5	12.0	
Depreciation	187	193	198	200	206	206	210	164	779	785	212	
Interest	51	29	20	18	17	18	18	14	117	67	15	
Other Income	42	39	63	53	48	52	43	46	198	190	47	
PBT	**587**	**706**	**643**	**533**	**476**	**500**	**420**	**437**	**2,469**	**1,832**	**451**	**-3.1**
Tax	83	100	121	28	75	79	66	52	332	271	76	
Rate (%)	14.1	14.1	18.8	5.3	15.7	15.7	15.7	11.8	13.4	14.8	16.9	
Adjusted PAT	**504**	**607**	**522**	**505**	**401**	**421**	**354**	**385**	**2,138**	**1,561**	**374**	**2.9**
YoY change (%)	40.4	14.0	22.8	93.9	-20.5	-30.6	-32.2	-23.7	35.5	-27.0	-25.8	

Kaveri Seeds

Estimate change	⟷
TP change	⟷
Rating change	⟷

Bloomberg	KSCL IN
Equity Shares (m)	63
M.Cap.(INRb)/(USDb)	34.4 / 0.4
52-Week Range (INR)	789 / 468
1, 6, 12 Rel. Per (%)	0/19/-32
12M Avg Val (INR M)	158

Financials & Valuations (INR b)

Y/E Mar	2022	2023E	2024E
Sales	9.7	11.8	13.2
EBITDA	2.0	3.0	3.3
PAT	2.1	3.0	3.4
EBITDA (%)	20.9	25.1	25.2
EPS (INR)	36.4	52.1	59.0
EPS Gr. (%)	(31.6)	43.1	13.1
BV/Sh. (INR)	220	263	313
Ratios			
Net D/E	(0.4)	(0.5)	(0.5)
RoE (%)	16.8	21.6	20.5
RoCE (%)	18.4	24.4	23.1
Payout (%)	12.5	17.4	15.4
Valuations			
P/E (x)	15.6	10.9	9.6
EV/EBITDA (x)	17.6	11.9	10.6
Div Yield (%)	0.7	1.4	1.4
FCF Yield (%)	2.4	8.7	8.1

Shareholding pattern (%)

As On	Mar-22	Dec-21	Mar-21
Promoter	57.4	57.4	55.5
DII	7.0	6.7	8.5
FII	19.1	19.1	19.8
Others	16.5	16.8	16.2

CMP: INR570 TP: INR710 (+25%) Buy

Lower than expected operating loss in 4QFY22 aided by lower OPEX

- Revenue fell 6% YoY in FY22 due to lower cotton/maize (down 24%/16%) volumes. Cotton seed volumes were impacted by lower cotton acreage and the use of illegal herbicide-tolerant Bt (HTBt) seeds, which impacted sales of branded seeds. Maize volumes fell due to no sales to the government.
- We largely retain our FY23/FY24 earnings for KSCL. We value the stock at 12x FY24E EPS to arrive at our TP of INR710. We reiterate our Buy rating.

Strong volumes in cotton and maize drives revenue in 4QFY22

- Consolidated revenue rose 4% YoY to INR666m (est. INR677m) in 4QFY22. Operating loss stood at INR109m (v/s our operating loss estimate of INR181m) as compared to an operating loss of INR158m in 4QFY21. Gross margin expanded by 110bp YoY to 55.3%. As a percentage of sales, employee cost stood at 32.8% (v/s 35.4% YoY) and other expenses stood at 38.9% (v/s 43.4% YoY). Net loss stood at INR118m (v/s our net loss estimate of INR175m) as against a net loss of INR174m in 4QFY21.
- Volumes of cotton seeds fell 24% YoY to 5.4m packets in FY22, resulting in a 23% decline in revenue to INR3.4b. KSCL gained market share in cotton seeds in Gujarat, Maharashtra, and Haryana, while it lost share in Andhra Pradesh and Telangana. The contribution from new products in maize rose to 24% from 10% of volumes. Maize seed volumes dipped 16% YoY to 8,781MT and revenue fell 8% YoY to INR1,876m in FY22.
- Hybrid rice volumes rose 19% to 6,772m packets in FY22, resulting in a 29.5% YoY growth in revenue to INR1,716m. Selection rice volumes grew 6% to 16,174MT in FY22, with revenue up 14% YoY to INR1,163m.
- Revenue from vegetable seeds rose 18% YoY to INR466m in FY22, driven by a 21% growth in volumes to 307m packets.
- Revenue/EBITDA/PAT fell 6%/32%/32% YoY to INR9.7b/INR2b/INR2.1b in FY22.
- CFO stood at INR1.1b in FY22 v/s INR2.5b in FY21. Net cash stood at INR5.4b in FY22 v/s INR6.1b in FY21.

Highlights from the management commentary

- **Cotton:** The management has guided at a 15-20% YoY increase in cotton volumes in FY23. It expects industry growth to be in the 10-15% range in FY23.
- It expects to maintain the demand momentum in maize seeds, with a rise in the area under cultivation and the launch of new hybrid seeds.
- The management has guided at an annual release of eight to 10 new hybrid products across segments.

Valuation and view

- KSCL is on track to diversify sales away from cotton seeds by increasing the share of higher margin rice and vegetables (v/s cotton seeds), which are growing at a faster pace.
- With an increase in commodity prices across the globe, the sowing pattern of farmers has seen an improvement. The company has observed good demand across cotton, rice, maize, and vegetable seeds. It expects this trend to carry forward in FY23.
- We largely retain our FY23/FY24 earnings for KSCL. We value the stock at 12x FY24E EPS to arrive at our TP of INR710. We reiterate our Buy rating.

Quarterly consolidated earnings (INR m)

Y/E March	FY21				FY22				FY21	FY22E	FY22E	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	%
Net Sales	**7,195**	**1,340**	**1,185**	**643**	**6,298**	**1,476**	**1,261**	**666**	**10,363**	**9,700**	**677**	**-2**
YoY Change (%)	14.6	13.9	-2.8	1.8	-12.5	10.1	6.3	3.6	11.4	-6.4	5.4	
Total Expenditure	4,325	1,174	1,083	801	4,302	1,412	1,187	775	7,383	7,674	858	
EBITDA	**2,869**	**167**	**102**	**-158**	**1,996**	**64**	**74**	**-109**	**2,980**	**2,025**	**-181**	**NA**
Margin (%)	39.9	12.4	8.6	-24.6	31.7	4.3	5.9	-16.4	28.8	20.9	-26.7	
Depreciation	55	56	56	56	48	50	55	57	222	209	56	
Interest	1	2	0	2	0	0	0	0	5	1	0	
Other Income	235	105	75	42	151	151	68	43	457	413	47	
PBT before EO expense	**3,049**	**214**	**121**	**-174**	**2,099**	**165**	**87**	**-123**	**3,210**	**2,228**	**-191**	
Extra-Ord. expense	0	0	0	0	0	0	0	0	0	0	0	
PBT	**3,049**	**214**	**121**	**-174**	**2,099**	**165**	**87**	**-123**	**3,210**	**2,228**	**-191**	
Tax	84	-20	30	4	52	37	16	-5	98	100	-11	
Rate (%)	2.8	-9.4	24.4	-2.4	2.5	22.3	18.7	4.1	3.1	4.5	6	
MI and Profit/Loss of Asso. Cos.	-11	1	0	4	-10	0	6	1	-7	-3	4	
Reported PAT	**2,953**	**235**	**91**	**-174**	**2,037**	**128**	**76**	**-118**	**3,105**	**2,125**	**-175**	
Adj. PAT	**2,953**	**235**	**91**	**-174**	**2,037**	**128**	**76**	**-118**	**3,105**	**2,125**	**-175**	**NA**
YoY Change (%)	28.6	72.1	10.4	-329.3	-31.0	-45.3	-16.1	32.2	19.9	-31.6	1	
Margin (%)	41.0	17.5	7.7	-27.0	32.4	8.7	6.1	-17.7	30.0	21.9	-25.9	

Strides Pharma

BSE SENSEX	S&P CNX
54,053	16,125

Conference Call Details

Date: 25th May 2022

Time: 8:30 am IST

Dial-in details:

+91-22-6280 1434

Financials & Valuations (INR b)

Y/E MARCH	2022	2023E	2024E
Sales	30.7	38.5	45.6
EBITDA	-0.1	6.0	7.4
Adj. PAT	-3.7	1.7	3.0
EBIT Margin (%)	-7.9	9.7	11.1
Cons. Adj. EPS (INR)	-41.6	18.6	33.4
EPS Gr. (%)	NA	NA	79.9
BV/Sh. (INR)	270.3	284.4	309.7
Ratios			
Net D:E	0.5	0.5	0.4
RoE (%)	-14.3	6.7	11.2
RoCE (%)	-1.5	7.8	9.9
Payout (%)	24.2	24.2	24.2
Valuations			
P/E (x)	NA	16.3	9.1
EV/EBITDA (x)	NA	8.8	6.9
Div. Yield (%)	-3.5	1.2	2.2
FCF Yield (%)	-12.9	6.5	13.6
EV/Sales (x)	1.7	1.4	1.1

CMP: INR303 — Buy

Delivers sequential improvement in margins

- STR's 4QFY22 revenue declined 5% YoY to INR8.7b (our est: INR8.5b) due to the continued headwinds in the US.
  - The US sales were down 23% YoY to INR3.3b (USD44m; 38% of sales). However, the US sales improved 17% QoQ in 4QFY22.
  - Emerging market sales rose 7% YoY to INR2.3b (26% of sales).
  - Other regulated market sales were up 15% YoY at INR3.1b (36% of sales).
- Gross margin (GM) contracted ~850bp YoY to 50.6%; but expanded 110bp QoQ.
- EBITDA margin contracted 1,270bp YoY to 4.8% (our estimate: 5.7%) due to low operating leverage. From a negligible EBITDA margin of 0.6% in 3QFY22, STR has delivered 420bp expansion in 4QFY22.
- EBITDA declined 74% YoY and was at INR415m (our estimate: INR488m)
- STR recorded an exceptional loss of INR763m led by forex loss, sales returns, impairment on disposal of facility and employee severance and restructuring expenses.
- Adjusting for the same, STR posted a loss of ~INR280m for 4QFY22 (our est: loss of INR481m).

Other highlights

- Management remained confident of achieving the US sales of USD250m+ in FY23E.
- Management indicated that increasing sales and operational planning process would reduce logistics cost by 300bp (as a % of sales).
- Management targets to reduce net debt by INR10b in FY23E from the current net debt level of INR28b.

Consolidated - Quarterly Earnings Model (INR m)

Y/E March	FY21				FY22				FY21	FY22	FY22E	vs Est
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	%
Net Sales	**7,818**	**7,936**	**8,320**	**9,085**	**6,884**	**7,215**	**7,944**	**8,660**	**33,159**	**30,703**	**8,529**	**1.5**
YoY Change (%)	14.0	11.0	13.6	46.9	-12.0	-9.1	-4.5	-4.7	20.5	-7.4	-6.1	
Total Expenditure	6,308	6,363	6,726	7,493	7,437	7,226	7,898	8,245	26,891	30,806	8,041	
EBITDA	**1,510**	**1,572**	**1,594**	**1,592**	**-554**	**-11**	**46**	**415**	**6,268**	**-103**	**488**	**-14.9**
YoY Change (%)	22.1	7.2	-11.8	90.2	-136.7	-100.7	-97.1	-73.9	17.2	-101.6	-69.4	
Margins (%)	19.3	19.8	19.2	17.5	-8.0	-0.1	0.6	4.8	18.9	-0.3	5.7	
Depreciation	491	528	525	519	549	566	609	607	2,063	2,330	621	
EBIT	**1,019**	**1,044**	**1,069**	**1,073**	**-1,102**	**-576**	**-563**	**-192**	**4,205**	**-2,433**	**-133**	**NA**
YoY Change (%)	26.1	-0.2	-22.2	179.9	-208.2	-155.2	-152.7	-117.9	16.6	-157.8	-112.4	
Margins (%)	13.0	13.2	12.8	11.8	-16.0	-8.0	-7.1	-2.2	12.7	-7.9	-1.6	**NA**
Interest	369	369	347	416	415	436	423	495	1,501	1,767	463	
Other Income	123	129	132	130	135	222	102	861	514	1,320	60	
PBT before EO expense	**773**	**804**	**854**	**788**	**-1,382**	**-790**	**-884**	**174**	**3,219**	**-2,881**	**-535**	**NA**
Extra-Ord expense	-488	-180	126	29	864	724	185	763	-514	2,661	0	
PBT	**1,261**	**984**	**729**	**759**	**-2,246**	**-1,514**	**-1,069**	**-589**	**3,733**	**-5,542**	**-535**	**NA**
Tax	33	61	108	115	-355	-68	-45	-1,315	317	-1,783	-82	
Rate (%)	2.6	6.2	14.8	15.1	15.8	4.5	4.2	223.3	8.5	32.2	15.4	
MI & (P)/L of Asso. Cos.	192	262	270	198	195	234	243	436	922	1,108	28	
Reported PAT from Continuing Ops.	**1,036**	**662**	**351**	**446**	**-2,086**	**-1,680**	**-1,266**	**290**	**2,494**	**-4,868**	**-482**	**NA**
Adj. PAT from Continuing Ops.	**560**	**493**	**458**	**470**	**-1,358**	**-988**	**-1,089**	**-280**	**1,981**	**-3,715**	**-481**	**NA**
YoY Change (%)	64.1	-5.9	-40.3	-271.5	-342.4	-300.6	-337.9	-159.5	45.8	-287.7	-202.4	
Margins (%)	7.2	6.2	5.5	5.2	-19.7	-13.7	-13.7	-3.2	6.0	-12.1	-5.6	

Birlasoft: Want to grow beyond the legacy of BFSI companies; Dharmender Kapoor, MD & CEO

- We focused on deals which would get us better margin
- Need to negotiate well with our clients w.r.t profitability
- We should start growing as well as expand into Fintech, Insurtech companies
- Want to grow beyond the legacy of BFSI companies
- Attrition and supply side related challenges continue
- Supply side situation in Q4 was better than Q3

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Bosch: Should see a growth of 15% in FY23; Soumitra Bhattacharya, MD

- There were a lot of one-time expenses that impacted EBITDA
- Market is undergoing a huge shift
- Most companies are unable to pass on price hikes to consumers
- Should see a growth of 15% in FY23
- Chip shortage is not crippling the industry but is impacting growth

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Redington: Shortage of tech products will continue for sometime; Rajiv Srivastava, MD

- Shortage of tech products will continue for sometime
- H1FY23 looks robust, expect good growth to continue and will recalibrate growth outlook in H2FY23
- All brands make changes to their go to market strategy
- India FY22 revenue growth was at 21% despite model changes by brands (Like Apple)
- Acquisitions are on the horizon at all times
- Overseas market was slow in Q2-Q4FY22

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Delhivery: One-time cost impacted profit in 9MFY22; profitable on EBITDA front; Sahil Barua (MD & CEO) & Sandeep Barasia (ED)

- Valuation was determined by investors
- Adjusted EBITDA was positive for Q2 and Q3
- Faster we grow the more profitable we become
- Rs 500 crore is a one-time cost which was not there in the previous year
- One-time cost impacted profit in 9MFY22
- We are a billion dollar company in a $200 bn market
- We are moving to larger truck sizes
- We are profitable on the EBIDTA front
- On a cash PAT level we are actually profitable
- Have reduced price per package to customer despite higher fuel cost
- There will be non-recurring cost next year

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Advanced Enzymes: Margin pressure may continue for another quarter; Mukund Kabra, WTD

- Margin pressure may continue for another quarter
- Expect margin to get back to 40-43% range from Q2FY23
- Animal feed segment is seeing positive traction
- There are more opportunities in the recession period
- Will see better growth particularly in the animal feed area
- Downstream capacity expansion will happen by the end of this month

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Aether Industries: Would like to maintain margin between 28-29%; Aman Desai (Founder & Director) & Faiz Nagariya (CFO)

- Will be a debt free company with IPO proceeds
- New greenfield expansion to be completed this year
- Adding one more greenfield project worth Rs 250 crore
- Would like to maintain margin between 28-29%
- Spent 5.4% of revenue in research and development
- Shall triple our research and development expenditure

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