MOTILAL OSWAL

26 July 2022

MORNING INDIA

Motilal Oswal values your support in the Asiamoney Brokers Poll 2022 for India Research, Sales, Corporate Access and Trading team.
We request your ballot.

Market snapshot

Equities - India	Close	Chg .%	CYTD.%
Sensex	55,766	-0.5	-4.3
Nifty-50	16,631	-0.5	-4.2
Nifty-M 100	29,021	-0.1	-4.7
Equities-Global	**Close**	**Chg .%**	**CYTD.%**
S&P 500	3,967	0.1	-16.8
Nasdaq	11,783	-0.4	-24.7
FTSE 100	7,306	0.4	-1.1
DAX	13,210	-0.3	-16.8
Hang Seng	7,077	-0.4	-14.1
Nikkei 225	27,699	-0.8	-3.8
Commodities	**Close**	**Chg .%**	**CYTD.%**
Brent (US$/Bbl)	104	0.6	33.9
Gold ($/OZ)	1,720	-0.5	-6.0
Cu (US$/MT)	7,464	0.4	-23.4
Almn (US$/MT)	2,409	-2.9	-14.2
Currency	**Close**	**Chg .%**	**CYTD.%**
USD/INR	79.7	-0.1	7.3
USD/EUR	1.0	0.1	-10.1
USD/JPY	136.7	0.4	18.8
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)	**25-Jul**	**MTD**	**CY21**
FIIs	-0.11	-0.02	-28.47
DIIs	-0.01	1.04	27.79
Volumes (INRb)	**25-Jul**	**MTD***	**YTD***
Cash	587	485	622
F&O	82,566	1,05,829	1,01,430

Note: *Average

Today's top research idea

Axis Bank: Loan growth muted; lower provisions drive earnings beat

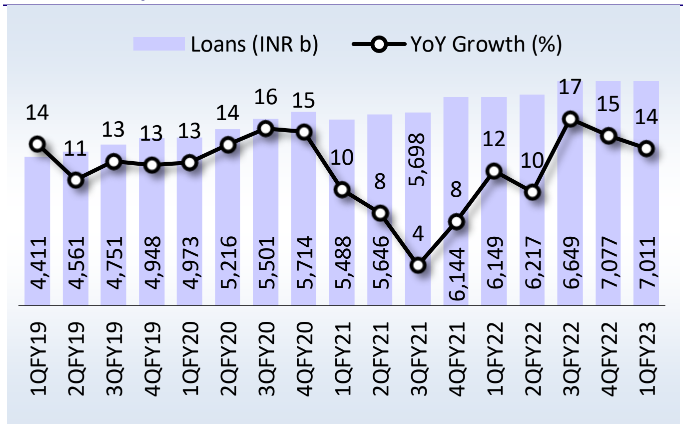
- AXSB reported a PAT of INR41.2b (up 91% YoY, 20% beat), driven largely by lower provisions, which fell 89% YoY, while NII/PPOP stood in line. OPEX remains elevated as the bank is investing in the business and technology.
- Business growth was muted, with loans and deposits down sequentially. The Corporate and SME book saw a QoQ decline, while the Retail segment saw a growth of 3% QoQ.
- Fresh slippages fell to INR36.8b, which, coupled with healthy recoveries and upgrades, enabled an improvement in asset quality ratios. The restructuring book remains controlled at 0.45%, which, along with an additional provision buffer, should rein in credit cost. We expect AXSB to deliver a RoA/RoE of 1.6%/16.7% in FY24E. We maintain our **Buy** rating.

Research covered

Cos/Sector	Key Highlights
Axis Bank	Loan growth muted; lower provisions drive earnings beat
Infosys	Stronger revenue outlook to drive valuation premium
Tata Steel	Surprises galore; TSE's EBITDA/t beats the parent first time ever
Tech Mahindra	Awaiting greater comfort on a margin recovery
Macrotech Devel.	Best ever first quarter for pre-sales; net debt falls further
Canara Bank	Loan growth steady; treasury gains support earnings
Other Notes	Glaxosmi. Pharma | Navin Fluo.Intl. | IIFL Wealth Mgt | Jyothy Labs | Oil & Gas | Expert Speak – Logistics | EcoScope (Monsoon Weekly)

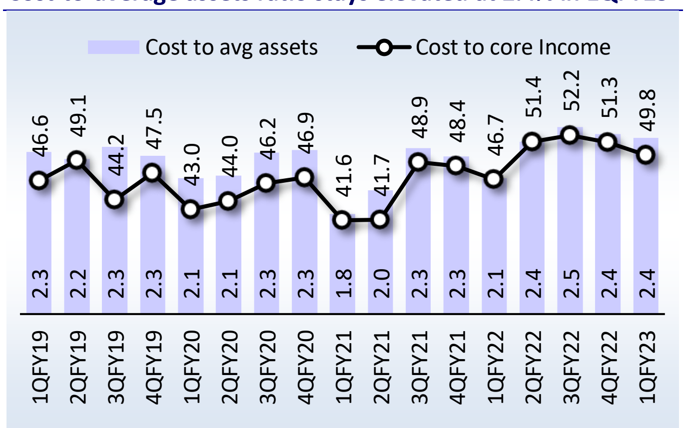
Chart of the Day: Axis Bank (Loan growth muted; lower provisions drive earnings beat)

Loan book up ~14% YoY, but down 1% QoQ



Source: MOFSL, Company

Cost-to-average assets ratio stays elevated at 2.4% in 1QFY23



Source: MOFSL, Company

Research Team (Gautam.Duggad@MotilalOswal.com)

Kindly click on textbox for the detailed news link

1

Government sets target to raise share of natural gas in energy mix to 15% by 2030

The government on Monday announced it has set a target to raise the share of natural gas in the energy mix to 15%, from 6.3% currently, in 2030, stated a press release. According to the data revealed by the Ministry of Petroleum & Natural Gas, a total of 95.21 lakh PNG (Domestic)...

2

India's cement sector to add 80-100 mt capacity by FY25: K M Birla

India's cement industry will add 80-100 million tonnes (mt) of capacity by 2024-25 (FY25), driven by increased spending on housing and infrastructure, Aditya Birla Group Chairman Kumar Mangalam Birla said in the latest annual report of UltraTech Cement. Addressing shareholders, Birla, 55, said the company was committed to tapping into the cement needs across various regions, including eastern and central parts, where new capacities had been commissioned recently in Bihar, West Bengal, and Uttar Pradesh...

3

Ex-L&T Infotech CEO Sanjay Jalona joins ChrysCapital as operating partner

Private equity investor ChrysCapital Funds,announced the appointment of former L&T Infotech CEO Sanjay Jalona as an Operating Partner for investments in the business services sector. He will be based out of the US and will work with the advisory team led by Akshat Babbar, in sourcing, identifying, evaluating,...

4

Ecom Express to onboard over 50,000 delivery partners by September

Logistics services provider Ecom Express on Monday announced that it will onboard over 50,000 delivery partners by September-end under its flagship programme 'Ecom Sanjeev'. The company said it is expecting a spike in e-commerce order deliveries during the festival season and seeks to further strengthen its last...

5

5G spectrum auction to start on Tuesday; Reliance Jio, Bharti Airtel among 4 cos in fray

The 5G spectrum auction will begin on Tuesday with four players, including Reliance Jio and Bharti Airtel, set to bid for 72 GHz of radiowaves worth Rs 4.3 lakh crore on offer. The bidding process is scheduled to start on Tuesday from 10 am and go on till 6 pm. The number of days of auction will depend on the actual demand for radiowaves and strategy of individual bidders, sources in the Department of Telecom said...

6

Lupin gets USFDA approval for generic blood pressure lowering drug

Drug firm Lupin on Monday said it has received an approval from the US Health regulator to market generic medication to treat high blood pressure. The company's product is the generic equivalent of Azurity Pharmaceuticals Inc's Edarbi tablets...

7

FMCG companies plan promotions, discounts amid reduction in input costs

Packaged consumer goods makers said there could be an increase in promotions and discounts at trade level in a few product categories amid reduction in input cost. But price tags are unlikely to be slashed until at least another quarter, they said...

Axis Bank

Estimate change	
TP change	
Rating change	

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Bloomberg	AXSB IN
Equity Shares (m)	3,070
M.Cap.(INRb)/(USDb)	2236.6 / 28.1
52-Week Range (INR)	867 / 618
1, 6, 12 Rel. Per (%)	9/0/-9
12M Avg Val (INR M)	7584

Financials & Valuations (INR b)

Y/E March	FY22	FY23E	FY24E
NII	331	409	492
OP	247	293	365
NP	130	178	218
NIM (%)	3.3	3.5	3.7
EPS (INR)	42.5	57.9	71.1
EPS Gr. (%)	89.7	36.4	22.7
BV/Sh. (INR)	375	391	461
ABV/Sh. (INR)	354	373	442
Ratios			
RoE (%)	12.0	15.1	16.7
RoA (%)	1.2	1.4	1.6
Valuations			
P/E(X)	14.9	10.9	8.9
P/BV (X)	1.7	1.6	1.4
P/ABV (X)	1.8	1.7	1.4

Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	9.5	9.5	11.4
DII	30.8	29.9	23.7
FII	47.8	48.1	53.7
Others	12.0	12.6	11.3

FII Includes depository receipts

CMP: INR728 TP: INR875 (+20%) Buy

Loan growth muted; lower provisions drive earnings beat

Asset quality outlook robust

- AXSB reported a PAT of INR41.2b (up 91% YoY, 20% beat), driven largely by lower provisions, which fell 89% YoY, while NII/PPOP stood in line. OPEX remains elevated as the bank is investing in the business and technology.
- Business growth was muted, with loans and deposits down sequentially. The Corporate and SME book saw a QoQ decline, while the Retail segment saw a growth of 3% QoQ.
- Fresh slippages fell to INR36.8b, which, coupled with healthy recoveries and upgrades, enabled an improvement in asset quality ratios. The restructuring book remains controlled at 0.45%, which, along with an additional provision buffer, should rein in credit cost. We expect AXSB to deliver a RoA/RoE of 1.6%/16.7% in FY24E. **We maintain our Buy rating.**

NII and PPOP in line; margin expands by 11bp QoQ

- PAT grew 91% YoY to INR41.3b in 1QFY23 (20% beat), driven largely by lower provisions, which fell 89% QoQ. PPOP declined by 5% YoY (in line), while core PPOP rose 16% YoY.
- NIM expands by 11bp QoQ to 3.6%, resulting in a NII growth of 21% YoY and 6% QoQ (in line). Other income declined 11% YoY (in line), impacted by treasury losses of INR6.7b v/s a gain of INR5.6b in 1QFY22. Fee income grew 34% YoY, within which Retail fee grew 43% YoY.
- OPEX grew 32% YoY due to an increase in business volumes (40%), investment in future growth and technology (25%), collections and statutory-related (15%), and the balance 20% is due to a general increase. As a result, C/I and cost-to-assets ratio remains elevated at 52.5% and 2.4%, respectively.
- Total provisions fell sharply by 89% YoY, aided by higher recoveries and a decline in slippages. Annualized credit cost stood at 41bp (net of recoveries on written-off accounts). The bank did not utilize any COVID-related provisions and holds an additional provision buffer (including standard asset provisions) of INR118.3b (1.7% of loans).
- Loan book grew 14% YoY, but fell 1% QoQ. Retail/SME loans rose 25%/27% YoY, while the Corporate book declined by 5% YoY and 7% QoQ. The mid-Corporate book grew 54% YoY. On the liability front, deposits grew 13% YoY. CASA ratio moderated to 44% (quarterly average CASA stood at 43%).
- On the asset quality front, fresh slippages fell to INR36.8b (v/s INR39.8b in 4QFY22). Healthy recoveries and upgrades at INR29.6b and write-offs of INR15.1b led to a 6bp/9bp QoQ decline in the GNPA/NNPA ratio. The net NPA ratio fell to 0.64%, while PCR improved by 250bp QoQ to 77.3%. Restructured loans fell to 0.45% (v/s 0.52% in 4QFY22), while provisioning stood at 24%. BB and below pool, including non-fund, fell to 1.17% (v/s 1.33% in 4QFY22).

Highlights from the management commentary

- Retail growth is likely to be led by secured products (Home loans, LAP, and Small Business Banking) and unsecured products, where it is comfortably placed.
- The management aims at a NIM of 3.7-3.8% over the next eight-to-10 quarters.
- It remains committed to attain a medium term cost-to-assets ratio of 2%.

Valuation and view

AXSB delivered strong earnings, driven by a significant decline in provisions and margin expansion, even as OPEX continues to remain elevated. Business growth was muted, with a QoQ decline. Asset quality continues to improve, aided by a moderation in slippages and healthy recoveries and upgrades. Restructured book moderated further, while a higher provisioning buffer provides comfort. We expect slippages to remain in control, enabling a sustained improvement in credit costs, though improvement in margin and cost ratios will be key to watch out for. We expect AXSB to deliver a FY24 RoA/RoE of 1.6%/16.7%. **We maintain our Buy rating with a TP of INR875 per share (1.8x FY24E ABV and INR95 from its subsidiaries).**

Quarterly performance **(INR b)**

	FY22				FY23				FY22	FY23E	FY23E	Var.
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	(%)
Net Interest Income	**77.6**	**79.0**	**86.5**	**88.2**	**93.8**	**98.9**	**105.4**	**110.5**	**331.3**	**408.7**	**92.6**	**1**
Change (YoY %)	11.1	7.8	17.4	16.7	20.9	25.2	21.9	25.3	13.3	23.4	19.4	
Other Income	33.6	38.0	38.4	42.2	30.0	38.7	42.5	48.6	152.2	159.8	30.9	-3
Total Income	**111.2**	**117.0**	**124.9**	**130.4**	**123.8**	**137.6**	**148.0**	**159.2**	**483.5**	**568.5**	**123.5**	**0**
Operating Expenses	49.3	57.7	63.3	65.8	65.0	66.1	69.4	75.0	236.1	275.6	62.7	4
Operating Profit	**61.9**	**59.3**	**61.6**	**64.7**	**58.9**	**71.4**	**78.5**	**84.1**	**247.4**	**292.9**	**60.9**	**-3**
Change (YoY %)	5.9	-11.0	17.4	12.7	-4.8	20.5	27.4	30.1	7.0	18.4	-1.6	
Provisions	33.0	17.4	13.3	9.9	3.6	15.2	17.1	19.3	73.6	55.2	14.7	-76
Profit before Tax	**28.8**	**41.9**	**48.3**	**54.8**	**55.3**	**56.3**	**61.4**	**64.8**	**173.8**	**237.8**	**46.1**	**20**
Tax	7.2	10.6	12.1	13.6	14.0	14.2	15.5	16.2	43.6	59.9	11.6	21
Net Profit	**21.6**	**31.3**	**36.1**	**41.2**	**41.3**	**42.1**	**45.9**	**48.6**	**130.3**	**177.8**	**34.5**	**20**
Change (YoY %)	94.2	86.2	223.7	53.8	91.0	34.3	27.1	18.0	97.7	36.5	59.8	
Operating Parameters												
Deposit (INR t)	7.1	7.4	7.7	8.2	8.0	8.6	8.8	9.4	8.2	9.4	8.4	-4
Loan (INR t)	6.1	6.2	6.6	7.1	7.0	7.5	7.7	8.2	7.1	8.2	7.3	-4
Deposit Growth (%)	16.0	18.1	20.3	17.7	12.6	16.3	14.7	14.0	17.7	14.0	17.7	(512)
Loan Growth (%)	12.0	10.1	16.7	15.2	14.0	20.0	16.3	15.5	15.2	15.5	18.6	(453)
Asset Quality												
Gross NPA (%)	3.9	3.5	3.2	2.8	2.8	2.7	2.5	2.4	3.0	2.4	2.7	7
Net NPA (%)	1.2	1.1	0.9	0.7	0.6	0.6	0.6	0.5	0.8	0.5	0.7	(6)
PCR (%)	69.8	70.2	72.0	74.7	77.3	77.2	77.5	77.7	74.3	77.7	74.6	267

*The bank restated other income and provisions in 4QFY20

Infosys

Estimate change	↓
TP change	↑
Rating change	↔

Bloomberg	INFO IN
Equity Shares (m)	4,572
M.Cap.(INRb)/(USDb)	6323.4 / 79.3
52-Week Range (INR)	1954 / 1367
1, 6, 12 Rel. Per (%)	-2/-9/-11
12M Avg Val (INR M)	11531

Financials & Valuations (INR b)

Y/E Mar	2022	2023E	2024E
Sales	1,216	1,449	1,609
EBIT Margin (%)	23.0	20.9	22.1
PAT	221	241	284
EPS (INR)	52.4	57.5	67.6
EPS Gr. (%)	15.0	9.6	17.7
BV/Sh. (INR)	179	187	195
Ratios			
RoE (%)	29.2	31.4	35.4
RoCE (%)	24.4	25.5	28.5
Payout (%)	59.0	75.0	75.0
Valuations			
P/E (x)	28.7	26.1	22.2
P/BV (x)	8.4	8.0	7.7
EV/EBITDA (x)	20.1	17.9	15.4
Div Yield (%)	2.1	2.9	3.4

Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	13.1	13.1	13.0
DII	18.9	17.1	22.0
FII	32.0	33.6	33.8
Others	36.0	36.2	31.3

FII Includes depository receipts

CMP: INR1,503 TP: INR1,760 (+17%) Buy

Stronger revenue outlook to drive valuation premium

Margin to gradually normalize

- INFO reported a growth of 5.5% QoQ in CC terms, above our estimate of 3.9%, led by strong growth across industry verticals, excluding Financials. While large deal TCV (USD1.7b, net new at 50%) was soft, the management indicated continued traction in the large deal pipeline and demand. Though it indicated weakness in parts of Financials and Retail, INFO raised its FY23 revenue growth guidance to 14-16% from 13-15% in last quarter. EBIT margin dipped by 150bp QoQ to 20.1%, below our estimate of 20.8%, on higher wage hikes and robust employee hiring in 1QFY23 (up 21k QoQ).
- We were positively surprised by INFO's guidance revision, especially given the moderating macroeconomic environment. While a large part of the revision was on account of its 1QFY23 performance, the robust headcount addition (42k employees over the last two quarters, a 15% increase) shows the confidence of the management in their client pipeline and leaves room for further upward changes. We factor in 12% revenue CAGR over FY22-24.
- The weak margin performance remains a drag on earnings growth, although the same was visible across the largecap IT Services industry. With a lion's share of the salary hike factored in its 1QFY23 print and the up fronted hiring of freshers, INFO should be able to deliver an improvement in margin over the remaining three quarters. We factor in a margin of 20.9%/22.1% in FY23/ FY24. This should lead to a PAT CAGR of 13.3% over FY22-24.
- INFO has de-rated by over 20% on YTD basis due to macro slowdown related concerns on revenue growth. We expect the upward revision in its revenue guidance to provide comfort to investors on its near to medium term growth and support the share price, given its relative outperformance.
- INFO reported a strong FCF/PAT conversion of 95% in 1QFY23.
- We have lowered our FY23/FY24 EPS estimate by 3.5%/2.5%, given the margin pressure. We view INFO as a key beneficiary of an acceleration in IT spends, given its capabilities around Cloud and Digital transformation. We value the stock at 26x FY24E EPS and reiterate our **Buy** rating.

Revenue beat and unexpected increase in its guidance

- In CC terms, revenue grew 21.4% YoY, INR EBIT rose 5%, and INR PAT Increased by 3% in 1QFY23.
- Revenue stood at USD4.44b, up 5.5% QoQ in CC terms, above our estimate of 3.9%.
- EBIT margin fell 150bp QoQ to 20.1% (est. 20.8%).
- It revised its FY23 revenue growth guidance up to 14-16% (from 13-15% YoY earlier) in CC terms. Margin guidance moved to the lower end of its 21-23% range.
- PAT fell 6% QoQ to INR54b, below our INR57b estimate on a higher tax rate.

Key highlights from the management commentary

- It is seeing small pockets of weakness in Mortgage, Lending, and Retail in terms of slower decision making, but the pipeline remains strong.
- The management raised its revenue guidance to 14-16% CC in FY23 from 13-15% CC in last quarter.
- Margin has bottomed out in 1QFY23. The management expects FY23 margin to be at the lower end of its guidance of 21-23% due to supply pressures.

Valuation and view

- INFO posted strong earnings in 1QFY23. Demand and the order book remain robust. The increase its FY23 growth guidance and high headcount addition provides further visibility on demand.
- We expect INFO to deliver margin on the lower side of its guidance band, with strong growth and reduced dependence on sub-contractors as attrition falls.
- We expect INFO to be a key beneficiary of an acceleration in IT spends. Based on our revised estimates, the stock is currently trading at 22x FY24E EPS. We value the stock at 26x FY24E EPS, implying a TP of INR1,760.

Quarterly performance (IFRS) (INR b)

Y/E March	FY22				FY23				FY22	FY23	FY23E	Var.
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	(%/bp)
Revenue (USD m)	3,782	3,998	4,250	4,280	4,444	4,580	4,634	4,760	16,310	18,417	4,396	1.1
QoQ (%)	4.7	5.7	6.3	0.7	3.8	3.1	1.2	2.7	20.3	12.9	2.7	113bp
Revenue (INR m)	279	296	319	323	345	362	366	376	1,216	1,449	338	1.8
YoY (%)	17.9	20.5	22.9	22.7	23.6	22.2	14.9	16.5	21.1	19.1	21.3	224bp
GPM (%)	33.7	33.1	32.8	31.0	29.3	30.3	31.2	31.5	32.6	30.6	30.7	-137bp
SGA (%)	10.0	9.5	9.3	9.4	9.2	9.7	9.8	9.9	9.6	9.6	9.9	-63bp
EBITDA	74	78	84	79	78	84	88	92	315	342	80	-1.4
EBITDA Margin (%)	26.6	26.4	26.3	24.4	22.8	23.3	24.1	24.4	25.9	23.6	23.5	-74bp
EBIT	66	70	75	70	69	74	78	81	280	303	70	-1.8
EBIT Margin (%)	23.7	23.6	23.5	21.6	20.1	20.6	21.4	21.7	23.0	20.9	20.8	-74bp
Other income	6	5	5	6	6	7	7	7	21	26	7	-8.4
ETR (%)	27.5	27.1	26.7	24.5	28.8	26.0	26.0	26.0	26.4	26.6	26.0	283bp
PAT	52	54	58	57	54	60	63	65	221	241	57	-5.9
QoQ (%)	2.3	4.4	7.2	-2.1	-5.7	11.6	4.8	4.0			0.2	-595bp
YoY (%)	22.3	11.9	11.8	12.0	3.2	10.3	7.9	14.6	14.2	9.1	9.7	-651bp
EPS (INR)	12.2	12.9	13.8	13.5	12.8	14.2	14.9	15.5	52.2	57.3	13.5	-5.5

RESULTS FLASH

26 July 2022
Results Flash | Sector: Metals

Tata Steel

BSE SENSEX	S&P CNX
55,766	16,631

Conference Call Details

Date: 26th Jul'22
Time: 12:00 noon IST
Webcast details:
https://tinyurl.com/2sjjyjnr

Financials & valuations (INR b)

Y/E Mar	2021	2022E	2023E
Sales	2,440	2,420	2,453
EBITDA	635	409	487
PAT	402.4	192.8	246.2
EBITDA (%)	26.0	16.8	19.8
EPS (INR)	329.5	157.9	201.6
EPS Gr. (%)	377.4	-52.1	27.7
BV/Sh. (INR)	902	997	1,136
Ratios			
Net D/E	0.5	0.6	0.4
RoE (%)	44.6	16.6	18.9
RoCE (%)	29.2	16.3	19.1
Payout (%)	15.5	31.7	24.8
Valuations			
P/E (x)	2.6	5.4	4.2
P/BV (x)	0.9	0.9	0.8
EV/EBITDA (x)	2.4	4.2	3.3
Div Yield (%)	6.0	5.9	5.9
FCF Yield (%)	33.1	7.8	20.3

CMP: INR961 — Neutral

Surprises galore; TSE's EBITDA/t beats the parent first time ever

All-round beat, but sustainability of TSE remains the key

- **Tata Steel's standalone revenue** at INR317b (+18% YoY/-13% QoQ) was 7% above our est. of INR297b, driven by 7% beat on ASP. Revenue beat stood at INR21b.
- **Standalone ASP** at INR82,401/t was up 19% YoY and 12% QoQ driven by higher base and lower exports on QoQ basis. The ASP for the quarter improved by INR8,596/t.
- **EBTIDA** rose to INR97b (-28% YoY/-22% QoQ) and was 25% higher than our estimate of INR76b. The entire EBITDA beat was driven by 7% revenue beat.
- **Standalone EBITDA/t** was at INR24,622 (-26% YoY /flat QoQ). Despite 22% reduction in QoQ EBITDA, EBITDA/t was flat QoQ as the total sales volume was down 22% QoQ.
- Adjusted PAT stood at INR62b (-29% YoY/-22% QoQ) and was 39% ahead of our estimates.
- **Tata Steel Europe (TSE)** reported a record EBITDA of USD374/t (up 294% YoY, 39% QoQ) propelled by strong tailwind of contractual prices. The ASP increased GBP158/t QoQ. We believe the next round of contract renewals will happen at significantly lower prices as European HRC prices are down by almost 38% now v/s Apr'22 average.
- For the first time in the history since being acquired, TSE reported higher EBITDA/t than the parent entity, which we believe is unsustainable.
- **Consolidated revenue** stood at INR634b (+19% YoY/-9% QoQ) in line with our estimate of INR615b.
- **Consolidated EBITDA** stood at INR150b (-7% YoY/flat QoQ).
- **Consolidated EBITDA/t** was at a record INR22,618 (+31% YoY/+21% QoQ) v/s our estimate of INR17,226.
- **Consolidated Adjusted PAT** at INR78,042/t was down 14% YoY and 22% QoQ but was 30% ahead of our estimates driven by topline beat.
- **Net debt increased** to INR545b at end-1QFY23 from INR511b at end-4QFY22. However, this does not account for INR109b paid for the acquisition of NINL on 4th Jul'22.
- Net debt increased to INR654b after accounting for the payout of NINL acquisition.
- **The two important things that one needs to understand in our view are: a) what is the sustainable level of EBITDA/t at TSE and, b) will TSE take recourse to the parent's balance sheet in transitioning to green steel? These should ideally define the valuation and stock trajectory in our view, as steel prices have now dropped and it is a matter of time when TSE reports declining trend in EBITDA as well.**
- **Maintain Neutral with a TP of INR975 based on SoTP valuation.**

Quarterly Performance (Standalone) INR b

Y/E March	FY22				FY23E				FY22	FY23E	FY22E	v/s Est
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	(%)
Steel Sales ('000 tons)	3,990	4,420	4,250	4,970	3,886	4,350	4,420	4,509	17,630	17,165	3,886	0
Avg Seg. Realn. (INR/tss)	69,413	73,937	75,210	73,805	82,401	64,806	64,906	66,906	73,183	69,367	77,006	7
Net Sales	**277.0**	**326.8**	**319.6**	**366.8**	**320.2**	**281.9**	**286.9**	**301.7**	**1,290.2**	**1,190.7**	**299.2**	**7**
Change (YoY %)	*196.6*	*51.3*	*77.9*	*73.0*	*15.6*	*-13.7*	*-10.3*	*-17.8*	84.0	-7.7	8.0	
Change (QoQ %)	*30.6*	*18.0*	*-2.2*	*14.8*	*-12.7*	*-5.8*	*1.8*	*5.2*			-18.4	
EBITDA	**133.0**	**134.3**	**121.7**	**122.3**	**95.7**	**47.6**	**63.8**	**70.6**	**511.3**	**277.6**	**76.5**	**25**
Change (YoY %)	*962.9*	*134.6*	*81.6*	*33.2*	*-28.0*	*-64.6*	*-47.6*	*-42.3*	123.6	-45.7	-42.5	
Change (QoQ %)	*44.7*	*1.0*	*-9.4*	*0.5*	*-21.8*	*-37.7*	*34.0*	*10.6*			-37.5	
(% of Net Sales)	48.0	41.1	38.1	33.4	29.9	16.9	22.2	23.4	39.6	23.3	25.6	
Spreads	55,181	55,428	53,240	44,685	49,531	37,019	40,138	41,538	53,517	41,842	47,010	5
Conv. Cost	21,854	25,044	24,609	20,069	24,909	26,076	25,710	25,890	22,896	25,669	27,331	-9
EBITDA(INR/tss)	33,327	30,385	28,631	24,616	24,622	10,943	14,429	15,649	30,621	16,173	19,679	25
EBITDA(USD/tss)	452	411	383	327	326	145	191	206	411	210	261	25
Interest	7.7	7.3	6.4	6.5	7.2	6.9	6.9	6.9	27.9	27.8	7.9	-8
Depreciation	13.7	13.5	13.6	13.8	13.4	13.6	13.6	13.6	54.6	54.1	13.6	-1
Other Income	2.8	3.8	2.8	5.1	7.4	3.8	3.8	4.1	14.5	19.1	3.6	103
PBT (after EO Inc.)	**115.9**	**116.0**	**102.6**	**106.4**	**81.8**	**30.0**	**46.2**	**53.2**	**440.9**	**211.3**	**57.7**	**42**
Total Tax	28.1	28.9	25.8	28.0	20.7	7.4	11.3	13.0	110.8	52.4	14.1	46
% Tax	24.2	24.9	25.1	26.3	25.3	24.5	24.5	24.5	25.1	24.8	24.5	
Reported PAT	**87.8**	**87.1**	**76.8**	**78.4**	**61.1**	**22.7**	**34.9**	**40.2**	**330.1**	**158.9**	**43.6**	**40**
Adjusted PAT	**86.3**	**88.4**	**78.6**	**79.2**	**61.7**	**23.6**	**35.8**	**41.2**	**332.5**	**162.3**	**44.5**	**39**
Change (YoY %)	-2,322.1	246.9	104.8	40.2	-28.5	-73.3	-54.4	-48.0	**197.7**	**-51.2**	-48.4	
Change (QoQ %)	52.9	2.5	-11.0	0.7	-22.1	-47.8	51.6	14.8			-43.8	

Source: MOSL, Company

Quarterly Performance (Consolidated) INR b

Y/E March	FY22				FY23E				FY22	FY23E	FY23	vs Est
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	(%)
Net Sales	**534.9**	**604.0**	**607.8**	**693.2**	**634.3**	**594.1**	**593.2**	**598.8**	**2,440**	**2,420**	**617.3**	**3**
Change (YoY %)	110.0	55.1	45.1	38.7	18.6	-1.6	-2.4	-13.6	56.1	0.8	15.4	
Change (QoQ %)	*7.0*	*12.9*	*0.6*	*14.1*	*-8.5*	*-6.3*	*-0.2*	*1.0*			-11.0	
EBITDA	**161.1**	**164.6**	**158.9**	**150.3**	**149.7**	**75.6**	**101.4**	**81.6**	**635**	**409**	**114.9**	**30**
Change (YoY %)	2,886.8	164.9	66.1	6.0	-7.1	-54.1	-36.2	-45.7	108.1	35.7	-28.7	
Change (QoQ %)	*13.6*	*2.1*	*-3.4*	*-5.4*	*-0.4*	*-49.5*	*34.2*	*-19.5*			-23.5	
(% of Net Sales)	30.1	27.2	26.1	21.7	23.6	12.7	17.1	13.6	26.0	16.8	18.6	
EBITDA(USD/tss)	**307**	**301**	**303**	**249**	**293**	**130**	**172**	**136**	**272**	**180**	**223**	**31**
Interest	18.1	10.2	15.3	11.0	12.2	13.0	12.6	12.2	54.6	50.0	13.4	-9
Depreciation	23.2	22.9	22.4	22.4	22.4	22.4	22.7	22.7	91.0	90.1	24.0	-7
Other Income	1.6	2.7	0.6	2.9	2.7	1.5	1.5	1.5	7.8	7.2	1.5	79
PBT (before EO Inc.)	**121.4**	**134.2**	**121.8**	**119.8**	**117.9**	**41.7**	**67.7**	**48.3**	**497**	**276**	**79.0**	**49**
EO Income(exp)	-1.8	5.2	-1.9	-2.7	-0.4	-1.0	-1.0	-1.0	-1.3	-3.3	-1	
PBT (after EO Inc.)	**119.5**	**139.3**	**119.8**	**117.1**	**117.5**	**40.8**	**66.7**	**47.3**	**496**	**272**	**78.0**	**51**
Total Tax	23.1	15.7	25.7	20.3	41.9	10.2	23.3	11.8	84.8	87.3	19.5	
% Tax	19.0	11.7	21.1	16.9	35.6	24.4	34.5	24.5	17.1	31.6	24.7	
Reported PAT	**96.5**	**123.6**	**94.2**	**96.8**	**75.5**	**30.6**	**43.4**	**35.5**	**411**	**185**	**58.5**	**29**
Adj. PAT (after MI & asso)	**90.9**	**114.0**	**97.7**	**100.3**	**78.0**	**32.2**	**45.0**	**37.1**	**402**	**192**	**60.2**	**30**
Change (YoY %)	NA	650.9	153.6	31.4	-14.1	-71.7	-53.9	-63.0	371.6	52.2	-33.8	
Change (QoQ %)	19.0	25.4	-14.3	2.7	-22.2	-58.7	39.6	-17.5			-40.0	

Tech Mahindra

Estimate change	↓
TP change	↔
Rating change	↔

Bloomberg	TECHM IN
Equity Shares (m)	919
M.Cap.(INRb)/(USDb)	988.9 / 12.4
52-Week Range (INR)	1811 / 930
1, 6, 12 Rel. Per (%)	-2/-29/-15
12M Avg Val (INR M)	4647

Financials & Valuations (INR b)

Y/E Mar	2022	2023E	2024E
Sales	446	537	594
EBIT Margin (%)	14.6	12.3	13.2
PAT	56	54	65
EPS (INR)	62.6	61.3	73.9
EPS Gr. (%)	21.2	(2.0)	20.5
BV/Sh. (INR)	305.2	321.4	341.0
Ratios			
RoE (%)	21.5	19.7	22.4
RoCE (%)	21.0	19.7	22.1
Payout (%)	71.9	75.0	75.0
Valuations			
P/E (x)	16.1	16.5	13.7
P/BV (x)	3.3	3.2	3.0
EV/EBITDA (x)	10.9	10.3	8.8
Div Yield (%)	4.4	4.5	5.5

Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	35.2	35.3	35.7
DII	20.9	18.2	16.7
FII	30.4	34.3	36.2
Others	13.4	12.3	11.4

FII Includes depository receipts

CMP: INR1,017 TP: INR1,035 (+2%) Neutral

Awaiting greater comfort on a margin recovery

5G unlikely to drive the upside in near term growth

- TECHM reported a 1QFY23 revenue of USD1.63b, up 3.5% QoQ CC (including an inorganic component of 40bp), ahead of our estimate of 2.8% QoQ. Reported growth was 1.5% QoQ in 1QFY23, led by a 1.8%/1% growth in enterprise (Technology and Retail)/Communications. While its revenue performance was good, it saw a big dip in its EBIT margin (down 220bp QoQ to 11%, 30bp below our estimate) due to a partial wage revision, lower utilization, and a normalization in SG&A spend. It reported a TCV of USD802m in 1QFY23, down 21% QoQ.
- Performance in 1QFY23 was aided by continued strength in the demand environment (in line with its peers), along with strong deal wins in 4QFY22. While we expect the company to sustain its good revenue performance over FY23 (MOFSLe of over 16% YoY), we continue to factor in a growth moderation in FY24, despite the continued positive commentary on 5G spends. This spend is likely to be in the medium term on account of growth and monetization uncertainty on the telco side, which will have a near to medium term impact. TECHM should deliver a USD revenue CAGR of 12% over FY22-24.
- We are concerned about TECHM's weak margin performance in 1QFY23 as it has twice missed its margin expectations in the last two quarters. As the company starts its recovery process, we see a high probability of it missing its 4Q exit margin rate of 14%, due to: a) a 100bp impact from a wage hike in 2QFY23, and b) relatively less support from utilization and fresher addition as levers as compared to its peers. We expect margin to remain at 12.3% in FY23, with the exit margin of 13.6%, 40bp below its guidance. We don't expect TECHM to normalize margin to 14% in FY24.
- We continue to stay on the sidelines on TECHM as we feel the current valuations fairly factor in better business dynamics against a moderation in profitability. We marginally tweak our estimates to account for lower margin. Our TP implies 14x FY24E EPS. We **remain Neutral** on the stock**.**

Revenue beat in 1QFY23, but large margin drop hits earnings

- TECHM reported a revenue of USD1.63b (up 3.5% QoQ in CC terms, up 1.5% QoQ, and up 3.1% in organic CC terms; est. 2.8% in CC terms).
- EBIT margin fell 220bp QoQ and 420bp YoY to 11%, 30bp below our estimate.
- PAT fell 25% QoQ to INR11.3b, 7% below our estimate, despite a lower tax rate (down 22.8%).

Key highlights from the management commentary

- In the CME vertical, while a weakening macro environment is coming up in client conversations, TECHM is not seeing any budget cuts and the deal pipeline remains strong.
- 5G spends remain robust. There is a strong focus on capacity building and carrier additions. It is not seeing any impact from macro-related concerns.
- The management aims to raise margin by 100-150bp per quarter to reach 14% exit margin in 4QFY23.

Valuation and view

- TECHM's high exposure to the Communications vertical remains a potential opportunity as a broader 5G rollout can result in a new spending cycle in this space. The company is seeing traction in 5G investments.
- We expect TECHM to deliver mid-teen growth in FY23. We value the stock at 14x FY24E EPS. **We maintain our Neutral rating.**

Quarterly performance **(INR b)**

Y/E March	FY22				FY23				FY22	FY23E	FY23E	Var.
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	(%/bp)
Revenue (USD m)	1,384	1,473	1,534	1,608	1,633	1,685	1,722	1,778	5,998	6,817	1,627	0.3
QoQ (%)	4.1	6.4	4.1	4.9	1.5	3.2	2.2	3.2	17.4	13.7	1.1	35bp
Revenue (INR b)	102	109	115	121	127	133	136	140	446	537	125	1.4
YoY (%)	12.0	16.1	18.7	24.5	24.6	22.3	18.8	15.9	17.9	20.2	22.8	178bp
GPM (%)	31.7	31.7	30.1	29.3	28.3	28.6	29.5	30.4	30.6	29.2	27.8	46bp
SGA (%)	13.3	13.3	12.1	12.1	13.5	13.2	13.0	13.0	12.7	13.2	12.5	97bp
EBITDA	19	20	21	21	19	21	22	24	80	86	19	-1.9
EBITDA Margin (%)	18.4	18.3	18.0	17.2	14.8	15.4	16.5	17.4	18.0	16.1	15.3	-51bp
EBIT	15	17	17	16	14	15	17	19	65	66	14	-0.9
EBIT Margin (%)	15.2	15.2	14.8	13.2	11.0	11.6	12.7	13.6	14.6	12.3	11.3	-26bp
Other income	2	2	2	3	1	2	2	3	10	8	2	-65.5
ETR (%)	23.9	29.4	26.9	17.5	22.8	26.5	26.5	26.5	24.4	25.7	26.0	-325bp
Adj. PAT	14	13	14	15	11	13	14	16	56	54	12	-6.9
QoQ (%)	11.7	-1.1	2.2	10.0	-24.8	14.5	10.7	9.6			-19.2	-560bp
YoY (%)	39.2	25.7	4.5	24.3	-16.4	-3.2	4.8	4.3	22.1	-2.4	-10.2	-623bp
Extra-Ordinary Item	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Reported PAT	14	13	14	15	11	13	14	16	56	54	12	-6.9
EPS (INR)	15.3	15.1	15.5	16.9	12.8	14.6	16.2	17.7	62.6	61.3	13.7	-6.6

E: MOFSL estimates

Macrotech Developers

BSE SENSEX	S&P CNX
55,766	16,631

Conference Call Details

Date: 26 July 2022

Time: 16:00 IST

Dial-in details:

+91-22 6280 1342

Financials & Valuations (INR b)

Y/E Mar	2022	2023E	2024E
Sales	92.3	94.3	94.3
EBITDA	21.2	24.2	25.6
EBITDA Margin (%)	23.0	25.7	27.2
PAT	12.1	16.9	18.5
EPS (INR)	25.1	35.1	38.4
EPS Gr. (%)	40.3	96.0	54.1
BV/Sh. (INR)	252.6	286.5	324.9
Ratios			
RoE (%)	13.6	13.0	12.6
RoCE (%)	7.3	8.5	9.6
Payout (%)	0.0	0.0	0.0
Valuations			
P/E (x)	46.1	28.9	26.3
P/BV (x)	4.6	3.5	3.1
EV/EBITDA (x)	30.6	22.7	19.8
Div yld (%)	0.0	0.0	0.0

CMP: INR1,159 Buy

Best ever first quarter for pre-sales; net debt falls further

Margin impacted by recognition of low-profit margin projects

Operational performance

- As disclosed in its operational update, **LODHA reported its best-ever first quarter pre-sales, with sales bookings of INR28b**. **Residential pre-sales** stood at INR24b, which jumped threefold YoY, but **fell 23% QoQ.**
- Bookings in **South and Central Mumbai/Thane declined by 20%/22% QoQ to INR9b/INR4b.** The same in the **extended eastern suburbs** was flat at INR7b.
- **Sales volume fell 27% QoQ to 2.2msf**. Blended realization grew 6% QoQ to INR11,400/sq. ft. **At the portfolio level, LODHA raised prices by 1.7% QoQ.**
- The company launched 2.7msf of projects and delivered 1.2msf in 1QFY23. It **expects to launch 8.5msf of projects in the remainder of FY23,** including the launch of newly added projects, taking **cumulative launches to 11.2msf v/s 8.8msf guided for in 4QFY22.**
- LODHA **added three new projects with a saleable area of 5.1msf and a revenue potential of INR62b**. It aims to add projects with INR150b of GDV in FY23.

Cash flow performance

- Collections fell 8% QoQ, but improved 56% YoY to INR26b. **OCF was flat sequentially at INR14b.** In FY23, the management aims to generate an OCF of INR60b.
- Excluding INR6.4b of land and JV-related investments and INR2.7b of interest outgo, the net surplus stood at INR4.4b, which was utilized to repay debt.
- **Net debt declined to INR88b v/s INR92b at the end of Mar'22**. D/E ratio stood at 0.7x. The **exit cost of debt declined by 40bp to 10.1%.**

Financial performance

- Revenue grew 67% YoY, but fell 22% QoQ to INR26.8b, 42% higher than our estimate due to higher than expected completions.
- EBITDA was in line at INR4.7b. Reported EBITDA margin fell 600bp YoY and 800bp QoQ to 17% due to higher interest charge-off in COGS from low margin projects.
- Adjusted EBITDA (excluding interest charge-off and capitalized interest cost) stood at INR90b, with an EBITDA margin of 34%.
- Adjusted PAT (excluding forex) stood at INR3.6b, at a margin of 13%.

Other highlights – Moderation in costs and a formal dividend payout

- **Costs declined by 2.2% since Mar'22**, led by a reduction in steel prices and certain other materials. Total cost increase since Apr'21 now stands at 9% versus 13% in Mar'22 implying a margin impact of 2% for LODHA
- LODHA announced a **formal dividend payout policy. The management intends to pay out 15-20% of PAT as dividend beginning FY23,** subject to: 1) a net debt-to-OCF threshold of 1x; 2) Investments required for new project additions; and 3) sufficient cash buffers in case of extreme macro events.

Quarterly performance

Y/E March	FY22				FY23				FY22	FY23E	FY23E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE
Gross Sales	**16,054**	**21,238**	**20,594**	**34,446**	**26,758**	**21,211**	**23,568**	**22,734**	**92,332**	**94,270**	**18,854**
Change (YoY %)	221	136	36	36	67	0	14	-34	69.5	2.1	17.4
Total Expenditure	12,295	17,320	15,737	25,733	22,091	15,920	17,355	14,655	71,085	70,021	14,327
EBITDA	**3,759**	**3,918**	**4,858**	**8,713**	**4,667**	**5,291**	**6,213**	**8,079**	**21,247**	**24,249**	**4,527**
Margin (%)	23.4	18.4	23.6	25.3	17.4	24.9	26.4	35.5	23.0	25.7	24.0
Adj. EBITDA (as per co.)	**5,370**	**7,780**	**6,980**	**12,300**	**9,030**	**6,665**	**7,588**	**9,454**	**32,430**	**24,249**	**5,902**
Margin (%)	33.5	36.6	33.9	35.7	33.7	31.4	32.2	41.6	35.1	25.7	31.3
Depreciation	186	184	187	190	196	192	192	189	748	769	192
Interest	2,451	1,562	1,573	1,218	1,193	876	793	484	6,803	3,346	959
Other Income	1,070	778	893	719	0	710	710	1,508	3,460	2,928	710
PBT before EO expense	**2,191**	**2,950**	**3,991**	**8,023**	**3,278**	**4,933**	**5,938**	**8,914**	**17,156**	**23,062**	**4,086**
Extra-Ord. expense	0	0	0	0	0	0	0	0	0	0	0
PBT	**2,191**	**2,950**	**3,991**	**8,023**	**3,278**	**4,933**	**5,938**	**8,914**	**17,156**	**23,062**	**4,086**
Tax	588	719	1,131	2,643	559	1,307	1,574	2,672	5,080	6,111	1,083
Rate (%)	26.8	24.4	28.3	32.9	17.0	26.5	26.5	30.0	0.3	0.3	26.5
Minority Interest	-5	-2	-3	0	6	15	15	15	-10	61	15
Reported PAT	**1,608**	**2,234**	**2,864**	**5,380**	**2,713**	**3,610**	**4,349**	**6,227**	**12,085**	**16,889**	**2,988**
Adj. PAT (as per co.)	**1,220**	**2,870**	**2,790**	**5,730**	**3,550**	**3,610**	**4,349**	**6,227**	**12,610**	**16,889**	**2,988**
Change (YoY %)	-188	363	123	97	191	26	56	9	270.9	NA	144.9
Margin (%)	7.6	13.5	13.5	16.6	13.3	17.0	18.5	27.4	13.7	17.9	15.8

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

Operational performance

Key metrics	FY22				FY23	FY22	FY23E	FY23E
	1Q	2Q	3Q	4Q	1Q			1QE
Sale Volume (msf)	0.7	1.8	2.4	3.1	2.2	8.0	9.5	2.1
Sale Value (INR b)	9.6	20.0	26.1	33.8	28.1	90.2	118.5	28.1
Collections (INR b)	17.1	19.1	21.3	21.5	26.2	77.6	100.3	26.2
Realization (INR/sq. ft.)	11,729	10,483	10,842	10,749	11,027	10,554	11,403	11,429

Source: MOFSL, Company

pdf

25 July 2022
1QFY23 Results Update | Sector: Financials

Canara Bank

Estimate change	↑
TP change	↑
Rating change	↔

Bloomberg	CBK IN
Equity Shares (m)	1,814
M.Cap.(INRb)/(USDb)	407.6 / 5.1
52-Week Range (INR)	273 / 142
1, 6, 12 Rel. Per (%)	15/5/49
12M Avg Val (INR M)	2966

Financials & Valuations (INR b)

Y/E March	FY22	FY23E	FY24E
NII	263.8	301.5	352.7
OP	244.4	269.4	305.9
NP	56.8	84.9	109.0
NIM (%)	2.4	2.5	2.6
EPS (INR)	32.8	46.8	60.1
EPS Gr. (%)	111.3%	42.5%	28.5%
BV/Sh. (INR)	338.6	382.4	438.0
ABV/Sh. (INR)	259.3	313.2	375.8
Ratios			
RoE (%)	9.1	12.1	13.8
RoA (%)	0.5	0.7	0.8
Valuations			
P/E (x)	6.8	4.8	3.7
P/BV (x)	0.7	0.6	0.5
P/ABV (x)	0.9	0.7	0.6

Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	62.9	62.9	69.3
DII	13.8	13.6	12.4
FII	8.0	8.5	3.9
Others	15.3	15.0	14.4

FII Includes depository receipts

CMP: INR225 TP: INR300 (+34%) Buy

Loan growth steady; treasury gains support earnings

Asset quality continues to improve

- Canara Bank (CBK) reported a steady operating performance with NII growth of 10% YoY (7% miss). Healthy treasury gains and traction in fee income led to 13% beat in total revenue (16% YoY). Margin contracted 15bp QoQ to 2.8% while PPoP grew 21% YoY (18% YoY rise in Core PPoP).
- On the business front, CBK witnessed strong demand momentum as it clocked 6% QoQ/15% YoY growth in advances. Growth was driven by the corporate segment with a sharp jump of 8.9% QoQ. Thus, the share of corporate in mix improved 160bp to 46.6%. Deposits, conversely, grew 3% QoQ led by term deposits as CASA deposits saw a sequential decline of 2%.
- Fresh slippages moderated 17% QoQ to INR39.5b, while healthy recoveries and upgrades of INR22.3b along with higher write-offs worth INR26.4b led to improvements in asset quality ratios. GNPA/NNPA improved 53bp/17bp QoQ to 6.98%/2.48%, respectively.
- Further, SMA overdue declined to 1.29% from 1.53% in 4QFY22, while the restructured portfolio improved 36bp to ~2.4% of loans. We raise our PAT estimates by 14%/16% for FY23/24, respectively, to account for higher other income and loan growth. We expect CBK to deliver FY24E RoA/RoE of 0.8%/13.8%. **Retain BUY with a TP of INR300 (based on 0.8x FY24E ABV).**

Surprising treasury performance led to earnings beat; PCR stable at 66%

- CBK reported a PAT of INR20.2b (+72% YoY) fueled by strong treasury gains. NII grew 10% YoY (7% miss), aided by healthy 15% YoY loan growth while margin contraction of 15bp QoQ acted as a drag.
- Other income surged 25% YoY due to robust performance in treasury and traction in fee income. Total revenue, thus, grew 16% YoY (13% beat).
- Operating expenses rose 11% YoY due to rise in other expenses as employee cost was stable. PPoP, thus, grew 21% YoY to INR66.1b (14% beat).
- On the business front, demand for loans witnessed strong momentum with a sharp growth of 8.9% QoQ in corporate segment. Share of corporate in mix thus improved 160bp to 46.6%.
- Deposits saw weaker trend with a growth of 9% YoY/3% QoQ. CASA deposits declined 2% QoQ, while CASA ratio stood at 34.3% (-160bp QoQ).
- Fresh slippages moderated 17% QoQ to INR39.5b while higher recoveries, upgrades and write offs aided 53bp/17bp decline in the GNPA/NNPA ratios to 6.98%/2.48%, respectively. PCR remained stable at 66%.

Highlights from the management commentary

- Management is confident of sustaining growth in advances led by a broad-based performance across all segments
- CASA deposits should see a double-digit growth in 2QFY23 after a soft 1Q.
- NIMs should improve as CBK benefits from higher interest rates over the next few quarters.

Valuation and view: Building foundation for stronger return; maintain BUY

CBK reported a steady operating performance supported by healthy loan growth and improvement in asset quality while NII growth was soft as margin contracted 15bp QoQ. However, management expects to recoup this as the benefit of rising rate will flow through in the coming quarters. Loan growth was led by the corporate segment and outlook for rest of the year is encouraging as CBK aspires for a 15% growth in FY23. Slippages were flat sequentially, despite downgrade of a lumpy corporate account. Asset quality ratios improved further underpinned by higher recoveries and upgrades. Declines in SMA overdue and restructured portfolio provide incremental comfort on asset quality trends. We estimate an RoA/RoE of 0.8%/13.8% by FY24. **Maintain BUY with a TP of INR300 (based on 0.8x FY24E ABV).**

Quarterly performance **(INR b)**

	FY22				FY23E				FY22	FY23E	FY23E	V/S our
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	Est
Net Interest Income	**61.6**	**62.7**	**69.4**	**70.1**	**67.8**	**73.6**	**78.1**	**82.0**	**263.8**	**301.5**	**72.8**	**(7)**
% Change (Y-o-Y)	1.0	-0.5	14.1	24.9	10.2	17.3	12.4	17.0	9.5	14.3	18.2	
Other Income	41.6	42.7	36.1	44.6	51.8	40.1	42.0	44.3	165.0	178.2	33.4	55
Total Income	**103.2**	**105.4**	**105.6**	**114.7**	**119.6**	**113.7**	**120.1**	**126.3**	**428.8**	**479.7**	**106.2**	**13**
Operating Expenses	48.3	49.4	47.5	52.7	53.5	51.5	52.2	53.1	184.4	210.3	48.2	11
Operating Profit	**54.8**	**56.0**	**58.0**	**62.0**	**66.1**	**62.1**	**68.0**	**73.2**	**244.4**	**269.4**	**58.0**	**14**
% Change (Y-o-Y)	27.9	21.9	10.2	18.8	20.5	10.9	17.2	18.0	24.2	10.2	5.7	
Other Provisions	34.6	33.6	22.4	37.1	36.9	34.9	34.6	34.4	141.3	140.8	36.9	(0)
Exceptional Item (Exp)	NA	NA	0.0	NA	NA	NA	NA	NA	13.5	NA	NA	
Profit before Tax	**20.2**	**22.4**	**35.6**	**24.9**	**29.2**	**27.2**	**33.3**	**38.8**	**89.6**	**128.6**	**21.0**	**39**
Tax	8.4	9.1	7.0	8.3	8.9	9.3	11.3	14.2	32.8	43.7	7.1	25
Net Profit	**11.8**	**13.3**	**28.6**	**16.7**	**20.2**	**18.0**	**22.0**	**24.7**	**56.8**	**84.9**	**13.9**	**46**
% Change (Y-o-Y)	189.8	199.9	310.5	64.8	71.7	34.8	-23.0	48.0	122.0	49.4	17.8	
Operating Parameters												
Deposit (INR b)	10,218	10,325	10,434	10,864	11,181	11,244	11,570	11,951	10,864	11,951	11,021	1
Loan ((INR b)	6,485	6,496	6,922	7,036	7,469	7,356	7,631	7,951	7,036	7,951	7,144	5
Deposit Growth (%)	12.3	8.8	7.2	7.5	9.4	8.9	10.9	10.0	7.5	10.0	7.9	2
Loan Growth (%)	5.1	5.4	9.1	10.1	15.2	13.2	10.2	13.0	10.1	13.0	10.2	5
Asset Quality												
Gross NPA (%)	8.5	8.4	7.8	7.5	7.0	6.8	6.5	6.1	7.5	6.1	7.3	(0)
Net NPA (%)	3.5	3.2	2.9	2.7	2.5	2.4	2.2	2.0	2.7	2.0	2.6	(0)
PCR (%)	61.5	63.9	65.2	66.5	66.2	66.4	66.8	68.2	65.9	68.2	66.0	0

E:MOFSL Estimates

GSK Pharma

Estimate change	
TP change	
Rating change	

Bloomberg	GLXO IN
Equity Shares (m)	169
M.Cap.(INRb)/(USDb)	253.1 / 3.2
52-Week Range (INR)	1841 / 1376
1, 6, 12 Rel. Per (%)	-6/-6/-16
12M Avg Val (INR M)	111

Financials &valuations(INR b)

Y/E MARCH	FY22	FY23E	FY24E
Sales	32.8	33.8	36.8
EBITDA	7.6	8.1	9.2
Adj. PAT	5.7	6.0	6.8
EBIT Margin (%)	21.2	22.0	23.0
Cons. Adj. EPS (INR)	33.9	35.7	40.3
EPS Gr. (%)	24.9	5.4	13.1
BV/Sh. (INR)	157.2	169.9	187.2
Ratios			
Net D:E	-0.9	-0.8	-0.8
RoE (%)	21.6	21.0	21.6
RoCE (%)	27.7	21.9	22.8
Payout (%)	106.6	67.4	59.7
Valuations			
P/E (x)	44.2	42.0	37.1
EV/EBITDA (x)	29.5	28.0	24.3
Div. Yield (%)	2.0	1.3	1.3
FCF Yield (%)	4.4	1.5	2.7
EV/Sales (x)	6.9	6.7	6.1

Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	75.0	75.0	75.0
DII	10.7	10.7	10.9
FII	2.2	2.2	1.6
Others	12.2	12.1	12.5

FII Includes depository receipts

CMP: INR1,494 TP: INR1,580 (+6%) Neutral

Pain and vaccine therapies hinder revenue growth…

…but market share gains continue in focus brands

- GSK Pharma (GLXO) delivered lower-than-expected result in 1QFY23 owing to muted sales in pain/hormone therapies and delay in recovery of vaccine therapy sales.
- We cut our EPS estimates for FY23/FY24 by 4%/5%, respectively, factoring in slower off-take of vaccine segment and elevated operational costs. We expect 9% earnings CAGR over FY22-24.
- We value GLXO at 37x 12M forward earnings to arrive at our TP of INR1,580. **We maintain our Neutral rating given limited upside from current levels.**

Superior product mix drives profitability on YoY basis

- GLXO's revenue rose 4% YoY to INR7.5b (v/s est. of INR8.2b).
- Gross margin (GM) expanded 270bp YoY to 61.5% due to product mix.
- EBITDA margin improved at a lower rate of 150bp YoY to 20% because of higher other expenses (+430bp YoY as a % of sales) offset by lower employee cost (-310bp YoY as a % of sales).
- EBITDA grew 12.2% YoY to INR1.5b (v/s est. of INR1.9b)
- Adj. PAT rose 8.3% YoY to INR1.2b for the quarter (v/s est. of INR 1.4b)

Key highlights

- The quarterly growth underlines the strong momentum across focus brands.
- While GLXO has maintained its leadership position in the self-pay vaccines market, the overall vaccines market continues to be in a declining mode.
- During 1QFY23, GLXO launched the parent's innovative products, Trelegy Ellipta, the first single-inhaler triple therapy (SITT) in India for Chronic Obstructive Pulmonary Disease (COPD) patients in a once-daily regime for patients aged 18 years and above.
- Secondary sales data from AIOCD indicates that Dermatology /Anti-Infective (~29%/~26% of overall sales, respectively) saw a ~27%/20% YoY growth in 1QFY23, driving the outperformance against IPM.
- Neosporin/T-Bact in Derma therapy grew ~48.2%/41.5% YoY, respectively. Augmentin rose ~29% YoY in 1QFY23 according to AIOCD.
- Pain therapy (11% of sales) declined 21% YoY and Hormones therapy (8% of sales) declined 9% YoY in 1QFY23.
- Vaccines (~11% of sales) were flattish YoY, with sales recovering post-COVID. However, Infanrix Hexa vaccines exhibited 30% YoY growth for the quarter.
- GLXO reported a volume growth of 2% and price hike of 5.8% YoY for the 12M ending Jun'22 supported by the 2.1% growth from new launches.

Quarterly Performance (Consolidated) (INR m)

Y/E March	FY22				FY23E				FY22	FY23E		Chg.
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	(%)
Net Sales	**7,184**	**9,341**	**8,159**	**8,096**	**7,451**	**9,706**	**8,676**	**7,931**	**32,780**	**33,764**	**8,217**	**-9.3**
YoY Change (%)	10.8	6.2	3.0	8.8	3.7	3.9	6.3	-2.0	12.0	3.0	14.4	
Total Expenditure	5,857	6,761	6,181	6,344	5,962	7,066	6,489	6,176	25,142	25,693	6,327	
EBITDA	**1,327**	**2,581**	**1,978**	**1,752**	**1,489**	**2,640**	**2,186**	**1,755**	**7,639**	**8,071**	**1,890**	**-21.2**
YoY Change (%)	16.3	26.0	9.5	11.8	12.2	2.3	10.5	0.2	27.7	5.7	42.4	
Margins (%)	18.5	27.6	24.2	21.6	20.0	27.2	25.2	22.1	23.3	23.9	23.0	
Depreciation	175	174	179	154	158	162	168	171	682	659	120	
EBIT	**1,152**	**2,406**	**1,799**	**1,599**	**1,331**	**2,478**	**2,018**	**1,584**	**6,957**	**7,412**	**1,770**	
YoY Change (%)	24.8	31.6	10.3	15.0	15.6	3.0	12.2	-0.9	33.9	6.5	53.7	
Margins (%)	16.0	25.8	22.1	19.7	17.9	25.5	23.3	20.0	21.2	22.0	21.5	
Interest	8	4	6	3	7	8	10	15	20	40	16	
Other Income	317	150	103	188	276	165	165	84	757	689	165	
PBT before EO Expense	**1,461**	**2,552**	**1,897**	**1,784**	**1,600**	**2,635**	**2,173**	**1,653**	**7,694**	**8,061**	**1,919**	
Tax	388	644	335	585	438	659	532	386	1,953	2,015	480	
Rate (%)	26.6	25.2	17.7	32.8	27.4	25.0	24.5	23.4	48.6	25.0	25.0	**9.5**
Adjusted PAT	**1,073**	**1,908**	**1,562**	**1,198**	**1,162**	**1,976**	**1,641**	**1,267**	**5,742**	**6,046**	**1,439**	**-19.2**
YoY Change (%)	36.3	35.7	21.3	-2.3	8.3	3.6	5.0	5.7	24.9	5.4	34.1	
Margins (%)	14.9	20.4	19.1	14.8	15.6	20.4	18.9	16.0	17.5	17.9	17.5	
One-off Expense/(Income)	-138	-134	59	-11,404	0	0	0	0	-11,618	0	0	
Reported PAT	**1,211**	**2,042**	**1,504**	**12,602**	**1,162**	**1,976**	**1,641**	**1,267**	**17,360**	**6,046**	**1,439**	**-19.2**

Key performance Indicators (Consolidated)

Y/E March	FY22				FY23E				FY22	FY23E	
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE
Cost Break-up											
RM Cost (% of Sales)	41.2	41.6	39.2	43.4	38.5	39.8	39.8	37.6	41.4	38.5	40.0
Staff Cost (% of Sales)	23.4	17.1	17.5	17.3	20.3	16.5	17.0	22.2	18.6	20.3	18.0
Other Cost (% of Sales)	17.0	13.6	19.1	17.7	21.2	16.5	18.0	18.1	16.8	21.2	19.0
Gross Margin (%)	58.8	58.4	60.8	56.6	61.5	60.2	60.2	62.4	58.6	61.5	60.0
EBITDA Margin (%)	18.5	27.6	24.2	21.6	20.0	27.2	25.2	22.1	23.2	23.9	23.0
EBIT Margin (%)	16.0	25.8	22.1	19.7	17.9	25.5	23.3	20.0	21.2	22.0	21.5

Navin Fluorine

Estimate change	↑
TP change	↑
Rating change	↔

Bloomberg	NFIL IN
Equity Shares (m)	50
M.Cap.(INRb)/(USDb)	208.5 / 2.6
52-Week Range (INR)	4339 / 3196
1, 6, 12 Rel. Per (%)	11/14/2
12M Avg Val (INR M)	835

Financials & Valuations (INR b)

Y/E March	FY22	FY23E	FY24E
Sales	14.0	20.2	26.3
EBITDA	3.6	5.4	7.3
PAT	2.7	4.0	5.4
EPS (INR)	53.8	80.0	108.1
EPS Gr. (%)	6	49	35
BV/Sh.(INR)	376	440	526
Ratios			
Net D:E	(0.0)	0.0	0.0
RoE (%)	15.2	19.6	22.4
RoCE (%)	15.1	19.4	22.0
Payout (%)	20.4	20.4	20.4
Valuations			
P/E (x)	78.1	52.5	38.8
P/BV (x)	11.2	9.5	8.0
EV/EBITDA (x)	58.3	38.7	28.6
Div. Yield (%)	0.3	0.4	0.5
FCF Yield (%)	0.9	(0.0)	0.4

Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	9.5	9.5	11.4
DII	30.8	29.9	23.7
FII	47.8	48.1	53.7
Others	12.0	12.6	11.3

FII Includes depository receipts

CMP: INR4,200 TP: INR4,324 (+3%) Neutral

Focus remains on upgrading its Fluorination capabilities

- **NFIL reported an EBITDA/PAT that was 15%/8% lower than our estimate.** Gross margin stood in line at 55%, while EBITDA margin expanded by 200bp QoQ to 26%.
- Growth in 1QFY23 was led by strong growth in the High Performance Products (HPP)/Specialty Chemicals businesses (up 33%/32% YoY), driven by higher volumes, greater pricing power, and strong partnerships, which resulted in repeat orders from customers.
- The company implemented a new organizational structure with three separate business units led by three operating CEOs. **It has appointed Mr. Partha Roy Chowdhury as CEO of the HPP business vertical. Trial supplies to Honeywell have commenced, with commercial supplies to start shortly.**
- **We assume an EBITDA margin of 27-28% over FY23-24, factoring in commissioning of various projects already underway.** We raise our FY24 EBITDA/EPS estimate by 9% each on the back of new capex being announced, in addition to the already announced capex. Thus, providing greater revenue and earnings visibility to the company.
- **We expect a revenue/EBITDA/PAT CAGR of 37%/43%/42% over FY22-24,** and value the company at 40x FY24 EPS to arrive at our TP of INR4,324. We maintain our Neutral rating owing to the limited upside in the stock.

EBITDA misses our estimate; sequential expansion in margin

- NFIL reported a revenue of INR3.9b (up 23% YoY, but down 3% QoQ).
- EBITDA margin stood at 25.8% (up 100bp YoY and 180bp QoQ), with EBITDA at INR1b.
  - **Gross margin stood at 54.5% (v/s 52.3% in 4QFY22).**
- Reported PAT stood at INR790m (up 40% YoY, flat QoQ), translating into an EPS of INR16/share (v/s INR15.9 in 4QFY22).
- Other income in 1QFY23 included interest of INR9m accrued on additional income tax paid.
- NFIL has implemented a new organizational structure with three business units led by three operating CEOs.
  - **The HPP business contains Refrigerant Gases, Inorganic Fluorides, and HPP, while the CDMO business contains CRAMs. The third business vertical is the Specialty Chemicals business.**

Specialty Chemicals business leads the show in segmental revenue

- The **HPP business** posted an in line revenue of INR1.5b (up 33% YoY), driven by higher volumes as well as strong pricing power.
  - The manufacturing plant for Honeywell International at Dahej was inaugurated on 12th Jul'22 and revenue from the same will start flowing in from 2QFY23.
- A debottlenecking capex of INR800m has been approved by the board for a new molecule in the HPP business unit in Surat.

- The **Specialty Chemicals business** posted an in line revenue of INR1.8b (up 32% YoY and 11% QoQ) in 1QFY23, backed by strong partnerships and repeat orders from customers.
  - The pipeline remains strong given the growth opportunities, especially in Agrochemicals.
- The **CDMO business** reported weak numbers in 1QFY23, with a revenue of INR590m (34% lower than our estimate, down 12% YoY and 33% QoQ).
  - The management's focus remains on expanding its project pipeline and further diversifying its customer base, with capacity expansion at its c-GMP-3 plant on track to be commissioned in 3QFY23.
- **The revenue mix in 1QFY23 stood at 39%/15%/45% for the HPP/CDMO/ Specialty Chemicals business (v/s 38%/22%/40% in 4QFY22).**
- Domestic sales constituted 54% of total revenue in 1QFY23, while the rest was exports (51% in 4QFY22). Domestic sales from the HPP/Specialty Chemicals business stood at 78%/52%. Exports from the CDMO business constituted 100% of revenue.

Valuation and view

- **The board has approved a debottlenecking capex of INR800m for a new molecule in HPP, which is expected to be completed by Jul'23 (revenue potential of INR1.5b).** cGMP-3 debottlenecking is to be completed in 3QFY23. The business case for cGMP-4 is being prepared to take to the board for approval, which is a potential growth opportunity.
- The Specialty Chemicals and the CDMO businesses will continue to drive robust growth (17-20% CAGR over FY22-24E), with increasing use of fluorine in the Pharma and Agro space.
- The management expects MPP to hit peak annual revenue in the next three years. The plant will be commissioned in phases from 2QFY23. The same for other projects may be achieved within two years of commissioning.
- The stock is trading at 53x/39x FY23E/FY24E EPS of INR80/INR108, with an expected improvement in return ratios to 19-22% (up 600bp from FY21 levels), despite a huge capex (INR6.8b over the next two years). We value NFIL at 40x FY24E EPS to arrive at our TP of INR4,324. We maintain our Neutral rating.

Standalone quarterly snapshot **(INR m)**

Y/E March	FY22				FY23				FY22	FY23E	FY23E	Var.
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	(%)
Gross Sales	**3,139**	**3,244**	**3,670**	**3,984**	**3,868**	**5,050**	**5,151**	**6,130**	**14,036**	**20,199**	**4,595**	**-16%**
Change (YoY %)	53.3	5.4	23.7	22.9	23.3	55.6	40.4	53.9	23.9	43.9	41.8	
Gross Margin (%)	55%	55%	56%	52%	55%	55%	55%	54%	55%	55%	55%	0%
EBITDA	**780**	**835**	**981**	**958**	**999**	**1,333**	**1,390**	**1,650**	**3,554**	**5,373**	**1,173**	**-15%**
Margin (%)	24.8	25.8	26.7	24.0	25.8	26.4	27.0	26.9	25.3	26.6	25.5	0.3
Depreciation	109	110	112	112	115	119	123	106	443	463	116	
Interest	4	3	4	6	3	3	3	7	17	17	4	
Other Income	76	85	72	141	142	116	76	70	375	404	101	
PBT before EO expense	**743**	**808**	**937**	**982**	**1,023**	**1,327**	**1,340**	**1,607**	**3,470**	**5,296**	**1,154**	**-11%**
Extra-Ord. expense	0	0	0	0	0	0	0	0	0	0	0	
PBT	**743**	**808**	**937**	**982**	**1,023**	**1,327**	**1,340**	**1,607**	**3,470**	**5,296**	**1,154**	**-11%**
Tax	179	187	246	194	234	334	338	427	805	1,333	291	
Rate (%)	24.1	23.2	26.2	19.8	22.8	25.2	25.2	26.6	23.2	25.2	25.2	
Reported PAT	**564**	**621**	**692**	**788**	**790**	**993**	**1,001**	**1,179**	**2,664**	**3,963**	**862**	**-8%**
Adj. PAT	**564**	**621**	**692**	**788**	**790**	**993**	**1,001**	**1,179**	**2,664**	**3,963**	**862**	**-8%**
Change (YoY %)	9.4	-7.8	17.8	11.0	39.9	59.9	44.8	49.7	6.2	48.7	21.6	
Margin (%)	18.0	19.1	18.8	19.8	20.4	19.7	19.4	19.2	19.0	19.6	18.8	1.6

IIFL Wealth

BSE Sensex	S&P CNX
55,766	16,631

Conference Call Details

Date: 26 July 2022
Time: 14:00 IST
Dial-in details:
Link for the call

Financials & Valuations (INR b)

Y/E March	2022	2023E	2024E
Net Revenues	14.0	15.4	17.2
Opex	7.8	7.4	8.2
Core PBT	6.1	8.0	9.0
PAT	5.8	6.9	7.8
EPS	65.2	77.9	87.7
EPS Grw (%)	55.1	19.5	12.6
BV	337.9	353.5	371.0
Ratios			
PBT margin (bp)	26.2	29.1	29.5
PAT margin (bp)	24.7	25.2	25.4
RoE (%)	19.8	22.5	24.2
Div. Payout (%)	84.0	80.0	80.0
Valuations			
P/E (x)	25.2	21.0	18.7
P/BV (x)	4.9	4.6	4.4
Div. Yield (%)	3.3	3.8	4.3

CMP: INR1,639 | **Buy**

Strong operational performance

- IIFLWAM's PAT declined 5% QoQ, but grew 34% YoY to INR1.6b (4% beat) in 1QFY23. The beat on profitability was driven by a 5% beat on net revenue (down 11% QoQ but up 32% YoY to INR3.8b) owing to a 34% beat on Transaction/Brokerage Revenue (TBR), whereas Annual Recurring Revenue (ARR) was 4% lower than our estimate.
- Opex stood at INR1.7b, a decline of 29% QoQ / 9% YoY growth and 7% below our estimate. The sequential decline was mainly attributable to a sharp fall of 68% in variable employee expenses. Admin costs also declined 24% QoQ.
- The cost/income ratio came in at 44.5% (est. 50.4%), down 1,100bp QoQ, and 950bp YoY.
- Sequentially, net inflows moderated slightly to INR60.8b in 1QFY23 (excluding custody) from INR70.4b in 4QFY22.
- Gross closing AUM (excluding custody assets) dropped QoQ but registered 7% YoY growth, with a continued shift in the mix towards ARR assets. ARR's share stood at 57% v/s 55% in 4QFY22. The share of ARR in overall revenue stood at 68% v/s 60% last quarter, with normalization of TBR revenue. Within ARR assets, IIFL One AUM saw a marginal dip of 1% QoQ.

Gross AUM declines QoQ to INR2.5t; shift in mix favors ARR assets

- On a closing AUM basis, ARR assets dipped 1% QoQ but grew 22% YoY to INR1.4t. TBR assets declined 7% both YoY/QoQ to INR1.1t.
- AUM for IIFL ONE was down 1% QoQ but rose 6% YoY. The sequential decline was led by a 5% drop in non-discretionary PMS assets, whereas advisory assets grew 4%. MTM hit on ARR assets was INR60b, while in TBR assets the hit was INR98b.

Marginal contraction in yields with normalization of TBR yields

- Net revenue beat our estimate by 5%, driven by a 34% beat in TBR revenue. ARR revenue was 4% below our estimate and grew 32% YoY and 1% QoQ to INR2.6b. TBR declined 30% QoQ but jumped 32% YoY.
- ARR yield remained flat QoQ at 71bp, whereas TBR yield contracted to 42bp QoQ (-15bp). Resultantly, net operational yield declined QoQ to 58bp. Within the ARR segment, the net yield for IIFL ONE saw slight moderation QoQ to 32bp (from 33bp).

Sharp decline in opex led by variable employee and admin costs

- Total opex declined 29% QoQ but increased 9% YoY to INR1.7b (7% below our estimate). During the quarter, the company saw sharp sequential reduction of 68% in variable employee cost led by completion of the business transition model.
- Admin cost also decreased 25% QoQ to INR430m.

Other highlights

- Other income came in at negative INR60m v/s our estimate of positive INR225m.
- The NBFC loan book too contracted to INR42b (from INR43b in 4QFY22).

Valuation and view

Over the past decade, IIFLWAM has evolved into one of the best wealth management franchises in India. It has become one of the largest alternate asset managers, with unique product offerings. With IIFL ONE, the company is looking to change the way wealth management is offered in India by focusing on recurring revenue rather than the traditional approach of transaction-based revenue. The momentum in ARR assets continued in 1QFY23. While yields were flat for ARR, TBR yields normalized in 1QFY23, as guided by the management. The company continued to see modest net inflows in 1QFY23. We look to revise our estimates and TP post the concall on 26th Jul'22.

Quarterly performance — INR m

Y/E March	FY22				FY23	1QFY23E	Act. v/s Est. (%)
	1Q	2Q	3Q	4Q	1Q		
Net Revenues	**2,834**	**3,143**	**3,781**	**4,228**	**3,750**	**3,561**	**5**
Change (%)	42.6	48.3	58.1	59.2	32.3	25.7	
ARR Assets Income	1,936	2,222	2,451	2,524	2,560	2,675	-4
TBR Assets Income	898	921	1,330	1,704	1,190	886	34
Operating Expenses	**1,531**	**1,730**	**2,220**	**2,350**	**1,670**	**1,795**	**-7**
Change (%)	17.8	29.2	46.2	54.3	9.1	17.2	
Cost to Income Ratio (%)	54.0	55.0	58.7	55.6	44.5	50.4	
Operating Profits	**1,304**	**1,413**	**1,561**	**1,878**	**2,080**	**1,767**	**18**
Change (%)	89.3	80.9	78.8	65.8	59.5	35.5	
Other Income	206	480	420	265	-60	225	
Profit Before Tax	**1,510**	**1,893**	**1,981**	**2,143**	**2,020**	**1,992**	**1**
Change (%)	38.1	67.8	54.9	59.0	33.8	31.9	
Tax	341	458	449	487	449	478	-6
Tax Rate (%)	22.6	24.2	22.7	22.7	22.2	24.0	
PAT	**1,169**	**1,435**	**1,532**	**1,657**	**1,571**	**1,514**	**4**
Change (%)	42.0	64.6	58.8	60.3	34.5	29.5	
PAT Margins (%)	41.2	45.6	40.5	39.2	41.9	42.5	
Key Operating Parameters (%)							
AUM (INR B)	**2,352**	**2,566**	**2,628**	**2,617**	**2,520**	**2,666**	**-5**
Change (%)	33.1	37.1	31.1	26.4	7.2	13.4	
ARR Assets	1,175	1,320	1,389	1,444	1,429	1,517	-6
TBR Assets	1,178	1,246	1,238	1,173	1,092	1,150	-5
Yield on AUM - Calculated (%)*	**0.51**	**0.51**	**0.58**	**0.64**	**0.58**	**0.57**	
ARR Assets	0.71	0.71	0.72	0.71	0.71	0.72	
TBR Assets	0.32	0.30	0.43	0.57	0.42	0.31	

25 July 2022
1QFY23 Results Update | Sector: Consumer

Jyothy Laboratories

Estimate change	⟷
TP change	↑
Rating change	⟷

Bloomberg	JYL IN
Equity Shares (m)	367
M.Cap.(INRb)/(USDb)	61.4 / 0.8
52-Week Range (INR)	183 / 130
1, 6, 12 Rel. Per (%)	3/26/-9
12M Avg Val (INR M)	88

Financials & Valuations (INR b)

Y/E March	2022	2023E	2024E
Net Sales	22.0	24.4	26.8
Sales Gr. (%)	15.1	11.3	9.6
EBITDA	2.5	3.0	3.7
EBITDA Margins (%)	11.3	12.2	13.9
Adj PAT	1.6	1.9	2.4
Adj.EPS (INR)	4.3	5.1	6.6
EPS Gr. (%)	-25.7	16.7	30.3
BV/Sh (INR)	39.3	40.8	42.6
Ratios			
RoE (%)	11.1	12.6	15.8
RoCE (%)	10.8	12.4	15.7
Payout (%)	69.8	71.8	73.4
Valuation			
P/E (x)	38.6	33.1	25.4
P/BV (x)	4.3	4.1	3.9
EV/EBITDA	24.4	20.1	15.6
Div. Yield (%)	1.5	1.8	2.4

Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	62.9	62.9	62.9
DII	18.1	16.9	16.6
FII	11.5	10.9	11.9
Others	7.5	9.3	8.7

FII Includes depository receipts

CMP: INR167 TP: INR160 (-4%) Neutral

Material cost pressures continue; gaining market share

- Jyothy Laboratories (JYL)'s 1QFY23 revenue was in line with our estimate. Elevated commodity costs kept gross margin under pressure. The adverse impact was reflected in EBITDA margin, which stood at 10.2% (est. 12.5%).
- Revenue CAGR has been tepid at 5.5% over the preceding five years ended FY22. Revenue growth is the 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.
- With margin likely to remain under pressure due to elevated material cost, its earnings growth prospects remain challenging. We assign a 15x EV/EBITDA target multiple as we roll forward our Jun'24E targets, resulting in a TP of INR160. **We maintain our Neutral rating.**

In-line sales; EBITDA significantly below estimates

- JYL's standalone net sales grew 12.2% YoY to ~INR5.9b (est. INR5.8b).
- EBITDA declined 8% YoY to INR598m (est. of INR728m).
- PBT grew 28.6% YoY to INR612m (est. INR545m) on account of higher other income, which came in at INR139m v/s INR48m YoY.
- Adj. PAT grew 30.2% YoY to INR522m (est. INR460m).
- **Gross margin contracted 420bp YoY (-120bp QoQ) to 38.9%.** As a % of sales, lower ad spends at 7.6% (-60bp YoY), lower staff costs at 10.2% (-150bp YoY) and slightly higher other expenses at 10.9% (+20bp YoY) restricted **EBITDA margin contraction at 230bp YoY to 10.6%.**
- **Consolidated segmental performance**: Fabric Care/Dishwashing/ Household Insecticides/Personal Care grew ~39%/16%/21%/5% YoY to INR2.5b/INR2.1b/INR448m/INR694m in 1QFY23, respectively.
- Margins in the Fabric Care/Household Insecticides/Personal Care segment contracted 530bp/900bp/1,470bpYoY to 12.3%/(10.0%)/3.6%, respectively, while expanded 180bp to 13.2% in Dishwashing segment.

Highlights from the management commentary

- Capacity utilisation was at 65% (back to pre-Covid levels).
- It is consistently increasing market share across the brands.
- Both Rural and Urban recorded positive volume growth during 1QFY23.
- Key RM: Naphtha, soda ash and palm oil accounted for two-thirds of RM in entire product portfolio and have seen a steep price increase YoY.
- Other income was higher due to profit of INR88m from the sale of Bhubaneswar facility.

Valuation and view

- We cut our FY23E EPS by 1.4% led by continued material cost pressure. However, we raise our FY24E EPS by 4.4%.
- For a company that has a far lower sales base of INR21.9b in FY22 (v/s its peers), the performance over the past five years has been consistently lackluster (at 5.5%/-0.5% sales/operating profit CAGR, respectively).
- RoCE at 11% in FY22 remained far inferior to its peers. No marked uptick is visible over the medium- to long-term. We assign a 15x EV/EBITDA target multiple as we roll forward our Jun'24E targets, resulting in a TP of INR160. **We maintain our Neutral rating.**

Standalone Quarterly Performance (INR m)

Y/E March	FY22				FY23				FY22	FY23E	FY23	Var.
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	(%)
Net Sales	**5,219**	**5,783**	**5,287**	**5,374**	**5,858**	**6,361**	**6,027**	**5,911**	**21,663**	**24,446**	**5,846**	0.2
YoY change (%)	21.8	15.7	12.6	10.3	12.2	10.0	14.0	10.0	14.9	12.8	12.0	
Gross Profit	**2,250**	**2,296**	**2,170**	**2,154**	**2,280**	**2,576**	**2,534**	**2,547**	**8,869**	**10,221**	**2,455**	-7.1
Margin (%)	43.1	39.7	41.0	40.1	38.9	40.5	42.0	43.1	40.9	41.8	42.0	
EBITDA	**650**	**671**	**605**	**568**	**598**	**789**	**796**	**798**	**2,495**	**2,985**	**728**	-17.8
EBITDA growth %	-16.9	-24.5	-24.2	-18.6	-8.0	17.6	31.4	40.4	-21.2	19.7	12.0	
Margin (%)	12.5	11.6	11.4	10.6	10.2	12.4	13.2	13.5	11.5	12.2	12.5	
Depreciation	206	206	210	164	113	185	193	172	785	867	206	
Interest	17	18	18	14	13	21	22	17	67	106	20	
Other Income	48	52	43	46	51	47	38	42	190	267	44	
PBT	**476**	**500**	**420**	**437**	**524**	**629**	**619**	**651**	**1,832**	**2,279**	**545**	-4.0
Tax	75	79	66	52	90	99	111	124	271	422	86	
Rate (%)	15.7	15.7	15.7	11.8	17.1	15.7	18.0	19.0	14.8	18.5	15.7	
Adjusted PAT	**401**	**421**	**354**	**385**	**434**	**531**	**508**	**527**	**1,561**	**1,857**	**460**	-5.6
YoY change (%)	-20.5	-30.6	-32.2	-23.7	8.2	26.0	43.4	36.9	-27.0	18.9	14.7	

Oil & Gas

CGD to take a breather in the near term…

…higher APM gas prices from 1st Oct'22 and expected decline in petrol/diesel prices could be the challenges to maintain competitiveness

- **We expect a further upward revision in the APM gas price from 1st Oct'22 to USD9/mmbtu (from USD6.1/mmbtu currently) led by high global gas prices in FY22.**
- **Every USD1/mmbtu rise in gas price requires ~INR4/kg hike in CNG price.**
- **Benchmark petrol/diesel prices have fallen to USD114/USD134 per bbl in the last few days from USD138/USD149 per bbl in 1QFY23 along with a decline in crude as well as crack spreads.**
- **The narrowing of CNG and auto fuel price gaps is likely to reduce CNG conversions and is negative primarily for IGL and MAHGL. GUJGA remains our top pick in the sector due to its much lower exposure to CNG compared with peers.**

Bracing for higher CNG prices

- Domestic APM gas price from 1st Oct'22 is likely to be 49% higher than Apr'22 at ~USD9/mmBtu. CNG price in 2HCY22 needs to rise ~15% to pass on the increase in gas price to the customers.
- In the last six months, IGL/MGL/GGL have raised their CNG prices by 18%/33%/17%, respectively, from Mar'22 until Jul'22 due to ~2x increase in APM gas price from Apr'22 so as to protect their margins.
- Global gas prices have spiked (by 37-52%) due to the ongoing Russia-Ukraine crisis. US HH has risen to USD5.3/mmBtu during Jul'21-Jun'22 from USD3.9/mmBtu over Jan-Dec'21. Similarly, NBP has increased 52% while Alberta prices have risen 38%.

Lower competitiveness of CNG than petrol/diesel is a concern

- Along with crude oil, crack spreads have also risen sharply in 1QFY23 due to the ongoing Russia-Ukraine crisis, exacerbated by decline in export of refined products from China. As a result, petrol/diesel prices have risen 24%/32% in 1QFY23 QoQ.
- However, of late, due to recessionary fears, benchmark petrol/diesel prices have fallen 11%/4% in Jul'22 MTD v/s 1QFY23, respectively; while CNG price is trading at an all-time high of ~INR75-82/kg. This has reduced the savings potential of CNG v/s petrol/ diesel to 22%/16% from 36%/ 30% in Apr'22, respectively.
- Apart from the rise in APM prices, blending of non-APM gas is also forecasted to raise the cost of procurement for the CGDs; thereby, further reducing the savings potential of CNG v/s petrol/diesel.

Valuation and recommendation

- GUJGA remains our top pick in the sector due to its higher leverage to the industrial segment. GUJGA has the best RoCE profile of 30%. We expect an FCF generation of ~INR20b over FY23-24. The company is likely to turn net cash in FY23E, despite capex plans of INR20b over FY23-24E. **We maintain our BUY rating on the stock with a TP of INR644 (premised on 25x FY24E EPS).**
- **MGL/IGL trade at 12x /17.5x FY24E EPS, respectively, and we add value of their investments to arrive at our TPs of INR1,001 /INR413; we maintain our BUY/ Neutral ratings on the stocks, respectively.**

Expert Speak

Outlook robust for organized Road Logistics operators

We hosted an interaction with members of a transporters association to gauge: 1) the recent trends in demand for logistics; 2) increase in freight rates and impact of the change in diesel prices on the business; 3) the threat posed by DFCs to Road Logistics players, 4) shift in business to organized players from unorganized players, and 5) the long-term growth outlook. The discussion indicates: a) slow activity during Jun'22 and Jul'22, and b) a big shift in business towards organized players due to reforms like the GST. The detailed takeaways are as follows:

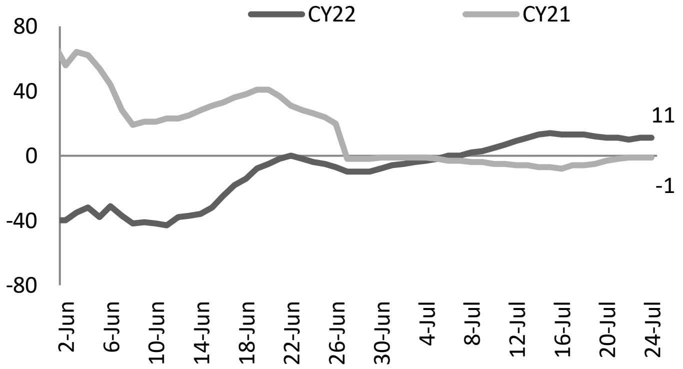
- **Recent trends:** Logistics activity was very strong in Apr'22 and May'22, but has slowed in Jun'22 and Jul'22. Elevated diesel prices are a major concern in the near term. With the DFC being partially operational, some volumes are shifting from Road to Rail.
- **The impact of the diesel price hike:** Diesel prices continue to stay elevated, despite the cut in excise duty. Logistics operators have passed on the price increase, with no change in demand. But given that demand is slowing now, it will be difficult for fleet operators to raise rates further. The diesel cost for fleet operators currently stands at 50-55% of total operating costs.
- **Logistics market:** The market is driven by the full truckload (FTL) segment, which constitutes 90% of the market. The balance is being driven by the less than truck load (LTL) segment. Thought the e-commerce segment is growing fast, players are not expecting the kind of growth that was seen during the COVID-ensuing lockdowns.
- **Competitive scenario:** With new entrants entering the last-mile segment and the e-commerce vertical, they are hampering the market for traditional players, given their aggressive pricing. The business model is unlikely to sustain with such aggression.
- **Multimodal services:** Multimodal is an emerging theme currently. There are a lot of opportunities across sectors. The margin in the pure play Transportation businesses remains stressed, and value-added service driven businesses will see strong traction in the long term.
- **The impact of the government's scrappage policy:** The average life of a new truck is 10-12 years, after which it is used for intra-state movement. As per the government's scrappage policy, older trucks used for local transportation will have to be scrapped, thus resulting in a shortage of trucks for local transportation.
- **A shift towards organized players:** A definite shift is occurring towards organized from the unorganized sector, and the same will only accelerate going forward. The shift is driven more by the rollout of the GST than e-way bill implementation. The cost of owning trucks is increasing, and hence small truck owners are suffering. Only large players with strong volumes are able to operate profitably.
- **Capex:** Organized large players will incur a large capex as they see strong demand with a shifting in business from unorganized players. Capex will largely be towards fleet addition and adding of technological capabilities.
- **The impact of DFC on Road Logistics:** Truck operators will be impacted due to the DFC, especially in the mid-mile segment. However, road transporters will be required for first and last-mile operations. The impact will be visible in bulk commodities like steel, cement, and coal. Segments like FMCG, Consumer, and Pharma may not see a very large shift towards rail.
- **The outlook for the Road Logistics sector:** The sector may not see very strong growth at the headline level. However, there will be a large shift towards organized from unorganized players due to the various reforms like the rollout of GST and e-way bill implementation undertaken in the last few years. This places large organized players in a sweet spot from a long-term perspective.

Weekly Update: Southwest monsoon posts a surplus since the past fortnight

Southwest monsoon at an 11% surplus as of 24th Jul'22

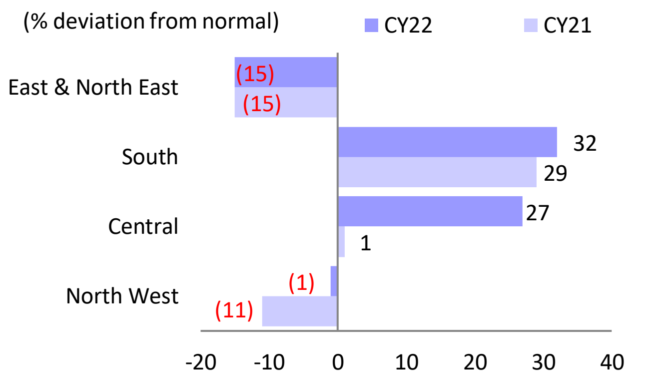
- As the rainfall surplus in central/southern regions has decelerated to 27%/32% as of 24th Jul'22 from 31%/37% (v/s normal levels), respectively, the all India cumulative rainfall as of 24th Jul'22 reported a surplus of 11% v/s a surplus of 13% as of 18th Jul'22. However, the deficit in the northwest region has reduced to -1% as of 24th Jul'22 from -11% as of 18th Jul'22 *(refer Exhibits 1, 2, and 3)*.
- As of 22nd Jul'22, Kharif sowing was only 68% of normal sowing, lower than ~108% during this time last year and average ~100% during CY19-21 *(refer Exhibit 4)*.
- The deficit rainfall in Jun'22 has been offset by surplus in Jul'22. The month-wise rainfall received over CY02-21 depicted that on an average June received only 19% of the season's rainfall, July received almost one-third, followed by August at 29%. In CY21, while June received 21% of the rainfall, July received 30%, followed by August at 22% *(refer Exhibit 5)*.

All India rainfall stood at a surplus of 11% as of 24th Jul'22



The southwest monsoon season beginning June

Rainfall is only slightly deficient in the northwest region now



Data as of 24th July for both years

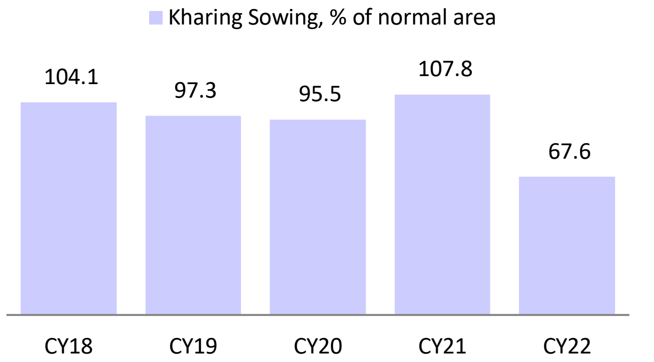
Source: IMD, CEIC, MOFSL

Rainfall in central and south peninsular India has been very high so far up to 24th Jul'22

% deviation from normal	01-Jun	08-Jun	15-Jun	22-Jun	29-Jun	06-Jul	17-July	24-July
All India	**-40**	**-42**	**-32**	**0**	**-10**	**0**	**+13**	**+11**
Northwest	-79	-94	-77	9	-20	-2	-7	-1
Central	-69	-88	-65	-34	-33	-10	+31	+27
South Peninsular	+18	-26	-36	-14	-14	+6	+37	+32
East and Northeast	-45	-7	+14	+38	21	+8	-13	-15

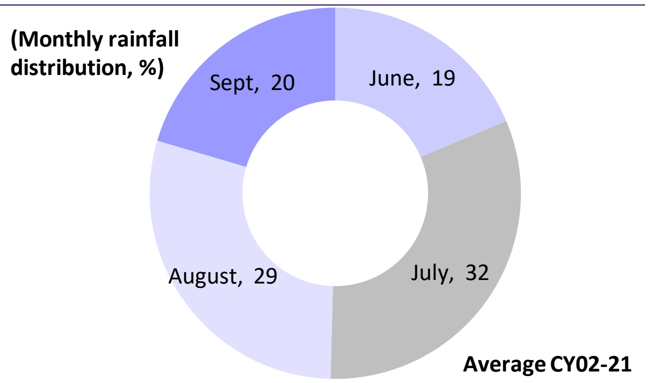
Source: CEIC, MOFSL

Acreage under Kharif crop sowing was only 67% of the normal sowing, lowest in five years



Data as of 22nd July for all years

Historical average shows July receives the maximum amount of rainfall in one season

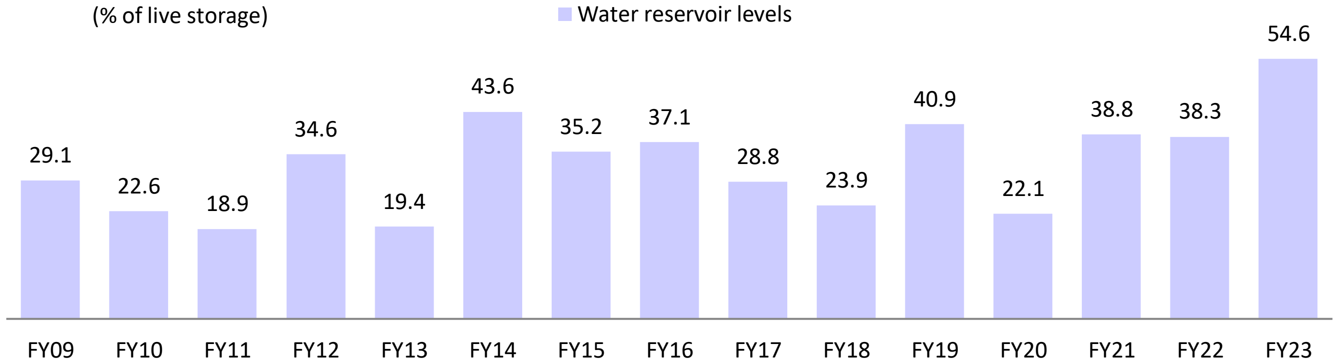


Source: IMD, MOFSL

Water reservoir level, as of 21st Jul'22, is higher than that in the past many years

- As of 21st Jul'22, water reservoir levels stood at ~55% of its live storage capacity, higher than that in the past several years. Of late, improved rainfall across the country has led to the filling up of reservoirs in India (refer *Exhibit 6)*.

Water reservoir levels, as of 21st Jul'22, are higher than that in the past several years



Around 21st July for all years

Source: CEIC, MOFSL

JSW Steel: Indian steel prices currently at par with imported steel from China; Seshagiri Rao, Jt. MD & Group CFO

- Coking coal prices up $113/t; in-line with guidance
- Coking coal prices have cooled off from $630/t to $230/t
- Coking coal costs will cool down in Q2FY23
- Expect steel prices to stabilise at these levels
- Indian steel prices currently at par with imported steel from China
- In European markets, steel prices are moving up
- Expect demand to pick up in Q2FY23 vs Q1FY23
- Q1FY23 consolidated EBITDA at Rz 9600/t
- Expect adjusted consolidated EBITDA at Rs 13,900/t in Q1FY23
- Unlikely for EBITDA/t to improve in Q2FY23
- Will be interested in NMDC Nagarnar Steel plant if up for sale

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Bandhan Bank: Ex-restructured book, collection efficiency is at 98%; Chandra Shekhar Ghosh, MD & CEO

- Slippages have come from restructured book
- Customers with overdue aren't coming to pay entire loans
- Ex-restructured book, collection efficiency is at 98%
- Assam portfolio is less than 10% now
- 73% of NPA customers are paying

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Yes Bank: Have provided for 82% of Rs 48,000 crore non-performing assets portfolio; Prashant Kumar, MD & CEO

- Recovery prognosis of net asset is more than provisions
- 13.45% of gross NPA will move to ARC, about Rs 27,000 crore of NPAs
- Have provided for 82% of Rs 48,000 crore non-performing assets portfolio
- Current capitalisation will take care of FY23 loan growth
- One large account slipped in Q1
- FY23 net interest margin expected at 2.75%

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Gokaldas Exports: EBITDA margin for FY23 will be a little lower than 12%; Sivaramkrishnan Ganapathi, MD

- Almost all the growth was volume led
- Saw volume increase of 5-6%
- EBITDA margin for FY23 will be a little lower than 12%
- Not dropping the capex plan
- Will see more revenues from Bangladesh from FY24

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Anupam Rasayan: Expect margin to be around 26-28%; Vishal Thakkar, CFO

- Q1 for the business is a muted quarter
- 20% of the revenues come in the first quarter
- Raw material prices have started softening in Q2 so far
- Raw material prices have softened by around 15-20%, however it is still volatile
- We have a pass through model when it comes to pricing
- Expect margin to be around 26-28%
- Looking at semi-annual pricing for contracts
- Will be not be doing any capex on Tanfac
- Capex will be used for commercialising LOIs signed last year
- Have cash of around Rs 200 crore in the books
- Continue to evaluate acquisition opportunities

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NOTES

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