

HSIE Results Daily

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Results Reviews

- Avenue Supermarts:** Higher bill sizes + lower footfalls aid FMCG profitability/productivity but are a sign of more targeted shopping with little room for discovery-based purchases (courtesy inflationary pressures), which in turn make a dent on the more profitable GM & apparel sales (constituted <25% vs a typical run-rate of 28%). Unit economics, consequently, remains below pre-pandemic levels. This pretty much sums up D-MART's Q2/H1 print. Revenue/EBITDA grew 20% each (3-year CAGR; EBITDAM 8.6% vs HSIE: 9.4%) while core capital employed grew at 23% CAGR. We suspect that heightened competitive intensity within D-MART's top districts may have had a role to play in lower sales density too. Maintain our SELL rating, with a DCF-based TP of INR2,950/sh, implying 34x Sep-24 EV/EBITDA for the standalone business + 4x Sep-24 sales for DMART Ready.
- L&T Infotech:** L&T Infotech's (LTI) revenue and margin came in line in Q2FY23. Revenue growth of 4.6% QoQ and 21.6% YoY CC and flat margin sequentially supported the 23% YoY growth in profit. Key growth drivers include (1) continuity in net-new large deal TCW at USD 80mn (similar to 4QFY22/1QFY23 rate), including a new logo F500 win (Hi-Tech vertical); (2) strong H2 seasonality of LTI ahead; (3) 4.5% QoQ increase in headcount (crossing 50k); and (4) steady large deal pipeline with higher deal tenure and strong outlook of core vertical BFSI (no exposure to mortgage segment). Integration with Mindtree will create service-line and vertical revenue synergies and we believe that the foundation for growth leadership in 'tier-1' IT has been set. Maintain BUY on LTI with a TP of INR 5,215, based on 29x Jun-24E EPS.
- ICICI Prudential Life:** ICICI Prudential Life (IPRU) reported a weak APE growth (+1.7% 3-year CAGR, in line with estimates); however, VNB margins, at 31%, surprised (200bps ahead of estimates), translating into 21% YoY VNB growth. We like the company's reengineered business model, which is focused on a more diversified product and channel mix, industry-leading share in sum assured (H1FY23: 15.7%), and rising share of traditional products. Although we remain sceptical of the profitability and sustainability in group protection business, we are encouraged to see sustained momentum from the non-ICICIBC channel to aid future growth. We expect VNB to clock a 15% CAGR over FY22-25E. We retain ADD with a target price of INR690 (2.2x Sep-24E EV). The stock is currently trading at 1.8x P/EV and 13x P/VNB on Mar-24 estimates.
- Angel One:** ANGELONE printed a strong 8.5% sequential growth in its top line, driven by all-time high retail derivatives ADTVs coupled with healthy ancillary transaction revenues (+19% QoQ). Staff costs are expected to remain elevated on the back of the management's continued focus on scaling up and investing in additional tech talent. We are encouraged by ANGELONE's intent to align marketing dollars with the pace of customer adds (make marketing spend variable), thereby protecting margins; we continue to monitor these expenses in a soft customer add environment. While derivatives volumes have exhibited strong resilience in volatile markets, we continue to closely monitor retail market-share in this segment. Given the flat-fee model, ANGELONE is one of the best plays on the secular growth story in Indian capital markets and remains a high-conviction BUY with a target price of INR2,020 (17x Sep-24E EPS).

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Avenue Supermarts

Underlying profitability disappoints

Higher bill sizes + lower footfalls aid FMCG profitability/productivity but are a sign of more targeted shopping with little room for discovery-based purchases (courtesy inflationary pressures), which in turn make a dent on the more profitable GM & apparel sales (constituted <25% vs a typical run-rate of 28%). Unit economics, consequently, remains below pre-pandemic levels. This pretty much sums up D-MART's Q2/H1 print. Revenue/EBITDA grew 20% each (3-year CAGR; EBITDAM 8.6% vs HSIE: 9.4%) while core capital employed grew at 23% CAGR. We suspect that heightened competitive intensity within D-MART's top districts may have had a role to play in lower sales density too. Maintain our SELL rating, with a DCF-based TP of INR2,950/sh, implying 34x Sep-24 EV/EBITDA for the standalone business + 4x Sep-24 sales for DMART Ready.

- Q2FY23 highlights:** Revenue grew 35.8% to INR103.8bn (3-year CAGR: 20.4%). Revenue/EBITDA per sq. ft came in at INR33.5k/2.9k per sq. ft (92/91% of pre-pandemic base). Management highlighted that elevated bill sizes (~INR1,870 in H1 vs ~INR1,226 in FY20) + lower footfalls (~75% of pre-pandemic run-rate; 108mn in H1) aided FMCG profitability/productivity but inflationary pressures impacted discretionary GM & apparel sales. Hence, gross margin at 14.5% remained sub-optimal (up 19bps YoY, HSIE: 15%). LFL growth (>5 year old stores) stood at 6.5% annualised (1H). EBITDAM declined 14bps YoY to 8.6% (HSIE: 9.4%) as other expenses were higher than expected. WC days have deteriorated from 22 days to 25 over three years, despite the essential-heavy mix, which turns faster. Hence, we suspect the deteriorating unit economics is not just a function of high inflation keeping discretionary purchases in check but also a consequence of a fair challenge to D-MART's value proposition by deep-pocketed peers within D-MART's top districts. Unutilised QIP money (~INR10.35/40.38bn) + C-WIP (~INR10bn) translates to one-year of expansion rope.
- Outlook:** DMART's unit economics remains sub-optimal vis-à-vis pre-pandemic days (partly attributable to the step-up in store additions/size). While we factor in a recovery for FY22-24, this assumption stands at risk, given the heightened competitive intensity from deep-pocketed retailers. Hence, we maintain SELL on DMART with a DCF-based TP of INR 2,950/sh, implying 34x FY24 EV/EBITDA for the standalone business + 4x FY24 sales for DMART Ready.

Quarterly financial summary

(INR mn)	2Q FY23	2Q FY22	YoY (%)	1Q FY23	QoQ (%)	FY21	FY22	FY23E	FY24E	FY25E
Net Revenue	1,03,847	76,496	35.8	98,069	5.9	2,37,872	3,03,525	4,19,653	5,37,983	6,61,215
EBITDA	8,949	6,701	33.5	10,079	(11.2)	16,467	23,552	38,119	48,233	60,245
APAT	7,305	4,489	62.7	6,796	7.5	11,933	16,160	25,065	32,788	41,519
EPS (Rs)	11.3	6.9	62.7	10.49	7.5	18.4	24.9	38.7	50.6	64.1
P/E (x)						233.6	172.5	111.2	85.0	67.1
EV/EBITDA(x)						167.7	117.7	72.7	57.3	45.7
Core RoCE(%)						11.3	13.2	17.3	19.1	20.8

Source: Company, HSIE Research, Standalone Financials

Change in estimates

(INR mn)	FY23E			FY24E			FY25E		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Revenue	4,19,653	4,19,653	-	5,37,983	5,37,983	-	6,61,215	6,61,215	-
EBITDA	38,119	38,119	-	48,233	48,233	-	60,245	60,245	-
EBITDA margin(%)	9.1	9.1	-	9.0	9.0	-	9.1	9.1	-
APAT	25,065	25,254	(0.7)	32,788	32,788	-	41,519	41,519	-
APAT margin (%)	6.0	6.0	(5 bps)	6.1	6.1	-	6.3	6.3	-
EPS (Rs)	38.7	39.0	(0.7)	50.6	50.6	-	64.1	64.1	-

Source: Company, HSIE Research

SELL

CMP (as on 14 Oct 2022)	INR 4,306
Target Price	INR 2,950
NIFTY	17,186

KEY CHANGES	OLD	NEW
Rating	SELL	SELL
Price Target	INR 2,950	INR 2,950
EPS %	FY24E	FY25E
	-	-

KEY STOCK DATA

Bloomberg code	DMART IN
No. of Shares (mn)	648
MCap (INR bn) / (\$ mn)	2,789/33,936
6m avg traded value (INR mn)	1,604
52 Week high / low	INR 5,900/3,186

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	9.7	5.3	(19.1)
Relative (%)	1.3	6.0	(13.6)

SHAREHOLDING PATTERN (%)

	Jun-22	Sep-22
Promoters	74.99	74.99
FIs & Local MFs	6.27	6.27
FPIs	8.83	8.83
Public & Others	9.91	9.91
Pledged Shares	0	0

Source : BSE

Pledged shares as % of total shares, Note: Sep-22 shareholding pattern not released yet on BSE. Hence, Jun-22 as proxy.

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L&T Infotech

All's well

L&T Infotech's (LTI) revenue and margin came in line in Q2FY23. Revenue growth of 4.6% QoQ and 21.6% YoY CC and flat margin sequentially supported the 23% YoY growth in profit. Key growth drivers include (1) continuity in net-new large deal TCW at USD 80mn (similar to 4QFY22/1QFY23 rate), including a new logo F500 win (Hi-Tech vertical); (2) strong H2 seasonality of LTI ahead; (3) 4.5% QoQ increase in headcount (crossing 50k); and (4) steady large deal pipeline with higher deal tenure and strong outlook of core vertical BFSI (no exposure to mortgage segment). Integration with Mindtree will create service-line and vertical revenue synergies and we believe that the foundation for growth leadership in 'tier-1' IT has been set. Maintain BUY on LTI with a TP of INR 5,215, based on 29x Jun-24E EPS.

- Q2FY23 highlights:** (1) LTI's revenue came in line with our estimate of USD 601mn, +3.6/+18.1% QoQ/YoY (+4.6/+21.6% QoQ/YoY CC terms), led by growth in offshore/onsite volume of +5.2% QoQ each. (2) Among the verticals, growth was led by energy & utilities (+14% QoQ CC), BFS (+5% QoQ) and insurance (+4.5% QoQ) while hi-tech declined by -4.7% QoQ CC, impacted by large project transitioning from onsite to offshore. (3) EBITM increased by 13bps QoQ to 16.1% (marginally lower than our estimate of 16.3%), impacted by increase in employee cost (senior-level wage increase) & lower utilisation, which was offset by FX tailwind. (4) Top-5 accounts improved +5% QoQ and the top-10 accounts grew by +4.1% QoQ in USD terms. (5) LTI added 2,215 employees in Q2FY23 (1,600 freshers) and it remains on track to add 6,500+ freshers in FY23. (6) LTI expects the PATM to continue in the range of 14-15% for FY23E.
- Outlook:** We have factored in USD revenue growth of +17.4/13.7/13.9% and EBITM of 16.1/16.5/16.6% for FY23/24/25E. APATM is estimated at 13.5% for FY23/24/25E. At the CMP, LTI is trading at 26.7x FY24E, with an FY22-25E EPS CAGR of 15%.

Quarterly Financial summary

YE March (INR bn)	Q2 FY23	Q2 FY22	YoY (%)	Q1 FY23	QoQ (%)	FY21	FY22	FY23E	FY24E	FY25E
Revenue (USD mn)	601	509	18.1	580	3.6	1,670	2,103	2,469	2,806	3,197
Net Sales	48.37	37.67	28.4	45.23	6.9	123.70	156.69	196.61	227.28	262.13
EBIT	7.81	6.48	20.5	7.24	7.8	23.93	27.04	31.74	37.44	43.62
APAT	6.80	5.52	23.2	6.34	7.2	18.93	22.99	26.57	30.64	35.32
Diluted EPS (INR)	38.8	31.5	23.2	36.2	7.2	108.0	131.2	151.6	174.8	201.5
P/E (x)						43.2	35.6	30.8	26.7	23.2
EV / EBITDA (x)						28.4	25.5	21.4	18.0	15.3
RoE (%)						29.8	28.5	27.9	27.7	27.4

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

YE March (INR bn)	FY23E Old	FY23E Revised	Change %	FY24E Old	FY24E Revised	Change %
Revenue (USD mn)	2,465	2,469	0.1	2,840	2,806	(1.2)
Revenue	195.93	196.61	0.3	230.04	227.28	(1.2)
EBIT	32.46	31.74	(2.2)	37.94	37.44	(1.3)
EBIT margin (%)	16.6	16.1	-42bps	16.5	16.5	-2bps
APAT	26.91	26.57	(1.3)	30.89	30.64	(0.8)
EPS (INR)	153.5	151.6	(1.3)	176.2	174.8	(0.8)

Source: Company, HSIE Research

BUY

CMP (as on 14 Oct 2022) INR 4,669

Target Price INR 5,215

NIFTY 17,186

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 5,270	INR 5,215
	FY23E	FY24E
EPS %	-1.3	-0.8

KEY STOCK DATA

Bloomberg code	LTI IN
No. of Shares (mn)	175
MCap (INR bn) / (\$ mn)	819/9,961
6m avg traded value (INR mn)	2,267
52 Week high / low	INR 7,595/3,733

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	20.5	(22.7)	(23.5)
Relative (%)	12.1	(22.0)	(17.9)

SHAREHOLDING PATTERN (%)

	Mar-22	Jun-22
Promoters	74.05	74.03
FIs & Local MFs	7.15	8.10
FPIs	10.08	8.42
Public & Others	8.72	9.45
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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ICICI Prudential Life

Stellar margins offset weak APE

ICICI Prudential Life (IPRU) reported a weak APE growth (+1.7% 3-year CAGR, in line with estimates); however, VNB margins, at 31%, surprised (200bps ahead of estimates), translating into 21% YoY VNB growth. We like the company's reengineered business model, which is focused on a more diversified product and channel mix, industry-leading share in sum assured (H1FY23: 15.7%), and rising share of traditional products. Although we remain sceptical of the profitability and sustainability in group protection business, we are encouraged to see sustained momentum from the non-ICICIBC channel to aid future growth. We expect VNB to clock a 15% CAGR over FY22-25E. We retain ADD with a target price of INR690 (2.2x Sep-24E EV). The stock is currently trading at 1.8x P/EV and 13x P/VNB on Mar-24 estimates.

- Stellar margins continue:** Total APE growth was sluggish at 1.7% 3-year CAGR (+1% YoY); however, in the overall mix, group protection continued to exhibit strong growth (+70% YoY), primarily on the back of new group-term arrangements whereas retail protection witnessed sustained weakness (-41% YoY); ULIP sale was soft (-19% YoY) due to volatile capital markets. Banca partners, other than ICICIBC, clocked healthy growth (+10% YoY) (ICICIBC: -46% YoY), accounting for 13% of channel mix (ICICIBC: 16.8%). VNBM was 200bps ahead of estimates at 31% (+500bps YoY), benefitting from higher mix of group protection (+630bps YoY) and annuities (+270bps YoY) business, driving VNB +21%YoY to INR6.2bn and EV to INR326bn (+8% YoY).
- Growth outlook:** Management remains confident on the profitability of the group term protect business despite pricing reverting to pre-pandemic levels. We remain sceptical of sustainable growth and operating experience in this segment. Management highlighted that the demand for term protection is soft, after normalisation in COVID cases, and expects it to pick up from H2FY23 onwards. In this environment, the company is focused on using ROP policies and ULIPs (combined with riders) as an entry strategy for the mass and mass-affluent customer segments. IPRU is aggressively expanding its agency network with 15.5k additions in H1 (FY22: 25k) to ramp up new business.

Quarterly financial summary

(INR bn)	Q2 FY23	Q2 FY22	YoY (%)	Q1 FY23	QoQ (%)	FY22	FY23E	FY24E	FY25E
NBP	56.3	37.3	51.1	17.3	226.1	184.7	204.5	237.6	278.3
APE	20.0	19.8	1.1	15.2	31.5	77.3	87.8	99.9	113.1
VNB	6.21	5.15	20.6	4.71	31.8	21.6	26.5	29.0	32.7
VNBM (%)	31.1	26.0	500bps	31.0	10bps	28.0	30.2	29.0	28.9
EV						316.3	363.2	414.6	472.8
P/EV (x)						2.3	2.0	1.8	1.6
P/VNB (x)						20.7	15.9	13.0	9.9
ROEV (%)						9.5	16.6	15.9	15.8

Source: Company, HSIE Research

Change in estimates

(INR mn)	FY23E			FY24E			FY25E		
	Revised	Old	Change % / bps	Revised	Old	Change % / bps	Revised	Old	Change % / bps
APE	87.8	87.8	0.0	99.9	99.9	0.0	113.1	113.1	0.0
VNB	26.5	24.9	6.7	29.0	27.8	4.3	32.7	31.7	3.2
VNBM (%)	30.2%	28.3%	190	29.0%	27.8%	120	28.9%	28.0%	90
EV	363.2	361.5	0.5	414.6	411.6	0.7	472.8	468.5	0.9

Source: Company, HSIE Research

ADD

CMP (as on 14 Oct 2022)	INR 513
Target Price	INR 690
NIFTY	17,186

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR690	INR690
VNB %	FY23E	FY24E
	+6.7%	4.3%

KEY STOCK DATA

Bloomberg code	IPRU IN
No. of Shares (mn)	1,439
MCap (INR bn) / (\$ mn)	738/8,984
6m avg traded value (INR mn)	719
52 Week high / low	INR 700/430

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	0.0	(5.1)	(21.3)
Relative (%)	(8.4)	(4.4)	(15.7)

SHAREHOLDING PATTERN (%)

	Jun-22	Sep-22
Promoters	73.4	73.4
FIs & Local MFs	4.7	5.1
FPIs	16.4	16.1
Public & Others	5.5	5.4
Pledged Shares	Nil	Nil

Source : BSE

Pledged shares as % of total shares

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Angel One

All-time high volumes drive strong earnings

ANGELONE printed a strong 8.5% sequential growth in its top line, driven by all-time high retail derivatives ADTVs coupled with healthy ancillary transaction revenues (+19% QoQ). Staff costs are expected to remain elevated on the back of the management's continued focus on scaling up and investing in additional tech talent. We are encouraged by ANGELONE's intent to align marketing dollars with the pace of customer adds (make marketing spend variable), thereby protecting margins; we continue to monitor these expenses in a soft customer add environment. While derivatives volumes have exhibited strong resilience in volatile markets, we continue to closely monitor retail market-share in this segment. Given the flat-fee model, ANGELONE is one of the best plays on the secular growth story in Indian capital markets and remains a high-conviction BUY with a target price of INR2,020 (17x Sep-24E EPS).

- Positive surprise on opex:** Net broking revenue at INR3.56bn (+11% QoQ) was in line with estimate, largely driven by strong industry tailwinds (all-time high retail derivative ADTVs) coupled with market share gains in retail derivatives ADTV to 21.7% (+90bps QoQ), and robust transactional revenues (+19% QoQ). Staff costs shot up +8% QoQ on a high base (Q1: +35% QoQ) on the back of continued hiring in the digital pool. However, the sequential slowdown in customer adds has translated into moderation in opex (-5% QoQ), indicating the company's tactical strategy to protect margins in a soft customer add environment, driving EBITDA margin higher by 496/400bps YoY/QoQ to 52.4% and APAT to INR 2.13bn (+18%QoQ, -3% vs. estimates).
- Growth outlook:** The management stated that its Super app received an encouraging feedback from clients and will be launched for the Android towards late Q3. While in the near term, customer adds are expected to mean revert downwards impacting broking revenues, we believe that the company has enough levers to maintain margins by dialing down its marketing spends in a soft customer add environment. Management expects its tech spends to stay elevated in the medium term as the company builds out a resilient and seamless set of customer journeys.

Quarterly financial summary

(INR mn)	Q2 FY23	Q2 FY22	YoY (%)	Q1 FY23	QoQ (%)	FY21	FY22	FY23E	FY24E	FY25E
Adj. revenues	5,156	3,409	51.2	5,099	1.1	8,979	16,830	21,209	24,356	27,701
EBITDA	2,496	1,666	49.8	2,800	-10.9	4,431	8,557	10,620	12,380	14,440
EBITDA Margin (%)	48.4	48.9	-45bps	54.9	-652bps	49.4	50.8	50.1	50.8	52.1
APAT	1,816	1,214	49.5	2,048	-11.3	3,073	6,251	7,738	9,014	10,501
AEPS	21	15	46.3	24	-12.2	37.6	75.4	93.4	108.8	126.7
EV/EBITDA (x)						29.4	15.4	11.7	9.5	7.9
P/E (x)						44.2	21.8	17.6	15.1	13.0
ROE (%)						35.7	46.0	42.1	38.2	35.7

Source: Company, HSIE Research

BUY

CMP (as on 14 Oct 2022) INR 1,650

Target Price INR 2,020

NIFTY 17,186

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 2,020	INR 2,020
EPS%	FY23E	FY24E
	0%	0%

KEY STOCK DATA

Bloomberg code	ANGELONE IN
No. of Shares (mn)	83
MCap (INR bn) / (\$ mn)	137/1,672
6m avg traded value (INR mn)	1,400
52 Week high / low	INR 2,022/991

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	25.7	(2.0)	0.8
Relative (%)	17.3	(1.3)	6.3

SHAREHOLDING PATTERN (%)

	Mar-22	Sep-22
Promoters	44.0	43.8
FIs & Local MFs	10.3	8.9
FPIs	9.0	10.5
Public & Others	36.7	36.7
Pledged Shares	Nil	Nil

Source : BSE

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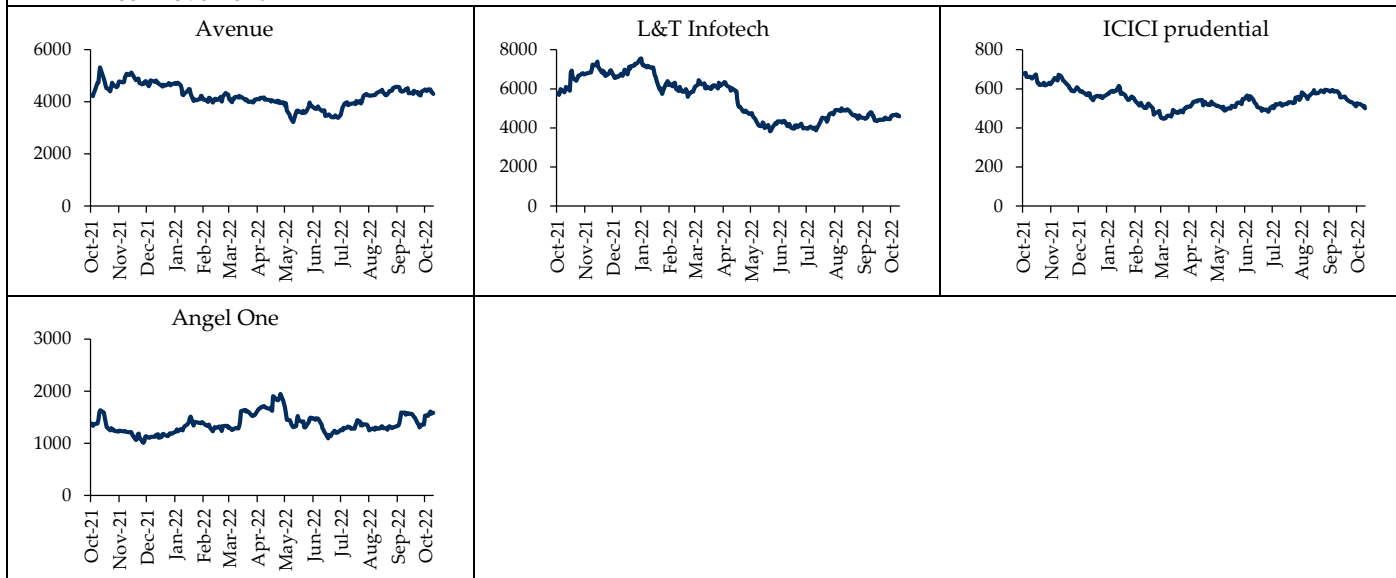
Rating Criteria

- BUY: >+15% return potential
- ADD: +5% to +15% return potential
- REDUCE: -10% to +5% return potential
- SELL: > 10% Downside return potential

Disclosure:

Analyst	Company Covered	Qualification	Any holding in the stock
Jay Gandhi	Avenue Supermarts	MBA	NO
Premraj Survase	Avenue Supermarts	MBA	NO
Apurva Prasad	L&T Infotech	MBA	NO
Amit Chandra	L&T Infotech	MBA	NO
Vinesh Vala	L&T Infotech	MBA	NO
Krishnan ASV	ICICI Prudential Life, Angel One	PGDM	NO
Sahej Mittal	ICICI Prudential Life, Angel One	ACA	NO

1 Yr Price Movement



Disclosure:

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Any holding in stock – No

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