INSTITUTIONAL RESEARCH

HSIE Results Daily

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Results Reviews

- **ABB India:** ABB's reported strong revenue/EBITDA/PAT at INR 24.3/3.6/3.0bn, beating our estimates by 6/57/68%. For CY22, OI crossed INR 100bn for the first time since the divestment of its power grid, turbocharger and solar business in CY18. ABB is seeing OI sustain at this level annually, going forward. During the quarter, the EBITDA margin expanded to 15% (+620/+506bps YoY/QoQ, vs. 10.1% est.). This expansion was on the back of better gross margin in the mix, better capacity utilisation and an improving supply chain. ABB is seeing strong demand coming from Tier 3 and 4 cities, with 48% of the total new orders from these cities (43% in CY21) and in the medium term, demand from these cities is expected to match with Tier 1 and 2 cities. Export demand has been stable with growth of 10% YoY. However, domestic demand has been higher than export demand and as a result, forms 88% of the CY22 revenue (87% in CY21). The cash balance stands strong at INR 36bn (INR 27bn in CY21) and INR 20bn is earmarked for inorganic growth, in line with global strategy, targeting small and medium firms across the globe. We have increased our EPS estimate for CY23/24 on the back of better margins and a favourable mix. However, we believe the punchy valuation would limit further upside on cyclical recovery and, thus, maintain REDUCE with an increased TP of INR 2,819/sh (54x Dec-24 EPS).
- **Fsn E-commerce Ventures (Nykaa):** Nykaa's top line grew 33% YoY to INR14.6bn (HSIE: 15bn) on account of fewer festive days in Q3FY23. Adjusting for seasonality (Q2+Q3FY23 performance), BPC growth seems to have come off (32% YoY). BPC AUTC grew 29% vs 35% CAGR it clocked over FY19-22. Both BPC/Fashion missed net sales value expectations (Var: -4%). On profitability, the miss was starker as a ~300bp GM drop took away the scale-led efficiency gains. While still early days, our thesis seems to be tracking well. (1) BPC AUTC growth dropping to <30% already—is the TAM really oversold? (2) BPC revenue growth < BPC NSV growth—is ad revenue as % of NSV indeed declining? (3) The non-linear attributes of a platform remain missing. We've cut our FY24/25 EBITDA estimates by 8% each to account for higher gestation in fashion/B2B biz. Downgrade the stock to SELL with a TP of INR125/sh (implying 86x FY25 EV/EBITDA).
- **Balkrishna Industries:** BKT Q3FY23 earnings sharply declined 70% YoY to INR 1bn due to weak demand and the impact of higher cost raw material inventory. The demand environment continues to be weak in BKT's key export markets of Europe and the US which are currently witnessing recessionary trends. Given the challenging demand environment, management has refrained from providing any volume guidance for FY24, although indicating a low single-digit growth in the near term. We do understand that the current cost headwinds seen in Q3 are transient in nature and we expect operational costs (raw material + freight) to sharply reduce in the coming quarters. However, it remains to be seen how much of this cost-benefit BKT is able to retain in the coming quarters, given the weak demand macro and we do expect the industry to pass on part of these benefits in order to help improve demand. Overall, we have factored in BKT's margin to improve to 26% by FY25E from 19.1% currently. On account of a weak Q3, we have lowered our EPS estimates by 19% / 8% / 3% for FY23-25E. However, despite factoring in most positives, stock at 25.7x FY24E appears fully valued.

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Maintain our REDUCE rating with a revised TP of INR1,936 per share (INR2,048 earlier).

- **Gujarat Gas:** Our ADD recommendation on Gujarat Gas (GGL), with a price target of INR 542, is premised on (1) volume growth at 9% CAGR over FY23-25E, and (2) a high spot LNG price environment. Q3FY23 EBITDA/PAT at INR 5.8/3.7bn came in above our estimate, owing to a higher-than-expected gross spread. Volume declined sharply by 36% YoY, 4% QoQ to 7.29mmscmd, mainly impacted by a decline in industrial PNG volumes. However, lower offtake of expensive spot LNG gas by industrial/commercial customers supported margins.

- **Oil India:** Our BUY recommendation on Oil India with a target price of INR 280 is premised on (1) an increase in crude price realisation and (2) an improvement in domestic gas price realisation. Q3FY23 EBITDA stood at INR 59bn, came in above our estimate, supported by lower statutory levies and lower other expenses. However, APAT at INR 17bn, came in below our estimate mainly due to lower-than-expected other income. Oil and gas production was marginally above estimates.

- **Gujarat State Petronet:** Our ADD rating on Gujarat State Petronet with a TP of INR 280 is premised on (1) muted transmission volume over FY22-25E due to a high spot LNG price environment, given the geopolitical issues, low global inventories, and pick-up in demand post reopening of economies and (2) limited upside triggers in the near term. Hence, we believe that, at present, the stock is fairly valued with an RoE of 13.5% in FY24E and a combined FCF of INR 24bn over FY23-25E.

- **JK Lakshmi Cement:** We maintain our BUY rating on JK Lakshmi Cement (JKLC) with an unchanged target price of INR 855/share (8x Mar-25E consolidated EBITDA). We remain positive about the company for its focus on improving geo-mix, increasing trade sales, increasing green energy share, and optimisation of the supply chain. These should boost margin and profitability. Its ongoing brownfield expansion in Udaipur is broadly on track, to be commissioned by Q1FY25E (18% capacity increase), and is not stretching the balance sheet. In Q3FY23, JKLC reported strong 10/14% YoY/QoQ cement volume growth. Unitary EBITDA, however, came in flat QoQ (INR 644/MT) as higher fuel and freight costs QoQ negated op-lev gains. JKLC expects a flattish fuel cost QoQ in Q4FY23E but it is expected to fall Q1FY24E, as its high-cost inventory gets over.

- **Galaxy Surfactants:** Our BUY recommendation on GALSURF with a price target of INR 3,783 is premised on (1) the stickiness of business, as over 50% of the revenue mix comes from MNCs and (2) stable EBITDA margin, since fluctuations in raw material costs are easily passed on to customers. Q3 EBITDA/APAT were 17/25% higher than our estimates, owing to lower-than-expected raw material cost, lower-than-expected other expenses, and lower-than-expected tax outgo, offset by higher-than-expected depreciation.

- **Lemon Tree:** Lemon Tree Hotels (LTH) recorded the best-ever quarter in Q3FY23 with gross ARR touching a new high but occupancy levels still below the pre-covid levels (67.6% in Q3FY23 vs 71.3% in Q3FY20). LTH Q3FY23 revenue grew 63% YoY to INR2.3bn, led by increased ARR (+23.5% vs Q3FY20), leading to strong RevPAR growth (+17% vs Q3FY20). The increase in ARR was driven by strong demand, aided by the ongoing wedding season and vacation travel. LTH EBITDA margin increased 1,010 bps YoY to 54%, the highest for any quarter, led by a material dip in operating expenses and employee costs from the pre-covid levels. Management reiterated that the strong growth momentum will continue in Q4FY23 and FY24, led by strong travel demand, the opening of Aurika, MIAL in Oct-23, an increase in managed hotels signings and a further improvement in occupancy, especially across brands like Lemon Tree Hotels and Keys. Given the strong demand in the industry and supply trailing the same, we expect LTH to report strong numbers, going ahead. We maintain our BUY recommendation with an unchanged FY25 EV/EBITDA multiple of 17x and an INR-based TP of INR108/share.

- **Neogen Chemicals:** Our BUY recommendation on Neogen Chemicals (NCL), with a target price of INR 2,045/sh is premised on (1) increasing contribution of the high-margin CSM business to revenue; (2) entry into the new age electrolyte manufacturing business; (3) capacity-led expansion growth opportunity; (4) constant focus on R&D; and (5) improving return ratios and strong balance sheet, going forward. Q3 EBITDA stood at INR 301mn, +1% above our estimate, while APAT at INR 147mn, came in -2% below our estimates, owing to higher-than-expected finance costs and tax expenses, partially offset by higher other income and lower depreciation.
- **Ashoka Buildcon:** Ashoka Buildcon (ASBL) reported revenue/EBITDA/APAT of INR 15.6/1.2/0.7bn, beating/(missing) our estimates by 11.3/(8.9)/(11.5)%. With approvals pending from only a few stakeholders, all the asset monetisation deals are expected to be completed by H1FY24. On the back of strong order inflows, the FYTD23 order book (OB) stands at INR 191.5bn (~3.2x FY23E revenue). The standalone gross/net debt decreased marginally to INR 8.5/5.8bn as of Dec'22 vs. INR 8.7/6.5bn as of Sep'22. The balance equity requirement for HAM assets as of Dec'22 stands at INR 2bn, of which INR 0.4bn would be funded in Q4FY23 and INR 0.9/0.4bn in FY24/25. ASBL has guided for a capex of INR 2.5bn for the next five quarters. It also guided FY23 revenue growth of 30% YoY. We cut our estimates to factor in weaker margins and maintain BUY, with a TP of INR 131/sh (9x Dec-24E EPS rollover).

ABB India

Positives priced in

ABB's reported strong revenue/EBITDA/PAT at INR 24.3/3.6/3.0bn, beating our estimates by 6/57/68%. For CY22, OI crossed INR 100bn for the first time since the divestment of its power grid, turbocharger and solar business in CY18. ABB is seeing OI sustain at this level annually, going forward. During the quarter, the EBITDA margin expanded to 15% (+620/+506bps YoY/QoQ, vs. 10.1% est.). This expansion was on the back of better gross margin in the mix, better capacity utilisation and an improving supply chain. ABB is seeing strong demand coming from Tier 3 and 4 cities, with 48% of the total new orders from these cities (43% in CY21) and in the medium term, demand from these cities is expected to match with Tier 1 and 2 cities. Export demand has been stable with growth of 10% YoY. However, domestic demand has been higher than export demand and as a result, forms 88% of the CY22 revenue (87% in CY21). The cash balance stands strong at INR 36bn (INR 27bn in CY21) and INR 20bn is earmarked for inorganic growth, in line with global strategy, targeting small and medium firms across the globe. We have increased our EPS estimate for CY23/24 on the back of better margins and a favourable mix. However, we believe the punchy valuation would limit further upside on cyclical recovery and, thus, maintain REDUCE with an increased TP of INR 2,819/sh (54x Dec-24 EPS).

- **Q4CY22 financial highlights:** Revenue was INR 24.3bn (+16%/+15% YoY/QoQ, 6% beat), highest in last five years; Sequentially, robotics & discrete automation (RA)/ motion (MO)/ electrification (EL)/ process automation (PA) posted growth of 9/6/8/46%. On annual basis, the same posted growth of 15/23/12/9%. EBITDA was recorded at INR 3.6bn (+97%/+73% YoY/QoQ, 57% beat) and EBITDA margin was 15% (+620/+506bps YoY/QoQ, 10.1% est.). RPAT/APAT was INR 3.0bn (+93%/+51%x YoY/QoQ, 68% beat).
- **Order inflow crossed INR 100bn since power grids divestment:** The Q4CY22 order inflow (OI) was at 23.3bn (INR 100bn CY22 vs. INR 76bn in CY21), taking the backlog to INR 65bn (vs INR 49bn in CY21). For CY22, the OI crossed INR 100bn mark for the first time since the divestment of the power grid, turbocharger and solar business. This higher OI was on the back of higher new orders in EL, MO and PA business. Tier 3 and 4 cities are contributing more towards new orders, with CY22 orders from these cities standing at 48% from 43% in CY21. Services, retail and distribution network has been the success factor in these cities.
- **Comfortable cash balance to drive inorganic growth:** The cash position for the company stands at a robust INR 32bn. Of this, in line with the global strategy, INR 20bn will be deployed for inorganic growth i.e. multiple small and medium-sized acquisitions related to digitalization, value-added services, etc.

Standalone financial summary (INR mn)

Dec Year End	Q4CY22	Q4CY21	YoY (%)	Q3CY22	QoQ (%)	CY21	CY22	CY23E	CY24E
Net Revenues	24,269	21,015	15.5	21,197	14.5	69,340	85,675	100,799	122,193
EBITDA	3,643	1,852	96.7	2,110	72.7	5,567	9,619	12,003	14,541
APAT	3,059	1,585	93.0	2,025	51.1	6,538	7,668	9,557	11,061
EPS (INR)	14.4	7.5	93.0	9.6	51.1	30.9	36.2	45.1	52.2
P/E (x)						99.8	85.1	68.3	59.0
EV/EBITDA (x)						113.9	65.4	51.9	42.4
RoE (%)						17.2	17.5	18.5	18.4

Standalone estimate change summary

Particulars	CY23E			CY24E		
	New	Old	Chg.(%)	New	Old	Chg.(%)
Revenues	100,799	100,799	-	122,193	122,193	-
EBITDA	12,003	11,506	*4.3*	14,541	13,725	*5.9*
EBITDA (%)	11.9	11.4	49.3	11.9	11.2	66.7
APAT	9,557	9,179	*4.1*	11,061	10,433	*6.0*

Source: Company, HSIE Research

REDUCE

CMP *(as on 13 Feb 2023)*	**INR 3,088**
Target Price	**INR 2,819**
NIFTY	**17,771**

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 2,579	INR 2,819
EPS Change %	CY23E *+4.1*	CY24E *+6.0*

KEY STOCK DATA	
Bloomberg code	ABB IN
No. of Shares (mn)	212
MCap (INR bn) / ($ mn)	654/7,910
6m avg traded value (INR mn)	1,238
52 Week high / low	INR 3,446/1,945

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	(2.1)	10.4	41.7
Relative (%)	0.1	8.8	37.8

SHAREHOLDING PATTERN (%)	Sep-22	Dec-22
Promoters	75.00	75.00
FIs & Local MFs	11.90	9.74
FPIs	5.39	7.55
Public & Others	7.71	7.71
Pledged Shares	-	-

Source : BSE

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Fsn E-commerce Ventures (Nykaa)

Misses expectations; thesis on track

Nykaa's top line grew 33% YoY to INR14.6bn (HSIE: 15bn) on account of fewer festive days in Q3FY23. Adjusting for seasonality (Q2+Q3FY23 performance), BPC growth seems to have come off (32% YoY). BPC AUTC grew 29% vs 35% CAGR it clocked over FY19-22. Both BPC/Fashion missed net sales value expectations (Var: -4%). On profitability, the miss was starker as a ~300bp GM drop took away the scale-led efficiency gains. While still early days, our thesis seems to be tracking well. (1) BPC AUTC growth dropping to <30% already—is the TAM really oversold? (2) BPC revenue growth < BPC NSV growth—is ad revenue as % of NSV indeed declining? (3) The non-linear attributes of a platform remain missing. We've cut our FY24/25 EBITDA estimates by 8% each to account for higher gestation in fashion/B2B biz. Downgrade the stock to SELL with a TP of INR125/sh (implying 86x FY25 EV/EBITDA).

- **Q3FY23 highlights**: Revenue grew 33.2% to INR14.63bn (vs HSIE: INR15.05bn). Management highlighted that it missed ~300bps of growth due to 8 fewer festive days. BPC AUTC/orders grew 28/26.7% YoY respectively in Q3 (to 9.6/9.5mn respectively). BPC/fashion NSV grew 26.5/40% YoY in Q3 (Var: -4% vs HSIE). Order conversions have improved both for BPC (from 3% to 3.8%) and fashion (from 2.4% to 3.6%) over 9M. This coupled with reduced split shipments (courtesy Nykaa's regional warehousing strategy) helped in improving operational efficiencies in marketing and fulfilment, especially in BPC. However, suspected down-trading, mix impact and higher discounts in fashion led to a 293 bps YoY decline in GM. Hence, despite the operational efficiency gains, EBITDAM contracted 94bps YoY to 5.3% (HSIE: 7.8%). EBITDA grew 13.3% YoY to INR782mn. APAT declined 71% YoY to INR85mn (HSIE: 492mn). Nykaa continues to expand its offline footprint and added 40 stores (net) YTD in BPC. Offline BPC GMV contributes 8.1% now (9MFY23 vs 6.3% in 9MFY22). The company expanded its fulfilment footprint by 58% YoY (1.2mn sq. ft).
- **Outlook**: Ex-ad income, the lack of non-linear monetisation levers forces us to align our valuation compass somewhere between a linear business and a pure platform. We've cut our FY24/25 EBITDA estimates by 8% each to account for higher gestation in fashion/other biz. Downgrade the stock to SELL with a TP of INR125/sh (implying 86x FY25 EV/EBITDA).

Quarterly financial summary

(INR mn)	3QFY23	3QFY22	YoY (%)	2QFY23	QoQ (%)	FY22	FY23E	FY24E	FY25E
Net Revenue	14,628	10,984	33.2	12,308	18.8	37,739	51,277	67,619	87,761
EBITDA	782	690	13.3	611	27.8	1,633	2,642	4,084	6,097
APAT	85	290	(70.8)	52	63.5	413	481	1,076	2,011
EPS (Rs)	0.0	0.6	(99.2)	0.0	(72.8)	0.9	0.2	0.4	0.7
P/E (x)						176.5	908.7	406.5	217.4
EV/EBITDA (x)						268.2	165.7	107.2	71.8
Core RoCE(%)						4.4	4.0	6.6	10.0

Source: Company, HSIE Research, Standalone Financials

Change in estimates

(INR mn)	FY23E			FY24E			FY25E		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Revenue	51,277	51,442	*(0.3)*	67,619	68,866	*(1.8)*	87,761	90,713	*(3.3)*
Gross Profit	22,738	22,774	*(0.2)*	30,135	30,647	*(1.7)*	39,099	40,468	*(3.4)*
Gross Profit Margin (%)	44.3	44.3	*7 bps*	44.6	44.5	*6 bps*	44.6	44.6	*(6 bps)*
EBITDA	2,642	3,056	*(13.5)*	4,084	4,431	*(7.8)*	6,097	6,632	*(8.1)*
EBITDA margin (%)	5.2	5.9	*(79 bps)*	6.0	6.4	*(39 bps)*	6.9	7.3	*(36 bps)*

Source: Company, HSIE Research

SELL

CMP *(as on 13 Feb 2023)*	INR 151
Target Price	INR 125
NIFTY	17,771

KEY CHANGES	OLD	NEW
Rating	REDUCE	SELL
Price Target	INR 130	INR 125
EBITDA%	FY24E	FY25E
	(7.8)	(8.1)

KEY STOCK DATA	
Bloomberg code	NYKAA IN
No. of Shares (mn)	2,849
MCap (INR bn) / ($ mn)	429/5,185
6m avg traded value (INR mn)	2,243
52 Week high / low	INR 315/121

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	(27.6)	(35.4)	(45.1)
Relative (%)	(25.4)	(37.0)	(49.0)

SHAREHOLDING PATTERN (%)	Sep-22	Dec-22
Promoters	52.38	52.34
FIs & Local MFs	3.01	4.06
FPIs	6.57	11.06
Public & Others	38.04	32.54
Pledged Shares	-	-

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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Balkrishna Industries

Weak Q3 highlights macro challenges

BKT Q3FY23 earnings sharply declined 70% YoY to INR 1bn due to weak demand and the impact of higher cost raw material inventory. The demand environment continues to be weak in BKT's key export markets of Europe and the US which are currently witnessing recessionary trends. Given the challenging demand environment, management has refrained from providing any volume guidance for FY24, although indicating a low single-digit growth in the near term. We do understand that the current cost headwinds seen in Q3 are transient in nature and we expect operational costs (raw material + freight) to sharply reduce in the coming quarters. However, it remains to be seen how much of this cost-benefit BKT is able to retain in the coming quarters, given the weak demand macro and we do expect the industry to pass on part of these benefits in order to help improve demand. Overall, we have factored in BKT's margin to improve to 26% by FY25E from 19.1% currently. On account of a weak Q3, we have lowered our EPS estimates by 19% / 8% / 3% for FY23-25E. However, despite factoring in most positives, stock at 25.7x FY24E appears fully valued. Maintain our REDUCE rating with a revised TP of INR1,936 per share (INR2,048 earlier).

- **Q3 earnings disappoint:** Q3 PAT declined 70% YoY to INR 1bn (down 75% QoQ). Key factors for the sharp decline in earnings were: 1) The distribution channel was undergoing channel destocking which led to a much lower offtake at just 66,480 MT, down 16% QoQ (-5.5% YoY); 2) the impact of higher cost raw material inventory. Both these factors led to gross margins declining by 260bps QoQ to a multi-quarter low of 48.6%. Further, while freight costs declined sharply by 49% QoQ to 9% of revenues, BKT passed on freight benefits to customers which led to a decline in ASP by ~6% QoQ. Each of these factors led to a sharp 530bps YoY decline in EBITDA margin to 19.1% (-100bps QoQ). EBIDTA per kg is down 11% QoQ to INR 64.
- **Call takeaways:** (1) Given recessionary trends in Europe, management expects demand to remain weak and grow at low single digits in the near term (marginal growth guidance QoQ in Q4). (2) Management has indicated that inventory destocking is likely to continue in the coming quarters. The finished goods stock currently stands at 2.5 months Vs avg of 45-60 days. (3) Management expects the benefit from reduced input costs to flow in partially in Q4 and fully by Q1FY24. Even freight costs are likely to continue to decline QoQ. (4) The full benefit of reduced costs (input cost + freight) is likely to be to the tune of at least 300bps and would be visible by Q1FY24 onwards. (5) The average forward hedge rate for FY23 stands at INR 86 and the same for FY24 stands at INR 87. (6) Net debt stands at INR13.5 bn, up from INR10bn QoQ due to increased working capital requirement. (7) Capex incurred over YTDFY23 stood at INR 13 bn with some minor capex left for Q4. Capex guidance for FY24 stands at a much lower INR3-4bn.

Quarterly/annual financial summary

YE Mar (INR mn)	Q3 FY23	Q3 FY22	YoY (%)	Q2 FY23	QoQ (%)	FY22	FY23E	FY24E	FY25E
Net Sales	22,153	20,790	6.6	28,062	-21.1	84,187	1,00,274	1,02,091	1,16,128
EBITDA	4,238	5,064	-16.3	5,639	-24.8	21,825	20,191	25,523	30,193
APAT	996	3,286	-69.7	4,038	-75.3	14,107	11,506	15,442	18,571
Diluted EPS (INR)	5.2	17.0	-69.7	20.9	-75.3	73.0	59.5	79.9	96.1
P/E (x)						28.1	34.5	25.7	21.4
EV / EBITDA (x)						18.4	20.1	15.6	13.1
RoCE (%)						20.4	14.4	18.2	20.5

Source: Company, HSIE Research

REDUCE

CMP *(as on 13 Feb 2023)*	INR 2,053
Target Price	INR 1,936
NIFTY	17,771

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 2,048	INR 1,936
EPS %	FY23E	FY24E
	-19.1%	-7.9%

KEY STOCK DATA	
Bloomberg code	BIL IN
No. of Shares (mn)	193
MCap (INR bn) / ($ mn)	397/4,796
6m avg traded value (INR mn)	732
52 Week high / low	INR 2,451/1,682

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	8.6	(6.0)	(5.2)
Relative (%)	10.8	(7.6)	(9.2)

SHAREHOLDING PATTERN (%)	Sep-22	Dec-22
Promoters	58.29	58.29
FIs & Local MFs	18.91	20.22
FPIs	12.96	12.12
Public & Others	9.84	9.04
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Gujarat Gas

Volumes remain weak

Our ADD recommendation on Gujarat Gas (GGL), with a price target of INR 542, is premised on (1) volume growth at 9% CAGR over FY23-25E, and (2) a high spot LNG price environment. Q3FY23 EBITDA/PAT at INR 5.8/3.7bn came in above our estimate, owing to a higher-than-expected gross spread. Volume declined sharply by 36% YoY, 4% QoQ to 7.29mmscmd, mainly impacted by a decline in industrial PNG volumes. However, lower offtake of expensive spot LNG gas by industrial/commercial customers supported margins.

- **Volumes:** Blended volume remained weak in Q3 at 7.29mmscmd (-36% YoY, -4% QoQ), impacted by the weak industrial volume of 4.05mmscmd (-52% YoY, -9% QoQ). Domestic PNG volume stood at 0.67mmscmd (flat YoY, -3% QoQ). CNG volume was at 2.43mmscmd, up +12% YoY, +5% QoQ. Commercial PNG volumes stood at 0.14mmscmd (flat YoY, flat QoQ). We estimate volumes at 8.1/8.5/9.6mmscmd for FY23/24/25E.
- **Margin:** Per unit gross spread, at INR 12.8/scm (+2.8x YoY, -1% QoQ), and EBITDA margin at INR 8.68/scm (+3.8x YoY, -5% QoQ) came in above our estimates. With margins protected due to weak demand of high-cost LNG and growth in the high-margin CNG segment, we expect the EBITDA margin to improve from INR 5.5/scm in FY22 to INR 7.9/7.5/7.8 per scm over FY23/24/25E.
- **Change in estimates:** We revise upwards our EPS estimates for FY23/24/25E by 9.7/4.3/0.1% to INR 21/21.4/25.5, to factor in higher margins, offset by lower volumes, which reduce our target price to INR 542/sh.
- **DCF-based valuation: Our target price of INR 542 is based on Mar-24E free cash flow (WACC 11%, terminal growth rate 3%). The stock is currently trading at 22.7x FY24E EPS.**

Standalone financial summary

YE March (INR bn)	Q3 FY23	Q2 FY23	QoQ (%)	Q3 FY22	YoY (%)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	37	40	(7.3)	51	(28.4)	99	165	168	168	177
EBITDA	6	6	(9.4)	2	145.2	21	21	23	24	27
APAT	4	4	(8.1)	1	204.5	13	13	14	15	18
AEPS (INR)	5.4	5.9	(8.1)	1.8	204.5	18.5	18.5	21.0	21.4	25.5
P/E (x)						26.3	26.1	23.1	22.7	19.0
EV / EBITDA (x)						16.3	16.3	14.3	13.8	11.6
RoE (%)						32.8	25.4	23.2	19.5	19.5

Source: Company, HSIE Research

Change in estimates

	FY23E			FY24E			FY25E		
	Old	New	Ch%	Old	New	Ch%	Old	New	Ch%
EBITDA (INR bn)	21.5	23.2	7.5	23.1	23.5	1.7	27.6	27.1	(1.6)
AEPS (INR/sh)	19.2	21.0	9.7	20.5	21.4	4.3	25.5	25.5	0.1

Source: Company, HSIE Research

ADD

CMP *(as on 13 Feb 2023)*	INR 485
Target Price	INR 542
NIFTY	17,771

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 550	INR 542
	FY23E	FY24E
EPS change %	+9.7%	+4.3%

KEY STOCK DATA	
Bloomberg code	GUJGA IN
No. of Shares (mn)	688
MCap (INR bn) / ($ mn)	334/4,033
6m avg traded value (INR mn)	669
52 Week high / low	INR 675/404

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	0.8	0.9	(24.0)
Relative (%)	3.0	(0.7)	(27.9)

SHAREHOLDING PATTERN (%)	Sep-22	Dec-22
Promoters	60.89	60.89
FIs & Local MFs	13.04	12.55
FPIs	5.03	5.17
Public & Others	21.04	21.39
Pledged Shares	0.0	0.0

Source : BSE

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Oil India

Higher gas realisation aids earnings

BUY

CMP *(as on 13 Feb 2023)*	**INR 241**
Target Price	**INR 280**
NIFTY	**17,771**

KEY CHANGES	**OLD**	**NEW**
Rating	BUY	BUY
Price Target	INR 255	INR 280
EPS change	**FY23E**	**FY24E**
	+9.8%	+5.4%

KEY STOCK DATA	
Bloomberg code	OINL IN
No. of Shares (mn)	1,084
MCap (INR bn) / ($ mn)	261/3,159
6m avg traded value (INR mn)	278
52 Week high / low	INR 306/168

STOCK PERFORMANCE (%)

	3M	**6M**	**12M**
Absolute (%)	22.0	26.6	5.1
Relative (%)	24.2	25.0	1.2

SHAREHOLDING PATTERN (%)

	Sep-22	**Dec-22**
Promoters	56.66	56.66
FIs & Local MFs	15.37	16.05
FPIs	11.78	11.52
Public & Others	16.20	15.78
Pledged Shares	0.00	0.00

Source : BSE

Our BUY recommendation on Oil India with a target price of INR 280 is premised on (1) an increase in crude price realisation and (2) an improvement in domestic gas price realisation. Q3FY23 EBITDA stood at INR 59bn, came in above our estimate, supported by lower statutory levies and lower other expenses. However, APAT at INR 17bn, came in below our estimate mainly due to lower-than-expected other income. Oil and gas production was marginally above estimates.

- **Standalone financial performance:** Net sales in Q3 stood at INR 59bn (+57% YoY, +2% QoQ). EBITDA stood at INR 29bn (+2x YoY, +54% QoQ), above our estimate, owing to lower-than-expected statutory levies and other expenses. Net crude realisation post windfall tax in rupee terms was at INR 6,128/bbl, (USD 11.2/bbl, +7% YoY, +8% QoQ). APAT stood at INR 17bn (+40% YoY, +1% QoQ), below our estimate, owing to lower other income of INR 1bn.
- **Standalone operational performance**: In Q3, gross crude oil realisation was at USD 85.8/bbl, (+12% YoY, -12% QoQ) while the implied net crude oil realisation adjusting for the windfall tax stood at USD 74.6/bbl; gas realisation was at USD 10.5/mmbtu, (+3.6x YoY, +71% QoQ). Oil and gas production was marginally above estimates at 0.81mmt and 0.81bcm. Oil sales volume was at 0.77mmt (+6% YoY, -1% QoQ), while gas sales volume was at 0.64bcm (+1% YoY, -2% QoQ), which came broadly in line.
- **Call takeaways**: (1) The management has maintained their standalone Capex guidance for FY23/24 at ~INR 30-40bn. (2) The company has guided oil production at 3.2/3.4mmt and gas production at 3/3.3bcm for FY23/24 respectively, driven by accelerated production from the existing fields; the company targets to improve the oil production to 4mmt and gas production to 4bcm by FY25. (3) The Numaligarh Refinery (NRL) expansion from 3MTPA to 9MTPA is on schedule and is expected to be completed by end of 2025; NRL Capex incurred to date stood at INR 80bn. (4) Out of the total Capex incurred for NRL expansion, only INR 23bn has been drawn out of debt; most of the Capex is currently being funded through internal accruals. (5) Q3 consolidated gross debt stood at INR 175bn (flat QoQ).
- **Change in estimates**: We revise upwards our consolidated EPS estimates for FY23/24/25E by +9.8/+5.4/4% to INR 78.1/59.5/55.4, to factor in higher net oil realisation and lower other expenses for the standalone business, higher GRM estimates for NRL, partially offset by lower gas production for FY24/25 and higher expenses. Our target price is revised to INR 280/sh.
- **We value Oil India's standalone business at INR 125 (3x Mar-24E EPS) and its investments at INR 155. The stock is currently trading at 4x FY24E EPS.**

Standalone financial summary

YE March (INR bn)	Q3 FY23	Q2 FY23	QoQ (%)	Q3 FY22	YoY (%)	FY21*	FY22*	FY23E*	FY24E*	FY25E*
Revenues	59	58	1.8	37	57.3	225	300	537	523	545
EBITDA	29	18	54.5	13	125.3	57	105	146	117	113
APAT	17	17	1.5	12	40.3	46	67	85	65	60
AEPS (INR)	16.1	15.9	1.5	11.5	40.3	42.2	62.0	78.1	59.5	55.4
P/E (x)						5.7	3.9	3.1	4.0	4.3
EV/EBITDA (x)						7.9	4.2	2.7	3.1	3.1
RoE (%)						19.5	24.8	23.9	14.8	11.8

Source: Company, HSIE Research | *Consolidated

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Gujarat State Petronet

Volume declines further

Our ADD rating on Gujarat State Petronet with a TP of INR 280 is premised on (1) muted transmission volume over FY22-25E due to a high spot LNG price environment, given the geopolitical issues, low global inventories, and pick-up in demand post reopening of economies and (2) limited upside triggers in the near term. Hence, we believe that, at present, the stock is fairly valued with an RoE of 13.5% in FY24E and a combined FCF of INR 24bn over FY23-25E.

- **View on the result:** Q3FY23 EBITDA/APAT, at INR 2.7/1.7bn, came in below our estimates, impacted by lower volumes and transmission tariff, higher-than-expected employee costs and other expenses, offset by lower depreciation and higher other income.
- **Volume:** Gas transmission volume in Q3 declined sharply to a multi-year low of 22.3mmscmd (-30% YoY, -9% QoQ), and came in below our estimate. Volume break-up in mmscmd was: refinery 6, power 0.8, CGD 8.4, fertilizers 3.8, and others 3.3.
- **Tariffs:** Calculated blended transmission tariff for the quarter stood at INR 1,678/tscm (+25% YoY, +1% QoQ), marginally below our estimate.
- **Change in estimates:** We reduce our consolidated earnings for FY23E by 7.8% to INR 28.3 to factor in Gujarat Gas' revised earnings estimates and lower volumes for GSPL's standalone business, partially offset by marginally higher blended transmission tariff. However, we increase our F24/25E EPS by 3.4/2% to factor higher transmission tariff, offset by lower volumes, delivering a revised TP of INR 280/sh.
- **DCF-based valuation: We value the transmission business using discounted cash flow (DCF) at INR 91/sh (WACC of 12% and terminal growth rate of 2%). To this, we add INR 189/sh as the value of its investments in Gujarat Gas, Sabarmati Gas, etc., to arrive at a target price of INR 280/sh. The stock is trading at 10.9x FY24E PER.**

Standalone financial summary

YE March (INR bn)	Q3 FY23	Q2 FY23	*QoQ (%)*	Q3 FY22	*YoY (%)*	FY21*	FY22*	FY23E*	FY24E*	FY25E*
Revenue	4.0	4.3	(7.4)	4.7	(14.6)	115	180	187	174	190
EBITDA	2.7	3.3	(19.1)	3.4	(19.8)	36	35	34	32	37
APAT	1.7	3.1	(45.6)	2.1	(19.9)	16	17	16	14	16
AEPS (INR)	3.0	5.6	(45.6)	3.8	(19.9)	28.5	29.4	28.3	24.4	27.6
P/E (x)						9.3	9.0	9.4	10.9	9.6
EV / EBITDA (x)						5.1	5.2	5.1	5.3	4.6
RoE (%)						28.5	23.2	18.3	13.5	13.3

Source: Company, HSIE Research | *Consolidated

Change in estimates

	FY23E			FY24E			FY25E		
	Old	New	*Ch%*	Old	New	*Ch%*	Old	New	*Ch%*
EBITDA (INR bn)	36	34	(5.0)	31	32	2.0	36	37	1.1
EPS (INR/sh)	30.7	28.3	(7.8)	23.6	24.4	3.4	27.1	27.6	1.9

Source: Company, HSIE Research

ADD

CMP *(as on 13 Feb 2023)*	**INR 266**
Target Price	**INR 280**
NIFTY	**17,771**

KEY CHANGES	**OLD**	**NEW**
Rating	ADD	ADD
Price Target	INR 255	INR 280
EPS change %	**FY23E**	**FY24E**
	-7.8%	+3.4%

KEY STOCK DATA	
Bloomberg code	GUJS IN
No. of Shares (mn)	564
MCap (INR bn) / ($ mn)	150/1,813
6m avg traded value (INR mn)	352
52 Week high / low	INR 299/209

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	14.1	7.7	(10.7)
Relative (%)	16.4	6.0	(14.6)

SHAREHOLDING PATTERN (%)	**Sep-22**	**Dec-22**
Promoters	37.63	37.63
FIs & Local MFs	24.19	24.29
FPIs	17.31	17.28
Public & Others	20.87	20.80
Pledged Shares	0.0	0.0

Source: BSE

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JK Lakshmi Cement

Strong volume offtake; margin flat QoQ

We maintain our BUY rating on JK Lakshmi Cement (JKLC) with an unchanged target price of INR 855/share (8x Mar-25E consolidated EBITDA). We remain positive about the company for its focus on improving geo-mix, increasing trade sales, increasing green energy share, and optimisation of the supply chain. These should boost margin and profitability. Its ongoing brownfield expansion in Udaipur is broadly on track, to be commissioned by Q1FY25E (18% capacity increase), and is not stretching the balance sheet. In Q3FY23, JKLC reported strong 10/14% YoY/QoQ cement volume growth. Unitary EBITDA, however, came in flat QoQ (INR 644/MT) as higher fuel and freight costs QoQ negated op-lev gains. JKLC expects a flattish fuel cost QoQ in Q4FY23E but it is expected to fall Q1FY24E, as its high-cost inventory gets over.

- **Q3FY23 performance**: Cement sales volume rose 10/14% YoY/QoQ to 2.9mn MT. Consolidated utilisation (sales basis) stood at 83% vs 75/73% YoY/QoQ. Cement NSR remained flat QoQ (+10% YoY). Cement opex remained flat QoQ. Input cost remained flat QoQ. Op-lev gains offset the 5% QoQ rise in transport cost. Unit EBITDA fell 1% QoQ to INR 644/MT (down 3% YoY).
- **Outlook**: JKLC reported a ~12% QoQ rise in the fuel cost in Q3FY23 to INR 2.57/mn-cal; it expects it to be flattish QoQ in Q4 (carrying high-cost inventory). However, it expects some moderation in fuel cost in Q1FY24. JKLC's brownfield expansion at UCW (1.5/ 2.5 mn MT clinker/ cement, Capex INR 16.5bn) is expected by Q1FY25E. In our view, JKLC's consolidated net debt/EBITDA should remain comfortable below 1x, despite this expansion. JKLC is working to improve the geo-mix and trade sales share (to 60%+ from 55% currently over the next 2-3 quarters) to boost its realisation. By the end of FY24E, it is also targeting AFR/green power share to expand to 12/50% vs 4/33% currently. It is also looking to improve supply chain efficiency. Cumulatively, JKLC expects these to expand its unitary EBITDA by ~INR 300 EBITDA/MT in the next 18-24 months. These should boost margins and could drive valuation rerating for the stock. While we cut our FY23 EBITDA estimates by 5% (factoring in flattish margin QoQ in Q3), we maintain our EBITDA estimates for FY24/25E.

Quarterly/annual financial summary (consolidated)

YE Mar (INR bn)	Q3 FY23	Q3 FY22	YoY (%)	Q2 FY23	QoQ (%)	FY21	FY22	FY23E	FY24E	FY25E
Sales (mn MT)	2.88	2.61	*10.1*	2.53	*13.8*	10.45	11.20	11.98	12.82	13.85
NSR (INR/MT)	5,426	4,918	*10.3*	5,431	*(0.1)*	4,524	4,840	5,454	5,509	5,602
EBITDA(INR/MT)	644	664	*(3.1)*	648	*(0.7)*	898	849	748	876	949
Net Sales	15.62	12.86	*21.5*	13.74	*13.7*	47.27	54.20	65.36	70.63	77.58
EBITDA	1.85	1.74	*6.7*	1.64	*13.0*	9.39	9.51	8.96	11.23	13.14
APAT	0.77	0.64	*20.1*	0.61	*26.2*	4.43	4.91	3.90	5.44	6.26
AEPS (INR)	6.5	5.4	*20.1*	5.2	*26.2*	37.7	41.7	33.1	46.2	53.2
EV/EBITDA (x)						10.3	10.1	10.8	8.6	7.4
EV/MT (INR bn)						7.30	6.88	6.93	6.92	5.92
P/E (x)						20.0	18.1	22.7	16.3	14.2
RoE (%)						*23.4*	*21.1*	*14.0*	*16.7*	*16.6*

Source: Company, HSIE Research

BUY

CMP *(as on 13 Feb 2023)*	**INR 753**
Target Price	**INR 855**
NIFTY	**17,771**

KEY CHANGES	**OLD**	**NEW**
Rating	BUY	BUY
Price Target	INR 855	INR 855
EBITDA revision %	FY23E *(4.8)*	FY24E *0.0*

KEY STOCK DATA	
Bloomberg code	JKLC IN
No. of Shares (mn)	118
MCap (INR bn) / ($ mn)	89/1,071
6m avg traded value (INR mn)	422
52 Week high / low	INR 897/366

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	16.9	59.1	45.1
Relative (%)	19.1	57.5	41.1

SHAREHOLDING PATTERN (%)	**Sep-22**	**Dec-22**
Promoters	46.31	46.31
FIs & Local MFs	24.66	25.57
FPIs	12.84	13.81
Public & Others	16.19	14.31
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Galaxy Surfactants

Margin improves on lower input costs

Our BUY recommendation on GALSURF with a price target of INR 3,783 is premised on (1) the stickiness of business, as over 50% of the revenue mix comes from MNCs and (2) stable EBITDA margin, since fluctuations in raw material costs are easily passed on to customers. Q3 EBITDA/APAT were 17/25% higher than our estimates, owing to lower-than-expected raw material cost, lower-than-expected other expenses, and lower-than-expected tax outgo, offset by higher-than-expected depreciation.

- **Q3 revenue** grew 16% YoY but declined by 12% QoQ to INR 10.8bn. Demand in India remained resilient, with demand improving for premium categories. Demand for mass and masstige categories in the AMET region remained stable. The slowdown in Europe impacted speciality volumes.
- **Q3 margins**: Gross margin improved 469bps QoQ and 413bps YoY to 32%, aided by a significant decline in freight rates, raw material prices, and improved availability of raw material as compared to last year. The supply-side situation has improved. EBITDAM came in at 14% (+357/+604bps QoQ/YoY).
- **Q3 volume**: Total volume in Q3 came in at 58kT (-2/+1% QoQ/YoY). Performance surfactant (67% of the volume mix) volume came in at 39kT (+6% YoY), and specialty care (33%) volume came in at 19kT (-9% YoY). India's market grew 12.2% YoY, AMET de-grew 6.4% YoY, and the rest of the world de-grew 8.9% YoY in Q3. While the underlying pressure on volume continues, demand continues to remain resilient in India. The continued slowdown in Europe and a hyperinflationary scenario that adversely impacts the mass and masstige segments remain the key risks, going ahead.
- **DCF-based valuation: Our price target is INR 3,783 (WACC 10%, terminal growth 4%). The stock is trading at 22x FY24E EPS.**

Financial summary (consolidated) improving

INR mn	Q3 FY23	Q2 FY23	QoQ (%)	Q3 FY22	YoY (%)	FY21	FY22	FY23E	FY24E	FY25E
Net Sales	10,803	12,316	(12.3)	9,291	16.3	27,841	36,857	48,107	52,647	58,406
EBITDA	1,541	1,317	17.0	764	101.6	4,488	4,007	5,483	5,671	6,899
APAT	1,062	839	26.6	456	132.8	3,021	2,628	3,781	3,906	4,873
AEPS (INR)	30.0	23.7	26.6	12.9	132.8	85.2	74.1	106.7	110.2	137.5
P/E (x)						28.5	32.7	22.7	22.0	17.6
EV/EBITDA(x)						18.8	20.7	15.1	14.8	12.4
RoE (%)						25.5	18.3	22.0	19.4	20.8

Source: Company, HSIE Research

BUY

CMP *(as on 13 Feb 2023)*	INR 2,425
Target Price	INR 3,783
NIFTY	17,771

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 3,690	INR 3,783
	FY23E	FY24E
EPS % chg	-	-

KEY STOCK DATA	
Bloomberg code	GALSURF IN
No. of Shares (mn)	35
MCap (INR bn) / ($ mn)	86/1,040
6m avg traded value (INR mn)	75
52 Week high / low	INR 3,448/2,302

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	(14.9)	(24.0)	(16.3)
Relative (%)	(12.7)	(25.7)	(20.3)

SHAREHOLDING PATTERN (%)	Sept-22	Dec-22
Promoters	70.93	70.93
FIs & Local MFs	12.73	12.72
FPIs	2.82	2.78
Public & Others	13.52	13.58
Pledged Shares	0.0	0.0

Source: BSE

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Lemon Tree

Occupancy still has room to improve

BUY

CMP*(as on 13 Feb 2023)*	**INR 78**
Target Price	**INR 108**
NIFTY	**17,771**

KEY CHANGES	**OLD**	**NEW**
Rating	BUY	BUY
Price Target	INR108	INR108
EPS Change %	FY23E	FY24E
	-	-

KEY STOCK DATA	
Bloomberg code	LEMONTRE IN
No. of Shares (mn)	792
MCap (INR bn) / ($ mn)	62/743
6m avg traded value (INR mn)	522
52 Week high / low	INR 103/45

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	(15.0)	3.7	60.8
Relative (%)	(12.8)	2.1	56.9

SHAREHOLDING PATTERN (%)	**Sep-22**	**Dec-22**
Promoters	23.6	23.6
FIs & Local MFs	10.7	10.1
FPIs	27.5	26.8
Public & Others	38.2	39.5
Pledged Shares	-	-

Source : BSE

Lemon Tree Hotels (LTH) recorded the best-ever quarter in Q3FY23 with gross ARR touching a new high but occupancy levels still below the pre-covid levels (67.6% in Q3FY23 vs 71.3% in Q3FY20). LTH Q3FY23 revenue grew 63% YoY to INR2.3bn, led by increased ARR (+23.5% vs Q3FY20), leading to strong RevPAR growth (+17% vs Q3FY20). The increase in ARR was driven by strong demand, aided by the ongoing wedding season and vacation travel. LTH EBITDA margin increased 1,010 bps YoY to 54%, the highest for any quarter, led by a material dip in operating expenses and employee costs from the pre-covid levels. Management reiterated that the strong growth momentum will continue in Q4FY23 and FY24, led by strong travel demand, the opening of Aurika, MIAL in Oct-23, an increase in managed hotels signings and a further improvement in occupancy, especially across brands like Lemon Tree Hotels and Keys. Given the strong demand in the industry and supply trailing the same, we expect LTH to report strong numbers, going ahead. We maintain our BUY recommendation with an unchanged FY25 EV/EBITDA multiple of 17x and an INR-based TP of INR108/share.

- **Q3FY23 consolidated highlights:** Revenue grew 63% YoY to INR2.3bn (+17% from Q3FY20), 6% above consensus. EBITDA increased significantly to INR1.3bn (+100% YoY and 56% from Q3FY20) and is in line with consensus. The gross ARR of the group grew 23% from Q3FY20 levels to INR5,738 with occupancy still lower at 67.6% in Q3FY23 (-373bps from Q3FY20 level of 71.3%). RevPAR grew 17% from the Q3FY20 level to INR3,877. Total expenses as a % of sales declined to 17% in Q3FY23 to INR107cr which was also driven by a sustainable reduction in fixed expenses. Adjusted PAT for the quarter came in at INR485.5mn (+1068% YoY and +329% from Q3FY20).
- **Brand-wise performance**: Aurika's ARR increased 15% from Q3FY20 levels to INR17,102 in Q3FY23 at an occupancy of 53%. Lemon Tree Premier printed improved occupancy by 75% in Q3FY23 compared to 71% in Q3FY20, with an average ARR of INR6,863 (+16% from Q3FY20). Under the Lemon Tree Hotel brand, the company signed 7 newly managed hotels and operationalized 3 hotels during the quarter. Lemon Tree Hotel's ARR grew to INR5,500 from 4,514 in Q3FY20 at an occupancy of 68% (449 bps lower than Q3FY20). Red Fox and Keys had an average ARR of INR4,315 (+20% from Q3FY20) and INR3,512 in Q3FY23 (+18% in Q3FY20) at an occupancy of 73% (78% in Q3FY20) and 51% (66% in Q3FY20) respectively.
- **Outlook:** LTH has a strong expansion plan to build a portfolio of 11,240 rooms in 122 hotels by FY25 with the Aurika Mumbai property of 669 rooms expected to get operationalized by Oct-23. Strong ARR and likely improvement in occupancy will support a healthy EBITDA margin. The demand outlook is positive given the strong push in travel and tourism. We maintain our BUY recommendation with an unchanged FY25 EV/EBITDA multiple of 17x and an INR-based TP of INR108/share.

Financial Summary

(INR mn, Mar YE)	3QFY23	3QFY22	*YoY*	2QFY23	*QoQ (%)*	FY22	FY23E	FY24E	FY25E
Net Revenues	2,335	1,437	*62.6*	1,967	*18.7*	4,023	8,916	11,107	12,970
EBITDA	1,265	633	*99.8*	936	*35.1*	1,339	4,186	5,386	6,347
APAT	486	-50	*1067.7*	193	*151.6*	-1,269	1,591	2,395	3,318
Diluted Consol EPS (INR)	0.1	-0.0	*1067.7*	0.0	*151.6*	-1.6	2.0	3.0	4.2
P/E (x)						-23.1	37.1	24.7	17.8
EV/EBITDA						34.2	18.1	14.1	11.5
RoE (%)						-14.5	17.5	21.6	23.8

Source: Company, HSIE Research

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Neogen Chemicals

Entering a new orbit

Our BUY recommendation on Neogen Chemicals (NCL), with a target price of INR 2,045/sh is premised on (1) increasing contribution of the high-margin CSM business to revenue; (2) entry into the new age electrolyte manufacturing business; (3) capacity-led expansion growth opportunity; (4) constant focus on R&D; and (5) improving return ratios and strong balance sheet, going forward. Q3 EBITDA stood at INR 301mn, +1% above our estimate, while APAT at INR 147mn, came in -2% below our estimates, owing to higher-than-expected finance costs and tax expenses, partially offset by higher other income and lower depreciation.

- **Financial performance:** Revenue grew 40% YoY, 26% QoQ at INR 1,863mn, with YoY growth, driven by higher utilisation levels across plants and robust demand. EBITDA grew 27% YoY and 24% QoQ to INR 301mn, with EBITDA margin coming in at 16% (-177/-20bps YoY/QoQ) on account of the increased cost of raw materials, high employee cost and depreciation. APAT grew by 40/49% YoY/QoQ to INR 147mn, supported by strong operating profit and higher-than-expected other income of INR 14mn.
- **Con call takeaways:** (1) NCL has announced a Capex of INR 4.5bn for the following projects: (a) enhancement of planned electrolyte capacity from 250 mtpa to 1,000 mtpa to be ready by FY24 and further expansion to 5,000 mtpa to be operational by FY25; (b) expansion of Specialty Lithium Salts capacity from 400 mtpa to 1,000 mtpa to be operational by FY25; and (c) greenfield expansion of Electrolyte and Specialty Lithium Salts at a new site for dedicated battery materials. (2) The company has approved the corporation of a wholly owned subsidiary (WOS). The main object of WOS is to consider the growth opportunities in Energy Storage such as Lithium-Ion Battery material space and other future energy storage chemistries. (3) Higher utilisation across plants and sustained demand from key end-user industries has resulted in robust growth in revenue. (4) Rising contribution of the high-margin advanced intermediates and custom synthesis resulted in better EBITDA despite continued inflationary pressure.
- **Change in estimates:** We raise our FY23/24/25 EPS estimates by 0.3/6.2/5.5% to INR 20.8/36.0/59.9 to factor in 9MFY23 performance.
- **DCF-based valuation: Our target price is INR 2,045 (WACC 11%, terminal growth 5.5%). The stock is currently trading at 36.1x FY24E EPS.**

Financial summary (consolidated)

INR mn	Q3 FY23	Q2 FY23	QoQ (%)	Q3 FY22	YoY (%)	FY21	FY22	FY23E	FY24E	FY25E
Net Sales	1,863	1,481	*25.7*	1,326	*40.4*	3,364	4,873	6,384	8,114	11,556
EBITDA	301	243	*24.2*	238	*26.6*	644	866	1,098	1,737	2,628
APAT	147	99	*48.7*	105	*40.4*	313	446	518	898	1,493
AEPS (INR)	5.9	4.0	*48.7*	4.2	*40.4*	12.6	17.9	20.8	36.0	59.9
P/E (x)						103.5	72.6	62.6	36.1	21.7
EV/EBITDA(x)						53.7	39.5	32.5	21.0	14.0
RoE (%)						18.5	14.3	11.2	17.1	23.6

Source: Company, HSIE Research

Change in estimates (consolidated)

	FY23E			FY24E			FY25E		
	Old	New	*Ch%*	*Old*	*New*	*Ch%*	*Old*	*New*	*Ch%*
EBITDA (INR bn)	1,096	1,098	0.2	1,666	1,737	4.2	2,525	2,628	4.1
AEPS (INR/sh)	20.7	20.8	0.3	33.9	36.0	6.2	56.8	59.9	5.5

Source: Company, HSIE Research

BUY

CMP *(as on 13 Feb 2023)*	**INR 1,300**
Target Price	**INR 2,045**
NIFTY	**17,771**

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 1,890	INR 2,045
EPS %	**FY23E**	**FY24E**
	+0.3%	+6.2%

KEY STOCK DATA	
Bloomberg code	NEOGEN IN
No. of Shares (mn)	25
MCap (INR bn) / ($ mn)	32/392
6m avg traded value (INR mn)	40
52 Week high / low	INR 1,795/1,128

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(7.1)	(10.2)	(16.0)
Relative (%)	(4.9)	(11.8)	(19.9)

SHAREHOLDING PATTERN (%)

	Sept-22	Dec-22
Promoters	60.19	60.19
FIs & Local MFs	19.12	18.88
FPIs	3.74	3.99
Public & Others	16.95	16.94
Pledged Shares	0.00	0.00

Source: BSE

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Ashoka Buildcon

Moving towards being asset light

Ashoka Buildcon (ASBL) reported revenue/EBITDA/APAT of INR 15.6/1.2/0.7bn, beating/(missing) our estimates by 11.3/(8.9)/(11.5)%. With approvals pending from only a few stakeholders, all the asset monetisation deals are expected to be completed by H1FY24. On the back of strong order inflows, the FYTD23 order book (OB) stands at INR 191.5bn (~3.2x FY23E revenue). The standalone gross/net debt decreased marginally to INR 8.5/5.8bn as of Dec'22 vs. INR 8.7/6.5bn as of Sep'22. The balance equity requirement for HAM assets as of Dec'22 stands at INR 2bn, of which INR 0.4bn would be funded in Q4FY23 and INR 0.9/0.4bn in FY24/25. ASBL has guided for a capex of INR 2.5bn for the next five quarters. It also guided FY23 revenue growth of 30% YoY. We cut our estimates to factor in weaker margins and maintain BUY, with a TP of INR 131/sh (9x Dec-24E EPS rollover).

- **Q3FY23 financial highlights:** Revenue: INR 15.6bn (+41.3/21.8% YoY/QoQ, a beat of 11.3%). EBITDA: INR 1.2bn (-3/+4.5% YoY/QoQ, a miss of 8.9%). EBITDA margin: 7.5% (-343/-124bps YoY/QoQ, below our estimate of 9.2%, owing to lower margins in the older project bid aggressively moving into revenue recognition. APAT: INR 667mn (-17.6/+1.9% YoY/QoQ, a miss of 11.5%). The BOT division recorded a toll revenue of INR 2.9bn (+16.1/+5.7% YoY/QoQ). ASBL has guided for FY23 revenue to grow by 30% YoY.
- **Well-diversified OB augurs well for revenue visibility:** The OB as of Dec'22 stood at INR 161.4bn (~2.7x FY23E revenue). Business-wise, the OB is well-diversified with roads/T&D/railways/buildings contributing 54.8/17.5/8.9/18.6% of the order backlog. ASBL reiterated its clear focus on HAM projects while diversifying its portfolio into power T&D, railways, and building as well.
- **Asset-light balance sheet by H1FY24:** During the quarter, ASBL sold its entire 74% stake in the Jaora-Nayagaon (JN) BOT asset to NIIF for an aggregate consideration of INR 6.9bn (ASBL share INR 4bn). Further, with approvals pending from only a few stakeholders, all the asset monetisation deals are expected to be completed by H1FY23. In total, ASBL expects to receive ~INR 4.5bn from Chennai ORR and INR 4bn from JN. Besides this, CGD asset and Eleven HAM (advanced stage of monetisation discussion) have approximately INR 11bn of investment and may add to the monetisation pool. ASBL may use the surplus for working capital reduction and buyback/dividends.

Standalone Financial Summary (INR mn)

Particulars	3QFY23	3QFY22	YoY (%)	2QFY23	QoQ (%)	FY22	FY23E	FY24E	FY25E
Net Sales	15,595	11,037	*41.3*	12,803	*21.8*	45,915	59,689	66,255	73,543
EBITDA	1,170	1,207	*(3.0)*	1,119	*4.5*	5,025	4,996	6,228	7,354
APAT	667	809	*(17.6)*	655	*1.9*	4,086	2,137	2,797	3,395
EPS (INR)	2.4	2.9	*(17.6)*	2.3	*1.9*	14.6	7.6	10.0	12.1
P/E (x)						5.5	10.5	8.0	6.6
EV/EBITDA (x)						5.3	5.4	3.8	3.0
RoE (%)						14.3	7.6	9.0	9.8

Source: Company, HSIE Research

Standalone estimate change summary (INR mn)

Particulars	FY23E			FY24E			FY25E		
	New	Old	Chg.(%)	New	Old	Chg.(%)	New	Old	Chg.(%)
Revenues	59,689	57,439	3.9	66,255	63,757	3.9	73,543	70,771	3.9
EBITDA	4,996	5,457	(8.4)	6,228	6,439	(3.3)	7,354	7,360	(0.1)
EBITDA (%)	8.4	9.5	(113.0)	9.4	10.1	(70.0)	10.0	10.4	(40.0)
APAT	2,137	2,642	(19.1)	2,797	3,096	(9.7)	3,395	3,554.7	(4.5)

Source: Company, HSIE Research

BUY

CMP (*as on 13 Feb 2023*)	INR 80
Target Price	INR 131
NIFTY	17,771

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 134	INR 131

EPS Change %	FY23E	FY24E	FY25E
	-19.1	-9.7	-4.5

KEY STOCK DATA	
Bloomberg code	ASBL IN
No. of Shares (mn)	281
MCap (INR bn) / ($ mn)	22/271
6m avg traded value (INR mn)	108
52 Week high / low	INR 99/69

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	6.7	3.5	(15.2)
Relative (%)	8.9	1.9	(19.2)

SHAREHOLDING PATTERN (%)

	Sep-22	Dec-22
Promoters	54.48	54.48
FIs & Local MFs	19.11	19.48
FPIs	1.93	2.00
Public & Others	24.48	24.04
Pledged Shares	-	-

Source : BSE

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Rating Criteria

BUY: >+15% return potential

ADD: +5% to +15% return potential

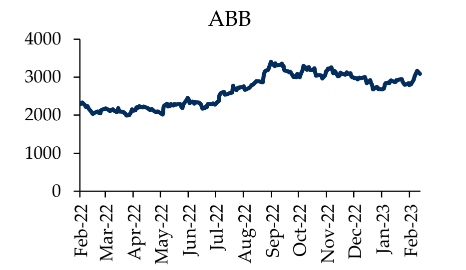
REDUCE: -10% to +5% return potential

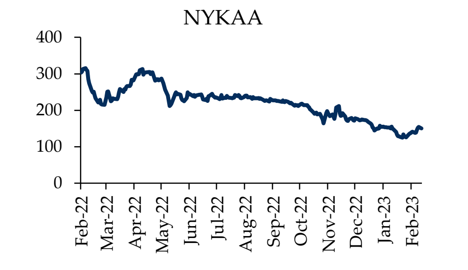
SELL: > 10% Downside return potential

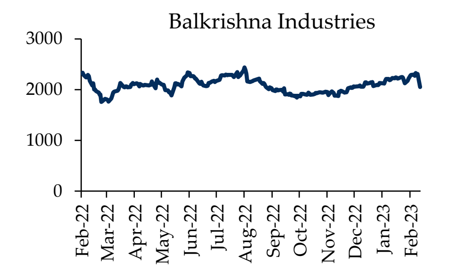
Disclosure:

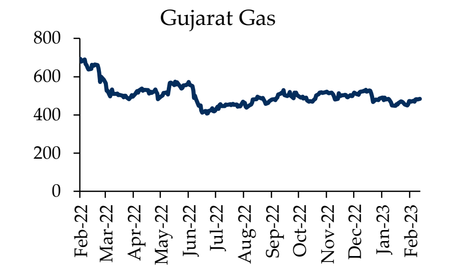
Analyst	Company Covered	Qualification	Any holding in the stock
Parikshit Kandpal	ABB India, Ashoka Buildcon	CFA	NO
Manoj Rawat	ABB India, Ashoka Buildcon	MBA	NO
Nikhil Kanodia	ABB India, Ashoka Buildcon	MBA	NO
Jay Gandhi	Fsn E-commerce Ventures (Nykaa)	MBA	NO
Riddhi Shah	Fsn E-commerce Ventures (Nykaa)	MBA	NO
Aniket Mhatre	Balkrishna Industries	MBA	NO
Sonaal Sharma	Balkrishna Industries	MBA	NO
Harshad Katkar	Gujarat Gas, Oil India, Gujarat State Petronet, Galaxy Surfactants, Neogen Chemicals	MBA	NO
Nilesh Ghuge	Gujarat Gas, Oil India, Gujarat State Petronet, Galaxy Surfactants, Neogen Chemicals	MMS	NO
Akshay Mane	Gujarat Gas, Oil India, Gujarat State Petronet, Galaxy Surfactants, Neogen Chemicals	PGDM	NO
Rajesh Ravi	JK Lakshmi Cement	MBA	NO
Keshav Lahoti	JK Lakshmi Cement	MBA	NO
Anuj Upadhyay	Lemon Tree	MBA	NO
Hinal Choudhary	Lemon Tree	CA	NO

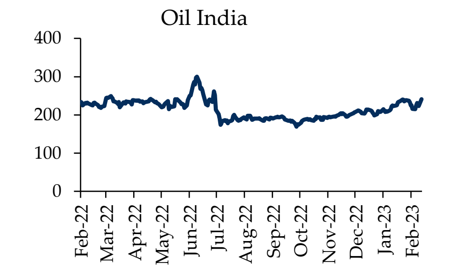
1 Yr Price Movement

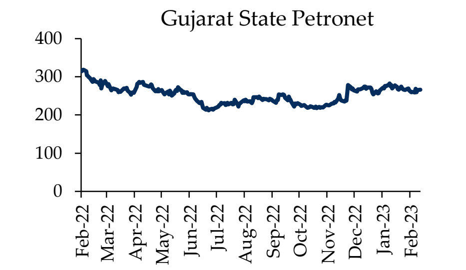


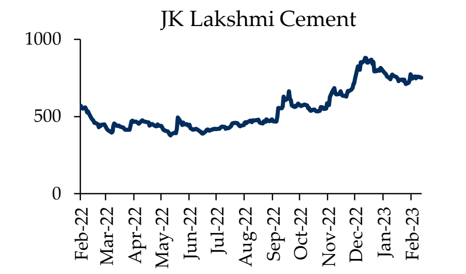


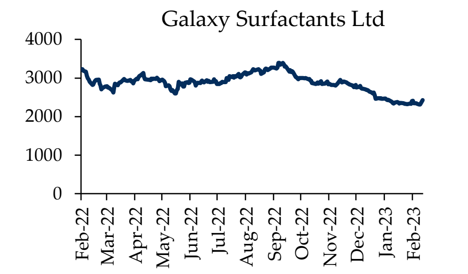


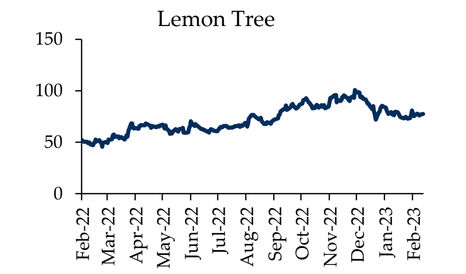


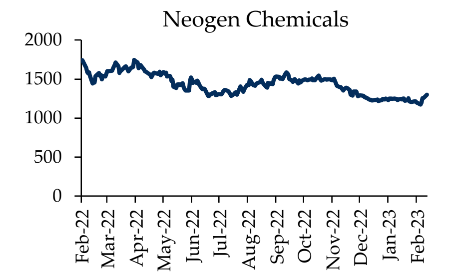


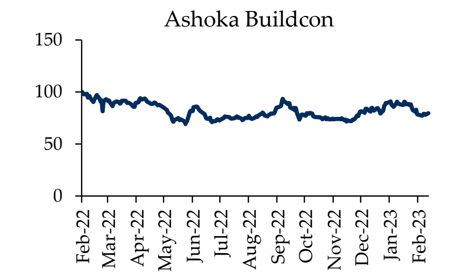












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