INSTITUTIONAL RESEARCH

HSIE Results Daily

Contents

Results Reviews

- **ITC:** ITC reported a weak operating print due to a soft cigarette performance along with sustained weakness seen in the agri and paper portfolio. Cigarette net revenue/EBIT growth was at 4/2%, with volume estimated to have fallen by 1% (5% 4-year CAGR) on a high base. Differentiated and premium offerings continued to perform well. With the base now catching up, we model cigarette revenue/EBIT growth of 7% over FY23-FY26. FMCG continued to report a resilient performance in a difficult environment with revenue growing by 8% (+13% on 2-year CAGR) while EBITDAM expanded by 100bps to 11%. Paper performance remained impacted by low-priced Chinese supplies, muted domestic demand and a sharp drop in realisations. Hotel revenue was up by 18%. ITC's overall revenue grew 2% while EBITDA fell 3% YoY. The recent stock run-up (~30% in LTM) and limited earnings surprise scope given a higher base further restrict rerating potential. We cut our estimates by 1% over FY24-26 to reflect Q3 performance and value ITC on a SoTP basis to derive a TP of INR 460. The implied target P/E is 24x Dec-25E EPS. Maintain ADD.
- **Bajaj Finance:** Bajaj Finance (BAF) delivered a mixed set of earnings with robust AUM growth (+35% YoY) despite a regulatory embargo on select products and stable NIMs (11.3%), offset by elevated credit costs (1.8% annualised). BAF extended its long-range strategy (LRS) to FY28, guiding for 22-27% AUM CAGR and 20-25% earnings CAGR over FY24-FY28E. On the back of its omnichannel strategy, the widest product suite and focus on cross-sell, we believe BAF is poised for ~23% AUM CAGR in the medium-term, while also simultaneously delivering steady profitability. We tweak our earnings by ~2% for FY24E-FY26E to reflect stronger AUM growth, offset by higher credit costs; we maintain BUY with a revised RI-based TP of INR8,690 (implied 26x Sep-25 EPS; 5.4x Sep-25 ABVPS).
- **Cholamandalam Investment and Finance Company:** Chola reported healthy operating metrics with strong AUM growth and sustained NIMs, partially offset by higher opex intensity and credit costs. LAP (+35% YoY), home loans (+66% YoY) and new businesses (+120% YoY) continued to drive overall AUM growth (+40% YoY), driven primarily by increasing penetration of these products in existing branches. While Chola remains a prolific franchise with medium-term RoEs of ~20%+, we expect moderation in loan growth going ahead and subsequently limited upside in stock from current levels. We tweak our earnings estimates to build in higher AUM growth for FY24, offset by higher opex intensity and maintain ADD with a revised RI-based TP of INR1285 (implying 4.6x Sep-25 ABVPS).
- **Gail (India):** Our BUY recommendation on GAIL with a target price of INR 185 is based on (1) an increase in gas transmission volume to 130mmscmd by FY25 on the back of an increase in domestic gas production, (2) completion of major pipelines in eastern and southern India, and (3) expectation of improvement in earnings from the petchem segment. Q3FY24 reported EBITDA/PAT at INR 38/28bn, which came in above our estimates, driven by higher natural gas marketing margins and improvement in petchem segment earnings. Higher-than-expected other income of INR 8bn (+18% YoY, +45% QoQ) also supported earnings. Depreciation was at INR 7.8bn (+26% YoY, +4.5% QoQ) and interest cost at INR 1.6bn, (+49% YoY, - 9% QoQ).

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- **Macrotech Developers:** Macrotech Developers Ltd (MDL) reported strong quarterly presales of INR 34.1bn (+12/-3% YoY/QoQ), with a presales volume of INR 2.6msf (+4/+0% YoY/QoQ). Average price realisation as a result increased to INR 13,115 (+8/-3% YoY/QoQ). MMR/Pune/Bengaluru market saw presales of INR 24.1/3.4/6.6bn. Collections were INR 25.9bn (-3.4/-6% YoY/QoQ). The embedded EBITDA margin on presales was ~30%. On the business development front, MDL added GDV worth INR 60bn (INR 203bn in 9MFY24, surpassing FY24 guidance of INR 175bn) and a saleable area of 2msf. The implied realisation, as a result, is INR 30,000/sq. ft. MDL saw a strong launch response for its first project in Bengaluru, selling out ~90% worth INR6.6bn with a second project likely in Q4FY24. The IRR threshold for the Bengaluru project is marked at 20%. In terms of launches, INR 63bn worth of launches are planned for the rest of FY24 with a saleable area of 4.4msf. In terms of price hikes, since Apr'23, MDL has hiked prices by 4% and expects full-year price appreciation of 6-7%. Given robust growth visibility, better-than-expected GDV addition and uptick in land prices (Palava may see price and volume increase as new infra projects get commissioned over the next few years), we increase our TP to INR 1,111/sh. Owing to the limited upside on our TP, we maintain our ADD rating.
- **Marico:** Marico's consolidated revenue fell 2% YoY as price cuts continue to impact revenue growth. Domestic revenue is down 3% with volume growth of 2% (5% four-year CAGR). Corrective steps taken to alleviate RoI challenges faced by channel partners impacted volumes in Q3. While rural demand and mass segments continued to remain soft, urban demand sustained its moderate growth trajectory. The international business posted 6% CC (2% reported) dragged by transient macro headwinds in Bangladesh as other regions delivered resilient performances. Softening inflation and a favourable mix enabled GM expansion of 635bps YoY to 51.3%, a part of which was reinvested through higher A&P spending (up 12% YoY). As a result, EBITDA grew by 13% YoY while margins expanded by 270bps to 21%. Marico remains on track for an EBITDAM expansion of 250bps in FY24. With improving macros and the anniversary of price cuts on the horizon, we continue to build in gradual recovery in volumes in coming quarters. We model a 12% EBITDA CAGR during FY23-26E. We prefer Marico, given its thrust to drive growth in its core brands, initiatives to drive D2C/foods, and the margin upcycle. We value the stock at 45x on Dec-25 EPS to derive a target price of INR 650. Maintain ADD.

ITC

Weak quarter

ITC reported a weak operating print due to a soft cigarette performance along with sustained weakness seen in the agri and paper portfolio. Cigarette net revenue/EBIT growth was at 4/2%, with volume estimated to have fallen by 1% (5% 4-year CAGR) on a high base. Differentiated and premium offerings continued to perform well. With the base now catching up, we model cigarette revenue/EBIT growth of 7% over FY23-FY26. FMCG continued to report a resilient performance in a difficult environment with revenue growing by 8% (+13% on 2-year CAGR) while EBITDAM expanded by 100bps to 11%. Paper performance remained impacted by low-priced Chinese supplies, muted domestic demand and a sharp drop in realisations. Hotel revenue was up by 18%. ITC's overall revenue grew 2% while EBITDA fell 3% YoY. The recent stock run-up (~30% in LTM) and limited earnings surprise scope given a higher base further restrict rerating potential. We cut our estimates by 1% over FY24-26 to reflect Q3 performance and value ITC on a SoTP basis to derive a TP of INR 460. The implied target P/E is 24x Dec-25E EPS. Maintain ADD.

- **FMCG/hotel momentum sustains; cigarette soft on a high base:** Overall revenue grew by 2% YoY as 4/8/18% growth in cigarettes (net)/FMCG/hotels was partially offset by a 2/10% decline in the agri and paper segments. Cigarette volume fell 1% YoY on a high base (4-year CAGR at 5%). FMCG saw resilient performance growing by 8% (+13% 2-year CAGR) despite a challenging demand environment. Growth was seen in both traditional and emerging channels. Hotels' performance was led by strong ARRs and occupancies across properties, driven by retail, MICE segments and the ICC Cricket World Cup. Paper revenue continued to remain impacted by low-priced Chinese supplies in global markets and muted domestic demand. Ex of wheat and rice exports, the agribusiness grew 14% YoY, driven by value-added agri products and lead tobacco. We model 7% consolidated revenue CAGR for FY23-26E.
- **Soft operating print:** The cigarette/FMCG/hotel EBIT grew at 2/24/57% YoY. While agri EBIT fell 13%, paper EBIT fell 51% due to a sharp drop in realisations and an unprecedented surge in domestic wood costs. As a result, overall EBITDA fell 3% YoY. FMCG EBITDA margin expanded by 100bps YoY to 11%, led by premiumisation, supply chain optimisation, pricing actions, digital initiatives, strategic cost management and fiscal incentives. We model a 7% EBITDA CAGR for FY23-26.
- **Other takeaways:** (1) Within FMCG, competitive intensity remained high in certain categories such as biscuits, snacks, noodles, and popular soaps, including from local/regional players. (2) Within cigarettes, the focus is on innovation and democratising premiumisation across segments. (3) Within paper, global demand remains subdued. Domestic recovery in slow post-festive season. (4) A facility to manufacture and export nicotine and nicotine derivative products has been commissioned. Shipments are to commence from Q4FY24. (5) Hotel demerger has received stock exchange approval.

Quarterly/annual financial summary

(INR mn)	Q3 FY24	Q3 FY23	YoY (%)	Q2 FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	1,76,519	1,72,655	2.2	1,77,051	(0.3)	6,06,681	7,09,369	7,26,435	7,95,078	8,64,359
EBITDA	60,243	62,232	(3.2)	60,416	(0.3)	2,06,584	2,56,649	2,64,009	2,88,779	3,14,765
APAT	52,135	50,310	3.6	49,270	5.8	1,55,031	1,94,603	2,02,416	2,18,349	2,38,160
EPS (INR)	4.2	4.1	2.48	4.0	5.8	12.6	15.7	16.3	17.6	19.2
P/E (x)						35.8	28.7	27.6	25.6	23.5
EV / EBITDA						25.4	20.5	19.8	18.1	16.5
Core RoCE						43.9	52.3	53.6	58.4	62.5

Source: Company, HSIE Research

ADD

CMP *(as on 29 Jan 2024)*	INR 450
Target Price	INR 460
NIFTY	21,738

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 460	INR 460
EPS %	FY24E	FY25E
	-1%	-1%

KEY STOCK DATA	
Bloomberg code	ITC IN
No. of Shares (mn)	12,479
MCap (INR bn) / ($ mn)	5,613/68,635
6m avg traded value (INR mn)	4,943
52 Week high / low	INR 500/327

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	3.7	(4.0)	30.8
Relative (%)	(10.2)	(11.8)	11.3

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	0.00	0.00
FIs & Local MFs	41.93	41.99
FPIs	14.31	14.23
Public & Others	43.76	43.78
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Bajaj Finance

Strong fundamentals support relative resilience

Bajaj Finance (BAF) delivered a mixed set of earnings with robust AUM growth (+35% YoY) despite a regulatory embargo on select products and stable NIMs (11.3%), offset by elevated credit costs (1.8% annualised). BAF extended its long-range strategy (LRS) to FY28, guiding for 22-27% AUM CAGR and 20-25% earnings CAGR over FY24-FY28E. On the back of its omnichannel strategy, the widest product suite and focus on cross-sell, we believe BAF is poised for ~23% AUM CAGR in the medium-term, while also simultaneously delivering steady profitability. We tweak our earnings by ~2% for FY24E-FY26E to reflect stronger AUM growth, offset by higher credit costs; we maintain BUY with a revised RI-based TP of INR8,690 (implied 26x Sep-25 EPS; 5.4x Sep-25 ABVPS).

- **Steady NIMs; improving operating efficiency:** BAF reported steady NIMs (~11.3%) on the back of reflating yields and strong growth in the B2B segment (+54% YoY), offsetting an uptick in funding costs (7.8%). With rising pressure on the cost of funds, BAF has effected a ~25bps rate hike across its product suite, which is likely to help partly offset the margin pressure. Operating efficiencies continued to improve (C/I at 34%; opex-to-AUM at 4.7%) on the back of higher throughput and increasing contribution from new businesses.
- **Marginal worsening of asset quality:** GS-III/NS-III deteriorated marginally QoQ to 0.95%/0.37% (H1FY24: 0.91%/0.31%) with GS-II flat at 1.1%. As per management, this is largely emanating from B2C segments (rural and urban), with stress in urban B2C being more transient and incremental credit costs likely to remain rangebound. We argue this is an industry-wide phenomenon, with BAF's risk management likely to emerge relatively more resilient.
- **Excellent profitability metrics; maintain BUY:** BAF's focus on multi-channel customer acquisition and cross-sell of existing and new products is likely to drive robust medium-term AUM CAGR. Additionally, the relentless focus on throughput and consequent operating efficiency, alongside sustained pricing power in key segments, is likely to help sustain strong profitability.

Financial summary (Consolidated)

(INR bn)	Q3FY24	Q3FY23	YoY(%)	Q2FY24	QoQ(%)	FY23	FY24E	FY25E	FY26E
NII	76.6	59.2	29.3	72.0	6.4	229.9	294.7	369.5	455.3
PPOP	61.4	48.5	26.6	58.3	5.3	187.2	237.2	301.0	375.0
PAT	36.4	29.7	22.3	35.5	2.4	115.1	144.8	184.8	225.6
EPS (INR)	59.2	49.0	20.9	58.5	1.3	190.2	234.6	299.6	364.7
ROAE (%)						23.5%	22.2%	21.9%	22.0%
ROAA (%)						4.7%	4.6%	4.6%	4.6%
ABVPS (INR)						885	1,215	1,463	1,781
P/ABV (x)						8.1	5.9	4.9	4.0
P/E (x)						37.8	30.6	24.0	19.7

Change in estimates

INR bn	FY24E			FY25E			FY26E		
	Old	New	Chg	Old	New	Chg	Old	New	Chg
AUM	3,154	3,259	3.3%	3,891	4,021	3.3%	4,794	4,956	3.4%
NIM (%)	10.0	10.3	24bps	10.1	10.1	3bps	10.1	10.1	0bps
NII	282.4	294.7	4.3%	356.4	369.5	3.7%	440.5	455.3	3.3%
PPOP	227.2	237.2	4.4%	292.5	301.0	2.9%	363.8	375.0	3.1%
PAT	143.0	144.8	1.2%	179.9	184.8	2.7%	220.4	225.6	2.4%
ABVPS (INR)	1,213	1,215	0.1%	1,455	1,463	0.6%	1,767	1,781	0.8%

Source: Company, HSIE Research

BUY

CMP *(as on 29 Jan 2024)*	INR 7,192
Target Price	INR 8,690
NIFTY	21,738

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR8650	INR 8690
	FY24E	FY25E
EPS %	1.2%	2.7%

KEY STOCK DATA	
Bloomberg code	BAF IN
No. of Shares (mn)	618
MCap (INR bn) / ($ mn)	4,445/54,348
6m avg traded value (INR mn)	7,854
52 Week high / low	INR 8,192/5,486

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	(4.2)	(2.6)	24.8
Relative (%)	(18.1)	(10.4)	5.3

SHAREHOLDING PATTERN (%)	Sep-23	Dec-23
Promoters	55.9	54.8
FIs & Local MFs	12.9	14.1
FPIs	20.1	20.9
Public & Others	11.0	10.2
Pledged Shares	-	

Source: BSE

Pledged shares as % of total shares

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Cholamandalam Investment and Finance Company

Healthy operating performance; priced to perfection

Chola reported healthy operating metrics with strong AUM growth and sustained NIMs, partially offset by higher opex intensity and credit costs. LAP (+35% YoY), home loans (+66% YoY) and new businesses (+120% YoY) continued to drive overall AUM growth (+40% YoY), driven primarily by increasing penetration of these products in existing branches. While Chola remains a prolific franchise with medium-term RoEs of ~20%+, we expect moderation in loan growth going ahead and subsequently limited upside in stock from current levels. We tweak our earnings estimates to build in higher AUM growth for FY24, offset by higher opex intensity and maintain ADD with a revised RI-based TP of INR1285 (implying 4.6x Sep-25 ABVPS).

- **Healthy P&L outcomes:** Chola's NIM remained flat sequentially (7.4%) with yield reflation across segments offsetting the rising cost of funds. Other income witnessed a spike due to the insurance commission income of INR 1.6bn as Chola received the insurance brokerage license during Q3. Chola's investments in distribution (employees, branches etc.) are reflected in higher opex intensity (~3.7% of AUM – annualised) and have aided in improved throughput for several quarters now.
- **Improving GS-II/GS-III; provisions treading as per guidance:** GS-III/NS-III improved further to 2.8%/1.6% (Q2FY24: 3.0%/1.6%) with GS-II at 3.1% (Q2FY24: 3.2%). Credit costs moderated sequentially to ~125bps (annualised), driven by the vehicle finance segment and are likely to remain within the management guidance of ~1.1-1.2% for FY24. Delinquencies in the CSEL segment have moderated post cautious stance of the management, while the SBPL segment witnessed healthy traction in Q3.
- **A diversified portfolio, branch penetration to aid growth albeit some moderation ahead:** Chola continued to report stupendous AUM growth (~40% YoY) with all segments firing at a strong pace. While increasing branch penetration of non-vehicle segments (particularly home loans and LAPs) is likely to aid loan growth, we expect moderation in loan growth to ~22-25% going ahead, driven by vehicle finance (~60% of AUM). Further, the rising cost of funds is likely to drive NIMs lower, which may be partially offset by improving operating efficiency.

Financial summary

(INR bn)	Q3FY24	Q3FY23	*YoY (%)*	Q2FY24	*QoQ(%)*	FY23	FY24E	FY25E	FY26E
NII	21.7	16.0	*35.8*	20.2	*7.7*	63.3	83.0	106.1	131.4
PPOP	15.2	10.8	*40.4*	14.2	*6.7*	44.5	58.7	74.7	95.7
PAT	8.8	6.8	*28.0*	7.6	*14.9*	26.7	32.9	43.7	56.9
EPS (INR)	10.5	8.3	*25.8*	9.3	*12.7*	32.4	39.2	52.1	66.5
ROAE (%)						20.5	19.5	20.4	21.0
ROAA (%)						2.7	2.5	2.6	2.7
ABVPS (INR)						133.9	205.3	244.4	316.8
P/ABV (x)						9.2	6.0	5.0	3.9
P/E (x)						38.0	31.4	23.6	18.5

Change in estimates

INR bn	FY24E			FY25E			FY26E		
	Old	New	Chg	Old	New	Chg	Old	New	Chg
AUM	1,353	1,413	4.5%	1,652	1,726	4.4%	2,008	2,099	4.5%
NIM (%)	6.3	6.2	-12bps	6.3	6.2	-10bps	6.4	6.3	-13bps
NII	82.3	83.0	0.8%	102.7	106.1	3.2%	127.6	131.4	3.0%
PPOP	58.6	58.7	0.2%	73.8	74.7	1.1%	94.2	95.7	1.6%
PAT	33.2	32.9	-0.8%	43.0	43.7	1.8%	56.9	56.9	0.1%
ABVPS (INR)	199	205	3.2%	241	244	1.6%	314	317	0.9%

Source: Company, HSIE Research

ADD

CMP *(as on 29 Jan 2024)*	INR 1,231
Target Price	INR 1,285
NIFTY	21,738

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 1,280	INR 1,285
EPS %	FY24E	FY25E
	-0.8%	1.8%

KEY STOCK DATA	
Bloomberg code	CIFC IN
No. of Shares (mn)	840
MCap (INR bn) / ($ mn)	1,033/12,636
6m avg traded value (INR mn)	2,275
52 Week high / low	INR 1,310/697

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	5.4	8.2	73.4
Relative (%)	(8.6)	0.3	53.9

SHAREHOLDING PATTERN (%)	Sep-23	Dec-23
Promoters	51.4	50.4
FIs & Local MFs	20.0	18.4
FPIs	21.5	24.7
Public & Others	7.0	6.5
Pledged Shares	0.0	

Source: BSE

Pledged shares as % of total shares

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Gail (India)

Trading and petchem segments aid earnings

Our BUY recommendation on GAIL with a target price of INR 185 is based on (1) an increase in gas transmission volume to 130mmscmd by FY25 on the back of an increase in domestic gas production, (2) completion of major pipelines in eastern and southern India, and (3) expectation of improvement in earnings from the petchem segment. Q3FY24 reported EBITDA/PAT at INR 38/28bn, which came in above our estimates, driven by higher natural gas marketing margins and improvement in petchem segment earnings. Higher-than-expected other income of INR 8bn (+18% YoY, +45% QoQ) also supported earnings. Depreciation was at INR 7.8bn (+26% YoY, +4.5% QoQ) and interest cost at INR 1.6bn, (+49% YoY, - 9% QoQ).

- **NG marketing:** Marketing volume of 98mmscmd (+9% YoY) and trading margin of INR 2.3/tscm (+5% QoQ) came ahead of estimates, delivering a strong marketing EBITDA of INR 21bn (+6% QoQ). Management has indicated earnings will remain robust from this segment.
- **Petchem:** Q3 petchem EBITDA came in at INR 2bn – the first profit seen in the last six quarters, supported by an improvement in sales volume at 215kT, (+3.3x YoY, +28% QoQ) and an improvement in petchem production at 205kT (+3x YoY, +28% QoQ), implying capacity utilisation of 92%. Realisation continues to remain under pressure at INR 95/kg (-17% YoY, -8% QoQ).
- **NG transmission:** Reported the highest-ever transmission volume at 121.5mmscmd (+17% YoY, +1% QoQ); however, it came in below estimate, while transmission tariffs came broadly in line at INR 2,393/tscm (+38% YoY, 0.1% QoQ). EBITDA at INR 16bn (+2.2x YoY, -5% QoQ) came in below the estimate, owing to lower-than-expected transmission volumes.
- **LPG & Liquid Hydro Carbon:** The LPG & LHC segment reported EBITDA at INR 3bn, coming in above our estimate, supported by higher-than-estimated realisations of INR 52/kg (-5% YoY, +22% QoQ).
- **Key takeaways**: (1) The company has guided a capex of INR ~170bn in FY25: INR 30bn towards the pipeline segment, INR 44bn towards the petchem segment, INR 30bn towards achieving net zero targets, INR 7.5bn towards operational capex and INR 50bn towards equity contribution to JV's/subsidiaries. (2) Management has guided gas transmission volume will improve by 12-13mmscmd over FY25-26. (3) Management expects the petchem segment to break even in FY24 and generate profits in FY25.
- **Change in estimates:** We increase our FY24/25/26E EPS by +14/+5.5/2.7% to INR 14.6/15.2/15.9 to factor in higher transmission volumes, marketing margins and petchem production delivering a revised TP of INR 185/sh.
- **Our SOTP, at INR 185/sh, is based on 10x Mar-25E EV/e for the natural gas, LPG transmission and gas marketing business, 5.5x EV/e for the petchem and LPG/LHC businesses, and INR 49 for investments. The stock is currently trading at 11.3x Mar-25E EPS and 9.2x EV/EBITDA.**

Standalone financial summary

YE March (INR bn)	Q3 FY24	Q2 FY24	QoQ (%)	Q3 FY23	YoY (%)	FY22*	FY23*	FY24E*	FY25E*	FY26E*
Revenue	342	318	7.6	354	(3.2)	928	1,457	1,346	1,428	1,465
EBITDA	38	35	9.5	3	1,362.7	152	75	133	138	146
PAT	28	24	18.2	2	1,056.8	123	56	96	100	104
EPS (INR)	4.3	3.7	18.2	0.4	1,056.8	18.6	8.5	14.6	15.2	15.9
P/E (x)						9.2	20.1	11.7	11.3	10.8
EV / EBITDA (x)						8.0	17.5	9.8	9.2	8.5
RoE (%)						20.9	8.7	13.8	12.6	11.6

Source: Company, HSIE Research | *Consolidated

BUY

CMP *(as on 29 Jan 2024)*	INR 172
Target Price	INR 185
NIFTY	21,738

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 145	INR 185
EPS change	FY24E	FY25E
	+14.2%	+5.5%

KEY STOCK DATA	
Bloomberg code	GAIL IN
No. of Shares (mn)	6,575
MCap (INR bn) / ($ mn)	1,129/13,808
6m avg traded value (INR mn)	2,895
52 Week high / low	INR 175/91

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	45.2	46.2	73.2
Relative (%)	31.3	38.3	53.7

SHAREHOLDING PATTERN (%)	Sep-23	Dec-23
Promoters	51.91	51.90
FIs & Local MFs	27.04	27.28
FPIs	14.76	14.24
Public & Others	6.29	6.59
Pledged Shares	0.0	0.0

Source : BSE

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Macrotech Developers

New triggers emerging

Macrotech Developers Ltd (MDL) reported strong quarterly presales of INR 34.1bn (+12/-3% YoY/QoQ), with a presales volume of INR 2.6msf (+4/+0% YoY/QoQ). Average price realisation as a result increased to INR 13,115 (+8/-3% YoY/QoQ). MMR/Pune/Bengaluru market saw presales of INR 24.1/3.4/6.6bn. Collections were INR 25.9bn (-3.4/-6% YoY/QoQ). The embedded EBITDA margin on presales was ~30%. On the business development front, MDL added GDV worth INR 60bn (INR 203bn in 9MFY24, surpassing FY24 guidance of INR 175bn) and a saleable area of 2msf. The implied realisation, as a result, is INR 30,000/sq. ft. MDL saw a strong launch response for its first project in Bengaluru, selling out ~90% worth INR6.6bn with a second project likely in Q4FY24. The IRR threshold for the Bengaluru project is marked at 20%. In terms of launches, INR 63bn worth of launches are planned for the rest of FY24 with a saleable area of 4.4msf. In terms of price hikes, since Apr'23, MDL has hiked prices by 4% and expects full-year price appreciation of 6-7%. Given robust growth visibility, better-than-expected GDV addition and uptick in land prices (Palava may see price and volume increase as new infra projects get commissioned over the next few years), we increase our TP to INR 1,111/sh. Owing to the limited upside on our TP, we maintain our ADD rating.

- **Q3FY24 financial highlights:** Revenue: INR 29.3bn (+65/+67% YoY/QoQ, beat of 60%). EBITDA: INR 8.8bn (+118/+112% YoY/QoQ, beat of 102%). EBITDA margin: 30.1% (+736/+634bps YoY/QoQ, vs. estimate of 24%). Other income: INR 281mn (INR 1.3bn/55mn Q3FY23/Q2FY24). RPAT: INR 5.0bn (+25/+149% YoY/QoQ). Adjusted for INR 1bn of extraordinary loss on UK investment, MDL adjusted profit stood at INR 5.8bn (+44/+188% YoY/QoQ, beat of 165%). For the new sale agreements signed on/after 1st Apr 2023, MDL will follow the 'percentage of completion method (POCM)' of accounting vs. 'project completion method (PCM),' being followed for client contracts entered up to 31st March 2023. Post FY27, the entire revenue will be POCM-based.
- **Robust presales, Palava to get infra connectivity boost:** Presales of INR 34.1bn (+12/-3% YoY/QoQ), with a presales volume of INR 2.6msf (+4/+0% YoY/QoQ). Embedded EBITDA margin on presales: ~30%. The company launched projects of 3msf with GDV potential of INR 50bn across MMR, Bengaluru and Pune (6.6msf, INR 88.5bn in 9MFY24). New launches contributed ~25% to Q3FY24 presales. With infra connectivity expected to improve, Palava may see better pricing and volumes. Airoli-Katai connector may reduce travel time to ~25min. Besides, the upcoming bullet train station near Palava will reduce travel time to BKC by FY28.
- **Net debt stable; further decline expected:** Net debt is flat sequentially at INR 67.5bn. Net debt is expected to reduce further to INR 60bn by FY24-end and well within the guidance of lower net D/E of 0.5x or net debt/OCF of 1x. In terms of business development, MDL has exceeded FY24 BD guidance of INR 175bn with INR 203bn worth of projects added so far in 9MFY24. MDL has taken INR 50bn of fundraising approval from the board for growth opportunities.

Consolidated financial summary (INR mn)

YE March (Rs mn)	3QFY24	3QFY23	YoY (%)	2QFY24	QoQ (%)	FY23	FY24E	FY25E	FY25E
Net Sales	29,306	17,738	65.2	17,496	67.5	94,704	103,725	119,419	146,845
EBITDA	8,827	4,038	118.6	4,161	112.1	20,661	26,034	31,210	43,622
APAT	5,839	4,050	44.2	2,028	187.9	12,183	17,088	20,202	32,605
Diluted EPS (Rs)	6.1	4.2	44.2	2.1	187.9	12.6	17.7	21.0	33.8
P/E (x)						81.8	58.3	49.3	30.6
EV / EBITDA (x)						51.7	40.4	33.1	23.0
RoE (%)						13.5	12.8	13.6	19.1

Source: Company, HSIE Research

ADD

CMP *(as on 29 Jan 2024)*	**INR 1,034**
Target Price	**INR 1,111**
NIFTY	**21,738**

KEY CHANGES		**OLD**	**NEW**
Rating		ADD	ADD
Price Target		INR 977	INR 1,111
EPS Change %	FY24E	FY25E	FY26E
	-	-	-

KEY STOCK DATA	
Bloomberg code	LODHA IN
No. of Shares (mn)	965
MCap (INR bn) / ($ mn)	997/12,197
6m avg traded value (INR mn)	1,316
52 Week high / low	INR 1,228/356

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	40.3	38.5	104.5
Relative (%)	26.3	30.6	85.0

SHAREHOLDING PATTERN (%)	**Sep-23**	**Dec-23**
Promoters	74.93	74.92
FIs & Local MFs	3.50	3.21
FPIs	20.52	21.09
Public & Others	1.05	0.78
Pledged Shares	-	-

Source : BSE

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Marico

Resilient margin performance

ADD

CMP *(as on 29 Jan 2024)*	INR 517
Target Price	INR 650
NIFTY	21,738

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 650	INR 650
	FY24E	FY25E
EPS %	0%	0%

KEY STOCK DATA	
Bloomberg code	MRCO IN
No. of Shares (mn)	1,294
MCap (INR bn) / ($ mn)	668/8,173
6m avg traded value (INR mn)	873
52 Week high / low	INR 595/463

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	(3.9)	(10.1)	2.5
Relative (%)	(17.9)	(17.9)	(17.0)

SHAREHOLDING PATTERN (%)	Sep-23	Dec-23
Promoters	59.40	59.39
FIs & Local MFs	9.82	9.96
FPIs	25.91	25.69
Public & Others	4.87	4.96
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

Marico's consolidated revenue fell 2% YoY as price cuts continue to impact revenue growth. Domestic revenue is down 3% with volume growth of 2% (5% four-year CAGR). Corrective steps taken to alleviate RoI challenges faced by channel partners impacted volumes in Q3. While rural demand and mass segments continued to remain soft, urban demand sustained its moderate growth trajectory. The international business posted 6% CC (2% reported) dragged by transient macro headwinds in Bangladesh as other regions delivered resilient performances. Softening inflation and a favourable mix enabled GM expansion of 635bps YoY to 51.3%, a part of which was reinvested through higher A&P spending (up 12% YoY). As a result, EBITDA grew by 13% YoY while margins expanded by 270bps to 21%. Marico remains on track for an EBITDAM expansion of 250bps in FY24. With improving macros and the anniversary of price cuts on the horizon, we continue to build in gradual recovery in volumes in coming quarters. We model a 12% EBITDA CAGR during FY23-26E. We prefer Marico, given its thrust to drive growth in its core brands, initiatives to drive D2C/foods, and the margin upcycle. We value the stock at 45x on Dec-25 EPS to derive a target price of INR 650. Maintain ADD.

- **In-line revenue performance:** Consolidated revenue fell 2% YoY (in line with HSIE with domestic revenue falling 3%. Domestic volume grew 2%. Growth was led by foods (+18%) owing to higher urban salience and penetration while mass HPC categories, just like rural markets, saw soft demand. PCNO value/volume growth was flat/3% YoY while VAHO value growth was 3%. Saffola revenue fell c26% YoY while volumes declined by mid-single digits. We estimate revenue will grow at a CAGR of 6% over FY23-26E.
- **Bangladesh drags international performance:** International business saw 6% YoY CC growth as an otherwise resilient performance was dragged by transient macro headwinds in Bangladesh. Bangladesh saw a 6% CC decline, while South-East Asia/MENA/South Africa saw CC growth of 4/26/33% YoY.
- **Margin improvement sustains:** Aided by softening inflation and a better mix, GM expanded 635bps YoY to 51%. Copra prices stayed at lower levels with an upward bias, while rice bran oil/LLP/HDPE exhibited a downward trend. Employee/adv/other expenses grew by 18/12/7% YoY. EBITDA margin expanded by 270bps YoY to 21%. EBITDA grew 13% YoY. Domestic/international EBIT grew by 11/16% YoY. We expect the margin to sustain recovery and build in 21-22% EBITDA margins for FY24/25/26E. We model an EBITDA CAGR of 12% for FY23-26E.
- **Con call takeaways:** (1) Rural demand remains soft. Urban sustaining steady improvement. FMCG sector volumes to see a gradual recovery in CY2024. (2) PCNO gained ~40bps market share. Volume improvement to sustain. (3) Digital first portfolio clocked an exit ARR of INR 4bn+ in Q3. (4) 75% of the portfolio continues to gain/maintain market share. (5) Revenue share of foods & premium personal care was at 20% of domestic business.

Quarterly/annual financial summary

(INR mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	24,220	24,700	(1.9)	24,760	(2.2)	95,378	97,640	97,473	1,07,041	1,16,734
EBITDA	5,130	4,560	12.5	4,970	3.2	16,810	18,100	20,475	23,019	25,691
APAT	3,830	3,280	16.8	3,530	8.5	12,260	13,020	14,947	16,882	19,054
EPS (INR)	2.97	2.54	16.8	2.74	8.5	9.5	10.1	11.6	13.1	14.8
P/E (x)						54.4	51.2	44.6	39.5	35.0
EV / EBITDA (x)						39.7	36.8	32.6	29.0	26.0
RoCE (%)						58.7	53.1	59.9	67.3	75.5

Source: Company, HSIE Research

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Rating Criteria

BUY: >+15% return potential

ADD: +5% to +15% return potential

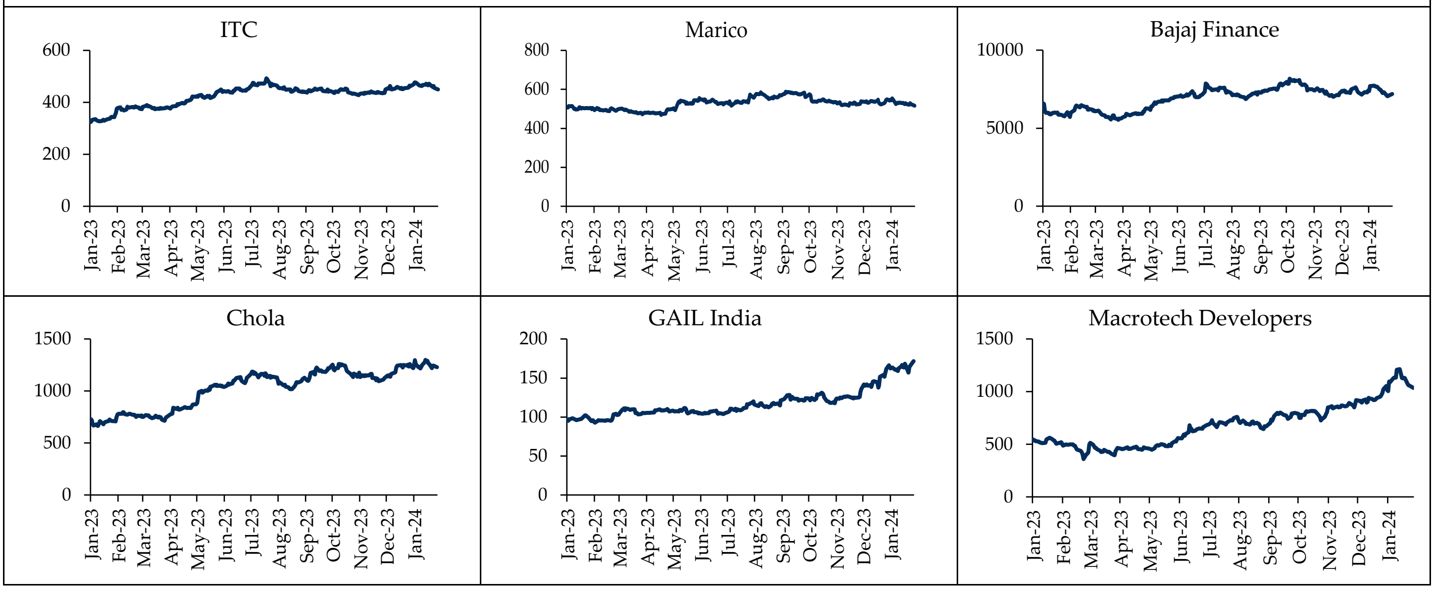
REDUCE: -10% to +5% return potential

SELL: > 10% Downside return potential

Disclosure:

Analyst	Company Covered	Qualification	Any holding in the stock
Varun Lohchab	ITC, Marico	PGDM	NO
Paarth Gala	ITC, Marico	BCom	NO
Riddhi Shah	ITC, Marico	MBA	NO
Krishnan ASV	Bajaj Finance, Cholamandalam Investment and Finance Company	PGDM	NO
Deepak Shinde	Bajaj Finance	PGDM	NO
Deepak Shinde	Cholamandalam Investment and Finance Company	PGDM	YES
Akshay Badlani	Cholamandalam Investment and Finance Company	CA	YES
Akshay Badlani	Bajaj Finance	CA	NO
Harshad Katkar	Gail (India)	MBA	NO
Nilesh Ghuge	Gail (India)	MMS	NO
Akshay Mane	Gail (India)	PGDM	NO
Parikshit Kandpal	Macrotech Developers	CFA	NO

1 Yr Price movement



Disclosure:
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