INSTITUTIONAL RESEARCH

HSIE Results Daily

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Results Reviews

- **ONGC:** We maintain our BUY recommendation on ONGC with a target price of INR 169, based on (1) an increase in crude price realisation and (2) an improvement in domestic gas price realisation. Q2FY23 revenue/EBITDA/APAT stood at INR 383/188/128bn, above our estimates, owing to lower-than-expected statutory levies, lower employee cost, lower DD&A cost and higher other income. Crude oil production came broadly in line, while gas production came in marginally above our estimate. Total crude oil sales, including JV share, came below estimates and were partially offset by higher-than-expected gas sales.
- **ABB India:** ABB's revenue/EBITDA/PAT came in at INR 21.2/2.1/1.7bn, (missing)/beating our estimates by (3.5)/(4.8)/0.6%. The order inflow was robust at INR 26bn, taking the order book to an all-time high of INR 65bn (+9% QoQ). ABB expects a pick-up in demand from core domestic sectors as capacity expansion picks pace. It is seeing strong demand in the data centre segment, which may be a USD 1bn opportunity. Owing to strong demand, ABB's mature plants are running at ~90% capacity utilisation. The company is taking steps to expand capacity organically, through plant optimisation and productivity enhancement. The expansion is being undertaken to cater to both local and global demand. This will be aided by a healthy cash position of INR 31.8bn. We believe the punchy valuation would limit further upside on cyclical recovery and, thus, maintain REDUCE with TP of INR 2,579/sh (54x Sep-24 EPS).
- **Balkrishna Industries:** BKT Q2FY23 earnings, at INR4bn, were ahead of our estimate of INR3.2bn due to better-than-expected revenue growth even as margins were in line. While Balkrishna Industries (BKT) enjoys a sustainable competitive advantage over global peers in the OHT segment, the global OHT demand outlook remains uncertain, given the erratic weather conditions in Europe and recessionary trends in both the US and Europe. The weak demand outlook is also highlighted by the fact that dealer partners continue to destock even in Q2. Given the uncertainty, management has refrained from providing volume growth guidance for FY23. While the margin has declined to a multi-quarter low of 20% due to (1) high input costs; (2) a sharp increase in freight costs; and (3) adverse currency movement, we assume it to normalise gradually to 27% by FY25E as these cost headwinds normalise. Given the improved ASP in H1, we raise our FY23 earnings by 7%. However, given the continued macro headwinds both in the US and Europe, we lower our FY24-25 earnings by 4-6%. At 22.7x FY24 PER, BKT stock appears expensive. Reiterate our REDUCE rating with a revised TP of INR2,048 per share (INR2,093 earlier).
- **Aarti Industries:** We maintain our BUY recommendation on Aarti Industries (AIL), with a target price of INR 825/share. AIL's constant focus on Capex and R&D will enable it to remain competitive and expand its customer base. The toluene segment in India is mainly untapped and catered to through imports; AIL will benefit in the long term by entering this segment.
- **Kansai Nerolac:** Kansai Nerolac's (KNPL) standalone revenue came in at 19% YoY (INR18.1bn, 3-year CAGR: 13%; HSIE: INR18.3bn). In the decorative segment, volume/realisation is estimated to have clocked flat/11-12% growth

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resp YoY in Q2. The underperformance vis-a-vis the top-2 continues and management intends to focus on recouping lost share by (1) increasing salience in premium products and (2) flexing the marketing lever, going forward. The industrial segment is estimated to have outpaced portfolio growth (HSIE: 35%). Profitability came broadly in line (GM/EBITDAM at 28.6%/10.9% vs HSIE: 29/11.5%). We revise our FY24/25 EPS estimates downwards by 6-7% to account for higher brand building expenses. Maintain ADD with a DCF-based TP of INR520/sh (implying 36x Sep-24 P/E).

- **Bata India:** Bata's Q2 performance vis-a-vis pre-pandemic sales (INR8.3bn; 3-year CAGR: 4.7%) remains weak. On a relative basis, the disappointment is even starker (note: Metro brands/Campus Activewear grew at ~19/25% CAGR over three years resp). EBITDAM missed the estimate despite a GM beat as normalisation in the cost of retailing outpaced sales recovery. We've highlighted in our IC note too that treading the growth-margin equation across Bata's volume drivers is likely to be tough to execute. Note: for this cost elevation, Bata has ~2% volume CAGR (3-year) to show. We maintain our SELL recommendation with an unchanged DCF-based TP of INR1,450/sh, implying 36x Sep-24 P/E (FY24/25 EBITDA estimates largely unchanged).

- **Apollo Tyres:** Apollo's consolidated margins in Q2 improved 40bps QoQ, led by margin improvement in both India and Europe, which was in turn driven by price hikes and improved mix. In India, Apollo continues to work on profitable growth that has seen it raise prices ahead of industry (8% in Q1 and 5% in Q2), albeit at the cost of some market share loss in TBR. With industry having now followed its price hike, it expects to recover its lost share. In Europe, it continues to increase its share of UHP tyres whose mix has now improved by 300bps to 42%. Demand outlook in India across segments remains healthy. While Europe demand outlook is weak, players like Apollo are benefitting from the vacuum left by Russian tyre exports in Europe post the geopolitical crisis, and hence, Apollo's Europe business continues to see healthy growth in a weak demand macro. With input costs likely to have peaked in Q2 and backed by industry pricing discipline, we expect Apollo's margin to gradually normalise in the coming quarters. On account of a strong operating performance in Q2, we raise our estimates for FY23-25E by 14-17%. Reiterate ADD with a revised TP of INR316/sh (from INR 260 earlier).

- **Radico Khaitan:** Radico reported a miss on revenue and EBITDA despite a beat in P&A. Net revenue was up by 7% YoY (three-year CAGR at 10% vs. 8% for UNSP), a miss, on account of lower volume for regular portfolio. P&A saw recovery post a lull in Q1FY23, with volume growing 22% YoY (19% on three-year CAGR adjusting royalty volume). However, realisation was below expectation at INR 1,550/case. Regular portfolio saw volume contraction (-13/-3 YoY/three-year CAGR), rationalising volume of a few popular brands after seeing high cost pressure. GM remained under pressure, contracting 431/201bps YoY/QoQ to 41.6% (HSIE 43%). GM is expected to improve towards the end of FY23 on the back of price hikes, higher royalty revenue, benefits from backward integration and better product mix within IMFL. The operating margin has come down by >500bps from FY21 to 12% in H1FY23. With investments on backend capabilities, we model full recovery in EBITDA margin to ~17% by FY25. We remain positive on Radico's constant product innovation and success in the luxury portfolio. However, with overall slowdown in consumption, the demand for mid-price P&A and regular portfolio will remain in check. Capex execution and industry demand remain key monitorables for the stock. Owing to the miss in Q2 and gradual recovery in margin, we cut our EPS by 12/4% for FY23/24. We value Radico at 28x P/E on Sep-24 EPS to arrive at a TP of INR 900. Maintain REDUCE.

- **Mahanagar Gas:** Our ADD recommendation on Mahanagar Gas (MGL) with a target price of INR 950 is premised on (1) lower volume growth compared to peers and (2) uncertain long-term volume growth visibility since no new geographical areas (GA) won in the 9/10/11th round of CGD bids. Q2FY23 EBITDA, at INR 2.5bn, and APAT, at INR 1.6bn, came in below our estimates, owing to the marginally lower-than-expected volume and higher gas cost.

- **KNR Constructions:** KNR posted a strong quarter; revenue/EBITDA/APAT of INR 8.2/1.6/0.8bn beat our estimates by 5/9/0%. FY23 revenue guidance was unchanged at INR 35bn (with a buffer of +-5%), with EBITDA margin pegged at 18-19%. At the standalone level, the gross/net debt stood at INR2/1.3bn as of Sep'22, with net D/E at 0.05x, vs. INR 1.3/0.8bn and net D/E of 0.03x, as of Jun'22. The balance HAM equity requirement is INR 5.6bn as of Sep'22 with INR 3/1.6/1.1bn to be invested in H2FY23/FY24/FY25. KNR incurred a Capex of INR 750mn in H1 vs. FY23 guidance of INR 1-1.2bn. The NWC days stood at 54 as of Sep'22 (vs. 60 as of Jun'22). The irrigation receivables as of Sep'22 stood at INR 9bn vs. INR8.5bn as of Jun'22. We maintain a BUY with an increased TP of INR 367/sh (18x Sep-24E EPS, HAM 1x P/BV).

- **PNC Infratech:** PNC Infratech (PNC) reported Q2FY23 revenue/EBITDA/APAT at INR 15.6/2.1/1.3bn, missing our estimates on all fronts by 5.5/6.9/4.4%. PNC was impacted by delays in JJM water projects' DPR approvals on INR 80bn OB. About INR 23/40/17bn of DPR approvals are pegged to be secured at start of H1FY23/24/25, which may result in INR 10/25/30bn revenue in FY23/24/25. PNC has maintained its revenue growth guidance of 10-15% YoY and EBITDA margin guidance of 13-13.5% for FY23. With cash balance of INR 5.2bn and standalone gross debt of INR 2.8bn (vs. INR 3bn as of Jun'22), PNC had a net cash balance of INR 2.4bn (vs INR 1.6bn Jun'22), as of Sep'22. Capex guidance for FY23 is INR 1-1.2bn, with INR 220mn incurred in H1FY23. Given a strong OB and comfortable balance sheet, we maintain BUY, with an increased TP of INR 410/sh (15x Sep-24E; rolled over, 1x P/BV for HAM equity investment).

- **Sobha:** Sobha's (SDL) reported revenue/EBITDA/PAT of INR 6.7/0.9/0.2bn (miss)/beat our estimates by 4.3/(16.5)/(32)%. It recorded the highest-ever quarterly presales in value terms at INR 11.6bn (+13/+2% YoY/QoQ). Also, collections were the highest ever at INR 13.3bn, driven by the highest-ever residential collection of 10.8bn. This resulted in net debt reducing to INR 18.9bn (vs. INR 21bn in Q1FY23). SDL doesn't expect any significant improvement in debt, going forward, given the robust BD plan. With an inventory of 23msf (~4years or current presales), SDL plans to replenish its inventory with 50% coming from its existing land bank and the balance from the new BD. With the robust cash flow, SDL plans to invest INR 3bn towards new land acquisition/annum with INR 20-25bn/annum of GDV addition. SDL expects to see normalisation in EBITDA margin on account of improving the prospect of contractual business post-COVID. We maintain BUY with an increased TP of INR 935 (rollover to Sep-24E).

- **Star Cement:** We maintain BUY on Star Cement with a revised TP of INR 120/share (8x its Sep-24E consolidated EBITDA). Star reported healthy 44% YoY volume growth and industry-leading INR 782 per MT margin in Q2FY23. Star will be commissioning 12MW WHRS in Q3FY23, which will aid margin recovery from Q4FY23 onwards. The company is increasing its capacity by 70% to 9.7mn MT by H1FY25E and most of the Capex would take place in FY24/25E. The current robust cash position and healthy cash flow outlook should keep the balance sheet unstressed.

- **Ahluwalia Contracts:** Ahluwalia Contracts (AHLU) reported revenue/EBITDA/APAT of 6.2/0.6/0.4bn, with revenue beating our estimates by 0.7% and EBITDA/APAT missing our estimates by 4.2/4.7%. With H2FY23 revenue guidance at INR 18bn, AHLU maintained 15% YoY growth for FY23, with EBITDA margin (incl. other income) in the range of 12-13%. Margin is expected to improve from H2FY23 with softening of commodity prices, narrower gap of indices with input prices and slightly lesser competitive intensity. FYTD23 OB stands at 75.9bn (~2.8x FY22 revenue), excluding L1 in three projects of INR 11bn. On the diversification front, client-wise, government orders form 81.5% of OB and, segment-wise, institutional and hospital are the major drivers, contributing 38.3/32%, with residential/commercial/infra and others contributing 13.2/8.4/8.1%. The total order inflow in FYTD23 has been INR 31.8bn vs. FY23 OI guidance of INR 25-30bn. AHLU stated that it is confident of surpassing the OI guidance by at least INR 10bn. We maintain BUY on the stock, with a TP of INR 557 (13x Sep-24E EPS).

- **Repco Home Finance:** REPCO's Q2FY23 earnings were 7% ahead of our estimates, largely on account of lower provisioning (63bps). Asset quality continued to improve with only ~20% of the sizeable restructured book (7% of AUM) slipping into NPA, and healthy collections from the rest of the portfolio. Consequently, GS-III/NS-III remained broadly steady at 6.5%/3.9% (Q1FY23: 6.4%/4.2%), as aligned to the RBI's revised asset classification norms. Loan growth remained muted (+1.5% YoY); however, recent disbursal trends have been encouraging (H1FY23: +81% YoY) and are expected to drive loan growth to near double digits by Q4FY23. NIMs improved to 4.7% (+10bps QoQ) and are expected to sustain further, with incremental rate hikes likely to offset pressure on the cost of funds. Several growth initiatives recently launched by the new leadership team are gradually gaining traction, while simultaneously controlling asset quality; however, we continue to look for the sustained impact of these developments to turn more constructive in our estimates. We adjust our FY23/FY24 forecasts higher to factor in lower credit costs; maintain ADD with a revised TP of INR298 (0.7x Sep-24 ABVPS).

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ONGC

Lower costs aid earnings

We maintain our BUY recommendation on ONGC with a target price of INR 169, based on (1) an increase in crude price realisation and (2) an improvement in domestic gas price realisation. Q2FY23 revenue/EBITDA/APAT stood at INR 383/188/128bn, above our estimates, owing to lower-than-expected statutory levies, lower employee cost, lower DD&A cost and higher other income. Crude oil production came broadly in line, while gas production came in marginally above our estimate. Total crude oil sales, including JV share, came below estimates and were partially offset by higher-than-expected gas sales.

- **Standalone financial performance:** Revenue for Q2FY23 stood at INR 383bn (+57% YoY, -10% QoQ), broadly in line. However, EBITDA, at INR 188bn, (+42% YoY, -28% QoQ), was above our estimate due to lower work-over expenses and lower write-offs. APAT, at INR 128bn (-30% YoY, -16% QoQ), was supported by higher other income of INR 35bn.
- **Standalone operational performance**: Q2 net crude oil realisation was at USD 74.9/bbl (+5% YoY, -32% QoQ), impacted by windfall tax of USD 23.1/bbl, while gas realisation stood at USD 5.8/mmbtu (+3.1x YoY, flat QoQ). Total oil sales volume, including JV, was 4.8mmt (-4% YoY, -5% QoQ). Gas sales volume was 4.2bcm (-2% YoY, +1% QoQ).
- **Key highlights**: (1) ONGC has submitted an application to retain its 20% stake in the Sakhalin-I project; it expects its share of oil production at 1.5mmt for FY23. (2) The company has guided oil production of 22.8/24.6/25.7mmt and gas production of 22.1/25.7/27.5bcm for FY23/24/25E. (3) ONGC has guided a Capex of ~INR 300bn for FY23/24. (4) Management has indicated that the issues at Mozambique would soon be resolved and hope to resume the project by H1CY23. (5) ONGC expects the first oil production from the KG basin to start from May-23 onwards.
- **Change in estimates**: We revise upwards our FY23/24 estimates by 6/7% to INR 54.9/44.2, to factor in lower costs and higher other income, delivering a revised target price of INR 169/sh.
- **We value ONGC's standalone business + OVL at 4x FY24 EPS at INR 143 and investments at INR 26. The stock is currently trading at 3.2x FY24E EPS.**

Standalone financial summary

YE March (INR bn)	Q2 FY23	Q1 FY23	QoQ (%)	Q2 FY22	YoY (%)	FY21*	FY22*	FY23E*	FY24E*	FY25E*
Revenues	383	423	(9.5)	244	57.4	3,606	5,318	7,131	6,945	7,186
EBITDA	188	259	(27.5)	132	42.2	566	858	1,084	944	888
APAT	128	152	(15.7)	183	(30.1)	207	512	691	556	496
AEPS (INR)	10.2	12.1	(15.7)	10.2	(0.4)	16.5	40.7	54.9	44.2	39.4
P/E (x)						8.6	3.5	2.6	3.2	3.6
EV/EBITDA (x)						5.3	3.5	2.5	2.8	2.9
RoE (%)						9.7	21.3	24.5	17.2	13.8

Source: Company, HSIE Research | *Consolidated

Change in estimates (consolidated)

	FY23E			FY24E		
	Old	New	Ch%	Old	New	Ch%
EBITDA (INR bn)	1,039	1,084	4.3	909	944	3.8
AEPS (INR/sh)	51.7	54.9	6.3	41.5	44.2	6.5

Source: Company, HSIE Research

BUY

CMP *(as on 15 Nov 2022)*	INR 142
Target Price	INR 169
NIFTY	18,403

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 178	INR 169
EPS change	FY23E	FY24E
	+6.3%	+6.5%

KEY STOCK DATA	
Bloomberg code	ONGC IN
No. of Shares (mn)	12,580
MCap (INR bn) / ($ mn)	1,791/22,099
6m avg traded value (INR mn)	3,506
52 Week high / low	INR 195/120

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	2.3	(7.3)	(9.8)
Relative (%)	(1.8)	(24.5)	(11.7)

SHAREHOLDING PATTERN (%)	Jun-22	Sep-22
Promoters	58.89	58.89
FIs & Local MFs	17.83	18.53
FPIs	9.97	8.96
Public & Others	13.31	13.62
Pledged Shares	0.00	0.00

Source: BSE

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ABB India

In-line performance

ABB's revenue/EBITDA/PAT came in at INR 21.2/2.1/1.7bn, (missing)/beating our estimates by (3.5)/(4.8)/0.6%. The order inflow was robust at INR 26bn, taking the order book to an all-time high of INR 65bn (+9% QoQ). ABB expects a pick-up in demand from core domestic sectors as capacity expansion picks pace. It is seeing strong demand in the data centre segment, which may be a USD 1bn opportunity. Owing to strong demand, ABB's mature plants are running at ~90% capacity utilisation. The company is taking steps to expand capacity organically, through plant optimisation and productivity enhancement. The expansion is being undertaken to cater to both local and global demand. This will be aided by a healthy cash position of INR 31.8bn. We believe the punchy valuation would limit further upside on cyclical recovery and, thus, maintain REDUCE with TP of INR 2,579/sh (54x Sep-24 EPS).

- **Q3CY22 financial highlights:** ABB reported revenue of INR 21.2bn (+19%/+3% YoY/QoQ, 3.5% miss). Sequentially, robotics & discrete automation/ motion/ electrification/ process automation posted growth/(de-growth) of 20/6/5/(5.6)%. On a YoY basis, the same posted growth/(de-growth) of (10)/26/27/3%. EBITDA recorded at INR 2.1bn (+25%/+6% YoY/QoQ, 5% miss) and margin of 10% (+45/+27bps YoY/QoQ, est. 10.1%). RPAT was INR2.0bn (+69%/+38%x YoY/QoQ). There was an exceptional gain of INR 459mn towards the second leg of turbo business stake sale. Consequently, APAT came in at INR 1.7bn (+40%/+14% YoY/QoQ, 0.6% beat). ABB has achieved its medium-term target of 10% PBT margin and expects to stabilise at this level before moving to the next target of 10% PAT margin.
- **All-time high order book:** The Q3CY22 order inflow (OI) was at INR 26bn (+38%/-5% YoY/QoQ), taking the OB to an all-time high of INR 65bn (vs. INR 60bn as on Jun-22). CYTD OI stands at INR 77bn (vs. INR 77bn in CY21). Process automation (PA) OB stood at INR 25.5bn (+77% YoY), with significant orders from steel, cement, and O&G majors. Motions (MO) OB stood at INR 22.7bn (+22% YoY), driven by exports and packaged orders from motors & drives. Electrification (EL) OB stood at INR 16.3bn (+18% YoY) on account of strong customer connect and segment focus. Robotics and discrete automation (RDA) OB stood at INR 1.7bn (+11% YoY) on the back of service orders and higher paint related orders.
- **Traction in Exports and Data centers:** ABB is witnessing a strong export traction in the EL and MO verticals and is seeing robust pace in PA. However, the export growth is driven by ABB global and depends on the parent's strategy. The capacity utilisation in its mature factories is at 90% and ABB will optimise the plants before any physical expansion. ABB is seeing strong demand in the data centre segment with a USD 1bn opportunity. It has received repeat orders from global players.

Standalone financial summary (INR mn)

Dec Year End	Q3CY22	Q3CY21	YoY (%)	Q2CY22	QoQ (%)	CY21	CY22E	CY23E	CY24E
Net Revenues	21,197	17,784	19.2	20,525	3.3	69,340	84,291	100,799	122,193
EBITDA	2,110	1,689	24.9	1,988	6.1	5,567	8,274	11,506	13,725
APAT	1,681	1,200	40.1	1,471	14.3	6,538	6,404	9,179	10,433
EPS (INR)	7.9	5.7	40.1	6.9	14.3	30.9	30.2	43.3	49.2
P/E (x)						102.3	104.4	72.9	64.1
EV/EBITDA (x)						116.8	78.0	55.6	46.1
RoE (%)						17.2	14.6	17.9	17.5

Consolidated estimate change summary

Particulars	CY23E			CY24E			CY25E		
	New	Old	Chg.(%)	New	Old	Chg.(%)	New	Old	Chg.(%)
Revenues	84,291	85,698	(1.6)	100,799	99,988	0.8	122,193	121,779	0.3
EBITDA	8,274	8,824	(6.2)	11,506	11,203	2.7	13,725	13,604	0.9
EBITDA (%)	9.8	10.3	(48.0)	11.4	11.2	21.0	11.2	11.2	6.2
APAT	6,404	6,613	(3.2)	9,179	8,791	4.4	10,433	10,200	2.3

Source: Company, HSIE Research

REDUCE

CMP*(as on 15 Nov 2022)*	INR 3,028
Target Price	INR 2,579
NIFTY	18,403

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 2,420	INR 2,579

EPS Change %	CY22E	CY23E	CY24E
	(3.2)	+4.4	+2.3

KEY STOCK DATA	
Bloomberg code	ABB IN
No. of Shares (mn)	212
MCap (INR bn) / ($ mn)	642/7,918
6m avg traded value (INR mn)	1,016
52 Week high / low	INR 3,446/1,945

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	8.2	32.2	41.0
Relative (%)	4.2	15.0	39.1

SHAREHOLDING PATTERN (%)	Jun-22	Sep-22
Promoters	75.00	75.00
FIs & Local MFs	8.60	11.90
FPIs	3.53	5.39
Public & Others	12.87	7.71
Pledged Shares	-	-

Source : BSE

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Balkrishna Industries

Lack of growth guidance highlights uncertainty

BKT Q2FY23 earnings, at INR4bn, were ahead of our estimate of INR3.2bn due to better-than-expected revenue growth even as margins were in line. While Balkrishna Industries (BKT) enjoys a sustainable competitive advantage over global peers in the OHT segment, the global OHT demand outlook remains uncertain, given the erratic weather conditions in Europe and recessionary trends in both the US and Europe. The weak demand outlook is also highlighted by the fact that dealer partners continue to destock even in Q2. Given the uncertainty, management has refrained from providing volume growth guidance for FY23. While the margin has declined to a multi-quarter low of 20% due to (1) high input costs; (2) a sharp increase in freight costs; and (3) adverse currency movement, we assume it to normalise gradually to 27% by FY25E as these cost headwinds normalise. Given the improved ASP in H1, we raise our FY23 earnings by 7%. However, given the continued macro headwinds both in the US and Europe, we lower our FY24-25 earnings by 4-6%. At 22.7x FY24 PER, BKT stock appears expensive. Reiterate our REDUCE rating with a revised TP of INR2,048 per share (INR2,093 earlier).

- **Q2 earnings ahead of estimates:** Revenue grew 35% YoY to INR28bn in Q2 and was ahead of our estimate of INR25.5bn. Growth was led by 8% YoY growth in volume and a sharp 25% YoY growth in ASP (+9% QoQ). ASP growth was driven by an improved mix (sale of large diameter tyres) and favourable currency (INR depreciation vs USD). However, INR depreciation was adverse for input costs that grew 200bps QoQ. Overall, despite this, the margin remained stable QoQ at 20.1%.
- **Call takeaways:** (1) Demand outlook remains uncertain, both in the US and Europe, given geopolitical issues. Hence, dealers continue to destock and are expected to reduce inventories to two months, from about three months currently. (2) Retail sales are stable but the outlook is unclear; hence, management has refrained from providing a volume outlook for FY23. (3) Given BKT enjoys a locational advantage in this adverse macro, it has outperformed even in Q2. (4) RM and freight cost is likely to reduce in Q3 QoQ (NR likely to decline to INR150 from INR 157 in Q2 and SBR to decline to INR 145 from INR 178 in Q2) and the full benefit will be visible from Q4. Expect ASP to reduce accordingly. (5) The company incurred Capex of INR9bn in H1 and it is likely to incur INR3-4bn in H2. Its achievable capacity now stands reduced to 335k MT pa as it would target to replace the old Waluj plant with a new plant in the same location (as was the plan in Q2FY22). This new plant, to come by H1FY24, will take the capacity back to 360k MT pa. (6) The Euro-INR rate for Q2 was 85 and the forward hedge rate is also 85. (7) Carbon black sales to market now stand at 5% of revenue. (8) Debt stands at INR30.9bn, of which INR22.5bn is working capital debt. Cash in hand stands at INR20.8bn.

Quarterly/annual financial summary

YE Mar (INR mn)	Q2 FY23	Q2 FY22	YoY (%)	Q1 FY23	QoQ (%)	FY22	FY23E	FY24E	FY25E
Net Sales	28,062	20,793	35.0	27,263	2.9	84,187	1,08,479	1,07,153	1,11,966
EBITDA	5,639	5,639	0.0	5,465	3.2	21,825	22,467	26,467	30,231
APAT	4,038	3,772	7.0	3,197	26.3	14,107	14,231	16,766	19,226
Diluted EPS (INR)	20.9	19.5	7.0	16.5	26.3	73.0	73.6	86.7	99.5
P/E (x)						26.9	26.7	22.7	19.8
EV / EBITDA (x)						17.6	17.3	14.4	12.4
RoCE (%)						20.4	17.5	19.5	21.1

Source: Company, HSIE Research

REDUCE

CMP *(as on 15 Nov 2022)*	INR 1,965
Target Price	INR 2,048
NIFTY	18,403

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 2,093	INR 2,048
EPS %	FY23E	FY24E
	7.3%	-5.9%

KEY STOCK DATA	
Bloomberg code	BIL IN
No. of Shares (mn)	193
MCap (INR bn) / ($ mn)	380/4,684
6m avg traded value (INR mn)	782
52 Week high / low	INR 2,522/1,682

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	(10.1)	4.0	(17.6)
Relative (%)	(14.1)	(13.2)	(19.5)

SHAREHOLDING PATTERN (%)	Jun-22	Sep-22
Promoters	45.25	45.25
FIs & Local MFs	24.33	24.73
FPIs	18.82	19.3
Public & Others	11.6	10.72
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Aarti Industries

Putting on a strong defence

We maintain our BUY recommendation on Aarti Industries (AIL), with a target price of INR 825/share. AIL's constant focus on Capex and R&D will enable it to remain competitive and expand its customer base. The toluene segment in India is mainly untapped and catered to through imports; AIL will benefit in the long term by entering this segment.

- **Financial performance:** Revenue grew 34% YoY to INR 16.9bn, on account of a stable demand trajectory for the products under the essential end-user industries. The topline was impacted by tapered demand in dyes and pigments industries, which the company expects to recover from Q4FY23. EBITDA came in at INR 2.7bn (+5% YoY). EBITDA margin fell by 445bps YoY to 16% in Q2, on account of higher input and utility costs. However, based on strong pricing mechanisms with pass-through clauses in place, the company was able to pass on the inflationary cost pressures to customers, thereby protecting the absolute profitability. In addition, the increase in export revenue and product optimisation helped in maintaining the absolute EBITDA. APAT fell 17% YoY to INR 1.2bn, owing to higher finance costs, given the mark-to-market impact of the rupee depreciation, and increase in depreciation in line with the new capacities added in the past.
- **Pharma business demerger:** The proposed demerger of the pharma business undertaking from Aarti Industries Ltd ("the company" or "the demerged company") into its wholly owned subsidiary Aarti Pharmalabs Ltd (the resulting company) was approved by the National Company Law Tribunal and the historic financials from the 1 July 2021 were re-casted to consider the effect of the scheme. Aarti Pharmalabs Ltd is expected to be listed in Dec-22.
- **Change in estimates:** We cut our FY23/24 EPS estimates by 39.7/29.5% to INR 14.1/21.0/sh, owing to the adjustment made towards the demerger of the pharma business and to factor in the EBITDA guidance provided by the management.
- **DCF-based valuation: Our target price is INR 825 (WACC 11%, terminal growth 4%). The stock is currently trading at 34x FY24E EPS.**

Financial summary (consolidated)

INR mn	Q2 FY23	Q1 FY23	QoQ (%)	Q2 FY22	YoY (%)	FY21*	FY22*	FY23E*	FY24E*	FY25E*
Net Sales	16,850	16,103	*4.6*	12,559	*34.2*	45,061	70,000	66,296	72,167	80,118
EBITDA	2,670	2,815	*(5.1)*	2,549	*4.8*	9,815	19,288	10,966	13,636	17,575
APAT	1,245	1,355	*(8.2)*	1,500	*(17.0)*	5,235	13,072	5,098	7,609	9,628
AEPS (INR)	3.4	3.7	*(8.2)*	4.1	*(17.0)*	14.4	36.1	14.1	21.0	26.6
P/E (x)						49.1	19.7	50.4	33.8	26.7
EV/EBITDA(x)						28.7	14.5	25.2	20.7	16.0
RoE (%)						16.2	27.8	9.4	14.3	15.8

Source: Company, HSIE Research | *Note: FY21/22 numbers aren't comparable with FY23/24/25E numbers as they are pre demerger of the pharma business. FY23/24/25E numbers are post demerger of the pharma business, and only pertain to the chemicals business.

Change in estimates (consolidated)

Y/E Mar	FY23E Old	FY23E New	% Ch	FY24E Old	FY24E New	% Ch
EBITDA (INR mn)	15,607	10,966	*(29.7)*	19,443	13,636	*(29.9)*
Adj. EPS (INR/sh)	23.3	14.1	*(39.7)*	29.8	21.0	*(29.5)*

Source: Company, HSIE Research

BUY

CMP *(as on 15 Nov 2022)*	INR 706
Target Price	INR 825
NIFTY	18,403

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 1,085	INR 825
EPS %	FY23E	FY24E
	-39.7%	-29.5%

KEY STOCK DATA	
Bloomberg code	ARTO IN
No. of Shares (mn)	363
MCap (INR bn) / ($ mn)	256/3,158
6m avg traded value (INR mn)	672
52 Week high / low	INR 976/584

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	(1.1)	7.6	(16.1)
Relative (%)	(5.2)	(9.6)	(18.0)

SHAREHOLDING PATTERN (%)	Jun-22	Sept-22
Promoters	44.19	44.16
FIs & Local MFs	15.07	15.05
FPIs	11.82	12.11
Public & Others	28.92	28.68
Pledged Shares	0.00	0.00

Source: BSE

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Kansai Nerolac

Chugging along

Kansai Nerolac's (KNPL) standalone revenue came in at 19% YoY (INR18.1bn, 3-year CAGR: 13%; HSIE: INR18.3bn). In the decorative segment, volume/realisation is estimated to have clocked flat/11-12% growth resp YoY in Q2. The underperformance vis-a-vis the top-2 continues and management intends to focus on recouping lost share by (1) increasing salience in premium products and (2) flexing the marketing lever, going forward. The industrial segment is estimated to have outpaced portfolio growth (HSIE: 35%). Profitability came broadly in line (GM/EBITDAM at 28.6%/10.9% vs HSIE: 29/11.5%). We revise our FY24/25 EPS estimates downwards by 6-7% to account for higher brand building expenses. Maintain ADD with a DCF-based TP of INR520/sh (implying 36x Sep-24 P/E).

- **Q2FY23 highlights**: Standalone revenue grew at 19.3% YoY in Q2 (INR18.1bn, 3-year CAGR: 13%; HSIE: INR18.3bn). In the decorative segment, volume/realisation is estimated to have clocked flat/11-12% growth YoY resp. Ex-putty, volume growth remains in the positive. KNPL has taken a 3% price hike in H1. Focus here on will be on recouping lost market share in the decorative segment (over FY19-22) by (1) improving the salience of premium products within the portfolio and (2) over-indexing on marketing spends. Key categories such as emulsions continued to perform. Rural market performed better in Q2. The industrial segment too performed well (on a low base, HSIE: 35% YoY) as the PV/CV segment witnessed a sharp rebound. While price hike-RM inflation calibration continues to improve, work still needs to reduce it further. GM contracted 32bps to 28.6% YoY; but GM pain seems to have bottomed out as key RM prices are showing signs of moderation. EBITDAM trajectory was flat YoY at 10.9% (HSIE: 11.5%). On subsidiaries, the Nepal business witnessed healthy double-digit growth. Bangladesh, Sri Lanka, and Nerofix revenue grew 20/50/40%+ YoY respectively. Adj. PAT came in at INR1.17bn (up 19% YoY; HSIE: INR1.29bn).
- **Outlook:** Given KNPL's industrial-heavy revenue skew, the double whammy of (1) demand impact in auto industry, courtesy chip shortage, and (2) runaway RM inflation was felt the most by it among top-tier paint companies. However, most of the pain seems to be over now. We revise our FY24/25 EPS estimates downwards by 6-7% to account for higher brand-building expenses in the wake of new competition. Maintain ADD with a DCF-based TP of INR520/sh (implying 36x Sep-24 P/E).

Quarterly financial summary (Consolidated)

(INR mn)	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	FY22	FY23E	FY24E	FY25E
Net Revenue	19,310	16,196	*19.2*	20,514	*(5.9)*	63,694	76,814	85,624	95,741
EBITDA	1,994	1,628	*22.5*	2,550	*(21.8)*	6,494	8,645	11,896	13,937
APAT	1,112	873	*27.4*	1,521	*(26.8)*	3,432	4,830	7,029	8,379
EPS (Rs)	2.1	1.6	*27.4*	2.8	*(26.8)*	6.4	9.0	13.0	15.5
P/E (x)						75.7	53.8	36.9	31.0
EV/EBITDA (x)						40.1	30.1	21.7	18.3
Core RoCE(%)						8.1	10.9	14.9	16.9

Source: Company, HSIE Research

Change in estimates

(INR mn)	FY23E			FY24E			FY25E		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Revenue	76,814	76,367	*0.6*	85,624	84,886	*0.9*	95,741	95,183	*0.6*
EBITDA	8,645	9,632	*(10.3)*	11,896	12,668	*(6.1)*	13,937	14,701	*(5.2)*
EBITDA margin (%)	11.3	12.6	*(136 bps)*	13.9	14.9	*(103 bps)*	14.6	15.4	*(89 bps)*
APAT	4,830	5,545	*(12.9)*	7,029	7,596	*(7.5)*	8,379	8,940	*(6.3)*
APAT margin (%)	6.3	7.3	*(97 bps)*	8.2	8.9	*(74 bps)*	8.8	9.4	*(64 bps)*
EPS (Rs)	9.0	10.3	*(12.9)*	13.0	14.1	*(7.5)*	15.5	16.6	*(6.3)*

Source: Company, HSIE Research, Standalone Financials

ADD

CMP *(as on 15 Nov 2022)*	INR 443
Target Price	INR 520
NIFTY	18,403

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 550	INR 520
EPS %	FY24E	FY25E
	-7.5	-6.3

KEY STOCK DATA	
Bloomberg code	KNPL IN
No. of Shares (mn)	539
MCap (INR bn) / ($ mn)	239/2,952
6m avg traded value (INR mn)	159
52 Week high / low	INR 630/358

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	(10.2)	11.5	(28.1)
Relative (%)	(14.3)	(5.7)	(30.0)

SHAREHOLDING PATTERN (%)	Jun-22	Sep-22
Promoters	74.99	74.99
FIs & Local MFs	5.90	5.60
FPIs	3.28	3.45
Public & Others	15.83	15.96
Pledged Shares	0	0

Source : BSE

Pledged shares as % of total shares

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Bata India

Weak print; thesis continues to play out

Bata's Q2 performance vis-a-vis pre-pandemic sales (INR8.3bn; 3-year CAGR: 4.7%) remains weak. On a relative basis, the disappointment is even starker (note: Metro brands/Campus Activewear grew at ~19/25% CAGR over three years resp). EBITDAM missed the estimate despite a GM beat as normalisation in the cost of retailing outpaced sales recovery. We've highlighted in our IC note too that treading the growth-margin equation across Bata's volume drivers is likely to be tough to execute. Note: for this cost elevation, Bata has ~2% volume CAGR (3-year) to show. We maintain our SELL recommendation with an unchanged DCF-based TP of INR1,450/sh, implying 36x Sep-24 P/E (FY24/25 EBITDA estimates largely unchanged).

- **Q2FY23 highlights**: Revenue grew 35% YoY to INR8.3bn (a 3-year CAGR: 4.7%. In comparison, Metro brands/Campus Activewear clocked ~19/25% CAGR in top-line (3-year basis). Gross margin expanded 210bps YoY to 55% (down 140bps vs Q2FY20; HSIE: 54%) as we suspect (1) higher full-price sales, (2) lower inventory markdowns, and (3) price hike absorption have played a part. Nevertheless, at the EBITDAM level, Bata disappointed. It clocked an EBITDAM of 19.4% (HSIE: 23.6%; Q1FY20: 25.7%). We suspect (1) investments towards assortment and brand building and (2) normalisation in rental bills may have led to a heavier cost structure in Q2. Bata added 10/30/28 COCO/franchise/SIS stores in Q2 (353 franchisees now) and renovated 54 stores. APAT grew at 48% YoY to INR548mn (lower vs pre-pandemic levels).
- **Outlook**: Treading the growth-margin equation while pivoting to different growth channels (wholesale, franchise) and realigning assortment isn't a walk in the park. Nothing to cheer about at the execution level yet. We maintain our SELL rating, with an unchanged DCF-based TP of INR1,450/sh (implying 36x Sep-24 EPS).

Quarterly financial summary

(INR mn)	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	FY22	FY23E	FY24E	FY25E
Net Revenue	8,298	6,141	35.1	9,430	(12.0)	23,877	35,729	40,408	45,602
EBITDA	1,609	1,191	35.1	2,447	(34.2)	1,447	5,390	6,532	7,889
APAT	548	370	48.0	1,194	(54.1)	1,030	3,646	4,660	5,890
EPS (Rs)	4.3	2.9	48.0	9.27	(54.0)	128.5	128.5	128.5	128.5
P/E (x)						222.5	62.9	49.2	38.9
EV/EBITDA (x)						151.7	41.7	33.9	27.7
Core RoCE(%)						6.7	32.6	37.9	43.4

Source: Company, HSIE Research, Standalone Financials

Change in estimates

(INR mn)	FY23E			FY24E			FY25E		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Revenue	35,729	35,729	-	40,408	40,408	-	45,602	45,602	-
Gross Profit	19,566	19,566	-	21,907	21,907	-	24,472	24,472	-
Gross Profit Margin (%)	55	55	-	54	54	-	54	54	-
Pre-IND AS EBITDA	5,390	5,247	*2.7*	6,532	6,488	*0.7*	7,889	7,839	*0.6*
Pre-IND AS EBITDA margin (%)	15.1	14.7	*40 bps*	16.2	16.1	*11 bps*	17.3	17.2	*11 bps*
Post IND-AS 116 EPS	28.4	30.9	*(8.1)*	36	38	*(5.6)*	46	48	*(4.2)*

Source: Company, HSIE Research

SELL

CMP *(on 15 Nov 2022)*	**INR 1,705**
Target Price	**INR 1,450**
NIFTY	**18,403**

KEY CHANGES	**OLD**	**NEW**
Rating	SELL	SELL
Price Target	INR 1,450	INR 1,450
EBITDA %	FY24E	FY25E
	+0.7	+0.6

KEY STOCK DATA	
Bloomberg code	BATA IN
No. of Shares (mn)	129
MCap (INR bn) / ($ mn)	219/2,704
6m avg traded value (INR mn)	712
52 Week high / low	INR 2,204/1,566

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	(10.8)	4.2	(21.5)
Relative (%)	(14.9)	(13.0)	(23.4)

SHAREHOLDING PATTERN (%)	**Jun-22**	**Sep-22**
Promoters	50.16	50.16
FIs & Local MFs	22.32	22.31
FPIs	6.84	7.87
Public & Others	20.68	19.66
Pledged Shares	0	0

Source : BSE

Pledged shares as % of total shares

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Apollo Tyres

Operational beat across key segments

Apollo's consolidated margins in Q2 improved 40bps QoQ, led by margin improvement in both India and Europe, which was in turn driven by price hikes and improved mix. In India, Apollo continues to work on profitable growth that has seen it raise prices ahead of industry (8% in Q1 and 5% in Q2), albeit at the cost of some market share loss in TBR. With industry having now followed its price hike, it expects to recover its lost share. In Europe, it continues to increase its share of UHP tyres whose mix has now improved by 300bps to 42%. Demand outlook in India across segments remains healthy. While Europe demand outlook is weak, players like Apollo are benefitting from the vacuum left by Russian tyre exports in Europe post the geopolitical crisis, and hence, Apollo's Europe business continues to see healthy growth in a weak demand macro. With input costs likely to have peaked in Q2 and backed by industry pricing discipline, we expect Apollo's margin to gradually normalise in the coming quarters. On account of a strong operating performance in Q2, we raise our estimates for FY23-25E by 14-17%. Reiterate ADD with a revised TP of INR316/sh (from INR 260 earlier).

- **Q2 earnings in line with estimates:** Apollo Tyres Q2 earnings, at INR1.9bn, were in line with our estimates even as operational performance was ahead of our estimate. More importantly, EBITDA margins improved QoQ in both India and Europe business led by price hikes and improved mix.
- **Margins improve in both India and Europe:** Consolidated EBITDA margin improved 40bps QoQ to 12%, ahead of our estimate of 11.5% and was driven by: (1) standalone margin improvement of 60bps QoQ to 10.3% on the back of price hike taken in Q2 (5% in replacement); (2) Europe EBITDA margin improvement by 90 bps QoQ to 15.3%, led by 10% volume growth, improved mix of UHP tyres (up 300bps YoY to 42%) and price hikes (5-12%) taken in Q2. However, higher-than-expected depreciation and interest burden offset the better-than-expected operational performance in Q2.
- **Call takeaways:** (1) Apollo has been able to hedge about 80% of its energy costs in Europe for FY23E and is actively hedging for FY24E. This has helped post improved performance in tough times. (2) Apollo has provided a revenue growth guidance of 20% for standalone entity, driven by a pick-up in CV replacement segment and sustained growth from OEM and PCR replacement segments. (3) While input cost increased 3% QoQ in Q2, it is likely to decline in the same proportion in Q3. (4) Capacity utilisation in India stands at 76% while the same in Europe was 89% for Q2. (5) On the back of debottlenecking, the Hungarian plant capacity has now increased to 16k tyres per day and it is currently operating at 14-14.5k per day. (6) While net debt for the standalone entity stands at INR42bn, consolidated net debt stands at INR 55bn from INR47bn as of FY22 end.

Quarterly/annual financial summary

YE Mar (INR mn)	Q2 FY23	Q2 FY22	YoY (%)	Q1 FY23	QoQ (%)	FY22	FY23E	FY24E	FY25E
Net Sales	59,560	50,773	17.3	59,420	0.2	2,05,808	2,38,328	2,64,397	2,87,144
EBITDA	7,120	6,380	11.6	6,898	3.2	25,741	30,023	36,271	41,430
APAT	1,944	1,768	9.9	1,907	1.9	6,445	9,072	14,743	18,726
Diluted EPS (INR)	3.1	2.8	9.9	3.0	1.9	10.1	14.3	23.2	29.5
P/E (x)						29.4	20.9	12.8	10.1
EV / EBITDA (x)						9.1	7.7	6.1	5.0
RoCE (%)						6.3	8.7	11.5	13.7

Source: Company, HSIE Research

ADD

CMP *(as on 15 Nov 2022)*	INR 298
Target Price	INR 316
NIFTY	18.403

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 260	INR 316
EPS %	FY23E	FY24E
	17.2%	14.2%

KEY STOCK DATA	
Bloomberg code	APTY IN
No. of a Shares (mn)	635
MCap (INR bn) / ($ mn)	189/2,333
6m avg traded value (INR mn)	873
52 Week high / low	INR 304/165

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	26.1	48.4	28.0
Relative (%)	22.0	31.2	26.1

SHAREHOLDING PATTERN (%)	Jun-22	Sep-22
Promoters	37.34	37.34
FIs & Local MFs	14.52	17.87
FPIs	20.71	21.64
Public & Others	27.43	23.15
Pledged Shares	1.14	1.14

Source : BSE

Pledged shares as % of total shares

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Radico Khaitan

Strong P&A volume; margin miss continues

Radico reported a miss on revenue and EBITDA despite a beat in P&A. Net revenue was up by 7% YoY (three-year CAGR at 10% vs. 8% for UNSP), a miss, on account of lower volume for regular portfolio. P&A saw recovery post a lull in Q1FY23, with volume growing 22% YoY (19% on three-year CAGR adjusting royalty volume). However, realisation was below expectation at INR 1,550/case. Regular portfolio saw volume contraction (-13/-3 YoY/three-year CAGR), rationalising volume of a few popular brands after seeing high cost pressure. GM remained under pressure, contracting 431/201bps YoY/QoQ to 41.6% (HSIE 43%). GM is expected to improve towards the end of FY23 on the back of price hikes, higher royalty revenue, benefits from backward integration and better product mix within IMFL. The operating margin has come down by >500bps from FY21 to 12% in H1FY23. With investments on backend capabilities, we model full recovery in EBITDA margin to ~17% by FY25. We remain positive on Radico's constant product innovation and success in the luxury portfolio. However, with overall slowdown in consumption, the demand for mid-price P&A and regular portfolio will remain in check. Capex execution and industry demand remain key monitorables for the stock. Owing to the miss in Q2 and gradual recovery in margin, we cut our EPS by 12/4% for FY23/24. We value Radico at 28x P/E on Sep-24 EPS to arrive at a TP of INR 900. Maintain REDUCE.

- **Popular led miss on revenue:** Net revenue grew by 7% YoY (+13% in Q2FY22 and +27% in Q1FY23; HSIE 15%). P&A and Popular revenues grew (YoY) 25% (17% three-year CAGR) and -11% (flat on three-year CAGR). IMFL volume was up by 11% YoY (in-line) to 7.18mn cases. P&A volume grew by 22% YoY (+18% in Q2FY22 and 29% in Q1FY23; 15% HSIE). Popular volume was down by 13% YoY (+3% in Q2FY22 and +9% in Q1FY23; 9% HSIE).
- **Margin pressure sustains:** GM declined by 431bps YoY to 41.6% (45.9% in Q2FY22 and 43.6% in Q1FY23; 43% HSIE). Employee, selling and distribution expenses and other expenses were up 6/-2/12% YoY (25/-7/11% in Q2FY22). EBITDA margin contracted 389bps YoY to 11.8% (15.7% in Q2FY22 and 12.2% in Q1FY23) vs. HSIE 13.9%. EBITDA declined 19% YoY (HSIE +2%). We expect margin to improve in the coming quarters, led by price hikes in a few states.
- **Con call takeaways:** (1) P&A demand continued to be resilient, but rationalization of the Popular brand (to mitigate input cost pressure) led to impact on the overall IMFL volume. (2) GM contraction was impacted by continued commodity pressure, especially in non-IMFL; sequential impact was due to QoQ glass price increase and inflation in ENA costs. (3) GM is expected to be range-bound in Q3 while Q4 will see benefit from backward integration. (4) Up to Q1FY23, weighted price increase across states was 3%; with 12% increase in prices in West Bengal (3% volume salience), there would be a 25bps addition to the weighted price. (5) Rampur Dual Feed and Sitapur greenfield Capex incurred in Q2 was INR 1.5bn (INR 3.2bn in H1FY23).

Quarterly/annual financial summary

YE Mar (INR mn)	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	FY22	FY23E	FY24E	FY25E
Net Sales	7,614	7,088	7.4	7,574	0.5	28,756	33,509	38,041	42,638
EBITDA	901	1,115	(19.2)	925	(2.6)	4,149	4,435	6,314	7,536
APAT	518	692	(25.1)	583	(11.1)	2,521	2,779	3,853	4,627
Diluted EPS (INR)	3.9	5.2	(25.1)	4.4	(11.1)	18.9	20.8	28.8	34.6
P/E (x)						51.8	47.0	33.9	28.2
EV / EBITDA (x)						31.6	29.2	21.3	17.0
RoCE (%)						12.6	12.5	15.1	15.0

Source: Company, HSIE Research

REDUCE

CMP *(as on 15 Nov 2022)*	INR 978
Target Price	INR 900
NIFTY	18,403

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 900	INR 900
	FY23E	FY24E
EPS %	-12%	-4%

KEY STOCK DATA	
Bloomberg code	RDCK IN
No. of Shares (mn)	134
MCap (INR bn) / ($ mn)	131/1,614
6m avg traded value (INR mn)	254
52 Week high / low	INR 1,300/723

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	4.4	28.6	(10.5)
Relative (%)	0.4	11.4	(12.4)

SHAREHOLDING PATTERN (%)	Jun-22	Sep-22
Promoters	40.27	40.27
FIs & Local MFs	20.26	22.85
FPIs	18.35	18.86
Public & Others	21.21	18.02
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Mahanagar Gas

High gas cost impacts earnings

Our ADD recommendation on Mahanagar Gas (MGL) with a target price of INR 950 is premised on (1) lower volume growth compared to peers and (2) uncertain long-term volume growth visibility since no new geographical areas (GA) won in the 9/10/11th round of CGD bids. Q2FY23 EBITDA, at INR 2.5bn, and APAT, at INR 1.6bn, came in below our estimates, owing to the marginally lower-than-expected volume and higher gas cost.

- **Volume and margin:** Blended volume stood at 3.46mmscmd, flat QoQ however, grew +11% YoY (HSIE: 3.53mmscmd), mainly driven by 13% YoY growth in the CNG segment. CNG volume stood at 2.54mmscmd (+14% YoY flat QoQ). PNG segment's volume was at 0.92mmscmd (+3% YoY, +1% QoQ). The gross spread, at INR 13/scm, declined by INR 2.6/scm YoY and INR 1.3/scm QoQ. EBITDA/scm was at INR 7.9/scm vs INR 10.5/scm YoY and INR 9.1/scm QoQ. Higher gas cost of INR 36.1/scm (+2.7x YoY, +12.7% QoQ) impacted margins in Q2. We estimate MGL's volumes at 3.5/3.7/3.9mmscmd and EBITDA margins of INR 8.3/8.6/9 per scm for FY23/24/25E.
- **Earnings call takeaways**: (1) MGL has maintained its guidance of ~6% volume growth CAGR over the next 3-5 years. (2) The company added five new CNG stations in Q2, taking the count to 296. It also added 86 new industrial/commercial PNG customers, taking the count to 4,427. 62,000 new domestic households (HH) were connected in Q2, taking the count to ~1.99mn HH. (3) In Raigadh, the company has >60,000 HH connections, 23 operational CNG stations and to date has laid ~365km of pipeline connectivity. (3) Vehicle conversions to CNG in Q2 has dipped to ~15,500 vehicles vs ~19,000 conversions seen in Q1. (4) The company has incurred a Capex of ~INR 3bn in H1 and has guided for a Capex of INR 6.5-8bn for FY23E.
- **Change in estimates**: We cut our FY23/24 EPS estimates by 9/5% to INR 69.5/73.7, to account for lower volumes and lower per unit EBITDA margin in H1, and maintain our FY25 estimates. Our target price of INR 950/sh remains unchanged.
- **DCF-based valuation:** Our target price of INR 950 is based on Mar-24E free cash flow (WACC 11%, terminal growth rate 1%). The stock is currently trading at 12.2x FY24E EPS.

Financial Summary

YE March (INR bn)	Q2 FY23	Q1 FY23	QoQ (%)	Q2 FY22	YoY (%)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	16	15	7.4	8	88.2	22	36	45	49	54
EBITDA	3	3	(11.5)	3	(16.2)	9	9	11	11	13
APAT	2	2	(11.5)	2	(19.7)	6	6	7	7	8
AEPS (INR)	16.6	18.7	(11.5)	20.7	(19.7)	62.7	60.4	69.5	73.7	80.8
P/E (x)						14.3	14.9	13.0	12.2	11.1
EV / EBITDA (x)						7.9	7.9	7.1	6.5	5.7
RoE (%)						20.0	17.5	18.0	17.2	17.0

Source: Company, HSIE Research

Change in estimates

	FY23E			FY24E			FY25E		
	Old	New	Ch%	Old	New	Ch%	Old	New	Ch%
EBITDA (INR bn)	12	11	(8.1)	12	11	(4.2)	13	13	0.0
AEPS (INR/sh)	76.5	69.5	(9.2)	77.6	73.7	(5.0)	80.8	80.8	0.0

Source: Company, HSIE Research

ADD

CMP *(as on 15 Nov 2022)*	INR 900
Target Price	INR 950
NIFTY	18,403

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 950	INR 950
EPS %	FY23E	FY24E
	-9.2%	-5.0%

KEY STOCK DATA	
Bloomberg code	MAHGL IN
No. of Shares (mn)	99
MCap (INR bn) / ($ mn)	89/1,097
6m avg traded value (INR mn)	436
52 Week high / low	INR 1,025/666

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	1.1	21.5	(11.6)
Relative (%)	(2.9)	4.3	(13.5)

SHAREHOLDING PATTERN (%)

	Jun-22	Sep-22
Promoters	32.50	32.50
FIs & Local MFs	26.06	15.58
FPIs	25.81	28.37
Public & Others	15.63	23.55
Pledged Shares	0.0	0.0

Source : BSE

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KNR Constructions

In-line financial performance

KNR posted a strong quarter; revenue/EBITDA/APAT of INR 8.2/1.6/0.8bn beat our estimates by 5/9/0%. FY23 revenue guidance was unchanged at INR 35bn (with a buffer of +-5%), with EBITDA margin pegged at 18-19%. At the standalone level, the gross/net debt stood at INR2/1.3bn as of Sep'22, with net D/E at 0.05x, vs. INR 1.3/0.8bn and net D/E of 0.03x, as of Jun'22. The balance HAM equity requirement is INR 5.6bn as of Sep'22 with INR 3/1.6/1.1bn to be invested in H2FY23/FY24/FY25. KNR incurred a Capex of INR 750mn in H1 vs. FY23 guidance of INR 1-1.2bn. The NWC days stood at 54 as of Sep'22 (vs. 60 as of Jun'22). The irrigation receivables as of Sep'22 stood at INR 9bn vs. INR8.5bn as of Jun'22. We maintain a BUY with an increased TP of INR 367/sh (18x Sep-24E EPS, HAM 1x P/BV).

- **Financial performance:** Adjusted revenue: INR 8.2bn (+7.9/-8.4% YoY/QoQ, a 5% beat). EBITDA: INR 1.6bn (-6.4/-4.9% YoY/QoQ, a 9% beat). EBITDA margin: 19.2% (-294/+71bps YoY/QoQ; vs. our estimates of 18.6%). Adjusted taxes: INR 359mn (-17.9/+6.7% YoY/QoQ). RPAT: INR 1.1bn (+12.9/+6.7% YoY/QoQ). Exceptional item: During the quarter, KNR received a bonus of INR 72.6mn from one of the HAM projects. Also, two of its JVs sold their pending arbitration claims through assignment deed, thereby recognising revenue share of INR 24.1/5.2mn which also had an impact on taxes to the tune of INR 77.1/2mn respectively. Consequently, INR 836mn (-12.2/-17.1 YoY/QoQ; in line with our estimate).
- **Robust OB; all eyes on NHAI H2 ordering momentum:** The OB stands at INR 80.4bn (~2.5x FY22 revenue), excluding one HAM project worth INR 7.7bn that is not included in the OB yet. Captive (HAM project) works constitute 48% of the OB whereas state/central government/other orders constitute 39/10/3%. Geographically, the OB is diversified in southern India with Kerala/AP & Telangana/TN/Karnataka contributing 37.4/31.4/15.5/15.7%. Business segment-wise, irrigation/HAM/roads (others) account for 24%/48%/28% of the OB. Given the aggressive competition intensity in the NHAI bidding process and a robust bid pipeline of INR 800bn, KNR reiterated its FY23 OI guidance of INR 40-50bn.
- **Strong liquidity position:** At the standalone level, the gross/net debt stood at INR2/1.3bn as of Sep'22, with net D/E at 0.05x vs. INR 1.3/0.8bn and net D/E at 0.03x as of Jun'22. The NWC days stood at 54 as of Sep'22 (vs. 60 as of Jun'22). With irrigation receivables as of Sep'22 at INR 9bn (vs. INR 8.5bn as of Jun'22), payment-related issues from state governments continue. KNR expects to receive INR 3.5bn of overdue irrigation receivables by Nov-22 end. This shall help alleviate concerns on the irrigation segment and speed up execution on the same.

Standalone Financial Summary (INR Mn)

Particulars	2QFY23	2QFY22	YoY (%)	1QFY23	QoQ (%)	FY22	FY23E	FY24E	FY25E
Net Sales	8,155	7,556	7.9	8,906	(8.4)	32,726	35,699	41,181	45,579
EBITDA	1,569	1,675	(6.4)	1,650	(4.9)	6,777	6,803	8,113	8,888
APAT	836	952	(12.2)	1,008	(17.1)	3,592	4,064	4,905	5,310
EPS (INR)	3.0	3.4	(12.2)	3.6	(17.1)	12.77	14.45	17.44	18.88
P/E (x)						18.7	16.5	13.7	12.6
EV/EBITDA (x)						9.7	9.5	7.9	6.9
RoE (%)						17.5	17.6	18.7	17.3

Source: Company, HSIE Research

Standalone Estimate Change Summary

Particulars	FY23E			FY24E			FY25E		
	New	Old	Chg. (%)	New	Old	Chg. (%)	New	Old	Chg. (%)
Revenues	35,699	35,699	-	41,181	41,780	(1.4)	45,579	-	-
EBITDA	6,803	6,892	(1.3)	8,113	8,043	0.9	8,888	-	-
EBITDA (%)	19.1	19.3	(25.0)	19.7	19.3	45.0	19.5	-	-
APAT	4,064	4,139	(1.8)	4,905	4,849	1.1	5,310	-	-

Source: Company, HSIE Research

BUY

CMP (*as on 15 Nov 2022*)	INR 239
Target Price	INR 367
NIFTY	18,403

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 350	INR 367

EPS Change %	FY23E	FY24E	FY25E
	(1.8)	+1.1	-

KEY STOCK DATA	
Bloomberg code	KNRC IN
No. of Shares (mn)	281
MCap (INR bn) / ($ mn)	67/829
6m avg traded value (INR mn)	66
52 Week high / low	INR 330/203

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	(8.2)	3.8	(15.4)
Relative (%)	(12.3)	(13.4)	(17.3)

SHAREHOLDING PATTERN (%)	Jun-22	Sep-22
Promoters	51.63	51.09
FIs & Local MFs	33.29	34.59
FPIs	5.73	5.73
Public & Others	9.35	8059
Pledged Shares	0.14	-

Source: BSE

Pledged shares as % of total shares

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PNC Infratech

Execution impacted due to delay in start date

PNC Infratech (PNC) reported Q2FY23 revenue/EBITDA/APAT at INR 15.6/2.1/1.3bn, missing our estimates on all fronts by 5.5/6.9/4.4%. PNC was impacted by delays in JJM water projects' DPR approvals on INR 80bn OB. About INR 23/40/17bn of DPR approvals are pegged to be secured at start of H1FY23/24/25, which may result in INR 10/25/30bn revenue in FY23/24/25. PNC has maintained its revenue growth guidance of 10-15% YoY and EBITDA margin guidance of 13-13.5% for FY23. With cash balance of INR 5.2bn and standalone gross debt of INR 2.8bn (vs. INR 3bn as of Jun'22), PNC had a net cash balance of INR 2.4bn (vs INR 1.6bn Jun'22), as of Sep'22. Capex guidance for FY23 is INR 1-1.2bn, with INR 220mn incurred in H1FY23. Given a strong OB and comfortable balance sheet, we maintain BUY, with an increased TP of INR 410/sh (15x Sep-24E; rolled over, 1x P/BV for HAM equity investment).

- **Q2FY23 financial highlights:** Revenue: INR 15.6bn (-3.3/-9.3% YoY/QoQ, a 5.5% miss). EBITDA: INR 2.1bn (-6.6/-6.2 YoY/QoQ, a 6.9% miss). EBIDTA margins: 13.3% (-46/+44bps YoY/QoQ, vs. our estimate of 13.5%). Depreciation: INR 274mn (-16.4/+1.9% YoY/QoQ). Interest cost: INR 155mn, (-36.4/-11.6% YoY/QoQ). Other income: INR 105mn (-39.8/+39.8 YoY/QoQ). APAT: INR 1.3bn (-3.2/-5.6% YoY/QoQ, a 4.4% miss).
- **Robust OB:** The OB as of Sep'22 stood at INR 192.6bn (~3.1x FY22 revenue). Excluding the EPC value of seven HAM projects where the appointed dates (ADs) are awaited (INR 74.4bn), the executable OB stands at ~INR 118bn. The ADs for all the seven projects are expected by FY23-end. The road EPC segment constitutes 61% of the OB whilst water projects constitute 39.4% of it. PNC expects an order inflow of INR 80-100bn in FY23 as well as FY24.
- **Strong balance sheet:** With cash balance of INR 5.2bn and standalone gross debt of INR 2.8bn (vs. INR 3bn as of Jun'22), PNC had a net cash balance of INR 2.4bn (vs INR 1.6bn Jun'22), as of Sep'22. It has a residual equity requirement of INR 2.5/4.5/3.5bn in H2FY23/24/25 for all the HAM projects in the portfolio. It envisages funding the same through internal accruals. Its Capex guidance for FY23 is INR 1-1.2bn, with INR 220mn incurred in H1FY23.
- **With slight delay in asset monetisation plan, expect signing of definitive agreement by FY23 end:** PNC has selected 6/1/1 HAM/BOT-Toll/BOT-Annuity for monetisation purpose. The company is in advanced discussions with investors regarding these and due diligence has commenced already on the three HAM projects.

Standalone Financial Summary (INR mn)

YE March	2QFY23	2QFY22	YoY (%)	1QFY23	QoQ (%)	FY22	FY23E	FY24E	FY25E
Net Sales	15,611	16,150	(3.3)	17,211	(9.3)	63,055	65,928	75,158	81,546
EBITDA	2,070.3	2,216	(6.6)	2,208	(6.2)	7,872	8,556	9,812	10,988
APAT	1,311	1,354	(3.2)	1,388	(5.6)	4,478	5,155	5,954	6,835
EPS (INR)	5.1	5.3	(3.2)	5.4	(5.6)	17.5	20.1	23.2	26.6
P/E (x)						14.6	12.6	10.9	9.5
EV/EBITDA (x)						7.9	7.1	6.1	0.6
RoE (%)						14.3	14.4	14.6	14.6

Source: Company, HSIE Research

Standalone Estimate Change Summary

Particulars	FY23E			FY24E			FY25E		
	New	Old	Chg. (%)	New	Old	Chg. (%)	New	Old	Chg. (%)
Revenues	65,928	68,166	(3.3)	75,158	78,186	(3.9)	81,546	-	-
EBITDA	8,556	8,821	(3.0)	9,812	10,162	(3.4)	10,988	-	-
EBITDA (%)	13.0	12.9	3.8	13.1	13.0	5.8	13.5	-	-
APAT	5,155	5,356	(3.8)	5,954	6,191	(3.8)	6,835	-	-

Source: Company, HSIE Research

BUY

CMP (*as on 15 Nov 2022*)	INR 254
Target Price	INR 410
NIFTY	18,403

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 407	INR 410

EPS Change %	FY23E	FY24E	FY25E
	(3.8)	(3.8)	-

KEY STOCK DATA	
Bloomberg code	PNCL IN
No. of Shares (mn)	257
MCap (INR bn) / ($ mn)	65/804
6m avg traded value (INR mn)	85
52 Week high / low	INR 346/219

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(1.2)	6.5	(22.8)
Relative (%)	(5.3)	(10.7)	(24.7)

SHAREHOLDING PATTERN (%)

	Jun-22	Sep-22
Promoters	56.07	56.07
FIs & Local MFs	28.57	29.10
FPIs	10.48	9.77
Public & Others	4.88	5.06
Pledged Shares	-	-

Source: BSE

Pledged shares as % of total shares

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Sobha

Deleveraging continues; growth to pick up

Sobha's (SDL) reported revenue/EBITDA/PAT of INR 6.7/0.9/0.2bn (miss)/beat our estimates by 4.3/(16.5)/(32)%. It recorded the highest-ever quarterly presales in value terms at INR 11.6bn (+13/+2% YoY/QoQ). Also, collections were the highest ever at INR 13.3bn, driven by the highest-ever residential collection of 10.8bn. This resulted in net debt reducing to INR 18.9bn (vs. INR 21bn in Q1FY23). SDL doesn't expect any significant improvement in debt, going forward, given the robust BD plan. With an inventory of 23msf (~4years or current presales), SDL plans to replenish its inventory with 50% coming from its existing land bank and the balance from the new BD. With the robust cash flow, SDL plans to invest INR 3bn towards new land acquisition/annum with INR 20-25bn/annum of GDV addition. SDL expects to see normalisation in EBITDA margin on account of improving the prospect of contractual business post-COVID. We maintain BUY with an increased TP of INR 935 (rollover to Sep-24E).

- **Q2FY23 financial highlights:** Sobha reported a revenue of INR 6.7bn (-14.4%/+18.2% YoY/QoQ, a 4.3% beat) with real estate (RE) contributing 66% to total revenue. Under the completed contract method, SDL has INR 92bn in revenue to be recognised from sales made until Sep'22. EBITDA came in at INR 922mn (-49%/+27% YoY/QoQ, a 16.5% miss). EBITDA margin came in at 13.8% (-913/+92bps YoY/QoQ, vs. estimate of 17.3%). RPAT/APAT was INR 192mn (-70%/+327% YoY/QoQ, a 32% miss).
- **Highest-ever presales; robust launch pipeline:** SDL reported its highest-ever quarterly presales in value terms at INR 11.6bn (+13/+2% YoY/QoQ), with Sobha's share at INR 9.6bn (the highest-ever since its inception). The non-Bengaluru region contributed 22.4% to total sales (vs. 22% in Q1FY23). Presales from Kochi (incl. Thrissur, Calicut and Thiruvananthapuram) were strong, contributing 9.6% to total sales (0.2% in Q1FY23). Contribution from Gurugram/GIFT City/Chennai/Kochi was lower at 5.3/2.4/2.3/% respectively. The average realisation came in at INR 8,709/sq. ft. (+14%/+3.3% YoY/QoQ). SDL has a residential launch pipeline of 4msf for H2FY23 and expects to book sales of 3-3.5msf.
- **Balance sheet strong; collections at all-time high:** SDL achieved the highest-ever collections at INR 13.4bn (+49%/+22% YoY/QoQ) on the back of robust residential cash collection of INR 10.8bn (+49%/+21% YoY/QoQ). This resulted in the consolidated gross/net debt reducing to INR 22/18.9bn vs. INR 22/21.1bn as of Jun'22, with net D/E at 0.77x vs. 0.87x as of Jun'22. Also, the construction outflow was the highest ever for any quarter at INR 4.5bn (+15%/+66% YoY/QoQ).

Consolidated financial summary (INR mn)

Particulars	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	FY22	FY23E	FY24E	FY25E
Net Sales	6,673	7,799	*(14.4)*	5,646	*18.2*	27,309	29,544	33,143	38,400
EBITDA	922	1,790	*(48.5)*	728	*26.6*	4,294	4,387	6,562	7,699
APAT	192	631	*(69.6)*	45	*326.7*	1,169	922	2,322	3,617
Diluted EPS	2.0	6.7	*(69.6)*	0.5	*326.7*	12.3	9.7	24.5	38.1
P/E (x)						52.9	67.0	26.6	17.1
EV/EBITDA (x)						19.7	19.3	12.6	10.6
RoE (%)						4.7	3.6	8.6	12.2

Consolidated estimate change summary

Particulars	FY23E			FY24E			FY25E		
	New	Old	Chg.(%)	New	Old	Chg.(%)	New	Old	Chg.(%)
Revenues	29,544	32,299	*(8.5)*	33,143	35,831	*(7.5)*	38,400	38,400	-
EBITDA	4,387	6,395	*(31.4)*	6,562	7,095	*(7.5)*	7,699	7,699	-
EBITDA (%)	14.9	19.8	*(495.0)*	19.8	19.8	*0.0*	20.1	20.1	-
APAT	922	2,288	*(59.7)*	2,322	2,705	*(14.2)*	3,617	3,617	-

Source: Company, HSIE Research

BUY

CMP (*as on 15 Nov 2022*)	INR 652
Target Price	INR 935
NIFTY	18,403

KEY CHANGES	OLD		NEW
Rating	BUY		BUY
Price Target	INR 902		INR 935
EPS Change %	FY23E	FY24E	FY25E
	(59.7)	*(14.2)*	-

KEY STOCK DATA	
Bloomberg code	SOBHA IN
No. of Shares (mn)	95
MCap (INR bn) / ($ mn)	62/764
6m avg traded value (INR mn)	230
52 Week high / low	INR 1,045/480

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	(5.1)	28.7	(26.2)
Relative (%)	(9.2)	11.5	(28.1)

SHAREHOLDING PATTERN (%)	Jun-22	Sep-22
Promoters	51.99	51.99
FIs & Local MFs	13.00	13.74
FPIs	15.02	15.55
Public & Others	19.99	18.72
Pledged Shares	10.54	10.54

Source: BSE

Pledged shares as % of total shares

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Star Cement

Superior volume offtake and margin performance

We maintain BUY on Star Cement with a revised TP of INR 120/share (8x its Sep-24E consolidated EBITDA). Star reported healthy 44% YoY volume growth and industry-leading INR 782 per MT margin in Q2FY23. Star will be commissioning 12MW WHRS in Q3FY23, which will aid margin recovery from Q4FY23 onwards. The company is increasing its capacity by 70% to 9.7mn MT by H1FY25E and most of the Capex would take place in FY24/25E. The current robust cash position and healthy cash flow outlook should keep the balance sheet unstressed.

- **Q2FY23 performance:** Star's volume in Q2FY23 buoyed 44% YoY, driven by a 32% uptick in its NE sales and a 95% jump in sales outside the NE region. NSR fell 2% QoQ, impacted by the seasonal price decline. Input cost went up ~INR 250 per MT QoQ, as fuel price jumped 20% QoQ to INR 2.1 per Kcal. Logistics savings moderated the opex inflation. Thus, unitary EBITDA fell 33/38% YoY/QoQ to INR 782 per MT (industry best for the second consecutive quarter) in Q2. In H1FY23, Star delivered a 36% YoY volume uptick on healthy demand and Siliguri ramp-up. However, fuel inflation dented H1 unitary EBITDA to INR 1036/MT (-13% YoY). Consolidated EBITDA/OCF rose 18/50% YoY to INR 1.94/1.4bn in H1FY23. Star spent INR 1.3bn in Capex in H1FY23. Thus, net cash rose 3% (vs Mar-22) to INR 3.8bn.
- **Capex update and outlook**: Star's expansion plan in the NER (total Capex ~INR 20bn) is on track to be commissioned in Q4FY24/H1FY25E. This will increase capacity to 9.7mn MT. Its 12MW WHRS will be commissioned in Q3FY23 and another 12MW WHRS along with 3mn MT clinker (Meghalaya) will get operational by FY24 end. We maintain our earnings estimates for Star but have spread out the expansion Capex in FY24/25E (major Capex to be incurred by then), leading to a marginal increase in target price to INR 120/sh (vs INR 115 earlier). We expect its balance sheet to remain comfortable, owing to healthy cash generation and large cash balance currently.

Quarterly/annual financial summary (consolidated)

YE Mar (INR mn)	Q2 FY23	Q2 FY22	*YoY (%)*	Q1 FY23	*QoQ (%)*	FY21	FY22	FY23E	FY24E	FY25E
Sales Vol (mn MT)	0.89	0.62	44.4	0.98	(9.1)	2.7	3.40	3.90	4.41	5.51
NSR (INR/MT)	6,669	6,589	1.2	6,796	(1.9)	6,220	6,527	6,788	6,924	6,993
EBITDA (INR/MT)	782	1,162	(32.7)	1,267	(38.3)	1,233	1,014	1,164	1,243	1,196
Net Sales	5,942	4,066	*46.2*	6,661	*(10.8)*	17,199	22,218	26,479	30,520	38,532
EBITDA	697	717	*(2.8)*	1,241	*(43.9)*	3,326	3,453	4,541	5,479	6,590
APAT	311	465	*(33.3)*	676	*(54.0)*	2,401	2,468	2,393	2,912	3,130
AEPS (INR)	0.8	1.1	*(31.9)*	1.7	*(54.0)*	5.8	6.1	5.9	7.2	7.7
EV/EBITDA (x)						11.6	10.7	7.9	8.2	7.2
EV/MT (INR bn)						9.4	8.4	7.7	9.1	6.6
P/E (x)						18.0	17.5	18.1	14.9	13.8
RoE (%)						*12.0*	11.6	10.5	*11.7*	*11.4*

Source: Company, HSIE Research

Consolidated Estimates revision summary

INR bn	FY23E Old	FY23E Revised	*Change %*	FY24E Old	FY24E Revised	*Change %*	FY25E Old	FY25E Revised	*Change %*
Net Sales	26.5	26.5	-	30.5	30.5	-	38.5	38.5	-
EBITDA	4.54	4.54	-	5.48	5.48	-	6.59	6.59	-
APAT	2.39	2.39	-	2.81	2.91	*3.5*	3.02	3.13	*3.7*

Source: Company, HSIE Research

BUY

CMP *(as on 15 Nov 2022)*	**INR 107**
Target Price	**INR 120**
NIFTY	**18,403**

KEY CHANGES	**OLD**	**NEW**
Rating	BUY	BUY
Price Target	INR 115	INR 120
EBITDA revision %	FY23E *0.0*	FY24E *0.0*

KEY STOCK DATA	
Bloomberg code	STRCEM IN
No. of Shares (mn)	404
MCap (INR bn) / ($ mn)	43/533
6m avg traded value (INR mn)	24
52 Week high / low	INR 114/81

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	17.1	26.8	7.0
Relative (%)	13.0	9.6	5.0

SHAREHOLDING PATTERN (%)	**Jun-22**	**Sep-22**
Promoters	67.37	67.43
FIs & Local MFs	6.14	6.14
FPIs	0.28	0.40
Public & Others	26.21	26.03
Pledged Shares	0.09	0.00

Source : BSE

Pledged shares as % of total shares

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Ahluwalia Contracts

Marginal miss

Ahluwalia Contracts (AHLU) reported revenue/EBITDA/APAT of 6.2/0.6/0.4bn, with revenue beating our estimates by 0.7% and EBITDA/APAT missing our estimates by 4.2/4.7%. With H2FY23 revenue guidance at INR 18bn, AHLU maintained 15% YoY growth for FY23, with EBITDA margin (incl. other income) in the range of 12-13%. Margin is expected to improve from H2FY23 with softening of commodity prices, narrower gap of indices with input prices and slightly lesser competitive intensity. FYTD23 OB stands at 75.9bn (~2.8x FY22 revenue), excluding L1 in three projects of INR 11bn. On the diversification front, client-wise, government orders form 81.5% of OB and, segment-wise, institutional and hospital are the major drivers, contributing 38.3/32%, with residential/commercial/infra and others contributing 13.2/8.4/8.1%. The total order inflow in FYTD23 has been INR 31.8bn vs. FY23 OI guidance of INR 25-30bn. AHLU stated that it is confident of surpassing the OI guidance by at least INR 10bn. We maintain BUY on the stock, with a TP of INR 557 (13x Sep-24E EPS).

- **Financial highlights**: Revenue: INR 6.2bn (-10.8/+2.2% YoY/QoQ, a 0.7% beat). EBITDA: INR 619mn (-2.0/+2.1% YoY/QoQ, a 4.2% miss). EBITDA margins: 9.9% (+89/-1bps YoY/QoQ, vs. our estimate of 10.4%). RPAT/APAT: INR 392mn (+9.4/+3.7% YoY/QoQ, a 4.7% miss). AHLU reiterated its FY23 revenue growth of 15% YoY, with EBITDA margin (incl. other income) in the range of 12-13%.
- **OB robust; well-diversified:** FYTD23 OB stands at INR 75.9bn (~2.8x FY22 revenue), excluding L1 in three projects of INR 11bn. The total order inflow in FYTD23 came in at INR 31.8bn vs. FY23 OI guidance of INR 25-30bn. AHLU expects to surpass OI guidance by INR 10bn. Client-wise, government orders form 81.5% of OB and, segment-wise, institutional and hospital are the major drivers, contributing 38.3/32%, with residential/commercial/infra and others contributing 13.2/8.4/8.1%. Geography-wise East/North/West/ South/ international region contributed 37.6/34/17.7/4.9/5.8%.
- **Net cash status**: AHLU is effectively debt-free, with virtually no debt on its books of accounts. Capex incurred in H1 is INR 339mn with H2FY23/FY24 guidance of another INR ~200/600mn.

Standalone Financial Summary (INR mn)

YE March	2QFY23	2QFY22	YoY (%)	1QFY23	QoQ (%)	FY22	FY23E	FY24E	FY25E
Net Sales	6,228	6,980	(10.8)	6,092	2.2	26,925	29,363	33,357	37,359
EBITDA	619	631	(2.0)	606	2.1	2,566	3,268	4,063	4,625
APAT	392	358	9.4	378	3.7	1,553	2,080	2,656	3,086
EPS (INR)	5.8	5.3	9.4	5.6	3.7	23.2	31.1	39.7	46.1
P/E (x)						17.5	13.1	10.2	8.8
EV/EBITDA (x)						8.9	6.8	5.7	5.4
RoE (%)						16.2	18.3	19.4	18.7

Standalone Estimate Change Summary

Particulars	FY23E			FY24E			FY25E		
	New	Old	Chg.(%)	New	Old	Chg.(%)	New	Old	Chg.(%)
Revenues	29,363	31,412	(6.5)	33,357	35,684	(6.5)	37,359	-	-
EBITDA	3,268	3,732	(12.4)	4,063	4,346	(6.5)	4,625	-	-
EBITDA (%)	11.1	11.9	(75.0)	12.2	12.2	(0.0)	12.4	-	-
APAT	2,080	2,294	(9.3)	2,656	2,715	(2.2)	3,086	-	-

Source: Company, HSIE Research

BUY

CMP (*as on 15 Nov 2022*)	INR 405
Target Price	INR 557
NIFTY	18,403

KEY CHANGES	OLD		NEW
Rating	BUY		BUY
Price Target	INR 542		INR 557
EPS Change %	FY23E	FY24E	FY25E
	(9.3)	(2.2)	-

KEY STOCK DATA	
Bloomberg code	AHLU IN
No. of Shares (mn)	67
MCap (INR bn) / ($ mn)	27/335
6m avg traded value (INR mn)	10
52 Week high / low	INR 564/359

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	(11.9)	(6.8)	(9.9)
Relative (%)	(16.0)	(24.0)	(11.8)

SHAREHOLDING PATTERN (%)	Jun-22	Jun-22
Promoters	55.32	55.32
FIs & Local MFs	27.52	27.45
FPIs	12.28	12.30
Public & Others	4.88	4.93
Pledged Shares	14.62	7.16

Source: BSE

Pledged shares as % of total shares

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Repco Home Finance

Gradual strides in asset quality, portfolio build-up

REPCO's Q2FY23 earnings were 7% ahead of our estimates, largely on account of lower provisioning (63bps). Asset quality continued to improve with only ~20% of the sizeable restructured book (7% of AUM) slipping into NPA, and healthy collections from the rest of the portfolio. Consequently, GS-III/NS-III remained broadly steady at 6.5%/3.9% (Q1FY23: 6.4%/4.2%), as aligned to the RBI's revised asset classification norms. Loan growth remained muted (+1.5% YoY); however, recent disbursal trends have been encouraging (H1FY23: +81% YoY) and are expected to drive loan growth to near double digits by Q4FY23. NIMs improved to 4.7% (+10bps QoQ) and are expected to sustain further, with incremental rate hikes likely to offset pressure on the cost of funds. Several growth initiatives recently launched by the new leadership team are gradually gaining traction, while simultaneously controlling asset quality; however, we continue to look for the sustained impact of these developments to turn more constructive in our estimates. We adjust our FY23/FY24 forecasts higher to factor in lower credit costs; maintain ADD with a revised TP of INR298 (0.7x Sep-24 ABVPS).

- **Muted operating performance; beat on credit costs**: NII/PPOP were 6%/5% below our estimates due to lower AUM growth (+1.5% YoY) and muted NIMs (4.7%). As per management, repayment rates have broadly stabilised (~18%), including balance transfers and loan growth is likely to trend higher going ahead, with the traction in disbursals driven by a benign credit environment and incremental changes to the underwriting policy.
- **Restructured book surprises; early-delinquency portfolio still monitorable**: The restructured book (~7%) surprised positively with ~20% of the portfolio slipping into NPA, a further ~18% repaid in full while the rest of the book is residing in the Stage-II bucket. However, the GS-II bucket continues to be on the higher side (~13%) and is key monitorable.
- **Sustainable trends in incremental performance key to re-rating**: REPCO has delivered a strong rebound in terms of disbursal traction and asset quality, post the joining of the new MD and CEO. While these trends are encouraging, we await signs of sustained business traction and asset quality to turn more constructive in our estimates.

Financial summary

(INR bn)	Q2FY23	Q2FY22	*YoY(%)*	Q1FY23	*QoQ(%)*	FY22	FY23E	FY24E	FY25E
NII	1.4	1.5	*(6.3)*	1.3	*3.4*	5.7	5.6	6.1	6.7
PPOP	1.1	1.3	*(13.4)*	1.1	*5.9*	4.9	4.7	5.0	5.6
PAT	0.7	0.9	*(17.3)*	0.6	*14.2*	1.9	2.8	3.2	3.6
EPS (INR)	11.4	13.7	*(17.2)*	9.9	*14.6*	30.6	44.7	51.4	57.1
ROAE (%)						8.9	11.8	12.1	12.0
ROAA (%)						1.6	2.2	2.3	2.3
ABVPS (INR)						258.1	333.8	399.8	460.8
P/ABV (x)						1.0	0.7	0.6	0.5
P/E (x)						8.1	5.5	4.8	4.3

Change in estimates

(INR bn)	FY23E			FY24E			FY25E		
	Old	New	Δ	Old	New	Δ	Old	New	Δ
AUM	129	129	0.0%	144	144	0.0%	159	159	0.0%
NIM (%)	4.5	4.5	3 bps	4.4	4.4	6 bps	4.4	4.4	1 bps
NII	5.5	5.6	0.6%	6.0	6.1	1.4%	6.7	6.7	0.1%
PPOP	4.7	4.7	0.6%	4.9	5.0	1.7%	5.6	5.6	0.2%
PAT	2.7	2.8	1.6%	3.1	3.2	2.2%	3.6	3.6	0.4%
Adj. BVPS (INR)	333	334	0.3%	398	400	0.5%	458	461	0.5%

Source: Company, HSIE Research

ADD

CMP *(as on 15 Nov 2022)*	INR 249
Target Price	INR 298
NIFTY	18,403

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 296	INR 298
	FY23E	FY24E
EPS %	1.6%	2.2%

KEY STOCK DATA	
Bloomberg code	REPCO IN
No. of Shares (mn)	63
MCap (INR bn) / ($ mn)	16/192
6m avg traded value (INR mn)	93
52 Week high / low	INR 312/113

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	57.3	60.9	(16.0)
Relative (%)	53.3	43.7	(17.9)

SHAREHOLDING PATTERN (%)	Jun-22	Sep-22
Promoters	37.1	37.1
FIs & Local MFs	19.5	16.9
FPIs	16.3	18.8
Public & Others	27.0	27.1
Pledged Shares		0.0

Source : BSE

Pledged shares as % of total shares

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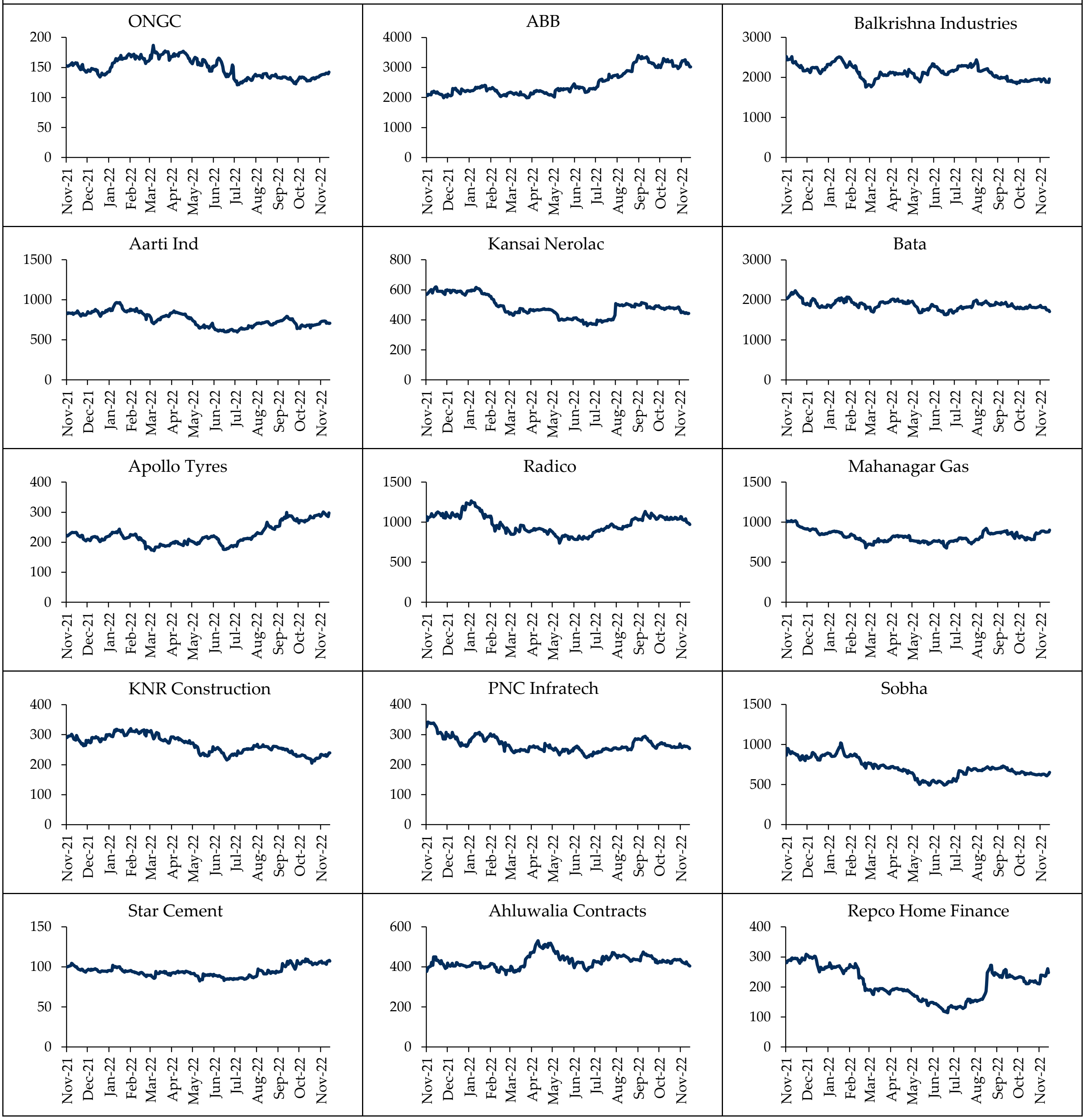
Rating Criteria
BUY: >+15% return potential
ADD: +5% to +15% return potential
REDUCE: -10% to +5% return potential
SELL: > 10% Downside return potential

Disclosure:

Analyst	Company Covered	Qualification	Any holding in the stock
Harshad Katkar	ONGC, Aarti Industries, Mahanagar Gas	MBA	NO
Nilesh Ghuge	ONGC, Aarti Industries, Mahanagar Gas	MMS	NO
Akshay Mane	ONGC, Aarti Industries, Mahanagar Gas	PGDM	NO
Rutvi Chokshi	ONGC, Aarti Industries, Mahanagar Gas	CA	NO
Parikshit Kandpal	ABB India, KNR Constructions, PNC Infratech, Sobha, Ahluwalia Contracts	CFA	NO
Manoj Rawat	ABB India, KNR Constructions, PNC Infratech, Sobha, Ahluwalia Contracts	MBA	NO
Nikhil Kanodia	ABB India, KNR Constructions, PNC Infratech, Sobha, Ahluwalia Contracts	MBA	NO
Aniket Mhatre	Balkrishna Industries, Apollo Tyres	MBA	NO
Sonaal Sharma	Balkrishna Industries, Apollo Tyres	MBA	NO
Jay Gandhi	Kansai Nerolac, Bata India	MBA	NO
Premraj Survase	Kansai Nerolac, Bata India	MBA	NO
Naveen Trivedi	Radico Khaitan	MBA	NO
Saras Singh	Radico Khaitan	PGDM	NO
Rajesh Ravi	Star Cement	MBA	NO
Keshav Lahoti	Star Cement	MBA	NO
Krishnan ASV	Repco Home Finance	PGDM	NO
Deepak Shinde	Repco Home Finance	PGDM	NO
Neelam Bhatia	Repco Home Finance	PGDM	NO

1 Yr Price Movement



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