INSTITUTIONAL RESEARCH

HSIE Results Daily

Contents

Results Reviews

- **Nestle India:** Nestle reported a beat on revenue, while EBITDA margin was below our expectations. Domestic revenue growth was at 16% (+11% three-year CAGR), with volume growth of ~8%. Nestle continues to outperform the FMCG peers in volume terms, considering relatively less exposure to RM inflation. Growth was broad-based, with MAGGI Noodles, MILKMAID, NESCAFE and all key confectionaries outperforming. The company's RURBAN strategy supported growth in the rural market too. Exports remained weak, up only 1% YoY. Gross margin was at 54% (-304bps/-142bps YoY/QoQ), lower than expected. Few commodities like edible oil and packaging material saw early signs of softening; however, fresh milk, fuel, grains, and green coffee costs are expected to remain elevated. EBITDA was up 1/6% YoY/three-year CAGR (HSIE +9% YoY). We remain positive on OOH products and sustain growth for in-home products. RM cost continues to be elevated, which poses a risk to the EBITDA margin in the near term. We cut our EPS estimates for CY22E by 3%, while we maintain them for CY23/CY24. We value Nestle at 52x P/E on Jun-24E EPS to derive a TP of INR 17,000. With a rich valuation, the absolute upside is limited in the medium term. Maintain REDUCE.
- **SBI Life Insurance:** SBILIFE reported an all-time high adj. VNB margin at 30.4% (+670bps) on the back of a multifold increase in NPAR savings mix to 29% (+22pps), driving adj. VNB higher 1.3x YoY to INR8.8bn (+62% vs. estimates). Total APE grew 31% ahead of estimates (3y CAGR at 15%), driven by better than industry growth trends in retail protection, at 63% YoY. The company's three growth levers stay in place: (1) SBI's massive distribution network (24k+ branches); (2) healthy mix of protection and NPAR; and (3) lowest opex ratio among peers (FY22: 8.8%). We raise VNB estimates by 12/11% to factor in the beat on APE and VNB margins. We expect SBILIFE to deliver a healthy FY22-24E APE/VNB CAGR of 18/25% and retain BUY with an increased TP of INR1,660 (albeit lower multiple at 2.8x Mar-24E as we roll forward our earnings).
- **SBI Cards and Payment Services:** SBI Cards reported a strong set of numbers, driven largely by a surge in spends (spends per card up 7% QoQ) and benign credit costs (net credit costs at 4% as COVID-related stress is largely over), leading to 7%/31% RoA/RoE. Business momentum continued to gain traction in terms of CIF (+19% YoY), unit spends (+54% YoY, 7% QoQ) and unit receivables (+14% YoY), driving stronger fees (+42% YoY). Share of revolving loans (26%) witnessed marginal uptick after the steep drop during COVID (38% to 25%), indicating portfolio re-leveraging, which in turn is likely to drive NIM reflation (13.2%). As per management, credit cards on UPI are likely to have a positive rub-off on the credit cards industry and SBI Card (~7% of CIF at RuPay network), although the operational guidelines are awaited. We tweak our FY23/FY24 earnings estimates by 1/2% to factor in better-than-expected traction in card spends, partially offset by lower-than-expected NIM reflation and maintain BUY with a revised target price of INR1,265 (38x FY24 EPS).

HSIE Research Team
hdfcsec-research@hdfcsec.com

- **Shree Cement:** We maintain our REDUCE rating on Shree Cement, with an unchanged SOTP target price of INR 20,200/share. In Q1FY23, the benefits of robust cement price increase in north/central regions (NSR up 10% QoQ) got negated by ~25% QoQ surge in energy costs and op-lev loss (vol down 7% QoQ). Unitary EBITDA fell 4% QoQ (down 27% YoY) to INR 1,091 per MT. The company expects energy inflation to continue in Q2 and expects some cool-off in Q3FY23. SRCM would be expanding its capacity to 56/80mn MT by FY25/30E (vs 46mn MT in FY22).
- **TVS Motors:** TVS' Q1 PAT, at INR 3.2bn, was ahead of our estimate of INR 2.4bn due to better-than-expected margin (flat QoQ at 10%), higher other income (INR 222mn vs INR 71mn in Q1), and lower tax rate of 25.8%. The fact that TVS has been able to maintain its margin at 10% in a difficult quarter highlights the underlying business resilience. In Q1, TVS has continued to outperform scooters and gained 330bps share to 24.9%. However, its 160bps market share loss in motorcycles is attributable to the chip shortage impact, which has hurt TVS (and BAL) more than peers in Q1. With supply issues now resolved, we expect TVS to continue its outperformance relative to peers on the back of its recent new launches, including Raider and Ronin. Even in EVs, it seems to be ahead of its listed peers with a strong product pipeline in place over the next 24 months and it has signed up with industry experts and JV partners to emerge a leading player in the industry. We maintain BUY with a revised TP of INR 1,030/sh (from INR 988 earlier) as we roll forward to June 24 earnings.
- **Jubilant FoodWorks:** Jubilant revenue was a slight miss, but the EBITDA margin came in line. Revenue grew 10% on a three-year CAGR (HSIE 11%). Its like-for-like (LFL) growth stood at +28% YoY (HSIE +40%), while the three-year CAGR was a mere 3%. In our understanding, volume LFL three-year CAGR is down >2%. We believe that Q1 growth was primarily led by high store additions in the past few quarters. The company continued to expand, adding 58 stores for Domino's (reaching 349 cities, vs 337 in Q4). We model for 200 store additions in FY23 (guidance is of 250) as slow economic conditions and top level transitions will limit expansion. The key highlight of the quarter was sustaining the margin despite several headwinds, and both GM and EBITDA margin came in line. With better cost control, we increase our FY23 EPS by 2%, while maintaining it for FY24/25. Our target price is INR 500 (INR 470 for Domino's at 45x P/E on Jun-24E EPS + INR 30 for other initiatives). Maintain REDUCE.
- **Nippon Life India Asset Management:** Revenue was 3.8% below estimates as a result of pressure on revenue yields. Falling market share in the high-margin equity segment, at 6.2% (-17bps), was a double whammy in a falling equity yield environment. We expect NAM to focus on improving performance to recoup its lost market share. Additionally, we expect NAM to benefit from higher credibility to raise HNI/institutional capital. We lower our FY23E/24E earnings by 11%/ 5% to factor in lower margins and expect NAM to deliver FY22-24E revenue/NOPLAT CAGR of 9.3/12.1%. We maintain ADD on the stock with a reduced target price of INR365 (with a lower multiple at 27x Mar-24E EV/NOPLAT, following a derating in the AMC sector even as we roll forward our earnings).
- **TTK Prestige:** TTK Prestige's Q1FY23 revenue and EBITDA margin was a miss. Standalone revenue was up 68% YoY (HSIE 77%), clocking 11% three-year CAGR. The revenue growth was primarily led by strong performance in cookware, which was up 18% three-year CAGR. Gross margin contracted 257bps YoY to 42% (HSIE 41.5%). With carrying high cost inventory, we expect RM softening benefits will be majorly visible from Q3FY22. EBITDA

margin came in at 13.8% (HSIE 15%). EBITDA was up 13% on three-year CAGR to INR 830mn (HSIE INR 951mn). Although home improvement and new housing theme is expected to sustain, we believe rising competition (renewed Butterfly under Crompton, etc.) will continue to keep earnings for TTK in check. As the earnings upcycle seems to be over, we cut our target multiple to 35x (37x earlier). Further, we cut our FY23/24/25 EPS by 4% each. With limited upside, we downgrade our rating to REDUCE from ADD, with a revised TP of INR 940.

- **V-Guard Industries:** V-Guard delivered a mixed bag performance, revenue growing by 80% YoY to INR 10bn (HSIE 9.3bn), while EBITDA margin saw a miss. Net revenue registered 13% three-year CAGR, driven by 16/25% for electricals/CD segments. Electronics segment was up only 2%. Summer season products (stabilizer and fans) saw strong demand, while channel inventory has normalised now. Both south and non-south delivered healthy revenue growth of 12/14% three-year CAGR. Gross margin, at 30% (in-line), was down >300bps YoY due to high cost RM. EBITDA margin was at 8.1% (HSIE 10.3%), the miss on account of continued marketing spend and higher employee costs. With impact of commodity price fluctuation on demand and margin, on top of V-Guard's limited pricing power in the non-south region, we see a risk on V-Guard's EBITDA delivery in the coming quarters. Thereby, we cut our target multiple to 30x (35x earlier). Further, we cut our FY23/24/25 EPS by 5/3/3%. With a limited upside, we downgrade our rating to REDUCE from ADD, with a revised TP of INR 235.
- **Mahindra Lifespaces:** Mahindra Lifespaces Developers Ltd (MLDL) reported the highest-ever quarterly presales of INR 6bn (+3x/+1.8x, YoY/QoQ), with volume of 0.65msf (+2.6x/+1.7x, YoY/QoQ) on the back of robust response to new launches that contributed 75% to presales. The IC&IC segment also saw strong performance, with 42acres leased in MWC Jaipur for INR 1.2bn(+8x/+1.7x YoY/QoQ). The EV and renewable industry is driving the demand here. MLDL has a strong BD pipeline of INR 50bn, with INR 10bn worth of projects in advanced stages of conclusion by Q2FY23. It is expecting the first society redevelopment project within this fiscal year. New launches for the remaining part of the year are expected at INR 12-15bn, with INR 5bn each from Kandivali and Pimpri lands. In Q1FY23, INR 2.4bn was paid for land acquisition, despite which the residential segment has net debt of INR 10mn. Residual land payment stands at INR 4bn. Given the tailwinds in industrial business, the upcycle in residential business, a robust balance sheet, trustworthy brand image, and a robust business development pipeline, we remain constructive on MLDL and maintain a BUY rating, with an unchanged NAV-based TP of INR 521/sh.
- **JK Lakshmi Cement:** We maintain our BUY rating on JK Lakshmi Cement (JKLC) with an unchanged target price of INR 680/share (8x Mar-24E consolidated EBITDA). We hold on to our thesis: its current low gearing and healthy cash flow would support its planned Udaipur expansion, without stressing its balance sheet and keeping the ROE buoyant. In Q1FY23, while the company witnessed robust pricing QoQ, the same proved insufficient to pass on the soaring fuel price increase and unitary EBITDA cooled off to INR 847 per MT (-14% QoQ). Net debt on books remained flattish QoQ, even as its Udaipur plant expansion has gained pace (due for commissioning in FY24 end). Mr Arun Shukla has been inducted to the board of directors and elevated to CEO of the company after the retirement of Mr Sushil Wali and Mr Shailesh Chouksey w.e.f. Aug-22.

Nestle India

Beat on revenue; inflation dampens margin

Nestle reported a beat on revenue, while EBITDA margin was below our expectations. Domestic revenue growth was at 16% (+11% three-year CAGR), with volume growth of ~8%. Nestle continues to outperform the FMCG peers in volume terms, considering relatively less exposure to RM inflation. Growth was broad-based, with MAGGI Noodles, MILKMAID, NESCAFE and all key confectionaries outperforming. The company's RURBAN strategy supported growth in the rural market too. Exports remained weak, up only 1% YoY. Gross margin was at 54% (-304bps/-142bps YoY/QoQ), lower than expected. Few commodities like edible oil and packaging material saw early signs of softening; however, fresh milk, fuel, grains, and green coffee costs are expected to remain elevated. EBITDA was up 1/6% YoY/three-year CAGR (HSIE +9% YoY). We remain positive on OOH products and sustain growth for in-home products. RM cost continues to be elevated, which poses a risk to the EBITDA margin in the near term. We cut our EPS estimates for CY22E by 3%, while we maintain them for CY23/CY24. We value Nestle at 52x P/E on Jun-24E EPS to derive a TP of INR 17,000. With a rich valuation, the absolute upside is limited in the medium term. Maintain REDUCE.

- **Beat on revenue:** Revenue grew by 16% YoY (+14% in Q2CY21 and +10% in Q1CY22). Domestic revenue grew by 16% YoY (+14% in Q2CY21 and +10% in Q1CY22, +10% HSIE). The ecommerce channel continued to perform well and is now contributing 6.4% of sales during the quarter. The company's growth was broad-based, driven by pricing with healthy underlying volume and mix. Exports grew 1% YoY (+15% HSIE). It continues to expand its product offerings across the UK, Canada and the US. OOH is back to accelerated growth in channels like hotels, education centers, and workplaces.
- **Margin pressure continues:** GM remained under pressure due to continued raw material inflation, down 304bps YoY (+67bps in Q2CY21 and -313bps in Q1CY22), vs. HSIE estimate of 51bps contraction. Employee/other expenses were up by 8/20% YoY. EBITDA margin contracted by 309bps YoY to 21.3% (-145bps in Q2CY21 and -233bps in Q1CY22). EBITDA grew 1% YoY (HSIE 9% YoY). Adjusted PAT was down 4%. Continued RM inflation poses a risk to margin in the near term.
- **Analyst meet takeaways:** (1) The company is working towards the premiumisation trend through the acquisition of Purina in India (from its parent) and launching its Gerber brand in India. (2) Purina caters to an INR 40bn pet care category, which is growing 25% YoY, while Gerber is part of an INR 35bn category. (3) 2022 saw 5x inflation, which was partly offset by pricing actions, though profitability was impacted as well. (4) Rural penetration remains one key focus area. (5) In H1CY22, milk products/prepared dishes/confectionary/beverages segments clocked 7/14/24/22% growth.

Quarterly/annual financial summary

YE Dec (INR mn)	Q2CY22	Q2CY21	YoY (%)	Q1CY22	QoQ (%)	CY21	CY22E	CY23E	CY24E
Net Sales	40,366	34,767	16.1	39,807	1.4	1,47,094	1,65,287	1,81,828	2,00,021
EBITDA	8,612	8,490	1.4	9,419	(8.6)	36,210	38,985	45,121	50,466
APAT	5,153	5,386	(4.3)	5,947	(13.3)	23,273	25,578	29,973	33,841
Diluted EPS(INR)	53.4	55.9	(4.3)	61.7	(13.3)	241.4	265.3	310.9	351.0
P/E (x)						78.9	71.8	61.3	54.3
EV / EBITDA (x)						50.3	46.3	39.9	35.5
RoCE (%)						61.5	56.9	63.7	63.2

Source: Company, HSIE Research

REDUCE

CMP *(as on 28 Jul 2022)*	**INR 19,112**
Target Price	**INR 17,000**
NIFTY	**16,930**

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 17,000	INR 17,000
EPS %	CY22E	CY23E
	-3%	0%

KEY STOCK DATA	
Bloomberg code	NEST IN
No. of Shares (mn)	96
MCap (INR bn) / ($ mn)	1,843/24,763
6m avg traded value (INR mn)	1,245
52 Week high / low	INR 20,609/16,000

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	3.7	4.0	6.0
Relative (%)	4.9	4.6	(2.4)

SHAREHOLDING PATTERN (%)	Mar-22	Jun-22
Promoters	62.76	62.76
FIs & Local MFs	8.60	9.14
FPIs	12.01	11.65
Public & Others	16.63	16.45
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

Varun Lohchab
varun.lohchab@hdfcsec.com
+91-22-6171-7334

Naveen Trivedi
naveen.trivedi@hdfcsec.com
+91-22-6171-7324

Saras Singh
saras.singh@hdfcsec.com
+91-22-6171-7336

SBI Life Insurance

Positive surprises all around!

SBILIFE reported an all-time high adj. VNB margin at 30.4% (+670bps) on the back of a multifold increase in NPAR savings mix to 29% (+22pps), driving adj. VNB higher 1.3x YoY to INR8.8bn (+62% vs. estimates). Total APE grew 31% ahead of estimates (3y CAGR at 15%), driven by better than industry growth trends in retail protection, at 63% YoY. The company's three growth levers stay in place: (1) SBI's massive distribution network (24k+ branches); (2) healthy mix of protection and NPAR; and (3) lowest opex ratio among peers (FY22: 8.8%). We raise VNB estimates by 12/11% to factor in the beat on APE and VNB margins. We expect SBILIFE to deliver a healthy FY22-24E APE/VNB CAGR of 18/25% and retain BUY with an increased TP of INR1,660 (albeit lower multiple at 2.8x Mar-24E as we roll forward our earnings).

- **Robust growth and exceptional margins**: SBILIFE printed total APE 31% ahead of estimate, at INR28.3bn (+79% YoY; 3y CAGR 16%), stronger than the growth reported by private life insurers. Also, the high-margin NPAR savings clocked 6.7x YoY growth, fuelled by growth from banca and agency; new "Smart Platina Plus" and "Smart Platina Assure" are seeing good traction. The shift in product mix towards NPAR at 29% (+22pps) was a key driver for the massive beat (+520bps vs. estimates) on adj. VNB margin at 30.4% (+670bpsYoY), resulting in adj. VNB jumping 1.3x YoY to INR8.8bn. Persistencies improved across cohorts in the range of 153-633bps. Within channels, banca rebounded swiftly (3yr CAGR: 15%) after two years of slowdown from COVID, even as the 'others' channel (including banca ex-SBIN) continues to fire on all cylinders.
- **Management commentary and growth outlook:** Management remains confident on growth outlook of NPAR savings for FY23E and has guided for ~25-30% share of NPAR savings in the mix. We expect the share of NPAR savings in the mix to moderate during the rest of FY23E and expect repricing in an increasing interest rate environment to result in moderation in VNB margins.

Financial summary

(INR mn)	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	FY21	FY22	FY23E	FY24E
NBP	56.0	33.5	67.2	66.6	-15.9	206.2	254.6	316.3	374.6
APE	29.0	16.2	78.8	41.3	-29.8	114.5	143.0	175.5	200.0
Adj. VNB	8.8	3.8	129.3	11.1	-20.6	26.6	37.0	50.0	57.8
Adj. VNBM (%)	30.4	23.7	670bps	26.9	351bps	23.2	25.9	28.5	28.9
EV						350.6	412.9	493.2	585.7
MCap/EV (x)						3.4	2.9	2.4	2.0
P/VNB (x)						34.4	22.7	15.6	12.1
RoEV(%)						27.7	18.3	20.1	19.6

Source: Company, HSIE Research

Change in estimates

(INR bn)	FY23E			FY24E		
	Revised	Old	Change % / bps	Revised	Old	Change % / bps
APE	175.5	168.4	4.2	200.0	192.6	3.9
VNB	50.0	44.7	11.8	57.8	51.9	11.3
VNBM (%)	28.5	26.6	193	28.9	27.0	193
EV	493.2	485.0	1.7	585.7	567.7	3.2

Source: Company, HSIE Research

BUY

CMP *(as on 28 Jul 2022)*	INR 1,191
Target Price	INR 1,660
NIFTY	16,930

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 1,530	INR 1,660
VNB %	FY23E	FY24E
	+11.8	+11.3

KEY STOCK DATA	
Bloomberg code	SBILIFE IN
No. of Shares (mn)	1,000
MCap (INR bn) / ($ mn)	1,192/16,018
6m avg traded value (INR mn)	1,414
52 Week high / low	INR 1,315/1,004

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	6.7	(1.2)	5.1
Relative (%)	7.8	(0.6)	(3.3)

SHAREHOLDING PATTERN (%)	Mar-22	Jun-22
Promoters	55.5	55.5
FIs & Local MFs	12.5	12.3
FPIs	24.2	23.9
Public & Others	7.9	8.3
Pledged Shares	Nil	Nil

Source : BSE

Krishnan ASV
venkata.krishnan@hdfcsec.com
+91-22-6171-7314

Sahej Mittal
sahej.mittal@hdfcsec.com
+91-22-6171-7325

SBI Cards and Payment Services

Strong performance; nearing steady state

SBI Cards reported a strong set of numbers, driven largely by a surge in spends (spends per card up 7% QoQ) and benign credit costs (net credit costs at 4% as COVID-related stress is largely over), leading to 7%/31% RoA/RoE. Business momentum continued to gain traction in terms of CIF (+19% YoY), unit spends (+54% YoY, 7% QoQ) and unit receivables (+14% YoY), driving stronger fees (+42% YoY). Share of revolving loans (26%) witnessed marginal uptick after the steep drop during COVID (38% to 25%), indicating portfolio re-leveraging, which in turn is likely to drive NIM reflation (13.2%). As per management, credit cards on UPI are likely to have a positive rub-off on the credit cards industry and SBI Card (~7% of CIF at RuPay network), although the operational guidelines are awaited. We tweak our FY23/FY24 earnings estimates by 1/2% to factor in better-than-expected traction in card spends, partially offset by lower-than-expected NIM reflation and maintain BUY with a revised target price of INR1,265 (38x FY24 EPS).

- **Unit spends drive strong earnings profile:** SBI Cards reported strong PPOP growth (+23% YoY) on the back of healthy fee income (+42% YoY) and improving cost efficiency. Unit spends grew +54% YoY, with the addition of new categories (rent, school fees, etc.), and sustained traction in corporate card spends (24% of total spends).
- **Gradual traction in balance sheet re-leveraging:** The share of revolve in the loan mix increased marginally QoQ from 25% to 26% (Q1FY22: 29%), helping arrest NIM compression. Re-leveraging of the cards portfolio has been slower than expected, reflecting consumers' conservative approach to credit after the pandemic—we expect the share of revolve to improve to 33% by Mar-24.
- **Reversion to steady state to drive high return ratios:** SBI Cards delivered RoA/RoE of 7/31% in Q1FY23 despite muted NII due to strong traction in unit spends and lower credit costs. With gradual re-leveraging of the portfolio, SBI Cards is poised to deliver >6% sustainable RoA by FY24 (better quality of earnings). While we ascribe a low probability to the RBI capping credit card MDRs (an overhang on the stock), we believe that SBI Cards has levers to offset its profitability in case of unfavourable regulations.

Financial summary

(INR bn)	Q1FY23	Q1FY22	*YoY (%)*	Q4FY22	*QoQ (%)*	FY21	FY22	FY23E	FY24E
NII	10.8	9.2	*16.7*	10.0	*8.0*	38.8	38.4	49.7	68.9
PPOP	12.9	10.5	*22.5*	11.7	*10.2*	39.6	44.3	55.5	72.7
PAT	6.3	3.0	*105.8*	5.8	*7.9*	9.8	16.2	22.7	31.1
EPS (INR)	6.6	3.2	*105.6*	6.1	*8.0*	10.5	17.2	24.1	33.0
ROAE (%)						16.9%	23.0%	26.0%	28.3%
ROAA (%)						4.0%	5.2%	5.8%	6.2%
ABVPS (INR)						64.2	79.9	99.7	126.8
P/ABV (x)						14.5	11.6	9.3	7.3
P/E (x)						88.7	54.1	38.7	28.2

Change in estimates

(INR bn)	FY23E			FY24E		
	Old	New	Change	Old	New	Change
Gross advances	403	398	-1.1%	515	522	1.4%
NIM (%)	13.7	13.6	-12 bps	14.6	14.7	10 bps
NII	50.1	49.7	-0.8%	68.4	68.9	0.8%
PPOP	55.6	55.5	-0.1%	71.7	72.7	1.4%
PAT	22.6	22.7	0.5%	30.7	31.1	1.6%
Adj. BVPS (INR)	100	100	0.1%	126	127	0.4%

Source: Company, HSIE Research

BUY

CMP *(as on 28 Jul 2022)*	INR 929
Target Price	INR 1,265
NIFTY	16,930

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 1246	INR1,265
EPS %	FY23E	FY24E
	0.5%	1.6%

KEY STOCK DATA	
Bloomberg code	SBICARD IN
No. of Shares (mn)	943
MCap (INR bn) / ($ mn)	876/11,777
6m avg traded value (INR mn)	1,596
52 Week high / low	INR 1,188/656

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	10.4	7.0	(8.7)
Relative (%)	11.5	7.6	(17.1)

SHAREHOLDING PATTERN (%)

	Mar-22	Jun-22
Promoters	69.6	69.6
FIs & Local MFs	12.4	16.2
FPIs	12.6	8.3
Public & Others	5.4	5.8
Pledged Shares	0	

Source : BSE

Pledged shares as % of total shares

Krishnan ASV
venkata.krishnan@hdfcsec.com
+91-22-6171-7314

Deepak Shinde
deepak.shinde@hdfcsec.com
+91-22-6171-7323

Neelam Bhatia
neelam.bhatia@hdfcsec.com
+91-22-6171-7341

Shree Cement

Fuel inflation negates robust pricing gain

We maintain our REDUCE rating on Shree Cement, with an unchanged SOTP target price of INR 20,200/share. In Q1FY23, the benefits of robust cement price increase in north/central regions (NSR up 10% QoQ) got negated by ~25% QoQ surge in energy costs and op-lev loss (vol down 7% QoQ). Unitary EBITDA fell 4% QoQ (down 27% YoY) to INR 1,091 per MT. The company expects energy inflation to continue in Q2 and expects some cool-off in Q3FY23. SRCM would be expanding its capacity to 56/80mn MT by FY25/30E (vs 46mn MT in FY22).

- **Q1FY23 performance:** Shree's standalone EBITDA came in line ours/consensus estimates. In Q1, volume fell 7% QoQ (seasonal fall) but rose 10% YoY (low base). Trade sales share increased to 84% vs 80% QoQ. NSR firmed up 10% QoQ on strong pricing in the north/central markets and rise in trade share. Opex went up 14% QoQ, driven by ~25% QoQ spike in fuel costs (to INR 2.65/Kcal) and op-lev loss. Thus, unitary EBITDA fell 27/4% YoY/QoQ to INR 1,091 per MT. Depreciation rose 41/9% YoY/QoQ on commissioning of 3/4mn MT SGU/clinker line-3 in Pune/Raipur in Q4FY22 respectively. Shree booked a loss of INR 1bn on investments (fair value through P&L), leading to negative other income of INR 216mn, denting the APAT. UAE subsidiary: While revenue grew 15% YoY (-20% QoQ) to INR 2.1bn, it reported an EBITDA loss of INR 180mn (vs +94mn YoY).
- **Capex update and outlook**: In FY23/24/25E, Shree will commission 3/4/3mn MT across West Bengal/Rajasthan/Andhra Pradesh respectively. These will increase its cement capacity to 56mn MT by FY25E. Shree is targeting to increase capacity to 80mn MT by FY30 (FY22 - 46mn MT). During FY23E, Shree will be commissioning 106MW solar power across plants and ~20MW WHRS at its Chhattisgarh (line-3 kiln) plant. We maintain our estimates for FY23/24E. We maintain our REDUCE rating on Shree, with an unchanged SOTP target price of INR 20,200/share, valuing its standalone cement business at 16.5x Mar-24E EBITDA and the UAE business at 1x BV.

Quarterly/annual financial summary (standalone)

YE Mar (INR bn)	Q1 FY23	Q1 FY22	YoY (%)	Q4 FY22	QoQ (%)	FY20	FY21	FY22	FY23E	FY24E
Sales Vol (mn MT)	7.50	6.84	*9.6*	8.03	*(6.6)*	24.93	26.84	27.74	30.09	32.51
NSR (INR/MT)	5,602	5,041	*11.1*	5,105	*9.7*	4,775	4,720	5,089	5,357	5,343
EBITDA (INR/MT)	1,091	1,481	*(26.3)*	1,134	*(3.8)*	1,474	1,483	1,315	1,017	1,195
Net Sales	42.03	34.49	*21.8*	40.99	*2.5*	119.04	126.69	141.16	161.22	173.70
EBITDA	8.19	10.14	*(19.2)*	9.11	*(10.1)*	36.75	39.80	36.48	30.61	38.86
APAT	3.16	6.62	*(52.3)*	6.45	*(51.1)*	15.70	23.12	23.77	14.86	19.55
AEPS (INR)	87.5	183.4	*(52.3)*	178.8	*(51.1)*	435.2	640.8	658.7	411.8	542.0
EV/EBITDA (x)						19.1	16.9	18.4	22.2	17.8
EV/MT (INR bn)						16.58	15.47	13.67	13.60	12.45
P/E (x)						46.8	31.8	30.9	49.5	37.6
RoE (%)						*13.9*	*16.4*	*14.6*	*8.3*	*10.2*

Source: Company, HSIE Research

REDUCE

CMP *(as on 28 Jul 2022)*	**INR 20,415**
Target Price	**INR 20,200**
NIFTY	**16,930**

KEY CHANGES	**OLD**	**NEW**
Rating	REDUCE	REDUCE
Price Target	INR 20,200	INR 20,200
EBITDA revision %	FY23E -	FY24E -

KEY STOCK DATA

Bloomberg code	SRCM IN
No. of Shares (mn)	36
MCap (INR bn) / ($ mn)	737/9,898
6m avg traded value (INR mn)	1,020
52 Week high / low	INR 31,470/17,865

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(21.1)	(15.4)	(25.7)
Relative (%)	(19.9)	(14.8)	(34.2)

SHAREHOLDING PATTERN (%)

	Mar-22	Jun-22
Promoters	62.55	62.55
FIs & Local MFs	11.16	11.23
FPIs	12.20	11.85
Public & Others	14.09	14.37
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

Rajesh Ravi
rajesh.ravi@hdfcsec.com
+91-22-6171-7352

Keshav Lahoti
keshav.lahoti@hdfcsec.com
+91-22-6171-7353

TVS Motors

Margin maintained in a difficult quarter

TVS' Q1 PAT, at INR 3.2bn, was ahead of our estimate of INR 2.4bn due to better-than-expected margin (flat QoQ at 10%), higher other income (INR 222mn vs INR 71mn in Q1), and lower tax rate of 25.8%. The fact that TVS has been able to maintain its margin at 10% in a difficult quarter highlights the underlying business resilience. In Q1, TVS has continued to outperform scooters and gained 330bps share to 24.9%. However, its 160bps market share loss in motorcycles is attributable to the chip shortage impact, which has hurt TVS (and BAL) more than peers in Q1. With supply issues now resolved, we expect TVS to continue its outperformance relative to peers on the back of its recent new launches, including Raider and Ronin. Even in EVs, it seems to be ahead of its listed peers with a strong product pipeline in place over the next 24 months and it has signed up with industry experts and JV partners to emerge a leading player in the industry. We maintain BUY with a revised TP of INR 1,030/sh (from INR 988 earlier) as we roll forward to June 24 earnings.

- **Q1 margin maintained in a difficult quarter:** TVS Q1 revenue grew 9% QoQ to INR 60bn (ahead of the estimate of INR 57bn) due to 5% growth in volume and 4% rise in average ASP. ASP rose QoQ despite supply constraints on its premium motorcycle models due to: (1) a price hike of 1.5% in Q1; (2) a sharp rise in scooters mix QoQ; and (3) favourable currency at USD-INR 76.5 from INR76 QoQ. As a result, TVS was able to maintain the margin at 10% - flat QoQ, which is commendable, given the sustained input cost pressure and the supply constraints on its premium mix. However, despite these headwinds, gross margin remained stable QoQ highlighting the underlying business resilience. It is pertinent to highlight that Bajaj Auto has seen 70-bps margin decline QoQ in Q1.
- **Call takeaways:** (1) Management expects domestic demand to pick up, given a normal monsoon and expectation of strong revival in festive demand. (2) Exports, however, is likely to see subdued demand in the near term, given sharp currency depreciation relative to USD in key emerging markets like Africa. (3) Management remains confident of outperforming in both domestic and export markets on the back of its new product launches. (4) Demand for its i-Qube continues to be strong and it has an order backlog of 20k units from 85 cities. It intends to ramp up supplies to 10k units in the coming months and later to 25k units. It is targeting to launch a slew of new EV products in the 5-25 kw range across segments. (5) TVS has tied up with alternate suppliers and, hence, expects production to normalise in the coming months. (6) Capex guidance for FY23 stands at INR7.5bn and another INR 4bn in subsidiaries (TVS CS + Norton). (7) TVS CS performance continues to impress with book size at INR154bn and NPAs sharply lower at 3.1%.

Quarterly/annual financial summary

YE Mar (INR mn)	Q1 FY23	Q1 FY22	YoY (%)	Q4 FY22	QoQ (%)	FY22	FY23E	FY24E	FY25E
Net Sales	60,087	39,344	52.7	55,303	8.7	2,07,905	2,52,181	2,75,882	3,02,327
EBITDA	5,995	2,738	119.0	5,568	7.7	19,617	24,825	30,899	34,768
APAT	3,205	768	317.5	2,734	17.2	9,237	12,726	16,769	19,604
Diluted EPS (INR)	6.7	1.6	317.5	5.8	17.2	19.4	26.8	35.3	41.3
P/E (x)						44.7	32.4	24.6	21.1
EV / EBITDA (x)						19.3	14.8	11.5	9.8
RoCE (%)						19.2	21.8	23.4	22.4

Source: Company, HSIE Research

BUY

CMP *(as on 28 Jul 2022)*	INR 871
Target Price	INR 1,030
NIFTY	16,930

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 988	INR 1030
EPS %	FY23E	FY24E
	0%	0%

KEY STOCK DATA	
Bloomberg code	TVSL IN
No. of Shares (mn)	475
MCap (INR bn) / ($ mn)	414/5,558
6m avg traded value (INR mn)	1,472
52 Week high / low	INR 899/495

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	27.8	44.6	51.2
Relative (%)	28.9	45.2	42.8

SHAREHOLDING PATTERN (%)	Mar-22	Jun-22
Promoters	50.81	50.81
FIs & Local MFs	17.53	19.76
FPIs	11.97	9.85
Public & Others	19.69	19.58
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

Aniket Mhatre
aniket.mhatre@hdfcsec.com
+91-22-6171-7357

Sonaal Sharma
sonaal.sharma@hdfcsec.com
+91-22-6171-7307

Jubilant FoodWorks

Weak underlying LFL; margin discipline continues

Jubilant revenue was a slight miss, but the EBITDA margin came in line. Revenue grew 10% on a three-year CAGR (HSIE 11%). Its like-for-like (LFL) growth stood at +28% YoY (HSIE +40%), while the three-year CAGR was a mere 3%. In our understanding, volume LFL three-year CAGR is down >2%. We believe that Q1 growth was primarily led by high store additions in the past few quarters. The company continued to expand, adding 58 stores for Domino's (reaching 349 cities, vs 337 in Q4). We model for 200 store additions in FY23 (guidance is of 250) as slow economic conditions and top level transitions will limit expansion. The key highlight of the quarter was sustaining the margin despite several headwinds, and both GM and EBITDA margin came in line. With better cost control, we increase our FY23 EPS by 2%, while maintaining it for FY24/25. Our target price is INR 500 (INR 470 for Domino's at 45x P/E on Jun-24E EPS + INR 30 for other initiatives). Maintain REDUCE.

- **Miss on revenue:** Net revenue was up 41% YoY (48% HSIE) to INR 12.4bn. LFL came in at +28% YoY (+120.4% in Q1FY22, +5.8% in Q4FY22). While the underlying LFL was weaker than expected, store expansion is supporting the overall revenue growth. OLO contribution to delivery stood at 97.7%, while app downloads stood at 8.2mn. Dine-in has not reached the pre-COVID level, and with a stable demand scenario, we expect recovery to sustain for Dine-in.

- **Store opening momentum continues:** Jubilant opened 58 Domino's stores in Q4FY22 vs. 20 opened in Q1FY22 and 207 in FY22 vs. 25 in FY21, a strong consistent addition. While Domino's store opening was strong, the combined closures of nine stores—Dunkin', Hong's Kitchen and Ekdum—raised questions about the unit economies of these initiatives. Popeye's continue to receive good consumer response, opening two new stores (six total count). The ambition of adding 250 Domino's and 20 Popeye's stores in FY23 was maintained.

- **Margin discipline continues:** GM contracted by 52bps YoY (-80bps in Q1FY22 and -56bps in Q4FY22) to 76.7% (HSIE 76.2%). The company had last taken price hikes in April and with RM costs stabilising, it would not require another round of price hikes. Employee/other expenses were up 16/47% YoY. EBITDA margin was at 24.6% (24.5% HSIE) vs. 24% in Q1FY22. EBITDA grew 44/12% YoY/three-year CAGR.
- **Call takeaways:** (1) The company's rollout of a loyalty program is in order to increase the frequency of existing customers and recruit new customers. A similar loyalty scheme saw success in the US. (2) The company maintains its stance on multi-country and multi-brand strategy. (3) In its Sri Lanka business, the company is witnessing order led growth despite challenges. (4) The company increased its stake in Bangladesh to 100%, which will help it accelerate its store expansion plan. (5) Due to high inflationary pressure, the company saw some decrease in ticket sizes, but on an overall basis, it saw growth in overall orders and ticket size.

Quarterly/annual financial summary

(INR mn)	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	FY22	FY23E	FY24E	FY25E
Net Sales	12,403	8,790	41.1	11,579	7.1	43,961	52,100	60,210	69,086
EBITDA	3,045	2,114	44.1	2,897	5.1	11,088	12,721	15,012	17,291
APAT	1,357	760	78.5	1,237	9.7	4,586	5,578	6,625	7,955
EPS (INR)	1.03	0.58	78.5	0.94	9.7	7.0	8.5	10.0	12.1
P/E (x)						81.3	66.9	56.3	46.9
EV / EBITDA (x)						44.7	38.0	31.3	26.3
RoCE (%)						28.4	30.6	35.6	40.7

Source: Company, HSIE Research

REDUCE

CMP *(as on 28 Jul 2022)*	INR 565
Target Price	INR 500
NIFTY	16,930

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 500	INR 500
EPS %	FY23E	FY24E
	+2%	0%

KEY STOCK DATA	
Bloomberg code	JUBI IN
No. of Shares (mn)	660
MCap (INR bn) / ($ mn)	373/5,014
6m avg traded value (INR mn)	2,767
52 Week high / low	INR 918/451

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	4.2	(14.4)	(22.8)
Relative (%)	5.4	(13.8)	(31.2)

SHAREHOLDING PATTERN (%)	Mar-22	Jun-22
Promoters	41.94	41.94
FIs & Local MFs	15.59	17.20
FPIs	31.87	29.80
Public & Others	10.63	11.06
Pledged Shares	0.70	0.77

Source : BSE

Pledged shares as % of total shares

Naveen Trivedi
naveen.trivedi@hdfcsec.com
+91-22-6171-7324

Varun Lohchab
varun.lohchab@hdfcsec.com
+91-22-6171-7334

Saras Singh
saras.singh@hdfcsec.com
+91-22-6171-7336

Nippon Life India Asset Management

Miss on core

Revenue was 3.8% below estimates as a result of pressure on revenue yields. Falling market share in the high-margin equity segment, at 6.2% (-17bps), was a double whammy in a falling equity yield environment. We expect NAM to focus on improving performance to recoup its lost market share. Additionally, we expect NAM to benefit from higher credibility to raise HNI/institutional capital. We lower our FY23E/24E earnings by 11%/ 5% to factor in lower margins and expect NAM to deliver FY22-24E revenue/NOPLAT CAGR of 9.3/12.1%. We maintain ADD on the stock with a reduced target price of INR365 (with a lower multiple at 27x Mar-24E EV/NOPLAT, following a derating in the AMC sector even as we roll forward our earnings).

- **Sharp drop in equity yields:** Revenue missed estimate at INR3.16bn (-6.5%QoQ), as revenue yields witnessed a sharp sequential decline of 2.5bps to 45.3bps despite the share of equity remaining stable in the mix partially offset by lower debt mix. We opine that NAM is facing high redemptions resulting in faster replacement of old book. On a positive note, NAM's SIP market share improved by 32bps sequentially to 6.3%. Admin/operating costs were significantly higher (+11% vs. estimates) on account of increased marketing dollars resulting in core operating profit at INR1.7bn (-14.3% QoQ). A sharp rise in interest rates coupled with ~10% hit on equity portfolio resulted in treasury income of (INR -167mn) vs. the estimate of INR250mn, leading to a lower APAT of INR 1.14bn (-35% QoQ).
- **Growth outlook and management commentary:** The management attributed (i) shifting portfolio mix towards low-yielding ultra-short-term and low-duration schemes within its fixed income portfolio and (ii) higher trail on new book as primary reasons for pressure on yields. While yields are expected to stay under pressure in the near-to-medium term, we believe elevated opex is expected to further dent core profitability.

Financial Summary

(INR bn)	Q1FY23	Q1FY22	YoY(%)	Q4FY22	QoQ(%)	FY21	FY22	FY23E	FY24E
Revenue	3.16	3.02	4.6	3.38	-6.5	10.6	13.1	13.9	15.6
Operating profits	1.71	1.69	1.3	2.00	-14.3	5.2	7.6	8.1	9.5
OP Margin (%)	54.5	56.3	-176bps	59.5	-498bps	48.9	58.1	58.2	61.1
APAT	1.14	1.82	-37.0	1.75	-34.6	6.8	7.4	7.3	9.1
EV/NOPLAT (x)						39.1	26.6	24.6	19.9
P/E (x)						26.6	24.3	24.9	19.9
ROE (%)						23.9	23.1	21.1	24.3

Source: Company, HSIE Research

Change in estimates

(INR bn)	FY23E			FY24E		
	Revised	Old	Change (%)	Revised	Old	Change (%)
Revenues	13.9	14.3	-3.3	15.6	16.1	-3.2
EBIT	8.1	8.6	-5.5	9.6	10.1	-5.1
EBIT margin (%)	58.5	59.8	-136bps	61.3	62.6	-124bps
NOPLAT	6.1	6.4	-5.5	7.2	7.6	-5.2
APAT	7.3	8.1	-10.7	9.1	9.5	-4.6
RoE (%)	21.1	23.4	-224bps	24.3	25.0	-64bps

Source: Company, HSIE Research

ADD

CMP *(as on 28 Jul 2022)*	INR 290
Target Price	INR 365
NIFTY	16,930

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 425	INR 365
EPS %	FY23E	FY24E
	-10.7%	-4.6%

KEY STOCK DATA

Bloomberg code	NAM IN
No. of Shares (mn)	623
MCap (INR bn) / ($ mn)	181/2,430
6m avg traded value (INR mn)	194
52 Week high / low	INR 477/259

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(9.2)	(13.6)	(27.0)
Relative (%)	(8.1)	(13.0)	(35.4)

SHAREHOLDING PATTERN (%)

	Mar-22	Jun-22
Promoters	73.8	73.7
FIs & Local MFs	8.8	9.3
FPIs	6.7	6.5
Public & Others	10.7	10.5
Pledged Shares	Nil	Nil

Source : BSE

Sahej Mittal
sahej.mittal@hdfcsec.com
+91-22-6171-7325

Krishnan ASV
venkata.krishnan@hdfcsec.com
+91-22-6171-7328

HDFC securities
INSTITUTIONAL RESEARCH

TTK Prestige

Subdued performance; bleak outlook

TTK Prestige's Q1FY23 revenue and EBITDA margin was a miss. Standalone revenue was up 68% YoY (HSIE 77%), clocking 11% three-year CAGR. The revenue growth was primarily led by strong performance in cookware, which was up 18% three-year CAGR. Gross margin contracted 257bps YoY to 42% (HSIE 41.5%). With carrying high cost inventory, we expect RM softening benefits will be majorly visible from Q3FY22. EBITDA margin came in at 13.8% (HSIE 15%). EBITDA was up 13% on three-year CAGR to INR 830mn (HSIE INR 951mn). Although home improvement and new housing theme is expected to sustain, we believe rising competition (renewed Butterfly under Crompton, etc.) will continue to keep earnings for TTK in check. As the earnings upcycle seems to be over, we cut our target multiple to 35x (37x earlier). Further, we cut our FY23/24/25 EPS by 4% each. With limited upside, we downgrade our rating to REDUCE from ADD, with a revised TP of INR 940.

- **Miss on revenue in Q1, after consistent recent history:** Revenue grew by 68% YoY (+71% in Q1FY22 and +17% in Q4FY22). Domestic sales were up 72%, while exports grew 9% YoY. All channels were active during the quarter, though ecommerce was going through a churn with various regulatory requirements as well as re-emergence of offline channels and inventory build-up at the channel level. TTK introduced 25 new SKUs in Q1 across all categories, with plans to add 40 new SKUs in Q2FY23. Prestige Xclusive chain is at 666 stores in 377 towns. Cookers, cookware, and appliances grew +87%, 53%, and 59% YoY (+80/+95/+62% in Q1FY22 and +26/6/15% in Q4FY22). We build 10% revenue CAGR over FY19-24E.
- **Margin under pressure; EBITDA margin to sustain at 15%:** Gross margin contracted by 257bps YoY (+402bps in Q1FY22, -501bps in Q4FY22) to 42%. Gross profit came in at INR 2.5bn, below our expectation of INR 2.6bn. Employee/other expenses grew by 10/60% YoY. EBITDA margin expanded 288bps YoY (+715bps in Q1FY22 and -213bps in Q4FY22) to 13.8%. EBITDA was at INR 830mn (HSIE INR 951mn). PAT came in at INR 576mn (HSIE INR 691mn). We build in 14% EBITDA CAGR over FY19-24E.
- **Con call takeaways:** (1) Demand expected to remain stable, going ahead; however, on a high base, Q2FY23 revenue is expected to show weakness. (2) The mass end of the product is struggling while premium is performing well. (3) The company did not take any additional price hikes, especially with the RM pressure easing out. (4) It expects GM should have the full benefits of the RM easing as inventory would have been consumed. (5) Operating costs are higher as A&P have normalised (low base) and travelling and other costs have been restored. (6) Horwood had seen a strong topline and bottom line performance in FY22; however, in this year, it is impacted by many external challenges. (7) It expects double-digit growth in H2FY23 if there are no external challenges. (8) Sustainable EBITDA margin is ~15%.

Quarterly/annual financial summary

YE Mar (INR mn)	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	FY22	FY23E	FY24E	FY25E
Net Sales	5,997	3,569	68.0	6,476	(7.4)	27,225	30,458	33,212	36,250
EBITDA	830	391	112.3	1,058	(21.6)	4,259	4,541	5,029	5,536
APAT	576	272	112.0	792	(27.2)	3,054	3,255	3,653	4,037
Diluted EPS (INR)	41.6	19.6	112.0	57.1	(27.2)	22.0	23.5	26.4	29.1
P/E (x)						40.4	37.9	33.8	30.6
EV / EBITDA (x)						27.2	25.1	22.3	19.9
RoCE (%)						31.0	31.7	32.0	32.2

Source: Company, HSIE Research

REDUCE

CMP *(as on 28 Jul 2022)*	INR 895
Target Price	INR 940
NIFTY	16,930

KEY CHANGES	OLD	NEW
Rating	ADD	REDUCE
Price Target	INR 1,050	INR 940
EPS %	FY23E	FY24E
	-4%	-4%

KEY STOCK DATA	
Bloomberg code	TTKPT IN
No. of Shares (mn)	139
MCap (INR bn) / ($ mn)	124/1,667
6m avg traded value (INR mn)	128
52 Week high / low	INR 1,270/745

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	4.9	(6.0)	1.3
Relative (%)	6.0	(5.4)	(7.1)

SHAREHOLDING PATTERN (%)	Mar-22	Jun-22
Promoters	70.41	70.41
FIs & Local MFs	13.19	13.50
FPIs	9.30	8.92
Public & Others	7.10	7.17
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

Naveen Trivedi
naveen.trivedi@hdfcsec.com
+91-22-6171-7324

Saras Singh
saras.singh@hdfcsec.com
+91-22-6171-7336

V-Guard Industries

Mixed bag

V-Guard delivered a mixed bag performance, revenue growing by 80% YoY to INR 10bn (HSIE 9.3bn), while EBITDA margin saw a miss. Net revenue registered 13% three-year CAGR, driven by 16/25% for electricals/CD segments. Electronics segment was up only 2%. Summer season products (stabilizer and fans) saw strong demand, while channel inventory has normalised now. Both south and non-south delivered healthy revenue growth of 12/14% three-year CAGR. Gross margin, at 30% (in-line), was down >300bps YoY due to high cost RM. EBITDA margin was at 8.1% (HSIE 10.3%), the miss on account of continued marketing spend and higher employee costs. With impact of commodity price fluctuation on demand and margin, on top of V-Guard's limited pricing power in the non-south region, we see a risk on V-Guard's EBITDA delivery in the coming quarters. Thereby, we cut our target multiple to 30x (35x earlier). Further, we cut our FY23/24/25 EPS by 5/3/3%. With a limited upside, we downgrade our rating to REDUCE from ADD, with a revised TP of INR 235.

- **Strong topline performance:** Revenue grew by 80% YoY (+38% in Q1FY22 and +24% in Q4FY22, 66% HSIE) and 13% on three-year CAGR. Electronics (stabilizer, UPS, etc.), electrical (wires, pump, etc.), and consumer durables (fan, water heater, KEA, etc.) registered 91/62/100% YoY growth. The south region grew 68% YoY (12%, a three-year CAGR) while the non-south region registered 96% YoY growth (14%, a three-year CAGR). South: non-south mix was at 53:47 (57:43 in Q1FY21). We model 13% revenue CAGR for FY22-25E.
- **Miss on margin:** Gross margin contracted 327bps YoY (+380bps in Q1FY22, -268bps in Q4FY22, HSIE -302bps) to 29.8%. A&P expenses, as a percentage of revenue, stood at 2.1% vs. 2.5% YoY. Employee costs were up by 35% YoY (+5% in Q1FY22, +11% in Q4FY22) while other expenses were up 65% YoY. EBITDA margin was up by 38bps YoY (+550bps in Q1FY21, -240bps in Q4FY22) to 8.1%. EBITDA was up 89% vs. our expectation of 120%. EBIT margin for electronics, electricals and consumer durable segment expanded by 148/-258/521bps YoY (+625/+637/+622bps in Q1FY22) to 14.5/6.8/1.3%. We model 18% EBITDA CAGR for FY22-25E.
- **Con call takeaways:** (1) Consumer demand remained strong despite the inflation. (2) The company took 3% price hikes at the start of Q1; with commodity price easing, most of the costs are now covered. (3) Fans continued its momentum until June, post which it saw season-led slowdown. (4) It expects margin normalising from Q3FY23. (5) The company took INR 100mn of write-off on account of sharp copper price correction. (6) CD margin expects to improve from Q2 onwards with a higher share of water heater sales kicking in, which is a high-margin business. (7) The company expects to get back to 32% gross margin (pre-COVID), going forward.

Quarterly/annual financial summary

YE Mar (INR mn)	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	FY22	FY23E	FY24E	FY25E
Net Sales	10,096	5,607	80.1	10,503	(3.9)	34,747	40,445	44,707	49,893
EBITDA	819	434	88.9	1,108	(26.1)	3,321	4,041	4,657	5,232
APAT	540	246	119.3	906	(40.4)	2,268	2,786	3,319	3,734
Diluted EPS (INR)	1.25	0.57	118.7	2.10	(40.4)	5.26	6.46	7.69	8.65
P/E (x)						42.6	34.7	29.1	25.9
EV / EBITDA (x)						28.8	22.8	19.5	17.1
RoCE (%)						18.5	20.7	25.3	26.5

Source: Company, HSIE Research

REDUCE

CMP *(as on 28 Jul 2022)*	INR 224
Target Price	INR 235
NIFTY	16,930

KEY CHANGES	OLD	NEW
Rating	ADD	REDUCE
Price Target	INR 285	INR 235
EPS %	FY23E	FY24E
	-5%	-3%

KEY STOCK DATA	
Bloomberg code	VGRD IN
No. of Shares (mn)	432
MCap (INR bn) / ($ mn)	97/1,299
6m avg traded value (INR mn)	102
52 Week high / low	INR 275/181

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	5.8	4.1	(9.6)
Relative (%)	7.0	4.7	(18.0)

SHAREHOLDING PATTERN (%)	Mar-22	Jun-22
Promoters	55.88	55.88
FIs & Local MFs	17.31	18.10
FPIs	12.67	12.39
Public & Others	14.14	13.63
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

Naveen Trivedi
naveen.trivedi@hdfcsec.com
+91-22-6171-7324

Saras Singh
saras.singh@hdfcsec.com
+91-22-6171-7336

Mahindra Lifespaces

Outperformance continues

Mahindra Lifespaces Developers Ltd (MLDL) reported the highest-ever quarterly presales of INR 6bn (+3x/+1.8x, YoY/QoQ), with volume of 0.65msf (+2.6x/+1.7x, YoY/QoQ) on the back of robust response to new launches that contributed 75% to presales. The IC&IC segment also saw strong performance, with 42acres leased in MWC Jaipur for INR 1.2bn(+8x/+1.7x YoY/QoQ). The EV and renewable industry is driving the demand here. MLDL has a strong BD pipeline of INR 50bn, with INR 10bn worth of projects in advanced stages of conclusion by Q2FY23. It is expecting the first society redevelopment project within this fiscal year. New launches for the remaining part of the year are expected at INR 12-15bn, with INR 5bn each from Kandivali and Pimpri lands. In Q1FY23, INR 2.4bn was paid for land acquisition, despite which the residential segment has net debt of INR 10mn. Residual land payment stands at INR 4bn. Given the tailwinds in industrial business, the upcycle in residential business, a robust balance sheet, trustworthy brand image, and a robust business development pipeline, we remain constructive on MLDL and maintain a BUY rating, with an unchanged NAV-based TP of INR 521/sh.

- **Q1FY23 highlights:** Revenue: INR 946mn (-36/-42% YoY/QoQ, a miss of 45%). EBITDA came in at INR (320)mn ((242)/(357)mn in Q1FY22/Q4FY22, vs INR (135)mn estimate). RPAT came in at INR 754mn (INR -139/+1.4bn Q1FY22/Q4FY22). There was an impairment reversal of INR 338m. APAT, after reversing the impact of other income and exceptional gain came in at INR 371mn (INR (139)/(81)mn Q1FY22/Q4FY22) vs INR 106mn est.
- **Highest-ever quarterly presales, strong traction in leasing:** MLDL recorded the highest-ever quarterly presales of INR 6bn (+3x/+1.8x Q1FY22/Q4FY22), with volume at 0.65msf (+2.6x/+1.7x Q1FY22/Q4FY22). Presales were supported by new launches and robust sustenance sales. New project launches, viz. Mahindra Eden in Bengaluru and Luminaire in Gurgoan, contributed 75% to presales. Total new launches during the quarter including new phases were at 1.05msf (nil/0.96msf in Q1FY22/Q4FY22). MLDL expects to launch Kandivali and Pimpri projects during H2FY23, while the Dahisar and Ghodbunder projects are expected to hit the market in Q1FY24. Within IC&IC, the company leased 42.3acres for INR 1.2bn in MWC Jaipur, with strong demand from EV and renewables industry. With the pipeline building in Chennai, it is expected to show significant change in trajectory in the next two quarters.
- **Robust BD pipeline:** MLDL has a BD pipeline of INR 50bn, of which INR 10bn may get finalised in Q2/Q2FY23. 20%/40%/40% of the BD is expected for Bengaluru/Mumbai/Pune. MLDL's first society redevelopment project is expected in FY23. The balance 9MFY23 planned launches are pegged at INR 12-15bn for FY23, of which INR 4.5-5bn of inventory is expected to come from Pimpri while INR 5bn is expected from the Kandivali land. Residential net debt stood at INR 10mn, with net D/E at 0.0x (vs Rs -1.5bn at -0.1x in Q4FY22) and industrial net debt stood at INR 3.03bn, with net D/E at 0.34x (vs INR 3.14bn at 0.35x in Q4FY22). MLDL acquired 2.1msf of land in Pimpri, with GDV potential of INR 17bn. It has an annual GDV addition target of INR 20-25bn.

Consolidated financial summary (INR mn)

YE March (INR mn)	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	FY21	FY22	FY23E	FY24E
Net Sales	946	1,482	(36.2)	1,618	(41.5)	1,663	3,936	7,663	10,171
EBITDA	(320)	(242)	(32.2)	(357)	10.4	(935)	(895)	143	384
APAT	371	(139)	367.7	(81)	558.4	(717)	173	1,318	1,660
Diluted EPS (INR)	2.4	(0.9)	367.7	(0.5)	558.4	(4.6)	1.1	8.5	10.7
P/E (x)						(87.7)	363.1	47.7	37.9
EV / EBITDA (x)						(68.4)	(70.9)	450.6	169.2
RoE (%)						(3.6)	13.9	14.2	16.2

Source: Company, HSIE Research

BUY

CMP *(as on 28 Jul 2022)*	INR 407
Target Price	INR 521
NIFTY	16,930

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 521	INR 521
	FY23E	FY24E
EPS Change %	-	-

KEY STOCK DATA	
Bloomberg code	MLIFE IN
No. of Shares (mn)	155
MCap (INR bn) / ($ mn)	63/846
6m avg traded value (INR mn)	119
52 Week high / low	INR 458/219

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	9.9	64.7	57.8
Relative (%)	11.1	65.3	49.4

SHAREHOLDING PATTERN (%)

	Mar-22	Jun-22
Promoters	51.33	51.33
FIs & Local MFs	18.81	18.92
FPIs	9.77	10.6
Public & Others	20.09	19.15
Pledged Shares	-	-

Source: BSE

Parikshit D Kandpal, CFA
parikshitd.kandpal@hdfcsec.com
+91-22-6171-7317

Manoj Rawat
manoj.rawat@hdfcsec.com
+91-22-6171-7358

Nikhil Kanodia
nikhil.kanodia@hdfcsec.com
+91-22-6171-7362

JK Lakshmi Cement

Costs firm up; healthy pricing is a breather

We maintain our BUY rating on JK Lakshmi Cement (JKLC) with an unchanged target price of INR 680/share (8x Mar-24E consolidated EBITDA). We hold on to our thesis: its current low gearing and healthy cash flow would support its planned Udaipur expansion, without stressing its balance sheet and keeping the ROE buoyant. In Q1FY23, while the company witnessed robust pricing QoQ, the same proved insufficient to pass on the soaring fuel price increase and unitary EBITDA cooled off to INR 847 per MT (-14% QoQ). Net debt on books remained flattish QoQ, even as its Udaipur plant expansion has gained pace (due for commissioning in FY24 end). Mr Arun Shukla has been inducted to the board of directors and elevated to CEO of the company after the retirement of Mr Sushil Wali and Mr Shailesh Chouksey w.e.f. Aug-22.

- **Q1FY23 performance:** While consolidated sales volume fell 8% QoQ (seasonal impact), it grew 7% YoY on a low base. NSR jumped 16/12% YoY/QoQ, mainly led by healthy pricing gain across north markets and owing to the increased share of non-cement revenue and fall in clinker sales. Adjusted for both these, grey cement NSR rose ~8/10% YoY/QoQ, in our view. JKLC's increased usage of imported coal (at the expense of lower-cost pet coke) drove up its fuel costs by 30% QoQ, negating the robust pricing gain, moderating unitary EBITDA to INR 847/MT (down 7/14% YoY/QoQ).
- **Outlook**: Fuel cost is expected to rise by above 20% QoQ in Q2 due to increased dependence on imported coal. The company expects a cool-off from Q3 onwards. The company is targeting to expand the share of trade sales from 55% in FY22 to 60% by the end of FY23, increase sales of premium cement and also reduce its lead distance, all of which should help cushion the impact of energy inflation. Construction work for the Udaipur plant has started and the company expects the integrated plant to be commissioned by FY24 end. Capex estimate for this project remains unchanged at INR 16.5bn: of this, the company has spent INR 3.5bn so far and the rest will be spread over until FY24. JKLC's capacity will increase to 16mn MT on full commissioning of this project (18% increase over FY22) and boost its volume growth from FY25 onwards. We maintain our earnings estimates for FY23/24E. In our view, JKLC's consolidated net debt/EBITDA should remain comfortable under 1.5x, despite this expansion.

Quarterly/annual financial summary (consolidated)

YE Mar (INR bn)	Q1 FY23	Q1 FY22	*YoY (%)*	Q4 FY22	*QoQ (%)*	FY20	FY21	FY22	FY23E	FY24E
Sales (mn MT)	3.03	2.83	*7.3*	3.29	*(7.9)*	9.72	10.45	11.20	11.98	12.94
NSR (INR/MT)	5,456	4,692	*16.3*	4,861	*12.2*	4,490	4,524	4,840	5,130	5,207
EBITDA(INR/MT)	847	914	*(7.3)*	987	*(14.1)*	821	898	849	813	843
Net Sales	16.54	13.26	*24.8*	16.00	*3.4*	43.64	47.27	54.20	61.47	67.39
EBITDA	2.57	2.58	*(0.5)*	3.25	*(20.9)*	7.98	9.39	9.51	9.74	10.91
APAT	1.11	1.31	*(15.4)*	2.38	*(53.2)*	2.78	4.43	4.91	4.69	5.42
AEPS (INR)	9.4	11.2	*(15.4)*	17.9	*(47.2)*	23.6	37.7	41.7	39.8	46.1
EV/EBITDA (x)						8.3	6.4	6.1	6.0	5.8
EV/MT (INR bn)						5.00	4.51	4.21	4.20	4.24
P/E (x)						18.5	11.6	10.5	11.0	9.5
RoE (%)						*17.6*	*23.4*	*21.1*	*16.7*	*16.4*

Source: Company, HSIE Research

BUY

CMP *(as on 28 Jul 2022)*	INR 437
Target Price	INR 680
NIFTY	16,930

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 680	INR 680
EBITDA revision %	FY23E *0.0*	FY24E *0.0*

KEY STOCK DATA	
Bloomberg code	JKLC IN
No. of Shares (mn)	118
MCap (INR bn) / ($ mn)	51/691
6m avg traded value (INR mn)	199
52 Week high / low	INR 816/366

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(2.8)	(22.5)	(39.8)
Relative (%)	(1.6)	(21.9)	(48.2)

SHAREHOLDING PATTERN (%)

	Mar-22	Jun-22
Promoters	46.31	46.31
FIs & Local MFs	25.87	25.21
FPIs	12.29	12.14
Public & Others	15.54	16.35
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

Rajesh Ravi
rajesh.ravi@hdfcsec.com
+91-22-6171-7352

Keshav Lahoti
keshav.lahoti@hdfcsec.com
+91-22-6171-7353

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	Nestle India, Jubilant FoodWorks	PGDM	NO
Naveen Trivedi	Nestle India, Jubilant FoodWorks, TTK Prestige, V-Guard Industries	MBA	NO
Saras Singh	Nestle India, Jubilant FoodWorks, TTK Prestige, V-Guard Industries	PGDM	NO
Krishnan ASV	SBI Life Insurance, SBI Cards and Payment Services, Nippon Life India Asset Management	PGDM	NO
Sahej Mittal	SBI Life Insurance, Nippon Life India Asset Management	ACA	NO
Deepak Shinde	SBI Cards and Payment Services	PGDM	NO
Neelam Bhatia	SBI Cards and Payment Services	PGDM	NO
Rajesh Ravi	Shree Cement, JK Lakshmi Cement	MBA	NO
Keshav Lahoti	Shree Cement, JK Lakshmi Cement	CA	NO
Aniket Mhatre	TVS Motors	MBA	NO
Sonaal Sharma	TVS Motors	MBA	NO
Parikshit Kandpal	Mahindra Lifespaces	CFA	YES
Manoj Rawat	Mahindra Lifespaces	MBA	NO
Nikhil Kanodia	Mahindra Lifespaces	MBA	NO

Disclosure:

Authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. SEBI conducted the inspection and based on their observations have issued advise/warning. The said observations have been complied with. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Research Analyst or his/her relative or HDFC Securities Ltd. does not have any financial interest in the subject company. Also Research Analyst or his relative or HDFC Securities Ltd. or its Associate may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Further Research Analyst or his relative or HDFC Securities Ltd. or its associate does not have any material conflict of interest.

Any holding in stock –**YES**

HDFC Securities Limited (HSL) is a SEBI Registered Research Analyst having registration no. INH000002475.

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

HDFC Securities Limited, SEBI Reg. No.: NSE, BSE, MSEI, MCX: INZ000186937; AMFI Reg. No. ARN: 13549; PFRDA Reg. No. POP: 11092018; IRDA Corporate Agent License No.: CA0062; SEBI Research Analyst Reg. No.: INH000002475; SEBI Investment Adviser Reg. No.: INA000011538; CIN - U67120MH2000PLC152193

HDFC securities

Institutional Equities

Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,

Senapati Bapat Marg, Lower Parel, Mumbai - 400 013

Board: +91-22-6171-7330 www.hdfcsec.com