INSTITUTIONAL RESEARCH

HSIE Results Daily

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Results Reviews

- **Larsen & Toubro:** Larsen & Toubro (LT) reported Q4FY23 revenue/EBITDA/APAT at INR 583.4/68.3/39.9bn, in line/(missing) with our estimates by 0.1/(8.4)/(7.5)% respectively. EBITDA margin: 11.7% (-65/+78bps YoY/QoQ) vs. our estimate of 12.8%. The margin was impacted largely by higher input prices in projects and manufacturing portfolio. The Hyderabad metro saw ridership improving to 408k per day from 394k per day in Q3FY23. The consolidated net D/E stood at 0.81x as of Mar'23, similar to the Dec'22 level. The FY23 NWC to sales ratio (ex-off financial services business) was at a five-year low level of 16.1%. Given: (1) the record-high order book (OB) of INR 4tn and order inflows (OI) of INR 2.3tn; (2) bottoming out of infra margins; (3) improvement in subsidiary performance; (4) improvement in net working capital levels; and (5) pick-up in private and public capex in coming years, we have increased the standalone multiple to 24x, from 23x. We maintain a BUY on the stock with an increased TP of INR 2,724/sh (24x core Mar-25 EPS).
- **SRF:** We retain our ADD rating on SRF, with a target price of INR 2,788 on the back of (1) continued healthy performance from the speciality chemicals business; (2) strong balance sheet; and (3) deployment of capex for high-growth speciality chemicals business over the next 3-4 years to tap opportunities emerging from the agrochemical and pharma industries. Q4 EBITDA/APAT were in line with our estimates.
- **Apollo Tyres:** Apollo Tyres' consolidated earnings, at INR 4.1 bn, beat our estimate of INR 3.3bn, led by better-than-expected performance, both in India and Europe. In India, Apollo continues to work on profitable growth that has seen it raise prices ahead of the industry. Its focus on profitable growth is also visible in the fact that Apollo has let go of some market share in the PCR segment to maintain pricing. As a result, its operating performance has been well ahead of its Indian peers. In Europe, it continues to increase its share of UHP tyres whose mix now stands at 43% and it also continues to outperform the PCR segment, in a difficult demand environment. Going ahead, in India, management expects to post high single to low double-digit revenue growth, largely volume led. Pricing discipline is likely to sustain as no new major capacity is expected to come on stream in the near term and input costs remain low. Also, while the demand outlook in Europe remains challenging, management is confident of maintaining its operating performance, given benign input costs. Further, management expects to hit the mid-term RoCE target of 15% in FY24 itself, provided operating conditions remain favourable. Reiterate ADD with a revised TP of INR394/sh (from INR 349 earlier) as we roll forward to FY25 EPS.
- **Kansai Nerolac:** Kansai Nerolac's (KNPL) standalone revenue grew 13.6% to INR 16.1bn (four-year CAGR: 9%; HSIE: INR16.2bn). The industrial segment continues to drive performance, backed by strong automotive demand. KNPL's decorative market share is estimated at 9-10%; it has lost its share in the past three years. Management intends to fix this by filling up white spaces in the portfolio via its new premium product (paint + range). GM expanded 359/136bps YoY/QoQ to 31.6% as (1) previous price hikes caught up with RM inflation (esp on the industrial side); (2) there is rising salience of premium

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products in the mix; and (3) input costs are moderating. Despite the sequential GM improvement, EBITDAM declined 148bps as management flexed the marketing lever to gain lost ground in the decorative segment (EBITDAM: 9.5% vs HSIE: 9.7%). We reduce FY24/25 EPS estimates by 3.3/4.1% to account for higher marketing spending needed to fend off competition and regain market share in decorative. Maintain our BUY rating with an unchanged DCF-based TP of INR500/sh (implying 32x Jun-25 P/E).

- **Nuvoco Vistas Corporation:** We maintain BUY on Nuvoco Vistas, with a lower TP of INR 475/share (10x its consolidated Mar-25E EBITDA). In Q4FY23, Nuvoco's sales volume recovered 16% QoQ but NSR fell 2% QoQ. However, as cement opex too decreased by 5% QoQ (cool-off in fuel cost and op-lev gain), unitary EBITDA recovered by INR 130 per MT QoQ to INR 750 per MT. Nuvoco reduced its debt on books in FY23 and remains committed to reducing gearing before taking up the south expansion.
- **Mahanagar Gas:** Our ADD recommendation on Mahanagar Gas (MGL) with a target price of INR 1,170 is premised on (1) lower volume growth compared to peers and (2) long-term volume growth visibility remaining low since no new geographical areas (GA) were won in the 9/10/11th round of CGD bids. However, their recent acquisition of Unison Enviro's (UEPL) three GAs remains a key monitorable. Q4FY23 EBITDA, at INR 3.9bn, and APAT, at INR 2.7bn, came well above our estimates, owing to higher-than-expected realisation and lower opex. Volumes came broadly in line.
- **Birla Corporation:** We maintain our BUY rating on Birla Corporation (BCORP), with an unchanged target price of INR 1,310/share (8.5x Mar-25E consolidated EBITDA). We continue to like BCORP for its large retail presence in the lucrative north/central regions. We expect a recovery in margins as Mukutban ramps up and it starts accruing its incentive benefit from H2FY24 onwards. Unitary EBITDA improved by INR 235 per MT QoQ in Q4FY23 to INR 600 per MT, aided by higher volume, Mukutban loss reduction, and better realisation. With no major near-term Capex, gearing should reduce from FY24 onwards.

Larsen & Toubro

Record high inflow; strong NWC management

Larsen & Toubro (LT) reported Q4FY23 revenue/EBITDA/APAT at INR 583.4/68.3/39.9bn, in line/(missing) with our estimates by 0.1/(8.4)/(7.5)% respectively. EBITDA margin: 11.7% (-65/+78bps YoY/QoQ) vs. our estimate of 12.8%. The margin was impacted largely by higher input prices in projects and manufacturing portfolio. The Hyderabad metro saw ridership improving to 408k per day from 394k per day in Q3FY23. The consolidated net D/E stood at 0.81x as of Mar'23, similar to the Dec'22 level. The FY23 NWC to sales ratio (ex-off financial services business) was at a five-year low level of 16.1%. Given: (1) the record-high order book (OB) of INR 4tn and order inflows (OI) of INR 2.3tn; (2) bottoming out of infra margins; (3) improvement in subsidiary performance; (4) improvement in net working capital levels; and (5) pick-up in private and public capex in coming years, we have increased the standalone multiple to 24x, from 23x. We maintain a BUY on the stock with an increased TP of INR 2,724/sh (24x core Mar-25 EPS).

- **Financial highlights:** LT posted revenue of INR 583.4bn (+10.4/+25.8% YoY/QoQ), in line with our estimate. EBITDA came in at INR 68.3bn (+4.8/+34.7% YoY/QoQ), a miss of 8.4%. EBITDA margin: 11.7% (-65/+78bps YoY/QoQ) vs. our estimate of 12.8%. The margin was impacted largely by higher input prices in projects and manufacturing portfolios. APAT: INR 39.9bn (+10.1/+65% YoY/QoQ), a miss of 7.5%. From Q4FY23 onwards, profit from L&T IDPL is not consolidated as the investment in the JV has been moved to assets held for sale. LT has guided for FY24 consolidated revenue to grow 12-15% YoY with projects and manufacturing business margin expected to expand by 40-50bps to ~9% with marked improvement in H2FY24 as compared to H1FY24.
- **Turnaround story for Nabha Power/Hyderabad metro projects:** The margin profile of the entire development projects segment improved due to a higher PLF factor for the Nabha Power project and better average ridership for the Hyderabad metro project. The average ridership for the Hyderabad metro project was 408k per day (+2.1x/+4% YoY/QoQ), which led to an EBITDA margin of 41.6% vs. 40% in Q3FY23. The average ridership for FY23 was 361k per day (+2.3x YoY).
- **Well-diversified and an all-time high inflow and OB:** LT registered an OI of INR 761bn in Q4FY23, taking the FY23 OI to INR 2.3tn, surpassing its FY23 guidance of INR 2.2tn. In FY23, 62.5/37.5% of OI came from the domestic/international market. With this, the OB at the end of Mar'23 is at an all-time high of INR 4tn, with infrastructure at 71%, constituting a major share of it, followed by energy/ hi-tech manufacturing/others at 18/7/4%. Geography-wise, domestic/Middle-East/Other orders contribute 72/24/4% to OB. 1% of the outstanding orders are slow-moving. LT has guided for FY24 OI to grow at 10-12% YoY.
- **Stronger balance sheet:** At the consolidated level, gross/net debt stood at INR 1,186/605bn as of Mar'23 vs. INR 1,247/743bn as of Dec'22, with net D/E at 0.81x as of Mar'23, similar to the Dec'22 level. The FY23 NWC to sales ratio (ex-off financial services business) was at a five-year low level of 16.1% (FY23 guidance 16-18%).

Consolidated financial summary (INR mn)

Particulars	4QFY23	4QFY22	YoY (%)	3QFY23	QoQ (%)	FY22	FY23	FY24E	FY25E
Revenues	5,83,352	5,28,507	10.4	4,63,897	25.8	15,65,212	18,33,407	21,06,762	23,95,765
EBITDA	68,329	65,205	4.8	50,730	34.7	1,82,173	2,07,621	2,46,682	2,84,989
APAT	39,868	36,207	10.1	24,169	65.0	85,724	1,03,348	1,27,887	1,55,728
EPS (INR)	28.4	25.8	10.1	17.2	65.0	61.1	73.7	91.2	111.0
P/E (x)						38.7	32.1	25.9	21.3
EV/EBITDA(x)						22.3	20.6	16.9	14.1
RoE (%)						10.8	12.0	13.8	15.5

Source: Company, HSIE Research

BUY

CMP *(as on 10 May 23)*	INR 2,364
Target Price	INR 2,724
NIFTY	18,315

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 2,622	INR 2,724
	FY24E	FY25E
EPS change %	-	-

KEY STOCK DATA	
Bloomberg code	LT IN
No. of Shares (mn)	1,405
MCap (INR bn) / ($ mn)	3,323/40,635
6m avg traded value (INR mn)	4,475
52 Week high / low	INR 2,416/1,456

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	9.3	19.6	47.0
Relative (%)	7.2	17.4	33.2

SHAREHOLDING PATTERN (%)	Dec-22	Mar-23
Promoters	0.0	0.0
FIs & Local MFs	39.89	38.77
FPIs	23.24	24.48
Public & Others	36.87	36.75
Pledged Shares	0.0	0.0

Source: BSE

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SRF

In-line performance

We retain our ADD rating on SRF, with a target price of INR 2,788 on the back of (1) continued healthy performance from the speciality chemicals business; (2) strong balance sheet; and (3) deployment of capex for high-growth speciality chemicals business over the next 3-4 years to tap opportunities emerging from the agrochemical and pharma industries. Q4 EBITDA/APAT were in line with our estimates.

- **Chemicals business (CB):** Revenue/EBIT grew 34/47% YoY to INR 21/7bn. During Q4, the fluorochemicals business performed exceedingly well owing to higher volumes in the refrigerants, blends and the Dymel® HFA 134a/P propellants segments. In the chloromethanes segment, higher volumes from the new CMS plant augmented the overall results. The PTFE facility is expected to be commissioned in Q1FY24. The speciality chemicals business also performed very well on account of the strong demand for flagship products and downstream derivatives. SRF launched six new products, four in agrochemical and two in the pharma segment in its speciality chemicals business in FY23. SRF is planning to launch seven new agrochemical intermediates in the next two years. SRF is also planning on venturing into CRAMS/CDMO business and increasing its pharmaceutical exposure by considering both organic and inorganic growth strategies.
- **Packaging films business (PFB)**: Revenue/EBIT fell 17/85% YoY to INR 12/0.4bn on account of strong headwinds faced by the business with significant pressure on margins in Q4FY23. 10 new products were commercialised during the year (four in BOPET and six in BOPP).
- **Technical textiles business (TTB)**: Revenue/EBIT fell 13/47% YoY to INR 4/0.5bn. During Q4, the business witnessed volume growth in the nylon and polyester industrial yarn segments, partially offsetting low sales of NTCF.
- **Change in estimates:** We cut our FY24/25 EPS estimates by 10.7/7.4% to INR 80.1/99.4 to account for subdued demand and pressure on margins in PFB and TTB, and to factor in the overall FY23 performance.
- **DCF-based valuation: Our target price is INR 2,788 (WACC 11%, terminal growth 5.5%). The stock is trading at 26x FY25E EPS.**

Financial summary (consolidated)

INR mn	Q4 FY23	Q3 FY23	QoQ (%)	Q4 FY22	YoY (%)	FY21	FY22	FY23P	FY24E	FY25E
Net Sales	37,781	34,697	*8.9*	35,494	*6.4*	82,954	1,23,128	1,45,918	1,61,634	1,84,417
EBITDA	9,596	8,486	*13.1*	9,366	*2.5*	21,333	31,032	35,292	39,647	48,164
APAT	5,625	5,109	*10.1*	6,057	*(7.1)*	11,635	18,285	21,623	23,743	29,470
AEPS (INR)	19.0	17.2	*10.1*	20.4	*(7.1)*	39.3	61.7	72.9	80.1	99.4
P/E (x)						65.5	41.7	35.2	32.1	25.9
EV/EBITDA(x)						36.8	25.4	22.5	20.1	16.4
RoE (%)						19.7	23.7	22.9	21.1	21.9

Source: Company, HSIE Research

Change in estimates (consolidated)

Y/E Mar	FY24E Old	FY24E New	% Ch	FY25E Old	FY25E New	% Ch
EBITDA (INR mn)	42,922	39,647	(7.6)	50,974	48,164	(5.5)
Adj. EPS (INR/sh)	89.6	80.1	(10.7)	107.4	99.4	(7.4)

Source: Company, HSIE Research

ADD

CMP *(as on 10 May 23)*	INR 2,570
Target Price	INR 2,788
NIFTY	18,315

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 2,640	INR 2,788
EPS %	FY24E	FY25E
	-10.7%	-7.4%

KEY STOCK DATA	
Bloomberg code	SRF IN
No. of Shares (mn)	296
MCap (INR bn) / ($ mn)	762/9,319
6m avg traded value (INR mn)	1,256
52 Week high / low	INR 2,865/2,002

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	12.3	10.0	21.7
Relative (%)	10.3	7.8	7.8

SHAREHOLDING PATTERN (%)	Dec-22	Mar-23
Promoters	50.53	50.53
FIs & Local MFs	14.85	14.92
FPIs	18.32	18.52
Public & Others	16.30	16.03
Pledged Shares	0.00	0.00

Source : BSE

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Apollo Tyres

Well on track to achieve mid-term targets

Apollo Tyres' consolidated earnings, at INR 4.1 bn, beat our estimate of INR 3.3bn, led by better-than-expected performance, both in India and Europe. In India, Apollo continues to work on profitable growth that has seen it raise prices ahead of the industry. Its focus on profitable growth is also visible in the fact that Apollo has let go of some market share in the PCR segment to maintain pricing. As a result, its operating performance has been well ahead of its Indian peers. In Europe, it continues to increase its share of UHP tyres whose mix now stands at 43% and it also continues to outperform the PCR segment, in a difficult demand environment. Going ahead, in India, management expects to post high single to low double-digit revenue growth, largely volume led. Pricing discipline is likely to sustain as no new major capacity is expected to come on stream in the near term and input costs remain low. Also, while the demand outlook in Europe remains challenging, management is confident of maintaining its operating performance, given benign input costs. Further, management expects to hit the mid-term RoCE target of 15% in FY24 itself, provided operating conditions remain favourable. Reiterate ADD with a revised TP of INR394/sh (from INR 349 earlier) as we roll forward to FY25 EPS.

- **Q4 performance beats estimates:** Apollo Tyres consolidated earnings at INR 4.1 bn beat our estimates of INR 3.3bn, led by better-than-expected performance, both in India and Europe.
- **Margins improve in India and Europe:** Consolidated EBITDA margin improved 180bps QoQ to 16% and was driven by: (1) standalone margin improvement of 300bps QoQ to 15.9% on the back of a decline in input cost by 8% QoQ and sustaining the pricing action taken in Q3; (2) Europe EBITDA margin improvement of 270bps QoQ to 18.1%, despite adverse macro headwinds, driven by low input costs and reduced energy and power costs.
- **Call takeaways**: (1) Management expects to post high single to low double-digit revenue growth, largely volume-led. While TBR replacement is likely to pick up, they expect steady growth from OEMs (TBR + PCR). However, export demand is likely to remain weak, at least in the near term. (2) Demand in Europe continues to be weak. As per management, they expect the market to pick up in H2. (3) Management expects to sustain its operating performance given: (a) no major capacity coming on stream from any peers; (b) input costs remain subdued. (4) They remain focused on achieving their mid-term RoCE target of 15%. They have already achieved 13.4% RoCE on a run-rate basis in Q4 and expect to touch the 15% mark in FY24E, if conditions remain favourable. (5) They would continue to focus on sweating existing assets through productivity improvement measures backed by AI / ML. As a result, capex guidance for FY24 remains well under control at INR 11bn for the consolidated entity while the same for the standalone entity stands at INR 6.8bn.

Quarterly/annual financial summary

YE Mar (INR mn)	Q4 FY23	Q4 FY22	YoY (%)	Q3 FY23	QoQ (%)	FY22	FY23	FY24E	FY25E
Net Sales	62,473	55,783	12.0	64,228	-2.7	2,05,808	2,41,464	2,61,914	2,96,965
EBITDA	9,985	6,264	59.4	9,134	9.3	25,741	33,137	38,638	43,820
APAT	4,115	1,135	262.8	2,921	40.9	6,445	10,821	16,158	20,833
Diluted EPS (INR)	6.5	1.8	262.8	4.6	40.9	10.1	17.4	25.4	32.8
P/E (x)						36.3	21.6	14.5	11.2
EV / EBITDA (x)						10.9	8.4	6.9	5.8
RoCE (%)						6.3	9.8	12.2	14.3

Source: Company, HSIE Research

ADD

CMP *(as on 10 May 23)*	INR 369
Target Price	INR 394
NIFTY	18,315

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 349	INR 394
EPS %	FY23E	FY24E
	0%	0%

KEY STOCK DATA	
Bloomberg code	APTY IN
No. of a Shares (mn)	635
MCap (INR bn) / ($ mn)	234/2,862
6m avg traded value (INR mn)	1,020
52 Week high / low	INR 383/167

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	11.6	25.4	85.5
Relative (%)	9.6	23.3	71.6

SHAREHOLDING PATTERN (%)	Dec-22	Mar-23
Promoters	37.34	37.34
FIs & Local MFs	16.97	17.78
FPIs	22.76	22.27
Public & Others	22.93	22.61
Pledged Shares	0.0	0.0

Source : BSE

Pledged shares as % of total shares

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Kansai Nerolac

Broadly in-line

Kansai Nerolac's (KNPL) standalone revenue grew 13.6% to INR 16.1bn (four-year CAGR: 9%; HSIE: INR16.2bn). The industrial segment continues to drive performance, backed by strong automotive demand. KNPL's decorative market share is estimated at 9-10%; it has lost its share in the past three years. Management intends to fix this by filling up white spaces in the portfolio via its new premium product (paint + range). GM expanded 359/136bps YoY/QoQ to 31.6% as (1) previous price hikes caught up with RM inflation (esp on the industrial side); (2) there is rising salience of premium products in the mix; and (3) input costs are moderating. Despite the sequential GM improvement, EBITDAM declined 148bps as management flexed the marketing lever to gain lost ground in the decorative segment (EBITDAM: 9.5% vs HSIE: 9.7%). We reduce FY24/25 EPS estimates by 3.3/4.1% to account for higher marketing spending needed to fend off competition and regain market share in decorative. Maintain our BUY rating with an unchanged DCF-based TP of INR500/sh (implying 32x Jun-25 P/E).

- **Q4FY23 highlights**: Standalone revenue grew at 13.6% YoY in Q4 (INR16.1bn, 4-year CAGR: 9%; HSIE: INR16.2bn; consolidated revenue was up 12.8% YoY to INR17.3bn). KNPL's decorative market share is estimated at 9-10% and the company has lost share in the past three years. Management intends to fix this by filling up white spaces in the portfolio via its new premium product (paint + range). New products continue to grow in salience (now account for 7-8% of sales). In decorative, management intends to step up the pace of distribution growth (from its typical 8-10% annual run rate). Industrial paints' performance was broad-based with strong growth and market share gain in automotive (healthy double-digit growth YoY). GMs expanded 359/136bps YoY/QoQ to 31.6% as (1) previous price hikes caught up with RM inflation (esp on the industrial side); (2) there is rising salience of premium products in the mix, (3) input costs are moderating. Despite the sequential GM improvement, EBITDAM declined 148bps as management flexed the marketing lever to gain lost ground in the decorative segment (EBITDAM: 9.5% vs HSIE: 9.7%). EBITDA grew 84% YoY to INR1.52bn (HSIE: INR1.57bn). APAT grew 2.6x YoY (on a low base) to INR940mn (HSIE: INR 878mn).
- **Outlook:** Competition is likely to intensify courtesy new entrant (Grasim) in the high-margin decorative segment. This warrants higher marketing spending. We reduce our FY24/25 EPS estimates by 3.3/4.1% to account for that. Maintain BUY with a DCF-based TP of INR500/sh (implying 32x Jun-25 P/E).

Quarterly financial summary (consolidated)

(Rs mn)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	FY22E	FY23E	FY24E	FY25E
Net Revenue	17,336	15,366	*12.8*	18,268	*(5.1)*	63,694	75,427	84,279	94,079
EBITDA	1,681	839	*100.3*	1,955	*(14.0)*	6,494	8,180	10,486	12,275
APAT	962	192	*402.0*	1,090	*(11.7)*	3,432	4,685	6,315	7,521
EPS (Rs)	1.8	0.4	*402.0*	2.0	*(11.7)*	6.4	8.7	11.7	14.0
P/E (x)						59.7	43.7	32.4	27.2
EV/EBITDA (x)						31.7	25.1	19.4	16.4
Core RoCE(%)						8.1	10.5	13.2	14.9

Source: Company, HSIE Research

Change in estimates

(Rs mn)	FY23			FY24E			FY25E		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Revenue	75,427	75,412	*0.0*	84,279	84,265	*0.0*	94,079	94,063	*0.0*
Gross Profit	22,785	22,777	*0.0*	27,773	27,769	*0.0*	32,072	32,066	*0.0*
Gross Profit Margin(%)	30.2	30.2	***0 bps***	33.0	33.0	***0 bps***	34.1	34.1	***0 bps***
EBITDA	8,180	8,508	*(3.9)*	10,486	10,898	*(3.8)*	12,275	12,829	*(4.3)*
EBITDA margin (%)	10.8	11.3	***(44 bps)***	12.4	12.9	***(49 bps)***	13.0	13.6	***(59 bps)***
APAT	4,685	4,861	*(3.6)*	6,315	6,531	*(3.3)*	7,521	7,839	*(4.1)*
APAT margin (%)	6.2	6.4	***(24 bps)***	7.5	7.8	***(26 bps)***	8.0	8.3	***(34 bps)***
EPS (Rs)	8.7	9.0	*(3.6)*	11.7	12.1	*(3.3)*	14.0	14.5	*(4.1)*

Source: Company, HSIE Research, Standalone Financials

BUY

CMP *(as on 10 May 23)*	**INR 405**
Target Price	**INR 500**
NIFTY	**18,315**

KEY CHANGES	**OLD**	**NEW**
Rating	BUY	BUY
Price Target	INR 500	INR 500
EPS %	FY24E	FY25E
	-3.3	-4.1

KEY STOCK DATA	
Bloomberg code	KNPL IN
No. of Shares (mn)	539
MCap (INR bn) / ($ mn)	218/2,668
6m avg traded value (INR mn)	83
52 Week high / low	INR 536/358

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	(3.5)	(8.7)	(6.1)
Relative (%)	(5.5)	(10.8)	(20.0)

SHAREHOLDING PATTERN (%)	**Dec-22**	**Mar-23**
Promoters	74.99	74.99
FIs & Local MFs	5.70	5.06
FPIs	3.32	3.88
Public & Others	15.99	16.07
Pledged Shares	0	0

Source : BSE

Pledged shares as % of total shares

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Nuvoco Vistas Corporation

Weak pricing moderates margin recovery QoQ

We maintain BUY on Nuvoco Vistas, with a lower TP of INR 475/share (10x its consolidated Mar-25E EBITDA). In Q4FY23, Nuvoco's sales volume recovered 16% QoQ but NSR fell 2% QoQ. However, as cement opex too decreased by 5% QoQ (cool-off in fuel cost and op-lev gain), unitary EBITDA recovered by INR 130 per MT QoQ to INR 750 per MT. Nuvoco reduced its debt on books in FY23 and remains committed to reducing gearing before taking up the south expansion.

- **Q4FY23 performance:** Cement sales volume recovered 16% QoQ but it fell 6% YoY as Nuvoco focused mostly on remunerative sales in Q4. NSR was weak as it fell 2% QoQ. Unit opex fell 5% QoQ owing to a cool-off in fuel cost and op-lev gain. Thus, unitary EBITDA improved by INR 130 per MT QoQ to INR 750 per MT. It recorded an exceptional loss of INR 4,058mn in Q4FY23, owing to recovery uncertainties pertaining to incentives claim booked against the West Bengal government. The sharp reduction in working capital YoY helped Nuvoco lower its net debt by 13% YoY to INR 45.8bn in Mar-23. Net debt to EBITDA continues to stay elevated at 3.8x in FY23 vs 3.5x YoY.
- **Capex, debt and outlook:** Nuvoco expects fuel costs to further moderate in Q1FY24 by INR 100 per MT QoQ. It will stop accruing incentives at the Panagarh plant from FY24 (~INR 40 per MT). It plans a Capex of INR 5.5bn in FY24E, mainly for clinker debottlenecking, the Bhiwani plant (1.2mn MT GU expected by H1FY24 end), and railway sidings. The expansion plan is temporarily put on hold to reduce debt to a comfortable level of INR 35-40bn. We believe this is prudent as the current capacity is sufficient for it to deliver more than 7% volume CAGR for the next three years. Factoring in the miss in the margin in Q4FY23, we trim our EBITDA estimates by 3/4% for FY24/25E respectively.

Quarterly/annual financial summary

YE Mar (INR bn)	Q4 FY23	Q4 FY22	YoY (%)	Q3 FY23	QoQ (%)	FY21	FY22	FY23	FY24E	FY25E
Sales Vol (mn MT)	5.20	5.50	*(5.5)*	4.50	*15.6*	15.91	17.84	18.80	20.30	21.73
NSR (INR/MT)	5,186	4,867	*6.6*	5,295	*(2.1)*	4,444	4,760	5,082	5,032	5,082
Opex (INR/MT)	4,439	4,066	*9.2*	4,679	*(5.1)*	3,503	3,934	4,465	4,225	4,217
EBITDA(INR/MT)	747	801	*(6.7)*	617	*21.1*	941	826	617	806	864
Net Sales	29.29	29.30	*(0.1)*	26.05	*12.4*	74.89	93.18	105.86	114.54	126.28
EBITDA	3.80	4.30	*(11.5)*	2.68	*41.8*	14.61	14.97	12.10	17.15	19.98
APAT	0.05	0.29	*(81.4)*	(0.75)		-0.26	0.32	-1.80	2.47	5.02
AEPS (INR)	0.15	0.82	*(81.5)*	(2.11)		-0.8	0.9	-5.0	6.9	14.0
EV/EBITDA (x)						12.5	11.4	13.4	9.3	7.5
EV/MT (INR bn)						8.17	7.14	6.82	6.36	5.75
P/E (x)						NA	373.0	NA	48.4	23.9
RoE (%)						-0.4	0.4	-2.0	2.8	5.4

Source: Company, HSIE Research

Estimates revision summary

INR bn	FY24E Old	FY24E Revised	*Change %*	FY25E Old	FY25E Revised	*Change %*
Net Sales	120.20	114.54	*(4.7)*	134.05	126.28	*(5.8)*
EBITDA	17.67	17.15	*(2.9)*	20.90	19.98	*(4.4)*
APAT	2.91	2.47	*(15.0)*	5.61	5.02	*(10.5)*

Source: Company, HSIE Research

BUY

CMP *(as on 10 May 23)*	INR 335
Target Price	INR 475
NIFTY	18,315

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 495	INR 475
EBITDA revision %	FY24E *(2.9)*	FY25E *(4.4)*

KEY STOCK DATA

Bloomberg code	NUVOCO IN
No. of Shares (mn)	357
MCap (INR bn) / ($ mn)	120/1,463
6m avg traded value (INR mn)	61
52 Week high / low	INR 475/260

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(11.4)	(12.5)	12.6
Relative (%)	(13.4)	(14.7)	(1.3)

SHAREHOLDING PATTERN (%)

	Dec-22	Mar-23
Promoters	71.79	71.79
FIs & Local MFs	20.16	20.45
FPIs	3.08	3.14
Public & Others	4.97	4.63
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Mahanagar Gas

Strong margins drive earnings

Our ADD recommendation on Mahanagar Gas (MGL) with a target price of INR 1,170 is premised on (1) lower volume growth compared to peers and (2) long-term volume growth visibility remaining low since no new geographical areas (GA) were won in the 9/10/11th round of CGD bids. However, their recent acquisition of Unison Enviro's (UEPL) three GAs remains a key monitorable. Q4FY23 EBITDA, at INR 3.9bn, and APAT, at INR 2.7bn, came well above our estimates, owing to higher-than-expected realisation and lower opex. Volumes came broadly in line.

- **Volumes:** Blended volume, at 3.37mmscmd, declined 1% QoQ; however, it grew +6% YoY, coming broadly in line. CNG volume stood at 2.41mmscmd (+6% YoY -3% QoQ). In Q4, CNG volumes declined QoQ, mainly due to high CNG prices and ~300 BEST buses going off the road. However, with these BEST buses running again and CNG prices also reduced, management expects CNG volumes to pick up. PNG segment's volume was at 0.96mmscmd (+8% YoY, +3% QoQ). We estimate MGL's volumes at 3.6/3.9mmscmd for FY24/25E.
- **Margins:** The gross spread, at INR 18.7/scm, improved by INR 5.4/scm YoY and INR 5/scm QoQ, while EBITDA/scm improved to INR 12.8/scm vs INR 7.6/scm YoY and INR 8.2/scm QoQ. The improvement in margins is largely driven by the higher realisation of INR 53.1/scm (+39% YoY, flat QoQ) and a decline in gas cost to INR 34.4/scm (+39% YoY, -13% QoQ). We factor EBITDA margins of INR 9.8/10 per scm for FY24/25E.
- **Earnings call takeaways**: (1) MGL has maintained its guidance of ~5-6% volume growth CAGR over the next 3-5 years. (2) The company added 25 new CNG stations in FY23, taking the count to 313; management expects to add 30-40 new CNG stations in FY24. It also added 115 new industrial/commercial PNG customers in Q4, taking the count to 4,558. 92,274 new domestic households (HH) were connected in Q4, taking the count to ~2.17mn HH. (3) In Raigadh, the company has ~68,033 HH connections, 28 operational CNG stations and to date has laid ~382km of pipeline connectivity. (4) Vehicle conversions to CNG in Q4 dipped to ~13,700 vehicles compared to the range of 15,000-17,000 vehicles earlier due to high CNG prices. (5) The company has incurred a Capex of ~INR 5.8bn in FY23 and has guided for a Capex of INR 5-6bn for FY24 and FY25.
- **Change in estimates**: We increase our FY24/25 EPS estimates by 8.3/8.1% to INR 86.7/92.5, to account for higher EBITDA margin, offset partially by higher employee cost, delivering a revised target price of INR 1,170/sh.
- **DCF-based valuation:** Our target price of INR 1,170/sh is based on Mar-24E free cash flow (WACC 11%, terminal growth rate 2%). The stock is currently trading at 12.4x FY24E EPS.

Financial Summary

YE March (INR bn)	Q4 FY23	Q3 FY23	*QoQ (%)*	Q4 FY22	*YoY (%)*	FY21	FY22	FY23P	FY24E	FY25E
Revenue	16	17	(3.6)	11	48.2	22	36	63	48	51
EBITDA	4	3	52.2	2	80.9	9	9	12	13	14
APAT	3	2	56.2	1	104.0	6	6	8	9	9
AEPS (INR)	27.2	17.4	56.2	13.3	104.0	62.7	60.4	80.0	86.7	92.5
P/E (x)						17.1	17.8	13.4	12.4	11.6
EV / EBITDA (x)						9.7	9.8	7.7	7.0	6.2
RoE (%)						20.0	17.5	20.4	19.5	18.6

Source: Company, HSIE Research

ADD

CMP *(as on 9 May 2023)*	INR 1,074
Target Price	INR 1,170
NIFTY	18,266

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 1,070	INR 1,170
EPS %	**FY23E**	**FY24E**
	+8.3%	+8.1%

KEY STOCK DATA	
Bloomberg code	MAHGL IN
No. of Shares (mn)	99
MCap (INR bn) / ($ mn)	106/1,297
6m avg traded value (INR mn)	464
52 Week high / low	INR 1,098/666

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	20.2	22.4	40.9
Relative (%)	18.6	21.2	27.5

SHAREHOLDING PATTERN (%)	Dec-22	Mar-23
Promoters	32.50	32.50
FIs & Local MFs	15.61	14.93
FPIs	29.73	30.95
Public & Others	22.16	21.61
Pledged Shares	0.0	0.0

Source : BSE

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Birla Corporation

Margin recovery as Mukutban hits EBITDA breakeven

We maintain our BUY rating on Birla Corporation (BCORP), with an unchanged target price of INR 1,310/share (8.5x Mar-25E consolidated EBITDA). We continue to like BCORP for its large retail presence in the lucrative north/central regions. We expect a recovery in margins as Mukutban ramps up and it starts accruing its incentive benefit from H2FY24 onwards. Unitary EBITDA improved by INR 235 per MT QoQ in Q4FY23 to INR 600 per MT, aided by higher volume, Mukutban loss reduction, and better realisation. With no major near-term Capex, gearing should reduce from FY24 onwards.

- **Q4FY23 performance:** Cement sales volume rose 5/19% YoY/QoQ. Cement NSR improved by 2% QoQ majorly, owing to better pricing in Central. Cement opex cooled off 3% QoQ (still up 6% YoY). Unitary EBITDA improved by INR 235 per MT QoQ to INR 600 per MT: better pricing INR 100 per MT, INR 265 per MT fixed cost reduction (op-lev gain and Mukutban loss reduction); although its effect was moderated by higher input cost/freight cost by INR 115/15 per MT. Ex-Mukutban, unit EBITDA stood higher by INR 200 per MT QoQ to INR 690 per MT. We estimate Mukutban operated ~INR 500 per MT EBITDA loss in Q4 (vs ~INR 1200 per MT QoQ). Mukutban became EBITDA breakeven in March. We estimate Mukutban operated at ~30% capacity utilisation in Q4 vs ~25% QoQ. Net debt rose 6% YoY to INR 37.9bn at Mar-23 (-12% vs Sep-22). Net debt to EBITDA continues to stay elevated at 4.9x in FY23 vs 3.2x YoY.
- **Capex update and outlook**: It expects more than 15% volume growth in FY24 with INR 850 EBITDA per MT. We have factored in lower growth and margin vs management guidance. We expect fuel cost reduction, incentive benefits (from H2FY24) and increased and profitable utilisation of the Mukutban plant to drive the margin rebound. BCORP is working to scale up the usage of alternative fuel, captive coal, and green power (22% in FY23), which will further reduce opex inflation. We marginally tweak our earnings estimates.

Quarterly/annual financial summary (consolidated)

YE Mar (INR bn)	Q4 FY23	Q4 FY22	*YoY (%)*	Q3 FY23	*QoQ (%)*	FY21	FY22	FY23	FY24E	FY25E
Sales Vol (mn MT)	4.44	4.24	*4.7*	3.72	*19.4*	13.39	14.22	15.73	17.29	18.85
NSR (INR/MT)	5,279	5,071	*4.1*	5,177	*2.0*	4,848	4,955	5,237	5,185	5,262
EBITDA(INR/MT)	600	649	*(7.6)*	365	*64.1*	1,010	746	484	720	797
Net Sales	24.63	22.64	*8.8*	20.16	*22.1*	67.85	74.61	86.82	94.60	104.39
EBITDA	2.74	2.77	*(0.9)*	1.44	*90.0*	13.70	11.10	7.72	12.93	15.54
APAT	0.85	1.11	*(23.5)*	-0.50		6.89	4.30	0.34	3.47	5.83
AEPS (INR)	8.7	19.4	*(55.4)*	-6.5		89.5	55.8	4.4	45.0	75.7
EV/EBITDA (x)						9.0	11.0	14.6	8.7	7.0
EV/MT (INR bn)						7.74	7.55	5.51	5.46	5.27
P/E (x)						14.3	22.9	227.0	22.2	13.2
RoE (%)						*15.9*	*8.0*	*0.6*	*5.7*	*9.0*

Source: Company, HSIE Research

Estimates revision summary

INR bn	FY24E Old	FY24E Revised	*Change %*	FY25E Old	FY25E Revised	*Change %*
Net Sales	99.33	94.60	*(4.8)*	110.05	104.39	*(5.1)*
EBITDA	13.08	12.93	*(1.2)*	15.84	15.54	*(1.9)*
APAT	3.54	3.47	*(2.0)*	5.88	5.83	*(0.9)*

Source: Company, HSIE Research

BUY

CMP *(as on 10 May 23)*	INR 1,000
Target Price	INR 1,310
NIFTY	18,315

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 1,310	INR 1,310
EBITDA revision %	FY24E *(1.2)*	FY25E *(1.9)*

KEY STOCK DATA	
Bloomberg code	BCORP IN
No. of Shares (mn)	77
MCap (INR bn) / ($ mn)	77/941
6m avg traded value (INR mn)	123
52 Week high / low	INR 1,143/823

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	10.0	6.1	2.2
Relative (%)	8.0	3.9	(11.7)

SHAREHOLDING PATTERN (%)	Dec-22	Mar-23
Promoters	62.90	62.90
FIs & Local MFs	16.07	16.38
FPIs	4.49	5.74
Public & Others	16.54	14.99
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Rating Criteria

BUY: >+15% return potential

ADD: +5% to +15% return potential

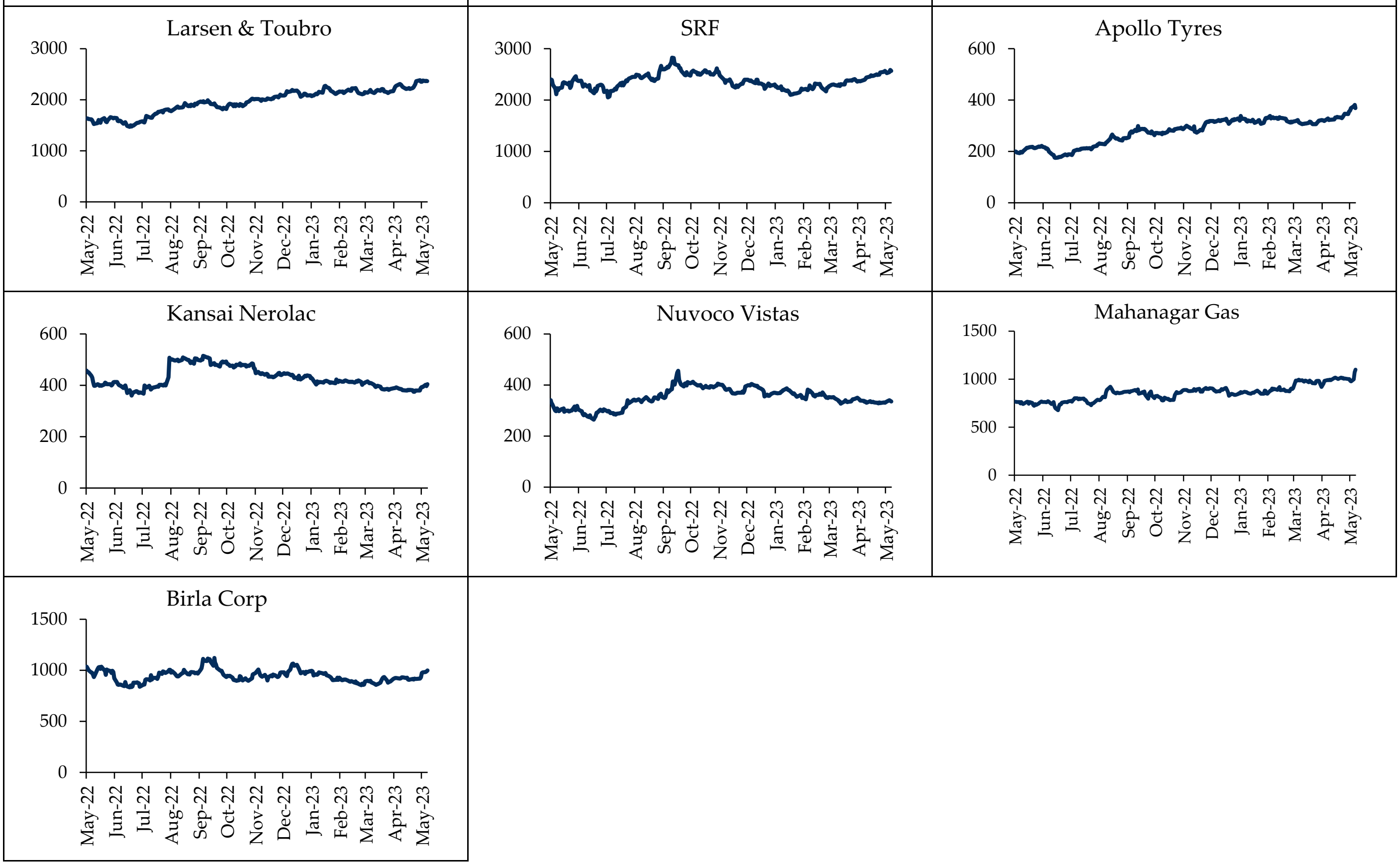
REDUCE: -10% to +5% return potential

SELL: > 10% Downside return potential

Disclosure:

Analyst	Company Covered	Qualification	Any holding in the stock
Parikshit Kandpal	Larsen & Toubro	CFA	NO
Nikhil Kanodia	Larsen & Toubro	MBA	NO
Manoj Rawat	Larsen & Toubro	MBA	NO
Nilesh Ghuge	SRF, Mahanagar Gas	MMS	NO
Harshad Katkar	SRF, Mahanagar Gas	MBA	NO
Rutvi Chokshi	SRF, Mahanagar Gas	CA	NO
Akshay Mane	SRF, Mahanagar Gas	PGDM	NO
Aniket Mhatre	Apollo Tyres	MBA	NO
Sonaal Sharma	Apollo Tyres	MBA	NO
Jay Gandhi	Kansai Nerolac	MBA	NO
Riddhi Shah	Kansai Nerolac	MBA	NO
Rajesh Ravi	Nuvoco Vista, Birla Corp	MBA	NO
Keshav Lahoti	Nuvoco Vista, Birla Corp	CA	NO

1 Yr Price Movement



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