INSTITUTIONAL RESEARCH

HSIE Results Daily

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Results Reviews

- **Tata Motors:** JLR Q2 margins declined 140bps QoQ to 14.9% due to adverse mix, higher VME + FME and this was despite higher capitalization rate. India PV and CV margins improved over 100bps QoQ, largely due to improved volumes and soft input costs. While FY24 is an operationally strong year for JLR, we expect it to face multiple headwinds from FY25, which include: 1) demand uncertainty in key regions; 2) normalization of mix; 3) rise in VME + FME as it moves from "demand pull" to "sales push mode"; 4) need to raise capex at a time when margins may not be supportive. A German luxury OEM has recently warned that "luxury segment is not immune to economic woes", which is also aptly visible in the sharply reducing order backlog at JLR. In India, TTMT continues to lose wholesale market share in both PVs and CVs. While margins have held up in India business, it remains to be seen if they sustain, considering (1) slower growth expected in FY25 and (2) rising EV mix. While we have raised FY24 earnings by 15%, we keep FY25 estimates unchanged, given the headwinds highlighted above. Maintain SELL with a revised TP of INR534/sh (from INR 520/sh) as we roll forward to Sep-25 EPS.
- **Britannia Industries:** Britannia's Q2FY24 print was a mixed bag, with revenue growing by a modest 1% (HSIE: 5%) and transactions (number of packets) and volume both being flat YoY (HSIE 3%). However, EBITDA/PAT growth of 23/20% surpassed our expectation, led by GM expansion (395bps YoY) and cost control initiatives. Britannia took price corrections to defend its market share as competitive intensity rose (particularly from local/regional brands). We note that against cumulative c.20% price hike taken during peak inflation, Britannia has so far taken <2% price cuts. Revenue growth will be volume-led, which will require additional push (consumer offers, marketing, etc.); thus, the operating margin will have limited room for expansion. We maintain our EPS estimates for FY24-26 and value Britannia at 42x P/E on Sep-25 EPS to derive a target price of INR 4,550. Maintain REDUCE.
- **Dabur:** Dabur delivered an in-line Q2FY24 with consolidated revenue/EBITDA growing by 7/10% YoY with organic volume growth of 3% (c.5% ex- beverages). The domestic business grew by 9% while the international business posted a 10% growth (24% cc growth). Growth was driven by healthcare (+5%) and HPC (+6%). Uneven distribution of rainfall and shift in festive season impacted beverage business (down 10%) while foods grew 40%. Foods business remains on track to achieve INR 5bn of exit revenue in FY24. With the softening RM, GM expanded 295/172bps YoY/QoQ to 48.3%. However, the 43% increase in A&P expense (industry-wise similar trend) restricted EBITDAM expansion to 50bps YoY at 20.6%. EBITDA grew by 10% (HSIE 9%). With sustained improvement in urban demand and visible green shoots in rural recovery, Dabur remains optimistic of mid-high single volume growth with double-digit revenue growth, led by (1) focus on power brands; (2) double-digit CAGR in healthcare; and (3) premiumisation across product categories. Besides, EBITDA margin also has several tailwinds, which have been stable (c.20%) for the last five years. We maintain EPS estimates and value the stock at 45x P/E on Sep-25EPS to derive a target price of INR 650. Maintain ADD.

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- **Hero Motocorp:** Hero MotoCorp Q2 margin, at 14.1%, was up just 30bps QoQ despite the 5% QoQ volume growth and improved mix, due to higher promotional spend in Q2. The continued weakness in entry segment can be highlighted from the fact that HMC has introduced attractive schemes on some of these models in key markets in the festive season, as per our channel checks. Also, we remain circumspect of a demand revival in entry segment anytime soon given the below-par monsoon. Further, despite its multiple launches in CY23, HMC continues to lose share: its motorcycle market share is down 280bps YoY to 44.2% in H1 while its scooter share has remained flat YoY at 6.6%. More importantly, despite the launch of new variants in 125cc motorcycle segment, it has lost 330bps share to 20.2% in H1. Even in premium segment, the new Xtreme 160R has not been able to make any mark. Even in scooters, while Xoom seems to be doing well, it has cannibalized sales of other models. Hence, while HMC has a healthy launch pipeline largely focused on the 125cc and above segments, we do not expect it to drive any meaningful share recovery, given its patchy track record of new launches in these segments. Maintain REDUCE with a revised TP of INR 2,844 (from INR 2,672)—as we roll forward to Sep25 earnings.

- **Godrej Properties:** Godrej Properties Ltd (GPL) reported the highest-ever quarterly presales worth INR 50.3bn (+109/+123% YoY/QoQ), with a booking area of 5.2msf (+93/+133% YoY/QoQ) with sustenance sales contributing 20%. On back of the strong presales, GPL is confident of achieving INR 140bn+ of targeted presales in FY24. GPL added one new project with a gross development value of INR 7.3bn in Q2FY24, taking the total YTD GDV addition to INR 72bn, on track, with targeted INR 150bn of GDV addition in FY24. However, given a strong launch pipeline of ~18msf and growth visibility of two to three years, GPL will be adding projects on replacement basis in most of the existing markets. Repair expense for the Gurugram project has been under INR 150mn till now (expected total repair expense INR 1.6bn). In addition to this, GPL has bought back 60 units for INR 500mn and expects INR 1-2bn worth of total buy backs (100-200 units out of 1100 total units). We reiterate ADD with an unchanged SOTP valuation of INR 1,664/sh.

- **LIC Housing Finance:** LICHF reported a mixed bag, with sustained healthy NIMs, offset by prolonged sluggishness in loan growth on the back of record repayments in the developer portfolio. Asset quality improved sequentially with decline in GS-II and GS-III, aside from technical write-offs. While LICHF has witnessed an impressive turnaround with NIMs north of 3% during H1FY24, portfolio growth continues to remain muted, exemplifying the trade-off between growth and margins in a state of elevated competitive intensity in the core mortgage business. We revise our FY24/FY25 earnings estimates upwards by 11%/4% and maintain REDUCE, with a revised RI-based TP of INR435 (implying 0.8x Sep-25 ABVPS), as we are guarded on sustainable NIMs and loan growth in a highly competitive market.

- **KEC International:** KEC reported Q2FY24 consolidated numbers with a slightly better EBITDA margin profile. Its revenue/EBITDA/APAT beat our estimates by 6.1/14.3/39.6%. However, the standalone (~89% revenue) PAT stood at INR 68mn. It won orders worth INR 90bn (i.e. 36% of FY24 guidance of INR 250bn) in FYTD24. With L1 of INR 40bn, the order book (OB) as of Sep'23 stood at the record high level of INR 350bn (~2x FY23 revenue). There has been movement in collections from Afghanistan as KEC has a net exposure of INR 2.8bn as of Sep'23 vs. INR 3.4bn as of Jun'23. The consolidated net debt, including the interest-bearing acceptances, stood at INR 63.4bn, an increase of INR 6.3bn from INR 57.1bn as of Jun'23, and it remains our key concern. The interest cost for Q2FY24 came in at 3.95% (vs. 3.14/3.74% YoY/QoQ) of revenue. The NWC days as of Sep'23 stood at 140 and are expected to be ~110 by FY24-end (though seems like a tall task). KEC maintained its FY24 revenue guidance of INR 200bn (+16% YoY) and margin guidance of ~7%. It guided for FY24 interest cost to be at ~3.25% of revenue. Given higher interest cost, we have recalibrated our FY24/25/26E earnings lower. Given the debt-heavy balance sheet, we maintain REDUCE with a TP of INR 514/share (14x Sep-25E EPS). Rerating continues to depend upon debt reduction and margin recovery.

- **Clean Science and Technology:** We maintain SELL on Clean Science and Technology (CSTL) with a price target of INR 1,012 (WACC 11%, terminal growth 6%), owing to (1) slower-than-expected ramp-up in hindered amine light stabilisers (HALS); (2) entry of domestic competitor in mono methyl ether of hydroquinone (MEHQ) manufacturing; and (3) lower offtake of performance chemicals. Gross profit margin and EBITDA margin are expected to fall by 517/341 bps by FY26 from 65/43% in FY23. EBITDA and PAT shall grow at a 12/11% CAGR over FY23-26E. The RoE is expected to decline from 33.2% in FY23 to 24.2% in FY26E, owing to a reduction in margin and asset turnover. Valuations are contextually high at 41/36x FY25E/26E EPS. Q2 EBITDA/APAT were 18/26% below our estimates, owing to a 21% fall in revenue, and lower-than expected other income offset by lower-than-expected raw material costs.

- **Sapphire Foods:** Sapphire's Q2 was a mixed bag, KFC was resilient (most top brands sustained) while PH missed on all fronts. Demand environment remained challenging and growth metrics continued to see deceleration. SSSG/ADS YoY was at flat/-7% for KFC and -25/-20% for PH. Store growth supported the overall growth, while India revenue was up by 12% with store growth of 26%. KFC was largely in line with slightly better ROM at 19%. Most established brands could absorb the pressure (Domino's/McD SSSG was at c-3/+1% in Q2). PH saw sharp deceleration despite various steps taken in the last a few quarters, and ROM was <8% (-750bps YoY). Local competition had more impact on PH as compared to Domino's. Sapphire's overall PBT declined by 20% YoY with PBT margin at 3% (down 150bps). We expect such weak performance to continue despite catalysts like World Cup and festive season will playing out in the near term. We maintain our EPS estimates and value Sapphire at 50x P/E on Sep'25 EPS to arrive at a TP of INR 1,000. Maintain REDUCE.

- **PSP Projects:** With decent execution in the quarter, PSP Projects (PSP) reported revenue/EBITDA/APAT of INR 6.1/0.7/0.4bn, beating/(missing) our estimates by 5.6/2.5/(5.7)%. In H1FY24, it was awarded orders worth INR 9.3bn (excluding GST; -38.2% YoY), which took its OB as of Sep'23 to INR 49bn (~2.5x FY23 revenue). All the UP projects are on track and majority of them are expected to be completed by FY24-end. The current bid pipeline stands at INR 100bn+ (including INR 40-45bn from Delhi project). The increase in gross debt from INR 2.8bn as of Jun'23 to INR 4bn as of Sep'23 is majorly on account of the increase in short-term debt due to increase in inventory levels and other financial assets. The revenue guidance for FY24 remains unchanged at INR 26bn, margin guidance at 11-13% and OI guidance at ~INR 30bn. Given the limited upside from current levels, we continue with our ADD rating with an unchanged TP to INR 834/sh (13x Sep-25E EPS).

Tata Motors

Multiple headwinds ahead

JLR Q2 margins declined 140bps QoQ to 14.9% due to adverse mix, higher VME + FME and this was despite higher capitalization rate. India PV and CV margins improved over 100bps QoQ, largely due to improved volumes and soft input costs. While FY24 is an operationally strong year for JLR, we expect it to face multiple headwinds from FY25, which include: 1) demand uncertainty in key regions; 2) normalization of mix; 3) rise in VME + FME as it moves from "demand pull" to "sales push mode"; 4) need to raise capex at a time when margins may not be supportive. A German luxury OEM has recently warned that "luxury segment is not immune to economic woes", which is also aptly visible in the sharply reducing order backlog at JLR. In India, TTMT continues to lose wholesale market share in both PVs and CVs. While margins have held up in India business, it remains to be seen if they sustain, considering (1) slower growth expected in FY25 and (2) rising EV mix. While we have raised FY24 earnings by 15%, we keep FY25 estimates unchanged, given the headwinds highlighted above. Maintain SELL with a revised TP of INR534/sh (from INR 520/sh) as we roll forward to Sep-25 EPS.

- **JLR margin miss estimates:** JLR saw a margin decline of 140bps QoQ to 14.9% due to: 1) adverse mix; 2) 40bps increase in VME QoQ to 1.5%; 3) higher FME as JLR sponsored the Rugby World Cup. More importantly, margin declined despite the higher capitalization rate (70bps benefit QoQ) at 64% in Q2 from 61% in Q1. Net debt has reduced by GBP200mn to GBP 2.2bn in Q2.
- **India CV + PV posts INR9bn FCF:** EBITDA margin in CV business improved 100bps QoQ to 10.4% due to improved volumes and soft input costs. PV EBITDA margin improved 120bps QoQ to 6.5%. While PV ICE margin is at 9.2% (+60bps QoQ), PV EV margin is at -5% and has improved 470bps QoQ due to sharp reduction in battery prices.
- **Concall KTAs:** 1) Despite a similar cash PAT of GBP1.1bn in Q1 and Q2, JLR's Q2 FCF was lower at GBP 300mn due to a higher capex of GBP 775mn and slightly adverse working capital. 2) Management has indicated that H2 is seasonally stronger than H1 and, hence, both wholesale and production are likely to be higher for JLR in H2 Vs H1. 3) Given this, management expects JLR's order book to reduce at a faster pace and come down to 110k units by Q4 end (from 168k units in Q2). 4) They have restated JLR's EBIT margin guidance to 8% from 6%+ earlier. However, guidance for net debt stands unchanged at GBP 1bn for FY24E as they expect capex to be higher in H2 Vs H1. 5) In India, management expects MHCV industry to post double-digit growth in Q3 but a flat to marginal growth in Q4, given the high base of last year. 6) Tata Motors (PV EV business – TPEM) and JLR have entered into an MOU for TPEM's access to EMA platform (pure electric) of JLR for a royalty fee. They have announced the launch of Avinya from the EMA platform.

Quarterly/annual financial summary

YE Mar (INR mn)	Q2 FY24	Q2 FY23	YoY (%)	Q1 FY23	QoQ (%)	FY23	FY24E	FY25E	FY26E
Net Sales	10,44,431	7,88,469	32.5	10,15,285	2.9	34,59,670	40,66,032	44,19,280	49,47,920
EBITDA	1,62,745	87,178	86.7	1,59,732	1.9	4,24,778	5,89,319	5,72,563	6,40,798
PAT	38,245	(7,111)	NM	39,669	-3.6	7,199	1,07,202	76,244	1,02,453
EPS (INR)	10.0	-1.9	NM	10.4	-3.6	1.9	28.0	19.9	26.7
P/E (x)						338.8	22.8	32.0	23.8
EV / EBITDA (x)						7.2	5.2	5.3	4.7
RoCE (%)						12.4	18.7	16.4	17.9

Source: Company, HSIE Research

SELL

CMP *(as on 02Nov 2023)*	INR 636
Target Price	INR 534
NIFTY	19,133

KEY CHANGES	OLD	NEW
Rating	SELL	SELL
Price Target	INR 520	INR 534
EPS %	FY24E	FY25E
	15%	0%

KEY STOCK DATA	
Bloomberg code	TTMT IN
No. of Shares (mn)	3,322
MCap (INR bn) / ($ mn)	2,114/25,856
6m avg traded value (INR mn)	7,430
52 Week high / low	INR 678/375

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	2.2	32.5	50.8
Relative (%)	4.8	28.1	45.6

SHAREHOLDING PATTERN (%)	Jun-23	Sep-23
Promoters	46.39	46.38
FIs & Local MFs	17.45	17.64
FPIs	17.72	18.46
Public & Others	18.44	17.52

Source : BSE

Pledged shares as % of total shares

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Britannia Industries

Mixed bag

Britannia's Q2FY24 print was a mixed bag, with revenue growing by a modest 1% (HSIE: 5%) and transactions (number of packets) and volume both being flat YoY (HSIE 3%). However, EBITDA/PAT growth of 23/20% surpassed our expectation, led by GM expansion (395bps YoY) and cost control initiatives. Britannia took price corrections to defend its market share as competitive intensity rose (particularly from local/regional brands). We note that against cumulative c.20% price hike taken during peak inflation, Britannia has so far taken <2% price cuts. Revenue growth will be volume-led, which will require additional push (consumer offers, marketing, etc.); thus, the operating margin will have limited room for expansion. We maintain our EPS estimates for FY24-26 and value Britannia at 42x P/E on Sep-25 EPS to derive a target price of INR 4,550. Maintain REDUCE.

- **Revenue up 1% YoY; volume flat:** Consolidated revenue grew by 1% YoY (22% in Q2FY23 and 9% in Q1FY24) vs our estimate of 5% YoY. Britannia undertook some price corrections due to an increase in local competitive intensity on a softening RM basket. Both transaction (number of packets sold) and volume growth was flat YoY. Although focus states (high rural mix) growth slowed down due to weak rural trends, Britannia continues to grow ahead of its peers. Britannia further strengthened its leadership position as the gap with its second-largest competitor increased. With softening input costs and increasing competition, Britannia will take necessary pricing actions for the remainder of FY24. We expect the price and volume mix to reverse in FY24 and model a revenue CAGR of 8% for FY23-FY26E.
- **Margin recovery sustains:** Consolidated GM expanded by 395bps YoY (+10bps QoQ) to 42.9%, aided by a softening RM basket. While the price of flour has risen YoY/QoQ; most other commodities (palm oil, packaging materials) have seen healthy deflation. Employee expense fell 2% YoY while other expenses grew by 5% YoY. EBITDA margin expanded by 345bps YoY to 19.7% (16.3% in Q2FY23 and 17.2% in Q1FY24). EBITDA grew by 23% YoY (HSIE: 12%). We model EBITDA margin at 19-19.5% for FY24-26.
- **Con call takeaways:** (1) Annual biscuit consumption occasions has increased from 303 times in 2018 to 370 times in 2023. With penetration of biscuit, bread and rusk high, growth will be consumption led. (2) Over last 10 years, direct reach is up 4x; rural distributors up 7x; innovation contributes 10% of revenue. (3) Focus states (rural heavy) growth slowed down due to weak rural demand. BRIT continues to focus on building rural distribution and market share gains. (4) In peak inflation, cumulative price hike stood at c22%. So far, the company's taken 1.5% price cuts. (5) International business grew in healthy double digits with improving margin profile. (6) BRIT urban market share is 1.3x of rural while numeric distribution is 1.2x of that of rural.

Quarterly/annual financial summary

(INR mn)	Q2 FY24	Q2 FY23	YoY (%)	Q1 FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	44,329	43,797	1.2	40,107	10.5	1,41,363	1,63,006	1,68,873	1,85,075	2,03,203
EBITDA	8,724	7,118	22.6	6,889	26.6	22,015	28,309	31,748	35,072	39,320
APAT	5,865	4,906	19.5	4,555	28.8	15,152	20,354	21,918	24,592	27,994
EPS (INR)	24.3	20.4	19.3	18.9	28.8	62.9	84.5	91.0	102.1	116.2
P/E (x)						72.0	53.6	49.8	44.4	39.0
EV / EBITDA (x)						49.5	38.4	34.0	30.5	26.9
RoCE (%)						49.6	57.3	70.6	79.6	91.7

Source: Company, HSIE Research

REDUCE

CMP *(as on 2 Nov 2023)*	INR 4,527
Target Price	INR 4,550
NIFTY	19,133

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 4,550	INR 4,550
EPS %	FY24E	FY25E
	0%	0%

KEY STOCK DATA	
Bloomberg code	BRIT IN
No. of Shares (mn)	241
MCap (INR bn) / ($ mn)	1,090/13,334
6m avg traded value (INR mn)	1,846
52 Week high / low	INR 5,270/3,705

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	(5.9)	0.4	21.6
Relative (%)	(3.3)	(4.1)	16.4

SHAREHOLDING PATTERN (%)	Jun-23	Sep-23
Promoters	50.55	50.55
FIs & Local MFs	12.59	13.98
FPIs	21.29	19.66
Public & Others	15.57	15.81
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Dabur

Steady performance

Dabur delivered an in-line Q2FY24 with consolidated revenue/EBITDA growing by 7/10% YoY with organic volume growth of 3% (c.5% ex- beverages). The domestic business grew by 9% while the international business posted a 10% growth (24% cc growth). Growth was driven by healthcare (+5%) and HPC (+6%). Uneven distribution of rainfall and shift in festive season impacted beverage business (down 10%) while foods grew 40%. Foods business remains on track to achieve INR 5bn of exit revenue in FY24. With the softening RM, GM expanded 295/172bps YoY/QoQ to 48.3%. However, the 43% increase in A&P expense (industry-wise similar trend) restricted EBITDAM expansion to 50bps YoY at 20.6%. EBITDA grew by 10% (HSIE 9%). With sustained improvement in urban demand and visible green shoots in rural recovery, Dabur remains optimistic of mid-high single volume growth with double-digit revenue growth, led by (1) focus on power brands; (2) double-digit CAGR in healthcare; and (3) premiumisation across product categories. Besides, EBITDA margin also has several tailwinds, which have been stable (c.20%) for the last five years. We maintain EPS estimates and value the stock at 45x P/E on Sep-25EPS to derive a target price of INR 650. Maintain ADD.

- **Consolidated revenue up 7% YoY:** Revenue grew by 7% YoY (+6% in Q2FY23 and +11% in Q1FY24), driven by steady performance (MSD) growth in HPC and Healthcare. The international business saw a 24% CC growth (+10% in INR due to currency impact). Rural growth continues to recover (+6%) with the gap with urban reducing. Dabur's flagship oral care business grew 4%; skincare/hair care grew by 5/4%. While the food business grew 40%, beverages were impacted by uneven distribution of rainfall and shift in festive season rains. Dabur gained market share across 90% of its portfolio. We model a 10% revenue CAGR in FY23-26E.
- **EBITDA up 10%:** GM expanded by 295/170bps YoY/QoQ to 48.3%, aided by the softening RM basket. Employee/other expenses grew by 10/13% YoY. With Dabur stepping up A&P spending, which grew by 43% YoY (6.8% of sales), the EBITDAM expansion was restricted to 51/130bps YoY/QoQ at 20.6% (HSIE: 20.2%). EBITDA grew by 10% YoY. We model 19.5-20.5% EBITDA margin FY24-FY26.
- **Con call takeaways**: (1) Urban demand sustains sequential improvement, led by new age channels. Although rural demand continues to lag behind urban, the gap has reduced significantly. (2) Dabur red grew in high-single digit with continued market share gains. (3) Unseasonal rain in key north Indian markets (high saliency) impacted beverages business. (4) Badshaah brand reported 16.4% growth in Q2FY24. (5) Legal cost of INR 360mn relating to Namaste was incurred during the quarter. Product liability insurance is in place which is capped at INR 200mn per quarter. Dabur maintains its products are safe. (6) Declared interim dividend of INR 2.75/ share.

Quarterly/annual financial summary

(INR mn)	Q2 FY24	Q2 FY23	YoY (%)	Q1 FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	32,038	29,865	7.3	31,305	2.3	1,08,887	1,15,299	1,27,577	1,40,660	1,54,171
EBITDA	6,609	6,007	10.0	6,047	9.3	22,538	21,641	26,153	29,117	32,376
APAT	5,151	4,904	5.0	4,639	11.0	17,393	17,303	20,552	23,265	25,472
EPS (INR)	2.9	2.8	4.7	2.6	11.0	9.8	9.8	11.6	13.1	14.4
P/E (x)						53.9	54.3	45.7	40.4	36.9
EV / EBITDA (x)						39.4	41.2	33.8	30.1	26.8
RoCE (%)						57.0	46.5	47.9	53.4	61.4

Source: HSIE Research

ADD

CMP *(as on 2 Nov 2023)*	INR 530
Target Price	INR 650
NIFTY	19,133

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

KEY STOCK DATA	
Bloomberg code	DABUR IN
No. of Shares (mn)	1,772
MCap (INR bn) / ($ mn)	940/11,493
6m avg traded value (INR mn)	1,064
52 Week high / low	INR 611/504

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	(6.2)	(1.1)	(5.7)
Relative (%)	(3.6)	(5.6)	(10.9)

SHAREHOLDING PATTERN (%)	Jun-23	Sep-23
Promoters	66.23	66.23
FIs & Local MFs	8.87	9.91
FPIs	19.39	18.38
Public & Others	5.51	5.48
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Hero Motocorp

Market share continues to dip despite new launches

Hero MotoCorp Q2 margin, at 14.1%, was up just 30bps QoQ despite the 5% QoQ volume growth and improved mix, due to higher promotional spend in Q2. The continued weakness in entry segment can be highlighted from the fact that HMC has introduced attractive schemes on some of these models in key markets in the festive season, as per our channel checks. Also, we remain circumspect of a demand revival in entry segment anytime soon given the below-par monsoon. Further, despite its multiple launches in CY23, HMC continues to lose share: its motorcycle market share is down 280bps YoY to 44.2% in H1 while its scooter share has remained flat YoY at 6.6%. More importantly, despite the launch of new variants in 125cc motorcycle segment, it has lost 330bps share to 20.2% in H1. Even in premium segment, the new Xtreme 160R has not been able to make any mark. Even in scooters, while Xoom seems to be doing well, it has cannibalized sales of other models. Hence, while HMC has a healthy launch pipeline largely focused on the 125cc and above segments, we do not expect it to drive any meaningful share recovery, given its patchy track record of new launches in these segments. Maintain REDUCE with a revised TP of INR 2,844 (from INR 2,672)—as we roll forward to Sep25 earnings.

- **Q2 margin stable QoQ:** Hero MotoCorp Q2 margin at 14.1% was up just 30bps QoQ despite the 5% QoQ volume growth and improved mix, due to higher promotional spend in Q2 (other expenses up 18% QoQ) for new launches. HMC has indicated that drag of EV business on margin currently stands at 90bps (flat QoQ) and it is likely to remain in the 100bps range, going forward. Overall, PAT grew 12.5% QoQ to INR 10.5bn.
- **Call takeaways:** (1) Management has indicated that HMC has so far grown 15% in the festive season on the back of pick-up in rural demand and they expect the 2W industry to post double-digit volume growth in this festive. (2) On new launches, they target to launch a new 125cc motorcycle in Q4 and also premium motorcycles and new scooters in the next 4-6 quarters. (3) HMC has so far delivered 2k units of HD X440 and the order book remains steady at 25k units. They expect to deliver this order book in the next four months. (4) The new Karizma has received 14k bookings. Between HD and Karizma, HMC plans to have an initial production capacity of 10k units in phase1 which can be ramped up based on demand. (5) Vida production currently has ramped up to 1k units per week and they would look to scale up depending on demand. They would also look to launch new EVs in FY25. (6) HMC has opened the 1st premia store recently and they target to scale up to 100+ stores by CY23 end. Similarly, HMC has revamped 200+ existing dealerships to a new look (Hero 2.0) in the last seven months and plans to take this to 500 stores in next six months. (7) HMC has invested Rs5bn in Ather in Q2, taking their stake in the same to 37.5%.

Quarterly/annual financial summary

YE Mar (INR mn)	Q2 FY24	Q2 FY23	YoY (%)	Q1 FY24	QoQ (%)	FY23	FY24E	FY25E	FY65E
Net Sales	94,454	90,754	4.1	87,673	7.7	3,38,057	3,71,779	4,06,016	4,52,368
EBITDA	13,283	10,383	27.9	12,063	10.1	39,862	50,489	52,376	58,808
APAT	10,538	7,601	38.6	9,367	12.5	29,106	38,408	38,170	42,978
Diluted EPS (INR)	52.8	38.1	38.6	46.9	12.5	145.7	192.3	191.1	215.2
P/E (x)						20.9	15.9	16.0	14.2
EV / EBITDA (x)						12.4	9.6	9.2	8.1
RoCE (%)						22.8	28.0	26.1	27.4

Source: Company, HSIE Research

REDUCE

CMP *(as on 02Nov 2023)*	INR 3,052
Target Price	INR 2,844
NIFTY	19,133

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 2,672	INR 2,844
	FY24E	FY25E
EPS %	8.1%	3.3%

KEY STOCK DATA	
Bloomberg code	HMCL IN
No. of Shares (mn)	200
MCap (INR bn) / ($ mn)	610/7,459
6m avg traded value (INR mn)	2,128
52 Week high / low	INR 3,275/2,246

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	2.0	22.3	15.4
Relative (%)	4.5	17.8	10.2

SHAREHOLDING PATTERN (%)

	Jun-23	Sep-23
Promoters	34.77	34.77
FIs & Local MFs	27.28	29.14
FPIs	28.09	26.80
Public & Others	9.86	9.29
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Godrej Properties

Premium launches key for further rerating

Godrej Properties Ltd (GPL) reported the highest-ever quarterly presales worth INR 50.3bn (+109/+123% YoY/QoQ), with a booking area of 5.2msf (+93/+133% YoY/QoQ) with sustenance sales contributing 20%. On back of the strong presales, GPL is confident of achieving INR 140bn+ of targeted presales in FY24. GPL added one new project with a gross development value of INR 7.3bn in Q2FY24, taking the total YTD GDV addition to INR 72bn, on track, with targeted INR 150bn of GDV addition in FY24. However, given a strong launch pipeline of ~18msf and growth visibility of two to three years, GPL will be adding projects on replacement basis in most of the existing markets. Repair expense for the Gurugram project has been under INR 150mn till now (expected total repair expense INR 1.6bn). In addition to this, GPL has bought back 60 units for INR 500mn and expects INR 1-2bn worth of total buy backs (100-200 units out of 1100 total units). We reiterate ADD with an unchanged SOTP valuation of INR 1,664/sh.

- **Q2FY24 financial highlights:** Revenue came in at INR 3.4bn (+108%/-64% YoY/QoQ, a 49% miss). This was on the back of 1.6msf of delivery during the quarter. EBITDA: loss of INR 617mn (vs INR 58mn/(674)mn Q2FY23/Q1FY24) against an estimated loss of INR 322mn. APAT: INR 726mn (+8%/-71% YoY/QoQ, a 50% miss). GPL is targeting 12.5msf of deliveries for FY24 with 6.5msf delivered YTDFY24.
- **Highest-ever quarterly presales; robust launch pipeline:** Presales for Q2FY24 was highest ever in any quarter and stood at INR 50.3bn (+109%/+123% YoY/QoQ), with a booking area of 5.2msf (+93%/+133% YoY/QoQ). This was on back of mainly two projects i.e. Godrej Tropical Isle in Noida which was GPL's most successful launch ever achieving a booking value of INR 20bn from 1.5msf of area sold and Godrej Parkland Estate in Kurukshetra which was GPL's most successful plotted development launch achieving a booking value of INR 6.3bn from 1.4msf of area sold. The overall average price realisation for the quarter was INR 9,607psf (+8%/-4%, YoY/QoQ). Sales from new launches contributed 80% to total presales during the quarter. GPL has launched 6.56msf of projects so far in the year and plans to launch a total of 24.1msf for full year FY24. The Ashok Vihar project Ph1, Vikroli and Carmichael Road project launches are expected in H2FY24. For FY24, GPL expects to cross its presales guidance of INR 140bn.
- **BD activity to slow given accelerated land bank addition in last two years:** In Q2, GPL added one new project with a saleable area of INR 2.2msf and expected sale potential of INR 7.3bn. YTD, INR 72bn worth of projects have been added with INR 150bn targeted for full year FY24. Given its strong launch pipeline, GPL has growth visibility of 2-3 years and will add projects on replacement basis rather than having a lumpy transaction (except for new potential markets like Hyderabad). Collections in Q2 were strong and stood at INR 23.8bn (+23/+21% YoY/QoQ), resulting in a net operating cash flow of INR 8.1bn. Net debt, however, rose to INR 62bn (INR 53bn in Jun'23) with net D/E at 0.65x.

Consolidated financial summary (INR mn)

YE Mar (INR mn)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	FY23	FY24E	FY25E	FY26E
Net Sales	3,430	1,651	108	9,361	(63)	22,523	25,901	29,786	34,254
EBITDA	(617)	(674)	(9)	58	(1,163)	2,476	3,692	4,767	6,025
APAT	726	670	8	2,499	(71)	5,714	6,316	6,630	7,370
Diluted EPS (INR)	2.6	2.4	8.4	9.0	(70.9)	20.6	22.7	23.9	26.5
P/E (x)						80.7	73.1	69.6	62.6
EV / EBITDA (x)						188.6	122.1	85.5	57.9
RoE (%)						6.4	6.6	5.6	4.9

Source: Company, HSIE Research

ADD

CMP *(as on 02 Nov 2023)*	INR 1,716
Target Price	INR 1,664
NIFTY	19,133

KEY CHANGES	OLD	NEW	
Rating	ADD	ADD	
Price Target	INR 1,664	INR 1,664	
EPS Change %	FY24E	FY25E	FY26E
	-	-	-

KEY STOCK DATA	
Bloomberg code	GPL IN
No. of Shares (mn)	278
MCap (INR bn) / ($ mn)	477/5,834
6m avg traded value (INR mn)	1,170
52 Week high / low	INR 1,769/1,005

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	3.4	29.1	38.3
Relative (%)	6.0	24.7	33.1

SHAREHOLDING PATTERN (%)	Jun-23	Sep-23
Promoters	58.48	58.48
FIs & Local MFs	4.30	4.61
FPIs	28.85	29.25
Public & Others	8.37	7.66
Pledged Shares	-	-

Source: BSE

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LIC Housing Finance

NIMs likely to mean revert in growth-margin trade-off

LICHF reported a mixed bag, with sustained healthy NIMs, offset by prolonged sluggishness in loan growth on the back of record repayments in the developer portfolio. Asset quality improved sequentially with decline in GS-II and GS-III, aside from technical write-offs. While LICHF has witnessed an impressive turnaround with NIMs north of 3% during H1FY24, portfolio growth continues to remain muted, exemplifying the trade-off between growth and margins in a state of elevated competitive intensity in the core mortgage business. We revise our FY24/FY25 earnings estimates upwards by 11%/4% and maintain REDUCE, with a revised RI-based TP of INR435 (implying 0.8x Sep-25 ABVPS), as we are guarded on sustainable NIMs and loan growth in a highly competitive market.

- **Strong NIMs; margin compression ahead:** LICHF reported strong NII/PPoP growth (+81%/101% YoY) on a low base (NII impact of INR2.75bn in base quarter; adjusted growth of 47%/56% YoY), driven by strong NIMs (3.04%). Incremental cost of funds was steady at 7.73%, converging with average cost of funds (7.66%). However, the spreads on incremental loan book declined to ~170bps, suggesting incremental NIM compression ahead, especially with the back-book repricing nearly complete.
- **The elusive loan growth puzzle for LICHF:** LICHF continues to grapple with sluggish loan growth (+6% YoY; growth in retail home loans at +8% YoY). The management attributed this to disruption from tech transformation, which was completed by Aug-23, resulting in a decline in disbursals (-13% YoY). The project finance book continued to shrink (-18% YoY) despite the company calling out a revival in this portfolio for the past several quarters.
- **Asset quality on the mend:** GS-II/GS-III improved QoQ to 5.07%/4.33% (Q1FY24: 5.74%/4.96%), partly aided by technical write-offs (~INR 16bn), with sharp improvement in retail home loans segment. Management continues to explore avenues for resolution of stressed assets in project finance portfolio.
- **Earnings call key takeaways:** Management has reiterated loan growth guidance of ~12-15% for FY24, with credit costs at 50bps. NIMs are likely to lower to 2.6% - 2.8%, going ahead. BT-out rate remains stable at ~3-4%.

Financial Summary

(INR bn)	Q2FY24	Q2FY23	YoY(%)	Q1FY24	QoQ(%)	FY23	FY24E	FY25E	FY26E
NII	21.1	11.6	*81.2*	22.1	*(4.7)*	63.3	79.4	82.2	89.8
PPOP	19.0	9.4	*101.1*	20.1	*(5.5)*	55.0	70.0	72.0	78.3
PAT	11.9	3.0	*293.7*	13.2	*(10.1)*	28.9	42.6	45.1	47.8
EPS (INR)	21.6	5.5	*289.9*	24.1	*(10.2)*	52.6	77.4	82.1	86.9
ROAE (%)						11.2%	14.7%	13.8%	13.0%
ROAA (%)						1.1%	1.5%	1.4%	1.3%
ABVPS (INR)						372.0	433.5	496.4	560.8
P/ABV (x)						1.2	1.0	0.9	0.8
P/E (x)						8.6	5.8	5.5	5.2

Change in estimates

(INR bn)	FY24E			FY25E		
	Old	New	Δ	Old	New	Δ
AUM	3,030	3,014	-0.5%	3,338	3,322	-0.5%
NIM (%)	2.4	2.7	24 bps	2.4	2.5	14 bps
NII	72.7	79.4	9.3%	78.3	82.2	5.0%
PPOP	63.0	70.0	11.1%	67.9	72.0	6.1%
PAT	38.2	42.6	11.4%	43.2	45.1	4.4%
Adj. BVPS (INR)	423	434	2.5%	480	496	3.4%

Source: Company, HSIE Research

REDUCE

CMP *(as on 02 Nov 2023)*	INR 449
Target Price	INR 435
NIFTY	19,133

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 395	INR 435
EPS %	FY24E	FY25E
	11.4%	4.4%

KEY STOCK DATA	
Bloomberg code	LICHF IN
No. of Shares (mn)	550
MCap (INR bn) / ($ mn)	247/3,018
6m avg traded value (INR mn)	1,256
52 Week high / low	INR 481/315

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	8.3	26.3	22.4
Relative (%)	10.9	21.9	17.2

SHAREHOLDING PATTERN (%)	Jun-23	Sep-23
Promoters	45.2	45.2
FIs & Local MFs	25.0	21.5
FPIs	17.2	21.2
Public & Others	12.6	12.0
Pledged Shares	0.0	

Source : BSE

Pledged shares as % of total shares

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KEC International

Rising debt a concern

KEC reported Q2FY24 consolidated numbers with a slightly better EBITDA margin profile. Its revenue/EBITDA/APAT beat our estimates by 6.1/14.3/39.6%. However, the standalone (~89% revenue) PAT stood at INR 68mn. It won orders worth INR 90bn (i.e. 36% of FY24 guidance of INR 250bn) in FYTD24. With L1 of INR 40bn, the order book (OB) as of Sep'23 stood at the record high level of INR 350bn (~2x FY23 revenue). There has been movement in collections from Afghanistan as KEC has a net exposure of INR 2.8bn as of Sep'23 vs. INR 3.4bn as of Jun'23. The consolidated net debt, including the interest-bearing acceptances, stood at INR 63.4bn, an increase of INR 6.3bn from INR 57.1bn as of Jun'23, and it remains our key concern. The interest cost for Q2FY24 came in at 3.95% (vs. 3.14/3.74% YoY/QoQ) of revenue. The NWC days as of Sep'23 stood at 140 and are expected to be ~110 by FY24-end (though seems like a tall task). KEC maintained its FY24 revenue guidance of INR 200bn (+16% YoY) and margin guidance of ~7%. It guided for FY24 interest cost to be at ~3.25% of revenue. Given higher interest cost, we have recalibrated our FY24/25/26E earnings lower. Given the debt-heavy balance sheet, we maintain REDUCE with a TP of INR 514/share (14x Sep-25E EPS). Rerating continues to depend upon debt reduction and margin recovery.

- **Q2FY24 financial snapshot:** Revenue: INR 45bn (+10.7/+6% YoY/QoQ, a beat of 6.1%). While execution in segments like railways at INR 7.8bn declined by 12% YoY, revenue growth was driven by growth in all the others segments. T&D (KEC) came in at INR 18.8bn (+2% YoY) and non T&D segments like civil/oil & gas/cables came in at INR 10.5/1.3/4.1bn (+42/57/6% YoY). EBITDA: INR 2.7bn (+54.2/+12.3% YoY/QoQ, a beat of 14.3%). EBITDA margin: 6.1% (+172/+34bps YoY/QoQ, vs. our estimate of 5.8%). APAT came in at INR 558mn (+2.8x/+31.9% YoY/QoQ, a beat of 39.6%, adjusted for higher other income, APAT beat is 10%). Standalone EBITDA margin: 4.6% (vs. 6.2/4.2% Q2FY23/Q1FY24). It maintained its FY24 revenue guidance of INR 200bn (+16% YoY) and margin guidance of ~7%.
- **Debt continues to rise; aiming at reducing NWC days:** The consolidated net debt, including the interest-bearing acceptances, stood at INR 63.4bn, an increase of INR 6.3bn from INR 57.1bn as of Jun'23. The interest cost for Q2FY24 came in at 3.95% (vs. 3.14/3.74% YoY/QoQ) of revenue. KEC guided for FY24 interest cost to be at ~3.25% of revenue. The average interest rate is 8% vs. 5.5% YoY. The NWC days as of Sep'23 stood at 140 and are expected to be ~110 by FY24-end.

Consolidated financial summary (INR mn)

Particulars	2QFY24	2QFY23	YoY (%)	1QFY24	QoQ (%)	FY23	FY24E	FY25E	FY26E
Revenues	44,990	40,640	10.7	42,436	6.0	1,72,817	2,00,204	2,24,168	2,58,180
EBITDA	2,743	1,780	54.2	2,444	12.3	8,297	14,055	19,193	23,460
APAT	558	197	184.0	423	31.9	1,760	4,420	7,920	10,962
EPS (INR)	2.2	0.8	184.0	1.6	31.9	6.8	17.2	30.8	42.6
P/E (x)						89.8	35.8	20.0	14.4
EV/EBIDTA (x)						25.4	15.1	11.1	9.1
RoE (%)						4.8	11.2	17.7	20.6

Source: Company, HSIE Research

Consolidated Estimate Change Summary

Particulars	FY24E			FY25E			FY26E		
	New	Old	% change	New	Old	% change	New	Old	Chg. (%)
Revenues	2,00,204	2,00,204	-	2,24,168	2,24,168	-	2,58,180	258180	-
EBITDA	14,055	14,055	-	19,193	20,183	(4.9)	23,460	23481.6	(0.1)
EBITDA (%)	7.0	7.0	-	8.6	9.0	(44.2)	9.1	9.1	(0.8)
APAT	4,420	4,602	(4.0)	7,920	8,800	(10.0)	10,962	11223.1	(2.3)

Source: Company, HSIE Research

REDUCE

CMP (as on 02 Nov 2023)	INR 615
Target Price	INR 514
NIFTY	19,133

KEY CHANGES		OLD	NEW
Rating		REDUCE	REDUCE
Price Target		INR 545	INR 514
EPS Change %	FY24E	FY25E	FY26E
	-4.0	-10.0	-2.3

KEY STOCK DATA	
Bloomberg code	KECI IN
No. of Shares (mn)	257
MCap (INR bn) / ($ mn)	158/1,932
6m avg traded value (INR mn)	468
52 Week high / low	INR 748/405

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	(3.0)	23.7	41.6
Relative (%)	(0.4)	19.2	36.3

SHAREHOLDING PATTERN (%)	Jun-23	Sep-23
Promoters	51.88	51.88
FIs & Local MFs	26.65	27.15
FPIs	11.58	11.25
Public & Others	9.89	9.72
Pledged Shares	-	-

Source: BSE

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Clean Science and Technology

Valuation remains expensive

We maintain SELL on Clean Science and Technology (CSTL) with a price target of INR 1,012 (WACC 11%, terminal growth 6%), owing to (1) slower-than-expected ramp-up in hindered amine light stabilisers (HALS); (2) entry of domestic competitor in mono methyl ether of hydroquinone (MEHQ) manufacturing; and (3) lower offtake of performance chemicals. Gross profit margin and EBITDA margin are expected to fall by 517/341 bps by FY26 from 65/43% in FY23. EBITDA and PAT shall grow at a 12/11% CAGR over FY23-26E. The RoE is expected to decline from 33.2% in FY23 to 24.2% in FY26E, owing to a reduction in margin and asset turnover. Valuations are contextually high at 41/36x FY25E/26E EPS. Q2 EBITDA/APAT were 18/26% below our estimates, owing to a 21% fall in revenue, and lower-than expected other income offset by lower-than-expected raw material costs.

- **Financial performance:** Revenue fell 27/4% YoY/QoQ to INR 1,811mn due to a 50% fall in volume. EBITDA fell 23/2% YoY/QoQ to INR 748mn. Moderation in raw material prices has resulted in increase in EBITDA margin to 41.3%, (up +193/+85bps YoY/QoQ).
- **Segmental information:** In Q2, performance chemicals, pharma and agro intermediates, and FMCG chemicals fell by 27/22/16% YoY respectively. Performance chemicals and pharma and agro intermediates segments underwent a decrease in volume as well as realisation in Q2. Non-flagship products, like TBHQ, DCC and others, have contributed 25% to the revenue.
- **Con call takeaways:** (1) Export market was impacted in the quarter, whereas domestic market was stable. Exports formed 64% of the total revenue in Q2. (2) Domestic market was less impacted than export market owing to shift in product mix. (3) The company incurred a total capex of INR 0.75bn in Q2FY24, including investment of INR 0.7bn in a subsidiary. Clean Fino-Chem Limited's (CFCL) construction work is on track with commercial production expected by Q4. (4) Commercial orders for HALS products have started. Current, HALS production is about 40-50 tons per month (plant utilisation at ~30%). (5) CSTL has announced INR0.3bn capex to produce pharma intermediate. The company is expected to incur further capex of INR1.7bn to produce pharmaceutical and agrochemical intermediates.
- **Change in estimates:** We change our FY24/25 EPS estimates by -6.3/+0.8% to INR 24.4/33.1 to account for the performance in Q2.

Financial summary (consolidated)

INR mn	2QFY24	1QFY24	*QoQ(%)*	2QFY23	*YoY(%)*	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	1,811	1,881	*(3.7)*	2,475	*(26.8)*	6,849	9,358	8,379	11,722	14,397
EBITDA	748	761	*(1.7)*	975	*(23.2)*	2,999	4,021	3,555	4,894	5,695
APAT	522	589	*(11.5)*	679	*(23.2)*	2,285	2,952	2,591	3,515	4,060
AEPS (INR)	4.9	5.5	*(11.5)*	6.4	*(23.2)*	21.5	27.8	24.4	33.1	38.2
P/E (x)						63.9	49.5	56.3	41.5	36.0
EV/EBITDA(x)						48.4	36.3	40.9	29.6	25.0
RoE (%)						34.9	33.2	23.2	25.7	24.2

Source: Company, HSIE Research

Change in estimates (consolidated)

Y/E Mar	FY24E Old	FY24E New	% Ch	FY25E Old	FY25E New	% Ch	FY26 E Old	FY26 E New	% Ch
EBITDA (INR mn)	3,856	3,555	*(7.8)*	4,930	4,894	*(0.7)*	5,736	5,695	*(0.7)*
Adj. EPS (INR/sh)	26.0	24.4	*(6.3)*	32.8	33.1	*0.8*	38.0	38.2	*0.6*

Source: Company, HSIE Research

SELL

CMP *(as on 02 Nov 2023)*	INR 1,374
Target Price	INR 1,012
NIFTY	19,133

KEY CHANGES	OLD	NEW
Rating	SELL	SELL
Price Target	INR 1,026	INR 1,012
	FY24E	**FY25E**
EPS %	-6.3%	+0.8%

KEY STOCK DATA	
Bloomberg code	CLEAN IN
No. of Shares (mn)	106
MCap (INR bn) / ($ mn)	146/1,785
6m avg traded value (INR mn)	261
52 Week high / low	INR 1,620/1,227

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	5.1	(6.5)	(13.8)
Relative (%)	7.7	(10.9)	(19.0)

SHAREHOLDING PATTERN (%)	Jun-23	Sep-23
Promoters	74.99	74.98
FIs & Local MFs	6.41	5.23
FPIs	5.84	6.00
Public & Others	12.76	13.79
Pledged Shares	0.00	0.00

Source: BSE

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Sapphire Foods

Weak print continues; not out of the woods

Sapphire's Q2 was a mixed bag, KFC was resilient (most top brands sustained) while PH missed on all fronts. Demand environment remained challenging and growth metrics continued to see deceleration. SSSG/ADS YoY was at flat/-7% for KFC and -25/-20% for PH. Store growth supported the overall growth, while India revenue was up by 12% with store growth of 26%. KFC was largely in line with slightly better ROM at 19%. Most established brands could absorb the pressure (Domino's/McD SSSG was at c-3/+1% in Q2). PH saw sharp deceleration despite various steps taken in the last a few quarters, and ROM was <8% (-750bps YoY). Local competition had more impact on PH as compared to Domino's. Sapphire's overall PBT declined by 20% YoY with PBT margin at 3% (down 150bps). We expect such weak performance to continue despite catalysts like World Cup and festive season will playing out in the near term. We maintain our EPS estimates and value Sapphire at 50x P/E on Sep'25 EPS to arrive at a TP of INR 1,000. Maintain REDUCE.

- **Consolidated revenue up 14%, weak underlying:** Consolidated revenue grew by 14% YoY (HSIE: 14%) to INR 6.4bn. India revenue grew by 12% (HSIE 14%), which was supported by 26% store addition as SSSG was weak. KFC/PH revenue grew by 19/-6% YoY while SSSG was weak at 0/-20% due to demand softness and an additional month of Shravan. ADS declined by 7/25% YoY for KFC/PH. Transaction growth was flat for KFC. KFC delivery outperformed the dine-line channel while in the case of PH, both channels were under pressure. Sri Lanka is showing green shoots of macroeconomic recovery leading to revenue growth of by 8% in CC (+29% in INR). We remain cautious about QSR demand and margin performance in FY24. We bake in SSSG of 2/6/5% for KFC and -11/9/5% for PH over FY24-26. We estimate consolidated revenue will grow at 17% CAGR over FY23-26E.
- **PH near-term store guidance to be cut:** Sapphire opened 23/9 KFC/PH stores in Q2FY24. Given near-term weakness, it will be recalibrating the PH store opening in FY24. Management reiterated that PH still remains an important pillar in the long run. We build 220/110 KFC/PH store addition over FY24-26.
- **Despite GM recovery; operating margins remain weak:** GM improved 230bps YoY (+20bps QoQ) to 68.7%. Improvement was both on consolidated level as well as brand level. However, with weak SSSG growth, the consolidated ROM/EBITDA margin contracted by 60/40bps YoY to 16/18%. While KFC ROM expanded by 130bps to 19.2%, the contraction was steep for the weaker PH brand, which saw a decline of 750bps YoY to 7.6%.
- **Con call takeaways:** (1) Consumption trends remained weak which was further impacted by an additional Shravan month. (2) Within KFC, the Snackers range (at INR 99) garnered a positive response. (3) Pizza category is seeing heightened competitive intensity over the past 18 months. (4) Sapphire has invested in dragon-tail technology solution (a kitchen planning tool) to help optimize service. (5) Expect recovery in Sri Lanka operations from 2024 as green shoots of cooling inflation and GDP growth become visible.

Quarterly/annual financial summary

(INR mn)	Q2 FY24	Q2 FY23	YoY (%)	Q1 FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	6,426	5,628	14.2	6,544	(1.8)	17,216	22,656	26,327	31,459	36,431
EBITDA	1,151	1,032	11.6	1,214	(5.2)	3,050	4,284	4,882	5,960	6,982
APAT	152	269	(43.4)	249	(38.8)	460	1,058	843	1,116	1,501
EPS (INR)	2.39	4.23	(43.5)	3.91	(38.9)	7.2	16.7	13.3	17.6	23.6
P/E (x)						182.1	79.1	99.3	75.1	55.8
EV / EBITDA (x)						45.3	31.0	27.7	21.1	17.2
RoCE (%)						6.2	9.3	7.7	8.4	9.7

Source: Company, HSIE Research

REDUCE

CMP *(as on 2 Nov 2023)*	INR 1,319
Target Price	INR 1,000
NIFTY	19,133

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 1,000	INR 1,000
EPS %	FY24E	FY25E
	0%	0%

KEY STOCK DATA	
Bloomberg code	SAPPHIRE IN
No. of Shares (mn)	64
MCap (INR bn) / ($ mn)	84/1,027
6m avg traded value (INR mn)	192
52 Week high / low	INR 1,568/1,102

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	(1.7)	6.3	(10.1)
Relative (%)	0.9	1.9	(15.3)

SHAREHOLDING PATTERN (%)	Jun-23	Sep-23
Promoters	44.86	41.68
FIs & Local MFs	29.61	28.04
FPIs	18.66	23.65
Public & Others	6.87	6.63
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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PSP Projects

In-line execution; debt level on a rise

With decent execution in the quarter, PSP Projects (PSP) reported revenue/EBITDA/APAT of INR 6.1/0.7/0.4bn, beating/(missing) our estimates by 5.6/2.5/(5.7)%. In H1FY24, it was awarded orders worth INR 9.3bn (excluding GST; -38.2% YoY), which took its OB as of Sep'23 to INR 49bn (~2.5x FY23 revenue). All the UP projects are on track and majority of them are expected to be completed by FY24-end. The current bid pipeline stands at INR 100bn+ (including INR 40-45bn from Delhi project). The increase in gross debt from INR 2.8bn as of Jun'23 to INR 4bn as of Sep'23 is majorly on account of the increase in short-term debt due to increase in inventory levels and other financial assets. The revenue guidance for FY24 remains unchanged at INR 26bn, margin guidance at 11-13% and OI guidance at ~INR 30bn. Given the limited upside from current levels, we continue with our ADD rating with an unchanged TP to INR 834/sh (13x Sep-25E EPS).

- **Q2FY24 financial highlights:** PSP posted revenue of INR 6.1bn (+70.3/+19.2% YoY/QoQ, a beat of 5.6%). EBITDA came in at INR 737mn (+91/+14.1% YoY/QoQ, a beat of 2.5%). EBITDA margin came in at 12.1% (+132/-54bps YoY/QoQ, vs. our estimate of 12.5%, owing to higher input and raw material prices). RPAT/APAT came in at INR 394mn (+71.9/+7.3% YoY/QoQ, a miss of 5.7%). With INR 2.7bn revenue booked in Q2FY24, from all seven UP projects, total revenue to date stands at INR 11.8bn. PSP maintained its FY24 revenue guidance of INR 26bn and margin guidance of 11-13%.
- **Revenue visibility over medium term; robust bid pipeline:** In H1FY24, PSP was awarded orders worth INR 9.3bn (excluding GST; -38.2% YoY), taking the OB as of Sep'23 to INR 49bn (~2.5x FY23 revenue), with all projects under execution. Government and institutional orders comprised a major chunk of the OB at 51.8/28.7%. Nearly 83% of the OB comes from Gujarat and the balance 17% from UP. During the quarter, PSP completed two projects. With this, the total number of projects completed to date is 212. It has 54 ongoing projects. The bid pipeline stands robust at INR 100bn+ (including INR 40-45bn from Delhi project). PSP maintained its FY24 OI guidance of INR 30bn+. It is confident of maintaining a bid-win ratio of 15-20%. All the UP projects are on track and the majority of them are expected to be completed by FY24-end.
- **Debt levels on a rise:** Standalone gross debt increased to INR 4bn as of Sep'23 vs. INR 2.8bn as of Jun'23, with gross D/E at 0.46x, as of Sep'23. The increase in debt is mainly the increase in short-term due debt due to increase in inventory levels and other financial assets. PSP guided that INR 4bn is its peak level debt. The company got its sanctioned limit increased to INR 15bn from INR 10bn earlier. With INR 2.1/7.3bn fund-based/non-fund based limits utilized, it has utilized ~62.5% of the overall sanctioned limits. Further, it has taken approval from its board to increase it up to INR 30bn. It has guided for utilizing INR 2bn+ (out of INR 2.3bn vs. INR 1.5bn earlier) of the fund-based limits, going ahead.

Standalone financial summary (INR mn)

Particulars	2Q FY24	2Q FY23	YoY (%)	1Q FY24	QoQ (%)	FY23	FY24E	FY25E	FY26E
Net Sales	6,071	3,566	70.3	5,096	19.2	19,266	24,200	27,830	32,005
EBITDA	737	386	91.0	646	14.1	2,250	3,016	3,484	3,992
APAT	394	229	71.9	367	7.3	1,330	1,888	2,170	2,451
Diluted EPS (INR)	10.9	6.4	71.9	10.2	7.3	36.9	52.4	60.3	68.1
P/E (x)						20.9	14.7	12.8	11.3
EV / EBITDA (x)						12.6	9.3	7.9	6.7
RoE (%)						17.9	21.4	20.7	19.8

Source: Company, HSIE Research

ADD

CMP (as on 02 Nov 2023)	INR 771
Target Price	INR 834
NIFTY	19,133

KEY CHANGES	OLD		NEW
Rating	ADD		ADD
Price Target	INR 834		INR 834
EPS change %	FY24E	FY25E	FY26E
	-	-	-

KEY STOCK DATA	
Bloomberg code	PSPPL IN
No. of Shares (mn)	36
MCap (INR bn) / ($ mn)	28/339
6m avg traded value (INR mn)	86
52 Week high / low	INR 846/588

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	0.3	10.7	29.3
Relative (%)	2.9	6.3	24.1

SHAREHOLDING PATTERN (%)	Jun-23	Sep-23
Promoters	66.22	66.22
FIs & Local MFs	5.37	5.40
FPIs	4.20	4.24
Public & Others	24.20	24.14
Pledged Shares	-	-

Source: BSE

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Rating Criteria

BUY: >+15% return potential

ADD: +5% to +15% return potential

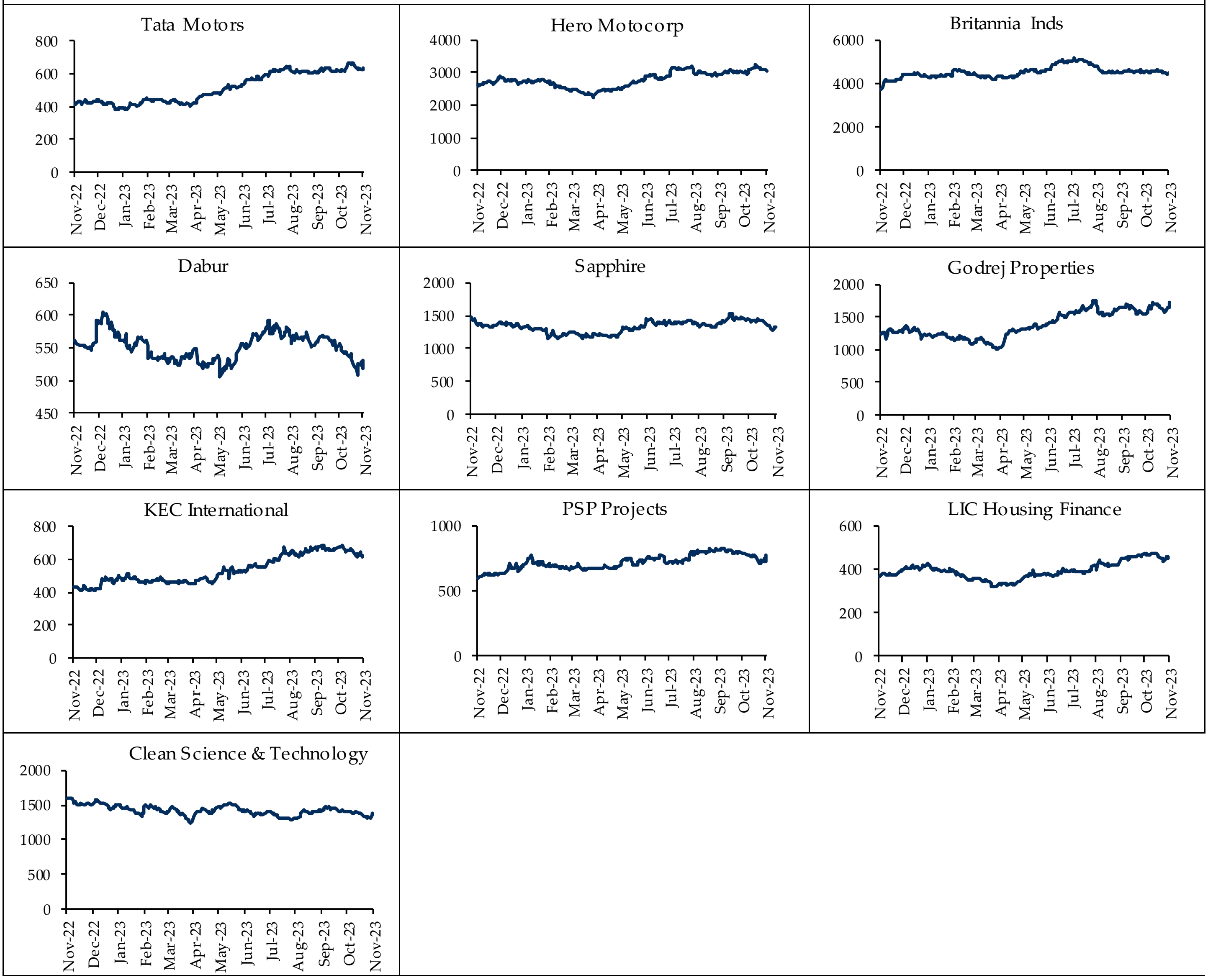
REDUCE: -10% to +5% return potential

SELL: > 10% Downside return potential

Disclosure:

Analyst	Company Covered	Qualification	Any holding in the stock
Aniket Mhatre	Tata Motors, Hero Motocorp	MBA	NO
Varun Lohchab	Britannia Industries, Dabur, Sapphire Foods	PGDM	NO
Naveen Trivedi	Britannia Industries, Dabur, Sapphire Foods	MBA	NO
Paarth Gala	Britannia Industries, Dabur, Sapphire Foods	Bcom	NO
Riddhi Shah	Britannia Industries, Dabur	MBA	NO
Parikshit Kandpal	Godrej Properties, KEC International, PSP Projects	CFA	NO
Manoj Rawat	Godrej Properties, KEC International, PSP Projects	MBA	NO
Nikhil Kanodia	Godrej Properties, KEC International, PSP Projects	MBA	NO
Krishnan ASV	LIC Housing Finance	PGDM	NO
Deepak Shinde	LIC Housing Finance	PGDM	NO
Neelam Bhatia	LIC Housing Finance	PGDM	NO
Nilesh Ghuge	Clean Science and Technology	MMS	NO
Harshad Katkar	Clean Science and Technology	MBA	NO
Akshay Mane	Clean Science and Technology	PGDM	NO

1 Yr Price movement



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