Q3FY23 Post Earnings Review

Worst is Behind; Expect Broad-based growth in FY24

01st March 2023

Mixed Performance

Companies reported a mixed performance, where BFSI, Auto sector reported healthy performance, while the consumer sector witnessed improvement in QoQ gross margins due to softening of some commodity prices. Chemical sector's performance continued to have an impact due to challenging global environment.

9MFY23 has witnessed adverse effect on the margins front which had an impact on the overall earnings (excluding BFSI sector).

Mixed performance on softening of input costs offset by lower realizations: Chemical sector has reported mixed bag numbers whereas realizations declined on YoY basis on account of normalization of raw material prices and other costs.

Growth momentum for banking & NBFC sector remains strong: The overall credit growth remains robust for the banks and NBFCs across all their segments, with healthy expansion in the NIMs. Deposits witnessed healthy sequential improvement in growth despite some pressure on the front of the saving account. The overall earnings were strong, led by resilience in the operating performance, and lower credit costs led by stable asset quality. Life insurers reported a decent performance led by VNB margin expansion owing to the shift in the underlying products across the companies.

FMCG sector witnessed gross margin improvement QoQ: There was no major change in the demand environment in Q3FY23 vs. the previous quarter, however, the decline in rural volumes reduced while the volume growth in urban improved. Most companies benefitted from softening of some commodities, mainly palm oil. Several commodities like milk, wheat and flour, cereals, and green coffee have remained elevated. The improved gross margins were utilized to increase ad spending, thus improving the quality of profits. Rural performance was a mixed bag, where players focusing on rural distribution expansion fared better.

Auto OEMS saw QoQ margin improvement due to better realization, product mix, and softening of input costs: Compared to the pre-covid period of Q3FY20, retail sales of all the segments except 2-wheelers were in the green in Q3FY23. While the retail sales were strong in Q3FY23 due to festive season demand, the impact of it on wholesales was seen in the previous quarter itself, i.e. Q2FY23. Sequentially, Q3FY23 saw a decline in domestic wholesales of OEMs due to seasonality. Most OEMs under coverage witnessed sequentially better realizations, softening of input costs, and improved product mix, leading to better margins QoQ. Exports have continued to remain impacted as international markets continued to face higher uncertainties.

Moderate growth on the back of good deal wins: Top-tier IT players reported a moderate growth of 15-20%. IT investment in North America and Europe has been largely stable due to the demand for digital and cloud transformations. Due to global macroeconomic pressure, net hiring has stayed unchanged, but IT companies anticipate some positive momentum in the next years.

Outlook: The financial sector continued to outperform all the other sectors during Q3FY23. We expect the corporate earnings for Q4FY23E to be supported by the improvement in global environment and normalization of input costs.

LEAD ANALYST
Abhishek Agarwal, research5@krchoksey.com, +91-22-6696 5413

KRChoksey | research

Coverage Companies
BFSI – Banking
HDFC Bank
ICICI Bank
Kotak Bank
Axis Bank
SBI bank
IndusInd Bank
Karur Vysya Bank
Bandhan Bank
BFSI – NFBCs / Specialty Finance
Bajaj Finance Ltd.
Bajaj Finserv Ltd.
Cholamandalam Investments
HDFC AMC
HDFC Ltd.
Credit Access Gramin
ICICI securities
NAM
BFSI – Life Insurance
HDFC Life
ICICI Prudential
SBI Life
Max Financial

Coverage Companies
Consumer – Essentials
Britannia Industries
Nestle India
ITC Ltd.
Hindustan Unilever
Tata Consumer Products
Consumer – Personal Care
Colgate Palmolive India
Godrej Consumers
Emami Ltd.
Adani Wilmar
Devyani International
Consumer – Durables
Blue Star
Whirlpool India
Consumer – Others
Asian Paints
Berger Paints
Avenue Supermarts

Coverage Companies
IT
Infosys
HCL Technologies
Tech Mahindra
Persistent Systems
Tata Elxsi
Sonata Software
Happiest Minds
Infibeam Avenues

Coverage Companies
Auto and Auto Ancillary
Tata Motors
Maruti Suzuki
Bajaj Auto
Ashok Leyland
Eicher Motors
UNO Minda
Minda Industries
Balkrishna Industries
Bharat Forge
Endurance Technology
Petrochemical and Chemicals
UPL Ltd
Supreme Petrochemicals Ltd
Rossari Biotech
Tatva Chintan Pharma Chem Ltd
Anupam Rasayan Ltd
Laxmi Organics Ltd
Navin Fluorine Int Ltd
Balaji Amines Ltd
Vinati Organics Ltd
Gujarat Fluorochemicals
Miscellaneous
Embbi Industries
Filatex

LEAD ANALYST
Abhishek Agarwal, research5@krchoksey.com, +91-22-6696 5413

KRChoksey Research
is also available on Bloomberg KRCS<GO>
Thomson Reuters, Factset and Capital IQ

Phone: +91-22-6696 5555, Fax: +91-22-6691 9576
www.KRChoksey Research.com

KRChoksey | research

LEAD ANALYST
Abhishek Agarwal, research5@krchoksey.com, +91-22-6696 5413

BFSI Sector

Credit offtake remains broad based; deposits growth sees gradual QoQ improvement: The credit offtake for the banking industry remained strong for the quarter, led by a healthy festive season and a pick-up in demand. The corporate lending segment saw further improvement led by higher working capital requirements and improved utilization levels. The retail segment continues to see robust growth driven by resilient growth in the housing, vehicle & personal loan segments. The credit card business saw a decent uptick due to higher consumer discretionary spending owing to festive season. As of December 31, 2022, the average credit growth for banks under our coverage stood at 17.9% YoY/ 4.0% QoQ, with Kotak Bank leading the group by reporting 22.9% YoY growth. The credit growth continued to outpace the deposit growth for the quarter. Deposits saw improvement in growth sequentially. The average growth in deposits was 14.0% YoY/ 3.4% QoQ, led by 21.0% YoY growth in Bandhan Bank and 19.9% in HDFCB. CASA ratio continues to decline during the quarter on account of lower growth in the savings account led by withdrawals seen due to more attractive investment avenues. The balance sheet continues to strengthen further across all the banks.

Strong Net Interest Margin (NIM) expansion; slight moderation in C/I ratios: The Net Interest Income for the quarter grew at an average of 24.0% YoY/ 7.3% QoQ for the banks under our coverage. The growth was a reflection of strong asset growth. Excluding Bandhan Bank, the average growth in NII was 27.7% YoY. Net Interest Margins (NIMs) reported a strong QoQ/YoY expansion, led by asset repricing, improved yields, and a higher share of the Repo-linked loan portfolio. The cost of funds has seen a modest increase on account of the lag in the transmission of interest hikes on liabilities. The impact of repricing of deposits is to be seen in the upcoming quarters. The strong growth in NII has driven growth in the Pre-Profit Operating Profits (PPOP). The core fee income growth was in line with the improvement in the overall business momentum. The treasury income reported strong growth during the quarter. The Cost-to-Income ratios for the quarter improved at an average of 209 bps YoY/ 187 bps QoQ, driven by healthy growth in the operating income. The earnings for Q3FY23 saw robust growth driven by healthy operating income & lower provisions. The earnings growth was at an average of 32.8% YoY for Q3FY23. Bandhan Bank reported a decline of 66.2% YoY in Q3FY23. Excluding Bandhan Bank, the growth was at an average of 46.9% YoY.

Stable Asset Quality: In Q3FY23, the asset quality remains stable for all the banks under our coverage, led by lower slippages and healthy recoveries. The decline in NPAs was also led by improving collection efficiencies and the rising focus on credit quality. The NNPAs remained range bound for the majority of the players. The Provision Coverage ratio for the banks improved QoQ/ YoY and was in the range of 73.0%-91.0% for the quarter. The Covid-related provision reversals remained lower for Q3FY23 compared to Q1 & Q2, which led to sequential increase in overall provisions.

Valuation: Banks are currently trading at 1.9x, which is below its five years average industry P/B multiple, i.e., at 3.3x. We remain bullish on the business outlook for the banks under our coverage, supported by strong demand traction. NIMs are expected to see slower expansion due to the transmission effect of increasing the cost of deposits in upcoming quarters. Asset quality to be stable with no negative surprises and tightened control over the credit costs. We do not expect any significant impact of the large conglomerate exposure on the asset quality. We are optimistic about ICICI Bank and SBIN considering multiple tailwinds for business growth.

LEAD ANALYST
Abhishek Agarwal, research5@krchoksey.com, +91-22-6696 5413

Companies	Net Interest Income (NII)/Earnings	Asset Quality / Provisioning	Outlook / Strategy
HDFC Bank	• Net Interest Income (NII) for Q3FY23 stood at INR 2,29,878 Mn, a growth of 24.6% YoY/ 9.4% QoQ (+0.6% vs. our est). The Core NIMs were stable at 4.1% in Q3FY23, an improvement of 10 bps YoY. • Pre-Provision Operating Profits (PPOP) grew 13.4% YoY/ 9.4% QoQ (-3.1% vs. our est) at INR 1,90,241 Mn. • Net Profit stood at INR 1,22,595 Mn, an increase of 18.5% YoY/ 15.6% QoQ (-1.0% vs. our est) led by healthy growth in operating profits and lower YoY/ QoQ provisions. • Advances as of December 31, 2022, were reported at INR 1,50,68,093 Mn, a growth of 19.5% YoY/ 1.8% QoQ. The deposit grew by 19.9% YoY/ 3.6% QoQ at INR 1,73,32,040 Mn.	• Provisions for Q3FY23 were at INR 28,064 Mn as against INR 29,940 Mn in Q3FY22 (-10.1% vs. our est). The credit cost for Q3FY23 stood at 0.74% vs 0.87% in Q2FY23 and 0.94% in Q3FY22. • The GNPA were 1.23% as of December 31, 2022, vs 1.26% as of December 31, 2021. NNPA stood at 0.33% vs 0.37% as of December 31, 2021. • The slippage ratio for Q3FY23 stood at 0.42%, while total slippages amounted to INR 66 Bn. • The recoveries and upgrades were about INR 31 Bn Mn, while write-offs were also at INR 31 Bn in Q3FY23.	• Corporate Bank initiatives across new-to-bank PLI, MNC and supply chain finance, continue to be a focus, allowing to diversify revenue pools to new customers, products and sector. • On the digital front, the bank continued its momentum on the technology and digital transformation agenda to provide greater customer experience, through its Digital and Enterprise Factory. • SmartHub Vyapar was further enhanced with the addition of new features, a revamp of ETB journey and enabling onboarding of new-to-bank customers digitally.
ICICI Bank	• Net interest income (NII) grew by 34.6% YoY (11.4% QoQ; +3.9% vs. our est) to INR 1,64,653 Mn in Q3FY23. The net interest margin was 4.7% in Q3FY23 vs 4.0% in Q3FY22 (4.3% in Q2FY23). • PPOP grew by 30.8% YoY/ 13.6% QoQ at INR 1,32,716 Mn. • The profit after tax grew by 34.2% YoY (10.0% QoQ) to INR 83,122 Mn in Q3FY23. • The overall advances as of December 31, 2022, stood at INR 97,40,475 Mn, a growth of 19.7% YoY (3.8% QoQ). Total deposits increased by 10.3% YoY (2.9% QoQ) to INR 1,09,00,080 Mn as of December 31, 2022.	• Provisions (excluding tax provision) increased by 12.5% YoY/ 37.3% QoQ (+35.7% vs. our est) to INR 22,574 Mn in Q3FY23. The Bank has changed its provisioning norms on non-performing assets to make them more conservative. • GNPAs and NNPAs stood at 3.07% and 0.55% as of December 31, 2022, as against 3.19% and 0.61%, respectively, as of September 30, 2022. • Recoveries and upgrades from gross NPAs, excluding write-offs and sales, were INR 46.04 Bn in Q3FY23, compared to INR 37.61 Bn in Q3FY22.	• In Q3FY23, ICICIBC raised long-term infrastructure bonds as well as refinanced borrowings from domestic financial institution, overseas borrowings declined reflecting the reduction in assets. It also had bond maturities arising out of older capital instruments during the quarter. • While repricing of deposits occurs with a lag, the bank expects to see the impact of repricing of deposits in future quarters. • ICICIBC continues to enhance its digital offerings and platforms to onboard new customers in a seamless manner and provide them end-to-end digital journey and personalized solutions.
Kotak Mahindra Bank	• Net Interest Income (NII) for Q3FY23 increased to INR 56,529 Mn, up 30.4% YoY (10.9% QoQ; +6.7% vs. our est). Net Interest Margin (NIM) for Q3FY23 was at 5.47% against 4.62% in Q3FY22, an improvement of 85 bps YoY (30 bps QoQ). • PPOP for Q3FY23 was INR 38,498 Mn, a growth of 42.5% YoY/ 7.9% QoQ (+3.4% vs. our est). • The bank's PAT for Q3FY23 increased to INR 27,919 Mn, an increase by 31.0% YoY/ 8.2% QoQ (+7.3% vs our est). • Advances grew by 22.9% to INR 31,07,340 Mn as on December 31, 2022. The overall deposits grew 12.9% YoY/ 6.0% QoQ at INR 34,46,660 Mn.	• Provision for the quarter was INR 1,488 Mn (-213% YoY/ +8.6% QoQ; -41.5% vs. our est). • GNPA/ NNPA, as of December 31, 2022, stood at 1.90%/ 0.43% as against 2.08%/ 0.55% as of September 30, 2022, respectively. • Slippages for the quarter stood at INR 7,480 Mn compared to INR 9,830 Mn in Q2FY23. • The bank holds INR 65,700 Mn provisions as of December 31, 2022. The recoveries/upgrades in Q2FY23 stood at INR 8,740 Mn.	• KMB remains focused on residential real estate, seeing continued traction in the new real estate sales, though the bank is seeing some early stages of moderation in the pace of sales in most markets. On the commercial real estate side, KMB remains cautious, primarily driven by pricing rather than by the availability of assets. • On the credit cards side, KMB's market share has been steadily growing, both on spend and cards in force, strengthening its co-brand product suite further.

KRChoksey | research

Companies	Net Interest Income (NII)/Earnings	Asset Quality / Provisioning	Outlook / Strategy
Axis Bank	• AXSB's Net Interest Income (NII) grew 32.4% YoY/ 10.6% QoQ (+2.7% vs. our est) to INR 1,14,593 Mn in Q3FY23. Net interest margin (NIM) for Q3FY23 stood at 4.3%, improved 30 bps QoQ and 73 bps YoY. • The bank's PPOP for the quarter was INR 92,775 Mn, a growth of 50.6% YoY/ 20.2% QoQ (+10.1% vs. our est) led by robust growth in operating income. • Net profit grew 61.9% YoY (+9.8% QoQ; 3.1% vs our est)) from INR 36,142 Mn in Q2FY22 to INR 58,531 Mn in Q3FY23. • AXSB's advances grew 14.6% YoY to INR 7,621 Bn as of December 31, 2022. The total deposits grew by 9.9% YoY at INR 8,482 Bn.	• Provisions for the quarter stood at INR 14,377 Mn (+161.5% QoQ, +7.7% YoY; +66.7% vs our est). • As of December 31, 2022, the bank's reported GPA and NNPA levels were 2.38% and 0.47% respectively as against 2.50% and 0.51% as of September 30, 2022. • The recoveries for Q3FY23 stood at INR 20,880 Mn. Net slippages adjusted for recoveries from written-off accounts were INR 11,110 Mn. • BB and Below pool of the bank declined 78.0% YoY.	• AXSB's offshore wholesale advances are largely trade finance related and primarily driven by its GIFT city branch. 97% of the overseas standard corporate loan book in GIFT city branch is India linked and 95% is rated A- and above. • It has issued over 3 Mn cards in 9MFY23, nearly ~2X of that issued in 9MFY22. AXSB had a 16% growth in incremental CIF market share in Q3. • The bank's loan book continues to get more granular and balanced with retail advances constituting 56% of the overall advances, corporate loans at 33% and CBG at 11%.
SBI	• Net Interest Income (NII) for Q3FY23 increased by 24.1% YoY (+8.2% QoQ; +2.2% vs. our est) at INR 380,686 Mn. NIMs stood at 3.29% in Q3FY23 vs 3.11% in Q3FY22 (vs 3.17% in Q2FY23). • PPOP grew by 36.2% YoY and 19.4% QoQ (+14.2% vs our est) at INR 252,193 Mn in Q3FY23. • SBIN has registered net profit of INR 142,052 Mn in Q3FY23. This represents a growth of 68.5% YoY (+7.1% QoQ; +6.5% vs. our est). • The total deposits grew at 9.5% YoY/ 0.6% QoQ at INR 4,21,35,571 Mn as of December 31, 2022. As of December 31, 2022, the advances grew by 18.6% YoY (+3.6% QoQ).	• The loan loss provisions for the quarter stood at INR 15,865 Mn, a decline of 48.8% YoY/ 21.1% QoQ. Overall provisions were at INR 57,606 Mn, a decline of 17.4% YoY (+51.7% vs. vs our est). • Gross NPA ratio at 3.14%, an improvement of 136 bps YoY (improved 38 bps QoQ). Net NPA ratio at 0.77% as of December 31, 2022, against 0.8% as of September 30, 2022. • Slippage Ratio for Q3FY23 stands at 0.41%, an increase of 4 bps YoY/ 8 bps QoQ.	• SBIN expect to end Q4FY23E with its credit cost at similar levels as in Q3FY23. • SBIN retain its loan book guidance of 14-16% by the end of FY23E. • The banking industry is focusing on high-value agricultural loan as well as agri finance. The Bank has targeted taking the Agri loan book to approximately INR 3.0 Tn by FY24E. • In the corporate loan segment, the Bank has proposals of about INR 1.9 Tn and an expected ~ INR 3.0 Tn overall pipeline for both term loan and working capital.
IndusInd Bank	• In Q3FY23, Net Interest Income (NII) increased 18.5% YoY/ 4.5% QoQ (-1.1% vs. our est) to INR 44,954 Mn. NIMs stood at 4.27% for Q3FY23, an expansion of 17 bps YoY/ 3 bps QoQ. • PPOP grew by 11.3% YoY/ 4.0% QoQ (-0.9% vs. our est) in Q3FY23 at INR 36,864 Mn. • PAT for Q3FY23 stood at INR 19,636 Mn, an increase of 58.2% YoY and 8.8% QoQ (+1.2% vs. our est) led by healthy operating performance and declining provisions. • Advances grew at 19.0% YoY/ 4.6% QoQ at INR 27,19,660 Mn, while deposits grew 14.4% YoY/ 3.2% QoQ at INR 32,54,910 Mn.	• Provisions were at INR 10,647 Mn, a decline by 35.6%YoY/ 6.7% QoQ (-6.0% vs. our est). • As of December 31, 2022, GNPA/ NNPA were 2.06%/ 0.62%, respectively, which improved from 2.48% and 0.71% as of December 31, 2021, respectively. NNPAs remained range bound at the current level. • The gross slippages from corporate book saw reduction in both standard as well as restructured accounts. Overall slippages were down from INR 1.8 Bn to 1.2 Bn QoQ.	• To promote greater thrust on ESG linked products, IIB is launching a series of them . It has already launched 2 such products including (a) EV finance for passenger cars and (b) Green fixed deposits. • It opened 64 branches during the quarter taking the total branch count to 2,384 and aiming towards closing the year between 2,450 to 2,500 branches. • The bank has also announced world's first tri-partite cobranded card in partnership with Qatar Airways and British Airways.

Companies	Net Interest Income (NII)/Earnings	Asset Quality / Provisioning	Outlook / Strategy
Karur Vysya Bank	• Net Interest Income (NII) grew 29.4% YoY/8.2 QoQ in Q3FY23 at INR 8,890 Mn (+1.6% vs. our est). NIMs stood at 4.32%, improvement of 64 bps YoY/ 25 bps QoQ in Q3FY23. • PPOP for Q3FY23 stood at INR 6,890 Mn, a growth of 20.4% QoQ/ 71.6% YoY (+20.4% vs our est) led by strong non-interest income growth of 62.3% YoY/ 31.4% QoQ. • In Q3FY23, PAT grew 56.0% YoY/15.6% QoQ (+11.0% vs our est) at INR 2,893 Mn on account of strong operating performance. • Advances as of December 31, 2022, grew 14.1% YoY/ 5.8% QoQ to INR 6,36,360 Mn while overall, deposits grew 13.9% YoY/ 3.5% QoQ to INR 7,61,750 Mn. CASA reported a growth of 6.9% YoY with contribution at 33.9% to the total deposits.	• The provisions were INR 3,641 Mn in Q3FY23 (+69.3% vs our est). • The GNPA and NNPA were 2.66% and 0.89% as of December 31, 2022, as against 3.97% and 1.36% as of September 30, 2022, respectively. • The gross slippages during the quarter continued to be under control at INR 1.62 Bn.	• Normalized NIM after adjusting lag effect of assets and liability pricing, would be in 4%, considering its business model and subject to normal market conditions. • KVB is confident of reaching ROA of 1.35% in the exit quarter and continue the growth trajectory in the coming years. • Fee and other income continues to grow in tune with the business growth. • Going forward, the bank intends to keep its gross NPA at below 2% and net NPA at less than 1%.
Bandhan Bank	• Net Interest Income (NII) for Q3FY23 stood at INR 20,804 Mn, a de-growth of 2.1% YoY/ 5.1% QoQ (-10.1% vs. our est) led by lower yields. The Core NIMs stood at 6.5% in Q3FY23, a contraction of 130 bps YoY/ 50 bps QoQ. • PPOP grew 23.8% QoQ but declined by 1.4% YoY at INR 19,222 Mn (-1.8% vs. our est). • Net Profit stood at INR 2,906 Mn, an increase of 38.8% QoQ (+0.5% vs. our est) led by higher non-interest income sequentially, while PAT declined by 66.2% YoY owing to higher provisions and lower operating income. • Advances as of December 31, 2022, were reported at INR 9,20,910 Mn, a growth of 14.7% YoY/ 2.1% QoQ. The deposit grew by 21.0% YoY/ 2.9% QoQ at INR 10,22,830 Mn with CASA ratio at 36.4% as against 45.6% in Q3FY22.	• Provisions for Q3FY23 were at INR 15,415 Mn as against INR 8,057 Mn in Q3FY22 (-0.7% vs. our est). The credit cost for Q3FY23 stood at 6.4% vs 5.3% in Q2FY23 and 3.7% in Q3FY22. • The GNPA were 7.15% as of December 31, 2022, vs 10.81% as of December 31, 2021. NNPA for the quarter ended stood at 1.86% vs 3.01% as of December 31, 2021, of the net advances. • EEB GNPA stood at INR 51.3 Bn; Housing NPA stood at INR 9.7 Bn; Commercial Banking NPA stood at INR 8.3 Bn and Retail NPA stood at INR 0.3 Bn. • The recoveries and upgrades during the quarter stood at INR 6,200 Mn. Gross NPA stood at INR 69.6 Bn as of Dec'22.	• Bandhan expects to grow its advances and deposits by 22% to 25% CAGR FY22-FY25E with focus remaining strong on the retail segment and diversification. • Bandhan expects the steady state NIMs to inch up from 7.3% to 7.75% in next few quarters and from there the bank will see the impact of change in mix to come in, over the next two years. • Bandhan is looking to build a robust and granular deposit franchise however, during the quarter the bank has seen the movement of deposits from customers maintaining savings balance above INR 20 Mn to bulk deposits. The bank does not expect any further movement from savings account to the bulk deposits. So, it will definitely see improvement in CASA deposits from Q4 onwards.

Improved yields and asset growth led to NIM expansion; Stable asset quality

Particulars (INR Mn)	HDFC Bank	ICICI Bank	Kotak Bank	Axis Bank	SBI Bank	IndusInd Bank	Karur Vysya Bank	Bandhan Bank
Net Interest Income	2,29,878	1,64,653	56,529	1,14,593	3,80,686	44,954	8,890	20,804
Pre-Provision Profit	1,90,241	1,32,716	38,498	92,775	2,52,193	36,864	6,890	19,222
Provisions	28,064	22,574	1,488	14,377	57,606	10,647	3,641	15,415
Net Profit	1,22,595	83,122	27,919	58,531	1,42,052	19,636	2,893	2,906
Advances	1,50,68,093	97,40,475	31,07,340	76,20,755	3,05,81,770	27,27,540	6,36,360	9,20,910
Deposits	1,73,32,040	1,12,20,495	34,46,660	84,81,733	4,21,35,571	32,52,780	7,61,750	10,22,830
CASA (%)	44.0%	44.6%	53.3%	44.5%	44.5%	42.0%	33.9%	36.4%
NIM (%)	4.1%	4.7%	5.5%	4.3%	3.3%	4.3%	4.3%	6.5%
Cost to Income (%)	39.6%	38.2%	50.3%	42.5%	49.1%	43.9%	42.9%	38.3%
GNPA (%)	1.23%	3.05%	1.90%	2.38%	3.14%	2.06%	2.66%	7.15%
NNPA (%)	0.33%	0.55%	0.43%	0.47%	0.77%	0.62%	0.89%	1.86%
PCR (%)	73.2%	82.6%	77.6%	80.8%	75.6%	70.6%	90.9%	75.4%

Source: Company, KRChoksey Research

CASA ratio declines owing to slower growth in Saving account

Particulars	HDFC Bank		ICICI Bank		Kotak Bank		Axis Bank		SBI		IndusInd Bank		Karur Vyasa Bank		Bandhan Bank	
Change (%)	QoQ	YoY	QoQ	YoY	QoQ	YoY	QoQ	YoY	QoQ	YoY	QoQ	YoY	QoQ	YoY	QoQ	YoY
Net Interest Income	9.4%	24.6%	11.4%	34.6%	10.9%	30.4%	10.6%	32.4%	8.2%	24.1%	4.5%	18.5%	8.2%	29.4%	-5.1%	-2.1%
Pre-Provision Profit	9.4%	13.4%	13.6%	30.8%	7.9%	42.5%	20.2%	50.6%	19.4%	36.2%	4.0%	11.3%	20.4%	71.6%	23.8%	-1.4%
Provisions	-13.4%	-6.3%	37.3%	12.5%	8.6%	-213.0%	161.5%	7.7%	89.6%	-17.4%	-6.7%	-35.6%	60.3%	149.2%	20.5%	91.3%
Net Profit	15.6%	18.5%	10.0%	34.2%	8.2%	31.0%	9.8%	61.9%	7.1%	68.5%	8.8%	58.2%	15.6%	56.0%	38.8%	-66.2%
Advances	1.8%	19.5%	3.8%	19.7%	5.7%	22.9%	4.3%	14.6%	3.6%	18.6%	4.9%	19.3%	5.8%	14.1%	2.1%	14.7%
Deposits	3.6%	19.9%	2.9%	10.3%	6.0%	12.9%	4.6%	9.9%	0.6%	9.5%	3.1%	14.3%	3.5%	13.9%	2.9%	21.0%
(in Bps)																
CASA	-139	-310	-40	10	-290	-662	-167	53	-15	-126	-40	-20	-133	-221	-440	-920
NIM	0	10	34	69	30	85	30	73	12	18	3	17	25	64	-50	-130
Cost to Income	36	259	-289	-284	92	-225	-358	-822	-297	-385	5	232	-326	-1162	-356	701
GNPA	0	-3	-12	-106	-18	-81	-12	-79	-38	-136	-5	-42	-131	-431	-4	-366
NNPA	0	-4	-6	-30	-12	-36	-4	-44	-3	-57	1	-9	-47	-166	0	-115
PCR	-10	243	135	245	390	630	90	876	-230	440	-99	-118	393	1206	-9	99

Source: Company, KRChoksey Research

NBFC: Broad based growth led to strong growth in AUM

- NBFCs continued to see healthy traction across all the segment in Q3FY23, particularly led by vehicle finance segment. The Asset Under Management (AUM) growth for the NBFCs was in the expected lines across all the segments. The average AUM growth for the quarter was at 23.5% YoY/ 9.1% QoQ, led by Cholamandalam with 31.3% YoY/ 21.5% QoQ growth, with the highest-ever disbursement during the quarter. The vehicle financing & home segment continued to report strong growth. The mortgage segment saw a slight slowdown in growth, leading to a moderation in the growth rate for BAF. CIFC reported robust growth in vehicle loans (20.9% YoY/ 6.4% QoQ) with an improving share of the new business verticals with increased geographical reach.
- The NBFCs saw the impact of the rising cost of funds on their Net Interest Margins (NIMs), which was partially offset by the AUM growth and asset re-pricing. The NBFCs continued to pass on the increase in the interest rate across all their segments. Overall, margins remained stable. The NIMs are expected to see the further impact of the rising cost of borrowings as there is a lag in transmission of the borrowing cost in the overall industry. Net Interest Income (NII) grew at an average of 22.7% YoY/ 7.0% QoQ, led by a strong pick-up across all the business segments.
- NBFCs reported further improvement in the asset quality with a sequential decline in the Gross stage-3 assets. The collection efficiency continued to improve, which led to an improvement in asset quality. The credit costs remained under control. The NBFCs continue to hold a healthy management outlay which is expected to be utilized in case of any uncertainties.
- The Cost to Income ratio in Q3FY23 remained elevated for most of the players under our coverage, led by increased investments for scaling up the existing business and creating a new avenue for growth in product segment or distribution channel expansion.
- The Housing Finance Companies (HFCs) continued to see strong demand from the affordable housing segment. The mortgage segment saw moderate growth, impacted by steadily rising interest rates during the quarter. For HDFC, the NIMs were stable sequentially at 3.5%. The real estate sector remains optimistic, giving a boost to the growth of the HFC business traction. The HDFC & HDFC Bank merger process remains in process and on track as per the timelines. Considering the rising interest rate scenario, we might continue to see demand pressure on the mortgage book for the HFCs.
- We expect the players like BAF & CIFC to continue investing in new business engines & digital infrastructure to gain further market share & attain the next level of growth opportunity.

Asset Managers: Decent performance led by equity segment and new launches

- The Asset Management Companies (AMCs) reported a decent set of numbers during the quarter. The AUM saw sequential improvement for both companies under our coverage. The equity-oriented AUM mix reported an improvement for HDFCAMC led by new launches. The yields for the quarter were sequentially stable. HDFCAMC reported a stable market share QoQ, while NAM-India saw a slight improvement in the market share, especially for the SIP segment. EBITDA margins remained under pressure owing to increased spending on new product development & its launches. The cost-to-income ratio increased by 155 bps YoY in Q3FY23. We expect AMCs to focus on new product pipelines & see healthy growth in the medium to long term led by improving industry traction.

Valuation:

- The stocks are trading lower than their historical average multiple. Overall, industry growth momentum is expected to be strong with new initiatives in the form of scaling up the business. We remain cautious about the NIMs as the increasing interest rates will have an impact in upcoming quarters. We continue to like Bajaj Finance and CIFC as our top picks.

LEAD ANALYST
Abhishek Agarwal, research5@krchoksey.com, +91-22-6696 5413

Companies	Net Interest Income/Earnings	Asset Quality / Provisioning	Outlook / Strategy
Bajaj Finance Ltd.	• Net Interest Income (NII) for Q3FY23 increased by 23.9% YoY (+6.2% QoQ; -0.9% vs our est) to INR 74,331 Mn. • Pre-Provision Operating Profit (PPOP) stood at INR 48,529 Mn, a growth of 23.8% YoY (+8.2% QoQ; +1.5% vs our est) in Q3FY23. • Profit after tax for Q3FY23 increased by 39.9% YoY (+6.9% QoQ; +0.5% vs our est) to INR 29,729 Mn from INR 21,253 Mn in Q3FY22 led by strong operating performance and lower provisions. • As of December 31, 2022, AUM reported a growth of 27.4% YoY/ 5.7% QoQ at INR 23,08,420 Mn.	• Gross NPA and Net NPA as of December 31, 2022, stood at 1.14% and 0.41% respectively, as against 1.17% and 0.44% as of September 30, 2022. • The loan losses and provisions for Q3FY23 stood at INR 8,413 Mn. BAF expects its loan losses and provisions at 1.4-1.5% of average assets in FY23E. • It continues to hold a management outlay of INR 100 Bn as of December 31, 2023.	• The company expects its loan losses and provisions at 1.4-1.5% of average assets in FY23. It holds a management and macro-economic overlay of INR 10 Bn as of December 31, 2022. • BAF has planned to launch product segments where it is not present viz new auto loans in Q2FY24E, micro finance loans in Q4FY24E, tractor financing in Q1FY25E, and emerging corporate business in Q3FY24E. At the same time, launch B2B on QR and EDC in Q4FY24E, Flexi on QR in Q4FY24E and Insta PL card in Q4FY24E.
Bajaj Finserv Ltd.	• The consolidated revenues stood at INR 2,17,552 Mn, an increase of 23.7% YoY (+4.6% QoQ; +7.2% vs our est). • Bajaj Finserv reported a consolidated profit of INR 17,820 Mn, a growth of 41.7% YoY (+14.5% QoQ; +2.4% vs our est). • BAF's profit after tax for Q3FY23 reported a growth of 40% YoY at INR 29,730. • BAGIC's Profit after tax for Q3FY23 stood at INR 2,780 Mn as against INR 3,040 Mn in Q3FY22. • BALIC's shareholders' profit after tax during Q3FY23 stood at INR 810 Mn as against INR 880 Mn in Q3FY22.	• The credit quality remained strong for the quarter with stable GNPA/ NNPA at 1.14%/ 0.41%, an improvement of 59 bps/ 32 bps. • The loan losses and provisions for Q3FY23 stood at INR 8,413 Mn. BAF expects its loan losses and provisions at 1.4-1.5% of average assets in FY23E.	• The growth in commercial lines was due to BAGIC's strong Banca insurance network and multi-line agency channel, supported by strong underwriting and large reinsurance capacity for covering significant risks. • In Q3FY23, while few private players saw a slowdown in their growth compared to the previous year, BALIC continued its month-on-month growth trajectory and reported an industry-beating individual-rated premium growth of 22% against the industrial private players' growth of 12% and 16%, respectively.
Cholamandalam Investment and Finance Company Ltd.	• NII for Q3FY23 stood at INR 15,983 Mn, a growth of 17.2% YoY (+7.4% QoQ; +1.6% vs our est). • The Pre-Provision profit was at INR 10,797 Mn against INR 9,525 Mn in Q3FY22, an increase of 13.4% YoY/ 7.4% QoQ (-0.1% vs our est). • Profit after Tax (PAT) for Q3FY23 was at INR 6,843 Mn against to INR 5,238 Mn in Q3FY22, reporting a growth of 30.6% YoY/ 21.5% QoQ (+13.2% vs our est). • Assets under management as of December 31, 2022, stood at INR 954,680 Mn as compared to INR 727,240 Mn as of December 31, 2021, a growth of 31.3% YoY/ 8.9% QoQ.	• The asset quality in Q3FY23, for Gross Stage 3 assets, stood at 3.51% against 3.84% in Q2FY23, with provision coverage of 41.0%. • The total provisions carried against the overall book is 2.45%. • The NBFC carries an additional provision of INR 7,260 Mn under IndAs over IRAC (Income Recognition and Asset Classification).	• AUM for FY23E is expected to be in the range of 27-30% YoY, revised from 20-22% YoY. • The company expects that even if credit costs go up gradually in the coming period, the impact will be offset by operating leverage owing to opex reduction. • Despite high inflation and interest rates, strong festive season sales and the workforce returning to the Metro cities have helped drive growth. Chola has gained market share across product segments in vehicle finance and other business units.

Companies	Net Interest Income/Earnings	Asset Quality / Provisioning	Outlook / Strategy
HDFC AMC	• QAAUM (Quarterly Average Assets Under Management) was at INR 4,448 Bn as of December 31, 2022, a growth of 1.0% YoY. • In Q3FY23, revenue growth stood at INR 5,296 Mn, a growth of 2.7% QoQ/1.8% YoY (+1.7% vs our est) driven by 2.6% YoY/ 4.4% QoQ growth in AUM. The yields for the quarter were sequentially stable. • The EBITDA during Q3FY23 was reported at INR 4,131 Mn (excluding other income) which grew by 2.1% QoQ (+0.5% vs our est), while being flat on YoY basis. • Net Profit for Q3FY23 grew by 2.7% YoY/ 1.4% QoQ (+1.4% vs our est) at INR 3,694 Mn.	• Not applicable	• HDFCAMC's employee cost to see an increase of 10% in FY24E. The new product-related expenditure is expected to slow down in upcoming years. • During the quarter, HDFCAMC launched the Thematic Fund which is HDFC Business Cycle Fund, the fund for healthy interest both from distribution partners and investors. • HDFCAMC expects to see healthy performance led by new launches & expansion of its product offerings in active and passive funds.
HDFC Ltd.	• The core net interest income (NII) for Q3FY23 stood at INR 48,401 Mn compared to INR 42,838 Mn in the previous year, representing a growth of 13.0% YoY/ 4.3% QoQ (+0.3% vs our est). • The operating profits for the quarter grew 12.1% YoY (-15.4% QoQ; -3.0% vs our est) at INR 49,818 Mn. • The reported profit after tax stood at INR 36,908 Mn compared to INR 32,607 Mn in Q3FY22, representing a growth of 13.2% YoY (-17.1% QoQ; +4.3% vs our est). • As on December 31, 2022, the assets under management (AUM) stood at INR 70,14,850 Mn as against INR 61,89,170 Mn in the previous year, a growth of 13.3% YoY (1.6% QoQ).	• The Gross NPLs for the HFC, as of September 30, 2022, stood at INR 93,550 Mn, 1.6% of the total portfolio, down from 2.3% in December 2021. • The gross individual non-performing loans (NPLs) stood at 0.86% of the individual portfolio, while the gross non-performing non-individual loans stood at 3.89% of the non-individual portfolio. • The annualized credit costs for Q3FY23 stood at 22 bps against 29 bps in Q2FY23.	• HDFC continues to hold all its investments in HDFC Bank, HDFC Life, HDFC Asset Management and all other subsidiaries and associate companies at the original cost of acquisition, which is the price it had paid by making those investments. These investments are not accounted for on a fair value basis. • Prepayments on retail loans on an annualized basis amounted to 10.7% of the opening loan book, in line with the historical range of 10%-12%.
CreditAccess Grameen Ltd.	• Net Interest Income (NII) for Q3FY23 increased by 36.7% YoY (+10.0% QoQ; +5.2% vs our est) at INR 5,674 Mn. NIMs stood at 11.9% in Q3FY23 vs 11.4 in Q3FY22 (an improvement of 44 bps but a decline by 11 bps QoQ). • The Pre-Provisioning Operating Profits (PPOP) grew by 38.7% YoY and 13.5% QoQ (+7.3% vs our est) at INR 3,795 Mn in Q3FY23. • The NBFC has registered net profit of INR 2,168 Mn in Q3FY23. This represents a growth of 85.4% YoY (+23.0% QoQ; +16.3% vs our est).	• The GNPA (Stage-3)/ NNPA, as of December 31, 2022, stood at 1.71%/ 0.59%. The Gross NPA (Stage 3) improved from 2.17% as of September 30, 2022 (vs 6.02% as of December 31, 2021). • The bad debt recovery was at INR 165 Mn in Q3FY23.	• The company has added 43 new branches mainly in the newer states, taking its total bank network to 1,727 across 344 districts. It is expected to open two more branches in Q4FY23, whereas higher focus will be more on leveraging the headroom available over 500 branches opened in the last three years. • CREDAG estimates FY23E gross credit cost be between 2.3% to 2.4%.

Companies	Net Interest Income/Earnings	Asset Quality / Provisioning	Outlook / Strategy
ICICI Securities	• QAAUM (Quarterly Average Assets Under Management) was at INR 4,448 Bn as of December 31, 2022, a growth of 1.0% YoY. • In Q3FY23, revenue growth stood at INR 5,296 Mn, a growth of 2.7% QoQ/1.8% YoY (+1.7% vs our est) driven by 2.6% YoY/ 4.4% QoQ growth in AUM. The yields for the quarter were sequentially stable. • The EBITDA during Q3FY23 was reported at INR 4,131 Mn (excluding other income) which grew by 2.1% QoQ (+0.5% vs our est), while being flat on YoY basis. • Net Profit for Q3FY23 grew by 2.7% YoY/ 1.4% QoQ (+1.4% vs our est) at INR 3,694 Mn.	• Not applicable	• Given the continued weak base in retail broking business owing to weak cash volumes, ICICI Securities` revenue is expected to stay cyclical and is likely to show moderate growth for near term. The derivatives volume has remained robust and the uptick in customer activation is likely to aid the growth for the coming quarters.

LEAD ANALYST
Abhishek Agarwal, research5@krchoksey.com, +91-22-6696 5413

AUM growth across all segments; operating expenses

Particulars (INR Mn)	Bajaj Finance Ltd.	Bajaj Finserv Ltd.	Cholamandalam Investments	HDFC AMC	HDFC Ltd.	Nippon Asset Management	CreditAccess Grameen	ICICI Securities
Net Interest Income / Revenue	74,331	2,17,552	15,983	5,596	48,401	3,538	5,674	8,789
Other Income	17	2	2,334	1,034	7,126	619	281	9
Employee Cost	12,856	21,563	3,494	790	2,348	747	1,271	1,756
Other Operating Expenses	12,962	1,10,943	4,027	675	3,361	659	763	1,545
Pre-Provision Profit	48,529	52,640	10,797	NA	49,818	NA	3,795	NA
Provisions	8,413	8,451	1,589	NA	3,700	NA	894	NA
Net Profit	29,729	17,820	6,843	3,694	36,908	2,052	2,168	2,807
Asset Under Management	23,08,420	23,08,420	9,54,680	44,81,000	70,14,850	36,02,920	1,77,860	NA
Cost to Income (%)	34.7%	71.6%	41.1%	24.5%	10.3%	39.7%	36.3%	57%

Source: Company, KRChoksey Research

Robust growth in disbursements driving business growth

Particulars (INR Mn)	Bajaj Finance Ltd.		Bajaj Finserv Ltd.		Cholamandalam Investments		HDFC AMC		HDFC Ltd.		Nippon Asset Management		CreditAccess Grameen		ICICI securities	
Change (%)	QoQ	YoY	QoQ	YoY	QoQ	YoY	QoQ	YoY	QoQ	YoY	QoQ	YoY	QoQ	YoY	QoQ	YoY
Net Interest Income / Revenue	6.2%	23.9%	4.6%	23.7%	7.4%	17.2%	4.4%	1.8%	4.3%	13.0%	6.7%	4.5%	10.0%	36.7%	2.5%	-6.5%
Operating Expenses	2.7%	24.0%	5.0%	22.1%	13.8%	41.4%	4.4%	8.3%	-3.1%	19.4%	1.8%	11.2%	4.5%	22.0%	3.4%	-3.6%
Pre-Provision Profit	8.2%	23.8%	5.0%	22.6%	4.2%	13.4%	NA	NA	-15.4%	-5.9%	NA	NA	13.5%	38.7%	NA	NA
Provisions	14.6%	-20.0%	11.7%	-21.3%	-42.9%	-36.0%	NA	NA	-21.8%	-5.9%	NA	NA	-15.1%	-24.2%	NA	NA
Net Profit	6.9%	39.9%	14.5%	14.5%	21.5%	30.6%	1.4%	2.7%	-17.1%	13.2%	-0.4%	17.9%	23.0%	85.4%	-6.5%	-26.1%
Asset Under Management	5.7%	27.4%	5.7%	27.4%	21.5%	31.3%	4.4%	2.6%	1.6%	13.3%	3.2%	4.4%	7.5%	21.9%	NA	NA
(in Bps)																
Change in PAT Margin	-32	266	71	105	-34	440	-83	57	-835	-383	-416	657	-193	-302	-310	-850
Cost to Income	-119	4	-33	-10	211	523	46	76	118	56	-192	239	384	1045	300	1,100

Source: Company, KRChoksey Research

Shift in product mix continues to support VNB margins

- The Gross Written Premium (GWP) grew at an average of 9.6% YoY and 8.3% QoQ, led by HDFCLIFE. The overall growth was slightly better than our estimates for the quarter. The growth in GWP was led by healthy growth of 16.5% YoY and 7.2% QoQ in the renewal segment. The NBP for the quarter grew at an average of 1.3% YoY and 30.2% QoQ. The companies under our coverage have more or less maintained their overall market share.
- The retail APE continues to see subdued performance on a YoY basis but improved on a sequential basis. The companies are confident of regaining traction in this segment in the subsequent quarters with new product launches. The credit life segment witnessed healthy growth, led by higher disbursements during the quarter. The group, Non-Par Savings and Annuities, continued to report strong growth during the quarter. Companies have been focusing on aggressive expansion of its Non-Par segment through new launches. The ULIP segment saw a decent pick-up in growth for most of the players. On the distribution front, the Banca channel reported sequential improvement led by HDFCLIFE and SBILIFE, while ICICIPRU and Max Life continued to struggle in growth for the quarter as ICICIB and AXSB remain a drag. Agency APE is seeing healthy growth momentum, led by the expansion of the agency mix. The average APE growth stood at 8.4% YoY and 64.5% QoQ.
- Value of New Business (VNB) rose 31.6% YoY/ 23.0% QoQ and was led by a healthy expansion in the VNB margins. The improvement in the margins was led by a shift in the underlying product mix for the companies. SBILIFE reported a sequential decline owing to a higher share of ULIPs of 60.0% led by product traction and growth in distribution channels during the quarter. All the life insurers under our coverage have reported expansion ranging from 74 bps to 795 bps YoY for the quarter. Max Life reported the strongest expansion during the quarter at 39.3%, led by an increasing share of non-par savings.
- The persistency ratio sees further YoY improvement across all the cohorts as a result of resilient traction in the renewal premium segment. AUM, as of December 31, 2022, grew at an average of 14.6% YoY and 7.0% QoQ. IPRU continued to see slower growth in AUM than its peers for the second consecutive month.
- We are vigilant on the trends that will arise following the Union Budget, as the new taxation proposal will divert individuals' attention away from financial savings p roducts, which include insurance products. This will gradually have an impact on APE growth and VNB margins. Meanwhile, the regulator has undertaken new initiatives to boost the penetration of the insurance sector through the implementation of various regulations. Life insurers will continue to promote innovative products for growth while also focus on improving overall cost efficiency through digital initiatives and distribution mix. The current P/EV multiples of the companies are trading below their averages since listing. We remain optimistic about the sector. SBI Life continues to be our top pick.

Company	Premium/APE performance	Product mix/Market share
HDFC Life	• The GWP reported a robust growth of 18.9% YoY/ 9.7% QoQ (-6.3% vs our est) at INR 1,45,750 Mn in Q3FY23, led by strong growth in the renewal premium of 29.7% YoY/ 4.1% QoQ. • The NBP grew 10.1% YoY%/ 15.9+% QoQ at INR 73,880 Mn, led by strong growth in the First-Year premium segment. • The APE for the quarter was reported at INR 32,640 Mn, an increase of 25.7% YoY (8.4% QoQ; +2.4% vs our est). • The retail protection segment saw a sequential improvement of 13.0%. • Based on the APE, the overall protection segment share stood at 15.0% in 9MFY23. The Annuity segment grew 68.0% YoY on an APE basis.	• The product mix continued to be balanced with non-par savings at 33%, participating products at 27%, ULIPs at 18%, protection at 15 % and annuity at 8% on the APE basis as of December 31, 2022. • The Overall New Business & individual WRP market share in the private sector stood at 20.3% & 15.8% for HDFCLIFE as on December 31, 2022, which is sequential improvement. • HDFCLIFE launched a new product- Click2Protect Super during the quarter. This product has been received well across channels, especially on digital platforms.
ICICI PruLife	• The Gross Written Premium (GWP) witnessed a growth of 4.7% YoY while de-grew by 1.2% QoQ (-2.9% vs our est) at INR 97,805 Mn. • The APE for Q3FY23 declined by 5.6% YoY/ 8.9% QoQ (+8.9% vs our est) owing to de-growth in the first-year premium segment. The APE for 9MFY23 stood at 53,410 Mn, an increase of 4.2% YoY. • ULIP APE continued to under-perform with 13.7% de-growth in 9MFY23. The Annuity APE for 9MFY23 grew by 56.0% YoY, whereas the Protection APE grew by 22.7%. The ULIP APE share fell from 48.3% in FY22 to 41.4% in 9MFY23 led by market volatility.	• The product mix between Unit linked/non par saving/non par protection/Annuity/ Group was 41%/29%/20%/6%/4%, respectively. • The market share in terms of new business sum assured stood at 14.6% in 9MFY23.
SBI Life	• SBILIFE reported GWP growth of 13.0% YoY/ 16.3% QoQ (-6.0% vs our est) at INR 1,93,319 Mn. The renewal business led the growth, which grew by 13.0% YoY (+19.6% QoQ). • The protection NBP has increased by 25.0% YoY in 9MFY23 at INR 25.5 Bn, while the Annuity NBP grew by 27.3% YoY at INR 33.6 Bn. • The APE for Q3FY23 stood at INR 54,300 Mn, a growth of 38.2% QoQ/ 18.8% YoY.	• The product mix between Unit linked/non par saving/non par protection/par/group was 56%/22%/10%/5%/3% respectively. • The company has maintained its leadership position in Individual Rated Premium of INR 111.4 Bn with 23.7% private market share in 9MFY23.
Max Life	• In Q3FY23, Max Life delivered a growth of 97.8% QoQ, while de-grew by 7.5% YoY (-2.4% vs our est) in new business premiums at INR 37,460 Mn. The renewal premium income (including group) rose 17.5% YoY/ 2.9% QoQ to INR 40,220 Mn, taking the gross written premium to INR 62,840 Mn, a spurt of 12.2% YoY/ 8.3% QoQ. • During 9MFY23, Max Life New Business Premium grew 6.7% to INR 5,6400 Mn driven by strong growth in proprietary channels.	• The share of Par/Individual protection/Group protection/non-Par savings/ULIP is 15%/7%/6%/42%/30%, respectively in 9MFY23. • The market share stood at 9.9% as of December 31, 2022, among the private players.

Company	VNB/Margin Performance	Persistency/Solvency/AUM
HDFC Life	• The VNB margins improved to 26.7% for Q3FY23 from 25.9% for Q2FY23 for the merged entity, higher by 74 bps QoQ. • Margins for 9MFY23 stood at 26.5%, which was in line with the management's expectation for the merged entity. • The absolute VNB grew 25.4% QoQ/ 11.5% YoY (+1.1% vs our est) at INR 8,700 Mn in Q3FY23, led by healthy margins & business traction.	• HDFCLIFE's 13th month/ 61st month ratios stood at 87%/ 52%, respectively, as of December 31, 2022, decline of 100 bps QoQ (flat YoY). • AUM rose 20.1% YoY/ 14.4% QoQ to INR 23,38,390 Mn as of December 31, 2022. The embedded value of the merged entity stood at INR 377.0 Bn. • Solvency ratio as of December 31, 2022, stood at 209%.
ICICI PruLife	• IPRU reported VNB margins at 33.9%, an improvement of 724 bps YoY/ 294 bps QoQ for Q3FY23. The company saw an expansion of 493 bps margins at 32.0% for 9MFY23. • The VNB margin expansion has resulted in strong growth in absolute VNB by 20.0% YoY (+21.2% vs our est) at INR 6,180 Mn in Q3FY23. The VNB growth sequentially was flattish. In 9MFY23, the absolute VNB stood at INR 17,100 Mn, an increase of 23.2% YoY.	• The 13th -month persistency ratio has improved by 130 bps YoY to 86.1% as of December 31, 2022, while the 61st -month persistency ratio stood at 66.0% as of December 31, 2022, an improvement of 300 bps/ 480 bps YoY/QoQ. • AUM grew by 6.0% YoY/ 3.1% QoQ at INR 25,18,840 Mn as of December 31, 2022. • Solvency was at 212% as of December 31, 2022.
SBI Life	• The VNB margins were 27.8%, higher by 264 bps YoY in Q3FY23, while declined by 374 bps QoQ. The decline was led by a higher share of ULIP in the overall APE, which is a low-margin segment. • Value of New Business (VNB) grew by 31.3% YoY/ 21.8% QoQ (-4.5% vs our est) to INR 15.1 Bn in Q3FY23 with margins at 27.8%. VNB increased by 43.5% to INR 36.3 Bn for 9MFY23.	• The persistency ratio for the 13th month & 61st month improved sequentially by 68 bps & 491 bps YoY, respectively. • The solvency ratio as of December 31, 2022, stood at 2.25x (improvement of 1600 bps YoY) as against the regulatory requirement of 1.50x. • The company's net worth increased by 12.3% to INR 125.8 Bn.
Max Life	• Max Life reported New Business Margin (NBM) of 39.3% in Q3FY23, an increase of 1441 bps YoY/ 795 bps QoQ owing to better margins of new products across categories and sales growth and the Value of New Business (VNB) was INR 5,930 Mn, a growth of 49.7% YoY/ 59.0% QoQ (+19.0% vs our est). • VNB for 9MFY23 stood at INR 11,790 Mn, an increase of 25.2% YoY.	• Persistency for the 13th and 61st month are 83.0% and 51.0% respectively. • AUM stood at INR 11,84,000 Mn, a growth of 15.5% YoY/ 4.5% QoQ as of December 31, 2022. • Solvency ratio was at 200.0% as of December 31, 2022. • Max Life reported an Embedded Value of INR 1,55,470 Mn as of December 31, 2022, a growth of 19.5% YoY led by strong VNB growth.

Companies	Channel mix	Industry Outlook / Strategy
HDFC Life	• Distribution mix between Banca/Agency/Broker/Direct was 59%/18%/9%/15%, respectively in 9MFY23. • The company has won the bancassurance mandate with India Post Payments Bank. • The bancassurance channel grew by 18% in 9MFY23 based on individual APE. • All large channels other than HDFC Bank have recorded growth of over 20% on a YTD basis. • The agency channel clocked more than 2x company level growth in individual APE in 9MFY23.	• The share of the channel has increased from 14% to almost 18% in the merged entity. It continues to focus on improving activation and productivity across its base of financial consultants. HDFCLIFE expects growth in this channel to be driven by deeper geographic and customer penetration. • The company has partnered with AU Small Finance Bank during the quarter. AU Small Finance Bank with its vast presence and a customer base of more than 3 Mn customers, will further strengthen its efforts and contribute significantly towards financially securing many individuals.
ICICI PruLife	• Banca/Agency/Direct/Partnership/Group for H1FY23 stood at 30%/26%/13%/12%/19% respectively. Its focus is on investment in building existing channels and also widening the distribution to maintain the diversified distribution mix. • In H1FY23, IPRU has added over 15,000 new agents, 3 new banks, and 44 non-bank partnerships.	• The company has recently entered into a partnership with UCO bank. This tie-up gives IPRU an opportunity to serve customers of UCO bank with its comprehensive product suite and expand our distribution reach further. With this tie-up, its reach has expanded to over 16,000 branches of its partner banks. • IPRU continues to invest in technology, which is central to its strategy, helping the company provide better value to its customers.
SBI Life	• Banca/agency/Others stands at 66%/25%/9% respectively for 9MFY23. • APE of Agency channel has increased by 17.0% to INR 30.1 Bn in 9MFY23 and APE of Banca channel has increased by 25.0% YoY to INR 81.0 Bn in 9MFY23. • NBP of Agency channel has increased by 22% to INR 39.0 Bn in 9MFY23 and NBP of Banca channel has increased by 37% to INR131.6 Bn in 9MFY23 as compared to same period last year.	• ULIP is expected to see good growth traction in upcoming quarters. • The company expects VNB margins to be in the range of 28%-30% for FY23E. • Growth in VNB and VNB margin was driven by a change in product mix, predominantly in the non-par segment and business volume. With SBILIFE's growth targets and the product mix shift, the company expects to maintain a healthy VNB growth rate.
Max Life	• Proprietary channels new business premiums grew by 19.0% YoY to INR 12,620 Mn as result contribution of Proprietary channels to total new sales increased from 28.0% in 9MFY22 to 34.0% in 9MFY23. • The company has entered into new banca partnership with Ujjivan Small Finance Bank in Q3FY23. It also signed agreements with Wealthy.in, Nova Benefits , Finmapp, Turtlemint, BlueChip, Muthoot, Vkover and Nj in 9MFY23.	• Banca channel de-grew by ~9% in the 9MFY23 due to full-blown impact of open architecture and overall general slowdown observed in banking channels. The base impact of counter share is now almost ended, and it expects growth to come back in Q4, in line with the overall growth in bank channels. • Max Life had launched 2 new protection plans in Q2, focusing on self-employed individuals, which continue to help the company make further inroads into protection business.

KRChoksey | Institutional

In INR Mn.	HDFC Life	ICICI Prudential	SBI Life	Max Life
Key Financial & Actuarial Metrics				
New Business Premium (Individual + Group)	73,880	40,272	84,236	37,460
Renewal Premium (Individual+ Group)	71,870	57,533	1,09,083	40,220
Total Premium	**1,45,750**	**97,805**	**1,93,319**	**62,840**
Profit After Tax	**3,152**	**2,206**	**3,014**	**2,694**
Asset Under Management (AUM)	23,38,390	25,18,840	29,99,900	11,84,000
Value of New Business (VNB)	8,700	6,180	15,100	5,930
Annualized Premium Equivalent (APE)	32,640	18,210	54,300	15,100
Key Financial Ratios (%)				
Solvency Ratio	209.0%	212.0%	225.0%	200.0%
Persistency Ratio				
13th Month	87.0%	86.1%	84.6%	83.0%
61st Month	52.0%	66.0%	53.6%	51.0%
VNB Margin	26.7%	33.9%	27.8%	39.3%

Source: Company Reports, Bloomberg, KRChoksey Research

KRChoksey | research

Particulars	HDFC Life		ICICI Pru		SBI Life		Max Life	
Key Financial & Actuarial Metrics	Y-o-Y	Q-o-Q	Y-o-Y	Q-o-Q	Y-o-Y	Q-o-Q	Y-o-Y	Q-o-Q
New Business Premium (Individual + Group)	10.1%	15.9%	3.3%	-5.3%	-0.9%	12.4%	-7.5%	97.8%
Renewal Premium (Individual+ Group)	29.7%	4.1%	5.7%	2.0%	13.0%	19.6%	17.5%	2.9%
Total Premium	**18.9%**	**9.7%**	**4.7%**	**-1.2%**	**6.5%**	**16.3%**	**8.3%**	**8.3%**
Profit After Tax	**15.2%**	**-3.4%**	**-29.0%**	**10.6%**	**-17.2%**	**-20.0%**	**196.2%**	**337.2%**
Assets Under Management (AUM)	20.1%	14.4%	6.0%	3.1%	16.8%	6.1%	15.5%	4.5%
Value of new business (VNB)	25.4%	11.5%	20.0%	-0.3%	31.3%	21.8%	49.7%	59.0%
Total APE (Annualized Premium Equivalent)	25.7%	8.4%	-5.6%	-8.9%	18.8%	38.2%	-5.2%	26.8%
Key Financial Ratios								
Solvency Ratio	1900 bps	-100 bps	1000 bps	1150 bps	1600 bps	600 bps	(700 bps)	400 bps
Persistency Ratio								
13th Month	0 bps	-100	130 bps	20 bps	68 bps	-62 bps	(100 bps)	(100 bps)
61st Month	-100 bps	-200	300 bps	480 bps	491 bps	114 bps	100 bps	100 bps
Value of New Business Margin	-8 bps	74 bps	724 bps	294 bps	264 bps	-374 bps	1441 bps	795 bps

Source: Company Reports, Bloomberg, KRChoksey Research

ICICI Bank and SBI Bank remains our top picks

Stocks	Recommendation		Market Cap.	CMP	Target Price (INR)		Upside	P/ BV (x)	
	Revised	Old	INR Mn.	INR	New	Old	%	5 Yr. Avg.	FY25 E
HDFC Bank	BUY	BUY	88,84,136	1,593	1,960	1,836	23.07%	3.8	2.7
ICICI Bank	BUY	BUY	58,61,513	856	1,175	1,115	37.20%	2.8	2.2
Kotak Mahindra Bank	BUY	BUY	33,71,585	1,726	2,330	2,260	35.00%	5.5	3.3
Axis Bank	BUY	BUY	26,17,787	854	1,210	1,120	41.62%	2.1	1.4
SBI	BUY	BUY	46,49,276	528	750	750	42.06%	1.1	1.1
IndusInd Bank	BUY	BUY	8,36,823	1,083	1,550	1,387	43.16%	3	1.3
Karur Vysya Bank	UR	UR	78,974	97	-	-	-	-	-
Bandhan Bank	BUY	BUY	3,68,560	227	305	385	34.12%	4.5	1.6

Source: Company, KRChoksey Research

LEAD ANALYST
Abhishek Agarwal, research5@krchoksey.com, +91-22-6696 5413

Bajaj Finance & Cholamandalam are our top picks

Stocks	Recommendation		Market Cap.	CMP	Target Price (INR)		Upside	P/ BV (x)	
	Revised	Old	INR Mn.	INR	New	Old	%	5 Yr. Avg*.	FY24 E
Bajaj Finance	BUY	BUY	37,46,347	6,188	8,030	8,630	29.77%	7.9	4.7
Bajaj Finserv	BUY	BUY	21,63,448	1,358	1,800	1,943	32.52%	4.4	3.7
Cholamandalam Investments	ACCUMULATE	ACCUMULATE	6,25,944	762	865	820	13.58%	3.9	3.3
HDFC AMC	ACCUMULATE	ACCUMULATE	3,84,787	1,803	2,202	2,202	22.11%	10.8	5.7
HDFC Ltd.	BUY	BUY	47,42,750	2,593	3,240	2,989	24.96%	5.2	2.8
Credit Access Gramin	BUY	BUY	1,52,866	979	1,290	1,211	31.82%	2.9	2.8
ICICI Securities 2	BUY	BUY	1,50,310	466	560	560	20.27%	6.9	10.9
NAM	UR	UR	1,34,450	216	UR	UR	-	-	-

Source: Company, KRChoksey Research * Or since listing; CMP as of 27th February 2023

SBI Life remains our top picks

Stocks	Recommendation		Market Cap.	CMP	Target Price (INR)		Upside	P/ EV (x)	
	Revised	Old	INR Mn.	INR	New	Old	%	Avg*.	FY25 E
HDFC Life	BUY	BUY	10,48,237	489	735	706	50.31%	4.6	1.9
ICICI Prudential	BUY	BUY	5,78,015	405	635	680	56.71%	2.4	1.3
SBI Life	BUY	BUY	11,37,945	1130	1,750	1,550	54.88%	2.8	1.6
Max Financial	UR	UR	2,37,439	700	UR	UR	-	-	-

Source: Company, KRChoksey Research * Or since listing; CMP as of of 27th February 2023

Consumer Sector

Rural volumes continue to be under pressure, but the decline reduces; urban volume growth accelerates

Volumes continued to fall for the industry for the 5th consecutive quarter

- According to media reports and NeilsenIQ data for Q3FY23, the FMCG industry saw volumes decline by 0.3% YoY (vs. a decline of 0.9%/ 0.7% YoY in Q2FY23/ Q1FY23, respectively). The industry has seen pressure on volumes for 5 consecutive quarters. On a value basis, the industry growth rate slowed down to 7.6% YoY (vs. growth of 8.9% / 10.9% YoY in Q2FY23/ Q1FY23, respectively). Even though the volume growth continued to be negative, the absolute volume and value were above pre-pandemic levels.
- For Q3FY23, volumes declined by 2.8% YoY in rural markets (vs. a decline of 3.6%/ 2.4% YoY in Q2FY23/ Q1FY23, respectively) while urban areas saw volume growth of 1.6% (vs. growth of 1.2%/ 0.6% YoY in Q2FY23/ Q1FY23, respectively).
- While the overall industry volume decline reduced, the value growth has also slowed, meaning the pricing growth has reduced. The reduction in some of the input costs like palm oil has led to price correction in some products like soaps, while price hikes have continued in some products.
- While rural volumes continued to decline, the decline was lower than in the previous quarter. On the other hand, the urban volume growth rate improved from the previous quarters.

Reducing pressure from commodities benefits gross margins for most players; media spending accelerates

- Except Emami and TCPL, all FMCG players under coverage saw a sequential improvement in gross margins.
- For TCPL, gross margins were impacted due to a lag in the impact of pricing actions taken in international business.
- While prices for palm oil cooled off, commodities such as milk, wheat and flour, cereals, and green coffee have remained elevated. For BRIT, wheat and wheat atta are key inputs. Despite the prices being at elevated levels, BRIT saw improvement in margins due to the utilization of forward covers which they had taken at the start of the year.
- Taking advantage of the improvement in gross margins, most FMCG players have ramped up their media spending in order to support growth and market development activities. As a result, the quality of operating profits has improved for most players.

Rural performance mixed bag among FMCG players

Rural performance was a mixed bag; companies that are expanding rural distribution saw growth in rural

- BRIT, ITC's FMCG business, and NEST have not seen a slowdown in rural business due to their focus on distribution expansion and increasing penetration into rural India.
- GCPL has benefitted from the market development focus but does not see green shoots in rural demand yet.
- NEST saw some slowdown in megacities and Town class 2-6 due to price hikes in some smaller packs, especially noodles, but demand trends are secular across town classes and growth in Town class 2-6 and megacities should bounce back.
- For HUVR, rural value growth improved vs. the last quarter. Management thinks rural slowdown seems to be bottoming out as inflation is moderating from its peak, winter crop sowing has been strong, and there are signs of a pick-up in farm income.
- Emami continued to see demand pressure in rural markets. TCPL continued to see sluggishness in rural and semi-urban markets.

Broad trends in line with our estimates for Q3FY23

- As expected, the demand scenario did not change a lot during Q3FY23 vs. the previous quarter. Rural volumes remained muted, but green shoots are visible in some pockets.
- EBITDA margins saw a sequential recovery, led by gross margin improvement.

Expectations going forward

- India's CPI inflation, after reducing sequentially for 2 months in a row in November-22 (5.88%) and December-22 (5.72%), has increased to 6.52% in January-23.
- While rural has seen some reduction in the volume decline, the path to growth could be a few quarters away.
- If the commodity costs remain where they are, we may not see major sequential margin expansion going ahead.

Top picks

We continue to like Tata Consumer Products, Godrej Consumer Products, Hindustan Unilever, and Asian Paints.

Companies	Revenue and Segment-wise Performance
Britannia (BRIT)	• BRIT reported revenue of INR 41,968 mn (+17.4% YoY/ -4.2% QoQ/ -3.8% vs. our estimate). • The growth in the number of packets sold was almost 17.0% YoY in Q3FY23 while volume growth was in the low single digits, meaning there was a shift to smaller packets. • Britannia has not seen a slowdown in rural business due to distribution expansion. For BRIT, the market share gained in rural is 1.5x the market share gained in overall India. • Products launched earlier in the year, in both biscuits and adjacent categories, have seen strong growth. • The share of the non-biscuits portfolio is now around 23.0% from 15.0% about 7-8 years ago. Over the next 5 years, this portfolio could become ~45.0% of the overall business.
Hindustan Unilever (HUVR)	• HUVR reported revenue of INR 1,55,970 mn (+16.1% YoY/ +3.0% QoQ/ +1.8% vs. our estimate) vs. the relevant market growth of 8.0% YoY. • The underlying volume growth during the quarter was 5.0% YoY, vs. volume declines for the relevant market. • The growth in Home Care segment continued to be strong at 31.5% YoY/ 7.2% QoQ. The Beauty & personal care segment continued to have double-digit growth at 10.6% YoY (+3.0% QoQ), despite impact of delayed winter in skin care. The Food and Refreshment segment grew by 6.8% YoY but declined by 1.5% QoQ. • Urban markets continued to lead the growth. However, rural is seeing some improvement and had higher YoY value growth vs. Q2FY23.
ITC	• ITC reported consolidated gross revenue of INR 1,90,207 mn (+3.6% YoY/ +2.2% QoQ/ +1.0% vs. our estimate). • Consolidated net revenue (net of excise duty) was INR 177,045 mn (+3.5% YoY/ +3.5% QoQ). • Agri revenues declined by 35.9% YoY/ 18.2% QoQ, impacted by restrictions on wheat and rice exports this year. Excluding the agri-business, gross revenue growth was at 19.0% YoY/ +7.9% QoQ. • Revenue from Cigarettes grew by 16.2% YoY/5.9% QoQ, supported by continued volume recovery from illicit trade. • Revenue from FMCG grew by 18.3% YoY (-0.9% QoQ), where the strong growth was across channels and markets. • Hotels revenue improved by 49.2% YoY/ 31.9% QoQ aided by higher RevPAR, normalization in domestic travel, pickup in inbound foreign travel, and special occasions and festive demand. • Paperboards, Paper & Packaging revenue growth was at 12.7% YoY/ 0.8% QoQ, driven by higher realisations in domestic and export markets.

Companies	Revenue and Segment-wise Performance
Nestle India (NEST)	• For Q4CY22, NEST's revenue was INR 42,568 mn (+13.6% YoY/ -7.5% QoQ/ -4.1% vs. our estimate). The YoY revenue growth rate slowed down vs. 16.1%/ 18.5% YoY in Q2CY22/ Q3CY22, respectively. • The tonnage in domestic segment declined by 0.8% YoY in the quarter vs. a growth of 7.8%/ 7.0%/ 8.8% YoY in Q1CY22/ Q2CY22/ Q3CY22, respectively. • Domestic sales grew by 13.8% YoY (-7.1% QoQ) while export sales grew by 17.1% YoY (-16.6% QoQ). • In Q4CY22, growth rates slowed down in megacities and Town class 2-6 due to price hikes in some smaller packs, especially noodles. Metros, Town class 1, and villages have seen an acceleration in growth. The demand trends are secular across town classes and growth in Town class 2-6 and megacities should bounce back. • Domestic sales growth for the full year was 9.5% YoY for Milk Products and Nutrition, 15.6% YoY for Prepared dishes and cooking aids, 25.0% YoY for Confectionary, and 19.2% YoY for Powdered and liquid beverages.
Tata Consumer Products (TATACONS)	• For Q3FY23, TATACONS reported revenue of INR 34,746 mn (+8.3% YoY/ +3.3%QoQ/ -2.1% vs. our estimate). • Overall, India business revenues grew by 7.7% YoY. Revenue for the India Beverages business declined by 4.7% YoY with a volume decline of 5.0%, impacted by pricing corrections, rural demand pressures, and the late onset of winter. • India Foods' revenue jumped by 29.4% YoY, with underlying volume growth of 4.0% YoY. • Total International revenues grew by 3.6% YoY. Within international, US Coffee business grew by 10.8% YoY (+1.0% YoY in constant currency) with an underlying volume decline of 17.0% YoY. International tea revenues declined by 0.7% YoY (+2.0% YoY in constant currency) with flat underlying volumes. • Growth businesses (includes Tata Sampann, NourishCo, Tata Soulfull, and the RTE/RTC business Tata Smartfooz) grew by 53.0% YoY.

Companies	Margin Performance
Britannia (BRIT)	• EBITDA for the quarter improved by 51.5% YoY/ 14.9% QoQ (+14.3% vs. our estimate) to INR 8,176 mn. • EBITDA margin saw a sharp sequential improvement and expanded by 438 bps YoY/ 323 bps QoQ to 19.5%. The improvement in margins was on account of price actions taken in H1FY23, cost efficiencies, and reduced input prices in Q3FY23. • Gross margin improved by 574 bps YoY/ 472 bps QoQ. For BRIT, compared to Q3FY21, cumulative inflation was 23.0% in Q3FY23 vs. 29.0% in Q2FY23. While wheat prices continued to be higher, a decline in Palm oil prices has helped control input costs. In Q3FY23, BRIT used the lower-cost forward covers for flour it had taken at the start of the year, leading to a bit of softening in the internal consumption prices.
Hindustan Unilever (HUVR)	• EBITDA for the quarter grew by 8.4% YoY/ 6.2% QoQ (+3.9% vs. our estimate) to INR 36,940 mn. • EBITDA margin at 23.7% remained under pressure compared to the last year (-168 bps YoY) but improved sequentially (+71 bps QoQ). • Net Material inflation for HUVR declined to 18.0% in Q3FY23 vs. 22.0% in Q2FY23, leading to gross margin improvement QoQ (+214 bps). • As gross margins improved, HUVR has stepped up it's A&P spends.
ITC	• EBITDA improved by 19.8% YoY/ 7.1% QoQ (+5.3% vs. our estimate) to INR 67,047 mn. • EBITDA margin (calculated on a net revenue basis) expanded by 515 bps YoY/ 128 bps QoQ to 37.9%. Gross margins expanded by 693 bps YoY/ 73 bps QoQ. EBIT margin improved by 514 bps YoY/ 146 bps QoQ. • For the Cigarettes segment, EBIT margins declined by 4 bps YoY/ 57 bps QoQ. • FMCG-others EBIT margins improved by 125 bps YoY/ 64 bps QoQ despite input costs remaining elevated. This was driven by strategic interventions such as cost management, premiumzation, judicious pricing actions, and supply chain agility. • Hotels EBIT margins improved by 950 bps YoY/ 469 bps QoQ, driven by higher RevPAR, operating leverage and structural cost interventions. • For the agri segment, EBIT margins improved by 645 bps YoY/ 439 bps QoQ, driven by growth in leaf tobacco exports and value-added agri products. • Paperboards, Paper & Packaging EBIT margin improved by 438 bps YoY but contracted by 124 bps QoQ.

LEAD ANALYST
Abhishek Agarwal, research5@krchoksey.com, +91-22-6696 5413

Companies	Margin Performance
Nestle India (NEST)	• For Q4CY22, NEST's gross margin saw an improvement of 218 bps QoQ but was lower by 206 bps YoY. • Several commodities such as cereals, grains, and green coffee continued to be near their 10-year high prices. • EBITDA for the quarter was INR 9,864 mn (+14.9% YoY/ -1.8% QoQ/ +3.7% vs. our estimate). EBITDA margin improved by 26 bps YoY/ 135 bps QoQ. • The EBITDA margin bottomed out in Q2CY22 and has seen consistent improvement in Q3CY22 and Q4CY22. • While Lower Unit Packs (LUPs) have seen lower volumes due to price hikes, the premium portfolio has seen better growth leading to better product mix for margins.
Tata Consumer Products (TATACONS)	• EBITDA declined by 1.7% YoY but improved by 4.6% QoQ to INR 4,537 mn (-3.2% vs. our estimate). • EBITDA margin contracted by 133 bps YoY but expanded by 16 bps QoQ to 13.1%. • EBITDA margins in India improved due to cost optimizations while gross margins remained stable YoY. EBIT margin for the India business was +80 bps YoY/ -37 bps QoQ. • EBITDA margin for the international business was impacted YoY due to Inflation and GBP depreciation vs USD. EBIT margin for the international business was -657 bps YoY/ +240 bps QoQ.

Companies	Industry/Outlook/ Strategy	New Launches/Market share
Britannia (BRIT)	• BRIT's new JV with Bel, France will be looking at a differentiated portfolio of innovative cheese products which will be manufactured at the new state-of-the-art facility in Ranjangaon. • In some product segments, where there is higher competitive intensity, Britannia will make some price modifications, specifically promotions, in the coming quarters. Going forward, EBITDA margins could be between the range of Q2FY23 and Q3FY23.	• BRIT has continued to gain market share and continued widening the gap with its largest competitor. It has managed to gain market share despite leading price increases. • During the quarter, BRIT had new launches like Festive launch of plum cake in East and South India, Tic tac toe in the snacking portfolio in South India, and Paneer in the fresh portfolio in West India.
Hindustan Unilever (HUVR)	• Rural slowdown seems to be bottoming out as inflation is moderating from its peak, winter crop sowing was strong, and there are signs of pick up in farm income. • Under the New Royalty and Central Services arrangement with Unilever group, the royalty and central services fees will increase from c.2.65% (FY22) to c.3.45% of turnover, in a staggered manner over a period of 3 years. • HUVR remains committed to delivering double-digit EPS growth for the medium and long term.	• In Dec-2022, HUVR forayed into the fast-growing health and well-being category by announcing strategic investments in OZiva & Wellbeing Nutrition. • HUVR continued to outperform the market and gained volume and value market share in more than 75.0% of its business. • The overall HFD market remains subdued due to inflation, but HUVR continued to gain market share and penetration led by effective market development actions.
ITC	• ITC is developing a comprehensive millets-based portfolio under popular brand names and in familiar formats. • In Cigarettes, ITC continued to focus on fortifying the product portfolio through innovation, democratizing premiumization across segments and enhancing product availability leading to reinforcing its market standing.	• ITC launched Welcomhotel Jim Corbett at Jim Corbett National Park, Uttarakhand. • In 9MFY23, ITC has added 8 properties through management contracts under its brands viz. Welcomhotel, Mementos, Storii and Fortune. Phased launches of more properties are expected. • ITC will set up a new wholly-owned subsidiary with state-of-the-art manufacturing facility to foray into the fast-growing premium Moulded Fibre Products (MFP).

<table>
<tr><th>Companies</th><th>Industry/Outlook/ Strategy</th><th>New Launches/Market share</th></tr>
<tr><td>Nestle India (NEST)</td><td>New products contributed 5.4% to sales in CY22 from 4.9% in CY21 and 1.5% in CY16. The new product pipeline is full and has ~30 new projects, however, NEST will have a calibrated approach toward launches depending on its capacity to secure the core.
Media spends declined in CY22. NEST focused on creating brand equity vs the previous approach of promotions.
Project SHARK has been seeking organizational efficiency since CY11 and will continue to be one of the levers of cost reduction.</td><td>NEST's confectionary revenue growth was 25.0% YoY vs. an estimated market growth of 10.0% to 12.0%. NEST gained market share in overall chocolates and wafers portfolio.
In line with CY23 being the UN year of millets, NEST will launch millet products under 3 brands- Ceregrow, A+, and Maggi.
NEST has launched 110 new products in the last 7 years but in the last 2 years, the focus has been on the core 12 to 15 brands.</td></tr>
<tr><td>Tata Consumer Products (TATACONS)</td><td>TATACONS is close to its target of reaching 1.5 mn direct outlets by Mar-23 and is now close to 1.4 mn.
TATACONS initially had combined its sales force to drive efficiency. Now with an increasing portfolio, the company will have split routes separate for food and beverage.
TATACONS has a gap in distribution primarily in semi-urban and rural, where they lag by ~10.0% to 12.0% vs peers. There will be a significant movement from sub-distributors to distributors in the next 2 to 3 months as the company starts to improve direct coverage in semi-urban areas.
In the medium term, tea and salt business will have volume growth of mid-single digit with value growth in high-single digits.
TATACONS is in active discussion with Bisleri for possible acquisition.</td><td>Market Share in India tea declined by 46 bps YoY in volume terms and 113 bps YoY in Value terms. TATACONS expects to see market share in tea coming back as the sales in the North pick up.
TATACONS launched the Tata Coffee Grand Premium, a 100% coffee, in non-south markets.
TATACONS market share in salt expanded by 90 bps YoY.
In the US, Market share in tea improved a bit while it was maintained in coffee.
TATACONS gained significant volume and value market share in Canada.</td></tr>
</table>

KRChoksey | research

BRIT and NEST see sequential decline in revenue while HUVR, ITC, TATACONS revenues see QoQ improvement

Particulars (INR Mn)	BRIT	HUVR	ITC	NEST*	TATACONS
Sales	**41,968**	**1,55,970**	**1,77,045#**	**42,568**	**34,746**
Total Expenditure	**33,792**	**1,19,030**	**1,09,998**	**32,704**	**30,209**
Cost of Raw Materials	20,983	50,000	50,481	20,060	13,505
Purchase of Stock	2,896	27,420	13,602	950	7,055
Changes in Inventories	-231	3,660	4,872	-1,795	-240
Employee Cost	1,782	7,220	14,467	4,070	2,830
Other expenses	8,363	30,730	26,576	9,419	7,059
EBITDA	**8,176**	**36,940**	**67,047**	**9,864**	**4,537**
EBITDA Margin (%)	**19.5%**	**23.7%**	**37.9%**	**23.2%**	**13.1%**
Depreciation	580	2,930	4,471	987	752
EBIT	**7,596**	**34,010**	**62,576**	**8,878**	**3,785**
Interest Expense	381	290	92	448	237
Other Income	508	1,100	5,954	296	489
PBT	**7,722**	**34,820**	**68,438**	**8,725**	**4,038**
Exceptional Items	3,756	-1,030	**0**	134	786
Tax	2,169	8,980	17,737	2,310	1,129
Share of Associates/Minorities	15	70	-634	0	-177
PAT	**9,324**	**24,740**	**50,067**	**6,281**	**3,518**
PAT Margin	**22.2%**	**15.9%**	**28.3%**	**14.8%**	**10.1%**
EPS	**38.7**	**10.5**	**4.0**	**65.1**	**3.8**

Source: Company, KRChoksey Research
*Note: For NEST, all data is for Q4CY22.
For ITC, Sales are net of excise duty

KRChoksey research

EBITDA margins improve sequentially across the board

Particulars	BRIT		HUVR		ITC		NEST*		TATACONS	
Change %	QoQ	YoY	QoQ	YoY	QoQ	YoY	QoQ	YoY	QoQ	YoY
Sales	**-4.2%**	**17.4%**	**3.0%**	**16.1%**	**3.5%#**	**3.5%#**	**-7.5%**	**13.6%**	**3.3%**	**8.3%**
Total Expenditure	**-7.9%**	**11.3%**	**2.0%**	**18.7%**	**1.4%**	**-4.4%**	**-9.1%**	**13.2%**	**3.1%**	**10.0%**
Cost of Raw Materials	-6.6%	15.4%	-8.0%	24.3%	-2.9%	19.9%	2.7%	20.6%	1.8%	16.3%
Purchase of Stock	-37.9%	-29.9%	-11.5%	17.4%	37.6%	-60.5%	19.0%	39.7%	4.1%	27.9%
Changes in Inventories	-38.7%	98.5%	-208.0%	565.5%	-19.0%	151.7%	-223.6%	54.3%	-47.4%	-125.7%
Employee Cost	9.6%	39.3%	-4.7%	4.3%	-2.0%	17.4%	-3.1%	4.6%	3.4%	9.3%
Other expenses	0.7%	21.6%	13.4%	5.1%	2.8%	9.4%	-5.8%	6.3%	1.4%	3.6%
EBITDA	**14.9%**	**51.5%**	**6.2%**	**8.4%**	**7.1%**	**19.8%**	**-1.8%**	**14.9%**	**4.6%**	**-1.7%**
EBITDA Margin (%)	323 bps	438 bps	71 bps	-168 bps	128 bps	515 bps	135 bps	26 bps	16 bps	-133 bps
Depreciation	12.2%	15.0%	7.7%	7.7%	-3.3%	4.1%	0.5%	-6.9%	2.8%	7.7%
EBIT	**15.1%**	**55.2%**	**6.0%**	**8.4%**	**8.0%**	**21.1%**	**-2.0%**	**17.9%**	**4.9%**	**-3.4%**
Interest Expense	-29.6%	2.0%	3.6%	7.4%	-26.8%	-3.7%	20.5%	2.8%	21.1%	46.5%
Other Income	-4.7%	-7.9%	0.9%	83.3%	31.0%	41.1%	-3.6%	8.0%	66.9%	95.4%
PBT	**17.2%**	**52.3%**	**5.9%**	**9.8%**	**9.7%**	**22.6%**	**-3.0%**	**18.5%**	**9.0%**	**0.8%**
Exceptional Items	NA	NM	255.2%	53.7%	NM	NM	NA	-94.3%	-29.4%	-696.1%
Tax	28.6%	59.2%	52%	11.8%	13.1%	21.4%	-2.9%	91.7%	-10.9%	13.0%
Share of associates	-45.7%	16.3%	40.0%	133.3%	25.5%	2.2%	-	-	-34.5%	-21.8%
PAT	**89.0%**	**151.2%**	**-7.2%**	**7.7%**	**8.4%**	**23.4%**	**-5.0%**	**65.5%**	**7.3%**	**32.7%**
PAT Margin	1,095 bps	1,183 bps	-174 bps	-123 bps	128 bps	457 bps	38 bps	463 bps	37 bps	186 bps

Source: Company, KRChoksey Research
*Note: For Nestle, all data is for Q4CY22.
For ITC, Sales are net of excise duty

LEAD ANALYST
Abhishek Agarwal, research5@krchoksey.com, +91-22-6696 5413

Companies	Revenue and Segment-wise Performance
Colgate Palmolive India (CLGT)	• In Q3FY23, CLGT reported revenue from operations of INR 12,913 mn (+0.9% YoY/ -6.9% QoQ/ -4.7% vs. our estimate). • CLGT's revenues grew by just 0.9% YoY in Q3FY23 vs 2.6% YoY in Q2FY23 and 2.5% YoY in Q1FY23. • Demand for oral care products continued to be subdued during the quarter due to adverse macro factors.
Godrej Consumer Products Ltd (GCPL)	• For Q3FY23, GCPL reported consolidated revenue from operations of INR 35,989 mn (+9.0% YoY/ +6.1% QoQ/ -1.3% vs. our estimate). The underlying volume growth was 1.0% YoY. • Growth in India business was at 10.6% YoY (+1.2% QoQ), with underlying volume growth of 3.0% YoY vs. volume declines in previous quarters (-5.0%/ -6.0%/ -3.0% YoY in Q2FY23/ Q1FY23/ Q4FY22, respectively). The Home care/ Personal care segments grew by 10.1% /13.9% YoY, respectively. • In INR terms, Indonesia's revenue declined by 3.1% YoY but improved by 6.0% QoQ. Ex-Hygiene portfolio growth in Indonesia was 2.0% YoY. • Africa, USA and Middle East (GAUM) revenue in INR terms grew by 13.9% YoY/ 17.3% QoQ (23.0% YoY growth in constant currency terms), with broad-based double-digit growth in the Dry Hair and FMCG categories.
Emami Ltd	• For Q3FY23, Emami reported revenue of INR 9,827 mn (+1.2% YoY/ +20.8% QoQ/ -1.3% vs our estimate). • Domestic business grew by 1% YoY during Q3FY23 as sales were impacted by continued demand pressure in rural markets and a warmer winter season across India. Domestic volumes declined by 3.9% YoY. • At a brand level, the Healthcare range grew by 2%, 7 Oils in One grew by 5%. On the other hand, BoroPlus range declined by 3% due to a warmer winter, Pain Management range/ Kesh King/ Navratna/ Male Grooming range declined by 2%/ 1%/ 6%/ 1% YoY, respectively. • International business growth was 7% YoY despite disruption in key markets. • Modern trade and e-commerce channels continued to see strong growth and contributed 18.4% of domestic sales in Q3FY23 vs. 13.8% in Q3FY22.

Companies	Revenue and Segment-wise Performance
Adani Wilmar Limited	• Adani Wilmar Ltd. (AWL) has reported a revenue growth of 4.3% YoY/3.9% QoQ to INR 1,54,381 mn in Q3FY23. Volumes grew by 16% on a YoY basis led by strong growth in all segments. In 9M FY23, the company recorded a 13% growth in both volume and value. • Food and FMCG registered a growth of 26% on a YoY basis in volume, Industrial Essentials volume grew by 38% on a YoY basis and Edible Oil grew by 9% on a YoY basis.
Devyani International Limited	• During the quarter, revenue from operations grew 27% y-o-y to Rs. 7,906 million from Rs. 6,244 million in Q3 FY22 and increased 6% QoQ from INR 7,474 mn in Q2FY23. While in 9M FY23, revenue from operations grew 50% y-o-y to Rs. 22,427 million from Rs. 14,932 million in 9M FY22. Continued strong momentum in store additions and volume growth assisted the overall performance. • During the quarter, the reported EBITDA on a post-IND-AS basis grew 18% y-o-y to Rs. 1,739 million, and sequentially up by 4.5% translating to an EBITDA margin of 22%. Operating EBITDA (Pre-IndAS) also grew to Rs. 1,172 million with Operating EBITDA margins at 14.8%. • Devyani continued the momentum in new store additions across metro and non-metro cities, with opening 81 net new stores in Q3 FY23, taking the total count to 1,177 as of 31st December 2022.

Companies	Margin Performance
Colgate Palmolive India (CLGT)	• EBITDA for the quarter declined by 5.0% YoY/ 11.4% QoQ to INR 3,615 mn (-11.1% vs. our estimate). • EBITDA margin contracted by 174 bps YoY/ 141 bps QoQ to 28.0%. • The sequential decline in EBITDA margin was despite a Gross Margin improvement of 212 bps QoQ. Gross margins remained subdued vs. last year (-73 bps YoY). • Ad spends increased by 12.6% YoY/ 7.4% QoQ.
Godrej Consumer Products Ltd (GCPL)	• Calculated EBITDA for the quarter improved by 9.8% YoY/ 33.7% QoQ to INR 7,675 mn (+2.7% vs. our estimate). • EBITDA margin improved by 16 bps YoY and saw a sharp sequential improvement of 440 bps QoQ. • Quality of profits improved as gross margins improved by 48 bps YoY/ 328 bps QoQ and working media investments increased by 28.0% YoY. • For the India business, gross margin improved by 250 bps YoY/ 590 bps QoQ due to better mix, prompt pricing, and softening of input costs. Working media investments grew by 28.0% YoY, and EBITDA margin improved by 210 bps YoY. • EBITDA margins for the Indonesia business declined by 100 bps YoY due to upfront higher marketing investments and scale deleverage. In the GAUM cluster, margin declined by 160 bps YoY due to increase in working media investments.
Emami Ltd	• EBITDA declined by 13.8% YoY but improved by 50.6% QoQ to INR 2,943 mn (-2.2% vs. our estimate) • EBITDA margin contracted by 523 bps YoY but expanded by 593 bps QoQ to 29.9%. The margin is in line with pre-Covid levels, after seeing a jump during Covid. • Gross margin declined by 77 bps YoY/ 158 bps QoQ due to inflationary pressure and favourable portfolio mix last year.

Companies	Margin Performance
Adani Wilmar Limited	• EBITDA for the quarter stood at INR 6,052mn, registering a growth of 20.1% YoY/138.4% QoQ. The EBITDA margin has also improved to 3.9% in Q3FY23, an increase of 210 bps on a QoQ basis from 1.8% in Q2FY23 and a surge of 40 bps on a YoY basis from 3.5% in Q3FY22. • The company has registered a PAT of INR 2,462mn in Q3FY23 against INR 487mn in Q2FY23, a massive improvement of 405.5% on a QoQ basis and a decent growth of 16.46% on a YoY basis from INR 2,114mn in Q3FY22, • The EPS shared for Q3FY23 is INR 1.9 per share against INR 0.4 per share in Q2FY23 and INR 1.9 per share in Q3FY22.
Devyani International Limited	• During the quarter, the reported EBITDA on a post-IND-AS basis grew 18% YoY to INR 1,739mn, and sequentially up by 4.5% translating to an EBITDA margin of 22%. Operating EBITDA (Pre-IndAS) also grew to INR 1,172mn with operating EBITDA margins at 14.8%. • PAT stood at INR 710mn, an increase of 7.6% on a YoY basis and a significant 25% increase on a sequential basis. • DIL opened 81 new stores in Q3FY23, bringing the total number to 1177. • The EPS has also increased to INR 0.59 in Q3FY23 from INR 0.49 in Q2FY23 and INR 0.52 in Q3FY22.

KRChoksey research

Companies	Industry/Outlook/ Strategy	New Launches/Market share
Colgate Palmolive India (CLGT)	• CLGT's opportunity in India is 2-fold: Driving category volume and potential for premiumization. • Premiumization opportunity exists by offering newer products and more value-added benefits. • CLGT has 4 growth pillars: Lead Toothpaste Category Growth, Drive Science-Led Premiumisation, Lead Category Growth in Toothbrush & Devices, and Build Personal Care.	• Investments to drive rural consumption have not been very consistent in the past few years. CLGT will focus on consistently investing to drive penetration. • In the medium term, CLGT will focus on growing the category and growing faster than the market.
Godrej Consumer	• Lower commodity pressures should lead to gradual recovery in consumption, gross margin improvement, upfront marketing investments and improvement in profitability in the coming quarters. • Management expects to see positive growth in Indonesia in the coming quarters. The issues of high Hygiene base effect, high inventory in modern trade in Indonesia have been largely resolved, while issue of differential promotions in channels is to be resolved completely.	• GCPL announced 2 disruptive innovations in the Household Insecticide (HI) with a goal to democratize the category- Good Knight Mini liquid vaporizer and Mini Hit Spray. • Good Knight Mini liquid vaporizer will be targeted to consumers who want affordable yet powerful all-night solutions. • The Mini Hit spray is a no-gas spray and priced at INR 50, which is one-fifth the price of a regular spray on a per mg basis of Activ. The pricing is very close to that of illegal incense sticks.
Emami Ltd	• Management expects Q3FY23 would be the last quarter for margin contraction. With moderation in inflation, margins should see expansion in Q4FY23E. • Emami sees NPD as being one of the growth drivers in the coming quarters for both the D2C business and the traditional trade business. • Emami expects revenue growth for FY24E to be at least 10.0% to 12.0% for most of its product range.	• Emami is focused, on strengthening its NPD launches in the D2C space. The Company has launched some brands in the last 3 to 6 months. And there is a strong pipeline of launches for the coming quarters. • in the Medical business, Emami launched 2 new products in the Avalehav segment and both have done well.

Companies	Industry/Outlook/ Strategy	New Launches/Market share
Adani Wilmar	• The company recognizes a large opportunity in HoReCa (Hotel, Restaurants, and Caterers) segment and planning to develop an operating model to drive sales in this segment. • The company is bullish on mustard oil volume growth with a better margin due to government incentives for farmers and demand for the commodity. • The company is about to become a big player in India's refined wheat flour (maida) category and is extremely bullish in this segment.	• The Food and FMCG business is at INR 23,000 mn and the company expects to reach INR 40,000 mn by FY24 • Due to wheat price hikes, many local players had to shut down their businesses, which has led to an increase in market share for large companies like Adani Wilmar Ltd. Along with the exit of local players, the GST normalization for the registered and unregistered brands has also aided the company to gain market share.
Devyani International	• Devyani continued the momentum in new store additions across metro and non-metro cities, with opening 81 net new stores in Q3 FY23, taking the total count to 1,177 as of 31st December 2022. • KFC plans to have at least 10% of openings as flagship stores at marquee locations and accompanied by differentiated customer experience. • Opened new Costa Coffee stores in iconic locations in Delhi & Mumbai.	Devyani launched new product like KFC biryani bucket, Momo pizza, San Francisco hand-tossed pizza. DIL celebrated the opening of 100th Costa Coffee store thereby proving a strong testimony of their commitment to the growth of all their Core Brands.

CLGT sees sequential decline in sales, GCPL and Emami witness growth QoQ

Particulars (INR Mn)	CLGT	GCPL	Emami	Adani Wilmar	Devyani
Sales	**12,913**	**35,989**	**9,827**	**1,54,381**	**7,906**
Total Expenditure	**9,298**	**28,314**	**6,885**	**1,48,329**	**6,167**
Cost of Raw Materials	3,694	14,416	2,342	1,23,466	2,403
Purchase of Stock	758	806	621	8,519	21
Changes in Inventories	-44	2,359	393	5,176	-
Employee Cost	989	2,917	934	921	860
Other expenses	3,902	7,816	2,595	10,247	2,883
EBITDA	**3,615**	**7,675**	**2,943**	**6,052**	**1,739**
EBITDA Margin (%)	**28.0%**	**21.3%**	**29.9%**	**3.90%**	**21.9%**
Depreciation	437	573	472	910	706
EBIT	**3,178**	**7,102**	**2,470**	**5,142**	**1,033**
Interest Expense	13	399	18	2,519	378
Other Income	104	432	69	775	80
PBT	**3,269**	**7,134**	**2,521**	**3,398**	**735**
Exceptional Items	0	483	0	-	87
Tax	837	1,188	185	1,084	-62
Share of Associates/Minorities	0	0	35	147	0
PAT	**2,432**	**5,463**	**2,371**	2,462	**710**
PAT Margin	**18.8%**	**15.2%**	**24.1%**	**1.60%**	8.9%
EPS	**8.9**	**5.3**	**5.4**	**1.9**	**0.6**

Source: Company, KRChoksey Research

CLGT sees weak margins, while QoQ EBITDA margin seen for GCPL and Emami

Particulars	CLGT		GCPL		Emami		Adani Wilmar		Devyani	
Change %	QoQ	YoY	QoQ	YoY	QoQ	YoY	QoQ	YoY	QoQ	YoY
Sales	**-6.9%**	**0.9%**	**6.1%**	**9.0%**	**20.8%**	**1.2%**	**9.10%**	**7.40%**	**5.8%**	**26.6%**
Total Expenditure	**-5.1%**	**3.4%**	**0.5%**	**8.8%**	**11.3%**	**9.4%**	**6.70%**	**6.90%**	**5.9%**	**29.4%**
Cost of Raw Materials	-9.1%	9.4%	-15.5%	0.9%	-5.4%	-3.5%	1.00%	-1.80%	8.8%	37.4%
Purchase of Stock	-11.3%	-12.2%	-19.9%	-7.8%	-17.6%	29.3%	72.73%	40.44%	5.0%	44.7%
Changes in Inventories	-139.1%	-224.2%	-726.3%	108.7%	176.3%	54.4%	495.63%	-343.81%	0	0
Employee Cost	4.6%	-1.7%	12.5%	3.2%	0.0%	29.1%	13.56%	10.30%	-2.4%	18.1%
Other expenses	2.1%	5.0%	-1.1%	13.0%	**2.4%**	**7.7%**	1.17%	25.76%	6.3%	28.1%
EBITDA	**-11.4%**	**-5.0%**	**33.7%**	**9.8%**	**50.6%**	**-13.8%**	138.46%	20.17%	**5.1%**	**17.5%**
EBITDA Margin (%)	-141 bps	-174 bps	440 bps	16 bps	593 bps	-523 bps	210 bps	40 bps	-20 bps	-178 bps
Depreciation	-0.4%	-0.6%	7.5%	5.8%	-1.4%	-44.1%	1.00%	11.93%	8.2%	26.5%
EBIT	**-12.7%**	**-5.6%**	**36.3%**	**10.1%**	**67.5%**	**-3.9%**	**214.11%**	**21.76%**	**2.8%**	**12.1%**
Interest Expense	-0.8%	-16.6%	-17.3%	56.2%	0.6%	-3.3%	54.16%	75.91%	8.6%	27.7%
Other Income	-7.7%	83.3%	8.2%	92.5%	-15.7%	-58.7%	30.91%	184.93%	77.7%	110.5%
PBT	**-12.6%**	**-4.1%**	**39.2%**	**11.2%**	**63.9%**	**-7.3%**	**471.09%**	**10.94%**	**4.8%**	**10.8%**
Exceptional Items	-	-	-11.9%	179.0%	-100.0%	NA	-	-	-	-
Tax	-12.9%	-5.4%	20.1%	22.3%	243.4%	-62.3%	291.34%	26.34%	-426%	-788%
Share of associates	-	-	-	-100.0%	87.3%	224.6%	-13.02%	-261.54%	-	-
PAT	**-12.5%**	**-3.6%**	**52.2%**	**3.6%**	**28.7%**	**7.8%**	**405.54%**	**16.46%**	**25.0%**	**7.5%**
PAT Margin	-120 bps	-87 bps	460 bps	-79 bps	150 bps	148 bps	130 bps	10 bps	130 bps	-167 bps

Source: Company, KRChoksey Research

LEAD ANALYST
Abhishek Agarwal, research5@krchoksey.com, +91-22-6696 5413

Weak performance for Whirlpool; Blue Star fares better

The broad trends remain unchanged from the last quarter

- Blue Star (BLSTR) saw strong growth in the B2B businesses and saw improvement in enquiries and order finalizations.
- BLSTR's focus on channel expansion across tier 2, 3 and 4 towns enabled growth in the Commercial Air-Conditioning Systems business.
- The B2C segment has started to see channel inventory filling for ACs in anticipation of the upcoming summer season.
- The commercial refrigeration business witnessed strong demand from tier 3, 4 and 5 cities
- International business growth was also strong for BLSTR.
- Whirlpool continued to be impacted due to pressure on entry-level products.

Whirlpool sees further EBITDA margin deterioration, while BLSTR sees sequential improvement

- For BLSTR, improvement in margin due to softening of commodity prices is getting offset by the INR depreciation.
- In the cooling products segment, BLSTR had increased the prices five times consecutively before the summer of 2022, before maintaining the prices post-summer of 2022. The intention was to strike a balance between market share and margin.
- The benefit of softening of commodity costs did not fully benefit Whirlpool in Q3FY23 due to high-cost inventory.

Outlook

- BLSTR continues to maintain the margin outlook at 6% to 6.5% for the Electro-Mechanical projects segment.
- In the Unitary products cooling products business, BLSTR expects to deliver margins in the range of 8.0% to 8.5%.
- BLSTR is investing in enhancing its R & D capabilities and various programs to mitigate supply chain risks and profitability improvement.
- Expectations of heat waves and a harsh summer could lead to strong sales for ACs, refrigerators, and cooling products in the coming months.

LEAD ANALYST
Abhishek Agarwal, research5@krchoksey.com, +91-22-6696 5413

Companies	Revenue and Segment-wise Performance
Blue Star Ltd (BLSTR)	• In Q3FY23, BLSTR reported Revenue of INR 17,882 mn (+18.7% YoY/ +13.4% QoQ/ +6.0% vs. our estimate). • In Q3FY23, the Electro-Mechanical Projects and Commercial Air Conditioning Systems revenue grew by 20.5% YoY/ 4.3% QoQ. In the Electro-Mechanical Projects business, the Company continued to witness healthy order inflows from all segments including Infrastructure, Factories and Data Centers. • Revenue from Unitary products grew by 15.1% YoY/ 33.7% QoQ. In the Room Air Conditioner business, despite subdued festive demand, the business registered growth with channels beginning to stock up for the upcoming season. • Professional Electronics and Industrial Systems revenue grew by 29.3% YoY but declined by 6.7% QoQ. The growth was driven by strong demand for Healthcare solutions on the backdrop of increasing awareness and investments in the Healthcare sector.
Whirlpool India	• Whirlpool India reported revenue of INR 13,025 mn (-15.5% YoY/-19.2% QoQ/ -19.6% vs. our estimate). • Consumer demand in the entry level segment continued to be muted, impacting the revenue for the company. • The Elica India business grew in double-digits with health margins.

Companies	Margin Performance
Blue Star Ltd (BLSTR)	• EBITDA for the quarter grew by 15.6% YoY/ 22.3% QoQ to INR 1,047 mn (-4.5% vs. our estimate). • EBITDA margin contracted by 16 bps YoY but expanded by 43 bps QoQ to 5.9%. • Gross margin improved by 93 bps YoY but declined by 78 bps QoQ. • Profitability of the Unitary Products segment improved due to benefit of scale and a higher share of the revenue from BLSTR's own manufactured products. • Profitability of the Professional Electronics and Industrial Systems was impacted by planned investments in business development, marketing and other initiatives for future growth.
Whirlpool India	• EBITDA for the quarter declined by 47.1% YoY/ 50.5% QoQ to INR 440 mn (-57.2% vs our estimate). • EBITDA margin contracted by 202 bps YoY/ 214 bps QoQ. • The EBITDA margin decline came despite a gross margin improvement of 58 bps YoY/ 71 bps QoQ. • Margins were impacted by lower sales, cost inflation, and volume deleverage, partially offset by cost based pricing and productivity actions. • The benefit of softening of commodity costs did not fully benefit the company in Q3FY23 due to high cost inventory.

Companies	Industry/Outlook/ Strategy	• New Launches/Market share
Blue Star Ltd	• The new plant for Cooling and Purification Products at Sri City commenced commercial production in January 2023 and is expected to aid improvement in margins going forward. • BLSTR expects to maintain the growth momentum in the coming quarters. • BLSTR is investing in enhancing its R & D capabilities and various programs to mitigate supply chain risks and profitability improvement.	• For its Cooling and Purification Products business, BLSTR grew in line with the market and maintained a market share of 13.25%. • BLSTR e continued to maintain our leadership position in Deep Freezers, Storage Water Coolers and Modular Cold Rooms.
Whirlpool India	• Mr. Vishal Bhola, Managing Director of Whirlpool of India has tendered his resignation effective 3rd April 2023. Mr. Narasimhan Eswar has been appointed as Managing Director with effect from 4th April 2023.	• The front load washing machine line is fully active and a slew of innovations in the mid and premium segments are hitting the market.

EBITDA margins see sharp decline for Whirlpool, while it improves sequentially for Blue Star

Particulars (INR Mn)	Blue Star	Whirlpool
Sales	**17,882**	**13,025**
Total Expenditure	**16,835**	**12,584**
Cost of Raw Materials	12,094	8,436
Purchase of Stock	2,621	1,240
Changes in Inventories	-854	-752
Employee Cost	1,446	1,563
Other expenses	1,528	2,097
EBITDA	**1,047**	**440**
EBITDA Margin (%)	***5.9%***	***3.4%***
Depreciation	156	449
EBIT	**892**	**-9**
Interest Expense	139	40
Other Income	52	410
PBT	**804**	**361**
Exceptional Items	0	0
Tax	216	94
Share of Associates/Minorities	-4	-20
PAT	**584**	**247**
PAT Margin	***3.3%***	***1.9%***
EPS	**6.1**	**1.9**

Source: Company, KRChoksey Research

Particulars	Blue Star		Whirlpool	
Change %	QoQ	YoY	QoQ	YoY
Sales	**13.4%**	**18.7%**	**-19.2%**	**-15.5%**
Total Expenditure	**12.9%**	**18.9%**	**-17.4%**	**-13.7%**
Cost of Raw Materials	16.6%	18.0%	-11.4%	17.7%
Purchase of Stock	6.9%	-13.6%	16.4%	10.9%
Changes in Inventories	16.7%	-41.7%	-231.0%	-131.7%
Employee Cost	1.7%	15.4%	-1.0%	2.0%
Other expenses	10.0%	40.4%	-15.8%	-12.6%
EBITDA	**22.3%**	**15.6%**	**-50.5%**	**-47.1%**
EBITDA Margin (%)	***43 bps***	***-16 bps***	***-214 bps***	***-202 bps***
Depreciation	-36.5%	-30.7%	8.1%	17.5%
EBIT	**45.9%**	**30.8%**	**-101.8%**	**-101.9%**
Interest Expense	15.1%	20.4%	47.6%	139.9%
Other Income	-39.6%	-61.4%	83.4%	130.7%
PBT	**39.6%**	**14.9%**	**-46.1%**	**-41.0%**
Exceptional Items	NA	NA	NA	NA
Tax	45.3%	-4.9%	-47.9%	-44.6%
Share of associates	150.0%	-220.7%	85.3%	494.1%
PAT	**37.3%**	**23.0%**	**-48.5%**	**-43.7%**
PAT Margin	***57 bps***	***11 bps***	***-108 bps***	***-95 bps***

Source: Company, KRChoksey Research

Product mix continues to be an issue for paint companies and retail

High base and extended monsoons impact growth for Paint companies

- Both paint companies under our coverage, Asian Paints (APNT) and Berger Paints (BRGR) saw muted revenue growth due a high base of last year, extended monsoons, and shorter Diwali this year.
- Last year in Q3FY22, the paint companies announced steep price hikes which led to higher pre-stocking of products before the hikes became effective. The stocking by dealers was particularly more in premium products, which led to superior product mix for Q3FY22.
- On the strong base of Q3FY22, Q3FY23 volume growth and mix were impacted.
- Demand trends are looking to be similar across town classes.

Gross margin performance different for the 2 companies

- Gross margins for APNT improved QoQ and YoY as they realized about half of the benefit of softening of input costs. The entire benefit could not be realized due to high-cost inventories.
- For BRGR, inventory was build-up leading to the festive season which lasted during Q3FY23 due to lower-than-expected sales. Hence there was no benefit realized from softening of input costs.
- AS a result, going forward, BRGR is likely to realize higher sequential gross margin improvement than APNT.

Performance expected to improve in the near term

- As the base was slightly low in December 2021, the growth rates have increased in December 2022 and will normalize going ahead. As vo
- The overall product mix should improve in Q4FY23E as the share of exterior paints increases. This should contribute to improving margins.

Retail: Discretionary items still remain muted

- Avenue Supermarts (DMART) has failed to see the expected improvement in general merchandise and apparel segments. The gross margins contracted further QoQ, which means the product mix deteriorated further.

LEAD ANALYST
Abhishek Agarwal, research5@krchoksey.com, +91-22-6696 5413

<table>
<tr><th>Companies</th><th>Revenue and Segment-wise Performance</th></tr>
<tr><td>Asian Paints (APNT)</td><td>
In Q3FY23, APNT’s revenue from operations was at INR 86,367 mn (+1.3% YoY/ +2.1% QoQ/ -10.4% vs. our estimate).
APNT’s India decorative paints business had flat volumes and value growth of 1.0% on a YoY basis. On a 3-year CAGR basis, the volume/ value growth in Q3FY23 remained healthy and was 16.0%/ 17.6%, respectively.
The muted volumes were primarily on account of 2 factors – a high base of last year and extended monsoons/ shorter Diwali this year. While October and November 2022 were impacted due to a high base, double-digit volume growth returned in December 2022 as last year’s base turned slightly low.
APNT has not seen any significant variation in the performance of T1/T2 and T3/T4 centers, and growth trends have been similar across markets.
The Projects business has continued to see strong traction.
Within International business, the Middle East and Africa saw good growth while the South Asia market, especially Sri Lanka and Bangladesh, got severely impacted by the adverse FX & macroeconomic conditions.
Auto OE and General Industrial segments had strong growth.
</td></tr>
<tr><td>Berger Paints (BRGR)</td><td>
In Q3FY23, Berger paints reported revenue of INR 26,936 mn (+5.6% YoY/ +0.8% QoQ/ -9.0% vs. our estimate).
On a standalone basis, volume growth was 6.6% YoY.
The growth was impacted by extended monsoons, high base effect, and short festive season. Growth progressively improved with a double-digit growth in December.
</td></tr>
<tr><td>Avenue Supermarts (DMART)</td><td>
Avenue Supermarts’ Revenue for Q3FY23 was INR 1,15,691 mn (+25.5% YoY/ +8.7% QoQ/ -0.1% vs. our estimate).
The discretionary non-FMCG sales did not pick up as expected in this quarter.
</td></tr>
</table>

LEAD ANALYST
Abhishek Agarwal, research5@krchoksey.com, +91-22-6696 5413

KRChoksey research

Companies	Margin Performance
Asian Paints (APNT)	• EBITDA grew by 4.5% YoY/ 31.3% QoQ to INR 16,114 mn (-10.6% vs. our estimate). • EBITDA margin improved by 57 bps YoY/ 414 bps QoQ to 18.7%. This was led by operating efficiencies and a gross margin improvement of 182 bps YoY/ 284 bps QoQ. • APNT saw ~7.0% RM deflation in Q3FY23. Due to higher cost inventories, only about half benefit of the deflation was seen in Q3FY23. On a YoY basis, product mix deteriorated in the India deco paints business owing to high base effect and downtrading due to inflationary pressures and price hikes.
Berger Paints (BRGR)	• EBITDA declined by 10.8% YoY/ 3.9% QoQ to INR 3,497 mn (-23.7% vs. our estimate). • EBITDA margin contracted by 239 bps YoY/ 65 bps QoQ to 13.0%. • Gross margin continued to be under pressure and declined by 198 bps YoY/ 61 bps QoQ. • EBITDA was impacted due to high-cost inventory, lower scale, and inferior product mix. • Mix was impacted due to higher stocking of premium products by retailers in Q3FY22 and lower sale of exterior emulsion due to extended monsoon.
Avenue Supermarts (DMART)	• EBITDA in Q3FY23 was at INR 9,653 mn (+11.4% YoY/ +8.2% QoQ/ -10.1% vs. our estimate). EBITDA margin for the quarter declined by 106 bps YoY/ 4 bps QoQ to 8.3%. • Gross margins declined by 57 bps YoY/ 28 bps QoQ. • The product mix continued to be impacted YoY due to higher growth in the FMCG and staples segment than in the general merchandise and apparel segments. This led to a decline in gross margins YoY.

LEAD ANALYST
Abhishek Agarwal, research5@krchoksey.com, +91-22-6696 5413

Companies	Industry/Outlook/ Strategy	New Launches/Market share
Asian Paints (APNT)	• Management expects the further benefit of RM cost reduction in Q4FY23E. • Management expects growth to come back in T3/ T4 towns in Q4FY23E, and further improve in Q1FY24E due to good monsoons, the recent downturn in inflation, and the expectation of an increase in MSP for farmers. • APNT announced plans to set up a new water-based paint manufacturing facility with a capacity of 0.40 mn KL p.a. with an approximate investment of INR 20.0 bn, taking the total announced capex over next 3 years to INR 87.5 bn.	• APNT continued to launch innovative products during the quarter like Apex Createx Scratch finish, TruGrip Dynamo Advanced, Sparc Exterior Wall Primer, Woodtech Purafin PU, and differentiated products in Waterproofing.
Berger Paints (BRGR)	• Further softening of Rutile, Monomer and Solvent prices are likely to lead to profitability improvement going forward. • Commercialization of the Sandila plant will also lead to lower inventory holding and working capital improvement. • Mix improvement is likely in Q4FY23E on the back of increased sales of exterior wall coatings and waterproofing items.	• Berger Paints introduced one product in exterior wall coatings with a 15 year warranty with a new type of technology. • Berger Paints also introduced one colasr based solution for rising dampness used for new construction.
Avenue Supermarts (DMART)	• The Company is in the process of commencing a pharmacy shop-in-shop at one of its stores through its subsidiary – Reflect Healthcare and Retail Private Limited.	• The Company has expanded its e-Commerce operations with DMart Ready to 4 new cities, taking the presence to 22 cities across India.

KRChoksey research

Revenue growth subdued for Paint companies

Particulars (INR Mn)	APNT	BRGR	DMART
Sales	**86,367**	**26,936**	1,15,691
Total Expenditure	**70,253**	**23,439**	1,06,038
Cost of Raw Materials	38,159	13,023	-
Purchase of Stock	10,315	2,471	92,996
Changes in Inventories	4,583	2,098	5,517
Employee Cost	5,038	1,481	1,923
Other expenses	12,158	4,367	5,602
EBITDA	**16,114**	**3,497**	**9,653**
EBITDA Margin (%)	18.7%	13.0%	8.3%
Depreciation	2,141	644	1,681
EBIT	**13,974**	**2,853**	**7,972**
Interest Expense	414	296	170
Other Income	866	109	316
PBT	**14,426**	**2,666**	**8,118**
Exceptional Items	0	0	0
Tax	3,811	680	2,221
Share of Associates/Minorities	113	23	0
PAT	**10,727**	**2,009**	**5,897**
PAT Margin	12.4%	7.5%	5.1%
EPS	**11.2**	**2.1**	**9.1**

Source: Company, KRChoksey Research

KRChoksey | research

Divergent margin performance of the 2 paint companies; DMART also sees pressure

Particulars	APNT		BRGR		DMART	
Change %	QoQ	YoY	QoQ	YoY	QoQ	YoY
Sales	**2.1%**	**1.3%**	**0.8%**	**5.6%**	**8.7%**	**25.5%**
Total Expenditure	**-2.8%**	**0.6%**	**1.6%**	**8.6%**	**16.9%**	**140.5%**
Cost of Raw Materials	-22.5%	-6.6%	-18.2%	-8.4%	-	-
Purchase of Stock	-10.8%	11.2%	3.6%	28.0%	-5.8%	21.7%
Changes in Inventories	-171.0%	20.1%	-304.8%	NM	-165.5%	250.7%
Employee Cost	-1.7%	10.6%	-7.7%	8.9%	2.0%	18.9%
Other expenses	-5.1%	7.0%	4.3%	7.2%	6.0%	42.6%
EBITDA	**31.3%**	**4.5%**	**-3.9%**	**-10.8%**	**8.2%**	**11.4%**
EBITDA Margin (%)	**414 bps**	**57 bps**	**-65 bps**	**-239 bps**	**-4 bps**	**-106 bps**
Depreciation	-0.8%	3.0%	3.0%	14.8%	3.8%	31.0%
EBIT	**38.1%**	**4.7%**	**-5.4%**	**-15.1%**	**9.2%**	**8.0%**
Interest Expense	16.9%	50.8%	22.5%	113.4%	-4.0%	21.7%
Other Income	-9.3%	20.5%	-13.5%	-29.6%	-11.3%	21.6%
PBT	**34.6%**	**4.6%**	**-8.0%**	**-21.0%**	**8.5%**	**8.2%**
Exceptional Items	NA	NA	NA	NA	NA	NA
Tax	31.3%	5.2%	-7.5%	-19.3%	256.9%	12.4%
Share of associates/ Minority	1060.8%	1859.4%	-22.3%	-393.5%	-33.3%	33.3%
PAT	**37.0%**	**5.6%**	**-8.4%**	**-20.5%**	**-14.0%**	**6.7%**
PAT Margin	**317 bps**	**51 bps**	**-75 bps**	**-245 bps**	**-135 bps**	**-90 bps**

Source: Company, KRChoksey Research

LEAD ANALYST
Abhishek Agarwal, research5@krchoksey.com, +91-22-6696 5413

KRChoksey research

Our top picks are TCPL, GCPL, HUL and Asian Paints

Stocks	Recommendation		Market Cap.	CMP	Target Price (INR)		Upside	PE (x)	
	Revised	Old	INR Mn.	INR	New	Old	%	5 Yr. Avg.	FY25E
Britannia Industries	ACCUMULATE	ACCUMULATE	10,56,917	4,388	5,094	4,829	16.09%	46.8	41.8
Nestle India	ACCUMULATE	ACCUMULATE	17,95,887	18,627	21,805	21,805	17.06%	72.4	52.8
ITC	BUY	BUY	47,44,966	382	442	400	15.66%	20.4	NA*
Hindustan Unilever	BUY	BUY	57,99,728	2,468	3,109	3,043	25.95%	55.2	44
Tata Consumer Products	BUY	BUY	6,59,924	710	964	964	35.71%	33	NA*
Colgate Palmolive India	ACCUMULATE	ACCUMULATE	3,97,127	1,460	1,638	1,753	12.18%	41.7	31.1
Godrej Consumer Products	BUY	BUY	9,36,589	916	1110	1056	21.21%	42.8	36.8
Emami	UR	UR	1,73,761	391	UR	UR	NA	NA	NA
Adani Wilmar	BUY	ACCUMULATE	4,47,349	344	569	751	65.31%	83.1	50
Devyani International	BUY	BUY	1,79,145	149	230	230	54.67%	135	49.5
Blue Star	UR	UR	1,38,225	1,435	UR	UR	NA	NA	NA
Whirlpool India	UR	UR	1,66,285	1,311	UR	UR	NA	NA	NA
Asian Paints	BUY	BUY	26,37,555	2,750	3,564	3,743	29.61%	59.1	41.8
Berger Paints	UR	UR	5,41,264	557	UR	UR	NA	NA	NA
Avenue Supermarts	UR	UR	22,60,929	3,490	UR	UR	NA	NA	NA

Note: UR – Under Review
Source: Company, KRChoksey Research, CMP as of 27th February 2023

* Valued on SOTP

LEAD ANALYST
Abhishek Agarwal, research5@krchoksey.com, +91-22-6696 5413

Technology Sector

Despite major deal wins the slowdown in US markets and challenging macroeconomic conditions persist

- Indian IT services companies recorded topline growth of 14 to 20 percent year over year for the December quarter as they tightened their defense against global uncertainties and volatile markets, but were optimistic that costs as well as business concerns will drive tech demand. The top-tier IT players reported revenue growth bands between 14 and 20 percent from Q3FY22 to Q3FY23. When compared to the September quarter prior, the topline growth for the major IT group was between 3% and 8% when evaluated sequentially. When measured sequentially, the top IT deck's net profit for the December quarter climbed between roughly 4% (TCS) and seventeen percent (HCL Tech) and between three percent (Wipro) and 19 percent (HCL Tech) when measured year over year.
- Due to unfavorable global macroeconomic conditions and worries about the US recession, seasonal furloughs continue to affect the majority of Indian IT players. Despite recent layoffs, we anticipate a few Tier II players to once again outperform Tier I players due to outstanding performance. The demand for digital and cloud transformations has kept IT spending in North America and Europe reasonably strong.
- Margins expanded modestly on a sequential basis for most companies on easing of supply-side pressures, operational efficiencies, and USD/INR depreciation. HCL Tech's margin expansion is mainly led by rupee depreciation and a slight shift in revenue mix towards higher margin businesses. Margins for other IT firms were steady on a sequential basis as slower growth offset the benefits of improving the pyramid and easing attrition.
- For the majority of the businesses, margins expanded marginally sequentially as a result of reduced supply-side pressures, improved operational efficiency, and the depreciation of the USD/INR. Rupee depreciation and a modest shift in the revenue mix in favor of higher-margin businesses are the key drivers of HCL Tech's margin increase. Other IT companies' margins remained stable sequentially as slower growth offset the advantages of bettering the pyramid and reducing attrition. Net hiring have remained stagnant because of the macroeconomic pressure globally but the IT companies do expect some good momentum in the future.
- In the past three months, a lot of businesses have revealed a few intriguing deals. Sonata forged a long-term collaboration with Skudoria Ferrari for the F1 season with the goal of offering high-precision performance technology and boosting brand recognition. Twenty new clients were added during Q3FY23, and the Top 20 clients accounted for the majority of Sonata Software's growth.
- With all this, we can expect some good traction in this industry in the upcoming quarters with a high EBIT margin, low attrition rate, an increase in net hiring, new good deals, a healthy customer retention ratio, and a good contact value.

HCL Tech stand out among top-tier IT; Persistent and Happiest Mind among mid-sized firms

- HCL Tech witnessed strong revenue growth of 13.1% YoY CC which was led by their Services business which grew 15.4% YoY CC; and strong revenue growth of 5.0% QoQ CC which was led by HCL Software. It is uniquely positioned as the only IT Service provider globally to be rated as a leader in all six Gartner IT Services Magic Quadrants. With seasonal strength in the products business and strong momentum in the services business, it is likely to be the second highest in the services business in FY23 among the Tier I IT players. The company delivered a significant performance with strong broad-based growth across verticals and geographies. The top performing verticals were Lifesciences and Healthcare, Manufacturing and Telecom, and Media delivering sequential growth of 5.5%, 4.9% and 4.5% in constant currency respectively.) HCL Tech won 17 large deals – 7 services and 10 software. TCV (New Deal wins) were at US$ 2,347 Mn, up 10% YoY, and ACV was up 1.9% YoY led by themes including operating model transformation, cloud adoption, and vendor consolidation across industry verticals.
- Persistent Systems witnessed strong revenue growth of 45.43% on a YoY basis as all segments has shown an improvement. The Hi-Tech and Emerging business grew by 81.30% on a YoY basis, the BFSI business grew by 44.75% on a YoY basis and Healthcare and Life Sciences business has improved by 34.13% on a YoY basis. Out of the total revenue, IP Led business share has increased by 13.3% and the remaining 86.7% share is of Services. Profitability had increased substantially on a YoY basis with an EBIT increase from INR 2082.98 million in Q3 FY2022 to INR 3332.04 million in Q3 FY2023. The EBIT margin has also increased from 13.96% in Q3 FY2022 to 15.36% in Q3 FY2023. PAT has also increased by 34.90%, to INR 2379.54 million in Q3 FY2023 from INR 1763.95 million in Q3 FY2022. However, there has been a decline in the margin from 11.0% in Q3 FY2023 to 11.8% in Q3 FY2022. The Total Contract Value (TCV) has reached USD 440.2 million and the Annual Contract Value (ACV) has reached USD 326.3 million. Net hiring was 122 employees on a QoQ basis and 5609 employees on a YoY basis.
- Happiest Minds Technologies' revenue for Q3 FY2023 is USD 45.4 million which is a growth of 2.1% on a QoQ basis and 26% YoY basis. The revenue in constant currency grew by 2.8% on a QoQ basis and 22.6% on a YoY basis. The total income is INR 37,468 lakhs, a growth of 4.3% on a QoQ basis and 28.2% on a YoY basis. The EBITDA has increased to INR 9,726 lakhs, 3.1% on a QoQ basis and 26.5% on a YoY basis. The EBITDA margin is at 26%. The PAT for Q3 FY2023 is INR 5,758 lakhs, an increase of 17% on a YoY basis and de-grew by 3.1% on a QoQ basis. The diluted EPS for the quarter is INR 3.98 and the Free Cash Flow for the quarter is INR 9,315 lakhs. As of December 31, 2022, there are 230 clients and there has been an addition of 9 clients in this quarter. As of December 31, 2022, the count of total employees has reached 4,611. The trailing 12 months attrition rate is 20.9%.

LEAD ANALYST
Abhishek Agarwal, research5@krchoksey.com, +91-22-6696 5413

Companies	Revenue	Margin	Conference call highlights / Strategy
Infosys	Infosys Limited (INFO) Q3FY23 performance was slightly lower than our estimate. Dollar Revenue grew by 2.4%/13.7% in QoQ/YoY to USD 4,659mndriven by double digit growth in all business segments, excepts BFSI, Lifesciences and others. Rupee revenue grew by +4.9% QoQ to INR 3,83,180Mn (KRChoksey est. INR 3,83,180Mn) in line with our estimate. 62.9% of revenue came from Digital business, growing at +21.7% YoY CC .	Reported operating margin was flattish QoQ at 21.5%, improvement in margin by +40bps from FX, +70bps on contract optimization (lower sub-contractors cost), were offset by -40bps on higher SG&A costs and ~80bps on headwind from furloughs and third party items for service delivery. Reported Net profit grew by ~9.4% QoQ and 13.4% YoY to INR 65,860mn with margin of 17.2%	Retail segment are witnessing new opportunities from D2C area. (v) Strong deal pipelines from both transformational deals as well as cost optimization deals, however large deals are more skewed towards cost optimization deals as industries are focused on bringing cost efficiency. attrition rate has been declining from last four quarters and the management expects further reduction in the attrition rate in the upcoming quarters.
HCL Technologies	Strong revenue growth of 13.1% YoY CC was led by their Services business which grew 15.4% YoY CC; and a growth of 5.0% QoQ CC which was led by HCL Software. Revenue at ₹ 2670 Mn is up 19.6% YoY, on the back of strong Services business growth of 22% YoY. The booking growth was led by IT operating model transformation, cloud adoption and large vendor consolidation deals.	In Q3FY23, HCL Tech crossed important milestones of ₹ 500 Mn and ₹ 400 Mn for EBIT and PAT respectively for the very first time. EBIT Margin were at 19.6%, up 165 bps QoQ and Net Margin at 15.3%, up 117 bps QoQ led by rupee depreciation and a slight shift in revenue mix towards higher margin businesses.	HCL Tech won 17 large deals – 7 services and 10 software. TCV (New Deal wins) were at US$ 2,347 Mn. Entered into a partnership with Ferrari along with an addition of 3 new clientele in the 50 million dollar category and 2 in the 20 million dollar category on a QoQ basis. The top 3 deals wins this quarter gave them a PCB of close to a billion dollars. Attrition rate stands at 21.7%.
Tech Mahindra	The revenue from operations has increased to INR 137,346 million in Q3 FY23 from INR 131,295 million in Q2 FY23, an increase of 4.61% on a QoQ basis and an increase of 19.94% on a YoY basis. The company has received a net new deal win of USD 795 million and has a free cash flow for the quarter of USD 31 million.	Tech Mahindra registered operating margin of 13.2%, down 159bps QoQ, due to supply-side pressures and sales investments (likely to continue over H1FY23) along with elevated amortization of eight acquisitions during FY22 would drag the margin down in FY23. The war for the talent remains intense. Attrition post wage hike in July will be a key monitorable.	Tech Mahindra Ltd. partnered with Airtel to deploy a captive private network at Mahindra's Chakan manufacturing facility which is near Pune, making it India's first 5G enabled Auto manufacturing plant under Tech Mahindra's '5G for Enterprise program'. The management believes that this quarter's performance was good despite being a low-earning quarter. Few clients have stopped working with Tech Mahindra due to the macro environment conditions but the management expects that this impact is temporary and the company still have a high customer retention rate. Revenue from the top 5 clients is declining and is expected to stay at the same level till Q4 FY23, post which there can be an improvement.

Companies	Revenue	Margin	Conference call highlights / Strategy
Persistent Systems	The company has witnessed a strong revenue growth across all segments, The remaining 86.7% share is of Services and the total TCV has reached to USD 440.2 million and the net hiring has been 5609 on a YoY basis.	The EBIT on a YoY basis has grown by 59.97% from INR 2082.98 million in Q3 FY2022 to INR 3332.04 million in Q3 FY2023, but on a QoQ basis, there has been a decline of 28.7% from INR 4673.06 million in Q2 FY2023 to INR 3332.04 million in Q3 FY2023. The margin has also improved on a YoY basis from 13.96% in Q3 FY22 to 15.36% on a YoY basis but a decline of 80 basis points on a QoQ basis due to an increase of employee cost	The company had hired 600 freshers post-training and excluding freshers the blended utilization is 83.3%; while including them the utilization rate is 79.9% which is expected to improve further. The company expects the attrition rate to marginally improve. All the acquired businesses over 4-5 quarters have now been fully being integrated and are expected to aid Persistent Systems Ltd. in its growth. The company has opened several new offices in Bangalore, Indore and London. The company is looking for expansion plans in Jaipur, Kochi, Chennai, Kolkata and New Jersey.
Tata Elxsi	The company has crossed the 100 million USD revenue milestone in a quarter for the first time, led by Automotive and Design Digital businesses. The revenue from operations is INR 8177 million, 7.2% on a QoQ basis and 28.7% on a YoY basis. All three segments of Embedded Product Design, Industry Design and Visualization and System Integration and Support delivered robust growth of 5.1%, 25.5% and 9.3% QoQ respectively.	The EBIT margin has improved on a QoQ basis but there is a decline on a YoY basis. Similarly, the attrition rate has also declined on a QoQ basis but it was unable to touch the mark of the Q2 FY2022 rate (i.e., 18.2%). The profit after tax at INR 1947 million, a growth of 11.7% on a QoQ basis and 29% on a YoY basis. The EPS grows at 11.7% on a QoQ basis and 28% on a YoY basis at INR 31.26.	The company plans to hire fresh engineers for the next 4 quarters. The company expects the media & communication and healthcare segments will perform poorly in the coming quarter, however, the management expects that the healthcare segment would recover much faster compared to the media and communication segment. The wage hikes are expected to happen in Q1 FY24. The revenue for the top 5 clients has been growing but at a slower pace compared with the top 5 – 20 clients. The management is expecting an improvement in IDV and SIS business in the coming quarter. The company plans to hire around 400 employees per quarter.
Sonata Software	Sonata software reported a rupee revenue of INR 22,608 Mn with a 51% QoQ growth for Q3FY23. It reported an industry-leading QoQ revenue growth of 6.3% in INR terms (4.8% in USD terms) at INR 4896 Mn in the international business.Sonata's Modernization Services helps in building digital businesses ecosystem to realize business agility, scalability, and improved efficiencies with their unique Platformation approach.	Reported EBITDA stood at INR 1728 Mn with a QoQ growth of 4% and Consolidated Net Profit grew by 4% QoQ to INR 1176 Mn. EBITDA margin and PAT margin declined 340 bps and 230 bps on a QoQ basis respectively, due to ongoing supply-side concerns, partially offset by higher offshoring/utilization. Salary hikes in the next quarter to maintain margin pressure.	Company is investing significantly in its GTMs (Go to market strategies), all focused on automation and modernization. Its modernization-driven solutions enabled four large deal wins with Enterprise Clients in the quarter. The company added 140 new engineers and is planning to offer salary hikes in Q4 which will have an annualized impact of 1.2% on their margins. A steady reduction in attrition rate, from 21% in Q2 to around 15% in Q3.

Companies	Revenue	Margin	Conference call highlights / Strategy
Happiest Minds Technologies	Happiest Minds Technologies Limited had generated a revenue of INR 37,468 lakhs and out of this 46.7% comes from Product Engineering Services (PES), 30.1% from Digital Business Solutions (DBS), 21.1% from Infrastructure Management and Security Services (IMSS) and remaining 2.1% from Other Sources. The company was able to grow by 3.2% on a QoQ basis and 19.8% on a YoY basis despite having a high holiday period.	The EBITDA has increased to INR 9,726 lakhs, 3.1% on a QoQ basis and 26.5% on a YoY basis. The EBITDA margin is at 26%. The PAT for Q3 FY2023 is INR 5,758 lakhs, an increase of 17% on a YoY basis and de-grew by 3.1% on a QoQ basis. The diluted EPS for the quarter is INR 3.98 and the Free Cash Flow for the quarter is INR 9,315 lakhs. As of December 31, 2022, there are 230 clients and there has been an addition of 9 clients in this quarter.	15% of the total revenue is coming from new businesses and remaining are coming from existing businesses. Management is focusing on rate negotiation for new contracts as well as existing contracts. Management believes that business hit for EPAM will be beneficial for Happiest Minds. Management sees pent up demand in digital technologies (especially in ecommerce segment), Multi/Hybrid cloud (infrastructure) and automation.
Infibeam Avenues	In Q3FY23, on a consolidated basis, revenue grew by 4.5% YoY and declined by 13.0% QoQ to INR 4,147mn. The revenue decline was due to a shift in the transaction mix towards non-credit transactions versus credit transactions during the quarter. However, Net take rate (NTR) improved by 340 bps YoY/100 bps QoQ to 8.9 bps from 5.5 bps in Q3FY22 and 7.5 bps in Q2FY23 .	EBITDA increased by 25.6% YoY/ 18.9% QoQ to INR 475mn. EBITDA margin improved by 193 bps YoY/307 bps QoQ to 11.5% on account of increase in volume from high margin credit transactions. PAT for the quarter stood at INR 353mn, an increase of 46.4% on a YoY basis; whereas it declined by 11.2% as a result of lower other income compared to the last quarter. PAT margins stood at 8.5% for the quarter, an improvement of 245 bps YoY and 17 bps QoQ	The company added 1.1mn merchants during the quarter, which is most ever in a single quarter, reaching 8.4 million merchants. Daily merchant addition averaged 11700 for the last quarter, up from 7000 to 8000 in previous quarters. Infibeam is planning to add new products such as working capital financing and Invoice discounting under Trust Avenue platform by Q1 or Q2 of FY24.

INR Mn	USD Revenue	Revenue	EBIT	PAT	OPM (%)	NPM(%)
Infosys	4659	3813180	82420	58090	21.5%	15.2%
HCL Tech	3,244	2,67,000	52,280	40,960	24%	15%
Tech Mahindra	1,668	1,37,346	20,311	12,966	14.8%	9.4%
Persistent	264	21,694	3,332	2,380	18.5%	11.0%
Tata Elxsi	108	8,177	2,254	1,947	27.6%	23.3%
Sonata Software	61	22,608	1,426	1,177	6.9%	5.2%
Happiest Minds	45	36,688	9,726	5,758	26.0%	15.4%
Infibeam	52	4147	475.4	353.8	20.4%	8.5%

Source: Company, KRChoksey Research

KRChoksey research

Technology Companies	Infosys		HCL Tech		Tech Mahindra		Persistent	
	QoQ	YoY	QoQ	YoY	QoQ	YoY	QoQ	YoY
USD Revenue	2.3%	9.6%	0.5%	11.0%	1.83%	8.74%	3.44%	53.10%
Revenue	4.9%	20.2%	1.2%	15.0%	4.61%	19.94%	5.89%	45.43%
EBIT	4.7%	10.1%	(4.4%)	1.6%	3610%	0.25%	11.55%	60.04%
PAT	(3.5%)	-0.2%	4.4%	20.3%	0.87%	(5.25%)	8.18%	34.92%
Changes in Operating Margin (bps)	(4bps)	(198bps)	(106bps)	(236bps)	28 bps	(290 bps)	267 bps	101 bps
Changes in Profit Margin (bps)	(132bps)	(311bps	(49bps)	71bps	(35 bps)	(216 bps)	28 bps	(80 bps)

Source: Company, KRChoksey Research

Technology Companies	Tata Elxsi		Sonata Software		Happiest Minds		Infibeam	
	QoQ	YoY	QoQ	YoY	QoQ	YoY	QoQ	YoY
USD Revenue	6.1%	27.0%	4.8%	13.3%	2.1%	19.8%	-13.0%	-3.0%
Revenue	7.2%	28.7%	51.1%	21.7%	3.2%	29.2%	-13.0%	4.5%
EBIT	10.1%	14.5%	1.2%	9.9%	(6.4%)	25.8%	7.6%	25.7%
PAT	11.7%	29.0%	4.4%	20.5%	(3.1%)	17.7%	-11.2%	46.4%
Changes in Operating Margin (bps)	80 bps	(340 bps)	(340 bps)	(10 bps)	(30 bps)	0 bps	391 bps	193 bps
Changes in Profit Margin (bps)	100 bps	(20 bps)	(230 bps)	0 bps	(110 bps)	(90 bps)	17bps	244bps

Source: Company, KRChoksey Research

Stocks	Recommendation		Market Cap.	CMP	Target Price (INR)		Upside	P/ E (x)	
	Revised	Old	INR Mn.	INR	New	Old	%	5 Yr. Avg.	FY24E
Infosys Limited	BUY	BUY	63,51,676	1,509	1,805	1,805	19.58%	23.93	25
HCL Technologies Limited	HOLD	BUY	29,41,076	1,084	1,119	1,119	3.25%	15.2	19.9
Tech Mahindra Limited	BUY	ACCUMULATE	10,84,963	1,114	1,181	1,181	6.01%	15.4	13.3
Persistent Systems Limited	ACCUMULATE	ACCUMULATE	3,68,690	4,824	4,697	4,131	-2.64%	18.5	27.2
Tata Elxsi Limited	BUY	ACCUMULATE	3,96,103	6,360	8,884	8,884	39.68%	26.6	47.5
Sonata Software Limited	BUY	BUY	100882.54	720	732	587	1.74%	16.8	17.1
Happiest Minds Technologies Ltd.	BUY	BUY	124812.37	850	1158	1158	36.26%	NA	45
Infibeam Avenues Ltd.	BUY	BUY	42,711	16	28	28	75.55%	59.93	3*

*Assigned Multiple: P/S

Source: Company, KRChoksey Research

Petrochemicals and Chemical Sector

LEAD ANALYST
Abhishek Agarwal, research5@krchoksey.com, +91-22-6696 5413

Mixed revenue performance during the quarter:

Our coverage universe companies delivered mixed performance during Q3FY23. Agrochemical companies such as UPL delivered strong growth on a YoY basis largely due to improvements in product realisations coupled with higher volume offtake that supported such robust performance. A spike in the price of herbicides and strong demand from LATAM and North America remained the growth drivers for agrochemical companies. Whereas, bulk chemical companies such as Supreme Petrochemicals(-8.9%) and Balaji Amines(3.73%) have witnessed muted revenue growth on a YoY basis due to the normalisation of the commodity prices. Apart from companies such as Vinati organics Ltd., as Navin Fluorine International Ltd., and Gujarat Fluorochemicals Ltd, other specialty chemicals companies under our coverage have faced multiple headwinds during the quarters due to high channel inventory, geo political issues, Covid related restrictions in China, which resulted in decline in revenue. However, the majority of companies believe that channel inventory levels will return to normal in the next 1-2 quarters. Fluorination chemistry based companies such as Navin Fluorine International Ltd. and Gujarat Fluorochemicals Ltd. posted strong YoY revenue growth of 48.7% and 41.3% respectively. Furthermore, Indian contract manufacturing firms such as Anupam Rasayan Ltd. experienced robust growth of 43.8% YoY during the quarter due to higher volume offtake as a result of China+1 and Europe+1 strategies. However, most of the companies under our coverage has posted muted revenue performance on a sequential basis.

Improved margins YoY led by reduction in costs:

Overall our coverage universe companies except Tatva Chintan and Balaji Amines has witnessed improvement in the EBITDA margins during Q3FY23. Softening of freight costs, energy costs and raw material prices led to improvement in the margin. However, margin saw contraction on a YoY basis for few companies in our basket due to lower realisation and volume growth. However, most the companies are expecting further improvement in the margin in FY24 on the back of better realisation, change in product mix towards high margin products, reduction in high cost raw materials inventory.

Valuation and view:

We believe the long-term growth prospects for the chemical companies remain strong. The companies are likely to aid growth on the back of opportunities in the near future supported by increased application in end-user industries, improving product mix with focus towards high margin products, improved capacity utilisation which will lead to better operating leverage in some of the existing units as well as newly launched plants. All of the aforementioned elements would serve as the primary propellers of future growth momentum. **As a result, we maintain our previous ratings on all the companies as the growth story remains intact except for Tatav Chintan Pharma Ltd, Vinati Organics, Gujarat fluorochemical, where we have changed our recommendation from ACCUMULATE to BUY. While we maintain ACCUMULATE rating on Navin Fluorine. We reiterate our bullish stance on Annupam Rasayan, Laxmi Organics, Rossari Biotech, Supreme Petrochemical, Balaji Amines and UPL with a BUY rating and these are our top picks in the sector.**

Companies	Revenue	Margin	Industry Outlook / Strategy
UPL	• In Q3FY23, UPL's revenue grew by 21.1% YoY/9.4% QoQ to INR 1,36,790 mn, led by higher price realisation and a better product mix. • The company has posted strong quarterly performance owing to the continuous launch of differentiated products and constant focus on strengthening relationship with customers.	• EBITDA has seen a growth of 15.2% YoY/7.9% QoQ to INR 30,420 mn. Due to higher SG&A investment, EBITDA margin contracted by 293 basis points (bps) QoQ and 1131 basis points to 22.2%. • PAT went up by 16.1% YoY/33.5% QoQ to INR 10,870 mn. PAT margin contracted by 34 bps YoY to 7.95%, though sequentially PAT margin expanded by 144 bps.	• UPL is continuously focusing on gaining market shares in developing markets such as India, Brazil and Mexico. Moreover, the company expects ~ 25% growth in the specialty chemicals segment over the next 3-5 years owing to strong product launch pipeline. • On back of improved pricing and a strong demand outlook, management anticipates strong performance from India and American markets in Q4 FY23.
Supreme Petrochemicals Ltd	• In Q3FY23, Supreme Petrochem's (SPL) revenue from operation stood at INR 11,804mn, declined by 8.9% YoY/4.4% QoQ. • Muted revenue performance is mainly attributable to a drop in the volume and lower realization. However, the company saw an increase in volume to 69345 MT during the quarter, following a decrease in volume from 71,244 MT in Q3 FY22 to 64,000 MT in Q3 FY23.	• EBITDA witnessed a drastic fall of 47.0%YoY; while improved by 51.1% QoQ to INR 1189mn. EBITDA margin contracted by 723 bps YoY, whereas it improved by 370 bps QoQ to 10.1%. The fall in margin was due to a rise in raw material costs and other expenses on a YoY basis. • PAT stood at INR 896mn, declining by 45.6% YoY and increasing by 50.2% QoQ. PAT margin contracted by 511 bps YoY and improved by 276 bps QoQ to 7.6%. • The Board has also approved a 1:2 split of its existing equity shares.	• SPL is undergoing capital expenditures for brownfield expansion to enhance its existing polystyrene, EPS, masterbatches & compounds and XPS capacities. • SPL is setting up a Mass ABS Project of 140K MTPA at their Amdoshi plant in two phases, of 70K MTPA each. Phase I is scheduled to go on stream by June 2024 and Phase II by March 2025. Expansion of existing products capacity along with launch of new products, will bolster volume growth for the company.

Companies	Revenue	Margin	Industry Outlook / Strategy
Rossari Biotech Ltd	• Rossari Biotech Ltd (RBL) consolidated revenue declined by 9.1% YoY and 8.5% QoQ at INR 3893mn due to subdued demand at the subsidiaries. • Stable performance was reported by Textile and AHN segment. On a standalone basis, the company reported a revenue of INR 2369mn(-1.7%/-11.8%) one account of decrease in revenue from Home, personal care and performance chemicals (HPPC) segment.	• EBITDA for the quarter is reported at INR 542mn (+13.4% YoY -4.2%). The EBITDA margins improved +277 bps YoY/ +62bps QoQ at 13.9% owing to softening in the key raw material prices. • Rossari's net profit increased by +17.4% QoQ (+12.7% YoY) to INR 257mn on the account of better operating margins and lower finance cost. PAT margins for the quarter stood at 6.6%. (+128bps YoY, +98 bps QoQ). EPS is reported at INR 4.66.	• The management looks forward to growing and promoting the AHN business. Q4 is expected to be a stronger quarter for AHN, The management believes that going forward, this segment will grow significantly between 30 to 35% • The management aims to expand its customer base in their existing segments while also exploring new industries such as water treatment papers, ceramics and cements. Owing to favourable responses from these industries, they are optimistic about achieving growth in these segments in the coming years.
Tatva Chintan Pharma Ltd	• Tatva Chintan Pham Chem Ltd (TCPCL) reported revenue of INR 1,206 Mn, (+15% YoY/+34% QoQ), led by improved offtake in SDA segment in this quarter. • Due to semiconductor shortage, geopolitical issues and lockdown in China, SDA segment has effected significantly in first half of the FY23. Though, the SDA segment has witnessed some revival in Q3FY23,	• EBITDA reported at INR 1179Mn (-25% yoy / +60% qoq). EBITDA margin was 14.9% EBITDA margin has effected during the quarter due to higher prices of solvents and commodities and adverse currency fluctuations across various geographies, which is partially offset by decline in power and fuel costs. • Net Profit reported at INR 116Mn (-49% yoy / -63% qoq), net margin reported at INR 9.6% (230bps yoy / -1220bps qoq).	• Management expects that electrolyte salts and PASC segments will be the key growth driver for the company in the next 2-3 years on back of a strong products launch pipelines. Further, growth in SDA business will be driven by fast adoption of new emission norms such as Euro7 and BS7 across the globe. • The key watch areas would remain how the European energy crisis roll out over the next few months and how the demand revival for heavy-duty commercial vehicles pans out.

Companies	Revenue	Margin	Industry Outlook / Strategy
Anupam Rasayan Ltd	• Anupam Rasayan India Ltd (ARIL) reported revenue of INR 3.827Mn in Q3FY23 grew by +43.8% YoY and -0.9% QoQ. YoY growth is not comparable as the effect of Tanfac's acquisition given during the quarter. • Revenue contribution from Life science - speciality chemicals and Other speciality chemicals was 82% and 18% respectively compared to 90% and 10% in Q2FY23	• EBITDA grew by 35.8% YoY at INR 1091 Mn however de-grew by 2.2% QoQ basis. EBITDA margin stood at 26.6% (-158bps yoy / -36bps QoQ). The margin dropped slightly on a sequential basis on account of lower absorption of fixed overheads as one unit was shutdown due to the fire incident during the quarter. • Net profit reported at INR 544Mn (+43.5% YoY/ 13.9% QoQ). Net margin stood at 14.2% (-3bps YoY / 184bps QoQ). Improvement in net profit on a sequential basis was on account of higher other income compared to last quarter.	• The company is witnessing strong interest from various customers on the fluorination side and expects more conclusion of LOIs for new products and conversion of LOIs into contracts in these coming quarters. • Due to the energy crisis in the European market, the company has won 2 new contracts from a European agrochem company (existing client) with revenue potential of INR 100 Cr over the next 5 years.
Laxmi Organics	• Laxmi Organic Industries Ltd (LOIL) reported revenue of INR 6,546Mn(-23.9% YoY/+0.4% QoQ) on account of fall in Acetyl Intermediates (AI) prices and lower demand in Specialty Intermediates (SI) compared to last year. • The prices in AI segment has begun to stabilize on a sequential basis; whereas SI demand started coming back towards the end of Q3FY23	• EBITDA reported at INR 548Mn (-53.8% YoY/+91.4% QoQ). EBITDA margin stood at 8.4% (-543bps YoY/+398bps QoQ); an improvement in margin performance on a sequential basis was mainly on account of correction in input costs and narrowing spread of AI segment. • Net Profit decline by 66.8% YoY at INR 273Mn (+216.1% QoQ), Net margin reported at 4.2% (-538bps YoY / +284bps QoQ).	• The company has completed Phase-2 of the capex for the SI segment. Additionally, company had finished debottleneck activities for the AI segment in the last quarter which is capitalised this quarter. • LOIL has acquired 92 acres land during the quarter, which will be used primarily for expansion of specialty Intermediates and Fluoro-specialty Intermediates with commencement by FY25. The quantum of investment for this upcoming capex is not outlined. • The Italian Fluoro specialty chemical plant has been evacuated and shifted its manufacturing capacity in India.

Companies	Revenue	Margin	Industry Outlook / Strategy
Gujarat Fluorochemicals Ltd	• Gujarat Fluorochemicals Limited reported a revenue of INR 14,179mn in Q3 FY23 as against INR 14,613mn in Q2 FY23, a dip of 2.90% on a QoQ basis and an increase of approximately 41.25% on a YoY basis, as against INR 10,038mn in Q3 FY22. • Volumes and prices remained stable during the quarter, barring marginal impact due to the holiday season in USA and Europe.	• On operational front, the EBITDA stood at INR 5,232mn, substantially improved by 65.9% on a YoY basis, at INR 3,154 in Q3FY22 and decreased 2.4% on a QoQ basis, at INR 5,357mn in Q2FY23. The EBITDA margin stood at 36.9% as against 31.42% in Q3FY22 and 36.6% in Q2FY23. • Net Profit stood at INR 3,305mn as against INR 2,012mn (+64.2%) on YoY basis and INR 3,572mn (-7.5%) sequentially, with NPM at 23.3% (+330 bps YoY/-110 bps QoQ).	• There is an increase in demand for new fluoropolymers, namely FKM, PVDF, and PFA which the company intends to meet through additional capacities. • Price GFL is setting up India's first PVDF solar film project, which will be commissioned in the next financial year. With the company`s own integrated PVDF manufacturing facilities, this plant will be ideally suited to cater to both the domestic and international markets.
Navin Fluorine International Ltd	• NFIL has achieved a new milestone of INR 5,000mn by reporting consolidated revenue of 5,636mn, an increase of 48.72% on a YoY basis from INR 3,789mn and an improvement of 34.44% on a QoQ basis from INR 4,192mn. • The strong revenue performance in this quarter was driven by highest quarterly revenue in all three segments (i.e., HPP, CDMO, and Specialty Chemicals), especially healthy growth in the CDMO segment.	• EBITDA for the Q3 FY23 was INR 1,555.80mn against INR 938.30mn in Q2 FY23, an increase of 65.81% on a QoQ basis and an increase of 57.82% on a YoY basis from INR 985.80mn in Q3 FY22. The EBITDA margin stood at 27.61% in Q3 FY23, an increase of 538 bps on a QoQ basis and 160 bps on a YoY basis. • PAT for the quarter improved by 54.91% on a YoY basis to INR 1,065.60mn in Q3 FY23 as against INR 687.9mn in Q3 FY22. and an increment of 84.33% on a QoQ basis from INR 578.10mn in Q2FY23. PAT margin stood at 18.58% in Q3 FY23.	• NFIL had entered into a USD 410mn contract with Honeywell International Inc. for the manufacture and supply of a High-Performance product in the fluorochemical space. • For the HFO business, the management is looking to expand its capacity by 20% through de-bottlenecking in the next quarter, with minimal CAPEX.

Companies	Revenue	Margin	Industry Outlook / Strategy
Balaji Amines Ltd	• Balaji Amines Ltd reported stable revenue of INR 5,859mn (+3.73% YoY/-6.62% QoQ). Total volumes were 28,147 MT in Q3FY23, compared to 27,589 MT in Q3FY22 and 28,498 MT in Q2FY23. Such performance was mainly attributable to higher volumes from amines & specialty chemical segments on a YoY basis. • Standalone business continues to underperform with a YoY volume decline of 7.34%, whereas Balaji Specialty Chemicals Ltd (BSCL) has posted strong growth of 59% YoY.	• On the operational front, EBITDA in Q3FY23 stood at INR 1,278mn (-19.52% YoY / -26.13% QoQ), OPM declined by 630bps/576bps YoY/QoQ. The decline in operating margin was mostly attributable to pharma and API industry contraction. • Net Profit in Q3FY23 stood at INR 838mn showing a decline of-17.6%/-29.29% on YoY/QoQ basis, with NPM at 14.3%. • EPS during the quarter came at 19.3 against 27.6 in the same quarter last year.	• BAL has outlined its capex plans for the next 2-3 years with an outlay of INR 4000-5000mn. • Out of the above capital expenditures, the company has also begun construction on the Methylamines plant, which is anticipated to be commissioned during the second half of FY24, and the production of other plants will begin within the next 2-3 years, subject to government approvals and environmental clearances
Vinati Organics Ltd	• In Q3FY23, VOL's consolidated revenue grew by 37.87% YoY and decline by 11.33% QoQ to INR 5,087mn. The company has delivered strong growth on a YoY basis across all the business segment demonstrating robust demand overall. • On Quarterly basis, the company witnessed a decline in the revenue, owing to the contraction of volume in the ATBS segment.	• On the operational front, VOL delivered EBITDA growth of 102.52% on a YoY basis and 26.55% on a QoQ basis to INR 1,879mn. EBITDA margins improved substantially by 1,180 bps on a QoQ basis, and by 1072 bps on a YoY basis to 36.94% in Q3FY23. • The company has been able to maintain the margins QoQ as EBITDA per kg improved with its ability to pass on the input costs to its customers, and the company expects that the EBITDA margin for FY23 will be around 30%. PAT has seen a jump of 51.37% on a YoY basis and 14.60% on a QoQ to INR 1,254mn. • The PAT margins have also flourished, increasing by 408 bps on a YoY basis and by 216 bps on a QoQ to 23.87% in Q3FY23.	• The management believes that Q4 will grow at a similar pace as it has in Q3 and anticipates revenue to reach around INR 20,000mn. • The IBB and IB segment is expected to maintain this growth momentum in Q4FY23 • In Veeral Additives, the plant is expected to be commissioned by Q1 FY24 and post that, the management expect sales to pick up.

KRChoksey | research

Robust margin profile by Gujarat Flouriochemical Ltd, Navin Flourine Int Ltd, Vinati Organics Ltd

Particulars (INR Mn)	UPL	Supreme Petrochem Ltd	Rossari Biotech	Tatva Chintan Pharma ltd	Anupam Rasayan
Sales	**1,36,790**	**11,804**	**3,893**	**1,206**	**3,827**
Total Expenditure	1,08,339	10,615	3,351	1,027	2,808
EBITDA	**28,451**	**1188.8**	541.64	**179**	**1019**
EBITDA Margin (%)	**20.80%**	**10.10%**	**13.91%**	**14.85%**	**26%**
Depreciation	6,240	110.19	160	24	184.84
EBIT	**22,211**	**1079**	**382**	**155**	**834**
Interest Expense	9,020	**10**	**47**	28	**141**
Other income	1150	142	11	15.2	60
Exceptional items	200	**0**	**0**	0	**0**
PBT	**14,141**	**1211**	**346**	**142**	**753**
Tax	1,350	315	89	26	209
Share of Associates/Minorities	-2,390	NA	NA	NA	NA
PAT	**10,401**	**896**	**256**	**116**	**544**
PAT Margin	**7.60%**	**4.80%**	**6.6%**	**9.64%**	**14%**
Adj. PAT	**10,401**	**596**	**256**	**116**	**544**
Adj. PAT Margin	**7.60%**	**4.80%**	**6.6%**	**9.64%**	**14%**
EPS	**28.57**	**9.5**	**4.66**	**5.24**	**5.31**
Adj. EPS	**28.57**	**9.5**	**4.66**	**5.24**	**6.13**

Source: Company, KRChoksey Research

Particulars (INR Mn)	Laxmi Organics	Gujarat Fluorochemical Ltd	Navin Fluorine Int Ltd	Balaji Amines Ltd	Vinati Organics Ltd
Sales	**7,892**	**14,179**	**5,636**	**5859**	**5,087**
Total Expenditure	6,815	8,947	4,080	4581	3,208
EBITDA	**1,076**	5,232	**1,556**	1278	**1,879**
EBITDA Margin (%)	**13.64%**	**36.90%**	**27.61%**	**21.8%**	**36.94%**
Depreciation	156	601	250	123	130
EBIT	**920**	**4,631**	**1,306**	**1155**	**1,749**
Interest Expense	14	381	92	29	0
Other income	39.4	214	99	25	168
Exceptional items	0	NA	0	0	0
PBT	**946**	**4,464**	**1313**	**1151**	**1,675**
Tax	189	1,159	247	312	421
Share of Associates/Minorities	0	NA	NA	0	NA
PAT	**757**	**3,305**	**1,066**	**838**	**1,254**
PAT Margin	**9.59%**	**23.30%**	**18.91%**	**14%**	**23.87%**
Adj. PAT	**757**	**3,305**	**1,066**	**838**	**1,254**
Adj. PAT Margin	**9.59%**	**23.30%**	**18.91%**	**14.3%**	**23.87%**
EPS	**2.87**	**30.09**	**21.50**	**28.57**	**12.20**
Adj. EPS	**2.87**	**30.09**	**21.50**	**28.57**	**12.20**

Source: Company, KRChoksey Research

KRChoksey | research

Volume Growth for most of the companies, pressure on realizations.

Particulars	UPL Ltd		Supreme Petrochem Ltd		Rossari Biotech		Tatva chintan Pharma Chem		Anupam Rasayan	
Change (%)	QoQ	YoY	QoQ	YoY	QoQ	YoY	QoQ	YoY	QoQ	YoY
Sales	**21.09%**	**9.37%**	**-4.39%**	**-8.92%**	**-9.1%**	**-8.5%**	**33.87%**	**15.19%**	**43.8%**	**-0.9%**
Total Expenditure	**22.03%**	**7.66%**	**-8.17%**	**-0.96%**	**-12.0%**	**-9.2%**	**30.13%**	**26.94%**	**47.0%**	**-0.4%**
EBITDA	**17.61%**	**16.41%**	**51.06%**	**-46.98%**	**13.4%**	**-4.2%**	**60.27%**	**-24.74%**	**35.8%**	**-2.2%**
Change in EBITDA Margin (bps)	130bps	-60bps	370 bps	-723 bps	277bps	62bps	-788bps	245bps	-158bps	-36bps
Depreciation	4.00%	2.63%	-4.10%	3.98%	1.84%	2.08%	3.25%	14.57%	19.3%	4.3%
EBIT	**22.11%**	**20.97%**	**60.49%**	**-49.51%**	**19.12%**	**-6.61%**	**75.10%**	**-28.50%**	**40.1%**	**-3.6%**
Interest Expense	70.51%	40.06%	4.65%	-30.83%	-3.59%	-43.25%	107.87%	185.56%	170.8%	-11.6%
Other income	64.29%	47.44%	20.86%	70.33%	-79.20%	35.85%	-1.87%	-67.80%	21.8%	-295.4%
Exceptional items	NA	**NA**	NA	NA	**NA**	NA	**NA**	NA	NA	NA
PBT	**6.16%**	**15.25%**	**55.18%**	**-45.10%**	**6.34%**	**3.42%**	**57.02%**	**-44.11%**	**27.0%**	**-12.0%**
Tax	-19.16%	-41.56%	71.33%	-43.78%	-9.64%	-7.38%	33.61%	-2.26%	-2.2%	9.1%
Share of Associates/Minorities	NA	**NA**	NA	NA	-87.90%	-83.48%	**NA**	NA	0	0
PAT	**11.12%**	**27.78%**	**50.20%**	**-45.55%**	**12.49%**	**7.22%**	**63.43%**	**-49.00%**	**43.5%**	**-20.7%**
Change in PAT Margin (bps)	110bps	-50bps	276 bps	-511 bps	127bps	97bps	-1213bps	174bps	-3bps	187bps

Source: Company, KRChoksey Research
NA- Not Available

LEAD ANALYST
Abhishek Agarwal, research5@krchoksey.com, +91-22-6696 5413

EBITDA margin Expansion on QoQ Basis across the companies except Tatva Chintan and Balaji Amines

Particulars	Laxmi Organics		Gujarat Fluorochemical Ltd		Navin Fluorine Int Ltd		Balaji Amines Ltd		Vinati Organics Ltd	
Change (%)	QoQ	YoY	QoQ	YoY	QoQ	YoY	QoQ	YoY	QoQ	YoY
Sales	-8.23%	21.00%	-2.90%	41.20%	34.60%	48.80%	-6.63%	-18.91%	-11.30%	37.80%
Total Expenditure	-8.05%	9.29%	-3.30%	29.90%	25.54%	45.70%	0.79%	-68.53%	-17.40%	25.00%
EBITDA	-9.33%	275.97%	-2.40%	65.90%	65.90%	57.60%	-26.13%	-99.99%	26.50%	102.50%
EBITDA Margin (%)	925bps	-17bps	30bps	550bps	200 bps	600 bps	-631bps	-577bps	1180 bps	1072 bps
Depreciation	16.42%	-8.17%	5.10%	16.10%	38.80%	108.30%	11.82%	17.25%	0.00%	8.30%
EBIT	-12.60%	690.69%	-3.20%	75.70%	72.30%	50.50%	-28.70%	-22.12%	27.50%	102.50%
Interest Expense	-79.71%	-67.96%	65.90%	89.10%	125.00%	900.00%	-6.45%	-37.63%	-	-
Other income	97.29%	38.16%	-11.70%	-33.10%	-9.00%	42.90%	-12.28%	165.96%	-15.00%	13.30%
Exceptional items	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
PBT	-5.80%	833.98%	-6.90%	62.00%	57.80%	39.40%	-28.84%	-20.40%	8.30%	75.00%
Tax	3.28%	1160.00%	-5.50%	56.10%	-4.00%	-4.00%	-27.78%	-27.27%	10.20%	230.70%
Share of Associates/Minorities	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
PAT	-7.83%	777.28%	-7.50%	64.20%	84.40%	55.00%	-29.31%	-17.60%	8.10%	51.30%
PAT Margin	149bps	4bps	-110bps	330bps	490 bps	76 bps	-400bps	590bps	216 bps	408 bps

Source: Company, KRChoksey Research
NA- Not Available

LEAD ANALYST
Abhishek Agarwal, research5@krchoksey.com, +91-22-6696 5413

Gujarat Flourochemical, Balaji Amines, UPL, Anupam Rasayan are our top picks

Stocks	Recommendation		Market Cap.	CMP	Target Price (INR)		Upside	PE (x)	
	Revised	Old	INR Mn	INR	New	Old	%	5 Yr. Avg.	FY24 E
UPL Ltd	BUY	BUY	5,31,693	708	1,041	1,041	47%	18.6	13
Supreme Petrochemicals Ltd	BUY	BUY	70,252	374	427	873	14%	62.1	10
Rossari Biotech	BUY	BUY	35,374	641	974	1,252	52%	NA	21.3
Tatva Chintan Pharma ltd	BUY	ACCUMULATE	41,755	1,884	2526	2,548	34%	78	39
Anupam Rasayan	BUY	BUY	69,240	645	839	941	30%	NA	20.7
Laxmi organics Ltd	BUY	BUY	68,280	258	376	380	46%	NA	24
Gujarat Fluorochemical Ltd	BUY	ACCUMULATE	3,40,096	3,096	5,015	4,045	62%	27.29	35
Navin Fluorine Int Ltd	ACCUMULATE	ACCUMULATE	2,03,330	4,101	4,728	4,725	15%	37.85	47
Balaji Amines Ltd	BUY	BUY	69,925	2,158	3,790	4,313	76%	17.37	23
Vinati Organics Ltd	BUY	ACCUMULATE	1,90,594	1,854	2,370	2,370	28%	39.42	43.5

Source: Bloomberg, KRChoksey Research, CMP as on 27th February 2023

*Average P/E since listing

LEAD ANALYST
Abhishek Agarwal, research5@krchoksey.com, +91-22-6696 5413

Auto and Auto Ancillary Sector

Retail sales improved sequentially due to festive and wedding season sales; wholesales dipped QoQ

Compared to Q3FY20, retail sales in the green for all segments except 2-wheelers

- As per Federation of Automobile Dealers Associations (FADA) data, overall industry retail sales in Q3FY23 saw a growth of 21.3% YoY and were lower by 0.4% compared to the pre-pandemic period of Q3FY20.
- On a YoY basis, all segments reported double-digit growth. 2-wheelers/ 3-wheelers/ PVs/ tractors/ CV retail sales for Q3FY23 were up by 19.5%/ 61.9%/ 22.8%/ 23.6%/ 22.9% YoY, respectively.
- Compared to the pre-covid period of Q3FY20, all the segments except 2-wheelers were in the green in Q3FY23. 3-wheelers/ PVs/ tractors/ CV retail sales saw a growth of 2.4%/ 14.3%/ 43.4%/ 9.3%, respectively. 3-wheelers showed quarterly retails greater than pre-covid levels for the first time this quarter. 2-wheelers continued to remain impacted and were lower by 4.7% vs Q3FY20.
- The retail sales benefitted from a positive sentiment due to the festive season in the month of October 2022. The positivity continued in November 2022, owing to the wedding season, and the month saw the highest retail in the history of the Indian Automobile Industry (excluding retails in March 2020 which were higher due to BS-4 to BS-6 transition). However, after the 2 strong months, retail sales in December-2022 saw a slowdown, with a greater impact on 2-wheelers.

Wholesales declined QoQ due to seasonality

- While the retails were strong in Q3FY23, the impact of the strong festive season on wholesales was seen in the previous quarter itself, i.e. Q2FY23. Sequentially, Q3FY23 saw a decline in wholesales for Maruti Suzuki, Bajaj Auto, and Tata Motors, which were due to seasonality. For Tata Motors, while the domestic CV and PV wholesales declined QoQ, JLR wholesales were stronger QoQ and were its highest quarterly volumes since Q1FY22, due to improved semiconductor supplies.
- Within our coverage, Eicher Motors and Ashok Leyland saw further QoQ growth in wholesales. Ashok Leyland benefitted from the CV industry tailwinds and strong market share gains.

LEAD ANALYST
Abhishek Agarwal, research5@krchoksey.com, +91-22-6696 5413

Lower input cost pressures and better realizations and product mix lead to margin improvement

Realizations improved sequentially

- For all the OEMs in our coverage, except Eicher Motors, the realization per unit of vehicles sold improved sequentially.
- Better pricing and better product mix led to the improvement in realizations sequentially for Ashok Leyland, Bajaj Auto, Maruti Suzuki, and Tata Motors.
- Bajaj Auto realization per unit also benefitted from a better USDINR rate. A higher share of SUVs in total vehicles sold led to realization improvement for Maruti Suzuki.

Sequential improvement in EBITDA margins continue in this quarter as well

- Except for Eicher Motors, all OEMs under our coverage saw sequential EBITDA margin improvement. The improvement was led by softening of input costs, better realization and improved product mix. Within Tata Motors, JLR profitability improved due to higher wholesales, stronger mix, pricing and FX offset by higher input costs, increase in SG&A spend and higher manufacturing & supply chain costs.

Continuation of some trends

- Exports have continued to remain impacted as international markets continued to face higher uncertainties. Notwithstanding this, Maruti Suzuki has registered its highest-ever exports in a calendar year in CY22.
- Some OEMs saw increased issues with the availability of semiconductors during the quarter, while some see the situation improving. Overall, the visibility of semiconductor availability has continued to remain a challenge

Performance vs. expectations

- Realizations for most OEMs under coverage were higher than our estimates, leading to a beat on the revenue estimates.
- Excluding Eicher Motors, all the OEMs under coverage reported better than estimated EBITDA, aided by the higher realization and improved product mix.

LEAD ANALYST
Abhishek Agarwal, research5@krchoksey.com, +91-22-6696 5413

Companies	Revenue and Segment-wise Performance
Maruti Suzuki	• Maruti Suzuki reported revenue from operations of INR 2,90,575 mn (+25.0% YoY/ -3.0% QoQ/ +6.2% vs. our estimate). • The underlying volumes were at 4,65,911 units (+8.2% YoY/ -10.0% QoQ). Total domestic sales improved by 10.5% YoY but were lower by 11.1% QoQ. Export sales declined by 4.6% YoY/ 1.9% QoQ. • The average per unit realization improved by 16.0% YoY/ 8.4% QoQ. The improvement in realization was due to higher share of SUVs and newer models in total cars sold. The share of Utility vehicles as % of total PV sales increased to 25.1% in Q3FY23 vs. 23.0% in Q3FY22 and 19.5% in Q2FY23. • Supply shortage of electronic component units (ECU) increased QoQ in Q3FY23 and MSIL could not produce about 46,000 vehicles.
Bajaj Auto	• Bajaj Auto reported net operating income of INR 93,185 mn (+3.3% YoY/ -8.7% QoQ/ +7.4% vs. our estimate). Double-digit revenue growth in the domestic business offset a drop in exports. Spares revenue came in at an all-time high. • Total vehicles sold during the quarter were 9,83,276 units (-16.8% YoY/ -14.6% QoQ). Domestic/ export sales of 2-wheelers declined by 3.4%/ 31.4 YoY, respectively. Domestic sales of CVs improved by 71.2% YoY while exports of CVs declined by 46.6% YoY. • The average realization for the quarter improved by 23.5% YoY/ 6.9% QoQ. • Revenue improvement was led by a better USDINR rate (81.7 in Q3FY23 vs 75.1 in Q3FY22 and 79.8 for Q2FY23), price hikes (5.0% YoY, flattish QoQ), and a richer mix through higher domestic 3-wheelers, sports segment, and a lower mix of domestic and exports entry-level bikes.
Tata Motors	• Tata Motors reported consolidated revenue of INR 8,84,886 mn (+22.5% YoY/ +11.2% QoQ/ +6.7% vs. our estimate). • For the JLR business, revenue grew by 28.1% YoY/ 14.8% QoQ in GBP terms. JLR wholesale volumes ex. Chery were at 79,591 units (+15.0% YoY/ +5.7% QoQ), its highest quarterly volumes since Q1FY22. • For TML-CV business, revenue grew by 22.5% YoY/ 2.8% QoQ even as wholesale volumes declined by 4.2% YoY/ 4.6% QoQ. • For TML-PV, revenue grew by 37.4% YoY but declined by 7.0% YoY while wholesale volumes grew by 32.8% YoY but declined by 7.4% QoQ.

Companies	Revenue and Segment-wise Performance
Eicher Motors	• Eicher Motors reported Q3FY23 revenue of INR 37,210 mn (+29.2% YoY/ +5.7% QoQ/ -0.4% vs. our estimate). • The reported revenue is attributable only to the sale of 2-wheelers under Royal Enfield (RE). CV sales are a part of the Joint Venture (JV)- VE Commercial Vehicles Limited (VECV) and are only factored in the financials of Eicher Motors in the form of share of profit from JV. • The total 2-wheeler volumes under RE for Q3FY23 were 2,21,401 units (+30.6% YoY/ +6.6% QoQ). The average selling price (ASP) for RE declined by 0.3% YoY/ 0.8% QoQ.
Ashok Leyland	• For Q3FY23, Ashok Leyland reported revenue of INR 90,297 mn (+63.1% YoY/ +9.2% QoQ/ +3.5% vs. our estimate). • The revenue growth was backed by underlying volume growth of 39.6% YoY/ 5.0% QoQ. Total (domestic+ exports) M&HCV volumes grew by 59.5% YoY in Q3FY23 while total (domestic+ exports) LCV volumes grew by 13.5% YoY. • Within M&HCVs, the total (domestic+ exports) bus segment growth was strong at 115.6% YoY. • Overall realization improved by 17.0% YoY/ 4.1% QoQ, led by improved pricing, and a better product mix.

Companies	Margin Performance
Maruti Suzuki	• EBITDA for the quarter was at INR 28,370 mn (+81.6% YoY/ +2.4% QoQ/ +8.5% vs. our estimate). EBITDA margin improved by 305 bps YoY/ 51 bps QoQ to 9.8%. • Gross margins improved by 263 bps YoY/ 44 bps QoQ. The sequential margin improvement was on account of cost rationalization, favourable FX, and softening of input costs, better product mix, partially offset by higher sales promotion expenses.
Bajaj Auto	• EBITDA for the quarter improved by 28.2% YoY/ 0.4% QoQ (+13.8% vs. our estimate) to INR 17,573 mn. This is the highest-ever EBITDA for Bajaj Auto, aided by judicious pricing, better FX realization and richer product mix. • EBITDA margin improved by 366 bps YoY/ 171 bps QoQ to 18.9%. • Commodity costs across the basket including steel, aluminium, and noble metals softened in Q3FY23. Rubber and plastics saw marginal inflation while conversion costs remained tight due to utilities and energy costs. Almost 70% of QoQ margin improvement was on account of softening of input costs.
Tata Motors	• EBITDA was at INR 96,430 mn (+42.6% YoY/ +55.6% QoQ/ +17.7% vs. our estimate). EBITDA margin improved by 153 bps YoY/ 311 bps QoQ to 10.9%. • As per the company's definition, consolidated EBIT margin improved by 270 bps YoY. • JLR EBIT margin improved by 230 bps YoY/ 270 bps QoQ due to higher wholesales and stronger product mix. • TML-CV EBIT margin improved by 650 bps YoY/ 360 bps QoQ due to pricing improvement, cost actions and softening commodity prices. • TML-PV reported EBIT margins improved by 510 bps YoY/ 110 bps QoQ driven by improved volumes & mix, realizations, softening commodities and certain one-offs of about 80 bps.

Companies	Margin Performance
Eicher Motors	• Gross margin was higher by 151 bps YoY but contracted by 64 bps QoQ. • EBITDA for the quarter improved by 47.2% YoY/ 4.3% QoQ (-5.0% vs. our estimate) to INR 8,572 mn. EBITDA margin expanded by 282 bps YoY but contracted by 31 bps QoQ. • Royal Enfield took a price hike on Hunter and bullet models during the quarter, but the effect of it has not flown into the P&L due to price protection provided to customers. • The benefit of commodity costs softening was realized only partially during the quarter.
Ashok Leyland	• EBITDA for the quarter increased by 256.1% YoY/ 48.4% QoQ (+12.9% vs. our estimate) to INR 7,973 mn. • Gross margin improved by 166 bps YoY/ 173 bps QoQ. • EBITDA margin improved by 479 bps YoY/ 233 bps QoQ to 8.8%. • EBITDA margin was aided by an uptick in volumes, better realizations, improved product mix and lower input costs. • Employee costs were higher in Q3FY23 due to variable performance pay and bonus provision restatements.

Companies	Industry/Outlook/ Strategy
Maruti Suzuki	• Benefit of softening of commodity prices, that was seen in Q3FY23, may not be significant in Q4FY23E as it is largely factored in. • FX benefit will continue in Q4FY23E, but some of it may reverse in next year. • Maruti Suzuki is pushing forward to increase its market share in the SUV space by launching new products and should benefit from improving its product mix going ahead.
Bajaj Auto	• Retails in export markets should improve going ahead as consumers adjust to the new pricing. • The overall export market should see some normalcy returning from May/ Jun-23, with Latam expected to improve first followed by Africa. Post this, Bajaj Auto will start building back inventory and expects to see the benefit of pent-up demand. • Commodity prices are expected to flattish to slightly inflated QoQ in Q4FY23E as prices of aluminium, nickel, and copper have seen some uptick.
Tata Motors	• All three auto verticals- JLR, TML-CV, and TML-PV improved on profitability metrics in Q3FY23. • Management expects to sustain the improvement in margins and FCF generation in the coming quarters. • Management expects chip supply to improve further leading to volume ramp-up, especially for JLR. • Commodity costs are expected to be stable from here, which along with focus on profitable growth should aid EBIT and free cash flows. • The zero net debt target remains as is for TML India business but it's a stretch for JLR and management will give an update on the same by end of March-23E.
Eicher Motors	• Eicher Motors made a strategic investment of EUR 50 mn in the European, high-performance electric motorcycle • manufacturer Stark Future SL. • Royal Enfield announced a new CKD facility in Brazil that reiterates the brand's commitment to the region, as Brazil is a strong market for Royal Enfield. • Royal Enfield also signed MoUs for setting up CKD facilities in Nepal and Bangladesh.
Ashok Leyland	• Ashok Leyland is focusing on getting faster growth in LCVs, international, defense, power solutions, and aftermarket which will also help overall margins. • The industry discount levels are coming off and should continue in Q4FY23E. • Ashok Leyland is reasonably confident that it will not get severely impacted due to the new emission norms (OBD-II) which will become effective from April-23.

LEAD ANALYST
Abhishek Agarwal, research5@krchoksey.com, +91-22-6696 5413

Companies	New Launches/Market share
Maruti Suzuki	• Maruti Suzuki launched 2 new SUVs - Jimny and Fronx in the Auto Expo 2023 and expects to start deliveries for both in Q1FY24E. MSIL also showcased the concept electric SUV eVX, a mid-sized electric SUV concept. • Maruti Suzuki unveiled India's mass segment flex fuel prototype car designed to run on any ethanol petrol blend between 20% and 85%. • The company is committed to making its entire product range E20 fuel material compliant by March-23.
Bajaj Auto	• Bajaj Auto launched the Dominar brand in Brazil in Q3FY23 and has seen a good consumer response. • In the domestic market, in Oct-22, Bajaj Auto launched the carbon fibre edition of Pulsar 125. 85% of orders within 125cc now come from this model. In Nov-22, it launched the new Pulsar 150 which now accounts for 15.0% of this segment. The Pulsar 150 along with the Pulsar N160 are growing the segment rapidly and improving market share. In Dec-22, it launched the Platina 110 cc with the first in-segment ABS feature.
Tata Motors	• Order book is at 215,000 units. As the supply of semiconductors is improving, the order book will start to taper down QoQ as increasing production will lead to higher order fulfilment. • For TML-PV, Tiago EV deliveries have commenced and the company has a strong order book. TML-PV showcased the Harrier & Safari Red # Dark at the Auto Expo which will be launched in Q4FY23E. • So far in FY23E, TML-CV has launched 40 new products as well as 150 plus variants. • TML-CV's shift to the demand-pull model led to some impact on market share in October but there is a sequential improvement in market share since then across the portfolio.
Eicher Motors	• Eicher Motors had the highest ever market share of 8.1% in all motorcycles sold and nearly 33% of all motorcycles above 125 cc. • Newly launched motorcycles, the Hunter 350 and Super Meteor 650, have received very good response from experts and consumers across the globe.
Ashok Leyland	• Ashok Leyland's market share in the M&HCV segment improved to 32.6% in Q3FY23 from 25.3% in Q3FY22. The market share gains have been broad-based across geographies within India and across segments. • Switch has received large orders. An order for 2,100 EV buses from Convergence Energy Services Ltd (CESL) was followed by an order for 500 buses from Telangana State Road Transportation Corporation. Switch is also poised to launch a spectrum of new products.

LEAD ANALYST
Abhishek Agarwal, research5@krchoksey.com, +91-22-6696 5413

KRChoksey | research

Wholesales declined QoQ for Maruti Suzuki, Tata Motors, and Bajaj Auto, coming off festive season levels

Particulars (INR Mn except no. of vehicles)	Maruti Suzuki	Tata Motors	Bajaj Auto	Eicher Motors	Ashok Leyland
No of vehicles	**4,65,911**	**3,07,760***	**9,83,276**	**2,21,401#**	**47,562**
Sales	**2,90,575**	**8,84,886**	**93,185**	**37,210**	**90,297**
Total Expenditure	**2,69,608**	**7,88,456**	**75,613**	**28,638**	**82,323**
Cost of Raw Materials	1,02,116	5,33,559	58,295	19,608	72,033
Purchase of Stock	1,10,810	54,713	5,676	1,133	2,925
Changes in Inventories	-1,851	-13,686	1,931	914	-6,100
Employee Cost	12,090	85,929	3,616	2,594	5,495
Other expenses	39,040	1,27,942	6,094	4,389	7,970
EBITDA	**28,370**	**96,430**	**17,573**	**8,572**	**7,973**
EBITDA Margin (%)	9.8%	10.9%	18.9%	23.0%	8.8%
Depreciation	7,107	60,718	748	1,348	1,890
EBIT	**21,263**	**35,712**	**16,825**	**7,224**	**6,084**
Interest Expense	296	26,758	85	76	804
Other Income	8,609	11,304	2,705	1,923	316
PBT	**29,576**	**20,257**	**19,445**	**9,071**	**5,596**
Exceptional Items	-	-11,769	-	-	69
Tax	6,021	2,628	4,718	2,302	2,052
Share of Associates/Minorities	360	179	-	639	-
PAT	**23,915**	**29,577**	**14,727**	**7,408**	**3,613**
PAT Margin	8.2%	3.3%	15.8%	19.9%	4.0%
EPS	**79.2**	**7.7**	**52.0**	**27.1**	**1.2**

Source: Company, KRChoksey Research
*Tata Motors sales are wholesales ex-CJLR
Eicher motors no. of vehicles include only the Royal Enfield sales. VECV sales are excluded.

LEAD ANALYST
Abhishek Agarwal, research5@krchoksey.com, +91-22-6696 5413

KRChoksey research

QoQ EBITDA margin improvement across OEMs under coverage, except Eicher Motors.

Particulars	Maruti Suzuki		Tata Motors		Bajaj Auto		Eicher Motors		Ashok Leyland	
Change %	QoQ	YoY	QoQ	YoY	QoQ	YoY	QoQ	YoY	QoQ	YoY
No of vehicles	**-10.0%**	**8.2%**	**-3.4%**	**14.5%**	**-14.6%**	**-16.8%**	**6.6%**	**30.6%**	**5.0%**	**39.6%**
Sales	**-3.0%**	**25.0%**	**11.2%**	**22.5%**	**-8.7%**	**3.3%**	**5.7%**	**29.2%**	**9.2%**	**63.1%**
Total Expenditure	**-3.5%**	**20.6%**	**7.4%**	**20.4%**	**-10.6%**	**-1.2%**	**6.2%**	**24.6%**	**6.5%**	**55.0%**
Cost of Raw Materials	-22.9%	1.7%	11.1%	27.1%	-16.0%	-3.4%	-2.0%	38.8%	23.5%	73.3%
Purchase of Stock	25.9%	56.5%	2.8%	12.3%	16.0%	5.0%	-0.7%	37.0%	6.8%	18.2%
Changes in Inventories	19.7%	-148.6%	77.9%	72.2%	244.7%	16.6%	201.7%	-59.3%	-279.0%	564.4%
Employee Cost	6.0%	23.7%	8.8%	12.3%	0.5%	6.1%	6.5%	28.6%	4.3%	27.1%
Other expenses	-5.9%	21.6%	-1.0%	8.7%	0.4%	7.6%	2.4%	16.5%	5.6%	40.9%
EBITDA	**2.4%**	**81.6%**	**55.6%**	**42.6%**	**0.4%**	**28.2%**	**4.3%**	**47.2%**	**48.4%**	**256.1%**
EBITDA Margin	*51 bps*	*305 bps*	*311bps*	*153bps*	*171 bps*	*366 bps*	*-31 bps*	*282 bps*	*233 bps*	*479 bps*
Depreciation	-1.7%	10.9%	3.0%	-0.1%	10.9%	6.9%	6.1%	21.0%	6.9%	-0.4%
EBIT	**3.8%**	**130.7%**	**1094.8%**	**420.5%**	**0.0%**	**29.3%**	**4.0%**	**53.4%**	**68.7%**	**1676.8%**
Interest Expense	-3.6%	17.0%	7.6%	11.5%	-22.3%	373.7%	7.4%	24.9%	4.3%	20.3%
Other Income	43.7%	162.5%	8.8%	60.9%	-19.0%	-22.2%	29.4%	108.7%	58.0%	79.1%
PBT	**13.1%**	**141.6%**	**276.2%**	**300.2%**	**-3.0%**	**18.1%**	**8.5%**	**62.9%**	**84.4%**	**3843.0%**
Exceptional Items	NA	NA	-478.1%	-194.3%	NA	NA	NA	NA	-15.7%	-83.5%
Tax	6.4%	186.9%	157.5%	-63.8%	-2.5%	31.6%	3.1%	68.2%	82.5%	862.8%
Share of associates	-42.4%	30.9%	-69.8%	110.1%	-100.0%	-100.0%	44.8%	22.8%	NA	NA
PAT	**13.2%**	**129.6%**	**413.1%**	**295.1%**	**-14.4%**	**3.0%**	**12.8%**	**62.4%**	**81.3%**	**6173.3%**
PAT Margin	*118 bps*	*375 bps*	*453bps*	*544bps*	*-105 bps*	*-4 bps*	*125 bps*	*408 bps*	*159 bps*	*390 bps*

Source: Company, KRChoksey Research

From Q1FY23, Bajaj Auto has started reporting Share of profit of associates on a half-yearly basis in Q2 and Q4.

Europe remains impacted

Pain continued in Europe

- Balkrishna Industries' volumes saw a sequential decline for 2nd consecutive quarter, with a sharper decline witnessed in Q3FY23.
- Volumes were impacted due to channel inventory correction in end markets.
- Europe continued to be impacted more while North America fared relatively better. India continued to be stable.
- For Bharat Forge's international business, Europe continued to be impacted, with the only positive being in terms of growth in the MHCV truck volumes. North American CV and PV volumes continued to be robust.

Margins under pressure sequentially

- EBITDA margin declined sequentially for Balkrishna Industries, while the decline was small in the case of Bharat Forge.
- Balkrishna Industries' margins were impacted by high-cost raw material inventories and lower volumes, which negated the benefit of lower freight costs.

Companies	Revenue and Segment-wise Performance
Minda Corporation	• Minda Corporation Limited continues to outperform the industry with revenue from operations of INR 10,680 mn during the quarter. The company achieved robust growth of 45% YoY (22% on like-to-like basis excluding MIL) but declined 7.3% on a sequential basis. • Mechatronics and Aftermarket vertical reported muted sequential growth with revenue at INR 5,470 mn while information and connected systems vertical reported a decrease in revenue by 15.2% on a QoQ basis.
UNO Minda	• Revenue from the switch segment has reported an increment of around INR 1780 million, an increase of 27.90%, from roughly INR 6380 million in Q3 FY22 to approximately INR 8150 million in Q3 FY23. The lighting segment witnessed a YoY growth of 32.24%, while casting segment reported a growth of 38.7%, Acoustic segment with a growth of 23.8% and seating business with a jump of 10.3%.
Balkrishna Industries	• For Q3FY23, BIL reported revenue of INR 21,656 mn (+5.9% YoY/ -18.5% QoQ/ -4.8% vs. our estimate). • Sales volumes for Q3FY23 declined by 5.5% YoY/ 15.7% QoQ to 66,480 units. Volumes were impacted due to channel inventory correction in end markets. This has led to lower sales for BIL even as the end user demand has remained intact. • The channel ordering cycle has slowed due to improvement in delivery timelines. The expectation of lowering prices has also led to lower channel filling by distributors. • The Average Selling Price (ASP) on a consolidated basis for Q3FY23 has declined by 3.3% YoY but remains 12.0% higher YoY. The sequential drop in ASP is on account of a reduction in the surcharge that BIL charged when freight costs had soared.

Companies	Revenue and Segment-wise Performance
Bharat Forge	• For Q3FY23, Bharat Forge reported consolidated revenue from operations of INR 33,534 mn (+40.0% YoY/ +9.0% QoQ/ +10.3% vs. our estimate). • For the BFL India business, Passenger vehicle revenue now contributes to about 20% of total revenue, vs. mid to low-single digits 3-4 years ago. Export industrial revenues grew by 14% Qoq driven by both oil and gas and aerospace. • The JS Autocast (JSA) business saw a revenue growth of 20.0% QoQ and secured orders of INR 1,530 mn.
Endurance Technology	• In Q3FY23, Endurance technology reported a revenue of INR20952 Mn (+10.91YoY, -11.24% QoQ) . The revenue declined due to low demand faced in the European markets as a result of rising interest rates and inflation and low performance in the domestic markets. • Indian Revenue stood at INR 16bn (-16% QoQ) affected by the low demand in 2W. Europe's revenue improved 9.5% QoQ to Rs 4.98bn, as demand improved. • 79 % of Consolidated Total Income including other Income came from Indian operations and the balance came from European operations.

Companies	Margin Performance
Minda Corporation	• EBITDA for the quarter stood at INR 1,140 mn, up 45% YoY and down by 8% on a QoQ basis. EBITDA Margin stood at 10.7% as against 10.7% in Q3FY22 and 10.8% in Q2FY23. EBITDA margins increased by 80 bps on the back of higher sales and better efficiencies. • PAT of INR 522 mn, witnessing a growth of 41% on a YoY basis and a decline of 10% on a sequential basis with PAT margin of 4.9% in Q3FY23 as against 5.0% in Q2FY23 and 9.5% in Q3FY22.
UNO Minda	• The EBITDA for Q3 FY23 was INR 3,384.0 million against INR 3,184.4 million in Q2 FY23, an increase of 6.27% on a QoQ basis and on a YoY basis, there was an increase of 43.80% from INR 2,353.2 million in Q3 FY22. The EBITDA margin stood at 11.61% in Q3 FY23, a surge of 54 bps on a QoQ basis and 82 bps on a YoY basis. • PAT for the quarter has witnessed an improvement by 47.22% on a YoY basis to INR 1739.5 million in Q3 FY23 .
Balkrishna Industries	• EBITDA for the quarter was at INR 2,693 mn (-41.0% YoY/ -36.8% QoQ/ -32.4% vs. our estimate). EBITDA margin contracted by 989 bps YoY/ 360 bps QoQ to 12.4%. • Freight costs as a % of sales reduced to 9.2% in Q3FY23 vs 14.5% in Q2FY23. Despite this decline, margins saw sequential pressure due to higher cost RM inventory, lower volumes leading to lower absorption of fixed costs, and FX loss sitting in other expenses. • Excluding the impact of FX loss in other expenses, the EBITDA margin would have been 16.5% vs. 22.3% in Q3FY22 and 16.0% in Q2FY23.

Companies	Margin Performance
Bharat Forge	• EBITDA for the quarter was at INR 4,693 mn (-6.5% YoY/ +8.6% QoQ/ -4.7% vs. our estimate). • EBITDA margin contracted by 696 bps YoY/ 5 bps QoQ. • The overseas business faced EBITDA loses due to low-capacity utilization due to ramp up of the new facilities in Germany and North America. • Interest costs on a consolidated basis increased to INR 1,092 mn in Q3FY23 vs. INR 526 mn in Q2FY23 and INR 245 mn in Q3FY22.
Endurance Technology	• The operating profit of the quarter stood at 2395 Mn which increased 17.87% in YoY basis and declined 11.81% on QoQ basis. • Consolidated EBITDA Margin was 11.04% vs. 10.8% in Q3FY22. The margin was impacted by higher metal cost component in the product price and increased energy costs, particularly in Europe. • PAT for the quarter stood at 1082 mn which was higher which was 946 mn (+14.37% YoY).

Companies	Industry Outlook / Strategy
Minda Corporation	• Minda Corp is focusing on enhancing its legacy product segments with the premiumisation and product innovation across all business segments to drive the content per vehicle. Integration of Telematics Software with Spark Minda Telematics devices will make them a "Complete Solution Provider", increasing kit value of existing customers and providing access to new customers.
UNO Minda	• TG Minda will be expanding its Neemrana plant and installing airbag production equipment. The Board has approved a CAPEX of INR 1750 million for the said expansion and it is expected to be completed by December 2024. • Two new plants have started in this quarter for the casting business • The company has executed a JV agreement with Buehler Motors and Tach-S and received confirmed orders from a couple of 2W EV OEMs for motors
Balkrishna Industries	• The sales volume trends are slowly improving and BIL expects to see some improvement sequentially in Q4FY23E. • ASPs are expected to decline further in Q4FY23E as the surcharge to end customers has been reduced to 0% from Jan-23. • BIL expects to continue to see the sequential benefit of freight cost reduction on margins in Q4FY23E and Q1FY24E. • As the high-cost RM inventory depletes, BIL expects to see benefits in margins from FY24E. RM and freight cost reduction will lead to about 300 bps margin improvement in FY24E.

Companies	Industry Outlook / Strategy
Bharat Forge	• BFL India had order wins of INR 15 bn in 9MFY23. • The export order wins in defence business were INR 20 bn in 9MFY23 and INR 6 bn in just Q3FY23, and these will be completed over next 2.5 years. • Performance of the overseas business is expected to improve in Q4FY23E and is expected to become significantly value accretive in FY24E. • JSA business is expected to see CAGR in healthy double digits over the next three years.
Endurance Technology	• Endurance Technologies is setting up its own in-house BMS assembly line recently won INR 700mn worth of order for BMS from Hero Electric its supplies are expected to start from 1QFY24. • Endurance Overseas acquired 100% stake in Frenotecnica Srl, for a consideration of Euro 5 mn. Frenotecnica is engaged in the business of designing and manufacturing of friction materials and components for braking systems for two-wheelers. This acquisition will also gives access to know-how for production technologies of friction materials, particularly for brake applications. • Endurance has also received LOI from Ather for the front fork shock absorber of value Rs 230mn which will start from 1QFY24.

LEAD ANALYST
Abhishek Agarwal, research5@krchoksey.com, +91-22-6696 5413

Performance of Europe business continues to be impacted

Particulars (INR Mn)	Minda Industries	Uno Minda	Balkrishna Industries	Bharat Forge	Endurance Technology
Sales	**10,682.9**	**29,154.9**	**21,656**	**33,534**	**20,952**
Total Expenditure	9,555.4	25,770.9	**18,963**	**28,841**	**18,557**
EBITDA	**1,127.5**	**3,384.0**	**2,693**	**4,693**	**2,395**
EBITDA Margin (%)	**10.5%**	**11.61%**	**12.4%**	**14.0%**	**11.0%**
Depreciation	340.1	1149.5	1,486	1,856	1,016
EBIT	**834.4**	**2,234.5**	**1,207**	**2,837**	**1,379**
Interest Expense	109.1	125.8	142	1,092	45.7
Other income	47	39.7	450	366	115.05
Exceptional items	0.0	0.0	-	0	-
PBT	**738.8**	**2398.8**	**1,515**	2,110	1,448
Tax	194.5	659.3	431	1,021	366
Share of Associates/Minorities	-21.7	0.0	-	-38	-
PAT	**522.6**	**1739.5**	**1,084**	**825**	**1082**
PAT Margin	**4.9%**	**6.33%**	**5.0%**	**2.5%**	**5.17%**
EPS	**2.22**	**2.8**	**5.6**	**1.8**	**7.69**

Source: Company, KRChoksey Research

Balkrishna Industries performance sees sharp QoQ impact

Particulars	Minda Industries		UNO minda		Balkrishna Ind.		Bharat Forge		Endurance Tech.	
Change (%)	QoQ	YoY	QoQ	YoY	QoQ	YoY	QoQ	YoY	QoQ	YoY
Sales	**-6.87%**	**44.70%**	**1.34%**	**33.65%**	**-18.5%**	**5.9%**	**9.0%**	**40.0%**	**-11.24%**	**10.91%**
Total Expenditure	**41.92%**	**-7.5%**	-1.23%	31.45%	**-15.0%**	**19.3%**	**9.1%**	**52.4%**	**-11.17%**	**10.07%**
EBITDA	**-1.08%**	**73.3%**	**6.27%**	**43.80%**	**-36.8%**	**-41.0%**	**8.6%**	**-6.5%**	**-11.81%**	**17.87%**
EBITDA Margin	**61bps**	**174bps**	**54 bps**	**82 Bps**	**-360 bps**	**-989 bps**	*-5 bps*	*-696 bps*	**-7.37 bps**	**67.49bps**
Depreciation	0.5%	26.01%	7.19%	22.04%	8.2%	26.4%	-1.3%	5.4%	2.36%	11.23%
EBIT	**5.10%**	**525.49%**	**5.79%**	**58.33%**	**-58.2%**	**-64.4%**	**16.3%**	**-12.9%**	**-19.97%**	**23.30%**
Interest Expense	46.05%	28.5%	-34.31%	-7.97%	198.1%	593.7%	107.8%	346.4%	-25.01%	227.70%
Other income	5.15%	44.00%	-75.31%	-68.32%	-80.2%	-60.2%	-20.3%	7.8%	36.49%	54.04%
Exceptional items	NA	NA	0.00%	0.00%	NA	NA	-99.2%	-100.0%	-	-
PBT	**2.73%**	**1154.33%**	**1.25%**	**49.49%**	**-70.3%**	**-66.3%**	**-10.2%**	**-58.0%**	**-17.07%**	**22.82%**
Tax	-9.91%	53.88%	20.80%	55.83%	-66.5%	-61.2%	**9.5%**	**31.0%**	-15.18%	57.18%
Share of Associates/Minorities	-57.62%	-202.36%	-13.03%	28.54%	-	-	13.3%	566.8%	-	-
PAT	**-9.60%**	**-25.18%**	**-4.61%**	**47.22%**	**-71.6%**	**-68.0%**	**-43.5%**	**-80.4%**	**-17.69%**	**14.37%**
PAT Margin	**-14bps**	**-456bps**	**-254 bps**	**140 bps**	**-938 bps**	**-1,156 bps**	*-228 bps*	*-1513 bps*	**-40bps**	**16bps**

Source: Company, KRChoksey Research

LEAD ANALYST
Abhishek Agarwal, research5@krchoksey.com, +91-22-6696 5413

KRChoksey research

Our top picks are Maruti Suzuki, Ashok Leyland, and Tata Motors

Stocks	Recommendation		Market Cap.	CMP	Target Price (INR)		Upside	PE (x)	
	Revised	Old	INR Mn	INR	New	Old	%	5 Yr. Avg.	FY25E
Tata Motors	BUY	BUY	1611108	418	572	572	36.87%	NA	12
Maruti Suzuki	BUY	BUY	2608204	8634	11,158	11,158	29.23%	26.3	19.1
Bajaj Auto	BUY	BUY	1053513	3641	4,564	4,483	25.36%	17.1	14.3
Ashok Leyland	BUY	BUY	415022	141	194	194	37.25%	12.9	16
Eicher Motors	UR	UR	855958	3130	UR	UR	NA	NA	NA
Minda Industries	BUY	ACCUMULATE	46071	193	264	264	37.00%	20.7	14.6
UNO Minda	BUY	ACCUMULATE	285702	499	654	594	31.15%	39.1	38
Balkrishna Industries	ACCUMULATE	ACCUMULATE	394850	2043	2,205	2,205	7.96%	24.9	21.7
Bharat Forge	UR	UR	382619	822	UR	UR	NA	NA	NA
Endurance Technology	UR	UR	178719	1271	UR	UR	NA	NA	NA

Note: UR – Under Review
Source: Company, KRChoksey Research, CMP as of 27th February 2023

Miscellaneous

LEAD ANALYST
Abhishek Agarwal, research5@krchoksey.com, +91-22-6696 5413

Companies	Revenue	Margin	Industry Outlook / Strategy
Emmbi Industries	• In Q3FY23, Emmbi's revenue saw a decline of 30.2% YoY/13.5% QoQ to INR 766mn, on account of subdued performance in its global markets on the back of challenging situation in these markets, especially in the European market. • The company is shifting its focus more towards the domestic market to mitigate the risk of a slowdown and higher uncertainty in the international markets. .	• EBITDA has seen a decline of -36.6% YoY/-17.8% QoQ to INR 80mn. EBITDA margin witnessed a contraction of 107 bps on a YoY basis to 10.5%, while on a QoQ basis margin was declined by 50 bps. • Reported PAT has seen a fall of 79.2% YoY and 57.2% QoQ to INR 11mn. PAT margin witnessed a contraction of 324 bps/140 bps on a YoY/QoQ basis to 1.4%.	• The company's initiative to bring down costs would yield results in the next two quarters. The improvement in the efficiency would help the company to perform better in the years to come. • Lower freight costs will improve the competitiveness of Indian exports. Moreover beginning from January 2023, the company has noticed an improvement in the EU markets.
Filatex	• Filatex India Limited (FIL) reported revenue of 10,704mn, declined by -0.4% YoY/-8.0% QoQ in Q3FY23. • The revenue growth was impacted due to pricing pressure on the final products. However, sales volume has increased by 11% YoY from 90398 MT in Q3FY22 to 101,488 MT in Q3FY23, whereas sales volume was almost flat on a QoQ basis. In Q3FY23, total production was 99,969 MT as against 97,169 MT in Q2FY23 and 86336 MT in Q3FY22.	• In Q3FY23, EBITDA stood at INR 444mn, compared to INR 1,592mn in Q2FY23, degrew 72.1%. EBIDTA margin contracted by 1067 bps YoY and improved by 17 bps QoQ to 4.2% as muted price realisation led to a decline in revenue; thereby low absorption of fixed costs. • The decline in PAT during the quarter was due to the weakening of the rupee against the Euro, which resulted in notional mark-to-market exchange losses on Euro loans.	• The company has completed all its ongoing capex plans and is now running its plant at full capacity. To improve the product mix and offer finer deniers, FIL has placed orders for some additional winders. To further enhance its product basket, FIL is setting up a new cationic chip line (70 MT per day) at Dahej, which will generate incremental revenue of INR 2500mn and completed by March 2024.

Most of the companies except MSTC and Filatex witnessed decline in revenue

Particulars (INR Mn)	Emmbi Industries	Filatex
Sales	766	10,704
Total Expenditure	685	10259.00
EBITDA	80	444
EBITDA Margin (%)	10.50%	4.20%
Depreciation	25.1	179
EBIT	55	265
Interest Expense	39.5	160
Other Income	0.3	-63
Exceptional Items	0	0
PBT	16.07	42
Tax	6	15
Share of Associates/Minorities	0	0
PAT	10.52	27
PAT Margin	1.40%	0.30%
Adj. PAT	10.52	27
Adj. PAT Margin	1.40%	0.30%
EPS	0.6	0.1
Adj. EPS	0.6	0.1

Source: Company, KRChoksey Research

EBITDA margin contraction witnessed across the companies except Emmbi

Particulars	Emmbi Industries		Filatex	
Change (%)	QoQ	YoY	QoQ	YoY
Sales	-13.50%	-30.20%	-8.00%	-0.40%
Total Expenditure	-13.00%	-29.30%	12.11%	-8.16%
EBITDA	-17.80%	-36.60%	-4.10%	-72.10%
Change in EBITDA Margin (bps)	-55bps	-107bps	17 bps	-1067 bps
Depreciation	0.40%	12.90%	7.80%	8.40%
EBIT	-24.00%	-47.10%	-10.70%	-81.40%
Interest Expense	3.90%	5.90%	162.80%	100.00%
Other Income	23.80%	-36.60%	-160.00%	-148.60%
Exceptional Items	NA	NA	NA	NA
PBT	-54.10%	-76.30%	-87.60%	-97.10%
Tax	-46.80%	-67.50%	-83.10%	-96.90%
Share of Associates/Minorities	-	-	-	-
PAT	-57.20%	-79.20%	-89.10%	-97.20%
Change in PAT Margin (bps)	-140bps	-324bps	-191 bps	-889 bps

Source: Company, KRChoksey Research

Emmbi Industries and MSTC are top picks

Stocks	Recommendation		Market Cap.	CMP	Target Price (INR)		Upside	PE (x)	
	Revised	Old	INR Mn	INR	New	Old	%	5 Yr. Avg.	FY24 E
Emmbi Industries	BUY	BUY	1579	89	102	106	14.29%	12.07	6.75
Filatex	BUY	BUY	16901	38	52	168	36.30%	20.8	7.2

Source: Bloomberg, KRChoksey Research, CMP as of 27th February 2023

Terms & Conditions and other disclosures:

- KRChoksey Shares and Securities Pvt. Ltd. (hereinafter referred to as KRCSSPL) is a registered member of National Stock Exchange of India Limited and Bombay Stock Exchange Limited. KRCSSPL is a registered Research Entity vides SEBI Registration No. INH000001295 under SEBI (Research Analyst) Regulations, 2014.
- We submit that no material disciplinary action has been taken on KRCSSPL and its associates (Group Companies) by any Regulatory Authority impacting Equity Research Analysis activities.
- KRCSSPL prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analyst cover.
- The information and opinions in this report have been prepared by KRCSSPL and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of KRCSSPL. While we would endeavor to update the information herein on a reasonable basis, KRCSSPL is not under any obligation to update the information. Also, there may be regulatory, compliance or other reasons that may prevent KRCSSPL from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or KRCSSPL policies, in circumstances where KRCSSPL might be acting in an advisory capacity to this company, or in certain other circumstances.
- This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. KRCSSPL will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. KRCSSPL accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice. Our employees in sales and marketing team, dealers and other professionals may provide oral or written market commentary or trading strategies that reflect opinions that are contrary to the opinions expressed herein, .In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.
- Associates (Group Companies) of KRCSSPL might have received any commission/compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of brokerage services or specific transaction or for products and services other than brokerage services.
- KRCSSPL or its Associates (Group Companies) have not managed or co-managed public offering of securities for the subject company in the past twelve months
- KRCSSPL encourages the practice of giving independent opinion in research report preparation by the analyst and thus strives to minimize the conflict in preparation of research report. KRCSSPL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither KRCSSPL nor Research Analysts have any material conflict of interest at the time of publication of this report.
- KRCSSPL or its associates (Group Companies) collectively or its research analyst do not hold any financial interest/beneficial ownership of more than 1% (at the end of the month immediately preceding the date of publication of the research report) in the company covered by Analyst, and has not been engaged in market making activity of the company covered by research analyst.
- This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other Jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject KRCSSPL and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investor persons in whose possession this document may come are required to inform them of and to observe such restriction.

Please send your feedback to research.insti@krchoksey.com
Visit us at www.krchoksey.com

KRChoksey Shares and Securities Pvt. Ltd.
Registered Office:
1102, Stock Exchange Tower, Dalal Street, Fort, Mumbai – 400 001.

Phone: 91-22-6633 5000; Fax: 91-22-6633 8060
Corporate Office:
Abhishek, 5th Floor, Link Road, Andheri (W), Mumbai – 400 053.
Phone: 91-22-6696 5555; Fax: 91-22-6691 9576.

Thank You