Sharekhan Special

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Index

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Q2FY2024 Results Review

Good quarter, broader market earnings healthy

Summary:

- Aggregate earnings of Nifty-50 companies grew by ~29% y-o-y (strongly beating our estimates of ~21%) in Q2FY24. Broader market BSE 500 earnings up by 25% y-o-y, led by margins tailwinds, while topline growth remained soft at 5% y-o-y.
- Earnings beat/miss ratio was favourable as ~44% of Nifty 50 companies beating estimates, while ~36% missed the earnings estimate. For the SK Coverage universe, earnings growth of ~61% y-o-y beat our estimates of ~52%.
- Management commentary suggested that domestic economic activity trends stayed strong. Nifty-50 earnings estimates for FY24/FY25E remain stable. Premium consumption basket and Industrial space remain strong, while rural growth continued to lag.
- Nifty's valuation of 17.5-18x FY25E, at a tad discount to long term average at earnings expectation of 15-16% CAGR over FY23-25E. Likely reversal of rate hike cycle globally in CY24 coupled with stable economy and healthy corporate earnings put India equity in a sweet spot.
- **Risks: Global recession, longer rate cycle, significant movement in crude oil prices, slower earnings trajectory**
- **High-conviction investment ideas:**
  - **Large-caps:** Reliance, SBIN, L&T, Tata Motors, ITC, Tata Consumers, Sun Pharma, Bharti Airtel, NTPC, IndusInd Bank, TCS, DLF
  - **Mid-caps:** BEL , APL Apollo, Bharat Forge, HAL, Indian Hotels, PNB, Bank of India, BSE, Escorts , Sanofi India, LTIM
  - **Small-caps:** Welspun Corp, Kirloskar Oil Engines, Rolex Rings, Chalet Hotels, Kolte Patil, Caplin Point, Carysil, CIE Automotive India, Garware Hitech, NIIT MTS, Birlasoft, Sunteck Realty, Himatsingka.

Q2FY24 earnings review: Nifty earnings & SK universe earnings above estimates

- Aggregate revenues/EBITDA/PAT growth for Nifty companies came in at 5%/21%/29% y-o-y versus our estimates of 7%/19%/21% y-o-y growth. Revenue was marginally below estimates, but EBITDA and PAT growth were above estimates led by margin tailwinds. Excluding OMCs, earnings of Nifty 50 companies grew strongly by ~20% y-o-y. Around 44% of Nifty 50 companies reported an earnings beat, while 36% companies missed estimates. Excluding BFSI, EBITDA margins of Nifty companies improved by ~315 bps y-o-y.
- Within the Sharekhan coverage universe, Q2FY24 aggregate revenues/EBITDA/PAT grew by 3%/41%/61% y-o-y versus estimates of a 4%/37%/52% y-o-y growth, respectively. Earnings growth was driven by auto, BFSI, oil & gas, cement, diversified, pharma, metals, capital goods while agri-inputs, specialty chemicals and the logistics sectors posted a fall in earnings on a y-o-y basis.

Key Sector Highlights:

- The automobiles sector has broadly performed in line with expectations in Q2FY24 in support of healthy gross margin expansion on soft RM cost and ongoing premiumization trend. Although the export-oriented players have faced headwinds due to unfavourable macros in overseas markets.
- Consumer goods sector's performance was mixed with muted volume growth while margin expansion drove double digit PAT growth. Volume growth likely to revive in H2. On the other hand, shift in festive season affected discretionary companies (largely Retail/QSR) performance. Festive/Holiday season to revive growth in H2.
- Cement companies reported healthy revenue growth aided by volume growth while operational profitability rose strongly y-o-y aided by lower P&F costs and other expenses, leading to overall multiple times PAT growth y-o-y. We expect operational profitability to improve further in Q3.
- The IT sector reported muted Q2 amid uncertain macro environment driven by weak discretionary spends. Deal wins remained robust for some IT services companies setting the tone for better FY25 however most managements expect softer Q3 impacted by furloughs.
- Most banks reported a healthy performance led by steady loan growth and lower credit costs despite NIM pressure. Deposit repricing continued to put pressure on NIMs as expected. CASA trends remained sluggish. Asset quality trends improved, led by control slippages (barring AU SFB) and higher recoveries & upgrades.
- For the Pharma & Healthcare sector, earnings growth for formulation companies revived in Q2 sustained led by strong US sales due to drug shortages, easing of price erosion, lower input costs, strong performance from high margin niche products, healthy domestic formulation business while pure play API manufacturer reported weak performance due to higher base.
- The oil & gas's sector performance was mixed with strong earnings from OMCs led by higher GRM, lower auto-fuel under-recoveries and inventory gains while upstream PSU earnings was subdued. For CGDs strong margins was offset by weak volumes. Gas utilities performed well.
- Chemical companies continue to remain pressure due to high channel inventory and China dumping.

Outlook:

Domestic outlook resilient: India's economy remarkably is resilient despite moderation in global growth. Strong domestic consumption trends, strong fiscal balance sheet, private capex gradually picking up and healthy government spends is expected to keep domestic economic upcycle intact. Additionally, decline in core inflation, lowest in the last 43 months, rising industrial production, strong GST collections provides comfort on domestic economic resiliency amid global slowdown.

Valuation:

Earnings outlook healthy, structural growth story intact: The Nifty and Sensex are up by ~9%/8%, respectively in CY23 YTD. The Nifty's valuations at 20.5x/17.5x FY24E/FY25E EPS are reasonable given expectation of 15-16% CAGR in Nifty 50 earnings over FY23-25E. Global economic recovery, rate cycle reversals coupled with outcome of states elections results and run up to general election next year will be key events for the market in near to medium term. Nevertheless, India's long-term structural growth narrative is getting more strength, with best in the amongst the world GDP growth, stable government, rising per capital income and improving overall macros. We continue to remain positive on equities and key overweight on banks, industrial/engineering, Autos, Pharma and Underweight on Metals and, chemical and commodities.

Key risks:

Global recession, longer rate cycle, significant movement in crude oil prices, slower earnings trajectory

Sector-wise Q2FY2024 review snapshot

Agri Inputs & Specialty Chemicals	Sector view: Positive

- During Q2FY2024, performance of agri-input companies was weak as domestic revenue was impacted by erratic monsoon season and export market was impacted by weak demand along with pricing pressure. Outperformers - PI and Insecticide. UPL significantly lowered FY2024 revenue/EBITDA growth guidance to 0%/0-(-5%).
- Specialty chemical players witnessed demand/margin contraction amid weak domestic demand, inventory rationalisation, and dumping from China. Aarti and PCBL were the top performers; Gujarat Fluorochemical was a laggard due to a steep y-o-y revenue decline for fluorochemicals, fluoropolymers, and bulk chemicals.
- Inventory de-stocking is easing and expected to normalize in H2FY2024. Most companies have guided for recovery in H2FY2024 with potential normalised earnings from Q4FY2024. We advise investors to gradually accumulate quality companies with a decent long-term growth outlook.

Preferred picks: PI Industries, Coromandel, SRF, and PCBL

Automobiles	Sector view: Positive

- Broadly in-line performance: Our universe of automakers reported AEBITDA margin of 13.8% against the estimate of 13.4%.
- Strong festive season would boost domestic performance while exports would improve gradually.
- In FY24, while volume growth would moderate, earnings growth is expected to be driven by higher margins led by premiumisation, a better cost matrix and input cost tailwind.

Preferred picks: OEMs: Tata Motors, Hero MotoCorp, Bajaj Auto, Maruti and Escorts. **Auto Ancillaries:** Rolex Rings, Bharat Forge, CIE Automotive, Apollo Tyres, Sterling Tools, Sundaram Fasteners and Exide Industries.

Banks	Sector view: Private Banks - Positive; PSU Banks – Positive

- Banks in our coverage universe reported a healthy performance led by steady loan growth and lower credit costs despite NIM pressure.
- Deposit repricing continued to put pressure on NIMs as expected. Cost of funds is yet to peak for all the banks.
- Deposit growth was healthy (barring Axis Bank), mainly driven by time deposits. CASA trends remained sluggish. Asset quality trends improved led by control slippages (barring AU SFB) and higher recoveries & upgrades.
- **Top preferred picks: Large Private Banks** – ICICI Bank, Axis Bank, Kotak Bank and HDFC Bank; **Mid-Tier Private Banks** – Indusind Bank and Federal Bank; **PSBs** – SBI and PNB remain our preferred picks.

NBFCs, Insurance, AMC	Sector view: NBFC - Positive; Insurance – Neutral; AMC - Neutral

- **NBFCs** – Our NBFC coverage universe sustained a healthy disbursement momentum in Q2FY2024, leading to above-estimated AUM growth. While non-bank lenders reported a mixed trend in NIM, higher-than- expected increase in credit cost created some volatility in earnings. Though, Asset quality recorded a sequential improvement with a decline in GS-3 assets. NBFCs are optimistic about growth in the near to medium term on prevailing strong tailwinds for home loans, SME financing, and auto financing demand
- **Insurance** – APE growth picked up on expected lines, while VNB margin declined on a y-o-y basis for all, driven by the change in product mix. For general insurers (especially for ICICIGI), premium growth remained healthy.
- **AMC** – NAM India reported strong performance led by robust AUM growth and stable yields. In diversified financials, BSE reported robust core revenue growth, led by strong growth across segment lines.

Top Preferred picks - Bajaj Finance, Cholamandalam, Five Star Business, LT Finance, BSE Ltd.

Capital Goods/Power	Sector view: Positive

- With the government pushing for higher capital expenditures coupled with economic cycle, the sector has a robust growth outlook and with room to improve its margins gradually as supply constraints loosen.
- Ex-L&T, Project based companies' revenue/PAT grew by 13.4%/21.6%, while OPM expanded by 113 bps y-o-y. For capital goods firms, most of the management commentary highlights a robust ordering environment.
- Industrial space would also benefit from higher government capex/revival in private capex cycle, which bodes well for sustained strong addition to their order book. Recovery in order inflow from international market would be key monitorable.

Preferred picks: Among project-based companies, we prefer Larsen & Toubro (L&T), Bharat Electronics Ltd. (BEL), Hindustan Aeronautics Ltd. (HAL), KSB Limited, Thermax, Kirloskar Oil Engines (KOEL), KEC International, Kirloskar Brothers (KBL), Amber Enterprises, V-Guard and Garware Hi-Tech. In power, we prefer NTPC, Power Grid and Tata Power.

Cement	Sector view: Positive

- For Q2FY2024, the cement sector's revenues rose 13.7% y-o-y, aided by an 13.9% y-o-y volume growth, while blended realisations stayed flattish y-o-y.
- EBITDA/tonne, up 58.8% y-o-y at Rs. 875, was aided by lower P&F costs and other expenses, while raw material costs remain unfavourable. PAT up 3x y-o-y.
- We expect demand momentum to sustain. Increased cement prices from fag end of Q2FY2024 and benefits from P&F costs sustaining would improve operational profitability further in Q3.

Preferred picks: UltraTech, Grasim Industries, The Ramco Cements, Dalmia Bharat and JK Lakshmi Cement

Consumer Discretionary	Sector view: Positive

- In Q2FY2024, branded apparel and footwear companies' performance was affected by shift of festive season in Q3FY24; QSRs continued to underperform due to muted same-store sales.
- Despite a lean business period, hotel companies maintained strong growth momentum with stable y-o-y occupancies and double-digit growth in the ARRs resulting in strong performance in Q2.
- Home textile and garment manufacturers saw q-o-q improvement in performance as capacity utilisation picked up. EBIDTA margin improved for most companies on a y-o-y basis due to lower cotton prices.

Preferred picks:

Branded apparel and retail: Titan, Trent, and Relaxo Footwear

Textiles: Gokaldas Exports, Himatsingka Seide & SP Apparels

Out-of-home discretionary: Chalet Hotels, Indian Hotels Company Limited (IHCL), Restaurant Brand Asia (RBA), Wonderla Holidays and PVR-Inox.

Consumer Goods	Sector view: Positive

- Sharekhan's consumer goods universe performance mirrored Q1FY24 performance with PAT growing in double digits driven by rise in margins, while revenue growth stood in single digits.
- A slowdown in rural markets continued to put pressure on volume growth (stood in flat to low single digit for most). Companies expect volume growth to gradually recover from Q3 with improved festive demand and easing of inflation.
- It was yet another quarter of small consumer good companies outperforming large packs with higher volume growth (led by distribution expansion and share gains) and margin expansion aiding strong PAT growth.
- Revenue growth will be volume-led in the near term; margin expansion will continue to drive PAT growth.

Preferred picks: HUL, ITC, Tata Consumer Products, Mrs. Bectors Food, Emami, Jyothy Labs and Heritage Foods.

IT Services	Sector view: Neutral

- For Q2FY24, Tier-1 IT service companies reported a weak quarter with -2.4% to 2.3% q-o-q constant currency revenue growth amid uncertain macro environment driven by weak discretionary spends in key geographies.
- EBIT margin in Q2FY24 for Tier-1 companies (ex-Tech Mahindra) was stable and improved ~5-150 bps q-o-q, mainly on operational efficiencies.
- Deal win momentum accelerated sharply for most IT companies in our coverage with TCS, Infosys, HCL Tech and Persistent posting record high TCV of deal wins.
- Although the near term remains uncertain, the long-term secular trend remains intact which may lead to selective outperformance by companies with strong deal pipeline, diversified offerings and higher competencies Hence, we maintain our Neutral stance on the IT sector despite near-term uncertainty, while maintaining selective Buy.

Preferred picks:

Large caps: Pecking order: TCS, Infosys and HCL Tech

Mid-caps: Pecking order: Persistent Systems, Coforge, and Birlasoft

Infra/Building Materials/Logistics/Realty	Sector view: Positive

- In Q2FY2024, building material companies reported a strong 55% y-o-y PAT growth aided by an 11% y-o-y revenue growth and almost 350 bps expansion in OPMs. Higher volumes and softer input prices aid growth.
- Logistics players reported a miss on operational performance affected by lower demand due to the delayed festive season and negative operating leverage. Infrastructure, too, was soft, with tendering activities getting delayed.
- Real estate players reported pre-sales growth of 23% y-o-y. Strong launch pipeline & sustenance sales to keep up the momentum during H2.

Preferred picks: KNR Construction, PNC Infratech, Greenlam Industries, APL Apollo, Carysil, Hindware Home Innocation, TCI Express, TCI Ltd, Gateway Distriparks, DLF, Oberoi Realty, Macrotech, Sunteck, Kolte-Patil.

Oil & Gas	Sector view: Neutral

- OMCs' earnings were well ahead of expectations on higher GRM, lower auto-fuel under-recoveries and inventory gains. Among upstream PSUs, ONGC posted subdued operational performance while Oil India benefited from volume recovery.
- CGDs' (IGL/MGL) operational performance was mixed with strong margin offsetting weak volume. Gujarat Gas surprised positively on the margin front. GAIL posted robust earnings led by super strong performance of gas transmission /trading segments.
- Gas price cap bodes well for CGDs' volumes/margins, but the EV threat looms especially for IGL and thus, we have downgraded it post Q2 results. We also downgraded Petronet LNG to Hold given concerns on capital allocation. Recent softness in crude oil price bodes well for OMCs.

Preferred picks: RIL, MGL, GAIL, and GSPL

Pharmaceuticals	Sector view: Positive

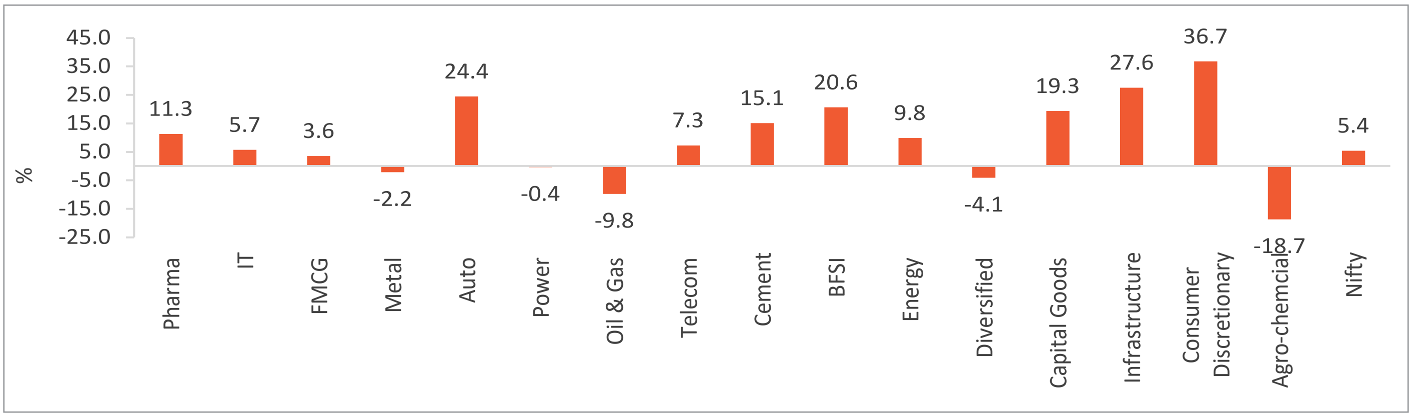
- Q2FY2024 was healthy, with revenues rising in double digits, led by healthy traction in the US followed by an uptick in the chronic segment in the domestic market while PAT growth was in single digits.
- Within our coverage universe, formulations companies performed better than API companies primarily due to new product launches and WPI price hike. API companies were hit by a higher base and softening of API prices.
- For most companies, gross margins exceeded our estimates primarily due to healthy product mix and softening of input cost, but higher advertising expense led to softening of EBITDA margins at 21%. MNC companies in our coverage reported the highest ever EBITDA margins at ~29% due to cost rationalisation.
- We prefer companies focused on domestic branded markets and complex products in the US, which can mitigate price erosion pressure.

Preferred picks: Sun Pharma, Dr Reddy's, Aurobindo, Sanofi India and Abbott

Q2FY2024 results performance for Nifty and Sensex: Significantly above expectations

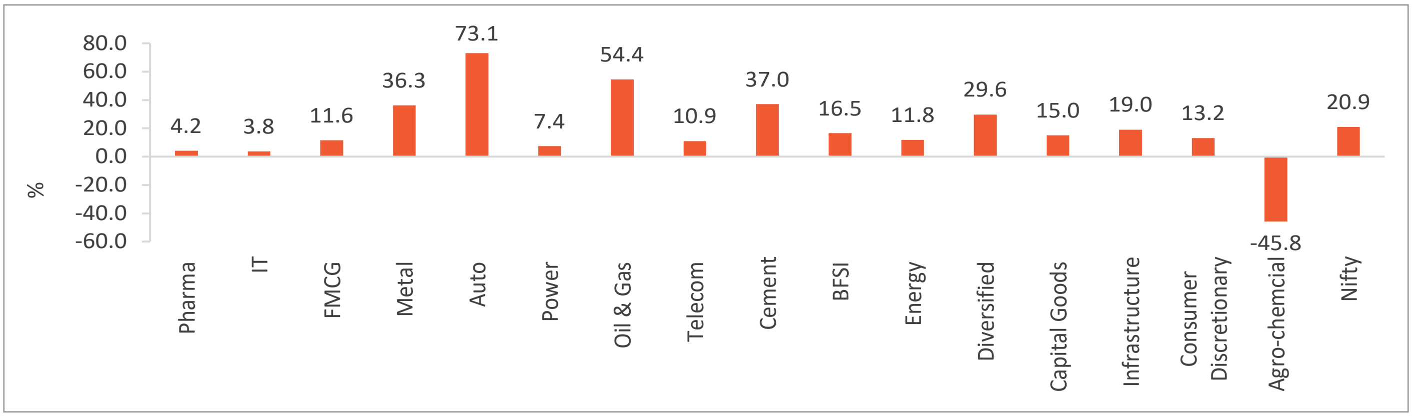
- Q2FY2024 revenues of Nifty companies grew by 5.4% y-o-y, which was broadly marginally below estimate of 7%. Almost all sectors (excluding metals, agri-inputs, power) witnessed a healthy revenue growth despite a challenging demand environment. Metal companies' revenue declined y-o-y due to lower realisation offsetting volume growth. Agri-input players witnessed sharp revenue de-growth due to pressure on volume and pricing given high channel inventory and Chinese dumping.
- Nifty companies (excluding BFSI) saw EBITDA margin rise by 315 bps y-o-y. EBITDA margin for auto, FMCG, metals, Oil & gas, cement, telecom posted 385 bps, 189 bps, 321 bps, 941 bps, 242 bps and 172 y-o-y improvement respectively while that for agrochemicals, pharma and consumer discretionary sectors declined by 651 bps, 168 bps and 235 bps y-o-y respectively.
- Net profit of both Nifty and Sensex companies grew strongly by 29% y-o-y and 30% y-o-y, respectively, was above estimates. A large part of earnings growth was driven by banks, autos, OMCs. Heavy weights like RIL, BPCL, Tata Motors, HDFC Bank, JSW Steel were major contributors to the earnings growth.
- Earnings beat-to-miss ratio was favourable as 42% of companies beat estimate while 38% missed earnings estimate.
- A Large earnings beat was seen in Cipla, Dr Reddy's, Britannia, M&M, Maruti, HDFC Bank, ICICI Bank, Coal India, Grasim and L&T.
- Major earnings miss was seen in Divis, Wipro, TechM, Tata Steel, Tata Motors, NTPC, ONGC, Ultratech, SBI Life and UPL.

Q2: Nifty revenue growth (y-o-y) by sector



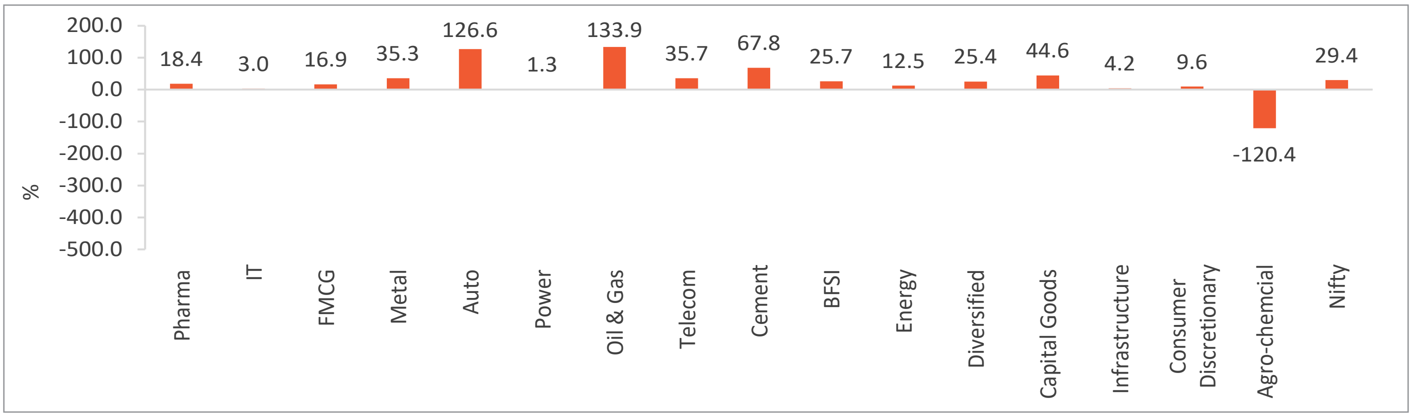
Source: Bloomberg; Sharekhan Research

Q2: Nifty EBITDA growth (y-o-y) by sector



Source: Bloomberg; Sharekhan Research

Q2: Nifty earnings growth (y-o-y) by sector



Source: Bloomberg; Sharekhan Research

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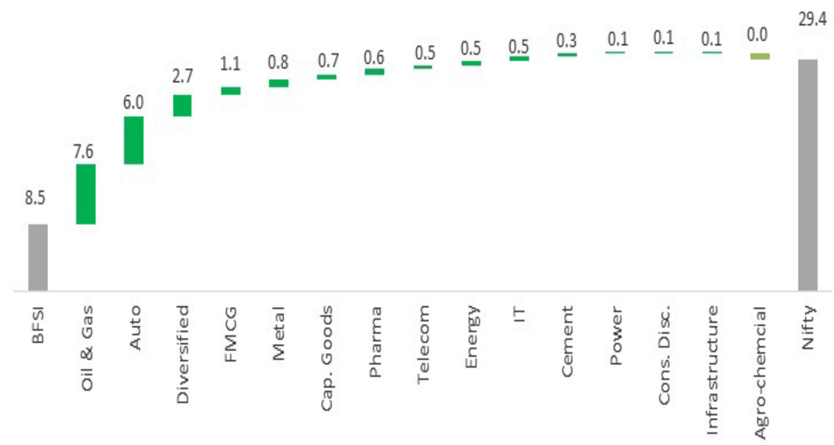
Q2: Nifty 50 companies (ex-BFSI) witnessed margin improvement of 315 bps y-o-y

Sectors	Q2FY24A	Q2FY23A	YoY (%)	Q1FY24A	QoQ (%)	Q2FY24E	Variance
Pharma (5)	24.4	26.0	-167.5	25.0	-63.1	24.7	-33.5
IT (5)	22.8	23.2	-41.6	21.8	106.9	22.5	32.2
FMCG (6)	26.3	24.4	189.1	27.0	-65.3	26.0	28.6
Metal (3)	11.4	8.2	321.3	11.6	-19.7	17.6	-618.2
Auto (6)	13.7	9.8	384.8	13.5	23.8	13.3	37.6
Power (2)	38.5	35.7	276.8	41.3	-277.8	39.3	-81.7
Oil & Gas (2)	22.6	13.2	941.2	24.0	-138.9	19.7	290.1
Telecom (1)	52.7	51.0	172.0	52.3	33.1	52.6	7.7
Cement/Building Material (2)	15.1	12.7	241.8	16.9	-172.0	16.3	-120.2
BFSI (11)	59.9	61.9	-208.9	66.4	-656.9	61.1	-123.2
Energy (1)	24.8	24.4	42.7	29.2	-439.3	17.9	696.0
Diversified (3)	17.0	12.6	443.1	17.5	-45.8	16.7	34.9
Capital Goods (1)	11.0	11.5	-41.9	10.2	87.0	10.6	43.8
Infrastructure (1)	58.4	62.6	-418.3	60.1	-169.7	60.1	-170.5
Consumer Discretionary	11.3	13.6	-234.7	9.5	180.6	11.6	-37.3
Agro-chemcial (1)	13.0	19.5	-651.3	14.2	-117.4	17.3	-428.3
Nifty aggregate EBITDA margin	**25.0**	**21.8**	**320.6**	**25.9**	**-83.6**	**25.6**	**-57.7**
Nifty aggregate EBITDA margin (excluding BFSI)	**19.9**	**16.8**	**314.8**	**20.4**	**-49.0**	**20.2**	**-31.4**

Source: Bloomberg; Sharekhan Research

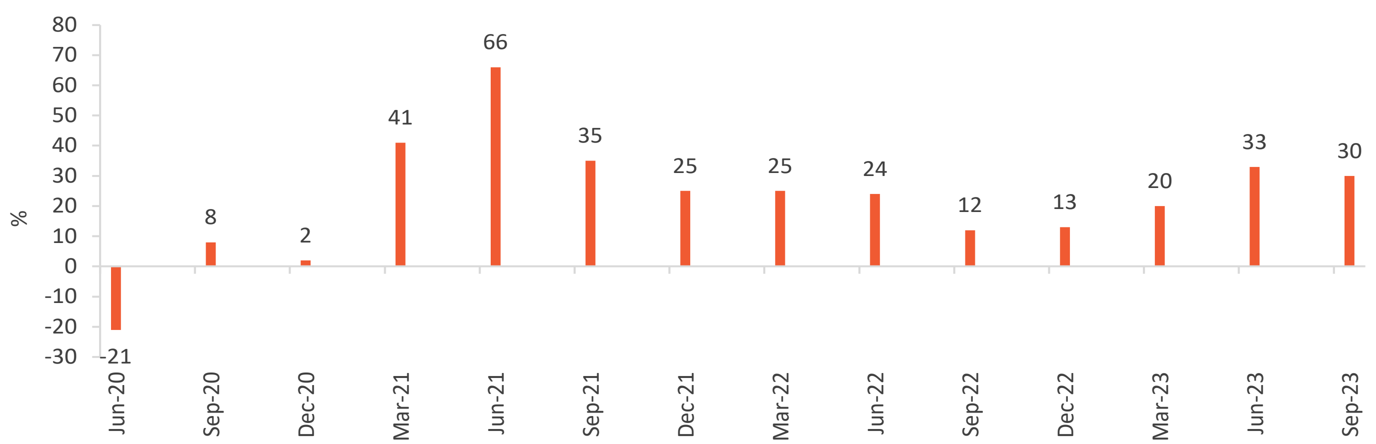
Q2: Actual sector-wise contribution to Nifty's earnings growth



- Q2FY2024 earnings growth of Nifty at 29% y-o-y was above expectations led by earnings beat from autos, BFSI, OMCs, energy, pharma, capital goods and diversified sectors.
- A Large earnings beat was seen in Cipla, Dr Reddy's, Britannia, M&M, Maruti, HDFC Bank, ICICI Bank, Coal India, Grasim and L&T.
- Major earnings miss was seen in Divis, Wipro, TechM, Tata Steel, Tata Motors, NTPC, ONGC, Ultratech, SBI Life and UPL.

Source: Bloomberg; Sharekhan Research

Q2: Sensex earnings growth was above estimate



Source: Bloomberg; Sharekhan Research

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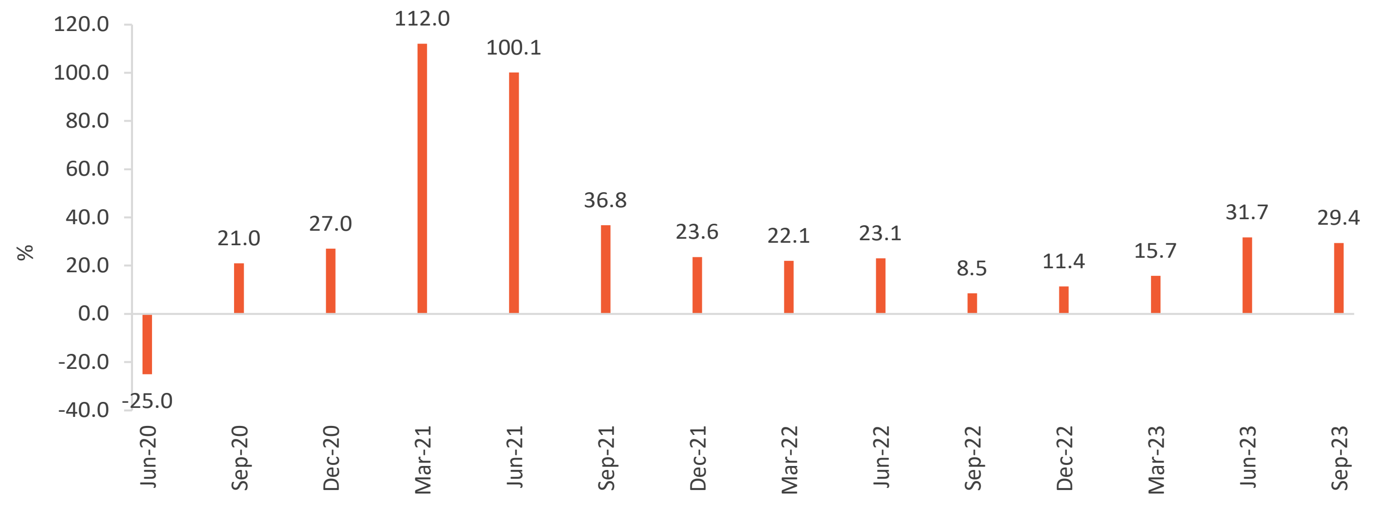
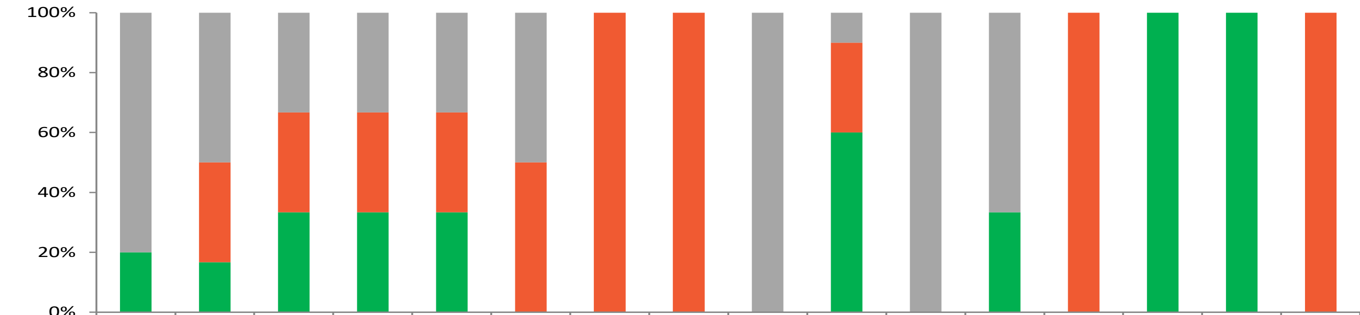
Q2: Nifty earnings growth beats estimate



Source: Bloomberg; Sharekhan Research

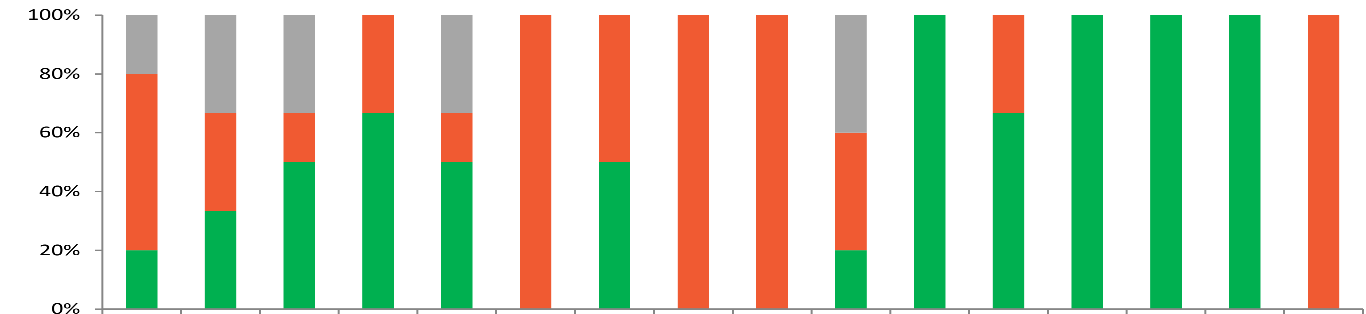
Q2: 32% of Nifty companies reported beat in revenue



	Pharma (5)	IT (5)	FMCG (6)	Metal (3)	Auto (6)	Power (2)	Oil & Gas (2)	Telecom (1)	Cement (2)	BFSI (11)	Energy (1)	Diversified (3)	Capital Goods (1)	Infrastructure (1)	Consumer Discretionary (1)	Agro-chemical (1)
Inline	80%	50%	33%	33%	33%	50%	0%	0%	100%	10%	100%	67%	0%	0%	0%	0%
Below	0%	33%	33%	33%	33%	50%	100%	100%	0%	30%	0%	0%	100%	0%	0%	100%
Above	20%	17%	33%	33%	33%	0%	0%	0%	0%	60%	0%	33%	0%	100%	100%	0%

Source: Bloomberg; Sharekhan Research

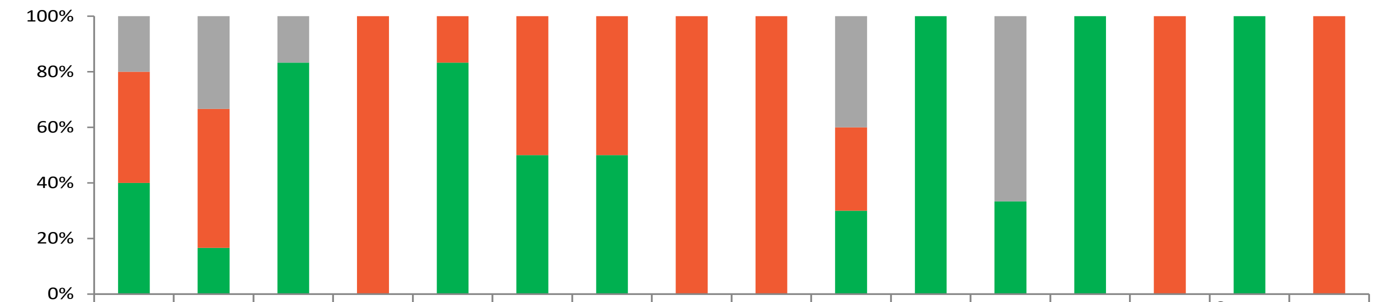
Q2: 40% of Nifty companies reported beat in EBITDA



	Pharma (5)	IT (5)	FMCG (6)	Metal (3)	Auto (6)	Power (2)	Oil & Gas (2)	Telecom (1)	Cement (2)	BFSI (11)	Energy (1)	Diversified (3)	Capital Goods (1)	Infrastructure (1)	Consumer Discretionary (1)	Agro-chemical (1)
Inline	20%	33%	33%	0%	33%	0%	0%	0%	0%	40%	0%	0%	0%	0%	0%	0%
Below	60%	33%	17%	33%	17%	100%	50%	100%	100%	40%	0%	33%	0%	0%	0%	100%
Above	20%	33%	50%	67%	50%	0%	50%	0%	0%	20%	100%	67%	100%	100%	100%	0%

Source: Bloomberg; Sharekhan Research

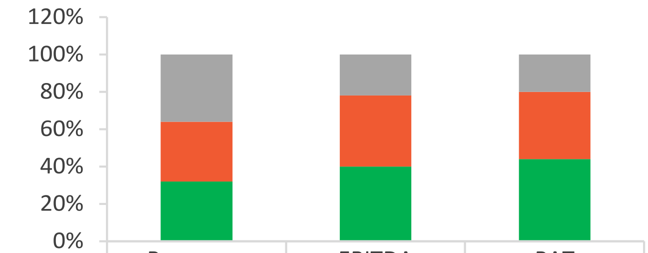
Q2: Nifty earnings growth of 29% y-o-y, led by BFSI, autos, OMCs



	Pharma (5)	IT (5)	FMCG (6)	Metal (3)	Auto (6)	Power (2)	Oil & Gas (2)	Telecom (1)	Cement (2)	BFSI (11)	Energy (1)	Diversified (3)	Capital Goods (1)	Infrastructure (1)	Consumer Discretionary (1)	Agro-chemcial (1)
Inline	20%	33%	17%	0%	0%	0%	0%	0%	0%	40%	0%	67%	0%	0%	0%	0%
Below	40%	50%	0%	100%	17%	50%	50%	100%	100%	30%	0%	0%	0%	100%	0%	100%
Above	40%	17%	83%	0%	83%	50%	50%	0%	0%	30%	100%	33%	100%	0%	100%	0%

Source: Bloomberg; Sharekhan Research

44% of Nifty companies beat PAT estimates

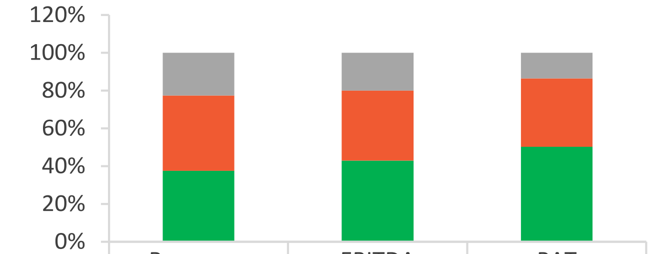


	Revenues	EBITDA	PAT
Inline	36%	22%	20%
Below	32%	38%	36%
Above	32%	40%	44%

Above Below Inline

Source: Bloomberg; Sharekhan Research

50% of SK universe companies beat PAT estimates



	Revenues	EBITDA	PAT
Inline	23%	20%	14%
Below	40%	37%	36%
Above	38%	43%	50%

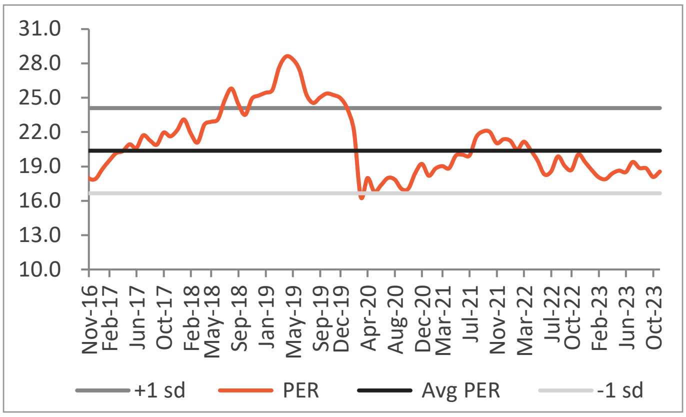
Above Below Inline

Source: Company; Sharekhan Research

Key highlights of Sharekhan universe earnings performance

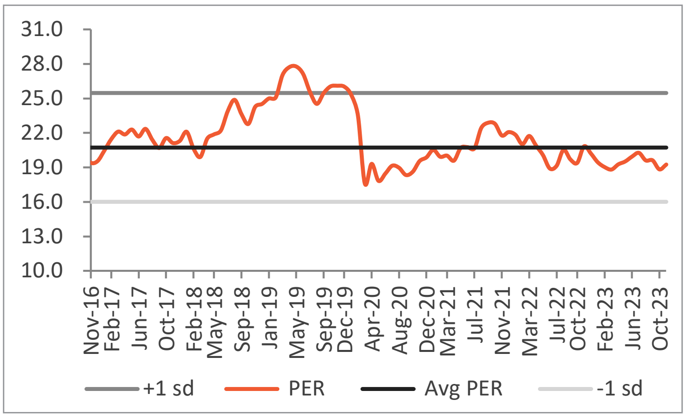
- **Q2FY2024 highlights:** Aggregate revenue/EBITDA/PAT grew by 3%/41%/61% y-o-y. Topline was marginally below our estimate while EBITDA/PAT was above estimates versus expectation of 37%/52% y-o-y growth respectively. Earnings growth was driven by auto, BFSI, oil & gas, cement, diversified, pharma, metals, capital goods while agri-inputs, specialty chemicals, logistics posted a decline in earnings on y-o-y basis.
- **Automobile:** Our universe of automakers has almost matched EBITDA estimates on healthy gross margin expansion, while reported bottom line was higher than estimates on account of higher-than-expected other income in few cases. On sequential basis, our auto universe has reported 5.1% growth in topline, 40 bps expansion in AEBITDA margin and 11.8% increase in APAT.
- **Cement:** For Q2FY2024, the cement sector's revenues rose 13.7% y-o-y, aided by a 13.9% y-o-y volume growth. EBITDA/tonne, up 58.8% y-o-y at Rs. 875, was aided by lower P&F costs and other expenses while PAT was up 3x y-o-y. We expect demand momentum to sustain and increased cement prices along with benefits from P&F costs would improve operational profitability further in Q3.
- **Infra/Logistics/BM/Realty:** Building material companies reported a strong 55% y-o-y PAT growth aided by healthy revenue growth and OPM expansion. Logistics players reported a miss on operational performance. Infrastructure, too, was soft, with tendering activities getting delayed. Real estate players reported pre-sales growth. Strong launch pipeline & sustenance sales to keep up the momentum during H2.
- **Consumer staples:** Q2 was a mixed bag quarter with sales volume remaining muted affected by weak demand in the rural market; margin expansion drive double digit PAT growth. Gradual recovery expected from H2.
- **Consumer Discretionary:** A shift in festive season affected retail sector performance; hotels shine in lean quarter; textile continues to witness sequential improvement; festive & holiday season to bring in cheers in H2 for all segments.
- **IT Sector:** Muted Q2 amid robust deal wins with some Tier1 companies posting record high TCV of deal wins. Tier-1 IT service companies reported a weak quarter with -2.4% to 2.3% q-o-q constant currency revenue growth. For most Tier-1 companies, EBIT margin was stable and improved 5-150 bps q-o-q, mainly on operational efficiencies while for some Tier 2 IT companies EBIT margin was impacted by muted revenues and wage hike.
- **Banks:** Banks reported healthy performance led by steady loan growth and lower credit cost despite NIM pressure
- **NBFCs:** NBFCs reported strong AUM growth in Q2 on the back of continued healthy disbursements momentum. NIM trend remained mixed and credit cost increased sequentially, while assets quality sustained improving trend with declined GS-3 assets.
- **Pharma:** The pharma sector witnessed healthy growth during the quarter led by strong recovery in regulated markets like the US and UK. US growth was visible due to shortages which offset price erosion pressure followed by product launches in the complex generics. Domestic market also reported higher single digit growth for our coverage companies, which led to healthy product mix. On expenses front, Input costs like freight, logistics, power, advertising, R&D have soften coupled with healthy product mix have resulted into margins increment for the sector.
- **Oil & Gas:** OMCs earnings was above expectations as they benefited sharp surge in refining margins, lower-than-expected auto fuel under-recoveries and large inventory gains. ONGC's earnings were impacted by subdued oil & gas sales volume, lower net oil realisations and a rise in operating costs. GAIL's earnings was robust led by super earnings from gas transmission/trading segments. CGDs (IGL/MGL) performance was a mixed bag as strong margin offsets volume miss.
- **Metals**: Steelmakers in our coverage witnessed y-o-y earnings growth led by higher volume and lower input cost. NMDC's performance was below expectations due to lower iron ore realisation.
- **Power:** Power PSUs' performance was mixed with steep decline in earnings of NTPC and marginal PAT growth for Power Grid. Tata Power posted healthy earnings growth led by a strong growth from RE portfolio and Odisha discoms offsetting lower coal profits.
- **Agri-inputs:** Performance was weak as domestic revenue was impacted by erratic monsoon season and export market was impacted by weak demand along with pricing pressure.
- **Specialty chemicals:** The space witnessed demand/margin contraction amid weak domestic demand, inventory rationalisation, and dumping from China.

Nifty's one-year forward P/E band



Source: Bloomberg; Sharekhan Research

Sensex's one-year forward P/E band



Source: Bloomberg; Sharekhan Research

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Sharekhan
by BNP PARIBAS

Automobiles

Margins shield bottomline

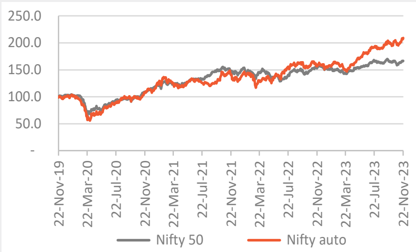
Q2FY2024 Results Review
Sector: Automobile
View: Positive

Coverage universe

Company	CMP (Rs)	Reco	PT (Rs)
Alicon Castalloy Limited #	832	BUY	999
Amara Raja Energy & Mobility Ltd	650	BUY	717
Apollo Tyres	421	BUY	481
Ashok Leyland	178	BUY	221
Bajaj Auto	5,755	BUY	6,144
Balkrishna Industries	2,500	Hold	2,720
Bharat Forge	1,097	Positive	1,310
Bosch	20,833	BUY	23,692
Eicher Motors	3,834	BUY	4,331
Escorts Kubota	3,205	Positive	3,746
Exide Industries $	283	BUY	327
Gabriel India	399	BUY	UR
GNA Axles	419	BUY	473
Greaves Cotton	132	Hold	136
Hero MotoCorp	3,413	BUY	3,629
Lumax Auto Technologies#	380	BUY	466
M&M @ $	1,543	BUY	1,777
CIE Automotive India	487	Positive	629
Maruti Suzuki	10,496	BUY	12,257
Ramkrishna Forgings	766	BUY	UR
Rolex Rings	2,342	Positive	2,635
Schaeffler India	2,815	BUY	3,928
Sundram Fasteners #	1,241	BUY	1,460
Suprajit Engineering #	370	BUY	430
Sterling Tools	362	Positive	437
Tata Motors #	681	BUY	787
TVS Motors $	1,738	BUY	1,853
VST Tillers and Tractors Limited	4,045	Neutral	2,445

@ MM and MVML; # Consolidated;
$ Core business valuation; UR: Under Review
Source: Company data, Sharekhan estimates
CMP as on Nov 22, 2023

Price chart



Source: NSE India, Sharekhan Research

Summary

- **Broadly in-line performance:** Our universe of automakers reported AEBITDA margin of 13.8% against the estimate of 13.4%.
- Strong festive season would boost domestic performance while exports would improve gradually.
- In FY24, while volume growth would moderate, earnings growth is expected to be driven by higher margins led by premiumisation, a better cost matrix and input cost tailwind.
- **Preferred Picks – OEMs:** Tata Motors, Hero MotoCorp, Bajaj Auto, Maruti and Escorts. **Auto Ancillaries:** Rolex Rings, Bharat Forge, CIE Automotive, Apollo Tyres, Sterling Tools, Sundaram Fasteners and Exide

In Q2FY24, the automobile sector's operating performance broadly matched expectations. Besides, the broader trend has been in sync with our investment thesis for the sector. We believe that in FY24, bottomline performance for the automobile sector would be driven more by EBITDA margin expansion than that of topline or volume growth. Given a high base for volumes and correction in metal prices we foresee a limited room for revenue growth, however soft raw material cost trend, focus on premiumisation, rising value addition and partial retention of soft RM cost benefit would reflect in operating excellence. The auto sector's performance in Q2FY24 has justified our underlying theme for the sector. In continuation to Q1FY24, our auto universe continues to display an inverted funnel pattern in its performance in Q2FY24 as while EBITDA growth was higher than that of topline growth, bottomline growth also surpassed the EBITDA growth sequentially. Further the strong retails during the festive season would augur well for domestic volumes though export volumes would grow gradually, subjected to the improvement in overseas markets. We continue to believe that OEMs would continue to focus on premiumisation and profitability and ancillary players would prioritize the increase in content per vehicle via improving product mix.

Sustaining high margins: Our universe of automakers has almost matched EBITDA estimates, while reported bottom line was higher than estimates on account of higher-than-expected other income in few cases (such as M&M). For our universe of automakers (1) Topline grew by 5.1% q-o- q and missed our estimates marginally by 1.5%, which we believe was largely due to a shortfall in revenue estimates from exports (2) adjusted EBITDA grew by 7.5% q-o- q and came 1.4% above estimates, (3) EBITDA margins rose by 32 bps q-o- q to 13.8% against our estimate of 13.4% as the marginal shortfall in revenue was compensated by healthy gross margin expansion in support of soft commodity price trend and (4) with this operating performance adjusted PAT grew by 11.8% q-o- q, which was 5.1% above our estimates- on higher-than-expected other income in few cases. Further the operating performance reported by our two-wheeler universe and four-wheeler universe also came close to our estimates. Two-wheeler universe has reported 44 bps q-o-q improvement in EBITDA margin to 16.8% as against the estimate of 16.5%, while Four-wheeler universe has reported 23 bps improvement in EBITDA margin to 12.8% against the estimate of 12.4%. Except M&M most of the OEMs have reported better than expected operating performance.

Domestic players have edge: Favourable RM cost trend and focus on premiumisation helped domestic auto players sustain EBITDA margins. In OEM space, except tractor players most of the other players have reported healthy operating performance on improvement in volumes and gross margin expansion. Most of the domestic focussed player in auto ancillary players have outperformed the export-oriented players as export performance was impacted due to unfavourable macros overseas. Most segments have guided for healthy uptick in retail sales during ongoing festive season. In terms of outliers, MSIL surprised positively (with a 152 bps beat in EBITDA margin estimates to 12.9% in support of healthy gross margin expansion), while M&M surprised negatively (with a 70 bps miss in EBITDA margin estimates to 12.6% on stress in tractor division). Going forward key expectations are – (1) A healthy festive season would translate into normal dealer inventory (2) beyond soft RM cost trend the pass on of the higher input cost and in-house cost correction measure is supporting operating performance (2) demand is continuously strong for premium segments and (4) overseas market would improve gradually subjected to improvement in macros and (5) cash crunch in after market segment would ease out in H2FY24.

Tyres and battery players outperform: Auto ancillary players have also come out with decent performance on rise in domestic business though export business has yet to recover. Further, the aftermarket business which was facing headwinds in Q2Fy24 is expected to perform better in H2FY24 on gradual recovery. Our auto ancillary universe has reported 1.7% q-o-q decline in revenue and missed our topline estimates by 1.5% on a shortfall in export revenues. With the support of soft RM cost and cost efficiencies the EBITDA increased by 3.8% q-o-q and beat our estimates by 2.5%. Consequently, EBITDA margins rose by 93 bps q-o-q to 17.5% and beat our estimates by 69 bps. In our auto ancillary universe, tyre players and battery players have displayed decent performance. Tyre pack has registered 141 bps q-o-q improvement in EBITDA Margin to 19.7% supported by soft RM cost trend. Apollo Tyres is assuming a gradual improvement in replacement market in CV segment in coming period and targeting to continue to focus on operational profitability. Battery pack has also reported 124 bps q-o-q improvement in EBITDA margin in support of soft RM cost trend and in-house cost efficiencies. Excluding tyre and battery pack our auto ancillary universe has reported 49 bps q-o-q improvement in EBITDA margin. Despite having healthy order book most of the players are indicating for a delay in order execution as a key growth constraint especially in overseas markets. Further auto ancillary players are continuously focussing on improvement in product mix and increase in content per vehicle.

Outlook – The automobile sector performed in line with expectations in H1FY24 and we continue to expects a mid to high single-digit volume growth in most of the segments except in tractors in FY24.While volume growth in expected to moderate in FY24 due to a high base, we believe that earnings growth would be driven by the improvement in operating performance lead by a rise in premiumisation, efficient cost control, a better product mix and RM cost tailwind. As we advance the demand momentum would follow the recovery in rural sentiments and response to product launches. Besides that, the legacy players are expected to be more aggressive on premiumisation and EV road map in coming quarters. Hence, we maintain our positive stance on the automobile sector.

Leaders for Q2FY2024: Amara Raja, Apollo Tyres, Ashok Leyland, Bajaj Auto, Exide Industries, Maruti Suzuki.

Laggards for Q2FY2024: Escorts Kubota, GNA Axles, M&M, Rolex Rings, Suprajit Engineering.

Auto sector Q2FY24 results

Companies	Sales (Rs cr)				EBIDTA margins (%)				PAT (Rs cr)			
	Q2FY24	Q2FY23	YoY %	QoQ%	Q2FY24	Q2FY23	YoY bps	QoQ bps	Q2FY24	Q2FY23	YoY %	QoQ%
Alicon Castalloy Limited #	381	377	1.0	7.6	13.1	11.3	177	16	18	15	18.4	12.9
Amara Raja Energy & Mobility Ltd	2,811	2,699	4.1	1.5	14.1	13.3	78	136	224	202	11.0	16.5
Apollo Tyres #	6,280	5,956	5.4	0.6	18.5	12.0	651	163	474	194	143.9	16.8
Ashok Leyland	9,638	8,266	16.6	17.7	11.2	6.5	470	118	584	191	205.6	1.2
Bajaj Auto	10,777	10,203	5.6	4.5	19.8	17.2	255	83	1,836	1,530	20.0	10.3
Balkrishna Industries	2,226	2,704	(17.7)	5.0	23.3	16.4	685	58	316	367	(13.7)	10.2
Bosch	4,130	3,662	12.8	(0.7)	11.9	12.7	(84)	4	404	400	0.9	(5.7)
Eicher Motors	4,115	3,519	16.9	3.2	26.4	23.3	308	81	1,016	657	54.7	10.7
Escorts Kubota	2,046	1,883	8.6	(12.1)	12.9	8.1	476	(117)	235	141	66.2	(16.9)
Exide Industries	4,107	3,719	10.4	0.8	11.8	11.1	67	115	287	246	16.6	18.6
Gabriel India	864	803	7.7	7.3	8.5	7.4	117	(2)	47	37	28.4	10.5
GNA Axles	404	420	(3.7)	8.1	13.6	14.3	(68)	(221)	28	33	(17.2)	(16.7)
Greaves Cotton	727	699	4.0	27.8	6.3	6.1	18	869	6	33	(81.8)	(122.9)
Hero MotoCorp	9,445	9,075	4.1	7.7	14.1	11.4	262	30	1,054	716	47.2	11.5
Lumax Auto Technologies#	700	487	43.8	10.8	12.9	10.7	222	18	27	29	(6.2)	23.2
M&M @ #	24,310	21,021	15.6	0.0	12.6	11.9	68	(173)	3,556	2,298	54.7	28.2
CIE Automotive	2,279	2,229	2.2	(1.8)	15.2	13.2	199	(81)	187	168	11.4	(12.6)
Maruti Suzuki	37,062	29,931	23.8	14.6	12.9	9.3	366	288	3,717	2,062	80.3	38.3
Ramkrishna Forgings	865	763	13.4	3.4	22.9	22.3	59	45	80	64	24.4	3.4
Rolex Rings	321	290	10.7	3.0	21.0	22.0	(95)	(142)	47	49	(4.5)	(3.0)
Schaeffler India	1,854	1,568	18.3	1.3	18.4	19.7	(131)	(33)	233	207	12.4	(1.9)
Sundram Fasteners	1,422	1,402	1.4	0.8	16.2	14.6	162	18	133	117	13.9	3.3
Suprajit Engineering #	709	716	(1.0)	4.3	9.8	11.0	(114)	(67)	35	46	(24.0)	5.0
Sterling Tools	210	179	17.7	(4.7)	12.1	14.0	(194)	54	12	12	4.4	(9.2)
Tata Motors #	1,05,128	79,611	32.1	2.8	13.1	7.8	527	(20)	3,845	(633)	-	(8.9)
TVS Motors	8,145	7,219	12.8	12.8	11.0	10.2	84	46	537	407	31.7	14.7
VST Tillers & Tractors	279	234	18.9	13.2	15.5	13.8	171	259	36	23	60.3	10.5
AUTO UNIVERSE	**2,43,483**	**2,01,498**	**20.8**	**5.1**	**13.8**	**10.3**	**350**	**31**	**19,328**	**9,892**	**95.4**	**11.8**
AUTO UNIVERSE - excl Tata Motors	**1,38,355**	**1,21,887**	**13.5**	**6.8**	**14.4**	**12.0**	**242**	**70**	**15,483**	**10,525**	**47.1**	**18.6**

Valuation (As on Nov 22, 2023)

Company	CMP	Reco	PT (Rs)	EPS			P/E (x)		
				FY23	FY24E	FY25E	FY23	FY24E	FY25E
Alicon Castalloy Limited #	832	BUY	999	31.9	41.8	60.9	26.1	19.9	13.7
Amara Raja Energy & Mobility Ltd	650	BUY	717	43.5	49.6	55.3	14.9	13.1	11.8
Apollo Tyres	421	BUY	481	17.0	26.6	30.1	24.7	15.8	14.0
Ashok Leyland	178	BUY	221	4.4	7.9	10.0	40.3	22.5	17.8
Bajaj Auto	5,755	BUY	6,144	198.0	236.0	267.0	29.1	24.4	21.6
Balkrishna Industries	2,500	Hold	2,720	59	67.4	88.0	42.2	37.1	28.4
Bharat Forge	1,097	Positive	1,310	25	29.6	33.9	44.4	37.0	32.4
Bosch	20,833	BUY	23,692	483	560.4	715.7	43.1	37.2	29.1
Eicher Motors	3,834	BUY	4,331	107	136.0	153.0	36.0	28.2	25.1
Escorts Kubota	3,205	Positive	3,746	63.4	95.7	118.8	49.7	33.5	27.0
Exide Industries $	283	BUY	327	10.6	12.9	15.7	26.6	22.0	18.0
Gabriel India	399	BUY	UR	9.2	12.8	15.1	43.4	31.2	26.4
GNA Axles	419	BUY	473	30.3	27.6	33.8	13.8	15.2	12.4
Greaves Cotton	132	Hold	136	3.9	4.0	5.2	33.8	33.0	25.1
Hero MotoCorp	3,413	BUY	3,629	146.0	171.4	202.4	23.4	19.9	16.9
Lumax Auto Technologies#	380	BUY	466	14.9	16.5	23.1	25.5	23.0	16.5
M&M @ $	1,543	BUY	1,777	61.5	83.3	98.8	21.4	18.5	15.6
Mahindra CIE Automotive	487	Positive	629	18	23.1	27.1	24.4	21.0	17.9
Maruti Suzuki	10,496	BUY	12,257	267	373.7	436.9	39.4	28.1	24.0
Ramkrishna Forgings	766	BUY	UR	15	22	29.0	52.1	35.1	26.4
Rolex Rings	2,342	Positive	2,635	73	78.4	93.9	32.2	29.9	24.9
Schaeffler India	2,815	BUY	3,928	56	56.9	71.2	50.0	49.5	39.6
Sundram Fasteners #	1,241	BUY	1,460	24	27.8	41.5	52.1	44.6	29.9
Suprajit Engineering #	370	BUY	430	11	11.3	14.1	33.6	32.7	26.2
Sterling Tools	362	Positive	437	12	16.1	23.4	29.4	22.5	15.5
Tata Motors #	681	BUY	787	2	32.0	42.0	355.5	21.3	16.2
TVS Motors $	1,738	BUY	1,853	30	38.8	50.0	56.1	44.7	34.8
VST Tillers and Tractors Limited	4,045	Neutral	2,445	124	153	175	32.2	26.5	23.1

@ MM & MVML; # Consolidated; $ core business valuation; UR Under Review
Source: Company data, Sharekhan estimates

Sharekhan by BNP PARIBAS

Banking

Stable Q2, barring NIMs pressure

Q2FY2024 Results Review

Sector: Banking

Sector View: Positive

Summary

- Banks in our coverage universe reported a healthy performance led by steady loan growth and lower credit costs despite NIM pressure.
- Deposit repricing continued to put pressure on NIMs as expected. Cost of funds is yet to peak for all the banks.
- Deposit growth was healthy (barring Axis Bank), mainly driven by time deposits. CASA trends remained sluggish. Asset quality trends improved led by control slippages (barring AU SFB) and higher recoveries & upgrades.
- **Top preferred picks: Large private banks** – ICICI Bank, Axis Bank, Kotak Mahindra Bank, and HDFC Bank; **Mid-tier Private Banks** – IndusInd Bank and Federal Bank; **PSBs** – SBI, BOI, and PNB remain our top preferred picks.

Banks in our coverage reported healthy earnings trajectory led by steady loan growth and lower credit cost despite weak NII growth driven by lower NIMs. NIM pressure was seen across banks, led by a faster rise in cost of deposits. Outlook for NIM continues to remain negative for at least the next two quarters. Trend in core fee income was strong while other income also remained healthy led by healthy recoveries from written off accounts and modest treasury gains. Opex remained high for private banks due to higher technology spending, investments in branches and increased business volumes while for PSBs they were led by a one-off on account of higher wage revision provisions relating to bipartite agreement. PSBs saw a modest 4%y-o-y growth in operating profit. Large and mid-tier private banks saw 24% y-o-y (higher mainly led by HDFC Bank due to merger) and 18% y-o-y growth in operating profit respectively, while small banks reported 8% y-o-y. Provisions declined by 43% y-o-y / 18% y-o-y for PSBs /private banks. PAT grew by 29% y-o-y for our coverage. Private banks saw 34% y-o-y growth in earnings, while PSBs saw a 21% y-o-y growth in earnings.

Credit growth outlook steady but lower NIMs to restrict NII growth: Overall, loan growth remained healthy across banks, driven by continued traction in retail and MSMEs while growth in corporate segment remained marginally lower. Private banks outperformed PSBs on loan/deposit growth front. Most banks guided that there is good demand in the retail segment and a strong pipeline across MSME and corporate loans; however, deposit growth remains a key monitorable barring PSB`s as they have lower CD ratio. NIM pressure was seen across banks, led by faster rise in cost of deposits. Cost of funds is yet to peak for all the banks. Thus, NIM outlook continues to remain negative for at least the next two quarters which would drag NII growth. Retail deposit mobilisation remains key metric and banks with a superior liability franchise are placed better.

Asset-quality outlook stable: Asset-quality trends improved under our coverage led by control slippages (barring AU SFB) and higher recoveries & upgrades with PCR continued to remain healthy. Restructured book also declined. We expect credit cost to stay lower in the near term and should gradually start to normalise in FY2025. Asset quality is unlikely to be a concern for most banks in the near to medium term unless there is a sharp macroeconomic downturn. Recently, there have been some concerns related to higher stress formation in small ticket size unsecured personal loans. The management commentary highlighted that banks have tightened their credit filters and have very minimal or no exposure to small-ticket personal loans which are seeing higher stress formation.

Valuation

Return ratios to remain healthy in near to medium term: Overall, banks continued to report healthy performance in Q2FY2024 on the back of steady loan growth and strong asset quality. Normalisation of NIMs likely to slow down PPoP growth; however, healthy return ratios are unlikely to reverse in near term due to strong asset-quality outlook. We expect incremental slippages to be low and recoveries to remain strong in FY24E, resulting in low credit cost in the near term. Additional contingent provision buffers, a higher PCR, higher capital buffers, and lower stressed assets augur well for the banking sector's outlook. We maintain our Overweight stance on the sector.

Leaders for Q2FY2024: ICICI, Axis, Federal, IndusInd, Bank of India, and PNB

Laggards for Q2FY2024: HDFC Bank and City Union Bank

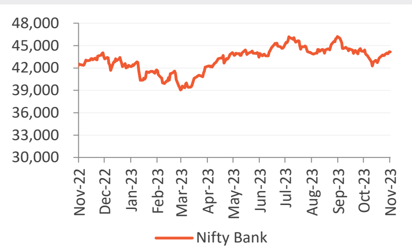
Top Preferred Picks: Large Private Banks – ICICI Bank, Axis Bank, Kotak Bank, and HDFC Bank; **Mid-tier Private Banks** – IndusInd Bank and Federal Bank; and within **PSBs**, SBI, BOI, and PNB remain our top preferred picks.

Our coverage universe

Companies	CMP (Rs)	Reco/ View	PT (Rs)
Large Private Banks			
HDFC Bank	1,508	Buy	1,900
ICICI Bank	936	Buy	1,200
Axis Bank	1,026	Buy	1,140
Mid-Tier Private Banks			
Kotak Mahindra Bank	1,772	Buy	2,250
Indusind Bank	1,499	Buy	1,650
Federal Bank	150	Buy	170
Small Private Banks			
AU SFB	730	Hold	750
CUBK	147	Hold	145
PSBs			
SBI	584	Buy	710
PNB	80	Buy	86
BOI	107	Buy	120

Source: Company; Sharekhan Research
CMP as on Nov 16, 2023

Price chart



Source: NSE; Sharekhan Research

Q2FY24 Result Snapshot

Banks	NII (Rs cr)					PPoP (Rs cr)					PAT (Rs cr)				
	Q2 FY24	Q2 FY23	Q1 FY24	YoY %	QoQ %	Q2 FY24	Q2 FY23	Q1 FY24	YoY %	QoQ %	Q2 FY24	Q2 FY23	Q1 FY24	YoY %	QoQ %
Large Private Banks															
HDFC Bank	27,385	21,021	23,599	30.3	16.0	22,694	17,392	18,772	30.5	20.9	15,977	10,606	11,952	50.6	33.7
ICICI Bank	18,308	14,787	18,226	23.8	0.4	14,229	11,680	14,139	21.8	0.6	10,261	7,558	9,648	35.8	6.4
Axis Bank	12,315	10,360	11,959	18.9	3.0	8,632	7,716	8,814	11.9	-2.1	5,864	5,330	5,797	10.0	1.1
Mid-Tier Private Banks															
Kotak Mahindra Bank	6,297	5,099	6,234	23.5	1.0	4,610	3,568	4,950	29.2	-6.9	3,191	2,581	3,452	23.6	-7.6
Indusind Bank	5,077	4,302	4,867	18.0	4.3	3,881	3,520	3,830	10.3	1.3	2,181	1,787	2,124	22.1	2.7
Federal Bank	2,056	1,762	1,919	16.7	7.2	1,324	1,212	1,302	9.3	1.7	954	704	854	35.5	11.7
Small Private Banks															
AU SFB	1,249	1,083	1,246	15.3	0.2	648	499	546	29.9	18.6	402	343	387	17.3	3.9
CUBK	538	568	523	-5.2	3.0	387	456	414	-15.3	-6.7	281	276	227	1.5	23.5
PSBs															
SBI	39,500	35,183	38,905	12.3	1.5	19,417	21,120	25,297	-8.1	-23.2	14,330	13,265	16,884	8.0	-15.1
PNB	9,923	8,271	9,504	20.0	4.4	6,216	5,567	5,968	11.7	4.2	1,756	411	1,255	327.0	39.9
BOI	5,740	5,084	5,914	12.9	-3.0	3,756	3,374	3,752	11.3	0.1	1,458	960	1,551	51.9	-6.0

Source: Company; Sharekhan Research

Valuations (As on Nov 16, 2023)

Banks	Reco.	CMP (Rs.)	TP (Rs.)	RoA (%)		RoE (%)		P/E (x)		P/B (x)	
				FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Large Private Banks											
HDFC Bank	Buy	1,508	1,900	1.9	1.9	14.8	15.3	14.4	12.9	2.2	2.0
ICICI Bank	Buy	936	1,200	2.3	2.1	17.7	15.8	14.5	13.7	2.4	2.0
Axis Bank	Buy	1,026	1,140	1.8	1.7	17.8	16.0	11.9	11.4	1.9	1.7
Mid-Tier Private Banks											
Kotak Mahindra Bank	Buy	1,772	2,250	2.4	2.4	14.0	13.8	19.8	17.5	2.6	2.3
IndusInd Bank	Buy	1,499	1,650	1.9	1.9	15.4	15.4	12.8	11.0	1.8	1.6
Federal Bank	Buy	150	170	1.3	1.3	14.6	13.7	9.7	8.5	1.3	1.1
Small Private Banks											
AU SFB	Hold	730	750	1.7	1.8	13.8	15.2	29.9	23.4	3.9	3.4
CUBK	Hold	147	145	1.5	1.5	12.9	12.7	10.6	9.5	1.4	1.2
PSBs											
SBI	Buy	584	710	1.1	1.1	17.6	16.0	5.5	5.1	0.9	0.8
PNB	Buy	80	86	0.5	0.8	6.7	11.9	12.7	6.5	0.9	0.8
BOI	Buy	107	120	0.9	0.9	11.9	11.3	7.3	7.0	0.9	0.8

Source: Company; Sharekhan Research

Sharekhan
by BNP PARIBAS

NBFCs, Insurance, AMC & Diversified Financials

NBFC – Steady Q2, Insurance – Mixed Bag, AMC and Diversified Financials - Strong Q2

Q2FY2024 Results Review

Sector: NBFCs, Insurance, AMC & Diversified Financials

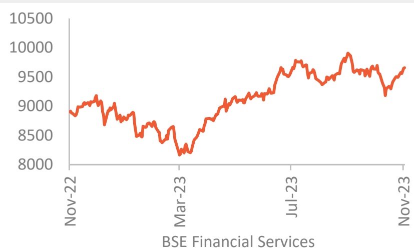
Sector View: Positive/Neutral/Neutral

Our Coverage Universe

Companies	CMP (Rs)	Reco./ View	PT (Rs)
NBFC`s			
LIC Housing Finance	462	Buy	490
Can Fin Homes	749	Buy	960
Bajaj Finance	7,365	Buy	9,300
Cholamandalam Invest & Fin	1,165	Buy	1,350
Mahindra Finance	275	Buy	345
LT Finance	150	Buy	UR
Five Star Business Finance	801	Positive	900
Insurance Co.`s			
HDFC Life	635	Buy	750
ICICI Pru	548	Buy	650
Max Financial	927	Buy	1,020
ICICI Lombard	1,399	Buy	1,540
Bajaj Finserv	1,620	Buy	1,870
AMC			
Nippon Life India AMC	417	Buy	450
Diversified Financials			
BSE Ltd	2,332	Positive	UR

Source: Company, Sharekhan Research;
Note: Under Review
CMP as on Nov 16, 2023

Price chart



Summary

- **NBFCs:** Our NBFC coverage universe sustained a healthy disbursement momentum in Q2FY2024, leading to above-estimated AUM growth. While non-bank lenders reported a mixed trend in NIM, higher-than- expected increase in credit cost created some volatility in earnings. Though, Asset quality recorded a sequential improvement with a decline in GS-3 assets. NBFCs are optimistic about growth in the near to medium term on prevailing strong tailwinds for home loans, SME financing, and auto financing demand.
- **Insurance:** APE growth picked up on expected lines, while VNB margin declined on a y-o-y basis for all, driven by the change in product mix. For general insurers (especially for ICICIGI), premium growth remained healthy.
- **AMC and Diversified Financials:** NAM India reported strong performance led by robust AUM growth and stable yields. In diversified financials, BSE reported robust core revenue growth, led by strong growth across segment lines.
- **Top Preferred Picks:**

  Bajaj Finance, Cholamandalam, Five Star Business, LT Finance, BSE Ltd.

NBFCs reported strong growth in AUM on account of healthy underlying momentum for loan disbursements across products. AUM of our coverage NBFCs rose 22% y-o-y/5% q-o-q. HFCs recorded strong momentum on healthy underlying home credit demand, led by salaried customers and improved earnings of self-employed people and professionals. Auto financiers highlighted prevailing robust vehicle demand as well as a pick-up in replacement demand. Our coverage universe of NBFCs recorded NII growth of 31% y-o-y/5% q-o-q, PPOP at 36% y-o-y/2% q-o-q and PAT at 41% y-o-y/-1% q-o-q in Q2FY24. NIM trend remained mixed across NBFCs, while cost of borrowings (CoB) for most financiers remained flat sequentially. For life insurers, APE growth was healthy, but VNB margins were lower due to a change in product mix. For general insurers, premium growth was healthy and underwriting loss narrowed for ICICIGI.

NBFC: Our under-coverage NBFCs posted healthy AUM growth of 22% y-o-y/5% q-o-q, led by strong disbursements trend on a prevailing healthy demand environment. Among vehicles financiers, AUM of Cholamandalam grew 42% y-o-y/8% q-o-q and that of M&M Financial Services increased 27% y-o-y/8% q-o-q. Within HFCs, Can Fin Homes grew 16% y-o-y/3% q-o-q, while LIC Housing Finance growth remained muted at 6% y-o-y/1% q-o-q. On diversified financials, Bajaj Finance continued to grow at the healthy pace of 33% y-o-y/7.5% q-o-q. While AUM of LT Finance declined 13% y-o-y due to continued contraction in the wholesale book. Meanwhile, the company's retail book grew at 33% y-o-y/8% q-o-q. Five Star Business Finance's AUM grew 44% y-o-y/9% q-o-q on continued strong disbursement momentum supported by expanding geographical reach in newer geographies. NIM trend remained mixed across NBFCs, while the CoB for most of the financiers remained flat on a sequential basis. Cost-to-income (C/I) ratio for our under-coverage NBFCs rose ~200 bps q-o-q due to higher investments on tech infra and expanding physical presence. NBFCs expect the C/I ratio to remain high in the near term on continued investment on operating infra development. PAT rose 41% y-o-y, while it remained flat sequentially as the increase in opex and credit cost offset the benefits of strong AUM growth. Asset quality remained stable during the quarter, with all our coverage NBFCs reporting a sequential decline in GS-3 assets. A sequential increase in provisioning helped NBFCs to increase PCR amid largely contained slippages. Overall, asset-quality outlook remains stable, except low-ticket personal loan segment, which showed some stress.

Insurance: For life insurers, APE growth picked up on expected lines, while VNB margin declined on a y-o-y basis for all, driven by the change in product mix. ULIP and retail protection reported strong growth. For general insurers (especially for ICICIGI), premium growth remained healthy and underwriting loss narrowed.

AMCs & Diversified Financials: NAM India reported strong performance, led by robust AUM growth (12% q-o-q) and stable topline yields. In diversified financials, BSE reported robust core revenue growth (59% y-o-y/ 46% q-o-q), led by strong growth across segment lines.

Valuation

NBFCs: We expect strong earnings momentum to continue over the medium term, primarily driven by high AUM growth and contained credit cost. Asset-quality outlook remains stable. Margin is expected to stabilise in H2FY2024.

Life insurance: The company is focusing on growing VNB through premium growth. Margin expansion is expected on a gradual basis, led by the increase in non-par share. Protection and annuity are the key growth drivers going ahead.

General insurance: Premium growth is likely to remain healthy, driven by health/motor and commercial lines. Gradual improvement in the combined ratio is expected to improve profitability going forward.

AMCs: The effect of lower equity yield on core revenue has been broadly managed by NAM India by increasing the yield in other segments and faster growth in AUM through market share gains. However, the sector's outlook remains neutral due to higher regulatory risk.

Diversified Financials: For BSE Ltd., going forward, both pick-up in overall volumes in equity derivatives as well as a gradual increase in the tariff on Bankex and Sensex contract beyond the current week remains a key catalyst in the near term.

Key risks: Economic slowdown could lead to slower growth and exert pressure on asset quality for the lending business. For insurance, AMCs and diversified financials, regulatory policies pose a key risk.

Top Preferred Picks

Bajaj Finance, Cholamandalam, Five Star Business, LT Finance, BSE Ltd.

Q2FY2024 result snapshot

Companies	NII (Rs. cr)					PPoP (Rs. cr)					PAT (Rs. cr)				
	Q2 FY24	Q2 FY23	Q1 FY24	y-o-y (%)	q-o-q (%)	Q2 FY24	Q2 FY23	Q1 FY24	y-o-y (%)	q-o-q (%)	Q2 FY24	Q2 FY23	Q1 FY24	y-o-y (%)	q-o-q (%)
NBFCS															
LIC Housing Finance	2,106	1,163	2,209	81.1	-4.7	1,899	945	2,010	101.0	-5.5	1,188	305	1,324	289.5	-10.3
Can Fin Homes	317	251	285	26.3	11.2	270	216	248	25.0	8.9	158	142	183	11.3	-13.7
Bajaj Finance	7,197	5,538	6,719	30.0	7.1	5,835	4,487	5,544	30.0	5.2	3,550	2,781	3,437	27.7	3.3
Cholamandalam Invest & Fin	2,015	1,489	1,842	35.3	9.4	1,421	1,036	1,340	37.2	6.0	762	563	726	35.3	5.0
Mahindra Finance	1,587	1,448	1,584	9.6	0.2	943	864	1,000	9.1	-5.7	235	449	353	-47.7	-33.4
LT Finance	1,844	1,648	1,753	11.9	5.2	1,252	1,020	1,235	22.7	1.4	594	360	531	65.0	11.9
Five Star Business Finance	398	296	368	34.5	8.2	278	201	261	38.3	6.5	199	144	184	38.2	8.2

Companies	Net Premium Income (Rs Cr.)					PAT (Rs. cr)				
	Q2 FY24	Q2 FY23	Q1 FY24	y-o-y (%)	q-o-q (%)	Q2 FY24	Q2 FY23	Q1 FY24	y-o-y (%)	q-o-q (%)
Insurance Co.`s										
HDFC Life	14,797	13,138	11,508	12.6	28.6	378	329	417	14.9	-9.2
ICICI Prudential	10,022	9,582	7,020	4.6	42.8	244	200	206	21.9	18.3
Max Financial #	6,625	5,801	4,871	14.2	36.0	157	53	103	196.2	52.4
ICICI Lombard	4,306	3,837	3,887	12.2	10.8	577	591	390	-2.3	47.9

Gross written Premium & PBT

Companies	Total Income (Rs. Cr)					PAT (Rs. Cr)				
	Q2 FY24	Q2 FY23	Q1 FY24	y-o-y (%)	q-o-q (%)	Q2 FY24	Q2 FY23	Q1 FY24	y-o-y (%)	q-o-q (%)
Bajaj Finserv Ltd	26,023	20,803	23,280	25.1	11.8	1,929	1,557	1,943	23.9	-0.7

Companies	Core Revenue (Rs. Cr)					PAT (Rs. Cr)				
	Q2 FY24	Q2 FY23	Q1 FY24	y-o-y (%)	q-o-q (%)	Q2 FY24	Q2 FY23	Q1 FY24	y-o-y (%)	q-o-q (%)
AMC										
Nippon Life India AMC	397	332	354	19.9	12.2	244	206	236	18.6	3.7

Companies	Core Revenue (Rs. Cr)					PAT (Rs. Cr)				
	Q2 FY24	Q2 FY23	Q1 FY24	y-o-y (%)	q-o-q (%)	Q2 FY24	Q2 FY23	Q1 FY24	y-o-y (%)	q-o-q (%)
Diversified Financials										
BSE Ltd	315	198	216	59.1	45.9	121	34	75	256.5	60.5

Source: Company, Sharekhan Research

Valuations (As on Nov 16, 2023)

Companies	Reco	CMP (Rs)	PT (Rs)	RoA (%)		RoE (%)		P/E (x)		P/B (x)	
				FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
LIC Housing Finance	Buy	462	490	1.4	1.3	13.9	13.9	6.7	6.1	0.8	0.7
Can Fin Homes	Buy	749	960	2.0	2.0	17.8	18.2	13.9	11.5	2.3	2.0
Bajaj Finance	Buy	7,365	9,300	4.8	4.6	24.9	24.7	29.9	24.8	6.8	5.6
Cholamandalam Invest & Fin	Buy	1,165	1,350	2.6	2.8	21.6	24.3	27.6	19.7	5.4	4.3
Mahindra Finance	Buy	275	345	1.6	2.1	9.9	14.5	20.2	13.0	2.0	1.8
LT Finance	Buy	150	UR	2.3	2.4	11.3	12.5	14.9	12.3	1.5	1.4
Five Star Business Finance	Positive	801	900	7.5	7.9	15.5	17.5	32.4	24.3	4.6	3.9

Life Insurance Co.`s	Reco	CMP (Rs)	PT (Rs)	ROEV (%)		P/EV (x)		P/VNB (x)	
				FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
HDFC Life	Buy	635	750	18.4	18.0	2.9	2.5	34.6	29.2
ICICI Pru	Buy	548	650	15.5	16.0	1.9	1.7	31.2	26.5
Max Financial	Buy	927	1,020	20.5	19.5	2.0	1.7	21.0	18.6

General Insurance Co.	Reco	CMP (Rs)	PT (Rs)	RoE (%)		P/E (x)		P/B (x)	
				FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
ICICI Lombard	Buy	1,399	1,540	18.2	18.5	33.3	29.3	5.7	5.0

AMC	Reco	CMP (Rs)	PT (Rs)	RoE (%)		P/E (x)		P/B (x)	
				FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Nippon Life India AMC	Buy	417	450	22.8	26.4	28.9	24.9	6.6	6.6

Diversified Financials	Reco	CMP (Rs)	PT (Rs)	RoE (%)		Core P/E (x)	
				FY24E	FY25E	FY24E	FY25E
BSE Ltd	Positive	2,332	UR	14.3	19.5	65.6	47.0

Source: Company, Sharekhan Research

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

Sharekhan
by BNP PARIBAS

Consumer Discretionary

Delayed festive season affected retail; Hotels outshine

Q2FY2024 Results Review
Sector: Consumer Discretionary
Sector View: Positive

Summary

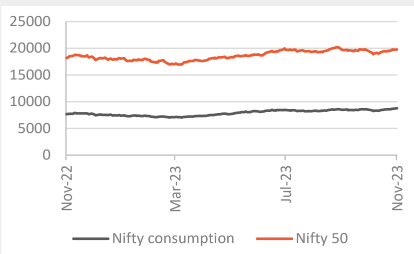
- In Q2FY2024, branded apparel and footwear companies' performance was affected by shift of festive season in Q3FY24; QSRs continued to underperform due to muted same-store sales.
- Despite a lean business period, hotel companies maintained strong growth momentum with stable y-o-y occupancies and double-digit growth in the ARRs resulting in strong performance in Q2.
- Home textile and garment manufacturers saw q-o-q improvement in performance as capacity utilisation picked up. EBIDTA margin improved for most companies on a y-o-y basis due to lower cotton prices.
- **Preferred picks**
  - **Branded apparel and retail:** Titan, Trent, and Relaxo Footwear
  - **Textiles:** Gokaldas Exports, Himatsingka Seide & SP Apparels
  - **Out-of-home discretionary:** Chalet Hotels, Indian Hotels Company Limited (IHCL), Restaurant Brand Asia (RBA), Wonderla Holidays and PVR-Inox.

Our Coverage Universe

Companies	CMP (Rs)	Reco./ View	PT (Rs)
Aditya Birla Fashion and Retail	213	Hold	238
Shoppers Stop	657	Neutral	900
Trent	2,612	Buy	2,750
Titan Company	3,394	Buy	3,740
Bata India	1,599	Hold	1,687
Relaxo Footwear	900	Buy	1,080
Jubilant Foodworks	518	Hold	570
Devyani International	185	Buy	230
Restaurant Brands Asia	114	Buy	150
Indian Hotels Company	419	Buy	492
Lemon Tree Hotels	116	Positive	135
Chalet Hotels	612	Positive	645
Wonderla Holidays	970	Buy	1,137
Arvind	221	Buy	240
Gokaldas Exports	912	Buy	980
Himatsingka Seide	170	Positive	178
KPR Mill	865	Buy	885
SP Apparels	611	Positive	675
Welspun India	165	Buy	UR
PVR-Inox	1,685	Buy	2,200
Zee Entertainment	253	Buy	350

Source: Company, Sharekhan Research;
UR – Under Review
CMP as on Nov 21, 2023

Price chart



Source: NSE; Sharekhan Research

In Q2FY2024, branded apparel and footwear companies registered subdued performance, affected by lower same-store-sales growth (SSSG) and lower operating leverage, resulting in a decline in EBIDTA margin. Shift of festive season to October-November 2023 compared to previous year led to weak demand for apparel/footwear products in Q2FY2024 (except for Trent). Jewellery category continued to witness good traction with most jewellery players (including Titan) registering double-digit revenue growth. QSR space continued to witness pressure on same-store-sales due to weak consumer sentiments. Value-for-money burgers/sandwiches are getting higher preference over pizza in the recent past. Despite lean quarter for business, hotel companies posted strong double-digit growth driven by stable occupancies and double-digit growth in average room rentals (ARR). Textile companies witnessed another good quarter with sequential improvement in margins due to lower raw material and supply costs.

- **Branded apparel/retail and QSR posted muted performance:** A shift of festive season from Q2 to Q3 had large impact on the performance of branded apparel & retail companies during the quarter. Most of the retail companies witnessed flat to a marginal decline in the same stores sales in Q2FY2024. However, few exceptions such as Trent and Titan delivered strong double-digit growth during the quarter. Trent registered revenue growth of ~60% with like-for-like growth standing at 10%, strong growth in Zudio and consistent store addition. Titan's Jewellery business registered a strong growth of 20% in Q2. Excluding Trent and Titan, our retail universe's revenues grew by just 4%. On the other hand, QSR companies continued to post subdued performance with lower average daily sales (ADS) impacted by weak demand and high store addition. Pizzas as a category saw a large impact due to lower traction and higher competition from new players. Lower operating leverage affected the EBIDTA margins during the quarter.
- **Hotels maintained good growth momentum:** Despite a lean season for the business, hotels posted strong numbers in Q2 with occupancies remaining stable on y-o-y basis and ARRs growing in double-digits with room demand remaining ahead of room supply. Sharekhan's hotel universe revenues grew by ~17% in Q2FY24. Operating EBIDTA margins stood high due to double-digit growth in RevPAR while some companies saw dip in the margins due to renovation/refurbishment of rooms. Wonderla Holidays also witnessed good growth in footfalls with walk-ins seeing good traction.
- **Textiles – Another sequentially good quarter:** Sharekhan's textile universe posted yet another quarter of sequential improvement in utilisation rates, driven by gradual recovery in demand. Home textile companies witnessed double-digit growth in the revenues with improved demand and market share gains in US market, while garment makers are yet to see material improvement in the demand. Gross margins and EBIDTA margins improved y-o-y basis due to reduced cotton prices.

Outlook – Hospitality to maintain momentum; QSR and retail to recover in H2: Initial trends suggest a good pick-up in demand for discretionary companies prior to the festive season. This will also be supported heavy wedding season from November to mid-December. Easing of milk, cheese and key input prices and overall inflation will help QSRs to post better performance in the quarters ahead. Companies will continue to add new stores as one of its key growth strategies in the medium term. Hotel companies would continue to post strong performance as room demand is expected to exceed room supply over the next 3-4 years. Textile companies will gain momentum from H2FY2024, with global retail shelves getting empty. Margins will improve in the quarters ahead due to reduction in raw material prices and supply costs. Moreover, signing of FTA with UK/Canada and China + 1 strategy will drive consistent growth for textile companies in the medium term.

Valuation and preferred picks

Among retailers, we prefer Titan and Trent because of consistent resilient performance in an uncertain environment and focused strategies, which will lead to steady growth in key businesses in the coming years. Among hotels, we continue to like IHCL, while we have recently initiated viewpoint coverage on Chalet Hotels, which will benefit from the current upcycle in the hotels industry. Wonderla Holidays is generating good footfalls in all its parks with revamped strategies and is posting a strong uptick in margins. We expect the momentum to continue and new park addition in Odisha/Chennai to incrementally add to footfalls. In the QSR space, we like Restaurant Brands Asia due to 1) Expected strong growth in India business, 2) Recovery in Indonesia business, and 3) Discounted valuations post the sharp fall in the stock price. Further, in the textile space, we like Gokaldas Exports, SP Apparels and Himatsingka Seide, which are expected to post improved performance in the coming quarters, while long-term growth prospects for the textile industry are intact due to China + 1 factor and expected FTA signing with the UK and Europe.

Leaders for Q2FY2024: Wonderla Holidays, Trent, Welspun India and Arvind

Laggards for Q2FY2024: ABFRL, Shoppers stop and Jubilant Foodworks

Preferred Picks:

- **Branded apparel and retail:** Titan, Trent and Relaxo Footwear
- **Textile:** Gokaldas Exports, Himatsingka Seide and SP Apparels
- **Out-of-home discretionary:** IHCL, Chalet Hotels, Wonderla Holidays, Restaurant Brand Asia and PVR-Inox

Q2FY2024 result

Companies	Net sales (Rs. crore)			EBITDA margin (%)			Adjusted PAT (Rs. crore)		
	Q2FY24	Q2FY23	y-o-y (%)	Q2FY24	Q2FY23	y-o-y (bps)	Q2FY24	Q2FY23	y-o-y (%)
Branded Apparel, Retail & Footwear									
Aditya Birla Fashion and Retail	3,226.4	3,074.6	4.9	10.0	12.9	-288	-199.9	30.1	-
Shoppers Stop	1,025.2	1,008.2	1.7	15.6	16.6	-100	5.4	20.1	-73.1
Trent	2,890.7	1,813.6	59.4	15.9	14.8	119	289.7	185.9	55.9
Titan Company	12,529.0	9,163.0	36.7	11.3	13.6	-235	915.0	835.0	9.6
Bata India	819.1	829.8	-1.3	22.2	19.4	278	64.5	54.8	17.6
Relaxo Footwear	715.3	669.7	6.8	12.8	8.9	392	44.2	22.4	97.3
Total	**21,206**	**16,559**	**28.1**	**12.4**	**13.9**	**-149**	**1,119**	**1,148**	**-2.6**
Hospitality & QSR									
Jubilant Foodworks	1,344.8	1,286.8	4.5	20.9	24.3	-341	72.1	119.2	-39.5
Devyani International	819.5	747.4	9.6	19.4	22.1	-277	46.2	65.2	-29.2
Restaurant Brands Asia	624.9	524.8	19.1	9.0	4.8	421	-50.7	-55.1	-8.0
Indian Hotels Company	1,433.2	1,232.6	16.3	24.8	23.9	90	159.9	112.0	42.7
Lemon Tree Hotels	227.2	196.7	15.5	44.8	47.6	-276	26.2	19.1	37.1
Chalet Hotels	314.5	247.8	26.9	40.0	34.3	571	36.4	14.5	-
Wonderla Holidays	75.2	66.0	13.8	27.2	29.4	-226	2.4	1.9	28.3
Total	**4,839**	**4,302**	**12.5**	**22.7**	**23.1**	**-43**	**293**	**277**	**5.7**
Textile									
Arvind	1,921.7	2,169.8	-11.4	10.7	9.3	142	82.8	66.0	25.4
Gokaldas Exports	500.3	569.7	-12.2	10.2	11.2	-98	27.5	41.0	-32.8
Himatsingka Seide	739.1	613.5	20.5	19.9	4.3	-	28.8	-33.9	-
KPR Mill	1,510.9	1,220.0	23.8	19.7	26.0	-629	201.8	203.3	-0.7
SP Apparels	292.5	305.8	-4.4	15.9	11.7	419	28.6	22.8	25.2
Welspun India	2,509.1	2,113.5	18.7	14.3	6.1	819	200.2	8.3	-
Total	**7,474**	**6,992**	**6.9**	**14.8**	**11.1**	**374**	**570**	**307**	**85.3**
Media & Entertainment									
PVR-Inox	1,999.90	1,060.10	88.7	21.4	-0.5	-	207.4	-78.4	-
Zee Entertainment	2,437.80	2,028.40	20.2	13.6	14.7	-101	249.6	159.5	56.5
Total	**4,438**	**3,089**	**43.7**	**17.1**	**9.5**	**768**	**457**	**81**	**-**
Grand total	**37,956**	**30,942**	**22.7**	**14.7**	**14.1**	**65**	**2,438**	**1,814**	**34.4**

Source: Company, Sharekhan Research

Valuations (As on Nov 21, 2023)

Companies	CMP (Rs.)	EV/EBITDA (x)			PE (x)			Reco.	Price Target (Rs.)
		FY23	FY24E	FY25E	FY23	FY24E	FY25E		
Branded Apparel, Retail & Footwear									
Aditya Birla Fashion and Retail	213	18.8	19.1	14.8	-	-	-	Hold	238
Shoppers Stop	657	12.7	12.2	9.7	59.4	-	38.4	Neutral	900
Trent	2,612	60.7	42.3	32.2	-	92.2	62.2	Buy	2,750
Titan Company	3,394	62.4	53.3	42.5	92.0	77.7	62.3	Buy	3,740
Bata India	1,599	26.2	23.9	20.9	63.6	56.2	48.1	Hold	1,687
Relaxo Footwear	900	66.8	50.7	38.5	-	96.8	67.2	Buy	1,080
Hospitality & QSR									
Jubilant Foodworks	518	31.2	31.7	25.4	84.9	91.1	59.5	Hold	570
Devyani International	185	32.3	27.9	19.6	75.5	-	54.3	Buy	230
Restaurant Brands Asia	114	50.3	25.0	15.9	-	-	-	Buy	150
Indian Hotels Company	419	6.9	6.1	5.3	56.7	45.1	35.9	Buy	492
Lemon Tree Hotels	116	21.0	16.4	13.1	65.6	41.3	30.9	Positive	135
Chalet Hotels	612	25.1	18.3	13.8	87.4	44.7	29.0	Positive	645
Wonderla Holidays	970	24.7	21.8	16.5	36.8	33.8	26.0	Buy	1,137
Textile									
Arvind	221	8.5	7.4	5.8	16.0	14.3	10.8	Buy	240
Gokaldas Exports	912	20.1	19.2	14.0	32.9	39.8	28.9	Buy	980
Himatsingka Seide	170	16.1	8.5	6.9	-	11.9	7.4	Positive	178
KPR Mill	865	24.1	20.5	16.4	36.6	31.8	25.0	Buy	885
SP Apparels	611	11.5	7.9	5.7	19.0	13.0	9.5	Positive	675
Welspun India	165	24.1	13.2	10.8	81.8	26.9	21.2	Buy	UR
Media & Entertainment									
PVR-Inox	1,685	56.4	18.1	11.8	-	49.1	25.1	Buy	2,200
Zee Entertainment	253	22.5	18.0	11.8	41.8	31.1	20.2	Buy	350

Source: Company; Sharekhan Research; UR – Under Review

Consumer Goods

Q2 – A mirror image of Q1

Q2FY2024 Results Review

Sector: Consumer Goods

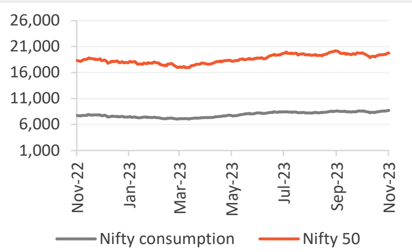
Sector View: Positive

Our coverage universe

Companies	CMP (Rs)	Reco.	PT (Rs)
Asian Paints	3,168	Hold	3,180
Bajaj Consumer Care	226	Buy	280
Britannia Industries	4,714	Buy	5,415
Colgate-Palmolive (India)	2,166	Hold	2,212
Dabur India	541	Buy	635
Emami	492	Buy	655
Godrej Consumer Products	995	Buy	1,190
Heritage Foods	238	Positive	308
Hindustan Unilever	2,529	Buy	2,910
Indigo Paints	1,538	Buy	1,850
ITC	439	Buy	515
Jyothy Labs	452	Buy	470
Marico	530	Buy	645
Mrs. Bectors Food Specialities	1,327	Positive	1,447
Nestle India	24,327	Hold	26,805
Radico Khaitan	1,435	Buy	1,660
Tata Consumer Products	931	Buy	1,136
Varun Beverages	1,042	Positive	1,115
Zydus Wellness	1,535	Buy	1,800

Source: Sharekhan Research
CMP as on Nov 17, 2023

Price chart



Source: Sharekhan Research; NSE website

Summary

- Sharekhan's consumer goods universe performance mirrored Q1FY24 performance with PAT growing in double digits driven by rise in margins, while revenue growth stood in single digits.
- Slowdown in rural markets continued to put pressure on volume growth (stood in flat to low single digit for most). Companies expect volume growth to gradually recover from Q3 with improved festive demand and easing of inflation.
- It was yet another quarter of small consumer good companies outperforming large packs with higher volume growth (led by distribution expansion and share gains) and margin expansion aiding strong PAT growth.
- Revenue growth will be volume-led in the near term; margin expansion will continue to drive PAT growth. **Preferred picks:** HUL, ITC, Tata Consumer Products, Mrs. Bectors Food, Emami, Jyothy Labs and Heritage Foods.

Consumer good companies' Q2FY2024 performance was mirror image of Q1FY2024 performance as double-digit PAT growth was largely driven by margin expansion, while revenue growth stood in low single digits due to muted volume growth. Value growth of most of the companies under coverage lagged volume growth as price cuts undertaken by companies led to lower realization growth. Overall, Sharekhan's consumer goods revenues grew in mid-single digit during the quarter. 12 out of 19 companies registered single-digit revenue growth. With benign input prices, gross margins of most companies under coverage remained high during the quarter. This also aided in OPM expansion and double-digit PAT growth. About 17 out 19 companies posted a y-o-y expansion in OPM, out of which 9 companies posted over 200 bps OPM expansion. Similarly, 17 out of 19 stocks under coverage registered strong double-digit PAT growth (universe PAT grew by ~17% y-o-y).

- **Sales volumes remained muted; revenues grew in single digit for most companies:** Irregular monsoon and high inflation continued to impact the consumer sentiments in rural India. Weak rural demand continued to put pressure on the sales volume of consumer goods companies. Most large companies under our coverage registered flat to mid-single digit volume growth (lower than street expectation), while small companies benefited from distribution expansion and market share gains aiding them to achieve higher volume growth compared with large peers. Impact of price cuts was fully effective in Q2 resulting in lower value growth for most companies under our coverage. Large companies such as HUL, ITC, Marico, Godrej Consumer Products (GCPL) and Dabur India registered revenue growth of 0-7%. On the other hand, smaller companies such as Jyothy Labs, Heritage Foods, Mrs. Bectors Food Specialties (MBFSL) and Indigo Paints registered revenue growth of 10-20% in Q2. Overall, Sharekhan Universe (excluding ITC) registered ~5% y-o-y revenue growth.
- **Margin expansion drove double digit PAT growth:** In Q2FY2024, gross margins of consumer goods companies continued to rise due to lower input prices on y-o-y basis. Most companies under coverage registered over 200 bps y-o-y OPM expansion. This is despite the companies making higher investments in advertisement and promotional activities. Strong expansion in the OPM aided companies to achieve double digit PAT growth despite muted revenue growth. Sharekhan's consumer universe witnessed 17% y-o-y PAT growth.
- **Sector outlook – Volume growth likely to better off in H2; Margin expansion to drive PAT growth:** Rural demand remained subdued affected by sporadic rainfall and high inflation. Management of most of the companies indicated a gradual pick-up prior to festive season. Receding inflation will also provide some support to sales volume in the near term. Further, a good winter season will drive demand for winter products (including skincare and immunity boosting products) in Q3FY2024. Thus, the revenue growth in H2FY2024 is expected to be better compared to H1. However, the same is expected to be in single digits as it will be largely volume led growth for most. Lower input prices will continue to support margins and would help to drive better earnings growth. However, the volatility in the input prices would be keenly monitored considering the current geopolitical unrest. We expect smaller companies will continue to outperform the large packs in the near to medium term.

Valuation and Picks

After the Q2FY2024 results most consumer goods companies saw a weakness in the stock prices. We retain our selective stance in the consumer goods space and would prefer companies with better earnings growth visibility along with relatively stable valuations. In the large-cap space, we continue to like companies such as ITC and Hindustan Unilever. Discounted valuations and improved growth prospects in the non-cigarette FMCG make ITC a better pick in the large consumer goods space. In the mid to large-cap space, we like stocks such as Tata Consumer Products Limited (TCPL), which is expected to post improved performance, driven by its organic and inorganic initiatives and recovery in the key categories/international markets. Reduction in promoters pledging coupled with expected recovery in the operating performance will provide strong support to Emami's valuations in the near term. Among small caps, we retain Jyothy Labs, MBFSL, and Heritage Foods among our top picks with consistent growth over the industry.

Leaders for Q2FY2024: Jyothy Labs, MBFSL, and Radico Khaitan

Laggards for Q2FY2024: Britannia Industries, HUL and Zydus Wellness

Preferred Picks: Hindustan Unilever, ITC, TCPL, Emami, Jyothy Labs, MBFSL, and Heritage Foods

Q2FY2024 result snapshot

Companies	Net sales (Rs cr)			OPM (%)			Adjusted PAT (Rs cr)		
	Q2FY24	Q2FY23	y-o-y (%)	Q2FY24	Q2FY23	y-o-y (bps)	Q2FY24	Q2FY23	y-o-y (%)
Asian Paints	8,479	8,458	0.2	20.2	14.5	573	1,203	782	53.9
Bajaj Consumer Care	235	232	1.0	15.6	13.7	192	37	33	13.4
Britannia Industries	4,433	4,380	1.2	19.7	16.3	343	588	491	19.8
Colgate-Palmolive (India)	1,471	1,387	6.0	32.8	29.4	337	340	278	22.3
Dabur India	3,204	2,986	7.3	21.8	20.1	164	541	491	10.2
Emami	865	814	6.3	27.0	24.0	301	213	200	6.8
Godrej Consumer Products	3,602	3,392	6.2	20.1	16.9	315	443	382	16.2
Heritage Foods	979	816	19.9	4.8	4.9	-7	24	21	12.9
Hindustan Unilever	15,276	14,751	3.6	24.2	22.9	129	2,672	2,386	12.0
Indigo Paints	270	243	11.5	15.4	13.9	153	26	21	25.9
ITC	16,550	16,130	2.6	36.5	36.4	15	4,927	4,466	10.3
Jyothy Labs	732	659	11.1	18.5	12.2	628	104	58	78.3
Marico	2,476	2,496	-0.8	20.1	17.3	272	360	307	17.3
Mrs. Bectors Food Specialities	415	347	19.3	15.6	12.8	281	37	22	68.7
Nestle India*	5,037	4,591	9.7	24.3	22.0	230	829	668	24.0
Radico Khaitan	925	761	21.5	13.1	11.8	127	62	52	19.4
Tata Consumer Products	3,734	3,363	11.0	14.4	12.9	148	369	264	39.7
Varun Beverages*	3,938	3,248	21.2	22.4	21.5	88	514	395	30.1
Zydus Wellness	440	429	2.4	3.8	3.8	-1	6	8	-30.3
Grand Total	**73,059**	**69,485**	**5.1**	**24.7**	**22.8**	**188**	**13,297**	**11,325**	**17.4**

*Source: Company; Sharekhan Research; *Values are for Q3CY2023 and Q3CY2022*

Valuations (As on Nov 17, 2023)

Companies	CMP (Rs)	P/E (X)			Reco.	Price target (Rs.)
		FY23	FY24E	FY25E		
Asian Paints	3,168	71.8	59.0	49.9	Hold	3,180
Bajaj Consumer Care	226	23.2	19.3	16.3	Buy	280
Britannia Industries	4,714	58.2	52.3	45.1	Buy	5,415
Colgate-Palmolive (India)	2,166	55.8	49.6	45.2	Hold	2,212
Dabur India	541	56.3	45.9	38.1	Buy	635
Emami	492	29.1	23.8	21.1	Buy	655
Godrej Consumer Products	995	58.4	46.8	40.7	Buy	1,190
Heritage Foods	238	38.1	17.4	11.9	Positive	308
Hindustan Unilever	2,529	59.3	54.6	47.8	Buy	2,910
Indigo Paints	1,538	55.4	48.0	38.9	Buy	1,850
ITC	439	29.1	25.5	22.5	Buy	515
Jyothy Labs	452	71.9	48.3	41.1	Buy	470
Marico	530	51.7	43.5	37.8	Buy	645
Mrs. Bectors Food Specialities	1,327	86.4	55.3	45.8	Positive	1,447
Nestle India*	24,327	98.1	77.7	67.1	Hold	26,805
Radico Khaitan	1,435	87.0	61.6	41.8	Buy	1,660
Tata Consumer Products	931	71.9	56.9	47.0	Buy	1,136
Varun Beverages*	1,042	90.4	66.7	54.1	Positive	1,115
Zydus Wellness	1,535	30.5	29.8	23.6	Buy	1,800

*Source: Company; Sharekhan estimates; *Values are for CY22, CY23E and CY24E*

Sharekhan
by BNP PARIBAS

Cement
Strong show in seasonally weak quarter

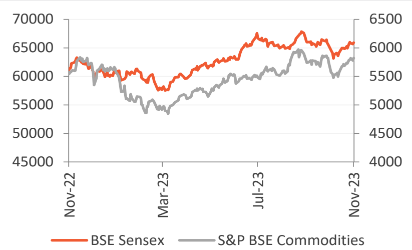
Q2FY2024 Results Review
Sector: Cement
Sector View: Positive

Our Coverage Universe

Companies	CMP (Rs)	Reco./ View	PT (Rs)
Shree Cement	25928	Hold	28000
Ultratech Cement	8704	Buy	9500
Grasim Industries	1977	Buy	2300
The Ramco Cement	982	Buy	1205
JK Lakshmi Cement	805	Buy	950
Dalmia Bharat	2212	Buy	2830

Source: Company, Sharekhan Research
CMP as on Nov 21, 2023

Price chart



Source: BSE; Sharekhan Research

Summary

- For Q2FY2024, the cement sector's revenues rose 13.7% y-o-y, aided by an 13.9% y-o-y volume growth, while blended realisations stayed flattish y-o-y.
- EBITDA/tonne, up 58.8% y-o-y at Rs. 875, was aided by lower P&F costs and other expenses, while raw material costs remain unfavourable. PAT up 3x y-o-y.
- We expect demand momentum to sustain. Increased cement prices from fag end of Q2FY2024 and benefits from P&F costs sustaining would improve operational profitability further in Q3.
- **Preferred picks** - UltraTech, Grasim Industries, The Ramco Cements, Dalmia Bharat and JK Lakshmi Cements.

For Q2FY2024, the cement sector (ex-Grasim) reported a 13.7% y-o-y rise in revenues, with a steep growth of 58.8% y-o-y in weighted average EBITDA/tonne, while net profit increased by 3x y-o-y. Strong demand (volumes rose 13.9% y-o-y) along with lower power and fuel costs (down 20.8% y-o-y) and other expenses (down 6.7% y-o-y), aided earnings growth while blended realisations remained flat y-o-y. Grasim reported broadly in-line operational performance as higher volumes and OPMs in the viscose division compensated for weak OPMs in chemicals division. Weighted average EBITDA per tonne at Rs. 875 was lower than our estimate of Rs. 924/tonne, while net earnings came in exactly in-line with our estimates. Ramco Cements, JK Lakshmi Cement and Dalmia Bharat reported a beat on operational profitability, while Shree Cement stayed in-line and Ultratech marginally missed. In our soft coverage, ACC and India Cements reported a big miss on operational profitability while Ambuja lagged marginally. Cement demand is expected to remain strong on account of sustained strong demand from government-led infrastructure sector. Cement prices in October 2023 were up ~5% versus average Q2FY2024 led by higher cement prices of ~10% each in South and East India. Overall, we expect cement companies to continue to benefit from a strong demand outlook in FY2024 along with better control on key operating costs. UltraTech's revised phase 2 expansion of 24.4 MTPA remains on track and is expected to go onstream in a phased manner by FY2025 and FY2026. The next phase of expansion will be announced before 2023 ends. For Shree Cement, capacity expansion plans remain on track to reach 56 MTPA and 80 MTPA by FY2024 and FY2028, respectively. Dalima is expected to achieve 56 MTPA cement capacity by FY2024 end including JP Associates' assets. JK Lakshmi targets to achieve a 30 MTPA capacity by 2030.

Healthy volume growth and lower P&F costs drive EBITDA/tonne: For Q2FY2024, the cement sector (ex-Grasim) reported marginally lower net revenues (up 13.9% y-o-y), led by 13.9% y-o-y growth in sales volumes, while blended realisations stayed flattish y-o-y (aided by price hikes undertaken in September). In our coverage universe, The Ramco Cements reported strong 39% y-o-y volume growth followed by ACC (18.5%) and Ultratech (15.4%). Shree Cement and JK Lakshmi reported 10% y-o-y volume growth each. Further, the cement sector's profitability in terms of weighted average EBITDA/tonne grew by 58.8% y-o-y (down 3.9% q-o-q) to Rs. 875 (versus our expectation of Rs. 924/tonne). Lower power and fuel costs per tonne (down 20.8% y-o-y, down 3.3% q-o-q) and other expenses (down 6.7% y-o-y), aided operational profitability, while higher raw-material costs (up 15.8% y-o-y) remained unfavourable. Overall, our coverage universe reported 80.3% y-o-y growth in operating profit and 3x y-o-y growth in net profit. Ramco, Dalmia Bharat, JK Lakshmi and Ambuja reported a beat on net profitability, while UltraTech and ACC lagged. India Cements continued to report a net loss.

Higher Q2FY2024 cement exit prices to help improve operational profitability in Q3: Average pan-India cement prices started inching up from September month (up 3.3% m-o-m) led by on an average ~Rs. 60/bag price hike undertaken in Eastern region. Further, October month saw a 3.5% price increase led by almost Rs. 40/bag price hike in the Southern region. Overall, in October cement prices were 5% higher than Q2FY2024 average aided by ~10% higher cement prices each in South and East India. Additionally, cement companies are expected to get benefit of lower P&F costs in Q3FY2024. Consequently, we expect companies to see a sequential improvement in operational profitability in Q3FY2024 led by higher cement prices and sustained benefit from lower P&F costs.

Demand outlook firm with capacity expansion on track: Cement companies remain optimistic on the demand environment with key players targeting to outpace the industry's growth rates during FY2024. UltraTech's revised phase 2 expansion of 24.4 mtpa remains on track and is expected to go on stream in a phased manner by FY2025 and FY2026. The next phase of expansion will be announced before the calendar year's end. Shree Cement's capacity expansion plans remain on track to reach 56 MTPA and 80 MTPA by FY2024 and FY2028, respectively. Dalmia Bharat is expected to achieve 56 MTPA cement capacity by FY2024 end including JP Associates' assets. JKL's 2.5 MTPA grinding unit at UCW gets preponed to April 2024. It eyes a 30 mtpa capacity by 2030. Grasim remains on track to launch paints business in Q4FY2024 while its B2B e-commerce business is gaining significant traction.

Outlook and Valuation

Cement companies are expected to see sustained healthy demand, led by government capex and housing demand. Power and fuel costs are expected to tread lower over the next one quarter, while petcoke/coal prices are showing signs of inching upwards. Increased cement prices from the fag end of Q2FY2024 remain key monitorable. Overall, the sector's outlook remains positive, while we remain selective based on valuations. We stay Positive on the sector.

Preferred Picks: UltraTech, Grasim Industries, Dalmia Bharat, The Ramco Cements, and JK Lakshmi Cement

Key risks

Macroeconomic weakness would lower estimates and valuation multiples of companies.

Leaders for Q2FY24: The Ramco Cements, Shree Cement, Dalmia Bharat, JK Lakshmi Cement

Laggards for Q2FY24: UltraTech, ACC, India Cements

Q2FY2024 Result Snapshot

Coverage	Sales (Rs. cr)				OPM (%)				Adj. PAT (Rs. cr)			
	Q2 FY24	Q2 FY23	y-o-y (%)	q-o-q (%)	Q2 FY24	Q2 FY23	y-o-y (bps)	q-o-q (bps)	Q2 FY24	Q2 FY23	y-o-y (%)	q-o-q (%)
Active Cement Sector												
Coverage	**33475**	**30066**	**11.3%**	**-7.0%**	**15.1%**	**13.0%**	**215**	**-54**	**2880**	**2079**	**38.5%**	**-1.6%**
Shree Cement	4585	3781	21.3%	-8.3%	19.0%	13.8%	514	32	491	190	159.1%	-15.5%
UltraTech	15517	13482	15.1%	-10.0%	15.1%	12.7%	242	-172	1206	718	67.8%	-29.3%
Grasim	6442	6745	-4.5%	3.3%	10.5%	14.2%	-373	-34	875	1052	-16.9%	146.2%
The Ramco Cements	2329	1784	30.5%	3.9%	17.1%	10.3%	681	188	101	11	783.2%	28.4%
Dalmia Bharat	3149	2971	6.0%	-13.1%	18.7%	12.8%	595	187	124	48	158.3%	-4.6%
JK Lakshmi Cement	1453	1303	11.5%	-11.1%	12.3%	10.6%	165	203	83	59	40.8%	10.9%
Soft coverage	**9627**	**8918**	**8.0%**	**-15.0%**	**13.8%**	**2.6%**	**1123**	**-140**	**947**	**-58**	**-**	**-8.4%**
ACC	4435	3987	11.2%	-14.7%	12.4%	0.4%	1198	-242	384	-75	-	-17.2%
Ambuja Cements	3970	3676	8.0%	-16.1%	19.5%	8.3%	1116	-57	644	154	317.8%	-0.2%
India Cements	1222	1255	-2.6%	-12.3%	0.7%	-7.3%	793	30	-81	-138	-	-
Grand total	**43101**	**38984**	**10.6%**	**-8.9%**	**14.8%**	**10.6%**	**424**	**-73**	**3827**	**2020**	**89.4%**	**-3.4%**
Total (ex-Grasim)	**36659**	**32238**	**13.7%**	**-10.7%**	**15.6%**	**9.8%**	**576**	**-68**	**2952**	**968**	**204.9%**	**-18.1%**

Source: Company, Sharekhan Research

Valuations (As on Nov 21, 2023)

Company	Reco	Price Target (Rs)	CMP (Rs)	EV/EBITDA (x)			P/E (x)		
				FY23	FY24E	FY25E	FY23	FY24E	FY25E
Cement									
Shree Cement	Hold	28000	25928	30.9	21.0	16.9	95.0	46.6	37.4
UltraTech Cement*	Buy	9500	8704	24.8	19.7	16.0	51.1	34.7	27.6
Grasim Industries*	Buy	2300	1977	32.5	37.1	28.5	58.9	73.5	62.1
The Ramco Cement	Buy	1205	982	23.1	16.6	13.7	67.6	47.0	32.0
Dalmia Bharat	Buy	2830	2212	17.6	14.7	12.8	80.9	48.1	39.0
JK Lakshmi Cement	Buy	950	805	12.8	10.5	7.2	28.7	23.2	15.7
Soft coverage									
ACC#	Not Rated		1839	17.8	13.0	11.8	39.7	21.5	18.8
Ambuja Cements#	Not Rated		420	21.5	19.8	16.1	31.3	32.5	27.5
India Cements	Not Rated		219	-	33.0	19.7	-	-	217.9

*Source: Company, Sharekhan Research *Standalone financials, #FY23 comprise 15 months ending March 2023*

Sharekhan by BNP PARIBAS

Infra/Logistics/BM/Realty

BM & Realty stay upbeat; Logistics/infra soft

Q2FY2024 Results Review

Sector: Infra/Logistics/BM/Realty

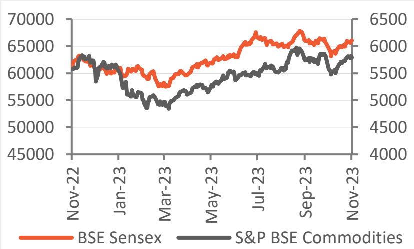
Sector View: Positive

Our Coverage Universe

Companies	CMP (Rs)	Reco./ View	PT (Rs)
Infrastructure			
KNR Constructions	293	Buy	320
PNC Infratech	326	Buy	415
Building Materials			
Century Plyboards	635	Hold	710
Greenlam Industries	596	Buy	645
Pidilite Industries	2488	Hold	2675
APL Apollo Tubes	1660	Buy	2000
Hitech pipes	111	Positive	131
Supreme Industries	4080	Hold	4600
Kajaria Ceramics	1261	Buy	1600
Carysil	851	Positive	869
Hindware Home Innovation	530	Positive	623
Astral	1948	Buy	2170
Logistics			
Gateway Distrparks	106	Buy	110
Gati	134	Positive	185
Mahindra Logistics	368	Buy	455
TCI Express	1430	Buy	1900
TCI	856	Buy	960
Real Estate			
Mahindra Lifespace	526	Buy	736
Oberoi Realty	1377	Positive	1431
DLF	633	Positive	677
Puravankara	159	Positive	200
Macrotech Developers	864	Positive	996
Sobha	873	Positive	948
Sunteck Realty	470	Positive	509
Kolte-Patil Developers	523	Positive	614
Indiabulls Real Estate	79	Positive	98

Source: Company, Sharekhan Research
CMP as on Nov 22, 2023

Price chart



Source: BSE; Sharekhan Research

Summary

- In Q2FY2024, building material companies reported a strong 55% y-o-y PAT growth aided by an 11% y-o-y revenue growth and almost 350 bps expansion in OPMs. Higher volumes and softer input prices aid growth.
- Logistics players reported a miss on operational performance affected by lower demand due to the delayed festive season and negative operating leverage. Infrastructure, too, was soft, with tendering activities getting delayed.
- Real estate players reported pre-sales growth of 23% y-o-y. Strong launch pipeline & sustenance sales to keep up the momentum during H2.
- **Preferred Picks -** KNR Construction, PNC Infratech, Greenlam Industries, APL Apollo, Carysil, Hindware Home Innocation, TCI Express, TCI Ltd., Gateway, DLF, Oberoi Realty, Macrotech, Sunteck, Kolte-Patil.

For Q2FY2024, the building materials sector reported 10.7% y-o-y revenue growth driven by strong volume growth (especially plastic piping players). Lower realisations partially negated Plastic Piping players' strong volume growth, while steel pipe players benefited from both volume and realization growth. Wood panel witnesses strong volume growth in MDF and laminates. Excluding Hi-tech, all companies saw expansion in OPM y-o-y led by operating leverage and softer input prices. Greenlam and Carysil reported a strong beat on net earnings, while Hi-tech lagged. The infrastructure sector stayed muted with flattish net earnings growth while road project order tendering continued to get delayed. KNR's order book (1.9x TTM standalone revenues) and PNC Infratech (2.4x) remained healthy, although new order wins would be essential for revenue growth post FY2025. The logistics sector reported a miss on net revenues (up 4.6% y-o-y), OPMs (down 68 bps y-o-y) and net profit (down 3.3% y-o-y) as lower demand led by delayed festive season and negative operating leverage impacted revenue growth and OPMs respectively. Our real estate coverage universe continued to see strong pre-sales momentum in Q2FY2024 (pre-sales up 22.5% y-o-y, up 17% q-o-q) led by a strong performance by Puravankara, Kolte-Patil and Sobha. Further, our universe of realty players reported a 12%/+17%/+11% y-o-y revenue/operating profit/net profit growth. Realtors remain optimistic on demand led by a strong launch pipeline and sustenance sales.

Building materials – Robust performance as per expectations: The building materials sector reported a 10.7% y-o-y revenue growth (Century Ply and Greenlam beat estimates) driven by strong volume growth (especially plastic piping). Plastic piping players registered strong volume growth, although was partially offset by lower realisations y-o-y while steel pipe players growth was driven by both volume and pricing. Wood panel companies saw higher growth in specific segments like MDF and laminates. On the OPM front, all companies, excluding Hi-tech pipes, registered y-o-y expansion (Carysil and Pidilite reported strong beat) led by operating leverage and softer raw material prices. Overall, OPMs remained up 347 bps y-o-y. Healthy volume growth and strong OPMs expansion led to 54.7% y-o-y growth in net earnings for our building material coverage universe. Greenlam and Carysil reported a strong beat on net earnings front while Hi-tech pipes lagged.

Logistics and infrastructure segments feel margin pressure on muted revenue growth: The logistics sector reported a miss on net revenues (up 4.6% y-o-y), OPMs (down 68 bps y-o-y) and net profit (down 3.3% y-o-y). Logistics sector was affected by lower demand, partly led by the delayed festive season, which affected OPMs negatively. Gateway Distriparks and Transport Corporation of India only reported a beat on net earnings, while Gati and Mahindra Logistics continued to report net losses. The infrastructure sector stayed muted, with net revenue growth of 9.4% y-o-y, OPM contraction of 148 bps y-o-y and flattish net earnings growth y-o-y. The road project order tendering activities remained weak during Q2FY2024 with project awarding postponed to H2. The order book of PNC Infratech and KNR Construction remain healthy at 2.4x and 1.9x TTM standalone revenues, respectively.

Real Estate – Pre-sales maintain upward trajectory: Our real estate coverage universe (excluding Indiabulls Real Estate) reported 22.5% y-o-y rise (up 16.6% q-o-q) in residential pre-sales booking for Q2FY2024, catapulted by strong performance by Puravankara (up 102% y-o-y), Kolte-Patil (up 72% y-o-y) and Sobha (up 48% y-o-y). However, Oberoi and IBREL registered a decline of 16.5% y-o-y and 71% y-o-y, respectively. Realty Universe reported a +12.2%/16.9%/11.4% y-o-y revenue/operating profit/net profit. Oberoi, Puravankara and Kolte-Patil reported strong revenue booking growth y-o-y. Realty companies remain optimistic on demand for FY2024 led by strong launch pipeline and sustenance sales.

Outlook and Valuation

We expect the building materials sectors to benefit from strong domestic demand environment and expected export improvement. Lower raw material costs (Piping players) and gas prices provide comfort. For infrastructure, order inflows are slated to pick up from H2, with current bid pipeline in roads remaining robust. However, companies would require new project wins in the medium term to provide revenue visibility post-FY2025. The logistics space may start seeing signs of growth from Q3FY2024 while growth outlook remains positive for FY2025. The real estate sector is expected to maintain healthy pre-sales growth momentum for FY2024 with a strong launch pipeline and sustenance sales.

Key risks

Macroeconomic weakness would lead to a lowering of companies' earnings estimates and valuation multiples.

Leaders for Q2FY24: Gateway Distriparks, TCI, Greenlam Industries, Pidilite Industries, Supreme Industries, Carysil, Puravankara, DLF, Oberoi Realty, Sobha.

Laggards for Q2FY24: Gati, Mahindra Logistics, Hi-tech Pipes, Kajaria Ceramics, Astral, Mahindra Lifespaces, Sunteck, Indiabulls Real Estate.

Preferred Picks: KNR Construction, PNC Infratech, Greenlam Industries, APL Apollo, Carysil, Hindware Home Innocation, TCI Express, TCI Ltd., Gateway, DLF, Oberoi Realty, Macrotech, Sunteck, Kolte-Patil.

Q4FY2023 Result Snapshot

Coverage	Sales (Rs. cr)				OPM (%)				Adj. PAT (Rs. cr)			
	Q2 FY24	Q2 FY23	y-o-y (%)	q-o-q (%)	Q2 FY24	Q2 FY23	y-o-y (bps)	q-o-q (bps)	Q2 FY24	Q2 FY23	y-o-y (%)	q-o-q (%)
Construction												
Active coverage												
KNR Construction	941	847	11.1	1.3	17.7	22.3	-462	-98	100	108	-7.2	-9.4
PNC Infratech	1,693	1,561	8.5	-9.0	13.4	13.3	18	28	140	131	6.6	-10.7
Total	**2,634**	**2,408**	**9.4**	**-5.6**	**15.0**	**16.4**	**-148**	**-4**	**240**	**239**	**0.4**	**-10.2**
Logistics												
Gateway Distriparks	399	359	11.0	7.8	25.9	26.7	-80	10	73	59	23.6	16.0
Gati Limited	442	435	1.5	3.6	3.4	4.6	-126	-51	-2	3	-	-
Mahindra Logistics	1,365	1,326	2.9	5.5	3.9	5.1	-117	-123	-16	12	-	-
TCI Express	320	310	3.3	5.0	15.8	16.6	-85	55	36	38	-5.8	10.1
Transport Corp of India	994	932	6.6	4.6	10.1	10.3	-19	-51	87	72	20.3	5.7
Total	**3,518**	**3,363**	**4.6**	**5.2**	**9.2**	**9.8**	**-68**	**-57**	**178**	**184**	**-3.3**	**6.2**
Building materials												
Active coverage												
Century Plyboards*	988	900	9.7	12.0	14.0	11.7	225	-38	89	78	14.1	8.5
Greenlam Industries	604	518	16.5	17.2	12.5	10.4	216	3	41	29	41.9	26.1
Pidilite Industries	3,076	3,011	2.2	-6.1	22.1	16.6	550	51	459	338	35.7	-3.2
APL Apollo Tubes	4,630	3,969	16.7	1.9	7.0	5.8	117	26	203	150	35.3	4.6
Hi-Tech Pipes	746	599	24.6	16.2	3.6	3.9	-35	29	11	11	-3.0	31.2
Supreme Industries	2,309	2,087	10.6	-2.5	15.4	7.1	838	185	243	82	196.5	12.8
Kajaria Ceramics	1,122	1,078	4.1	5.4	16.0	12.0	402	12	108	74	46.8	0.4
Carysil	164	139	17.5	15.5	20.1	16.1	402	174	15	9	67.1	33.4
Hindware Home Inn.	700	712	-1.6	10.5	10.3	7.4	287	79	19	13	44.5	-
Astral Ltd	1363	1172	16.3	6.2	16.1	12.3	386	44	132	69	90.5	9.9
Total	**15,701**	**14,184**	**10.7**	**2.3**	**13.4**	**9.9**	**347**	**35**	**1,320**	**853**	**54.7**	**6.0**
Real Estate												
Mahindra Lifespace	18	70	-74.5	-81.9	-196.5	-56.4	-	-	-19	-8	-	-
Oberoi Realty	1,217	689	76.8	33.8	52.4	45.1	734	36	457	319	43.4	42.0
DLF	1,348	1,302	3.5	-5.3	34.3	33.5	78	647	623	477	30.6	18.2
Puravankara	368	239	53.8	13.9	23.6	19.0	459	388	-11	-17	-	-
Macrotech Developers	1,750	1,765	-0.9	8.2	23.8	24.0	-24	338	202	244	-17.4	13.2
Sobha	741	670	10.6	-18.4	10.2	14.1	-397	298	15	19	-22.2	24.0
Sunteck Realty	25	81	-69.1	-64.7	-56.7	12.4	-	-	-14	2	-	-
Kolte-Patil Developers	198	123	60.7	-65.3	-4.5	-4.5	-	-	-25	-9	-	-
Indiabulls Real Estate	96	194	-50.4	-50.8	-23.9	46.9	-	-	-18	57	-	-
Total	**5,761**	**5,134**	**12.2**	**-5.8**	**27.7**	**26.6**	**110**	**629**	**1,209**	**1,085**	**11.4**	**20.2**

*Source: Company, Sharekhan Research *Consolidated financials*

Valuations (As on Nov 22, 2023)

Company	Reco	Price Target (Rs)	CMP (Rs)	EV/EBITDA (x)			P/E (x)		
				FY23	FY24E	FY25E	FY23	FY24E	FY25E
Infrastructure									
KNR Construction	Buy	320	293	11.2	10.2	8.9	22.9	17.8	15.8
PNC Infratech	Buy	415	326	8.8	7.5	6.3	13.7	12.0	10.9
Logistics									
Gateway Distriparks	Buy	110	106	15.4	13.7	11.7	22.1	20.2	18.6
Gati Limited	Positive	185	134	25.2	22.5	13.5	-	238.0	43.6
Mahindra Logistics	Buy	455	368	10.9	9.8	7.2	100.9	-	47.0
TCI Express	Buy	1900	1430	27.9	23.7	18.5	39.3	34.3	27.1
Transport Corp of India	Buy	960	856	15.3	13.6	11.5	20.6	18.3	16.0
Building Materials									
Century Plyboards	Hold	710	635	25.3	24.1	20.3	36.5	36.9	30.9
Greenlam Industries	Buy	645	596	33.8	27.3	20.5	59.0	50.8	38.8
Pidilite Industries	Hold	2675	2,488	62.4	44.8	37.7	98.1	67.5	56.6
APL Apollo Tubes	Buy	2000	1660	41.2	29.3	18.8	71.7	49.8	30.9
Hi-Tech Pipes	Positive	131	111	13.8	11.2	6.9	32.0	32.3	22.6
Supreme Industries	Hold	4600	4080	42.3	31.2	26.1	59.9	45.9	39.4
Kajaria Ceramics	Buy	1600	1261	33.6	26.0	22.4	57.0	43.5	36.5
Carysil	Positive	820	851	23.2	17.2	12.4	43.5	30.4	21.3
Hindware Home Innovation	Positive	623	530	18.4	12.6	10.3	58.1	30.0	21.0
Astral Limited	Buy	2170	1948	64.0	55.0	41.5	108.3	114.8	97.8
Real Estate									
Mahindra Lifespace Developers	Buy	736	526	-	-	-	241.1	224.8	59.4
Oberoi Realty	Positive	1431	1377	25.3	19.6	16.7	26.3	26.4	22.7
DLF	Positive	677	633	91.2	81.8	72.0	76.9	67.2	60.9
Puravankara	Positive	200	159	27.6	19.4	12.6	56.9	48.4	19.7
Macrotech Developers	Positive	996	864	43.8	44.7	29.9	50.0	67.2	43.6
Sobha	Positive	948	873	26.6	26.0	15.0	79.4	60.6	23.3
Sunteck Realty	Positive	509	470	115.4	23.5	13.2	-	35.7	19.0
Kolte-Patil Developers	Positive	614	523	22.0	17.8	12.4	38.8	32.4	22.7
Indiabulls Real Estate	Positive	98	79	-	-	-	-	-	-

*Source: Company, Sharekhan Research * Standalone financials*

Sharekhan
by BNP PARIBAS

IT

Muted Q2, Robust deal wins

Q2FY2024 Results Review

Sector: IT Services

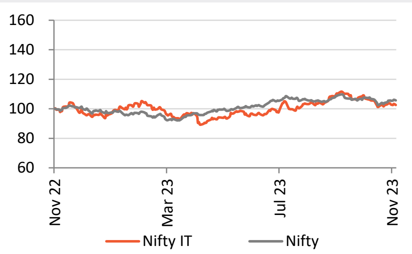
Sector View: Neutral

Our coverage universe

Companies	CMP (Rs)	Reco./ View	PT (Rs)
Birlasoft	613	Buy	640
Coforge	5,342	Buy	6,200
Expleo Solutions	1,258	Neutral	1,353
HCL Technologies	1,275	Buy	1,400
Infosys	1,411	Buy	1,690
Intellect Design	689	Buy	735
LTIMindtree	5,401	Buy	5,880
L&T Tech	4,386	Hold	5,100
Mastek Limited	2,261	Buy	2,575
Persistent Systems	6,261	Buy	6,750
Tata Elxsi	8,190	Hold	8,190
TCS	3,399	Buy	4,200
Tech Mahindra	1,174	Reduce	1,050
Wipro	391	Hold	420
NIITMTS	382	Buy	550

Source: Company, Sharekhan Research
CMP as on Nov 15, 2023

Price chart



Summary

- For Q2FY24, Tier-1 IT service companies reported a weak quarter with -2.4% to 2.3% q-o-q constant currency revenue growth amid uncertain macro environment driven by weak discretionary spends in key geographies.
- EBIT margin in Q2FY24 for Tier-1 companies (ex-Tech Mahindra) was stable and improved ~5-150 bps q-o-q, mainly on operational efficiencies.
- Deal win momentum accelerated sharply for most IT companies in our coverage with TCS, Infosys, HCL Tech and Persistent posting record high TCV of deal wins.
- Although the near term remains uncertain, the long-term secular trend remains intact which may lead to selective outperformance by companies with strong deal pipeline, diversified offerings and higher competencies Hence, we maintain our Neutral stance on the IT sector despite near-term uncertainty, while maintaining selective Buy.
- **Preferred picks:**
  - o **Large caps: Pecking order:** TCS , Infosys and HCL Tech
  - o **Mid-caps: Pecking order:** Persistent Systems, Coforge, and Birlasoft

For Q2FY24, Tier-1 IT companies reported weak CC revenue growth of -2.4% to 2.3% q-o-q, with Infosys leading the pack with sequential 2.3% CC revenue growth, while Tech Mahindra continued to deliver weak performance across most fronts. The BFSI, Telecom and Technology verticals continued to reflect softness while Manufacturing and Retail verticals were more resilient during the quarter. Among Tier 2 IT services companies, Persistent, LTTS, Birlasoft, Coforge, Tata Elxsi and Mastek delivered strong 3.2%/3.2%,3.1%/2.3%/3.4% and 4.4% q-o-q CC revenue growth. EBIT margin in Q2FY24 for Tier-1 companies (ex Tech Mahindra) was stable and improved ~5-150 bps q-o-q, mainly on operational efficiencies while for some Tier 2 IT companies EBIT margin was impacted by muted revenues and wage hike. Deal wins momentum accelerated sharply for most IT companies with TCS, Infosys, HCL Tech and Persistent posting record high TCV of deal wins. However, owing to the weak outlook for H2FY24, Infosys and HCL Tech cut guidance, while Wipro provided weaker than expected guidance for Q3FY24. While uncertainty continues to persist resulting in softness in near term, the sector is depicting resilience as evident from the near-term stability in performance despite a weak quarter. Although the near-term remains uncertain, the long term secular trend remains intact which may lead to selective outperformance by companies with strong deal pipeline, diversified offerings and higher competencies Hence, we maintain our Neutral stance on the IT sector despite near-term uncertainty, while maintaining selective Buy.

Selective out-performance in a tepid quarter: Tier-1 IT companies reported weak CC revenue growth of -2.4% to 2.3% q-o-q, with Infosys leading the pack with a sequential 2.3% CC revenue growth. Tech Mahindra continued to deliver weaker revenue (down 2.4% q-o-q in CC) and a ~200 bps margin contraction. Infosys reported decent growth in key geographies of Americas and Europe while it was muted for TCS and HCL Tech. Europe region's revenues declined significantly for Wipro and Tech Mahindra down 5.3% and 6.8% respectively. For Tier-1 companies, weakness was more severe across Telecom, BFSI, and Technology verticals, while Manufacturing, and Retail vertical were more resilient. Among Tier-2 /midcap IT services companies from our coverage universe, Persistent, LTTS, Birlasoft and Coforge continued to deliver strong 3.2%/3.2%,3.1% and 2.3% q-o-q in CC revenue growth. Mastek reported strong CC revenue growth of 4.4% q-o-q aided by inorganic contribution with organic growth at 2.3% for the quarter.

EBIT margins mixed: EBIT margin for Tier-1 companies (ex-Tech Mahindra) was stable and improved ~5-150 bps q-o-q, mainly on operational efficiencies. Tech Mahindra reported a decline in EBIT margin falling more than 200 bps in Q2 post a steep decline of 440 bps in the previous quarter, impacted by weak revenues. The EBIT margin for several Tier 2 IT companies was impacted due to muted revenue and wage hike,

Robust deal wins but guidance pruned: Deal wins momentum accelerated sharply during the quarter for Infosys, Tech Mahindra, Hcltech and Persistent growing 236%/78%/154% and 55% q-o-q respectively while for TCS/Wipro and Coforge deal wins grew 10%/7% and 4% respectively. Among Tier1 IT service companies Infosys narrowed the guidance to 1-2.5% from 1-3.5% YoY growth in CC terms, while maintaining EBIT margin guidance of 20-22%. The revision in guidance indicates company's anticipation of degrowth for H2FY24. Wipro lowered revenue guidance to -3.5% to -1.5% CC for Q3FY24. Hcltech lowered its FY24 CC revenue growth guidance to 5-6% (versus 6-8% earlier) and maintained an EBIT margin guidance of 18-19%.

Valuation

During the past year, Indian IT companies underperformed (down 2%) relative to the broader index, with CNX IT Index up ~5%, while Nifty is up ~7% While uncertainty continues to persist resulting in softness in near term, the sector is depicting resilience as evident from the near-term stability in performance despite a weak quarter. Near-term challenges are expected to persist for a couple of quarters, as evident from pruned guidance due to impact of furloughs and fewer working days in the quarter ahead. Deal wins were robust during the quarter providing decent revenue visibility for quarters ahead. Although the near-term remains uncertain, the long term secular trend remains intact which may lead to selective outperformance by companies with strong deal pipeline, diversified offerings and higher competencies Hence, we continue to maintain our Neutral stance on the IT sector despite near-term uncertainty, while maintaining selective Buy.

Key risks:

1) Rupee appreciation and/or adverse cross-currency movements, contagion effect of banking crisis, macro headwinds, and possible recession in the U.S. are likely to moderate the pace of technology spending.

Q2FY2024 Leaders: Persistent, Birlasoft, Mastek, Coforge

Q2FY2024 Laggards: Tech Mahindra, and Wipro

Preferred Picks:

Large caps: Pecking order: TCS, Infosys, HCL Tech

Mid-caps: Pecking order: Persistent Systems, Coforge, and Birlasoft

Sharekhan IT universe: Q2FY2024 results review

Company name	Revenue (Rs. cr)	q-o-q (%)	y-o-y (%)	EBITDA (Rs cr)	EBITDA margin (%)	q-o-q (BPS)	y-o-y (BPS)	Net profit (Rs cr)	q-o-q (%)	y-o-y (%)
Birlasoft	1,309.9	3.7	9.9	207.1	15.8	52	102	145.1	5.5	26.1
Coforge	2,276.2	2.5	16.2	347.4	15.3	33	-231	181.0	9.5	-10.0
Expleo Solutions	234.1	4.0	6.6	33.9	14.5	-12	-585	20.5	1.6	16.6
HCL Technologies	26,672.0	1.4	8.0	5,944.0	22.3	180	31	3,832.0	8.4	9.8
Infosys	38,994.0	2.8	6.7	9,440.0	24.2	31	-15	6,215.0	4.5	3.2
Intellect Design	619.0	-3.2	17.3	122.7	19.8	-364	391	70.4	-24.6	53.9
LTIMindtree	8,905	2.3	8.2	1,631	18.3	-48	-156	1,162	0.9	-2.2
L&T Tech	2,386.5	3.7	19.6	475.6	19.9	25	-109	315.4	1.4	11.7
Mastek Limited	765.5	5.6	22.4	123.0	16.1	-144	-110	66.9	-4.5	24.5
Persistent Systems	2,411.7	3.9	17.7	405.2	16.8	-142	-116	263.3	-5.1	19.7
Tata Elxsi	881.7	3.7	15.5	263.5	29.9	32	20	200.0	6.0	14.8
TCS	59,692.0	0.5	7.9	15,745.0	26.4	112	13	11,342.0	2.4	8.7
Tech Mahindra	12,863.9	-2.2	-2.0	1,072.3	8.3	-183	-678	643.4	-7.1	-50.9
Wipro	22,542.7	-1.2	-0.5	4,231.5	18.8	42	90	2,646.3	-7.8	-0.5
NIITMTS	381.9	-0.1	27.2	89.9	23.5	122	581	51	-8.6	23.0

Source: Company, Sharekhan Research

Our View on the coverage universe (As on Nov 15, 2023)

Particulars	Reco	PT (Rs)	CMP (Rs)	EPS (Rs.)			P/E (X)		
				FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Birlasoft	Buy	640	613	20.8	24.2	29.0	29.5	25.4	21.2
Coforge	Buy	6,200	5,342	150.6	201.3	242.8	35.5	26.5	22.0
Expleo Solutions	Neutral	1,353	1,258	60.0	80.0	97.3	21.0	15.7	12.9
HCL Technologies	Buy	1,400	1,275	57.3	63.2	69.9	22.2	20.2	18.2
Infosys	Buy	1,690	1,411	59.8	69.5	79.6	23.6	20.3	17.7
Intellect Design	Buy	735	689	24.2	31.6	38.8	28.5	21.8	17.8
LTIMindtree	Buy	5,880	5,401	168.2	207.9	244.2	32.1	26.0	22.1
L&T Tech	Hold	5,100	4,386	125.9	147.2	169.9	34.8	29.8	25.8
Mastek Limited	Buy	2,575	2,261	94.4	116.3	147.1	24.0	19.4	15.4
Persistent Systems	Buy	6,750	6,261	150.6	181.5	225.2	41.6	34.5	27.8
Tata Elxsi	Hold	8,190	8,190	132.0	155.7	186.1	62.0	52.6	44.0
TCS	Buy	4,200	3,399	127.5	141.1	157.0	26.7	24.1	21.6
Tech Mahindra	Reduce	1,050	1,174	35.9	62.3	76.0	32.7	18.8	15.5
Wipro	Hold	420	391	20.7	22.7	24.1	18.9	17.2	16.2
NIITMTS	Buy	550	382	17.1	20.3	25.0	22.3	18.8	15.3

Source: Company, Sharekhan Research

Sharekhan by BNP PARIBAS

Oil & Gas

Overall good performance; EV threat looming for CGDs

Q2FY2024 Results Review

Sector: Oil & Gas

Sector View: Neutral

Summary

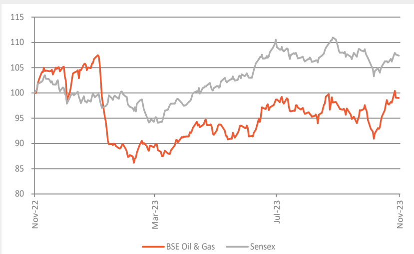
- OMCs' earnings were well ahead of expectations on higher GRM, lower auto-fuel under-recoveries and inventory gains. Among upstream PSUs, ONGC posted subdued operational performance while Oil India benefited from volume recovery.
- CGDs' (IGL/MGL) operational performance was mixed with strong margin offsetting weak volume. Gujarat Gas surprised positively on the margin front. GAIL posted robust earnings led by super strong performance of gas transmission /trading segments.
- Gas price cap bodes well for CGDs' volumes/margins, but the EV threat looms especially for IGL and thus, we have downgraded it post Q2 results. We also downgraded Petronet LNG to Hold given concerns on capital allocation. Recent softness in crude oil price bodes well for OMCs.
- **Preferred picks -** RIL, MGL, GAIL, and GSPL.

Our Coverage Universe

Companies	CMP (Rs)	Reco./ View	PT (Rs)
RIL	2,349	Buy	2,880
Oil India	314	Hold	330
Petronet LNG	195	Hold	215
MGL	1,036	Buy	1,245
IOCL	103	Buy	105
BPCL	392	Buy	430
HPCL	307	Buy	320
GAIL	125	Buy	150
ONGC	198	Hold	210
GSPL	277	Buy	342
Gujarat Gas	424	Buy	490
IGL	385	Hold	420

Source: Sharekhan Research
CMP as on Nov 20, 2023

Price chart



Source: BSE; Sharekhan Research

OMCs (IOCL, BPCL, and HPCL) Q2FY24 PAT was above expectations as they benefited from sharp surge in refining margins, lower-than-expected auto fuel under-recoveries and large inventory gains. ONGC's earnings was impacted by subdued oil & gas sales volume, lower net oil realisations and a rise in operating cost while Oil India posted q-o-q earnings growth led by recovery in oil & gas sales volume given normalised operations of NRL (which was impacted in Q1FY24 due to shutdown). GAIL's performance was robust with high earnings growth 70% q-o-q led by super strong earnings from gas transmission/trading segments and narrowing down of loss in petchem segment. Overall, earnings of OMCs, RIL, GAIL and GSPL were strong and above our estimates, while that of city gas distribution (CGD – IGL/MGL) players was operationally in-line.

- **OMCs – Earnings beat estimate on higher GRMs, lower under-recoveries and inventory gain:** OMCs posted better-than-expected earnings in Q2FY24 led by sharp beat in refining margin, lower auto-fuel under-recoveries and large inventory gains. Sequential decline in PAT should be reviewed from the perspective of high base of Q1FY24. BPCL/IOCL/HPCL GRM came in at $18.5/$18.2/$13.3 per bbl, up 46%/118%/79% q-o-q and at premium of $8.9/8.6/$3.8 per bbl to Singapore complex GRM of $9.6/bbl. Overall, IOCL/BPCL/HPCL reported PAT of Rs. 12967 crore/Rs. 8501 crore/Rs. 5118 crore as compared to adjusted net loss of Rs. 11073 crore/Rs. 4823 crore/Rs. 6389 crore in Q2FY23.
- **Upstream PSUs – Mixed bag performance:** ONGC reported a miss in its earnings due to in lower-than-expected oil/gas sales volume, lower net oil realisation, higher other expenses and lower other income while Oil India's reported earnings was affected by one-time large one-time provision of Rs. 2,656 crore related to a disputed service tax & GST on royalty. However, adjusting for the one-offs its PAT was marginally above our estimates reflecting higher oil/gas sales volume led by resumption of operations at Numaligarh Refinery. ONGC's oil/gas sales volume decline by 1.2%/1% q-o-q to 4.7mmt/4bcm while that of Oil India increased by 14%/20% q-o-q to 0.85 mmt/0.65 bcm. Net oil realisation post SAED stood at $73/75.5 per bbl for ONGC/Oil India. ONGC posted marginal 2% q-o-q increase in PAT to Rs. 10,216 crore, while Oil India's PAT increased sharply by 32% q-o-q to Rs. 2,128 crore.
- **CGDs a mixed bag; gas utilities performs well:** CGD players (MGL/IGL) operational performance was mixed as slight miss in volumes gets offset by marginal beat in EBITDA margin and thus EBITDA was broadly in line with our estimates. Gujarat Gas surprised positively with large margin beat and thus its earnings were also significantly above our/street estimates. IGL/MGL/Gujarat Gas margins stood at Rs. 8.6/Rs14.6/Rs5.8 per scm, flat/down 13%/up 25% q-o-q and gas sales volume was up by 1.2%/4.8%/1.1% q-o-q to 8.3 mmscmd/3.6 mmscmd/9.3 mmscmd. Among gas utilities, GAIL and GSPL posted strong results with an earnings growth of 70%/132% q-o-q. GAIL's PAT was lifted by super strong earnings from gas transmission/trading segment while GSPL benefited from higher gas transmission tariffs and a surge in other income.

Valuation

The recent cap of $6.5/mmBtu on APM gas prices, priority in HP-HT gas and likely soft spot LNG price would remove gas cost overhang in the near term for CGDs. This would improve volume growth visibility (as pricing gap between CNG and petrol widens as CGDs have cut CNG price sharply) and sustained margin recovery for CGDs and with a high exposure to CNG/D-PNG. However, EV threat is looming in the NCR and that could impact long term volume growth for IGL. We prefer MGL in the CGD space on expectation of an earnings revival and as valuation is attractive of 10x its FY2026E EPS. We prefer RIL, as we firmly believe that it is a compelling long-term investment bet, given strong prospects across its businesses and potential value unlocking from retail, digital services, and financial services portfolio would create long-term value for shareholders. We prefer GAIL and GSPL among gas utilities, as they are a play on rising domestic gas demand and are available at attractive valuations. In our view, earnings of upstream PSUs have peaked out in FY2023 and would decline in FY2024 due to a cap on domestic gas prices and crude oil price realisation. A likely withdrawal of the windfall tax and policy clarity remain key to improve investor sentiments for upstream PSUs. Recent softness in Brent crude oil price bodes well for OMCs but volatility in crude oil price would keep earnings environment uncertain in H2FY24.

Key risks

1) Lower-than-expected gas sales volumes amid demand slowdown and delay in the development of new GAs, 2) Likely margin pressure on CGDs in case of high gas price, and 3) Lower refining and petchem margins.

Leaders for Q2FY2024: RIL, GAIL, GSPL, Gujarat Gas, BPCL, HPCL.

Laggards for Q2FY2024: ONGC and Petronet LNG.

Preferred Picks: RIL, MGL, GAIL, and GSPL

Q2FY2024 results Review (Standalone financials)

Company	Sales (Rs cr)				OPM (%)				PAT (Rs cr)			
	Q2 FY24	Q2 FY23	YoY (%)	QoQ (%)	Q2 FY24	Q2 FY23	YoY (%)	QoQ (%)	Q2 FY24	Q2 FY23	YoY (%)	QoQ (%)
RIL#	2,31,886	2,29,409	-9.5	11.7	17.7	13.5	420	-65	17,394	13,656	27.4	8.6
ONGC	35,163	38,321	-11.8	4.0	52.2	49.1	312	-532	10,216	12,826	-20.3	2.0
Oil India	5,913	5,776	-19.6	27.3	47.0	32.0	1504	-311	2,128	1,721	23.7	31.9
Petronet LNG	12,532	15,986	-27.1	7.5	9.7	7.3	236	-45	818	744	9.9	3.6
IOCL	1,79,740	2,07,485	-4.8	-9.0	11.9	-4.3	NA	64	12,967	-11,073	NA	-5.7
BPCL	1,02,986	1,14,808	-1.6	-8.8	12.5	-3.6	NA	-146	8,501	-304	NA	-19.4
HPCL	95,320	1,08,056	3.6	-14.9	8.2	-1.7	NA	-42.3	5,118	-6389	NA	-17.5
GAIL	31,807	38,479	-16.3	-1.3	11.0	4.6	639	342	2,405	1,537	56.5	70.3
GSPL	529	435	1.5	20.0	77.5	76.8	70	125	532	314	69.3	132.0
Indraprastha Gas Ltd	3,459	3,554	-4.1	1.5	19.0	14.8	415	14	535	416	28.5	22.0
Mahanagar Gas Ltd	1,571	1,563	-1.6	2.2	30.5	16.2	1430	-341	339	164	106.4	-8.1
Gujarat Gas	3,845	3,976	-4.9	1.7	12.9	16.2	-325	265	298	404	381.1	38.5

Source: Company, Sharekhan research; # Consolidated financials

Valuations (As on Nov 20, 2023)

Company	CMP (Rs)	EPS (Rs)			CAGR over FY23-25E (%)	PE(x)			Reco	Price Target (Rs)
		FY23	FY24E	FY25E		FY23	FY24E	FY25E		
RIL	2,349	98.6	119.2	134.3	16.7	23.8	19.7	17.5	Buy	2,880
Oil India#	314	58.6	51.3	56.5	-1.8	5.4	6.1	5.6	Hold	330
Petronet LNG#	195	21.6	20.7	23.7	4.7	9.0	9.4	8.2	Hold	215
Mahanagar Gas Ltd	1,036	80.0	114.1	100.9	12.3	13.0	9.1	10.3	Buy	1,245
IOCL#	103	5.8	22.4	17.2	71.6	17.6	4.6	6.0	Buy	105
BPCL#	392	15.2	90.2	49.8	81.1	25.8	4.3	7.9	Buy	430
HPCL#	307	-63.3	106.5	75.0	NA	-4.9	2.9	4.1	Buy	320
GAIL (India)#	125	8.1	12.7	15.2	37.2	15.5	9.8	8.2	Buy	150
ONGC#	198	38.2	32.9	34.2	-5.3	5.2	6.0	5.8	Hold	210
GSPL#	277	16.7	20.4	23.9	19.4	16.5	13.6	11.6	Buy	342
Gujarat Gas	424	22.2	16.5	20.8	-3.1	19.1	25.7	20.4	Buy	490
Indraprastha Gas Ltd#	385	20.6	23.5	24.4	8.7	18.7	16.4	15.8	Hold	420

Source: Company, Sharekhan estimates; # Standalone financials

Sharekhan
by BNP PARIBAS

Pharmaceuticals

Healthy Q2, Outlook positive

Q2FY2024 Results Review
Sector: Pharmaceuticals
Sector View: Positive

Summary

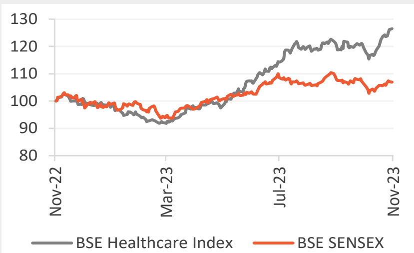
- Q2FY2024 was healthy, with revenues rising in double digits led by healthy traction in the US followed by an uptick in the Chronic segment in the domestic market while PAT growth was in single digits.
- Within our coverage universe, formulations companies performed better than API companies primarily due to new product launches and WPI price hike. API companies were hit by a higher base and softening of API prices.
- For most companies, gross margins exceeded our estimates primarily due to healthy product mix and softening of input cost, but higher advertising expense led to softening of EBITDA margins at 21%. MNC companies in our coverage reported the highest ever EBITDA margins at ~29% due to cost rationalisation.
- We prefer companies focused on domestic branded markets and complex products in the US, which can mitigate price erosion pressure. Preferred Picks: Sun Pharma, Dr Reddy's, Aurobindo, Sanofi India and Abbott.

Our Coverage Universe

Companies	CMP (Rs)	Reco./ View	PT (Rs)
Large Caps			
Aurobindo	1,022	Buy	1,163
Zydus Lifesciences	639	Buy	687
Cipla	1,250	Buy	1,372
Divis	3,732	Buy	3,850
Lupin	1,221	Hold	1,274
Sun Pharma	1,199	Buy	1,300
Torrent Pharma	2,117	Hold	1,972
Biocon	233	Hold	266
Dr Reddys Laboratories	5,650	Buy	6,373
Mid Caps			
Ipca Labs	1,072	Hold	1,135
Granules	367	Buy	417
Laurus Labs	373	Reduce	293
Sanofi India	7,763	Buy	9,084
Abbott India	23,921	Buy	26,723
Strides Pharma sciences	494	Buy	600
Caplin point Laboratories	1,258	Positive	1,543

Source: Company, Sharekhan Research
CMP as on Nov 21, 2023

Price chart



Source: BSE; Sharekhan Research

Q2FY2024 was healthy where revenues grew in double digits to 14% to Rs. 57,931 crore led by healthy traction in the US market followed by an uptick in the chronic therapy segment in the domestic market while PAT grew in single digits of 6% to Rs 9723 crore. Among our coverage universe, Formulations companies performed better than the API companies primarily due to product launches and WPI price hike. Most companies in our coverage have reported healthy US sales led by the introduction of complex products like gSpiriva and gRevlimid followed by easing of price erosion in the base products. API companies were impacted due to higher base and softening of API prices. On the margin front, most companies have exceeded our estimates primarily due to healthy product mix and softening of input cost. Healthy sales growth and raw material cost optimization led to higher gross margins but higher advertising, promotional and R&D expense led to EBITDA Margin sustenance at 21% which is in line with Q1FY24 margins. MNC companies in our coverage reported the highest ever EBITDA margins at ~29% due to cost rationalization efforts. Within our coverage, nine companies saw margins expand y-o-y, which seven companies have reported a margin decline on yearly basis. Healthy operations and lower finance cost (companies without M&As) and lower tax rate primarily due to operations in the SEZ areas led to a PAT growth of 6% y-o-y to Rs 9723 crore.

US aided double-digit sales growth: Regulated markets such as the US and UK were the largest contributor of the double digit sales growth for most of our companies. Our coverage companies have almost~33% of the sales driven from the US market (except Aurobindo). US sales growth was driven by various factors like 1) easing of price erosion in the base market, 2) Ongoing shortage of drugs, 3) Launch of complex generics like gSpiriva, gRevlimid and specialty products. Many companies are moving from Oral solids to complex products such as inhalers, injectables, transdermals to mitigate pricing pressure in the old portfolio. Large US players like Lupin continue to gain market share in its key respiratory product Albuterol, followed by highest specialty sales contribution by Sun Pharma (~16% of sales). Aurobindo too expects Eugia sales to report healthy traction and achieve sales of $500 million. Our coverage companies aim to capitalise on the US market hence are investing ~7-8% of sales in the R&D through which they expect 40-50 new product launches in the US market. India region too grew at a modest 7-9%. IPM growth was impacted due to delayed monsoon which affected acute business. Our coverage companies have ~33% of sales derived from the Indian markets largely Chronic segment which aided in retaining margins. Most companies have frozen their MR hiring which to aid in MR productivity going forward. Amongst the MNC players, Sanofi reported healthy growth led by new products despite LANTUS inclusion in the NLEM list. Other branded markets like ROW which contributes ~10-12% of sales have also grown at a healthy pace due to new product launches and price hikes. Amongst the API companies, companies like Caplin Point, Laurus Labs and Granules are expected to report higher growth on completion of capex plans.

Margins were flat but sustained at higher levels: In Q2FY24, our coverage companies margins were sustained on the higher end primarily led by healthy product mix. Healthy product mix was on account of new product launches in the complex/ specialty segment, easing of price erosion in the US market, chronic segment growth in the domestic market and deeper penetration in the ROW markets. Companies from our coverage also witnessed easing of input costs such as logistics, freight which led to higher Gross Margins which was offset by higher S&P spend and higher R&D resulting into a flat EBITDA margin of 21%.

Valuation

Input costs to remain benign, margins to rise further: Q2FY24 have been on an expected lines where sales grew in double digit and sustenance of margins on the higher side. Going forward many formulations companies' growth is to be driven by new product launches in complex generics or specialty products and pick up in volume growth. API companies are undergoing capex which to aid in further top-line growth. Healthy product mix and benign input cost to aid in sustaining higher margins. We expect India business to report higher growth in H2FY24 driven by deferred acute demand, higher MR productivity, product launches, WPI price hikes and expectation of healthy flu season in H2FY24. Many companies are unlocking value for the shareholders where Sanofi is undergoing a demerger of its OTC segment, Strides is expected to demerge its CDMO business in CY24.

We believe that the sector will retain its up move with valuations also being reasonable at 26-30x on FY25 EPS.

Leader for Q2FY24: Sun Pharma, Aurobindo Pharma, Dr.Reddy's, Caplin Point

Laggards for Q2FY24: Laurus Labs, IPCA Labs, Divi's and Biocon

Preferred Picks: Sun Pharma, Dr Reddy's, Aurobindo, Sanofi India, and Abbott.

Q2FY2024 result snapshot Rs cr

Companies	Net sales				OPM (%)				Adjusted PAT			
	Q2 FY24	Q2 FY23	y-o-y (%)	q-o-q (%)	Q2 FY24	Q2 FY23	y-o-y (bps)	q-o-q (bps)	Q2 FY24	Q2 FY23	y-o-y (%)	q-o-q (%)
Aurobindo	7,219.4	5,739.4	25.8	5.4	19.4	14.6	484	261.6	806.4	364.3	121.4	51.3
Zydus Lifesciences	4,258.6	3,942.6	8.0	-15.7	24.3	19.1	524	-374.9	780.8	505.8	54.4	-29.9
Cipla	6,589.2	5,730.1	15.0	-0.3	26.3	24.6	175	396.8	1,155.8	808.1	43.0	1.5
Divis	1,909.0	1,854.5	2.9	7.4	25.1	33.5	-840	-325.5	348.0	493.6	-29.5	-2.2
IPCA	2,021.9	1,593.3	26.9	27.0	15.9	16.4	-47	-645.5	145.3	155.5	-6.5	-39.9
Lupin	4,939.2	4,091.2	20.7	4.2	18.3	10.5	785	53.0	457.5	134.5	240.2	6.7
Sun Pharma	12,003.1	10,809.2	11.0	2.1	26.1	27.0	-89	-100.4	2,400.8	2,260.2	6.2	8.8
Torrent Pharma	2,628.0	2,261.0	16.2	3.1	31.4	30.0	136	34.9	386.0	312.0	23.7	2.1
Biocon	3,462.3	2,319.7	49.3	1.2	21.4	20.3	113	1,933.2	149.6	171.0	-12.5	47.5
Dr Reddy's Lab	6,880.2	6,305.7	9.1	2.1	28.9	30.0	-109	-140.2	1,581.3	1,098.8	43.9	13.1
Granules	1,189.5	1,150.7	3.4	20.7	17.9	21.1	-320	402.9	102.1	145.1	-29.6	47.8
Laurus Labs	1,380.8	1,575.9	-12.4	16.8	18.0	28.5	-1,050	3.9	855.6	2,333.9	-63.3	712.8
Abbott India	1,326.5	1,304.4	1.7	-1.2	23.9	20.7	313	300.3	246.8	205.6	20.0	219.4
Sanofi India*	714.6	691.9	3.3	-1.4	29.2	26.3	289	22.3	152.2	130.9	16.3	9.8
Strides Pharma Science	999.4	897.1	11.4	7.5	15.3	11.0	435	-257.8	58.0	-46.5	NM	1.0
Caplin point Laboratories	410.0	359.1	14.2	3.7	29.4	29.5	-11	-244.1	97.4	85.0	14.6	-4.6
Grand Total	**57,931.8**	**50,625.7**	**14.4**	**6.9**	**21.0**	**21.1**	**-8.4**	**-3.0**	**9,723.7**	**9,157.7**	**6.2**	**53.5**

*Source: Company, Sharekhan Research; *-Q4CY22 results estimates*

Valuations (As on Nov 21, 2023)

Companies	CMP (Rs)	Reco / View	PT (Rs)	EPS (Rs)			P/E (x)		
				FY23	FY24E	FY25E	FY23	FY24E	FY25E
Large Caps									
Aurobindo	1,022	Buy	1,163	33.8	54.3	61.9	30.3	18.8	16.5
Zydus Lifesciences	639	Buy	687	24.0	26.5	31.2	26.6	24.1	20.5
Cipla	1,250	Buy	1,372	37.0	48.0	55.6	33.8	26.0	22.5
Divis	3,732	Buy	3,850	73.5	82.5	99.0	50.7	45.3	37.7
Lupin	1,221	Hold	1,274	7.7	32.4	44.9	157.6	37.7	27.2
Sun Pharma	1,199	Buy	1,300	36.0	40.3	47.1	33.3	29.7	25.5
Torrent Pharma	2,117	Hold	1,972	36.6	54.0	62.8	57.8	39.2	33.7
Biocon	233	Hold	266	6.2	7.3	11.8	37.7	32.1	19.8
Dr Reddys Laboratories	5,650	Buy	6,373	243.3	305.8	333.8	23.2	18.5	16.9
Mid Caps									
Ipca Labs	1,072	Hold	1,135	19.5	33.7	39.4	55.1	31.8	27.2
Granules	367	Buy	417	20.3	25.2	29.8	18.1	14.6	12.3
Laurus Labs	373	Reduce	293	14.6	7.0	15.4	25.5	53.0	24.2
Sanofi India	7,763	Buy	9,084	228.3	234.5	267.2	34.0	33.1	29.1
Abbott India	23,921	Buy	26,723	446.8	561.1	652.3	53.5	42.6	36.7
Strides Pharma sciences	494	Buy	600	8.6	21.6	35.4	57.2	22.9	13.9
Caplin point Laboratories	1,258	Positive	1,543	49.2	57.7	67.3	25.6	21.8	18.7

Source: Company, Sharekhan Research

Sharekhan
by BNP PARIBAS

Agri Inputs and Specialty Chemicals

Subdued Q2, recovery expected in H2FY2024

Q2FY2024 Results Review

Sector: Agri Inputs and Specialty Chemicals

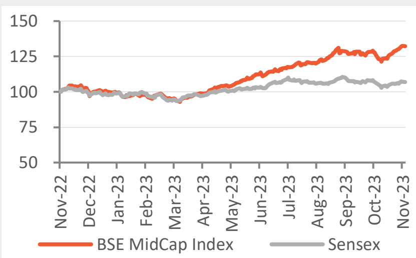
Sector View: Positive

Our coverage universe

Companies	CMP (Rs)	Reco/ View	PT (Rs)
Agri Inputs			
Coromandel International	1,119	Buy	1,222
Insecticides (India)	556	Buy	600
PI Industries	3,680	Buy	4,500
UPL	563	Buy	640
Sumitomo Chemical India	384	Hold	420
Speciality Chemicals			
Aarti Industries	521	Hold	545
Atul Limited	6,560	Hold	7,300
NOCIL	242	Buy	250
SRF	2,354	Buy	2,745
Sudarshan Chemical	461	Buy	600
Vinati Organics	1,724	Hold	1,900
Gujarat Fluorochemical	2,779	Positive	3,128
PCBL	244	UR	228

Source: Sharekhan Research
CMP as on Nov 21, 2023

Price chart



Source: BSE; Sharekhan Research

Summary

- During Q2FY2024, performance of agri-input companies was weak as domestic revenue was impacted by erratic monsoon season and export market was impacted by weak demand along with pricing pressure. Outperformers - PI and Insecticide. UPL significantly lowered FY2024 revenue/EBITDA growth guidance to 0%/0-(-5%).
- Specialty chemical players witnessed demand/margin contraction amid weak domestic demand, inventory rationalisation, and dumping from China. Aarti and PCBL were the top performers; Gujarat Fluorochemical was a laggard due to a steep y-o-y revenue decline for fluorochemicals, fluoropolymers, and bulk chemicals.
- Inventory destocking is easing out and expected to normalize in H2FY2024. Most companies have guided for recovery in H2FY2024 with potential normalised earnings from Q4FY2024. We advise investors to gradually accumulate quality companies with a decent long-term growth outlook.
- **Preferred Picks:** PI Industries, Coromandel, SRF, and PCBL.

The agri-input space faced the challenge of sub-normal monsoon and lower product prices amid higher supplies. Specialty chemical companies also witnessed volume and pricing pressure, given inventory rationalisation, weak demand in the domestic market, and dumping from China. Thus, the aggregate PAT of agri-input/speciality chemical companies under our coverage universe declined steeply by 48%/42% y-o-y. Some companies like PI, Insecticides (India), PCBL, and Aarti performed well with the beat in earnings, while Gujarat Fluorochemical, Sumitomo, UPL, and SRF missed our earnings estimates.

- **Agri-inputs – Muted Q2 amid challenging macros:** The company's key operating markets were impacted by sub-normal monsoon and weak demand in the exports market along with pricing pressure. The situation related to inventory destocking is improving with the expectation that, in the next few quarters, channel inventory should normalise. PI benefited from growth in robust CSM revenue, led by higher volumes, while UPL's performance was weak due to global channel destocking and pricing pressure. Aggregate revenue and margin of agri-input companies under our coverage witnessed a y-o-y decline of 20% and 49bps, respectively; and thus, PAT declined steeply by 48% y-o-y. UPL cut its FY2024 revenue/EBITDA growth guidance steeply to 0%/0-(-5%), while PI maintained its revenue growth guidance of 18-20% for FY2024.
- **Specialty chemical – Weak Q2; as inventory liquidation continues:** Inventory rationalisation and dumping from China affected volumes and pricing of specialty chemical. The specialty chemical companies supplying to the agrochemical business witnessed lower volumes and realisation due to seasonally weak quarters in the domestic market and a challenging global environment. High-cost inventories, which impacted the margin, is largely exhausted and lower raw-material cost should start reflecting in financial performance going forward. The aggregate revenue of companies under our coverage was down 16.6% y-o-y, while OPM declined by 221 bps y-o-y; and thus, PAT declined 42% y-o-y. Aarti is witnessing a gradual demand recovery q-o-q, SRF is optimistic that H2FY2024 will be better than H1FY2024.
- **Recovery expected in H2FY2024, long-term growth outlook intact given China/Europe Plus One opportunity:** We believe inventory liquidation is easing out and, thus, expects much better performance in H2FY2024 for specialty chemical players, which is also visible in commentaries from the management. China/Europe plus one strategy by global customers make Indian speciality chemical players well positioned to increase their global market share in the chemical space. Potential global market share gains and capex plan provide confidence in medium to long-term growth prospects for the Indian specialty chemical sector. Moreover, global best practices for manufacturing standards, R&D capabilities, and capex plan of Indian speciality chemical companies along with the government's pro-growth policies will act as further catalysts for growth and drive sustainable high earnings growth for the sector.

Valuation

As highlighted above, near-term challenges both on demand and pricing are mostly behind us with recovery is gradually expected in H2FY2024. Long-term structural drivers like China Plus One strategy and import substitution remain intact and would drive expansion of India's global market share to 7-8% in the next few years from 4% currently. We advise investors to gradually accumulate quality companies (like PI, Coromandel, SRF) as their long-term earnings growth outlook remains intact.

Key Risks

- High raw-material costs for agri and speciality chemical companies might affect margins if they are unable to pass it on to customers.
- Lower demand offtake for products of speciality chemicals players owing to the slowdown in economic activity may also affect earnings.

Leaders for Q2FY24: PI, Insecticides (India), PCBL, and Aarti.

Laggards for Q2FY24: Gujarat Fluorochemical, Sumitomo, UPL, and SRF.

Preferred Picks: PI Industries, Coromandel, SRF, and PCBL.

Q2FY2024 result review

Companies	Sales (Rs cr)				OPM (%)				PAT (Rs cr)			
	Q2 FY24	Q2 FY23	YoY (%)	QoQ (%)	Q2 FY24	Q2 FY23	YoY (bps)	QoQ (bps)	Q2 FY24	Q2 FY23	YoY (%)	QoQ (%)
Agri Inputs												
Coromandel International	6,988	10,113	-30.9	22.7	15.2	10.5	470	269	755	742	1.8	52.7
Insecticides (India)	696	582	19.5	8.8	11.8	11.8	2	464	53	45	18.6	82.3
PI Industries	2,117	1,770	19.6	10.8	26.0	24.4	165	156	481	335	43.5	25.5
UPL	10,170	12,507	-18.7	13.5	13.0	19.5	-651	-117	-206	1,012	NA	NA
Sumitomo Chemical India	903	1,122	-19.5	24.7	20.8	24.8	-400	970	143	201	-28.9	130.6
Agri Inputs Total	**20,874**	**26,095**	**-20.0**	**16.4**	**14.8**	**15.3**	**-49**	**47**	**1,225**	**2,334**	**-47.5**	**10.1**
Speciality Chemicals												
Aarti Industries	1,454	1,685	-13.7	2.8	16.1	15.8	29	181	92	124	-25.8	29.6
Atul Limited	1,194	1,487	-19.7	1.0	13.0	15.8	-280	-242	91	148	-38.4	-10.6
NOCIL	351	389	-9.9	-11.5	12.9	15.9	-299	-108	27	36	-24.0	-21.7
SRF	3,177	3,728	-14.8	-4.8	19.7	20.6	-89	-115	301	481	-37.5	-16.3
Sudarshan Chemical Industries	601	528	13.7	-1.2	10.9	7.5	344	-57	22	9	149.8	-9.0
Vinati Organics	448	566	-20.8	3.9	24.7	26.2	-150	-60	84	116	-27.6	1.2
Gujarat Fluorochemical	947	1,461	-35.2	-21.7	15.8	34.4	-1863	-1208	53	361	-85.4	-73.8
PCBL Limited	1,398	1,628	-14.1	7.8	16.8	13.8	294	51	132	116	13.9	12.1
Speciality Chemicals Total	**9,570**	**11,473**	**-16.6**	**-3.1**	**16.9**	**19.1**	**-221**	**-237**	**802**	**1,391**	**-42.3**	**-19.2**

*Source: Company; Sharekhan Research, * Standalone*

Valuation (As on Nov 21, 2023)

Companies	CMP (Rs)	EPS (Rs.)			CAGR over FY23-25E (%)	P/E (x)			Reco/ View	PT (Rs)
		FY23	FY24E	FY25E		FY23	FY24E	FY25E		
Agri Inputs										
Coromandel International	1,119	68.5	76.7	83.4	10.4	16.3	14.6	13.4	Buy	1,222
Insecticides (India)	556	21.4	34.6	50.3	53.5	25.7	15.9	10.9	Buy	600
PI Industries	3,680	80.0	103.1	122.5	23.7	46.1	35.7	30.1	Buy	4,500
UPL	563	49.9	36.5	46.7	-3.3	11.2	15.3	12.0	Buy	640
Sumitomo Chemical India	384	10.1	7.0	9.7	-1.8	38.2	54.9	39.6	Hold	420
Speciality Chemicals										
Aarti Industries	521	15.1	11.6	19.8	14.6	34.4	44.9	26.2	Hold	545
Atul Limited	6,560	175.1	150.2	189.8	4.1	37.5	43.7	34.6	Hold	7,300
NOCIL	242	9.0	7.9	10.9	10.1	27.1	30.6	22.3	Buy	250
SRF	2,354	71.3	59.8	79.1	5.4	32.9	39.2	29.6	Buy	2,745
Sudarshan Chemical Industries	461	6.5	13.2	23.9	92.2	71.2	34.8	19.3	Buy	600
Vinati Organics*	1,724	44.6	39.5	55.9	12.0	38.7	43.6	30.8	Hold	1,900
Gujarat Fluorochemicals	2,779	121.0	67.6	105.8	-6.5	22.9	41.0	26.2	Positive	3,128
PCBL Limited	244	11.8	14.0	16.0	16.3	20.8	17.6	15.4	UR	228

*Source: Company; Sharekhan Research, * Standalone*

Miscellaneous

Q2FY2024 result snapshot

Company	Net sales (Rs Cr)				OPM (%)				Adjusted PAT (Rs Cr)			
	Q2 FY24	Q2 FY23	YoY (%)	QoQ (%)	Q2 FY24	Q2 FY23	YoY (BPS)	QoQ (BPS)	Q2 FY24	Q2 FY23	YoY (%)	QoQ (%)
Affle (India)	431.3	354.6	21.6	6.1	20.2	20.0	26	101	66.8	58.7	13.8	0.9
Bharti Airtel	37044	34526.8	7.3	(1.1)	52.7	51.0	172	33	2911	2145.2	35.7	(42.1)
Coal India	32776	29,838	9.8	(8.9)	24.8	24.4	43	(439)	6,800	6,044	12.5	(14.7)
Info Edge	593.0	531.8	11.5	1.5	40.7	34.6	606	187	213.7	168.1	27.1	6.3
JSW Steel	44,584	41,778	6.7	5.6	17.7	4.2	1349	100	2,773	-915	NA	14.2
MOIL Ltd	348	236	47.5	(8.4)	27.6	14.0	1360	(505)	62	27	129.6	(28.7)
NMDC	4,014	3,328	20.6	(25.6)	29.6	25.6	408	(731)	1,026	972	5.6	(37.9)
SAIL	29,712	26,246	13.2	22.0	13.0	2.8	1024	627	1,306	-329	NA	516.0
Balrampur Chini Mills	1,539	1,113	38.3	10.8	10.7	-1.4	1214	(103)	77	-32	NA	13.6
Triveni Engineering	1,409	1,346	4.7	17.6	4.5	3.4	110	(596)	29	24	21.5	(56.7)
Dhampur Bio Organics	538	515	4.5	(7.7)	3.6	4.3	-78	(339)	0	8	-99.2	(99.5)
Dhampur Sugar Mills	459	541	-15.1	(41.4)	4.8	5.7	-92	(726)	5	12	-52.9	(88.0)
Castrol India	1,183	1,121	5.5	(11.3)	22.7	22.9	-19	(50)	194	187	3.7	(13.8)
Gravita India	836	683	22.4	18.9	9.6	9.5	5	(181)	58	45	28.9	11.5
Jupiter Wagons Ltd	879	417	111.0	16.7	13.7	12.0	173	85	82	24	241.7	30.2
Garware Hi-Tech Films	397	395	0.5	4.5	16.4	17.0	-59	(47)	46	48	-4.2	(4.2)
Welspun Corp	4,059	1,964	106.7	(0.2)	9.9	-6.7	1652	79	306	-57	NA	85.5

Source: Company; Sharekhan Research

Sharekhan

by BNP PARIBAS

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