2025

PHOENIX RISE FROM ASHES

Resurgence stocks

instresearch@arihantcapital.com https://www.arihantcapital.com

Phoenix rise from ashes: Resurgence stocks

We have witnessed strong growth in the businesses in across sectors in-terms of growth & profitability and most of the stock performance aligned with business performance. We are introducing some of the quality business which has impacted by Industry headwinds, seasonal demand, raw materials, supply-demand mismatch, prices and regulatory aspects. However, these businesses are turnaround due to ease industry regulatory, changes in demand, availability raw materials, increase in capacity utilizations, structural change in the industry and businesses. We believe, these quality stocks was not participated in the market rallies due to de-rating, non-performance of business; however, changes in the dynamics, Industry tailwinds, structural change in business, competitive advantage compared to peers and improvement in business will reflect stock performance going forward.

Few more stocks like Reliance Industries, Kotak bank, HEG Limited, Apollo Pipes, Kriti Industries, HIL Ltd, Foods & Inn, Indoco , CreditAccess Grameen, Fusion Finance, GMM Pfaudler, Rallis, Rupa, Bandhan Bank, PNC Infra, Bharat Agri Fert & Realty, LT Finance, Tata Consumer, Dabur, SG Mart also can be part of these portfolio players.

Phoenix risers: Next 20 stocks

S.No.	Company	CMP (INR)
1	Reliance Industries	1,215
2	Kotak Mahindra Bank	1,786
3	HEG	510
4	Apollo Pipes	464
5	Kriti Industries	155
6	HIL	2,499
7	Foods & Inns	115
8	Indoco Remedies	332
9	CreditAccess Grameen	887
10	Fusion Finance	177
11	GMM Pfaudler	1,179
12	Rallis India	296
13	Rupa & Company	249
14	Bandhan Bank	159
15	PNC Infratech	334
16	Bharat Agri Fert & Realty	72
17	L&T Finance	136
18	Delta Corp	111
19	Dabur India	507
20	SG Mart	370

CMP as of 31st Dec 2024

MFI recovery would surprise from Q4FY25E onwards. As per channel checks, collection efficiency has reached between 97-100% in Dec-24. MFIs are going slow on disbursement especially in rural pocket, lower fee income due to disbursement and lower cross selling would affect PAT. We do not see major incremental risk in asset quality post Q3FY25E. Some impact of 60 DPDs to be seen in current quarter. We remain buyer in MFI space with adding post weak Q3FY25E numbers. **The top pick is Spandana Sphoorty Financial.**

NBFCs are poised to benefit from a growing economy, but they must adapt to an evolving regulatory landscape. While the sector has been facing increased regulatory scrutiny in recent years, segments like home loans and vehicle loans remain relatively strong, with a minimal impact on asset quality. Asset quality is expected to remain stable across most segments, though some volatility may arise in unsecured personal loans and MFI loans. The balance sheets of NBFCs are likely to stay robust, supporting their medium-term outlook. **The top picks are SG Finserv, IIFL Finance, Piramal Enterprises and Mahindra and Mahindra Financial Services in the NBFC space; Capital SFB and Ujjivan SFB in the Small Finance Banking space.**

The agrochemical sector has been facing major headwinds for the past couple of years due to reduced raw material prices, low demand from end users, inventory destocking and rising inflation. The turnaround has begun with improvement in realizations and demand coming back, especially in the domestic market. With the “China+1” strategy and India being viewed as an export hub by global companies, the Exports from India are expected to increase. While the pricing currently remains muted, the growth is largely led by volume growth which showcases demand recovery. Titanium Dioxide and Nano Urea over the next couple of years while headwinds in the Agrochemical industry are expected to ease out from H2FY25 onwards on a global level. **The top picks are Punjab Chemicals & Crop production and Meghmani organics.**

Auto Production is recovering as semiconductor chip supply issues ease, and we expect fewer challenges for global vehicle production in FY2025 compared to FY2023 due to an improved supply chain. While pent-up demand is driving the domestic PV market, this trend will likely continue in the global luxury market as well. Both domestic PV and CV segments are seeing growth, with the CV cycle in an upswing phase and the PV segment experiencing a structural rise. **The top picks is Tata Motors.**

On the Auto ancillary side, **Samvardhana Motherson** will continue to outperform global automobile sales, driven by the growing trend of premiumization and the transition to Evs. Also, Its new business is gaining traction and the consumer electronics pilot line began production in Nov’ 24 with the large plant expected to start in 1.5 years, further boosting non auto revenue.

Our pre-quarter discussions with companies show positive improvements. However, there is hope for a better IT budget in CY25, as uncertainties surrounding the U.S. Presidential election and Fed rate cuts are expected to subside. Clients may delay firming up plans until after Trump takes office on January 20th. If furloughs from FY24 spill into Q4, it could be a concern. While a pickup in deal TCV seems unlikely, it will be crucial as FY24's mega deals become part of the base. The sustainability of smaller deals could signal a revival in discretionary spending. **The top picks are Birlasoft, Axiscades Technologies, Route Mobile, Alldigi Tech.**

The clean energy is emerging and higher demand for nuclear reactors, fuel cell, green hydrogen, solar and winds. Aerospace and Space sector is picking up with SpaDex and upcoming missions like Gaganyaan, Chandrayaan-4, Venus orbiter and others. **MTAR Technologies** is well positioned to take advantage in clean energy and space sector.

The import relaxation of petroleum cokes will improve availability of raw materials will lead to production enhancement, capacity utilization and recovery in prices led by demand international markets, especially from China will improve the business and margins. **Rain Industries** is well positioned to recovery from earlier headwinds.

US Consumer discretionary is increased due to demand from Black Friday, Thanks giving, Christmas in Q3FY25. The interest rate cut also encouraging consumer discretionary spending**. Vaibhav Global** is well positioned to take advantage of increase in consumer discretionary and structural changes in business, expected profitability improvement in German business and others are key triggers.

The Indian wedding market is estimated USD 130bn and around 80-100 lakh weddings happening annually. Weddings are leading to spending on consumer discretionary and Mattresses and others. **Sheela Foam** has competitive advantage compared to peers and ~30% market share in Mattresses. The Integration kurlon is completed and margin improvement is expected going forward. The international markets like Spain and Australia markets witnessed re-bounding. **Sheela Foam can be a structural play.**

India's real estate sector is poised for substantial growth, expected to reach USD 1,000 bn by 2030 and USD 5,800 bn by 2047, driven by urbanization, changing lifestyles, and a growing rental market. Recent years have seen transformations due to demonetization, the liquidity crisis, RERA and GST implementation, and a push for affordable housing. **The top picks are Sunteck Realty and Mahindra Lifespace developers.** The high growth in real estate and office space lead to demand for building materials such as tiles, bath-ware solution etc. **The top picks are Kajaria Ceramics and Orient Bell.**

India's retail sector is undergoing a transformative shift as the traditionally unorganized market evolves into a more structured one, influenced by emerging trends and the rapid growth of online and quick commerce channels. This shift has impacted players like Avenue Supermarts, whose Q2FY25 performance reflected challenges from these disruptions. Modern trade and supermarkets have also faced slowing sales growth, with consumers gravitating toward online platforms such as Zepto, Swiggy, Instamart, and Blinkit, driven by the demand for instant fulfillment of smaller, unplanned purchases. Quick commerce players are not profitable and heavily burning cash to keep the market share and run the business, while **Avenue Supermarts** continues to focus on expanding its store network and maintaining its value-driven approach, emphasizing lower pricing over convenience to sustain growth.

The resurgence stocks are in rebound stage and structural play due to changes in dynamics. it takes time to playout and target price timeframe is around 18-24 months.

Phoenix rise from ashes: Resurgence stocks

S.No.	Company	Mcap (INR mn)	CMP (INR)	TP (INR)	Upside (%)
1	MTAR Technologies Ltd	50,460	1,643	2,681	63.2%
2	Samvardhana Motherson International Ltd	11,04,840	153	198	29.4%
3	Tata Motors Ltd	27,62,870	740	1,070	44.6%
4	Alldigi Tech Ltd	14,870	952	1,172	23.1%
5	Route Mobile Ltd	86,284	1,370	1,915	39.8%
6	Axiscades Technologies Ltd	27,111	634	850	34.1%
7	Birlasoft Ltd	1,59,340	560	690	23.2%
8	Dollar Industries Ltd.	27,520	483	603	24.8%
9	IIFL Finance Ltd	1,75,010	413	650	57.4%
10	Meghmani Organics Ltd	19,860	77	195	153.2%
11	Mahindra & Mahindra Financial Services Ltd.	3,28,410	267	395	47.9%
12	Piramal Enterprise Ltd.	2,49,170	1,104	2,503	126.7%
13	SG Finserve Ltd	26,340	417	730	75.1%
14	Sheela Foam Ltd	1,07,590	986	1,850	87.6%
15	Spencer’s Retail	7,430	81	147	81.5%
16	Capital Small Finance Bank Ltd.	12,740	282	421	49.3%
17	Spandana Sphoorty Ltd	23,170	325	737	126.8%
18	Ujjivan Small Finance Bank Ltd	66,370	34	65	91.2%
19	Punjab Chemicals & Crop Protection Ltd	13,100	1,000	1,336	33.6%
20	Laxmi Organic Industries Ltd.	66,824	244	453	85.7%
21	Vaibhav Global Ltd.	47,610	282	517	83.3%
22	Sunteck Realty Ltd.	74,250	508	900	77.2%
23	Dalmia Bharat Ltd.	3,28,580	1,740	2,208	26.9%
24	NCL Industries Ltd.	9,910	227	340	49.8%
25	Mahindra lifespace developers Ltd.	71,230	472	755	60.0%
26	Avenue Supermarts Ltd	17,800	3,565	4,500	26.2%
27	Kajaria Ceramics Ltd	4,690	1,117	1,540	37.9%
28	Orient Bell Ltd	1,31,637	320	652	103.8%
29	PVR Inox Limited	23,18,236	1,341	1,800	34.2%
30	Rain Industries Ltd	56,875	169	243	43.8%

Source: Company reports, NSE, BSE, Arihant Capital Research

Target price timeframe: 18-24 months

MTAR Technologies Ltd

Fueling India's energy, aerospace, and defence future. SpaDeX will be the key trigger.

CMP: INR 1,643

Rating: BUY

TP: INR 2,681

Stock Info	
BSE	543270
NSE	MTARTECH
Bloomberg	MTARTECH:IN
Reuters	MTAR.NS
Sector	Aerospace & Defence
Face Value (INR)	10
Equity Cap (INR Mn)	307.6
Mkt Cap (INR Mn)	50,460
52w H/L (INR)	2353 / 1495
Avg Yearly Volume (in 000')	268.9

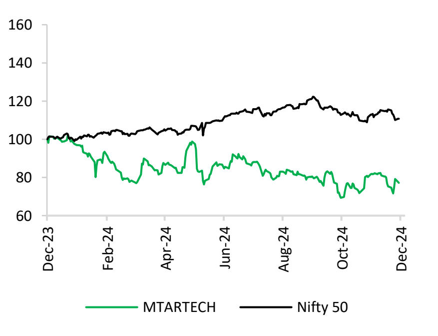
Shareholding Pattern %

(As on Sept, 2024)

Promoters	36.42
FII	7.81
DII	17.28
Public & Others	38.49

Stock Performance (%)	3m	6m	12m
MTARTECH	-3.5	-9.0	-22.9
Nifty 50	-9.5	-0.6	10.7

MTARTECH Vs Nifty 50



Abhishek Jain
abhishek.jain@arihantcapital.com
022-422548871

Balasubramanian A
bala@arihantcapital.com
022-67114780

MTAR Technologies, established in 1969, is a leading precision engineering company in India, catering to critical sectors such as nuclear power, aerospace, defence, and clean energy. With over five decades of expertise, MTAR has developed a diversified product portfolio, supplying complex, built-to-print precision systems that meet the specialized needs of its customers, including the Department of Atomic Energy and ISRO. The company's state-of-the-art facilities and commitment to quality have made it a trusted partner in executing mission-critical projects, enabling long-standing relationships with both Indian and international clients.

What went wrong on the stock: MTAR Technologies stock price has rallied by 32% within 2 months, post successful launch of Chandrayaan-3 on 14th Jul 2023. MTAR Technologies has supplied some of the critical components to Chandrayaan-3. MTAR Technologies has supplied key parts includes liquid propulsion vikas engines, cryogenic engine subsystems like turbo pump, booster pump, gas generator and Injection head. The company also supplied Electro-Pneumatic modules for launch vehicle nark-III (LVM 3). The valuation of the stock got peaked PE of 130+ (historical average median PE: 75) in that time. However, the earnings growth is not justified the valuations in the subsequent quarters led to stock price corrections to INR 1,647 (~41% correction from the peak).

What are the triggers for turnaround: The company has an order book of INR 9,422mn (~1.6x of FY24 revenue) as of Q2FY25. The company has received an order of INR 2,260mn in the Clean Energy and Aerospace segment, and Bloom Energy order stood at INR 1,910mn in the clean energy sector. MTAR Technologies is the major preferred player to supply hot boxes and electrolyser units for Bloom Energy and growing clean energy requirements through fuel cell and green hydrogen technologies promising growth going forward. The space revenue accounts 10%-20% of sales and company is getting continuous orders from ISRO, Thales, Rafael and others. ISRO has mentioned every INR 1 spend in space returned INR 2.5. ISRO has many missions Gaganyaan, Chandrayaan-4, Venus orbiter and others. ISRO also working to land a human to moon by 2040. MTAR technologies has supplying critical components to ISRO and upcoming missions can be the key opportunity for the company. **SpaDeX program aims to develop and demonstrate technology required to dock and undock spacecraft. currently, US, Russia and China only can dock two spacecraft's in outer space. SpaDeX program is expected to launch on 30th Dec 2024 and it will be important milestone for ISRO and MTAR Technologies has supplied components to SpaDeX program.** The Kaiga 5 & 6 reactors order of INR 5,000mn in H2FY25E and additional reactors pipeline of INR 15-20bn over next few years shows strong business opportunity in nuclear power segment.

Outlook and Valuation: MTAR Technologies is targeting revenues of INR 9,500-10,000 Mn by FY26E. In the nuclear power segment, MTAR anticipates INR 15,000-20,000 Mn in orders over the next 6-7 years, with an execution target of INR 620 Mn in FY25E. The clean energy vertical, led by its partnership with Bloom Energy, is expected to grow 10-15% this year, building on FY24 revenues of INR 3,400-3,500 Mn. The defence segment, with FY25 revenue projections of INR 400 Mn, focuses on high-margin products like scramjet engines. We expect exponential growth in MTAR's space and aerospace verticals, with aerospace projecting a 45-50% CAGR and execution of INR 700 Mn in FY25E. The company is also expanding in hydel power (FY25E target: INR 450 Mn) and entering the oil & gas sector with FY26E revenue expectations of INR 1,500 Mn. With a strong order pipeline and strategic investments, MTAR is well-positioned for sustained financial growth. **ISRO is expected to launch SpaDeX program by 30th Dec 2024. MTAR Technologies has supplied components to SpaDeX and it shows MTAR capabilities and creates business opportunities going forward. We remain optimistic about the company's prospects and foresee significant growth opportunities. We expect MTAR's revenue, EBITDA, and PAT to grow at a CAGR of 24.2%, 30.8%, and 43.2%, respectively, over FY24-27E. At CMP of INR 1,643 per share, We have a "BUY" rating at a TP of INR 2,681 per share; valued at a PE multiple of 50x and its EPS of INR 53.6; an upside of 63.2%**

Exhibit: Financial overview

Particulars (INR Mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	5,738	5,808	7,445	8,818	11,117
EBITDA	1,540	1,127	1,571	1,913	2,523
EBITDA Margins (%)	26.8	19.4	21.1	21.7	22.7
PAT	1,034	561	891	1,161	1,649
EPS	33.6	18.2	29.0	37.7	53.6

Source: Arihant Research, Company Filings

Investment Rationale

Positioning for expansion in the nuclear power sector: MTAR Technologies has been a significant contributor to India's civil nuclear power sector since 1969, specializing in indigenizing technologies for CANDU reactors. The company has developed expertise in both nuclear and turbine islands, offering over 15 complex products for the nuclear island alone. With the Indian government's plan to construct 40 new reactors, MTAR is poised for substantial growth. They anticipate orders worth INR 5,000 Mn from the KAIGA 5 and 6 reactors, plus additional orders for reactor refurbishment in H2FY25. Currently holding an order book of INR 1,400 Mn in the civil nuclear power sector, they aim to execute INR 620 Mn in FY25 and projects executing INR 6,000 Mn over the next 4-5 years. The company expects to maintain an average annual execution rate of INR 1,200 Mn starting next year. With potential orders of INR 15,000 to 20,000 Mn over the next 6-7 years from upcoming reactor projects, the company is well-positioned for further future expansion in the nuclear power sector.

Leading supplier in the Fuel Cell industry with strong growth potential: MTAR has established itself as a key player in the fuel cell sector, particularly in solid oxide fuel cells (SOFC) for Bloom Energy. The company supplies hot boxes for two versions, Yuma and Santa Cruz, with the latter being 30% more efficient and now the primary focus. Despite experiencing a significant product transition that led to deferred shipments last year, MTAR expects to supply around 3,300 Santa Cruz units this year. The company's portfolio extends to power units for electrolyzers, sheet metal assemblies, and enclosures. MTAR executed approximately INR 3,400-3,500 Mn in the clean energy segment last year and projects 10-15% YoY growth for FY25E. While Bloom Energy remains their primary client, MTAR is exploring opportunities with other fuel cell companies, including Ohmium for PEM electrolyzers. With no exclusive agreement limiting their clientele, MTAR has the capacity to produce 10,000 hot boxes for Bloom Energy and can expand to accommodate other clients as well.

Specialized provider in high-margin Defence sector: MTAR operates in niche areas of the defence sector, focusing on specialized components and systems for critical military programs. The company's portfolio includes aero structures for missile programs, magnesium gearboxes for HAL's helicopter projects, and previously supplied actuators for the Light Combat Aircraft program. With projected revenues of INR 400 Mn for FY25E and an anticipated growth rate for order book of 15-20% YoY, MTAR's defence segment shows promising expansion. The company's strategic positioning is further strengthened by recent developments, such as being declared the lowest bidder for high-margin scramjet engines, potentially leading to future production orders. Their overall strategy in defence focuses on maintaining good margins, with an average operating margin of around 25% in this segment.

Growing presence in Hydel to drive future growth: MTAR has been steadily expanding its footprint in the hydel power sector, a crucial component of its clean energy segment. The company's success in this area is evident from its execution of INR 200 Mn worth of orders in FY24, serving major clients like GE Power and Voith Hydro. Building on these established relationships, MTAR aims to double its revenues in this segment to ~INR 450 Mn in FY25E. The company's new fabrication vertical, which became fully operational in FY24, is instrumental in fulfilling hydel power orders, with projections of executing INR 600-700 Mn from this vertical in FY26E. As MTAR continues to enhance its capabilities and broaden its customer base in the hydel power sector, this segment is poised to become a significant growth engine for the company's future expansion.

Ambitious growth plans for Space vertical: MTAR serves both ISRO and MNCs. Since producing its first Vikas engine for ISRO in 1989, MTAR has expanded its portfolio to include cryogenic upper stage systems, electro-pneumatic modules, and components for various space missions. The company's products are integral to ISRO's PSLV and GSLV programs. MTAR's space sector revenue has shown notable growth, with plans to more than double its order execution from INR 400-450 Mn in FY24 to INR 1,200 Mn in FY25E, split between ISRO (41.67%) and MNC Aerospace clients (58.33%). The development of a new semi-cryogenic engine for ISRO, enhancing GSLV capacity from 4 to 6 tons, showcases MTAR's innovative capabilities. Projected annual growth rate is around 15-20% for ISRO-related work and 45-50% for MNCs. Overall cumulative growth in the space vertical is expected to be ~20-25% YoY which positions the company for substantial expansion in this high-tech sector over the next 3-4 years.

Investment Rationale

Rapid expansion and bright future in Aerospace: MTAR entered the aerospace industry in 2018. Starting with small orders to build credibility, the company has quickly expanded its customer base to include major OEMs like GKN Aerospace, Thales, and Collins Aerospace. A landmark long-term contract with Israel Aerospace Industries, valued at up to USD 120 Mn, underscores MTAR's growing prominence. The company's aerospace vertical has shown impressive growth, with plans to execute INR 700 Mn of MNC orders in FY25E, up from INR 80 Mn in first articles last year. MTAR projects a robust 45-50% YoY growth rate in this sector over the next five years, with the execution of orders expected to start contributing significantly from FY27E onwards. This growth is supported by MTAR's comprehensive manufacturing capabilities and ongoing capacity expansion, including a new dedicated aerospace unit set to be operational by December 2024. With a diverse product portfolio ranging from ammunition boxes to aero structures, and the ability to handle advanced manufacturing processes in-house, the company is set for continued growth in the aerospace sector.

Diverse and expanding revenue stream from Products and Others: MTAR's product division is a versatile contributor to the company's growth strategy, serving multiple sectors including civil nuclear power, space, and defence. The division's diverse portfolio includes specialized components like water-lubricated bearings, ball screws, and roller screws, catering to both established and emerging markets. Their most recent success is the development of ASP assemblies for Bloom Energy in the clean energy sector, which generated substantial revenue in its first year. The product division is poised for impressive growth in its projected near-doubling of revenue from INR 700 Mn in FY24 to an expected INR 1,300 Mn in FY25E. MTAR has also collaborated with Medha Overdrives in the locomotive sector, expect to receive around INR 800 Mn in orders in FY25E. With a projected annual growth rate of 35-40% and ambitious targets for the coming years, including a significant contribution to MTAR's overall revenue goal of ~INR 9,500-10,000 Mn in FY26E, the product division is poised to become a key driver of MTAR's exponential growth and diversification strategy.

New Oil & Gas vertical: MTAR is entering the oil & gas sector, targeting revenues of INR 1,500 Mn in FY26E. The company sees strong long-term potential in this vertical, potentially rivalling its clean energy business in size. Plans to invest INR 400-450 Mn to establish dedicated manufacturing capabilities for oil & gas products.

Financial Statements

Income statement

Year End-March (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Net Sales	5,738	5,808	7,445	8,818	11,117
YoY (%)	*78.2%*	*1.2%*	*28.2%*	*18.4%*	*26.1%*
COGS	**2,695**	**3,024**	**3,794**	**4,441**	**5,488**
YoY (%)	*131.8%*	*12.2%*	*25.5%*	*17.0%*	*23.6%*
Employee expenses	935	970	1,241	1,469	1,852
YoY (%)	*32.1%*	*3.7%*	*27.9%*	*18.4%*	*26.1%*
Manufacturing & Other Expenses	568	687	839	994	1,253
YoY (%)	*40.0%*	*21.0%*	*22.2%*	*18.4%*	*26.1%*
Total Expenditure	**4,198**	**4,681**	**5,874**	**6,904**	**8,593**
YoY (%)	*63.1%*	*-26.8%*	*39.4%*	*21.8%*	*31.9%*
EBITDA	**1,540**	**1,127**	**1,571**	**1,913**	**2,523**
YoY (%)	63.1%	-26.8%	39.4%	21.8%	31.9%
EBITDA Margin (%)	**26.8%**	**19.4%**	**21.1%**	**21.7%**	**22.7%**
Depreciation	187	232	293	310	326
% of Gross Block	*4.9%*	*5.1%*	*6.0%*	*5.9%*	*5.6%*
EBIT	**1,353**	**895**	**1,278**	**1,603**	**2,197**
EBIT Margin (%)	*23.6%*	*15.4%*	*17.2%*	*18.2%*	*19.8%*
Interest Expenses	146	223	171	154	139
Non-operating/ Other income	195	58	112	141	200
PBT	**1,402**	**730**	**1,218**	**1,590**	**2,259**
Tax-Total	368	169	327	429	609
Adj. Net Profit	**1,034**	**561**	**891**	**1,161**	**1,649**
Reported Profit	**1,034**	**561**	**891**	**1,161**	**1,649**
PAT Margin	*18.0%*	*9.7%*	*12.0%*	*13.2%*	*14.8%*
Adj EPS	33.6	18.2	29.0	37.7	53.6

Source: Company reports, Arihant Capital Research

Balance sheet

Year-end March (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Sources of Funds					
Equity Share Capital	308	308	308	308	308
Reserves & Surplus/ Other Equity	5,894	6,456	7,347	8,508	10,157
Networth	**6,201**	**6,763**	**7,654**	**8,815**	**10,465**
Unsecured Loans/ Borrowings/ Lease Liabilities	1,434	1,909	1,803	1,623	1,460
Other Liabilities	239	265	294	327	363
Total Liabilities	**10,633**	**10,077**	**12,454**	**13,700**	**15,849**
Total Funds Employed	**20,250**	**18,918**	**23,741**	**26,288**	**30,627**
Application of Funds					
Net Fixed Assets	**2,910**	**3,405**	**3,463**	**3,561**	**3,748**
Capital WIP	644	729	336	288	335
Investments/ Notes/ Fair value measurement	0	0	0	0	0
Current assets	**6,967**	**5,648**	**8,249**	**9,346**	**11,129**
Inventory	3,866	3,476	4,567	5,187	6,176
Days	177	231	224	215	203
Debtors	2,084	1,466	2,127	2,484	3,088
Days	110	112	104	103	101
Other Current Assets	382	112	146	189	246
Cash and Cash equivalent	312	508	1,298	1,341	1,431
Current Liabilities/Provisions	**3,416**	**2,078**	**3,632**	**3,772**	**4,314**
Creditors / Trade Payables	2,182	714	2,177	2,280	2,818
Days	79	123	114	111	107
Liabilities	559	392	491	619	704
Net Current Assets	**3,551**	**3,570**	**4,617**	**5,573**	**6,815**
Total Assets	**10,633**	**10,077**	**12,454**	**13,700**	**15,849**
Total Capital Employed	**7,082**	**6,506**	**7,837**	**8,127**	**9,034**

Source: Company reports, Arihant Capital Research

Financial Statements

Cash Flow Statement

Year End-March (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Profit before tax	**1,034**	**561**	**891**	**1,161**	**1,649**
Adjustments: Add					
Depreciation and amortisation	187	232	293	310	326
Interest adjustment	-49	165	60	13	-61
Change in assets and liabilities	**1,172**	**958**	**1,244**	**1,484**	**1,914**
Inventories	-2,162	389	-1,091	-619	-989
Trade receivables	-724	618	-661	-357	-604
Trade payables	1,612	-1,468	1,462	103	538
Other Liabilities and provisions	192	116	93	39	5
Other Assets	-153	232	-59	-77	-100
Taxes	150	-103	-87	-74	-101
Net cash from operating activities	**86**	**742**	**901**	**499**	**663**
Net Sale/(Purchase) of tangible and intangible assets, Capital work in progress	-1,338	-812	42	-359	-561
Net Sale/(Purchase) of investments	543	333	112	141	200
Others	0	-52	-4	-4	-4
Net cash (used) in investing activities	**-795**	**-531**	**150**	**-222**	**-366**
Interest expense	382	-15	-261	-233	-208
Dividend paid	-185	0	0	0	0
Other financing activities	-30	1	0	0	0
Net cash (used) in financing activities	**352**	**-15**	**-261**	**-233**	**-208**
Closing Balance	**312**	**508**	**1,298**	**1,341**	**1,431**

Source: Company reports, Arihant Capital Research

Key Ratios

Year-end March	FY23	FY24	FY25E	FY26E	FY27E
Solvency Ratios					
Debt / Equity	0.2	0.3	0.2	0.2	0.1
Net Debt / Equity	0.2	0.2	0.1	0.0	0.0
Debt / EBITDA	0.9	1.7	1.1	0.8	0.6
Current Ratio	0.7	1.2	0.3	0.1	0.0
DuPont Analysis					
Sales/Assets	0.5	0.6	0.6	0.6	0.7
Assets/Equity	1.7	1.5	1.6	1.6	1.5
RoE	16.7%	8.3%	11.6%	13.2%	15.8%
Per share ratios					
Reported EPS	33.6	18.2	29.0	37.7	53.6
Dividend per share	0.0	0.0	0.0	0.0	0.0
BV per share	201.6	219.9	248.9	286.6	340.2
Cash per Share	4.0	12.8	32.6	33.6	35.9
Revenue per Share	186.5	188.8	242.0	286.7	361.4
Profitability ratios					
Net Profit Margin (PAT/Net sales)	18.9%	18.0%	9.7%	12.0%	13.2%
Gross Profit / Net Sales	53.0%	47.9%	49.0%	49.6%	50.6%
EBITDA / Net Sales	26.8%	19.4%	21.1%	21.7%	22.7%
EBIT / Net Sales	23.6%	15.4%	17.2%	18.2%	19.8%
ROCE (%)	18.7%	11.2%	14.5%	16.2%	19.0%
Activity ratios					
Inventory Days	177	231	224	215	203
Debtor Days	110	112	104	103	101
Creditor Days	79	123	114	111	107
Leverage ratios					
Interest coverage	9.3	4.0	7.5	10.4	15.8
Debt / Asset	0.1	0.2	0.1	0.1	0.1
Valuation ratios					
EV / EBITDA	36.8	50.6	35.7	29.2	22.0
PE (x)	53.7	99.1	62.4	47.9	33.7

Source: Company reports, Arihant Capital Research

ArihantCapital
Generating Wealth

Samvardhana Motherson International Ltd

Value Buy

CMP: INR 154

Rating: BUY

TP: INR 198

Stock Info	
BSE	517734
NSE	MOTHERSON
Bloomberg	MSS:IN
Reuters	SAMD.NS
Sector	Auto Ancillary
Face Value (INR)	1
Equity Cap (INR Mn)	6776
Mkt Cap (INR Mn)	11,04,840
52w H/L (INR)	96 / 217
Avg Yearly Volume (in 000')	157

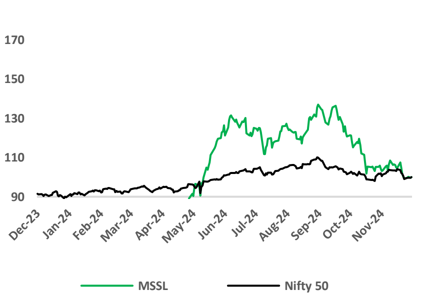
Shareholding Pattern %

(As on Sept, 2024)

Promoters	58.12
FII	13.47
DII	19.82
Public & Others	8.60

Stock Performance (%)	1m	3m	12m
Motherson	-4.0	-27.0	62.8
Nifty 50	-9.0	-0.9	9.9

Motherson Vs Nifty 50



Motherson Sumi Systems ltd (MSSL) group is an ancillary company, a global leader in rear-view mirrors and polymer-based modules, and the largest manufacturer of wiring harnesses for passenger vehicles in India. Its product portfolio includes wiring harnesses, vision systems, modules and polymer products, metal products, technology & software, retail & services, and aerospace solutions. The group has aggressively acquired distressed companies, improving its geographical and product presence. Net debt reduced to ~INR 10,500 cr from INR 13,500 cr in June 2024, with net leverage improving to 1x.

What went wrong: MSSL stock price has fallen by 27% over the past four months, primarily due to the global macroeconomic weakness and sluggish demand, the company is facing several other challenges. Copper prices have started to rise again after cooling off in Q2, and energy costs in Europe are once again on the rise. Furthermore, ongoing logistics disruptions continue to affect operations, worsened by the ongoing Red Sea crisis. These factors are adding pressure to the company's performance amid an already challenging environment.

What are the triggers for turnaround: The company expects a seasonally strong second half, with delayed projects ramping up, margins normalizing as upfront costs for those projects are accounted for, and working capital normalizing in 2H. Despite global challenges and inflated working capital, its RoCE for 1HFY25 rose to 17.3% from 16.9% in FY24. The non-auto segment is projected to reach a run rate of INR 30b for FY25E, while the consumer electronics pilot line began production in Nov'24, with the large plant expected to start in 1.5 years, further boosting non-auto revenue.

Net debt declined QoQ to INR 104.96b (compared to INR 133.7b in 1QFY25). As of Sep'24, liquidity included proceeds from the QIP of ~INR 64.37b, of which around INR 60b has been used to pay down debt and for general corporate purposes.

We anticipate that MSSL will continue to outperform global automobile sales, driven by the growing trend of premiumization and the transition to EVs, a strong order backlog, and the successful integration of recent acquisitions.

Outlook and Valuation:

The company is well-positioned to sustain its growth due to its diversified business model, focusing on the 3CX10 principle, which reduces dependency on any single market or customer. The company continues to thrive in key sectors, including exterior rear-view mirrors, PV wiring harnesses in India, and CV wiring harnesses in North America and Europe, while also benefiting from strong demand in luxury OEMs and shock absorber exports. With the rising trends of premiumization and the EV transition, MSSL stands to gain significantly from increasing content per vehicle, particularly in wiring harnesses, bumpers, and door panels. The company's recent acquisitions, totaling USD 2.8 bn in pro forma revenue, further expand its growth opportunities, with expected incremental revenues of INR 144 bn for FY25E. While the company's aggressive targets reflect its ambitions, its disciplined, long-term approach will continue to deliver shareholder value. Given its strong order book, ongoing integration of acquisitions, and market trends, MSSL is well-positioned to outperform global automobile sales in the years ahead. We have BUY rating on the stock with a TP of INR 198 (based on 17x FY27e EPS).

Financial overview

Year End-March	FY24	FY25E	FY26E	FY27E
Net Sales	9,86,918	11,49,827	12,99,920	14,43,081
EBITDA Margin (%)	9.24%	9.74%	10.56%	10.94%
Reported Profit	27,819	45,307	68,306	78,958
Adj EPS	4.11	6.69	10.08	11.65
ROCE (%)	12.26%	15.92%	18.29%	18.64%
EV / EBITDA	12.81	10.13	8.28	7.30
PE (x)	38.24	23.48	15.58	13.47

Source: Arihant Research, Company Filings

Abhishek Jain
abhishek.jain@arihantcapital.com
022 67114851

Jyoti Singh
jyoti.singh@arihantcapital.com
022 6711483

Investment Rationale

Strong RoCE Performance and Expansion Plans
Despite global challenges and elevated working capital, the company's RoCE for 1HFY25 reached 17.3%, up from 16.9% in FY24. Management expects further improvement in returns as demand stabilizes and the benefits from the integration of recent acquisitions begin to materialize. In Q2, the company began production at five of the 19 new greenfield plants, with the remaining eight plants scheduled to start production in the H2FY25.

Positive outlook from H2FY25
The company expects H2FY25 to outperform H1FY25 due to several factors, including a seasonally strong second half, the ramp-up of delayed projects, and margin normalization as upfront costs for some delayed projects are accounted for. Additionally, the company anticipates the normalization of increased working capital in the H2FY25. These factors are expected to drive improved performance in the latter part of the year.

Diversified Business Model Driving Steady Growth
MSSL has built a well-diversified business model based on its 3CX10 principle (as opposed to the previous 3CX15), meaning no country, customer, or client should contribute more than 10% of its revenue. This strategy has enabled the company to maintain steady growth, regardless of fluctuations in end-market demand, achieving a 9% revenue CAGR compared to a 3% compounded volume decline in the global auto industry over the past five years. MSSL is among the top three global players in exterior rear-view mirrors, a market leader in PV wiring harnesses in India, and a key supplier of wiring harnesses for CVs in North America and Europe. The company is also a vital supplier of polymer parts to luxury OEMs worldwide, one of India's leading lighting suppliers, and one of the largest exporters of shock absorbers from India.

Benefiting from Premiumization and EV Transition
The company is emerging as a key beneficiary of the rising premiumization trend and the transition to EVs, which is expected to drive increased content per vehicle. Several indicators highlight this growth, including a 1.4-1.5x increase in content for wiring harnesses, 1.4-1.7x for bumpers, 1.2-2.5x for door panels, and 1.7-3.0x for rear-view mirrors when moving from sedans to SUVs. Additionally, the shift from ICE to EVs leads to a 2.4x increase in content for 4W wiring harnesses, an 8x rise for 2W wiring harnesses, a 1.5x increase for bumpers, a 3.3x rise for door panels, and a 1.4x increase for mirrors. These trends have resulted in a significant ramp-up in its order book, with booked business now totaling USD 88 bn, with 24% of orders coming from EVs.

Strategic Acquisitions Driving Long-Term Growth
Taking advantage of global macro headwinds, MOTHERSO has acquired 15 entities since September 2022, with a combined pro forma net revenue of USD 2.8 bn. These acquisitions bring several synergies, such as entry into the Japanese supplier network (Yachio + Ichikoh), becoming a cockpit assembler (SAS), and expanding into new segments like aerospace and medical equipment (Cirma, AD Industries, Irillic, and SMAST). The company expects incremental net revenues of INR 144 bn for FY25E from these acquisitions. These strategic moves position MSSL for significant long-term growth and new opportunities across multiple sectors.

Company Ambitious Targets and Disciplined Approach
MSSL has consistently set ambitious five-year targets, with its 2025 goals including revenue of USD 36 bn, RoCE and dividend payout of 40%, and adherence to the 3CX10 principle. While it has missed targets in 2020 and is likely to miss again in 2025, management avoids acquiring entities solely to meet these targets, focusing instead on long-term growth. This disciplined approach, demonstrated by the strategic acquisitions made post-COVID, ensures sustainable shareholder returns.

Financial Statements

Income statement (INR mn)						
Year End-March	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Gross Sales	6,35,361	7,87,007	9,86,918	11,49,827	12,99,920	14,43,081
Net Sales	6,35,361	7,87,007	9,86,918	11,49,827	12,99,920	14,43,081
YoY (%)	10.75%	23.87%	25.40%	16.51%	13.05%	11.01%
Adjusted COGS	**3,67,363**	**4,53,174**	**5,44,147**	**6,17,663**	**6,92,708**	**7,62,709**
YoY (%)	12.70%	23.36%	20.07%	13.51%	12.15%	10.11%
Personnel/ Employee benefit expenses	1,53,746	1,79,314	2,35,385	2,80,303	3,18,421	3,54,014
YoY (%)	9.04%	16.63%	31.27%	19.08%	13.60%	11.18%
Manufacturing & Other Expenses	69,637	92,442	1,16,209	1,39,877	1,51,580	1,68,518
YoY (%)	10.30%	32.75%	25.71%	20.37%	8.37%	11.17%
Total Expenditure	**5,90,746**	**7,24,929**	**8,95,741**	**10,37,842**	**11,62,709**	**12,85,241**
YoY (%)	2.35%	39.14%	46.88%	22.82%	22.53%	15.03%
EBITDA	**44,615**	**62,077**	**91,176**	**1,11,984**	**1,37,211**	**1,57,839**
YoY (%)	2.35%	39.14%	46.88%	22.82%	22.53%	15.03%
EBITDA Margin (%)	7.02%	7.89%	9.24%	9.74%	10.56%	10.94%
Depreciation	29,582	31,358	38,105	42,449	46,991	53,833
% of Gross Block	9.77%	9.10%	9.86%	9.79%	9.54%	9.57%
EBIT	**15,033**	**30,719**	**53,071**	**69,536**	**90,220**	**1,04,006**
EBIT Margin (%)	2.37%	3.90%	5.38%	6.05%	6.94%	7.21%
Interest Expenses	5,426	7,809	18,112	13,928	13,232	12,571
Non-operating/ Other income	4,957	2,570	3,566	4,830	5,398	5,997
PBT	**14,243**	**24,485**	**36,025**	**60,437**	**82,386**	**97,432**
Tax-Total	6,068	7,352	8,206	15,130	14,080	18,474
Adj. Net Profit	**8,174**	**17,134**	**27,819**	**45,307**	**68,306**	**78,958**
Reported Profit	**8,174**	**16,696**	**27,819**	**45,307**	**68,306**	**78,958**
PAT Margin	1.29%	2.12%	2.82%	3.94%	5.25%	5.47%
Shares o/s/ paid up equity sh capital	4,518	6,776	6,776	6,776	6,776	6,776
Adj EPS	1.81	2.21	4.11	6.69	10.08	11.65
Dividend payment	3,308	6,457	10,165	13,553	16,941	23,717
Dividend payout (%)	40.47%	38.67%	36.54%	29.91%	24.80%	30.04%
Retained earnings	4,866	10,677	17,654	31,755	51,365	55,240

Balance sheet						
Year-end March	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Sources of Funds						
Equity Share Capital	4,518	6,776	6,776	6,776	6,776	6,776
Reserves & Surplus/ Other Equity	24,617	31,365	27,591	59,346	1,10,710	1,65,951
Networth	**2,23,646**	**2,43,769**	**2,82,155**	**3,13,910**	**3,65,274**	**4,20,515**
Unsecured Loans/ Borrowings/ Lease Liabilities	1,79,287	1,86,424	1,84,112	1,42,520	1,44,138	1,50,049
Other Liabilities	14,651	13,414	19,175	19,427	19,730	20,092
Total Liabilities	**5,62,701**	**6,18,517**	**8,50,218**	**8,15,475**	**8,96,203**	**9,86,874**
Total Funds Employed	**10,09,200**	**11,37,441**	**15,49,577**	**15,08,126**	**16,64,409**	**18,36,354**
Application of Funds						
Net Fixed Assets	**-8,383**	**-12,488**	**-14,222**	**-24,306**	**-26,737**	**-29,410**
Capital WIP	12,488	14,222	24,306	26,737	29,410	32,351
Investments/ Notes/ Fair value measurement	1,958	1,811	2,153	2,369	2,606	2,866
Current assets	**2,26,162**	**2,67,792**	**4,02,722**	**3,65,433**	**4,04,695**	**4,30,582**
Inventory	64,417	78,228	91,386	97,270	1,09,088	1,20,112
Days	57	57	57	57	57	57
Debtors	65,731	85,135	1,56,371	1,10,242	1,24,633	1,38,359
Days	35	35	35	35	35	35
Other Current Assets	14,441	16,912	32,423	38,907	46,689	56,027
Cash and Cash equivalent	48,775	45,381	67,432	53,918	46,881	24,429
Current Liabilities/Provisions	**2,22,853**	**2,75,154**	**4,17,204**	**3,78,741**	**4,02,931**	**4,28,964**
Creditors / Trade Payables	1,13,603	1,41,363	2,26,172	1,93,909	2,13,697	2,34,599
Days	68	63	67	68	66	66
Liabilities	25,036	26,824	1,00,437	1,06,817	1,13,702	1,21,135
Net Current Assets	**3,309**	**-7,362**	**-14,482**	**-13,308**	**1,764**	**1,618**
Total Asset	**5,62,701**	**6,18,517**	**8,50,218**	**8,15,475**	**8,96,203**	**9,86,874**
Total Capital Employed	**5,59,392**	**6,25,879**	**8,64,700**	**8,28,784**	**8,94,440**	**9,85,257**

Source: Arihant Research, Company Filings

Financial Statements

Cash Flow Statement						
Year End-March	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Profit before tax	**8,174**	**17,134**	**27,819**	**45,307**	**68,306**	**78,958**
Adjustments: Add						
Depreciation and amortisation	29,582	31,358	38,105	42,449	46,991	53,833
Interest adjustment	469	5,239	14,547	9,098	7,834	6,574
Change in assets and liabilities	34,918	47,274	70,306	83,302	1,06,189	1,15,648
Inventories	-14,461	-13,811	-13,158	-5,884	-11,818	-11,024
Trade receivables	-8,370	-18,132	-73,564	44,571	-16,103	-15,610
Trade payables	2,197	27,760	84,809	-32,263	19,787	20,903
Other Liabilities and provisions	51,829	14,313	94,356	-6,722	3,855	4,556
Other Assets	-10,729	-13,564	-33,823	-16,769	-20,123	-24,148
Taxes	1,418	1,070	1,014	-	-	-
Net cash from operating activities	**56,802**	**44,910**	**1,29,939**	**66,235**	**81,787**	**90,325**
Net Sale/(Purchase) of tangible and intangible assets, Capital work in progress	-46,808	-50,449	-1,17,934	-30,522	-75,145	-95,670
Net Sale/(Purchase) of investments	-51,195	4,289	1,250	-4,859	-2,127	-10,112
Others	-1,276	2,760	-3,798	-3,444	-4,132	-4,959
Net cash (used) in investing activities	**-99,502**	**-43,349**	**-1,20,597**	**-38,710**	**-81,405**	**-1,10,742**
Interest expense	-33,729	-12,800	-31,103	-41,760	-7,892	-3,061
Dividend paid	-1,612	-3,308	-6,457	-13,553	-16,941	-23,717
Other financing activities	-7,989	-9,618	-32,945	-13,553	-16,941	-23,717
Net cash (used) in financing activities	**33,633**	**-4,569**	**13,529**	**-41,557**	**-7,668**	**-2,815**
Closing Balance	**49,994**	**46,987**	**69,858**	**55,826**	**48,540**	**25,308**
FCF	**25,706**	**2,359**	**60,549**	**40,492**	**17,939**	**14,248**
Capex (% of sales)	26,129	34,742	45,000	51,742	71,496	86,585

Key Ratios						
Year-end March	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Solvency Ratios						
Debt / Equity	0.57	0.50	0.61	0.40	0.33	0.27
Net Debt / Equity	0.35	0.31	0.37	0.23	0.20	0.21
Debt / EBITDA	2.86	1.96	1.90	1.13	0.88	0.72
Current Ratio	1.74	1.20	1.14	0.63	0.52	0.56
DuPont Analysis						
Sales/Assets	1.13	1.27	1.16	1.41	1.45	1.46
Assets/Equity	2.52	2.54	3.01	2.60	2.45	2.35
RoE	3.66%	7.03%	9.86%	14.43%	18.70%	18.78%
Per share ratios						
Reported EPS	1.8	2.2	4.1	6.7	10.1	11.7
Dividend per share	0.7	1.0	1.5	2.0	2.5	3.5
BV per share	49.5	36.0	41.6	46.3	53.9	62.1
Cash per Share	10.8	6.7	10.0	8.0	6.9	3.6
Revenue per Share	140.6	116.1	145.6	169.7	191.8	213.0
Profitability ratios						
Net Profit Margin (PAT/Net sales)	2.17%	1.29%	2.18%	2.82%	3.94%	5.25%
Gross Profit / Net Sales	42.18%	42.42%	44.86%	46.28%	46.71%	47.15%
EBITDA / Net Sales	7.02%	7.89%	9.24%	9.74%	10.56%	10.94%
EBIT / Net Sales	2.37%	3.90%	5.38%	6.05%	6.94%	7.21%
ROCE (%)	4.42%	8.95%	12.26%	15.92%	18.29%	18.64%
Activity ratios						
Inventory Days	56.82	57.45	57.48	57.48	57.48	57.48
Debtor Days	35.23	34.98	35.00	35.00	35.00	35.00
Creditor Days	67.85	62.99	67.24	67.81	66.41	66.06
Leverage ratios						
Interest coverage	2.77	3.93	2.93	4.99	6.82	8.27
Debt / Asset	0.23	0.20	0.20	0.16	0.13	0.12
Valuation ratios						
EV / EBITDA	25.59	18.34	12.81	10.13	8.28	7.30
PE (x)	86.78	71.13	38.24	23.48	15.58	13.47

Source: Arihant Research, Company Filings

Tata Motors Ltd

Attractive Investment Opportunity

CMP: INR 740	
Rating: BUY	
TP: INR 1,070	

Stock Info	
BSE	500570
NSE	TATAMOTORS
Bloomberg	TTMT:IN
Reuters	TAMO.NS
Sector	Automobile
Face Value (INR)	2
Equity Cap (INR Mn)	7360
Mkt Cap (INR Mn)	27,62,870
52w H/L (INR)	1,179 / 718
Avg Yearly Volume (in 000')	12608

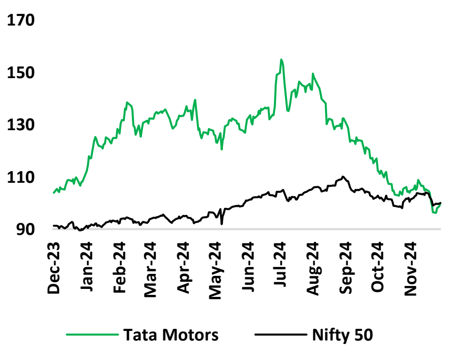
Shareholding Pattern %

(As on Sept, 2024)

Promoters	42.58
FII	20.54
DII	16.08
Public & Others	20.49

Stock Performance (%)	**3m**	**6m**	**12m**
TATAMOTORS	-24.4	-22.8	1.3
Nifty 50	-9.0	-0.9	9.9

Tata Motors Vs Nifty 50



Abhishek Jain
abhishek.jain@arihantcapital.com
022 67114851

Jyoti Singh
jyoti.singh@arihantcapital.com
022 67114837

Tata Motors Ltd (TML) bought Jaguar & Land Rover from Ford in 2008 and merged them together in 2013 to form one unified company. In segments, JLR, decent performance in U.S. and China markets, but caution expressed regarding stress in the Chinese retail network. Investment in BEV transition continues, with significant spending on new product development. CV, Focus on launching new products and maintaining cost discipline despite lower volumes. PV, Strong growth in bookings for new models (Curvv and Nexon iCNG) despite supply limitations in Q2. On the Digital initiatives like Fleetedge and Fleetverse showing strong growth, enhancing customer engagement and service delivery.

What went wrong: Tata Motors' stock price has fallen by 34% over the past five months, primarily due to production constraints at JLR and a company-specific issue related to BMW's guidance for an EBIT margin cut in FY2025. JLR's production was limited to 86,000 units, marking a 7% YoY decline, mainly due to supply disruptions in high-grade aluminum, as previously mentioned by management. Additionally, a temporary hold was placed on 6,500 vehicles in late September, primarily in the U.K. and Europe, for additional quality checks. These vehicles are expected to be sold in H2FY25. Both the PV and CV businesses reported weak volume performance in H1FY2025, with a 7.6% decline in CV volumes and a 3.7% decline in PV volumes.

What are the triggers for turnaround: Demerger of Tata CV & PV will be good turnaround along with early adoption of EV is doing well for the company.

The mix of the most profitable models, including the Range Rover, Range Rover Sport, and Defender, accounted for 67% of total wholesale volumes. JLR anticipates a strong recovery in both production and wholesale volumes in H2FY25. Further, management expects a gradual recovery in the CV segment from Q3FY25 considering the healthy festive season and hope of an increase in infra spending. Given the rise in inventory levels, its domestic PV business limits wholesales to control inventories.

We expect a lagged recovery for luxury goods, including passenger cars in China over H1 CY25E due to interventions by the Chinese government and central bank. Similarly, Central Bank of Europe is also expected to cut rates in CY25E, thus resulting in raising the demand for luxury cars in the European continent. This is likely to stimulate the capex cycle and thereby improve the consumption cycle and consumer confidence. North American luxury car market demand has remained resilient despite the overall slowdown in consumption of luxury goods and the volumes grew 7% yoy in Q3CY24. Overall, luxury car market sales increased by 1% yoy in 9MCY24 as opposed to decline in sales in other developed markets. We expect the volume growth in luxury car market to sustain in the coming quarters.

Outlook and Valuation:

The company expects a recovery in H2FY25, driven by easing supply constraints and cost management. Marketing spends will remain high to boost JLR's order book, and healthy FCF will support electrification investments, with net cash expected by FY25.Tata Motors saw strong PV growth during the festive season, and CV demand is expected to rise in H2FY25. We expect FY25-27E EBITDA to be impacted by weak luxury car demand, especially in China and Europe, and high inventory levels in PV and CV segments. However, we expect a recovery in domestic CV demand from FY26, JLR improvement in H2FY25, and PV market share recovery by FY26-27. Given our positive outlook on the stock, **we have a BUY rating on the stock with the TP of INR 1,070.**

Year-end March (INR Mn)	Net Sales	EBITDA	PAT	EPS (INR)	EBITDA Margin (%)	EV/EBITDA	P/E (x)
FY23	34,59,670	3,19,197	26,899	7.0	9.2%	11.4	105.9
FY24	43,79,278	5,95,383	3,18,068	83.0	13.6%	5.5	9.0
FY25E	45,98,242	6,29,751	2,29,615	62.4	13.7%	5.2	11.9
FY26E	49,20,118	6,93,514	2,60,612	70.8	14.1%	4.7	10.5
FY27E	54,12,130	7,73,690	3,01,033	81.8	14.3%	4.1	9.1

Source: Arihant Research, Company Filings

Investment Rationale

Strong traction from the domestic CV industry

We anticipate a gradual recovery in demand starting from FY26, supported by factors such as increased government spending on infrastructure, higher fleet utilization, improved profitability for fleet operators, and strong demand in the bus segment. For the ICE LCV segment, we expect a gradual recovery in volumes, despite a sharp rise in ownership costs due to stricter emission norms. Since October 2024, demand for LCVs, particularly for transporting fruits and vegetables to mandis, has strengthened. To further boost LCV demand, the company plans to launch improved products with better value propositions and address pipeline conversion challenges through revised financing options.

EV sales of JLR to be driven by new models despite mix of global trends

Electrification in the PV segment has shown varied trends across regions. In China, EV penetration continues to grow steadily, reaching 24% in 9MCY24. However, EV adoption in the large SUV segment has remained flat, with penetration increasing only slightly from 11% in Q3CY22 to 13% in Q3CY24. While EV sales in China’s passenger car and mid-size SUV segments have surged, JLR has limited presence in these areas due to the reduction in Jaguar brand volumes. In Europe and the UK, the EV mix in the overall passenger vehicle market dropped by 340bps YoY in Q3CYTD24. BEV sales in the EU region fell 8% YoY during the same period, driven by declines in key markets such as Germany, Norway, Italy, and Sweden. In Q3CY24, both Porsche and Mercedes-Benz saw a 30-31% drop in EV sales, compared to a more moderate global sales decline of 1-7% YoY, signaling a slowdown in EV adoption, particularly among premium brands.

Strong sales in the domestic market were driven by the festive season

The company reported its highest-ever monthly retail sales in October 2024, driven by the festive season, which helped bring inventory levels down to a normal ~30 days. Instead of relying on discounts like its peers, the company opted for price cuts to enhance brand perception and value. While sales have been strong due to the festive season and higher price cuts, the sustainability of this demand trend needs to be monitored. Moving forward, the company plans to leverage growth in CNG and EV vehicles to drive volume growth in the PV segment.

Company's Upcoming EV Launches and Strong Market Interest

The company plans to launch EVs in the coming years, starting with an electric Range Rover expected in CY25E. This will be followed by the launch of a Jaguar on the JEA platform in FY26E. By the end of CY2026E, the company aims to introduce four electric Land Rover models based on both the MLA and EMA platforms. A waitlist has been opened for the upcoming Range Rover EV, with strong demand, as over 48,000 clients have signed up so far. Production of Jaguar models will wind down before the introduction of its electric platform. Additionally, the company launched the Defender Octa this year to further strengthen its portfolio.

JLR's Strategy in China Amid Electrification Trends

In their Q2 FY25 conference call, the company acknowledged stress in the Chinese market, particularly in the ICE passenger vehicle segment, but noted that the electrification threat is mainly limited to entry-level cars, which won't impact JLR in the near term. The company plans to relaunch the Freelander brand as an EV under a China JV to strengthen its presence in the market. JLR and Chery have signed a Letter of Intent, where Chery will contribute technology and product development, while JLR will focus on design and brand development. The JV will produce a range of EVs based on Chery’s EV platform, initially sold in China, with future plans to export globally.

Financial Statements

Income statement (INR mn)					
Year End-March	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Gross Sales	34,59,670	43,79,278	45,98,242	49,20,118	54,12,130
Net Sales	34,59,670	43,79,278	45,98,242	49,20,118	54,12,130
YoY (%)	24.2%	26.6%	5.0%	7.0%	10.0%
Adjusted COGS	**22,64,696**	**27,27,557**	**28,59,337**	**30,39,810**	**33,32,966**
YoY (%)	25.2%	20.4%	4.8%	6.3%	9.6%
Personnel/ Employee benefit expenses	3,36,547	4,24,866	4,46,110	4,77,337	5,25,071
YoY (%)	9.24%	26.24%	5.00%	7.00%	10.00%
Manufacturing & Other Expenses	6,17,860	7,88,750	8,28,187	8,86,160	9,74,776
YoY (%)	31.1%	27.7%	5.0%	7.0%	10.0%
Total Expenditure	**31,40,473**	**37,83,894**	**39,68,491**	**42,26,605**	**46,38,441**
YoY (%)	29.1%	86.5%	5.8%	10.1%	11.6%
EBITDA	**3,19,197**	**5,95,383**	**6,29,751**	**6,93,514**	**7,73,690**
YoY (%)	29.1%	86.5%	5.8%	10.1%	11.6%
EBITDA Margin (%)	9.2%	13.6%	13.7%	14.1%	14.3%
Depreciation	2,48,604	2,72,701	3,05,425	3,42,077	3,83,126
% of Gross Block	8181.5%	8202.8%	163.2%	90.5%	65.8%
EBIT	**70,593**	**3,22,682**	**3,24,325**	**3,51,437**	**3,90,564**
EBIT Margin (%)	2.0%	7.4%	7.1%	7.1%	7.2%
Interest Expenses	1,02,255	99,858	87,994	78,665	71,367
Non-operating/ Other income	46,332	59,499	62,474	66,847	73,532
Exceptional Items	15,905	-9,771	0	0	0
PBT	**33,939**	**2,79,551**	**3,06,154**	**3,47,482**	**4,01,378**
Tax-Total	7,041	-38,516	76,538	86,871	1,00,344
Adj. Net Profit	**26,899**	**3,18,068**	**2,29,615**	**2,60,612**	**3,01,033**
Reported Profit	**26,899**	**3,18,068**	**2,29,615**	**2,60,612**	**3,01,033**
PAT Margin	0.8%	7.3%	5.0%	5.3%	5.6%
Shares o/s/ paid up equity sh capital	3,830.1	3,832.5	3,680.0	3,680.0	3,680.0
Adj EPS	7.0	83.0	62.4	70.8	81.8
Dividend payment	1,408.8	7,692.7	7,360.0	8,096.0	8,464.0
Dividend payout (%)	5.2%	2.4%	3.2%	3.1%	2.8%
Retained earnings	25,490	3,10,375	2,22,255	2,52,516	2,92,569

Balance sheet					
Year-end March	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Sources of Funds					
Equity Share Capital	7,660	7,665	7,360	7,360	7,360
Reserves & Surplus/ Other Equity	5,18,335	9,23,274	11,52,891	14,13,503	17,14,538
Networth	**5,25,995**	**9,30,939**	**11,60,251**	**14,20,863**	**17,21,898**
Unsecured Loans/ Borrowings/ Lease Liabilities	9,45,183	6,38,217	5,13,919	4,14,482	3,34,932
Other Liabilities	1,56,965	1,90,846	1,92,499	1,94,169	1,95,856
Total Liabilities	**28,34,819**	**27,75,700**	**26,53,472**	**25,86,141**	**26,04,264**
Total Funds Employed	**33,60,814**	**37,06,640**	**38,13,722**	**40,07,005**	**43,26,162**
Application of Funds					
Net Fixed Assets	**14,49,695**	**15,05,266**	**16,79,868**	**18,36,200**	**20,28,968**
Capital WIP	52,199	1,09,373	1,14,842	1,26,326	1,38,959
Investments/ Notes/ Fair value measurement	28,652	33,776	37,153	40,868	44,955
Current assets	**15,07,007**	**16,77,182**	**16,01,645**	**16,23,496**	**17,32,596**
Inventory	4,07,554	4,77,883	4,94,239	5,36,762	5,90,072
Days	61.2	59.2	65.2	67.6	67.6
Debtors	1,57,380	1,69,518	1,91,593	2,09,367	2,40,539
Days	14.9	13.6	15.2	15.5	16.2
Other Current Assets	95,873	1,04,294	1,06,380	1,08,507	1,10,678
Cash and Cash equivalent	69.6	66.7	66.7	66.7	66.7
Current Liabilities/Provisions	**1,18,107**	**1,22,915**	**1,26,602**	**1,30,400**	**1,34,312**
Creditors / Trade Payables	3,69,647	3,63,516	3,70,786	3,78,202	3,85,766
Days	6,60,131	8,00,494	8,60,474	8,69,936	9,44,322
Liabilities	8,99,688	10,64,665	1,90,558	1,91,870	1,93,195
Net Current Assets	**13,88,900**	**15,54,268**	**14,75,043**	**14,93,096**	**15,98,284**
Total Asset	**33,60,814**	**37,06,640**	**38,13,722**	**40,07,005**	**43,26,162**
Total Capital Employed	**19,71,914**	**21,52,372**	**23,38,679**	**25,13,908**	**27,27,879**

Source: Arihant Research, Company Filings

Financial Statements

Cash Flow Statement					
Year End-March	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Profit before tax	**26,899**	**3,18,068**	**2,29,615**	**2,60,612**	**3,01,033**
Adjustments: Add					
Depreciation and amortisation	2,48,604	2,72,701	3,05,425	3,42,077	3,83,126
Interest adjustment	55,923	40,358	25,519	11,817	-2,165
Change in assets and liabilities	3,30,017	6,23,435	5,53,200	6,06,410	6,73,530
Inventories	-55,151	-70,329	-16,356	-42,522	-53,310
Trade receivables	-32,959	-12,138	-22,075	-17,773	-31,172
Trade payables	1,20,854	1,59,872	-19,956	9,463	74,386
Other Liabilities and provisions	-72,652	6,969	1,299	1,312	1,325
Other Assets	-31,877	-39,975	-5,334	-5,506	-5,684
Taxes	-18,240	1,675	458	472	486
Net cash from operating activities	**2,36,466**	**6,35,075**	**5,02,560**	**5,63,609**	**6,71,764**
Net Sale/(Purchase) of tangible and intangible assets, Capital work in progress	-1,97,421	-2,21,736	-4,80,350	-5,06,831	-5,85,435
Net Sale/(Purchase) of investments	79,598	1,00,226	51,970	52,656	53,432
Others	-49,364	9,499	-3,869	-3,974	-4,082
Net cash (used) in investing activities	**-1,94,109**	**-2,75,918**	**-4,37,481**	**-4,61,298**	**-5,39,265**
Interest expense	-1,06,325	-3,78,482	-2,10,752	-1,76,548	-1,49,347
Dividend paid	-984	-1,409	-7,360	-8,096	-8,464
Other financing activities	-19,293	77,895	-305	0	0
Net cash (used) in financing activities	**-78,893**	**-2,71,246**	**-1,93,915**	**-1,59,169**	**-1,32,035**
Closing Balance	**3,70,156**	**4,58,067**	**3,29,230**	**2,72,372**	**2,72,836**
FCF	**30,449**	**3,97,542**	**1,09,385**	**1,23,253**	**1,78,565**
Capex (% of sales)	2,06,017	2,37,534	2,29,912	2,46,006	2,70,607

Key Ratios					
Year-end March	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Solvency Ratios					
Debt / Equity	1.7	0.7	0.4	0.3	0.2
Net Debt / Equity	1.7	0.6	0.5	0.4	0.3
Debt / EBITDA	2.8	1.0	0.8	0.6	0.4
Current Ratio	2.8	0.9	0.9	0.7	0.6
DuPont Analysis					
Sales/Assets	1.0	1.2	1.2	1.2	1.3
Assets/Equity	6.4	4.0	3.3	2.8	2.5
RoE	5.1%	34.2%	19.8%	18.3%	17.5%
Per share ratios					
Reported EPS	7.0	83.0	62.4	70.8	81.8
Dividend per share	0.4	2.0	2.0	2.2	2.3
BV per share	137.3	242.9	315.3	386.1	467.9
Cash per Share	83.3	104.4	78.2	64.7	64.8
Revenue per Share	903.3	1142.7	1249.5	1337.0	1470.7
Profitability ratios					
Net Profit Margin (PAT/Net sales)	-4.1%	0.8%	7.3%	5.0%	5.3%
Gross Profit / Net Sales	34.5%	37.7%	37.8%	38.2%	38.4%
EBITDA / Net Sales	9.2%	13.6%	13.7%	14.1%	14.3%
EBIT / Net Sales	2.0%	7.4%	7.1%	7.1%	7.2%
ROCE (%)	2.2%	9.0%	8.8%	9.1%	9.3%
Activity ratios					
Inventory Days	61.2	59.2	65.2	67.6	67.6
Debtor Days	14.9	13.6	15.2	15.5	16.2
Creditor Days	69.6	66.7	66.7	66.7	66.7
Leverage ratios					
Interest coverage	0.7	3.2	3.7	4.5	5.5
Debt / Asset	0.3	0.2	0.1	0.1	0.1
Valuation ratios					
EV / EBITDA	11.4	5.5	5.2	4.7	4.1
PE (x)	105.9	9.0	11.9	10.5	9.1

Source: Arihant Research, Company Filings

Alldigi Tech Ltd

Strong recovery in H2FY25

CMP: INR 952

Rating: BUY

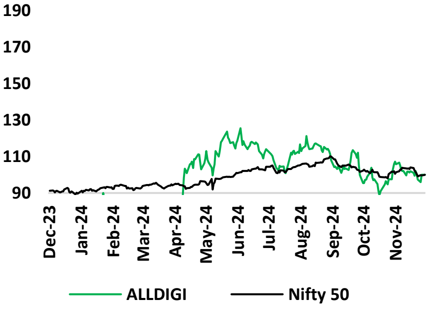
TP: INR 1,172

Stock Info	
BSE	532875
NSE	ALLDIGI
Bloomberg	ALLDIGI IN
Reuters	ALLS.NS
Sector	BPO/ITeS
Face Value (INR)	5
Equity Cap (INR Mn)	276.5
Mkt Cap (INR Mn)	14,870
52w H/L (INR)	1,250 /608
Avg Yearly Volume (in 000')	56

Shareholding Pattern % *(As on Sept, 2024)*	
Promoters	73.4
FII	0.41
DII	1.25
Public & Others	24.9

Stock Performance (%)	1m	3m	12m
ALLDIGI	-5.5	-7.4	48.3
Nifty 50	-1.9	-9.0	9.9

ALLDIGI Vs Nifty 50



Abhishek Jain
abhishek.jain@arihantcapital.com
022 67114851

Jyoti Singh
jyoti.singh@arihantcapital.com
022 6711483

Alldigi Tech Ltd is one of the leading providers of outsourced solutions in customer engagement, human resource operations, sales and retention and quality assurance for businesses across varied industries. Company has strong market leadership in processing 13 Mn pay slips monthly. It employs ~5,400 full-time equivalents across 5 interconnected service delivery centers. DBS (Digital Business Services) (International)- 43%, DBS (Domestic)- 21%.HRO (Human Resources Operations) (International) – ~8%, HRO (Domestic)- 28%

What went wrong

Alldigi tech stock price has fallen by 12% over the one year primarily due to higher costs related to ramp-ups and a BCP situation in Manila affecting EBITDA levels. Also, the decline in Compliance FTE is due to LLC divestment.

What are the triggers for turnaround

In FY24,Allsec has added additional 600 seat capacity in Manila, nearly doubling it to facilitate expansion to cater international growth demand. The first being increasing the ticket size of new EXM sales, the second being shortening transition time lines. The company is transitioning to a SaaS model through its platform, Buzzily, to capture the growing SME market, while continuing to invest in its core payroll services. Management underscores the significance of achieving profitable growth within the highly competitive SaaS sector, emphasizing long-term sustainability and market differentiation. Despite the challenges, Alldigi Tech is focused on securing a strong, sustainable position in the market for continued success.

Outlook and Valuation

The company aims to improve margins by 1-1.5% QoQ, with a growth target exceeding 20% for FY25, driven by strong CXM growth and modest EXM growth. To address concerns over EBITDA and margin declines related to recruitment costs, the company is implementing rebranding efforts and leveraging technological advancements, including the transition to Smart Pay v4. Additionally, it is exploring new CXM sales channels and optimizing recruitment expenses. The goal is to sustain 20% growth and increase ACV. After the quarter, the company added one ACV in healthcare and is pursuing partnerships to drive relevant RFPs and diversify the channel mix, with a focus on domestic business. Domestic sales are anticipated to ramp up from existing customers. **We expect Alldigi Tech's revenue, EBITDA, and PAT to grow at a CAGR of 18.6%, 19.5%, and 8.2%, respectively, over FY25-FY27E. We used DCF model to arrive at a target price of INR 1,172 per share. Accordingly, we have assign "BUY" rating on the stock**

Financial overview

Year-end March (INR Mn)	Net Sales	EBITDA	PAT	EPS (INR)	EBITDA Margin (%)	EV/EBITDA	P/E (x)
FY23	3,905	866	489	32.1	22.17%	16.59	30.3
FY24E	4,694	1,156	640	42.0	24.62%	12.51	23.2
FY25E	5,481	1,378	839	55.0	25.13%	10.46	17.7
FY26E	6,467	1,638	829	54.4	25.33%	8.84	17.9
FY27E	7,704	1,967	982	64.5	25.53%	7.40	15.1

Source: Arihant Research, Company Filings

Investment Rationale

CXM is set for growth through international expansion and new clients, while EXM will experience modest growth

CXM is concentrating on the North American market, reporting a YoY revenue growth of 30.4% in CXM and 10.9% in EXM Payroll for Q2. The EXM division secured 12 new logos with an ACV of approximately $66 mn, while CXM added 3 new logos with a similar ACV. Existing customer mining contributed an additional ACV of around $30 mn. The EXM business is expanding both domestically and internationally, now providing payroll services in 46 countries. Recent facility expansion in India includes 250 new seats, and sales teams are active in major Indian cities and Manila. The transition to Smart Pay v4 is progressing according to schedule. CXM business is projected for strong growth due to international expansion and new client acquisitions, while EXM (Payroll) will grow modestly but remain a key driver.

Strong SaaS

Alldigit is strategically targeting the SME market with a robust SaaS-based approach. The company is dedicated to enhancing its product offerings, particularly in payroll solutions, to improve compliance and operational efficiency. There is profitable growth in the CXM model. In Chennai, the company has 250 seats, which is marginally ahead of schedule, along with an additional 2.6 lakh payroll, and a projected 20% growth in the EXM business by FY25.

Integration and Upgrades of SP4 and HRMS Platforms

Alldigi Tech has made significant progress with the integration of SP4 and upgrades to its HRMS platform. Positive results have been observed from parallel runs of the upgraded payroll engine (SP4), and Phase I user acceptance testing for the new HRMS platform has been completed. The company is now preparing transition plans for migrating existing customers to SP4 over the next few quarters. Additionally, H2 will see the market pilot of the HRMS platform sales on a SaaS basis.

Improvement in margin led by expansion in international and domestic business: EBITDA margin expanded by 84.38 bps YoY (contracted by 55.27 bps QoQ) to 23.5%. The company is addressing concerns over EBITDA and margin declines due to recruitment costs. Rebranding efforts and technological advancements, such as the transition to Smart Pay v4, are underway, along with exploring new CXM sales channels and optimizing recruitment costs. The growth target for FY25 is over 20%, with an aim to improve margins by 1-1.5% QoQ.

Financial Statements

Income statement (INR mn)					
Year End-March	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Gross Sales	3,905	4,694	5,481	6,467	7,704
Net Sales	3,905	4,694	5,481	6,467	7,704
YoY (%)	23%	20%	17%	18%	19%
Personnel/ Employee benefit expenses	2,217	2,642	3,108	3,661	4,354
YoY (%)	29%	19%	18%	18%	19%
Manufacturing & Other Expenses	822	896	995	1,168	1,383
YoY (%)	27%	9%	11%	17%	18%
Total Expenditure	**3,039**	**3,538**	**4,104**	**4,829**	**5,737**
YoY (%)	8%	34%	19%	19%	20%
EBITDA	**866**	**1,156**	**1,378**	**1,638**	**1,967**
YoY (%)	8%	34%	19%	19%	20%
EBITDA Margin (%)	22%	25%	25%	25%	26%
Depreciation	283	336	444	551	682
EBIT	**583**	**820**	**934**	**1,088**	**1,285**
EBIT Margin (%)	15%	17%	17%	17%	17%
Interest Expenses	37	38	42	46	51
Non-operating/ Other income	99	69	54	63	75
PBT	**645**	**851**	**1,123**	**1,105**	**1,310**
Tax-Total	157	211	284	276	327
Net Profit	**489**	**640**	**839**	**829**	**982**
PAT Margin	13%	14%	15%	13%	13%
Shares o/s/ paid up equity sh capital	15	15	15	15	15
Adj EPS	32.1	42.0	55.0	54.4	64.5
Dividend payment	305	457	488	518	564
Dividend payout (%)	62%	71%	58%	63%	57%
Retained earnings	184	183	351	310	418

Balance sheet					
Year-end March	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Sources of Funds					
Equity Share Capital	152	152	152	152	152
Reserves & Surplus/ Other Equity	2,144	2,302	2,653	2,964	3,382
Networth	**2,297**	**2,455**	**2,806**	**3,116**	**3,535**
Unsecured Loans/ Borrowings/ Lease Liabilities	439	447	482	521	563
Other Liabilities	77	93	97	102	107
Total Liabilities	**3,336**	**3,676**	**4,130**	**4,594**	**5,196**
Total Funds Employed	**6,344**	**6,996**	**7,872**	**8,766**	**9,933**
Application of Funds					
Net Fixed Assets	**-78**	**-120**	**-**	**-**	**-**
Capital WIP	120	-	-	-	-
Investments/ Notes/ Fair value measurement	468	563	657	775	924
Current assets	**2,347**	**2,430**	**2,830**	**3,116**	**3,469**
Inventory	-	-	-	-	-
Days	-	-	-	-	-
Debtors	592	657	838	982	1,162
Days	54	55	56	55	55
Other Current Assets	94	93	112	134	161
Cash and Cash equivalent	901	817	893	862	825
Current Liabilities/Provisions	**711**	**865**	**936**	**1,056**	**1,203**
Creditors / Trade Payables	381	419	489	577	687
Days	-	1	2	3	4
Liabilities	88	173	179	185	193
Net Current Assets	**1,636**	**1,565**	**1,894**	**2,060**	**2,267**
Total Asset	**3,336**	**3,676**	**4,130**	**4,594**	**5,196**
Total Capital Employed	**1,700**	**2,111**	**2,236**	**2,534**	**2,929**

Source: Arihant Research, Company Filings

Financial Statements

Cash Flow Statement					
Year End-March	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Retained Earning	**489**	**640**	**839**	**829**	**982**
Adjustments: Add					
Depreciation and amortisation	283	336	444	551	682
Interest adjustment	-62	-31	-12	-17	-25
Trade receivables	-20	-65	-181	-144	-180
Trade payables	131	38	70	88	110
Other Liabilities and provisions	24	85	5	6	8
Other Assets	-181	-18	-64	-74	-86
Taxes	-16	-33	-15	-17	-19
Net cash from operating activities	**352**	**491**	**679**	**735**	**945**
Net Sale/(Purchase) of tangible and intangible assets, Capital work in progress	-363	-400	-516	-657	-826
Net Sale/(Purchase) of investments	101	-26	-41	-55	-73
Others	-10	-70	-29	-35	-63
Net cash (used) in investing activities	**-272**	**-496**	**-587**	**-748**	**-962**
Interest expense	-2	-4	11	13	15
Dividend paid	-913	-305	-457	-488	-518
Other financing activities	-286	-482	-488	-518	-564
Net cash (used) in financing activities	**17**	**-30**	**11**	**13**	**15**
Closing Balance	**904**	**820**	**896**	**865**	**828**
FCF	**41**	**60**	**229**	**138**	**212**
Capex (% of sales)	311.40	430.50	548.15	582.05	693.35

Key Ratios					
Year-end March	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Solvency Ratios					
Debt / Equity	-	-	-	-	-
Net Debt / Equity	-0.20	-0.15	-0.15	-0.11	-0.07
Debt / EBITDA	0.00	0.00	0.00	0.00	0.00
Current Ratio	-0.54	-0.32	-0.30	-0.21	-0.13
DuPont Analysis					
Sales/Assets	1.17	1.28	1.33	1.41	1.48
Assets/Equity	1.45	1.50	1.47	1.47	1.47
RoE	0.21	0.26	0.30	0.27	0.28
Per share ratios					
Reported EPS	32.1	42.0	55.0	54.4	64.5
Dividend per share	20.0	30.0	32.0	34.0	37.0
BV per share	150.7	161.1	184.1	204.5	231.9
Cash per Share	59.1	53.6	58.6	56.6	54.1
Revenue per Share	256.2	308.0	359.7	424.4	505.5
Profitability ratios					
Net Profit Margin (PAT/Net sales)	0.11	0.13	0.14	0.15	0.13
EBITDA / Net Sales	0.22	0.25	0.25	0.25	0.26
EBIT / Net Sales	0.15	0.17	0.17	0.17	0.17
ROCE (%)	0.22	0.29	0.29	0.31	0.32
Activity ratios					
Inventory Days	0.0	0.0	0.0	0.0	0.0
Debtor Days	54.4	54.5	55.8	55.4	55.1
Creditor Days	0.0	0.0	0.0	0.0	0.0
Leverage ratios					
Interest coverage	15.9	21.6	22.3	23.7	25.4
Debt / Asset	0.0	0.0	0.0	0.0	0.0
Valuation ratios					
EV / EBITDA	16.59	12.51	10.46	8.84	7.40
PE (x)	30.35	23.17	17.68	17.89	15.10

Source: Arihant Research, Company Filings

ArihantCapital
Generating Wealth

Route Mobile Ltd

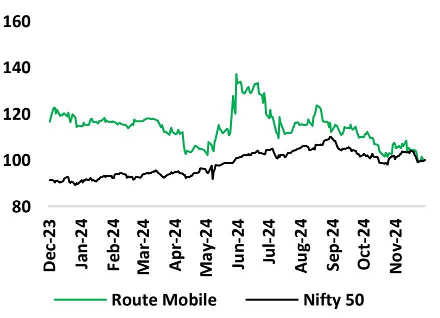
Strong H2FY25

CMP: INR 1370	
Rating: BUY	
TP: INR 1,915	
Stock Info	
BSE	543228
NSE	ROUTE
Bloomberg	ROUTE IN
Reuters	ROUT NS
Sector	Communication
Face Value (INR)	10
Equity Cap (INR Mn)	629
Mkt Cap (INR Mn)	86,284
52w H/L (INR)	1,942 / 1,334
Avg Yearly Volume (in 000')	214

Shareholding Pattern % *(As on Sept, 2024)*	
Promoters	74.9
FII	6.65
DII	6.14
Public & Others	12.29

Stock Performance (%)	**1m**	**3m**	**12m**
Route Mobile	-6.9	-10.8	-13.3
Nifty 50	-9.0	-0.9	9.9

Route Vs Nifty 50



Abhishek Jain
abhishek.jain@arihantcapital.com
022 67114851

Jyoti Singh
jyoti.singh@arihantcapital.com
022 6711483

Route Mobile Limited (RML) is a cloud communications platform service provider offering solutions to enterprises, OTT players, and mobile network operators (MNOs). Their portfolio includes business messaging, voice, email, SMS filtering, analytics, and monetization services. In May 2024, Route Mobile became a part of the Proximus Group. The company operates in multiple business segments, including enterprise and OTT services, mobile operator solutions, digital identity and security services, and business process outsourcing. RML has a strong focus on recurring revenue, with 92% of its operating revenue coming from this source.

What went wrong

Route Mobile's stock price has fallen by 27% over the past seven months. The company experienced a marginal revenue impact due to ongoing weakness in messaging services, primarily caused by geopolitical issues in Europe. ILD revenue in India was also affected for several days in August due to a firewall software upgrade and infrastructure issues. Furthermore, the devaluation of the Nigerian Naira resulted in a currency impact, further affecting overall revenue.

What are the triggers for turnaround

Route Mobile stands out as a preferred partner for enterprises with its robust Super Network, facilitating cost-effective communication across various regions. The company collaborates with all major cloud service providers, integrating its communication platforms seamlessly into sectors like BFSI, ensuring reliable and efficient service delivery. The partnership with Proximus further enhances Route's reach into developed markets, reducing high customer acquisition costs that would have been incurred through organic efforts. Additionally, Proximus has entered into a significant agreement with Infosys, where Infosys will assist in generating committed CPaaS revenues for Route Mobile. The company's business model, which requires minimal investment in fixed assets, supports its strong return ratios. Furthermore, in FY22, Route Mobile expanded its footprint significantly by completing four acquisitions, particularly in LATAM and Europe.

Outlook and Valuation: The company has signed a significant deal in September with a global e-commerce company to cover multiple regions. Traffic has already started and will ramp up over time. New product revenue shows 32% YoY/4%QoQ growth, with FY25 revenue growth expected at 18%-22% and a 13% EBITDA margin. Historical seasonality trends suggest the company is on track to meet its guidance, with 45%-47% of revenue typically coming in H1 and the balance in H2. A five-year strategic partnership between Proximus and Microsoft on digital communication services, including CPaaS, has led to combined deals and ongoing efforts on similar large deals. With Vodafone's imminent go-live, the company expresses enthusiasm for the promising trajectory and growth. Positioned for improved growth, it aims to expand its clientele globally, leveraging new products and ramping up efforts across multiple countries. We expect RML revenue, EBITDA, and PAT to grow at a CAGR of ~17%, 17.3%, and 17.1%, respectively, over FY25-27E. We have BUY rating on the stock with target price of INR 1,915 per share.

Financial overview

YE March (INR Mn)	Revenues	EBITDA	EBITDA Margin (%)	PAT	EPS (INR)	RoE (%)	P/E (x)
FY24	40,233	5,111	12.70%	3,720	59.1	17.91%	23.2
FY25E	46,268	6,015	13.00%	4,180	66.4	16.63%	20.6
FY26E	53,671	7,031	13.10%	4,854	77.1	16.67%	17.8
FY27E	62,795	8,289	13.20%	5,740	91.2	16.97%	15.0

Source: Arihant Research, Company Filings

Investment Rationale

Strategic Synergies & festive season to Drive Route Mobile's Growth:
The company anticipates revenue growth of 18-22% for FY25. Historical seasonality trends suggest the company is on track to meet its guidance, with 45%-47% of revenue typically coming in H1 and the balance in H2.During the festive season, significant growth has been observed due to increased usage of the platform by large e-commerce companies and other brands. This trend, combined with strong domestic traffic and contributions from existing customers, indicates a positive trajectory. Additionally, traffic from a few large customers is already benefiting the platform. The company is also focusing on synergies with TeleSign, which are expected to enhance performance in H2 as both companies collaborate to drive more traffic

Growth Potential with Global E-Commerce RFP:
Integration with a large e-commerce company has commenced, and ramp-up efforts are already underway, revealing significant potential from this customer. The current large RFP is globally customer-based, with Route Mobile providing interconnectivity in Asia, Africa, and the Middle East. Both TeleSign and Route Mobile's connectivity in emerging markets is expected to serve as a clear advantage, creating excitement around this RFP opportunity. Participation in a significant global RFP as part of Proximus Group synergy has the potential to drive substantial growth in the coming years. In H1FY25 include a strong cash conversion from EBITDA, which reached 78%

Strategic Synergies to Drive Route Mobile's Growth:
Proximus Opal's acquisition of an 83.1% stake in Route Mobile will help the company enter mature markets like the USA and Europe, expand its product portfolio, and unlock synergies with TeleSign. Thanks to minority shareholders for approving related party transactions, which may take time to ramp up. The synergy was validated by Proximus and Microsoft's five-year strategic partnership on digital communication services, including CPaaS, expected to generate annual revenues of $380 Mn, with Route Mobile's share being 20%.

Strong Growth in New Products and Strategic Focus on Conversational Commerce
Route Mobile’s new product revenue saw strong growth, increasing by 32% YoY. The company launched a WhatsApp-based utility communication service for IRCTC and maintained its leadership in metro ticketing solutions. Route Mobile is also focusing on developing conversational commerce solutions through RCS and WhatsApp, with an emphasis on solving customer problems rather than driving promotional traffic.

Strong Customer Acquisition and Market Focus in H1FY25
Route Mobile added over 300 new customers in H1FY25 across all products, achieving a net revenue retention rate of 105%. India remains the largest market, contributing 51% of revenue by termination. The company continues to focus on emerging markets while leveraging synergies with group companies to enhance its sales and service offerings.

Strong Festive Season and WhatsApp Growth
During the festive season, many brands have been actively using Route Mobile's platform, especially for Idea and domestic traffic, indicating strong growth from existing customers. The company has also begun to see increased traffic from some major customers. WhatsApp experienced a more than 20% volume increase QoQ and over 100% YoY, driven by competitive pricing. However, Route Mobile prefers SMS as the ideal channel for promotions, avoiding a focus on promotional traffic through WhatsApp.

Financial Statements

Income Statement						
Y/E March (INR Mn)	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Revenues	**20,020**	**35,692**	**40,233**	**46,268**	**53,671**	**62,795**
Change (%)	42.4%	78.3%	12.7%	15.0%	16.0%	17.0%
Cost of Goods Sold	15,825	27,826	31,628	36,181	42,131	49,231
Employee costs	1,261	1,969	1,982	2,360	2,684	3,140
Other expenses	**748**	**1,456**	**1,513**	**1,712**	**1,825**	**2,135**
Total operating Expense	**17,834**	**31,251**	**35,122**	**40,253**	**46,640**	**54,506**
EBITDA	**2,186**	**4,442**	**5,111**	**6,015**	**7,031**	**8,289**
EBITDA Margin (%)	**10.9%**	**12.4%**	**12.7%**	**13.0%**	**13.1%**	**13.2%**
Other Income	201	394	405	413	421	430
Depreciation	383	816	861	917	943	977
Interest	52	205	273	285	286	287
PBT	**1,952**	**3,815**	**4,382**	**5,225**	**6,223**	**7,454**
Extra-ordinary	-	-	-	-	-	-
PBT after ext-ord.	**1,952**	**3,815**	**4,382**	**5,225**	**6,223**	**7,454**
Tax	251	484	662	1,045	1,369	1,715
Rate (%)	*12.9%*	*12.7%*	*15.1%*	*20.0%*	*22.0%*	*23.0%*
PAT	**1,701**	**3,331**	**3,720**	**4,180**	**4,854**	**5,740**
Change (%)	*28.2%*	*95.9%*	*11.7%*	*12.4%*	*16.1%*	*18.2%*

Balance Sheet						
Y/E March (INR Mn)	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Sources of Funds						
Share Capital	629	624	628	630	630	630
Reserves & Surplus	16,097	17,580	20,868	24,296	28,276	32,983
Minoritty Interest	21	80	213	213	213	213
Net Worth	**16,746**	**18,284**	**21,708**	**25,138**	**29,118**	**33,825**
Long term debt	-	437	1,350	1,354	1,357	1,360
Short term debt	-	625	2,146	2,232	2,321	2,414
Total Debt	**-**	**1,062**	**3,496**	**3,586**	**3,678**	**3,774**
Capital Employed	**26,587**	**28,852**	**34,719**	**41,563**	**47,535**	**54,559**
Application of Funds						
Net Block	290	344	378	510	629	752
other intangable Asset	9,233	9,180	8,599	9,030	8,890	8,840
Deffered Tax & Non Current Asset & Financial Asset	373	514	3,492	3,492	3,492	3,492
Other Non-Current Assets	5	732	691	691	691	691
Capital WIP	-	10.90	-	-	-	-
Non Current Asset	**9,901**	**10,771**	**13,160**	**13,722**	**13,701**	**13,774**
Investments	134	203	149	149	149	149
Debtors	5,165	7,015	10,716	11,282	13,087	15,312
Cash & bank balance	4,073	4,836	5,423	11,664	15,437	19,650
other Financial & Current Asset	1,126	1,914	2,873	2,602	3,019	3,532
Total current assets	**10,498**	**13,968**	**19,160**	**25,697**	**31,691**	**38,642**
Total Assets	**26,587**	**28,852**	**34,719**	**41,563**	**47,535**	**54,559**

Source: Arihant Research, Company Filings

Financial Statements

Cash Flow Statement						
Y/E March (INR Mn)	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
PBT	**1,952**	**3,815**	**4,551**	**5,225**	**6,223**	**7,454**
Depreciation	383	816	861	917	943	977
Interst Exp	-10	-5	-2	285	286	287
Other Non Cash Item	-156	-151	-35	-21	-21	-21
Cash flow before WC changes	2,169	4,475	5,374	6,406	7,431	8,697
(Inc)/dec in working capital	**-658**	**-3,768**	**-5,494**	**3,312**	**-346**	**-500**
Operating CF after WC changes	1,795	1,067	-230	7,981	5,348	6,461
Less: Taxes	-450	-484	-662	-1,045	-1,369	-1,715
Operating cash flow	**1,346**	**583**	**-892**	**6,936**	**3,979**	**4,747**
(Inc)/dec in F.A	-171	-107	-118	-132	-119	-123
Other	-4,083	57	42	42	42	42
Cash flow from investing	**-8,384**	**-118**	**-22**	**-90**	**-77**	**-81**
Free cash flow (FCF)	**1,175**	**476**	**-1,010**	**6,804**	**3,860**	**4,624**
Proceeds/(Repayment) of current borrowings	-	624.70	1,521.40	85.84	89.28	92.85
Proceeds/(Repayment) of non-current borrowings	(40)	-	2,414.70	-	-	1.00
Interest & Lease Liablity	(14)	-	(250.80)	-	-	-
Dividend	-300	-587	-668	-752	-874	-1033
Intereset exp	-5	-205	-273	-285	-286	-287
Cash flow from financing activities	**8241**	**-167.3**	**2745.2**	**-1381.6**	**-128.2**	**-451.2**
Currency fluctuation arising on consolidation	-	-	-	-	-	-
Net inc /(dec) in cash	**1,202**	**297**	**1,831**	**5,464**	**3,774**	**4,214**
Opening balance of cash	2,699	4,076	4,372	6,201	11,664	15,437
Closing balance of cash	4,076	4,372	6,201	11,664	15,437	19,650

Key Ratios						
Y/E March (INR Mn)	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Per share (INR)						
EPS	27.8	52.3	59.1	66.4	77.1	91.2
CEPS	33.1	66.4	75.6	81.0	92.1	106.7
BVPS	266.4	292.8	345.7	399.3	462.5	537.2
Valuation (x)						
P/E	49.2	26.2	23.2	20.6	17.8	15.0
P/BV	5.1	4.7	4.0	3.4	3.0	2.6
EV/EBITDA	63.2	31.0	27.4	22.3	18.6	15.3
Return Ratios (%)						
Gross Margin	21.0%	22.0%	21.4%	21.8%	21.5%	21.6%
EBIDTA Margin	10.9%	12.4%	12.7%	13.0%	13.1%	13.2%
PAT Margin	8.5%	9.3%	9.7%	9.0%	9.0%	9.1%
ROE	10.2%	18.2%	17.9%	16.6%	16.7%	17.0%
ROCE	10.8%	18.7%	16.9%	17.7%	18.6%	19.4%
Leverage Ratio (%)						
Turnover Ratios						
Asset Turnover (x)	0.8	1.2	1.2	1.1	1.1	1.2
Receivable Days	94	72	97	89	89	89
Payable days	87	48	61	86	86	86

Source: Arihant Research, Company Filings

ArihantCapital
Generating Wealth

Axiscades Technologies Ltd

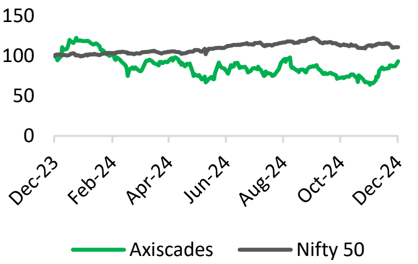
Focusing on growth through sector resilience

CMP: INR 634	
Rating: BUY	
TP: INR 850	
Stock Info	
BSE	532395
NSE	AXISCADES
Bloomberg	AXET IN
Reuters	AXIT.BO
Sector	IT
Face Value (INR)	5
Equity Cap (INR Mn)	210
Mkt Cap (INR Mn)	27,111
52w H/L (INR)	848/421
Avg Yearly Volume (in 000')	203

Shareholding Pattern % *(As on Sept, 2024)*	
Promoters	59.86
FII	0.40
DII	4.08
Public & Others	35.66

Stock Performance (%)	1m	3m	12m
Route Mobile	38.3	8.0	-7.0
Nifty 50	-0.75	-8.5	10.7

Axiscades Vs Nifty 50



Axiscades Technologies Limited is a technology solutions provider specializing in engineering services across various sectors. Its primary business segments include Technology Services and Solutions (73%), offering product design, engineering, and R&D, and Strategic Technology Solutions (27%), focused on defense and avionics integration. In FY24, the company saw strong performance in Aerospace, securing a significant $18 mn OEM deal, and in Defense, delivering 40 Counter Drone Systems. It also acquired Add-solution in the Automotive sector and strengthened its position in the energy market with the acquisition of EPCOGEN. Additionally, Axiscades is focusing on expanding its presence in Semiconductors and Heavy Engineering, aiming to transition towards higher-margin digital and embedded solutions.

What went wrong

Axiscades Technologies Limited's stock price has fallen by 23% over the one year led by issue with VW, company has acknowledged the need to reassess both revenue and profit guidance due to the ongoing headwinds in the automotive industry, which are impacting the company's overall performance.

What are the triggers for turnaround

The company expects defense revenues to contribute 60% of total revenues over the next 18 months, backed by a strong order pipeline. Management is focused on improving margins, particularly with the anticipated growth in production revenues in H2 2024. With promising prospects in the defense sector, the company is optimistic about surpassing its revenue and EBITDA targets. Additionally, the anti-drone systems segment presents a visible market opportunity of INR 9,000 Mn for FY25–FY26, with the potential to secure around INR 3,000 Mn in orders and capture one-third of the market share. Growth in this segment is expected to be 15-20%, with margin improvements likely. Currently, the company holds the 4th position in the anti-drone market.

Outlook and Valuation: The company aims to increase the defence segment's contribution to 60% of total revenues within the next 12-18 months, supported by a strong order pipeline, production ramp-ups, and strategic partnerships in advanced systems. Aerospace continues to grow steadily with new contracts, while the semiconductor business is rebounding with high-margin opportunities and government support. Despite challenges in the automotive sector, recovery is expected by FY26, and the company remains committed to diversifying its portfolio and optimizing operations. With an expected strong performance in H2FY25, led by defence and aerospace, and a target to achieve net zero debt within 2-3 quarters, the company is well-positioned for sustainable growth and profitability. **We value the stock on a P/E (x) multiple of 22x to its FY27E EPS INR 38.7, which yields a target price of INR 850 per share. We have Buy rating on the stock.**

Financial overview

Y/E March (INR Mn)	FY24	FY25E	FY26E	FY27E
Revenues	9,551	11,360	13,740	16,688
EBITDA	1,332	1,625	2,006	2,553
EBITDA Margin	13.95%	14.30%	14.60%	15.30%
PAT	334	888	1,191	1,620
EPS	8.0	21.2	28.4	38.7
PE	80.5	30.3	22.6	16.6

Source: Arihant Research, Company Filings

Abhishek Jain
abhishek.jain@arihantcapital.com
022 67114851

Jyoti Singh
jyoti.singh@arihantcapital.com
022 6711483

Investment Rationale

Improvement in Margins and Revenue Growth with Caterpillar Partnership
The company's main client is Caterpillar, with operations in the US, UK, and India, contributing INR 1500 Mn in revenue from various products. Currently, 99% of time & material resources are deployed for this client. However, issues with the billing rate, downgraded to India rates, have led to negative margins. This situation is expected to improve significantly starting from Q1FY26, as fixed costs are revamped, leading to a higher revenue run rate and improved margins. Despite the challenges, Caterpillar is unlikely to incur losses, with EBITDA expected to grow by 4-5%, making the relationship more profitable.

Resilience in Semiconductors Amid Sector Recovery
The semiconductor segment reported INR 320 Mn revenue in Q2FY25, with 36% QoQ growth and 22% EBITDA margin, reflecting operational efficiency. Benefiting from government incentives, the company expects accelerated growth in H2FY25 as sector inventory pressures ease.

Enhancing financial health through debt reduction
With debt repayment of INR 520 Mn in Q2 through QIP proceeds, finance costs declined 26% YoY to INR 86 Mn. The company aims to achieve a net zero debt position within the next 2-3 quarters, reflecting its ongoing efforts to optimize capital structure and strengthen financial stability. These measures, combined with sustained cash flow generation and focused cost rationalization, are expected to enhance profitability and shareholder value in the coming quarters.

Strong Growth in Defense Verticals
Defense contributed 32% of Q2 revenue, growing 14% YoY with order intake of INR 1,210 Mn. The company aims to scale defense revenues to 60% of total revenue in 12-18 months, leveraging government support and advanced manufacturing capabilities for high-margin production.

Aerospace Vertical Shows Steady Growth Potential
The aerospace vertical maintained its growth momentum, contributing INR 760 Mn to Q2FY25 revenues—a 19% YoY increase. This growth was fueled by the company's enhanced service offerings, deeper engagement with aerospace OEMs, and its success in securing a $15 Mn aerostructures contract. With a 3-year contract renewal and additional programs in digital manufacturing, the company is well-positioned to capitalize on the rising global demand for aircraft and aerospace R&D, ensuring steady growth in this sector.

Strategic Acquisition of EPCOGEN to Strengthen Energy Sector Presence
Axiscades Technologies acquired EPCOGEN, a company specializing in Oil & Gas, Refineries, Petrochemicals, and Renewable Power, for approximately INR 260 million. EPCOGEN's clientele includes major players like China Petroleum and a UK-based company. With a low base, it is expected that the energy segment will surpass the growth of the aerospace sector in the coming period.

Financial Statements

Income Statement						
Y/E March (INR Mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Revenues	6,103	8,216	9,551	11,360	13,740	16,688
Change (%)	16.5%	34.6%	16.2%	19.0%	21.0%	21.5%
Raw materials	1,167	1,792	1,855	2,215	2,611	3,171
Employee costs	3,121	3,609	5,001	5,817	7,007	8,344
Other expenses	1,109	1,360	1,362	1,704	2,116	2,620
Total Expenses	**5,397**	**6,761**	**8,219**	**9,736**	**11,734**	**14,135**
EBITDA	**706**	**1,456**	**1,332**	**1,625**	**2,006**	**2,553**
EBITDA Margin	11.6%	17.7%	14.0%	14.3%	14.6%	15.3%
Deducting-Net one time item	-	133	-	-	-	-
Adj. EBITDA	-	1323	-	-	-	-
Adj. EBITDA margin %	-	16.10%	-	-	-	-
Other Income	91	60	99	284	344	417
Depreciation	251	265	338	353	362	370
Interest	158	359	564	286	286	286
PBT	**389**	**891**	**530**	**1,269**	**1,702**	**2,314**
Extra-ordinary	-17	-680	-	-	-	-
PBT after ext-ord.	**368**	**210**	**530**	**1,269**	**1,702**	**2,314**
Tax	141	258	196	381	510	694
Rate (%)	*38.3%*	*122.8%*	*37.0%*	*30.0%*	*30.0%*	*30.0%*
PAT	**227**	**-48**	**334**	**888**	**1,191**	**1,620**
MI & Associates	-9	-0.4	-6	0	0	0
Adjusted PAT	**227**	**-53**	**334**	**888**	**1,191**	**1,620**
Change (%)	*0.0%*	*0%*	*0.0%*	*170.8%*	*34.1%*	*36.0%*

Balance Sheet						
Y/E March (INR Mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Sources of Funds						
Share Capital	189.7	191.2	210	210	210	210
Reserves & Surplus	3,123	3,190	3,518	4,406	5,597	7,217
Net Worth	**3,313**	**3,381**	**3,727**	**4,616**	**5,807**	**7,427**
Loan Funds	**488**	**3,140**	**2,385**	**2,385**	**2,385**	**2,385**
Deferred Tax & other liabilities	-	-	-	-	-	-
Capital Employed	**3,854**	**6,579**	**6,176**	**7,064**	**8,256**	**9,875**
Application of Funds						
Gross Block	3,001	3,362	4,156	4,256	4,355	4,453
Less: Accumulated Depreciation	1,326	1,592	1,930	2,283	2,645	3,015
Net Block	1,675	1,770	2,226	1,973	1,710	1,438
CWIP	-	-	-	-	-	-
Other non current assets	350	201	176	176	176	176
Deferred tax assets	280	198	216	216	216	216
Net fixed assets	**2,305**	**2,169**	**2,618**	**2,365**	**2,102**	**1,830**
Investments	**838**	**335**	**303**	**303**	**303**	**303**
Debtors	1,452	1,790	2,341	2,785	3,368	4,091
Inventories	516	659	693	813	966	1,173
Cash & bank balance	1,054	996	1,529	4,494	6,489	9,064
Loans & advances & other CA	391	1,058	1,029	1,029	1,029	1,029
Total current assets	**3,412**	**5,143**	**6,413**	**9,122**	**11,852**	**15,357**
Current liabilities	3,869	2,198	4,779	6,049	7,316	8,885
Provisions	237	267	307	307	307	307
Net current assets	**-694**	**2,678**	**1,327**	**2,766**	**4,230**	**6,165**
Total Assets	**3,854**	**6,579**	**6,176**	**7,056**	**8,256**	**9,919**

Source: Arihant Research, Company Filings

Financial Statements

Cash Flow Statement						
Y/E March (INR Mn)	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
PBT	**368**	**210**	**530**	**1,269**	**1,702**	**2,314**
Depreciation	251	265	338	353	362	370
Interest & others	58	295	458	2	-57	-131
Cash flow before WC changes	676	770	1,326	1,624	2,006	2,553
(Inc)/dec in working capital	**1,087**	**-2,789**	**2,063**	**707**	**531**	**640**
Operating CF after WC changes	1,763	-2,019	3,389	2,331	2,537	3,193
Less: Taxes	-141	-258	-196	-381	-510	-694
Operating cash flow	**1,622**	**-2,277**	**3,193**	**1,950**	**2,027**	**2,499**
(Inc)/dec in F.A + CWIP	139	312	-679	-100	-99	-98
(Pur)/sale of investment	44	503.14	31.15	-	-	-
Cash flow from investing	**183**	**815**	**-648**	**-100**	**-99**	**-98**
Free cash flow (FCF)	**1,822**	**-2,177**	**2,993**	**1,850**	**1,928**	**2,401**
Loan raised/(repaid)	-26	2,652	(755.40)	-	-	-
Equity raised	1	1.43	18.74	-	-	-
Interest & others	-1,574	71	330	1,115	67	174
Dividend	-	-	-	-	-	-
Cash flow from financing activities	**-1,599**	**2,724**	**-407**	**1,115**	**67**	**174**
Net inc /(dec) in cash	**206**	**1,262**	**2,139**	**2,966**	**1,995**	**2,575**
Opening balance of cash	848	1,054	996	1,529	4,494	6,489
Closing balance of cash	1,054	2,315	3,135	4,494	6,489	9,064

Key Ratios						
Y/E March (INR Mn)	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Per share (Rs)						
EPS	5.9	-1.4	8.0	21.2	28.4	38.7
CEPS	12.6	5.6	15.9	29.6	37.1	47.5
BVPS	87.3	89.1	89.0	110.2	138.6	177.2
DPS	-	-	-	-	-	-
Payout (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Valuation (x)						
P/E	109.6	-468.6	80.5	30.3	22.6	16.6
P/CEPS	51.0	114.7	40.4	21.7	17.3	13.5
P/BV	7.4	7.2	7.2	5.8	4.6	3.6
EV/EBITDA	33.7	18.2	20.8	15.3	11.4	7.9
Dividend Yield (%)	-	-	-	-	-	-
Return Ratio (%)						
EBIDTA Margin	11.6%	17.7%	14.0%	14.3%	14.6%	15.3%
PAT Margin	3.7%	-0.6%	3.4%	7.8%	8.7%	9.7%
ROE	6.8%	-1.6%	8.8%	19.2%	20.5%	21.8%
ROCE	11.8%	18.1%	16.1%	18.0%	19.9%	22.1%
Leverage Ratio (%)						
Total D/E	0.15	0.93	0.64	0.52	0.41	0.32
Net D/E	-0.2	0.6	0.2	-0.5	-0.7	-0.9
Turnover Ratios						
Asset Turnover (x)	1.6	1.2	1.5	1.6	1.7	1.7
Inventory Days	161	134	136	134	135	135
Receivable Days	87	80	89	89	89	89
Payable days	246	110	194	194	194	194

Source: Arihant Research, Company Filings

ArihantCapital
Generating Wealth

Birlasoft Ltd

Margin improvement from Q4FY25

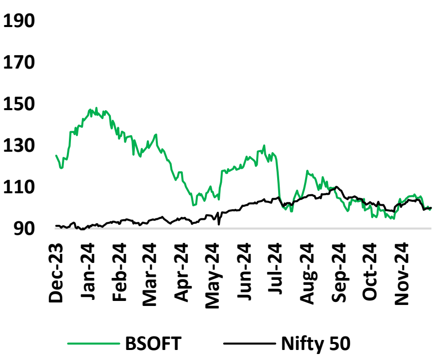
CMP: INR 560	
Rating: BUY	
TP: INR 690	

Stock Info	
BSE	532400
NSE	BSOFT
Bloomberg	BSOFT:IN
Reuters	BIRS.NS
Sector	IT Consulting & Software
Face Value (INR)	2
Equity Cap (INR Mn)	551.1
Mkt Cap (INR Mn)	159,340
52w H/L (INR)	862/536
Avg Yearly Volume (in 000')	341

Shareholding Pattern % *(As on Sept, 2024)*	
Promoters	40.90
FII	18.82
DII	19.55
Public & Others	20.73

Stock Performance (%)	1m	3m	12m
BSOFT	-4.1	-4.6	-21.6
Nifty 50	-1.9	-9.0	9.9

BSOFT Vs Nifty 50



Abhishek Jain
abhishek.jain@arihantcapital.com
022 67114851

Jyoti Singh
jyoti.singh@arihantcapital.com
022 6711483

Birlasoft Ltd (BSOFT) offers software development and IT consulting services, focusing on BFSI, Life Sciences, Energy, and Manufacturing sectors. Headquartered in Pune, it is part of the CK Birla Group, a $2.8 billion global conglomerate. The Group's diverse presence across industries like technology, automotive, and healthcare provides Birlasoft with strong financial backing and strategic advantages.

What went wrong

Birlasoft Ltd's stock price has fallen by 33% over the one year primarily due to delays in new project ramp-ups, with the manufacturing vertical, heavily reliant on ERP, being particularly affected. Client delays and reduced discretionary spending in H1FY25 further impacted performance. Management acknowledges the current margin pressures and is focused on improving them. Plans are in place to address operational challenges and enhance deal flow in the coming quarters, with a long-term strategy aimed at sustainable growth and margin recovery despite short-term fluctuations.

What are the triggers for turnaround

The company is focused on securing more annuity deals, transformational projects, and those with a higher digital/data component, while reducing cost takeout and vendor consolidation deals. The company aims to improve its offshore ratio and minimize onsite engagements, emphasizing the importance of pricing flexibility. Over the next six months, Birlasoft is launching various internal initiatives to drive margin expansion. Key strategies include reducing onsite ratios, enhancing pricing, increasing annuity deal revenue, and lowering subcontracting costs, with the goal of achieving a 15-16% margin once operations return to normal levels.

Outlook and Valuation

Birlasoft experienced solid top-line growth in H1FY25 but faced margin pressures due to higher onsite revenues and pricing challenges. While revenue rebounded from delayed project initiations and consolidation deals, upfront investments and pricing flexibility are expected to impact margins in the short term. EBITDA margins stood at 13.1%, reflecting a 100 bps impact from increased onsite revenue. Wage hikes in Q3 will reduce margins by 150 bps, though a recovery is expected in Q4. The company anticipates continued growth, driven by a healthy deal pipeline and cost optimization deals, with projected revenue growth of 10.8% CAGR from FY24 to FY27E. Based on a PE of 24x FY27E EPS, we have BUY rating on the stock with a target price of INR 690 per share.

Financial overview

Y/E Mar	FY22	FY23	FY24	FY25E	FY26E	FY27E
Revenue in USD mn	534	595	637	674	742	820
Sales	41,304	47,948	52,781	56,922	62,340	68,920
EBITDA	6,401	6,715	8,362	8,393	9,613	10,854
Reported PAT	4,638	4,826	6,238	6,276	7,426	8,448
EBITDAM (%)	*15.5*	*14.0*	*15.8*	*14.7*	*15.4*	*15.7*
EPS	16.7	17.4	22.5	22.8	26.9	30.7
PE (x)	*34.5*	*34.5*	*26.7*	*26.3*	*22.3*	*19.6*

Source: Arihant Research, Company Filings

Investment Rationale

Gaining Wallet Share Through Consolidation Deals

Wallet share has been gained through onsite-centric consolidation deals requiring pricing flexibility, which will become a margin lever as engagements mature, while investments are enhancing recognition of capabilities in the marketplace.

Focus on Margin Expansion Through Strategic Internal Projects

The company has launched several internal projects, focusing on expanding margins over the next six months. Key strategies for margin growth include reducing the onsite ratio, improving pricing, enhancing revenue quality (through annuity deals), and lowering subcontracting costs. The company expects a 150bps margin impact in the next quarter due to seasonality and wage hikes. In the longer term, the target is to achieve margins of 15-16% once they stabilize. The main drivers for margin improvement are expected to be revenue growth and improved operational execution.

Healthy pipeline led by strong relationship with clients

The proactive deal pipeline remains robust, although customer decision-making is taking longer, which affects TCV performance. However, a stronger TCV performance is anticipated in H2FY25 compared to H1FY25. 50% of incoming deals are either from existing clients or net new, which is a positive indicator for future growth.

Outlook on Demand Environment and Service-Line Performance

The company anticipates no significant changes in the macro environment, maintaining a cautious and uncertain stance. Delays in client decision-making are expected to persist. In terms of verticals, BFSI is performing well, while life sciences may remain soft for a few more quarters but is expected to recover afterward. Manufacturing is showing signs of rebound. The company foresees growth in ERP, infrastructure services, and AI/Gen AI, with strong opportunities in Oracle and SAP. While Q3 may be soft due to seasonality, it is expected to stabilize at normalized levels.

Company's Strategy for Growth

Management is focused on securing more annuity and transformational deals, particularly those with a higher proportion of digital/data components, cost take-out/vendor consolidation, and an increased offshore ratio while reducing onsite deals. They are also placing a strong emphasis on maintaining pricing flexibility during deal negotiations.

Financial Statements

Profit & Loss Account						
Y/E Mar	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Revenue in USD mn	**534**	**595**	**637**	**674**	**742**	**820**
Growth (%)	11.3%	11.4%	7.09%	5.7%	10.2%	10.6%
Net sales	41,304	47,948	52,781	56,922	62,340	68,920
Growth (%)	16.2%	16.1%	10.08%	7.8%	9.5%	10.6%
Consumption of materials	-	-	-	-	-	-
Staff Expenses	23,689	28,131	30,483	33,159	35,733	38,954
Other operating expenses	11,214	13,102	13,936	15,369	16,994	19,113
Total Expenditure	34,902	41,233	44,419	48,528	52,727	58,067
EBITDA	**6,401**	**6,715**	**8,362**	**8,393**	**9,613**	**10,854**
EBITDA Margin	**15.50%**	**14.00%**	**15.84%**	**14.75%**	**15.42%**	**15.75%**
Depreciation	765	823	850	855	891	914
Operating profit	**5,636**	**5,892**	**7,512**	**7,538**	**8,721**	**9,939**
Other income	662	228	1,035	970	1,350	1,500
EBIT	**6,298**	**6,120**	**8,547**	**8,508**	**10,071**	**11,439**
EBIT Margin			**16.19%**	**14.95%**	**16.16%**	**16.60%**
Interest	130	186	199	173	170	175
Exceptional items	-	-	-	-	-	-
Profit before tax	**6,168**	**5,934**	**8,348**	**8,335**	**9,901**	**11,264**
Tax	1,530	1,108	2,110	2,059	2,475	2,816
Share in profit of associate cos	24.8%	18.7%	25.3%	24.7%	25.0%	25.0%
Minority interest	-	-	-	-	-	-
Reported net profit	**4,638**	**4,826**	**6,238**	**6,276**	**7,426**	**8,448**
EO Items	-	-	-	-	-	-
Adjusted net profit	**4,638**	**4,826**	**6,238**	**6,276**	**7,432**	**8,448**
Share O/s mn	278	278	278	276	276	276
Adj. EPS INR	**16.7**	**17.4**	**22.5**	**22.8**	**26.9**	**30.7**

Balance Sheet						
Y/E Mar	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
APPLICATION OF FUNDS :						
Non Current Assets	**9,500**	**9,431**	**8,723**	**10,047**	**11,482**	**13,034**
Fixed Assets	1,562	1,561	1,142	2,424	3,683	5,038
Capital work in progress	17	65	116	-	-	-
Goodwill & other Intangibles	4,568	4,896	4,957	4,957	4,957	4,957
Noncurrent investment	552	-	-	-	-	-
Deferred tax assets	1,391	1,663	1,283	1,391	1,507	1,633
Long term loans and advances	162	-	-	-	-	-
Other non-current assets	1,249	1,246	1,224	1,276	1,336	1,406
Current Assets	**24,333**	**21,698**	**27,674**	**37,832**	**42,900**	**48,996**
Current investment	7,861	4,908	10,336	10,336	10,336	10,336
Inventories	-	-	-	-	-	-
Sundry debtors	8,488	9,071	10,365	8,577	9,394	10,385
Cash and bank	3,828	5,567	4,249	16,032	20,137	25,087
Short loans and advances	-	-	-	-	-	-
Others current assets	4,156	2,152	2,723	2,886	3,033	3,188
Total Assets	**33,833**	**31,873**	**39,256**	**47,879**	**54,382**	**62,030**
SOURCES OF FUNDS :						
Share Capital	559.0	549.7	551.1	551.1	551.1	551.1
Reserves	25,272	23,933	29,889	37,317	42,952	49,609
Total Shareholders Funds	**25,831**	**24,483**	**30,440**	**37,868**	**43,503**	**50,160**
Minority interest	-	-	-	-	-	-
Non-Current Liabilities	**1,404**	**1,150**	**1,290**	**1,373**	**1,463**	**1,561**
Long term borrowings	-	-	-	-	-	-
Deferred tax liability	-	-	-	-	-	-
Other long term liabilities	912	662	578	589	601	613
Long-term provisions	492	487	712	784	862	948
Current Liabilities	**6,599**	**6,187**	**7,458**	**8,638**	**9,416**	**10,309**
Short term borrowings	-	-	-	-	-	-
Trade payables	2,095	2,313	2,805	3,587	3,928	4,343
Other current liabilities	4,108	3,236	4,022	4,388	4,792	5,235
Short term provisions	396	639	631	663	696	731
Total Equity & Liabilities	**33,833**	**31,873**	**39,256**	**47,879**	**54,382**	**62,030**

Source: Arihant Research, Company Filings

Financial Statements

Cash Flow Statement						
Y/E Mar	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
PBT	6,168	5,934	8,348	8,335	9,901	11,264
Non-cash adjustments	233	780	15	58	(289)	(411)
Changes in working capital	(2,436)	1,183	(285)	2,852	(134)	(196)
Tax Paid	(1,828)	(1,397)	(1,815)	(2,142)	(2,565)	(2,913)
Cashflow from operations	**2,137**	**6,500**	**6,263**	**9,103**	**6,914**	**7,744**
Capital expenditure	(1,043)	(1,199)	(544)	(2,021)	(2,150)	(2,270)
Change in investments	(2,704)	3,505	(5,428)	-	-	-
Other investing cashflow	1,488	231	1,057	918	1,290	1,430
Cashflow from investing	**(2,260)**	**2,538**	**(4,915)**	**(1,102)**	**(860)**	**(840)**
Issue of equity	4	(9)	1	-	-	-
Issue/repay debt	-	-	-	-	-	-
Interest Paid	(130)	(186)	(199)	(173)	(170)	(175)
Increase / (Decrease) in Loan Funds						
Dividends paid	(1,109)	(1,110)	(1,663)	(1,791)	(1,791)	(1,791)
Other financing cashflow	(89)	(249)	(84)	12	12	12
Cashflow from financing	**(1,323)**	**(1,555)**	**(1,946)**	**(1,953)**	**(1,949)**	**(1,954)**
Change in cash & cash eq	**(1,446)**	**7,484**	**(598)**	**6,049**	**4,104**	**4,950**
Opening cash & cash eq	**3,828**	**5,567**	**4,249**	**16,032**	**20,137**	**25,087**
Closing cash & cash eq	2,382	13,050	3,651	22,081	24,241	30,037
Closing cash & Bank Bal.	3,304	13,948	3,975	22,405	24,565	30,360
Free cash flow to firm	**1,094**	**5,302**	**5,719**	**7,083**	**4,764**	**5,474**

Ratios						
Y/E Mar	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
PER SHARE						
EPS INR	16.7	17.4	22.5	22.8	26.9	30.7
CEPS INR	19.5	20.4	25.5	23.9	25.9	27.2
Book Value INR	93.1	88.2	109.7	137.4	157.9	182.0
VALUATION						
EV / Net Sales	3.6	3.3	2.9	2.4	2.2	1.9
EV / EBITDA	23.1	23.2	18.2	16.6	14.0	12.0
P / E Ratio	34.5	34.5	26.7	26.3	22.3	19.6
P / BV Ratio	6.2	6.8	5.5	4.4	3.8	3.3
GROWTH YOY%						
Sales Growth	16.2	16.1	10.1	(0.5)	1.7	3.2
EBITDA Growth	20.9	4.9	24.5	(7.3)	6.3	5.4
Net Profit Growth	44.5	4.1	29.3	(7.1)	9.9	6.2
Gross Fixed Asset Growth	16.0	16.0	17.5	16.0	15.1	14.5
PROFITABILITY						
Gross Profit/ Net sales ((%)	42.6	41.3	42.2	41.7	42.7	43.5
EBITDA / Net Sales (%)	15.5	14.0	15.8	14.7	15.4	15.7
EBIT / Net sales(%)	13.6	12.3	14.2	13.2	14.0	14.4
NPM / Total income (%)	11.2	10.1	11.8	11.0	11.9	12.3
ROE (%)	18.0	19.7	20.5	16.6	17.1	16.8
ROCE (%)	23.1	23.9	26.9	21.7	22.4	22.1
Tax / PBT %	24.8	18.7	25.3	24.7	25.0	25.0
TURNOVER						
Net Woking Cycle	56	51	52	37	41	46
Debtors Velocity (Days)	75	69	72	60	64	69
Inventory (Days)	-	-	-	-	-	-
Creditors Velocity (Days)	19	18	19	23	23	23
Current Ratio	3.7	3.5	3.7	4.4	4.6	4.8
Quick Ratio	3.7	3.5	3.7	4.4	4.6	4.8
LIQUIDITY						
Gross Asset Ratio	6.9	6.9	6.5	5.6	5.2	5.0
Total Asset Ratio	1.2	1.5	1.3	1.2	1.1	1.1
Net Debt-Equity Ratio	(0.5)	(0.4)	(0.5)	(0.7)	(0.7)	(0.7)
Interest Coverage	48.4	32.9	42.9	49.2	59.2	65.4

Source: Arihant Research, Company Filings

ArihantCapital
Generating Wealth

Dollar Industries Ltd.

CMP: INR 483

Rating: BUY

Target Price: INR 603

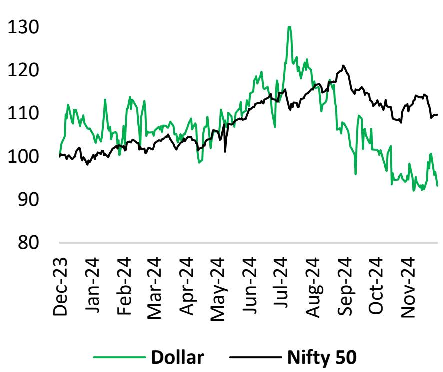
Stock Info	
BSE	541403
NSE	DOLLAR
Bloomberg	DOLLAR IN
Reuters	DOLL.NS
Sector	Textile
Face Value (INR)	2
Equity Capital (INR Cr)	11
Mkt Cap (INR Cr)	2,752
52w H/L (INR)	666 / 435
Avg Yearly Vol (in 000')	141

Shareholding Pattern %
(As on September, 2024)

Promoters	72.21
FII	1.98
DII	0.71
Public & Others	25.09

Stock Performance (%)	1m	3m	12m
Dollar Industries	(5.8)	(5.2)	7.5
Nifty 50	(1.8)	(9.0)	10.1

Dollar Industries Vs Nifty 50



Abhishek Jain
abhishek.jain@arihantcapital.com
022 67114872

Anushka Chitnis
Anushka.chitnis@arihantcapital.com

Guidance: They expect to attain the INR 2,000 Cr top line target by FY26 with margins in the range of 13-14%. The sustainable long- term EBITDA margin is targeted at 14-15%. They also plan to become debt free by FY27-28 and are aiming for a cash conversion cycle of 135 days by FY26.

SAP Hana implementation successfully completed and stabilized.

Success of Project Lakshya: They added 17 new distributors in H1, bringing the total to 307. This project has contributed 30.6% to H1 revenue (up from 26.3% in FY24). They maintain their target of 65-70% revenue contribution from this project by FY26.

E-commerce and Quick- commerce growth in strides: They have added platforms like Zepto and Swiggy Instamart with plans to onboard more players such as Flipkart Minute and Myntra Speed. Ecommerce revenue growth was 210.8% YoY for Q2 and 187.4% YoY, contributing 5.4% of revenue for H1.

EBO Network expansion: They are operating 17 EBOs under the FOFO model. With a target to reach 125 EBOs by 2026. Competitive Landscape: Competitive intensity has remained high for the past few quarters post covid although now, discounting has stabilized

Marketing Initiatives: 40-45% of the total budget was spent on TV commercials, 20% on digital marketing, and the remainder on outdoor holdings, retail branding, and point-of-sale visibility.

No price hikes were taken in the past year; a planned hike in Q1 was reversed due to competitive pressures.

Exports: Currently present in 15 countries, aiming for 11% of total revenue from 30 countries by FY26.

Valuation & Outlook: Despite competitive pressures, the company has been consistent with its revenue and profitability, and we expect major margin recapture to take place in H2 with thermal wear. We assign a TP of INR 603 valued at a P/E multiple of 25x the FY26E EPS of INR 24.1, yielding an upside of 25%, and a 'BUY' rating.

INR Cr	FY23	FY24	FY25E	FY26E
Revenue	1,394	1,572	1,718	1,938
YoY growth (%)	3.2	12.8	9.3	12.8
Operating profit	98	159	180	223
OPM (%)	7.0	10.1	10.5	11.5
Reported PAT	53	91	104	137
YoY growth (%)	(64.1)	72.1	13.6	31.8
EPS (Rs)	9.4	16.1	18.3	24.1
P/E (x)	51.6	30.0	26.4	20.0
Price/Book (x)	3.9	3.5	3.2	2.8
EV/EBITDA (x)	29.9	19.5	16.0	12.6
Debt/Equity (x)	0.3	0.4	0.4	0.3
RoE (%)	7.5	12.3	12.6	14.7

Source: Arihant Research, Company Filings

There was a slight drop in gross margin due to incentives on thermal products, with raw material prices remaining stable. The addition of distributors under Project Lakshya in H1 was lower than expected.

What wasn't working for the company:

- Weak winters for the past 2 years led to a reduced share of premium thermal sales.
- Low penetration in the south.
- Soaring cotton and yarn prices in a post- covid environment.
- Build Up of dealer inventories.

What is turning around for the company:

- Strong winters in FY25 will boost the share of premium wear.
- The company is actively working on growing their southern presence.
- Cotton and yarn prices have now corrected significantly.
- High-cost inventories have now cleared out of the dealer system.

Income statement (INR cr)	FY23	FY24	FY25E	FY26E
Revenue	**1,394**	**1,572**	**1,718**	**1,938**
Net Raw Materials	981	1066	1069	1211
Advt & Promotion	223	341	330	378
Employee Cost	77	89	98	116
Other Expenses	238	258	371	388
EBITDA	**98**	**159**	**180**	**223**
EBITDA %	**7.0**	**10.1**	**10.5**	**11.5**
Depreciation	(18)	(21)	(23)	(25)
Interest expense	(14)	(18)	(25)	(23)
Other income	5	4	5	6
Share of profits associate & JV	(6)	(2)	(2)	(2)
Profit before tax	**66**	**122**	**137**	**180**
Taxes	(13)	(30)	(33)	(43)
Reported Net profit	**52**	**91**	**104**	**137**
EPS	**9.1**	**16.1**	**18.3**	**24.1**

Balance sheet Consolidated (INR cr)	FY23	FY24	FY25E	FY26E
Equity capital	11	11	11	11
Reserves	696	770	857	976
Net worth	**707**	**781**	**868**	**988**
Debt	201	349	319	289
Other non-current liabilities	11	12	12	12
Total Liabilities	**920**	**1,146**	**1,203**	**1,292**
Fixed assets	83	212	154	157
Capital Work In Progress	88	17	28	31
Other non current assets	45	49	14	16
Net working capital	**698**	**860**	**831**	**858**
Inventories	358	487	445	471
Sundry debtors	428	493	525	565
Loans & Advances	0	69	19	22
Other current assets	65	81	91	102
Sundry creditors	(138)	(182)	(214)	(262)
Other current liabilities & Provisions	(16)	(88)	(36)	(40)
Cash	1	2	167	221
Other Financial Assets	5	3	5	5
Total Assets	**920**	**1,146**	**1,203**	**1,292**

Cashflow Consolidated (INR cr)	FY23	FY24	FY25E	FY26E
Profit before tax	66	122	137	180
Depreciation	18	21	23	25
Tax paid	(13)	(30)	(33)	(43)
Working capital Δ	43	(162)	28	(27)
Operating cashflow	**113**	**(49)**	**155**	**135**
Capital expenditure	(55)	(79)	24	(31)
Free cash flow	**58**	**(128)**	**179**	**104**
Equity raised	(7)	(0)	-	-
Others	(12)	(5)	33	(2)
Debt financing/disposal	(36)	148	(30)	(30)
Dividends paid	(10)	(17)	(17)	(17)
Other items	8	4	-	-
Net Δ in cash	**1**	**1**	**165**	**54**
Opening Cash Flow	**1**	**1**	**2**	**167**
Closing Cash Flow	**1**	**2**	**167**	**221**

Source: Arihant Research, Company Filings

IIFL Finance Ltd

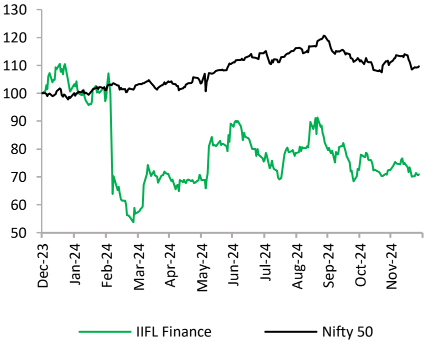
CMP: INR 413
Rating: BUY
Target Price: 650

Stock Info	
BSE	532636
NSE	IIFL
Bloomberg	IIFL:IN
Reuters	IIFL.NS
Sector	NBFC
Face Value (INR)	2
Equity Capital (INR Cr)	84.8
Mkt Cap (INR Cr)	17,510
52w H/L (INR)	651/ 304
Avg Yearly Vol (in 000')	2,42,805

Shareholding Pattern % *(As on September, 2024)*	
Promoters	24.91
Public & Others	75.09

Stock Performance (%)	1m	6m	12m
IIFL Finance Ltd	-1.8	-19.2	-28.9
Nifty	-1.3	-1.4	9.9

IIFL Vs Nifty



Abhishek Jain
abhishek.jain@arihantcapital.com
Harshit Jain
harshit.jain@arihantcapital.com

IIFL Finance Ltd is a diversified NBFC in India engaged in the business of loans and mortgages along with its subsidiaries. It offers a wide spectrum of products such as Home loan, Gold loan, business loan, microfinance, capital market finance and developer & construction finance, etc.

Q2FY25 performance

IIFL Finance's Q2FY25 NII declined 6% YoY and ~7% QoQ to ~INR 13.4bn. Other income stood at ~INR 2.5bn (PY: INR 1.9bn) because of higher treasury and assignment income. Opex grew 8% YoY to INR 7.3bn with the cost-income ratio at 46% (PQ: 52% and PY: 42%). PPoP stood at INR 8.5b, down ~9% YoY. Credit costs rose to ~3.6% (PQ: 2.1 and PY: ~2.4%) primarily due to high credit costs in its microfinance and MSME/digital loans segments. PBT, before exceptional items, declined 35% YoY to INR 4.5bn. Loss during the quarter stood at ~INR 1.6bn due to one-off provisions of ~INR5.9b on AIF investments. For H1FY25, PAT declined ~86% YoY. Further, Gold loan AUM stood at ~INR 108bn as of Sep'24. Disbursements (core products) declined ~54% YoY to ~INR 73bn, mainly driven by a ban on gold loans and sharp deceleration in microfinance and LAP disbursements. However, IIFL resumed disbursing gold loans after the RBI lifted restrictions, with gold loan disbursements of ~INR 13bn in Q2.

What went wrong?

In March 2024, the RBI imposed restrictions on IIFL Finance's gold loan operations due to supervisory concerns, including issues with gold purity assessments and breaches in loan-to-value ratios. These restrictions prohibited the company from sanctioning, disbursing, or selling gold loans, significantly impacting its business.

What are the triggers for turnaround?

On September 19, 2024, the RBI lifted these restrictions, allowing IIFL Finance to resume its gold loan activities immediately. In response to the lifted restrictions, IIFL Finance has outlined plans to raise approximately INR 100 billion ($1.2 billion) through debt instruments over the next six months to strengthen its financial position and diversify its borrowing sources. Additionally, the company intends to recruit 3,000 to 4,000 employees to bolster its gold loan business and is exploring the possibility of listing its mortgage and microfinance subsidiaries.

Outlook and Valuation: **The momentum in gold business is expected to be back to where it was prior to the RBI ban. MFI loan book will likely continue to consolidate. Microfinance business is going through challenging times amid concerns about over-leveraging. We expect this stress to persist in the current and next quarter, but anticipate a rebound thereafter. In the HFC, the company has guided for an AUM growth of 17-18%. Industry stress in unsecured loans is in the personal and consumer loans. However, the focus of IIFL in its digital loans is on unsecured business loans, which are protected by insurance schemes such as CGTMSE. Based on above, we have a positive outlook on the company. We have a TP of INR 650 based on 1.9x of P/ ABV FY26E.**

Arihant Capital
Generating Wealth

Meghmani Organics Ltd

On the path to recovery with portfolio expansion

CMP: INR 77

Rating: BUY

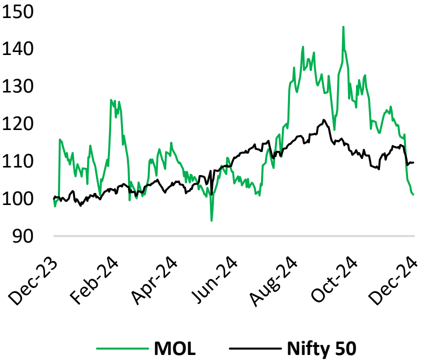
TP: INR 195

Stock Info	
BSE	543331
NSE	MOL
Sector	Agrochemicals
Face Value (INR)	1
Equity Capital (INR Mn)	254.3
Mkt Cap (INR Mn)	19,860
52w H/L (INR)	116/71.4
Avg Daily Vol (in 000')	1,978

Shareholding Pattern % *(As on June, 2024)*	
Promoters	49.33%
Public & Others	50.67%

Stock Performance (%)	1m	6m	12m
MOL	-19	-4.4	-0.5
Nifty 50	-1.8	-0.85	10.1

MOL Vs Nifty 50



Abhishek Jain
abhishek.jain@arihantcapital.com
022-422548871

Aman Jain
aman.jain@arihantcapital.com

Meghmani Organics Ltd (MOL) is a fully integrated chemical company, operating in the Crop Protection, Crop Nutrition and Pigments segment. It is one of the leading players in the Phthalocyanine based pigments segment, ranking in the top three companies globally with 8% market share. The Company also is a prominent player in pesticides with presence across the entire value chain. The Company has a wide customer base in India with 400+ customers, catering 36+ own brands of various pesticides formulations. The Company has global presence in 75+ countries with 9 manufacturing facilities with backward integration capabilities enabling presence across the supply chains. MOL has also forayed into new product categories like Titanium Dioxide, Nano Urea and other high value products in order to penetrate the domestic markets. The new products will act as key growth drivers for the company going forward.

What went wrong?

The global Chemical/Agrochemical industry including crop protection and nutrition segments faced severe headwinds during 2022-2024 due to weak demand, high channel inventories and declining prices. This also affected Meghmani's business as it operates majorly in the international markets. Declining prices affected their revenues while high raw material costs led to decline in profitability and margins.

Meghmani saw a sharp increase in borrowings in FY23 and FY24 mainly to fund their upcoming expansion projects. This also led to substantial increase in interest costs for the company which directly impacted their bottomline.

Pigments demand has been dormant worldwide for the past few years. With ~30% revenues coming from the pigments business, low demand led to major decline in revenues.

The company was under expansion mode for the last two years with new projects like Titanium Dioxide, Nano Urea and a new MPP, incurring a capex of ~INR 8.65 Bn. With new products getting delayed, old products could not generate incremental revenues coupled with declining prices.

Investment Rationale

The global agrochemical industry has started to see improvements across markets. Inventory de-stocking seems to be over and demand is gradually coming back with slow improvement in prices. Meghmani also reported strong set of numbers in Q2FY25 with substantial volume and revenue growth. We believe the recovery of the sector has begun and we expect the company to continue with this growth momentum, aided by revival in demand and contributions from new products.

Exhibit: Financial Summary

Particulars (INR Mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenues	25,526	15,663	19,850	25,269	30,521
EBITDA	3,410	-203	1,527	2,379	2,996
EBITDA Margins	13.36%	-1.29%	7.69%	9.41%	9.82%
PAT	2,377	-1,060	469	1,278	1,784
EPS	9.35	-4.17	1.84	5.02	7.02

The company's new products – Titanium Dioxide and Nano Urea are specifically launched to penetrate the domestic markets.

Titanium Dioxide's demand in the domestic market is 400,000 MTPA and domestic players only cater 25% of this while the rest has to be imported. Meghmani, with its new capacity, is set to capture the opportunity and become one of the leaders in the market. The current TiO_2 capacity can generate ~INR 3 Bn revenues at peak utilisation.

Nano Urea is the newest technology brought in by IFFCO. Meghmani has partnered with IFFCO for production of Nano Urea and are the only private player to produce this product. Nano Urea is supposed to be the replacement for conventional urea across markets given its substantial benefits and lower costs. Their nano urea plant has the capacity to produce 50 Mn bottles with a capex of INR 750 Mn. The revenue potential of the plant is ~INR 10 Bn at peak utilisation. We believe, with gradual adoption of Nano Urea, Meghmani will be one of the biggest beneficiaries in the domestic as well as international markets.

The company has also introduced new age high value insecticides, giving them first mover advantage in the domestic market. These products have lower volumes but generate higher margins. With a capex of INR 3.9 Bn for the MPP, we expect an asset turnover of atleast ~2x from this.

Even though the pigments market continues to remain slow, we believe we can see stable and reasonable growth in the pigments business given the company's market position in Azo and high-performance pigments.

Valuation and View

Meghmani Organics is set for a strong recovery, largely driven by new products like Titanium Dioxide and Nano Urea over the next couple of years while headwinds in the Agrochemical industry are expected to ease out from H2FY25 onwards on a global level. Export oriented players like MOL are expected to see quick recovery, given the destocking situation and price improvement anticipation. The major capex cycle of the company has completed with future cash generation from the new projects aiding their debt reduction drive. We believe Titanium Dioxide and new high value agrochemical products will drive margin expansion for the coming period accompanied by Nano Urea as the gradual adoption on the domestic and global level has begun for the same. The new agrochemical products will provide first mover advantage, Crop nutrition segment will open up new geographies and customer base, and massive Titanium Dioxide capacity addition enabling them in capturing major market share. We expect MOL's Revenue/EBITDA/PAT to turn back positive and show exponential growth over FY24-27E owing to incremental revenue contributions from new products. We expect the EBITDA margins to see substantial improvement from -1% in FY24 to ~10% in FY27E given the superior product mix. ROCE/ROE are expected to improve from -6%/-7% in FY24 to 9%/10% in FY27E. We have a "BUY" Rating on the company with a Target Price of INR 195 using weighted average valuation approach using EV/EBITDA and DCF valuation, giving an upside of 153.2%.

Financial Statements

Income statement

Particulars (INR Mn)	FY23	FY24	FY25E	FY26E	FY27E
Gross Sales	25,526	15,663	19,850	25,269	30,521
Net Sales	25,526	15,663	19,850	25,269	30,521
YoY (%)	2.2%	-38.6%	26.7%	27.3%	20.8%
Adjusted COGS	**15,091**	**10,231**	**12,258**	**15,369**	**18,442**
YoY (%)	3.8%	-32.2%	19.8%	25.4%	20.0%
Employee benefit expenses	1,295	1,159	1,120	1,428	1,724
Other Expenses	5,730	4,475	4,945	6,093	7,359
Total Expenditure	**22,116**	**15,866**	**18,323**	**22,890**	**27,525**
EBITDA	**3,410**	**-203**	**1,527**	**2,379**	**2,996**
YoY (%)	-9.9%	-105.9%	840.0%	55.8%	25.9%
EBITDA Margin (%)	13.4%	-1.3%	7.7%	9.4%	9.8%
Depreciation	771	922	958	951	1,044
EBIT	**2,640**	**-1,125**	**568**	**1,428**	**1,952**
EBIT Margin (%)	10.3%	-7.2%	2.9%	5.6%	6.4%
Interest Expenses	657	464	406	394	383
Non-operating/ Other income	960	377	435	553	668
PBT	**3,131**	**-1,212**	**597**	**1,587**	**2,237**
Tax-Total	754	-152	128	309	453
Adj. Net Profit	**2,377**	**-1,060**	**469**	**1,278**	**1,784**
Reported Profit	**2,377**	**-1,060**	**469**	**1,278**	**1,784**
PAT Margin	9.3%	-6.8%	2.4%	5.1%	5.8%
Shares o/s/ paid up equity sh capital	254	254	254	254	254
Adj EPS	9.3	-4.2	1.8	5.0	7.0

Balance sheet

Particulars (INR Mn)	FY23	FY24	FY25E	FY26E	FY27E
Sources of Funds					
Equity Share Capital	254	254	254	254	254
Reserves & Surplus/ Other Equity	16,438	15,023	15,364	16,464	17,994
Networth	**16,692**	**15,277**	**15,619**	**16,718**	**18,248**
Unsecured Loans/ Borrowings/ Lease Liabilities	8,239	8,368	8,134	7,910	7,697
Other Liabilities	958	729	846	985	1,188
Total Liabilities	**31,984**	**30,401**	**31,675**	**33,620**	**36,159**
Total Funds Employed	**58,977**	**56,241**	**58,861**	**62,794**	**67,841**
Application of Funds					
Net Fixed Assets	**11,760**	**11,643**	**11,017**	**10,861**	**11,863**
Capital WIP	3,456	5,086	5,086	5,086	5,086
Current assets	**14,657**	**12,131**	**14,417**	**16,747**	**18,383**
Inventory	6,517	5,172	6,129	6,907	7,531
Days	156	209	183	183	146
Debtors	5,234	4,329	5,671	6,829	7,630
Days	76	111	104	99	91
Other Current Assets	1,382	1,385	1,412	1,441	1,469
Cash and Cash equivalent	311	169	61	279	345
Current Liabilities/Provisions	**10,300**	**10,563**	**11,568**	**12,456**	**13,433**
Creditors / Trade Payables	4,478	4,935	5,790	6,484	7,126
Days	84	118	110	100	92
Liabilities	1,616	1,090	1,284	1,520	1,898
Net Current Assets	**4,356**	**1,569**	**2,849**	**4,291**	**4,950**
Total Asset	**31,984**	**30,401**	**31,675**	**33,620**	**36,159**
Total Capital Employed	**27,628**	**28,833**	**28,825**	**29,329**	**31,209**

Cash Flow Statement

Particulars (INR Mn)	FY23	FY24	FY25E	FY26E	FY27E
Profit before tax	**2,377**	**-1,060**	**469**	**1,278**	**1,784**
Adjustments: Add					
Depreciation and amortisation	771	922	958	951	1,044
Interest adjustment	-303	87	-29	-159	-285
Change in assets and liabilities	2,488	-51	1,271	1,892	2,289
Inventories	-123	1,345	-957	-778	-624
Trade receivables	194	906	-1,343	-1,158	-801
Trade payables	-1,259	458	855	695	642
Other Liabilities and provisions	1,171	-392	224	282	442
Other Assets	145	11	-72	-74	-77
Taxes	-3	12	17	19	41
Net cash from operating activities	**2,587**	**2,269**	**-10**	**872**	**1,907**
Net Sale/(Purchase) of tangible and intangible assets, Capital work in progress	-4,982	-2,430	-332	-796	-2,045
Net Sale/(Purchase) of investments	1,243	1,065	784	733	720
Net cash (used) in investing activities	**-3,796**	**-1,331**	**451**	**-65**	**-1,327**
Interest expense	1,413	-707	-571	-544	-500
Dividend paid	-356	0	-127	-178	-254
Other financing activities	-347	-355	-68	-178	-254
Net cash (used) in financing activities	**1,422**	**-1,062**	**-571**	**-544**	**-500**
Closing Balance	**326**	**203**	**73**	**335**	**415**
FCF	**-750**	**1,485**	**-342**	**76**	**-139**
Capex (% of sales)	3,320	784	300	758	2,000

Key Ratios

Particulars	FY23	FY24	FY25E	FY26E	FY27E
Solvency Ratios					
Debt / Equity	0.5	0.5	0.5	0.5	0.4
Net Debt / Equity	0.5	0.5	0.5	0.5	0.4
Debt / EBITDA	2.4	-41.2	5.3	3.3	2.6
Current Ratio	2.3	-40.2	5.3	3.2	2.4
DuPont Analysis					
Sales/Assets	0.8	0.5	0.6	0.8	0.8
Assets/Equity	1.9	2.0	2.0	2.0	2.0
RoE	14.2%	-6.9%	3.0%	7.6%	9.8%
Per share ratios					
Reported EPS	9.3	-4.2	1.8	5.0	7.0
Dividend per share	1.4	0.0	0.5	0.7	1.0
BV per share	65.6	60.1	61.4	65.7	71.8
Cash per Share	1.2	0.7	0.2	1.1	1.4
Revenue per Share	100.4	61.6	78.1	99.4	120.0
Profitability ratios					
Net Profit Margin (PAT/Net sales)	12.2%	9.3%	-6.8%	2.4%	5.1%
Gross Profit / Net Sales	40.9%	34.7%	38.2%	39.2%	39.6%
EBITDA / Net Sales	13.4%	-1.3%	7.7%	9.4%	9.8%
EBIT / Net Sales	10.3%	-7.2%	2.9%	5.6%	6.4%
ROCE (%)	12.2%	-5.7%	2.8%	6.7%	8.6%
Activity ratios					
Inventory Days	156.1	208.5	182.5	182.5	146.0
Debtor Days	76.2	111.4	104.3	98.6	91.3
Creditor Days	83.8	118.3	109.6	100.0	92.4
Leverage ratios					
Interest coverage	4.0	-2.4	1.4	3.6	5.1
Debt / Asset	0.3	0.3	0.3	0.2	0.2
Valuation ratios					
EV / EBITDA	8.1	-138.0	18.3	11.5	9.0
PE (x)	8.3	-18.7	42.3	15.5	11.1

CMP: INR 267

Rating: BUY

Target Price: 395

Stock Info	
BSE	532720
NSE	M&MFIN
Bloomberg	MMFS:IN
Reuters	MMFS.NS
Sector	NBFC
Face Value (INR)	2
Equity Capital (INR Cr)	247
Mkt Cap (INR Cr)	32,841
52w H/L (INR)	343/ 246
Avg Yearly Vol (in 000')	3,39,902

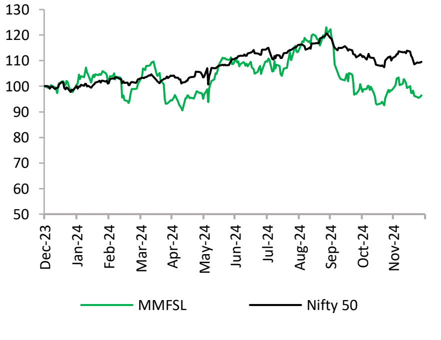
Shareholding Pattern %

(As on September, 2024)

Promoters	52.16
Public & Others	47.77

Stock Performance (%)	1m	6m	12m
MMFSL	-2.3	-12.9	-3.5
Nifty	-1.3	-1.4	9.9

MMFS Vs Nifty



Abhishek Jain
abhishek.jain@arihantcapital.com
Harshit Jain
harshit.jain@arihantcapital.com

Mahindra & Mahindra Financial Services Limited (MMFSL), a part of the Mahindra Group, is a NBFC primarily engaged in the business of financing purchase of new and pre-owned auto and utility vehicles, tractors, cars, commercial vehicles, construction equipment and SME Financing.

Q2FY25 performance

Net earnings stood at INR 3.69 bn, on higher-than-expected credit cost and larger contraction in NIM at 6.44%. The management revised NIM guidance between 6.5-6.7% for FY2025 from 7.5%. Credit cost stood at 2.5%, due to lower collections. Management guided credit costs to trend lower in H2FY2025, on better asset quality (higher recoveries and upgrades) and release of provisions from a lower PCR, driven by the ECL model. RoA came in at 1.5% for H1FY2025 which is expected to expand to 1.9% for the full year as credit cost normalises and asset quality improves in H2FY2025.

What went wrong?

- In 2022, the Reserve Bank of India (RBI) barred Mahindra Finance from using third-party recovery agents. Although this action directly targeted recovery practices, it indirectly affected loan disbursement operations. Stricter scrutiny and compliance requirements led to delays in lending processes.
- In early 2024, Mahindra Finance detected INR 1.50 bn fraud in its retail vehicle loan portfolio, involving forged KYC documents. The fraud led to an internal investigation and delayed financial disclosures, which affected the company's ability to maintain smooth disbursement operations.

What are the triggers for turnaround?

- On January 4, 2023, the RBI lifted these restrictions, allowing MMFSL to resume recovery operations via third-party agents. Following the lifting of restrictions, MMFSL implemented measures to enhance its recovery processes, including tightening the onboarding process for third-party agents and strengthening the accountability framework under a board-approved action plan.
- The company implemented corrective measures, including strengthening KYC verification processes and enhancing internal controls, to prevent future occurrences. The company proactively addressed the issue by delaying its financial reporting and reinforcing its internal processes.
- Rural demand recovered over past few quarters, budget allocation remains strong and NREGA scheme will be beneficial.

Outlook & Valuation: Mahindra & Mahindra Financial Services Ltd (MMFSL) has encountered significant challenges in recent years, including regulatory restrictions on recovery practices and operational issues stemming from fraud incidents. Despite these setbacks, the company has demonstrated resilience by implementing corrective measures and strengthening internal controls. company's proactive measures, focus on governance, and ability to adapt to changing regulatory environments position it well for recovery. While short-term headwinds remain, MMFSL's robust market presence, strong liquidity, and strategic initiatives lay the groundwork for sustainable growth in the coming years. We have a TP of INR 395 based on 2.3x of P/ ABV FY26E.

ArihantCapital
Generating Wealth

Piramal Enterprise Ltd

Growth in line with business strategy

CMP: INR 1,104

Rating: BUY

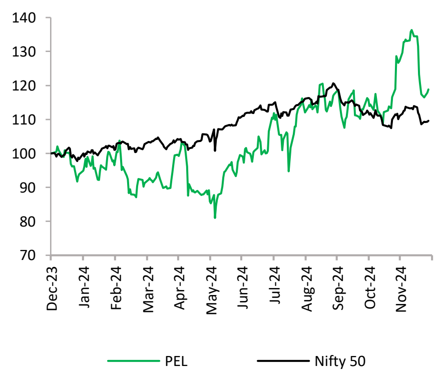
Target Price: INR 2,503

Stock Info	
BSE	500302
NSE	PEL
Bloomberg	PIEL:IN
Reuters	PIRA. NS
Sector	BFSI
Face Value (INR)	2
Equity Capital (INR Cr)	45
Mkt Cap (INR Cr)	24,917
52w H/L (INR)	1275 / 736
Avg Yearly Vol (in 000')	1,34,656

Shareholding Pattern % (As on September, 2024)	
Promoters	46.03
Public & Others	53.48

Stock Performance (%)	1m	6m	12m
Piramal Enterprise Ltd	-6.4	20.2	19.1
Nifty	-1.3	-1.4	9.9

PEL Vs Nifty



Abhishek Jain
abhishek.jain@arihantcapital.com
Harshit Jain
harshit.jain@arihantcapital.com

Piramal Enterprises Limited is a growing, diversified Non-Banking Financial Company (NBFC) with presence in Retail and Wholesale Lending, Alternative funds and Life Insurance businesses. The Company is focused on becoming more retail oriented by increasing its share of retail loans and simultaneously de-risking and gradually moderating the Wholesale 1.0 book, while building a granular Wholesale 2.0 book in a calibrated manner

What went wrong?
Since past few quarters, company's profitability is impacted due to higher provisioning. In Q3FY24, RBI issued a new circular on treatment of AIF investments by banks and NBFCs in the month of December, pursuant to which a provision of INR 35.4 bn was created by PEL. This has impacted company's profitability and AUM. Further, company's focus on reducing their legacy book has also led to higher provisions.

What are the triggers for turnaround?
Projected recoveries of INR 8–10 billion from AIF provisioning in H2FY25 are anticipated to drive profitability. The legacy book, currently constituting 16% of total AUM, is expected to decline to below 10% by the end of FY25, reducing drag on overall performance. Furthermore, a healthy retail and wholesale book will help the company to further improve their profitability in FY26.

Valuation & View: Company's focus on resolution of wholesale book 1.0 has increased, along with building a granular wholesale book 2.0. Their wholesale 1.0 book (legacy book) is expected to reduce to less than 10% by the end of FY25, which will help to improve their asset quality. Further, with the increasing focus on retail lending, company is expected to show positive performance in coming quarters, with improvement in margins. We also expect the monetization of Shriram Life insurance and Shriram General Insurance in short term. Further, their yields are expected to improve, with the increase in their retail portfolio. Going forward, their AUM is expected to grow by 15%. **We have a buy rating on the stock with a TP of INR 2019 based on 1.4x of FY27E PBV and INR 2987 based on residual free cash flow model approach. Giving a 50 – 50 weightage to both approaches, we arrive at a TP of INR 2,503.**

Financial Summary

Y/E Mar (Rs Mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
NII	32,977	38,043	29,700	45,132	51,815	58,741
PAT	12,213	15,137	2,493	17,900	20,482	20,721
Networth	368,369	310,591	265,571	289,068	306,610	323,903
Adj BVPS (Rs)	1502	1237	1131	1244	1314	1442
EPS (Rs)	84	418	-75	87	99	101
P/E (x)	12	3	-14	12	11	10
P/Adj BV (x)	0.7	0.8	0.9	0.8	0.8	0.7

Key Financials

P&L (INR Mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Interest income	75,228	77,986	73,139	95,160	1,07,233	1,20,056
Interest expense	42,251	39,943	43,439	50,028	55,418	61,315
NII	**32,977**	**38,043**	**29,700**	**45,132**	**51,815**	**58,741**
Non-interest income	3,881	4,794	28,645	4,907	5,225	5,790
Net revenues	**36,858**	**42,837**	**58,345**	**50,040**	**57,041**	**64,531**
Operating expenses	11,541	66,251	63,510	12,647	15,037	15,752
Depreciation	743	1,229	8,290	8,870	9,491	10,060
Total Opex	**12,284**	**67,480**	**71,800**	**21,517**	**24,527**	**25,812**
PBT	**16,275**	**(24,643)**	**(13,455)**	**23,931**	**27,383**	**27,701**
Tax	4,062	(39,781)	(15,949)	6,031	6,901	6,981
PAT (Before Extraordinary item)	**12,213**	**15,137**	**2,493**	**17,900**	**20,482**	**20,721**
Share of Net Profit of associates & JV		**5,939**	**3,886**	**1,537**	**1,691**	**1,860**
Exceptional Items	**1,836**	**80,663**	**(20,866)**	**-**	**-**	**-**
PAT	**19,988**	**99,686**	**(16,835)**	**19,591**	**22,343**	**22,767**

Balance sheet	FY22	FY23	FY24	FY25E	FY26E	FY27E
Share capital	477	477	449	449	449	449
Reserves & surplus	3,67,892	3,10,114	2,65,121	2,88,618	3,06,161	3,23,454
Net worth	**3,68,369**	**3,10,591**	**2,65,571**	**2,89,068**	**3,06,610**	**3,23,903**
Borrowings	5,53,244	2,12,945	2,24,640	6,18,967	6,84,993	7,74,889
Deposits	1,266	1,269	1,272	1,276	1,280	1,284
Other liability	64,471	3,12,717	3,34,567	3,68,024	4,04,826	4,45,309
Total liabilities	**9,87,350**	**8,37,522**	**8,26,050**	**12,77,334**	**13,97,709**	**15,45,384**
Fixed assets	89,860	98,846	1,03,788	1,08,978	1,14,427	1,20,148
Advances	4,93,180	4,63,946	5,49,434	7,42,195	8,25,128	9,33,891
Investments	2,48,565	2,23,318	1,25,130	1,31,387	1,37,956	1,44,854
Cash	71,870	46,491	44,468	44,968	47,216	49,577
Other assets	83,875	4,921	3,230	2,49,807	2,72,982	2,96,915
Total assets	**9,87,350**	**8,37,522**	**8,26,050**	**12,77,334**	**13,97,709**	**15,45,384**

Source: Arihant Research, Company Filings

Ratios	FY22	FY23	FY24	FY25E	FY26E	FY27E
Growth (%)						
NII		15.36%	-21.93%	51.96%	14.81%	13.37%
PBT		-251.42%	45.40%	-277.85%	14.43%	1.16%
PAT		23.94%	-83.53%	617.93%	14.43%	1.16%
Advances		-5.93%	18.43%	35.08%	11.17%	13.18%
Deposits		0.22%	0.28%	0.32%	0.30%	0.30%
Spread (%)						
Yield on Funds	12.90	12.00	13.70	12.50	12.50	12.50
Cost of Borrowings	9.53	8.60	8.80	8.70	8.50	8.40
Spread	3.37	3.40	4.90	3.80	4.00	4.10
NIM	5.30	5.80	4.41	5.93	6.04	6.12
Asset quality (%)						
Gross NPAs	3.61	6.80	5.00	4.00	4.00	4.00
Net NPAs	1.72	2.49	1.65	1.22	1.31	1.31
Provisions	55.19	67.00	70.00	72.00	70.00	70.00
Return ratios (%)						
RoE	7.3	29.4	-5.8	7.1	7.5	7.2
RoA	2.6	10.9	-2.0	1.9	1.7	1.5
Per share (Rs)						
EPS	84	418	-75	87	99	101
BV	1544	1301	1182	1287	1365	1442
ABV	1502	1237	1131	1244	1314	1442
Valuation (x)						
P/E	12.5	2.5	-14.0	12.0	10.5	10.3
P/BV	0.7	0.8	0.9	0.8	0.8	0.7
P/ABV	0.7	0.8	0.9	0.8	0.8	0.7

Source: Arihant Research, Company Filings

ArihantCapital
Generating Wealth

SG Finserve Ltd

Huge opportunity in supply chain financing

CMP: INR 417

Rating: BUY

Target: 738

Stock Info	
BSE	539199
NSE	NA
Sector	NBFC
Face Value (INR)	10
Equity Capital (INR Mn)	550
Mkt Cap (INR Mn)	26,340
52w H/L (INR)	576/ 325
Avg Daily Vol (in 000')	13,740

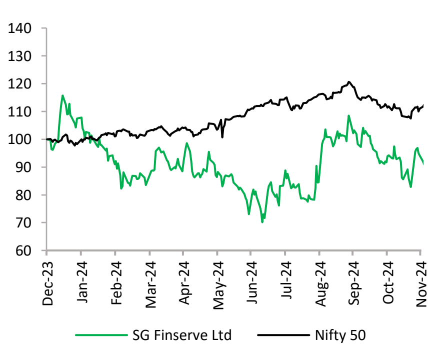
Shareholding Pattern %

(As on September, 2024)

Promoters	48.38%
Public & Others	51.62%

Stock Performance (%)	1m	6m	12m
SG Finserve Ltd	0.6	8.03	-8.3
Nifty 50	0.5	3.6	16.6

SG Finserve Ltd Vs Nifty 50



Abhishek Jain
abhishek.jain@arihantcapital.com

Harshit Jain
harshit.jain@arihantcapital.com

SG Finserve Ltd is an NBFC specializing in providing financing solutions to channel partners such as dealers, distributors, retailers, and buyers of Indian corporations, with interest rates ranging from 10-13% per annum. By streamlining supply chain financing and optimizing the working capital cycle, SG Finserve Ltd ensures financial inclusion for Indian MSMEs through the innovative use of technology.

What went wrong?

Company received a letter from RBI dated 5th July, 2024, which advised the company to act as Type 1 NBFC, instead of type 2 NBFC. In order to comply with this letter, SG Finserve Ltd reduced their loan book to INR 8 bn and repaid public deposits and borrowings of approximately INR 10 bn, which led to degrowth in the company.

What are the triggers for turnaround?

In the recent news, RBI has approved the proposal for conversion from Type I to Type II NBFC. This conversion will help them to raise money from the public, which will support their growth plans and lead to megafold jump in book. We believe their loan book to reach to INR 25 bn (H1FY25: INR 8.22 Bn) by the end of FY25, INR 35 bn to INR 40 bn by FY26, and INR 60 bn by FY27.

INVESTMENT RATIONALE:

1. Huge scope of growth in MSME Financing: The Indian Macroeconomic landscape lags behind the efficient Supply chain logistics of Western as well as other export-oriented nations like China & Other East Asian economies due to the lag of connectivity issues arising among merchandise and payments between manufacturer & customers as the vendor supply chains are not efficient. SG Finserve's business though currently highly reliant on several top customers and Tie-ups, is serving a larger purpose, and will see gravitational growth in the current supply chain ecosystem.

2. High NIMs and zero GNPAs due to extreme short term financing durations: The MSME loans are very short - term loans which are majorly addressing the immediate financing needs of smaller supply chain players, hence, NPAs are nil. Further, 84.75% of the loan book is secured via charge on funded inventory and receivables generated by sale of the same. They hold STOP SUPPLY ARRANGEMENT from the Anchors to STOP supply in case of delay/ default with SG Finserve. Going ahead, we expect the NIMs to remain stable while the Other Income growth to outpace the book growth.

3. Parental Advantage: SG Finserve Ltd derives more than 40% of its revenue from its affiliate, SG Mart Ltd, which operates under the APL Apollo group umbrella. SG Mart Ltd specializes in the trading of a comprehensive range of building material products, with an inventory exceeding 2,500 SKUs across over 27 product categories. The anticipated enhancement in operational efficiency at SG Mart Ltd's Raipur and Dubai facilities is expected to positively impact SG Finserve Ltd's growth trajectory.

Further, PAN India presence of APL Apollo group will help the geographical expansion of SG Finserve Ltd. Further, The APL group extends support to SG Finserve in terms of details around the dealer network which would form a critical component of the underwriting process as well as enforce stop supply in the event of any delay from the network of APL Apollo.

4. Return ratios to improve going forward: SG Finserve Ltd currently achieves a return of 13% on its equity capital and 5% on its borrowed funds, resulting in a current Return on Equity of 9%. The projected expansion in equity capital is expected to enhance the company's return metrics. With a forecasted growth rate of 25%, we anticipate that SG Finserve Ltd's ROE will improve to 15% in current year and 20% over the next few years.

5. Government support of MSMEs through ECLGS during Covid: Several MSMEs are seen taking up calls/orders for larger than before efficiency on their side, ably strengthened on account of ECLGS benefits extended by the Government. This emboldens the market category catered by SG Finserve, i.e, the MSMEs, hence, MSME business is supported by a reliable Government, giving security to MSME financiers.

OUTLOOK: SG Finserve Ltd and SG Mart Ltd are a part of APL Apollo group company, with SG Finserve providing financial services and solutions that support the operations of SG Mart Ltd. While SG Mart focuses on the trading and distribution of building materials across India, SG Finserve offers financing solutions that could assist SG Mart's channel partners in managing their working capital and expanding their businesses. SG Finserve Ltd has maintained a zero delinquency rate due to its focus on short-term loans and a strong customer base. Additionally, the significant growth potential in MSME financing, supported by government initiatives such as ECLGS, positions the NBFC for accelerated growth. We expect the delinquency rate to remain at zero, with business growth expected to reach 25%, and an expected ROE of 20%. This signals a positive outlook on the company. We have a BUY rating on the company with a TP of INR 738, based on 2.5x of ABV FY27E.

Exhibit 1: Financial Summary

Y/E Mar (INR cr)	FY23	FY24	FY25E	FY26E	FY27E
NII	32	114	123	199	273
PAT	18	79	77	132	185
Networth	573.1	806.5	1,080.3	1,465.5	1,650.3
Adj BVPS (Rs)	138.9	146.7	193.3	262.2	295.3
EPS (Rs)	4.5	14.3	13.8	23.6	33.1
P/E (x)	102.3	31.9	33.1	19.3	13.8
P/Adj BV (x)	3.3	3.1	2.4	1.7	1.5

Key Financials

P&L (INR)	FY23	FY24	FY25E	FY26E	FY27E
Interest income	40.25	178.20	184.09	394.48	608.63
Interest expense	8.42	63.96	61.14	195.47	336.08
NII	**31.83**	**114.24**	**122.95**	**199.00**	**272.55**
Non-interest income	1.71	11.52	6.44	9.85	12.60
Net revenues	**33.54**	**125.76**	**129.39**	**208.85**	**285.15**
Operating expenses	4.59	14.80	18.49	22.24	26.94
Depreciation	0.03	0.17	0.17	1.07	1.45
Provision for ESOP	-	2.97	4.11	2.54	1.38
Total Opex	**4.62**	**17.94**	**22.77**	**25.85**	**29.77**
PPOP	**28.92**	**107.82**	**106.62**	**183.00**	**255.38**
Provisions	**3.90**	**2.79**	**3.81**	**6.48**	**8.48**
PBT	**25.02**	**105.03**	**102.81**	**176.52**	**246.90**
Tax	6.61	26.45	25.88	44.43	62.14
PAT	**18.41**	**78.58**	**76.93**	**132.09**	**184.75**

Balance sheet	FY23	FY24	FY25E	FY26E	FY27E
Share capital	550.81	725.64	922.52	1,175.64	1,175.64
Reserves & surplus	22.27	80.89	157.82	289.91	474.66
Net worth	**573.08**	**806.53**	**1,080.34**	**1,465.55**	**1,650.30**
Borrowings	492.98	956.79	1,567.03	2,689.16	4,493.06
Short term provisions	4.02	6.69	10.48	16.96	25.44
Other liability	9.16	35.48	54.55	80.33	118.79
Total liabilities	**1,079.23**	**1,805.49**	**2,712.39**	**4,252.00**	**6,287.58**
Fixed assets	1.07	1.86	2.96	3.48	4.11
Advances	975.54	1,673.01	2,500.00	4,000.00	6,000.00
Deferred tax asset	1.01	1.70	-	-	-
Cash & bank balance	91.40	77.29	157.79	196.88	230.02
Other assets	10.21	51.64	51.64	51.64	53.46
Total assets	**1,079.23**	**1,805.49**	**2,712.39**	**4,252.00**	**6,287.59**

Key Ratios

Ratios	FY23	FY24	FY25E	FY26E	FY27E
Growth (%)					
NII		258.92%	7.62%	61.85%	36.96%
PPOP		272.82%	-1.11%	71.64%	39.55%
PBT		319.83%	-2.11%	71.69%	39.87%
PAT		326.91%	-2.09%	71.69%	39.87%
Advances		71.50%	49.43%	60.00%	50.00%
Borrowings		94.08%	63.78%	71.61%	67.08%
Spread (%)					
Cost of Borrowings	1.7%	8.8%	8.5%	8.5%	8.5%
Yields	4.1%	13.5%	12.6%	12.5%	12.4%
NIM	3.3%	8.6%	5.1%	6.4%	5.7%
Asset quality (%)					
Gross NPAs	0%	0%	0%	0%	0%
Net NPAs	0%	0%	0%	0%	0%
Return ratios (%)					
RoE	3.21%	11.39%	8.2%	10.4%	11.9%
RoA	1.71%	5.45%	3.4%	4.1%	3.7%
Per share (Rs)					
EPS	4.46	14.29	13.76	23.63	33.05
BV	139	147	193	262	295
ABV	139	147	193	262	295
Valuation (x)					
P/E	102.3	31.9	33.1	19.3	13.8
P/BV	3.3	3.1	2.4	1.7	1.5
P/ABV	3.3	3.1	2.4	1.7	1.5

ArihantCapital
Generating Wealth

Sheela Foam Ltd

CMP: INR 986

Rating: BUY

Target Price: INR 1,850

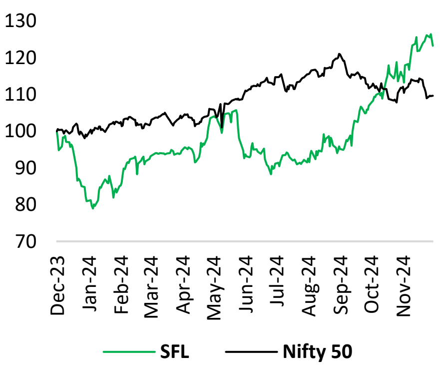
Stock Info	
BSE	540203
NSE	SFL
Bloomberg	SFL:IN
Reuters	SHEF.NS
Sector	Furniture, Home Furnishing
Face Value (INR)	5
Equity Capital (INR cr)	54
Mkt Cap (INR cr)	10,759
52w H/L (INR)	1,258 / 774
Avg Daily Vol (in 000')	111

Shareholding Pattern %
(As on September 2024)

Promoters	65.48
DII	22.30
FII	6.60
Public & Others	5.62

Stock Performance (%)	1m	3m	12m
SFL	21.3	9.8	(19)
NIFTY 50	(1.7)	(8.9)	10.2

Sheela Foam Price Chart



Abhishek Jain
abhishek.jain@arihantcapital.com
022 4225 4872
Anushka Chitnis
anushka.chitnis@arihantcapital.com
022 4225 4870

Inorganic expansion led to expanding market share in the existing market: The company acquired Kurlon (97.43%) and Fulenco (35%) in October 2023 and August 2023 respectively. Kurlon is the third largest player in the Indian Market, with an MBO focus vs SFLs EBO focus. SFL holds a 19% share in the branded (organized) mattress market, and Kurlon holds an 11% share which brings the consolidated entity's share to 30% post acquisition.

Synergies from Kurlon spur bottom-line growth: The acquisition made it possible to streamline many back-end operations which will end up being margin accretive in FY25. This will massively improve the base profitability of the company permanently as previously purchased raw materials will now be manufactured in-house, and warehousing/ logistical facilities will be shared.

Kurlon's Integration is complete: The successful integration will lead to synergies yielding annual run rate savings of approximately INR 100 crore.

Tapping into new segments of the addressable market: Both Kurlon and Furlenco are centralized in different geographies, price points, and marketplaces from SFL. Kurlon has a larger presence in the mass/ economy segment via rubberized coil mattresses (not PU Foam, which is SFL's forte) in south and east India, compared to SFLs presence in north and west India, and a more premium product offering.

Outlook and Valuation: We maintain our BUY rating on the company, valued at INR 1,850 based on a DCF, yielding an upside of 88%. There was a decline in profitability attributed to the Kurlon acquisition-related interest and depreciation, which is expected to normalize as revenue and profitability rise over the next 2-3 years aided by their initiatives to decommoditize mattresses by transitioning to branded product lines. We are optimistic about future profitability and growth, with strategic investments and operational improvements underway. Though ad spends will be high in the short term, this is in order to enhance their branded presence amongst other organized mattress players.

Particulars (INR Mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue from Operations	28,733	29,823	35,409	40,635	47,783
YoY	0%	4%	19%	15%	18%
Gross Profit Margin	37.8%	41.3%	43.6%	44.6%	45.6%
EBITDA Margin	10.4%	10.1%	9.6%	11.7%	13.7%
Adj. Net Profit	2,008	1,612	1,439	2,881	4,535
YoY	-8%	-20%	-11%	100%	57%
Adj EPS (INR)	20.4	17.7	13.6	27.4	43.1
YoY	-8%	-13%	-23%	102%	58%
P/E	48.36	55.82	58.36	35.34	22.46
P/B	5.98	3.42	3.23	2.96	2.62
Debt / Equity	0.36	0.50	0.57	0.46	0.35
Net Debt (includes lease liabilities and excludes investments)	5,288	14,491	10,022	4,177	-3,389
ROE	12.5%	6.2%	5.5%	8.4%	11.7%
ROCE	6.9%	3.0%	2.4%	4.5%	6.6%

Source: Company Filings & Arihant Capital Research

Furlenco turning profitable: Furlenco was acquired alongside Kurlon to expand the total addressable market into furniture. Furlenco is the largest furniture rental company in the online space, but was struggling with profitability, and hence went for sale- then being purchased by SFL. SFL has unlocked synergies selling mattresses and foam to Furlenco which are then sold or rented to end users. The business has turned around well toward the end of FY24 and will be profitable in FY25.

Furlenco's Potential: The company expects Furlenco to reach the INR 500 Cr mark on top line by FY28. They also might consider an IPO in FY27. SFL also increased its stake in Furlenco in Q2FY25 with an additional investment of INR 100 Cr (now 45% vs the earlier 35%). This quarter, it doubled its subscriber base and is now cash generating.

Diversion of rural demand toward the organized sector: The unorganized sector still accounts for 60% of the mattress market in India as of FY23 and is dominated by local (most cotton) mattresses in rural areas. SFL is aggressively working on diverting this unorganized demand toward the organized market which comprises 40% of the Indian Modern Mattress Market and is dominated by Spring, Rubberized coir, and PU foam. To do so, they introduced good quality, low maintenance foldable foam mattresses under Tarang and a similar launch in Kurlon in Q4FY24 called Aaram. These mattresses are in the price range of INR 2,000- 2,500 vs INR 1,000 for a normal cotton mattress. These two are planned to become an INR 100 Cr business in FY25. In FY26 and FY27, it is expected to clock in INR 200 Cr and INR 300 Cr respectively.

Mattresses as a key growth vector: In Q2FY25, B2C mattress revenue made up 50% of total revenue, with a robust 19% volume growth. Sleepwell volumes grew 14%, and Kurlon 26%. The company is focusing on de-commoditizing this segment by shifting the industry toward branded products in an effort to improve margins. The new value segment launches Tarang and Aram contributed 7.5% to total volume and 3.5-4% to revenue. The projected revenues from these two brand is INR 100 Cr by FY26.

More marketing Initiatives now, which will lead to scale benefits and margin expansion: The company is in its brand makeover phase- mostly via Kurlon- to revamp its appeal in a way that is more contemporary for a modern consumer base. Recently, they have worked with Ogilvy India and Piyush Pandey to create a new logo for Kurlon, as well as a tagline "Life Banegi Hula Hula". Additionally, the company has been increasing its ad spending over the past couple of years, which has led to a level of margin stagnancy- but this is intentional. A lot of the benefits from the gross margin expansion have been invested into marketing recently which will lead to operating leverage benefits to accrue- leading to an EBITDA margin expansion from 10% in FY24 to 15% by FY27.

Guidance: The company expects double-digit growth on a quarterly and yearly basis, aiming for a 14-15% CAGR from FY25 to FY27 in the India business with a 14-15% EBITDA Margin. Their target ROE is 18%.

What wasn't working for the company:

- Inventory build ups during covid which led to them giving heavy distributor discounts to liquidate old stock.
- A previously stagnant brand presence.
- Spain and Australia businesses facing headwinds with foam pricing which impacted margins.
- Lukewarm wedding demand in H1FY25.
- The unorganized market took over in a high inflation environment which negatively impacted organized players.

What is turning around for the company:

- Since inventory build ups have been dealt with, they have drastically reduced dealer discounts.
- Continuous brand investments hereon will lead to higher costs in the short term but are strategically necessary.
- The international business has surpassed the stage of negative growth, and improvements in the macroeconomic environment are leading to margin improvement from H2FY25.
- Wedding demand pushback to H2FY25 will lead to most of the demand coming in during this time period.
- Tarang and Araam have reached a quarterly run rate of INR 30-35 Cr, indicating that the company is capturing market share from the unorganized sector.

Income statement (INR Mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue from Operations	**28,733**	**29,823**	**35,409**	**40,635**	**47,783**
YoY	0%	4%	19%	15%	18%
COGS	17,879	17,502	19,970	22,508	25,988
YoY	-5%	-2%	14%	13%	15%
Personnel/ Employee benefit expenses	2,829	3,441	4,228	4,632	5,194
YoY	11%	22%	23%	10%	12%
Manufacturing & Other Expenses	5,044	5,875	7,794	8,739	10,035
YoY	21%	16%	33%	12%	15%
EBITDA	**2,982**	**3,005**	**3,417**	**4,755**	**6,566**
YoY	-5%	1%	14%	39%	38%
EBITDA Margin (%)	10.38%	10.08%	9.65%	11.70%	13.74%
Depreciation	896	1,158	1,687	1,679	1,724
% of Gross Block	11	6	8	8	8
EBIT	**2,085**	**1,848**	**1,729**	**3,076**	**4,842**
EBIT Margin (%)	7%	6%	5%	8%	10%
Interest Expenses	211	686	1,109	899	715
Non-operating/ Other income	856	1,171	1,390	1,625	1,911
Extraordinary expense	-	-227	-306	-	-
Share of associates	-	-106	35	53	79
PBT	**2,731**	**2,454**	**2,352**	**3,855**	**6,117**
Tax-Total	723	614	607	974	1,582
PAT	**2,008**	**1,839**	**1,745**	**2,881**	**4,535**
Adj. Net Profit	**2,008**	**1,612**	**1,439**	**2,881**	**4,535**
PAT Margin	6.99%	6.17%	4.93%	7.09%	9.49%
Shares o/s/ paid up equity sh capital	98	103	103	103	103
Adj EPS (INR)	20	18	14	27	43

Balance sheet (INR Mn)	FY23	FY24	FY25E	FY26E	FY27E
Sources of Funds					
Equity Share Capital	488	544	544	544	544
Reserves & Surplus/ Other Equity	15,599	29,263	30,992	33,845	38,336
Networth	**16,087**	**29,807**	**31,535**	**34,389**	**38,880**
Borrowings	5,711	14,931	17,884	15,768	13,755
Other non current liabilites	475	1,111	1,111	1,111	1,111
Total Funds Employed	**22,272**	**45,849**	**50,531**	**51,268**	**53,747**
Application of Funds					
Gross block	7,920	18,680	20,336	20,993	21,549
Less: accumulated depreciation	3,630	4,788	6,475	8,154	9,878
Net Fixed Assets	**4,290**	**13,892**	**13,861**	**12,838**	**11,670**
Capital WIP	2,875	1,656	656	556	456
Investments	1,169	9,339	7,339	5,339	3,339
Goodwill	2,740	16,889	16,889	16,889	16,889
Other non current assets	615	2,871	2,871	2,871	2,871
Current assets	**14,333**	**8,748**	**16,305**	**20,699**	**27,175**
Inventory	3,313	3,394	3,556	3,916	4,414
Days	*68*	*71*	*65*	*64*	*62*
Debtors	2,820	3,638	3,589	3,897	4,320
Days	*36*	*45*	*37*	*35*	*33*
Other Current Assets	7,774	1,227	1,227	1,227	1,227
Bank	3	49	69	69	69
Cash	423	440	7,863	11,591	17,144
Current Liabilities	**4,836**	**7,546**	**7,391**	**7,925**	**8,654**
Creditors	2,594	3,875	3,721	4,255	4,984
Days	*53*	*81*	*68*	*69*	*70*
Other current liabilities	2,036	3,380	3,380	3,380	3,380
Provisions	205	290	290	290	290
Net Working Capital	**9,497**	**1,202**	**8,914**	**12,774**	**18,521**
Total Liabilities and Capital	**22,272**	**45,849**	**50,531**	**51,268**	**53,747**
Total Assets	**26,023**	**53,396**	**57,921**	**59,193**	**62,401**

Cash Flow Statement (INR Mn)	FY23	FY24	FY25E	FY26E	FY27E
Profit Before Tax	2,731	2,332	2,011	3,803	6,038
Depreciation & Ammortization	896	1,158	1,687	1,679	1,724
Interest Expense	211	686	1,109	899	715
Interest Income	856	1,171	1,390	1,625	1,911
Tax	723	614	607	974	1,582
Extraordinary and Other items	-	-333	-271	53	79
OCF before WC changes	2,259	2,058	2,538	3,834	5,063
WC changes	5,788	-8,312	289	132	193
OCF	-3,529	10,371	2,249	3,702	4,870
Capex	524	9,674	1,656	656	556
FCF	-4,053	696	593	3,046	4,313
Change in other Assets	-2,620	23,129	-3,306	-2,100	-2,100
Change in Equity	76	11,881	-17	-28	-44
Change in Debt & other financing activities	1,371	10,568	3,541	-1,390	-816
Net change in cash	**15**	**17**	**7,423**	**3,728**	**5,554**
Opening Cash Balance	**408**	**423**	**440**	**7,863**	**11,591**
Ending Cash balance	**423**	**440**	**7,863**	**11,591**	**17,144**

Source: Company Filings & Arihant Capital Research

Spencer's Retail

A remarkable turnaround story starting FY25

CMP: INR 81	
Rating: BUY	
TP: INR 147	
Stock Info	
BSE	542337
NSE	Spencer's
Bloomberg	SPENCER:IN
Reuters	SPEN.BO
Sector	Diversified Retail
Face Value (INR)	5
Equity Capital (INR cr)	45
Mkt Cap (INR cr)	743
52w H/L (INR)	139 / 74
Avg Yearly Volume (in 000')	591

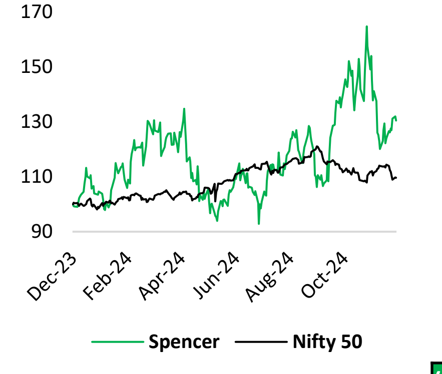
Shareholding Pattern %

(As on Sep 2024)

Promoters	58.81
FII	8.31
DII	1.99
Public & Others	30.87

Stock Performance (%)	1m	3m	12m
Spencer's	(4.4)	(22.6)	(21.3)
Nifty 50	(1.9)	(9.0)	10.0

Spencer's Vs Nifty 50



Abhishek Jain
Abhishek.jain@arihantcapital.com
022 67114872

Anushka Chitnis
anushka.chitnis@arihantcapital.com
022 67114870

Margin improvement across core categories, supported by ongoing cost cutting and store rationalization: The temporary margin dip, resulting from inventory rundown and reduced income during the ramp-down, is expected to normalize as operations stabilize in high-performing areas. 19.5% is the sustainable gross margin (as they are not positioned as a value discounter). **In the next 5 years, we foresee the company stabilizing at ~10% EBITDA(which translating into ~4-5% Business EBITDA) Margins- an improvement of ~580bps from the current level.**

Nature's Basket expansion in premium grocery segment with stable margins: With a stable gross margin of around 28% and plans to open three new stores (reaching a total of 36 stores) by the end of FY25, Nature's Basket is strategically positioned to capture growth in high-demand regions. **We expect double-digit growth in EBITDA margins for Nature's Basket, by Q4FY25.**

Strategic exit from northern and southern markets enhances profitability and focus: To streamline operations and boost profitability, Spencer's Retail closed 47 stores in the NCR and Southern markets, which contributed approximately 22% of revenue but generated around INR 500+ Mn in EBITDA losses. This strategic exit reduced financial drag and is expected to double store-level EBITDA in remaining markets. **Now focused on high-potential regions like East India and UP, where it plans to open 3-4 new stores by FY25 end, we believe Spencer's is positioned to accelerate its turnaround** and direct resources to more promising markets.

Store and region rationalization coupled with geographic expansion into better-performing territories: Spencer's has reduced its trading area from 1.3 mn sq ft to 800,000 sq ft by closing underperforming stores in the NCR and Southern regions. **Over the next 12- 18 months they plan to add at the rate of 100,000 sqft per year to bring back the total trading area to close to 1 mn sqft in 24 months.**

Outlook and valuation: With favourable industry tailwinds expected in the latter half of the year, we anticipate a notable increase in discretionary spending, which should accelerate Spencer's margin growth. The company's rigorous cost-cutting measures and ongoing store rationalization—closing underperforming locations while expanding in successful clusters—are effectively balancing growth and profitability. With consumer trends shifting towards convenience and quick commerce, Spencer's omni-channel capabilities are poised to capture growing demand, and its higher-than-industry-average ABV in the eCommerce channel underscores its ability to attract quality customers. This strategy, paired with Spencer's attractive valuations, highlights its significant earnings potential. We value Spencer's Retail at an EV/EBITDA multiple of 6.9x on FY27E EBITDA, arriving at a target price of INR 147. Given these factors, we initiate coverage with a BUY rating, viewing Spencer's as a solid long-term investment opportunity.

(INR Mn)	Sales	IND-AS EBITDA	PAT	EPS	IND-AS EBITDA Margin	EV/EBITDA	EV/ Sales
FY23	24,526	1,262	-2,104	-23.3	5.1%	10.1	0.5
FY24E	23,450	1,056	-2,662	-29.5	4.5%	13.7	0.6
FY25E	22,540	1,019	-2,401	-26.6	4.5%	14.6	0.7
FY26E	24,697	2,187	-1,248	-13.9	8.9%	6.6	0.6
FY26E	27,352	2,808	-573	-6.4	10.3%	4.9	0.5

Source: Arihant reseach, company filings

Successful expansion of eCommerce and optimization of express delivery service: Spencer’s Retail is capitalizing on the rapid growth of its eCommerce segment, which has seen a 20% YoY increase in orders. With an Average Bill Value (ABV) of INR 900, well above the industry average of INR 500-550, Spencer’s is effectively capturing higher-spending customers, further supporting channel profitability. The company’s omni-channel approach, which integrates eCommerce and phone orders, currently contributes around 15% of total revenue, with a goal to exceed 20%. Spencer’s is expanding its fulfillment network in Kolkata from 12 stores, with plans to scale up to 30 stores. This will reduce average delivery times from 50-55 minutes to a target of 30 minutes, aligning with growing consumer demand for quick commerce. Additionally, Spencer’s is overhauling its tech stack and backend operations, ensuring a smoother user experience and faster fulfilment as part of its evolving eCommerce proposition. Spencer’s express delivery service, already operational in Kolkata, Lucknow, and Banaras, aims to transition to a 30-minute delivery model by mid-December. This aggressive expansion and refinement of its eCommerce capabilities position Spencer’s as a strong omni-channel retailer, well-aligned with evolving consumer expectations and poised for sustained growth in the digital retail space.

Overhead cuts and cost optimization take center stage: Spencer's Retail is driving a cost reduction initiative, targeting a 20% cut in overhead costs for FY25 as part of its commitment to streamlined operations and improved profitability. Already, the company has reduced operating overheads from 8% to 6.3% of sales, showcasing significant early progress. A key component of this optimization is a reduction of over 100 corporate and regional positions, with the full impact expected to be visible in Q3FY25 as notice period costs phase out. At the store level, Spencer's aims to bring operating costs down to 12%, balanced between rental and non-rental expenses. Standardizing these costs across all stores will allow Spencer’s to consistently capture efficiency improvements. The benefits of these measures are already evident, as Q1FY25 saw operating expenses reduced by INR 100 Mn QoQ. These moves support Spencer's path to achieving business EBITDA breakeven by Q4FY25.

What isn’t working for the company:

- Previously high operating expenses that ate away at margins.
- Presence in non performing geographies divert attention from profitable regions.

What is working for the company:

- Aggressive cost cutting will improve profitability.
- Store rationalization and exit from non performing geographies.
- Attractive valuations.
- Ecommerce presence is promising.

Key financials

Income statement (INR mn)					
Year End-March	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Gross Sales	24,526	23,450	22,540	24,697	27,352
Net Sales	24,526	23,450	22,540	24,697	27,352
YoY (%)	6.6%	-4.4%	-3.9%	9.6%	10.8%
Adjusted COGS	**19,597**	**18,724**	**17,925**	**19,177**	**21,061**
YoY (%)	7.5%	-4.5%	-4.3%	7.0%	9.8%
Personnel/ Employee benefit expenses	1,986	2,011	1,816	1,732	1,843
YoY (%)	5.2%	1.3%	-9.7%	-4.6%	6.4%
Manufacturing & Other Expenses	1,681	1,659	1,780	1,600	1,640
YoY (%)	12.6%	-1.3%	7.3%	-10.1%	2.5%
Total Expenditure	**23,264**	**22,394**	**21,521**	**22,509**	**24,544**
YoY (%)	-9.1%	-16.3%	-3.5%	114.6%	28.4%
EBITDA	**1,262**	**1,056**	**1,019**	**2,187**	**2,808**
YoY (%)	-9.1%	-16.3%	-3.5%	114.6%	28.4%
EBITDA Margin (%)	5.15%	4.50%	4.52%	8.86%	10.27%
Depreciation	2,544	2,497	2,793	2,879	2,958
% of Gross Block	41.3%	45.4%	46.1%	42.9%	39.6%
EBIT	**-1,282**	**-1,441**	**-1,773**	**-691**	**-150**
EBIT Margin (%)	-5.23%	-6.15%	-7.87%	-2.80%	-0.55%
Interest Expenses	1,152	1,480	1,646	1,728	1,721
Non-operating/ Other income	326	256	1,017	1,171	1,297
PBT	**-2,108**	**-2,665**	**-2,403**	**-1,248**	**-573**
Tax-Total	-4	-4	-1	0	0
Adj. Net Profit	**-2,104**	**-2,662**	**-2,401**	**-1,248**	**-573**
Reported Profit	**-2,104**	**-2,662**	**-2,401**	**-1,248**	**-573**
PAT Margin	-8.6%	-11.3%	-10.7%	-5.1%	-2.1%

Balance sheet (INR Mn)					
Year-end March	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Sources of Funds					
Equity Share Capital	451	451	451	451	451
Reserves & Surplus/ Other Equity	-1,955	-4,609	-7,010	-8,259	-8,832
Networth	**-1,505**	**-4,158**	**-6,560**	**-7,808**	**-8,382**
Unsecured Loans/ Borrowings/ Lease Liabilities	13,406	16,216	19,175	21,692	23,633
Other Liabilities	378	373	404	442	488
Total Liabilities	**16,294**	**16,959**	**17,410**	**18,660**	**20,253**
Total Funds Employed	**23,374**	**22,554**	**20,691**	**20,874**	**22,322**
Application of Funds					
Net Fixed Assets	**-80**	**-21**	**-9**	**-9**	**-9**
Capital WIP	21	9	9	9	9
Investments/ Notes/ Fair value measurement	738	559	374	251	168
Current assets	**3,640**	**3,736**	**4,226**	**5,451**	**7,113**
Inventory	2,645	2,659	3,009	3,306	3,662
Days	49	49	49	49	49
Debtors	198	253	292	294	323
Days	3	5	5	4	4
Other Current Assets	400	418	439	527	580
Cash and Cash equivalent	132	315	329	948	2,151
Current Liabilities/Provisions	**8,585**	**9,753**	**9,841**	**10,022**	**10,450**
Creditors / Trade Payables	3,436	3,846	3,645	3,563	3,716
Days	53	54	61	57	54
Liabilities	483	596	655	676	698
Net Current Assets	**-4,946**	**-6,017**	**-5,615**	**-4,571**	**-3,338**
Total Asset	**16,294**	**16,959**	**17,410**	**18,660**	**20,253**
Total Capital Employed	**21,239**	**22,976**	**23,025**	**23,231**	**23,591**

Key financials

Cash Flow Statement (INR Mn)					
Year End-March	FY23	FY24	FY25E	FY26E	FY27E
Profit before tax	**-2,104**	**-2,662**	**-2,401**	**-1,248**	**-573**
Adjustments: Add					
Depreciation and amortisation	2,544	2,497	2,793	2,879	2,958
Interest adjustment	826	1,224	629	557	424
Change in assets and liabilities	1,266	1,060	1,020	2,187	2,808
Inventories	-41	-14	-350	-297	-355
Trade receivables	69	-55	-39	-2	-29
Trade payables	102	410	-201	-82	153
Other Liabilities and provisions	1,186	1,018	284	258	271
Other Assets	-68	-43	-23	-97	-64
Taxes	131	-4	0	0	0
Net cash from operating activities	**2,645**	**2,373**	**692**	**1,968**	**2,784**
Net Sale/(Purchase) of tangible and intangible assets, Capital work in progress	-3,315	-3,278	-2,915	-3,002	-2,945
Net Sale/(Purchase) of investments	324	637	1,201	1,295	1,380
Others	33	33	-24	-25	-26
Net cash (used) in investing activities	**-2,958**	**-2,608**	**-1,737**	**-1,733**	**-1,592**
Interest expense	327	414	1,123	594	22
Other financing activities	-19	8	0	0	0
Net cash (used) in financing activities	**308**	**422**	**1,123**	**594**	**22**
Closing Balance	**176**	**363**	**441**	**1,269**	**2,483**

ArihantCapital
Generating Wealth

Micro Finance & Small Finance Banks

MFI stress to ease out after Q3FY25 on robust Kharif output and revival in Rural economy

SFBs & MFIs

Sector Valuation: Attractive

Top Picks

SFBs	CMP	% below 52W High	TTM P/B
AU SFB	551	-32.20%	2.56
Ujjivan SFB	34	-44.30%	1.13
Equitas SFB	64	-45.00%	1.23
Suryoday SFB	134	-39.00%	0.74
Jana SFB	392	-48.40%	1.06
Utkarsh SFB	35	-49.30%	1.22
ESAF SFB	38	-53.40%	0.84
Capital SFB	281	-40.10%	1.01

MFIs	CMP	% below 52W High	TTM P/B
CAG	839	-53.10%	1.92
Spandana Sphoorty	325	-73.80%	0.66
Fusion Finance	174	-74.20%	0.68
Satin Creditcare	148	-47.90%	0.65

As per our Channel Checks, the MFI Industry is seeing significant recovery in Q3FY25 along with MoM increases in Collection Efficiencies as of Dec 2024

Abhishek Jain
Abhishek.jain@arihantcapital.com
022 67114851

Anmol Das
anmol.das@arihantcapital.com
022 67114870

India's scheduled bank's credit increased to INR 174 trillion (INR 174 lakh Cr) as of 1st Nov 2024 with the banking sector credit growth declining to 11.9% YoY. The Credit growth of the banking sector peaked at ~19-21% YoY growth between July 2023 & June 2024 (due to HDFC Limited merger with HDFC Bank), and has since normalized to ~13-14% YoY declining further to ~11-12% by Oct-Nov 2024, reflecting slowdown seen in Macro environment of the overall economy.

In terms of Micro Finance credit, the overall Credit demand for MFI market is around INR 4.33 trillion as of March 2024, which includes the entire Micro finance industry including banks with Micro Finance business as well as the unorganized MFI players. Interestingly, the MFI loan book of the overall MFI industry was growing at a rate of 24-25% during the year FY24, saw a sudden spike in total number of clients increasing from 34 mn in Dec 2023 to 43 mn in March 2024, the period during which MFI players started seeing stress developing in their balance sheets. Among the MFI players, the average GNPA/NNPAs of the 8 SFBs increased to 4.90% / 1.51% as of Q2FY25, against 2.05% / 0.72% in Q2FY24, increasing by 285 bps / 79 bps YoY since last year.

Similarly, the total Credit deployed as of Sept 2024 for listed SFBs stood at INR 2.3 trillion (incl. some exposure of Micro Finance). The average GNPA / NNPAs of the 8 SFBs increased to 3.19%/1.06% as of Q2FY25 against 2.44% / 0.83% in Q2FY24, thereby increasing by 75 bps / 23 bps over last year. Among the SFBs, we are witnessing that the higher exposure to Micro Finance a SFB has, the sharper has the stock price corrected over the last 6-8 months.

SFBs & MFIs available at Attractive Valuations: Most of the SFBs and MFIs have seen sharp correction due to the stress developed in the Micro Finance industry due to over leveraging by customers. The pure play MFI NBFCs like CreditAccess Grameen, Spandana Sphoorty, Fusion Finance, Satin Creditcare and Asirvad MicroFinance (subsidiary of Manappuram Finance) have seen sharp correction between 45-75% from their 52 week highs.

Rural Revival to revive Agri and agri-related activities income: The MicroFinance industry credit assets are 85-90% towards customers with income sources from Agricultural or related activities. As we witnessed a monsoon season with around 8% more rainfall than historical average rainfall this fiscal year, a robust Kharif crop harvest is expected with similar better Rabi crop season expected due to almost full reservoir levels across the nation. Hence, we believe the Micro Finance industry will see improvement in Collection Efficiencies from the month of December, and improving asset quality from Q4FY25 onwards.

Balance Sheet clean up takes up around 9-12 months for SFBs and MFIs: The stress developed in the MFI industry will require a duration of 9-12 months for cleaning during which the customer profiles will be cleansed / written off and the percentage of customers with more than 3,4 or 5 loans decreasing for all MFI NBFCs.

Outlook: We believe the MFI industry is at the cusp of peaking Provisions in Q3FY25, and expect improvement in Collection efficiencies from December month. Although recent guidelines regarding restricting lending to Customers to maximum of 3 MFI loan will be adopted across industry, the unorganized players may take a couple of quarters to adhere to such norms. We believe the current price levels of these SFBs and MFIs are attractive entry levels for robust returns over the next 1-2 years of time owing to deep correction seen over the last 6-8 months. **Our top picks among the SFBs are Ujjivan SFB and Capital SFB among listed Small Finance Banks. Among the MFI players, our top pick is Spandana Sphoorty owing to their large MFI network pan India compared to other MFIs.**

Capital Small Finance Bank Ltd.

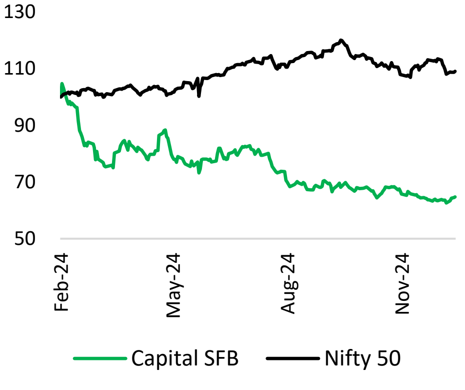
CMP: INR 282
Rating: BUY
Target Price: INR 421

Stock Info	
BSE	544120
NSE	CAPITALSFB
Bloomberg	CAPITALS IN
Reuters	CODE.CD
Sector	Banks
Face Value (INR)	10
Equity Capital (INR Cr)	1,265
Mkt Cap (INR Mn)	12,740
52w H/L (INR)	469 / 270
Volume ('000)	12,610

Shareholding Pattern % *(As on September, 2024)*	
Promoters	18.84
Public & Others	81.16

Stock Performance (%)	1m	6m	12m
Capital SFB	-0.6	-19.5	-35.6
Nifty 50	-0.4	-0.8	9.3

Capital SFB Vs Nifty



Abhishek Jain
abhishek.jain@arihantcapital.com
Anmol Das
anmol.das@arihantcapital.com
Harshit Jain
harshit.jain@arihantcapital.com

Capital Small Finance Bank operates in the Northern Indian region – Punjab, Haryana, Delhi, Rajasthan, Himachal Pradesh and Chandigarh. They currently operate 173 branches and 175 ATMs with 76.3% of total branches in rural and semi urban areas from where they have 75.75% of their total customers. The Average business per branch is INR 760 mn while the average business per employee is at INR 72 mn. Their Product Portfolio includes Agriculture loans, MSME and Trading loans and mortgages. The Bank aims to provide affordable credit services and operate in their niche of catering to middle income group segment with emphasis on rural and semi urban areas.

Investment Rationale:

Retail focused liability franchise with a diversified portfolio: The Bank provides a comprehensive suite of products including savings bank deposits, current deposits, term deposits, NRE and NRO deposits and tax saver deposits. The Bank's deposit rollover ratio has been consistent around 90% for Term Deposits, which showcases trust of customers and stable liquidity profile. The Bank has maintained a granular CASA book with CASA ratio between 38-40% over the years. The Bank will have a leverage of 4.0-4.2x in the future. The 9MFY24 Credit to Deposit Ratio is at 79.2%. Acknowledging that most other small finance banks are at more than 90% C/D ratio, the bank maintains its growth stance.

Business acquisition and digital expansion strategies: They follow branch network driven business acquisition strategy which helps them to identify the customer needs effectively and respond with solutions. The target market of the bank i.e. rural and semi urban areas, have lower risk of customer migration, better credit behaviours and in turn, lower delinquency rates.

Expansion plans led by organic growth: The bank intends to leverage its brand presence in Chandigarh and further penetrate in existing markets of Northern India. They also intend to undertake geographical expansion and enter into newer territories. They plan to enter into business partnerships in regions where they do not have much presence to gain an understanding of the market.

Asset Quality remains intact and improving

Capital SFBs customers are majorly small business owners and contractual consumers who own their own businesses, and have regular business Cash flows, completely unimpacted by any kind of seasonal demand cycles. This allows Capital SFB to maintain their Asset Quality with GNPA & NNPA varying quarterly between the range of 2-3% and 1-1.5% respectively over the last 12 quarters, with improvements seen in Q2FY25 as GNPA/NNPA declined by 8 bps / 6 bps QoQ respectively.

Why Asset Quality remains intact?

Although the Portfolio is heavily concentrated with the state of Punjab alone making up 85% of their branches, these B2B kind of customers in the Punjab state, are unlike retail consumers who would default and not come for credit anytime soon. So, as the Portfolio is itself of secured nature (99.8% of Portfolio is secured assets), the actual losses are much lesser than the NPA levels as well with the Credit Cost at 0.19% as of Q2FY25, increasing from 0.1% in Q1FY25, still much lower to industry averages currently around 80 bps -100 bps, or higher for some Small Finance Banks.

Valuation & Outlook: **Capital Small Finance Bank's proactive approach to serving the financial needs of rural and semi-urban communities by strategically positioning its branches in these regions and adopting digital solutions to enhance accessibility, ensures sustainable growth while engaging with a younger demographic. Their focus on building a robust liability franchise along with a well-diversified portfolio and high proportion of secured loans, reflects their risk management approach and commitment to stability. Their strategic initiatives to expand geographically and strengthen partnerships displays their vision. The Bank is currently trading at a valuation of 1.0x P/BV with an annualized RoA of 1.4% as of Sept 2024. We believe the bank which got listed in Feb 2024, right when the MFI stress concerns arose, will be valued higher when the sector concerns erode, and the bank will be valued at 1.5x P/B value with a Target Price of INR 421 per share.**

ArihantCapital
Generating Wealth

Spandana Sphoorty Ltd.

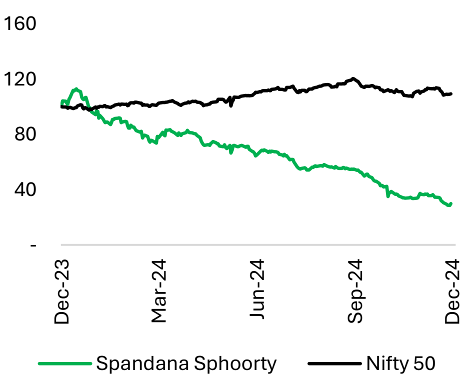
CMP: INR 325
Rating: BUY
Target Price: INR 737

Stock Info	
BSE	542759
NSE	SPANDANA
Bloomberg	SPANDANA IN
Reuters	SPAD.NS
Sector	Banks
Face Value (INR)	10
Equity Capital (INR Cr)	35,069
Mkt Cap (INR Mn)	23,170
52w H/L (INR)	1,243 / 305
Volume ('000)	231

Shareholding Pattern % *(As on September, 2024)*	
Promoters	55.84
Public & Others	44.16

Stock Performance (%)	1m	6m	12m
Spandana Sphoorty	-19.6	-53.8	-69.9
Nifty 50	-0.4	-0.8	9.3

Spandana Sphoorty Vs Nifty



Abhishek Jain
abhishek.jain@arihantcapital.com
Anmol Das
anmol.das@arihantcapital.com
Harshit Jain
harshit.jain@arihantcapital.com

Spandana Sphoorty reported a Net Loss of INR 2,160 mn for Q2FY25 against Profits of INR 560 mn during Q1FY25 and INR 1,250 mn in Q2FY24. The Loss came on account of abnormal increase in impairments taken by the MFI-NBFC for the quarter with Impairments increasing to INR 5.16 bn against INR 2.12 bn in Q1FY25 & INR 0.9 bn in Q2FY24. The increased provisioning also led to sharp increase in GNPA/NNPA ratios to 4.86% / 0.99%, increasing sequentially by 227 bps & 46 bps QoQ increase.
The Net Interest Income as well degrew sequentially by 20% while increasing annually by 9% YoY to INR 3,410 mn, despite slow disbursements which dropped by 34% QoQ/40% YoY for Q2FY25. Pre-provisioning profit came in at INR 2,280 mn, (-21% QoQ / -12% YoY), led by increasing interest expenses and increasing opex. NIMs stood at 12.8% which was down by 240 bps QoQ and down by 138 bps YoY. Cost of borrowings remained elevated in the current quarter at 11.8% against 11.6% in Q1FY25 and 12.5% Q2FY24. The GNPA/NNPA came at 4.86% / 0.99%, up by 227 bps / 46 bps QoQ respectively.

Stress in Micro Finance Sector:

1) **Degrowth in Loan Portfolio**: The MFI-NBFC's AUM saw a degrowth of -10% QoQ / up 8% YoY as the MFI lender has to halt acquisition of new customers in the group loans. Hence, we expect the large impairment taken in Q2FY25, and a similar large impairment to be borne out for the current Q3FY25 would help cleanse the stress in their books majorly.
2) **Asset Quality deteriorated as Collection Efficiencies dropped to new lows:** GNPA & NNPA increased by 227 bps & 46 bps QoQ respectively, on account of fall in collection efficiencies to 93.7% in Q2FY25 against 97.5% in Q1FY25.
3) **High Attrition rates to normalize over time:** Spandana witnessed abnormally high attrition rates seen across the entire MFI space with attrition rates for loan officers at 67% and branch managers at 31% for the industry. The MFI lender has taken several initiatives to check the high attrition rates using both financial incentives tool as well as HR experiences like 2nd & 4th Saturdays holidays.

Expectation of turn around post Q4FY25 earnings:

1) **New set of credit worthy customers to arrive:** Like other players in the MFI space, Spandana Sphoorty too has taken measures like stopping lending to new to credit customers in Group Loans as well as New customer acquisitions across 46% of their network, apart from following lending to customers with no more than 3 MFI loans. While these regulatory advisories lead to cleansing of the stress in their books over the 9-12 months period of time, i.e, by end of Q4FY25, we expect to see new customer acquisitions to begin from the Q1FY26 for pure Micro Finance lenders like Spandana Sphoorty.
2) **Expectation of closure of unregulated new Micro Finance lenders:** Lower interest rates and pent up demand post pandemic led to easy access to capital and many new MFI lenders came in the business. However, with current regulations of lending restrictions for customers with existing 3 loans, several of these MFI players will find it difficult to sustain without loyal long term customer base themselves, and their closure will help consolidate the MFI space with proportionate balance of demand and supply.

OUTLOOK & VALUATION: Our outlook remains optimistic on Spandana Sphoorty and several other MFI-NBFCs post their continuous correction between 50-70% over the last 1 year. With the 2nd largest network among pure play listed MFI NBFCs, Spandana Sphoorty is expected to take an impairment hit in Q3FY25 as well as in Q4FY25. This will be due to the slipping of NPAs from Stage 1 & 2 through Stage 3, and some amount of write off in Q4FY25. However, once the stress cleans up, the MFI lender will see the benefits of their large network pan India acquiring new customers across geographies. Going ahead, NIMs are expected to be above 12.5% with a gross loan book growth to be in the positive territory post Q4FY25. We recommend a BUY rating on the stock with a target price of INR 737 valuing the MFI at 1.5x (Median P/B over last 5 years) BV of INR 491 per share, an upside of 126% following deep corrections to the MFI valuations.

Ujjivan Small Finance Bank Ltd.

CMP: INR 34

Rating: BUY

Target Price: INR 65

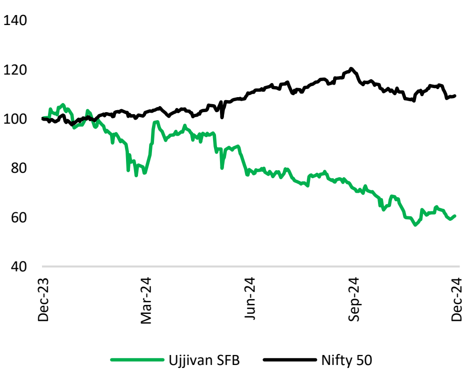
Stock Info	
BSE	542904
NSE	UJJIVANSFB
Bloomberg	UJJIVANS IN
Reuters	UJJI.BO
Sector	Banks
Face Value (INR)	10
Equity Capital (INR Cr)	1,933
Mkt Cap (INR Mn)	66,370
52w H/L (INR)	62 / 32
Volume ('000)	12,610

Shareholding Pattern %
(As on September, 2024)

Promoters	0.0
Public & Others	100.0

Stock Performance (%)	1m	6m	12m
Ujjivan SFB	-4.1	-23.7	-39.5
Nifty 50	-0.4	-0.8	9.3

Ujjivan SFB Vs Nifty



Abhishek Jain
abhishek.jain@arihantcapital.com
Anmol Das
anmol.das@arihantcapital.com
Harshit Jain
harshit.jain@arihantcapital.com

Ujjivan Small Finance Bank (Ujjivan SFB) reported a Net Profit of INR 2,331 mn for Q2FY25 against INR 3,011 mn during Q1FY25 with a decline of 22.6% QoQ / 28.9% YoY, led by provision growth of 37% QoQ/ 220.8% YoY at INR 1,505 mn. Net Interest Income grew by 0.3% QoQ/ 14.6% YoY at INR 9,438 mn, despite high Cost of Funds and a fall in the average Yields on advances. Pre-provisioning profit came in at INR 4,609 mn, (-9.6% QoQ / -4.7% YoY), led by increasing interest expenses and increasing opex. NIMs stood at 9.2% which was down by 10 bps QoQ and up by 40 bps YoY. Cost of funds remained elevated in the current quarter at 7.5% against 7.4% in both Q2FY24 and 7.5% Q1FY25. The GNPA/NNPA came at 2.5% / 0.6%, up by 20 bps QoQ respectively.

The main pain points for the bank

1) **Degrowth in Group Loans (Micro Finance):** The Bank's advances mix has 49% assets from Micro Group Loans (MFI), which saw a degrowth of -6% QoQ / -2% YoY, dragging down the overall portfolio growth to a mere 1% QoQ/14% YoY. So, when the stress started to emerge from various geographical pockets across the country, the bank was quick to recognize the concerns, and pulled back from loan book growth.
2) **Asset Quality deteriorated on higher slippages against Recoveries:** GNPA & NNPA increased by 20 bps QoQ respectively, and up 30 bps YoY & 51 bps YoY respectively, on account of higher slippages than recoveries and upgrades during the quarter. Slippages increased to INR 4.3 bn in Q2FY25 against INR 1.92 bn in Q1FY25 while recoveries & write-offs came at INR 2.92 bn in Q2FY25 against INR 1.07 bn in Q1FY25.

Expectation of turn around post Q3FY25 earnings:

1) **New customer acquisition to start post stress write-offs:** Ujjivan SFB has been restraining their portfolio growth for few quarters now, and we expect the most stressed accounts of the Micro Finance Portfolio will be written off by Q3FY25, and post harvesting farm income will allow fresh credit opportunities across rural India from Q4FY25 and beyond.
2) **Micro Finance stress to be written off:** Micro Finance loans average tenure ranges between 9-12 months. Hence, smaller tenure credit are seen to be written off post default within 1-2 quarters. Hence, the current stress is expected to be written off post Q4FY25, and we will have to await to see confidence back among MFI players for fresh lending activities.

OUTLOOK & VALUATION: Our outlook remains optimistic on Ujjivan Small Finance Bank, driven by its ability to reprice the assets passing on the higher interest rates and robust loan growth. They witnessed an stable growth in their NII 14.6% YoY, while the NIMs were stable at 9.2%, declining marginally by 10 bps QoQ. The growth in affordable housing book along with Individual loan book and Micro Group loans will complement each other for the overall book growth post Q4FY25. Going ahead, NIMs are expected to be above 9% with a gross loan book growth of 20%. We maintain our BUY rating on the stock with a target price of INR 65, valuing the bank at 1.15x FY27E ABV of INR 57 per share, an upside of 90% following deep corrections to the bank's valuations.

Exhibit 1: Financial Performance

Particulars. (INR in Cr)	FY22	FY23	FY24	FY25E	FY26E	FY27E
NII	17,736	26,979	34,095	43,580	48,857	59,253
PPOP	5,905	14,850	19,171	24,522	27,091	35,581
PAT	-4,146	10,999	12,815	15,527	17,344	23,071
EPS (INR / Share)	-2.4	5.6	6.6	7.9	8.9	11.8
ABVPS (INR / Share)	15.6	20.3	27.9	36.7	45.2	56.6
NIM (%)	8.40%	9.83%	9.54%	9.97%	9.16%	9.26%
ROA (%)	-1.8%	3.3%	3.2%	3.1%	2.9%	3.2%
ROE (%)	-14.8%	26.1%	22.8%	21.0%	19.0%	20.2%
P / ABV (x)	2.4	1.8	1.3	1.0	0.8	0.7

Source: Company reports, Arihant Capital Research

Quarterly Result Update (Rs Mn)	Q2FY25	Q1FY25	Q2FY24	Q-o-Q	Y-o-Y
Interest Income	16,128	15,772	13,911	2.3%	15.9%
Interest Expended	6,690	6,357	5,678	5.2%	17.8%
Net Interest Income	**9,438**	**9,415**	**8,233**	**0.3%**	**14.6%**
Other Income	2,073	1,971	1,886	5.2%	9.9%
Operating Income	11,511	11,386	10,120	1.1%	13.7%
Operating Expenses	6,902	6,290	5,286	9.7%	30.6%
Employee Expenses	3,684	3,403	2,734	8.3%	34.7%
Other Operating Expenses	3,218	2,888	2,552	11.4%	26.1%
PPOP	**4,609**	**5,095**	**4,834**	**-9.6%**	**-4.7%**
Provisions	1,505	1,099	469	37.0%	220.8%
PBT	3,103	3,997	4,364	-22.4%	-28.9%
Tax Expenses	773	986	1,087	-21.6%	-28.9%
Net Income	**2,331**	**3,011**	**3,277**	**-22.6%**	**-28.9%**
Balance Sheet Analysis					
Advances	2,91,790	2,71,140	2,43,250	7.6%	20.0%
Deposits	3,40,700	3,25,140	2,91,393	4.8%	16.9%
Total Assets	4,36,190	4,20,500	3,86,802	3.7%	12.8%
CASA Deposits	88,320	83,340	70,120	6.0%	26.0%
CASA (%)	25.9%	25.6%	24.1%	29bps	186bps
CAR (%)	23.4%	24.9%	25.2%	-145bps	-180bps
Spreads					
NIMs (%)	9.20%	9.30%	8.80%	-10bps	40bps
Cost of Funds	7.50%	7.50%	7.40%	0bps	10bps
Yield on Average Advances	19.97%	20.43%	20.82%	-46bps	-85bps
Asset Quality					
GNPA (%)	2.50%	2.30%	2.20%	20bps	30bps
NNPA (%)	0.60%	0.40%	0.09%	20bps	51bps
Returns & Expenses					
RoA	2.20%	2.90%	3.60%	-70bps	-140bps
RoE	15.70%	20.90%	28.00%	-520bps	-1230bps
Cost / Income Ratio	59.96%	55.25%	52.24%	471bps	773bps

Quarterly Result Update (Rs Mn)	Q2FY25	Q1FY25	Q2FY24	Q-o-Q	Y-o-Y
Group Loans	1,48,920	1,57,680	15,226	-5.6%	-2.2%
Micro Individual Loans	44,350	43,550	3,289	1.8%	34.8%
MSE	15,140	14,150	1,442	7.0%	5.0%
Affordable Housing	57,840	51,990	4,036	11.3%	43.3%
FIG	20,420	18,000	1,304	13.4%	56.6%
Others	9,790	8,160	594	20.0%	64.8%
Total Advances	**3,03,440**	**3,00,690**	**26,575**	**0.9%**	**14.2%**

Profit & Loss Statement (in INR Mn)	FY22A	FY23A	FY24A	FY25E	FY26E	FY27E
Interest Income	28,128	41,650	56,772	66,788	80,176	96,552
Interest Expended	10,392	14,671	22,677	23,208	31,319	37,300
Net Interest Income	**17,736**	**26,979**	**34,095**	**43,580**	**48,857**	**59,253**
Other Income	3,133	5,892	7,868	8,716	9,771	11,851
Operating Income	20,869	32,871	41,962	52,296	58,629	71,103
Operating Expenses	14,964	18,021	22,791	27,774	31,538	35,522
Employee Expenses	8,126	9,203	11,832	12,832	15,053	17,657
Other Operating Expenses	6,838	8,818	10,959	14,941	16,485	17,865
PPOP	**5,905**	**14,850**	**19,171**	**24,522**	**27,091**	**35,581**
Provisions	11,408	178	2,149	3,773	3,913	4,750
PBT	-5,503	14,672	17,022	20,749	23,178	30,831
Tax Expenses	-1,358	3,673	4,207	5,223	5,834	7,760
Net Income	**-4,146**	**10,999**	**12,815**	**15,527**	**17,344**	**23,071**

Balance Sheet (in INR Mn)	FY22A	FY23A	FY24A	FY25E	FY26E	FY27E
Equity & Liabilities						
Share Capital	19,283	21,547	19,314	21,547	21,547	21,547
Reserves & Surplus	8,321	20,032	36,097	51,624	68,968	92,039
Net Worth	28,026	42,091	56,135	73,894	91,238	1,14,310
Deposits	1,82,922	2,55,377	3,14,622	3,81,559	4,67,854	5,74,303
Borrowings	17,636	26,415	21,708	29,578	28,903	14,987
Other Liabilities and Provisions	7,461	9,286	11,758	12,461	14,612	16,196
Total Capital & Liabilities	**2,36,045**	**3,33,169**	**4,04,222**	**4,97,492**	**6,02,608**	**7,19,796**
Assets						
Cash & Balances with RBI	16,822	23,053	25,183	49,979	70,432	85,498
Balances with Other Banks & Call Money	4,859	1,783	185	2,701	3,277	3,978
Investments	41,529	85,103	97,660	1,07,426	1,18,975	1,31,318
Advances	1,63,032	2,12,897	2,68,829	3,22,447	3,91,289	4,74,988
Fixed Assets	2,494	2,829	4,267	6,435	9,706	14,639
Other Assets	7,309	7,504	8,098	8,503	8,928	9,375
Total Assets	**2,36,045**	**3,33,169**	**4,04,222**	**4,97,492**	**6,02,608**	**7,19,796**

Source: Company reports, Arihant Capital Research

Ratios	FY22A	FY23A	FY24A	FY25E	FY26E	FY27E
Growth rates						
Advances (%)	12.5%	30.6%	26.3%	19.9%	21.3%	21.4%
Deposits (%)	39.3%	39.6%	23.2%	21.3%	22.6%	22.8%
Total assets (%)	15.8%	41.1%	21.3%	23.1%	21.1%	19.4%
NII (%)	2.6%	52.1%	26.4%	27.8%	12.1%	21.3%
Pre-provisioning profit (%)	-27.0%	151.5%	29.1%	27.9%	10.5%	31.3%
PAT (%)	-5144.8%	365.3%	16.5%	21.2%	11.7%	33.0%
Balance sheet ratios						
Credit/Deposit (%)	89.1%	83.4%	85.4%	84.5%	83.6%	82.7%
CASA (%)	27.3%	26.4%	28.0%	28.5%	29.0%	29.0%
Advances/Total assets (%)	69.1%	63.9%	66.5%	64.8%	64.9%	66.0%
Leverage (x) (Asset/Shareholder's Fund)	8.4	7.9	7.2	6.7	6.6	6.3
CAR (%)	19.0%	24.8%	28.9%	30.2%	30.6%	31.4%
CAR - Tier I (%)	17.7%	21.8%	26.4%	28.2%	28.9%	30.1%
Operating efficiency						
Cost/income (%)	71.7%	54.8%	54.3%	53.1%	53.8%	50.0%
Opex/total assets (%)	6.3%	5.4%	5.6%	5.6%	5.2%	4.9%
Opex/total interest earning assets	7.1%	6.6%	6.4%	6.4%	5.9%	5.6%
Profitability						
NIM (%)	8.4%	9.8%	9.5%	10.0%	9.2%	9.3%
RoA (%)	-1.8%	3.3%	3.2%	3.1%	2.9%	3.2%
RoE (%)	-14.8%	26.1%	22.8%	21.0%	19.0%	20.2%
Asset quality						
Gross NPA (%)	7.1%	4.0%	3.1%	3.2%	3.1%	3.0%
Net NPA (%)	0.6%	1.1%	0.6%	0.7%	0.7%	0.8%
PCR (%)	92.2%	75.9%	81.6%	81.0%	78.7%	76.0%
Credit cost (%)	7.0%	0.1%	0.8%	1.2%	1.0%	1.0%
Per share data / Valuation						
EPS (INR)	-2.4	5.6	6.6	7.9	8.9	11.8
BVPS (INR)	16	22	29	38	47	58
ABVPS (INR)	16	20	28	37	45	57
P/E (x)	-15.4	6.6	5.6	4.7	4.2	3.1
P/BV (x)	2.3	1.7	1.3	1.0	0.8	0.6
P/ABV (x)	2.4	1.8	1.3	1.0	0.8	0.7

Source: Company reports, Arihant Capital Research

ArihantCapital
Generating Wealth

Punjab Chemicals & Crop Protection Ltd.

Chemical Prices bottomed out, Exports margins to improve in medium term

CMP: INR 1,000

Rating : BUY

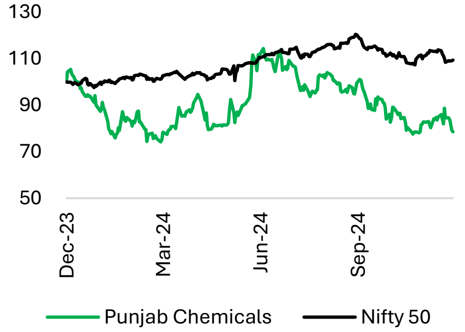
Target Price: 1,336

Stock Info	
BSE	506618
NSE	PUNJABCHEM
Bloomberg	PCCP:IN
Reuters	PCHM.BO
Sector	Chemicals
Face Value (INR)	10
Equity Cap (INR Mn)	3,517
Mkt Cap (INR Mn)	13,100
52w H/L (INR)	1,575 / 900
Avg Yearly Volume (in 000')	1,466

Shareholding Pattern % *(As on Sep, 2024)*	
Promoters	39.22
FII	2.97
DII	0.39
Public & Others	57.42

Stock Performance (%)	1m	6m	12m
Punjab Chemicals	-3.2	-28.6	-20.5
Nifty 50	-0.4	-0.8	9.3

Punjab Chemicals Vs Nifty 50



Abhishek Jain
abhishek.jain@arihantcapital.com
022-422548871

Anmol Das
anmol.das@arihantcapital.com
022-67114834

Punjab Chemicals & Crop Protection Ltd. (PCCP) was established in 1975 as Punjab United Pesticides & Chemical Ltd. The Company primarily manufactures Herbicides which finds their use in Crops, such as Cereal, Cotton, Maize, Peas, Potato, Soybeans, etc. from their manufacturing facility in Derabassi, Punjab, with the Agro Chemicals forming 71% of consolidated revenue as of FY24. The Company's Lalru facility in Punjab contributes 16% to their revenue producing Speciality Chemicals while the multi product Pune facility which produces Industrial Chemicals, contributed 13% to their overall revenue FY24. The Company has a total capacity of 2,000 KL per annum across manufacturing facilities with zero liquid discharge using Advanced Effluent Treatment Plant.

Investment Rationale:

PCCP has a healthy Pipeline of new molecules: PCCP is well placed in the Indian Agro Chemical space in the Crop Protection Chemicals space with majority of their products in the herbicides category followed by Insecticides and Fungicides. The Company has introduced 6 molecules over the last 1-2 years which have EBITDA margins of 18-20%, and has a robust pipeline of products to be launched over the next 6-12 months of time frame, and will have higher margins than their existing molecules in the market.

Strategic Expansion in the state of Gujarat: PCCP is in negotiations for acquisition of a green field land parcel for expansion of their capacity in all 3 chemical categories: Industrial, Specialty and CRAMS, and will develop a multi product facility there.

Bottoming out Chemical Prices with robust Domestic demand: PCCP gets 60% of their revenue from the Exports market, and is witnessing a bottoming out scenario in the Chemical prices. We expect the Chinese dumping to gradually slow down as the current prices are unsustainable for them as well.

Strategic Partnership with Nissan & focus on R&D: Punjab Chemicals is focusing on the R&D of new molecules and strengthening their R&D Team which consists of 2 PhDs in a total strength of 28 member team. The Company has lined up investments for the next 2 years for upgradation of R&D facilities, and is developing several new products across Derabassi, Lalru and Pune facilities.

Outlook: Punjab Chemicals & Crop Protection has launched 6 molecules over the last 1.5 years, and has a robust Pipeline for new products to be launched over the next 6-12 months. These newer molecules are expected to generate EBITDA margins between 18-20%, and enhance the overall margins for the company over the subsequent years. The Domestic business is seeing robust demand while the Exports are expected to see increase in both margins as well as realizations as we expect the Chemical prices globally have bottomed out. Hence, we assign a BUY rating on the stock with a Target Price of INR 1,336 per share based on DCF projections.

Particulars (INR Mn)	Net Sales	EBITDA	PAT	EPS (INR)	Margin (%)	EV/Ebitda	P/E (x)
FY23	10,062	1,226	611	49.8	12.2%	10.6	20.0
FY24	9,342	1,125	536	43.7	12.0%	11.8	22.8
FY25E	9,761	1,145	610	49.7	11.7%	11.6	20.0
FY26E	11,074	1,377	746	60.9	12.4%	9.6	16.3
FY27E	12,718	1,670	926	75.5	13.1%	7.9	13.2

What went wrong:

- **Chemical Prices digging new bottoms:** Chinese excess supplies post Pandemic and Russia Ukraine war caused the Chemical prices across globe to fall to new lows each subsequent quarters leading inventories across dealer networks rose up to 70% higher than normal levels. The declining trend of Chemicals continued till mid FY24, with inventories coming down across global channels.

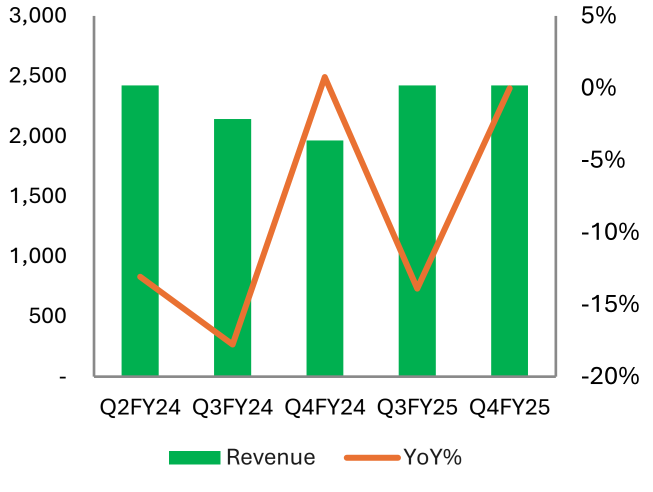
- **Newer Products/Molecules taking time to mature:** PCCP launched 6 molecules over the last 1.5 years which are expected to gain market share over the next 2-3 years, as is the case with new molecules getting accepted in the market, which takes up to 3 years generally. PCCP's new products are also taking some time to get accepted among their customers.

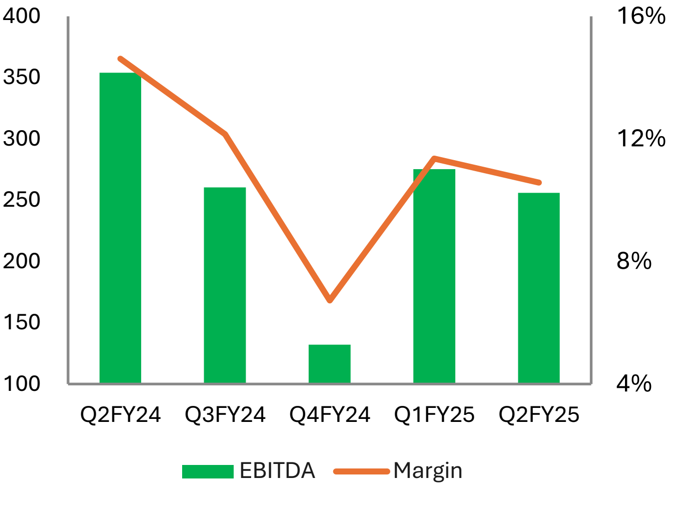
- **Higher Base Margins:** PCCP saw very high base margins for the years FY21 & FY22, which were much above normalized levels, and that came down in FY23 & FY24, leading to the stock underperformance. We believe that the market acceptance of these new molecules will lead to improvement of their overall margins.

What will change in the medium term:

- **Robust Pipeline of upcoming products:** Increased number of new products will improve the overall margins for the company as these molecules will get accepted. The new molecules are expected to generate 18-20% EBITDA margins, improving the overall company margins.

- **Chemical prices bottomed out:** As the global channel inventories dry down, the Chemical prices too have bottomed out, and are expected to firm up from these levels in the medium term. Increase in Chemical prices will resultantly increase the realizations and margins as well for the Chemical manufacturers & suppliers.





Crop Protection Chemicals (USD Bn)	Share of Global Market	YoY growth
Herbicide	46%	~14%
Insecticide	26%	~6-7%
Fungicide	25%	~7-8%
Others (includes PGRs, Fumigants and Pheromones)	3%	~2-3%

Income Statement (INR Mn)

Particulars (INR Mn)	FY23	FY24	FY25E	FY26E	FY27E
Gross Sales	10,062	9,342	9,761	11,074	12,718
Net Sales	10,062	9,342	9,761	11,074	12,718
YoY (%)	7.8%	-7.2%	4.5%	13.4%	14.8%
Adjusted COGS	**6,362**	**5,724**	**5,802**	**6,504**	**7,381**
YoY (%)	11.7%	-10.0%	1.3%	12.1%	13.5%
Personnel/ Employee benefit expenses	833	878	1,004	1,139	1,308
YoY (%)	8.7%	5.5%	14.3%	13.4%	14.8%
Manufacturing & Other Expenses	1,642	1,615	1,811	2,054	2,359
YoY (%)	10.5%	-1.6%	12.1%	13.4%	14.8%
Total Expenditure	**8,836**	**8,218**	**8,616**	**9,697**	**11,048**
YoY (%)	-11.7%	-8.2%	1.8%	20.2%	21.3%
EBITDA	**1,226**	**1,125**	**1,145**	**1,377**	**1,670**
YoY (%)	-11.7%	-8.2%	1.8%	20.2%	21.3%
EBITDA Margin (%)	12.2%	12.0%	11.7%	12.4%	13.1%
Depreciation	190	222	237	276	324
% of Gross Block	6.3%	6.7%	6.2%	6.2%	6.2%
EBIT	**1,036**	**903**	**908**	**1,101**	**1,346**
EBIT Margin (%)	10.3%	9.7%	9.3%	9.9%	10.6%
Interest Expenses	180	208	123	128	134
Non-operating/ Other income	34	36	44	49	57
PBT	**889**	**731**	**829**	**1,022**	**1,269**
Tax-Total	278	195	219	276	344
Adj. Net Profit	**611**	**536**	**610**	**746**	**926**
Reported Profit	**611**	**536**	**610**	**746**	**926**
PAT Margin	6.1%	5.7%	6.2%	6.7%	7.3%
Shares o/s paid up equity share capital	12.3	12.3	12.3	12.3	12.3
Adj EPS	49.8	43.7	49.7	60.9	75.5
Dividend payment	36.5	36.6	24.5	24.5	24.5
Dividend Payout (%)	6.0%	6.8%	4.0%	3.3%	2.6%
Retained Earnings	574	499	585	722	901

Source: Company Financials and AR, Exchange, etc

Balance Sheet (INR Mn)

Particulars (INR Mn)	FY23	FY24	FY25E	FY26E	FY27E
Sources of Funds					
Equity Share Capital	123	123	123	123	123
Reserves & Surplus/ Other Equity	2,684	3,179	3,764	4,486	5,387
Networth	**2,806**	**3,302**	**3,887**	**4,609**	**5,510**
Unsecured Loans/ Borrowings/ Lease Liabilities	917	1,227	1,253	1,281	1,310
Other Liabilities	214	123	148	177	248
Total Liabilities	**6,160**	**6,398**	**7,193**	**8,211**	**9,463**
Total Funds Employed	**11,415**	**12,066**	**13,605**	**15,584**	**17,990**
Application of Funds					
Net Fixed Assets	**-68**	**-186**	**-115**	**-115**	**-115**
Capital WIP	186	115	115	115	115
Investments/ Notes/ Fair value measurement	14	14	14	14	14
Current assets	**3,619**	**3,771**	**4,260**	**4,915**	**5,712**
Inventory	1,682	1,327	1,612	1,858	2,139
Days	92	96	101	104	106
Debtors	1,433	1,974	2,034	2,260	2,569
Days	46	67	76	74	74
Other Current Assets	290	173	207	249	298
Cash and Cash equivalent	87	64	116	169	222
Current Liabilities/Provisions	**2,449**	**2,367**	**2,526**	**2,765**	**3,017**
Creditors / Trade Payables	1,390	1,181	1,319	1,537	1,766
Days	76	87	87	87	91
Liabilities	715	429	447	466	486
Net Current Assets	**1,170**	**1,405**	**1,734**	**2,150**	**2,695**
Total Asset	**6,160**	**6,398**	**7,193**	**8,211**	**9,463**
Total Capital Employed	**4,990**	**4,993**	**5,458**	**6,061**	**6,768**

Source: Company Financials and AR, Exchange, etc

Cash Flow Statement (INR Mn)

Particulars (INR Mn)	FY23	FY24	FY25E	FY26E	FY27E
Profit before tax	**611**	**536**	**610**	**746**	**926**
Adjustments: Add					
Depreciation and amortisation	190	222	237	276	324
Interest adjustment	147	172	80	79	77
Change in assets and liabilities	911	893	902	1,076	1,302
Inventories	-145	356	-285	-247	-281
Trade receivables	-315	-542	-59	-226	-309
Trade payables	68	-208	138	218	229
Other Liabilities and provisions	-113	122	18	19	20
Other Assets	79	73	-61	-89	-111
Taxes	-6	-20	0	0	0
Net cash from operating activities	**492**	**700**	**653**	**751**	**849**
Net Sale/(Purchase) of tangible and intangible assets, Capital work in progress	-410	-292	-542	-635	-776
Net Sale/(Purchase) of investments	22	-18	41	40	45
Others	35	-18	-3	-3	-3
Net cash (used) in investing activities	**-358**	**-324**	**-505**	**-598**	**-735**
Interest expense	-104	-386	-70	-69	-32
Dividend paid	-24	-37	-25	-25	-25
Other financing activities	-61	-40	-25	-25	-25
Net cash (used) in financing activities	**-132**	**-390**	**-67**	**-69**	**-32**
Closing Balance	**115**	**101**	**181**	**265**	**348**
FCF	**198**	**342**	**117**	**104**	**60**
Capex (% of sales)	294	359	781	941	1,145

Source: Company Financials and AR, Exchange, etc

Key Ratios (INR Mn)

Particulars (INR Mn)	FY23	FY24	FY25E	FY26E	FY27E
Solvency Ratios					
Debt / Equity	0.3	0.4	0.3	0.3	0.2
Net Debt / Equity	0.3	0.3	0.3	0.2	0.2
Debt / EBITDA	0.7	1.1	1.1	0.9	0.8
Current Ratio	0.6	1.0	0.9	0.7	0.6
DuPont Analysis					
Sales/Assets	1.6	1.5	1.4	1.3	1.3
Assets/Equity	2.2	1.9	1.9	1.8	1.7
RoE	21.8%	16.2%	15.7%	16.2%	16.8%
Per share ratios					
Reported EPS	49.8	43.7	49.7	60.9	75.5
Dividend per share	3.0	3.0	2.0	2.0	2.0
BV per share	228.9	269.3	317.0	375.9	449.4
Cash per Share	7.1	5.2	9.4	13.8	18.1
Revenue per Share	820.7	762.0	796.2	903.3	1037.4
Profitability ratios					
Net Profit Margin (PAT/Net sales)	8.9%	6.1%	5.7%	6.2%	6.7%
Gross Profit / Net Sales	36.8%	38.7%	40.6%	41.3%	42.0%
EBITDA / Net Sales	12.2%	12.0%	11.7%	12.4%	13.1%
EBIT / Net Sales	10.3%	9.7%	9.3%	9.9%	10.6%
ROCE (%)	27.9%	22.4%	19.5%	20.2%	20.9%
Activity ratios					
Inventory Days	92.4	95.9	101.4	104.3	105.8
Debtor Days	46.3	66.6	76.0	74.5	73.7
Creditor Days	76.0	87.4	87.4	87.4	91.3
Leverage ratios					
Interest coverage	5.7	4.3	7.4	8.6	10.0
Debt / Asset	0.1	0.2	0.2	0.2	0.1
Valuation ratios					
EV / EBITDA	11.0	12.3	12.0	10.0	8.2
PE (x)	20.8	23.8	20.9	17.1	13.8

Source: Company Financials and AR, Exchange, etc

Laxmi Organic Industries Ltd.

Guidance: Doubling Revenue, 3x EBITDA and RoCE improvement to 20% by FY28 over FY24 Financials

CMP: INR 244

Rating : BUY

Target Price: 453

Stock Info	
BSE	543277
NSE	LXCHEM
Bloomberg	LXCHEM:IN
Reuters	LAXR.NS
Sector	Chemicals
Face Value (INR)	2
Equity Cap (INR Mn)	552.9
Mkt Cap (INR Mn)	66,824
52w H/L (INR)	326 / 220
Avg Yearly Volume (in 000')	1,466

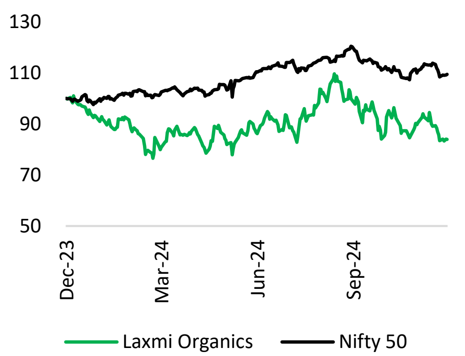
Shareholding Pattern %

(As on Sep, 2024)

Promoters	69.5
FII	1.67
DII	3.22
Public & Others	25.61

Stock Performance (%)	1m	6m	12m
Laxmi Organics	-11.2	-1.45	-0.8
Nifty 50	-0.4	-0.8	9.3

Laxmi Organics Vs Nifty 50



Abhishek Jain
abhishek.jain@arihantcapital.com
022-422548871

Anmol Das
anmol.das@arihantcapital.com
022-67114834

Laxmi Organic Industries Limited (LOIL) is the flagship company of **Goenka Group** established in 1989 engaged in the business of acetyl intermediates and specialty chemicals. The Company primarily manufactures Ethyl Acetate, Acetic Acid and Diketene Derivative Products. Over the Years, Laxmi Organics has made several acquisitions to consolidate their market leadership in specific Product categories. They acquired Ketene & Diketene business of Clariant in 2010, acquired Yellowstone Chemicals in 2021 which made them the largest producer of Ethyl Acetate in India and in 2019 they acquired the Fluorination business of Miteni of Italy whose facility equipments have been moved to Lote facility where the first revenues from Fluorine products will commence from H2FY25.

Investment Rationale:

Capacity Expansion: Laxmi Organic Industries has laid out a capex plan of INR 11 bn to be spent equally INR 5.5 bn towards each of Essentials & Specialities Chemicals by FY28. The Company will be doubling their Ketene & Diketene business after this business while becoming 3rd largest player among Ethyl Acetate suppliers globally.

The Company is aiming an Asset Turnover of 3-5x for the Essentials segment business with EBITDA Margins of 8-12%. The Management has guided that Volumes may increase up to 1.75x by FY28 from last year's volumes of 234 KT for the Essential business. For the Speciality Chemicals division, the Management aims an Asset Turnover of 1-2x with EBITDA margins of 20-25%. The Company will be investing INR 4,000 mn in the first 2 years, i.e, FY25 & FY26, and in the second tranche, will invest INR 1,500 mn between FY 26-28 period. After the current expansion, the Company will still have 80% land reserve in Dahej, 50% in Lote and 10% in Mahad.

Hence, in summary, the Company will be witnessing the doubling of revenues of each of the Essential & Specilaities segments, with the Specialities segment's contribution in Revenue & EBITDA increasing from current levels, causing the EBITDA to increase up to 3x by FY28 over FY24 EBITDA.

In Lote, the Fluorine assets of INR 5.5 bn is spent while in Dahej, both Specialities as well as Essentials production lines are present, of which Essentials will be of fixed products (35%) while Specialities (65%) are fungible with multi purpose product manufacturing capability. The Essentials volume will increase by 1.75x from 234 KTPA production in FY24. Similarly, in the Ketenes & Diketene derivative products, the Company's capacities will double from current levels.

Outlook: Laxmi Organics has laid out ambitious expansion plans over the next 4 years by FY28 while new Product launches and operational leverage are seen kicking in and improving margins. We believe the expansion plans work out well with revenues from both the segments doubling while overall EBITDA is expected to increase by 3 times over FY28 as per laid out plans by the Company. Under the leadership of Dr Rajan Venkatesh, the MD & CEO who joined the Company last year, Laxmi Organic's Management Team has hired Professionals coming from global Chemicals supply chain experiences joining to lead the future expansion plans. We initiate coverage with a "BUY" rating for a Target Price of INR 453 per share using DCF method; giving an upside of 79.8%.

Particulars (INR Mn)	FY20	FY21	FY22	FY23	FY24
Revenue	15,341	17,684	30,842	27,939	28,671
EBITDA	1,135	2,167	3,677	3,543	2,578
EBITDA Margins	7.40%	12.25%	11.92%	12.68%	8.99%
PAT	702	1,271	2,559	2,371	1,205
EPS	3.12	4.82	9.70	8.94	4.37

What went wrong:

For LOIL, several things went wrong during the last 2-3 years causing the stock prices jump & fall abruptly during this time:

- **Volatile Prices of Ethyl Acetate, Acetaldehyde and their Raw Materials, i.e, Ethanol:** The prices of Ethyl Acetate increased from levels of USD 0.7-0.9 per kg to as high as USD 1.4-1.5 per kg by mid 2022, on account of the Russia-Ukraine war starting in Feb 2022. The price increases were as a result of both raw material shortage due to the 2 large countries supplies for global markets drying up along with US sponsored Sanctions on Russian ships for logistics, which caused a supply shortage of ships across global trade routes.

- **Ketenes & Diketenes business margins:** LOIL acquired the ketenes & Diketenes derivatives business from Clariant Chemicals Limited in 2010, and took several years post acquisition to move the plant equipments from Clariant's manufacturing facilities at Balkum, Thane to their green field site at Mahad, Maharashtra, i.e, their Speciality Intermediate manufacturing facility. Due to this, the Specialities division of LOIL took longer period of time for their overall margins to normalize.

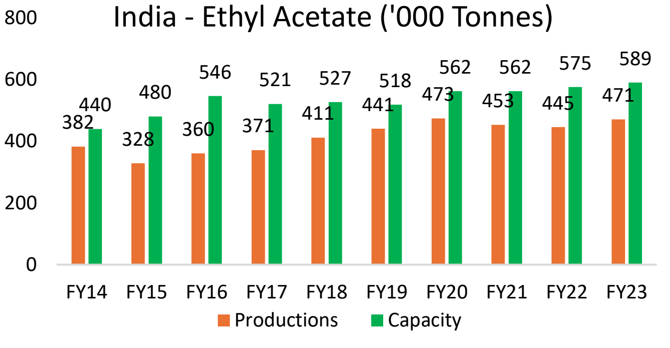
Why things would turn around from here:

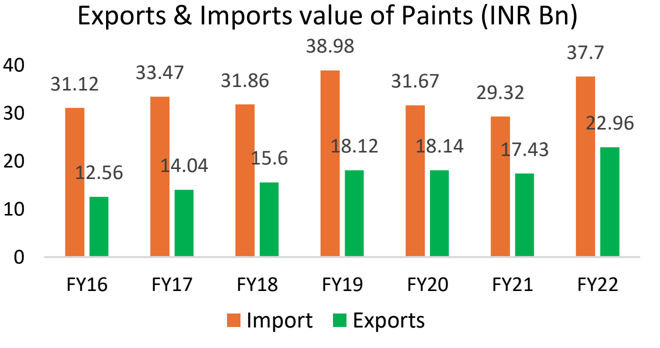
LOIL has all the 3 manufacturing facilities working at optimum capacity utilizations, in addition to the:

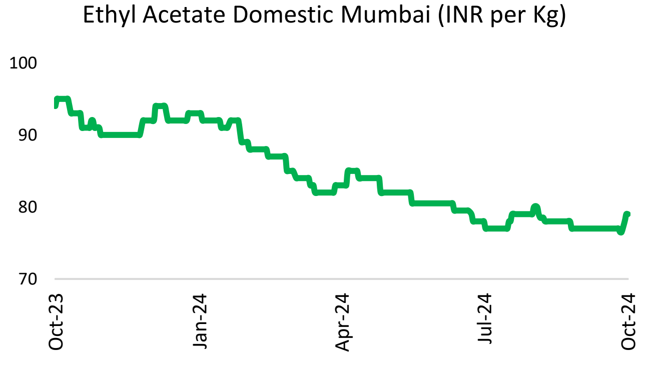
- **Capex in both Essentials & Specialities Chemicals division:** The Capacity of the Essentials chemicals will increase by 1.75x times from productions of 234 KT in FY24 while the Specialities Chemicals capacity will double from current levels. The planned Capex of INR 11 bn will be completed over the next 3-4 years, i.e, by end of FY27. Also, the Capex will be funded by the Company's internal accruals and no long term large debts.

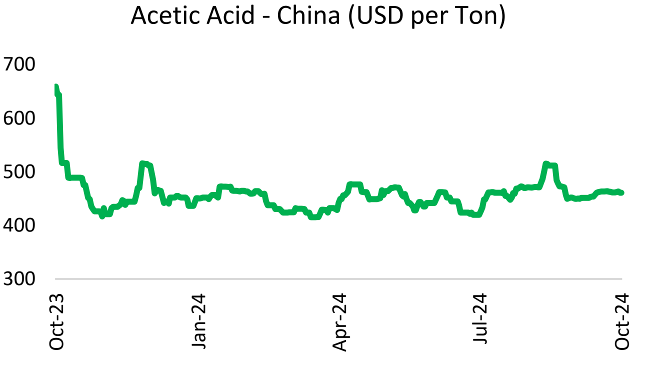
- **Chemical Prices bottoming out:** The Agro-Chemical prices have fallen to their all time lows as seen during the Q2FY25 and Q3FY25, and are at unsustainable levels even for Chinese suppliers. Hence, we believe it is now a matter of few quarters when some supply from China will shrink supporting the global average Chemical prices to higher levels from here, and thereby benefitting LOIL & Indian Chemical manufacturers.

- **Incremental Capacity to supply majorly to Exports markets where margins are better:** LOIL is already the market leader in the Ethyl Acetate in India. Similarly, the Company is the market leader in Ketenes & Diketene space with more than 50% of the market share in the domestic Ketenes & Diketenes derivatives space. With the incremental productions, LOIL will have more than sufficient capacity to cater to domestic requirements along with boost their margins by doing a higher percentage of Exports.









Income Statement (INR Mn)	FY23	FY24	FY25E	FY26E	FY27E	FY28E
Gross Sales	27,939	28,671	33,279	39,750	47,791	57,550
Net Sales	27,939	28,671	33,279	39,750	47,791	57,550
YoY (%)	-9.4%	2.6%	16.1%	19.4%	20.2%	20.4%
Adjusted COGS	**18,449**	**21,535**	**24,560**	**29,136**	**34,839**	**41,723**
YoY (%)	-12.7%	16.7%	14.0%	18.6%	19.6%	19.8%
Personnel/ Employee benefit expenses	1,159	1,479	1,769	2,113	2,540	3,059
YoY (%)	-6.9%	27.6%	19.6%	19.4%	20.2%	20.4%
Manufacturing & Other Expenses	4,788	3,080	3,494	4,174	5,018	6,042
YoY (%)	-0.2%	-35.7%	13.5%	19.4%	20.2%	20.4%
Total Expenditure	**24,396**	**26,093**	**29,822**	**35,423**	**42,397**	**50,824**
YoY (%)	-3.7%	-27.2%	34.1%	25.2%	24.6%	24.7%
EBITDA	**3,543**	**2,578**	**3,457**	**4,328**	**5,394**	**6,726**
YoY (%)	-3.7%	-27.2%	34.1%	25.2%	24.6%	24.7%
EBITDA Margin (%)	12.7%	9.0%	10.4%	10.9%	11.3%	11.7%
Depreciation	724	1,066	1,140	1,333	1,558	1,762
% of Gross Block	7.2%	8.4%	7.5%	7.3%	7.2%	7.0%
EBIT	**2,819**	**1,513**	**2,317**	**2,994**	**3,836**	**4,963**
EBIT Margin (%)	10.1%	5.3%	7.0%	7.5%	8.0%	8.6%
Interest Expenses	113	65	81	98	117	141
Non-operating/ Other income	148	261	390	466	560	674
PBT	**2,854**	**1,708**	**2,625**	**3,363**	**4,279**	**5,497**
Tax-Total	483	503	750	897	1,142	1,588
Adj. Net Profit	**2,371**	**1,205**	**1,875**	**2,466**	**3,136**	**3,909**
Reported Profit	**2,371**	**1,205**	**1,875**	**2,466**	**3,136**	**3,909**
PAT Margin	8.5%	4.2%	5.6%	6.2%	6.6%	6.8%
Shares o/s/ paid up equity sh capital	265	276	276	276	276	276
Adj EPS	9	4	7	9	11	14
Dividend payment	186	133	110	138	165	165
Dividend payout (%)	7.8%	11.0%	5.9%	5.6%	5.3%	4.2%
Retained earnings	2,185	1,073	1,765	2,328	2,971	3,743

Balance Sheet (INR Mn)	FY23	FY24	FY25E	FY26E	FY27E	FY28E
Sources of Funds						
Equity Share Capital	530	552	552	552	552	552
Reserves & Surplus/ Other Equity	13,593	17,428	19,194	21,521	24,492	28,236
Networth	**14,124**	**17,980**	**19,745**	**22,073**	**25,044**	**28,787**
Unsecured Loans/ Borrowings/ Lease Liabilities	4,057	1,428	1,732	2,107	2,570	3,149
Other Liabilities	312	345	385	431	483	542
Total Liabilities	**24,122**	**28,272**	**29,978**	**33,305**	**37,645**	**43,772**
Total Funds Employed	**46,547**	**55,163**	**58,309**	**64,634**	**72,911**	**84,662**
Application of Funds						
Net Fixed Assets	**-3,612**	**-4,308**	**-4,295**	**-2,516**	**-2,246**	**-2,003**
Capital WIP	4,471	4,442	2,665	2,398	2,159	1,943
Current assets	**12,167**	**14,772**	**16,829**	**18,689**	**21,250**	**25,763**
Inventory	2,942	2,833	3,293	3,907	4,672	5,595
Inventory Days	66	49	49	49	49	49
Debtors	5,702	5,834	6,695	7,997	9,615	11,579
Debtors Days	81	73	73	73	73	73
Other Current Assets	1,301	1,262	1,641	2,133	2,773	3,605
Cash and Cash equivalent	810	1,111	1,295	1,156	1,041	1,363
Current Liabilities/Provisions	**8,301**	**8,911**	**8,585**	**9,256**	**10,222**	**12,102**
Creditors / Trade Payables	4,663	7,621	7,158	7,667	8,463	10,147
Creditor Days	91	86	86	78	72	72
Liabilities	919	849	905	972	1,027	1,087
Net Current Assets	**3,866**	**5,861**	**8,244**	**9,433**	**11,028**	**13,661**
Total Asset	**24,122**	**28,272**	**29,978**	**33,305**	**37,645**	**43,772**
Total Capital Employed	**20,256**	**22,411**	**21,734**	**23,872**	**26,617**	**30,111**

Cash Flow Statement (INR Mn)	FY23	FY24	FY25E	FY26E	FY27E	FY28E
Profit before tax	**2,371**	**1,205**	**1,875**	**2,466**	**3,136**	**3,909**
Adjustments: Add						
Depreciation and amortisation	724	1,066	1,140	1,333	1,558	1,762
Interest adjustment	-35	-195	-309	-368	-443	-534
Change in assets and liabilities	2,874	1,943	2,596	3,293	4,086	4,972
Inventories	796	109	-460	-614	-765	-923
Trade receivables	982	-132	-861	-1,302	-1,618	-1,963
Trade payables	-2,453	2,958	-463	509	796	1,683
Other Liabilities and provisions	1,521	-2,351	134	159	166	193
Other Assets	382	38	-379	-492	-640	-832
Taxes	104	12	28	31	34	38
Net cash from operating activities	**4,162**	**2,596**	**595**	**1,583**	**2,060**	**3,168**
Net Sale/(Purchase) of tangible and intangible assets, Capital work in progress	-4,818	-2,646	-786	-2,796	-3,335	-3,372
Net Sale/(Purchase) of investments	-28	-770	513	577	660	764
Net cash (used) in investing activities	**-4,882**	**-3,400**	**-275**	**-2,222**	**-2,678**	**-2,611**
Interest expense	1,160	-120	205	241	292	360
Dividend paid	-132	-186	-133	-110	-138	-165
Other financing activities	-1,152	2,653	-110	-138	-165	-165
Net cash (used) in financing activities	**206**	**2,666**	**205**	**241**	**292**	**360**
Closing Balance	**1,309**	**3,171**	**3,695**	**3,298**	**2,971**	**3,888**
FCF	**97**	**-122**	**-1,929**	**-1,447**	**-1,477**	**-375**
Capex (% of sales)	4,065	2,717	2,500	3,000	3,500	3,500

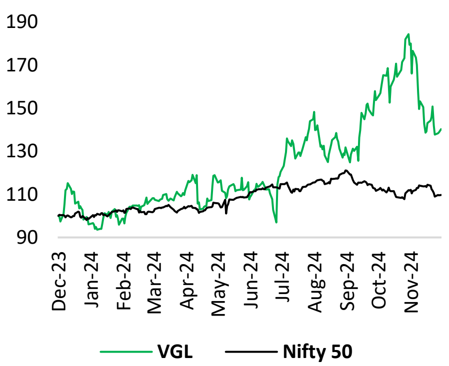
Key Ratios	FY23	FY24	FY25E	FY26E	FY27E	FY28E
Solvency Ratios						
Debt / Equity	0.3	0.1	0.1	0.1	0.1	0.1
Net Debt / Equity	0.2	-0.1	-0.1	-0.1	0.0	0.0
Debt / EBITDA	1.1	0.5	0.5	0.5	0.4	0.4
Current Ratio	0.8	-0.7	-0.6	-0.3	-0.1	-0.2
DuPont Analysis						
Sales/Assets	1.2	1.0	1.1	1.2	1.3	1.3
Assets/Equity	1.7	1.6	1.5	1.5	1.5	1.5
RoE	16.8%	6.7%	9.5%	11.2%	12.5%	13.6%
Per share ratios						
Reported EPS	8.9	4.4	6.8	8.9	11.4	14.2
Dividend per share	0.7	0.5	0.4	0.5	0.6	0.6
BV per share	53.3	65.2	71.6	80.0	90.8	104.4
Cash per Share	3.1	4.0	4.7	4.2	3.8	4.9
Revenue per Share	105.4	104.0	120.7	144.1	173.3	208.7
Profitability ratios						
Net Profit Margin (PAT/Net sales)	8.3%	8.5%	4.2%	5.6%	6.2%	6.6%
Gross Profit / Net Sales	34.0%	24.9%	26.2%	26.7%	27.1%	27.5%
EBITDA / Net Sales	12.7%	9.0%	10.4%	10.9%	11.3%	11.7%
EBIT / Net Sales	10.1%	5.3%	7.0%	7.5%	8.0%	8.6%
ROCE (%)	17.8%	7.8%	10.8%	12.5%	14.0%	15.7%
Activity ratios						
Inventory Days	66	49	49	49	49	49
Debtor Days	81	73	73	73	73	73
Creditor Days	91	86	86	78	72	72
Leverage ratios						
Interest coverage	25.0	23.1	28.4	30.6	32.7	35.3
Debt / Asset	0.2	0.0	0.1	0.1	0.1	0.1
Valuation ratios						
EV / EBITDA	19.6	25.2	18.7	15.1	12.3	9.8
PE (x)	28.2	57.7	37.1	28.2	22.2	17.8

CMP: INR 282	
Rating: BUY	
TP: INR 517	
Stock Info	
BSE	532156
NSE	VAIBHAVGBL
Bloomberg	VGM:IN
Reuters	vaib.ns
Sector	Gems, Jewellery And Watches
Face Value (INR)	2
Equity Capital (INR cr)	33
Mkt Cap (INR cr)	4,761
52w H/L (INR)	542/263
Avg Yearly Volume (in 000')	762

Shareholding Pattern % *(As on September 2024)*	
Promoters	57.30
FII	19.20
DII	0.73
Public & Others	22.77

Stock Performance (%)	1m	3m	12m
Vaibhav Global	(0.5)	(7.0)	(30.0)
Nifty 50	(1.8)	(8.9)	10.1

VGL Vs Nifty 50



Abhishek Jain
Abhishek.jain@arihantcapital.com
022 67114872

Anushka Chitnis
anushka.chitnis@arihantcapital.com
022 67114870

Value attractive acquisitions to boost market share & drive growth:

- **Mindful Souls acquisition:** The US-based e-commerce platform was acquired for 12 mn EUR (INR 100 cr) through internal accruals. **This is also a high margin (10% PBT) high cash generating business with a large scale.** This business registered a 4.1 mn EUR revenue in Q4FY24.
- **Ideal world acquisition:** The UK-based teleshopping platform was acquired for cheap (1.1mn GBP, about INR 11 Cr) through internal accruals, as it was heavy loss-making at the time of acquisition. **It is EBITDA positive now.** VGL had doubled its market share in the UK after this acquisition to around 10%. They are the second largest player now in the market second to QVC. This business has a monthly run rate of 1.2mn GBP**. This business will have a high- teen margin by FY25.**
- **Mindful Souls and Ideal World made a combined revenue** of USD 17 Mn in FY24 (INR 160 Cr) and will attain a revenue of INR 40-45 Mn USD in FY25 (~INR 415 Cr), entailing a growth of ~1.6x.
- **Synergy benefits** via operating cost rationalization from both these businesses through integration and amalgamation of the supply and distribution networks in existing markets will flow through from FY25 onward. There will also be a heightened scale due to them having their separate consumer bases are a **driving factor for future margin expansion.**

Valuation and Outlook: The business is asset-light, has low debt (INR 200 Cr of debt), high cash generation (cash balance of INR 170 Cr, FCF of INR 230 Cr, OCF od INR 270 Cr), good return profile, and is priced well as the TTM P/E multiple has been range bound between 30-40x.

With the current post- election interest rate environment, and the upcoming seasonal demand, we expect US and UK demand to perk up significantly and margin recapture to take place in H2. Ideal World is now profitable on a full cost basis, and Mindful Souls is readily scaling up its existing customer base. Germany continues to display strong revenue growth, and is on track to achieve EBITDA breakeven in H2. Considering all the investments being made in digital infrastructure, they are well en-route to attain the 50% digital revenue contribution by FY27, which is ideal considering the better margin profile. Considering this, we assign a TP of INR 517, valued at a P/E multiple of 30x the FY26E EPS of INR 17.24 entailing an upside of 84% and a strong BUY rating.

INR Mn	FY23	FY24	FY25 E	FY26 E
Revenue	26,909	30,410	34,949	40,102
Growth	*-2.2%*	*13.0%*	*14.9%*	*14.7%*
EBITDA	2,273	2,951	3,922	4,908
EBITDA Margin	*8.4%*	*9.7%*	*11.2%*	*12.2%*
PAT	1,051	1,267	1,956	2,914
EPS (INR)	6.30	7.60	11.65	17.24
P/E (x)	44.69	37.08	24.18	16.34

Source: Company, Arihant Capital Research

Margins to improve substantially from current level accompanied by mid-teen top line growth: The company can attain a stable top-line growth of 14-17% (15% to be conservative), with stable EBITDA margins of 15% vs the current 9% (the margin scale-up will take 3-4 years), has a target ROCE of 30% in 2-3 years, PAT growth 30-40% next 2-3 years.

Recovery in Customer sentiment in key markets: The turnaround in the current macro environment in key markets with Inflation coming down, rate cuts in the US and UK, and container costs have stabilized at lower levels. All this was accompanied by improving demand sentiment, which was weak for the past 2 years.

Market Leading growth: The teleshopping market has been growing at a CAGR of ~1.7%, and the company has been growing ahead of the industry, displaying a 5-year CAGR of ~11% from FY19 to FY24. This is largely due to **channel diversification** to include a larger share of digital platforms, and **proliferation across OTT platforms** to mitigate the impact of cord-cutting. This has led to a steady growth in customer retention and repeat purchases.

Channel and product mix improving with market share gains:

1. **The digital mix is growing** with a shift toward a younger crowd. The current share of digital work is 39%, and it is targeted to go up to 50% by FY27. **The ecommerce business also has a GM that is 100-200bps higher than the traditional television business.**
2. **Improving product mix** toward higher margin personal care products and away from jewelry, which are lower margin products.

Turnaround of German operations: Entered in 2021, this business has an extremely high top-line potential, and will reach breakeven EBITDA in FY25 as it is still in its formative stages. **This was a major reason their margins were dragged down - the ex-Germany margins are usually 200-300bps higher.** This will also be a major point of margin recovery. **The company has a tie up with Vodafone for the German market which gave them a 95% penetration across television networks.**

Planning to enter new markets: The Company also plans to enter Japan, once the German operations stabilize and become significant PAT contributors.

What wasn't working for the company:

- A previously high interest rate environment in their key geographies leading to subdued demand.
- Cord cutting in the OTA space.
- Lack of digital infrastructure- and the high expenses that came with building one from ground up.
- Loss making German business.

What is turning around for the company:

- Softened interest rate environment acts as a catalyst for discretionary spending.
- Shifting away from OTA to OTT platforms.
- Digital infrastructure investments is reaping good results as the share of digital is growing rapidly.
- The German business has stopped dragging on EBITDA Margins as of H2FY25, and is on its recovery path.

P&L (INR Mn)	FY23	FY24	FY25 E	FY26 E
Sales	**27,185**	**30,676**	**35,123**	**40,281**
COGS	(10,471)	(10,758)	(12,232)	(13,635)
Gross Profit	16,438	19,651	22,891	26,646
- margin (%)	60%	64%	65%	66%
OPEX	14,166	16,700	18,969	21,739
EBITDA	**2,273**	**2,951**	**3,922**	**4,908**
- margin (%)	**8%**	**10%**	**11%**	**12%**
D&A	(778)	(934)	(974)	(934)
EBIT	1,495	2,017	2,948	3,974
Extraordinary item	-	(81)	-	-
PBT	1,413	1,820	2,808	3,834
Tax	(362)	(552)	(852)	(920)
PAT	**1,051**	**1,267**	**1,956**	**2,914**

Balance Sheet (INR Mn)	FY23	FY24	FY25 E	FY26 E
Share Capital	330	331	331	331
Reserves & Surplus	11,683	12,246	13,954	16,621
Total shareholder's funds	**12,013**	**12,577**	**14,285**	**16,952**
Non-current liabilities	657	1,075	1,076	1,077
Current liabilities	5,215	5,239	5,149	5,059
Total equity and liabilities	**17,885**	**18,890**	**20,510**	**23,087**
Non-current assets	5,596	6,702	6,712	6,722
Current assets	12,289	12,188	13,797	16,365
Total assets	**17,885**	**18,890**	**20,510**	**23,087**

Cash Flow (INR Mn)	FY23	FY24	FY25 E	FY26 E
Cash flow from operations	1,272	2,344	(5,506)	(7,250)
Cash flow from investing	402	(3,742)	(984)	(944)
Cash flow from financing	(1,027)	907	5,636	9,908
Increase/(decrease) in cash	**675**	**(491)**	**(854)**	**1,714**
Opening cash balance	**431**	**1,106**	**3,128**	**3,178**
Closing cash balance	**1,106**	**614**	**2,275**	**4,892**

Source: Company, Arihant Capital Research

ArihantCapital
Generating Wealth

Sunteck Realty Ltd

CMP: INR 508

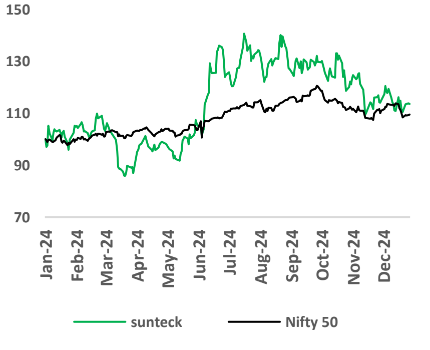
Rating: BUY

Target: INR 900

Stock Info	
BSE	512179
NSE	SUNTECK
Bloomberg	SRIN:IN
Sector	Real Estate
Face Value (INR)	1
Equity Capital (INR mn)	146
Mkt Cap (INR mn)	74,250
52w H/L (INR)	699 / 380
Avg Yearly Volume (in 000')	640

Shareholding Pattern % *(As on September, 2024)*	
Promoters	63.3
FII	19.4
DII	8.6
Public & Others	8.7

Stock Performance (%)	1m	6m	12m
SUNTECK	-1.39	-9.83	14.02
Nifty 50	-1.32	-1.36	9.58



Abhishek Jain
abhishek.jain@arihantcapital.com
022-422548871

Kunjal Agarwal
kunjal.agarwal@arihantcapital.com

Sunteck Realty Ltd (SRL) is one of the fastest growing Mumbai based real estate developers. SRL has a development portfolio of about 52.2 mn sq. ft. spread across 32 projects. Sunteck has presence across the Uber Luxury (UHNI & HNI), Premium Luxury (upper mid-income), Marquee Luxury (beach residences) & Aspirational Luxury (lower mid-income) segments.

What went wrong: Sunteck Realty faced challenges in its flagship ultra-luxury project in BKC, which struggled to attract buyers, leaving unsold inventory worth INR 10,000 Mn. Similarly, the Sunteck City project in the ODC area—a premium luxury development across multiple phases—saw weak buyer interest. Delays in project completion and a mismatch between the product and market demand further effected investor confidence, leading to a drop in the company's stock value.

What are the triggers for turn around: Management has outlined an ambitious growth plan, aiming to double its GDV to INR 520 Bn by FY27 and achieve a 30% CAGR in pre-sales over the next 2-3 years. This recovery will be driven by new project launches across Mumbai and the MMR region, including Nepean Sea Road (GDV: INR 25 Bn), Bandra redevelopment (GDV: INR 10 Bn), and the international Downtown Dubai project (GDV: INR 90 Bn).The completion of Phase 4 of the ODC Sunteck City project by H2 FY25 will make way for Phase 5, while the 5th Avenue ODC rental project is expected to generate INR 2,500 Mn annually post-launch. With a strong project pipeline and a renewed focus on market needs, Sunteck Realty is well-positioned to recover and drive future growth.

Outlook & Valuation: We remain positive on Sunteck's growth ahead given its strategy of growth with pre-sales growing at 30-35% and doubling its GDV in the next 2-3 years. The growth is expected to be driven by new launches of upcoming projects, strong balance sheet & brand recall as well as it is net cash positive with zero net debt to equity. Further, domestically it would continue to focus on the MMR region meanwhile its new project in Dubai would aid growth for the company. We assign a price to NAV multiple of 1.25x and have maintain Buy rating with a target price of INR 900.

Key Financials

Y/e 31st March in mn	FY23	FY24	FY25E	FY26E
Net Revenue	3,624	5,648	12,961	21,413
EBITDA	642	1,173	3,946	6,156
EBITDA Margin %	17.7	20.8	30.4	28.7
Adjusted PAT	(56)	708	2,862	4,446
PAT Margin %	-1.4	11.4	21.2	20.2
Adjusted EPS (INR)	(0.4)	4.8	19.5	30.4
ROE %	-	2.4	8.8	12.4

Source: Arihant Research, Company Filings

Investment Rationale

Pre-sales remained healthy for Q2FY25: The company posted healthy pre-sales on expected lines with growth of 33% YoY and 4% QoQ to INR 5240 Mn. Major contribution was its premium luxury segment with project such as Sunteck city, SBR, Sky Park with INR 2140Mn followed by Uber luxury projects like Signature & Signia with INR 1610Mn and Aspirational luxury & others contributed INR 1140Mn & 350Mn.

Reported strong profitability: On profitability front, the company's EBITDA reported a profit of INR 374Mn as against the loss of INR 141Mn in Q1FY24/grew by 19% QoQ. EBITDA margin is at 22.1% as against the margin expectation of 15% which is positive. PAT reported a profit of INR 347 Mn as against the loss of INR 139Mn in Q1FY24 and grew by 57% QoQ. PAT margin stood at 20.5% in Q2FY25.

Expects GDV to double and Pre-sales to witness strong growth: Management remains confident of doubling its GDV in the next 2-3 years and reach 520Bn by FY27 as well as expects its pre-sales to grow healthy at 30% in the next 2-3 years which will be largely driven by launch of its new projects across Mumbai & MMR region. New Phase of project expected in areas such as Naigoan, Mira-road, Nepean sea road, Bandra and also its Dubai project would contribute significantly.

Strong growth outlook for annuity income portfolio: Sunteck Realty has bolstered its annuity income portfolio with two commercial properties in BKC—Sunteck Icon and Sunteck BKC51—both pre-leased for 29 years. These assets have delivered an impressive average RoIC of ~30%. By FY25-end, annual rental income from these properties is expected to reach INR 700 Mn. Additionally, the upcoming 5th Avenue project in Sunteck City, ODC, is projected to contribute INR 2,500 Mn annually from FY27-28 onwards, raising the total annuity income to approximately INR 3,200 Mn.

Equity partnership with IFC – World Bank Group highlights capability to develop high quality large-scale housing projects in MMR: The company has recently partnered with IFC – World Bank Group to form joint investment platform of up to Rs 750 cr. This partnership will focus on developing up to 4-6 large-scale green housing projects in MMR targeting the mid-income class.

Profit & Loss Statement (Consolidated)

Y/e 31st March in mn	FY23	FY24	FY25E	FY26E
Net Revenue	3,624	5,648	12,961	21,413
Op. Expenses	2,983	4,476	9,015	15,257
EBITDA	642	1,173	3,946	6,156
Depreciation	92	95	312	401
EBIT	550	1,078	3,634	5,755
Other income	284	555	555	555
Interest Exp.	859	684	356	356
Extra Ordinary Items	70	1	-	-
Reported PBT	45	950	3,832	5,953
Tax	31	240	970	1,507
PAT	14	709	2,862	4,446
Adjusted PAT	(56)	708	2,862	4,446
Adjusted EPS (INR)	(0.4)	4.8	19.5	30.4

Source: Arihant Research, Company Filings

Balance Sheet (Consolidated)

Y/e 31st March in mn	FY23	FY24	FY25E	FY26E
Share Capital	140	146	146	146
Reserves & Surplus	27,738	31,095	33,694	37,876
Networth	27,878	31,242	33,840	38,023
Debt	6,885	3,791	3,791	3,791
Net deferred Tax liabilities	9	59	59	59
Others	90	173	173	173
Capital Employed	**34,862**	**35,266**	**37,705**	**42,060**
Goodwill	14	25	25	25
Property, Plant and Equipment	1,490	4,881	6,264	7,764
Capital work in progress	1,012	183	183	183
Other Non-Current Assets	3,820	4,903	4,903	4,903
Net Fixed Assets	6,321	9,968	11,350	12,850
Investments	99	24	24	24
Current Assets, Loans & Advances	66,152	69,220	70,065	74,793
Inventory	57,251	59,663	43,925	49,427
Debtors	1,496	2,925	5,406	10,544
Cash & Bank balance	888	597	13,396	5,793
Bank balance	694	461	461	461
Loans & advances and others	5,823	5,574	6,878	8,568
Current Liabilities & Provisions	37,724	43,971	43,759	45,632
Liabilities	37,672	43,906	43,694	45,567
Provisions	52	65	65	65
Net Current Assets	28,428	25,249	26,306	29,161
Application of Funds	**34,862**	**35,266**	**37,705**	**42,062**

Source: Arihant Research, Company Filings

Cash Flow Statement (consolidated)

Y/e 31st March in mn	FY23	FY24	FY25E	FY26E
PBT	45	950	3,832	5,953
Depreciation & amortisation	92	95	312	401
Interest expense	859	684	356	356
(Inc)/Dec in working capital	2,020	(502)	13,046	(8,768)
Tax paid	(70)	(121)	(970)	(1,507)
Less: Interest/Dividend Income Received	(267)	(84)	(555)	(555)
Other operating Cash Flow	(60)	69	(228)	(228)
Cash flow from operating activities	2,620	1,090	15,793	(4,347)
Capital expenditure	(181)	(631)	(1,382)	(1,500)
Inc/(Dec) in investments	8	14	-	-
Others	13	3,128	(749)	(1,136)
Cash flow from investing activities	(160)	2,511	(2,131)	(2,636)
Inc/(Dec) in share capital	13	2	-	-
Inc/(Dec) in debt	(1,650)	(2,784)	-	-
Dividend Paid	(215)	(211)	(264)	(264)
Others	(763)	(534)	(356)	(356)
Cash flow from financing activities	(2,615)	(3,527)	(620)	(620)
Net cash flow	(155)	74	13,042	(7,603)
Opening balance	436	280	354	13,396
Closing balance	280	354	13,396	5,793

Source: Arihant Research, Company Filings

Ratio Analysis

Particulars	FY23	FY24	FY25E	FY26E
No. of shares (m)	140	146	146	146
Diluted no. of shares (m)	140	146	146	146
BVPS (INR)	198	213	231	260
CEPS (INR)	0.8	5.5	21.7	33.1
DPS (INR)	1.5	1.5	1.5	1.5
Margins (%)				
EBITDA Margin(%)	17.7	20.8	30.4	28.7
EBIT Margin(%)	15.2	19.1	28.0	26.9
PAT Margin(%)	-	11.4	21.2	20.2
Growth Indicators (%)				
Revenue(%)	-29.4	55.8	129.5	65.2
EBITDA(%)	-32.7	82.7	236.4	56.0
Adj PAT(%)	-	-	304.1	55.4
Adj EPS(%)	-	-	304.1	55.4
Valuation (x)				
P/E (x)	-	101.3	25.1	16.1
P/BV (x)	2.5	2.3	2.1	1.9
EV/EBITDA (x)	121.1	63.9	15.7	11.3
EV/Sales (x)	21.4	13.3	4.8	3.3
RoE (%)	-	2.4	8.8	12.4
RoCE (%)	2.4	4.7	11.5	15.8
Asset/T.O (x)	0.1	0.2	0.4	0.5
Net Debt/Equity (x)	0.1	0.1	-0.3	-0.1
EBIT/Interest (x)	0.6	1.6	10.2	16.2

Source: Arihant Research, Company Filings

ArihantCapital
Generating Wealth

Dalmia Bharat Ltd

Capacity Expansion and demand to drive growth

CMP: INR 1,740

Rating: Buy

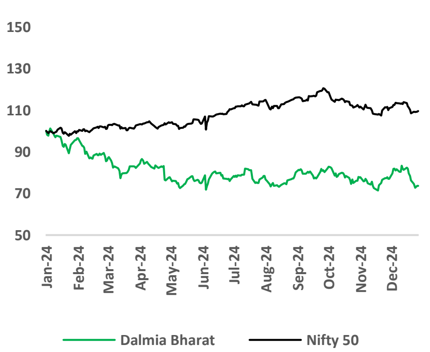
Target: INR 2,208

Stock Info	
BSE	542216
NSE	DALBHARAT
Bloomberg	DALBHARA:IN
Sector	Cement
Face Value (INR)	2
Equity Capital (INR mn)	380
Mkt Cap (INR mn)	3,28,580
52w H/L (INR)	2,431/ ,651
Avg Yearly Volume (in 000')	

Shareholding Pattern % *(As on September, 2024)*	
Promoters	55.8
DII	8.9
FII	14.7
Public & Others	20.5

Stock Performance (%)	1m	6m	12m
DALBHARAT	-7.70	-6.21	-26.52
NIFTY	-1.32	-1.36	9.58

DALBHARAT vs Nifty



Abhishek Jain
abhishek.jain@arihantcapital.com
022-422548871

Kunjal Agarwal
kunjal.agarwal@arihantcapital.com

Dalmia Bharat Ltd., founded in 1939, is one of India's leading cement manufacturing companies and a key player in the global cement industry. As the fourth-largest cement producer in India, the company boasts a production capacity of 41.1 mtpa and operates across 14 plants in 10 states. Dalmia Bharat is recognized for its innovative approach, sustainability initiatives, and diverse product portfolio, including premium and specialty cements. With a focus on green manufacturing, the company leads globally in low carbon emissions, aiming to become carbon-negative by 2040.

What went wrong: Dalmia Bharat Limited's stock has declined by 26.52% over the past year, reflecting several operational and market challenges. The company faced a sharp decline in realizations, down 6% QoQ and 9% YoY, impacting profitability. EBITDA margins fell to a multi-year low of 14.1%, primarily due to negative operating leverage, higher freight costs, maintenance shutdowns, and muted volume growth. Additionally, softness in cement prices and rising input costs, particularly in power and fuel, strained margins further. The market also reacted negatively to flat cement price guidance and delays in significant price hikes, affecting investor sentiment and confidence. Recently, the CTO resignation also impacted negatively on stock performance. These factors, combined with broader macroeconomic uncertainties, have contributed to the stock's underperformance.

What are the triggers for turnaround: Despite short-term headwinds, Dalmia Bharat has strong growth potential. Its capacity expansion plans aim to increase grinding capacity to 49.5 MTPA by FY25 and further to 75 MTPA by FY28, positioning the company to capture future demand. Management anticipates volume growth of 9% CAGR over FY24-26, supported by increased capacity utilization and the rising share of premium products. Cost-saving initiatives, such as reducing costs by INR 150-200 per tonne and leveraging renewable energy, are expected to improve margins. The company's strategic focus on trade sales and premium cement, along with government investments in infrastructure and housing, provides a robust demand outlook. These factors, coupled with an expected recovery in cement pricing, position Dalmia Bharat for a strong turnaround.

Outlook & Valuation: Dalmia Bharat reported muted set of numbers for Q2FY25 while going ahead H2FY25 is expected to see improvement led by positive demand and price outlook. Also, management remains positive on the growth prospects of the cement industry as there are opportunities which would be driven by real-estate & infrastructure development as well as private capex investment. The company focus remains on driving volume led growth, improve utilization and continuous capacity addition is positive.
On the financial front, we expect its revenue/EBITDA to grow by 11.3%/15.6% CAGR over FY24-26E and maintain our **Buy** rating with the target price of **INR 2,208**.

Key Financials

Particulars (INR Mn)	FY23	FY24	FY25E	FY26E
Net revenue	135,520	146,910	164,866	182,125
EBITDA	23,280	26,390	30,321	35,243
EBITDAM (%)	17.2	18.0	18.4	19.4
APAT	1083.0	854.0	1134.9	1534.2
APATM (%)	8.0	5.8	6.9	8.4
EPS (Rs)	58.5	44.9	59.7	80.7
EV/EBITDA	15.6	14.3	12.4	10.6
RoE (%)	7.2	5.2	6.5	8.2

Source: Arihant Research, Company Filings

Investment Rational

Decline in raw material led to improvement in gross margins: Gross profit came in at INR 26,420 Mn, which was a growth of 1% YoY and a decline of 12.4% QoQ. Further, its gross margin saw a steady improvement as raw material cost witnessed a decline of 16.5% YoY and 26.4% QoQ during Q2FY25. Thus, gross margin came in at 85.6%, an improvement of 251bps YoY and 229bps QoQ as against margin expectation of 85%.

Operating performance remains muted: On operating front, EBITDA for Q2FY25 stood at INR 4,340 Mn, de-growth of 26.3% YoY and 35% QoQ due to higher freight & other expenses due to shut down and softness in cement prices as well as muted volume growth for the quarter. Thus, EBITDA margin witnessed a decline of 465bps YoY and decline of 442bps QoQ to 14.1% as against margin expectation of 18%. PAT stood at INR 490 Mn which saw a de-growth of 60.5% YoY and 66.2% QoQ while PAT margin came in at 1.6%, decline of 235bps YoY and decline of 242bps QoQ.

Capacity expansion plan for FY28 continuous: Dalmia Bharat capacity expansion plan mentioned in the last quarter is well on track. It aims to achieve 49.5MnT by FY25 by expansion in East and North East region and also has plans to achieve ~75MnT by FY28 via from current capacity of 46.6MnT.

Lower realization and negative operating leverage impact EBITDA: The company's performance during the quarter was impacted by a 6% QoQ and 9% YoY decline in realization, bringing it down to Rs 4,607/tonne, which negatively affected its EBITDA margin. Additionally, plant maintenance and shutdowns further weakened profitability. Current cement prices remained consistent with Q2FY25 levels, and while management anticipates a potential hike in H2FY25, it has ruled out the possibility of any significant price increases. To address the decline, the company is focusing on cost-saving initiatives, targeting a reduction of overall costs by Rs 150-200/tonne over the next two years. By FY26E, it expects to improve EBITDA margins to 18.5%, driven by enhanced operating efficiency, increased sales of premium products, a higher share of trade sales, and stable realization. However, pricing trends will remain a crucial factor to monitor.

Higher consolidation to benefit large players: Between 2013 and 2024, the market share of large players increased from 46% to 55%, and by FY26-27, it is expected to rise further to 60%. With the growing pace of consolidation and capacity expansion by top players, their overall market share is set to increase further. This trend will positively influence cement pricing, economies of scale, and supply chain efficiency. The company, being among the top 5 players in the country, is well-positioned to benefit from this consolidation in the medium to long term. Cement demand in its operating regions is expected to remain strong, and the company is projected to achieve double-digit growth going forward.

Profit & Loss Statement (Consolidated)

Particulars (INR Mn)	FY23	FY24	FY25E	FY26E
Net sales	135,520	146,910	164,866	182,125
Expenditure				
Cost of materials	19,060	21,200	23,411	25,498
Purchase of stock in trade	520	5,670	5,441	5,354
(Increase) / Decrease In Stocks	230	160	180	198
Total raw materials	**19,810**	**27,030**	**29,031**	**31,050**
Gross Profit	**115710**	**119880**	**135835**	**151075**
Gross Profit M (%)	**85.4**	**81.6**	**82.4**	**83.0**
Employee cost	7,710	8,710	11,211	12,385
Fuel cost	36,790	31,160	34,622	37,882
Frieght & Forwarding	28,020	32,030	35,611	39,157
Other expenses	19,910	21,590	24,070	26,408
Total expenditure	112,240	120,520	134,545	146,882
EBITDA	**23280**	**26390**	**30321**	**35243**
EBITDAM (%)	**17.2**	**18.0**	**18.4**	**19.4**
Depreciation	13,050	14,980	15,333	15,481
PBIT	10,230	11,410	14,988	19,763
Other income	1,260	3,150	3,297	3,460
Interest expenses	2,340	3,860	3,919	3,803
PBT	**9,150**	**10,700**	**14,366**	**19,420**
Tax	2,420	2,160	3,017	4,078
Reported PAT	**6,730**	**8,540**	**11,349**	**15,342**
Exceptional Income / Expenses	4,100	-	-	-
PAT (after Exceptional)	**10,830**	**8,540**	**11,349**	**15,342**
PAT Margin %	**8.0**	**5.8**	**6.9**	**8.4**
EPS	**58.5**	**44.9**	**59.7**	**80.7**

Source: Arihant Research, Company Filings

Balance Sheet (Consolidated)

Particulars (INR Mn)	FY23	FY24	FY25E	FY26E
Source funds				
Share Capital	370	380	380	380
Reserves & Surplus	155,910	163,590	173,020	186,443
Net worth	**156,280**	**163,970**	**173,400**	**186,823**
Minority Interest	1,160	1,100	1,100	1,100
Long term borrowings	32,100	44,310	44,514	40,068
Short term borrowing	5,320	1,990	2,143	2,186
Total Debt	**37,420**	**46,300**	**46,657**	**42,253**
Loans & advances				
Long term provision	2,360	2,640	2,963	2,914
Other long term liabilities	2,590	2,780	3,120	3,278
Total	**24,000**	**25,800**	**27,845**	**29,869**
Current Liabilities				
Trade payables	11,350	13,160	14,768	16,315
Short term provisions	840	810	909	1,004
Other current liabilities	24,380	26,350	28,027	29,140
Total	**36,570**	**40,320**	**43,705**	**46,459**
Total liabilities	**255,430**	**277,490**	**292,707**	**306,503**
Application of Funds				
Net Block	140,650	153,160	162,831	173,919
Current work in process	18,590	22,840	22,840	22,840
Goodwill	7,300	5,270	5,270	5,270
Non current investment	5,900	5,900	7,419	8,196
Tax assets	1,640	1,400	1,571	1,736
Long term loans and advances	110	130	146	161
Other non-current assets	7,740	10,240	11,492	12,695
Total	**181,930**	**198,940**	**211,568**	**224,816**
Current Assets				
Current investments	29,350	38,720	38,743	38,246
Inventories	13,160	12,180	13,669	15,100
Trade receivables	7,000	8,360	9,034	9,979
Cash balance	2,340	3,410	2,908	1,010
Bank balance	510	2,410	2,670	2,670
Short term loans and advances	80	90	101	112
Other current assets	12,160	13,120	14,014	14,570
Assets or disposal group	8,900	260	-	-
Total	**73,500**	**78,550**	**81,139**	**81,687**
Total assets	**255,430**	**277,490**	**292,707**	**306,503**

Source: Arihant Research, Company Filings

Cash Flow Statement (consolidated)

Particulars (INR Mn)	FY23	FY24	FY25E	FY26E
Profit before tax	**13210**	**10690**	**14366**	**19420**
Add: Depreciation	13050	14980	15333	15481
Add: Interest cost	2310	3860	3919	3803
Less: Other Income	-660	-1750	-824	-865
Less: Dividend Income	-190	-340	-264	-277
Others	-4290	-1010	0	0
Operating profit before WC changes	**23430**	**26430**	**32530**	**37562**
Changes in working capital	-770	460	924	451
Cash from Operations	22660	26890	33454	38013
Less: Taxes	-140	-540	-3017	-4078
Cash flow from Operations	**22520**	**26350**	**30437**	**33935**
Cash flow from investing	-23260	-27500	-25457	-25707
Cash flow from Financing	1680	2220	-5481	-10126
Net cash Inflow/Outflow	**940**	**1070**	**-502**	**-1898**
Opening cash	1400	2340	3410	2908
Closing cash	2340	3410	2908	1010

Source: Arihant Research, Company Filings

Ratio Analysis

Particulars	FY23	FY24	FY25E	FY26E
Per share Data				
EPS (Rs)	58.5	44.9	59.7	80.7
Book value per share (Rs)	844.8	863.0	912.6	983.3
Dividend per share (Rs)	9.1	8.9	10.1	10.1
Dividend Yield (%)	0.5	0.5	0.6	0.6
Dividend Payout (%)	15.0	19.8	16.9	12.5
Profitability Ratios				
EBITDAM(%)	17.2	18.0	18.4	19.4
PBTM (%)	6.8	7.3	8.7	10.7
NPM (%)	8.0	5.8	6.9	8.4
RoE (%)	7.2	5.2	6.5	8.2
RoCE (%)	5.3	5.4	6.8	8.6
Efficiency Data				
Debt-Equity (x)	0.2	0.3	0.3	0.2
Debt/EBITDA (x)	1.6	1.8	1.5	1.2
Interest Cover (x)	4.4	3.0	3.8	5.2
Fixed Asset (x)	1.0	1.0	1.0	1.0
Debtors (Days)	18.9	20.8	20.0	20.0
Inventory (Days)	35.4	30.3	30.3	30.3
Payable (Days)	30.6	32.7	32.7	32.7
WC (Days)	23.7	18.3	17.6	17.6
Valuation				
P/E (x)	30.2	39.4	29.6	21.9
P/BV	2.1	2.1	1.9	1.8
EV/EBITDA	15.6	14.3	12.4	10.6
EV/Sales	2.7	2.6	2.3	2.1

Source: Arihant Research, Company Filings

NCL Industries Ltd

CMP: INR 227

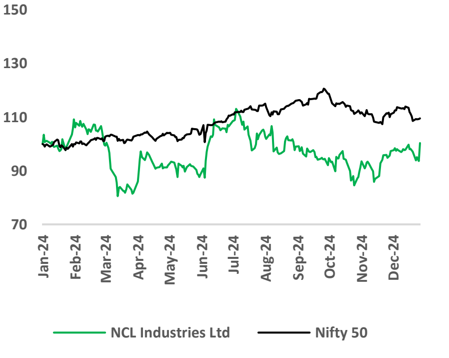
Rating: BUY

Stock Info	
BSE	502168
NSE	NCLIND
Bloomberg	NCLI:IN
Sector	Cement
Face Value (INR)	10
Equity Capital (INR mn)	452
Mkt Cap (INR mn)	9,910
52w H/L (INR)	260 / 180
Avg Yearly Volume (in 000')	283

Shareholding Pattern % *(As on Sept, 2024)*	
Promoters	42.1%
FII	0.0%
DII	5.3%
Public & Others	52.6%

Stock Performance (%)	1m	6m	12m
NCLIND	2.99	-7.33	0.60
Nifty 50	-1.32	-1.36	9.58

NCLIND Vs Nifty 50



Abhishek Jain
abhishek.jain@arihantcapital.com
022-422548871

Kunjal Agarwal
kunjal.agarwal@arihantcapital.com

NCL Industries Ltd, headquartered in Secunderabad, India, operates primarily in the building materials sector, manufacturing and selling a diverse portfolio of products that includes cement, cement bonded particle boards, ready-mix concrete (RMC), and doors. The company's flagship brand, Nagarjuna Cement, is well-regarded in the industry. NCL's operations are largely in Telangana and Andhra Pradesh with installed cement capacity of 3.9 MnT pa. Additionally, the company has ventured into renewable energy, operating two small hydroelectric power projects with a combined capacity of 15.75 MW.

What went wrong: NCL Industries Ltd. has been grappling with several challenges impacting its performance. Over the past three quarters, the company has reported consistent declines in revenue and profits,. Additionally, the company has experienced a degrowth in operating profit margins, further eroding profitability. Promoters reducing their shareholding have raised concerns about governance and investor confidence. Moreover, declining net cash flow highlights the company's struggle to generate sufficient cash from its core operations. The reliance on non-core income has also signaled challenges in sustaining its primary business performance, adding to the subdued market sentiment surrounding the stock.

What are the triggers for turnaround: Despite recent setbacks, NCL Industries has potential growth opportunities. The company's diversified portfolio across cement, cement-bonded particle boards, and ready-mix concrete (RMC) positions it well to benefit from the increasing demand in the construction and infrastructure sectors. With the government's strong focus on housing, highways, and irrigation projects, cement demand is expected to grow significantly, particularly in South India. NCL's emphasis on expanding capacity in cement and particle boards, coupled with operational efficiencies, could improve its financials. Additionally, as the cement sector sees consolidation, NCL could benefit as a potential acquisition target, further boosting investor confidence.

Outlook & Valuation: As a proxy player in the Andhra market, current market price range of INR 205-206 appears attractive. Further in cement sector, ongoing consolidation by larger players is expected to benefit smaller players like NCL, positioning them as potential acquisition targets. Additionally NCL business being in Southern market will help buyer to gain share and their limestone reserve will provide additional benefits. Further, there is continuous real estate and housing demand as well as government spending strongly (Andhra and Telangana) on infra projects will drive demand and overall growth of the sector. The stock is trading at EV/EBITDA of 3.4x on FY24.

Investment Rationale

Demand in cement sector would aid growth: The Indian government emphasis on infrastructure development, with substantial budget allocations for housing, highways, ports, airports and irrigation projects which is expected to drive demand for the cement sector. India's cement production reached 400-410 MnT in FY24, growth of 6.83% YoY and amongst India's cement production capacity, ~32% is in South India, 20% each in North & East India, 15% in West and 13% in Central India. India per capita consumption in FY24 is 295 kg compare to the world average of 550 kg therefore there is scope of expansion in India. Cement demand in FY24 is 420-430 MTPA and it is expected to cross 625 MTPA by FY30 i.e CAGR of 7-8%, it is driven by an increase in construction activities throughout the country. Besides, there are expectation of steady increase in the cement industry’s capacity utilization levels to ~72% in FY25 from ~68% in FY23 and ~71% in FY24.

Financials sees healthy growth: NCL Ind. posted FY24 revenue of INR 18,713Mn, grew by 16.3 % YoY due to strong demand across its core segments—cement, RMC, and doors. EBITDA reached INR 2,256.8 Mn, growing at an 35% YoY, supported by operational efficiencies and margin improvements. PAT rose sharply to INR 932.1 Mn, grew by 110% YoY. Over the past 5 years, the company financial reflects strong growth wherein revenue grew by 91% CAGR, EBIDTA grew by 60% & PAT grew by CAGR of 99% led by the company's’ strategy of managing cost, expanding capacity, improvement in overall market sentiments and solid performance across key product lines.

Diversified portfolio to drive growth: NCL Ind., with its diversified portfolio including cement products (84.3% of turnover), Cement Bonded Particle Boards (8.2% of turnover) and Ready Mix Concrete (7.5% of turnover) . They have 1750 cement dealers in states like Andhra Pradesh, Kerala, Telangana, Karnataka, Maharashtra, Odisha, Tamil Nadu, Chhattisgarh and Pondicherry .The RMC segment of the company has plants in Hyderabad and Vizag and it is also adding in-demand products like green cement to its range. The company is the sole manufacturer of Cement Bonded Particle Boards under the brand "Bison Panel" in India, With current facilities operating at an annual capacity of 90,000 MT, are looking to expand production to take advantage of growing demand new opportunities.

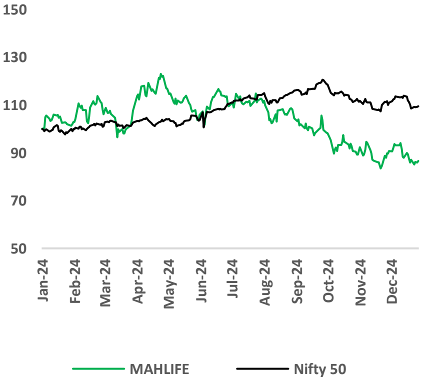
CMP: INR 472	
Rating: BUY	
TP: INR 755	

Stock Info	
BSE	532313
NSE	MAHLIFE
Bloomberg	MLIFE:IN
Sector	Real Estate
Face Value (INR)	10
Equity Capital (INR mn)	1550
Mkt Cap (INR mn)	71,230
52w H/L (INR)	679 / 453
Avg Yearly Volume (in 000')	332

Shareholding Pattern % *(As on Sept, 2024)*	
Promoters	51.15
FII	9.82
DII	20.91
Public & Others	18.12

Stock Performance (%)	1m	6m	12m
MAHLIFE	-4.83	-21.90	-13.33
Nifty 50	-1.32	-1.36	9.58

MAHLIFE Vs Nifty 50



Abhishek Jain
abhishek.jain@arihantcapital.com
022-422548871

Kunjal Agarwal
kunjal.agarwal@arihantcapital.com

Mahindra Lifespace Developers Limited (MLDL), a subsidiary of Mahindra & Mahindra Ltd, is a leading real estate developer in India, established in 1999., it is engaged in the business of development of the real estate, residential facilities, commercial complexes and through its subsidiary companies is involved in various infrastructure projects including the development of SEZs and Industrial Clusters under its Mahindra World City and Origins brands. Renowned for its sustainable practices and quality, MLDL is a key player in affordable housing and industrial infrastructure.

What went wrong: Mahindra Lifespace Developers Ltd.'s stock has declined by 13.33% over the past year, reflecting challenges in maintaining momentum in its core operations. The company faced delays in project launches and execution, contributing to subdued revenue recognition. Additionally, higher interest rates and muted demand in certain segments dampened customer sentiment. The slower-than-expected ramp-up in the industrial and logistics business added further pressure, impacting overall investor confidence.

What are the triggers for turnaround: The company has a strong pipeline of upcoming launches and projects, targeting robust growth in the residential segment with a focus on premium housing. Notable new projects include those in key cities such as Bengaluru, Mumbai, and Pune, which are expected to drive pre-sales and revenue growth. Key launches by FY25-end include Vista Phase 2 in Kandivali, Crown Phase 2 in Pune, and a new plotted development in Jaipur, with an expected GDV of approximately INR 45,000 Mn for H2FY25. Additionally, the company sees a long-term potential of INR 2,000 crore of PAT over the next decade from its industrial clusters (IC) business. Management also remains confident in expanding its annuity income portfolio, driven by the industrial and logistics business. By FY26, the company aims to achieve a significant boost in collections and profitability, supported by favorable government policies and rising urbanization.

Outlook & Valuation: We maintain a positive outlook on Mahindra Lifespace's growth potential due to its extensive pipeline of upcoming projects, strong foothold in redevelopment within core areas like MMR, and sustained demand in the real estate sector. Supported by a healthy balance sheet and robust cash flows, the company is positioned well for continued expansion. From a valuation perspective, we have assessed the company on a NAV basis, Buy a target price of INR 755, indicating a potential upside of 40%.

Exhibit: Financial overview

Particulars (INR Mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	5,738	5,808	7,445	8,818	11,117
EBITDA	1,540	1,127	1,571	1,913	2,523
EBITDA Margins (%)	26.8	19.4	21.1	21.7	22.7
PAT	1,034	561	891	1,161	1,649
EPS	33.6	18.2	29.0	37.7	53.6

Source: Arihant Research, Company Filings

Investment Rationale

Pre-sales and Financial Performance in Q2FY25: In Q2FY25, Mahindra Lifespace achieved pre-sales of INR 3,970 Mn, down 13% YoY compared to INR 4,550 Mn in Q2 FY24 due to seasonality and a limited number of project launches. The Integrated Cities and Industrial Clusters (IC&IC) business segment contributed INR 870 Mn in leasing revenue for Q2, largely from World City in Jaipur and Chennai, supported by global interest and domestic demand for industrial setups.

Sustainability and Brand Leadership: They have commitment to sustainable development has positioned it as a preferred developer in India's real estate sector. The company's emphasis on green buildings, net-zero carbon goals, and innovative customer experiences strengthens its brand equity. With established recognition in high-demand regions such as MMR and Pune and strategic partnerships, they continues to attract discerning customers and investors who value long-term, environmentally responsible projects. This focus on sustainability, combined with its operational scale in Integrated Cities and Industrial Clusters (IC&IC), supports a diversified revenue stream and reinforces the company's reputation as an industry leader.

Healthy project pipeline for FY25 : For the remainder of FY25, Mahindra Lifespace has an extensive project pipeline, which includes Phase 2 of the Vista project in Kandivali, further phases of Codename Crown in Pune, and Zen 2 in Bangalore. Additionally, the company is preparing for its first society redevelopment project in Malad, Mumbai, with further projects planned for Jaipur and Chennai.

Profit & Loss Statement (Consolidated)

Y/e 31st March in mn	FY23	FY24	FY25E	FY26E
Net revenues (Rs m)	**6,066**	**2,121**	**7,586**	**6,455**
Net Raw Materials	5,010	1,899	7,525	10,317
Gross Profit	1,056	222	61	(3,862)
Growth (%)	**17%**	**10%**	**1%**	**-60%**
Direct costs	5,138	1,915	7,638	10,511
Other expenses	2,029	1,917	1,245	1,327
EBITDA	**(1,101)**	**(1,711)**	**(1,297)**	**(5,383)**
EBITDA margins (%)	(18.2)	(80.7)	(17.1)	(83.4)
Depreciation	122	137	119	121
Other income	530	670	363	298
Interest Exp	109	74	100	100
PBT	**(803)**	**(1,252)**	**(1,154)**	**(5,307)**
Effective tax rate (%)	(3.5)	35.2	25.2	25.2
+ Associates/(Minorities)	1,167	1,794	1,276	1,039
PAT	**336**	**982**	**407**	**(2,932)**
Adjusted income	1,014	982	407	(2,932)

Source: Company reports, Arihant Capital Research

Balance Sheet (Consolidated)

Y/e 31st March in mn	FY23	FY24	FY25E	FY26E
Share capital	1,547	1,550	1,550	1,550
Net worth	18,057	18,728	18,803	15,484
Total debt (including Pref)	2,651	8,728	8,511	8,386
Minority interest	2	2	(4)	(18)
Deferred tax Liability/(Asset)	(592)	(1,058)	(1,058)	(1,058)
Capital employed	**20,118**	**26,399**	**26,251**	**22,792**
Net tangible assets	360	282	201	119
Net Intangible assets	5	5	4	3
Goodwill	-	-	-	-
CWIP (tangible and intangible)	51	51	75	99
Investments (Strategic)	7,092	8,274	9,935	10,849
Investments (Financial)	1,962	863	0	0
Current Assets (ex Cash) Incl LT assets	25,271	38,008	50,200	10,742
Cash	774	1,068	(1,631)	(1,440)
Current Liabilities (ex ST Loan/Current Portion) incl LT liabilities	15,397	22,150	32,557	(2,396)
Working capital	9,874	15,858	17,643	13,138
Capital deployed	**20,118**	**26,399**	**26,251**	**22,792**

Cash Flow Statement (consolidated)

Y/e 31st March in mn	FY23	FY24	FY25E	FY26E
PBT+ Net Int Expense	(1,223)	(1,848)	-	(5,505)
+ Non-cash items	122	137	119	121
Operating profit before WC changes	(1,101)	(1,711)	-	(5,383)
- Incr./(decr.) in WC	(971)	5,772	1,997	(4,505)
Others incuding taxes	35	25	(290)	(1,336)
Operating cash-flow	(165)	(7,417)	(3,004)	457
- Capex (tangible + Intangible)	(530)	57	62	62
Free cash-flow	364	(7,499)	(3,066)	395
Acquisitions	-	-	-	-
- Dividend (including buyback & taxes)	309	357	388	388
+ Equity raised	20	-	-	-
+ Debt raised	43	5,610	(217)	(125)
- Fin Investments	2,830	83	798	914
- Net Int expense + Misc.	(1,230)	(2,898)	(1,583)	(1,223)
Net cash-flow	(1,481)	478	(2,886)	191

Source: Company reports, Arihant Capital Research

Ratio Analysis

Y/e 31st March in mn	FY23	FY24	FY25E	FY26E
P/E (x)	53.7	77.6	187.4	-26.0
EV/EBITDA (x)	-	-	-	-
EV/sales (x)	9.0	41.8	12.1	1.5
P/B (x)	3.0	4.1	4.4	-
RoE (%)	1.9	5.8	2.2	-17.1
RoCE (%) - After tax	-3.4	-4.7	-4.0	-21.2
Sales/FA (x)	14.5	6.3	27.1	29.3
DPS (Rs per share)	2.0	2.3	2.5	2.5
Dividend yield (%)	0.6	0.5	0.5	0.5
Dividend payout (%) - Inc. DDT	92.0	36.3	95.2	#DIV/0!
Net debt/equity (x)	-0.0	0.4	0.5	0.6
Receivables (days)	78	184	100	138
Inventory (days)	1,262	5,813	1,841	-312
Payables (days)	115	335	146	160
CFO:PAT%	-16.3	-690.9	-727.5	-15.6
FCF:PAT% - includ M&A payout	35.9	-698.6	-742.6	-13.5

Source: Company reports, Arihant Capital Research

ArihantCapital
Generating Wealth

Avenue Supermarts Ltd

CMP: INR 3,565

Rating: BUY

TP: INR 4,500

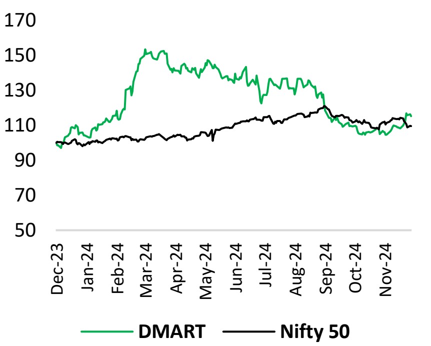
Stock Info	
BSE	540376
NSE	DMART
Bloomberg	DMART:IN
Reuters	AVEU.NS
Sector	Consumer Discretionary
Face Value (INR)	10
Equity Cap (INR Mn)	6,507
Mkt Cap (INR Mn)	23,18,236
52w H/L (INR)	5485/3399
Avg Yearly Volume (in 000')	32.32

Shareholding Pattern %
(As on Sept, 2024)

Promoters & Promoter Group	74.65
Public & Others	25.35

Stock Performance (%)	1m	6m	12m
D Mart	-2.61	-27.2	-11.4
Nifty 50	-1.88	-0.94	9.99

DMart Vs Nifty 50



Abhishek Jain
abhishek.jain@arihantcapital.com
022-422548871

Deepali Kumari
deepalikumari@arihantcapital.com

DMart, founded in 2002 by Mr. Radhakishan Damani and his family, is a leading supermarket chain in India owned and operated by Avenue Supermarts Ltd with headquarters in Mumbai. Starting with its first store in Powai, the company has grown to 387 locations across key states such as Maharashtra, Gujarat, Tamil Nadu, and Punjab, with plans for further expansion. Dmart focuses most competitively priced retailers in its regions offering a wide range of home and personal products including food, toiletries, garments, kitchenware, and home appliances under brands like D Mart, D Mart Minimax, and Dutch Harbour. The company is committed to delivering quality products at exceptional value making it a preferred one-stop shopping destination for Indian families.

What went wrong on the stock: DMart faces significant challenges as the contribution of high-margin categories like General Merchandise and apparel has declined from 27-28% to 22-23%, impacting overall margins. The rapid rise of quick commerce players such as Blinkit, Zepto, and Swiggy Instamart, growing at a 200% CAGR, has reshaped the grocery landscape with their ultra-fast 10-minute delivery promise, outpacing DMart Ready's 6-8 hours delivery model. While DMart Ready grew 21.8% in H1 FY25, competitors like Blinkit saw nearly 50% growth, highlighting the competitive gap. Additionally, formats like DMart Ready and DMart Minimax remain unprofitable, with cautious scaling further delaying turnaround. Despite a strong presence in 150 cities and competitive pricing, DMart is losing its edge as the "cheapest option" amid intensifying competition, putting pressure on margins and market share.

What are the triggers for turnaround: Quick commerce, while popular in the short term, is proving to be unsustainable in the long run due to high money burn and low margins, with global examples showing limited success outside niche markets like flower delivery in China. Even in Europe, players have shifted to subscription models to survive. DMart's strategy contrasts with the volatile model, focusing instead on its cluster-based expansion approach, steadily growing its store network (now at 387 stores across 150 cities) and improving its e-commerce offering. DMart Ready has reduced delivery times to 6-8 hours in some markets while maintaining its value-driven pricing, a key differentiator from quick commerce players. Management is cautious about expanding aggressively into quick commerce or dark stores, given its low profitability and high-cost structure. They remain committed to gradually increasing store additions and improving throughput in existing markets while navigating challenges in online gross margin improvement. DMart's measured approach leverages its offline strength and value retail strategy, avoiding the unsustainable cost structures of quick commerce, which continues to bleed across global markets without stable margins or scalable opportunities.

Outlook and Valuation:
DMart Ready demonstrates a strong value proposition by consistently offering the highest discounts compared to peers and introducing same-day delivery slots in select cities like Mumbai and Bangalore, enhancing customer convenience and competitiveness. While product availability remains on par with other slotted delivery platforms, its pricing advantage and improved delivery speed position it well to capture market share in the growing e-grocery segment. However, the scalability and profitability of these initiatives will be key to sustaining its edge against intensifying competition from quick commerce players. DMart, currently trading at lower valuations compared to historical averages and peers, presents a long-term investment opportunity, with near-term challenges. We maintain a Buy rating with a target price of INR 4,500. Despite its robust offline presence and solid balance sheet, DMart faces growing competition from online platforms.

Exhibit: Financial overview

Particulars (INR Mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	4,18,330	4,95,330	5,76,550	6,50,400	7,50,850
EBITDA	36,590	40,990	45,650	55,850	68,520
EBITDA Margins (%)	8.7	8.3	7.9	8.5	9.1
PAT	25,560	26,950	29,950	35,510	43,680
PAT Margins(%)	6.1	5.4	5.1	5.4	5.8
EPS	36.6	38.9	45.2	55.2	69.5

Source: Arihant Research, Company Filings

Kajaria Ceramics Ltd

CMP: INR 1,117

Rating: Buy

TP: INR 1,540

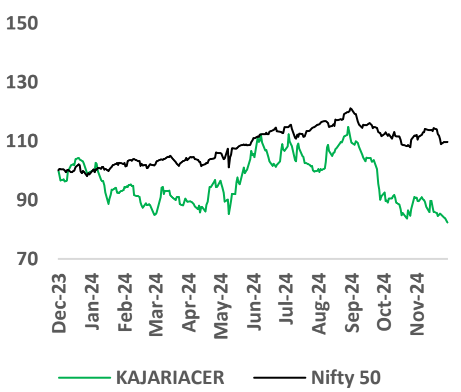
Stock Info	
BSE	500233
NSE	KAJARIACER
Bloomberg	KJC:IN
Sector	Building Material
Face Value (INR)	1
Mkt Cap (INR Bn)	17.80
52w H/L (INR)	1579/1118
Avg Yearly Volume (in 000')	263

Shareholding Pattern %
(As on September, 2024)

Promoters	47.49%
DII	28.4%
FII	16.07%
Public & Others	8.05%

Stock Performance (%)	1m	6m	12m
KAJARIACER	-8.92%	-21.48%	-14.91%
NIFTY	-1.91%	8.37%	25.3%

KAJARIACER vs NIFTY 50



Abhishek Jain
abhishek.jain@arihantcapital.com
022-422548871

Rohan Baranwal

Kajaria Ceramics is India's largest ceramic and vitrified tile manufacturer, with an overall capacity of 93.10 MSM across eight Indian plants and one plant located in Nepal. Equipped with advanced technology also capable of large tiles manufacturing, it offers over 3,000 SKUs across ceramic wall tiles, glazed vitrified tiles, and more. The Keronite unit's tile division, which commenced operations in Sept-24 has incurred higher overheads in H1 but is expected to ramp up in H2FY25. **Tiles exports fell 15% YoY to INR 74 Bn in Q2FY25 due to increased freight rates and container unavailability.** Real estate launches have been slow but are expected to pick up by H2FY25, supported by a positive response from the dealer network and robust project demand driven by government projects. **Company volume growth stood at 8% YoY in H1FY25, compared to stagnant industry growth of 2-3%.**

What went wrong: Tiles growth remain muted in the face of export challenges and rising overheads

- Muted tiles demand and pressurized realizations due to rising competition from unorganized players as of reduced export momentum driving domestic spread.
- Increased overheads for Keronite plant, higher gas prices (up 5% to INR 47 by Gujarat Gas) in Sept, and rising utility costs at the Morbi plant affected margins.
- Keronite's 6 Mn sqm capacity in Morbi operated at 38% utilization in H1FY25, with losses in the bathware division reducing EBITDA margin by ~100 bps YoY to 15% in Q2FY25.
- Exports declined due to increased freight costs, Red Sea Crisis, and sluggish residential markets in the USA and Europe, leading to a projected 8-10% YoY contraction in FY25 ceramic tile exports.

Resilient volume growth amid soft demand, driven by strategic focus on government projects

- Company reported strong volume growth and demand revival despite lower demand and pressurized realizations; company expects volume growth of 7-8% in H2 similar to H1FY25.
- Company plans for expansion into UAE and UK, targeting higher-margin and growth into value added products.

Particular (INR Mn)	FY23	FY24E	FY25E	FY26E	FY27E
Revenue	43,819	45,784	48,750	54,143	61,290
EBITDA	5,920	6,997	6,999	8,177	9,721
EBITDA Margins (%)	14	15	14	15	16
PAT	3,463	4,334	4,269	5,089	6,217
EPS	21	27	27	32	39

- Production for the Nepal plant (5.1 Mn sqm capacity), targeting a market size of INR 20-25 Bn. With current production of ~60k-70k sqm in H1FY25, is expected to scale higher in H2FY25 with full utilization further in FY26.

- Real estate demand expected to improve in FY26, improving volume growth estimated at 11-12% YoY.

- Company targeting to improve its net working capital 50 days in FY25 as of improved channel financing and no impact from government projects.

- It has incurred capex of INR 1.74 Bn including INR 340 Mn Nepal, and expects to incur INR 466 Mn in FY25.

- In Project segment, government projects expected to contribute 25% YoY growth in revenue share, reaching ~15% of total revenue by FY27.

- Management estimates EBITDA margins of ~15-17% in FY26, leveraging value-added products and strong volume growth supported by focusing on cheaper alternative fuels and reducing gas prices ahead will result in better margins.

We project KAJARIACER to achieve a CAGR of 12%/18%/21% in revenue/EBITDA/PAT from FY25-27. We anticipate EBITDA margins of ~15%/16% in FY26/FY27. Kajaria has consistently generated free cash flow since FY16, and we expect this trend to continue. Net cash is forecasted to rise to INR 5.4 Bn/INR 6.4 Bn in FY26/FY27, up from INR 4.1 Bn in FY25E, despite a capex plan of INR 10 Bn over FY25-27. From past three months, the stock has declined by over 25% due to weaker demand, increased supply from Morbi-based players, and margin pressures. **We have a BUY rating with a target price of INR 1,540, based on 40x FY27E EPS.**

Consolidated Income Statement								(In Mn)
Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	FY27E
Net Sales	28,080	27,809	37,052	43,819	45,784	48,750	54,143	61,290
Change (%)	-5	-1	33	18	5	7	11	13
EBITDA	4,159	5,088	6,107	5,920	6,997	6,999	8,177	9,721
Margin (%)	15	18	17	14	15	14	15	16
Depreciation	1,081	1,067	1,154	1,329	1,480	1,664	1,832	1,992
EBIT	3,078	4,022	4,953	4,592	5,517	5,335	6,345	7,729
Interest and Finance Charges	195	107	127	223	211	185	183	157
Other Income - Rec.	242	213	276	336	462	532	612	703
Pre Tax bef. EO Exp.	2,883	3,914	4,826	4,368	5,306	5,150	6,162	7,572
EO Expense/(Income)	0	0	0	79	0	0	0	0
Pre Tax Profit	3,125	4,127	5,102	4,625	5,768	5,682	6,774	8,275
Current Tax	937	1,083	1,210	1,174	1,349	1,413	1,685	2,058
Deferred Tax	-348	-446	65	-11	86	0	0	0
Tax Rate (%)	19	15	25	25	25	25	25	25
Profit after Tax (PAT)	2,535	3,490	3,827	3,463	4,334	4,269	5,089	6,217
PAT Adj	2,535	3,490	3,827	3,404	4,334	4,269	5,089	6,217
Change (%)	13	38	10	-11	27	-2	19	22
Margin (%)	9	13	10	8	10	9	9	10
Less: Minority Interest	-18	9	58	18	113	141	152	164
Net Profit	2,554	3,482	3,770	3,386	4,221	4,128	4,937	6,053

Consolidated Balance Sheet								(IN Mn)
Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	FY27E
Equity Share Capital	159	159	159	159	159	159	159	159
Total Reserves	16,984	18,530	21,065	23,109	26,006	27,905	30,295	33,483
Net Worth	**17,143**	**18,689**	**21,224**	**23,268**	**26,165**	**28,065**	**30,455**	**33,642**
Deferred Liabilities	716	674	726	738	801	801	801	801
Minority Interest	637	646	648	776	591	731	883	1,047
Total Loans	1,281	987	1,279	2,093	1,706	1,506	1,306	1,106
Capital Employed	**19,777**	**20,996**	**23,877**	**26,875**	**29,263**	**31,103**	**33,445**	**36,597**
Gross Block	19,009	20,052	20,777	25,076	28,467	30,967	34,467	37,967
Less: Accum. Deprn.	7,061	8,128	9,282	10,610	12,090	13,754	15,586	17,578
Net Fixed Assets	**11,948**	**11,924**	**11,496**	**14,466**	**16,377**	**17,213**	**18,881**	**20,389**
Capital WIP	266	149	2,634	817	679	2,000	1,000	1,000
Total Investments	**101**	**50**	**0**	**19**	**185**	**185**	**185**	**185**
Curr. Assets, Loans&Adv.	**12,056**	**13,120**	**15,728**	**17,976**	**18,151**	**19,168**	**21,492**	**24,100**
Inventory	5,127	3,731	4,659	5,647	5,322	5,827	6,343	7,116
Account Receivables	3,967	4,317	5,133	6,012	6,194	6,475	7,047	7,906
Cash and Bank Balance	2,252	4,428	4,244	3,938	5,141	5,570	6,692	7,496
Loans and Advances	710	645	1,693	2,380	1,494	1,295	1,409	1,581
Curr. Liability & Prov.	**4,594**	**4,248**	**5,981**	**6,403**	**6,129**	**7,462**	**8,112**	**9,077**
Account Payables	4,306	4,019	5,722	6,111	5,809	7,122	7,752	8,697
Provisions	288	229	259	293	320	340	360	380
Net Current Assets	**7,462**	**8,873**	**9,747**	**11,573**	**12,022**	**11,706**	**13,380**	**15,023**
Appl. of Funds	**19,777**	**20,996**	**23,877**	**26,875**	**29,263**	**31,103**	**33,445**	**36,597**

Ratios Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	FY27E
Basic (INR)								
Consol EPS	16	22	24	21	27	27	32	39
Cash EPS	23	29	31	30	37	37	43	52
BV/Share	108	118	133	146	164	176	191	211
DPS	3	10	11	9	12	14	16	18
Payout (%)	23	46	46	41	44	52	50	46
Valuation (x)								
P/E	72	52	48	54	42	43	36	29
Cash P/E	50	40	37	39	31	31	26	22
P/BV	11	10	9	8	7	7	6	5
EV/Sales	7	6	5	4	4	4	3	3
EV/EBITDA	44	35	29	31	26	26	22	18
Dividend Yield (%)	0	1	1	1	1	1	1	2
Return Ratios (%)								
Return on Invested Cap	15	24	27	22	23	22	24	28
Return on Equity	16	19	19	15	17	15	17	19
Return on Capital Employed	16	20	22	18	20	18	20	22
Working Capital Ratios								
Asset Turnover (x)	2	1	2	2	2	2	2	2
Working Capital (Days)	66	58	62	69	56	47	47	47
Leverage Ratio (x)								
Net Debt/Equity	0	-1	-1	0	-1	-1	-1	-1

Consolidated Cash Flow Statement								(In Mn)
Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	FY27E
OP/(Loss) before Tax	3,125	4,127	5,102	4,625	5,756	5,682	6,774	8,275
Depreciation	1,081	1,067	1,154	1,329	1,480	1,664	1,832	1,992
Interest & Finance Charges	195	107	127	223	211	185	183	157
Direct Taxes Paid	-1,005	-980	-1,285	-1,265	-1,385	-1,413	-1,685	-2,058
(Inc)/Dec in WC	-993	868	-621	-1,851	260	746	-553	-839
Cash Flow from Operations	**2,403**	**5,189**	**4,476**	**3,061**	**6,323**	**6,864**	**6,551**	**7,527**
Others	-159	-101	-221	-106	-307	-	-	-
CF from Operating incl EO	**2,244**	**5,088**	**4,255**	**2,955**	**6,017**	**6,864**	**6,551**	**7,527**
(Inc)/Dec in FA	-1,240	-1,127	-2,687	-2,317	-3,004	-3,821	-2,500	-3,500
Free Cash Flow	**1,004**	**3,961**	**1,568**	**639**	**3,013**	**3,043**	**4,051**	**4,027**
Purchase/Sale of Investments	-88	-41	-51	-363	-628	-	-	-
Others	427	-1,788	-241	842	655	-	-	-
CF from Investments	**-901**	**-2,955**	**-2,979**	**-1,837**	**-2,976**	**-3,821**	**-2,500**	**-3,500**
Issue of Shares	3	53	52	12	11	-	-	-
Inc/(Dec) in Debt	-104	-439	112	239	-575	-200	-200	-200
Interest Paid	-153	-68	-92	-166	-205	-185	-183	-157
Dividend Paid	-1,150	-1,591	-1,273	-1,433	-1,394	-2,229	-2,547	-2,866
Others	-	-	-	-	-	-	-	-
CF from Fin. Activity	**-1,404**	**-2,045**	**-1,201**	**-1,348**	**-2,163**	**-2,613**	**-2,930**	**-3,222**
Inc/Dec of Cash	**-60**	**87**	**75**	**-230**	**878**	**429**	**1,122**	**804**
Opening Balance	221	161	248	335	105	983	1,413	2,534
Closing Balance	**161**	**248**	**323**	**105**	**983**	**1,413**	**2,534**	**3,339**
Bank balance	2,091	4,179	3,921	3,832	4,158	4,158	4,158	4,158
Total cash balance	**2,252**	**4,428**	**4,244**	**3,938**	**5,141**	**5,570**	**6,692**	**7,496**

Orient Bell Ltd

CMP: INR 320

Rating: Buy

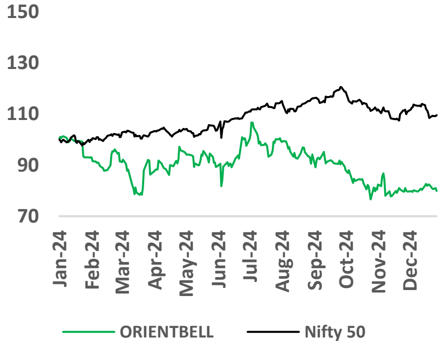
TP: INR 652

Stock Info	
BSE	530365
NSE	ORIENTBELL
Bloomberg	ORCI:IN
Sector	Building Material
Face Value (INR)	10
Mkt Cap (INR Bn)	4.69
52w H/L (INR)	447/300
Avg Yearly Volume (in 000')	27

Shareholding Pattern % *(As on September, 2024)*	
Promoters	64.89%
DII	0.01%
FII	0.22%
Public & Others	34.87%

Stock Performance (%)	1m	6m	12m
KORIENTBELL	0.79%	-19.66%	-19.58%
NIFTY	-1.56%	-1.01%	9.91%

ORIENTBELL vs NIFTY 50



Orient Bell Ltd., established in 1977, is a prominent player in the Indian ceramics industry, specializing in the manufacturing and distribution of ceramic and vitrified tiles. With a diverse product range offering various designs, colors, and sizes, the company caters to residential, commercial, and industrial applications. Boasting modern manufacturing facilities, Orient Bell emphasizes innovation and design to stay competitive in the market. The company has 3 state of the art manufacturing facilities and 2 AE facilities situated in Sikandrabad, Dora, Morbi and Hoskote. The company has 4,000+ SKUs like Ceramic, Vitrified, Double Charge, Cool Tile, Pavers, Germ free, Anti Static, Big Slabs, Scratch free. Capacity now stands at 42.4 MSM, company (Associate entity added 5.5 MSM in end of Q2FY25 which will be available for production from Q3).

What went wrong: Overcapacity and Post capitalization loss amid export challenges

- Overcapacity in the industry, particularly in Morbi, has affected pricing and volume buildup. Exports run rate from India has fallen from INR 15-20 Bn in H1FY24 to INR 10-12 Bn in H1FY25.
- Loss in associates because Proton added capacity (higher Op costs and depreciation without significant sales coming in) and the other AE is focused mainly for exports (which is not doing well).
- Morbi exports have continued to slowdown in H1FY25 as well (INR ~10-12 Bn per month). Shutdowns were taken in Q2 in Morbi units (during Janmasthmi) and are now starting again, expect to better performance in H2 due to better pick up from project sales.
- Sluggish tiles demand and exports declined due to increased freight costs, Red Sea Crisis, and muted growth in residential markets in oversees markets.

Strong Tailwind in the sector and Focus on retail driving higher margins

- Most of the overcapacity is on the verge of closure and good measure is taken to curtail supplies to curb the disparity between demand and supply.
- Company plans to invest into branding for brand building and has increased its presence through media and online platforms for driving traction towards premiumization.

Abhishek Jain
abhishek.jain@arihantcapital.com
022-422548871

Rohan Baranwal

Particular (INR Mn)	FY23	FY24E	FY25E	FY26E	FY27E
Revenue	6,543	7,051	6,745	8,537	9,473
EBITDA	557	472	209	516	695
Net Profit	322	225	9	201	327
PAT Adj	322	225	9	201	327
EPS	22.0	15.3	0.6	13.8	22.4

- Company is receiving good responses for products from South and West region. For the last 9 months, the website traffic has gone up by 30%

- Production for GVT is increased to 40% increased by 14% as to match with the customer demand. Associate entity of company is added 5.5 MSM of GVT capacity (at their own capex) which will be available to company from Q3FY25.

- Company added net 19 more OBTX in H1FY25 taking the active count to 380, contributes 46% of revenue (+4%) as against H1FY24.

- The vitrified sales have been at the highest contribution in H1FY25 (ideally vitrified tiles drive in higher margins and ASPs).

Outlook & Valuation: Company is continuing its focus on retail sales, hence continuing its investments in ad spends. There has been an uptrend in the industry towards project sales (as compared to Q1FY25). The performance was significantly better than Q1FY25 which suggests that the contribution margins improved further. We maintain our BUY rating as we believe the company is on the right footings and the volumes are going to improve in the remainder of the year. Based on our understanding, there was no growth in volumes but slightly better ASPs during the quarter. The vitrified sales have been at the highest contribution till date (ideally vitrified tiles drive in higher margins and ASPs). We expect the performance to pick up in H2FY25 with increase of project sales. We maintain our BUY rating with target of INR 652 (target at 20x FY27EEPS). We will continue to monitor the performance in H2 and also keep a check on the exports.

Income Statement									
Y/E Mar, Rs mn	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24E**	**FY25E**	**FY26E**	**FY27E**
Net sales	**5,711**	**4,923**	**5,025**	**6,543**	**7,051**	**6,745**	**8,537**	**9,473**	**10,712**
Growth, %		**-13.8%**	**2.1%**	**30.2%**	**7.8%**	**-4.3%**	**26.6%**	**11.0%**	**13.1%**
Other income	19	52	19	30	54	27	29	30	31
Raw material expenses	2,567	2,363	2,413	2,697	2,749	2,957	3,614	3,839	4,282
Employee expenses	756	736	793	925	1,009	992	1,218	1,343	1,454
Other Operating expenses	2,018	1,564	1,494	2,365	2,821	2,586	3,189	3,596	4,086
EBITDA (Core)	**370**	**261**	**324**	**557**	**472**	**209**	**516**	**695**	**890**
Growth, %		-29.58%	24.42%	71.71%	-15.14%	-55.70%	146.53%	34.69%	28.06%
Margin, %	6.48%	5.29%	6.45%	8.51%	6.70%	3.10%	6.04%	7.34%	8.31%
Depreciation	165	206	206	206	211	214	236	258	269
Interest paid	87	81	57	41	24	19	47	36	22
Other Income									
Non-recurring Items									
Pre-tax profit	**141**	**29**	**114**	**351**	**299**	**11**	**271**	**442**	**643**
Tax provided	48	-42	38	30	74	2	71	115	167
Profit after tax	**93**	**71**	**77**	**322**	**225**	**9**	**201**	**327**	**476**
PAT Adj.	**93**	**71**	**59**	**322**	**225**	**9**	**201**	**327**	**476**
Growth, %	-59.13%	-23.31%	-17.67%	449.13%	-30.13%	-95.91%	2082.00%	63.05%	45.39%
Unadj. shares (m)	14	14	14	14	14	15	15	15	15

Balance Sheet (Consolidated)

Balance Sheet									
As at 31st Mar, Rs mn	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24E**	**FY25E**	**FY26E**	**FY27E**
PPE	2,387	2,321	2,065	2,072	2,500	2,963	2,930	2,874	2,807
CWIP	10	7	3	6	28	1	1	1	1
Financial Assets	100	107	113	123	130	137	137	143	149
Other Non Current Assets	9	13	26	65	35	13	14	14	15
Total Non current Assets	**2,506**	**2,448**	**2,207**	**2,265**	**2,693**	**3,114**	**3,081**	**3,032**	**2,971**
Inventories	855	806	602	688	861	890	1,056	1,142	1,214
Receivables	1,162	869	926	1,033	1,112	1,315	1,516	1,583	1,589
Cash & CE	35	30	510	411	33	134	275	366	727
Other Current Assets	29	48	99	125	111	91	94	99	104
Total Current Assets	**2,081**	**1,753**	**2,137**	**2,256**	**2,118**	**2,429**	**2,941**	**3,190**	**3,634**
Total assets	**4,587**	**4,202**	**4,344**	**4,522**	**4,811**	**5,543**	**6,022**	**6,222**	**6,605**
Total Equities	**2,326**	**2,396**	**2,493**	**2,848**	**3,102**	**3,130**	**3,406**	**3,783**	**4,258**
Non current borrowings	451	412	305	65	44	430	430	316	181
Other Non current liabilities	400	340	343	286	302	309	308	307	307
Total Non current liabilities	**851**	**752**	**648**	**351**	**346**	**739**	**738**	**623**	**488**
Current borrowings	430	82	93	91	43	24	33	29	26
Trade Payables	709	772	972	997	1,153	1,489	1,677	1,609	1,647
Other Current Liabilities	271	200	138	235	167	161	169	177	186
Total Current Liabilities	**1,410**	**1,053**	**1,203**	**1,323**	**1,363**	**1,674**	**1,879**	**1,815**	**1,859**
	4,587	**4,202**	**4,344**	**4,522**	**4,811**	**5,543**	**6,022**	**6,222**	**6,605**

Cash Flow (Consolidated)

CashFlow									
Y/E Mar, INR mn	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	FY27E
Pre-tax profit	122	-23	123	321	245	-16	343	481	610
Depre & Other Items	136	300	160	207	191	239	166	153	131
Chg in working capital	69	323	354	-152	-100	156	-170	-211	-30
Cash flow from operating activities	**327**	**600**	**637**	**376**	**336**	**379**	**339**	**422**	**712**
Capital expenditure	-589	-137	55	-216	-661	-650	-200	-200	-200
Other investing activities	-4	-7	-4	-9	-6	-9	0	-5	-5
Cash flow from investing activities	**-592**	**-144**	**50**	**-226**	**-667**	**-659**	**-200**	**-205**	**-205**
Equity raised/(repaid)	9	-1	20	33	30	19	0	0	0
Debt raised/(repaid)	240	-396	-218	-242	-68	366	10	-119	-138
Other financing activities	24	-65	-9	-41	-9	-5	-8	-8	-7
Cash flow from financing activities	**273**	**-461**	**-207**	**-250**	**-47**	**380**	**2**	**-126**	**-145**
Net chg in cash	8	-6	480	-100	-378	101	142	91	361
Opening cash balance	28	35	30	510	411	33	134	275	366
Closing cash balance	36	30	510	411	33	134	275	366	727

Ratios (Consolidated)

Ratios	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	FY27E
Per Share data									
EPS (INR)	6.5	5.0	4.1	22.3	15.5	0.6	18.9	25.9	32.6
Growth, %	-59.2%	-23.5%	-18.1%	446.2%	-30.4%	-95.9%	2891.6%	37.3%	25.7%
Book NAV/share (INR)	163.2	167.8	173.7	197.3	214.2	214.6	233.4	259.3	291.9
DPS (INR)									
Return ratios									
Return on assets (%)	3.70%	2.91%	2.66%	14.21%	8.35%	0.30%	8.93%	12.46%	15.98%
Return on equity (%)	3.99%	2.97%	2.35%	11.30%	7.25%	0.29%	8.08%	9.99%	11.15%
Return on capital employed (%)	7.06%	3.41%	4.37%	11.91%	9.14%	0.58%	9.86%	12.11%	13.69%
Turnover ratios									
Asset turnover (x)	1.2	1.2	1.2	1.4	1.5	1.2	1.4	1.5	1.6
Sales/Working Capital (x)	9.0	7.3	11.9	12.5	9.8	10.9	10.6	9.4	10.1
Receivable days	74.3	64.5	67.3	57.6	57.6	71.2	66.0	61.0	55.0
Inventory days (on sales)	54.6	59.8	43.7	38.4	44.6	48.2	46.0	44.0	42.0
Payable days (on sales)	45.3	57.2	70.6	55.6	59.7	80.6	73.0	62.0	57.0
Working capital days	83.6	67.0	40.3	40.4	42.5	38.7	39.0	43.0	40.0
Liquidity ratios									
Current ratio (x)	1.5	1.6	1.4	1.4	1.5	1.4	1.4	1.6	1.6
Quick ratio (x)	0.8	0.9	0.9	0.9	0.9	0.8	0.9	0.9	0.9
Interest cover (x)	2.6	1.3	2.4	9.3	13.2	1.1	8.8	15.5	31.4
Dividend cover (x)	-	-	-	-	-	-	-	-	-
Total debt/Equity (%)	0.38	0.21	0.16	0.05	0.03	0.14	0.14	0.09	0.05
Net debt/Equity (%)	0.36	0.19	(0.04)	(0.09)	0.02	0.10	0.06	(0.01)	(0.12)
Valuation									
PER (x)	6.5	4.9	5.3	22.0	15.3	0.6	18.9	25.9	32.6
PEG (x) - y-o-y growth	(0.1)	(0.2)	(0.3)	0.0	(0.5)	(0.0)	0.0	0.7	1.3
Price/Book (x)	2.6	2.5	2.4	2.1	2.0	2.0	1.8	1.6	1.4
EV/Net sales (x)	1.1	1.3	1.1	0.8	0.8	0.9	0.7	0.6	0.5
EV/EBITDA (x)	17.6	23.7	17.3	9.9	12.3	29.3	9.8	7.6	6.0
EV/EBIT (x)	29.1	57.5	40.9	14.4	18.5	275.4	14.7	10.9	8.2

PVR Inox Limited

Setting the Stage for a Blockbuster Comeback

CMP: INR 1,341

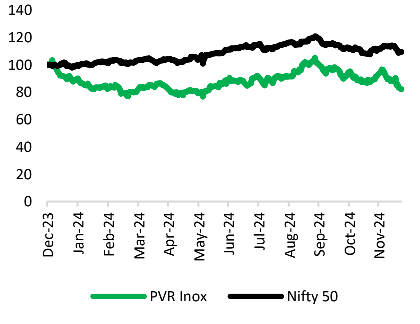
Rating: BUY

TP: 1,800

Stock Info	
BSE	532689
NSE	INE191H01014
Bloomberg	PVRL:IN
Reuters	PVRL.NS
Sector	Entertainment
Face Value (INR)	10
Equity Capital (INR Mn)	981
Mkt Cap (INR Mn)	131,637
52w H/L (INR)	1748/1204
Avg Yearly Volume (in 000')	641

Shareholding Pattern % *(As on September, 2024)*	
Promoters	27.49
FII	20.69
DII	39.85
Public & Others	11.97

Stock Performance (%)	**1m**	**3m**	**12m**
PVR Inox	(11.59)	(20.54)	(19.31)
Nifty 50	(1.90)	(9.04)	9.58



Abhishek Jain
Abhishek.jain@arihantcapital.com
022 67114872

PVR INOX Limited is a prominent player in India's cinema exhibition industry, offering high-quality movie experiences through its extensive network of theaters nationwide. The company generates revenue from a diverse range of flim offerings of Bollywood, regional, and international films, along with ancillary streams such as food and beverage (F&B) sales and advertising income. The Southern region, including Sri Lanka, contributes ~33% of the total screen portfolio, underscoring its dominance in this market. As of Q2FY25 PVR Inox has a screen network of 1,747 Screens across 111 cities including Srilanka. The company has been opening new screens and shutting down underperforming screens in order to optimize their portfolio.

Investment Rationale

Strategic Re-releases Driving Revenue Streams: Re-release of movies likeTumbbad, Rockstar, Laila Majnu contributed to the 6% admissions in Q2FY25. Tumbbad earned INR 190 Mn, followed by Rockstar at INR 94 Mn and Laila Majnu at INR 77 Mn. By curating popular films and leveraging festive periods or actor anniversaries, the company has created an effective strategy to drive footfalls during leaner weeks. The lower film hire costs for re-releases also enhance gross margins. Movies like Kal ho na Ho, Karan Arjun which have been lined up for re- release in Q3 which can be expected to increase through re-releases. As of the H1FY25, 80 odd re-released movies were marketed to the audiences by PVR Inox and the number is expected to reach 140-150 by the year ends. Re-release of films attracts audiences due to their affordability and also gives them an opportunity to reconnect with classic movies. This trend helps to affirm the audience's appetite of cinematic experiences.

Driving Audience Engagement Through Curated Content: The company continues to leverage its carefully curated content strategy to drive record audience engagement and enhance its box office performance. The release of blockbuster films like Pushpa 2, which recorded an all-time high footfall of 50 Mn, exemplifies the company's ability to draw massive audiences. Major titles such as Bhool Bhulaiyaa 3 and Singham Again, alongside the exceptional success of Pushpa 2 , will drive growth in admissions and revenues in Q3FY25. International titles like Mufasa and niche offerings like Baby John further demonstrate the company's focus on catering to diverse audience preferences.

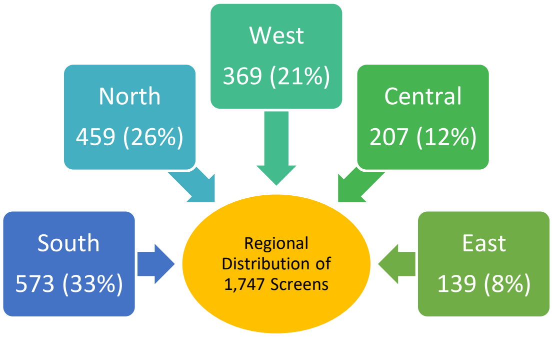
Movies	Release Date	Box office Collection (INR Mn)
Bhool Bhulaiya 3	1st Nov 2024	2,600.40
Singham Again	1st Nov 2024	2,478.50
Pushpa 2	6th Dec 2024	11,225.40
Mufasa	20th Dec 2024	1,000.00
Baby John	25th Dec 2024	196.50

The release of these big movies makes the Q3FY25 look promising and is expected to be the strong quarter of this financial year. The big releases will help increase occupancy levels and the company is also trying to make rental negotiations to reduce their fixed costs in order to improve performance. PVR Inox's Passport Scheme boosts loyalty and footfalls with an affordable subscription model, ensuring stable revenue during weaker content periods.

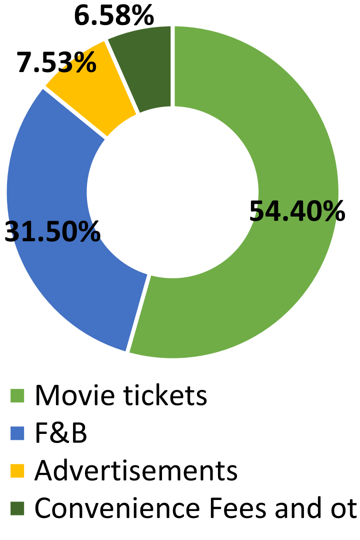
Movies Line up for CY25

Movies	Cast	Release Date
Bollywood		
Game Changer	Ram Charan, Kiara Advani, Samuthirakani	10th Jan 2025
Sky Force	Akshay Kumar, Veer Pahariya	24th Jan 2025
Lahore 1947	Sunny Deol, Preity Zinta, Ali Fazal	24th Jan 2025
Deva	Shahid Kappor, Pooja Hegde	14th Feb 2025
Raid 2	Ajay Devgan, Vanni Kapoor	21st Feb 2025
Sikandar	Salman Khan, Rashmika Mandanna	28th Mar 2025
Regional		
Vishwambhara	Chiranjeevi, Trisha	10th Jan 2025
VD 12	Vijay Deverakonda, Rukmini Vasanth	28th Mar 2025
Hollywood		
Den of Thieves 2	Gerard Butler, O'shea Jackson JR	10th Jan 2025
Flight Risk	Mark Wahlbegr, Topher Grace,	24th Jan 2025

Regional Distribution of Screens as on Q2FY25



Revenue Mix FY24



Focused Growth with Portfolio Optimization

In Q2FY25, the company showcased strong portfolio discipline by adding 71 strategically located screens while exiting 42 underperforming ones. The company's shift towards asset-light and FOCO models reflects its focus on scalable, sustainable growth. Out of 1,747 they have 42 management screens. By next year 15% of its properties will be functioning under FOCO model and about 35% will be under asset light model. With plans to add 110-120 screens annually and maintain a 1-2% churn rate, the strategy ensures profitability remains unaffected by underperforming assets. **Despite softer content in H1FY25, the company reduced net debt by INR 1,410 Mn through cash flow-positive operations and prudent capital allocation. A capex of INR 4,000-5,000 Mn is planned for FY25, prioritizing renovations of high-performing properties over aggressive expansion.**

Outlook and Valuation: **PVR Inox is poised for a strong performance in the H2FY25, supported by a strong lineup of high-profile releases across Bollywood, Hollywood, and regional cinema. Key titles like Singham Again, Bhool Bhulaiyaa 3, and Pushpa 2 are added significant footfalls, while Hollywood blockbusters like Venom and Mufasa: The Lion King will appeal to a wide audience. We believe this diversified content pipeline will achieve a substantial recovery in Q3 and Q4 after a relatively soft H1FY25. On the operational front, the company is focused on expanding its footprint with 110-120 new screens annually, emphasizing asset-light models and franchisee-owned, company-operated (FOCO) structures to ensure sustainable growth.**

Looking ahead, We expects H2FY25 to deliver strong results, with Q3 potentially being the strongest quarter of the fiscal year. As the company transitions into FY26, the return of major stars and an increase in the volume of wide-release films across genres are projected to sustain the upward trajectory in admissions, revenues, and profitability. We have an SOTP based TP of INR 1,800, an upside of 34.2%

Arihant Capital
Generating Wealth

Rain Industries Ltd

Relief from CAQM, recovery in prices and demand from international markets will be the key triggers.

CMP: INR 169

Rating: BUY

TP: INR 243

Stock Info	
BSE	500339
NSE	RAIN
Bloomberg	RINDL:IN
Reuters	RAID.NS
Sector	Miscellaneous
Face Value (INR)	2
Equity Cap (INR Mn)	672.7
Mkt Cap (INR Mn)	56,875
52w H/L (INR)	220 / 130
Avg Yearly Volume (in 000')	3,799.1

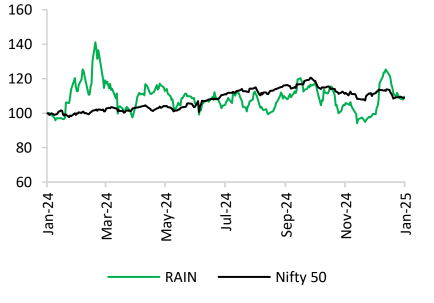
Shareholding Pattern %

(As on Sept, 2024)

Promoters	41.14
FII	10.07
DII	2.93
Public & Others	45.51

Stock Performance (%)	3m	6m	12m
RAIN	-7.4	4.4	9.6
Nifty 50	-8.3	-2.1	8.8

RAIN Vs Nifty 50



Abhishek Jain
abhishek.jain@arihantcapital.com
022-422548871

Balasubramanian A
bala@arihantcapital.com
022-67114780

Rain Industries Ltd is a leading vertically integrated producer of carbon, cement and advanced material products. The company is the world largest producer of coal tar pitch (CTP) and 2nd largest manufacturer of calcined petroleum coke. The company has 7 manufacturing facilities in 3 continents. The capacity stood at calcined petroleum coke – 2.4 MTPA, Coal tar distillation – 1.5 MTPA, Advances materials production – 0.65 MTPA and Cement production – 4 MTPA. The major business comes from exports (~80% of sales) and remaining from domestic markets; In exports, Europe revenue share around (~40%), Asia (~20%), US (~20%) and remaining from RoW.

What went wrong on the stock: Rain Industries was faced lots of challenges due to delay in shipments, price erosion on CPC and CTP prices, import restrictions for Raw Petroleum Coke (RPC) and Calcined Petroleum Coke (CPC) and high cost inventories majorly impacted business. The maintenance outages at customer sites, particularly in carbon distillation impacted carbon business. The raw material shortages and seasonality impacted advanced materials business. Cement industry is under consolidation and regional players are exiting. The slowdown in infra activities due to election and rainy season in past 2-3 quarters led to lower cement requirements which impacted cement business. The continued challenges in the business impacted margins and turned into loss on bottom levels in the past 5 quarters, led to range bound on stock price performance.

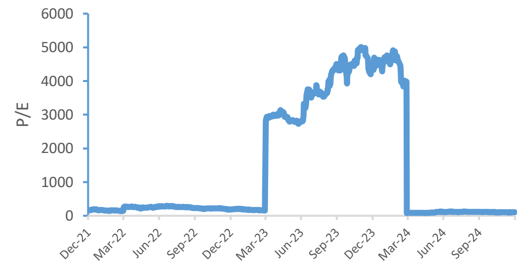
What are the triggers for turnaround: Rain Industries margins are expected to recover, backed by strategic initiatives and market recovery. The demand is coming back from China and recovery in prices will improve the margins further. The CAQM order granting relief from petroleum coke import restrictions will lead to higher allocation of petroleum coke. The permissions for import of GPC and CPC from CAQM will lead to raw material accessibility and increase in capacity utilizations from early CY25 onwards. The pickup in government infra spending leading to cement demand along with price rises. Aluminium and graphite prices has recovery leading to good traction in energy storage business in Canada. US business is expected to benefit from Make in USA and Anti-China Rhetorics on EVs. The clearance of high cost inventories and strategic advantage of TAR will improve the business going forward.

Outlook and Valuation: Rain Industries is the world largest producer of coal tar pitch (CTP) and 2nd largest manufacturer of calcined petroleum coke. The relief of import restrictions on petroleum coke, GPC and CPC will lead to raw material accessibility, improved capacity utilization and production enhancement. The normalization of maintenance outages at customers sites will improve the shipments and volumes. The company is working on strategic initiatives to reduce inventory losses. The clearance of high cost inventories, recovery in prices and rebounding demand from china will improve the business. The US business is expected to benefit from Make in USA and Anti-China Rhetorics on EVs. The Canada business is expected to benefit from energy storage business led by recovery on graphite & aluminium prices. We believe, the raw material availability due to relief from CAQM, improvement in capacity utilization, recovery in prices and demand in international markets, especially from china, normalization at customers sites will lead to improvement in volumes, realizations and margins. At CMP of INR 169 per share, We have a "BUY" rating at a TP of INR 243 per share; valued at a EV/EBITDA of 12x based on FY27E EBITDA of INR 22.91bn; an upside of 43.5%.

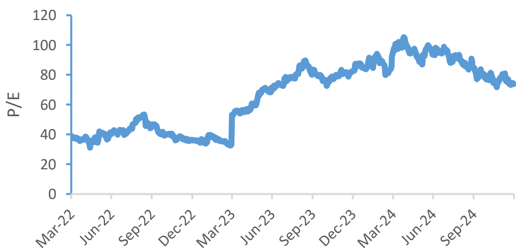
P/ABV, P/E Ratio charts

Laxmi Organic

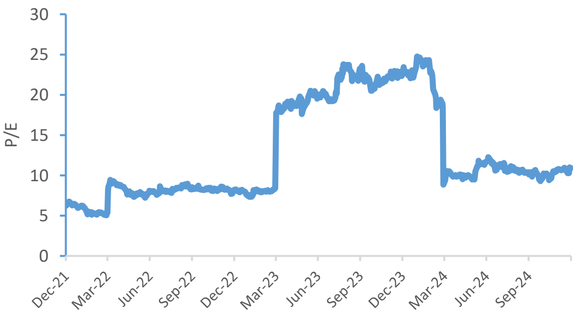
Sunteck Realty



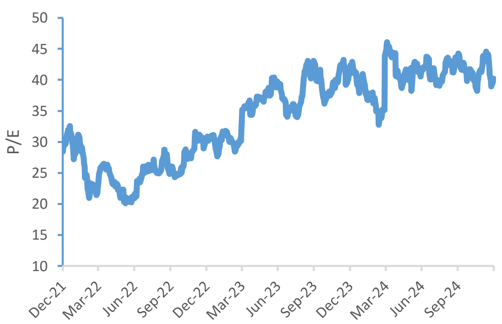
Mahindra Lifespace Developers



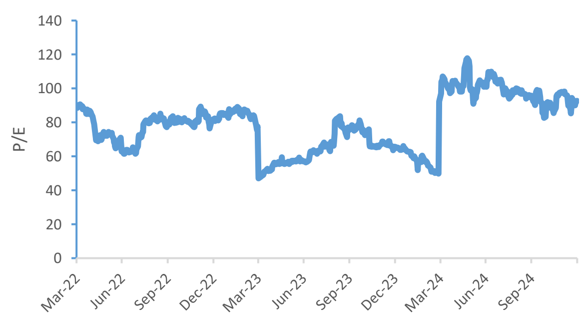
NCL Industries



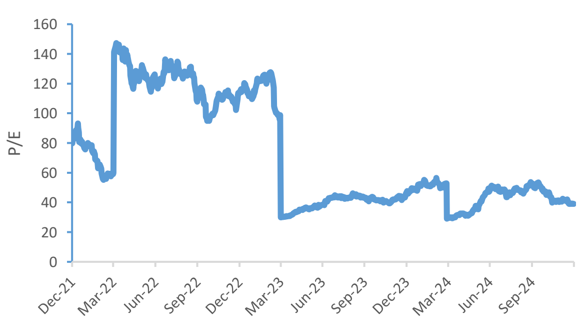
Dalmia Bharat



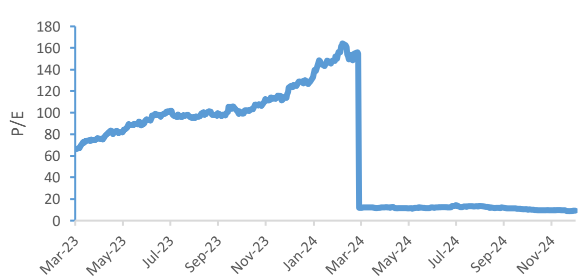
MTAR Technologies



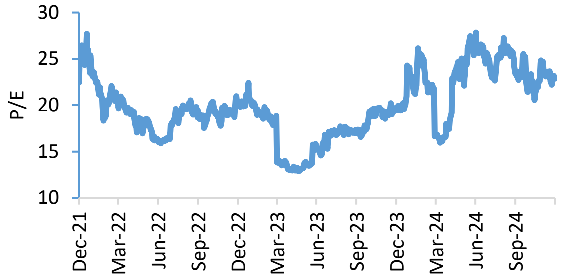
Samvardhana Motherson International



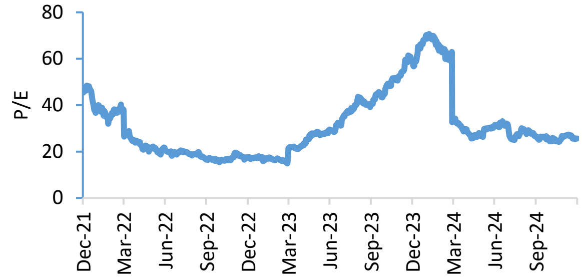
Tata Motors



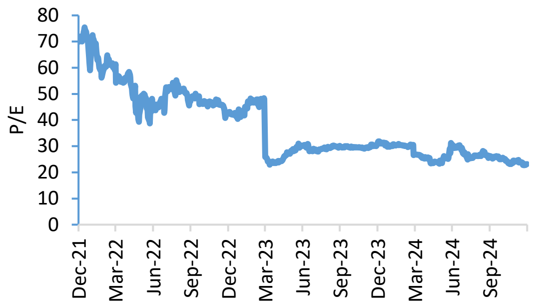
Alldigi Tech Ltd



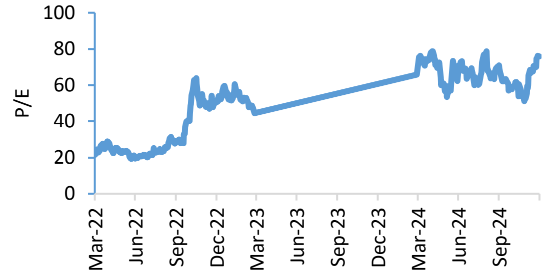
Birlasoft



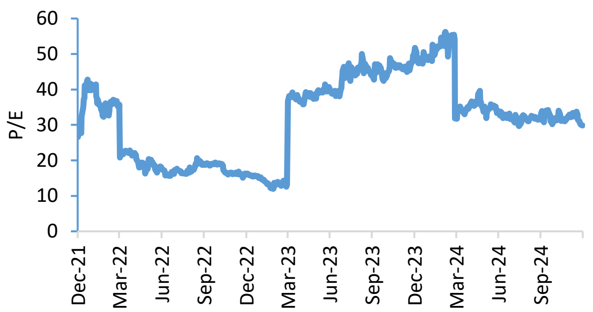
Route Mobile



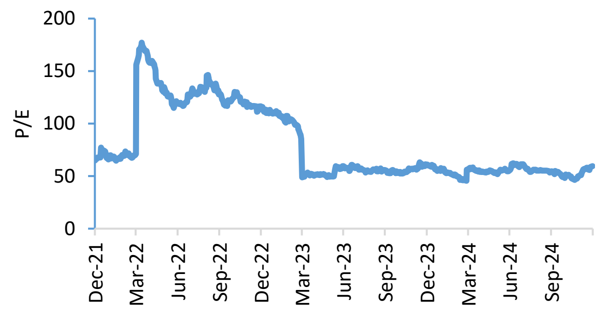
AXISCADES Technologies



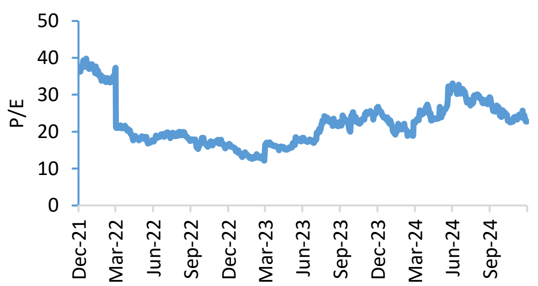
Dollar Industries



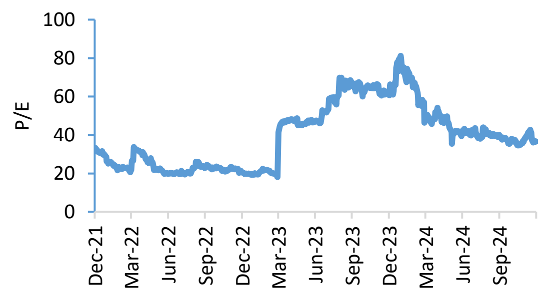
Sheela Form



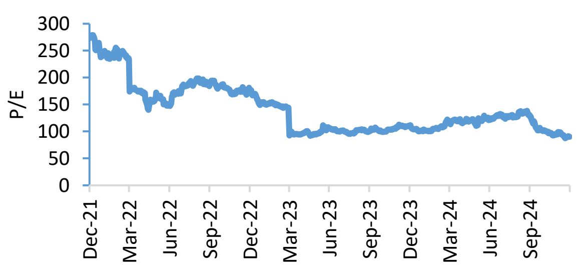
Punjab Chemicals & Crop Protection Ltd



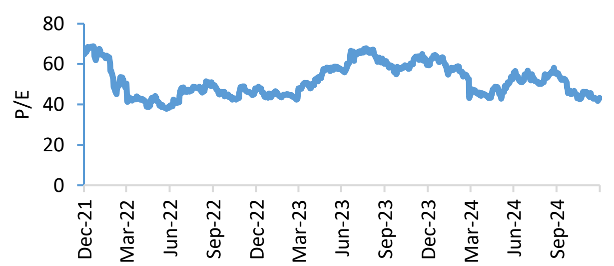
Vaibhav Global



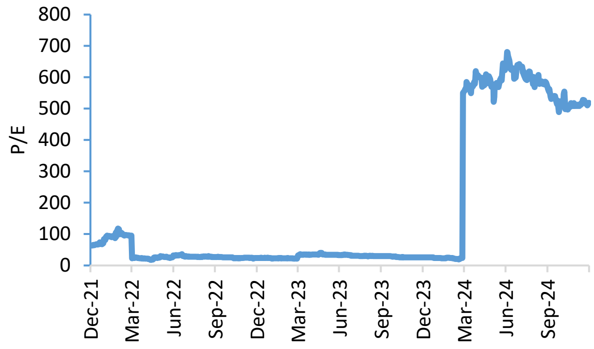
Avenue Supermarts



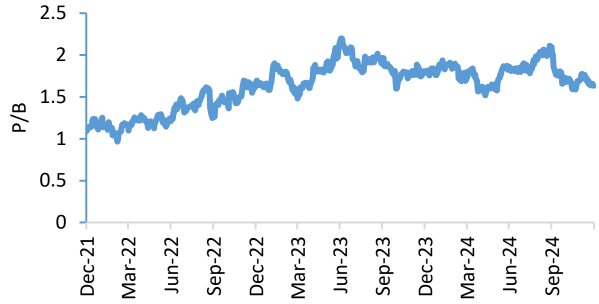
Kajaria Ceramics



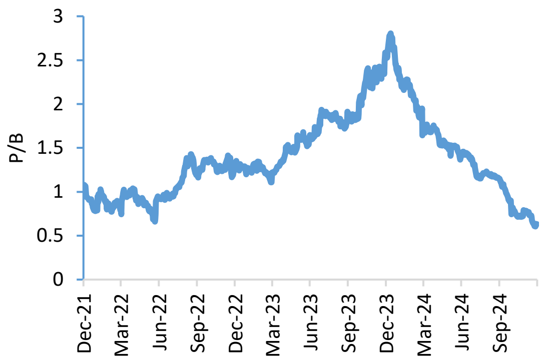
Orient Bell



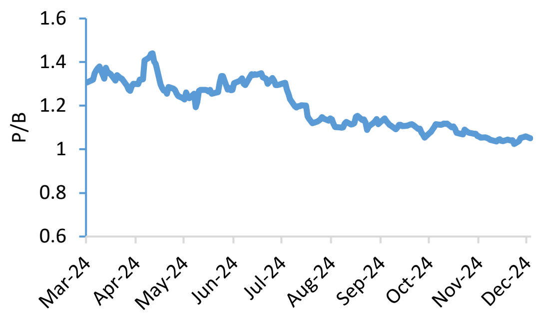
Mahindra & Mahindra Financial Services



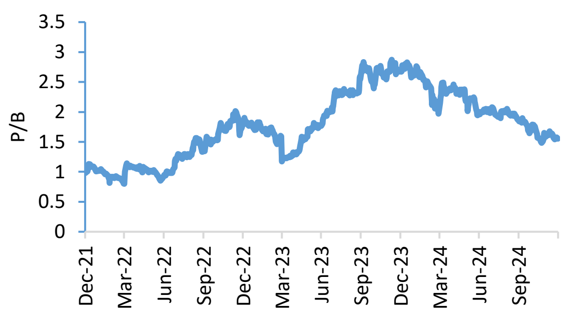
Spandana Sphoorty Financial



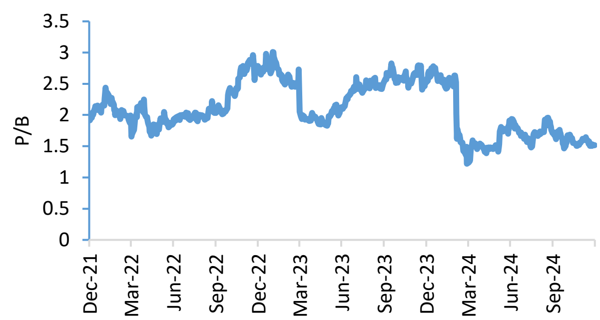
Capital Small Finance Bank



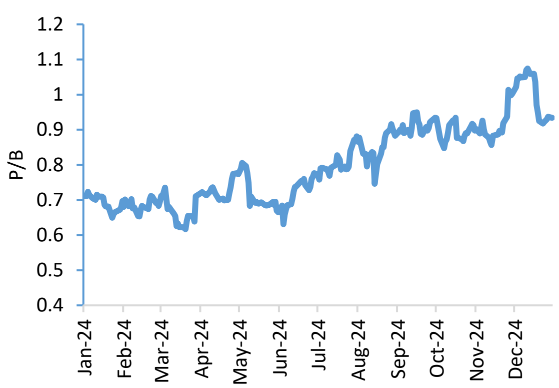
Ujjivan Small Finance Bank



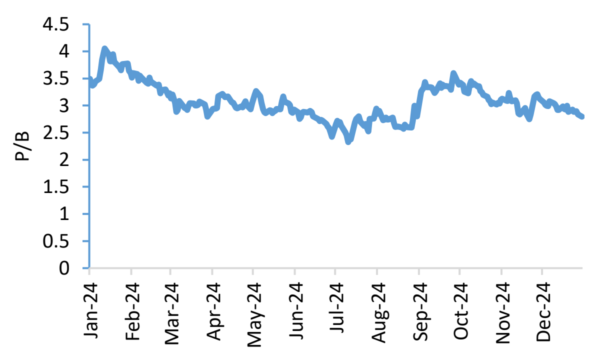
IIFL Finance



Piramal Enterprises



SG Finserve



Arihant Research Desk

Email: instresearch@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park	Arihant House
Building No. 10, 1st Floor	6, Lad Colony
Andheri Ghatkopar Link Road	Indore - 452003, (M.P.)
Chakala, Andheri (E)	Tel: (91-731) 3016100
Mumbai – 400093	Fax: (91-731) 3016199
Tel: (91-22) 42254800	
Fax: (91-22) 42254880	

Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	instresearch@arihantcapital.com

Disclaimer: This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way is responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800Fax. 022-42254880