श्री LAKSHMISHREE

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From Managing Director's Desk To Readers

Europe's electricity prices hit record high as Russian supply cuts begin to bite

European electricity prices soared to new records on Friday, presaging a bitter winter as Russia's invasion of Ukraine inflicts economic pain across the continent.

In Britain, energy regulator Ofgem said it would increase the electricity and gas price cap almost twofold from October 1 to an average £3,549 ($4,197) per year.

Ofgem blamed the increase on the spike in global wholesale gas prices after the lifting of Covid restrictions and Russian curbs on supplies.

The Czech Republic, which holds the rotating European Union presidency, announced Friday that it would convene an EU energy crisis summit "at the earliest possible date".

Energy prices have soared in Europe as Russia has slashed natural gas supplies to the continent, with fears of more drastic cuts in the winter amid tensions between Moscow and the West over the war.

The shutdown of several nuclear reactors due to corrosion issues has contributed to the French electricity price increase as power production has dramatically decreased in the country.

Only 24 of the 56 reactors operated by energy giant EDF were online on Thursday. France, which traditionally exports electricity, is now an importer.

Recession 'probably unavoidable'

A Bruegel study found that European Union countries have allocated 236 billion euros from September 2021 to August 2022 to shield households and firms from rising energy prices, which began to increase as countries emerged from Covid restrictions and soared after the war.

In recent days and weeks, countries have announced energy savings campaigns to encourage the public to reduce power consumption during the winter.

Germany announced Wednesday that the temperature of public administrative offices this winter would be capped at 19 degrees Celsius (66 degrees Fahrenheit) while hot water would be shut off.

The German measures also include a ban on heating private swimming pools from September and over the six months that the decree is in place.

Finland is encouraging its citizens to lower their thermostats, take shorter showers and spend less time in saunas, a national tradition.

French households are shielded by an energy price cap until December 31 for now.

Industries are also affected by the soaring energy prices.

Factories that produce ammonia -- an ingredient to make fertiliser -- announced the suspension of their operations in Poland, Italy, Hungary and Norway this week.

HSBC bank warned in a note that "recession is probably unavoidable" in the eurozone, with the economy shrinking in the fourth quarter and the first three months of 2023.

Salil Shah
Managing Director
Lakshmishree Investments & Securities Pvt Ltd

Look What Our Research Analyst Has To Say…

Nifty has closed around the falling channel high and is on the verge of making lower high. The immediate swing low is placed at 17250 and any breach below the said levels will immediately head to test 16544 which is the next key level or the bulls to retrace.

Rallies will find major resistance in the zone of 18000-18250 and to surpass these levels the index will need a month long consolidation to breach which looks unlikely looking at the global market structure.

Dow Jones has already retraced to channel mid post channel high rejection.

Will extreme weather climate change in China call for early warnings?

Extreme weather – record-breaking heatwaves, severe drought, and deadly rainfall – have battered China since June. The summer of extremes – in China as in Europe – has underlined the importance of the WMO community's commitment to Early Warning and Early Action and reinforced the need for the ongoing campaign to provide Early Warnings for All in the next five years.

Heatwave

In terms of the intensity, impacts, scale, and duration, the regional heatwave in southern China which started 13 June was the strongest since complete meteorological observation records started in 1961, according to the China Meteorological Administration.

A total of 914 national meteorological observatories (accounting for 37.7 percent of the total number of national meteorological observatories in China) have reached the standard for extreme heat wave events, and 262 of them in Hebei, Shaanxi, Sichuan, Hubei, Jiangsu, Zhejiang, Fujian, Guangdong, Qinghai and other places equalled or exceeded the historical maximum temperature records.

Forest Fires

On 22 August, three government departments (the Ministry of Emergency Management, the State Forestry and Grassland Administration, and the China Meteorological Administration) jointly issued the first red color warning of high forest fire danger this year. It is expected that from August 23 to 25, the forest fire danger level in parts of central and southern Chongqing and eastern Sichuan will reach an extremely dangerous level. Strict precautions should be taken, and fire source management should be strengthened to ensure the safety of forest areas.

Experts suggest that local governments should strengthen the management and control of fire sources in forest areas, strictly prohibit the use of fire in forest areas, issue early warning information in a timely manner, strengthen fire prevention popularization, and raise public awareness of fire prevention.

Rainfall and Floods

In contrast with southern China, large parts of the North have witnessed unusually heavy rainfall. In July, there were six regional heavy rain events in China, four of which occurred in the North (1.4 more than the same period of the previous year). The daily precipitation of 30 national weather stations exceeded the extreme value in July.

In July, flood disasters occurred in North China (mostly in Heilongjiang and Liaoning Provinces) and West China (mostly in Sichuan and Gansu Provinces). On 18 August, a mountain torrent in Datong Hui and Tu Autonomous County, Xining City, Qinghai Province, caused many casualties.

The National Meteorological Centre forecasts that a new round of rainfall process will batter northern China from 21 to 23 August.

Early warning, early action

On 19 August the China Meteorological Administration convened a special meeting to discuss the provision of meteorological services for flood control, disaster relief and drought management.

Zhuang Guotai, the administrator of the China Meteorological Administration, emphasized the importance of the principle of people first and life first in flood control and drought relief meteorological services.

Anshul Jain

Research Analyst

Stocks To Watch

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1. Faze Three Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Textile Products	Rs. 397	Buy between Rs.393-405 & add more on dips to Rs.350	Rs. 437	Rs. 466	2-3 Quarters

Shree Varahi Scrip Code	FAZE3Q
BSE Code	530079
NSE Code	N.A.
Bloomberg	FZT:IN
CMP Aug 12, 2022	397
Equity Capital (Rs Cr)	24.3
Face Value (Rs)	10
Eq. Share O/S (cr)	2.4
Market Cap (Rs cr)	966
Book Value (Rs)	114
Avg.52 Wk Volume	30160
52 Week High (Rs)	413
52 Week Low (Rs)	155

Share Holding Pattern % (June 2022)	
Promoters	51.5
Institutions	0
Non Institutions	48.5
Total	100.0

Our Take…

Faze Three ltd (FTL) is engaged in the business of manufacturing and export of technical and home textiles products supplying to top retailers across the globe. Majority of FTL's revenue (90%) is derived from Exports to USA, UK and Europe region. The product ranges includes technical & home textiles as well as handloom Home textiles products. It has strong relations with its top 15 customers, evident from consistent business of over 2 decades. Promoters has more than three decades of experience as well as track record of turning around the company. The company has laid down capacity expansion plan with Rs. 80 Cr and targeted asset turnover of ~8 to 10x of new capex. This is in line of the company's plan to each up to Rs.1500 Cr annual revenue run rate in next five to six years. China plus one strategy adopted by major global retailers along with work from home culture has resulted in unprecedented demand for the company's products. Government's support in terms of PLI and other benefits have boosted the textiles exports industry scenario. Rupee depreciation will also help.

Rinsing raw material prices, high client concentration as well as lingering fear of US and Europe recession are the key risks for the company.

Valuation & Recommendation:

FY22 was a remarkable year for the company as it was able to add significant capacities, management bandwidth, new products, customers & substantial value across all stakeholders. Even after sharp rise prices of raw material, Coal/Fuel costs, shipping costs, etc., the company was able to report highest ever revenue. Margins also improved resulting in strong net profit growth. The company is currently running at peak capacity level. It has zero long term debt in the balance sheet since FY18, however recently the short term debt has risen due to inflated raw material and transportation cost as well as due to ongoing capex. Management has indicated that there is huge unfulfilled demand within the existing customers and this could be met with the increased capacity.

We have envisaged 16% and 18% CAGR in top line and bottom line between FY22P-24E. We will remain watchful on the margin front as select raw material as well as crude prices are at elevated levels. The return ratios are estimated to remain north of 19% level at least for next two years. The company is currently trading at 13.6x FY24E earnings.

We arrive at base case fair value of Rs.437 (15x FY24E EPS) and bull case fair value of Rs.466 (16x FY24E EPS). We feel that investors can buy the stock on between Rs. 393-405 (13.7x FY24E EPS) band and add further on dips to Rs.350 (12x FY24E EPS) band.

Financial Summary…

Particulars (Rs Cr)	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ-%	FY21	FY22P	FY23E	FY24E
Revenue	146.5	99.7	46.9	155.3	-5.7	324.6	504.5	577.6	674.1
EBITDA	24.5	16.4	49.3	24.1	1.6	45.8	79.6	92.0	110.7
APAT	14.5	9.1	60.5	15.8	-7.8	24.9	51.1	58.1	70.8
EPS						10.3	21.0	23.9	29.1
RoE						11.7	20.3	19.0	19.3
RoCE						15.6	23.8	23.3	23.7
P/E						38.7	18.9	16.6	13.6
P/BV						4.3	3.5	2.9	2.4

Income Statement

(Rs Cr)	FY20	FY21	FY22P	FY23E	FY24E
Revenue	302.2	324.6	504.5	577.6	674.1
Growth (%)	12.5	7.4	55.4	14.5	16.7
Operating Expenses	268.5	278.8	424.9	485.6	563.3
EBITDA	**33.6**	**45.8**	**79.6**	**92.0**	**110.7**
Growth (%)	**20.1**	**36.3**	**73.7**	**15.6**	**20.4**
EBITDA Margin (%)	**11.1**	**14.1**	**15.8**	**15.9**	**16.4**
Depreciation	8.0	8.8	10.2	11.2	12.3
EBIT	**25.7**	**37.0**	**69.4**	**80.8**	**98.4**
Interest	8.6	3.8	5.0	8.3	9.8
Other Income	4.1	2.1	7.0	7.7	8.4
PBT	**21.2**	**35.3**	**71.4**	**80.2**	**97.0**
Tax	3.0	10.4	20.3	22.1	26.2
APAT	**18.1**	**24.9**	**51.1**	**58.1**	**70.8**
EPS	7.5	10.3	21.0	23.9	29.1

Balance Sheet

(Rs Cr)	FY20	FY21	FY22P	FY23E	FY24E
SOURCES OF FUNDS					
Share Capital	**24.3**	**24.3**	**24.3**	**24.3**	**24.3**
Reserves	177.1	201.8	254.0	309.7	376.9
Shareholders' Funds	**201.5**	**226.1**	**278.3**	**334.0**	**401.2**
Long-Term Borrowings	1.2	0.3	0.3	0.3	0.3
Other non-Current Liab & Provisions	12.0	10.4	12.7	12.9	13.0
Total Source of Funds	**214.6**	**236.8**	**291.3**	**347.2**	**414.5**
APPLICATION OF FUNDS					
Net Block	124.6	130.9	160.8	147.6	153.3
Capital Work-in-Progress	0.8	1.0	4.0	4.3	4.7
Non-Current Investments	0.2	0.2	0.2	0.2	0.2
Intangible assets under development	0.0	0.0	0.0	0.0	0.0
Long Term Loans & Advances	22.7	17.1	15.3	34.1	33.0
Total Non-Current Assets	**148.3**	**149.2**	**180.3**	**186.2**	**191.2**
Current Investments	0.0	0.0	10.2	10.2	10.2
Inventory	60.8	69.8	115.1	132.9	152.8
Trade Receivables	44.0	69.7	81.8	94.9	110.8
Cash & Equivalents	16.3	42.5	56.4	72.8	94.8
Short-Term Loans and Advances	0.1	1.2	2.3	2.6	2.8
Other Current Assets	15.3	24.2	41.5	56.0	78.4
Total Current Assets	**136.4**	**207.3**	**307.3**	**369.4**	**449.8**
Short-Term Borrowings	53.5	91.4	157.6	165.5	178.8
Trade Payables	6.7	13.3	21.7	24.5	27.6
Other Current Liab & Provisions	10.0	15.1	17.0	18.4	20.2
Total Current Liabilities	**70.2**	**119.8**	**196.3**	**208.4**	**226.6**
Net Current Assets	66.3	87.6	111.0	161.0	223.3
Total Application of Funds	**214.6**	**236.8**	**291.3**	**347.2**	**414.5**

Cash Flow

(Rs Cr)	FY20	FY21	FY22P	FY23E	FY24E
Reported PBT	21.2	35.3	71.4	80.2	97.0
Non-operating & EO items	-1.0	0.7	0.0	48.2	24.5
Interest Expenses	5.9	4.1	1.6	8.3	9.8
Depreciation	8.0	8.8	10.2	11.2	12.3
Working Capital Change	2.0	-34.4	-76.4	-67.9	-78.3
Tax Paid	-5.0	-5.7	-13.3	-22.1	-26.2
OPERATING CASH FLOW (a)	**31.1**	**8.9**	**-6.5**	**57.9**	**39.2**
Capex	-10.5	-13.9	-32.5	-20.0	-18.0
Free Cash Flow	20.6	-5.0	-39.0	37.9	21.2
Investments	0.0	0.0	-10.1	-18.7	1.1
Non-operating income	5.3	-38.7	-8.2	0.0	0.0
INVESTING CASH FLOW (b)	**-5.2**	**-52.6**	**-50.8**	**-38.7**	**-16.9**
Debt Issuance / (Repaid)	-14.9	35.3	64.8	7.9	13.2
Interest Expenses	-5.4	-4.5	-4.0	-8.3	-9.8
FCFE	0.3	25.9	21.8	37.5	24.6
Share Capital Issuance	0.0	0.0	0.0	0.0	0.0
Dividend & Other	-1.5	0.0	0.0	-2.4	-3.6
FINANCING CASH FLOW (c)	**-21.8**	**30.9**	**60.8**	**-2.8**	**-0.3**
NET CASH FLOW (a+b+c)	**4.1**	**-12.8**	**3.5**	**16.3**	**22.0**

Key Ratios

	FY20	FY21	FY22P	FY23E	FY24E
Profitability (%)					
EBITDA Margin	11.1	14.1	15.8	15.9	16.4
EBIT Margin	8.5	11.4	13.8	14.0	14.6
APAT Margin	6.0	7.7	10.1	10.1	10.5
RoE	9.4	11.7	20.3	19.0	19.3
RoCE	12.0	15.6	23.8	23.3	23.7
Solvency Ratio					
D/E	0.3	0.4	0.6	0.5	0.4
Net D/E	0.2	0.2	0.3	0.2	0.2
PER SHARE DATA					
EPS	7.5	10.3	21.0	23.9	29.1
BV	83	93	114	137	165
DPS	0.5	0.0	0.5	1.0	1.5
Turnover Ratios (days)					
Debtor days	53.1	78.3	59.2	60.0	60.0
Inventory days	73.4	78.5	83.3	84.0	82.8
Creditors days	11.3	21.4	22.0	21.6	21.0
VALUATION					
P/E	53.2	38.7	18.9	16.6	13.6
Dividend Yield	0.1	0.0	0.1	0.3	0.4
P/BV	4.8	4.3	3.5	2.9	2.4
EV/EBITDA	31.7	23.3	13.4	11.6	9.6

2. J Kumar Infraprojects Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Base Case Fair Value	Time Horizon
Construction	Rs. 309.9	Buy in the band of Rs 307-313 & add more on dips to Rs 270-276 band.	Rs. 343	Rs. 364	2-3 Quarters

Shree Varahi Scrip Code	JKIL
BSE Code	532940
NSE Code	JKIL
Bloomberg	JKIL IN
CMP Aug 12, 2022	309.9
Equity Capital (Rs Cr)	37.8
Face Value (Rs)	5
Equity Share O/S (Cr)	7.57
Market Cap (Rs Cr)	2,345
Book Value (Rs)	275.8
Avg. 52 Wk Volumes (mn) 52	429391
52 Week High	351.9
52 Week Low	148.9

Share Holding Pattern % (June, 2022)	
Promoters	46.6
Institutions	21.7
Non Institutions	31.7
Total	100.0

Our Take…

J Kumar Infraprojects Ltd (JKIL) is engaged in the construction of elevated and underground metro projects, roads, flyovers and bridges and civil construction activities. The company is a pure play EPC company having a niche in construction of Urban Infra projects. The company has executed projects in a wide variety of spectrum, ranging from underground and elevated metros to tunnels, flyovers, roads, pedestrian subways, stations and depots, to hospitals, commercial buildings and sports complexes. JKIL has improved its pre-qualification by gradually executing bigger and critical projects. Leveraging decades of experience and know-how, the company has been able to provide better execution capabilities; especially in underground metro projects in which it has developed unique expertise. Over the years, the company has increased the share of revenues contributed by metro projects (constitutes ~54% of topline in FY22), owing to the increasing government focus on the urban mobility space.

JKIL has reiterated its target of achieving topline of Rs 5000cr by FY25 and maintaining its current margin level of 14-15% on the back of its prudent bidding discipline. As of June-end 2022, the order book stood at Rs 12,095cr, indicating a robust visibility of 3.1x of TTM revenue. The company is targeting opportunities in metro-rail in Chennai, Kanpur, Delhi (besides existing regions). Most of these involve underground metro-rail work, in which the company has expertise. Opportunities in roads & highways, high-speed rail and water pipeline & tunneling projects are also being eyed. It also intends to explore opportunities in institutional buildings and river-interlinking projects. In FY23, the company has set eyes on opportunities to the tune of Rs 30,000cr.

Valuations…

JKIL is one of the key beneficiaries of increasing government focus on the urban mobility space over the next few years. Its focus on margins and cash flow generation augurs well from a long-term perspective. Over the years, the company has transformed itself into one of the leading EPC contractors and has grown its order book and revenue at a healthy rate with good margins. JKIL has also increased its geographical footprint, leading to superior scalability and recognition. Robust execution capabilities coupled with strong repository of asset base enabling efficient execution would reflect in strong revenue growth. Its continued focus on adding and diversifying project portfolio at healthy margins reinforces our positive view on the company. We expect revenue/EBITDA/PAT to grow at a CAGR of 14.8%/13.7%/21.9% over FY22–24E. We think the base case fair value of the stock is Rs 343 (8.5x FY24E EPS) and the bull case fair value is Rs 364 (9x FY24E EPS) over the next two-three quarters. Investors can buy the stock in the band of Rs 307-313 (7.7x FY24E EPS) and add more on dips to Rs 270-276 band (6.75x FY24E EPS).

Financial Summary...

Particulars (Rs Cr)	Q1FY23	Q1FY22	YoY-%	Q4FY22	QoQ-%	FY20	FY21	FY22	FY23E	FY24E
Revenue	993.8	675.1	47.2	1114.5	-10.8	2,970.5	2,570.8	3,527.2	4,043.3	4,649.8
EBITDA	140.4	96.8	45.1	159.2	-11.8	428.9	311.4	504.6	574.3	652.8
Depreciation	37.4	37.0	1.2	37.7	-0.6	126.3	143.7	146.8	150.3	159.3
Other Income	5.7	5.2	11.2	8.3	-30.9	28.3	25.3	24.9	25.9	27.2
Interest Cost	24.8	22.2	11.5	26.4	-6.3	97.7	104.4	100.0	107.3	107.3
Tax	22.0	10.6	107.1	29.4	-25.2	49.7	24.7	76.8	87.4	107.5
PAT	61.9	32.1	92.9	74.0	-16.3	183.6	63.9	205.9	255.3	306.0
Adjusted PAT	61.9	32.1	92.9	74.0	-16.3	183.6	63.9	205.9	255.3	306.0
EPS (Rs)	8.2	4.2	92.9	9.8	-16.4	24.3	8.4	27.2	33.7	40.4
RoE-%						10.5	3.4	10.4	11.6	12.4
P/E (x)						12.8	36.7	11.4	9.2	7.7
EV/EBITDA (x)						6.9	9.1	5.3	4.2	3.3

Income Statement

(Rs Cr)	FY20	FY21	FY22	FY23E	FY24E
Net Revenues	**2970.5**	**2570.8**	**3527.2**	**4043.3**	**4649.8**
Growth (%)	**6.6**	**-13.5**	**37.2**	**14.6**	**15.0**
Operating Expenses	2541.6	2259.5	3022.6	3469.0	3997.0
EBITDA	**428.9**	**311.4**	**504.6**	**574.3**	**652.8**
Growth (%)	**-1.7**	**-27.4**	**62.1**	**13.8**	**13.7**
EBITDA Margin (%)	**14.4**	**12.1**	**14.3**	**14.2**	**14.0**
Depreciation	126.3	143.7	146.8	150.3	159.3
EBIT	**302.7**	**167.7**	**357.8**	**424.0**	**493.5**
Other Income	28.3	25.3	24.9	25.9	27.2
Interest Expenses	97.7	104.4	100.0	107.3	107.3
PBT	**233.3**	**88.6**	**282.7**	**342.7**	**413.5**
Tax	49.7	24.7	76.8	87.4	107.5
RPAT	183.6	63.9	205.9	255.3	306.0
APAT	**183.6**	**63.9**	**205.9**	**255.3**	**306.0**
Growth (%)	**3.7**	**-65.2**	**222.1**	**24.0**	**19.9**
EPS	24.3	8.4	27.2	33.7	40.4

Balance Sheet

As at March (Rs Cr)	FY20	FY21	FY22	FY23E	FY24E
SOURCES OF FUNDS					
Share Capital	37.8	37.8	37.8	37.8	37.8
Reserves	1793.1	1849.1	2048.8	2279.1	2568.3
Shareholders' Funds	**1831.0**	**1886.9**	**2086.6**	**2317.0**	**2606.1**
Long-Term Debt	195.1	123.9	71.6	103.9	93.9
Net Deferred Taxes	27.4	24.6	23.8	24.6	24.6
Total Source of Funds	**2053.4**	**2035.4**	**2182.0**	**2445.5**	**2724.6**
APPLICATION OF FUNDS					
Net Block & Goodwill	854.5	805.6	789.6	654.5	585.2
Capital Work-in-Progress	98.7	149.8	151.8	149.8	149.8
Other Non-Current Assets	349.9	329.4	423.7	400.2	440.8
Total Non-Current Assets	**1303.1**	**1284.7**	**1365.1**	**1204.4**	**1175.8**
Inventories	312.6	286.1	365.7	411.7	476.3
Trade Receivables	644.8	619.8	888.0	874.9	1012.2
Cash & Equivalents	59.1	45.7	111.0	379.1	647.9
Other Current Assets	1360.0	1408.7	1230.8	1676.5	1790.2
Total Current Assets	**2376.4**	**2360.3**	**2595.6**	**3342.2**	**3926.7**
Short-Term Borrowings	478.7	407.0	359.6	427.0	437.0
Trade Payables	460.4	457.8	572.9	638.2	738.3
Other Current Liab & Provisions	686.9	744.8	846.2	1036.0	1202.5
Total Current Liabilities	**1626.1**	**1609.6**	**1778.7**	**2101.2**	**2377.8**
Net Current Assets	750.3	750.7	816.9	1241.1	1548.8
Total Application of Funds	**2053.4**	**2035.4**	**2182.0**	**2445.5**	**2724.6**

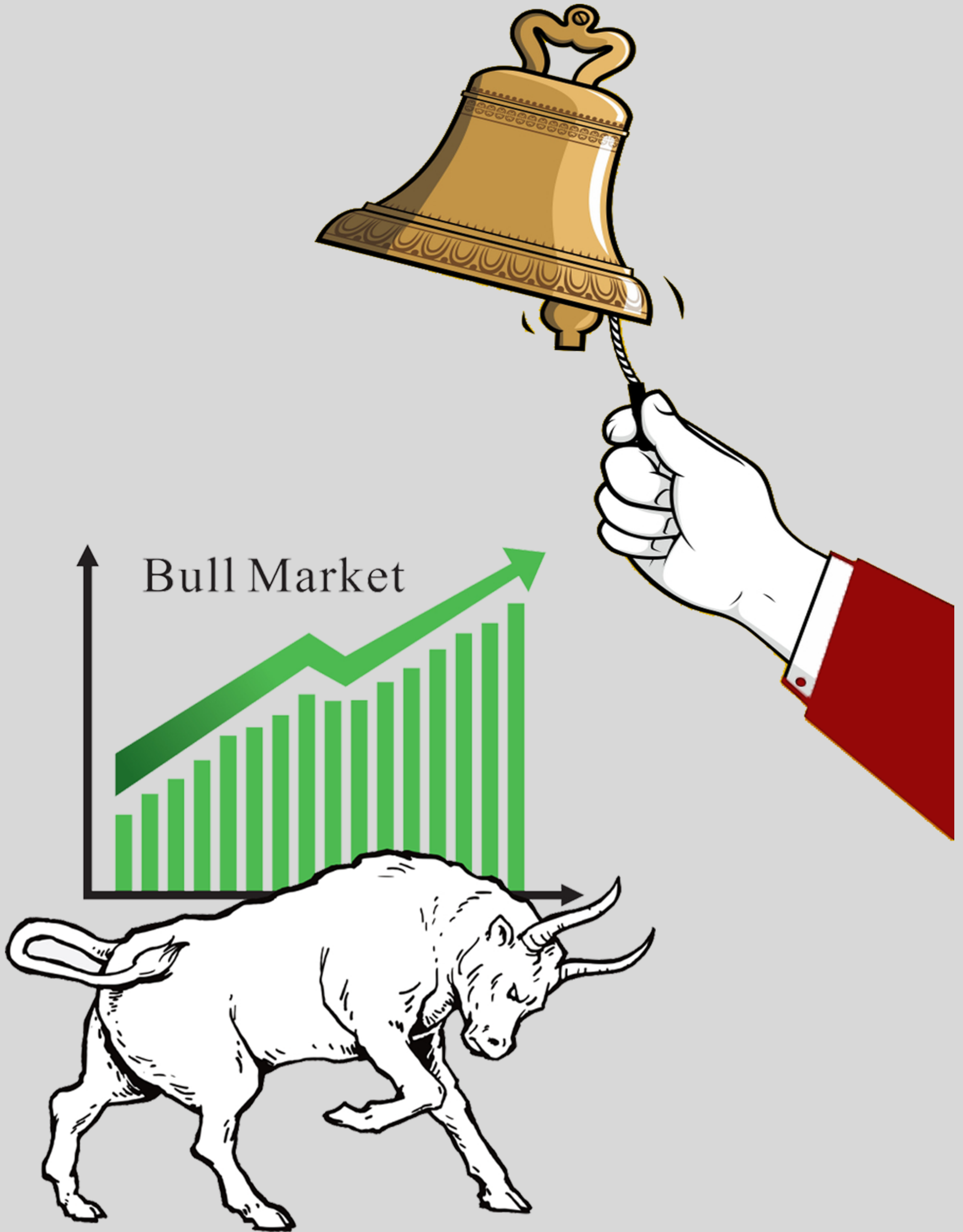
Cash Flow Statement

(Rs Cr)	FY20	FY21	FY22	FY23E	FY24E
Reported PBT	233.3	88.6	282.7	342.7	413.5
Non-operating & EO items	0.2	-0.5	-0.4	0.0	0.0
Interest Expenses	74.6	86.4	79.6	81.3	80.0
Depreciation	126.3	143.7	146.8	150.3	159.3
Working Capital Change	-82.0	90.2	-64.9	-39.6	-88.6
Tax Paid	-93.4	-39.6	-63.2	-87.4	-107.5
OPERATING CASH FLOW (a)	**258.9**	**368.7**	**380.5**	**447.3**	**456.7**
Capex	-114.9	-128.2	-111.1	-80.0	-90.0
Free Cash Flow	144.0	240.5	269.5	367.3	366.7
Investments	-7.7	16.8	19.7	24.9	26.2
INVESTING CASH FLOW (b)	**-122.6**	**-111.3**	**-91.3**	**-55.1**	**-63.8**
Debt Issuance / (Repaid)	-17.3	-160.0	-119.8	0.0	0.0
Interest Expenses	-109.8	-101.3	-96.6	-107.3	-107.3
FCFE	17.0	-20.8	54.6	260.0	259.4
Share Capital Issuance	0.0	0.0	0.0	0.0	0.0
Dividend	-20.5	-9.5	-7.6	-16.9	-16.9
Others	0.0	0.0	0.0	0.0	0.0
FINANCING CASH FLOW (c)	**-147.5**	**-270.8**	**-223.9**	**-124.1**	**-124.1**
NET CASH FLOW (a+b+c)	**-11.2**	**-13.4**	**65.3**	**268.1**	**268.8**

Key Ratios

	FY20	FY21	FY22	FY23E	FY24E
PROFITABILITY RATIOS (%)					
EBITDA Margin	14.4	12.1	14.3	14.2	14.0
EBIT Margin	10.2	6.5	10.1	10.5	10.6
APAT Margin	6.2	2.5	5.8	6.3	6.6
RoE	10.5	3.4	10.4	11.6	12.4
RoCE	14.3	7.8	16.9	18.4	19.0
SOLVENCY RATIO (x)					
Debt/EBITDA	1.6	1.7	0.9	0.9	0.8
Net D/E	0.3	0.3	0.2	0.0	-0.1
PER SHARE DATA (Rs)					
EPS	24.3	8.4	27.2	33.7	40.4
CEPS	41.0	27.4	46.6	53.6	61.5
Dividend	1.3	1.0	3.0	2.2	2.2
BVPS	242.0	249.4	275.8	306.2	344.4
TURNOVER RATIOS (days)					
Debtor days	79	88	92	79	79
Inventory days	38	41	38	37	37
Creditor days	57	65	59	58	58
VALUATION					
P/E (x)	12.8	36.7	11.4	9.2	7.7
P/BV (x)	1.3	1.2	1.1	1.0	0.9
EV/EBITDA (x)	6.9	9.1	5.3	4.2	3.3
EV/Revenue (x)	1.0	1.1	0.8	0.6	0.5
Dividend Yield (%)	0.4	0.3	1.0	0.7	0.7

This Might Impact Your Investments !!



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Analysts remain bearish on liquor companies despite Q1 volume gains

The June quarter performance of alcoholic beverage makers was a mixed bag, with revenues above expectations while margin performance was sub-par. On a low base, the combined revenue growth of United Breweries, Radico Khaitan and United Spirits--three of the largest listed players in this sector--was 61 per cent.

Higher sales were driven by strong volumes. Growth on this front was led by United Breweries, which reported a 121 per cent uptick over the year-ago quarter, followed by United Spirits (up 25 per cent) and Radico Khaitan's 14 per cent.

Citing the reasons for the volume offtake, Nirmal Bang Research says there was strong consumer demand in off-trade channels (shops, supermarkets) while recovery was seen in the on-trade channel (hotels, bars, restaurants).
UBL's volume growth, according to Vishal Punmiya of the brokerage, was far ahead of the estimate due to record volumes in the summer season, leading to full recovery. United Spirits' volume delivery was short of expectations, impacted to some extent by constraints in scotch supplies. Lower excise rates compared to base quarter supported revenue growth in Q1FY23. For Radico, the volume surge was led by robust gains of 29 per cent YoY in prestige and above (P&A) category and 9.3 per cent YoY growth in the regular category. The share of the P&A category by value in the Indian Made Foreign Liquor business rose to 50 per cent from 47 per cent a year ago. This indicates a focus on premiumisation, says Kotak Securities.

However, on a three-year average revenue growth trend basis, the larger companies have posted a growth of 2.6 per cent which lags behind discretionary sector peers such as paints and quick service restaurant peers. According to Ronak Soni of Equirus Research, in addition to the pandemic, the sector faced multiple disruptions in the form of constant excise duty hikes across states, changes in route-to-market in some states, highway ban among others.

While volume growth in Q1 was strong and there are structural growth drivers such as low per capita consumption, the addition of over 15 million potential consumers annually above the drinking age and premiumisation, the sector faces profitability challenges that could offset the volume/price increase benefits.

Gross margins of liquor majors United Breweries and Radico Khaitan fell by about 400 basis points while that of United Spirits was down by 110 basis points YoY due to a sharp rise in input costs. On a three-year basis, gross margin compression has been in the 400-640 basis point range for the three firms. Both on the sales growth and gross margin fronts, when compared to the pre-Covid period, Radico fared the best among the listed majors.

While the management of United Spirits expects double-digit inflation in the near term, United Breweries highlighted that price hikes have been taken in the June quarter and there is limited scope to take further hikes.

High competitive intensity, inflation in glass, extra neutral alcohol (raw material for making alcoholic beverages) and low pricing power remain concerns, say Abneesh Roy and Anurag Lodha of Edelweiss Research.

Margins are expected to remain muted for the September quarter before witnessing an uptick in the second half of the current financial year. The rising costs and pricing pressure have led to a cut in earnings estimates by most analysts and is likely to weigh on earnings growth going ahead. Analysts led by Krishnan Sambamoorthy of Motilal Oswal Research believe that even in a strong demand environment rising commodity cost pressures and lack of free pricing in a majority of states is likely to negatively affect the pace of earnings growth for the alcoholic beverage makers.

Brokerages have a bearish stance on the sector and recommend a sell or reduce rating in most cases while it is a hold in other cases. Barring Radico Khaitan which is up 31 per cent over the past three months, the stock performance has been muted for United Breweries (up 10 per cent), and United Spirits (flat) over this period. Investors should await improvement in margin trajectory before considering the stocks in this sector.

Despite windfall tax, ONGC, Oil India's earnings look positive for FY23

The first quarter for the 2022-23 financial year (Q1FY23) was difficult for the entire energy sector. Prices spiked after the Ukraine War started in late February and they remained elevated and volatile through this period. In theory, this should have meant good profits for upstream producers, and margin pressures for refiners and retailers, who would, however, be able to positively revalue inventory accumulated earlier, as crude and gas prices rose.

However, while downstream players in retail did see margins squeezed, refiners saw record margins, and upstream producers did fairly well. The price of the Indian crude basket rose from $103 per barrel in April to $116 in June, before easing down subsequently to $106 (July) and $97 (Aug 1-27). Gas prices have varied widely due to the cut-off of Russian supplies and in certain cases, gas prices have risen three times. Domestic gas prices have more than doubled, at $6.1 per mmbtu, for Apr-Sep 2022, versus $2.9 (Oct21-Mar 22).

The public sector undertaking oil marketing companies (OMCs) reported aggregated losses of Rs 17,000 crore at earnings before interest, tax, depreciation and amortisation (ebitda) level and net losses of Rs 18,480 crore. Reliance Industries, however, delivered 63 per cent rise in year-on-year (YoY) ebitda and 41 per cent rise in YoY profit after tax (PAT).

ONGC and OIL together reported 2x growth in YoY ebitda, and 3.5x growth in YoY PAT. The city gas distribution companies saw single digit rise in ebitda. The OMCs have seen drastic earnings downgrades but RIL, which has many other revenue segments, is less affected. Benchmark refining margins (Singapore) hit record highs in Q1 of $24 per barrel but has since dipped to around $8 per barrel and RIL may have issues if there's a ban on high-speed diesel exports.

Where ONGC and OIL are concerned, the 'windfall' tax will limit net realisations to an assumed rate of $70-75 per barrel but even so, the earnings growth will be good for FY23, and probably for FY24 too. The windfall tax was initially Rs 23,250 per tonne ($40/barrel) on crude oil, and reviewed every fortnight. It is now reduced to Rs 17,750 per tonne ($30/barrel), which caps ONGC's profitability on crude.

ONGC's standalone revenue (which excludes its control of the OMCs, HPCL and MRPL) rose 83.8 per cent YoY and 22.7 per cent QoQ (quarter-on-quarter) to Rs 42,321 crore in Q1FY23, mainly owing to higher crude oil price realisation and the hike in domestic gas prices. Standalone ebitda jumped 121 per cent YoY and 46.5 per cent QoQ to Rs 25,489 crore. The ebitda margin increased by over 10 per cent. ONGC's total crude production rose 2 per cent YoY to 5.394 million metric tonne and gas production increased 1.4 per cent.

ONGC entered into an agreement with ExxonMobil for deep-water exploration on the east and west coasts. The company targets doubling its upstream production, tripling its refining capacity, plus undertaking exploration by 2040. It has earmarked Rs 30,000 crore for capex. The Ukraine War has affected overseas subsidiary ONGC Videsh's activities at the Sakhalin-1 oilfield site in Russia.

ONGC (and OIL) have seen share prices dropping 20 per cent (and 21 per cent) respectively, since April. However, most analysts still have 'buy' recommendations on both stocks with target prices for ONGC ranging between Rs 146 and Rs 160, which is a small upside from the current price of Rs 136.

A few bumps aside, road ahead is largely smooth for Infra developers

The government has followed a counter-cyclical policy through the last two years as it has attempted to regain growth momentum after the near collapse during the 2020 lockdown. The Budgets have since focussed on building infrastructure capacity. One key measure is the speeding up of the building of highways.

As a result, there are healthy order books across road developers and this means steady revenues for developers through the next three fiscals. In 2021-22, NHAI awarded over 12,000 km of roads in 127 new projects, an increase of 22 per cent year-on-

year (YoY). Of these, 62 projects were under HAM (hybrid annuity model) and 63 were under EPC (engineering, procurement and construction).

Road-building has been quite successful with an average of 28.6 km per day being rolled out in 2021-22, but this was slower than 36 km per day in 2020-21. In 2022-23 there's a commitment to expand the award to 25,000 km under the PM Gati Shakti National Master Plan. If this comes through, the order book will ensure revenues until 2025-26.

However, there are headwinds and concerns, especially on the financial front. Dilution of bid qualifications during the pandemic could lead to inadequately funded developers receiving orders they cannot execute. Some developers seem to lack the net worth to even cover equity requirements.

Lenders could therefore be over-exposed and there may be equity shortfalls and delays. The leading private banks are now turning cautious but PSU banks seem to still be lending enthusiastically and could be over-exposed.

Developers with stronger balance sheets will gain a competitive edge, if the sector doesn't run into serious trouble. Investors need to examine the HAM projects in all its details as well as the EPC options.

EPC players are insulated from cost increases due to the pass-through nature of such projects. It's likely the NHAI will raise the net worth requirements for HAM and reduce the upfront payment to 20 per cent of project cost rather than the current 40 per cent. This again favours developers with good balance sheets.

On the positive side, stabilisation of commodity prices, and a reduction in energy prices, as well as in steel and bitumen prices should help developers to improve margins in HAM projects. Some corporates have also been successful at monetising HAM assets, by transferring to InVITs.

GR Infraprojects's private InvIT, Bharat Highway InvIT, has received SEBI registration for transfer of six operational HAM assets (equity of Rs 1,000 crore) in 2022-23. In August, IRB Infra approved 100 per cent stake transfer of Vadodara Kim Expressway to IRB InvIT for Rs 340 crore. Ashoka Buildcon's sale of five BOT (build-operate-transfer) assets and one annuity asset will be completed in Q2, 2022-23. HG Infra and PNC Infratech are also in talks with potential investors for asset monetisation.

In the HAM model, once commercial operation is achieved, risks are mitigated. Cash flow risk is minimised due to NHAI as counterparty (since it is rated AAA), and the interest risk is mitigated by cash flows. Given the combination of likely higher yield and AAA rating, lenders are willing to take risks to fund these.

The road developer scenario is very competitive – too competitive in fact, which is why balance sheet strength is critical. One analyst picks PNC Infratech (price target Rs 427), NCC (Price target Rs 125), HG Infra (Price target Rs 940) and Ashoka Buildcon (price target Rs 188) as most attractive. Another analyst has GR Infra (Price target Rs 2,266) and Dilip Buildcon (price target Rs 369) as Buys.

Analysts bearish on Delhivery as volumes, integration costs weigh on Q1

The share price of logistics unicorn Delhivery suffered a sharp fall of 6.4 per cent after the market absorbed the results of the first quarter of this financial year.

The company went from being earnings before interest, taxes, depreciation and ammortisation (Ebitda) positive to loss making, with fall in revenues and margins. It declared revenues of Rs 1,746 crore, a sequential drop of 16 per cent against Q4 revenues of Rs 2,072 crore.

Total expenses fell two per cent quarter-on-quarter (QoQ) to Rs 2,206 crore (Rs 2,254 crore in Q4). Year-on-year (YoY), revenues have grown 30 per cent on a low base, and total expenses have jumped 26 per cent.

In FY23, employee stock option (ESOP) costs will amount to Rs 261 crore. And, over a five-year period, the equity base will expand from 724.5 million shares (June 2022) to 803.86 million shares.

Given an adjusted Ebitda loss of Rs 217 crore, versus Ebitda profit of Rs 81 crore in the previous quarter, the Ebitda margin went to minus 12.5 per cent from 3.9 per cent in Q4 of FY22.

Adjusted cash losses were assessed at Rs 187 crore against profits of Rs 141 crore in Q4. These accounts are pro-forma. So, it is hard to make comparisons since the integration of Spoton took place during the last financial year and Q1, 2022-23 after the acquisition by Delhivery in August 2021.

The integration is estimated to have impacted Ebitda negatively by Rs 196 crore, while the exit of Shopee from India may have impacted Rs 50 crore negatively.

Freight volumes into the newly-integrated network stood lower, with declines in the part-truck load (PTL) segment while express parcel services grew. Gross margin declined sharply (QoQ) from 28 per cent to 17 per cent. Higher-than-foreseen volumes created bottlenecks at key gateways and loads in some capacity-constrained locations, impacting operations.

Some customers reduced volumes in April-May 2022 and volumes started to pick only in June 2022. But Q2 is also likely to see somewhat reduced volumes. Some redundancies remain despite the operational integration of Spoton. The company has Rs 40-crore provisioning to cover possible breach of service-level agreements.

The Spoton acquisition will eventually yield operating scale in the integrated business and create larger network effects, improving transit times and reducing the total cost of operations. It may also enable Delhivery to enter a new market segment, economy PTL.

Company expects to derive significant synergies from greater utilisation of people, fleet and infrastructure. It also expects to move to larger, more efficient fleet formats (tractor-trailer operations) and infrastructure (automated mega-facilities).

All of Spoton's customers have now been on-boarded to Delhivery's services, including express parcel, cross-border, truckload freight services and supply-chain & warehousing.

During the earnings call, the management stated that the integration of Spoton should be completed in Q2. This will allow for synergy with 7-8 per cent Ebitda margins by Q4, 2022-23. The business is skewed towards the second half, which will be stronger. But there was no guidance on Ebitda or revenue.

While issuing a "sell" recommendation, one analyst assumes Delhivery has a potential "profit pool" of Rs 6,300 crore by FY26.

If it captures 60 per cent of the profit pool, the valuation could reach Rs 1,416. And, 40 per cent share of the profit pool could be valued at Rs 944. If it captures 25 per cent of the profit pool, the target price would be Rs 484. Another analyst also has a sell recommendation with a target price of Rs 442.

MGL, Gujarat Gas: Analysts see some silver lining for downstream gas stocks

The downstream gas market has seen turmoil and volatility since the Ukraine stand-off. Prices started rising in the second half of 2021-22 (FY22), and fears of major supply disruptions affected the market since February.

However, gas is a necessary good, which means that a proportion of demand is not price-dependent. While the ceramic industry in Gujarat has shut down units, and power plants running on gas have also shut down, demand in the transport segment, household consumption, and the fertiliser segments are all price-independent.

Given price rises, most of the power capacity and ceramic industry had shut down by late October-December quarter (third quarter, or Q3) of FY22. There was less effect on first-quarter 2022-23 consumption.

This leaves an interesting situation for downstream gas players.

The Q3FY22 results of various gas companies show that tariff hikes have compensated for lower volumes in some cases.

Gujarat Gas has been the hardest hit because it is a major supplier to Morbi, where the ceramics industry has been pummelled, but higher tariffs have compensated somewhat.
Mahanagar Gas actually saw higher volumes of sales, but margins were squeezed because it could not fully pass on the price hikes.

Petronet LNG has seen higher volumes, although it has suffered lower earnings before interest, tax, depreciation, and amortisation sequentially and has to worry about high spot liquefied natural gas (LNG) cargo prices.

Given the high spot LNG prices, Gujarat State Petronet (GSPL) is also likely to see lower margins, pushing up its costs.

Analysts have slashed the growth estimates of most downstream players, but there are 'buy' recommendations for several stocks.

Several stocks of Indraprastha Gas, Mahanagar Gas, and Gujarat Gas are looking strong because they have been accumulated at around the current prices after bottoming out. However, there is a fundamental 'sell' recommendation on Gujarat Gas at the current price of Rs 449 and valuations of Rs 400.

Mahanagar Gas is at a current price of Rs 818. There are 'buy' recommendations, with price targets of Rs 980 and Rs 1,000.

In the case of Petronet LNG, it is at Rs 211, with 'buy' recommendations and price targets of Rs 260, Rs 298, and Rs 307.

Analysts have 'buy' recommendations on GSPL, with its current price of Rs 235 and targets of Rs 265 and Rs 340. In this case, the earnings estimates have been reduced.

There could be limited upsides for downstream companies until there's a positive change in the geopolitical environment.

If global gas prices do start moving down, there could be a big upside since the domestic tariff will remain the same until September 30.

Rural recovery, robust volume growth help Dabur post incremental gains

Aided by robust volume growth and a resilient rural segment, consumer major Dabur India delivered in-line revenue performance in the June quarter. Barring health supplements, which came off a high base and saw a steep 35.5 per cent drop over the year-ago quarter, large segments such as foods, hair care and oral care saw sizeable growth in the quarter.

Consolidated sales growth of 8 per cent was largely on account of domestic performance (up 9.3 per cent) even as international revenues, which account for 24 per cent of revenues, were flat due to unfavourable currency translation impact.

Despite a higher base, domestic volume growth at 5 per cent was better than most peers and came on the back of market share gains across key categories of fruit drinks, foods and beverages, and hair oil. Average three-year value and volume growth were also at a strong 8-10 per cent band.

Despite unusual sales in the healthcare business during the Covid-related lockdown period coming off, the overall sales growth trajectory is in the double-digit compounded annual rate and is a continuation of the turnaround seen by Dabur under the new chief executive officer.

What stood out in Dabur's performance in the quarter was the strength of the rural market. While most home and personal care majors reported a sluggish trend of rural growth given muted demand, Dabur management has been positive. Expansion of rural distribution helped the company achieve growth similar to the urban segment (8.3-8.4 per cent each). The company indicated that the rural outlook is positive, given normal monsoon and minimum support price increase, which would improve the profitability of farmers. Urban recovery would be aided by softening of inflation and growth in new-age channels.

Analysts led by Amnish Aggarwal of Prabhudas Lilladher Research believe the long-term outlook for the company remains intact, driven by an innovation-led growth strategy with a focus on eight core brands, higher market share in foods and beverages/hair care, low unit price innovations, strong rural distribution and 4-5 per cent incremental sales from e-commerce innovations.

While growth should be strong, investors will track the margin trajectory. Raw material inflation and an unfavourable product mix led to a 225 basis points drop in gross margins while margin loss at the operating profit level was low by 190 basis points due to a fall in advertising spending, and employee costs.

Gross margins are expected to be under pressure in the current quarter (Q2) before improving in the second half of the financial year due to softening raw material prices and pass-through of price hikes. The company expects to maintain margins on an annual basis if commodity prices, especially crude oil continue to soften.

At the current price, the stock is trading at 43 times its FY24 earnings estimates. Given that most brokerages have a target price of around Rs 600 per share, there is limited upside from these levels. Investors should await more attractive entry points.

Volatility may be a good thing for investors considering Info Edge stock

Info Edge, the holding company of Naukri.com, 99acres.com, Shiksha.com and Jeevansathi.com, had a strong April-June (Q1) quarter operationally. However, the share price has seen excessive volatility due to the company's exposure to investments in Zomato and Policy Bazar, since those holdings have seen sharp value erosion.

Info Edge reported revenue growth of 55 per cent year-on-year (YoY) and 11.4 per cent quarter-on-quarter (QoQ) in Q1, 2022-23, with 67.5 per cent YoY growth in Naukri (a jobs portal). Billings, which is a leading indicator of revenues, grew 67 per cent YoY, off a low base, with Naukri billings growing 65 per cent YoY. The realty play, 99acres, grew strongly as the real estate market remained strong. Info Edge's Ebitda margin stood at 32 per cent (up 400 basis points QoQ). One contribution to better margin was lower ad expenses on a sequential basis. But in YoY terms, employee expenses increased 45 per cent, while ad expenses increased 90 per cent.

The gain in margins could be sustainable due to the improved share of the profitable recruitment and education verticals. Info Edge is among the few companies on the Indian internet that are cash-flow positive with net cash and investments of Rs 3,500 crore and it paid a dividend of Rs 5 per share in 2021-22. Despite subsequent fall in valuations, the successful listings of investee companies, Zomato and Policy Bazaar, and the partnership with Temasek could be counted as positive developments. Price movements in these have, however, affected sentiment regarding the stock.

Naukri is a leader in the online recruitment space with its broad ecosystem of offerings. The recruitment segment reported billings growth of 65 per cent YoY, while revenues grew by 68 per cent YoY. Stable revenue growth in a highly volatile recruitment market and close to 80 per cent market share is impressive.

The real estate and matrimony portals have not been so successful with increased competition. In matrimony, Info Edge is experimenting with tweaks such as freeing up certain services and focusing on future monetisation rather than trying to generate cash upfront. In Q1, 99acres saw billings go up 173 per cent YoY off a low base, but Jeevansathi (matrimony portal) saw low growth (revenues up 9 per cent YoY), and Shiksha (education portal) was above expectations at +37 per cent YoY. 99acres will continue to see marketing spends to maintain traffic share, and margins would be under pressure in Jeevansathi given the change in strategy.

Demand slowdown in the IT sector remains a key risk, given 60 per cent contributions to revenue. Management guidance is that the recruitment vertical will maintain strong revenue growth in 2022-23, which should drive a revenue CAGR of 30 per cent during FY22-24. Hiring in IT slowed a bit, but remains strong. Non-IT recruitment is returning, with clients hiring across Travel, Hospitality, Education and Retail.

GAIL stock slips on worries of gas supply disruptions despite strong Q1

Despite strong Q1 results for the 2022-23 financial year (Q1FY23), gas marketing and trading public sector enterprise (PSU) GAIL saw a sell-off. The company reported Rs 37,572 crore in revenues, earnings before interest, tax, depreciation and amortisation (Ebitda) of Rs 4,365 crore, and profit after tax (PAT) of Rs 2,915 crore. Revenue was up 116 per cent year-on-year (YoY) while Ebitda was up 81 per cent YoY although the Q1FY23 margin of 11.6 per cent was down against 13.9 per cent YoY. The PAT was up 90 per cent YoY. Sequentially, revenues were up 39 per cent and Ebitda was up 17 per cent, but there was 2 per cent drop in margins and PAT was up 8.6 per cent.

Segment-wise, gas trading saw a sharp jump in profitability but the transmission segment has seen a setback. Gas trading Ebitda was higher at Rs 2,400 crore in Q1FY23 versus Rs 1,780 crore in Q4FY22, which was driven by strong LNG prices. The trading margin jumped to Rs 2,618 per tcm (thousand cubic metres), up quarter-on-quarter (QoQ) from Rs 2,088 per tcm, and volume was also higher at 100.8 mmscmd (million standard cubic meters per day). But transmission Ebitda was lower at Rs 1,090 crore against Rs 1,150 crore in Q4FY22 and the transmission margin was lower at Rs 1,094 per tcm versus Rs 1,180 per tcm while volume was at 109.5 mmscmd.

The management guidance was that current gas trading and transmission volume will be lower by 5-7 mmcmd due to disruption in gas supply since June 2022 from Gazprom where GAIL has a 2.5 mmtpa LNG supply contract.
LPG Ebitda was lower at Rs 660 crore, down 12 per cent QoQ, with a realisation of $827 per tonne, up versus $704 per tonne in Q4FY22, given the higher domestic gas price of $6.1 per mmbtu (metric million British thermal unit) vs $2.9 per mmbtu (QoQ). The sales volumes were higher at 165,000 million tonnes (MT) versus 155,000 MT in Q4.

GAIL's petrochemicals sales volumes fell by 50 per cent QoQ due to plant maintenance shutdown. The segment Ebitda was at Rs 170 crore, down 66 per cent QoQ, with petrochemical spreads dropping due to lower volumes and higher cost.

The management guidance includes a commitment to continue capex including Rs 47,000 crore for pipeline expansions and it will increase petrochemicals capacity. It has Rs 7,500 crore of capex scheduled for this fiscal. It has a strong balance sheet with very little debt so this is comfortable.

Obviously the sector dynamics are driven by geopolitics with the Ukraine War dragging on and leading to volatile prices and fears of supply disruption. GAIL has contracts of 36 cargoes in the calendar year 2022, but since May 2022 it has got 8 less cargoes. It is trying to bring forward US cargoes given the probability of lower gas supply from Russia. It may be forced to cut back on the petrochemicals segment even after the full capacity is back online, if gas supply is lower.

The positive assumptions are that high gas trading earnings will be sufficient to more than compensate for the weak transmission segment. Note that GAIL has significant investments in other listed and unlisted businesses downstream which add up to Rs 50 per share to the SOTP (sum of the parts) values. The long-term prospects should be good given the government policy encouraging gas usage to cut emissions.

The share price dropped from Rs 140 to Rs 132 with the market showing nervousness about the possibility of supply disruptions in the sector. However, analysts remain positive about the sector with valuations ranging between Rs 176, Rs 190 to Rs 197 from various analysts.

DLF stock sees muted reaction from analysts post in-line Q1 results

Real estate major DLF's results could be considered a bellwether for the sector in the key national capital region (NCR). While DLF declared results which were in line with analysts' expectations, the stock saw a marginal correction with a consensus that valuations had already priced in the results and the guidance. It closed at Rs 384.15 on the BSE on Monday, down just about half-a-per cent.

The revenue was Rs 1,440 crore, up 26.5 per cent year-on-year (YoY) but down 6.8 per cent quarter-on-quarter (QoQ). The Ebitda stood at Rs 410 crore (up 4.6 per cent YoY, and 12.5 per cent QoQ). The Ebitda margin was at 28.7 per cent (down 6 per cent YoY and up 4.9 per cent QoQ). The share of profits of associates and joint ventures was at Rs 210 crore (up 57 per cent YoY and 16 per cent QoQ). The adjusted PAT was at Rs 470 crore (up 39 per cent YoY and 15.7 per cent QoQ). DLF's rental arm, DCCDL, declared revenues of Rs 1,260 crore (up 21 per cent YoY and 5.8 per cent QoQ) with Ebitda of Rs 900 crore (up 18 per cent YoY and 6.7 per cent QoQ) and PAT of Rs 290 crore (up 60 per cent YoY and 11.4 per cent QoQ).

Presales for quarter one for the 2022-23 financial year (Q1FY23), were at Rs 2,040 crore (up 101 per cent YoY but down 25 per cent QoQ), were robust. The presales guidance was assessed at Rs 8,000 crore for FY 23. The DCCDL office portfolio collection was at 100 per cent, but occupancy stayed flat at 88 per cent.

Management expects occupancy to improve with a policy push if the special economic zone (SEZ) Bill clears Parliament. The residential segment Ebitda margin is targeted at 35 per cent or better. New projects to be launched in the second half could have Ebitda margins of over 60 per cent according to management guidance.

Deleveraging continued with free cash flow of Rs 420 crore, to reduce net debt to Rs 2,260 crore, down from Rs 2,680 crore, QoQ. The net debt-equity ratio is now at 0.06x. The net debt in DCCDL was down to Rs 1,880 crore, from Rs 1,900 crore QoQ. Capex in DCCDL is expected to be around Rs 1,200-1,500 crore in the next three to five years.

The NCR, therefore, seems to be rebounding and DLF's combination of steady cash flows and land banks looks well-placed to exploit the sentiment. Cost hikes are still being passed on to the customers and DLF looks to launch Rs 2,000-Rs 2,500 crore of inventory every quarter in this fiscal with launches of 6.6 million square feet worth of projects, equally spread across the three remaining quarters.

The management indicated caution about rising interest rates with the chances that another 100-125 basis points of hikes could impact demand for the real estate sector, especially in retail housing. The company is almost ready to launch its real-estate investment trust (REIT) in the next six-to-eight months. At current valuations, the surplus land banks are valued at Rs 48,000 crore. assuming timelines of 10-20 years for development.

Valuation for real estate companies is always difficult since revenues can be lumpy, which makes revenue/income projections hard and land bank valuations can change considerably. Analysts' valuations for DLF range between Rs 385 to Rs 450 and recommendations range from 'neutral' to 'buy'.

Explained: How 2% Supply chain, margin woes for Siemens, but strong order flow a positiveon RuPay-UPI may affect credit card industry

The market had a negative response to engineering major Siemens Limited's third-quarter results (this is Q3 for Siemens which has a September year-ending). The electrical engineering / capital goods major has clearly been badly affected by supply chain issues and margins have been hit by inflation. The management guidance was notably cautious with a lot of focus on risks in the near-future pointing at "Global headwinds impacting (future) demand".

The consolidated revenue was around Rs 4,258 crore, up 8 per cent on the quarter-on-quarter (QoQ) basis and up 45 per cent year-on-year (YoY). But (earnings before interest, tax, dividend and ammortisation (Ebitda), at Rs 412 crore, was down 15 per cent QoQ and up 68 per cent YoY. The margin, at 9.7 per cent, was down from 12.3 per cent in last quarter. The profit after tax (PAT) was at Rs 302 crore, which was up 118 per cent YoY and down 11 per cent QoQ. The standalone order Inflow for the quarter was Rs 4,992 crore, taking the order book to Rs 18,000 crore. Employee-related expenses were up and other expenses were up to 12 per cent of revenues, a rise of 3.5 per cent QoQ.

The company could benefit from the decarbonisation drive which could bring in orders and the mobility segment is also expected to see high growth but margins there have fallen. Overall, the gas & power segment contributed 35 per cent of total revenue. Its revenue was up 22 per cent QoQ and the earnings befoe interest and tax (ebit) margin came in at 8.55 per cent, which is down from 13.5 per cent QoQ.

Smart infrastructure has a 29 per cent revenue contribution with Ebit margin, at 9.4 per cent, which is 190 basis points up QoQ. The mobility segment has a 9 per cent revenue contribution, but the ebit margin is only 2 per cent, and was down 720 basis points QoQ. Digital Industries contributed 24 per cent to revenue with ebit margin at 8.3 per cent, which is a fall of 300 basis points QoQ.

The stock fell by 4.5 per cent after the results. Looking at the electrical capital goods segment in a broader sense, the global headwinds could have a negative impact across the sector. But the strong order flow for Siemens may indicate ensuing margin pressures, rather than an immediate fall in demand.

Siemens has always had a high valuation and comparisons to ABB and BHEL would also indicate that the sector will continue to be highly valued, because growth should come back by end of this fiscal or by the first half of 2023-24.

Analysts' valuations don't indicate much upside for the stock, one is at Rs 2,350, with the stock at Rs 2,612. Another valuation stands at Rs 2,770 and a third at Rs 2,882. Recommendations range from "reduce" to "add", but the consensus seems to be negative.

Falling raw material prices, demand recovery to drive gains for Bosch stock

Aided by improving demand and a low base, the country's largest listed auto component maker, Bosch, posted a better-than-expected June quarter results for the 2022-23 financial year (Q1FY23). The company, which gets most of its revenues from the auto segment (mobility solutions), reported a 45 per cent growth in the topline as compared to Q1FY22.

Within mobility solutions, sales growth (up 48 per cent year-on-year or YoY) was led by the bread-and-butter powertrain segment, followed by aftermarket and two- wheeler business. Gains in the powertrain segment came from a 55 per cent increase in sales to passenger vehicle makers while commercial vehicle customer sales grew in the 66-71 per cent range.

Rising proportion of utility vehicles in passenger car sales is expected to boost the diesel-based vehicle revenues in addition to the cyclical upturn in the medium and heavy commercial vehicle segment. The company expects sales in the passenger cars and light commercial vehicles to finish higher in FY23 as compared to the peak levels of FY18. This should keep the revenue momentum (operating leverage) going from improved volumes, which was missing over the last couple of years.

A low base and higher sales of diesel components, spark plugs and filters, aided the sales of the aftermarket segment which registered a growth of 61 per cent and surpassed its previous peak revenues. The only segment within mobility which saw a decline was two wheelers where sales fell 12.9 per cent due to the shortage of semi-conductors.

In addition to revenue trajectory, the Street will focus on margin trends. Gross margins in Q1FY23 were down by 570 basis points to 35.4 per cent due to steep increase in raw material prices and change in product mix. The current margins, according to the company, is 700-800 basis points lower than pre-FY20 levels due to unfavourable product mix (lower diesel products), higher proportion of traded goods, increased logistics costs due to China lockdown and investments in auto technology. Operating profit margins were marginally higher at 12.7 per cent, aided by operating leverage benefits.

After remaining flat in FY22, ICICI Securities expects operating profit to post a 37 per cent annual growth, led by volume growth in auto segment, improving semiconductor supply and reversal in commodity costs.

Basudeb Banerjee and Pratit Vajani of the brokerage believe that decline in raw material prices would help margin reversal soon but increasing localisation of BS6 diesel fuel injection systems is a time-taking process and thus, would limit margin reviving beyond 15 per cent in the near term.

While there are multiple triggers, both on the revenue and margin fronts, brokerages believe that the positives are factored into the price with the stock gaining 32 per cent over the last month.

Jinesh Gandhi and Aniket Desai of Motilal Oswal Research believe valuations of 38.2 times FY23 earnings estimates (28.7 times for FY24) largely factors in changes in its competitive positioning since its shift to BS-IV/BS-VI emission norms. While the negatives are priced in, there are no material catalysts visible for a rerating of the stock.

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Registered Office:

Unit No 407, IV Floor, Marathon Icon Marathon Nextgen Campus, Ganpat Rao Kadam Marg, Mumbai-400013 Opposite Peninsula Corporate Park, Lower Parel

Contact No: (022) 43431818

Corporate Office:

57, 2nd Floor Gandhi Nagar Sigra, Varanasi, UP- 221010

Contact No: (0542) 6600000

Regional Offices:

Kolkata, Ahmedabad, Chennai, Aurangabad, Jaipur, Kanpur, Delhi, Ujjain, Varanasi NichiBagh, Varanasi Maldahiya.

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