

HSIE Results Daily

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Results Reviews

- **Avenue Supermarts:** Revenue grew by 20.1% (four-year CAGR: 19.7%). Sales density remained lower than the pre-pandemic level (~INR31.1k/sq. ft in FY23 vs INR35.6k/sq. ft in FY19; in-line). Low discretionary purchases keep underlying profitability/unit economics subdued. FMCG/staples continued to outpace the GM & apparel category. Consequently, gross margin pressures continued (13.4%; -93bps YoY; vs HSIE: 14.3%). EBITDAM followed suit (-105bps YoY at 7.6%; HSIE: 8.4%). Cost and capital allocation discipline remain top-notch. We largely maintain our estimates and retain SELL, with a DCF-based TP of INR3,070/sh, implying 52x Jun-25 P/E (consol).
- **Tata Motors:** On a consolidated basis, Q4 PAT at INR 53bn beat estimates, largely on account of higher capitalization at JLR and tax write-back of INR 16bn at the standalone entity. Despite management's efforts, JLR's net debt stands reduced by just GBP 200mn in FY23 vs FY22. Going forward, JLR has guided for FCF of >GBP 2bn and a reduction in net debt to GBP1bn in FY24. It is important to highlight that JLR had given a similar 5% margin guidance in FY23, but achieved just under 50% of that. More surprisingly, JLR has refrained from giving any guidance for FY25. Given the geopolitical headwinds and resultant concerns around demand slowdown in its key regions, the current guidance appears highly optimistic to us. Management is also cognizant of demand concerns which can be highlighted by the fact that they expect: (1) demand in H1 to be weak and (2) order book to decline at around 5k per month for H1. In India business, FCF sustenance looks difficult, given: 1) TTMT has lost substantial market share in CVs in FY23 and is likely to focus on recovering lost share soon; (2) demand macro is subdued in PVs and the best model cycle for TTMT is behind; (3) rise in capex. Maintain REDUCE, with a revised TP of INR457/sh (from INR 415) as we roll forward to FY25 EPS.
- **DLF:** DLF recorded its highest-ever annual and quarterly presales of INR 150.6bn (+107% YoY) and INR 84.5bn (+210%/+237% YoY/QoQ) resp., beating its annual guidance of INR 80bn. This was on the back of strong demand for its luxury project—The Arbour (launched and sold out in Q4FY23)—which recorded presales of more than INR 80bn. For FY24, it expects to achieve at least INR 110bn in presales backed by 11.2msf of launches with a sales potential of INR 197bn. Of this, 5msf will be in the Luxury segment with 3.5msf in DLF Phase V and 1.5msf in Chennai. Net debt reduced significantly to INR 7.2bn (vs INR 20.9bn in Q3FY23), on the back of strong residential collection of INR 18bn (+52%/+41% YoY/QoQ) during Q4FY23. It expects to grow residential collection by 20-25% in FY24 (INR 53bn in FY23) with free cash earmarked for growth, dividend payout and debt reduction. Given (1) the strong presales momentum supported by price hikes; (2) robust launch plans; and (3) an expected increase in office occupancy levels, we maintain BUY on DLF, with an increased TP of INR 504/share.
- **Hindustan Petroleum Corporation:** Our ADD rating on Hindustan Petroleum Corporation (HPCL) with a price target of INR 280 is premised on robust refining and marketing margins, offset by elevated debt, owing to a rise in working capital requirement and capex. Q4FY23 EBITDA came in at INR 48bn, below our estimate, owing to lower-than-expected refining and

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gross marketing margins, partially offset by higher-than-expected crude and pipeline throughput.

- **Navin Fluorine International:** We retain a BUY on Navin Fluorine International Ltd (NFIL), with a target price of INR 5,520 on the back of (1) earnings visibility, given long-term contracts; (2) tilt in sales mix towards high-margin high-value business; (3) capacity expansion led growth; and (4) strong R&D infrastructure. EBITDA/APAT were 7/3% above our estimates, owing to a 9% rise in revenue and lower-than-anticipated depreciation, offset by higher-than-expected interest and tax outgo.
- **Relaxo Footwears:** Relaxo had lost share in 9MFY23 to unorganized players as rampant inflation rendered it less competitive in the market. Q4 marked a comeback. Management's strategy of slashing prices (15-20%) mid-year seems to have done the trick for demand revival. Revenue grew 9.6% YoY to INR7.65bn in Q4 (four-year CAGR: 5%; HSIE: INR6.7bn). **Volume**/net realisation growth stood at **+23.8**/-11.5% respectively — a function of (1) higher skew of open footwear in the mix and (2) regaining competitive positioning in the market. Profitability improved QoQ as RM prices stabilized and new low-cost inventory hit the marketplace (EBITDAM up 481bps QoQ to 15.4%; HSIE: 13.8%). We largely maintain our FY24/25 EPS estimates and SELL rating with a DCF-based TP of INR725/sh, implying 46x Jun-25E P/E.

Avenue Supermarts

Profitability disappoints

Revenue grew by 20.1% (four-year CAGR: 19.7%). Sales density remained lower than the pre-pandemic level (~INR31.1k/sq. ft in FY23 vs INR35.6k/sq. ft in FY19; in-line). Low discretionary purchases keep underlying profitability/unit economics subdued. FMCG/staples continued to outpace the GM & apparel category. Consequently, gross margin pressures continued (13.4%; -93bps YoY; vs HSIE: 14.3%). EBITDAM followed suit (-105bps YoY at 7.6%; HSIE: 8.4%). Cost and capital allocation discipline remain top-notch. We largely maintain our estimates and retain SELL, with a DCF-based TP of INR3,070/sh, implying 52x Jun-25 P/E (consol).

- Q4FY23 highlights:** Revenue grew 20.1% to INR103.4bn (four-year CAGR: 19.7%). For FY23, revenue/EBITDA per sq. ft came in at INR31.1k/2.8k per sq. ft (87/92% of pre-pandemic base). Management highlighted FMCG/staples continued to outpace GM & apparel categories (food/non-food FMCG/GM& apparel contributed 56/21/23% respectively). Lower consumer spending in GM & apparel category continues to impact the margin mix downwards in Q4 (13.4%; -93bps YoY; vs HSIE: 14.3%). EBITDAM followed suit (-105bps YoY at 7.6%; HSIE: 8.4%) as the cost of retailing was largely in line. Store expansion was in line. DMART added eighteen stores in Q4 (store count: 324). For FY23, SSSG stood at 24.2%. What was heartening to see is consumers are coming back. Bill cuts/store stood at 0.85mn/store (still lower than the peak 1mn/store in FY19) but better than expectations (HSIE: 0.78mn/store). Transaction size normalized downwards to INR1617 (-3.3% YoY). DMART expanded its e-comm operations in its existing 22 cities (10 new cities in FY23). Launched the first shop-in-shop pharmacy outlet during Q4 in Mumbai.
- Outlook:** DMART's unit economics is inching back to normalcy, despite the low GM & apparel skew in the mix—a testimony to its cost and capital allocation discipline. We largely maintain our EPS estimates (+0.9/0.4% in FY24/25) and our SELL rating on DMART (A valuation call), with a DCF-based TP of INR 3,070/sh, implying 52x Jun-25 P/E (consol).

Quarterly financial summary

(Rs mn)	4QFY23	4QFY22	YoY (%)	3QFY23	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Net Revenue	1,03,371	86,061	20.1	1,13,046	(8.6)	3,03,525	4,18,333	5,28,698	6,28,852	7,41,351
EBITDA	7,822	7,420	5.4	9,745	(19.7)	23,552	34,853	47,497	57,187	67,631
APAT	5,052	4,664	8.3	6,411	(21.2)	16,160	25,564	32,259	39,347	46,893
EPS (Rs)	7.8	7.2	8.3	9.90	(21.3)	24.9	39.4	49.8	60.7	72.3
P/E (x)						147.5	93.3	74.0	60.6	50.9
EV/EBITDA (x)						100.6	68.0	49.6	40.9	34.4
Core RoCE(%)						13.2	17.2	19.1	20.4	21.5

Source: Company, HSIE Research, Standalone Financials

Change in estimates

(Rs mn)	FY23E			FY24E			FY25E		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Revenue	4,18,333	4,18,333	(0.0)	5,28,698	5,25,164	0.7	6,28,852	6,31,774	(0.5)
Gross Profit	60,580	61,542	(1.6)	78,446	78,252	0.2	93,879	94,077	(0.2)
Gross Profit Margin (%)	14.5	14.7	(23 bps)	14.8	14.9	(6 bps)	14.9	14.9	4 bps
EBITDA	34,853	37,404	(6.8)	47,497	47,291	0.4	57,187	57,198	(0.0)
EBITDA margin (%)	8.3	8.9	(61 bps)	9.0	9.0	(2 bps)	9.1	9.1	4 bps
APAT	25,564	26,115	(2.1)	32,259	31,940	1.0	39,347	39,142	0.5
APAT margin (%)	6.1	6.2	(13 bps)	6.1	6.1	2 bps	6.3	6.2	6 bps
EPS (Rs)	39.4	40.3	(2.2)	49.8	49.3	0.9	60.7	60.4	0.4

Source: Company, HSIE Research

SELL

CMP(as on 12 May 23) INR 3,678

Target Price INR 3,070

NIFTY 18,315

KEY CHANGES	OLD	NEW
Rating	SELL	SELL
Price Target	INR 3,000	INR 3,070
EPS %	FY24E	FY25E
	+0.9	+0.4

KEY STOCK DATA

Bloomberg code	DMART IN
No. of Shares (mn)	649
MCap (INR bn) / (\$ mn)	2,387/29,186
6m avg traded value (INR mn)	1,143
52 Week high / low	INR 4,609/3,186

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	5.1	(10.9)	12.4
Relative (%)	2.9	(11.3)	(4.7)

SHAREHOLDING PATTERN (%)

	Dec-22	Mar-23
Promoters	74.99	74.93
FIs & Local MFs	6.4	6.75
FPIs	8.63	8.18
Public & Others	9.98	10.14
Pledged Shares	0	0

Source : BSE

Pledged shares as % of total shares

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Tata Motors

Yet another tall guidance set for FY24

On a consolidated basis, Q4 PAT at INR 53bn beat estimates, largely on account of higher capitalization at JLR and tax write-back of INR 16bn at the standalone entity. Despite management's efforts, JLR's net debt stands reduced by just GBP 200mn in FY23 vs FY22. Going forward, JLR has guided for FCF of >GBP 2bn and a reduction in net debt to GBP1bn in FY24. It is important to highlight that JLR had given a similar 5% margin guidance in FY23, but achieved just under 50% of that. More surprisingly, JLR has refrained from giving any guidance for FY25. Given the geopolitical headwinds and resultant concerns around demand slowdown in its key regions, the current guidance appears highly optimistic to us. Management is also cognizant of demand concerns which can be highlighted by the fact that they expect: (1) demand in H1 to be weak and (2) order book to decline at around 5k per month for H1. In India business, FCF sustenance looks difficult, given: 1) TTMT has lost substantial market share in CVs in FY23 and is likely to focus on recovering lost share soon; (2) demand macro is subdued in PVs and the best model cycle for TTMT is behind; (3) rise in capex. Maintain REDUCE, with a revised TP of INR457/sh (from INR 415) as we roll forward to FY25 EPS.

- **JLR margin beats estimates due to higher capitalisation:** JLR EBITDA margin improved 270bps QoQ to 14.6% and was ahead of our estimate of 13.4%. The margin beat at JLR was primarily driven by a higher capitalisation rate in Q4 (benefit of 80bps QoQ), which rose to 53.4% from 47.5% in Q3 and from 25.8% in Q1. If not for the higher capitalization rate, JLR PBT was lower than our estimate. For FY23, JLR invested GBP2.5bn in capex and delivered FCF of GBP 521 mn (Vs FCF of - GBP 1.1bn).
- **India CV performance impresses:** In Q4, EBITDA margin in CVs improved 170bps QoQ to 10.1% (+320bps YoY for FY23 to 7.4%), led by pick-up in volumes, reduction in discounts and easing of input cost. For Q4, the PV business margin has improved 40bps QoQ (and YoY) to 7.3% (+110bps YoY to 6.4%) on the back of improved operating leverage and better realisations.
- **JLR outlook:** Given the easing of supply constraints, management expects their order book to reduce by 5k units per month for H1 (it has already reduced by 15k QoQ to 200k in Q4). Management has given volume guidance of 400k for FY24, which translates to 24% YoY growth. However, given the current global uncertainty, it expects H1 to be weak and H2 to be much better. Management targets to deliver a 6% EBIT margin, FCF of > GBP 2bn (post capex of GBP 3bn) and reduce net debt to GBP 1bn in FY24.
- **India outlook:** In PVs, it targets to outperform the industry and deliver double-digit EBITDA margin in coming years and sustain positive FCF. In CVs, it expects industry to deliver single-digit volume growth. TTMT would target to focus on "profitable" growth and target double-digit EBITDA margin for FY24. Management has indicated that they would target to deliver positive FCF despite increase in capex (INR80bn from INR60bn YoY).

Quarterly/annual financial summary

YE Mar (INR mn)	Q4 FY23	Q4 FY22	YoY (%)	Q3 FY23	QoQ (%)	FY22	FY23	FY24E	FY25E
Net Sales	10,50,167	7,78,572	34.9	8,77,832	19.6	27,84,536	34,59,670	40,92,745	43,81,971
EBITDA	1,56,079	1,14,796	36.0	1,22,796	27.1	3,40,083	4,24,778	5,29,638	5,63,562
APAT	53,305	(1,642)	NA	20,751	156.9	-1,09,457	7,199	62,926	76,265
EPS (INR)	13.9	-0.4	NA	5.4	156.9	-28.6	1.9	16.4	19.9
P/E (x)						NA	274.4	31.4	25.9
EV / EBITDA (x)						7.9	6.1	5.0	4.7
RoCE (%)						6.6	12.4	15.9	16.6

Source: Company, HSIE Research

REDUCE

CMP (as on 12 May 23)	INR 516
Target Price	INR 457
NIFTY	18,315

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 415	INR 457
EPS %	FY24E	FY25E
	0%	0%

KEY STOCK DATA

Bloomberg code	TTMT IN
No. of Shares (mn)	3,321
MCap (INR bn) / (\$ mn)	1,713/20,942
6m avg traded value (INR mn)	5,756
52 Week high / low	INR 521/366

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	15.7	21.8	38.5
Relative (%)	13.4	21.4	21.3

SHAREHOLDING PATTERN (%)

	Dec-22	Mar-23
Promoters	46.39	46.39
FIs & Local MFs	15.14	17.77
FPIs	13.89	15.01
Public & Others	24.58	20.83
Pledged Shares	0.84	0.84

Source : BSE

Pledged shares as % of total shares

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DLF

Presales momentum to remain strong

DLF recorded its highest-ever annual and quarterly presales of INR 150.6bn (+107% YoY) and INR 84.5bn (+210%/+237% YoY/QoQ) resp., beating its annual guidance of INR 80bn. This was on the back of strong demand for its luxury project—The Arbour (launched and sold out in Q4FY23)—which recorded presales of more than INR 80bn. For FY24, it expects to achieve at least INR 110bn in presales backed by 11.2msf of launches with a sales potential of INR 197bn. Of this, 5msf will be in the Luxury segment with 3.5msf in DLF Phase V and 1.5msf in Chennai. Net debt reduced significantly to INR 7.2bn (vs INR 20.9bn in Q3FY23), on the back of strong residential collection of INR 18bn (+52%/+41% YoY/QoQ) during Q4FY23. It expects to grow residential collection by 20-25% in FY24 (INR 53bn in FY23) with free cash earmarked for growth, dividend payout and debt reduction. Given (1) the strong presales momentum supported by price hikes; (2) robust launch plans; and (3) an expected increase in office occupancy levels, we maintain BUY on DLF, with an increased TP of INR 504/share.

■ **Q4FY23 financial highlights:** Revenue came in at INR 14.5bn (-5.9%/-2.6% YoY/QoQ, a beat of 2.5%). EBITDA was INR 3.9bn (+8.4%/-16.5% YoY/QoQ, a miss of 12.5%, on account of higher-than-expected material cost). EBITDA margin came in at 27.4% (+360/-457 bps YoY/QoQ, vs 32% est.). The share of profits and associates & JVs: INR 2.8bn (+57%/+29% YoY/QoQ). RPAT/APAT was INR 5.7bn (+41%/+10% YoY/QoQ, a beat of 14.7%). DCCDL revenue was INR 14.2bn (+20%/5% YoY/QoQ). EBITDA was INR 10.8bn (+21%/+2% YoY/QoQ) and PAT was at INR 3.9bn (+37%/9% YoY/QoQ).

■ **Highest ever presales:** Presales for Q4FY23 were the highest ever in any quarter at INR 84.5bn (+210%/+237% YoY/QoQ). For FY23, presales were also the highest ever at INR 150.6bn (+107% YoY) vs. the guidance of INR 80bn. 90% of the FY23 presales were from new products. This robust booking during the quarter was on the back of strong demand for its luxury project—The Arbour in Gurugram—which was launched and sold out during the quarter; registering presales of INR 80bn plus. For FY24, management expects to achieve presales of at least INR 110bn on the back of 11.2msf of launches with a sales potential of INR 197bn (10.1msf was launched in FY23 with sales potential of INR 146bn) and INR 74bn of inventory. Within the DCCDL office portfolio, occupancy was flat at 89%. DCCDL portfolio rental in Q4FY23 grew to INR 10.5bn (+21%/+5% YoY/QoQ); for FY23, it was INR 39.6bn (+16% YoY). For FY24, exit rental is expected between INR 48-49bn. SEZs contributed c.30% to the office rentals and less than 20% to the overall rentals. Leasing is healthy in non-SEZ office spaces. Management expects the leasing in SEZs to improve in 3-4 quarters post-implementation of the DESH bill.

■ **Net debt reduced significantly with higher cash collection:** Net debt decreased to INR 7.2bn (vs INR 20.9bn in Q3FY23), on the back of strong residential collection of INR 18bn (+52%/+41% YoY/QoQ) during Q4FY23. Overall cash surplus was strong at INR 13.7bn, which includes INR 4.1bn of dividends from DCCDL. INR80bn). For FY23, the residential collection stood at INR53bn (+19% YoY) and is expected to grow by 20-25% YoY in FY24. Gross debt, however, inched up to INR 38.4bn, from INR 36bn in Q3FY23.

Consolidated financial summary (INR mn)

Particulars	4QFY23	4QFY22	YoY (%)	3QFY23	QoQ (%)	FY22	FY23	FY24E	FY25E
Net Sales	14,561	15,473	(5.9)	14,948	(2.6)	57,174	56,948	68,395	73,267
EBITDA	3,984	3,675	8.4	4,772	(16.5)	17,426	17,259	21,631	23,704
APAT	5,696	4,055	40.5	5,179	10.0	16,664	20,340	22,669	26,143
EPS (INR)	2.3	1.6	40.5	2.1	10.0	6.1	7.7	9.2	10.6
P/E (x)						71.9	56.6	47.6	41.3
EV/EBITDA (x)						63.7	64.3	50.8	45.9
RoE (%)						4.2	5.5	5.9	6.5

Source: Company, HSIE Research

BUY

CMP (as on 12 May 23)	INR 436
Target Price	INR 504
NIFTY	18,315

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 450	INR 504
EPS %	FY24E	FY25E
	-	-

KEY STOCK DATA

Bloomberg code	DLFU IN
No. of Shares (mn)	2,475
MCap (INR bn) / (\$ mn)	1,079/13,195
6m avg traded value (INR mn)	1,590
52 Week high / low	INR 440/295

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	20.6	8.8	35.3
Relative (%)	18.4	8.5	18.1

SHAREHOLDING PATTERN (%)

	Dec-22	Mar-23
Promoters	74.95	74.95
FIs & Local MFs	5.09	5.22
FPIs	14.84	14.66
Public & Others	5.12	5.17
Pledged Shares	-	-

Source: BSE

Pledged shares as % of total shares

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Hindustan Petroleum Corporation

A weak FY23

Our ADD rating on Hindustan Petroleum Corporation (HPCL) with a price target of INR 280 is premised on robust refining and marketing margins, offset by elevated debt, owing to a rise in working capital requirement and capex. Q4FY23 EBITDA came in at INR 48bn, below our estimate, owing to lower-than-expected refining and gross marketing margins, partially offset by higher-than-expected crude and pipeline throughput.

- **Refining:** Crude throughput in Q4 stood at 5mmt, +6% YoY, +3% QoQ, implying an overall refinery capacity utilisation of 113% (up 510bps QoQ). However, gross refining margins (GRMs) came in below our estimate at USD 14/bbl vs USD 12.4/bbl YoY, USD 9.14/bbl QoQ. We expect refining margins to remain robust, given the improved demand environment, lower global inventories and tight supply due to the Russian embargo. Thus, we estimate standalone GRMs at USD 9.5/10 per bbl for FY24/25E.
- **Marketing:** Domestic marketing sales volume was 10.9mmt (+6% YoY, -0.3% QoQ), marginally below our estimate. The blended gross marketing margin for the quarter stood at INR 5.1/lit, likely supported by higher margins for petrol and other products and recovery in marketing margins on diesel as crude oil prices moderated. Therefore, we estimate a blended gross margin of INR 3.15/3.15 per lit over FY24/25E.
- **Key highlights:** HPCL's gross debt in Q4 rose to INR 645bn (+49% YoY, +0.4% QoQ), owing to higher working capital requirements and capex. The Board has approved the incorporation of Wholly Owned Subsidiary for the consolidation of all green and emerging business opportunities under one umbrella. The Board also gave in-principle approval for exploring options including carving out its lubricant business to unlock value.
- **Change in estimates:** We revise upwards our FY24/25 EPS estimate by 7.4/6.4% to INR 44.7/57.3 to factor in higher marketing margins, partially offset by higher other expenses and depreciation and lower other income, delivering a revised target price of INR 280/sh.
- **Our SOTP target price, at INR 280, is based on 5x Mar-24E EV/e for standalone refining, 6x Mar-24E EV/e for marketing business and pipeline business respectively, and INR 171/sh for other investments. The stock is currently trading at 5.8x on FY24E EPS.**

Standalone financial summary

YE March (INR bn)	Q4 FY23	Q3 FY23	QoQ (%)	Q4 FY22	YoY (%)	FY21*	FY22*	FY23P*	FY24E*	FY25E*
Revenue	1,079	1,096	(1.5)	976	10.6	2,332	3,499	4,407	4,406	4,527
EBITDA	48	17	187.1	21	128.7	160	102	(72)	129	156
APAT	32	2	NA	18	79.5	107	73	(70)	63	81
AEPS (INR)	22.7	1.2	NA	12.7	79.5	75.1	51.4	(49.2)	44.7	57.3
P/E (x)						3.5	5.1	NA	5.8	4.6
EV / EBITDA (x)						4.6	7.5	NA	7.0	5.7
RoE (%)						30.9	18.4	NA	18.4	20.7

Source: Company, HSIE Research | *Consolidated

Change in estimates (consolidated)

	FY24E			FY25E		
	Old	New	Ch%	Old	New	Ch%
EBITDA (INR bn)	114.8	129.1	12.5	144.4	155.6	7.8
AEPS (INR/sh)	41.6	44.7	7.4	53.8	57.3	6.4

Source: Company, HSIE Research

ADD

CMP (as on 12 May 23)	INR 261
Target Price	INR 280
NIFTY	18,315

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 260	INR 280
EPS change	FY23E +7.4%	FY24E +6.4%

KEY STOCK DATA

Bloomberg code	HPCL IN
No. of Shares (mn)	1,419
MCap (INR bn) / (\$ mn)	370/4,523
6m avg traded value (INR mn)	929
52 Week high / low	INR 267/200

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	12.0	25.5	(0.7)
Relative (%)	9.8	25.2	(17.9)

SHAREHOLDING PATTERN (%)

	Dec-22	Mar-23
Promoters	54.90	54.90
FIs & Local MFs	19.62	21.41
FPIs	15.65	14.36
Public & Others	9.82	9.33
Pledged Shares	0.0	0.0

Source : BSE

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Navin Fluorine International

Blockbuster performance

We retain a BUY on Navin Fluorine International Ltd (NFIL), with a target price of INR 5,520 on the back of (1) earnings visibility, given long-term contracts; (2) tilt in sales mix towards high-margin high-value business; (3) capacity expansion led growth; and (4) strong R&D infrastructure. EBITDA/APAT were 7/3% above our estimates, owing to a 9% rise in revenue and lower-than-anticipated depreciation, offset by higher-than-expected interest and tax outgo.

- **Financial Q4 performance:** Revenue grew 24/71% QoQ/YoY to INR 6,971mn, the highest ever in a quarter, on account of robust growth in all the businesses. EBITDA came in at INR 2,018mn (+30/+114% QoQ/YoY), with EBITDA margin increasing to ~29% (+134/+589bps QoQ/ YoY), owing to a better product mix and higher operating leverage.
- **Segmental Q4 performance:** Speciality chemicals BU (29% of revenue mix) grew 10% QoQ to INR 2bn, owing to new product introductions. The agrochemical intermediate plant has achieved optimal capacity utilisation. NFIL is increasing the agrochemical end-user industry's share in its revenue. NFIL launched two new molecules in its MPP in Q4 and plans to launch 1 new molecule in FY24. HPP BU (42% of revenue mix) grew 14% QoQ to INR 3bn, owing to increased volumes from new products and better price realisation. NFIL expects commercialisation of the R32 project at Surat in Q2FY24. NFIL announced an INR 4.5bn Capex to set up a 40kTPA HF plant in Dahej, which shall be commissioned in two years. The Contract Development and Manufacturing Organisation (CDMO) BU (29% of revenue mix) grew 62% QoQ to INR 2bn. The c-GMP-3 plant has been commissioned post-debottlenecking, and the company is planning on establishing a c-GMP-4 plant, owing to the strong traction in this business. Opportunities in the non-fluorination space are also increasing in the CDMO BU.
- **Change in estimates:** We cut our FY24/25 EPS estimates by 3.3/2.8% to INR 107.0/156.1 to factor in the change in depreciation owing to a change in the useful life of assets and increased Capex of INR 4.5bn, and increased finance cost.
- **DCF-based valuation:** Our target price is INR 5,520 (WACC 11%, terminal growth 5.5%). The stock is trading at 31x FY25E EPS.

Financial summary (consolidated)

INR mn	Q4 FY23	Q3 FY23	QoQ (%)	Q4 FY22	YoY (%)	FY21	FY22	FY23P	FY24E	FY25E
Net Sales	6,971	5,636	23.7	4,089	70.5	11,794	14,534	20,774	27,666	35,406
EBITDA	2,018	1,556	29.7	943	114.1	3,093	3,548	5,503	8,272	11,691
APAT	1,364	1,066	28.0	752	81.4	2,216	2,606	3,752	5,298	7,731
AEPS (INR)	27.5	21.5	28.0	15.2	81.4	44.7	52.6	75.8	107.0	156.1
P/E (x)						106.6	90.7	63.0	44.6	30.6
EV/EBITDA(x)						74.4	66.3	44.4	30.1	21.4
RoE (%)						14.6	15.0	18.6	22.2	26.9

Source: Company, HSIE Research

Change in estimates (consolidated)

Y/E Mar	FY24E Old	FY24E New	% Ch	FY25E Old	FY25E New	% Ch
EBITDA (INR mn)	8,242	8,272	0.4	11,639	11,691	0.4
Adj. EPS (INR/sh)	110.6	107.0	(3.3)	160.6	156.1	(2.8)

Source: Company, HSIE Research

BUY

CMP (as on 12 May 23)	INR 4,748
Target Price	INR 5,520
NIFTY	18,315

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 5,471	INR 5,520
EPS %	FY24E -3.3%	FY25E -2.8%

KEY STOCK DATA

Bloomberg code	NFIL IN
No. of Shares (mn)	50
MCap (INR bn) / (\$ mn)	235/2,878
6m avg traded value (INR mn)	608
52 Week high / low	INR 4,900/3,433

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	9.2	6.5	22.1
Relative (%)	7.0	6.1	4.9

SHAREHOLDING PATTERN (%)

	Dec-22	Mar-23
Promoters	29.40	28.81
FIs & Local MFs	23.78	24.84
FPIs	19.19	19.58
Public & Others	27.63	26.77
Pledged Shares	3.09	3.15

Source : BSE

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Relaxo Footwears

Covers lost ground; worst of margin pangs behind

Relaxo had lost share in 9MFY23 to unorganized players as rampant inflation rendered it less competitive in the market. Q4 marked a comeback. Management's strategy of slashing prices (15-20%) mid-year seems to have done the trick for demand revival. Revenue grew 9.6% YoY to INR7.65bn in Q4 (four-year CAGR: 5%; HSIE: INR6.7bn). Volume/net realisation growth stood at +23.8/-11.5% respectively—a function of (1) higher skew of open footwear in the mix and (2) regaining competitive positioning in the market. Profitability improved QoQ as RM prices stabilized and new low-cost inventory hit the marketplace (EBITDAM up 481bps QoQ to 15.4%; HSIE: 13.8%). We largely maintain our FY24/25 EPS estimates and SELL rating with a DCF-based TP of INR725/sh, implying 46x Jun-25E P/E.

- Q4FY23 highlights:** Revenue grew 9.6% YoY to INR7.65bn in Q4FY23 (four-year CAGR: 5%; HSIE: INR6.7bn). Volume/net realization growth stood at +23.8/-11.5% respectively—a function of (1) higher skew of open footwear in the mix and (2) regaining competitive positioning in the market courtesy the mid-year price correction undertaken. Online/retail channels contributed 8/11% to sales in FY23. Sparx—Relaxo's premium offering—continues to outdo portfolio growth (up 13%; now INR11bn+ in revenue). While GM expanded 112bps YoY to 42.4%, led by new low-cost inventory hitting the market, there was still some old high-cost inventory, which was liquidated in Q4. EBITDAM expanded by 481bps QoQ to 15.4% (HSIE: 13.8%). Management highlighted that it expects RM prices to remain benign and, for FY24, has guided for (1) double-digit volume/value growth and (2) lower capital intensity. Absolute capacity stood at 1mn pairs/day with 55% utilization in FY23. Capacity remains adequate to serve the demand for the next two years. EBITDA/APAT grew 6/0.6% YoY to INR1.18bn/0.63bn (HSIE: 0.92bn/0.5bn).
- Outlook:** Relaxo remains a strong category leader; well-poised to gain market share within an immature ecosystem. While the worst of margin pangs seem behind, a profitability comeback is already priced in at 56x Jun-25 P/E. Hence, we maintain our SELL rating on the stock with a DCF-based TP of INR725/sh, implying 46x Jun-25E P/E.

Quarterly financial summary

(Rs mn)	4QFY23	4QFY22	YoY (%)	3QFY23	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Net Revenue	7,649	6,982	9.6	6,810	12.3	26,533	27,828	32,493	36,955	41,655
EBITDA	1,180	1,111	6.2	723	63.3	3,638	2,840	4,855	5,895	6,807
APAT	633	629	0.6	301	110.3	2,327	1,577	3,020	3,797	4,460
EPS (Rs)	3	2.5	0.6	1	110.3	9.3	6.3	12.1	15.3	17.9
P/E (x)						87.1	128.5	67.1	53.4	45.4
EV/EBITDA (x)						55.3	70.4	40.8	33.4	28.7
Core RoCE(%)						14.1	8.5	16.0	19.0	20.8

Source: Company, HSIE Research, Standalone Financials

Change in estimates

(Rs mn)	FY23			FY24E			FY25E		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Revenue	27,828	26,827	3.7	32,493	31,790	2.2	36,955	36,010	2.6
Gross Profit	12,114	11,851	2.2	14,958	14,616	2.3	17,233	16,736	3.0
Gross Profit Margin(%)	43.5	44.2	(64.3)	46.0	46.0	5.7	46.6	46.5	15.7
EBITDA	2,840	2,594	9.5	4,855	4,790	1.3	5,895	5,765	2.3
EBITDA margin (%)	10.2	9.7	53.8	14.9	15.1	(12.8)	16.0	16.0	(5.8)
APAT	1,577	1,395	13.1	3,020	3,042	(0.7)	3,797	3,754	1.1
APAT margin (%)	5.7	5.2	46.9	9.3	9.6	(27.4)	10.3	10.4	(15.1)
EPS (Rs)	6.3	5.6	12.9	12.1	12.2	(0.9)	15.3	15.1	1.0

Source: HSIE Research

SELL

CMP (as on 12 May 23) INR 892

Target Price INR 725

NIFTY 18,315

KEY CHANGES	OLD	NEW
Rating	SELL	SELL
Price Target	INR 700	INR 725
	FY24E	FY25E
EPS %	-0.9	+1.0

KEY STOCK DATA

Bloomberg code	RLXF IN
No. of Shares (mn)	249
MCap (INR bn) / (\$ mn)	222/2,714
6m avg traded value (INR mn)	117
52 Week high / low	INR 1,107/748

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	13.1	(3.5)	(12.5)
Relative (%)	10.9	(3.9)	(29.7)

SHAREHOLDING PATTERN (%)

	Dec-22	Jun-23
Promoters	71.02	71.25
FIs & Local MFs	7.45	7.92
FPIs	2.99	2.82
Public & Others	18.54	18.01
Pledged Shares	0	0

Source : BSE

Pledged shares as % of total shares

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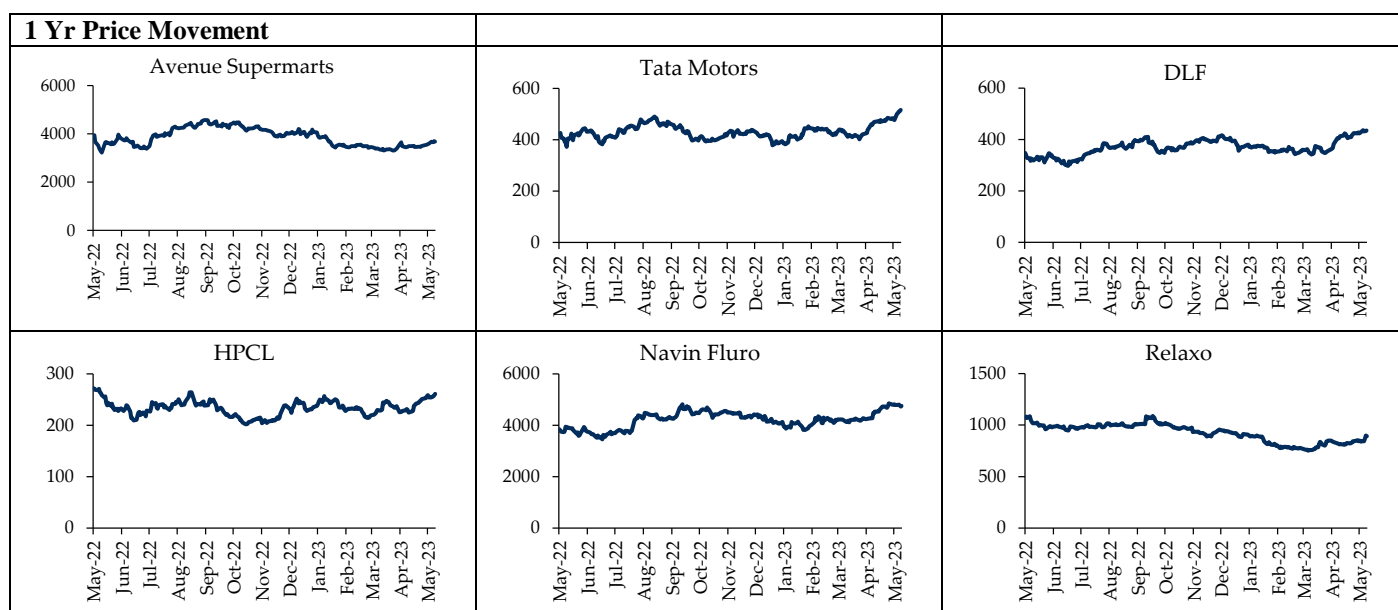
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Rating Criteria

BUY: >+15% return potential
 ADD: +5% to +15% return potential
 REDUCE: -10% to +5% return potential
 SELL: > 10% Downside return potential

Disclosure:

Analyst	Company Covered	Qualification	Any holding in the stock
Jay Gandhi	Avenue Supermarts, Relaxo Footwears	MBA	NO
Riddhi Shah	Avenue Supermarts, Relaxo Footwears	MBA	NO
Aniket Mhatre	Tata Motors	MBA	NO
Sonaal Sharma	Tata Motors	MBA	NO
Parikshit Kandpal	DLF	CFA	NO
Manoj Rawat	DLF	MBA	NO
Nikhil Kanodia	DLF	MBA	NO
Harshad Katkar	Hindustan Petroleum Corporation, Navin Fluorine International	MBA	NO
Nilesh Ghuge	Hindustan Petroleum Corporation, Navin Fluorine International	MMS	NO
Akshay Mane	Hindustan Petroleum Corporation, Navin Fluorine International	PGDM	NO
Rutvi Chokshi	Hindustan Petroleum Corporation, Navin Fluorine International	CA	NO



Disclosure:

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