INSTITUTIONAL RESEARCH

HSIE Results Daily

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Results Reviews

- **Hindustan Unilever:** HUL reported 2% UVG with flat value growth as pricing remained negative (passing on softening RM benefits to consumers). Mirroring trends of previous quarters, demand recovery remains gradual with the urban market leading growth with premium portfolio sustaining outperformance over the mass portfolio. Given the benign input cost environment, local competitive intensity remains high. While price growth is likely to be low-single-digit negative, HUL is focused on driving competitive volume growth, led by a focus on (1) growing the core through brand superiority; (2) market-making and premiumization; (3) reshaping portfolio in high growth spaces; and (4) leadership in channels of the future. HUL will continue to reinvest the benefits of GM expansion (320bps YoY in Q4) by stepping up brand investments and long-term strategic priorities, which may limit EBITDAM expansion in the short-medium term. We model only a gradual recovery in demand and moderate EBITDAM expansion leading to a 3% cut in our FY25-26 EPS estimates. We value the stock at 47x P/E on Mar-26E EPS to derive a TP of INR 2,500. Maintain REDUCE.
- **Axis Bank:** Axis Bank (AXSB) beat estimates, on account of moderate NIM reflation (+5bps QoQ) and treasury gains, offset by modest growth on both sides of the balance sheet. Deposit growth (~13% YoY; +6% QoQ) benefitted from accelerated TD mobilisation and enhanced CASA mix at 43% (+85bps QoQ). As outlined in our previous update, AXSB has been incrementally leaning towards improving the quality of deposits in recent times (outflow run rate improved 500bps over the past 2 years). The C/D ratio stayed elevated at 90.3% (9MFY24: 92.8%) despite modest sequential loan growth. We believe that AXSB has significant ground to cover in terms of overcoming the deposit handicap and exercising greater pricing power on the asset side compared to its peers. We marginally tweak our FY25E/FY26E forecasts by 2-5%, driven by a marginal increase in loan growth forecasts; maintain ADD with a TP of INR1,190 (standalone bank at 1.7x Mar-26 ABVPS) (earlier TP INR1,170).
- **Indian Hotels:** IHCL's Q4FY24 financials were in line with revenue growth of 17% YoY to INR19.1bn, led by an increased occupancy (75%, +400 bps YoY) and ARR (+7% YoY), resulting in healthy RevPAR growth (+13% YoY) at domestic enterprise level. The increase in ARR/RevPAR was driven by the prevailing favourable demand-supply gap, corporate travels and staycations. Currently, IHCL has 218 operational and 92 pipeline hotels to capitalize on the industry tailwinds. This portfolio is expected to have 72% rooms under the asset-light model. IHCL launched its new brand "gateway", specifically designed for tier-2 & 3 cities. Under phase 1, a total of fifteen gateway hotels will be launched by FY28 from a total pool of 100 planned hotels. We expect RevPAR to experience a low-teens CAGR over the next two years, preceding any potential supply glut. Post robust growth in FY24, we estimate a normalized revenue growth in FY25. We maintain our REDUCE rating with an EV/EBITDA multiple of 24x FY26E and revise TP to INR510.

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- **Tata Elxsi:** Tata Elxsi (TELX) posted a soft quarter with a ramp-down in a Media & Communication client and a delayed program ramp-up in the Transportation vertical. TELX's growth has normalized, impacted by market-share loss in the transportation vertical (50% of its revenue) on account of a higher mix of Tier-1s vs. OEMs, increased captive intensity, business mix challenges in the Healthcare vertical and macro factors impacting media & telco enterprise client spend. The company has integrated the sales/front end of the erstwhile EPD and IDV business to drive larger annuity programs. TELX's ER&D credentials/niche remain favourable, but the hyper-accelerated growth trajectory (both revenue/margin) is very clearly behind – valuations remain high. We factor 15% EPS CAGR over FY24-26E following mid-single-digit EPS growth in FY24 after doubling of earnings over FY21-23. Maintain SELL on TELX based on 38x FY26E EPS - TELX trades at 54x and 44x FY25/26E.

- **AU Small Finance Bank:** AUBANK missed estimates, even as credit costs stayed elevated (FY24: 72bps), largely from a normalising credit card portfolio, and one-off merger-related stamp duty expenses. Loan growth was healthy (+25% YoY) on the back of a pick-up in growth in the Wheels and SBL segments. Deposit growth (+25% YoY) mirrored loan growth, with the CASA ratio improving to 33.4% (+40 bps QoQ), and the mix of CASA + Retail TD at 64%, as incremental funding costs rose 8bps QoQ (Q3FY24: +20bps). Margins at 5.1% declined QoQ on the back of a largely secure portfolio and a normalising unsecured book. We adjust our FY25E/FY26E estimates to factor in the post-merger impact of higher credit costs and elevated opex, offset by higher margins and other income; maintain REDUCE, with a revised TP of INR590 (2.3x Mar-26 ABVPS).

- **Multi Commodity Exchange:** MCX reported a weak quarter (5% QoQ revenue decline) due to a drop in futures volume and weak premium collection. The cost structure normalised and profitability improved but the EBITDA/PAT were lower than estimated because of revenue miss. The software support charges consist of CDP cost, product license fees paid to CME, and software licenses. The options volume is dominated by crude oil and natural gas; further volume growth is expected to be boosted by the introduction of monthly series contracts (slated for launch in 3-4 months) and the recent launch of mini cash-settled contracts on April 24th. FPI participation (approved) and the launch of index options (cash-settled contract) will boost volumes. The launch of index options will take at least 6-8 months and final regulatory approval is pending. The premium to notional ratio will decline with shorter duration contracts, index options and higher volatility but the rise in volume will offset the impact of lower realisation. We expect options notional/premium CAGR of +54/45% over FY24-26E. We remain constructive on the options growth story, supported by increasing active traders, a new tech platform, shorter-duration options, and regulatory tailwinds. We reduce our revenue/EPS estimate by ~1/4% for FY26E to adjust for lower premiums offset by a recovery in future volume. We maintain our BUY rating with a target price of INR 4,200, based on a P/E of 35x FY25E core PAT + net cash ex SGF.

- **DCB Bank:** DCB Bank's (DCBB) earnings beat estimates on the back of lower credit costs and margin reflation, led by healthy loan (+18% YoY) and deposit growth (+19% YoY). Gross slippages improved to 3.4%, resulting in better asset quality. CASA ratio remained flat at 26% with the incremental cost of deposits inching up to 7.1% (+13bps QoQ). Margin reflation was driven by better yields (+27bps QoQ), benefitting from better investment yields, stronger recoveries, and a higher mix of LAP. DCBB continues to invest in franchise-building activities to double its balance sheet over the next 3-4 years. We believe that DCBB's road to a 1% RoA is contingent on the bank's ability to maintain NIMs in the current range of 3.6-3.7%, while at the same time striving to improve its asset quality. We tweak our FY25E/FY26E earnings to build in moderate operating leverage and maintain ADD with a revised TP of INR165 (0.9x Mar-26 ABVPS).

Hindustan Unilever

Demand recovery to be gradual

HUL reported 2% UVG with flat value growth as pricing remained negative (passing on softening RM benefits to consumers). Mirroring trends of previous quarters, demand recovery remains gradual with the urban market leading growth with premium portfolio sustaining outperformance over the mass portfolio. Given the benign input cost environment, local competitive intensity remains high. While price growth is likely to be low-single-digit negative, HUL is focused on driving competitive volume growth, led by a focus on (1) growing the core through brand superiority; (2) market-making and premiumization; (3) reshaping portfolio in high growth spaces; and (4) leadership in channels of the future. HUL will continue to reinvest the benefits of GM expansion (320bps YoY in Q4) by stepping up brand investments and long-term strategic priorities, which may limit EBITDAM expansion in the short-medium term. We model only a gradual recovery in demand and moderate EBITDAM expansion leading to a 3% cut in our FY25-26 EPS estimates. We value the stock at 47x P/E on Mar-26E EPS to derive a TP of INR 2,500. Maintain REDUCE.

- **Volumes continue to see gradual recovery:** Revenue was flat YoY (in line with HSIE), with home care/BPC/F&R growing by +1/-2/+4% YoY. Domestic volume grew by 2% (in-line; 5-year CAGR at 3%). In-home care, fabric wash and household grew in the mid-single digits, driven by a premium portfolio. In BPC (flat volume growth), Hair care saw HSD volume growth, led by innovations and future formats while oral care grew in double digits, driven by pricing. In Skincare, the mass portfolio declined on account of muted demand while the premium portfolio continued its double-digit growth trajectory. Skin cleansing volumes declined due to price cuts coupled with a volume drop in the mass portfolio. In F&R, beverages had a muted performance as tea continues to see down trading from 'premium' to 'loose' due to high inflation. Coffee grew in double digits, led by pricing. HFD delivered HSD, driven by the Plus range. The Foods and Ice Cream portfolio continues to gain traction, led by innovation. We model mid-single-digit volume growth in FY25/FY26.
- **GM improvement sustains; EBITDAM stable:** With softening commodity inflation and improving the mix, GM expanded by 320bps YoY to 52%. Employee costs grew 13% while A&P was up by 23% YoY. Other expenses were higher by 6%. EBITDAM declined by 20bps at 23.1% (HSIE: 23.3%) with GM gains more than offset by (1) higher A&P spends; (2) capability building; (3) increase in royalty; and (4) termination of GSK consignment selling. We model a 23.8-24% EBITDA margin during FY25/26.
- **Con call takeaways:** (1) 75% of the portfolio witnessing volume growth. ~50% of the portfolio is growing in mid-to-high single digits. (2) There is a visible shift towards liquids across categories (HUL liquid portfolio: INR 35bn). (3) Taking actions to improve performance in skin cleansing. Will start yielding results in 2-3 quarters. (4) Channel mix- GT: 70%; 20% MT; E-com 7%. (5) Announced final dividend of INR 24/ share. Total dividend for the year at INR 42/share.

Quarterly/annual financial summary

(INR mn)	Q4 FY24	Q4 FY23	YoY (%)	Q3 FY24	QoQ (%)	FY22	FY23	FY24	FY25E	FY26E
Net Sales	1,48,570	1,48,930	(0.2)	1,51,880	(2.2)	5,24,460	6,05,800	6,18,960	6,59,191	7,21,078
EBITDA	34,350	34,710	(1.0)	35,400	(3.0)	1,28,570	1,41,490	1,46,630	1,56,833	1,73,141
APAT	23,960	24,710	(3.0)	25,410	(5.7)	87,240	97,200	1,01,050	1,10,916	1,22,668
EPS (INR)	10.2	10.5	(3.0)	10.8	(5.7)	37.1	41.4	43.0	47.2	52.2
P/E (x)						59.1	53.1	51.0	46.5	42.0
EV / EBITDA (x)						39.5	35.9	34.3	32.2	29.0
Core RoCE (%)						16.6	18.0	17.7	18.4	19.8

Source: Company, HSIE Research

REDUCE

CMP *(as on 24 Apr 2024)*	INR 2,260
Target Price	INR 2,500
NIFTY	22,402

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 2,550	INR 2,500
EPS %	FY25E	FY26E
	-3%	-3%

KEY STOCK DATA	
Bloomberg code	HUVR IN
No. of Shares (mn)	2,350
MCap (INR bn) / ($ mn)	5,311/63,755
6m avg traded value (INR mn)	4,495
52 Week high / low	INR 2,770/2,170

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	(7.4)	(9.0)	(9.6)
Relative (%)	(11.4)	(23.4)	(32.6)

SHAREHOLDING PATTERN (%)	Dec-23	Mar-24
Promoters	61.90	61.90
FIs & Local MFs	12.38	13.27
FPIs	13.65	12.67
Public & Others	12.07	12.16
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Axis Bank

Deposit handicap poses growth constraint

Axis Bank (AXSB) beat estimates, on account of moderate NIM reflation (+5bps QoQ) and treasury gains, offset by modest growth on both sides of the balance sheet. Deposit growth (~13% YoY; +6% QoQ) benefitted from accelerated TD mobilisation and enhanced CASA mix at 43% (+85bps QoQ). As outlined in our previous update, AXSB has been incrementally leaning towards improving the quality of deposits in recent times (outflow run rate improved 500bps over the past 2 years). The C/D ratio stayed elevated at 90.3% (9MFY24: 92.8%) despite modest sequential loan growth. We believe that AXSB has significant ground to cover in terms of overcoming the deposit handicap and exercising greater pricing power on the asset side compared to its peers. We marginally tweak our FY25E/FY26E forecasts by 2-5%, driven by a marginal increase in loan growth forecasts; maintain ADD with a TP of INR1,190 (standalone bank at 1.7x Mar-26 ABVPS) (earlier TP INR1,170).

- **Sluggish loan growth drives flat NIMs:** AXSB reported modest NII growth (~11% YoY), as NIMs reflated to 4.06% (+5 bps QoQ) on the back of higher retail mix and negligible repricing of deposits (12bps QoQ). Although the loan-to-deposit ratio (LDR) moderated to 90% on the back of modest loan growth (+3.5% QoQ), the elevated LDR remains a key monitorable.
- **Steady improvement in asset quality:** Gross slippages clocked in at ~1.5%, largely from the retail portfolio, partly offset by healthy recoveries, resulting in sequential improvement in GNPAs to ~1.4%. The sub-investment grade and the restructured book were stable at 0.5% and 0.2% respectively, even as the bank continued to hold surplus provisions (~1.2% of loans).
- **Incremental deposit cost and elevated opex to limit RoAs:** AXSB continues to guide for sustained investments in people, tech, and distribution, likely to result in continued elevated opex intensity (opex-to-assets at 2.7%). Given that the lion's share of the bank's deposit mobilisation during FY24 was driven by non-retail term deposits, incremental repricing poses a non-linear risk to earnings, which is likely to keep RoAs under check.

Financial summary

(INR bn)	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	FY24	FY25E	FY26E
NII	130.9	117.4	*11.5%*	125.3	*4.4%*	498.9	547.1	623.9
PPOP	105.4	91.7	*14.9%*	91.4	*15.3%*	371.2	414.4	495.8
PAT	71.3	(57.3)	*NM*	60.7	*17.4%*	248.6	262.8	310.7
EPS (INR)	23.0	(18.6)	*NM*	19.7	*16.6%*	80.5	85.2	100.6
ROAE (%)						18.0	16.0	16.1
ROAA (%)						1.8	1.7	1.7
ABVPS (INR)						470.4	551.7	649.3
P/ABV (x)						2.3	1.9	1.6
P/E (x)						13.2	12.5	10.6

Source: Company, HSIE Research

Change in estimates

(INR bn)	FY25E			FY26E		
	Old	New	Δ	Old	New	Δ
Net advances	10,800	11,034	2.2%	12,381	12,655	2.2%
NIM (%)	3.87	3.84	-2 bps	3.81	3.83	2 bps
NII	536.0	547.1	2.1%	602.5	623.9	3.6%
PPOP	404.6	414.4	2.4%	475.6	495.8	4.3%
PAT	256.7	262.8	2.4%	302.2	310.7	2.8%
Adj. BVPS (INR)	523.6	551.7	5.4%	612.1	649.3	6.1%

Source: Company, HSIE Research

ADD

CMP *(as on 24 Apr 2024)*	INR 1,063
Target Price	INR 1,190
NIFTY	22,402

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR1,170	INR1,190
	FY25E	FY26E
EPS %	2.4%	2.8%

KEY STOCK DATA	
Bloomberg code	AXSB IN
No. of Shares (mn)	3,087
MCap (INR bn) / ($ mn)	3,282/39,403
6m avg traded value (INR mn)	10,776
52 Week high / low	INR 1,152/854

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	0.4	10.3	20.5
Relative (%)	(3.5)	(4.1)	(2.5)

SHAREHOLDING PATTERN (%)	Dec-23	Mar-24
Promoters	8.2	8.2
FIs & Local MFs	28.8	30.1
FPIs	54.7	53.8
Public & Others	8.3	7.8
Pledged Shares	0	0

Source : BSE

Pledged shares as % of total shares

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Indian Hotels

Growth expected to normalise due to a high base

IHCL's Q4FY24 financials were in line with revenue growth of 17% YoY to INR19.1bn, led by an increased occupancy (75%, +400 bps YoY) and ARR (+7% YoY), resulting in healthy RevPAR growth (+13% YoY) at domestic enterprise level. The increase in ARR/RevPAR was driven by the prevailing favourable demand-supply gap, corporate travels and staycations. Currently, IHCL has 218 operational and 92 pipeline hotels to capitalize on the industry tailwinds. This portfolio is expected to have 72% rooms under the asset-light model. IHCL launched its new brand "gateway", specifically designed for tier-2 & 3 cities. Under phase 1, a total of fifteen gateway hotels will be launched by FY28 from a total pool of 100 planned hotels. We expect RevPAR to experience a low-teens CAGR over the next two years, preceding any potential supply glut. Post robust growth in FY24, we estimate a normalized revenue growth in FY25. We maintain our REDUCE rating with an EV/EBITDA multiple of 24x FY26E and revise TP to INR510.

- **Q4FY24/FY24 highlights:** In Q4FY24, revenue grew 17% YoY to INR19.1bn, in line with consensus. EBITDA grew strongly to INR 6.6bn (+23% YoY, -10% QoQ). This was led by enterprise occupancy levels of 75% (+400 bps YoY) and increased ARR at INR 12,582 (+7% YoY). This helped the domestic enterprise RevPAR to register a healthy 13% YoY growth to reach INR 9,431 in the quarter. RM and employee costs grew slower than revenue, enabling operating leverage to play out, which resulted in adj PAT growth of 27% to INR 4.2 bn. In FY24, IHCL reported a robust 16.5% YoY growth in revenue and 26% YoY growth in PAT on the back of 72% occupancy and 10% ARR growth, resulting in a strong RevPAR growth of 15%.
- **Group update (FY24)**: New business vertical contributed revenue of INR 15.9bn (+35% YoY). Ginger recorded revenue of INR 4.86 bn (+34% YoY) with a 41% EBITDA margin. Tajsats reported record revenue of INR 9.0 bn (+40% YoY) with a 25.5% EBITDA margin. Qmin crossed annual revenue of INR 1.0 bn(+73% YoY) as 35 Qmin outlets were included in Ginger hotels. ama clocked a revenue of INR 0.35bn as it achieved a portfolio of 200 bungalows.
- **Outlook:** IHCL signed 53 new hotels and opened 34 new hotels in FY24. The company is capitalizing on the industry tailwinds by planning to add 12,953 rooms across 92 hotels (+54% from the FY24 inventory level of 24,136 across 218 hotels) from FY25 to FY28. We remain positive about the low teen revenue growth outlook of the company but due to a sharp run-up in the stock price, we maintain our REDUCE rating with an **EV/EBITDA multiple of 24x FY26E and revise TP to INR 510.**

Financial Summary

(INR mn, Mar YE)	4Q FY24	4Q FY23	*YoY (%)*	3Q FY24	*QoQ (%)*	FY23	FY24	FY25E	FY26E
Net Revenues	19,053	16,254	*17%*	19,638	*-3%*	58,099	67,688	77,123	85,594
EBITDA	6,598	5,355	*23%*	7,324	*-10%*	18,046	21,571	26,055	29,078
APAT	4,178	3,283	*27%*	4,520	*-8%*	10,003	12,591	16,154	18,901
Diluted Consol EPS (INR)	2.93	2.31	*27%*	3.2	*-8%*	7.0	8.9	11.4	13.3
P/E (x)						86.3	68.6	53.5	45.7
EV/EBITDA						49.0	41.0	33.9	30.4
RoE (%)						13.3	14.5	16.0	16.6

Source: Company, HSIE Research

REDUCE

CMP *(as on 24 Apr 2024)*	**INR 608**
Target Price	**INR 510**
NIFTY	**22,402**

KEY CHANGES	**OLD**	**NEW**
Rating	REDUCE	REDUCE
Price Target	INR 456	INR 510
EPS Change %	FY25E	FY26E
	+8%	+8%

KEY STOCK DATA

Bloomberg code	IH IN
No. of Shares (mn)	1,423
MCap (INR bn) / ($ mn)	865/10,390
6m avg traded value (INR mn)	1,719
52 Week high / low	INR 623/331

STOCK PERFORMANCE (%)

	3M	**6M**	**12M**
Absolute (%)	26.6	53.6	79.4
Relative (%)	22.6	39.2	56.4

SHAREHOLDING PATTERN (%)

	Dec-23	**Mar-24**
Promoters	38.2	38.1
FIs & Local MFs	22.2	20.7
FPIs	23.3	24.5
Public & Others	16.4	16.8
Pledged Shares	-	-

Source : BSE

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Tata Elxsi

High quality, low growth, high valuation

Tata Elxsi (TELX) posted a soft quarter with a ramp-down in a Media & Communication client and a delayed program ramp-up in the Transportation vertical. TELX's growth has normalized, impacted by market-share loss in the transportation vertical (50% of its revenue) on account of a higher mix of Tier-1s vs. OEMs, increased captive intensity, business mix challenges in the Healthcare vertical and macro factors impacting media & telco enterprise client spend. The company has integrated the sales/front end of the erstwhile EPD and IDV business to drive larger annuity programs. TELX's ER&D credentials/niche remain favourable, but the hyper-accelerated growth trajectory (both revenue/margin) is very clearly behind – valuations remain high. We factor 15% EPS CAGR over FY24-26E following mid-single-digit EPS growth in FY24 after doubling of earnings over FY21-23. Maintain SELL on TELX based on 38x FY26E EPS - TELX trades at 54x and 44x FY25/26E.

- **Weak revenue on drop in Media & Communication vertical:** Tata Elxsi's Q4 revenue print was weak at USD 109mn, -0.6% QoQ CC and 7.2% YoY CC (USD 111mn HSIE est.) and FY24 revenue growth stood at 9.9% at USD 429mn. Revenue in Q4 was impacted by a decline in the Media & Comms vertical which dropped sequentially on a ramp-down of a non-T10 customer (-3% QoQ impact). T5 and T10 (56% of revenue) accounts posted strong increases at 4.5% QoQ and 5.4% QoQ and client concentration has gone back up over the last two years following reduction until FY22. Within geography, the decline in US geo is in sync with the decline in the Media & Communication vertical, while growth was strong in India/RoW.
- **Growth dichotomy within Transportation vertical:** TELX's transportation vertical posted +1.2% QoQ, impacted by a delay in the ramp-up of a large program (expected to ramp-up from end-Q1FY25E). The transportation vertical (51% of revenue) at USD 200mn+ revenue grew at 20% in FY24 – while the OEM segment within the vertical posted a robust growth of 40%, the tier-1 segment declined. TELX has historically been over-indexed in the tier-1 customer segment which has now tilted towards OEMs (including the T1 Transportation customer) and adjacencies such as off-highway & rail – the faster-growing segment as OEMs are increasing spending in areas of software-defined vehicles. Tata Elxsi is currently in SDV programs with five global OEMs. We've factored 15.5% and 16.8% growth for the Transportation vertical over FY25/26E.
- **Muted performance in Media & Communication vertical:** The Media & Communication segment (34% of revenue) for the company has not witnessed any growth for nearly two years impacted by the devices sub-segment and macro factors driving cost optimization, following a surge in the prior period driven by spend in adjacent areas such as OTT & new media. TELX has brought in new leadership in the vertical and restructured the sales organization which can stabilize the vertical. The key deal that can improve the growth is a multi-year UX transformation deal for a leading operator in the MEA region. We've factored flat growth for FY25E and a 12% recovery for FY26E for the Media & Comms vertical.

Financial Summary

YE March (INR bn)	Q4FY24	Q4FY23	*YoY (%)*	Q3FY24	*QoQ (%)*	FY23	FY24	FY25E	FY26E
Revenue (USD Mn)	109	102	6.7	110	-1.0	390	429	470	541
Net Sales	9.06	8.38	8.1	9.14	-0.9	31.45	35.52	38.61	45.70
EBIT	2.34	2.29	2.2	2.45	-4.5	8.80	9.47	10.24	12.50
APAT	1.97	2.02	-2.3	2.06	-4.6	7.55	7.92	8.63	10.54
Diluted EPS (INR)	31.6	32.4	-2.3	33.1	-4.6	121.3	127.2	138.6	169.3
P/E (x)						61.0	58.1	53.3	43.7
EV / EBITDA (x)						46.6	42.5	39.0	31.8
RoE (%)						41.0	34.5	32.0	33.7

Source: Company, HSIE Research

SELL

CMP *(as on 23 Apr 2024)*	INR 7,395
Target Price	INR 6,435
NIFTY	22,368

KEY CHANGES	OLD	NEW
Rating	SELL	SELL
Price Target	INR 6,660	INR 6,435
EPS %	FY25E	FY26E
	-2.4	-3.4

KEY STOCK DATA	
Bloomberg code	TELX IN
No. of Shares (mn)	62
MCap (INR bn) / ($ mn)	461/5,527
6m avg traded value (INR mn)	1,204
52 Week high / low	INR 9,200/6,218

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	(9.8)	0.8	17.7
Relative (%)	(14.6)	(13.4)	(5.9)

SHAREHOLDING PATTERN (%)	Dec-23	Mar-24
Promoters	43.92	43.92
FIs & Local MFs	5.71	6.06
FPIs	15.02	14.56
Public & Others	35.35	35.46
Pledged Shares	0.00	0.00

Source : BSE

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AU Small Finance Bank

Merger to stretch medium-term return metrics

AUBANK missed estimates, even as credit costs stayed elevated (FY24: 72bps), largely from a normalising credit card portfolio, and one-off merger-related stamp duty expenses. Loan growth was healthy (+25% YoY) on the back of a pick-up in growth in the Wheels and SBL segments. Deposit growth (+25% YoY) mirrored loan growth, with the CASA ratio improving to 33.4% (+40 bps QoQ), and the mix of CASA + Retail TD at 64%, as incremental funding costs rose 8bps QoQ (Q3FY24: +20bps). Margins at 5.1% declined QoQ on the back of a largely secure portfolio and a normalising unsecured book. We adjust our FY25E/FY26E estimates to factor in the post-merger impact of higher credit costs and elevated opex, offset by higher margins and other income; maintain REDUCE, with a revised TP of INR590 (2.3x Mar-26 ABVPS).

- **Pick-up in loan growth; uptick in post-merger margins:** Loan growth was strong (+25% YoY), on the back of growing traction in the core Wheels and SBL segments. Given the incoming high-yield MFI book (7.5% of loans) and the management strategy to raise the mix of high-yielding loans, we expect marginal NIM reflation (+10bps).
- **Elevated post-merger stress ahead:** Gross slippages (1.8%) improved sharply (9MFY24: 2.6%), as GNPAs clocked in at 1.7% on the back of strong recoveries and upgrades. Management guided for an uptick in credit costs to ~110bps during FY25 (FY24: 72bps) on account of higher provisions in the MFI book and elevated stress in the credit card (CC) portfolio. AUBANK guided for calibrated growth in its CC portfolio, with the pace of issuances likely to stay steady at FY24 levels, as the bank navigates the CC portfolio normalisation.
- **Transitory phase to impact medium-term return ratios:** Given AUBANK's limited expertise in unsecured businesses and newer geographies, we believe that the post-merger phase is likely to pose new challenges for the bank. With opex intensity likely to stay elevated, credit costs inching up and additional merger-related expenses, we expect medium-term return ratios to be capped, even as AUBANK struggles to sustain its RoA at current levels (1.4%-1.5%).

Financial summary

(INR bn)	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	FY24	FY25E	FY26E
NII	13.4	12.1	10.2%	13.2	0.9%	51.6	69.5	89.6
PPOP	6.6	5.7	16.3%	6.6	1.1%	25.1	36.1	46.8
PAT	3.7	4.2	-12.7%	3.8	-1.2%	15.3	18.6	24.4
EPS (INR)	5.5	6.3	-12.6%	5.6	-1.2%	22.9	26.3	34.5
ROAE (%)						15.5	13.5	14.8
ROAA (%)						1.5	1.4	1.5
ABVPS (INR)						181.8	227.5	258.2
P/ABV (x)						3.4	2.7	2.4
P/E (x)						27.0	23.5	17.9

Change in estimates

(INR bn)	FY25E			FY26E		
	Old	New	Δ	Old	New	Δ
Net advances	875	1,061	21.2%	1,070	1,302	21.7%
NIM (%)	5.6	5.7	9 bps	5.6	5.7	11 bps
NII	60.5	69.5	14.8%	73.6	89.6	21.7%
PPOP	30.2	36.1	19.5%	38.4	46.8	21.8%
PAT	18.1	18.6	2.8%	22.9	24.4	6.8%
Adj. BVPS (INR)	206.1	227.5	10.4%	239.2	258.2	8.0%

Source: Company, HSIE Research

REDUCE

CMP *(as on 24 Apr 2024)*	INR 619
Target Price	INR 590
NIFTY	22,402

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR560	INR590
	FY25E	FY26E
EPS %	2.8%	6.8%

KEY STOCK DATA	
Bloomberg code	AUBANK IN
No. of Shares (mn)	743
MCap (INR bn) / ($ mn)	460/5,519
6m avg traded value (INR mn)	2,056
52 Week high / low	INR 813/554

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	(16.0)	(11.0)	(6.8)
Relative (%)	(20.0)	(25.4)	(29.7)

SHAREHOLDING PATTERN (%)	Dec-23	Mar-24
Promoters	25.5	22.9
FIs & Local MFs	20.8	21.2
FPIs	41.1	35.5
Public & Others	12.6	20.4
Pledged Shares	0.0	0.0

Source : BSE

Pledged shares as % of total shares

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Multi Commodity Exchange

Soft quarter, product pipeline exciting

MCX reported a weak quarter (5% QoQ revenue decline) due to a drop in futures volume and weak premium collection. The cost structure normalised and profitability improved but the EBITDA/PAT were lower than estimated because of revenue miss. The software support charges consist of CDP cost, product license fees paid to CME, and software licenses. The options volume is dominated by crude oil and natural gas; further volume growth is expected to be boosted by the introduction of monthly series contracts (slated for launch in 3-4 months) and the recent launch of mini cash-settled contracts on April 24th. FPI participation (approved) and the launch of index options (cash-settled contract) will boost volumes. The launch of index options will take at least 6-8 months and final regulatory approval is pending. The premium to notional ratio will decline with shorter duration contracts, index options and higher volatility but the rise in volume will offset the impact of lower realisation. We expect options notional/premium CAGR of +54/45% over FY24-26E. We remain constructive on the options growth story, supported by increasing active traders, a new tech platform, shorter-duration options, and regulatory tailwinds. We reduce our revenue/EPS estimate by ~1/4% for FY26E to adjust for lower premiums offset by a recovery in future volume. We maintain our BUY rating with a target price of INR 4,200, based on a P/E of 35x FY25E core PAT + net cash ex SGF.

- **Q4FY24 highlights**: MCX revenue was down 5.4/+35% QoQ/YoY to INR 1.81bn (vs estimate of INR 2.01bn) due to 14.8/12% QoQ decline in futures/clearing revenue, offset by 1.9% QoQ increase in options revenue. Futures ADTV was down 14.2% QoQ to INR 175bn due to bullion (-10%), energy (-23%), and metals (-12.4% QoQ). The EBITDA margin was at 56.3% vs the adjusted margin of 61.8% in Q3 due to revenue decline. The options revenue grew only 1.9% QoQ to ~INR 1.03bn despite an 18% QoQ increase in notional volume because of lower premium realisation (1.8% vs 2.0% in Q3). Crude/natural gas/bullion contributed 78/11/11% to options volume. The total cost excluding SGF is expected to be at INR 0.80-0.85bn/quarter. The traded UCC in options was up by 75% YoY to reach ~400K.
- **Outlook:** We estimate a 16.5/+45% futures/options premium ADTV CAGR over FY24-26E, resulting in +31/36% revenue/APAT CAGRs over FY24-26E.

Quarterly financial summary

YE March (INR mn)	Q4 FY24	Q4 FY23	YoY (%)	Q3 FY24	QoQ (%)	FY22	FY23	FY24	FY25E	FY26E
Net Sales	1,811	1,338	*35.4*	1,915	*(5.4)*	3,668	5,135	6,836	9,289	11,748
EBITDA	1,020	21	*NM*	-66	*NM*	1,622	1,497	888	6,008	8,083
APAT	879	55	*NM*	-53	*NM*	1,639	1,490	831	4,610	6,116
EPS (INR)	17.3	1.1	*NM*	-1.1	*NM*	32.2	29.3	16.3	90.6	120.1
P/E (x)						119.3	131.2	235.2	42.4	32.0
EV / EBITDA (x)						112.7	125.3	207.5	30.7	22.6
RoE (%)						11.6	10.3	5.8	31.9	38.3

Source: Company, HSIE Research, Consolidated Financials

Change in estimates

INR mn	FY25E Old	FY25E Revised	Change %	FY26E Old	FY26E Revised	Change %
Revenue	9,613	9,289	-3.4	11,888	11,748	-1.2
EBITDA	6,381	6,008	-5.8	8,288	8,083	-2.5
EBITDA Margin (%)	66.4	64.7	-169bps	69.7	68.8	-91bps
APAT	4,867	4,610	-5.3	6,346	6,116	-3.6
EPS (INR)	95.6	90.6	-5.3	124.7	120.1	-3.7

Source: Company, HSIE Research

BUY

CMP *(as on 24 April 2024)*	INR 3,839
Target Price	INR 4,200
NIFTY	22,402

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 4,350	INR 4,200
EPS %	FY25E	FY26E
	-5.3	-3.7

KEY STOCK DATA	
Bloomberg code	MCX IN
No. of Shares (mn)	51
MCap (INR bn) / ($ mn)	196/2,350
6m avg traded value (INR mn)	2,989
52 Week high / low	INR 4,073/1,285

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	21.3	73.5	162.5
Relative (%)	17.4	59.1	139.6

SHAREHOLDING PATTERN (%)	Dec-23	Mar-24
Promoters	0.00	0.00
FIs & Local MFs	53.02	56.88
FPIs	26.61	23.22
Public & Others	20.37	19.90
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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DCB Bank

RoA reflation contingent on margin, asset quality

DCB Bank's (DCBB) earnings beat estimates on the back of lower credit costs and margin reflation, led by healthy loan (+18% YoY) and deposit growth (+19% YoY). Gross slippages improved to 3.4%, resulting in better asset quality. CASA ratio remained flat at 26% with the incremental cost of deposits inching up to 7.1% (+13bps QoQ). Margin reflation was driven by better yields (+27bps QoQ), benefitting from better investment yields, stronger recoveries, and a higher mix of LAP. DCBB continues to invest in franchise-building activities to double its balance sheet over the next 3-4 years. We believe that DCBB's road to a 1% RoA is contingent on the bank's ability to maintain NIMs in the current range of 3.6-3.7%, while at the same time striving to improve its asset quality. We tweak our FY25E/FY26E earnings to build in moderate operating leverage and maintain ADD with a revised TP of INR165 (0.9x Mar-26 ABVPS).

- **Disbursals pick up alongside loan growth:** Loan growth clocked in at +5% QoQ on the back of an across-the-board pick-up in disbursements at INR52bn (+21% QoQ), partly offset by a drop in corporate banking disbursals. Within the inclusive banking portfolio, the MFI+BC book witnessed strong traction.
- **Steady improvement in asset quality:** GNPA/NNPA improved to 3.2%/1.0%, benefitting from lower gross slippages (3.4%) and a significant improvement in the cure rate (recoveries and upgrades) to 95% of slippages (Q3FY24: 79%), thus keeping net slippages in check.
- **Sticky opex ratios:** DCBB continued to invest in distribution, collections, and frontline, reflecting in stubborn opex intensity (cost-to-income consistently at 64-65% over the past three quarters). We expect operating leverage benefits to kick in gradually over the next couple of years with C/I at 60.5% by FY26E.
- **Margin and opex intensity to keep return ratios sub-par:** With limited levers to yield reflation, sustained upward repricing of deposits, and a stubbornly high opex intensity, we see limited room for incremental NIM reflation, and hence, RoAs are likely to be capped at 1%.

Financial summary

(INR bn)	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	FY24	FY25E	FY26E
NII	5.1	4.9	*4.4%*	4.7	*7.1%*	19.3	22.2	24.8
PPOP	2.3	2.4	*-4.2%*	2.1	*10.5%*	8.6	11.0	12.9
PAT	1.6	1.4	*9.4%*	1.3	*23.0%*	5.4	6.5	7.3
EPS (INR)	4.9	4.5	*9.1%*	4.1	*21.4%*	17.2	20.9	23.4
ROAE (%)						11.1	12.1	12.1
ROAA (%)						0.9	1.0	1.0
ABVPS (INR)						148.4	165.6	185.4
P/ABV (x)						0.9	0.8	0.7
P/E (x)						7.8	6.5	5.8

Source: Company, HSIE Research

Change in estimates

(INR bn)	FY25E			FY26E		
	Old	New	Δ	Old	New	Δ
Net advances	459	466	1.5%	528	536	1.5%
NIM (%)	3.74	3.58	-15 bps	3.61	3.53	-8 bps
NII	21.6	22.2	2.9%	23.0	24.8	7.8%
PPOP	11.4	11.0	-3.4%	13.1	12.9	-1.8%
PAT	6.5	6.5	0.3%	7.1	7.3	2.0%
Adj. BVPS (INR)	161.9	165.6	2.3%	182.1	185.4	1.9%

Source: Company, HSIE Research

ADD

CMP *(as on 24 Apr 2024)*	INR 136
Target Price	INR 165
NIFTY	22,402

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR165	INR165
	FY25E	FY26E
EPS %	0.3%	2.0%

KEY STOCK DATA	
Bloomberg code	DCBB IN
No. of Shares (mn)	313
MCap (INR bn) / ($ mn)	43/511
6m avg traded value (INR mn)	430
52 Week high / low	INR 163/101

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(5.5)	16.6	33.7
Relative (%)	(9.4)	2.3	10.7

SHAREHOLDING PATTERN (%)

	Dec-23	Mar-24
Promoters	14.8	14.8
FIs & Local MFs	34.2	29.7
FPIs	13.0	12.7
Public & Others	38.0	42.8
Pledged Shares	0	0

Source : BSE

Pledged shares as % of total shares

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Rating Criteria

BUY: >+15% return potential

ADD: +5% to +15% return potential

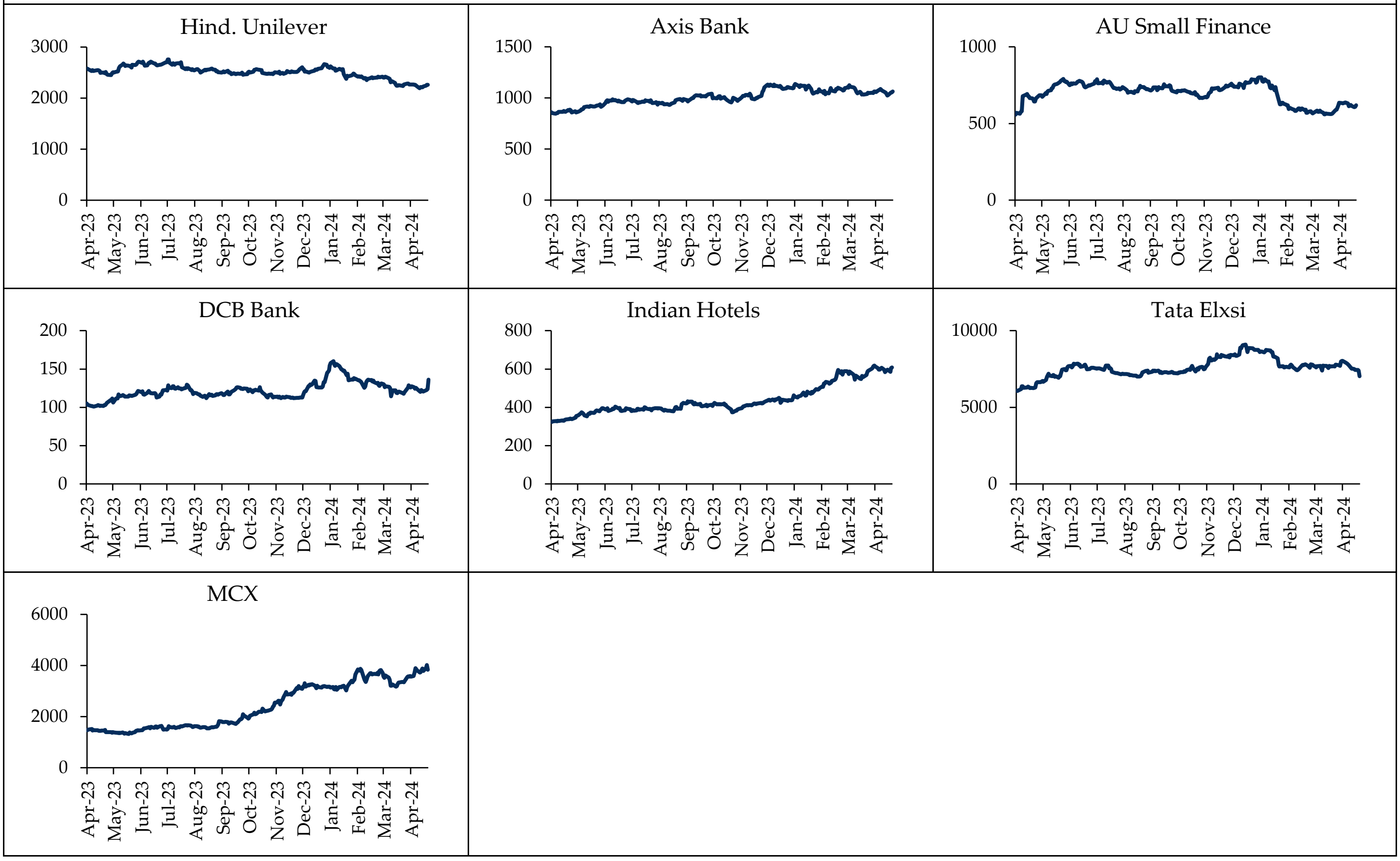
REDUCE: -10% to +5% return potential

SELL: > 10% Downside return potential

Disclosure:

Analyst	Company Covered	Qualification	Any holding in the stock
Varun Lohchab	Hindustan Unilever	PGDM	NO
Paarth Gala	Hindustan Unilever	BCom	NO
Riddhi Shah	Hindustan Unilever	MBA	NO
Krishnan ASV	Axis Bank, AU Small Finance Bank, DCB Bank	PGDM	NO
Deepak Shinde	Axis Bank, AU Small Finance Bank, DCB Bank	PGDM	NO
Akshay Badlani	Axis Bank	CA	YES
Akshay Badlani	AU Small Finance Bank, DCB Bank	CA	NO
Amit Kumar	Indian Hotels	CFA	NO
Apurva Prasad	Tata Elxsi	MBA	NO
Amit Chandra	Tata Elxsi, Multi Commodity Exchange	MBA	NO
Vinesh Vala	Tata Elxsi	MBA	NO
Dhananjay Jain	Multi Commodity Exchange	CA	NO

1 Yr Price movement



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