

HSIE Results Daily

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Results Reviews

- Mahindra & Mahindra:** M&M Q4 adjusted PAT at INR 19.3bn came in above our estimate of INR 16.2bn due to higher-than-expected revenue and lower tax rate, even as its operational performance was in line with our estimates. M&M's performance highlights for FY23 are: (1) No. 1 in SUVs revenue market share at 19.1% (+370bps YoY); (2) market leader in LCVs (<3.5T) with 520bps improvement to 45.5%; (3) FES market share up 120bps YoY to 41.2%; (4) market leader in EV 3Ws with 67.6% share. Also, it is commendable that M&M has already achieved most of the targets it earmarked a couple of years back, including improvement in auto margins, EPS CAGR, RoE at 18% (stands at 19.9% for FY23), calibrated asset allocation, etc. We continue to remain positive on the business momentum, given: (1) a strong order backlog for UVs will help further gain market share; (2) the target to further increase its market share in tractors on the back of new launches; (3) focused strides taken to achieve a strong position in EVs; (4) continuing focus on careful capital allocation; (5) challenge set for growth gems to grow 5x. Maintain BUY, with a revised TP of INR1,617/sh (earlier at INR1,554/share) as we roll forward to FY25 EPS.
- Infoedge:** Infoedge reported a modest quarter with in-line revenue growth of 1.6% QoQ and better recruitment billings and margins. Naukri (~78% of total revenue and billings) continues to show resilience despite the slowdown in IT hiring (~35% of Naukri revenue). Growth in Naukri is led by traction in non-IT sectors like BFSI, travel, auto, construction, etc. The Naukri billings were up 30% YoY in FY23, which implies a modest growth of ~13-15% in FY24E following two strong years of >40% YoY growth. The margin for the recruitment segment continues to be >60%, which is impressive. 99acres and Shiksha will continue to be the focus areas and attract investments. Jeevansathi's revenue grew for the first time after the change in strategy and it has also gained market share in the north region. We expect growth to be led by Naukri, 99 acres and Shiksha. The margin for recruitment will be in the range of 60-61%. We maintain our BUY rating with a SoTP-based TP of INR 5,170, valuing Naukri at 38x EV/EBITDA, 99acres/Jeevansathi/Shiksha at 5/3/3x P/S, while Zomato and Policybazaar have been assigned the market value (~15% discount). The core recruitment business is trading at 27x FY25E EV/EBITDA.
- Sundaram Finance:** SUF's earnings were ahead of our estimates, driven by higher other income and lower credit costs (20bps), despite prudent provisioning in early-delinquency buckets. Business momentum stayed strong on the back of sustained traction in economic activity and pre-buying (BS VI norms phase II implementation), driving 17% YoY AUM growth. Margins were broadly steady on the back of an optimised liability mix, despite pressure on yields and the rising cost of funds. Asset quality was robust, with GS-III/NS-III at 1.7%/0.9% (IRAC GNPA/NNPA at 3%/2.1%), while the restructured portfolio improved further to 1.8% (FY22: 4.9%). Although the M&HCV segment is expected to witness soft growth in FY24, SUF's sustained efforts at portfolio diversification across geographies (non-south at 43.5% of AUM vs. 36.7% in Q1FY21), segments (non-M&HCV) and vintage (used vehicles at 22% of disbursements) are likely to cushion portfolio growth. We tweak our FY24/FY25 earnings to factor in better-than-expected

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AUM growth and lower credit costs and maintain BUY with a revised SoTP-based target price of INR2,715 (standalone entity at 2.6x Mar-25 ABVPS).

- **City Union Bank:** City Union Bank's (CUBK) Q4FY23 earnings missed estimates on account of a 23bps sequential reduction in NIMs and lower other income. The management conservatively recognised impairment to the tune of ~INR800mn (annualised slippages at an elevated ~3.8%), offset by better recovery/write-off, driving GNPA lower to 4.4%. Management has further revised its loan growth guidance downward to 12-15% on the back of moderate growth prospects in the existing portfolio and no visible signs of improvement in the MSME investment cycle. The management has guided for steady return ratios on the back of accelerated recoveries in NPAs and written-off accounts, which are expected to offset the elevated funding costs from lagged re-pricing of deposits. We tweak our FY24/25E numbers to factor in elevated CoFs, partly offset by moderation in credit costs; maintain BUY, with a TP of INR167 (1.5x Mar-25 ABVPS).
- **PNC Infratech:** PNC Infratech (PNC) reported Q4FY23 revenue/EBITDA/APAT of INR 21.1/2.8/1.8bn, beating our estimates on all fronts by 5/8.8/11.5%. The executable order book (OB) as of Mar'23 stood at INR 205.3bn (~2.9x FY23 revenue), with EPC/water segments contributing 63/33% of the OB. The company expects to sign balance cover agreements for water projects with the UP government in FY24. It guided that FY24 revenue will grow by 15% YoY (INR 25bn from the water segment) with an EBITDA margin of 13.3-13.5% and an order inflow (OI) of INR 100-120bn. FY24 capex guidance stands at INR1-1.2bn and NWC days at 75-80. The company plans to infuse INR 5.4/4.6/3.7/3.3bn equity in FY24/25/26/27. HAM asset monetisation plan is expected to materialise by FY24-end. PNC has a cash balance of INR 2.9bn and standalone gross debt of INR 3.4bn as of Mar'23. Given a strong OB and comfortable balance sheet, we maintain BUY, with an unchanged TP of INR 383/sh (13x Mar-25E rolled over, 0.9x P/BV for HAM equity investment).
- **Prince Pipes and Fittings:** We maintain our ADD rating on Prince Pipes, with a revised target price of INR 695/sh (17/30x its Mar-25E EBITDA/PAT). In Q4FY23, while the company reported weak volume (-2% YoY), its EBITDA margin soared to an all-time high (19.4%), driven by inventory gains (INR 0.25bn i.e. 3.3% of revenue) and better product mix. As it tightened its working capital, the cash conversion cycle was reduced to 70 days in FY23 (vs 90 days YoY). Prince announced a greenfield pipes plant in Bihar by Q4FY25, which will increase its capacity by 35K MT (~11%). While Prince noted a healthy demand outlook, it cautioned that its Q1FY24E will be impacted as it is migrating to a global ERP system.

Mahindra & Mahindra

Growth momentum likely to remain strong

M&M Q4 adjusted PAT at INR 19.3bn came in above our estimate of INR 16.2bn due to higher-than-expected revenue and lower tax rate, even as its operational performance was in line with our estimates. M&M's performance highlights for FY23 are: (1) No. 1 in SUVs revenue market share at 19.1% (+370bps YoY); (2) market leader in LCVs (<3.5T) with 520bps improvement to 45.5%; (3) FES market share up 120bps YoY to 41.2%; (4) market leader in EV 3Ws with 67.6% share. Also, it is commendable that M&M has already achieved most of the targets it earmarked a couple of years back, including improvement in auto margins, EPS CAGR, RoE at 18% (stands at 19.9% for FY23), calibrated asset allocation, etc. We continue to remain positive on the business momentum, given: (1) a strong order backlog for UVs will help further gain market share; (2) the target to further increase its market share in tractors on the back of new launches; (3) focused strides taken to achieve a strong position in EVs; (4) continuing focus on careful capital allocation; (5) challenge set for growth gems to grow 5x. Maintain BUY, with a revised TP of INR1,617/sh (earlier at INR1,554/share) as we roll forward to FY25 EPS.

- Q4 PAT beats estimates:** EBITDA margin came in line with our estimate at 12.4%. While the auto segment margin improved 190bps YoY (+100bps QoQ) to 7.3%, the FES segment margin improved 100bps YoY (flat QoQ) to 16.7%. M&M posted an exceptional loss of INR 5.1bn in Q4, largely on account of a write-off at Peugeot Motorcycles. Adjusted PAT grew 66% YoY to INR 19.3bn, ahead of our estimate of INR 16.2bn, also aided by a lower tax rate.
- Achievements vs targets so far:** (1) The auto and farm segments (AFS) has delivered a two-year revenue CAGR of 34% vs the target of 15-20% CAGR. (2) Achieved leadership in revenue market share in UVs at 19% in FY23. (3) Gained 400bps market share over two years in the SCV segment (<3.5T segment) to 45.5%. (4) Gained 300bps market share in two years in the tractors segment to 41.2%. (5) Delivered RoE of 19.9% for FY23 vs the target of 18%.
- Looking to raise the bar: FES focus initiatives include:** (1) Target to continue to grow market share on the back of the (a) launch of Swaraj light-weight platform (25-29 HP segment) on 2 June for application in the sprayer and inter culture, (b) launch of Mahindra Oja on 15 Aug (both in India and globally), (c) launch of new design under the Swaraj brand in five states, (d) channel expansion. (2) Target to rapidly scale up farm machinery (10x by FY26) and international business (1.6x by FY26). **Auto focus initiatives include:** (1) Continue to rebuild market share in the SUV segment on the back of strong order backlog and new launches, both in ICE and EV categories. (2) Maintain strong leadership in the SCV segment (<3.5 T) (3) Scale up international operations by 2.5x by FY26. **Target Initiatives for ex-AFS segments include:** (1) Unlock the full potential in key subsidiaries like Mahindra Finance and Tech Mahindra (target for 300 bps margin improvement). (2) Challenge for growth gems to grow 5x from here.

Quarterly/annual financial summary

YE Mar (INR mn)	Q4 FY23	Q4 FY22	YoY (%)	Q3 FY23	QoQ (%)	FY22	FY23	FY24E	FY25E
Net Sales	2,25,714	1,71,240	31.8	2,16,537	4.2	5,74,460	8,49,603	9,32,054	10,35,256
EBITDA	27,974	19,455	43.8	28,142	-0.6	70,423	1,04,424	1,21,167	1,34,583
APAT	19,329	11,672	65.6	19,997	-3.3	50,917	74,778	82,196	89,827
Diluted EPS (INR)	16.1	9.7	65.6	16.7	-3.3	42.4	62.3	68.5	74.9
P/E (x)						30.2	20.6	18.7	17.1
EV / EBITDA (x)						22.2	14.7	12.8	11.3
RoCE (%)						14.1	19.9	19.5	19.2

Source: Company, HSIE Research

BUY

CMP (on 26 May 23)	INR 1,282
Target Price	INR 1,617
NIFTY	18,499

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 1,554	INR 1,617
EPS %	FY24E	FY25E
	0.0%	0.0%

KEY STOCK DATA

Bloomberg code	MM IN
No. of Shares (mn)	1,244
MCap (INR bn) / (\$ mn)	1,594/19,491
6m avg traded value (INR mn)	2,924
52 Week high / low	INR 1,397/915

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	0.1	1.7	37.9
Relative (%)	(5.0)	1.3	22.7

SHAREHOLDING PATTERN (%)

	Dec-22	Mar-23
Promoters	19.39	19.37
FIs & Local MFs	27.42	27.66
FPIs	39.16	39.24
Public & Others	14.03	13.73
Pledged Shares	0.01	0.01

Source : BSE

Pledged shares as % of total shares

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Infoedge

Core driving growth

Infoedge reported a modest quarter with in-line revenue growth of 1.6% QoQ and better recruitment billings and margins. Naukri (~78% of total revenue and billings) continues to show resilience despite the slowdown in IT hiring (~35% of Naukri revenue). Growth in Naukri is led by traction in non-IT sectors like BFSI, travel, auto, construction, etc. The Naukri billings were up 30% YoY in FY23, which implies a modest growth of ~13-15% in FY24E following two strong years of >40% YoY growth. The margin for the recruitment segment continues to be >60%, which is impressive. 99acres and Shiksha will continue to be the focus areas and attract investments. Jeevansathi's revenue grew for the first time after the change in strategy and it has also gained market share in the north region. We expect growth to be led by Naukri, 99 acres and Shiksha. The margin for recruitment will be in the range of 60-61%. We maintain our BUY rating with a SoTP-based TP of INR 5,170, valuing Naukri at 38x EV/EBITDA, 99acres/Jeevansathi/Shiksha at 5/3/3x P/S, while Zomato and Policybazaar have been assigned the market value (~15% discount). The core recruitment business is trading at 27x FY25E EV/EBITDA.

- Q4FY23 highlights:** (1) Infoedge revenue grew 1.6% QoQ to INR 5.64bn (vs. estimate of INR 5.67bn), driven by +0.2/3.6/11.6% QoQ growth in recruitment/99acres/Jeevansathi+Shiksha; (2) billing growth stood at +34.3/45.9/36.4% QoQ for recruitment/99acres/Jeevansathi+Shiksha; (3) EBITDA margin for recruitment/99acres/Jeevansathi/Shiksha stood at 62/-25/-116/+7%; (4) EBITDA margin was flat QoQ at 39.1% (+76bps vs estimate), with +653/2,485/331bps increase in 99acres/Jeevansathi/Shiksha offset by 85bps decline in recruitment; (5) Job speak index is down 9% MoM in Apr-23, indicating a slowdown in IT hiring; (6) net cash stands at INR 33bn and Zomato/Policybazaar account for 10/4% in SoTP. APAT grew 3.1% QoQ to INR 1.98bn.
- Outlook:** We expect a revenue CAGR of 15% over FY23-25E, led by 16/12/-3/20% CAGRs in recruitment/99acres/Jeevansathi/Shiksha. EBITDA margin estimates stand at 37.0/39.8% for FY24/25E, leading to an EPS CAGR of 26% over FY23-25E.

Quarterly financial summary

YE March (INR bn)	4Q		YoY (%)	3Q	QoQ (%)	FY21	FY22	FY23	FY24E	FY25E
	FY23	FY22								
Net Sales	5.64	4.56	23.8	5.55	1.6	11.28	15.62	21.59	24.36	28.50
EBITDA	2.20	1.28	72.1	2.17	1.6	2.88	4.64	7.84	9.02	11.35
APAT	1.98	1.21	63.8	1.92	3.1	2.82	5.21	6.08	7.84	9.71
Diluted EPS (INR)	15.3	9.3	63.8	14.9	2.6	21.8	40.3	47.1	60.8	75.3
P/E (x)						192.2	104.0	89.1	69.1	55.8
EV / Revenue (x)						44.9	32.3	23.5	19.3	15.0
EV / EBITDA (x)						175.8	108.9	64.8	52.0	37.7
RoE (%)						17.3	10.3	15.0	27.3	26.6

Source: Company, HSIE Research, Standalone Financials

Change in estimates

YE March (INR bn)	FY24E Old	FY24E Revised	Change %	FY25E Old	FY25E Revised	Change %
Revenue	23.11	24.36	5.4	26.90	28.50	5.9
EBITDA	8.49	9.02	6.2	10.61	11.35	6.9
EBITDA margin (%)	36.7	37.0	28bps	39.5	39.8	36bps
APAT	7.50	7.84	4.6	9.21	9.71	5.4
EPS (INR)	58.3	60.8	4.3	71.6	75.3	5.2

Source: Company, HSIE Research

BUY

CMP (as on 26 May 23)	INR 4,198
Target Price	INR 5,170
NIFTY	18,499

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 4,600	INR 5,170
	FY24E	FY25E
EPS %	+4.3	+5.2

KEY STOCK DATA

Bloomberg code	INFOE IN
No. of Shares (mn)	129
MCap (INR bn) / (\$ mn)	542/6,631
6m avg traded value (INR mn)	1,149
52 Week high / low	INR 4,625/3,308

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	18.1	6.1	18.3
Relative (%)	12.9	5.8	3.1

SHAREHOLDING PATTERN (%)

	Dec-22	Mar-23
Promoters	38.05	38.05
FIs & Local MFs	17.19	17.74
FPIs	31.88	31.41
Public & Others	12.68	12.66
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Sundaram Finance

Sustained pivot to drive next leg of business outcomes

SUF's earnings were ahead of our estimates, driven by higher other income and lower credit costs (20bps), despite prudent provisioning in early-delinquency buckets. Business momentum stayed strong on the back of sustained traction in economic activity and pre-buying (BS VI norms phase II implementation), driving 17% YoY AUM growth. Margins were broadly steady on the back of an optimised liability mix, despite pressure on yields and the rising cost of funds. Asset quality was robust, with GS-III/NS-III at 1.7%/0.9% (IRAC GNPA/NNPA at 3%/2.1%), while the restructured portfolio improved further to 1.8% (FY22: 4.9%). Although the M&HCV segment is expected to witness soft growth in FY24, SUF's sustained efforts at portfolio diversification across geographies (non-south at 43.5% of AUM vs. 36.7% in Q1FY21), segments (non-M&HCV) and vintage (used vehicles at 22% of disbursements) are likely to cushion portfolio growth. We tweak our FY24/FY25 earnings to factor in better-than-expected AUM growth and lower credit costs and maintain BUY with a revised SoTP-based target price of INR2,715 (standalone entity at 2.6x Mar-25 ABVPS).

- **Strong business momentum; FY24 outlook key monitorable:** SUF reported healthy AUM growth (+17% YoY) on the back of sustained strong disbursements (+40% YoY). P&L outcomes were broadly steady (NII/PPoP growth of 5%/21% YoY), driven by higher other income and the company's efforts to optimise funding costs. While the past two years (FY22 and FY23) witnessed a strong revival in the M&HCV segment, the softer outlook in this segment is likely to shift focus towards SUF's diversification strategy (non-M&HCV segments in non-south regions), which is likely to support NIMs. Asset quality continued to remain robust with subdued credit costs (40bps—FY23).
- **Subsidiaries—mixed performance:** SUF's HFC subsidiary has been gradually gaining traction in disbursements, with disbursements/AUM growth of 52%/18% YoY, driven by the non-housing portfolio. Investments in branches during H2 (12 branches added) are likely to sustain the growth momentum. However, the AMC and insurance subsidiary performance was muted, largely on account of regulatory headwinds.

Financial summary

(INR bn)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	FY22	FY23	FY24E	FY25E
NII	4.3	4.1	5.1	4.4	(2.0)	16.9	16.9	19.9	22.6
PPOP	4.2	3.5	20.7	3.6	18.3	15.0	15.5	17.4	20.2
PAT	3.2	3.0	5.9	2.4	30.4	9.0	10.9	11.7	13.4
EPS (INR)	28.5	26.9	5.9	21.8	30.4	81.3	98.0	105.4	120.9
ROAE (%)						13.8	14.9	14.3	14.6
ROAA (%)						2.6	2.9	2.7	2.7
ABVPS (INR)						587.7	668.6	744.9	836.0
P/ABV (x)						3.4	3.0	2.7	2.4
P/E (x)						24.4	20.2	18.8	16.4

Change in estimates

(INR bn)	FY24E			FY25E		
	Old	New	Δ	Old	New	Δ
AUM	384	394	2.6%	438	450	2.7%
NIM (%)	5.4	5.4	0 bps	5.4	5.3	-4 bps
NII	19.4	19.9	2.6%	22.2	22.6	1.9%
PPOP	16.8	17.4	3.6%	19.5	20.2	3.6%
PAT	11.1	11.7	5.7%	12.8	13.4	4.6%
Adj. BVPS (INR)	737	745	1.1%	829	836	0.9%

Source: Company, HSIE Research

BUY

CMP (as on 26 May 23)	INR 2,512
Target Price	INR 2,715
NIFTY	18,499

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 2635	INR 2715
	FY24E	FY25E
EPS %	5.7%	4.6%

KEY STOCK DATA

Bloomberg code	SUF IN
No. of Shares (mn)	111
MCap (INR bn) / (\$ mn)	279/3,412
6m avg traded value (INR mn)	82
52 Week high / low	INR 2,553/1,555

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	9.1	11.4	52.0
Relative (%)	4.0	11.1	36.8

SHAREHOLDING PATTERN (%)

	Dec-22	Mar-23
Promoters	38.5	38.5
FIs & Local MFs	13.0	13.2
FPIs	12.4	12.5
Public & Others	36.1	35.8
Pledged Shares		0.0

Source : BSE

Pledged shares as % of total shares

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City Union Bank

Structural challenges impact growth outlook

City Union Bank's (CUBK) Q4FY23 earnings missed estimates on account of a 23bps sequential reduction in NIMs and lower other income. The management conservatively recognised impairment to the tune of ~INR800mn (annualised slippages at an elevated ~3.8%), offset by better recovery/write-off, driving GNPA lower to 4.4%. Management has further revised its loan growth guidance downward to 12-15% on the back of moderate growth prospects in the existing portfolio and no visible signs of improvement in the MSME investment cycle. The management has guided for steady return ratios on the back of accelerated recoveries in NPAs and written-off accounts, which are expected to offset the elevated funding costs from lagged re-pricing of deposits. We tweak our FY24/25E numbers to factor in elevated CoFs, partly offset by moderation in credit costs; maintain BUY, with a TP of INR167 (1.5x Mar-25 ABVPS).

- Moderation in growth and margins impacts earnings:** Loan growth moderated (+7% YoY), due to a reduction in approval rates (25% vs 45% earlier) and continued slowdown in its core MSME segment on the back of a lagged reversal in the investment cycle. NII growth moderated in line (~3% YoY) due to accelerated spike in funding costs, thereby impacting NIMs (-23bps QoQ).
- Optimistic outlook on asset quality:** Having been penalised for divergence in NPA recognition during the prior RBI supervisory exercise, CUBK has been unduly conservative in recognising impairment, which was offset by higher recoveries/write-offs, resulting in GNPA/NNPA of 4.4%/2.4%. We believe that CUBK has been too conservative in impairment recognition, given the past adverse experience with the RBI. We opine that the portfolio will witness strong recoveries given a highly secured loan book, and tighter underwriting.
- Structural challenges limit growth and margin reflation:** The management's conservative approach to loan growth (loan-to-deposit ratio at 84%) suggests an impending medium-term overhang on productivity metrics, and higher funding costs from lagged deposit re-pricing.

Financial summary

(INR bn)	Q4FY23	Q4FY22	YoY(%)	Q3FY23	QoQ(%)	FY22	FY23	FY24E	FY25E
NII	5.1	5.0	2.7%	5.6	-7.5%	19.2	21.6	22.6	25.0
PPOP	4.2	4.4	-5.2%	5.0	-16.2%	16.0	18.2	18.9	21.2
PAT	2.2	2.1	4.3%	2.2	0.1%	7.6	9.4	10.3	11.8
EPS (INR)	2.9	2.8	5.0%	2.9	1.4%	10.3	12.7	13.9	15.9
ROAE (%)						12.2	13.3	12.9	13.1
ROAA (%)						1.3	1.5	1.5	1.5
ABVPS (INR)						72.9	87.0	100.0	113.5
P/ABV (x)						1.9	1.6	1.4	1.2
P/E (x)						13.5	11.0	10.0	8.7

Change in Estimates

(INR bn)	FY24E			FY25E		
	Old	New	Change	Old	New	Change
Net advances	484	483	-0.2%	544	543	-0.2%
NIM (%)	4.2	3.7	-47 bps	4.1	3.7	-36 bps
NII	25.0	22.6	-9.3%	27.4	25.0	-8.9%
PPOP	21.3	18.9	-11.4%	23.5	21.2	-9.6%
PAT	11.5	10.3	-10.6%	13.1	11.8	-9.9%
Adj. BVPS (INR)	100.8	87.0	-13.7%	115.9	113.5	-2.1%

Source: Company, HSIE Research

BUY

CMP (as on 26 May 23)	INR 139
Target Price	INR 167
NIFTY	18,499

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 180	INR 167
	FY24E	FY25E
EPS %	-10.6%	-9.9%

KEY STOCK DATA

Bloomberg code	CUBK IN
No. of Shares (mn)	740
MCap (INR bn) / (\$ mn)	103/1,262
6m avg traded value (INR mn)	622
52 Week high / low	INR 205/120

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	3.6	(25.3)	10.2
Relative (%)	(1.5)	(25.6)	(5.1)

SHAREHOLDING PATTERN (%)

	Dec-22	Mar-23
Promoters	0.0	0.0
FIs & Local MFs	37.7	36.2
FPIs	23.7	24.9
Public & Others	38.6	38.9
Pledged Shares	0.0	0.0

Source : BSE

Pledged shares as % of total shares

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PNC Infratech

Asset monetisation awaited

PNC Infratech (PNC) reported Q4FY23 revenue/EBITDA/APAT of INR 21.1/2.8/1.8bn, beating our estimates on all fronts by 5/8.8/11.5%. The executable order book (OB) as of Mar'23 stood at INR 205.3bn (~2.9x FY23 revenue), with EPC/water segments contributing 63/33% of the OB. The company expects to sign balance cover agreements for water projects with the UP government in FY24. It guided that FY24 revenue will grow by 15% YoY (INR 25bn from the water segment) with an EBITDA margin of 13.3-13.5% and an order inflow (OI) of INR 100-120bn. FY24 capex guidance stands at INR1-1.2bn and NWC days at 75-80. The company plans to infuse INR 5.4/4.6/3.7/3.3bn equity in FY24/25/26/27. HAM asset monetisation plan is expected to materialise by FY24-end. PNC has a cash balance of INR 2.9bn and standalone gross debt of INR 3.4bn as of Mar'23. Given a strong OB and comfortable balance sheet, we maintain BUY, with an unchanged TP of INR 383/sh (13x Mar-25E rolled over, 0.9x P/BV for HAM equity investment).

- Q4FY23 financial highlights:** Revenue: INR 21.1bn (+10.3/+30% YoY/QoQ, a beat of 5%). EBITDA: INR 2.8bn (+25.1/+35.1% YoY/QoQ, a beat of 8.8%). EBITDA margin: 13.3% (+157/+50bps YoY/QoQ, vs. our estimate of 12.8%, owing to lower employee expenses, partly offset by higher input and raw material prices and under absorption of overheads). Depreciation: INR 279mn (-13/+0.4% YoY/QoQ). Interest cost: INR 147mn, (-13.7/-9.4% YoY/QoQ). Other income: INR 105mn (+23.8/+7.6% YoY/QoQ). RPAT/APAT: INR 1.8bn (+33.5/+42.5% YoY/QoQ, a beat of 11.5%). PNC has guided for FY24 revenue to grow by 15% YoY (INR 25bn from the water segment) with an EBITDA margin of 13.3-13.5%.
- Good revenue visibility over the near term:** With four new HAM projects worth INR 38.5bn, the executable OB as of Mar'23 stood at INR 205.3bn (~2.9x FY23 revenue). The road EPC segment constitutes 63% of the OB whilst water projects constitute 33% of the OB. With no order inflows (OI) in 9MFY23, PNC won orders INR 48.6bn in Q4FY23 vs. FY23 guidance of INR 80-100bn. It guided for FY24 OI at INR 100-120bn. The company has received the appointed date (AD) for all seven projects, which shall contribute to revenue growth for FY24/25 and expects AD for the four new HAM projects by FY24-end. The company is looking for opportunities in other than the state of Uttar Pradesh.
- Asset monetization likely to materialize in FY24:** PNC has selected 11/1 HAM/BOT projects for monetisation purposes (with a total equity investment of INR 17bn). The monetisation plan is expected to be closed by FY24-end. PNC has a cash balance of INR 2.9bn and standalone gross debt of INR 3.4bn as of Mar'23. The NWC days stood at 87 and the company has guided to bring it down to 75-80 days. It has a residual equity requirement of INR 16.9bn for all the HAM projects in the portfolio, of which INR 5.4/4.6/3.7/3.3bn will be done in FY24/25/26/27. It envisages funding the same through internal accruals. Its Capex guidance for FY24 is INR 1-1.2bn.

Standalone Financial Summary (INR mn)

YE March	4QFY23	4QFY22	YoY (%)	3QFY23	QoQ (%)	FY22	FY23	FY24E	FY25E
Net Sales	21,146	19,173	10.3	16,270	30.0	63,055	70,608	75,158	81,546
EBITDA	2,810	2,247	25.1	2,081	35.1	7,872	9,539	9,688	10,766
APAT	1,845	1,382	33.5	1,294	42.5	4,478	5,838	6,071	6,727
EPS (INR)	7.2	5.4	33.5	5.0	42.5	17.5	22.8	23.7	26.2
P/E (x)						18.1	13.9	13.3	12.0
EV/EBITDA (x)						9.9	8.6	7.7	6.8
RoE (%)						14.3	16.0	14.5	14.2

Source: Company, HSIE Research

BUY

CMP (as on 26 May 23)	INR 315
Target Price	INR 383
NIFTY	18,499

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 383	INR 383
EPS Change %	FY24E	FY25E
	-	-

KEY STOCK DATA

Bloomberg code	PNCL IN
No. of Shares (mn)	257
MCap (INR bn) / (\$ mn)	81/989
6m avg traded value (INR mn)	220
52 Week high / low	INR 355/219

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	7.2	16.4	31.4
Relative (%)	2.1	16.0	16.2

SHAREHOLDING PATTERN (%)

	Dec-22	Mar-23
Promoters	56.07	56.07
FIs & Local MFs	29.58	29.39
FPIs	9.32	9.51
Public & Others	5.03	5.03

Pledged Shares - -

Source: BSE

Pledged shares as % of total shares

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Prince Pipes and Fittings

All-time high margin amid muted volumes

We maintain our ADD rating on Prince Pipes, with a revised target price of INR 695/sh (17/30x its Mar-25E EBITDA/PAT). In Q4FY23, while the company reported weak volume (-2% YoY), its EBITDA margin soared to an all-time high (19.4%), driven by inventory gains (INR 0.25bn i.e. 3.3% of revenue) and better product mix. As it tightened its working capital, the cash conversion cycle was reduced to 70 days in FY23 (vs 90 days YoY). Prince announced a greenfield pipes plant in Bihar by Q4FY25, which will increase its capacity by 35K MT (~11%). While Prince noted a healthy demand outlook, it cautioned that its Q1FY24E will be impacted as it is migrating to a global ERP system.

- Q4FY23 performance:** Sales volume fell 2% YoY, implying a modest four-year CAGR of 3%. Its NSR went up 7% QoQ, led by resin price rebound in Q4 (but down 13% YoY, owing to the sharp correction from the peak seen in early FY23). Fall in raw materials costs drove unitary opex down by 17/4% YoY/QoQ and led to inventory gains. It reported an all-time high EBITDA margin due to inventory gain (INR 0.25bn i.e. 3.3% of revenue) and better product mix. EBITDA margin expanded 380/955bps YoY/QoQ to 19.4% (all-time high quarterly performance for Prince).
- Con call KTAs and outlook:** It has tightened its working capital: cash conversion cycle reduced to 70 days in FY23 from its elevated level of 90 days YoY. Demand is strong from both plumbing and agri segments. Due to the ongoing ERP installation, Q1FY24 performance will be negatively impacted. Resin prices have reduced in Q1FY24. However, Prince doesn't expect inventory losses in Q1FY24. It announced a greenfield pipes plant in Bihar (~35K MT by Q4FY25, Capex INR 1.5bn), which will expand its plumbing capacity by 11%. It intends to capitalise on its distribution reach by entering the bath ware segment in Jun-23 (INR 150mn cash loss expected in FY24). Factoring in strong Q4 numbers and a stable resin price outlook, we raise our FY24/25E EBITDA estimates by 12/9% respectively.

Quarterly/annual financial summary

YE Mar (INR mn)	Q4 FY23	Q4 FY22	YoY (%)	Q3 FY23	QoQ (%)	FY21	FY22	FY23	FY24E	FY25E
Pipes sales (K MT)	44.3	45.3	-2.1	43.7	1.4	138.3	139.0	157.7	176.6	196.1
NSR (INR/kg)	172	199	-13.3	162	6.8	150	191	172	167	170
EBITDA (INR/kg)	33	31	7.9	16	110.5	26	30	16	22	22
Net Sales	7,644	9,011	-15.2	7,059	8.3	20,715	26,568	27,109	29,451	33,344
EBITDA	1,483	1,404	5.6	695	113.5	3,616	4,157	2,503	3,876	4,319
EBITDAM (%)	19.4	15.6		9.8		17.5	15.6	9.2	13.2	13.0
APAT	941	882	6.8	354	166.0	2,218	2,495	1,214	2,232	2,534
Diluted EPS (INR)	8.5	8.0	6.8	3.2	166.0	20.2	22.6	11.0	20.2	22.9
EV / EBITDA (x)						18.2	16.4	26.3	16.7	14.9
P/E (x)						30.4	27.0	55.5	30.2	26.6
RoE (%)						23.6	21.6	9.2	15.3	15.3

Source: Company, HSIE Research

Estimates revision summary

INR bn	FY24E Old	FY24E Revised	Change %	FY25E Old	FY25E Revised	Change %
Net Sales	29.85	29.45	-1.3	33.63	33.34	-0.9
EBITDA	3.46	3.88	12.1	3.96	4.32	9.1
APAT	1.89	2.23	18.0	2.21	2.53	14.8

Source: Company, HSIE Research

ADD

CMP (as on 26 May 23)	INR 610
Target Price	INR 695
NIFTY	18,499

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 635	INR 695
EBITDA revision %	FY24E 12.1	FY25E 9.1

KEY STOCK DATA

Bloomberg code	PRINCPIP IN
No. of Shares (mn)	111
MCap (INR bn) / (\$ mn)	67/825
6m avg traded value (INR mn)	100
52 Week high / low	653/510

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	9.3	11.2	(2.4)
Relative (%)	4.2	10.9	(17.6)

SHAREHOLDING PATTERN (%)

	Dec-22	Mar-23
Promoters	62.94	60.94
FIs & Local MFs	15.46	15.75
FPIs	4.41	6.24
Public & Others	17.19	17.06
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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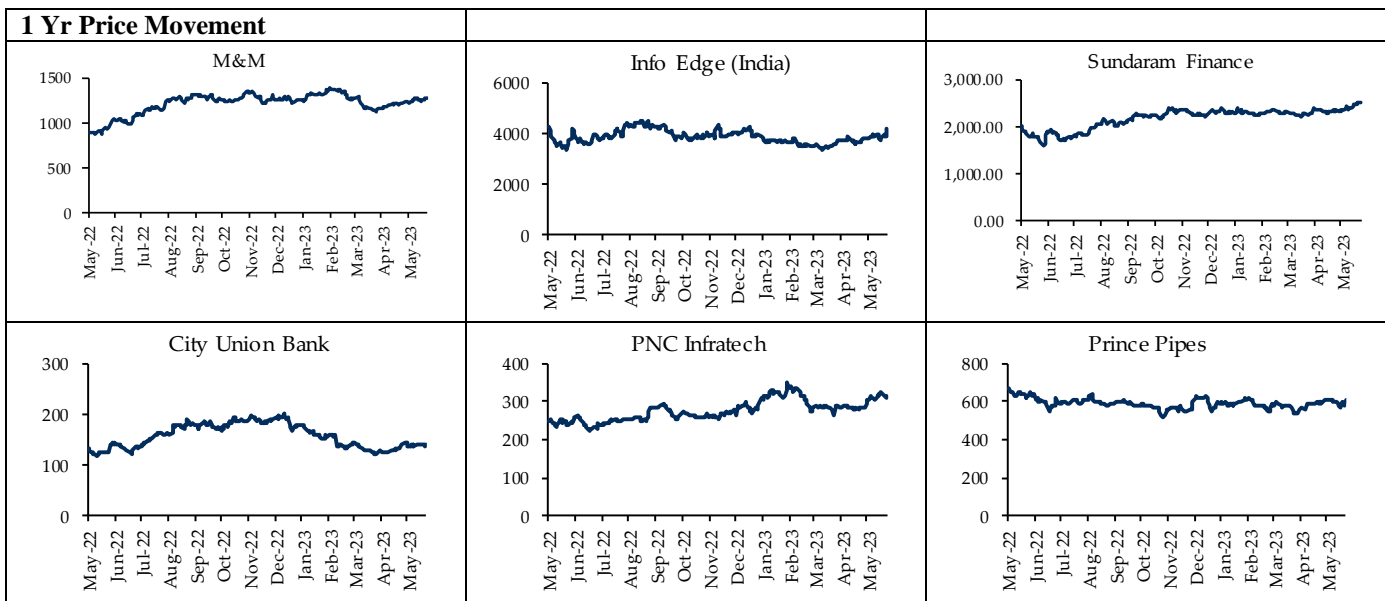
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Rating Criteria

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
Aniket Mhatre	Mahindra & Mahindra	MBA	NO
Sonaal Sharma	Mahindra & Mahindra	MBA	NO
Amit Chandra	Infoedge	MBA	NO
Vivek Sethia	Infoedge	CA	NO
Krishnan ASV	Sundaram Finance, City Union Bank	PGDM	NO
Deepak Shinde	Sundaram Finance, City Union Bank	PGDM	NO
Neelam Bhatia	Sundaram Finance, City Union Bank	PGDM	NO
Parikshit Kandpal	PNC Infratech	MBA	NO
Manoj Rawat	PNC Infratech	MBA	NO
Nikhil Kanodia	PNC Infratech	MBA	NO
Rajesh Ravi	Prince Pipes and Fittings	MBA	NO
Keshav Lahoti	Prince Pipes and Fittings	CA	NO



Disclosure:

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