Q2FY23 Post Results Review

23rd November 2022

Auto & Auto Ancillaries

Ashok Leyland	Target: INR 188		Previous Target: INR 184				(Rating: Retained Buy)
Particulars (Rs mn)	**Q2FY23**	**Q2FY22**	**YoY (%)**	**Q1FY23**	**QoQ (%)**	**Q2FY23E**	**Deviation**
Revenue	82,660	44,579	85.4%	72,229	14.4%	81,272	1.7%
EBITDA	5,373	1,347	289.9%	3,203	67.8%	5,128	4.8%
EBITDA Margin	6.5%	3.0%	348 Bps	4.4%	207 Bps	6.3%	19 Bps
Adj PAT	1,931	-832	-	583	231.3%	2,086	-7.4%

Key reasons for deviation: Operational performance was better than our estimates, PAT slightly below majorly due to higher than expected effective tax rate in Q2FY23. Higher than expected benefits from soft commodity prices led to better margins as compared to estimates.

Outlook post results: Earnings estimates more or less remain unchanged with marginal tweaks, growth visibility is much better & market share gains are on cards.
Ashok Leyland has been gaining share since last five consecutive quarters in domestic MHCVs. Domestic LCVs have also outperformed over the long period. The combination of market tilting towards MHCVs + replacement cycle kicking-in + scrappage implementation starting next year + improving buses demand are all extremely positive triggers for topline growth. The full benefits of soft commodity prices, along with operating leverage to start yielding better margins starting

Eicher Motors	Target: INR 3,999		Previous Target: INR 3,424				(Rating: Retained Accumulate)
Particulars (Rs mn)	**Q2FY23**	**Q2FY22**	**YoY (%)**	**Q1FY23**	**QoQ (%)**	**Q2FY23E**	**Deviation**
Revenue	35,194	22,496	56.4%	33,975	3.6%	36,426	-3.4%
EBITDA	8,216	4,699	74.9%	8,311	-1.1%	8,767	-6.3%
EBITDA Margin	23.3%	20.9%	246 Bps	24.5%	(112)Bps	24.1%	(72)Bps
Adj PAT	6,569	3,732	76.0%	6,107	7.6%	6,598	-0.4%

Key reasons for deviation: Revenues slightly lower than estimates as volumes revised by the company & higher than expected degrowth in the realization. Launch cost, adverse product mix (tilted towards low margin Hunter 350cc) and drop in exports contribution (~16% in Q1FY23 to 12% in Q2FY23) impacted EBITDA margin QoQ, offset by some benefits due to operating leverage. PAT matched our estimates as share of profits from JV was better than estimates & higher other income.

Outlook post results: Upgraded earnings as new launches are contributing much higher than estimates, growth visibility is better & remain positive.
The company is on an accelerated growth path led by 1) the success of recent model launches & healthy product pipeline 2) no electrification threat, atleast for the next 2-3 years 3) good export opportunities 4) commodity benefits to start flowing in from Q3 onwards 5) biggest hurdle – supply challenges is almost resolved and 6) VECV known for making quality trucks has been gradually gaining share.

Bajaj Auto	Target: INR 4,015		Previous Target: INR 4,120				(Rating: Retained Accumulate)
Particulars (Rs mn)	**Q2FY23**	**Q2FY22**	**YoY (%)**	**Q1FY23**	**QoQ (%)**	**Q2FY23E**	**Deviation**
Revenue	1,02,028	87,622	16.4%	80,050	27.5%	96,713	5.5%
EBITDA	17,587	14,011	25.5%	12,970	35.6%	16,835	4.5%
EBITDA Margin	17.2%	16.0%	125 Bps	16.2%	104 Bps	17.4%	(17)Bps
Adj PAT	15,300	12,746	20.0%	11,733	30.4%	14,526	5.3%

Key reasons for deviation: Revenue/EBITDA/PAT is ~5% above our estimates driven largely by surprise growth in the realization despite poor geographic mix. This is largely due to one-off income related to export benefits & higher USD realization.

Outlook post results: Downgraded estimates due to higher than expected pain in exports.
Domestic piece of business is strong, while exports will continue to remain weak atleast for the next two quarters. More EV launches & refreshers in premium portfolio to support volume growth. Going forward, margin improvement is undisputable looking at softness in metals, further depreciation of USD, higher mix of high margin 3Ws and increased sales from premium portfolio. Some bit of margins will be scarified to uplift export volumes.

Hero MotoCorp	Target: INR 3,021		Previous Target: INR 3,198				(Rating: Retained Buy)
Particulars (Rs mn)	**Q2FY23**	**Q2FY22**	**YoY (%)**	**Q1FY23**	**QoQ (%)**	**Q2FY23E**	**Deviation**
Revenue	90,754	84,534	7.4%	83,925	8.1%	87,932	3.2%
EBITDA	10,383	10,664	-2.6%	9,408	10.4%	10,643	-2.4%
EBITDA Margin	11.4%	12.6%	(117)Bps	11.2%	23 Bps	12.1%	(66)Bps
Adj PAT	7,161	7,944	-9.9%	6,245	14.7%	7,823	-8.5%

Key reasons for deviation: Q2FY23 Revenue & absolute EBITDA was near in-line with our estimates, while PAT declined due to higher expenses (related to A&P) and lower than expected other income (owing to MTM loss).

Outlook post results: Downgraded estimates due to subdued margin performance, growth visibility is slightly improved due to uptick in rural. Maintain positivity due to attractive valuation. Positive triggers ahead are 1) signs of rural uptick (reported strong retails in Oct). 2) higher sales of Xtec range, premiumization & the aim to launch one new product in a year will not only take care of volume/market share growth, but also improve margins. 3) commodity softness to add further in uplifting margins, and 4) not leaving any stone unturned for EVs.

Maruti Suzuki	Target: INR 10,338		Previous Target: INR 9,220			(Rating: Retained Accumulate)
Particulars (Rs mn)	**Q2FY23**	**Q2FY22**	**YoY (%)**	**Q1FY23**	**QoQ (%)**	**Q2FY23E**	**Deviation**
Revenue	2,99,308	2,05,389	45.7%	2,64,998	12.9%	2,95,940	1.1%
EBITDA	27,689	8,549	223.9%	19,121	44.8%	27,529	0.6%
EBITDA Margin	9.3%	4.2%	509 Bps	7.2%	204 Bps	9.3%	(5)Bps
Adj PAT	20,615	4,753	333.7%	10,128	103.5%	19,167	7.6%

Key reasons for deviation: Revenues/EBITDA matched our estimates, higher than estimated PAT was owing to increase in other income and lower effective tax rate.

Outlook post results: Tweaked estimates on the higher side looking at better than expected realization growth and benefits of recent sharp correction in commodity prices. Visibility on earnings improved and remain positive. Maintain long-term positive view on Maruti as renewed efforts, especially in the SUV space, resulting in strong response for recently launched models. SUVs will not only lift up volumes & realization, but also margins in the coming years, as these models are better profitable ones. Exports momentum remains strong & supply improvement is real.

TVS Motor	Target: INR 1,209		Previous Target: INR 872				(Rating: Reduce to Accumulate)
Particulars (Rs mn)	**Q2FY23**	**Q2FY22**	**YoY (%)**	**Q1FY23**	**QoQ (%)**	**Q2FY23E**	**Deviation**
Revenue	72,192	56,194	28.5%	60,087	20.1%	68,422	5.5%
EBITDA	7,365	5,629	30.9%	5,995	22.9%	7,328	0.5%
EBITDA Margin	10.2%	10.0%	19 Bps	10.0%	23 Bps	10.7%	(51)Bps
Adj PAT	4,075	2,776	46.8%	3,205	27.1%	4,067	0.2%

Key reasons for deviation: EBITDA & PAT matched our estimates, while there is a beat on the revenue largely led by the price increase, exchange rate benefit, & a better product mix.

Outlook post results: We upgrade the stock to ACCUMULATE largely owing to its strong past years performance, and encouraging commentary along with visible efforts to sustain the momentum going ahead. Growth visibility is very good, turned positive on the stock. Strong commentary, new launches, premiumization, supply getting better, building capabilities ahead of the curve in EVs are all positive triggers for continued market share gains. Better mix, along with price increase & operating leverage to keep improving margins & the company is capable to touch peer level margins in the mid-term.

Suprajit Engineering Ltd	Target: INR 428		Previous Target: INR 433				(Rating: Retained Buy)
Particulars (Rs mn)	**Q2FY23**	**Q2FY22**	**YoY (%)**	**Q1FY23**	**QoQ (%)**	**Q2FY23E**	**Deviation**
Revenue	7,161	4,937	45.0%	6,452	11.0%	6,992	2.4%
EBITDA	787	801	-1.7%	540	45.8%	739	6.4%
EBITDA Margin	11.0%	16.2%	(523)Bps	8.4%	262 Bps	10.6%	41 Bps
Adj PAT	457	529	-13.5%	273	67.5%	400	14.2%

Key reasons for deviation: The Q2 performance largely lifted-up owing to good show in Phoenix & Non-auto businesses. Margins recovered more than expectation across four segments.

Outlook post results: Largely maintained earnings estimates, while growth visibility across divisions are good, remain positive on the stock. All three traditional businesses are in the fast lane, LDC's improvement is real, and Suprajit Technical Centre (STC) to give additional wing to fly higher.

Steel Strips Wheels Ltd	Target: INR 224		Previous Target: INR 211				(Rating: Retained Buy)
Particulars (Rs mn)	**Q2FY23**	**Q2FY22**	**YoY (%)**	**Q1FY23**	**QoQ (%)**	**Q2FY23E**	**Deviation**
Revenue	10,811	9,580	12.8%	10,161	6.4%	10,488	3.1%
EBITDA	1,172	1,370	-14.5%	1,093	7.2%	1,153	1.6%
EBITDA Margin	10.8%	14.3%	(347)Bps	10.8%	8 Bps	11.0%	(16)Bps
Adj PAT	546	628	-13.0%	481	13.5%	528	3.4%

Key reasons for deviation: Revenues/EBITDA/PAT came near in-line with our estimates.

Outlook post results: Outlook largely remain the same, earnings visibility is better than earlier, maintain positive stance on the company. We expect every quarter to be better than the previous one driven by green shoots visible in exports, alloy wheels is running at near full utilization levels and domestic M&HCVs are in upcycle should benefit. All these segments are high margin and its realization is much better. This, along with reverse pass-on of commodity from OEMs to ancillary has always remain beneficiary in EBITDA margin improvement.

Swaraj Engines	Target: INR 2,197		Previous Target: INR 2,156				(Rating: Retained Buy)
Particulars (Rs mn)	**Q2FY23**	**Q2FY22**	**YoY (%)**	**Q1FY23**	**QoQ (%)**	**Q2FY23E**	**Deviation**
Revenue	3,848	3,436	12.0%	3,984	-3.4%	3,284	17.1%
EBITDA	505	477	5.8%	549	-7.9%	467	8.2%
EBITDA Margin	13.1%	13.9%	(77)Bps	13.8%	(64)Bps	14.2%	(108)Bps
Adj PAT	359	338	6.3%	395	-9.2%	334	7.3%

Key reasons for deviation: Way better sales volume than what indicated by tractor industry growth and continuation of higher realization despite some correction in metal prices led to higher sales, higher costs inventory may led to lower than expected margin performance.

Outlook post results: Its outperformance vs. the industry should continue going forward as there is an increase in the business noted from Kirloskar to Swaraj. Looking at the good future demand scenario, the company will increase the engine capacity from 150K units annually to 180K units.

Mayur Uniquoters	Target: INR 599		Previous Target: INR 572				(Rating: Retained Buy)
Particulars (Rs mn)	**Q2FY23**	**Q2FY22**	**YoY (%)**	**Q1FY23**	**QoQ (%)**	**Q2FY23E**	**Deviation**
Revenue	1,945	1,877	3.6%	2,009	-3.2%	1,952	-0.4%
EBITDA	336	345	-2.8%	369	-9.0%	372	-9.8%
EBITDA Margin	17.3%	18.4%	(114)Bps	18.4%	(110)Bps	19.1%	(180)Bps
Adj PAT	254	249	1.8%	286	-11.4%	273	-6.9%

Key reasons for deviation: Lower than expected margins as clients especially in footwear and general segments are taking immediate price correction whereas the company had to work with higher priced RM inventory. Hence deviation on profitability front.

Outlook post results: Mayur is set to get good amount of new businesses from Mercedes & VW India with improvement on chip shortage front. They also have approval from BMW, and business should start with delay in FY24. With volume recovery in footwear, the ramp up of PU plant and businesses from new clients such as VW, Mercedes, & BMW, we expect a much stronger performance from FY24 onwards.

Key observation from the sector: CV companies have started a sharp turnaround on volumes/margins/profitability, Ashok Leyland will be the clear beneficiary. Domestic 2W demand started showing positive traction with better visbility owing to green shoots in rural, while export demand turned negative with subdued outlook. Hero MotoCorp in 2Ws is a good value buy. PV supply improvement is real, good amount of launches are happening specially in SUVs that will lift-up volumes. Across the board, management guided that benefits of commodity prices will be visible from Q3FY23 onwards. Overall, domestic traction and margin performance is expected to get better in the 2nd half across 2W/PV/CV/Tractors.

Outlier: Suprajit Engineering was the outlier due to very good improvement in QoQ margin performance. All its business segments performed much better than estimates and outlook is healthy.

Pharma							
Sun Pharmaceuticals	**Target: INR 1,080**		**Previous Target: INR 1,080**				**(Rating: BUY to ACCUMULATE)**
Particulars (Rs mn)	**Q2FY23**	**Q2FY22**	**YoY (%)**	**Q1FY23**	**QoQ (%)**	**Q2FY23E**	**Deviation**
Revenue	1,09,523	96,259	13.8%	1,07,618	1.8%	1,02,187	7.2%
EBITDA	29,566	26,299	12.4%	28,844	2.5%	27,737	6.6%
EBITDA Margin	27.0%	27.3%	(33)Bps	26.8%	19 Bps	27.1%	(15)Bps
Adj PAT	22,623	20,470	10.5%	20,609	9.8%	20,843	8.5%

Key reasons for deviation: Higher revenue from the Taro business which has acquisition impact of Alchemee in the quarter led to deviation.

Outlook post results: No change in Estimates. Remain positive for the company. The specialty contribution continues to increase from here on to 20% in FY24 from 16.3% in Q2FY23. Strong growth in the specialty segment was the highlight which was driven by healthy sales from drugs such as Ilumya, Cequa and Winlevi during the quarter. Global specialty sales increased 27%+ YoY in 2QFY23 to US$221 mn. With stabilization in specialty spends the company will benefit from operating leverage.

Laurus Labs	**Target: INR 550**		**Previous Target: INR 550**				**(Rating: Retained Buy)**
Particulars (Rs mn)	**Q2FY23**	**Q2FY22**	**YoY (%)**	**Q1FY23**	**QoQ (%)**	**Q2FY23E**	**Deviation**
Revenue	15,759	12,035	30.9%	15,390	2.4%	18,255	-13.7%
EBITDA	4,489	3,451	30.1%	4,542	-1.2%	5,476	-18.0%
EBITDA Margin	28.5%	28.7%	(19)Bps	29.5%	(103)Bps	30.0%	(151)Bps
Adj PAT	2,328	2,019	15.3%	2,513	-7.4%	3,288	-29.2%

Key reasons for deviation: Results missed estimates due to lower revenue of ARV formulations business. The ARV business has witnessed price erosion of 20%.

Outlook post results: We have reduced our EPS estimates by 20-30%, primarily on account of lower ARV sales and margins. Visibility on earnings have gone down. The company did not apply for ARV tenders which had lower price resulting in poor performance of the formulation business. Laurus will again apply for long term PEPFAR tender with revised price.

Divis Labs	**Target: INR 3,647**						**(Rating: ACCUMULATE)**
Particulars (Rs mn)	**Q2FY23**	**Q2FY22**	**YoY (%)**	**Q1FY23**	**QoQ (%)**	**Q2FY23E**	**Deviation**
Revenue	18,545	19,875	-6.7%	22,545	-17.7%	20,855	-11.1%
EBITDA	6,210	8,181	-24.1%	8,467	-26.7%	8,050	-22.9%
EBITDA Margin	33.5%	41.2%	(768)Bps	37.6%	(407)Bps	38.6%	(511)Bps
Adj PAT	4,936	6,065	-18.6%	7,020	-29.7%	5,800	-14.9%

Key reasons for deviation: Divi's lab missed the earnings estimate due to higher than expected decline in from custom synthesis business which had high base of molnupiravir in FY22.

Outlook post results: No change in Estimates. The long-term growth story is intact as Divi's focus on custom synthesis segments, and its ability to win repeat, high-tonnage business is clear evidence of its specialization. The company is structurally well positioned in customs synthesis and API even after flattish year ahead on a high base in FY22.

Healthcare

Apollo Hospitals	Target: INR 5,250		Previous Target: INR 4,913			(Rating: ACCUMULATE to BUY)	
Particulars (Rs mn)	**Q2FY23**	**Q2FY22**	**YoY (%)**	**Q1FY23**	**QoQ (%)**	**Q2FY23E**	**Deviation**
Revenue	42,511	37,171	14.4%	37,956	12.0%	43,555	-2.4%
EBITDA	5,653	6,150	-8.1%	4,907	15.2%	6,882	-17.9%
EBITDA Margin	13.3%	16.5%	(320)Bps	12.9%	37 Bps	15.8%	(250)Bps
Adj PAT	2,217	2,870	-22.8%	3,305	-32.9%	4,312	-48.6%

Key reasons for deviation: Revenues missed estimate due to lower revenue from AHLL business (Expected: 4,272 Mn, actual: 3,172 Mn). Deviation in EBITDA margin was largely due to higher operating cost of 24*7.

Outlook post results: No change in Estimates. Remain positive for the company. The avg occupancy rate for the company was 68%. Going ahead, we believe the occupancy to improve to 75% which will be driven by increase in international patients mix and IP (Inpatients volume) growth. The other verticals such as Apollo Health & Lifestyle (AHLL) is expected to reach Rs. 10 bn sales in next three years by network expansion. Whereas Pharmacy distribution business will grow steadily.

HCGEL	Target: INR 367		Previous Target: INR 351			(Rating: Retained Buy)	
Particulars (Rs mn)	**Q2FY23**	**Q2FY22**	**YoY (%)**	**Q1FY23**	**QoQ (%)**	**Q2FY23E**	**Deviation**
Revenue	4,200	3,520	19.3%	4,081	2.9%	3,957	6.1%
EBITDA	747	618	20.9%	722	3.5%	724	3.2%
EBITDA Margin	17.8%	17.6%	23 Bps	17.7%	9 Bps	18.3%	(51)Bps
Adj PAT	74	54	37.0%	60	23.3%	87	-14.9%

Key reasons for deviation: Revenue beats estimate due to higher growth from the new centres. EBITDA Margins missed the estimates due to higher other expenses.

Outlook post results: No change in Estimates. Remain positive on the company. This was the best quarter for the company as the company has achieved highest ever EBITDA margins. T1) The major change playing out for HCG will be the mix of mature and new hospitals. The mature hospitals are already generating EBITDA margins of 25%, this will be aided by margin improvement in the new hospitals which will change the overall margin for the company. The improved EBITDA margins will be driven by 3-4% price hike, volume increase, Payor and mortality mix.

Narayana Hrudayalaya	Target: INR 957		Previous Target: INR 734			(Rating: ACCUMULATE to BUY)	
Particulars (Rs mn)	**Q2FY23**	**Q2FY22**	**YoY (%)**	**Q1FY23**	**QoQ (%)**	**Q2FY23E**	**Deviation**
Sales	11,416	9,403	21.4%	10,334	10.5%	11,200	1.9%
EBITDA	2,437	1,689	44.3%	1,920	26.9%	2,095	16.3%
EBITDA Margin (%)	21.3%	18.0%	338 Bps	18.6%	277 Bps	18.7%	264 Bps
PAT	1,689	993	70.1%	1,106	52.7%	1,075	57.1%

Key reasons for deviation: Higher than expected revenue growth from Cayman hospitals. The average revenue per person (ARPP) For IP IP in Cayman was USD 30,300 which has witnessed increase of 83% YoY due to low base of covid in Q2 FY22. ARPP for OP in Cayman was USD 1000, an increase of 2.1%.

Outlook post results: Change in Estimates. Visibility on earnings have improved due to volume growth in Cayman Business. The international patient mix grew to 8% in Q2FY23 from 6% in Q1FY23 which led to improvement in revenues.

Fortis Healthcare	Target: INR 360		Previous Target: INR 310			(Rating: Retained Buy)	
Particulars (Rs mn)	**Q2FY23**	**Q2FY22**	**YoY (%)**	**Q1FY23**	**QoQ (%)**	**Q2FY23E**	**Deviation**
Revenue	16,072	14,624	9.9%	14,879	8.0%	14,609	10.0%
EBITDA	3,029	2,457	23.3%	2,511	20.6%	2,773	9.2%
EBITDA Margin	18.8%	16.8%	205 Bps	16.9%	197 Bps	19.0%	(14)Bps
Adj PAT	1,389	446	211.4%	1,102	26.0%	824	68.6%

Key reasons for deviation: Higher revenues from the hospital business mainly driven by increased growth from Jaipur and FEHI hospitals (New hospitals).

Outlook post results: No change in Estimates. Visibility on earnings have improved due to clean chit in forensic audit. However, the high court approval for open offer is still pending. The diagnostic business which was struggling from 3 quarters due to increased competition and high covid base has seen improvement on QOQ basis on the EBITDA margin from 17.4% in FY23 to 18.9% in Q2FY23.

Key observation from the sector: The gist of the sector was all hospitals has seen inpatient growth and increased occupancy levels in the quarter which resulted in growth in revenues. Some hospitals such as Narayana and HCG also witnessed growth in international patients. But hospitals such as Apollo is still below precovid level with international patients mix at 6%. Apollo expects that going ahead international patients mix will reach to 10% in FY23 and 15% in FY24. Our top pick for the sector in small cap is Healthcare global and in large cap is Apollo hospital.

Demand Outlook: Post covid-19 Healthcare industry as a whole has been in a sweet spot. Due to rise in lifestyle diseases and more awareness about health post covid has led to higher occupancies and utilization levels for the hospitals. Online consultation was there in the industry but post covid the volume has grown 4x-5x. All these factors will drive the demand for hospitals going forward.

Chemicals

IG Petrochemicals Ltd	Target: INR 551		Previous Target: INR 630				(Rating: Retained ACCUMULATE)
Particulars (Rs mn)	**Q2FY23**	**Q2FY22**	**YoY (%)**	**Q1FY23**	**QoQ (%)**	**Q2FY23E**	**Deviation**
Revenue	5,691	4,711	20.8%	6,599	-13.8%	5,600	1.6%
EBITDA	854	975	-12.4%	1,198	-28.7%	840	1.6%
EBITDA Margin	15.0%	20.7%	(569)Bps	18.1%	(315)Bps	15.0%	-
Adj PAT	554	650	-14.9%	810	-31.7%	545	1.6%

Key reasons for deviation: Numbers were almost in line with estimates

Outlook post results: Growth story visible ost FY24 when the company brownfield expansion of 53,000 tonnes would come on stream. Also, PAN-Ox spreads are quite volatile and in current quarter contraction in spreads is witnessed and we expect sustainable spreads at $150-250/ton. Maintain ACCUMULATE

NOCIL Ltd	Target: INR 332		Previous Target: INR 230				(Rating: Retained Buy)
Particulars (Rs mn)	**Q2FY23**	**Q2FY22**	**YoY (%)**	**Q1FY23**	**QoQ (%)**	**Q2FY23E**	**Deviation**
Revenue	3,892	3,752	3.8%	5,089	-23.5%	4,634	-16.0%
EBITDA	620	503	23.3%	1,033	-40.0%	841	-26.3%
EBITDA Margin	15.9%	13.4%	253 Bps	20.3%	(437)Bps	18.1%	(222)Bps
Adj PAT	357	300	19.1%	665	-46.3%	602	-40.7%

Key reasons for deviation: The company's topline was a miss because of more than expected decline of volumes in export segment because of weak demand. Spreads for the quarter were mostly near our estimates of Rs52 per kg.

Outlook post results: We feel that volume decline in export market might remain an overhang in the near term but domestic demand is strong in auto and tyre sector and supply side issues in European countries should benefit the company in the long run. As the company operates in niche product segment with high entry barriers having market leadership, there is huge possibility of growth with reasonable profitability. Maintain BUY

Bodal Chemicals Ltd	Target: INR 78		Previous Target: INR 152				(Rating: Retained Buy)
Particulars (Rs mn)	**Q2FY23**	**Q2FY22**	**YoY (%)**	**Q1FY23**	**QoQ (%)**	**Q2FY23E**	**Deviation**
Revenue	3,957	4,697	-15.7%	4,590	-13.8%	4,650	-14.9%
EBITDA	321	486	-34.0%	498	-35.7%	472	-32.1%
EBITDA Margin	8.1%	10.3%	(224)Bps	10.9%	(276)Bps	10.2%	(205)Bps
Adj PAT	103	228	-55.0%	225	-54.4%	215	-52.2%

Key reasons for deviation: The company's topline was a miss because of more than expected decline in dye intermediates segment because of weaker textile sector demand. Dyestuffs demand also remained largely muted. Higher raw material than anticipated led to weaker operating profit. than estimates.

Outlook post results: The company’s major end users are textiles, leather, dyes & pigments wherein demand had weakened, however, signs of pickup in demand is visible and will benefit in the coming quarters and with expansion into newer businesses like benzene derivatives, Chlor alkali ramp up & inexpensive valuations we feel company will benefit in the long term. Maintain BUY

Phillips Carbon Black Ltd	Target: INR 161						(Rating: BUY)
Particulars (Rs mn)	**Q2FY23**	**Q2FY22**	**YoY (%)**	**Q1FY23**	**QoQ (%)**	**Q2FY23E**	**Deviation**
Revenue	16,279	10,676	52.5%	14,091	15.5%	14,350	13.4%
EBITDA	1,886	1,870	0.8%	1,955	-3.5%	1,960	-3.8%
EBITDA Margin	11.6%	17.5%	(593)Bps	13.9%	(229)Bps	13.7%	(208)Bps
Adj PAT	1,164	1,220	-4.6%	1,262	-7.8%	1,250	-6.9%

Key reasons for deviation: The realization of carbon black came in higher than our estimates which led to topline miss. Since spreads were largely in line with estimates, hence EBITDA was near to our estimates.

Outlook post results: We feel that upcoming expansion of Chennai from next month and speciality black expansion from Q4FY23 & Q4FY24 will provide filip to volume growth. Although weak exports demand remains in check, higher share of performance chemcials and speciality mix might led to improvement in EBITDA per kg of Rs 15 by FY25E which bodes well for the company. Considering inexpensive valuations, robust return ratios and market leadership we are positive on the company. Assigned BUY rating.

Apparel - Innerwear

Page Industries Ltd	Target: INR 51,514		Previous Target: INR 51,248			(Rating: Retained ACCUMULATE)	
Particulars (Rs mn)	**Q2FY23**	**Q2FY22**	**YoY (%)**	**Q1FY23**	**QoQ (%)**	**Q2FY23E**	**Deviation**
Revenue	12,550	10,840	15.8%	13,413	-6.4%	13,710	-8.5%
EBITDA	2,379	2,334	1.9%	2,978	-20.1%	3,071	-22.5%
EBITDA Margin	19.0%	21.5%	(258)Bps	22.2%	(325)Bps	22.4%	(344)Bps
Adj PAT	1,621	1,605	1.0%	2,070	-21.7%	2,116	-23.4%

Key reasons for deviation: Company reported sales growth of ~20% YoY (volume growth of ~7%) excluding sales from face mask in Q2FY22. Margins were lower due to higher than expected advertisement expenditure.

Outlook post results: We have reduced our estimates for both FY23 & FY24 post results. We remain positive on medium to long term growth prospects of the company. KTAs from post concall a) Company will continue with the expansion in distribution network b) Expect to maintain EBIDTA margins in the range of ~20%-21% going forward.

Lux Industries Ltd	Target: INR 1,802		Previous Target: INR 1,983			(Rating: Retained ACCUMULATE)	
Particulars (Rs mn)	**Q2FY23**	**Q2FY22**	**YoY (%)**	**Q1FY23**	**QoQ (%)**	**Q2FY23E**	**Deviation**
Revenue	6,357	6,272	1.4%	5,687	11.8%	6,310	0.7%
EBITDA	647	1,373	-52.9%	748	-13.5%	1,039	-37.7%
EBITDA Margin	10.2%	21.9%	(1,171)Bps	13.2%	(298)Bps	16.5%	(629)Bps
Adj PAT	420	1,004	-58.2%	507	-17.2%	723	-41.9%

Key reasons for deviation: Company reported sales in-line with our expectations, with volume decline of ~8% YoY. Margin decline was higher than expected due to consumption of high cost cotton yarn inventory and high advertisement spend. In Q2FY23 Adv/sales was at ~8.7% vs ~6.8% YoY.

Outlook post results: We have reduced our estimates for both FY23 & FY23 given weak peformance in H1FY23. With stabalisation of cotton yarn prices, we expect performance of the company to improve QoQ. Company has appointed a new COO- Mr Udai Kumar Agarwal w.e.f from Nov 14th, 2022.

Rupa & Co. Ltd	Target: INR 316		Previous Target: INR 432			(Rating: BUY to ACCUMULATE)	
Particulars (Rs mn)	**Q2FY23**	**Q2FY22**	**YoY (%)**	**Q1FY23**	**QoQ (%)**	**Q2FY23E**	**Deviation**
Revenue	2,856	3,675	-22.3%	2,147	33.0%	3,492	-18.2%
EBITDA	292	713	-59.0%	185	57.8%	593	-50.8%
EBITDA Margin	10.2%	19.4%	(918)Bps	8.6%	161 Bps	17.0%	(676)Bps
Adj PAT	169	530	-68.1%	124	36.3%	420	-59.8%

Key reasons for deviation: Company has reported volume decline of ~26% YoY in Q2FY23 which is higher than our estimate. Company has lost market share in its core-region. Margins were lower led by lower gross margins, higher advertisement expenditure and also due to operating de-leverage due to lower sales.

Outlook post results: Due to two quarters of back to back weak results we have reduced our estimates for both FY23 & FY24. We will be watchful of the results going forward and have revised our rating. KTAs from post concall a) With stability in cotton yarn prices, management epect peformance to improve going forward b) Have shortlisted some candidates for the post of CEO and selection process is going on.

Dollar Industries	Target: INR 708		Previous Target: INR 713			(Rating: Retained Buy)	
Particulars (Rs mn)	**Q2FY23**	**Q2FY22**	**YoY (%)**	**Q1FY23**	**QoQ (%)**	**Q2FY23E**	**Deviation**
Revenue	3,419	3,907	-12.5%	3,614	-5.4%	3,985	-14.2%
EBITDA	303	648	-53.2%	372	-18.5%	609	-50.2%
EBITDA Margin	8.9%	16.6%	(772)Bps	10.3%	(143)Bps	15.3%	(642)Bps
Adj PAT	173	438	-60.5%	270	-35.9%	416	-58.4%

Key reasons for deviation: Company reported volume decline of ~16.5% YoY which was higher than our estimates. Gross & EBIDTA Margins were impacted due to an inventory loss of ~Rs 120 mn which was higher than our estimate. Adv/Sales was also higher at ~7.3% vs ~5.1% YoY.

Outlook post results: We have slightly reduced our estimate for FY23 & FY24. With some stability in the cotton yarn prices & improvement in sentiments of the distribution channel, we expect improvement in performance of the company from here on. KTAs from post concall a) Management has maintained its goal to reach sales of ~Rs 20 bn by FY25 b) Progress on project Lakshya and channel financing for distributors is on track.

Key observation from the sector: Page was the only company in the listed space which reported volume growth among other innerwear companies. In Q2FY23 innerwear companies witnessed the impact of channel de-stocking from the distribution channel due to volatile raw material prices, however now with some stability in the cotton yarn prices sentiments have been improving. On the margins side there was an impact of inventory losses in Q2FY23, which is expected to reduce QoQ in H2FY23. We expect performance of the innearwear companies to improve on a QoQ basis in H2FY23.

Textiles

Nitin Spinners	Target: INR 388		Previous Target: INR 402				(Rating: Retained Buy)
Particulars (Rs mn)	**Q2FY23**	**Q2FY22**	**YoY (%)**	**Q1FY23**	**QoQ (%)**	**Q2FY23E**	**Deviation**
Revenue	5,059	6,647	-23.9%	7,088	-28.6%	5,761	-12.2%
EBITDA	570	1,775	-67.9%	1,089	-47.7%	720	-20.8%
EBITDA Margin	11.3%	26.7%	(1,543)Bps	15.4%	(410)Bps	12.5%	(123)Bps
Adj PAT	291	874	-66.7%	656	-55.6%	329	-11.4%

Key reasons for deviation: Lower-than-expected utilization in yarn segment and way lower business from knitted fabric segment, lower scale of operation put further pressure on margins and PAT

Outlook post results: We have toned down our estimates for coming years considering steep fall in cotton prices (RM pass on would lead to lower realization) and margin normalization at lower levels than earlier projected. However, Q2 performance was kind of botton as far as financial performance is concerned and we expect both utilization and margins to improve from here on. With capex on track, we are positive on company's strong future financials.

Vardhman Textiles	Target: INR 457						(Rating: BUY)
Particulars (Rs mn)	**Q2FY23**	**Q2FY22**	**YoY (%)**	**Q1FY23**	**QoQ (%)**	**Q2FY23E**	**Deviation**
Revenue	24,696	23,851	3.5%	28,118	-12.2%	21,850	13.0%
EBITDA	3,579	6,765	-47.1%	5,256	-31.9%	3,059	17.0%
EBITDA Margin	14.5%	28.4%	(1,387)Bps	18.7%	(420)Bps	14.0%	49 Bps
Adj PAT	2,049	4,815	-57.4%	3,291	-37.7%	1,672	22.6%

Key reasons for deviation: Utilization was better than the indication coming from other players especially in the south market. Subdued exports business hinted for far lower utilization. Higher than expected scale helped beat margin and PAT expectations.

Outlook post results: We believe that Q2FY23 is the bottom of recent quarterly performance, and the company will report far better numbers in coming quarters. The company has deferred its capacity expansion plan for few more months and looking for more opportune time to start the process. As capex plan is currently suspended and hence, growth path is less visible but improvement in performance, scale of operation and valuation make it a good BUY.

Key observation from the sector: 1. Industry was witnessing low utilization due to pain at exports front and some dumping from China side.
2. High cotton prices continue put pressure on margins in Q2
3. Cotton prices did decline recently but still there is no parity with international prices
4. With new cotton crop arrival, there is expectaion of better margins going forward
5. As loads of inventory corrections will happen during Christmas, hence Q4FY23 onwards, we can expect better export demand
6. Demand from domestic market is okay and woven fabric business is doing well. Knitted fabric business is under huge pressure.

Mid/Small Caps

Huhtamaki India Ltd	Target: INR 196		Previous Target: INR 222				(Rating: BUY to SELL)
Particulars (Rs mn)	**Q2FY23**	**Q2FY22**	**YoY (%)**	**Q1FY23**	**QoQ (%)**	**Q2FY23E**	**Deviation**
Revenue	7,690	6,687	15.0%	7,927	-3.0%	7,455	3.2%
EBITDA	230	309	-25.7%	345	-33.5%	400	-42.6%
EBITDA Margin	3.0%	4.6%	(164)Bps	4.4%	(137)Bps	5.4%	(238)Bps
Adj PAT	0	-218	NA	81	-99.5%	105	-99.6%

Key reasons for deviation: Topline was majorly in line with estimates. High than anticpated raw material prices and inability of the company to pass on the cost ot the end consumer was the major reason for EBITDA miss on estimates.

Outlook post results: We feel softening demand and volatile raw material prices is unlikely to change in the near term. The company is making low single digit margin and coming quarters which is already led by huge uncertainity in demand makes us pessimistic on the company's business model. Also lack of transparency from the management side is a negative. Assigned SELL rating.

DFM Foods Ltd.	Target: INR 419		Previous Target: INR 283				(Rating: BUY to ACCUMULATE)
Particulars (Rs mn)	**Q2FY23**	**Q2FY22**	**YoY (%)**	**Q1FY23**	**QoQ (%)**	**Q2FY23E**	**Deviation**
Revenue	1,650	1,471	12.2%	1,459	13.1%	1,707	-3.3%
EBITDA	-111	-1		-144	-22.9%	1	
EBITDA Margin	-6.7%	-0.1%		-9.9%	314 Bps	0.1%	
Adj PAT	-120	-31		-144	-16.7%	-34	

Key reasons for deviation: Sales were more or less in line with our expectation. Margins were lower due higher advertisement spends then what we had expected. In Q2FY23 Adv/Sales was ~9.9% vs ~9.1% YoY.

Outlook post results: We have revised the profits for FY23 and FY24 to factor in slighly higher adverisement expenditure than earlier. We remain positive on company's mid to long term potential but with increase in stock price post the delisting announcement made by the company we revise our rating on the stock from Buy to Accumulate.

TCI Express Ltd	Target: INR 2,168		Previous Target: INR 2,010				(Rating: Retained ACCUMULATE)
Particulars (Rs mn)	**Q2FY23**	**Q2FY22**	**YoY (%)**	**Q1FY23**	**QoQ (%)**	**Q2FY23E**	**Deviation**
Revenue	3,099	2,734	13.4%	2,904	6.7%	3,254	-4.8%
EBITDA	515	453	13.7%	428	20.3%	553	-6.9%
EBITDA Margin	16.6%	16.6%	5 Bps	14.7%	188 Bps	17.0%	(38)Bps
Adj PAT	378	340	11.2%	310	21.9%	402	-6.0%

Key reasons for deviation: Company reported results were good as we had expected. Company reported volume growth of ~12.5% YoY and price increase of ~1% YoY. Capacity utilisation was ~85% which was in-line with our expectations.

Outlook post results: Our estimates for FY23 and FY24 are largely unchanged the post results. We continue to remain positive on the company for a medium to long term perspective. KTAs from post concall a) Management said company is on track for ~18%-20% YoY sales growth for FY23 and expect ~50-100 bps YoY improvement in margins over next 2-3 years.

HIL Ltd.	Target: INR 3,658		Previous Target: INR 4,126				(Rating: Retained Buy)
Particulars (Rs mn)	**Q2FY23**	**Q2FY22**	**YoY (%)**	**Q1FY23**	**QoQ (%)**	**Q2FY23E**	**Deviation**
Revenue	1,650	1,471	12.2%	1,459	13.1%	1,707	-3.3%
EBITDA	-101	-1		-144		1	
EBITDA Margin	-6.1%	-0.1%		-9.9%		0.1%	
Adj PAT	-110	-31		-144		-34	

Key reasons for deviation: Company’s performance was better than our expectation on topline and margins led by better peformance in the Parador business.

Outlook post results: We have reduced the P/E multiple valuation from earlier 12x to 10x given short term challenges in the Parador business. We remain positive on the business of the company over medium to long term and valuations have now also become attractive. KTAs from post concall a) Management is working hard to achieve EBIDTA breakeven in the Parador business in Q3FY23 b) Outlook on the other divisions of the company is positive

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