INSTITUTIONAL RESEARCH

HSIE Results Daily

Contents

Results Reviews

- **Oil India:** Our ADD recommendation on Oil India with a target price of INR 680 is premised on oil production growth at 9% CAGR and gas production growth at 26% CAGR over FY24-26E. Q4FY24 EBITDA stood at INR 23bn (-1% YoY, +11% QoQ), and PAT at INR 20bn (+14% YoY, +28% QoQ) came in above our estimate, driven by higher-than-expected realisations and higher other income. Oil and gas production stood at 1.65mmtoe (+5% YoY, -1% QoQ), below our estimates.
- **Astral:** We downgrade Astral to ADD owing to its expensive valuation. Our target price remains unchanged at INR 2,040/sh (60x its Mar-26E EPS). Following strong demand during Q4FY24, plumbing volume grew 23/27% YoY/QoQ. NSR declined 3% QoQ due to the CPVC pipes prices decline (lower cost pass-on). In our view, adjusted for inventory gain or loss, EBITDA/kg for plumbing is INR 38 per kg in Q4 vs INR 45/36 per kg YoY/QoQ. In Q4FY24, adhesives and paints reported poor revenue growth of 5% YoY with sub-par 12.9% EBITDAM. Plumbing demand continues to stay strong in the market. The adhesive UK operations have normalised and the Dahej plant is ramping up well. The bathware segment is also gaining pace and the company is expected to break even on the EBITDA front in FY25.
- **Eris Lifesciences:** EBITDA grew (25% YoY) with +38% YoY sales growth, led by 23% YoY growth in domestic business (15% organic; additional sales from M&A of Dr Reddy's derma/Biocon's Nephro and derma brands) and incremental sales from Swiss parental integration (of INR 550 mn). Lower gross margin (-339 bps YoY), higher costs, and higher depreciation/interest led to muted PAT growth. The company guides for 12-14% organic growth in its domestic business and for a sustainable margin of 36% in FY25. Gross margin was lower in Q4 due to sales mix which it expects will normalize in H1FY25. MJ Biopharma (JV) saw a reduction in burn from a loss of INR 201 mn in FY23 to a loss of INR 80 mn in FY24 (near breakeven as Q4FY24 loss was at INR 12 mn). It has improved the EBITDA margin for the derma segment to ~35% in FY24 from 27% in FY23 and expects to sustain it. Integration of Swiss Parentals and Biocon India formulation business on track – expects to complete in Q1FY25. Targets to reduce debt to INR 20 bn by FY26 (Debt/EBITDA 1.6x) from INR 30 bn (3.5x Debt/EBITDA). Looking to maintain OCF to EBITDA conversion at 70-75% in FY25/26. Target to launch 20+ products through its own R&D pipeline in FY25. Factoring FY24, we have cut FY25 EPS by 2% but almost retained FY26E EPS. We maintain BUY with a TP of INR 1,050 (25x FY26E EPS) as we remain positive on Eris with its chronic focus strategy and scale-up in M&As.
- **Aether Industries:** We retain our BUY rating on Aether Industries, with a target price of INR 1,110, on the back of (1) capacity expansion-led growth, (2) advanced R&D capabilities, (3) technocratic management, (4) market leading position in most of its products, (5) strong product pipeline, and (6) marquee customer base. EBITDA/APAT was 73/105% below estimates owing to lower-than-expected revenue. It was lower due to the closure of site 2. The company reported an exceptional item of INR 74mn in Q4 towards the amount paid to the families of the deceased, medical expenses of the injured, and penalty paid to GPCB.

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- **Ujjivan Small Finance Bank:** UJJIVAN beat estimates on the back of margin reflation, boosted by a one-time interest reversal post- the reverse merger and healthy growth (+26% YoY), offset by higher opex and credit costs. Deposit growth was healthy (+6% QoQ), as the CASA ratio improved 102bps QoQ to 26.5%, with seasonal pick-up in CASA and retail deposits. GNPA was stable at 2.2% as slippages stayed steady at 1.3%. On the succession front, the RBI has approved the appointment of Mr. Sanjeev Nautiyal as the MD and CEO effective July 1, 2024. With a higher mix of secured loans and potential impact of rate cuts during H2FY25, we expect NIM compression, going forward. We tweak our FY25E/26E estimates to factor in marginally higher growth, offset by higher credit costs and maintain BUY with a TP of INR70 (1.6x Mar-26 ABVPS).

- **Sudarshan Chemical:** We maintain REDUCE on Sudarshan Chemical (SCIL), with a price target of INR 759 (WACC 11%, terminal growth 3.5%). Plant utilisation to increase owing to robust demand in all export markets except the European one. German pigment maker Heubach has filed for insolvency. This could act as a tailwind for the pigment industry in the near term. SCIL's balance sheet is improving gradually with (i) a reduction in net debt by ~INR4bn to INR3.8bn in FY24 and (ii) a cash conversion cycle. We expect SCIL to continue to hold interesting growth prospectus. The shift in product mix could expand the margin. However, valuation is demanding. The stock is trading at 27/21 FY25/26E EPS, which we believe is contextually high (RoIC of 13/16% for FY25/FY26E). Q4 EBITDA/APAT was 47/95% above our estimate, owing to higher-than-expected revenue.

Oil India

High other income drives the beat

ADD

CMP *(as on 21 May 2024)*	INR 664
Target Price	INR 680
NIFTY	22,529

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 530	INR 680
EPS change	FY25E	FY26E
	+13.4%	+6.9%

KEY STOCK DATA	
Bloomberg code	OINL IN
No. of Shares (mn)	1,084
MCap (INR bn) / ($ mn)	720/8,649
6m avg traded value (INR mn)	3,161
52 Week high / low	INR 671/241

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	13.5	115.9	146.9
Relative (%)	12.2	103.3	127.1

SHAREHOLDING PATTERN (%)	Dec-23	Mar-24
Promoters	56.66	56.66
FIs & Local MFs	15.97	17.66
FPIs	11.00	9.51
Public & Others	16.38	16.18
Pledged Shares	0.00	0.00

Source : BSE

Our ADD recommendation on Oil India with a target price of INR 680 is premised on oil production growth at 9% CAGR and gas production growth at 26% CAGR over FY24-26E. Q4FY24 EBITDA stood at INR 23bn (-1% YoY, +11% QoQ), and PAT at INR 20bn (+14% YoY, +28% QoQ) came in above our estimate, driven by higher-than-expected realisations and higher other income. Oil and gas production stood at 1.65mmtoe (+5% YoY, -1% QoQ), below our estimates.

- **Standalone financial performance:** EBITDA in Q4 stood at INR 23bn (-1% YoY, +11% QoQ), above our estimate, owing to higher-than-expected crude oil net realisation. Other expenses stood at INR 28bn (+10% YoY, -7% QoQ), while employee cost was at INR 5bn (-29% YoY, +11% QoQ). Reported PAT at INR 20bn (+14% YoY, +28% QoQ) also came above our estimate driven by higher-than-expected other income of INR 8bn (+94% YoY, +64% QoQ). Depreciation was at INR 5bn (+38% YoY, -9% QoQ), coming in below our estimates, while interest cost was at INR 2bn (+76% YoY, +4% QoQ), above our estimate.
- **Standalone operational performance**: In Q4, the net crude oil realisation, adjusting for the windfall tax stood at USD 78.8/bbl (+4% YoY, +6% QoQ), above the estimate, while gas realisation at USD 6.9/mmbtu, (-22% YoY, -1% QoQ) came broadly in line. Oil production came in at 0.85mmt (+6% YoY, -1% QoQ), in line, and gas production of 0.81bcm (+3% YoY, -2% QoQ) fell short of estimates. Oil sales volume was at 0.84mmt (+10% YoY, -1% QoQ), while gas sales volume was at 0.65bcm (+5% YoY, -4% QoQ).
- **Key highlights**: (1) The board recommended an issue of bonus shares in the ratio 1:2; fixed 2 July 2024 as the record date. (2) The board has also recommended a final dividend of INR 3.75/sh, in addition to the interim dividend of INR 12/sh, implying a dividend payout of ~31% for FY24. (3) In Q4, Numaligarh refinery reported an EBITDA/PAT of ~INR 11/6.4bn with a GRM of USD 13.3/bbl; FY24 EBITDA/PAT was at INR 34/21.6bn with GRM at USD 13.2/bbl; crude throughput for Q4/FY24 stood at 0.8/2.5mmt.
- **Change in estimates**: We have raised our consolidated EPS estimates for FY25/26E by 13/7% to INR 79/85.1 per sh, to factor in higher sales volumes estimates, higher other income and lower expenses. Our target price is revised to INR 680/sh, as we roll forward our valuation to FY26.
- **We value Oil India's standalone business at INR 398 (5x Mar-26E EPS) and its investments at INR 282. The stock is currently trading at 7.8x Mar-26E EPS.**

Standalone financial summary

YE March (INR bn)	Q4 FY24	Q3 FY24	QoQ (%)	Q4 FY23	YoY (%)	FY22*	FY23*	FY24P*	FY25E*	FY26E*
Revenues	58	58	(1.0)	56	2.0	300	410	363	403	450
EBITDA	23	21	10.9	23	(0.5)	105	153	125	140	156
APAT	20	16	28.1	18	13.5	56	87	83	86	92
AEPS (INR)	18.7	14.6	28.1	16.5	13.5	51.8	80.5	76.5	79.0	85.1
P/E (x)						12.8	8.2	8.7	8.4	7.8
EV/EBITDA (x)						8.5	5.9	7.5	6.5	5.5
RoE (%)						20.7	25.3	19.1	16.2	14.7

Source: Company, HSIE Research | *Consolidated

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INSTITUTIONAL RESEARCH

Astral

Positive commentary; cautious on valuation

We downgrade Astral to ADD owing to its expensive valuation. Our target price remains unchanged at INR 2,040/sh (60x its Mar-26E EPS). Following strong demand during Q4FY24, plumbing volume grew 23/27% YoY/QoQ. NSR declined 3% QoQ due to the CPVC pipes prices decline (lower cost pass-on). In our view, adjusted for inventory gain or loss, EBITDA/kg for plumbing is INR 38 per kg in Q4 vs INR 45/36 per kg YoY/QoQ. In Q4FY24, adhesives and paints reported poor revenue growth of 5% YoY with sub-par 12.9% EBITDAM. Plumbing demand continues to stay strong in the market. The adhesive UK operations have normalised and the Dahej plant is ramping up well. The bathware segment is also gaining pace and the company is expected to break even on the EBITDA front in FY25.

- **Q4FY24 performance:** Plumbing volume grew 23/27% YoY/QoQ owing to strong demand. NSR declined 3% QoQ due to the CPVC pipes prices decline (lower cost pass-on). In our view, adjusted for inventory gain or loss, EBITDA/kg for plumbing is INR 38 per kg in Q4 vs INR 45/36 per kg YoY/QoQ. Bathware segment revenue is INR 242mn in Q4 vs INR 100/200mn YoY/QoQ. Adhesives and paints reported sub-par revenue growth of 5% YoY (adhesives/ paints +8/-14% YoY). The adhesives and paints segment EBITDA declined by 16% YoY (+5% QoQ) as EBITDAM declined by 220bps YoY (+40bps QoQ) to 12.9%.
- **Outlook:** Astral has guided that it would at the very least double its revenue in the next five years (>15% CAGR). Plumbing demand continues to stay strong in the market. PVC resin prices rose two times in Q1FY25; these are expected to further increase. CPVC prices too are expected to increase. In FY25, it expects 15-20% growth in the adhesive business, aided by the Dahej ramp-up. UK adhesive profitability is expected to normalise in FY25. The bathware segment is slowly ramping up (adding products and distributors) and should turn EBITDA breakeven in FY25. It expects INR 3bn revenue (+62% YoY) in paints for FY25 with 14-15% EBITDAM. In the plumbing segment, both the Hyderabad and Kanpur phase-1 plants of 35/30 K MT will start in FY25. We maintain our EPS estimates for FY25/26E. We are cautious about the stock's valuation and thereby downgrade it to ADD from BUY earlier. We maintain our target price at INR 2,040/sh (60x its Mar-26E EPS).

Quarterly/annual financial summary (consolidated)

YE Mar (INR bn)	Q4 FY24	Q4 FY23	*YoY (%)*	Q3 FY24	*QoQ (%)*	FY22	FY23	FY24P	FY25E	FY26E
Pipes sales (K MT)	66.8	54.4	*22.8*	52.7	*26.7*	149.6	177.6	219.6	252.5	290.4
EBITDA (INR/kg)	38.3	47.7	*-19.8*	32.0	*19.5*	42.2	36.6	34.1	38.3	39.0
Adhesives* Rev (INR mn)	4.00	3.83	*4.5*	3.72	*7.5*	10.28	13.91	14.99	18.19	21.58
Adhesives EBITDAM (%)	12.9	15.1		12.5	15.0	13.1	13.8	13.5	14.6	14.6
Net Sales	*16.25*	*15.06*	7.9	*13.70*	18.6	*43.94*	*51.59*	*56.41*	*64.42*	*76.07*
EBITDA	2.92	3.09	*-5.6*	2.05	*42.1*	7.55	8.10	9.18	12.31	14.57
EBITDAM (%)	17.9	20.5		15.0		17.2	15.7	16.3	19.1	19.2
APAT	1.82	2.08	*-12.5*	1.14	*60.0*	4.84	4.58	5.46	7.58	9.16
Diluted EPS (Rs)	*6.8*	*7.7*	-12.5	*4.2*	60.0	*18.1*	*17.0*	*20.3*	*28.2*	*34.1*
EV / EBITDA (x)						73.4	68.7	60.5	44.8	37.6
P/E (x)						115.6	122.0	102.4	73.8	61.0
RoE (%)						22.6	17.2	17.5	21.2	21.6

Source: Company, HSIE Research, * Adhesives includes paints FY23 onwards

ADD

CMP *(as on 21 May 2024)*	INR 2,078
Target Price	**INR 2,040**
NIFTY	**22,529**

KEY CHANGES	OLD	NEW
Rating	BUY	ADD
Price Target	INR 2,040	INR 2,040
APAT revision %	FY25E *0.1*	FY26E *0.0*

KEY STOCK DATA	
Bloomberg code	ASTRA IN
No. of Shares (mn)	269
MCap (INR bn) / ($ mn)	558/6,705
6m avg traded value (INR mn)	1,270
52 Week high / low	INR 2,352/1,634

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	7.7	7.0	25.8
Relative (%)	6.4	(5.6)	6.0

SHAREHOLDING PATTERN (%)	Dec-23	Mar-24
Promoters	54.10	54.10
FIs & Local MFs	13.66	12.85
FPIs	19.79	21.22
Public & Others	12.44	11.82
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Eris Lifesciences

In transition phase; integration and debt reduction key

BUY

CMP *(as on 21 May 2024)*	INR 908
Target Price	INR 1,050
NIFTY	22,529

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 1050	INR 1050
EPS %	FY25E	FY26E
	-1.7	0.0

KEY STOCK DATA	
Bloomberg code	ERIS IN
No. of Shares (mn)	136
MCap (INR bn) / ($ mn)	123/1,484
6m avg traded value (INR mn)	179
52 Week high / low	INR 972/605

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	6.1	(2.0)	46.1
Relative (%)	4.9	(14.7)	26.3

SHAREHOLDING PATTERN (%)	Dec-23	Mar-24
Promoters	54.9	54.9
FIs & Local MFs	14.56	15.63
FPIs	13.14	14.27
Public & Others	17.4	15.2
Pledged Shares	10.95	18.51

Source: BSE

EBITDA grew (25% YoY) with +38% YoY sales growth, led by 23% YoY growth in domestic business (15% organic; additional sales from M&A of Dr Reddy's derma/Biocon's Nephro and derma brands) and incremental sales from Swiss parental integration (of INR 550 mn). Lower gross margin (-339 bps YoY), higher costs, and higher depreciation/interest led to muted PAT growth. The company guides for 12-14% organic growth in its domestic business and for a sustainable margin of 36% in FY25. Gross margin was lower in Q4 due to sales mix which it expects will normalize in H1FY25. MJ Biopharma (JV) saw a reduction in burn from a loss of INR 201 mn in FY23 to a loss of INR 80 mn in FY24 (near breakeven as Q4FY24 loss was at INR 12 mn). It has improved the EBITDA margin for the derma segment to ~35% in FY24 from 27% in FY23 and expects to sustain it. Integration of Swiss Parentals and Biocon India formulation business on track – expects to complete in Q1FY25. Targets to reduce debt to INR 20 bn by FY26 (Debt/EBITDA 1.6x) from INR 30 bn (3.5x Debt/EBITDA). Looking to maintain OCF to EBITDA conversion at 70-75% in FY25/26. Target to launch 20+ products through its own R&D pipeline in FY25. Factoring FY24, we have cut FY25 EPS by 2% but almost retained FY26E EPS. We maintain BUY with a TP of INR 1,050 (25x FY26E EPS) as we remain positive on Eris with its chronic focus strategy and scale-up in M&As.

- **Q4FY24 highlight—sales led by organic growth and M&A**: Sales grew 37% YoY to INR 5.51 bn as branded generic formulation business saw growth of 23% YoY to INR 4.8 bn (15% organic growth and incremental sales from acquired brands from Dr Reddy's and Biocon). Recently acquired Swiss Parentals had sales of INR 550 mn in Q4FY24.
- **PAT muted due to the impact of integration of acquired businesses:** Gross margin was lower at 78.5% (-339 bps YoY), due to a weak sales mix. Integration of recently acquired Swiss Parental led to higher staff cost (+19% YoY) and other expenses (+45%) leading to EBITDA of INR 1.48 bn (+25% YoY) and the margin was at 26.9% (-257 bps YoY). Adjusted for non-recurring charges (for M&As) of INR 214 mn, EBITDA was at INR 1.7 bn and margin stood at 30.8% in Q4FY24. Higher other income, interest cost (+273%), depreciation (+53%) and tax reversal led to a reported PAT of INR 710 mn (+8% YoY).
- **Key takeaways from con call:** Eris guides for 12-14% organic growth in its domestic business and a sustainable margin at 36%, led by launch visibility of 20+ products through its own R&D pipeline in FY25. It expects to normalize gross margin in H1FY25. Integration of Swiss Parental and Biocon' India business on track – expects to complete in Q1FY25 and accordingly it will provide EBITDA guidance. Guides for depreciation of INR 600 mn, amortization of INR 2.25 bn, and interest expenses at INR 2.4 bn in FY25. MJ Biopharma (JV) saw a reduction in burn to a loss of INR 80 mn in FY24 (near breakeven as Q4FY24 loss was at INR 12 mn; loss of INR 201 mn in FY23); it achieved monthly sales rate of INR 50 mn. Capex for new fill-finish blocks of Hormones and Insulins at its Ahmedabad facility is to be INR 700-800 mn in FY25 and similar capex is likely for FY26.

Quarterly financial summary

(INR mn)	4QFY24	4QFY23	YoY (%)	3QFY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Net Revenue	5,509	4,028	37	4,863	13	13,470	16,851	20,091	30,877	34,064
EBITDA	1,484	1,189	25	1,755	(15)	4,850	5,367	6,748	10,490	12,062
APAT	710	654	8	1,027	(31)	4,061	3,822	3,920	4,172	5,712
EPS (INR)	5.2	4.8	8	7.6	(31)	29.9	28.1	28.8	30.7	42.0
P/E (x)						30.4	32.3	31.5	29.6	21.6
EV/EBITDA (x)						25.3	24.5	21.3	14.7	12.3
RoCE (%)						24	16	10	12	14

Source: Company, HSIE Research, PAT adjusted for one-offs

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Aether Industries

Closure of site results in weak performance

We retain our BUY rating on Aether Industries, with a target price of INR 1,110, on the back of (1) capacity expansion-led growth, (2) advanced R&D capabilities, (3) technocratic management, (4) market leading position in most of its products, (5) strong product pipeline, and (6) marquee customer base. EBITDA/APAT was 73/105% below estimates owing to lower-than-expected revenue. It was lower due to the closure of site 2. The company reported an exceptional item of INR 74mn in Q4 towards the amount paid to the families of the deceased, medical expenses of the injured, and penalty paid to GPCB.

- **Financial performance:** Revenue/EBITDA fell 24/67% QoQ to INR 1,175/102 mn. EBITDA margin decreased by 1146/2375 bps QoQ/YoY to 8.7%. Performance was impacted owing to a fire incident and closure of site 2 for a few months in Q4 and the unavailability of the partial facility for a limited period.
- **Key con call takeaways:** (1) Segmental revenue break-up for Q4FY24 was: 68% large-scale manufacturing (LSM), 19.7% CRAMS and 11.8% contract manufacturing/others. (2) The end-user industry mix of Aether for FY24 was: pharmaceutical-51%, agrochemical-27%, photography-4%, material sciences-8%, coatings-4.4% and others-~6%. (3) Exports formed 43% of the total revenue, which included exports to SEZ and EOU units in India. (4) The company spent INR 987mn on research and development, forming 15.4% of the revenue in FY24. The R&D team strength at the end of FY24 was 276 employees. (5) The company added 10 new customers across all business models in Q4. (6) It will execute a 15 MW solar power project in FY25. It will initially commence 5MW in Q1FY25. (7) It appointed Dr. James Ringer as CTO of the company. (8) Project updates: site 3+ and 3++ expected to be commissioned by Q4FY25. A dedicated plant for an oil and gas services customer at site 4 was commissioned during Q4FY24. (9) At site 5, EC approval has been received and ground levelling work started. It will be operational by Q4FY26. (10) The company has successfully completed the piloting of Novoloop. (11) Increased inventory days were owing to work-in-progress inventory due to the partial ramp-up of site 2. (12) The company will be focusing on organic electrolyte additive which is a specific subset of electrolyte additive. Out of three electrolytes in development, two are commonly used in lithium-ion batteries.
- **DCF-based valuation:** Our target price is INR 1,110 (WACC 11%, terminal growth 6%). We change our estimates by -7/-6% FY25/FY26E to INR 12/18 due to the reduction in average realisation and lower-than-expected revenue in CRAMS business.

Financial summary (consolidated)

INR mn	4Q FY24	3Q FY24	*QoQ (%)*	4Q FY23	*YoY (%)*	FY22	FY23	FY24P	FY25E	FY26E
Net Sales	1,175	1,554	*(24.4)*	1,838	*(36.0)*	5,900	6,511	5,982	8,996	13,446
EBITDA	102	313	*(67.4)*	596	*(82.9)*	1,681	1,862	1,322	2,415	3,747
APAT	79	215	*(63.4)*	376	*(79.1)*	1,089	1,304	929	1,573	2,380
AEPS (INR)	0.6	1.6	*(63.4)*	2.8	*(79.1)*	8.2	9.8	7.0	11.9	18.0
P/E (x)						102.0	85.2	119.2	70.7	46.7
EV/EBITDA(x)						67.7	59.1	81.1	44.8	29.6
RoE (%)						38.8	16.0	5.6	7.3	10.2

Source: Company, HSIE Research

Change in estimates (consolidated)

Y/E Mar	FY24E Old	FY24E New	% Ch	FY25E Old	FY25E New	% Ch
EBITDA (INR mn)	2,602	2,415	(7.2)	4,004	3,747	(6.4)
Adj. EPS (INR/sh)	12.8	11.9	(7.2)	19.1	18.0	(6.0)

Source: Company, HSIE Research

BUY

CMP *(as on 21 May 2024)*	INR 839
Target Price	INR 1,110
NIFTY	22,529

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 1,153	INR 1,110
EPS %	FY25E	FY26E
	(-7%)	(-6%)

KEY STOCK DATA	
Bloomberg code	AETHER IN
No. of Shares (mn)	133
MCap (INR bn) / ($ mn)	111/1,335
6m avg traded value (INR mn)	141
52 Week high / low	INR 1,211/762

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	(2.5)	(4.2)	(8.6)
Relative (%)	(3.7)	(16.8)	(28.4)

SHAREHOLDING PATTERN (%)	Dec-23	Marc-24
Promoters	81.79	81.79
FIs & Local MFs	11.8	11.8
FPIs	1.98	2.22
Public & Others	4.43	4.17
Pledged Shares	0.00	0.00

Source: BSE

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Ujjivan Small Finance Bank

Pathway to building a stronger customer franchise

UJJIVAN beat estimates on the back of margin reflation, boosted by a one-time interest reversal post- the reverse merger and healthy growth (+26% YoY), offset by higher opex and credit costs. Deposit growth was healthy (+6% QoQ), as the CASA ratio improved 102bps QoQ to 26.5%, with seasonal pick-up in CASA and retail deposits. GNPA was stable at 2.2% as slippages stayed steady at 1.3%. On the succession front, the RBI has approved the appointment of Mr. Sanjeev Nautiyal as the MD and CEO effective July 1, 2024. With a higher mix of secured loans and potential impact of rate cuts during H2FY25, we expect NIM compression, going forward. We tweak our FY25E/26E estimates to factor in marginally higher growth, offset by higher credit costs and maintain BUY with a TP of INR70 (1.6x Mar-26 ABVPS).

- **Moderation in disbursal momentum/loan growth healthy:** Disbursal growth moderated to 11% YoY (Q3FY24: +17% YoY), with muted traction in MFI disbursements, impacted by one-off factors in a few states during H2FY24, offset by higher disbursals in affordable housing and FIG lending. While the MFI portfolio (~70% of mix) continues to witness strong traction, especially in individual loans, UJJIVAN is looking to up the quality of its customer franchise by building a granular book with a higher mix of secured loans (FY24: 30.2%; 2-year target at 40%).
- **Asset quality in check:** GNPAs are at 2.2%, driven by accelerated write-offs, offsetting elevated slippages (2.2% annualised). The management has guided for credit costs to normalise upwards to 1.4-1.5%.
- **Margin pressures and elevated opex to cap earnings:** With its focus on brand building, new customer acquisition and granular retail deposits through investments in distribution and digital initiatives, medium-term opex is likely to stay elevated. Given the change in portfolio mix towards secured loans, incremental deposit re-pricing, and potential impact of a turn in the rate cycle, we expect incremental NIM compression, thus capping medium-term return ratios (RoAs to average 3.3% over FY25E-FY26E).

Financial summary

(INR bn)	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	FY24	FY25E	FY26E
NII	9.3	7.4	*26.5%*	8.6	*8.6%*	34.1	40.7	48.2
PPOP	5.2	4.1	*26.3%*	4.6	*13.4%*	19.2	23.5	28.2
PAT	3.3	3.1	*6.5%*	3.0	*9.9%*	12.8	15.1	17.8
EPS (INR)	1.7	1.5	*9.2%*	1.5	*9.2%*	6.6	7.8	9.2
ROAE (%)						26.1	24.2	23.5
ROAA (%)						3.5	3.4	3.3
ABVPS (INR)						28.7	34.8	42.3
P/ABV (x)						1.8	1.5	1.3
P/E (x)						8.0	6.8	5.7

Change in estimates

(INR bn)	FY25E			FY26E		
	Old	New	Δ	Old	New	Δ
Net advances	326	328	0.6%	396	398	0.4%
NIM (%)	9.5	10.0	53 bps	9.5	10.0	48 bps
NII	39.0	40.7	4.6%	45.0	48.2	7.1%
PPOP	22.5	23.5	4.3%	26.4	28.2	6.9%
PAT	14.7	15.1	2.6%	17.2	17.8	3.5%
Adj. BVPS (INR)	32.9	34.8	5.6%	40.7	42.3	3.9%

Source: Company, HSIE Research

BUY

CMP *(as on 21 May 2024)*	**INR 53**
Target Price	**INR 70**
NIFTY	**22,529**

KEY CHANGES	**OLD**	**NEW**
Rating	BUY	BUY
Price Target	INR 70	INR 70
	FY25E	FY26E
EPS %	2.6%	3.5%

KEY STOCK DATA	
Bloomberg code	UJJIVANS IN
No. of Shares (mn)	1,959
MCap (INR bn) / ($ mn)	103/1,243
6m avg traded value (INR mn)	605
52 Week high / low	INR 63/32

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	(2.7)	(4.9)	61.9
Relative (%)	(3.9)	(17.5)	42.1

SHAREHOLDING PATTERN (%)	**Dec-23**	**Mar-24**
Promoters	73.6	0.0
FIs & Local MFs	4.0	7.8
FPIs	3.7	27.0
Public & Others	18.7	65.3
Pledged Shares	0	0

Source : BSE

Pledged shares as % of total shares

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Sudarshan Chemical

Strong revenue visibility

We maintain REDUCE on Sudarshan Chemical (SCIL), with a price target of INR 759 (WACC 11%, terminal growth 3.5%). Plant utilisation to increase owing to robust demand in all export markets except the European one. German pigment maker Heubach has filed for insolvency. This could act as a tailwind for the pigment industry in the near term. SCIL's balance sheet is improving gradually with (i) a reduction in net debt by ~INR4bn to INR3.8bn in FY24 and (ii) a cash conversion cycle. We expect SCIL to continue to hold interesting growth prospectus. The shift in product mix could expand the margin. However, valuation is demanding. The stock is trading at 27/21 FY25/26E EPS, which we believe is contextually high (RoIC of 13/16% for FY25/FY26E). Q4 EBITDA/APAT was 47/95% above our estimate, owing to higher-than-expected revenue.

- **Financial performance:** Revenue grew by 11/35% YoY/QoQ to INR 7,644 mn. Revenue growth was largely volume-driven. The demand environment in North America and other export markets has improved in FY24 while demand in the European market is yet to bounce back. The gross profit margin came at 42.94%(+97/-185 bps). The sequential drop in gross profit margin is due to the high carrying cost of inventory. EBITDA margin increased by (+334/465 bps) to 15.6% due to operating leverage. EBITDA grew by 41/92% to INR 1,192mn.
- **Pigment segment:** The revenue increased by 8.5/23.5% YoY/QoQ to INR 6,437 mn due to turbulence in the global pigment industry. EBIT grew by 55/76% to INR 689 mn. EBIT margin improved by +323/+319 bps YoY/QoQ.
- **Call takeaways**: (1) The company has received strong domestic and export demand while the Europe region has shown improved demand on QoQ, and it has registered marginal deep growth on an annualised basis. (2) The North American market continues to register double-digit growth on sequential and YoY. (3) Domestic demand during the quarter picked up due to growth in the plastics segment while printing ink had muted growth. (4) The current global event of the insolvency of the Heubach has increased interaction with new customers and the company is receiving good traction for specialty pigment. (5) During FY24, the company effectively managed working capital, resulting in the cash conversion cycle reducing to 76 days from 81 days in FY23. (6) The company continues to focus on global geographies like Europe, North America and South America. (7) It is gradually ramping up a new facility commissioned during FY23. This facility will majorly contribute towards specialty chemical business. (8) In FY25, the company will incur maintenance capex of ~INR 1,000mn.

Financial summary (consolidated)

INR mn	4Q FY24	3Q FY24	*QoQ (%)*	4Q FY23	*YoY (%)*	FY22	FY23	FY24P	FY25E	FY26E
Net Sales	7,644	5,658	*35.1*	6,912	*10.6*	22,008	23,017	25,388	29,405	33,976
EBITDA	1,192	619	*92.5*	847	*40.7*	2,748	2,106	3,164	4,289	5,099
APAT	582	147	*295.6*	326	*78.6*	1,300	448	2,716	2,091	2,726
AEPS (INR)	8.4	2.1	*295.6*	4.7	*78.6*	18.8	6.5	39.2	30.2	39.4
P/E (x)						44.5	129.1	21.3	27.6	21.2
EV/EBITDA(x)						23.9	31.2	19.5	14.1	11.6
RoE (%)						16.5	5.4	27.5	17.3	20.4

Source: Company, HSIE Research

Change in estimates (consolidated)

Y/E Mar	FY25E Old	FY25E New	% Ch	FY26E Old	FY26E New	% Ch
EBITDA (INR mn)	3,567	4,289	20.2	3,899	5,099	30.8
Adj. EPS (INR/sh)	23.9	30.2	26.1	29.0	39.4	35.7

Source: Company, HSIE Research

REDUCE

CMP *(as on 21 May 2024)*	INR 835
Target Price	INR 759
NIFTY	22,529

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 572	INR 759
EPS %	FY25E	FY26E
	+26%	+36%

KEY STOCK DATA	
Bloomberg code	SCHI IN
No. of Shares (mn)	69
MCap (INR bn) / ($ mn)	58/695
6m avg traded value (INR mn)	209
52 Week high / low	INR 893/382

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	43.7	81.2	112.7
Relative (%)	42.4	68.5	92.9

SHAREHOLDING PATTERN (%)	Dec-23	Mar-24
Promoters	35.82	33.22
FIs & Local MFs	13.60	17.49
FPIs	4.21	4.49
Public & Others	46.37	44.80
Pledged Shares	0.00	0.00

Source: BSE

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Rating Criteria

BUY: >+15% return potential

ADD: +5% to +15% return potential

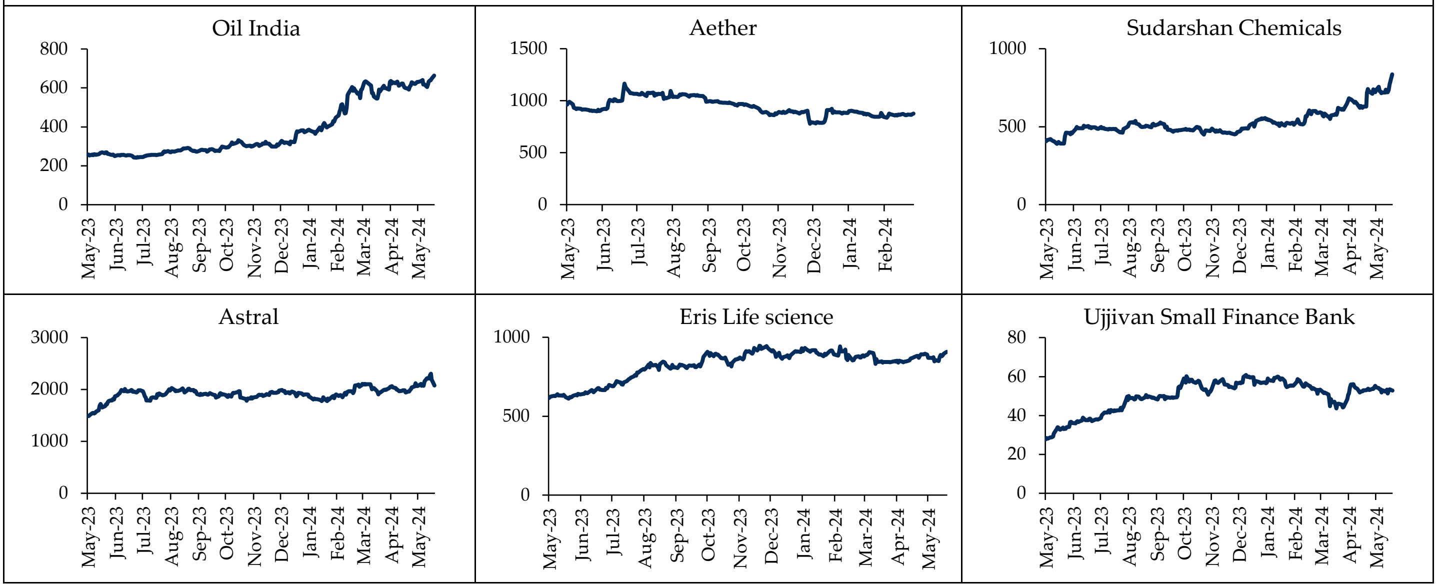
REDUCE: -10% to +5% return potential

SELL: > 10% Downside return potential

Disclosure:

Analyst	Company Covered	Qualification	Any holding in the stock
Harshad Katkar	Oil India, Aether Industries, Sudarshan Chemical	MBA	NO
Nilesh Ghuge	Oil India, Aether Industries, Sudarshan Chemical	MMS	NO
Akshay Mane	Oil India, Aether Industries, Sudarshan Chemical	PGDM	NO
Prasad Vadnere	Oil India, Aether Industries, Sudarshan Chemical	MSc	NO
Rajesh Ravi	Astral	MBA	NO
Keshav Lahoti	Astral	CA	NO
Mehul Sheth	Eris Lifesciences	MBA	NO
Krishnan ASV	Ujjivan Small Finance Bank	PGDM	NO
Deepak Shinde	Ujjivan Small Finance Bank	PGDM	NO
Akshay Badlani	Ujjivan Small Finance Bank	CA	NO

1 Yr Price movement



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