

HSIE Results Daily

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Results Reviews

- Asian Paints:** Asian Paints continues to deliver robust sales growth, at 54% YoY (three year CAGR: 19%; 7% above estimates). Decorative business clocked 37/59% volume/value growth YoY in Q1FY23 (FY19-22 volume/value CAGR: 20% each resp.). Adjacencies continue to perform well. However, margin pangs remain as price hikes (+26%) continue to lag RM inflation (+35%) since Q1FY22. GM came in at 37.7% vs HSIE's 38.3%. Better cost controls cushion the impact on EBITDAM (18.1% vs HSIE: 18.4%). Future price hikes likely to be measured as demand elasticity from hereon may get tested. FY24/25 EPS estimates upped by 4% each to account for better cost controls. We maintain our SELL rating with a DCF-based TP of INR 2,700/sh (earlier INR2,600/sh), implying 50x Jun-23 P/E.
- Larsen & Toubro:** Larsen & Toubro (LT) reported in-line performance in Q1FY23, with revenue/EBITDA/PAT beating our estimates marginally by 1/2.4/1.1% respectively. Execution improved for infra, heavy engineering and ITTS business during the quarter. However, tapering of shipbuilding jobs impacted defence business execution whereas domestic tendering activity was brisk with order to tender ratio at 70% for FY22 (+39% YoY). EBITDA margin, at 11%, was down 130bps QoQ, affected by cost inflation and change in job mix. The finance cost reduced to INR 7.6bn (-8.6%/7.2% YoY/QoQ) due to reduced borrowing cost in FS business and refinancing of metro debt. LT is looking to sell its stake in IDPL and Nabha Power Project and bring in strategic investor for its metro project. Given (1) its record high order book (OB) of INR 3.6tn; (2) improving health of Hyderabad metro project; and (3) revival in private Capex, we maintain BUY. However, we reduce the SOTP-based target price to INR 2,135/sh (22x core Mar-24 EPS), largely on account of realignment in IT subsidiary valuation (in line with HSIE IT team estimates). Key risks: raw material cost inflation, supply chain bottlenecks, talent management and lacklustre private Capex.
- Aether Industries:** We retain our BUY rating on Aether Industries, with a target price of INR 1,045 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 were 12/4% below our estimates, owing to a 5% fall in revenue, higher-than-expected raw material cost, offset by lower-than-expected depreciation, lower-than-anticipated finance cost and higher-than-expected other income.
- Tanla Platforms:** Tanla reported a weak quarter, revenue was down due to seasonality and margin dropped due to client-specific issues and higher competition. The enterprise business gross margin slipped 640bps to 16.4% (vs. our estimate of 100bps decline) due to a pricing cut in one large client, currency impact and higher technology investments. Revenue came in line, down 6.2% QoQ due to softness in the enterprise business (-4.2% QoQ) while the platform segment was stable (-1.0/+22.7% QoQ/YoY). The platform business will continue to deliver strong growth, with the ramp-up of Wisely (VI and Truecaller). We expect the enterprise business to clock ~15% volume growth and the GM will be in the 18-19% range (vs 20-21% earlier) due to increasing competition. The platform business will clock 35% revenue CAGR, with ~90% GM. The management is confident about expanding the EBITDA

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margin to ~19-20% in the next two quarters. We are building in margin recovery but expect it to be lower than the historical level. We cut our EPS estimate by 10.6/9.1% for FY23/24E led by a ~200bps margin reset. We have a BUY rating with a TP of INR 1,040, based on 22x FY24E EPS (earlier 26x), supported by ~20% revenue CAGR and RoE of >40%. The stock is trading at 18.6/15.4x FY23/24E EPS (~40% lower than 5Y average).

- **Symphony:** Symphony's domestic business delivered an in-line performance along with high channel inventory clearing up to negligible levels. Domestic revenue was at INR 1,880mn, 119/+11% YoY/QoQ, up 8% on a three-year CAGR. The domestic sales were in addition to the heavy channel liquidation, reconfirming the strong air cooler demand during the peak season in India. Exports were at INR 200mn (HSIE INR 254mn) vs. INR 180mn YoY. RoW was down 1% on three-year CAGR. The US business saw strong volume growth; however, value was impacted by discounting. Consolidated gross margin expanded 211bps YoY to 45.6%. Higher A&P spends, freight costs and warranty provisioning impacted consolidated as well as India EBITDA margin. With normal negligible channel inventory and strong initial pick-up by trade in July, we expect domestic business to be in good shape. Operating margin is also expected to bounce back from Q2FY23 onwards with normalised marketing spend and price hike. We maintain our estimates and value the stock at 35x P/E on Jun'24E EPS and derive a TP of INR 1,200. Maintain ADD.
- **Orient Electric:** Orient Electric delivered a subdued performance on both revenue and margin. Revenue growth was at 47% (HSIE 69%) with three-year CAGR at 3%. Revenue miss was largely on account of slow ECD performance (mere 1% three-year CAGR vs. 14/8% for Havells/Crompton). Orient witnessed slowdown in fans from May onwards; furthermore, RM softening has delayed the demand from channel partners (de-stocking). Lighting & switchgear revenue saw a beat on estimates, growing 79% YoY and 8% on three-year CAGR (Havells/Crompton posted 14/-1%). The growth in lighting was mainly driven by B-C, while B-B/B-G too started to pick up. GM at 28% was broadly in line, but higher A&P with restoration of operational expenses impacted EBITDA margin. EBITDA declined 5% on three-year CAGR (Havells/Crompton 9/5%). We believe Orient lost market share in fans, considering relatively slow growth in ECD. We cut our EPS by 8/5% for FY23/24. We also cut our P/E multiple to 30x (earlier 35x) on Jun'24 EPS. In our CD coverage universe, we were already assigning lower multiple to Orient due to uncertainties around execution capabilities compared to peers. With consistent miss, we downgrade our rating to REDUCE from ADD, with a revised TP of INR 285.
- **Ujjivan Small Finance Bank:** Ujjivan SFB's earnings surprised positively with strong loan growth (+24% YoY) and near-zero credit costs. On the back of a healthy PCR at ~98%, NNPA sharply reduced to 0.1% (Q4FY22: 0.6%), supported by healthy recoveries and upgrades. Strong business momentum and healthy collections led a 170bps QoQ decline in the aggregate stress pool (PAR>0), alleviating our earlier concerns around asset quality. The significant ground covered on asset quality is now reflecting in a confident 30% loan growth guidance funded by an even stronger deposit growth. We believe that acceleration in deposit growth is likely to be NIM-dilutive in the current competitive environment where even larger peers are finding it difficult to sustain/build market share gains. On the back of increasing visibility on lower NPA accretion calling for lower credit costs, we raise our FY23/24 estimates by 6/36%. We upgrade Ujjivan SFB to ADD (from REDUCE) with a revised TP of INR29.

Asian Paints

Solid topline delivery; margin pangs remain

Asian Paints continues to deliver robust sales growth, at 54% YoY (three year CAGR: 19%; 7% above estimates). Decorative business clocked 37/59% volume/value growth YoY in Q1FY23 (FY19-22 volume/value CAGR: 20% each resp). Adjacencies continue to perform well. However, margin pangs remain as price hikes (+26%) continue to lag RM inflation (+35%) since Q1FY22. GM came in at 37.7% vs HSIE's 38.3%. Better cost controls cushion the impact on EBITDAM (18.1% vs HSIE: 18.4%). Future price hikes likely to be measured as demand elasticity from hereon may get tested. FY24/25 EPS estimates upped by 4% each to account for better cost controls. We maintain our SELL rating with a DCF-based TP of INR 2,700/sh (earlier INR2,600/sh), implying 50x Jun-23 P/E.

- Q1FY23 highlights:** Q1 consolidated revenue grew 54% YoY (three-year CAGR: 19%) to INR 86bn (HSIE: INR 80.2bn). Decorative business clocked 37/59% volume/value growth in Q1 (FY19-22 volume/value CAGR: 20% each resp). Tier 1/2 cities continue to grow faster than Tier 3/4 cities. Adjacencies (waterproofing & adhesives) are growing exponentially. Network expansion remains strong (added 5k new retail points in Q1; total count: 150k+). International performance remains a mixed bag, with Nepal and Bangladesh performing well. Sri Lanka and Egypt remain weak spots as high inflation, regional disturbances, and forex crisis create havoc. While the non-auto industrial subsidiary continues to do well, the auto subsidiary (PPG-AP) also hit pre-pandemic sales. Consolidated EBITDA grew 70% YoY to INR15.6bn (HSIE: 14.7bn) as better cost controls cushioned the sub-optimal GM profile (37.7%, down 73bps; vs HSIE's 38.3%). APAT grew 1.8x to INR10.3 bn (HSIE: 10bn).
- Outlook:** APNT's performance remains the most impressive among the top-3 players. While the worst phase of margin pangs may be behind the industry, future price hikes are likely to be measured to avoid testing demand elasticity. Hence, GMs are likely to be lower than history in the near term. FY24/25 EPS estimates upped by 4% each to account for better cost controls. We maintain our SELL rating with a DCF-based TP of INR 2,700/sh (earlier INR2,600/sh), implying 50x Jun-23 P/E.

Quarterly financial summary

(INR mn)	1QFY23	1QFY22	YoY (%)	4QFY22	QoQ (%)	FY21	FY22	FY23E	FY24E	FY25E
Net Revenue	86,069	55,854	54.1	78,927	9.0	2,17,128	2,91,013	3,32,298	3,73,052	4,25,077
EBITDA	15,560	9,136	70.3	14,433	7.8	48,556	48,036	61,222	73,439	85,350
APAT	10,118	5,743	76.2	7,584	33.4	31,393	29,149	40,621	49,258	58,470
EPS (Rs)	10.8	6.0	80.4	9.1	18.5	32.7	30.4	42.3	51.4	61.0
P/E (x)						94.4	87.7	72.9	60.2	50.7
EV/EBITDA (x)						61.0	61.7	48.2	39.8	34.0
Core RoCE(%)						30.1	25.7	29.3	34.1	39.5

Source: Company, HSIE Research

Change in estimates

(INR mn)	FY23E			FY24E			FY25E		
	New	Old	Chg (%)	New	Old	Chg (%)	New	Old	Chg(%)
Revenue	3,32,298	3,28,384	1.2	3,73,052	3,68,645	1.2	4,25,077	4,20,021	1.2
Gross Profit	1,30,080	1,33,090	(2.3)	1,50,928	1,52,979	(1.3)	1,74,282	1,75,186	(0.5)
Gross Profit Margin (%)	39.1	40.5	(138 bps)	40.5	41.5	(104 bps)	41.0	41.7	(71 bps)
EBITDA	61,222	60,135	1.8	73,439	70,896	3.6	85,350	82,083	4.0
EBITDA margin (%)	18.4	18.3	11 bps	19.7	19.2	45 bps	20.1	19.5	54 bps
APAT	40,621	39,831	2.0	49,258	47,428	3.9	58,470	56,101	4.2
EPS (Rs)	42.3	41.5	2.0	51.4	49.4	3.9	61.0	58.5	4.2

Source: Company, HSIE Research

SELL

CMP (as on 26 Jul 2022) INR 3,109

Target Price INR 2,700

NIFTY 16,484

KEY CHANGES	OLD	NEW
Rating	SELL	SELL
Price Target	INR 2,600	INR 2,700
	FY24E	FY25E
EPS %	+3.9	+4.2

KEY STOCK DATA

Bloomberg code	APNT IN
No. of Shares (mn)	959
MCap (INR bn) / (\$ mn)	2,982/40,068
6m avg traded value (INR mn)	4,414
52 Week high / low	INR 3,590/2,560

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(0.5)	(1.2)	1.5
Relative (%)	3.1	3.2	(3.0)

SHAREHOLDING PATTERN (%)

	Mar-22	Jun-22
Promoters	52.63	52.63
FIs & Local MFs	3.24	3.59
FPIs	19.45	18.51
Public & Others	24.68	25.27
Pledged Shares	11.08	5.78

Source : BSE

Pledged shares as % of total shares

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Larsen & Toubro

In-line performance

Larsen & Toubro (LT) reported in-line performance in Q1FY23, with revenue/EBITDA/PAT beating our estimates marginally by 1/2.4/1.1% respectively. Execution improved for infra, heavy engineering and ITTS business during the quarter. However, tapering of shipbuilding jobs impacted defence business execution whereas domestic tendering activity was brisk with order to tender ratio at 70% for FY22 (+39% YoY). EBITDA margin, at 11%, was down 130bps QoQ, affected by cost inflation and change in job mix. The finance cost reduced to INR 7.6bn (-8.6%/7.2% YoY/QoQ) due to reduced borrowing cost in FS business and refinancing of metro debt. LT is looking to sell its stake in IDPL and Nabha Power Project and bring in strategic investor for its metro project. Given (1) its record high order book (OB) of INR 3.6tn; (2) improving health of Hyderabad metro project; and (3) revival in private Capex, we maintain BUY. However, we reduce the SOTP-based target price to INR 2,135/sh (22x core Mar-24 EPS), largely on account of realignment in IT subsidiary valuation (in line with HSIE IT team estimates). Key risks: raw material cost inflation, supply chain bottlenecks, talent management and lacklustre private Capex.

- Financial highlights:** LT posted revenue of INR 358.5bn (+22.2%/-32.2% YoY/QoQ), a beat of 1%. Segment-wise infra projects/energy projects/hi-tech manufacturing/ITTS/FS/development projects/others reported YoY revenue growth of 36/3/3/30/56/19/21%. International sales contributed 37% to revenue. The group level EBITDA came in at INR 39.6bn (+24.8%/-39.3% YoY/QoQ), a beat of 2.4%. EBITDA margin, at 11% (10.8%/12.3% in Q1FY22/Q4FY22), was impacted by cost headwind and change in job mix. Consequently, APAT was at INR 17bn (+44.9%/-53% YoY/QoQ, a beat of 1.1%), aided by lower tax (INR 1.3bn one-time credit). LT has restated its guidance for 12-15% YoY growth in FY23 revenue with EBITDA margin in projects and manufacturing business at 9.5%. Real estate segment is also witnessing good traction, with INR 6.5bn Q1FY23 presales.
- Robust ordering; record high OB:** LT registered an order inflow (OI) of INR 418bn in Q1FY23 (-43%/+57% QoQ YoY), with 57% coming in from the domestic market. OB at the end of Jun'22 stood at a record high of INR 3.63tn, with infrastructure at 73%, constituting a major share of it, followed by energy at 18% (hydrocarbon-15.8%, power-2.2%). Geography-wise, domestic orders contribute 72% to OB. LT has restated its guidance for 12-15% YoY growth in FY23 OI.
- Stable group level debt:** Net debt increased marginally to INR 781bn (vs. INR 748bn as on Mar'22), taking the net D/E to 0.82x (vs. 0.81x as at Mar'22). NWC to sales ratio faded to 20.9%, vs. 19.9% in Mar'22, owing to weaker collection. LT has guided FY23 NWC to sales at 20%.
- Balance sheet cleaning underway:** LT cannot divest its entire stake in Hyderabad Metro; hence, it is exploring 49% stake sale to third party investors and will gradually decrease its stake to 26%. It is also evaluating divestment option in Nabha Power Project and L&T IDPL.

Consolidated financial summary

(INR mn)	1QFY23	1QFY22	YoY (%)	4QFY22	QoQ (%)	FY21	FY22	FY23E	FY24E
Revenues	3,58,532	2,93,347	22.2	5,28,507	(32.2)	13,59,790	15,65,212	17,74,286	20,06,862
EBITDA	39,567	31,715	24.8	65,205	(39.3)	1,56,241	1,82,173	2,04,760	2,31,927
APAT	17,021	11,744	44.9	36,207	(53.0)	69,010	85,724	1,02,127	1,20,299
EPS (INR)	12.1	8.4	44.9	25.8	(53.0)	49.2	61.1	72.8	85.8
P/E (x)						35.6	28.7	24.1	20.4
EV/EBITDA(x)						21.2	17.6	16.7	14.4
RoE (%)						9.7	10.8	12.0	13.2

Source: Company, HSIE Research

BUY

CMP (as on 26 Jul 2022)	INR 1,751
Target Price	INR 2,135
NIFTY	16,484

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 2,296	INR 2,135
	FY23E	FY24E
EPS change %	-	-

KEY STOCK DATA

Bloomberg code	LT IN
No. of Shares (mn)	1,405
MCap (INR bn) / (\$ mn)	2,461/33,069
6m avg traded value (INR mn)	4,038
52 Week high / low	INR 2,079/1,456

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	3.0	(9.0)	9.6
Relative (%)	6.7	(4.6)	5.0

SHAREHOLDING PATTERN (%)

	Mar-22	Jun-22
Promoters	0.0	0.0
FIs & Local MFs	33.50	34.62
FPIs	22.42	21.09
Public & Others	44.08	44.29
Pledged Shares	0.0	0.0

Source: BSE

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Aether Industries

CRAMS segment shows promise

We retain our BUY rating on Aether Industries, with a target price of INR 1,045 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 were 12/4% below our estimates, owing to a 5% fall in revenue, higher-than-expected raw material cost, offset by lower-than-expected depreciation, lower-than-anticipated finance cost and higher-than-expected other income.

- Financial performance:** Revenue grew 9/7% QoQ/YoY to INR 1,600mn. EBITDA remained flat sequentially and fell 8% YoY to INR 424mn in Q1, with EBITDA margin declining to ~27% (-202/-435bps QoQ/ YoY), owing to high raw material prices courtesy change in forex rate and increasing energy costs. APAT came in at INR 306mn (+18/-5% QoQ/YoY).
- Key con-call takeaways:** (1) Segmental revenue break-up for Q1 was: 53% large scale manufacturing, 12% CRAMS and 33% contract manufacturing. The contribution of the higher margin CRAMS business to revenue has increased from 8% in FY22 to 12% in Q1FY23. (2) The end-user industry mix of Aether in Q1 was: pharmaceutical-50%, agrochemical-34%, high performance photography-7%, material sciences-4%, coatings-4% and others-1%. (3) The 16MW solar power plant is now commissioned and has started generating power. This plant will take care of 50% of the company's electricity load for its three sites. (4) Exports formed 69% of the total revenues in Q1. (5) The company is on track in launching 5 new import substitute molecules in FY23, which together have a market potential of INR 12bn. (6) The company spent 6.9% of its revenue as R&D expenses. Currently, the company is working on 18 molecules in its R&D lab. (7) It is in the process of acquiring a 2,500 sq. mtrs. land adjacent to its third site, which shall be used for further expansion. Also, the company has acquired a 1,500 sq. mtrs. land adjacent to its pilot plant and R&D facility for further expansion.
- DCF-based valuation:** Our target price is INR 1,045 (WACC 11%, terminal growth 6%). The stock is trading at 44x FY24E EPS.

Financial summary

INR mn	Q1FY23	Q4FY22	QoQ (%)	Q1FY22	YoY (%)	FY21	FY22P	FY23E	FY24E	FY25E
Net Sales	1,600	1,475	8.5	1,500	6.7	4,498	5,900	7,673	11,547	15,460
EBITDA	424	421	0.8	463	(8.4)	1,122	1,681	2,278	3,642	4,940
APAT	306	260	17.7	323	(5.3)	711	1,089	1,639	2,541	3,345
AEPS (INR)	2.5	2.1	17.7	2.6	(5.3)	5.7	8.8	13.2	20.4	26.9
P/E (x)						156.1	101.9	67.7	43.7	33.2
EV/EBITDA(x)						100.8	67.6	46.9	29.7	22.1
RoE (%)						56.3	38.8	19.3	17.7	19.3

Source: Company, HSIE Research

BUY

CMP (as on 26 Jul 2022)	INR 903
Target Price	INR 1,045
NIFTY	16,484

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 1,045	INR 1,045
EPS %	FY23E	FY24E
	-	-

KEY STOCK DATA

Bloomberg code	AETHER IN
No. of Shares (mn)	124
MCap (INR bn) / (\$ mn)	112/1,511
6m avg traded value (INR mn)	-
52 Week high / low	INR 1,007/700

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	-	-	-
Relative (%)	-	-	-

SHAREHOLDING PATTERN (%)

	May-22	Jun-22
Promoters	87.09	87.09
FIs & Local MFs	5.31	8.32
FPIs	2.54	1.80
Public & Others	5.06	2.79
Pledged Shares	0.00	0.00

Source: BSE

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Tanla Platforms

Margin drops but likely to recover

Tanla reported a weak quarter, revenue was down due to seasonality and margin dropped due to client-specific issues and higher competition. The enterprise business gross margin slipped 640bps to 16.4% (vs. our estimate of 100bps decline) due to a pricing cut in one large client, currency impact and higher technology investments. Revenue came in line, down 6.2% QoQ due to softness in the enterprise business (-4.2% QoQ) while the platform segment was stable (-1.0/+22.7% QoQ/YoY). The platform business will continue to deliver strong growth, with the ramp-up of Wisely (VI and Truecaller). We expect the enterprise business to clock ~15% volume growth and the GM will be in the 18-19% range (vs 20-21% earlier) due to increasing competition. The platform business will clock 35% revenue CAGR, with ~90% GM. The management is confident about expanding the EBITDA margin to ~19-20% in the next two quarters. We are building in margin recovery but expect it to be lower than the historical level. We cut our EPS estimate by 10.6/9.1% for FY23/24E led by a ~200bps margin reset. We have a BUY rating with a TP of INR 1,040, based on 22x FY24E EPS (earlier 26x), supported by ~20% revenue CAGR and RoE of >40%. The stock is trading at 18.6/15.4x FY23/24E EPS (~40% lower than 5Y average).

- Q1FY23 highlights:** The enterprise segment (92% of revenue and 65% of gross profit) declined 6.7% QoQ to INR 7.3bn and gross margin contracted 639bps QoQ to 16.4%, as a result of volume drop, given the steep discount from the competition. ~64 new clients were added in Q1FY23 (73 in Q1FY22). Platform revenue (8% of revenue and 35% of gross profit) declined 1.0% QoQ to INR 0.68bn, owing to seasonality, while gross margin expanded 142bps to 96.0%. The VI and the Truecaller deal will start contributing from Q2FY23. The client concentration is coming down and T20 clients contribute 59% of revenue. The margin impact was ~100bps due to cross currency, ~100bps due to investments, and ~440bps due to client issues. Net cash is INR 8bn (~8% of mcap).
- Outlook:** We estimate +20/10% revenue/EPS CAGRs over FY22-24E, on account of the addition of new enterprise clients, higher A2P volumes, and the ability of Wisely to scale with more partnerships.

Quarterly financial summary

YE March (INR mn)	Q1 FY23	Q1 FY22	YoY (%)	Q4 FY22	QoQ (%)	FY20	FY21	FY22	FY23E	FY24E
Net Sales	8,004	6,264	27.7	8,531	(6.2)	19,428	23,415	32,060	38,996	45,696
Gross Profit	1,850	1,735	6.7	2,434	(24.0)	3,911	5,777	9,080	9,652	11,428
EBITDA	1,307	1,345	(2.8)	1,841	(29.0)	1,850	4,335	7,002	6,990	8,388
APAT	1,004	1,045	(3.9)	1,406	(28.6)	1,284	3,561	5,393	5,322	6,415
EPS (INR)	7.4	7.7	(3.9)	10.4	(28.7)	9.5	26.3	39.8	39.3	47.3
P/E (x)						77.1	27.8	18.4	18.6	15.4
EV / EBITDA (x)						52.5	21.5	13.0	12.3	9.6
RoE (%)						18.0	44.7	48.0	33.0	29.4

Source: Company, HSIE Research, Consolidated Financials

Change in estimates

YE March (INR mn)	FY23E Old	FY23E Revised	Change %	FY24E Old	FY24E Revised	Change %
Revenue	38,684	38,996	0.8	45,623	45,696	0.2
EBITDA	7,909	6,990	(11.6)	9,283	8,388	(9.6)
EBITDA margin (%)	20.4	17.9	-252bps	20.3	18.4	-199bps
APAT	5,955	5,322	(10.6)	7,057	6,415	(9.1)
EPS (INR)	43.9	39.3	(10.6)	52.1	47.3	(9.1)

Source: Company, HSIE Research

BUY

CMP (as on 26 Jul 2022)	INR 731
Target Price	INR 1,040
NIFTY	16,484

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 1,350	INR 1,040
EPS %	FY23E	FY24E
	-10.6	-9.1

KEY STOCK DATA

Bloomberg code	TANLA IN
No. of Shares (mn)	136
MCap (INR bn) / (\$ mn)	99/1,333
6m avg traded value (INR mn)	446
52 Week high / low	INR 2,097/731

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(51.8)	(58.0)	(22.0)
Relative (%)	(48.1)	(53.5)	(26.5)

SHAREHOLDING PATTERN (%)

	Jun-22	Mar-22
Promoters	43.74	43.74
FIs & Local MFs	2.77	3.04
FPIs	13.46	13.46
Public & Others	40.03	39.77
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Symphony

India recovery in line; inventory pressure eased off

Symphony's domestic business delivered an in-line performance along with high channel inventory clearing up to negligible levels. Domestic revenue was at INR 1,880mn, 119/+11% YoY/QoQ, up 8% on a three-year CAGR. The domestic sales were in addition to the heavy channel liquidation, reconfirming the strong air cooler demand during the peak season in India. Exports were at INR 200mn (HSIE INR 254mn) vs. INR 180mn YoY. RoW was down 1% on three-year CAGR. The US business saw strong volume growth; however, value was impacted by discounting. Consolidated gross margin expanded 211bps YoY to 45.6%. Higher A&P spends, freight costs and warranty provisioning impacted consolidated as well as India EBITDA margin. With normal negligible channel inventory and strong initial pick-up by trade in July, we expect domestic business to be in good shape. Operating margin is also expected to bounce back from Q2FY23 onwards with normalised marketing spend and price hike. We maintain our estimates and value the stock at 35x P/E on Jun'24E EPS and derive a TP of INR 1,200. Maintain ADD.

- Beat on revenue:** Standalone revenue clocked +100% YoY growth (+160% in Q1FY22 and +18% in Q4FY22). Domestic revenue, at INR 1,880mn, grew by 119% YoY (HSIE +116%) and 8% on three-year CAGR. The strong domestic performance was despite the all-time high pre-season channel inventory. As the inventory levels have normalised, we expect the channel refilling to be strong from Q2FY23. Exports grew 11% YoY (HSIE +41%) to INR 200mn. RoW was down by 2% YoY and 5% on three-year CAGR.
- Miss on margin:** Standalone GM expanded 385bps YoY to 51% (+212bps in Q1FY22 and -556bps in Q4FY22) vs. expectation of -212bps YoY. Employee/ASP/other expenses were up by 7/100/67% YoY. A&P was higher in order to liquidate the channel inventory and e-commerce related promotions. EBITDA was up 4% on three-year CAGR vs. our expectation of 16% CAGR due to higher A&P spends and increase in a few other expenses. Domestic business reported an EBIT of INR 250mn vs. INR 20mn YoY. On a consolidated basis, the company's GM expanded by 211bps YoY (+452bps in Q1FY22 and -199bps in Q4FY22) to 45.6%. The company reported an EBIT of INR 150mn for RoW vs. INR 100mn YoY.
- Con call takeaways:** (1) The off-season month collection has picked up from July. Many traders who lost confidence due to the past two failed summer seasons are now returning. (2) The management will keep a close watch on input cost to take decision on margin expansion or investment strategy. (3) The company had not taken price hikes last year so growth has been volume driven. (4) The company has taken selective price increase in June to cover the high freight costs. (5) Industrial cooling continues to grow in line with expectations. (6) The US is undergoing a strong summer; however, inflation is impacting the selling price. If the current economic situation continues, volume may continue to grow, but margins would be impacted.

Quarterly/annual financial summary

YE Mar (Rs mn)	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	FY22	FY23E	FY24E	FY25E
Net Sales	2,080	1,040	100.0	2,510	(17.1)	10,390	12,775	13,916	15,150
EBITDA	270	-	NA	480	(43.8)	1,610	2,444	2,786	3,087
APAT	250	70	257.1	430	(41.9)	1,210	2,031	2,336	2,633
Diluted EPS (Rs)	3.6	1.0	257.1	6.1	(41.9)	17.3	29.0	33.4	37.6
P/E (x)						55.5	33.1	28.8	25.5
EV / EBITDA (x)						39.7	25.5	21.9	19.2
RoCE (%)						20.3	34.5	41.4	46.5

Source: Company, HSIE Research

* Quarter numbers are standalone

ADD

CMP (as on 26 Jul 2022)	INR 960
Target Price	INR 1,200
NIFTY	16,484

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 1,200	INR 1,200
EPS %	FY23E	FY24E
	0%	0%

KEY STOCK DATA

Bloomberg code	SYML IN
No. of Shares (mn)	70
MCap (INR bn) / (\$ mn)	67/903
6m avg traded value (INR mn)	74
52 Week high / low	INR 1,215/828

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(13.5)	(8.0)	(5.9)
Relative (%)	(9.8)	(3.5)	(10.5)

SHAREHOLDING PATTERN (%)

	Mar-22	Jun-22
Promoters	73.25	73.25
FIs & Local MFs	10.05	10.89
FPIs	4.49	4.33
Public & Others	12.21	11.53
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Orient Electric

Uninspiring performance

Orient Electric delivered a subdued performance on both revenue and margin. Revenue growth was at 47% (HSIE 69%) with three-year CAGR at 3%. Revenue miss was largely on account of slow ECD performance (mere 1% three-year CAGR vs. 14/8% for Havells/Crompton). Orient witnessed slowdown in fans from May onwards; furthermore, RM softening has delayed the demand from channel partners (de-stocking). Lighting & switchgear revenue saw a beat on estimates, growing 79% YoY and 8% on three-year CAGR (Havells/Crompton posted 14/-1%). The growth in lighting was mainly driven by B-C, while B-B/B-G too started to pick up. GM at 28% was broadly in line, but higher A&P with restoration of operational expenses impacted EBITDA margin. EBITDA declined 5% on three-year CAGR (Havells/Crompton 9/5%). We believe Orient lost market share in fans, considering relatively slow growth in ECD. We cut our EPS by 8/5% for FY23/24. We also cut our P/E multiple to 30x (earlier 35x) on Jun'24 EPS. In our CD coverage universe, we were already assigning lower multiple to Orient due to uncertainties around execution capabilities compared to peers. With consistent miss, we downgrade our rating to REDUCE from ADD, with a revised TP of INR 285.

- Weak ECD show continues:** Revenue grew 47% YoY (+74% in Q1FY22 and -6% in Q4FY22, HSIE 69%) and 3% on three-year CAGR. ECD/lighting revenue was up 1/8% on three-year CAGR (HSIE 10/2%). ECD revenue was impacted by trade destocking seen from May onwards, especially in fans; Cooler saw strong demand which led to channel and company level inventory reduction. Water heater too saw strong traction on early monsoon. Lighting segment growth was driven by consumer lamps and luminaries; further government spending too started to pick up. Façade lighting orders have been witnessing good traction.
- Miss on margin:** GM expanded by 46bps YoY to 27.8% (-132bps in Q1FY22 and -13bps in Q4FY22). Lighting EBIT margin was at 13.2%, +267bps YoY (+410bps in Q1FY22 and +125bps in Q4FY22). ECD EBIT margin expanded by 135bps YoY to 8.3% (+1,383bps in Q1FY22 and +135bps in Q4FY22). Employee/other expenses grew 0/89% YoY. EBITDA margin, at 6.1% (10.3% HSIE), saw 85bps YoY expansion (+1,605bps in Q1FY22 and -137bps in Q4FY22). EBITDA was down 5% on three year CAGR to INR 382mn.
- Con call takeaways:** (1) Q1 was below expectation especially due to slowdown in fans from May. (2) Inventory is with high cost, so Q2 margin will remain impacted. (3) It is expanding the direct-to-dealer approach for fans to UP, Karnataka and Telangana. (4) Fans market share is at 18-20% of the organised market. It has 40% share in premium (>4500) fans. (5) B-B lighting makes about 50% of the industry and 15-20% for Orient. This has huge potential to grow. (6) With scale, BLDC fan cost will go down.

Quarterly/annual financial summary

YE Mar (INR mn)	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	FY22	FY23E	FY24E	FY25E
Net Sales	6,216	4,223	47	7,533	(17)	24,484	27,732	30,973	33,866
EBITDA	382	223	71	807	(53)	2,313	2,650	3,179	3,611
APAT	190	50	278	488	(61)	1,266	1,573	1,927	2,274
Diluted EPS (INR)	0.9	0.2	278.2	2.3	(61.2)	6.0	7.4	9.1	10.7
P/E (x)						46.2	37.2	30.4	25.8
EV / EBITDA (x)						24.7	21.8	17.8	15.3
RoCE (%)						38.0	31.1	33.7	36.6

Source: Company, HSIE Research

REDUCE

CMP (as on 26 Jul 2022)	INR 276
Target Price	INR 285
NIFTY	16,484

KEY CHANGES	OLD	NEW
Rating	ADD	REDUCE
Price Target	INR 350	INR 285
EPS %	FY23E	FY24E
	-8%	-5%

KEY STOCK DATA

Bloomberg code	ORIENTEL IN
No. of Shares (mn)	212
MCap (INR bn) / (\$ mn)	59/787
6m avg traded value (INR mn)	79
52 Week high / low	INR 408/244

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(16.2)	(18.7)	(22.0)
Relative (%)	(12.5)	(14.2)	(26.6)

SHAREHOLDING PATTERN (%)

	Mar-22	Jun-22
Promoters	38.52	38.52
FIs & Local MFs	26.30	29.08
FPIs	8.26	6.16
Public & Others	26.92	26.24
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Ujjivan Small Finance Bank

Ahead-of-time portfolio stability calls for upgrade

Ujjivan SFB's earnings surprised positively with strong loan growth (+24% YoY) and near-zero credit costs. On the back of a healthy PCR at ~98%, NNPA sharply reduced to 0.1% (Q4FY22: 0.6%), supported by healthy recoveries and upgrades. Strong business momentum and healthy collections led a 170bps QoQ decline in the aggregate stress pool (PAR>0), alleviating our earlier concerns around asset quality. The significant ground covered on asset quality is now reflecting in a confident 30% loan growth guidance funded by an even stronger deposit growth. We believe that acceleration in deposit growth is likely to be NIM-dilutive in the current competitive environment where even larger peers are finding it difficult to sustain/build market share gains. On the back of increasing visibility on lower NPA accretion calling for lower credit costs, we raise our FY23/24 estimates by 6/36%. We upgrade Ujjivan SFB to ADD (from REDUCE) with a revised TP of INR29.

- **AUM picks up pace; limited impact of RBI circular:** Q1FY23 marked the highest-ever Q1 disbursements at INR43bn, with surprisingly little impact of the RBI's regulatory diktat on MFI disbursements. The time-to-normalisation on the MFI portfolio is particularly surprising, given the dislocation faced by other peers, including larger banks.
- **Improved optics around stress pool:** GNPA/NNPA improved to 6.5%/0.1% (Q4FY22: 7.3%/0.6%), with higher organic upgrades and recoveries offsetting 4.2% annualised gross slippages. The ahead-of-expectations normalisation in asset quality demonstrates Ujjivan's singularly-focused approach towards resolving each of the specific stress buckets using different strategies.
- **Concerns largely addressed; upgrade to ADD:** With the stability of the leadership team and a clear strategic path in sight for growth and expansion, the management appears optimistic of delivering on its business guidance. Having cleaned up its back book and starting on a relatively cleaner slate, we believe incremental growth will be NIM-dilutive but RoA accretive.

Financial summary

(INR bn)	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	FY21	FY22	FY23E	FY24E
NII	6.0	3.8	56.0%	5.4	10.2%	17.3	17.7	22.5	28.0
PPOP	2.7	1.6	66.8%	2.2	24.8%	8.1	5.9	9.2	12.3
PAT	2.0	(2.3)	NM	1.3	60.4%	0.1	(4.1)	5.1	6.6
EPS (INR)	1.2	(1.4)	NM	0.7	60.3%	0.0	(2.4)	3.0	3.8
ROAE (%)						0.3	(13.8)	17.1	19.1
ROAA (%)						0.0	(1.9)	1.9	2.0
ABVPS (INR)						16.2	15.6	17.5	20.2
P/ABV (x)						1.1	1.1	1.0	0.9
P/E (x)						NM	5.2	5.9	4.6

Change in estimates

(INR bn)	FY23E			FY24E		
	Old	New	Change	Old	New	Change
Net advances	208	208	-0.2%	250	259	3.5%
NIM (%)	9.7	9.5	-20 bps	9.4	9.5	11 bps
NII	22.8	22.5	-1.6%	27.0	28.0	3.8%
PPOP	9.7	9.2	-5.8%	11.5	12.3	7.5%
PAT	4.8	5.1	6.1%	4.9	6.6	36.2%
Adj. BVPS (INR)	17.3	17.5	1.5%	18.7	20.2	8.0%

Source: Company, HSIE Research

ADD

CMP (as on 26 Jul 2022)	INR 19
Target Price	INR 29
NIFTY	16,484

KEY STOCK DATA

Bloomberg code	UJJIVANS IN
No. of Shares (mn)	1,728
MCap (INR bn) / (\$ mn)	33/444
6m avg traded value (INR mn)	34
52 Week high / low	INR 30/14

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	10.7	(0.3)	(34.4)
Relative (%)	14.4	4.2	(38.9)

Ujjivan Financial Services

ADD

CMP (as on 26 Jul 2022)	INR 173
Target Price	INR 187
NIFTY	16,484

KEY STOCK DATA

Bloomberg code	UJJIVAN IN
No. of Shares (mn)	122
MCap (Rs bn) / (\$ mn)	21/283
6m avg traded value (Rs mn)	154
52 Week high / low	Rs 255/96

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	23.0	28.2	(26.4)
Relative (%)	26.6	32.7	(31.0)

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Rating Criteria

BUY: >+15% return potential

ADD: +5% to +15% return potential

REDUCE: -10% to +5% return potential

SELL: > 10% Downside return potential

Disclosure:

Analyst	Company Covered	Qualification	Any holding in the stock
Varun Lohchab	Asian Paints	PGDM	NO
Jay Gandhi	Asian Paints	MBA	NO
Premraj Survase	Asian Paints	MBA	NO
Parikshit Kandpal	Larsen & Toubro	CFA	NO
Manoj Rawat	Larsen & Toubro	MBA	NO
Nikhil Kanodia	Larsen & Toubro	MBA	NO
Nilesh Ghuge	Aether Industries	MMS	NO
Harshad Katkar	Aether Industries	MBA	NO
Rutvi Chokshi	Aether Industries	CA	NO
Akshay Mane	Aether Industries	PGDM	NO
Amit Chandra	Tanla Platforms	MBA	NO
Vivek Sethia	Tanla Platforms	CA	NO
Naveen Trivedi	Symphony, Orient Electric	MBA	NO
Saras Singh	Symphony, Orient Electric	PGDM	NO
Krishnan ASV	Ujjivan Small Finance Bank	PGDM	NO
Deepak Shinde	Ujjivan Small Finance Bank	PGDM	NO
Neelam Bhatia	Ujjivan Small Finance Bank	PGDM	NO

Disclosure:

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