INSTITUTIONAL RESEARCH

HSIE Results Daily

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Result Reviews

- **DLF:** DLF surprised positively on presales at INR 10bn (6.6x/-5% YoY/QoQ) despite the lockdown during the quarter. While office collection remains robust at 99%, occupancy at DCCDL declined to 86% vs. 88% at Mar 21-end. The consumption of malls rebounded to 50% of pre-COVID level during Jun-21, with footfalls exhibiting a rising trend. With robust Q1FY22, DLF is well on course to achieve INR 40bn presales in FY22, aided by 8msf launches. Net debt also continues to trend down (INR 47.bn vs INR 49bn on Mar-21). We maintain BUY on DLF, with increased target price of INR 390/sh (roll forward to Jun-23), higher land bank valuation, likely bottoming of vacancies and resultant cap rate compression. We increase FY22/23E EPS by 15/30% to account for higher residential demand, price hikes, and better margins.
- **Dr. Reddy's:** Dr. Reddy's Q1 EBITDA/PAT missed our estimates by 16%/12% on account of muted trends in the US, PSAI and increased SG&A spends. We expect US business momentum to improve in the coming quarters, led by ramp-up in new launches (gVascepa, gKuvan). While the investments in R&D (biosimilars) and marketing spends on brands (India, EMs) have increased, they are likely to improve the longer-term growth visibility for key markets. The company is confident of achieving its long-term goal of 25% EBITDA margin (19% in Q1), led by ramp-up in the US, scale-up in API and operational efficiency. We cut our estimates by 9%/4% for FY22/23e to factor in the Q1 miss and lower gross margin. Our revised TP is INR5,210/sh. ADD.
- **IndusInd Bank:** IndusInd Bank's (IIB) Q1FY22 earnings were ~11% above our estimates due to higher non-interest income. Provisioning was elevated (annualised at 3.6% of loans), driven by a sharp spike in slippages at 5.4% (FY21: 4%) on account of the second wave. Impairments stemmed largely from the retail loan book (8% slippages) with stress seen across the vehicle finance, MFI and unsecured portfolios. Deposit mobilisation continued to witness a strong momentum with 12% sequential growth in SA deposits driving CASA ratio to 42%. However, a prolonged consolidation of the loan book (2y CAGR at 4.4%) and continued elevated stress (credit costs at >3% for six straight quarters) reflect a franchise that is yet to stabilise its asset side of the balance sheet. Maintain REDUCE with a target price of INR 734.
- **IndiGo:** IndiGo reported a higher-than-expected Q1FY22 loss of INR 31.7bn. Weak demand due to COVID and elevated fuel prices led to the above. The aviation industry is facing multiple headwinds, including (1) weak demand – corporate travel is down to 7% of sales (vs 20% earlier) and (2) rising fuel prices – which were higher by ~12% QoQ. We await clarity on the timing of IndiGo's proposed QIP, which will strengthen its balance sheet as cash burn levels have risen. Maintain REDUCE. We lower our EBITDAR estimates by ~8% over FY23/24E and set a revised target price of INR 1,575, based on 7X EV/EBITDAR on Jun-23E earnings. We had downgraded IndiGo to REDUCE in Q4FY21.
- **Torrent Pharma:** Torrent's Q1 results were in line with estimates as strong growth in India and Brazil offset muted performance in the US. We believe the US business (USD36mn) has largely bottomed out and is likely to improve from current levels. In India, Torrent's decision to foray into the

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HDFC securities 20 YEARS

Trade Gx business will enable it to enhance coverage in acute/sub-chronic therapies. While this may dilute the margin, it will allow the company to expand its growth horizons. The overall outlook for all key markets (ex-US) remains healthy as we expect Torrent to outperform the industry growth. We forecast high FCF generation (INR56bn) and debt repayment of INR22bn over the next two years. We increase our EBITDA estimates by 4%/7% for FY22/FY23e and revise the TP to INR3,155, based on 16x FY23 EV/EBITDA. Maintain ADD

- **The Ramco Cements:** We maintain REDUCE rating on The Ramco Cements (TRCL) with an unchanged target price of INR 1,044/share (13x Jun'23E EBITDA). In Q1FY22, while TRCL's sales suffered heavily owing to the extended lockdown in the south, robust pricing moderated the impact of lower utilisation and fuel inflation. Thus, its net sales/EBITDA/APAT fell 25/19/21% QoQ (up 18/40/54% YoY on a low base) to INR 12.29/3.64/1.69bn respectively.
- **Mahindra & Mahindra Financial Services**: MMFS disappointed our expectations with a loss of INR 15.3bn, on account of higher provisions (up 2.3x YoY) at INR 28.2bn, which was the outcome of an inflated stress pool of 35% (GS-II at 19.4% and GS-III at 15.5%). Asset quality deteriorated as collections and disbursements were significantly impacted by the second wave, as witnessed across other lenders. We revise our FY22/23E forecasts downwards by 14.4/3.3%, factoring in higher credit costs and interest reversals. However, gradual normalisation of portfolio stress, sponsor-backed funding cost advantage, and inexpensive valuation underpin our ADD rating with a revised TP of INR 177 (earlier INR 183), implying 1.2x Mar'23 ABVPS
- **Navin Fluorine International:** We retain our ADD rating on NFIL with a target price of INR 4,170 on the back of (1) earnings visibility, given long-term contracts, and (2) tilt in sales mix towards high-margin high-value business. EBITDA/APAT were 11/4% below our estimates, owing to a 5% lower revenue, higher-than-expected opex, lower-than-expected other income, offset by a lower-than-expected tax outgo.
- **TTK Prestige:** TTK Prestige's Q1FY22 revenue growth was largely in line at 71% YoY (HSIE 79%), while it saw a miss in EBITDA margin (11% vs. 15.7%). Despite the impact of the second wave, the company's revenue dip was only 18% (similar to channel checks) over Q1FY20 as compared to the 52% YoY dip in Q1FY21. Recovery in June was inspiring, and online remained strong (>30% mix vs. 25% normally). Exports were strong at 68% YoY. Gross margin was healthy at 44.6% (beat) despite steep commodity inflation. We were already building a QoQ dip in EBITDA margin but, owing to higher-than-expected other expenses, EBITDA margin at 11% saw a miss (4% in Q1FY21, 13% in Q1FY20, 18.5% in Q4FY21). The company has taken a price hike (5-6%) in July, and we expect normal demand. We believe EBITDA margin will revert to its strong level during FY22. TTK's market leadership (in five of its six product offerings) and a broad range of products give visibility on quicker recovery in the business with stable demand. We maintain our estimates and value it at 40x P/E on Jun-23E EPS to derive a TP of INR 9,165. Maintain ADD**.**
- **Zensar Technologies:** We maintain BUY on Zensar, following a better-than-expected performance and revival in the organic growth engine. Zensar delivered growth of 4.8% QoQ CC, the best organic growth in the past six years, supported by a recovery in the hi-tech vertical (+13% QoQ CC) and strong BFS performance (+2.3% QoQ CC). The demand environment

remains robust and Zensar - under the new leadership and revamped sales engine - is all set to accelerate organic growth. The inorganic route will be used to build capabilities in areas of advanced engineering and SaaS. The M3bi acquisition is a step towards enhancing data engineering, BI/analytics capabilities. The TCV wins stood at USD 96.7mn (book to bill at 0.8x), which include 50% net-new wins. The deal trajectory is expected to improve with increased investments in sales and marketing and a greater focus on winning large deals. The management has maintained its guidance to deliver a high-teen EBITDA margin (~18-19%). We increase our EPS estimates by 8.5/9% for FY22/23E to factor in growth revival and M3bi acquisition (~4.3% inorganic growth in FY22E). Our TP of INR 500 is based on 22x FY23E EPS (20x earlier). The stock is trading at a P/E of 22/18.6x FY22/23E EPS, a discount of ~30% to tier-2 IT.

DLF

Robust performance

DLF surprised positively on presales at INR 10bn (6.6x/-5% YoY/QoQ) despite the lockdown during the quarter. While office collection remains robust at 99%, occupancy at DCCDL declined to 86% vs. 88% at Mar 21-end. The consumption of malls rebounded to 50% of pre-COVID level during Jun-21, with footfalls exhibiting a rising trend. With robust Q1FY22, DLF is well on course to achieve INR 40bn presales in FY22, aided by 8msf launches. Net debt also continues to trend down (INR 47.bn vs INR 49bn on Mar-21). We maintain BUY on DLF, with increased target price of INR 390/sh (roll forward to Jun-23), higher land bank valuation, likely bottoming of vacancies and resultant cap rate compression. We increase FY22/23E EPS by 15/30% to account for higher residential demand, price hikes, and better margins.

- **Q1FY22 highlights:** Revenue: INR 11.3bn (+107%/-33.5% YoY/QoQ, 12.4% beat). EBITDA: INR 3.9bn (+24x/-12.9% YoY/QoQ, 69.6% beat). EBITDA margin: 34.7% (0.3%/26.5% in Q1FY21/Q4FY21) due to better product mix and lower overheads. Share of profits & associates and JVs: INR 1.35bn (+26.4%/-38.4% YoY/QoQ). APAT: INR 3.37bn vs INR (0.7)/5.1bn in Q1FY21/Q4FY21, 17% beat. DCCDL revenue grew 12% YoY to INR 10.4bn and profit grew 26% to INR 2bn.
- **Robust residential and steady rental portfolio**: Presales for Q1FY22, at INR 10.1bn (6.6x/-5% YoY/QoQ), was robust, on the back of an encouraging response to new independent floor launches (INR 5bn) and continued traction in Camellias (INR 3bn). With new launches of 8 msf and completion of the clubhouse of Camellias, DLF may exceed its sales target of INR 40bn. The DCCDL office portfolio collection was at 99% with occupancy remaining steady at 86% (vs 88% in Mar-21), while retail vacancy stood at 4%. DLF believes vacancy has hit the bottom and leasing momentum will pick up from H2FY22.
- **Balance sheet comfortable:** DLF generated cash surplus of INR 1.41bn, which aided net debt reduction to INR 47.4bn (vs. INR 49bn at Mar-21 end), with net D/E at 0.13x. Net debt is likely to decline further given project receivables are sufficient to reduce debt and new project cash flow will be able to meet construction outflows. The company also brought down interest costs from 8.4% in FY21 to 8.2% during the quarter.

Consolidated Financial Summary (INR mn)

YE March	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY22E	FY23E	FY24E
Net Sales	11,395	5,486	*107.7*	17,126	*(33.5)*	54,141	61,456	68831	75714
EBITDA	3,954	17	*22,757.8*	45,39	*(12.9)*	14,178	20,306	23394	26112
APAT	3,371	(707)	*(577.1)*	5,112	*(34.1)*	12,201	18098	21190	24175
EPS (INR)	1.4	(0.3)	*(577.1)*	2.1	*(34.1)*	4.9	7.3	8.6	9.8
P/E (x)						68.4	46.1	39.4	34.5
EV/EBITDA (x)						61.8	43.1	36.8	32.4
RoE (%)						2.9	3.5	5.0	5.6

Consolidated Estimate Change Summary

INR mn	FY22E New	FY22E Old	% Chg.	FY23E New	FY23E Old	% Chg.
Revenue	61,456	61,456	-	68,831	64,529	6.7
EBITDA	20,306	18,770	8.2	23,394	18,314	27.7
Margin (%)	33	30.5	250	34.0	28.4	560.7
APAT	18,098	15,762	14.8	21,190	16,234	30.5

Source: Company, HSIE Research

BUY

CMP *(as on 27 July 2021)*	**INR 337**
Target Price	**INR 390**
NIFTY	**15,746**

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 360	INR 390
EPS Change %	FY22E +14.8	FY23E +30.5

KEY STOCK DATA	
Bloomberg code	DLFU IN
No. of Shares (mn)	2,475
MCap (Rs bn) / ($ mn)	834/11,202
6m avg traded value (Rs mn)	3,686
52 Week high / low	Rs 345/135

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	32.8	30.2	147.4
Relative (%)	25.4	19.3	108.8

SHAREHOLDING PATTERN (%)	Mar-21	Jun-21
Promoters	74.95	74.95
FIs & Local MFs	2.21	2.56
FPIs	17.39	16.99
Public & Others	5.45	5.5
Pledged Shares	-	-

Source: BSE

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Dr. Reddy's Labs

Weak quarter; outlook intact

Dr. Reddy's Q1 EBITDA/PAT missed our estimates by 16%/12% on account of muted trends in the US, PSAI and increased SG&A spends. We expect US business momentum to improve in the coming quarters, led by ramp-up in new launches (gVascepa, gKuvan). While the investments in R&D (biosimilars) and marketing spends on brands (India, EMs) have increased, they are likely to improve the longer-term growth visibility for key markets. The company is confident of achieving its long-term goal of 25% EBITDA margin (19% in Q1), led by ramp-up in the US, scale-up in API and operational efficiency. We cut our estimates by 9%/4% for FY22/23e to factor in the Q1 miss and lower gross margin. Our revised TP is INR5,210/sh. ADD.

- **Revenue in line, margin disappoints:** Revenue, at INR49bn, grew by 11% YoY as strong growth in India (+69% YoY, low base, increase in sale of COVID drugs, price increase), EU (+12% YoY) and other EMs (+27% YoY) offset subdued performance in the US (-1% QoQ) and PSAI business (-12% YoY). EBITDA margin declined to ~19% (-612bps YoY, -342bps QoQ) on the back of lower gross margin (-380bps YoY, -142bps QoQ, price erosion, inventory provision, product mix) and increase in SG&A cost (+205bps YoY, +77bps QoQ, marketing spends, Wockhardt integration).
- **Muted performance in US and PSAI; growth visibility remains strong: The** US revenue declined to USD235mn (-1% QoQ) as volume growth and new launches were offset by increased price erosion. We expect the ramp-up in new launches such as gVascepa and gKuvan to drive higher revenues in the coming quarters. The medium-term growth visibility remains strong with key products in the pipeline such as gCopaxone and gNuvaring awaiting approval. The PSAI business gross margin declined to 21.6% (-1,180bps YoY, -1,010bps QoQ) due to lower prices/volumes and inventory stocking in the previous quarters. The management is confident of long-term growth prospects, given the order book visibility.
- **Key call highlights:** (a) gVascepa: launched at the end of quarter, expects further ramp-up in the coming quarters; (b) India: locally manufactured Sputnik-V roll-out from Sept-Nov; investing in nutrition/ OTC brands; (c) Filed 30 DMFs (two in the US) and 70 formulations globally in the quarter; d) WC rose by INR12bn on account of increase in inventory and receivables.
- **Maintain ADD, risks**: We reduce our estimates by 9%/4% for FY22/23 to factor in the Q1 miss and lower gross margin and revise our TP to INR5,210. Our target price is based on SOTP of 23x FY23e EPS, NPV of INR384/sh for gRevlimid and INR89/sh for Sputnik-V. **Key risks**: delay in key approvals, higher price erosion, and lower-than-expected growth in EMs.

Financial Summary

	Q1 FY22	Q1 FY21	YoY (%)	Q4 FY20	QoQ (%)	FY20	FY21	FY22E	FY23E
Net Sales	49,194	44,175	*11.4*	47,284	*4.0*	1,74,600	1,89,722	2,07,962	2,31,004
EBITDA	9,512	11,247	*-15.4*	10,758	*-11.6*	34,546	45,257	45,170	55,617
EBITDA Margin	19.3	25.5	*-612bps*	22.8	*-342bps*	19.8	23.9	21.7	24.1
Rep. PAT	5,708	5,793	*-1.5*	5,535	*3.1*	30,183	19,558	26,294	34,301
EPS (INR)	34.3	34.8	*-1.5*	33.2	*3.1*	117.1	103.5	157.9	206.0
P/E* (x)						37.3	42.2	27.7	21.2
EV/ EBITDA* (x)						22.1	22.0	22.0	16.2
RoCE* (%)						20.4	13.5	12.3	14.6

Source: Company, HSIE Research; *Adjusted for gRevlimid and Sputnik-V

ADD

CMP*(as on 27 July 2021)*	Rs 4,843
Target Price	Rs 5,210
NIFTY	15,746

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	Rs 5,460	Rs 5,210
EPS %	FY22E	FY23E
	-9%	-4%

KEY STOCK DATA	
Bloomberg code	DRRD IN
No. of Shares (mn)	166
MCap (Rs bn) / ($ mn)	806/10,820
6m avg traded value (Rs mn)	5,309
52 Week high / low	Rs 5,650/3,963

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	(4.2)	(1.3)	20.6
Relative (%)	(11.7)	(12.2)	(18.0)

SHAREHOLDING PATTERN (%)	Jun -21	Mar -21
Promoters	26.73	26.74
FIs & Local MFs	15.74	14.90
FPIs	29.04	29.03
Public & Others	28.49	29.33
Pledged Shares	0.00	0.00

Source : BSE

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IndusInd Bank

Reversion to steady state profitability elusive

IndusInd Bank's (IIB) Q1FY22 earnings were ~11% above our estimates due to higher non-interest income. Provisioning was elevated (annualised at 3.6% of loans), driven by a sharp spike in slippages at 5.4% (FY21: 4%) on account of the second wave. Impairments stemmed largely from the retail loan book (8% slippages) with stress seen across the vehicle finance, MFI and unsecured portfolios. Deposit mobilisation continued to witness a strong momentum with 12% sequential growth in SA deposits driving CASA ratio to 42%. However, a prolonged consolidation of the loan book (2y CAGR at 4.4%) and continued elevated stress (credit costs at >3% for six straight quarters) reflect a franchise that is yet to stabilise its asset side of the balance sheet. Maintain REDUCE with a target price of INR 734.

- **In-line operating performance:** IIB reported NII/PPOP growth of 7.7%/9.4% YoY, broadly in line with our expectations. Despite a muted quarter in terms of business activity, the non-interest income was sequentially flat, led by higher treasury gains. NIMs declined sequentially by 7bps due to higher negative carry and interest reversals. Deposit growth continued to surprise positively, led by SA balances, bringing the cost of deposits to an all-time low of sub-5%. C/I ratio improved to 41.4% (Q4FY21: 42.4%), aided by trading gains.
- **Elevated slippages from the retail portfolio:** Having re-jigged its corporate book towards more granular loans and having witnessed elevated slippages during FY20-FY21 in this portfolio, IIB's retail portfolio witnessed significant impairment in the quarter, with gross slippages at 8% and restructured portfolio at ~3.3%. This was largely on account of the second wave, which impacted collection, recoveries and business momentum. While the trend is similar across other lenders, IIB's disproportionate exposure to commercial vehicles and MFI (41%) is likely to keep credit costs elevated. Despite contingent provisions at 1% of loans and PCR at 72% offering comfortable cushion, the retail asset mix (and the telecom account exposure) remains vulnerable in the event of further economic or adverse regulatory shocks.
- **Consolidating loan book a concern; maintain REDUCE**: The rising wedge between deposit growth (+27% YoY) and loan growth (+6% YoY) is a drag on margins and earnings growth. A high proportion of cash and equivalents (now at one-fifth of total assets) reflect a bank still searching for stability on the asset side of the balance sheet. Management's aspirations of ~16-18% loan growth over the medium term are contingent on IIB quickly stabilising its asset side of the balance sheet and confidently deploying the surplus liquidity. Maintain REDUCE with a target price of INR 734.

Financial summary

(INR bn)	1Q FY22	1Q FY21	*YoY (%)*	4Q FY21	*QoQ (%)*	FY20	FY21P	FY22E	FY23E
NII	35.6	33.1	*7.7%*	35.3	*0.8%*	120.6	135.3	154.5	176.3
PPOP	31.3	28.6	*9.4%*	30.6	*2.3%*	107.7	117.3	127.3	145.0
PAT	9.7	4.6	*111.3%*	8.8	*11.3%*	44.2	28.4	57.2	73.3
EPS (INR)	12.6	6.6	*89.5%*	11.4	*10.1%*	63.7	36.7	72.8	93.4
ROAE (%)						14.4	7.3	12.1	13.5
ROAA (%)						1.5	0.8	1.5	1.8
ABVPS (INR)						473.2	541.6	617.6	685.7
P/ABV (x)						2.1	1.8	1.6	1.4
P/E (x)						15.3	26.6	13.4	10.5

Source: Company, HSIE Research

REDUCE

CMP *(as on 27 July 2021)*	**INR 976**
Target Price	**INR 734**
NIFTY	**15,746**

KEY CHANGES	**OLD**	**NEW**
Rating	REDUCE	REDUCE
Price Target	INR734	INR734
	FY22E	FY23E
EPS %	0%	0%

KEY STOCK DATA	
Bloomberg code	IIB IN
No. of Shares (mn)	774
MCap (INR bn) / ($ mn)	755/10,141
6m avg traded value (INR mn)	7,574
52 Week high / low	INR 1,165/483

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	10.6	19.0	92.6
Relative (%)	3.2	8.1	54.0

SHAREHOLDING PATTERN (%)	**Mar-21**	**Jun-21**
Promoters	16.6	16.5
FIs & Local MFs	19.0	18.6
FPIs	55.7	52.1
Public & Others	8.8	12.8
Pledged Shares	5.5	6.9

Source : BSE

Pledged shares as % of total shares

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InterGlobe Aviation

Weak quarter, awaiting timelines for fundraise

IndiGo reported a higher-than-expected Q1FY22 loss of INR 31.7bn. Weak demand due to COVID and elevated fuel prices led to the above. The aviation industry is facing multiple headwinds, including (1) weak demand – corporate travel is down to 7% of sales (vs 20% earlier) and (2) rising fuel prices – which were higher by ~12% QoQ. We await clarity on the timing of IndiGo's proposed QIP, which will strengthen its balance sheet as cash burn levels have risen. Maintain REDUCE. We lower our EBITDAR estimates by ~8% over FY23/24E and set a revised target price of INR 1,575, based on 7X EV/EBITDAR on Jun-23E earnings. We had downgraded IndiGo to REDUCE in Q4FY21: Recovery priced in.

- **Q1FY22 financials:** Revenue, at INR 30bn, declined 52% QoQ, affected by the second COVID wave. PAX yields were lower at INR 3.5 (-6% QoQ). However, ancillary revenue grew to 24% of sales vs 20% QoQ due to increased cargo loads. Fuel costs were elevated and came in significantly higher at 40.4% of sales vs 30.8% QoQ (the average fuel cost is up ~12% QoQ). Forex loss came in at INR 3.6bn vs INR 1.17bn QoQ. Consequently, IndiGo reported an EBITDAR loss of INR 14bn (vs a loss of INR 15bn YoY) and a net loss of INR 31.7bn (vs loss of INR 28.4/11.6bn YoY/QoQ).
- **Key highlights: (1) Cash burn increases:** The daily cash burn has increased 1.75x QoQ to INR 334mn (INR 190mn QoQ) due to weak demand affected by COVID. **(2) Fundraise:** To strengthen the balance sheet, the company's fundraising plan of INR 30bn via QIP has been approved by the board, although timelines on the same are awaited. IndiGo's free cash reduced to INR 56bn in Q1FY22 vs INR 71bn QoQ while debt level has risen to INR 316bn vs. INR 298bn QoQ. **(3) Near-term outlook:** In Q1FY22, load factors dipped sharply to 59% vs 70% QoQ. In Jul-21, the management expects revenue to come back to the Apr-21 level of INR 15.4bn (INR 6.7/9.6 in May/Jun-21). However, the domestic capacity will reach the pre-COVID level only by Q4FY22, as more individuals are vaccinated, and corporate travel increases (~7% of sales vs 20% earlier). As per the management, corporate travel will recover only to 75% of its earlier level, once traffic normalises.

Financial Summary (Standalone)

YE March (Rs bn)	1Q FY22	1Q FY21	% YoY	4Q FY21	% QoQ	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	30.1	7.7	*292*	62.2	*(52)*	353.8	146.4	208.9	341.1	413.4
EBITDAR	(14.2)	(15.4)	*NA*	6.2	*NA*	41.6	2.5	28.7	79.0	99.5
APAT	(31.8)	(28.5)	*NA*	(11.6)	*NA*	(6.3)	(58.3)	(33.8)	17.8	32.5
Adj EPS (Rs)	(82.6)	(74.0)	*NA*	(30.1)	*NA*	(16.3)	(151.5)	(87.8)	46.2	84.5
P/E (x)						NA	NA	NA	37.0	20.2
EV/EBITDAR						17.1	NA	25.7	8.3	5.9
EV/Sales						2.0	5.2	3.5	1.9	1.4

Change in Estimates

INR bn	New			Old			Change (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenues	208.9	341.1	413.4	210.3	343.4	416.2	(1)	(1)	(1)
EBITDAR	28.7	79.0	99.5	38.2	85.7	107.8	(25)	(8)	(8)
Adj. PAT	(33.8)	17.8	32.5	(20.1)	24.4	40.0	NA	(27)	(19)
EPS	(87.8)	46.2	84.5	(52.2)	63.5	103.8	NA	(27)	(19)

Source: Company, HSIE Research

REDUCE

CMP *(as on 27 July 2021)*	**Rs 1,705**
Target Price	**Rs 1,575**
NIFTY	**15,746**

KEY CHANGES	**OLD**	**NEW**
Rating	REDUCE	REDUCE
Price Target	Rs 1,725	Rs 1,575
EPS %	FY22E	FY23E
	NA	-27%

KEY STOCK DATA	
Bloomberg code	INDIGO IN
No. of Shares (mn)	385
MCap (Rs bn) / ($ mn)	656/8,813
6m avg traded value (Rs mn)	1,674
52 Week high / low	Rs 1,860/873

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	3.9	7.2	88.9
Relative (%)	-3.5	-3.7	50.3

SHAREHOLDING PATTERN (%)	**Mar-21**	**Jun-21**
Promoters	74.8	74.8
FIs & Local MFs	4.8	3.9
FPIs	18.3	19.2
Public & Others	2.0	2.1
Pledged Shares	0.0	0.0

Source : BSE

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Torrent Pharma

In-line quarter; positive outlook reaffirmed

Torrent's Q1 results were in line with estimates as strong growth in India and Brazil offset muted performance in the US. We believe the US business (USD36mn) has largely bottomed out and is likely to improve from current levels. In India, Torrent's decision to foray into the Trade Gx business will enable it to enhance coverage in acute/sub-chronic therapies. While this may dilute the margin, it will allow the company to expand its growth horizons. The overall outlook for all key markets (ex-US) remains healthy as we expect Torrent to outperform the industry growth. We forecast high FCF generation (INR56bn) and debt repayment of INR22bn over the next two years. We increase our EBITDA estimates by 4%/7% for FY22/FY23e and revise the TP to INR3,155, based on 16x FY23 EV/EBITDA. Maintain ADD.

- **In-line quarter:** Revenue increased by 4% to INR21bn as strong performance in India (+18% YoY, acute/ sub-chronic portfolio) and Brazil (+9% YoY, +14% in cc terms) was offset by muted growth in the US (-3% QoQ, price erosion), Germany (6% YoY, flat in cc terms, COVID impact) and other markets (-7% YoY). EBITDA margin increased to ~32% (+168bps QoQ) as a decline in gross margin (-195bps QoQ, product mix) was offset by lower R&D (-178bps QoQ) and other expenses (-228bps QoQ, savings in marketing costs).
- **India business on a strong footing; forays into the Trade Gx business:** Revenue grew by ~18% YoY in Q1, led by robust recovery in volumes for acute and sub-chronic portfolio (low base, higher COVID-led demand). The company managed to achieve an MR productivity of INR 1mn per month (vs. 0.85 in FY21) as guided in Q4. It has also ventured into the Trade Gx business with an aim to explore growth opportunities in acute/sub-chronic segments. It plans to grow this business to ~3-4% of India revenues in the near term. However, margins from this business are expected to be lower than those from the Rx business.
- **US bottoming out, likely to maintain current run-rate in the near term:** The US revenue declined by 3% QoQ to USD36mn on account of price erosion (high single digit) and limited new launches. The company aims to file 10-12 ANDAs, including 1-2 505b(2) opportunities. It plans to launch 10-15 products every year, post the facility clearance from the FDA.
- **Key call takeaways:** (a) India growth break-up - volume: 14%, price: 6%, new launches: 4%; (b) Germany – targets ~7-9% growth vs. 3-4% for the market; (c) Brazil – guides to outperform local market growth of ~10%, led by price increase, new launches with 1-2 being meaningful; (d) Developing onco products for all the markets; (e) the company expects double digit topline growth from Q3; Trade Gx business can lead to slight moderation in gross margins; ETR: 30-31%, Cash tax: ~17%, repaid debt of INR3.5bn in Q1.

Financial Summary

	Q1 FY22	Q1 FY21	*YoY (%)*	Q4 FY21	*QoQ (%)*	FY20	FY21	FY22E	FY23E
Net Sales	21,340	20,560	*3.8*	19,370	*10.2*	79,393	80,048	86,984	97,822
EBITDA	6,770	6,610	*2.4*	5,820	*16.3*	21,704	24,857	27,887	32,527
EBITDA Margin	31.7	32.1	*-43bps*	30.0	*168bps*	27.3	31.1	32.1	33.3
APAT	3,300	3,210	*2.8*	3,240	*1.9*	10,247	12,523	13,886	17,518
Adj. EPS (INR)	19.5	19.0	*2.8*	19.1	*1.9*	60.5	74.0	82.0	103.5
P/E (x)						49.6	40.6	36.6	29.0
EV/ EBITDA (x)						25.1	21.6	18.4	15.2
RoCE (%)						15.7	17.2	17.5	20.5

Source: Company, HSIE Research

ADD

CMP*(as on 27 July 2021)*	**Rs 3,003**
Target Price	**Rs 3,155**
NIFTY	**15,746**

KEY CHANGES	**OLD**	**NEW**
Rating	ADD	ADD
Price Target	Rs 2,905	Rs 3,155
EBITDA %	FY22E	FY23E
	+4%	+7%

KEY STOCK DATA	
Bloomberg code	TRP IN
No. of Shares (mn)	169
MCap (Rs bn) / ($ mn)	508/6,824
6m avg traded value (Rs mn)	899
52 Week high / low	Rs 3,144/2,232

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	18.9	13.4	30.6
Relative (%)	11.5	2.5	(8.0)

SHAREHOLDING PATTERN (%)	**Jun-21**	**Mar-21**
Promoters	71.25	71.25
FIs & Local MFs	8.42	8.35
FPIs	11.65	11.37
Public & Others	8.68	9.03
Pledged Shares	0.00	0.00

Source : BSE

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The Ramco Cements

Sharp volume decline on extended lockdown in south

We maintain REDUCE rating on The Ramco Cements (TRCL) with an unchanged target price of INR 1,044/share (13x Jun'23E EBITDA). In Q1FY22, while TRCL's sales suffered heavily owing to the extended lockdown in the south, robust pricing moderated the impact of lower utilisation and fuel inflation. Thus, its net sales/EBITDA/APAT fell 25/19/21% QoQ (up 18/40/54% YoY on a low base) to INR 12.29/3.64/1.69bn respectively.

- **FY22Q1 performance:** Prolonged lockdown in the south (mainly in Kerala and Tamil Nadu) adversely impacted TRCL's sales volume, which fell 33% QoQ. However, solid pricing gain (+11% QoQ) moderated the impact of lower utilisation (44% vs 66% QoQ) and input cost inflation (+6% QoQ). Outward freight cost remained stable QoQ and clinker movement cost fell sharply QoQ. Unitary EBITDA surged to INR 1637/MT (27/16% YoY/QoQ), driven by robust pricing gains, amidst weak volumes. The windmill segment's contribution to EBITDA remained flattish YoY at 4%. TRCL commissioned 1.5mn MT clinker (line 3) at Jayantipuram in Q1FY22.
- **Capex update and outlook**: It will commission 2.25mn MT clinker and 9MW WHRS at Kurnool in Q2FY22. In FY23, it will commission 1mn MT grinding and 12/18MW WHRS/CPP at Kurnool in FY23. TRCL will spend ~INR 8bn on the ongoing expansions during FY22-23. Additionally, it is replacing an old kiln of 1mn MT in Tamil Nadu with a new one of 1.5mn MT (incurring a Capex of INR 4.8bn). It will also spend INR 1.6bn towards four dry mortar plants. We maintain our EBITDA estimates and target price for the company. Our target price of INR 1,044 is based on 13x its Jun'23E EBITDA. We maintain our REDUCE rating on the stock, owing to its expensive valuation.

Quarterly/annual financial summary

YE Mar (INR bn)	Q1 FY22	Q1 FY21	*YoY (%)*	Q4 FY21	*QoQ (%)*	FY20	FY21	FY22E	FY23E	FY24E
Sales (mn MT)	2.14	1.94	*10.5*	3.21	(33.3)	11.2	10.0	10.8	12.6	13.6
NSR (INR/MT)	5,651	5,293	*6.8*	5,072	11.4	4,740	5,222	5,379	5,426	5,479
Opex (INR/MT)	4,014	4,008	*0.2*	3,655	9.8	3,759	3,703	3,916	3,869	3,912
EBITDA(INR/MT)	1,637	1,285	*27.4*	1,417	15.5	981	1,520	1,463	1,557	1,567
Net Sales	12,287	10,418	*17.9*	16,306	(24.6)	53,684	52,684	58,649	69,078	75,269
EBITDA	3,640	2,600	*40.0*	4,490	(18.9)	11,367	15,480	16,184	20,018	21,714
APAT	1,690	1,096	*54.2*	2,144	(21.2)	6,011	7,611	7,764	10,749	12,379
AEPS (INR)	7.2	4.7	*54.2*	9.1	(21.2)	25.5	32.3	33.0	45.6	52.5
EV/EBITDA (x)						18.1	13.3	17.0	13.5	12.2
EV/MT (INR bn)						11.2	10.7	13.5	12.7	12.4
P/E (x)						29.5	23.3	32.2	23.2	20.2
RoE (%)						*12.8*	*14.4*	*13.0*	*15.8*	*15.8*

Source: Company, HSIE Research

Estimates revision

INR Bn	FY22E Old	FY22E Revised	*Change %*	FY23E Old	FY23E Revised	*Change %*	FY24E Old	FY24E Revised	*Change %*
Net Sales	60.5	58.6	*-3.1*	72.0	69.1	*-4.1*	79.2	75.3	*-5.0*
EBITDA	16.1	16.2	*0.4*	20.0	20.0	*0.0*	21.7	21.7	*0.1*
APAT	7.7	7.8	*0.6*	10.7	10.7	*0.1*	12.4	12.4	*0.1*
AEPS (INR)	32.8	33.0	*0.6*	45.6	45.6	*0.1*	52.5	52.5	*0.1*

Source: Company, HSIE Research

REDUCE

CMP *(as on 27 July 2021)*	**INR 1,060**
Target Price	**INR 1,044**
NIFTY	**15,746**

KEY CHANGES	**OLD**	**NEW**
Rating	Reduce	Reduce
Price Target	INR 1,044	INR 1,044
EBITDA revision %	FY22E *0.4*	FY23E *0.0*

KEY STOCK DATA	
Bloomberg code	TRCL IN
No. of Shares (mn)	236
MCap (INR bn) / ($ mn)	250/3,359
6m avg traded value (INR mn)	655
52 Week high / low	INR 1,133/664

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	10.5	36.8	54.4
Relative (%)	3.1	25.9	15.8

SHAREHOLDING PATTERN (%)	**Mar-21**	**Jun-21**
Promoters	42.54	42.54
FIs & Local MFs	23.23	22.30
FPIs	8.26	8.64
Public & Others	25.97	26.52
Pledged Shares	5.54	5.20

Source : BSE

Pledged shares as % of total shares

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Mahindra & Mahindra Financial Services

Portfolio stress peaking out

MMFS disappointed our expectations with a loss of INR 15.3bn, on account of higher provisions (up 2.3x YoY) at INR 28.2bn, which was the outcome of an inflated stress pool of 35% (GS-II at 19.4% and GS-III at 15.5%). Asset quality deteriorated as collections and disbursements were significantly impacted by the second wave, as witnessed across other lenders. We revise our FY22/23E forecasts downwards by 14.4/3.3%, factoring in higher credit costs and interest reversals. However, gradual normalisation of portfolio stress, sponsor-backed funding cost advantage, and inexpensive valuation underpin our ADD rating with a revised TP of INR 177 (earlier INR 183), implying 1.2x Mar'23 ABVPS.

- **Portfolio stress peaking out:** MMFS reported GNPAs of 15.5% and a GS-II portfolio (including restructured loans of 2.8%) at 19.4%, taking the total stress book to 35%, reflecting the difficulties in physical collection and the need for rural customers to hoard liquidity. The management commentary suggests that the stress is transient as (a) 75% of GS-II loans have exhibited significant repayment activity and (b) a meaningful proportion of NPAs have paid up 50% of their outstanding loans. As the macro environment situation normalises, MMFS is likely to migrate to 35-40% PCR (in line with its historical LGDs) and, accordingly, witness significant provision reversals over the next three quarters. We build in GNPAs of 12% and 9% for FY22E and FY23E respectively - we also build in credit costs of 3.2/2.7% in FY22/FY23E.
- **AUM growth to rebound in H2FY22:** Disbursals de-grew 35% sequentially (up 42% YoY due to a low base). Tractor disbursements have continued to lose traction (clocking below-industry growth rate) over the past couple of quarters on account of a high share of commercial tractors. We continue to build in an AUM CAGR of 10.7% over FY22-23E, likely to be back-ended towards H2FY22, led by tractors (17% of AUM), pre-owned vehicles (12%) and Auto – M&M (29%).

Financial summary

(INR bn)	1QFY22	1QFY21	YoY (%)	4QFY21	QoQ (%)	FY20	FY21P	FY22E	FY23E
NII	11.2	13.4	*(16.6)*	14.7	*(24.0)*	51.1	55.3	57.7	68.8
PPOP	7.5	10.4	*(28.3)*	10.6	*(29.2)*	34.0	41.5	41.6	48.3
PAT	(15.0)	1.6	*NA*	0.5	*NA*	9.1	3.3	11.3	17.5
EPS (INR)	(12.4)	2.5	*NA*	1.2	*NA*	14.7	2.7	9.2	14.2
ROAE (%)						8.1%	2.5%	7.5%	10.7%
ROAA (%)						1.3%	0.4%	1.4%	2.0%
ABVPS (INR)						120.2	99.7	95.4	132.8
P/ABV (x)						1.2	1.5	1.6	1.1
P/E (x)						10.0	55.4	16.1	10.4

Change in estimates

INR bn	FY22E			FY23E		
	Old	New	Chg	Old	New	Chg
Loan	891.0	891.0	0.0%	1,000.8	1,000.8	0.0%
NIM (%)	7.0	6.8	-20 bps	7.3	7.3	-2 bps
NII	59.4	57.7	-2.9%	69.0	68.8	-0.3%
PPOP	42.6	41.6	-2.5%	48.0	48.3	0.6%
PAT	13.2	11.3	-14.4%	18.1	17.5	-3.3%
ABVPS (INR)	108.4	95.4	-11.9%	124.4	132.8	6.8%

Source: Company, HSIE Research

ADD

CMP *(as on 27 July 2021)*	INR 148
Target Price	INR 177
NIFTY	15,746

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR183	INR177
EPS %	FY22E	FY23E
	-14.4%	-3.3%

KEY STOCK DATA	
Bloomberg code	MMFS IN
No. of Shares (mn)	1236
MCap (Rs bn) / ($ mn)	183/2,457
6m avg traded value (Rs mn)	1,844
52 Week high / low	INR 224/113

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	(10.2)	(13.8)	15.0
Relative (%)	(17.7)	(24.7)	(23.6)

SHAREHOLDING PATTERN (%)	Mar-21	Jun-21
Promoters	52.2	52.2
FIs & Local MFs	15.7	17.5
FPIs	20.2	17.9
Public & Others	12.0	12.4
Pledged Shares	0.0	0.0

Source : BSE

Pledged shares as % of total shares

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Navin Fluorine International

High opex dents margin

We retain our ADD rating on NFIL with a target price of INR 4,170 on the back of (1) earnings visibility, given long-term contracts, and (2) tilt in sales mix towards high-margin high-value business. EBITDA/APAT were 11/4% below our estimates, owing to a 5% lower revenue, higher-than-expected opex, lower-than-expected other income, offset by a lower-than-expected tax outgo.

- **Financial performance:** Revenue/EBITDA grew 53/50% YoY on a low base, and fell 3/7% QoQ to INR 3,139/780mn. EBITDA margin fell 59/115bps YoY/QoQ to ~25% in Q1. The margin was impacted negatively in the quarter due to higher raw material costs (YoY), pricing pressures, increased employee costs and higher maintenance expenses. Employee costs in Q1 significantly spiked due to addition of new employees, bonuses, increments and variable payments made in the quarter.
- **Segmental performance:** Specialty chemicals (42% of revenue mix) and CRAMS (21%) business units (BU) grew 37/97% YoY to INR 1,330mn/670mn. The specialty chemicals BU continues to grow on the back of a mix of new products and market share gain. It is seeing good traction from domestic as well as global markets. The CRAMS BU's healthy performance was driven by repeat orders from its existing customers, which led to better capacity utilisation. The CRAMS BU has added new customers in the form of mid-sized bio pharma companies in the US, and fresh enquiries are coming in from its existing customers in Europe. NFIL plans to debottleneck its cGMP-3 plant in the next six months, post which, it plans to set up a cGMP-4 plant.
- **Exceptional items adjustment**: The following items have been excluded to arrive at an APAT of INR 567mn in Q1: (1) marked-to-market gains of INR 6mn; and (2) one-off loss of INR 9mn from the sale of investments.
- **Change in estimates:** We cut our FY22 EPS estimate by 6% to INR 57.6, to account for higher raw material prices (YoY), increased employee costs, and adoption of a reduced tax rate in FY22.
- **DCF-based valuation: Our target price is INR 4,170 (WACC 10%, terminal growth 5.5%). The stock is trading at 48x FY23E EPS.**

Financial Summary (Standalone)

INR mn	Q1FY22	Q4FY21	QoQ (%)	Q1FY21	YoY (%)	FY20*	FY21*	FY22E*	FY23E*	FY24E*
Net Sales	3,139	3,240	(3.1)	2,047	53.3	10,616	11,794	13,809	17,796	22,880
EBITDA	780	842	(7.4)	521	49.7	2,635	3,093	3,386	4,717	6,377
APAT	567	540	5.1	222	155.9	3,855	2,216	2,852	3,788	4,921
AEPS (INR)	11.5	10.9	4.9	4.5	155.8	77.9	44.8	57.6	76.5	99.4
P/E (x)						47.2	82.1	63.8	48.0	37.0
EV/EBITDA(x)						67.7	56.8	51.9	37.0	27.2
RoE (%)						31.0	14.6	16.5	19.3	21.7

Source: Company, HSIE Research, *Consolidated

Change in estimates (Consolidated)

Y/E Mar	FY22E Old	FY22E New	% Ch	FY23E Old	FY23E New	% Ch
EBITDA (INR mn)	3,888	3,386	(12.9)	5,096	4,717	(7.5)
Adj. EPS (INR/sh)	61.3	57.6	(6.0)	76.7	76.5	(0.2)

Source: Company, HSIE Research

ADD

CMP *(as on 27 Jul 2021)*	**INR 3,677**
Target Price	**INR 4,170**
NIFTY	**15,746**

KEY CHANGES	**OLD**	**NEW**
Rating	ADD	ADD
Price Target	INR 4,270	INR 4,170
	FY22E	FY23E
EPS %	-6.0%	-0.2%

KEY STOCK DATA	
Bloomberg code	NFIL IN
No. of Shares (mn)	49
MCap (INR bn) / ($ mn)	182/2,446
6m avg traded value (INR mn)	963
52 Week high / low	INR 4,015/1,692

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	6.3	48.9	96.9
Relative (%)	(1.1)	38.0	58.3

SHAREHOLDING PATTERN (%)	**Mar-21**	**Jun-21**
Promoters	30.22	30.22
FIs & Local MFs	15.83	15.18
FPIs	25.10	26.65
Public & Others	28.85	27.95
Pledged Shares	0.91	0.91

Source : BSE

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TTK Prestige

Steady revenue; miss in margin

TTK Prestige's Q1FY22 revenue growth was largely in line at 71% YoY (HSIE 79%), while it saw a miss in EBITDA margin (11% vs. 15.7%). Despite the impact of the second wave, the company's revenue dip was only 18% (similar to channel checks) over Q1FY20 as compared to the 52% YoY dip in Q1FY21. Recovery in June was inspiring, and online remained strong (>30% mix vs. 25% normally). Exports were strong at 68% YoY. Gross margin was healthy at 44.6% (beat) despite steep commodity inflation. We were already building a QoQ dip in EBITDA margin but, owing to higher-than-expected other expenses, EBITDA margin at 11% saw a miss (4% in Q1FY21, 13% in Q1FY20, 18.5% in Q4FY21). The company has taken a price hike (5-6%) in July, and we expect normal demand. We believe EBITDA margin will revert to its strong level during FY22. TTK's market leadership (in five of its six product offerings) and a broad range of products give visibility on quicker recovery in the business with stable demand. We maintain our estimates and value it at 40x P/E on Jun-23E EPS to derive a TP of INR 9,165. Maintain ADD.

- **Small miss on revenue due to crises:** Revenue grew by 72% YoY (-52% in Q1FY21 and +45% in Q4FY21), driven by strong performance in exports and online channel. During the quarter, the company saw demand disruptions throughout India including rural and urban regions. South India was the most impacted. Cookers/cookware/appliances grew +80/95/62% YoY (-59/-45/-50% in Q1FY21 and +49/67/34% in Q4FY21). The e-commerce channel continued to do well in Q1FY22 with its revenue share increasing to 32%. It continued to widen its distribution with EBOs added despite the lockdown.
- **Miss in margin:** Gross margin expanded by 402bps YoY (-194bps in Q1FY21, 206bps in Q4FY21) to 44.6%. Gross profit came in line at INR 1.6bn. Employee/other expenses grew by 28/81% YoY. The company started its A&P spends from June, and it expects them, as a percentage of sales, to go back to normal level of 6% from Q2FY22. EBITDA margin expanded by 715bps YoY (-918bps in Q1FY21 and +931bps in Q4FY21) to 10.9%. EBITDA grew by 393% YoY (HSIE 641%).
- **Con call takeaways:** (1) TTK has taken sufficient price hikes to counter the high input cost pressure (took 5-6% price hike in July). (2) Ecommerce share of revenue at 32% will revert to normal level of ~25%. (3) Expect ~17% revenue from own stores. (4) GM expansion will come back to normal levels as Q1FY22 saw higher share of new products. (5) The south saw greater disruption and is expected to see pent-up demand as economic situation normalises. (6) It will be shifting the complete cooker range to the Svacch platform. (7) Factories in Tamil Nadu were shut for a month; however, there were no supply issues.

Quarterly/Annual Financial summary

YE Mar (INR mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21P	FY22E	FY23E	FY24E
Net Sales	3,569	2,085	71	5,549	(36)	22,019	25,610	28,643	31,548
EBITDA	391	79	393	1,025	(62)	3,334	3,860	4,277	4,772
APAT	272	41	565	734	(63)	2,494	2,715	3,054	3,457
Diluted EPS (INR)	19.6	3.0	565	53.0	(63)	180.0	195.9	220.4	249.4
P/E (x)						51.0	46.9	41.7	36.8
EV / EBITDA (x)						36.6	31.3	28.0	24.7
RoCE (%)						24.1	26.5	26.8	27.5

Source: Company, HSIE Research

ADD

CMP *(as on 27 July 2021)*	**INR 9,186**
Target Price	**INR 9,165**
NIFTY	**15,746**

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 9,165	INR 9,165
EPS %	FY22E	FY23E
	0%	0%

KEY STOCK DATA	
Bloomberg code	TTKPT IN
No. of Shares (mn)	14
MCap (INR bn) / ($ mn)	127/1,710
6m avg traded value (INR mn)	207
52 Week high / low	INR 9,589/5,020

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	20.2	55.2	68.3
Relative (%)	12.8	44.3	29.7

SHAREHOLDING PATTERN (%)	Mar-21	Jun-21
Promoters	70.41	70.41
FIs & Local MFs	12.53	12.82
FPIs	10.02	9.88
Public & Others	7.04	6.89
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Zensar Technologies

Changing the orbit

We maintain BUY on Zensar, following a better-than-expected performance and revival in the organic growth engine. Zensar delivered growth of 4.8% QoQ CC, the best organic growth in the past six years, supported by a recovery in the hi-tech vertical (+13% QoQ CC) and strong BFS performance (+2.3% QoQ CC). The demand environment remains robust and Zensar - under the new leadership and revamped sales engine - is all set to accelerate organic growth. The inorganic route will be used to build capabilities in areas of advanced engineering and SaaS. The M3bi acquisition is a step towards enhancing data engineering, BI/analytics capabilities. The TCV wins stood at USD 96.7mn (book to bill at 0.8x), which include 50% net-new wins. The deal trajectory is expected to improve with increased investments in sales and marketing and a greater focus on winning large deals. The management has maintained its guidance to deliver a high-teen EBITDA margin (~18-19%). We increase our EPS estimates by 8.5/9% for FY22/23E to factor in growth revival and M3bi acquisition (~4.3% inorganic growth in FY22E). Our TP of INR 500 is based on 22x FY23E EPS (20x earlier). The stock is trading at a P/E of 22/18.6x FY22/23E EPS, a discount of ~30% to tier-2 IT.

- **Q1FY22 highlights:** (1) Zensar's revenue came in at USD 127.2mn, +5.8/+1.6% QoQ/YoY, higher than our estimate of USD 124.3mn; (2) growth in Q1 was led by hi-Tech/banking verticals, registering a growth of +13/+2.3% QoQ CC, while manufacturing/insurance/consumer declined -4.4/-3.8/-0.1% QoQ CC; (3) among the geographies, growth was led by the US (+6.7% QoQ) and Africa (+9.8% QoQ), while Europe remained flat sequentially; (4) EBITDA margin contracted -146bps QoQ to 18.4% (vs. our expectation of 18.8%), impacted by higher SG&A expenses (-140bps), lower utilisation (-10bps) and higher cost of delivery (-80bps), partially offset by currency (+90bps); (5) wage hike will be effective July-21 and will have an impact of ~100-150bps on the margin in Q2FY22E.
- **Outlook:** We expect USD revenue growth of +12.5/13.1% and EBIT margin of 13.6/14.0% for FY22/23E, resulting in a revenue/EPS CAGR of +12.4/+19.6% over FY21-24E.

Quarterly Financial summary

YE March (INR bn)	Q1 FY22	Q1 FY21	YoY (%)	Q4 FY21	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
Revenue (USD Mn)	127	125	1.6	120	5.8	566	494	556	628	702
Net Sales	9.37	9.49	*-1.2*	8.77	*6.9*	40.10	36.68	41.00	47.11	53.34
EBIT	1.30	0.98	*32.8*	1.30	*0.2*	3.47	5.11	5.56	6.59	7.95
APAT	1.01	0.73	*38.9*	0.90	*11.6*	2.63	3.50	4.17	4.93	5.98
Diluted EPS (INR)	4.4	3.2	*38.9*	4.0	*11.6*	11.5	15.3	18.2	21.6	26.2
P/E (x)						34.9	26.2	22.0	18.6	15.3
EV / EBITDA (x)						16.9	11.4	10.3	8.4	6.8
RoE (%)						12.7	15.7	16.3	17.5	19.1

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

YE March (INR bn)	FY22E Old	FY22E Revised	Change %	FY23E Old	FY23E Revised	Change %	FY24E Old	FY24E Revised	Change %
Revenue (USD mn)	518	556	*7.3*	580	628	*8.4*	643	702	*9.1*
Revenue	38.23	41.00	*7.2*	43.47	47.11	*8.4*	48.88	53.34	*9.1*
EBIT	5.12	5.56	*8.6*	6.09	6.59	*8.2*	7.36	7.95	*8.0*
EBIT margin (%)	13.4	13.6	17bps	14.0	14.0	-3bps	15.1	14.9	-15bps
APAT	3.84	4.17	*8.5*	4.52	4.93	*9.0*	5.50	5.98	*8.8*
EPS (INR)	16.8	18.2	*8.5*	19.8	21.6	*9.0*	24.1	26.2	*8.8*

Source: Company, HSIE Research

BUY

CMP *(as on 27 Jul 2021)*	**INR 401**
Target Price	**INR 500**
NIFTY	**15,746**

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 375	INR 500
EPS %	FY22E +8.5	FY23E +9.0

KEY STOCK DATA

Bloomberg code	ZENT IN
No. of Shares (mn)	226
MCap (INR bn) / ($ mn)	91/1,216
6m avg traded value (INR mn)	373
52 Week high / low	INR 423/139

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	50.6	66.8	172.2
Relative (%)	43.1	55.9	133.6

SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	49.19	49.18
FIs & Local MFs	1.74	9.71
FPIs	16.02	17.10
Public & Others	33.05	24.01
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Rating Criteria

BUY: >+15% return potential
ADD: +5% to +15% return potential
REDUCE: -10% to +5% return potential
SELL: > 10% Downside return potential

Disclosure:

Analyst	Company Covered	Qualification	Any holding in the stock
Parikshit Kandpal	DLF	CFA	NO
Chintan Parikh	DLF	MBA	NO
Manoj Rawat	DLF	MBA	NO
Bansi Desai	Dr Reddy's, Torrent Pharma	CFA	NO
Karan Vora	Dr Reddy's, Torrent Pharma	CA	NO
Rajesh Ravi	The Ramco Cement	MBA	NO
Krishnan ASV	IndusInd, Mahindra Finance	PGDM	NO
Deepak Shinde	IndusInd, Mahindra Finance	PGDM	NO
Punit Bahlani	IndusInd, Mahindra Finance	CA	NO
Aditya Makharia	Interglobe Aviation	CA	NO
Mansi Lall	Interglobe Aviation	MBA	NO
Harshad Katkar	Navin Flourine	MBA	NO
Nilesh Ghuge	Navin Flourine	MMS	NO
Rutvi Chokshi	Navin Flourine	CA	NO
Rachael Alva	Navin Flourine	CA	NO
Naveen Trivedi	TTK Prestige	MBA	NO
Saras Singh	TTK Prestige	PGDM	NO
Apurva Prasad	Zensar Technologies	MBA	NO
Amit Chandra	Zensar Technologies	PGDM	NO
Vinesh Vala	Zensar Technologies	MBA	NO

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