

# India Equity Strategy

# Quarterly flipbook

## Quarterly flipbook: Q1 – Mixed bag

After previous three quarters of beat and upgrades, Q1FY22 earnings season saw an overall in-line performance with divergence across sectors and stocks increasing yet again due to second wave impact. Aggregate Revenue/PAT grew 49.5%/61.7% YoY across the HSIE coverage universe (~190 stocks) due to low base, while on QoQ basis it grew by -27.6%/+15% led by strong show from IT, Cement, Chemicals, Utilities and non-lending financials while autos, banks, industrials, real estate delivered a miss. ~35% of our coverage stocks have beaten estimates (vs ~60% of stocks doing that in previous 3 quarters). Given second wave impact being limited to Q1 and management commentaries fairly positive on demand normalisation in July across most sectors, FY22/FY23 earnings estimates remain largely unchanged (-0.7%/-0.1%). Earning upgrades were led by the cement, capital markets and real estate sector for our coverage universe. For the HSIE coverage universe, FY22/FY23 earnings growth stands at 17.6%/21.8%, post 34% YoY earnings growth in FY21, leading to doubling of earnings over FY20-23.



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~35% of our coverage stocks have beaten estimates (vs ~60% of stocks doing that in previous 3 quarters). Given second wave impact being limited to Q1 and management commentaries fairly positive on demand normalisation in July across most sectors, FY22/FY23 earnings estimates remain largely unchanged (-0.7%/-0.1%). Earning upgrades were led by the cement, capital markets and real estate sector for our coverage universe. For the HSIE coverage universe, FY22/FY23 earnings growth stands at 17.6%/21.8%, post 34% YoY earnings growth in FY21, leading to doubling of earnings over FY20-23.

Despite a strong second COVID wave, Nifty consensus of FY22 EPS remains largely unchanged because the impacted sectors have a low weight in aggregate earnings; this would not change unless banks see a material cut in earnings (which has not transpired so far as NPA estimates for large banks don't seem to be at a huge risk and provisions among large banks remain adequate).

Nifty is trading at ~23x FY22 EPS, after building in ~39% EPS growth in FY22, which can come through, aided by global cyclical and select large banks. So, while overall EPS estimates are less at risk despite the second wave, the composition of earnings will change if high PE sectors see earnings cut and low PE sectors see earnings upgrades.

We believe it will remain a stock pickers' market in FY22 with bottom-up positive risk-reward investment ideas still available. Markets continue to favour technology (IT services, internet) and export-oriented sectors (chemicals) compared to domestic cyclical (banks, autos, industrials) which is leading to re-adjustment of index weights away from financials. Primary market activity level was quite high in Q1.

Our preferred sectors continue to be Large cap IT and banks, cement, infra and real estate, gas, insurance and capital markets, while we remain underweight on consumption (staples, discretionary and autos), NBFCs, and small banks.

**Q1FY22 results snapshot:** Overall, it was a reasonable quarter given the economic backdrop. In terms of stocks, notable earning upgrades were visible in Bharat Forge, SBI Life, Ultratech Cement, ACC, Dalmia Bharat, Sun Pharma, Alkem Labs, Apollo Healthcare, Max Healthcare, ICICI Prudential, ICICI Securities, UTI AMC, Trent, Cummins, ABB, DLF, Ahluwalia Contracts, Prestige Estates, Kolte Patil.

**Our view: Index absolute upsides capped; bottom-up opportunities still visible across sectors as economic recovery plays out in FY23.**

While our sector preference has remained largely unchanged in the past six months, post the sharp rally of ~100% from March 2020 lows and more so within select mid/small caps, easy returns have been made. The economy-facing ones like select banks, cement, infrastructure, real estate, utilities, PSUs and gas stocks still have room for rerating while IT and pharma look fairly valued with earnings-driven upsides. Consumer staples and discretionary face PE derating risks, given stretched valuations.

**Model portfolio: maintain bias towards economy-facing and value sectors.** We have been cutting weights in chemicals and IT sectors, post the sharp run-up in select stocks.

### Q1 deviation in estimates in comparison to previews

Sector	Revenue	PAT
Autos	20.8%	NM
Banks and NBFCs	-3.1%	-14.9%
Insurance	-15.3%	-91.9%
Capital Markets	-7.4%	-8.5%
Consumer- Staples	4.7%	-5.1%
Consumer Discretionary (ex-Autos)	5.6%	5.0%
Industrials (Infrastructure+ Cap Goods+ Logistics)	-7.6%	-14.4%
Real Estate	-2.4%	-19.5%
IT and Exchanges	0.6%	0.8%
Energy (Oil & Gas)	-1.8%	-11.4%
Cement and Building Materials	1.3%	23.6%
Chemicals	-0.2%	6.6%
Pharma	5.8%	10.4%
Power/Utilities	3.8%	10.6%
<b>Total</b>	<b>0.9%</b>	<b>-10.2%</b>

Source: Bloomberg & HSIE Research

### Sectoral Change in PAT Estimates in comparison to previews

Sector	FY22E	FY23E
Autos	-8.8%	-6.3%
Banks and NBFCs	-1.0%	-0.8%
Insurance	-7.2%	-0.1%
Capital Markets	13.8%	10.8%
Consumer- Staples	0.0%	0.5%
Consumer Discretionary (ex-Autos)	1.7%	3.9%
Industrials (Infrastructure+ Cap Goods+ Logistics)	-0.2%	0.3%
Real Estate	7.9%	13.6%
IT and Exchanges	-1.3%	-0.3%
Energy (Oil & Gas)	-0.9%	-0.4%
Cement and Building Materials	9.0%	5.9%
Chemicals	-3.0%	-2.3%
Power	0.0%	0.0%
Pharma	2.0%	3.0%
<b>Total</b>	<b>-0.7%</b>	<b>-0.1%</b>

Source: HSIE Research

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## Result Scorecard- Quarterly Snapshot

HSIE Coverage (INR Bn)	Q1 FY22 Preview Estimates			Q1 FY22 Actuals			Q1 FY21 Actuals			Deviation		
	Revenue	EBITDA	PAT	Revenue	EBITDA	PAT	Revenue	EBITDA	PAT	Revenue	EBITDA	PAT
	Q1FY22 E	Q1FY22 E	Q1FY22 E	Q1FY22A	Q1FY22A	Q1FY22A	Q1FY21A	Q1FY21A	Q1FY21A	Q1FY22	Q1FY22	Q1FY22
<b>Autos</b>	<b>1,009.3</b>	<b>142.4</b>	<b>35.0</b>	<b>1,219.5</b>	<b>108.6</b>	<b>(9.1)</b>	<b>528.9</b>	<b>8.1</b>	<b>(84.8)</b>	<b>20.8%</b>	<b>-23.7%</b>	<b>NM</b>
Maruti Suzuki India	173.3	15.6	13.9	177.7	8.2	4.4	41.1	(8.6)	(2.5)	2.5%	-47.4%	-68.3%
Bajaj Auto	75.4	13.1	11.9	73.9	11.2	10.6	30.8	4.1	5.3	-2.0%	-14.6%	-10.8%
Mahindra & Mahindra	119.5	16.7	8.7	117.6	16.3	9.3	55.9	5.7	0.4	-1.6%	-2.5%	7.4%
Eicher Motors	17.4	3.6	2.8	19.7	3.2	2.4	8.2	(0.6)	(0.6)	13.4%	-9.2%	-15.4%
Hero MotoCorp	55.3	7.5	5.6	54.9	5.2	3.7	29.7	1.1	0.6	-0.8%	-31.0%	-34.8%
Tata Motors	472.2	73.2	(14.1)	664.1	52.4	(44.5)	319.8	6.8	(84.4)	40.6%	-28.4%	-215.0%
Ashok Leyland	30.0	1.9	(0.1)	29.5	(1.4)	(2.8)	6.5	(3.3)	(3.9)	-1.6%	NM	-2138.1%
Escorts	17.4	2.6	2.1	16.7	2.3	1.9	10.6	1.2	0.9	-4.0%	-11.8%	-11.9%
Subros	5.1	0.5	0.2	4.8	0.3	0.03	0.7	(0.3)	(0.2)	-5.3%	-44.4%	-81.0%
Endurance	12.1	1.9	0.7	16.9	2.4	1.3	6.0	0.4	(0.3)	40.4%	28.8%	86.9%
Amara Raja	17.3	2.5	1.7	18.9	2.5	1.2	11.5	1.5	0.6	9.2%	-0.1%	-27.6%
Bharat Forge	8.4	2.2	1.1	13.7	3.9	2.3	4.3	(0.03)	(0.6)	64.2%	76.6%	105.7%
Sundaram Fasteners	6.0	1.1	0.6	11.1	2.0	1.2	3.7	0.2	(0.3)	86.2%	86.1%	95.1%
<b>Banks and NBFCs</b>	<b>730.3</b>	<b>524.0</b>	<b>195.0</b>	<b>707.7</b>	<b>539.0</b>	<b>166.0</b>	<b>656.3</b>	<b>527.4</b>	<b>141.7</b>	<b>-3.1%</b>	<b>2.9%</b>	<b>-14.9%</b>
ICICI Bank	105.1	85.1	45.0	109.4	88.9	46.2	92.8	107.8	26.0	4.1%	4.5%	2.5%
Kotak Mahindra Bank	40.7	29.4	15.7	39.4	31.2	16.4	37.2	26.2	12.4	-3.1%	6.2%	4.5%
Bajaj Finance	40.1	32.5	12.9	37.0	31.2	10.0	33.0	30.0	9.6	-7.8%	-4.1%	-22.0%
State Bank of India	291.4	174.5	51.6	276.4	189.7	65.0	266.4	180.6	41.9	-5.1%	8.8%	26.0%
Axis Bank	77.5	65.5	24.0	77.6	64.2	21.6	69.9	58.4	11.1	0.1%	-2.1%	-10.0%
IndusInd Bank	35.5	30.2	8.8	35.6	31.3	9.7	33.1	28.6	4.6	0.5%	3.8%	10.5%
AU Small Finance Bank	6.3	4.6	2.4	7.2	4.5	2.0	5.2	4.5	2.0	14.4%	-1.9%	-15.3%
Shriram Trans Finance	21.6	16.9	7.0	19.8	16.7	1.7	18.4	15.0	3.2	-8.5%	-1.1%	-75.6%
Cholamandalam Investment & Finance Company	12.8	9.6	3.9	12.7	9.9	3.3	9.4	6.4	4.3	-1.3%	3.2%	-15.7%
Mahindra & Mahindra Financial	14.1	9.9	1.9	11.2	7.5	(15.3)	13.4	10.4	1.6	-20.7%	-24.7%	NM
Federal Bank	14.8	10.1	4.6	14.2	11.4	3.7	13.0	9.3	4.0	-4.0%	12.4%	-20.4%
LIC Housing	14.8	13.4	6.7	12.8	10.2	1.5	12.2	10.7	8.2	-13.8%	-23.6%	-77.0%
City Union Bank	4.8	3.8	1.2	4.5	3.8	1.7	4.4	3.6	1.5	-6.5%	1.0%	43.3%
RBL Bank	9.5	7.9	1.3	9.7	8.1	(4.6)	10.4	6.9	1.4	2.1%	2.0%	NM
DCB Bank	3.4	2.2	0.8	3.1	2.0	0.3	3.1	1.9	0.8	-8.8%	-8.1%	-57.5%
Karur Vysya Bank	6.0	3.4	1.2	6.4	4.3	1.1	5.6	4.7	1.1	6.1%	25.5%	-6.4%
Indostar Capital Finance	1.2	0.6	(0.2)	1.0	0.3	(0.4)	1.3	0.7	0.5	-11.3%	-42.2%	-94.8%
REPCO Home Finance	1.4	1.2	0.6	1.4	1.2	0.3	1.3	1.1	0.6	2.8%	3.1%	-44.3%
UJJIVAN SFB	4.4	2.0	0.5	3.8	1.6	(2.3)	4.6	2.1	0.5	-13.3%	-18.2%	NM
CREDAG	4.4	3.1	0.8	3.4	2.2	0.2	3.7	2.6	0.7	-23.8%	-30.0%	-74.5%
Bandhan Bank	20.4	18.1	4.4	21.1	18.7	3.7	18.1	15.8	5.5	3.8%	3.2%	-15.2%

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	Revenue	EBITDA	PAT	Revenue	EBITDA	PAT	Revenue	EBITDA	PAT	Revenue	EBITDA	PAT
	Q1FY22 E	Q1FY22 E	Q1FY22 E	Q1FY22A	Q1FY22A	Q1FY22A	Q1FY21A	Q1FY21A	Q1FY21A	Q1FY22	Q1FY22	Q1FY22
<b>Insurance</b>	<b>287.3</b>	<b>NA</b>	<b>24.3</b>	<b>243.5</b>	<b>NA</b>	<b>2.0</b>	<b>248.0</b>	<b>NA</b>	<b>9.2</b>	<b>-15.3%</b>	<b>NM</b>	<b>-91.9%</b>
SBI Life	15.9	NA	3.6	16.2	NA	3.9	12.7	NA	2.6	1.6%	NM	8.8%
ICICI Prudential	11.4	NA	2.6	12.2	NA	3.6	8.2	NA	2.0	7.4%	NM	37.1%
GIC Reinsurance	152.4	(15.3)	6.8	111.1	(33.4)	(10.4)	136.6	(19.4)	(5.0)	-27.1%	-118.5%	NM
ICICI Lombard	25.6	(1.0)	3.6	27.1	(5.4)	1.5	23.2	0.5	4.2	5.9%	-462.1%	-58.3%
New India Assurance	73.8	(12.5)	5.7	68.2	(11.0)	1.6	60.6	(3.7)	4.2	-7.6%	11.6%	-71.1%
Max Financial	8.4	NA	2.0	8.8	NA	1.7	6.6	NA	1.1	4.7%	NM	-14.3%
<b>Capital Markets</b>	<b>23.8</b>	<b>12.7</b>	<b>10.1</b>	<b>22.0</b>	<b>11.4</b>	<b>9.2</b>	<b>16.5</b>	<b>7.5</b>	<b>7.1</b>	<b>-7.4%</b>	<b>-10.6%</b>	<b>-8.5%</b>
Nippon Life India	3.1	1.8	1.8	3.0	1.8	1.8	2.3	1.1	1.6	-3.1%	1.2%	0.6%
ICICI Securities	7.6	5.0	3.7	6.9	4.1	3.1	5.1	2.6	1.9	-9.0%	-16.7%	-16.2%
Motilal Oswal Financial Services	8.6	3.9	2.5	7.5	3.4	2.1	6.0	3.0	2.2	-12.7%	-12.5%	-15.9%
UTI AMC	2.4	1.1	1.4	2.6	1.1	1.6	1.6	0.3	1.0	8.2%	0.0%	12.8%
CAMS	2.1	1.0	0.7	2.0	0.9	0.6	1.5	0.5	0.4	-4.9%	-5.4%	-6.7%
<b>Consumer-Staples</b>	<b>416.9</b>	<b>108.2</b>	<b>80.4</b>	<b>436.5</b>	<b>106.7</b>	<b>76.3</b>	<b>361.3</b>	<b>87.3</b>	<b>65.2</b>	<b>4.7%</b>	<b>-1.4%</b>	<b>-5.1%</b>
Hindustan Unilever	117.6	28.7	20.7	117.3	28.5	19.6	104.1	26.4	18.7	-0.3%	-0.7%	-5.1%
ITC	114.4	40.3	32.9	129.6	39.9	30.1	95.0	26.5	23.4	13.3%	-1.1%	-8.3%
Dabur India	24.1	5.1	4.3	26.1	5.5	4.4	19.8	4.2	3.4	8.1%	7.9%	1.2%
Britannia Industries	31.4	5.6	4.2	34.0	5.5	3.9	34.2	7.2	5.4	8.5%	-1.1%	-7.2%
United Spirits	17.9	2.5	1.3	16.2	1.7	1.0	10.3	(0.8)	(1.6)	-9.6%	-33.8%	-24.0%
Nestle	33.6	8.9	5.6	34.8	8.5	5.4	36.1	9.3	6.0	3.4%	-4.5%	-3.4%
Marico	25.3	5.0	3.4	25.3	4.8	3.6	19.3	4.7	3.3	0.0%	-3.9%	4.4%
Colgate Palmolive	11.8	3.6	2.4	11.7	3.6	2.3	10.4	3.1	2.0	-0.8%	-1.4%	-2.2%
Emami	6.6	1.7	1.2	6.6	1.7	1.3	4.8	1.2	0.8	0.3%	2.5%	9.1%
GCPL	28.3	5.8	3.9	28.9	6.1	4.1	23.3	4.7	3.2	2.4%	5.2%	5.4%
Radico Khaitan	6.1	1.0	0.6	6.0	0.9	0.6	4.1	0.8	0.4	-1.6%	-8.6%	-5.0%
<b>Consumer Discretionary (ex-Autos)</b>	<b>247.2</b>	<b>22.6</b>	<b>9.1</b>	<b>261.0</b>	<b>23.2</b>	<b>9.5</b>	<b>153.8</b>	<b>2.2</b>	<b>(5.4)</b>	<b>5.6%</b>	<b>2.6%</b>	<b>5.0%</b>
Avenue Supermart	50.2	2.4	1.3	50.3	2.2	1.2	38.3	1.1	0.5	0.2%	-9.2%	-11.6%
Titan Co	30.8	0.3	(0.6)	34.7	1.4	0.2	19.8	(2.5)	(3.0)	12.9%	378.6%	NM
Havells India	24.8	3.3	2.2	26.0	3.5	2.3	14.8	1.3	0.6	4.6%	6.9%	7.7%
Trent	2.6	(0.7)	(1.3)	3.3	(0.3)	(0.8)	1.0	(1.2)	(1.4)	25.3%	55.8%	34.1%
Jubilant Foodworks	8.8	2.0	0.7	8.8	2.1	0.8	3.8	0.2	(0.6)	0.1%	6.0%	15.0%
Voltas	21.8	2.3	2.1	17.9	1.4	1.2	13.0	0.7	0.8	-18.0%	-41.8%	-41.9%
Aditya Birla Fashion	6.8	(2.5)	(4.0)	7.7	(1.6)	(3.4)	3.2	(3.5)	(4.0)	13.5%	35.3%	15.5%
Crompton Consumer	11.2	1.5	1.2	10.5	1.3	0.9	7.2	1.0	0.7	-6.5%	-17.1%	-17.7%
Symphony	1.1	0.1	0.2	1.0	-	0.1	0.4	(0.1)	0.01	-5.9%	-100.0%	-60.4%
V-Guard	5.9	0.6	0.4	5.6	0.4	0.2	4.1	0.1	0.04	-5.6%	-28.8%	-43.5%
V-Mart	1.6	(0.2)	(0.4)	1.8	(0.02)	(0.3)	0.8	(0.1)	(0.3)	10.9%	89.2%	27.7%
TCNS Clothing	1.0	(0.2)	(0.3)	0.9	(0.2)	(0.4)	0.3	(0.4)	(0.5)	-4.7%	-3.3%	-17.7%
Shoppers Stop	2.0	(0.8)	(1.6)	2.0	(0.6)	(1.2)	0.5	(1.0)	(1.2)	-1.9%	17.0%	24.6%
Asian Paints	47.8	9.3	6.1	55.9	9.1	5.7	29.2	4.8	2.2	16.7%	-2.1%	-5.8%
Berger Paints	15.2	2.5	1.4	18.0	2.4	1.4	9.3	0.9	0.2	18.1%	-4.1%	0.5%
Kansai Nerolac	11.7	2.0	1.2	13.0	1.9	1.2	6.0	0.8	0.4	11.3%	-6.4%	-2.9%
TTK Prestige	3.7	0.6	0.4	3.6	0.4	0.3	2.1	0.1	0.04	-4.5%	-33.4%	-34.6%

HSIE Coverage (INR Bn)	Q1 FY22 Preview Estimates			Q1 FY22 Actuals			Q1 FY21 Actuals			Deviation		
	Revenue	EBITDA	PAT	Revenue	EBITDA	PAT	Revenue	EBITDA	PAT	Revenue	EBITDA	PAT
	Q1FY22 E	Q1FY22 E	Q1FY22 E	Q1FY22A	Q1FY22A	Q1FY22A	Q1FY21A	Q1FY21A	Q1FY21A	Q1FY22	Q1FY22	Q1FY22
<b>Industrials (Infrastructure+ Cap Goods+ Logistics)</b>	<b>590.6</b>	<b>73.3</b>	<b>30.2</b>	<b>545.6</b>	<b>66.8</b>	<b>25.9</b>	<b>371.7</b>	<b>35.7</b>	<b>4.2</b>	-7.6%	-8.9%	-14.4%
Larsen & Toubro	323.9	36.1	14.9	293.3	31.7	11.7	212.6	16.2	0.7	-9.4%	-12.2%	-21.1%
Siemens	31.4	3.7	2.7	27.1	2.3	1.6	12.1	(0.01)	0.1	-13.6%	-37.8%	-39.9%
Cummins India	11.1	1.5	1.3	11.8	1.5	1.4	5.0	0.03	0.3	6.7%	-0.3%	2.2%
Container Corporation	17.5	3.2	1.4	18.1	4.3	2.5	11.9	1.6	0.6	3.2%	37.5%	78.5%
ABB India	18.5	1.5	0.9	14.2	0.9	0.7	9.9	0.2	0.1	-23.0%	-34.9%	-26.4%
KEC International	25.0	1.2	0.2	25.4	1.6	0.5	22.1	1.9	0.7	1.6%	29.9%	130.4%
Kalpataru Power Transmission	16.8	1.7	1.0	15.9	1.6	0.8	14.6	1.6	0.7	-5.7%	-7.0%	-20.7%
PNC Infratech	14.5	2.0	1.1	12.5	1.8	0.9	9.1	1.2	0.6	-13.7%	-10.9%	-16.7%
Dilip Buildcon	22.0	3.6	0.8	21.5	2.8	0.3	18.9	3.0	0.3	-2.4%	-21.0%	-61.1%
KNR Constructions	6.0	1.2	0.8	7.4	1.4	0.7	4.8	0.9	0.4	23.3%	24.6%	-5.7%
IRB Infrastructure	15.7	6.7	0.6	16.3	7.0	0.7	10.2	4.8	(0.3)	3.5%	4.9%	28.1%
Ashoka Buildcon	9.7	1.3	1.0	10.1	1.2	1.0	5.7	0.8	0.7	4.2%	-7.3%	3.2%
Ahluwalia Contracts	5.5	0.5	0.3	5.8	0.6	0.3	2.5	0.2	0.1	5.5%	17.6%	15.1%
NCC	26.4	3.0	1.2	18.9	2.0	0.5	11.8	1.2	0.2	-28.3%	-34.2%	-55.2%
PSP Projects	4.0	0.5	0.3	3.2	0.4	0.3	1.1	0.01	(0.02)	-20.8%	-14.7%	-6.8%
HG Infra	8.4	1.4	0.7	9.1	1.5	0.9	3.0	0.5	0.2	8.4%	9.6%	20.3%
Gateway Distriparks	3.4	0.9	0.3	3.3	0.9	0.4	2.5	0.7	0.1	-1.7%	0.1%	28.3%
JMC Projects	10.1	1.0	0.3	11.2	0.8	0.2	4.7	0.3	(0.2)	11.3%	-18.6%	-38.4%
Sadbhav Engineering	4.0	0.5	0.1	2.6	0.2	(0.2)	2.3	0.2	(0.3)	-34.3%	-51.5%	NM
Capacite Infraprojects	2.8	0.4	0.03	2.8	0.4	0.04	0.2	(0.2)	(0.4)	1.8%	-8.4%	53.3%
ITD Cementation	8.1	0.8	0.2	8.3	0.8	0.2	4.0	0.3	(0.2)	2.3%	1.8%	-19.1%
J Kumar Infraprojects	5.9	0.8	0.1	6.8	1.0	0.3	2.9	0.3	(0.2)	14.4%	21.0%	125.2%
<b>Real Estate</b>	<b>44.8</b>	<b>10.7</b>	<b>5.9</b>	<b>43.7</b>	<b>11.3</b>	<b>4.7</b>	<b>28.6</b>	<b>6.3</b>	<b>(2.0)</b>	-2.4%	5.0%	-19.5%
DLF	10.1	2.3	2.9	11.4	4.0	3.4	5.5	0.02	(0.7)	12.4%	69.6%	17.3%
Oberoi Realty	4.1	2.4	1.6	2.8	1.2	0.8	1.2	0.6	0.3	-30.7%	-47.2%	-50.2%
Prestige Estates	14.0	2.9	1.1	14.2	3.5	0.6	12.7	4.4	0.02	1.3%	18.6%	-46.4%
Brigade Enterprises	3.5	1.0	(0.2)	3.8	1.1	(0.2)	2.0	0.5	(0.5)	9.4%	11.3%	16.0%
Sobha Developers	4.6	0.9	0.04	5.1	1.0	0.1	3.5	1.0	0.1	10.4%	8.3%	141.9%
Kolte Patil	0.7	(0.1)	(0.2)	2.0	0.6	0.3	1.4	(0.1)	(0.3)	192.3%	710.9%	NM
Phoenix Mills	1.6	0.7	(0.2)	2.0	0.8	(0.3)	1.3	0.7	(0.4)	26.5%	4.1%	-15.5%
Godrej Properties	5.9	0.7	1.0	0.9	(0.6)	0.2	0.7	(0.5)	(0.2)	-85.3%	NM	-82.6%
Mahindra Lifespaces	0.3	(0.1)	(0.1)	1.5	(0.2)	(0.1)	0.1	(0.2)	(0.2)	458.7%	-74.6%	-79.0%
<b>IT and Exchanges</b>	<b>1,384.8</b>	<b>349.4</b>	<b>241.3</b>	<b>1,392.8</b>	<b>339.8</b>	<b>243.1</b>	<b>1,184.9</b>	<b>275.1</b>	<b>191.9</b>	0.6%	-2.7%	0.8%
Tata Consultancy Services	457.3	129.1	93.8	454.1	126.6	90.1	383.2	100.2	70.1	-0.7%	-1.9%	-3.9%
Infosys	275.5	75.3	52.1	279.0	74.3	52.0	236.7	61.2	42.3	1.2%	-1.3%	-0.3%
HCL Technologies	203.0	52.9	32.9	200.7	49.1	32.1	178.4	45.7	29.3	-1.1%	-7.2%	-2.2%
Wipro	178.0	42.7	28.8	182.5	39.8	32.3	149.1	31.8	23.9	2.5%	-6.8%	12.1%
Tech Mahindra	100.0	18.7	12.2	102.0	18.8	13.5	91.1	13.0	9.7	2.0%	0.3%	10.9%
L&T Infotech	34.3	6.6	4.6	34.6	6.5	5.0	29.5	5.9	4.2	1.0%	-2.1%	8.1%
L&T Technologies	15.1	2.9	1.9	15.2	3.2	2.2	12.9	2.1	1.2	0.8%	11.0%	11.4%
Mphasis	26.1	4.8	3.3	26.9	4.9	3.4	22.9	4.2	2.8	3.1%	2.6%	3.5%

HSIE Coverage (INR Bn)	Q1 FY22 Preview Estimates			Q1 FY22 Actuals			Q1 FY21 Actuals			Deviation		
	Revenue	EBITDA	PAT	Revenue	EBITDA	PAT	Revenue	EBITDA	PAT	Revenue	EBITDA	PAT
	Q1FY22 E	Q1FY22 E	Q1FY22 E	Q1FY22A	Q1FY22A	Q1FY22A	Q1FY21A	Q1FY21A	Q1FY21A	Q1FY22	Q1FY22	Q1FY22
Mindtree	22.4	4.7	3.3	22.9	4.6	3.4	19.1	3.2	2.1	2.4%	-2.1%	4.1%
MCX	0.9	0.4	0.4	0.9	0.4	0.4	0.7	0.3	0.6	-2.8%	-8.9%	-7.5%
Tata Elxsi	5.6	1.5	1.0	5.6	1.5	1.1	4.0	0.9	0.7	0.5%	-2.6%	15.3%
Persistent	11.9	2.0	1.5	12.3	2.0	1.5	9.9	1.5	0.9	3.6%	2.7%	-0.8%
Cyient	10.6	1.7	1.0	10.6	1.9	1.2	9.9	1.0	0.8	-0.6%	8.4%	17.0%
TeamLease	13.5	0.3	0.2	13.8	0.3	0.2	11.4	0.2	0.2	2.1%	17.7%	5.0%
Sonata	12.1	1.1	0.8	12.7	1.0	0.9	9.5	0.8	0.5	4.8%	-3.9%	12.1%
Zensar Technologies	9.2	1.7	1.0	9.4	1.7	1.0	9.5	1.4	0.7	2.3%	0.1%	5.9%
CDSL	1.1	0.7	0.6	1.2	0.7	0.6	0.7	0.4	0.5	8.4%	10.3%	12.4%
BSE	1.6	0.5	0.6	1.6	0.5	0.6	1.0	(0.1)	0.4	0.6%	12.1%	6.3%
IndiaMart	1.7	0.8	0.7	1.8	0.9	0.9	1.5	0.7	0.7	4.4%	16.3%	30.3%
Mastek	5.1	1.1	0.7	5.2	1.1	0.7	3.9	0.7	0.4	1.8%	2.7%	1.1%
<b>Energy (Oil &amp; Gas)</b>	<b>4,683.9</b>	<b>611.1</b>	<b>336.4</b>	<b>4,598.2</b>	<b>596.2</b>	<b>297.9</b>	<b>2,615.7</b>	<b>390.2</b>	<b>165.3</b>	<b>-1.8%</b>	<b>-2.4%</b>	<b>-11.4%</b>
Reliance Industries	1,361.6	223.1	125.7	1,399.5	233.7	122.8	882.5	168.8	84.2	2.8%	4.8%	-2.3%
Oil & Natural Gas Corp	234.7	124.4	50.8	230.2	121.5	43.3	130.1	59.1	5.0	-1.9%	-2.3%	-14.7%
Indian Oil Corp	1,181.7	128.6	74.7	1,186.7	111.3	59.4	624.0	55.1	19.1	0.4%	-13.5%	-20.5%
Bharat Petroleum Corp	790.3	36.3	24.2	709.2	32.5	15.8	387.9	39.2	20.8	-10.3%	-10.5%	-34.6%
GAIL India	161.3	26.6	17.9	173.8	24.1	15.3	120.9	6.2	2.6	7.8%	-9.3%	-14.5%
Petronet LNG	91.5	10.4	6.0	86.0	10.5	6.4	48.8	9.1	5.2	-6.1%	1.5%	6.0%
Indraprastha Gas	13.6	4.5	3.0	12.6	3.8	2.4	6.4	0.8	0.3	-7.3%	-15.0%	-17.4%
HPCL	769.7	32.6	19.8	724.4	31.9	18.0	377.2	43.5	28.1	-5.9%	-1.9%	-9.2%
Gujarat Gas	32.3	5.4	3.3	30.1	7.2	4.8	10.8	1.9	0.6	-6.9%	34.1%	42.5%
Gujarat State Petronet	5.1	3.7	2.3	5.3	3.7	2.3	4.6	3.5	2.0	3.4%	2.4%	1.7%
OIL India	31.3	12.0	6.2	30.1	12.3	5.1	17.4	2.0	(3.2)	-4.0%	2.9%	-17.7%
Mahanagar Gas	6.5	3.1	2.1	6.2	3.0	2.0	2.6	0.8	0.5	-4.6%	-0.5%	-0.6%
Gulf Oil Lubricants	4.2	0.6	0.5	4.2	0.4	0.3	2.4	0.3	0.2	-1.2%	-32.3%	-39.0%
<b>Cement and Building Materials</b>	<b>361.0</b>	<b>82.6</b>	<b>41.6</b>	<b>365.5</b>	<b>92.3</b>	<b>51.4</b>	<b>245.0</b>	<b>59.5</b>	<b>27.1</b>	<b>1.3%</b>	<b>11.8%</b>	<b>23.6%</b>
UltraTech Cement	114.1	27.6	11.6	118.3	33.1	17.0	76.7	20.8	9.5	3.7%	19.8%	46.4%
Shree Cement	33.6	9.7	5.5	34.5	10.1	6.6	23.3	7.0	3.7	2.7%	4.4%	20.0%
Ambuja Cement	32.7	8.5	6.7	33.7	9.6	7.2	21.8	6.0	4.5	3.1%	13.5%	7.7%
ACC	38.0	6.9	4.2	38.8	8.7	5.7	26.0	5.3	2.7	2.3%	26.4%	36.9%
Ramco Cements	14.5	4.2	2.1	12.3	3.6	1.7	10.4	2.6	1.1	-15.5%	-12.9%	-19.6%
Dalmia Bharat/ Odisha Cem	27.3	6.2	1.6	25.9	7.0	2.7	19.0	6.2	1.9	-5.0%	13.2%	62.3%
JK Cement	16.6	3.7	1.8	17.1	4.0	1.9	10.0	2.1	0.5	3.5%	8.1%	9.4%
Birla Corporation	16.9	3.5	1.5	17.5	3.4	1.4	12.2	2.3	0.7	3.5%	-3.1%	-8.5%
Heidelberg Cement	5.0	1.3	0.6	5.6	1.3	0.7	4.1	1.1	0.5	11.9%	4.6%	15.8%
STAR Cement	5.3	1.0	0.7	5.1	0.9	0.7	2.9	0.7	0.4	-2.8%	-7.2%	-0.3%
JK Lakshmi	11.0	2.1	0.9	11.0	2.1	0.9	8.3	1.4	0.4	0.0%	0.0%	0.0%
Sagar Cements	3.7	1.0	0.4	3.9	1.1	0.5	2.6	0.9	0.4	5.4%	5.8%	24.2%
Supreme Industries	13.8	2.4	1.7	13.4	2.2	1.7	10.5	1.2	0.4	-3.1%	-8.2%	1.1%
Orient Cement	6.5	1.5	0.7	6.9	1.9	0.9	4.1	1.0	0.3	6.4%	20.5%	30.2%
Deccan Cement	2.2	0.5	0.3	2.2	0.6	0.4	1.4	0.4	0.3	2.9%	19.9%	22.0%
Astral	7.1	1.3	0.7	7.0	1.3	0.7	4.0	0.5	0.2	-1.1%	3.0%	2.1%

HSIE Coverage (INR Bn)	Q1 FY22 Preview Estimates			Q1 FY22 Actuals			Q1 FY21 Actuals			Deviation		
	Revenue	EBITDA	PAT	Revenue	EBITDA	PAT	Revenue	EBITDA	PAT	Revenue	EBITDA	PAT
	Q1FY22 E	Q1FY22 E	Q1FY22 E	Q1FY22A	Q1FY22A	Q1FY22A	Q1FY21A	Q1FY21A	Q1FY21A	Q1FY22	Q1FY22	Q1FY22
Prince Pipe	3.6	0.4	0.2	3.3	0.4	0.2	3.0	0.3	0.1	-7.2%	13.0%	14.3%
Somany Ceramics	3.5	0.3	0.04	3.3	0.2	0.04	1.7	(0.1)	(0.2)	-5.6%	-17.3%	22.2%
Kajaria Ceramics	5.8	0.7	0.3	5.6	0.8	0.4	2.8	(0.1)	(0.3)	-2.7%	13.8%	25.7%
<b>Chemicals</b>	<b>90.5</b>	<b>20.4</b>	<b>12.6</b>	<b>90.3</b>	<b>21.3</b>	<b>13.5</b>	<b>53.5</b>	<b>12.2</b>	<b>6.5</b>	<b>-0.2%</b>	<b>4.2%</b>	<b>6.6%</b>
Vinati Organics	3.4	1.2	0.9	3.9	1.0	0.8	2.3	1.0	0.7	12.4%	-18.3%	-7.8%
Navin Fluorine	3.3	0.9	0.6	3.1	0.8	0.6	2.0	0.5	0.2	-4.9%	-11.1%	-4.4%
Deepak Nitrite	15.1	4.1	2.7	15.3	4.5	3.0	6.7	1.8	1.0	0.9%	10.8%	11.1%
Galaxy Surfactants	8.2	1.2	0.8	8.3	1.1	0.8	6.1	0.9	0.6	0.8%	-10.1%	-5.0%
Alkyl Amines	3.9	1.2	0.8	3.9	1.1	0.8	2.5	0.8	0.5	0.5%	-5.3%	-1.5%
Balaji Amines	3.8	1.0	0.7	3.9	1.1	0.8	2.1	0.5	0.3	1.9%	17.1%	21.5%
Aarti Industries	12.2	2.7	1.4	13.2	3.1	1.6	9.4	1.8	0.8	7.6%	16.3%	19.1%
SRF	28.2	6.2	3.7	27.0	6.6	4.0	15.5	3.7	1.8	-4.3%	6.3%	8.0%
Fine Organic	3.3	0.5	0.4	3.6	0.5	0.4	2.4	0.5	0.3	7.4%	0.6%	1.1%
NOCIL	3.2	0.5	0.3	3.4	0.7	0.5	1.1	0.1	0.1	7.8%	41.2%	58.3%
Sudarshan Chemical	5.7	0.9	0.5	4.7	0.6	0.3	3.5	0.5	0.2	-17.3%	-31.4%	-43.2%
<b>Pharma</b>	<b>428.5</b>	<b>95.7</b>	<b>57.4</b>	<b>453.2</b>	<b>103.0</b>	<b>63.3</b>	<b>371.8</b>	<b>78.7</b>	<b>37.6</b>	<b>5.8%</b>	<b>7.6%</b>	<b>10.4%</b>
Sun Pharmaceutical Industries	89.9	22.2	15.2	97.2	27.4	20.0	75.9	17.6	10.7	8.1%	23.5%	31.4%
Dr Reddy's Laboratories	49.5	11.3	6.5	49.2	9.5	5.7	44.2	11.2	5.8	-0.6%	-15.7%	-11.6%
Torrent Pharma	21.7	6.7	3.5	21.3	6.8	3.3	20.6	6.6	3.2	-1.8%	0.5%	-6.6%
Cipla Ltd/India	48.2	10.9	6.3	55.0	13.5	8.0	43.5	10.5	5.8	14.3%	23.1%	27.5%
Aurobindo Pharma	60.8	13.1	7.9	57.0	12.1	7.5	59.2	13.2	8.1	-6.2%	-7.5%	-5.1%
Lupin	39.8	7.4	3.9	39.0	5.5	1.3	35.3	4.9	1.1	-2.0%	-25.4%	-66.3%
Cadila	38.9	9.1	5.8	40.3	9.3	5.6	35.1	7.9	4.4	3.6%	3.1%	-2.4%
Alkem Labs	21.7	4.3	3.4	27.3	6.6	5.3	20.0	5.3	4.2	25.7%	52.4%	58.9%
Apollo Hospitals	7.6	2.6	1.8	7.5	2.2	1.7	6.7	2.2	1.5	-1.6%	-16.1%	-3.7%
Narayana Health	30.0	4.1	1.3	37.6	5.2	2.0	21.7	0.4	(2.1)	25.5%	26.2%	52.6%
Ajanta Pharma	7.9	1.2	0.3	8.6	1.3	0.8	3.9	(0.9)	(1.2)	9.2%	11.3%	127.2%
Max Healthcare	12.7	2.8	1.5	13.2	3.6	2.1	5.7	(0.2)	(3.8)	4.4%	30.7%	36.8%
<b>Power/Utilities</b>	<b>526.5</b>	<b>201.8</b>	<b>75.0</b>	<b>546.6</b>	<b>213.7</b>	<b>83.0</b>	<b>472.7</b>	<b>207.3</b>	<b>77.5</b>	<b>3.8%</b>	<b>5.9%</b>	<b>10.6%</b>
NTPC	248.5	65.3	24.3	259.9	74.6	31.6	229.1	77.5	31.4	4.6%	14.2%	30.2%
PGCIL	96.2	84.6	31.8	97.8	85.7	32.8	89.9	78.8	30.5	1.7%	1.4%	3.3%
NHPC	20.9	12.2	7.3	21.7	12.8	9.1	25.2	14.2	9.1	3.9%	4.9%	24.6%
CESC	18.8	4.1	2.7	19.3	3.1	1.4	15.9	2.3	1.3	2.9%	-24.8%	-49.0%
TATA Power	91.6	17.8	2.6	99.7	23.2	3.9	64.5	17.3	2.1	8.8%	30.6%	47.7%
JSW Energy	19.6	8.8	2.5	17.3	7.0	2.1	18.1	7.5	2.2	-12.0%	-20.2%	-18.0%
Torrent Power	31.0	9.1	3.8	31.0	7.3	2.1	30.1	9.7	0.9	0.1%	-19.5%	-44.9%
<b>Total</b>	<b>10,825.4</b>	<b>2,255.1</b>	<b>1,154.3</b>	<b>10,926.1</b>	<b>2,233.4</b>	<b>1,036.8</b>	<b>7,308.7</b>	<b>1,697.4</b>	<b>641.2</b>	<b>0.9%</b>	<b>-1.0%</b>	<b>-10.2%</b>

Source: Bloomberg &amp; HSIE Research

## HSIE Coverage – Earnings Estimate

HSIE Coverage	CMP	MCAP(\$ Bn)	Rating	TP	Revenue Growth		PAT Growth		Change in PAT estimates	
					FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
<b>Autos</b>					<b>13.0%</b>	<b>18.2%</b>	<b>45.9%</b>	<b>51.5%</b>	<b>-8.8%</b>	<b>-6.3%</b>
Maruti Suzuki India	6,851	27.8	BUY	8,190	23.1%	18.2%	26.4%	58.6%	-19.8%	-6.3%
Bajaj Auto	3,752	14.6	BUY	4,570	16.7%	15.9%	10.2%	26.7%	-7.8%	-5.5%
Mahindra & Mahindra	786	13.1	ADD	860	14.5%	12.5%	14.4%	13.5%	-1.5%	-7.7%
Eicher Motors	2,602	9.6	REDUCE	2,300	23.5%	22.9%	51.7%	34.9%	-9.1%	-7.7%
Hero MotoCorp	2,698	7.2	ADD	3,150	6.9%	9.3%	9.1%	8.6%	-5.4%	-5.1%
Tata Motors	283	13.5	BUY	360	8.0%	20.2%	NM	2329.8%	-52.8%	-14.7%
Ashok Leyland	119	4.7	REDUCE	115	34.9%	25.5%	NM	99.0%	-6.6%	1.8%
Escorts	1,194	2.2	ADD	1,345	9.1%	8.9%	-1.6%	10.2%	1.2%	1.0%
Amara Raja	697	1.6	ADD	840	10.1%	12.7%	2.0%	10.9%	0.0%	0.0%
Endurance	1,593	3.0	ADD	1,740	19.0%	14.2%	17.9%	25.2%	-2.7%	4.4%
Subros	312	0.3	BUY	410	18.0%	17.6%	53.4%	58.5%	-13.2%	0.1%
Bharat Forge	753	4.7	BUY	1,000	39.6%	28.1%	172.6%	42.8%	13.0%	5.3%
Sundaram Fasteners	756	2.1	ADD	860	19.5%	18.1%	32.1%	29.6%	6.4%	6.3%
<b>Banks and NBFCs</b>					<b>14.3%</b>	<b>13.7%</b>	<b>48.4%</b>	<b>25.3%</b>	<b>-1.0%</b>	<b>-0.8%</b>
ICICI Bank	681	63.4	BUY	775	14.4%	16.6%	28.8%	25.5%	0.0%	0.0%
Kotak Mahindra Bank	1,704	45.4	REDUCE	1,747	12.0%	15.8%	13.4%	21.3%	0.0%	0.0%
Bajaj Finance	6,661	54.0	REDUCE	4,590	16.4%	21.8%	59.6%	33.6%	-8.5%	-9.3%
State Bank of India	407	48.8	BUY	501	14.0%	10.7%	55.2%	22.7%	0.0%	0.0%
Axis Bank	740	30.5	BUY	824	15.7%	14.3%	98.7%	24.4%	0.0%	0.0%
IndusInd Bank	979	10.2	REDUCE	734	14.2%	14.1%	101.6%	28.3%	0.0%	0.0%
AU Small Finance Bank	1,301	5.5	BUY	1,046	23.6%	23.2%	-27.2%	31.6%	0.0%	0.0%
Shriram Trans Finance	1,255	4.5	ADD	1,462	7.6%	10.4%	32.8%	13.1%	0.0%	0.0%
Cholamandalam Investment & Finance Company	485	5.3	BUY	613	13.8%	7.8%	52.3%	7.2%	0.0%	0.0%
Mahindra & Mahindra Financial	143	2.4	ADD	177	4.2%	19.3%	238.2%	54.1%	-14.4%	-3.3%
Federal Bank	80	2.3	BUY	96	14.0%	12.8%	38.8%	14.8%	0.0%	0.0%
LIC Housing	376	2.5	REDUCE	356	12.2%	11.6%	-4.4%	18.8%	-3.3%	0.0%
City Union Bank	146	1.5	BUY	194	13.8%	14.3%	28.9%	25.6%	0.0%	0.0%
RBL Bank	163	1.3	REDUCE	182	12.3%	15.4%	41.0%	82.5%	-19.7%	-3.9%
DCB Bank	86	0.4	ADD	139	12.5%	12.6%	20.3%	21.7%	0.0%	0.0%
Karur Vysya Bank	41	0.4	REDUCE	46	14.4%	12.9%	0.7%	79.0%	0.0%	0.0%
Indostar Capital Finance	296	0.5	REDUCE	284	29.1%	26.9%	NM	61.3%	0.0%	0.0%
REPCO Home Finance	311	0.3	ADD	411	4.4%	10.6%	13.8%	12.5%	0.0%	0.0%
UJJIVAN SFB	20	0.5	BUY	36	15.0%	18.8%	3672.0%	51.7%	0.0%	0.0%
CREDAG	639	1.3	BUY	813	33.0%	25.2%	283.9%	64.9%	0.0%	0.0%
Bandhan Bank	278	6.0	BUY	418	23.4%	19.1%	68.8%	35.4%	0.0%	0.0%
<b>Insurance</b>					<b>12.8%</b>	<b>13.1%</b>	<b>-6.5%</b>	<b>34.8%</b>	<b>-7.2%</b>	<b>-0.1%</b>
SBI Life	1,125	15.1	BUY	1,350	15.0%	14.7%	22.9%	17.0%	6.0%	7.2%
ICICI Prudential	666	12.9	ADD	685	25.0%	20.0%	31.0%	20.9%	9.5%	13.3%
ICICI Lombard	1,472	9.0	REDUCE	1,245	37.3%	13.8%	-6.7%	57.1%	-21.8%	0.4%
GIC Reinsurance	147	3.5	REDUCE	160	4.8%	14.9%	-62.1%	194.5%	-49.2%	-21.3%
New India Assurance	135	3.0	SELL	110	11.0%	7.5%	-34.8%	9.5%	-3.3%	0.4%
Max Financial	1,036	4.8	ADD	1,180	15.7%	13.1%	14.8%	15.3%	-1.1%	0.1%

HSIE Coverage	CMP	MCAP(\$ Bn)	Rating	TP	Revenue Growth		PAT Growth		Change in PAT estimates	
					FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
<b>Capital Markets</b>					0.4%	5.3%	-14.4%	6.7%	13.8%	10.8%
Nippon Life India	391	3.2	ADD	415	16.6%	14.3%	-2.5%	18.7%	0.7%	2.1%
ICICI Securities	683	3.0	ADD	800	0.8%	-0.9%	-3.4%	-0.7%	40.1%	30.9%
Motilal Oswal Financial Services	784	1.5	REDUCE	885	-19.5%	3.0%	-44.6%	1.2%	-2.2%	-1.1%
UTI AMC	1,090	1.9	BUY	1,140	32.9%	9.6%	3.8%	9.8%	21.2%	15.3%
CAMS	3,181	2.1	REDUCE	2,030	20.2%	10.9%	21.5%	14.2%	1.8%	0.0%
<b>Consumer- Staples</b>					11.5%	9.1%	16.1%	10.5%	0.0%	0.5%
Hindustan Unilever	2,619	82.7	REDUCE	2,475	9.7%	8.3%	13.5%	11.1%	0.1%	0.0%
ITC	209	34.6	BUY	250	11.3%	8.2%	18.2%	7.6%	-0.3%	0.6%
Dabur India	612	14.5	ADD	625	13.4%	10.0%	13.3%	12.1%	-0.2%	-0.1%
Britannia Industries	3,896	12.6	REDUCE	3,600	7.5%	8.9%	4.2%	10.0%	0.0%	0.0%
United Spirits	704	6.9	ADD	660	14.3%	15.8%	101.8%	25.0%	-0.3%	0.1%
Nestle	19,571	25.4	REDUCE	17,108	10.8%	10.6%	15.3%	11.5%	0.0%	0.0%
Marico	538	9.3	ADD	545	19.1%	8.3%	12.6%	19.2%	-0.3%	2.9%
Colgate Palmolive	1,677	6.1	ADD	1,809	8.3%	7.9%	2.1%	8.6%	-0.2%	-0.4%
Emami	586	3.5	REDUCE	475	13.7%	9.5%	10.8%	10.1%	0.4%	0.9%
GCPL	1,033	14.2	ADD	1,000	15.9%	10.2%	19.0%	15.7%	2.3%	3.1%
Radico Khaitan	884	1.6	ADD	900	17.6%	11.3%	18.6%	20.6%	2.5%	2.9%
<b>Consumer Discretionary (ex-Autos)</b>					22.6%	24.9%	40.8%	35.2%	1.7%	3.9%
Avenue Supermart	3,643	31.7	SELL	2,260	24.7%	47.0%	30.4%	60.3%	2.4%	1.8%
Titan Co	1,877	22.4	SELL	1,500	22.2%	19.8%	99.4%	27.4%	-3.9%	2.8%
Havells India	1,236	10.4	ADD	1,200	21.5%	17.0%	14.4%	18.6%	2.4%	0.9%
Trent	897	4.3	SELL	690	44.9%	59.5%	NM	177.4%	398.1%	21.9%
Jubilant Foodworks	3,968	7.0	REDUCE	2,650	33.8%	18.7%	78.4%	27.6%	-0.1%	0.0%
Voltas	978	4.3	ADD	1,100	15.9%	19.9%	35.6%	27.3%	-6.6%	-3.1%
Aditya Birla Fashion	200	2.4	BUY	250	36.9%	34.9%	49.5%	-143.0%	0.0%	769.2%
Crompton Consumer	447	3.8	BUY	475	20.0%	18.9%	17.8%	17.8%	0.4%	0.2%
Symphony	911	0.9	ADD	1,200	39.5%	9.3%	76.1%	18.6%	0.1%	-0.2%
V-Guard	240	1.4	ADD	265	16.4%	15.1%	28.1%	22.6%	0.1%	0.1%
V-Mart	3,654	1.0	REDUCE	3,250	63.6%	58.2%	55.0%	255.7%	-28.3%	5.1%
TCNS Clothing	558	0.5	SELL	440	52.3%	31.4%	88.5%	-1319.7%	0.0%	0.0%
Shoppers Stop	235	0.3	SELL	190	61.0%	29.2%	61.5%	-121.8%	65.8%	NM
Asian Paints	3,113	40.1	SELL	2,460	15.1%	12.1%	13.4%	18.5%	-0.6%	1.1%
Berger Paints	819	10.7	SELL	670	17.3%	12.7%	21.7%	22.0%	-0.2%	2.4%
Kansai Nerolac	626	4.5	BUY	675	14.9%	15.3%	6.8%	22.7%	2.2%	2.3%
TTK Prestige	8,956	1.7	ADD	9,165	16.3%	11.8%	8.9%	12.5%	0.0%	0.0%
<b>Industrials (Infrastructure+ Cap Goods+ Logistics)</b>					17.7%	16.7%	33.9%	32.3%	-0.2%	0.3%
Larsen & Toubro	1,594	30.1	BUY	1,909	15.0%	16.2%	28.1%	26.8%	0.0%	0.0%
Siemens	2,218	10.6	REDUCE	1,860	26.9%	19.2%	45.8%	28.5%	-7.8%	-1.7%
Cummins India	992	3.7	BUY	1,147	22.6%	18.8%	33.6%	30.8%	5.9%	11.3%
Container Corporation	650	5.3	ADD	720	19.3%	25.7%	72.4%	44.0%	-0.2%	-2.5%
ABB India	1,715	4.9	REDUCE	1,540	30.1%	13.8%	56.6%	23.8%	36.4%	25.8%
KEC International	389	1.3	BUY	485	12.6%	12.4%	3.8%	44.5%	0.0%	0.0%
Kalpataru Power Transmission	399	0.8	BUY	590	11.1%	15.2%	-4.1%	33.0%	0.0%	0.0%
PNC Infratech	291	1.0	BUY	356	18.0%	15.5%	30.0%	25.3%	0.0%	0.0%
Dilip Buildcon	505	1.0	BUY	669	15.0%	14.0%	50.8%	42.2%	0.0%	0.0%
KNR Constructions	287	1.1	BUY	332	24.6%	15.8%	25.1%	32.7%	-1.0%	9.3%
IRB Infrastructure	157	0.7	BUY	175	10.1%	8.8%	43.6%	160.7%	0.0%	0.0%

HSIE Coverage	CMP	MCAP(\$ Bn)	Rating	TP	Revenue Growth		PAT Growth		Change in PAT estimates	
					FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Ashoka Buildcon	99	0.4	BUY	183	15.0%	11.7%	-29.4%	46.2%	6.0%	4.7%
Ahluwalia Contracts	370	0.3	BUY	465	25.0%	15.0%	32.3%	13.8%	32.3%	13.8%
NCC	77	0.6	BUY	114	41.8%	20.5%	86.4%	40.7%	-10.8%	-5.7%
PSP Projects	426	0.2	BUY	542	33.6%	21.7%	50.9%	21.7%	-1.1%	0.3%
HG Infra	557	0.5	BUY	702	21.9%	15.1%	22.5%	18.6%	5.8%	6.3%
Gateway Distriparks	260	0.4	BUY	360	13.2%	16.3%	38.9%	20.8%	12.5%	-1.8%
JMC Projects	98	0.2	BUY	149	-3301.9%	-23.6%	-224.6%	-47.0%	-93.1%	-97.4%
Sadbhav Engineering	56	0.1	BUY	73	7.6%	59.0%	-212.6%	352.1%	-57.7%	-25.2%
ITD Cementation	78	0.2	BUY	117	19.0%	20.0%	661.0%	57.1%	0.0%	0.0%
J Kumar Infraprojects	206	0.2	BUY	247	30.0%	16.5%	156.7%	54.2%	-4.9%	12.2%
<b>Real Estate</b>					<b>14.8%</b>	<b>19.5%</b>	<b>84.1%</b>	<b>32.7%</b>	<b>7.9%</b>	<b>13.6%</b>
DLF	309	10.3	BUY	390	13.5%	12.0%	48.3%	17.1%	14.8%	30.5%
Oberoi Realty	656	3.2	BUY	800	10.7%	8.7%	54.4%	-15.9%	0.7%	-1.7%
Prestige Estates	332	1.8	ADD	387	-9.0%	9.0%	56.9%	13.1%	24.1%	17.9%
Brigade Enterprises	315	1.0	ADD	357	43.6%	17.2%	211.4%	93.7%	6.1%	58.4%
Sobha Developers	585	0.7	BUY	690	9.9%	44.1%	64.7%	222.3%	0.0%	0.0%
Kolte Patil	221	0.2	BUY	350	78.7%	6.9%	-2808.5%	27.9%	31.8%	27.3%
Phoenix Mills	809	1.9	BUY	1,188	27.4%	57.7%	165.6%	238.8%	-18.0%	4.6%
Godrej Properties	1,485	5.5	REDUCE	1,500	102.7%	32.5%	1167.7%	77.8%	1.1%	0.6%
Mahindra Lifespaces	750	0.5	BUY	1,047	115.3%	114.1%	NM	-515.0%	-1168.6%	-1.4%
<b>IT and Exchanges</b>					<b>16.9%</b>	<b>13.9%</b>	<b>13.8%</b>	<b>16.2%</b>	<b>-1.3%</b>	<b>-0.3%</b>
Tata Consultancy Services	3,560	177.0	ADD	3,775	0.2	0.1	0.1	0.1	(0.0)	(0.0)
Infosys	1,733	99.3	BUY	1,780	0.2	0.1	0.1	0.2	(0.0)	0.0
HCL Technologies	1,117	40.8	BUY	1,230	0.1	0.1	0.1	0.2	(0.0)	0.0
Wipro	620	45.7	ADD	665	0.2	0.1	0.2	0.1	0.0	0.0
Tech Mahindra	1,399	18.2	BUY	1,530	0.1	0.1	0.2	0.2	0.0	0.0
L&T Infotech	4,918	11.6	ADD	5,020	0.2	0.2	0.2	0.2	0.0	0.0
L&T Technologies	3,865	5.5	REDUCE	3,035	0.2	0.2	0.4	0.2	0.0	(0.0)
Mphasis	2,848	7.2	BUY	3,300	0.2	0.2	0.2	0.3	0.0	0.1
Mindtree	3,345	7.4	ADD	3,035	0.2	0.2	0.1	0.2	(0.1)	0.0
MCX	1,494	1.0	ADD	1,745	0.0	0.3	(0.0)	0.4	(0.0)	(0.0)
Tata Elxsi	4,727	4.0	REDUCE	4,400	0.3	0.2	0.4	0.3	0.0	0.0
Persistent	3,182	3.3	ADD	3,420	0.3	0.2	0.5	0.2	0.0	0.0
Cyient	915	1.4	ADD	1,100	0.1	0.2	0.3	0.2	0.1	0.0
TeamLease	3,980	0.9	BUY	4,240	0.2	0.3	0.5	0.4	0.1	0.0
Sonata	846	1.2	BUY	950	0.3	0.2	0.4	0.3	0.0	0.1
Zensar Technologies	428	1.3	BUY	525	0.1	0.1	0.2	0.2	0.1	0.1
CDSL Ltd	1,209	1.7	BUY	1,440	0.4	0.2	0.4	0.2	0.2	0.2
BSE	1,110	0.7	BUY	1,385	0.2	0.2	0.4	0.2	0.1	0.1
IndiaMart	7,112	2.9	BUY	8,500	0.1	0.2	0.1	0.2	0.1	0.0
Mastek	2,597	0.9	BUY	2,930	0.2	0.2	0.3	0.3	0.0	0.0
<b>Energy (Oil &amp; Gas)</b>					<b>24.1%</b>	<b>10.7%</b>	<b>1.8%</b>	<b>21.9%</b>	<b>-0.9%</b>	<b>-0.4%</b>
Reliance Industries	2,148	189.2	ADD	2,280	56.9%	18.9%	20.4%	29.9%	-2.3%	-1.1%
Oil & Natural Gas Corp	110	18.6	BUY	143	17.1%	5.7%	80.1%	12.4%	0.0%	0.0%
Indian Oil Corp	104	13.1	ADD	114	13.3%	5.7%	-58.6%	30.5%	0.0%	0.0%
Bharat Petroleum Corp	455	13.3	ADD	500	3.6%	4.6%	-51.3%	18.4%	0.0%	0.0%
GAIL India	140	8.4	BUY	195	28.9%	10.3%	28.5%	10.0%	-2.0%	0.5%
Petronet LNG	227	4.6	BUY	270	22.8%	21.9%	-3.0%	8.6%	0.0%	0.0%
Indraprastha Gas	522	4.9	BUY	691	28.6%	23.6%	13.7%	26.0%	0.0%	0.0%

HSIE Coverage	CMP	MCAP(\$ Bn)	Rating	TP	Revenue Growth		PAT Growth		Change in PAT estimates	
					FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
HPCL	247	4.7	ADD	292	5.8%	7.7%	-50.0%	36.5%	0.0%	0.0%
Gujarat Gas	714	6.6	BUY	900	27.8%	16.6%	34.5%	23.9%	5.1%	2.0%
Gujarat State Petronet	374	2.8	BUY	400	32.4%	14.8%	24.2%	16.5%	1.2%	0.0%
OIL India	166	2.4	BUY	200	14.6%	5.3%	41.7%	9.3%	0.0%	0.0%
Mahanagar Gas	1,099	1.5	ADD	1,255	19.5%	27.9%	10.9%	28.7%	5.2%	-2.4%
Gulf Oil Lubricants	572	0.4	BUY	850	11.4%	7.6%	2.1%	7.9%	0.0%	0.0%
<b>Cement &amp; Building Materials</b>					<b>14.9%</b>	<b>11.7%</b>	<b>8.8%</b>	<b>18.2%</b>	<b>9.0%</b>	<b>5.9%</b>
UltraTech Cement	7,493	29.1	BUY	8,155	11.9%	9.4%	7.1%	22.3%	11.0%	6.3%
Shree Cement	26,291	12.8	REDUCE	27,500	10.5%	13.4%	7.3%	16.9%	0.0%	0.0%
Ambuja Cement	392	10.5	ADD	400	18.9%	9.5%	23.3%	10.3%	6.3%	3.8%
ACC	2,291	5.8	BUY	2,610	22.0%	8.2%	36.1%	9.6%	13.2%	7.8%
Ramco Cements	958	3.0	REDUCE	1,044	11.3%	17.8%	2.0%	38.4%	0.6%	0.1%
Dalmia Bharat/ Odisha Cem	1,953	4.9	ADD	2,210	20.8%	11.7%	-7.8%	5.9%	55.9%	37.2%
JK Cement	3,113	3.2	ADD	3,210	14.3%	14.1%	19.2%	27.0%	1.9%	2.6%
Birla Corporation	1,313	1.4	BUY	1,545	9.5%	16.9%	-29.5%	19.6%	0.0%	-0.1%
Heidelberg Cement	254	0.8	ADD	283	17.7%	8.6%	9.7%	7.5%	0.1%	0.1%
STAR Cement	116	0.6	BUY	130	26.4%	14.4%	34.0%	32.4%	-0.1%	0.0%
JK Lakshmi	697	1.1	BUY	850	8.3%	8.6%	21.9%	14.7%	40.7%	41.1%
Orient Cement	152	0.4	BUY	187	20.5%	6.8%	15.3%	2.7%	15.4%	8.9%
Deccan Cement	711	0.1	ADD	800	9.0%	6.5%	-4.8%	-2.4%	19.1%	18.8%
Sagar Cements	295	0.5	BUY	1,425	16.5%	33.9%	-18.9%	31.7%	18.2%	18.4%
Supreme Industries	1,979	3.4	ADD	2,320	7.5%	9.0%	-18.0%	2.3%	0.0%	-0.2%
Astral	2,061	5.6	REDUCE	1,920	30.5%	20.8%	28.9%	32.5%	0.2%	0.3%
Prince Pipe	639	0.9	BUY	870	25.7%	16.4%	-0.8%	37.2%	0.0%	0.0%
Somany Ceramics	640	0.4	BUY	940	16.0%	19.1%	45.9%	36.3%	0.1%	0.3%
Kajaria Ceramics	1,075	2.3	BUY	1,130	21.1%	25.1%	18.6%	38.2%	-0.2%	-0.2%
<b>Chemicals</b>					<b>24.2%</b>	<b>13.9%</b>	<b>26.4%</b>	<b>16.3%</b>	<b>-3.0%</b>	<b>-2.3%</b>
Vinati Organics	1,854	2.6	SELL	1,600	62.8%	34.4%	40.3%	43.1%	-7.1%	2.8%
Navin Fluorine	3,719	2.5	ADD	4,170	17.1%	28.9%	28.7%	32.8%	-6.0%	-0.2%
Deepak Nitrite	2,101	3.9	SELL	1,600	45.3%	11.1%	46.8%	4.6%	-0.8%	-4.2%
Galaxy Surfactants	2,987	1.4	BUY	3,650	33.1%	10.3%	31.0%	15.3%	-2.7%	-2.8%
Alkyl Amines	4,099	2.8	SELL	3,200	21.1%	19.4%	12.6%	18.2%	-43.9%	-42.9%
Balaji Amines	3,319	1.4	ADD	3,805	22.7%	12.6%	20.4%	14.1%	13.3%	12.7%
Aarti Industries	930	4.5	BUY	1,100	14.8%	16.7%	30.7%	14.9%	15.4%	14.1%
SRF Ltd	8,889	7.1	ADD	8,630	11.5%	9.6%	10.6%	10.4%	6.1%	6.1%
Fine Organic	2,830	1.2	BUY	3,480	27.0%	11.1%	17.5%	43.3%	-6.2%	-4.1%
NOCIL	242	0.5	BUY	330	43.3%	12.0%	57.9%	25.1%	8.9%	8.6%
Sudarshan Chemical	598	0.6	BUY	830	17.2%	16.3%	20.5%	32.8%	-18.7%	-8.5%
<b>Power/Utilities</b>					<b>12.1%</b>	<b>7.8%</b>	<b>10.2%</b>	<b>8.3%</b>	<b>0.0%</b>	<b>0.0%</b>
NTPC	114	14.9	BUY	143	9.5%	9.8%	5.7%	10.7%	0.0%	0.0%
PGCIL	179	16.7	ADD	196	9.1%	4.3%	7.6%	7.0%	0.0%	0.0%
NHPC	26	3.5	ADD	29	9.0%	9.5%	3.6%	1.1%	0.0%	0.0%
CESC	748	1.3	BUY	1,011	19.4%	5.6%	29.1%	4.6%	0.0%	0.0%
TATA Power	126	5.4	BUY	156	22.2%	8.0%	60.4%	14.5%	0.0%	0.0%
JSW Energy	237	5.2	SELL	118	20.4%	3.1%	23.6%	5.8%	0.0%	0.0%
Torrent Power	453	2.9	ADD	511	8.0%	5.2%	31.3%	8.1%	0.0%	0.0%

HSIE Coverage	CMP	MCAP(\$ Bn)	Rating	TP	Revenue Growth		PAT Growth		Change in PAT estimates	
					FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
<b>Pharma</b>					<b>13.4%</b>	<b>11.6%</b>	<b>18.0%</b>	<b>21.6%</b>	<b>2.2%</b>	<b>3.2%</b>
Sun Pharmaceutical Industries	761	24.5	BUY	900	16.3%	11.3%	21.1%	18.9%	11.2%	15.6%
Dr Reddy's Laboratories	4,556	10.2	ADD	5,210	9.9%	11.1%	3.5%	30.4%	-9.1%	-4.3%
Torrent Pharma	3,036	6.9	ADD	3,155	8.7%	12.5%	3.6%	26.2%	-0.1%	2.1%
Cipla Ltd/India	891	9.7	BUY	1,080	10.9%	8.4%	21.9%	15.6%	11.5%	4.8%
Aurobindo Pharma	681	5.4	BUY	985	1.3%	9.6%	-4.6%	8.7%	-6.8%	-7.8%
Lupin	927	5.7	REDUCE	1,040	8.3%	12.2%	18.3%	52.4%	-23.1%	-14.7%
Cadila	535	7.4	REDUCE	585	5.4%	7.7%	-2.2%	14.9%	1.7%	-2.2%
Alkem Labs	3,804	6.1	BUY	3,960	19.4%	12.0%	6.3%	13.9%	12.7%	9.3%
Apollo Hospitals	4,751	9.2	ADD	4,410	42.4%	20.2%	931.0%	40.5%	8.3%	10.2%
Narayana Health	504	1.4	ADD	575	42.6%	15.5%	NM	29.0%	20.8%	16.4%
Max Healthcare	330	4.3	BUY	350	43.5%	16.5%	1421.3%	42.0%	12.5%	10.1%
Ajanta Pharma	2,240	2.6	ADD	2,520	12.5%	13.9%	6.5%	25.3%	-0.3%	4.2%
<b>Total</b>					<b>18.8%</b>	<b>12.8%</b>	<b>17.6%</b>	<b>21.8%</b>	<b>-0.7%</b>	<b>-0.1%</b>

Note: Upside change in PAT estimates above 5% has been highlighted in green and downside change above 5% has been highlighted in red

CMP as on 20.08.2021

Source: Bloomberg & HSIE Research

## HSIE Model Portfolio

HSIE Model Portfolio	Price	Rating	TP	M Cap US\$ bn	Model port on 230821		
					Wt	Port Wt	Rel wt
<b>Nifty</b>	16,451			2,371.6	100.0%	100.0%	0 bps
<b>Autos</b>				97.8	5.2%	1.9%	-329 bps
Eicher Motors	2,602	REDUCE	2300	9.6	0.5%		-51 bps
Mahindra & Mahindra	786	ADD	860	13.1	1.3%		-132 bps
Hero MotoCorp	2,698	ADD	3150	7.2	0.6%		-65 bps
Maruti Suzuki India	6,851	BUY	8190	27.8	1.2%	1.0%	-27 bps
Tata Motors	283	BUY	360	13.5	0.8%		-76 bps
Bajaj Auto	3,752	BUY	4570	14.6	0.7%		-73 bps
Endurance	1,593	ADD	1740	3.0		1.0%	95 bps
<b>Banks and NBFCs</b>				470.1	34.5%	32.0%	-245 bps
Axis Bank	740	BUY	824.413	30.5	3.0%	3.2%	18 bps
State Bank of India	407	BUY	500.901	48.8	1.9%	4.8%	288 bps
HDFC Bank	1,515			112.6	9.8%	9.8%	0 bps
Housing Development Finance Corp	2,722			66.1	6.7%	6.7%	0 bps
Kotak Mahindra Bank	1,704	REDUCE	1746.67	45.4	3.3%		-327 bps
IndusInd Bank	979	REDUCE	733.684	10.2	0.8%		-84 bps
Bajaj Finance	6,661	REDUCE	4590.4	54.0	2.5%		-247 bps
ICICI Bank #	681	BUY	774.519	63.4	6.5%	7.6%	105 bps
<b>Insurance</b>				32.1	1.2%	3.3%	202 bps
Bajaj Finserv	14,979			32.0	1.2%		-123 bps
SBI Life	1,125	BUY	1350	15.1		2.2%	220 bps
Max Financial	1,036	ADD	1180	4.8		1.1%	105 bps
<b>Capital Markets</b>				-	0.0%	1.9%	190 bps
Motilal Oswal Financial Services	784	REDUCE	885	1.5		1.0%	95 bps
ICICI Securities	683	ADD	800	3.0		1.0%	95 bps
<b>Consumer- Staples</b>				155.5	6.9%	6.9%	6 bps
ITC	209	BUY	250.289	34.6	2.3%	4.0%	175 bps
Hindustan Unilever	2,619	REDUCE	2475.09	82.7	3.3%		-329 bps
Nestle India	19,571	REDUCE	17107.7	25.4	1.1%		-109 bps
Britannia Industries	3,896	REDUCE	3600	12.6	0.2%		-24 bps
Dabur India	612	ADD	625	14.5		1.0%	95 bps
United Spirits	704	ADD	659.683	6.9		1.0%	95 bps
Radico Khaitan	884	ADD	899.674	1.6		1.0%	104 bps
<b>Consumer Discretionary (ex-Autos)</b>				69.7	4.0%	2.5%	-148 bps
Titan Co	1,877	SELL	1500	22.4	1.0%		-104 bps
Asian Paints	3,113	SELL	2460	40.1	2.9%		-294 bps
Crompton Consumer	447	BUY	475	3.8		1.3%	125 bps
Aditya Birla Fashion	200	BUY	250	2.4		1.3%	125 bps
<b>Industrials (Infra+ Cap Goods)</b>				49.0	3.1%	5.9%	277 bps
Larsen & Toubro	1,594	BUY	1909	30.1	2.4%	4.0%	162 bps
Adani Ports & Special Economic Zone	687			18.9	0.7%		-75 bps
Cummins India	992	BUY	1147	3.7		1.0%	95 bps
KNR Constructions	287	BUY	332	1.1		1.0%	95 bps
<b>Real Estate</b>				19.6		2.0%	200 bps
Phoenix Mills	809	BUY	1188	1.9		1.0%	100 bps
Mahindra Life Spaces	750	BUY	1047	0.5		1.0%	100 bps
<b>IT and Exchanges</b>				381.4	18.3%	13.7%	-460 bps
Wipro	620	ADD	665	45.7	1.4%		-137 bps
Infosys	1,733	BUY	1780	99.3	9.0%	7.0%	-195 bps
HCL Technologies	1,117	BUY	1230	40.8	1.8%		-177 bps
Tata Consultancy Services	3,560	ADD	3775	177.0	4.9%		-492 bps
Tech Mahindra	1,399	BUY	1530	18.2	1.2%	1.0%	-29 bps
L&T Infotech	4,918	ADD	5020	11.6		1.0%	95 bps
Mphasis	2,848	BUY	3300	7.2		1.0%	95 bps

HSIE Model Portfolio	Price	Rating	TP	M Cap US\$ bn	Model port on 230821		
					Wt	Port Wt	Rel wt
Persistent	3,182	ADD	3420	3.3		1.0%	95 bps
TeamLease	3,980	BUY	4240	0.9		1.0%	95 bps
Sonata	846	BUY	950	1.2		1.0%	95 bps
CDSL	1,209	BUY	1440	1.7		1.0%	95 bps
<b>Energy (Oil &amp; Gas)</b>				<b>242.9</b>	<b>11.2%</b>	<b>9.8%</b>	<b>-142 bps</b>
Reliance Industries	2,148	ADD	2280	189.2	9.5%	4.8%	-474 bps
Bharat Petroleum Corp	455	ADD	500	13.3	0.6%		-62 bps
Indian Oil Corp	104	ADD	114	13.1	0.3%		-26 bps
Oil & Natural Gas Corp	110	BUY	143	18.6	0.4%	1.0%	55 bps
GAIL India	140	BUY	195	8.4	0.4%	1.2%	80 bps
Indraprastha Gas	522	BUY	691	4.9		1.0%	95 bps
Gujarat Gas	714	BUY	900	6.6		1.0%	95 bps
Gujarat State Petronet	374	BUY	400	2.8		1.0%	95 bps
<b>Metals &amp; Mining</b>				<b>843.3</b>	<b>3.9%</b>	<b>2.4%</b>	<b>-148 bps</b>
Hindalco Industries	404			12.2	0.8%		-79 bps
Tata Steel	1,376			22.2	1.4%	1.2%	-23 bps
JSW Steel	685			22.2	1.0%		-98 bps
Vedanta	269			13.5	0.4%		-45 bps
Coal India	136			11.2	0.3%	1.3%	97 bps
<b>Cement</b>				<b>393.2</b>	<b>3.2%</b>	<b>3.0%</b>	<b>-23 bps</b>
UltraTech Cement	7,493	BUY	8155	29.1	1.3%	1.0%	-31 bps
Grasim Industries	1,485			13.1	0.8%		-79 bps
Shree Cement	26,291	REDUCE	27500	12.8	1.1%		-113 bps
JK Cement	3,113	ADD	3210	3.2		1.0%	100 bps
Birla Corporation	1,313	BUY	1544.68	1.4		1.0%	100 bps
<b>Chemicals</b>				<b>274.2</b>	<b>0.5%</b>	<b>1.9%</b>	<b>136 bps</b>
UPL Ltd	728			7.5	0.5%		-53 bps
Aarti Industries	930	BUY	1100	4.5		1.0%	95 bps
Galaxy Surfactants	2,987	BUY	3650	1.4		1.0%	95 bps
<b>Media</b>				<b>2.2</b>	<b>0.2%</b>	<b>0.0%</b>	<b>-21 bps</b>
Zee Entertainment Enterprises	170			2.2	0.2%		-21 bps
<b>Pharma</b>				<b>44.5</b>	<b>2.5%</b>	<b>3.9%</b>	<b>132 bps</b>
Sun Pharmaceutical Industries	761	BUY	900	24.5	1.1%		-109 bps
Cipla Ltd/India	891	BUY	1080	9.7	0.7%	1.3%	65 bps
Dr Reddy's Laboratories	4,556	ADD	5210	10.2	0.8%		-79 bps
Aurobindo Pharma	681	BUY	985	5.4		0.9%	85 bps
Ajanta Pharma	2,240	ADD	2520	2.6		0.9%	85 bps
Alkem Labs	3,804	BUY	3960	6.1		0.9%	85 bps
<b>Telecom</b>				<b>53.3</b>	<b>2.7%</b>	<b>3.2%</b>	<b>46 bps</b>
Bharti Airtel	614			45.3	2.2%	3.20%	96 bps
Indus Towers	220			8.0	0.5%		-50 bps
<b>Utilities</b>				<b>31.7</b>	<b>1.4%</b>	<b>4.9%</b>	<b>348 bps</b>
NTPC Ltd	114	BUY	143	14.9	0.7%	2.0%	130 bps
Power Grid Corp of India	179	ADD	196	16.7	0.7%	2.0%	123 bps
CESC	748	BUY	1,011	1.3		1.0%	95 bps
<b>Cash</b>					<b>0.0%</b>	<b>1.0%</b>	<b>100 bps</b>

Note: CMP as on 20.08.2021 Stocks highlighted pink represent those which are a part of nifty but not under HSIE coverage

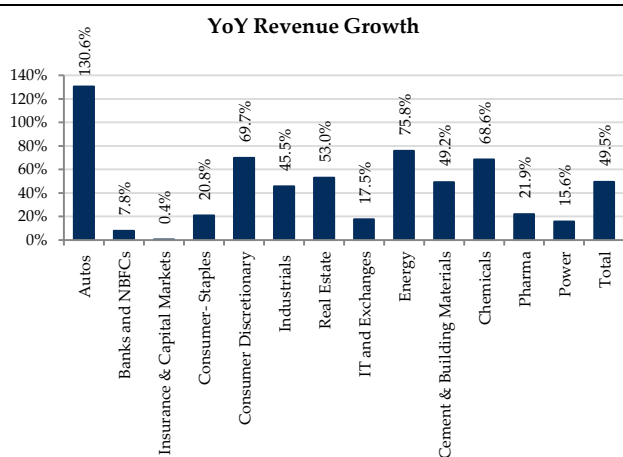
Source: Bloomberg and HSIE Research

## Model Portfolio Performance relative to Nifty

Nifty vs Model Portfolio Performance	Model Portfolio Return	Nifty Return	Surplus /(Deficit)
1m	3.5%	5.2%	-1.7%
3m	6.4%	8.4%	-2.0%
6m	12.4%	8.8%	3.6%
1yr	58.1%	44.7%	13.5%
YTD (since 1.04.20)	114.7%	99.3%	15.4%
Inception	57.7%	46.9%	10.8%

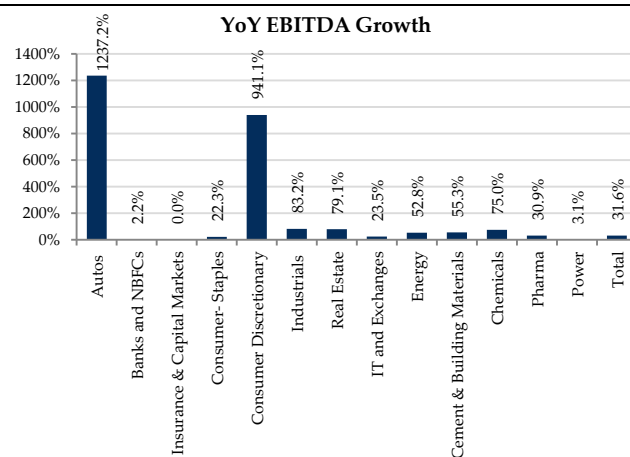
## Sectorwise Growth (YoY)- Q1FY22

### YoY Revenue Growth



Source: HSIE Research

### YoY EBITDA Growth



Source: HSIE Research

# Autos, Transportation & Logistics

# Maruti Suzuki

## A weak quarter, CNG variants to ramp up in Q2FY22

Maruti's Q1FY22 PAT, at INR 4.4bn (-62% QoQ), was adversely impacted by the second wave of COVID. We believe that demand will improve from here on, as supplies for the high demand CNG variant resumes (this segment now accounts for over 10% of volumes). The OEM has an order backlog of 170,000 units. Further, Maruti is addressing white spaces in its SUV portfolio (new model launches are expected in this segment over the next 12 months). We reiterate BUY with a target price of INR 8,190 (at 27x Jun-23E EPS). We lower our estimates by ~5% over FY23-24E, to factor in weak Q1FY22 results.

- **Q1FY22 financials:** Volumes, at 353k units, declined 28% QoQ, impacted by the second wave of COVID. The average realisation grew 3% on the back of price hikes taken. Revenue declined 26% QoQ to INR 177.7bn. EBITDA margin, disappointed, at 4.6% (-370bps QoQ), owing to commodity cost pressures (RM ratio at 74.8% was up 330/90bps YoY/QoQ) and negative operating leverage. PAT declined 62% QoQ to INR 4.4bn.
- **Key takeaways: (1) near-term outlook is encouraging:** The demand in Jul-21 has picked up along with enquiries (similar to Q4FY21) and bookings (~80% of Q4FY21). The recovery this time around is across rural and urban markets. The company's order book currently stands at 170k units (27 days). **(2) Production in Q1FY22 was constrained for CNG variants:** The supplies for the high demand variants were impacted by oxygen-related shortages, which impacted the retail market share by ~500bps. As CNG supplies normalise, Maruti will benefit as customers are incrementally preferring the lower cost option amidst rising diesel prices. **(3) Commodity cost pressures:** The management highlighted that the input cost inflation affected margins by 3.5%, whereas another 4% impact was due to negative leverage (production was impacted by the lockdown). Incremental price hikes will partially offset the sharp commodity increases. **(3) SUVs in focus:** The management is expected to launch new SUVs to address this growing white space.

### Financial Summary

YE March (INR bn)	1Q FY22	1Q FY21	YoY (%)	4Q FY21	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	177.7	41.1	333	240.2	(26)	756.1	703.3	865.7	1,022.9	1,201.6
EBITDA	8.2	(8.6)	NA	19.9	(59)	73.0	53.5	70.6	107.7	140.6
APAT	4.4	(2.5)	NA	11.7	(62)	56.5	42.3	53.5	84.8	112.0
Adj. EPS (Rs)	14.6	(8.3)	NA	38.6	(62)	187.1	140.1	177.1	280.8	370.7
APAT Gr (%)						(24.7)	(25.1)	26.4	58.6	32.0
P/E (x)						38.3	51.2	40.5	25.5	19.3
RoE (%)						11.9	8.5	10.1	14.6	17.3

Source: Company, HSIE Research

### Change in Estimates

INR bn	New			Old			Change (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Net Sales	865.7	1,022.9	1,201.6	858.0	1,013.8	1,191.0	1	1	1
EBITDA	70.6	107.7	140.6	82.9	109.8	140.5	(15)	(2)	0
EBITDA margin (%)	8.2	10.5	11.7	9.7	10.8	11.8	-150 bps	-30 bps	-10 bps
Adj PAT	53.5	84.8	112.0	66.7	90.5	116.6	(20)	(6)	(4)
Adj EPS(Rs)	177.1	280.8	370.7	220.9	299.7	386.2	(20)	(6)	(4)

Source: Company, HSIE Research

## BUY

CMP (as on 28 July 2021) INR 7,165

Target Price INR 8,190

NIFTY 15,709

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 8,680	Rs 8,190
EPS %	FY22E -20%	FY23E -6%

### KEY STOCK DATA

Bloomberg code	MSIL IN
No. of Shares (mn)	302
MCap (Rs bn) / (\$ mn)	2,164/29,101
6m avg traded value (Rs mn)	6,278
52 Week high / low	Rs 8,400/6,031

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	9.0	-5.6	14.0
Relative (%)	3.6	-18.9	-23.7

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	56.4	56.4
FIs & Local MFs	15.1	15.8
FPIs	23.1	22.9
Public & Others	5.4	5.0
Pledged Shares	0.0	0.0

Source : BSE

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# Bajaj Auto

## Laying the ground for future technologies

While Bajaj Auto's Q1FY22 margin (down 260bps QoQ) was below our estimate due to reduced operating leverage, we expect margins to improve from here on as domestic volumes increase. Further, Bajaj will benefit from its presence in the overseas markets, which account for ~50% of volumes. The company is working on future technologies and forming a 100% subsidiary to address electric mobility. Further, it has extensive tie-ups with international majors like KTM & Triumph and inhouse R&D capabilities. We maintain BUY with a target price of INR 4,575 (at 20x Jun-23E EPS) as we are confident on its product development capabilities across technologies (ICE, CNG and EVs) and diverse presence in the 2Ws and 3Ws space. However, we are reducing our estimates for FY22-24E by ~7% to factor in the Q1FY22 results.

- **Q1FY22 financials:** Total volumes declined 14% QoQ, owing to state-wise lockdowns. The average realisation, at ~INR 73k, grew 6% YoY (remained flat QoQ) due to price hikes, richer model mix, and higher exports (64% vs 57/54% YoY/QoQ). EBITDA margin, at 15.2%, disappointed, and was lower by 260bps QoQ due to commodity cost pressures (RM ratio at 73% vs 67/72% YoY/QoQ). It was partially offset by higher USD realisation and improved mix. Reported PAT came in at INR 10.61bn (-20% QoQ).
- **Key takeaways:** (1) **Margin outlook:** Higher commodity costs impacted the EBITDA margin by ~3% in Q1, 1.5% of which the company was able to recover through cost pass-through to customers. Also, ~1% offset came from better forex and improved mix. (2) **Near-term demand:** Export volumes are at ~200k units/month and are expected to improve as more countries open. While domestic retail demand will improve QoQ, the built-up system inventory will result in wholesales trailing retail sales in Q2FY22. 3W sales were impacted in Q1FY22, but the OEM witnessed good retail in Jun-21. (3) **Alternative technologies:** The company has decided to form a 100% subsidiary for manufacturing EVs/hybrids. It will launch products as the market expands over the next 3-5 years. The transition from CNG-powered 3Ws (to electric) is not easy as the government is increasing the CNG footprint (~9k CNG pumps by 2025) and CNG is INR 1.25/km cheaper than diesel variants.

### Financial Summary

YE March (INR mn)	1Q FY22	1Q FY21	YoY (%)	4Q FY21	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	73,860	30,792	140	85,961	(14)	299,187	277,411	323,830	375,318	430,413
EBITDA	11,198	4,085	174	15,241	(27)	50,962	49,285	51,975	66,056	77,474
APAT	10,612	5,280	101	13,321	(20)	51,000	45,546	50,202	63,601	73,747
AEPS (Rs)	36.7	18.2	101	46.0	(20)	176.2	157.4	173.5	219.8	254.9
APAT Gr (%)						15.0	(10.7)	10.2	26.7	16.0
P/E (x)						21.9	24.5	22.2	17.5	15.1
RoE (%)						24.5	20.2	19.7	24.3	27.0

Source: Company, HSIE Research

### Change in Estimates

INR mn	New			Old			Change (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	323,830	375,318	430,413	318,743	369,571	427,381	2	2	1
EBITDA	51,975	66,056	77,474	56,290	68,371	80,775	(8)	(3)	(4)
EBITDA margin (%)	16.1	17.6	18.0	17.7	18.5	18.9	-161bps	-90bps	-90 bps
PAT	50,202	63,601	73,747	54,453	67,300	79,292	(8)	(5)	(7)
EPS	173.5	219.8	254.9	188.2	232.6	274.0	(8)	(5)	(7)

Source: Company, HSIE Research

## BUY

CMP (as on 22 July 2021)	INR 3,853
Target Price	INR 4,575
NIFTY	15,824

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 4,860	INR 4,575
EPS %	FY22E 8%	FY23E 5%

### KEY STOCK DATA

Bloomberg code	BJAUT IN
No. of Shares (mn)	289
MCap (INR bn) / (\$ mn)	1,115/14,981
6m avg traded value (INR mn)	2,909
52 Week high / low	INR 4,361/2,822

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	4.7	(5.8)	29.0
Relative (%)	(6.1)	(12.3)	(10.3)

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	53.7	53.7
FIs & Local MFs	12.3	12.7
FPIs	12.0	11.8
Public & Others	22.0	21.8
Pledged Shares	0.0	0.0

Source : BSE

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# Tata Motors

## A weak quarter on expected lines; 2H recovery at JLR

Tata Motors reported a weak quarter Q1FY22 due to chip shortages. Expectedly, the margin at JLR came in at 9% (-630bps QoQ). However, we expect the production to ramp up in H2FY22 as demand remains encouraging (order backlog at 110k units, ~3 months of sales). India margin though was below estimate (EBITDA margin of 2.5%, -620bps QoQ) as CV volumes were subpar. We reduce our EBITDA estimate by ~3% over FY22-24, EPS estimates by ~13% over FY23/24 to factor in the above and set a revised SOTP-based target price of INR 360, based on Jun-23E earnings. Maintain BUY.

- **Q1FY22 financials: (1) Standalone:** Revenue declined 41% QoQ to INR 119bn, led by a 53/23% drop in CV/PV volumes. EBITDA margin, at 2.5% (-620bps QoQ), disappointed, due to weak profitability at the CV division (EBITDA of 0.1%). Passenger car EBITDA surprised at 4.1% (4.9% QoQ). Adj loss came in at INR -12.5bn. **(2) JLR:** Revenue declined 24% QoQ due to a 31% fall in volumes. The average realisation improved 10% QoQ to ~GBP 59k. The EBITDA margin came in at 9% (-630bps QoQ, RM ratio expanded 125bps) due to the impact of chip shortages. The division reported a loss of GBP 286mn. JLR incurred a tax charge of GBP 176mn, despite a negative PBT of 110mn as the OEM could not avail set-offs against its deferred tax assets; there was no cash impact. **(3) Consolidated:** Revenue/EBITDA declined 25/50% QoQ. The OEM reported a PBT loss of INR 25.7bn/PAT loss of INR 44bn due to the higher tax charge.
- **Key highlights: (1) Supply at JLR to ease in H2FY22:** As highlighted earlier by JLR, the semiconductor shortage is likely to impact production in Q2FY22 as well (~90k units in H1FY22). The situation is expected to improve in H2 as supplies increase. The demand is healthy as JLR has an existing order book of 110,000 units, which is ~3 months of sales. Cash flows (-GBP 996mn) were impacted in Q1 due to working capital build-up; however, this will likely reverse in 2H. **(2) Market share:** While the overall CV market share reduced to 40.5% vs 42.4% in FY21, the share in MHCVs has risen to 62.7% (vs 58.1% QoQ). The PV market share has now reached 10% vs 8.2% in FY21, led by new products. **(3) Focus on electric:** In the domestic market, Tata has a 77% market share in the nascent EV market (EV penetration is at 3% of the portfolio). The company plans to roll out 10 EV models by 2025. At JLR, BEVs+PHEVs are 8.5% - this will increase in H2 as production ramps up.

### Financial Summary (Consolidated)

YE March (INR bn)	1Q FY22	1Q FY21	% YoY	4Q FY21	% QoQ	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	664	320	108	886	(25)	2,611	2,498	2,699	3,245	3,687
EBITDA	73	17	322	146	(50)	239	358	340	428	490
APAT	(44)	(85)	NA	38	NA	(79)	(26)	2	53	87
Adj. EPS (INR)	(11.6)	(22.2)	NA	10.0	NA	(22.0)	(6.7)	0.6	13.8	22.8
P/B (x)						1.7	2.0	2.0	1.9	1.6
EV/EBITDA (x)						7.4	5.2	5.7	4.3	3.5

### Change in estimates

(INR bn)	New			Old			Change (%)		
	FY 22E	FY 23E	FY 24E	FY 22E	FY 23E	FY 24E	FY 22E	FY 23E	FY 24E
Net Sales	2,699	3,245	3,687	2,699	3,245	3,687	-	-	-
EBITDA	340	428	490	342	440	504	(1)	(3)	(3)
EBITDA margin %	12.6	13.2	13.3	12.7	13.6	13.7	-6 bps	-38bps	-36bps
Adj PAT	2	53	87	5	62	97	(53)	(15)	(10)
Adj EPS (in INR)	0.6	13.8	22.8	1.2	16.1	25.3	(53)	(15)	(10)

Source: Company, HSIE Research

## BUY

CMP (as on 26 July 2021)	Rs 293
Target Price	Rs 360
NIFTY	15,824

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 380	INR 360
EPS %	FY22E -53%	FY23E -15%

### KEY STOCK DATA

Bloomberg code	TTMT IN
No. of Shares (mn)	3,320
MCap (Rs bn) / (\$ mn)	973/13,079
6m avg traded value (Rs mn)	20,920
52 Week high / low	Rs 361/101

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	-0.8	5.0	182.6
Relative (%)	-8.7	-6.5	143.2

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	46.4	46.4
FIs & Local MFs	12.1	11.6
FPIs	13.8	14.3
Public & Others	27.8	27.7
Pledged Shares	0.9	0.9

Source: BSE

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# Mahindra & Mahindra

## Awaiting product launches

M&M's Q1FY21 margin declined to 13.9% (vs 14.7% QoQ) due to commodity cost pressures as well as the impact of the second COVID wave. While the OEM has gained market share in the high-margin tractor segment, it guides for single-digit sales increase (~6%) in FY22 – implying muted growth from here on. The launch of the XUV700 is around the corner and will drive sales growth in the automotive segment in 2HFY22. We reiterate our ADD rating on the stock and set a revised SOTP of INR 855 (target price lower by 5%, at 15x on core business), to factor in the margin cost pressures.

- Q1FY22 financials - M&M+MVML:** The company reported Q1FY22 revenue at INR 116.6bn (-12% QoQ), affected by the 8% drop in volumes and 5% drop in realisations. EBITDA margin, at 13.9%, contracted 85bps QoQ due to the RM cost pressure. Adj. PAT came in at INR 9.3bn, a decline of 7% QoQ. **Tractor segment:** Revenue grew 7% QoQ due to a similar growth in volumes. The segment reported an EBIT margin of 20.3% (-170bps QoQ) on higher input costs, which was partially offset by cost management and price increases. **Automotive:** Volumes were down 20% QoQ due to supply constraints. The EBIT margin came in at 1.7% vs 5% QoQ.
- Key takeaways: (1) Auto - product launches:** The launch of XUV700 is on track for 2HFY22 and the reveal is expected in the next quarter. M&M's refreshed SUV portfolio including XUV300, Thar, Bolero Neo, etc. has a healthy order book. **(2) Tractor growth to moderate:** The management has guided for single-digit growth in FY22 due to a demanding base effect, as sales had started accelerating from Q2 last year. The tractor market share has risen to 41.8% (vs 38% QoQ) due to improving supplies. **(3) Margin pressure:** Margins remain affected by semiconductor shortage, higher freight cost, and commodity price inflation. Although the company has taken three price hikes between Jan-21 and Jun-21, the entire cost inflation has not been passed on. **(4) Consolidated performance improves:** M&M has reported a consolidated profit in Q1FY22 as write offs due to SsangYong are over and the company is focused on improving the performance of its subsidiaries.

### Financial Summary (M&M + MVML)

YE March (INR mn)	1Q FY22	1Q FY21	YoY (%)	4Q FY21	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	117,628	55,894	110	133,382	(12)	448,655	445,744	510,319	573,863	645,745
EBITDA	16,317	5,732	185	19,605	(17)	63,506	69,766	75,017	85,506	95,570
APAT	9,341	389	2,298	10,024	(7)	35,509	40,974	46,876	53,201	59,907
Adj. EPS (Rs)	7.8	0.3	2,298	8.4	(7)	29.8	34.3	39.2	44.5	50.1
APAT Gr (%)						(34.5)	15.4	14.4	13.5	12.6
P/E (x)						25.5	22.1	19.3	17.0	15.1
RoE (%)						10.2	11.7	12.6	12.9	13.1

Source: Company, HSIE Research

### Change in Estimates

INR mn	New			Old			Change (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	510,319	573,863	645,745	507,993	575,237	647,251	0	(0)	(0)
EBITDA	75,017	85,506	95,570	76,199	87,436	98,382	(2)	(2)	(3)
EBITDA margin (%)	14.7	14.9	14.8	15.0	15.2	15.2	-30 bps	-30 bps	-40 bps
APAT	46,876	53,201	59,907	47,596	57,640	64,109	(2)	(8)	(7)
EPS	39.2	44.5	50.1	39.9	48.3	53.7	(2)	(8)	(7)

Source: Company, HSIE Research

## ADD

CMP (as on 6 Aug 2021)	INR 758
Target Price	INR 855
NIFTY	16,238

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 900	INR 855
EPS %	FY21E -2%	FY22E -8%

### KEY STOCK DATA

Bloomberg code	MM IN
No. of Shares (mn)	1,243
MCap (INR bn) / (\$ mn)	943/12,667
6m avg traded value (INR mn)	3,781
52 Week high / low	INR 952/566

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	1.5	(12.4)	24.4
Relative (%)	(9.4)	(19.4)	(18.4)

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	19.5	19.5
FIs & Local MFs	31.7	30.3
FPIs	38.9	40.1
Public & Others	9.9	10.2
Pledged Shares	0.0	0.0

Source : BSE

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# Eicher Motors

## Timing of CEO's exit surprises

Eicher Motors' Q1FY22 EBITDA margin declined 450bps QoQ due to production constraints. The timing of the decision of Mr Dasari, who is an industry veteran, to move on from Royal Enfield (RE) has surprised as the OEM is in the midst of rolling out its new models, including the upgraded 'Classic' bike, and is contending with supply chain issues (due to semi-conductors). We maintain REDUCE with a revised SOTP based target price of INR 2,300 (at 23x Jun-23E EPS on core business). We reduced our estimates by ~8% over FY22-24E to factor in the weak Q1 results and lower production estimates.

- Q1FY22 financials: Standalone:** Volumes for RE, at ~123k units, declined 40% QoQ. However, average realisation, at INR 154k, improved 8%, owing to price hikes and higher exports (~19k units vs ~14k units QoQ). Revenue at INR 19bn declined 35% QoQ. EBITDA margin, at 17.5%, contracted 450bps, owing to negative operating leverage. PAT declined 43% QoQ to INR 2.6bn. **Consolidated:** Revenue declined 33% QoQ. EBITDA/PAT declined 43/55% QoQ. EBITDA margin, at 18.4%, contracted 320bps QoQ. **VECV:** Volumes/revenue declined 68/55% QoQ. EBITDA margin came in at 1.1%. The segment reported a loss of INR 720mn vs a profit of INR 1.27bn QoQ.
- Key takeaways: (1) Mr B Govindarajan is appointed as the new CEO** to take over from Mr Dasari. While he is an insider at RE, he will have to contend with the near-term challenges of production constraints/potential launch delays. **(2) Delay in product launches:** The semiconductor shortage is impacting production and the situation will improve only gradually. As volumes will improve in H2FY22, we believe the roll-out of new products could be delayed (vs its earlier plan of a launch every quarter). **(3) Commodity price inflation:** Against cost pressures from the sharp rise in commodity prices, the company has taken several price hikes. The management highlighted that the cost inflation has been passed on to the customers. **(4) Exports gaining traction:** The company's export volumes have steadily improved (~7k units in May-21 and Jun-21 vs 4-5k earlier).

### Financial Summary (Consolidated)

YE March (INR mn)	1Q FY22	1Q FY21	YoY (%)	4Q FY21	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	19,743	8,182	141	29,403	(33)	91,536	87,204	107,716	132,350	154,797
EBITDA	3,630	38	9,477	6,344	(43)	21,804	17,813	23,779	31,140	36,945
APAT	2,371	(552)	NA	5,261	(55)	18,275	13,469	20,432	27,570	32,476
AEPS (Rs)	8.7	(2.0)	NA	19.3	(55)	66.9	49.3	74.8	100.9	118.8
APAT Gr (%)						(17.7)	(26.3)	51.7	34.9	17.8
P/E (x)						39.1	53.1	35.0	25.9	22.0
RoE (%)						19.3	12.6	16.8	19.7	20.1

Source: Company, HSIE Research

### Change in estimates

INR mn	New			Old			Change (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	107,716	132,350	154,797	112,446	137,924	159,075	(4)	(4)	(3)
EBITDA	23,779	31,140	36,945	26,067	33,770	39,005	(9)	(8)	(5)
EBITDA Margin (%)	22.1	23.5	23.9	23.2	24.5	24.5	-111 bps	-96 bps	-65 bps
PAT	20,432	27,570	32,476	22,474	29,880	34,375	(9)	(8)	(6)
EPS	74.8	100.9	118.8	82.3	109.5	125.9	(9)	(8)	(6)

Source: Company, HSIE Research

## REDUCE

CMP (as on 12 Aug 2021)	INR 2,617
Target Price	INR 2,300
NIFTY	16,364

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 2,500	INR 2,300
EPS %	FY22E	FY23E
	-9%	-8%

### KEY STOCK DATA

Bloomberg code	EIM IN
No. of Shares (mn)	273
MCap (INR bn) / (\$ mn)	715/9,613
6m avg traded value (INR mn)	2,438
52 Week high / low	INR 3,037/2,007

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	6.5	(5.9)	18.3
Relative (%)	(6.1)	(12.3)	(24.6)

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	49.2	49.2
FIs & Local MFs	9.2	9.6
FPIs	29.1	28.8
Public & Others	12.5	12.4
Pledged Shares	0.0	0.0

Source : BSE

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# Hero Motocorp

## Awaiting recovery in H2FY22

Hero's Q1FY22 PAT, at INR 3.65bn (-58% QoQ), was below the estimate as the margin declined to 9.4% (-450bp QoQ). The demand environment is tepid, with sales at 80% of the pre-COVID level. The management is hopeful of a recovery in H2. Hero's initiatives around premiumisation and EVs are likely to benefit in the medium term. We maintain our ADD rating with a revised target price of INR 3,150 at 17.5x Jun-23E EPS (we are lowering estimates by ~5% to factor in the weak Q1 results).

- Q1FY22 financials:** Volumes, at 1.02mn units, declined 35% QoQ, owing to state-wise lockdowns. ASP also declined by 3% to ~INR 53.5k due to lower spares revenue. This led to a revenue decline of 37% QoQ to INR 54.87bn. EBITDA margin, at 9.4% (-450bps QoQ), was below the estimate due to negative operating leverage (150bps savings from the leap program partially offset cost pressures). Reported PAT declined 58% QoQ to INR 3.65bn.
- Key takeaways:** (1) **Recovery expected in H2FY22:** The management highlighted that retail is at 80% of the pre-COVID level. It expects demand to recover in H2, led by festive season and normal monsoons. (2) **Commodity inflation:** Hero's RM to sales ratio expanded by 210bps to 72.5%. Against the rising commodity prices, it took a price hikes of INR 600/vehicle in Apr-21 and INR 1,200/vehicle in Jul-21. However, the commodity costs are up by INR 2,000/vehicle. ~150bps benefit came from the leap savings program, which partially offset cost pressures. Lower spares revenue also impacted profitability. (3) **Premiumisation initiatives:** Hero's initiatives in the premium segment will benefit in the medium term, led by (i) continuous launches in 150cc+ segment; (ii) tie-up with Harley, which will allow it an entry in the 'heritage' biking segment; and (iii) revamping its distribution network for high-end products. (4) **EV:** Alongside its investment in Ather Energy, Hero will launch its in-house e-2W by Mar-22. It also has a strategic partnership with Gogoro to build a battery swapping network and manufacture EVs.

### Financial Summary (Standalone)

YE March (INR mn)	1Q FY22	1Q FY21	YoY (%)	4Q FY21	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	54,871	29,715	85	86,860	(37)	288,361	308,006	329,131	359,578	392,426
EBITDA	5,148	1,081	376	12,112	(57)	39,580	40,192	43,133	47,481	52,602
APAT	3,654	613	496	8,650	(58)	30,952	29,642	32,347	35,127	38,786
Adj. EPS (Rs)	18.3	3.1	496	43.3	(58)	155.0	148.4	161.9	175.8	194.1
APAT Gr (%)						(8.6)	(4.2)	9.1	8.6	10.4
P/E (x)						17.9	18.7	17.2	15.8	14.3
RoE (%)						22.9	20.2	20.6	20.9	21.4

Source: Company, HSIE Research

### Change in estimates

INR mn	New			Old			Change (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	329,131	359,578	392,426	339,124	371,248	406,636	(3)	(3)	(3)
EBITDA	43,133	47,481	52,602	45,460	50,136	54,913	(5)	(5)	(4)
EBITDA Margin (%)	13.1	13.2	13.4	13.4	13.5	13.5	-30bps	-30bps	-10bps
PAT	32,347	35,127	38,786	34,189	37,024	40,489	(5)	(5)	(4)
EPS (INR)	161.9	175.8	194.1	171.2	185.3	202.7	(5)	(5)	(4)

Source: Company, HSIE Research

## ADD

CMP (as on 13 Aug 2021)	INR 2,772
Target Price	INR 3,150
NIFTY	16,529

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 3,320	INR 3,150
EPS %	FY22E	FY23E
	-5%	-5%

### KEY STOCK DATA

Bloomberg code	HMCL IN
No. of Shares (mn)	200
MCap (INR bn) / (\$ mn)	554/7,443
6m avg traded value (INR mn)	2,583
52 Week high / low	INR 3,616/2,731

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(2.0)	(20.8)	(0.8)
Relative (%)	(15.9)	(28.3)	(45.5)

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	34.8	34.8
FIs & Local MFs	18.7	20.2
FPIs	37.2	35.0
Public & Others	9.4	10.1
Pledged Shares	0.0	0.0

Source : BSE

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# Bharat Forge

## Class-8 order backlog of 10 months; preferred CV pick

Bharat Forge's (BFL) Q1FY22 result was a significant beat with APAT coming in at INR 2.28bn (vs 2.06bn QoQ). The growth was driven by exports, which have risen 25% QoQ. Class-8 trucks have an order backlog of 10 months, while oil & gas revenue ramped up to INR 1.5bn vs INR 0.45bn QoQ. We are raising our estimates for FY22/23E by 13/5% to factor in the positive results and **reiterate Bharat Forge as our preferred pick in CVs due to its global exposure**. We maintain BUY with a revised target price of INR 1,000 at 35x Jun-23E EPS.

- **Q1FY22 financials:** The company reported healthy Q1 performance, with revenue growth of 5% QoQ, despite a domestically weak quarter. This was led by improved realisations at INR 256k (+9% QoQ) on account of higher exports (67% of sales vs 61/56% YoY/QoQ). Shipment tonnage, at 53.5k units, was -4% QoQ, +200% YoY. The EBITDA margin, at 28.5%, surprised positively, expanding by 100bps QoQ on improved operating leverage/richer product mix. APAT came in at INR 2.28bn, +11% QoQ (VRS expense of INR 616mn).
- **Key highlights:** (1) **Strong outlook on US Class-8 trucks:** The management expects Class-8 truck volumes to recover and reach 280-300k units in FY22E on the back of an order backlog of ~10 months of production as demand remains firm. (2) **Oil & gas segment ramps up:** The strong performance in Q1 was led by a rich product mix and managed costs. The oil & gas segment reported a revenue of INR 1.5bn in Q1FY22 vs INR 0.45bn QoQ. Thus, exports revenue, at INR 9.15bn, has shown improvement (+25% QoQ). (3) **Acquisition of Sanghvi Forgings:** Bharat Forge completed the acquisition at a cost of INR 770mn. Sanghvi has a similar capacity in open die forging as the parent. It will debottleneck Sanghvi's facilities at a cost of INR200-250mn. The facilities will provide it with improved technical capabilities. (4) **Electric vehicle initiatives:** The 2W EV associate Tork Motors has received FAME-II approvals. The company has also won orders for developing components for electric CVs in the light truck segment. These should start from FY23-24.

### Financial Summary (Standalone)

YE Mar (INR mn)	1Q FY22	1Q FY21	YoY (%)	4Q FY21	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	13,718	4,270	221	13,073	5	45,639	36,515	50,975	65,274	76,919
EBITDA	3,914	(28)	NA	3,591	9	10,155	7,276	14,171	18,407	21,537
APAT	2,283	(563)	NA	2,063	11	5,485	3,190	8,697	12,415	15,455
Adj. EPS (Rs)	4.9	(1.2)	NA	4.4	11	11.8	6.9	18.7	26.7	33.2
AEPS Gr (%)						(48.8)	(41.8)	172.6	42.8	24.5
P/E (x)						70.2	120.8	44.3	31.0	24.9
RoE (%)						10.2	5.6	13.8	17.4	18.4

Source: Company, HSIE Research

### Change in estimates

INR mn	New			Old			Change (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	50,975	65,274	76,919	48,028	61,562	72,167	6	6	7
EBITDA	14,171	18,407	21,537	12,872	17,607	20,423	10	5	5
EBITDA Margin (%)	27.8	28.2	28.0	26.8	28.6	28.3	100 bps	-40 bps	-30 bps
PAT	8,697	12,415	15,455	7,696	11,787	14,580	13	5	6
EPS	18.7	26.7	33.2	16.5	25.3	31.3	13	5	6

Source: Company, HSIE Research

## BUY

CMP (as on 12 Aug 2021)	INR 828
Target Price	INR 1,000
NIFTY	16,364

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 940	INR 1,000
EPS %	FY22E 13%	FY23E 5%

### KEY STOCK DATA

Bloomberg code	BHFC IN
No. of Shares (mn)	466
MCap (INR bn) / (\$ mn)	385/5,177
6m avg traded value (INR mn)	1,725
52 Week high / low	INR 847/407

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	24.5	29.3	90.3
Relative (%)	11.9	22.9	47.4

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	45.8	44.8
FIs & Local MFs	12.5	12.3
FPIs	24.9	25.3
Public & Others	16.9	17.7

Pledged Shares

Source : BSE

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# Ashok Leyland

## Uneven recovery

Ashok Leyland reported a Q1 loss of INR 2.80bn due to the adverse impact of the COVID second wave. The management expects a recovery in H2FY22, which will be driven by tippers and ICVs (which account for 28/25% of industry sales). In the medium term, the implementation of the voluntary scrappage scheme will aid demand. However, the current recovery in the CV cycle will coincide with the commissioning of the Dedicated Freight Corridor (Rewari to Mundra route to be operational this quarter). We maintain REDUCE with a target price of INR 115 (we value at 11x EV/EBITDA Jun-23E).

- **Q1FY22 financials:** Volumes, at 17.9k declined, 59% QoQ, owing to state-wise lockdowns. MHCV/LCV volumes declined 66/50% QoQ. The average realisation, at INR 1.6mn, improved 3% QoQ on the back of price hikes taken. Revenue came in at INR 29.5bn (-58% QoQ). Though the gross margin improved 280bps sequentially to 74.1%, employee/other expense ratio were higher. The company reported an EBITDA loss of INR 1.4bn. Adj loss came in at INR 2.8bn (vs loss of INR 3.8bn YoY, profit of 2bn QoQ).
- **Key highlights:** (1) **Demand scenario:** The bus segment (~20% of industry volumes) has been impacted sharply by the delayed opening of schools/colleges. The demand in MHCVs is expected to recover across tippers (28% of industry volumes) and ICVs (25% of industry volumes), led by infrastructure and ecommerce activities. Over the quarter, Leyland has lost market share due to weak demand in the southern market (domestic MHCV market share at 27% vs 29% in FY21). (2) **Diversification:** In Q1, MHCVs contributed 50% to the mix (60% QoQ), albeit as it was a COVID impacted quarter. However, management is focusing on diversifying its revenues beyond heavy trucks by growing its LCVs, exports as well as defense businesses. (3) **EVs – Switch mobility:** Ashok Leyland has formed a separate company for electric buses. Switch will seek independent funding to grow its EV business. (4) **Input pressures:** Management expects commodity prices to stabilise at current levels. To offset the sharp increases, it has taken two price hikes (in Q3FY21 and Q1FY22) of 2% each.

### Financial Summary

YE March (INR mn)	1Q FY22	1Q FY21	YoY (%)	4Q FY21	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	29,510	6,509	353	70,005	(58)	174,675	153,015	206,368	258,933	307,765
EBITDA	(1,401)	(3,332)	NA	5,342	(126)	11,737	5,352	17,748	28,224	34,470
APAT	(2,806)	(3,871)	NA	2,038	(238)	3,953	(3,016)	8,343	16,603	21,787
Adj EPS (Rs)	(1.0)	(1.3)	NA	0.7	(238)	1.3	(1.0)	2.8	5.7	7.4
APAT Gr (%)						(80.6)	NA	NA	99.0	31.2
P/E (x)						96.8	NA	45.9	23.0	17.6
EV/EBITDA (x)						34.1	75.3	22.1	13.4	10.5
RoE (%)						5.1	(4.3)	11.9	21.4	24.5

Source: Company, HSIE Research

### Change in Estimates

INR mn	New			Old			Change (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	206,368	258,933	307,765	206,368	258,933	304,322	-	-	1
EBITDA	17,748	28,224	34,470	18,160	28,224	34,084	(2)	-	1
EBITDA Margin (%)	8.6	10.9	11.2	8.8	10.9	11.2	-20 bps	0 bps	0 bps
PAT	8,343	16,603	21,787	8,936	16,312	21,127	(7)	2	3
EPS	2.8	5.7	7.4	3.0	5.6	7.2	(7)	2	3

Source: Company, HSIE Research

## REDUCE

CMP (as on 13 Aug 2021)	INR 130
Target Price	INR 115
NIFTY	16,529

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 115	INR 115
EPS %	FY22E	FY23E
	-7%	2%

### KEY STOCK DATA

Bloomberg code	AL IN
No. of Shares (mn)	2,936
MCap (INR bn) / (\$ mn)	382/5,140
6m avg traded value (INR mn)	2,760
52 Week high / low	INR 143/52

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	14.9	1.6	113.3
Relative (%)	1.0	(6.0)	68.6

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	51.5	51.5
FIs & Local MFs	16.8	18.2
FPIs	18.1	17.0
Public & Others	13.6	13.2
Pledged Shares	9.0	7.4

Source : BSE

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# Endurance Technologies

## Elevated valuation limits upside

Endurance continues to outpace the 2W industry, with its Q1FY22 standalone sales being ahead of the industry. However, the stock is trading at a rich valuation (39/31x on FY22/23E) and the valuation gap between mass-market 2W OEMs and Endurance has widened to 2x (vs an average premium of 1.6x). The management is pursuing inorganic growth opportunities to enhance its skills across the ICE/EV segments. We recently downgraded the stock to an ADD due to its steep valuations. We set a target price of INR 1,750 at 30x Jun-23E EPS (raising estimates by ~5% over FY23-24E).

- **Q1FY22 financials: Standalone:** Revenue, at INR 11.5bn, declined 28% QoQ, owing to a 35% degrowth in 2W volumes on account of state-wise lockdowns. EBITDA margin, at 13.4%, contracted 150bps QoQ. APAT was INR 882mn (-37% QoQ), adjusting for VRS expenses. **Consolidated:** revenue, at INR 16.9bn, declined 21% QoQ while EBITDA margin, at 14.4%, contracted 115bps QoQ. APAT, at INR 1.28bn, declined 32% QoQ. **Europe operations:** Revenue came in at INR 5.4bn (+1% QoQ) while margin contracted 115bps QoQ to 16.7%. It contributed 32% to consolidated revenue.
- **Key highlights: (1) New capacities: (a)** Endurance's expanded capacities will be commissioned in the current quarter - disc brake assembly will increase from 285k/month to 570k/month and discs capacity would go up from 375k/month to 675k/month. Operations that have commenced at the Vallum plant are supplying to Hyundai/Kia and Enfield. **(b)** The company will also start supplies for 2W ABS assemblies by Sep-21. It is likely to gain market share in this segment as Bosch controls 85% of this market. **(2) Strong RFQs:** The RFQs stood at ~INR 16.5bn vs INR 15bn in FY21. **(3) Electric:** Endurance is supplying brake assemblies, suspensions and aluminium casting for 2W and 3W EVs. Its transmission clutch business (5% of consolidated business) is at risk because of the transition to EVs. **(4) Aftermarket segment:** It contributed 5.4% to sales. The company targets taking this to 10% of sales by entering new export markets.

### Financial Summary (Consolidated)

YE March (INR mn)	1Q FY22	1Q FY21	YoY (%)	4Q FY21	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	16,937	6,031	181	21,329	(21)	69,177	65,470	77,889	88,980	100,957
EBITDA	2,443	427	472	3,322	(26)	11,308	10,402	11,827	14,310	16,387
APAT	1,280	(249)	NA	1,874	(32)	5,655	5,309	6,257	7,836	9,142
Adj. EPS (Rs)	9.1	(1.8)	NA	13.3	(32)	40.2	37.7	44.5	55.7	65.0
APAT Gr (%)						9.6	(6.1)	17.9	25.2	16.7
P/E (x)						42.6	45.4	38.5	30.7	26.4
RoE (%)						20.3	16.2	16.4	17.8	17.8

Source: Company, HSIE Research

### Change in estimates

INR mn	New			Old			Change (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	77,889	88,980	100,957	76,041	86,903	98,661	2	2	2
EBITDA	11,827	14,310	16,387	12,186	14,108	16,020	(3)	1	2
EBITDA Margin (%)	15.2	16.1	16.2	16.0	16.2	16.2	-84 bps	-15 bps	-1 bps
PAT	6,257	7,836	9,142	6,432	7,506	8,650	(3)	4	6
EPS	44.5	55.7	65.0	45.7	53.4	61.5	(3)	4	6

Source: Company, HSIE Research

## ADD

CMP (as on 12 Aug 2021)	INR 1,716
Target Price	INR 1,750
NIFTY	16,364

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 1,660	INR 1,750
EPS %	FY22E -3%	FY23E 4%

### KEY STOCK DATA

Bloomberg code	ENDU IN
No. of Shares (mn)	141
MCap (INR bn) / (\$ mn)	241/3,244
6m avg traded value (INR mn)	205
52 Week high / low	INR 1,830/926

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	31.2	16.1	74.2
Relative (%)	18.6	9.7	31.3

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	75.0	75.0
FIs & Local MFs	13.5	15.2
FPIs	9.9	8.3
Public & Others	1.6	1.5
Pledged Shares	0.0	0.0

Source : BSE

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## Escorts

### Guarded outlook

Escorts Q1FY22 PAT, at INR 1.85bn (-32% QoQ), was impacted by lower-than-expected margin of 14% (-160bps QoQ). Despite better-than-expected Q1FY22 sales, the management is guiding for single-digit growth of 5-6%, implying that residual sales growth will be flat from here on. Currently, the industry inventory levels are elevated at 45-50 days. Our estimates over FY22-24E are largely unchanged. We maintain ADD with a target price of INR 1,345, at 14x Jun-23E EPS.

- **Q1FY22 financials:** Tractor volumes, at 25.9k units, declined 20% QoQ (+43% YoY). The average realisation at INR 644k was lower by 5%, resulting in a revenue of INR 16.7bn (-24% QoQ). EBITDA margin of 14% contracted by 160bps QoQ, impacted by higher raw material costs and impact of the second COVID wave. PAT came in INR 1.85bn (-32% QoQ). Agri/ECM/RED segment's EBIT margin came in at 15.6/-2.3/14.6% (vs 17.0/7.3/19.1% QoQ).
- **Key highlights:** (1) **Demand outlook:** Despite healthy sales in Q1FY22, the management expects single-digit growth of 5-6% in FY22, given a high base of FY21. (2) **Inventory levels:** For the industry, average dealer stock is on the higher side at ~45-50 days. However, for Escorts, this is around ~30 days. The management will build inventories ahead of the festive season. (3) **Market share target:** Escorts' domestic market share in 1QFY22 was 10.7% vs 11.3% QoQ. The management aims to achieve a 14-15% share in the next three years with expansion into western and southern India, where tractor penetration is low. (4) **Commodity cost pressure to continue:** Cumulatively, the commodity cost increase has been ~10-12%, against which the company has taken multiple price hikes (Nov-20, Apr-21 and Jun-21). A further ~2% impact is expected on the margin, which shall be passed on in the upcoming months. (5) **Construction equipment business:** This segment is expected to grow in mid-teens as the government is focusing aggressively on road-building initiatives.

#### Financial Summary (Standalone)

YE Mar (INR mn)	1Q FY22	1Q FY21	YoY (%)	4Q FY21	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	16,715	10,616	57	22,105	(24)	57,610	69,293	75,657	82,331	88,789
EBITDA	14,383	9,420	53	18,658	(23)	6,758	11,292	11,122	12,152	13,318
APAT	1,852	922	101	2,713	(32)	4,925	8,741	8,622	9,488	10,308
Adj. EPS (Rs)	18.3	9.1	101	26.9	(32)	55.4	86.4	85.4	93.9	102.1
AEPS Gr (%)						3.4	56.0	(1.2)	10.0	8.6
P/E (x)						22.1	14.2	14.3	13.0	12.0
RoE (%)						15.1	19.7	14.9	14.2	13.5

Source: Company, HSIE Research

#### Change in estimates

INR mn	New			Old			Change (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	75,657	82,331	88,789	73,546	80,359	86,702	3	2	2
EBITDA	11,122	12,152	13,318	10,958	12,022	12,832	1	1	4
EBITDA margin (%)	14.7	14.8	15.0	14.9	15.0	14.8	-20 bps	-20 bps	20 bps
PAT	8,622	9,488	10,308	8,500	9,390	10,039	1	1	3
EPS	85.4	93.9	102.1	84.2	93.0	99.4	1	1	3

Source: Company, HSIE Research

## ADD

CMP (as on 5 Aug 2021)	INR 1,224
Target Price	INR 1,345
NIFTY	16,295

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 1,325	INR 1,345
EPS %	FY22E 1%	FY23E 1%

#### KEY STOCK DATA

Bloomberg code	ESC IN
No. of Shares (mn)	135
MCap (INR bn) / (\$ mn)	165/2,219
6m avg traded value (INR mn)	1,657
52 Week high / low	INR 1,465/1,075

#### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	9.3	(12.4)	7.0
Relative (%)	(2.7)	(19.8)	(37.7)

#### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	36.6	36.6
FIs & Local MFs	5.6	5.6
FPIs	26.0	21.3
Public & Others	31.9	36.5
Pledged Shares	0.0	0.0

Source : BSE

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# Sundram Fasteners

## Exports drive the show

Sundram Fasteners' (SF) Q1FY22 standalone EBITDA margin, at 19.5% (flat QoQ), surprised positively, as the company benefitted from higher exports, led by the opening up of the western geographies. We reiterate that SF's growth in FY22-23E will be driven by exports as the new plant ramps up (which can potentially add 6-8% to the topline). We reiterate our ADD rating and are raising estimates by ~6% over FY22-24E to factor in the improved earnings outlook. Our target price is revised to INR 860 as we value the stock at 28x Jun-23E EPS. We recommend accumulating the stock on declines.

- **Q1FY22 financials:** (1) **Standalone:** Revenue at INR 9.38bn (-13% QoQ) came in ahead of our estimates. While domestic sales (INR 5.59bn) declined 21% QoQ, exports (INR 3.56bn) grew by 6% QoQ. EBITDA margin, at 19.5% (flat QoQ), surprised positively due to an improved product mix as gross margin expanded 150bps QoQ. PAT, at INR 1.12bn, declined 13% QoQ. (2) **Consolidated:** Revenue from subsidiaries declined 10% QoQ – thus, consolidated revenue came in at INR 11.12bn (-13% QoQ). EBITDA margin, at 18%, though lower 60bps QoQ, was in line with our estimates. The company's superior product mix/improved cost efficiencies have enabled the margin to sustain in the high teens. Adj. PAT, at INR 1.19bn (-15% QoQ), was ahead of our estimates.
- **Key highlights:** (1) **International business growth:** Standalone exports contributed 38% to the revenue vs 31% QoQ. We expect overseas demand to continue to improve as the company's new plant is commissioned, which will enable it to increase its focus on the western markets. (2) **Margin:** The company's stringent cost efficiency measures and richer product mix offset the impact of rising input costs in the quarter. We are building in margins in high teens for the period FY22-24E. (3) **Diversification:** Sundram Fasteners is developing products for alternate power trains, including EVs; these initiatives will benefit it in the medium term.

### Financial Summary (Consolidated)

YE Mar (INR mn)	1Q FY22	1Q FY21	YoY (%)	4Q FY21	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	11,124	3,732	198	12,731	(13)	37,232	36,443	43,561	51,462	60,634
EBITDA	2,005	151	1,224	2,368	(15)	5,929	6,641	7,972	9,696	11,460
APAT	1,196	(267)	NA	1,408	(15)	3,249	3,582	4,731	6,132	7,492
Adj. EPS (Rs)	5.7	(1.3)	NA	6.7	(15)	15.5	17.0	22.5	29.2	35.7
Adj. EPS Gr (%)						(29.0)	10.3	32.1	29.6	22.2
P/E (x)						50.4	45.7	34.6	26.7	21.9
RoE (%)						16.8	16.5	18.8	20.9	21.6

Source: Company, HSIE Research

### Change in estimates

INR mn	New			Old			Change (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	43,561	51,462	60,634	41,532	48,982	57,635	5	5	5
EBITDA	7,972	9,696	11,460	7,600	9,228	10,893	5	5	5
EBITDA Margin (%)	18.3	18.8	18.9	18.3	18.8	18.9	0 bps	0 bps	0 bps
PAT	4,731	6,132	7,492	4,446	5,770	7,053	6	6	6
EPS	22.5	29.2	35.7	21.2	27.5	33.6	6	6	6

Source: Company, HSIE Research

## ADD

CMP (as on 13 Aug 2021)	INR 778
Target Price	INR 860
NIFTY	16,529

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 810	INR 860
EPS %	FY22E	FY23E
	6%	6%

### KEY STOCK DATA

Bloomberg code	SF IN
No. of Shares (mn)	210
MCap (INR bn) / (\$ mn)	163/2,196
6m avg traded value (INR mn)	114
52 Week high / low	INR 868/392

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	11.4	25.0	72.8
Relative (%)	(2.5)	17.4	28.1

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	49.5	49.5
FIs & Local MFs	17.6	17.4
FPIs	10.9	11.1
Public & Others	22.0	22.0
Pledged Shares	0.0	0.0

Source : BSE

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# Subros

## Medium-term drivers in place

Similar to the trend witnessed across auto companies, Subros' Q1FY22 margin, at 5.6% (vs. 9.7% QoQ), was lower due to negative operating leverage and impact of the partial COVID lockdown. The company is focusing on increasing localisation levels (import levels to reduce by 5% of sales in the medium term). Further, Subros will benefit from the commencement of the Maruti-Toyota joint production models from FY23E onwards. We maintain BUY with a target price of INR 410, at 22x Jun-23E EPS.

- **Q1FY22 financials:** Revenue declined 27% QoQ to INR 4.8bn as vehicle production was impacted by COVID-led state-wise lockdowns. The non-car segment contributed 11% to the mix. EBITDA margin, at 5.6% (-410 bps QoQ), was impacted by the negative operating leverage. Other income came in at INR 48mn vs 21mn QoQ. Reported PAT, at INR 31mn (vs 256mn QoQ), was below our estimates.
- **Key takeaways:** (1) **Revenue contribution to increase from non-car segments:** The non-car segment contributed 11% to the revenue in Q1FY22, of which 6% is from home ACs. Home AC revenue was INR 880mn in FY21 with the management targeting for INR 1-1.3bn in FY22. However, commodity cost pressures will impact profitability in the near term. The ECM segment accounted for 14% of revenues. (2) **Maruti-Toyota tie-up:** The SOP for the joint production models will commence in FY23E. Subros' has secured business for two major components for the upcoming Maruti-Toyota platform. (3) **Cost pressures:** The company highlighted that although the situation on the ground is improving, the industry is facing continuous challenges with semiconductor shortages. To deal with cost inflation, Subros' has a pass-through clause with customers with a one-quarter lag. (4) **Import substitution:** Currently, imports account for 20% of Subros' revenue; however, the management is targeting to reduce the foreign content by 5% in the next three years. This will lead to an improvement in margins, given Subros' efforts towards localisation and backward integration.

### Financial Summary

YE March (INR mn)	1Q FY21	1Q FY21	YoY (%)	4Q FY21	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	4,805	738	551	6,599	(27)	19,928	17,957	21,194	24,932	28,228
EBITDA	268	(299)	NA	639	(58)	1,890	1,538	1,950	2,593	3,105
APAT	31	(240)	NA	256	(88)	563	467	716	1,136	1,488
Adj. EPS (Rs)	0.5	(3.7)	NA	3.9	(88)	8.6	7.2	11.0	17.4	22.8
APAT Gr (%)						(28.2)	(17.1)	53.4	58.5	31.1
P/E (x)						37.5	45.2	29.5	18.6	14.2
RoE (%)						7.9	6.0	8.7	12.6	14.6

Source: Company, HSIE Research

### Change in estimates

INR mn	New			Old			Change (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	21,194	24,932	28,228	20,599	24,236	27,432	3	3	3
EBITDA	1,950	2,593	3,105	2,101	2,569	3,100	(7)	1	0
EBITDA margin (%)	9.2	10.4	11.0	10.2	10.6	11.3	-100 bps	-20 bps	-30 bps
PAT	716	1,136	1,488	825	1,134	1,485	(13)	0	0
EPS	11.0	17.4	22.8	12.7	17.4	22.8	(13)	0	0

Source: Company, HSIE Research

## BUY

CMP (as on 5 Aug 2021)	INR 324
Target Price	INR 410
NIFTY	16,295

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 410	INR 410
EPS %	FY22E	FY23E
	-13%	0%

### KEY STOCK DATA

Bloomberg code	SUBR IN
No. of Shares (mn)	65
MCap (INR bn) / (\$ mn)	21/284
6m avg traded value (INR mn)	29
52 Week high / low	INR 365/178

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	7.2	(3.4)	78.6
Relative (%)	(4.7)	(10.8)	33.9

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	36.8	36.8
FIs & Local MFs	10.6	10.9
FPIs	1.1	0.6
Public & Others	51.5	51.7

### Pledged Shares

Source : BSE

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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 NA	FY23E -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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# Container Corporation

## Good results; ICD Khatuwas now connected to DFC

CONCOR's Q1FY22 PAT at INR 2.5bn, surprised positively due to improved loads, higher terminal charges, and operating leverage. As per the management's assessment, the land license fees (LLF) charges for FY22 are revised lower to INR 3.75bn (vs INR 4.5-5bn for FY21), based on the revised land rates (by railways). CONCOR though will go ahead with its proposal to incur an upfront charge of INR 60-70bn for using the railway land. The strategic Khatuwas terminal is now connected to the main DFC. We maintain our ADD rating on the stock with a target price of INR 720 at 28x Jun-23E EPS (our estimates have been marginally tweaked).

- **Q1FY22 financials:** Volume, at 991mn TEUs, declined 6% QoQ. The average realisation remains stable at ~INR 18k. Revenue came in at INR 18bn (-7% QoQ). EBITDA margin, at 24% (vs 13.4/9.7% YoY/QoQ), surprised due to improved operating leverage. The company has provided INR 1.13bn towards LLF vs INR 2.2bn QoQ. CONCOR reported a profit of INR 2,549mn vs INR 779mn QoQ.

**Key takeaways:** (1) **Improved margins:** EXIM and domestic margins have both witnessed expansion in Q1FY22, led by improved loaded running and reduced empty running. The company has also increased terminal charges. Currently, EXIM and domestic volumes are 80:20. The management expects this to become 60:40 with the increasing domestic volumes. It also plans to manufacture containers domestically to become self-reliant. (2) **Reduced LLF:** In the past quarter, the management had highlighted an annual LLF of INR 4.5bn. This is now reduced to INR 3.75bn, based on the land rates received from the authorities. CONCOR is also working on an agreement for a one-time payment for 24 government terminals, which will amount for INR 60-70bn. This will be funded through cash reserves of INR 25bn and short-term loans. (3) **DFC:** DFC operations have begun from the company's Khatuwas terminal. It plans to have ~50 rakes (currently 12) of 25 tons axle by the end of the year. Although there will be no difference in the DFC freight rates, the company's asset utilisation will increase. It will lead to higher profitability, market share gains, higher double-stacked volumes and enhanced turnaround times.

### Financial Summary (Standalone)

YE March (INR mn)	1Q FY22	1Q FY21	YoY (%)	4Q FY21	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	18,075	11,891	52	19,393	(7)	64,738	63,850	76,199	95,751	119,145
Adj. EBITDA	4,335	1,590	173	1,890	129	16,749	10,329	18,394	23,363	29,071
APAT	2,549	617	313	779	227	10,282	5,867	10,113	14,561	18,997
Adj. EPS (Rs)	4.2	1.0	313	1.3	227	16.9	9.6	16.6	23.9	31.2
P/E (x)						38.2	66.9	38.8	27.0	20.7
EV / EBITDA (x)						21.7	34.9	22.5	17.5	13.8
RoE (%)						10.1	5.8	9.7	13.2	16.0

### Change in estimates

INR mn	New			Old			Change (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Net Revenue	76,199	95,751	119,145	76,345	97,713	122,115	(0)	(2)	(2)
EBITDA	18,394	23,363	29,071	18,430	23,842	30,040	(0)	(2)	(3)
EBITDA margin (%)	24.1	24.4	24.4	24.1	24.4	24.6	0 bps	0 bps	-20 bps
PAT	10,113	14,561	18,997	10,133	14,930	19,743	(0)	(2)	(4)
EPS	16.6	23.9	31.2	16.6	24.5	32.4	(0)	(2)	(4)

Source: Company, HSIE Research

## ADD

CMP (as on 30 July 2021)	INR 644
Target Price	INR 720
NIFTY	15,763

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 740	INR 720
EPS %	FY22E 0%	FY23E -2%

### KEY STOCK DATA

Bloomberg code	CCRI IN
No. of Shares (mn)	609
MCap (INR bn) / (\$ mn)	392/5,272
6m avg traded value (INR mn)	2,188
52 Week high / low	INR 748/351

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	9.2	48.5	43.1
Relative (%)	1.4	34.9	3.8

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	54.8	54.8
FIs & Local MFs	16.5	16.3
FPIs	24.0	24.9
Public & Others	4.7	4.0
Pledged Shares	0.0	0.0

Source : BSE

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# Gateway Distriparks

## Upbeat outlook with expected commencement of DFC

Gateway Distriparks (GDL) sustained the growth momentum with monthly railway volumes at ~25,000 TEUs (at similar levels of Q4FY21) as EXIM activities were relatively less impacted by the second wave of COVID. The management expects double-digit growth to sustain as Dedicated Freight Corridor (DFC) services between Rewari and Palanpur (which will connect NCR with Mundra, Pipavav ports) will commence this quarter. The improved TATs and double stack options will result in a shift from road to rail. Our EBITDA estimates are majorly unchanged. Maintain BUY with an SOTP-based TP of INR 360 (rail business valued at 14x Jun-23E EV/EBITDA).

- **Q1FY22 financials:** GDL's revenue at INR 3.29bn declined 6% QoQ (+30% YoY). Volumes at 75,779 TEUs were largely in line with Q4FY21 (-2.6% QoQ). CFS volumes were up 3%. EBITDA margin, at 27.1% (-60/-15bps YoY/QoQ), was above the estimate as the company benefitted from improved volumes and rebate on container volumes offered by IR. Interest cost is down 30% YoY as the company has lowered its debt post the fundraise. APAT declined 5% QoQ to INR 436mn, aided by nil tax payout on availing of MAT credit.
- **Call takeaways: (1) DFC:** The management expects Phase-1 between Rewari-Palanpur to be operational in Sep-Oct'21 as trial runs are already underway. Due to limited access to grid connectivity, diesel loco services will commence first, while electric trains will begin later. **(2) CFS business:** The management highlighted that the CFS segment EBITDA was ~INR 2,550/TEU vs its guidance of INR 2,800-3,000. This was affected by higher fuel prices, discounting and increase in labour cost. Margins are expected to normalise over the next year. **(3) Snowman Logistics:** It is now reclassified as an associate (earlier, asset held for sale) as Gateway is now well capitalised, post the rights issue. It will focus on its core warehousing business, along with pharma (to account for 15% of revenues) and e-com segments. **(4) Merger update:** After receiving SEBI's approval for reverse merger of GDL into Gateway Rail, the company has now received approvals from NCLT as well. It will shortly seek approvals from its shareholders to proceed with the merger formalities.

### Financial Summary (Consolidated)

YE March (INR mn)	1Q FY22	1Q FY21	YoY (%)	4Q FY21	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	3,296	2,528	30	3,503	(6)	12,372	11,794	13,348	15,525	18,404
EBITDA	892	699	28	953	(6)	2,586	3,130	3,447	3,858	4,556
APAT	436	114	281	459	(5)	983	943	1,310	1,583	2,150
Adj. EPS (Rs)	3.5	0.9	281	3.7	(5)	9.0	7.6	10.5	12.7	17.2
P/E (x)						31.8	38.0	27.3	22.6	16.7
EV/EBITDA (x)						15.5	13.4	11.8	10.2	8.2
RoE (%)						7.4	6.8	8.9	10.4	13.5

Source: Company, HSIE Research

### Change in estimates

INR mn	New			Old			Change (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Net Revenue	13,348	15,525	18,404	13,578	15,779	18,685	(2)	(2)	(2)
EBITDA	3,447	3,858	4,556	3,398	3,894	4,638	1	(1)	(2)
EBITDA margin (%)	25.8	24.9	24.8	25.0	24.7	24.8	80 bps	17 bps	-7 bps
PAT	1,310	1,583	2,150	1,165	1,612	2,215	12	(2)	(3)
EPS	10.5	12.7	17.2	9.3	12.9	17.7	12	(2)	(3)

Source: Company, HSIE Research

## BUY

CMP (as on 29 July 2021) INR 287

Target Price INR 360

NIFTY 15,778

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 360	INR 360
EPS %	FY22E 12%	FY23E -2%

### KEY STOCK DATA

Bloomberg code	GDPL IN
No. of Shares (mn)	125
MCap (Rs bn) / (\$ mn)	36/482
6m avg traded value (Rs mn)	96
52 Week high / low	Rs 325/79

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	35.3	81.6	258.7
Relative (%)	27.4	67.8	219.2

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	32.1	32.1
FIs & Local MFs	28.6	26.6
FPIs	27.8	24.8
Public & Others	11.4	16.5
Pledged Shares	3.1	-

Source : BSE

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**BFSI**

# ICICI Bank

## Negative surprise on asset quality likely to be transient

ICICI Bank's (ICICIB) improving all-round performance over the past couple of years has been interrupted by the impact of the second wave in terms of asset quality during Q1FY22, a trend witnessed by all lenders. Slippages increased to 4.2% (FY21: 2.3%), driven primarily by higher retail slippages (6%). The bank, however, reported NII/PPOP/PAT in line with our expectations, by dipping into the COVID provisions (INR 10.5bn) during the quarter, to maintain PCR at 78%. Best-in-class liability franchise, risk-calibrated asset book and industry-leading technology initiatives for new-to-bank (NTB) business sourcing are likely to drive ICICI Bank towards above-industry growth and a 15% RoE trajectory. Maintain BUY with a revised SOTP price of INR 775 (earlier INR 770).

- In-line operating performance:** ICICI Bank delivered a strong operating performance with NII growth at 18% YoY, C/I ratio at 40.4% and credit costs at 1.7%. The bank reported strong loan growth of 17% YoY, driven by retail home loans (24% YoY) and business banking (53% YoY) while an increasingly granular deposit franchise (average CASA up 270bps YoY) drove best-in-class cost of funds (3.82%). During the quarter, the bank wrote back INR 10.5bn of COVID provisions, offset by an incremental INR 11.27bn of provisions towards a further conservative provisioning policy.
- Retail slippages shoot up, provisioning remains adequate:** ICICI Bank reported elevated gross slippages at 4%, driven by retail (6%, 94% of total slippages). The restructured portfolio increased to 0.7% of loans (Q4FY21: 0.5%), along with a marginal increase in BB & below pool to 1.9% (Q4FY21: 1.8%). The management attributed the bulk of the impairment to a dip in collection efficiency during April and May and expects the stress to normalise in H2 as economic activity resumes. With COVID surplus buffer at 0.9% of loans, along with PCR at 78%, we expect normalisation in slippages and credit costs (in the absence of a third wave).
- Superior franchise poised for sustained rerating:** ICICI Bank reported RoA/RoE of 1.5%/12.3% during Q1FY22, despite the quarter being marred by elevated slippages and lockdowns. The bank seems to be on track to achieve a 1.8% RoA by FY23 on the back of reflation NIMs (exercising of pricing power) and normalisation of credit costs (in the absence of any subsequent waves of pandemic). Maintain BUY with revised SOTP price of INR 775. The revision in target price is driven by revision in the value of listed subsidiaries.

### Financial summary

(INR bn)	1Q FY22	1Q FY21	YoY (%)	4Q FY21	QoQ (%)	FY20	FY21	FY22E	FY23E
NII	109.4	92.8	17.8%	104.3	4.8%	332.7	389.9	446.0	519.8
PPOP	88.9	107.8	-17.5%	85.4	4.2%	281.0	364.0	396.3	453.9
PAT	46.2	26.0	77.6%	44.0	4.8%	79.3	161.9	208.5	261.7
EPS (INR)	6.5	4.0	64.3%	6.3	4.6%	12.3	23.4	30.2	37.8
ROAE (%)						7.1	12.3	13.3	14.8
ROAA (%)						0.8	1.4	1.6	1.8
ABVPS (INR)						155.2	191.3	217.1	248.9
P/ABV (x)						4.4	3.6	3.1	2.7
P/E (x)						56.0	29.0	22.6	18.0

## BUY

CMP (as on 23 July 2021)	INR 677
Target Price	INR 775
NIFTY	15,856

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR770	INR775
	FY22E	FY23E
EPS %	0%	0%

### KEY STOCK DATA

Bloomberg code	ICICIB IN
No. of Shares (mn)	6,925
MCap (INR bn) / (\$ mn)	4,686/62,972
6m avg traded value (INR mn)	13,113
52 Week high / low	INR 680/334

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	18.7	25.8	77.2
Relative (%)	9.2	16.2	38.3

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	0	0
FIs & Local MFs	42.0	41.8
FPIs	47.8	48.0
Public & Others	10.2	10.2
Pledged Shares	0	0

Source : BSE

Pledged shares as % of total shares

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# State Bank of India

## Further rerating contingent on RoA reflation

State Bank of India's (SBI) Q1FY22 earnings surprised (26% higher than our estimates) due to higher income from recoveries. SBI continued to surprise positively on the asset quality front for a third straight quarter with slippages at 2.8% (annualised), better than private banks (AXSB: 4.5%; ICICIB: 4.2%). The incremental restructuring during the quarter was at ~0.2% of loans. With the back-book adequately provided for (PCR at 68%), and ~0.4% of loans as a COVID buffer, we expect normalisation of credit costs in H2FY22 (assuming no third wave). Loan growth was soft (+6% YoY) on account of muted economic activity, although the bank indicated a robust pipeline of undrawn limits in the corporate book. SBI's journey to a 1% potential RoA is contingent on the bank finding ways to reflate its core profitability (PPOP stagnant at ~1.8% of assets over the past 8 quarters), especially by way of higher asset yields (soft in Q1FY22 that reflected fewer deployment opportunities, a low-risk corporate portfolio and a mortgage-heavy retail book). We maintain BUY with a revised target price of INR 501 (earlier INR 490), valuing the standalone bank at 1.0x Mar'23 ABVPS - this revision reflects the valuation of listed subsidiaries.

- **Margins yet to reflate, strong other income drives PPOP beat:** SBI reported muted NII growth of 4% YoY due to muted loan growth of 6% YoY and ~10bps compression in NIM (at 2.92%). Fee income remained broadly steady, while other income included lumpy recoveries of INR 24bn. Opex-to-assets ratio remained steady at ~1.9% of assets.
- **Slippages better than peers; provisioning to normalise:** SBI's slippages surprised positively at 2.8% (annualised), lower than Axis Bank and ICICI Bank (>4%), although the underlying portfolio profitability is significantly different. ~93% of fresh slippages emerged from outside the corporate book (SME at 9.1%, Agri at 5.7% and Retail at 2.6%). The restructured portfolio is at 0.8% of loans, while SMA1+2 remained steady at 0.5% of loans. SBI expects reversals of a majority of slippages from home loans, personal loans, and SME segments during Q2FY22, as collections and recoveries were hindered during the quarter. We build in ~2% average slippages during FY22-FY23E.
- **Reflation in yields; higher credit deployment imperative for 1% ROA:** SBI delivered 0.6% RoA during the quarter. PPOP-to-assets has hovered around ~1.8% for several quarters, as the reflation in asset yields remains elusive (loan book skewed towards high-rated entities and home loans marginally offset by Xpress credit loans). Even assuming credit costs at 0.7% of loans in a best-case scenario, SBI's journey to a 1% RoA is contingent on consistent reflation in asset yields through gradual portfolio re-risking (without adding to credit costs) and better operating efficiencies.

### Financial summary

(INR bn)	1Q FY22	1Q FY21	YoY (%)	4Q FY21	QoQ (%)	FY20	FY21	FY22E	FY23E
NII	276.4	266.4	3.7%	270.7	2.1%	980.8	1,107.1	1,262.3	1,397.4
PPOP	189.7	180.6	5.1%	197.0	-3.7%	681.3	715.5	848.5	953.8
PAT	65.0	41.9	55.2%	64.5	0.8%	144.9	204.1	316.8	388.8
EPS (INR)	7.3	4.7	55.4%	7.2	0.8%	16.2	22.9	35.5	43.6
ROAE (%)						6.4	8.4	11.8	12.9
ROAA (%)						0.4	0.5	0.7	0.8
ABVPS (INR)						201.8	243.2	280.3	319.6
P/ABV (x)						2.3	1.9	1.6	1.4
P/E (x)						28.1	19.9	12.8	10.5

Source: Company, HSIE Research

## BUY

CMP (as on 04 Aug 2021)	INR 457
Target Price	INR 501
NIFTY	16,259

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 490	INR 501
EPS %	FY22E	FY23E
	0%	0%

### KEY STOCK DATA

Bloomberg code	SBIN IN
No. of Shares (mn)	8,925
MCap (INR bn) / (\$ mn)	4,078/54,802
6m avg traded value (INR mn)	18,213
52 Week high / low	INR 467/176

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	30.0	28.7	138.5
Relative (%)	17.3	21.3	94.2

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	57.6	57.6
FIs & Local MFs	23.5	23.1
FPIs	9.9	10.3
Public & Others	9.0	8.8
Pledged Shares	0.0	0.0

Source : BSE

Pledged shares as % of total shares

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# Bajaj Finance

## Speed bumps to a fast recovery

Bajaj Finance's (BAF) Q1FY22 results disappointed and are largely reflective of the impact of the second wave on asset quality and business momentum (in line with the company's **profit warning**). Earnings were 22% below our estimates due to interest reversals (INR4.5bn impact) and higher provisioning. The elevated impairment (117bps spike) was primarily driven by the auto financing segment (~19% GNPA). We trim our FY22/FY23 earnings estimates by 9% each as we expect weaker asset quality and higher cash burn (than our previous assumptions) on the app ecosystem rollout. Maintain REDUCE with a revised target price of INR 4,590 (5.4x Mar'23 ABVPS).

- **Muted operating performance:** Bajaj Finance disappointed with NII/PPOP growth at 12%/4% YoY, despite continued funding cost tailwinds (28 bps). Opex to AUM increased to 31% and is expected to trend higher as BAF rolls out its super-app ecosystem. Loan loss provisions increased sequentially by ~14bps to ~4.7% of AUM.
- **Second wave impact on asset quality:** BAF's GNPA/NNPA increased to 2.96%/1.46%, largely due to a sharp spike in delinquencies in auto financing (GNPA at 19.2% vs. 9.3% in Q4FY21), alongside a marginal uptick in impairment across other segments. The management attributed this spike to the stress in the 3W segment (~one-third of auto B2B portfolio). The restructured book declined to 0.8% of AUM (Q4FY21: 1.1%); however, there could be a further build-up in the portfolio on account of Restructuring 2.0.
- **Maintain LLP estimates for FY22:** With significant impairment and, consequently, higher LLPs recognised during the quarter, BAF's impairments and credit costs are likely to normalise going forward, assuming there is no impact from a "third wave" of the pandemic. We cut our FY22/FY23 estimates, as we factor in the weaker asset quality and higher cash burn (than our own previous assumptions) into our FY22 forecasts. Despite the company being an enviable franchise for its high-growth and profitability potential, we maintain REDUCE on the stock with a revised target price of INR 4,590.

### Financial summary

(INR bn)	1Q FY22	1Q FY21	YoY (%)	4Q FY21	QoQ (%)	FY20	FY21	FY22E	FY23E
NII	37.0	33.0	12.3	38.4	(3.6)	135.0	138.9	161.7	196.9
PPOP	31.2	30.0	4.0	30.5	2.1	112.5	119.6	136.7	163.3
PAT	10.0	9.6	4.2	13.5	(25.6)	52.6	44.2	70.5	94.3
EPS(INR)	16.5	15.1	9.2	21.8	(24.2)	87.7	73.5	117.3	156.7
ROAE(%)						20.2%	12.8%	17.5%	19.6%
ROAA(%)						3.6%	2.6%	3.7%	4.1%
ABVPS (INR)						538.8	594.8	693.3	842.1
P/ABV(x)						11.0	10.0	8.6	7.1
P/E(x)						67.7	80.8	50.6	37.9

Source: Company, HSIE Research

### Change in estimates

INR bn	FY22E			FY23E		
	Old	New	Chg	Old	New	Chg
Loan	1,869	1,869	0.0%	2,300	2,300	0.0%
NIM (%)	9.9	9.5	-43 bps	10.1	9.4	-66 bps
NII	169	162	-4.3%	211	197	-6.5%
PPOP	146	137	-6.3%	177	163	-7.6%
PAT	77	71	-8.6%	104	94	-9.3%
ABVPS (INR)	701.3	693.3	-1.1%	843.7	842.1	-0.2%

Source: Company, HSIE Research

## REDUCE

CMP (as on 20 Jul 2021) INR 5,938

Target Price INR 4,590

NIFTY 15,632

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR4,798	INR 4,590
EPS %	FY22E -8.6%	FY23E -9.3%

### KEY STOCK DATA

Bloomberg code	BAF IN
No. of Shares (mn)	604
MCap (INR bn) / (\$ mn)	3,584/48,160
6m avg traded value (INR mn)	14,031
52 Week high / low	INR 6,343/3,007

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	28.7	19.2	72.5
Relative (%)	19.3	14.4	33.0

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	56.1	56.0
FIs & Local MFs	7.8	7.9
FPIs	24.1	24.0
Public & Others	12.1	12.0
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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# Kotak Mahindra Bank

## Strong profitability but growth remains elusive

Kotak Mahindra Bank's (KMB) 1QFY22 performance was broadly in line with our estimates on the back of continued funding cost tailwinds resulting in sequentially stronger NIMs even as loans shrank 2.8% QoQ. Annualised slippages were up at 2.8% (FY21: 2.4%) as collections were affected during Apr-May'21 on account of the second wave (as witnessed by peers), with most of the stress emerging from secured retail portfolio. KMB maintained its stock of COVID provisions and the loan loss coverage at ~65%. We believe that current valuations factor in a high-quality franchise and best-in-class profitability (RoAs >1.8%) - however, we await growth catalysts (thus far elusive) before we can turn more constructive on the stock. Maintain REDUCE with an SOTP target price of INR 1,747 (standalone bank at INR1,378, 3.6x Mar'23 ABVPS).

- **Credit growth disappoints:** KMB's loan book clocked a 2.8% de-growth QoQ - including credit substitutes, loan growth clocked in at +8.6% YoY. The management articulated its long-term target of growing in its segments of choice (commercial banking, SME and retail) while maintaining its risk-adjusted RoE. The bank disbursed INR 5bn of ECLGS during the quarter (total disbursements at INR 119bn, 5.5% of loan book). We expect loan growth of 12.6/14.6% in FY22/FY23E.
- **Hallmark - pristine asset quality:** KMB reported marginally higher GNPA's at 3.6% (+30bps sequentially) as slippages clocked in at 2.8%, predominantly from secured retail portfolio (tractors, CV and CEs). The SMA-2 book increased to INR 4.3bn (20bps) from INR 1.1bn (5bps) in FY21, alongside a marginal increase in the restructured portfolio to 25bps of loans (Q4FY21: 19bps). We expect slippages of 1.7%/1.6% in FY22/FY23E. Credit costs clocked in at 1.4%, as the bank chose to maintain its stock of COVID provisions (INR 12.8bn, 0.6% of loans) and its loan loss coverage at 65%.
- **Subsidiaries disappoint; maintain REDUCE:** KMB's consolidated profit was lower 30% sequentially (-2.5% YoY), primarily on account of loss in Kotak Life (consistent with the profit warning issued by the management earlier). Kotak Prime also reported lower PAT (-57% QoQ) as collections and disbursements continued to be impacted on account of the second wave. However, the operating performance of the AMC business, securities business, and investment banking business continued to remain robust. We believe that the current valuation (standalone bank at 3.6x Mar'23 ABVPS) factors in best-in-class profitability (RoAs >1.8%) - however, it is worth highlighting that these ratios appear optically better in a low-growth mode. We await growth catalysts (thus far elusive) before we can turn more constructive on the stock and maintain our REDUCE rating.

### Financial summary

(INR bn)	1Q FY22	1Q FY21	YoY (%)	4Q FY21	QoQ (%)	FY20	FY21	FY22E	FY23E
NII	39.4	37.2	5.8%	38.4	2.6%	135.0	153.4	171.9	199.0
PPOP	31.2	26.2	19.0%	34.1	-8.4%	100.2	122.1	129.5	154.0
PAT	16.4	12.4	31.9%	16.8	-2.4%	59.5	69.6	79.0	95.8
EPS (INR)	8.3	6.4	29.0%	8.3	0.0%	31.1	35.1	39.9	48.3
ROAE (%)						13.1	12.4	11.6	12.6
ROAA (%)						1.8	1.9	2.0	2.1
ABVPS (INR)						231.8	305.2	342.9	388.2
P/ABV (x)						7.5	5.7	5.1	4.5
P/E (x)						56.0	49.5	43.7	36.0

Source: Company, HSIE Research

## REDUCE

CMP (as on 26 July 2021) INR 1,741

Target Price INR 1,747

NIFTY 15,824

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR1747	INR1,747
	FY22E	FY23E
EPS %	0%	0%

### KEY STOCK DATA

Bloomberg code	KMB IN
No. of Shares (mn)	1,982
MCap (INR bn) / (\$ mn)	3,451/46,367
6m avg traded value (INR mn)	7,000
52 Week high / low	INR 2,049/1,231

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	-1.1	-3.0	28.9
Relative (%)	-9.1	-14.5	-10.4

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	26.0	26.0
FIs & Local MFs	13.6	14.7
FPIs	47.2	45.7
Public & Others	13.2	13.6
Pledged Shares	0.0	0.0

Source : BSE

Pledged shares as % of total shares

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# Axis Bank

## Back to square one

Axis Bank's (Axis) Q1FY22 earnings missed estimates (10% miss) on account of higher-than-expected provisions (243bps annualised). The bank's journey towards normalised credit costs and steady-state profitability has yet again been derailed and interrupted by deterioration in asset quality. Although the headline asset quality trends are consistent with those of other lenders (lower collections and higher slippages), incremental slippages (4.5% annualised) disappointed with the mix largely driven by the retail portfolio (7%, ~100bps higher than ICICI Bank). While Axis held healthy surplus COVID provisions (0.8% of loans), and maintained a comfortable PCR at ~70%, the bank's performance on asset quality has been inconsistent. Although we expect credit costs to normalise in H2FY22, we expect Axis to revert to steady-state profitability by FY23E. Maintain BUY with an SOTP price of INR 825.

- In-line NII/PPOP growth with steady balance sheet growth:** Axis Bank reported muted NII/PPOP growth of 11%/10% YoY with compression in NIM by 10bps sequentially to 3.5%. Fee income traction was muted (-21% QoQ) due to a sharp drop in retail disbursements during the quarter (~50% of Q4FY21). YoY loan growth was clocked in at 12% on a favourable base, driven by retail (+14% YoY) and SME segments (+18% YoY). The bank continued to strengthen its granular deposit franchise (average CASA ratio up 342bps YoY), driving best-in-class cost of deposits (3.8%).
- Mix of retail slippages hard to explain:** Axis Bank reported elevated gross slippages at 4.5%, predominantly driven by retail (7%, 83% of total slippages), broadly reflective of the overall environment during Q1FY22 in terms of economic activity, collections, and recoveries. However, ~45% of net slippages emerged from retail unsecured loans, implying a ~10% annualised slippage ratio, which is hard to explain. Given ~80-95% of the unsecured retail portfolio is skewed towards ETB customers, the elevated slippages, taken alongside the stress in this portfolio during H2FY21, are surprising. The bank's restructured portfolio remained low at 0.4% of loans (Q4FY21: 0.3%) even as the BB & below pool rose marginally to 2.1% (Q4FY21: 2.0%). With the COVID surplus buffer at 0.8% of loans and PCR at 70%, we expect normalisation in slippages and credit costs during FY23E.
- Road to normalised credit costs holds the key:** The improvement in Axis Bank's performance during H2FY21 was interrupted once again - however, we expect collection and recoveries to rebound in line with the economic environment. We expect the bank's performance to stabilize in H2FY22 and to inch closer to 1.5% ROA by FY23E. Maintain BUY with SOTP price of INR 825 (standalone bank at INR755, 1.9x Mar'23 ABVPS).

### Financial summary

(INR bn)	1Q FY22	1Q FY21	YoY (%)	4Q FY21	QoQ (%)	FY20	FY21	FY22E	FY23E
NII	77.6	69.9	11.1%	75.5	2.7%	252.1	292.4	338.2	386.4
PPOP	64.2	58.4	9.8%	68.6	-6.5%	234.4	257.0	289.1	329.3
PAT	21.6	11.1	94.2%	26.8	-19.3%	16.3	65.9	130.9	162.9
EPS (INR)	7.0	3.9	78.4%	8.7	-19.4%	5.8	21.5	42.8	53.2
ROAE (%)						2.1	7.1	12.1	13.4
ROAA (%)						0.2	0.7	1.3	1.4
ABVPS (INR)						261.5	302.6	348.0	398.2
P/ABV (x)						2.9	2.5	2.2	1.9
P/E (x)						130.9	35.1	17.7	14.2

Source: Company, HSIE Research

**BUY**

CMP (as on 26 July 2021)	INR 756
Target Price	INR 825
NIFTY	15,824

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR825	INR825
EPS %	FY22E	FY23E
	0%	0%

### KEY STOCK DATA

Bloomberg code	AXSB IN
No. of Shares (mn)	3,065
MCap (INR bn) / (\$ mn)	2,318/31,151
6m avg traded value (INR mn)	10,941
52 Week high / low	INR 800/400

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	8.0	14.9	69.7
Relative (%)	0.0	3.4	30.4

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	13.6	11.7
FIs & Local MFs	20.3	21.2
FPIs	55.7	56.8
Public & Others	10.5	10.4

### Pledged Shares

Source : BSE

Pledged shares as % of total shares

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# SBI Life Insurance

## Impressive protection share drives margin beat!

The total APE was in line with estimates; however, a rising share of protection (at an all-time high of 13.4% in the mix) resulted in a 160bps margin beat. We are positively surprised with no negative mortality experience in Q1 and management's prudent reserving for any future surprises. The company's three growth levers continue to remain in place - (1) the mammoth distribution network of the parent SBI (24k+ branches); (2) the improving share of protection; and (3) the lowest opex ratio (1QFY22: 10.5%). Following a strong margin beat, we build in higher margins and raise our FY22E/23E estimates. We expect SBILIFE to deliver a healthy FY21-23E VNB CAGR of 19.9% and retain our BUY rating on the stock with an increased TP of INR 1,350 (Mar-22E EV + 23x Mar-23E VNB).

- **Q1FY22 highlights:** The total APE, at INR 16.3bn (2y CAGR -6.8%/+27% YoY), was largely in line with estimates. The protection segment has displayed strong traction, with the share of retail and group protection within the mix at an all-time high of 7.6% and 5.8% respectively. Secular growth was seen in the protection segment, across channels, ranging from ~55-80% YoY. De-growth in NPAR (51% YoY) disappointed; however, annuity continued to aid margins. Persistencies improved across cohorts in the range of 79-419 bps except for the 61<sup>st</sup> month. Within the channel mix, new corporate partnerships registered an impressive +86% YoY growth.
- **COVID reserving:** As mortality assumptions were strengthened in 4QFY21, SBILIFE did not have any negative mortality experience on an overall basis (demonstrating conservative assumptions). Having said that, SBILIFE created additional COVID reserves to the tune of INR 4.5bn to protect against any negative surprises. COVID claims clocked in at INR 5.7bn (1.8x FY21 claims). Management stated its focus on increasing banca penetration to 100% (from 85% in FY21), given the strong distribution prowess with which it should aid growth. Adj. VNB margin, at 24.1% (on ETR), was ahead of estimates (+160bps), led by protection share swiftly inching up, resulting in VNB growth of 53% YoY.

### Financial Summary

(INR mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY19	FY20	FY21P	FY22E	FY23E
NBP	33.5	30.5	9.8	61.8	-45.8	137.9	165.9	206.2	237.0	279.5
APE	16.2	12.7	27.3	39.7	-59.3	96.9	107.4	114.5	131.6	151.0
Adj. VNB	3.9	2.6	52.7	11.0	-64.6	19.2	22.2	26.6	32.7	38.2
Adj. VNBm (%)	24.1	20.1	400bps	27.7	-362bps	19.8	20.7	23.2	24.8	25.3
EV						236.6	276.4	350.6	406.0	471.4
MCap/EV (x)						4.6	3.9	3.1	2.7	2.3
P/VNB (x)						45.6	37.9	30.1	22.2	17.6
RoEV(%)						18.9	16.8	27.7	16.2	16.7

Source: Company, HSIE Research

### Change in estimates

(INR bn)	FY22E			FY23E		
	Revised	Old	Change % / bps	Revised	Old	Change % / bps
APE	131.6	131.6	0.0	151.0	151.0	0.0
VNB	32.7	30.8	6.0	38.2	35.7	7.2
VNBm (%)	24.8	23.4	140bps	25.3	23.6	170bps
EV	406.0	404.8	0.3	471.4	466.5	1.1

Source: Company, HSIE Research

## BUY

CMP (as on 26 Jul 2021)	INR 1,077
Target Price	INR 1,350
NIFTY	15,824

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 1,250	INR 1,350
VNB %	FY21E 6.0	FY22E 7.2

### KEY STOCK DATA

Bloomberg code	SBILIFE IN
No. of Shares (mn)	1,000
MCap (INR bn) / (\$ mn)	1,077/14,470
6m avg traded value (Rs mn)	2,949
52 Week high / low	Rs 1,104/755

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	6.2	13.3	(15.2)
Relative (%)	14.2	24.8	24.1

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	55.7	55.7
FIs & Local MFs	7.0	9.6
FPIs	30.5	27.2
Public & Others	6.8	7.4
Pledged Shares	Nil	Nil

Source : BSE

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# ICICI Prudential Life

## Strong performance in tough times.

ICICI Prudential Life (IPRU) trumped expectations with APE growth 7% ahead of estimates and a significant beat on VNB margins (+637bps), driven by a higher share of protection and annuity. We like IPRU's reengineered business model, which is focused on a more diversified product and channel mix, industry-leading share of protection (Q1FY22: 15%), and rising share of traditional products. With a higher share of protection and annuity in the mix, we raise our VNB margins by 160bps for FY22E/23E to 26.3/26.5%. We expect VNB to exhibit a 26% CAGR over FY21-23E. We retain our ADD rating with an increased DCF-derived target price of INR 685 (Mar-22 EV + 26.1x Mar-23E VNB). The stock is currently trading at FY22/23E P/EV of 2.8/2.4x and P/VNB of 27.3/21.6x.

- Q1FY22 highlights:** The total APE grew 48% YoY (two-year CAGR at 9%) to INR 12.2bn, registering a 7% beat. Group protection exhibited strong growth (+108% YoY) on the back of a pick-up in disbursements and new group-term arrangements while retail protection de-grew 17% YoY as a result of limited medicals in a restrictive environment. In recent quarters, banca partners other than ICICIBC have delivered strong growth momentum. VNBM for Q1FY22 was significantly higher than our estimates at 29.4% (+580bps sequentially), largely on account of shifting business mix towards protection (+850bps) and improving share of annuity.
- COVID provisioning:** With 1Q witnessing a significant surge in claims, net claims shot up to INR 5bn (i.e., 2.5x FY21). IPRU has additionally provided INR 6.7bn towards (i) all notified as well as in-process claims and (ii) IBNR claims with closing reserves at INR 5bn. Net claims were significantly higher on account of (1) change in customer segment (lower age group-higher sum assured) and (2) change in product mix (towards protection). Persistency for 2MFY22 improved across cohorts in the range of 30-360bps on a YoY basis except in the 41<sup>st</sup> month. Loss before tax clocked in at INR 1.8bn on the back of higher provisioning and elevated expense ratios.

### Quarterly financial summary

(INR bn)	1Q FY22	1Q FY21	YoY (%)	4Q FY21	QoQ (%)	FY19	FY20	FY21	FY22E	FY23E
NBP	27.3	16.1	70.0	51.9	-47.3	103.6	124.9	132.3	182.1	218.5
APE	12.2	8.2	48.1	25.1	-51.4	78.0	73.8	64.6	80.8	96.9
VNB	3.58	2.01	78.1	5.91	(39.4)	13.3	16.1	16.2	21.2	25.7
VNBM (%)	29.4	24.4	490bps	23.6	580bps	17.0	21.7	25.1	26.3	26.5
EV						216.2	230.3	291.1	315.5	359.4
P/EV (x)						4.0	3.8	3.0	2.8	2.4
P/VNB (x)						51.4	40.7	39.5	27.3	21.6
ROEV (%)						19.6	8.4	26.4	9.4	15.8

Source: Company, HSIE Research

### Change in estimates

(INR bn)	FY22E			FY23E		
	Revised	Old	Change % / bps	Revised	Old	Change % / bps
APE	80.8	78.5	2.8	96.9	91.0	6.5
VNB	21.2	19.4	9.5	25.7	22.7	13.3
VNBM (%)	26.3%	24.7%	160	26.5%	24.9%	160
EV	315.5	319.5	-1.3	359.4	360.8	-0.4

Source: Company, HSIE Research

## ADD

CMP (as on 20 Jul 2021)	INR 605
Target Price	INR 685
NIFTY	15,632

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 640	INR 685
VNB %	FY21E +9.5%	FY22E +13.3%

### KEY STOCK DATA

Bloomberg code	IPRU IN
No. of Shares (mn)	1,437
MCap (INR bn) / (\$ mn)	869/11,675
6m avg traded value (INR mn)	1,529
52 Week high / low	INR 635/398

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	26.5	17.4	38.6
Relative (%)	17.1	12.5	(0.9)

### SHAREHOLDING PATTERN (%)

	Mar-21	Mar-21
Promoters	73.5	73.5
FIs & Local MFs	4.3	4.1
FPIs	16.5	17.2
Public & Others	5.7	5.3
Pledged Shares	Nil	Nil

Source : BSE

Pledged shares as % of total shares

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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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## ICICI Lombard

### Not in the pink: spike in health claims affects loss ratio

ICICI Lombard disappointed expectations as claims of health insurance spiked abnormally (46k in Q1FY22 vs. 49k in FY21), resulting in an all-time high loss ratio of 91%. However, we reckon this as a one-off event – given the exigencies of the COVID pandemic. For the rest of FY22, we expect loss ratios in the company's health segment to improve, given the rapid pace of vaccination. We have reduced our full-year estimates to factor in higher loss ratios from the second wave, although a potential third wave poses a downside risk to our forecasts. We expect a motor TP price hike in FY22E, which could be a positive catalyst for growth. Given the rich valuations and uncertainties ahead, we rate ICICIGI a **REDUCE** with a target price of INR 1,250 (implying a Mar-23E PE of 27.3x and a P/ABV of 5.1x).

- **Q1FY22 highlights:** ICICIGI reported NEP 6% ahead of estimates at INR 27bn (+16.4% YoY on weak base), driven by strong growth in the fire and health segments. Claims in the health segment witnessed a huge spike (46k in Q1FY22 vs. 49k in FY21), pushing the loss ratio in the segment to 153%. The nature of claims was optically different compared to FY21 as they included (1) affluent customers with high sums assured and (2) moderate and critical cases. Overall, Q1 CoR (calculated) was at an all-time high of 122.5%; however, this remains a one-off event. Heavy underwriting losses (INR 539mn) were offset by higher-than-estimated investment income of INR 708mn, leading to INR 152mn APAT (significantly below the estimate).
- Given the adverse claims experience, ICICIGI has raised its pricing on selective renewals and in group health business (~15-20%). It on-boarded 1k employees for scaling up retail health, an extremely valuable proposition. COVID-related health claims shot up to INR 6bn (vs. 3.4bn FY21) with INR 2.18bn of closing reserves. The company continues to maintain its defensive stance on motor OD, given the competitive pricing environment.

#### Quarterly financial summary

(INR bn)	1QFY22	1QFY21	YoY(%)	4QFY21	QoQ(%)	FY19	FY20	FY21	FY22E	FY23E
Premium (NEP)	27.06	23.24	16.4	26.16	3.4	83.8	94.0	100.1	137.5	156.4
Operating profit	2.01	5.64	(64.2)	4.43	(54.6)	16.2	17.2	20.6	19.3	30.2
OP margin (%)	7.4	24.2	-1680bps	17.0	-950bps	19.4	18.3	20.5	14.1	19.3
APAT	1.52	4.22	(64.1)	3.50	(56.7)	10.5	12.3	15.3	14.3	22.4
AEPS	3.1	8.6	(64.1)	7.1	(56.7)	23.1	27.1	33.6	29.0	45.6
P/E (x)						66.9	56.9	45.9	53.1	33.8
P/B (x)						12.6	12.1	8.8	7.6	6.4
ROE (%)						19.2	21.7	22.1	14.1	17.1

Note: FY22E onwards, numbers include Bharti AXA GI's merger.

Source: Company, HSIE Research

#### Estimate Change

INR bn	FY22E			FY23E		
	Revised	Old	Change %/bps	Revised	Old	Change %/bps
Premium (NWP)	142	141	0.7	161	160	0.3
Premium (NEP)	137	137	0.7	156	156	0.3
COR (%)	106.9	102.4	449bps	101.6	101.6	-2bps
COR (%) IRDAI	106.2	102.0	420bps	101.3	101.6	-28bps
APAT	14	18	(21.8)	22	22	0.4

Source: Company, HSIE Research

## REDUCE

CMP (as on 22 Jul 2021)	INR 1,545
Target Price	INR 1,250
NIFTY	15,824

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 1,250	INR 1,250
	FY21E	FY22E
EPS %	-21.8	+0.4

#### KEY STOCK DATA

Bloomberg code	ICICIGI IN
No. of Shares (mn)	455
MCap (INR bn) / (\$ mn)	702/9,432
6m avg traded value (INR mn)	1,032
52 Week high / low	INR 1,626/1,200

#### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	11.9	7.3	19.3
Relative (%)	1.1	0.8	(20.0)

#### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	51.9	51.9
FIs & Local MFs	12.0	11.7
FPIs	29.1	29.8
Public & Others	7.1	6.7
Pledged Shares	Nil	Nil

Source : BSE

Pledged shares as % of total shares

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# Bandhan Bank

## Transient microcredit stress offsets core profitability

Bandhan Bank's Q1FY22 earnings were 15% below our estimates due to higher-than-expected provisioning, especially in the microcredit portfolio. The asset quality deteriorated on account of disruptions from the second wave as aggregate GNPA's spiked 140bps sequentially to 8.2%. Early delinquencies in the EEB portfolio clocked a sharp spike (SMA-I + SMA-II at 12.5% vs. 5.3% in Q4FY21) as Bandhan restructured ~8% of its EEB portfolio. The impairment in EEB portfolio was visible across geographies, with the Assam portfolio registering elevated early delinquency levels (25% in SMA-I + SMA-II). As per management, ~56% of the Assam portfolio would be eligible for the proposed Government scheme for the MFI sector; however, the specifics are not yet known. Assuming no third wave, we expect the asset quality to normalise from Q3FY22 as lockdowns ease and economic activity revives. We maintain BUY with a target price of INR 418 (2.8x Mar'23 ABVPS). Low-cost deposit traction, along with the bank's strong RoE potential, underpins our constructive stance.

- **Microcredit portfolio continues to witness enhanced stress:** Bandhan Bank's asset quality witnessed further deterioration during Q1FY22 with slippages at ~9%, alongside a sharp increase in early delinquencies in the EEB portfolio. The Assam portfolio remains under significant stress (GNPA: 17%; SMA-I + SMA-II: 25%, CE at 49% in Jun'21), although the proposed government scheme on loan waiver is likely to alleviate some stress (~56% of portfolio is eligible for the proposed scheme, as per management). The housing portfolio GNPA increased marginally to 3.4% and a further ~6% of the book is restructured. Overall, collection efficiencies remained subdued at 85% in Jun'21 and are likely to revert to normal by Q3FY22 as most of the eastern states continued to be under a lockdown during Jul'21.
- **Accelerated provisioning to shore up PCR; build COVID buffer:** Non-tax provisions increased to INR 13.8bn (~8% annualised), despite no write-offs during the quarter. Subsequently, PCR inched up to 62% (Q4FY21: 50%), along with an additional INR 3.2bn in COVID provisions. Assuming no third wave, we expect the elevated credit costs to normalise by H2FY22. We build in average loan loss provisioning estimate of 2.6% for FY22-FY23E.
- **Disbursements taper off; deposits continue to build traction:** AUM growth decelerated to 8.1% YoY as disbursements clocked a ~77% sequential decline across segments. Soft growth in borrower count (+4% YoY) and lower top-up loan disbursements are expected to keep AUM growth muted in the near term. Deposits grew by 28% YoY, with improving CASA ratio at 43%, bringing down the cost of funds by ~70bps on a YoY basis.

### Financial summary

(INR bn)	Q1 FY22	Q1 FY21	YoY (%)	Q4 FY21	QoQ (%)	FY20	FY21	FY22E	FY23E
NII	21.1	18.1	16.7%	17.6	20.3%	63.2	75.6	93.3	111.1
PPOP	18.7	15.8	18.1%	17.3	8.2%	54.5	68.6	80.5	93.5
PAT	3.7	5.5	-32.1%	1.0	262.1%	30.2	22.1	37.2	50.4
EPS (INR)	2.3	3.4	-32.0%	0.6	262.5%	18.8	13.7	23.1	31.3
ROAE (%)						22.9	13.5	19.4	21.8
ROAA (%)						4.1	2.1	3.0	3.4
ABVPS (INR)						91.9	90.3	119.3	148.1
P/ABV (x)						3.0	3.1	2.3	1.9
P/E (x)						14.7	20.2	11.9	8.8

Source: Company, HSIE Research

## BUY

CMP (as on 20 Aug 2021)	INR 278
Target Price	INR 418
NIFTY	16,451

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 418	INR 418
EPS %	FY22E	FY23E
	0%	0%

### KEY STOCK DATA

Bloomberg code	BANDHAN IN
No. of Shares (mn)	1,611
MCap (INR bn) / (\$ mn)	448/6,020
6m avg traded value (INR mn)	2,485
52 Week high / low	INR 431/251

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(5.4)	(17.5)	(3.6)
Relative (%)	(16.3)	(26.2)	(46.9)

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	40.0	40.0
FIs & Local MFs	15.5	15.4
FPIs	34.9	35.4
Public & Others	9.6	9.1
Pledged Shares	0.0	0.0

Source : BSE

Pledged shares as % of total shares

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## Cholamandalam Investment and Finance Company

### Transient surge in stress book

Chola's Q1FY22 earnings disappointed our forecasts on account of elevated provisioning (~3.4% of AUM, annualised). The aggregate stressed portfolio (GS-II + GS-III) doubled sequentially to 21% as the pandemic disrupted collections and recoveries. Disbursements remained muted (~55% down QoQ), leading to muted AUM growth of 7% YoY. A sharp spike in stress pool led to elevated provisioning, although the coverage ratio across buckets declined sequentially (PCR at 36%). With early trends in June and July reflecting a better collection environment, management has indicated FY22 provisioning to be near equal to that of FY21, implying medium-term reversal of impairments. We believe that the spike in impairment is transient, which does not disturb our medium-term thesis of Chola as a potential 18-20% RoE franchise. Maintain BUY with a target price of INR 613 (4.1x Mar'23 ABVPS).

- **Robust operating performance:** Chola reported strong NII/PPOP growth of 35%/56% YoY, largely on the back of sustained yields, cost of funds tailwinds, and operating efficiency. NIMs were steady at 7.6% as tailwinds from funding costs continued to accrue (100bps/20bps decline YoY/QoQ). The cost-to-income ratio improved to 27% (Q1FY21: 35%) on the back of lower business momentum and incremental efforts at improving cost efficiency.
- **Sequential spike in stress; expect moderation by end-FY22:** Chola reported GS-II/GS-III at 14%/6.8%, a steep sequential spike from 6.2%/4% respectively in Q4FY21. The GS-II portfolio included a restructured loan book at ~3.9% of AUM. CIFIC has provided short-tenure moratorium to its customers opting for restructuring. With relatively lower presence in HCV segment and a large-fleet operators segment, the management expects recent trends in collections and recoveries (witnessed during Jun-Jul'21), to help normalise early-bucket delinquencies and credit costs during FY22. ~80% of customers in GS II+III buckets have been paying their current month dues to the company. The home equity segment GNPA increased to 8.9% (Q4FY21: 7.3%), while a further 3% of portfolio has been restructured. Our forecasts currently build in cumulative provisioning of ~2.4% during FY22-FY23E.
- **Weak disbursement run rate in a muted economic environment:** Chola's disbursements dropped steeply by ~54% QoQ after having exhibited strong momentum during H2FY21. The decline in disbursements was seen across categories, as the bulk of the quarter was affected by localised lockdowns. We expect AUM growth to remain muted during FY22 and factor in growth of 13% CAGR during FY22-FY23E.

#### Financial summary

(INR bn)	1Q FY22	1Q FY21	YoY (%)	4Q FY21	QoQ (%)	FY20	FY21P	FY22E	FY23E
NII	12.7	9.4	34.8	12.5	1.4	35.3	46.5	52.9	57.0
PPOP	9.9	6.4	55.8	8.3	19.9	24.8	33.6	39.9	42.7
PAT	3.3	4.3	(24.2)	2.4	34.4	10.5	15.1	23.1	24.7
EPS (INR)	4.0	5.3	(24.3)	3.0	34.5	12.8	18.5	28.2	30.2
ROAE (%)						14.7	17.1	21.8	19.4
ROAA (%)						1.7	2.2	3.0	2.8
ABVPS (INR)						84.2	98.2	123.4	149.2
P/ABV (x)						6.2	5.4	4.3	3.5
P/E (x)						41.0	28.5	18.7	17.4

Source: Company, HSIE Research

### BUY

CMP (as on 2 Aug 2021)	INR 526
Target Price	INR 613
NIFTY	15,885

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 613	INR 613
EPS %	FY22E	FY23E
	0%	0%

#### KEY STOCK DATA

Bloomberg code	CIFIC IN
No. of Shares (mn)	820
MCap (INR bn) / (\$ mn)	432/5,808
6m avg traded value (INR mn)	2,680
52 Week high / low	INR 601/197

#### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(7.9)	19.9	160.0
Relative (%)	(16.6)	14.5	116.6

#### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	51.6	51.6
FIs & Local MFs	22.8	21.2
FPIs	16.5	18.9
Public & Others	9.1	8.3
Pledged Shares	0.0	0.0

Source : BSE

Pledged shares as % of total shares

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# AU Small Finance Bank

## Priced to perfection; no room for disappointment

AUBANK's earnings were ~15% below our expectations on account of lower fee income and higher provisioning. Asset quality deteriorated, largely due to the second wave of the pandemic after a sharp disappointment in Q4FY21. Slippages were at 3.3%, relatively lower than FY21 (4.1%), with restructured portfolio at about 4% of loans and SMA-I + SMA-II book stable at ~7%. Disbursements were muted largely on account of sluggish trends in the MSME segment. The bank has revamped its digital product offerings, along with launch of credit cards, implying higher investments over the coming quarters. With the customer franchise (ex-wheels) largely in the investment mode and vulnerable to economic shocks, muted growth outlook in the near-term, and foray into new asset classes (retail unsecured credit), we argue that the current valuations (>5x Mar'23 ABVPS) are demanding and leave little room for any disappointment. We downgrade AUBANK to REDUCE with a target price of INR 1,046.

- **In-line operational performance:** AUBANK reported strong NII growth of 40% YoY, driven by funding cost tailwinds (90bps compression on a YoY basis) and a strong 22% YoY growth in AUM. Disbursement run-rate declined significantly (59% lower than FY21 average), predominantly due to the MSME segment, leading to lower fee income, dragging YoY PPOP growth to 1.3%. Liability franchise continued to make steady progress with average CASA ratio at 26% (Q4FY21: 22.5%).
- **Marginal sequential deterioration in asset quality:** Considering the macro environment during the quarter, AUBANK's asset quality held up relatively well compared to peers, with slippages at ~3.3% (annualised) and another ~2% of portfolio restructured during the quarter. PCR declined marginally to 49% (FY21: 50%), as nearly the entire provisioning was allocated towards restructured assets and standard assets. Wheels/REG GNPA increased to 5.9%/5.3%, while SME/MSME GNPA declined marginally to 18%/4.2%. While the collection efficiency improved during Jun-Jul'21, we believe this cannot be straight-lined in the current macro environment, especially given AUBANK's aggressive foray into the credit cards business.
- **Near-term challenges at odds with a lofty valuation:** AUBANK's foray into credit cards and other new segments are likely to be a drag on its operating efficiency, even as the franchise invests in new growth avenues. The bank's historically-low LGDs were driven by its secured asset portfolio (wheels in particular), which is unlikely to sustain in the case of unsecured businesses. We also highlight that AUBANK's ability to deliver profitability at scale is yet to be proven outside of the wheels business. We downgrade the stock to REDUCE with a revised TP of INR 1046 (4.3x Mar'23 ABVPS).

### Financial summary

(INR bn)	1Q FY22	1Q FY21	YoY (%)	4Q FY21	QoQ (%)	FY20	FY21	FY22E	FY23E
NII	7.2	5.2	40.4%	6.6	10.4%	19.1	23.7	29.2	36.0
PPOP	4.5	4.5	1.3%	3.7	20.7%	12.0	21.6	18.1	21.9
PAT	2.0	2.0	1.2%	1.7	20.3%	6.7	11.7	8.5	11.2
EPS (INR)	6.4	6.5	-1.4%	5.5	18.0%	22.2	37.5	27.3	36.0
ROAE (%)						17.9	22.0	12.7	14.6
ROAA (%)						1.8	2.5	1.5	1.7
ABVPS (INR)						136.8	176.8	201.1	242.1
P/ABV (x)						9.1	7.0	6.2	5.1
P/E (x)						56.2	33.2	45.6	34.7

Source: Company, HSIE Research

## REDUCE

CMP (as on 6 Aug 2021) INR 1,249

Target Price INR 1,046

NIFTY 16,238

KEY CHANGES	OLD	NEW
Rating	ADD	REDUCE
Price Target	INR 1,046	INR 1,046
EPS %	FY22E 0%	FY23E 0%

### KEY STOCK DATA

Bloomberg code	AUBANK IN
No. of Shares (mn)	313
MCap (INR bn) / (\$ mn)	391/5,250
6m avg traded value (INR mn)	1,746
52 Week high / low	INR 1,356/616

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	30.5	27.2	69.5
Relative (%)	19.6	20.2	26.8

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	28.5	28.4
FIs & Local MFs	21.7	22.4
FPIs	35.3	35.1
Public & Others	14.5	14.0
Pledged Shares	0.0	0.0

Source : BSE

Pledged shares as % of total shares

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# Shriram Transport Finance Company

## Cumulative stress on par with bellwether peer

Shriram Transport Finance (SHTF) disappointed our expectations largely on account of elevated provisioning (~5% of AUM, annualised) to shore up its GS-III PCR to 44% (FY21: 42%). Although the stressed pool (GS-II + GS-III) rose to 22% of loans (+375bps sequentially), largely on account of pandemic-led operational disruptions, the overall stressed portfolio now appears to be on par with that of bellwether vehicle financier CIFC. SHTF surprised positively on disbursements at INR 12.7bn (~104% of pre-COVID levels), almost entirely towards used CVs. With the current stock of provisions at 7.5% of AUM (FY21: 6.8%), we expect normalised provisioning from H2FY22 on the back of resumption of economic activity and improving collections and recoveries. Having raised growth capital during Q1FY22, SHTF is well placed to capture the cyclical turn in the used CV segment. Maintain ADD with a target price of INR 1,462 (1.5x Mar'23 ABVPS).

- **Muted P&L performance, CoF tailwinds yet to accrue:** SHTF reported muted NII growth (+8% YoY), with subdued NIMs at 6.4% (Q4FY21: 6.8%). The benign funding environment is yet to reflect in cost of funds benefit for SHTF (~4bps decline on YoY basis). The rundown of surplus liquidity (~14% of AUM), combined with the repricing of liabilities, is likely to reflate margin by up to ~40bps. The company reported strong other income of INR 1.7bn (largely securitization-related), driving YoY PPOP growth of 12%.
- **Overall stress at par or better than peers; provisions to moderate:** SHTF reported GS-II/GS-III at 14.5%/8.2% (FY21: 11.9%/7.1%) - the GS-II portfolio included a restructured loan book at ~0.8% of AUM. While the build-up of stress (+375bps) was less steep compared to its peers (CIFC/MMFS at +1,066bps/1,332 bps), the aggregate stress pool of SHTF now appears to be on par with CIFC (21%) and favourable compared to MMFS (35%). The company wrote off INR 3.6bn (1% annualised). SHTF shored up its GS-II/III provisioning to 10%/44% (Q4FY21: 9.7%/42%) with incremental surplus provisioning towards the PV segment, where the impairment is expected to be higher than the used CV segment. With build-up of provisioning buffer, we expect normalisation of credit costs, going forward, if the projected third wave of the pandemic is averted.
- **Disbursements surprise positively on the backlog:** SHTF's disbursements during Q1FY22 were at INR 127.3bn (~104% of pre-COVID levels), driven primarily by sanctions from earlier quarters. While the HCV segment continues to remain sluggish, the management indicated pent-up demand in LCV and PV segments. We built in conservative AUM growth of 8.8/9.3% in FY22/23E, as we await sustainable signs of recovery in economic activity.

### Financial summary

(INR bn)	1Q FY22	1Q FY21	YoY (%)	4Q FY21	QoQ (%)	FY20	FY21P	FY22E	FY23E
NII	19.8	18.4	7.9	21.2	(6.3)	80.2	80.9	87.1	96.1
PPOP	16.7	15.0	12.0	16.6	0.8	62.3	64.0	67.3	73.9
PAT	1.7	3.2	(46.9)	7.5	(77.5)	25.0	24.9	33.1	37.4
EPS (INR)	6.4	14.1	(54.9)	29.8	(78.7)	110.3	98.3	124.0	140.2
ROAE (%)						14.8	12.6	13.7	13.1
ROAA (%)						2.3	2.0	2.5	2.6
ABVPS (INR)						533.0	662.4	824.4	960.5
P/ABV (x)						2.6	2.1	1.7	1.4
P/E (x)						12.6	14.1	11.2	9.9

Source: Company, HSIE Research

## ADD

CMP (as on 30 July 2021)	INR 1,390
Target Price	INR 1,462
NIFTY	15,763

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR1462	INR1462
EPS %	FY22E	FY23E
	0%	0%

### KEY STOCK DATA

Bloomberg code	SHTF IN
No. of Shares (mn)	267
MCap (INR bn) / (\$ mn)	371/4,988
6m avg traded value (INR mn)	3,510
52 Week high / low	INR 1,535/556

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	3.3	7.6	103.3
Relative (%)	(4.4)	(6.0)	64.0

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	26.5	25.1
FIs & Local MFs	6.9	11.7
FPIs	61.0	57.5
Public & Others	5.6	5.7
Pledged Shares	Nil	Nil

Source : BSE

Pledged shares as % of total shares

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# Max Financial

## Miss on margin; compounding story intact

While MAXL printed better-than-expected APE (+5% vs. estimates; two-year CAGR: 13%), the VNB margin, at 19.7% (+260bps YoY), missed the estimate due to lower share of protection business and higher fixed cost absorption. COVID-19 claims were 1.9x the level in FY21; however, these were within the anticipated loss reserves created in Q4FY21. Given the company's focus on raising its share of protection business coupled with better fixed cost absorption for the rest of FY22, we expect it to deliver a VNB margin of ~25% in FY22. We expect APE/VNB CAGRs of 14.4/15.1% over FY21-23E and operating RoEVs at ~20-21% for FY22/23E. We retain our ADD rating with a TP of INR 1,180 (Mar-22E EV + 22.6x FY23E VNB less group level expenses).

- **Q1FY22 highlights:** The total APE was 5% ahead of the estimate at INR 8.8bn (two-year CAGR 13%). The share of protection in the mix moderated to 19% as individual protection declined 10% YoY (strong base in Q1FY21) and the demand for pure term protection tapered off vs. Q1FY21. Group credit protect grew 10x YoY (on a weak base) as disbursements picked up across partners. The share of NPAR increased to 27%, while ULIP revived to 37% as customers returned to market-linked products. The miss on VNB margin (-434bps vs. estimate), at 19.7% (+260bps YoY), was partly on account of higher fixed cost absorption (~10% of full-year) while partly due to lower share of protection business in the mix.
- **Spike in claims and upward repricing:** While the share of banca channel continues to increase (+800bps YoY) to 70%, growth in proprietary channel was soft at 7% YoY. Against the COVID-19 reserves of INR 5bn as of Mar'21, **net COVID-19 claims came in at INR 2.34bn (1.9x FY21 claims), and the company still carries INR 2.7bn additional reserves to cover late reporting of claims.** Against this backdrop, the company has taken price hikes in the range of 4-8% in retail protection plans and much higher in the group life plans during Jul'21, driven by price hardening by the reinsurer. Persistency improved 100/200bps (on YoY basis) across 13<sup>th</sup>/61<sup>st</sup> month. EV was clocked in at INR 122.9bn (+15% YoY).
- **MAXF-AXSB deal update:** An application has been filed with the IRDAI for acquiring the balance stake (~5.17%) of MSI in Max Life at INR 85/share. The management expects this transaction to close in Q3FY22.

### Financial Summary

(INR bn)	Q1 FY22	Q1 FY21	YoY (%)	Q4 FY21	QoQ (%)	FY19	FY20	FY21P	FY22E	FY23E
NBP	12.4	9.0	37.9	25.8	-52.0	51.6	55.8	68.3	77.6	88.2
APE	8.8	6.6	32.4	19.2	-54.4	39.5	41.5	49.6	57.3	64.8
VNB	1.72	1.13	52.2	4.61	-62.7	8.6	9.0	12.5	14.3	16.5
VNB Margin (%)	19.7	17.1	256bps	24.0	-439bps	21.7	21.6	25.2	25.0	25.5
EV						89.7	99.8	118.3	141.4	167.1
MCap/EV (x)*						5.8	3.9	3.9	3.2	2.7
P/Adj. VNB (x)*						66.9	43.2	28.6	23.6	19.0
ROEV						22.4	20.3	18.6	20.8	20.4

\*Refers to implied P/VNB. EV adj for a stake in Max Life.

Source: Company, HSIE Research

## ADD

CMP (as on 11 Aug 2021) INR 1,062

Target Price INR 1,180

NIFTY 16,282

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 1,180	INR 1,180
	FY21E	FY22E
VNB %	-1.1%	+0.1%

### KEY STOCK DATA

Bloomberg code	MAXF IN
No. of Shares (mn)	345
MCap (INR bn) / (\$ mn)	366/4,925
6m avg traded value (INR mn)	1,184
52 Week high / low	INR 1,148/515

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	15.7	29.9	100.3
Relative (%)	4.8	24.1	58.3

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	17.0	14.7
FIs & Local MFs	26.4	25.7
FPIs	23.1	26.3
Public & Others	33.6	33.2
Pledged Shares	14.4	9.2

Source : BSE

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# GIC Reinsurance

## Inherently weak franchise continues to bleed

Despite being India's largest reinsurer, GICRE continues to incur significant underwriting losses (Q1FY22 combined ratio at 126.8%). The franchise continued to bleed on account of COVID claims, resulting in COR clocking a six-quarter high and post-tax losses coming in at INR 10.4bn (vs. APAT at INR 19.4bn in FY21). We raise our CORs for FY22/23E by 394/190bps to factor in higher claims ratio, low-quality business, and lower investment yields in FY22E. We remain cautious on GICRE and maintain REDUCE with a reduced target price of INR 166 (0.6x FY23E P/ABV less 10% discount for an additional 10.8% stake to be sold by the GoI).

- **Q1FY22 highlights:** NEP missed our expectations (-27% vs. estimates) at INR 111bn, as crop and health segments degrew 33/26% YoY, partly offset by strong growth in motor (+46% YoY). The **calculated combined ratio shot up significantly to a six-quarter high at 126.8% (+2,100bps QoQ), and was higher than estimates as ICR rose to 107.4%**. The primary reason for the adverse loss ratio was a significant rise in COVID claims across the economy in the second wave and deteriorating loss ratios in health and life segments.
- **Elevated loss ratios on account of COVID claims:** The loss ratios were elevated in health (169% COR) and life (340% COR) segments due to a surge in claims and additional provisioning by the management for unreported COVID claims. GICRE has brought into effect price hikes of ~400-500% on an average in the one-year group renewable term business and a marginal hike in the retail term business in anticipation of higher claims.
- Despite the price hikes mandated in FY21, the property segment (19% of NWP) continues to witness high CORs (121%) as the company has additionally provided INR 5.5bn towards two cyclones (Yaas and Tauktae), further depressing the loss ratios. The motor segment witnessed lower loss ratios on account of lower motor traffic and conservative provisioning in earlier quarters. Investment income was 33% below estimates as the company booked lower capital gains, further pushing losses before tax to INR 10.4bn (vs. estimated APAT at INR 6.8bn).

### Quarterly financial summary

(INR bn)	Q1FY22	Q1FY21	YoY(%)	Q4FY21	QoQ(%)	FY19	FY20	FY21	FY22E	FY23E
Premium (NEP)	111.1	136.6	-18.6	76.0	46.3	382.5	443.5	399.8	419.2	481.5
COR (%)	126.8	112.9	1387bps	105.8	2100bps	105.5	114.8	112.5	111.8	105.9
APAT	-10.4	-5.0	NM	12.8	-181.4	27.6	-2.7	19.4	7.4	21.7
Growth (%)						-12.3	-109.9	NM	-62.1	194.5
AEPS	-5.9	-2.8	NM	7.3	-181.4	15.7	-1.6	11.1	4.2	12.3
P/E (x)						9.4	NM	13.3	35.1	11.9
P/ABV (x)						0.6	0.7	0.6	0.5	0.5
Adj. ROE (%)						6.9	-28.8	27.2	9.1	10.5

Source: Company, HSIE Research

### Estimate Change

INR bn	FY22E			FY23E		
	Revised	Old	Change %/bps	Revised	Old	Change %/bps
Premium (NWP)	444	456	(2.8)	499	502	(0.5)
Premium (NEP)	419	438	(4.3)	482	484	(0.5)
Cal. COR (%)	111.8	107.9	394bps	105.9	104.0	190bps
APAT	7	14	(49.2)	22	28	(21.3)
Investment book	1,060	963	10.1	1,026	1,005	2.1
RoE (%)	9.1	8.8	34bps	10.5	11.2	-72bps

Source: Company, HSIE Research

## REDUCE

CMP (as on 20 Aug 2021)	INR 147
Target Price	INR 166
NIFTY	16,451

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 195	INR 166
EPS %	FY21E -49%	FY22E -21%

### KEY STOCK DATA

Bloomberg code	GICRE IN
No. of Shares (mn)	1,754
MCap (INR bn) / (\$ mn)	259/3,474
6m avg traded value (INR mn)	264
52 Week high / low	INR 244/115

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(24.8)	(28.1)	2.8
Relative (%)	(35.6)	(36.9)	(40.5)

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	85.8	85.8
FIs & Local MFs	11.6	11.4
FPIs	0.6	0.8
Public & Others	2.1	2.0
Pledged Shares	Nil	Nil

Source : BSE

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# Nippon Life India Asset Management

## Improving performance to drive flows

Revenue was 3.1% below the estimate as a consequence of pressure on revenue yields. NAM has been able to stabilise its market share in the high-margin equity segment at 7% over the past two quarters. We expect it to focus on improving performance to continue recouping its lost market share. Additionally, we expect the company to benefit from increased credibility to raise HNI/institutional capital. Driven by cost optimisation, we expect NAM to deliver an FY21-23E revenue/NOPLAT CAGRs of 15.5/24%. We raise our TP multiple to 38x Mar-23E EV/NOPLAT to build in the cyclical uptick in equity flows and maintain our ADD rating on the stock with an increased target price of INR415. The stock is currently trading at FY22E/23E EV/NOPLAT of 44.7/37.0 and P/E of 38.3/32.2x.

- **1QFY22 highlights:** Revenue was marginally below the estimate at INR 3.02bn (+30%YoY). Revenue yields witnessed a sharp sequential decline of 2.5bps to 50.3bps despite the share of equity remaining stable in the mix. The SIP book was weak as NAM's SIP market share dipped by a further 135bps sequentially to 6.7%. Admin/operating costs were significantly lower than estimates on account of reduced mobility and the management's conscious attempts at cost rationalisation, resulting in a core operating profit of INR 1.7bn (two-year CAGR at 7.9%). Recovery in equity markets resulted in treasury gains of INR 670mn and drove APAT to INR 1.82bn (+16% YoY).
- **Con call key takeaways:** The management attributed the following as primary reasons for pressure on yields: (1) shifting portfolio mix towards low-yielding ultra-short-term and low-duration schemes within the fixed income portfolio, (2) lower TERs in higher AUM slabs, and (3) higher trail on the new book. While it is looking to address its equity performance through diversification, most equity schemes are in the top two quartiles. Within debt funds, NAM saw inflows of INR 40bn, whereas the industry saw outflows of INR 15bn. It launched one ETF NFO in the quarter.

### Financial Summary

(INR bn)	1QFY22	1QFY21	YoY(%)	4QFY21	QoQ(%)	FY19	FY20	FY21P	FY22E	FY23E
Revenue	3.02	2.33	29.7	3.02	0.1	14.8	12.0	10.6	12.4	14.2
Operating profits	1.69	0.97	75.1	1.58	7.2	5.3	5.7	5.2	6.6	8.0
OP Margin (%)	56.3	42.0	1427bps	52.6	367bps	35.8	47.3	48.9	53.0	56.5
APAT	1.82	1.56	16.1	1.67	8.9	4.9	4.2	6.8	6.6	7.9
EV/NOPLAT (x)						63.6	55.7	57.2	44.7	37.0
P/E (x)						51.1	61.1	37.3	38.3	32.2
ROE (%)						19.5	16.1	23.9	20.8	23.0

Source: Company, HSIE Research

### Change in estimates

(INR bn)	FY22E			FY23E		
	Revised	Old	Change (%)	Revised	Old	Change (%)
Revenues	12.4	12.4	-0.3	14.2	14.0	0.9
EBIT	6.6	6.6	0.6	8.0	7.8	2.5
EBIT margin (%)	53.3	52.8	48bps	56.7	55.9	84bps
NOPLAT	5.0	5.0	0.6	6.0	5.9	2.5
APAT	6.6	6.6	0.5	7.9	7.7	2.0
RoE (%)	20.8	20.7	9bps	23.0	22.6	38bps

Source: Company, HSIE Research

## ADD

CMP (as on 19 Jul 2021)	INR 405
Target Price	INR 415
NIFTY	15,752

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 390	INR 415
EPS %	FY21E	FY22E
	+0.5%	+2.0%

### KEY STOCK DATA

Bloomberg code	NAM IN
No. of Shares (mn)	618
MCap (INR bn) / (\$ mn)	251/3,369
6m avg traded value (INR mn)	422
52 Week high / low	INR 439/249

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	24.6	20.3	38.7
Relative (%)	15.0	13.9	(3.3)

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	74.5	74.2
FIs & Local MFs	6.7	7.5
FPIs	5.9	6.2
Public & Others	12.9	12.1
Pledged Shares	Nil	Nil

Source : BSE

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# ICICI Securities

## Strong franchise in a rising tide

Pure broking revenue was in line (+4% QoQ), as a higher share of delivery in the volume mix protected blended yields. ISEC has been able to stabilise its retail market share both in the cash and derivatives segments, despite the implementation of the third phase of peak margin norms. We are comforted by (1) the company's focus on gaining client share through diversified channels and (2) increasing focus on building digital prowess. However, we remain wary of the impact of successive phases of peak margin regulations on trading volumes and discount brokers' acquiring a higher client share. Given the positive macro lead indicators (rising retail participation and list of potential IPOs in the pipeline), we maintain our positive bias on the broking industry and ISEC. We raise our target multiple on ISEC to 25x Mar'23 EPS (from 23x earlier) and maintain ADD with a target price of INR 800.

- **Q1FY22 highlights:** Total broking revenue, at INR 5.24bn (+4% sequentially), was broadly in line, as the share of high-yielding cash delivery volumes improved in the overall mix. Growth in the average MTF + ESOP book was impressive (+41% QoQ), cushioning the cyclicity in the broking revenues. The implementation of the third phase of peak margin requirements resulted in the cash market share falling further 20bps QoQ (primarily in the institutional segment); however, the share of derivative improved to 3.2% (+30bps). Client acquisition run-rate picked up significantly to 389k (+354k in 4QFY21), predominantly through the digital channel. With a greater number of customers routing digitally, activation rates have dipped to 71% from 84% in 4QFY21. Although the MF distribution revenue grew 11% sequentially to INR 736mn, the other distribution revenues were soft (-17% QoQ), as a result of lockdown and cyclicity driving the overall distribution revenue down by 15%.
- Employee expenses were higher than our estimates but dipped 43% YoY, benefiting from the base effect (frontloading of performance pay in the previous year). Adjusted PAT, at INR 3.1bn (+61% YoY), missed our estimates, on account of lower distribution revenues and higher employee expenses.

### Quarterly financial summary

(INR mn)	1Q FY22	1Q FY21	YoY (%)	4Q FY21	QoQ (%)	FY19	FY20	FY21P	FY22E	FY23E
Adj. revenues	7,453	5,460	36.5	7,393	0.8	16,456	16,116	24,304	24,499	24,284
EBITDA	4,705	2,954	59.3	4,858	-3.1	7,358	7,873	14,364	14,068	13,678
EBITDA Margin (%)	63.1	54.1	904bps	65.7	-258bps	44.7	48.9	59.1	57.4	56.3
APAT	3,107	1,931	60.9	3,295	-5.7	4,773	5,622	10,677	10,311	10,235
AEPS	9.6	6.0	60.9	10.2	-5.7	14.8	17.5	33.1	32.0	31.8
EV/EBITDA (x)						33.8	33.3	19.7	19.5	19.5
P/E (x)						51.3	43.6	22.9	23.7	23.9
ROE (%)						50.4	49.8	70.4	52.5	45.9

Source: Company, HSIE Research

### Change in estimates

(INR mn)	FY22E			FY23E		
	Revised	Old	Change % / bps	Revised	Old	Change % / bps
Revenues	24,499	24,178	1.3	24,284	24,112	0.7
EBITDA	14,068	13,864	1.5	13,678	13,629	0.4
EBITDA margin (%)	57.4	57.3	9bps	56.3	56.5	-20bps
APAT	10,311	10,098	2.1	10,235	10,046	1.9
RoE (%)	32.0	31.3	2.1	31.8	31.2	1.9

Source: Company, HSIE Research

## ADD

CMP (as on 20 Jul 2021)	INR 760
Target Price	INR 800
NIFTY	15,632

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 720	INR 800
EPS %	FY21E	FY22E
	+2.1%	+1.9

### KEY STOCK DATA

Bloomberg code	ISEC IN
No. of Shares (mn)	323
MCap (INR bn) / (\$ mn)	245/3,295
6m avg traded value (INR mn)	556
52 Week high / low	INR 803/357

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	79.0	69.9	43.4
Relative (%)	69.6	65.1	3.9

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	75.0	74.9
FIs & Local MFs	9.0	7.3
FPIs	3.7	5.7
Public & Others	12.2	12.1
Pledged Shares	Nil	Nil

Source : BSE

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# LIC Housing Finance

## It's all going pear-shaped

LIC Housing Finance's (LICHF) operating performance was significantly below our expectations, primarily on account of higher provisioning (1.5% of loans, annualised) and one-off in wage revision arrears (INR 1.24bn). Asset quality continued to deteriorate across all segments, driving the total stressed pool (GS-II+III + restructured pool) to 13.6% from 11.6% sequentially, with disproportionate share from the developer portfolio (GS-II + GS-III at ~40%). With overall PCR at ~34% and a negligible provision against early-bucket assets, we believe LICHF is thinly covered. We revise our FY22E earnings downwards by 3.3% on account of wage revision arrears expensed during the quarter - we maintain REDUCE with a revised target price of INR 356 (earlier INR 357) (0.9x Mar'23 ABVPS). Low provisioning buffer and increasing competitive intensity in the core portfolio underpin our REDUCE rating.

- **Increasing concerns on asset quality:** LICHF reported GS-II/GS-III of 5.4%/5.9%, alongside an elevated restructured book at 2.3% during the quarter. Impairment (GS-III) on the core retail home loans increased to 2.6% (FY21: 1.9%), with a small restructured portfolio (INR 6.5bn, ~0.3% of loans). While the management indicated that most of the stress is emanating from tier 2/3 geographies and only 30% of the delinquent customers are making negligible payments, we believe the stress is symptomatic of sub-par underwriting across the board. The developer portfolio deteriorated further with GS-III at ~24%, an additional ~16% of loans as GS-II and INR 47bn (2% of loans) restructured, which suggests a portfolio going pear-shaped.
- **Disproportionate yield compression offsets funding moat:** NIMs contracted 46bps sequentially to 2.2%, largely on account of yield compression, despite significant CoF tailwinds (incremental cost of funds at 5% and weighted average cost of 6.9%). This is likely driven by increasing competitive intensity and the company's aggressive pricing in the core home loan segment. We build in NIMs of 2.4% over FY22/23E.

### Financial summary

(INR bn)	1QFY22	1QFY21	YoY (%)	4QFY21	QoQ (%)	FY20	FY21P	FY22E	FY23E
NII	12.8	12.2	4.5	15.0	(15.3)	48.2	52.4	58.9	65.7
PPOP	10.2	10.7	(4.7)	13.3	(23.0)	42.6	46.7	51.7	59.1
PAT	1.6	8.2	(80.8)	4.0	(61.1)	24.0	27.3	26.1	31.0
EPS (INR)	3.1	16.2	(80.8)	8.0	(61.1)	47.6	54.2	47.5	56.4
ROAE (%)						13.9%	14.1%	11.4%	11.5%
ROAA (%)						1.2%	1.2%	1.0%	1.1%
ABVPS (INR)						287.1	288.7	341.7	386.6
P/ABV (x)						1.43	1.42	1.20	1.06
P/E (x)						8.6	7.6	8.6	7.3

### Change in estimates

INR bn	FY22E			FY23E		
	Old	New	Chg	Old	New	Chg
Loan	2,533.4	2,533.4	0.0%	2,828.2	2,828.2	0.0%
NIM (%)	2.4	2.4	0 bps	2.5	2.5	0 bps
NII	58.9	58.9	0.0%	65.7	65.7	0.0%
PPOP	52.9	51.7	-2.3%	59.1	59.1	0.0%
PAT	27.0	26.1	-3.3%	31.0	31.0	0.0%
ABVPS (INR)	349.7	341.7	-2.3%	394.6	386.6	-2.0%

Source: Company, HSIE Research

## REDUCE

CMP (as on 30 July 2021)	INR 410
Target Price	INR 356
NIFTY	15,763

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR357	INR356
EPS %	FY22E	FY23E
	-3.3%	0.0%

### KEY STOCK DATA

Bloomberg code	LICHF IN
No. of Shares (mn)	505
MCap (INR bn) / (\$ mn)	207/2,784
6m avg traded value (INR mn)	2,081
52 Week high / low	INR 542/255

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	1.2	3.7	55.5
Relative (%)	(6.6)	(9.9)	16.2

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	40.3	40.3
FIs & Local MFs	16.8	15.6
FPIs	28.2	28.8
Public & Others	14.7	15.3
Pledged Shares	0.0	0.0

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 GNPA's 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 GNPA's 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:** Disbursements 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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# Federal Bank

## Benefits of a prudent, solid and secured portfolio

Despite a 12% beat on PPOP led by higher other income, Federal Bank (FB) disappointed on earnings (20% below estimates) due to higher-than-expected provisioning. The lack of provisioning buffer reflected in higher provisioning (2%) in Q1FY22 to cushion the second wave impact on the portfolio with annualised slippages at ~2% and a restructured book at 1.9% (Q4FY21: 1.2%). The COVID-restructured portfolio primarily comprises secured loans (home loans, LAP and gold loans contribute to nearly 2/3<sup>rd</sup> of the portfolio) and offers comfort on loss given default (LGDs). FB's partnerships with FinTechs in the retail business (with neo-banks, payments firms, and merchant acquirers) offer early-stage, medium-term catalysts for higher productivity (business growth) and greater efficiencies (profitability). We maintain BUY with a TP of INR98.

- **Operating performance driven by treasury income, recoveries:** FB reported strong PPOP growth (+22% YoY) on the back of strong other income growth (+33% YoY), led by treasury gains and recovery from a corporate account. Funding cost tailwinds (25 bps sequentially) partly offset yield compression to support NII growth at 9% YoY, with NIM at 3.15%. The loan book grew +7% YoY, driven by retail (+15% YoY) and agri (+23% YoY) segments.
- **Asset quality stable in adverse times:** FB's asset quality witnessed marginal deterioration and is likely to be mirrored by other lenders in this challenging environment. GNPA inched up marginally to 3.5%, while the restructured portfolio was at 1.9% of loans (+70bps sequentially). Incremental slippages were largely from the non-corporate portfolio (SME: 5%; Agri: 4%), while restructuring was largely centred on housing (3.7%), (LAP: 7.3%) and SME (2.5%). The higher-than-expected provisioning (~2%) kept PCR stable at ~66%, with ~15% provisioning on restructured portfolio. Given the nature of impairment (largely secured) and the existing stock of provisions, we see FB outperforming on eventual loan losses and mean reverting to normalised credit costs relatively quicker than its larger peers.
- **Building new growth avenues; bolstering FinTech partnerships:** On the back of a strong liability franchise and a granular loan book, FB continues to focus on new avenues of growth to boost its profitability. The credit card business (launched for employees and ETB customers) is likely to resume onboarding new customers within 6-8 weeks of integrating with the alternative switch partner. A couple of FB-partnered neo-banks (Jupiter and epifi) have gone live and are expected to scale up. Its other partner BharatPe (~4mn merchants onboarded in tie-up with FB) offers its large customer and merchant base for cross-selling, which would improve profitability, going ahead.

### Financial summary

(INR bn)	1QFY22	1QFY21	YoY (%)	4QFY21	QoQ (%)	FY20	FY21	FY22E	FY23E
NII	14.2	13.0	9.4%	14.2	-0.1%	46.5	55.3	63.1	71.1
PPOP	11.4	9.3	21.8%	8.9	28.3%	32.0	37.9	43.7	47.4
PAT	3.7	4.0	-8.3%	4.8	-23.1%	15.4	15.9	22.1	25.3
EPS (INR)	1.8	2.0	-9.0%	2.4	-23.1%	7.7	8.0	10.5	12.1
ROAE (%)						11.1	10.4	12.6	12.6
ROAA (%)						0.9	0.8	1.0	1.1
ABVPS (INR)						64.8	72.7	82.7	94.0
P/ABV (x)						1.3	1.2	1.0	0.9
P/E (x)						11.0	10.7	8.1	7.1

Source: Company, HSIE Research

## BUY

CMP (as on 23 July 2021)	INR 85
Target Price	INR 98
NIFTY	15,856

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 98	INR 98
EPS %	FY22E	FY23E
	0%	0%

### KEY STOCK DATA

Bloomberg code	FB IN
No. of Shares (mn)	1,995
MCap (Rs bn) / (\$ mn)	170/2,294
6m avg traded value (Rs mn)	2,115
52 Week high / low	INR 93/45

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	18.5	19.9	48.4
Relative (%)	9.0	10.3	9.5

### SHAREHOLDING PATTERN (%)

	Dec-20	Mar-21
Promoters	0	0
FIs & Local MFs	43.3	43.9
FPIs	24.5	24.1
Public & Others	32.2	32.1
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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# Computer Age Management Services

## Miss on core earnings

Revenue/PAT missed estimates by 5% each, clocking in INR 2bn / INR 0.63bn, as yields continued to compress, and paper-based transactions were muted in Apr/May-21. With market leadership in the duopoly RTA market (71.2% share of the MF MAAUM including FT AMC), CAMS is a proxy to India's growing asset management industry. Significant entry barriers coupled with customer stickiness places the firm in a uniquely advantageous position. We expect FY21-23E revenue and operating profit (OP) CAGRs of 15/20%, which is expected to be driven by buoyant equity flows and increasing contribution from nascent businesses i.e., payments, AIF, and insurance. We value CAMS at 36x FY23E EV/NOPLAT + Mar-22 cash and investments and retain our REDUCE rating with a target price of INR2,030, because of steep valuations. The stock is currently trading at FY22E/23E EV/NOPLAT of 62.9/55.6x and P/E of 61.0/53.4x.

- **Q1FY22 highlights:** Revenue was 5% lower than our estimates at INR 2bn (flattish sequentially), owing to (i) compression in blended yields as a result of telescopic pricing and (ii) sluggish volumes in the chargeable paper-based transactions during Apr-May'21 from office shutdowns and lockdowns. As a result of offices staying closed for the first two months, operating and other expenses were 13% lower than estimates, resulting in a core operating profit of INR 805mn (+5% QoQ, 6% miss on estimates). Lower-than-estimated treasury income, at INR 45mn (+9% QoQ), resulted in an APAT of INR 632mn (+5.2% QoQ).
- **Revenue yields under pressure:** CAMS' MF Q1FY22 AAUM market share rose 10bps to 69.6% (ex-FT AAUM), resulting in MF AAUM at INR 23.1trn. Despite the share of equity improving in the mix (+84bps QOQ), derived MF revenue yields contracted 0.05bps sequentially, indicating sustained pressure on yields. The non-asset-based revenue dipped 9% sequentially as the number of paper-based transactions was soft amidst restricted mobility. FT AMC's operations have begun with rebadged staff and revenue is expected to accrue from Q3FY22 onwards. The company anticipates Central Record-keeping Agency (CRA) business to go operational by Q4FY22.

### Financial Summary

(INR bn)	Q2 FY22	Q1 FY21	YoY (%)	Q4Q FY21	QoQ (%)	FY19	FY20	FY21	FY22E	FY23E
Revenues	2.0	1.5	35.4	2.0	0.7	6.9	7.0	7.1	8.5	9.4
Operating profits	0.8	0.4	109.3	0.8	4.9	2.0	2.3	2.4	3.1	3.5
OP margin (%)	40.0	25.9	1414bps	38.4	160bps	29.0	32.7	34.7	37.0	37.6
NOPLAT	0.6	0.3	103.3	0.6	5.0	1.3	1.6	1.8	2.3	2.6
APAT	0.6	0.4	54.9	0.6	5.2	1.4	1.8	2.1	2.5	2.8
EV/NOPLAT (x)						114.0	92.4	81.1	62.9	55.6
P/E (x)						106.7	85.9	74.0	61.0	53.4
ROE (%)						32.2	36.1	38.9	44.6	43.6

Source: Company, HSIE Research

## REDUCE

CMP (as on 11 Aug 2021) INR 3,109

Target Price INR 2,030

NIFTY 16,282

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 2,030	INR 2,030
EPS %	FY22E	FY23E
	+1.8%	+0.0%

### KEY STOCK DATA

Bloomberg code	CAMS IN
No. of Shares (mn)	49
MCap (INR bn) / (\$ mn)	152/2,040
6m avg traded value (INR mn)	710
52 Week high / low	INR 3,742/1,260

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	33.5	57.1	-
Relative (%)	22.6	51.3	-

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	31.0	31.0
FIs & Local MFs	22.0	19.8
FPIs	24.0	25.1
Public & Others	23.0	24.1
Pledged Shares	Nil	Nil

Source : BSE

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# Motilal Oswal Financial Services

## Weak quarter; miss across most fronts

Pure broking revenues were in line with estimates but lower distribution revenues (-2% QoQ) disappointed, driving capital markets APAT to INR 899mn (-2% QoQ). On the positive side, cash market share stabilised for the first time in four quarters. AMC's APAT de-grew 44% sequentially to INR 418mn on the back of lower yields accruing from higher share of passives and certain one-offs during Q4FY21. A significant MTM gain (INR 0.9bn) resulted in MOFS (ex. MOHFL) APAT clocking in at INR 2.1bn (-4% YoY). We tweak our estimates to factor in lower yields and subdued growth in distribution AUM. We retain REDUCE with a revised TP of INR 885 (15x/25x Mar-23E Broking/AMC APAT, + 0.7x/0.5x for Mar-23E treasury/ MOHL).

- **Q1FY22 highlights:** AMC (ex-WM): Adjusted PAT disappointed at INR 418mn (-44% QoQ) due to lower yields in the MF business (shift in mix towards passives) and certain one-offs in Q4FY21. MOAMC saw net inflows of INR 5bn with most of the flows being skewed towards passive schemes (net flows in MF/alternates at INR +7bn/INR -2bn). Management highlighted that the lack of upfront commission on PMS products has resulted in distributors pushing AIF products. **Capital markets (in. WM)** continue to report superlative PAT of INR 899mn (-2% QoQ), albeit lower than our estimates as distribution revenues declined 2% sequentially. While broking ADTVs dipped 3% QoQ, the improving share of cash in the mix resulted in better blended yields, driving pure broking revenues +3% sequentially. **Treasury** reported MTM gain on investments of INR 0.9bn (vs. estimated INR 1.1bn) on the back of improvement in the equity markets. **MOHFL** disbursements remained muted at INR 0.9bn/quarter (+2.8xYoY) on the back of the lockdown in Q1. NNPA shot up to 3.3% (+180bps QoQ).

- **Outlook:** While we expect net flows for the AMC business to remain positive in FY22E on expectation of a buoyant flows environment, potential COVID 3.0 poses a risk to net inflows. While broking volumes have remained largely unaffected (ex-futures) by the third phase of peak margin norms, we expect moderation in full-year volumes, given that FY21 was a year of high volatility.

### Financial Summary: MOFS (ex-MOHL)

(INR bn)	Q1FY22	Q1FY21	YoY(%)	Q4FY21	QoQ(%)	FY20	FY21P	FY22E	FY23E
Revenue	7.08	5.59	26.7	9.56	(26.0)	13.9	29.3	23.6	24.3
EBITDA	3.08	2.67	15.4	5.37	(42.6)	2.3	14.7	8.9	8.7
EBITDA Margin (%)	44	NM	NM	56	-1258bps	16.3	50.2	38.0	35.9
APAT	2.13	2.22	(4.4)	4.30	(50.5)	1.1	12.0	6.7	6.7
P/E (x)						118.4	11.3	20.3	20.1
ROE (%)						4.0	34.6	15.3	14.2

Source: Company, HSIE Research

### Estimate Change

(INR bn)	FY22E			FY23E		
	Revised	Old	Change % / bps	Revised	Old	Change % / bps
Revenues	23.56	23.79	-1.0	24.27	24.64	-1.5
EBITDA	8.95	9.16	-2.3	8.71	8.81	-1.1
EBITDA margin (%)	38.0	38.5	-53	35.9	35.8	14
APAT	6.65	6.80	-2.2	6.73	6.81	-1.1
RoE (%)	15.3	15.7	-33	14.2	14.3	-12

Source: Company, HSIE Research

## REDUCE

CMP (as on 30 Jul 2021)	INR 943
Target Price	INR 885
NIFTY	15,763

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 900	INR 885
EPS %	FY21E -2.2%	FY22E -1.1%

### KEY STOCK DATA

Bloomberg code	MOFS IN
No. of Shares (mn)	147
MCap (INR bn) / (\$ mn)	138/1,860
6m avg traded value (INR mn)	527
52 Week high / low	INR 1,188/538

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	47.9	52.9	38.4
Relative (%)	40.1	39.3	(1.0)

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	70.7	70.6
FIs & Local MFs	4.5	3.4
FPIs	9.4	9.7
Public & Others	15.4	16.3
Pledged Shares	0.0	0.0

Source : BSE

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# UTI Asset Management Company

## Tailwinds galore!

UTIAM posted better-than-estimated revenue (+8% vs. estimates), led by spectacular growth (4.25x QoQ) in the retirement solutions business; however, high staff costs continue to pose a significant challenge to core profitability. We draw comfort from the management's commentary around the healthy NFOs pipeline, buoyant flows environment, and strong growth prospects of the retirement solutions business and raise our AUM growth estimates. We expect UTIAM to deliver FY21-23E revenue/NOPLAT CAGRs of 21/49% as a consequence of strong AUM growth coupled with cost rationalisation. We raise our implied multiple on UTIAM and maintain a BUY with an increased target price of INR 1,140 (26.2x Mar-23E NOPLAT + cash and investments).

- **Q1FY22 highlights:** Revenue was 8% ahead of our estimates at INR 2.6bn (+11% QoQ) led by impressive growth (4.25x QoQ) in the retirement solutions segment; this was partly a result of higher fees and partly of strong flows. Staff costs at INR 943mn (+27% QoQ) continue to remain elevated on the back of increments (INR 40mn) and other accruals booked during the quarter and other operating expenses rose sequentially on account of the PFRDA fee expense (1.5bps). The core operating profit, at INR 1bn (+0.4% QoQ), was in line with estimates as higher revenue was offset by higher staff costs and other expenses. The accrual of profits to the tune of INR 240mn from sale of investments by a VC (stake sale in Big Basket) resulted in higher-than-estimated treasury income, driving APAT +16% QoQ to INR 1.55bn.
- **Positive flows environment:** For the equity segment, net inflows grew 2.3x sequentially (indicating better than industry flows) to INR 18bn with a market share of ~4%. The management highlighted that the NFO pipeline remains healthy with Focussed Equity Fund and Multi-cap Fund already securing SEBI approvals. On the back of a buoyant flows environment, healthy NFOs pipeline, and strong growth prospects of the retirement solutions business, we raise our revenue estimates for FY22E/23E, partially offset by the lower cost rationalisation. We cut our tax rates from 25% to 20% to account for foreign subsidiaries with high tax losses, resulting in a sharp rise in our PAT estimates.

### Financial Summary

(INR bn)	Q1 FY22	Q1 FY21	YoY (%)	Q4 FY21	QoQ (%)	FY19	FY20	FY21P	FY22E	FY23E
Revenue	2.61	1.60	63.7	2.36	11.0	8.9	7.9	8.1	10.7	11.7
Operating profits	1.01	0.20	394.1	1.01	0.4	3.2	2.7	2.4	4.3	5.3
OP Margin (%)	38.6	12.8	2,583bps	42.7	-407bps	36.0	34.1	29.5	40.4	44.9
APAT	1.55	1.01	54.2	1.34	15.8	3.5	2.7	4.9	5.1	5.6
EV/NOPLAT (x)						44.8	47.0	49.3	27.0	21.7
P/E (x)						35.6	46.1	25.5	24.5	22.3
ROE (%)						14.2	10.2	16.5	15.4	15.9

Source: Company, HSIE Research

### Change in estimates

(INR bn)	FY22E			FY23E		
	Revised	Old	Change (%)	Revised	Old	Change (%)
Revenues	10.7	9.8	9.5	11.7	10.8	8.8
EBIT	4.4	3.9	12.4	5.4	4.9	9.7
EBIT margin (%)	41.3	40.2	106bps	45.8	45.4	40bps
NOPLAT	3.5	2.9	21.1	4.2	3.6	18.1
APAT	5.1	4.2	21.2	5.6	4.9	15.3
RoE (%)	15.4	12.8	263bps	15.9	14.0	190bps

Source: Company, HSIE Research

## BUY

CMP (as on 29Jul 2021)	INR 992
Target Price	INR 1,140
NIFTY	15,778

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 920	INR 1,140
	FY22E	FY23E
EPS %	+21.2%	+15.3%

### KEY STOCK DATA

Bloomberg code	UTIAM IN
No. of Shares (mn)	127
MCap (INR bn) / (\$ mn)	126/1,693
6m avg traded value (Rs mn)	289
52 Week high / low	INR 471/1,000

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	58.5	78.3	NA
Relative (%)	50.6	64.5	NA

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	0.0	0.0
FIs & Local MFs	51.9	52.9
FPIs	5.4	4.1
Public & Others	42.7	43.0
Pledged Shares	Nil	Nil

Source : BSE

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# RBL Bank

## The pitfalls of 'banking' on a single engine

RBL Bank (RBK) reported a loss of INR 4.6bn in Q1FY22 on account of a steep increase in provisions (~10%, annualised). Having made efforts at stabilising its highly-concentrated wholesale portfolio during FY19-FY20, RBK is now witnessing the brunt of the pandemic impact on an equally highly-concentrated retail unsecured segment (CC+MFI at ~32% of loans). Slippages were high at ~9.5% (annualised) for a third straight quarter - the management expects them to stay elevated during Q2FY22 as well. Our concerns and caution on RBK stem from the disproportionately high concentration of profit pools around two unsecured business segments (>50% fee income from credit cards), both of which need time to stabilise. For a franchise that has been banking on a single engine (credit cards), the impairment in its cards business is disappointing. We hack our FY22E/23E earnings forecasts by 20%/4%; we maintain REDUCE with a revised TP of INR182 (earlier INR 189).

- **Portfolio stress yet to peak; provisions to stay elevated:** RBK reported GNPA/NNPA at 5%/2%, with a restructured portfolio at 1.8% of loans. The impairment (9.5% annualised) was almost entirely from the retail loan book, with >70% from credit cards and MFI (vs. 32% of loans) - the two businesses also contributed to a bulk of the write-offs (5.4% annualised). RBK shored up its PCR from 52% to 61% QoQ with higher build-out towards CC (75%) and MFI (83%) portfolios, while creating INR 2.4bn of COVID provisions.
- **Still searching for answers:** RBK reported muted loan growth of -0.3% YoY (-4% QoQ). Lack of growth avenues in its key business segments reflected in higher liquidity build-out (cash equivalents at ~13% of assets). The new growth engines - tractor finance, affordable housing (INR 15.5bn) and gold loans - are unlikely to balance the retail asset mix (highly skewed towards unsecured) in the near term. We revise our FY22/FY23E forecasts downward to account for higher credit costs, lower loan growth (MasterCard embargo) and resultant margin compression. Our REDUCE recommendation reflects a franchise that is still searching for signs of portfolio stability.

### Financial summary

(INR bn)	1Q FY22	1Q FY21	YoY (%)	4Q FY21	QoQ (%)	FY20	FY21P	FY22E	FY23E
NII	9.7	10.4	-6.9%	9.1	7.0%	36.3	37.9	42.5	49.1
PPOP	8.1	6.9	17.1%	8.8	-7.9%	27.5	30.9	31.1	35.0
PAT	(4.6)	1.4	NM	0.8	NM	5.1	5.1	7.2	13.1
EPS (INR)	(7.6)	2.8	NM	1.3	NM	9.9	8.5	12.0	21.9
ROAE (%)						5.6	4.4	5.5	9.4
ROAA (%)						0.6	0.5	0.7	1.1
ABVPS (INR)						184.7	191.0	205.1	224.5
P/ABV (x)						1.1	1.0	1.0	0.9
P/E (x)						19.6	23.0	16.3	8.9

### Change in estimates

INR bn	FY22E			FY23E		
	Old	New	Change	Old	New	Change
Net advances	658.6	653.8	-0.7%	761.8	755.9	-0.8%
Deposits	842.0	842.0	0.0%	985.3	985.3	0.0%
NIM (%)	4.6	4.5	-15bps	4.7	4.5	-17bps
NII	44.1	42.5	-3.5%	51.1	49.1	-4.0%
PPOP	31.2	31.1	-0.4%	36.2	35.0	-3.5%
PAT	8.9	7.2	-19.7%	13.6	13.1	-3.9%
ABVPS (INR)	205.4	205.1	-0.1%	228.9	224.5	-1.9%

Source: Company, HSIE Research

## REDUCE

CMP (as on 2 Aug 2021)	INR 195
Target Price	INR 182
NIFTY	15,885

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 189	INR 182
	FY22E	FY23E
EPS %	-20%	-4%

### KEY STOCK DATA

Bloomberg code	RBK IN
No. of Shares (mn)	598
MCap (INR bn) / (\$ mn)	116.4/1,566
6m avg traded value (INR mn)	3,094
52 Week high / low	INR 274/156

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	4.7	(19.7)	14.7
Relative (%)	(3.9)	(25.1)	(28.6)

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	0.0	0.0
FIs & Local MFs	24.2	23.9
FPIs	35.9	32.2
Public & Others	39.9	42.8
Pledged Shares	0.0	0.0

Source : BSE

Pledged shares as % of total shares

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# City Union Bank

## In-line P&L metrics; stressed book inches up to 12.5%

City Union Bank's (CUBK) Q1FY22 earnings were above our estimates, aided by lower-than-expected provisioning. Slippages remained elevated in the quarter (~5.5%, annualised), with the total stressed pool (NNPA + restructured + SR + SMA-II) inching up to 12.5% (Q4FY21: 10.4%). Credit costs, at 2%, were lower compared to prior quarters even as loan loss coverage dropped to 39% (FY21: 43.2%) and the bank utilised INR 0.8bn of COVID provisions during the quarter. Loan growth continued to be driven by gold loans (+6% QoQ) due to a muted economic environment, even as CUBK maintained healthy asset quality in its gold loan portfolio (GNPA at 0.14%). The management expects the bank to revert to steady-state profitability of 1.5% RoA by H2FY23, as it makes steady progress on recoveries and portfolio repricing. Maintain BUY with a target price of INR 194 (2.1x Mar'23 ABVPS).

- In-line P&L vectors; gold loans continue to drive asset growth:** CUBK reported PPOP growth of +8% YoY, driven by high other income (+22% YoY led by treasury gains), in-line opex and marginal reflation in NIMs (3.86%), partially offset by interest reversal (INR 0.2bn). While the overall loan growth remained soft (+5% YoY, -2% QoQ) across other categories, the bank continues to witness strong growth in its gold loan portfolio (+100% YoY, 6% QoQ). The gold loan portfolio quality stayed healthy (GNPA at 0.14%) even as other lenders witnessed deterioration in this portfolio during the quarter. Funding cost tailwinds continued to accrue with CoF at 4.1% and the bank expects to accrue another 10-15bps benefit.
- Asset quality deteriorates, LGD assumptions unchanged:** CUBK's Q1FY22 slippages, at 5.5%, drove the GNPA/NNPA to 5.6%/3.5% (Q4FY21: 5.1%/3%) as the bank took accelerated write-offs of 3% (annualised) during the quarter. The total stressed pool (NNPA + restructured + SR + SMA-II) now stands at ~12.5%; however, the management remains confident of a stronger recovery environment from the stressed pool (99% of overall loans secured) and, hence, is comfortable with a low PCR (~40%). Management expects FY22 slippages to be lower than FY21 levels, alongside higher full-year recoveries, subject to the predicted third wave of pandemic not materialising. We build in full-year slippages for FY22 at 2.8% (FY21: 3.1%).
- Reversion to steady-state profitability by FY23; maintain BUY:** CUBK reported an RoA of 1.3% during the quarter with in-line NIM, operating efficiency, and lower provisions. As the economic environment stabilises, we expect credit costs to further normalise (with marginal reflation in NIM), driving its RoA to 1.5% by FY23.

### Financial summary

(INR bn)	1Q FY22	1Q FY21	YoY (%)	4Q FY21	QoQ (%)	FY20	FY21P	FY22E	FY23E
NII	4.5	4.4	2.4%	4.3	4.5%	16.8	18.3	20.8	23.8
PPOP	3.8	3.6	7.6%	2.8	34.5%	13.4	14.8	16.5	18.5
PAT	1.7	1.5	12.3%	1.1	55.6%	4.8	5.9	7.6	9.6
EPS (INR)	2.3	2.1	11.6%	1.5	55.0%	6.5	8.0	10.3	13.0
ROAE (%)						9.4	10.6	12.3	13.7
ROAA (%)						1.0	1.2	1.4	1.5
ABVPS (INR)						61.3	64.5	77.7	90.1
P/ABV (x)						2.4	2.3	1.9	1.6
P/E (x)						22.6	18.2	14.1	11.2

Source: Company, HSIE Research

**BUY**

CMP (as on 20 Aug 2021) INR 146

Target Price INR 194

NIFTY 16,451

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 194	INR 194
	FY22E	FY23E
EPS %	0%	0%

### KEY STOCK DATA

Bloomberg code	CUBK IN
No. of Shares (mn)	739
MCap (INR bn) / (\$ mn)	108/1,452
6m avg traded value (INR mn)	469
52 Week high / low	INR 200/123

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(14.8)	(11.1)	17.5
Relative (%)	(25.7)	(19.8)	(25.8)

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	0.0	0.0
FIs & Local MFs	40.1	41.6
FPIs	18.0	17.2
Public & Others	41.9	41.2
Pledged Shares	0.0	0.0

Source : BSE

Pledged shares as % of total shares

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# CreditAccess Grameen

## Portfolio outperformance despite a tough environment

CreditAccess Grameen's (CREDAG) earnings were significantly below our estimates due to elevated provisioning and muted yields. As expected, the portfolio was disproportionately impacted by the second wave with GNPA's at 7.6% (+310bps sequentially), coupled with a sharp increase in early-bucket delinquencies (PAR-0/30 for standalone entity at 30.6%/13.8% vs. 5.2%/ 4.1% in Q4FY21). However, early delinquencies for MMFL (~16% of aggregate AUM) were nearly flat due to a freeze on overdue days during May'21. Management indicated that bulk of the early stress is likely to reverse itself on resumption of economic activity, as reflected in a 10-percentage point decline in the PAR-0 level during Jul'21. Also, the share of the aggregate portfolio making no payments reduced to ~6.5% of AUM during Jul'21 (12.9% in Jun'21). We maintain BUY with target price of INR 813 (2.8x Mar'23 ABVPS). We believe that our assigned multiple reflects CREDAG's high cross-cycle potential RoE and a relatively conservative approach to an inherently risky business.

- **Muted operating performance in a pandemic quarter:** CREDAG reported NII/PPOP decline of 8%/15% YoY on the back of asset quality deterioration (interest reversals of INR 213mn), muted yields (18.4% for standalone entity) and softer business traction. Disbursals declined by ~77% sequentially due to the pandemic-induced lockdown and the company's cautious stance on lending during the period. The number of borrowers fell 6% YoY due to write-offs, while the average outstanding per borrower increased by ~15% YoY to INR33K, as new customer acquisitions remained muted.
- **Amidst sharp deterioration in asset quality, elevated provisions provide comfort:** CREDAG reported consolidated GNPA's/NNPA's of 7.6%/3.3% with credit costs elevated at ~6.2% (annualised). The company deferred collections for >60% of its portfolio during May'21 on account of a rising number of infections among employees and customers. Consistent with the messaging from other lenders, the sharp spike in stress witnessed during Jun'21 in the CAGL portfolio has likely tapered off in Jul'21 and is expected to normalise by Sep'21 with improving economic activity. MMFL's delinquency buckets remained steady, due to a freeze on portfolio overdues during May'21. ECL provisions were healthy at 6.3%, with ~2.6% of write-offs during the quarter.
- **BAU likely by Q3FY21, Q2FY21 may remain muted:** While the economic activity and collection efficiency trends in Jul'21 have been encouraging, we expect near-normal portfolio delinquencies and disbursements in H2FY22, as the lockdowns are yet to be completely phased out and income levels are yet to revert to pre-COVID levels. CREDAG's conservative stance in provisioning and impairment recognition has helped maintain high ECL provisions, although the growth may remain muted in the near term.

### Financial summary

(INR bn)	1QFY22	1QFY21	YoY (%)	4QFY21	QoQ (%)	FY20	FY21P	FY22E	FY23E
NII	3.4	3.7	(7.7)	3.7	(9.8)	10.5	13.6	18.1	22.7
PPOP	2.2	2.6	(15.3)	3.3	(34.2)	7.0	9.5	12.1	15.1
PAT	0.2	0.7	(68.8)	0.8	(70.7)	3.4	1.3	5.1	8.5
EPS (INR)	1.4	5.0	(71.0)	3.6	(59.9)	23.3	8.4	33.1	54.6
ROAE (%)						12.9	4.0	12.9	18.3
ROAA (%)						3.4	1.0	3.1	4.1
ABVPS (INR)						173.0	211.7	240.3	294.6
P/ABV (x)						3.5	2.9	2.5	2.1
P/E (x)						26.0	71.6	18.3	11.1

Source: Company, HSIE Research

**BUY**

CMP (as on 11 Aug 2021)	INR 605
Target Price	INR 813
NIFTY	16,282

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 813	INR 813
EPS %	FY22E	FY23E
	0%	0%

### KEY STOCK DATA

Bloomberg code	CREDAG IN
No. of Shares (mn)	156
MCap (INR bn) / (\$ mn)	94/1,265
6m avg traded value (INR mn)	134
52 Week high / low	INR 840/541

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	1.7	(14.8)	4.2
Relative (%)	(9.2)	(20.6)	(37.8)

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	74.0	74.0
FIs & Local MFs	11.5	11.6
FPIs	10.1	10.1
Public & Others	4.3	4.3
Pledged Shares	0.0	0.0

Source : BSE

Pledged shares as % of total shares

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# Indostar Capital Finance

## Stress book peaking out

Indostar reported yet another quarter of losses at INR 0.4bn as the company continued to make provisions on its elevated stress portfolio. The total stress portfolio (GS-II + GS-III) remains elevated at >27%, largely driven by its CV book. However, credit costs came off sharply to 3.7% (annualised) (Q4FY21: 17%). With PCR at ~51%, GS-I + GS-II provisions at ~7% and zero NPA from the corporate segments, Indostar appears on track for near-term stability in credit costs. Disbursements moderated (-27% QoQ) due to a muted economic environment. The company continues with its strategy to build its retail book (~77% of AUM), with most of the growth driven by CV financing, affordable housing and SME loans. However, the company's track record on asset quality in the corporate and retail portfolios has been suboptimal, and a high-paced growth in new product segments entails an execution risk. We maintain REDUCE with a target price of INR 284 (1x Mar'23 ABVPS).

- **Muted P&L outcomes, disbursements maintain momentum:** Indostar reported NII/PPOP decline of 23%/55% YoY as it continues to see high delinquencies and run-down of the corporate portfolio. AUM declined 20% YoY, with the share of corporate portfolio currently at 23% of AUM (Q1FY21: 29%), which the management aims to bring down to 10% by end-FY22. Disbursements in the quarter were at INR 6.3bn (-27% QoQ). The cost of funds remained elevated at 9.4%, which is a significant handicap compared to well-sponsored NBFCs.
- **Asset quality yet to stabilise:** Having reported ~25% of portfolio as GS-II (GS-III at 4.4%) during Q4FY21, Indostar's total stressed portfolio improved marginally during the quarter. The vehicle finance portfolio has contributed to most of the impairment (GS-II at ~30%; GS-III at ~8%), while delinquencies in home loans have begun to inch up in the past couple of quarters (GS-III at 2.6%). The corporate portfolio continues to report zero GNPA as the impairment recognition cycle is near-complete. With the GS-III PCR stable at 51%, along with GS I + II at ~7% of AUM, we expect credit costs to normalise, going forward, assuming no third wave. We factor in cumulative provisions of 3.1% over FY22-23E.
- **Retail-driven growth, inorganic opportunities awaited:** Indostar continues to focus on building a retail portfolio, while rationalising its corporate loan book. The company continues its focus on vehicle finance and affordable housing (~INR 10bn AUM) for growth. However, with CAR of ~35% and promoter shareholding at 93%, we believe that the company could look at inorganic growth triggers to help enhance its return ratios and achieve regulatory compliance on the shareholding pattern as well.

### Financial summary

(INR bn)	1Q FY22	1Q FY21	YoY (%)	4Q FY21	QoQ (%)	FY20	FY21	FY22E	FY23E
NII	1.0	1.3	(23.4)	1.0	(0.1)	6.0	4.7	6.0	7.6
PPOP	0.3	0.7	(55.2)	0.4	(13.6)	3.8	2.4	3.7	5.2
PAT	(0.4)	0.5	NM	(3.2)	NM	(3.2)	(2.1)	1.8	2.9
EPS (INR)	(3.8)	4.3	NM	(26.4)	NM	(35.1)	(15.8)	13.2	21.3
ROAE (%)						(11.4)	(6.7)	4.7	7.2
ROAA (%)						(3.0)	(2.2)	1.7	2.5
ABVPS (INR)						259.2	259.3	271.0	291.6
P/ABV (x)						1.1	1.1	1.1	1.0
P/E (x)						NA	NA	22.2	13.8

Source: Company, HSIE Research

## REDUCE

CMP (as on 20 Aug 21)	INR 296
Target Price	INR 284
NIFTY	16,451

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 284	INR 284
	FY22E	FY23E
EPS %	0%	0%

### KEY STOCK DATA

Bloomberg code	INDOSTAR IN
No. of Shares (mn)	124
MCap (INR bn) / (\$ mn)	37/493
6m avg traded value (INR mn)	47
52 Week high / low	INR 424/249

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(2.2)	(8.6)	15.7
Relative (%)	(13.0)	(17.3)	(27.6)

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	93.3	93.3
FIs & Local MFs	2.7	2.1
FPIs	0.1	0.1
Public & Others	4.0	4.6
Pledged Shares	0.0	0.0

Source : BSE

Pledged shares as % of total shares

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# Ujjivan Small Finance Bank

## 'Key man' risk plays out; adds to accentuated stress

Ujjivan SFB reported yet another quarter of losses at INR 2.35bn, as it shored up its provisions to adequately cover for sharply deteriorating asset quality (PAR >0 doubled from 15% in Mar'21 to 31% in Jun'21). A further headwind has now emerged with the resignation of incumbent CEO Nitin Chugh. The business performance continues to be patchy as most of the stress emanated from the micro-banking and MSE segments, although early delinquencies in affordable housing segment also witnessed a spike. As the second wave of the pandemic receded, collections and recoveries have begun improving (PAR >0 at 25% in Jul'21). The loan loss coverage stood at 75%, led by accelerated provisioning, with provisions at ~8% of gross advances (including INR 0.25bn of COVID provisions). Ujjivan SFB is in the process of applying for a reverse merger with its holding company Ujjivan Financial Services and expects it to be completed in a year. Maintain ADD with a TP of INR 36 and BUY on Ujjivan Financial Services with TP of INR 354.

- Deterioration in asset quality likely to have peaked out:** Ujjivan SFB's asset quality witnessed significant deterioration driven by its MFI portfolio, with >40% of its customers' incomes impacted by the second wave. PAR>0 increased to ~31%, driven by MFI (37%) and MSE (29%) portfolios. GNPA spiked to 9.8% (Q4FY21: 7.1%), while NNPA moderated sequentially to 2.7% (Q4FY21: 2.9%), led by elevated provisions. Restructuring during the quarter was limited (INR 0.4bn in MFI book); however, the management expects ~INR 6bn (4% of gross advances) to be restructured during Q2. Collection efficiency, which had dropped to ~78% in Jun'21, has now recovered to 93% in Jul'21. Elevated provisioning (14% annualised) shored up the PCR to 75%, in addition to a further ~INR 0.25bn allocated to COVID provisions. Assuming there would be no third wave, we expect asset quality to normalise by the end of FY22.
- Near-term leadership uncertainty to dominate business outcomes:** Gross advances declined by 2% YoY, as disbursements witnessed a sharp decline (70% QoQ) across segments. We expect the disbursement run rate to pick up traction from Q3FY22, as collections and recovery efforts normalise and the bank begins to focus on disbursements again. However, the narrative is now likely to be dominated by the sudden exit of its CEO Nitin Chugh and the resultant uncertainty and lack of stability.
- Reverse merger key trigger for Ujjivan Financial Services:** As the RBI has allowed the bank to explore a reverse merger with its holding company Ujjivan Financial Services, Ujjivan SFB is in the process of applying for the same. Subject to gaining the RBI approval, the bank expects the reverse merger to be completed within the next 12 months.

### Financial summary

(INR bn)	Q1 FY22	Q1 FY21	YoY (%)	Q4 FY21	QoQ (%)	FY20	FY21P	FY22E	FY23E
NII	3.8	4.6	-16.1%	3.7	4.4%	16.3	17.3	19.9	23.6
PPOP	1.6	2.1	-24.3%	1.6	2.4%	6.4	8.1	9.1	11.2
PAT	(2.3)	0.5	NM	1.4	NM	3.5	0.1	3.1	4.7
EPS (INR)	(1.4)	0.3	NM	0.8	NM	2.0	0.0	1.8	2.7
ROAE (%)						14.0	0.3	9.3	12.7
ROAA (%)						2.2	0.0	1.4	1.9
ABVPS (INR)						18.3	16.2	17.9	21.0
P/ABV (x)						1.1	1.2	1.1	1.0
P/E (x)						9.9	416.5	11.0	7.3

Source: Company, HSIE Research

## Ujjivan Small Finance Bank

**ADD**

CMP (as on 20 Aug 2021)	INR 20
Target Price	INR 36
NIFTY	16,451

### KEY STOCK DATA

Bloomberg code	UJJIVANS IN
No. of Shares (mn)	1,728
MCap (INRs bn) / (\$ mn)	34/457
6m avg traded value (INR mn)	157
52 Week high / low	INR 45/19

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(34.2)	(43.9)	(44.6)
Relative (%)	(45.1)	(52.6)	(87.9)

## Ujjivan Financial Services

**BUY**

CMP (as on 20 Aug 2021)	INR 178
Target Price	INR 354
NIFTY	16,451

### KEY STOCK DATA

Bloomberg code	UJJIVAN IN
No. of Shares (mn)	122
MCap (INR bn) / (\$ mn)	22/291
6m avg traded value (INR mn)	216
52 Week high / low	INR 311/174

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(16.8)	(26.8)	(30.0)
Relative (%)	(27.6)	(35.6)	(73.2)

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# DCB Bank

## Elevated impairment may be transient

DCB Bank's (DCBB) Q1FY22 earnings missed expectations on account of sharper-than-anticipated slippages and elevated provisioning. Asset quality deteriorated sharply with gross slippages at 8.2% (FY21: 2.7%); however, net slippages clocked in at 4.2% as the bank witnessed healthy upgrades and recoveries even as the restructured portfolio spiked to 5.4% of loans. While the PCR dipped to ~43% (FY21: 45%), we draw comfort from DCBB's largely secured loan book (95%) that is likely to witness strong recoveries and lower LGDs as >95% of the restructured portfolio comprises secured assets. Retail deposit mobilisation continued to gain traction with improving share in deposits mix, along with lower concentration of deposits. We maintain ADD with a target price of INR 140 (1x Mar'23 ABVPS).

- **Muted operating performance:** DCB Bank reported muted NII growth of 1% YoY, largely due to high interest reversals and muted asset growth (+2% YoY). NIM declined to 3.31% (Q4FY21: 3.46%) as slippages remained elevated. Strong growth in other income (+55% YoY) was led by treasury income driving PPOP growth of 5% YoY. Loan growth was muted (2% YoY, -2% QoQ), with incremental disbursements at ~INR 15.3bn (6% of loans).
- **Sharp deterioration in asset quality; reversals likely:** DCBB's GNPA/NNPA increased to 4.9/2.8% (Q4FY21: 4.1/2.3%). Elevated slippages at INR 5.2bn included a couple of corporate accounts (~INR 0.5bn), while the SME, CV and the mortgage segments witnessed spikes in GNPA (5.9%, 16% and 4.3% respectively). Consistent with the commentary from other lenders, collection efficiency for the months of Jun-Jul'21 clocked an improvement across segments and converged with pre-COVID levels for mortgage and the LAP segments. We build in exit FY22 GNPA/NNPA at 3.2% and 1.6% respectively as we expect a significant proportion of recent slippages in mortgage and LAP segments to reverse during FY22 (assuming no third wave), although the CV segment is likely to take longer to normalise. The bank is carrying surplus provisions of 0.5% of loans, with ~14% provisioning on restructured assets and specific loan loss coverage at 43%.
- **Muted deployment opportunities remain a key concern:** Loan growth moderated for the ninth straight quarter and remains a cause for concern, especially given the scarce deployment opportunities in the bank's core segments (MSMEs) amidst a soft economic environment. Our forecasts build in a loan CAGR of 15% over FY21-23E.

### Financial summary

(INR bn)	1Q FY22	1Q FY21	YoY (%)	4Q FY21	QoQ (%)	FY20	FY21	FY22E	FY23E
NII	3.1	3.1	0.6%	3.1	-0.8%	12.6	12.9	14.5	16.3
PPOP	2.0	1.9	5.3%	2.1	-2.0%	7.5	9.0	9.5	10.4
PAT	0.3	0.8	-57.5%	0.8	-56.7%	3.4	3.4	4.0	4.9
EPS (INR)	1.1	2.5	-57.3%	2.5	-56.5%	10.9	10.8	13.0	15.8
ROAE (%)						10.3	9.4	10.2	11.2
ROAA (%)						0.9	0.9	1.0	1.1
ABVPS (INR)						100.8	101.9	118.7	134.6
P/ABV (x)						0.9	0.8	0.7	0.6
P/E (x)						7.9	8.0	6.6	5.4

Source: Company, HSIE Research

## ADD

CMP (as on 20 Aug 2021)	INR 86
Target Price	INR 140
NIFTY	16,451

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 140	INR 140
	FY22E	FY23E
EPS %	0%	0%

### KEY STOCK DATA

Bloomberg code	DCBB IN
No. of Shares (mn)	311
MCap (INR bn) / (\$ mn)	27/358
6m avg traded value (INR mn)	212
52 Week high / low	INR 127/74

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(16.6)	(25.4)	3.9
Relative (%)	(27.5)	(34.2)	(39.4)

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	14.9	14.9
FIs & Local MFs	40.6	38.5
FPIs	13.0	12.2
Public & Others	31.5	34.4
Pledged Shares	0.0	0.0

Source : BSE

Pledged shares as % of total shares

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# Aditya Birla Capital

## Steady progress in a muted environment

As outlined in our [Initiation](#) note, Aditya Birla Capital (ABCL) continues on its journey towards a credible makeover, driving consolidated return ratios closer to franchise potential over the next three years. We believe that ABCL is steadily repositioning its lending businesses towards retail and granular loans (58% of NBFC AUM towards Retail + SME + HNI; 29% of HF AUM towards affordable housing), likely to reflect in sustained improvement in franchise earnings. Although Q1FY22 was weak for insurers in general, we draw comfort from both of ABCL's insurance businesses steadily building their profitability trajectory (VNB margins +300bps YoY to -1.6% on account of better mix and all-time low loss ratios (40%) in the health insurance business).

- **Flagship NBFC - stable in an unstable environment:** While disbursement run-rate was weak during the quarter, ABFL's share of retail continued to inch up (retail + SME + HNI at 58% of AUM; FY21: 57%), driving RoA accretion. NIMs reflat by ~15bps QoQ to 6.14%, driven by CoF tailwinds (-7bps QoQ) and improving retail asset mix. Asset quality deteriorated as GS-III clocked in at 3.64% (+96 bps sequentially) and a further 0.9% of loans were restructured during the quarter. Credit costs increased to 1.7% although the company witnessed a marginal reduction in PCR to 43% (FY21: 45%) while floating provisions remained intact (~28bps of AUM).
- **HFC business in investment phase:** ABHFL continued its focus on affordable housing with its share in AUM increasing to 29% (FY21: 27%). The 39bps sequential reflation in NIM was largely driven by lower funding costs (28bps), partially offset by higher opex (1.6% of loans) as economies of scale are yet to kick in. Asset quality deteriorated with GS-III rising to 2.1%, driving higher credit costs (1.1% of loans). The restructured portfolio stands at ~5% of loans, with a floating provision of INR 420mn (0.35% of loans).
- **Improving share of high-margin life insurance business:** Individual APE growth for Q1FY22 was soft (+5% YoY); however, high-margin protection business showcased impressive growth (+19% YoY). Persistencies improved across cohorts in the range of 100bps-600bps. On the back of a shifting mix towards higher-yielding business and better cost efficiencies, net VNB margin came in at -1.6% (+300bps YoY). While COVID claims (net) at INR 1.1bn dented profitability, death claims were in line with industry trends. ABSLI is carrying additional COVID reserves of INR 1bn.
- **Health insurance losses narrowing:** ABHI continued to build scale as NWP grew at a robust pace (+50% YoY) despite an unfavourable base, primarily led by retail business (NWP: + 1.45x YoY). Loss ratios understandably shot up to 68% (+1,700bps YoY) on account of the pandemic. Normalised CORs (ex-COVID claims) came in line with management guidance at 110%. We believe there is a line of sight to the health insurance business breaking even over the next few quarters (exit FY22E, assuming no third wave).

### Financial Summary

(INR bn)	Q1FY22	Q1FY21	% YoY	Remarks
ABFL	3.2	1.9	66.7%	Improvement in NIM drove ROA accretion
ABHFL	0.5	0.4	36.1%	Improving NIM driven by lower CoF
ABSLI	0.3	0.3	6.9%	Improved profitability with increasing scale
ABHI	(1.3)	(0.6)	119.0%	Covid provisioning dented profitability
Others	2.6	1.7	51.2%	
<b>PBT</b>	<b>5.3</b>	<b>3.7</b>	<b>43.4%</b>	
<b>Consolidated PAT</b>	<b>3.0</b>	<b>2.0</b>	<b>51.0%</b>	Strong earnings growth

Source: Company, HSIE Research

NOTE: HDFC Bank, the parent entity of HDFC Securities, is one of the book running lead managers for the Initial Public Offering of Aditya Birla Sun Life AMC Limited, a subsidiary of Aditya Birla Capital Limited

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# Capital Goods

# Larsen & Toubro

## Muted Performance

Larsen & Toubro (LT) reported revenue/EBITDA/APAT of INR 293/31/11bn, (9)/(12)/(21)% miss vs. our estimates. Intermittent supply chain issues, labour shortages, and oxygen unavailability impacted operations. The order inflow was down sequentially at INR 266bn (vs INR 507bn), owing to subdued tendering. However, the status quo on guidance (low to mid teens order inflow and topline growth) was the key positive from the call. We maintain BUY on LT, given its (1) strong order book (INR 3.23tn, ~3.6x FY21 core EPC revenue), (2) healthy balance sheet, (3) robust services business, and (4) focus on cash generation. We roll forward our SOTP-based target price to INR 1,909/sh (Jun-23E, INR 1,800 earlier) and maintain our estimates. Key risks: delay in asset monetisation and tepid order inflows.

- **Subpar execution:** LT reported revenue of INR 293bn (+38%/-39% YoY/QoQ), 9% below our estimates. Execution slowed due to COVID-related supply chain issues and labour shortages. The group level EBITDA missed our estimate by 12%. Although the EBITDA margin expanded 319bps YoY to 10.8%, it was still below our estimate of 11.1% due to high COVID impact on metro and financial services business. Consequently, lower-than-expected other income led to a 21% miss on estimates. LT is aiming for low to mid-teens growth in execution, which we believe is possible, given a robust order book.
- **Ordering in international/domestic market weak sequentially:** LT registered an order inflow of INR 266bn in Q1FY22 (+13%/-48% YoY/QoQ), as tendering got deferred. The OB now stands at INR 3.23tn. Management believes FY22 will witness healthy ordering in domestic market, owing to a pick-up in economic activity and higher crude price in international markets. The total bottom-up order pipeline stood at INR 8.96tn, of which 6.4tn corresponds to infrastructure, INR 1.8tn to hydrocarbons and INR 1.07tn to T&D. Infrastructure, at 76%, constitutes a major share of the OB, followed by hydrocarbon at 13%. The order inflow guidance is also pegged at low to mid-teens. The recovery in international markets, continued government focus on infrastructure, and stable oil prices shall augur well for LT.
- **Focus on asset monetisation to further improve balance sheet:** Net debt reduced to INR 810bn (vs INR 853bn on Mar 21-end). While NWC to sales ratio improved to 22.9% from 26.8% at Jun 20-end, working capital deteriorated by INR 35bn in absolute terms, leading to a negative OCF of INR 7.9bn. LT expects working capital to be at similar level as at FY21-end (22.3%). LT has firmed up its asset monetisation plan as it looks to divest the entire stake in the power development business, the remaining stake in IDPL and have a resolution for the Hyderabad metro. The Hyderabad metro would require INR 20bn support until the ridership picks up.

### Consolidated Financial Summary

(INR mn)	1QFY22	1QFY21	YoY (%)	4QFY21	QoQ (%)	FY21	FY22E	FY23E	FY24E
Revenues	293,347	212,600	38.0	4,80,879	(39.0)	1,359,790	1,563,639	1,817,093	2,045,397
EBITDA	31,715	16,205	95.7	63,889	(50.4)	156,241	177,404	212,954	243,713
APAT	11,744	714	1,545.6	34,173	(65.6)	69,010	88,374	112,101	132,542
EPS (INR)	8.4	0.5	1,545.6	24.4	(65.6)	49.2	63.0	79.9	94.5
P/E (x)						32.5	25.4	20.0	16.9
EV/EBITDA(x)						19.8	17.5	14.5	12.6
RoE (%)						9.7	11.3	13.4	14.7

Source: Company, HSIE Research

**BUY**

CMP (as on 26 July 21)	INR 1,598
Target Price	INR 1,909
NIFTY	15,824

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 1,800	INR 1,909
EPS	FY22E	FY23E
change %	-	-

### KEY STOCK DATA

Bloomberg code	LT IN
No. of Shares (mn)	1,404
MCap (INR bn) / (\$ mn)	2,244/30,148
6m avg traded value (INR mn)	5,018
52 Week high / low	INR 1,647/826

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	19.6	17.4	80.1
Relative (%)	11.6	5.9	40.7

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	0.0	0.0
FIs & Local MFs	32.75	32.30
FPIs	22.02	22.88
Public & Others	45.23	44.82
Pledged Shares	0.0	0.0

Source: BSE

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# Siemens

## Weak performance

Siemens India Ltd (SIL) delivered revenue/EBITDA/APAT miss of 14%/38/40%, impacted by disruptions induced by the second wave and the lockdown that followed. Margins across all segments increased YoY on a low base and dipped sequentially except for mobility. Strong demand for digital technologies, including cybersecurity solutions, helped the digital industries vertical grow 276% YoY, the most among all segments. SIL commented on seeing the first benefit out of C&S business with integration still on track. With new orders at INR 43bn (16Q high), the order book stands at an all-time high of INR 143bn. We roll forward our valuation (35x) to Sep-23E and arrive at a target price of INR 1,860 vs INR 1,811 Mar-23E. Given punchy valuations, we maintain REDUCE on SIL. We have cut our FY21/22/23E EPS estimates by 22.5/7.8/1.7% respectively on account of weak execution.

- **Q3FY21 highlights:** Revenue: INR 27bn (+2.2x/-19.3% YoY/QoQ, 14% miss). EBITDA: INR 2.3bn (INR -9mn in Q3FY20, -48% QoQ, miss of 38%). EBITDA margin: 8.4% (+850/-473bps YoY/QoQ) vs estimate of 11.7%. Consequently, APAT came in at INR 1.6bn (+16x/-49% YoY/QoQ, 40% miss). Whilst gross margin improved QoQ by 146bps, under absorption of overheads led to EBITDA margin miss. Order inflow stood at INR 43.4bn (+2.5x YoY, 16Q high) and order backlog was at an all-time high of INR 143bn (+3% YoY). All business segments recorded order inflow growth over the 2019 levels.
- **Segment-wise performance:** Gas & power (35% revenue contribution): revenue at INR 9.5bn (+72/-19.8% YoY/QoQ) and EBIT margin at 8.01% (+383/-713 bps YoY/QoQ). Smart infrastructure (31%): revenue at INR 8.6bn (+2.8x/-17.5% YoY/QoQ) and margin at 5.3% (+2,896/-378bps YoY/QoQ). Mobility (5%): revenue at INR 1.3bn (+30.5/-46% YoY/QoQ) and margin at 12.1% (+868/+196bps YoY/QoQ). Digital industries (25%): revenue at INR 6.8bn (+3.7x/-13.6% YoY/QoQ) and margin at 4.6% (+1,758/-406bps YoY/QoQ). Portfolio of companies (4%): revenue at INR 936mn (-45/-26% YoY/QoQ) and margin at 2.8% (+1,143/-677bps YoY/QoQ). Digital industries and smart infrastructure verticals drove the quarterly outperformance.

### Financial summary

(INR mn, Sep YE)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
Net Revenues	27,080	12,074	124.3	33,543	(19.3)	98,694	121,880	154,697	184,407
EBITDA	2,283	(9)	25,467	4,414	(48.3)	9,903	13,980	19,868	24,949
APAT	1,615	101	1,499	3,158	(48.9)	7,574	10,097	14,722	18,924
Diluted EPS (INR)	4.5	0.3	1,499	8.9	(48.9)	21.3	28.4	41.3	53.1
P/E (x)						96.3	72.2	49.5	38.5
EV / EBITDA (x)						68.0	48.5	33.8	26.8
RoE (%)						8.2	10.3	13.7	15.8

Source: Company, HSIE Research

### Change in Estimates

Standalone INR Mn	FY21E			FY22E			FY23E		
	Old	Revised	% Chg	Old	Revised	% Chg	Old	Revised	% Chg
Net Sales	136,326	121,880	(10.6)	161,263	154,697	(4.1)	185,453	184,407	(0.6)
EBITDA	16,840	13,980	(17.0)	20,711	19,868	(4.1)	25,091	24,949	(0.6)
EBITDA Margin (%)	12.4	11.5	(88.2)	12.8	12.8	0.0	13.5	13.5	0.0
Adj PAT	13,035	10,097	(22.5)	15,961	14,722	(7.8)	19,251	18,924	(1.7)
AEPS (Rs)	36.6	28.4	(22.5)	44.8	41.3	(7.8)	54.1	53.1	(1.7)

Source: Company, HSIE Research

## REDUCE

CMP (as on 10 Aug 2021)	INR 2,060
Target Price	INR 1,860
NIFTY	16,280

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 1,811	INR 1,860
EPS change %	FY21E -22.5	FY22E -7.8 FY23E -1.7

### KEY STOCK DATA

Bloomberg code	SIEM IN
No. of Shares (mn)	356
MCap (INR bn) / (\$ mn)	734/9,857
6m avg traded value (INR mn)	867
52 Week high / low	INR 2,178/1,121

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	9.4	10.7	81.9
Relative (%)	(0.8)	4.4	39.0

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	75.00	75.00
FIs & Local MFs	10.59	10.36
FPIs	4.37	4.60
Public & Others	10.04	10.04
Pledged Shares	-	-

Source : BSE

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# ABB India

## Capex recovery awaited

ABB reported revenue/EBIDTA/APAT miss of 5/16/16% due to 3-3.5 weeks of COVID-related disruptions. Strong recovery has been witnessed from Jun-21 with plant utilisation at ~80-85%. ABB has received the green signal for capacity expansion, with land already in place in existing locations. Except for tendering business, pricing power is there in private orders to take care of commodities inflation. The next phase of growth for ABB will be driven by (1) increased localisation for exports markets, (2) pick-up in private Capex, and (3) operating leverage led margins expansion. We believe most of the potential upsides on cyclical recovery are already priced into the lofty valuation. We maintain REDUCE, roll forward to 42x Jun-23 EPS with revised TP of INR 1,540/sh.

- **Sequential execution decline:** ABB reported revenue at INR 14.3bn (+44.6%/-12.5% YoY/QoQ, 5% miss). While motion/electrification/process automation posted de-growth of 20.7%/8.9%/17.9% sequentially, revenue from robotics & discrete automation was robust at INR 890mn (+3.6x/+85.6% Q2CY20/Q1CY21). EBITDA of INR 948mn (~4x/-28.4% YoY/QoQ) was 16% below our estimate and margin of 6.6% (+427/-147bps YoY/QoQ) was 91bps lower than our estimate. Sequentially, the EBIT margin declined for all the segments with robotics at 5.1% (vs 11.1%), process automation at 6% (vs 8.8%), motion at 11% (vs 14.2%) and electrification at 6.8% (vs 11.8%). RPAT/APAT: INR 683mn (~4.6x/-28% YoY/QoQ, 16% miss).
- **Order inflows decline; services business picks up, saves margin:** Q1CY21 order inflows stood at INR 16.9bn (vs INR 12/18.2bn YoY/QoQ), taking the backlog to INR 45.8bn (vs INR 46.7/43.3bn YoY/QoQ). While sequential order inflows de-grew for electrification/process automation/robotics & discrete automation by -16%/-18%/-31%, motions saw 15% growth. The services business, which was muted for the past few quarters on account of mobility constraint, has started to pick up.
- **Limited impact of commodity price increase; capacity utilisation high; encouraging response on eMart:** Given that 70% of the order backlog is short cycle in nature, ABB does not expect a negative effect of commodity price inflation on margins. For the 27 factories, capacity utilisation for the quarter on a blended basis was between 80%-85%. Response to eMart has been encouraging with increasing inquiries.

### Financial Summary

(INR mn, Dec YE)	Q2CY21	Q2CY20	YoY (%)	Q1CY21	QoQ (%)	CY20	CY21E	CY22E	CY23E
Net Revenues	14,250	9,858	44.6	16,292	(12.5)	58,210	72,379	94,192	107,175
EBITDA	948	234	304.2	1,323	(28.4)	2,759	6,191	9,378	11,325
APAT	683	148	363.2	947	(27.9)	1,717	4,433	6,943	8,595
EPS (INR)	3.2	0.7	363.2	4.5	(27.9)	8.1	20.9	32.8	40.6
P/E (x)						207.9	80.5	51.4	41.5
EV/EBITDA (x)						121.3	54.8	35.8	29.2
RoE (%)						4.8	11.8	16.5	17.8

### Consolidated Estimate Change Summary

INR mn	CY21E			CY22E			CY23E		
	New	Old	% Chg.	New	Old	% Chg.	New	Old	% Chg.
Revenue	72,379	82,191	-11.9%	94,192	93,025	1.3%	107,175	105,154	1.9%
EBITDA	6,191	6,870	-9.9%	9,378	9,118	2.9%	11,325	10,893	4.0%
Margin (%)	8.6%	8.4%	19.47	10.0%	9.8%	15.49	10.6%	10.4%	20.82
APAT	4,433	5,090	-12.9%	6,943	6,832	1.6%	8,595	8,294	3.6%

Source: Company, HSIE Research

## REDUCE

CMP(as on 29 Jul 2021)	Rs 1,687
Target Price	Rs 1,540
NIFTY	15,778

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 1,426	INR 1,540
EPS Change %	CY21E (13)%	CY22E 1.6% CY23E 3.6%

### KEY STOCK DATA

Bloomberg code	ABB IN
No. of Shares (mn)	212
MCap (Rs bn) / (\$ mn)	357/4,811
6m avg traded value (Rs mn)	304
52 Week high / low	Rs 1,857/847

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	22.1	21.5	91.4
Relative (%)	14.2	7.7	51.9

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	75.00	75.00
FIs & Local MFs	6.92	6.71
FPIs	3.83	3.73
Public & Others	14.25	14.56
Pledged Shares	-	-

Source : BSE

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# Voltas

## Lost out on another season; remain constructive

Voltas lost out on another peak season as COVID-driven second wave impacted the peak season demand. Net revenue/EBITDA was up 38/103% YoY (HSIE of 69/250%), owing to a small base. UCP revenue growth was at 19% YoY (-60% in Q1FY21, 63% HSIE) while UCP volume was up 10% YoY, outpacing the industry growth (low single digit YoY growth). Thereby, Voltas expanded its market share to 26.7% (26.2% in Q1FY21). The project business also witnessed execution issues, with EMPS revenue up 67% YoY (80% HSIE). High raw material inflation, delayed price hike, and restoration of cost impacted the EBIT margin (down 180bps YoY). JV losses (Beko) expanded to INR 307mn (INR 117mn in Q1FY21, INR 222mn in Q4FY21) on continued brand investment. The RAC channel inventory is low and provides better visibility of performance in the festive season. We cut our EPS estimate by 7/3/2% for FY22/23/24. The company has changed the accounting for commercial AC business (moved from EMPS to UCP), a better quality business moved from EMPS. We cut our target P/E multiple for EMPS to 9x (earlier 15x). We value the company on SoTP basis, (UCP/EMPS/EPS P/E at 45/9/15x and Volt-Beko P/S of 4x) on Jun-23 to derive a TP of INR 1,100 arriving at an implied P/E of 38.5x. Maintain ADD.

- **Second wave impacts recovery; normal trade inventory:** Consolidated revenue grew 38% YoY (-51% in Q1FY21, +27% in Q4FY21), below our estimate of 68% growth. UCP revenue was up 19% YoY (-60% in Q1FY21, 20% in Q4FY21 like to like), HSIE 63%. UCP volume growth was at 10% and the company increased its market share to 26.7%. Normal trade inventory gives visibility of healthy demand in the normal festive season. EMPS clocked robust 67% growth (-37% in Q1FY21, +37% in Q4FY21 like to like), HSIE 80%. EPS clocked 142% growth (-36% in Q1FY21, +3% in Q4FY21).
- **Beat in margins for all segments:** GP was up 28% YoY (-42% in Q1FY21 and 13% in Q4FY21, 46% HSIE). GPM contracted only 210bps YoY (+458bps in Q1FY21 and -306bps in Q4FY21) to 28% (26% HSIE). Other expenses were up by 30% on continued A&P spends. EBITDA was up by 103% YoY (-77% in Q1FY21, +72% in Q4FY21 like to like, +250% HSIE). EBITDA margin was at 7.6% (10.7% HSIE). UCP EBIT grew 4% YoY (-52% in Q1FY21, +28% in Q4FY21), HSIE 42%. EMPS EBIT margin was at 4.4% (-7.6% in Q1FY21, 8.4% in Q4FY21 like to like), HSIE 7.8%. EPS segment EBIT grew 93% (-18% in Q1FY21, +25% in Q4FY21).
- **Con call takeaways:** (1) A&P spends were higher than in the previous year during Q1FY22. (2) Price hikes taken to absorb RM cost increase, part impact of which will come with a lag. YTD price hikes of 8-10% seen in RAC. (3) Channel inventory is at a low level but the company-level inventory is high. The QoQ rise in input costs may see inventory gains. (4) BEE rating may see further deferment due to the second wave. Implementation of new ratings will lead to 3-4% cost increase. (5) The company continues to invest in the Voltas Beko brand, and despite the lockdowns, share gains continue.

### Quarterly/annual financial summary

YE Mar (Rs mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21P	FY22E	FY23E	FY24E
Net Sales	17,852	12,969	37.6	26,517	(32.7)	75,558	87,564	104,953	117,971
EBITDA	1,358	668	103.4	3,307	(58.9)	6,414	8,408	10,721	11,908
APAT	1,224	818	49.7	2,388	(48.7)	5,289	7,171	9,132	10,439
Diluted EPS (Rs)	3.7	2.5	49.7	7.2	(48.7)	16.0	21.7	27.6	31.6
P/E (x)						64.3	47.4	37.2	32.6
EV / EBITDA (x)						53.2	40.2	31.3	27.9
RoCE (%)						21.0	27.2	30.9	29.9

Source: Company, HSIE Research

## ADD

CMP (as on 9 Aug 2021)	INR 1,025
Target Price	INR 1,100
NIFTY	16,258

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 1,100	INR 1,100
EPS %	FY22E	FY23E
	-7%	-3%

### KEY STOCK DATA

Bloomberg code	VOLT IN
No. of Shares (mn)	331
MCap (INR bn) / (\$ mn)	339/4,556
6m avg traded value (INR mn)	1,914
52 Week high / low	INR 1,132/586

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	5.7	(5.1)	72.5
Relative (%)	(4.9)	(11.1)	29.5

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	30.30	30.30
FIs & Local MFs	37.07	33.87
FPIs	14.38	17.24
Public & Others	18.25	18.59
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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# Cummins

## Powering ahead

Cummins India Ltd. (CIL) delivered robust performance with beat on revenue at 7% and in-line EBITDA and PAT in spite of ~4 weeks of downtime during the quarter. CIL has re-energised its product portfolio, introduced new power gen and industrial products with 20-25% better product density vs peers. We continue to remain positive on CIL on account of: (1) new product offerings; (2) global consolidation and increased investment in clean tech; (3) start of a new Capex cycle globally; and (4) exports ramp-up, given global economies are on the path to recovery. We maintain BUY on CIL with SOTP-based target price revised to INR 1,147 (roll over to Jun-23E; INR 1,024 earlier). We have increased FY22E/23E EPS by 5.9%/11.3% to account for the strong export/domestic demand and improving supply chain.

- **Financial highlights:** CIL reported revenue at INR 11.8bn (7% beat), on strong exports, at INR 3.1bn (+144% YoY, +21% QoQ). Domestic sales stood at INR 8.6bn (+140/-12% YoY/QoQ). EBITDA margin came in at 12.6% (13.4% estimate, COVID impact). EBITDA was at INR 1.5bn (in-line). CIL reported extraordinary gains of INR 1.3bn on account of sale of a property in Pune. Adjusting for this one-off gain APAT, was at INR 1.3bn (in-line). CIL took price hikes to offset commodity inflation.
- **Eyeing growth on back of export/domestic Capex recovery:** Total export sales for the quarter at INR 3.1bn was 2.4x of FY21 export sales with strong comeback in the APAC market, which contributed ~30% to sales. CIL intends to make North America 10-15% of its export market (currently at less than 5%) and tailwinds like \$1tn US spend on infra will aid recovery. CIL is expecting multi-year growth cycle in gen-sets within sub-markets of data-center, telcos and health support services.
- **OEM penetration, after market services and clean energy:** With changing cost structure in China favoring India, CIL stands to benefit from OEMs making India as their export base. The company is investing in hydrogen economy and is looking for strategic partnership with firms that use it in their manufacturing process. CIL also feels that the low penetration in off-highway and on-highway after-market presents a big opportunity and is likely to make an online presence in this segment.

### Standalone Financial summary

(INR mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY22E	FY23E	FY24E
Net Revenues	11,845	4,982	137.8	12,465	(5.0)	43,292	53,059	63,035	71,968
EBITDA	1,488	29	5,030.7	1,675	(11.2)	5,795	8,616	11,024	12,833
APAT	1,374	259	430.5	1,857	(26.0)	6,055	8,092	10,587	12,344
Diluted EPS (Rs)	5.0	0.9	430.5	6.7	(26.0)	21.8	29.2	38.2	44.5
P/E (x)						44.6	33.4	25.5	21.9
EV/EBITDA (x)						44.4	24.1	18.6	18.6
RoE (%)						14.1	17.7	21.1	21.7

### Standalone Estimate Change Summary

Consolidated (Rs mn)	FY22E			FY23E		
	New	Old	% Chg.	New	Old	% Chg.
Revenues	53,059	51,794	2.4	63,035	61,680	2.2
EBITDA	8,616	8,264	4.3	11,024	10,535	4.6
EBITDA (%)	16.2	16.0	28.3	17.5	17.1	40.9
APAT	8,092	7,642	5.9	10,587	9,508	11.3

Source: Company, HSIE Research

## BUY

CMP (as on 13 Aug 2021)	INR 976
Target Price	INR 1,147
NIFTY	16,529

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 1,024	INR 1,147
EPS change %	FY22E +5.9	FY23E +11.3

### KEY STOCK DATA

Bloomberg code	KKC IN
No. of Shares (mn)	277
MCap (INR bn) / (\$ mn)	270/3,634
6m avg traded value (INR mn)	1,257
52 Week high / low	INR 989/414

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	17.1	29.4	123.4
Relative (%)	3.3	21.9	78.7

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	51.00	51.00
FIs & Local MFs	25.19	24.19
FPIs	10.92	11.69
Public & Others	12.89	13.12
Pledged Shares	-	-

Source: BSE

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# KEC International

## Muted performance

KEC reported in-line execution with revenue at INR 25.4 (1.6% beat), driven by non-T&D segments. The Q1FY22 order inflow stood at INR 44bn, taking the order book (OB) to INR 204bn (INR 260bn with L1). Margin contracted by 254/184 bps YoY/QoQ to 6.3% due to the SAE EBITDA loss of ~INR 750-800mn and higher commodity prices. The KEC diversification gambit seems to be paying off with local non-T&D segments like railways and civil continuing to witness strong traction. A well-diversified order book, strong bid pipeline of INR 700bn, and likely improvement in margins from here on may lead to further rerating. We roll forward our estimates to Jun-23E and maintain BUY on KEC with increased target price of INR 485/sh (14x, INR 452 earlier, Mar-23E).

- **Q1FY22 financial highlight:** KEC reported revenue of INR 25.4bn (+15/-42% YoY/QoQ, 1.6% beat). While execution in T&D segment (INR 14bn) declined 4% YoY, revenue growth was driven by non-T&D segments, with railways at INR 6bn (+14% YoY), civil at INR 3bn (~3x YoY), cables at INR 3.3bn (~2x YoY) and solar/smart infra at INR 28mn (+48% YoY). EBITDA at INR 1.6bn declined 18% YoY as margins shrunk by 254bps to 6.3% (vs est. of 4.9%), owing to losses at SAE of ~INR 750-800mn and high commodity prices. APAT at INR 461mn declined by 35% YoY (~2.3x beat).
- **Domestic T&D to compensate SAE underperformance; margins to improve from here on:** KEC received orders of INR 44bn in Q1FY22, primarily driven by T&D (excl. SAE), railways, civil and cables. The order book stands at INR 204bn with INR 60bn of L1 order, majority of which is coming from its international business. Domestic T&D, railways and civil are expected to drive the growth/profitability for the remaining year. KEC has a strong order pipeline of INR ~450/110/110bn in T&D/railways/civil. The two bleeding projects in Brazil (with 15-30% execution left) are expected to be completed by Q3FY22. The improvement in macro and political stability would lead to normalisation around Q3FY22 for SAE. KEC has 100k tonnes of steel at an elevated fixed price, of which 20-30% are accounted for in this quarter and a similar quantum is expected to be consumed in Q2FY22. SAE is expected to bleed for two more quarters before turning profitable by Q4FY22. KEC expects FY22E EBITDA margin at ~8%.
- **Increase in debt/NWC days; interest cost improves:** The consolidated net debt, including the interesting bearing acceptances (at Rs 14bn), jumps to INR 39bn (INR 32bn at the end of Mar-21). The net debt (excl. acceptances) commitment for full year is targeted at INR 25bn. NWC was at 135 days vs 112 days in last quarter, mainly because of stretched payment from railways hit by passenger trains not fully operational during the quarter. The interest cost for the quarter declined to 2.6% of sales (vs 3% in Q1FY21).

### Consolidated Financial Summary

(INR mn)	Q1 FY22	Q1 FY21	YoY (%)	Q4 FY21	QoQ (%)	FY21	FY22E	FY23E	FY24E
Revenues	25,400	22,068	15.1	43,605	(41.8)	131,142	147,669	165,927	182,672
EBITDA	1,599	1,949	(18.0)	3,546	(54.9)	11,412	12,172	15,888	19,219
APAT	461	708	(34.8)	1,943	(76.3)	5,527	5,738	8,294	10,767
EPS (Rs)	1.8	2.8	(34.8)	7.6	(76.3)	21.5	22.3	32.3	41.9
P/E (x)						19.4	18.7	12.9	10.0
EV/EBITDA (x)						12.1	11.1	8.5	6.9
RoE (%)						18.0	15.7	19.1	20.7

Source: Company, HSIE Research

## BUY

CMP (as on 02 Aug 2021)	INR 419
Target Price	INR 485
NIFTY	15,885

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 452	INR 485
EPS	FY22E	FY23E
Change %	-	-

### KEY STOCK DATA

Bloomberg code	KECI IN
No. of Shares (mn)	257
MCap (INR bn) / (\$ mn)	107/1,449
6m avg traded value (INR mn)	116
52 Week high / low	INR 486/267

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	4.4	5.6	52.5
Relative (%)	(4.3)	0.3	9.1

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	51.82	51.82
FIs & Local MFs	24.92	26.06
FPIs	10.75	11.06
Public & Others	12.51	11.06
Pledged Shares	-	-

Source: BSE

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# Kalpataru Power Transmission

## Muted performance

Kalpataru Power (KPTL) reported revenue/EBITDA of INR 15.8/1.6bn, a miss of 6/7%. APAT too missed our estimates by 21% on higher-than-expected interest cost and taxes. KPTL secured new orders worth INR 8.6bn in Q1, taking the order book (OB) to INR 134bn. Management has guided for 10-15% topline growth in FY22 with double-digit margins. It expects to achieve a net cash status by FY22, with INR 7bn of cumulative cash flows from the transmission asset divestment and Indore real-estate project. The Shubham logistics monetisation has been deferred by a couple of years, owing to limited interest. We roll forward our SOTP target price to INR 590/sh (Jun-23E, INR 560 earlier), maintain BUY, and retain our earnings estimates.

■ **Q1FY22 financial highlights:** KPTL reported revenue of INR 15.8bn (+8.7%/32.1% YoY/QoQ), a miss of 6%. T&D revenue grew by 12% YoY, O&G by 28% YoY and railways by 23% YoY. EBITDA came in at INR 1.6bn (+3.8/-33.3% YoY/QoQ, a miss of 7%). KPTL continues to hold (cost to completion) CTC provisioning of INR 1.4bn made in Q4FY21 as commodity prices have not reversed. Other operating expenses, at INR 1.6bn, were higher by 40% YoY, partly on account of higher freight cost. The company is expecting a hit of USD 6mn in FY22 and has booked USD 3mn in Q1FY22. APAT was at INR 760mn (+10.1%/-41.5% YoY/QoQ), missing our estimates by 20.7%.

■ **Lifting of the World Bank ban in Oct-21 to aid access to larger bidding pool:** KPTL received orders of INR 8.6bn, taking the order book to INR 134bn. Including the L1 of INR 25.5bn, the OB stands at INR 159.5bn. The company expects order inflows of INR 90bn for FY22 with INR 20bn each in O&G and railways and INR 50bn in T&D. Internationally, it is expecting a few orders in O&G in FY22; in transmission, significant opportunity opens up after Oct-21, when the World Bank imposed debarment ends (on World Bank funded projects in Africa and SAARC); in railways, KPTL is confident of receiving a few more orders from neighboring countries in FY22. For the remaining part of the year, the order pipeline is expected at INR 400-450bn.

■ **Net cash status by FY22:** The Kohima transmission asset sale to CLP India is now expected to complete by Q2FY22 as a few banking and regulatory approvals are pending. The standalone net debt stood at INR 12.2bn (net D/E 0.31x). KPTL is well on track to achieve a net cash target at the standalone level, following the sale of Kohima asset and collection from Indore Real estate project. KPTL is targeting FY22 cash inflow of more than INR 1.5bn from the Indore project and expecting around INR 5.5bn from the Kohima asset sale. KPTL promoters have maintained their commitment of reducing pledged shares to 40% of holding by Dec-21.

### Standalone Financial Summary

(Rs mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY22E	FY23E	FY24E
Net Revenues	15,860	14,590	8.7	23,370	(32.1)	76,710	85,227	98,187	107,094
EBITDA	1,620	1,560	3.8	2,430	(33.3)	8,080	8,400	10,546	11,261
APAT	760	690	10.1	1,300	(41.5)	4,890	4,692	6,242	6,711
Diluted EPS (Rs)	5.1	4.63	10.1	8.73	(41.5)	32.8	31.5	41.9	45.1
P/E (x)						14.3	14.9	11.2	10.4
EV/EBITDA (x)						9.7	9.2	7.3	6.7
RoE (%)						13.2	11.5	14.0	14.0

Source: Company, HSIE Research

**BUY**

CMP (as on 04 Aug 2021) INR 472

Target Price INR 590

NIFTY 16,259

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 560	INR 590
EPS %	FY22E	FY23E
	-	-

### KEY STOCK DATA

Bloomberg code	KPP IN
No. of Shares (mn)	149
MCap (INR bn) / (\$ mn)	70/945
6m avg traded value (INR mn)	183
52 Week high / low	INR 496/224

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	31.1	30.1	105.4
Relative (%)	18.4	22.7	61.2

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	56.49	54.55
FIs & Local MFs	26.45	27.62
FPIs	6.33	7.30
Public & Others	10.73	10.53
Pledged Shares	28.70	25.04

Source : BSE

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# Cement, Building Material

# UltraTech Cement

## UltraHigh! Margin at its best ever; outlook strong

We maintain BUY on UltraTech (UTCEM) with a higher target price of INR 8,155/share (16x Jun'23E consolidated EBITDA). UTCEM delivered its best-ever consolidated EBITDA margin – INR 1,536/MT (+16/8% QoQ/YoY) –in Q1FY22. Amidst lower sales QoQ (lockdown impact), robust pricing and healthy cost controls moderated the consolidated net sales/EBITDA/APAT decline to 18/10/6% QoQ, resulting in INR 118.3/33.1/17.0bn (+54/59/79% YoY on a low base) respectively. We continue to like UTCEM for its strong volume focus along with superior margin delivery and working capital (WC) controls.

- **FY22Q1 performance:** UTCEM continued to surprise positively, as it posted its best-ever EBITDA margin in Q1FY22. While the pandemic impact pulled down total sales volume by 23% QoQ, robust pricing across all markets buoyed NSR by 6% QoQ. Further, continued efficiency improvement, fuel mix optimisation, asset sweating and, rising share of green power moderated the impact of lower utilisation and soaring fuel prices. Thus, unitary opex rose a modest 3% QoQ, driving up unitary EBITDA to an all-time high of INR 1,536/MT. Interest cost continued to decline on UTCEM's steady debt reduction, thereby boosting APAT.
- **Outlook:** UTCEM expects to commission its ongoing expansion (19.5mnMT – spread across north, central, east and west regions), by end FY23. It will also continue to reduce debt to become a net cash company. It is also investing towards increasing the share of green power to 34% by FY24, from 13% in FY21. We upgrade our consolidated EBITDA estimates for FY22/23/24E by 8/5/5% respectively, factoring in the robust pricing and continued production-efficiency gains. We reiterate our BUY rating with a revised target price of INR 8,155/share, (16x Jun'23E consolidated EBITDA).

### Consolidated Quarterly/Annual Financial summary

YE Mar (INR bn)	Q1 FY22	Q1 FY21	YoY (%)	Q4 FY21	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
Sales (mn MT)*	21.5	14.7	47.0	27.8	(22.5)	82.5	86.4	93.8	101.1	113.0
NSR (INR/MT)*	5,495	5,236	4.9	5,186	6.0	5,142	5,177	5,280	5,359	5,413
Opex (INR/MT)*	3,958	3,818	3.7	3,857	2.6	4,005	3,838	4,018	4,050	4,078
EBITDA(INR/MT)*	1,536	1,418	8.3	1,328	15.6	1,137	1,339	1,262	1,309	1,335
Net Sales	118.3	76.7	54.2	144.1	(17.9)	424.3	447.3	500.7	547.9	618.0
EBITDA	33.1	20.8	59.2	36.9	(10.4)	93.8	115.7	123.7	138.3	157.3
APAT	17.0	9.5	78.9	18.1	(6.1)	38.7	55.8	59.7	73.0	97.0
AEPS (INR)	59.0	33.0	78.9	62.8	(6.1)	134.0	193.3	206.7	253.0	336.0
EV/EBITDA (x)						14.5	12.0	17.7	15.4	12.9
EV/MT (INR bn)						11.8	11.8	17.9	16.8	15.0
P/E (x)						30.9	23.8	36.1	29.5	22.2
RoE (%)						10.6	13.4	12.8	13.9	16.1

Source: Company, HSIE Research, \* For combined grey +white/putty operations

### Estimates revision

INR Bn	FY22E Old	FY22E Revised	Change %	FY23E Old	FY23E Revised	Change %	FY24E Old	FY24E Revised	Change %
Net Sales	486.3	500.7	3.0	536.8	547.9	2.1	605.5	618.0	2.1
EBITDA	114.9	123.7	7.7	132.0	138.3	4.8	150.3	157.3	4.7
APAT	53.8	59.7	10.9	68.8	73.0	6.1	91.8	97.0	5.7
AEPS (INR)	186.4	206.7	10.9	238.4	253.0	6.1	318.1	336.0	5.7

Source: Company, HSIE Research

## BUY

CMP (as on 22 July 2021)	INR 7,459
Target Price	INR 8,155
NIFTY	15,824

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 7,760	INR 8,155
EBITDA %	FY22E 7.7	FY23E 4.8

### KEY STOCK DATA

Bloomberg code	UTCEM IN
No. of Shares (mn)	289
MCap (INR bn) / (\$ mn)	2,153/28,933
6m avg traded value (INR mn)	3,906
52 Week high / low	INR 7,547/3,735

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	22.4	34.8	93.1
Relative (%)	11.7	28.3	53.8

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	59.96	60.00
FIs & Local MFs	13.74	14.39
FPIs	17.28	16.58
Public & Others	9.02	9.03
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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# Shree Cement

## Margin stable QoQ despite robust pricing gains

We maintain our REDUCE rating on Shree Cement (SRCM) with an unchanged SOTP target price of INR 27,500/share (standalone cement business at 16.5x Jun'23E EBITDA and UAE business at 1x BV). SRCM reported broadly an in-line performance in Q1FY22 as consolidated net sales/EBITDA/APAT fell 13/14/14% QoQ to INR 34.50/10.14/6.62bn respectively. The decline is led by the pandemic-driven 17% QoQ volume decline and higher freight costs. Despite NSR buoying 4% QoQ, unitary EBITDA rose a modest 3% QoQ to INR 1,432/MT, on elevated opex.

- **Q1FY22 performance:** Sales volume fell 17% QoQ, impacted by the lockdown. Utilisation fell to 63% vs 76% QoQ. Despite lower sales, NSR firmed up 4% QoQ on healthy pricing, mainly in the east. However, as opex also rose jumped 5% QoQ, it muted unitary EBITDA expansion by 3% QoQ to INR 1,474/MT. Rising fuel/diesel prices and op-lev loss drove cost inflation.
- **Capex update and outlook:** SRCM expects to commission the 3mn MT SGU in Patas (Maharashtra) by Sep'21 (delayed due to COVID and Right of Way issues). Its 4mn MT brownfield clinker plant in Baloda Bazar (Chhattisgarh) is estimated to be operational in H1FY23E. These will increase its clinker/cement capacities to 29/46mn MT in FY23E. SRCM spent INR 3bn towards these projects in Q1FY22. We maintain our earnings estimates and SOTP target price of INR 27,500/sh on the stock. We value its standalone cement business at 16.5x Jun'23E EBITDA and the UAE business at 1x BV. We maintain REDUCE, owing to the expensive valuation.

### Quarterly/annual financial summary (standalone)

YE Mar (INR bn)	Q1 FY22	Q1 FY21	YoY (%)	Q4 FY21	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
Sales Vol (mn MT)	6.8	4.9	38.8	8.2	(16.7)	24.9	26.8	29.1	32.6	36.8
NSR (INR/MT)	4,975	4,697	5.9	4,766	4.4	4,568	4,651	4,722	4,787	4,889
Opex (INR/MT)	3,501	3,277	6.9	3,334	5.0	3,116	3,182	3,209	3,204	3,274
EBITDA (INR/MT)	1,474	1,421	3.7	1,432	2.9	1,452	1,469	1,512	1,580	1,612
Net Sales	34.49	23.32	47.9	39.58	(12.8)	119.04	125.88	139.07	157.78	181.86
EBITDA	10.14	7.01	44.7	11.82	(14.3)	36.75	39.55	44.15	51.69	59.56
APAT	6.62	3.71	78.5	7.68	(13.8)	15.70	23.12	24.82	29.00	32.81
AEPS (INR)	183.4	102.8	78.5	212.8	(13.8)	435.2	640.8	687.8	803.7	909.2
EV/EBITDA (x)						26.8	24.1	21.8	18.5	15.9
EV/MT (INR bn)						23.58	22.31	22.06	19.75	17.71
P/E (x)						64.9	44.1	41.1	35.1	31.1
RoE (%)						13.9	16.4	15.2	15.7	15.5

Source: Company, HSIE Research

## REDUCE

CMP (as on 9 Aug 2021) INR 28,273

Target Price INR 27,500

NIFTY 16,258

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 27,500	INR 27,500
EBITDA revision %	FY22E -	FY23E -

### KEY STOCK DATA

Bloomberg code	SRCM IN
No. of Shares (mn)	36
MCap (INR bn) / (\$ mn)	1,020/13,708
6m avg traded value (INR mn)	1,623
52 Week high / low	INR 32,050/18,184

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	1.6	0.4	29.0
Relative (%)	(9.0)	(5.6)	(14.0)

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	62.55	62.55
FIs & Local MFs	10.80	10.48
FPIs	12.51	13.02
Public & Others	14.14	13.95
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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# Ambuja Cement

## All-time high EBITDA margin; north expansion in sight

We maintain ADD on Ambuja Cements (ACEM) with a revised target price of INR 400/share (SOTP based). In Q2CY21, ACEM delivered its best-ever consolidated EBITDA margin – INR 1,495/MT (+11/5% QoQ/YoY). Robust pricing and continued cost controls moderated the impact of lower sales QoQ. Thus, standalone net sales/EBITDA declined 7/2% QoQ to INR 33.7/9.6bn (+55/61% YoY on a low base) respectively. APAT grew 9% QoQ on dividend income from ACC. We expect the commissioning of Rajasthan plant in Q3CY21 to accelerate volume growth CY22E onwards.

- **CY21Q2 performance:** ACEM reported an all-time-high operating margin in Q2CY21 of INR 1,495/MT (+11/5% QoQ/YoY). Robust pricing gain (+5% QoQ) and healthy cost controls (opex rose a modest 3% QoQ) buoyed the operating margin. Amidst rising fuel prices and lower utilisation (QoQ), continued cost controls moderated the inflation. During H1CY21, Ambuja spent INR 5bn towards the ongoing expansion. At the end of Jun'21, its working capital increased by ~INR 7bn vs Dec'20, which is seasonal in nature.
- **Outlook:** Ambuja noted that its Rajasthan project (3.0/1.8mn MT clinker/cement) will be operational in Q3CY21. It also announced a 1.5mn MT brownfield SGU in Punjab. Additionally, Ambuja is adding 54MW WHRS across three locations and wet fly-ash dryer across four locations, which will aid opex control, going forward. We upgrade our EBITDA estimates for CY21/22/23E by 7/4/5% respectively, factoring in robust pricing trend and good cost controls. We maintain our ADD rating on the stock with a revised TP of INR 400/share (SOTP based). We value the standalone cement business at 14x its Jun'23E EBITDA and its 50.05% holding in ACC at a 20% discount to our target market capitalisation for ACC.

### Consolidated quarterly/annual financial summary

YE Mar (INR bn)	Q2 CY21	Q2 CY20	YoY (%)	Q1 CY21	QoQ (%)	CY19	CY20	CY21E	CY22E	CY23E
Sales (mn MT)*	6.42	4.19	53.2	7.24	(11.3)	23.96	22.67	26.61	28.74	30.75
NSR (INR/MT)*	5,251	5,195	1.1	5,002	5.0	4,870	5,016	5,145	5,219	5,295
Opex (INR/MT)*	3,756	3,775	(0.5)	3,653	2.8	3,973	3,849	3,903	3,956	4,033
EBITDA(INR/MT)*	1,495	1,421	5.2	1,349	10.8	897	1,167	1,242	1,263	1,262
Net Sales	33.71	21.77	54.9	36.21	(6.9)	116.68	113.72	136.90	149.97	162.80
EBITDA	9.60	5.95	61.2	9.77	(1.8)	21.49	26.47	33.05	36.30	38.80
APAT	7.23	4.53	59.5	6.65	8.8	14.77	17.90	22.37	24.68	26.73
AEPS (INR)	3.6	2.3	59.5	3.3	8.8	7.4	9.0	11.3	12.4	13.5
EV/EBITDA (x)						29.5	24.6	19.4	17.2	15.8
EV/MT (INR bn)						21.44	22.05	20.41	19.97	19.53
P/E (x)						54.0	44.6	35.7	32.3	29.9
RoE (%)						6.8	8.4	10.6	10.7	10.7

Source: Company, HSIE Research

### Estimates revision

INR Bn	CY21E Old	CY21E Revised	Change %	CY22E Old	CY22E Revised	Change %	CY23E Old	CY23E Revised	Change %
Net Sales	131.2	136.9	4.4	145.0	150.0	3.4	157.5	162.8	3.4
EBITDA	30.9	33.1	6.8	34.8	36.3	4.3	37.0	38.8	4.7
APAT	20.8	22.4	7.8	23.5	24.7	5.2	25.3	26.7	5.8
AEPS (INR)	10.5	11.3	7.8	11.8	12.4	5.2	12.7	13.5	5.8

Source: Company, HSIE Research

## ADD

CMP (as on 23 July 2021)	INR 402
Target Price	INR 400
NIFTY	15,856

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 371	INR 400
	CY21E	CY22E
EBITDA %	6.8	4.3

### KEY STOCK DATA

Bloomberg code	ACEM IN
No. of Shares (mn)	1,986
MCap (INR bn) / (\$ mn)	799/10,736
6m avg traded value (INR mn)	1,968
52 Week high / low	INR 410/197

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	36.3	56.5	100.2
Relative (%)	26.8	47.0	61.3

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	63.29	63.28
FIs & Local MFs	12.11	12.23
FPIs	17.75	17.69
Public & Others	6.85	6.80
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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# ACC

## Unitary EBITDA at 12-year high on cost controls

We reiterate our BUY rating on ACC with a revised target price of INR 2,610/share. In Q2CY22, ACC not only gained from healthy realisation across all markets, but also exhibited superior cost controls, which helped beat fuel and diesel price inflation, bolstering unitary EBITDA to a 12-year high of INR 1,235/MT (+10/20% YoY/QoQ). The company continues to focus on many cost reduction programs under the project "Parvat", boosting the margin outlook. Its major expansion in the central region is expected to be commissioned between Q2 and Q4CY22, which bolsters the visibility on volume.

- **Robust cost controls; cement EBITDA margin soars to a 12-year high:** While ACC's consolidated net sales fell 10% QoQ, hit by the lockdown, healthy pricing and cost controls drove up EBITDA/APAT by 1% QoQ each. Despite the impact of the pandemic, the company achieved 80% utilisation. Healthy pricing pulled up cement NSR by 6% QoQ (our estimate +5%). ACC continues to beat cost inflation amid surging fuel/diesel prices - unitary input cost rose a modest 2% QoQ, and freight cost fell 2% QoQ. These moderated the impact of the rising packing cost and negative op-lev and opex rose a modest 2% QoQ. Robust pricing gains, thus, bolstered ACC's cement EBITDA by 10/20% YoY/QoQ to INR 1,235/MT (12-year high!). RMC's contribution to total EBITDA fell to 3% vs 5% QoQ on lower sales and increased cement prices.
- **Cost control remains in focus:** Under the ongoing project "Parvat", ACC is working on improving its clinker factor, energy consumption, and lead distance reduction. The company plans to add 24MW of WHRS by Q2CY22, which would reduce its blended power costs. It is also adding wet flyash dryers at three locations, which will reduce its flyash cost. Over the next 10 years, it plans to increase waste material consumption by 5x. It is also implementing direct dispatches to lower handling costs.
- **Expansion update and outlook:** ACC expects to commission 2.7/1.0mn MT clinker/cement capacity by Q2CY22 and the remaining 2.6mn MT SGUs in UP by the end of CY22. These will drive volume CY23 onwards. Factoring in the robust cost control initiatives, we upgrade our consolidated EBITDA estimates for CY22/23/24E by 11/7/7% respectively. With increased visibility on its upcoming expansion and steady cost reduction-led margin improvement, we upgrade our valuation multiple to 12x its Jun'23E consolidated EBITDA (from 11x earlier). We reiterate BUY with a revised target price of INR 2,610/share.

### Consolidated Financial Summary

YE Dec (INR mn)	Q2 CY21	Q2 CY20	YoY (%)	Q1 CY21	QoQ (%)	CY19	CY20	CY21E	CY22E	CY23E
Net Sales	38,849	26,022	49.3	42,920	(9.5)	156,576	137,860	168,222	181,994	207,927
EBITDA	8,693	5,254	65.5	8,602	1.1	24,128	24,840	30,709	33,297	38,630
APAT	5,695	2,710	110.2	5,626	1.2	12,782	14,088	19,176	21,017	23,436
AEPS (INR)	30.3	14.4	110.2	29.9	1.2	68.1	75.0	102.1	111.9	124.8
EV/EBITDA (x)						10.0	13.9	11.2	11.1	9.4
EV/MT (INR bn)						7.29	10.44	9.99	9.41	9.30
P/E (x)						22.5	28.7	21.1	19.2	17.2
RoE (%)						11.6	11.6	14.4	14.3	14.5

Source: Company, HSIE Research, Consolidated Financials

## BUY

CMP (as on 19 July 2021) INR 2,152

Target Price INR 2,610

NIFTY 15,752

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 2,185	INR 2,610
EBITDA %	CY21E 10.9	CY22E 6.6

### KEY STOCK DATA

Bloomberg code	ACC IN
No. of Shares (mn)	188
MCap (INR bn) / (\$ mn)	404/5,430
6m avg traded value (INR mn)	1,709
52 Week high / low	INR 2,169/1,289

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	14.7	25.7	63.5
Relative (%)	5.1	19.3	21.6

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	54.53	54.53
FIs & Local MFs	20.28	19.42
FPIs	12.64	13.57
Public & Others	12.55	12.48
Pledged Shares	0.0	0.0

Source : BSE

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# Dalmia Bharat

## Strong performance; embarks on major expansion

We maintain ADD rating on Dalmia Bharat (DBEL) with an unchanged target price of INR 2,210/share (13x Jun'23E consolidated EBITDA). In Q1FY22, its net sales/EBITDA fell 18/8% QoQ (up 36/14% YoY on a low base) to INR 25.9/7.0bn due to a sharp volume loss (mainly in the south). Robust pricing across markets, fuel mix optimisation, and continued productivity gains, however, moderated the impact of profits. DBEL outlined major Capex plans to increase its capacity by ~58% to 48mn MT by FY24E. It will also increase the share of low-cost green power to ~20% in FY24E vs 5% in FY21.

- FY22Q1 performance:** Sales volume fell 24% QoQ in Q1, hit by the extended lockdown in the south, while sales in the east were less impacted. NSR jumped 8% QoQ on robust pricing across all its markets. Opex rose 4% QoQ, mainly on op-lev loss due to lower utilisation (65% vs 86% QoQ) and rise in employee costs. Despite the rising slag and fuel prices, fuel mix optimisation and productivity gains kept opex inflation in check. Thus, unitary EBITDA bounced 20% QoQ to INR 1,431/MT. DBEL continued to repay its old debt (down 12% QoQ to INR 34bn), leading to lower interest expense.
- Capacity to increase by 58% by FY24E:** DBEL outlined 4.7/9.9mn MT clinker/cement expansion plans. Along with the ongoing expansion, these will increase DBEL's cement capacity by 58% to 48mn MT in FY24E. Its ongoing investments in WHRS/solar power will expand the share of green power to ~20% in FY24E vs ~5% in FY21. Thus, DBEL's total Capex spend will accelerate to ~INR 100bn during FY22-24E, leading to debt increase hereon. However, we expect its net debt/EBITDA to remain comfortable under 2x. We have increased our EBITDA estimates for FY22/23/24E by 6/10/4% respectively, factoring in higher sales outlook and cost savings. We have also built in Capex as per the company's plans in our estimates.

### Quarterly/annual financial summary (consolidated)

YE Mar (INR bn)	Q1 FY22	Q1 FY21	YoY (%)	Q4 FY21	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
Sales (mn MT)	4.89	3.66	33.6	6.42	(23.8)	19.3	20.7	23.8	27.1	30.5
NSR (INR/MT)	5,294	5,194	1.9	4,900	8.0	4,707	4,878	5,122	5,019	5,069
Opex (INR/MT)	3,863	3,514	9.9	3,712	4.1	3,617	3,545	3,872	3,808	3,888
EBITDA (INR/MT)	1,431	1,680	(14.8)	1,188	20.4	1,090	1,333	1,249	1,211	1,181
Net Sales	25,890	19,010	36.2	31,460	(17.7)	95,810	100,970	121,965	136,233	154,586
EBITDA	7,000	6,150	13.8	7,630	(8.3)	21,050	27,590	29,747	32,874	36,026
APAT	2,660	1,930	37.8	1,590	67.3	2,230	12,190	11,237	11,895	11,533
AEPS (INR)	14.2	10.3	38.2	8.5	67.3	11.6	65.3	60.1	63.6	61.6
EV/EBITDA (x)						21.0	15.4	14.6	13.5	12.8
EV/MT (INR bn)						16.9	14.0	12.2	12.5	9.6
P/E (x)						179.6	32.9	35.6	33.7	34.7
RoE (%)						2.1	10.5	8.5	8.3	7.5

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	123.2	122.0	-1.0	134.7	136.2	1.1	151.1	154.6	2.3
EBITDA	28.1	29.7	5.7	30.0	32.9	9.5	34.5	36.0	4.4
APAT	7.2	11.2	55.9	8.7	11.9	37.1	13.2	11.5	-12.6
AEPS (INR)	38.5	60.1	55.9	46.4	63.6	37.1	70.5	61.6	-12.6

Source: Company, HSIE Research

## ADD

CMP (as on 28 July 2021)	INR 2,147
Target Price	INR 2,210
NIFTY	15,709

KEY CHANGES	OLD	NEW
Rating	Add	Add
Price Target	INR 2,210	INR 2,210
EBITDA revision %	FY22E 5.7	FY23E 9.5

### KEY STOCK DATA

Bloomberg code	DALBHARA IN
No. of Shares (mn)	187
MCap (INR bn) / (\$ mn)	402/5,404
6m avg traded value (INR mn)	369
52 Week high / low	INR 2,375/652

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	42.2	88.3	197.1
Relative (%)	36.8	75.0	159.3

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	55.97	55.97
FIs & Local MFs	4.96	5.79
FPIs	13.46	13.14
Public & Others	25.61	25.10
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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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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# JK Cement

## Healthy performance

We maintain ADD on JK Cement (JKCE) with a revised TP of INR 3,210 (11.5x Jun'23E consolidated EBITDA). JKCE delivered a healthy show in Q1FY22. While consolidated sales volume fell ~22% QoQ (pandemic-led), robust grey cement pricing drove up blended NSR by 3% QoQ, which more than offset 2% opex inflation, moderating impact on profits. Thus, consolidated revenue/EBITDA/APAT fell 20/17/25% QoQ to INR 17.14/4.0/1.92bn respectively. The company is working at swift pace towards its Greenfield 4mn MT grey cement expansion in central region.

- Q1FY22 performance:** The pandemic drove grey cement/W&P volume decline of 21/28% QoQ. Despite lower sales, grey NSR firmed up 7% on robust pricing and lower share of clinker and non-trade sales. However, W&P NSR fell 4% QoQ amidst weak urban sales, moderating blended NSR rise to 3% QoQ. Blended opex rose 2% QoQ, on account ~10% fuel cost inflation, op-lev loss and annual employee cost hike. Subsequently, riding on strong grey realisation, the blended unitary EBITDA firmed up 7% QoQ to INR 1,295/MT. The share of trade sales improved to 68% vs 65% QoQ. Blended cement production increased to 62% vs 58% QoQ. JKCE expects to expand the share of blended cement to 75%, going ahead, as its trade sales increase.
- Capex update and outlook:** JKCE's 0.3mn MT clinker debottlenecking will be completed in Q2FY22. It expects to commission its 4mn MT greenfield plants in the central region by end FY23E. The company will incur a Capex of ~INR 12.5/14bn in FY22/23E towards these. Over the next 10 years, JKCE is planning to increase the share of green power to ~75% vs 25% currently. Of these, WHRS would contribute atleast ~50% of total power requirements and the rest would mostly be solar power (on opex model basis). We marginally upgrade consolidated EBITDA estimates by 1/2/6% for FY22/23/24E respectively. We maintain our ADD rating on the stock with a revised TP of INR 3,210/sh (11.5x Jun'23E consolidated EBITDA).

### Consolidated quarterly/annual financial summary

YE Mar (Rs bn)	Q1 FY22	Q1 FY21	YoY (%)	Q4 FY21	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
Sales (mn MT)	3.11	1.81	71.8	3.99	(22.1)	10.2	12.0	13.4	15.0	17.3
NSR (Rs/MT)	5,508	5,547	(0.7)	5,345	3.0	5,666	5,507	5,618	5,752	5,796
Opex (Rs/MT)	4,213	4,373	(3.7)	4,134	1.9	4,481	4,192	4,255	4,306	4,376
EBITDA (Rs/MT)	1,295	1,173	10.3	1,211	6.9	1,185	1,315	1,363	1,446	1,421
Net Sales	17.14	10.05	70.6	21.34	(19.7)	58.02	66.06	75.50	86.18	100.42
EBITDA	4.03	2.13	89.5	4.83	(16.6)	12.13	15.78	18.32	21.66	24.61
APAT	1.92	0.52	267.2	2.55	(24.7)	4.92	7.49	8.93	11.34	12.54
AEPS (Rs)	24.8	6.8	267.2	33.0	(24.7)	63.7	96.9	115.5	146.7	162.2
EV/EBITDA(x)						22.4	16.8	14.6	12.3	10.7
EV/MT (Rs bn)						14.9	13.6	13.7	13.7	11.2
P/E (x)						50.1	32.9	27.6	21.7	19.7
RoE (%)						17.3	22.3	21.9	23.0	21.0

Source: Company, HSIE Research

## ADD

CMP (as on 17 Aug 2021) INR 3,191

Target Price INR 3,210

NIFTY 16,615

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 3,130	INR 3,210
EBITDA %	FY22E 1.3	FY23E 1.7

### KEY STOCK DATA

Bloomberg code	JKCE IN
No. of Shares (mn)	77
MCap (INR bn) / (\$ mn)	245/3,314
6m avg traded value (INR mn)	226
52 Week high / low	INR 3,700/1,412

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	15.9	16.0	112.8
Relative (%)	3.4	8.1	66.2

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	57.65	57.63
FIs & Local MFs	20.63	20.59
FPIs	16.86	16.90
Public & Others	4.86	4.88
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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# Birla Corporation

## On a strong footing

We maintain a BUY rating on Birla Corporation (BCORP) with an unchanged target price of INR 1,545/share (8.5x Jun'23E consolidated EBITDA). It reported broadly an in-line performance in Q1FY22 as consolidated net sales/EBITDA/APAT fell 18/12/54% QoQ to INR 17.49/3.44/1.42bn respectively. The decline is led by the pandemic-driven 20% volume decline and rising fuel prices. However, better realisation (+2% QoQ) and robust cost controls boosted the unitary EBITDA by 9% QoQ to INR 997/MT, thus moderating the profit contraction. We continue to like BCORP for its large retail presence in the lucrative north/central regions and various cost reduction drives.

- **Q1FY22 performance:** Sales volume fell 20% QoQ, hit by the lockdown. However, NSR rose 2% QoQ on healthy pricing across markets. Opex rose a modest 0.5% QoQ, despite rising fuel/diesel costs and lower utilisation. However, improving production efficiency, rising share of green power, and fixed cost controls offset the impact. The share of green power has increased to 22% in Q1FY22 vs 20/15% in FY21/20 respectively. The share of blended cement production remains north of 90%. Premium cement share in trade sales also remained at 50%+, boosting the margin. Thus, the unitary EBITDA rebound 9% QoQ to INR 997/MT, moderating the impact of lower sales. Continued reduction of old debt drove down interest cost QoQ/YoY.
- **Capex update and outlook:** BCORP's greenfield project in Maharashtra (3.9mn MT) will get operational by Q4FY22. The brownfield SGU (0.7mn MT) in Kundaganj (UP) is expected in FY23E, thereby increasing the total capacity to 20.3mn MT. Thereafter, BCORP will take up new projects to increase its capacity to 25mn MT. We continue to like the company for its large retail presence (80%+) in the lucrative north/central regions. It has also expanded the share of premium products to 50%+ since Q3FY21 vs ~40% in FY20. The share of low-cost green power has increased, owing to recent WHRS/solar power plant additions. It is also working on supply chain rationalization, which will further boost margins. We maintain our earnings estimates, target price and BUY rating on the company. We value BCORP at 8.5x Jun'23E consolidated EBITDA.

### Quarterly/annual financial summary (consolidated)

YE Mar (INR mn)	Q1 FY22	Q1 FY21	YoY (%)	Q4 FY21	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
Sales Vol (mn MT)	3.34	2.42	38.4	4.17	(19.8)	13.6	13.4	15.4	19.2	21.1
NSR (INR/MT)	4,954	4,925	0.6	4,856	2.0	4,819	4,848	4,745	4,835	4,934
Opex (INR/MT)	3,957	3,949	0.2	3,938	0.5	3,857	3,770	3,779	3,849	3,893
EBITDA (INR/MT)	997	976	2.2	918	8.7	962	1,079	966	986	1,041
Net Sales	12,220	43.1	21,326	(18.0)	12,220	69,157	67,855	74,323	86,919	95,272
EBITDA	2,331	47.4	3,920	(12.4)	2,331	13,360	13,702	14,709	17,346	19,683
APAT	658	115.2	3,072	(53.9)	658	5,052	6,890	4,861	5,816	7,798
AEPS (INR)	8.5	115.2	39.9	(53.9)	8.5	65.6	89.5	63.1	75.5	101.3
EV/EBITDA (x)						10.6	10.3	9.9	8.4	7.1
EV/MT (INR bn)						9.05	8.99	7.46	7.17	6.87
P/E (x)						21.2	15.5	22.0	18.4	13.7
RoE (%)						13.2	15.9	9.2	9.5	11.6

Source: Company, HSIE Research

**BUY**

CMP (as on 5 Aug 2021)	INR 1,382
Target Price	INR 1,545
NIFTY	16,295

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 1,545	INR 1,545
EBITDA revision %	FY22E	FY23E
	-	-

### KEY STOCK DATA

Bloomberg code	BCORP IN
No. of Shares (mn)	77
MCap (INR bn) / (\$ mn)	106/1,430
6m avg traded value (INR mn)	280
52 Week high / low	INR 1,585/559

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	48.1	66.4	117.4
Relative (%)	36.1	59.0	72.7

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	62.90	62.90
FIs & Local MFs	13.77	13.76
FPIs	3.61	3.96
Public & Others	19.72	19.38
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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# JK Lakshmi Cement

## Q1 hit by lower sales and fuel inflation; outlook bright

We maintain our BUY rating on JK Lakshmi Cement (JKLC) with a revised target price of INR 850/share (8.5x Jun'23E consolidated EBITDA). We move to consolidated financials in this report, as this truly captures JKLC's operating performance and as it is expanding the capacity of its subsidiary – Udaipur Works (UCWL). In Q1FY22, the company's consolidated sales volume/revenue/EBITDA/APAT declined 7/7/18/31% QoQ, hit by the lockdown and rising fuel prices. Healthy pricing, however, moderated the impact. The ongoing expansion at UCWL will increase JKLC's capacity by 23% to 16.4mn MT by FY24E-end, supporting its volume growth outlook. In our view, its net debt/EBITDA should remain < 1x, owing to its healthy operating performance.

- **FY22Q1 performance:** JKLC's consolidated volume fell 7% QoQ. While cement vol fell 17% QoQ, large clinker sales moderated the total decline. Adjusted for sharp rise in clinker sales and fall in non-cement revenues, cement NSR rose ~6% QoQ (against flattish blended NSR QoQ). The op-lev loss and rising fuel prices moderated blended unitary EBITDA by 11% QoQ to INR 914/MT. Amid healthy cash flows and slower Capex outgo, JKLC continues to reduce debt, reducing interest expense and gearing ratio.
- **Consolidated numbers present a better picture:** We have incorporated JKLC's consolidated financials with this report as this nullifies the negative impact of inter-company sales between JKLC and UCWL on reported operating and financial metrics. In FY21, while standalone unitary EBITDA and RoE stood at INR 799/MT and 20.4%, the consolidated unitary EBITDA and RoE were much higher at INR 799/MT and 23.4% respectively. Further, JKLC is expanding its consolidated capacity by 23% by FY24E, all of it in UCWL. Thus, it's prudent to analyse its consolidated performance.
- **Healthy balance sheet and return ratios despite ongoing expansion:** We expect consolidated volume to grow at 9% CAGR during FY21-24E, riding on demand uptick and capacity additions. We estimate the unitary EBITDA to firm up to ~INR 965/MT in FY24E, bolstering the operating cash flows. This should largely fund JKLC's Capex, keeping gearing in check (net debt/EBITDA under 1x). We also expect the consolidated RoE to remain buoyant at ~20%. Thus, we maintain our BUY rating on the stock, with a revised target price of INR 850/sh (8.5x its Jun'23E consolidated EBITDA).

### Quarterly/annual financial summary (consolidated)

YE Mar (INR mn)	Q1 FY22	Q1 FY21	YoY (%)	Q4 FY21	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
Sales (mn MT)	2.8	2.1	36.1	3.0	(7.0)	9.7	10.4	11.7	12.6	13.5
NSR (INR/MT)	4,692	4,391	6.9	4,691	0.0	4,490	4,524	4,615	4,638	4,707
Opex (INR/MT)	3,778	3,559	6.2	3,660	3.2	3,669	3,626	3,747	3,707	3,742
EBITDA(INR/MT)	914	832	9.9	1,031	(11.4)	821	898	868	931	965
Net Sales	13,256	9,115	45.4	14,243	(6.9)	43,641	47,274	54,076	58,573	63,621
EBITDA	2,582	1,726	49.6	3,131	(17.5)	7,981	9,386	10,169	11,762	13,045
APAT	1,313	489	168.3	2,286	(42.6)	2,783	4,433	4,733	5,770	6,620
AEPS (INR)	11.2	4.2	168.3	16.2	(31.2)	23.6	37.7	40.2	49.0	56.3
EV/EBITDA (x)						12.1	9.7	9.0	7.6	7.0
EV/MT (INR bn)						7.25	6.88	6.62	6.43	5.53
P/E (x)						29.2	18.3	17.2	14.1	12.3
RoE (%)						17.6	23.4	20.2	20.1	19.0

Source: Company, HSIE Research

**BUY**

CMP (as on 30 July 2021)	INR 691
Target Price	INR 850
NIFTY	15,763

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 720	INR 850
EBITDA revision %	FY22E NA	FY23E NA

### KEY STOCK DATA

Bloomberg code	JKLC IN
No. of Shares (mn)	118
MCap (INR bn) / (\$ mn)	81/1,094
6m avg traded value (INR mn)	378
52 Week high / low	INR 816/243

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	71.8	117.4	138.3
Relative (%)	64.0	103.8	99.0

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	46.21	46.21
FIs & Local MFs	26.31	28.42
FPIs	10.58	10.26
Public & Others	16.90	15.11

Pledged Shares	-	-
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Source : BSE

Pledged shares as % of total shares

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# Heidelberg Cement

## Mixed bag

We maintain ADD on Heidelberg Cement (HEIM) with an unchanged target price of INR 283/share (8.5x Jun'23E consolidated EBITDA). HEIM Q1FY22 results were a mixed bag. While the company surprised with nominal volume decline QoQ (despite the lockdown impact), the benefits were offset by a flattish NSR (adjusted for one-off gain in Q4FY21). Thus, its net sales/EBITDA/APAT fell 7/14/51% QoQ (up 36/21/40% YoY on a low base) to INR 5.56/1.31/0.69bn respectively.

- **FY22Q1 performance:** HEIM reported a mixed performance in Q1FY22. While its sales volume fell a modest 5% QoQ, despite the lockdown impact, the reported NSR fell 2% QoQ. Adjusted for the large SGST gain in Q4FY21, NSR came in flat QoQ (against our expectations of 3-5% rise). This implies the company focused on volume offtake, amidst rising competition in the central region. Opex remained flat QoQ as the impact of input cost inflation was negated by reduction in all other costs. Thus, unitary EBITDA came in at INR 1,107/MT, down 12% YoY and 2% QoQ (adjusted for SGST gain in Q4). APAT declined at a higher pace QoQ (down 51%) as HEIM had a large deferred tax credit in Q4FY21, leading to a -7% effective tax rate as against 34% in Q1FY22.
- **Outlook:** We keep our estimates unchanged for FY22/23/24E. Subsequently, we maintain our ADD rating on the stock with an unchanged target price of INR 283/share, valuing it at 8.5x the Jun'23E EBITDA.

### Quarterly/annual financial summary

YE Mar (INR bn)	Q1 FY22	Q1 FY21	YoY (%)	Q4 FY21	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
Sales (mn MT)*	1.18	0.86	38.2	1.25	(5.4)	4.71	4.49	5.20	5.57	5.96
NSR (INR/MT)*	4,695	4,757	(1.3)	4,792	(2.0)	4,611	4,718	4,789	4,861	4,958
Opex (INR/MT)*	3,588	3,493	2.7	3,577	0.3	3,490	3,589	3,582	3,642	3,699
EBITDA(INR/MT)*	1,107	1,264	(4.0)	1,215	(2.3)	1,122	1,129	1,207	1,219	1,259
Net Sales	5.56	4.08	36.4	6.00	(7.3)	21.70	21.17	24.92	27.07	29.54
EBITDA	1.31	1.08	21.0	1.52	(13.8)	5.28	5.07	6.28	6.79	7.50
APAT	0.69	0.49	40.3	1.40	(50.9)	2.68	3.15	3.45	3.71	4.54
AEPS (INR)	3.0	2.2	40.3	6.2	(50.9)	11.8	13.9	15.2	16.4	20.0
EV/EBITDA (x)						8.3	8.4	8.9	8.4	7.7
EV/MT (INR bn)						7.00	6.84	8.91	9.07	9.27
P/E (x)						16.3	13.9	17.1	15.9	13.0
RoE (%)						21.6	22.4	21.7	20.6	22.0

Source: Company, HSIE Research

## ADD

CMP (as on 23 July 2021)	INR 261
Target Price	INR 283
NIFTY	15,856

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 283	INR 283
EBITDA %	FY22E	FY23E
	-	-

### KEY STOCK DATA

Bloomberg code	HEIM IN
No. of Shares (mn)	227
MCap (INR bn) / (\$ mn)	59/793
6m avg traded value (INR mn)	108
52 Week high / low	INR 285/172

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	12.3	17.8	50.3
Relative (%)	2.8	8.2	11.3

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	69.39	69.39
FIs & Local MFs	7.98	10.09
FPIs	8.87	6.59
Public & Others	13.76	13.93
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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# Star Cement

## Margin recovers on pricing gain

We maintain BUY on Star Cement with an unchanged TP of INR 130/share (8x its Jun'23E consolidated EBITDA). The company reported broadly in-line numbers in Q1. Consolidated net sales/EBITDA/APAT fell 15/11/ 20% QoQ to INR 5.11/0.93/0.68bn due to lower sales (mainly in the northeast region) and rising cost pressure. We expect EBITDA margin to expand FY22E onwards on production ramp-up (in Siliguri) and post WHRS commissioning (in FY23).

- **Q1FY22 performance:** Sales volume fell 16% QoQ to 0.76mn MT, mainly on account of lower sales in the northeast. Star's sales outside this region remained flat QoQ, owing to production ramp-up at the recently commissioned Siliguri SGU. Overall utilisation fell to 54% vs 63% QoQ (higher vs 41% YoY on low base). NSR rose a modest 1% QoQ, owing to fall in sales share in the northeast. Opex came in flat QoQ, mainly on freight cost rationalisation while input cost remained flattish and fixed cost went up on lower utilisation. Logistics disruption in Meghalaya had bloated its freight cost in the preceding two quarters. Unitary EBITDA recovered 6% QoQ to INR 1,220/MT, on slight realisation gain.
- **Buy-back announcement:** Star will be buying back up to 8.25mn shares (2% of equity) at INR 150/share, amounting to INR 1.24bn in outflow (~25% of its cash balance of INR 4.9bn at end of Mar'21). It had not announced any dividend for FY21.
- **Capex update and outlook:** In FY22E, Star will continue to focus on ramping up Siliguri production and commissioning the 12MW WHRS (by FY23). Star's brownfield clinker expansion (3mn MT) in Meghalaya is delayed (not expected before H2FY24), owing to delays in environmental clearance. We maintain our BUY rating on the stock with an unchanged target price of INR 130 (8x Jun'23E consolidated EBITDA).

### Quarterly/annual financial summary (consolidated)

YE Mar (INR mn)	Q1 FY22	Q1 FY21	YoY (%)	Q4 FY21	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
Sales Vol (mn MT)	0.76	0.45	69.3	0.91	(16.1)	2.95	2.70	3.52	4.11	4.73
NSR (INR/MT)	6,725	6,267	7.3	6,651	1.1	5,912	6,220	6,145	6,045	5,929
Opex (INR/MT)	5,506	4,865	13.2	5,499	0.1	4,645	5,017	4,878	4,702	4,582
EBITDA (INR/MT)	1,220	1,455	(16.2)	1,152	5.9	1,337	1,233	1,274	1,342	1,347
Net Sales	5,111	2,920	75.1	6,026	(15.2)	18,439	17,199	21,732	24,870	28,054
EBITDA	927	653	41.9	1,044	(11.2)	3,951	3,326	4,480	5,523	6,376
APAT	680	433	57.0	853	(20.3)	2,863	2,401	3,217	4,258	4,998
AEPS (INR)	1.6	1.0	57.0	2.0	(20.3)	6.9	5.8	7.8	10.3	12.1
EV/EBITDA (x)						11.5	12.8	9.4	7.6	6.8
EV/MT (INR bn)						12.61	10.39	9.02	8.24	6.83
P/E (x)						16.6	19.8	14.7	11.1	9.5
RoE (%)						15.4	12.0	14.7	17.3	17.8

Source: Company, HSIE Research

**BUY**

CMP (as on 17 Aug 2021)	INR 116
Target Price	INR 130
NIFTY	16,615

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 130	INR 130
EBITDA revision %	FY22E	FY23E
	-	-

### KEY STOCK DATA

Bloomberg code	STRCEM IN
No. of Shares (mn)	412
MCap (INR bn) / (\$ mn)	48/641
6m avg traded value (INR mn)	81
52 Week high / low	INR 120/75

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	13.7	19.5	30.8
Relative (%)	1.1	11.6	(15.8)

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	67.11	66.21
FIs & Local MFs	7.93	7.89
FPIs	0.07	0.11
Public & Others	24.89	25.79
Pledged Shares	-	0.03

Source : BSE

Pledged shares as % of total shares

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# Orient Cement

## On a strong footing

We maintain our BUY rating on Orient Cement with a revised target price of INR 187/share (7.5x Jun'23E consolidated EBITDA). In line with the performances of its peers in the south, Orient reported strong margin expansion during Q1FY22. Solid pricing gains across the south and west regions offset the impact of 26% QoQ volume decline and rising fuel, diesel and packing costs. Thus, unitary EBITDA expanded 25% QoQ to INR 1368/MT (Orient's best-ever margin) and moderated the profit decline. In Q1FY22, its revenue/EBITDA/APAT declined 17/8/10% QoQ to INR 6.91/1.86/0.9bn respectively. We continue to like the company due to a healthy demand outlook, its comfortable balance sheet, and its 3mn MT expansion plan.

- **All-time high margin in Q1FY22:** While volume fell 26% QoQ during the lockdown, robust pricing gain (+13% QoQ) buoyed unitary EBITDA to an all-time high of INR 1,368/MT. ORCMNT increased the share of blended cement sales (70% vs ~55% in FY20). In its key markets, the share of its premium cement sales has increased to 15-18% of its trade sales (from ~8% in FY20). Orient has also stocked up domestic coal inventory ahead of the price increase, thereby moderating fuel inflation impact Q2 onwards. Amid no major ongoing Capex currently, Orient reduced debt by 15% in H1FY22.
- **Outlook:** Orient expects to deliver 6mn MT sales in FY22E despite the lockdown impact in Q1. The ongoing grinding debottlenecking will increase its capacity by 0.5mn MT in FY22. In FY23, it will start work to expand capacity by 3mn MT (~1/2mn MT grinding/clinker at Devapur and 2mn MT SGU in Maharashtra) to be completed by FY24E (entailing Capex of INR 16bn). In FY23, it expects to commission a WHRS plant in Karnataka. As major Capex will start in FY23, we estimate its net debt/EBITDA to remain under 2.5x, as ORCMNT's capacity increases to 11.5x by FY25E. Factoring in healthy demand and pricing, we raise our EBITDA estimates for FY22/23/24E by 9/3/6% respectively. We remain positive on the company's outlook and maintain our BUY rating with a revised target price of INR 187/sh (7.5x its Jun'23E EBITDA).

### Quarterly/annual financial summary

YE Mar (INR mn)	Q1 FY22	Q1 FY21	YoY (%)	Q4 FY21	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
Sales Vol (mn MT)	1.4	0.8	66.0	1.9	(26.4)	5.8	5.1	5.9	6.4	7.0
NSR (INR/MT)	5,076	5,004	1.4	4,495	12.9	4,171	4,602	4,740	4,645	4,692
Opex (INR/MT)	3,708	3,806	(2.6)	3,400	9.0	3,512	3,512	3,754	3,749	3,799
EBITDA(INR/MT)	1,368	1,198	14.2	1,095	25.0	659	1,090	987	896	893
Net Sales	6,909	4,104	68.4	8,316	(16.9)	24,218	23,241	28,008	29,918	32,634
EBITDA	1,862	982	89.5	2,025	(8.1)	3,829	5,507	5,829	5,772	6,213
APAT	895	256	249.1	999	(10.4)	866	2,142	2,468	2,535	2,907
AEPS (INR)	4.4	1.3	249.1	4.9	(10.4)	4.2	10.5	12.0	12.4	14.2
EV/EBITDA (x)						6.8	3.8	6.6	7.4	7.6
EV/MT (INR bn)						3.28	2.44	4.51	5.01	5.57
P/E (x)						16.5	6.7	13.9	13.5	11.8
RoE (%)						8.0	17.7	17.5	15.7	15.7

Source: Company, HSIE Research

## BUY

CMP (as on 3 Aug 2021)	INR 167
Target Price	INR 187
NIFTY	16,131

KEY CHANGES	OLD	NEW
Rating	Buy	Buy
Price Target	INR 187	INR 178
EBITDA revision %	FY22E 9.4	FY23E 3.3

### KEY STOCK DATA

Bloomberg code	ORCMNT IN
No. of Shares (mn)	205
MCap (INR bn) / (\$ mn)	34/461
6m avg traded value (INR mn)	154
52 Week high / low	INR 172/56

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	49.8	82.6	163.8
Relative (%)	38.3	76.3	121.0

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	37.37	37.37
FIs & Local MFs	24.08	20.64
FPIs	2.09	4.43
Public & Others	36.46	37.56
Pledged Shares	5.25	5.25

Source : BSE

Pledged shares as % of total shares

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# Sagar Cements

## Strong show; capacity set to increase 43% in Sep-21

We maintain our BUY rating on Sagar Cements (SGC) with a revised target price of INR 1,425/share (7.5x Jun'23E consolidated EBITDA). In Q1FY22, sales volume declined 14% QoQ, hit by the lockdown. However, robust pricing across its market drove QoQ unitary EBITDA expansion, thereby offsetting the impact of lower sales on profits. Thus, while net sales fell 6% QoQ, EBITDA/APAT rose 3/3% each. We expect sustenance of healthy pricing to moderate the impact of continued fuel inflation. SGC's capacities in MP and Odisha will become operational in Sep'21, expanding its capacity by 43%. These will both boost volume growth and diversify its regional exposure.

- FY22Q1 performance:** SGC's sales volume fell 14% QoQ in Q1, hit by the countrywide lockdown. NSR, however, jumped 9% QoQ on robust pricing across all its markets. Rising fuel prices and lower utilisation pulled up opex by 6% QoQ. Robust pricing drove up unitary EBITDA by 20% QoQ to INR 1,218/MT. SGC increased the blended cement production to 45% vs 39/42% QoQ/YoY.
- Upcoming capacity to boost volume growth and regional diversification:** SGC's 1/1.5 mn MT cement capacity expansion in MP/Odisha is expected to start commercial production Sep'21 onwards, increasing the company's total capacity by 43%. It will bolster volume growth H2FY22 onwards and diversify the company's sales presence outside the southern region. SGC will be spending the pending INR 2.3bn Capex on these projects in H1FY22. Sustenance of solid pricing across its markets should moderate the impact of continued fuel price inflation, keeping the margins buoyant. We upgrade our EBITDA estimates for FY22/23/24E by 10/11/11% respectively, factoring in the robust pricing outlook.

### Quarterly/annual financial summary (consolidated)

YE Mar (INR mn)	Q1 FY22	Q1 FY21	YoY (%)	Q4 FY21	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
Sales (mn MT)	0.88	0.56	58.4	1.02	(14.0)	3.1	3.2	3.7	5.1	5.6
NSR (INR/MT)	4,463	4,756	(6.2)	4,084	9.3	3,753	4,339	4,339	4,221	4,264
Opex (INR/MT)	3,246	3,189	1.8	3,064	5.9	3,161	3,072	3,276	3,234	3,292
EBITDA (INR/MT)	1,218	1,567	(22.3)	1,019	19.5	592	1,267	1,063	987	972
Net Sales	3,926	2,641	48.6	4,177	(6.0)	11,752	13,713	15,983	21,407	23,800
EBITDA	1,071	870	23.1	1,043	2.7	1,855	4,004	3,915	5,007	5,423
APAT	514	361	42.3	500	3.0	264	1,852	1,501	1,978	2,204
AEPS (INR)	21.9	16.2	35.0	21.3	3.0	11.8	78.8	63.9	84.2	93.8
EV/EBITDA (x)						19.4	9.2	9.7	7.5	7.0
EV/MT (INR bn)						6.24	6.38	4.59	4.57	4.57
P/E (x)						116.0	16.5	20.4	15.5	13.9
RoE (%)						2.8	16.3	11.3	13.2	13.0

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	15.3	16.0	4.7	20.4	21.4	4.7	22.7	23.8	4.7
EBITDA	3.6	3.9	9.8	4.5	5.0	10.5	4.9	5.4	10.8
APAT	1.3	1.5	18.0	1.7	2.0	18.5	1.9	2.2	18.3
AEPS (INR)	54.1	63.9	18.0	71.0	84.2	18.5	79.2	93.8	18.3

Source: Company, HSIE Research

**BUY**

CMP (as on 29 July 2021)	INR 1,301
Target Price	INR 1,425
NIFTY	15,778

KEY CHANGES	OLD	NEW
Rating	Buy	Buy
Price Target	INR 1,223	INR 1,425
EBITDA revision %	FY22E 9.8	FY23E 10.5

### KEY STOCK DATA

Bloomberg code	SGC IN
No. of Shares (mn)	23.5
MCap (INR bn) / (\$ mn)	31/412
6m avg traded value (INR mn)	66
52 Week high / low	INR 1,390/444

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	83.1	99.8	179.1
Relative (%)	75.1	86.0	139.6

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	50.28	50.28
FIs & Local MFs	11.77	11.54
FPIs	3.24	3.05
Public & Others	34.71	35.13
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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# Deccan Cement

## Robust show on strong pricing uptick

We maintain our ADD rating on Deccan Cement (DCL) with a revised target price of INR 800/sh (6.5x its Jun'23E EBITDA). DCL reported a stellar Q1FY22 performance, riding on strong demand and pricing. Its net sales/EBITDA/APAT soared 5/50/67% QoQ to INR 2,242/554/368mn, despite 5% QoQ volume decline (less impacted by lockdown). The company is working on near doubling its capacity to 4.25mn MT by FY24E. Robust profitability should keep gearing under check.

- **Q1FY21- Strong show:** Sales volume fell a modest 5% QoQ, owing to strong demand across AP/T. Utilisation remained above 90% for the third consecutive quarter. NSR soared 10% QoQ, on robust price recovery in Q1. Opex remained flat QoQ despite fuel cost inflation and one-off higher freight cost adjustment for the previous year. However, lower other expenses offset the impact. Thus, riding on robust pricing, unitary EBITDA rebound 57% QoQ to INR 1,097/MT. Thus, despite lower volumes, net sales/EBITDA/APAT soared 5/50/67% QoQ.
- **Capex update and outlook:** DCL is expanding its capacity by 2mn MT, with a total Capex of INR 8bn, by FY24E. This includes 1.6mn MT brownfield clinker addition in Nalgonda and two greenfield SGUs of 0.8mn MT in Vizag and 1.2mn MT in Nellore. DCL intends to commission the Vizag SGU by FY23E, leading to reduction in fly-ash movement cost. Factoring in robust demand and pricing, we raise our EBITDA estimates by 14/11/8%. We maintain our ADD rating on the stock, valuing it at 6.5x June'23E EBITDA (earlier valued at 6x).

### Financial Summary

YE Mar (INR Mn)	Q1 FY22	Q1 FY21	YoY (%)	Q4 FY21	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
Sales (mn MT)	0.51	0.30	70.5	0.53	(4.8)	1.5	1.8	1.9	2.0	2.5
NSR (INR/MT)	4,440	4,680	(5.1)	4,033	10.1	3,778	4,237	4,317	4,295	4,338
Opex (INR/MT)	3,344	3,332	0.4	3,334	0.3	3,245	3,254	3,436	3,477	3,469
EBITDA (INR/MT)	1,097	1,348	(18.6)	698	57.0	533	983	881	818	869
Net Sales	2,242	1,386	61.8	2,138	4.9	5,553	7,580	8,263	8,797	11,000
EBITDA	554	399	38.7	370	49.6	783	1,759	1,686	1,676	2,204
APAT	368	261	41.0	221	66.8	433	1,151	1,096	1,070	1,280
AEPS (INR)	26.3	18.7	41.0	15.8	66.8	30.9	82.2	78.2	76.4	91.4
EV/EBITDA (x)						14.0	5.4	6.7	8.0	7.0
EV/MT (INR bn)						4.86	4.22	5.03	4.39	3.61
P/E (x)						25.6	9.6	10.1	10.4	8.7
RoE (%)						10.1	22.7	17.8	15.0	15.6

Source: Company, HSIE Research

### Estimates Revision

INR Bn	FY22E Old	FY22E Revised	Chg.%	FY23E Old	FY23E Revised	Chg.%	FY24E Old	FY24E Revised	Chg.%
Net Revenues	7.9	8.3	5.0	8.4	8.8	4.5	10.5	11.0	4.5
EBITDA	1.48	1.69	13.8	1.51	1.68	11.4	2.05	2.20	7.5
APAT	0.92	1.10	18.6	0.90	1.07	18.5	1.13	1.28	13.8
AEPS	66	78	18.6	64	76	18.5	80	91	13.8

Source: Company, HSIE Research

## ADD

CMP (as on 13 Aug 2021)	INR 791
Target Price	INR 800
NIFTY	16,529

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 640	INR 800
EBITDA %	FY22E 13.8	FY23E 11.4

### KEY STOCK DATA

Bloomberg code	DECM IN
No. of Shares (mn)	14
MCap (INR bn) / (\$ mn)	11/149
6m avg traded value (INR mn)	71
52 Week high / low	INR 847/258

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	76.4	97.3	192.7
Relative (%)	62.5	89.7	148.0

### SHAREHOLDING PATTERN (%)

	Dec-20	Mar-21
Promoters	56.24	56.24
FIs & Local MFs	2.21	0.07
FPIs	2.89	3.60
Public & Others	38.66	40.09
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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# Astral

## Bouncing back from the pandemic pain

We maintain our REDUCE rating on Astral with an unchanged target price of INR 1,920/sh (34x its Jun'23E consolidated EBITDA, implying 53x P/E), owing to its expensive valuation. Astral's Q1 consolidated revenue/EBITDA/APAT fell 38/49/58% QoQ to INR 7.00/1.29/0.74bn respectively (in line with our estimates). It was led by lower sales across pipes and adhesives QoQ. Adhesive sales were less impacted, though. Gross margin contraction and high employee costs hit margins and profits. The company has seen a robust pick-up in July, on account of pent-up demand. Stable PVC prices are also expected to drive demand.

- **FY22Q1 key highlights: Pipes division:** The lockdown pulled down pipes volumes/revenue by 42/43% QoQ. The pull-back in soaring PVC prices cooled off NSR by 2% QoQ. EBITDAM contracted 350bps QoQ on gross margin contraction, inventory loss, and one-off jump in employee costs. Owing to the large exposure to CPVC and non-agri, margin contraction was lower. The adhesive division was less impacted, with revenue/EBITDA falling 18/36% QoQ. Segmental EBITDAM contracted 400bps QoQ to 13.8%, mainly due to higher employee costs, while gross margin remained flat.
- **Con call takeaways and outlook:** Pent-up demand is driving strong sales, late Jun-onwards. Astral's pipes/adhesive revenues are up 65/36% YoY in July. The company expects CPVC prices to firm up. It also expects its infra-pipe division to accelerate. Astral sources its PVC resins, mainly from domestic majors. Its ongoing expansion will increase its count of plastic tank plants to four by FY22 end. Astral's plastic-valve plant will be operational in Q2FY22 and the upcoming greenfield plant in Odisha by Nov'21. Astral has much less exposure to the price-sensitive agri-segment. In adhesives, it plans to launch products and chemistries to sustain its strong growth trajectory. While we like Astral for its robust growth and margin along with FCF acceleration, its valuation (EV/EBITDA) has soared by ~50% on its five-year mean. We maintain our REDUCE rating with an unchanged target price of INR 1,920 (34x its Jun'23E consolidated EBITDA).

### Quarterly/annual financial summary (consolidated)

YE Mar (INR mn)	Q1 FY22	Q1 FY21	YoY (%)	Q4 FY21	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
Pipes sales (K MT)	24.6	21.8	13.1	42.5	(42.1)	132	137	168	197	222
NSR (Rs/Kg)	210.0	145.3	44.5	213.9	(1.8)	154.5	182.0	188.1	192.5	198.6
EBITDA (Rs/Kg)	42.0	21.6	94.6	50.2	(16.4)	28.8	40.6	39.7	42.6	44.6
Adhesives Rev (Rsmn)	1,918	912	110.3	2,333	1,918	5,830	7,345	10,270	12,674	15,209
Adhesives EBITDAM (%)	13.8	8.4		17.7		13.1	15.5	14.6	15.3	15.3
Net Sales	7,001	4,039	73.3	11,278	(37.9)	25,779	31,763	41,448	50,059	58,872
EBITDA	1,294	543	138.3	2,546	(49.2)	4,429	6,445	8,160	10,313	12,226
EBITDAM (%)	18.5	13.4		22.6		17.2	20.3	19.7	20.6	20.8
APAT	739	199	271.4	1,746	(57.7)	2,479	4,044	5,211	6,902	8,326
Diluted EPS (Rs)	3.7	0.99	271.4	8.7	(57.7)	16.5	20.1	25.9	34.3	41.4
EV / EBITDA (x)						98.2	66.8	52.2	40.5	33.5
P/E (x)						175.3	107.4	83.4	63.0	52.2
RoE (%)						17.6	23.6	24.1	25.3	24.2

Source: Company, HSIE Research

## REDUCE

CMP (as on 9 Aug 2021)	INR 2,151
Target Price	INR 1,920
NIFTY	16,258

KEY CHANGES	NEW	NEW
Rating	REDUCE	REDUCE
Price Target	INR 1,920	INR 1,920
EBITDA revision %	FY22E	FY23E
	-	-

### KEY STOCK DATA

Bloomberg code	ASTRA IN
No. of Shares (mn)	201
MCap (INR bn) / (\$ mn)	432/5,807
6m avg traded value (INR mn)	629
52 Week high / low	INR 2,294/767

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	36.3	41.3	173.4
Relative (%)	25.7	35.3	130.4

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	55.74	55.74
FIs & Local MFs	22.71	22.75
FPIs	7.68	8.03
Public & Others	13.87	13.48
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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# Supreme Industries

## Demand recovery to make up for Q1 loss

We maintain our ADD rating on Supreme Industries (SIL), keeping the target price unchanged at INR 2,320/share (SOTP based). In Q1FY22, the countrywide lockdown hit sales across all of the company's four segments, with the agri-pipes and plastic furniture segments witnessing a sharper impact than the others. Lower utilisation and inventory loss pulled profits down. Thus, consolidated volume/net sales/EBITDA/ APAT fell 36/36/56/62% QoQ respectively. Despite the Q1 loss, SIL expects to deliver growth in FY22E, as demand has been picking up late-June onwards.

- **Q1FY22 performance:** SIL's total volume fell 22/36% YoY/QoQ, mainly hit by loss in agri-sales, which pulled down the pipes division by 36/37% YoY. SIL noted that agri volumes fell 60% YoY, the impact of which was moderated by a ~42% rise in CPVC volume (on a low base, though). The pandemic also hit the furniture business hard (down 64% QoQ and >50% down vs a normal Jun-quarter). Even the industrial and packaging segment suffered, leading to consolidated net sales falling by 36% QoQ (up 27% YoY on a low base). Lower sales led negative op-lev, and inventory loss amidst the fall in resin prices QoQ, drove down EBITDA/APAT by 56/62% QoQ (up 90/320% YoY) respectively. On a YoY basis, strong performance by SIL's associate company Supreme Petrochem accelerated the APAT surge.
- **Outlook:** SIL guided that demand has picked up late-June onwards across all markets and, hence, it is hopeful of delivering growth in FY22 despite a bad start. PVC prices, which were reversing in Q1 and, hence, led to channel destocking, have stabilised. SIL is undertaking capacity expansion by 8% to 751K MT in FY22, through a Capex of INR 5.2bn. These can potentially add ~INR 9.5bn to its revenues (FY23 onwards). It is mainly expanding its pipes capacity to 550K MT (from 509K MT in FY21) and industrial product capacity to 80K MT (from 71K MT). We remain positive on the company's growth prospects, owing to healthy demand and margin outlook. Robust balance sheet and cash flow should support its accelerated Capex spend. We maintain our ADD rating on the stock while keeping the target price unchanged at INR 2,320/sh (SOTP based). We value the company at 19x its Jun'23E consolidated EBITDA and value its 30.8% holding in its associate Supreme Petrochem at a 30% discount to its current market cap.

### Consolidated Quarterly/Annual Financial summary

YE Mar (INR mn)	Q1 FY22	Q1 FY21	YoY (%)	Q4 FY22	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
Sales (KT)	71.3	91.5	(22.1)	111.2	(35.9)	411.5	409.1	456.9	495.6	551.7
NSR (INR/Kg)	188	115	63.4	187	0.5	133	153	147	148	150
Opex (INR/Kg)	157	102	53.0	142	9.9	112	121	119	120	122
EBITDA (INR/Kg)	32	13	145.4	45	(29.4)	21	31	28	27	28
Net Sales	13,421	10,539	27.3	20,846	(35.6)	55,115	63,571	68,308	74,425	84,177
EBITDA	2,220	1,171	89.6	5,097	(56.4)	8,346	12,843	12,831	13,558	15,423
EBITDAM (%)	16.5	11.1	543bps	24.5	(791)bps	15.1	20.2	18.8	18.2	18.3
APAT	1,702	405	319.8	4,504	(62.2)	4,674	9,781	8,019	8,207	9,283
Diluted EPS (INR)	67.0	16.0	319.8	177.2	(62.2)	36.8	77.0	63.1	64.6	73.1
EV/EBITDA (x)						32.4	20.3	20.2	18.9	16.4
P/E (x)						57.5	27.5	33.5	32.7	28.9
RoE (%)						21.2	36.0	23.6	21.2	21.1

Source: Company, HSIE Research, Consolidated financials

## ADD

CMP (as on 20 July 2021) INR 2,104

Target Price INR 2,320

NIFTY 15,632

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 2,245	INR2,320
	FY22E	FY23E
EBITDA %	0.0	0.0

### KEY STOCK DATA

Bloomberg code	SI IN
No. of Shares (mn)	127
MCap (INR bn) / (\$ mn)	267/3,592
6m avg traded value (INR mn)	217
52 Week high / low	INR 2,340/1,128

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	5.7	24.2	82.1
Relative (%)	(3.7)	19.4	42.6

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	48.85	48.85
FIs & Local MFs	24.78	24.66
FPIs	8.95	10.82
Public & Others	17.42	15.67
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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# Kajaria Ceramics

## Cost controls cushion margin hit

We maintain our BUY rating on Kajaria Ceramics (KJC) with an unchanged target price of INR 1,130/share (19 Jun'23E consolidated EBITDA). We continue to like KJC for its superior margin in the tiles segment (function of its robust distribution and cost controls) and its fast expansion in its bathware and ply businesses. In Q1FY22, KJC's consolidated revenue/EBITDA/APAT fell by 41/58/66% QoQ to INR 5.62/0.80/0.43bn respectively (with the lockdown impacting consolidated revenue). Its QoQ margin compression is much lower vs peers. With demand recovering June onwards, tiles prices have increased by ~3% in July, boosting cost pass-through and, hence, margin should rebound. KJC's upcoming capacities will continue to support its market share, strengthening its leadership position in the domestic market.

- **FY22Q1 performance:** KJC's tiles/non-tiles revenue fell 40/51% QoQ, hit hard by the lockdown in Q1. Gas prices also rose ~10% QoQ, thereby further hitting profits. However, it managed to restrict the EBITDA margin (at 14.3%) contraction to ~6pp QoQ through its agile fixed cost controls. Its margin contraction is much lower than that of some of the smaller peers who reported ~10-15pp QoQ compression. Demand is on an upswing June onwards. KJC guided that its utilisation has firmed up to 95% in July against 75% in Q1, owing to healthy demand. It has also taken price hikes across both tiles (+3% in July) and bathware (+10% in May) to pass on the gas price and brass price inflation respectively.
- **Con call takeaways:** KJC expects its tiles revenue to grow ~18-19% in FY22E, owing to strong distribution and market penetration. On a low base, it is targeting 50/100% jump in its bathware/ply segments. Its ongoing Capex of INR 2.5bn will increase its tiles capacity by 17% by early FY23E, bolstering its volume growth and market share gain. Over the next three years, KJC expects to expand its tiles market share in India to 15%+ from 12% currently. Continued buoyancy in export markets and elevated gas prices in the Morbi cluster will reduce competitive pressures for national players in domestic markets. We maintain our earnings estimates and target price.

### Quarterly/annual financial summary (consolidated)

YE Mar (INR mn)	Q1 FY22	Q1 FY21	YoY (%)	Q4 FY21	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
Tiles sales (MSM)	15.3	7.7	99.2	25.4	(39.9)	78.1	75.4	87.2	107.1	121.0
NSR (Rs/Kg)	368	362	1.6	375	(1.9)	334	336	342	350	353
Tiles Revenue	5,193	2,577	101.5	8,659	(40.0)	26,049	25,328	29,851	37,452	42,744
Others Revenue	423	199	113.1	867	(51.1)	2,032	2,482	3,831	4,677	5,716
Net Sales	13,256	9,115	45.4	14,243	(6.9)	28,080	27,809	33,682	42,129	48,460
EBITDA	2,582	1,726	49.6	3,131	(17.5)	4,159	5,088	6,408	8,878	10,004
EBITDAM (%)	14.3	(2.7)		20.0		14.8	18.3	19.0	21.1	20.6
APAT	1,313	489	168.3	2,286	(42.6)	2,553	3,081	3,653	5,050	5,696
Diluted EPS (Rs)	11.2	4.2	168.3	16.2	(31.2)	16.0	19.4	23.0	31.7	35.8
EV / EBITDA (x)						39.3	31.7	25.1	18.0	15.8
P/E (x)						64.1	53.1	44.8	32.4	28.7
RoE (%)						14.9	16.6	17.9	22.1	21.9

Source: Company, HSIE Research, Others revenues include bathware and ply

**BUY**

CMP (as on 3 Aug 2021)	INR 1,028
Target Price	INR 1,130
NIFTY	16,131

KEY CHANGES	OLD	NEW
Rating	Buy	Buy
Price Target	INR 1,130	INR 1,130
EBITDA revision %	FY22E	FY23E
	-	-

### KEY STOCK DATA

Bloomberg code	KJC IN
No. of Shares (mn)	159
MCap (INR bn) / (\$ mn)	164/2,202
6m avg traded value (INR mn)	249
52 Week high / low	INR 816/243

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	11.1	18.5	149.7
Relative (%)	(0.4)	12.2	106.9

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	47.54	47.54
FIs & Local MFs	14.46	14.89
FPIs	25.25	25.09
Public & Others	12.75	12.48

Pledged Shares	-	-
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Source : BSE

Pledged shares as % of total shares

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# Prince Pipes

## Looking ahead of a blip quarter

We maintain our BUY rating on Prince Pipes with an unchanged target price of INR 870/sh (18.5x its Jun'23E EBITDA, implying 30x P/E). In Q1FY22, its volume declined 56% QoQ, pulling down revenue/EBITDA/APAT by 57/72/ 82% QoQ to INR 3.31/0.41/0.18bn respectively. Op-lev and inventory losses also accentuated the decline. However, demand has been on an upswing post May'21, owing to robust plumbing/SWR demand. Prince tied up with UltraTech's UBS platform to expand its retail distribution and also forayed into the industrial CPVC pipe segment riding on the Lubrizol deal. We continue to like Prince for its comprehensive product portfolio and robust pan-India distribution. These, along with the Lubrizol deal, should continue to drive Prince's industry leading growth.

- FY22Q1 key highlights:** The sales volume of pipes fell 56% QoQ as lockdown impacted both agri and plumbing demand across all markets. Softening PVC prices led to a 2% QoQ NSR decline. EBITDA margin contracted 7pp QoQ, driven by lower utilisation and gross margin and inventory loss (1.5% (of sales) loss vs 4% gain QoQ). The Q1 sales mix stood as follows: 65% building materials, 30% agri and 5% infrastructure pipes. In a usual quarter, agri sales account for 40% of Q1 revenue. Prince also tied up with UltraTech to sell its pipes through 2000+ dealers of UltraTech's UBS, to gain retail penetration. It has also forayed into industrial CPVC pipes through exploiting its deal with Lubrizol.
- Con call takeaways and outlook:** Pipes demand has returned to normalcy in Q2 and plumbing sales are expected to firm up on robust real estate. Prince expects agri demand to pick up Nov onwards. The inventory pile-up in June end will go to normal levels by the end of Q2. As PVC prices are rising again, Prince does not expect inventory losses in Q2. The company also highlighted that it has been able to reduce its pricing delta vs market leaders over the past few years. We continue to like Prince for its comprehensive product portfolio and robust pan-India distribution. These, along with the Lubrizol deal, should continue to drive the company's industry leading growth. We maintain our earnings estimates and target price.

### Quarterly/annual financial summary

YE Mar (INR mn)	Q1 FY22	Q1 FY21	YoY (%)	Q4 FY21	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
Pipes sales (K MT)	28.52	38.30	(25.5)	64.32	(55.7)	132.8	138.3	168.7	202.5	232.8
NSR (Rs/Kg)	179	122	46.8	183	179	123	150	154	150	151
EBITDA (Rs/Kg)	22	13	75.3	35	22	17	26	24	26	27
Net Sales	3,306	3,025	9.3	7,614	(56.6)	16,357	20,715	26,031	30,300	35,089
EBITDA	413	316	30.5	1,468	(71.9)	2,288	3,616	3,556	4,652	5,482
EBITDAM (%)	12.5	10.5		19.3		14.0	17.5	13.7	15.4	15.6
APAT	178	113	57.8	972	(81.7)	1,125	2,218	2,200	3,018	3,465
Diluted EPS (Rs)	0.8	0.5	57.8	4.4	(81.7)	10.2	20.2	20.0	27.4	31.5
EV / EBITDA (x)						33.7	20.9	20.8	15.5	12.9
P/E (x)						68.6	34.8	35.1	25.6	22.3
RoE (%)						18.2	23.6	19.4	22.3	21.3

Source: Company, HSIE Research, Others revenues include bathware and ply

## BUY

CMP (as on 6 Aug 2021)	INR 665
Target Price	INR 870
NIFTY	16,238

KEY CHANGES	NEW	NEW
Rating	BUY	BUY
Price Target	INR 870	INR 870
EBITDA revision %	FY22E	FY23E
	-	-

### KEY STOCK DATA

Bloomberg code	PRINCPIN IN
No. of Shares (mn)	110
MCap (INR bn) / (\$ mn)	73/984
6m avg traded value (INR mn)	328
52 Week high / low	INR 795/119

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	14.0	65.7	443.5
Relative (%)	3.1	58.7	400.7

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	63.25	63.25
FIs & Local MFs	15.60	12.23
FPIs	2.43	3.05
Public & Others	18.72	21.47
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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# Somany Ceramics

## Demand looking up, post a disrupted Q1

We maintain our BUY rating on Somany Ceramics (SOMC) with an unchanged target price of INR 940/share (13x Jun'23E consolidated EBITDA). We continue to like SOMC for its strong retail distribution, improving product mix, and tightened working capital. In Q1FY22, pandemic impact pulled down SOMC's tiles volume by 41% QoQ and even bathware revenue halved. Thus, consolidated revenue/EBITDA/APAT fell 41/74/91% QoQ to INR 3,299/231/45mn respectively. In addition to the op-lev loss, soaring fuel prices also hit the margin and profits.

- **FY22Q1 performance:** Hit hard by the lockdown, SOMC's Q1 tiles/non-tiles revenue fell 41/49% QoQ. Rising gas (up >10% QoQ) and power costs in additions to the op-lev loss, accentuated the profit decline. As demand is firming up, the industry has taken price hikes to pass on the continued rise in gas prices (up another 10% in Q2).
- **Outlook:** SOMC's 23% capacity expansion (across north, west and south locations) is on track to be completed by the end of 4QFY22. The company utilised the remaining QIP proceeds of INR 230mn in Q1 towards the expansion. On full capacity, these 12 MSM additions would contribute INR 2.5bn to revenue and enhance the overall EBITDA margin by ~200bps. SOMC expects to deliver ~15% tiles volume growth in FY22E. On a low base, it estimates to grow its bathware revenue at 25-30% CAGR for the next two years. The company is also gradually narrowing its price differential with the market leader. We maintain BUY on the company, with an unchanged target price of INR 940/sh (13x Jun'23E consolidated EBITDA). We continue to like SOMC for its strong retail distribution, improving product mix, and tightened working capital.

### Quarterly/annual financial summary (consolidated)

YE Mar (INR mn)	Q1 FY22	Q1 FY21	YoY (%)	Q4 FY21	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
Tiles sales (MSM)	10.0	5.2	93.6	16.9	(40.7)	48.9	49.8	55.6	64.9	70.8
NSR (Rs/Kg)	297	289	2.8	297	0.2	330	331	344	352	362
Tiles Revenue	2,920	1,476	97.9	4,911	(40.5)	14,016	14,397	16,509	19,374	21,360
Bathware Revenue	291	192	51.5	570	(48.9)	2,089	2,110	2,638	3,429	4,293
Net Sales	3,299	1,694	94.7	5,646	(41.6)	16,101	16,505	19,146	22,803	25,653
EBITDA	231	(116)		896	(74.2)	1,314	1,908	2,442	3,195	3,729
EBITDAM (%)	7.0	(6.9)		15.9		8.2	11.6	12.8	14.0	14.5
APAT	45	(220)		494	(91.0)	412	761	1,111	1,515	1,850
Diluted EPS (Rs)	0.3	(2.6)		5.8	(95.2)	9.7	18.0	26.2	35.7	43.6
EV / EBITDA (x)						27.2	17.3	14.2	11.0	9.2
P/E (x)						73.0	39.5	27.1	19.8	16.2
RoE (%)						5.9	10.5	13.8	16.2	16.9

Source: Company, HSIE Research

## BUY

CMP (as on 6 Aug 2021)	INR 709
Target Price	INR 940
NIFTY	16,238

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 940	INR 940
EBITDA revision %	FY22E -	FY23E -

### KEY STOCK DATA

Bloomberg code	SOMC IN
No. of Shares (mn)	42
MCap (INR bn) / (\$ mn)	30/404
6m avg traded value (INR mn)	62
52 Week high / low	INR 745/128

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	70.6	84.6	445.4
Relative (%)	59.7	77.6	402.7

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	54.77	54.77
FIs & Local MFs	20.04	19.16
FPIs	2.65	3.48
Public & Others	22.54	22.59
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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# Chemicals

# SRF Ltd

## Technical textiles garners high realisation

We retain our ADD rating on SRF with a target price of INR 8,630 on the back of (1) continued healthy performance from speciality chemicals business and packaging films business, (2) recovery in the technical textiles segment, (3) strong balance sheet, and (4) deployment of Capex towards high-growth speciality chemicals business over the next 3-4 years to tap the opportunities emerging from the agrochemical and pharmaceutical industry. EBITDA/APAT were 6/8% above our estimates, owing to lower-than-expected raw material costs, lower-than-expected opex, higher-than-expected other income, offset by a higher-than-expected tax outgo.

- **Financial performance:** Revenue/EBITDA grew 75/78% YoY, owing to a low base, and 4/5% QoQ to INR 27/7bn in Q1, despite facing challenges of lockdowns due to the strike of the second wave of the COVID-19 pandemic.
- **Chemicals business (CB):** Revenue/EBIT jumped 58/151% YoY to INR 11/2bn. The speciality chemicals business performed well, given higher sales in exports and domestic markets. The fluorochemicals business witnessed higher sales volumes in the refrigerants and blends segments with better sales realisations, especially from the export markets.
- **Technical textiles business (TTB):** Revenue grew 251% YoY to INR 5bn and EBIT came at INR 1bn. TTB clocked in the highest-ever EBIT margin in a quarter at 27% in Q1. The restructuring of margin profile with long-term customers has contributed to TTB's overall performance.
- **Capex:** The Board has approved a project for expansion of the fluorocarbon-based refrigerant capacity at Dahej at a cost of INR 5.5bn to meet the growing demand for refrigerants in the domestic and exports market and it is expected to be completed in 24 months. To cater to the growing power requirements of new and upcoming plants at Dahej, the Board has approved the installation of a 200 KV grid at a cost of INR 1.35bn.
- **Change in estimates:** We raise our FY22/23 EPS estimate by 6.1/6.1% to INR 223.6/246.9 to account for better realisations expected from TTB and Capex plans announced by the Board.
- **DCF-based valuation:** Our target price is INR 8,630 (WACC 10%, terminal growth 4.5%). The stock is trading at 32.1x FY23E EPS.

### Financial Summary (Consolidated)

INR mn	Q1 FY22	Q4 FY21	QoQ (%)	Q1 FY21	YoY (%)	FY19	FY20	FY21P	FY22E	FY23E
Net Sales	26,994	26,077	3.5	15,452	74.7	69,499	70,621	82,954	92,509	1,01,382
EBITDA	6,644	6,343	4.7	3,723	78.4	12,970	14,549	21,452	23,621	26,152
APAT	3,953	3,815	3.6	1,769	123.5	6,297	10,015	11,979	13,248	14,627
AEPS (INR)	66.7	64.4	3.6	29.9	123.5	109.5	174.2	202.2	223.6	246.9
P/E (x)						72.4	45.5	39.2	35.5	32.1
EV/EBITDA(x)						37.5	33.4	23.0	20.6	18.6
RoE (%)						16.4	22.1	20.3	17.8	16.9

Source: Company, HSIE Research

### Change in estimates (Consolidated)

Y/E Mar	FY22E Old	FY22E New	% Ch	FY23E Old	FY23E New	% Ch
EBITDA (INR mn)	22,607	23,621	4.5	24,933	26,152	4.9
Adj. EPS (INR/sh)	210.8	223.6	6.1	232.8	246.9	6.1

Source: Company, HSIE Research

## ADD

CMP (as on 29 Jul 2021)	INR 7,934
Target Price	INR 8,630
NIFTY	15,778

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 8,545	INR 8,630
EPS %	FY22E +6.1%	FY23E +6.1%

### KEY STOCK DATA

Bloomberg code	SRF IN
No. of Shares (mn)	59
MCap (INR bn) / (\$ mn)	470/6,326
6m avg traded value (INR mn)	1,239
52 Week high / low	INR 8,114/3,727

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	23.2	47.7	101.6
Relative (%)	15.2	33.9	62.0

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	50.77	50.77
FIs & Local MFs	11.16	11.90
FPIs	18.43	18.39
Public & Others	19.64	18.94
Pledged Shares	0.00	0.00

Source : BSE

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# Aarti Industries

## Decent performance

We maintain our BUY recommendation on Aarti Industries (AIL) with a target price of INR 1,100/share. We expect the company's PAT to grow at a 18% CAGR over FY22-24E. AIL's constant focus on Capex and R&D will enable it to remain competitive and expand its customer base. The toluene segment in India is mainly untapped and catered to through imports; AIL will benefit in the long term by entering this segment. Q1 EBITDA/APAT were 16/19% above our estimates, attributable to 8% higher revenue, lower-than-expected raw material cost, lower-than-expected depreciation, offset by higher-than-expected opex and finance cost.

- **Financial performance:** Revenue grew 41/9% YoY/ QoQ to INR 13.2bn, with revenue growth driven by higher capacity utilisation and a better product mix in the quarter. Value-added products contributed 70% to the revenue during Q1FY22. EBITDA came in at INR 3.1bn, +72/+21% YoY/QoQ, with EBITDA margin improving by 442/231bps YoY/QoQ to 23.8%, owing to the pass-through of higher raw material prices and lower opex.
- **Speciality chemicals segment:** Revenue/EBIT grew 50/83% YoY to INR 12.6/2.4bn due to volume expansion and better price realisation. EBIT margin for the segment was reported at 18.8%, driven by return of demand from established markets.
- **Pharma segment:** Revenue/EBIT grew 24/5% YoY to INR 2.4/0.5bn as the growth momentum continues with higher capacity utilisations. EBIT margin for the segment fell by 349/138bps YoY/QoQ to 19.8% due to higher inventory of the final products, which could not be shipped due to logistical issues.
- **Con call takeaways:** (1) Capex in Q1 was INR 3bn. Total Capex of INR 15bn would be spent in FY22. (2) The speciality chemicals segment registered a 9-10% QoQ volume growth in Q1. (3) Growth guidance of 25-35% YoY was given for revenue and APAT for FY22. Revenue target for FY24 is INR 90bn. (4) Additional capacities for APIs and intermediates are expected to be operational in H2FY22.
- **Change in estimates:** We raise our FY22/23 EPS estimates by 11.0/9.7% to INR 18.9/21.7 to account for the overall performance in Q1FY22.
- **DCF-based valuation:** Our target price is INR 1,100 (WACC 10%, terminal growth 4%). The stock is currently trading at 43.8x FY23E EPS.

### Financial Summary (Consolidated)

INR mn	Q1 FY22	Q4 FY21	QoQ (%)	Q1 FY21	YoY (%)	FY19	FY20	FY21P	FY22E	FY23E
Net Sales	13,168	12,094	8.9	9,373	40.5	41,676	41,863	45,061	51,749	60,400
EBITDA	3,138	2,603	20.6	1,820	72.4	9,651	9,773	9,815	12,529	14,431
APAT	1,649	1,361	21.1	819	101.4	4,917	5,361	5,235	6,840	7,858
AEPS (INR)	4.5	3.8	21.1	2.3	101.4	13.6	14.8	14.4	18.9	21.7
P/E (x)						70.0	64.2	65.8	50.3	43.8
EV/EBITDA(x)						37.3	37.1	37.2	29.3	25.4
RoE (%)						23.4	19.1	16.2	18.4	18.7

Source: Company, HSIE Research

### Change in estimates (Consolidated)

Y/E Mar	FY22E Old	FY22E New	% Ch	FY23E Old	FY23E New	% Ch
EBITDA (INR mn)	11,401	12,529	9.9	13,232	14,431	9.1
Adj. EPS (INR/sh)	17.0	18.9	11.0	19.8	21.7	9.7

Source: Company, HSIE Research

**BUY**

CMP (as on 9 Aug 2021)	INR 952
Target Price	INR 1,100
NIFTY	16,258

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 1,075	INR 1,100
EPS %	FY22E +11.0%	FY23E +9.7%

### KEY STOCK DATA

Bloomberg code	ARTO IN
No. of Shares (mn)	363
MCap (INR bn) / (\$ mn)	345/4,636
6m avg traded value (INR mn)	1,041
52 Week high / low	INR 987/483

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	12.2	54.2	78.3
Relative (%)	1.7	48.2	35.2

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	46.82	44.90
FIs & Local MFs	15.64	13.62
FPIs	8.66	11.90
Public & Others	28.88	29.58
Pledged Shares	0.00	0.00

Source: BSE

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# Deepak Nitrite

## Deepak Phenolics driving growth

We maintain **SELL** on Deepak Nitrite with a price target of INR 1,600 (WACC 11%, terminal growth 4.5%). The stock is currently trading at 24.2x FY23E EPS. We believe that (1) further growth in DPL is capped as the Phenol plant is already running at over 110% utilisation since Q2FY21 and (2) IPA prices would fall as demand normalcy returns. Besides, DNL is entering into challenging chemistries vis-a-vis chemistries it is currently operating in. The fluorination and photochlorination chemistries will pave the way to tap agrochemical and pharmaceutical customers for the company. However, the company needs to demonstrate its competencies well over the period in these chemistries to seize business opportunities. EBITDA/APAT were 11/11% above estimates, owing to lower-than-expected raw material costs, lower-than-expected operating expenses, and higher-than-expected other income.

- **Financial performance:** Revenue grew 126% YoY to INR 15.3bn in Q1, owing to recovery in standalone operations, especially BC and FSC segments, supported by the sharply improved performance of DPL. EBITDA grew 149% YoY to INR 4.5bn. EBITDA margin is higher by 265bps YoY to 30%, owing to operating leverage from recovery in revenue combined with benefits from higher realisation and cost management initiatives.
- **Basic chemicals (BC):** Revenue/EBIT jumped 63/133% YoY to INR 2/1bn, despite the short term impact witnessed in the MSME sector due to resurgent second wave and challenges around logistics.
- **Fine & specialty chemicals (FSC):** Revenue/EBIT jumped 48/8% YoY to INR 2/1bn. Disruption to export-import bound logistics has impacted in Q1. Further, profitability has been impacted by rising commodity prices.
- **Deepak Phenolics (DPL):** Revenue/EBIT jumped 202/319% YoY to INR 10/3bn. The plant continues to be operated at high utilisation with the average utilisation at 110% despite constrained movement of manpower and materials during the peak of the second wave. This has allowed DNL to capitalise on favourable demand trends and attractive pricing for both phenol and acetone.
- **Capex:** DPL plans to invest INR 7bn in downstream of phenol and acetone to make new import substitute solvents.
- **Change in estimates:** We cut our FY22/23 EPS estimates by 0.8/4.2% to INR 83.5/87.3 to account for overall performance in Q1 and incorporation of the annual report of FY21.

### Financial Summary (Consolidated)

INR mn	Q1 FY22	Q4 FY21	QoQ (%)	Q1 FY21	YoY (%)	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	15,262	14,632	4.3	6,745	126.3	42,297	43,598	63,365	70,385	86,736
EBITDA	4,515	4,547	(0.7)	1,816	148.6	10,258	12,470	17,292	18,239	21,801
APAT	3,026	2,901	4.3	990	205.8	6,110	7,758	11,387	11,908	14,428
AEPS (INR)	22.2	21.3	4.3	7.3	205.8	44.8	56.9	83.5	87.3	105.8
P/E (x)						47.2	37.2	25.3	24.2	20.0
EV/EBITDA(x)						29.2	23.6	17.0	15.9	13.0
RoE (%)						46.2	39.6	40.4	31.5	29.6

Source: Company, HSIE Research

### Change in estimates (Consolidated)

Y/E Mar	FY22E Old	FY22E New	% Ch	FY23E Old	FY23E New	% Ch
EBITDA (INR mn)	17,130	17,292	0.9%	18,461	18,239	-1.2%
Adj. EPS (INR/sh)	84.2	83.5	-0.8%	91.1	87.3	-4.2%

Source: Company, HSIE Research

## SELL

CMP (as on 5 Aug 2021)	INR 2,109
Target Price	INR 1,600
NIFTY	16,295

KEY CHANGES	OLD	NEW
Rating	SELL	SELL
Price Target	INR 1,590	INR 1,600
EPS %	FY22E -0.8%	FY23E -4.2%

### KEY STOCK DATA

Bloomberg code	DN IN
No. of Shares (mn)	136
MCap (INR bn) / (\$ mn)	287/3,865
6m avg traded value (INR mn)	2,458
52 Week high / low	INR 2,160/567

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	10.8	108.3	229.1
Relative (%)	(1.1)	100.9	184.5

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	45.69	45.69
FIs & Local MFs	11.64	10.40
FPIs	11.87	11.43
Public & Others	30.80	32.48
Pledged Shares	0.00	0.00

Source : BSE

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# Alkyl Amines

## High raw material prices affect margins

We maintain SELL on Alkyl Amines with a price target of INR 3,200 (WACC 10%, terminal growth 5%). The stock is currently trading at 55.6x FY23E EPS. We believe that the current valuation already factors in positives from the potential volume growth, post doubling of the acetonitrile plant capacity, and ~40% additional capacities of the aliphatic amines plant. The rising raw material prices are looking as a dampener and can put pressure on the margins in FY22. EBITDA/APAT were 5/1% below our estimates, owing to higher-than-expected raw material costs, offset by lower-than-expected depreciation, higher-than-expected other income, and a lower-than-expected tax outgo.

- **Financial performance:** Sales grew 3/60% QoQ/YoY to INR 3.9bn. Q1 witnessed a volume degrowth of 2-5% sequentially, whereas realisation grew by 5-6%. Gross margin fell significantly to 48.9% (-808/-699bps QoQ/YoY) in Q1 as raw material prices of key inputs such as acetic acid, methanol and ammonia soared in the quarter. EBITDA margin came in at 28.3% (-664/-331bps QoQ/YoY) and witnessed a fall mainly due to the trickle-down effect of a lower gross margin.
- **Call takeaways:** (1) Capex guidance for FY22/23 is INR 2.0/2.5bn. Apart from this, the company is looking for a land parcel of 100-150 acres for its future expansion plans. (2) The acetonitrile expansion project is on track and is expected to finish mechanical completion in Sep-21. The plant will be commissioned in Q3FY22, and will ramp up in Q4FY22. (3) Preliminary work on the aliphatic amines expansion project has been completed. (4) The company is carrying out a brownfield expansion for DMA HCL and is increasing its capacity from 25ktpa to 30ktpa. This capacity should come onstream in Oct'21. (5) There was a planned shutdown of plants in April which also affected sales volumes in Q1FY22.
- **Change in estimates:** We raise our FY22 EPS estimate by 4.9% to INR 65.1 per share to factor in increased realisations across products, offset by higher raw material costs in FY22.

### Financial Summary

INR mn	Q1FY22	Q4FY21	QoQ (%)	Q1FY21	YoY (%)	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	3,918	3,821	2.5	2,452	59.8	9,929	12,424	15,041	17,963	20,193
EBITDA	1,107	1,334	(17.0)	774	43.1	2,590	4,291	4,739	5,627	6,281
APAT	785	926	(15.2)	528	48.8	1,798	2,953	3,325	3,930	4,381
AEPS (INR)	15.4	18.1	(15.2)	10.3	48.8	35.2	57.8	65.1	76.9	85.8
P/E (x)						121.4	73.9	65.7	55.6	49.8
EV/EBITDA(x)						84.4	50.6	45.6	38.2	33.7
RoE (%)						47.8	44.4	36.2	33.0	29.1

Source: Company, HSIE Research

### Change in estimates

Y/E Mar	FY22E Old	FY22E New	% Ch	FY23E Old	FY23E New	% Ch
EBITDA (INR mn)	4,533	4,739	4.5	5,606	5,627	0.4
Adj. EPS (INR/sh)	62.1	65.1	4.9	76.6	76.9	0.4

Source: Company, HSIE Research

## SELL

CMP (as on 03 Aug 2021)	INR 4,275
Target Price	INR 3,200
NIFTY	16,131

KEY CHANGES	OLD	NEW
Rating	SELL	SELL
Price Target	INR 3,170	INR 3,200
EPS %	FY22E +4.9%	FY23E +0.4%

### KEY STOCK DATA

Bloomberg code	AACL IN
No. of Shares (mn)	51
MCap (INR bn) / (\$ mn)	218/2,941
6m avg traded value (INR mn)	573
52 Week high / low	INR 4,749/894

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	26.8	113.0	364.9
Relative (%)	15.2	106.7	322.1

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	74.13	74.09
FIs & Local MFs	2.00	1.11
FPIs	0.90	1.03
Public & Others	22.97	23.77
Pledged Shares	0.00	0.00

Source : BSE

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# Vinati Organics

## High input costs dent margins

Our SELL recommendation on Vinati Organics with a discounted cash flow-based target price of INR 1,600 (WACC 10%, terminal growth 4.5%) is driven by a shift in the revenue mix towards lower-margin iso butyl benzene (IBB) and butyl phenol as compared to ATBS, which has a higher margin. In the absence of a new product pipeline, we believe the current valuation is high at ~37x FY23E EPS. Q1 EBITDA/PAT were 18/8% below our estimates, owing to significantly higher-than-anticipated raw material cost and higher-than-expected finance cost, but the same was offset by higher-than-anticipated other income.

- **Financial performance:** Q1 revenue grew 38/67% QoQ/YoY to INR 3,864mn whereas EBITDA grew 2/5% QoQ/YoY to INR 1,015mn. EBITDA margin fell by 916/1,569bps QoQ/YoY to 26.3% (35.4/42.0/36.9% in Q4FY21/Q1FY21/FY21), on account of significantly higher phenol, toluene and acrylonitrile prices, and higher freight costs, owing to logistical disruptions in the quarter.
- **ATBS:** Demand for ATBS has been robust due to pent-up demand, and increased demand by the oil and gas industry that forms 25-30% of its global demand. Other end-user industries such as water treatment and personal care are reviving too, adding to ATBS' demand. It contributed 50% to the Q1 topline (47% in Q4). ATBS segment witnessed ~20% YoY volume growth in Q1. The new capacity is currently running at a 70% utilisation rate and is expected to run at full capacity in three years.
- **Iso butyl benzene (IBB):** Revenue contribution came in at ~15% in Q1, given reduced demand for Ibuprofen. The plants are running at surplus capacity and the company doesn't plan on carrying out any expansion for IBB.
- **Butyl phenol:** The butyl phenol segment clocked in an INR 0.4bn revenue in Q1, and is expected to clock in INR ~2bn in FY22. Butyl phenol is gaining good traction. The margins of this segment were adversely impacted in Q1 due to elevated phenol prices.
- **Change in estimates:** We cut our FY22 EPS estimate by 7.1% to INR 36.8 to factor in lower gross margin courtesy higher raw material prices, offset by a higher crude oil price assumption. We raise our FY23 EPS estimate by 2.8% to INR 52.6 to factor in the higher crude oil price assumption.

### Financial summary

INR mn	Q1 FY22	Q4 FY21	QoQ (%)	Q1 FY21	YoY (%)	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	3,864	2,798	38.1	2,316	66.8	10,289	9,543	15,532	20,882	24,124
EBITDA	1,015	991	2.4	972	4.5	4,139	3,525	5,135	7,435	8,432
APAT	809	709	14.2	723	12.0	3,338	2,693	3,780	5,407	6,147
AEPS (INR)	7.9	6.9	14.2	7.0	12.0	32.5	26.2	36.8	52.6	59.8
P/E (x)						59.6	73.9	52.6	36.8	32.4
EV/EBITDA(x)						47.4	55.9	38.7	26.4	22.8
RoE (%)						28.6	19.1	22.3	25.9	23.6

Source: Company, HSIE Research

### Change in estimates

Y/E Mar	FY22E Old	FY22E New	% Ch	FY23E Old	FY23E New	% Ch
EBITDA (INR mn)	5,512	5,135	(6.8)	7,245	7,435	2.6
Adj. EPS (INR/sh)	39.6	36.8	(7.1)	51.2	52.6	2.8

Source: Company, HSIE Research

## SELL

CMP (as on 2 Aug 2021)	INR 1,936
Target Price	INR 1,600
NIFTY	15,885

KEY CHANGES	OLD	NEW
Rating	SELL	SELL
Price Target	INR 1,560	INR 1,600
EPS %	FY22E -7.1%	FY23E +2.8%

### KEY STOCK DATA

Bloomberg code	VO IN
No. of Shares (mn)	103
MCap (INR bn) / (\$ mn)	198/2,663
6m avg traded value (INR mn)	265
52 Week high / low	INR 2,132/963

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	13.5	58.7	97.0
Relative (%)	4.8	53.3	53.6

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	74.06	74.06
FIs & Local MFs	7.29	6.82
FPIs	3.50	4.39
Public & Others	15.15	14.73
Pledged Shares	0.00	0.00

Source: BSE

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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
EPS %	FY22E -6.0%	FY23E -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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# Balaji Amines

## Robust performance

Our ADD recommendation on Balaji Amines (BLA) with a price target of INR 3,805 is premised on (1) robust demand from pharma and agrochemical industry that comprises 77% of its revenue mix; (2) ramp-up in BSCL's production; (3) doubling of methylamines by FY24; (4) capacity addition of acetonitrile and taking up the capacity to 25.5ktpa by FY23; and (5) production linked incentive scheme that provides the right tailwinds for long-term volume growth. Q1 EBITDA/APAT were 17/22% above our estimates, owing to lower-than-anticipated raw material cost, lower-than-expected other expenses, lower-than-expected finance cost, and lower-than-expected tax outgo.

- **Volumes, realisations and margins:** Total sales volume was 22kt (+20/-12% YoY/QoQ). The tabulated per-kg realisation from the amines segment comes to INR 177 (+54/20% YoY/QoQ). Back calculated per-kg EBITDA improved by 86/18% YoY/QoQ to INR 52. EBITDA margin remained healthy at 29.2% (+493/-17bps YoY/QoQ) on the back of a better product mix, higher price realisations across most of the products, and increase in operating leverage due to surge in volume offtake.
- **Con call takeaways:** (1) The new plant of ethylamines at Solapur has achieved capacity utilisation of over 90% in Q1FY22 itself. This plant has led to a lower cost of production due to a new technology adopted by the company. (2) The construction of a di-methyl carbonate (DMC) plant is ongoing, and BLA expects it to commence operations by the end of FY22. (3) Capex of INR ~0.7-0.8bn has been planned to set up an additional acetonitrile plant having capacity of 50 tonnes per day at the 90-acre greenfield project (Unit IV). This plant will get commissioned in FY23. (4) BSCL recorded 1,500 tons of average production per month in Q1. Non-agrochemical clients constituted about 40% of total sales of ethylenediamine (EDA) in Q1, up from about 10% in earlier quarters.
- **Change in estimates:** We raise our FY22/23E EPS estimates by 13.3/12.7% each to INR 90.5/103.3, to factor in a higher realisation for DMF, offset by an increase in the key raw material prices such as methanol and ammonia.
- **DCF-based valuation:** Our price target is of INR 3,805 (WACC 11%, terminal growth 5%). The stock is trading at 33.3x FY23 EPS.

### Standalone financial summary

INR mn	Q1 FY22	Q4 FY21	QoQ (%)	Q1 FY21	YoY (%)	FY20*	FY21*	FY22E*	FY23E*	FY24E*
Net Sales	3,916	3,717	5.4	2,105	86.0	9,358	13,115	16,088	18,119	21,139
EBITDA	1,143	1,091	4.8	511	123.9	1,807	3,732	4,347	4,960	6,085
APAT	818	792	3.3	347	136.1	975	2,435	2,932	3,346	4,175
AEPS (INR)	25.3	24.5	3.3	10.7	136.1	30.1	75.2	90.5	103.3	128.9
P/E (x)						114.2	45.7	38.0	33.3	26.7
EV/EBITDA(x)						63.0	30.1	25.2	21.7	17.2
RoE (%)						14.6	26.8	24.8	22.3	22.1

Source: Company, HSIE Research | \*Consolidated

### Consolidated Change in Estimates

Y/E Mar	FY22E Old	FY22E New	% Ch	FY23E Old	FY23E New	% Ch
EBITDA (INR mn)	3,855	4,347	12.8	4,403	4,960	12.6
Adj. EPS (INR/sh)	79.9	90.5	13.3	91.6	103.3	12.7

Source: Company, HSIE Research

## ADD

CMP (as on 4 Aug 2021)	INR 3,414
Target Price	INR 3,805
NIFTY	16,259

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 3,155	INR 3,805
EPS %	FY22E +13.3%	FY23E +12.7%

### KEY STOCK DATA

Bloomberg code	BLA IN
No. of Shares (mn)	32
MCap (INR bn) / (\$ mn)	111/1,487
6m avg traded value (INR mn)	536
52 Week high / low	INR 3,977/600

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	36.6	179.8	458.2
Relative (%)	23.9	172.4	414.0

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	53.70	53.68
FIs & Local MFs	0.46	0.30
FPIs	2.18	2.35
Public & Others	43.66	43.67
Pledged Shares	0.00	0.00

Source: BSE

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# Galaxy Surfactants

## Supply chain issues affect volumes

Our BUY recommendation on GALSURF with a price target of INR 3,650 is premised on (1) stickiness of business as 55% of the revenue mix comes from MNCs, (2) stable EBITDA margin at >12% since fluctuations in raw material costs (RMC) are easily passed on to customers, and (3) strong return ratios (RoE/RoIC of 25/24% in FY23E). Q1 EBITDA/APAT were 10/5% lower than estimates due to higher-than-expected raw material cost, higher-than-expected tax outgo, offset by lower-than-expected opex, lower-than-expected depreciation and higher-than-expected other income.

- **Revenue:** Q1 revenue grew 6/36% QoQ/YoY to INR 8bn, supported by a robust demand.
- **Margins:** Gross margin fell 481/247bps QoQ/YoY to 31.7%, owing to high fatty alcohol prices, higher input costs and high freight costs in Q1. EBITDAM fell 185/177bps QoQ/YoY to 13% in Q1 due to the trickle-down effect of a lower GM, offset by an improving product mix across categories.
- **Volumes:** Total volumes in Q1 came in at 60kT (-5/+15% QoQ/YoY), adversely impacted by supply side issues. The international logistics situation continues to worsen. Performance surfactants (65% of the volume mix) volumes were at 39kT (-7/+7% QoQ/YoY) and specialty care volumes came in at 21kT (-1/+36% QoQ/YoY). India's market grew 32.1% YoY, AMET de-grew 5.8% YoY, and the rest of the world grew 28.6% YoY. AMET volumes were adversely impacted by supply chain constraints.
- **Con call takeaways:** (1) Q1 saw a lot of logistical issues, which hampered the volumes. The company had to import a lot of intermediates at an expensive rate to meet the demand for specialty care products. (2) The company caters to T1 customers (53%), T2 (7%) and T3 (40%) at a global level.
- **Change in estimates:** We cut our FY22/23 EPS estimates by 2.7/2.8% to INR 111.7/125.2 to account for the overall performance in Q1 and incorporation of the annual report FY21.
- **DCF-based valuation:** Our price target is INR 3,650 (WACC 10%, terminal growth 4%). The stock is trading at 24.6x FY23E EPS.

### Financial Summary (Consolidated)

INR mn	Q1 FY22	Q4 FY21	QoQ (%)	Q1 FY21	YoY (%)	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	8,264	7,835	5.5	6,072	36.1	25,964	27,841	37,059	40,868	45,353
EBITDA	1,085	1,174	(7.6)	905	19.9	3,689	4,488	5,669	6,448	7,397
APAT	768	787	(2.4)	565	36.0	2,244	3,021	3,959	4,564	5,304
AEPS (INR)	21.7	22.2	(2.4)	15.9	36.0	65.0	85.2	111.7	125.2	141.6
P/E (x)						47.3	36.1	27.5	24.6	21.7
EV/EBITDA(x)						28.7	23.9	19.0	17.0	15.2
RoE (%)						23.1	25.5	27.2	25.4	24.3

Source: Company, HSIE Research

### Change in estimates (Consolidated)

Y/E Mar	FY22E Old	FY22E New	% Ch	FY23E Old	FY23E New	% Ch
EBITDA (INR bn)	5.89	5.67	(3.7)	6.71	6.45	(3.9)
Adj. EPS (INR/sh)	114.8	111.7	(2.7)	128.8	125.2	(2.8)

Source: Company, HSIE Research

## BUY

CMP (as on 11 Aug 2021)	INR 3,075
Target Price	INR 3,650
NIFTY	16,282

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 3,840	INR 3,650
EPS %	FY22E -2.7%	FY23E -2.8%

### KEY STOCK DATA

Bloomberg code	GALSURF IN
No. of Shares (mn)	35
MCap (INR bn) / (\$ mn)	109/1,465
6m avg traded value (INR mn)	125
52 Week high / low	INR 3,350/1,600

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	6.8	38.1	74.1
Relative (%)	(4.1)	32.2	32.1

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	70.93	70.93
FIs & Local MFs	13.33	13.02
FPIs	3.42	2.91
Public & Others	12.32	13.14
Pledged Shares	0.0	0.0

Source: BSE

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# Fine Organic Industries

## In-line performance

Our BUY recommendation on Fine Organic Industries (FOIL) with a target price of INR 3,480 is premised on (1) constant focus on R&D, (2) diversified product portfolio, (3) capacity-led expansion growth opportunity, and (4) leadership in oleo-chemical based additives in the domestic and global markets with a loyal customer base. We expect FOIL's PAT to grow at a 41% CAGR over FY22-24E, led by a 37% CAGR in EBITDA. In the absence of any major Capex in the coming years, the RoCE would expand from 16.7% in FY22E to 25.3% in FY24E. Q1 EBITDA/APAT were 1/2% above our estimates owing to a 7% rise in revenue, higher-than-expected other income, lower-than-expected tax outgo, offset by higher-than-anticipated other expense.

- **Financial performance:** Revenue grew 11/49% QoQ/YoY to INR 3.6bn. Exports continue to gain strong traction, while domestic business is impacted by the lockdown restrictions. The contribution of exports to the total revenue has increased from 55% to 62% currently. Gross margin came in at 32.3% (-114/-673bps QoQ/YoY) in Q1 on account of higher raw material costs and higher freight costs. FOIL has been instrumental in passing through the hike in raw material prices to its customers, and has now reworked contracts where the customers pay freight rate existing as on the shipping date. EBITDA came in at INR 5.2bn, +7/-1% QoQ/YoY with EBITDA margin coming in at 14.5% (-45/-732bps QoQ/YoY) in Q1. APAT came at INR 3.6bn (+13/+26% QoQ/YoY) in Q1.
- **Joint venture:** FOIL has made an investment by way of acquisition of 22,500 ordinary shares at a par value of THB 100 per share in Fine Organic Industries (Thailand) Co., Ltd. which is a JV formed to manufacture specialty chemical products and supply, export and distribute such products. FOIL holds a 45% stake in this JV.
- **Change in estimates:** We cut our FY22/FY23E EPS estimates by 6.2/4.1% to INR 46.1/66.1 per share to factor in the overall performance of Q1, change in our Capex assumption, and incorporation of the annual report of FY21.
- **DCF-based valuation:** Our price target is INR 3,480 (WACC 10%, terminal growth 4.5%). The stock is trading at 42.9x FY23E EPS.

### Financial Summary (Consolidated)

INR mn	Q1 FY22	Q4 FY21	QoQ (%)	Q1 FY21	YoY (%)	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	3,576	3,229	10.7	2,400	49.0	10,381	11,332	14,392	15,989	18,846
EBITDA	520	484	7.4	525	(0.9)	2,405	1,993	2,207	3,060	4,131
APAT	359	318	13.0	286	25.5	1,648	1,203	1,414	2,026	2,818
AEPS (INR)	11.7	10.4	13.0	9.3	25.5	53.7	39.3	46.1	66.1	91.9
P/E (x)						52.8	72.3	61.5	42.9	30.9
EV/EBITDA(x)						35.8	42.8	38.6	27.3	19.8
RoE (%)						29.5	17.8	18.1	22.5	26.3

Source: Company, HSIE Research

### Change in estimates (Consolidated)

YE Mar	FY22E Old	FY22E New	% Ch	FY23E Old	FY23E New	% Ch
EBITDA (INR mn)	2,200	2,207	0.3%	3,019	3,060	1.4%
Adj. EPS (INR/sh)	49.2	46.1	-6.2%	68.9	66.1	-4.1%

Source: Company, HSIE Research

**BUY**

CMP (as on 18 Aug 2021)	INR 2,841
Target Price	INR 3,480
NIFTY	16,569

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 3,585	INR 3,480
EPS %	FY22E -6.2%	FY23E -4.1%

### KEY STOCK DATA

Bloomberg code	FINEORG IN
No. of Shares (mn)	31
MCap (INR bn) / (\$ mn)	87/1,171
6m avg traded value (INR mn)	198
52 Week high / low	INR 3,563/2,123

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(11.2)	19.4	26.7
Relative (%)	(22.1)	11.0	(17.6)

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	75.00	75.00
FIs & Local MFs	14.19	11.40
FPIs	5.93	6.80
Public & Others	4.88	6.80
Pledged Shares	0.00	0.00

Source: BSE

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# Sudarshan Chemical

## Domestic business hit by the second wave

We maintain a BUY recommendation on Sudarshan Chemical (SCIL) with a target price of INR 830/share. We expect SCIL's PAT to grow at a 26% CAGR over FY22-24E, led by a 16% CAGR in revenue. Two major global players shifting away from the pigment business could act as a tailwind for Indian pigment manufacturers. We believe SCIL is in a sweet spot to seize this opportunity by offering products similar to those of global players. Q1 EBITDA/APAT were 31/41% below our estimates, mainly due to a 17% lower revenue, higher-than-expected employee cost and other expenses, lower-than-expected other income, offset by a lower-than-expected finance cost.

- **Financial performance:** Revenue grew 35% YoY, owing to a lower base, and fell 18% QoQ to INR 4,739mn, owing to the adverse impact on the domestic business of the second wave of the COVID-19 pandemic. Exports continue to gain traction. Capacity utilisation during Q1FY22 was at ~81% of operating capacity. EBITDA was up 17% YoY, down 29% QoQ to INR 620mn. EBITDA margin fell 195/209bps YoY/QoQ to 13%, owing to higher employee cost, freight cost, energy cost and negative impact of the withdrawal of MEIS. APAT came in at INR 262mn (+44/-51% YoY/QoQ).
- **Pigment segment (96% of the revenue mix):** Revenue/EBIT grew 33/41% YoY and fell 15/30% QoQ to INR 4,532/458mn. EBIT margin for the segment came in at 10%, +59/-209bps YoY/ QoQ.
- **Con call takeaways:** (1) Exports accounted for 55% of revenue for the pigment segment. (2) Specialty pigments constituted 70% of the revenue for the pigment segment in Q1. (3) The company plans to launch three product lines having 10-15 products each in FY22. (4) Capex projects worth INR 1.2bn would be completed by Sep'21. (5) The Mahad facility stayed shut for two weeks, due to heavy rains and floods in Q2FY22. (6) The ramp-up in the yellow pigment will be witnessed by the company in H2FY23. (7) The domestic business of the company would meet normalcy in Q3FY22.
- **Change in estimates:** We cut our FY22/23 EPS estimates by 18.7/8.5% to INR 24.6/32.6 to account for the overall performance in Q1 and incorporation of annual report FY21.
- **DCF-based valuation:** Our target price is INR 830 (WACC 10%, terminal growth 4%). The stock is currently trading at 21.3x FY23E EPS.

### Financial Summary (Consolidated)

INR mn	Q1 FY22	Q4 FY21	QoQ (%)	Q1 FY21	YoY (%)	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	4,739	5,765	(17.8)	3,523	34.5	17,082	18,641	21,855	25,423	29,212
EBITDA	620	875	(29.1)	530	17.0	2,463	2,878	3,370	4,326	5,072
APAT	262	534	(51.0)	182	43.8	1,311	1,411	1,701	2,258	2,720
AEPS (INR)	3.8	7.7	(51.0)	2.6	43.8	18.9	20.4	24.6	32.6	39.3
P/E (x)						36.7	34.0	28.3	21.3	17.7
EV/EBITDA(x)						21.5	18.7	16.1	12.4	10.4
RoE (%)						22.4	21.0	21.3	24.5	25.4

Source: Company, HSIE Research

### Change in estimates (Consolidated)

Y/E Mar	FY22E Old	FY22E New	% Ch	FY23E Old	FY23E New	% Ch
EBITDA (INR mn)	3,755	3,370	-10.3%	4,420	4,326	-2.1%
Adj. EPS (INR/sh)	30.2	24.6	-18.7%	35.6	32.6	-8.5%

Source: Company, HSIE Research

**BUY**

CMP (as on 9 Aug 2021)	INR 698
Target Price	INR 830
NIFTY	16,258

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 895	INR 830
EPS %	FY22E	FY23E
	-18.7%	-8.5%

### KEY STOCK DATA

Bloomberg code	SCHI IN
No. of Shares (mn)	69
MCap (INR bn) / (\$ mn)	48/649
6m avg traded value (INR mn)	275
52 Week high / low	INR 794/407

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	10.3	39.4	55.6
Relative (%)	(0.3)	33.4	12.6

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	40.03	39.57
FIs & Local MFs	9.01	9.27
FPIs	9.36	8.79
Public & Others	41.60	42.37
Pledged Shares	0.00	0.00

Source: BSE

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# NOCIL

## Pass-through price hikes protect topline

Our BUY recommendation on NOCIL with a target price of INR 330 is premised on (1) ramp-up in capacity utilisation, (2) robust volume growth on the back of pick-up in demand in the tyre industry, and (3) expansion of margin with focus on specialised rubber chemicals. We expect NOCIL's PAT to grow at 27% CAGR over FY22-24E, led by 25% CAGR in EBITDA. In the absence of major Capex over the next two years, the RoCE shall expand from 9.6% in FY22E to 14.2% in FY24E and generate an FCF of INR ~5bn over FY22-24E. Q1 EBITDA/APAT were 43/58% above our estimates, owing to an 8% rise in revenue, lower-than-anticipated raw material costs, lower-than-expected other expenses, and lower-than-expected tax outgo.

- **Financial performance:** Revenue grew 7/223% QoQ/YoY to INR 3.4bn, the highest-ever booked in any quarter till date, supported by increase in price realisation. The sequential de-growth of 13% in volumes was offset by an improved realisation by 20% in Q1. Domestic volumes were impacted by the strike of the second wave of the COVID-19 pandemic as most of the company's customers had to shut down their plants. However, the company witnessed a growth in export volumes. Gross margin came at ~49.4% (+524/+81bps QoQ/YoY) in Q1, mainly on account of high inventory gains. EBITDA grew 45/871% QoQ/YoY to INR 7bn with EBITDA margin coming in at 21.1% (+547/+1407bps QoQ/YoY).
- **Con call takeaways:** (1) Plants operated at 70% capacity utilisation in Q1. Operations were affected with demand from customers falling as majority of them faced issues due to COVID-led disruptions. (2) NOCIL has been instrumental in passing through the increased raw material and freight costs to its customers which has protected its topline. (3) NOCIL plans to reach 100% capacity utilisation at all its plants by Sep'23. This will help it achieve a 7-8% market share globally. (4) China plus one strategy continues to play out well for NOCIL, as over 75% of the global demand of rubber chemicals is met by China and companies worldwide are de-risking their businesses.
- **Change in estimates:** We raise our FY22/FY23E EPS estimates by 8.9/8.6% to INR 8.2/10.3 per share to factor in the overall performance of Q1, and a reduced tax rate.
- **DCF-based valuation:** Our price target is INR 330 (WACC 10%, terminal growth 4.5%). The stock is trading at 26.9x FY23E EPS.

### Financial Summary

INR mn	Q1 FY22	Q4 FY21	QoQ (%)	Q1 FY21	YoY (%)	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	3,445	3,220	7.0	1,065	223.4	8,463	9,247	13,247	14,836	16,617
EBITDA	727	503	44.5	75	871.4	1,765	1,269	2,136	2,647	3,353
APAT	471	360	30.7	118	300.3	1,309	865	1,366	1,709	2,213
AEPS (INR)	2.8	2.2	30.7	0.7	300.3	7.9	5.2	8.2	10.3	13.3
P/E (x)						35.2	53.2	33.7	26.9	20.8
EV/EBITDA(x)						25.9	35.4	20.7	16.5	12.9
RoE (%)						11.2	7.1	10.5	12.5	15.4

Source: Company, HSIE Research

### Change in estimates

Y/E Mar	FY22E Old	FY22E New	% Ch	FY23E Old	FY23E New	% Ch
EBITDA (INR mn)	2,133	2,136	0.2	2,621	2,647	1.0
Adj. EPS (INR/sh)	7.5	8.2	8.9	9.5	10.3	8.6

Source: Company, HSIE Research

## BUY

CMP (as on 4 Aug 2021)	INR 277
Target Price	INR 330
NIFTY	16,259

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 315	INR 330
EPS %	FY22E +8.9%	FY23E +8.6%

### KEY STOCK DATA

Bloomberg code	NOCIL IN
No. of Shares (mn)	166
MCap (INR bn) / (\$ mn)	46/620
6m avg traded value (INR mn)	407
52 Week high / low	INR 294/108

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	40.0	82.2	155.0
Relative (%)	27.3	74.8	110.8

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	33.93	33.89
FIs & Local MFs	5.18	4.34
FPIs	2.15	2.16
Public & Others	58.74	59.61
Pledged Shares	0.00	0.00

Source: BSE

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# Consumer Discretionary

# Asian Paints

## Demand rebound strong; profitability, not so much!

APNT's topline delivery (91% YoY) exceeded expectations (HSIE: 64%). Growth was all-round. The decorative business clocked 106/96% volume/value growth, underpinned by (1) strong pent-up demand in paints and adjacencies (waterproofing/adhesives) and (2) stronger pick-up in metros/tier 1/2 cities and projects & large institutional sales (vis-à-vis the previous year). Despite a meaningful revenue beat, EBITDA (INR 9.1bn) missed expectations (HSIE: INR 9.3bn) as RM inflation dragged it down. Note: price hikes (3% in Q1/1% in Jul-21) remain incommensurate vis-à-vis the steep RM inflation (21-25% in the past six months). Our FY23/24 EPS estimates largely remain unchanged. Maintain SELL with a DCF-based TP of INR 2,460/sh, implying 54x Jun-23 P/E.

**Q1FY22 highlights:** Revenue grew 91% YoY (two-year CAGR: 5%) to INR 55.85bn (HSIE: INR 47.85bn) as all business vectors rebounded strongly. Decorative volume/value grew 106/96% YoY, underpinned by (1) strong pent-up demand in paints and adjacencies (waterproofing/adhesives) and (2) stronger pick-up in metros/tier 1/2 cities and projects & large institutional sales. Industrial subsidiaries (PPG-AP and AP-PPG) too staged a strong recovery. Within non-auto, both industrial liquid and protecting coatings recovered well in 1Q.

**On profitability:** The overall trade-off between growth-profitability was starker than expected. Despite a meaningful revenue beat, EBITDA (INR 9.1bn) missed expectations (HSIE: INR 9.3bn) as RM inflation dragged GM/EBITDAM down (-480/-350bp resp) to 38.4/16.4%. Note: price hikes (3% in Q1/1% in Jul-21) were incommensurate vis-à-vis the steep RM inflation (21-25% in the past six months). More rounds of prices hikes are expected in the ensuing quarters.

- **Outlook:** APNT's wide distribution arbitrage has helped it recoup most of its lost demand YoY. However, margin pressures remain, given the steep RM price spikes. Our FY23/24 EPS estimates largely remain unchanged. Maintain SELL with a DCF-based TP of INR 2,460/sh, implying 54x Jun-23 P/E.

### Quarterly financial summary

(Rs mn)	1QFY22	1QFY21	YoY (%)	4QFY21	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
Net Revenue	55,854	29,227	91.1	66,514	(16.0)	2,02,113	2,17,128	2,50,019	2,80,293	3,17,451
EBITDA	9,136	4,843	88.7	13,183	(30.7)	41,618	48,556	53,226	61,328	69,458
APAT	5,743	2,196	161.5	8,699	(34.0)	27,101	31,393	35,602	42,192	48,503
EPS (Rs)	6.0	2.3	161.5	9.1	(34.0)	28.3	32.7	37.1	44.0	50.6
P/E (x)						106.3	91.7	80.9	68.2	59.4
EV/EBITDA (x)						69.1	59.3	53.8	46.4	40.7
Core RoCE(%)						27.7	30.3	31.9	35.5	39.6

Source: Company, HSIE Research

### Change in estimates

(Rs mn)	FY22E			FY23E			FY24E		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Revenue	2,50,019	2,44,565	2.2	2,80,293	2,76,066	1.5	3,17,451	3,12,660	1.5
Gross Profit	1,06,833	1,06,776	0.1	1,23,696	1,21,830	1.5	1,39,285	1,37,044	1.6
Gross Profit Margin (%)	42.7	43.7	(93 bps)	44.1	44.1	0 bps	43.9	43.8	4 bps
EBITDA	53,226	53,458	(0.4)	61,328	60,540	1.3	69,458	68,428	1.5
EBITDA margin (%)	21.3	21.9	(57 bps)	21.9	21.9	(5 bps)	21.9	21.9	(1 bps)
APAT	35,602	35,828	(0.6)	42,192	41,721	1.1	48,503	47,834	1.4
APAT margin (%)	14.2	14.6	(41 bps)	15.1	15.1	(6 bps)	15.3	15.3	(2 bps)
EPS (Rs)	37.1	37.4	(0.6)	44.0	43.5	1.1	50.6	49.9	1.4

Source: Company, HSIE Research

## SELL

CMP (as on 20 Jul 2021)	INR 3,159
Target Price	INR 2,460
NIFTY	15,632

KEY CHANGES	OLD	NEW
Rating	SELL	SELL
Price Target	INR 2,460	INR 2,460
EPS %	FY23E	FY24E
	+1.1	+1.4

### KEY STOCK DATA

Bloomberg code	APNT IN
No. of Shares (mn)	959
MCap (INR bn) / (\$ mn)	3,030/40,719
6m avg traded value (INR mn)	5,295
52 Week high / low	INR 3,180/1,682

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	23.7	17.1	80.4
Relative (%)	14.3	12.3	40.9

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	52.79	52.79
FIs & Local MFs	2.98	2.65
FPIs	20.38	20.72
Public & Others	23.85	23.84
Pledged Shares	4.98	4.77

Source : BSE

Pledged shares as % of total shares

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# Avenue Supermarts

## Profitability, unit economics disappoint

While D-MART's revenue recovery came in line with expectations, its profitability disappointed. Revenue grew 31% to INR 50.3bn (in-line), while curbs on non-essential sales during the second COVID-led lockdown put pressure on its gross margin (GM), which contracted 129bps to 12.4% (HSIE: 13.5%). However, better cost control cushioned the impact on EBITDAM (4.4%, up 156bps; HSIE: 4.7%). Management highlighted that despite fewer operational hours, footfalls were higher YoY as restrictions on personal mobility were less stringent in the recent lockdown. Unit economics continues to lag expectations. We maintain our SELL recommendation on DMART with a revised DCF-based TP of INR 2,260/sh (earlier 2,160/sh), implying 34x Jun-23E EV/EBITDA for the standalone business + 4x Jun-23E sales for DMART Ready. Note: the target price change is a function of EPS change (+3%; led by lower cost of retailing) for FY23 and DCF rollover (+2%) to Jun-23.

- **1QFY22 highlights:** Revenue grew 31.3% to INR50.32bn (in-line). GM declined 129bps YoY to 12.4% (HSIE: 13.5%) as curbs on non-essential sales dragged it down. We suspect the heightened competitive intensity in F&G has also played a role in pressurising gross margins. EBITDAM expanded 156bps YoY to 4.4% (HSIE: 4.7%). The miss on EBITDAM was lower than that on GM as DMART continued to smartly rein in costs. Management highlighted that despite fewer operational hours, footfalls have been higher YoY, as there were less restrictions on personal mobility in the recent lockdown. However, unit economics continues to lag expectations. Revenue/GP/EBITDA per sq ft stood at INR 22,339/2,762/982 respectively (vs HSIE: INR 22,215/2,989/1,105). DMART added four stores in 1Q (store count: 238). Management indicated that inventory levels are normalising and construction activity has commenced at all sites.
- **Outlook:** DMART's anchor variable – footfalls – and consequently unit economics remain sub-optimal and their path to complete recovery remains hazy, especially against the backdrop of heightened competitive intensity from deep-pocketed retailers. Hence, we maintain our SELL recommendation on DMART with a revised DCF-based TP of INR 2,260/sh (earlier 2,160/sh), implying 34x Jun-23E EV/EBITDA for the standalone business + 4x Jun-23E sales for DMART Ready.

### Quarterly financial summary

(INR mn)	1Q FY22	1Q FY21	YoY (%)	4Q FY21	QoQ (%)	FY19	FY20P	FY21E	FY22E	FY23E
Net Revenue	50,318	38,332	31.3	73,031	(31.1)	1,99,163	2,46,750	2,37,872	2,96,235	4,35,458
EBITDA	2,212	1,089	103.2	6,166	(64.1)	16,422	20,385	17,417	24,542	38,598
APAT	1,151	496	132.3	4,350	(73.5)	9,363	13,685	11,653	15,724	25,249
EPS (Rs)	1.8	0.8	132.3	6.71	(73.5)	15.0	21.6	18.0	24.3	39.0
P/E (x)						185.2	128.5	154.4	114.5	71.3
EV/EBITDA (x)						105.9	84.7	101.9	72.5	44.3
Core RoCE(%)						17.5	18.8	11.2	13.4	18.3

Source: Company, HSIE Research, Standalone Financials

### Change in estimates

(INR mn)	FY22E			FY23E			FY24E		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Revenue	2,96,235	2,93,694	0.9	4,35,458	4,31,999	0.8	5,33,624	5,33,624	-
Gross Profit	43,640	43,269	0.9	65,349	64,833	0.8	80,106	80,106	-
Gross Profit Margin (%)	14.7	14.7	(0 bps)	15.0	15.0	(0 bps)	15.0	15.0	-
EBITDA	24,542	23,917	2.6	38,598	37,707	2.4	47,743	47,743	-
EBITDA margin (%)	8.3	8.1	14 bps	8.9	8.7	14 bps	8.9	8.9	-
APAT	15,724	15,194	3.5	25,249	24,502	3.0	31,343	31,343	-
APAT margin (%)	5.3	5.2	13 bps	5.8	5.7	13 bps	5.9	5.9	-
EPS (Rs)	24.3	23.5	3.5	39.0	37.8	3.0	48.4	48.4	-

Source: Company, HSIE Research

## SELL

CMP (as on 09 Jul 2021) INR 3,378

Target Price INR 2,260

NIFTY 15,690

KEY CHANGES	OLD	NEW
Rating	SELL	SELL
Price Target	INR 2,160	INR 2,260
	FY22E	FY23E
EPS %	+3.5	+3.0

### KEY STOCK DATA

Bloomberg code	DMART IN
No. of Shares (mn)	648
MCap (INR bn) / (\$ mn)	2,188/29,401
6m avg traded value (INR mn)	1,414
52 Week high / low	INR 3,425/1,955

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	14.6	13.8	45.6
Relative (%)	8.9	6.4	3.0

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	74.99	74.99
FIs & Local MFs	6.08	6.22
FPIs	10.17	10.04
Public & Others	8.76	8.75
Pledged Shares	0	0

Source : BSE

Pledged shares as % of total shares

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# Titan

## Jewellery drives performance beat

Titan's 1QFY22 topline grew 76% YoY. Jewellery (ex-bullion) grew 115% (2-yr CAGR: -21%). That said, Titan's relative market share gain (in jewellery) doesn't seem material as most big-box jewelers grew at a similar clip or faster. Profitability print beats expectations, primarily driven by the jewelry segment. Jewellery margin stood at 6.5% (HSIE: 1%). Non-jewellery recovered ~44% of 1QFY20 sales (i.e, pre-COVID sales) but disappointed on profitability. We marginally increase our FY23/24 EPS estimates by 3% each to account for lower cost of retailing. Our DCF-based target price stands revised to INR 1,500/sh (earlier INR1,400/sh), implying 51x Jun-23 P/E. Maintain SELL.

- **1QFY22 highlights:** Consolidated revenue grew 76% YoY to INR 34.7bn. Jewellery grew 67% YoY to INR 30.5bn. Adjusted for bullion/B2B sales, jewellery grew ~115% YoY to INR26.2bn (HSIE, INR25.3bn). Standalone volumes were up 124% YoY. Studded ratio, at 22% (vs 18% in 1QFY21, HSIE: 22%), improved YoY but remains sub-optimal. Expansion in jewellery EBIT margin was a given; however, the extent of the swing surprised us (6.5% vs HSIE: 1%) against the backdrop of (1) higher-than-expected bullion sales and (2) similar studded ratio expectations. Non-jewellery recovered ~44% of 1QFY20 sales (i.e, pre-COVID sales) but disappointed on profitability. Watches/eyewear clocked EBIT losses of INR 610/130mn resp (HSIE: INR318/78mn). Adj. consol PAT stood at INR 180mn (HSIE: INR586mn).
- **Outlook:** While Titan's recovery execution (esp. in jewellery) has been on point, a strong bounce-back in volumes is already baked in FY22/23, despite the impact of partial lockdowns (Q1) in Maharashtra and Delhi. Against this backdrop, the margin of safety seems non-existent at 62x Jun-23 P/E. Hence, we maintain our SELL recommendation with a DCF-based TP of INR 1,500/sh; (earlier INR1,400/sh), implying 51x Jun-23 P/E.

### Quarterly financial summary

(INR mn)	1QFY22	1QFY21	YoY (%)	4QFY21	QoQ (%)	FY21	FY22E	FY23E	FY24E
Net Revenue	34,730	19,790	75.5	74,940	(53.7)	2,16,440	2,64,336	3,16,598	3,67,114
EBITDA	1,370	-2,530	(154.2)	8,170	(83.2)	17,240	31,180	37,867	44,699
APAT	180	-2,970	(106.1)	5,680	(96.8)	9,740	20,233	24,791	29,462
EPS (Rs)	0.2	-3.35	(106.1)	6.40	(96.8)	11.0	22.8	27.9	33.2
P/E (x)						164.0	79.0	64.4	54.2
EV/EBITDA (x)						94.6	52.2	43.2	36.6
Core RoCE(%)						9.1	17.8	19.0	19.8

Source: Company, HSIE Research, Consolidated Financials

### Change in estimates

(INR mn)	FY22E			FY23E			FY24E		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Revenue	2,64,336	2,56,019	3.2	3,16,598	3,05,749	3.5	3,67,114	3,51,438	4.5
EBITDA	31,180	31,710	(1.7)	37,867	36,234	4.5	44,699	42,228	5.9
EBITDA margin (%)	11.8	12.4	(59 bps)	12.0	11.9	11 bps	12.2	12.0	16 bps
APAT	20,233	20,220	0.1	24,791	24,073	3.0	29,462	28,562	3.2
APAT margin (%)	7.7	7.9	(24 bps)	7.8	7.9	(4 bps)	8.0	8.1	(10 bps)
EPS	22.8	22.8	0.1	27.9	27.1	3.0	33.2	32.2	3.2

Source: Company, HSIE Research

## SELL

CMP (as on 4 Aug 2021)	INR 1,800
Target Price	INR 1,500
NIFTY	16,259

KEY CHANGES	OLD	NEW
Rating	SELL	SELL
Price Target	INR 1,400	INR 1,500
EPS %	FY23E +3.0%	FY24E +3.2%

### KEY STOCK DATA

Bloomberg code	TTAN IN
No. of Shares (mn)	888
MCap (INR bn) / (\$ mn)	1,598/21,469
6m avg traded value (INR mn)	3,067
52 Week high / low	INR 1,859/1,049

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	28.3	18.9	67.4
Relative (%)	15.6	11.5	23.1

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	52.90	52.90
FIs & Local MFs	4.40	4.15
FPIs	18.10	18.41
Public & Others	24.60	24.54
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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# Berger Paints

## Mark-up over leader unjustified

Berger Paints continues to execute well. Its topline delivery (93% YoY) exceeded expectations (HSIE: 70%). Its two-year topline CAGR continues to lag APNT (BRGR: 2.4% vs APNT: 4.6%). Demand trends have remained healthy since Jun-21. Metros/tier 1s led Q1 growth, which along with price hikes, led to value leading volume growth by ~4.5%. Despite a meaningful revenue beat, EBITDA (INR 2.38bn) missed expectations (HSIE: INR 2.48bn) as RM inflation dragged profitability down. Cumulative price hikes taken stand at 5% and lag RM inflation (21-25% in H1CY21). While we marginally revise our EPS estimates upwards by 2-4% for FY23/24, we maintain SELL with a DCF target price of INR 670/sh (implying 58x Jun-23 P/E).

- **Q1FY22 highlights:** Consolidated revenue grew 93% to INR17.98bn (HSIE: INR 15.2bn, two-yr CAGR: 2.4%). Its standalone revenue growth at 1% CAGR (two-year basis) lagged APNT's decorative segment (4.6%) but outpaced KPNTL's -2% CAGR. Demand trends have remained healthy since Jun-21. Metros/tier 1s led Q1 growth, which along with price hikes, led to value leading volume growth by ~4.5%. Despite a meaningful revenue beat, EBITDA (INR 2.38bn) missed expectations (HSIE: INR 2.48bn) as RM inflation dragged profitability down. Management remains upbeat on domestic decorative segment and expects growth to remain healthy, courtesy brand launches and increasing traction in construction chemicals. It expects dealer addition pace to resume to pre-COVID level (12-13%/year). APAT stood at INR1.42bn (81% of 1QFY20 levels; in-line).
- **Outlook:** While BRGR continues to execute well, its topline variance vis-à-vis APNT hasn't been meaningful over FY19-21 despite it being 1/3<sup>rd</sup> the leader's size with relatively lower metro exposure. Hence, in our view, the premium it enjoys over APNT is unjustified (71x Jun-23 P/E vs APNT's 65x). Maintain SELL with an unchanged DCF TP of INR 670/sh (implying 58x Jun-23 P/E).

### Quarterly financial summary

(INR mn)	1QFY22	1QFY21	YoY (%)	1QFY21	QoQ (%)	FY20	FY21E	FY22E	FY23E	FY24E
Net Revenue	17,985	9,308	93.2	20,261	(11.2)	63,658	68,176	79,990	90,131	1,02,791
EBITDA	2,385	921	159.0	3,356	(28.9)	10,610	11,880	13,965	16,880	19,477
APAT	1,422	151	842.1	2,086	(31.8)	6,561	7,197	8,756	10,678	12,610
EPS (Rs)	1.5	0.2	842.1	2.1	(31.8)	6.8	7.4	9.0	11.0	13.0
P/E (x)						120.7	110.1	90.5	74.2	62.8
EV/EBITDA (x)						75.0	66.6	56.2	46.1	39.5
Core RoCE(%)						21.0	20.6	22.9	27.0	30.5

Source: Company, HSIE Research, Standalone Financials

### Change in estimates

(INR mn)	FY22E			FY23E			FY24E		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Revenue	79,990	77,526	3.2	90,131	87,887	2.6	1,02,791	1,00,228	2.6
Gross Profit	33,738	33,087	2.0	38,917	37,948	2.6	44,384	43,177	2.8
Gross Profit Margin (%)	42.2	42.7	(50.0)	43.2	43.2	(0.0)	43.2	43.1	10.0
EBITDA	13,965	13,938	0.2	16,880	16,460	2.6	19,477	18,891	3.1
EBITDA margin (%)	17.5	18.0	(52 bps)	18.7	18.7	(0 bps)	18.9	18.8	10 bps
APAT	8,756	8,769	(0.2)	10,678	10,428	2.4	12,610	12,237	3.1
APAT margin (%)	10.9	11.3	(37 bps)	11.8	11.9	(2 bps)	12.3	12.2	6 bps
EPS (Rs)	9.0	9.0	(0.2)	11.0	10.7	2.4	13.0	12.6	3.1

Source: Company, HSIE Research

## SELL

CMP (as on 12 Aug 2021)	INR 815
Target Price	INR 670
NIFTY	16,364

KEY CHANGES	OLD	NEW
Rating	SELL	SELL
Price Target	INR 670	INR 670
EPS %	FY23E	FY24E
	+2.4	+3.1

### KEY STOCK DATA

Bloomberg code	BRGR IN
No. of Shares (mn)	971
MCap (INR bn) / (\$ mn)	792/10,637
6m avg traded value (INR mn)	804
52 Week high / low	INR 873/527

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	11.0	5.8	48.2
Relative (%)	(1.6)	(0.6)	5.2

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	74.98	74.98
FIs & Local MFs	0.97	0.88
FPIs	11.37	11.25
Public & Others	12.68	12.89
Pledged Shares	0	0

Source : BSE

Pledged shares as % of total shares

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# Havells India

## Robust performance despite the odds

Havells delivered a strong Q1FY22 performance despite the industry facing several challenges due to COVID-19. Revenue grew by 76% YoY (HSIE 68%), driven by strong performance across all segments, notably switchgears and ECD. While our channel checks suggested a ~15% revenue decline vs. Q1FY20, Havells, through its superior execution capabilities, managed to control the revenue decline to 4% (vs. Q1FY20), as against the 46% YoY dip registered in Q1FY21. With the second wave hitting India at the peak of summer season, Lloyd lost out on crucial sales; however, it posted slightly higher revenue than our expectation (24% down vs. Q1FY20). Despite steep raw material inflation, gross margin was resilient. The company saw 99bps YoY expansion in gross margin to 35.7% but it was down 170bps QoQ. EBITDA margin expanded by 474bps YoY to 13.6% (HSEI 13.3%), but was down 160bps QoQ. EBITDA grew by 170% YoY (HSIE 152%), clocking a 13% two-year CAGR. We expect the growth momentum to sustain, owing to healthy underlying demand (driven by housing activities), share gains, and revival in B-B. We continue to value Havells at 50x P/E on Jun-23E EPS to derive a target price of INR 1,200. We expect the rich valuation to sustain; maintain ADD.

- Continued its all-round performance:** Revenue was up 76% YoY (HSIE 68%), but it was down by only 4% on Q1FY20 vs. the 46% YoY dip in Q1FY21. Switchgears/cables/lighting/ECD delivered YoY growth of 96/75/52/91% while compared to Q1FY20, the growth was +9/+4/-16/+3%. Lloyd lost out on crucial peak summer sales still it registered only 16% QoQ dip. Our channel checks suggest that the RAC industry saw a higher decline (on Q1FY20) than electrical categories. We expect revenue growth momentum to sustain with inspiring industry recovery, housing activities, and share gain. Havells has undertaken several initiatives for Lloyd, but it has yet to go through a full normal season for us to understand the extent of recovery of the brand.
- Beat in margin:** GPM was up by 99bps YoY (down 281bps in 1QFY21 and +127bps in 4QFY21), lower than our expectations of 131bps YoY expansion. Employee/A&P/other expenses grew by 32/645/48% YoY on a low Q1FY21 base. EBIT margin for switchgears/cables/lighting/ECD/Lloyd expanded by 1.2pp/770bps/1.3pp/-58bps/-2bps YoY to 27/16/15/12/2%. EBITDA margin saw an expansion of 474bps YoY to 13.6% (-140bps in 1QFY21 and +411bps in 4QFY21). EBITDA grew by 170% YoY (HSIE +152%).
- Con call takeaways:** (1) Compared to the first wave, in the second one, the demand was more driven by the underlying trend instead of pent-up demand. (2) Project execution this year is driving B-B growth. (3) Lloyds' inventory levels are high at company level (are expected to normalise in 1-2 quarters) while trade level inventory is not at a high level. (4) Capex plans remain unchanged at INR 5bn and INR 10bn for the next two years.

### Quarterly/Annual Financial summary

YE Mar (INR mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY22E	FY23E	FY24E
Net Sales	25,982	14,791	75.7	33,312	(22.0)	104,279	126,721	148,237	164,680
EBITDA	3,531	1,309	169.8	5,057	(30.2)	15,653	17,432	20,404	22,547
APAT	2,343	633	269.9	3,023	(22.5)	10,397	11,899	14,107	15,802
Diluted EPS (Rs)	3.7	1.0	269.9	4.8	(22.5)	16.6	19.0	22.5	25.3
P/E (x)						69.3	60.5	51.1	45.6
EV / EBITDA (x)						45.1	39.9	33.7	30.1
Core RoCE (%)						26.5	27.0	31.6	33.4

Source: Company, HSIE Research

## ADD

CMP (as on 22 July 2021)	INR 1,151
Target Price	INR 1,200
NIFTY	15,824

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 1,200	INR 1,200
EPS %	FY22E	FY23E
	0%	0%

### KEY STOCK DATA

Bloomberg code	HAVL IN
No. of Shares (mn)	626
MCap (INR bn) / (\$ mn)	721/9,690
6m avg traded value (INR mn)	2,479
52 Week high / low	INR 1,238/568

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	14.6	2.6	96.9
Relative (%)	3.8	(3.9)	57.6

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	59.50	59.47
FIs & Local MFs	7.89	8.17
FPIs	24.91	24.01
Public & Others	7.70	8.35
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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# Jubilant FoodWorks

## No fireworks to sustain expensive valuation

Jubilant's Q1FY22 was in line and it posted revenue growth of 131% YoY (HSIE 131%, -3% two-year CAGR). SSG was at +114% (-61% in Q1FY21) vs. HSIE +129%. System recovery was at 94% vs. 41% in Q1FY21 and 115% in Q4FY21, reflecting less impact of the second wave of COVID on the business. While Jubilant continued to capitalise on its delivery expertise, delivery recovery was at 149% vs. 67% in Q1FY21 and 129% in Q4FY21. EBITDA margin was robust at 24% (HSIE 23%), driven by tight cost control. We expect the margin to remain strong in FY22/FY23. The company is committed to aggressive store expansion across brands for the remaining FY22. Investments in technology and digital marketing will further empower the brands and operations. Jubilant is a strong franchise among QSR peers, and its success on new initiatives and capital allocation will remain the key monitorables for the stock. We maintain our EPS estimates. We value Jubilant at 55x P/E on Jun-23E EPS and derive a target price of INR 2,650. We believe a large part of the recovery is priced in (trading at 68x/57x P/E on FY23/24). Maintain REDUCE.

- **Sequential recovery continues:** Net revenue was in line at 131% YoY (-60% in Q1FY21, +14% in Q4FY21). SSG stood at +114% YoY (-61% in Q1FY21, +12% in Q4FY21). OLO contribution to delivery stood at 99% while app downloads rose by >70% YoY to 64mn. Revenue/SSG in FY21 were weak at -16/-18% despite the support from delivery charges. Delivery charge has increased by INR 3 to INR 35, the benefit of which will reflect from Q2FY22.
- **Store expansion aggressive, execution a concern:** Jubilant remained committed to store expansion, opening 29 new stores (20 Domino's and 3 each of Hong's, Dunkin' and Ekdum!). The store expansion spree will continue across brands. Popeyes is the new brand to particularly target the non-veg consumers. With rapid store expansion in India, Bangladesh, and Sri Lanka (along with managing DP Euro Asia), the company needs to manage around twice the number of stores over the next three years. It would test its execution skills, particularly with rising competition in India.
- **Delivery charge led margin expansion:** GM contracted by 80bps YoY to 77.2% (+257bps in Q1FY21 and +304bps in Q4FY21). Delivery charge expanded the gross margin by >300bps YoY in FY21, which is expected to be muted in FY22. Employee expenses continued to tighten, down by 17% QoQ and 10% vs. Q1FY20. EBITDA margin was at 24% vs. 6% in Q1FY21 and 23% in Q1FY20. EBITDA two-year CAGR was at -2%.
- **Call takeaways:** (1) H2FY21 recovery has been interrupted by the second wave in April and May, while June saw recovery up to 99.5% of the pre-COVID level; (2) store opening in Q1FY22 was slow but the company has guided 150-170 new stores for the next three quarters; (3) it expects strong growth momentum from tier-2 and tier-3 cities; (4) investment in technology and digital marketing will be high in the coming years; (5) increased delivery charges by INR 3 to INR 35; (5) EBITDA margin will remain strong.

### Quarterly/Annual Financial summary

(INR mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21P	FY22E	FY23E	FY24E
Net Sales	8,790	3,803	131.1	10,258	(14.3)	33,119	44,303	52,569	60,109
EBITDA	2,114	241	778.1	2,491	(15.2)	7,712	10,619	12,937	14,971
APAT	760	(647)	(217.5)	1,116	(31.8)	2,598	4,634	5,911	7,137
EPS (INR)	5.76	(4.90)	(217.5)	8.45	(31.8)	19.7	35.1	44.8	54.1
P/E (x)						155.6	87.2	68.4	56.6
EV / EBITDA (x)						83.6	52.6	41.4	34.7
RoCE (%)						19.8	27.3	33.4	41.9

Source: Company, HSIE Research

## REDUCE

CMP (as on 20 July 2021) INR 3,063

Target Price INR 2,650

NIFTY 15,632

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 2,650	INR 2,650
EPS %	FY22E 0%	FY23E 0%

### KEY STOCK DATA

Bloomberg code	JUBI IN
No. of Shares (mn)	132
MCap (INR bn) / (\$ mn)	404/5,434
6m avg traded value (INR mn)	2,079
52 Week high / low	INR 3,333/1,655

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	8.3	9.0	74.9
Relative (%)	(1.1)	4.2	35.4

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	41.94	41.94
FIs & Local MFs	11.35	11.62
FPIs	40.87	40.87
Public & Others	5.84	6.57
Pledged Shares	0.91	0.91

Source : BSE

Pledged shares as % of total shares

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# Kansai Nerolac

## GM pressure palpable

KNPL's topline delivery of 118% YoY exceeded expectations (HSIE: 95%). In the decorative segment, volume lagged value growth as realisations were aided by (1) multiple price hikes, (2) make-up in recovery (urban performed better than rural) and (3) better mix. Decorative performance is likely to have lagged the market leader APNT. Industrial coatings recovered too (on a low base). GM was under pressure, given (1) higher industrial skew in the mix YoY and RM inflation (high double digits YoY). Price hikes (since Mar-21) remain incommensurate to the RM spike. We have marginally revised our FY23/34 estimates (+2/+3% respectively) to account for better cost control. Consequently, our DCF-based TP stands revised at INR675/sh (earlier INR650/sh, implying 50x Jun-23 P/E). Maintain BUY.

**1QFY22 highlights:** Revenue grew 118% YoY to INR 13bn (HSIE: INR11.7bn). In the decorative segment, volume lagged value growth as realisations were aided by (1) multiple price hikes, (2) make-up in recovery (urban performed better than rural) and (3) better mix (emulsions did well). Performance still lags APNT (HSIE: 2-yr CAGR: APNT: +5% vs KNPL: -2%). Management highlighted that dealer additions will pick up in 2H. Industrial segment recovered too (off a low base). New products now account for 10% of sales. GM contracted 744bps YoY to 34.2% (in-line), given (1) higher industrial skew in the mix and RM inflation YoY. Price hikes (since Mar-21) remain incommensurate to the RM spike. Better cost control cushioned the impact of EBITDAM (14.4%; +92bp). The 2-year PAT CAGR stood at -10% (INR 1.18bn).

**Outlook:** The double whammy of demand impact (courtesy the second and probable third waves) and runaway RM inflation are likely to be felt by KNPL the most within the top-tier paint companies, given it has an industrial-heavy revenue skew (already factored in). We have marginally revised our FY23/34 estimates (+2/+3% respectively) to account for better cost control. Consequently, our DCF-based TP stands revised at INR675/sh (earlier INR650/sh, implying 50x Jun-23 P/E). Maintain BUY.

### Quarterly financial summary

(INR mn)	1QFY22	1QFY21	YoY (%)	4QFY21	QoQ (%)	FY21	FY22E	FY23E	FY24E
Net Revenue	14,028	6,389	119.6	14,596	(3.9)	50,743	58,310	67,206	77,202
EBITDA	1,905	768	148.0	2,135	(10.7)	8,633	9,119	11,120	12,921
APAT	1,114	258	331.0	1,243	(10.4)	5,257	5,615	6,888	8,040
EPS (Rs)	2.1	0.5	331.0	2.3	(10.4)	9.8	10.4	12.8	14.9
P/E (x)						64.4	60.3	49.2	42.1
EV/EBITDA (x)						40.6	38.6	31.7	26.2
Core RoCE(%)						12.6	12.4	13.9	15.1

Source: Company, HSIE Research, Standalone Financials

### Change in estimates

(INR mn)	FY22E			FY23E			FY24E		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Revenue	58,310	56,806	2.6	67,206	65,463	2.7	77,202	77,202	-
EBITDA	9,119	8,936	2.1	11,120	10,890	2.1	12,921	12,593	2.6
EBITDA margin (%)	15.6	15.7	(9 bps)	16.5	16.6	(9 bps)	16.7	16.3	43 bps
APAT	5,615	5,496	2.2	6,888	6,731	2.3	8,040	7,794	3.2
APAT margin (%)	9.6	9.7	(5 bps)	10.2	10.3	(3 bps)	10.4	10.1	32 bps
EPS (Rs)	10.4	10.2	2.2	12.8	12.5	2.3	14.9	14.5	3.2

Source: Company, HSIE Research, Standalone Financials

## BUY

CMP (as on 02 Aug 2021)	INR 629
Target Price	INR 675
NIFTY	15,885

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 650	INR 675
EPS %	FY23E	FY24E
	+2.3	+3.2

### KEY STOCK DATA

Bloomberg code	KNPL IN
No. of Shares (mn)	539
MCap (INR bn) / (\$ mn)	350/4,665
6m avg traded value (INR mn)	160
52 Week high / low	INR 629/427

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	13.6	9.4	45.6
Relative (%)	4.9	4.0	2.3

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	74.99	74.99
FIs & Local MFs	7.73	7.56
FPIs	3.73	3.72
Public & Others	13.55	13.73
Pledged Shares	0	0

Source : BSE

Pledged shares as % of total shares

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# Trent

## Recovery outdoes expectations

Trent's Q1 performance surprised positively. Standalone revenue recovered 43% of pre-COVID19 sales (HSIE: 34% recovery). Make-up of format-wise store openings suggests the beat was all-round. Bigger surprise was on GM recovery. GM hit pre-COVID19 levels (53.6% vs HSIE: 50%). We suspect GM recoup was led by (1) lower inventory provisions YoY, (2) better GMs in Zudio. EBITDAM losses meaningfully reduced to INR218mn (vs INR1.2bn in Q1FY21). We revise our FY23/24 EBITDA estimates upwards (+6-7%) to account for higher GM. However, at 40x Jun-23 EV/EBITDA there is no investment case. Maintain our SELL recommendation with a revised SOTP-based TP of INR 690/sh (implying 31x Jun-23 EV/EBITDA).

- **Q1FY22 highlights:** Revenue grew 240% YoY (INR 3.3bn vs HSIE: INR 2.6bn). The beat is estimated to be primarily led by Zudio. Make-up of format-wise store openings suggests the beat was all-round. Company added 10/4 Westside/Zudio stores resp in Q1. Further, an additional 13/12 Westside/Zudio stores were fitted out and ready to open. Ergo, pipeline of store openings remains healthy. Store operating days stood at 46% (vs 26% in Q1FY21). Recovery trend remains healthy too with Jul-21 clocking 80% of Jul-19 sales. Currently 90% of stores are operational. GM hit pre-COVID19 levels (53.6% vs HSIE: 50%). We suspect GM recoup was led by (1) lower inventory provisions YoY, (2) better GMs in Zudio. EBITDAM losses meaningfully reduced to INR218mn (vs INR1.2bn in Q1FY21). Adj. PBT/PAT losses stood at -INR1.1/0.83bn respectively.
- **Outlook:** Trent's revenue and margin recovery has been encouraging. This, along with a disciplined handle on working capital and well-capitalised balance sheet means we can't fault the business. However, valuations remain uncomfortably high (40x Jun-23 EV/EBITDA). Hence, we maintain our SELL recommendation on the stock with an SOTP-based TP of INR 690/sh (implying 31x Jun-23 EV/EBITDA).

### Quarterly financial summary

(Rs mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY20	FY21E	FY22E	FY23E	FY24E
Net Revenue	3,273	963	239.8	7,737	(57.7)	31,777	20,475	29,673	47,342	53,487
EBITDA	(318)	(1,191)	(73.3)	1,366	(123.3)	5,632	2,038	4,973	9,214	10,002
APAT	(838)	(1,395)	(39.9)	569	(247.3)	1,546	(510)	1,137	3,153	3,128
EPS (Rs)	(2.4)	(3.9)	(39.9)	1.6	(247.3)	4.3	(1.4)	3.2	8.9	8.8
P/E (x)						211.0	(730.2)	287.0	103.4	104.3
EV/EBITDA (x)						56.9	156.7	65.6	35.9	33.4
Core RoCE(%)						7.2	(0.6)	4.2	9.2	8.6

Source: Company, HSIE Research, Standalone Financials

### Change in estimates

(Rs mn)	FY22E			FY23E			FY24E		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Revenue	29,673	29,467	0.7	47,342	46,972	0.8	53,487	53,080	0.8
Gross Profit	15,017	14,259	5.3	24,113	23,017	4.8	26,849	25,588	4.9
Gross Profit Margin (%)	50.6	48.4	222 bps	50.9	49.0	193 bps	50.2	48.2	199 bps
EBITDA	4,973	4,564	9.0	9,214	8,684	6.1	10,002	9,376	6.7
EBITDA margin (%)	16.8	15.5	127 bps	19.5	18.5	98 bps	18.7	17.7	104 bps

Source: Company, HSIE Research

## SELL

CMP (as on 11 Aug 2021)	INR 901
Target Price	INR 690
NIFTY	16,282

KEY CHANGES	OLD	NEW
Rating	SELL	SELL
Price Target	INR 655	INR 690
EBITDA %	FY23E +6.1	FY24E +6.7

### KEY STOCK DATA

Bloomberg code	TRENT IN
No. of Shares (mn)	355
MCap (INR bn) / (\$ mn)	320/4,301
6m avg traded value (INR mn)	759
52 Week high / low	INR 970/549

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	18.0	29.8	62.1
Relative (%)	7.1	24.0	20.1

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	37.01	37.01
FIs & Local MFs	5.95	6.28
FPIs	29.9	30.28
Public & Others	27.14	26.43
Pledged Shares	0	0

Source : BSE

Pledged shares as % of total shares

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# Crompton Consumer

## ECD continues to be the torchbearer; miss in lighting

Crompton posted an in-line ECD EBIT (INR 1.6bn), while the lighting business saw a miss due to an impact on B-B/B-G. Revenue grew by 46% YoY (HSIE 56%) while compared to Q1FY20, it was down 22% (-47% YoY in Q1FY21). ECD registered 48% YoY revenue growth (52% HSIE), seeing an 18% decline in revenue on the Q1FY20 base (-44% YoY in Q1FY21). Our channel checks had indicated ~15% revenue decline for most leading players over Q1FY20; Crompton's ECD performance is in that range only (pressure pumps drag the performance). The ECD margin contracted by 288bps YoY to 17.6% (HSIE 17.5%). The lighting segment grew 34% YoY (HSIE 75%) with a 39% decline over Q1FY20, below Havells' decline of 16%. B-C lighting LED saw 48% YoY revenue growth; however, B-B and B-G businesses continued to face slow order pick-up. Lighting saw 462bps YoY EBIT margin expansion to 10.7% (HSIE 12.5%), but it contracted by 539bps QoQ. We maintain our estimates and value Crompton at 40x P/E on Jun-23E EPS to derive a TP of INR 475. We continue to believe that the rerating potential in Crompton is driven by share gains in fans, healthy underlying demand and strong traction in appliance, and recovery in the lighting margin. Maintain BUY.

- **Broad-based ECD growth, B-B lighting a drag:** Revenue grew by 46% YoY (-47% in Q1FY21 and +48% in Q4FY21). ECD saw 48% growth (-44% in Q1FY21, 61% in Q4FY21, HSIE 52%) with broad-based growth across all product lines. Fans grew 63% YoY, while the appliance business grew 99% YoY, driven by air coolers, mixer grinders and geysers. The pumps business grew by 17%, driven by domestic pumps. Crompton's rural business saw 195% YoY growth while the e-commerce and modern trade channel grew 149% YoY. Lighting revenue was up by 34% YoY (-55% in Q1FY21, +15% in Q4FY21, HSIE +75%). B-C LED lighting saw 48% value growth. Lighting B-B and B-G were muted on slow order pick-up by the government.
- **Subdued lighting margin:** GM contracted by 19bps YoY to 32.3% (+70bps in 4QFY20 and +13bps in 3QFY21) while it expanded 150bps QoQ. Lighting EBIT margin saw an expansion of 462bps YoY (+91bps in Q1FY21 and +841bps in Q4FY21) to 10.7%. The ECD EBIT was in line at INR 1.6bn. EBITDA margin, at 12%, contracted 187bps YoY (-47bps in Q1FY21, 122bps in Q4FY21).
- **Con call takeaways:** (1) The north region recovered quick, followed by the west region, while the recovery in south was slow (the south mix fell to 30% vs 35%). (2) The company has taken two rounds of 5-10% price hikes in Q1FY22. (3) It is the market leader in fans/residential pumps with 27/26% market share and third largest in geysers with 13% share. (4) Within B-B, private industries are improving but B-G is still slow. (5) The company is planning Capex of INR 300-500mn for FY22.

### Quarterly/Annual Financial summary

YE Mar (INR mn)	1QFY22	1QFY21	YoY (%)	4QFY21	QoQ (%)	FY21	FY22E	FY23E	FY24E
Net Sales	10,505	7,201	45.9	15,221	(31.0)	48,035	57,621	68,496	75,023
EBITDA	1,250	1,012	23.6	2,280	(45.2)	7,205	8,082	9,506	10,767
APAT	948	748	26.7	1,669	(43.2)	5,345	6,297	7,415	8,408
Diluted EPS (INR)	1.51	1.19	26.8	2.66	(43.2)	8.3	9.8	11.5	13.1
P/E (x)						56.2	47.7	40.5	35.7
EV / EBITDA (x)						40.8	36.0	30.3	26.5
RoCE (%)						47.9	43.6	45.7	47.6

Source: Company, HDFC Sec Inst Research

## BUY

CMP (as on 26 July 2021)	INR 468
Target Price	INR 475
NIFTY	15,825

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 475	INR 475
	FY22E	FY23E
EPS %	0%	0%

### KEY STOCK DATA

Bloomberg code	CROMPTON IN
No. of Shares (mn)	628
MCap (Rs bn) / (\$ mn)	294/3,952
6m avg traded value (INR mn)	1,006
52 Week high / low	INR 497/238

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	25.6	13.6	87.0
Relative (%)	17.6	2.2	47.7

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	11.36	5.99
FIs & Local MFs	39.18	43.68
FPIs	38.69	40.14
Public & Others	10.77	10.19
Pledged Shares	5.37	0.00

Source : BSE

Pledged shares as % of total shares

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# Aditya Birla Fashion and Retail

## Recovery better than expected

Recovery beat expectations (at 37.5% of pre-COVID sales vs HSIE's 33%), mainly led by Madura, while Pantaloons continued to lag expectations. Madura and Pantaloons grew 134% and 129% respectively (INR5.55/2.2bn vs HSIE: INR4.1/2.6bn). The GM recoup YoY (49.6%) was sharper than expected (HSIE: 47.7%), led by (1) lower-than-expected inventory provisioning and discounting levels and (2) higher retail sales in Lifestyle brands. The EBITDA loss came in at INR1.6bn (HSIE: INR2.5bn). Net debt has inched up QoQ to INR12bn, courtesy working capital and loss funding. FY23/24 EBITDA estimates remain largely unchanged. We maintain our BUY recommendation on ABFRL with a DCF-based TP of INR 250/sh, implying 15x Jun-FY23 EV/EBITDA.

**1QFY22 highlights:** Revenue grew 142% YoY to INR 7.7bn (standalone). Lifestyle brands recovered 43% of 1QFY20 sales (HSIE: 33%) anchored by online sales (98% of pre-COVID19 sales) and reasonable recovery in the retail channel (47% of Pre-COVID19 sales). The wholesale channel remains under stress (at 19% of 1QFY20 sales). Pantaloons lagged expectations. The value format grew 129% YoY to INR2.2bn (HSIE: 2.6bn). Other business grew 155% YoY (96% of 1QFY20 sales). The GM recoup YoY (49.6%) was sharper than expected (HSIE: 47.7%), led by (1) lower-than-expected inventory provisioning and discounting levels and (2) higher retail sales in Lifestyle brands. The EBITDA loss came in at INR1.6bn (HSIE: INR2.5bn). The company intends to aggressively start store additions in 2HFY22. Net debt has inched up QoQ to INR12bn (INR6.5bn in 4Q), courtesy WC and loss funding.

**Outlook:** We are encouraged by ABFRL's topline/margin recovery. Our FY23/24 EBITDA estimates remain largely unchanged. We maintain BUY on ABFRL with a DCF-based TP of INR 250/sh, implying 15x Jun-FY23 EV/EBITDA.

### Quarterly financial summary

(INR mn)	1QFY22	1QFY21	YoY (%)	4QFY21	QoQ (%)	FY21	FY22E	FY23E	FY24E
Net Revenue	7,740	3,200	142	17,836	(57)	51,811	70,921	95,664	1,09,503
Adj EBITDA	(1,618)	(3,513)	(54)	2,570	(163)	5,943	8,484	13,565	15,966
APAT	(3,352)	(3,999)	(16)	(1,348)	149	(6,496)	(3,281)	162	1,295
EPS (Rs)	(3.66)	(5.17)	(29)	(1.47)	149	(7.1)	(3.6)	0.2	1.4
P/E (x)						NM	NM	NM	NM
EV/EBITDA (x)						36.1	24.8	12.9	11.0
Core RoCE(%)						(4.9)	(2.0)	3.2	6.0

Source: Company, HSIE Research, Standalone Financials

### Change in estimates

(INR mn)	FY22E			FY23E			FY24E		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Revenue	70,921	70,921	-	95,664	95,664	-	1,09,503	1,09,503	-
EBITDA	8,484	8,484	-	13,565	13,565	-	15,966	15,917	0.3
EBITDA margin (%)	12.0	12.0	-	14.2	14.2	-	14.6	14.5	4 bps
APAT	(3,281)	(3,281)	-	162	162	-	1,295	1,259	2.9
APAT margin (%)	(4.6)	(4.6)	-	0.2	0.2	-	1.2	1.1	3 bps
EPS (Rs)	(3.6)	(3.6)	-	0.2	0.2	-	1.4	1.4	2.9

Source: Company, HSIE Research

**BUY**

CMP (as on 02 Aug 2021)	INR 224
Target Price	INR 250
NIFTY	15,885

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 245	INR 250
EBITDA %	FY23E	FY24E
	-	+0.3

### KEY STOCK DATA

Bloomberg code	ABFRL IN
No. of Shares (mn)	915
MCap (INR bn) / (\$ mn)	205/2,739
6m avg traded value (INR mn)	630
52 Week high / low	INR 235/117

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	28.3	48.7	80.0
Relative (%)	19.6	43.4	36.7

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	56.12	56.12
FIs & Local MFs	13.94	12.90
FPIs	13.95	13.91
Public & Others	16.01	17.07
Pledged Shares	0	0

Source : BSE

Pledged shares as % of total shares

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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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## V-Guard Industries

### Loss of peak season sales, state mix impact the show

V-Guard's performance was impacted more severely than its peers, given its high business contribution from the south and east India (more impacted by the second wave). Revenue grew by 38% YoY with electronics, electrical and consumer durables segments growing 15/38/75% YoY. Electronics segment (stabilizers) and air coolers saw a huge impact as the usual peak season demand was missing. The company lost out on ~INR 2.5-3bn of sales during the second wave. It registered higher non-south growth (42% YoY) compared to south (up 35% YoY), taking the non-south contribution to 43% of total sales. The Q1FY21 gross margin expanded by 380bps YoY on a low base to 33% due to the loss of stabilizer sales (high margin business) and negative operating leverage. While the company's GM will be better compared to FY21, it will be lower compared to FY20 due to loss of ~INR 700mn of stabilizer sales. While V-Guard has lost out on peak season sales, demand recovery ahead and normal trade inventory can help it recover faster. We maintain our FY22/23/24 EPS estimates and value V-Guard at 35x P/E on Jun-23 EPS to derive a target price of INR 265. Maintain ADD.

- **Revenue impacted by seasonal, state mix:** Net revenue grew by 38% YoY (-42% in Q1FY21 and +58% in Q4FY21, 46% HSIE). Electronics (stabilizer, UPS, etc.), electrical (wires, pump, etc.) and consumer durables (fan, water heater, KEA, etc.) segments registered 15/38/75% YoY growth (-51/-31/-44% YoY in Q1FY21). The south region grew 35% YoY growth (-8% 2-year CAGR) while the non-south region registered 42% YoY growth (-13% 2-year CAGR). South: non-south mix was at 57: 43% vs. 58:42% YoY.
- **Loss of high-margin sales impacts GM:** Gross margin expanded by 380bps YoY (-334bps in Q1FY21, -191bps in Q4FY21), a miss vs our expectation. A&P expenses (excl. schemes) as a percent of revenue stood at 2.5% vs. 0.8% YoY. Employee costs were up by 5% YoY (-9% in Q1FY21, +32% in Q4FY21). EBITDA margin was up by 550bps YoY (-794bps YoY in Q1FY21, +453bps YoY in Q4FY21) to 7.7% (HSIE 10.3%). EBIT margin for the electronics/electricals segment expanded by 625/637bps YoY (-1,076/-197bps YoY in 4QFY20). The consumer durable EBIT loss was at INR 59mn vs. INR 87mn in Q1FY21 and profit of INR 66mn in Q1FY20. APAT was at INR 246mn (HSIE INR 436mn).
- **Con call takeaways:** (1) Working capital is high on company's planned decision to stock up inventory. (2) Margin impact was due to loss of stabilizer (high margin) sales during the peak period. (3) Sikkim was shut during the quarter, but this didn't impact the supply as inventory was already built and the facility was reopened a week earlier. (4) Trade inventory is at normal levels. (5) Have set up a subsidiary for inhouse manufacturing of products. New entity has been formed to take advantage of tax benefit. (6) CD margin is expected to remain low as the company is still in the investment phase for products like air coolers, kitchen appliances.

#### Quarterly/Annual Financial summary

YE Mar (INR mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY22E	FY23E	FY24E
Net Sales	5,607	4,058	38.2	8,491	(34.0)	26,990	31,419	36,149	40,526
EBITDA	434	91	378.5	1,099	(60.6)	3,065	3,409	4,035	4,781
APAT	246	36	579.9	683	(64.0)	1,970	2,523	3,093	3,703
Diluted EPS (INR)	0.57	0.08	578.0	1.59	(64.0)	4.58	5.87	7.19	8.61
P/E (x)						54.4	42.5	34.6	28.9
EV / EBITDA (x)						34.0	29.7	24.7	20.5
RoCE (%)						19.8	24.8	31.2	34.3

Source: Company, HSIE Research

**ADD**

CMP (as on 02 Aug 2021)	INR 247
Target Price	INR 265
NIFTY	15,885

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 265	INR 265
EPS %	FY22E	FY23E
	0%	0%

#### KEY STOCK DATA

Bloomberg code	VGRD IN
No. of Shares (mn)	430
MCap (INR bn) / (\$ mn)	106/1,428
6m avg traded value (INR mn)	142
52 Week high / low	INR 285/159

#### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	10.6	2.4	51.6
Relative (%)	1.9	(2.9)	8.2

#### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	57.22	56.05
FIs & Local MFs	13.87	15.53
FPIs	14.87	14.53
Public & Others	14.04	13.89
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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# Symphony

## Lost summer hampers domestic momentum

Symphony's domestic business was impacted slightly higher-than-expected due to the absence of the usual peak season demand. Domestic revenue was at INR 860mn (HSIE INR 954mn), down by >40% on Q1FY20. While channel inventory is higher than usual, it is lower than the previous year. Exports were slightly above expectation at INR 180mn (HSIE INR 152mn). The RoW (ex-exports) revenue was up 11% YoY with CT, Australia, demand slightly impacted by the second wave. The company expects CT, Australia, to achieve FY20 revenue in FY22. Gross margin expanded 212bps YoY (-500bps in Q1FY21, -726bps in Q4FY21, HSIE 450bps) to 47%, but was down by 150bps QoQ. Higher operating expenses (despite a weak revenue) resulted in nil EBITDA (INR -80mn in Q1FY21, INR 240mn in Q1FY20). The absence of the usual peak season demand for two consecutive years has massively impacted the cooling products segment. The air cooler retail demand is highly skewed during April-June, resulting in a weak show for Symphony. While it is an industry-wide phenomenon, we do not see it having any impact on Symphony's market share in the segment. Given the company's leadership position and innovative product pipeline in residential and commercial /industry, we believe it is well positioned to gain from a strong season. We value the stock at 35x P/E on Jun-23E EPS and derive a TP of INR 1,200. Maintain ADD.

- Domestic season lost again:** Standalone revenue is up by 160% YoY (-75% in Q1FY21 and 38% in Q4FY21) vs HSIE 176% YoY. The company lost out on another year of peak seasonal sales. Domestic revenue grew by 153% YoY (HSIE +181%) while exports saw 200% YoY growth (HSIE +153%) on a low base. The company maintains its stance on supporting its channel partners to liquidate the inventory. The RoW was up by 20% YoY as most regions were not impacted by the second wave, except Australia, which saw impact.
- Miss in margins:** Standalone GM expanded 212bps YoY to 47.1% (-500bps in Q1FY21 and -726bps in Q4FY21) vs expectation of 450bps YoY. Employee/ASP/other expenses were up by 15/217/114% YoY, leading to nil EBITDA. Domestic business reported an EBIT of INR 20mn against nil in Q1FY21. The RoW margin was at 18% compared to an EBIT loss in Q1FY21 and Q4FY21. The RoW margin for Q1FY22 was INR300mn.
- Con call takeaways:** (1) While channel inventory is higher than usual, it is lower than Q1FY21. (2) The company has launched new products in the residential, commercial/industrial categories. (3) Product launches and selective price hikes will help the company overcome input cost pressures. (4) The company expects domestic sales to get back to ~50% gross margin level, going forward. (5) New dealers will be more impacted by this lost summer, while the company will continue to support its trade network. (6) It expects CT to clock revenue close to the FY20 level.

### Quarterly/Annual Financial summary

YE Mar (INR mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY22E	FY23E	FY24E
Net Sales	1,040	400	160.0	2,120	(50.9)	9,000	12,553	13,717	15,070
EBITDA	-	(80)	(100.0)	600	(100.0)	1,390	2,571	3,003	3,248
APAT	70	10	600.0	490	(85.7)	1,119	1,970	2,336	2,648
Diluted EPS (INR)	1.0	0.1	600.0	7.0	(85.7)	16.0	28.1	33.4	37.8
P/E (x)						67.5	38.4	32.3	28.5
EV / EBITDA (x)						52.1	27.5	23.0	20.7
RoCE (%)						24.5	44.5	58.0	68.3

Source: Company, HSIE Research

\* Quarter numbers are standalone

## ADD

CMP (as on 26 July 2021)	INR 1,020
Target Price	INR 1,200
NIFTY	15,824

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 1,200	INR 1,200
	FY22E	FY23E
EPS %	0%	0%

### KEY STOCK DATA

Bloomberg code	SYML IN
No. of Shares (mn)	70
MCap (Rs bn) / (\$ mn)	71/959
6m avg traded value (INR mn)	179
52 Week high / low	INR 1,530/803

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(15.6)	0	20.6
Relative (%)	(23.6)	(11.5)	(18.7)

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	73.25	73.25
FIs & Local MFs	10.27	9.64
FPIs	4.33	4.19
Public & Others	12.15	12.94
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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# V-MART Retail

## Recovering well

V-MART recovered to ~39% of Q1FY20 sales level (vs HSIE: 35%). Effective footfalls/store count doubled YoY (27% of Q1FY20 sales). An extended marriage season certainly helped. GM remained stable YoY at 31% despite RM inflation as the company (1) passed on the spike to consumers and (2) bettered full-price sales mix YoY. The adj EBITDA loss ebbed YoY to INR265mn (vs. INR296mn). The integration of Unlimited's operations is targeted for Aug end. Working capital (WC) remains smartly managed and the company remains net cash positive (INR2.6bn). We revise our FY23/24 EBITDA estimates by +5/16% each respectively as we bake in Unlimited's operations into the financials. Consequently, our DCF-based TP stands revised at INR 3,250/sh (implying 27x Jun-23 EV/EBITDA). We upgrade the stock to REDUCE (from SELL earlier).

- Q1FY22 highlights:** Revenue grew 127% YoY to INR 1.77bn (HSIE: INR 1.6bn, two-year CAGR: -37%). Operational days stood at 49%. Effective footfalls/stores doubled YoY (27% of Q1FY20 sales). An extended marriage season certainly helped. GM remained stable YoY at 31% despite steep RM inflation as V-MART (1) passed on the spike to consumers (reflected in 19% jump in fashion ASP) and (2) bettered full-price sales mix YoY. The adj EBITDA loss ebbed YoY to INR265mn (vs. INR296mn). The integration of Unlimited's operations is targeted for Aug end. Bill sizes were up 3% YoY (two-year CAGR: 8.5%) as consumers continue to prefer purposeful shopping. SSSG value/volume stood at -66% each. WC remains smartly managed (inventory is down 15% YoY) and the company remains net cash positive (INR2.6bn). VMART opened three stores in Q1. Net losses were at INR0.29bn (HSIE: INR0.4bn).
- Outlook:** VMART remains amongst the few disciplined retailers in India. We believe that market share gains would expedite post the pandemic as the company's strong balance sheet allows it to flex its muscle against precariously placed regional peers. We revise our FY23/24 EBITDA estimates upwards by 5/16% respectively as we bake in Unlimited's operations into the financials. Consequently, our DCF-based TP stands revised at INR 3,250/sh (implying 27x Jun-23 EV/EBITDA). We upgrade the stock to REDUCE (from SELL earlier).

### Quarterly financial summary

(INR mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
Net Revenue	1,774	781	127.3	3,519	(49.6)	16,630	10,755	17,590	27,820	33,649
Adj EBITDA	(20)	(58)	(66.5)	336	(105.8)	1,324	368	866	2,123	2,798
APAT	(287)	(336)	(14.6)	(15)	1,847.1	799	224	347	1,236	1,730
EPS (Rs)	(14.6)	(18.5)	(21.3)	(0.7)	1,847.1	44.0	11.4	17.6	62.7	87.8
P/E (x)						78.4	303.3	195.6	55.0	39.3
EV/EBITDA (x)						47.2	175.2	76.3	31.1	23.1
Core RoCE(%)						19.7	0.1	3.2	14.8	19.0

Source: Company, HSIE Research, Standalone Financials, Pre IND AS 116 financials

### Change in estimates

(INR mn)	FY22E			FY23E			FY24E		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Revenue	17,590	15,315	14.9	27,820	22,537	23.4	33,649	26,841	25.4
Gross Profit	5,632	4,904	14.9	9,103	7,374	23.4	11,010	8,782	25.4
Gross Profit Margin (%)	32.0	32.0	0 bps	32.7	32.7	0 bps	32.7	32.7	-
EBITDA	866	881	(1.6)	2,123	1,912	11.0	2,798	2,328	20.2
EBITDA margin (%)	4.9	5.8	(83 bps)	7.6	8.5	(85 bps)	8.3	8.7	(36 bps)
APAT	347	485	(28.3)	1,236	1,176	5.1	1,730	1,488	16.2
APAT margin (%)	2.0	3.2	(119 bps)	4.4	5.2	(78 bps)	5.1	5.5	(40 bps)
EPS (Rs)	17.6	24.6	(28.3)	62.7	59.7	5.1	87.8	75.5	16.2

Source: Company, HSIE Research, Pre IND AS 116 financials

## REDUCE

CMP (as on 11 Aug 2021) INR 3,424

Target Price INR 3,250

NIFTY 16,282

KEY CHANGES	OLD	NEW
Rating	SELL	REDUCE
Price Target	INR 2,700	INR 3,250
EBITDA %	FY23E +5.1	FY24E +16.2

### KEY STOCK DATA

Bloomberg code	VMART IN
No. of Shares (mn)	20
MCap (INR bn) / (\$ mn)	68/907
6m avg traded value (INR mn)	139
52 Week high / low	INR 4,085/1,700

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	26.5	14.7	91.8
Relative (%)	15.5	8.9	49.8

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	46.7	46.7
FIs & Local MFs	20.8	20.9
FPIs	24.4	23.4
Public & Others	8.2	9.1
Pledged Shares	0	0

Source : BSE

Pledged shares as % of total shares

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# Shoppers Stop

## Continues to lag peers in recovery

Shoppers Stop (STOP), given its predominant mall-based presence (85%+ of stores), remains among the worst-hit retailers by the pandemic within our universe. Q1 recovery (24% of Q1FY20 sales) was largely in line. Gross margin improved 660bps YoY (GAAP: 38.7% vs HSIE: 34%) led by (1) lower inventory write-offs YoY, (2) better mix of full price sales, and (3) higher private label in mix. The absolute operating cost structure was in line. We continue to remain circumspect on the business' longevity as cost arbitrage between pure-play department stores and online platforms continues to shrink with each passing year. We retain our FY23/24 EBITDA estimates and our SELL recommendation with a DCF-based TP of INR 190/sh (implying 9x Jun-23 EV/EBITDA).

- **Q1FY22 highlights:** Q1 recovery (24% of 1QFY20 sales, two-year CAGR: -51%) was largely in line and a reflection of this trend. Store operational days stood at 28% in Q1. This improved to 49%/71% in Jun/Jul-21. Operational cost savings stood at INR1.4bn. The digital sales mix now stands at 18% of sales (vs 1% in Q1FY20). Gross margin improved 660bps YoY mix (GAAP: 38.7% vs HSIE: 34%) led by (1) lower inventory write-offs YoY, (2) better mix of full price sales, (3) higher private label in mix. The absolute operating cost structure was in line. Reported EBITDA losses continue to ebb with recovering scale (-INR 0.6bn in Q1FY22 vs -INR1bn in Q1FY21; HSIE: -INR0.75bn). The absolute operating cost structure was in line. Net debt stood at INR980mn.
- **Outlook:** We continue to remain circumspect on the longevity of the format (pure-play department stores) as its cost arbitrage vis-à-vis online platforms continues to shrink rapidly. This makes the former less competitive with time. Hence, we maintain our SELL recommendation on the stock with a DCF-based TP of INR 190/sh (implying 9x Jun-23 EV/EBITDA).

### Quarterly financial summary

(INR mn)	1Q FY22	1Q FY21	YoY (%)	4Q FY21	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
Net Revenue	2,011	539	272.9	6,712	(70.0)	33,810	17,251	26,996	35,323	37,980
Adj EBITDA	(628)	(1,024)	(38.7)	956	(165.7)	1,807	(1,896)	80	1,451	1,694
APAT	(1,177)	(1,151)	2.3	(371)	217.4	(1,299)	(2,686)	(1,289)	(35)	115
EPS (Rs)	(10.76)	(13.09)	(17.7)	(3.39)	217.4	(14.8)	(30.5)	(14.6)	(0.4)	1.3
EV/EBITDA (x)						17.9	(17.1)	376.9	19.1	15.6
Core RoCE(%)						(57.7)	123.0	29.0	4.2	2.1

Source: Company, HSIE Research, Standalone Financials

### Change in estimates

(INR mn)	FY22E			FY23E			FY24E		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Revenue	26,996	26,975	0.1	35,323	35,302	0.1	37,980	37,959	0.1
Gross Profit	10,738	10,676	0.6	14,602	14,594	0.1	15,700	15,692	0.1
Gross Profit Margin (%)	39.8	39.6	20 bps	41.3	41.3	(0 bps)	41.3	41.3	-
EBITDA	80	7	1,029.5	1,451	1,443	0.6	1,694	1,685	0.5
EBITDA margin (%)	0.3	0.0	27 bps	4.1	4.1	2 bps	4.5	4.4	2 bps

Source: Company, HSIE Research

## SELL

CMP (as on 12 Aug 2021)	INR 248
Target Price	INR 190
NIFTY	16,364

KEY CHANGES	OLD	NEW
Rating	SELL	SELL
Price Target	INR 180	INR 190
EBITDA %	FY22E +0.6	FY23E +0.5

### KEY STOCK DATA

Bloomberg code	SHOP IN
No. of Shares (mn)	109
MCap (INR bn) / (\$ mn)	27/365
6m avg traded value (INR mn)	91
52 Week high / low	INR 291/148

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	23.2	17.8	59.1
Relative (%)	10.6	11.4	16.1

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	65.46	65.46
FIs & Local MFs	14.85	14.85
FPIs	5.76	5.76
Public & Others	13.93	13.93
Pledged Shares	6.47	6.47

Source : BSE

Pledged shares as % of total shares

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# Consumer Staples

# Hindustan Unilever

## Steady performance continues

HUL results were a mixed bag, with revenue growth at 12.7% YoY (HSIE 11.4%) and EBITDA growth at 7.7% (HSIE 8.5%). The consumer business revenue grew by 12% YoY (2% two-year CAGR) with UVG of 9% YoY (flat two-year CAGR). The health, hygiene and nutrition portfolio sustained healthy growth (8% YoY), with its mix increasing to 85%, from 80%. Market share gains continued, well supported by strong rural and sustained momentum in e-commerce (the most profitable channel for HUL). The nutrition portfolio is seeing GTM integration (50% completed); it clocked mid-single digit volume growth (gaining penetration sequentially). High commodity (crude, palm oil and tea) inflation and gradual price hikes compressed the gross margin by 139bps YoY. The company has taken 3% price hike to offset margin pressure. We expect HUL to deliver sustained recovery in the discretionary portfolio and accelerate growth in the nutrition portfolio. We maintain our EPS estimates for FY22/FY23 and value HUL at 55x P/E on Jun-23E EPS to derive a TP of INR 2,475. Maintain REDUCE.

- **Broad-based growth continues:** Total revenue grew 12.7% YoY, with home care/BPC delivering 12/13% (5/0% two-year CAGR). The consumer business saw 12% YoY growth with volume growth at 9%. The health, hygiene and nutrition portfolio grew 8% YoY (16% over Q1FY20). Discretionary clocked 39% YoY growth (-24% over Q1FY20) and OOH saw 91% YoY growth (-40% in Q1FY20). Rural continued to be resilient, which is expected to sustain.
- **Compressed margins:** Gross margin contracted by 139bps YoY (-222bps in Q1FY21 and -117bps in Q4FY21) due to unprecedented commodity inflation. Home care EBIT margin contracted by 134bps to 17.4%. The BPC EBIT margin, at 28.1%, remained flat YoY (-152bps in Q1FY21) and was up 62bps QoQ. The F&R margin was down 160bps YoY. Employee/A&P/other expenses grew by 4/28/6% YoY. EBITDA margin was down 114bps YoY to 23.9% (-113bps in Q1FY21 and +146bps in Q4FY21). EBITDA grew 8% YoY (HSIE 8.5%). We expect margin recovery in the remaining quarters of FY22.
- **Call takeaways:** (1) The company saw market share gain across all three segments, including its premium products. (2) The e-commerce business has now doubled, with ~10% of the company's business being driven by digital platforms. (3) Acquired business (GSK) synergy is being reinvested, as of now, with further scope for margin improvement. (4) Horlicks and Boost INR-2 sachets continue to drive rural penetration. (5) We expect current EBITDA margin to sustain for FY22. (6) GTM integration for nutrition business (GSK) reached 50%, and management expects it to reach 80-90% by Sep-end. (7) >80% business is gaining penetration. (8) Rural is at 1.04x of the FMCG sector growth, while urban is at 0.96x.

### Quarterly/annual financial summary

YE Mar (Rs mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21E	FY22E	FY23E	FY24E
Net Sales	119,150	105,600	12.8	121,320	(1.8)	470,280	515,934	558,709	604,321
EBITDA	27,420	25,390	8.0	28,520	(3.9)	116,260	132,040	146,195	159,964
APAT	19,620	18,730	4.8	21,030	(6.7)	81,793	92,844	103,196	113,263
Diluted EPS (Rs)	8.4	8.0	4.8	9.0	(6.7)	34.8	39.5	43.9	48.2
P/E (x)						68.3	60.2	54.2	49.3
EV / EBITDA (x)						47.5	41.6	37.5	34.2
RoCE (%)						27.7	18.5	20.0	21.4

Source: Company, HSIE Research

## REDUCE

CMP (as on 22 July 2021) INR 2,379

Target Price INR 2,475

NIFTY 15,824

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 2,475	INR 2,475
EPS %	FY22E 0%	FY23E 0%

### KEY STOCK DATA

Bloomberg code	HUVR IN
No. of Shares (mn)	2,350
MCap (INR bn) / (\$ mn)	5,588/75,087
6m avg traded value (INR mn)	4,673
52 Week high / low	INR 2,534/2,000

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	1.2	(1.3)	6.2
Relative (%)	(9.5)	(7.8)	(33.1)

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	61.90	61.90
FIs & Local MFs	10.68	10.75
FPIs	14.95	15.11
Public & Others	12.47	12.24
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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# ITC

## In-line performance with spurts of surprises

ITC delivered a healthy performance with marginal surprises across most segments. The cigarette segment revenue grew 33% YoY (30% HSIE) while its volume grew 30-31% (HSIE 30%). For this segment, Q4 was at the pre-COVID level, May was weak, and June witnessed week-on-week improvement. Q2FY22 is expected to be a little short of the pre-COVID level as the pandemic continues to cause disruption in certain states. The cigarette EBIT growth was at 37% (HSIE 39%), with margin continuing to expand. The FMCG business registered 10% growth (HSIE 9%), while organic (excluding Sunrise) growth was at ~5% (on a comparable base of 18.8% growth). In other segments, paper was an outlier both in terms of revenue and margin and clocked revenue/EBIT growth of 54/145% YoY (HSIE 40/62%). With normalcy and higher mobility, going forward, demand trends will improve to achieve cigarette recovery and FMCG sustainability. We maintain EPS estimates for FY22/FY23/FY24. We value ITC on an SoTP basis to derive a target price of INR 250 (implied P/E of 18x P/E Jun-23E EPS). Maintain BUY.

- **Beat in revenue, broad-based recovery seen:** cigarettes grew by 33% YoY and volume grew 30-31%, mostly in line with HSIE estimates. Organic FMCG grew ~5% YoY, albeit on a high base (19% YoY). Staples and convenience foods growth was moderate on a high base; it saw a sequential pick-up due to the second wave. However, the impact was lower than in the previous year. A similar trend was seen in discretionary/OOH products. We expect normalised growth in FMCG from Q2FY22 onwards. FMCG sales on e-commerce doubled, accounting for ~8% of revenue. Hotel occupancy was hit at the onset of the second wave, which has seen respite since June 2021. The agri business reported in-line growth, with strong growth in wheat, rice, and leaf tobacco in the exports market and soya in the domestic market. The paper business clocked 54% YoY growth, driven by value-added products.
- **Margin expansion across the board:** The cigarette EBIT margin expanded by 174bps YoY (-970bps in Q1FY21, +65bps in Q4FY21) while EBIT grew by 37% YoY (-39% in Q1FY21, +8% in Q4FY21), vs. HSIE's +39%. The FMCG EBITDA margin was up 39bps YoY in Q1FY22 to 8%, and we expect enough room for further expansion. Hotels saw strong cost control; however, due to negative operating leverage, the hotels category reported an EBIT loss of INR1.5bn (vs 2.4bn in Q1FY21). The agri EBIT margin was flat. The paper margin saw improvement, led by higher realisation due to increase in global pulp prices, for which it in-sources.
- **Other takeaways:** (1) ITC expects to take a price hike in cigarette in H2FY22, will an immediate focus on volume growth. (2) Other FMCG margin improvement continues, with an expected price hike, which would set off the RM inflation. (3) Expect hotels to be EBITDA neutral in Q3FY22. (4) Expect pulp price benefit on realisation to last for around two more quarters.

### Quarterly/Annual Financial summary

YE Mar (INR mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY22E	FY23E	FY24E
Net Sales	129,592	95,018	36.4	141,570	(8.5)	492,728	548,628	593,387	639,396
EBITDA	39,922	26,466	50.8	44,731	(10.8)	170,027	199,015	213,216	229,081
APAT	30,135	23,428	28.6	37,485	(19.6)	133,829	158,232	170,333	182,176
Diluted EPS (INR)	2.4	1.9	28.5	3.0	(19.6)	10.9	12.9	13.8	14.8
P/E (x)						19.5	16.5	15.3	14.3
EV / EBITDA (x)						13.6	11.6	10.7	9.9
Core RoCE (%)						37.7	43.9	47.1	50.2

Source: Company, HSIE Research

## BUY

CMP (as on 23 July 2021)	INR 212
Target Price	INR 250
NIFTY	15,856

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 250	INR 250
	FY22E	FY23E
EPS %	0%	0%

### KEY STOCK DATA

Bloomberg code	ITC IN
No. of Shares (mn)	12,310
MCap (INR bn) / (\$ mn)	2,615/35,119
6m avg traded value (Rs mn)	6,908
52 Week high / low	INR 239/163

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	3.4	2.2	6.4
Relative (%)	(6.0)	(9.1)	(35.2)

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	0.00	0.00
FIs & Local MFs	42.50	45.86
FPIs	12.79	11.74
Public & Others	44.71	42.40
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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# Nestle India

## Beat on revenue, a miss in margin

Nestle's Q2CY21 revenue was slightly ahead of our estimate, but the EBITDA margin was lower than the estimate. Domestic revenue growth was up by 14% (+8% 2-year CAGR, +10% HSIE), driven by volume and mix, albeit on a low base. Key products (in-home consumption) sustained traction and posted strong double-digit growth. The e-commerce channel grew by 105% and contributed towards 6% of sales. The contribution of innovative products has been rising, now at 5%. Exports were up 18% YoY (15% HSIE), on a favourable base, but were flat QoQ. Gross margin expanded 67/-152bps YoY/QoQ to 57%, lower-than-expected due to rising raw material cost. EBITDA was up 11% YoY (+9% 2-year CAGR, HSIE 16%). Capex was at INR 10bn in H1CY21, out of the committed INR 26bn over the next 3-4 years. We expect the company to continue its growth in in-home products, aided by its ecommerce and hyper-local channels and, with markets opening up, we expect to see recovery in the OOH segments. We maintain our EPS estimates for CY21E/CY22E/CY23E and value Nestle at 55x P/E on Jun-23E EPS to derive a TP of INR 17,108. With rich valuation, the absolute upside is limited in the medium term, making the risk-reward unattractive. Maintain REDUCE.

- **Revenue beat:** Revenue grew by 14% YoY (+4% in Q2CY20 and +10% in Q1CY21), a beat on our expectation of 10% YoY growth. Domestic revenue grew by 14% YoY (+3% in Q2CY20 and +10% in Q1CY21, +10% HSIE) while exports grew 18% YoY (15% HSIE). E-commerce more than doubled (+105%) now, contributing 6.4% towards domestic revenue. Maggi noodles, Kitkat, Nestlé Munch, Maggi sauces, Maggi Masala-AE-Magic clocked strong double-digit growth.
- **GM impacted by rising input cost:** GM, impacted by rising raw material costs of oils and packaging materials, expanded by 67bps YoY (-193bps in Q2CY20 and +223bps in Q1CY21), vs. HSIE estimate of +216bps expansion. Employee cost was up by 2% due to previous year's high base. Other expenses grew by 30% YoY on a low base. EBITDA margin saw a contraction of 75bps YoY to 24.4% (+130bps in Q2CY20 and +150bps in Q1CY21), vs. our estimate of 126bps YoY expansion. EBITDA grew by 11% YoY (HSIE 16% YoY). PAT was up by 11%.
- **Press release takeaways:** (1) Key products (in-home consumption) posted strong double-digit growth. (2) Domestic and export sales were driven by volume and mix. (3) E-commerce was up 105% YoY, contributing to 6.4% of domestic sales in Q2CY21, while hyperlocal channels grew by 147% YoY in H1CY21. (4) Contribution of innovations to domestic sales stood at 4.9% in H1CY21. (5) Commodity prices is rising across oils and packaging materials. (6) It has invested ~INR 10bn of its INR 26bn commitment made last year.

### Quarterly/Annual Financial summary

YE Dec (INR mn)	Q2CY21	Q2CY20	YoY (%)	Q1CY21	QoQ (%)	CY20	CY21E	CY22E	CY23E
Net Sales	34,767	30,505	14.0	36,108	(3.7)	133,500	149,250	165,424	182,908
EBITDA	8,490	7,677	10.6	9,340	(9.1)	32,619	37,146	41,766	46,966
APAT	5,386	4,866	10.7	6,029	(10.7)	20,928	24,598	28,363	31,620
Diluted EPS(INR)	55.9	50.5	10.7	62.5	(10.7)	217.0	255.1	294.2	327.9
P/E (x)						83.0	70.6	61.3	55.0
EV / EBITDA (x)						52.3	45.8	40.6	36.0
RoCE (%)						76.9	64.7	54.7	114.3

Source: Company, HSIE Research

## REDUCE

CMP (as on 28 July 2021)	INR 18,023
Target Price	INR 17,108
NIFTY	15,709

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	Rs 17,108	Rs 17,108
EPS %	CY21E	CY22E
	0%	0%

### KEY STOCK DATA

Bloomberg code	NEST IN
No. of Shares (mn)	96
MCap (Rs bn) / (\$ mn)	1,738/23,363
6m avg traded value (Rs mn)	1,639
52 Week high / low	INR 18,844/15,100

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	8.3	3.7	5.4
Relative (%)	3.0	(9.7)	(32.3)

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	62.76	62.76
FIs & Local MFs	7.90	7.92
FPIs	12.29	12.43
Public & Others	17.05	16.89
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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# Dabur

## Outperformance continues; strategies playing out

Dabur's Q1 performance was inspiring with a beat in revenue, volume and EBITDA. Revenue growth was at 32% YoY (HSIE 22%), 2-year CAGR at 7%. Domestic revenue/volume growth were at 35/34% YoY, 2-year CAGR at 12/10% vs. Britannia's 12/13%, Nestle's 8/6%, Marico's 7/2%, Colgate's 4/0%, Emami's 3/2% and HUL's 2/0%. Dabur's healthcare/HPC/F&B grew 30/26/80% YoY (vs. +29/-15/-34% in Q1FY21 and +23/+33/+28% in Q4FY21). The international business saw continued recovery, growing 29% YoY. EBITDA growth was at 33% YoY (HSIE 23%), while EBITDA margin was in line at 21%. We remain positive on Dabur's ability to deliver strong revenue growth, led by its positioning as a natural and trusted brand along with its power brands strategy. We maintain our EPS estimates. We increase our target multiple to 50x P/E (45x earlier) on Jun-23E to factor in its consistent outperformance vs peers and result-oriented renewed strategies. Our target price is INR 625. Maintain ADD.

- **Healthcare/oral care/hair care outperform:** Net revenue grew by 32% YoY (-13% in Q1FY21 and +25% in Q4FY21), ahead of our expectation of 22% YoY growth. Domestic business grew by 36% YoY with 34% YoY volume growth. Despite a heavy base, health supplements/digestives/OTC/ethical were up 25/16/52/51% YoY. In HPC, oral care/hair oils/shampoo/home care/skin and salon saw growth of 21/38/41/31/-5%. Food saw 18% YoY growth, while beverages was up 85% on a low base and in the peak season. Dabur saw strong market share gains in oral care, hair oils, home care, Chyawanprash and juices. International revenue grew by 29% YoY with 34% YoY cc growth.
- **Maintains EBITDA margin in high inflation:** GM contracted by 131/64bps YoY/QoQ (-10bps in Q1FY21 and -35bps in Q4FY21) to 48%. It was impacted by steep raw material inflation and restricted price hikes (~3%). Employee/A&P/other expenses grew by 15/29/34% YoY. Dabur, through its cost savings initiatives, saved INR 250-270mn in Q1FY22. EBITDA margin expanded 10bps YoY (+91bps in Q1FY21 and +5bps in Q4FY21) to 21.1% (in line with HSIE). EBITDA grew by 33% YoY (HSIE 23%). PBT grew by 34% YoY while PAT grew by 28% YoY on increase in tax rate.
- **Call takeaways:** (1) Urban will see higher growth vs. rural in FY22 (due to the low base), but rural will continue to outpace urban in the medium term. (2) The company has introduced real juice SKUs at INR 10/20 for the rural market, which is seeing good traction. (3) The company has experienced high inflation and taken 3% price hike. (4) No plans to take a price hike in Q2, but may take in Q3 if inflationary pressure continues. (5) Capex of INR 5.5bn over the next three years for the Indore plant. (6) International business will deliver double-digit growth in a stable environment. (7) It expects A&P spend at 9% of sales in the next 2-3 years. (8) It doubled its e-commerce sales, which now contribute towards 8% of domestic sales.

### Quarterly/Annual Financial summary

YE Mar (INR mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY22E	FY23E	FY24E
Net Sales	26,115	19,800	31.9	23,368	11.8	95,617	108,431	119,232	132,317
EBITDA	5,520	4,166	32.5	4,425	24.8	20,027	23,161	26,274	29,605
APAT	4,373	3,418	28.0	3,778	15.8	16,934	19,185	21,516	24,426
Diluted EPS (INR)	2.5	1.9	28.0	2.1	15.8	9.6	10.9	12.2	13.8
P/E (x)						64.1	56.6	50.4	44.4
EV / EBITDA (x)						52.2	44.9	39.3	34.6
RoCE (%)						44.3	51.3	55.2	61.9

Source: HSIE Research

## ADD

CMP (as on 3 Aug 2021)	Rs 614
Target Price	Rs 625
NIFTY	16,131

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	Rs 566	Rs 625
EPS %	FY22E	FY23E
	0%	0%

### KEY STOCK DATA

Bloomberg code	DABUR IN
No. of Shares (mn)	1,768
MCap (Rs bn) / (\$ mn)	1,086/14,619
6m avg traded value (Rs mn)	1,505
52 Week high / low	Rs 62/471

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	13.2	17.1	20.3
Relative (%)	1.7	10.7	(22.5)

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	67.87	67.36
FIs & Local MFs	5.34	4.66
FPIs	19.77	20.59
Public & Others	7.51	7.39
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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# Godrej Consumers

## Inspiring show; remain constructive

GCPL delivered an in-line revenue while EBITDA margin was a beat. Consolidated revenue grew 24% YoY (HSIE 22%) with domestic revenue growing by 19% (HSIE 16%) and international revenue growing by 30% (HSIE 29%). Domestic revenue posted 12% two-year revenue CAGR. Domestic volume growth was at 15%, two-year CAGR at 9% vs. Britannia's 13%, Dabur's 10%, Nestle's 6%, Marico's 2%, Emami's 2%, Colgate's 0% and HUL's 0%. GM contracted by 210bps YoY to 52.2% due to a lag between increase in input cost and price increases (domestic). The company managed to expand its EBITDA margin by 80bps YoY to 21.1% (HSIE 20.6%). With new management at the top and focus on key growth areas such as household insecticides (HI), personal wash & hygiene, and hair care, we see large growth potential for the company. We increase our EPS estimate by 2/3/3% for FY22/23/24. We value the stock at 42x on Jun-23 EPS to derive a TP of INR 1,000. Maintain ADD.

- Continued strong revenue performance:** Consolidated revenue was up 24% YoY (-1% in Q1FY21, 27% in Q4FY21, 22% HSIE) with domestic growing 19% YoY (5% in Q1FY21, 35% in Q4FY21, 16% HSIE) and international growing 30% YoY (-8% in Q1FY21, 19% in Q4FY21, 29% HSIE). Domestic volume growth was at 15% YoY. Indonesia/GUAM/LATAM and SAARC grew its revenue by 1/59/26% YoY (9/-22/-4% in Q1FY21) with cc growth at 0/60/48% YoY. Home care/personal care posted 14/29% YoY revenue growth. Home care sustained broad-based growth across premium formats and burning formats. In personal care, personal wash and hygiene continued momentum with strong double-digit sales growth; 2-year CAGR in double-digits. It continued to gain market share in soaps and hair colour.
- Strong EBITDA margin expansion:** Gross margin contracted by 210/359bps YoY/QoQ to 52.2% (-286bps in Q1FY21 YoY, -198bps in Q4FY21 YoY), mainly on account margin pressure for India business. Employee cost was up by 11% YoY (1% in Q1FY21), A&P 41% YoY (-46% in Q1FY21) and other expenses 9% (-2% in Q1FY21). EBITDA margin expanded by 80bps YoY (77bps Q1FY21, -108bps Q4FY21) to 21%, slightly more than our estimates. Margin expansion was led by the op lev seen in the international business and partially in the India business. EBITDA grew by 29% YoY vs. HSIE 23% growth. Operating EBITDA margin for Indonesia/GUAM/Latin America and SAARC came in at 23/10/14% vs 24/-2/11% in Q1FY21.
- Call takeaways:** (1) The company saw input inflation from palm oil and has taken 4-5% price hikes in Q1FY22. (2) Indonesia saw a better July, but macroeconomics aren't too strong. (3) Sequential margin drop was due to the brand investment. (4) The company built up inventory to avoid supply disruption in the second wave. (5) Nigeria is doing well in HI. (6) The company will focus on sustainable pricing with double-digit growth for FY22. (7) The company has elevated Mr. Sameer Shah (from head of finance) to CFO, post the resignation of the former CFO.

### Quarterly/Annual Financial summary

YE Mar (INR mn)	Q1FY22	1QFY21	YoY (%)	4QFY21	QoQ (%)	FY21	FY22E	FY23E	FY24E
Net Sales	28,945	23,273	24.4	27,307	6.0	110,286	127,816	140,837	155,245
EBITDA	6,111	4,727	29.3	5,748	6.3	23,883	27,737	30,963	34,326
APAT	4,149	3,174	30.7	4,170	(0.5)	17,150	20,405	23,602	26,545
Diluted EPS (Rs)	4.1	3.1	30.7	4.1	(0.5)	16.8	20.0	23.1	26.0
P/E (x)						58.2	48.9	42.3	37.6
EV / EBITDA (x)						46.8	41.3	35.2	31.1
RoCE (%)						21.0	24.4	27.5	30.9

Source: HSIE Research

ADD

CMP (as on 5 Aug 2021)	INR 976
Target Price	INR 1,000
NIFTY	16,295

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 970	INR 1,000
EPS %	FY22E +2%	FY23E +3%

### KEY STOCK DATA

Bloomberg code	GCPL IN
No. of Shares (mn)	1,022
MCap (INR bn) / (\$ mn)	998/13,410
6m avg traded value (INR mn)	1,550
52 Week high / low	INR 1,024/641

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	37.8	30.3	44.1
Relative (%)	25.9	22.9	(0.6)

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	63.23	63.23
FIs & Local MFs	3.04	1.23
FPIs	26.61	26.97
Public & Others	7.12	8.57
Pledged Shares	0.42	0.42

Source : BSE

Pledged shares as % of total shares

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# Britannia Industries

## Beat on revenue; in-line EBITDA

Britannia reported a beat on revenue/volume with an in-line EBITDA. It delivered a strong performance in Q1FY22 with revenue declining by only 1% YoY on a strong base (+26%), a beat to our estimate of 8% decline. Domestic volume was up 1% YoY (HSIE -9%), 2-year CAGR at +13% vs. Nestle +6%, Marico +2%, Emami +2%, Colgate flat, and HUL flat. The company saw decent resurgence of demand as customer preference has shifted towards premium and trusted brands. This has helped Britannia gain market share. Rising input costs (palm oil and crude) led to gross margin compression of 296bps YoY to 38.7%. The EBITDA decline of 23% was broadly in line with our estimates. The company has reduced its inter-corporate debt from INR 7.9bn at Q4FY21-end to INR 4.7bn at Q1FY22-end, which reduces some of the overhang on the stock. We maintain our FY23/24 EPS estimates and value Britannia at 40x P/E on Jun-23 EPS to derive a target price of INR 3,600. Maintain REDUCE.

- Beat on revenue/volume:** Consolidated revenue declined 1% YoY (26% in Q1FY21 and 8% in Q4FY21), vs our estimate of 8% YoY decline. Standalone revenue remained flat YoY (24% in Q1FY21 and 9% in Q4FY21). Domestic volume grew 1% (26% in Q1FY21 and 8% in Q4FY21, -9% HSIE). The company relaunched its Good Day Chocochips cookies with a surprise campaign and launched 50-50 Potazos in the Northeast. Ad campaigns for the brand was resumed and supply chain remained unaffected.
- EBITDA in line, margin a miss:** Consolidated GM contracted by 296bps YoY (+124bps in Q1FY21 and +80bps in Q4FY21) to 38.7% vs our estimated margin of 40.6%. Gross margin was impacted by RM inflation in crude and palm oil. RM saw inflation of 6-7% along with supply chain costs of additional 1-2%. Given the sudden input price rise, the company would not be able to pass on the cost immediately and hikes would be taken over a period of time. Employee/other expenses grew by 2/9% YoY. The company resumed its A&P spends. Despite the lockdown, the company continued its A&P spends on its new launches. EBITDA margin contracted by 469bps YoY (+634bps in Q1FY21 and +30bps in Q4FY21, -309bps HSIE) to 16.3%. EBITDA declined by 23% YoY, in line with our estimates. PBT degrew by 28% YoY while APAT degrew by 29% YoY.
- Con call takeaways:** (1) Britannia's product launches were delayed due to the second wave. (2) The company has changed its distributor in the Middle East, and expects better execution with the new distributor. (3) It hopes to make the Nepal business larger where it currently is the market leader. (4) It continued with its Milk Bikis advert campaign despite the lockdown and launched the third round of its campaign in July. (5) The company's inter-corporate debt at Q1FY22-end stood at INR 4.7bn vs. INR 7.9bn at Q4FY21-end.

### Quarterly/Annual Financial summary

YE Mar (INR mn)	Q1 FY22	Q1 FY21	YoY (%)	Q4 FY21	QoQ (%)	FY21	FY22E	FY23E	FY24E
Net Sales	34,035	34,207	(0.5)	31,307	8.7	131,361	141,219	153,778	165,983
EBITDA	5,538	7,169	(22.8)	5,054	9.6	25,093	25,656	27,960	30,187
APAT	3,870	5,427	(28.7)	3,601	7.5	18,506	19,289	21,227	23,107
Diluted EPS (Rs)	16.1	22.6	(28.7)	15.0	7.5	76.8	80.1	88.1	95.9
P/E (x)						45.6	43.8	39.8	36.5
EV / EBITDA (x)						33.0	31.9	29.2	26.6
RoCE (%)						59.2	64.7	68.2	69.4

Source: Company, HSIE Research

## REDUCE

CMP (as on 2 Aug 2021)	INR 3,505
Target Price	INR 3,600
NIFTY	15,885

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 3,600	INR 3,600
EPS %	FY22E -2%	FY23E 0%

### KEY STOCK DATA

Bloomberg code	BRIT IN
No. of Shares (mn)	241
MCap (INR bn) / (\$ mn)	844/11,355
6m avg traded value (INR mn)	2,014
52 Week high / low	INR 3,990/3,305

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	2.0	0.5	(8.0)
Relative (%)	(6.7)	(4.9)	(51.3)

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	50.55	50.55
FIs & Local MFs	11.13	11.18
FPIs	17.96	18.40
Public & Others	20.36	19.87
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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## Marico

### Food remains a showstopper; expect margin recovery

Marico posted in-line revenue growth, however margin was a miss. Revenue/EBITDA grew by 31/3% (HSIE 31/7%). Domestic revenue and volume grew 31/21%, 7/2% 2-year CAGR, a good show despite the COVID pressure. PCNO saw volume growth of 12% YoY, albeit on a low base (-11%), impacted by extended lockdowns in its core south and west markets. VAHO registered 35% YoY value growth (-32% in the base year) and saw 70bps share gain. Saffola remained a torchbearer (clocked 60/24% value/volume growth), aided by improved penetration and +450bps volume share gain. International continued its momentum (up 20% YoY, +2% base), but Vietnam /Bangladesh struggled on a resurgence in COVID cases. The steep RM inflation continued to impact the margins (GM down 759/311bps YoY/QoQ), but copra prices have been softening. Marico continued its investment in core brands and innovation in food segment. We expect the growth momentum to sustain and margin pressure to ease in FY22. We raise our EPS estimates for FY23/FY24 by 3/4%, led by enhanced focus on volume growth. We value Marico at 42x P/E on Jun-23E EPS to derive a target price of INR 545. Maintain ADD.

- **In-line revenue:** Revenue grew by 31% YoY (-11% in Q1FY21 and +34% in Q4FY21), in line out estimates. Domestic volume grew by a strong 21% YoY (-14% in Q1FY21 and +25% in Q4FY21). PCNO saw 20/12% YoY val/vol growth while VAHO saw 35/34% YoY val/vol growth. Saffola continued its strong momentum and clocked val/vol growth of 60/24% YoY. Rural and urban GT saw 17% each. E-commerce grew 61% YoY (37% in Q1FY21 and 81% in Q4FY21) and is now contributing towards 61% of domestic sales. CSD grew 56% YoY in Q1FY22 on a low base.
- **International revenue up by 20%:** The international business clocked 20% YoY growth (21% cc). Bangladesh grew 9% cc in Q1, with the non-coconut portfolio seeing 26% growth. MENA/South Africa reported cc growth of 74/52% YoY on a low base while South East Asia saw 16% cc growth.
- **RM inflation pressure continued, in-line EBITDA:** GM dipped by 759bps YoY (+112bps in Q1FY21 and -513bps in Q4FY21), vs the HSIE estimate of 442bps YoY decline. LLP/HDPE were up 50/44% YoY, but copra price were down 13% QoQ. Employee/adv/other expenses grew by 6/7/9% YoY. EBITDA margin contracted by 521bps YoY to 19% (+298bps in Q1FY21 and -300bps in Q4FY21). EBITDA grew by 3% YoY (HSIE 7%). Domestic EBIT margin dipped 642bps YoY (+310bps in Q1FY21) while international margin dipped 201bps YoY (+372bps in Q1FY21).
- **Con call takeaways:** (1) The company maintains its revenue growth guidance of 13-15% in the medium term. (2) It aims to build a digital portfolio of more than three brands (Beardo, Just Herbs) with an aim to contribute INR 4.5-5bn to the revenue by FY24. (3) Beardo is at a run-rate to reach INR 1bn revenue in FY22 unless discretionary spends remain impacted. (4) Rural consumption will continue to be buoyant.

#### Quarterly/Annual Financial summary

YE Mar (INR mn)	1QFY22	1QFY21	YoY (%)	4QFY21	QoQ (%)	FY21P	FY22E	FY23E	FY24E
Net Sales	25,250	19,250	31.2	20,120	25.5	80,480	95,841	103,752	113,424
EBITDA	4,810	4,670	3.0	3,190	50.8	15,880	18,278	21,419	23,950
APAT	3,560	3,330	6.9	2,333	52.6	11,620	13,088	15,601	17,606
Diluted EPS (INR)	2.76	2.58	6.9	1.81	52.6	9.01	10.15	12.09	13.65
P/E (x)						60.6	53.8	45.1	40.0
EV / EBITDA (x)						44.4	38.5	32.9	29.4
RoCE (%)						55.2	66.3	71.9	79.2

Source: Company, HSIE Research

## ADD

CMP (as on 30 July 2021)	INR 547
Target Price	INR 545
NIFTY	15,763

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 510	INR 545
	FY22E	FY23E
EPS %	0%	+3%

#### KEY STOCK DATA

Bloomberg code	MRCO IN
No. of Shares (mn)	1,291
MCap (INR bn) / (\$ mn)	706/9,487
6m avg traded value (INR mn)	1,182
52 Week high / low	INR 553/333

#### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	32.9	31.5	50.0
Relative (%)	25.1	17.9	10.6

#### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	59.61	59.61
FIs & Local MFs	10.06	9.54
FPIs	24.04	24.98
Public & Others	6.29	5.84
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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# Colgate Palmolive

## Steady growth, buoyant margins

Colgate's Q1FY22 revenue and EBITDA was in line with our estimates. Net revenue clocked a steady show and grew by 12% YoY (HSIE 13%), +4% two-year CAGR. Volume growth was ~8% (HSIE 8%). Continued investments in brand building and innovation remained the key focus areas. Some of the recent launches like Colgate toothpaste for diabetics, Colgate Vedshakti mouth spray, and Colgate Vedshakti Oil Pulling are expanding the market for the company. The company recently launched Colgate Magik toothbrush, the first augmented reality toothbrush (for kids). The company was earlier concentrating on gaining share in naturals/ayurvedic toothpaste where competition is very tough. But renewed focus on innovative launches, which are potentially sizable categories, continues to inspire us. Gross margin expansion remained strong (price hike, premiumisation), up by 300/140bps YoY/QoQ to 69%. A&P grew by 41% YoY on a low base of -25% YoY in Q1FY21, while employee expenses and other expenses were up 5% and 11% respectively. EBITDA margin expanded by 87bps YoY to 30.5% (+196bps in Q1FY21, +833bps in Q4FY21) vs. HSIE 30.6%. We maintain the EPS estimates for FY22/FY23/FY24. We value Colgate at 42x P/E on Jun-23E EPS and derive a target price of INR 1,809. Maintain ADD.

- **Innovation led steady show:** Revenue grew by 12% YoY (-4% in Q1FY21 and +20% in Q4FY21). Volume growth was at ~8% (-7% in Q1FY21, +16% in Q4FY21). Aggression in new launches continued throughout FY21 i.e., Colgate Toothpaste for Diabetics, Colgate Vedshakti Spray, Oil Pulling and Colgate Magik. The company also launched and relaunched several other toothpastes and toothbrushes during this period. Personal care portfolio (Palmolive) is also seeing strong traction as the company is extending into premium segments. In the past two years, the market share seems to be stable for toothpaste and toothbrush, while that for personal care has increased.
- **Margin expansion continues:** GM expansion has sustained, up by 300bps YoY (+28bps in Q1FY21 and +301bps in Q4FY21) to 69.1%, (67.6% HSIE) – the highest margin since FY10. Employee expenses grew by 5% YoY (+9% Q1FY21), while A&P was up by 41% YoY on a weak base as the company continued investment in brand building. Other expenses were up by 12% YoY. EBITDA margin expanded by 87bps YoY (+196bps in Q1FY21 and +833bps in Q4FY21) to 30.5%, in line with our expectation of 30.6%. EBITDA grew by 15% YoY (HSIE 17%).

### Quarterly/Annual Financial summary

YE Mar (Rs mn)	1QFY22	1QFY21	YoY (%)	4QFY21	QoQ (%)	FY21E	FY22E	FY23E	FY24E
Net Sales	11,660	10,406	12.0	12,832	(9.1)	48,412	52,446	56,604	61,101
EBITDA	3,552	3,080	15.3	4,218	(15.8)	15,096	15,781	17,145	18,581
APAT	2,332	1,982	17.7	3,147	(25.9)	10,354	10,574	11,484	12,437
Diluted EPS (Rs)	8.6	7.3	17.7	11.6	(25.9)	38.0	38.8	42.2	45.7
P/E (x)						44.9	44.0	40.5	37.4
EV / EBITDA (x)						30.2	29.1	26.7	24.6
RoCE (%)						118.4	182.2	161.5	192.2

Source: Company, HSIE Research

## ADD

CMP (as on 29 July 2021) INR 1,710

Target Price INR 1,809

NIFTY 15,778

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 1,809	INR 1,809
EPS %	FY22E	FY23E
	0%	0%

### KEY STOCK DATA

Bloomberg code	CLGT IN
No. of Shares (mn)	272
MCap (Rs bn) / (\$ mn)	465/6,259
6m avg traded value (INR mn)	142
52 Week high / low	INR 1,823/1,322

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	15.1	6.6	18.1
Relative (%)	7.1	(7.1)	(21.5)

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	51.00	51.00
FIs & Local MFs	10.02	8.21
FPIs	16.90	18.61
Public & Others	22.08	22.14
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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# United Spirits

## In-line volume; mix impacts margin

UNSP posted net revenue growth of 57% YoY (HSIE 73%) and a decline of 27% on Q1FY20. Volume performance was healthy as it increased by 61% YoY to 15.8mn (HSIE 15.4mn). There was a miss in P&A realisation, which corrected by 12% QoQ to INR 1,346/case, owing to adverse brand/state mix. The benign raw material inflation resulted in 296bps YoY expansion in gross margin to 44.6% (HSIE 43.9%). Despite a beat on gross margin, negative op lev and high employee cost led to miss in EBITDA margin, which came in at 10% (HSIE 14%). Employee cost was up 56% YoY (51% QoQ) to INR 1.87bn (the highest in 12 quarters). A&P spend was up 62% YoY (-70% in Q1FY21), lower than our estimates, as the company made controlled investments due to the lockdown. While Q1FY22 was a miss, with operations fully recovered, we expect the premiumisation momentum to pick up again, improving the product mix. India is a spirit market with long term premiumisation drivers. The new CEO can accelerate this trend for UNSP with her global experience. We maintain our EPS estimates for FY22/FY23/FY24. We value UNSP at 42x P/E on Jun-23E EPS (standalone) to derive a target price of INR 660 (including INR 24/share of non-core assets). Maintain ADD.

- **In-line volume, weak realisation due to mix:** Net revenue was up by 57% YoY (-54% in Q1FY21 and +12% in Q4FY21, +73% HSIE). P&A revenue was up by 58% (-52% in Q1FY21, +26% in Q4FY21, HSIE 85%), impacted by lockdowns in key regions. Popular revenue grew 60% YoY (-51% in Q1FY21, -3% in Q4FY21, HSIE 56%). P&A volumes were up by 60% YoY (-51% in Q1FY21 and +19% in Q4FY21, HSIE 65%) while Popular volumes grew 63% YoY (-47% in Q1FY21 and -2% in Q4FY21, HSIE 50%). P&A realisation was down 1% (-1.6 in Q1FY21, +5.3% in Q4FY21) to INR 1,346/case. Popular realisation declined by 1.4% (-8.4 in Q1FY21, +1.6% in Q4FY21). With markets opening and the company reverting to full operations, we expect realisations improvement.
- **Healthy gross margin, negative op lev impacts EBITDA margin:** Gross margin was up by 296bps YoY and 66bps QoQ to 44%. A&P spend was INR 838mn - at 5.2% of revenue - lower than our estimates as the company took calibrated steps to reduce costs during the lockdown. Employee costs were up 56% YoY (51% QoQ) to INR 1.87bn. EBITDA margin come in at 10.4% (HSIE 14.2%).
- **Con call takeaways:** (1) The impact of demand in north India (a large Scotch consuming region) had an unfavorable impact on the price mix. (2) The company has passed on the cost of glass, while pricing decisions on neutral spirits will be taken by the government in Sep. (3) The alco-bev industry has coverage of 50,000 retail points, of which 35,000 make about 80-90% of the business. (4) The company targets 1.5-2% value chain extraction every year; (5) India is a spirit market (with premiumisation trend) while Africa is a beer market. (6) It has taken a price hike of ~0.5-0.6%.

### Quarterly/annual financial summary (standalone)

YE Mar (INR mn)	1QFY22	1QFY21	YoY (%)	4QFY21	QoQ	FY21	FY22E	FY23E	FY24E
Net Sales	16,151	10,302	56.8	22,244	(27.4)	78,892	90,159	104,447	113,007
EBITDA	1,677	-776	(316.1)	4,118	(59.3)	9,877	13,606	16,535	18,036
APAT	964	(1,591)	(160.6)	2,246	(57.1)	4,239	8,554	10,690	11,966
Diluted EPS (INR)	1.3	(2.2)	(160.6)	3.1	(57.1)	5.8	11.8	14.7	16.5
P/E (x)						112.8	55.9	44.7	39.9
EV / EBITDA (x)						49.0	35.3	28.7	25.9
RoIC (%)						11.2	18.9	20.4	20.5

Source: Company, HSIE Research

## ADD

CMP (as on 26 July 2021)	INR 658
Target Price	INR 660
NIFTY	15,824

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 660	INR 660
	FY22E	FY23E
EPS %	0%	0%

### KEY STOCK DATA

Bloomberg code	UNSP IN
No. of Shares (mn)	727
MCap (INR bn) / (\$ mn)	448/6,421
6m avg traded value (INE mn)	1,485
52 Week high / low	INR 690/494

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	26.9	3.6	9.8
Relative (%)	19	(7.9)	(29.5)

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	56.76	56.76
FIs & Local MFs	7.97	8.30
FPIs	18.88	18.98
Public & Others	16.39	16.05
Pledged Shares	0.67	0.67

Source : BSE

Pledged shares as % of total shares

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# Emami

## Sustaining expectation; margin base to impact FY22

Emami's Q1FY22 result was largely in line with revenue/EBITDA, registering 37/38% YoY growth (HSIE 37/35%). The two-year CAGR was at 1%. Domestic revenue/volume growth was at 42/38% YoY, clocking a two-year CAGR of 2.5/2% vs. Britannia 12/13%, Nestle 8/6%, Marico 7/2%, Colgate 4/0%, HUL 2/0%. Healthcare, pain management and Boroplus remained the growth drivers and posted 95/95/32% growth on Q1FY20. The Navratna range and male grooming portfolio remained weak, down by 29% and 47% on Q1FY20. Recovery in June/July is strong across brands/states. The company continued to focus on increase of footprint in rural areas, product innovation, and higher spend on digital marketing. With a heavy base of EBITDA margin, we built slow EBITDA growth for the remaining FY22 and expect low probability of surprises. We maintain our EPS estimates for FY22/23/24. We value Emami at 25x P/E on Jun-23E EPS to derive a TP of INR 475. Maintain REDUCE.

- In-line revenue, growth drivers remains the same:** Net revenue grew by 37% YoY (-26% in 1QFY21, +37% in 4QFY21) vs. HSIE 37%. Domestic/international/CSD saw 42/17/34% YoY growth. After a disappointing performance during FY17-FY20, Emami could recover in FY21, led by spur in demand for healthcare, pain management, Boroplus and Kesh King. Growth drivers remained the same in Q1 also as the company missed out seasonal demand for Navratna. As compared to Q1FY20, the healthcare range, pain management, Boroplus and 7 Oils in One clocked 95/95/32/17% growth in Q1FY22. Navratna and male grooming range contracted by 29/47% on Q1FY20. The international business also recovered and posted 17% YoY revenue growth while it was down by 9% on Q1FY20.
- Marginal beat in margin; margin base to impact remaining FY22:** GM dipped by 47bps YoY (+231bps in 1QFY21, -249bps in 4QFY21) to 66%. Employee/advertising/other expenses grew by 8/84/22% YoY. EBITDA margin expanded by 13bps YoY (+487bps in 1QFY21, +378bps in 4QFY21). EBITDA grew by 38% YoY (HSIE 35%). We expect margin to be under pressure in the remaining FY22 due to the sharp margin expansion in FY21 and restoration of several operating costs. We model EBITDA margin close to 30% for FY22-24 (27/26% in FY19/20).
- Con call takeaways:** (1) June/July recovery is stronger than expected. (2) Kesh King has sustained a healthy pick-up. (3) Recovery is healthy across brands/markets. (4) The Zandu portal is seeing encouraging response, with close to 10mn consumers visiting and buying (with many repeat consumers). (5) Rural impact is more in the second wave, but the company expects to recover from it. (6) The Kesh King amortisation period has been reduced to 7 years vs. 10 earlier.

### Quarterly/Annual Financial summary

YE Mar (INR mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY22E	FY23E	FY24E
Net Sales	6,610	4,813	37.3	7,308	(9.6)	28,805	32,737	35,858	39,272
EBITDA	1,697	1,230	38.0	1,628	4.2	8,831	9,813	10,811	12,037
APAT	1,266	845	49.8	1,309	(3.3)	6,680	7,399	8,144	9,349
Diluted EPS (INR)	2.85	1.90	49.8	2.95	(3.3)	15.0	16.6	18.3	21.0
P/E (x)						37.9	34.2	31.1	27.1
EV / EBITDA (x)						28.2	25.1	22.5	19.9
RoCE (%)						34.7	48.1	60.3	66.2

Source: Company, HSIE Research

## REDUCE

CMP (as on 2 Aug 2021)	INR 570
Target Price	INR 475
NIFTY	15,885

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 475	INR 475
EPS %	FY22E 0%	FY23E 0%

### KEY STOCK DATA

Bloomberg code	HMN IN
No. of Shares (mn)	445
MCap (INR bn) / (\$ mn)	253/3,407
6m avg traded value (INR mn)	364
52 Week high / low	INR 579/235

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	15.9	18.8	137.6
Relative (%)	7.2	13.4	94.2

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	53.86	53.86
FIs & Local MFs	26.38	24.48
FPIs	10.52	12.49
Public & Others	9.24	9.17
Pledged Shares	17.72	16.65

Source : BSE

Pledged shares as % of total shares

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# Radico Khaitan

## Beat in volumes, remain constructive

Radico's revenue was in line (with a beat in volumes) but the margin saw a miss. Revenue growth was at 47% YoY (HSIE 50%), with two-year CAGR at -2% as compared to -15% posted by UNSP. IMFL volume grew 59% to 5.61mn cases (HSIE 5.32mn cases), P&A volume grew a robust 41% to 1.48mn cases while regular volume was up by 67% to 4.13mn cases. The company has witnessed an inspiring volume rebound from Jun'21 onwards and expects to see the next phase of growth from Karnataka, AP, and Telangana. The focus on new launches (premium side), share gain, and expected rebound in industry give better visibility on Radico's revenue. We do not call out the current miss in margin as sustainable and expect margin recovery from Q2FY22 onwards. We slightly increase our EPS estimates for FY22E/FY23E by 2/3%. We increase our target multiple to 30x P/E (25x earlier) on Jun-23E to factor in Radico's consistently outperforming peers and strengthening of its balance sheet. Our target price is INR 900. Maintain ADD.

- **Beat in volume, promising outlook:** Net revenue grew by 47% YoY (-34% in Q1FY21 and +19% in Q4FY21) vs. HSIE 50%. IMFL volume was up by 59% YoY. P&A volume grew by 41% YoY (-47% in Q1FY21 and +16% in Q4FY21) while Popular volume was up by 67% YoY (-42% in Q1FY21 and +5% in Q4FY21). The company's premiumisation trend took a hit due to the lockdown with the share of P&A at 26% (30% in Q1FY21, 32% in Q1FY20 and 28% in Q4FY21). The company is strengthening its premium products portfolio through new launches in the coming quarters.
- **Mix impacts margin:** GM declined by 709/87bps YoY/QoQ to 47.5% (+666bps in Q1FY21 and -143bps in Q4FY21, -550bps HSIE). S&D costs grew by 54% YoY on a low base as the company continued its investments in brand building. A&P was up by 71% to INR 335mn and it stood at 7.2% of IMFL sales. Employee costs/other expenses were up 12%/26% YoY. EBITDA margin contracted by 325bps YoY to 15.3% (+242bps in Q1FY21 and +53bps in Q4FY21) vs HSIE 16.5%. EBITDA grew by 22% YoY (HSIE 33%).
- **Con call takeaways:** (1) Radico has started local bottling for its spirits in Malaysia to overcome high taxes and duties and is evaluating to replicate this in other markets. (2) The premiumisation trend continues with prestige growing in double digits from July. (3) P&A share for the industry has contracted from 19% to 18%, but Radico has gained share. (4) Rampur and Jaisalmer are in process of being sold at the CSD stores, a market of 0.5mn cases. (6) The UP government has increased its revenue generation target from INR 320bn to INR 500bn (50% jump) over the next 3-4 years through introducing favourable trade policies (UP contributes 30% of revenue for Radico). (7) The next growth phase would come from Karnataka, AP and Telangana (together with Tamil Nadu makes 60% of industry).

### Quarterly/Annual Financial summary

YE Mar (INR mn)	1QFY22	1QFY21	YoY (%)	4QFY21	QoQ (%)	FY21P	FY22E	FY23E	FY24E
Net Sales	6,028	4,092	47.3	6,947	(13.2)	24,181	28,449	31,660	34,632
EBITDA	921	758	21.5	1,014	(9.1)	4,089	4,889	5,632	6,182
APAT	598	441	35.7	735	(18.7)	2,706	3,209	3,871	4,319
Diluted EPS (INR)	4.5	3.3	35.7	5.5	(18.7)	20.3	24.0	29.0	32.3
P/E (x)						43.5	36.6	30.4	27.2
EV / EBITDA (x)						29.0	24.0	20.3	18.0
RoCE (%)						13.6	15.4	16.9	18.3

Source: Company, HSIE Research

## ADD

CMP (as on 29 July 2021)	INR 880
Target Price	INR 900
NIFTY	15,778

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 730	INR 900
EPS %	FY22E	FY23E
	+2%	+3%

### KEY STOCK DATA

Bloomberg code	RDCK IN
No. of Shares (mn)	134
MCap (Rs bn) / (\$ mn)	118/1,583
6m avg traded value (INR mn)	420
52 Week high / low	INR 893/361

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	53.2	79.9	134.6
Relative (%)	45.3	66.1	95.1

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	40.30	40.29
FIs & Local MFs	17.10	18.16
FPIs	19.46	19.78
Public & Others	23.14	21.77
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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# Infrastructure, Construction

# KNR Constructions

## Strong performance

KNR delivered another strong quarter, with revenue/EBITDA beating our estimates by 23/25%. On account of adoption of a new tax regime, KNR booked high deferred tax, which resulted in APAT miss of 6%. The current order book (OB) stands at INR 116bn, providing revenue visibility for four years. The asset monetisation deal with Cube is expected to be completed by Dec-22. We maintain BUY on KNR with an increased target price of INR 332/sh (18x on roll forwarded EPS to Jun-23E, HAM 1x P/BV). We have changed our FY22/FY23 estimates by -1.0/+9.3% to factor in better growth.

- **Financial performance highlights:** KNR reported revenue at INR 7.4bn (23% beat). EBITDA, at INR 1.4bn, was 25% ahead of our estimate. EBITDA margin came in at 19.4% (-31/-10bps YoY/QoQ, estimated at 19.2%). Tax expense was higher than expected on account of KNR adopting new tax regime causing revaluation of deferred tax assets. Owing to this APAT came in at INR 730mn (+84%/-5% YoY/QoQ, 6% miss). KNR has revised FY22E revenue guidance to INR 34bn (vs. INR 30bn) for FY22. EBITDA margin is expected to be in the range of 19-20%.
- **Good order booking visibility with Bharatmala and irrigation projects:** During the quarter, KNR received one HAM order of INR 10.4bn from the NHAI. The OB stands at INR 116bn (~4.3x FY21 revenue) with work on three HAM and one EPC amounting to INR 50bn, which are yet to start. On the latest OB, HAM contributes 47% and irrigation 26%. KNR is targeting INR 20-30bn order inflow with 1-2 HAM projects for the rest of 9MFY22. It is eyeing incremental irrigation projects from Karnataka and will continue to selectively pursue new irrigation project bids in Telangana.
- **Deal with Cube to complete by Dec-22; NWC improves:** KNR has received PCOD for one of the HAMs and the balance two HAM asset PCODs are expected in Q2FY21. All three HAM assets (sold to Cube) are expected to be monetised by Jun-22. The equity commitment for all 5 HAMs is INR 3.4/1.7bn in FY22/23. NWC days improved to 66 from 82, largely on account of reduction in receivables. INR 2.7bn of receivables for irrigation project from Telangana government is expected to be realised in ~3 months. KNR expects INR 700mn arbitration proceeds from the Odisha project to come in H2FY22. It undertook INR 420mn of Capex and expects INR 1.4-1.5bn for FY22.

### Standalone Financial Summary (INR Mn)

YE March	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY22E	FY23E	FY24E
Net Sales	7,400	4,794	54.4	9,358	(20.9)	27,027	33,679	38,998	43,181
EBITDA	1,433	943	51.9	1,822	(21.3)	5,359	6,554	7,660	8,420
APAT	730	398	83.5	770	(5.2)	2,748	3,439	4,564	5,037
EPS (Rs)	5.2	2.8	83.5	5.5	(5.2)	9.77	12.23	16.23	17.91
P/E (x)						29.3	23.4	17.6	16.0
EV/EBITDA (x)						14.8	12.3	10.4	9.4
RoE (%)						15.7	17.2	19.6	18.3

### Standalone Estimate Change Summary

	FY22E New	FY22E Old	% Chg.	FY23 New	FY23 Old	% Chg.
Revenues (Rs mn)	33,679	30,990	8.7	38,998	35,644	9.4
EBITDA (Rs mn)	6,554	6,035	8.6	7,660	7,006	9.3
Margin (%)	19.5	19.5	(1.4)	19.6	19.7	(1.3)
APAT (Rs mn)	3,439	3,473	(1.0)	4,564	4,175	9.3

Source: Company, HSIE Research

## BUY

CMP(as on 13 Aug 2021)	INR 286
Target Price	INR 332
NIFTY	16,529

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 288	INR 332
EPS	FY22E	FY23E
Change %	-1.0	+9.3

### KEY STOCK DATA

Bloomberg code	KNRC IN
No. of Shares (mn)	281
MCap (INR bn) / (\$ mn)	80/1,080
6m avg traded value (INR mn)	238
52 Week high / low	INR 294/105

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	34.5	28.8	165.5
Relative (%)	20.6	21.3	120.8

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	55.03	55.25
FIs & Local MFs	31.36	34.35
FPIs	2.07	2.29
Public & Others	11.54	8.11
Pledged Shares	-	-

Source: BSE

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# PNC Infratech

## Muted performance

PNC Infratech (PNC) reported a subdued quarter with revenue/EBITDA/APAT of INR 12.5/1.7/0.9bn missing our estimates by 14/11/17%. The order inflow was also tepid as the company did not win any awards in the quarter. However, management is confident of recovery and has maintained its guidance of 20% topline growth, ~14% EBITDA margin, and INR 80bn order inflow for FY22. Given the potential strong ordering by the NHAI, PNC will focus on the road sector. We maintain BUY, given a strong order book (OB) and comfortable balance sheet. A slowdown in NHAI ordering and delay in the monetisation of HAM projects are key risks to our numbers. We have maintained our FY22/23 estimates as we believe commencement of execution in the UP water project and two road EPC projects will lead execution recovery in H2FY22. We roll forward the target price to INR 356/sh (INR 342/sh earlier). Diversification, away from the roads sector, could lead to further rerating.

- **Execution underperformance leads to earnings miss:** Revenue: INR 12.5bn (+38%/-24% YoY/QoQ, 14% miss). EBITDA: INR 1.7bn (+47% YoY, -25% QoQ, 11% miss). EBITDA margin: 14% (+79/-11 bps YoY/QoQ, vs estimate of 13.6%). Interest cost came in at INR 180mn, (-29/+22% YoY/QoQ). APAT: INR 933mn (+55/+28% YoY/QoQ, 17% miss). PNC intends to transition to the new tax regime and has accordingly reversed a MAT credit of INR 104mn. It received PCOD for three HAM projects in the quarter. Besides, it received AD for two road EPC projects of the Delhi-Vadodara expressway and is expecting to start work on INR 6-8bn (out of INR 34bn) worth of UP water project by the end of FY22, which could lead to execution recovery in H2.
- **Focus remains on roads projects:** In the absence of order wins in the quarter, the OB stands at INR 155bn (~3.1x FY21 revenue). While PNC has ventured into rural water supply and irrigation projects, it will focus on the execution of existing water projects. Given the potential strong ordering in roads by the NHAI, it will remain the focus area for the company. PNC expects INR 80bn orders during FY22, equally split between EPC and HAM. It has submitted bids for 10 EPC and six HAM projects, aggregating to INR 110bn. Further, management is evaluating 35-40 bids, aggregating INR 300bn. With relatively less competition in large value road projects, PNC is well placed to achieve its order inflow guidance.
- **Comfortable balance sheet; monetisation key monitorable:** Debtor days rose from 62 at FY21-end to 76 as collections got deferred to Jul-21. Standalone net debt is at INR 1bn with net D/E of 0.03x. PNC is looking to infuse equity of INR 3/3.2bn in FY22/23 into HAM projects through internal accruals. It is in talks with investors (to monetise its HAM projects with PCOD and one BOT annuity project), which are likely to finalise by FY22-end.

### Standalone Financial Summary (INR mn)

YE March	1QFY22	1QFY21	YoY (%)	4QFY21	QoQ (%)	FY21	FY22E	FY23E	FY24E
Net Sales	12,512	9,053	38.2	16,443	(23.9)	49,254	58,120	67,140	75,533
EBITDA	1,754.4	1,198	46.5	2,324	(24.5)	6,728	7,981	9,370	10,856
APAT	933	601	55.2	1,294	(27.9)	3,619	4,704	5,894	7,124
EPS (INR)	3.6	2.3	55.2	5.0	(27.9)	14.1	18.3	23.0	27.8
P/E (x)						22.0	16.9	13.5	11.2
EV/EBITDA (x)						11.2	9.7	8.3	6.9
RoE (%)						13.3	15.1	16.4	16.9

Source: Company, HSIE Research

## BUY

CMP (as on 12 Aug 2021)	INR 310
Target Price	INR 356
NIFTY	16,364

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 342	INR 356
EPS change %	FY22E	FY23E
	-	-

### KEY STOCK DATA

Bloomberg code	PNCL IN
No. of Shares (mn)	257
MCap (INR bn) / (\$ mn)	79/1,068
6m avg traded value (INR mn)	241
52 Week high / low	INR 332/138

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	35.5	11.4	120.9
Relative (%)	22.9	5.0	78.0

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	56.07	56.07
FIs & Local MFs	23.81	29.18
FPIs	10.79	9.32
Public & Others	9.33	5.43
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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# Dilip Buildcon

## Muted performance

Dilip Buildcon (DBL) reported an in-line revenue at INR 21.5bn and EBITDA/APAT at INR 2.8/0.3bn, 21/61% below our estimates, on account of higher input cost and fixed costs under absorption. For FY22, DBL has guided an order inflow (OI) of INR 100-120bn and revenue of INR100-150bn with 15-15.5% EBITDA margin. Net working capital (NWC) rose to 100 days from 82 in Mar-21. Standalone net debt increased by INR 3bn to INR 33.8bn sequentially and is expected to reduce by INR 8bn on the back of proceeds from asset monetisation in FY22 (INR 10bn). DBL does not expect any early completion bonus for this year and, with NHAI tightening execution timeline, such bonuses will be highly unlikely in future. We maintain BUY, with an increased target price of INR 669/sh (roll forward to Jun-23E), given its (1) diversified and robust OB (~2.7x FY21 revenue) and (2) higher proceeds from asset recycling than estimated in Q4FY21.

- **Financial performance highlights:** Revenue, at +13/-27% YoY/QoQ, came to INR 21.5bn, in line with estimate, impacted by suboptimal execution on account of 25-30% lower workforce strength (back to normal level now). EBITDA came in at INR 2.8bn (-6/-45% YoY/QoQ). Margin contracted sharply by -269/-430bps YoY/QoQ with high input cost and fixed cost under absorption impacting it by 2-2.5%. APAT came in at INR 300mn (-11/-76% YoY/QoQ), a 61% miss on estimate. The topline is expected at INR 100-105bn for FY22 with margin expected to be around 15-15.5%.
- **INR 100-120bn potential OI in FY22; early completion bonus unlikely, going forward:** The OB, as of Jun-21, stood at INR 255bn with INR 100-120bn expected in FY22 and majority coming in 2HFY22. Following the girder incident, the ban on bidding for NHAI projects will be lifted by Aug-21 end. DBL does not expect any early completion bonus for FY22 and, with NHAI tightening execution timeline from 24m to 18m for most projects, bonus is unlikely, going forward.
- **NWC deteriorates; INR 25bn from asset monetisation by FY23:** NWC deteriorates to 100 days from 82 in Q4FY22, mainly on account of increase in inventory, affected by higher average price, and is expected to come within 90-95 days range by FY22-end. Standalone net debt, at INR 33.8bn (INR 31bn in Q4FY21), is expected to reduce by INR 8bn by FY22-end. Net D/E stood at 0.76x vs 0.79x in Q4FY21. 12 HAM assets monetisation may fetch INR 25bn with INR 10bn in FY22 and INR 15bn in FY23. DBL has an equity commitment of INR 7bn for FY22 with INR 1.8bn already infused and the remaining expected to be funded by INR 6.5bn proceeds from the CUBE deal for five HAM assets. It has decided not to sell any asset before receiving COD and, given this decision, it has increased the valuation of its remaining seven HAM assets by INR 5bn on the hope of getting higher valuation after the COD receipt.

### Standalone Financial Summary (INR mn)

YE March	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY22E	FY23E	FY24E
Net Sales	21,463	18,920	13.4	29,250	(26.6)	92,089	105,903	120,729	135,216
EBITDA	2,828	3,001	(5.8)	5,112	(44.7)	15,240	16,290	19,652	22,661
APAT	300	336	(10.7)	1,273	(76.4)	3,550	5,356	7,618	9,333
EPS (Rs)	2.2	2.5	(10.7)	9.3	(76.4)	24.3	36.6	52.1	63.8
P/E (x)						22.1	14.6	10.3	8.4
EV/EBITDA (x)						6.8	2.0	1.6	1.3
RoE (%)						9.4	12.1	14.3	15.1

Source: Company, HSIE Research

## BUY

CMP (as on 13 Aug 2021)	INR 536
Target Price	INR 669
NIFTY	16,529

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 640	INR 669
	FY22E	FY23E
EPS %	-	-

### KEY STOCK DATA

Bloomberg code	DBL IN
No. of Shares (mn)	146
MCap (INR bn) / (\$ mn)	78/1,053
6m avg traded value (INR mn)	272
52 Week high / low	INR 720/321

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	0.3	2.5	52.7
Relative (%)	(13.6)	(5.1)	8.0

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	75.00	70.15
FIs & Local MFs	5.90	8.02
FPIs	10.90	11.63
Public & Others	8.20	10.2
Pledged Shares	18.92	17.88

Source: BSE

Pledged shares as % of total shares

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# Brigade Enterprises

## In-line performance

BRGD reported presales of 0.76msf (+82%/-54% YoY/QoQ) for a value of INR 4.8bn (+82%/+92% YoY/QoQ). Collection of INR 5.3bn in residential business (vs INR 8.4bn in Q4FY21) was second highest ever. Collection in the commercial portfolio continued to be healthy at 99%. While Retail consumption reached 90% of the pre-COVID level, hospitality GOP margin reported loss at -14% from +22% QoQ. Despite the mid-term challenges in hospitality and retail business, we maintain ADD with an increased TP of INR 357 (vs INR 296 earlier, roll forward to Jun-23E), given the strong momentum in residential business. We have increased our FY22/23 estimates to account for higher price realisation, recovery in retail, improving lease momentum, and lower losses for hospitality business.

- **Q1FY22 financial highlights:** BRGD reported revenue/EBITDA of INR 3.8/1.1bn respectively for the quarter, 9/11% beat to the estimates. An exceptional loss of INR 209mn was reported for the balance stamp duty payable on merger of BREPPL with BPPL. Adjusting for this, APAT comes to INR -192mn, 16% beat to the estimated loss.
- **New projects seeing better pricing up 0-5% YoY; reoccupancy to drive leasing:** BRGD registered presales volume/value at 0.76msf/INR 4.8bn for the quarter, up +82/+92% YoY, with average realisation up 5% YoY, owing to product mix and price hike. Of this presales, 38-40% value contribution came from launches, which were at 1.4msf. BRGD has an 18.11msf launch pipeline spread over three years. Collections were at 99%, with new leasing of 0.1msf. Chennai WTC is expected to be fully leased out in FY22. In the retail segment, mall occupancy stands at 85% and consumption returns to 90% of pre-COVID level. BRGD expects a normalised rent from Q1FY23. Realised rent was up 4.7% YoY and rental for FY22 is expected at INR 4.5bn.
- **QIP proceeds to fund land Capex and drive residential business growth:** INR 5bn of QIP proceeds reduced the net debt to INR 31bn from INR 35bn in Mar-21. Net D/E stands at 0.86x (1.15 in Mar-21). The average cost of borrowing has also come down to 8.14% from 8.40% in the previous quarter. BRGD is expected to make a land Capex of INR 1.5bn this year. All future land Capex will be outright purchase without any debt component. The current land bank has 35msf saleable area (7-8msf launches planned annually).

### Consolidated Financial Summary (INR mn)

YE March	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY22E	FY23E	FY24E
Net Sales	3,828	2,033	88.3	7,912	(51.6)	19,500	28,006	32,815	37,351
EBITDA	1,113	474	134.7	1,887	(41.1)	4,719	6,753	8,573	10,659
APAT	(192)	(527)	(63.7)	759	(125.2)	300	933	1,807	3,117
EPS (INR)	(0.9)	(2.6)	(63.7)	3.7	(125.2)	(2.2)	4.1	7.9	13.6
P/E (x)						(152)	82	42	25
EV/EBITDA (x)						23	16	13	11
RoE (%)						(2)	3	6	9

### Consolidated Estimate Change Summary

Consolidated INR mn	FY22E			FY23E		
	New	Old	Change (%)	New	Old	Change (%)
Revenues	28,006	26,873	4.2	32,815	30,710	6.9
EBITDA	6,753	7,218	(6.4)	8,573	7,878	8.8
EBITDA Margins (%)	24.1	26.9	(274)	26.1	25.7	47
APAT	933	879	6.1	1,807	1,141	58.4

Source: Company, HSIE Research

## ADD

CMP (as on 6 Aug 2021)	INR 334
Target Price	INR 357
NIFTY	16,238

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 296	INR 357
EPS %	FY22E	FY23E
	+6.1	+58.4

### KEY STOCK DATA

Bloomberg code	BRGD IN
No. of Shares (mn)	230
MCap (INR bn) / (\$ mn)	77/1,032
6m avg traded value (INR mn)	133
52 Week high / low	INR 358/136

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	31.6	23.7	140.7
Relative (%)	20.7	16.7	98.0

### SHAREHOLDING PATTERN (%)

	Mar -21	Jun-21
Promoters	48.03	44.11
FIs & Local MFs	20.55	23.80
FPIs	11.82	12.89
Public & Others	19.85	19.20

Pledged Shares - -

Source : BSE

Pledged shares as % of total shares

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# IRB Infra

## Strong recovery

IRB Infra's (IRB) Q1 revenue/EBITDA/APAT came in at INR 16.3/7.0/0.7bn, beating our estimates by 4/5/28%. Due to COVID-led restrictions, the overall toll collection was impacted by 20-25% vs the previous quarter. The average daily toll collection was at INR 63mn, +53% YoY. Toll collection has improved from the second week of June-21. The order book (OB) stands at INR 133bn with IRB targeting INR 70-80bn of order inflow from HAM/BOT projects in FY22. The consolidated net debt increased to INR 142bn, with net D/E at 2.03x. We maintain BUY, given the stock's attractive valuation and IRB's comfortable liquidity position; we roll forward the valuation to Jun-23E, taking our SOTP TP to INR 175/sh (higher BOT valuation on better-than-expected toll growth and EPC rollover to Jun-23E).

- Better-than-expected performance:** Revenue: INR 16.3bn (+59%/+1.2% YoY/QoQ, 4% beat). EBITDA: INR 7bn (+47%/-8% YoY/QoQ, 5% beat). EBITDA margin: 43% (-367/-428bps YoY/QoQ, est. 42.5%). IRB's share of losses from Private InvIT expanded to INR 340mn from INR 290mn in Q4FY21. Consequently, APAT came in at INR 719mn (+2.3x/-16% YoY/QoQ, 28% beat). Toll collection improved from the second week of June-21 and the average daily toll collection for the quarter grew 53% YoY to INR 63mn. Effective April 2021, the tariffs were increased by 3.9% across all NHAI projects. The Udaipur-Shamlaji BOT project was completed in May-21 with a tariff revision of ~55%, while the Chittorgarh-Gulabpura BOT project will be completed by Aug-21 end with similar tariff revision expected. The two remaining projects of private InvIT will be completed by FY22 with tariff revision between 50-55%. The Mumbai-Pune toll collection was up 61% YoY with average daily collection at INR 26mn (INR 36mn in Q4FY21). For EPC including O&M, revenue for FY22 is guided at INR 42-45bn.
- Targeting INR 70-90bn of order inflow in FY22:** As on Jun-21, the OB stood at INR 133bn, of which INR 67bn (50% of OB) is in O&M of BOT/TOT projects and the rest INR 67bn is in construction of ongoing EPC/BOT/HAM projects. IRB is targeting INR 70-90bn of HAM/BOT order inflow for FY22. Execution in all three new projects (two HAM and one BOT) will commence by Oct-21. The company decided not to exit Kaithal-Rajasthan project (under Private InvIT), whose tolling was halted due to the farmers' agitation. IRB opted to accept the NHAI cash compensation of 50% of interest and O&M obligation and concession period extension. It received an arbitration award in the Pathankot-Amritsar BOT project from the NHAI with INR 2.5bn of cash compensation and concession period extension of 518 days.
- Net debt increased; equity committed for new projects:** The consolidated net debt rose to INR 142bn (vs INR 137bn in Mar-end), with net D/E at 2.03x. Equity commitment for three new projects will be INR 3bn/2bn/2bn in FY22/23/24.

### Consolidated Financial summary

(INR mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY22E	FY23E	FY24E
Net Sales	16,257	10,223	59.0	16,058	1.2	52,986	58,345	63,471	62,627
EBITDA	6,999	4,776	46.5	7,601	(7.9)	25,127	26,547	28,879	28,495
APAT	719	(301)	(338.6)	975	(26.2)	1,171	1,682	4,386	3,409
EPS (INR)	2.0	(0.9)	(338.6)	2.8	(26.2)	3.3	4.8	12.5	9.7
P/E (x)						45.6	31.8	12.2	15.7
EV/EBITDA (x)						8.4	7.0	6.3	6.4
RoE (%)						1.7	2.4	6.2	10.9

Source: Company, HSIE Research, Consolidated financials

## BUY

CMP (as on 11 Aug 2021)	INR 153
Target Price	INR 175
NIFTY	16,282

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 149	INR 175
	FY22E	FY23E
EPS %	-	-

### KEY STOCK DATA

Bloomberg code	IRB IN
No. of Shares (mn)	351
MCap (INR bn) / (\$ mn)	54/721
6m avg traded value (INR mn)	553
52 Week high / low	INR 190/97

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	41.3	38.8	28.0
Relative (%)	30.3	32.9	(14.0)

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	58.61	58.46
FIs & Local MFs	11.37	13.53
FPIs	15.16	14.41
Public & Others	14.86	13.60
Pledged Shares	10.14	10.00

Source: BSE

Pledged shares as % of total shares

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# NCC

## Muted performance

NCC reported subdued revenue/EBITDA/APAT at INR 18.9/1.9/0.5bn, 10/18/34% below our estimates, impacted by the COVID second wave. The Q1FY22 order inflow, at INR 31.7bn, was robust with the order backlog at INR 391bn (5.4x FY21 revenue). NCC is betting on growth alongside balance sheet deleveraging. Cash flows from likely real estate monetisation (INR 3.7bn) and unwinding of international operations (INR 2.9bn likely repatriation) may aid deleveraging. We maintain BUY on NCC with a target price of INR 114/sh (roll-forward to Jun-23E), given (1) growth visibility on a robust order book; (2) abating AP risk; and (3) balance sheet strengthening.

- **Q1FY22 financial highlights:** NCC registered revenue of INR 18.9bn (+61/-28% YoY/QoQ), a miss of 10% as COVID-related challenges impacted execution. EBITDA came in at INR 1.9bn (+73/-31% YoY/QoQ, 17.8% miss). EBITDA margin expanded 74bps YoY to 10.6% due to better supply chain and labour availability than last year. APAT came in at INR 517mn (+3x/-55% YoY/QoQ), a miss of 34%. NCC is targeting for an EBITDA margin of 11.5-12% and PAT margin of 3.5-4% in FY22.
- **Order book ~5.4x FY21 revenue; Jal Jeevan mission and affordable housing to drive growth:** NCC secured INR 31.7bn of orders during Q1FY22 with that order backlog standing at INR 391bn (5.4x FY21 revenue), of which buildings/water & env. accounted for 57/20% and roads, electrical, irrigation and mining constituted 5-6% each. The management shied away from giving any official guidance for the year as uncertainty of a third COVID wave persists; however, given a strong OB momentum, it believes 20-25% growth is achievable. NCC expects the Central government sponsored scheme of affordable housing and Jal Jeevan mission to be the order book drivers.
- **Net debt to normalise; cash flow expected from international operation and arbitration award:** Gross debt increased to INR 19.3bn at Jun-21 end vs INR 17.9bn at Mar-21. The company is targeting a debt level of INR 15-16bn. Capex for FY22 is budgeted at INR 2.5bn. Receivables from AP project stands at INR 5.7bn with INR 3.4bn of unbilled revenue. A pending amount from Oman and Mauritius projects stands at INR 2.9bn with more than 50% expected to be realised by Dec-22. The Semcorp final hearing is expected in Dec-21 with arbitration award expected before April 2022.

### Financial Summary Standalone

YE March (INR mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY22E	FY23E	FY24E
Net Sales	18,926	11,788	60.6	26,177	(27.7)	72,557	102,869	123,940	139,525
EBITDA	1,997	1,156	72.7	2,897	(31.1)	8,545	12,036	15,121	17,301
APAT	517	169	205.3	1,155	(55.3)	2,611	4,867	6,849	8,302
Diluted EPS (INR)	0.9	0.3	205.3	1.92	(55.3)	4.3	8.0	11.2	13.6
P/E (x)						20.9	11.2	8.0	6.6
EV / EBITDA (x)						8.0	5.6	4.5	4.0
RoE (%)						5.0	8.7	11.1	12.1

### Estimate Change Summary (Standalone)

Rs mn	FY22E			FY23E		
	New	Old	% chg.	New	Old	% chg.
Revenues	102,869	102,869	-	123,940	123,940	-
EBITDA	12,036	12,447	(3.3)	15,121	15,121	-
EBITDA Margins (%)	11.7	12.1	(40.0)	12.2	12.2	-
APAT	4,867	5,456	(10.8)	6,849	7,263	(5.7)

Source: Company, HSIE Research

## BUY

CMP (as on 5 Aug 2021)	INR 90
Target Price	INR 114
NIFTY	16,295

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 114	INR 114
EPS change %	FY22E -10.8	FY23E -5.7

### KEY STOCK DATA

Bloomberg code	NJCC IN
No. of Shares (mn)	610
MCap (INR bn) / (\$ mn)	54/732
6m avg traded value (INR mn)	671
52 Week high / low	INR 100/30

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	19.5	7.6	185.5
Relative (%)	7.5	0.2	140.8

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	19.68	19.68
FIs & Local MFs	12.05	12.02
FPIs	13.12	13.40
Public & Others	55.15	54.09
Pledged Shares	4.04	3.28

Source : BSE

Pledged shares as % of total shares

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# HG Infra

## Strong outperformance

HG Infra (HG) reported revenue/EBITDA/APAT at INR 9.1/1.5/0.9bn, ahead of our estimates by 28/30/50%. The order book (OB) stands at INR 61bn (~2.4x FY21 revenue). Over the past few quarters, HG has delivered a strong execution outperformance, strengthened its balance sheet, started winning new orders, and showed strong recovery in NWC days. We believe HG deserves a multiple upgrade, backed by robust growth and solid financial discipline. We increase our P/E target multiple from 10x to 12x, upgrade our FY22/23 EPS by 5.8/6.3%, and roll forward our valuation to Jun-23E. We maintain BUY with an increased SOTP-based TP of INR 702/Sh.

- **Q1FY22 financial highlights:** HG reported revenue at INR 9.1bn (+3x/-11% YoY/QoQ, 28% beat) on account of a significant milestone achieved in project completion. EBITDA margin was steady at 16.3%. The management is confident of 16-16.5% EBITDA margin for FY22, despite the inflationary pressures. APAT came in at INR 889mn, 50% ahead of our estimate. HG has guided for FY22 revenue/EBITDA of INR 32/5bn. On a sustainable basis, HG expects PAT to grow at 20% CAGR.
- **Targeting diversification over the next few years:** The OB stands at INR 61bn with HG targeting 10% contribution to FY22-end order book from new segments, namely water, airport, and railways. The company expects non-highway projects to form 20-25% of the OB in a few years. For full year, INR 50-60bn of orders are expected with the order book to bill ratio at 3.2x. It expects INR 2trn worth of highway projects to be awarded by the NHAI in FY22, constituting 65-75% under the HAM model and the balance as EPC contracts.
- **Asset monetisation key for further rerating:** The standalone net debt remained at INR 1.5bn (similar level as in Mar-21). HG expects a gross debt level of at most INR 3bn by FY22 (in line with Q1FY22 gross debt of INR 3bn). Capex for the year is targeted at INR 700mn. Three out of four under-construction HAM projects are more than 75% complete with the first annuity expected in Q1FY23. Of the residual INR 4.5bn equity requirement in seven HAM projects (including three new), INR 1.5/2/1bn will be invested in FY22/23/24, largely from internal accruals. Monetisation of HAM assets will lead to a further rerating.

### Standalone Financial Summary – INR mn

YE March	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY22E	FY23E	FY24E
Net Sales	9,117	2,979	206.0	10,278	(11.3)	25,275	30,802	35,449	40,766
EBITDA	1,485	491	202.3	1,665	(10.8)	4,107	4,836	5,669	6,423
APAT	889	151	489.3	976	(8.9)	2,109	2,583	3,064	3,484
EPS (Rs)	13.6	2.3	489.3	15.0	(8.9)	32.4	39.6	47.0	53.5
P/E (x)						17.9	14.6	12.3	10.8
EV/EBITDA (x)						9.5	8.4	7.2	6.4
RoE (%)						22.8	22.6	21.7	20.1

### Standalone Estimate Change Summary

INR mn	FY22E			FY23E		
	New	Old	% Change	New	Old	% Change
Revenues	30,802	30,802	0.0	35,449	35,449	(0.0)
EBITDA	4,836	4,836	0.0	5,669	5,669	0.0
EBITDA Margins (%)	15.7	15.7	0.0	16.0	16.0	0.0
APAT	2,583	2,442	5.8	3,064	2,882	6.3

Source: Company, HSIE Research, Standalone financials

## BUY

CMP (as on 6 Aug 2021)	INR 570
Target Price	INR 702
NIFTY	16,238

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 515	INR 702
EPS	FY22E	FY23E
change %	+5.8	+6.3

### KEY STOCK DATA

Bloomberg code	HGINFRA
No. of Shares (mn)	65
MCap (INR bn) / (\$ mn)	37/500
6m avg traded value (INR mn)	161
52 Week high / low	INR 630/151

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	102.4	103.6	217.6
Relative (%)	91.5	96.6	174.8

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	74.53	74.53
FIs & Local MFs	18.19	16.48
FPIs	0.12	0.47
Public & Others	7.16	8.52
Pledged Shares	-	-

Source: BSE

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# Ashoka Buildcon

## Monetisation awaited

Ashoka Buildcon (ASBL) reported Q1FY22 standalone revenue/EBITDA/PAT at INR 10/1.2/1bn, 4/(7)/3% beat/(miss) on the estimates. Execution and toll collections have improved gradually since June-21. ASBL has received an order inflow of INR 30bn in FY22 until now and is further targeting orders worth INR 40bn in FY22. Including the recently won orders, the order book (OB) stands at INR 105bn. The company has maintained its guidance of 25% topline growth and 12-12.5% EBITDA margin for FY22. We maintain BUY, given low leverage (net D/E of ~0.15x) and comfortable liquidity position. Potential monetisation of HAM/BOT assets and diversification of the OB could be positive triggers for the stock. We tweak our FY22/FY23 estimates to account for the strong start to the year in terms of order wins. We roll forward our SOTP based TP to FY23 and increase it to INR 183/sh (vs INR 175/sh earlier).

- **Broadly an in-line quarter:** Revenue: INR 10.1bn (+77%/+27% YoY/QoQ, 4% beat). EBITDA: INR 1.2bn (+47% YoY, -40% QoQ, 7% miss). EBITDA margin: 11.9% (-244/-265 bps YoY/QoQ, vs est of 13.3%). Depreciation: INR 161mn (-28/-26% YoY/QoQ). Interest cost: INR 164mn (-1/-27% YoY/QoQ). APAT: INR 1bn (+47% YoY, -32% QoQ, 3% beat); broadly in-line quarter as execution outperformance was offset by lower-than-expected margin. While construction of TS-III has started, 65% the land acquired is in TS-IV.
- **OB at INR 94.7bn; diversifying into buildings segment:** OB stood at INR 94.7bn at the end of Q1FY21. ASBL has received INR 30bn order inflow until now in FY22, of which INR 16bn has come from the building segment. It is additionally targeting INR 40bn orders for the remainder of FY22. While the company will continue to focus on roads and railways, it will also have an eye on building projects, given the huge opportunity in the sector. With the current NHAI bid pipeline robust at INR 330bn, the FY22 inflow guidance of INR 70bn seems achievable.
- **Liquidity position comfortable:** While consolidated gross/net debt stood at INR 62/57bn (INR 62/56bn QoQ), standalone gross/net debt stood at INR 5.3/4.8bn (~0.15x net D/E, vs Rs 3.6/2.6bn QoQ). HAM equity requirement is at INR 1.8/1.4bn for FY22/23, while planned Capex is in the range of INR 250-300mn. ASBL expects the BOT assets monetisation to fructify by Dec-21.

### Financial Summary (INR mn)

YE March	Standalone					Consolidated			
	1QFY22	1QFY21	YoY (%)	4QFY21	QoQ (%)	FY21E	FY22E	FY23E	FY24E
Net Sales	10,114	5,724	76.7	13,870	(27.1)	49,917	57,415	64,141	70,646
EBITDA	1,199	819	46.5	2,012	(40.4)	15,355	14,382	16,515	18,187
APAT	1,013	691	46.7	1,492	(32.1)	2,762	1,951	2,852	1,854
EPS (INR)	3.6	2.5	46.7	5.3	(32.1)	9.8	6.9	10.2	6.6
P/E (x)						10.2	14.4	9.8	15.1
EV/EBITDA (x)						5.5	6.5	5.8	5.4
RoE (%)						13.5	8.8	12.0	7.3

### Consolidated Estimates Change Summary (INR mn)

Particulars	FY22E New	FY22E Old	% Cha.	FY23E New	FY23E Old	% Cha.
Revenues	57,415	56,270	2.0	64,141	62,858	2.0
EBITDA	14,382	14,199	1.3	16,515	16,303	1.3
EBITDA margin (%)	25.0	25.2	(18.4)	25.7	25.9	(18.9)
APAT	1,950.8	1,840.9	6.0	2,851.9	2,724.9	4.7

Source: Company, HSIE Research

## BUY

CMP (as on 12 Aug 2021)	INR 101
Target Price	INR 183
NIFTY	16,364

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 175	Rs 183
EPS Change %	FY22E	FY23E
	+6.0	+4.7

### KEY STOCK DATA

Bloomberg code	ASBL IN
No. of Shares (mn)	281
MCap (INR bn) / (\$ mn)	28/380
6m avg traded value (INR mn)	228
52 Week high / low	INR 119/59

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	15.2	(8.3)	66.7
Relative (%)	2.5	(14.7)	23.8

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	54.48	54.48
FIs & Local MFs	27.42	24.30
FPIs	3.97	3.48
Public & Others	14.13	17.74
Pledged Shares	-	-

Source : BSE

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# Ahluwalia Contracts

## Robust performance

Ahluwalia Contracts (AHLU) reported revenue/EBITDA/APAT beat of 16/12/14%. COVID-led restrictions resulted in suboptimal site efficiencies and 10% lower revenue recognition. However, execution has normalised since the start of Q2FY22. Given the headwinds of stressed state finances and greater competition in all segments including hospitals, the management has maintained a conservative guidance for FY22 - 15-20% revenue growth, 11-12% EBITDA margin and INR 25bn order inflow. The NWC days increased to 107 from 97 in Q4FY21. We maintain BUY with an increased TP of INR 465/sh (13x multiple; roll forward to Jun-23E EPS), given the robust order book, net cash balance sheet, and better RoE/RoCE than peers. We expect the uptick in growth and margin expansion to build in from Q2 as COVID impact reduces.

- **Financial highlights:** AHLU reported revenue of INR 5.8bn (16% ahead of estimate), which was ~10% lower on account of COVID-related restrictions. EBITDA came in at INR 604mn (12% beat). EBITDA margin expanded by 300bps/124bps YoY/QoQ to 10.4% (vs 10.7% estimate). Interest cost, at INR 115mn, was down from INR 156mn in Q4FY21, mainly because of unwinding of mobilisation advances. APAT was INR 348mn (14% beat). AHLU has guided for 15-20% revenue growth and 11-12% EBITDA margin for FY22.
- **Stressed finances of states to impact execution:** OB at the end of Jun-21 stands at INR 71bn (~3.5x FY21 revenue) with L1 of INR 11.6bn comprising INR 2.5bn of a residential project from Kolkata government and INR 9bn of a hospital order from the Bihar government. Both L1 orders are expected to be awarded by Aug-21 end. Sector-wise, government order forms 81% of OB and segment-wise, hospitals are the major drivers, contributing 53% to OB. AHLU has a strong bid pipeline amounting to INR 60-65bn for Q1FY22 with hospitals/commercial/institutions forming 60/20/20%. Apart from hospitals, all other projects are impacted, given the stretched financials of states. Taking a conservative view, AHLU has guided for order inflow of INR 25bn in FY22.
- **NWC deteriorates on higher receivables:** Standalone gross debt increased marginally to INR 220mn from zero debt in Mar-21 end. NWC days increased to 107 from 97 in Q4FY21, mainly because of unbilled revenue of INR 3.7bn. With government finances in stress, NWC is expected to be stretched and may impact execution if payment tightness continues. Capex undertaken in Q1 was at INR 70mn with INR 300mn has been planned for the full-year FY22. Cash level declined to INR2.2bn during the quarter from 3.3bn at Mar-21 end.

### Standalone Financial Summary (INR mn)

YE March	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY22E	FY23E	FY24E
Net Sales	5,801	2,498	132.2	7,617	(23.8)	19,822	24,777	28,494	31,999
EBITDA	604	185	226.0	698	(13.5)	1,542	2,894	3,647	4,089
APAT	348	75	365.2	371	(6.1)	772	1,701	2,251	2,562
EPS (INR)	5.2	1.1	365.2	5.5	(6.1)	11.5	25.4	33.6	38.2
P/E (x)						32.1	14.6	11.0	9.7
EV/EBITDA (x)						14.1	8.0	6.1	5.4
RoE (%)						9.2	17.8	19.7	18.6

Source: Company, HSIE Research

**BUY**

CMP (as on 12 Aug 2021)	INR 370
Target Price	INR 465
NIFTY	16,364

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 450	INR 465
EPS change %	FY22E	FY23E
	-	-

### KEY STOCK DATA

Bloomberg code	AHLU IN
No. of Shares (mn)	67
MCap (INR bn) / (\$ mn)	25/333
6m avg traded value (INR mn)	16
52 Week high / low	INR 430/202

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	27.7	20.5	60.7
Relative (%)	15.1	14.1	17.7

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	58.00	58.00
FIs & Local MFs	26.16	26.62
FPIs	11.98	11.91
Public & Others	4.06	3.47
Pledged Shares	15.81	15.81

Source: BSE

Pledged shares as % of total shares

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# JMC Projects

## Strong growth visibility

JMC Projects (JMC) reported revenue of INR 11.2bn (+2.4x/+5.5% YoY/QoQ), 6% below our estimate. However, EBITDA/APAT missed our estimate by 7/21% on higher commodity prices, revenue mix and COVID-related expenses. The order inflow was robust at INR 46.5bn, taking the order book (OB) to an all-time high of INR 159bn. The road assets were affected by COVID and farmers agitation, with daily collection declining to INR 4.5mn (vs INR 5.3mn in Q4FY21). JMC rerating may continue, given (1) an all-time high order book (~4x FY21 revenue); (2) potentially stronger balance sheet, post restructuring of BOT assets by Q3FY22; and (3) likely growth outperformance on the back of robust order backlog. We upgrade our FY22/23 EPS by 5.6/9.2% and roll forward our valuation to Jun-23E. We reiterate BUY with an increased target price of INR 149 (11x Jun-23E EPS, INR 11/sh for BOT assets).

- **Q1FY22 financial highlights:** JMC reported revenue of INR 11.2bn (+2.4x/+5.5% YoY/QoQ), driven by robust execution across all segments. EBITDA, at INR 806mn, was impacted by higher commodity prices, job mix and COVID-related expenses. APAT, at INR 162mn (-2.7x YoY), was 38% below our estimate. Management has guided for 15-20% topline growth in FY22, which we believe is achievable, given the robust OB. 90% of the orders in the OB are variable pass-through contracts.
- **Order book at all time high:** JMC received orders of INR 46.5bn in Q1FY22, with which the order book stands at INR 159bn. L1 orders stand at INR 25bn, comprising mainly of water infra and international B&F orders. JMC guided for INR 75-80bn of order inflow in FY22. The pipeline looks robust with INR 500bn each in water, urban infra and international segments.
- **BOT assets resolution closer:** Standalone net debt increased to INR 7.2bn (net D/E 0.69x) from INR 5.1bn at the end of Mar-21. JPC is targeting net debt at INR 5bn by the end of FY22. The Waiganga-Kurukshetra expressway restructuring is expected to complete by Sep-21 and the sale of Vindhyachal asset would be complete by Dec-21. JPC invested INR 530mn in Q1FY22, taking the total investment in four BOT assets to INR 9.3bn, of which an INR 280mn would be reversed after the WEPL-KEPL restructuring completes.

### Standalone Financial Summary

YE March	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY22E	FY23E	FY24E
Net Sales	11,243	4,704	139.0	10,660	5.5	36,888	44,600	51,723	59,203
EBITDA	806	279	189.5	955	(15.6)	3,315	4,237	5,224	6,216
APAT	162	(218)	(174.3)	257	(36.8)	711	1,332	1,949	2,583
EPS (Rs)	1.0	-1.3	(174.3)	1.5	(36.8)	4.2	7.9	11.6	15.4
P/E (x)						27.3	14.6	10.0	7.5
EV/EBITDA (x)						7.6	6.0	4.7	3.7
RoE (%)						7.2	12.4	16.1	18.4

Source: Company, HSIE Research

### Estimate Change Summary (Standalone)

INR mn	FY22E			FY23E		
	New	Old	% chg.	New	Old	% chg.
Revenues	44,600	43,100	3.5	51,723	49,385	4.7
EBIDTA	4,237	4,095	3.5	5,224	4,988	4.7
EBIDTA Margins (%)	9.5	9.5	0.0	10.1	10.1	0.0
APAT	1,332	1,261	5.6	1,949	1,785	9.2

Source: Company, HSIE Research

## BUY

CMP (as on 04 Aug 2021)	INR 116
Target Price	INR 149
NIFTY	16,259

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 126	INR 149
EPS %	FY22E	FY23E
	+5.6	+9.2

### KEY STOCK DATA

Bloomberg code	JMCP IN
No. of Shares (mn)	168
MCap (INR bn) / (\$ mn)	19/262
6m avg traded value (INR mn)	44
52 Week high / low	INR 130/45

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	40.0	54.9	150.4
Relative (%)	27.4	47.5	106.2

### SHAREHOLDING PATTERN (%)

	Mar-20	Jun-20
Promoters	67.75	67.75
FIs & Local MFs	16.35	16.21
FPIs	0.24	0.53
Public & Others	15.66	15.51
Pledged Shares	-	-

Source : BSE

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# PSP Projects

## Muted performance

PSP Projects (PSP) reported revenue/EBITDA/APAT at INR 3/0.4/0.25bn for the quarter, 21/14/7% below our estimate. Labour shortage impacted execution. Despite no new order inflow in Q1FY22, management is confident of achieving its inflow guidance of INR 20bn for FY22. The order book (OB) stands at INR 38bn at the end of Q1FY22. PSP has lowered revenue guidance from INR 18bn to 25-30% YoY growth (INR 16.1bn on the higher end) and increased the EBITDA margin guidance for FY22 to 11.5-13%. We have tweaked our FY22/FY23 estimates to account for this operationally weak quarter. We maintain BUY on PSP and roll forward our TP to INR 542/sh (12x Jun-23E EPS).

- **Q1FY22 financial highlights:** PSP registered revenue of INR 3bn (+196%/-36% YoY/QoQ), missing our estimate by 21%. EBITDA came in at INR 394mn (30x/-29.2% YoY/QoQ), a miss of 14%. EBITDA margin stood at 12.4% (+1120/+2bps YoY/QoQ, vs estimate of 11.5%). APAT came in at INR 251mn (13x/-38% YoY/QoQ, miss of 7%).
- **Operationally weak quarter, revenue guidance lowered:** The company faced labour shortages for most part of the quarter, which have normalised now. With no order wins in this quarter, OB shrank to INR 38bn. The court stay remains on the Bhiwandi EWS project, whose next hearing will be in the last week of July-21. The Pandharpur project is still in a slow lane, as cash flow from the client has stopped. Work has started on five UP hospital projects while the remaining two have received their design approvals. Revenue from these UP projects will start getting recognised from Q2FY22 and will ramp up significantly from Q3FY22 onwards. On the Surat Diamond Bourse, 50-70% of the pending work will be completed in Q2FY22 and the balance in Q3FY22. The precast facility work has been completed and PSP is talking to a client for potential orders. The current bid pipeline is at INR 30bn, with Gujarat accounting for INR 21bn. The order inflow guidance for FY22 is at INR 20bn.
- **Comfortable balance sheet position:** Standalone gross debt increased to INR 1.2bn (D/E 0.21x), from INR 708mn at FY21-end. Receivables increased to INR 2.8 bn from INR 2.2 bn at FY21-end as collections were delayed. However, PSP has received INR 880 mn in the early part of July-21.

### Standalone Financial Summary (INR mn)

YE March	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY22E	FY23E	FY24E
Net Sales	3,174	1069	197	5,007	(36.6)	12,409	16,579	20,179	22,750
EBITDA	394	13	2934	621	(36.5)	1,348	1,934	2,456	2,998
APAT	251	(22)	1231	407	(38.3)	835	1,260	1,534	1,902
EPS (INR)	7.0	(0.62)	12.3	11.3	(38.0)	23.2	35.0	42.6	52.8
P/E (x)						20.3	13.4	11.0	8.9
EV/EBITDA (x)						12.7	9.0	7.1	5.6
RoE (%)						16.8	21.4	21.8	22.5

### Standalone Estimate Change Summary

INR mn	FY22E New	FY22E Old	(% Change)	FY23E New	FY23E Old	(% Change)
Net Revenues	16,579	17,479	-5.1	20,179	20,179	0.0
EBITDA	1,934	2,040	-5.2	2,456	2,456	0.0
Margins (%)	11.7	11.7	0.0	12.2	12.2	0.0
APAT	1,260	1,274	-1.1	1,534	1,529	0.3

Source: Company, HSIE Research

BUY

CMP (as on 19 July 2021)	INR 467
Target Price	INR 542
NIFTY	15,752

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 510	INR 542
EPS change %	FY22E -1.1	FY23E 0.3

### KEY STOCK DATA

Bloomberg code	PSPPL IN
No. of Shares (mn)	36
MCap (INR bn) / (\$ mn)	17/226
6m avg traded value (INR mn)	80
52 Week high / low	INR 531/337

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	14.8	14.0	14.5
Relative (%)	5.2	7.6	(27.4)

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	74.19	74.19
FIs & Local MFs	5.53	3.97
FPIs	1.29	1.29
Public & Others	18.99	20.55

Pledged Shares -

Source: BSE

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# J. Kumar Infraprojects

## Robust performance

JKIL reported strong performance in Q1 with revenue/EBITDA/APAT beat of 14/21/125% despite the 50% reduced labour strength during the quarter. As Q2 is usually a suboptimal quarter for the company, we expect revenue to ramp up from Q3 onwards. The order inflow of INR 13bn from the MMRDA took the order book (OB) to INR 116bn. 99% of it is covered by price escalation clauses. JKIL seems to be expanding its scope of work, with bidding submitted for Chennai metro and the company expressing a desire to work on projects in the water infra space. We maintain BUY with a target price of INR 247/sh (7x Jun-23E EPS rollover) and revise FY22E and FY23E EPS estimates by -4.9% and 12.2% as we expect lower EBITDA margin, given the revenue mix and trailing impact of COVID.

- **Strong financial performance:** Revenue: INR 6.7bn (2.4x/-32% YoY/QoQ, 14% beat) in spite of working with only half the labour strength (now back to pre-COVID level); EBITDA: INR 968mn (+3.4x YoY, -7.3% QoQ, 21% beat); EBITDA margin of 14.3% (+441/+381 bps YoY/QoQ, vs 13.6% est.) improved mainly on account of reduced overhead charges. Interest cost was INR 222mn, (-17% YoY, -24% QoQ). APAT: INR 321mn (+3.5x YoY, -2% QoQ, 125% beat). JKIL has set revenue target of INR 50bn for FY25E and a margin target in the 14-16% range. The revenue guidance for FY22 stands maintained at INR 30-35bn, with EBITDA margin target of at least 14%.
- **Robust order book and bid pipeline:** JKIL received an order of INR 13bn from the MMRDA during the quarter, taking the OB as on Jun-21 to INR 116bn. While metro projects contribute to 59% of the OB, flyover, bridges and roads projects contribute ~40%. JKIL has bid for projects worth INR 47.5bn and is L1 in the Navi Mumbai coastal road project of INR 2bn (expected to start in 3-4 months) and MCGM water tunnelling project of INR 4.3bn. The bid pipeline for the balance 9MFY22 stands at INR 130bn.
- **Stable leverage; guidance of lower NWC days:** Gross debt increased marginally to INR 5.5bn (INR 5.3 in Mar-21 end, net D/E 0.26x). JKIL is targeting a NWC of 120 days with gross debt for the year expected at current level. Capex undertaken stands at INR 300mn with INR 1bn expected for the full year FY22.

### Financial Summary (Standalone)

YE March (Rs mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY22E	FY23E	FY24E
Net Sales	6,751	2,853	136.7	9,920	(31.9)	25,708	33,421	38,935	44,776
EBITDA	968	283	241.7	1,044	(7.3)	3,114	4,363	5,575	6,403
APAT	321	(208)	(254.3)	327	(1.8)	639	1,641	2,530	3,077
Diluted EPS (Rs)	4.2	(2.7)	(254.3)	4.3	(1.8)	8.4	21.7	33.4	40.7
P/E (x)						24.7	9.6	6.3	5.1
EV / EBITDA (x)						6.6	4.5	3.0	2.2
RoE (%)						3.4	8.3	11.7	12.7

### Estimate Change Summary (Standalone)

Particulars	FY22E			FY23E		
	New	Old	% Change	New	Old	% Change
Revenues (Rs mn)	33,421	31,364	6.6	38,935	36,069	7.9
EBITDA (Rs mn)	4,363	4,425	(1.4)	5,575	5,238	6.4
Margins (%)	13.1	14.1	(105.4)	14.3	14.5	(20.3)
APAT (Rs mn)	1,641	1,725	(4.9)	2,530	2,255	12.2

Source: Company, HSIE Research

## BUY

CMP (as on 11 Aug 2021)	INR 209
Target Price	INR 247
NIFTY	16,282

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 209	INR 247
EPS change %	FY22E -4.9	FY23E +12.2

### KEY STOCK DATA

Bloomberg code	JKIL IN
No. of Shares (mn)	76
MCap (INR bn) / (\$ mn)	16/213
6m avg traded value (INR mn)	77
52 Week high / low	INR 232/88

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	14.7	12.6	115.2
Relative (%)	3.7	6.8	73.2

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	46.51	46.65
FIs & Local MFs	10.62	10.39
FPIs	8.54	9.24
Public & Others	34.33	33.72
Pledged Shares	10.57	10.57

Source: BSE

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# Sadbhav Engineering

## Headwinds persist

Sadbhav Engineering (SEL) reported an operationally weak quarter as revenue missed estimate by 27% on weak execution. While labour availability has improved, guidance of 15-20% YoY topline growth was key negative from the call. Standalone order book stood at INR 93bn at the end of FY21. SEL standalone net debt stood at INR 12bn (net D/E 0.6). However, with debtors of ~INR 18bn, working capital still remains stretched. Improvement in balance sheet and pick-up in execution will lead to rerating. Necessary approvals for SEL-SIPL merger have been received and now hearing is pending at NCLT (expected in July-21). We have cut our FY22/23E estimates by 37/9% to account for weak execution trajectory/COVID second wave impact. We maintain BUY with a reduced TP of INR 100/sh (INR 105 earlier).

- **Execution recovery weaker than expected:** SEL reported revenue of INR 4.3bn (+4%/-23% YoY/QoQ), a 27% miss on delayed equity infusion in HAM projects. EBITDA margin expansion of 374/283 bps YoY/QoQ to 16.1% (vs estimate of 11.6%) on completion of milestones in some of the projects narrowed EBITDA miss to 2%. Positive taxes of INR 357mn resulted in RPAT of INR 472mn. Adjusting for the exceptional items of INR 196mn loss on sale of asset, INR 163mn impact on taxes due to sales of asset, INR 110mn write-back in other income and INR 190mn reversal of taxes led to APAT of INR 232mn (64% beat).
- **Order book at INR 93.3bn; focus on EPC orders:** Standalone OB stood at INR 93.3bn at the end of the FY21. With the completion of equity infusion, execution of HAM projects is expected to pick up. However, progress in mining and irrigation projects remains slow due to land and approval issues. While SEL did not provide inflow guidance, it will focus on EPC projects to replenish the OB and has submitted bids of INR 112bn.
- **Balance sheet remains stretched:** SEL standalone net debt increased to INR 12bn, up from INR 11bn at FY20-end. Debtors remain elevated at INR 18bn (~400 days, on low base) vs INR 17bn at FY20-end. While gross debt of operational SPVs under SEL-SIPL stood at INR 32bn (including ARRIL), that of under-construction SPVs stood at INR 23bn. SIPL standalone debt stood at INR 9.5bn, including INR 4.2bn loan from SEL. While issuance of NCD and monetisation of Indinfravit Trust units have provided temporary relief, monetisation of ARRIL and resolution of Rohtak Hissar and Rohtak Panipat assets would be key for improving the balance sheet.

### Standalone Financial Summary (INR mn)

YE March	4QFY21	4QFY20	YoY (%)	3QFY21	QoQ (%)	FY20	FY21	FY22E	FY23E
Net Sales	4,257	4,089	4.1	5,560	(23.4)	22,517	16,236	23,888	32,035
EBITDA	685	504	35.7	737	(7.1)	2,795	2,114	2,914	3,956
APAT	232	(88)	NA	152	53.3	282	-204	544	1,391
EPS (INR)	1.4	(0.6)	NA	0.9	53.3	1.6	-1.2	3.2	8.1
P/E (x)						52.2	-72.1	27.1	10.6
EV/EBITDA (x)						9.3	12.7	8.8	6.2

### Standalone Estimate Change Summary (INR mn)

Particulars	FY22E New	FY22E Old	% Cha.	FY23E New	FY23E Old	% Cha.
Revenues	23,888	29,860	(20.0)	32,035	36,822	(13.0)
EBITDA	2,914	3,732	(21.9)	3,956	4,492	(11.9)
Margins (%)	12.2	12.5	(30.0)	12.4	12.2	15.0
APAT	544	862	(36.9)	1,391	1,530	(9.1)

Source: Company, HSIE Research

## BUY

CMP (as on 02 July 2021)	INR 86
Target Price	INR 100
NIFTY	15,722

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 105	INR 100
EPS %	FY22E -36.9	FY23E -9.1

### KEY STOCK DATA

Bloomberg code	SADE IN
No. of Shares (mn)	172
MCap (INR bn) / (\$ mn)	15/199
6m avg traded value (INR mn)	102
52 Week high / low	INR 97/37

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	34.4	36.6	87.5
Relative (%)	29.5	26.9	41.1

### SHAREHOLDING PATTERN (%)

	Dec-20	Mar-21
Promoters	46.74	46.74
FIs & Local MFs	25.09	23.46
FPIs	4.34	4.24
Public & Others	23.83	25.56
Pledged Shares	29.63	36.74

Source : BSE

Pledged shares as % of total shares

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# ITD Cementation

## In-line execution

ITD Cementation (ITD) reported in-line revenue/EBITDA at INR 8.2/0.8bn. However, APAT missed our estimates by 19% on higher-than-expected taxes and lower share of profits from associates/JVs. The order backlog (OB) is robust at INR 120bn (4.4x FY21 revenue), aided by Q1FY22 order wins of INR 16bn. While the lockdown impacted execution to an extent during the quarter, ITD has retained its earlier guidance of 15-20% topline growth for FY22. The inflation escalation clause in 65-70% of the OB would limit the impact of higher commodity prices on the margin to 120bps to 150bps. We roll forward our valuation to Jun-23 and maintain BUY on ITD with an increased target price of INR 117/sh (INR 111/sh earlier), given (1) a large and diversified OB (~4.4x FY21 revenue), (2) a strong balance sheet (gross D/E 0.5x) and (3) supportive valuation (7.0x Jun-23E EPS). We have not changed our estimates.

- **In-line execution:** ITD's reported revenue of INR 8.3bn (2.1x/-16% YoY/QoQ) was largely in line with our estimates. EBITDA came in at INR 782mn (2.6x YoY, -31% QoQ, 2% beat). EBITDA margins stood at 9.5% (+207/-209 bps YoY/QoQ, inline). Interest cost declined sequentially by 5% to INR 360mn. Other income declined by 37%/56% YoY/QoQ to INR 25mn in Q1FY22. Consequently, APAT came in at INR 179mn (INR (170)/526 mn in Q1FY21/Q4FY21), missing our estimate by 19% on lower-than-expected share of profits from JVs/associates and higher-than-expected taxes. Execution in West Bengal and Karnataka, which had halted during the lockdown, has resumed since June-21 and July-21 respectively. We believe 15-20% of topline growth is achievable, given the strong order book.
- **Order book provides visibility for four years:** Order inflow during Q1FY22 stood at INR 16bn, taking the OB as on Jun-21 to INR 120bn (~4x FY21 revenue). ITD has an order pipeline of INR 350bn (of projects), of which metro works account for INR 180bn, marine INR 80bn and airports INR 35bn. It will also look at the international orders funded by EXIM. ITD would focus on large projects to improve efficiency and optimise costs. Work on the Adani Myanmar port is going on in full swing and ITD has been receiving regular payment for the work done. The company has submitted a preliminary bid for Adani Colombo port and the tender is expected by the month end. Given its qualification across sectors, we believe ITD will be a major beneficiary of the uptick in infrastructure spending.
- **Balance sheet comfortable:** ITD's consolidated gross debt increased to INR 5.1bn from INR 3.8bn in Mar-21, with D/E at 0.5x and cash balance at INR 500mn. Debt might inch upwards as execution ramps up. ITD has incurred Capex of INR 250mn in Q1FY22 and is expecting a similar quarterly run-rate for the rest of FY22.

### Consolidated Financial Summary (INR mn)

YE March	Q1FY22	Q1FY21	YoY (%)	4QFY21	QoQ (%)	FY21	FY22E	FY23E	FY24E
Net Sales	8,255	3,994	106.7	9,839	(16.1)	27,277	32,460	38,952	45,963
EBITDA	782	296	164.6	1,138	(31.2)	2,129	3,468	4,451	5,620
APAT	179	(170)	NA	526	(66.0)	159	1,213	1,906	2,331
EPS (INR)	1.0	(1.0)	NA	3.1	(66.0)	0.9	7.1	11.1	13.6
P/E (x)						89.4	11.8	7.5	6.1
EV/EBITDA (x)						7.5	4.6	3.4	2.7
RoE (%)						1.5	10.8	14.9	15.5

Source: Company, HSIE Research

## BUY

CMP (as on 6 Aug 2021)	INR 83
Target Price	INR 117
NIFTY	16,238

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 111	INR 117
	FY22E	FY23E
EPS %	-	-

### KEY STOCK DATA

Bloomberg code	ITCE IN
No. of Shares (mn)	172
MCap (INR bn) / (\$ mn)	14/191
6m avg traded value (INR mn)	88
52 Week high / low	INR 98/42

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	16.0	22.6	89.2
Relative (%)	5.1	15.7	46.5

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	46.64	46.64
FIs & Local MFs	20.33	19.59
FPIs	10.91	10.67
Public & Others	22.12	23.10
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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# Sadbhav Engineering

## Long road to recovery

Sadbhav Engineering (SEL) continued its weak operating performance in Q1 as revenue/EBITDA missed estimates by 34/52% and the company reported a loss of INR 169mn (vs estimate of INR 100mn profit). SEL is facing multiple challenges on ramping up execution towards normalcy as it requires investment in working capital. Asset monetisation (INR 14bn), along with arbitration inflows (INR 3.5bn), is expected to yield INR 17-18bn over the next 12 months, of which INR 8-9bn will be utilised towards working capital infusion and the balance towards deleveraging. We have cut our FY22/23E estimates by 58/25% to account for weak execution, which is expected to continue in Q2. We maintain BUY and roll forward SEL EPS to Jun-23E with a reduced TP of INR 73/sh (INR 105 earlier). SEL has embarked on a long road to recovery, which shall be driven by the pace of asset monetisation.

- **Financial performance highlights:** SEL reported a revenue of INR 2.6bn (34% miss). EBITDA came in at INR 242mn (52% miss). With EBITDA margin at 9.2% (vs estimate of 12.4%), it expects to maintain 12% margin from Q3 onwards. Interest cost was at INR 421mn (+3.5%/-16% YoY/QoQ) and it is expected to reduce by INR 0.9-1.0bn within a year, post completion of upcoming assets monetisation. SEL expects to achieve an execution run rate of INR 70-80mn/day in Q3FY22 and INR 80-90mn/day in Q4FY22.
- **Order book at INR 91.1bn; SEL-SIPL merger conclusion in 3-4 months:** The standalone OB stood at INR 91.1bn at the end of the Jun-21 with transport sector contributing 76% (+18.5%/-2.5% YoY/QoQ). The SEL-SIPL merger is expected to be finalised in 3-4 months. Of the ten HAM assets, three have received PCOD, two have been recommended for PCOD, two are expected to be received by Q3FY22, and the other three in FY23.
- **Monetisation to de-lever balance sheet and strengthen working capital:** SEL standalone gross debt reduced to INR 11.4bn, down from INR 12.1bn at Mar-21 end. Debt, at SEL-SIPL, is further expected to reduce by INR 8-9bn from sale proceeds of INR 5.5bn from Maharashtra border check-post, INR 5.5-6bn from Ahmedabad ring road and 3 HAM assets and INR 1.6-1.8bn from the sale of remaining 2.5% units in Indinfravit Trust. Also, an INR 3.5bn arbitration award has been awarded in Q1FY22, which will aid debt reduction. Half of these proceeds are earmarked for working capital requirements. The equity commitment of all HAM assets, except for one, are fully met (INR 12bn infusion in nine assets).

### Standalone Financial Summary (INR mn)

YE March	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY22E	FY23E	FY24E
Net Sales	2,628	2,297	14.4	4,257	(38.3)	16,236	17,476	27,789	30,723
EBITDA	242	195	24.2	685	(64.7)	2,114	2,010	3,196	3,718
APAT	(169)	(266)	(36.6)	232	(172.5)	-204	230	1,040	1,308
EPS (INR)	(1.0)	(1.8)	(43.9)	1.4	(172.5)	-1.2	1.3	6.1	7.6
P/E (x)						-51.2	45.5	10.1	8.0
EV/EBITDA (x)						10.1	10.4	6.4	5.5

### Standalone Estimate Change Summary (INR mn)

Particulars	FY22E New	FY22E Old	% Cha.	FY23E New	FY23E Old	% Cha.
Revenues	17,476	23,888	(26.8)	27,789	32,035	(13.3)
EBITDA	2,010	2,914	(31.0)	3,196	3,956	(19.2)
Margins (%)	11.5	12.2	(70.0)	11.5	12.4	(85.0)
APAT	230	544	(57.7)	1,040	1,391	(25.2)

Source: Company, HSIE Research

**BUY**

CMP (as on 17 Aug 2021)	INR 61
Target Price	INR 73
NIFTY	16,615

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 105	INR 73
EPS %	FY22E -58	FY23E -25

### KEY STOCK DATA

Bloomberg code	SADE IN
No. of Shares (mn)	172
MCap (INR bn) / (\$ mn)	10/141
6m avg traded value (INR mn)	106
52 Week high / low	INR 97/37

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(5.1)	(23.8)	27.4
Relative (%)	(17.7)	(31.7)	(19.2)

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	46.74	44.89
FIs & Local MFs	23.46	22.17
FPIs	4.24	4.39
Public & Others	25.56	28.55
Pledged Shares	36.74	31.93

Source: BSE

Pledged shares as % of total shares

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# IT, Exchanges

# Tata Consultancy Services

## Strength in core segments

We maintain ADD on TCS, supported by strength in core segments (Q1 miss on India revenue to reverse) and continuity in market share gains (book-to-bill at 1.3x as compared to 1.2x for Accenture outsourcing). Growth drivers for the company include (1) calibrated focus on upstream/consulting business (larger share of G&T) increasing the addressable market/pipeline, (2) increased outsourcing (Europe), core transformation deals, and strong growth in public hyperscaler services, (3) strong deal wins in retail & CPG vertical and increased deal volumes (not TCV) in BFSI, and (4) near-term lift-off with recovery in regional market segment (India revenue). Increasing the supply-side pressure (attrition headed towards double digits, yet industry-best) and return of discretionary spend (ex-travel) will cap margin gains despite operating leverage and differential pricing. Our target price of INR 3,650 is based on 30x Jun-23E EPS with EPS CAGR at 14% over FY21-24E.

- **1QFY22 highlights:** (1) Revenue came at +2.4% QoQ CC (+16.4% YoY), lower than our estimate (+3.5% QoQ CC). (2) EBIT margin was at 25.5%, -133bps QoQ, impacted by wage hike -170bps (including +30bps lower sub contracting), offset by INR depreciation (+30bps). (3) Revenue growth led by life sciences (+7.3% QoQ CC) in 1QFY22. Manufacturing and retail & CPG verticals grew 4.8% QoQ and 4.4% QoQ in CC terms, supported by ramp-up of deal wins and strong bookings in the quarter. (4) Net additions were the highest ever (20,409 net adds), taking the headcount to over 0.5mn with attrition increasing to 8.6% TTM. (5) Deal TCV in Q1 was USD 8.1bn (in-line) with book-to-bill at 1.32x (1.42x in FY21 had high deal tenure as compared to 1.23x in FY20). The total deal wins included BFSI TCV at USD 2.2bn, retail & CPG TCV at USD 1.5bn and NorthAm TCV at USD 4bn.
- **Outlook:** We have factored in USD revenue growth of 15.8%/10.5%/9.3% for FY22/23/24E with 2QFY22 at 3.5% QoQ. EBIT margin for TCS is factored in at 25.8%/26.6%/26.9% for FY22/23/24E. Valuations are at 31/27x (FY22/23E) with FY21-24E EPS CAGR at 14%.

### Quarterly financial summary

YE March (INR Bn)	1Q FY22	1Q FY21	YoY (%)	4Q FY21	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
Revenue (USD mn)	6,154	5,059	21.6	5,989	2.8	22,032	22,174	25,678	28,375	31,018
Net Sales	454.11	383.22	18.5	437.05	3.9	1,569.49	1,641.77	1,895.71	2,128.13	2,357.35
EBIT	115.88	90.48	28.1	117.34	(1.2)	385.80	424.81	488.98	565.65	635.07
APAT	90.08	70.08	28.5	92.46	(2.6)	323.40	333.56	382.60	438.88	491.36
Diluted EPS (INR)	24.4	18.9	28.5	25.0	(2.6)	87.4	90.2	103.4	118.6	132.8
P/E (x)						37.3	36.1	31.5	27.5	24.5
EV / EBITDA (x)						28.0	25.2	21.9	18.9	16.8
RoE (%)						37.3	39.1	43.4	47.2	49.2

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)	25,833	25,678	(0.6)	28,674	28,375	(1.0)	31,376	31,018	(1.1)
Revenue	1,906.56	1,895.71	(0.6)	2,150.54	2,128.13	(1.0)	2,384.60	2,357.35	(1.1)
EBIT	503.93	488.98	(3.0)	578.79	565.65	(2.3)	645.71	635.07	(1.6)
EBIT margin (%)	26.4	25.8	-64bps	26.9	26.6	-33bps	27.1	26.9	-14bps
APAT	397.65	382.60	(3.8)	451.56	438.88	(2.8)	500.84	491.36	(1.9)
EPS (INR)	107.5	103.4	(3.8)	122.1	118.6	(2.8)	135.4	132.8	(1.9)

Source: Company, HSIE Research

## ADD

CMP (as on 8 Jul 2021)	INR 3,259
Target Price	INR 3,650
NIFTY	15,728

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 3,750	INR 3,650
EPS %	FY22E -3.8	FY23E -2.8

### KEY STOCK DATA

Bloomberg code	TCS IN
No. of Shares (mn)	3,699
MCap (INR bn) / (\$ mn)	12,053/1,61,973
6m avg traded value (INR mn)	9,893
52 Week high / low	INR 3,400/2,125

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(1.8)	4.4	46.9
Relative (%)	(7.4)	(3.4)	2.1

### SHAREHOLDING PATTERN (%)

	Dec-20	Mar-21
Promoters	72.05	72.19
FIs & Local MFs	7.72	7.82
FPIs	15.88	15.62
Public & Others	4.35	4.37
Pledged Shares	2.12	0.34

Source : BSE

Pledged shares as % of total shares

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# Infosys

## Decade-best Q1

We maintain BUY on Infosys (INFY), following the decade best Q1 growth and a strong growth outlook. Revenue growth guidance for FY22E was increased to 14-16% CC (12-14% earlier) and the EBIT margin band was maintained at 22-24% (despite the near-term supply crunch). INFY's growth trajectory remains strong, supported by (1) a strong deal pipeline (higher QoQ), release in pent-up demand to restart the delayed projects, and sustainable improvement in large deals (USD 9.8bn TTM new large deal wins); (2) momentum across verticals – BFSI (nine large deals in Q1 vs six in Q4), retail, manufacturing, life-science and utilities, notwithstanding the lower net-new bookings; (3) structural operational pivots of offshoring and utilisation mitigating the near-term impact from higher sub-contracting; (4) uptick in fresher onboarding (35k in FY22 vs. 25k planned earlier and 21k in FY21) towards demand fulfilment and offsetting the near-term attrition surge. We remain positive on INFY (top pick in tier-1 IT) with >13% EPS CAGR and >40% RoIC valuing the company at INR 1,730, based on 28x Jun-23E EPS.

- **Q1FY22 highlights:** (1) INFY reported revenue growth of +4.8% QoQ CC and +16.9% YoY CC. Growth was broad based across the verticals, with digital revenue growing +9.7% QoQ in USD terms while core revenue remained flat QoQ; (2) EBIT margin declined 81bps QoQ to 23.7%, impacted by higher sub contracting and hiring costs, offset by improved utilisation (+40bps QoQ) and FX tailwind (+10bps QoQ). (3) Wage hike is effective from Jul'21. (4) Out of the 22 large deals wins in Q1, nine were in BFSI, four each were in retail and E&U, two were in manufacturing and one each in communication/life science/hi-tech verticals. By region, fourteen deals were in the US, five in Europe, two in RoW and one in India. (5) Large deal TCV was at USD 2.5bn (+22% QoQ), of which 30% of the deals were net new. (5) INFY added 8,334 headcount in Q1 and plans to add 35k freshers in FY22.
- **Outlook:** We have factored in USD revenue growth of 17.7/15.0/11.6% for FY22/23/24E with Q2FY22 at 5% QoQ. EBIT margin is factored in at 23/23.1/23.5% for FY22/23/24E. Valuations are at 26.3x FY23E (~3% discount to TCS) with FY21-24E EPS CAGR at 13%.

### Quarterly financial summary

YE March (INR bn)	Q1 FY22	Q1 FY21	YoY (%)	Q4 FY21	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
Revenue (USD mn)	3,782	3,121	21.2	3,613	4.7	12,774	13,658	16,030	18,131	19,971
Net Revenue	278.96	236.65	17.9	263.11	6.0	907.91	1,004.72	1,182.81	1,359.84	1,517.77
EBIT	66.03	53.65	23.1	64.40	2.5	193.74	246.21	272.00	313.46	357.12
APAT	51.95	42.33	22.7	50.76	2.3	164.04	193.51	213.11	251.26	281.51
Diluted EPS (INR)	12.4	10.1	22.7	12.1	2.3	39.1	46.2	50.8	59.9	67.2
P/E (x)						40.3	34.2	31.0	26.3	23.5
EV / EBITDA (x)						28.8	22.6	20.6	17.8	15.6
RoE (%)						25.2	27.3	28.8	33.6	34.6

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)	15,835	16,030	1.2	17,819	18,131	1.8	19,743	19,971	1.2
Revenue	1,168.67	1,182.81	1.2	1,336.43	1,359.84	1.8	1,500.50	1,517.77	1.2
EBIT	271.43	272.00	0.2	312.35	313.46	0.4	354.58	357.12	0.7
EBIT margin (%)	23.2	23.0	-23bps	23.4	23.1	-32bps	23.6	23.5	-10bps
APAT	219.66	213.11	(3.0)	251.09	251.26	0.1	280.60	281.51	0.3
EPS (INR)	52.4	50.8	(3.0)	59.9	59.9	0.1	67.0	67.2	0.3

Source: Company, HSIE Research

## BUY

CMP (as on 14 Jul 2021) INR 1,577

Target Price INR 1,730

NIFTY 15,854

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 1,730	INR 1,730
	FY22E	FY23E
EPS %	-3.0	+0.1

### KEY STOCK DATA

Bloomberg code	INFO IN
No. of Shares (mn)	4,261
MCap (INR bn) / (\$ mn)	6,720/90,298
6m avg traded value (INR mn)	10,824
52 Week high / low	INR 1,591/781

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	12.9	15.1	101.3
Relative (%)	3.9	8.4	54.5

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	12.95	12.95
FIs & Local MFs	23.10	21.98
FPIs	32.67	33.39
Public & Others	31.28	31.68
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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# Wipro

## Best performance in a decade

Wipro delivered a strong revenue performance in Q1, with organic growth of 4.8% QoQ being the best of the past 10 years. The total revenue growth of 12% QoQ CC (including Capco) was broad-based and Q2FY22 guidance of +5-7% QoQ growth (~1.5-3.5% organic) indicates that the strong momentum would sustain. Wipro, under the new structure, has revived its growth engine and the organic growth for FY22E (~13-14% YoY CC) is in line with larger peers'. Its deal pipeline remains robust, and it has won eight large deals with TCV of USD 715mn in the quarter. The margin would register a decline of ~200bps in FY22E, in our view, due to integration of the low margin Capco acquisition, supply side challenges, expected wage hikes in Q2 and Q3, and higher intake of freshers (6K in Q2) to offset the near-term attrition surge. We increase our revenue estimate for FY22/23E by +3.4/3.6% to factor in better growth visibility. Our target price of INR 585 is based on 22x June-23E EPS (~20% discount to INFY). The stock is trading at 25.3/22.6x FY22/23E EPS. Maintain ADD.

- **Q1FY22 highlights:** (1) Revenue growth of 12% QoQ CC (est. +9.4% QoQ) was higher than the upper end of the guided range. (2) IT services' EBIT margin stood at 18.8% (-222 bps QoQ), impacted by Capco integration and one month impact of wage increase for senior executives. (3) Growth was led by BFSI/communication/consumer/ENU verticals. (4) Offshoring stood at 54% (-50bps QoQ), utilisation at 86.8% (+80bps QoQ), and attrition increased to 15.5% (+340bps QoQ). (5) Wipro will roll out the second wage hike for 80% of its employees, effective Oct 2021.
- **Outlook:** We have factored in +25.8/+11.1% USD revenue growth for FY22/23E respectively, which implies Q2-Q4FY22 CQGR of 3.4%. The IT services EBIT margin is factored in at 18.2/18.5% for FY22/23E, resulting in an EPS CAGR of 14.7% over FY21-24E.

### Quarterly Financial summary

YE March (INR bn)	Q1 FY22	Q1 FY21	YoY (%)	Q4 FY21	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
IT revenue (USD Mn)	2,415	1,922	25.7	2,152	12.2	8,256	8,137	10,234	11,370	12,509
Net Sales	182.52	149.13	22.4	162.45	12.4	610.23	619.43	773.79	869.19	967.78
EBIT	31.41	25.64	22.5	33.28	(5.6)	101.42	120.14	133.60	157.09	183.70
APAT	32.32	23.90	35.2	29.72	8.7	97.22	107.95	124.59	139.60	162.79
Diluted EPS (INR)	5.9	4.4	35.2	5.4	8.7	17.8	19.7	22.7	25.5	29.7
P/E (x)						32.4	29.2	25.3	22.6	19.4
EV / EBITDA (x)						23.8	19.7	17.2	14.4	12.1
RoE (%)						17.3	19.4	21.3	21.4	22.3

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 %
IT revenue (USD Mn)	9,893	10,234	3.4	10,978	11,370	3.6	12,067	12,509	3.7
Revenue	747.29	773.79	3.5	841.09	869.19	3.3	935.51	967.78	3.4
EBIT	134.50	133.60	(0.7)	155.87	157.09	0.8	179.20	183.70	2.5
EBIT margin (%)	18.0	17.3	-73bps	18.5	18.1	-46bps	19.2	19.0	-17bps
APAT	120.63	124.59	3.3	138.72	139.60	0.6	158.22	162.79	2.9
EPS (INR)	22.0	22.7	3.3	25.3	25.5	0.6	28.9	29.7	2.9

Source: Company, HSIE Research

## ADD

CMP (as on 15 Jul 2021)	INR 576
Target Price	INR 585
NIFTY	15,924

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 575	INR 585
EPS %	FY22E +3.3	FY23E +0.6

### KEY STOCK DATA

Bloomberg code	WPRO IN
No. of Shares (mn)	5,479
MCap (INR bn) / (\$ mn)	3,155/42,403
6m avg traded value (INR mn)	6,220
52 Week high / low	INR 580/234

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	33.7	31.3	119.2
Relative (%)	24.8	22.9	71.7

### SHAREHOLDING PATTERN (%)

	Jan-21	Mar-21
Promoters	73.04	73.02
FIs & Local MFs	6.26	6.15
FPIs	9.12	9.21
Public & Others	11.58	11.62
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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# HCL Technologies

## On recovery course

We maintain BUY on HCL Tech (HCLT) despite a sub-par Q1, as we expect steady upward progression ahead. Key attributes that support our positive outlook include (1) strong growth momentum in ER&D services (+4.3 QoQ CC) supported by life-sciences and hi-tech verticals; (2) recovery in IT & BS segment ahead, led by integrated apps and infra deals; (3) large deal momentum (eight large services deals and four product wins) with 37% YoY growth in Q1 new TCV; (4) geographical focus on new frontier markets with leadership augmentation; and (5) healthy headcount addition (7,522 net addition in Q1 and ~20k including sub-con over the past two quarters). The absence of mega deals (rebadging) and P&P restructuring (low to mid-single digit growth in FY22) have led to HCLT trailing peers in FY22E. High visibility of FY22E growth is supported by USD 4.8bn new wins in the past six months and stable renewals. We maintain our BUY rating with an unchanged target price of INR 1,185, valuing the HCLT stock at 20x Jun-23E EPS, factoring in 11/13% CAGRs in revenue/EPS over FY21-24E.

- **Q1FY21 highlights:** (1) HCLT's revenue growth of 0.7% QoQ CC came in below our estimates (+2.2% QoQ). (2) IT&BS segment remained flat QoQ (+0.3% QoQ CC), ER&D saw robust growth of +4.3% QoQ CC (led by digital engineering and life-sciences vertical) and products & platform declined 1% QoQ CC, impacted by the exit from the IP partnership (Celerit). (3) Among the verticals, growth was led by life-sciences (+5.4% QoQ CC) and financial services (+2.9% QoQ CC), which offset the decline in manufacturing (-2.2% QoQ CC), telecom (-1.9% QoQ CC) and public services (-3.4% QoQ CC). (4) HCLT reported new TCV of USD 1.6bn (+37% YoY), which includes eight large services deal wins and four product wins. (5) EBIT margin declined 67bps QoQ to 19.6%, impacted by COVID-related expenses, hiring costs, and investment in new markets, which were partially offset by FX tailwinds and lower amortisation costs. (6) HCLT has maintained its double-digit revenue guidance (>10%) and the EBIT margin band of 19-21% for FY22E.
- **Outlook:** We have factored in USD revenue growth at +11.6/10.8/10.7%, IT&BS growth at +13/11/11%, ER&D growth at +11/12/12%, and P&P growth at +4/7/7% over FY22/23/24E respectively. EBIT margins are estimated at 20.0/20.5/20.5% over the same period, translating into an EPS CAGR of 13% over FY21-24E (TCS/INFY/WPRO at 14/13/15% CAGR). Valuation at <17.5x FY23E is inexpensive with ~6.5% FCF yield and 25% RoIC.

### Quarterly Financial summary

YE March (INR bn)	Q1 FY22	Q1 FY21	YoY (%)	Q4 FY21	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
Revenue (USD mn)	2,720	2,356	15.4	2,696	0.9	9,936	10,176	11,354	12,582	13,933
Net Sales	200.68	178.41	12.5	196.42	2.2	706.78	753.79	838.19	943.62	1,058.93
EBIT	39.31	36.60	7.4	39.80	(1.2)	138.53	160.71	167.72	193.74	217.25
APAT	32.14	29.25	9.9	29.62	8.5	110.62	124.62	134.28	156.80	177.59
Diluted EPS (INR)	11.8	10.8	9.9	10.9	8.5	40.8	45.9	49.5	57.8	65.4
P/E (x)						24.5	21.8	20.2	17.3	15.3
EV / EBITDA (x)						15.8	12.9	11.8	9.9	8.6
RoE (%)						23.8	22.4	21.1	22.0	22.2

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)	11,445	11,354	(0.8)	12,678	12,582	(0.8)	13,964	13,933	(0.2)
Revenue	844.70	838.19	(0.8)	950.86	943.62	(0.8)	1061.25	1058.93	(0.2)
EBIT	170.62	167.72	(1.7)	192.81	193.74	0.5	213.07	217.25	2.0
EBIT margin (%)	20.2	20.0	-19bps	20.3	20.5	25bps	20.1	20.5	44bps
APAT	134.87	134.28	(0.4)	155.86	156.80	0.6	174.93	177.59	1.5
EPS (INR)	49.7	49.5	(0.4)	57.4	57.8	0.6	64.5	65.4	1.5

Source: Company, HSIE Research

**BUY**
**CMP (as on 19 Jul 2021)** INR 1,000

**Target Price** INR 1,185

**NIFTY** 15,752

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 1,185	INR 1,185
	FY22E	FY23E
EPS %	-0.4	+0.6

### KEY STOCK DATA

Bloomberg code	HCLT IN
No. of Shares (mn)	2,714
MCap (INR bn) / (\$ mn)	2,714/36,474
6m avg traded value (INR mn)	5,619
52 Week high / low	INR 1,087/620

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	1.7	2.8	62.3
Relative (%)	(7.9)	(3.6)	20.3

### SHAREHOLDING PATTERN (%)

	Dec-20	Mar-21
Promoters	60.33	60.33
FIs & Local MFs	10.24	10.54
FPIs	24.92	24.14
Public & Others	4.51	4.99
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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# Tech Mahindra

## Healthy deal wins

We maintain a BUY rating on Tech Mahindra (TechM), based on better-than-expected revenue performance, healthy net-new deal wins (in both telecom and enterprise segments), and in-line margins. TechM delivered 3.9% QoQ CC growth, which was broad-based across verticals. The focus on large deal wins (net-new TCV of USD 815mn), following a healthy Q4 (Telefonica deal), improves growth visibility. The key attributes that underscore our positive outlook are (1) the largest deal win in the healthcare vertical (patient care modernisation); (2) healthy growth in BPS; (3) increase in intake of freshers after six quarters; (4) improvement in 5G related deals (~50% of telecom deals are related to 5G); and (5) continued growth momentum in enterprise segment, led by technology, BFSI and manufacturing verticals. The margin dipped 133bps QoQ (in line with our estimate) due to the full quarter wage hike impact. The supply-side challenges remain; rising attrition, increase in sub-contracting cost, and peak utilisation levels will limit margin expansion. We increase our EPS estimate by 4.2/4.5% for FY22/23E to factor in growth acceleration. Our target price stands at INR 1,330, based on 18x June-23E EPS. The stock is trading at 18.3/15.7x FY22/23E (~30% discount to tier-1 1Y forward P/E multiple).

- **Q1FY22 highlights:** (1) TechM revenue stood at USD 1,384mn +4.1% QoQ (higher than our estimate of USD 1,356mn); (2) enterprise grew +4.7% QoQ and telecom grew +3.2% QoQ, despite a seasonally weak quarter of mobility business; (3) technology/manufacturing/BFSI/retail registered growth of +8.1/+4.5/+3.7/3.2% QoQ; (4) EBIT margin, at 15.2% (-133bps QoQ), was impacted by the wage hike, visa costs and higher subcontracting cost, and was partially offset by operating efficiencies; (5) net-new TCV stood at USD 815mn (-21.9% QoQ), of which telecom/enterprise TCV stood at USD 352/463mn.
- **Outlook:** We have factored in USD revenue growth of +13.6/11.7/11.2%, factoring in telecom growth at +11/10.3/11.4% and enterprise growth at +15.4/12.7/11% over FY22/23/24E respectively. EBIT margins are estimated at 15.0/15.9/16% over the same period, translating into an EPS CAGR of 16% over FY21-24E.

### Quarterly Financial summary

YE Mar (INR bn)	Q1 FY22	Q1 FY21	YoY (%)	Q4 FY21	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
Revenue (USD mn)	1,384	1,208	14.6	1,330	4.1	5,182	5,111	5,808	6,489	7,213
Net Revenue	101.98	91.06	12.0	97.30	4.8	368.68	378.55	428.65	486.68	548.20
EBIT	15.45	9.17	68.5	16.04	(3.6)	42.80	53.89	64.15	77.30	87.74
APAT	13.53	9.72	39.2	11.32	19.5	42.51	45.06	54.44	63.35	71.26
Diluted EPS (INR)	15.3	11.0	39.2	12.8	19.5	48.2	51.1	61.7	71.8	80.8
P/E (x)						23.4	22.1	18.3	15.7	14.0
EV / EBITDA (x)						16.3	12.9	11.1	9.2	8.0
RoE (%)						20.2	19.3	20.9	22.3	22.8

Source: Company, HSIE Research, Consolidated Financials

### Change in Estimates

YE Mar (INR bn)	FY22E Old	FY22E Revised	Change %	FY23E Old	FY23E Revised	Change %	FY24E Old	FY24E Revised	Change %
Revenue (USD mn)	5,633	5,808	3.1	6,240	6,489	4.0	6,936	7,213	4.0
Revenue	415.71	428.65	3.1	467.97	486.68	4.0	527.10	548.20	4.0
EBIT	62.55	64.15	2.6	72.79	77.30	6.2	84.25	87.74	4.2
EBIT margin (%)	15.0	15.0	-8bps	15.6	15.9	33bps	16.0	16.0	2bps
APAT	52.24	54.44	4.2	60.61	63.35	4.5	66.96	71.26	6.4
EPS (INR)	59.2	61.7	4.2	68.7	71.8	4.5	75.9	80.8	6.4

Source: Company, HSIE Research

## BUY

CMP (as on 29 Jul 2021)	INR 1,128
Target Price	INR 1,330
NIFTY	15,778

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 1,270	INR 1,330
EPS %	FY22E	FY23E
	+4.2	+4.5

### KEY STOCK DATA

Bloomberg code	TECHM IN
No. of Shares (mn)	969
MCap (INR bn) / (\$ mn)	1,093/14,711
6m avg traded value (INR mn)	3,722
52 Week high / low	INR 1,142/622

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	17.0	18.9	72.2
Relative (%)	9.1	5.1	32.7

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	35.76	35.73
FIs & Local MFs	14.39	16.51
FPIs	38.31	36.14
Public & Others	11.54	11.62
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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# L&T Infotech

## Steady progression

We maintain ADD on L&T Infotech (LTI), following a robust Q1 (better revenue, in-line margin), and given its strong growth prospects ahead. LTI's growth has been consistent and is expected to continue, based on (1) healthy growth in the BFSI vertical, supported by improved credentials in Temenos, (2) aggressive hiring/wage revisions, which would overcome supply-side constraints (planned addition of 4,500 freshers in FY22 or 1.5x FY21 adds), (3) recovery expectation in E&U vertical, led by healthy deal wins (three deals in Q1FY22 vs. one in Q4FY21), (4) augmenting digital engineering services with the acquisition of Cuelogic (consolidation from Q2FY22), and (5) scale-up in products (Mosaic, Leni) and partnerships (Snowflake). Our target price of INR 4,470 values LTI at 28x Jun-23E EPS, factoring in an 18% CAGR in revenue/EPS over FY21-24E.

- **Q1FY22 highlights:** (1) LTI's revenue came in at USD 470mn, +4.8/+17.8% QoQ/YoY (CC terms), which was above our estimate. (2) EBIT margin declined by 295bps QoQ at 16.4%, impacted by a wage hike (-340bps QoQ), investment in S&M (-60bps QoQ), partially offset by operational efficiencies (+140bps QoQ), and FX tailwind and absence of pass-through revenue (+80bps QoQ). (3) Better growth registered in BFSI (+8.8% QoQ CC) and insurance verticals (+5% QoQ CC) offset the decline in manufacturing vertical (-6.7% QoQ CC). (4) T5 account improved 6.6% QoQ and T6-10 grew by +4.3% QoQ in USD terms. (5) LTI had the highest ever headcount addition of 2,307 employees in Q1 and it plans to add 4,500 freshers in FY22. (7) It maintained its PAT margin outlook at 14-15% for FY22, while the management expects utilisation to taper down in the medium term.
- **Outlook:** We have factored in USD revenue growth of 20.6/17.9/15.8% and EBIT margin of 17.6/18.0/18.1% for FY22/23/24E respectively. APAT margin is estimated at 14.6/14.9/15.0% for FY22/23/24E. At the CMP, LTI trades at 28x FY23E with an FY21-24E EPS CAGR at 18%.

### Quarterly Financial summary

YE March (INR bn)	Q1 FY22	Q1 FY21	YoY (%)	Q4 FY21	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
Revenue (USD mn)	470	390	20.5	447	5.1	1,525	1,670	2,014	2,375	2,751
Net Sales	34.63	29.49	17.4	32.69	5.9	108.79	123.70	148.63	178.12	209.07
EBIT	5.68	5.14	10.6	6.33	(10.2)	17.56	23.93	26.22	32.10	37.89
APAT	4.97	4.16	19.3	5.02	(1.1)	15.21	18.95	21.63	26.47	31.44
Diluted EPS (INR)	28.5	23.9	19.3	28.8	(1.1)	87.3	111.3	124.2	152.0	180.6
P/E (x)						49.1	38.5	34.5	28.2	23.7
EV / EBITDA (x)						35.5	25.8	23.2	18.7	15.5
RoE (%)						29.5	29.8	27.3	28.2	28.1

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)	1,976	2,014	1.9	2,322	2,375	2.3	2,696	2,751	2.0
Revenue	145.83	148.63	1.9	174.14	178.12	2.3	204.91	209.07	2.0
EBIT	25.45	26.22	3.0	31.06	32.10	3.4	36.59	37.89	3.5
EBIT margin (%)	17.5	17.6	19bps	17.8	18.0	19bps	17.9	18.1	27bps
APAT	21.23	21.63	1.9	26.01	26.47	1.8	30.69	31.44	2.4
EPS (INR)	121.9	124.2	1.9	149.4	152.0	1.8	176.3	180.6	2.4

Source: Company, HSIE Research

## ADD

CMP (as on 16 Jul 2021)	INR 4,289
Target Price	INR 4,470
NIFTY	15,923

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 4,520	INR 4,470
EPS %	FY22E +1.9	FY23E +1.8

### KEY STOCK DATA

Bloomberg code	LTI IN
No. of Shares (mn)	175
MCap (INR bn) / (\$ mn)	750/10,073
6m avg traded value (INR mn)	1,245
52 Week high / low	INR 4,600/2,195

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	4.9	0.0	87.2
Relative (%)	(4.0)	(8.4)	41.5

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	74.27	74.25
FIs & Local MFs	4.28	4.77
FPIs	13.55	13.07
Public & Others	7.90	7.91
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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# Mphasis

## Ticking all the boxes

We maintain BUY on Mphasis (MPHL) and reiterate it as our preferred pick in mid-tier IT, given a stellar Q1 and high visibility on delivering industry-leading growth. MPHL's growth is expected to be driven by (1) the highest-ever deal signings with USD 505mn new total contract value (TCV) wins in the direct international business, (2) continuity of strong growth in large accounts, (3) increased focus on new client acquisition and investments in sales & delivery, (4) positive commentary on deal funnel replenishment and execution milestones, and (5) steady operating profile (margin guidance maintained). The deal trajectory solidifies the direct portfolio, which is expected to post 30% in FY22 (23% CAGR over FY21-24E). MPHL's scalability is becoming more apparent with quadrupling of the USD 100mn+ client bucket and delivering of the strongest growth vs. peers in T10 accounts. DXC contraction is becoming a smaller deterrent to the overall portfolio (than previously). Our target price is INR 2,870, which values MPHL at 28x Jun-23E EPS.

- **Q1FY22 highlights:** (1) Revenue came in at USD 363mn, +5.9/+16.3% QoQ/YoY (CC terms), led by growth of +9.8/+32.5% QoQ/YoY (CC terms) in the direct business (89% of revenue), offset by DXC-HP (9% of revenue) de-growth of -18.2/-48.7% QoQ/YoY (CC terms). (2) EBIT margin stood at 15.9%, in line with our estimates, -19/+21bps QoQ/YoY, impacted by lower gross margin (COVID-related expense and higher employee cost). (3) The management has maintained its operating margin guidance of 15.5-17% and expects industry-leading growth in the direct business for FY22E. (4) Deal wins in direct international doubled QoQ to USD 505mn, which included a large deal of TCV USD 250mn in the BFSI vertical (ramp-up expected in Q3FY22). Excluding the large deal in Q1, new TCV remained strong at >USD 250mn, leading to a sustained strong growth outlook for the direct business ahead. (5) MPHL added 1,716 billable headcount in the quarter, compared to 1,360 added in Q4FY21 (2,888 in FY21). (6) The top 5/10 clients witnessed healthy growth of 9.2/10.6% QoQ during the quarter.
- **Outlook:** We have factored in 18/17/16% growth in revenue, based on the growth in the direct business at 30/21/17% and DXC-HP at -44/-29/-13% for FY22/23/24E respectively, and factored in the EBIT margin at 15.8/16.8/18.0% for FY22/23/24E, resulting in an EPS CAGR of 23% over FY21-24E.

### Quarterly Financial summary

YE Mar (INR bn)	Q1 FY22	Q1 FY21	YoY (%)	Q4 FY21	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
Revenue (USD mn)	363	305	18.8	342	6.0	1,240	1,309	1,551	1,821	2,104
Net Sales	24.74	22.77	8.7	24.35	1.6	88.44	97.22	114.65	136.55	159.93
EBIT	4.05	3.69	9.6	3.92	3.2	14.19	15.61	18.09	22.96	28.77
APAT	3.26	2.94	10.9	2.99	8.8	11.42	12.17	14.29	18.20	22.86
Diluted EPS (INR)	17.5	15.8	10.9	16.1	8.8	61.3	65.3	76.7	97.6	122.7
P/E (x)						41.3	38.8	33.0	25.9	20.6
EV / EBITDA (x)						27.5	24.9	21.5	16.9	13.3
RoE (%)						20.6	19.7	20.8	23.6	25.9

### Change in Estimates

YE Mar (INR bn)	FY22E Old	FY22E Revised	Change %	FY23E Old	FY23E Revised	Change %	FY24E Old	FY24E Revised	Change %
Revenue (USD)	1,491	1,551	4.0	1,701	1,821	7.0	1,949	2,104	8.0
Revenue	110.04	114.65	4.2	127.59	136.55	7.0	148.10	159.93	8.0
EBIT	17.65	18.09	2.5	21.35	22.96	7.5	26.33	28.77	9.3
EBIT margin (%)	16.0	15.8	-26bps	16.7	16.8	8bps	17.8	18.0	21bps
APAT	13.97	14.29	2.3	16.99	18.20	7.1	20.99	22.86	8.9
EPS (INR)	75.0	76.7	2.3	91.2	97.6	7.1	112.6	122.7	8.9

Source: Company, HSIE Research

## BUY

CMP (as on 23 July 2021) INR 2,530

Target Price INR 2,870

NIFTY 15,856

KEY CHANGES	OLD	NEW
Rating	Buy	Buy
Price Target	INR 2,680	INR 2,870
EPS %	FY22E	FY23E
	+2.3	+7.1

### KEY STOCK DATA

Bloomberg code	MPHL IN
No. of Shares (mn)	187
MCap (INR bn) / (\$ mn)	474/6,364
6m avg traded value (INR mn)	1,215
52 Week high / low	INR 2,692/1,074

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	49.1	59.0	126.5
Relative (%)	39.7	49.4	87.6

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	56.03	55.99
FIs & Local MFs	17.16	18.42
FPIs	21.82	20.80
Public & Others	4.99	4.79

Pledged Shares	0.00	0.00
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Source : BSE

Pledged shares as % of total shares

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# Mindtree

## Stronger, faster

We maintain ADD on Mindtree (MTCL), following revenue outperformance in Q1, all-time high bookings and hiring reflecting strong demand, and improving revenue profile (broad-based). Mindtree's growth mix has improved in recent times (vs. a skewed profile earlier), led by interventions to drive large/annuity deals. Its sustainable structural improvement is validated by (1) the uptick in Q1 deal TCv at >USD 0.5bn (vs. USD 1.4bn in FY21) and strong growth in large accounts (faster than T1), (2) improved cross-sell and addition of strategic logos (7 in Q1 and 26 in FY21), and (3) recovery in BFSI vertical. Growth is expected to be led by Europe and non-T1 accounts (20% CAGR over FY21-24E vs. ~8% earlier). Synchronously, the near-term margin gets a knock on elevated sub-contracting (linked to deal transition) and wage revision cycle. Our target price is INR 2,635, valued at 28x Jun-23E EPS (15% CAGR over FY21-24E over a high base in FY21 at >70%).

- **Q1FY22 highlights:** (1) MTCL reported revenue at USD 311mn (above our estimate of USD 304mn), 7.7% QoQ in USD terms with T1 growth at 5.4% QoQ and continued strong growth in non-T1 business at +8.6% QoQ. (2) EBITDA margin declined by 166bps QoQ to 20.3%, impacted by increase in sub-contracting and accelerated hiring (towards Q1-end), visa cost, offset by INR depreciation, offshoring, and operating leverage. (3) Growth was broad-based across verticals, led by travel (+12.8% QoQ); retail, CPG and manufacturing (+7.7% QoQ); comms, media & tech (+6.8% QoQ) and BFSI (+6.6% QoQ). (4) Deal TCv clocked the highest ever at USD 504mn, 29% YoY (book to bill at 1.6x compared to 1.5x in Q1FY21). (5) The company saw the highest-ever net headcount addition.
- **Outlook:** We have factored in USD revenue growth of +23.2/+15.1/+14.2% and EBITDA at 19.1/19.8/20% for FY22/23/24E respectively. We expect an EPS CAGR of 15% over FY21-24E and RoIC of >40% to support the valuation (27x FY23E).

### Quarterly Financial summary

YE March (INR bn)	Q1 FY22	Q1 FY21	YoY (%)	Q4 FY21	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
Revenue (USD mn)	311	253	22.6	288	7.7	1,089	1,077	1,326	1,527	1,743
Net Sales	22.92	19.09	20.1	21.09	8.6	77.64	79.68	97.89	114.50	132.49
EBIT	4.65	3.22	44.3	4.63	0.4	7.87	13.83	15.57	18.75	21.86
APAT	3.43	2.13	61.2	3.17	8.2	6.66	11.57	12.48	14.93	17.53
Diluted EPS (INR)	20.8	12.9	61.2	19.3	8.2	40.4	70.3	75.7	90.7	106.4
P/E (x)						61.7	35.5	32.9	27.5	23.5
EV / EBITDA (x)						37.4	23.3	20.3	16.5	13.8
RoE (%)						19.5	29.7	26.6	27.0	26.8

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)	1,286	1,326	3.1	1,489	1,527	2.5	1,707	1,743	2.1
Revenue	94.89	97.89	3.2	111.68	114.50	2.5	129.73	132.49	2.1
EBIT	16.45	15.57	(5.4)	18.79	18.75	(0.2)	21.79	21.86	0.3
EBIT margin (%)	17.3	15.9	-144bps	16.8	16.4	-45bps	16.8	16.5	-30bps
APAT	13.35	12.48	(6.6)	15.08	14.93	(1.0)	17.61	17.53	(0.4)
EPS (INR)	81.1	75.7	(6.6)	91.6	90.7	(1.0)	106.9	106.4	(0.4)

Source: Company, HSIE Research

## ADD

CMP (as on 13 Jul 2021)	INR 2,496
Target Price	INR 2,635
NIFTY	15,812

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 2,670	INR 2,635
EPS %	FY22E -6.6	FY23E -1.0

### KEY STOCK DATA

Bloomberg code	MTCL IN
No. of Shares (mn)	165
MCap (INR bn) / (\$ mn)	411/5,525
6m avg traded value (INR mn)	2,123
52 Week high / low	INR 2,619/963

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	21.7	43.0	147.6
Relative (%)	13.0	36.4	103.8

### SHAREHOLDING PATTERN (%)

	Dec-20	Mar-21
Promoters	61.03	61.03
FIs & Local MFs	10.61	10.86
FPIs	13.27	13.92
Public & Others	15.09	14.19
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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# L&T Technology Services

## Status quo prevails

We maintain **REDUCE** on L&T Technology Services (LTTs), despite a slightly better Q1 revenue performance. Revenue guidance has been increased to 15-17% growth for FY22 (13-15% earlier), which implies a decelerated trajectory of 2-3% CQGR (as compared to 4.2% QoQ delivered in Q1FY22), despite a base benefit (FY21 at -6%). Two wins with TCV >USD 25mn (similar to Q4) will support growth in the transportation vertical. LTTs' historical volatility in the large accounts bucket (>USD 20mn accounts) and volatility due to variability in segmental operating profile are reflected in the growth guidance of ~800bps below its strongest year. This growth will trail competitors with niche capabilities. We acknowledge LTTs' prowess/diversity in digital ER&D and the overarching ER&D addressability by assigning a 1.3x premium to its historical multiple (1.5x for mid-tier IT) to factor in the recovery trajectory and the embedded volatility. LTTs' valuations are at 30x FY23E and the stock has underperformed peers (especially its ER&D peers). Our target price of INR 2,680 is based on 26x Jun-23E EPS.

- **Q1FY22 highlights:** (1) LTTs' revenue stood at USD 206mn (USD 204mn est.), +4.2/+20.3% QoQ/YoY (+4.3/+18.6% QoQ/YoY CC). (2) Growth was largely led by industrial products (+7.5% QoQ), followed by transportation (+4.3% QoQ) and process industry (+4.2% QoQ). (3) 11 large deal wins took place in Q1, of which six deals were >USD 10mn TCV (four deals were in telecom and hi-tech vertical) and two wins of >USD 25mn TCV each were in the transportation vertical (vehicle design for new-age OEM and software assisted design for tier-1). (4) EBIT margin improved 68bps QoQ to 17.3% (higher than estimate 15.1%), supported by growth in digital engineering, FX, greater productivity, and cost optimisation (higher offshore, utilisation), even as attrition increased to 14.5%. (5) Q2 margin is expected to be impacted by wage revision for mid to senior employees and rising attrition.
- **Outlook:** We have factored in USD revenue growth of +16.6/+14.9/+15.1% and EBIT margin at 16.6/16.9/16.9% for FY22/23/24E respectively. LTTs is currently trading at 30x FY23E with the FY21-24E EPS CAGR at 26%.

## Quarterly financial summary

YE Mar (INR bn)	Q1 FY22	Q1 FY21	YoY (%)	Q4 FY21	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
Revenue (USD mn)	206	171	20.3	198	4.2	786	737	859	987	1,136
Net Sales	15.18	12.95	17.3	14.41	5.4	56.19	54.50	63.43	74.06	86.37
EBIT	2.62	1.57	67.4	2.39	9.7	9.28	7.89	10.51	12.50	14.59
APAT	2.16	1.17	84.5	1.95	11.2	7.51	6.27	8.73	10.16	12.45
Diluted EPS (INR)	20.7	11.2	84.5	18.6	11.2	72.0	60.1	83.7	97.4	119.3
P/E (x)						40.5	48.5	34.8	29.9	24.4
EV / EBITDA (x)						26.6	28.4	21.9	18.2	15.3
RoE (%)						28.6	20.1	23.1	22.9	23.9

Source: Company, HSIE Research, Consolidated Financials

## Change in Estimates

YE Mar (INR bn)	FY22E Old	FY22E Revised	Change %	FY23E Old	FY23E Revised	Change %	FY24E Old	FY24E Revised	Change %
Revenue (USD mn)	857	859	0.3	984	987	0.4	1,125	1,136	1.0
Revenue	63.21	63.43	0.3	73.79	74.06	0.4	85.50	86.37	1.0
EBIT	10.11	10.51	4.0	12.41	12.50	0.7	14.38	14.59	1.4
EBIT margin (%)	16.0	16.6	58bps	16.8	16.9	6bps	16.8	16.9	7bps
APAT	8.51	8.73	2.6	10.17	10.16	(0.1)	12.40	12.45	0.4
EPS (INR)	81.5	83.7	2.6	97.5	97.4	(0.1)	118.8	119.3	0.4

Source: Company, HSIE Research

## REDUCE

CMP (as on 14 Jul 2021) INR 2,911

Target Price INR 2,680

NIFTY 15,854

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 2,680	INR 2,680
EPS %	FY22E +2.6	FY23E -0.1

## KEY STOCK DATA

Bloomberg code	LTTs IN
No. of Shares (mn)	105
MCap (INR bn) / (\$ mn)	306/4,110
6m avg traded value (INR mn)	861
52 Week high / low	INR 3,062/1,325

## STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	8.2	8.4	102.3
Relative (%)	(0.7)	1.7	55.4

## SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	74.24	74.23
FIs & Local MFs	6.36	6.68
FPIs	9.06	8.92
Public & Others	10.34	10.17
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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# Tata Elxsi

## Diminishing margin of safety

We downgrade Tata Elxsi (TELX) to REDUCE (ADD earlier), based on diminishing margin of safety at 43x FY23E and following an in-line Q1 (both revenue and margin). While we remain positive on the company's prospects and growth leadership in ER&D (24/26% revenue/EPS CAGR over FY21-24E), the unfavourable risk-reward can be construed from (1) concentrated growth pockets with ~25% of business driving ~50% of growth (IDV and medical devices-EPD), (2) reducing growth premium vs. ER&D peer, and (3) the fact that its margin is currently at a peak (32.8% EBITDA margin adj. for Q1 one-time) and increase in discretionary spend is on the anvil. The near-term prospects remain strong with FY22 revenue growth expected at 33%, which would subsequently normalise to 20%. Our TP of INR 4,200 is based on 40x Jun-23E EPS (similar to our bull case scenario at the time of initiation), supported by an EPS CAGR of 26% over FY21-24E.

- **Q1FY22 highlights:** (1) Revenue: TELX' revenue growth was 6.4% QoQ CC and 37.4% YoY CC at a strong (but reducing) growth premium to ER&D peer (LTTS). (2) Segmental growth: EPD (84% of revenue) grew 6.4% QoQ CC, which included transportation growth at 2.2% QoQ CC, broadcast & comms at 6.7% QoQ CC, and healthcare & medical at 18.5% QoQ CC. (3) Margin: EBITDA margin declined 555bps QoQ to 26.9%, impacted by a one-time bonus salary payout of INR 0.33bn in Q1 (similar quantum expected in Q3), excluding which, the margin improved 36bps QoQ to 32.8%, led by higher utilisation and better offshore mix. TELX will roll out a wage hike in Q2FY22 at ~7-8% (similar to FY21). (4) TELX had a strong net headcount addition of 552 in Q1 and attrition increased 280bps QoQ to 10.2%. (5) Management commentary included a strong order book and healthy deal wins (multiple strategic partnerships).
- **Outlook:** We have factored in the USD revenue growth of 33/21/20% for FY22/23/24E, factoring in EPD growth of 27/20/19% and IDV growth of 96/25/22%. EBITDAM has been taken at 28.2/28.8/27.8% for FY22/23/24E, translating into a 26% EPS CAGR over FY21-24E. Following the recent stock performance (45/82% in 3M/6M), TELX trades at 43x FY23E.

### Quarterly Financial summary

YE Mar (INR bn)	Q1 FY22	Q1 FY21	YoY (%)	Q4 FY21	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
Revenue (USD mn)	76	53	43.2	71	6.4	227	247	328	397	474
Net Sales	5.58	4.00	39.4	5.18	7.7	16.10	18.26	24.23	29.80	36.06
EBIT	1.38	0.82	68.6	1.57	-11.9	3.00	4.78	6.31	7.95	9.26
APAT	1.13	0.69	64.6	1.15	-1.6	2.71	3.68	5.01	6.30	7.39
Diluted EPS (INR)	18.2	11.1	64.6	18.5	-1.6	43.6	59.1	80.5	101.2	118.7
P/E (x)						98.7	72.8	53.5	42.5	36.2
EV / EBITDA (x)						76.2	49.5	37.8	29.8	25.2
RoE (%)						26.7	30.1	35.2	37.5	35.3

Source: Company, HSIE Research, Consolidated Financials

### Change in Estimates

YE Mar (INR bn)	FY22E Old	FY22E Revised	Change %	FY23E Old	FY23E Revised	Change %	FY24E Old	FY24E Revised	Change %
Revenue (USD mn)	325	328	1.1	390	397	1.9	465	474	2.1
Revenue	23.96	24.23	1.1	29.25	29.80	1.9	35.32	36.06	2.1
EBIT	6.27	6.31	0.6	7.80	7.95	1.9	9.40	9.26	(1.6)
EBIT margin (%)	26.2	26.0	-14bps	26.7	26.7	0bps	26.6	25.7	-95bps
APAT	4.99	5.01	0.4	6.19	6.30	1.9	7.49	7.39	(1.4)
EPS (INR)	80.1	80.5	0.4	99.4	101.2	1.9	120.3	118.7	(1.4)

Source: Company, HSIE Research

## REDUCE

CMP (as on 16 Jul 2021) INR 4,303

Target Price INR 4,200

NIFTY 15,923

KEY CHANGES	OLD	NEW
Rating	ADD	REDUCE
Price Target	INR 4,165	INR 4,200
EPS %	FY22E +0.4	FY23E +1.9

### KEY STOCK DATA

Bloomberg code	TELX IN
No. of Shares (mn)	62
MCap (INR bn) / (\$ mn)	268/3,598
6m avg traded value (INR mn)	1,596
52 Week high / low	INR 4,575/879

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	46.1	83.7	373.7
Relative (%)	37.3	75.3	327.9

### SHAREHOLDING PATTERN (%)

	Dec-20	Mar-21
Promoters	44.53	44.53
FIs & Local MFs	4.82	5.32
FPIs	12.62	12.07
Public & Others	38.03	38.08
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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# Persistent Systems

## Spectacular Q1!

We maintain ADD on Persistent Systems (PSYS), following a stellar Q1 and a steady deal momentum. PSYS' growth leadership is premised on (1) strong new deal wins (USD 148mn new win TCV with total book to bill of 1.5x in Q1), driven by healthcare & life-sciences and BFSI verticals; (2) improved client mining reflected in strong scale-up in >USD 5mn+ client bucket as well as T2-10 growth; (3) robust headcount addition (2,000 freshers to be added in FY22E) with headcount ~40% higher in the past three quarters; and (4) Salesforce practice and Azure practice driving growth. Our target price of INR 3,260 values PSYS at 30x Jun-23E, supported by a 28% EPS CAGR over FY21-24E.

- **Q1FY22 highlights:** (1) PSYS' revenue came in at USD 167mn, +9.2/27.3% QoQ/YoY. (2) Growth in Q1FY22 was broad-based across the verticals, led by healthcare & life-sciences at +15.9% QoQ, followed by the BFSI vertical at 11.7% QoQ and technology & emerging vertical at 5.1% QoQ. (3) Revenue from T1 improved 3.7% QoQ, contributing 17% of the total, while revenue from top 5/10 witnessed robust growth of 9.5/10.1% QoQ respectively. (4) EBIT margin stood at 13.5%, +39bps QoQ, supported by lower depreciation and amortisation cost, which offset the negative impact of visa cost during the quarter. (5) PSYS reported a sequentially flat TCV of USD 245mn, which included new TCV wins of USD 148mn (+7.3% QoQ). (6) PSYS added 1,224 headcount in Q1FY22 (vs. 2,860 in H2FY21) and expects to add ~2,000 freshers in FY22E (400 already added in Q1). (7) PSYS will roll out a wage hike, effective Q2FY22, which will act as a margin headwind.
- **Outlook:** We have factored in USD revenue growth at 28/21/18% and EBITDA margin at 16.5% each over FY22/23/24E, resulting in FY21-24E EPS CAGR at 28%. At CMP, PSYS is trading at 29x FY23E.

### Quarterly Financial summary

YE March (INR bn)	Q1 FY22	Q1 FY21	YoY (%)	Q4 FY21	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
Revenue (USD mn)	167	131	27.3	153	9.2	502	566	723	873	1,031
Net Sales	12.30	9.91	24.1	11.13	10.5	35.66	41.88	53.40	65.51	78.36
EBIT	1.67	1.03	61.9	1.46	13.7	3.27	5.07	7.16	8.83	10.59
APAT	1.51	0.90	68.0	1.38	9.8	3.59	4.51	6.59	7.98	9.44
Diluted EPS (INR)	19.8	11.8	68.0	18.0	9.8	47.0	59.0	86.3	104.4	123.6
P/E (x)						64.7	51.5	35.2	29.1	24.6
EV / EBITDA (x)						44.3	31.1	23.9	19.2	15.7
RoE (%)						14.4	17.4	21.8	22.5	22.8

Source: Company, HSIE Research, Consolidated Financials

### Change in Estimates

YE March (INR bn)	FY22 E Old	FY22E Revised	Change %	FY23 E Old	FY23E Revised	Change %	FY24 E Old	FY24E Revised	Change %
Revenue (USD mn)	692	723	4.5	828	873	5.4	976	1,031	5.7
Revenue	51.09	53.40	4.5	62.12	65.51	5.4	74.17	78.36	5.7
EBIT	6.86	7.16	4.4	8.59	8.83	2.7	10.16	10.59	4.2
EBIT margin (%)	13.4	13.4	-2bps	13.8	13.5	-36bps	13.7	13.5	-18bps
APAT	6.36	6.59	3.6	7.75	7.98	3.0	9.06	9.44	4.3
EPS (INR)	83.3	86.3	3.6	101.4	104.4	3.0	118.5	123.6	4.3

Source: Company, HSIE Research

## ADD

CMP (as on 23 July 2021) INR 3,039

Target Price INR 3,260

NIFTY 15,856

KEY CHANGES	OLD	NEW
Rating	Add	Add
Price Target	INR 3,160	INR 3,260
EPS %	FY22E	FY23E
	+3.6	+3.0

### KEY STOCK DATA

Bloomberg code	PSYS IN
No. of Shares (mn)	76
MCap (INR bn) / (\$ mn)	232/3,121
6m avg traded value (INR mn)	463
52 Week high / low	INR 3,130/826

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	62.1	97.5	294.1
Relative (%)	52.6	87.9	255.1

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	31.29	31.26
FIs & Local MFs	29.58	29.17
FPIs	19.26	19.44
Public & Others	19.87	20.13
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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# IndiaMART InterMESH

## Holding its Ground

We maintain BUY on IndiaMart, following a better-than-expected Q1FY22 both in terms of revenue and margin. The paying suppliers declined 3.9% QoQ (-6K) due to the second wave impact (April and May 21), but the +5.7% QoQ increase in realisation was a surprise. We maintain our positive stance, based on (1) higher visibility, given the 14% YoY growth in deferred revenue; (2) increased activity on the platform despite COVID (registered buyers/unique business enquiries/traffic increased +4.8/8.3/4.3% QoQ); (3) immense growth opportunity in the highly-underpenetrated B2B e-commerce space; (4) margin expansion on account of cost savings led by automation; (5) healthy cash reserves of INR 24.2bn that can be leveraged for further investments; and (6) expected boost to growth from adjacent offerings in accounting, logistics and SaaS based solutions. Our TP of INR 8,500 is based on 56x EV/EBITDA (DCF implied) at 1.3x the average multiple, supported by revenue/EPS CAGRs of +18/14% over FY21-23E.

- **1QFY22 highlights:** (1) IndiaMart revenue stood at INR 1.82bn (vs. estimate of INR 1.74bn), registering a growth of 1.1% QoQ, driven by -3.9/+5.7% QoQ growth in paying suppliers/ARPU; (2) cash collections from customers/deferred revenue declined by -37.4/-1.5% QoQ; (3) business enquiries were up 8.0/23.7% QoQ/YoY and business enquiries per paying supplier increased 12/13% QoQ/YoY; (4) EBITDA margin was up 126bps QoQ to 48.8% (better than our estimate of 43.8%) due to -3.5/-11.9% QoQ decline in manpower/outsourced cost; (5) paying suppliers declined by ~6K vs. our estimate of a ~4K decline; (6) 80-90% of the customer decline was from monthly users; (7) renewal rates of top 10% of the suppliers stood at 90% vs. 94-95% pre-pandemic; (8) the unique buyer enquiries fulfilment ratio stood at ~40%.
- **Outlook:** We expect revenue growth of +13.7/23.0%, based on paid supplier growth of +7.9/17.0% and APRU growth of 5.9/5.3% for FY22/23E respectively. EBITDA margin estimates stand at 45.2/43.8% for FY22/23E, leading to an EPS CAGR of 14% over FY21-23E.

### Quarterly Financial summary

YE March (INR mn)	1Q FY22	1Q FY21	YoY (%)	4Q FY21	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	1,816	1,531	18.6	1,797	1.1	6,389	6,696	7,614	9,379	11,429
EBITDA	886	733	20.9	854	3.7	1,689	3,282	3,443	4,110	4,992
APAT	879	741	18.6	557	57.8	1,474	2,798	3,097	3,615	4,082
EPS	29.0	25.6	13.1	18.8	54.2	48.0	91.0	100.8	117.6	132.8
P/E (x)						151.2	79.6	71.9	61.6	54.6
EV / EBITDA (x)						126.6	60.9	57.4	46.9	37.6
RoE (%)*						67.8	50.1	45.4	38.0	32.4

Source: Company, HSIE Research, Consolidated Financials, \* RoE is excluding QIP money

### Change in Estimates

YE March (INR mn)	FY22E Old	FY22E Revised	Change %	FY23E Old	FY23E Revised	Change %	FY24E Old	FY24E Revised	Change %
Revenue	7,608	7,614	0.1	9,351	9,379	0.3	11,376	11,429	0.5
EBITDA	3,253	3,443	5.8	4,021	4,110	2.2	4,889	4,992	2.1
EBITDA margin (%)	42.8	45.2	245 bps	43.0	43.8	82 bps	43.0	43.7	71 bps
APAT	2,910	3,097	6.4	3,543	3,615	2.0	4,001	4,082	2.0
EPS (INR)	94.7	100.8	6.4	115.3	117.6	2.0	130.2	132.8	2.0

Source: Company, HSIE Research

**BUY**

CMP (as on 23 July 2021)	INR 7,250
Target Price	INR 8,500
NIFTY	15,856

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 8,640	INR 8,500
EPS %	FY22E +6.4	FY23E +2.0

### KEY STOCK DATA

Bloomberg code	INMART IN
No. of Shares (mn)	30
MCap (INR bn) / (\$ mn)	220/2,961
6m avg traded value (INR mn)	1,223
52 Week high / low	INR 9,952/2,341

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(12.2)	(7.1)	195.3
Relative (%)	(21.6)	(16.6)	156.4

### SHAREHOLDING PATTERN (%)

	Mar-21	June-21
Promoters	49.85	49.82
FIs & Local MFs	4.53	4.70
FPIs	27.53	26.68
Public & Others	18.09	18.80
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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# Cyient

## Recovery expected

Cyient reported a weak quarter, with revenue down 4.3% QoQ (in line with estimate), but margin performance was better than expected. The services segment was flat QoQ, led by continued softness in the aerospace vertical (-6.1% QoQ). The worst phase of commercial aerospace is over (traffic is at ~60% of the pre-COVID level) but MRO related activity will take 2-3 quarters to recover. The management has guided for double-digit growth in services, which will be led by communications, utilities and transportation verticals. DLM guidance of 20% YoY growth in FY22E is maintained despite a weak start. The focus is on winning large deals (won four deals worth TCV of USD 46mn) and the company will step up investments in sales and marketing. Margin expansion has been impressive over the past four quarters. Further margin expansion will be capped due to supply side concerns. We increase our EPS estimate by +6/4.3% for FY22/23E, based on expected recovery in core business and better margin in Q1FY22. Our target price stands at INR 970, based on 18x June-23E EPS. The stock trades at 22.2/18.1x FY22/23E, a discount of ~50% to LTTS. Maintain ADD.

- **Q1FY22 highlights:** (1) USD revenue de-grew 4.3% QoQ vs. expectation of a 3.6% decline, while core services revenue remained flat QoQ and DLM business declined 20.1% QoQ in Q1 due to seasonality; (2) services EBIT margin improved 330bps QoQ to 14.6% (estimate 13.6%), supported by operational efficiency (+93bps), lower SG&A (+176bps), partially offset by a wage hike (-176bps); (3) partial impact of the wage hike to come in Q2FY22, which will impact margins; (4) DLM margin, at 5.8%, declined -309bps QoQ; (4) the company won four large deals of TCV USD 46mn, of which three were in services and one in DLM.
- **Outlook:** We have factored in +12.5/+14.4/+12% USD revenue growth for FY22/23/24E respectively; FY22E estimate implies +11/+20% growth in services/DLM. We have factored in a 12.5/13.3/13.1% EBIT margin for FY22/23/24E, resulting in an EPS CAGR of 20% 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)	144	131	9.9	150	(4.3)	625	557	627	717	803
Net Sales	10.58	9.92	6.7	10.93	(3.2)	44.27	41.32	46.25	53.77	61.03
EBIT	1.39	0.51	171.6	1.38	0.4	4.08	4.16	5.79	7.15	8.02
APAT	1.15	0.81	41.3	1.11	3.7	3.73	3.72	4.68	5.75	6.37
Diluted EPS (INR)	10.5	7.4	41.3	10.1	3.7	33.9	33.8	42.6	52.3	57.9
P/E (x)						27.9	28.0	22.2	18.1	16.3
EV / EBITDA (x)						16.7	15.3	11.5	9.3	8.2
RoE (%)						14.5	13.5	15.2	17.3	17.5

Source: Company, HSIE Research, Consolidated Financials

### Change in Estimates

YE March (INR bn)	FY22E Revised	FY22E Revised	Change %	FY23E Old	FY23E Revised	Change %	FY24E Old	FY24E Revised	Change %
Revenue (USD mn)	620	627	1.0	702	717	2.1	788	803	2.0
Revenue	45.78	46.25	1.0	52.66	53.77	2.1	59.85	61.03	2.0
EBIT	5.70	5.79	1.6	6.96	7.15	2.6	7.62	8.02	5.3
EBIT margin (%)	12.4	12.5	7bps	13.2	13.3	7bps	12.7	13.1	42bps
APAT	4.42	4.68	6.0	5.52	5.75	4.3	5.82	6.37	9.4
EPS (INR)	40.1	42.6	6.0	50.2	52.3	4.3	52.9	57.9	9.4

Source: Company, HSIE Research

## ADD

CMP (as on 15 Jul 2021)	INR 946
Target Price	INR 970
NIFTY	15,924

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 915	INR 970
EPS %	FY22E +6.0	FY23E +4.3

### KEY STOCK DATA

Bloomberg code	CYL IN
No. of Shares (mn)	110
MCap (INR bn) / (\$ mn)	104/1,400
6m avg traded value (INR mn)	436
52 Week high / low	INR 995/268

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	37.7	91.6	252.0
Relative (%)	28.8	83.2	204.5

### SHAREHOLDING PATTERN (%)

	Dec-20	Mar-21
Promoters	23.48	23.47
FIs & Local MFs	21.31	19.88
FPIs	35.70	38.47
Public & Others	19.51	18.18
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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# Sonata Software

## Growth rebound

We maintain a BUY rating on Sonata; IITS growth was muted due to supply side issues (COVID impact) but DPS performance (+24% QoQ) was better-than-expected. The demand environment remains robust (added 13 new clients) and recovery is expected in the coming quarters. Microsoft related services (product engineering + dynamics) is ~50% of IITS revenue and is expected to deliver growth in high teens. The Microsoft Dynamics modernisation program is a multi-year opportunity and Sonata is constantly investing for fueling growth. Recovery in TUI (large travel client) will take place when leisure travel resumes. The IITS EBITDA margin contracted 115bps QoQ due to lower utilisation. In order to overcome the supply-side challenges, the company has stepped up hiring of freshers. The acquisition of Encore Software Services will add ~9% to revenue and EBITDA margin is in the range of 15-18%. DPS growth was driven by higher cloud license sales (~75%) and an uptick in annuity revenue. We increase our EPS estimates by +4.3/7.2% for FY22/23E due to the integration of Encore from Q2FY22. Our target price of INR 870 is based on 20x June-23E EPS. The stock trades at a P/E of 24.6/19.6x FY22/23E, ~25% discount to tier-2 IT average.

- **Q1FY22 highlights:** IITS revenue stood at USD 44.5mn (+1.6% QoQ), in line with our estimate of USD 44.2mn. Digital/IP-led/platform revenue contributed 68/35/20% to IITS revenue and grew +24/26/35% QoQ. ISV/travel/retail grew +2/3/13/12% QoQ while distribution segment remained flat QoQ. IITS EBITDA margin stood at 21.3% (-115bps QoQ) and DPS EBITDA margin stood at 3.4% (-75bps QoQ). Consolidated revenue was up 17.9% QoQ, led by healthy growth in DPS (+24.3% QoQ) and EBITDA margin stood at 8% (-162bps QoQ).
- **Outlook:** We expect IITS growth of +25/+19.2% and DPS growth of +28.4/+20.4% for FY22/23E. IITS margin will be at 23/23.8% and DPS margin at 3.3/3.3% for FY22/23E respectively. Revenue/EPS CAGRs for FY21-24E are expected at +22/28%.

### Quarterly Financial summary

YE March (INR bn)	Q1 FY22	Q1 FY21	YoY (%)	Q4 FY21	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
IITS Revenues (USD mn)	44.5	36.5	21.9	43.8	1.6	181	160	200	239	278
Net Sales	12.69	9.52	33.2	10.76	17.9	37.43	42.28	53.90	65.04	76.53
EBIT	0.91	0.68	34.2	0.94	(2.8)	3.36	3.40	4.25	5.32	6.39
APAT	0.87	0.50	73.7	0.83	4.4	2.77	2.44	3.44	4.30	5.10
Diluted EPS (INR)	8.3	4.8	73.7	8.0	4.4	26.7	23.5	33.1	41.4	49.1
P/E (x)						30.5	34.7	24.6	19.6	16.6
EV / EBITDA (x)						22.3	21.1	16.7	13.2	10.7
RoE (%)						38.5	31.0	35.3	38.1	38.7

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 %
IITS Revenue (USD mn)	190	200	5.7	221	239	8.1	257	278	8.1
Revenue	51.51	53.90	4.6	61.71	65.04	5.4	71.33	76.53	7.3
EBIT	4.06	4.25	4.5	4.93	5.32	7.9	5.89	6.39	8.6
EBIT margin (%)	7.9	7.9	-1bps	8.0	8.2	19bps	8.3	8.4	10bps
APAT	3.30	3.44	4.3	4.02	4.30	7.2	4.72	5.10	8.0
EPS (INR)	31.8	33.1	4.3	38.6	41.4	7.2	45.5	49.1	8.0

Source: Company, HSIE Research

## BUY

CMP (as on 5 Aug 2021)	INR 814
Target Price	INR 870
NIFTY	16,295

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 805	INR 870
EPS %	FY22E	FY23E
	+4.3	+7.2

### KEY STOCK DATA

Bloomberg code	SSOF IN
No. of Shares (mn)	105
MCap (INR bn) / (\$ mn)	86/1,150
6m avg traded value (INR mn)	302
52 Week high / low	INR 884/268

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	41.0	100.4	185.0
Relative (%)	29.0	93.0	140.3

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	28.17	28.17
FIs & Local MFs	12.96	12.82
FPIs	13.82	15.39
Public & Others	45.05	43.62
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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# Teamlease Services

## Future bright

We maintain BUY on Teamlease, following a better-than-expected revenue (+2.7% QoQ) and margin performance. The core staffing revenue growth was soft (+1.3% QoQ), impacted by the second wave, but an uptick in the IT sector hiring led to strong growth in specialised staffing (+17% QoQ). Gradual improvements in hiring activity across key verticals (e-commerce, telecom, consumer, healthcare, BFSI and industrial) and addition of 47 new logos will aid growth in the core staffing segment (90% of revenue). The specialised staffing (8% of revenue) will continue to grow, led by 27 new client additions, an increase in open positions/hiring across domains, and improvement in realisations. Margin performance was better than expected (2.1%, +20bps QoQ). We expect gradual margin expansion with recovery in growth (2HFY22E), higher productivity, improving business mix (higher-margin specialised staffing), and lower cost of hiring. We increase our EPS estimate by 7.4/3.9% for FY22/23E to factor in margin expansion. Our target price of INR 4,240 is based on 38x June-23E EPS (five-year average PE of ~35x). The stock is trading at a PE of 51/36x FY22/23E.

- **Q1FY22 highlights:** Revenue stood at INR 13.77bn, up 2.7% QoQ, vs. our estimate of INR 13.48bn. Core/specialised/HR services revenue was up +1.3/+17.0/+22.2% QoQ. The mark-up remained flat at INR 690 and the associate to core ratio declined marginally to 345 (-2.0% QoQ). EBITDA margin for core staffing/specialised staffing/HR services stood at 1.9/9.1/-3.1%. Provision of INR 15mn in the government training business was collected in Q1. The company has a free cash balance of INR 2bn, which it may use for M&A activity. The cash collections continue to be robust (OCF/EBITDA at 130%). NETAP associates declined by 4.8% but the addition of 24 new logos indicate growth revival.
- **Outlook:** We expect revenue growth of 24.6/26.9% in FY22/23E and EBITDA margin of 2.2/2.4% respectively, leading to revenue and EPS CAGRs of 24% and 40% over FY21-24E.

### Quarterly Financial summary

YE March (INR bn)	1Q FY22	1Q FY21	YoY (%)	4Q FY21	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
Net Revenue	13.77	11.36	21.1	13.41	2.7	52.01	48.81	60.83	77.17	93.89
EBITDA	0.30	0.25	20.0	0.26	13.0	0.95	0.98	1.37	1.85	2.36
APAT	0.24	0.17	40.1	0.20	24.0	0.85	0.81	1.26	1.78	2.28
Diluted EPS (INR)	14.2	10.2	40.1	11.5	24.0	49.5	47.6	73.5	104.2	133.6
P/E (x)						76.2	79.2	51.3	36.2	28.2
EV / EBITDA (x)						67.8	62.0	43.9	31.5	23.9
RoE (%)						15.2	13.3	17.6	20.5	21.3

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	59.82	60.83	1.7	76.12	77.17	1.4	92.57	93.89	1.4
EBITDA	1.25	1.37	9.4	1.79	1.85	3.6	2.25	2.36	4.6
EBITDA margin (%)	2.1	2.2	16bps	2.3	2.4	5bps	2.4	2.5	8bps
APAT	1.17	1.26	7.4	1.71	1.78	3.9	2.18	2.28	4.9
EPS (INR)	68.5	73.5	7.4	100.3	104.2	3.9	127.3	133.6	4.9

Source: Company, HSIE Research

**BUY**

CMP (as on 28 July, 2021)	INR 3,772
Target Price	INR 4,240
NIFTY	15,709

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 4,070	INR 4,240
	FY22E	FY23E
EPS %	+7.4	+3.9

### KEY STOCK DATA

Bloomberg code	TEAM IN
No. of Shares (mn)	17
MCap (INR bn) / (\$ mn)	64/867
6m avg traded value (INR mn)	111
52 Week high / low	INR 1,750/4,098

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	16.4	33.8	104.1
Relative (%)	11.0	20.5	66.3

### SHAREHOLDING PATTERN (%)

	Mar-21	June-21
Promoters	34.01	34.01
FIs & Local MFs	12.29	12.61
FPIs	37.83	37.00
Public & Others	15.87	16.38
Pledged Shares	0.49	0.49

Source : BSE

Pledged shares as % of total shares

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# Mastek

## Strong growth engine

We maintain BUY on Mastek, following a better-than-expected Q1FY22 (in terms of revenue and margin) and its strong growth prospects ahead. Mastek has seen strong growth for the past five quarters (CQGR of 8.5%), which is expected to continue, based on: (1) traction in the UK government business; (2) strong order booking (+56% YoY); (3) ramp-up of large deal wins (NHS, HMRC, Home Office); and (4) revival of the UK private and US geography. The new CEO would focus on building the US business (both organic and inorganic), reviving the UK private (retail and BFSI), and increasing investment in sales capabilities/talent. The early signs of revival are visible in the US geography (+12% QoQ) - the deals wins in retail, manufacturing, and healthcare verticals indicate continued growth momentum. The EBIT margin was almost flat in Q1FY22 (+524bps YoY) but it is expected to decline by ~90bps in FY22E due to increased investments, wage hike (planned for Q2), and increase in freshers' hiring. We remain positive on Mastek and increase our target multiple to 22x (earlier 20x) and revenue/EPS estimates by +2.3/3.8% for FY23E, based on organic growth acceleration. Our TP of INR 2,800 is based on 22x June-23E EPS. The stock trades at a P/E 26.4/20.5x FY22/23E, which is a discount of ~20% to the tier-2 IT average.

- **Q1FY22 highlights:** (1) Revenue stood at USD 70.2mn (+4.8% QoQ CC) vs. the estimate of USD 68.9mn, supported by strong traction in the UK geography (+6.9% QoQ) and revival in the US (+12.0% QoQ); (2) The 12-month executable order book stood at USD 158mn (+2.5% QoQ), following a strong Q4; (3) EBIT margin expanded 14bps QoQ to 20%, with attrition inching up to 19.6% from 14.3% QoQ; (4) The UK government/retail vertical supported growth (+13.6/+3.5% QoQ) while the BFSI/healthcare verticals remained soft (+0.3/-2.7% QoQ); (5) Mastek hired 510 employees on a net basis (highest ever in one quarter).
- **Outlook:** We expect USD revenue growth of +25.4/16.6% in FY22/23E, which implies a CQGR of +2.5% for Q2-Q4 FY22E. We estimate EBIT margin at 17.7/18.7% over FY22/23E, resulting in a FY21-24E EPS CAGR at 25.4%.

### Quarterly Financial summary

YE March (INR bn)	Q1 FY22	Q1 FY21	YoY (%)	Q4 FY21	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
Revenue (USD Mn)	70	51	38.2	66	6.5	151	232	290	338	384
Net Sales	5.16	3.86	33.8	4.83	6.9	10.71	17.22	21.49	25.43	29.23
EBIT	1.03	0.57	81.4	0.96	7.6	1.32	3.20	3.80	4.77	5.74
APAT	0.69	0.40	71.4	0.61	14.4	1.31	2.09	2.70	3.47	4.13
Diluted EPS (INR)	24.32	14.19	71.4	21.25	14.4	46.1	73.5	94.7	122.0	144.8
P/E (x)						54.2	34.0	26.4	20.5	17.2
EV / EBITDA (x)						45.1	18.0	14.5	11.3	9.0
RoE (%)						17.4	25.4	28.1	29.2	27.9

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)	284	291	2.2	332	339	2.3	375	385	2.7
Revenue	21.03	21.49	2.2	24.87	25.43	2.3	28.47	29.23	2.7
EBIT	3.78	3.80	0.6	4.64	4.77	2.7	5.65	5.74	1.7
EBIT margin (%)	18.0	17.7	-28bps	18.7	18.7	8bps	19.8	19.7	-19bps
APAT	2.65	2.70	1.7	3.35	3.47	3.8	3.97	4.13	3.8
EPS (INR)	93.2	94.7	1.7	117.5	122.0	3.8	139.5	144.8	3.8

Source: Company, HSIE Research

**BUY**

CMP (as on 20 Jul 2021) INR 2,498

Target Price INR 2,800

NIFTY 15,632

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 2,460	INR 2,800
EPS %	FY22E +1.7	FY23E +3.8

### KEY STOCK DATA

Bloomberg code	MAST IN
No. of Shares (mn)	25
MCap (INR bn) / (\$ mn)	63/848
6m avg traded value (INR mn)	422
52 Week high / low	INR 2,600/413

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	80.9	116.7	488.8
Relative (%)	71.5	111.8	449.3

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	44.32	44.25
FIs & Local MFs	11.99	10.71
FPIs	6.51	5.67
Public & Others	37.18	39.37
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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# CDSL

## Strong momentum continues

We maintain our BUY rating, following a strong revenue performance (+13.8% QoQ), driven by continued traction in transaction income and uptick in annual issuer charges. Key attributes that underscore our positive stance include (1) strong momentum in transaction revenue (+20% QoQ), driven by retail activity (online brokers) and pledge income, (2) continued gains in BO account market share (+1000bps YoY to 64%), (3) sustained growth in annual issuer charges (annuity income), driven by BO accounts addition and unlisted opportunity, (4) investments in technology for enhanced capacity/security, (5) high cash generation and net cash of INR 9.1bn and, (6) +27/31% revenue/EBITDA CAGR over FY21-24E, following a strong FY21. The operating margin expanded 156bps QoQ to 61.5% (stood higher than our estimate), led by operating leverage, offset by higher provisions and increase in regulatory cost. We increase our revenue estimates for FY22/23E by 10.7/14.6% and core P/E multiple to 45x (40x earlier). FY22/23E EPS increases by 17.8/17.6%. We value CDSL on an SoTP basis by assigning 45x to June-23E core profit and adding net cash to arrive at a target price of INR 1,440. The stock is trading at a P/E of 48.3/40.7x FY22/23E EPS.

- **Q1FY22 highlights:** CDSL revenue stood at INR 1.17bn (+13.8/+79.7% QoQ/YoY), higher than our estimate of INR 1.08bn. The Annual issuer/transaction/KYC revenue were up +27.5/+19.6/+24.6% QoQ. Revenue from IPO/corporate action was down 40.6% QoQ, while other comprising e-voting and e-CAS revenue was up 11.2% QoQ. On the cost front, employee/technology/other costs were up 6/1.2/13.4%, but EBITDA margin expanded 138bps QoQ, led by strong growth. The other expenses were higher due to provisions (+14.1% QoQ), higher IPF contribution and elevated SMS cost. CDSL derives 67% of its revenue from market linked activity.
- **Outlook:** We expect revenue growth of +40.8/+21.8 and an EBITDA margin of 63.3/66.4% in FY22/23E. The revenue CAGR of 27% over FY21-24E assumes +22/34/18/36% revenue CAGR in issuer/transaction/IPO/KYC revenue. Core PAT CAGR over FY21-24E is at +32%.

### Quarterly Financial summary

YE March (INR mn)	1Q FY22	1Q FY21	YoY (%)	4Q FY21	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
Net Revenues	1,173	653	79.7	1,031	13.8	2,251	3,437	4,838	5,895	6,997
EBITDA	737	381	93.7	634	16.3	1,084	2,118	3,061	3,915	4,741
APAT	639	462	38.4	517	23.4	1,255	2,003	2,885	3,420	4,079
Diluted EPS (INR)	6.1	4.4	38.4	5.0	23.4	12.0	19.2	27.6	32.7	39.0
P/E (x)						111.0	69.5	48.3	40.7	34.2
EV / EBITDA (x)						121.9	61.4	42.1	32.5	26.4
RoE (%)						17.3	22.8	27.8	27.9	28.2
Cash/Mcap (%)						4.5	5.4	5.9	7.0	8.2

Source: Company, HSIE Research, Consolidated Financials

### Change in Estimates

INR mn	FY22E Old	FY22E Revised	Change %	FY23E Old	FY23E Revised	Change %	FY24E Old	FY24E Revised	Change %
Revenue	4,372	4,838	10.7	5,144	5,895	14.6	6,048	6,997	15.7
EBITDA	2,686	3,061	14.0	3,265	3,915	19.9	3,909	4,741	21.3
EBITDA margin (%)	61.4	63.3	185bps	63.5	66.4	293bps	64.6	67.8	312bps
APAT	2,450	2,885	17.8	2,909	3,420	17.6	3,429	4,079	18.9
EPS (INR)	23.4	27.6	17.8	27.8	32.7	17.6	32.8	39.0	18.9

Source: Company, HSIE Research

## BUY

CMP (as on 4 Aug 2021)	INR 1,333
Target Price	INR 1,440
NIFTY	16,259

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 1,075	INR 1,440
EPS %	FY22E +17.8	FY23E +17.6

### KEY STOCK DATA

Bloomberg code	CDSL IN
No. of Shares (mn)	105
MCap (INR bn) / (\$ mn)	139/1,872
6m avg traded value (INR mn)	1,000
52 Week high / low	INR 1,579/339

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	71.6	153.1	280.5
Relative (%)	58.9	145.7	236.3

### SHAREHOLDING PATTERN (%)

	Mar-21	June-21
Promoters	20.00	20.00
FIs & Local MFs	26.76	25.86
FPIs	8.02	8.31
Public & Others	45.22	45.83
Pledged Shares	0.00	0.00

Source : NSE

Pledged shares as % of total shares

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# Multi Commodity Exchange

## Recovery expected

We maintain ADD on MCX, following a lower-than-expected revenue and margin performance. ADTV declined (-12% QoQ) sequentially for the third consecutive quarter due to an increase in upfront margin requirements (phase-3 at 75%, phase-4 applicable from Sep-21). Trading volume was down 10.6% QoQ due to continued weakness in bullion (-21% QoQ), while energy and metal volumes were stable QoQ. The volume impact due to regulatory changes was only ~3% in phase-3 vs. ~20% in phases 1 and 2. We believe volumes would recover with (1) increase in algo trading; (2) pick-up in crude volume (reduction in margin); (3) implementation of cross margin benefits; (4) higher institutional participation; (5) popularity of index futures contract (cash-settled); and (6) traction in the options contract. The company will start charging for options contracts effective Oct-21. The margin declined due to the revenue impact and increase in employee expenses. The shift to the new trading platform (effective Q3FY23) will result in cost savings, leading to a ~260bps margin tailwind in FY23E. We moderate our EPS estimate for FY22/23E by -3.3/1.8% to adjust for lower volume. We assign 30x P/E to June-23E core PAT and add net cash (ex-SGF) to arrive at a target price of INR 1,745.

- **Q1FY22 highlights:** MCX revenue stood at INR 0.88bn (-9.7/+20% QoQ/YoY), below our expectation of INR 0.90bn. The total traded value was at INR 17.73tn (-10.6/+25.7% QoQ/YoY) and ADTV stood at INR 277bn (-12.0/+19.8% QoQ/YoY). Bullion/energy/metals/agri ADTV was down 22.1/2.2/2.4/2.9% QoQ respectively. EBITDA margin stood at 42.1%, down 358bps QoQ, on account of lower revenue and higher employee expenses (+17.5% QoQ). Active UCC was up 16/79% QoQ/YoY, indicating higher retail participation. Options pricing will be INR 500/mn on premium, ~35% of futures pricing, based on notional volume.
- **Outlook:** We estimate a 14% ADTV CAGR over FY21-24E, resulting in +17/+30% revenue/EBITDA CAGRs over FY21-24E. The change in technology vendor in Oct-22 will lead to a margin benefit of ~500bps over FY23-24E.

### Quarterly Financial summary

YE March (INR mn)	1Q FY22	1Q FY21	YoY (%)	4Q FY21	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	876	730	20.0	970	(9.7)	3,978	3,906	4,025	5,074	6,226
EBITDA	369	265	38.9	443	(16.7)	1,784	1,852	1,857	2,924	4,064
APAT	398	564	(29.5)	384	3.5	2,365	2,252	2,217	3,044	4,026
EPS	7.8	11.1	(29.5)	7.6	3.5	46.5	44.3	43.6	59.8	79.1
P/E (x)						34.1	37.1	37.7	27.5	20.8
EV / EBITDA (x)						39.4	39.1	38.5	24.2	17.2
RoE (%)						18.1	16.2	15.4	20.3	25.5

Source: Company, HSIE Research, Consolidated Financials

### Change in Estimates

YE March (INR mn)	FY22E Old	FY22E Revised	Change %	FY23E Old	FY23E Revised	Change %	FY24E Old	FY24E Revised	Change %
Revenue	4,102	4,025	-1.9	5,135	5,074	-1.2	6,104	6,226	2.0
EBITDA	1,927	1,857	-3.6	2,985	2,924	-2.0	3,947	4,064	3.0
EBITDA margin (%)	47.0	46.1	-84bps	58.1	57.6	-50bps	64.7	65.3	62bps
APAT	2,293	2,217	-3.3	3,099	3,044	-1.8	3,897	4,026	3.3
EPS (INR)	45.1	43.6	-3.3	60.9	59.8	-1.8	76.6	79.1	3.3

Source: Company, HSIE Research

## ADD

CMP (as on 26 July 2021)	INR 1,695
Target Price	INR 1,745
NIFTY	15,824

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 1,750	INR 1,745
EPS %	FY22E -3.3	FY23E -1.8

### KEY STOCK DATA

Bloomberg code	MCX IN
No. of Shares (mn)	51
MCap (INR bn) / (\$ mn)	87/1,162
6m avg traded value (INR mn)	545
52 Week high / low	INR 1,875/1,432

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	14.3	1.8	12.7
Relative (%)	6.3	(9.7)	(26.7)

### SHAREHOLDING PATTERN (%)

	Mar-21	June-21
Promoters	0.00	0.00
FIs & Local MFs	39.81	39.19
FPIs	36.23	35.27
Public & Others	23.96	25.54
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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## BSE

### On a growth path

We maintain a BUY rating on BSE Ltd on account of strong performance (in line with expectation) and better-than-expected EBITDA margin. Growth was driven by market-linked revenue, with core transaction revenue increasing by 25.6% QoQ. BSE maintained its market share of 7.2% in the cash segment, supported by interoperability. The exchange is trying to rebuild the derivatives volume, whose current market share is only ~6.5%; it is expected to support cash volumes and is a potential revenue driver. New initiatives like the insurance platform, power, and spot exchange are promising but currently lack revenue visibility. Revenue growth will be led by continued growth in transaction volume, StAR MF and stable listing revenue. INX, which is growing strongly (~63% YoY), can be a revenue driver if BSE starts charging (expected in FY23E). We increase the EPS estimate by +10.2/9.6% for FY22/23E, based on volume uptick and better margin. We assign an SoTP-based target price of INR 1,385, by assigning 20x (earlier 15x) to core June-23E PAT (INR 546/share), INR 466/share for the CDSL stake, and adding net cash of INR 372/share.

- **Q1FY22 highlights:** Revenue was up 3% QoQ to INR 1.57bn vs. estimate of INR 1.56bn. Cash transaction revenue was up 31% QoQ, supported by a higher exclusive volume. StAR MF realisation declined to INR 2.8/order (-63% YoY due to price negotiation) but volume was up 90% YoY. Listing revenue was down 3.9% QoQ. INX ADTV stood at USD 12bn (~5x YoY) and the number of daily trades were at 133k (+63% YoY). EBITDA margin expanded 203bps to 32.3% in the quarter, supported by transaction revenue growth and flat operating expenses.
- **Outlook:** We expect revenue growth of 19.6/16.8% and EBITDA margins of 22.7/28.3% in FY22/23E respectively. We are assuming StAR MF revenues of INR 0.50/0.73bn in FY22/23E. Core profits after taxes for FY22/23E stand at INR 0.64/1.15bn.

### Quarterly Financial summary

YE March (INR mn)	1Q FY22	1Q FY21	YoY (%)	4Q FY21	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
Net Revenues	1,570	1,032	52.1	1,522	3.1	4,505	5,014	5,996	7,003	7,800
EBITDA	507	(78)	NM	461	10.0	81	725	1,364	1,979	2,385
APAT	628	391	60.7	414	51.8	1,410	1,750	2,514	3,019	3,437
Diluted EPS (INR)	14.0	8.7	60.7	9.2	51.8	31.3	38.9	55.9	67.1	76.4
P/E (x)						38.9	31.3	21.8	18.1	15.9
EV / EBITDA (x)						455.2	52.5	27.0	18.0	14.2
RoE (%)						5.8	7.0	9.8	11.5	12.7

Source: Company, HSIE Research, Consolidated Financials

### Change in Estimates

INR Mn	FY22E Old	FY22E Revised	Change %	FY23E Old	FY23E Revised	Change %	FY24E Old	FY24E Revised	Change %
Revenue	5,810	5,996	3.2	6,800	7,003	3.0	7,617	7,800	2.4
EBITDA	1,206	1,364	13.0	1,808	1,979	9.5	2,237	2,385	6.6
EBITDA margin (%)	20.8	22.7	198bps	26.6	28.3	167bps	29.4	30.6	121bps
APAT	2,282	2,514	10.2	2,754	3,019	9.6	3,156	3,437	8.9
EPS (INR)	50.7	55.9	10.2	61.2	67.1	9.6	70.1	76.4	8.9

Source: Company, HSIE Research

## BUY

CMP (as on 6 Aug 2021)	INR 1,217
Target Price	INR 1,385
NIFTY	16,238

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 1,075	INR 1,385
EPS %	FY22E +10.2	FY23E +9.6

### KEY STOCK DATA

Bloomberg code	BSE IN
No. of Shares (mn)	45
MCap (INR bn) / (\$ mn)	55/737
6m avg traded value (INR mn)	1,057
52 Week high / low	INR 1,410/466

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	78.3	99.5	144.9
Relative (%)	67.4	92.6	102.1

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	0.00	0.00
FIs & Local MFs	2.04	2.52
FPIs	10.95	10.14
Public & Others	87.01	87.34
Pledged Shares	0.00	0.00

Source : NSE

Pledged shares as % of total shares

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## Oil & Gas

# Reliance Industries

## Continues to show promise

Our ADD rating on RIL with a price target of INR 2,280 /sh is premised on (1) recovery in the O2C businesses; (2) continued EBITDA growth in the digital business, driven by improvement in ARPU, subscriber addition, and new revenue streams; and (3) potential for further value unlocking in the digital and retail businesses.

RIL reported standalone revenue/EBITDA of INR 861/115bn, up 82/61% YoY and up 7/12% QoQ (18/15% above our estimates) in Q1. Standalone APAT stood at INR 86bn, -8/+13% YoY/QoQ (HSIE est: INR 58bn).

**Standalone oil to chemicals (O2C) segment:** Revenue grew 4% QoQ to INR 928bn, on account of higher price realisation across product portfolios. Higher realisation was primarily led by robust global fuel demand and supply management by the OPEC plus countries. EBITDA for Q1 improved by 6% QoQ to INR 119bn, due to improvement in transportation fuels cracks and higher delta for integrated polyester chain, offset by a negative delta for polymers. Crude throughput improved 10/2% YoY/QoQ.

**Oil & gas:** Revenue grew 97% QoQ to INR 10bn, primarily due to ramp-up of production from R-Cluster and start of production from the Satellite Cluster in KG D6 block. The combined production from the two fields was >18.0mmscmd. EBITDA improved 98% QoQ to INR 7bn, supported by margin expansion, improved production and improved price realisation for CBM and US-shale.

**RJio:** Revenue improved by 10/4% YoY/QoQ to INR 190bn due to subscriber traction in connectivity platform. ARPU remains stable at INR 138.4, while the gross/net subscriber addition was ~27/14mn.

**Reliance Retail (RR):** Net revenue grew 19% YoY to INR 335.6bn (HSIE: INR346.7bn). The core retail revenue grew 52% YoY to INR 185.6bn (HSIE: INR189.9bn). Grocery (incl. JioMART)/CE/F&L are estimated to have clocked 23/80/200/18% YoY resp. Adj. EBITDAM expanded 38bp YoY to 4.1% (in-line)

**Valuation:** We use EV/EBITDA to value downstream at March-23E EV/e, Retail on peer benchmarked EV/e and E&P and Jio on DCF. The stock is currently trading at 10.4x March-23E EV/EBITDA and 20.8x March-23E EPS. Maintain ADD.

### Financial Summary – Consolidated

Year Ending	1Q	4Q	QoQ	1Q	YoY	FY20	FY21	FY22E	FY23E
March (INR bn)	FY22	FY21	(%)	FY21	(%)				
Net Sales	1,399	1,496	(6.4)	883	58.6	5,975	4,669	7,326	8,712
EBITDA	234	234	0.1	169	38.5	890	807	1,098	1,328
PAT	138	150	(7.6)	129	7.1	427	437	526	683
Diluted EPS (INR)	18.7	19.4	(3.4)	13.1	43.4	67.4	67.8	77.8	101.0
P/E (x)						31.2	31.1	27.1	20.8
EV / EBITDA (x)						18.2	19.3	13.0	10.4
RoE (%)						10.2	7.6	7.1	8.4

Source: Company, HSIE Research

### Change in estimates (Consolidated)

	FY22E			FY23E		
	Old	New	Ch%	Old	New	Ch%
EBITDA (INR bn)	1,111	1,098	(1.2)	1,331	1,328	(0.2)
PAT (INR bn)	538	526	(2.3)	691	683	(1.1)
AEPS(INR/sh)	79.6	77.8	(2.3)	102.2	101.0	(1.1)

Source: HSIE Research

## ADD

CMP (as on 23 Jul 2021)	INR 2,106
Target Price	INR 2,280
NIFTY	15,856

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 2,280	INR 2,280
EPS %	FY22E (2.3)%	FY23E (1.1)%

### KEY STOCK DATA

Bloomberg code	RIL IN
No. of Shares (mn)	6,339
MCap (INR bn) / (\$ mn)	13,349/179,398
6m avg traded value (INR mn)	20,444
52 Week high / low	INR 2,375/1,746

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	10.6	8.5	(1.9)
Relative (%)	1.1	(1.1)	(40.8)

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	50.58	50.59
FIs & Local MFs	12.84	13.27
FPIs	25.64	25.09
Public & Others	10.94	11.05
Pledged Shares	0.0	0.0

Source : BSE

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# ONGC

## Higher crude price realisation continues

Our BUY recommendation on ONGC with a price target of INR 143 is premised on ((1) increase in crude price realisation and (2) improvement in domestic gas price realisation (at USD 2.5/mmbtu). We expect oil price realisation to increase to ~USD 59/bbl in FY22E and USD 61/bbl in FY23E vs. USD 44/bbl in FY21, given the expected global economic rebound, post COVID. Q1FY22 revenue was 2% below our estimate, owing to a lower-than-expected crude oil price realisation of USD 67.1/bbl (vs the estimated USD 68.7/bbl). EBITDA in Q1 was 2% below our estimate, while APAT was 15% below, owing to higher-than-expected employee cost, higher-than-expected depreciation, lower-than-expected other income and higher tax rate, partially offset by lower-than-expected other expenses and exploration cost.

- **Standalone financial performance:** Revenue for Q1FY22 stood at INR 230bn (+77% YoY, +9% QoQ). EBITDA was at INR 122bn (+105% YoY, +20% QoQ) due to lower opex. APAT in Q1 was INR 43bn (+773% YoY, -34% QoQ).
- **Standalone operational performance:** Q1 crude oil realisation was USD 67.1/bbl (+132% YoY, +13% QoQ), while gas realisation was USD 1.9/mmbtu (-23% YoY, -2% QoQ). Oil sales volume was 4.4mmt (-2%YoY, -3%QoQ). Gas sales volume was 3.9bcm (-6% YoY, -7% QoQ).
- **Con call takeaways:** (1) Capex target for FY22 is around INR 295-325bn. (2) OPAL operated at ~87% capacity in Q1 and generated a profit of INR 650mn. (3) Gas production target for FY22 is 24.79bcm and for FY23 24.7-27.3 bcm. (4) Peak production from KG 98/2 field is estimated ~14.5mmscmd.
- **We value ONGC's standalone business at INR 112 and its investments at INR 31. The stock is currently trading at 3.9x FY23E EPS.**

### Standalone Financial summary

YE March (INR bn)	1Q FY22	4Q FY21	QoQ (%)	1Q FY21	YoY (%)	FY19*	FY20*	FY21P*	FY22E*	FY23E*
Revenues	230	212	8.6	130	76.9	4,537	4,250	3,606	4,224	4,465
EBITDA	122	101	20.0	59	105.7	840	611	566	756	827
APAT	43	65	(33.7)	5	772.9	349	180	207	373	419
AEPS (INR)	3.4	5.2	(33.7)	0.4	772.9	27.7	14.3	16.5	29.7	33.3
P/E (x)						4.2	8.1	7.0	3.9	3.5
EV/EBITDA (x)						3.0	4.2	4.7	2.7	2.3
RoE (%)						16.6	8.5	9.7	16.0	16.3

Source: Company, HSIE Research | \*Consolidated

## BUY

CMP (as on 13 Aug 2021)	INR 116
Target Price	INR 143
NIFTY	16,529

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 143	INR 143
EPS %	FY22E	FY23E
	-	-

### KEY STOCK DATA

Bloomberg code	ONGC IN
No. of Shares (mn)	12,580
MCap (INR bn) / (\$ mn)	1,461/19,627
6m avg traded value (INR mn)	3,257
52 Week high / low	INR 129/64

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	0.9	19.7	47.7
Relative (%)	(13.0)	12.1	3.0

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	60.41	60.41
FIs & Local MFs	17.48	17.60
FPIs	8.08	8.06
Public & Others	14.03	13.93
Pledged Shares	0.00	0.00

Source: BSE

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# Indian Oil Corporation

## Muted performance

Our ADD rating on Indian Oil Corporation (IOC) with a price target of INR 114 is premised on (1) recovery in domestic demand for petroleum products in FY22, (2) improvement in refining margins in FY22/23, and (3) sustainability of auto fuel gross margins over INR 3.0/lit.

- Reported EBITDA was 13% below our estimate and APAT was 21% below, owing to lower-than-expected gross margins in marketing and petchem segments, forex loss and higher interest cost, offset by higher GRM of USD 6.6/bbl (HSIE: USD 4.7/bbl). Refining calculated inventory gain was INR 40bn. Adjusting for inventory gains and forex gain, core EBITDA comes to INR 77bn.
- Refining:** Crude throughput in Q1 stood at 16.7mmt (+29.6% YoY and -5.0% QoQ). Core GRM stood at USD 2.2/bbl vs USD 2.5/bbl in Q4FY21 and USD 4.3/bbl in Q1FY21. We estimate core GRM at USD 3.1/3.3/bbl in FY22/23E.
- Marketing:** Domestic marketing sales volume was 17.2mmt (+21.1 YoY and -11.3% QoQ). Blended gross margin stood at INR 4.8/lit (-22.7% YoY and +2.8% QoQ) in Q1, but these do not seem sustainable in the near term. We expect blended gross margins to correct to INR 4.3/4.5/lit in FY22/23E.
- Earnings call takeaways:** (1) Capex planned for FY22/23E is INR 285bn and INR300bn. (2) Borrowings as at Jun'21-end stood at INR 857bn. (3) Core GRM for Q1FY22 stood at USD 2.24/bbl. (4) Singapore GRM was reported at USD 2.05/bbl in Q1.
- Our SOTP target, at INR 114/sh, is based on (5.0x Mar-23E EV/e for standalone refining, marketing and petchem businesses, 5.5x Mar-23E EV/e for pipeline business, and INR 30/sh for other investments). The stock is currently trading at 7.5x on FY23E EPS.**

### Standalone Financial Summary

YE March (INR bn)	1Q FY22	4Q FY21	QoQ (%)	1Q FY21	YoY (%)	FY19*	FY20*	FY21P*	FY22E*	FY23E*
Revenue	1,187	1,237	(4.1)	624	90.2	5,282	4,844	3,639	4,122	4,357
EBITDA	111	135	(17.6)	55	101.8	352	168	417	257	303
APAT	59	88	(32.3)	19	210.9	174	(159)	239	99	129
AEPS (INR)	6.5	9.6	(32.3)	2.1	210.9	18.9	(5.0)	24.8	10.8	14.0
P/E (x)						5.6	(21.3)	4.3	9.8	7.5
EV / EBITDA (x)						5.1	12.6	4.7	7.4	6.4
RoE (%)						15.4	(15.3)	23.0	8.6	10.6

Source: Company, HSIE Research | \*Consolidated

## ADD

CMP (as on 2 Aug 2021)	INR 106
Target Price	INR 114
NIFTY	15,885

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 114	INR 114
EPS %	FY22E	FY23E
	-	-

### KEY STOCK DATA

Bloomberg code	IOCL IN
No. of Shares (mn)	9,414
MCap (INR bn) / (\$ mn)	993/13,359
6m avg traded value (INR mn)	2,447
52 Week high / low	INR 118/71

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	16.1	6.8	19.3
Relative (%)	7.4	1.4	(24.1)

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	51.50	51.50
FIs & Local MFs	13.09	12.48
FPIs	5.81	6.70
Public & Others	29.60	29.32
Pledged Shares	0.0	0.0

Source : BSE

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# Bharat Petroleum Corporation

## Muted performance

Our ADD rating on Bharat Petroleum (BPCL) with a price target of INR 500 is premised on (1) recovery in domestic demand for petroleum products in FY22, (2) improvement in refining margins over the coming 18 months, and (3) sustainability of auto fuel gross margin over INR 4.0/lit. Q1 EBITDA was 9% below our estimate and APAT was 35% below, owing to lower-than-expected marketing gross margin, inventory gains, other income and forex loss, offset by higher-than-expected GRM at USD 4.1/bbl. Total inventory gains stood at INR 11bn (calculated). Forex loss stood at INR 0.5bn and one-off expenses at INR 0.8bn. Adjusting for these, core EBITDA stood at INR 22bn (HSIE: INR 17bn).

- **Refining:** Crude throughput in Q1 stood at 6.8mmt (+33% YoY, -19% QoQ). Utilisation at the refineries was at 90% as demand was impacted by the second wave of COVID-19. GRM stood at USD 4.1/bbl vs. USD 0.4/bbl YoY, USD 6.6/bbl QoQ.
- **Marketing:** Domestic marketing sales volume was 9.6mmt (+28% YoY, -14% QoQ). Blended gross margin stood at INR 4.4/lit (-37% YoY, +1% QoQ). We expect blended gross margin at INR 4.8/lit in FY22E and INR 5.0/lit in FY23E.
- **Con call takeaways:** (1) Capex spent in Q1 was INR 40bn and guidance for FY22 is of INR 100bn. (2) Debt at the end of Q1 was INR 216bn, with a D/E ratio of 0.4x. (3) The Propylene Derivatives Petrochemical Project (PDPP) at Kochi is still undergoing commissioning. Production from the PDPP will be ramped up in H2FY22. On a full-year basis, this project shall contribute a GRM of USD 1/bbl. (4) 133 retail outlets were added in the quarter. (5) As of Jul-21, domestic demand is higher for petrol by +5% and diesel by +8% vs Jul-19.
- **SOTP-based valuation:** Our price target comes to INR 500/sh (5.5x Mar-23E EV/e for the standalone refining and marketing businesses, 6x Mar-23E EV/e for the pipeline business, and INR 108/sh for other investments). The stock is currently trading at 10.2x on FY23E EPS.

### Standalone Financial Summary

YE March (INR bn)	1Q FY22	4Q FY21	QoQ (%)	1Q FY21	YoY (%)	FY19*	FY20*	FY21P*	FY22E*	FY23E*
Revenues	709	769	(7.8)	388	82.9	2,982	2,846	2,302	2,383	2,494
EBITDA	33	51	(35.7)	39	(16.9)	151	83	213	150	172
APAT	16	49	(68.1)	21	(23.9)	78	31	162	79	93
AEPS (INR)	7.4	23.6	(68.6)	9.9	(25.2)	37.3	14.6	77.2	37.6	44.6
P/E (x)						12.2	31.1	5.9	12.1	10.2
EV/EBITDA (x)						8.8	18.2	5.6	8.0	6.7
RoE (%)						20.7	8.1	35.9	16.7	21.9

Source: Company, HSIE Research | \*Consolidated

## ADD

CMP (as on 13 Aug 2021)	INR 455
Target Price	INR 500
NIFTY	16,529

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 500	INR 500
EPS %	FY22E	FY23E
	-	-

### KEY STOCK DATA

Bloomberg code	BPCL IN
No. of Shares (mn)	2,169
MCap (INR bn) / (\$ mn)	986/13,256
6m avg traded value (INR mn)	4,486
52 Week high / low	INR 494/325

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	1.2	8.8	8.0
Relative (%)	(12.6)	1.2	(36.7)

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	52.98	52.98
FIs & Local MFs	24.17	23.21
FPIs	12.42	12.63
Public & Others	10.43	11.18
Pledged Shares	0.00	0.00

Source : BSE

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## GAIL (India)

### Muted performance on higher raw material cost

Our BUY recommendation on GAIL with a price target of INR 195 is based on 9% CAGR expansion in gas transmission volume over FY21-23E to 124mmscmd on the back of (1) increase in domestic gas production, (2) increase in demand of RLNG, and (3) completion of major pipelines in eastern and southern India. Q1FY22 EBITDA was 9% below our estimate and APAT was 14% below, owing to higher-than-expected raw material cost, operating expenses, and lower-than-expected other income, offset by lower-than-expected finance cost.

- **NG transmission:** Q1 revenue came at INR 15bn (+17% YoY, -3.1% QoQ). Transmission volumes came in at 108mmscmd (+19% YoY, -2% QoQ) and tariff at INR 1,516/tscm (+13% YoY and -2% QoQ). The operating profit came in at INR 12bn (+23% YoY and -2% QoQ).
- **Petchem:** Q1 revenue was reported at INR 14bn (+12% YoY, -39% QoQ), with sales volume at 138kT, (-25% YoY, -41% QoQ). The overall revenue was up YoY with improvement in realisation, offset by lower volumes due to the planned shutdown in Q1. Realisation remains healthy at INR 99/kg (+48% YoY, +4% QoQ). The operating profit of the segment was at INR 3bn on account of improved price realisation, offset by lower physical performance as planned shutdown resulted in utilisation at 60%.
- **Con call takeaways:** (1) The company has planned a Capex of INR ~400bn for the next five years. (2) The management has guided for 10-12mmscmd increase in gas transmission volume by FY22-end. (3) The company has fully tied up trading volumes for FY22 and FY23.
- **Change in estimates:** We adjust our FY22E EPS estimate by -2% to INR 17.9, post incorporating the Q1FY22 results.
- **Our SOTP, at INR 195/sh, is based on (7.0x Mar-23E EV/e for the stable gas, LPG transmission and gas marketing business, 5.0x EV/e for the cyclical petchem and LPG/LHC business, INR 38 for investments). The stock is currently trading at 7.4x FY23E EPS.**

#### Standalone Financial Summary

YE March (INR bn)	1Q FY22	4Q FY21	QoQ (%)	1Q FY21	YoY (%)	FY19*	FY20*	FY21P*	FY22E*	FY23E*
Revenue	174	155	11.8	121	43.8	762	725	574	740	816
EBITDA	24	26	(6.0)	6	287.3	97	90	72	107	119
APAT	15	19	(19.8)	3	498.9	65	94	61	79	86
AEPS (INR)	3.4	4.3	(19.8)	0.6	498.9	14.7	21.2	13.8	17.8	19.4
P/E (x)						9.7	6.7	10.3	8.0	7.4
EV / EBITDA (x)						6.6	7.6	9.5	6.1	5.4
RoE (%)						14.9	19.8	12.0	13.8	13.2

Source: Company, HSIE Research | \*Consolidated

#### Change in estimates

	FY22E			FY23E		
	Old	New	Ch%	Old	New	Ch%
EBITDA (INR bn)	109	107	(2.0)	119	119	0.0
AEPS (INR/sh)	18.1	17.8	(2.0)	19.4	19.4	(0.0)

Source: Company, HSIE Research

### BUY

CMP (as on 5 Aug 2021)	INR 143
Target Price	INR 195
NIFTY	16,295

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 195	INR 195
EPS %	FY22E (2.0)	FY23E -

#### KEY STOCK DATA

Bloomberg code	GAIL IN
No. of Shares (mn)	4,440
MCap (INR bn) / (\$ mn)	635/8,527
6m avg traded value (INR mn)	2,931
52 Week high / low	INR 170/81

#### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(1.5)	11.5	53.2
Relative (%)	(13.4)	4.1	8.5

#### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	51.82	51.83
FIs & Local MFs	27.78	27.33
FPIs	15.63	16.96
Public & Others	4.77	3.88
Pledged Shares	0.0	0.0

Source : BSE

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# Gujarat Gas

## EBITDA margin expansion due to lower gas cost

Our BUY recommendation on Gujarat Gas (GGL) with a price target of INR 900 is premised on (1) volume growth at 20% CAGR over FY21-23E; (2) portfolio of mature, semi-mature, and new geographical areas (GAs); and (3) compelling valuations, given superior return ratios among the city gas distribution players. Q1FY22 EBITDA was 34% above our estimate and APAT was 43% above, owing to 44% above-than-expected per unit EBITDA margin, supported by lower gas cost, lower-than-expected interest cost and higher-than-expected other income, offset by 7% lower volumes.

- **Volumes:** Blended volume stood at 10.01mmscmd (HSIE 10.77), supported by industrial demand (7.78mmscmd or 78% of volume mix). CNG volumes were at 1.55mmscmd (+127% YoY, -9% QoQ), domestic PNG volumes at 0.59mmscmd (+4% YoY, -19%QoQ) and commercial PNG volumes at 0.09mmscmd (+167% YoY, -21% QoQ). The company's gas sales volume was impacted by the second COVID-19 wave during Q1.
- **Margin:** Per unit gross spread, at INR 10.43 (+11% YoY, +48% QoQ), benefited from lower raw material costs due to domestic contracts of 2.0mmscmd in Q1. Per unit EBITDA came in at an all-time high of INR 7.94/scm (+61% YoY, +56% QoQ). We expect per unit EBITDA of INR 6.1/6.3/scm in FY22/23E.
- **Change in estimates:** We raise our EPS estimates for FY22E by 5.1% and FY23E by 2% to INR 24.9/30.9, to factor in the Q1FY22 performance in FY22, and a better volume assumption for 23E.
- **DCF-based valuation:** Our target price of INR 900 is based on Mar-23E free cash flows (WACC 9%, terminal growth rate 3%). The stock is currently trading at 25x FY23E EPS.

### Standalone Financial Summary

YE March (INR bn)	1Q FY22	4Q FY21	QoQ (%)	1Q FY21	YoY (%)	FY19	FY20	FY21P	FY22E	FY23E
Revenue	30	34	(12.2)	11	178.0	78	103	99	126	147
EBITDA	7	6	30.4	2	289.2	10	16	21	26	31
APAT	5	3	36.1	1	711.7	4	12	13	17	21
AEPS (INR)	6.9	5.1	36.1	0.9	711.7	6.1	17.2	18.5	24.9	30.9
P/E (x)						127.0	44.8	41.6	30.9	25.0
EV / EBITDA (x)						53.7	33.3	25.7	20.3	16.6
RoE (%)						20.6	43.3	32.8	32.7	30.6

Source: Company, HSIE Research

### Change in estimates

	FY22E			FY23E		
	Old	New	Ch%	Old	New	Ch%
Volume (mmscmd)	12.1	11.9	(1.6)	13.3	13.5	1.5
Per unit EBITDA (INR/scm)	5.7	6.0	5.6	6.3	6.3	(0.0)
EBITDA (INR bn)	25.3	26.3	4.0	30.5	30.9	1.5
AEPS (INR/sh)	23.7	24.9	5.1	30.3	30.9	2.0

Source: Company, HSIE Research

## BUY

CMP (as on 5 Aug 2021)	INR 772
Target Price	INR 900
NIFTY	16,295

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 800	INR 900
EPS %	FY22E +5.1%	FY23E +2.0%

### KEY STOCK DATA

Bloomberg code	GUJGA IN
No. of Shares (mn)	688
MCap (INR bn) / (\$ mn)	532/7,144
6m avg traded value (INR mn)	1,194
52 Week high / low	INR 787/281

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	45.2	103.3	150.4
Relative (%)	33.3	95.9	105.8

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	60.89	60.89
FIs & Local MFs	7.38	7.90
FPIs	8.64	8.17
Public & Others	23.09	23.04
Pledged Shares	0.0	0.0

Source : BSE

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# Hindustan Petroleum Corporation

## Muted performance due to miss in GRM

Our ADD rating on Hindustan Petroleum Corporation (HPCL) with a price target of INR 292 is premised on (1) recovery in domestic demand for petroleum products in FY22, (2) improvement in refining margins over the coming 18 months, and (3) sustainability of auto fuel gross margin over INR 4.0/lit. Q1FY22 EBITDA was 2% below our estimate and APAT was 9% below, owing to lower-than-expected gross margin, forex loss and lower other income. GRM was reported at USD 3.3/bbl (HSIE: USD 3.7/bbl).

- **Refining:** Crude throughput in Q1 stood at 2.5mmt (-37% YoY, -43% QoQ), on account of the planned shutdown in Mumbai refinery during the quarter and fire accident at Vizag refinery, resulting in an overall combined capacity utilisation of 64% at its refineries in Q1FY22.
- **Marketing:** Domestic marketing sales volume was 8.5mmt (+17% YoY, -14% QoQ). Blended gross margin stood at INR 3.7/lit (-51% YoY, +5% QoQ). We estimate blended gross margin at INR 4.8/lit in FY22E and INR5.0/lit in FY23E.
- **Con call takeaways:** (1) Capex planned for FY22 and FY23E is INR 145bn each. (2) Borrowings as at Jun'21-end stood at INR 352bn. (3) 142 retail outlets added, taking the total to 18,776 as at Jun'21-end. (4) Mumbai refinery expansion should be completed in Aug-21. It is expected to reach 100% utilisation by Q3FY22. (5) The Vizag refinery expansion should be complete by FY22-end, barring bottom upgradation. Post expansion, the capacity will reach 13mmt/tpa by FY22-end and 15.5mmt/tpa after completion of bottom upgradation.
- **Our SOTP at INR 292/sh is based on (5.0x Mar-23E EV/e for standalone refining, marketing and petchem businesses, 5.5x Mar-23E EV/e for pipeline business, and INR 38/sh for other investments). The stock is currently trading at 5.3x on FY23E EPS.**

### Standalone Financial Summary

YE March (INR bn)	1Q FY22	4Q FY21	QoQ (%)	1Q FY21	YoY (%)	FY19*	FY20*	FY21P*	FY22E*	FY23E*
Revenue	724	748	(3.2)	377	92.1	2,755	2,691	2,332	2,467	2,656
EBITDA	32	47	(31.6)	44	(26.7)	116	47	160	90	121
APAT	18	30	(40.5)	28	(36.2)	67	3	107	53	73
AEPS (INR)	12.7	20.8	(39.1)	19.4	(34.7)	46.1	2.1	73.4	36.7	50.1
P/E (x)						5.8	125.4	3.6	7.2	5.3
EV / EBITDA (x)						5.1	15.5	4.7	8.0	5.8
RoE (%)						23.9	8.6	30.9	13.4	16.5

Source: Company, HSIE Research | \*Consolidated

## ADD

CMP (as on 5 Aug 2021)	INR 265
Target Price	INR 292
NIFTY	16,295

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 292	INR 292
EPS %	FY22E	FY23E
	-	-

### KEY STOCK DATA

Bloomberg code	HPCL IN
No. of Shares (mn)	1,419
MCap (INR bn) / (\$ mn)	376/5,052
6m avg traded value (INR mn)	1,748
52 Week high / low	INR 312/163

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	8.3	17.8	24.4
Relative (%)	(3.7)	10.3	(20.2)

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	53.50	54.90
FIs & Local MFs	18.93	18.93
FPIs	16.33	17.84
Public & Others	11.24	8.33
Pledged Shares	0.0	0.0

Source : BSE

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# Indraprastha Gas

## Sales volume disappoints

Our BUY recommendation on Indraprastha Gas with a target price of INR 691 is premised on (1) robust volume growth, led by its quasi-monopolistic position in Delhi/NCR with regulatory support in the form of prioritised gas allocation and (2) a portfolio of mature, semi-mature and new geographical areas (GA). Q1FY22 EBITDA was 15% below our estimate and PAT was 17% below, owing to lower-than-expected sales volume, higher-than-expected gas cost and higher-than-expected operating expenses, partially offset by higher-than-expected other income.

- **Volumes:** Blended volume stood at 5.3mmscmd (HSIEe 5.8mmscmd) (+96% YoY, -22% QoQ). Volume was lower QoQ as CNG and industrial/commercial demand was impacted by the second COVID-19 wave. CNG volumes were at 3.65mmscmd and PNG volumes were at 1.7mmscmd in the quarter.
- **Margins:** Per-unit gross spread in Q1 was at INR 14.4 (+4% YoY, +6% QoQ), supported by gas cost down 4% YoY. Per-unit EBITDA was at INR 7.9 (+133% YoY, -2% QoQ) due to higher per-unit opex (up 16% QoQ).
- **Outlook on volume:** We estimate CNG volume to increase by 24% YoY to 4.6mmscmd in FY22E and 18% YoY to 5.4mmscmd in FY23E. Total volume is estimated to increase by 21% YoY to 6.4mmscmd in FY22E and 17% YoY to 7.5mmscmd in FY23E.
- **Outlook on per-unit EBITDA:** Per-unit EBITDA is expected to correct by 6% YoY to INR 7.2/scm in FY22E on account of higher gas cost. Subsequently, per-unit EBITDA should improve to INR 7.7/scm in FY23E (+8% YoY). Consolidated EBITDA should grow by 13% YoY in FY22E to INR 17bn and 26% YoY in FY23E to INR 21bn, driven by improvement in volumes, positive outlook, and healthy per-unit margins.
- **DCF-based valuation:** Our target price is INR 691 (WACC 9%, terminal growth rate 3.0%). The stock is trading at 22.3x FY23E PE.

### Standalone Financial summary

YE March (INR bn)	1Q FY22	4Q FY21	QoQ (%)	1Q FY21	YoY (%)	FY19*	FY20*	FY21P*	FY22E*	FY23E*
Revenues	12.57	15.51	(18.9)	6.39	96.9	57.65	64.85	49.41	63.55	78.57
EBITDA	3.81	4.92	(22.6)	0.83	356.4	12.57	15.20	14.83	16.79	21.20
APAT	2.44	3.31	(26.2)	0.32	667.2	7.55	10.95	10.47	12.07	15.41
AEPS (INR)	3.5	4.7	(26.2)	0.5	667.2	12.0	17.8	16.8	19.0	24.0
P/E (x)						44.6	30.0	32.0	28.1	22.3
EV/EBITDA (x)						28.3	23.3	24.5	20.3	15.6
RoE (%)						21.2	25.8	20.1	19.4	20.7

Source: Company, HSIE Research | \*Consolidated

**BUY**

CMP (as on 13 Aug 2021)	INR 535
Target Price	INR 691
NIFTY	16,529

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 691	INR 691
EPS %	FY22E	FY23E
	-	-

### KEY STOCK DATA

Bloomberg code	IGL IN
No. of Shares (mn)	700
MCap (INR bn) / (\$ mn)	375/5,034
6m avg traded value (INR mn)	1,581
52 Week high / low	INR 595/364

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	3.5	(4.4)	36.0
Relative (%)	(10.4)	(12.0)	(8.7)

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	45.00	45.00
FIs & Local MFs	20.93	19.80
FPIs	23.80	23.87
Public & Others	10.27	11.33
Pledged Shares	0.00	0.00

Source: BSE

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# Petronet LNG

## Volume impacted by high spot prices

Our BUY recommendation on Petronet LNG (PLNG) with a TP of INR 270 is premised on robust volume offtake in FY22E and FY23E, supported by: (1) the bounce-back in gas demand with the opening of the economy, which will ensure high LNG imports, in turn allowing full utilisation at Dahej on its expanded capacity; and (2) Kochi terminal seeing higher utilisation as commissioning of Kochi-Mangalore pipeline has completed. Q1 EBITDA was 1% above our estimate and PAT was 6% above, owing to lower-than-expected gas cost; depreciation and finance cost; and higher-than-expected other income.

- **Financial performance:** Q1 EBITDA came to INR 11bn (+16% YoY, -3% QoQ), with an EBITDA margin of 12.3% (-637bps YoY, -214bps QoQ). The sequential fall in EBITDA is on account of inclusion of the following expenses: (1) forex loss of INR 0.5bn, (2) demand impact due to the second wave of COVID-19, and (3) higher SPOT LNG prices impacting spot volumes.
- **Terminal-wise performance:** Utilisation at Dahej was 87% and at Kochi 24%. Volume at Dahej was 194tbtu and at Kochi 15tbtu in Q1 with overall volume at 209tbtu (HSIEe 215tbtu) (+10% YoY, -4% QoQ). Services volume at Dahej came at ~2mmt (99tbtu) (-1% YoY, 2% QoQ). Q1 volume dipped due to the impact of the second wave and high spot LNG prices. Kochi terminal utilisation is expected to rise from current levels to 30% by FY22-end, as volume will ramp up and increase further in the coming years with completion of connectivity to Bengaluru and expansion of the CGD network in the adjoining cities.
- **Con call takeaways:** (1) PLNG Capex plan for FY22 is INR 5-7bn and for FY23 ~INR 10bn. (2) Dahej terminal expansion from 17.5MTPA to 20MTPA is expected to be completed by FY23-end. (3) Utilisation at the Dahej terminal is ~100% in Jul-21 and is expected to sustain through Q2 albeit with uncertainties. (4) The initial process of signing agreement for the east coast terminal is expected to be completed in FY22.
- **DCF-based valuation:** Our target price is INR 270, based on Mar-23E cash flow (WACC 10%, terminal growth rate 3%). The stock is trading at 10.3x FY23E EPS.

### Financial summary

YE March (INR bn)	1Q FY22	4Q FY21	QoQ (%)	1Q FY21	YoY (%)	FY19	FY20	FY21P	FY22E	FY23E
Revenues	86	76	13.5	49	76.1	384	355	260	319	389
EBITDA	11	11	(3.4)	9	15.9	33	40	47	45	49
APAT	6	6	2.0	5	22.2	22	28	29	29	31
AEPS (INR)	4.2	4.2	2.0	3.5	22.2	14.4	18.3	19.7	19.1	20.7
P/E (x)						14.9	11.7	10.9	11.2	10.3
EV/EBITDA (x)						9.0	6.9	5.6	5.7	5.3
RoE (%)						21.8	26.2	26.1	24.1	25.2

Source: Company, HSIE Research

## BUY

CMP (as on 16 Aug 2021)	INR 214
Target Price	INR 270
NIFTY	16,563

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 270	INR 270
EPS %	FY22E	FY23E
	-	-

### KEY STOCK DATA

Bloomberg code	PLNG IN
No. of Shares (mn)	1,500
MCap (INR bn) / (\$ mn)	322/4,325
6m avg traded value (INR mn)	1,033
52 Week high / low	INR 275/201

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(11.5)	(11.6)	(14.8)
Relative (%)	(25.5)	(18.3)	(61.6)

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	50.00	50.00
FIs & Local MFs	6.32	5.11
FPIs	30.49	31.06
Public & Others	13.19	13.83
Pledged Shares	0.00	0.00

Source: BSE

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# Gujarat State Petronet

## In-line performance

Our BUY rating on Gujarat State Petronet with a TP of INR 400 is premised on (1) robust transmission volume growth (+11% CAGR over FY21-23E to 45mmscmd) with increase in gas supply from domestic sources. This should drive volumes and translate to growth in standalone EBITDA at 15% and APAT at 19% CAGR to INR 19bn and INR 13bn in FY23E and (2) compelling valuation at 7.9x FY23E EPS, considering high RoE of 24% in 23E and combined FCF of INR 45bn over FY22-24E.

- **View on the result:** Q1FY22 EBITDA was in line with our estimates and APAT was marginally below, mainly due to lower-than-expected other income, offset by lower-than-expected interest cost. Volumes, at 36.8mmscmd, were above our estimate, offset by lower-than-expected tariff at INR 1,282/tscm.
- **Volumes:** Gas transmission volume for the quarter was 36.8mmscmd (+11% YoY, +9% QoQ) vs our estimate of 35.1mmscmd. Volume break-up in mmscmd was: refinery 11.8, power 5.5, CGD 11.0, fertilizers 2.6, and others 5.9.
- **Tariffs:** Calculated blended transmission tariff for Q1 stood at INR 1,282/tscm (-1% YoY, flat QoQ) – 4% below our estimate.
- **Change in estimates:** We revise our FY22E consolidated EPS estimate by +1.2% to factor in the company's Q1FY22 performance.
- **DCF-based valuation:** We value the transmission business using discounted cash flow (DCF) at INR 128/sh (WACC of 10% and terminal growth rate of 3%). To this, we add INR 239/sh as the value of its investments in Gujarat Gas, Sabarmati Gas, etc. to arrive at a target price of INR 400/sh. The stock is trading at 7.9x FY23E PER.

### Standalone Financial Summary

YE March (INR bn)	1Q FY22	4Q FY21	QoQ (%)	1Q FY21	YoY (%)	FY19*	FY20*	FY21P*	FY22E*	FY23E*
Revenue	5	5	13.4	5	13.6	93	122	115	153	175
EBITDA	4	3	8.8	3	8.2	25	32	36	44	50
APAT	2	2	12.2	2	17.0	10	17	16	20	23
AEPS (INR)	4.1	3.7	12.2	3.5	17.0	17.9	30.6	28.5	35.4	41.2
P/E (x)						18.3	10.7	11.5	9.2	7.9
EV / EBITDA (x)						9.3	6.7	6.1	4.7	3.7
RoE (%)						35.3	42.3	28.5	27.0	24.4

Source: Company, HSIE Research | \*Consolidated

### Change in estimates

	FY22E			FY23E		
	Old	New	Ch%	Old	New	Ch%
EBITDA (INR bn)	43	44	0.8	50	50	-
EPS (INR/sh)	34.9	35.4	1.2	41.2	41.2	-

Source: Company, HSIE Research

**BUY**

CMP (as on 9 Aug 2021)	INR 325
Target Price	INR 400
NIFTY	16,258

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 391	INR 400
EPS %	FY22E +1.2%	FY23E -

### KEY STOCK DATA

Bloomberg code	GUJS IN
No. of Shares (mn)	564
MCap (INR bn) / (\$ mn)	183/2,460
6m avg traded value (INR mn)	386
52 Week high / low	INR 361/177

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	20.7	46.2	56.3
Relative (%)	10.1	40.2	13.3

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	37.63	37.63
FIs & Local MFs	30.04	27.33
FPIs	17.16	17.46
Public & Others	15.17	14.89
Pledged Shares	0.0	0.0

Source : BSE

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# Oil India

## Crude realisation improves further

Our BUY recommendation on Oil India with a price target of INR 200 is premised on (1) increase in crude price realisation and (2) improvement in domestic gas price realisation (at USD 2.5/mmbtu). We expect oil price realisation to increase to ~USD 59/bbl in FY22E and USD 61/bbl in FY23E vs. USD 44/bbl in FY21, given the expected global economic rebound, post COVID. Q1FY22 revenue was 4% below our estimates while EBITDA was 3% above, owing to lower-than-expected crude realisation offset by lower-than-expected operating expenses. RPAT was below our estimate, owing to lower-than-expected other income and higher depreciation and interest cost.

- **Standalone financial performance:** Sales in Q1 were INR 30bn (+72% YoY, +17% QoQ). Crude realisation in rupee terms was at INR 4,809/bbl (+115% YoY, +15% QoQ). EBITDA came in at INR 12bn as opex to sales reduced by 2798bps YoY to 59%.
- **Standalone operational performance:** Crude oil realisation increased to USD 65.2/bbl, (+121% YoY, +13% QoQ); gas realisation contracted to USD 1.8/mmbtu, (-25% YoY, -2% QoQ). Oil sales volumes were at 0.72mmt (-2% YoY, +3% QoQ), while gas sales volumes were at 0.61bcm, (+6% YoY, +10% QoQ).
- **Call takeaways:** (1) The standalone Capex budget for FY22 is INR 41bn and consolidated Capex is INR 55bn. (2) The company aims to reach 5mmcmd gas production from Baghjan field by FY24. (3) The NRL refinery expansion to 9mmt will be complete by FY25. Total Capex for expansion has been revised to INR 280bn from INR 220bn. (4) Debt outstanding as on Jun'21-end is INR 140bn, cash and cash equivalents plus investments are INR 18bn.
- **We value Oil India's standalone business at INR 115 (6.0x Mar-23E EPS) and its investments at INR 85. The stock is currently trading at 2.8x FY23E EPS.**

### Standalone Financial Summary

YE March (INR bn)	1Q FY22	4Q FY21	QoQ (%)	1Q FY21	YoY (%)	FY19*	FY20*	FY21P*	FY22E*	FY23E*
Revenues	30	26	16.6	17	72.4	138	206	225	258	272
EBITDA	12	4	190.3	2	525.3	56	53	57	83	91
APAT	5	9	(43.6)	(3)	NA	39	50	41	59	64
AEPS (INR)	4.7	8.3	(43.6)	(1.6)	NA	36.3	46.2	38.2	54.2	59.2
P/E (x)						4.6	3.6	4.3	3.1	2.8
EV/EBITDA (x)						5.7	5.2	6.5	3.0	2.5
RoE (%)						15.0	21.5	17.7	22.1	19.6

Source: Company, HSIE Research | \*Consolidated

## BUY

CMP (as on 13 Aug 2021)	INR 166
Target Price	INR 200
NIFTY	16,529

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 200	INR 200
EPS %	FY22E	FY23E
	-	-

### KEY STOCK DATA

Bloomberg code	OINL IN
No. of Shares (mn)	1,084
MCap (INR bn) / (\$ mn)	180/2,424
6m avg traded value (INR mn)	232
52 Week high / low	INR 177/83

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	27.9	43.8	75.1
Relative (%)	14.0	36.3	30.4

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	56.66	56.66
FIs & Local MFs	18.99	18.51
FPIs	7.62	8.53
Public & Others	16.73	16.30
Pledged Shares	0.00	0.00

Source : BSE

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# Mahanagar Gas

## In-line performance

Our ADD recommendation on Mahanagar Gas (MGL) with a price target of INR 1,255 is premised on its loyal customer base in CNG and commercial establishments, which is less price-sensitive than the industrial customer base and enables the company to maintain higher per-unit margins than peers. Q1FY22 EBITDA/APAT at INR 3.04/2.04bn were in line with our estimates, supported by lower gas costs and operating expenses, offset by a 14% QoQ decline in revenue.

- Volume and margin:** Blended volume stood at 2.40mmcmd (5.9% below our estimate). CNG segment's volume at 1.55mmcmd was down 23.4% QoQ on account of lockdown restrictions due to the second wave of COVID-19. PNG segment's volume in Q1 was at 0.85mmcmd. The per-unit gross spread, at INR 19.4/scm, expanded by INR 3.4/scm YoY and INR 1.8/scm QoQ in Q1. Per-unit EBITDA was at INR 13.9/scm (vs. INR 12.1/7.9 per scm QoQ/YoY).
- Earnings call takeaways:** (1) MGL added five new CNG stations in Q1, taking the count to 274. It also added 40 new industrial/commercial PNG customers, taking the count to 4,196. 29,162 new domestic households were connected in Q1, taking the count to ~1.63mn households. (2) CNG volumes are almost back to pre-COVID-19 levels with the lockdown and restrictions being lifted. (3) Management showed confidence in maintaining the EBITDA margin in FY22 at a similar level to that in FY21 at INR 11.6/scm.
- Change in estimates:** We increase our FY22 EPS estimate by 5.2% to INR 69.6 to account for improvement in EBITDA margin taking into account Q1 performance and cut our FY23 EPS estimate by 2.4% to INR 89.6, to account for higher unit expenses. We have also increased our Capex estimate, in line with management guidance.
- DCF-based valuation:** Our target price is INR 1,255, based on Mar-23E free cash flows (WACC 10%, terminal growth rate 3.0%). The stock is currently trading at 12.4x FY23E EPS.

### Financial Summary

YE March (INR bn)	1Q FY22	4Q FY21	QoQ (%)	1Q FY21	YoY (%)	FY20	FY20	FY21P	FY22E	FY23E
Revenue	6	7	(14.2)	3	135.1	28	30	22	26	33
EBITDA	3	3	(3.8)	1	280.0	9	11	9	10	13
APAT	2	2	(4.1)	0	351.0	5	8	6	7	9
AEPS (INR)	20.7	21.5	(4.1)	4.6	351.0	55.3	80.3	62.7	69.6	89.6
P/E (x)						20.0	13.8	17.7	15.9	12.4
EV / EBITDA (x)						11.3	9.1	10.1	9.2	7.5
RoE (%)						24.3	29.7	20.0	20.2	23.2

Source: Company, HSIE Research

### Change in estimates

	FY22E			FY23E		
	Old	New	Ch%	Old	New	Ch%
Volume (mmcmd)	2.5	2.5	-	2.9	2.9	-
Per unit EBITDA (INR/scm)	11.1	11.6	4.7	12.0	11.8	(1.8)
EBITDA (INR bn)	10	10	4.7	13	13	(1.8)
AEPS (INR/sh)	66.1	69.6	5.2	91.8	89.6	(2.4)

Source: Company, HSIE Research

## ADD

CMP (as on 29 Jul 2021)	INR 1,109
Target Price	INR 1,255
NIFTY	15,778

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 1,346	INR 1,255
EPS %	FY22E 5.2%	FY23E (2.4)%

### KEY STOCK DATA

Bloomberg code	MAHGL IN
No. of Shares (mn)	99
MCap (INR bn) / (\$ mn)	110/1,474
6m avg traded value (INR mn)	797
52 Week high / low	INR 1,284/780

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	1.0	7.1	12.1
Relative (%)	(6.9)	(6.6)	(27.5)

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	32.50	32.50
FIs & Local MFs	27.17	28.35
FPIs	31.11	29.59
Public & Others	9.22	9.56
Pledged Shares	0.0	0.0

Source : BSE

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# Pharmaceuticals, Hospitals

# Sun Pharma

## Strong beat, encouraging trends in specialty

Sun's Q1 revenue/EBITDA grew by 28%/55% YoY, led by robust growth across markets and restricted spends driving sharp operating leverage and margin expansion to 28.7% (+495bps YoY, +404bps QoQ). Its specialty business surprised positively despite the generic impact of Absorica (USD148mn, +6% QoQ, +90% YoY). The consistent traction seen in the past three quarters gives us comfort on the company's ability to execute its specialty pipeline and break even by FY23. Further scale-up in the specialty business will improve profit growth visibility and support rerating, in our view. Sun's strong balance sheet (net cash) is likely to aid specialty spends and inorganic initiatives. While the margin may likely revert to 25% in 2HFY22 as costs normalise, we expect double-digit growth in India and the specialty business to drive 28% earnings CAGR over FY20-23e. We raise our estimates for FY22/23 by 10%/15% to factor in the Q1 beat and improved profitability and revise our TP to INR900/sh. Upgrade to BUY.

- **All round beat:** Revenue grew by 28% YoY, driven by strong growth in India (+39% YoY), US (+3% QoQ, specialty led), EMs (+22% YoY) and RoW (+33% YoY). EBITDA margin expanded to 28.7% (+404bps QoQ) as moderation in gross margin (-97bps QoQ, product/region mix) was offset by savings in staff costs (-159bps QoQ) and other expenses (-302bps QoQ) due to restricted spends during the lockdown.
- **Strong recovery in base business, COVID drugs boost India:** The India business grew by ~39% YoY (vs. ~37% for the IPM), led by recovery in the core business, a low base, and sales of COVID drugs (~10% of sales). The chronic segment grew at a healthy pace, acute segment performed in line with the market, whereas the sub-chronic segment did exceptionally well.
- **Specialty business gains strength; addition of Winlevi promising:** Despite generic competition in Absorica, the specialty business grew ~6% QoQ to USD148mn, led by strong traction in Ilumya, Cequa, Levulan and Absorica LD sales. Key products like Ilumya and Cequa are tracking higher than the pre-COVID level. Given doctors' clinics are not yet fully operational, we see decent scope of further ramp-up. Winlevi, the recently added anti-acne product with a new mechanism of action and broad-based use (vs Absorica), will further boost the derma portfolio and specialty business growth.
- **Key call takeaways:** (a) **Guidance:** R&D: 7-8% of sales; costs to increase with normalisation; (b) Specialty business to break even by FY23/24; (c) Winlevi – aims to launch by Oct-Dec; (d) Ilumya – ~8% share in US IL-23 market.
- **Upgrade to BUY and revise TP to INR900/sh:** Our TP is based on SOTP of 25x FY23e EPS (24x earlier) and NPV of INR15/sh. for gRevlimid. **Key risks:** delay in Halol resolution and slower ramp-up in the specialty portfolio.

### Financial Summary

(INR mn)	1Q FY22	1Q FY21	YoY (%)	4Q FY21	QoQ (%)	FY20	FY21	FY22E	FY23E
Net Sales	97,187	75,853	28.1	85,230	14.0	3,28,375	3,34,981	3,89,716	4,33,779
EBITDA	27,412	17,644	55.4	20,592	33.1	69,742	84,677	1,01,514	1,16,580
EBITDA Margin	28.2	23.3	21.3	24.2	16.7	21.2	25.3	26.0	26.9
APAT	19,954	10,666	87.1	14,565	37.0	40,100	59,448	71,356	84,948
Adj. EPS (INR)	8.3	4.4	87.1	6.1	37.0	16.7	24.8	29.7	35.4
P/E (x)						46.3	31.2	26.0	21.9
EV/ EBITDA (x)						26.8	21.6	17.6	14.8

Source: Company, HSIE Research

## BUY

CMP (as on 30 July 2021)	INR 774
Target Price	INR 900
NIFTY	15,763

KEY CHANGES	OLD	NEW
Rating	ADD	BUY
Price Target	INR 740	INR 900
EPS %	FY22E +10%	FY23E +15%

### KEY STOCK DATA

Bloomberg code	SUNP IN
No. of Shares (mn)	2,399
MCap (INR bn) / (\$ mn)	1,857/24,954
6m avg traded value (INR mn)	4,567
52 Week high / low	INR 780/452

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	18.3	32.0	51.8
Relative (%)	10.5	18.4	12.4

### SHAREHOLDING PATTERN (%)

	Jun-21	Mar-21
Promoters	54.48	54.48
FIs & Local MFs	21.97	21.62
FPIs	11.50	11.67
Public & Others	12.05	12.23
Pledged Shares	3.47	4.69

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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# Cipla

## Robust quarter; outlook reaffirmed

Cipla's Q1 EBITDA/PAT beat estimates by 23%/27%, driven by healthy growth trends in India and South Africa businesses. EBITDA margin, at 24.5% (vs. 22.5% estimate), was buoyed by higher COVID sales in India and a one-time profit share in the API business. India business continues to remain on a strong footing (~20% 2-year CAGR, ex-COVID) and is expected to outperform the market growth, led by strong traction in Rx, trade Gx and consumer health business. While the US business grew 2% QoQ, the company expects growth momentum to accelerate from FY23 on the back of certain niche launches. Its respiratory pipeline in the US (Abraxane, gAdvair, gDulera) along with gRevlimid offers good growth visibility in the medium term. We raise our estimates by 11%/5% for FY22/23 to factor in Q1 beat and higher margins. Our revised TP is INR1,080/sh. Maintain BUY.

- **Operational beat:** Revenue grew to INR55bn (+27% YoY) as healthy growth in India (+68% YoY, +47% YoY ex-COVID), South Africa (+16% YoY) and APIs (+64% YoY, one time profit) offset weak performance in international markets (-17% YoY, currency impact, recovery expected in Q2FY22). EBITDA margin expanded to 24.5% (+32bps YoY) as lower gross margin (-101bps YoY, higher COVID sales) was offset by moderation in staff costs (-164bps YoY). Adjusting for one-off items (write-off of Avenue investment and one-time API profit share), adjusted PAT grew by 24% YoY to ~INR7bn.
- **US business traction to improve in FY23:** US business grew 2% QoQ to USD141mn, largely in line with estimates as market share gains in Albuterol (14.1%, +90bps QoQ) and the launch of gBrovana offset price erosion. Cipla expects its quarterly run-rate to improve materially from FY23, led by further market share gains in Albuterol and key launches such as gAbraxane, gRevlimid.
- **Con call takeaways:** (a) gAdvair – working with FDA, gAbraxane – first generic expected in Mar'22, first entrant might enjoy some exclusivity; gAlbuterol – 17.6% Gx share and 14.1% share (including brands); three peptide products in the pipeline, targets to file one in the near term; (b) India: the company aims to outperform IPM growth of 10-12% (ex-COVID) for FY22, Rx: ~70-75% of India revenue; (c) Guidance - EBITDA margin: 22.5-23% for FY22, R&D: 7% of sales and Capex: INR7-9bn on a normalised basis.
- **Maintain BUY:** We raise our estimates by 11%/5% for FY22/23e and revise TP to INR1,080/sh. Our TP is based on SOTP of 24x FY23e EPS (23x earlier), NPV of INR30/sh for gAdvair, and INR40/sh for gRevlimid. **Risks:** delay in key product approval in the US, lower market share gains in Albuterol, delay in resolution of Goa warning letter, and higher price erosion in the US.

### Financial Summary

YE Mar (INR mn)	1Q FY22	1Q FY21	YoY (%)	4Q FY21	QoQ (%)	FY20	FY21	FY22E	FY23E
Net Sales	55,044	43,462	26.6	46,065	19.5	1,71,320	1,91,596	2,12,520	2,30,331
EBITDA	13,459	10,487	28.3	7,962	69.0	32,060	42,524	49,104	54,749
EBITDA Margin	24.5%	24.1%	32bps	17.3%	717bps	18.7%	22.2%	23.1%	23.8%
APAT	7,147	5,779	23.7	4,134	72.9	14,995	24,049	29,300	33,899
Dil. EPS (INR)	8.9	7.2	24.3	5.1	73.8	18.6	29.8	36.3	42.0
P/E (x)						47.1	29.4	24.1	20.8
EV/ EBITDA (x)						22.7	16.8	14.2	12.3
RoCE (%)						9.1	13.1	14.4	14.7

Source: Company, HSIE Research, nos. ex-gRevlimid and gAdvair

## BUY

CMP(as on 5 Aug 2021)	INR 945	
Target Price	INR 1,080	
NIFTY	16,295	
KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 990	INR 1,080
EPS %	FY22E	FY23E
	+11%	+5%

### KEY STOCK DATA

Bloomberg code	CIPLA IN
No. of Shares (mn)	807
MCap (INR bn) / (\$ mn)	763/10,247
6m avg traded value (INR mn)	4,528
52 Week high / low	INR 997/702

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	6.4	11.5	30.9
Relative (%)	(5.6)	4.1	(13.8)

### SHAREHOLDING PATTERN (%)

	Jun-21	Mar-21
Promoters	36.66	36.66
FIs & Local MFs	16.22	17.15
FPIs	24.78	23.21
Public & Others	22.34	22.98
Pledged Shares	0.00	0.00

Source : BSE

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# Apollo Hospitals

## Multiple growth triggers ahead

Apollo's Q1 EBITDA beat estimates by ~25%, driven by robust growth across business segments. Despite COVID, the core hospital business posted a strong trend (+26% QoQ) and it is likely to witness healthy growth and margin expansion across mature and new units. Its diagnostics business continues to see steady ramp-up and it is on track to achieve INR5bn revenue by FY23, growing at ~68% CAGR over FY21-23e. With multiple growth drivers in place, we expect Apollo to report strong revenue/EBITDA CAGRs of 31%/52% over the next two years. Also, the potential value unlocking of Apollo 24/7, the largest omni-channel healthcare platform in India, will be a key catalyst in the near to medium term. Apollo's balance sheet remains strong with net debt/EBITDA at 1.4x/0.9x in FY22/23e. We revise our estimates by +4-6% for FY22/23e to factor in improved growth/margin visibility across segments. Our TP is revised to INR4,410/sh, implying ~25x FY23e EV/EBITDA. Maintain ADD.

- **Hospitals' business buoyed by improved occupancy, vaccine contribution:** Revenue grew by 26% QoQ to INR19.4bn, owing to improved occupancy (67% vs. 63% in Q4), vaccine contribution (5% of revenues), and consolidation of Medics/Gleneagles hospitals. All units - mature, new and Proton - reported strong growth of 20%/40%/42% QoQ with EBITDA margin improvement. Apollo expects strong growth momentum over the next few years, led by ramp-up in occupancy, improvement in ARPOBs (COVID ARPOBS at 50% of non-COVID), and increase in operational bed capacity.
- **Pharmacy business gains strength, scale-up in Apollo 24/7 on track:** The pharmacy business grew by 35% QoQ and reported decent improvement in margin to ~7.5% (44bps QoQ), aided by increased share in private labels to ~13% vs. ~9% historically. Apollo 24/7 platform is scaling up well and it is expected to reach USD50-60mn in revenue by FY22-end. Apollo maintains its long-term guidance of USD2.5bn revenue by FY26e for Apollo HealthCo. (Pharmacy, Apollo 24/7). We expect Apollo 24/7 to break even by FY24e.
- **Con call takeaways:** (a) Hospitals – COVID contribution at 26% of revenue; brownfield expansion being planned in the north and east. Mature/overall hospitals margin guidance: ~24%/21% in 1-2 years. (b) Pharmacy – online orders: ~5% of revenue vs. 2-3% in Q4. (c) Apollo 24/7 covers 440 cities/17,000+ PIN codes; average billing: INR1,200 per order, tele-consult: INR700 per consult. (d) Vaccine contribution: INR2bn with ~15% margin in Q1. (e) Net debt rose INR4-5bn due to WC, to normalise in ~4 months. (f) The company plans to reduce pledge by 50% at FY22-end.

### Financial Summary

	1Q FY22	1Q FY21	YoY (%)	4Q FY21	QoQ (%)	FY20	FY21	FY22E	FY23E
<b>Revenues</b>									
Hospitals	19,393	7,899	145.5	15,387	26.0	57,298	50,022	77,624	92,686
Pharmacy	15,120	12,791	18.2	11,187	35.2	48,206	48,760	62,447	74,134
AHLL	3,090	1,024	201.8	2,106	46.8	6,964	6,818	10,251	13,869
<b>Consolidated</b>	<b>37,603</b>	<b>21,714</b>	<b>73.2</b>	<b>28,680</b>	<b>31.1</b>	<b>1,12,468</b>	<b>1,05,600</b>	<b>1,50,322</b>	<b>1,80,688</b>
<b>EBITDA margins</b>									
Hospitals	20.3	-10.6	3,089bps	21.1	-85bps	18.8	13.8	19.3	20.2
Pharmacy*	7.5	6.3	124bps	7.1	44bps	6.0	6.5	6.9	7.3
AHLL	15.5	-2.6	1,814bps	14.5	102bps	9.6	11.3	14.0	15.3
<b>Consolidated</b>	<b>13.8</b>	<b>1.6</b>	<b>1,218bps</b>	<b>14.4</b>	<b>-54bps</b>	<b>14.1</b>	<b>10.8</b>	<b>13.8</b>	<b>14.6</b>
EBITDA	5,199	355	1,365.2	4,118	26.2	15,873	11,374	20,691	26,304
EV/ EBITDA (x)						39.2	54.2	29.7	23.2
RoCE (%)						10.4	6.9	14.9	17.6

Source: Company, HSIE Research, \*pre-Ind AS margins ex-Apollo 24/7 costs

**ADD**

CMP (as on 13 Aug 2021)	INR 4,064
Target Price	INR 4,410
NIFTY	16,529

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 3,305	INR 4,410
EBITDA %	FY22E +4%	FY23E +6%

### KEY STOCK DATA

Bloomberg code	APHS IN
No. of Shares (mn)	144
MCap (INR bn) / (\$ mn)	584/7,853
6m avg traded value (INR mn)	3,158
52 Week high / low	INR 4,230/1,585

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	27.1	47.9	135.6
Relative (%)	13.3	40.3	90.9

### SHAREHOLDING PATTERN (%)

	Jun-21	Mar-21
Promoters	29.82	29.82
FIs & Local MFs	10.85	9.25
FPIs	53.23	54.51
Public & Others	6.10	6.42
Pledged Shares	8.93	8.33

Source : BSE

### TP based on FY23 estimates:

- a) 20x EV/EBITDA for hospitals
- b) 25x EV/EBITDA for pharmacy
- c) 3x EV/sales for Apollo 24/7 (discounted FY26 revenue)

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# Cadila Healthcare

## US disappoints, limited near-term triggers

Cadila's Q1 results came in slightly ahead of our estimates as robust growth in India (+64% YoY) offset weak performance in the US (-4% QoQ). While management expects the US business to grow in a single digit in FY22, we remain cautious on the outlook, given potential competition in its key product, Asacol HD (Nov'21). Cadila's approval for ZyCov-D (DNA-based COVID vaccine) is expected in the next two weeks and the company is confident of supplying ~50mn doses in FY22. However, we lower our vaccine upside, given the approval is delayed and the opportunity size may not be meaningful beyond FY22. We tweak our FY22/23 estimates by ~2% to factor in lower US sales and revise TP to INR585/sh., based on 22x FY23 EPS and NPV of INR17/19 for COVID vaccine/gRevlimid. We downgrade to REDUCE as we see limited growth catalysts in the near term.

- **Strong India offsets muted US:** Revenue grew to INR40.3bn (+15% adj. for animal business) as strong growth in India (+64% YoY), EMs (+17% YoY) and EU (+22% YoY) offset subdued performance in the US (-4% QoQ, -11% YoY, pricing pressure). Margin rose to 23.2% (+137bps QoQ), as savings in other expenses (-265bps QoQ) offset higher R&D expenses (+111bps QoQ).
- **Strong outlook for India business:** India Rx business grew 64% YoY vs. ~37% for the IPM in Q1, driven by continued traction in the base business (+35% YoY) and COVID portfolio (+29% YoY, Remdesivir). With ~35 new launches planned for the year, the domestic business is expected to grow well and outperform the IPM. Cadila intends to produce ~10-15mn vaccines per month and supply ~50mn in FY22 in the domestic market.
- **US business faces challenges, growth to remain tepid in the near term:** Revenue declined to USD 196mn (-4% QoQ, -11% YoY) on account of higher competition/ price erosion, inventory build-up and lower prescriptions owing to lockdowns. While the company has a decent pipeline (transdermals and injectables), the resolution of Moraiya will be critical to monetising transdermals. Cadila also has ~3 mesalamine products in the pipeline and aims to launch one in FY22. With 50+ approvals and 30+ new launches expected in FY22, it expects single-digit growth in FY22.
- **Con call highlights:** (a) Saroglitazar - EMA granted orphan drug status for PBC indication, global market for which could touch USD11bn by 2026 and whose expected growth CAGR is ~36% over FY18-26e; (b) Cadila entered into six in-licensing deals (including two FTFs) in Q1 (five should be monetised from FY23); (c) US – it aims to scale generic injectables to USD250mn in 3-4 years (currently USD35mn); (d) Guidance for EBITDA margin is 23-24% in 12 months; (e) Moraiya – FDA has accepted CAPA; it is awaiting an FDA inspection.

### Financial Summary

	1Q FY22	1Q FY21	YoY (%)	4Q FY21	QoQ (%)	FY20	FY21	FY22E	FY23E
Net Sales	40,255	35,146	14.5	36,923	9.0	1,42,531	1,51,022	1,56,294	1,68,253
EBITDA	9,331	7,905	18.0	8,053	15.9	27,834	33,410	34,965	38,274
EBITDA Margin	23.2	22.5	69bps	21.8	137bps	19.5	22.1	22.4	22.7
APAT	5,649	4,384	28.9	7,253	-22.1	15,402	23,387	22,279	25,608
Adj. EPS (INR)	5.5	4.3	28.9	7.1	-22.1	15.0	22.8	21.8	25.0
P/E (x)						34.8	22.9	24.0	20.9
EV/ EBITDA (x)						22.1	17.7	15.6	13.9
RoCE (%)						9.6	12.8	11.5	12.1

Source: Company, HSIE Research, ratios adjusted for NPV of INR17/sh. for COVID vaccine and INR19/sh. for gRevlimid

## REDUCE

CMP (as on 13 Aug 2021)	INR 559
Target Price	INR 585
NIFTY	16,529

KEY CHANGES	OLD	NEW
Rating	ADD	REDUCE
Price Target	INR 605	INR 585
	FY22E	FY23E
EPS %	+2%	-2%

### KEY STOCK DATA

Bloomberg code	CDH IN
No. of Shares (mn)	1,024
MCap (INR bn) / (\$ mn)	572/7,685
6m avg traded value (INR mn)	3,646
52 Week high / low	INR 674/358

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(13.7)	19.3	44.6
Relative (%)	(27.5)	11.8	(0.1)

### SHAREHOLDING PATTERN (%)

	Jun-21	Mar-21
Promoters	74.88	74.88
FIs & Local MFs	10.50	11.30
FPIs	4.65	5.23
Public & Others	9.97	8.59
Pledged Shares	0.00	0.00

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 +4%	FY23E +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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# Lupin

## US drags the overall performance

Lupin's Q1 EBITDA was ~25% below our estimate, primarily due to subdued US sales (-12% QoQ) and consequent weakness in margins resulting in a sharp decline of EBITDA margin to 14.2% (-450bps QoQ). While the company has delivered improvement in margins over the past few quarters, significant price erosion in the US impacted the current quarter's margins and the structural cost savings alluded by the management remain elusive. Lupin has revised its full-year margin guidance of 19-20% down to 16%/17% in FY22. It expects US growth to pick up from 2HFY22 on the back of ramp-up in Albuterol and Brovana AG. We acknowledge that its pipeline has meaningful opportunities such as gSpiriva and gRevlimid, which could drive healthy growth in FY23; however, despite factoring these in, we see limited upside. Hence, we reduce our estimates by 17%/15% for FY22/23e to factor in lower US sales and margins. Our revised TP is INR1,040. Downgrade to REDUCE.

- **Disappointing quarter, one-time income boosts PAT:** Revenue grew by ~10% to INR39bn as decent growth in India (+27% YoY, outperformance in chronic), RoW (+43% YoY) and growth markets (+23% YoY) offset the subdued performance in the US (-12% QoQ, +10% YoY) and API business (-22% YoY). EBITDA margin moderated to 14.2% (-448bps QoQ) as decline in gross margin (-438bps QoQ, weak US) and increase in staff costs (+319bps QoQ, incentives) offset savings in other expenses (-362bps QoQ). PAT, at INR5.4bn (+18% QoQ), was buoyed by NCE licensing income of USD50mn.
- **Sluggish performance in the US:** US revenue declined to USD172mn (-12% QoQ) on account of slower ramp-up of Albuterol (transition to long term contracts), increased competition in key products such as Famotidine and Levothyroxine, and base business price erosion (4-5% YoY). Lupin expects the US sales to reach USD200mn by Q3. It expects Albuterol to ramp up and gain ~18-20% share (vs. 12-13% currently). Key products like Albuterol, Brovana AG and Solosec and new product pipeline with gSpiriva (FY23), gSuprep (FTF, USD200mn, FY23), gRevlimid (FY23) and, possibly, gDulera (FY23) provide good growth visibility in the near to medium term.
- **Key call takeaways:** (a) Guidance: High-teens growth in India for the year, R&D: ~9% of sales, EBITDA margin: 17-18% in H2; (b) Key products in EU – **gFostair**: aims to launch in the UK, have partnerships to launch in other EU5 countries, **bEnbrel**: mid-single digit market share in EU, planning to launch in other EU countries; (c) US pipeline – **Peg-filgrastim**: filed, awaiting FDA inspection, aims to launch in the next year, **gSpiriva**: responding to CRL, expects launch next year; (d) ~70% of R&D is for US generics; (e) Plants: ready for FDA inspection, awaiting response.
- **Downgrade to REDUCE:** We downgrade to REDUCE and cut our estimates by 17/15% for FY22/23e to account for lower US sales and margins. Our revised TP of INR1,040 is based on 23x FY23e EPS. **Key risks:** higher cost savings, earlier-than-expected resolution of plants, fast approvals in the US.

### Financial Summary

	Q1 FY22	Q1 FY21	YoY (%)	Q4 FY21	QoQ (%)	FY20	FY21	FY22E	FY23E
Net Sales	38,968	35,279	10.5	37,831	3.0	1,52,307	1,50,869	1,63,326	1,83,311
EBITDA	5,542	4,881	13.5	7,076	-21.7	22,107	24,908	26,932	35,746
EBITDA Margin	14.2	13.8	39 bps	18.7	-448 bps	14.5	16.5	16.5	19.5
APAT	1,319	1,069	23.4	4,604	-71.3	3,526	12,165	14,670	20,567
Adj. EPS (INR)	2.9	2.4	22.8	10.1	-71.4	7.8	26.7	32.2	45.2
P/E (x)						135.1	39.3	32.6	23.3
RoCE (%)						5.9	6.8	7.6	10.5

Source: Company, HSIE Research

## REDUCE

CMP(as on 11 Aug 2021)	INR 1,051
Target Price	INR 1,040
NIFTY	16,282

KEY CHANGES	OLD	NEW
Rating	ADD	REDUCE
Price Target	INR 1,220	INR 1,040
EPS %	FY22E -17%	FY23E -15%

### KEY STOCK DATA

Bloomberg code	LPC IN
No. of Shares (mn)	454
MCap (INR bn) / (\$ mn)	477/6,409
6m avg traded value (INR mn)	2,554
52 Week high / low	INR 1,268/855

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(12.2)	(0.9)	9.7
Relative (%)	(23.2)	(6.7)	(32.2)

### SHAREHOLDING PATTERN (%)

	Jun-21	Mar-21
Promoters	46.84	46.86
FIs & Local MFs	21.81	22.30
FPIs	18.60	17.87
Public & Others	12.75	12.97
Pledged Shares	0.00	0.00

Source : BSE

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# Aurobindo Pharma

## Soft quarter, outlook still upbeat

Aurobindo's Q1 revenue/EBITDA missed estimates by 6%/7%, primarily on account of muted US (-7% QoQ) and ARV business (-30% YoY). The price erosion in the US was in high single digit, but this would normalise, going forward (H2FY22). Aurobindo's US pipeline provides good growth visibility with assets across injectables, biosimilars, vaccines and OTC products. Its recent acquisition of Cronus Pharma (animal health business) and OTC/brands in the US are expected to accelerate growth. Potential value unlocking of the injectables business (disclosure in Q2FY22) and resolution of US FDA facilities are the key near-term triggers. We reduce our estimates to factor in the higher price erosion and revise TP to INR985/sh, based on 16x FY23e EPS and NPV of INR40 for the PLI opportunity. Maintain BUY.

- **Tepid US and ARV led to miss:** Revenue, at INR57bn (+3% YoY, adj. for Natrol), was 6% below estimate as the strong traction in EU (+20% YoY), growth markets (+14% YoY, Brazil and South Africa) was offset by muted growth in the US (-7% QoQ, +1% YoY adj. for Natrol) and ARV (-30% YoY, high base). EBITDA margin, at 21.2% (flat QoQ), was in line as moderation in gross margin (-140bps QoQ, product mix) and increase in staff cost (+102bps QoQ) were offset by lower other expenses (-238bps QoQ).
- **Temporary blip in the US, outlook intact:** US revenue declined by 7% QoQ to USD364mn, primarily on account of higher price erosion (high single digit), owing to inventory build-up in the channel. We believe Aurobindo's US portfolio has lower concentration /pricing risk compared to peers, given it is well diversified (top 25 products accounts for ~32% of the revenue).
- **Enters veterinary business and acquires OTC/brands in the US:** Aurobindo acquired 51% stake in Cronus Pharma, a veterinary pharma company in the US, for INR4.2bn. The capital employed of the firm stands at USD50mn and the primary infusion of funds will be used to repay debt of INR1.7bn. Cronus has 67 products (40 injectables) in the pipeline, of which 22 have been filed and 6 have been approved by the FDA. Aurobindo expects revenue to ramp up to USD50-100mn in the next 3-4 years from USD13mn in FY21. Separately, it also acquired 9 OTC brands and 6 ANDAs in the US (expects revenues of USD65mn in the first 12 months) for USD104mn.
- **Con call highlights:** (a) Global injectables – USD102mn revenue in Q1, reiterates goal to reach USD650-700mn in the medium term; (b) US – targets 30+ launches for FY22; (c) Guidance – GMs: 58-60%, PLI outlay to start from this year; (d) Plants – FDA concluded audit for Unit 1 with 7 observations (procedural as per the company).

### Financial Summary

YE Mar (INR mn)	1Q FY22	1Q FY21	YoY (%)	4Q FY21	QoQ (%)	FY20	FY21	FY22E	FY23E
Net Sales	57,020	59,248	(3.8)	60,015	(5.0)	2,30,985	2,47,746	2,50,962	2,75,021
EBITDA	12,094	13,174	(8.2)	12,747	(5.1)	48,643	53,334	53,069	58,129
EBITDA Margin	21.2	22.2	-102bps	21.2	-3bps	21.1	21.5	21.1	21.1
APAT	7,485	8,070	(7.2)	7,911	(5.4)	28,493	32,921	31,814	34,579
Adj. EPS (INR)	12.8	13.8	(7.2)	13.5	(5.4)	48.6	56.2	54.3	59.0
P/E (x)						14.9	12.9	13.3	12.2
EV/ EBITDA (x)						9.4	7.9	7.7	6.7
RoCE (%)						14.5	10.1	11.7	11.8

Source: Company, HSIE Research, ratios adjusted for NPV of INR40/sh for PLI scheme

## BUY

CMP(as on 13 Aug 2021)	INR 761
Target Price	INR 985
NIFTY	16,529

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 1,075	INR 985
EPS %	FY22E -7%	FY23E -8%

### KEY STOCK DATA

Bloomberg code	ARBP IN
No. of Shares (mn)	586
MCap (INR bn) / (\$ mn)	446/5,994
6m avg traded value (INR mn)	2,258
52 Week high / low	INR 1,064/738

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(25.2)	(18.1)	(13.6)
Relative (%)	(39.0)	(25.7)	(58.3)

### SHAREHOLDING PATTERN (%)

	Jun-21	Mar-21
Promoters	51.83	51.94
FIs & Local MFs	14.66	13.24
FPIs	23.70	24.37
Public & Others	9.81	10.45
Pledged Shares	10.71	11.85

Source : BSE

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# Alkem Labs

## Strong India recovery drives the beat

Alkem's Q1 revenue/EBITDA beat estimates by 26%/37%, led by good growth in India and international markets. India business delivered a stellar growth of 65% YoY (25% two-year CAGR), led by strong recovery in acute and outperformance in chronic and trade generic businesses. Barring the COVID-led boost to vitamins, the performance was largely driven by good growth in the core portfolio, which is encouraging. The outlook for the US business remains strong as the company is confident of achieving growth in mid-teens over the next few years despite high single-digit price erosion. With cost base largely normalised, we expect a 21% earnings growth over FY20-23e, led by operating leverage. We raise our EPS estimates by 13%/9% for FY22/23e to factor in the Q1 beat and higher growth in India. Our revised TP is INR 3,960/sh. BUY.

- **All-round beat:** Revenue grew 36% YoY to INR27bn as robust growth in India (+65% YoY, low base, higher volumes) and RoW markets (+56% YoY) offset muted performance in the US (-9% YoY, +11% QoQ). Adjusting for one-offs, EBITDA margin improved to ~24% (+719bps QoQ), led by lower R&D spends (-212bps QoQ) and lower other expenses (-418bps QoQ).
- **India business recovery plays out well; outperformance to continue:** India business grew by 65% YoY vs. 39% for the IPM. The company gained ranks in vitamins, CNS, derma and diabetes segments. While growth in acute was strong, its chronic and Trade Gx segments also grew by 50%+ in the quarter. Alkem has guided for high-teens growth for 9mFY22 for India.
- **US business on track, to grow in double digits over the next two years:** Revenue grew 11% QoQ to USD82mn as new launches offset price erosion. With recent launches ramping up (gDuexis, at risk launch, first generic to launch) and a decent pipeline of new launches (gPradaxa, shared FTF), we expect US revenue to grow at ~11% CAGR over FY21-23e.
- **Key call takeaways:** (a) India - MR productivity: INR0.5mn p.m. (INR0.8-1mn for evolved business, INR0.35-0.4mn for evolving business, INR0.1-0.2mn for new business); (b) Biosimilars - outlicensed one MAB to an EU company (USD10mn), one recombinant peptide to a South Korean company (USD2.5mn), biotech R&D is 12-14% of overall R&D; (c) Guidance – GMs: 60-61%, EBITDA margin: 20-21% in FY22, ETR: 13-15% in FY22, 15-16% in FY23; not keen on M&A; (d) FCF: INR4.5bn in Q1; (e) St. Louis: responded to 483s, Indore plant: awaiting pre-approval inspection by the FDA.
- **Maintain BUY:** We raise our estimates by 13%/9% for FY22/23e and revise TP to INR3,960/sh, based on 24x FY23e EPS (22x earlier). **Risks:** expansion of NLEM list, lower growth in India, higher price erosion in the US.

### Financial Summary

YE Mar (INR mn)	1Q FY22	1Q FY21	YoY (%)	4Q FY21	QoQ (%)	FY20	FY21	FY22E	FY23E
Net Sales	27,314	20,035	36.3	21,922	24.6	83,444	88,650	1,05,811	1,18,484
EBITDA*	6,589	5,332	23.6	3,711	77.5	14,734	20,224	22,097	25,186
EBITDA Margin*	24.1	26.6	-249bps	16.9	719bps	17.7	22.8	20.9	21.3
APAT	5,341	4,220	26.6	3,200	66.9	11,271	16,299	17,323	19,727
Adj. EPS (INR)	44.7	35.3	26.6	26.8	66.9	94.3	136.3	144.9	165.0
P/E (x)						36.8	25.4	23.9	21.0
EV/ EBITDA (x)						29.2	21.3	19.2	16.4
RoCE (%)						16.7	19.8	18.8	19.2

Source: Company, HSIE Research, \*adj. for one-offs

## BUY

CMP(as on 6 Aug 2021)	INR 3,472
Target Price	INR 3,960
NIFTY	16,238

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 3,320	INR 3,960
EPS %	FY22E	FY23E
	+13%	+9%

### KEY STOCK DATA

Bloomberg code	ALKEM IN
No. of Shares (mn)	120
MCap (INR bn) / (\$ mn)	415/5,579
6m avg traded value (INR mn)	650
52 Week high / low	INR 3,603/2,540

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	21.3	17.9	21.1
Relative (%)	10.4	10.9	(21.6)

### SHAREHOLDING PATTERN (%)

	Jun-21	Mar-21
Promoters	58.84	60.16
FIs & Local MFs	14.49	13.20
FPIs	4.50	4.42
Public & Others	22.17	22.22
Pledged Shares	0.00	0.00

Source : BSE

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# Max Healthcare

## A stellar show; growth catalysts abound

Max's Q1 EBITDA significantly beat expectation, growing by 37% QoQ to ~INR3bn (ex-COVID vaccine), led by higher occupancy and operating leverage. While COVID occupancy aided the hospital business, we are encouraged to see non-COVID occupancy of ~84% in the quarter. With regular business picking up (pent-up demand, international patients) and ARPOBs (payor mix) improving, we envisage a strong growth momentum for the next two years. Management is confident of sustaining an EBITDA margin of 24-25% in FY22. Reduction in net debt by INR0.8bn to INR4.6bn has further strengthened the balance sheet and net debt/EBITDA should remain at a comfortable ~0.2x in FY22e. We believe Max is entering a high-growth phase, with significant expansion and operating leverage driving EBITDA CAGRs of 54%/29% over the next two/five years (refer to our recent initiation: **Max Healthcare – a three-act play: growth, quality, returns** for the detailed thesis). Maintain BUY.

- **Hospital business posts robust recovery:** Adjusting for the COVID vaccine contribution (INR1.4bn), hospital revenue grew by 7% QoQ to INR11.2bn, led by higher occupancy (~81% vs. 70% in Q4). It is noteworthy to see strong occupancy levels of ~84% for the non-COVID beds (58% of beds) in the quarter. While the COVID-led occupancy may decline, we expect regular business to offset this, aided by pent-up demand and return of international patient business, which will drive ARPOBs higher.
- **EBITDA margin at all-time high; further scope for improvement exists:** Despite the 9% QoQ decline in ARPOBs (COVID admissions, decline in OPD business), EBITDA margin improved by ~120bps to 25.3% (ex-vaccine). We see further scope for improvement due to: (a) optimisation of payor mix, (b) ramp-up in the non-COVID business, (c) margin improvement in the Nanavati hospital business from ~10% in Q1 to high teens by FY23, primarily led by VRS implementation, and (d) operating leverage benefits. We forecast 728bps of margin improvement to 25% over FY21-23e.
- **Max Labs – strong trajectory, encouraging trends in non-COVID business:** Lab revenue doubled QoQ to INR359mn, primarily led by higher volume and better pricing. While the COVID revenue (56%) for this segment rose by 2.7x, we are encouraged by the healthy traction seen in the non-COVID business as well, which grew 24% QoQ. Max has expanded its reach to 14 cities and added 60 new collection centers, taking the count of active partners to 480. EBITDA margin doubled from ~10% in FY21 to 20.7% in Q1.
- **Key call takeaways:** (a) Nanavati: EBITDA margin of 10% in Q1, ~INR2bn capital employed, currently at ~16% RoCEs, first round of VRS to impact by ~INR450mn in Q2; (b) expansion – to add 290 beds by 2023-end and ~1,000 beds (including 350 shell) by 2024-end; (c) Capex guidance - INR1.2bn in FY22e (INR0.5bn in Q1); (d) Max@Home - recorded ~18% QoQ revenue growth with ~12-13% EBITDA margin.

### Financial Summary

	1Q FY22	1Q FY21	YoY (%)	4Q FY21	QoQ (%)	FY20	FY21	FY22E	FY23E
Net Sales	13,222	5,718	131.2	10,890	21.4	40,230	36,290	52,059	60,649
EBITDA	3,603	-223	NA	2,625	37.3	5,894	6,362	11,888	15,046
EBITDA Margin	27.3	-3.9	3,115	24.1	315	14.7	17.5	22.8	24.8
Adj. PAT	2,097	-3,750	NA	1,090	92.4	1,682	454	6,904	9,805
Adj. EPS (INR)	2.2	-4.1	632	1.1	104	3.1	0.5	7.1	10.2
EV/ EBITDA (x)						51.1	46.8	24.7	19.1
RoCE (%)						11.0	9.4	21.5	23.5

Source: Company, HSIE Research, projections excluding vaccine opportunity

**BUY**

CMP (as on 11 Aug 2021)	INR 301
Target Price	INR 350
NIFTY	16,282

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 330	INR 350
EBITDA %	FY22E +8%	FY23E +7%

### KEY STOCK DATA

Bloomberg code	MAXHEALT IN
No. of Shares (mn)	966
MCap (INR bn) / (\$ mn)	290/3,902
6m avg traded value (INR mn)	545
52 Week high / low	INR 310/97

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	28.4	52.0	-
Relative (%)	17.5	46.2	-

### SHAREHOLDING PATTERN (%)

	Jun-21	Mar-21
Promoters	70.46	70.46
FIs & Local MFs	7.95	4.88
FPIs	14.05	17.96
Public & Others	7.54	6.70
Pledged Shares	0.34	0.34

Source : BSE

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## Ajanta Pharma

### India shines, margins a tad lower

Ajanta's Q1 revenue was in line, as strong India and Africa business offset the muted Asia, US, and institutional businesses. EBITDA margin came in lower-than-expected at 29% (~200bps miss), primarily on account of higher-than-expected staff costs and other expenses. Ajanta's India business is on a strong footing and grew by 32% YoY (~9% 2-yr CAGR), led by outperformance across therapies. While the US business was muted (+13% YoY, -3% QoQ), we expect it to improve in the coming quarters as the company plans to ramp up its recent launches. We expect the EBITDA margin to stabilise around 30% in FY22 (vs. 26%/34% in FY20/21) and improve to ~32% in FY23, aided by operating leverage. While the stock has outperformed the sector by ~12% in the past 6M, at ~24x FY23 EPS, the upside appears limited; hence, we downgrade it to ADD. Our revised TP stands at INR2,520/sh.

- **In-line revenue, miss on margins:** Revenue grew by 12% YoY as strong growth in India (+32% YoY), Africa (+16% YoY) offset muted growth in the US (-3% QoQ, lack of new launches), institutional business (-13% YoY) and Asia (+2% YoY, lockdown-led disruption). EBITDA margin declined to ~29% (-484bps QoQ) on account of moderation in gross margin (-76bps QoQ), increase in staff costs (+186bps QoQ, incentives, commissioning of ophthal block) and other expenses (+221bps QoQ). Adj. PAT came in line, aided by higher other income (INR 250mn forex gain) and lower tax rate of 21%.
- **Key therapies continue to outperform in India:** Ajanta's India revenue grew by 32% YoY, primarily led by market share gains in key therapies, new launches, and price increases. As per the AIOCD, cardiac, ophthal and derma outperformed the therapy growth by 3%, 24% and 11% respectively in Q1. Ajanta is confident of outperforming the industry growth of ~11-13%, led by ramp-up in existing brands and new launches. It will focus on scaling up newly launched brands and plans to introduce 4-5 new products in FY22.
- **Strong recovery in Africa, Asia; US trajectory to improve:** The Africa branded business recovered strongly, growing 16% YoY while the Asia business grew at a modest 2% YoY as some countries continued to face COVID-led disruptions. Ajanta expects to outperform in these markets, led by market share gains and new launches. The US business grew by 13% YoY but declined 3% QoQ to ~USD23mn, primarily due to fewer launches (QoQ). The company plans to launch ~3 more products in FY22 and ramp up the recent ones (nine in FY21). We expect 19% US sales CAGR over FY21-23e.
- **Key call takeaways:** (a) US - aims to file 10-12 ANDAs p.a., gChantrix: advanced stage of review, awaiting approval; (b) plant capacity utilisation at 60-70%; (c) guidance - to maintain current EBITDA margin, ETR: 22%
- **Downgrade to ADD:** We raise our EPS by 3% for FY23 to factor in lower tax rate and revise the TP to INR2,520/sh, based on 25x FY23e EPS (23x earlier), in line with the company's five-year historical average. **Risks:** lower growth in India/EMs, delay in US approvals, and currency volatility in EMs.

#### Financial Summary

	1Q FY22	1Q FY21	YoY (%)	4Q FY21	QoQ (%)	FY20	FY21	FY22E	FY23E
Net Sales	7,480	6,682	11.9	7,568	(1.2)	25,879	28,897	32,499	37,004
EBITDA	2,202	2,232	(1.3)	2,594	(15.1)	6,833	9,986	9,667	11,983
EBITDA Margin	29.4	33.4	-397	34.3	-484	26.4	34.6	29.7	32.4
APAT	1,738	1,478	17.6	1,593	9.1	4,705	6,539	6,962	8,720
Diluted EPS (INR)	20.1	16.9	315	18.4	9.1	53.9	75.1	80.5	100.8
P/E (x)						44.4	31.9	29.8	23.8
RoCE (ex-cash) %						17.3	25.2	23.9	29.2

Source: Company, HSIE Research

### ADD

CMP (as on 29 July 2021)	INR 2,395
Target Price	INR 2,520
NIFTY	15,778

KEY CHANGES	OLD	NEW
Rating	BUY	ADD
Price Target	INR 2,225	INR 2,520
EPS %	FY22E	FY23E
	-	+3%

#### KEY STOCK DATA

Bloomberg code	AJP IN
No. of Shares (mn)	87
MCap (Rs bn) / (\$ mn)	207/2,790
6m avg traded value (Rs mn)	265
52 Week high / low	INR 2,422/1,422

#### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	26.6	35.6	60.8
Relative (%)	18.7	21.8	21.3

#### SHAREHOLDING PATTERN (%)

	Jun-21	Mar-21
Promoters	70.34	70.34
FIs & Local MFs	11.81	11.86
FPIs	8.94	8.37
Public & Others	8.91	9.43
Pledged Shares	10.52	10.90

Source : BSE

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# Narayana Health

## Cayman shines, India yet to recover

Narayana Health's (NH) Q1 EBITDA beat estimates by 10%, mainly driven by improved trajectory in the Cayman Islands business (+25% QoQ, 47% margin). COVID has impacted the India business recovery (-3% QoQ), as expected. However, barring the flagship units, the other mature/new units demonstrated robust performance with flat/+870bps QoQ improvement in margin. Despite easing of travel restrictions, NH has been able to sustain patient flow in Cayman Islands, which is encouraging. In India, it plans to increase investments to refurbish and add service offerings at current facilities, which would improve ARPOBs in the long term. While this may increase debt in the near term, the overall net debt/EBITDA would remain comfortable at 1.6x/1.4x for FY22/23e. We raise EBITDA estimates for FY22/23 by 12-13% to factor in higher margin in Cayman Islands and revise the TP to INR575/sh. ADD.

- **COVID impacts India business; non-flagship units provide cushion:** NH's India revenue declined 3% QoQ to INR6.8bn, primarily due to COVID impact, particularly at NICS, Bangalore (-45% QoQ). While the other mature units did reasonably well at ~17% EBITDA margin (flat QoQ), the new units continued their strong upward trajectory with revenue growth of 23% QoQ and -0.5% margin, driven by COVID benefit in Delhi, NCR region (higher volumes, no price cap). We forecast that new units' losses would reduce in FY22 and they would turn profitable in FY23 with ~5% margin.
- **Continued momentum in Cayman, sustenance is key:** Cayman witnessed strong revenue trends (USD 23mn, +25% QoQ) as NH was able to retain patient flow despite easing of travel restrictions. EBITDA margin improved by 601bps QoQ to 46.6% (significantly higher than the pre-COVID level of ~25%). NH aims to focus on gaining market share in the region, which may dilute the margin in the near term. The greenfield expansion plan is on track and is expected to get commissioned from FY24e.
- **Con call takeaways:** (a) India: The share of COVID-related business is 24% of Q1 revenue; the company is looking to avail a government incentive scheme for raising debt. (b) Cayman: opened two clinics (USD1mn each), and three more are on the anvil in the next two years; the company also plans to expand its presence across the Caribbean (already entered into management contracts in St. Lucia).

### Segmental quarterly performance

	1Q FY22	1Q FY21	YoY (%)	4Q FY21	QoQ (%)
<b>Revenues</b>					
India	6,815	3,065	122.3%	7,002	(2.7%)
Cayman	1,783	870	104.9%	1,376	29.6%
Total	8,598	3,935	118.5%	8,378	2.6%
<b>EBITDA margins</b>					
India	12.4%	-26.6%	NA	17.0%	-457bps
Cayman	46.6%	14.8%	3,177bps	40.5%	601bps
Total	15.5%	-23.1%	NA	16.9%	-133bps

### Financial Summary

	1Q FY22	1Q FY21	YoY (%)	4Q FY21	QoQ (%)	FY20	FY21	FY22E	FY23E
Net Sales	8,598	3,935	118.5	8,378	2.6	31,278	25,823	36,835	42,540
EBITDA	1,337	-910	(246.9)	1,414	(5.5)	4,229	1,821	6,546	8,151
EBITDA Margin	15.5	-23.1	3867bps	16.9	-133bps	13.5	7.1	17.8	19.2
APAT	762	-1,197	(163.6)	680	12.0	1,108	-143	2,821	3,638
Adj. EPS (INR)	3.7	-5.9	958.5	3.3	12.0	5.5	-0.7	13.8	17.8
EV/ EBITDA (x)						26.1	59.4	17.1	13.8
RoCE (%)						10.9	3.6	17.5	17.8

Source: Company, HSIE Research, multiples adj. for NPV of Cayman expansion

## ADD

CMP (as on 09 Aug 2021)	INR 529
Target Price	INR 575
NIFTY	16,258

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 525	INR 575
	FY22E	FY23E
EBITDA %	+13%	+12%

### KEY STOCK DATA

Bloomberg code	NARH IN
No. of Shares (mn)	204
MCap (INR bn) / (\$ mn)	108/1,452
6m avg traded value (INR mn)	245
52 Week high / low	INR 567/292

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	28.3	8.6	73.8
Relative (%)	17.8	2.6	30.8

### SHAREHOLDING PATTERN (%)

	Jun-21	Mar-21
Promoters	63.85	63.85
FIs & Local MFs	20.05	19.59
FPIs	10.12	10.96
Public & Others	5.98	5.60
Pledged Shares	0.00	0.00

Source : BSE

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Power

# PGCIL

## Slower tendering to lower capitalisation rate

PGCIL's asset capitalisation in Q1FY22 increased by 377% YoY to INR56.4bn, while Capex declined 42% YoY to INR11.1bn. Revenue increased 9% YoY, led by strong growth across the transmission and consultancy segment. EBITDA, in Q1FY22, also mirrored topline growth of 9% while the margin remained flat. The company booked a oneoff income related to profit on sales of five TBCB projects to its InvIT platform, which resulted in strong 2x YoY growth in reported PAT to INR60.9bn. Adjusting for the same, PAT came in at INR33bn (+7% YoY). While PGCIL is well poised to benefit from the investment opportunity in the transmission space (due to its robust operating cash flow of ~INR310bn p.a. and comfortable net D/E of below 2.0x), the transmission tendering activity has been much slower than expected. The upcoming opportunity in the sector over the next 2-3 years is only ~INR400-500bn and we now expect a lower capitalisation of INR152bn/159bn for FY22/23. Hence, we downgrade our TP marginally to INR196 (from INR203 earlier) and lower our rating to ADD.

- **Earning remains strong:** PGCIL's reported revenue of INR97.8bn (+8.8% YoY) was led by 7.1%/54.7% YoY growth in its transmission/consulting segment. Telecom revenue declined 36.7% YoY to INR1.2bn. EBITDA also grew 8.8% YoY to INR85.7bn, while the margin remained flat at 87.6%. Other income declined 19.4% YoY to INR5.1bn on lower surcharge income and dividends from subsidiaries. Interest expenses were flat at INR23.0bn, while depreciation was up 8.2% YoY to INR30.3bn. The company booked a oneoff income of INR31.7bn in Q1FY22 related to profit on sales of five TBCB projects to its InvIT platform, which resulted in strong 2x YoY growth in reported PAT to INR60.9bn. Adjusting for the same, PAT came in at INR33bn (+7% YoY).
- **Expect capitalisation of ~INR150bn in FY22:** In Q1, capitalisation stood at INR56.4bn, up 376.5% YoY, while Capex stood at INR11.1bn, down 41.8% YoY. However, total projects in hand are now down to INR351bn (CWIP and TBCB stood at INR183bn and INR168bn respectively), which are expected to be capitalised over the next 2.5 years. Further, tendering activity has been extremely slow in the transmission space with an overall opportunity of only ~INR 400-500bn is likely to crop up over the next 2-3 years. Hence, we have lowered our capitalisation target to INR152bn/INR159bn for FY22E/23E from our earlier assumption of INR173bn/INR200bn.
- **Downgrade to ADD:** While PGCIL is well poised to benefit from the investment opportunity in the transmission space (due to its robust operating cash flow of ~INR310bn p.a. and comfortable net D/E of below 2.0x), the transmission tendering activity has been much slower than expected. Factoring in the same, we lower our TP to INR196 (INR203 earlier), which provides limited upside potential (+12%). Hence, we downgrade to ADD.

### Financial Summary

(INR mn, Mar YE)	1Q FY22	1Q FY21	YoY (%)	4Q FY21	QoQ (%)	FY21	FY22E	FY23E
Net Revenues	97,766	89,887	8.8	99,425	-1.7	3,76,657	4,09,767	4,24,112
EBITDA	85,724	78,772	8.8	87,472	-2.0	3,30,559	3,57,989	3,69,065
APAT	32,790	30,539	7.4	35,156	-6.7	1,23,346	1,32,274	1,39,989
Diluted EPS (INR)	6.3	5.8	7.4	6.7	-6.7	23.6	19.0	20.1
P/E (x)						7.3	9.2	8.7
P/BV (x)						1.2	1.5	1.4
RoE (%)						17.9	17.3	16.8

Source: Company, HSIE Research

## ADD

CMP(as on 11 Aug 2021)	INR 176
Target Price	INR 196
NIFTY	16,282

KEY CHANGES	OLD	NEW
Rating	BUY	ADD
Price Target	INR203	INR196
EPS Change %	FY22E (0.4%)	FY23E (1.4%)

### KEY STOCK DATA

Bloomberg code	PWGR IN
No. of Shares (mn)	6,975
MCap (INR bn) / (\$ mn)	1,228/16,507
6m avg traded value (INR mn)	2,739
52 Week high / low	INR 189/116

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	5.1	9.8	32.8
Relative (%)	(5.8)	4.0	(9.2)

### SHAREHOLDING PATTERN (%)

	Jun-21	Mar-20
Promoters	51.3	51.3
FIs & Local MFs	13.8	13.7
FPIs	28.3	28.4
Public & Others	6.5	6.6
Pledged Shares	-	-

Source : BSE

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# NTPC

## Asset monetisation on the cards

Generation/sales increased 19.2%/19.3% YoY to 71.7bn/66.6bn unit in Q1FY22 on the back of demand recovery. Coal PAF, however, declined in Q1FY22 to 94% vs 96% YoY, but coal PLF was up at 70% in Q1FY22 vs 58.2% YoY. Underrecovery in Q1FY22 came in at INR1.9bn. After adjusting for previous periods and one-off items, adjusted PAT came in at INR31.6bn above our estimate. Debtors (>45 days) increased to INR90bn vs INR65bn QoQ during the second corona wave. NTPC plans to add 15GW of RES capacity by FY24 and another 45GW by FY32. We expect the company's standalone PAT to grow at 9% CAGR over FY21-23E, led by improvement in PLF, PAF, and regulated equity. The RoE shall expand from 13.2% in FY21 to 13.7% in FY23 and generate an FCF of INR175bn over FY22-23E. Management plans to monetise its trading arm and renewable business, going ahead, to enhance the value proposition for stakeholders. We maintain a BUY rating and FY23 P/BV (consolidated) TP of INR 143/share as the stock is currently trading at an attractive FY23 consolidated P/BV of 0.7x and a PE of 6.0x.

- **Earnings above estimate:** Energy sales increased 19.3% YoY to 66.6bn unit in Q1FY22 due to strong power demand. Coal PAF, however, declined 208bps YoY to 93.7% due to an annual overhaul, while coal PLF rose to 69.7% vs 58.2% YoY. Accordingly, Q1FY22 underrecovery came in at INR1.9bn. Gas PAF/PLF came in at 97.0%/8.1% compared to 93.3%/25.4% YoY. After adjusting for previous period and one-off items, PAT came in at INR31.6bn in Q1FY22 (+1% YoY), above our estimate of INR24.3bn.
- **Targets 15GW of RES capacity by FY24:** For FY22E/FY23E, we expect NTPC to commercialise 5.5GW and 6.7GW respectively. These projects will increase the standalone regulated equity by 21% to INR781bn in FY23E vs. INR648bn in FY21. On the renewable front, management targets to add 15GW of capacity by FY24 and another 45GW by FY32. NTPC has 1.4GW of installed RES capacity as on date, while another 3GW/4.5GW of RES capacity is under construction/at the tendering stage.
- **Maintain BUY:** NTPC plans to add 60GW of RES capacity by FY32, an effort to scale up its score in ESG metrics. Along with strong Capex on thermal front, this should drive its regulated equity and earnings growth, going ahead (9% CAGR over FY21-23E), which should boost its RoE. The management is also confident of selling surplus available capacity (from the surrender of old PPA by discoms) in the open market and earn better RoEs. Also, its plan to monetise the trading arm and renewable business, going ahead, would enhance the value proposition for stakeholders. Accordingly, we maintain a BUY and FY23 P/BV (consolidated) TP of INR 143/share. The stock is currently trading at an attractive FY23 consolidated P/BV of 0.7x and a PE of 6.0x.

### Financial Summary

(INR mn, Mar YE)	1Q FY22	1Q FY21	YoY (%)	4Q FY21	QoQ (%)	FY21	FY22E	FY23E
Net Revenues	2,59,914	2,29,132	13.4	2,73,579	-5.0	9,91,536	10,86,028	11,92,182
EBITDA	74,598	77,534	-3.8	79,205	-5.8	3,01,820	3,41,327	3,84,796
APAT	31,629	31,394	0.7	38,310	-17.4	1,44,375	1,52,645	1,68,943
Diluted EPS (INR)	3.8	3.8	0.7	4.6	-17.4	14.7	15.7	17.4
Consol P/E (x)						7.5	7.1	6.0
Consol Price/BV (x)						0.9	0.8	0.7
RoE (%)						13.2	13.4	13.7

Source: Company, HSIE Research

## BUY

CMP(as on 02 Aug 2021)	INR 118
Target Price	INR 143
NIFTY	15885

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR143	INR143
	FY22E	FY23E
EPS Change %	-	-

### KEY STOCK DATA

Bloomberg code	NTPC IN
No. of Shares (mn)	970
MCap (INR bn) / (\$ mn)	1,146/15,402
6m avg traded value (INR mn)	2,513
52 Week high / low	INR 122/78

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	15.4	32.9	36.5
Relative (%)	7.6	19.3	(2.9)

### SHAREHOLDING PATTERN (%)

	Jun-21	Mar-21
Promoters	51.1	51.1
FIs & Local MFs	32.2	33.2
FPIs	13.1	11.9
Public & Others	3.6	3.8
Pledged Shares	-	-

Source : BSE

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# Tata Power

## EPC ramp-up and Odisha discom boost aid growth

Tata Power reported a 54.5% YoY rise in consolidated revenue at INR99.8bn in Q1FY22, led by the acquisition of Odisha discoms and strong execution across the solar EPC segment. EBITDA increased 34.3% YoY due to integrated PAT at Mundra + coal mining business (from the rise in coal prices) and higher EPC revenue. However, margin was impacted by ~350 bps YoY due to rise in module prices and increased AT&C losses during the second COVID wave. The deleveraging exercise helped in lowering its interest expenses, which along with a higher share from JV companies led to a 73.8% YoY rise in its APAT to INR4.7bn. The solar EPC order backlog stood strong at INR72.6bn. Furthermore, the liquidation across its RES business is expected to happen during FY22. While we have maintained our earnings estimates for FY22/FY23, we have revised our TP upward to INR156 by assigning higher multiples to its EPC & renewable businesses, reducing losses at Mundra and accruing benefits from the proposed merger. We retain our BUY rating.

- **Strong performances across segment:** Consol revenue grew by 54.5% YoY to INR99.8bn, led by a strong performance in solar EPC (+381% yoy) and inclusion of Odisha business (INR28.8bn in Q1FY22). EBITDA also increased 34.3% YoY to INR23.2bn; however, the margin was down 350 bps YoY to 23.3%, led by increased module prices and AT&C losses across the Odisha circle (the impact of second COVID wave). APAT, though rose 73.8% YoY to INR3.9bn, driven by high contribution from the EPC business and reduction in interest expenses (-13.2% YoY to INR9.5bn). Interest expenses, however, increased 6.2% QoQ due to INR30bn sequential increase in net debt, due to refinancing of perpetual debt (amount was moved from equity to debt).
- **Green energy transition gaining momentum:** Tata Power's transition into the green segment is gaining strong momentum with nearly 40%/10% market share enjoyed by its EV charging/solar EPC segments. Its solar pump/solar rooftop business witnessed 8x/4x growth during Q1FY22 with the highest-ever order book of ~INR11bn across solar pumps. Also, with the delicensing drive across the UTs and selective states, the opportunity across the discom privatisation space is getting mammoth. On RES monetisation, the company is working on various alternatives, which can fetch them better valuation.
- **Maintain a BUY:** We reiterate our BUY rating on Tata Power's strong transition into green energy, huge growth in the EPC business, higher regulated Capex, asset monetisation and merger benefits. While we have maintained our PAT estimates, we have revised the TP upward to INR156, by assigning higher multiples to the EPC & renewable businesses and the loss reduction at Mundra. We retain our BUY rating on Tata Power.

### Financial Summary

(INR mn, Mar YE)	1Q FY22	1Q FY21	YoY (%)	4Q FY21	QoQ (%)	FY21	FY22E	FY23E
Net Revenues	99,680	64,530	54.5	1,01,274	-1.6	3,24,681	3,96,653	4,28,469
EBITDA	23,245	17,313	34.3	14,456	60.8	69,285	82,764	88,639
APAT	4,657	2,680	73.8	4,812	-3.2	13,551	21,734	24,884
Diluted EPS (INR)	1.22	0.76	73.8	1.26	-3.2	5.0	6.8	7.8
P/E (x)						27.1	19.9	17.4
Price/BV (x)						1.9	1.8	1.7
RoE (%)						6.1	8.2	8.9

Source: Company, HSIE Research

**BUY**

CMP(as on 6 Aug 2021)	INR 135
Target Price	INR 156
NIFTY	16,238

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 127	INR 156
EPS Change %	FY22E	FY23E
	-	-

### KEY STOCK DATA

Bloomberg code	TPWR IN
No. of Shares (mn)	3,195
MCap (INR bn) / (\$ mn)	432/5,803
6m avg traded value (INR mn)	6,031
52 Week high / low	INR 137/49

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	31.3	54.5	173.6
Relative (%)	20.5	47.6	130.8

### SHAREHOLDING PATTERN (%)

	Jun-21	Mar-21
Promoters	46.86	46.86
FIs & Local MFs	16.57	19.42
FPIs	11.26	12.17
Public & Others	25.31	21.55
Pledged Shares	-	-

Source : BSE

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# JSW Energy

## Adj PAT in line, but valuation remains stretched

Net generation increased 4.3% YoY to 5.1bn unit, led by strong generation across the thermal plant, partially offset by lower output across the hydro stations due to less water flow (YoY). Accordingly, PLF declined across the hydro plant, while it improved for the thermal stations. EBITDA/PAT decreased 6.3%/5.0% YoY to INR7.0bn/INR2.1bn due to increased other expenses and one-off costs related to prepayment charges. After adjusting for this, PAT increased 36% YoY to INR2.6bn (in line with our estimate). The company expects to add 15.5GW of RES capacity by FY30, of which 2.5GW would be added by FY24. It has signed a PPA for 2.25GW of these capacities until date. It plans to venture into the green hydrogen business and demerge from the renewable segment, but these developments are in nascent stages. JSW Energy's current net D/E stands at 0.4x, while net debt/EBITDA stands at 2.1x. However, we maintain our TP of INR118/share and SELL rating, as the stock price has risen substantially to INR244, which seems unjustifiable to our valuation metrics (RoE - ~7%, FY23 P/E - 37.3x, P/BV - 2.5x).

- Thermal generation impressive:** Net generation increased 4.3% YoY to 5.1bn unit, led by higher generation across the thermal plant (+13% YoY), partially offset by lower generation across the hydro stations (-15% YoY) due to lower water flow (YoY). Accordingly, PLF improved across its Ratnagiri/Barmer/Vijaynagar stations by 178bps/310bps/1955 bps YoY to 59%/73%/43%, while it declined across hydro plants by 890bps YoY to 49%. Revenue declined 4.3% YoY to INR17.3bn in Q1FY22 due to a reduction attributable to the impact of job work at the standalone entity. EBITDA and PAT decreased 6.3%/5.0% YoY to INR7.0bn/INR2.1bn due to increased other expenses and one-off costs related to prepayment charges and a write-off related to repayment of rupee denominated loans. After adjusting for the same, PAT increased 36% YoY to INR2.6bn (in line with our estimate).
- PPA signed for 2.25GW of RES capacity:** The company expects to add 15.5GW of RES capacity by FY30, of which 2.5GW would be added by FY24. It has signed a PPA for 2.25GW of these capacities. JSW Energy has one the strongest balance sheets in the industry with the current net D/E at 0.4x and it generates a strong cash flow of ~ INR17bn-21bn p.a., which is sufficient to meet its equity Capex for the upcoming RES capacities.
- Maintain a SELL on expensive valuation:** We maintain our PAT estimates for FY22/23 and TP of INR118. However, the stock price has surged substantially to INR244, which seems unjustifiable to our valuation metrics (RoE - ~7%, FY23 P/E - 23.5x, P/BV - 1.6x). Hence, we retain our SELL rating on it.

### Financial Summary

(INR mn, Mar YE)	1Q FY22	1Q FY21	YoY (%)	4Q FY21	QoQ (%)	FY21	FY22E	FY23E
Net Revenues	17,275	18,052	-4.3	15,696	10.1	69,222	83,333	85,897
EBITDA	6,984	7,455	-6.3	6,328	10.4	29,066	30,715	31,412
APAT	2,086	2,196	-5.0	1,048	99.1	8,227	10,171	10,756
Diluted EPS (INR)	1.3	1.3	-5.0	0.6	99.1	5.0	6.2	6.5
P/E (x)						48.7	39.4	37.3
Price/BV (x)						2.8	2.6	2.5
RoE (%)						6.3	6.8	6.9

Source: Company, HSIE Research

## SELL

CMP(as on 30 July 2021)	INR 244
Target Price	INR 118
NIFTY	15763

KEY CHANGES	OLD	NEW
Rating	SELL	SELL
Price Target	INR118	INR118
	FY22E	FY23E
EPS Change %	-	-

### KEY STOCK DATA

Bloomberg code	JSW IN
No. of Shares (mn)	1,643
MCap (INR bn) / (\$ mn)	412/5,532
6m avg traded value (INR mn)	949
52 Week high / low	INR 258/45

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	129	247	444
Relative (%)	121	233	405

### SHAREHOLDING PATTERN (%)

	Jun-21	Mar-21
Promoters	74.7	74.7
FIs & Local MFs	6.5	7.2
FPIs	5.9	5.6
Public & Others	13.0	12.6
Pledged Shares	17.0	18.9

Source : BSE

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# NHPC

## Poor hydrology impacts generation

NHPC's revenue declined by 14% YoY to INR21.7bn in Q1FY22, given 11% YoY fall in generation due to lower water availability in the reservoir and shutting down of the Sewa unit. EBITDA also declined 10% YoY to INR12.8bn on the back of lower revenue and increased other expenses. Depreciation declined 16% YoY while other income increased 136% YoY due to higher late payment surcharge income. After adjusting for one-off expenses related to rebate provided to discoms in Q1FY21, adjusted PAT came in flat at INR9.1bn in Q1. Parbati IV and Subansiri are expected to be commissioned in FY24, while the company is also foraying aggressively into solar segments. We have maintained our SoTP target price of INR29 (+ 9% from the CMP, valuation - core business – 1.3x P/BV, RoE – 10.0%, CoE – 13.5% and FY23BV of INR36/share), factoring in healthy cash flow and cash balances. Hence, we reiterate our ADD rating on NHPC.

- **Earnings came in flat on YoY basis:** Generation declined 10.7% YoY to 7.2bn unit due to lower water availability in the reservoir and shutting down of the Sewa unit. Accordingly, revenue declined to INR21.7bn (13.8% YoY) in Q1FY22. Generation expenses declined 9.8% YoY to INR2.6bn due to lower water cess (from lower generation); however, other expenses increased 13.8% YoY to INR3.1bn due to higher O&M expenses. Accordingly, EBITDA declined 10.0% YoY to INR12.8bn. Depreciation declined 15.5% YoY to INR2.8bn, while other income increased 136% YoY due to higher late payment surcharge income. Interest expenses declined 8.6% YoY to INR1.3bn due to fall in interest rates and repayment of high cost debt. After adjusting for one-offs related to rebate provided to discoms in Q1FY21, adjusted PAT came in flat at INR9.1bn.
- **Management discussion:** NHPC plans to incur a Capex of INR91bn/INR80bn in FY22E/FY23E on various under-construction hydro and solar projects (INR25bn each in FY22/FY23). It expects full commissioning of Parbati II and Subansiri in FY24, which will increase regulated equity by 70% to INR220bn in FY24E vs. INR130bn in FY21. The company has lined up Capex of INR1trn over the next decade, which would drive growth in regulated equity, going ahead. It generates sufficient cash flow to meet its equity requirement. The company is also foraying aggressively into solar segments with 1.25GW under the tendering stage. It expects to commission the same by FY24.
- **Reiterate ADD:** We have maintained our SoTP target price of INR29 (+9% from the CMP, valuation - core business – 1.3x P/BV, RoE – 10.0%, CoE – 13.5% and FY23BV of INR36/share) and maintain our ADD rating, factoring in growth in regulated equity, risk-averse regulatory business model, strong cash flow generation, and attractive valuation (0.7x FY23 BV).

### Financial Summary

(INR mn, Mar YE)	1Q FY22	1Q FY21	YoY (%)	4Q FY21	QoQ (%)	FY21	FY22E	FY23E
Net Revenues	21,702	25,189	-13.8	13,415	61.8	85,066	92,708	1,01,514
EBITDA	12,793	14,207	-10.0	5,133	149.2	46,047	51,240	55,148
APAT	9,123	9,075	0.5	4,842	88.4	33,846	35,056	35,438
Diluted EPS (INR)	0.8	0.8	0.5	0.4	88.4	3.37	3.49	3.53
P/E (x)						7.8	7.5	7.4
P/BV (x)						0.8	0.8	0.7
RoE (%)						10.0	10.4	10.0

Source: Company, HSIE Research

## ADD

CMP(as on 16 Aug 2021)	INR 26
Target Price	INR 29
NIFTY	16,563

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 29	INR 29
	CY22E	CY23E
EPS Change %	-	-

### KEY STOCK DATA

Bloomberg code	NHPC IN
No. of Shares (mn)	10,045
MCap (INR bn) / (\$ mn)	263/3,537
6m avg traded value (INR mn)	201
52 Week high / low	INR 29/20

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	1.4	3.8	26.9
Relative (%)	(12.7)	(2.9)	(19.9)

### SHAREHOLDING PATTERN (%)

	Jun-21	Mar-21
Promoters	71.0	71.0
FIs & Local MFs	15.2	14.9
FPIs	4.3	4.0
Public & Others	9.6	10.1
Pledged Shares	-	-

Source : BSE

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# Torrent Power

## Lower T&D losses and interest cost lift PAT

Torrent Power (TPW) reported consolidated revenue of INR 31.0bn (+3.1% YoY) in Q1FY22. Power demand, though increased by 38% YoY, led by restoration of industrial demand, was still down 13% compared to the pre-COVID level. EBITDA declined 24.9% YoY to INR7.3bn on the back of increased power purchases and rise in O&M expenses from increased operating activity. Deleveraging, along with fall in interest rates, have led to a fall in interest expenses. After adjusting for one-offs and prior period elements, adjusted PAT increased by 158% YoY to INR2.5bn in Q1FY22. We have revised our SoTP TP to INR511 by assigning higher multiples across the franchisee segment to factor in improved industrial demand, fall in AT&C losses, improved net D/E ratio, and a sustainable FCFE of ~INR10bn p.a. Hence, we reiterate our ADD rating on TPW.

- T&D losses decline across circles:** Power demand increased by 38% YoY, led by restoration of industrial activity, but was down 13% from the pre-COVID level, due to the impact of the COVID second wave. T&D losses declined across Ahmedabad/Bhiwandi/Agra to 7.7%/11.6%/17.4% from 15.4%/24.5%/22.8%, led by improved consumer mix and collections. Revenue grew by 3.1% YoY to INR31.0bn, led by rise in generation across the gas based stations, while generation from the renewables declined during the quarter (wind: -2.4% YoY, solar: -6.7% YoY). EBITDA, however, declined 24.9% YoY to INR7.3bn on the back of increased power purchases (+38.9% YoY) and rise in O&M expenses (+12.7% YoY) from increased operating activity. Interest cost declined 26.1% YoY from the deleveraging exercise and fall in interest rates. After adjusting for one-offs (INR210mn in Q1FY22 as provision for doubtful debts and INR3.4bn during Q1FY21 towards favourable regulatory order of past claims), adjusted PAT increased by 158% YoY to INR2.5bn in Q1FY22.
- 515 MW of solar capacity under construction:** TPW targets to commission 100 MW of solar capacity by July 2022 (PPA – GUVNL at INR1.99/unit) and 300 MW of capacities by Nov 2022 (PPA – TPLD at INR2.22/unit). Furthermore, it has acquired 50MW of solar project in Maharashtra (PPA with SECI at INR4.43/unit) for an EV of INR3.2bn (net equity - INR1.0bn). Furthermore, TPW is working on reviving SECI V 115 MW solar project for which commissioning extension has been provided until Feb 2022. TPW has a debt of INR66.7bn with a healthy net D/E of 0.6x and net debt/EBITDA of 1.8x as on FY21. This gives it enough room for funding these capacities.
- Reiterate ADD:** We have revised our SoTP target price to INR511 (from INR476) by assigning higher multiples to the franchisee segment, to factor in improved industrial demand, fall in AT&C losses, improved net D/E ratio and a sustainable FCFE of ~INR10bn p.a. We expect TPW's RoE to improve to 15.5% by FY23 from 13.4% in FY21. Hence, we reiterate ADD.

### Financial Summary

(INR mn, Dec YE)	1Q FY22	1Q FY21	YoY (%)	1Q FY21	QoQ (%)	FY21	FY22E	FY23E
Net Revenues	30,989	30,071	3.1	30,841	0.5	1,21,727	1,31,480	1,38,321
EBITDA	7,281	9,694	-24.9	9,145	-20.4	34,652	40,052	42,321
APAT	2,468	957	157.8	3,232	-23.7	12,909	16,947	18,316
Diluted EPS (INR)	5.1	1.9	157.8	6.73	-23.7	26.9	35.3	38.1
P/E (x)						17.7	13.5	12.5
P/BV (x)						2.2	2.0	1.8
RoE (%)						13.4	15.1	15.5

Source: Company, HSIE Research

## ADD

CMP(as on 6 Aug 2021)	INR 475
Target Price	INR 511
NIFTY	16,238

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 476	INR 511
EPS Change %	CY22E	CY23E
	-	-

### KEY STOCK DATA

Bloomberg code	TPW IN
No. of Shares (mn)	481
MCap (INR bn) / (\$ mn)	228/3,068
6m avg traded value (INR mn)	801
52 Week high / low	INR 509/293

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	15.2	49.2	44.9
Relative (%)	4.3	42.2	2.2

### SHAREHOLDING PATTERN (%)

	Jun-21	Mar-21
Promoters	53.57	53.57
FIs & Local MFs	18.78	17.73
FPIs	8.14	9.06
Public & Others	26.22	19.64
Pledged Shares	-	-

Source : BSE

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# CESC

## Strong show at consolidated level continues

CESC's consolidated PAT in Q1FY22 increased 34% YoY, led by trimming losses in the distribution franchisee (DF) segment (loss of INR90mn vs INR640mn YoY) and better earnings in the Noida business. Haldia and Dhariwal continued to perform strongly. Standalone PAT growth remained subdued due to the delayed WBERC tariff order. Standalone generation increased 16% YoY on a low base and strong demand during the elections, while T&D losses came in flat at 8.7%. CESC has emerged the highest bidder for a 100% stake in the Chandigarh discom (concurrent with its strategy to enhance presence in the distribution space). We retain our SoTP TP of INR1,011 and estimates; we have not yet factored in the Chandigarh discom as we await clarity on the bid and letter of award (LoA). We maintain our BUY rating.

- **Depleting franchisee losses boost consolidated PAT:** Volume in standalone business increased 16.3% YoY (on a low Q1FY21 base and high demand during elections), while T&D losses remained flat at 8.7% YoY in Q1FY22. PAT growth, however, remained subdued at +3% YoY due to delayed WBERC tariff order, which has impacted tariff realisation. However, consolidated PAT increased 34% YoY to INR2.8bn, led by depleting losses in the DF business (-INR90mn vs -INR640mn in Q1FY21) and better earnings in the Noida business due to high power demand. Haldia/Dhariwal continued to perform strongly with PAT increasing to INR900mn/INR250mn in Q1FY22.
- **CESC emerges highest bidder for Chandigarh discom:** CESC has emerged the highest bidder by quoting INR8.7bn for a 100% stake in the Chandigarh discom. The circle has a 50/30/20% mix of residential/commercial/ industrial consumers with a T&D loss of ~12-13%. Being a regulated business, the segment will earn a regulated RoE of 15.5%, with an estimated annual Capex of INR150mn. We believe that it is a good win for CESC, which has been striving to grow its distribution presence. Also, winning a licensing business (with an assured regulated RoE of 15.5%) is much better than winning an aggressively bid renewable project, which faces a lot of uncertainty and risks of land availability, volatile equipment costs, duty impositions, volatile output, rising receivables, and delays in PPA signing.
- **Maintain BUY:** On a consolidated basis, CESC is currently valued at an attractive P/BV of 0.8x FY23BV and PE of 7x FY23. A high dividend yield of ~6% will be in tune with investors' expectations. The standalone business is expected to normalise in FY22 (amidst the tariff order). Further, we expect the overall DF business to turn profitable in FY22, with reduction in AT&C losses, and achieve a PAT of INR450mn in FY23. Hence, we maintain our TP of INR1,011 and our BUY rating. We have not yet factored the Chandigarh discom into our estimates as we await further clarity on the bid and LoA.

### Financial Summary (Standalone)

(INR mn, Mar YE)	1Q FY22	1Q FY21	YoY (%)	4Q FY21	QoQ (%)	FY21	FY22E	FY23E
Net Revenues	19,310	15,850	21.8	16,590	16.4	69,210	82,643	87,292
EBITDA	3,110	2,280	36.4	3,030	2.6	11,750	16,505	17,424
APAT (Consol)	2,800	2,090	34.0	4,640	-39.7	13,630	14,116	14,977
Diluted Consol EPS (INR)	21.1	15.8	34.0	35.0	24.7	102.8	106.5	113.0
P/E (x)						7.4	7.1	6.7
Price/BV						1.0	0.9	0.8
RoE (%)						12.1	13.7	14.0

Source: Company, HSIE Research

## BUY

CMP(as on 11 Aug 2021)	INR 756
Target Price	INR 1,011
NIFTY	16,282

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 1,011	INR 1,011
EPS Change %	FY22E	FY23E
	-	-

### KEY STOCK DATA

Bloomberg code	CESC IN
No. of Shares (mn)	133
MCap (INR bn) / (\$ mn)	100/1,348
6m avg traded value (INR mn)	467
52 Week high / low	INR 871/289

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	16.2	21.5	31.2
Relative (%)	5.3	15.7	(10.8)

### SHAREHOLDING PATTERN (%)

	Jun-21	Mar-21
Promoters	49.9	49.9
FIs & Local MFs	23.5	23.8
FPIs	13.4	14.7
Public & Others	13.2	11.6
Pledged Shares	-	-

Source : BSE

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# Real Estate

# 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 47.4bn 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	68,831	75,714
EBITDA	3,954	17	22,757.8	45,39	(12.9)	14,178	20,306	23,394	26,112
APAT	3,371	(707)	(577.1)	5,112	(34.1)	12,201	18,098	21,190	24,175
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	FY22E	FY23E
Change %	+14.8	+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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# Godrej Properties

## Positives priced in

Godrej Properties Ltd (GPL) reported an operationally weak Q1FY22 with presales volume of 0.8msf (-69.3%/-81.5% YoY/QoQ) and value of INR 4.9bn (-67.5%/-81.1% YoY/QoQ). Despite the weak performance, we expect GPL to register presales growth in FY22, given (1) near normalisation of sales momentum in June/July-21, (2) robust launch pipeline (13.3 msf), (3) strong balance sheet with surplus cash of ~INR 35bn, and (4) well recognised brand positioning. We roll forward our valuation to Jun-23, and increase our target price to INR 1,500/sh (earlier INR 1,323/sh) to account for surplus cash (INR 35bn) deployment in new land acquisitions. However, given punchy valuations, we reiterate REDUCE, as all the positives seem fairly priced in.

- **Q1FY22 financial highlights:** Revenue: INR 862mn (+19%/-80% YoY/QoQ, 43% miss). EBITDA: INR (635) mn (INR (535)/ (1,541) mn in Q1FY21/Q4FY21, vs INR (776) mn est.). RPAT/APAT: INR 170mn (INR (202)/371 mn Q1FY21/Q4FY21), vs an estimated loss of INR 73mn. Presales in June-21 have picked up and were around INR 3.3bn (contributing 66% to Q1FY22 sales); July-21 saw further recovery with presales of ~INR 5bn.
- **Weak presales; new vision for Mumbai; focus on top cities to continue:** The presales value for the quarter came in at INR 4.9bn (-67.5/-81% YoY/QoQ) and volume stood at 0.8msf (-69x/-81.5% YoY/QoQ). For FY22, the GPL expects to surpass FY21 presales (INR 67bn), given a robust launch pipeline of 13.3msf. Collections for the quarter stood at INR 12bn (INR 4.5bn YoY). Laying higher growth emphasis on the MMR market, GPL has rejigged its management team with a new CEO at the helm. A good chunk of surplus growth capital will get deployed in Mumbai. The Worli project approval is expected to be sorted out before the Bandra project. Also, GPL is in advanced talks for some redevelopment projects in the city.
- **Major traction in land banking to pan out over the next two years:** GPL will deploy surplus funds over the next 24 months for purchasing land parcels as it expects land costs to tighten after two years. It is targeting to achieve an RoE of around 20% in the long term. New launches, projects completions, and higher share of owned projects will drive revenue and profitability.

### Consolidated Financial Summary

YE March (Rs mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY22E	FY23E	FY24E
Net Sales	862	723	19	4,326	(80)	7,649	15,504	20,536	19,501
EBITDA	329	(535)	(161)	(1,541)	(121)	-3,336	1,666	6,010	6,098
APAT	170	(202)	(184)	371	(54)	393	4,984	8,861	9,636
Diluted EPS (Rs)	0.6	(0.7)	(184.1)	1.3	(54.2)	1.4	17.9	31.9	34.7
P/E (x)						1,172.7	92.5	52.0	47.9
EV / EBITDA (x)						(138.6)	280.8	78.0	73.6
RoE (%)						0.6	5.8	9.6	9.5

Source: Company, HSIE Research

### Estimate Change Summary

Consolidated (Rs mn)	FY22E			FY23E		
	New	Old	% Change	New	Old	% Change
Revenues	15,504	15,222	2	20,536	19,627	5
EBITDA	1,666	1,664	0	6,010	6,194	(3)
EBITDA margin (%)	10.7	10.9	(18)	29.3	31.6	(229)
APAT	4,984	4,930	1.1	8,861	8,806	0.6

Source: Company, HSIE Research

## REDUCE

CMP (as on Aug 3, 2021)	Rs 1,323
Target Price	Rs 1,500
NIFTY	16,130

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	Rs 1,323	Rs 1,500
EPS cha. (%)	FY22	FY23
	1.1	0.6

### KEY STOCK DATA

Bloomberg code	GPL IN
No. of Shares (mn)	278
MCap (Rs bn) / (\$ mn)	461/6,210
6m avg traded value (Rs mn)	1,331
52 Week high / low	Rs 1,698/820

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	26.7	19.5	80
Relative (%)	15.2	13.1	37.2

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	58.44	58.43
FIs & Local MFs	5.21	5.14
FPIs	27.89	28.07
Public & Others	8.46	8.36
Pledged Shares	-	-

Source : BSE

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# Obero Realty

## Better times ahead

Obero Realty (ORL) registered underwhelming Q1FY22 performance with presales volume of 0.09msf (+7.5x/-91% YoY/QoQ), impacted by the COVID-19 second wave. We remain believers as ORL has multiple legs to its growth story, namely, (1) foray into new markets outside the Mumbai Metropolitan Region; (2) focus on short cycle redevelopment projects with each having development potential of INR 7-8bn (this could be a big rerating driver); (3) strong brand pull; (4) preferred developer of first choice in MMR markets; and (5) a strong balance sheet. We roll forward our estimate to Jun-23, add the Worli redevelopment project to the NAV, increase price estimates by 0-5% and maintain BUY on ORL with an increased target price of INR 800/sh (vs INR 697/Sh).

- **Q1FY22 financial highlights:** ORL reported revenue/EBITDA at INR 2.8/1.3bn, -31%/-47% miss on our estimate. APAT, at INR 806mn (+2.9x/-72% YoY/QoQ), missed our estimate by 50%. The second wave of COVID-19 impacted new sales and construction progress, resulting in underwhelming performance. We don't read Q1FY22 as an extension to FY22E and see a sharp recovery coming in over the rest of 9MFY22. The new launch in Thane during Q3FY21 and opening up of additional towers in Borivali and Goregaon will lead to strong presales accretion. We expect ORL to surpass FY21 presales of INR 32.9bn.
- **Non MMR diversification and redevelopment projects in MMR, new growth drivers:** ORL has started evaluating development opportunities outside Mumbai and intends to run it as a separate business division with a new CEO at the helm. In MMR, it intends to pick up short-cycle redevelopment projects with development potential of INR 7-8bn. In terms of launches, one tower each will be launched in Borivali, Thane, and Goregaon before Diwali this year. The Borivali mall is expected to see revenue generation from Diwali next year.
- **Balance sheet position comfortable:** The consolidated net debt stood at INR 15.1bn (vs INR 14bn on Mar-21) with net D/E at 0.16x (vs 0.15x on Mar-21). With collections of INR 6.5bn, ORL generated a positive CFO of INR 5.4bn in Q1FY22. Strong cash flow generation is expected from Mulund and Borivali projects in the near term with ~2K units of inventory. The Thane project is expected to be fully paid for with zero debt in three quarters.

### Consolidated Financial Summary

(Rs mn)	Q1FY22	Q1FY21	YoY	Q4FY21	QoQ	FY21	FY22E	FY23E	FY24E
Net Sales	2,843	1,180	140.8	7,901	(64.0)	20,526	22,716	24,683	27,398
EBITDA	1,249	579	115.5	3,735	(66.6)	10,004	10,903	10,963	12,412
APAT	806	281	187.2	2,869	(71.9)	7,393	11,413	9,600	10,887
Diluted EPS (Rs)	2.2	0.8	187.2	7.9	(71.9)	20.3	31.4	26.4	29.9
P/E (x)						33.1	21.4	25.5	22.4
EV / EBITDA (x)						25.8	23.0	22.8	19.8
RoE (%)						8.2	11.5	8.8	9.2

### Consolidated Estimate Change Summary

Particulars	FY22E			FY23E		
	New	Old	% Change	New	Old	% Change
Revenues (Rs mn)	22,716	21,737	4.5	24,683	25,533	(3.3)
EBITDA (Rs mn)	10,903	9,814	11.1	10,963	11,587	(5.4)
EBITDA (%)	48.0	45.1	284.9	44.4	45.4	(96.6)
APAT (Rs mn)	11,413	11,334	0.7	9,600	9,763	(1.7)

Source: Company, HSIE Research

## BUY

CMP (as on 30 Jul 2021)	INR 672
Target Price	INR 800
NIFTY	15,763

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 692	INR 800
EPS %	FY22E	FY23E
	+0.7	-1.7

### KEY STOCK DATA

Bloomberg code	ORL IN
No. of Shares (mn)	364
MCap (INR bn) / (\$ mn)	244/3,285
6m avg traded value (INR mn)	355
52 Week high / low	INR 729/331

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	22.9	27.6	87.9
Relative (%)	15.1	14.0	48.5

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	67.70	67.70
FIs & Local MFs	4.88	5.91
FPIs	24.85	23.49
Public & Others	2.57	2.90
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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# Phoenix Mills

## Accelerated recovery

Phoenix Mills (PHNX) revenue/APAT, at INR 2/-0.26bn, was 26/(15)% beat/(miss). Consumption degrew 86% QoQ to INR 2.6bn (the lockdown impact). Post opening, malls (Maharashtra malls yet to open) saw accelerated recovery with consumption in July-21 (ex-Maharashtra) at 93% of July-19 level and 120% of Mar-21. We expect a similar trend for Maharashtra malls once they receive the green signal to trade. PHNX continues to see a significant leasing traction in underconstruction malls and is seeking greenfield/brownfield acquisition opportunities, given strong cash balance. We have incorporated Kolkata mall and project Rise's in our SOTP valuation and increase our PHNX TP to INR 1,188/sh. We maintain BUY and tweak our FY22/FY23 EPS estimates by -18/+4.6% to account for near term COVID-led uncertainty.

- **Financial highlights:** Revenue: INR 2bn (+52/-47% YoY/QoQ, 26% beat). EBITDA: INR 761mn (+8.4/-56% YoY/QoQ, 4% beat). EBITDA margin: 37.3% (-14.8/-7.7% bps YoY/QoQ, vs 45.2% est.). RPAT/APAT: INR -262mn (+38%/-2.6x YoY/QoQ), 15% miss). Retail rental income came in at INR 870mn (+3.2% YoY) with EBITDA at INR 919mn (+21% YoY). PHNX is confident of achieving more than INR 1bn of commercial EBITDA for full year.
- **Retail rental potential robust:** Consumption in Q1FY22 was at INR 2.6bn vs INR 14.4bn in the previous quarter. Consumption in July-21 was INR 2bn (93% of pre-covid level). Rentals are expected to normalise by 2HFY22 start. Commercial occupancy was at 62% with collections at 92%. All four under-construction malls are expected to be 50-85% leased out by FY22-23. Lower parcel property, after reconfiguration/expansion, now has an additional 0.2msf of retail space with further 0.3msf coming from Project Rise by FY25.
- **Comfortable liquidity position; eyeing higher Capex:** Consolidated net debt group level/PML share stood at INR 26.9/16.8bn. The cost of debt was down to 7.9% from 8.17% QoQ. Receipts from CPPIB and GIC, at INR 15bn, took liquidity to INR 17bn (vs INR 6bn for Q4FY21). PHNX is pursuing an addition of 1msf GLA for every year beyond FY24 and Kolkata was the first acquisition. PHNX continues to explore greenfield/brownfield acquisitions to deliver growth beyond FY24, largely funded through internal accruals.

### Consolidated Quarterly/Annual Financial summary

YE March	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY22E	FY23E	FY24E
Net Sales	2,043	1,347	51.6	3,858	(47.1)	10,733	13,670	21,554	27,116
EBITDA	761	702	8.4	1,734	(56.1)	4,941	6,394	12,390	15,514
APAT	(262)	(425)	(38.3)	466	(156.2)	525	1,395	4,726	6,262
EPS (INR)	(1.5)	(2.5)	(38.3)	2.7	(156.2)	3.07	8.2	27.6	36.6
P/E (x)						285.8	107.6	31.8	24.0
EV/EBITDA (x)						38.4	28.3	14.7	11.5
RoE (%)						0.9	2.5	8.9	10.8

### Consolidated Estimate Change Summary

(INR mn)	FY22E			FY23E		
	New	Old	% Chg.	New	Old	% Chg.
Revenue	13,670	16,151	(15.4)	21,554	21,430	0.6
EBITDA	6,394	6,930	(7.7)	12,390	11,584	7.0
EBITDA margin	46.8	42.9	386.5	57.5	54.1	342.9
APAT	1,395	1,702	(18.0)	4,726	4,520	4.6
AEPS (INR/sh.)	8.2	9.9	(17.8)	27.6	26.3	4.9

Source: Company, HSIE Research

**BUY**

CMP (as on 6 Aug 2021)	INR 884
Target Price	INR 1,188
NIFTY	16,238

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 973	INR 1,188
	FY22E	FY23E
EPS %	-18	+4.6

### KEY STOCK DATA

Bloomberg code	PHNX IN
No. of Shares (mn)	172
MCap (INR bn) / (\$ mn)	152/2,042
6m avg traded value (INR mn)	171
52 Week high / low	INR 918/542

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	16.7	10.1	43.0
Relative (%)	5.8	3.1	0.3

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	45.51	45.50
FIs & Local MFs	16.54	16.22
FPIs	34.30	34.43
Public & Others	3.65	3.85
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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# Prestige Estates

## Capex on track

Prestige Estates' (PEPL) presales value/volume sequentially declined by 64/65% during the quarter due to the lockdown following the second wave. Collections also declined 42% QoQ to INR 8.3bn. Nevertheless, management is confident of achieving its presales target of INR 65bn in FY22 on the back of launches (15-20% contribution) in Mumbai, Noida, and Bengaluru. While net D/E rose to 0.29x due to land acquisitions, PEPL is committed to maintain it below 0.5x. It has embarked on a new asset Capex cycle in Bengaluru/Mumbai and, given the launch ramp-up by peers, it may see some saturation setting in on the residential segment. We maintain ADD with an increased SOTP TP of INR 387/sh (to factor in new Mumbai projects); we increase our FY22/FY23 EPS estimates on lower interest costs due to deleveraging.

- **Q1FY22 financial highlights:** Revenue: INR 14.2bn (+11%/-38% YoY/QoQ, 1.3% beat). EBITDA margin: 24.4% (-1008/+13bps YoY/QoQ, vs 20.8% est.). EBITDA: INR 3.5bn (-21%/-37% YoY/QoQ, 18% beat, due to lower-than-expected material cost). Depreciation: INR 1.1bn (-31%/-7.5% YoY/QoQ). Interest cost: INR 1.3bn (-46.6% YoY, -48.9% QoQ). Other income: INR 576mn (+2.5x YoY, -96% QoQ, vs est. of INR 250mn). Share of associates: INR -151mn (INR -12/-5mn Q1FY21/Q4FY21). RPAT/APAT: INR 573mn (INR 0.016/13.3bn in Q1FY21/Q4FY21, 46.4% miss, on account of more than expected share of losses from associates).
- **Mumbai residential launches by Q3:** Presales (PG share) value/volume declined by 64/65% QoQ to INR 5.3bn/0.8msf during Q1FY22 due to the lockdown following the second wave. Collections also declined sequentially to INR 8.3bn from INR 14bn in Q4FY21 (PG share). PEPL expects to launch three Mumbai residential projects (Cosmos, Jasdan Classic and Daffodils) along with a Noida project by Q3. It is also looking to launch The Prestige City in Bengaluru in Sep-21. We believe these project launches are key to achieving INR 65bn of presales in FY22.
- **Land acquisitions lead to increase in debt:** Net debt increased from INR 13bn on Mar-21 to INR 21.7bn (net D/E at 0.29x) as PEPL acquired land parcels in Bengaluru and made the payment for the Cosmos project. The Blackstone Phase-2 deal is expected to conclude by Sep-21 with a trimmed EV of INR 13bn as two assets have been dropped from the deal. Commercial Capex is on track as PEPL would spend INR 35bn for Turf and BKC-1 project in Mumbai.

### Consolidated Financial Summary (INR mn)

YE March	1QFY22	1QFY21	YoY (%)	4QFY21	QoQ (%)	FY21	FY22E	FY23E	FY24E
Net Sales	14,158	12,737	11.2	22,681	(37.6)	72,644	66,142	72,094	79,304
EBITDA	3,454	4,391	(21.3)	5,504	(37.2)	19,722	15,088	16,128	17,476
APAT	573	16	3,481.3	2,340	(75.5)	3,539	5,553	6,278	7,337
EPS (INR)	1.4	0.0	3,249.9	6.2	(77.1)	8.8	13.9	15.7	18.3
P/E (x)						40.8	26.0	23.0	19.7
EV/EBITDA (x)						7.9	10.9	9.8	8.5
RoE (%)						27.8	8.5	8.7	9.5

### Consolidated Estimate Change Summary

(INR mn)	FY22E New	FY22E Old	% Chg.	FY23E New	FY23E Old	% Chg.
Revenues	66,142	69,880	(5.3)	72,094	76,868	(6.2)
EBITDA	15,088	15,934	(5.3)	16,128	17,286	(6.7)
Margins (%)	22.8	22.8	1	22.4	22.5	(12)
APAT	5,553	4,473	24.1	6,278	5,323	17.9

Source: Company, HSIE Research

## ADD

CMP(as on 11 Aug 2021)	INR 360
Target Price	INR 387
NIFTY	16,282

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 324	INR 387
	FY22E	FY23E
EPS Change %	+24.1%	+17.9%

### KEY STOCK DATA

Bloomberg code	PEPL IN
No. of Shares (mn)	401
MCap (INR bn) / (\$ mn)	145/1,944
6m avg traded value (INR mn)	292
52 Week high / low	INR 378/222

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	33.4	25.9	51.3
Relative (%)	22.5	20.1	9.3

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	65.48	65.48
FIs & Local MFs	3.60	3.82
FPIs	28.90	28.15
Public & Others	2.02	2.55
Pledged Shares	-	-

Source : BSE

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# Sobha

## Gradual recovery

Sobha's (SDL) Q1FY22 was subdued with presales volume at 0.9msf (38%/-33% YoY/QoQ). Presales value declined by 36.3% QoQ to INR 6.8bn. Real estate collections slipped to INR 5.5bn (vs INR 7.2bn in Q4FY21). The launch pipeline is robust at 12.6msf with 56% of launches planned for Bengaluru. To tame the commodity inflation and protect margins, SDL reversed discounts and took selective 2-3% price hikes in a few projects. Net debt reduced marginally by 1% QoQ to INR 28.2bn and is expected to reduce further, led by sales momentum, forthcoming launches, and a stable pricing environment. We roll forward our valuation to Sep-23; with a large part of launches coming in from the existing land bank, we increase our land valuation. We maintain BUY on SDL with an increased TP of INR 690/sh (INR 580/sh earlier). We retain our financial estimates, given largely an in-line performance.

- Financial performance highlights:** Sobha reported revenue of INR 5.1bn (+46%/-7% YoY/QoQ), 10% above our estimate with the real estate (RE) segment contributing 73%. SDL has INR 68.9bn of revenue to be recognised from sales done till Jun-21 under the completed contract method. EBITDA: INR 1bn (8% beat). EBITDA margin came in at 19.7% (-886/+95bps YoY/QoQ), led by cost cutting measures like digitisation of sales & marketing activity and price hikes (2-3% in Dream Acres, Bengaluru). Interest cost declined by 11%. Consequently, APAT was up 64% YoY to INR 108mn (vs. INR 45mn est). For FY22, Sobha has guided for at least double-digit growth in presales.
- Launch pipeline robust; value unlocking through land monetisation:** SDL registered presales of 0.9msf (38%/-33% YoY/QoQ). While the Bengaluru market (74% of sales) dominated the bookings, Gurugram, Kochi, Thrissur and Pune were the only cities registering YoY growth. In value terms, sales were at INR 6.8bn (40/-36% YoY/QoQ) with average price realisation of INR 7,626psf (+1.7% YoY). Sobha has 12.6msf of launch pipeline with 12.2msf in RE. These launches will be from existing land banks and any balance land payments will be met through internal accruals. Sobha expects to pay INR 750-800mn for the existing land bank in FY22, of which a majority will be towards GIFT city projects. DM will be the preferred mode for acquiring new land parcels. Sobha expects to monetise the Hoskote land bank in 2-3 years and expects it to be a key positive for the company.
- Balance sheet remains stable:** The consolidated net debt reduced marginally to INR 28.2bn (vs Rs 28.5bn on Mar-21), with net D/E at 1.15x (1.17x on Mar-21). The average borrowing cost declined to 8.98% from 9.04% in Q4FY21. The expected cash flow from current ongoing and completed projects stands at INR 75.1bn.

### Consolidated Financial Summary (INR mn)

YE March	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY22E	FY23E	FY24E
Net Sales	5,123	3,500	46.4	5,534	(7.4)	21,098	23,195	33,420	37,038
EBITDA	1,007	998	0.9	1,035	(2.7)	4,102	4,523	7,519	8,333
APAT	108	66	63.6	179	(39.7)	623	1,026	3,306	3,743
EPS (INR)	1.1	0.7	63.6	1.9	(39.7)	6.6	10.8	34.9	39.5
P/E (x)	5,123	3,500	46.4	5,534	(7.4)	90.6	55.0	17.1	15.1
EV/EBITDA (x)						20.7	18.7	11.1	9.7
RoE (%)						2.6	4.1	12.4	12.5

Source: Company, HSIE Research

## BUY

CMP (as on 16 Aug 2021)	INR 595
Target Price	INR 690
NIFTY	16,563

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 580	INR 690
EPS cha. (%)	FY22	FY23
	-	-

### KEY STOCK DATA

Bloomberg code	SOBHA IN
No. of Shares (mn)	95
MCap (INR bn) / (\$ mn)	56/757
6m avg traded value (INR mn)	284
52 Week high / low	INR 688/200

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	33.4	31.3	159.8
Relative (%)	19.3	24.6	113.0

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	51.99	51.99
FIs & Local MFs	12.46	13.09
FPIs	18.08	17.89
Public & Others	17.47	17.03
Pledged Shares	10.54	10.54

Source: BSE

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# Mahindra Lifespaces

## Mixed performance

Mahindra Lifespaces Developers Ltd (MLDL) reported operationally a decent quarter with presales of INR 1.4bn (sustenance sales, ~4x/-58% YoY/QoQ), considering the absence of new launches during the quarter. MLDL lost six weeks due to COVID, which delayed new launches. We expect bunching up of new launches in the rest of 9MFY22 (~2mn sqft, Rs 12bn+ in value). MLDL has MOUs in place for new land addition (subject to final agreement sign-ups), which shall add INR 25bn+ presales potential. It announced a bonus of two shares for one share held in the company. Given strong growth trajectory, robust balance sheet, trustworthy brand, and tailwinds for organised players, we remain constructive on MLDL and maintain a BUY rating. We move to our Mar-23 NAV based TP of INR 1,047/sh (vs earlier 1-yr Mar-22 TP of INR 773/sh). NAV increase is driven by addition of new development potential and development value of the Ghodbunder project (likely launch in FY23E).

- **Financial highlights:** Revenue: INR 1.5bn (10x/+165% YoY/QoQ, beat at ~5.5x est.). EBITDA: INR (242) mn (INR (200)/(371) mn in Q1FY21/Q4FY21, vs INR (138) mn est.). Interest cost: INR 12mn (-66.8%/-33.9% YoY/QoQ). Other income: INR 74mn (INR 8/70 mn Q1FY21/Q4FY21). RPAT/APAT: INR (139) mn (INR (210)/(272) mn Q1FY21/Q4FY21), vs an estimated loss of INR 77mn. Higher-than-expected revenue recognition was offset by lopsided cost recognition. MLDL has been reporting losses for the past six quarters and is expected to be back in the black by the next 2-3 quarters.
- **Decent performance sans launches:** The presales value for the quarter came in at INR 1.4bn (~4x/-58% YoY/QoQ) and volume stood at 0.2msf (~2x/-65% YoY/QoQ). Sales were entirely through sustenance ones as MLDL did not launch any project during the quarter. While planned launches of INR 12bn for FY22 remain on track, the Ghodbunder project launch is expected by FY23. MLDL leased out 6.7acres for INR 143mn during Q1FY22.
- **Healthy balance sheet supportive of growth:** MLDL's consolidated net debt stood at INR 1.1bn with net D/E at 0.06x, which provides ample room for expansion. The standalone borrowing cost at 5.9% is the lowest vs peers, which is a good sign for land bank acquisitions. MLDL needs to add ~INR 20bn saleable area annually to achieve the target of INR 25bn annual sales by FY25. This could increase the net D/E ratio to 0.5x by FY24, which is in a comfortable range and near the upper end of MLDL guidance.

### Consolidated Financial Summary (INR mn)

YE March	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY22E	FY23E	FY24E
Net Sales	1,482	143	936.4	560	164.7	1,663	3,580	7,663	10,171
EBITDA	(242)	(200)	20.8	(371)	(34.8)	(935)	(629)	157	416
APAT	(139)	(210)	(34.0)	(272)	(49.1)	(717)	(345)	1,433	1,783
EPS (INR)	(2.7)	(4.1)	(34.0)	(5.3)	(49.1)	(14.0)	(6.7)	27.9	34.8
P/E (x)						(54.4)	(113.1)	27.2	21.9
EV/EBITDA (x)						(42.9)	(70.4)	296.9	115.6
RoE (%)						(4.3)	(2.1)	8.6	9.8

### Consolidated Estimate Change Summary

(INR mn)	FY22 New	FY22 Old	% Cha.	FY22 New	FY22 Old	% Cha.
Revenue	3,580	1,474	143	7,663	7,136	7
EBITDA	-629	-858	(27)	157	83	89
EBITDA Margin (%)	(17.57)	(58.24)	4,068	2.05	1.16	88
APAT	-345	32	NA	1,433	1,454	(1)

Source: Company, HSIE Research

## BUY

CMP (as on 29 July 2021) INR 754

Target Price INR 1,047

NIFTY 15,778

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price		
Target	INR 773	INR 1,047
EPS	FY22E	FY23E
Change %	NA	-1.4

### KEY STOCK DATA

Bloomberg code	MLIFE IN
No. of Shares (mn)	51
MCap (Rs bn) / (\$ mn)	38.7/521.6
6m avg traded value (Rs mn)	57
52 Week high / low	Rs 797/194

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	49.4	92.2	270.2
Relative (%)	41.5	78.5	230.6

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	51.46	51.45
FIs & Local MFs	14.05	15.79
FPIs	13.50	12.59
Public & Others	20.99	20.17
Pledged Shares	-	-

Source: BSE

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# Kolte Patil Developers

## Awaiting growth

KPDL reported an operationally strong quarter with revenue/EBITDA/PAT beat and presales of 0.4msf (+29/-53% YoY/QoQ). In value terms, sales grew by +51/-51% YoY/QoQ to INR 2.5bn. KPDL is targeting at least 2.5msf presales in FY22 and aims to maintain 5mn sq ft of presales over the next 3-4 years. In value terms, non-Pune sales contributed 35% - an all-time high! Collections were at INR 2.8bn. We increase our FY22/FY23 estimates by 32/27% to factor in better-than-expected revenue recognition. Maintain BUY with a revised TP of INR 350/sh (roll over to Jun-23E), given a comfortable balance sheet, traction in non-Pune markets, and smart affordable housing proposition.

- **Strong performance:** KPDL reported revenue of INR 1.9bn (32% beat) in Q1. EBITDA came in at INR 625mn (vs. loss estimate of INR 52mn). EBITDA margin was at 31.7% (+4057/+1852bps YoY/QoQ, -3.5% estimated). APAT was at INR 295mn (+3x/-55% YoY/QoQ, INR 148mn loss estimate). KPDL expects to pass on 50% of the cost escalation to buyers, which translates into an average of 2-3% price hike in some projects.
- **Non-Pune sales at all-time high; foray into smart affordable housing:** KPDL reported presales of 0.4msf (+29/-53% YoY/QoQ) with contribution from Mumbai and Bengaluru, in value terms, increasing to an all-time high of more than 35%, thus diversifying the business risk. Presales targeted for the year is at least 2.5msf. KPDL partnered with Planet Smart City, a UK based proptech company, to build 15,000 smart affordable housing units with a potential of 8-12msf saleable area. In non-Pune markets, KPDL is betting on redevelopment opportunities in Mumbai and has launched three projects. It is targeting a single project with potential of at least INR 500mn of PAT. Across three cities, KPDL has 7.2msf of launch pipeline, translating into INR 57bn of potential revenue over the next few years.
- **Robust balance sheet position:** Collections were at INR 2.8bn (INR 1.1/4.4bn in Q1FY21/Q4FY21) with CFO at INR 780mn. Consolidated net debt reduced by INR 290mn to INR 2.8bn as of Jun-21 (net D/E at 0.30x). KPDL has INR 330mn of receivables from its INR 1.7bn valued strategic land monetisation deal with Planet Smart City.

### Consolidated Financial Summary

YE (INR mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY22E	FY23E	FY24E
Net Sales	1,973	1,408	40.1	2,961	(33.4)	6,917	12,358	13,215	15,696
EBITDA	625	(125)	(598.2)	389	60.5	624	2,682	3,284	4,023
APAT	295	(270)	(209.3)	209	41.4	(55.2)	1,495	1,912	2,425
EPS (INR)	3.9	(3.6)	(209.3)	2.8	41.4	(0.7)	19.7	25.2	32.0
P/E (x)						(334.9)	12.4	9.7	7.6
EV/EBITDA (x)						36.1	8.3	6.7	5.2
RoE (%)						(0.7)	15.3	16.4	17.2

### Consolidated Estimate Change Summary

Consolidated (Rs mn)	FY22E			FY23E		
	New	Old	% Chg.	New	Old	% Chg.
Revenues	12,358	12,454	(0.8)	13,215	14,320	(7.7)
EBITDA	2,682	2,707	(0.9)	3,284	3,317	(1.0)
EBITDA (%)	21.7	21.7	(0.1)	24.8	23.2	164.7
APAT	1,495	1,134	31.8	1,912	1,502	27.3

Source: Company, HSIE Research

## BUY

CMP (as on 12 Aug 2021) INR 244

Target Price INR 350

NIFTY 16,364

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 320	INR 350
EPS change (%)	FY22 +31.8	FY23 +27.3

### KEY STOCK DATA

Bloomberg code	KPDL IN
No. of Shares (mn)	76
MCap (INR bn) / (\$ mn)	19/249
6m avg traded value (INR mn)	151
52 Week high / low	INR 286/148

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	6.0	(1.4)	52.7
Relative (%)	(6.6)	(7.8)	9.8

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	74.45	74.45
FIs & Local MFs	0.05	0.04
FPIs	9.85	5.26
Public & Others	15.65	20.25
Pledged Shares	0.0	0.0

Source: BSE

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