INSTITUTIONAL RESEARCH

# India Equity Strategy

# Quarterly flipbook

## Quarterly flipbook: Q2FY22–Demand environment improves but input cost inflation dents profitability

**Q2FY22 earnings season saw an overall in-line performance with divergences across sectors and companies. Aggregate revenue/PAT grew by 31.7%/22.2% YoY across the HSIE coverage universe (~188 stocks), while on two-year CAGR basis, it grew by 8.8%/17.1%. Our coverage universe saw strong growth from consumer discretionary, insurance & capital markets, energy, real estate and large banks while autos & consumer staples disappointed. IT continued its strong momentum. The quarterly earnings reflect two noticeable trends: demand environment is conducive after gradual unlocking of the economy and rising energy & commodity prices are denting operating profitability.**

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**Q2FY22 earnings season saw an overall in-line performance with divergences across sectors and companies. Aggregate revenue/PAT grew by 31.7%/22.2% YoY across the HSIE coverage universe (~188 stocks), while on two-year CAGR basis, it grew by 8.8%/17.1%. Our coverage universe saw strong growth from consumer discretionary, insurance & capital markets, energy, real estate and large banks while autos & consumer staples disappointed. IT continued its strong momentum. The quarterly earnings reflect two noticeable trends: demand environment is conducive after gradual unlocking of the economy and rising energy & commodity prices are denting operating profitability.**

**~57% of our coverage stocks have beaten estimates (vs ~35% in Q1FY22). Led by positive management commentary on improving demand and their plan of calibrated transmission of increased cost, FY22 earnings estimate was cut only marginally (-2.1%) while FY23 earnings estimate was maintained (+0.8%). Earning upgrades were led by capital markets, cement, IT and energy for our coverage universe; FY22/FY23 earnings for HSIE coverage growth stands at 18.1%/27.0%, leading to doubling of earnings over FY20-23, post 34% YoY earnings growth in FY21. However, FY23 earnings for index and our coverage universe could be at risk, given stronger earnings growth preponed to FY22 itself, led by heavyweight sectors like BFSI, Oil& Gas, and IT.**

**Driven by gradual opening of the economy and sustained demand recovery across large sectors, Nifty consensus FY22 EPS remains largely unchanged. Nifty is trading at ~23.9x FY22 EPS and at ~20.3xFY23 EPS.**

**Sector highlights:** Urban demand rebounded strongly while rural consumption remained steady. Housing and house improvement was a strong theme that was seen in real estate presales rebound and sustained growth in pipes, tiles, and household appliances sector. Most large banks demonstrated steady recovery in loan growth, led by retail and SME segments. Asset quality and credit growth outlook are improving sequentially. Small banks and NBFCs are still struggling to recover from COVID-related asset quality issues. FMCG's revenue growth moderated; however, margins were pulled down by higher input costs. Large pent-up demand was seen in consumer discretionary, viz., apparel retail, outdoor dining, jewellery, and paints. Auto & related sectors' performance remained subdued due to semi-conductor shortage. Power generation and auto sectors seem to be converging on "green strategy" as reflected in their focus on renewable energy and EVs respectively.

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

**Q2FY22 results snapshot:** It was an encouraging quarter overall, indicating a revival in earnings. In terms of stocks, notable earning upgrades were visible in United Spirits, ICICI Securities, V-mart, TTK prestige, Ashoka Buildcon, Ahluwalia Contracts, L&T Infotech, L&T Tech, Mindtree, Persistent, Cyient, CDSL, BSE, ONGC, Gail, Petronet LNG, Shree Cement, Astral, Fine Organics, Sun Pharma, and Apollo Hospitals.

**Model portfolio: maintain bias towards economy-facing and value sectors.**

| Stocks added/weight increased | Stocks removed/weight reduced |
|---|---|
| Tata Motors, Shriram Transport, Federal Bank, UTI AMC, Orient Electric, GR Infra, DLF, Cyient, Fine Organics | Endurance, Motilal Oswal, Dabur, L&T Infotech, Mphasis, Persistent, Sonata, ONGC, Coal India, JK Cement, Aarti Industries, Galaxy Surfactants |

**Q2FY22 deviation in estimates in comparison to previews**

| Sector | Revenue | PAT |
|---|---|---|
| Autos | 5.8% | 478% |
| Banks and NBFCs | 4.0% | -5.4% |
| Insurance | -14.1% | 10.5% |
| Capital Markets | 20.3% | 37.5% |
| Consumer- Staples | 0.6% | -1.7% |
| Consumer Discretionary (ex-Autos) | 3.5% | -3.3% |
| Industrials (Infrastructure+ Cap Goods+ Logistics) | -2.2% | -4.1% |
| Real Estate | 13.2% | 34.0% |
| IT and Exchanges | 0.7% | 3.6% |
| Energy (Oil & Gas) | 2.1% | 23.3% |
| Cement and Building Materials | -1.6% | 3.8% |
| Chemicals | 3.4% | -13.4% |
| Pharma | 0.9% | 8.1% |
| Power/Utilities | 1.0% | -6.3% |
| **Total** | **1.6%** | **7.0%** |

Source: Bloomberg & HSIE Research

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

| Sector | FY22E | FY23E |
|---|---|---|
| Autos | -21.9% | -0.7% |
| Banks and NBFCs | -6.9% | 0.3% |
| Insurance | -4.6% | 1.9% |
| Capital Markets | 11.5% | 1.7% |
| Consumer- Staples | -1.8% | -0.9% |
| Consumer Discretionary (ex-Autos) | -3.9% | -1.1% |
| Industrials (Infrastructure+ Cap Goods+ Logistics) | -2.3% | -2.1% |
| Real Estate | -6.8% | -5.8% |
| IT and Exchanges | 1.4% | 2.2% |
| Energy (Oil & Gas) | 1.8% | 2.2% |
| Cement and Building Materials | 1.0% | 0.4% |
| Chemicals | -8.9% | -4.2% |
| Power | 0% | 0% |
| Pharma | 2.5% | -1.9% |
| **Total** | **-2.1%** | **0.8%** |

Source: HSIE Research

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# Result Scorecard- Quarterly Snapshot

| HSIE Coverage (INR Bn) | Q2 FY22 Preview Estimates | | | Q2 FY22 Actuals | | | Q2 FY21 Actuals | | | Deviation | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Revenue | EBITDA | PAT | Revenue | EBITDA | PAT | Revenue | EBITDA | PAT | Revenue | EBITDA | PAT |
| | Q2FY22E | Q2FY22E | Q2FY22E | Q2FY22A | Q2FY22A | Q2FY22A | Q2FY21A | Q2FY21A | Q2FY21A | Q2FY22A | Q2FY22A | Q2FY22A |
| **Autos** | **1,191.7** | **100.9** | **1.3** | **1,260.7** | **129.7** | **7.7** | **1,110.0** | **147.7** | **48.5** | 5.8% | 28.5% | 478.4% |
| Maruti Suzuki India | 194.1 | 10.6 | 7.7 | 205.4 | 8.5 | 4.8 | 187.4 | 19.3 | 13.7 | 5.8% | -19.6% | -38.6% |
| Bajaj Auto | 85.1 | 12.7 | 11.6 | 87.6 | 14.0 | 12.7 | 71.6 | 12.7 | 11.4 | 2.9% | 10.0% | 9.9% |
| Mahindra & Mahindra | 124.5 | 16.6 | 9.2 | 133.1 | 16.6 | 16.9 | 115.9 | 20.6 | 13.1 | 6.9% | 0.3% | 84.0% |
| Eicher Motors | 19.8 | 3.8 | 3.0 | 22.5 | 4.7 | 3.7 | 21.3 | 4.7 | 3.4 | 13.6% | 24.6% | 26.1% |
| Hero MotoCorp | 79.4 | 9.1 | 6.7 | 84.5 | 10.7 | 7.9 | 93.7 | 12.9 | 9.5 | 6.5% | 17.5% | 19.0% |
| Tata Motors | 577.2 | 34.7 | (43.3) | 613.8 | 61.7 | (45.0) | 535.3 | 66.8 | (7.1) | 6.3% | 77.8% | 3.9% |
| Ashok Leyland | 46.6 | 1.9 | (0.47) | 44.6 | 1.3 | (0.83) | 28.4 | 0.8 | (1.5) | -4.4% | -27.6% | 79.1% |
| Escorts | 15.5 | 2.1 | 1.6 | 16.6 | 2.1 | 1.8 | 16.4 | 3.0 | 2.3 | 7.3% | 2.1% | 11.6% |
| Subros | 5.1 | 0.5 | 0.2 | 5.3 | 0.3 | 0.1 | 4.6 | 0.5 | 0.2 | 4.6% | -22.9% | -74.5% |
| Endurance | 19.1 | 2.8 | 1.4 | 18.9 | 2.6 | 1.3 | 17.7 | 3.1 | 1.7 | -1.2% | -6.8% | -6.7% |
| Bharat Forge | 15.3 | 4.3 | 2.6 | 16.1 | 4.9 | 3.1 | 8.8 | 1.6 | 0.7 | 4.7% | 13.1% | 19.9% |
| Sundaram Fasteners | 10.0 | 2.0 | 1.2 | 12.4 | 2.2 | 1.2 | 8.9 | 1.8 | 1.0 | 24.7% | 10.3% | 6.5% |
| **Banks and NBFCs** | **733.9** | **540.8** | **228.5** | **763.4** | **455.6** | **216.2** | **685.5** | **508.5** | **188.5** | 4.0% | -15.8% | -5.4% |
| ICICI Bank | 111.3 | 90.6 | 48.9 | 116.9 | 99.1 | 55.1 | 93.7 | 82.6 | 42.5 | 5.1% | 9.4% | 12.6% |
| Kotak Mahindra Bank | 41.0 | 31.7 | 18.9 | 40.2 | 31.2 | 20.3 | 39.1 | 33.0 | 21.8 | -2.0% | -1.5% | 7.6% |
| Bajaj Finance | 38.7 | 33.3 | 17.3 | 42.9 | 33.0 | 14.8 | 34.0 | 30.0 | 9.6 | 10.8% | -0.7% | -14.6% |
| State Bank of India | 285.6 | 178.6 | 64.5 | 311.8 | 106.6 | 76.3 | 281.8 | 164.6 | 45.7 | 9.2% | -40.3% | 18.2% |
| Axis Bank | 80.6 | 68.2 | 29.7 | 79.0 | 59.3 | 31.3 | 73.3 | 69.0 | 16.8 | -1.9% | -13.1% | 5.6% |
| IndusInd Bank | 37.2 | 32.4 | 10.3 | 36.6 | 31.7 | 11.1 | 32.8 | 28.3 | 6.5 | -1.8% | -2.0% | 8.2% |
| AU Small Finance Bank | 7.4 | 4.7 | 2.5 | 7.5 | 3.9 | 2.8 | 5.6 | 4.7 | 3.2 | 2.2% | -16.2% | 11.8% |
| Shriram Trans Finance | 20.9 | 16.7 | 7.0 | 21.4 | 17.2 | 7.7 | 20.4 | 15.8 | 6.8 | 2.5% | 2.8% | 10.1% |
| Cholamandalam Investment & Finance Company | 12.9 | 9.8 | 4.9 | 12.7 | 8.7 | 6.1 | 11.7 | 9.0 | 4.3 | -1.8% | -10.4% | 23.1% |
| Mahindra & Mahindra Financial | 13.3 | 9.4 | 4.5 | 14.4 | 10.2 | 10.2 | 13.6 | 10.3 | 3.0 | 8.4% | 7.8% | 125.1% |
| Federal Bank | 14.7 | 10.1 | 3.8 | 14.8 | 8.6 | 4.6 | 13.8 | 10.1 | 3.1 | 0.4% | -14.4% | 19.9% |
| LIC Housing | 13.9 | 12.5 | 6.6 | 11.7 | 9.3 | 2.4 | 12.4 | 11.1 | 7.9 | -16.0% | -26.0% | -63.8% |
| City Union Bank | 4.8 | 3.7 | 1.5 | 4.8 | 4.1 | 1.8 | 4.8 | 3.8 | 1.6 | 0.1% | 9.2% | 21.2% |
| RBL Bank | 9.8 | 8.0 | 0.7 | 9.2 | 6.9 | 0.3 | 9.3 | 7.2 | 1.4 | -7.0% | -13.1% | -55.4% |
| DCB Bank | 3.2 | 2.1 | 0.7 | 3.2 | 1.8 | 0.6 | 3.3 | 2.2 | 0.8 | -0.3% | -16.4% | -9.8% |
| Karur Vysya Bank | 6.2 | 4.2 | 1.3 | 6.8 | 3.7 | 1.7 | 6.0 | 4.5 | 1.1 | 9.8% | -10.3% | 30.6% |
| Indostar Capital Finance | 1.3 | 0.7 | 0.2 | 1.1 | 0.5 | 0.4 | 1.2 | 0.5 | 0.3 | -17.0% | -28.7% | -83.4% |
| REPCO Home Finance | 1.4 | 1.3 | 0.6 | 1.5 | 1.3 | 0.9 | 1.3 | 1.2 | 0.8 | 3.7% | 5.4% | 34.3% |
| UJJIVAN SFB | 4.6 | 2.1 | (0.6) | 3.9 | 0.7 | (2.7) | 4.7 | 2.3 | 1.0 | -14.8% | -65.5% | 336.7% |
| CREDAG | 3.4 | 2.4 | 0.5 | 3.7 | 2.2 | 0.6 | 3.4 | 2.0 | 0.8 | 8.3% | -10.5% | 23.1% |
| Bandhan Bank | 21.6 | 18.5 | 4.6 | 19.4 | 15.5 | (30.1) | 19.2 | 16.3 | 9.2 | -10.4% | -16.1% | -757.9% |
| **Insurance** | **334.6** | **(29.1)** | **35.8** | **287.6** | **(31.8)** | **39.6** | **214.8** | **(24.8)** | **21.7** | -14.1% | NM | 10.5% |
| SBI Life | 39.6 | NA | 9.7 | 39.8 | NA | 10.3 | 27.1 | NA | 5.5 | 0.7% | NM | 6.0% |
| ICICI Prudential | 19.9 | NA | 5.5 | 19.8 | NA | 5.2 | 14.6 | NA | 4.0 | -0.7% | NM | -5.9% |
| GIC Reinsurance | 152.1 | (15.5) | 7.7 | 107.5 | (10.8) | 13.5 | 95.6 | (19.6) | 2.3 | -29.3% | 30.0% | 75.0% |
| ICICI Lombard | 32.8 | (4.0) | 3.8 | 32.5 | (1.3) | 4.5 | NM | NM | NM | -0.8% | 66.9% | 18.4% |
| New India Assurance | 77.3 | (9.6) | 6.2 | 75.2 | (19.6) | 2.5 | 66.0 | (5.2) | 6.6 | -2.8% | -103.6% | -60.6% |
| Max Financial | 13.0 | NA | 2.9 | 12.8 | NA | 3.7 | 11.5 | NA | 3.3 | -1.6% | NM | 27.5% |

| HSIE Coverage (INR Bn) | Q2 FY22 Preview Estimates | | | Q2 FY22 Actuals | | | Q2 FY21 Actuals | | | Deviation | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Revenue | EBITDA | PAT | Revenue | EBITDA | PAT | Revenue | EBITDA | PAT | Revenue | EBITDA | PAT |
| | Q2FY22E | Q2FY22E | Q2FY22E | Q2FY22A | Q2FY22A | Q2FY22A | Q2FY21A | Q2FY21A | Q2FY21A | Q2FY22A | Q2FY22A | Q2FY22A |
| **Capital Markets** | **23.3** | **12.1** | **9.8** | **28.0** | **16.1** | **13.5** | **20.2** | **10.7** | **8.6** | 20.3% | 32.8% | 37.5% |
| Nippon Life India | 3.5 | 2.2 | 2.2 | 3.3 | 1.9 | 2.1 | 2.6 | 1.4 | 1.5 | -5.6% | -10.2% | -4.0% |
| ICICI Securities | 7.1 | 4.1 | 3.1 | 7.7 | 4.5 | 3.5 | 6.4 | 3.7 | 2.8 | 8.6% | 10.7% | 14.0% |
| Motilal Oswal Financial Services | 7.5 | 3.2 | 2.0 | 11.9 | 7.2 | 5.2 | 7.5 | 4.1 | 2.7 | 59.5% | 123.4% | 157.7% |
| UTI AMC | 2.9 | 1.5 | 1.7 | 2.8 | 1.4 | 2.0 | 2.0 | 0.8 | 1.2 | -4.3% | -5.3% | 16.6% |
| CAMS | 2.3 | 1.2 | 0.8 | 2.3 | 1.1 | 0.7 | 1.7 | 0.7 | 0.5 | -0.6% | -10.3% | -11.3% |
| **Consumer-Staples** | **469.8** | **122.5** | **91.1** | **472.6** | **121.4** | **89.6** | **426.0** | **111.9** | **82.7** | 0.6% | -0.9% | -1.7% |
| Hindustan Unilever | 126.0 | 30.6 | 22.0 | 127.2 | 31.3 | 21.9 | 114.4 | 28.7 | 20.4 | 1.0% | 2.2% | -0.6% |
| ITC | 134.2 | 47.1 | 37.0 | 135.5 | 46.2 | 37.0 | 119.8 | 40.6 | 32.3 | 1.0% | -1.9% | -0.1% |
| Dabur India | 26.1 | 5.5 | 4.4 | 26.1 | 5.5 | 4.4 | 25.2 | 5.7 | 4.8 | 0.0% | 0.0% | 0.0% |
| Britannia Industries | 36.9 | 6.8 | 5.1 | 36.1 | 5.6 | 3.8 | 34.2 | 6.8 | 5.0 | -2.3% | -17.8% | -25.2% |
| United Spirits | 23.2 | 3.4 | 2.2 | 24.5 | 4.3 | 2.7 | 21.5 | 2.6 | 1.3 | 5.7% | 24.9% | 25.7% |
| Nestle | 38.8 | 9.9 | 6.8 | 38.8 | 9.6 | 6.2 | 35.4 | 9.1 | 5.9 | 0.1% | -3.2% | -9.8% |
| Marico | 23.9 | 4.0 | 3.0 | 24.2 | 4.2 | 3.1 | 19.9 | 3.9 | 2.9 | 1.1% | 5.6% | 4.7% |
| Colgate Palmolive | 13.9 | 4.3 | 2.9 | 13.5 | 4.0 | 2.7 | 12.9 | 4.1 | 2.7 | -2.6% | -6.8% | -7.3% |
| Emami | 8.0 | 2.5 | 1.9 | 7.9 | 2.8 | 2.3 | 7.3 | 2.6 | 1.9 | -1.4% | 8.8% | 24.7% |
| GCPL | 31.9 | 7.1 | 5.0 | 31.6 | 6.8 | 4.8 | 29.2 | 6.8 | 4.8 | -0.8% | -4.6% | -4.9% |
| Radico Khaitan | 6.9 | 1.1 | 0.8 | 7.1 | 1.1 | 0.7 | 6.3 | 1.1 | 0.7 | 2.1% | -1.6% | -9.5% |
| **Consumer Discretionary (ex-Autos)** | **387.1** | **53.3** | **31.8** | **400.5** | **51.2** | **30.8** | **280.9** | **36.3** | **20.4** | 3.5% | -3.9% | -3.3% |
| Avenue Supermart | 76.5 | 6.7 | 4.5 | 76.5 | 6.7 | 4.5 | 52.2 | 3.2 | 2.1 | 0.0% | 0.1% | 0.0% |
| Titan Co | 74.5 | 8.3 | 5.5 | 74.9 | 9.7 | 6.4 | 45.5 | 3.1 | 1.7 | 0.6% | 15.9% | 15.9% |
| Havells India | 29.7 | 4.7 | 3.1 | 32.2 | 4.4 | 3.0 | 24.5 | 4.2 | 3.2 | 8.3% | -4.8% | -3.9% |
| Trent | 8.0 | 1.1 | 0.1 | 10.2 | 2.2 | 1.3 | 4.5 | 0.1 | (0.5) | 27.3% | 92.6% | 1331.4% |
| Jubilant Foodworks | 10.8 | 2.6 | 1.1 | 11.0 | 2.9 | 1.3 | 8.1 | 2.1 | 0.8 | 2.0% | 8.5% | 14.9% |
| Voltas | 18.3 | 1.6 | 1.3 | 16.9 | 1.3 | 1.0 | 16.1 | 1.0 | 0.8 | -7.8% | -20.9% | -20.3% |
| Aditya Birla Fashion | 19.2 | 2.9 | (0.0) | 20.0 | 3.1 | 0.1 | 10.2 | (0.0) | (1.8) | 3.8% | 6.9% | 439.1% |
| Crompton Consumer | 14.6 | 2.1 | 1.6 | 13.8 | 2.1 | 1.7 | 12.1 | 1.9 | 1.4 | -5.1% | -0.3% | 5.3% |
| Symphony | 1.5 | 0.4 | 0.3 | 1.4 | 0.4 | 0.3 | 1.1 | 0.3 | 0.3 | -9.2% | -6.4% | -5.1% |
| V-Guard | 7.6 | 0.9 | 0.7 | 9.0 | 0.9 | 0.6 | 6.2 | 0.7 | 0.5 | 18.5% | -0.8% | -15.0% |
| V-Mart | 3.1 | 0.2 | (0.1) | 3.4 | 0.2 | (0.1) | 1.8 | (0.0) | (0.2) | 10.0% | 10.0% | 3.9% |
| TCNS Clothing | 2.4 | 0.3 | 0.1 | 2.4 | 0.3 | 0.1 | 1.4 | (0.2) | (0.3) | -1.1% | -5.4% | NM |
| Shoppers Stop | 5.6 | 0.4 | (0.3) | 6.3 | 0.7 | (0.0) | 2.9 | (0.3) | (1.0) | 13.7% | 58.9% | 89.2% |
| Asian Paints | 65.4 | 13.2 | 8.9 | 71.0 | 9.0 | 6.1 | 53.5 | 12.7 | 8.5 | 8.5% | -31.5% | -31.8% |
| Berger Paints | 21.5 | 3.4 | 2.3 | 22.3 | 3.5 | 2.2 | 17.4 | 3.4 | 2.2 | 3.6% | 3.3% | -3.4% |
| Kansai Nerolac | 15.2 | 2.5 | 1.7 | 15.2 | 1.6 | 1.0 | 13.1 | 2.6 | 1.6 | 0.2% | -34.6% | -41.3% |
| TTK Prestige | 7.2 | 1.0 | 0.7 | 8.1 | 1.4 | 1.0 | 5.9 | 0.9 | 0.6 | 13.0% | 32.8% | 33.7% |
| Orient Electric | 5.9 | 0.6 | 0.3 | 5.9 | 0.6 | 0.3 | 4.3 | 0.6 | 0.3 | 0.0% | 0.0% | 0.0% |
| **Industrials (Infrastructure+ Cap Goods+ Logistics)** | **631.9** | **79.4** | **35.5** | **618.0** | **78.8** | **34.0** | **525.7** | **66.0** | **23.8** | -2.2% | -0.7% | -4.1% |
| Larsen & Toubro | 352.2 | 39.6 | 18.1 | 347.7 | 39.9 | 17.2 | 310.3 | 33.3 | 11.5 | -1.3% | 1.0% | -4.9% |
| Container Corporation | 17.3 | 4.1 | 2.5 | 18.2 | 4.3 | 2.6 | 15.0 | 3.1 | 1.9 | 5.3% | 4.2% | 4.2% |
| ABB India | 17.8 | 1.7 | 1.2 | 17.8 | 1.7 | 1.2 | 16.1 | 1.2 | 0.9 | 0.0% | 0.0% | 0.0% |
| KEC International | 35.5 | 2.2 | 0.9 | 35.9 | 2.5 | 1.2 | 32.6 | 2.9 | 1.4 | 1.0% | 15.1% | 38.4% |
| Kalpataru Power Transmission | 19.4 | 2.0 | 1.0 | 16.2 | 1.5 | 0.7 | 18.8 | 2.0 | 1.5 | -16.5% | -22.6% | -30.5% |

| HSIE Coverage (INR Bn) | Q2 FY22 Preview Estimates | | | Q2 FY22 Actuals | | | Q2 FY21 Actuals | | | Deviation | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Revenue | EBITDA | PAT | Revenue | EBITDA | PAT | Revenue | EBITDA | PAT | Revenue | EBITDA | PAT |
| | Q2FY22E | Q2FY22E | Q2FY22E | Q2FY22A | Q2FY22A | Q2FY22A | Q2FY21A | Q2FY21A | Q2FY21A | Q2FY22A | Q2FY22A | Q2FY22A |
| PNC Infratech | 13.1 | 1.8 | 1.0 | 16.2 | 2.2 | 1.4 | 10.5 | 1.4 | 0.7 | 22.9% | 20.2% | 37.6% |
| Dilip Buildcon | 30.0 | 4.2 | 1.2 | 21.6 | 2.3 | (0.2) | 19.3 | 3.1 | 0.5 | -28.1% | -45.5% | -117.9% |
| KNR Constructions | 6.7 | 1.3 | 0.7 | 7.6 | 1.7 | 1.0 | 6.0 | 1.2 | 0.6 | 12.8% | 27.4% | 37.3% |
| IRB Infrastructure | 16.5 | 6.8 | 0.4 | 14.7 | 7.2 | 0.4 | 11.2 | 5.6 | (0.2) | -11.4% | 5.8% | 18.8% |
| Ashoka Buildcon | 9.9 | 1.3 | 1.0 | 9.2 | 1.1 | 1.0 | 8.8 | 1.3 | 1.0 | -7.5% | -15.7% | -6.5% |
| Ahluwalia Contracts | 7.0 | 0.5 | 0.3 | 7.0 | 0.6 | 0.4 | 4.3 | 0.3 | 0.2 | 0.0% | 22.9% | 18.4% |
| NCC | 26.4 | 2.4 | 0.8 | 22.0 | 2.4 | 0.8 | 15.4 | 2.1 | 0.6 | -16.7% | 0.0% | 0.0% |
| PSP Projects | 3.5 | 0.4 | 0.3 | 3.9 | 0.5 | 0.4 | 2.4 | 0.2 | 0.1 | 11.8% | 25.7% | 31.7% |
| HG Infra | 8.0 | 1.3 | 0.7 | 7.5 | 1.2 | 0.7 | 4.7 | 0.8 | 0.3 | -6.6% | -5.1% | -5.5% |
| Gateway Distriparks | 3.2 | 0.9 | 0.4 | 3.4 | 0.9 | 0.5 | 2.6 | 0.7 | 0.04 | 5.3% | 5.2% | 4.5% |
| JMC Projects | 11.9 | 1.1 | 0.8 | 13.2 | 0.9 | 0.2 | 8.0 | 0.7 | 0.1 | 10.8% | -20.1% | -79.7% |
| Sadbhav Engineering | 2.80 | 0.27 | (0.15) | 2.62 | 0.35 | 0.08 | 4.12 | 0.50 | 0.05 | -6.3% | 30.9% | -155.4% |
| Capacite Infraprojects | 3.6 | 0.6 | 0.2 | 3.4 | 0.6 | 0.2 | 1.8 | 0.4 | 0.0 | -4.6% | 3.7% | 13.4% |
| ITD Cementation | 8.0 | 0.8 | 0.2 | 8.1 | 0.5 | 0.1 | 5.5 | (0.0) | (0.5) | 1.3% | -36.8% | -27.0% |
| J Kumar Infraprojects | 6.5 | 0.9 | 0.3 | 7.7 | 1.1 | 0.4 | 4.8 | 0.6 | 0.1 | 18.9% | 19.6% | 60.1% |
| GR Infra | 19.0 | 3.3 | 1.9 | 17.0 | 2.8 | 1.6 | 11.7 | 2.6 | 1.4 | -10.8% | -15.7% | -12.0% |
| Cummins India | 13.4 | 2.1 | 1.7 | 17.3 | 2.6 | 2.2 | 11.6 | 1.9 | 1.6 | 28.8% | 25.4% | 26.3% |
| **Real Estate** | **53.1** | **13.9** | **6.8** | **60.2** | **17.7** | **9.1** | **50.3** | **13.7** | **3.5** | 13.2% | 26.9% | 34.0% |
| DLF | 11.97 | 3.69 | 3.31 | 14.81 | 4.58 | 3.78 | 16.10 | 4.63 | 2.28 | 23.8% | 24.4% | 14.3% |
| Oberoi Realty | 7.10 | 3.20 | 2.35 | 7.54 | 3.73 | 2.67 | 3.16 | 1.86 | 1.27 | 6.2% | 16.6% | 13.5% |
| Prestige Estates | 15.95 | 3.75 | 0.72 | 13.45 | 3.92 | 0.76 | 18.75 | 5.35 | 0.60 | -15.7% | 4.5% | 5.6% |
| Brigade Enterprises | 4.59 | 1.37 | (0.09) | 7.53 | 1.92 | 0.24 | 3.11 | 0.87 | (0.17) | 63.9% | 40.1% | -376.6% |
| Sobha Developers | 5.48 | 1.10 | 0.14 | 8.19 | 1.56 | 0.48 | 5.22 | 1.04 | 0.16 | 49.4% | 41.4% | 237.2% |
| Kolte Patil | 2.07 | 0.51 | 0.25 | 3.04 | 0.53 | 0.18 | 0.65 | (0.10) | (0.22) | 46.6% | 3.4% | -30.2% |
| Phoenix Mills | 3.06 | 1.06 | 0.04 | 3.71 | 1.86 | 0.59 | 2.15 | 0.92 | (0.36) | 21.2% | 75.1% | 1358.2% |
| Godrej Properties | 1.29 | (0.58) | 0.19 | 1.29 | (0.56) | 0.36 | 0.90 | (0.71) | 0.07 | 0.1% | NM | 92.6% |
| Mahindra Lifespaces | 1.62 | (0.18) | (0.10) | 0.59 | 0.13 | 0.07 | 0.31 | (0.18) | (0.13) | -63.3% | NM | 162.4% |
| **IT and Exchanges** | **1,452.6** | **348.4** | **242.0** | **1,462.3** | **353.8** | **250.7** | **1,226.8** | **315.1** | **217.8** | 0.7% | 1.6% | 3.6% |
| Tata Consultancy Services | 471.9 | 131.1 | 93.6 | 469 | 131 | 96 | 401.4 | 115.1 | 84.0 | -0.7% | 0.0% | 2.8% |
| Infosys | 293.9 | 75.0 | 51.8 | 296 | 78 | 54 | 245.7 | 70.8 | 48.5 | 0.7% | 4.4% | 4.7% |
| HCL Technologies Ltd | 206.1 | 48.8 | 30.6 | 207 | 48 | 33 | 185.9 | 49.5 | 31.4 | 0.2% | -0.9% | 6.6% |
| Wipro Ltd | 192.5 | 41.7 | 29.6 | 197 | 42 | 29 | 151.1 | 34.6 | 24.7 | 2.2% | -0.1% | -0.9% |
| Tech Mahindra | 106.2 | 19.1 | 13.1 | 109 | 20 | 13 | 93.7 | 17.0 | 10.6 | 2.5% | 4.6% | 2.3% |
| L&T Infotech | 36.4 | 7.0 | 5.0 | 38 | 7 | 6 | 30.0 | 6.9 | 4.6 | 3.5% | 5.2% | 10.4% |
| L&T Technologies | 15.8 | 3.2 | 2.2 | 16 | 3 | 2 | 13.1 | 2.3 | 1.4 | 1.7% | 8.4% | 5.4% |
| Mphasis | 27.9 | 5.0 | 3.4 | 29 | 5 | 3 | 24.4 | 4.5 | 3.0 | 2.8% | 0.5% | 1.2% |
| Mindtree | 25.0 | 4.8 | 3.2 | 26 | 5 | 4 | 19.3 | 3.9 | 2.5 | 3.6% | 10.2% | 25.8% |
| MCX | 0.8 | 0.3 | 0.4 | 1 | 0 | 0 | 1.2 | 0.7 | 0.6 | -0.9% | -1.0% | -19.4% |
| Tata Elxsi | 5.9 | 1.8 | 1.3 | 6 | 2 | 1 | 4.3 | 1.2 | 0.8 | 0.1% | 4.0% | -2.9% |
| Persistent | 13.2 | 2.1 | 1.6 | 14 | 2 | 2 | 10.1 | 1.7 | 1.0 | 2.5% | 9.1% | 2.9% |
| Cyient | 11.0 | 2.0 | 1.2 | 11 | 2 | 1 | 10.0 | 1.6 | 0.8 | 0.7% | 4.7% | 2.5% |
| TeamLease | 14.7 | 0.3 | 0.3 | 15.2 | 0.3 | 0.3 | 11.3 | 0.2 | 0.2 | 4.0% | 4.1% | -5.8% |
| Sonata | 11.0 | 1.1 | 0.9 | 10 | 1 | 1 | 8.0 | 0.9 | 0.6 | -12.2% | 10.9% | -2.3% |
| Zensar Technologies | 10.3 | 1.8 | 1.0 | 10.5 | 1.6 | 0.9 | 9.4 | 1.8 | 0.9 | 1.8% | -8.3% | -3.4% |
| CDSL | 1.2 | 0.8 | 0.7 | 1.5 | 1.0 | 0.9 | 0.9 | 0.5 | 0.5 | 17.5% | 23.8% | 22.0% |
| BSE | 1.6 | 0.5 | 0.7 | 1.9 | 0.6 | 0.7 | 1.3 | 0.2 | 0.5 | 17.6% | 18.9% | 9.7% |

| HSIE Coverage (INR Bn) | Q2 FY22 Preview Estimates | | | Q2 FY22 Actuals | | | Q2 FY21 Actuals | | | Deviation | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Revenue | EBITDA | PAT | Revenue | EBITDA | PAT | Revenue | EBITDA | PAT | Revenue | EBITDA | PAT |
| | Q2FY22E | Q2FY22E | Q2FY22E | Q2FY22A | Q2FY22A | Q2FY22A | Q2FY21A | Q2FY21A | Q2FY21A | Q2FY22A | Q2FY22A | Q2FY22A |
| IndiaMart | 1.9 | 0.9 | 0.8 | 2 | 1 | 1 | 1.6 | 0.8 | 0.7 | -2.8% | -6.1% | -1.8% |
| Mastek | 5.3 | 1.1 | 0.7 | 5.3 | 1.1 | 0.7 | 4.1 | 0.9 | 0.5 | 0.4% | 0.9% | 0.1% |
| **Energy (Oil & Gas)** | **5,232.4** | **643.5** | **348.0** | **5,344.8** | **646.9** | **429.0** | **3,426.3** | **494.4** | **270.3** | 2.1% | 0.5% | 23.3% |
| Reliance Industries | 1,626.9 | 266 | 143 | 1,676 | 260 | 137 | 1,112 | 189 | 96 | 3.0% | -2.1% | -4.1% |
| Oil & Natural Gas Corp | 255.0 | 137.0 | 63.3 | 243.5 | 132.3 | 128.7 | 169.2 | 84.4 | 28.8 | -4.5% | -3.5% | 103.5% |
| Indian Oil Corp | 1,336.2 | 102 | 60 | 1,354 | 106 | 64 | 856 | 94 | 62 | 1.3% | 4.1% | 6.6% |
| Bharat Petroleum Corp | 804.2 | 42 | 21 | 815 | 45 | 27 | 501 | 39 | 24 | 1.4% | 6.2% | 25.6% |
| GAIL India | 201.6 | 26 | 20 | 215 | 35 | 29 | 136 | 13 | 12 | 6.7% | 33.6% | 46.7% |
| Petronet LNG | 110.0 | 9.8 | 5.9 | 108.1 | 13.0 | 8.2 | 62.4 | 13.6 | 9.3 | -1.7% | 32.4% | 40.2% |
| Indraprastha Gas | 15.3 | 4.5 | 3.0 | 18.3 | 5.3 | 4.0 | 13.1 | 4.1 | 3.1 | 19.9% | 18.8% | 35.7% |
| HPCL | 807.5 | 29.2 | 16.1 | 830.6 | 30.1 | 19.2 | 517.7 | 36.0 | 24.8 | 2.9% | 3.0% | 19.6% |
| Gujarat Gas | 30.0 | 6.6 | 4.3 | 36.1 | 4.2 | 2.5 | 25.1 | 7.3 | 4.7 | 20.5% | -36.4% | -41.9% |
| Gujarat State Petronet | 5.4 | 3.6 | 2.5 | 5.9 | 3.8 | 3.3 | 5.8 | 3.8 | 2.7 | 9.8% | 6.3% | 30.3% |
| OIL India | 33.6 | 13.5 | 7.4 | 33.1 | 9.1 | 5.0 | 21.7 | 7.4 | 1.4 | -1.3% | -32.2% | -31.9% |
| Mahanagar Gas | 6.8 | 3.3 | 2.3 | 8.3 | 3.0 | 2.0 | 5.1 | 2.2 | 1.4 | 22.6% | -8.8% | -9.9% |
| **Cement and Building Materials** | **412.6** | **87.6** | **41.0** | **405.8** | **84.5** | **42.6** | **352.4** | **87.4** | **41.7** | -1.6% | -3.5% | 3.8% |
| UltraTech Cement | 124.32 | 30.16 | 13.41 | 120.17 | 27.15 | 13.14 | 103.87 | 26.98 | 12.31 | -3.3% | -10.0% | -2.1% |
| Shree Cement | 32.48 | 8.49 | 3.95 | 32.06 | 8.98 | 5.78 | 30.53 | 10.07 | 5.47 | -1.3% | 5.9% | 46.4% |
| Ambuja Cement | 32.70 | 7.22 | 4.75 | 32.37 | 7.03 | 4.41 | 28.52 | 6.80 | 4.41 | -1.0% | -2.6% | -7.1% |
| ACC | 38.43 | 6.75 | 4.18 | 37.49 | 7.12 | 4.50 | 35.37 | 6.71 | 3.64 | -2.5% | 5.5% | 7.7% |
| Ramco Cements | 13.19 | 3.65 | 1.64 | 14.93 | 3.94 | 2.15 | 12.57 | 4.42 | 2.36 | 13.2% | 7.8% | 30.9% |
| Dalmia Bharat/ Odisha Cem | 26.84 | 5.66 | 1.63 | 25.21 | 5.65 | 1.09 | 23.13 | 6.98 | 2.31 | -6.1% | -0.1% | -33.3% |
| JK Cement | 19.29 | 3.99 | 1.93 | 18.95 | 3.56 | 2.03 | 16.34 | 4.31 | 2.22 | -1.8% | -10.7% | 5.5% |
| Birla Corporation | 16.34 | 2.59 | 0.80 | 16.98 | 2.67 | 0.86 | 16.54 | 3.83 | 1.67 | 3.9% | 3.3% | 6.9% |
| Heidelberg Cement | 5.31 | 1.00 | 0.43 | 5.76 | 1.16 | 0.60 | 5.14 | 1.26 | 0.62 | 8.5% | 15.9% | 37.8% |
| STAR Cement | 4.20 | 0.58 | 0.33 | 4.07 | 0.72 | 0.47 | 4.02 | 0.79 | 0.62 | -3.1% | 23.8% | 42.5% |
| JK Lakshmi | 12.67 | 1.83 | 0.70 | 12.09 | 1.94 | 0.84 | 11.32 | 2.25 | 0.90 | -4.6% | 6.3% | 20.7% |
| Nuvoco Vistas | 21.89 | 4.05 | 0.32 | 20.20 | 3.31 | -0.26 | 17.85 | 3.62 | -0.16 | -7.7% | -18.5% | -179.5% |
| Sagar Cements | 3.96 | 0.87 | 0.35 | 3.69 | 0.61 | 0.21 | 3.26 | 1.05 | 0.50 | -6.8% | -30.5% | -39.4% |
| Supreme Industries | 20.13 | 3.53 | 2.48 | 19.29 | 3.11 | 2.29 | 13.75 | 2.56 | 1.75 | -4.2% | -12.0% | -7.8% |
| Orient Cement | 7.17 | 1.55 | 0.72 | 6.13 | 1.34 | 0.57 | 4.77 | 1.13 | 0.35 | -14.5% | -13.6% | -20.7% |
| Deccan Cement | 1.88 | 0.34 | 0.21 | 1.91 | 0.39 | 0.23 | 1.98 | 0.50 | 0.34 | 1.3% | 13.7% | 12.1% |
| Astral Limited | 10.63 | 2.11 | 1.32 | 11.54 | 2.12 | 1.41 | 7.47 | 1.44 | 0.87 | 8.6% | 0.3% | 7.2% |
| Prince Pipe | 7.44 | 1.09 | 0.68 | 7.61 | 1.23 | 0.76 | 4.59 | 0.80 | 0.47 | NM | NM | NM |
| Kajaria Ceramics | 8.66 | 1.55 | 0.95 | 9.74 | 1.80 | 1.16 | 7.13 | 1.44 | 0.89 | 12.4% | 16.4% | 21.9% |
| Somany Ceramics | 5.05 | 0.54 | 0.23 | 5.61 | 0.68 | 0.35 | 4.24 | 0.49 | 0.21 | 11.0% | 25.4% | 54.4% |
| **Chemicals** | **95.3** | **22.7** | **14.3** | **98.6** | **19.8** | **12.4** | **70.8** | **17.4** | **10.3** | 3.4% | -12.9% | -13.4% |
| Vinati Organics | 3.9 | 1.1 | 0.8 | 3.7 | 1.0 | 0.8 | 2.2 | 0.8 | 0.6 | -3.7% | -8.4% | 2.3% |
| Navin Fluorine | 3.3 | 0.8 | 0.6 | 3.2 | 0.8 | 0.6 | 3.1 | 0.9 | 0.6 | -1.4% | 7.1% | 8.1% |
| Deepak Nitrite | 16.5 | 5.4 | 3.6 | 16.8 | 3.9 | 2.5 | 9.9 | 2.8 | 1.7 | 1.8% | -28.0% | -29.3% |
| Galaxy Surfactants | 9.3 | 1.2 | 0.8 | 8.8 | 0.7 | 0.4 | 7.2 | 1.2 | 0.8 | -5.9% | -39.5% | -49.8% |
| Alkyl Amines | 4.0 | 1.0 | 0.7 | 3.5 | 0.8 | 0.5 | 2.9 | 1.0 | 0.7 | -12.4% | -26.2% | -25.4% |
| Balaji Amines | 4.2 | 1.1 | 0.8 | 4.4 | 1.0 | 0.7 | 2.8 | 0.7 | 0.5 | 4.8% | -11.1% | -11.4% |
| Aarti Industries | 13.4 | 3.2 | 1.8 | 15.5 | 3.1 | 1.76 | 11.7 | 2.5 | 1.40 | 15.8% | -4.4% | -2.1% |
| SRF | 27.3 | 6.7 | 4.0 | 28.4 | 6.5 | 3.8 | 21.0 | 5.8 | 3.2 | 3.9% | -2.8% | -3.4% |

| HSIE Coverage (INR Bn) | Q2 FY22 Preview Estimates | | | Q2 FY22 Actuals | | | Q2 FY21 Actuals | | | Deviation | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Revenue | EBITDA | PAT | Revenue | EBITDA | PAT | Revenue | EBITDA | PAT | Revenue | EBITDA | PAT |
| | Q2FY22E | Q2FY22E | Q2FY22E | Q2FY22A | Q2FY22A | Q2FY22A | Q2FY21A | Q2FY21A | Q2FY21A | Q2FY22A | Q2FY22A | Q2FY22A |
| Fine Organic | 3.6 | 0.6 | 0.4 | 4.4 | 0.7 | 0.5 | 2.7 | 0.5 | 0.3 | 22.1% | 26.1% | 36.7% |
| NOCIL | 3.5 | 0.5 | 0.4 | 3.8 | 0.5 | 0.3 | 2.2 | 0.3 | 0.2 | 7.8% | -9.9% | -13.0% |
| Sudarshan Chemical | 5.4 | 0.8 | 0.4 | 5.0 | 0.5 | 0.2 | 4.3 | 0.7 | 0.3 | -8.3% | -34.1% | -42.8% |
| Neogen Chemicals | 0.9 | 0.2 | 0.1 | 1.1 | 0.2 | 0.1 | 0.8 | 0.2 | 0.1 | 23.2% | -5.5% | 38.9% |
| **Pharma** | **459.9** | **101.6** | **62.7** | **464.0** | **105.1** | **67.8** | **418.1** | **95.9** | **57.9** | 0.9% | 3.5% | 8.1% |
| Sun Pharmaceutical Industries | 97.0 | 25.2 | 17.7 | 96.3 | 27.1 | 21.2 | 85.5 | 23.1 | 16.4 | -0.8% | 7.3% | 19.9% |
| Dr Reddy's Laboratories | 51.5 | 10.9 | 6.3 | 56.5 | 13.0 | 7.8 | 49.0 | 12.4 | 8.4 | 9.8% | 18.5% | 24.0% |
| Torrent Pharma | 21.6 | 6.9 | 3.4 | 21.4 | 6.6 | 3.2 | 20.2 | 6.4 | 3.1 | -1.2% | -4.7% | -8.3% |
| Cipla Ltd/India | 53.0 | 12.1 | 7.1 | 55.2 | 12.3 | 7.1 | 50.4 | 11.8 | 6.7 | 4.2% | 1.8% | -0.2% |
| Aurobindo Pharma | 61.9 | 13.2 | 7.9 | 59.4 | 11.9 | 7.0 | 64.8 | 14.3 | 8.0 | -3.9% | -10.4% | -12.0% |
| Lupin | 39.8 | 6.2 | 3.2 | 40.4 | 5.5 | 2.6 | 38.4 | 6.5 | 2.6 | 1.6% | -11.4% | -20.6% |
| Cadila | 38.1 | 8.7 | 5.5 | 37.8 | 8.6 | 6.0 | 36.6 | 8.1 | 5.7 | -0.6% | -0.8% | 9.1% |
| Alkem Labs | 27 | 5 | 4 | 28 | 6 | 5 | 24 | 6 | 5 | 5.0% | 14.2% | 28.1% |
| Apollo Hospitals | 40 | 6 | 3 | 37 | 6 | 2 | 28 | 3 | 0 | -7.6% | 9.2% | -11.4% |
| Narayana Health | 9.5 | 1.6 | 0.6 | 9.4 | 1.7 | 1.0 | 6.0 | 0.3 | (0.0) | -0.6% | 8.2% | 56.1% |
| Ajanta Pharma | 8.2 | 2.4 | 1.7 | 8.8 | 2.6 | 2.0 | 7.2 | 2.7 | 1.7 | 8.0% | 8.7% | 16.2% |
| Max Healthcare | 13 | 3 | 2 | 14 | 4 | 2 | 9 | 1 | 0 | 7.9% | 11.0% | -1.4% |
| **Aviation** | **54.8** | **2.6** | **(13.4)** | **56.1** | **2.5** | **(14.4)** | **27.4** | **2.8** | **(11.9)** | 2.3% | -2.3% | 7.4% |
| Interglobe Aviation | 54.8 | 2.6 | (13.4) | 56.1 | 2.5 | (14.4) | 27.4 | 2.8 | (11.9) | 2.3% | -2.3% | 7.4% |
| **Power/Utilities** | **582.0** | **227.4** | **99.8** | **588.0** | **219.3** | **93.5** | **515.9** | **206.7** | **95.4** | 1.0% | -3.6% | -6.3% |
| NTPC | 276.7 | 81.7 | 38.5 | 284.9 | 74.0 | 33.5 | 246.4 | 71.5 | 39.4 | 3.0% | -9.4% | -12.9% |
| PGCIL | 96.5 | 84.6 | 32.8 | 99.3 | 87.9 | 33.4 | 90.6 | 79.7 | 31.2 | 2.9% | 3.9% | 1.8% |
| NHPC | 27.8 | 17.5 | 14.8 | 27.5 | 18.0 | 13.0 | 25.5 | 15.7 | 13.0 | -1.2% | 2.7% | -11.7% |
| CESC | 22.0 | 4.6 | 2.4 | 20.9 | 4.2 | 2.3 | 19.9 | 3.4 | 2.3 | -4.9% | -8.7% | -3.8% |
| TATA Power | 103.6 | 21.1 | 4.5 | 98.1 | 16.6 | 4.2 | 82.9 | 20.0 | 2.8 | -5.3% | -21.2% | -6.7% |
| JSW Energy | 21.7 | 9.3 | 3.6 | 20.9 | 9.3 | 3.3 | 19.4 | 9.2 | 3.5 | -3.7% | -0.2% | -7.5% |
| Torrent Power | 33.8 | 8.6 | 3.2 | 36.5 | 9.4 | 3.7 | 31.3 | 7.1 | 3.2 | 7.9% | 9.2% | 14.2% |
| **Total** | **12,115.0** | **2,327.3** | **1,235.1** | **12,310.6** | **2,270.5** | **1,322.1** | **9,351.2** | **2,089.8** | **1,079.1** | 1.6% | -2.4% | 7.0% |

Source: Bloomberg & 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 |
| **Autos** | | | | | **14.0%** | **19.0%** | **15.3%** | **94.0%** | **-21.9%** | **-0.7%** |
| Maruti Suzuki India | 8,117 | 32.7 | BUY | 8,420 | 13.7% | 23.5% | -5.2% | 101.5% | -25.1% | -4.8% |
| Bajaj Auto | 3,548 | 13.7 | BUY | 4,350 | 20.6% | 13.4% | 9.3% | 16.9% | -0.9% | -8.6% |
| Mahindra & Mahindra | 924 | 15.3 | ADD | 965 | 16.0% | 13.2% | 11.4% | 18.1% | -2.6% | 1.3% |
| Eicher Motors | 2,603 | 9.5 | REDUCE | 2,400 | 18.0% | 24.7% | 37.4% | 48.2% | -9.4% | -0.6% |
| Hero MotoCorp | 2,685 | 7.2 | ADD | 3,025 | 6.9% | 9.5% | -1.7% | 11.3% | -9.9% | -7.7% |
| Tata Motors | 510 | 24.5 | BUY | 560 | 11.8% | 20.3% | NM | NM | NM | 17.2% |
| Ashok Leyland | 139 | 5.5 | REDUCE | 115 | 34.9% | 25.5% | NM | 99.0% | 0.0% | 0.0% |
| Escorts | 1,803 | 3.2 | ADD | 1,900 | 9.2% | 8.8% | -1.4% | 10.0% | 0.0% | 0.0% |
| Endurance | 1,751 | 3.3 | ADD | 1,820 | 19.1% | 15.3% | 12.1% | 32.3% | -4.9% | 0.5% |
| Subros | 372 | 0.3 | BUY | 410 | 20.0% | 17.7% | 7.0% | 110.6% | -30.2% | -7.3% |
| Bharat Forge | 779 | 4.8 | BUY | 1,000 | 39.6% | 28.1% | 172.6% | 42.8% | 0.0% | 0.0% |
| Sundaram Fasteners | 799 | 2.2 | ADD | 900 | 28.1% | 16.7% | 37.3% | 23.7% | 3.9% | -0.8% |
| **Banks and NBFCs** | | | | | **12.7%** | **13.5%** | **35.4%** | **37.9%** | **-6.9%** | **0.3%** |
| ICICI Bank | 763 | 70.6 | BUY | 885 | 18.3% | 17.3% | 32.2% | 26.4% | -0.3% | 1.6% |
| Kotak Mahindra Bank | 2,024 | 53.5 | REDUCE | 1,832 | 9.9% | 11.2% | 13.8% | 12.7% | 0.0% | -1.1% |
| Bajaj Finance | 7,485 | 60.2 | REDUCE | 5,498 | 18.2% | 24.0% | 53.2% | 43.5% | -4.0% | 3.8% |
| State Bank of India | 504 | 59.9 | BUY | 572 | 11.5% | 9.9% | 37.9% | 41.7% | -8.3% | 0.4% |
| Axis Bank | 706 | 28.9 | BUY | 957 | 12.8% | 16.1% | 90.3% | 38.8% | -3.7% | 5.1% |
| IndusInd Bank | 1,008 | 10.4 | REDUCE | 894 | 12.3% | 12.0% | 86.2% | 29.8% | -3.4% | -3.0% |
| AU Small Finance Bank | 1,214 | 5.1 | REDUCE | 1,148 | 30.1% | 18.7% | -20.6% | 22.8% | 5.7% | 3.3% |
| Shriram Trans Finance | 1,601 | 5.7 | ADD | 1,552 | 6.5% | 13.6% | 7.6% | 37.5% | -10.0% | -1.2% |
| Cholamandalam Investment & Finance Company | 617 | 6.8 | BUY | 646 | 11.9% | 13.6% | 35.9% | 20.8% | -5.0% | -3.8% |
| Mahindra & Mahindra Financial | 176 | 2.9 | ADD | 195 | 3.2% | 13.6% | 187.6% | 65.3% | 5.8% | -0.2% |
| Federal Bank | 95 | 2.7 | BUY | 120 | 12.1% | 15.4% | 24.5% | 24.9% | -4.8% | 0.0% |
| LIC Housing | 406 | 3.0 | REDUCE | 401 | 8.6% | 11.5% | -16.2% | 25.6% | -7.3% | 0.4% |
| City Union Bank | 156 | 1.5 | BUY | 199 | 12.5% | 12.3% | 22.4% | 26.6% | -5.0% | -4.3% |
| RBL Bank | 203 | 1.6 | REDUCE | 181 | 11.6% | 7.1% | -67.7% | 572.2% | -78.1% | -19.8% |
| DCB Bank | 99 | 0.4 | ADD | 132 | 8.5% | 15.4% | -6.9% | 43.4% | -19.5% | -8.5% |
| Karur Vysya Bank | 53 | 0.6 | REDUCE | 55 | 11.8% | 9.4% | 37.2% | 44.6% | 23.9% | 4.8% |
| Indostar Capital Finance | 257 | 0.4 | REDUCE | 250 | 29.1% | 26.9% | NM | 61.3% | 0.0% | 0.0% |
| REPCO Home Finance | 295 | 0.2 | REDUCE | 418 | 4.8% | 9.3% | 10.0% | 14.2% | -3.3% | -1.9% |
| UJJIVAN SFB | 20 | 0.4 | REDUCE | 20 | -3.2% | 32.4% | NM | NM | NM | 3.6% |
| CREDAG | 585 | 1.2 | BUY | 845 | 19.9% | 33.0% | 173.4% | 120.9% | -17.8% | -4.1% |
| Bandhan Bank | 305 | 6.6 | BUY | 387 | 14.2% | 15.2% | -34.0% | 194.9% | -58.8% | -12.6% |
| **Insurance** | | | | | **11.2%** | **14.2%** | **-5.8%** | **41.0%** | **-4.6%** | **1.9%** |
| SBI Life | 1,182 | 15.8 | BUY | 1,485 | 26.3% | 14.9% | 39.2% | 16.6% | 3.1% | 2.6% |
| ICICI Prudential | 640 | 12.3 | ADD | 745 | 27.9% | 20.0% | 34.1% | 20.9% | 0.0% | 0.0% |
| ICICI Lombard | 1,512 | 9.9 | REDUCE | 1,350 | 30.9% | 17.4% | -6.9% | 66.0% | 0.4% | -0.5% |
| GIC Reinsurance | 146 | 3.4 | REDUCE | 172 | -1.1% | 16.4% | -50.9% | 131.5% | 24.7% | 6.6% |
| New India Assurance | 152 | 3.3 | SELL | 120 | 11.0% | 7.5% | -66.5% | 113.9% | -54.7% | 0.7% |
| Max Financial | 950 | 4.4 | ADD | 1,205 | 15.7% | 15.0% | 16.6% | 15.7% | 0.8% | 1.4% |
| **Capital Markets** | | | | | **16.4%** | **-1.2%** | **8.6%** | **-8.5%** | **11.5%** | **1.7%** |
| Nippon Life India | 403 | 3.3 | ADD | 470 | 24.0% | 12.6% | 9.3% | 13.2% | -2.7% | -1.9% |
| ICICI Securities | 790 | 3.4 | ADD | 975 | 18.7% | -5.9% | 21.3% | -12.8% | 6.2% | 1.0% |

| HSIE Coverage | CMP | MCAP ($ Bn) | Rating | TP | Revenue Growth | | PAT Growth | | Change in PAT estimates | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | FY22E | FY23E | FY22E | FY23E | FY22E | FY23E |
| Motilal Oswal Financial Services | 924 | 1.8 | ADD | 1,000 | 3.5% | -9.7% | -13.9% | -27.3% | 46.3% | 11.1% |
| UTI AMC | 1,039 | 1.8 | BUY | 1,340 | 38.2% | 8.5% | 25.2% | -4.9% | 5.6% | -1.0% |
| CAMS | 3,052 | 2.0 | REDUCE | 2,555 | 25.5% | 11.0% | 32.5% | 15.6% | -2.1% | -0.6% |
| **Consumer- Staples** | | | | | **11.4%** | **9.2%** | **14.2%** | **11.7%** | **-1.8%** | **-0.9%** |
| Hindustan Unilever | 2,399 | 75.2 | REDUCE | 2,482 | 8.9% | 8.3% | 10.8% | 11.3% | -2.4% | -2.2% |
| ITC | 238 | 39.0 | BUY | 280 | 10.7% | 8.2% | 16.2% | 8.9% | -1.9% | -0.6% |
| Dabur India | 609 | 14.3 | ADD | 650 | 15.3% | 9.7% | 13.6% | 11.8% | -0.1% | -0.2% |
| Britannia Industries | 3,572 | 11.5 | REDUCE | 3,600 | 7.3% | 8.9% | -5.3% | 18.2% | -9.1% | -2.3% |
| United Spirits | 920 | 8.9 | ADD | 950 | 18.7% | 16.8% | 121.4% | 26.5% | 5.1% | 4.5% |
| Nestle | 19,406 | 24.9 | REDUCE | 17,572 | 10.8% | 10.6% | 15.3% | 11.5% | 0.0% | 0.0% |
| Marico | 542 | 9.3 | ADD | 600 | 20.4% | 8.3% | 12.2% | 22.4% | 0.1% | -0.3% |
| Colgate Palmolive | 1,477 | 5.4 | ADD | 1,800 | 7.4% | 7.6% | 0.9% | 7.7% | -1.1% | -2.0% |
| Emami | 516 | 3.1 | REDUCE | 500 | 13.8% | 8.4% | 13.3% | 7.8% | 2.5% | 0.2% |
| GCPL | 920 | 12.5 | ADD | 1,033 | 14.5% | 10.6% | 16.8% | 17.9% | -2.1% | -0.2% |
| Radico Khaitan | 1,128 | 2.0 | ADD | 1,200 | 19.3% | 13.0% | 14.9% | 26.0% | -3.1% | 0.0% |
| **Consumer Discretionary (ex-Autos)** | | | | | **26.9%** | **23.9%** | **41.4%** | **37.7%** | **-3.9%** | **-1.1%** |
| Avenue Supermart | 5,081 | 43.9 | SELL | 2,700 | 28.2% | 44.8% | 39.6% | 59.7% | 1.1% | 0.9% |
| Titan Co | 2,478 | 29.3 | SELL | 1,700 | 25.0% | 18.9% | 110.4% | 27.3% | 4.4% | 4.5% |
| Havells India | 1,373 | 1,146.5 | ADD | 1,550 | 29.9% | 16.8% | 24.8% | 19.3% | 0.0% | 0.2% |
| Trent | 1,138 | 5.4 | SELL | 810 | 52.2% | 52.3% | NM | 150.1% | 7.4% | -3.2% |
| Jubilant Foodworks | 3,816 | 6.7 | REDUCE | 3,000 | 34.6% | 19.2% | 78.6% | 27.7% | 0.1% | 0.2% |
| Voltas | 1,235 | 5.4 | ADD | 1,400 | 13.5% | 22.2% | 29.3% | 35.6% | -5.1% | -1.3% |
| Aditya Birla Fashion | 285 | 3.6 | BUY | 320 | 42.9% | 28.9% | NM | NM | NM | 0.3% |
| Crompton Consumer | 451 | 3.8 | BUY | 575 | 18.9% | 15.9% | 18.3% | 19.1% | 0.1% | -0.4% |
| Symphony | 1,025 | 1.0 | ADD | 1,300 | 37.2% | 9.6% | 76.0% | 18.5% | 0.0% | 0.0% |
| V-Guard | 250 | 1.4 | ADD | 285 | 25.0% | 11.4% | 29.6% | 21.1% | 0.1% | 0.1% |
| V-Mart | 4,075 | 1.1 | REDUCE | 3,850 | 63.6% | 58.2% | 166.4% | 120.3% | 74.3% | 7.5% |
| TCNS Clothing | 840 | 0.7 | SELL | 540 | 51.6% | 32.0% | NM | 819.4% | NM | 2.1% |
| Shoppers Stop | 353 | 0.5 | SELL | 210 | 61.0% | 29.2% | NM | NM | 0.0% | NM |
| Asian Paints | 3,227 | 41.3 | SELL | 2,600 | 23.0% | 13.0% | -5.1% | 31.4% | -16.3% | -7.1% |
| Berger Paints | 788 | 10.2 | SELL | 670 | 23.2% | 14.2% | 28.2% | 23.1% | 0.0% | 0.0% |
| Kansai Nerolac | 591 | 4.2 | BUY | 680 | 17.2% | 14.6% | -1.8% | 34.2% | -11.5% | -5.0% |
| TTK Prestige | 10,830 | 2.0 | ADD | 11,700 | 23.3% | 13.7% | 21.2% | 13.7% | 9.0% | 10.3% |
| Orient Electric | 377 | 1.1 | BUY | 400 | 27.1% | 15.5% | 18.3% | 31.3% | 0.0% | 0.2% |
| **Industrials (Infrastructure+ Cap Goods+ Logistics)** | | | | | **16.6%** | **16.9%** | **30.7%** | **33.7%** | **-2.3%** | **-2.1%** |
| Larsen & Toubro | 1,897 | 35.5 | BUY | 2,246 | 15.0% | 16.2% | 28.1% | 26.8% | 0.0% | 0.0% |
| Container Corporation | 653 | 5.3 | ADD | 760 | 19.4% | 25.7% | 75.5% | 39.3% | 1.8% | -1.5% |
| ABB India | 2,150 | 6.1 | REDUCE | 1,689 | 15.4% | 27.6% | 127.9% | 66.3% | -11.8% | -6.3% |
| KEC International | 486 | 1.7 | BUY | 556 | 12.6% | 12.4% | 3.8% | 44.5% | 0.0% | 0.0% |
| Kalpataru Power Transmission | 408 | 0.8 | BUY | 552 | 0.9% | 10.8% | -11.2% | 23.8% | 0.0% | 0.0% |
| PNC Infratech | 304 | 1.0 | BUY | 420 | 18.0% | 15.5% | 30.0% | 25.4% | 0.0% | 0.1% |
| Dilip Buildcon | 560 | 1.1 | BUY | 722 | 4.6% | 18.0% | -44.2% | 166.8% | -63.8% | -34.9% |
| KNR Constructions | 287 | 1.1 | BUY | 331 | 19.1% | 15.4% | 37.1% | 22.9% | 1.9% | -5.7% |
| IRB Infrastructure | 221 | 1.0 | BUY | 345 | 11.5% | 11.0% | 63.5% | 45.1% | 13.9% | -36.6% |
| Ashoka Buildcon | 104 | 0.4 | BUY | 157 | 15.0% | 11.7% | -29.4% | 46.2% | 6.0% | 4.6% |

| HSIE Coverage | CMP | MCAP ($ Bn) | Rating | TP | Revenue Growth | | PAT Growth | | Change in PAT estimates | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | FY22E | FY23E | FY22E | FY23E | FY22E | FY23E |
| Ahluwalia Contracts | 434 | 0.4 | BUY | 519 | 39.6% | 15.0% | 50.9% | 18.2% | 39.6% | 24.8% |
| NCC | 78 | 0.6 | BUY | 116 | 38.8% | 23.1% | 47.5% | 72.7% | -20.9% | -2.9% |
| PSP Projects | 513 | 0.2 | BUY | 620 | 33.6% | 21.7% | 50.9% | 21.7% | 0.0% | 0.0% |
| HG Infra | 667 | 0.6 | BUY | 920 | 32.6% | 13.3% | 45.0% | 12.4% | -0.2% | -1.3% |
| Gateway Distriparks | 279 | 0.5 | BUY | 375 | 11.7% | 15.2% | 43.1% | 17.5% | 3.0% | 0.2% |
| JMC Projects | 102 | 0.2 | BUY | 155 | 36.0% | 14.0% | 75.6% | 62.1% | -6.3% | 3.8% |
| Sadbhav Engineering | 44 | 0.1 | *BUY* | *76* | 7.6% | 59.0% | NM | 352.1% | 0.0% | 0.0% |
| Capacite Infraprojects | 169 | 0.2 | BUY | 269 | 84.4% | 40.2% | 4472.8% | 83.2% | 1.9% | -17.7% |
| ITD Cementation | 76 | 0.2 | BUY | 126 | 35.0% | 16.5% | 525.6% | 95.3% | -17.8% | 2.2% |
| J Kumar Infraprojects | 174 | 0.2 | BUY | 259 | 30.0% | 16.5% | 156.7% | 54.2% | -4.9% | 12.2% |
| Cummins India | 915 | 3.4 | BUY | 1,191 | 22.6% | 18.8% | 33.6% | 30.8% | 0.0% | 0.0% |
| GR Infra | 1,927 | 2.5 | BUY | 2,372 | 21.1% | 17.4% | 27.3% | 27.6% | 0.0% | 0.0% |
| **Real Estate** | | | | | **15.3%** | **17.1%** | **83.9%** | **35.7%** | **-6.8%** | **-5.8%** |
| DLF | 416 | 13.7 | BUY | 460 | 11.0% | 10.5% | 41.4% | 30.7% | -4.7% | 6.4% |
| Oberoi Realty | 922 | 4.5 | ADD | 1,060 | 10.7% | 8.7% | 54.4% | -15.9% | 18.9% | -11.8% |
| Prestige Estates | 467 | 2.5 | ADD | 540 | -9.0% | 9.0% | 56.9% | 13.0% | 0.0% | 0.0% |
| Brigade Enterprises | 495 | 1.5 | ADD | 530 | 37.2% | 19.3% | 131.2% | 98.5% | -61.7% | -55.9% |
| Sobha Developers | 875 | 1.1 | ADD | 964 | 28.4% | 19.2% | 150.1% | 98.4% | 51.9% | -6.5% |
| Kolte Patil | 306 | 0.3 | BUY | 377 | 80.8% | 8.1% | NM | 32.9% | -16.0% | -12.0% |
| Phoenix Mills | 1,082 | 2.5 | BUY | 1,360 | 24.3% | 56.6% | 242.1% | 183.7% | -64.7% | -23.5% |
| Godrej Properties | 2,177 | 8.1 | REDUCE | 1,800 | 102.7% | 32.5% | 1167.7% | 77.8% | 0.0% | 0.0% |
| Mahindra Lifespaces | 255 | 0.5 | BUY | 349 | 115.3% | 114.1% | NM | NM | 0.0% | 0.0% |
| **IT and Exchanges** | | | | | **18.4%** | **15.7%** | **15.0%** | **17.3%** | **1.4%** | **2.2%** |
| Tata Consultancy Services | 3,476 | 171.4 | ADD | 4180 | 15.5% | 14.7% | 15.0% | 16.7% | 1.5% | 2.7% |
| Infosys | 1,779 | 99.8 | BUY | 1995 | 19.3% | 15.2% | 13.0% | 17.1% | 1.5% | 1.0% |
| HCL Technologies | 1,120 | 40.5 | BUY | 1450 | 12.0% | 14.9% | 6.9% | 20.9% | 0.1% | 2.6% |
| Wipro | 651 | 47.6 | ADD | 690 | 27.0% | 13.7% | 13.2% | 11.8% | -0.7% | 0.2% |
| Tech Mahindra | 1,568 | 20.3 | BUY | 1710 | 16.6% | 16.5% | 25.7% | 14.9% | 3.7% | 4.0% |
| L&T Infotech | 7,148 | 16.7 | ADD | 6400 | 25.7% | 21.9% | 18.3% | 23.1% | 3.4% | 3.4% |
| L&T Technologies | 5,618 | 7.9 | ADD | 5350 | 22.3% | 21.4% | 55.4% | 22.3% | 10.1% | 11.2% |
| Mphasis | 3,339 | 8.3 | BUY | 3450 | 22.1% | 20.1% | 19.9% | 24.2% | 3.1% | -0.2% |
| Mindtree | 4,839 | 10.6 | ADD | 4400 | 30.9% | 20.7% | 28.0% | 21.4% | 7.4% | 10.1% |
| MCX | 1,812 | 1.2 | BUY | 2300 | -2.3% | 33.1% | -12.3% | 55.3% | -7.7% | -2.0% |
| Tata Elxsi | 6,391 | 5.3 | REDUCE | 5275 | 32.0% | 26.5% | 37.9% | 26.7% | 1.2% | 2.1% |
| Persistent | 4,161 | 4.2 | ADD | 4350 | 33.3% | 25.7% | 49.7% | 22.6% | 5.8% | 4.2% |
| Cyient | 1,135 | 1.7 | BUY | 1330 | 11.3% | 17.1% | 33.6% | 21.3% | 1.5% | 5.8% |
| TeamLease | 4,002 | 0.9 | BUY | 5,270 | 27.8% | 25.3% | 49.5% | 38.4% | -3.2% | -6.6% |
| Sonata | 845 | 1.2 | BUY | 1050 | 25.6% | 21.3% | 45.9% | 22.1% | 3.6% | 3.3% |
| Zensar Technologies | 449 | 1.4 | BUY | 550 | 15.7% | 17.0% | 19.1% | 19.8% | -3.9% | 3.4% |
| CDSL | 1,502 | 2.1 | BUY | 1750 | 65.4% | 16.7% | 65.0% | 17.7% | 15.4% | 11.6% |
| BSE | 1,603 | 1.0 | BUY | 1660 | 33.2% | 15.5% | 64.9% | 18.0% | 8.2% | 5.9% |
| IndiaMart | 7,625 | 3.1 | BUY | 9500 | 13.6% | 22.4% | 15.1% | 13.1% | -1.4% | -1.3% |
| Mastek | 2,720 | 1.1 | BUY | 3300 | 25.1% | 17.0% | 28.8% | 22.8% | 0.4% | -3.2% |
| **Energy (Oil & Gas)** | | | | | **35.4%** | **10.4%** | **10.7%** | **22.5%** | **1.8%** | **2.2%** |
| Reliance Industries | 2,473 | 209.2 | ADD | 2,855 | 72.3% | 15.1% | 20.6% | 36.9% | -2.2% | 2.6% |
| Oil & Natural Gas Corp | 154 | 25.9 | BUY | 208 | 18.1% | 7.2% | 97.8% | 19.6% | 5.2% | 5.3% |

| HSIE Coverage | CMP | MCAP ($ Bn) | Rating | TP | Revenue Growth | | PAT Growth | | Change in PAT estimates | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | FY22E | FY23E | FY22E | FY23E | FY22E | FY23E |
| Indian Oil Corp | 129 | 16.2 | ADD | 145 | 11.0% | 6.8% | -37.8% | 8.1% | 7.9% | 7.5% |
| Bharat Petroleum Corp | 405 | 11.7 | ADD | 475 | 48.1% | 8.3% | -38.7% | 17.6% | 0.0% | -5.5% |
| GAIL India | 141 | 8.3 | BUY | 210 | 38.4% | 12.9% | 46.7% | -0.2% | 11.5% | -0.2% |
| Petronet LNG | 225 | 4.5 | REDUCE | 240 | 71.1% | 4.6% | -10.1% | -8.5% | 16.3% | 0.0% |
| Indraprastha Gas | 490 | 4.6 | BUY | 720 | 22.9% | 31.0% | 10.7% | 35.1% | 0.0% | 0.0% |
| HPCL | 324 | 6.1 | ADD | 345 | 5.8% | 7.7% | -51.9% | 35.4% | -5.3% | -6.5% |
| Gujarat Gas | 638 | 5.9 | BUY | 790 | 53.8% | 21.0% | 26.6% | 16.7% | -10.0% | -7.1% |
| Gujarat State Petronet | 309 | 2.3 | ADD | 370 | 53.5% | 20.0% | 18.7% | 20.0% | -4.6% | -0.2% |
| OIL India | 213 | 3.1 | BUY | 320 | 59.9% | 8.1% | 35.0% | -3.9% | 0.0% | 0.0% |
| Mahanagar Gas | 964 | 1.3 | ADD | 1,135 | 17.8% | 16.3% | -16.2% | 8.5% | -4.3% | -4.4% |
| **Cement & Building Materials** | | | | | **17.6%** | **12.1%** | **13.5%** | **17.9%** | **1.0%** | **0.4%** |
| UltraTech Cement | 7,768 | 29.9 | BUY | 8,490 | 11.9% | 9.4% | 7.1% | 22.3% | 0.0% | 0.0% |
| Shree Cement | 27,167 | 13.1 | REDUCE | 28,700 | 10.7% | 13.2% | 14.7% | 11.9% | 6.9% | 2.4% |
| Ambuja Cement | 401 | 10.6 | ADD | 390 | 22.5% | 9.6% | 28.0% | 3.9% | 0.0% | 0.0% |
| ACC | 2,440 | 6.1 | BUY | 2,670 | 23.1% | 8.2% | 44.0% | 1.5% | 0.0% | 0.0% |
| Ramco Cements | 1,005 | 3.2 | BUY | 1,096 | 17.6% | 12.5% | 6.3% | 27.7% | 0.1% | 0.2% |
| Dalmia Bharat/ Odisha Cem | 2,016 | 5.0 | ADD | 2,240 | 20.8% | 11.7% | -7.8% | 5.9% | 0.0% | 0.0% |
| Nuvoco Vistas | 514 | 2.4 | BUY | 827 | 38.1% | 18.0% | NM | 80.0% | 0.0% | 0.0% |
| JK Cement | 3,514 | 3.6 | REDUCE | 3,210 | 14.3% | 14.1% | 19.2% | 27.0% | 0.0% | 0.0% |
| Birla Corporation | 1,420 | 1.5 | BUY | 1,634 | 9.5% | 16.9% | -29.4% | 19.7% | 0.0% | -0.1% |
| Heidelberg Cement | 234 | 0.7 | ADD | 250 | 16.0% | 8.6% | -14.3% | 15.2% | 0.0% | 0.0% |
| STAR Cement | 98 | 0.5 | BUY | 130 | 21.0% | 17.3% | 15.6% | 42.8% | 0.2% | -0.2% |
| JK Lakshmi | 636 | 1.0 | BUY | 780 | 13.8% | 8.9% | -3.6% | 30.5% | -0.2% | 0.3% |
| Orient Cement | 161 | 0.4 | BUY | 185 | 20.5% | 6.8% | 15.3% | 2.7% | 0.0% | -0.1% |
| Deccan Cement | 648 | 0.1 | ADD | 785 | 9.0% | 6.5% | -4.9% | -2.4% | 0.4% | -0.1% |
| Sagar Cements | 272 | 0.4 | ADD | 295 | 16.5% | 33.9% | -18.9% | 31.7% | 0.1% | -0.1% |
| Supreme Industries | 2,234 | 3.8 | ADD | 2,630 | 7.5% | 9.0% | -18.0% | 2.3% | 0.0% | 0.0% |
| Astral Limited | 2,305 | 6.2 | REDUCE | 2,110 | 57.0% | 21.6% | 34.6% | 33.3% | 4.5% | 5.1% |
| Prince Pipe | 838 | 1.2 | BUY | 905 | 35.9% | 21.3% | -0.6% | 36.9% | 0.3% | 0.0% |
| Kajaria Ceramics | 1,170 | 2.5 | BUY | 1,360 | 26.4% | 24.0% | 32.0% | 31.8% | -0.1% | 0.0% |
| Somany Ceramics | 864 | 0.5 | BUY | 980 | 15.9% | 19.1% | 45.4% | 36.4% | -0.3% | 0.0% |
| **Chemicals** | | | | | **31.3%** | **14.7%** | **29.6%** | **22.5%** | **-8.9%** | **-4.2%** |
| Vinati Organics | 1,963 | 2.7 | SELL | 1,745 | 62.8% | 34.4% | 40.3% | 42.2% | 0.0% | -0.6% |
| Navin Fluorine | 3,551 | 2.3 | ADD | 4,025 | 17.4% | 27.9% | 12.6% | 34.1% | -12.5% | -11.6% |
| Deepak Nitrite | 2,290 | 4.2 | SELL | 1,800 | 53.7% | 12.7% | 52.1% | 15.3% | -14.5% | 0.6% |
| Galaxy Surfactants | 2,994 | 1.4 | BUY | 3,675 | 36.8% | 14.3% | -12.6% | 36.1% | -32.3% | -20.4% |
| Alkyl Amines | 3,276 | 2.2 | SELL | 2,950 | 21.1% | 19.4% | -3.0% | 18.1% | -11.3% | -11.3% |
| Balaji Amines | 3,159 | 1.4 | REDUCE | 3,630 | 28.6% | 12.9% | 17.6% | 18.5% | -8.1% | -4.9% |
| Aarti Industries | 973 | 4.7 | BUY | 1,330 | 24.8% | 17.4% | 30.6% | 32.3% | -3.8% | -2.3% |
| SRF | 2,188 | 8.6 | ADD | 2,380 | 21.9% | 9.6% | 39.4% | 11.7% | -1.8% | -2.6% |
| Fine Organic | 3,571 | 1.5 | BUY | 4,220 | 37.1% | 15.4% | 41.9% | 42.3% | 6.7% | 4.0% |
| NOCIL | 248 | 0.6 | BUY | 360 | 58.7% | 12.5% | 63.6% | 21.2% | -8.1% | -3.9% |
| Sudarshan Chemical | 573 | 0.5 | BUY | 765 | 13.4% | 13.8% | -23.6% | 61.4% | -32.0% | -16.5% |
| Neogen Chemicals | 1,349 | 0.4 | BUY | 1,470 | 27.1% | 18.7% | 26.2% | 29.9% | 6.3% | -1.4% |
| **Power/Utilities** | | | | | **11.7%** | **7.5%** | **10.4%** | **8.8%** | **0.0%** | **0.0%** |
| NTPC | 135 | 17.5 | BUY | 160 | 9.5% | 9.8% | 5.7% | 10.7% | 0.0% | 0.0% |
| PGCIL | 192 | 17.9 | ADD | 202 | 9.3% | 3.5% | 7.8% | 6.9% | 0.0% | 0.0% |
| NHPC | 33 | 4.4 | ADD | 29 | 9.0% | 9.5% | 3.6% | 1.1% | 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 |
| CESC | 88 | 1.6 | BUY | 109 | 19.4% | 5.6% | 29.1% | 4.6% | 0.0% | 0.0% |
| TATA Power | 237 | 10.1 | REDUCE | 209 | 20.5% | 6.7% | 68.3% | 18.1% | 0.0% | 0.0% |
| JSW Energy | 295 | 6.5 | SELL | 118 | 20.4% | 3.1% | 23.6% | 5.8% | 0.0% | 0.0% |
| Torrent Power | 527 | 3.4 | ADD | 528 | 6.2% | 6.5% | 25.2% | 16.0% | 0.0% | 0.0% |
| **Pharma** | | | | | **14.1%** | **10.5%** | **20.9%** | **16.4%** | **2.5%** | **-1.9%** |
| Sun Pharmaceutical Industries | 791 | 25.3 | BUY | 990 | 16.4% | 11.0% | 30.7% | 13.2% | 8.9% | 3.5% |
| Dr Reddy's Laboratories | 4,671 | 10.4 | ADD | 5,225 | 13.1% | 10.7% | 7.5% | 20.6% | 3.9% | -3.9% |
| Torrent Pharma | 2,791 | 6.3 | ADD | 3,240 | 7.5% | 11.7% | -1.5% | 23.3% | -4.9% | -7.0% |
| Cipla Ltd/India | 892 | 9.6 | BUY | 1,085 | 13.9% | 8.2% | 20.0% | 11.6% | -1.6% | -4.9% |
| Aurobindo Pharma | 640 | 5.0 | BUY | 990 | -0.1% | 7.0% | -8.7% | 12.4% | -4.3% | -1.1% |
| Lupin | 899 | 5.4 | REDUCE | 915 | 7.2% | 9.5% | 2.6% | 49.9% | -13.3% | -14.7% |
| Cadila | 463 | 6.3 | REDUCE | 525 | 5.3% | 6.2% | -1.5% | 4.5% | -1.0% | -10.0% |
| Alkem Labs | 3,482 | 5.6 | BUY | 4,110 | 19.6% | 11.1% | 6.0% | 7.1% | -0.3% | -6.2% |
| Apollo Hospitals | 5,589 | 10.7 | ADD | 5,295 | 48.1% | 21.2% | 1105.4% | 43.9% | 16.9% | 19.7% |
| Narayana Health | 590 | 1.6 | ADD | 625 | 43.8% | 13.0% | NM | 33.9% | 6.4% | 10.5% |
| Ajanta Pharma | 2,120 | 2.4 | ADD | 2,440 | 16.4% | 14.2% | 11.1% | 14.1% | 4.3% | -4.9% |
| Max Healthcare | 357 | 4.6 | BUY | 430 | 40.8% | 7.9% | 1760.5% | 17.2% | 21.5% | 0.2% |
| **Aviation** | | | | | **50.5%** | **63.3%** | **21.3%** | **NM** | **NM** | **14.4%** |
| Interglobe Aviation | 2,251 | 11.6 | REDUCE | 1,925 | 50.5% | 63.3% | 21.3% | NM | NM | 14.4% |
| **Total** | | | | | **24.1%** | **13.0%** | **18.1%** | **27.0%** | **-2.1%** | **0.8%** |

***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 18.11.2021***
Source: Bloomberg & HSIE Research

# HSIE Model Portfolio

| HSIE Coverage | CMP | MCAP($ Bn) | MCAPINR Bn | Rating | TP | Model Portfolio as on 23rd Nov'21 | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | Nifty Weight | Portfolio weight | Relative weight |
| Nifty | 17,767 | | | | | 100% | 100% | |
| **Autos** | | | | | | 5.1% | 3.0% | -2.06% |
| Maruti Suzuki India | 8,117 | 32.7 | 2,452 | BUY | 8,420 | 1.30% | 1.5% | 0.20% |
| Bajaj Auto | 3,548 | 13.7 | 1,027 | BUY | 4,350 | 0.63% | | -0.63% |
| Mahindra & Mahindra | 924 | 15.3 | 1,148 | ADD | 965 | 1.10% | | -1.10% |
| Eicher Motors | 2,603 | 9.5 | 712 | REDUCE | 2,400 | 0.45% | | -0.45% |
| Hero MotoCorp | 2,685 | 7.2 | 536 | ADD | 3,025 | 0.45% | | -0.45% |
| Tata Motors | 510 | 24.5 | 1,839 | BUY | 560 | 1.13% | 1.5% | 0.37% |
| **Banks and NBFCs** | | | | | | 35.33% | 32.70% | -2.63% |
| ICICI Bank | 763 | 70.6 | 5,294 | BUY | 885 | 7.25% | 7.0% | -0.25% |
| Kotak Mahindra Bank | 2,024 | 53.5 | 4,015 | REDUCE | 1,832 | 3.89% | | -3.89% |
| HDFC Bank | 1,515 | 112.0 | 8,398 | | | 9.03% | 9.0% | 0.00% |
| Housing Development Finance Corp | 2,895 | 69.9 | 5,239 | | | 6.70% | 6.7% | 0.00% |
| Bajaj Finance | 7,485 | 60.2 | 4,518 | REDUCE | 5,498 | 2.56% | | -2.56% |
| State Bank of India | 504 | 59.9 | 4,496 | BUY | 572 | 2.51% | 5.0% | 2.49% |
| Axis Bank | 706 | 28.9 | 2,166 | BUY | 957 | 2.49% | 3.0% | 0.51% |
| IndusInd Bank | 1,008 | 10.4 | 781 | REDUCE | 894 | 0.90% | | -0.90% |
| Shriram Trans Finance | 1,601 | 5.7 | 430 | ADD | 1,552 | | 1.0% | 1.00% |
| Federal Bank | 95 | 2.7 | 199 | BUY | 120 | | 1.0% | 1.00% |
| **Insurance** | | | | | | 2.90% | 3.50% | 0.60% |
| SBI Life | 1,182 | 15.8 | 1,182 | BUY | 1,485 | 0.66% | 2.0% | 1.34% |
| Bajaj Finserv | 17073 | 36.2 | 2718 | | | 1.41% | | -1.41% |
| HDFC Life | 689 | 18.6 | 1393 | | | 0.83% | | -0.83% |
| Max Financial | 950 | 4.4 | 328 | ADD | 1,205 | | 1.5% | 1.50% |
| **Capital Markets** | | | | | | 0 | 2% | 2.00% |
| ICICI Securities | 790 | 3.4 | 255 | ADD | 975 | | 1.0% | 1.00% |
| UTI AMC | 1,039 | 1.8 | 132 | BUY | 1,340 | | 1.0% | 1.00% |
| **Consumer- Staples** | | | | | | 6.79% | 6.00% | -0.79% |
| Hindustan Unilever | 2,399 | 75.2 | 5,638 | REDUCE | 2,482 | 2.79% | | -2.79% |
| ITC | 238 | 39.0 | 2,927 | BUY | 280 | 2.55% | 4.0% | 1.45% |
| Britannia Industries | 3,572 | 11.5 | 860 | REDUCE | 3,600 | 0.57% | | -0.57% |
| United Spirits | 920 | 8.9 | 669 | ADD | 950 | | 1.0% | 1.00% |
| Nestle | 19,406 | 24.9 | 1,871 | REDUCE | 17,572 | 0.88% | | -0.88% |
| Radico Khaitan | 1,128 | 2.0 | 151 | ADD | 1,200 | | 1.0% | 1.00% |
| **Consumer Discretionary (ex-Autos)** | | | | | | 3.75% | 3.00% | -0.75% |
| Titan Co | 2,478 | 29.3 | 2,200 | SELL | 1,700 | 1.30% | | -1.30% |
| Aditya Birla Fashion | 285 | 3.6 | 267 | BUY | 320 | | 1.0% | 1.00% |
| Crompton Consumer | 451 | 3.8 | 283 | BUY | 575 | | 1.0% | 1.00% |
| Tata Consumer | 811 | 10.0 | 748 | | | 0.63% | | -0.63% |
| Asian Paints | 3,227 | 41.3 | 3,095 | SELL | 2,600 | 1.82% | | -1.82% |
| Orient Electric | 377 | 1.1 | 80 | BUY | 400 | | 1.0% | 1.00% |
| **Industrials (Infrastructure+ Cap Goods+ Logistics)** | | | | | | 3.44% | 6.50% | 3.06% |
| Larsen & Toubro | 1,897 | 35.5 | 2,665 | BUY | 2,246 | 2.78% | 3.5% | 0.72% |
| Adani Ports & Special Economic Zone | 715 | 19.5 | 1460 | | | 0.66% | | -0.66% |
| KNR Constructions | 287 | 1.1 | 81 | BUY | 331 | | 1.0% | 1.00% |
| Cummins India | 915 | 3.4 | 254 | BUY | 1,191 | | 1.0% | 1.00% |
| GR Infra | 1,927 | 2.5 | 186 | BUY | 2,372 | | 1.0% | 1.00% |
| **Real Estate** | | | | | | 0% | 3% | 3.00% |
| DLF | 416 | 13.7 | 1,029 | BUY | 460 | | 1.0% | 1.00% |
| Phoenix Mills | 1,082 | 2.5 | 186 | BUY | 1,360 | | 1.0% | 1.00% |
| Mahindra Lifespaces | 255 | 0.5 | 39 | BUY | 349 | | 1.0% | 1.00% |
| **IT and Exchanges** | | | | | | 16.73% | 12% | -4.73% |
| Tata Consultancy Services | 3,476 | 171.4 | 12,857 | ADD | 4180 | 4.59% | | -4.59% |
| Infosys | 1,779 | 99.8 | 7,483 | BUY | 1995 | 8.07% | 7.0% | -1.07% |
| HCL Technologies | 1,120 | 40.5 | 3,040 | BUY | 1450 | 1.62% | | -1.62% |

| HSIE Coverage | CMP | MCAP($ Bn) | MCAPINR Bn | Rating | TP | Model Portfolio as on 23rd Nov'21 | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | Nifty Weight | Portfolio weight | Relative weight |
| Wipro | 651 | 47.6 | 3,571 | ADD | 690 | 1.25% | | -1.25% |
| Tech Mahindra | 1,568 | 20.3 | 1,521 | BUY | 1710 | 1.20% | 2.0% | 0.80% |
| Cyient | 1,135 | 1.7 | 125 | BUY | 1330 | | 1.0% | 1.00% |
| TeamLease | 4,002 | 0.9 | 68 | BUY | 5,270 | | 1.0% | 1.00% |
| CDSL Ltd | 1,502 | 2.1 | 157 | BUY | 1750 | | 1.0% | 1.00% |
| **Energy (Oil & Gas)** | | | | | | 12.35% | 9.50% | -2.85% |
| Reliance Industries | 2,473 | 209.2 | 15,689 | ADD | 2,855 | 10.70% | 5.0% | -5.70% |
| Oil & Natural Gas Corp | 154 | 25.9 | 1,941 | BUY | 208 | 0.71% | | -0.71% |
| Indian Oil Corp | 129 | 16.2 | 1,218 | ADD | 145 | 0.42% | | -0.42% |
| Bharat Petroleum Corp | 405 | 11.7 | 879 | ADD | 475 | 0.52% | | -0.52% |
| GAIL India | 141 | 8.3 | 626 | BUY | 210 | | 1.5% | 1.50% |
| Indraprastha Gas | 490 | 4.6 | 343 | BUY | 720 | | 1.0% | 1.00% |
| Gujarat Gas | 638 | 5.9 | 439 | BUY | 790 | | 1.0% | 1.00% |
| Gujarat State Petronet | 309 | 2.3 | 174 | ADD | 370 | | 1.0% | 1.00% |
| **Metals & Mining** | | | | | | 3.54% | 1.00% | -2.54% |
| Hindalco Industries | 442 | 2.3 | 994 | | | 0.88% | | -0.88% |
| Tata Steel | 1165 | 18.7 | 1402 | | | 1.34% | 1.0% | -0.34% |
| JSW Steel | 657 | 21.2 | 1588 | | | 0.87% | | -0.87% |
| Coal India | 151 | 12.4 | 928 | | | 0.45% | | -0.45% |
| **Cement & Building Materials** | | | | | | 2.51% | 1.80% | -0.71% |
| UltraTech Cement | 7,768 | 29.9 | 2,242 | BUY | 8,490 | 1.15% | 0.9% | -0.25% |
| Grasim Industries | 1776 | 15.6 | 1170 | | | 0.86% | | -0.86% |
| Shree Cement | 27,167 | 13.1 | 980 | REDUCE | 28,700 | 0.50% | | -0.50% |
| Birla Corporation | 1,420 | 1.5 | 109 | BUY | 1,634 | | 0.9% | 0.90% |
| **Chemicals** | | | | | | 0.52% | 1.00% | 0.48% |
| UPL | 716 | 7.3 | 547 | | | 0.53% | | -0.53% |
| Fine Organic | 3,571 | 1.5 | 109 | BUY | 4,220 | | 1.0% | 1.00% |
| **Power/Utilities** | | | | | | 1.65% | 5.00% | 3.35% |
| NTPC | 135 | 17.5 | 1,312 | BUY | 160 | 0.82% | 2.0% | 1.18% |
| Powergrid corp of India | 192 | 17.9 | 1,343 | ADD | 202 | 0.83% | 2.0% | 1.17% |
| CESC | 88 | 1.6 | 117 | BUY | 109 | | 1.0% | 1.00% |
| **Pharma** | | | | | | 3.32% | 4.00% | 0.68% |
| Sun Pharmaceutical Industries | 791 | 25.3 | 1,897 | BUY | 990 | 1.12% | | -1.12% |
| Dr Reddy's Laboratories | 4,671 | 10.4 | 777 | ADD | 5,225 | 0.74% | | -0.74% |
| Cipla Ltd/India | 892 | 9.6 | 720 | BUY | 1,085 | 0.60% | 1.3% | 0.70% |
| Aurobindo Pharma | 640 | 5.0 | 375 | BUY | 990 | | 0.9% | 0.90% |
| Alkem Labs | 3,482 | 5.6 | 416 | BUY | 4,110 | | 0.9% | 0.90% |
| Divis labs | 4680 | 16.5 | 1241 | | | 0.86% | | -1.12% |
| Ajanta Pharma | 2120 | 2.4 | 183 | ADD | 2,440 | | 0.9% | 0.9% |
| **Telecom** | | | | | | 2.11% | 3% | 0.89% |
| Bharti Airtel | 742 | 56.3 | 4225 | | | 2.11% | 3.0% | 0.89% |
| Cash | | | | | | 0% | 3% | |
| **Total** | | | | | | 100.00% | 100.00% | |

***Note: CMP as on 18.11.2021*** ***Stocks highlighted pink represent those which are a part of nifty but not under HSIE coverage***

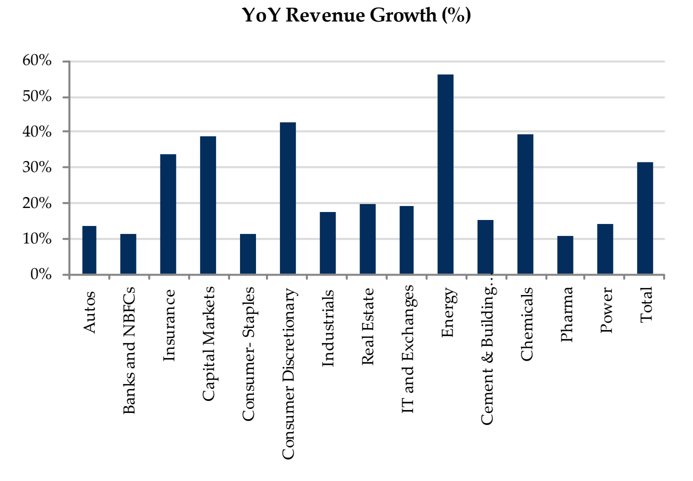
Source: Bloomberg and HSIE Research

# Model Portfolio Performance relative to Nifty

| Nifty vs Model Portfolio Performance | Model Portfolio Return | Nifty Return | Surplus /(Deficit) |
|---|---|---|---|
| 1month | -2.60% | -3.70% | 1.10% |
| 3 month | 9.90% | 7.90% | 2.00% |
| 6 month | 16.90% | 17.00% | -0.10% |
| 1 year | 41.70% | 30.10% | 11.60% |
| Since 1.4.20 (From trough of Covid) | 135.90% | 115.00% | 20.90% |
| Inception (since 28.2.20) | 73.30% | 58.50% | 14.80% |

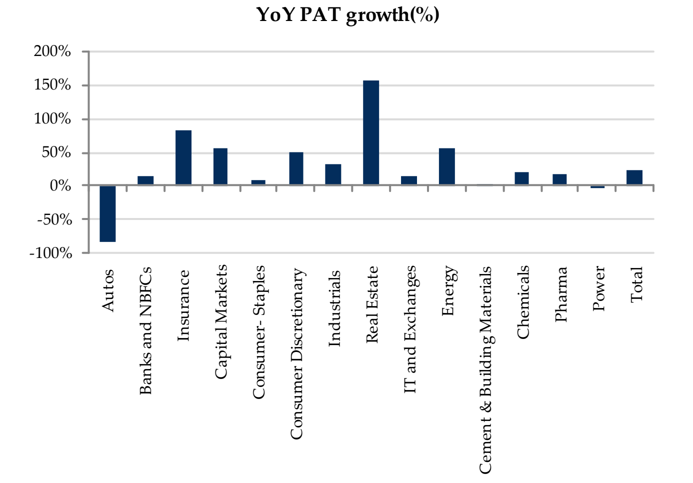
# Sectorwise Growth (YoY)- Q2FY22

## YoY Revenue Growth




Source: HSIE Research

## YoY PAT Growth




Source: HSIE Research

# Autos, Transportation & Logistics

# Maruti Suzuki

## MSIL scaling up CNG; supplies to ease gradually

**Maruti's Q2 PAT, at INR 4.75bn (-65% YoY, +8% QoQ), was impacted by the ongoing semi conductor shortage. While the supplies will improve from the beaten down levels of Sep-Oct, the pick-up is expected to be gradual. The OEM continues to have a backlog of 200,000 units (production impacted by 116K units in Q2). CNG now accounts for ~18% of industry sales (vs. 11% YoY), with MSIL targeting 300K CNG units in FY22E. We reiterate BUY with a target price of INR 8,420 (at 27x Sep-23E EPS, we roll forward out TP timeframe from Jun'23).**

- **Q2FY22 financials:** Volumes, at 380k units, declined 4% YoY (+7% QoQ), impacted by the chip shortage. Average realisation grew 8% QoQ on the back of price hikes/higher exports. Revenue grew 10% YoY to INR 205.4bn. EBITDA margin remained weak at 4.2% (-40bps QoQ), owing to elevated base metal prices (RM ratio, at 75.8%, was up 580/100bps YoY/QoQ) and negative operating leverage. PAT, at INR 4.75bn, was -65% YoY,+8% QoQ.
- **Key takeaways: demand is encouraging:** The order backlog at 200K units (vs. 170K QoQ) remains elevated due to encouraging demand for CNG variants. The share of first-time buyers remains high at 46% of sales. **Production constraints to ease:** the management expects November production to improve from the lows of Sep-Oct. However, normalisation of supplies will be gradual. **Commodity cost pressures:** margins continue to be impacted by higher RM costs. While precious commodity prices have moderated from peak levels, base metal prices remain firm. **Alternate fuels:** as CAFÉ and RDE norms will be introduced in FY22-23E, the focus on CNG (25% carbon reduction) and hybrids (40% carbon reduction) will increase. Flex fuel vehicles will also be launched in the medium term. MSIL is lobbying with the government to reduce taxes on strong hybrids.

### Financial summary

| YE March (INR bn) | 2Q FY22 | 2Q FY21 | YoY (%) | 1Q FY22 | QoQ (%) | FY20 | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 2,05,389 | 1,87,445 | 10 | 1,77,707 | 16 | 7,56,106 | 7,03,325 | 7,99,375 | 9,87,046 | 11,82,456 |
| EBITDA | 8,549 | 19,336 | (56) | 8,211 | 4 | 73,026 | 53,453 | 51,160 | 1,00,185 | 1,31,253 |
| APAT | 4,753 | 13,716 | (65) | 4,408 | 8 | 56,506 | 42,297 | 40,080 | 80,752 | 1,07,540 |
| Adj. EPS(Rs) | 15.7 | 45.4 | (65) | 14.6 | 8 | 187.1 | 140.1 | 132.7 | 267.4 | 356.1 |
| APAT Gr(%) | | | | | | (24.7) | (25.1) | (5.2) | 101.5 | 33.2 |
| P/E (x) | | | | | | 39.3 | 52.5 | 55.4 | 27.5 | 20.6 |
| RoE (%) | | | | | | 11.9 | 8.5 | 7.6 | 14.2 | 16.9 |

Source: Company, HSIE Research

### Change in Estimates

| INR bn | New | | | Old | | | Change (%) | | |
|---|---|---|---|---|---|---|---|---|---|
| | FY22E | FY23E | FY24E | FY22E | FY23E | FY24E | FY22E | FY23E | FY24E |
| Net Sales | 7,99,375 | 9,87,046 | 11,82,456 | 8,65,663 | 10,22,878 | 12,01,588 | (8) | (4) | (2) |
| EBITDA | 51,160 | 1,00,185 | 1,31,253 | 70,638 | 1,07,709 | 1,40,586 | (28) | (7) | (7) |
| EBITDA margin (%) | 6.4 | 10.2 | 11.1 | 8.2 | 10.5 | 11.7 | -176 bps | -38 bps | -60 bps |
| Adj PAT | 40,080 | 80,752 | 1,07,540 | 53,478 | 84,803 | 1,11,964 | (25) | (5) | (4) |
| Adj EPS(Rs) | 132.7 | 267.4 | 356.1 | 177.1 | 280.8 | 370.7 | (25) | (5) | (4) |

Source: Company, HSIE Research

## BUY

| | |
|---|---|
| CMP *(as on 27 Oct 2021)* | INR 7,353 |
| Target Price | INR 8,420 |
| NIFTY | 18,211 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | BUY | BUY |
| Price Target | INR 8,190 | INR 8,420 |
| EPS % | FY22E | FY23E |
| | -25% | -5% |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | MSIL IN |
| No. of Shares (mn) | 302 |
| MCap (Rs bn) / ($ mn) | 2,221/29,846 |
| 6m avg traded value (Rs mn) | 5,160 |
| 52 Week high / low | Rs 8,400/6,301 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 1.6 | 11.9 | 2.7 |
| Relative (%) | (14.7) | (13.0) | (48.2) |

| SHAREHOLDING PATTERN (%) | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 56.4 | 56.4 |
| FIs & Local MFs | 15.8 | 16.0 |
| FPIs | 22.9 | 22.5 |
| Public & Others | 5.0 | 5.0 |
| Pledged Shares | 0.0 | 5.1 |

*Source : BSE*

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# Tata Motors

## JLR recovery in H2; India PV business gaining share

**Tata Motors reported a Q2FY22 loss of INR 45bn (similar to Q1 levels) due to the ongoing chip shortages. The management expects production trends to improve over H2, as suppliers are recovering from the plant fires/lockdowns in Asia. The dealer inventory at JLR is at a multi-year low of ~30Kunits – at the same time the order book is robust at 125K units (~3-month sales). Tata has monetised its India passenger car EV business at a valuation of USD6.7-9.1bn, by selling a 11-15% stake to TPG Rise (which is a marquee PE firm). We are raising our SOTP value to INR 560, based on Sep'23 earnings (from Jun'23 earlier). We ascribe a higher value to the India business of INR 330 to factor in the EV business valuation, as stated above. We also value the JLR business at 2.75x on EV/EBITDA (from 2.5x earlier) to factor in an improving supply outlook as well as the expected roll-out of the new Range Rover in Q4FY22. JLR accounts for INR 218 per share (including CJLR).**

- **Q2FY22 financials: (1) Standalone:** Revenue increased 55% QoQ to INR 184bn, led by 56% rise in volumes. EBITDA margin, at 3.9% (+140ps QoQ), remained weak, due to steep RM inflation. **(2) JLR:** Revenue declined 22% QoQ, led by a 24% fall in volumes. Average realisation improved 3% QoQ to ~GBP 60K. EBITDA margin came in at 7.3% (-170bps QoQ, RM ratio expanded 120bps) due to impact of chip shortages. The division reported a loss of GBP 381mn. **(3) Consolidated:** Revenue/EBITDA declined 8/15% QoQ. Tata reported a PAT loss of INR -45bn due to the higher tax charge.
- **Key highlights: (1) Supplies to improve in H2:** The chip production is likely to improve from here on as vendors are coming out of the lockdown. Cash flows (-GBP 664mn) were impacted due to higher working capital, which will normalise. **(2) New RR launch in Q4:** The new RR will drive volumes in FY23E. The PHEV variant offers class leading EV range of 100kms, with the BEV option to be rolled out in 2024. The model is built on the new MLA Flex platform. **(3) India car business is gaining share:** With the launch of the new 'Punch', Tata has received a 50% increase in bookings. The OEM is steadily gaining market share – Q2 share at 11.3% (+130bps QoQ) is at a eight-year high. **Electric traction:** Domestic EV car sales have crossed the 1,000 unit p.m. milestone, with a sharp rise in the order backlog. Post TPG's infusion, the EV business is valued at 5-7x on FY26/27E revenue.

### Financial summary (consolidated)

| YE March (INR bn) | 2Q FY22 | 2Q FY21 | % YoY | 1Q FY22 | % QoQ | FY20 | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 614 | 535 | 15 | 664 | (8) | 2,611 | 2,498 | 2,793 | 3,359 | 3,849 |
| EBITDA | 62 | 17 | 257 | 73 | (15) | 239 | 358 | 313 | 440 | 511 |
| APAT | (45) | (7) | NA | (44) | 1 | (79) | (26) | (31) | 62 | 102 |
| Adj. EPS (INR) | (11.7) | (1.9) | NA | (11.6) | 1 | (22.0) | (6.7) | (8.0) | 16.1 | 26.7 |
| P/B (x) | | | | | | 2.8 | 3.4 | 3.6 | 3.2 | 2.8 |
| EV/EBITDA (x) | | | | | | 10.3 | 7.3 | 8.6 | 5.9 | 4.8 |

### Change in estimates

| INR mn | New | | | Old | | | Change (%) | | |
|---|---|---|---|---|---|---|---|---|---|
| | FY22E | FY23E | FY24E | FY22E | FY23E | FY24E | FY22E | FY23E | FY24E |
| Net Sales | 2,793 | 3,359 | 3,849 | 2,699 | 3,245 | 3,687 | 4 | 4 | 4 |
| EBITDA | 313 | 440 | 511 | 340 | 428 | 490 | (8) | 3 | 4 |
| EBITDA margin (%) | 11.2 | 13.1 | 13.3 | 12.6 | 13.2 | 13.3 | -141 bps | -8 bps | -3 bps |
| Adj PAT | (31) | 62 | 102 | 2 | 53 | 87 | NA | 17 | 17 |
| Adj EPS (Rs) | (8.0) | 16.1 | 26.7 | 0.6 | 13.8 | 22.8 | NA | 17 | 17 |

Source: Company, HSIE Research

## BUY

| | |
|---|---|
| CMP *(as on 02 Nov 2021)* | INR 488 |
| Target Price | INR 560 |
| NIFTY | 17,889 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | BUY | BUY |
| Price Target | INR 360 | INR 560 |
| EBITDA % | FY22E -9% | FY23E +3% |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | TTMT IN |
| No. of Shares (mn) | 3,320 |
| MCap (INR bn) / ($ mn) | 1,620/21,767 |
| 6m avg traded value (INR mn) | 15,147 |
| 52 Week high / low | INR 532/131 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 64.3 | 66.0 | 267.2 |
| Relative (%) | 51.0 | 43.0 | 216.2 |

| SHAREHOLDING PATTERN (%) | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 46.4 | 46.4 |
| FIs & Local MFs | 11.6 | 13.3 |
| FPIs | 14.3 | 13.4 |
| Public & Others | 27.7 | 27.0 |
| Pledged Shares | *0.9* | |

*Source: BSE*

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INSTITUTIONAL RESEARCH

# Mahindra & Mahindra

## XUV700 demand surprises; tractors are weak

**M&M's Q2FY22 PAT of INR 16.9bn was up +29% YoY, driven by increased dividend payout from subsidiaries (other income at INR 11bn vs. INR 3.8bn YoY), even as operating margins declined (-140bps QoQ). Looking ahead, the strong consumer response to the XUV 700 (with bookings of 70K units) has surprised positively and is reflective of M&M's improving product portfolio in the hypercompetitive SUV segment. However, the superior margin tractor segment demand will remain lacklustre due to a high base (FY22E growth to be between 0-5%). The management has outlined an ambitious medium-term product roll-out plan, including EVs (which will account for 20% of automotive portfolio) as well as a scale-up of the farm implements segment. We reiterate our ADD rating on the stock and set a revised Sep'23e earnings based SOTP of INR 965; increased value of subsidiaries is leading to the higher TP.**

- **Q2FY22 financials:** The OEM reported revenue at INR 133bn (+15% YoY), led by a 3% increase in volume and sharp 12% improvement in realisations. EBITDA margin, at 12.5%, contracted 140bps QoQ (-530bps YoY) due to RM cost pressure (+310bps QoQ). Adj. PAT came in at INR 16.9bn, +29% YoY. **Tractor segment:** Revenue was flat YoY due to a -5% decline in volume. The segment reported an EBIT margin of 18.7% (-160bps QoQ). **Automotive:** Volume was +10% YoY (on a low base). EBIT margin was muted at 2.7% (+100bps QoQ) due to supply constraints.
- **Key takeaways: (1) Auto:** The open booking of SUV models is at an impressive level of 160K units (with XUV700 at 70K). The ECU shortage has led to a loss of 32K units. The OEM will launch 13 new products across LCVs, SUVs as well as 3Ws to drive growth in the medium term – of this, 20% will be EVs in the mix. **(2) Tractors outlook is muted:** The management has guided for flat to low single-digit growth in FY22 due to a demanding base effect. The tractor MS though is up 190bps YoY to 40.1%. M&M is targeting a 10x increase in the agri implements segment to drive growth in the medium term (INR 120bn market size by 2027). **(3) Margin pressure**: While margin declined to 12.5% (-140bps QoQ), the same is expected to improve as utilisation levels rise (on easing chip shortages), price hikes on successful models such as XUV700 and Thar, as well as richer product mix (higher share of automatic variants).

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

| YE March (INR mn) | 2Q FY22 | 2Q FY21 | YoY (%) | 1Q FY22 | QoQ (%) | FY20 | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 1,33,053 | 1,15,903 | 14.8 | 1,17,628 | 13.1 | 4,48,655 | 4,45,744 | 5,16,874 | 5,84,944 | 6,60,587 |
| EBITDA | 16,597 | 20,573 | (19.3) | 16,317 | 1.7 | 63,506 | 69,766 | 71,329 | 85,402 | 97,767 |
| APAT | 16,866 | 13,112 | 28.6 | 9,341 | 80.6 | 35,509 | 40,974 | 45,656 | 53,912 | 62,426 |
| Adj. EPS (Rs) | 14.2 | 11.0 | 28.6 | 7.8 | 80.6 | 29.8 | 34.3 | 38.2 | 45.1 | 52.2 |
| APAT Gr (%) | | | | | | (34.5) | 15.4 | 11.4 | 18.1 | 15.8 |
| P/E (x) | | | | | | 30.0 | 26.0 | 23.3 | 19.8 | 17.1 |
| RoE (%) | | | | | | 10.2 | 11.7 | 12.4 | 13.2 | 13.7 |

Source: Company, HSIE Research

### Change in Estimates

| INR mn | New | | | Old | | | Change (%) | | |
|---|---|---|---|---|---|---|---|---|---|
| | FY22E | FY23E | FY24E | FY22E | FY23E | FY24E | FY22E | FY23E | FY24E |
| Net Sales | 5,16,874 | 5,84,944 | 6,60,587 | 5,10,319 | 5,73,863 | 6,45,745 | 1 | 2 | 2 |
| EBITDA | 71,329 | 85,402 | 97,767 | 75,017 | 85,506 | 95,570 | (5) | (0) | 2 |
| EBITDA margin(%) | 13.8 | 14.6 | 14.8 | 14.7 | 14.9 | 14.8 | -90 bps | -30 bps | 0 bps |
| Adj PAT | 45,656 | 53,912 | 62,426 | 46,876 | 53,201 | 59,907 | (3) | 1 | 4 |
| Adj EPS (Rs) | 38.2 | 45.1 | 52.2 | 39.2 | 44.5 | 50.1 | (3) | 1 | 4 |

Source: Company, HSIE Research

## ADD

| | |
|---|---|
| **CMP** ***(as on 9 Nov 2021)*** | **INR 892** |
| **Target Price** | **INR 965** |
| **NIFTY** | **18,044** |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | ADD | ADD |
| Price Target | INR 855 | INR 965 |
| EPS % | FY21E | FY22E |
| | -3% | +1% |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | MM IN |
| No. of Shares (mn) | 1,243 |
| MCap (INR bn) / ($ mn) | 1,109/14,904 |
| 6m avg traded value (INR mn) | 3,176 |
| 52 Week high / low | INR 971/610 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 15.1 | 16.3 | 44.7 |
| Relative (%) | 4.0 | (6.6) | 2.9 |

| SHAREHOLDING PATTERN (%) | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 19.4 | 19.5 |
| FIs & Local MFs | 26.1 | 27.1 |
| FPIs | 40.0 | 38.9 |
| Public & Others | 14.4 | 14.5 |
| Pledged Shares | 0.0 | 0.0 |

*Source : BSE*

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# Bajaj Auto

## The right BET

**Bajaj Auto's Q2 EBITDA margin, at 16% (+80bps QoQ), was aided by RotDep/MEIS benefits of INR 1.4bn that were received by the OEM (pertaining to prior quarters). The management has disclosed plans to launch electric vehicles–it will launch two 2Ws (including Husqvarna scooter) as well as a 3W in the next 12-15 months. Besides, Bajaj is setting up a capacity of 0.5mn units at its Akurdi facility for EVs (timelines are awaited). We maintain BUY with a target price of INR 4,350 (at 20x Sep-23E EPS). Bajaj benefits from its export presence, which is now over 50% of sales, as well as its strong R&D capabilities.**

- **Q2FY22 financials:** Total volumes were up 9% YoY (14% QoQ) to 1.14mn units. Average realisations, at ~INR 76.5k, grew 13% YoY (4% QoQ) due to price hikes and a richer model mix. EBITDA margin, at 16% (down -170bps YoY, +80bps QoQ), was aided by the RotDEP and MEIS benefits of INR 1.4bn (c.150bps). Reported PAT was INR 12.7bn (+12% YoY, +20% QoQ).
- **Key takeaways: (1) Demand led by exports:** Export 2W volumes are likely to sustain at ~200K units p.m. in Q3. The OEM expects to exceed the USD2bn milestone in overseas revenue this year (~+20% YoY). Bajaj is gaining market share in the 150-250cc segment in emerging markets (MS estimated at a healthy 45%). However, domestic 2W demand is lackluster, with festive season expected to be flat to negative. Domestic 3W sales are rising, with retails in October (at 20K units) back to pre-COVID levels of Mar'20. **(2) Margin to be rangebound:** Commodity prices remain firm, which has resulted in an under-recovery of 60bps in Q2. While the cost increase has been c.4% QoQ, Bajaj has taken a limited price hike of 3%. **(3) Alternative technologies:** Management provided details about launch plans, including two new EV 2Ws as well as a 3W in the near term. The Chetak has a 35% MS in the local Pune EV market (incidentally, electric 2Ws have already reached 10% of Pune sales). Bajaj is forming its own NBFC to support leasing initiatives for EVs and finance its existing product range. It will gradually scale up the book as it has finance tie-ups with BAF and large banks.

### Financial Summary

| YE March (Rs mn) | 2Q FY22 | 2Q FY21 | YoY (%) | 1Q FY22 | QoQ (%) | FY20 | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 87,622 | 71,559 | 22 | 73,860 | 19 | 2,99,187 | 2,77,411 | 3,34,653 | 3,79,552 | 4,32,984 |
| EBITDA | 14,011 | 12,663 | 11 | 11,198 | 25 | 50,962 | 49,285 | 53,712 | 62,626 | 73,174 |
| APAT | 12,746 | 11,382 | 12 | 10,612 | 20 | 51,000 | 45,546 | 49,759 | 58,147 | 67,543 |
| AEPS (Rs) | 44.0 | 39.3 | 12 | 36.7 | 20 | 176.2 | 157.4 | 172.0 | 200.9 | 233.4 |
| APAT Gr (%) | | | | | | 15.0 | (10.7) | 9.3 | 16.9 | 16.2 |
| P/E (x) | | | | | | 21.0 | 23.5 | 21.5 | 18.4 | 15.9 |
| RoE (%) | | | | | | 24.5 | 20.2 | 19.6 | 22.2 | 24.9 |

Source: Company, HSIE Research

### Change in Estimates

| INR mn | New | | | Old | | | Change (%) | | |
|---|---|---|---|---|---|---|---|---|---|
| | FY22E | FY23E | FY24E | FY22E | FY23E | FY24E | FY22E | FY23E | FY24E |
| Revenue | 3,34,653 | 3,79,552 | 4,32,984 | 3,23,830 | 3,75,318 | 4,30,413 | 3 | 1 | 1 |
| EBITDA | 53,712 | 62,626 | 73,174 | 51,975 | 66,056 | 77,474 | 3 | (5) | (6) |
| EBITDA margin (%) | 16.1 | 16.5 | 16.9 | 16.1 | 17.6 | 18.0 | 0 bps | -110 bps | -110 bps |
| PAT | 49,759 | 58,147 | 67,543 | 50,202 | 63,601 | 73,747 | (1) | (9) | (8) |
| EPS | 172.0 | 200.9 | 233.4 | 173.5 | 219.8 | 254.9 | (1) | (9) | (8) |

Source: Company, HSIE Research

## BUY

| | |
|---|---|
| CMP *(as on 28 Oct 2021)* | INR 3,701 |
| Target Price | INR 4,350 |
| NIFTY | 17,857 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | BUY | BUY |
| Price Target | INR 4,570 | INR 4,350 |
| EPS % | FY22E | FY23E |
| | -1% | -9% |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | BJAUT IN |
| No. of Shares (mn) | 289 |
| MCap (INR bn) / ($ mn) | 1,071/14,390 |
| 6m avg traded value (INR mn) | 1,975 |
| 52 Week high / low | INR 4,361/2,822 |

**STOCK PERFORMANCE (%)**

| | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | (3.1) | (4.9) | 25.7 |
| Relative (%) | (17.5) | (25.5) | (24.6) |

**SHAREHOLDING PATTERN (%)**

| | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 53.7 | 53.7 |
| FIs & Local MFs | 12.7 | 12.9 |
| FPIs | 11.8 | 11.2 |
| Public & Others | 21.8 | 22.2 |
| Pledged Shares | 0.0 | 0.0 |

*Source : BSE*

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INSTITUTIONAL RESEARCH

# Eicher Motors

## Supply to normalise, though demand remains tepid

**Royal Enfield's (RE) Q2 margin of 20.3% (+280bps QoQ) was aided by a benefit of INR400mn in employee expenses (gains due to unvested ESOPs). From here on, the management expects the chip shortage to gradually lessen (which is similar to the commentary from other OEMs). While supplies are expected to improve, our channel checks indicate that demand for the new 'Classic 350' is lukewarm. We maintain our REDUCE rating because we believe the stock is currently overvalued. We set a revised Sep'23 target price of INR 2,400 (as we roll forward from Jun'23) and a 23x valuation for the core business (which is a 25% premium to mass OEMs).**

- **Q2FY22 financials: standalone:** RE volumes were flat QoQ at 123k units (-18% YoY). Due to a substantial jump in ASP (+15% QoQ), revenue was up +14% QoQ (+3% YoY) to INR 21.8bn. An INR 400-mn (180bps) benefit in staff expenses helped boost EBITDA margin to 20.3% (+280bps QoQ). PAT came in at INR 3.4bn (down 5% YoY, but up 28% QoQ). Revenue was up 5% YoY, EBITDA was flat, and PAT was up 9% YoY due to lower tax rates. **VECV:** Volumes/revenue were up 85% YoY (+92% QoQ), and EBITDA margin was 5.4% (+430bps QoQ, -150bps YoY). The segment reported PAT of INR 180mn (vs. a loss of INR 70mn YoY).
- **Main takeaways: Supplies to improve from here on:** The management stated that once the semi-conductor shortage eases, output would begin to improve. **Export strategy bearing fruit:** While domestic demand remains sluggish, RE is seeing increased traction in exports, which are expected to surpass 60K units for the first time (+58% YoY) in FY22E. **Realisations have risen:** On the back of a richer product mix (given constrained manufacturing, the company channelised its supplies towards higher variations), export growth (+96% YoY), price rises, and a larger mix of accessories/spares, the ASP, at INR 177K (+15% QoQ), was sharply higher QoQ. We expect that as production increases, ASP will normalise.

### Financial summary (consolidated)

| YE March (INR mn) | 2Q FY22 | 2Q FY21 | YoY (%) | 1Q FY22 | QoQ (%) | FY20 | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 22,496 | 21,336 | 5 | 19,743 | 14 | 91,536 | 87,204 | 1,02,926 | 1,28,344 | 1,50,284 |
| EBITDA | 4,699 | 4,711 | (0) | 3,630 | 29 | 21,804 | 17,813 | 21,479 | 29,931 | 35,708 |
| APAT | 3,732 | 3,433 | 9 | 2,371 | 57 | 18,275 | 13,469 | 18,503 | 27,413 | 32,408 |
| AEPS (Rs) | 13.7 | 12.6 | 9 | 8.7 | 57 | 66.9 | 49.3 | 67.7 | 100.3 | 118.6 |
| APAT Gr (%) | | | | | | (17.7) | (26.3) | 37.4 | 48.2 | 18.2 |
| P/E (x) | | | | | | 40.5 | 55.0 | 40.0 | 27.0 | 22.9 |
| RoE (%) | | | | | | 19.3 | 12.6 | 15.3 | 19.9 | 20.2 |

Source: Company, HSIE Research

### Change in estimates

| INR mn | New | | | Old | | | Change (%) | | |
|---|---|---|---|---|---|---|---|---|---|
| | FY22E | FY23E | FY24E | FY22E | FY23E | FY24E | FY22E | FY23E | FY24E |
| Revenue | 1,02,926 | 1,28,344 | 1,50,284 | 1,07,716 | 1,32,350 | 1,54,797 | (4) | (3) | (3) |
| EBITDA | 21,479 | 29,931 | 35,708 | 23,779 | 31,140 | 36,945 | (10) | (4) | (3) |
| EBITDA Margin (%) | 20.9 | 23.3 | 23.8 | 22.1 | 23.5 | 23.9 | -121 bps | -21 bps | -11 bps |
| PAT | 18,503 | 27,413 | 32,408 | 20,432 | 27,570 | 32,476 | (9) | (1) | (0) |
| EPS | 67.7 | 100.3 | 118.6 | 74.8 | 100.9 | 118.8 | (9) | (1) | (0) |

Source: Company, HSIE Research

## REDUCE

| | |
|---|---|
| **CMP** *(as on 8 Nov 2021)* | **INR 2,710** |
| **Target Price** | **INR 2,400** |
| **NIFTY** | **18,069** |

| **KEY CHANGES** | **OLD** | **NEW** |
|---|---|---|
| Rating | REDUCE | REDUCE |
| Price Target | INR 2,300 | INR 2,400 |
| EPS % | FY22E | FY23E |
| | -9% | -1% |

| **KEY STOCK DATA** | |
|---|---|
| Bloomberg code | EIM IN |
| No. of Shares (mn) | 273 |
| MCap (INR bn) / ($ mn) | 741/9,961 |
| 6m avg traded value (INR mn) | 2,296 |
| 52 Week high / low | INR 3,037/2,142 |

| **STOCK PERFORMANCE (%)** | **3M** | **6M** | **12M** |
|---|---|---|---|
| Absolute (%) | (1.3) | 12.2 | 26.8 |
| Relative (%) | (12.4) | (12.2) | (19.7) |

| **SHAREHOLDING PATTERN (%)** | **Jun-21** | **Sep-21** |
|---|---|---|
| Promoters | 49.2 | 49.2 |
| FIs & Local MFs | 9.6 | 8.7 |
| FPIs | 28.8 | 30.3 |
| Public & Others | 12.4 | 11.9 |
| Pledged Shares | 0.0 | 0.0 |

*Source : BSE*

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# Hero Motocorp

## EV launch in Q4; demand to improve in H2

**Hero's Q2FY22 PAT, at INR 7.9bn (-17% YoY), is impacted by weak industry demand (volume down 20% YoY) as sales have been impacted by delayed monsoons as well as elevated fuel prices. The management expects H2 demand to improve, driven by pick-up in rural segment and opening up of the tourism, hospitality, and dining sector (which will support entry level bike demand). Further, Hero will launch its EV scooter in Mar-22, with the scooter being produced in the new Chittoor plant (in AP). The OEM has collaborated with Gogoro, Taiwan, for battery swapping and EV products. Further, Hero is scaling up the distribution network for its premium Harley Davidson range. We maintain ADD with a revised TP of INR 3,000 at 17.5x Sep-23E EPS (we are lowering estimates by ~13% to factor in weak Q2 results).**

- **Q2FY22 financials:** Volumes, at 1.4mn units, declined 20% YoY due to weak industry demand. ASP's though was higher at INR 58,760 (+13% YoY, +10% QoQ) due to higher spares revenue (INR 11.4bn), richer product mix, as well as price hikes (Hero has taken an increase of INR3,000 in the year). EBITDA margin, at 12.6% (-110bps YoY, +320bps QoQ), was impacted by higher RM costs (+120bps YoY, -20bps QoQ). However, as commodity prices are stabilising at current levels, it will be supportive of margins in H2. Reported PAT declined 17% YoY to INR 7.9bn.
- **Key takeaways**: **(1) Demand to revive in H2FY22:** The opening up of the economy, along with onset of marriage season in north India and improvement in rural segment, will drive a revival in demand. **(2) Gearing for EV launch:** Hero will launch its inhouse e-2W in Mar-22 - the scooter along with the battery pack will be manufactured at the the Andhra Pradesh plant. **(3) Exports** have more than doubled to 177K units in H1 as the OEM is increasing its focus on overseas markets, including Mexico and Africa. The management highlights that Hero is customising vehicles for various markets such as longer seat and rugged products for the bike taxi market in Nigeria, and so on.

### Financial Summary (Standalone)

| YE March (INR mn) | 2Q FY22 | 2Q FY21 | YoY (%) | 1Q FY22 | QoQ (%) | FY20 | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 84,534 | 93,673 | *(10)* | 54,871 | *54* | 2,88,361 | 3,08,006 | 3,29,324 | 3,60,624 | 3,91,277 |
| EBITDA | 10,664 | 12,865 | *(17)* | 5,148 | *107* | 39,580 | 40,192 | 39,536 | 45,095 | 50,883 |
| APAT | 7,945 | 9,535 | *(17)* | 3,654 | *117* | 30,952 | 29,642 | 29,068 | 32,228 | 36,426 |
| Adj. EPS (Rs) | 39.8 | 47.7 | *(17)* | 18.3 | *117* | 155.0 | 148.4 | 145.5 | 161.3 | 182.3 |
| APAT Gr (%) | | | | | | (8.6) | (4.2) | (1.9) | 10.9 | 13.0 |
| P/E (x) | | | | | | 17.3 | 18.1 | 18.4 | 16.6 | 14.7 |
| RoE (%) | | | | | | 22.9 | 20.2 | 18.7 | 19.7 | 21.0 |

Source: Company, HSIE Research

### Change in estimates

| INR mn | New | | | Old | | | Change (%) | | |
|---|---|---|---|---|---|---|---|---|---|
| | FY22E | FY23E | FY24E | FY22E | FY23E | FY24E | FY22E | FY23E | FY24E |
| Revenue | 3,29,324 | 3,60,624 | 3,91,277 | 3,39,124 | 3,71,248 | 4,06,636 | (3) | (3) | (4) |
| EBITDA | 39,536 | 45,095 | 50,883 | 45,460 | 50,136 | 54,913 | (13) | (10) | (7) |
| EBITDA Margin (%) | 12.0 | 12.5 | 13.0 | 13.4 | 13.5 | 13.5 | -140bps | -100bps | -50bps |
| PAT | 29,068 | 32,228 | 36,426 | 34,189 | 37,024 | 40,489 | (15) | (13) | (10) |
| EPS | 145.5 | 161.3 | 182.3 | 171.2 | 185.3 | 202.7 | (15) | (13) | (10) |

Source: Company, HSIE Research

## ADD

| | |
|---|---|
| **CMP *(as on 12 Nov 2021)*** | **INR 2,683** |
| **Target Price** | **INR 3,000** |
| **NIFTY** | **18,103** |

| **KEY CHANGES** | **OLD** | **NEW** |
|---|---|---|
| Rating | ADD | ADD |
| Price Target | INR 3,150 | INR 3,000 |
| | FY22E | FY23E |
| EPS % | -15% | -13% |

| **KEY STOCK DATA** | |
|---|---|
| Bloomberg code | HMCL IN |
| No. of Shares (mn) | 200 |
| MCap (INR bn) / ($ mn) | 536/7,204 |
| 6m avg traded value (INR mn) | 1,877 |
| 52 Week high / low | INR 3,616/2,636 |

| **STOCK PERFORMANCE (%)** | **3M** | **6M** | **12M** |
|---|---|---|---|
| Absolute (%) | (3.6) | (5.2) | (12.6) |
| Relative (%) | (14.2) | (29.8) | (52.6) |

| **SHAREHOLDING PATTERN (%)** | **Jun-21** | **Sep-21** |
|---|---|---|
| Promoters | 34.8 | 34.8 |
| FIs & Local MFs | 20.2 | 21.970.2 |
| FPIs | 35.0 | 32.25.0 |
| Public & Others | 10.1 | 11.0 |
| Pledged Shares | 0.0 | 0.0 |

*Source : BSE*

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# Bharat Forge

## Another strong quarter; reiterate as preferred CV pick

**Bharat Forge's (BFL) Q2FY22 was yet another strong quarter, with EBITDA margin exceeding the 30% level (+170bps QoQ) and demand outlook remaining robust – both in India and overseas. The company will benefit from (1) recovery in India infra spends, (2) passing of the USD 500bn+ trillion infra spend bill, which will increase demand for heavy equipment such as construction equipment, trucks, etc., (3) ramp-up in India defense – targeted to reach 10% of turnover in the next two years. We reiterate Bharat Forge as our preferred pick in CVs due to its global OEM base. We maintain BUY with a TP of INR 1,000 on 35x Sep-23 EPS (we roll forward our TP timeframe to Sep).**

- **Q2FY22 financials:** Q2 revenue, at INR16bn, was up a healthy 82% YoY, 17% QoQ, as shipment tonnage came in at 57k (+40% YoY, 4% QoQ). Exports mix was higher at 59% of sales vs 52% YoY. The EBITDA margin at 30.2% surprised positively, expanding by 170bps QoQ, despite firm steel prices – a richer product mix led to the same. APAT was at INR 3.1bn, +37% QoQ.
- **Key highlights: (1) Chip shortage to impact exports in Q3:** While there is a strong backlog of Class 8 trucks – exports will be weak in Q3 due to the chip shortage. The shortfall will likely be made up in CY22E. **(2) Oil & Gas ramp-up:** The oil & gas segment revenue ramped up further to INR 2bn (vs. INR 1.7bn in Q1FY22). Management expects increased focus on natural gas would benefit BFL in the medium term. **(3) Defense segment:** BFL's defense focus is on artillery guns, armoured vehicles, and mounted guns. While it has won orders for the vehicles, the Garuda 155mm gun and the mounted guns are in an advanced phase of development with one gun already in army trials and the mounted guns likely to move into the trial stage soon. Defense will account for 10% of revenue in the next two years. **(4) DFC to impact domestic CV segment**: Management stated that commissioning of DFC is impacting medium-term demand for MHCVs in India. This is partially offset by higher demand for ICVs due to ecommerce-led demand.

### Financial Summary (Standalone)

| YE Mar (INR mn) | 2Q FY22 | 2Q FY21 | YoY (%) | 1Q FY22 | QoQ (%) | FY20 | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 16,066 | 8,815 | 82 | 13,718 | 17 | 45,639 | 36,515 | 53,025 | 67,891 | 79,998 |
| EBITDA | 4,853 | 1,565 | 210 | 3,914 | 24 | 10,155 | 7,276 | 15,059 | 19,145 | 22,400 |
| APAT | 3,118 | 732 | 326 | 2,283 | 37 | 5,485 | 3,190 | 8,673 | 11,957 | 14,386 |
| Adj. EPS (Rs) | 6.7 | 1.6 | 326 | 4.9 | 37 | 11.8 | 6.9 | 18.6 | 25.7 | 30.9 |
| AEPS Gr (%) | | | | | | (48.8) | (41.8) | 171.9 | 37.9 | 20.3 |
| P/E (x) | | | | | | 65.8 | 113.1 | 41.6 | 30.2 | 25.1 |
| RoE (%) | | | | | | 10.2 | 5.6 | 13.8 | 16.8 | 17.4 |

Source: Company, HSIE Research

### Change in estimates

| INR mn | New | | | Old | | | Change (%) | | |
|---|---|---|---|---|---|---|---|---|---|
| | FY22E | FY23E | FY24E | FY22E | FY23E | FY24E | FY22E | FY23E | FY24E |
| Revenue | 53,025 | 67,891 | 79,998 | 50,975 | 65,274 | 76,919 | 4 | 4 | 4 |
| EBITDA | 15,059 | 19,145 | 22,400 | 14,171 | 18,407 | 21,537 | 6 | 4 | 4 |
| EBITDA Margin (%) | 28.4 | 28.2 | 28.0 | 27.8 | 28.2 | 28.0 | 60 bps | 0 bps | 0 bps |
| PAT | 8,673 | 11,957 | 14,386 | 8,697 | 12,415 | 15,455 | (0) | (4) | (7) |
| EPS | 18.6 | 25.7 | 30.9 | 18.7 | 26.7 | 33.2 | (0) | (4) | (7) |

Source: Company, HSIE Research

## BUY

| | |
|---|---|
| **CMP *(as on 12 Nov 2021)*** | **INR 775** |
| **Target Price** | **INR 1,000** |
| **NIFTY** | **18,103** |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | BUY | BUY |
| Price Target | INR 1,000 | INR 1,000 |
| EPS % | FY22E | FY23E |
| | - | -4% |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | BHFC IN |
| No. of Shares (mn) | 466 |
| MCap (INR bn) / ($ mn) | 361/4,848 |
| 6m avg traded value (INR mn) | 1,960 |
| 52 Week high / low | INR 848/478 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | (6.3) | 16.6 | 56.0 |
| Relative (%) | (17.0) | (8.0) | 16.1 |

| SHAREHOLDING PATTERN (%) | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 44.8 | 44.8 |
| FIs & Local MFs | 12.3 | 13.2 |
| FPIs | 25.3 | 25.1 |
| Public & Others | 17.7 | 16.7 |
| Pledged Shares | | |

*Source : BSE*

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# Sundram Fasteners

## On track to exceed pre-COVID turnover

**Sundram Fasteners (SF) reported healthy Q2FY22 standalone revenue growth of INR10.6bn (+39% YoY, +13% QoQ) despite the ongoing chip shortage. The revenue outlook is encouraging, with SF on course to surpass its pre-COVID turnover this year itself (FY19 revenue was INR40bn). The company is gaining market share from smaller parts suppliers, against the backdrop of COVID. Further, the share of exports is expected to reach 50% of revenues in the medium term (up from 35% presently), when the new plant ramps up and SF increases its order size wins. While our estimates are largely unchanged over FY22-24E, we are rolling forward our TP timeframe to Sep-23E and setting a revised target price of INR 900, based on 28x forward EPS. We recommend accumulating the stock on declines.**

- **Q1FY22 financials: (1) Standalone:** Revenue, at INR 10.6bn (+13% QoQ, +39% YoY), was healthy, despite the industry-wide supply constraints. Both domestic sales (INR 6.6bn) and exports (INR 3.6bn) grew at a similar pace. EBITDA margin, at 18.8% (-70bps QoQ, -220bps YoY), was impacted by higher RM costs (+190bps QoQ) due to higher base metal prices. PAT, at INR 1.2bn, was higher +7% QoQ, +23% YoY. **(2) Consolidated:** Revenue from subsidiaries grew +3% QoQ, +46% YoY – thus consolidated revenue came in at INR12.4bn (+12% QoQ, +40% YoY). EBITDA margin, at 17.6%, was lower 40bps QoQ (-350bps YoY). Margins continue to hold up in high teens. Adj. PAT, at INR 1.24bn (+3% QoQ, +20% YoY), was firm.
- **Key highlights: (1) Demand outlook:** We expect the easing chip shortage to benefit revenues in the domestic segment from H2 onwards. Further, exports are expected to grow by ~20% in H2, led by the new plant ramp-up. **(2) Margins:** SF has been able to recoup 70% of the incremental steel costs. As commodity prices are now stabilising at current levels, we believe that its margins will sustain in the high teens over FY22-24E. **(3) Diversification –** The company is developing products for EVs and expects this segment to account for 10-15% of revenues in the next three years.

### Financial Summary (Consolidated)

| YE Mar (INR mn) | 2Q FY22 | 2Q FY21 | YoY (%) | 1Q FY22 | QoQ (%) | FY20 | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 12,423 | 8,893 | *40* | 11,124 | *12* | 37,232 | 36,443 | 46,694 | 54,514 | 63,757 |
| EBITDA | 2,184 | 1,786 | *22* | 2,005 | *9* | 5,929 | 6,641 | 8,405 | 9,921 | 11,731 |
| APAT | 1,225 | 1,024 | *20* | 1,196 | *2* | 3,249 | 3,582 | 4,917 | 6,083 | 7,414 |
| Adj. EPS (Rs) | 5.8 | 4.9 | *20* | 5.7 | *2* | 15.5 | 17.0 | 23.4 | 29.0 | 35.3 |
| Adj. EPS Gr (%) | | | | | | (29.0) | 10.3 | 37.3 | 23.7 | 21.9 |
| P/E (x) | | | | | | 53.5 | 48.6 | 35.4 | 28.6 | 23.5 |
| RoE (%) | | | | | | 16.8 | 16.5 | 19.4 | 20.6 | 21.3 |

Source: Company, HSIE Research

### Change in Estimates

| INR mn | New | | | Old | | | Change (%) | | |
|---|---|---|---|---|---|---|---|---|---|
| | FY22E | FY23E | FY24E | FY22E | FY23E | FY24E | FY22E | FY23E | FY24E |
| Net Sales | 46,694 | 54,514 | 63,757 | 43,561 | 51,462 | 60,634 | 7 | 6 | 5 |
| EBITDA | 8,405 | 9,921 | 11,731 | 7,972 | 9,696 | 11,460 | 5 | 2 | 2 |
| EBITDA margin (%) | 18.0 | 18.2 | 18.4 | 18.3 | 18.8 | 18.9 | -30 bps | -64 bps | -50 bps |
| Adj PAT | 4,917 | 6,083 | 7,414 | 4,731 | 6,132 | 7,492 | 4 | (1) | (1) |
| Adj EPS (Rs) | 23.4 | 29.0 | 35.3 | 22.5 | 29.2 | 35.7 | 4 | (1) | (1) |

Source: Company, HSIE Research

## ADD

| | |
|---|---|
| **CMP** ***(as on 11 Nov 21)*** | **INR 825** |
| **Target Price** | **INR 900** |
| **NIFTY** | **17,874** |

| **KEY CHANGES** | **OLD** | **NEW** |
|---|---|---|
| Rating | ADD | ADD |
| Price Target | INR 860 | INR 900 |
| EPS % | FY22E | FY23E |
| | +4% | -1% |

**KEY STOCK DATA**

| | |
|---|---|
| Bloomberg code | SF IN |
| No. of Shares (mn) | 210 |
| MCap (INR bn) / ($ mn) | 173/2,330 |
| 6m avg traded value (INR mn) | 133 |
| 52 Week high / low | INR 994/448 |

**STOCK PERFORMANCE (%)**

| | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 25.5 | (3.0) | 16.5 |
| Relative (%) | 4.8 | 4.9 | 16.9 |

**SHAREHOLDING PATTERN (%)**

| | Jun-21 | Jun-21 |
|---|---|---|
| Promoters | 49.5 | 49.5 |
| FIs & Local MFs | 17.4 | 17.6 |
| FPIs | 11.1 | 11.3 |
| Public & Others | 22.0 | 21.5 |
| Pledged Shares | 0.0 | 0.0 |

*Source : BSE*

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# InterGlobe Aviation

## With reviving traffic, competition to intensify

**IndiGo reported a positive EBITDAR of INR 2.5bn in Q2 (vs loss of INR 14.2bn QoQ) as the industry traffic is improving post the second COVID wave. However, we believe that Indigo will witness formidable competition after a decade, post Tata's acquisition of Air India. With a combined domestic market share of 26% and an international share of ~18%, Tata will be able to make a broad-based offering as compared to the past – though it will take the group 12-24 months to consolidate operations. We set a revised TP of INR 1,925 at Indigo as we roll forward our TP timeframe to Sep-23E earnings. We value the stock at 7.5X EV/EBITDAR (vs. 7x earlier) to factor in the recovery in air traffic.**

- **Q2FY22 financials:** Revenue, at INR 56bn, was up 105% YoY, 87% QoQ as traffic improved and ASKMs were higher 78/41% YoY/QoQ. The yields improved to INR 4.2 (+10% YoY), which has enabled to partially offset rising costs. Consequently, IndiGo reported an EBITDAR of INR 2.5bn (vs a loss of INR 14.2bn QoQ) as fixed costs were spread across a wider base. It reported a net loss of INR 14.4bn (vs loss of INR 11.9/31.8bn YoY/QoQ).
- **Key highlights: Demand trends are improving,** as the airline expects ASKMs to be higher 45%/39% YoY/QoQ in Q3. The revenue booked by the airline in Oct'21 is similar to the pre-COVID level of Mar'20. The load factors have improved to 76% currently (vs 71% in 2Q). **Cash burn rates have reduced:** The daily cash burn has reduced ~40% QoQ to INR 200mn as the airline has benefited from improved demand post the unlock. IndiGo's free cash has risen to INR 63.5bn (vs. 56bn in 1Q) while debt is flattish at INR 323bn (vs.316bn QoQ) as the company is benefitting from higher forward booking revenues. **Competitor outlook:** Post acquisition of Air India, the management believes that the Tata Group will focus on full service offerings, particularly for international travel. However, Akasa air will lead to more competition in the LCC segment. **Capacity addition**: Indigo will keep its fleet largely constant at current levels of 280-285 planes. The proportion of CEO planes has reduced to 25% of the fleet (vs. 41% YoY) with the older fleet expected to be entirely replaced by 2022.

### Financial summary (standalone)

| YE March (INR bn) | 2Q FY22 | 2Q FY21 | % YoY | 1QFY22 | % QoQ | FY20 | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 56,085 | 27,410 | 104.6 | 30,069 | 86.5 | 3,53,788 | 1,46,406 | 2,20,278 | 3,59,659 | 4,35,907 |
| EBITDAR | 2,513 | 2,806 | (10.4) | (14,176) | (117.7) | 41,576 | 2,550 | 15,601 | 80,949 | 1,07,659 |
| APAT | (14,404) | (11,948) | 20.6 | (31,793) | (54.7) | (6,254) | (58,298) | (45,895) | 20,323 | 40,391 |
| Adj EPS (Rs) | (37.4) | (31.0) | 20.6 | (82.6) | (54.7) | (16.3) | (151.5) | (119.3) | 52.8 | 105.0 |
| P/E (x) | | | | | | NA | NA | NA | 41.0 | 20.7 |
| EV/EBITDAR | | | | | | 21.4 | 370.3 | 59.2 | 10.4 | 7.1 |
| EV/Sales | | | | | | 2.5 | 6.4 | 4.2 | 2.3 | 1.7 |

Source: Company, HSIE Research

### Change in Estimates

| INR bn | New | | | Old | | | Change (%) | | |
|---|---|---|---|---|---|---|---|---|---|
| | FY22E | FY23E | FY24E | FY22E | FY23E | FY24E | FY22E | FY23E | FY24E |
| Revenues | 2,20,278 | 3,59,659 | 4,35,907 | 2,08,909 | 3,41,096 | 4,13,409 | 5.4 | 5.4 | 5.4 |
| EBITDAR | 15,601 | 80,949 | 1,07,659 | 28,725 | 79,009 | 99,550 | (45.7) | 2.5 | 8.1 |
| Adj. PAT | (45,895) | 20,323 | 40,391 | (33,800) | 17,760 | 32,496 | NA | 14.4 | 24.3 |
| EPS | (119.3) | 52.8 | 105.0 | (87.8) | 46.2 | 84.5 | NA | 14.4 | 24.3 |

Source: Company, HSIE Research

## REDUCE

| | |
|---|---|
| **CMP** ***(as on 29 Oct 2021)*** | **INR 2,175** |
| **Target Price** | **INR 1,925** |
| **NIFTY** | **17,672** |

| **KEY CHANGES** | **OLD** | **NEW** |
|---|---|---|
| Rating | REDUCE | REDUCE |
| Price Target | INR 1,575 | INR 1,925 |
| EBITDAR % | FY22E | FY23E |
| | -46% | +3% |

| **KEY STOCK DATA** | |
|---|---|
| Bloomberg code | INDIGO IN |
| No. of Shares (mn) | 385 |
| MCap (INR bn) / ($ mn) | 838/11,258 |
| 6m avg traded value (INR mn) | 1,578 |
| 52 Week high / low | INR 2,307/1,254 |

| **STOCK PERFORMANCE (%)** | **3M** | **6M** | **12M** |
|---|---|---|---|
| Absolute (%) | 31.6 | 31.4 | 63.4 |
| Relative (%) | 18.9 | 12.2 | 14.2 |

| **SHAREHOLDING PATTERN (%)** | **Jun-21** | **Sep-21** |
|---|---|---|
| Promoters | 74.8 | 74.8 |
| FIs & Local MFs | 3.9 | 4.6 |
| FPIs | 19.2 | 18.5 |
| Public & Others | 2.1 | 2.1 |
| Pledged Shares | 0.0 | 0.0 |

*Source : BSE*

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# Container Corporation

## Domestic volumes drive growth in Q2

**CONCOR's Q2FY22 volumes of 980,757 TEUs (+11% YoY, -1% QoQ) were driven by the domestic segment (+34% YoY) while EXIM growth was a modest 6% YoY (-3% QoQ). In the medium term, Concor targets to increase its domestic contribution to 40% of revenue (up from 20% currently), which comes as a surprise – given the modal shift to rail that is expected on EXIM traffic, with the commencement of the DFC. The management has raised its FY22E volume guidance to 15% (vs. 12% earlier), which is in line with our forecasts. We await the finalisation of the land policy by the government as well as clarity on the proposed privatisation timeline (as it is now pushed to next year). We maintain our ADD rating on the stock with a target price of INR 760 at 28x Sep-23E EPS.**

- **Q2FY22 financials:** Volume, at 981K TEUs, declined 1% QoQ. The average realisation was higher 2% QoQ to ~INR 18,600k. Revenue came in at INR 18.2bn (flattish QoQ). EBITDA margin, at 23.4% (-60bps QoQ), held steady, despite higher domestic volumes in the mix. The company has paid INR 2.25bn towards LLF in H1FY22. CONCOR reported a profit of INR 2.6bn (+41% YoY, +4% QoQ).

  **Key takeaways: (1) volume outlook:** Management has guided towards 15% volume growth in FY22E. Concor expects an additional 10% volume benefit from phase I of DFC and an additional 15% as JNPT is connected in phase II. **Dedicated Freight Corridor**: As the freight corridor has commenced, the Mundra Dadri route has witnessed time savings of ~25%, with the guaranteed transit time of 60 hours. Thus, the rail coefficient is up from 25% to 27% at Mundra and from 62% to 68% at Pipavav. **Domestic segment**: Concor has increased the capacity of domestic rakes to 68T carrying capacity and has procured containers that can carry higher payload. This is leading to market share gains from road. **Steady margin outlook:** Margins have held up in Q2 at 23.4%, led by reduced EXIM-related empty running charges of INR 240mn as well as higher double stacked trains (1,597 trains in H1 vs. ~1,000 trains YoY). The company has also taken a price hike of INR 1,000 per TEU to offset rising inflationary pressures.

### Financial summary (standalone)

| YE March (INR mn) | Q2 FY22 | Q2 FY21 | YoY (%) | Q1 FY22 | QoQ (%) | FY20 | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|---|
| Net sales | 18,239 | 15,027 | 21 | 18,075 | 1 | 64,738 | 63,850 | 76,252 | 95,818 | 1,19,189 |
| Adj. EBITDA | 4,275 | 3,130 | 37 | 4,335 | (1) | 16,749 | 10,329 | 18,407 | 23,380 | 29,082 |
| APAT | 2,649 | 1,876 | 41 | 2,549 | 4 | 10,282 | 5,867 | 10,296 | 14,347 | 18,709 |
| Adj. EPS (Rs) | 4.3 | 3.1 | 41 | 4.2 | 4 | 16.9 | 9.6 | 16.9 | 23.5 | 30.7 |
| P/E (x) | | | | | | 40.3 | 70.6 | 40.2 | 28.9 | 22.1 |
| EV / EBITDA (x) | | | | | | 23.0 | 37.0 | 23.7 | 18.4 | 14.5 |
| RoE (%) | | | | | | 10.1 | 5.8 | 9.8 | 13.0 | 15.8 |

### Change in estimates

| INR mn | New | | | Old | | | Change (%) | | |
|---|---|---|---|---|---|---|---|---|---|
| | FY22E | FY23E | FY24E | FY22E | FY23E | FY24E | FY22E | FY23E | FY24E |
| Net Revenue | 76,252 | 95,818 | 1,19,189 | 76,199 | 95,751 | 1,19,145 | 0 | 0 | 0 |
| EBITDA | 18,407 | 23,380 | 29,082 | 18,394 | 23,363 | 29,071 | 0 | 0 | 0 |
| EBITDA margin (%) | 24.1 | 24.4 | 24.4 | 24.1 | 24.4 | 24.4 | 0 bps | 0 bps | 0 bps |
| PAT | 10,296 | 14,347 | 18,709 | 10,113 | 14,561 | 18,997 | 2 | (1) | (2) |
| EPS | 16.9 | 23.5 | 30.7 | 16.6 | 23.9 | 31.2 | 2 | (1) | (2) |

Source: Company, HSIE Research

## ADD

| | |
|---|---|
| CMP *(as on 22 Oct 2021)* | INR 680 |
| Target Price | INR 760 |
| NIFTY | 18,115 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | ADD | ADD |
| Price Target | INR 720 | INR 760 |
| EPS % | FY22E | FY23E |
| | 2% | -1% |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | CCRI IN |
| No. of Shares (mn) | 609 |
| MCap (INR bn) / ($ mn) | 414/5,570 |
| 6m avg traded value (INR mn) | 1,841 |
| 52 Week high / low | INR 754/365 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 1.8 | 23.5 | 71.8 |
| Relative (%) | (13.3) | (3.0) | 21.8 |

| SHAREHOLDING PATTERN (%) | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 54.8 | 54.8 |
| FIs & Local MFs | 16.3 | 15.5 |
| FPIs | 24.9 | 25.5 |
| Public & Others | 4.0 | 4.2 |
| Pledged Shares | 0.0 | 0.0 |

*Source : BSE*

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# Gateway Distriparks

## FY22E rail volumes to exceed 300k (+25% YoY)

**Gateway Distriparks' (GDL) railway volumes, at 82,083 units in Q2 (+8% QoQ), were at a record high; the higher loading was driven by the commissioning of time-tabled trains by GDL (turnaround time down to as low as 27 hours vs. 72 hours earlier), DFC enhanced train capacity of up to 15%, and market share gains in the NCR region. We now build in FY22E rail-based TEU volumes of 311k units (+25% YoY). We maintain BUY with an SOTP-based TP of INR 375 (rail business valued at 14x Sep-23E EV/EBITDA).**

- **Q2 financials:** GDL's revenue, at INR 3.36bn, grew 2% QoQ (+28% YoY), driven by record rail volumes, while CFS volumes were flat QoQ (+22% YoY) at 95,306 TEUs. EBITDA margin, at 27.1% (+230bps/flat YoY/QoQ), was healthy due to the benefits from improved volumes. Interest cost is down 24% YoY (flat QoQ) as the company is steadily deleveraging. APAT was up 8% QoQ to INR 469mn, aided by low tax payout on deferred tax benefits.
- **Call takeaways: (1) market share gains:** GDL has outpaced industry growth as it gained market share in the NCR region, with volume growing 55% vs. 18% for the broader market. The assured transit scheme has led to the same. **Margin outlook**: GDL has raised its prices by INR 1,000 per TEU (c.3%) to cover rising costs; this will cushion margins. **DFC update**: with the gradual commissioning of the DFC, the turnaround time has reduced to 27 hours/33 hours for exports/imports. Further, the Pipavav Rail Corporation has electrified the feeder lines to Surendranagar, which has provided last mile connectivity. **CFS business:** The CFS segment EBITDA was ~INR 2,100/TEU (-7% QoQ), which has been declining steadily over the year. This continues to be affected by higher fuel prices as well as higher discounting. **Snowman Logistics:** The company plans to increase its capacity to 200k pallets (up from 120k currently) in the medium term. It will add 2-3 new warehouses every year for e-commerce clients. **Restructuring timeline**: The approval for the reverse merger of GDL with Gateway Rail is expected by the year end (Dec'21), which will simplify the corporate structure.

### Financial summary (consolidated)

| YE March (INR mn) | 2Q FY22 | 2Q FY21 | YoY (%) | 1Q FY22 | QoQ (%) | FY20 | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 3,357 | 2,625 | *28* | 3,296 | *2* | 12,372 | 11,794 | 13,179 | 15,177 | 17,923 |
| EBITDA | 910 | 652 | *40* | 892 | *2* | 2,586 | 3,130 | 3,473 | 3,824 | 4,443 |
| APAT | 469 | 42 | *1,010* | 436 | *8* | 983 | 943 | 1,350 | 1,587 | 2,101 |
| Adj. EPS (Rs) | 3.8 | 0.3 | *1,010* | 3.5 | *8* | 9.0 | 7.6 | 10.8 | 12.7 | 16.8 |
| P/E (x) | | | | | | 29.0 | 34.7 | 24.2 | 20.6 | 15.6 |
| EV/EBITDA (x) | | | | | | 14.4 | 12.4 | 10.8 | 9.4 | 7.7 |
| RoE (%) | | | | | | 29.0 | 34.7 | 24.2 | 20.6 | 15.6 |

Source: Company, HSIE Research

### Change in estimates

| INR mn | New | | | Old | | | Change (%) | | |
|---|---|---|---|---|---|---|---|---|---|
| | FY22E | FY23E | FY24E | FY22E | FY23E | FY24E | FY22E | FY23E | FY24E |
| Net Revenue | 13,179 | 15,177 | 17,923 | 13,348 | 15,525 | 18,404 | (1) | (2) | (3) |
| EBITDA | 3,473 | 3,824 | 4,443 | 3,447 | 3,858 | 4,556 | 1 | (1) | (2) |
| EBITDA margin (%) | 26.4 | 25.2 | 24.8 | 25.8 | 24.9 | 24.8 | 53 bps | 35 bps | 4 bps |
| PAT | 1,350 | 1,587 | 2,101 | 1,310 | 1,583 | 2,150 | 3 | 0 | (2) |
| EPS | 10.8 | 12.7 | 16.8 | 10.5 | 12.7 | 17.2 | 3 | 0 | (2) |

Source: Company, HSIE Research

## BUY

| | |
|---|---|
| **CMP *(as on 22 Oct 2021)*** | **INR 262** |
| **Target Price** | **INR 375** |
| **NIFTY** | **18,115** |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | BUY | BUY |
| Price Target | INR 360 | INR 375 |
| EPS % | FY22E | FY23E |
| | 3% | Flat |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | GDPL IN |
| No. of Shares (mn) | 125 |
| MCap (INR bn) / ($ mn) | 33/439 |
| 6m avg traded value (INR mn) | 109 |
| 52 Week high / low | INR 325/87 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | (6.1) | 52.3 | 178.9 |
| Relative (%) | (21.2) | 25.8 | 128.9 |

| SHAREHOLDING PATTERN (%) | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 32.1 | 32.1 |
| FIs & Local MFs | 26.6 | 27.4 |
| FPIs | 24.7 | 24.8 |
| Public & Others | 16.5 | 15.8 |
| Pledged Shares | 3.1 | - |

*Source : BSE*

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# BFSI

# ICICI Bank

## Emerging as the franchise-to-beat

**After a minor blip during Q1FY22, ICICI Bank (ICICIBC) continued on its journey of delivering steady all-round performance with 13% beat on our earnings estimates. Asset quality shocks of Q1FY22 were largely reversed during the quarter, with net slippages at 0.1% of loans, while the restructured loan book increased to 1.3% of loans (Q1FY22: 0.7%). ICICIBC is comfortably provided on stressed assets with ~80% PCR and a further ~2% of loans as non-NPA provisions, indicating further normalisation of potential credit costs. A 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 higher share of the profit pools and a 15% RoE trajectory (Q2FY22: 14%). We revise our FY22E/FY23E earnings forecasts by -0.3%/1.6% to factor in higher loan growth, partially offset by higher opex. We maintain BUY with a revised SOTP-based TP of INR885 (earlier INR842).**

- **Strong operating performance; maintaining growth momentum:** ICICI Bank delivered a strong operating performance with NII growth of 25% YoY, C/I ratio at 40%, and credit costs at 1.5%. The bank continued to deliver industry-leading loan growth at 17% YoY, driven by mortgage (+25%) and business banking (+43%) while an increasingly granular deposit franchise (average CASA ratio up 380bps YoY) drove best-in-class cost of funds (3.7%).
- **Impressive on upgrades & recoveries; comfortable on provisioning:** ICICI Bank reported high gross slippages at 3.1%; however, the strong upgrades & recoveries (3.1%) during the quarter highlighted the transient nature of the impairments in the retail portfolio and, hence, lower LGDs. The restructured portfolio rose from 0.7% to 1.3% of loans, largely stemming from the retail segment while the BB & below pool continues to inch lower (1.7% of loans).
- **Superior franchise poised for sustained rerating:** ICICI Bank's consistent all-round performance (strong balance sheet growth, disciplined exercise of pricing power, and stable asset quality driving superior profitability) is likely to drive a further rerating in the stock. We reiterate ICICI Bank as our top pick with revised TP of INR885 (core bank at 2.7x Sep'23 ABVPS).

### Financial summary

| (INR bn) | 2Q FY22 | 2Q FY21 | YoY (%) | 1Q FY22 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| NII | 116.9 | 93.7 | *24.8%* | 109.4 | *6.9%* | 389.9 | 461.2 | 540.9 | 619.1 |
| PPOP | 99.1 | 82.6 | *20.0%* | 88.9 | *11.5%* | 364.0 | 396.3 | 473.4 | 543.4 |
| PAT | 55.1 | 42.5 | *29.6%* | 46.2 | *19.4%* | 161.9 | 214.1 | 270.6 | 314.7 |
| EPS (INR) | 7.8 | 6.3 | *23.8%* | 6.5 | *19.1%* | 23.4 | 31.0 | 39.1 | 45.5 |
| ROAE (%) | | | | | | 12.3 | 13.6 | 15.2 | 15.5 |
| ROAA (%) | | | | | | 1.4 | 1.6 | 1.8 | 1.8 |
| ABVPS (INR) | | | | | | 191.3 | 215.4 | 248.4 | 283.8 |
| P/ABV (x) | | | | | | 4.0 | 3.5 | 3.1 | 2.7 |
| P/E (x) | | | | | | 32.4 | 24.5 | 19.4 | 16.7 |

| (INR bn) | FY22E | | | FY23E | | | FY24E | | |
|---|---|---|---|---|---|---|---|---|---|
| | Old | New | Change | Old | New | Change | Old | New | Change |
| Net advances | 8,415 | 8,623 | 2.5% | 9,728 | 10,043 | 3.2% | 11,267 | 11,684 | 3.7% |
| NIM (%) | 3.9 | 3.9 | 0 bps | 4.0 | 4.1 | 2 bps | 4.0 | 4.0 | -2 bps |
| NII | 455.3 | 461.2 | 1.3% | 523.3 | 540.9 | 3.4% | 601.7 | 619.1 | 2.9% |
| PPOP | 406.5 | 396.3 | -2.5% | 461.4 | 473.4 | 2.6% | 534.8 | 543.4 | 1.6% |
| PAT | 214.8 | 214.1 | -0.3% | 266.3 | 270.6 | 1.6% | 311.7 | 314.7 | 1.0% |
| Adj. BVPS (INR) | 217.8 | 215.4 | -1.1% | 249.9 | 248.4 | -0.6% | 282.4 | 283.8 | 0.5% |

Source: Company, HSIE Research

## BUY

| | |
|---|---|
| **CMP *(as on 22 Oct 2021)*** | **INR 759** |
| **Target Price** | **INR 885** |
| **NIFTY** | **18,115** |

| **KEY CHANGES** | **OLD** | **NEW** |
|---|---|---|
| Rating | BUY | BUY |
| Price Target | INR842 | INR885 |
| EPS % | FY22E | FY23E |
| | -0.3% | 1.6% |

| **KEY STOCK DATA** | |
|---|---|
| Bloomberg code | ICICIBC IN |
| No. of Shares (mn) | 6,936 |
| MCap (INR bn) / ($ mn) | 5,266/70,768 |
| 6m avg traded value (INR mn) | 9,462 |
| 52 Week high / low | INR 766/388 |

**STOCK PERFORMANCE (%)**

| | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 15.8 | 31.1 | 83.9 |
| Relative (%) | 0.6 | 4.6 | 33.9 |

**SHAREHOLDING PATTERN (%)**

| | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 0 | 0 |
| FIs & Local MFs | 41.8 | 42.5 |
| FPIs | 48.0 | 47.3 |
| Public & Others | 10.2 | 10.0 |
| Pledged Shares | 0 | 0 |

*Source : BSE*

Pledged shares as % of total shares

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# Bajaj Finance

## Priced for full speed and flawless execution

**Bajaj Finance's (BAF) Q2FY22 earnings were 15% below our estimates due to higher-than-expected provisioning at 3.4% of AUM (including a management overlay of INR3.5bn). After a subdued Q1FY22, BAF's business momentum gathered strong pace (AUM/total customer franchise up 22%/20% YoY). Asset quality improved sequentially with cumulative GS-II+GS-III at 6.1% (Q1FY22: 7.7%) and negligible addition to the restructured book (0.9% of AUM). We revise our FY22/FY23 earnings estimates by -4%/4% to factor in higher credit costs during FY22 offset by higher AUM growth, going forward. Current steep valuations (8.5x Sep'23 ABVPS) underpin our REDUCE stance with a revised TP of INR 5,498 (earlier INR 5,393).**

- **Steady operating performance; steady-state reversion likely in H2**: BAF reported strong NII growth of 26% YoY, driven by strong disbursements and continued benefit from funding cost tailwinds (34bps). However, cost to income ratio rose to 38% due to higher spend on collections and recoveries. While NII growth is likely to improve further in H2, opex ratios are likely to trend upwards with increased tech initiatives (super-app ecosystem).
- **Asset quality improves; credit cost to normalise**: BAF's GNPA/NNPA improved to 2.45%/1.1%, with strong upgrades and recoveries during the quarter. GNPA declined across segments except rural B2C (due to gold loans) and it is expected to further normalise to 1.7-1.8% by end-FY22. The restructured book remained steady at 0.9% of AUM with little addition during the quarter. With the resumption of economic activity, credit costs are likely to ease in H2FY22 (average LLP of 1.8% during FY23-FY24E).
- **Enviable franchise; lofty valuation a major concern:** BAF's business transformation initiatives, which are likely to strengthen the medium-term growth prospects, have been deferred by 45 days due to the second wave-led disruption. It remains an enviable franchise for its high-growth and profitability potential; however, the current steep valuation (8.5x Sep'23 ABVPS) leaves no margin for any disappointment on the execution front.

### Financial summary

| (INR bn) | 2Q FY22 | 2Q FY21 | YoY (%) | 1Q FY22 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| NII | 42.9 | 34.0 | *26.0* | 37.0 | *15.9* | 138.9 | 164.2 | 203.6 | 260.2 |
| PPOP | 33.0 | 30.0 | *10.0* | 31.2 | *6.0* | 119.6 | 136.6 | 167.3 | 214.6 |
| PAT | 14.8 | 9.6 | *53.6* | 10.0 | *47.7* | 44.2 | 67.7 | 97.2 | 125.7 |
| EPS (INR) | 24.4 | 16.0 | *52.8* | 16.5 | *47.6* | 73.5 | 112.6 | 161.5 | 209.0 |
| ROAE (%) | | | | | | 12.8% | 16.9% | 20.3% | 21.5% |
| ROAA (%) | | | | | | 2.6% | 3.6% | 4.2% | 4.3% |
| ABVPS (INR) | | | | | | 594.8 | 691.5 | 840.7 | 1,029.1 |
| P/ABV (x) | | | | | | 13.2 | 11.4 | 9.4 | 7.7 |
| P/E (x) | | | | | | 107.3 | 70.0 | 48.8 | 37.7 |

### Change in estimates

| INR bn | FY22E | | | FY23E | | | FY24E | | |
|---|---|---|---|---|---|---|---|---|---|
| | Old | New | Chg | Old | New | Chg | Old | New | Chg |
| AUM | 1,869.3 | 1,918.3 | 2.6% | 2,300.5 | 2,401.7 | 4.4% | 2,918.0 | 3,001.9 | 2.9% |
| NIM (%) | 9.5 | 9.5 | 1 bps | 9.4 | 9.4 | 2 bps | 9.6 | 9.6 | 2 bps |
| NII | 161.7 | 164.2 | 1.6% | 196.0 | 203.6 | 3.8% | 250.8 | 260.2 | 3.7% |
| PPOP | 136.7 | 136.6 | -0.1% | 162.4 | 167.3 | 3.0% | 208.2 | 214.6 | 3.1% |
| PAT | 70.5 | 67.7 | -4.0% | 93.6 | 97.2 | 3.8% | 122.4 | 125.7 | 2.7% |
| ABVPS (INR) | 693.3 | 691.5 | -0.2% | 841.0 | 840.7 | 0.0% | 1,026.4 | 1,029.1 | 0.3% |

Source: Company, HSIE Research

## REDUCE

| | |
|---|---|
| CMP *(as on 26 Oct 2021)* | INR 7,856 |
| Target Price | INR 5,498 |
| NIFTY | 18,268 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | REDUCE | REDUCE |
| Price Target | INR5,393 | INR 5,498 |
| | FY22E | FY23E |
| EPS % | -4.0% | 3.8% |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | BAF IN |
| No. of Shares (mn) | 604 |
| MCap (INR bn) / ($ mn) | 4,741/63,714 |
| 6m avg traded value (INR mn) | 11,362 |
| 52 Week high / low | INR 8,100/3,237 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 27.5 | 65.9 | 138.5 |
| Relative (%) | 11.4 | 39.1 | 85.7 |

| SHAREHOLDING PATTERN (%) | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 56.0 | 56.0 |
| FIs & Local MFs | 7.9 | 8.7 |
| FPIs | 24.0 | 24.2 |
| Public & Others | 12.0 | 11.4 |
| Pledged Shares | - | - |

*Source : BSE*

Pledged shares as % of total shares

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# State Bank of India

## Plenty to celebrate; yet searching for road to 1% RoA

**State Bank of India's (SBI) Q2FY22 earnings surprised positively despite fully accounting for one-time accelerated pension cost of INR74bn, given a sustained improvement in asset quality. Asset quality continued to surprise positively with gross slippages at 0.7%, although the headline trends are not comparable to private bank peers on account of SBI's unique accounting of inter-quartile slippages. The bank reported restructured book at 1.2% and the early-delinquency portfolio (SMA1+ SMA2) at 0.3% (Q1FY22: 0.5%), while the provisioning seems comfortable (PCR at 70%, COVID buffer at 0.3%). Loan growth (+6.5% YoY) was driven by retail (15% YoY), led by home loans (+11% YoY) and Xpress credit (+31% YoY). With favourable trends on impairment and recoveries/upgrades resulting in gradual credit cost normalisation, SBI's incremental RoA reflation to potential ~1% is now contingent on higher asset yields. We revise our FY22 earnings estimates by -8% to factor in accelerated pension costs and credit cost normalisation. We maintain BUY with a revised SOTP-based target price of INR572 (core at 1.2x Sep'23 ABVPS).**

- **Steady-state asset quality:** SBI's GNPA/NNPA stood at 4.9%/1.5% (Q1FY22: 5.3%/1.8%), benefitting from recoveries (large HFC) and sharp inter-quartile upgrades. Net slippages, at 0.7%, stemmed from the corporate segment and included one NBFC exposure. The restructured portfolio inched up to 1.2% of loans (Q1FY22: 0.8%), comprising largely housing and MSME loans. With corporate back book clean-up largely over and in view of a large mortgage book, incremental delinquencies could be contained in the near term.
- **Need for growth and reflation in asset yields:** SBI's P&L performance was skewed by accelerated pension costs, large write-backs, and low interest reversals. As back book asset quality issues recede, our incremental focus is likely to be on how SBI can potentially reflate asset yields to drive 1% RoA through gradual portfolio repricing and re-risking (without adding to credit costs) and better operating efficiencies.

### Financial summary

| (INR bn) | Q2FY22 | Q2FY21 | YoY (%) | Q1FY22 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| NII | 311.8 | 281.8 | 10.7% | 276.4 | 12.8% | 1,107.1 | 1,233.9 | 1,355.7 | 1,482.9 |
| PPOP | 106.6 | 164.6 | -35.2% | 189.7 | -43.8% | 715.5 | 698.4 | 910.4 | 1,052.8 |
| PAT | 76.3 | 45.7 | 66.7% | 65.0 | 17.3% | 204.1 | 281.4 | 398.9 | 490.2 |
| EPS (INR) | 8.6 | 5.1 | 66.7% | 7.3 | 17.3% | 22.9 | 31.5 | 44.7 | 54.9 |
| ROAE (%) | | | | | | 8.4 | 10.5 | 13.4 | 14.5 |
| ROAA (%) | | | | | | 0.5 | 0.6 | 0.8 | 0.9 |
| ABVPS (INR) | | | | | | 228.1 | 258.1 | 291.6 | 335.8 |
| P/ABV (x) | | | | | | 2.3 | 2.0 | 1.8 | 1.6 |
| P/E (x) | | | | | | 23.1 | 16.7 | 11.8 | 9.6 |

### Change in estimates

| (INR bn) | FY22E | | | FY23E | | | FY24E | | |
|---|---|---|---|---|---|---|---|---|---|
| | Old | New | Change | Old | New | Change | Old | New | Change |
| Net advances | 27,051 | 27,137 | 0.3% | 29,884 | 29,968 | 0.3% | 33,025 | 33,111 | 0.3% |
| NIM (%) | 3.0 | 3.0 | 0 bps | 3.1 | 3.1 | 2 bps | 3.1 | 3.1 | 1 bps |
| NII | 1,233.5 | 1,233.9 | 0.0% | 1,345.8 | 1,355.7 | 0.7% | 1,474.0 | 1,482.9 | 0.6% |
| PPOP | 818.3 | 698.4 | -14.7% | 926.4 | 910.4 | -1.7% | 1,033.9 | 1,052.8 | 1.8% |
| PAT | 306.9 | 281.4 | -8.3% | 397.2 | 398.9 | 0.4% | 463.8 | 490.2 | 5.7% |
| Adj. BVPS (INR) | 262.2 | 258.1 | -1.6% | 297.8 | 291.6 | -2.1% | 338.0 | 335.8 | -0.6% |

Source: Company, HSIE Research

## BUY

| | |
|---|---|
| CMP *(as on 3 Nov 2021)* | INR 528 |
| Target Price | INR 572 |
| NIFTY | 17,829 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | BUY | BUY |
| Price Target | INR540 | INR572 |
| EPS % | FY22E | FY23E |
| | -8% | 0% |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | SBIN IN |
| No. of Shares (mn) | 8,925 |
| MCap (INR bn) / ($ mn) | 4,709/63,280 |
| 6m avg traded value (INR mn) | 13,593 |
| 52 Week high / low | INR 542/198 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 18.2 | 50.5 | 157.7 |
| Relative (%) | 7.1 | 27.8 | 109.2 |

| SHAREHOLDING PATTERN (%) | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 57.6 | 57.6 |
| FIs & Local MFs | 23.1 | 23.2 |
| FPIs | 10.3 | 10.6 |
| Public & Others | 8.8 | 8.7 |
| Pledged Shares | 0.0 | 0.0 |

*Source : BSE*

Pledged shares as % of total shares

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# Kotak Mahindra Bank

## First signs of growth impulse; unusual trade-offs ahead

**Kotak Mahindra Bank's (KMB) Q2FY22 performance surprised our estimates predominantly on the back of a favourable credit cost outcome (restructuring at 54bps and annualised credit costs at 80bps). However, the greatest surprise, albeit not completely reflected in the P&L this quarter, was the sequential loan growth of 8% (+15% YoY). Gross slippages clocked in at 2.4% (Q1FY22: 2.8%) even as collections and recoveries normalised (net slippages were negative). We believe that current valuations factor in the formidable strengths and best-in-class profitability of the consolidated franchise (ROAs >1.8%) - however, while the growth impulse is welcome, we believe there are trade-offs ahead in terms of sustaining such superior metrics (funding costs and opex ratios) in a high-growth phase. Maintain REDUCE with an SOTP target price of INR 1,835 (standalone bank at INR1,417, 3.6x Sep'23 ABVPS).**

- **Credit growth surprises:** KMB's loan book clocked 8% sequential growth - including credit substitutes, loan growth clocked in at +17.5% YoY, a huge positive surprise. The growth surprise aside, the management commentary reflected refreshing confidence, especially for a franchise that has been historically perceived to be overly defensive in its approach towards risk. While committed to its long-term objective of growing in its segments of choice without compromising on its conservative nature, the willingness and intent to capitalise on its inherent strengths are especially heartening.
- **Capital market businesses on a tear:** KMB's subsidiaries (excluding the LI business) delivered strong earnings, contributing about one-third of the consolidated PAT for the quarter, driven by formidable tailwinds to its best-in-class capital market businesses (investment banking and broking).
- **Trade-offs ahead:** While the commentary on growth is refreshing, we await evidence of these growth trends sustaining, especially given that KMB has a longer growth runway with a mere 2% market share. We have marginally raised our loan growth forecasts (1%), offset by higher opex ratios and lower spreads, as KMB needs to further invest in franchise building in some of its non-core segments in order to reap broad-based growth.

### Financial summary

| (INR bn) | 2Q FY22 | 2Q FY21 | YoY (%) | 1Q FY22 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| NII | 40.2 | 39.1 | *2.7%* | 39.4 | *2.0%* | 153.4 | 168.5 | 187.5 | 211.4 |
| PPOP | 31.2 | 33.0 | *-5.4%* | 31.2 | *0.0%* | 122.1 | 130.5 | 144.9 | 164.7 |
| PAT | 20.3 | 21.8 | *-7.0%* | 16.4 | *23.8%* | 69.6 | 79.3 | 89.3 | 102.0 |
| EPS (INR) | 10.2 | 11.0 | *-7.2%* | 8.3 | *23.7%* | 35.1 | 40.0 | 45.1 | 51.4 |
| ROAE (%) | | | | | | 12.4 | 11.8 | 11.9 | 12.2 |
| ROAA (%) | | | | | | 1.9 | 2.0 | 2.0 | 2.1 |
| ABVPS (INR) | | | | | | 294.7 | 333.0 | 374.1 | 416.5 |
| P/ABV (x) | | | | | | 7.5 | 6.6 | 5.9 | 5.3 |
| P/E (x) | | | | | | 62.9 | 55.2 | 49.0 | 43.0 |

### Change in Estimates

| (INR bn) | FY22E | | | FY23E | | | FY24E | | |
|---|---|---|---|---|---|---|---|---|---|
| | Old | New | Change | Old | New | Change | Old | New | Change |
| Net advances | 2,474 | 2,510 | 1.4% | 2,831 | 2,870 | 1.4% | 3,247 | 3,291 | 1.3% |
| NIM (%) | 4.7 | 4.6 | -7 bps | 4.8 | 4.7 | -9 bps | 5.0 | 4.9 | -9 bps |
| NII | 170.1 | 168.5 | -0.9% | 189.3 | 187.5 | -1.0% | 213.7 | 211.4 | -1.1% |
| PPOP | 131.3 | 130.5 | -0.6% | 146.3 | 144.9 | -0.9% | 164.6 | 164.7 | 0.1% |
| PAT | 79.3 | 79.3 | 0.0% | 90.3 | 89.3 | -1.1% | 102.0 | 102.0 | 0.0% |
| Adj. BVPS (INR) | 333.4 | 333.0 | -0.1% | 375.3 | 374.1 | -0.3% | 418.0 | 416.5 | -0.4% |

Source: Company, HSIE Research

## REDUCE

| | |
|---|---|
| **CMP *(as on 26 Oct 2021)*** | **INR 2,211** |
| **Target Price** | **INR 1,835** |
| **NIFTY** | **18,268** |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | REDUCE | REDUCE |
| Price Target | INR1,821 | INR1,835 |
| EPS % | FY22E | FY23E |
| | 0.0% | -1.1% |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | KMB IN |
| No. of Shares (mn) | 1,983 |
| MCap (INR bn) / ($ mn) | 4,385/58,919 |
| 6m avg traded value (INR mn) | 6,825 |
| 52 Week high / low | INR 2,240/1,347 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 27.0 | 25.6 | 56.0 |
| Relative (%) | 10.9 | (1.1) | 3.2 |

| SHAREHOLDING PATTERN (%) | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 26.0 | 26.0 |
| FIs & Local MFs | 14.7 | 15.3 |
| FPIs | 45.7 | 45.6 |
| Public & Others | 13.6 | 13.2 |
| Pledged Shares | 0.0 | 0.0 |

*Source : BSE*

Pledged shares as % of total shares

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# Axis Bank

## Making forward strides again

**Axis Bank's (Axis) Q2FY22 earnings were 6% higher than our estimates on the back of a steady operating performance and better portfolio metrics (net slippages at 0.5%; restructured book at 0.7% of loans). With PCR at 70% and non-NPA provisions at 2.1% of loans, credit costs are likely to remain subdued (Q2FY22: 1.2%) as the back-book clean-up is nearly complete (BB & below portfolio at 1.9% of loans). The bank is focused on tech investments and digital initiatives in order to ready itself for the next leg of growth in retail and SME segments even as the wholesale book growth remains muted. We tweak our FY22/FY23E earnings estimates by -4%/5% for lower provisioning, offset by continued pressure on NIMs and maintain BUY with revised SOTP-based TP of INR957 (earlier INR 928).**

- **Steady operating performance; margins disappoint:** Axis reported NII growth of 8% YoY with further compression in NIM by 7bps sequentially to 3.4%. Fee income gained traction (17.4% YoY) for retail (19% YoY) as well as wholesale segment (15% YoY) with the resumption in economic activity. The bank continued to strengthen its granular deposit franchise (average CASA up by 21% YoY), driving best-in-class cost of deposits (3.7%).
- **Asset quality improves; incremental provisioning likely to be subdued:** After reporting elevated gross slippages of 4.5% in Q1FY22, Axis reported net slippages of 0.5%, given strong recoveries and upgrades in the retail and SME segments, indicating the transient nature of impairment during the second wave. The restructured book continues to remain well below peers' (0.7% of loans). BB & below book decreased by 20bps sequentially to 1.9% of loans. While gross slippages were elevated during the quarter (3.7%), we expect significant reversals in H2 as economic activity further normalises.
- **Emerging line of sight to normalised credit costs:** After several false starts over the past few quarters, Axis now seems well on track to normalised credit costs on its road to deliver 1.5% ROA by FY23E. However, it continues to lag its peers on credit growth, which will be a key monitorable. Maintain BUY with TP of INR957 (standalone bank at 2.1x Sep'23 ABVPS).

### Financial summary

| (INR bn) | 2Q FY22 | 2Q FY21 | YoY (%) | 1Q FY22 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| NII | 79.0 | 73.3 | 7.8% | 77.6 | 1.8% | 292.4 | 329.7 | 382.7 | 454.9 |
| PPOP | 59.3 | 69.0 | -14.1% | 64.2 | -7.6% | 257.0 | 270.7 | 328.4 | 394.8 |
| PAT | 31.3 | 16.8 | 86.2% | 21.6 | 45.1% | 65.9 | 125.4 | 174.0 | 211.7 |
| EPS (INR) | 10.2 | 5.7 | 79.1% | 7.0 | 45.0% | 21.5 | 40.9 | 56.8 | 69.1 |
| ROAE (%) | | | | | | 7.1 | 11.7 | 14.3 | 15.3 |
| ROAA (%) | | | | | | 0.7 | 1.2 | 1.5 | 1.6 |
| ABVPS (INR) | | | | | | 302.6 | 347.3 | 400.6 | 457.0 |
| P/ABV (x) | | | | | | 2.8 | 2.4 | 2.1 | 1.8 |
| P/E (x) | | | | | | 39.3 | 20.6 | 14.9 | 12.2 |

### Change in estimates

| (INR bn) | FY22E | | | FY23E | | | FY24E | | |
|---|---|---|---|---|---|---|---|---|---|
| | Old | New | Change | Old | New | Change | Old | New | Change |
| Net advances | 6,932 | 6,946 | 0.2% | 7,975 | 8,057 | 1.0% | 9,284 | 9,449 | 1.8% |
| NIM (%) | 3.74 | 3.65 | -9 bps | 3.82 | 3.76 | -7 bps | 3.89 | 3.86 | -3 bps |
| NII | 337.2 | 329.7 | -2.2% | 387.9 | 382.7 | -1.3% | 454.7 | 454.9 | 0.0% |
| PPOP | 288.1 | 270.7 | -6.0% | 330.5 | 328.4 | -0.6% | 394.8 | 394.8 | 0.0% |
| PAT | 130.2 | 125.4 | -3.7% | 165.6 | 174.0 | 5.1% | 206.1 | 211.7 | 2.7% |
| Adj. BVPS (INR) | 347.8 | 347.3 | -0.1% | 398.0 | 400.6 | 0.7% | 451.7 | 457.0 | 1.2% |

Source: Company, HSIE Research

## BUY

| | |
|---|---|
| CMP *(as on 26 Oct 2021)* | INR 842 |
| Target Price | INR 957 |
| NIFTY | 18,268 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | BUY | BUY |
| Price Target | INR 928 | INR 957 |
| | FY22E | FY23E |
| EPS % | -3.7% | 5.1% |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | AXSB IN |
| No. of Shares (mn) | 3,067 |
| MCap (INR bn) / ($ mn) | 2,582/34,696 |
| 6m avg traded value (INR mn) | 7,432 |
| 52 Week high / low | INR 881/482 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 11.3 | 20.2 | 70.6 |
| Relative (%) | (4.8) | (6.6) | 17.8 |

| SHAREHOLDING PATTERN (%) | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 11.7 | 11.6 |
| FIs & Local MFs | 21.2 | 22.2 |
| FPIs | 56.8 | 55.7 |
| Public & Others | 10.4 | 10.5 |
| Pledged Shares | 0.0 | 0.0 |

*Source : BSE*

Pledged shares as % of total shares

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# SBI Life Insurance

## Encouraging VNB margins

**BUY**

| | |
|---|---|
| **CMP *(as on 27 Oct 2021)*** | **INR 1,186** |
| **Target Price** | **INR 1,485** |
| **NIFTY** | **18,211** |

| **KEY CHANGES** | **OLD** | **NEW** |
|---|---|---|
| Rating | BUY | BUY |
| Price Target | INR 1,455 | INR 1,485 |
| VNB % | FY21E<br>+3.1 | FY22E<br>+2.6 |

**KEY STOCK DATA**

| | |
|---|---|
| Bloomberg code | SBILIFE IN |
| No. of Shares (mn) | 1,000 |
| MCap (INR bn) / ($ mn) | 1,186/15,940 |
| 6m avg traded value (INR mn) | 2,920 |
| 52 Week high / low | INR 1,315/755 |

**STOCK PERFORMANCE (%)**

| | **3M** | **6M** | **12M** |
|---|---|---|---|
| Absolute (%) | 7.3 | 27.7 | 53.1 |
| Relative (%) | (9.0) | 2.8 | 2.3 |

**SHAREHOLDING PATTERN (%)**

| | **Jun-21** | **Sep-21** |
|---|---|---|
| Promoters | 55.7 | 55.7 |
| FIs & Local MFs | 9.6 | 12.1 |
| FPIs | 27.2 | 24.5 |
| Public & Others | 7.4 | 7.8 |
| Pledged Shares | Nil | Nil |

*Source : BSE*

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**SBILIFE's total APE was in line with estimates; however, a strong growth in NPAR (+366bps YoY share in the mix) resulted in a 129-bps margin beat. We remain positive on the new product launch in the NPAR segment that has a superior margin profile and competitive features. The company's three growth levers continue to remain in place: (1) mammoth distribution network of the parent SBI (24k+ branches); (2) healthy share of protection; and (3) lowest opex ratio (2QFY22: 8.8%). Following a margin beat, we build in higher margins and raise our FY22E/23E estimates. We expect SBILIFE to deliver a healthy FY21-24E VNB CAGR of 24% and retain our BUY rating on the stock with an increased TP of INR 1,485 (2.9x Sep-23E EV).**

- **Q2FY22 highlights**: The total APE, at INR 39.8bn (2y CAGR 19%/+47% YoY), was in line with estimates. The protection segment has displayed decent traction (+22% YoY), driven by both retail and group protection. However, the NPAR segment was the eye-catcher with growth at 108% and a share of 12% of business in H1; the management has guided for the share of NPAR business to sustain at this level in FY22E. The annuity segment degrew (-32% YoY) on the back of lumpy group annuity business, while individual annuity witnessed impressive growth, supporting margins. Persistencies improved across cohorts in the range of 70-363bps except for the 13$^{th}$ and 61$^{st}$ months' metrics. Within the channel mix, new corporate partnerships registered an impressive +65% YoY growth. Adj. VNB margin, at 25.8% (on ETR), was ahead of estimates (+169bps), led by (1) strong growth in NPAR and individual annuity segment and (2) better fixed cost absorption, resulting in VNB growth of 88% YoY.
- **COVID reserving and repricing:** During COVID 2.0, claims shot up 1.4x to INR13.4bn (net) against reserves of INR4.5bn as a consequence of a sharp rise in deaths reported; however, the claims softened during Q2FY22 and the closing COVID reserves stood at INR2.66bn. The company launched a **new product "SBI Life e-Shield Next" in its protection bouquet, which offers dynamic pricing and is likely to accrue superior VNB margins compared to its existing bouquet, and it doesn't anticipate any upward price revisions in the next one year.**

### Financial summary

| (INR mn) | Q2FY22 | Q2FY21 | YoY (%) | Q1FY22 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| NBP | 81.5 | 59.5 | *37.0* | 33.5 | *143.3* | 206.2 | 283.5 | 335.6 | 407.4 |
| APE | 39.8 | 27.1 | *47.2* | 16.2 | *146.3* | 114.5 | 144.7 | 166.1 | 190.6 |
| Adj. VNB | 10.3 | 5.5 | *87.5* | 3.9 | *163.6* | 26.6 | 37.0 | 43.2 | 50.3 |
| Adj. VNBM (%) | 25.8 | 20.2 | *554bps* | 24.1 | *169bps* | 23.2 | 25.6 | 26.0 | 26.4 |
| EV | | | | | | 350.6 | 410.0 | 480.1 | 560.5 |
| MCap/EV (x) | | | | | | 3.4 | 2.9 | 2.5 | 2.1 |
| P/VNB (x) | | | | | | 34.2 | 22.6 | 18.0 | 14.0 |
| RoEV(%) | | | | | | 27.7 | 17.5 | 17.8 | 17.7 |

Source: Company, HSIE Research

# ICICI Prudential Life

## Miss on margins

**ICICI Prudential Life's (IPRU) APE growth came in line with the estimate; however, its VNB margin was a significant miss (-145bps vs. estimate), due to moderation in protection share and higher share of ULIP in the mix. 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%), rising share of traditional products, and continued investments in agency network. We expect VNB to exhibit a 23% CAGR over FY21-24E. We retain ADD with a DCF-derived TP of INR 745 (Sep-22 EV + 25.9x Sep-23E VNB). The stock is currently trading at FY23/24E P/EV of 2.5/2.2x and P/VNB of 22.9x/18.5x.**

- **Q2FY22 highlights**: Total APE was in line with estimate and clocked 35% YoY growth (2-year CAGR at 2%) at INR19.8bn. Group protection exhibited strong growth (+91% YoY) on the back of a pick-up in disbursements and new group-term arrangements. Retail protection de-grew 29% YoY as a result of limited medicals in a restrictive environment, while the pick-up in ULIP sale was in line with the buoyancy in capital markets. In recent quarters, banca partners other than ICICIBC have had strong growth traction. Although VNB clocked in at a healthy INR5.2bn (+28% YoY), VNBM for the quarter disappointed our estimates at 26% (-330bps sequentially), largely due to rising share of ULIPs and the business mix moving away from protection (-800bps).
- **COVID provisioning and higher investments in agency:** IPRU continued to see a surge in claims in Q2FY22, as net claims shot up to INR8.6bn (i.e., 1.7x of Q1FY22). It additionally carries INR4.12bn as closing reserves to cover any late claims in Q3; however, the death & claims tail has tapered off since Sep-21. The company is aggressively expanding its agency network (8k additions in Q2 vs. 4k in Q1) to ramp up its new business and productivity.

### Quarterly financial summary

| (INR bn) | Q2 FY22 | Q2 FY21 | YoY (%) | Q1 FY22 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| NBP | 37.3 | 28.5 | 30.9 | 27.3 | 36.4 | 132.3 | 186.8 | 224.2 | 263.1 |
| APE | 19.8 | 14.7 | 34.9 | 12.2 | 62.2 | 64.6 | 82.6 | 99.2 | 113.0 |
| VNB | 5.15 | 4.01 | 28.4 | 3.58 | 43.9 | 16.2 | 21.7 | 26.3 | 30.2 |
| VNBM (%) | 26.0 | 27.4 | -130bps | 29.4 | -330bps | 25.1 | 26.3 | 26.5 | 26.7 |
| EV | | | | | | 291.1 | 318.6 | 363.4 | 414.4 |
| P/EV (x) | | | | | | 3.2 | 2.9 | 2.5 | 2.2 |
| P/VNB (x) | | | | | | 42.6 | 29.0 | 22.9 | 18.5 |
| ROEV (%) | | | | | | 26.4 | 9.6 | 15.9 | 16.0 |

Source: Company, HSIE Research

## ADD

| | |
|---|---|
| **CMP** *(as on 18 Nov 2021)* | **INR 640** |
| **Target Price** | **INR 745** |
| **NIFTY** | **17,765** |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | ADD | ADD |
| Price Target | INR745 | INR745 |
| | FY22E | FY23E |
| VNB % | Nil | Nil |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | IPRU IN |
| No. of Shares (mn) | 1,437 |
| MCap (INR bn) / ($ mn) | 921/12,374 |
| 6m avg traded value (INR mn) | 1,163 |
| 52 Week high / low | INR 725/411 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | (5.9) | 16.9 | 40.8 |
| Relative (%) | (13.1) | (1.9) | 5.8 |

| SHAREHOLDING PATTERN (%) | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 73.5 | 73.4 |
| FIs & Local MFs | 4.1 | 4.1 |
| FPIs | 17.2 | 17.2 |
| Public & Others | 5.3 | 5.3 |
| Pledged Shares | Nil | Nil |

*Source : BSE*

Pledged shares as % of total shares

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# IndusInd Bank

## Searching for portfolio stability

**IndusInd Bank's (IIB) Q2 earnings were 8% above our estimates due to lower-than-expected provisioning, while PPOP growth (+12% YoY) was broadly in line. As seen across other lenders, IIB too witnessed strong upgrades and recoveries during the quarter (4.1%); however, its gross and net slippages were amongst the highest (5%/1%), driven by 8% gross slippage in the retail book, indicating that the portfolio has not yet stabilised. Provisioning was elevated (3.2%) as the bank continued to build contingent provisions against its stressed pool (restructured book, telecom exposure, etc.). Strong deposit mobilisation (CASA +26% YoY), alongside muted loan growth (~10% YoY), continues to build up a negative carry for IIB. Prolonged consolidation of the loan book (two-year CAGR at 5.8%) and continued elevated stress (credit costs at >3% for seven straight quarters) reflect a franchise that is yet to stabilise its asset side of the balance sheet. We revise our FY22E/FY23E earnings estimates downward by 3% each to factor in moderately higher credit costs and maintain REDUCE with a revised target price of INR 894 (1.2x Sep-23 ABVPS).**

- **In-line operating performance:** IIB reported NII/PPOP growth of 11.6%/12.1% YoY, broadly in line with our expectations. NIMs remained flat sequentially as funding cost tailwinds were offset by a higher negative carry and interest reversals. Deposit growth continued to remain strong, led by SA balances, bringing the cost of deposits to an all-time low of 4.85%.
- **Retail portfolio impairment yet to moderate:** IIB's retail portfolio continued to report elevated gross slippages (8% of loans), driven by vehicle and MFI (15% of loans), alongside a high restructured pool (5% of loans). While the bank saw strong upgrades and recoveries in the quarter, the absence of moderation in impairment indicates portfolio stress is yet to peak out.
- **Awaiting portfolio stability; maintain REDUCE**: The lack of stability on the asset side of the balance sheet continues to hamper IIB's growth and impact its profitability trajectory. Continued elevated impairment and provisioning are the key stumbling blocks for moderation in credit costs and underpins our REDUCE stance, despite the gradual RoA reflation.

### Financial summary

| (INR bn) | Q2 FY22 | Q2 FY21 | YoY (%) | Q1 FY22 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| NII | 36.6 | 32.8 | *11.6%* | 35.6 | *2.7%* | 135.3 | 152.0 | 170.2 | 189.6 |
| PPOP | 31.7 | 28.3 | *12.1%* | 31.3 | *1.4%* | 117.3 | 125.1 | 138.2 | 155.0 |
| PAT | 11.1 | 6.5 | *72.1%* | 9.7 | *14.2%* | 28.4 | 52.8 | 68.6 | 78.1 |
| EPS (INR) | 14.4 | 9.1 | *58.3%* | 12.6 | *14.1%* | 36.7 | 67.3 | 87.3 | 99.4 |
| ROAE (%) | | | | | | 7.3 | 11.3 | 12.8 | 13.0 |
| ROAA (%) | | | | | | 0.8 | 1.4 | 1.6 | 1.6 |
| ABVPS (INR) | | | | | | 541.6 | 616.9 | 693.8 | 780.9 |
| P/ABV (x) | | | | | | 2.1 | 1.8 | 1.6 | 1.5 |
| P/E (x) | | | | | | 31.0 | 16.9 | 13.0 | 11.4 |

### Change in Estimates

| (INR bn) | FY22E | | | FY23E | | | FY24E | | |
|---|---|---|---|---|---|---|---|---|---|
| | Old | New | Change | Old | New | Change | Old | New | Change |
| Net advances | 2,339 | 2,341 | 0.1% | 2,640 | 2,646 | 0.2% | 2,996 | 2,995 | 0.0% |
| NIM (%) | 4.5 | 4.5 | 0 bps | 4.6 | 4.6 | 1 bps | 4.7 | 4.7 | 1 bps |
| NII | 153.7 | 152.0 | -1.1% | 172.8 | 170.2 | -1.5% | 191.4 | 189.6 | -1.0% |
| PPOP | 126.0 | 125.1 | -0.8% | 140.2 | 138.2 | -1.4% | 156.0 | 155.0 | -0.6% |
| PAT | 54.7 | 52.8 | -3.4% | 70.7 | 68.6 | -3.0% | 79.2 | 78.1 | -1.4% |
| Adj. BVPS (INR) | 617.9 | 616.9 | -0.2% | 684.2 | 693.8 | 1.4% | 773.1 | 780.9 | 1.0% |

Source: Company, HSIE Research

## REDUCE

| | |
|---|---|
| **CMP *(as on 27 Oct 2021)*** | **INR 1,143** |
| **Target Price** | **INR 894** |
| **NIFTY** | **18,211** |

| **KEY CHANGES** | **OLD** | **NEW** |
|---|---|---|
| Rating | REDUCE | REDUCE |
| Price Target | INR 823 | INR 894 |
| EPS % | FY22E | FY23E |
| | -3.4% | 3.0% |

| **KEY STOCK DATA** | |
|---|---|
| Bloomberg code | IIB IN |
| No. of Shares (mn) | 774 |
| MCap (INR bn) / ($ mn) | 884/11,882 |
| 6m avg traded value (INR mn) | 4,833 |
| 52 Week high / low | INR 1,240/571 |

**STOCK PERFORMANCE (%)**

| | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 17.1 | 29.5 | 86.1 |
| Relative (%) | 0.8 | 4.6 | 35.2 |

**SHAREHOLDING PATTERN (%)**

| | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 16.5 | 16.5 |
| FIs & Local MFs | 18.6 | 18.7 |
| FPIs | 52.1 | 51.7 |
| Public & Others | 12.8 | 13.1 |
| Pledged Shares | 6.9 | 6.9 |

*Source : BSE*

Pledged shares as % of total shares

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# ICICI Lombard

## COVID claims moderate; look beyond the pandemic

**ICICI Lombard reported better-than-expected Q2 performance, mainly as health loss ratios moderated sharply to 71% (Q1: 153%), leading to a 66% beat on underwriting losses. For the rest of FY22, we expect loss ratios in the health segment to stabilise and remain range-bound, given the rapid pace of vaccination. We've reduced our full-year estimates to account for growth deceleration, primarily in the motor OD segment. Given the rich valuation and uncertainties around the price hike in motor TP, we rate ICICIGI a REDUCE with a TP of INR1,350 (implying a Sep-23E PE of 26.4x and a P/ABV of 5.1x).**

- **Q2FY22 highlights**: ICICIGI reported in-line NEP at INR32.5bn (+3% QoQ), driven by positive growth in the fire and health segments. COVID claims in the health segment faded to 26k (Q1FY22: 46k) as the active cases curve flattened out towards Sep-21, moderating the loss ratio. Overall, Q2 CoR (calculated) moderated to 106.3% from an all-time high at 122.5% last quarter. Underwriting losses (INR139mn vs. estimates at INR402bn) were significantly better than estimates due to lower loss ratios; these were partially offset by lower-than-estimated investment income of INR732mn, leading to INR447mn APAT (an 18% beat vs. estimates).
- **Strategic plans:** ICICIGI guided towards better revenue synergies over the next 18-24 months by up-selling more and better products to Bharti AXA's customer base; however, cost synergies are expected to kick in sooner (in the next 9-12 months). Retail health continues to remain a valuable proposition and a key focus area for ICICIGI, whereas it is likely to exit existing crop business (from Bharti AXA) by FY23E. It continues to maintain its defensive stance on motor OD, given the competitive pricing environment.

### Quarterly financial summary

| (INR bn) | 2QFY22 | 2QFY21 | YoY(%) | 1QFY22 | QoQ(%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| Premium (NEP) | 32.50 | 24.63 | NM | 31.52 | 3.1 | 100.1 | 131.1 | 153.9 | 176.7 |
| Operating profit | 5.94 | 5.85 | NM | 2.58 | 130.0 | 20.6 | 19.3 | 31.8 | 35.8 |
| OP margin (%) | 18.3 | 23.8 | NM | 8.2 | 1008bps | 20.5 | 14.7 | 20.7 | 20.3 |
| APAT | 4.47 | 4.39 | NM | 1.94 | 129.9 | 15.3 | 14.2 | 23.6 | 26.6 |
| AEPS | 9.1 | 8.9 | NM | 4.0 | 129.9 | 33.6 | 29.0 | 48.1 | 54.2 |
| P/E (x) | | | | | | 45.0 | 52.1 | 31.4 | 27.8 |
| P/B (x) | | | | | | 8.7 | 7.4 | 6.2 | 5.2 |
| ROE (%) | | | | | | 22.1 | 14.1 | 18.0 | 17.4 |

Note: FY22E onwards, numbers include Bharti AXA GI's merger. YoY numbers are not comparable for Q2FY22 as Q2FY21 is standalone ICICIGI. Source: Company, HSIE Research

### Estimate Change

| INR bn | FY22E | | | FY23E | | | FY24E | | |
|---|---|---|---|---|---|---|---|---|---|
| | Revised | Old | *Change %/bps* | Revised | Old | *Changee %/bps* | Revised | Old | *Changee %/bps* |
| Premium (NWP) | 135 | 142 | (4.6) | 158 | 161 | (1.6) | 184 | 187 | (1.6) |
| Premium (NEP) | 131 | 137 | (4.6) | 154 | 156 | (1.6) | 177 | 180 | (1.6) |
| COR (%) | 106.6 | 106.9 | -30bps | 101.2 | 101.6 | -38bps | 101.4 | 101.4 | 0bps |
| COR (%) IRDAI | 107.1 | 106.2 | 91bps | 101.3 | 101.3 | 1bps | 100.8 | 100.6 | 20bps |
| APAT | 14 | 14 | (0.2) | 24 | 24 | (0.5) | 27 | 26 | 0.7 |

Source: Company, HSIE Research

## REDUCE

| | |
|---|---|
| **CMP** ***(as on 18 Nov 21)*** | **INR 1,512** |
| **Target Price** | **INR 1,350** |
| **NIFTY** | **17,765** |

| **KEY CHANGES** | **OLD** | **NEW** |
|---|---|---|
| Rating | REDUCE | REDUCE |
| Price Target | INR 1,350 | INR 1,350 |
| EPS % | FY21E | FY22E |
| | -0.2 | -0.5 |

**KEY STOCK DATA**

| | |
|---|---|
| Bloomberg code | ICICIGI IN |
| No. of Shares (mn) | 491 |
| MCap (INR bn) / ($ mn) | 742/9,969 |
| 6m avg traded value (INR mn) | 1,373 |
| 52 Week high / low | INR 1,703/1,278 |

**STOCK PERFORMANCE (%)**

| | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 1.9 | 1.7 | 15.3 |
| Relative (%) | (5.3) | (17.1) | (19.6) |

**SHAREHOLDING PATTERN (%)**

| | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 51.9 | 48.1 |
| FIs & Local MFs | 11.7 | 10.5 |
| FPIs | 29.8 | 27.7 |
| Public & Others | 6.7 | 13.7 |
| Pledged Shares | Nil | Nil |

*Source : BSE*

Pledged shares as % of total shares

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# Cholamandalam Investment and Finance Company

## Stress book likely to moderate sharply in H2FY22

**Chola's Q2 earnings beat estimates despite muted operating performance, aided by lower-than-anticipated provisioning (0.3% of AUM). The aggregate stressed portfolio (GS-II + GS-III) moderated marginally by 200bps to 19% (Q1FY22: 21%) as borrower income levels were yet to fully recover enough to clear the past arrears completely. Lower provisions dragged coverage to 36.5% (in line with historic trends), although GS-II coverage was high at 13%. While YoY AUM growth softened further to 4.2%, disbursals witnessed an uptick (+35% YoY) and are expected to gain further momentum with a pick-up in economic activity. We believe that these impairment levels, although elevated and likely to normalise by Q4FY22, do not disturb our medium-term thesis on Chola as a formidable franchise likely to consistently deliver 18-20% RoE. We trim our FY22 earnings by 5% to factor in higher credit costs and maintain BUY with a revised target price of INR646 (3.9x Sep'23 ABVPS).**

- **Stressed pool sticky during Q2; moderation likely in H2:** GS-II + GS-III at 19% improved by ~200bps sequentially, although ~50% of GS-II assets are restructured with short-tenure moratorium. As per management, although most borrowers resumed making repayments, the past arrears are not yet completely cleared, thereby delaying reclassification as standard assets. While asset quality was sticky during the quarter, we expect substantial moderation in impairment ratios during H2. With higher provisioning in early delinquency buckets and an improving macro environment, we expect credit costs to normalise further during H2 as well.
- **Muted operating performance:** Chola reported muted NII/PPOP growth of 8%/-3% YoY on the back of moderate AUM growth (+4% YoY) and higher opex. NIMs were steady at 7.7% as tailwinds from funding costs continued to accrue (100bps/20bps decline YoY/QoQ). The spike in opex was driven by higher wage costs and normalised collection and recovery efforts. Disbursals grew 35% YoY across segments - the management indicated that home loans and LAP are likely to grow faster than vehicle finance over the next few years. We factor in AUM CAGR of 13% during FY21-FY24E.

### Financial summary

| (INR bn) | Q2FY22 | Q2FY21 | *YoY (%)* | Q1FY22 | *QoQ (%)* | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| NII | 12.7 | 11.7 | *8.2* | 12.7 | *0.1* | 46.5 | 52.0 | 59.1 | 68.5 |
| PPOP | 8.7 | 9.0 | *(2.7)* | 9.9 | *(11.9)* | 33.6 | 38.5 | 44.9 | 52.0 |
| PAT | 6.1 | 4.3 | *40.4* | 3.3 | *85.6* | 15.1 | 20.6 | 24.9 | 30.1 |
| EPS (INR) | 7.4 | 5.3 | *40.0* | 4.0 | *85.4* | 18.5 | 25.1 | 30.3 | 36.7 |
| ROAE (%) | | | | | | 17.1 | 19.7 | 19.9 | 20.0 |
| ROAA (%) | | | | | | 2.2 | 2.7 | 2.9 | 3.1 |
| ABVPS (INR) | | | | | | 98.2 | 118.2 | 148.1 | 181.3 |
| P/ABV (x) | | | | | | 6.0 | 5.0 | 4.0 | 3.2 |
| P/E (x) | | | | | | 31.8 | 23.4 | 19.4 | 16.0 |

### Change in estimates

| (INR bn) | FY22E | | | FY23E | | | FY24E | | |
|---|---|---|---|---|---|---|---|---|---|
| | Old | New | Change | Old | New | Change | Old | New | Change |
| AUM | 785.2 | 762.2 | -2.9% | 891.8 | 865.6 | -2.9% | 1,042.8 | 1,014.0 | -2.8% |
| NIM (%) | 7.12 | 7.11 | -1 bps | 6.98 | 7.26 | 28 bps | 7.06 | 7.29 | 23 bps |
| NII | 52.9 | 52.0 | -1.6% | 58.5 | 59.1 | 1.0% | 68.3 | 68.5 | 0.3% |
| PPOP | 39.9 | 38.5 | -3.6% | 44.2 | 44.9 | 1.6% | 52.1 | 52.0 | -0.1% |
| PAT | 21.7 | 20.6 | -5.0% | 25.8 | 24.9 | -3.8% | 30.7 | 30.1 | -2.1% |
| Adj. BVPS (INR) | 123.5 | 118.4 | -4.1% | 150.7 | 148.4 | -1.5% | 181.9 | 181.6 | -0.1% |

Source: Company, HSIE Research

## BUY

| | |
|---|---|
| **CMP *(as on 1 Nov 2021)*** | **INR 589** |
| **Target Price** | **INR 646** |
| **NIFTY** | **17,930** |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | BUY | BUY |
| Price Target | INR 652 | INR 646 |
| EPS % | FY22E | FY23E |
| | -5% | 1% |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | CIFC IN |
| No. of Shares (mn) | 820 |
| MCap (INR bn) / ($ mn) | 483/6,489 |
| 6m avg traded value (INR mn) | 2,066 |
| 52 Week high / low | INR 634/269 |

**STOCK PERFORMANCE (%)**

| | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 23.7 | 3.0 | 115.4 |
| Relative (%) | 9.4 | (20.3) | 63.6 |

**SHAREHOLDING PATTERN (%)**

| | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 51.6 | 51.6 |
| FIs & Local MFs | 21.2 | 22.4 |
| FPIs | 18.9 | 17.9 |
| Public & Others | 8.3 | 8.1 |
| Pledged Shares | 0.0 | 0.0 |

*Source : BSE*

Pledged shares as % of total shares

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# Bandhan Bank

## Accelerated provisioning appears too conservative

**Despite a healthy pick-up in disbursals (+29% YoY), Bandhan reported a loss of INR30bn due to accelerated provisioning on its elevated stressed portfolio (GNPA + restructured book at 21% of loan book). Bulk of the stress continues to stem from the micro-credit portfolio (>80% of stressed assets vs. two-thirds of loans), with a disproportionate share from Assam and West Bengal. On the back of a gradual pick-up in the macro environment, the stressed pool is likely to normalise from Q3FY22, coupled with a stronger disbursal momentum. Bandhan significantly shored up its coverage, offering comfort on incremental credit costs. We hack our FY22/FY23 earnings forecasts by 59%/13% to factor in accelerated provisioning; however, we see little risk to longer-term franchise profitability. Low-cost deposit traction and a strong RoE potential underpin our BUY stance with a revised target price of INR387 (2.7x Sep'23 ABVPS).**

- **Microcredit stress materialises; provisions appear conservative:** Bandhan reported elevated gross slippages of 16% (annualised) as the book continued to reel under the COVID impact. Restructured book also witnessed a 400bps increase to 10.2%. However, the pick-up in collection efficiency and decline in early delinquencies in the EEB portfolio by ~300bps indicate peaking out of the stressed pool. Bandhan shored up its provisioning across buckets, although the bank is upbeat about upgrades and recoveries in subsequent quarters. Assam and West Bengal witnessed strong uptick in collection efficiencies (82%/92% during Sep'21) as well as a sharp decline in SMA-I/II buckets. Other segments witnessed marginal deterioration in asset quality with housing finance/commercial segment GNPA at 3.7%/9.6%.
- **Potential RoA reversion contingent on portfolio stabilisation**: Disbursals witnessed a sharp uptick (+29% YoY, 127% QoQ) on the back of pent-up demand, although credit growth is likely to remain soft in the near term on account of tighter gating criteria and muted growth in borrower count (+4% YoY). While FY22 RoA is likely to be soft, we see portfolio stabilisation and growth momentum as catalysts to drive its potential RoE of ~18-20%.

### Financial summary

| (INR bn) | 2Q FY22 | 2Q FY21 | *YoY (%)* | 1Q FY22 | *QoQ (%)* | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| NII | 19.4 | 19.2 | *0.6%* | 21.1 | *-8.5%* | 75.6 | 86.4 | 99.5 | 119.5 |
| PPOP | 15.5 | 16.3 | *-4.8%* | 18.7 | *-17.2%* | 68.6 | 74.1 | 82.4 | 95.8 |
| PAT | (30.1) | 9.2 | *NM* | 3.7 | *NM* | 22.1 | 14.6 | 42.9 | 54.3 |
| EPS (INR) | (18.7) | 5.7 | *NM* | 2.3 | *NM* | 13.7 | 9.0 | 26.7 | 33.7 |
| ROAE (%) | | | | | | 13.5 | 8.1 | 20.9 | 21.9 |
| ROAA (%) | | | | | | 2.1 | 1.2 | 2.9 | 3.1 |
| ABVPS (INR) | | | | | | 90.3 | 102.6 | 130.8 | 159.3 |
| P/ABV (x) | | | | | | 3.2 | 2.8 | 2.2 | 1.8 |
| P/E (x) | | | | | | 21.3 | 32.3 | 11.0 | 8.7 |

### Change in estimates

| (INR bn) | FY22E | | | FY23E | | | FY24E | | |
|---|---|---|---|---|---|---|---|---|---|
| | Old | New | Change | Old | New | Change | Old | New | Change |
| Net advances | 962 | 891 | -7.4% | 1,171 | 1,075 | -8.2% | 1,413 | 1,303 | -7.8% |
| NIM (%) | 7.9 | 7.6 | -27 bps | 7.7 | 7.6 | -10 bps | 7.6 | 7.7 | 8 bps |
| NII | 93.1 | 86.4 | -7.3% | 109.3 | 99.5 | -8.9% | 128.9 | 119.5 | -7.3% |
| PPOP | 80.3 | 74.1 | -7.8% | 91.7 | 82.4 | -10.1% | 104.7 | 95.8 | -8.6% |
| PAT | 35.3 | 14.6 | -58.8% | 49.1 | 42.9 | -12.6% | 57.4 | 54.3 | -5.3% |
| Adj. BVPS (INR) | 119.6 | 102.6 | -14.3% | 147.7 | 130.8 | -11.4% | 177.4 | 159.3 | -10.2% |

Source: Company, HSIE Research

## BUY

| | |
|---|---|
| **CMP** ***(as on 29 Oct 2021)*** | **INR 291** |
| **Target Price** | **INR 387** |
| **NIFTY** | **17,672** |

| **KEY CHANGES** | **OLD** | **NEW** |
|---|---|---|
| Rating | BUY | BUY |
| Price Target | INR 441 | INR 387 |
| EPS % | FY22E | FY23E |
| | -59% | -13% |

**KEY STOCK DATA**

| | |
|---|---|
| Bloomberg code | BANDHAN IN |
| No. of Shares (mn) | 1,611 |
| MCap (INR bn) / ($ mn) | 469/6,308 |
| 6m avg traded value (INR mn) | 2,300 |
| 52 Week high / low | INR 431/259 |

**STOCK PERFORMANCE (%)**

| | **3M** | **6M** | **12M** |
|---|---|---|---|
| Absolute (%) | (0.4) | (12.2) | (0.6) |
| Relative (%) | (13.0) | (31.4) | (49.8) |

**SHAREHOLDING PATTERN (%)**

| | **Jun-21** | **Sep-21** |
|---|---|---|
| Promoters | 40.0 | 40.0 |
| FIs & Local MFs | 15.4 | 16.1 |
| FPIs | 35.4 | 33.6 |
| Public & Others | 9.1 | 10.3 |
| Pledged Shares | 0.0 | 0.0 |

*Source : BSE*

Pledged shares as % of total shares

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# Shriram Transport Finance Company

## Cyclical proxy to favourable macro tailwinds

**Shriram Transport Finance's (SHTF) Q2FY22 earnings surprised expectations, largely on the back of marginal improvement in asset quality that necessitated lower impairment provisioning. The stressed pool (GS-II + GS-III) tapered off by 200bps sequentially to 20.6% of loans on account of an improvement in the macro environment and a steady rebound in collections and recoveries. SHTF continued its business momentum with disbursals at INR179bn (125% of pre-COVID levels) and the management is confident of achieving double-digit AUM growth by Q4FY22. With the current stock of provisions at 7.6% of AUM (GS-III PCR at 49%), we expect normalised provisioning during H2FY22. We downgrade our FY22 earnings estimates by 11% to factor in sticky credit costs and maintain ADD with a revised target price of INR1,552 (1.5x Sep'23 ABVPS).**

- **Muted P&L performance; CoF tailwinds to gradually accrue:** SHTF reported muted NII growth (+5% YoY), with sequentially flat NIM (6.4%) even as the benign funding environment is belatedly getting reflected in funding cost benefit for SHTF (~36bps decline on YoY basis). The rundown of surplus liquidity (~14% of AUM), combined with the delayed repricing of liabilities, is likely to reflate the margin further by up to ~30bps. The company reported strong other income of INR1.2bn (largely securitisation-driven), driving YoY PPOP growth of 9%.
- **GS-III to taper off; provisions to sustain through FY22:** SHTF reported GS-II/GS-III at 12.8%/7.8% (Q1FY22: 14.5%/8.2%) - the GS-II portfolio included a restructured loan book at ~1% of AUM. The aggregate stress pool of 21% is nearly on par with CIFC (19%) and favourable relative to MMFS (32%). The management has guided for GS-III/NS-III of 7%/4% by Q4FY22 on the back of a visible improvement in collections and recovery efforts.
- **Strong disbursements but sustainability is the key:** SHTF's disbursements in Q2FY22 were at INR148.7bn, reflecting sustained momentum for the fourth successive quarter. While the management has attributed this growth to sanctioned backlogs, price hikes in CVs, and increased demand for used CVs, we believe sustainability is key amidst softer industry growth prints.

### Financial summary

| (INR bn) | Q2FY22 | Q2FY21 | YoY (%) | Q1FY22 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| NII | 21.4 | 20.4 | 5.2 | 19.8 | 8.2 | 80.7 | 86.0 | 97.7 | 113.1 |
| PPOP | 17.2 | 15.8 | 8.9 | 16.7 | 2.5 | 64.0 | 68.4 | 76.5 | 89.4 |
| PAT | 7.7 | 6.8 | 12.7 | 1.7 | 353.8 | 24.9 | 26.8 | 37.8 | 46.9 |
| EPS (INR) | 28.7 | 27.8 | 3.3 | 6.6 | 332.4 | 98.3 | 99.8 | 140.5 | 173.5 |
| ROAE (%) | | | | | | 12.6 | 11.2 | 13.5 | 14.7 |
| ROAA (%) | | | | | | 2.0 | 2.0 | 2.6 | 2.9 |
| ABVPS (INR) | | | | | | 662.4 | 795.3 | 973.0 | 1,133.0 |
| P/ABV (x) | | | | | | 2.2 | 1.8 | 1.5 | 1.3 |
| P/E (x) | | | | | | 14.6 | 14.4 | 10.2 | 8.3 |

### Change in estimates

| (INR bn) | FY22E | | | FY23E | | | FY24E | | |
|---|---|---|---|---|---|---|---|---|---|
| | Old | New | Change | Old | New | Change | Old | New | Change |
| AUM | 1,276 | 0.0% | 1,397 | 1,403 | 0.4% | 1,577 | 1,583 | 0.4% | 1,276 |
| NIM (%) | 7.0 | -10 bps | 7.3 | 7.3 | 2 bps | 7.6 | 7.6 | 1 bps | 7.0 |
| NII | 86.0 | -1.4% | 97.2 | 97.7 | 0.5% | 112.5 | 113.1 | 0.6% | 86.0 |
| PPOP | 68.4 | 1.5% | 74.9 | 76.5 | 2.2% | 87.7 | 89.4 | 2.0% | 68.4 |
| PAT | 26.8 | -10.0% | 37.3 | 36.9 | -1.2% | 46.2 | 45.0 | -2.6% | 26.8 |
| Adj. BVPS (INR) | 795 | -1.9% | 986 | 939 | -4.8% | 1,135 | 1,081 | -4.8% | 795 |

Source: Company, HSIE Research

## ADD

| | |
|---|---|
| CMP *(as on 29 Oct 2021)* | INR 1,436 |
| Target Price | INR 1,552 |
| NIFTY | 17,672 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | ADD | ADD |
| Price Target | INR1615 | INR1552 |
| EPS % | FY22E | FY23E |
| | -10% | -2% |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | SHTF IN |
| No. of Shares (mn) | 269 |
| MCap (INR bn) / ($ mn) | 386/5,187 |
| 6m avg traded value (INR mn) | 2,291 |
| 52 Week high / low | INR 1,588/670 |

**STOCK PERFORMANCE (%)**

| | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 4.8 | 1.4 | 105.4 |
| Relative (%) | (7.9) | (17.8) | 56.2 |

**SHAREHOLDING PATTERN (%)**

| | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 25.1 | 25.6 |
| FIs & Local MFs | 11.7 | 14.7 |
| FPIs | 57.5 | 53.7 |
| Public & Others | 5.7 | 5.9 |
| Pledged Shares | 0.0 | 0.0 |

*Source : BSE*

Pledged shares as % of total shares

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# AU Small Finance Bank

## No room for disappointments in investment mode

**AUBANK's Q2FY22 earnings surprised positively, largely on account of lower provisioning as asset quality improved sharply after the disappointment over the past couple of quarters. Gross slippages moderated to 2.7% (annualised), driven by sharp upgrades and recoveries, resulting in negative net slippages, driving GNPA down to 3.2% (Q1FY22: 4.3%). Disbursals gathered pace (68% YoY, 171% QoQ) across most segments, although the sustainability of the growth momentum is to be seen. With the customer franchise (ex-wheels) largely in investment mode and vulnerable to economic shocks, and foray into new asset classes (retail unsecured credit), we argue that current valuations (5x Sep'23 ABVPS) are demanding and leave little room for any disappointment. We raise our FY22/FY23 earnings estimates by 6%/3% to factor in lower credit costs and maintain REDUCE with a revised target price of INR1,148.**

- **Higher opex partially offsets strong income growth:** AUBANK reported healthy NII growth of 34% YoY, driven by funding cost tailwinds (90bps YoY compression in H1FY22) and strong AUM growth (+24% YoY). Strong disbursals drove fee income surprise (+97% YoY) although PPOP was softer on account of higher opex.
- **Asset quality improves sequentially:** GNPA/NNPA declined sequentially from 4.3%/2.3% to 3.2%/1.7%, largely driven by upgrades & recoveries (nil write-offs), with ~70% resolution through cash recoveries. Restructured portfolio remained flat sequentially (3.7%) even as the contingency buffer was raised to 0.8% from 0.6% sequentially.
- **Near-term challenges at odds with a lofty valuation:** AUBANK's foray into credit cards and other new segments is likely to be a drag on its cost 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.

### Financial summary

| (INR bn) | Q2 FY22 | Q2 FY21 | YoY (%) | Q1 FY22 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| NII | 7.5 | 5.6 | *34.3%* | 7.2 | *4.0%* | 23.7 | 30.8 | 36.5 | 44.2 |
| PPOP | 3.9 | 4.7 | *-16.1%* | 4.5 | *-13.3%* | 21.6 | 18.2 | 21.4 | 25.7 |
| PAT | 2.8 | 3.2 | *-13.5%* | 2.0 | *37.1%* | 11.7 | 9.3 | 11.4 | 14.6 |
| EPS (INR) | 8.8 | 10.5 | *-15.9%* | 6.4 | *37.0%* | 37.5 | 29.8 | 36.6 | 46.8 |
| ROAE (%) | | | | | | 13.9 | 13.8 | 14.7 | 16.1 |
| ROAA (%) | | | | | | 2.5 | 1.6 | 1.7 | 1.8 |
| ABVPS (INR) | | | | | | 176.8 | 206.0 | 243.3 | 287.6 |
| P/ABV (x) | | | | | | 7.2 | 6.2 | 5.2 | 4.4 |
| P/E (x) | | | | | | 34.0 | 42.8 | 34.9 | 27.2 |

### Change in estimates

| (INR bn) | FY22E | | | FY23E | | | FY24E | | |
|---|---|---|---|---|---|---|---|---|---|
| | Old | New | Change | Old | New | Change | Old | New | Change |
| Net advances | 388 | 401 | 3.5% | 454 | 474 | 4.4% | 565 | 590 | 4.4% |
| NIM (%) | 5.5 | 5.8 | 32 bps | 5.7 | 5.9 | 22 bps | 5.7 | 5.9 | 27 bps |
| NII | 29.3 | 30.8 | 4.9% | 36.2 | 36.5 | 1.1% | 44.1 | 44.2 | 0.3% |
| PPOP | 18.0 | 18.2 | 1.1% | 21.4 | 21.4 | -0.2% | 25.8 | 25.7 | -0.4% |
| PAT | 8.8 | 9.3 | 5.7% | 11.0 | 11.4 | 3.3% | 14.6 | 14.6 | 0.3% |
| Adj. BVPS (INR) | 201.5 | 206.0 | 2.3% | 241.1 | 243.3 | 0.9% | 287.1 | 287.6 | 0.2% |

Source: Company, HSIE Research

## REDUCE

| | |
|---|---|
| **CMP** ***(as on 29 Oct 2021)*** | **INR 1,216** |
| **Target Price** | **INR 1,148** |
| **NIFTY** | **17,672** |

| **KEY CHANGES** | **OLD** | **NEW** |
|---|---|---|
| Rating | REDUCE | REDUCE |
| Price Target | INR 1142 | INR 1148 |
| EPS % | FY22E | FY23E |
| | 6% | 3% |

| **KEY STOCK DATA** | |
|---|---|
| Bloomberg code | AUBANK IN |
| No. of Shares (mn) | 313 |
| MCap (INR bn) / ($ mn) | 381/5,113 |
| 6m avg traded value (INR mn) | 2,046 |
| 52 Week high / low | INR 1,390/720 |

| **STOCK PERFORMANCE (%)** | **3M** | **6M** | **12M** |
|---|---|---|---|
| Absolute (%) | 1.9 | 8.2 | 55.4 |
| Relative (%) | (10.7) | (11.0) | 6.2 |

| **SHAREHOLDING PATTERN (%)** | **Jun-21** | **Sep-21** |
|---|---|---|
| Promoters | 28.4 | 28.4 |
| FIs & Local MFs | 22.4 | 22.0 |
| FPIs | 35.1 | 35.7 |
| Public & Others | 14.0 | 14.0 |
| Pledged Shares | 0.0 | 0.0 |

*Source : BSE*

Pledged shares as % of total shares

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# Max Financial

## Beat on VNB margin; compounding story intact

**MAXL printed better-than-anticipated VNB margin at 29.2% (665bps beat vs. estimate), driven by improving share of high-margin NPAR business (Smart Wealth plan) in the mix, leading to VNB clocking in at INR3.7bn (2y CAGR of 28%). COVID-19 claims in Q2 were 1.5x higher than in Q1; however, the claims environment is softening, and these should be viewed as one-offs. Given the company's focused efforts to raise its share of protection business and our expectation of better fixed cost absorption during H2FY22, we expect MAXL to deliver VNB margins of 25.4-25.7% over FY22E-24E. We expect APE/VNB CAGRs of 15.3/16.1% and operating RoEVs in the range 20-21% over FY21-24E. We retain our ADD rating with a target price of INR1,205 (Sep-22E EV + 20.2x Sep-23E VNB; MAXF remains our high conviction pick within LI portfolio with an implied P/EV multiple at 4% premium to IPRU).**

- **Q2FY22 highlights:** Total APE was in line with our estimate at INR12.8bn (2y CAGR 10.8%); however, the company delivered a significant beat on VNB margin. The share of protection business in the overall mix further moderated to 14%, as individual protection declined 37% YoY (**strong base from Q2FY21**), partially offset by pick-up in group credit and GTI business. While demand for pure-term protection was healthy, MAXL consciously moderated supply in a calibrated manner; also, reinsurers are beginning to enforce stringent underwriting norms and repricing of some products may be on the way. Despite the fact that NPAR's share remained unchanged at 31% in H1, the margin profile was superior on a YoY basis, owing to the new Smart Wealth plan launched in Jul-20 (which now accounts for ~100% of the NPAR business). Coupled with higher sales in the proprietary channel, this resulted in a VNBM beat (+665bps vs. est.) – with margin coming in at 29.2% (+99bps YoY), driving VNB to INR3.7bn (2y CAGR of 28%).
- **Claims to subside amid improved protection prospect:** Against COVID-19 reserves of INR2.7bn at the end of Jun-21, **net COVID-19 claims came in at INR8.4bn (1.5x Q1FY22 claims), and the company still has INR2.35bn in additional reserves to cover late reporting of claims.** However, in recent months, the claims have largely dropped and are likely to be adequately covered by current provisions. Following a softening claims environment, management has guided for a pick-up in the protection business in H2FY22, with a favourable margin outlook as some underwriting guidelines are relaxed in a cautious manner. Persistency improved 200bps/100bps (YoY) across 13th/61st months in H1FY22. EV clocked in at INR130bn (+17.6% YoY).

### Financial summary

| (INR bn) | Q2 FY22 | Q2 FY21 | YoY (%) | Q1 FY21 | QoQ (%) | FY20 | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|---|
| NBP | 18.7 | 16.0 | 17.2 | 12.4 | 50.7 | 55.8 | 68.3 | 77.6 | 89.3 | 103.4 |
| APE | 12.8 | 11.5 | 11.2 | 8.8 | 46.6 | 41.5 | 49.6 | 57.3 | 66.0 | 75.9 |
| VNB | 3.74 | 3.25 | 15.1 | 1.72 | 117.4 | 9.0 | 12.5 | 14.6 | 16.8 | 19.5 |
| VNB Margin (%) | 29.2 | 28.2 | 99bps | 19.7 | 949bps | 21.6 | 25.2 | 25.4 | 25.5 | 25.7 |
| EV | | | | | | 99.8 | 118.3 | 140.7 | 166.6 | 196.9 |
| MCap/EV (x)* | | | | | | 3.7 | 3.6 | 3.0 | 2.6 | 2.2 |
| P/Adj. VNB (x)* | | | | | | 39.6 | 26.2 | 21.2 | 17.0 | 13.3 |
| ROEV | | | | | | 20.3 | 18.6 | 20.2 | 20.7 | 20.4 |

*Refers to implied P/VNB. EV adj for a stake in Max Life.
Source: Company, HSIE Research

## ADD

| | |
|---|---|
| CMP *(as on 10 Nov 2021)* | INR 993 |
| Target Price | INR 1,205 |
| NIFTY | 18,017 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | ADD | ADD |
| Price Target | INR 1,205 | INR 1,205 |
| VNB % | FY21E | FY22E |
| | +0.8% | +1.4% |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | MAXF IN |
| No. of Shares (mn) | 345 |
| MCap (INR bn) / ($ mn) | 343/4,605 |
| 6m avg traded value (INR mn) | 1,070 |
| 52 Week high / low | INR 1,148/599 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | (3.4) | 9.1 | 62.1 |
| Relative (%) | (14.1) | (12.9) | 22.7 |

| SHAREHOLDING PATTERN (%) | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 14.7 | 14.7 |
| FIs & Local MFs | 25.7 | 24.4 |
| FPIs | 26.3 | 27.7 |
| Public & Others | 33.2 | 33.2 |
| Pledged Shares | 9.2 | 8.3 |

*Source : BSE*

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# Nippon Life India Asset Management

## Miss on core; yields under pressure

**Revenue came in marginally below our estimates as a consequence of sustained compression in revenue yields. Market share in the high-margin equity segment slightly moderated (-12bps QoQ) as a result of high intensity in NFOs by peers. We expect NAM to focus on improving its performance to continue recouping its lost market share. However, we downgrade our revenue estimates by 1.5/1.3% on the back of a sharp drop in yields in flagship equity schemes. Driven by cost optimisation, we expect NAM to deliver FY21-24E revenue/NOPLAT CAGRs of 16.5/24.5%. We maintain our ADD rating on the stock with a revised target price of INR 470 (36x Sep-23E EV/NOPLAT + Sep-22E cash and investments). The stock is currently trading at FY23E/24E EV/NOPLAT of 36.5/29.5x and PE of 32/27.2x.**

- **Q2FY22 highlights:** Revenue was materially below the estimate (-6% vs. estimates) at INR 3.28bn (+8.5% QoQ), largely attributable to moderation in revenue yields as a percentage of MF QAAUM by 0.9bps to 49.4bps despite improving equity share in the mix. The SIP book was weak as NAM's SIP market share dipped by a further 13bps sequentially to 6.5%. Admin/operating costs rose higher than our estimates (+6% vs. estimates) on account of increased mobility, resulting in a core operating profit of INR 1.9bn (two-year CAGR at 17%). MTM on equity investments and some recoveries in the Credit Risk Fund (better fixed income yields) resulted in treasury gains of INR 972mn, driving APAT to INR 2.14bn (+18% QoQ).
- **Con call key takeaways:** The primary reasons for pressure on yields are: (1) conscious cutting down of yields in some equity schemes as a strategic move to compete in these buoyant markets; (2) lower TERs in higher AUM slabs; and (3) higher commission pay-outs on NFOs. The strong pipeline of eight NFOs, of which seven are passives and involve no commission pay-outs, would result in better realisations.

### Financial summary

| (INR bn) | Q2FY22 | Q2FY21 | YoY(%) | Q1FY22 | QoQ(%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| Revenue | 3.28 | 2.59 | 26.8 | 3.02 | 8.5 | 10.6 | 13.2 | 14.8 | 16.8 |
| Operating profits | 1.86 | 1.27 | 45.9 | 1.69 | 9.8 | 5.2 | 7.3 | 8.7 | 10.4 |
| OP Margin (%) | 57.0 | 49.7 | 732bps | 56.3 | 72bps | 48.9 | 55.3 | 58.5 | 61.9 |
| APAT | 2.14 | 1.45 | 47.1 | 1.82 | 17.8 | 6.8 | 7.4 | 8.4 | 9.9 |
| EV/NOPLAT (x) | | | | | | 61.2 | 43.2 | 36.5 | 29.5 |
| P/E (x) | | | | | | 39.7 | 36.3 | 32.0 | 27.2 |
| ROE (%) | | | | | | 23.9 | 23.1 | 24.0 | 25.7 |

Source: Company, HSIE Research

### Change in estimates

| (INR bn) | FY22E | | | FY23E | | | FY24E | | |
|---|---|---|---|---|---|---|---|---|---|
| | Revised | Old | *Change (%)* | Revised | Old | *Change (%)* | Revised | Old | *Change (%)* |
| Revenues | 13.2 | 13.4 | -1.5 | 14.8 | 15.0 | -1.3 | 16.8 | 17.0 | -1.2 |
| EBIT | 7.3 | 7.6 | -3.4 | 8.7 | 8.9 | -2.2 | 10.4 | 10.6 | -1.8 |
| EBIT margin (%) | 55.6 | 56.7 | -112bps | 58.6 | 59.2 | -56bps | 62.1 | 62.4 | -34bps |
| NOPLAT | 5.6 | 5.8 | -3.4 | 6.5 | 6.7 | -2.3 | 7.8 | 8.0 | -1.8 |
| APAT | 7.4 | 7.6 | -2.7 | 8.4 | 8.6 | -1.9 | 9.9 | 10.1 | -1.6 |
| RoE (%) | 23.1 | 23.6 | -56bps | 24.0 | 24.3 | -32bps | 25.7 | 26.0 | -24bps |

Source: Company, HSIE Research

## ADD

| | |
|---|---|
| **CMP *(as on 26 Oct 2021)*** | **INR 431** |
| **Target Price** | **INR 470** |
| **NIFTY** | **18,268** |

| **KEY CHANGES** | **OLD** | **NEW** |
|---|---|---|
| Rating | ADD | ADD |
| Price Target | INR 478 | INR 470 |
| EPS % | FY22E | FY23E |
| | -2.7% | -1.9% |

| **KEY STOCK DATA** | |
|---|---|
| Bloomberg code | NAM IN |
| No. of Shares (mn) | 620 |
| MCap (INR bn) / ($ mn) | 267/3,593 |
| 6m avg traded value (INR mn) | 609 |
| 52 Week high / low | INR 477/267 |

| **STOCK PERFORMANCE (%)** | **3M** | **6M** | **12M** |
|---|---|---|---|
| Absolute (%) | 8.5 | 30.3 | 58.6 |
| Relative (%) | (7.6) | 3.5 | 5.7 |

| **SHAREHOLDING PATTERN (%)** | **Jun-21** | **Sep-21** |
|---|---|---|
| Promoters | 74.2 | 74.0 |
| FIs & Local MFs | 7.5 | 8.8 |
| FPIs | 6.2 | 6.6 |
| Public & Others | 12.1 | 10.6 |
| Pledged Shares | Nil | Nil |

*Source : BSE*

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# ICICI Securities

## Market share stabilised; maintain ADD

**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 draw comfort from ISEC's (1) channel-agnostic client acquisition and (2) increasing focus on building digital capabilities. However, we are wary of the impact of any significant market correction on delivery volumes (~75% of broking revenue). Given the positive macro lead indicators (rising retail participation and turbocharged pipeline of primary issuances), we maintain our positive stance on the broking industry and ISEC. We raise our earnings forecasts by 6/1% for FY22E/23E and maintain ADD with a target price of INR975 (24x Sep-23 EPS).**

- **Q2 highlights**: Total broking revenue, at INR5.44bn (+4% QoQ), was a tad ahead of our estimate, led by significant beat on MTF book, partially offset by lower-than-estimated prime plan fees. Pure broking revenues have remained healthy for full-service brokers such as ISEC on the back of higher share of delivery volumes in the mix, reflected in blended yields at 0.61bps (+8bps YoY). Growth in the average MTF + ESOP book was impressive (+42% QoQ) and much ahead of pure broking revenue, suggesting that clients with prime and NEO plans are leveraging heavily, albeit not translating into broking revenue on account of lower rack rates. The implementation of the final phase of peak margin requirement resulted in the cash/derivatives market share slipping further 40/17bps QoQ to 3.1/8.8% - a large part of the market share loss seems to be accruing from low-yielding institutional volumes. The client acquisition run-rate continued to fare well at 583k (Q1FY22: 389k), predominantly through the digital channel. Distribution revenue beat our estimate on the back of higher life insurance yields from NBPs. Buoyant markets and a host of primary issuances aided a 53% sequential growth in advisory service revenue.
- **Sustained healthy margin:** Operating and marketing expenses rose on account of increased mobility and higher customer acquisitions; however, EBITDA margin was strong at 59%. Adjusted PAT clocked in at INR3.5bn (+13% QoQ), led by better-than-expected traction in the MTF portfolio and strong distribution and advisory revenues, partially offset by higher operating expenses.

### Quarterly financial summary

| (INR mn) | 2QFY22 | 2QFY21 | YoY (%) | 1QFY22 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| Adj. revenues | 8,564 | 6,807 | 25.8 | 7,453 | 14.9 | 24,304 | 28,859 | 27,167 | 32,130 |
| EBITDA | 5,436 | 4,141 | 31.3 | 4,705 | 15.5 | 14,365 | 17,249 | 15,697 | 19,742 |
| EBITDA Margin (%) | 63.5 | 60.8 | 264bps | 63.1 | 35bps | 59.1 | 59.8 | 57.8 | 61.4 |
| APAT | 3,512 | 2,781 | 26.3 | 3,107 | 13.0 | 10,678 | 12,950 | 11,296 | 14,851 |
| AEPS | 10.9 | 8.6 | 26.3 | 9.6 | 13.0 | 33.1 | 40.2 | 35.1 | 46.1 |
| EV/EBITDA (x) | | | | | | 20.4 | 17.4 | 18.4 | 14.9 |
| P/E (x) | | | | | | 23.8 | 19.6 | 22.5 | 17.1 |
| ROE (%) | | | | | | 70.4 | 61.8 | 46.1 | 52.2 |

Source: Company, HSIE Research

### Change in estimates

| (INR mn) | FY22E | | | FY23E | | | FY24E | | |
|---|---|---|---|---|---|---|---|---|---|
| | Revised | Old | *Change % / bps* | Revised | Old | *Change % / bps* | Revised | Old | *Change % / bps* |
| Revenues | 28,859 | 27,261 | 5.9 | 27,167 | 26,662 | 1.9 | 32,130 | 31,925 | 0.6 |
| EBITDA | 17,249 | 16,474 | 4.7 | 15,697 | 15,561 | 0.9 | 19,742 | 19,916 | -0.9 |
| EBITDA margin (%) | 59.8 | 60.4 | -67bps | 57.8 | 58.4 | -59bps | 61.4 | 62.4 | -94bps |
| APAT | 12,950 | 12,193 | 6.2 | 11,296 | 11,187 | 1.0 | 14,851 | 14,979 | -0.9 |
| RoE (%) | 40.2 | 37.8 | 6.2 | 35.1 | 34.7 | 1.0 | 46.1 | 46.5 | -0.9 |

Source: Company, HSIE Research

## ADD

| | |
|---|---|
| **CMP *(as on 18 Nov 21)*** | **INR 790** |
| **Target Price** | **INR 975** |
| **NIFTY** | **17,765** |

| **KEY CHANGES** | **OLD** | **NEW** |
|---|---|---|
| Rating | ADD | ADD |
| Price Target | INR 975 | INR 975 |
| EPS % | FY21E | FY22E |
| | +6.2% | +1.0% |

| **KEY STOCK DATA** | |
|---|---|
| Bloomberg code | ISEC IN |
| No. of Shares (mn) | 323 |
| MCap (Rs bn) / ($ mn) | 255/3,423 |
| 6m avg traded value (Rs mn) | 656 |
| 52 Week high / low | Rs 896/357 |

| **STOCK PERFORMANCE (%)** | **3M** | **6M** | **12M** |
|---|---|---|---|
| Absolute (%) | 10.0 | 51.0 | 72.3 |
| Relative (%) | 2.8 | 32.2 | 37.3 |

| **SHAREHOLDING PATTERN (%)** | **Jun-21** | **Sep-21** |
|---|---|---|
| Promoters | 74.9 | 74.9 |
| FIs & Local MFs | 7.3 | 7.5 |
| FPIs | 5.7 | 6.3 |
| Public & Others | 12.1 | 11.3 |
| Pledged Shares | Nil | Nil |

*Source : BSE*

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# Mahindra & Mahindra Financial Services

## A gradual path to recovery

**MMFS's Q2FY22 earnings were significantly ahead of our estimates due to large write-backs on the provisioning undertaken in Q1FY22. MMFS' stressed asset pool (GS II + GS III) has declined moderately to 32%, after peaking out at 35% in the previous quarter, still a long way from the management guidance of ~23-25% by Mar'22. As economic activity improves further and more uniformly, we expect the elevated stress pool to normalise, thus reversing the lion's share of the additional provisioning undertaken during Q1. While disbursements gathered momentum (+61% YoY), it still remains nearly half of pre-COVID levels. We revise our FY22E earnings estimates upwards by 6% to factor in higher upgrades and recoveries driving lower credit costs. We maintain ADD with a revised SOTP-based TP of INR195 (earlier INR191), implying 1.3x Sep'23 ABVPS. Gradual normalisation of portfolio stress, sponsor-backed funding cost advantage, and inexpensive valuations underpin our ADD rating.**

- **Portfolio stress peaking out; making steady progress on recoveries:** MMFS demonstrated gradual signs of receding portfolio stress as GS-II/ GS-III clocked in at 19.7%/12.7% [19.4%/15.5% in Q1FY22]. Restructured portfolio increased from 3.4% to 6.9% sequentially, with bulk of the loans slipping from GS-II portfolio. A sustained pick-up in the macro environment, alongside enhanced focus on collections and recoveries, is likely to ease portfolio stress further. MMFS wrote back INR10bn of provisions from GS-III and is expected to further write back another ~INR12-13bn during H2FY22, as the company reverts to its historical PCR range of ~40-45% (Q2FY22: 53%).
- **Disbursements below pre-COVID level; AUM growth likely during H2:** While disbursements grew 61% YoY, it still remains at ~50% of the pre-COVID level. While the management commentary indicated market share gains in select segments, AUM growth remains subdued (-3% YoY). We expect AUM growth to pick up steam during H2 as disbursals gather further momentum. We build in AUM CAGR of 13% over FY22-24E, led by tractors (17% of AUM), pre-owned vehicles (9%), and auto – M&M (31%).

### Financial summary

| (INR bn) | Q2FY22 | Q2FY21 | *YoY (%)* | Q1FY22 | *QoQ (%)* | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| NII | 14.4 | 13.6 | *6.0* | 11.2 | *28.6* | 55.3 | 57.1 | 64.9 | 72.0 |
| PPOP | 10.2 | 10.3 | *(1.4)* | 7.5 | *35.7* | 41.5 | 40.2 | 44.1 | 45.7 |
| PAT | 10.2 | 3.0 | *237.0* | (15.3) | *NM* | 3.3 | 9.6 | 15.9 | 21.6 |
| EPS (INR) | 8.3 | 2.9 | *190.9* | (12.4) | *NM* | 2.7 | 7.8 | 12.9 | 17.5 |
| ROAE (%) | | | | | | 2.5% | 6.4% | 9.9% | 12.2% |
| ROAA (%) | | | | | | 0.4% | 1.2% | 1.8% | 2.1% |
| ABVPS (INR) | | | | | | 99.7 | 95.1 | 111.7 | 123.6 |
| P/ABV (x) | | | | | | 1.87 | 1.96 | 1.67 | 1.50 |
| P/E (x) | | | | | | 69.6 | 23.8 | 14.4 | 10.6 |

### Change in estimates

| (INR bn) | FY22E | | | FY23E | | | FY24E | | |
|---|---|---|---|---|---|---|---|---|---|
| | Old | New | Change | Old | New | Change | Old | New | Change |
| AUM | 891.0 | 891.0 | 0.0% | 1,011.6 | 1,011.6 | 0.0% | 1,178.6 | 1,178.6 | 0.0% |
| NIM (%) | 6.7 | 6.7 | 0 bps | 6.8 | 6.8 | 0 bps | 6.6 | 6.6 | 1 bps |
| NII | 57.1 | 57.1 | 0.0% | 64.9 | 64.9 | 0.0% | 71.9 | 72.0 | 0.1% |
| PPOP | 40.2 | 40.2 | 0.0% | 44.1 | 44.1 | 0.0% | 45.7 | 45.7 | 0.1% |
| PAT | 9.1 | 9.6 | 5.8% | 16.0 | 15.9 | -0.2% | 21.2 | 21.6 | 1.9% |
| Adj. BVPS (INR) | 90.5 | 95.1 | 5.0% | 107.9 | 111.7 | 3.5% | 121.8 | 123.6 | 1.5% |

Source: Company, HSIE Research

**ADD**

| | |
|---|---|
| **CMP *(as on 28 Oct 2021)*** | **INR 186** |
| **Target Price** | **INR 195** |
| **NIFTY** | **17,857** |

| **KEY CHANGES** | **OLD** | **NEW** |
|---|---|---|
| Rating | ADD | ADD |
| Price Target | INR 191 | INR 195 |
| EPS % | FY22E | FY23E |
| | 6% | 0% |

| **KEY STOCK DATA** | |
|---|---|
| Bloomberg code | MMFS IN |
| No. of Shares (mn) | 1,236 |
| MCap (INR bn) / ($ mn) | 229/3,081 |
| 6m avg traded value (INR mn) | 1,418 |
| 52 Week high / low | INR 224/118 |

| **STOCK PERFORMANCE (%)** | **3M** | **6M** | **12M** |
|---|---|---|---|
| Absolute (%) | 30.2 | 10.8 | 52.9 |
| Relative (%) | 15.9 | (9.8) | 2.7 |

| **SHAREHOLDING PATTERN (%)** | **Jun-21** | **Sep-21** |
|---|---|---|
| Promoters | 52.2 | 52.2 |
| FIs & Local MFs | 17.5 | 17.7 |
| FPIs | 17.9 | 19.0 |
| Public & Others | 12.4 | 10.9 |
| Pledged Shares | 0.0 | 0.0 |

*Source : BSE*

Pledged shares as % of total shares

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# LIC Housing Finance

## A tortuous road to normalisation

**LICHF disappointed, driven by elevated provisioning (1.1% of loans, annualised) and interest reversals (INR1.35bn). While asset quality improved across buckets, aggregate stressed pool (GS-II + GS-III + restructured) still remains elevated (12.6% vs. 13.6% in Jun'21), indicating that the path to normalisation is likely to be prolonged. The company shored up its GS-III provisions significantly to 43%, driving credit costs higher, although GS-II provisioning coverage continues to be subdued (0.2% PCR). Disbursements gathered momentum post the second wave (+29% YoY, +86% QoQ), largely from the core mortgage segment. We downgrade our FY22E earnings by 7% to reflect sub-optimal yields and higher-than-expected credit costs. We maintain REDUCE with a revised TP of INR401 (earlier TP of INR421), 1.0x Sep'23 ABVPS, underpinned by low provisioning buffer, prolonged stress in the portfolio, and increasing competitive intensity in the core mortgage portfolio.**

- **Asset quality improves but impairment elevated:** LICHF's GS-II/GS-III improved sequentially to 4.4%/5.1% (Q1FY22: 5.4%/5.9%), while the restructured book rose to 3.1% of loans (Q1FY22: 2.3%). While there is an optical improvement in delinquencies and a sharp improvement in GS-III PCR (43% vs. 34% in Q1FY22), portfolio normalisation towards steady-state has been slower than expected. Retail home loans GS-III improved to 2.25% (Q1: 2.6%), while the developer book GS-III remained elevated at ~24%.
- **Rising competitive intensity reflecting in subdued yields:** Margin contracted 20bps sequentially to 2% from interest reversals (INR1.4bn) on account of restructured advances. LICHF's NIMs have witnessed over 40bps compression over the past couple of quarters despite significant funding cost tailwinds (incremental COF at 4.9% vs. weighted average COF of 6.8%). This is likely on account of the rising competitive intensity and consequent aggressive pricing by LICHF in the core mortgage segment. In fact, our REDUCE stance is largely underpinned on such lopsided risk management.

### Financial summary

| (INR bn) | 2QFY22 | 2QFY21 | YoY (%) | 1QFY22 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| NII | 11.7 | 12.4 | *(5.7)* | 12.8 | *(8.5)* | 52.4 | 57.0 | 63.5 | 70.2 |
| PPOP | 9.3 | 11.1 | *(16.7)* | 10.2 | *(9.5)* | 46.7 | 49.2 | 56.7 | 62.3 |
| PAT | 2.3 | 7.9 | *(70.6)* | 1.6 | *48.2* | 27.3 | 22.9 | 28.8 | 32.6 |
| EPS (INR) | 4.5 | 15.7 | *(71.2)* | 3.0 | *48.4* | 54.2 | 41.6 | 52.3 | 59.2 |
| ROAE (%) | | | | | | 14.1% | 10.0% | 10.9% | 11.1% |
| ROAA (%) | | | | | | 1.2% | 0.9% | 1.0% | 1.0% |
| ABVPS (INR) | | | | | | 289.4 | 331.7 | 373.0 | 424.1 |
| P/ABV (x) | | | | | | 1.4 | 1.2 | 1.1 | 1.0 |
| P/E (x) | | | | | | 7.6 | 9.8 | 7.8 | 6.9 |

### Change in estimates

| INR bn | FY22E | | | FY23E | | | FY24E | | |
|---|---|---|---|---|---|---|---|---|---|
| | Old | New | Old | Old | New | Chg | Old | New | Chg |
| AUM | 2,533.4 | 2,533.8 | *0.0%* | 2,828.2 | 2,828.3 | 0.0% | 3,160.0 | 3,160.4 | *0.0%* |
| NIM (%) | 2.4 | 2.4 | *0 bps* | 2.3 | 2.4 | 3 bps | 2.3 | 2.3 | *0 bps* |
| NII | 56.9 | 57.0 | *0.1%* | 62.8 | 63.5 | 1.2% | 70.2 | 70.2 | *0.0%* |
| PPOP | 49.8 | 49.2 | *-1.2%* | 55.9 | 56.7 | 1.5% | 62.3 | 62.3 | *0.0%* |
| PAT | 24.7 | 22.9 | *-7.3%* | 28.7 | 28.8 | 0.4% | 33.0 | 32.6 | *-1.2%* |
| ABVPS (INR) | 339.1 | 331.7 | *-2.2%* | 378.9 | 373.0 | -1.5% | 428.4 | 424.1 | *-1.0%* |

Source: Company, HSIE Research

## REDUCE

| | |
|---|---|
| CMP *(as on 22 Oct 2021)* | INR 409 |
| Target Price | INR 401 |
| NIFTY | 18,115 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | REDUCE | REDUCE |
| Price Target | INR421 | INR401 |
| EPS % | FY22E | FY23E |
| | -7.3% | 0.4% |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | LICHF IN |
| No. of Shares (mn) | 550 |
| MCap (INR bn) / ($ mn) | 225/3,019 |
| 6m avg traded value (INR mn) | 1,778 |
| 52 Week high / low | INR 542/281 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | (10.7) | 5.6 | 32.4 |
| Relative (%) | (25.8) | (20.9) | (17.6) |

| SHAREHOLDING PATTERN (%) | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 40.3 | 45.2 |
| FIs & Local MFs | 15.6 | 14.8 |
| FPIs | 28.8 | 24.1 |
| Public & Others | 15.3 | 15.7 |
| Pledged Shares | 0.0 | 0.0 |

*Source : BSE*

Pledged shares as % of total shares

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# Federal Bank

## Refreshing confidence meets impressive all-round beat

**Federal Bank (FB)'s Q2FY22 earnings were 20% higher than our forecasts due to a strong operating performance and lower-than-expected provisions. On the back of a granular wholesale portfolio and its secured retail franchise, FB reported an impressive asset quality with slippages at 1.1% and steady early-stage delinquencies (restructured book inched up to 2.6% of loans). The bank continued to showcase strong traction in low-cost deposits (CASA at 36%) and core fee income. FB's partnerships with FinTechs (with neo-banks, payments firms, and merchant acquirers) offer medium-term catalysts for higher productivity (business growth) and greater efficiencies (profitability), early evidence of which is reflected in the pace of new account additions. We revise our FY22E earnings marginally downwards to account for an increase in credit costs and maintain BUY with a revised TP of INR120 (1.2x Sep-23 ABVPS).**

- **Strong operating performance led by fee income, lower provisions**: FB reported healthy PAT growth (+50% YoY) on the back of strong fee traction (+30% YoY) and lower provisions (0.8% of loans). Funding cost tailwinds (13 bps QoQ) and steady asset yields continued to reflate NIMs (3.2%). Loan growth (+9.4%) was driven by retail (+11.6%) and agri (+19.9%) segments.
- **Asset quality improves; restructured portfolio increases:** GNPA moderated to 3.24% from 3.5% sequentially, led by healthy recoveries/upgrades (1.3%) and low slippages (1.1%). Incremental slippages were largely from the non-corporate portfolio (SME: 2.2%; agri: 2.4%). The restructured book, however, increased 70bps sequentially to 2.6% of loans and comprises secured retail (home loans and LAP) and SME loans, lending comfort on the likely eventual LGDs in the portfolio.
- **FinTech partnerships help build new growth engines**: FB is among the early adopters using FinTech partnerships to build new growth avenues in its effort to boost its profitability, as reflected in recent productivity gains (daily account opening and deployment run rate).

### Financial summary

| (INR bn) | 2QFY22 | 2QFY21 | YoY (%) | 1QFY22 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| NII | 14.8 | 13.8 | *7.2%* | 14.2 | *4.3%* | 55.3 | 62.0 | 71.6 | 82.3 |
| PPOP | 8.6 | 10.1 | *-14.1%* | 11.4 | *-23.8%* | 37.9 | 42.0 | 47.1 | 54.5 |
| PAT | 4.6 | 3.1 | *49.8%* | 3.7 | *25.3%* | 15.9 | 19.8 | 24.7 | 30.0 |
| EPS (INR) | 2.2 | 1.5 | *44.2%* | 1.8 | *21.3%* | 8.0 | 9.4 | 11.8 | 14.3 |
| ROAE (%) | | | | | | 10.4 | 11.4 | 12.5 | 13.6 |
| ROAA (%) | | | | | | 0.8 | 0.9 | 1.0 | 1.1 |
| ABVPS (INR) | | | | | | 72.7 | 81.1 | 91.9 | 103.2 |
| P/ABV (x) | | | | | | 1.4 | 1.3 | 1.1 | 1.0 |
| P/E (x) | | | | | | 12.9 | 10.9 | 8.8 | 7.2 |

### Change in estimates

| INR bn | FY22E | | | FY23E | | | FY24E | | |
|---|---|---|---|---|---|---|---|---|---|
| | Old | New | Old | Old | New | Chg | Old | New | Chg |
| Net advances | 1,478 | 1,464 | -1.0% | 1,672 | 1,665 | -0.4% | 1,905 | 1,899 | -0.3% |
| NIM (%) | 3.3 | 3.3 | -3 bps | 3.3 | 3.4 | 2 bps | 3.4 | 3.4 | 2 bps |
| NII | 62.9 | 62.0 | -1.4% | 71.5 | 71.6 | 0.2% | 82.2 | 82.3 | 0.2% |
| PPOP | 42.9 | 42.0 | -2.0% | 46.9 | 47.1 | 0.3% | 53.6 | 54.5 | 1.8% |
| PAT | 20.8 | 19.8 | -4.8% | 24.7 | 24.7 | 0.0% | 29.8 | 30.0 | 0.7% |
| ABVPS (INR) | 82.5 | 81.1 | -1.7% | 93.7 | 91.9 | -2.0% | 104.1 | 103.2 | -1.0% |

Source: Company, HSIE Research

## BUY

| | |
|---|---|
| CMP *(as on 22 Oct 2021)* | INR 104 |
| Target Price | INR 120 |
| NIFTY | 18,115 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | BUY | BUY |
| Price Target | INR 109 | INR 120 |
| EPS % | FY22E | FY23E |
| | -4.8% | 0% |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | FB IN |
| No. of Shares (mn) | 2,101 |
| MCap (INR bn) / ($ mn) | 218/2,934 |
| 6m avg traded value (INR mn) | 1,776 |
| 52 Week high / low | INR 106/50 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 23.3 | 44.8 | 83.9 |
| Relative (%) | 8.2 | 18.3 | 33.9 |

| SHAREHOLDING PATTERN (%) | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 0.0 | 0.0 |
| FIs & Local MFs | 43.9 | 42.5 |
| FPIs | 24.1 | 25.9 |
| Public & Others | 32.1 | 31.6 |
| Pledged Shares | - | - |

*Source : BSE*

Pledged shares as % of total shares

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# Computer Age Management Services

## Higher expenses drag core earnings; maintain REDUCE

**CAMS reported in-line revenue (+13% QoQ); however, higher operating costs drove an 11% miss on core income, which was at INR921mn. While core yields continued to witness compression, in line with industry trends, paper-based revenue improved on the back of higher SIP registrations and NFO transactions. With market leadership in the duopoly RTA market (70% share of the MF MAAUM), CAMS is a proxy to India's growing asset management industry. Significant entry barriers coupled with high switching costs place CAMS in a uniquely advantageous position. We expect FY21-24E revenue and operating profit CAGRs of 16/23%, which are expected to be driven by buoyant equity flows and increasing contribution from nascent businesses, including payments, AIF, and insurance. We value CAMS at 38x Sep-23E EV/NOPLAT + Sep-22 cash and investments and retain our REDUCE rating with a target price of INR2,555, given the steep valuation. The stock is currently trading at FY23E/24E EV/NOPLAT of 48x/42x and P/E of 47x/41x.**

- **Q2FY22 highlights:** In-line revenue, at INR2.3bn, continued to witness yield compression on asset-based revenue, whereas paper-based revenue saw a sequential uptick on account of higher SIP registrations and a buoyant NFO market. The gradual reopening of offices in Q2 resulted in higher-than-estimated opex (10% steeper than our forecasts) which, coupled with higher staff costs, dragged profitability with core operating profits at INR0.92bn (11% miss on estimates) and APAT clocking in at INR0.73bn (+14.7% QoQ).

- **Revenue yields under pressure:** CAMS' MF Q2FY22 AAUM market share expanded 40bps to 70% (ex-FT AAUM), resulting in MF AAUM at INR25.5trn. **Despite the share of equity improving in the mix (+310bps QoQ), MF asset-based revenue yields were flat sequentially, indicating sustained pressure on yields.** CamFinserv, one of the subsidiary businesses, has tied up with a few top banks and commenced its account aggregator (AA) operations. Although the outlook for the AA business remains positive, any meaningful revenue generation will need sizeable investments to develop a Financial Information User (FIU) network. FT AMC's operations have started to generate revenue, though EBITDA remains negative (projected to break even by Q4FY22).

### Financial Summary

| (INR bn) | Q2 FY22 | Q2 FY21 | YoY (%) | Q1Q FY22 | QoQ (%) | FY21 | FY222E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| Revenues | 2.3 | 1.7 | 33.0 | 2.0 | 13.1 | 7.1 | 8.9 | 9.8 | 10.9 |
| Operating profits | 0.9 | 0.6 | 50.9 | 0.8 | 14.4 | 2.4 | 3.4 | 3.9 | 4.5 |
| OP margin (%) | 40.5 | 35.7 | 480bps | 40.0 | 46bps | 34.7 | 38.7 | 40.0 | 41.3 |
| NOPLAT | 0.7 | 0.5 | 53.2 | 0.6 | 15.7 | 1.8 | 2.6 | 2.9 | 3.4 |
| APAT | 0.7 | 0.5 | 48.2 | 0.6 | 14.7 | 2.1 | 2.7 | 3.1 | 3.6 |
| EV/NOPLAT (x) | | | | | | 78.2 | 55.5 | 48.1 | 41.6 |
| P/E (x) | | | | | | 71.5 | 53.9 | 46.6 | 40.9 |
| ROE (%) | | | | | | 38.9 | 48.3 | 47.2 | 45.7 |

Source: Company, HSIE Research

## REDUCE

| | |
|---|---|
| CMP *(as on 15 Nov 2021)* | INR 3,000 |
| Target Price | INR 2,555 |
| NIFTY | 18,109 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | REDUCE | REDUCE |
| Price Target | INR 2,555 | INR 2,555 |
| EPS % | FY22E | FY23E |
| | -2.1% | -0.6% |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | CAMS IN |
| No. of Shares (mn) | 49 |
| MCap (INR bn) / ($ mn) | 147/1,972 |
| 6m avg traded value (INR mn) | 1,190 |
| 52 Week high / low | INR 4,067/1,311 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | (4.1) | 31.8 | 128.9 |
| Relative (%) | (13.6) | 7.2 | 89.7 |

| SHAREHOLDING PATTERN (%) | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 31.0 | 31.0 |
| FIs & Local MFs | 19.8 | 13.2 |
| FPIs | 25.1 | 26.5 |
| Public & Others | 24.1 | 29.4 |
| Pledged Shares | Nil | Nil |

*Source : BSE*

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# Motilal Oswal Financial Services

## All-round impressive quarter

**Pure broking revenue along with NII on MTF book beat estimates, driving capital markets APAT to INR1.4bn (+51% QoQ). Additionally, cash market share improved for the first time in six quarters. AMC's (ex-WM) APAT beat was driven by improved EBITDA margin and exit from GR Infra. A significant MTM gain (INR2.7bn) resulted in MOFS (excluding MOHFL) clocking an APAT of INR5.3bn (+1.8x QoQ). We raise our revenue estimates by 25/10% to factor in higher cash market share, funding book, profit from exits in PE segment, FV of PE funds, and strong response on IBEF IV fund. We upgrade the stock to ADD with a revised target price of INR1,000 (15x/25x Sep'23E broking/AMC APAT, + 0.7x/0.5x for Sep'22E treasury/MOHFL).**

- **Core segments: AMC (ex-WM):** Adjusted PAT was spectacular at INR1.2bn (+2x QoQ), largely on account of exit from GR Infra to the tune of INR827mn. MOAMC saw net inflows of INR8.5bn with flow being skewed towards passive schemes (net flows in MF/alternates at INR +8bn/INR 0.5bn). **Capital markets (including WM)** reported a superlative PAT of INR1.4bn (+51% QoQ, 50% beat) on the back of the following: (1) market share gains (6.3%; +67bps QoQ) in high-yielding cash ADTV; (2) strong 21% sequential growth in funding book driving net interest income +81% QoQ and (3) better-than-expected WM performance.
- **Non-core segments:** Treasury reported MTM gain on investments of INR2.7bn (vs. estimated INR0.8bn) as a consequence of fair value of PE/RE funds (INR1.3bn) being one-offs and further improvement in equity markets. **MOHFL** disbursements, at INR1.6bn, picked up (+74% QoQ) on the back of improving macro conditions and NNPA moderated to 1.4% (vs. 3.3% in Q1).
- **Outlook:** We remain positive on AMC and PE business on the back of positive flow environment and IBEF IV (estimated commitments at INR40bn) receiving a strong response. While broking volumes have remained healthy (ex-futures) after the final phase of peak margin norms, we believe that a sharp correction in equity markets can result in drying up of H2 volumes.

### Financial summary: MOFS (ex-MOHFL)

| (INR bn) | Q2FY22 | Q2FY21 | YoY(%) | Q1FY22 | QoQ(%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| Revenue | 11.56 | 7.10 | 62.8 | 7.08 | 63.2 | 29.3 | 30.3 | 27.3 | 31.9 |
| EBITDA | 6.86 | 3.78 | 81.6 | 3.08 | 122.5 | 14.7 | 13.6 | 9.7 | 11.9 |
| EBITDA Margin (%) | 59 | NM | NM | 44 | 1581bps | 50.2 | 45.0 | 35.5 | 37.4 |
| APAT | 5.16 | 2.69 | 92.2 | 2.13 | 142.8 | 12.0 | 10.3 | 7.5 | 9.8 |
| P/E (x) | | | | | | 10.9 | 12.7 | 17.4 | 13.4 |
| ROE (%) | | | | | | 34.6 | 23.2 | 15.0 | 17.5 |

Source: Company, HSIE Research

### Estimate change

| (INR bn) | FY22E | | | FY23E | | | FY24E | | |
|---|---|---|---|---|---|---|---|---|---|
| | Revised | Old | *Change % / bps* | Revised | Old | *Change % / bps* | Revised | Old | *Change % / bps* |
| Revenues | 30.28 | 24.22 | 25.0 | 27.34 | 24.95 | 9.6 | 31.88 | 29.66 | 7.5 |
| EBITDA | 13.64 | 9.55 | 42.8 | 9.71 | 8.76 | 10.8 | 11.93 | 11.09 | 7.6 |
| EBITDA margin (% | 45.0 | 39.4 | 562 | 35.5 | 35.1 | 39 | 37.4 | 37.4 | 3 |
| APAT | 10.34 | 7.07 | 46.3 | 7.52 | 6.77 | 11.1 | 9.76 | 9.09 | 7.4 |
| RoE (%) | 23.2 | 16.3 | 696 | 15.0 | 14.2 | 83 | 17.5 | 17.2 | 35 |

Source: Company, HSIE Research

## ADD

| | |
|---|---|
| **CMP** *(as on 29 Oct 2021)* | **INR 916** |
| **Target Price** | **INR 1,000** |
| **NIFTY** | **17,672** |

| **KEY CHANGES** | **OLD** | **NEW** |
|---|---|---|
| Rating | REDUCE | ADD |
| Price Target | INR 952 | INR 1,000 |
| EPS % | FY22E | FY23E |
| | +46% | +11% |

| **KEY STOCK DATA** | |
|---|---|
| Bloomberg code | MOFS IN |
| No. of Shares (mn) | 147 |
| MCap (INR bn) / ($ mn) | 135/1,809 |
| 6m avg traded value (INR mn) | 728 |
| 52 Week high / low | INR 1,188/545 |

| **STOCK PERFORMANCE (%)** | **3M** | **6M** | **12M** |
|---|---|---|---|
| Absolute (%) | (13.5) | 45.5 | 64.8 |
| Relative (%) | (26.2) | 26.4 | 15.6 |

| **SHAREHOLDING PATTERN (%)** | **Jun-21** | **Sep-21** |
|---|---|---|
| Promoters | 70.6 | 70.5 |
| FIs & Local MFs | 3.4 | 2.1 |
| FPIs | 9.7 | 9.3 |
| Public & Others | 16.3 | 18.1 |
| Pledged Shares | 0.0 | 0.0 |

*Source : BSE*

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# UTI Asset Management Company

## Growth premium to sustain; staff cost savings delayed

**UTIAM posted depressed yields, resulting in a lower-than-estimated revenue (4% below estimates), although equity QAAUM growth has been faster than peers. In addition, high staff costs continue to pose a significant challenge to core profitability. We draw comfort from management commentary around a healthy NFO pipeline, a buoyant flows environment, and a strong growth outlook for the retirement solutions business. We raise our AUM growth estimates, offset by further yield compression. We expect UTIAM to deliver FY21-24E revenue/NOPLAT CAGRs of 19/42%, as a consequence of strong AUM growth coupled with cost rationalisation. We maintain BUY with an unchanged target price of INR1,340 (28.2x Sep-23E NOPLAT + Sep-21E cash and investments).**

- **Q2FY22 highlights:** Revenue was 4% below estimates at INR2.8bn (+7.2% QoQ) on the back of sustained yield compression in the equity segment. Revenue as a percentage of MF QAAUM declined 2.2bps to 53.7bps despite a higher share of equity (42.7% in Q2FY22) in the mix. Staff costs, at INR1bn (+6.4% QoQ), have continued to stay elevated on account of spot bonuses (INR250mn) and other accruals booked during the quarter. Core operating profit, at INR1.3bn (+24% QoQ), was lower than estimates as lower revenues were further dented by higher staff costs. The accrual of profits to the tune of INR280mn from sale of investments by a VC coupled with lower tax rate on capital gains resulted in higher-than-estimated treasury income, driving APAT +28% QoQ to INR1.99bn (17% beat).
- **Decline in market share:** Market share dropped by 3/26bps to 5/5.9% in active equity/hybrid categories. The management highlighted a healthy NFO pipeline with a multi-cap fund having already secured SEBI approvals and a few other passive funds likely to be launched.
- **Elevated staff costs remain a concern:** Management has guided that overall staff costs will grow in 0-5% range over FY21, and any further improvement in fund performance will result in bonus pay-outs (estimated at INR~350mn for FY22E). The company also anticipates that the larger delta in staff cost savings (~INR750mn) on account of natural retirements will accrue in ~FY24-25E.

### Financial summary

| (INR bn) | Q2 FY22 | Q2 FY21 | YoY (%) | Q1 FY22 | QoQ (%) | FY20 | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 2.80 | 1.99 | 40.6 | 2.61 | 7.2 | 7.9 | 8.1 | 11.1 | 12.1 | 13.5 |
| Operating profits | 1.30 | 0.67 | 93.0 | 1.05 | 23.9 | 2.7 | 2.4 | 4.7 | 5.6 | 6.8 |
| OP Margin (%) | 46.5 | 33.9 | 1260bps | 40.2 | 626bps | 34.1 | 29.5 | 42.5 | 46.1 | 50.6 |
| APAT | 1.99 | 1.19 | 67.6 | 1.55 | 28.2 | 2.7 | 4.9 | 6.2 | 5.9 | 6.7 |
| EV/NOPLAT (x) | | | | | | 49.6 | 52.1 | 25.6 | 21.6 | 18.5 |
| P/E (x) | | | | | | 48.1 | 26.6 | 21.2 | 22.3 | 19.7 |
| ROE (%) | | | | | | 10.2 | 16.5 | 18.5 | 16.4 | 17.4 |

Source: Company, HSIE Research

### Change in estimates

| (INR bn) | FY22E | | | FY23E | | | FY24E | | |
|---|---|---|---|---|---|---|---|---|---|
| | Revised | Old | Change (%) | Revised | Old | Change (%) | Revised | Old | Change (%) |
| Revenues | 11.1 | 11.1 | 0.5 | 12.1 | 12.0 | 0.7 | 13.5 | 13.4 | 0.7 |
| EBIT | 4.8 | 4.8 | -0.2 | 5.7 | 5.7 | -0.1 | 6.9 | 6.9 | 0.8 |
| EBIT margin (%) | 43.3 | 43.7 | -33bps | 47.0 | 47.3 | -38bps | 51.4 | 51.4 | 5bps |
| NOPLAT | 3.9 | 3.8 | 1.6 | 4.5 | 4.5 | -0.1 | 5.1 | 5.1 | 0.9 |
| APAT | 6.2 | 5.8 | 6.1 | 5.9 | 5.9 | 0.0 | 6.7 | 6.6 | 0.7 |
| RoE (%) | 18.5 | 17.4 | 103bps | 16.4 | 16.4 | -6bps | 17.4 | 17.3 | 5bps |

Source: Company, HSIE Research

## BUY

| | |
|---|---|
| CMP *(as on 29 Oct 2021)* | INR 1,036 |
| Target Price | INR 1,340 |
| NIFTY | 17,672 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | BUY | BUY |
| Price Target | INR 1,340 | INR 1,340 |
| EPS % | FY22E | FY23E |
| | +6.1% | +0% |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | UTIAM IN |
| No. of Shares (mn) | 127 |
| MCap (INR bn) / ($ mn) | 131/1,765 |
| 6m avg traded value (INR mn) | 370 |
| 52 Week high / low | INR 1,217/483 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 4.4 | 65.5 | 106.5 |
| Relative (%) | (8.2) | 46.4 | 57.3 |

| SHAREHOLDING PATTERN (%) | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 0.0 | 0.0 |
| FIs & Local MFs | 52.0 | 50.2 |
| FPIs | 4.1 | 4.7 |
| Public & Others | 44.0 | 45.0 |
| Pledged Shares | Nil | Nil |

*Source : BSE*

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# City Union Bank

## Mean reverting to steady state

**City Union Bank's (CUBK) Q2FY22 earnings were a 21% beat due to a positive surprise from other income and lower-than-expected provisioning. Slippages moderated to 3.3% (Q1FY22: 5.6%) which, coupled with strong recoveries and upgrades, kept the GNPA/NNPA flat sequentially at 5.6%/3.5%. While the total stressed pool (NNPA + restructured + SR + SMA-II) was sticky at 12.5%, the management remains upbeat about the portfolio quality with a lower proportion of early delinquencies slipping further into NPA. Credit growth (+7% YoY) continues to be driven by gold loans (+73% YoY) and is exhibiting characteristically low delinquencies (GNPA at 0.2%). The management expects the bank to revert to steady-state profitability of 1.5% RoA in FY23, as the bank makes steady progress on recoveries and portfolio repricing. We revise our FY22 earnings estimates marginally downwards by 3%, largely on account of lower loan growth; we maintain BUY with a revised target price of INR199 (earlier INR200).**

- **In-line P&L; gold loans continue to drive credit growth:** CUBK reported PPOP growth of +5% YoY, driven by high other income (+20% YoY led by recoveries), an in-line opex, and marginal reflation in NIMs (4%), offset by muted credit growth (+7% YoY). The bank continues to witness strong growth in its gold loan portfolio (+73% YoY, 14% QoQ) with limited growth avenues in other segments. Funding cost tailwinds continued to accrue with cost of funds at 3.9% (13bps lower sequentially; CASA ratio at 29%).
- **Asset quality steady; LGD assumptions unchanged:** GNPA/NNPA clocked in at 5.6%/3.5% (sequentially flat) with PCR unchanged at 39%. The total stressed pool (NNPA + restructured + SR + SMA II) remains steady at ~12.5% as incremental restructuring (40bps) offset the reduction in SMA II (~60bps). With ~99% of loan book secured and the macro environment improving, management is confident of healthy recoveries and upgrades from the stressed pool and, thus, the adequacy of provisioning levels. With the resumption of economic activity, we expect credit costs to further normalise (with marginal reflation in NIM), driving RoAs closer to 1.5% by FY23.

### Financial summary

| (INR bn) | Q2 FY22 | Q2 FY21 | YoY (%) | Q1 FY22 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| NII | 4.8 | 4.8 | *0.7%* | 4.5 | *6.8%* | 18.3 | 19.8 | 23.0 | 26.0 |
| PPOP | 4.1 | 3.8 | *5.3%* | 3.8 | *5.8%* | 14.8 | 16.0 | 18.3 | 20.6 |
| PAT | 1.8 | 1.6 | *15.5%* | 1.7 | *5.3%* | 5.9 | 7.1 | 9.2 | 11.1 |
| EPS (INR) | 2.4 | 2.1 | *14.6%* | 2.3 | *5.2%* | 8.0 | 9.6 | 12.5 | 15.0 |
| ROAE (%) | | | | | | 10.6 | 11.4 | 13.3 | 14.1 |
| ROAA (%) | | | | | | 1.2 | 1.3 | 1.5 | 1.6 |
| ABVPS (INR) | | | | | | 64.5 | 74.7 | 88.2 | 102.3 |
| P/ABV (x) | | | | | | 2.5 | 2.2 | 1.9 | 1.6 |
| P/E (x) | | | | | | 20.4 | 17.2 | 13.2 | 10.9 |

### Change in Estimates

| (INR bn) | FY22E | | | FY23E | | | FY24E | | |
|---|---|---|---|---|---|---|---|---|---|
| | Old | New | Change | Old | New | Change | Old | New | Change |
| Net advances | 405 | 399 | -1.3% | 465 | 459 | -1.3% | 527 | 521 | -1.2% |
| NIM (%) | 4.0 | 3.9 | -14bps | 4.0 | 4.0 | 3bps | 4.0 | 4.0 | 0bps |
| NII | 20.6 | 19.8 | -4.1% | 23.1 | 23.0 | -0.7% | 26.5 | 26.0 | -1.8% |
| PPOP | 16.3 | 16.0 | -2.2% | 17.9 | 18.3 | 2.2% | 20.5 | 20.6 | 0.3% |
| PAT | 7.3 | 7.1 | -2.7% | 9.2 | 9.2 | 0.2% | 11.1 | 11.1 | 0.1% |
| Adj. BVPS (INR) | 77.3 | 74.7 | -3.4% | 89.2 | 88.2 | -1.1% | 102.8 | 102.3 | -0.5% |

Source: Company, HSIE Research

## BUY

| | |
|---|---|
| CMP *(as on 12 Nov 2021)* | INR 164 |
| Target Price | INR 199 |
| NIFTY | 18,103 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | BUY | BUY |
| Price Target | INR 200 | INR 199 |
| | FY22E | FY23E |
| EPS % | -3% | 0% |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | CUBK IN |
| No. of Shares (mn) | 739 |
| MCap (INR bn) / ($ mn) | 121/1,627 |
| 6m avg traded value (INR mn) | 404 |
| 52 Week high / low | INR 200/143 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 7.8 | (1.1) | (8.0) |
| Relative (%) | (2.8) | (25.8) | (47.9) |

| SHAREHOLDING PATTERN (%) | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 0.0 | 0.0 |
| FIs & Local MFs | 41.6 | 42.1 |
| FPIs | 17.2 | 16.1 |
| Public & Others | 41.2 | 41.8 |
| Pledged Shares | 0.0 | 0.0 |

*Source : BSE*

Pledged shares as % of total shares

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# RBL Bank

## FY22 likely to be a washout; all hopes on FY23 now

**RBL Bank (RBK) disappointed expectations with PAT at INR 0.3bn on account of an all-round miss in operating metrics and sustained steep provisions (4.6% annualised). Provisions have remained elevated (north of 4% for nine straight quarters), largely towards its highly-concentrated retail unsecured businesses (CC+MFI at ~31% of loans). Slippages were elevated at ~8.7% (annualised) for a fourth straight quarter. Our concerns and caution on RBK stem from the disproportionately high concentration of profit pools around two unsecured businesses (two-thirds of the fee income from credit cards), both of which are yet to fully stabilise. For a franchise that has been banking on a single engine (credit cards at over one-fifth of loans), the impairment in its cards business is disconcerting. We hack our FY22E/23E earnings forecasts further by 78%/20%; we maintain REDUCE with a revised TP of INR181 (earlier INR 184).**

- **Portfolio stress close to peaking; credit costs to stay elevated:** RBK reported GNPA/NNPA at 5.4%/2.1%, with the restructured portfolio at 3.4% of loans. The impairment (8.7% annualised) was almost entirely from the retail loan book, especially from credit cards and MFI portfolios - the two businesses also contributed to a bulk of the write-offs (3.8% annualised). RBK shored up its PCR marginally to 62% (1 percentage point higher QoQ) with higher build-out towards CC (~60%) and MFI (~80%) portfolios.
- **Still searching for stability:** RBK reported muted loan growth of -0.3% YoY (-1% QoQ). Lack of growth avenues in its key business segments reflected in higher liquidity build-out (cash equivalents at ~20% of assets). The overall retail book continues to drift lower (-4% YoY) as the asset mix continues to be highly skewed towards unsecured businesses in the near term. We revise our FY22E/FY23E forecasts sharply downward to account for higher credit costs, lower loan growth, and resultant margin compression. While FY22E is likely to be a complete washout, all hopes of an RoA rebound are now pinned on the asset quality and reflation outcomes from FY23E. Our REDUCE recommendation reflects a franchise that is still searching for signs of portfolio stability across multiple asset portfolios.

### Financial summary

| (INR bn) | 2QFY22 | 2QFY21 | *YoY (%)* | 1QFY22 | *QoQ(%)* | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| NII | 9.2 | 9.3 | *-1.8%* | 9.7 | *-5.6%* | 37.9 | 42.3 | 45.3 | 51.6 |
| PPOP | 6.9 | 7.2 | *-4.0%* | 8.1 | *-14.4%* | 30.9 | 33.5 | 35.9 | 38.4 |
| PAT | 0.3 | 1.4 | *-78.6%* | (4.6) | *NM* | 5.1 | 1.6 | 11.0 | 15.3 |
| EPS (INR) | 0.5 | 2.8 | *-81.9%* | (7.6) | *NM* | 8.5 | 2.7 | 18.4 | 25.6 |
| ROAE (%) | | | | | | 4.4 | 1.3 | 8.3 | 10.7 |
| ROAA (%) | | | | | | 0.5 | 0.2 | 0.9 | 1.2 |
| ABVPS (INR) | | | | | | 191.0 | 192.9 | 210.5 | 232.8 |
| P/ABV (x) | | | | | | 1.1 | 1.0 | 1.0 | 0.9 |
| P/E (x) | | | | | | 23.7 | 73.3 | 10.9 | 7.8 |

### Change in estimates

| (INR bn) | FY22E | | | FY23E | | | FY24E | | |
|---|---|---|---|---|---|---|---|---|---|
| | Old | New | Change | Old | New | Change | Old | New | Change |
| Net advances | 637 | 631 | -0.9% | 724 | 719 | -0.6% | 824 | 823 | -0.1% |
| NIM (%) | 4.6 | 4.6 | -2 bps | 4.6 | 4.6 | -4 bps | 4.8 | 4.6 | -12 bps |
| NII | 42.7 | 42.3 | -0.9% | 46.1 | 45.3 | -1.7% | 53.1 | 51.6 | -2.9% |
| PPOP | 31.2 | 33.5 | 7.1% | 35.0 | 35.9 | 2.6% | 38.9 | 38.4 | -1.3% |
| PAT | 7.5 | 1.6 | -78.1% | 13.7 | 11.0 | -19.8% | 16.7 | 15.3 | -8.4% |
| Adj. BVPS (INR) | 206.2 | 192.9 | -6.4% | 226.8 | 210.5 | -7.2% | 251.3 | 232.8 | -7.4% |

Source: Company, HSIE Research

## REDUCE

| | |
|---|---|
| CMP *(as on 28 Oct 2021)* | INR 201 |
| Target Price | INR 181 |
| NIFTY | 17,857 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | REDUCE | REDUCE |
| Price Target | INR 184 | INR 181 |
| EPS % | FY22E | FY23E |
| | -78% | -20% |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | RBK IN |
| No. of Shares (mn) | 599 |
| MCap (INR bn) / ($ mn) | 120/1,619 |
| 6m avg traded value (INR mn) | 2,036 |
| 52 Week high / low | INR 274/156 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 4.2 | 3.8 | 14.7 |
| Relative (%) | (10.2) | (16.8) | (35.6) |

| SHAREHOLDING PATTERN (%) | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 0.0 | 0.0 |
| FIs & Local MFs | 23.9 | 23.4 |
| FPIs | 32.2 | 29.2 |
| Public & Others | 42.8 | 44.2 |
| Pledged Shares | 0.0 | 0.0 |

*Source : BSE*

Pledged shares as % of total shares

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# CreditAccess Grameen

## Outperforming peers in reverting to steady state

**CreditAccess Grameen's (CREDAG) Q2FY22 earnings beat our estimates, led by healthy NII traction and asset quality improvement. As expected, the portfolio's transient stress from Q1FY22 decreased significantly with PAR-0 falling sharply from 30.6% to 11.5% sequentially (9.9% in Oct-21 for the standalone entity). GNPA increased marginally from 7.6% to 7.7% for the consolidated entity, despite MMFL aligning to 60dpd NPA recognition, in line with the standalone entity. With collection efficiencies on the rise (99% including arrears) and a low number of borrowers (4.4% of AUM) with zero payments, management has guided for a credit cost of ~4.8% and RoA of ~2% in FY22. We reduce our FY22/FY23 earnings estimates by 18%/4% to account for higher credit costs and maintain BUY with a revised target price of INR845 (2.7x Sep'23 ABVPS). We believe that our implied multiple reflects CREDAG's high cross-cycle potential RoE and a relatively conservative approach to an inherently risky business.**

- **Steady operating performance; focus reverts to portfolio growth**: CREDAG reported steady NII/PPOP growth of 9%/10% YoY on the back of stable NIM (11.2%) and strong AUM growth (+19% YoY). Disbursals were stronger in the quarter (+136% YoY) and are now back to pre-COVID levels. The management indicated that the consolidated entity is likely to deliver healthy portfolio traction as the MMFL operational transition and process integration are completed. The average outstanding per borrower increased to INR35.1K (+24% YoY), as new customer acquisition remained benign during the quarter (~48% of customers > 3 years old).
- **Asset quality reverses sharply; likely to contain credit costs:** Consolidated GNPA/NNPA inched up marginally (+10bps QoQ) to 7.7%/3.4%. The stressed pool (PAR-0) dropped sharply from 31% to 12% for the standalone CAGL and increased for MMFL from 15.4% to 19.7%, while the restructured book was muted (1.3%). With a sharp reduction in the stressed pool and healthy ECL provisions (~6%), we expect credit costs to be contained at ~4% of AUM and normalise in FY23.

### Financial summary

| (INR bn) | Q2FY22 | Q2FY21 | YoY (%) | Q1FY22 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| NII | 3.7 | 3.4 | *9.2* | 3.4 | *9.1* | 13.6 | 16.3 | 21.7 | 27.9 |
| PPOP | 2.2 | 2.0 | *9.8* | 2.2 | *1.1* | 9.5 | 10.5 | 14.3 | 17.9 |
| PAT | 0.6 | 0.8 | *(22.4)* | 0.2 | *182.7* | 1.3 | 3.5 | 7.8 | 10.3 |
| EPS (INR) | 4.1 | 5.5 | *(25.6)* | 1.4 | *181.9* | 8.1 | 22.6 | 50.0 | 65.9 |
| ROAE (%) | | | | | | 3.8 | 9.0 | 17.6 | 19.3 |
| ROAA (%) | | | | | | 0.9 | 2.2 | 4.0 | 4.2 |
| ABVPS (INR) | | | | | | 212.8 | 227.7 | 279.0 | 343.8 |
| P/ABV (x) | | | | | | 2.8 | 2.6 | 2.1 | 1.7 |
| P/E (x) | | | | | | 73.8 | 26.4 | 12.0 | 9.1 |

### Change in estimates

| INR bn | FY22E | | | FY23E | | | FY24E | | |
|---|---|---|---|---|---|---|---|---|---|
| | Old | New | Chg | Old | New | Chg | Old | New | Chg |
| AUM | 157.2 | 160.2 | 1.9% | 203.3 | 206.7 | 1.7% | 253.8 | 267.0 | 5.2% |
| NIM (%) | 11.6 | 11.0 | -59 bps | 12.2 | 11.8 | -37 bps | 12.0 | 11.8 | -21 bps |
| NII | 17.0 | 16.3 | -4.2% | 22.0 | 21.7 | -1.3% | 27.4 | 27.9 | 1.8% |
| PPOP | 11.0 | 10.5 | -4.5% | 14.6 | 14.3 | -2.1% | 17.6 | 17.9 | 1.7% |
| PAT | 4.3 | 3.5 | -17.8% | 8.1 | 7.8 | -4.1% | 10.4 | 10.3 | -1.1% |
| ABVPS (INR) | 229.1 | 227.7 | -0.6% | 282.7 | 279.0 | -1.3% | 347.3 | 343.8 | -1.0% |

Source: Company, HSIE Research

## BUY

| | |
|---|---|
| **CMP *(as on 10 Nov 2021)*** | **INR 597** |
| **Target Price** | **INR 845** |
| **NIFTY** | **18,017** |

| **KEY CHANGES** | **OLD** | **NEW** |
|---|---|---|
| Rating | BUY | BUY |
| Price Target | INR 853 | INR 845 |
| EPS % | FY22E | FY23E |
| | -18% | -4% |

| **KEY STOCK DATA** | |
|---|---|
| Bloomberg code | CREDAG IN |
| No. of Shares (mn) | 156 |
| MCap (INR bn) / ($ mn) | 93/1,250 |
| 6m avg traded value (INR mn) | 130 |
| 52 Week high / low | INR 840/541 |

| **STOCK PERFORMANCE (%)** | **3M** | **6M** | **12M** |
|---|---|---|---|
| Absolute (%) | (3.3) | (1.9) | (14.6) |
| Relative (%) | (13.9) | (23.8) | (54.1) |

| **SHAREHOLDING PATTERN (%)** | **Jun-21** | **Sep-21** |
|---|---|---|
| Promoters | 74.0 | 73.9 |
| FIs & Local MFs | 11.6 | 11.5 |
| FPIs | 10.1 | 9.3 |
| Public & Others | 4.3 | 5.3 |
| Pledged Shares | 0.0 | 0.0 |

*Source : BSE*

Pledged shares as % of total shares

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# Karur Vysya Bank

## Good quarter but sustainability is the key

**Karur Vysya Bank's (KVB) Q2FY22 earnings surprised positively on account of healthy traction in NII and a sharp improvement in asset quality. The bank witnessed a significant moderation in gross slippages at 1.3% (Q1FY22: 4.3%) and reported negative net slippages, led by strong recoveries and upgrades (nil write-offs). The restructured portfolio increased to 3% of loans - one of the lowest among old private sector banks. Loan growth (7% YoY) is still being driven by jewel loans (+21% YoY) although the bank is focusing more on personal loans and the LAP segment to drive profitability. Reflation in NIM and sustained normalisation of credit costs are likely to drive KVB's RoAs close to ~1% by the end of FY24. We raise our FY22/FY23 estimates by 24%/5% to factor in lower credit costs, offset in part by lower traction in fee income and maintain REDUCE with a revised TP of INR55 (earlier INR47).**

- **Steady operating performance:** KVB reported a healthy 13% YoY growth in NII, which drove NIM reflation to 3.74% (Q1FY22: 3.55%), courtesy fewer interest reversals and further tailwinds from deposit re-pricing (sequentially lower by 19bps). Loan growth (7.4% YoY) was driven by jewel loans (21% YoY), but the bank remained cautious on large-ticket corporate loans.
- **Asset quality surprises positively:** KVB's asset quality improved during Q2 with GNPA/NNPA at 7.4%/3% (Q1FY22: 8%/3.7%) and gross slippages at 1.3%. The GNPL was reduced across all segments, with gross slippages primarily coming from the corporate (2%) and commercial segments (1.4%). The restructured book comprises mainly retail (5.4%) and commercial (3.2%) segments. With the wholesale back-book being largely pruned, and the retail portfolio being dominated by secured loans, we lower our credit cost forecasts to 1.7% for FY22-FY23E (earlier 1.9%).
- **Path to 1% RoA by FY23 contingent on asset yields:** KVB delivered an RoA of 0.9% in Q2 on the back of muted provisions (0.9%). With employee costs likely to remain obstinate in the near term, KVB's path to a 1% RoA depends on sustained normalisation of credit costs, even as the bank begins to re-risk its loan book with a greater focus on personal loans and LAP.

### Financial summary

| (INR bn) | Q2 FY22 | Q2 FY21 | YoY (%) | Q1 FY22 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| NII | 6.8 | 6.0 | *13.1%* | 6.4 | *6.6%* | 23.6 | 26.4 | 28.9 | 32.3 |
| PPOP | 3.7 | 4.5 | *-16.7%* | 4.3 | *-12.8%* | 14.3 | 17.0 | 19.4 | 21.6 |
| PAT | 1.7 | 1.1 | *44.0%* | 1.1 | *52.0%* | 3.6 | 4.9 | 7.1 | 8.8 |
| EPS (INR) | 2.1 | 1.4 | *43.8%* | 1.4 | *52.2%* | 4.5 | 6.2 | 8.9 | 11.1 |
| ROAE (%) | | | | | | 5.3 | 6.9 | 9.4 | 10.8 |
| ROAA (%) | | | | | | 0.5 | 0.6 | 0.8 | 0.9 |
| ABVPS (INR) | | | | | | 65.6 | 74.8 | 81.1 | 87.4 |
| P/ABV (x) | | | | | | 0.9 | 0.7 | 0.7 | 0.6 |
| P/E (x) | | | | | | 12.5 | 9.1 | 6.3 | 5.1 |

### Change in estimates

| (INR bn) | FY22E | | | FY23E | | | FY24E | | |
|---|---|---|---|---|---|---|---|---|---|
| | Old | New | Change | Old | New | Change | Old | New | Change |
| Net advances | 551 | 553 | 0.3% | 620 | 622 | 0.3% | 700 | 702 | 0.3% |
| NIM (%) | 3.7 | 3.7 | -3 bps | 3.8 | 3.8 | -5 bps | 3.9 | 3.8 | -7 bps |
| NII | 26.6 | 26.4 | -0.8% | 29.2 | 28.9 | -1.2% | 32.7 | 32.3 | -1.3% |
| PPOP | 17.9 | 17.0 | -4.9% | 19.5 | 19.4 | -0.7% | 21.7 | 21.6 | -0.5% |
| PAT | 4.0 | 4.9 | 23.9% | 6.8 | 7.1 | 4.8% | 8.8 | 8.8 | 0.0% |
| Adj. BVPS (INR) | 74.9 | 74.8 | 0.0% | 81.6 | 81.1 | -0.6% | 88.1 | 87.4 | -0.9% |

Source: Company, HSIE Research

## REDUCE

| | |
|---|---|
| CMP *(as on 9 Nov 2021)* | INR 56 |
| Target Price | INR 55 |
| NIFTY | 18,044 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | REDUCE | REDUCE |
| Price Target | INR 47 | INR 55 |
| | FY22E | FY23E |
| EPS % | 24% | 5% |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | KVB IN |
| No. of Shares (mn) | 799 |
| MCap (INR bn) / ($ mn) | 45/600 |
| 6m avg traded value (INR mn) | 217 |
| 52 Week high / low | INR 65/34 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 20.7 | 2.9 | 59.7 |
| Relative (%) | 9.6 | (19.9) | 17.8 |

| SHAREHOLDING PATTERN (%) | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 2.1 | 2.1 |
| FIs & Local MFs | 20.1 | 19.7 |
| FPIs | 21.1 | 18.9 |
| Public & Others | 56.7 | 59.3 |
| Pledged Shares | 0.2 | 0.2 |

*Source : BSE*

Pledged shares as % of total shares

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# Ujjivan Small Finance Bank

## No end to bad news; stress unlikely to recede in a hurry

**Ujjivan SFB reported yet another quarter of loss at INR2.74bn as the stressed pool remained persistently elevated. While the aggregate stress pool (PAR>0) declined sequentially from 31% to 19%, the excessive stress suggests normalisation would be delayed beyond FY22. Restructured book increased from 5.5% to 10.2% sequentially, with loan loss coverage at 75% (including INR0.25bn of COVID provisions), driven by accelerated provisioning at ~10.4% of gross advances. Business momentum was revived with disbursals of INR31.2bn (near pre-COVID levels) and a declining share of MFI loans (70%). We hack our FY22 earnings estimates (building in full-year loss for FY22) on account of higher credit costs. With limited visibility of RoA reflation and a stubborn stress pool, we downgrade Ujjivan SFB from ADD to REDUCE with a revised TP of INR20 (earlier INR34) and downgrade Ujjivan Financial Services from BUY to ADD with a revised TP of INR189 (earlier INR322).**

- **Asset quality normalisation to take longer than expected**: The stress pool (PAR>0) witnessed a 12 percentage point sequential improvement to 19%. GNPA/NNPA increased to 11.8%/5.1% from 9.8%/2.6% sequentially as early delinquency buckets slipped (annualised gross slippages at 17.6%). PAR>0 dropped to ~19% due to MFI (22%), MSE (21%) and housing (14%). Incremental restructuring stood at INR7.1bn (5% of loans) while collection efficiency witnessed encouraging trends at ~95% during Jul-Oct 2021, although the MFI portfolio in Kerala, Maharashtra and West Bengal continued to witness pain. While the chances of a severe third wave of pandemic are diminishing, we expect asset quality to normalise after FY22.
- **Business momentum stabilising; reverse merger a catalyst for hold-co**: Ujjivan SFB's business momentum picked up with strong disbursals despite the top management being distracted by the sudden exit of the incumbent MD & CEO and the task of stabilising the talent pool. With the resumption of economic activity and stabilisation of the management team, we expect disbursals to gradually pick up from Q3. As Ujjivan SFB has filed for a reverse merger with Ujjivan Financial Services, the anticipated regulatory approval could be a near-term catalyst for the latter.

### Financial summary

| (INR bn) | Q2FY22 | Q2FY21 | YoY (%) | Q1FY22 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| NII | 3.9 | 4.7 | -16.8% | 3.8 | 1.8% | 17.3 | 16.7 | 22.2 | 26.5 |
| PPOP | 0.7 | 2.3 | -69.4% | 1.6 | -56.3% | 8.1 | 6.3 | 9.5 | 11.5 |
| PAT | (2.7) | 1.0 | NM | (2.3) | NM | 0.1 | (2.3) | 3.8 | 4.8 |
| EPS (INR) | (1.6) | 0.6 | NM | (1.4) | NM | 0.0 | (1.3) | 2.2 | 2.8 |
| ROAE (%) | | | | | | 0.3 | (7.4) | 12.2 | 13.7 |
| ROAA (%) | | | | | | 0.0 | (1.1) | 1.6 | 1.6 |
| ABVPS (INR) | | | | | | 16.2 | 14.1 | 16.9 | 18.8 |
| P/ABV (x) | | | | | | 1.3 | 1.5 | 1.3 | 1.1 |
| P/E (x) | | | | | | 441.6 | NM | 9.6 | 7.7 |

### Change in estimates

| (INR bn) | FY22E | | | FY23E | | | FY24E | | |
|---|---|---|---|---|---|---|---|---|---|
| | Old | New | Change | Old | New | Change | Old | New | Change |
| Net advances | 159 | 159 | -0.4% | 195 | 196 | 0.3% | 238 | 239 | 0.2% |
| NIM (%) | 10.0 | 8.8 | -126bps | 10.3 | 10.0 | -32bps | 10.2 | 9.9 | -29bps |
| NII | 19.1 | 16.7 | -12.6% | 22.5 | 22.2 | -1.5% | 26.6 | 26.5 | -0.1% |
| PPOP | 8.8 | 6.3 | -28.4% | 10.1 | 9.5 | -5.8% | 11.7 | 11.5 | -1.4% |
| PAT | 0.9 | (2.3) | NM | 3.7 | 3.8 | 3.6% | 5.5 | 4.8 | -13.4% |
| Adj. BVPS (INR) | 15.2 | 14.1 | -7.3% | 18.5 | 16.9 | -9.0% | 21.8 | 18.8 | -13.8% |

Source: Company, HSIE Research

## REDUCE

| | |
|---|---|
| **CMP** ***(as on 9 Nov 2021)*** | **INR 21** |
| **Target Price** | **INR 20** |
| **NIFTY** | **18,044** |

| **KEY STOCK DATA** | |
|---|---|
| Bloomberg code | UJJIVANS IN |
| No. of Shares (mn) | 1,728 |
| MCap (INR bn) / ($ mn) | 36/490 |
| 6m avg traded value (INR mn) | 161 |
| 52 Week high / low | INR 45/18 |

**STOCK PERFORMANCE (%)**

| | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | (20.5) | (27.5) | (36.6) |
| Relative (%) | (31.6) | (50.3) | (78.5) |

### Ujjivan Financial Services

## ADD

| | |
|---|---|
| **CMP** ***(as on 9 Nov 2021)*** | **INR 168** |
| **Target Price** | **INR 189** |
| **NIFTY** | **18,044** |

| **KEY STOCK DATA** | |
|---|---|
| Bloomberg code | UJJIVAN IN |
| No. of Shares (mn) | 122 |
| MCap (INR bn) / ($ mn) | 20/274 |
| 6m avg traded value (INR mn) | 263 |
| 52 Week high / low | INR 311/126 |

**STOCK PERFORMANCE (%)**

| | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | (22.8) | (18.4) | (27.0) |
| Relative (%) | (33.9) | (41.2) | (68.9) |

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# DCB Bank

## Limited line of sight to RoA reflation beyond 1%

**DCB Bank's (DCBB) Q2FY22 earnings were ~10% below estimates on account of muted asset growth and lower fee income traction. Asset quality witnessed healthy improvement with ~0.3% net slippages, driven by strong upgrades and recoveries in the quarter. Although the headline numbers indicate a large stressed pool (gross slippages at 6.4%, restructured book at 6.8%), DCBB's granular secured book (~95%) provides comfort on eventual low LGDs from the stressed portfolio (already evidenced in H1FY22). PCR inched up to 45%, alongside a 15% provisioning on the restructured portfolio. While asset quality remains on the mend, we opine that muted asset growth, margin compression and subdued fee income traction will continue to weigh down on return ratios. We hack our FY22/FY23 earnings estimates by 20% and 9% respectively. Maintain ADD with a revised TP of INR132 (1x Sep'23 ABVPS).**

- **Asset quality improving**: DCBB's GNPA/NNPA moderated marginally to 4.7%/2.6% (Q1FY22: 4.9%/2.8%). Impairment ratios improved across most segments with collection efficiencies near pre-COVID levels except in the CV segment, where collection efficiencies continue to be inferior. DCBB has witnessed healthy collection & recoveries in H1 (5% of loans) due to its largely secured book and increased focus on collections. With ~95% of loan book secured (and ~99% of restructured portfolio as secured), our forecasts are aligned to management assessment of low LGDs from the stressed pool.
- **Muted operating performance:** DCBB reported an NII decline of 3% YoY, largely due to high interest reversals, pressure on yields, and muted asset growth (+8% YoY). Fee income traction was also soft (0.6% of assets), although stronger than in previous quarters. Loan growth saw an uptick (+8% YoY, +5% QoQ), with disbursements at ~INR38.3bn (14% of loans), although sustainability is yet to be seen; loan growth has been subdued for over nine quarters and is 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 13% loan CAGR over FY21-24E.

### Financial summary

| (INR bn) | Q2FY22 | Q2FY21 | YoY (%) | Q1FY22 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| NII | 3.2 | 3.3 | -3.2% | 3.1 | 4.7% | 12.9 | 14.0 | 16.1 | 17.8 |
| PPOP | 1.8 | 2.2 | -22.1% | 2.0 | -13.0% | 9.0 | 8.6 | 10.1 | 10.9 |
| PAT | 0.6 | 0.8 | -21.1% | 0.3 | 92.4% | 3.4 | 3.1 | 4.5 | 5.2 |
| EPS (INR) | 2.1 | 2.6 | -21.3% | 1.1 | 91.7% | 10.8 | 10.1 | 14.4 | 16.9 |
| ROAE (%) | | | | | | 9.4 | 8.0 | 10.5 | 11.1 |
| ROAA (%) | | | | | | 0.9 | 0.8 | 1.0 | 1.0 |
| ABVPS (INR) | | | | | | 101.9 | 109.6 | 124.1 | 141.5 |
| P/ABV (x) | | | | | | 0.9 | 0.8 | 0.7 | 0.6 |
| P/E (x) | | | | | | 8.4 | 9.0 | 6.3 | 5.4 |

### Change in estimates

| (INR bn) | FY22E | | | FY23E | | | FY24E | | |
|---|---|---|---|---|---|---|---|---|---|
| | Old | New | Change | Old | New | Change | Old | New | Change |
| Net advances | 291 | 291 | -0.2% | 330 | 329 | -0.2% | 373 | 372 | -0.2% |
| NIM (%) | 3.83 | 3.69 | -14 bps | 3.95 | 3.89 | -6 bps | 3.90 | 3.87 | -3 bps |
| NII | 14.5 | 14.0 | -3.4% | 16.3 | 16.1 | -1.1% | 17.9 | 17.8 | -0.7% |
| PPOP | 9.5 | 8.6 | -9.2% | 10.5 | 10.1 | -3.7% | 11.3 | 10.9 | -3.4% |
| PAT | 3.9 | 3.1 | -19.5% | 4.9 | 4.5 | -8.5% | 5.5 | 5.2 | -5.5% |
| Adj. BVPS (INR) | 118.9 | 109.6 | -7.9% | 132.7 | 124.1 | -6.5% | 150.9 | 141.5 | -6.2% |

Source: Company, HSIE Research

## ADD

| | |
|---|---|
| CMP *(as on 29 Oct 2021)* | INR 91 |
| Target Price | INR 132 |
| NIFTY | 17,672 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | ADD | ADD |
| Price Target | INR 143 | INR 132 |
| | FY22E | FY23E |
| EPS % | -20% | -9% |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | DCBB IN |
| No. of Shares (mn) | 311 |
| MCap (INR bn) / ($ mn) | 28/379 |
| 6m avg traded value (INR mn) | 187 |
| 52 Week high / low | INR 127/75 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | (13.6) | (0.8) | 17.9 |
| Relative (%) | (26.2) | (19.9) | (31.3) |

| SHAREHOLDING PATTERN (%) | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 14.9 | 14.9 |
| FIs & Local MFs | 38.5 | 38.3 |
| FPIs | 12.2 | 10.9 |
| Public & Others | 34.4 | 35.9 |
| Pledged Shares | 0.0 | 0.0 |

*Source : BSE*

Pledged shares as % of total shares

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# Aditya Birla Capital

## Incremental strides towards a strong franchise

**Aditya Birla Capital (ABCL) continued its credible makeover journey to drive consolidated return ratios closer to franchise potential over the next three years. ABCL is steadily repositioning its lending business mix towards retail and granular loans (59% of NBFC AUM towards Retail + SME + HNI; 33% of HF AUM skewed towards affordable housing), likely to reflect in sustained improvement in franchise earnings. Both risk (insurance) businesses saw strong growth although prior period claims (spill-over from Q1FY22) dented profitability. Both the risk businesses are steadily building their profitability trajectory - VNB margin clocked in at 7.6% during H1FY22, up 600bps YoY, on the back of mix change and improving loss ratios (ex. COVID impact).**

- **Flagship NBFC - en route a strong profitable franchise**: ABFL continued on its retailisation strategy to drive margin and RoA accretion. Disbursements picked up pace at INR5bn (+180% YoY), with share of retail + SME at 68% (share of retail + SME + HNI at % of AUM at 59%). NIMs continued to reflate to 6.23% (+9bps QoQ), driven by funding cost tailwinds (-23bps QoQ) and improving retail asset mix. GS-III was sequentially flat at 3.64%, although GS-II was sticky at 7.7% (led by restructuring at 3.9% of AUM). Credit costs moderated to 1.2% with little addition to stressed pool driving RoA to 2.4%.
- **HFC business - awaiting economies of scale:** ABHFL continued its focus on affordable housing with its share in AUM/disbursement at 33%/57%. NIM continued to reflate to 4.3% (+8bps QoQ), led by lower funding costs (18bps). Asset quality deteriorated marginally with GS-III rising to 2.13%, although credit costs were lower (0.6% of AUM). GS-II assets were elevated at 7.7%, comprising nearly entirely restructured loans (7.5% of AUM).
- **Promising trends in life insurance business:** Individual APE growth for Q2FY22 was healthy (+27% YoY); however, share of high-margin protection in the mix witnessed some moderation (-270bps QoQ) on the back of limited medicals growing 16% sequentially. H1 persistencies positively surprised in the 25th and 37th month cohorts (300/700bps YoY). New annuity product launch on NPAR side is seeing good traction, contributing 12% during H1. Driven by mix shift towards high-yielding businesses and better cost efficiencies, net VNB margin stood at 7.6% (+600bps YoY). While net COVID claims, at INR1.3bn, dented profitability, death claims were in line with the industry. ABSLI is carrying additional COVID reserves of INR0.9bn for H2.
- **Health insurance losses narrowing:** ABHI continued to scale as NWP grew 34% YoY despite a strong base quarter, primarily led by group business (NWP: +1.2x YoY). Loss ratios shot up to 62% (+230bps YoY) on the back of COVID claims spill-over. Normalised CORs in H1 (ex. COVID claims) came in line with management guidance at 110% - the management has a line of sight to the health insurance business breaking even by Q4FY22E.

### Financial summary

| (INR bn) | Q2FY22 | Q2FY21 | % YoY | Remarks |
|---|---|---|---|---|
| ABFL | 3.9 | 2.4 | *58.6%* | Improvement in NIM drove ROA accretion |
| ABHFL | 0.7 | 0.5 | *46.7%* | NIM reflation driven by lower funding costs |
| ABSLI | 0.5 | 0.4 | *19.0%* | Higher profitability with increasing scale |
| ABHI | (1.0) | (0.7) | *NM* | COVID provisioning dented profitability |
| Others | 2.7 | 1.9 | *39.2%* | |
| PBT | 6.7 | 4.6 | *46.6%* | |
| **Consolidated PAT** | **3.8** | **2.6** | ***42.8%*** | 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

## In-line performance

**Larsen & Toubro's (LT) Q2FY22 financial performance came in line with our estimates. Execution was muted, owing to supply chain bottleneck in international market and cyclone Tauktae affecting projects in the western part of India. Project awarding took a backseat, declining 22% YoY, despite robust tendering (+19% YoY). Hyderabad metro may require further equity infusion of INR 10bn by Mar-22 with LT having the option to either refinance or bring in a new investor or rope in the state government. We maintain BUY on LT with an SOTP-based target price of INR 2,246/sh (Sep-23E), given its (1) strong order book (INR 3.3trn, ~3.7x FY21 core EPC revenue), (2) likely execution ramp-up from Q3FY22, (3) healthy balance sheet, (4) robust services business, and (5) focus on cash generation (INR 270bn of core cash).**

- **In-line execution:** LT posted revenue of INR 348bn (+12%/+19% YoY/QoQ), in line with estimates. The growth was attributed to execution momentum gained from easing of lockdown and strong growth of IT&TS segment. International sales contributed 35% to revenue. The group level EBITDA, at INR 40bn, was also in line with our estimate. EBITDA margin expanded 74/68bps YoY/QoQ to 11.5% on account of improved overhead recovery. LT recorded an exceptional gain of INR 969mn, which includes a gain of INR 1.4bn from divestment of stake in hydel power plant in Uttarakhand and INR 467mn of tax expense on a business transaction with Mindtree. Consequently, RPAT came in at INR 18bn and APAT at INR 17bn (+50%/+47% YoY/QoQ, 4% below estimate). For FY22, LT is aiming for low to mid-teens growth in execution/order inflows and targeting a core EBITDA margin of 10.3% (the same as FY21).
- **Robust order tendering; delayed awarding:** LT registered an order inflow of INR 421bn in Q2 (+50%/+58% YoY/QoQ) with 48% coming in from the domestic market. OB at the end of Sep-21 stood at INR 3.31trn with infrastructure, at 74%, constituting a major share of it, followed by hydrocarbon at 15%. Geography-wise, domestic orders contribute 77% to OB. Centre/state/PSU/private contribute 10/33/42/15% respectively to OB. The award tendering during the quarter was up 19% YoY at INR 2trn; however, finalisation of project dropped 22% YoY. Management believes H2FY22 will witness healthy ordering and execution, given pick-up in economic activity. The total bottom-up order pipeline for H2FY22 stands at INR 6.8trn vs INR 6.1trn in H2FY21, of which INR 4.66trn is domestic.
- **Marginal improvement in debt:** Net debt reduced to INR 864bn (vs INR 880bn on Mar 21-end), taking net D/E to 0.97x (vs 1.0x in Mar-21 end), mainly on account of lowering liabilities in the financial services business. On the other hand, NWC to sales ratio improved to 22% from 22.3% on Mar 21-end. LT has targeted FY22 NWC to sales at 22.3%.

### Consolidated financial summary

| (INR mn) | Q2FY22 | Q2FY21 | YoY (%) | Q1FY22 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| Revenues | 3,47,729 | 3,10,347 | *12.0* | 2,93,347 | *18.5* | 13,59,790 | 15,63,639 | 18,17,093 | 20,45,397 |
| EBITDA | 39,949 | 33,348 | *19.8* | 31,715 | *26.0* | 1,56,241 | 1,77,404 | 2,12,954 | 2,43,713 |
| APAT | 17,225 | 11,515 | *49.6* | 11,744 | *46.7* | 69,010 | 88,374 | 1,12,101 | 1,32,542 |
| EPS (INR) | 12.3 | 8.2 | *49.6* | 8.4 | *46.7* | 49.2 | 63.0 | 79.9 | 94.5 |
| P/E (x) | | | | | | 36.2 | 28.3 | 22.3 | 18.9 |
| EV/EBITDA(x) | | | | | | 21.5 | 19.0 | 15.7 | 13.7 |
| RoE (%) | | | | | | 9.7 | 11.3 | 13.4 | 14.7 |

Source: Company, HSIE Research

# BUY

| | |
|---|---|
| **CMP** *(as on 27 Oct 2021)* | **INR 1,783** |
| **Target Price** | **INR 2,246** |
| **NIFTY** | **18,211** |

| **KEY CHANGES** | **OLD** | **NEW** |
|---|---|---|
| Rating | BUY | BUY |
| Price Target | INR 2,246 | INR 2,246 |
| EPS change % | FY22E<br>- | FY23E<br>- |

| **KEY STOCK DATA** | |
|---|---|
| Bloomberg code | LT IN |
| No. of Shares (mn) | 1,404 |
| MCap (INR bn) / ($ mn) | 2,504/33,644 |
| 6m avg traded value (INR mn) | 4,196 |
| 52 Week high / low | INR 1,885/903 |

| **STOCK PERFORMANCE (%)** | **3M** | **6M** | **12M** |
|---|---|---|---|
| Absolute (%) | 10.9 | 29.1 | 85.1 |
| Relative (%) | (5.4) | 4.2 | 34.2 |

| **SHAREHOLDING PATTERN (%)** | **Jun-21** | **Sep-21** |
|---|---|---|
| Promoters | 0.0 | 0.0 |
| FIs & Local MFs | 32.30 | 33.11 |
| FPIs | 22.88 | 22.86 |
| Public & Others | 44.82 | 44.03 |
| Pledged Shares | 0.0 | 0.0 |

*Source: BSE*

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# Voltas

## UCP drives the show, EMPS disappoints

**Voltas saw beat in UCP revenue; however, slowdown in project execution led to miss in EMPS revenue. UCP revenue grew 34% YoY (+9% in Q2FY21, 13% HSIE) to INR 10.1bn (even higher than Q1 revenue of INR 9.6bn). UCP volume was up 24% YoY, maintaining its YTD market leadership at 25.9% (26.8% in Q2FY21). Trade channel has stocked up on inventory due to supply chain uncertainties. Price hike was taken in October and raw material secured; however, margin may see near-term pressure. Project business continued to face execution issues, with EMPS revenue down 28/22% YoY/QoQ (+13% HSIE). Recovery in project business is likely in H2FY22, both in terms of orders and execution. JV (Beko) losses were in line at INR 189mn (INR 71mn in Q2FY21, INR 306mn in Q1FY22), given continued brand investments and input cost pressures. We cut our FY22/23/24 EPS estimate by 5/1/1%. We value the stock on SoTP (UCP/EMPS/EPS P/E at 50/9/15x and Volt-Beko P/S of 4x) on FY24 to derive a TP of INR 1,400, arriving at an implied PE of 43x. Maintain ADD.**

- **UCP surprises; EMPS a drag:** Revenue grew 5% YoY (+13% in Q2FY21, +38% in Q1FY22), below our estimate of 14% growth. UCP revenue was up 34% YoY (+9% in Q2FY21 like to like, +19% in Q1FY22), a beat on our estimate of 13%. UCP volume growth was at 24% YoY and the company maintained its market leadership with 25.9% market share. In Q2FY22, the channel stocked up on inventory due to supply chain issues. EMPS declined 28% YoY (+15% in Q2FY21 like to like, +67% in Q1FY22), HSIE +13%. EPS segment revenue was up 35% vs. 25% expected.
- **Margin pressure seen:** Gross profit was up 7% YoY (+4% in Q2FY21 and 28% in Q1FY22, 24% HSIE). GPM expanded 51bps YoY ( -236bps in Q2FY21 and -210bps in Q1FY22) to 26.6% (28.5% HSIE). Employee expenses/other expenses were up by 9/10% YoY. EBITDA was up by 32% YoY (-7% in Q2FY21, +103% in Q1FY22, +67% HSIE). EBITDA margin was at 7.6% (8.9% HSIE). UCP EBIT grew 19% YoY (+36% in Q2FY21, +4% in Q1FY22), HSIE 13%. EMPS EBIT margin was at 2.1% (HSIE 4.5%). EPS segment EBIT grew 36% YoY (+14% in Q2FY21, +93% in Q1FY22).
- **Con call takeaways:** (1) The company expects the RAC industry volume to be up 10-11% YoY and flat over FY20. (2) It has taken YTD price hikes in the range of 13-15% including 3-5% hikes in October. (3) It continues to see input cost pressure; however, pricing decisions will be taken depending on the competitive landscape. (4) In Voltas-Beko, the company is expanding its footprint and expects costs to come down only when it achieves larger scale. (5) In its domestic projects business, it continues to cautiously select projects and expects rebound in H2FY22. (6) It plans to integrate 50% of its coils and plastic component requirements under the PLI scheme. (7) Voltas plans to take its refrigerator capacity to 1.1mn units in the near future.

### Quarterly/annual financial summary

| YE Mar (Rs mn) | Q2FY22 | Q2FY21 | YoY (%) | Q1FY22 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 16,891 | 16,125 | 4.7 | 17,852 | (5.4) | 75,558 | 85,767 | 104,815 | 119,185 |
| EBITDA | 1,291 | 980 | 31.8 | 1,358 | (4.9) | 6,414 | 7,997 | 10,910 | 12,334 |
| APAT | 1,043 | 797 | 30.9 | 1,224 | (14.8) | 5,289 | 6,838 | 9,273 | 10,759 |
| Diluted EPS (Rs) | 3.2 | 2.4 | 30.9 | 3.7 | (14.8) | 16.0 | 20.7 | 28.0 | 32.5 |
| P/E (x) | | | | | | 78.1 | 60.4 | 44.5 | 38.4 |
| EV / EBITDA (x) | | | | | | 64.6 | 51.4 | 37.5 | 32.8 |
| RoCE (%) | | | | | | 21.0 | 26.0 | 31.6 | 30.9 |

Source: Company, HSIE Research

## ADD

| | |
|---|---|
| CMP (as on 1 Nov 2021) | INR 1,245 |
| Target Price | INR 1,400 |
| NIFTY | 17,930 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | ADD | ADD |
| Price Target | INR 1,400 | INR 1,400 |
| | FY22E | FY23E |
| EPS % | -5% | -1% |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | VOLT IN |
| No. of Shares (mn) | 331 |
| MCap (INR bn) / ($ mn) | 412/5,538 |
| 6m avg traded value (INR mn) | 1,763 |
| 52 Week high / low | INR 1,357/696 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 17.6 | 30.1 | 76.5 |
| Relative (%) | 3.2 | 6.8 | 24.7 |

| SHAREHOLDING PATTERN (%) | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 30.30 | 30.30 |
| FIs & Local MFs | 33.87 | 31.61 |
| FPIs | 17.24 | 22.31 |
| Public & Others | 18.59 | 15.78 |
| Pledged Shares | 0.00 | 0.00 |

*Source : BSE*

Pledged shares as % of total shares

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# ABB India

## Robust performance

**ABB reported strong revenue/EBITDA/APAT at 17.8/1.7/1.2bn (3/32/38% above our estimates), aided by pent-up demand from the previous quarter. Higher commodity prices were neutralised by better price realisation. ABB, over the years, has reduced topline dependency on large projects through participation in different market segments. Along with visibility in private Capex, opportunities in two-wheeler batteries and Hydrogen technology, penetration in tier-2/3 cities via e-Mart, and ordering potential in water, infra and clean energy segment aided by government policies, this augurs well for ABB. However, the risks of inflation in key commodities, supply chain disturbance owing to semi-conductors, plastics and other key material, forex volatility, and a third COVID wave remain. We believe most of the potential upside on cyclical recovery is already priced into the lofty valuation and, thus, maintain REDUCE with revised a TP of INR 1,689/sh (45x Sep-23 EPS).**

- **Strong execution; margin expansion:** ABB reported revenue of INR 17.8bn (in-line). While motion (INR 7bn)/electrification (INR 6.9bn)/process automation (INR 3.4bn) posted YoY growth of 11/17/(8)%, revenue from robotics & discrete automation stood at INR 639mn (+42/-28% YoY/QoQ). Export/services formed 13/16% respectively of revenue mix. EBITDA recorded at INR 1.7bn (32% beat) and margin at 9.5% (210bps beat). Gross margin improved 242/86bps YoY/QoQ, which aided EBITDA expansion. This is the highest level of margins, post the power grid hive-off, helped by better capacity utilisation, revenue mix, operational efficiency, and cost optimisation. Raw material cost is expected to remain ~67% of net revenue range. RPAT/APAT was INR 1.2bn (+40/+75.6% YoY/QoQ; 38% beat).
- **Order inflow strong:** Q3CY21 order inflow stood at INR 19bn (vs INR 13bn YoY), the highest third quarter inflow of the past five years, taking the backlog to INR 47.6bn. Electrification business area witnessed good order inflows across all divisions and was up by 44% at INR 7bn compared to Q3CY20. Motion business area secured order growth of 45%, came in at INR 8bn, supported by strong contribution from channel business, exports, and packaging. The order inflow for robotics & discrete automation was at INR 610mn, showing signs of recovery with the auto sector starting to pick up.

### Financial summary

| (INR mn, Dec YE) | Q3CY21 | Q3CY20 | YoY (%) | Q2CY21 | QoQ (%) | CY20 | CY21E | CY22E | CY23E |
|---|---|---|---|---|---|---|---|---|---|
| Net Revenues | 17,784 | 16,122 | 10.3 | 14,250 | 24.8 | 58,210 | 67,172 | 85,698 | 99,840 |
| EBITDA | 1,689 | 1,214 | 39.2 | 948 | 78.3 | 2,759 | 5,585 | 8,824 | 11,154 |
| APAT | 1,200 | 855 | 40.3 | 683 | 75.6 | 1,717 | 3,911 | 6,506 | 8,435 |
| EPS (INR) | 5.7 | 4.0 | 40.3 | 3.2 | 75.6 | 8.1 | 18.5 | 30.7 | 39.8 |
| P/E (x) | | | | | | 232.1 | 101.9 | 61.2 | 47.2 |
| EV/EBITDA (x) | | | | | | 136.4 | 68.4 | 42.9 | 33.6 |
| RoE (%) | | | | | | 4.8 | 10.6 | 16.2 | 18.2 |

Source: Company, HSIE Research

### Estimate Change Summary

| INR mn | CY21E | | | CY22E | | | CY23E | | |
|---|---|---|---|---|---|---|---|---|---|
| | New | Old | % Chg. | New | Old | % Chg. | New | Old | % Chg. |
| Revenue | 67,172 | 72,379 | -7.2% | 85,698 | 94,192 | -9.0% | 99,840 | 1,07,175 | -6.8% |
| EBITDA | 5,585 | 6,191 | -9.8% | 8,824 | 9,378 | -5.9% | 11,154 | 11,325 | -1.5% |
| Margin (%) | 8.3% | 8.6% | -23.84 | 10.3% | 10.0% | 33.99 | 11.2% | 10.6% | 60.44 |
| APAT | 3,911 | 4,433 | -11.8% | 6,506 | 6,943 | -6.3% | 8,435 | 8,595 | -1.9% |

Source: Company, HSIE Research

## REDUCE

| | |
|---|---|
| CMP*(as on 27 Oct 2021)* | INR 1,880 |
| Target Price | INR 1,689 |
| NIFTY | 18,211 |

| KEY CHANGES | OLD | | NEW |
|---|---|---|---|
| Rating | REDUCE | | REDUCE |
| Price Target | INR 1,738 | | INR 1,689 |
| EPS Change % | CY21E | CY22E | CY23E |
| | *(11.8)* | *(6.3)* | *(1.9)* |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | ABB IN |
| No. of Shares (mn) | 212 |
| MCap (INR bn) / ($ mn) | 398/5,353 |
| 6m avg traded value (INR mn) | 320 |
| 52 Week high / low | INR 1,971/869 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 12.6 | 35.8 | 102.2 |
| Relative (%) | (3.7) | 10.9 | 51.3 |

| SHAREHOLDING PATTERN (%) | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 75.00 | 75.00 |
| FIs & Local MFs | 6.71 | 6.58 |
| FPIs | 3.73 | 3.49 |
| Public & Others | 14.56 | 14.93 |
| Pledged Shares | - | - |

*Source : BSE*

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# Cummins

## Power-packed performance

**Cummins India Ltd (CIL) has delivered, yet again, a stellar quarter with revenue/EBITDA/APAT beat at 29/25/26%. Demand outlook is robust with lagging segments like infra, marine, and railways yet to normalise and pick up. The exports market is also witnessing a sharp recovery with CIL targeting a turnover of INR 20bn from it. Good progress is being made on all options in the CIL/CTIL merger, and the company will announce the decision once it has finalised it. We remain positive on CIL due to: (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 that global economies are on a path to recovery. We maintain BUY on CIL with an unchanged SOTP-based target price of INR 1,191 (Sep-23E EPS).**

- **Financial highlights:** Revenue came in at INR 17.3bn (29% beat). Domestic sales were at INR 12.5bn (+68/+48% YoY/QoQ) while exports came in at INR 4.4bn (+10/+43% YoY/QoQ). EBITDA was INR 2.6bn (25% beat) with EBITDA margin at 15% (vs 15.4% estimate). Gross margin contracted 504/141bps YoY/QoQ on higher commodities prices and mix, but it was partly nullified by a 117-bps YoY contraction in staff expenses and 245-bps YoY contraction in other expenses. This led to 142-bps YoY EBITDA margin contraction. APAT was INR 2.2bn (26% beat). Revenue included a large INR 1.5bn data center order, which impacted margin dilution, given the higher import content.
- **Domestic demand robust:** Data center and mining demand is strong, while healthcare and residential segments have picked up. Lagging sectors like infra, railways, and marine may pick up in another two quarters. If it weren't for supply chain issues, CIL's revenue would have been 20-25% higher. It usually has a backlog of 15-25 days, but this has now increased by 2-3x and is impacting execution. CIL has taken price hikes to absorb commodity inflation, though these would get passed on with a lag of one or two quarters.
- **Exports revenue target at INR 20bn:** CIL is witnessing robust growth in the APAC region, mainly due to extremely strong demand from China, though it has started to taper a bit. The Philippines, Indonesia and Malaysia continue to perform well. Latin America is gearing up to come out of the COVID shadow; Europe is lagging, and CIL believes it will take two more quarters for it to pick up. The Middle East and Africa are also bouncing back.
- **CIL allayed concerns on Draft Electricity Amendment Rule 2021:** CIL has had discussions with government agencies on reducing emissions and believes that CPCB4+ implementation will address this. The other aspects being evaluated on merit include incentive for scrappage policy for reducing emissions. In the best case, less than 10KVA Genset may be replaced with clean tech and CIL has a miniscule presence in that range. For larger power gen, clean tech may evolve by 2035 to make it cost competitive.

### Standalone financial summary

| YE Mar (INR mn) | Q2FY22 | Q2FY21 | YoY (%) | Q1FY22 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| Net Revenues | 17,274 | 11,602 | 48.9 | 11,845 | 45.8 | 43,292 | 53,059 | 63,035 | 71,968 |
| EBITDA | 2,592 | 1,906 | 36.0 | 1,488 | 74.2 | 5,795 | 8,616 | 11,024 | 12,833 |
| APAT | 2,199 | 1,629 | 35.0 | 1,374 | 60.1 | 6,055 | 8,092 | 10,587 | 12,344 |
| Diluted EPS(INR) | 7.9 | 5.9 | 35.0 | 5.0 | 60.1 | 21.8 | 29.2 | 38.2 | 44.5 |
| P/E (x) | | | | | | 41.0 | 30.7 | 23.4 | 20.1 |
| EV/EBITDA (x) | | | | | | 40.6 | 27.0 | 20.8 | 17.4 |
| RoE (%) | | | | | | 14.1 | 17.7 | 21.1 | 21.7 |

Source: Company, HSIE Research

**BUY**

| | |
|---|---|
| CMP *(as on 28 Oct 21)* | INR 895 |
| Target Price | INR 1,191 |
| NIFTY | 17,857 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | BUY | BUY |
| Price Target | INR 1,191 | INR 1,191 |
| EPS change % | FY22E | FY23E |
| | - | - |

**KEY STOCK DATA**

| | |
|---|---|
| Bloomberg code | KKC IN |
| No. of Shares (mn) | 277 |
| MCap (INR bn) / ($ mn) | 248/3,334 |
| 6m avg traded value (INR mn) | 1,279 |
| 52 Week high / low | INR 1,065/429 |

**STOCK PERFORMANCE (%)**

| | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 7.0 | 1.4 | 101.9 |
| Relative (%) | (7.4) | (19.2) | 51.6 |

**SHAREHOLDING PATTERN (%)**

| | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 51.00 | 51.00 |
| FIs & Local MFs | 24.19 | 24.40 |
| FPIs | 11.69 | 11.97 |
| Public & Others | 13.12 | 12.63 |
| Pledged Shares | - | - |

*Source: BSE*

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# KEC International

## In-line performance

**KEC reported robust execution with revenue at INR 35.8bn (in-line), driven by non-T&D segments. Barring supply chain constraints, revenue could have been 10% higher. The order book (OB), at INR 285bn (with L1 of INR 74bn), is at an all-time high. Margin, at 7.1%, was affected by raw material prices and losses in SAE legacy projects. KEC continued to diversify with the acquisition of Spur Infra, T&D EPC order in Europe, and airport civil work. The overhang in collection from railways and losses in SAE has started abating. However, stalled projects in Afghanistan with net exposure of INR 1.7bn continue to be an overhang. A well-diversified OB, strong H2FY22 bid pipeline of INR 650bn, and likely improvement in margins may lead to rerating. We maintain BUY on KEC with an unchanged target price of INR 556/sh (15x Sep-23E EPS).**

- **Robust performance:** Revenue was INR 35.8bn (+10%/+41% YoY/QoQ, est. in-line); while revenue in T&D segment (INR 19bn) declined 2% YoY, revenue growth was driven by non-T&D segments, especially railways/civil/cables growing 20%/2.1x/43% YoY. EBITDA was INR 2.5bn (-14%/+58% YoY/QoQ, 15% beat). EBITDA margin, at 7.1% (-195/+76bps YoY/QoQ, vs est. of 6.2%), was affected by higher raw material prices and loss-making legacy projects in Brazil. There was an exceptional loss of INR -436mn in an arbitration case. Consequently, RPAT was INR803mn. APAT came in at INR 1.2bn (-13%/+2.7x YoY/QoQ, beat of 38%). FY22 revenue growth is expected ~15% with margin improving in H2FY22 as SAE losses neutralise on completion of two legacy projects.
- **All-time high OB plus L1; diversification in geography and segments:** KEC received INR 30bn of orders, taking the OB to INR 211bn. OB plus L1 stands at INR 285bn, its highest ever. The H2FY22 bid pipeline is around INR 650bn with a strong international T&D and domestic civil and railway pipelines. KEC is targeting to close FY22 with new order wins of INR 180bn. As part of its diversification strategy, KEC (1) fully acquired Spur Infra in Oct'21 for an EV of INR 620mn, thus increasing its presence in the O&G segment, (2) received a civil order in airport, marking its entry into the public space segment, and (3) expanded its international footprint, after bagging the first T&D EPC order in Europe.
- **Weaker collection and higher debt**: The consolidated net debt, including acceptances (INR 15.5bn), jumped to INR 43.5bn (INR 39bn at the end of Jun-21). The FY22 target for net debt (excluding acceptances) is INR 27bn. The interest cost for the quarter declined to 2% of sales (vs 2.6% in Q1FY21). NWC was at 138 days vs 135 days in the previous quarter, mainly because of weak collection from railways, stalled projects in Afghanistan with INR 3-4bn of pending work, and higher re-valued inventory.

### Consolidated financial summary

| (INR mn) | Q2FY22 | Q2FY21 | YoY (%) | Q1FY22 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| Revenues | 35,875 | 32,577 | 10.1 | 25,400 | 41.2 | 1,31,142 | 1,47,669 | 1,65,927 | 1,82,672 |
| EBITDA | 2,530 | 2,931 | (13.7) | 1,599 | 58.2 | 11,412 | 12,172 | 15,888 | 19,219 |
| APAT | 803 | 1,426 | (43.7) | 461 | 74.0 | 5,527 | 5,738 | 8,294 | 10,767 |
| EPS (Rs) | 3.1 | 5.5 | (43.7) | 1.8 | 74.0 | 21.5 | 22.3 | 32.3 | 41.9 |
| P/E (x) | | | | | | 22.2 | 21.4 | 14.8 | 11.4 |
| EV/EBIDTA (x) | | | | | | 13.5 | 12.4 | 9.5 | 7.7 |
| RoE (%) | | | | | | 18.0 | 15.7 | 19.1 | 20.7 |

Source: Company, HSIE Research

## BUY

| | |
|---|---|
| CMP *(as on 28 Oct 2021)* | INR 476 |
| Target Price | INR 556 |
| NIFTY | 17,857 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | BUY | BUY |
| Price Target | INR 556 | INR 556 |
| EPS Change % | FY22E | FY23E |
| | - | - |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | KECI IN |
| No. of Shares (mn) | 257 |
| MCap (INR bn) / ($ mn) | 122/1,644 |
| 6m avg traded value (INR mn) | 253 |
| 52 Week high / low | INR 550/318 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 12.6 | 19.1 | 44.6 |
| Relative (%) | (1.8) | (1.5) | (5.7) |

| SHAREHOLDING PATTERN (%) | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 51.82 | 51.82 |
| FIs & Local MFs | 26.06 | 26.99 |
| FPIs | 11.06 | 11.11 |
| Public & Others | 11.06 | 10.08 |
| Pledged Shares | - | - |

*Source: BSE*

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# Kalpataru Power Transmission

## Muted performance

**Kalpataru Power (KPTL) reported revenue/EBITDA/APAT miss of 17/23/30% on account of higher commodity prices and freight rate, which led to delayed client dispatches and lower revenue booking. KPTL secured new orders worth INR 20bn in FYTD22, taking the order book (OB) to INR 124bn. Management has reduced revenue guidance from 10-15% FY22 topline growth to 5-10%. It expects to achieve a near net cash status by FY22, with INR 7bn of cumulative cash flows from the transmission asset divestment and Indore real estate project. We have cut EPS estimate to factor in weak inflows and maintain BUY with a reduced SOTP target price to INR 552 (Sep-23E).**

- **Q2 financial highlights:** Revenue: INR 16.2bn (miss by 17%); higher commodity prices and freight rate led to delayed dispatches and loss of USD20mn in revenue. EBITDA: INR 1.5bn (miss by 23%). EBITDA margin, at 9.4% (vs estimate of 10.1%), was affected by higher commodity prices and freight cost. Interest cost: INR 280mn (+21.7/-17.6% YoY/QoQ). Exceptional item was INR 450mn for provision on impairment of investment in Indore real estate project (took ~8% price cut to accelerate sales velocity; no further impairment is expected). Consequently, RPAT was at INR 370mn. APAT, at INR 708mn, missed estimates by 30.5%, given lower execution and margin.
- **World Bank ban on bidding lifted, order bookings to improve:** OB stands at INR 124bn (including Linjemontage, Sweden & Fasttel, and Brazil) with T&D/railways/O&G share at 57/25/18%. L1 order book is at INR 18bn; FYTD22 order received stood at INR 20bn. KPTL has downgraded the order inflow guidance from INR 90bn to INR 70-80bn, while upgrading consolidated order inflows (including JMC) from INR 150bn to INR 180-200bn. For Q3FY22, the consolidated order pipeline is expected at INR 400-500bn.
- **Likely near zero debt by FY22:** Net debt was at INR 11.5bn (vs INR 12.2bn in Jun-21). Net D/E is at 0.29x (vs 0.32x in Jun-21 end). KPTL expects about INR 7bn (by Mar-22) to come in from Kohima transmission asset sale (INR 5.5bn) to CLP India and Indore real estate projects sales (INR 1.5bn). The Kohima deal inflow is likely to realise by Dec-21. KPTL promoters have maintained their commitment of reducing pledged shares to 40% of holding by Dec-21.

### Standalone financial summary

| (INR mn) | Q2FY22 | Q2FY21 | YoY (%) | Q1FY22 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| Net Revenues | 16,180 | 18,820 | (14.0) | 15,860 | 2.0 | 76,710 | 77,383 | 85,723 | 92,874 |
| EBITDA | 1,520 | 2,020 | (24.8) | 1,620 | (6.2) | 8,080 | 7,728 | 9,196 | 9,928 |
| APAT | 708 | 1,590 | (55.5) | 760 | (6.9) | 4,890 | 4,343 | 5,377 | 5,953 |
| Diluted EPS (INR) | 4.8 | 10.7 | (55.5) | 5.1 | (6.9) | 32.8 | 29.2 | 36.1 | 40.0 |
| P/E (x) | | | | | | 12.5 | 14.1 | 11.4 | 10.3 |
| EV/EBITDA (x) | | | | | | 8.5 | 8.7 | 7.0 | 6.2 |
| RoE (%) | | | | | | 13.2 | 10.8 | 12.3 | 12.6 |

### Estimate Change Summary (Standalone)

| Particulars (INR mn) | FY22E | | | FY23E | | | FY24E | | |
|---|---|---|---|---|---|---|---|---|---|
| | New | Old | % Chg. | New | Old | % Chg. | New | Old | % Chg. |
| Revenues | 77,383 | 85,227 | (9.2) | 85,723 | 98,187 | (12.7) | 92,874 | 1,07,094 | (13.3) |
| EBITDA | 7,728 | 8,400 | (8.0) | 9,196 | 10,546 | (12.8) | 9,928 | 11,261 | (11.8) |
| EBITDA (%) | 10.0 | 9.9 | 13.1 | 10.7 | 10.7 | (1.3) | 10.7 | 10.5 | 17.5 |
| APAT | 4,343 | 4,692 | (7.4) | 5,377 | 6,242 | (13.9) | 5,953 | 6,711 | (11.3) |

Source: Company, HSIE Research

## BUY

| | |
|---|---|
| CMP *(as on 01 Nov 2021)* | INR 410 |
| Target Price | INR 552 |
| NIFTY | 17,930 |

| KEY CHANGES | | OLD | NEW |
|---|---|---|---|
| Rating | | BUY | BUY |
| Price Target | | INR 608 | INR 552 |
| EPS % | FY22E | FY23E | FY24E |
| | *(7.4)* | *(13.9)* | *(11.3)* |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | KPP IN |
| No. of Shares (mn) | 149 |
| MCap (INR bn) / ($ mn) | 61/820 |
| 6m avg traded value (INR mn) | 193 |
| 52 Week high / low | INR 496/228 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | (13.1) | 11.1 | 64.0 |
| Relative (%) | (27.4) | (12.1) | 12.2 |

| SHAREHOLDING PATTERN (%) | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 54.55 | 54.55 |
| FIs & Local MFs | 27.62 | 25.63 |
| FPIs | 7.30 | 7.49 |
| Public & Others | 10.53 | 9.25 |
| Pledged Shares | 25.04 | 24.71 |

*Source : BSE*

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# Cement

# UltraTech Cement

## Strong demand moderates impact of cost inflation

**We maintain BUY on UltraTech (UTCEM) with a target price of INR 8,490/share (16x Sep'23E consolidated EBITDA). We continue to like the company for its strong growth outlook and opex & balance sheet management. UTCEM's consolidated revenue/EBITDA/APAT in Q2FY22 increased 16/1/7% YoY to INR 120.2/27.1/13.1bn respectively. Strong volume uptick and healthy pricing YoY offset the impact of soaring input costs. Unitary EBITDA fell 6/18% YoY/QoQ to INR 1,254/MT, hit by cost inflation. The company is hopeful that strong demand outlook should allow them to pass on the soaring energy costs, leading to a margin uptick.**

- **Q2FY22 performance:** Consolidated cement sales volume rose 8% YoY to 21.6mn MT (up 1% QoQ) on strong demand recovery. Grey cement volume grew 7% YoY and white/putty volume rose 17% YoY. Opex rose 9/12% QoQ/YoY to INR 4,299/MT, especially due to rising energy cost and increased sales share of white/putty in Q2. For grey cement, input costs rose by INR 100/MT QoQ on rising fuel prices. Other expenses also went up by ~INR 150/MT QoQ, mainly on annual maintenance and rising packing cost. Employee cost also surged ~INR 40/MT QoQ due to pay hikes (which were due last year). Overall, grey cement costing also went up on account of disruption in the company's overseas operations. Net debt is at INR 63bn (flattish vs Mar'21) as it used its cash to reduce debt on its books.
- **Demand and pricing environment:** The company guides for 6-8% volume growth YoY in H2FY22, implying FY22E volume growth at ~13-15%. Cement prices are back to pre-monsoon level (INR 10-15/bag hike in Oct), and will increase further to pass on the cost inflation, as per the company. It also noted that energy cost would rise by INR 200/MT QoQ in Q3FY22.
- **Capex and outlook**: UTCEM commissioned 0.6 mn MT each SGU in Bihar and WB in Oct'21 out of its 19.5 mn MT planned expansion. Its Dalla Super clinker plant is expected by the end of Q4FY22. During Q2, UTCEM commissioned 12/21 MW WHRS/solar power taking total WHRS/renewable power capacity to 137/169MW. It is targeting 34% green energy mix by 2024 (~15% currently). We have kept estimates unchanged for FY22/23/24E. We reiterate our BUY rating with a target price of INR 8,490/sh (16x its Sep'23E consolidated EBITDA).

### Consolidated quarterly/annual financial summary

| YE Mar (INR bn) | Q2 FY22 | Q2 FY21 | YoY (%) | Q1 FY21 | QoQ (%) | FY20 | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|---|
| Sales (mn MT)* | 21.6 | 20.1 | *7.5* | 21.5 | *0.5* | 82.5 | 86.4 | 93.8 | 101.1 | 113.0 |
| NSR (INR/MT)* | 5,553 | 5,159 | *7.6* | 5,495 | *1.1* | 5,142 | 5,177 | 5,280 | 5,359 | 5,413 |
| EBITDA(INR/MT)* | 1,254 | 1,340 | *(6.4)* | 1,536 | *(18.3)* | 1,137 | 1,339 | 1,262 | 1,309 | 1,335 |
| Net Sales | 120.2 | 103.9 | *15.7* | 118.3 | *1.6* | 424.3 | 447.3 | 500.7 | 547.9 | 618.0 |
| EBITDA | 27.1 | 27.0 | *0.6* | 33.1 | *(17.9)* | 93.8 | 115.7 | 123.7 | 138.3 | 157.3 |
| APAT | 13.1 | 12.3 | *6.7* | 17.0 | *(22.9)* | 38.7 | 55.8 | 59.8 | 73.1 | 97.1 |
| AEPS (INR) | 45.5 | 42.6 | *6.7* | 59.0 | *(22.9)* | 134.0 | 193.3 | 207.0 | 253.3 | 336.4 |
| EV/EBITDA (x) | | | | | | 24.5 | 19.0 | 17.6 | 15.2 | 12.8 |
| EV/MT (INR bn) | | | | | | 19.9 | 18.7 | 17.8 | 16.6 | 14.9 |
| P/E (x) | | | | | | 55.2 | 38.2 | 35.7 | 29.2 | 22.0 |
| RoE (%) | | | | | | 10.6 | 13.4 | 12.8 | 13.9 | 16.1 |

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

## BUY

| | |
|---|---|
| **CMP *(as on 18 Oct 2021)*** | **INR 7,399** |
| **Target Price** | **INR 8,490** |
| **NIFTY** | **18,477** |

| **KEY CHANGES** | **OLD** | **NEW** |
|---|---|---|
| Rating | BUY | BUY |
| Price Target | INR 8,490 | INR 8,490 |
| | FY22E | FY23E |
| EBITDA % | *0.0* | *0.0* |

| **KEY STOCK DATA** | |
|---|---|
| Bloomberg code | UTCEM IN |
| No. of Shares (mn) | 289 |
| MCap (INR bn) / ($ mn) | 2,136/28,702 |
| 6m avg traded value (INR mn) | 2,897 |
| 52 Week high / low | INR 8,073/4,440 |

| **STOCK PERFORMANCE (%)** | **3M** | **6M** | **12M** |
|---|---|---|---|
| Absolute (%) | 0.9 | 10.2 | 65.1 |
| Relative (%) | (16.6) | (18.6) | 12.3 |

| **SHAREHOLDING PATTERN (%)** | **Jun-21** | **Sep-21** |
|---|---|---|
| Promoters | 60.00 | 59.96 |
| FIs & Local MFs | 14.39 | 14.65 |
| FPIs | 16.58 | 16.48 |
| Public & Others | 9.03 | 8.91 |
| Pledged Shares | - | - |

*Source : BSE*

Pledged shares as % of total shares

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HDFC securities
INSTITUTIONAL RESEARCH

# Shree Cement

## Healthy margin despite weak sales volume

**We maintain our REDUCE rating on Shree Cement (SRCM) with a revised TP of INR 28,700/share, owing to its expensive valuation. SRCM's standalone revenue grew 5% YoY to INR 32.1bn on healthy cement pricing and jump in power sales, while cement volume declined. EBITDA fell 11% YoY to INR 9bn due to higher energy costs and op-lev loss. Unitary EBITDA cooled off 11% YoY to INR 1,378/MT (down 7% QoQ). APAT rose 6% YoY to INR 5.8bn on a large jump in other income and lower capital charges. Working capital increased in H1, pulling down OCF. Capex spends picked up in H1, as SRCM has multiple expansions underway until FY24E.**

- **Q2FY22 performance:** While cement sales volume fell 3/8% YoY/QoQ, impacted by transporters strike in late-Sep in Chhattisgarh, NSR remained strong (+6% YoY, down ~0.4% QoQ). Rising energy and packing costs and op-lev loss (lower sales despite capacity increase) drove up opex by 15% YoY. Thus, unitary EBITDA cooled off by 11% YoY to INR 1,378/MT. External power sales rebound 26% QoQ to 94mn units and, amidst the surge in spot prices, its contribution to SRCM's total revenue/EBITDA expanded to ~2/3% vs 1/0% QoQ. While revenue of its UAE subsidiary fell 26% YoY to INR 1.7bn, EBITDA rebound 94% YoY to INR 0.22bn.
- **H1FY22 performance**: A 15% volume uptick drove up H1 EBITDA by 12% YoY to INR 19.2bn. However, WC stretch by INR 6.3bn moderated OCF to INR 9.9bn. Of this, SRCM spent ~INR 8.8bn towards Capex and INR 1.5bn to repay debt. SRCM has, so far, utilised INR 8.5bn (and 1.45bn during H1FY22) from its QIP proceeds of INR 24bn (raised in Nov'19).
- **Capex update and outlook**: SRCM's 3mn MT SGU in Patas (Maharashtra) is expected by Q3FY22. In FY23E, its 4mn MT brownfield clinker plant in Chhattisgarh, 3mn MT SGU in West Bengal and 106MW captive solar power plants are expected to get operational. Thereafter, its 4/3.5mn MT clinker/cement IU in Rajasthan is expected by the end of FY24E. These will increase its clinker/cement capacities to 33/53mn MT. We maintain our EBITDA estimates, as we expect healthy demand to support cost pass-through. We increase APAT estimates for FY22/23/24E by 7/2/1% to factor in higher treasury income. Our revised TP of INR 28,700/sh is SOTP based. We value its standalone cement business at 16.5x Sep'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) | Q2 FY22 | Q2 FY21 | *YoY (%)* | Q1 FY22 | *QoQ (%)* | FY20 | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|---|
| Sales Vol (mn MT) | 6.32 | 6.53 | *(3.3)* | 6.84 | *(7.7)* | 24.93 | 26.84 | 29.07 | 32.59 | 36.83 |
| NSR (INR/MT) | 4,972 | 4,674 | *6.4* | 4,992 | *(0.4)* | 4,568 | 4,651 | 4,722 | 4,787 | 4,889 |
| Opex (INR/MT) | 3,594 | 3,132 | *14.8* | 3,516 | *2.2* | 3,116 | 3,182 | 3,209 | 3,204 | 3,274 |
| EBITDA (INR/MT) | 1,378 | 1,542 | *(10.7)* | 1,476 | *(6.6)* | 1,452 | 1,469 | 1,514 | 1,574 | 1,612 |
| Net Sales | 32.06 | 30.53 | *5.0* | 34.49 | *(7.1)* | 119.04 | 125.88 | 139.37 | 157.78 | 181.86 |
| EBITDA | 8.98 | 10.07 | *(10.8)* | 10.14 | *(11.4)* | 36.75 | 39.55 | 44.65 | 51.69 | 59.56 |
| APAT | 5.78 | 5.47 | *5.6* | 6.62 | *(12.7)* | 15.70 | 23.12 | 26.53 | 29.69 | 33.27 |
| AEPS (INR) | 160.1 | 151.7 | *5.6* | 183.4 | *(12.7)* | 435.2 | 640.8 | 735.2 | 822.9 | 922.2 |
| EV/EBITDA (x) | | | | | | 27.2 | 24.5 | 21.5 | 18.5 | 16.0 |
| EV/MT (INR bn) | | | | | | 23.90 | 22.62 | 21.99 | 19.80 | 17.86 |
| P/E (x) | | | | | | 65.7 | 44.6 | 38.9 | 34.8 | 31.0 |
| *RoE (%)* | | | | | | *13.9* | *16.4* | *16.2* | *15.9* | *15.6* |

Source: Company, HSIE Research

## REDUCE

| | |
|---|---|
| **CMP** *(as on 29 Oct 2021)* | **INR 28,635** |
| **Target Price** | **INR 28,700** |
| **NIFTY** | **17,672** |

| **KEY CHANGES** | **OLD** | **NEW** |
|---|---|---|
| Rating | REDUCE | REDUCE |
| Price Target | INR 28,400 | INR 28,700 |
| EBITDA revision % | FY22E<br>- | FY23E<br>- |

| **KEY STOCK DATA** | |
|---|---|
| Bloomberg code | SRCM IN |
| No. of Shares (mn) | 36 |
| MCap (INR bn) / ($ mn) | 1,033/13,884 |
| 6m avg traded value (INR mn) | 1,409 |
| 52 Week high / low | INR 32,050/20,720 |

| **STOCK PERFORMANCE (%)** | **3M** | **6M** | **12M** |
|---|---|---|---|
| Absolute (%) | 3.6 | 0.7 | 32.1 |
| Relative (%) | (0.9) | (18.5) | (17.1) |

| **SHAREHOLDING PATTERN (%)** | **Jun-21** | **Sep21** |
|---|---|---|
| Promoters | 62.55 | 62.55 |
| FIs & Local MFs | 10.48 | 10.11 |
| FPIs | 13.02 | 13.53 |
| Public & Others | 13.95 | 13.81 |
| Pledged Shares | - | - |

*Source : BSE*

Pledged shares as % of total shares

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# Ambuja Cement

## Rising costs moderate margin

**We maintain our ADD rating on Ambuja Cements (ACEM) with an unchanged target price of INR 390/share (SOTP-based). ACEM Q3CY21 performance was broadly in line. Its standalone revenue/EBITDA/APAT rose 14/3/0% YoY to INR 32.37/7.03/4.41bn respectively. Sales volume rebound 9% YoY on healthy demand and even realisation fell a modest 1% QoQ (+4% YoY). However, rising input costs pulled down unitary EBITDA by 5/24% YoY/QoQ to INR 1,135/MT. We expect the recently commissioned plant in Rajasthan to accelerate volume growth CY22E onwards.**

- **Q3CY21 performance:** ACEM's sales volume rebound 9% YoY to 6.2mn MT, riding on demand across all its markets barring the east. Utilisation stood at 84% vs 87/77% QoQ/YoY. NSR fell a modest 1% QoQ (+4% YoY) despite the impact of monsoon. Increased share of value added products also boosted NSR YoY. Opex rose 9% QoQ (7% YoY), mainly driven by rising energy costs. Unitary input/ freight costs rose ~INR 180/55 per MT QoQ. Even unitary fixed costs went up by 10/6% QoQ/YoY on rising packing, marketing, and branding costs. Unitary EBITDA cooled off 24% QoQ to INR 1,134/MT (-6% YoY), led by opex rise.
- **Project update:** The Marwar project (3.1/1.8mn MT clinker/cement capacity) commenced operations in Sep'21, increasing ACEM's cement/clinker capacity to 31/21mn MT respectively. ACEM developed and validated its 2030 carbon emission reduction targets by the Science Based Targets initiative (SBTi). It signed the Business Ambition for 1.5° C pledge, joining the race to Zero campaign of the United Nations Framework Convention on Climate Change.
- **Outlook**: We maintain our estimates and ADD rating on the stock with an unchanged TP of INR 390/sh (SOTP based). We value the standalone cement business at 14x its Sep'23E EBITDA and its 50% holding in ACC at a 30% discount to our target market cap for ACC.

### Standalone quarterly/annual financial summary

| YE Dec (INR bn) | Q3 CY21 | Q3 CY20 | YoY (%) | Q2 CY21 | QoQ (%) | CY19 | CY20 | CY21E | CY22E | CY23E |
|---|---|---|---|---|---|---|---|---|---|---|
| Sales (mn MT) | 6.20 | 5.68 | *9.2* | 6.42 | *(3.5)* | 23.96 | 22.67 | 27.17 | 29.35 | 31.40 |
| NSR (INR/MT) | 5,226 | 5,026 | *4.0* | 5,251 | *(0.5)* | 4,870 | 5,016 | 5,129 | 5,202 | 5,278 |
| Opex (INR/MT) | 4,091 | 3,828 | *6.9* | 3,756 | *8.9* | 3,973 | 3,849 | 3,885 | 4,005 | 4,039 |
| EBITDA(INR/MT) | 1,135 | 1,199 | *(5.3)* | 1,495 | *(24.1)* | 897 | 1,167 | 1,244 | 1,197 | 1,239 |
| Net Sales | 32.37 | 28.52 | *13.5* | 33.71 | *(4.0)* | 116.68 | 113.72 | 139.36 | 152.67 | 165.73 |
| EBITDA | 7.03 | 6.80 | *3.4* | 9.60 | *(26.7)* | 21.49 | 26.47 | 33.79 | 35.14 | 38.91 |
| APAT | 4.41 | 4.41 | *0.2* | 7.23 | *(39.0)* | 14.77 | 17.90 | 22.92 | 23.82 | 26.82 |
| AEPS (INR) | 2.2 | 2.2 | *0.2* | 3.6 | *(39.0)* | 7.4 | 9.0 | 11.5 | 12.0 | 13.5 |
| EV/EBITDA (x) | | | | | | 27.5 | 23.0 | 16.8 | 15.8 | 13.9 |
| EV/MT (INR bn) | | | | | | 19.99 | 20.60 | 18.10 | 17.69 | 17.25 |
| P/E (x) | | | | | | 51.1 | 42.2 | 33.0 | 31.7 | 28.2 |
| *RoE (%)* | | | | | | *6.8* | *8.4* | *10.8* | *10.4* | *10.8* |

Source: Company, HSIE Research

## ADD

| | |
|---|---|
| **CMP *(as on 26 Oct 2021)*** | **INR 380** |
| **Target Price** | **INR 390** |
| **NIFTY** | **18,268** |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | ADD | ADD |
| Price Target | INR 390 | INR 390 |
| EBITDA revision % | CY21E - | CY22E - |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | ACEM IN |
| No. of Shares (mn) | 1,986 |
| MCap (INR bn) / ($ mn) | 755/10,145 |
| 6m avg traded value (INR mn) | 1,719 |
| 52 Week high / low | INR 443/226 |

**STOCK PERFORMANCE (%)**

| | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | (6.8) | 25.3 | 55.2 |
| Relative (%) | (22.9) | (1.5) | 2.3 |

**SHAREHOLDING PATTERN (%)**

| | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 63.28 | 63.26 |
| FIs & Local MFs | 12.24 | 13.35 |
| FPIs | 17.69 | 16.52 |
| Public & Others | 6.79 | 6.87 |
| Pledged Shares | - | - |

*Source : BSE*

Pledged shares as % of total shares

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# ACC

## Mixed performance

**We maintain our BUY rating on ACC with an unchanged target price of INR 2,670/share. In Q3CY22, its consolidated revenue/EBITDA/APAT rose 6/6/24% YoY to INR 37.5/7.12/4.5bn respectively. While cement volume rose a modest 1% YoY, realisation fell a modest 1% QoQ (+2% YoY). While input cost jumped INR 200/MT QoQ, it rose a modest INR 50/MT YoY, benefitting from project Parvat savings. Thus, unitary EBITDA stood flattish YoY at INR 1,060. Rebound in RMC profit also boosted total EBITDA YoY.**

- **Q3CY22 performance:** Cement sales volume rose only 1% YoY to 6.57mn MT (-4% QoQ), despite strong demand recovery. NSR fell a modest 1% QoQ (+2% YoY), which moderated the impact of weaker offtake. Opex rose 3% QoQ, mainly driven by rising energy costs. Input cost rose ~150/MT QoQ. It has been able to improve its cost efficiency measures under project 'Parvat', thus restricting YoY input cost inflation at INR 50/MT YoY. Unitary EBITDA cooled off 16% QoQ to INR 1,060/MT (-1% YoY). RMC volume/revenue rose 46/55% YoY on strong demand revival and higher cement prices. RMC EBITDA rebound to INR 159mn vs loss of INR 233mn YoY, boosting the overall profitability.
- **Cost controls and ESG in focus:** ACC became the first Indian company in the construction sector to sign the Net Zero Pledge - Business Ambition for 1.5°C. It is a commitment towards the 2030 intermediate targets to reduce greenhouse gas emissions, as approved by the Science Based Target initiative (SBTi). It is also working on two WHRS projects Jamul (10MW) and Kymore (14MW). Additionally, three fly-ash dryer projects at three locations and fuel flexibility projects at three locations are underway to reduce its costs as well as carbon footprint.
- **Expansion update and outlook:** ACC's IU in MP is on track to come up by Q2CY22 and two related SGUs in UP by Q4CY22. We like ACC for its steady cost reduction-led margin improvement. The upcoming expansion will boost volume growth CY22 onwards. We maintain our earnings estimates and BUY rating with an unchanged target price of INR 2,670/share, valuing it at 12x its Sep'23E consolidated EBITDA.

### Consolidated financial summary

| YE Dec (INR bn) | Q3 CY21 | Q3 CY20 | YoY (%) | Q2 CY21 | QoQ (%) | CY19 | CY20 | CY21E | CY22E | CY23E |
|---|---|---|---|---|---|---|---|---|---|---|
| Sales (mn MT) | 6.57 | 6.49 | *1.2* | 6.84 | *(3.9)* | 28.89 | 25.53 | 30.40 | 32.53 | 37.00 |
| NSR (INR/MT) | 5,242 | 5,148 | *1.8* | 5,307 | *(1.2)* | 4,907 | 5,023 | 5,083 | 5,131 | 5,173 |
| EBITDA(INR/MT) | 1,060 | 1,071 | *(1.0)* | 1,260 | *(15.9)* | 782 | 949 | 1,002 | 947 | 969 |
| Net Sales | 37.49 | 35.37 | *6.0* | 38.85 | *(3.5)* | 156.58 | 137.86 | 169.71 | 183.61 | 209.78 |
| EBITDA | 7.12 | 6.71 | *6.1* | 8.69 | *(18.1)* | 24.13 | 24.84 | 32.20 | 32.72 | 37.97 |
| APAT | 4.50 | 3.64 | *23.7* | 5.69 | *(20.9)* | 12.78 | 14.09 | 20.28 | 20.59 | 22.94 |
| AEPS (INR) | 23.9 | 19.4 | *23.7* | 30.3 | *(20.9)* | 68.1 | 75.0 | 108.0 | 109.6 | 122.2 |
| EV/EBITDA (x) | | | | | | 10.0 | 8.1 | 11.2 | 11.8 | 10.1 |
| EV/MT (INR bn) | | | | | | 7.29 | 6.10 | 10.47 | 9.84 | 9.74 |
| P/E (x) | | | | | | 22.5 | 18.5 | 20.8 | 20.5 | 18.4 |
| RoE (%) | | | | | | *11.6* | *11.6* | *15.1* | *13.9* | *14.1* |

Source: Company, HSIE Research

## BUY

| | |
|---|---|
| **CMP** *(as on 19 Oct 2021)* | **INR 2,243** |
| **Target Price** | **INR 2,670** |
| **NIFTY** | **18,419** |

| **KEY CHANGES** | **OLD** | **NEW** |
|---|---|---|
| Rating | BUY | BUY |
| Price Target | INR 2,670 | INR 2,670 |
| EBITDA % | CY21E | CY22E |
| | *0* | *0* |

| **KEY STOCK DATA** | |
|---|---|
| Bloomberg code | ACC IN |
| No. of Shares (mn) | 188 |
| MCap (INR bn) / ($ mn) | 421/5,660 |
| 6m avg traded value (INR mn) | 1,387 |
| 52 Week high / low | INR 2,509/1,485 |

**STOCK PERFORMANCE (%)**

| | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 4.2 | 19.5 | 43.5 |
| Relative (%) | (13.2) | (9.2) | (9.1) |

**SHAREHOLDING PATTERN (%)**

| | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 54.53 | 54.53 |
| FIs & Local MFs | 19.42 | 19.38 |
| FPIs | 13.57 | 13.59 |
| Public & Others | 12.48 | 12.50 |
| Pledged Shares | 0.0 | 0.0 |

*Source : BSE*

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# Dalmia Bharat

## Weak pricing pulls margin down

**We maintain ADD on Dalmia Bharat (DBEL) with an unchanged target price of INR 2,240/share (13x Sep'23E consolidated EBITDA). In Q2FY22, while consolidated net sales (adj for prior-period incentives) rose 9% to INR 25.21bn on steady volume growth, elevated opex pulled down adj EBITDA/APAT by 19/53% YoY to INR 5.65/1.09bn. Unitary EBITDA fell 24% YoY to INR 1,108/MT. Despite the accelerated Capex spend, DBEL reduced debt by 17% (vs Mar'21) to INR 32bn, using its cash balances. The company is confident of (1) passing on soaring fuel price impact and (2) its major Capex (58% expansion by FY24E) and green power additions remaining on track.**

- **FY22Q2:** Consolidated sales volume rose 6% YoY, despite weak demand in the east, aided by DBEL's ongoing expansion (capacity up 24% YoY to 33mn MT). As prices corrected seasonally across the south and east, NSR (adj for prior-period incentives of INR 0.56bn) fell 7% QoQ, moderating the YoY gain to 3%. Opex remained stable QoQ on account of better production control, railways incentives, and fuel mix management. On a YoY basis, however, elevated slag/fuel prices and higher fixed costs (capacity expansion led) inflated opex by 14%. Thus, unitary EBITDA fell 24/24% YoY/QoQ to INR 1,108/MT. Continued debt reduction drove down interest cost by 31% YoY. DBEL has opted for reduced tax rate from Q2 onwards.
- **H1FY22 cashflows**: While H1 consolidated EBITDA fell 3% YoY on Q2 drag, WC rise halved OCF YoY to INR 7.83bn. This went on to fund its similar Capex spend in H1. DBEL liquidated its cash/investments to reduce gross debt by ~17% (vs Mar'21) to INR 32bn.
- **Capex and outlook:** DBEL's plan to increase cement capacity by 58% to 48mn MT during FY21-24E is broadly on track. Its ongoing investments in WHRS/solar power will expand the share of green power to ~20-25% in FY24E vs ~5% in FY21. These would entail a total Capex of ~INR100bn during FY22-24E (leading to debt increase, going ahead). We estimate its net debt/EBITDA would remain comfortable under 2x. DBEL management remained confident (like other managements) to pass on the soaring fuel-price impact in H2. We maintain our ADD rating and TP of INR 2,240/sh, valuing the company at 13x its consolidated Sep'23E EBITDA.

### Quarterly/annual financial summary (consolidated)

| YE Mar (INR bn) | Q2 FY22 | Q2 FY21 | YoY (%) | Q1 FY22 | QoQ (%) | FY20 | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|---|
| Sales (mn MT) | 5.10 | 4.80 | *6.3* | 4.89 | *4.3* | 19.3 | 20.7 | 23.8 | 27.1 | 30.5 |
| NSR (INR/MT) | 4,943 | 4,819 | *2.6* | 5,290 | *(6.6)* | 4,967 | 4,878 | 5,122 | 5,019 | 5,069 |
| Opex (INR/MT) | 3,835 | 3,365 | *14.0* | 3,832 | *0.1* | 3,876 | 3,545 | 3,872 | 3,808 | 3,888 |
| EBITDA(INR/MT) | 1,108 | 1,454 | *(23.8)* | 1,458 | *(24.0)* | 1,091 | 1,333 | 1,249 | 1,211 | 1,181 |
| Net Sales | 25.21 | 23.13 | *9.0* | 25.87 | *(2.6)* | 95.81 | 100.97 | 121.96 | 136.23 | 154.59 |
| EBITDA | 5.65 | 6.98 | *(19.1)* | 7.13 | *(20.8)* | 21.05 | 27.59 | 29.75 | 32.87 | 36.03 |
| APAT | 1.09 | 2.31 | *(52.8)* | 2.77 | *(60.6)* | 2.23 | 12.19 | 11.24 | 11.90 | 11.53 |
| AEPS (INR) | 5.8 | 12.4 | *(52.8)* | 14.8 | *(60.6)* | 11.6 | 65.3 | 60.1 | 63.6 | 61.6 |
| EV/EBITDA (x) | | | | | | 19.5 | 14.3 | 13.1 | 12.6 | 11.9 |
| EV/MT (INR bn) | | | | | | 15.6 | 12.8 | 10.8 | 11.5 | 8.9 |
| P/E (x) | | | | | | 166.1 | 30.4 | 33.0 | 31.1 | 32.1 |
| RoE (%) | | | | | | *2.1* | *10.5* | *8.5* | *8.3* | *7.5* |

Source: Company, HSIE Research

# ADD

| | |
|---|---|
| **CMP *(as on 28 Oct 2021)*** | **INR 1,991** |
| **Target Price** | **INR 2,240** |
| **NIFTY** | **17,857** |

| **KEY CHANGES** | **OLD** | **NEW** |
|---|---|---|
| Rating | ADD | ADD |
| Price Target | INR 2,240 | INR 2,240 |
| EBITDA revision % | FY22E<br>- | FY23E<br>- |

| **KEY STOCK DATA** | |
|---|---|
| Bloomberg code | DALBHARA IN |
| No. of Shares (mn) | 187 |
| MCap (INR bn) / ($ mn) | 373/5,007 |
| 6m avg traded value (INR mn) | 543 |
| 52 Week high / low | INR 2,548/805 |

| **STOCK PERFORMANCE (%)** | **3M** | **6M** | **12M** |
|---|---|---|---|
| Absolute (%) | (7.3) | 31.9 | 141.4 |
| Relative (%) | (21.7) | 11.2 | 91.1 |

| **SHAREHOLDING PATTERN (%)** | **Jun-21** | **Sep-21** |
|---|---|---|
| Promoters | 55.97 | 55.97 |
| FIs & Local MFs | 5.79 | 6.00 |
| FPIs | 13.14 | 13.77 |
| Public & Others | 25.10 | 24.25 |
| Pledged Shares | - | - |

*Source : BSE*

Pledged shares as % of total shares

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# JK Cement

## Grey on a solid footing; white losing its shine

**We downgrade our rating on JK Cement (JKCE) to REDUCE, from ADD earlier, and lower the TP to INR 3,210 (11.5x Sep-23E consolidated EBITDA). JKCE's consolidated revenue jumped 16% YoY to INR 19bn, led by strong traction in grey cement business. However, high overall energy costs increased competitive pressure in domestic markets for white/putty business and continued weakness in the UAE operations pulled down consolidated EBITDA/APAT by 18/20% YoY to INR 3.6/1.8bn. JKCE's 4mn MT grey cement expansion in central region is progressing well and will accelerate its segmental contribution, while we estimate white/putty growth to moderate on rising competition-led margin contraction.**

- **Q2FY22 performance**: Grey cement- JKCE delivered robust 20/7% YoY/QoQ volume growth, led by greater traction in non-trade and market share gain in trade. The unitary EBITDA fell ~20% YoY to ~INR 900 (our view) due to rising energy costs and normalisation of other costs, leading to a segmental EBITDA decline of ~5% YoY to ~INR 2.6bn. Consolidated white/putty sales volume fell 3% YoY (despite the 30% QoQ rebound on pre-festive domestic demand). Higher raw materials, fuel cost, and weak UAE performance reduced segmental EBITDA ~40% YoY to INR 1bn.
- **Capex update and balance sheet**: In H1, JKCE spent INR 6.3bn, mainly on the Panna greenfield project. It also commissioned the Line-3 clinker modification at Rajasthan. Net debt increased 31% (vs Mar-21) to INR 24.5bn, leading to a net debt/EBITDA of 0.6x (vs 0.5x in Mar-21). JKCE will spend ~INR 9/12/6bn in FY22/23/24E on the Panna project (expected by early FY24E). This will expand grey cement capacity to 19mn MT.
- **Outlook**: We estimate JKCE's grey cement business would grow at a faster pace (FY21-24E revenue/EBITDA CAGRs: 20/21%), riding on capacity ramp-up and cost efficiencies. However, we estimate white/putty's growth would slow down (revenue/EBITDA CAGRs: 12/4%), given that the rising competition from paint companies has moderated the segmental margin and the UAE plant's scale-up remains challenged. We trim our EBITDA estimates for FY22/23E by 8/3%, factoring in the margin pressure in the white/putty segment. We value JKCE at 11.5x its consolidated Sep-23E EBITDA), leading to a TP of INR 3,210/sh. Owing to its expensive valuation, we downgrade our rating to REDUCE (from ADD).

### Consolidated quarterly/annual financial summary

| YE Mar (Rs bn) | Q2 FY22 | Q2 FY21 | YoY (%) | Q1 FY22 | QoQ (%) | FY20 | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|---|
| Sales (mn MT) | 3.41 | 2.93 | *16.3* | 3.12 | *9.4* | 10.2 | 12.0 | 14.3 | 16.0 | 18.5 |
| NSR (Rs/MT) | 5,558 | 5,575 | *(0.3)* | 5,498 | *1.1* | 5,666 | 5,507 | 5,702 | 5,849 | 5,880 |
| Opex (Rs/MT) | 4,514 | 4,103 | *10.0* | 4,206 | *7.3* | 4,481 | 4,192 | 4,529 | 4,530 | 4,550 |
| EBITDA(Rs/MT) | 1,043 | 1,471 | *(29.1)* | 1,292 | *(19.3)* | 1,185 | 1,315 | 1,173 | 1,319 | 1,331 |
| Net Sales | 18.95 | 16.34 | *15.9* | 17.14 | *10.6* | 58.02 | 66.06 | 81.70 | 93.45 | 108.67 |
| EBITDA | 3.56 | 4.31 | *(17.5)* | 4.03 | *(11.7)* | 12.13 | 15.78 | 16.81 | 21.07 | 24.59 |
| APAT | 1.77 | 2.22 | *(20.0)* | 1.92 | *(7.6)* | 4.92 | 7.49 | 8.19 | 11.07 | 12.20 |
| AEPS (Rs) | 24.8 | 6.8 | *267.2* | 33.0 | *(24.7)* | 63.7 | 96.9 | 106.0 | 143.3 | 158.0 |
| EV/EBITDA(x) | | | | | | 24.4 | 18.4 | 17.3 | 13.8 | 11.9 |
| EV/MT (Rs bn) | | | | | | 16.3 | 14.9 | 14.9 | 14.9 | 12.4 |
| P/E (x) | | | | | | 55.2 | 36.3 | 33.2 | 24.5 | 22.3 |
| *RoE (%)* | | | | | | *17.3* | *22.3* | *20.2* | *22.8* | *21.0* |

Source: Company, HSIE Research; Operating trends are on blended basis (grey cement+ white/putty)

## REDUCE

| | |
|---|---|
| **CMP** *(as on 16 Nov 2021)* | **INR 3,515** |
| **Target Price** | **INR 3,210** |
| **NIFTY** | **17,999** |

| **KEY CHANGES** | **OLD** | **NEW** |
|---|---|---|
| Rating | ADD | REDUCE |
| Price Target | INR 3,295 | INR 3,210 |
| EBITDA revision % | FY22E *(8.2)* | FY23E *(2.7)* |

| **KEY STOCK DATA** | |
|---|---|
| Bloomberg code | JKCE IN |
| No. of Shares (mn) | 77 |
| MCap (INR bn) / ($ mn) | 272/3,650 |
| 6m avg traded value (INR mn) | 305 |
| 52 Week high / low | INR 3,863/1,850 |

| **STOCK PERFORMANCE (%)** | **3M** | **6M** | **12M** |
|---|---|---|---|
| Absolute (%) | 12.8 | 27.4 | 85.4 |
| Relative (%) | 4.3 | 3.6 | 47.1 |

| **SHAREHOLDING PATTERN (%)** | **Jun-21** | **Sep-21** |
|---|---|---|
| Promoters | 57.63 | 57.62 |
| FIs & Local MFs | 20.59 | 20.10 |
| FPIs | 16.90 | 17.39 |
| Public & Others | 4.88 | 4.89 |
| Pledged Shares | - | - |

*Source : BSE*

Pledged shares as % of total shares

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# The Ramco Cements

## Strong volume growth; margin to rebound

**We upgrade The Ramco Cements (TRCL) to BUY from ADD earlier, with a target price of INR 1,096/share (13x Sep'23E EBITDA). Despite demand headwinds in COVID-impacted south markets, TRCL delivered 27% QoQ volume rebound (+22% YoY). Op-lev gains from higher utilisation and rising contribution of WHRS and alternative fuel moderated the impact of lower pricing and soaring input costs. Thus, while standalone revenue rose 19% YoY to INR 14.93bn, EBITDA/APAT fell 11/9% YoY to INR 3.94/2.15bn respectively. Despite the soaring fuel cost outlook, management remains confident of a margin rebound closer to Q1FY22 levels on cost pass-through.**

- **Q2FY22 performance:** Despite continued COVID impact in Kerala/Tamil Nadu markets, TRCL could rebound its sales volume by 26% QoQ (+22% YoY), thus also firming up its volume momentum. NSR fell 5% QoQ on seasonal impact. Higher utilisation-led op-lev gains and increased consumption of WHRS and alternative fuel moderated the impact of soaring fuel prices (input cost up INR 140/MT QoQ), leading to a modest 1% QoQ opex inflation. Unitary EBITDA, thus, fell 18% QoQ to INR 1,351/MT. In Q2, TRCL moved to a new tax regime, leading to a one-off tax credit of INR 3bn.
- **H1FY22 cash flows**: Working capital increased by INR 2.74bn (vs Mar'21), suppressing OCF generation to INR 4.29bn. TRCL spent INR 9bn towards the ongoing expansion in south. Gross/net debt increased 15/17% (vs Mar'21) to INR 36/35bn respectively.
- **Capex update and outlook**: The Company will commission 2.25mn MT clinker and 9MW WHRS at Kurnool by Q4FY22. In FY23, it will commission 1mn MT grinding and 12/18MW WHRS/CPP at Kurnool. 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. TRCL will spend ~INR 14/5bn on the ongoing expansion during FY22/23E respectively. In Q3, TRCL expects its unitary energy cost to surge further by ~15% QoQ. However, it remains confident of passing on the cost increases, given healthy demand. We maintain our EBITDA estimates and target price of INR 1,096 (13x its Sep'23E EBITDA) for the company. We upgrade our rating on the stock to BUY from ADD, owing to healthy growth and margin outlook.

### Quarterly/annual financial summary

| YE Mar (INR bn) | Q2 FY22 | Q2 FY21 | YoY (%) | Q1 FY22 | QoQ (%) | FY20 | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|---|
| Sales (mn MT) | 2.7 | 2.2 | *22.4* | 2.1 | *26.5* | 11.2 | 10.0 | 11.1 | 12.5 | 13.5 |
| NSR (INR/MT) | 5,390 | 5,550 | *(2.9)* | 5,651 | *(4.6)* | 4,740 | 5,222 | 5,532 | 5,528 | 5,582 |
| Opex (INR/MT) | 4,039 | 3,658 | *10.4* | 4,014 | *0.6* | 3,759 | 3,703 | 4,072 | 3,967 | 4,010 |
| EBITDA(INR/MT) | 1,351 | 1,892 | *(28.6)* | 1,637 | *(17.4)* | 981 | 1,520 | 1,460 | 1,561 | 1,572 |
| Net Sales | 14.93 | 12.57 | *18.8* | 12.29 | *21.5* | 53.68 | 52.68 | 61.95 | 69.67 | 75.91 |
| EBITDA | 3.94 | 4.42 | *(10.9)* | 3.64 | *8.2* | 11.37 | 15.48 | 16.59 | 19.87 | 21.58 |
| APAT | 2.15 | 2.36 | *(8.7)* | 1.69 | *27.3* | 6.01 | 7.61 | 8.09 | 10.33 | 11.68 |
| AEPS (INR) | 9.1 | 10.0 | *(8.8)* | 7.2 | *27.3* | 25.5 | 32.3 | 34.3 | 43.8 | 49.6 |
| EV/EBITDA (x) | | | | | | 18.1 | 13.3 | 15.3 | 12.4 | 11.2 |
| EV/MT (INR bn) | | | | | | 11.2 | 10.7 | 13.1 | 12.1 | 11.9 |
| P/E (x) | | | | | | 29.5 | 23.3 | 27.4 | 21.5 | 19.0 |
| *RoE (%)* | | | | | | *12.8* | 14.4 | 13.5 | *15.1* | *14.9* |

Source: Company, HSIE Research

## BUY

| | |
|---|---|
| **CMP** *(as on 25 Oct 2021)* | **INR 943** |
| **Target Price** | **INR 1,096** |
| **NIFTY** | **18,125** |

| **KEY CHANGES** | **OLD** | **NEW** |
|---|---|---|
| Rating | ADD | BUY |
| Price Target | INR 1,096 | INR 1,096 |
| EBITDA revision % | FY22E - | FY23E - |

| **KEY STOCK DATA** | |
|---|---|
| Bloomberg code | TRCL IN |
| No. of Shares (mn) | 236 |
| MCap (INR bn) / ($ mn) | 222/2,990 |
| 6m avg traded value (INR mn) | 543 |
| 52 Week high / low | INR 1,133/752 |

| **STOCK PERFORMANCE (%)** | **3M** | **6M** | **12M** |
|---|---|---|---|
| Absolute (%) | (13.9) | (1.7) | 20.2 |
| Relative (%) | (29.0) | (29.0) | (29.6) |

| **SHAREHOLDING PATTERN (%)** | **Jun-21** | **Sep-21** |
|---|---|---|
| Promoters | 42.54 | 42.52 |
| FIs & Local MFs | 22.30 | 31.68 |
| FPIs | 8.64 | 8.71 |
| Public & Others | 26.52 | 17.08 |
| Pledged Shares | 5.20 | 5.85 |

*Source : BSE*

Pledged shares as % of total shares

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# Nuvoco Vistas

## Weak demand impacts profit; margin to rebound

**We maintain our BUY rating on Nuvoco Vistas (Nuvoco) with an unchanged target price of INR 827/share (11x its consolidated Sep-23E EBITDA). We continue to like it for its leadership presence in the east, its various margin initiatives, and continued deleveraging of its balance sheet. Weak demand in the east and high opex hit its profitability in Q2. The impact, however, was moderated by rising contribution of synergy benefits and ongoing cost reductions. While consolidated revenue grew 13% YoY to INR 20.20bn, EBITDA fell 9% YoY to INR 3.31bn. Higher capital charges led to a net loss of INR 0.26bn (vs a net loss of INR 0.16bn YoY). Nuvoco reduced its net debt/EBITDA to 3.1x in Sep-21 (vs 4.7x in Mar-21) and aims to lower it further to 2.2x by Mar-22E.**

- **Q2FY22 performance:** Weak demand in the east and transporter strike in Chhattisgarh (at Sep-end) reduced sales volume by 9% QoQ. Volume increased 4% YoY, owing to a lower base (NuVista consolidation for 79 days in Q2FY21). NSR fell 3% QoQ, mainly led by a ~5% drop in east pricing, while north pricing remained stable. Opex rose 7% YoY on account of higher energy costs (~INR 90/MT) and annual maintenance expense across most of its factories (impact of ~INR 180/MT QoQ). It was able to offset diesel price impact through logistics efficiency. Thus, unitary EBITDA fell 29% QoQ to INR 853/MT; it fell 12% YoY due to higher fixed costs.
- **H1FY22 performance:** Consolidated EBITDA rose 74% YoY, on a low base from the previous year. However, OCF fell 86% YoY to INR 644mn due to a sharp increase in debtors and inventory. Nuvoco spent INR 2.3bn on ongoing Capex. It also used the IPO proceeds to reduce its gross/net debt by INR 8.8/10bn (vs Mar-21) to INR 69/59bn respectively.
- **Capex update and outlook**: Nuvoco completed the Jojobera SGU (1.5mn MT) expansion in Jun-21. In Q2, it completed the CPP at Arasmeta (Chhattisgarh) and its Jojobera (Jharkhand) CPP is currently under trial runs. Its synergy/cost reduction programs are progressing well. Net debt to EBITDA ratio cooled off to 3.2x, from 4.7x in Mar-21 and Nuvoco is aiming to lower it to 2.2x by Mar-22E. It expects to kickstart Capex on its 5mn MT plant in Gulburga in H2FY23E (to be completed by end-FY25). It expects margin to rebound in H2 due to cost pass-through, increased demand, and ongoing margin initiatives.

### Quarterly/annual financial summary (consolidated)

| YE Mar (INR bn) | Q2 FY22 | Q2 FY21 | *YoY (%)* | Q1 FY22 | *QoQ (%)* | FY20 | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|---|
| Sales Vol (mn MT) | 3.9 | 3.7 | *3.8* | 4.2 | *(9.0)* | 12.2 | 15.9 | 20.0 | 23.1 | 24.1 |
| NSR (INR/MT) | 4,773 | 4,620 | *3.3* | 4,897 | *(2.5)* | 4,625 | 4,444 | 4,666 | 4,713 | 4,689 |
| Opex (INR/MT) | 3,920 | 3,656 | *7.2* | 3,691 | *6.2* | 3,579 | 3,503 | 3,532 | 3,536 | 3,559 |
| EBITDA (INR/MT) | 853 | 964 | *(11.5)* | 1,206 | *(29.3)* | 1,046 | 941 | 1,134 | 1,177 | 1,130 |
| Net Sales | 20.20 | 17.85 | *13.1* | 22.03 | *(8.3)* | 67.93 | 74.89 | 103.41 | 121.97 | 128.74 |
| EBITDA | 3.31 | 3.62 | *(8.6)* | 5.14 | *(35.7)* | 12.97 | 14.61 | 23.23 | 28.04 | 28.26 |
| APAT | (0.26) | (0.16) | | 1.14 | | 2.49 | (0.26) | 5.91 | 10.63 | 11.65 |
| AEPS (INR) | (0.7) | (0.5) | | 3.6 | | 10.3 | (0.8) | 16.5 | 29.8 | 32.6 |
| EV/EBITDA (x) | | | | | | 17.4 | 17.5 | 9.5 | 7.6 | 7.3 |
| EV/MT (INR bn) | | | | | | 16.1 | 11.4 | 9.2 | 8.5 | 8.2 |
| *RoE (%)* | | | | | | *4.9* | *(0.4)* | *6.7* | *10.0* | *10.0* |

Source: Company, HSIE Research

## BUY

| | |
|---|---|
| **CMP** *(as on 11 Nov 21)* | **INR 521** |
| **Target Price** | **INR 827** |
| **NIFTY** | **17,874** |

| **KEY CHANGES** | **OLD** | **NEW** |
|---|---|---|
| Rating | BUY | BUY |
| Price Target | INR 827 | INR 827 |
| EBITDA revision % | FY22E<br>- | FY23E<br>- |

| **KEY STOCK DATA** | |
|---|---|
| Bloomberg code | NUVOCO IN |
| No. of Shares (mn) | 357 |
| MCap (INR bn) / ($ mn) | 186/2,501 |
| 6m avg traded value (INR mn) | - |
| 52 Week high / low | INR 578/471 |

**STOCK PERFORMANCE (%)**

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

**SHAREHOLDING PATTERN (%)**

| | **Aug-21** | **Sep-21** |
|---|---|---|
| Promoters | 71.0 | 71.0 |
| FIs & Local MFs | 13.2 | 15.9 |
| FPIs | 8.9 | 7.8 |
| Public & Others | 6.8 | 5.3 |
| Pledged Shares | - | - |

*Source : BSE*

Pledged shares as % of total shares

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HDFC securities INSTITUTIONAL RESEARCH

# Birla Corporation

## Near-term sluggish demand drags profit down

**We maintain our BUY rating on Birla Corporation (BCORP) with an unchanged target price of INR 1,634/share (8.5x Sep'23E consolidated EBITDA). It reported broadly in-line performance in Q2FY22. Weak offtake across some of its major markets muted its consolidated revenue growth to 3% YoY, with revenue at INR 17bn. Higher energy and packing costs elevated opex, reducing EBITDA/APAT by 30/49% YoY to INR 2.67/0.86bn respectively. A weak Q2 also flattened H1FY22 EBITDA and WC stretch lowered OCF by 23% YoY to INR 4.6bn. Its net debt remained flat at INR 35bn (vs Mar'21). We continue to like BCORP for its large retail presence in the lucrative north/central regions and various cost-cutting initiatives. The recently-commissioned clinker debottlenecking by 0.6mn MT in the north and upcoming 3.9mn MT greenfield plant in Maharashtra should accelerate volume growth.**

- **Q2FY22 performance:** Sales volume fell 2% QoQ (flat YoY) to 3.3mn MT. BCORP noted that sales were impacted by sharp demand contraction in West Bengal and Bihar, sand issues in UP, and production disruption at its Rajasthan plant (due to ongoing debottlenecking). NSR fell 2% QoQ due to price declines, mainly in the east. NSR remained flat YoY. Opex rose 4% QoQ, due to higher energy cost. Opex rose 10% YoY due to overall cost inflation. Subsequently, unitary EBITDA fell 24/34% QoQ/YoY to INR 762/MT. Interest expense fell 17% YoY due to continued repayment of older debt. BCORP's share of premium cement remained high at 53% of its trade sales, and it continues to produce ~90% of its cement as blended cement.
- **H1FY22 performance:** While a weak Q2 flattened H1FY22 EBITDA YoY, OCF fell 23% YoY to INR 4.6bn on WC stretch. BCORP used this cash to fund its ongoing Capex, while also reducing its gross debt by INR 1bn (vs Mar-21) to INR 40.5bn. Net debt remained flat at INR 35bn, leading to a flat net debt/EBITDA ratio of 2.5x.
- **Capex update and outlook**: BCORP commissioned the 0.6mn MT clinker debottlenecking at New Chanderia (Rajasthan). In Q4, it will be commissioning the greenfield project in Maharashtra (3.9mn MT). BCORP is also aiming to augment its captive coal mining H2FY22 onwards. We maintain our earnings estimates, target price, and BUY rating on the company. We value BCORP at 8.5x Sep-23E consolidated EBITDA.

### Quarterly/annual financial summary (consolidated)

| YE Mar (INR mn) | Q2 FY22 | Q2 FY21 | YoY (%) | Q1 FY22 | QoQ (%) | FY20 | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|---|
| Sales Vol (mn MT) | 3.27 | 3.26 | *0.3* | 3.34 | *(2.2)* | 13.6 | 13.4 | 15.4 | 19.2 | 21.1 |
| NSR (INR/MT) | 4,878 | 4,880 | *(0.0)* | 4,954 | *(1.5)* | 4,819 | 4,848 | 4,744 | 4,833 | 4,934 |
| Opex (INR/MT) | 4,116 | 3,727 | *10.4* | 3,957 | *4.0* | 3,857 | 3,841 | 3,781 | 3,848 | 3,893 |
| EBITDA(INR/MT) | 762 | 1,153 | *(33.9)* | 997 | *(23.6)* | 962 | 1,007 | 963 | 985 | 1,041 |
| Net Sales | 16,978 | 16,543 | *2.6* | 17,491 | *(2.9)* | 69,157 | 67,855 | 74,323 | 86,918 | 95,268 |
| EBITDA | 2,673 | 3,827 | *(30.2)* | 3,436 | *(22.2)* | 13,360 | 13,702 | 14,709 | 17,347 | 19,683 |
| APAT | 856 | 1,666 | *(48.7)* | 1,415 | *(39.5)* | 5,052 | 6,890 | 4,862 | 5,817 | 7,799 |
| AEPS (INR) | 11.1 | 21.6 | *(48.7)* | 18.4 | *(39.5)* | 65.6 | 89.5 | 63.1 | 75.5 | 101.3 |
| EV/EBITDA (x) | | | | | | 11.8 | 11.5 | 11.0 | 9.2 | 7.9 |
| EV/MT (INR bn) | | | | | | 10.03 | 10.02 | 8.27 | 7.90 | 7.63 |
| P/E (x) | | | | | | 24.2 | 17.7 | 25.1 | 21.0 | 15.7 |
| *RoE (%)* | | | | | | *13.2* | *15.9* | *9.2* | *9.5* | *11.6* |

Source: Company, HSIE Research

## BUY

| | |
|---|---|
| **CMP** ***(as on 10 Nov 2021)*** | **INR 1,589** |
| **Target Price** | **INR 1,634** |
| **NIFTY** | **18,017** |

| **KEY CHANGES** | **OLD** | **NEW** |
|---|---|---|
| Rating | BUY | BUY |
| Price Target | INR 1,634 | INR 1,634 |
| EBITDA revision % | FY22E - | FY23E - |

| **KEY STOCK DATA** | |
|---|---|
| Bloomberg code | BCORP IN |
| No. of Shares (mn) | 77 |
| MCap (INR bn) / ($ mn) | 122/1,645 |
| 6m avg traded value (INR mn) | 276 |
| 52 Week high / low | INR 1,650/661 |

| **STOCK PERFORMANCE (%)** | **3M** | **6M** | **12M** |
|---|---|---|---|
| Absolute (%) | 17.9 | 68.4 | 131.0 |
| Relative (%) | 7.3 | 46.5 | 91.5 |

| **SHAREHOLDING PATTERN (%)** | **Jun-21** | **Sep-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

## Q2 hit by both lower sales and cost inflation

**We maintain our BUY rating on JK Lakshmi Cement (JKLC) with an unchanged target price of INR 780/share (8x Sep'23E consolidated EBITDA). We estimate healthy cash flows would support its major expansion in Udaipur, without stressing its balance sheet and keeping RoE buoyant at ~19-20%. In Q2FY22, while JKLC's consolidated revenue rose 7% YoY to INR 12.1bn, EBITDA/APAT fell 14/6% YoY to INR 1.94/0.84bn on sales loss and elevated input costs. JKLC is confident of margin recovery in H2. The upcoming 10MW WHRS plants should aid margin FY23E onwards.**

- **Q2FY22 performance:** Transporters strike in Chhattisgarh and delayed monsoon pulled down consolidated cement volume by 13/3% QoQ/YoY. Adjusted for higher non-cement revenue and sharp fall in clinker sales, cement NSR fell ~2% QoQ (against reported NSR rise of 4% QoQ), on seasonal price correction (sharper fall in east). Opex rose 9% QoQ, mainly led by higher energy cost (+20% QoQ), op-lev loss, and impact of rise in non-cement revenue (+18% QoQ). Even on a YoY basis, 25/15% surge in energy/freight costs and higher other expenses could not be covered by healthy pricing gains. Thus, unitary EBITDA fell 11/14% YoY/QoQ to INR 786/MT. Interest expense fell 31% YoY on lower debt.
- **H1FY22 cash flow**: While EBITDA rebound 14% YoY to INR 4.52bn on higher sales, a sharp rise in working capital led to negative OCF of INR 52mn. Capex spend accelerated to INR 1.33bn (towards 10MW WHRS at Sirohi and 2.5mn MT brownfield IU in Udaipur). As JKLC liquidated its investments to fund Capex and interest payments, its gross debt remained unchanged (vs Mar'21) at ~INR 16.6bn. While net debt rose ~17% to ~INR 9.6bn, its consolidated net debt/EBITDA remained stable at 1x.
- **Capex and outlook**: JKLC expects to commission the WHRS at Sirohi and a 5MW solar power plant at Udaipur in Dec'21. These will increase its share of green/renewal power to ~25/40%. It expects to complete Udaipur project by Mar'24E. JKLC expects gradual energy cost inflation in H2 (Q3: +10% QoQ), owing to its large inventory. It is also confident of its unitary EBITDA rebounding to ~INR 900/MT in H2 on cost pass-through. We estimate JKLC's healthy cash flow to buoy its RoE to ~19-20% and keep net debt/EBITDA under 1x. We maintain our earnings estimate for FY22/23/24E.

**Quarterly/annual financial summary (consolidated)**

| YE Mar (INR bn) | Q2 FY22 | Q2 FY21 | *YoY (%)* | Q1 FY22 | *QoQ (%)* | FY20 | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|---|
| Sales (mn MT) | 2.47 | 2.54 | *(2.6)* | 2.83 | *(12.6)* | 9.72 | 10.45 | 11.72 | 12.63 | 13.52 |
| NSR (INR/MT) | 4,896 | 4,464 | *9.7* | 4,692 | *4.3* | 4,490 | 4,524 | 4,592 | 4,638 | 4,708 |
| Opex (INR/MT) | 4,110 | 3,578 | *14.9* | 3,778 | *8.8* | 3,669 | 3,626 | 3,783 | 3,732 | 3,768 |
| EBITDA(INR/MT) | 786 | 886 | *(11.3)* | 914 | *(14.0)* | 821 | 898 | 810 | 907 | 940 |
| Net Sales | 12.09 | 11.32 | *6.8* | 13.26 | *(8.8)* | 43.64 | 47.27 | 53.81 | 58.58 | 63.62 |
| EBITDA | 1.94 | 2.25 | *(13.6)* | 2.58 | *(24.8)* | 7.98 | 9.39 | 9.49 | 11.45 | 12.70 |
| APAT | 0.84 | 0.90 | *(5.8)* | 1.31 | *(35.8)* | 2.78 | 4.43 | 4.27 | 5.58 | 6.38 |
| AEPS (INR) | 7.2 | 7.6 | *(5.8)* | 11.2 | *(35.8)* | 23.6 | 37.7 | 36.3 | 47.4 | 54.2 |
| EV/EBITDA (x) | | | | | | 11.0 | 8.6 | 8.6 | 7.1 | 6.7 |
| EV/MT (INR bn) | | | | | | 6.58 | 6.07 | 5.85 | 5.81 | 5.18 |
| P/E (x) | | | | | | 26.0 | 16.3 | 16.9 | 13.0 | 11.4 |
| RoE (%) | | | | | | *17.6* | *23.4* | *18.5* | *20.1* | *19.1* |

Source: Company, HSIE Research

**BUY**

| | |
|---|---|
| **CMP** *(as on 1 Nov 2021)* | **INR 615** |
| **Target Price** | **INR 780** |
| **NIFTY** | **17,930** |

| **KEY CHANGES** | **OLD** | **NEW** |
|---|---|---|
| Rating | BUY | BUY |
| Price Target | INR 780 | INR 780 |
| EBITDA revision % | FY22E<br>- | FY23E<br>- |

| **KEY STOCK DATA** | |
|---|---|
| Bloomberg code | JKLC IN |
| No. of Shares (mn) | 118 |
| MCap (INR bn) / ($ mn) | 72/972 |
| 6m avg traded value (INR mn) | 438 |
| 52 Week high / low | INR 816/275 |

| **STOCK PERFORMANCE (%)** | **3M** | **6M** | **12M** |
|---|---|---|---|
| Absolute (%) | (11.2) | 52.6 | 111.9 |
| Relative (%) | (25.5) | 29.3 | 60.1 |

| **SHAREHOLDING PATTERN (%)** | **Jun-21** | **Sep-21** |
|---|---|---|
| Promoters | 46.21 | 46.01 |
| FIs & Local MFs | 28.42 | 26.16 |
| FPIs | 10.26 | 12.48 |
| Public & Others | 15.11 | 15.35 |
| Pledged Shares | - | - |

*Source : BSE*

Pledged shares as % of total shares

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# Heidelberg Cement

## Cost pass-through efforts to protect margin

**We maintain ADD on Heidelberg Cement (HEIM) with an unchanged target price of INR 250/share (8.5x Sep'23E consolidated EBITDA). We like HEIM for its strong retail positioning, robust margin, and healthy balance sheet. Delays in major capacity additions would, however, subdue its sales growth beyond FY24E, thereby restricting valuation rerating. In Q2FY22, while revenue rose 12% YoY to INR 5.76bn, EBITDA/APAT fell 8/5% YoY to INR 1.16bn/ 0.6bn respectively, due to rising cost inflation. Unitary EBITDA cooled off 17/15% YoY/QoQ to INR 946/MT. The company guided that cement prices would increase by ~INR 100/bag during H2 to pass on the soaring energy costs.**

- **Q2FY22 performance:** Sales volume rose 11% YoY to 1.23mn MT (+4% QoQ) on strong demand recovery. This also led to flattish NSR QoQ despite the impact of monsoon. Opex rose 4% QoQ, mainly led by higher other expenses (~INR 150/MT QoQ) while all line items remained flattish QoQ (despite rising energy costs). The share of low-cost green power increased to 27% in Q2 vs 23% QoQ. Thus, unitary EBITDA cooled off 15% QoQ to INR 946/MT. On a YoY basis, energy cost inflation drove down unitary EBITDA by 17%. During H1FY22, HEIM generated OCF of INR 2.03bn, out of which INR 0.2bn was spent on Capex and INR 1.8bn as dividend; thus, debt and net debt remained the same as in Mar'21.
- **Management commentary and outlook:** HEIM has increased cement prices by INR 20-25/bag so far in October. It plans to raise prices by another INR 75-100/bag over the next 4-5months to pass on the soaring energy costs. HEIM guided that its opex would surge by ~INR 300-400/MT QoQ in Q3FY22 and is expected to rise further in Q4. Additionally, sourcing of fuel and fly ash is becoming challenging. It guided for a total Capex of INR 550-600mn (INR 400-500mn - maintenance capex, INR 160mn – AFR projects) for FY22E. With the onboarding of 22mn kWh annual solar PPA from Q3FY22, HEIM's share of green power consumption should expand to 30%+, reducing its blended power cost. We expect the industry to pass on the soaring costs, given the increased industry consolidation. We keep our estimates unchanged for FY22/23/24E. We maintain our ADD rating on the stock with an unchanged target price of INR 250/sh, valuing it at 8.5x the Sep'23E EBITDA.

### Quarterly/annual financial summary

| YE Mar (INR bn) | Q2 FY22 | Q2 FY21 | YoY (%) | Q1 FY21 | QoQ (%) | FY20 | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|---|
| Sales (mn MT) | 1.23 | 1.11 | *11.1* | 1.18 | *4.0* | 4.71 | 4.49 | 5.20 | 5.57 | 5.96 |
| NSR (INR/MT) | 4,683 | 4,637 | *1.0* | 4,695 | *(0.3)* | 4,611 | 4,718 | 4,718 | 4,789 | 4,885 |
| Opex (INR/MT) | 3,737 | 3,500 | *6.8* | 3,588 | *4.1* | 3,490 | 3,589 | 3,727 | 3,731 | 3,773 |
| EBITDA(INR/MT) | 946 | 1,137 | *(16.8)* | 1,107 | *(14.6)* | 1,122 | 1,129 | 991 | 1,058 | 1,112 |
| Net Sales | 5.76 | 5.14 | *12.2* | 5.56 | *3.7* | 21.70 | 21.17 | 24.55 | 26.67 | 29.10 |
| EBITDA | 1.16 | 1.26 | *(7.5)* | 1.31 | *(11.2)* | 5.28 | 5.07 | 5.16 | 5.89 | 6.63 |
| APAT | 0.60 | 0.62 | *(4.6)* | 0.69 | *(13.2)* | 2.68 | 3.15 | 2.70 | 3.11 | 3.89 |
| AEPS (INR) | 2.6 | 2.8 | *(4.6)* | 3.0 | *(13.2)* | 11.8 | 13.9 | 11.9 | 13.7 | 17.2 |
| EV/EBITDA (x) | | | | | | 8.3 | 8.5 | 10.4 | 9.4 | 8.6 |
| EV/MT (INR bn) | | | | | | 7.00 | 6.86 | 8.56 | 8.82 | 9.13 |
| P/E (x) | | | | | | 16.3 | 13.9 | 20.8 | 18.1 | 14.4 |
| *RoE (%)* | | | | | | *21.6* | *22.4* | *17.4* | *18.3* | *20.6* |

Source: Company, HSIE Research

**ADD**

| | |
|---|---|
| **CMP** *(as on 20 Oct 2021)* | **INR 248** |
| **Target Price** | **INR 250** |
| **NIFTY** | **18,267** |

| **KEY CHANGES** | **OLD** | **NEW** |
|---|---|---|
| Rating | ADD | ADD |
| Price Target | INR 250 | INR 250 |
| EBITDA revision % | FY22E<br>- | FY23E<br>- |

**KEY STOCK DATA**

| | |
|---|---|
| Bloomberg code | HEIM IN |
| No. of Shares (mn) | 227 |
| MCap (INR bn) / ($ mn) | 56/756 |
| 6m avg traded value (INR mn) | 100 |
| 52 Week high / low | INR 285/179 |

**STOCK PERFORMANCE (%)**

| | **3M** | **6M** | **12M** |
|---|---|---|---|
| Absolute (%) | (6.5) | 7.0 | 32.3 |
| Relative (%) | (23.8) | (21.4) | (18.8) |

**SHAREHOLDING PATTERN (%)**

| | **Jun-21** | **Sep-21** |
|---|---|---|
| Promoters | 69.39 | 69.39 |
| FIs & Local MFs | 10.09 | 10.94 |
| FPIs | 6.59 | 5.81 |
| Public & Others | 13.93 | 13.86 |
| Pledged Shares | - | - |

*Source : BSE*

Pledged shares as % of total shares

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# Star Cement

## A weak quarter but outlook healthy

**We maintain BUY on Star Cement with an unchanged TP of INR 130/share (8x its Sep'23E consolidated EBITDA). In Q2FY22, Star Cement's profitability is hit by weak offtake and rise in other expenses. While consolidated revenue rose 1% YoY to INR 4.07bn, EBITDA/APAT fell 9/25% YoY to INR 717/465mn respectively. Normalisation of input costs moderated the impact on margins. The ramp-up at Siliguri plant and demand uptick in the north-east should accelerate volume offtake FY22E onwards. The upcoming 12MW WHRS should also reduce its power cost, bolstering the margin.**

- **Q2FY22 performance:** Total sales volume fell 5% YoY to 0.62mn MT, on both weak cement offtake and absence of clinker exports. It also got impacted by slower-than-anticipated ramp-up of Siliguri plant. While NSR fell 2% QoQ (seasonal impact), the absence of clinker sales in H1FY22 drove up Q2 NSR by 12% YoY. Opex fell 1% QoQ on stabilisation of input costs (no clinker purchase vs QoQ) and lead distance reduction, which moderated the impact of rising fuel cost and op-lev loss. On a YoY basis, opex rose 15% YoY, led by rise in share of cement sales, higher fuel and other expenses. Thus, unitary EBITDA fell 4/5% YoY/QoQ to INR 1,162/MT.
- **H1FY22 cash flows and buyback updates**: EBITDA rebound 14% YoY to INR 1.66bn on 26% higher volumes. However, a sharp rise in working capital led to OCF declining 30% YoY to INR 0.95bn. Star spent INR 1.05bn, mainly towards the 12MW WHRS project. Star completed its share buyback, thus reducing its outstanding shares by 2% and spent INR 1.24bn in Oct'21.
- **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 end FY25), owing to delays in environmental clearance. Star expects to deliver 20% volume growth in FY22. It is also waiting to receive its low-cost domestic coal supply once fuel inventory across power plants normalises. The 12MW WHRS should also come up by Q2FY23 and account for ~25% of its electricity requirements at negligible cost, boosting the margin H2FY23E onwards. We maintain our earnings estimates and BUY rating on the stock with an unchanged target price of INR 130 (8x Sep'23E consolidated EBITDA).

### Quarterly/annual financial summary (consolidated)

| YE Mar (INR mn) | Q2 FY22 | Q2 FY21 | YoY (%) | Q1 FY22 | QoQ (%) | FY20 | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|---|
| Sales Vol (mn MT) | 0.62 | 0.65 | *(5.4)* | 0.76 | *(18.8)* | 2.95 | 2.70 | 3.17 | 3.97 | 4.56 |
| NSR (INR/MT) | 6,589 | 5,894 | *11.8* | 6,725 | *(2.0)* | 5,912 | 6,220 | 6,518 | 6,157 | 6,283 |
| Opex (INR/MT) | 5,427 | 4,736 | *14.6* | 5,506 | *(1.4)* | 4,645 | 5,017 | 5,268 | 4,847 | 4,928 |
| EBITDA (INR/MT) | 1,162 | 1,211 | *(4.0)* | 1,220 | *(4.7)* | 1,337 | 1,233 | 1,258 | 1,310 | 1,355 |
| Net Sales | 4,066 | 4,019 | *1.2* | 5,111 | *(20.5)* | 18,439 | 17,199 | 20,811 | 24,419 | 28,657 |
| EBITDA | 717 | 789 | *(9.2)* | 927 | *(22.7)* | 3,951 | 3,326 | 3,990 | 5,196 | 6,181 |
| APAT | 465 | 616 | *(24.5)* | 680 | *(31.6)* | 2,863 | 2,401 | 2,776 | 3,964 | 4,822 |
| AEPS (INR) | 1.1 | 1.5 | *(24.5)* | 1.6 | *(31.6)* | 6.9 | 5.8 | 6.9 | 9.8 | 11.9 |
| EV/EBITDA (x) | | | | | | 9.7 | 10.7 | 9.0 | 6.9 | 6.0 |
| EV/MT (INR bn) | | | | | | 10.66 | 8.68 | 8.10 | 7.22 | 6.01 |
| P/E (x) | | | | | | 14.1 | 16.8 | 14.6 | 10.2 | 8.4 |
| *RoE (%)* | | | | | | *15.4* | *12.0* | *12.9* | *16.8* | *18.0* |

Source: Company, HSIE Research

# BUY

| | |
|---|---|
| **CMP *(as on 02 Nov 2021)*** | **INR 100** |
| **Target Price** | **INR 130** |
| **NIFTY** | **17,889** |

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

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | STRCEM IN |
| No. of Shares (mn) | 412 |
| MCap (INR bn) / ($ mn) | 41/554 |
| 6m avg traded value (INR mn) | 84 |
| 52 Week high / low | INR 120/75 |

**STOCK PERFORMANCE (%)**

| | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | (9.3) | (2.8) | 20.9 |
| Relative (%) | (22.7) | (25.8) | (30.1) |

**SHAREHOLDING PATTERN (%)**

| | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 66.21 | 66.89 |
| FIs & Local MFs | 7.89 | 6.50 |
| FPIs | 0.11 | 0.14 |
| Public & Others | 25.79 | 26.47 |
| Pledged Shares | 0.03 | 0.04 |

*Source : BSE*

Pledged shares as % of total shares

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# Orient Cement

## Maintains healthy performance

**We maintain our BUY rating on Orient Cement with an unchanged target price of INR 185/share (7.5x Sep'23E consolidated EBITDA). We continue to like Orient for its healthy operating metrics and strengthening balance sheet, which should support its upcoming major expansion. Orient reported healthy performance in Q2FY22, as revenue grew 28% YoY to INR 6.13bn, led by 25% volume recovery and 3% higher NSR. Op-lev gains and steady operating metrics moderated impact of soaring fuel prices, thereby delivering unitary EBITDA of INR 1,048 (down 6/23% YoY/QoQ) Thus, EBITDA/APAT rose 18/63% YoY to INR 1.34/0.57bn respectively. Amid no near term major Capex, debt reduction continues. Net debt/EBITDA cooled off to 0.9x.**

- **Q2FY22**: Volume rebound 25% YoY, on strong sales in July/Aug. Seasonal price correction led to 5% QoQ NSR decline (still up 3% YoY). Higher usage of domestic coal and benefits of low-cost fuel inventory and railways-logistics benefits resulted in a modest 1% QoQ opex inflation. Thus, unitary EBITDA fell 23% QoQ (mainly on lower NSR) to INR 1,048/MT. Interest cost continues to fall (down 6/44% QoQ/YoY) as ORCMNT continues to reduce debt on its books.
- **H1FY22**: EBITDA soared 51% YoY to INR 3.2bn on strong 43% volume recovery. However, working capital stretched by INR 1.5bn in H1FY22 (vs Mar'21), thus halving OCF generation YoY to INR 1.4bn. Capex spend remained muted at INR 0.23bn in H1 (mainly towards 0.5mn MT grinding debottlenecking in Devapur). Orient used its free cash flow and cash balance to reduce gross/net debt by 25/10% (vs Mar'21) to ~INR 6/5.9bn respectively.
- **Outlook**: The management remained confident of price hikes in H2FY22, ahead of soaring energy cost inflation, thereby leading to a QoQ margin recovery. It maintained its 6mn MT sales target for FY22E. It has firmed up Capex plans for the next 2-3 years: INR 1bn for 10MW WHRS in Karnataka (by end FY23E), INR 5bn for 2mn MT SGU in Tirori (Maharashtra) and INR 16bn for 2/1.5mn MT clinker/cement capacity in Devapur (Telangana) – both by FY24E. Orient expects major Capex outflow in FY24E. Thus, by early FY25E (in our view), Orient's capacity should expand to 12mn MT. We estimate net debt/EBITDA to peak out 2.1x in FY24E. We remain positive on the company's outlook and maintain our BUY rating with an unchanged target price of INR 185/sh (7.5x its Sep'23E EBITDA).

### Quarterly/annual financial summary

| YE Mar (INR bn) | Q2 FY22 | Q2 FY21 | *YoY (%)* | Q1 FY22 | *QoQ (%)* | FY20 | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|---|
| Sales Vol (mn MT) | 1.28 | 1.02 | *25.2* | 1.36 | *(6.1)* | 11.20 | 10.00 | 11.10 | 12.50 | 13.50 |
| NSR (INR/MT) | 4,798 | 4,677 | *2.6* | 5,076 | *(5.5)* | 4,740 | 5,222 | 5,532 | 5,528 | 5,582 |
| Opex (INR/MT) | 3,749 | 3,566 | *5.1* | 3,708 | *1.1* | 3,759 | 3,703 | 4,072 | 3,967 | 4,010 |
| EBITDA(INR/MT) | 1,048 | 1,111 | *(5.6)* | 1,368 | *(23.4)* | 981 | 1,520 | 1,460 | 1,561 | 1,572 |
| Net Sales | 6.13 | 4.77 | *28.4* | 6.91 | *(11.3)* | 24.22 | 23.24 | 28.01 | 29.92 | 32.63 |
| EBITDA | 1.34 | 1.13 | *18.1* | 1.86 | *(28.1)* | 3.83 | 5.51 | 5.83 | 5.77 | 6.21 |
| APAT | 0.57 | 0.35 | *62.6* | 0.89 | *(36.4)* | 0.87 | 2.14 | 2.47 | 2.54 | 2.91 |
| AEPS (INR) | 2.8 | 1.7 | *62.6* | 4.4 | *(36.4)* | 4.2 | 10.5 | 12.1 | 12.4 | 14.2 |
| EV/EBITDA (x) | | | | | | 11.5 | 7.0 | 6.2 | 7.0 | 7.3 |
| EV/MT (INR bn) | | | | | | 5.48 | 4.80 | 4.25 | 4.75 | 5.30 |
| P/E (x) | | | | | | 36.9 | 14.9 | 12.9 | 12.6 | 11.0 |
| *RoE (%)* | | | | | | *8.0* | *17.7* | *17.5* | *15.7* | *15.7* |

Source: Company, HSIE Research

## BUY

| | |
|---|---|
| **CMP** *(as on 26 Oct 2021)* | **INR 156** |
| **Target Price** | **INR 185** |
| **NIFTY** | **18,268** |

| **KEY CHANGES** | **OLD** | **NEW** |
|---|---|---|
| Rating | BUY | BUY |
| Price Target | INR 185 | INR 185 |
| EBITDA revision % | FY22E - | FY23E - |

| **KEY STOCK DATA** | |
|---|---|
| Bloomberg code | ORCMNT IN |
| No. of Shares (mn) | 205 |
| MCap (INR bn) / ($ mn) | 32/429 |
| 6m avg traded value (INR mn) | 178 |
| 52 Week high / low | INR 174/61 |

| **STOCK PERFORMANCE (%)** | **3M** | **6M** | **12M** |
|---|---|---|---|
| Absolute (%) | 2.5 | 46.3 | 141.0 |
| Relative (%) | (13.5) | 19.5 | 88.2 |

| **SHAREHOLDING PATTERN (%)** | **Jun-21** | **Sep-21** |
|---|---|---|
| Promoters | 37.37 | 37.37 |
| FIs & Local MFs | 20.64 | 15.92 |
| FPIs | 4.43 | 5.97 |
| Public & Others | 37.56 | 40.74 |
| Pledged Shares | 5.25 | - |

*Source : BSE*

Pledged shares as % of total shares

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# Sagar Cements

## Weak performance as opex soars

**We maintain our ADD rating on Sagar Cements (SGC) with an unchanged TP of INR 295/share (7.5x Sep'23E consolidated EBITDA). In Q2FY22, while SGC delivered steady volume growth, unitary EBITDA halved YoY (to INR 712/MT) on elevated opex and weak realisation. Thus, while consolidated revenue rose 13% YoY to INR 3.69bn, EBITDA/APAT fell 42/58% YoY to INR 608/211mn. As SGC's major Capex nears completion, net debt/EBITDA inched up to 2.1x. By the end of Q3, its capacity will increase by 43% to 8.25mn MT. These will both boost volume growth and diversify its regional exposure. The company also expects margin to rebound in Q3 on slower cost inflation QoQ.**

- **Q2FY22 performance:** SGC's sales volume rebound 18% YoY on pick-up in housing and infrastructure demand, despite the heavy monsoon impact. NSR, however, declined 3/4% QoQ/YoY, impacted by monsoon. Opex also inflated 11/18% QoQ/YoY, hit by elevated fuel costs, higher packing/maintenance expenses, and salary hikes. Unitary EBITDA, thus, was sharply down 42/51% QoQ/YoY to INR 712/MT (halved YoY), thereby pulling down EBITDA/APAT YoY. SGC's share of blended cement production firmed up to 46% vs 43% YoY.
- **H1FY22 cash flows:** OCF fell 83% YoY to INR 204mn, on both 12% EBITDA decline and on working capital rise. As it incurred a Capex of INR 2.26bn, net debt rose 42% to INR 7.86bn. Net debt/EBITDA inched up to 2.1x (near its peak) as both Satguru and Jajpur projects are near completion. Only 5% of the total Capex is pending - to be spent in Q3FY22.
- **Upcoming capacity to boost volume, regional diversification**: SGC's 1m MT IU in MP became fully operational in Oct'21. The 1.5mn MT SGU in Odisha is expected to be operational by Dec'21. Thus, SGC's capacity will increase by 43% to 8.25mn MT. This should bolster volume growth H2FY22 onwards and diversify the company's sales presence outside the southern region. SGC expects slower fuel inflation QoQ in Q3 and healthy price uptick to help margin rebound. We maintain our estimates, TP, and ADD rating on the stock.

### Quarterly/annual financial summary (consolidated)

| YE Mar (INR mn) | Q2 FY22 | Q2 FY21 | *YoY (%)* | Q1 FY22 | *QoQ (%)* | FY20 | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|---|
| Sales (mn MT) | 0.85 | 0.72 | *18.1* | 0.88 | *(3.0)* | 3.13 | 3.16 | 3.68 | 5.07 | 5.58 |
| NSR (INR/MT) | 4,324 | 4,512 | *(4.2)* | 4,463 | *(3.1)* | 3,753 | 4,339 | 4,339 | 4,221 | 4,264 |
| Opex (INR/MT) | 3,612 | 3,062 | *18.0* | 3,246 | *11.3* | 3,161 | 3,072 | 3,276 | 3,234 | 3,292 |
| EBITDA(INR/MT) | 712 | 1,451 | *(50.9)* | 1,218 | *(41.5)* | 592 | 1,267 | 1,063 | 987 | 972 |
| Net Sales | 3.69 | 3.26 | *13.2* | 3.93 | *(6.0)* | 11.75 | 13.71 | 15.98 | 21.41 | 23.80 |
| EBITDA | 0.61 | 1.05 | *(42.0)* | 1.07 | *(43.3)* | 1.86 | 4.00 | 3.92 | 5.01 | 5.42 |
| APAT | 0.21 | 0.50 | *(58.1)* | 0.51 | *(59.0)* | 0.26 | 1.85 | 1.50 | 1.98 | 2.20 |
| AEPS (INR) | 9.0 | 21.4 | *(58.1)* | 21.9 | *(59.0)* | 2.4 | 15.8 | 12.8 | 16.8 | 18.8 |
| EV/EBITDA (x) | | | | | | 19.7 | 9.3 | 9.8 | 7.7 | 7.1 |
| EV/MT (INR bn) | | | | | | 6.36 | 6.49 | 4.67 | 4.66 | 4.65 |
| P/E (x) | | | | | | 118.6 | 16.9 | 20.8 | 15.8 | 14.2 |
| RoE (%) | | | | | | *2.8* | *16.3* | *11.3* | *13.2* | *13.0* |

Source: Company, HSIE Research

**ADD**

| | |
|---|---|
| **CMP** *(as on 28 Oct 2021)* | **INR 266** |
| **Target Price** | **INR 295** |
| **NIFTY** | **17,857** |

| **KEY CHANGES** | **OLD** | **NEW** |
|---|---|---|
| Rating | ADD | ADD |
| Price Target | INR 295 | INR 295 |
| EBITDA revision % | FY22E<br>- | FY23E<br>- |

**KEY STOCK DATA**

| | |
|---|---|
| Bloomberg code | SGC IN |
| No. of Shares (mn) | 118 |
| MCap (INR bn) / ($ mn) | 31/420 |
| 6m avg traded value (INR mn) | 85 |
| 52 Week high / low | INR 319/118 |

**STOCK PERFORMANCE (%)**

| | **3M** | **6M** | **12M** |
|---|---|---|---|
| Absolute (%) | (0.9) | 82.9 | 84.4 |
| Relative (%) | (15.3) | 62.3 | 34.2 |

**SHAREHOLDING PATTERN (%)**

| | **Jun-21** | **Jun-21** |
|---|---|---|
| Promoters | 50.28 | 50.28 |
| FIs & Local MFs | 11.54 | 8.16 |
| FPIs | 3.05 | 6.14 |
| Public & Others | 35.13 | 35.42 |
| Pledged Shares | - | - |

*Source : BSE*

Pledged shares as % of total shares

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# Deccan Cements

## Healthy margin despite volume loss

**We maintain our ADD rating on Deccan Cements (DCL) with an unchanged target price of INR 785/sh (6.5x its Sep-23E EBITDA). While maintenance shutdown reduced Q2FY22 sales volume/revenue/EBITDA/PAT by 3/4/23/31% YoY, the ramp-up of WHRS moderated the unitary EBITDA contraction to INR 883/MT. The company could improve its trade-sales share and we expect cement price hikes to offset the impact of energy cost inflation. DCL has begun work on nearly doubling its cement capacity to 4.3mn MT by the end of FY24E, without straining its balance sheet.**

- **Q2FY21 performance**: Sales volume fell 3/13% YoY/QoQ to 0.44mn MT, led by 15 days of maintenance shutdown. The share of trade sales expanded to 56% vs 50% QoQ. This also moderated the NSR fall to 2% QoQ (flat YoY). Opex rose 4% QoQ due to op-lev loss, higher maintenance cost, and rising energy cost. On a YoY basis, high other expenses drove up opex by 6%. The inflation impact is moderated by the rising share of electricity from its 6MW WHRS, commissioned in Q3FY21. Unitary EBITDA fell 20/20% QoQ/YoY to INR 883/MT. Capital charges increased on account of WHRS addition: interest (+82% YoY on low base) and depreciation cost (up 20%).
- **H1FY22 performance**: EBITDA rose 5% YoY to INR 0.94bn, led by 26% higher volume while margin cooled off 17% YoY to INR 997/MT. However, OCF fell to INR 0.32bn, impacted by WC rise (led by receivables). As the company spent 0.39bn on Capex, gross debt increased 20% vs Mar-21 to INR 1.24bn. Net cash fell 8% to INR 1.44bn.
- **Capex update and outlook**: DCL expects to receive EC clearances for its clinker plant and SGU by Jan-22E and has started equipment ordering. It expects to commission the plants in phases (0.8mn MT SGU at Vizag in H1FY24E, 1.4/1.2mn MT clinker/cement at Nellore by the end of FY24E), leading to total clinker/cement capacity of 3.2/4.3mn MT. We expect cement price hikes to offset the fuel inflation impact. We maintain our estimates, ADD rating, and TP of INR 785. We value DCL at 6.5x its Sep-23E EBITDA.

### Financial Summary

| YE Mar (INR Mn) | Q2 FY22 | Q2 FY21 | YoY (%) | Q1 FY22 | QoQ (%) | FY20 | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|---|
| Sales (mn MT) | 0.4 | 0.5 | *(3.3)* | 0.5 | *(13.3)* | 1.5 | 1.8 | 1.9 | 2.0 | 2.5 |
| NSR (INR/MT) | 4,358 | 4,372 | *(0.3)* | 4,440 | *(1.9)* | 3,778 | 4,237 | 4,317 | 4,295 | 4,338 |
| Opex (INR/MT) | 3,475 | 3,269 | *6.3* | 3,344 | *3.9* | 3,245 | 3,254 | 3,436 | 3,477 | 3,469 |
| EBITDA (INR/MT) | 883 | 1,103 | *(20.0)* | 1,097 | *(19.5)* | 533 | 983 | 881 | 818 | 869 |
| Net Sales | 1,909 | 1,981 | *(3.6)* | 2,242 | *(14.9)* | 5,553 | 7,580 | 8,263 | 8,797 | 11,000 |
| EBITDA | 387 | 500 | *(22.6)* | 554 | *(30.2)* | 783 | 1,759 | 1,686 | 1,676 | 2,204 |
| APAT | 233 | 338 | *(31.0)* | 368 | *(36.6)* | 433 | 1,151 | 1,095 | 1,069 | 1,265 |
| AEPS (INR) | 16.7 | 24.2 | *(31.0)* | 26.3 | *(36.6)* | 30.9 | 82.2 | 78.2 | 76.3 | 90.3 |
| EV/EBITDA (x) | | | | | | 12.4 | 4.7 | 4.8 | 6.6 | 6.4 |
| EV/MT (INR bn) | | | | | | 4.30 | 3.66 | 3.57 | 4.93 | 3.31 |
| P/E (x) | | | | | | 22.6 | 8.5 | 8.9 | 9.2 | 7.7 |
| RoE (%) | | | | | | *10.1* | *22.7* | *17.8* | *15.0* | *15.5* |

Source: Company, HSIE Research

## ADD

| | |
|---|---|
| **CMP** *(as on 12 Nov 2021)* | **INR 693** |
| **Target Price** | **INR 785** |
| **NIFTY** | **18,103** |

| **KEY CHANGES** | **OLD** | **NEW** |
|---|---|---|
| Rating | ADD | ADD |
| Price Target | INR 785 | INR 785 |
| EBITDA revision % | FY22E - | FY23E - |

| **KEY STOCK DATA** | |
|---|---|
| Bloomberg code | DECM IN |
| No. of Shares (mn) | 14 |
| MCap (INR bn) / ($ mn) | 10/130 |
| 6m avg traded value (INR mn) | 78 |
| 52 Week high / low | INR 847/310 |

| **STOCK PERFORMANCE (%)** | **3M** | **6M** | **12M** |
|---|---|---|---|
| Absolute (%) | (11.2) | 54.5 | 103.8 |
| Relative (%) | (21.9) | 29.8 | 63.8 |

| **SHAREHOLDING PATTERN (%)** | **Jun-21** | **Sep-21** |
|---|---|---|
| Promoters | 56.24 | 56.24 |
| FIs & Local MFs | 0.06 | 0.40 |
| FPIs | 3.60 | 6.26 |
| Public & Others | 40.09 | 37.09 |
| Pledged Shares | - | - |

*Source : BSE*

Pledged shares as % of total shares

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# Chemicals

# SRF

## In-line performance

**We retain our ADD rating on SRF with a target price of INR 2,380 on the back of (1) continued healthy performance from speciality chemicals business and packging 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 3/3% below our estimates, owing to higher-than-expected raw material costs, higher-than-expected opex and a higher-than-expected tax outgo.**

- **Financial performance:** Revenue grew 5% QoQ to INR 28bn, while EBITDA fell 2% QoQ to INR 7bn in Q2. EBITDA margin fell by 156bps sequentially to 23%, owing to the increase in prices of key raw materials, elevated logistics cost, and supply chain disruptions.
- **Chemicals business (CB):** Revenue/EBIT jumped 28/44% YoY to INR 11/3bn. The fluorochemicals business performed well on account of higher sales volumes in the refrigerants, blends, and chloromethanes segments, with better realisations, especially driven by international sales. The specialty chemicals business delivered a robust performance due to higher sales from exports and domestic markets. Demand for existing and new, niche products has contributed to the overall revenue.
- **Packaging films business (PFB)**: Revenue grew 29% YoY to INR 11bn, whereas EBIT de-grew 27% YoY to INR 2bn, owing to the pressure on BOPET margins. However, this trend was partially offset by a sustained demand of BOPP films.
- **Capex:** The Board has approved a project for de-bottlenecking the chemical plant at Dahej catering to the agrochemical industry at a cost of INR 0.3bn. This Capex will be commissioned in eight months.
- **Change in estimates:** We cut our FY22/23/24 EPS estimate by 1.8/2.6/1.2% to INR 55.5/62.0/70.8 to account for a higher tax rate assumption, higher Capex assumption, and to factor in the overall performance in H1FY22.
- **DCF-based valuation: Our target price is INR 2,380 (WACC 10%, terminal growth 4.5%). The stock is trading at 29.8x FY24E EPS.**

### Financial Summary (Consolidated)

| INR mn | Q2 FY22 | Q1 FY22 | QoQ (%) | Q2 FY21 | YoY (%) | FY20 | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 28,390 | 26,994 | *5.2* | 21,008 | *35.1* | 70,621 | 82,954 | 1,01,095 | 1,10,751 | 1,22,486 |
| EBITDA | 6,544 | 6,644 | *(1.5)* | 5,821 | *12.4* | 14,549 | 21,333 | 28,277 | 31,701 | 35,849 |
| APAT | 3,825 | 3,953 | *(3.2)* | 3,157 | *21.2* | 10,015 | 11,635 | 16,216 | 18,106 | 20,672 |
| AEPS (INR) | 13.1 | 13.5 | *(3.2)* | 10.8 | *21.2* | 34.3 | 39.8 | 55.5 | 62.0 | 70.8 |
| P/E (x) | | | | | | 61.6 | 53.0 | 38.0 | 34.1 | 29.8 |
| EV/EBITDA(x) | | | | | | 44.4 | 30.0 | 22.6 | 20.1 | 17.4 |
| RoE (%) | | | | | | 22.1 | 19.7 | 21.4 | 19.8 | 19.0 |

Source: Company, HSIE Research

### Change in estimates (Consolidated)

| Y/E Mar | FY22E Old | FY22E New | % Ch | FY23E Old | FY23E New | % Ch | FY24E Old | FY24E New | % Ch |
|---|---|---|---|---|---|---|---|---|---|
| EBITDA (INR mn) | 28,418 | 28,277 | *(0.5)* | 31,850 | 31,701 | *(0.5)* | 35,620 | 35,849 | *0.6* |
| Adj. EPS (INR/sh) | 56.5 | 55.5 | *(1.8)* | 63.6 | 62.0 | *(2.6)* | 71.6 | 70.8 | *(1.2)* |

Source: Company, HSIE Research

## ADD

| | |
|---|---|
| **CMP** ***(as on 26 Oct 2021)*** | **INR 2,111** |
| **Target Price** | **INR 2,380** |
| **NIFTY** | **18,268** |

| **KEY CHANGES** | **OLD** | **NEW** |
|---|---|---|
| Rating | ADD | ADD |
| Price Target | INR 2.595 | INR 2,380 |
| EPS % | FY22E | FY23E |
| | -1.8% | -2.6% |

| **KEY STOCK DATA** | |
|---|---|
| Bloomberg code | SRF IN |
| No. of Shares (mn) | 296 |
| MCap (INR bn) / ($ mn) | 625/8,402 |
| 6m avg traded value (INR mn) | 2,445 |
| 52 Week high / low | INR 2,544/854 |

| **STOCK PERFORMANCE (%)** | **3M** | **6M** | **12M** |
|---|---|---|---|
| Absolute (%) | 34.7 | 70.1 | 143.2 |
| Relative (%) | 18.6 | 43.3 | 90.4 |

| **SHAREHOLDING PATTERN (%)** | **Jun-21** | **Sept-21** |
|---|---|---|
| Promoters | 50.77 | 50.77 |
| FIs & Local MFs | 11.90 | 10.42 |
| FPIs | 18.39 | 19.18 |
| Public & Others | 18.94 | 19.63 |
| Pledged Shares | 0.00 | 0.00 |

*Source : BSE*

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# Aarti Industries

## Highest-ever topline and bottomline!

**We maintain our BUY recommendation on Aarti Industries (AIL) with a target price of INR 1,330/share. We expect the company's PAT to grow at a 31% 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. Q2 EBITDA/APAT were 4/2% below our estimates, attributable to significantly higher-than-expected raw material cost, higher-than-expected opex, offset by a 16% rise in revenue, lower-than-expected depreciation, and finance cost.**

- **Financial performance:** Revenue grew 32/18% YoY/ QoQ to INR 15.5bn, with revenue growth driven by volume expansion in the quarter. Value-added products contributed 74% to the revenue during Q2FY22. EBITDA grew by 22% YoY and remained flat sequentially at INR 3.1bn, with EBITDA margin deteriorating by 172/387bps YoY/QoQ to 20%, owing to the late pass-through of higher raw material prices, elevated freight, and power costs.
- **Speciality chemicals:** Revenue/EBIT grew 34/27% YoY to INR 14.8/2.4bn, owing to a 7% volume growth, and over 90% utilisation across all facilities in Q2. EBIT margin for the segment was reported at 16%, driven by return of demand from established markets.
- **Pharma**: Revenue grew 26% YoY to INR 2.8bn, owing to the pass-through of higher costs to the customers. EBIT came at 0.4bn with EBIT margin falling by 1,069/502bps YoY/QoQ to 15%, owing to lower sales towards the end of Q2 resulting in higher inventory and reduced conversion to profits.
- **Con call takeaways:** (1) Capex in Q2/H1FY22 was INR 3/6bn. Total Capex of INR 15bn would be spent in FY22. (2) Growth guidance of 25-35% YoY was given for APAT for FY22. (3) Additional capacities for APIs and intermediates are expected to come on stream in H2FY22.
- **Change in estimates:** We cut our FY22/23/24 EPS estimates by 3.8/2.3/0.6% to INR 18.9/25.0/32.5 to account for the overall performance in H1FY22.
- **DCF-based valuation: Our target price is INR 1,330 (WACC 10%, terminal growth 4%). The stock is currently trading at 30.4x FY24E EPS.**

### Financial summary (consolidated)

| INR mn | Q2 FY22 | Q1 FY22 | QoQ (%) | Q2 FY21 | YoY (%) | FY20 | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 15,516 | 13,168 | *17.8* | 11,726 | *32.3* | 41,863 | 45,061 | 56,239 | 66,004 | 81,074 |
| EBITDA | 3,098 | 3,138 | *(1.3)* | 2,543 | *21.8* | 9,773 | 9,815 | 12,700 | 15,937 | 19,882 |
| APAT | 1,761 | 1,649 | *6.8* | 1,402 | *25.6* | 5,361 | 5,235 | 6,834 | 9,045 | 11,795 |
| AEPS (INR) | 4.9 | 4.5 | *6.8* | 3.9 | *25.6* | 14.8 | 14.4 | 18.9 | 25.0 | 32.5 |
| P/E (x) | | | | | | 66.9 | 68.5 | 52.5 | 39.6 | 30.4 |
| EV/EBITDA(x) | | | | | | 38.6 | 39.0 | 30.3 | 23.9 | 19.1 |
| RoE (%) | | | | | | 19.1 | 16.2 | 18.1 | 20.5 | 22.4 |

Source: Company, HSIE Research

### Change in estimates (Consolidated)

| Y/E Mar | FY22E Old | FY22E New | % Ch | FY23E Old | FY23E New | % Ch | FY24E Old | FY24E New | % Ch |
|---|---|---|---|---|---|---|---|---|---|
| EBITDA (INR mn) | 12,997 | 12,700 | *(2.3)* | 16,222 | 15,937 | *(1.8)* | 19,994 | 19,882 | *(0.6)* |
| Adj. EPS (INR/sh) | 19.6 | 18.9 | *(3.8)* | 25.5 | 25.0 | *(2.3)* | 32.7 | 32.5 | *(0.6)* |

Source: Company, HSIE Research

## BUY

| | |
|---|---|
| **CMP *(as on 1 Nov 2021)*** | **INR 988** |
| **Target Price** | **INR 1,330** |
| **NIFTY** | **17,930** |

| **KEY CHANGES** | **OLD** | **NEW** |
|---|---|---|
| Rating | BUY | BUY |
| Price Target | INR 1,320 | INR 1,330 |
| EPS % | FY22E | FY23E |
| | -3.8% | -2.3% |

| **KEY STOCK DATA** | |
|---|---|
| Bloomberg code | ARTO IN |
| No. of Shares (mn) | 363 |
| MCap (INR bn) / ($ mn) | 358/4,813 |
| 6m avg traded value (INR mn) | 1,362 |
| 52 Week high / low | INR 1,168/495 |

| **STOCK PERFORMANCE (%)** | **3M** | **6M** | **12M** |
|---|---|---|---|
| Absolute (%) | 5.7 | 23.1 | 97.5 |
| Relative (%) | (8.7) | (0.2) | 45.7 |

| **SHAREHOLDING PATTERN (%)** | **Jun-21** | **Sept-21** |
|---|---|---|
| Promoters | 44.90 | 44.21 |
| FIs & Local MFs | 13.62 | 14.76 |
| FPIs | 11.90 | 11.86 |
| Public & Others | 29.58 | 29.17 |
| Pledged Shares | 0.00 | 0.00 |

*Source: BSE*

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# Deepak Nitrite

## Margin under pressure

**SELL**

| CMP *(as on 29 Oct 2021)* | INR 2,230 |
|---|---|
| Target Price | INR 1,800 |
| NIFTY | 17,672 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | SELL | SELL |
| Price Target | INR 1,745 | INR 1,800 |
| EPS % | FY22E | FY23E |
| | -14.3% | - |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | DN IN |
| No. of Shares (mn) | 136 |
| MCap (INR bn) / ($ mn) | 304/4,088 |
| 6m avg traded value (INR mn) | 3,158 |
| 52 Week high / low | INR 3,020/705 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 17.3 | 24.9 | 201.7 |
| Relative (%) | 4.7 | 5.7 | 152.5 |

| SHAREHOLDING PATTERN (%) | Jun-21 | Sept-21 |
|---|---|---|
| Promoters | 45.69 | 45.69 |
| FIs & Local MFs | 10.40 | 10.61 |
| FPIs | 11.43 | 10.85 |
| Public & Others | 32.48 | 32.85 |
| Pledged Shares | 0.00 | 0.00 |

*Source : BSE*

**We maintain SELL on Deepak Nitrite with a price target of INR 1,800 (WACC 11%, terminal growth 4.5%). The stock is currently trading at 19.3x FY24E 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-à-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 13/13% below estimates, owing to substantially higher-than-expected raw material costs, offset by lower-than-expected tax outgo.**

- **Financial performance:** Revenue grew 70% YoY to INR 16.8bn in Q2, owing to the scaled-up performance of BI, performance products, and DPL benefiting from operating leverage on account of better operating environment. The FSC segment delivered stable volumes despite constraints to availability of inputs and logistical challenges. EBITDA grew 40% YoY to INR 3.9bn. EBITDA margin is lower by 496bps YoY to 23%, owing to higher input prices as well as increased cost of power and logistics.
- **Basic intermediates (BI):** Revenue/EBIT jumped 61/53% YoY to INR 3/1bn, supported by favorable demand scenario, augmented by a shift towards India by global customers due to supply chain challenges.
- **Fine & specialty chemicals (FSC)**: Revenue/EBIT fell 6/41% YoY to INR 2/1bn. Despite several challenges on ground as well as reversion of product realisations to normal levels, the company was able to demonstrate resilience and supply its planned volume commitments to customers.
- **Deepak Phenolics (DPL):** Revenue/EBIT jumped 52/81% YoY to INR 11/2bn. The plants registered an average capacity utilisation of ~120%, supported by favourable demand and attractive pricing for phenol and acetone in H1FY22.
- **Change in estimates:** We cut our FY22 EPS estimate by 14% to INR 86.6 to account for the pressure felt on margins, owing to increased input costs, and to factor in the overall performance in H1FY22.

### Financial summary (consolidated)

| INR mn | Q2 FY22 | Q1 FY22 | QoQ (%) | Q2 FY21 | YoY (%) | FY20 | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 16,814 | 15,262 | *10.2* | 9,873 | *70.3* | 42,297 | 43,598 | 66,998 | 75,528 | 92,201 |
| EBITDA | 3,865 | 4,515 | *(14.4)* | 2,760 | *40.1* | 10,258 | 12,470 | 17,803 | 20,499 | 23,638 |
| APAT | 2,543 | 3,026 | *(16.0)* | 1,702 | *49.4* | 6,110 | 7,758 | 11,801 | 13,601 | 15,806 |
| AEPS (INR) | 18.6 | 22.2 | *(16.0)* | 12.5 | *49.4* | 44.8 | 56.9 | 86.6 | 99.7 | 115.9 |
| P/E (x) | | | | | | 49.9 | 39.3 | 25.8 | 22.4 | 19.3 |
| EV/EBITDA(x) | | | | | | 30.8 | 24.9 | 17.4 | 14.9 | 12.5 |
| RoE (%) | | | | | | 46.2 | 39.6 | 41.6 | 35.0 | 31.0 |

Source: Company, HSIE Research

### Change in estimates (Consolidated)

| Y/E Mar | FY22E Old | FY22E New | % Ch | FY23E Old | FY23E New | % Ch | FY24E Old | FY24E New | % Ch |
|---|---|---|---|---|---|---|---|---|---|
| EBITDA (INR mn) | 20,541 | 17,803 | *-13.3%* | 20,410 | 20,499 | *0.4%* | 22,893 | 23,638 | *3.3%* |
| Adj. EPS (INR/sh) | 101.2 | 86.6 | *-14.3%* | 99.1 | 99.7 | *0.6%* | 111.7 | 115.9 | *3.7%* |

Source: Company, HSIE Research

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# Vinati Organics

## ATBS demand continues to be robust

**Our SELL recommendation on Vinati Organics with a discounted cash flow-based target price of INR 1,745 (WACC 10%, terminal growth 4.5%) is driven by a shift in the revenue mix towards lower-margin iso butyl benzene (IBB), butyl phenol, and other products 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 ~32x FY24E EPS. Q2 EBITDA was 8% below our estimate and APAT was 2% above, owing to a 4% fall in revenue, higher-than-anticipated opex, offset by higher-than-anticipated other income and lower-than-expected tax outgo.**

- **Financial performance:** Q2 revenue fell 3% QoQ, and grew 71% YoY, to INR 3,741mn, affected by the shutdown at Mahad facility due to floods, which led to a revenue loss of INR 300mn. EBITDA came in at INR 1,010mn (-1/+20% QoQ/YoY). EBITDA margin improved by 73bps sequentially, and fell by 1,133bps YoY to 27%, on account of higher input and freight costs and increasing share of lower-margin products in the product basket.
- **ATBS**: Demand for ATBS continues to remain strong with increased demand from the oil and gas industry, which forms 25-30% of its global demand. ATBS booked the highest-ever quarterly sales in Q2. It contributed 50% to the Q2 topline (50% in Q1). Demand is expected to continue to be robust in H2FY22.
- **Iso butyl benzene (IBB)**: Revenue contribution came in at ~10% in Q2 (15% in Q1), given reduced demand for Ibuprofen. IBB demand shall be subdued in FY22, and is only expected to pick up in FY23.
- **Butyl phenol**: The butyl phenol segment clocked in an INR 0.4bn revenue in Q2 (INR 0.8bn in H1), and it is expected to clock in INR ~2bn in FY22. Butyl phenol is gaining decent traction.
- **Capex**: The company is incurring a new Capex of INR 3bn to introduce 5-6 niche speciality chemical intermediates that cater to agrochemical, fragrance, plastic, and polymers industries. This Capex will take a year to come on stream and will generate a revenue of INR 3bn at peak utilisation.
- **Change in estimates:** We increase our FY24 EPS estimate by 2.3% to INR 61.2 to factor in the new Capex announced by the management, and the incremental revenue to be generated from the same.

### Financial summary

| INR mn | Q2 FY22 | Q1 FY22 | QoQ (%) | Q2 FY21 | YoY (%) | FY20 | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 3,741 | 3,864 | (3.2) | 2,194 | 70.5 | 10,289 | 9,543 | 15,532 | 20,882 | 24,874 |
| EBITDA | 1,010 | 1,015 | (0.5) | 841 | 20.1 | 4,139 | 3,525 | 5,135 | 7,435 | 8,806 |
| APAT | 813 | 809 | 0.5 | 620 | 31.1 | 3,338 | 2,693 | 3,780 | 5,373 | 6,291 |
| AEPS (INR) | 7.9 | 7.9 | 0.5 | 6.0 | 31.1 | 32.5 | 26.2 | 36.8 | 52.3 | 61.2 |
| P/E (x) | | | | | | 60.7 | 75.2 | 53.6 | 37.7 | 32.2 |
| EV/EBITDA(x) | | | | | | 48.2 | 56.9 | 39.5 | 27.4 | 22.6 |
| RoE (%) | | | | | | 28.6 | 19.1 | 22.3 | 25.7 | 24.1 |

Source: Company, HSIE Research

### Change in estimates

| Y/E Mar | FY22E Old | FY22E New | % Ch | FY23E Old | FY23E New | % Ch | FY24E Old | FY24E New | % Ch |
|---|---|---|---|---|---|---|---|---|---|
| EBITDA (INR mn) | 5,135 | 5,135 | - | 7,435 | 7,435 | - | 8,432 | 8,806 | 4.4 |
| Adj. EPS (INR/sh) | 36.8 | 36.8 | - | 52.6 | 52.3 | (0.6) | 59.8 | 61.2 | 2.3 |

Source: Company, HSIE Research

## SELL

| | |
|---|---|
| CMP *(as on 11 Nov 21)* | INR 1,982 |
| Target Price | INR 1,745 |
| NIFTY | 17,874 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | SELL | SELL |
| Price Target | INR 1,640 | INR 1,745 |
| EPS % | FY22E | FY23E |
| | - | - |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | VO IN |
| No. of Shares (mn) | 103 |
| MCap (INR bn) / ($ mn) | 204/2,738 |
| 6m avg traded value (INR mn) | 252 |
| 52 Week high / low | INR 2,184/1,080 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 4.4 | 15.0 | 81.5 |
| Relative (%) | (5.5) | (6.9) | 44.0 |

| SHAREHOLDING PATTERN (%) | Jun-21 | Sept-21 |
|---|---|---|
| Promoters | 74.06 | 74.06 |
| FIs & Local MFs | 6.82 | 6.87 |
| FPIs | 4.39 | 4.45 |
| Public & Others | 14.73 | 14.62 |
| Pledged Shares | 0.00 | 0.00 |

*Source: BSE*

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# Navin Fluorine International

## Muted performance

**We retain our ADD rating on NFIL with a target price of INR 4,025 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 7/8% above our estimates, owing to lower-than-expected raw material costs, higher-than-expected other income, offset by a higher-than-expected opex and depreciation.**

- **Financial performance:** Revenue grew 5/3% YoY/QoQ to INR 3,244mn. EBITDA fell 11% YoY, and grew 7% QoQ to INR 835mn in Q2 with EBITDA margin coming in at ~26% (-463/+90bps YoY/QoQ). The margin was impacted negatively on a YoY basis, owing to higher raw material costs, increased employee cost, higher maintenance expenses, and elevated freight cost.
- **Segmental performance:** Speciality chemicals (38% of revenue mix) grew 20% YoY to INR 1,220mn on the back of increased exports. Two new products were launched in the speciality chemicals business unit (BU) - one catering to the agrochemical sector, and the other to speciality materials sector. CRAMS BU (25% of revenue mix) de-grew 17% YoY to 820mn, owing to a higher base, as a substantial part of the realisation of revenue of Q1FY21 had spilled over to Q2FY21. CRAMS BU continues to perform well, owing to repeat orders from its existing customers and encouraging new enquiries. NFIL plans to debottleneck its cGMP-3 plant by this year end, post which, it plans to set up a cGMP-4 plant. The high performance product (HPP) plant shall commence supplies in Q4FY22 or Q1FY23 and the multi-purpose plant (MPP) capacity would come on stream in H1FY23, both of which would drive future growth.
- **Exceptional items adjustment**: Marked-to-market gains of INR 11mn have been excluded to arrive at an APAT of INR 610mn in Q2.
- **Change in estimates:** We cut our FY22/23/24 EPS estimate by 12.5/11.6/10.5% to INR 50.4/67.6/89.5 to account for a lower other income assumption and to factor in the overall performance in H1FY22.
- **DCF-based valuation: Our target price is INR 4,025 (WACC 10%, terminal growth 5.5%). The stock is trading at 39.5x FY24E EPS.**

### Financial summary (standalone)

| INR mn | Q2 FY22 | Q1 FY22 | QoQ (%) | Q2 FY21 | YoY (%) | FY20* | FY21* | FY22E* | FY23E* | FY24E* |
|---|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 3,244 | 3,139 | *3.4* | 3,077 | *5.4* | 10,616 | 11,794 | 13,841 | 17,709 | 22,680 |
| EBITDA | 835 | 780 | *7.1* | 935 | *(10.6)* | 2,635 | 3,093 | 3,325 | 4,586 | 6,201 |
| APAT | 610 | 567 | *7.5* | 646 | *(5.6)* | 3,855 | 2,216 | 2,495 | 3,347 | 4,429 |
| AEPS (INR) | 12.3 | 11.5 | *7.5* | 13.1 | *(5.8)* | 77.9 | 44.8 | 50.4 | 67.6 | 89.5 |
| P/E (x) | | | | | | 45.4 | 79.0 | 70.1 | 52.3 | 39.5 |
| EV/EBITDA(x) | | | | | | 65.1 | 54.6 | 50.8 | 36.7 | 27.1 |
| RoE (%) | | | | | | 31.0 | 14.6 | 14.5 | 17.4 | 20.2 |

Source: Company, HSIE Research, *Consolidated

### Change in estimates (Consolidated)

| (INR mn) | FY22E Old | FY22E New | % Ch | FY23E Old | FY23E New | % Ch | FY24E Old | FY24E New | % Ch |
|---|---|---|---|---|---|---|---|---|---|
| EBIDTA | 3,386 | 3,325 | *(1.8)* | 4,717 | 4,586 | *(2.8)* | 6,412 | 6,201 | *(3.3)* |
| EPS (INR/sh) | 57.6 | 50.4 | *(12.5)* | 76.5 | 67.6 | *(11.6)* | 100.0 | 89.5 | *(10.5)* |

Source: Company, HSIE Research

# ADD

| | |
|---|---|
| **CMP** ***(as on 20 Oct 2021)*** | **INR 3,502** |
| **Target Price** | **INR 4,025** |
| **NIFTY** | **18,267** |

| **KEY CHANGES** | **OLD** | **NEW** |
|---|---|---|
| Rating | ADD | ADD |
| Price Target | INR 4,460 | INR 4,025 |
| EPS % | FY22E | FY23E |
| | -12.5% | -11.6% |

| **KEY STOCK DATA** | |
|---|---|
| Bloomberg code | NFIL IN |
| No. of Shares (mn) | 49 |
| MCap (INR bn) / ($ mn) | 173/2,329 |
| 6m avg traded value (INR mn) | 1,185 |
| 52 Week high / low | INR 4,213/2,014 |

| **STOCK PERFORMANCE (%)** | **3M** | **6M** | **12M** |
|---|---|---|---|
| Absolute (%) | (8.2) | 16.2 | 71.7 |
| Relative (%) | (25.6) | (12.2) | 20.6 |

| **SHAREHOLDING PATTERN (%)** | **Jun-21** | **Sept-21** |
|---|---|---|
| Promoters | 30.22 | 30.22 |
| FIs & Local MFs | 15.18 | 15.17 |
| FPIs | 26.65 | 26.43 |
| Public & Others | 27.95 | 28.20 |
| Pledged Shares | 0.91 | 0.91 |

*Source : BSE*

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# Alkyl Amines

## Margins gravely affected

**We maintain SELL on Alkyl Amines with a price target of INR 2,950 (WACC 10%, terminal growth 5%). The stock is currently trading at 44.5x FY24E 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 continue to put pressure on the margins in FY22. EBITDA/APAT were 26/25% below our estimates, owing to higher-than-expected raw material cost, higher-than-expected opex, offset by higher-than-expected other income and a lower-than-expected tax outgo.**

- **Financial performance**: Sales de-grew 11% QoQ, and grew 20% YoY to INR 3.5bn. Q2 witnessed a volume degrowth of 10% sequentially on the back of supply disruptions prevailing at the side of the pharma and agrochemical end users. Gross margin fell significantly to 45.7% (-322/-1,177bps QoQ/YoY) in Q2 as raw material prices of key inputs such as acetic acid, methanol and ammonia continued to soar in the quarter. EBITDA margin came in at 21.6% (-662/-1,106bps QoQ/YoY) and witnessed a fall, owing to the trickle-down effect of a lower gross margin and higher operating expenses.
- **Call takeaways**: (1) Capex guidance for FY22/23 is INR 2.0/2.0bn. Apart from this, the company is also looking at land parcels of 100-150 acres size for its future expansion plans. (2) The acetonitrile expansion project is commissioned now, and will ramp up in Q4FY22. With this expansion, the acetonitrile capacity has increased to 30ktpa. Acetonitrile's margin was negatively impacted, given very high acetic acid prices in Q2. (3) The company is witnessing good export traction currently and expects exports to grow with the new acetonitrile plant coming on stream. (4) The company plans to commission the higher amines plant at a cost of INR 3.5bn in Kurkumbh in Dec-22.
- **Change in estimates:** We cut our FY22/23/24 EPS estimates by 11.3/11.3/10.2% to INR 56.1/66.2/74.8 per share to factor in subdued margins, given the high input costs and overall performance in H1FY22.

### Financial summary

| INR mn | Q2 FY22 | Q1 FY22 | QoQ (%) | Q2 FY21 | YoY (%) | FY20 | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 3,487 | 3,918 | (11.0) | 2,913 | 19.7 | 9,929 | 12,424 | 15,041 | 17,963 | 20,193 |
| EBITDA | 755 | 1,107 | (31.8) | 953 | (20.8) | 2,590 | 4,291 | 4,124 | 4,897 | 5,528 |
| APAT | 541 | 785 | (31.1) | 655 | (17.4) | 1,798 | 2,953 | 2,864 | 3,383 | 3,818 |
| AEPS (INR) | 10.6 | 15.4 | (31.1) | 12.8 | (17.4) | 35.2 | 57.8 | 56.1 | 66.2 | 74.8 |
| P/E (x) | | | | | | 94.6 | 57.6 | 59.4 | 50.3 | 44.5 |
| EV/EBITDA(x) | | | | | | 65.7 | 39.3 | 40.8 | 34.2 | 29.8 |
| RoE (%) | | | | | | 47.8 | 44.4 | 31.8 | 29.8 | 27.1 |

Source: Company, HSIE Research

### Change in estimates

| Y/E Mar | FY22E Old | FY22E New | % Ch | FY23E Old | FY23E New | % Ch | FY24E Old | FY24E New | % Ch |
|---|---|---|---|---|---|---|---|---|---|
| EBITDA (INR mn) | 4,611 | 4,124 | *(10.6)* | 5,473 | 4,897 | *(10.5)* | 6,107 | 5,528 | *(9.5)* |
| Adj. EPS (INR/sh) | 63.2 | 56.1 | *(11.3)* | 74.7 | 66.2 | *(11.3)* | 83.2 | 74.8 | *(10.2)* |

Source: Company, HSIE Research

# SELL

| | |
|---|---|
| CMP *(as on 3 Nov 2021)* | INR 3,325 |
| Target Price | INR 2,950 |
| NIFTY | 17,829 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | SELL | SELL |
| Price Target | INR 3,200 | INR 2,950 |
| EPS % | FY22E -11.3% | FY23E -11.3% |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | AACL IN |
| No. of Shares (mn) | 51 |
| MCap (INR bn) / ($ mn) | 170/2,282 |
| 6m avg traded value (INR mn) | 546 |
| 52 Week high / low | INR 4,749/1,138 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | (22.3) | (1.4) | 188.7 |
| Relative (%) | (33.3) | (24.1) | 140.3 |

| SHAREHOLDING PATTERN (%) | Jun-21 | Sept-21 |
|---|---|---|
| Promoters | 74.09 | 72.03 |
| FIs & Local MFs | 1.11 | 1.12 |
| FPIs | 1.03 | 2.29 |
| Public & Others | 23.77 | 24.56 |
| Pledged Shares | 0.00 | 0.00 |

*Source : BSE*

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# Balaji Amines

## Margin takes a hit!

**Our REDUCE recommendation on Balaji Amines (BLA) with a price target of INR 3,630 is premised mainly on the pressure felt on the margins, owing to the rising raw material costs and logistical challenges. Q2 EBITDA/APAT were 11/11% below our estimates, owing to higher-than-anticipated raw material cost, higher-than-expected other expenses, higher-than-expected depreciation, offset by higher-than-expected other income.**

- **Volume, realisations and margin:** Total sales volume was 24kt (+2/7% YoY/QoQ). The tabulated per-kg realisation from the amines segment comes to INR 183 (+51/3% YoY/QoQ). Back calculated per-kg EBITDA came at INR 41, +38/-20% YoY/QoQ. EBITDA margin dropped by 236/670bps YoY/QoQ to 22.5%, owing to a significant increase in the prices of key raw materials and higher freight costs. The company is now passing on the hike in raw material prices to the end customers with a lag of 3-4 weeks. It has also come up with a new FOB pricing policy, where the customer pays freight cost prevalent at the time of shipment of their products. This will help protect the margins.
- **Call takeaways**: (1) BLA undertook the de-bottlenecking exercise of the acetonitrile plant in Q2, increasing the capacity from 9 TPD (tons per day) to 18 TPD, expecting a gradual ramp-up in capacity utilisation in H2FY22. (2) BLA shut down the DMF plant in the first week of Oct-21 due to a small incident, which had led to minor leakages, and took this opportunity to undertake debottlenecking exercise, which will enhance the capacity from 50 TPD at present to 75 TPD. The company expects the DMF plant to recommence operations in the first week of Nov-21. The capacity utilisation of DMF plant was 53% in Q2FY22 and 37% in H1FY22 (vs 35% in FY21). (3) BSCL continues to witness robust demand and higher price realisation for its products. The capacity utilisation increased from 42% in Q1FY22 to 67% in Q2FY22. The BoD is also evaluating the merger of BSCL with BLA.
- **Change in estimates:** We cut our FY22/23/24E EPS estimates by 8.1/4.9/7.3% each to INR 88.4/104.7/127.4, to factor in reduced margins as guided by the management, and overall performance in H1FY22.

  **DCF-based valuation:** Our price target is of INR 3,630 (WACC 11%, terminal growth 4%). The stock is trading at 28x FY24E EPS.

### Standalone financial summary

| INR mn | Q2 FY22 | Q1 FY22 | QoQ (%) | Q2 FY21 | YoY (%) | FY20* | FY21* | FY22E* | FY23E* | FY24E* |
|---|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 4,351 | 3,916 | *11.1* | 2,809 | *54.9* | 9,358 | 13,115 | 16,862 | 19,043 | 22,331 |
| EBITDA | 979 | 1,143 | (14.4) | 698 | 40.2 | 1,807 | 3,732 | 4,255 | 5,026 | 6,036 |
| APAT | 696 | 818 | *(14.9)* | 477 | *46.0* | 975 | 2,435 | 2,863 | 3,392 | 4,129 |
| AEPS (INR) | 21.5 | 25.3 | (14.9) | 14.7 | 46.0 | 30.1 | 75.2 | 88.4 | 104.7 | 127.4 |
| P/E (x) | | | | | | 118.5 | 47.4 | 40.3 | 34.0 | 28.0 |
| EV/EBITDA(x) | | | | | | 65.3 | 31.2 | 26.7 | 22.3 | 18.1 |
| RoE (%) | | | | | | 14.6 | 26.8 | 24.3 | 22.7 | 21.9 |

Source: Company, HSIE Research | *Consolidated

### Consolidated Change in Estimates

| Y/E Mar | FY22E Old | FY22E New | % Ch | FY23E Old | FY23E New | % Ch | FY24E Old | FY24E New | % Ch |
|---|---|---|---|---|---|---|---|---|---|
| EBITDA (INR mn) | 4,592 | 4,255 | *(7.3)* | 5,255 | 5,026 | *(4.4)* | 6,459 | 6,036 | *(6.5)* |
| Adj. EPS (INR/sh) | 96.1 | 88.4 | *(8.1)* | 110.1 | 104.7 | *(4.9)* | 137.5 | 127.4 | *(7.3)* |

Source: Company, HSIE Research

## REDUCE

| | |
|---|---|
| **CMP** ***(as on 28 Oct 2021)*** | **INR 3,559** |
| **Target Price** | **INR 3,630** |
| **NIFTY** | **17,857** |

| **KEY CHANGES** | **OLD** | **NEW** |
|---|---|---|
| Rating | REDUCE | REDUCE |
| Price Target | INR 4,220 | INR 3,630 |
| EPS % | FY22E | FY23E |
| | -8.1% | -4.9% |

| **KEY STOCK DATA** | |
|---|---|
| Bloomberg code | BLA IN |
| No. of Shares (mn) | 32 |
| MCap (INR bn) / ($ mn) | 115/1,550 |
| 6m avg traded value (INR mn) | 572 |
| 52 Week high / low | INR 5,224/792 |

| **STOCK PERFORMANCE (%)** | **3M** | **6M** | **12M** |
|---|---|---|---|
| Absolute (%) | 6.2 | 46.8 | 321.3 |
| Relative (%) | (8.2) | 26.2 | 271.0 |

| **SHAREHOLDING PATTERN (%)** | **Jun-21** | **Sept-21** |
|---|---|---|
| Promoters | 53.68 | 53.70 |
| FIs & Local MFs | 0.30 | 0.49 |
| FPIs | 2.35 | 4.00 |
| Public & Others | 43.67 | 41.81 |
| Pledged Shares | 0.00 | 0.00 |

*Source: BSE*

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# Fine Organic Industries

## Shining on!

**Our BUY recommendation on Fine Organic Industries (FOIL) with a target price of INR 4,220 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 36% CAGR in EBITDA. In the absence of any major Capex in the coming years, the RoCE would expand from 20% in FY22E to 29% in FY24E. Q2 EBITDA/APAT were 26/37% above our estimates, owing to a 22% rise in revenue, lower-than-expected raw material costs, lower-than-expected depreciation, and higher-than-expected other income.**

- **Q2 financial performance**: Revenue grew 23/62% QoQ/YoY to INR 4.4bn, on the back of strong domestic demand, continued traction in exports driving volumes, and higher realisations. The contribution of exports to the total revenue was 60% in H1FY22. Gross margin came in at 33.3% (+104/-431bps QoQ/YoY) in Q2, improving sequentially as customers are now accepting price hikes on account of higher raw material costs and higher freight costs. EBITDA came in at INR 0.7bn, +41/+43% QoQ/YoY, with EBITDA margin improving sequentially to 16.7% (+212/-223bps QoQ/YoY), owing to lesser opex. APAT was INR 0.5bn (+39/+60% QoQ/YoY).
- **Joint venture update**: The Board has agreed to terminate the joint venture agreement with Adcotec GmbH dated 17 January 2018 for the JV FineADD Ingredients GmbH in Germany. The timeline of the proposed JV was impacted by COVID-19 disruptions. The prevailing situation and cost escalation have adversely affected the viability of the project.
- **Change in estimates:** We raise our FY22/23/24E EPS estimates by 6.7/4.0/4.3% to INR 55.7/79.3/111 per share to factor in the overall performance of H1FY22.
- **DCF-based valuation:** Our target price is INR 4,220 (WACC 10%, terminal growth 4.5%). The stock is trading at 32.3x FY24E EPS.

### Financial Summary (Consolidated)

| INR mn | Q2 FY22 | Q1 FY22 | *QoQ (%)* | Q2 FY21 | *YoY (%)* | FY20 | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 4,384 | 3,576 | *22.6* | 2,710 | *61.8* | 10,381 | 11,332 | 15,537 | 17,931 | 21,671 |
| EBITDA | 731 | 520 | *40.5* | 512 | *42.7* | 2,405 | 1,993 | 2,676 | 3,643 | 4,953 |
| APAT | 499 | 359 | *38.8* | 312 | *59.8* | 1,648 | 1,203 | 1,708 | 2,430 | 3,402 |
| AEPS (INR) | 16.3 | 11.7 | *38.8* | 10.2 | *59.8* | 53.7 | 39.3 | 55.7 | 79.3 | 111.0 |
| P/E (x) | | | | | | 66.6 | 91.2 | 64.3 | 45.2 | 32.3 |
| EV/EBITDA(x) | | | | | | 45.3 | 54.2 | 40.3 | 29.1 | 20.9 |
| RoE (%) | | | | | | 29.5 | 17.8 | 21.6 | 26.0 | 29.8 |

Source: Company, HSIE Research

### Change in estimates (Consolidated)

| YE Mar | FY22E Old | FY22E New | *% Ch* | FY23E Old | FY23E New | *% Ch* | FY24E Old | FY24E New | *% Ch* |
|---|---|---|---|---|---|---|---|---|---|
| EBITDA (INR mn) | 2,506 | 2,676 | *6.8%* | 3,517 | 3,643 | *3.6%* | 4,765 | 4,953 | *3.9%* |
| Adj. EPS (INR/sh) | 52.2 | 55.7 | *6.7%* | 76.2 | 79.3 | *4.0%* | 106.4 | 111.0 | *4.3%* |

Source: Company, HSIE Research

## BUY

| | |
|---|---|
| **CMP** ***(as on 18 Nov 2021)*** | **INR 3,571** |
| **Target Price** | **INR 4,220** |
| **NIFTY** | **17,765** |

| **KEY CHANGES** | **OLD** | **NEW** |
|---|---|---|
| Rating | BUY | BUY |
| Price Target | INR 4,050 | INR 4,220 |
| EPS % | **FY22E** | **FY23E** |
| | +6.7% | +4.0% |

**KEY STOCK DATA**

| | |
|---|---|
| Bloomberg code | FINEORG IN |
| No. of Shares (mn) | 31 |
| MCap (INR bn) / ($ mn) | 109/1,471 |
| 6m avg traded value (INR mn) | 161 |
| 52 Week high / low | INR 3,787/2,123 |

**STOCK PERFORMANCE (%)**

| | **3M** | **6M** | **12M** |
|---|---|---|---|
| Absolute (%) | 25.7 | 11.6 | 37.6 |
| Relative (%) | 18.5 | (7.2) | 2.6 |

**SHAREHOLDING PATTERN (%)**

| | **Jun-21** | **Sept-21** |
|---|---|---|
| Promoters | 75.00 | 75.00 |
| FIs & Local MFs | 11.40 | 11.32 |
| FPIs | 6.80 | 6.79 |
| Public & Others | 6.80 | 6.89 |
| Pledged Shares | 0.00 | 0.00 |

*Source: BSE*

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# Galaxy Surfactants

## Reeling under supply chain issues

**BUY**

| | |
|---|---|
| **CMP *(as on 11 Nov 21)*** | **INR 3,036** |
| **Target Price** | **INR 3,675** |
| **NIFTY** | **17,874** |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | BUY | BUY |
| Price Target | INR 4,030 | INR 3,675 |
| EPS % | FY22E | FY23E |
| | -32.3% | -20.4% |

**KEY STOCK DATA**

| | |
|---|---|
| Bloomberg code | GALSURF IN |
| No. of Shares (mn) | 35 |
| MCap (INR bn) / ($ mn) | 107/1,447 |
| 6m avg traded value (INR mn) | 153 |
| 52 Week high / low | INR 3,600/1,682 |

**STOCK PERFORMANCE (%)**

| | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | (1.3) | 5.5 | 78.9 |
| Relative (%) | (11.2) | (16.4) | 41.5 |

**SHAREHOLDING PATTERN (%)**

| | Jun-21 | Sept-21 |
|---|---|---|
| Promoters | 70.93 | 70.93 |
| FIs & Local MFs | 13.02 | 13.29 |
| FPIs | 2.91 | 2.42 |
| Public & Others | 13.14 | 13.36 |
| Pledged Shares | 0.0 | 0.0 |

*Source: BSE*

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**Our BUY recommendation on GALSURF with a price target of INR 3,675 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 22/20% in FY24E). Q2 EBITDA/APAT were 40/50% lower than estimates due to substantially higher-than-expected raw material cost, higher-than-expected other expense, higher-than-expected depreciation, higher-than-expected tax outgo, offset by higher-than-expected other income.**

- **Revenue:** Q2 revenue grew 6/22% QoQ/YoY to INR 9bn, supported by robust demand. While demand remains robust, inability to service the same due to supply side constraints affected the Q2 performance.
- **Margins**: Gross margin fell 518/977bps QoQ/YoY to 27%, owing to high fatty alcohol prices, higher input costs, and high freight costs in Q2. EBITDAM fell 505/883bps QoQ/YoY to 8% in Q2, mainly due to the trickle-down effect of a lower GM, offset by reduced employee cost.
- **Volumes**: Total volume in Q2 came in at 59kT (-2/-7% QoQ/YoY), adversely impacted by international supply chain volatility. Performance surfactants (65% of the volume mix) volume was at 38kT (-2/-8% QoQ/YoY) on the back of degrowth in AMET region. This is mainly due to the unavailability of a critical feedstock used for manufacturing performance surfactants. Specialty care (35%) volume came in at 21kT (-1/-4% QoQ/YoY), owing to supply chain constraints. India's market remained flat YoY, AMET de-grew 13% YoY, and the rest of the world de-grew 7% YoY.
- **Change in estimates:** We cut our FY22/23/24 EPS estimates by 32.3/20.4/17.5% to INR 74.5/98.7/116.1 to account for higher input costs, change in volume, and realisation assumptions.
- **DCF-based valuation: Our price target is INR 3,675 (WACC 10%, terminal growth 4%). The stock is trading at 26.3x FY24E EPS.**

### Financial Summary (Consolidated)

| INR mn | Q2 FY22 | Q1 FY22 | QoQ (%) | Q2 FY21 | YoY (%) | FY20 | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 8,773 | 8,264 | 6.2 | 7,187 | 22.1 | 25,964 | 27,841 | 38,084 | 43,529 | 48,512 |
| EBITDA | 709 | 1,085 | (34.7) | 1,215 | (41.7) | 3,689 | 4,488 | 4,094 | 5,306 | 6,268 |
| APAT | 419 | 768 | (45.4) | 817 | (48.7) | 2,244 | 3,021 | 2,642 | 3,597 | 4,348 |
| AEPS (INR) | 11.8 | 21.7 | (45.4) | 23.1 | (48.7) | 65.0 | 85.2 | 74.5 | 98.7 | 116.1 |
| P/E (x) | | | | | | 46.9 | 35.8 | 40.9 | 30.9 | 26.3 |
| EV/EBITDA(x) | | | | | | 28.4 | 23.7 | 25.6 | 19.9 | 17.2 |
| RoE (%) | | | | | | 23.1 | 25.5 | 18.8 | 21.8 | 22.1 |

Source: Company, HSIE Research

### Change in estimates (Consolidated)

| Y/E Mar | FY22E Old | FY22E New | % Ch | FY23E Old | FY23E New | % Ch | FY24E Old | FY24E New | % Ch |
|---|---|---|---|---|---|---|---|---|---|
| EBITDA (INR bn) | 5.60 | 4.09 | (26.9) | 6.40 | 5.31 | (17.0) | 7.36 | 6.27 | (14.8) |
| Adj. EPS (INR/sh) | 110.1 | 74.5 | (32.3) | 124.0 | 98.7 | (20.4) | 140.7 | 116.1 | (17.5) |

Source: Company, HSIE Research

# NOCIL

## High input costs put pressure on the margin

**Our BUY recommendation on NOCIL with a target price of INR 360 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 26% CAGR over FY22-24E, led by 23% CAGR in EBITDA. In the absence of major Capex over the next two years, the RoCE shall expand from 10% in FY22E to 14.4% in FY24E and the company would generate an FCF of INR ~4.4bn during the period. Q2 EBITDA/APAT were 10/13% below our estimates, owing to significantly higher-than-anticipated raw material costs, offset by an 8% rise in revenue and a lower-than-expected tax rate.**

- **Financial performance**: Revenue grew 9/69% QoQ/YoY to INR 3.8bn, the highest-ever booked in any quarter till date, supported by a sequential volume growth of 5%. Operating activities improved, post the second wave of COVID-19 in the domestic market. Gross margin came in at ~40.6% (-888/-755bps QoQ/YoY) in Q2, on account of high raw material costs. EBITDA fell 32% QoQ and grew 59% YoY to INR 5bn with EBITDA margin coming in at 13.2% (-791/-89bps QoQ/YoY), owing to higher input costs and utilities.

- **Con call takeaways**: (1) Utilisation levels have crossed pre-COVID levels on a monthly run-rate basis. (2) The management has given a guidance of over 10% YoY volume growth, and revenue growth of over 45% YoY for FY22. (3) 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 derisking their businesses.
- **Change in estimates:** We cut our FY22/FY23/24E EPS estimates by 8.1/3.9/3.4% to INR 8.5/10.3/13.5 to factor in the pressure felt on the margin, owing to high input costs and the overall performance in H1FY22.
- **DCF-based valuation:** Our price target is INR 360 (WACC 10%, terminal growth 4.5%). The stock is trading at 19.3x FY24E EPS.

### Financial summary

| INR mn | Q2 FY22 | Q1 FY22 | QoQ (%) | Q2 FY21 | YoY (%) | FY20 | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 3,752 | 3,445 | *8.9* | 2,216 | *69.3* | 8,463 | 9,247 | 14,671 | 16,512 | 18,584 |
| EBITDA | 495 | 727 | *(31.9)* | 312 | *58.5* | 1,765 | 1,269 | 2,230 | 2,646 | 3,364 |
| APAT | 305 | 471 | *(35.2)* | 166 | *83.4* | 1,309 | 865 | 1,415 | 1,715 | 2,242 |
| AEPS (INR) | 1.8 | 2.8 | *(35.2)* | 1.0 | *83.4* | 7.9 | 5.2 | 8.5 | 10.3 | 13.5 |
| P/E (x) | | | | | | 33.1 | 50.2 | 30.7 | 25.3 | 19.3 |
| EV/EBITDA(x) | | | | | | 24.4 | 33.3 | 18.7 | 15.6 | 12.2 |
| RoE (%) | | | | | | 11.2 | 7.1 | 10.9 | 12.6 | 15.6 |

Source: Company, HSIE Research

### Change in estimates

| Y/E Mar | FY22E Old | FY22E New | % Ch | FY23E Old | FY23E New | % Ch | FY24E Old | FY24E New | % Ch |
|---|---|---|---|---|---|---|---|---|---|
| EBITDA (INR mn) | 2,378 | 2,230 | *(6.2)* | 2,751 | 2,646 | *(3.8)* | 3,504 | 3,364 | *(4.0)* |
| Adj. EPS (INR/sh) | 9.3 | 8.5 | *(8.1)* | 10.7 | 10.3 | *(3.9)* | 14.0 | 13.5 | *(3.4)* |

Source: Company, HSIE Research

## BUY

| | |
|---|---|
| **CMP *(as on 3 Nov 2021)*** | **INR 260** |
| **Target Price** | **INR 360** |
| **NIFTY** | **17,829** |

| **KEY CHANGES** | **OLD** | **NEW** |
|---|---|---|
| Rating | BUY | BUY |
| Price Target | INR 370 | INR 360 |
| EPS % | **FY22E** | **FY23E** |
| | -8.1% | -3.9% |

| **KEY STOCK DATA** | |
|---|---|
| Bloomberg code | NOCIL IN |
| No. of Shares (mn) | 166 |
| MCap (INR bn) / ($ mn) | 43/582 |
| 6m avg traded value (INR mn) | 538 |
| 52 Week high / low | INR 321/118 |

| **STOCK PERFORMANCE (%)** | **3M** | **6M** | **12M** |
|---|---|---|---|
| Absolute (%) | (8.1) | 33.8 | 94.2 |
| Relative (%) | (19.2) | 11.1 | 45.8 |

| **SHAREHOLDING PATTERN (%)** | **Jun-21** | **Sept-21** |
|---|---|---|
| Promoters | 33.89 | 33.88 |
| FIs & Local MFs | 4.34 | 4.43 |
| FPIs | 2.16 | 2.12 |
| Public & Others | 59.61 | 59.57 |
| Pledged Shares | 0.00 | 0.00 |

*Source: BSE*

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# Sudarshan Chemical

## Sluggish performance; margin takes a hit

**We maintain a BUY recommendation on Sudarshan Chemical (SCIL) with a target price of INR 765/share. We expect SCIL's PAT to grow at a 50% CAGR over FY22-24E, led by a 36% CAGR in EBITDA. 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. Q2 EBITDA/APAT were 34/43% below our estimates, owing to an 8% lower revenue, higher-than-expected employee cost and other expenses, lower-than-expected other income, offset by a lower-than-expected tax outgo.**

- **Financial performance:** Revenue grew 16/5% YoY/QoQ to INR 4,980mn, with a soft volume growth in Q2. Domestic demand started bouncing back in Q2, whereas subdued demand and lack of availability of containers were the main challenges for exports. Capacity utilisation in Q2 was at ~60% of operating capacity. EBITDA fell 22/15% YoY/QoQ to INR 529mn. EBITDA margin fell 517/247bps YoY/QoQ to 11%, owing to higher raw material cost, energy cost and logistics cost. APAT came in at INR 228mn (-25/-13% YoY/QoQ).
- **Pigment segment (90% of the revenue mix):** Revenue/EBIT fell 1/35% sequentially to INR 4,482/300mn. EBIT margin for the segment came in at 7%, -437/-341bps YoY/ QoQ.
- **Con call takeaways**: (1) Exports accounted for 47% of revenue for the pigment segment. (2) Speciality pigments constituted 67% of the revenue for the pigment segment in Q2. (3) The company plans to launch two high performance pigments in H2FY22. (4) Capex target for FY22 is INR 2.5bn. (5) The Mahad facility stayed shut for two weeks due to heavy rains and floods in Q2FY22, post which, several issues persisted that led to 15% lesser monthly production. The production at the site is now stabilised. (6) The ramp-up in the yellow pigment will be witnessed by the company in Q3.
- **Change in estimates:** We cut our FY22/23/24 EPS estimates by 32/17/11% to INR 15.6/25.1/35.1 to factor in subdued margins, and to account for the overall performance in H1FY22.
- **DCF-based valuation: Our target price is INR 765 (WACC 10%, terminal growth 4%). The stock is currently trading at 16.3x FY24E EPS.**

### Financial summary (consolidated)

| INR mn | Q2 FY22 | Q1 FY22 | QoQ (%) | Q2 FY21 | YoY (%) | FY20 | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 4,980 | 4,739 | *5.1* | 4,289 | *16.1* | 17,082 | 18,641 | 21,142 | 24,063 | 27,317 |
| EBITDA | 529 | 620 | *(14.7)* | 677 | *(21.9)* | 2,463 | 2,878 | 2,558 | 3,660 | 4,718 |
| APAT | 228 | 262 | *(13.0)* | 303 | *(25.0)* | 1,311 | 1,411 | 1,078 | 1,740 | 2,433 |
| AEPS (INR) | 3.3 | 3.8 | *(13.0)* | 4.4 | *(25.0)* | 18.9 | 20.4 | 15.6 | 25.1 | 35.1 |
| P/E (x) | | | | | | 30.3 | 28.2 | 36.9 | 22.8 | 16.3 |
| EV/EBITDA(x) | | | | | | 18.1 | 15.9 | 18.1 | 12.5 | 9.5 |
| RoE (%) | | | | | | 22.4 | 21.0 | 13.8 | 20.1 | 24.5 |

Source: Company, HSIE Research

### Change in estimates (Consolidated)

| Y/E Mar | FY22E Old | FY22E New | % Ch | FY23E Old | FY23E New | % Ch | FY24E Old | FY24E New | % Ch |
|---|---|---|---|---|---|---|---|---|---|
| EBITDA (INR mn) | 3,212 | 2,558 | *-20.4%* | 4,089 | 3,660 | *-10.5%* | 5,072 | 4,718 | *-7.0%* |
| Adj. EPS (INR/sh) | 22.9 | 15.6 | *-32.0%* | 30.1 | 25.1 | *-16.5%* | 39.3 | 35.1 | *-10.6%* |

Source: Company, HSIE Research

## BUY

| | |
|---|---|
| **CMP *(as on 29 Oct 2021)*** | **INR 569** |
| **Target Price** | **INR 765** |
| **NIFTY** | **17,672** |

| **KEY CHANGES** | **OLD** | **NEW** |
|---|---|---|
| Rating | BUY | BUY |
| Price Target | INR 815 | INR 765 |
| EPS % | FY22E | FY23E |
| | -32% | -17% |

| **KEY STOCK DATA** | |
|---|---|
| Bloomberg code | SCHI IN |
| No. of Shares (mn) | 69 |
| MCap (INR bn) / ($ mn) | 39/529 |
| 6m avg traded value (INR mn) | 432 |
| 52 Week high / low | INR 794/431 |

| **STOCK PERFORMANCE (%)** | **3M** | **6M** | **12M** |
|---|---|---|---|
| Absolute (%) | (23.7) | (11.6) | 27.6 |
| Relative (%) | (36.3) | (30.7) | (21.6) |

| **SHAREHOLDING PATTERN (%)** | **Jun-21** | **Sept-21** |
|---|---|---|
| Promoters | 39.57 | 35.73 |
| FIs & Local MFs | 9.27 | 9.79 |
| FPIs | 8.79 | 9.37 |
| Public & Others | 42.37 | 45.11 |
| Pledged Shares | 0.00 | 0.00 |

*Source: BSE*

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# Neogen Chemicals

## Capacity expansion - a growth lever

**BUY**

| | |
|---|---|
| CMP *(as on 1 Nov 2021)* | INR 1,236 |
| Target Price | INR 1,470 |
| NIFTY | 17,930 |

**Our BUY recommendation on Neogen Chemicals (NCL) with a target price of INR 1,470/sh is premised on (1) increasing contribution of the high-margin CSM business to the revenue, (2) capacity-led expansion growth opportunity, (3) constant focus on R&D, and (4) improving return ratios and strong balance sheet, going forward. Q2 EBITDA/APAT were 11/39% above our estimates, attributable to a 23% rise in revenue, lower-than-expected finance cost, lower-than-expected tax rate, offset by higher-than-expected raw material cost.**

- **Financial performance:** Revenue grew 38/34% YoY/QoQ to INR 1,132mn, with revenue growth driven by higher capacity utilisation, led by positive contribution from phase I expansion. Demand from key end-user industries has normalised and returned to pre-COVID levels. EBITDA grew by 33/32% YoY/QoQ to INR 205mn, with EBITDA margin remaining stable at 18% despite facing operational challenges. Operating leverage gains as well as better product mix helped maintain the margin. APAT grew 50/51% YoY/QoQ to INR 111mn. Reduction in effective tax rate due to higher revenue from the SEZ facility positively contributed to the APAT growth.
- **Segmental information:** Organic chemicals (81% of the revenue mix) grew 36% YoY to INR 910mn. Inorganic chemicals (19%) grew 48% YoY to INR 220mn on the back of a higher base.
- **Call takeaways:** (1) Total organic chemicals reactor capacity has increased from 154,000 litres to 407,000 litres after the completion of phase I and II expansion. (2) NCL approved a Capex of INR 350mn at Vadodara to set up a 250 MTPA electrolyte capacity for lithium-ion batteries advanced chemistry cells, and to set up a pilot facility for speciality chemicals. The capacity expansion plans in total shall create a revenue potential of INR 7bn in FY24E.
- **Change in estimates:** We raise our FY22 EPS estimate by 6.3% to INR 16.9, to account for the overall performance in H1FY22.
- **DCF-based valuation: Our target price is INR 1,470 (WACC 10%, terminal growth 5.5%). The stock is currently trading at 36.2x FY24E EPS.**

### Financial summary (consolidated)

| INR mn | Q2 FY22 | Q1 FY22 | QoQ (%) | Q2 FY21 | YoY (%) | FY20 | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 1,132 | 846 | *33.7* | 820 | *38.1* | 3,061 | 3,364 | 4,275 | 5,073 | 6,746 |
| EBITDA | 205 | 156 | *31.5* | 154 | *32.9* | 581 | 644 | 840 | 1,082 | 1,486 |
| APAT | 111 | 74 | *50.9* | 74 | *50.4* | 287 | 313 | 395 | 514 | 797 |
| AEPS (INR) | 4.8 | 3.2 | *50.9* | 3.2 | *50.4* | 12.3 | 13.4 | 16.9 | 22.0 | 34.2 |
| P/E (x) | | | | | | 100.8 | 92.2 | 73.1 | 56.2 | 36.2 |
| EV/EBITDA(x) | | | | | | 52.1 | 48.2 | 37.8 | 29.2 | 21.3 |
| RoE (%) | | | | | | 25.3 | 18.5 | 19.9 | 21.9 | 27.9 |

Source: Company, HSIE Research

### Change in estimates (Consolidated)

| Y/E Mar | FY22E Old | FY22E New | % Ch | FY23E Old | FY23E New | % Ch | FY24E Old | FY24E New | % Ch |
|---|---|---|---|---|---|---|---|---|---|
| EBITDA (INR mn) | 814 | 840 | *3.2%* | 1,086 | 1,082 | *-0.4%* | 1,491 | 1,486 | *-0.4%* |
| Adj. EPS (INR/sh) | 15.9 | 16.9 | *6.3%* | 22.3 | 22.0 | *-1.4%* | 34.5 | 34.2 | *-1.0%* |

Source: Company, HSIE Research

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | BUY | BUY |
| Price Target | INR 1,480 | INR 1,470 |
| | **FY22E** | **FY23E** |
| EPS % | +6.3% | - |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | NEOGEN IN |
| No. of Shares (mn) | 23 |
| MCap (INR bn) / ($ mn) | 29/387 |
| 6m avg traded value (INR mn) | 146 |
| 52 Week high / low | INR 1,449/600 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 34.9 | 42.9 | 100.0 |
| Relative (%) | 20.5 | 19.6 | 48.2 |

| SHAREHOLDING PATTERN (%) | Jun-21 | Sept-21 |
|---|---|---|
| Promoters | 64.33 | 64.33 |
| FIs & Local MFs | 14.05 | 14.56 |
| FPIs | 4.74 | 4.79 |
| Public & Others | 16.88 | 16.32 |
| Pledged Shares | 0.00 | 0.00 |

*Source: BSE*

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# Consumer Discretionary

# Avenue Supermarts

## Profitability, unit economics in line

**D-MART's Q2FY22 revenue recovery was healthy (47% growth YoY). Profitability and unit economics were in line but have not yet caught up with the pre-pandemic levels. Lower-than-expected GM (14.3% vs HSIE: 14.6%) suggests non-essentials' contribution remains lower than at the pre-pandemic levels (though it is improving). Better cost controls cushioned the impact on EBITDAM (8.8%, up 253bps; HSIE: 8.7%). INR25/40.8bn of QIP money stands utilised. We maintain our SELL recommendation on DMART with a revised DCF-based TP of INR 2,700/sh (earlier 2,260/sh), implying 35x Dec-23E for the standalone business + 4x Dec-23E sales for DMART Ready. Note: the target price change is a function of EPS change (+4%), a 6M DCF rollover (+9%), and a marginal multiple increase (+4%).**

- **Q2FY22 highlights**: Revenue grew 46.6% to INR76.5bn (2-year CAGR: 13%). Revenue/EBITDA per sq. ft came in at INR32.4/2.8k per sq. ft, remains 10% shy of DMART's typical run rate. Mature (187) stores grew 23.7% YoY (Sep-20 vs Sep-21). Lower-than-usual GM (14.3% vs HSIE: 14.6%) suggests non-essentials' contribution remains below pre-pandemic levels. Better cost control cushioned the impact on EBITDAM (8.8%, up 253bps; HSIE: 8.7%). DMART added eight stores in Q2 (store count: 246). Working capital efficiency remains elevated and unit economics is estimated to be ~640bps lower than pre-pandemic levels. INR25/40.8bn of QIP money stands utilised.
- **Outlook**: DMART's anchor variable (footfalls) and consequently unit economics remain sub-optimal (improving though). While we factor in a full recovery in the next 2-3 quarters, this assumption can be challenged by heightened competitive intensity from deep-pocketed retailers. Hence, we maintain our SELL recommendation on DMART with a revised DCF-based TP of INR 2,700/sh (earlier 2,260/sh), implying 35x Dec-23E for the standalone business + 4x Dec-23E sales for DMART Ready.

### Quarterly financial summary

| (INR mn) | 2QFY22 | 2QFY21 | YoY (%) | 1QFY21 | QoQ (%) | FY20 | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|---|
| Net Revenue | 76,496 | 52,182 | *46.6* | 50,318 | *52.0* | 2,46,750 | 2,37,872 | 3,05,035 | 4,41,790 | 5,42,102 |
| EBITDA | 6,701 | 3,249 | *106.3* | 2,212 | *202.9* | 20,385 | 16,467 | 25,272 | 39,689 | 48,682 |
| APAT | 4,489 | 2,106 | *113.2* | 1,151 | *289.9* | 13,685 | 11,933 | 16,618 | 26,475 | 32,619 |
| EPS (Rs) | 6.9 | 3.3 | *113.1* | 1.78 | *289.9* | 21.6 | 18.4 | 25.7 | 40.9 | 50.4 |
| P/E (x) | | | | | | 246.1 | 288.8 | 207.4 | 130.2 | 105.7 |
| EV/EBITDA (x) | | | | | | 163.6 | 207.8 | 135.6 | 83.1 | 67.6 |
| Core RoCE(%) | | | | | | 18.8 | 11.3 | 14.0 | 18.9 | 19.6 |

Source: Company, HSIE Research, Standalone Financials

### Change in estimates

| (INR mn) | FY22E | | | FY23E | | | FY24E | | |
|---|---|---|---|---|---|---|---|---|---|
| | New | Old | Change (%) | New | Old | Change (%) | New | Old | Change (%) |
| Revenue | 3,05,035 | 3,05,035 | - | 4,41,790 | 4,41,790 | - | 5,42,102 | 5,33,624 | *1.6* |
| Gross Profit | 44,190 | 44,494 | *(0.7)* | 66,477 | 66,477 | - | 81,576 | 80,106 | *1.8* |
| Gross Profit Margin (%) | 14.5 | 14.6 | ***(10 bps)*** | 15.0 | 15.0 | **-** | 15.0 | 15.0 | ***4 bps*** |
| EBITDA | 25,272 | 25,018 | *1.0* | 39,689 | 39,394 | *0.7* | 48,682 | 47,743 | *2.0* |
| EBITDA margin (%) | 8.3 | 8.2 | ***8 bps*** | 9.0 | 8.9 | ***7 bps*** | 9.0 | 8.9 | ***3 bps*** |
| APAT | 16,618 | 16,481 | *0.8* | 26,475 | 26,351 | *0.5* | 32,619 | 31,343 | *4.1* |
| APAT margin (%) | 5.4 | 5.4 | ***4 bps*** | 6.0 | 6.0 | ***3 bps*** | 6.0 | 5.9 | ***14 bps*** |
| EPS (Rs) | 25.7 | 25.4 | *0.8* | 40.9 | 40.7 | *0.5* | 50.4 | 48.4 | *4.1* |

Source: Company, HSIE Research

## SELL

| | |
|---|---|
| **CMP** ***(as on 14 Oct 2021)*** | **INR 5,330** |
| **Target Price** | **INR 2,700** |
| **NIFTY** | **18,339** |

| **KEY CHANGES** | **OLD** | **NEW** |
|---|---|---|
| Rating | SELL | SELL |
| Price Target | INR 2,260 | INR 2,700 |
| EPS % | FY23E | FY24E |
| | +0.9 | +3.9 |

| **KEY STOCK DATA** | |
|---|---|
| Bloomberg code | DMART IN |
| No. of Shares (mn) | 648 |
| MCap (INR bn) / ($ mn) | 3,452/46,393 |
| 6m avg traded value (INR mn) | 1,419 |
| 52 Week high / low | INR 5,599/1,949 |

| **STOCK PERFORMANCE (%)** | **3M** | **6M** | **12M** |
|---|---|---|---|
| Absolute (%) | 60.0 | 88.1 | 169.9 |
| Relative (%) | 44.2 | 61.9 | 119.6 |

| **SHAREHOLDING PATTERN (%)** | **Jun-21** | **Sep-21** |
|---|---|---|
| Promoters | 74.99 | 74.99 |
| FIs & Local MFs | 6.22 | 6.22 |
| FPIs | 10.04 | 9.95 |
| Public & Others | 8.75 | 8.84 |
| Pledged Shares | 0 | 0 |

*Source : BSE*

Pledged shares as % of total shares

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# Asian Paints

## Demand rebound strong; profitability cut steeper

**Asian Paints' (APNT) topline delivery (33% YoY) exceeded expectations (HSIE: 22%). The decorative business clocked 34/35% volume/value growth, underpinned by (1) strong pick-up in metros/tier-1/2 cities and expansion in projects business and (2) strong momentum in waterproofing. Despite a meaningful revenue beat (8.5%), EBITDA missed expectations by a mile (INR 9bn vs 13.2bn) as steep RM inflation dragged profitability down. Note: price hikes (3/4% in Q1/Q2) remain significantly incommensurate vis-à-vis the steep RM inflation (22% in H1). Consequently, we tone down our FY23/24 EPS estimates by 7% each. Maintain SELL with a DCF-based TP of INR 2,600/sh, implying 57x Dec-23 P/E.**

- **Q2FY22 highlights**: Revenue grew 32.6% YoY (two-year CAGR: 18.5%) to INR 70.96bn (HSIE: INR 65.43bn) as APNT's aggression in gaining volume share continued unabated. The decorative business clocked 34/35% volume/value growth in Q2 (two-year CAGR for H1: 17.5/12.3% respectively), underpinned by (1) strong pick-up in metros/tier-1/2 cities and expansion in projects business and (2) strong momentum in waterproofing. Unlike FMCG companies, APNT is confident on prospects of rural demand in H2 as it continues to aggressively add dealers (40k added in urban/rural markets in the past year and a half). The festive season momentum remains strong. International performance was a mixed bag.
- **On profitability:** The overall trade-off between growth and profitability was starker than expected. Despite a meaningful revenue beat (8.5%), EBITDA missed expectations by a mile (INR 9bn vs 13.2bn) as steep RM inflation dragged profitability down. GM contracted 966/368bps YoY/QoQ to 34.7% (HSIE: 39.7%). Note: price hikes (3/4% in Q1/Q2) remain significantly incommensurate vis-à-vis the steep RM inflation (22% in the past H1). A&P spends remain elevated to spur demand. Price hikes in H2 are expected to be sharper and more frequent (vs. H1).
- **Outlook**: APNT's 'volume (ergo market share) now, value later' strategy seems in sync with the evolving competitive landscape (read Grasim's entry). However, margin pressures, given steep RM inflation and incommensurate price hikes, corner us into toning down our FY23/24 EPS estimates (by 7% each). Maintain SELL with a DCF-based TP of INR 2,600/sh (57x Jun-23 P/E).

### Quarterly financial summary

| (INR mn) | 2QFY22 | 2QFY21 | YoY (%) | 1QFY22 | QoQ (%) | FY20 | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|---|
| Net Revenue | 70,960 | 53,502 | *32.6* | 55,854 | *27.0* | 2,02,113 | 2,17,128 | 2,67,018 | 3,01,612 | 3,38,076 |
| EBITDA | 9,045 | 12,652 | *(28.5)* | 9,136 | *(1.0)* | 41,618 | 48,556 | 45,014 | 57,381 | 64,816 |
| APAT | 6,052 | 8,519 | *(29.0)* | 5,743 | *5.4* | 27,101 | 31,393 | 29,805 | 39,178 | 44,966 |
| EPS (Rs) | 6.3 | 8.9 | *(29.0)* | 6.0 | *5.4* | 28.3 | 32.7 | 31.1 | 40.8 | 46.9 |
| P/E (x) | | | | | | 116.7 | 100.7 | 106.1 | 80.7 | 70.3 |
| Core RoCE(%) | | | | | | 27.7 | 30.3 | 25.3 | 30.1 | 33.4 |

Source: Company, HSIE Research

### Change in estimates

| (Rs mn) | FY22E | | | FY23E | | | FY24E | | |
|---|---|---|---|---|---|---|---|---|---|
| | New | Old | Change (%) | New | Old | Change (%) | New | Old | Change (%) |
| Revenue | 2,67,018 | 2,50,019 | *6.8* | 3,01,612 | 2,80,293 | *7.6* | 3,38,076 | 3,17,451 | *6.5* |
| EBITDA | 45,014 | 53,226 | *(15.4)* | 57,381 | 61,328 | *(6.4)* | 64,816 | 69,458 | *(6.7)* |
| EBITDA margin(%) | 16.9 | 21.3 | *(443 bps)* | 19.0 | 21.9 | *(286 bps)* | 19.2 | 21.9 | *(271 bps)* |
| APAT | 29,805 | 35,602 | *(16.3)* | 39,178 | 42,192 | *(7.1)* | 44,966 | 48,503 | *(7.3)* |
| EPS (Rs) | 31.1 | 37.1 | *(16.3)* | 40.8 | 44.0 | *(7.1)* | 46.9 | 50.6 | *(7.3)* |

Source: Company, HSIE Research

## SELL

| | |
|---|---|
| CMP *(as on 21 Oct 2021)* | INR 3,002 |
| Target Price | INR 2,600 |
| NIFTY | 18,178 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | SELL | SELL |
| Price Target | INR 2,650 | INR 2,600 |
| | FY23E | FY24E |
| EPS % | -7.1 | -7.3 |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | APNT IN |
| No. of Shares (mn) | 959 |
| MCap (INR bn) / ($ mn) | 2,880/38,695 |
| 6m avg traded value (INR mn) | 4,077 |
| 52 Week high / low | INR 3,505/2,070 |

**STOCK PERFORMANCE (%)**

| | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | (5.0) | 17.6 | 42.0 |
| Relative (%) | (21.7) | (10.1) | (7.7) |

**SHAREHOLDING PATTERN (%)**

| | Mar-21 | Jun-21 |
|---|---|---|
| Promoters | 52.79 | 52.79 |
| FIs & Local MFs | 2.65 | 2.65 |
| FPIs | 20.72 | 20.72 |
| Public & Others | 23.84 | 23.84 |
| Pledged Shares | 4.77 | 4.77 |

*Source : BSE*

Pledged shares as % of total shares

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# Titan

## Better cost control aids margin

**Titan's Q2FY22 consolidated revenue grew 65% YoY to INR74.9bn (HSIE: INR74.5bn). Jewelry (ex-bullion) grew 77% (2-yr CAGR for Q2/H1FY22: 34/11%). Adj. GM is estimated to have improved to 25% (up ~440bps YoY; HSIE: 26%), courtesy (1) improving studded ratio; (2) normalising gold coin sales in jewelry; and (3) a better product mix in non-jewelry segments. Better-than-expected cost controls aided EBITDAM (12.9% vs HSIE: 11.2%). Non-jewelry virtually restored pre-pandemic sales levels in Q2 and surprised on profitability too. We increase our FY23/24 EPS estimates by 4-5% to account for lower cost of retailing. Our DCF-based target price stands revised to INR 1,700/sh (earlier INR1,600/sh), implying 50x Dec-23 P/E. Maintain SELL.**

- **Q2FY22 highlights**: Consolidated revenue grew 65% YoY to INR 74.9bn. Jewelry too grew 65% YoY to INR 65.7bn. Ex-bullion, jewelry grew 77% YoY. Standalone volumes were up 101% YoY. Studded ratio, at 30%, continues to normalise (26% in Q2FY21, 38% in Q2FY20). Pent-up demand and continued market share gains were credited with the company's strong growth. In Q2, non-jewelry sales nearly rebounded to pre-pandemic levels. Adj. GM is estimated to have improved to 25% (up ~440bps YoY), courtesy (1) improving studded ratio and (2) normalising gold coin sales (HSIE: 26%). Better-than-expected cost controls aided EBITDAM (12.9% vs HSIE: 11.2%). All segments delivered better-than-expected profitability prints. Jewelry/watches/eyewear delivered 12.2/13.1/23.1% EBITDAM (vs HSIE: 11/9/9%). Adj. consolidated PAT stood at INR 6.4bn (HSIE: INR5.5bn).
- **Outlook**: Titan's recovery execution has been on point and a strong volume rebound is already baked in for FY22-24. We have also revised our FY23/24 EPS estimates by 4-5% to account for lower cost of retailing. Despite the generous estimates, we do not see any margin of safety at 76x Dec-23 P/E. Hence, we maintain our SELL recommendation with a DCF-based TP of INR 1,700/sh (earlier INR1,600/sh), implying 50x Dec-23 P/E.

### Quarterly financial summary

| (INR mn) | 2QFY22 | 2QFY21 | YoY (%) | 1QFY22 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| Net Revenue | 74,930 | 45530 | 64.6 | 34730 | 115.8 | 2,16,440 | 2,70,480 | 3,21,560 | 3,72,844 |
| EBITDA | 9,680 | 3130 | 209.3 | 1370 | 606.6 | 17,240 | 31,714 | 39,681 | 46,811 |
| APAT | 6,410 | 1730 | 270.5 | 180 | 3,461.1 | 9,740 | 20,491 | 26,093 | 31,256 |
| EPS (Rs) | 7.2 | 1.95 | 270.5 | 0.20 | 3,461.1 | 11.0 | 23.1 | 29.4 | 35.2 |
| P/E (x) | | | | | | 230.3 | 109.5 | 86.0 | 71.8 |
| EV/EBITDA (x) | | | | | | 132.1 | 71.8 | 57.4 | 48.6 |
| Core RoCE(%) | | | | | | 9.1 | 17.9 | 19.9 | 21.3 |

Source: Company, HSIE Research, Consolidated Financials

### Change in estimates

| (INR mn) | FY22E | | | FY23E | | | FY24E | | |
|---|---|---|---|---|---|---|---|---|---|
| | New | Old | Change (%) | New | Old | Change (%) | New | Old | Change (%) |
| Revenue | 2,70,480 | 2,70,298 | *0.1* | 3,21,560 | 3,21,312 | *0.1* | 3,72,844 | 3,72,521 | *0.1* |
| Gross Profit | 67,365 | 68,941 | *(2.3)* | 86,534 | 86,467 | *0.1* | 1,00,167 | 1,00,080 | *0.1* |
| Gross Profit Margin (%) | 24.9 | 25.5 | ***(60 bps)*** | 26.9 | 26.9 | ***(0 bps)*** | 26.9 | 26.9 | - |
| EBITDA | 31,714 | 30,368 | *4.4* | 39,681 | 38,044 | *4.3* | 46,811 | 44,908 | *4.2* |
| EBITDA margin (%) | 11.7 | 11.2 | ***49 bps*** | 12.3 | 11.8 | ***50 bps*** | 12.6 | 12.1 | ***50 bps*** |
| APAT | 20,491 | 19,636 | *4.4* | 26,093 | 24,967 | *4.5* | 31,256 | 29,875 | *4.6* |
| APAT margin (%) | 7.6 | 7.3 | ***31 bps*** | 8.1 | 7.8 | ***34 bps*** | 8.4 | 8.0 | ***36 bps*** |
| EPS | 23.1 | 22.1 | *4.4* | 29.4 | 28.1 | *4.5* | 35.2 | 33.7 | *4.6* |

Source: Company, HSIE Research

## SELL

| | |
|---|---|
| **CMP *(as on 8 Nov 2021)*** | **INR 2,537** |
| **Target Price** | **INR 1,700** |
| **NIFTY** | **18,069** |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | SELL | SELL |
| Price Target | INR 1,600 | INR 1,700 |
| EPS % | FY23E | FY24E |
| | +4.5% | +4.6% |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | TTAN IN |
| No. of Shares (mn) | 888 |
| MCap (INR bn) / ($ mn) | 2,252/30,264 |
| 6m avg traded value (INR mn) | 3,059 |
| 52 Week high / low | INR 2,678/1,252 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 41.9 | 75.4 | 102.4 |
| Relative (%) | 30.8 | 51.0 | 55.9 |

| SHAREHOLDING PATTERN (%) | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 52.90 | 52.90 |
| FIs & Local MFs | 4.15 | 4.28 |
| FPIs | 18.41 | 19.06 |
| Public & Others | 24.54 | 23.76 |
| Pledged Shares | - | - |

*Source : BSE*

Pledged shares as % of total shares

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# Havells India

## Outperformance continues; miss on margin

**Havells delivered a strong Q2FY22 revenue performance; however, margin was a miss. Revenue grew by 31% YoY (20% two-year CAGR, HSIE 21%), driven by broad-based performance across segments. Given that Havells has a large product range, healthy mix of B-C and B-B, and pan-India presence, it has managed to capitalise on the improving demand scenario. We believe that, in this kind of inflation, leading players will continue to tap the share gain opportunity. The miss in margin does not reflect any weakness in the business; we believe it is more temporary in nature. Gross/EBITDA margins contracted by 597/339bps YoY to 34.3/13.8%. We expect margin recovery in H2FY22. Havells is one of the best plays on the improving underlying demand (driven by housing and home improvement), share gain, and B-B revival. Trade inventory is normal; thereby, festive season and seasonal products can drive the upcoming quarters. We continue to value the stock at 55x P/E on FY24E EPS to derive a target price of INR 1,550. We believe Havells will continue to command a rich valuation (as it is one of the best plays among richly valued discretionary names). Maintain ADD.**

- **Continued all-round performance:** Revenue was up 31% YoY (10% in Q2FY22 and 76% in Q1FY21; HSIE 21%), driven by growth across segments. Switchgears/cables/lighting/ECD/others delivered YoY revenue growth of 20/46/34/26/34% while delivering two-year CAGRs of +10/+18/+18/+22/+32%. Lloyd grew at 22% YoY. We expect the revenue growth momentum to sustain with inspiring industry recovery, housing activities, and share gain. The omnichannel strategy (online, rural, modern trade, and enterprise business) of penetration is playing out well for the company, leading to addition of new customers and broad basing of demand channels.
- **Miss in margin; expect recovery in H2FY22:** GPM was down by 597bps YoY (up 89bps in Q2FY21 and up 99bps in Q1FY22), lower than our expectations of a 323bps YoY contraction. Employee/A&P/other expenses grew by 16/68/14% YoY on a low Q2FY21 base. EBIT margin for switchgears/cables/lighting/ECD expanded by -386/-418/219/-286bps YoY to 27/10/22/17%. Lloyd reported an EBIT loss due to insufficient price hikes and under absorption of overheads. EBITDA margin contracted by 339bps YoY to 13.8% (+420bps in Q2FY21, +474bps in Q1FY22, HSIE 15.7%). EBITDA grew by 5% YoY (37% two-year CAGR; HSIE +11%).
- **Con call takeaways:** (1) The company is seeing traction across B2B, B2G and institutional demand. (2) It saw broad-based growth with about half of it being driven by volume growth across all categories, excluding cables. (3) Lloyd is seeing good acceptance by the trade channel. (4) Given the loss of two peak seasons in AC, the overall system inventory was high, thereby leading to a gradual price hike. (5) Lloyd has gained market share in the past two years. (6) Havells may take further price hikes if the current inflationary pressure continues. (7) Capex guidance for FY22 stands at INR 3.5bn.

### Quarterly/Annual Financial summary

| YE Mar (INR mn) | Q2FY22 | Q2FY21 | YoY (%) | Q1FY22 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 32,210 | 24,518 | 31.4 | 25,982 | 24.0 | 104,279 | 135,413 | 158,105 | 175,516 |
| EBITDA | 4,436 | 4,207 | 5.5 | 3,531 | 25.6 | 15,653 | 19,213 | 22,457 | 24,926 |
| APAT | 3,016 | 3,249 | (7.2) | 2,343 | 28.7 | 10,396 | 12,980 | 15,483 | 17,526 |
| Diluted EPS (Rs) | 4.8 | 5.2 | (7.2) | 3.7 | 28.7 | 16.6 | 20.7 | 24.7 | 28.0 |
| P/E (x) | | | | | | 77.4 | 62.0 | 52.0 | 45.9 |
| EV / EBITDA (x) | | | | | | 50.5 | 40.7 | 34.2 | 30.6 |
| Core RoCE (%) | | | | | | 26.5 | 29.8 | 35.1 | 37.6 |

Source: Company, HSIE Research

## ADD

| | |
|---|---|
| CMP *(as on 21 Oct 2021)* | INR 1,286 |
| Target Price | INR 1,550 |
| NIFTY | 18,178 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | ADD | ADD |
| Price Target | INR 1,550 | INR 1,550 |
| EPS % | FY22E | FY23E |
| | 0% | 0% |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | HAVL IN |
| No. of Shares (mn) | 626 |
| MCap (INR bn) / ($ mn) | 805/10,822 |
| 6m avg traded value (INR mn) | 2,111 |
| 52 Week high / low | INR 1,504/700 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 16.5 | 28.0 | 80.7 |
| Relative (%) | (0.2) | 0.3 | 31.0 |

| SHAREHOLDING PATTERN (%) | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 59.47 | 59.47 |
| FIs & Local MFs | 8.17 | 6.12 |
| FPIs | 24.01 | 26.76 |
| Public & Others | 8.35 | 7.65 |
| Pledged Shares | - | - |

*Source : BSE*

Pledged shares as % of total shares

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# Berger Paints

## Growth-margin balance better than peers

**BRGR's topline delivery (28% YoY; INR22.3bn) exceeds expectations (HSIE: 22%). Two-year topline CAGR (standalone) lagged that of APNT (16% vs APNT's 20%). However, BRGR found a better balance between growth-margin as (1) lower rebating (especially in lower ASP products); (2) formulation gains; and (3) strategic inventory buying cushioned the RM-inflation led GM decline on a relative basis (H1FY22 GM decline for BRGR was 380bps vs APNT's 840bps). Value exceeded volume growth, courtesy price hikes (5%). FY23-24 EPS estimates revised downwards by 4-7% to account for lower GM. Maintain SELL rating with a DCF-based TP of INR710/sh (implying 57x Jun-23 P/E).**

- **Q2FY22 highlights**: Consolidated revenue grew 27.7% to INR22.25bn (HSIE: INR 21.5bn). Standalone revenue growth of 16% (two-year CAGR) lagged APNT's 20%). Decorative segment continued its strong momentum. Value exceeded volume growth, courtesy price hikes (5%). BRGR found a better balance between growth-margin this quarter as (1) lower rebating (especially in lower ASP products), (2) formulation gains, (3) strategic inventory buying cushioned the RM-inflation led GM decline on a relative basis (H1FY22 GM decline for BRGR was 380bps vs APNT's 840bps). H1 price hikes (6-7%) meaningfully lag RM inflation. However, management is confident of bridging this gap meaningfully in H2. Standalone EBITDA remained nearly flat YoY at INR3.04bn (in-line), thanks to the RM inflation. Price hikes in industrial segment have lagged that in decorative business. Demand trends have remained healthy in both decorative as well as industrial verticals. Metros/tier-1s were key growth drivers. Dealer addition is expected to pick up pace in H2. APAT stood at INR2.19bn (HSIE: 2.27bn).
- **Outlook**: Our thesis of valuation multiples converging between APNT and BRGR continues to play out, owing to the inconsequential variance in medium-to-long term performance of the two. However, we would prefer more comfort on valuation (currently trading at 63x Dec-23 P/E) to get more constructive on BRGR. Maintain SELL with a DCF TP of INR 710/sh (implying 57x Dec-23 P/E).

### Quarterly financial summary

| (INR mn) | Q2FY22 | Q2FY21 | YoY (%) | Q2FY21 | QoQ (%) | FY20 | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|---|
| Net Revenue | 22,250 | 17,426 | *27.7* | 17,985 | *23.7* | 63,658 | 68,176 | 83,990 | 95,940 | 1,08,540 |
| EBITDA | 3,540 | 3,352 | *5.6* | 2,385 | *48.4* | 10,610 | 11,880 | 12,564 | 17,037 | 20,002 |
| APAT | 2,192 | 2,211 | *(0.8)* | 1,422 | *54.2* | 6,561 | 7,197 | 7,534 | 10,532 | 12,716 |
| EPS (Rs) | 2.3 | 2.3 | *(0.8)* | 1.5 | *54.2* | 6.8 | 7.4 | 7.8 | 10.8 | 13.1 |
| P/E (x) | | | | | | 109.2 | 99.5 | 95.1 | 68.0 | 56.3 |
| EV/EBITDA (x) | | | | | | 67.8 | 60.3 | 57.0 | 41.7 | 35.1 |
| Core RoCE(%) | | | | | | 21.0 | 20.6 | 18.7 | 23.4 | 26.4 |

Source: Company, HSIE Research, Standalone Financials

### Change in estimates

| (INR mn) | FY22E | | | FY23E | | | FY24E | | |
|---|---|---|---|---|---|---|---|---|---|
| | New | Old | Change (%) | New | Old | Change (%) | New | Old | Change (%) |
| Revenue | 83,990 | 83,990 | - | 95,940 | 95,940 | - | 1,08,540 | 1,08,540 | - |
| Gross Profit | 33,326 | 35,426 | *(5.9)* | 40,466 | 41,425 | *(2.3)* | 46,323 | 46,866 | *(1.2)* |
| Gross Profit Margin (%) | 39.7 | 42.2 | *(250.0)* | 42.2 | 43.2 | *(100.0)* | 42.7 | 43.2 | *(50.0)* |
| EBITDA | 12,564 | 14,663 | *(14.3)* | 17,037 | 17,968 | *(5.2)* | 20,002 | 20,567 | *(2.7)* |
| EBITDA margin (%) | 15.0 | 17.5 | *(250 bps)* | 17.8 | 18.7 | *(97 bps)* | 18.4 | 18.9 | *(52 bps)* |
| APAT | 7,534 | 9,223 | *(18.3)* | 10,532 | 11,358 | *(7.3)* | 12,716 | 13,269 | *(4.2)* |
| APAT margin (%) | 9.0 | 11.0 | *(201 bps)* | 11.0 | 11.8 | *(86 bps)* | 11.7 | 12.2 | *(51 bps)* |
| EPS (Rs) | 7.8 | 9.5 | *(18.3)* | 10.8 | 11.7 | *(7.3)* | 13.1 | 13.7 | *(4.2)* |

Source: Company, HSIE Research

## SELL

| | |
|---|---|
| **CMP** ***(as on 12 Nov 2021)*** | **INR 795** |
| **Target Price** | **INR 710** |
| **NIFTY** | **18,103** |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | SELL | SELL |
| Price Target | INR 710 | INR 710 |
| EPS % | FY23E | FY24E |
| | -7.3 | -4.2 |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | BRGR IN |
| No. of Shares (mn) | 971 |
| MCap (INR bn) / ($ mn) | 772/10,370 |
| 6m avg traded value (INR mn) | 787 |
| 52 Week high / low | INR 873/626 |

**STOCK PERFORMANCE (%)**

| | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | (2.5) | 8.2 | 21.9 |
| Relative (%) | (13.2) | (16.4) | (18.0) |

**SHAREHOLDING PATTERN (%)**

| | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 74.98 | 74.99 |
| FIs & Local MFs | 0.88 | 1.16 |
| FPIs | 11.25 | 11.22 |
| Public & Others | 12.89 | 12.63 |
| Pledged Shares | 0 | 0 |

*Source : BSE*

Pledged shares as % of total shares

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# Jubilant FoodWorks

## No big fireworks unlike in other discretionary names

**Jubilant posted a revenue growth of 37% YoY (HSIE 34%, +5.5% two-year CAGR). SSG was at +26% (-20% in Q2FY21, HSIE +26%), two-year CAGR at +0.5%, despite price hike and delivery charges (implying volume contraction). System recovery was at 112% vs. 82% in Q2FY21 and 94% in Q1FY22, reflecting less impact of the second wave of COVID. Dine-in is at 82%, having seen recovery from 37% in Q1FY22, 54% in Q2FY21. GM was down 54bps, resulting in 66bps YoY dip in EBITDA margin to 26% (HSIE 24.4%). The company is committed to aggressive store expansion across brands. Investments in technology and digital marketing will further empower their brands and operations. Jubilant is a strong franchise among QSR peers, and its success in new initiatives and capital allocation will remain the key monitorables for the stock. We maintain our EPS estimates. Despite giving our best assumption and valuation to all the new brands/initiatives (India and international), the best value comes to INR 300/share. Our target price on Jubilant is INR 3,300, based on 60x P/E on Sep-23E EPS for Domino's India and INR 300/share for ex-Domino's India business. With no big surprises in earnings (unlike for other discretionary companies), we believe a large part of the recovery is priced in (trading at 88x/73x P/E on FY23/24). Maintain SELL.**

- **Robust revenue recovery:** Net revenue was up 37% YoY (-18% in Q2FY21, +131% in Q1FY22, 34% HSIE). SSG came in line at +26.3% YoY (-20% in Q2FY21, +114% in Q1FY22) while like-to-like growth was +29.4% YoY. OLO contribution to delivery stood at 97.8% while app downloads stood at 7.2mn. Domino's own delivery grew faster than the deliveries by aggregators.
- **Store expansion spree continued:** Jubilant opened 55 Domino's stores during Q2FY22 (75 in H1FY22) along with 1 Dunkin' store and 3 Hong's Kitchen stores. The company maintains its domestic store expansion target of 150-175 stores in FY22; however, it intends to push towards the upper limit. The company is on track to launch Popeye's by the end of FY22.
- **Raw material headwinds continue:** GM contracted by 54bps YoY to 78.2% (+351bps in Q2FY21 and -80bps in Q1FY22). Rent expenses are normalising as concessions are reducing. Employee expenses were up 15% YoY. EBITDA margin was at 26% vs. 26.7% in Q2FY21 and 24% in Q1FY22 (24.4% HSIE). EBITDA grew 33% YoY.
- **Call takeaways:** (1) Dine-in channel showed positive trends through Q2FY22; however, it is still below the pre-COVID level. (2) As revenue growth is back and things normalise, leverage will kick in; however, inflationary headwinds would remain. (3) Domestic store expansion target remains 150-175 stores in FY22; however, the company intends to push for the upper limit. (4) It is now entering tier-3/4 cities, where it is seeing encouraging response across all channels. (5) The company also plans to expand Hong's beyond the NCR region.

### Quarterly/Annual Financial summary

| (INR mn) | 2QFY22 | 2QFY21 | YoY (%) | 1QFY22 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 11,007 | 8,055 | 36.6 | 8,790 | 25.2 | 33,119 | 44,564 | 53,111 | 60,290 |
| EBITDA | 2,860 | 2,147 | 33.2 | 2,114 | 35.3 | 7,712 | 10,701 | 13,063 | 14,944 |
| APAT | 1,315 | 817 | 60.9 | 760 | 73.0 | 2,598 | 4,639 | 5,924 | 7,146 |
| EPS (INR) | 9.97 | 6.19 | 60.9 | 5.76 | 73.0 | 19.7 | 35.1 | 44.9 | 54.1 |
| P/E (x) | | | | | | 200.9 | 112.5 | 88.1 | 73.0 |
| EV / EBITDA (x) | | | | | | 108.3 | 67.0 | 52.8 | 45.2 |
| RoCE (%) | | | | | | 19.8 | 27.5 | 33.7 | 41.7 |

Source: Company, HSIE Research

## SELL

| | |
|---|---|
| **CMP** *(as on 20 Oct 2021)* | **INR 3,965** |
| **Target Price** | **INR 3,300** |
| **NIFTY** | **18,267** |

| **KEY CHANGES** | **OLD** | **NEW** |
|---|---|---|
| Rating | SELL | SELL |
| Price Target | INR 3,000 | INR 3,300 |
| EPS % | FY22E | FY23E |
| | 0% | 0% |

| **KEY STOCK DATA** | |
|---|---|
| Bloomberg code | JUBI IN |
| No. of Shares (mn) | 132 |
| MCap (INR bn) / ($ mn) | 523/7,032 |
| 6m avg traded value (INR mn) | 2,409 |
| 52 Week high / low | INR 4,590/2,100 |

| **STOCK PERFORMANCE (%)** | **3M** | **6M** | **12M** |
|---|---|---|---|
| Absolute (%) | 29.4 | 40.1 | 73.1 |
| Relative (%) | 12.0 | 11.7 | 22.0 |

| **SHAREHOLDING PATTERN (%)** | **Jun-21** | **Sep-21** |
|---|---|---|
| Promoters | 41.94 | 41.94 |
| FIs & Local MFs | 11.62 | 10.86 |
| FPIs | 40.87 | 41.41 |
| Public & Others | 6.57 | 5.79 |
| Pledged Shares | 0.91 | 0.63 |

*Source : BSE*

Pledged shares as % of total shares

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# Trent

## Recovery exceeds expectations

**Trent's Q2 performance surprised positively. Standalone revenue grew 126% YoY (2-yr CAGR for H1FY22 stood at -8%). The make-up of format-wise store openings implies that the beat was mostly led by SSSG. GM surprised positively too (52.1% vs HSIE: 46.3%), suggesting that full-price sales were higher than expected. Lower inventory provisions YoY and normalisation of revenue mix in favour of Westside are likely to have contributed to the GM recoup too (11pp YoY). EBITDAM, at 21.7%, was the highest in 10 quarters (HSIE: 14.3%). Working capital continues to normalise. FY23/24 EBITDA estimates remain unchanged. We retain our SELL recommendation with an SOTP-based TP of INR 810/sh (implying 28x Dec-23 EV/EBITDA).**

- **Q2FY22 highlights**: Revenue grew 126% YoY (INR 10.2bn vs HSIE: INR 8bn). Moderate pace of store openings suggests the beat was largely SSSG led. 2-yr revenue CAGR for H1FY22 stood at -8%. In Q2, Trent added 7/10 Westside/Zudio stores respectively. Several more stores had been fitted out and were ready to open. The pipeline of new store openings is still strong. Store operating days stood at 91% (vs 46% in Q1FY22). GM surprised positively at 52.1% vs HSIE's 46.3%, suggesting that full-price sales were higher than expected. GM recoup (11pp YoY) is likely to have been aided by (1) lower inventory provisions YoY and (2) normalisation of revenue mix in favour of Westside too. EBITDAM, at 21.7%, was the highest in 10 quarters (HSIE: 14.3%). Working capital (38 days) has normalised. PBT/PAT stood at INR1.77/1.26bn respectively.
- **Outlook**: Trent has the best revenue and margin recovery profile in the apparel space. Its disciplined approach in working capital management and well-capitalised balance sheet doesn't permit us to fault the business. However, valuation remains uncomfortably high (41x Dec-23 EV/EBITDA). Hence, we maintain SELL with an SOTP-based TP of INR 810/sh (implying 28x Dec-23 EV/EBITDA).

### Quarterly financial summary

| (INR mn) | Q2FY22 | Q2FY21 | YoY (%) | Q1FY22 | QoQ (%) | FY20 | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|---|
| Net Revenue | 10,204 | 4,521 | 125.7 | 3,273 | 211.8 | 31,777 | 20,475 | 31,155 | 47,465 | 53,467 |
| EBITDA | 2,213 | 64 | 3,365.3 | (318) | (796.1) | 5,632 | 2,038 | 5,314 | 9,310 | 10,448 |
| APAT | 1,256 | (481) | (361.2) | (838) | (250.0) | 1,546 | (510) | 1,220 | 3,052 | 3,282 |
| EPS (Rs) | 3.5 | (1.4) | (361.2) | (2.4) | (250.0) | 4.3 | (1.4) | 3.4 | 8.6 | 9.2 |
| P/E (x) | | | | | | 265.4 | (918.4) | 336.2 | 134.5 | 125.0 |
| EV/EBITDA (x) | | | | | | 75.6 | 208.4 | 81.3 | 46.9 | 42.0 |
| Core RoCE(%) | | | | | | 7.2 | (0.6) | 4.7 | 9.3 | 9.1 |

Source: Company, HSIE Research, Standalone Financials

### Change in estimates

| (INR mn) | FY22E | | | FY23E | | | FY24E | | |
|---|---|---|---|---|---|---|---|---|---|
| | New | Old | Change (%) | New | Old | Change (%) | New | Old | Change (%) |
| Revenue | 31,155 | 29,673 | *5.0* | 47,465 | 47,342 | *0.3* | 53,467 | 53,487 | *(0.0)* |
| Gross Profit | 15,965 | 15,017 | *6.3* | 24,327 | 24,113 | *0.9* | 26,992 | 26,849 | *0.5* |
| Gross Profit Margin (%) | 51.2 | 50.6 | ***64 bps*** | 51.3 | 50.9 | ***32 bps*** | 50.5 | 50.2 | ***29 bps*** |
| EBITDA | 5,314 | 4,973 | *6.9* | 9,310 | 9,214 | *1.0* | 10,448 | 10,403 | *0.4* |
| EBITDA margin (%) | 17.1 | 16.8 | ***30 bps*** | 19.6 | 19.5 | ***15 bps*** | 19.5 | 19.4 | ***9 bps*** |

Source: Company, HSIE Research

## SELL

| | |
|---|---|
| **CMP** ***(as on 04 Nov 2021)*** | **INR 1,094** |
| **Target Price** | **INR 810** |
| **NIFTY** | **17,917** |

| **KEY CHANGES** | **OLD** | **NEW** |
|---|---|---|
| Rating | SELL | SELL |
| Price Target | INR 795 | INR 810 |
| EBITDA % | FY23E | FY24E |
| | +1.0 | +0.4 |

**KEY STOCK DATA**

| | |
|---|---|
| Bloomberg code | TRENT IN |
| No. of Shares (mn) | 355 |
| MCap (INR bn) / ($ mn) | 388/5,217 |
| 6m avg traded value (INR mn) | 852 |
| 52 Week high / low | INR 1,210/585 |

**STOCK PERFORMANCE (%)**

| | **3M** | **6M** | **12M** |
|---|---|---|---|
| Absolute (%) | 16.3 | 39.5 | 66.8 |
| Relative (%) | 5.3 | 16.8 | 18.3 |

**SHAREHOLDING PATTERN (%)**

| | **Jun-21** | **Sep-21** |
|---|---|---|
| Promoters | 37.01 | 37.01 |
| FIs & Local MFs | 6.28 | 6.02 |
| FPIs | 30.28 | 30.13 |
| Public & Others | 26.43 | 26.84 |
| Pledged Shares | 0 | 0 |

*Source : BSE*

Pledged shares as % of total shares

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# Kansai Nerolac

## GM pressure palpable

**Kansai Nerolac's (KNPL) topline performance (16% YoY, INR15.2bn, 2-year CAGR: 11%) was in line. In decorative segment, volume/value growth was similar (HSIE: 16%) but lagged APNT's growth. YTD KNPL price hikes in decorative coatings stand at 6-7%, which are significantly lower than cost inflation, while price hikes in the industrial segment remain a challenge. Consequently, GM contraction (10.4pp; 28.9%) is likely to be the sharpest among the top three. To account for the GM pressure, we re-calibrate our FY23/24 EPS estimates lower by 5/3% respectively. Hence, our DCF-based TP stands revised at INR680/sh (from INR700/sh, implying 46x Dec-23 P/E). Maintain BUY.**

- **Q2FY22 highlights**: Revenue grew 16.2% YoY to INR 15.2bn (in-line). Both the decorative and industrial segments are estimated to have grown by 16% YoY. Good traction in emulsions (particularly premium) and newly launched differentiated products drove decorative coatings growth. Construction chemicals, adhesives, and premium wood finishes were among the new business categories that fared well in Q2. Demand was higher in larger cities. Management highlighted that it is on track to expand distribution by 5-10% per annum. Automotive coatings had a muted quarter as PV automotive production was hampered by shortage of semiconductor chips, but non-auto industrial coatings performed well, with performance coatings and coil coatings seeing robust growth. GM contraction (10.4pp; 28.9%) for KNPL is likely to be the most severe among the top three. Consequently, EBITDAM fell by 925bps to 10.8% in Q2. The two-year PAT CAGR stood at -29% (INR 985mn).
- **Outlook:** Given KNPL's industrial-heavy revenue skew, the double whammy of (1) demand impact in auto industry, courtesy chip shortage and (2) runaway RM inflation is likely to be felt by it the most among the top-tier paint companies. We re-calibrate our FY23/24 EPS estimates downwards by 5/3% respectively. Most headwinds, though, appear to be factored in. Maintain BUY with a DCF-based TP of INR680/sh (previously INR700/sh, implying 46x Dec-23 P/E).

### Quarterly financial summary (Consolidated)

| (INR mn) | 2QFY22 | 2QFY21 | YoY (%) | 1QFY22 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| Net Revenue | 16,196 | 13,832 | *17.1* | 14,028 | *15.5* | 50,743 | 59,493 | 68,208 | 77,775 |
| EBITDA | 1,628 | 2,686 | *(39.4)* | 1,905 | *(14.6)* | 8,633 | 8,533 | 11,204 | 13,204 |
| APAT | 873 | 1,682 | *(48.1)* | 1,114 | *(21.6)* | 5,257 | 5,161 | 6,923 | 8,232 |
| EPS (Rs) | 1.6 | 3.1 | *(48.1)* | 2.1 | *(21.6)* | 9.8 | 9.6 | 12.8 | 15.3 |
| P/E (x) | | | | | | 56.2 | 57.2 | 42.7 | 35.9 |
| EV/EBITDA (x) | | | | | | 34.3 | 35.1 | 26.7 | 22.4 |
| Core RoCE(%) | | | | | | 12.6 | 11.2 | 13.7 | 15.3 |

### Change in estimates

| (INR mn) | FY22E | | | FY23E | | | FY24E | | |
|---|---|---|---|---|---|---|---|---|---|
| | New | Old | Change (%) | New | Old | Change (%) | New | Old | Change (%) |
| Revenue | 59,493 | 59,921 | *(0.7)* | 68,208 | 70,236 | *(2.9)* | 77,775 | 80,651 | *(3.6)* |
| Gross Profit | 20,522 | 21,868 | *(6.2)* | 24,813 | 26,451 | *(6.2)* | 28,878 | 30,511 | *(5.4)* |
| Gross Profit Margin (%) | 34.5 | 36.5 | *(200 bps)* | 36.4 | 37.7 | *(128 bps)* | 37.1 | 37.8 | *(70 bps)* |
| EBITDA | 8,533 | 9,433 | *(9.5)* | 11,204 | 11,734 | *(4.5)* | 13,204 | 13,612 | *(3.0)* |
| EBITDA margin (%) | 14.3 | 15.7 | *(140 bps)* | 16.4 | 16.7 | *(28 bps)* | 17.0 | 16.9 | *10 bps* |
| APAT | 5,161 | 5,829 | *(11.5)* | 6,923 | 7,289 | *(5.0)* | 8,232 | 8,478 | *(2.9)* |
| APAT margin (%) | 8.7 | 9.7 | *(105 bps)* | 10.2 | 10.4 | *(23 bps)* | 10.6 | 10.5 | *7 bps* |
| EPS (Rs) | 9.6 | 10.8 | *(11.5)* | 12.8 | 13.5 | *(5.0)* | 15.3 | 15.7 | *(2.9)* |

Source: Company, HSIE Research, Standalone Financials

## BUY

| | |
|---|---|
| CMP *(as on 9 Nov 2021)* | INR 602 |
| Target Price | INR 680 |
| NIFTY | 18,044 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | BUY | BUY |
| Price Target | INR 700 | INR 680 |
| EPS % | FY23E | FY24E |
| | -5.0 | -2.9 |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | KNPL IN |
| No. of Shares (mn) | 539 |
| MCap (INR bn) / ($ mn) | 324/4,357 |
| 6m avg traded value (INR mn) | 201 |
| 52 Week high / low | INR 678/492 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | (5.4) | 2.1 | 14.6 |
| Relative (%) | (16.4) | (20.7) | (27.3) |

| SHAREHOLDING PATTERN (%) | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 74.99 | 74.99 |
| FIs & Local MFs | 7.56 | 8.00 |
| FPIs | 3.72 | 3.40 |
| Public & Others | 13.73 | 13.61 |
| Pledged Shares | 0 | 0 |

*Source : BSE*

Pledged shares as % of total shares

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# Aditya Birla Fashion and Retail

## Recovery healthy

**In both sales and profitability, ABFRL's Q2FY22 print beat expectations. Revenue increased by 96% to INR19.96bn (HSIE: 19.23bn). Madura/Pantaloons rose by 97/80% YoY, respectively, to INR13.9/6.6bn. The 515bps YoY (52.6%) GM recoup was sharper than expected (HSIE: 50.1%), owing to (1) lower-than-expected inventory provisioning and discounting levels and (2) a higher skew of Lifestyle brands/Madura in the revenue mix. PBT has returned to profitability (INR197mn). At 0.4x, net debt/equity remains manageable. FY23/24 EBITDA estimates remain unchanged. We retain BUY on ABFRL with a DCF-based TP of INR 320/sh, implying 27x Dec-FY23 EV/EBITDA.**

- **Q2FY22 highlights**: Revenue grew by 96% YoY to INR 19.96bn (63% recovery of H1FY20 sales; HSIE: 19.23bn). Lifestyle brands recovered 95% of Q2FY20 sales to INR11.6bn (HSIE: 87%), owing to (1) a stronger-than-expected retail rebound (70% recovery of H1FY20 sales in H1FY22) and sustained momentum in online sales (1.3x of H1FY20 sales). The wholesale channel is still under pressure (34% of H1FY20 sales). Pantaloons grew 80% YoY to INR6.65bn (HSIE: INR6.46bn; 49% recovery of H1FY20 sales). Other business increased by 34% YoY. The GM recoup (52.6%) was sharper than expected (HSIE: 50.1%), led by (1) lower-than-expected inventory provisioning and discounting levels than planned and (2) a higher tilt of Lifestyle brands in revenue mix. Rent concessions for H1 stood at INR1.4bn. EBITDA was INR3.15bn (HSIE: INR2.94bn). Since Mar-21, net D/E has risen to 0.4x, which is manageable. Inventory days have inched up to 128 in H1. Higher payable days (171) have helped cushion the core CC cycle (12 days). Store addition pick-up has been meaningful with Lifestyle brands/Pantaloons adding 374/5 stores respectively in Q2 (store count: 2,754/347).
- **Outlook**: We are encouraged by ABFRL's topline/margin recovery. FY23/24 EBITDA estimates remain largely unchanged. We maintain BUY on ABFRL with a DCF-based TP of INR 320/sh, implying 27x Dec-FY23 EV/EBITDA.

### Quarterly financial summary

| (INR mn) | Q2FY22 | Q2FY21 | YoY (%) | Q1FY22 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| Net Revenue | 19,960 | 10,186 | 96 | 7,740 | 158 | 51,811 | 74,052 | 95,465 | 1,09,869 |
| Adj EBITDA | 3,147 | (17) | (18,183) | (1,618) | (294) | 5,943 | 11,701 | 17,058 | 20,297 |
| APAT | 141 | (1,813) | (108) | (3,352) | (104) | (6,496) | (576) | 2,735 | 4,640 |
| EPS (Rs) | 0.15 | (2.21) | (107) | (3.66) | (104) | (7.1) | (0.6) | 3.0 | 5.1 |
| P/E (x) | | | | | | NM | NM | NM | NM |
| EV/EBITDA (x) | | | | | | 8.7 | 5.6 | 5.4 | 4.9 |
| Core RoCE(%) | | | | | | (34.5) | (1.7) | 6.5 | 10.3 |

Source: Company, HSIE Research, Standalone Financials

### Change in estimates

| (INR mn) | FY22E | | | FY23E | | | FY24E | | |
|---|---|---|---|---|---|---|---|---|---|
| | New | Old | Change (%) | New | Old | Change (%) | New | Old | Change (%) |
| Revenue | 74,052 | 74,052 | - | 95,465 | 95,465 | - | 1,09,869 | 1,09,869 | - |
| Gross Profit | 37,412 | 37,412 | - | 48,708 | 48,708 | - | 55,893 | 55,893 | - |
| Gross Profit Margin (%) | 50.5 | 50.5 | - | 51.0 | 51.0 | - | 50.9 | 50.9 | - |
| EBITDA | 11,701 | 11,550 | *1.3* | 17,058 | 16,931 | *0.7* | 20,297 | 20,295 | *0.0* |
| EBITDA margin (%) | 15.8 | 15.6 | ***20 bps*** | 17.9 | 17.7 | ***13 bps*** | 18.5 | 18.5 | ***0 bps*** |

Source: Company, HSIE Research

## BUY

| | |
|---|---|
| CMP *(as on 04 Nov 2021)* | INR 290 |
| Target Price | INR 320 |
| NIFTY | 17,917 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | BUY | BUY |
| Price Target | INR 310 | INR 320 |
| EBITDA % | FY23E | FY24E |
| | +0.7 | - |

**KEY STOCK DATA**

| | |
|---|---|
| Bloomberg code | ABFRL IN |
| No. of Shares (mn) | 937 |
| MCap (INR bn) / ($ mn) | 267/3,592 |
| 6m avg traded value (INR mn) | 815 |
| 52 Week high / low | INR 300/144 |

**STOCK PERFORMANCE (%)**

| | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 28.6 | 59.0 | 87.0 |
| Relative (%) | 17.6 | 36.3 | 38.5 |

**SHAREHOLDING PATTERN (%)**

| | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 56.12 | 56.13 |
| FIs & Local MFs | 12.9 | 13.29 |
| FPIs | 13.91 | 13.83 |
| Public & Others | 17.07 | 16.75 |
| Pledged Shares | 0 | 0 |

*Source : BSE*

Pledged shares as % of total shares

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# TTK Prestige

## All-round superior performance

**TTK Prestige's Q2FY22 saw beat on revenue and EBITDA margin. Standalone revenue was up 37% YoY (3% in Q2FY21 and 71% in Q1FY22; HSIE 21%), driven by sustaining work from home led demand and trade stocking ahead of festive season (which came in Q3 in the previous year). All the channels, including ecommerce, saw strong traction. Gross margin was a miss with a steep 470bps QoQ fall to 40% (HSIE 42%). Price increase was 5-8% in July, full benefit of which will be visible in H2FY22. Op-lev expanded EBITDA margin by >200bps YoY to 16.8% (-50bps in Q2FY21 and +715bps in Q1FY22; HSIE 14.3%). We expect the company to hold a strong margin in H2FY22. Its market leadership (in five of its six product offerings), wide product range, and strong distribution (aided by a high share of ecommerce) give us confidence that it will sustain healthy growth amidst the demand recovery. We raise our EPS estimates for FY22/23/24 by 9/10/10% and value it at 42x PE (earlier 40x) on FY24E EPS to derive a TP of INR 11,700. Maintain ADD.**

- **Strong beat on topline:** Revenue grew by 37% YoY (+3% in Q2FY21 and +71% in Q1FY22), driven by festive period restocking demand. All the channels witnessed strong traction. Growth in ecommerce has tapered out from the previous levels. Domestic sales were up 38%, while exports were up 19%. Rural market gained momentum, with revival having started in Q1FY22. TTK introduced 76 new SKUs in Q2 across all categories. PSK network is at 643 stores in 366 towns, and the category contributes 16-17% of revenue. Exports faced disruptions due to logistics issues. Cookers, cookware, and appliances grew +44%, 36%, and 36% YoY (-9/+8/+7% in Q2FY21 and +80/95/62% in Q1FY22).

- **Operating leverage drives margin expansion:** Gross margin expanded by 33bps YoY (-258bps in Q2FY21, 402bps in Q1FY22) to 40%. Gross profit came in at INR 3.2bn (HSIE INR 3.03bn). Employee/other expenses grew by 24/28% YoY. EBITDA margin expanded by 222bps YoY (-50bps in Q2FY21 and +715bps in Q1FY22) to 16.8%. EBITDA grew by 58% YoY (HSIE 19%). PBT was up 60% YoY, while PAT grew 59% YoY to INR 986mn.
- **Con call takeaways:** (1) The company is maintaining a higher inventory to secure itself from future commodity pressures. (2) In Q2FY22, it generated 18-20% revenue from online (ecommerce) and 16-17% from exclusive stores. (3) It took price hikes of 5-8% in July across its product categories with some of the impact coming with a lag. (4) It saw good volume growth across several core categories, with volumes now over pre-COVID levels. (5) The company expects healthy revenue growth in H2FY22 despite a normal base. (6) It is committed to protect the margin from raw material impact.

### Quarterly/annual financial summary

| YE Mar (INR mn) | Q2FY22 | Q2FY21 | YoY (%) | Q1FY22 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 8,086 | 5,902 | 37 | 3,569 | 127 | 22,019 | 27,156 | 30,878 | 33,792 |
| EBITDA | 1,358 | 860 | 58 | 391 | 247 | 3,334 | 4,209 | 4,790 | 5,297 |
| APAT | 986 | 622 | 59 | 272 | 263 | 2,494 | 3,024 | 3,437 | 3,879 |
| Diluted EPS (INR) | 71.2 | 44.9 | 59 | 19.6 | 263 | 180.0 | 218.2 | 248.0 | 279.9 |
| P/E (x) | | | | | | 62.1 | 51.3 | 45.1 | 40.0 |
| EV / EBITDA (x) | | | | | | 44.9 | 35.4 | 30.8 | 27.5 |
| RoCE (%) | | | | | | 24.1 | 28.6 | 28.4 | 28.4 |

Source: Company, HSIE Research

**ADD**

| | |
|---|---|
| **CMP** *(as on 27 Oct 2021)* | **INR 11,133** |
| **Target Price** | **INR 11,700** |
| **NIFTY** | **18,211** |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | ADD | ADD |
| Price Target | INR 10,000 | INR 11,700 |
| EPS % | FY22E | FY23E |
| | 9% | 10% |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | TTKPT IN |
| No. of Shares (mn) | 14 |
| MCap (INR bn) / ($ mn) | 154/2,074 |
| 6m avg traded value (INR mn) | 182 |
| 52 Week high / low | INR 11,500/5,553 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 21.0 | 45.7 | 91.8 |
| Relative (%) | 4.7 | 20.8 | 40.9 |

| SHAREHOLDING PATTERN (%) | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 70.41 | 70.41 |
| FIs & Local MFs | 12.82 | 13.12 |
| FPIs | 9.88 | 9.94 |
| Public & Others | 6.89 | 6.53 |
| Pledged Shares | 0.00 | 0.00 |

*Source : BSE*

Pledged shares as % of total shares

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# V-Guard Industries

## Beat on revenue, in-line EBITDA

**V-Guard delivered a beat on revenue with in-line EBITDA. Revenue grew by 46% YoY (21% two-year CAGR, HSIE 24%) with 26% volume growth. Electronics, electrical, and consumer durables segments were up 22/47/71% YoY. Robust growth was across markets, with south and non-south markets registering 45% and 49% YoY growth. South: non-south mix was at 61:39. Gross margin contracted by 64bps YoY to 30.9% due to the input cost pressure. The company had taken pricing actions to offset the cost pressure with further price hikes planned during H2FY22. EBITDA grew 27% YoY (HSIE 28%). EBITDA margin contracted 163bps YoY to 10.4% (HSIE 12.4%). Consumer durable EBIT margin remained weak (3% in Q2, <1% in H1FY22); the best margin was 6% in FY20. With normal channel inventory and positive demand momentum, we expect healthy revenue growth in H2FY22. We maintain our FY22/23/24 EPS estimates and value V-Guard at 35x PE on FY24 EPS to derive a target price of INR 285. Maintain ADD.**

- **Positive surprise on revenue growth:** Net revenue grew by 46% YoY (flat in Q2FY21 and +38% in Q1FY22, 24% HSIE). Electronics (stabilizer, UPS, etc.), electrical (wires, pump, etc.), and consumer durables (fan, water heater, KEA, etc.) registered 22/47/71% YoY growth (2/2/-7% YoY in Q2FY21). The south region grew 45% YoY growth (18% 2-year CAGR) while the non-south region registered 49% YoY growth (25% 2-year CAGR). South: non-south mix was at 61:39%, flat YoY.
- **Miss on margin:** Gross margin contracted by 64bps YoY (-220bps in Q2FY21, +380bps in Q1FY22), a miss vs. our expectation of 93bps expansion. A&P expenses (excl. schemes), as a percentage of revenue, stood at 1.5% vs. 0.5% YoY. Employee costs were up by 41% YoY (+12% in Q2FY21, +5% in Q1FY22). EBITDA margin was down by 163bps YoY (-54bps in Q2FY21, +550bps in Q1FY22) to 10.4% (HSIE 12.4%). EBITDA grew 27%, broadly in line with our expectations (HSIE 28%). EBIT margin for the electronics and electricals segment expanded by 128bps and 33bps YoY (94bps and -72bps in Q2FY21) to 19/10%. Consumer durable EBIT margin contracted 530bps YoY (-224bps in Q2FY22) to 3%. APAT was at INR 591mn (HSIE INR 695mn).
- **Con call takeaways:** (1) The company expects double-digit revenue growth in H2FY22 in the absence of any further disruptions. (2) Wires segment, which contributes ~25% of the revenue, has seen 40% YoY pricing growth. (3) In fans, the company launched new ranges in the premium segment, which are performing well. (4) There is some lag in passing the input cost pressure for fan and water heater segments, while for kitchen appliances, the price hikes have been at par with the input increases. (5) The company will be able to deliver double-digit EBITDA margin, going forward. (6) Given the cost inflation, it deems margin expansion in FY22 difficult, though a strong stabilizer season may lead to better margin. (7) Receivables are back to normal levels with Q2 closing inventory at 41 days of revenue.

### Quarterly/annual financial summary

| YE Mar (INR mn) | Q2FY22 | Q2FY21 | YoY (%) | Q1FY22 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 9,030 | 6,167 | 46.4 | 5,607 | 61.0 | 26,990 | 33,748 | 37,592 | 41,822 |
| EBITDA | 936 | 739 | 26.5 | 434 | 115.7 | 3,065 | 3,515 | 4,078 | 4,713 |
| APAT | 591 | 481 | 22.9 | 246 | 139.8 | 1,970 | 2,553 | 3,090 | 3,652 |
| Diluted EPS (INR) | 1.4 | 1.1 | 22.7 | 0.6 | 139.8 | 4.6 | 5.9 | 7.2 | 8.5 |
| P/E (x) | | | | | | 56.1 | 43.3 | 35.8 | 30.3 |
| EV / EBITDA (x) | | | | | | 35.7 | 29.9 | 25.4 | 21.6 |
| RoCE (%) | | | | | | 18.1 | 22.9 | 30.1 | 32.5 |

Source: Company, HSIE Research

## ADD

| | |
|---|---|
| CMP *(as on 29 Oct 2021)* | INR 257 |
| Target Price | INR 285 |
| NIFTY | 17,672 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | ADD | ADD |
| Price Target | INR 285 | INR 285 |
| | FY22E | FY23E |
| EPS % | 0% | 0% |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | VGRD IN |
| No. of Shares (mn) | 431 |
| MCap (INR bn) / ($ mn) | 111/1,487 |
| 6m avg traded value (INR mn) | 288 |
| 52 Week high / low | INR 285/164 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 3.2 | 14.8 | 52.6 |
| Relative (%) | (9.4) | (4.3) | 3.4 |

| SHAREHOLDING PATTERN (%) | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 56.05 | 56.05 |
| FIs & Local MFs | 15.53 | 15.64 |
| FPIs | 14.53 | 14.29 |
| Public & Others | 13.89 | 14.02 |
| Pledged Shares | 0.00 | 0.00 |

*Source : BSE*

Pledged shares as % of total shares

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# V-MART Retail

## In-line performance

**V-MART reported 93% revenue growth YoY. Organic business (ex-Unlimited acquisition) recovered fully from the pandemic blues to INR3.15bn vs HSIE INR3.07bn). 2-yr CAGR for H1FY22 stands at -20% for the organic business. Effective footfalls per store are still significantly lower (55% recovery) and transaction sizes are still significantly higher (+126%) than pre-pandemic levels. GM improved 193bps YoY to 30.7% (HSIE: 30%). EBITDAM stood at 6.1% (in-line). We marginally raise our FY23/24 EBITDA estimates (2-5%) to account for faster margin recoup in Unlimited operations. Consequently, our DCF-based TP stands revised at INR 3,850/sh (earlier INR3,750), implying a 27x Dec-23 EV/EBITDA. We maintain our REDUCE recommendation on the stock.**

- **Q2FY22 highlights**: Revenue grew 93% YoY to INR 3.38bn. Organic business (ex-Unlimited acquisition) recovered fully to INR3.15bn (HSIE: INR3.07bn) on the back of increased operational days and festive-led consumption. Although effective footfalls/store still remain significantly lower (55% recovery) and transaction sizes remain elevated by 126% over H1FY20 levels. GM improved 193bps YoY to 30.7% (HSIE: 30%). EBITDAM stood at 6.1% (in-line). Adj. EBITDA losses came in at INR303mn. SSSG value/volume stood at 119/12% respectively. Management highlighted that while the recovery has been strong, they may have to navigate a few headwinds in that GST-hike (5 to 12% on apparel in sub-INR1000 range; 88% of inventory) and higher yarn prices could impact margins, going forward. Net losses ebbed to INR141mn (Q2FY21 – INR190mn; HSIE: 147mn). V-MART added 12 (net) stores (ex-Unlimited) in Q2FY22. Working capital remains smartly managed.
- **Outlook**: Market share gains are par for the course for V-MART, post the pandemic as the company's strong balance sheet allows it to flex its muscle against precariously-placed regional peers. We marginally raise our FY23/24 EBITDA estimates (2-5%) to account for faster margin recoup in Unlimited operations. Maintain our REDUCE recommendation though, as positives are factored in. Our DCF-based TP stands revised at INR 3,850/sh (earlier INR3,750), implying a 27x Dec-23 EV/EBITDA.

### Quarterly financial summary

| (INR mn) | Q2FY22 | Q2FY21 | YoY (%) | Q1FY22 | QoQ (%) | FY20 | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|---|
| Net Revenue | 3,380 | 1,755 | 92.6 | 1,774 | 90.5 | 16,630 | 10,755 | 17,590 | 27,820 | 33,649 |
| Adj EBITDA | 206 | (3) | (6,150.2) | (20) | (1,153.9) | 1,324 | 368 | 1,192 | 2,223 | 2,852 |
| APAT | (141) | (190) | (25.4) | (287) | (50.7) | 799 | 224 | 597 | 1,316 | 1,772 |
| EPS (Rs) | (7.2) | (10.4) | (31.2) | (14.6) | (50.7) | 44.0 | 11.4 | 30.3 | 66.8 | 89.9 |
| P/E (x) | | | | | | 90.7 | 350.9 | 131.7 | 59.8 | 44.4 |
| EV/EBITDA (x) | | | | | | 54.6 | 204.2 | 64.2 | 34.4 | 26.3 |
| Core RoCE(%) | | | | | | 19.7 | 0.1 | 7.3 | 15.8 | 19.5 |

Source: Company, HSIE Research, Standalone Financials

### Change in estimates

| (INR mn) | FY22E | | | FY23E | | | FY24E | | |
|---|---|---|---|---|---|---|---|---|---|
| | New | Old | Change (%) | New | Old | Change (%) | New | Old | Change (%) |
| Revenue | 17,590 | 17,590 | - | 27,820 | 27,820 | - | 33,649 | 33,649 | - |
| Gross Profit | 5,668 | 5,632 | *0.6* | 9,019 | 9,103 | *(0.9)* | 10,909 | 11,010 | *(0.9)* |
| Gross Profit Margin(%) | 32.2 | 32.0 | ***20 bps*** | 32.4 | 32.7 | ***(30 bps)*** | 32.4 | 32.7 | ***(30 bps)*** |
| EBITDA | 1,192 | 866 | *37.6* | 2,223 | 2,123 | *4.7* | 2,852 | 2,798 | *1.9* |
| EBITDA margin (%) | 6.8 | 4.9 | ***185 bps*** | 8.0 | 7.6 | ***36 bps*** | 8.5 | 8.3 | ***16 bps*** |

Source: Company, HSIE Research, Pre IND AS 116 financials

## REDUCE

| | |
|---|---|
| CMP *(as on 12 Nov 2021)* | INR 4,341 |
| Target Price | INR 3,850 |
| NIFTY | 18,103 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | REDUCE | REDUCE |
| Price Target | INR 3,750 | INR 3,850 |
| EBITDA % | FY23E | FY24E |
| | +4.7 | +1.9 |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | VMART IN |
| No. of Shares (mn) | 20 |
| MCap (INR bn) / ($ mn) | 86/1,151 |
| 6m avg traded value (INR mn) | 163 |
| 52 Week high / low | INR 4,849/1,950 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 22.1 | 62.2 | 121.0 |
| Relative (%) | 11.4 | 37.5 | 81.1 |

| SHAREHOLDING PATTERN (%) | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 46.7 | 46.4 |
| FIs & Local MFs | 20.9 | 21.7 |
| FPIs | 23.4 | 22.1 |
| Public & Others | 9.1 | 9.8 |
| Pledged Shares | 0 | 0 |

*Source : BSE*

Pledged shares as % of total shares

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# Symphony

## Trade inventory pressure continues; recovery in margin

**Symphony's domestic business remained under pressure (miss in revenue) due to high trade inventory. Domestic revenue was at INR 1,350mn (HSIE INR 1,446mn), up 29% YoY, down 15% on a two-year CAGR. The company remained optimistic and is focusing on new launches and initiatives to revive domestic business. Performance in stable summer season will reflect the outcome of such efforts. Exports remained volatile on a quarterly basis, registering revenue of INR 50mn (HSIE INR 95mn) with RoW revenue down 1% YoY (non-seasonal quarter). Gross margin expanded 36bps YoY (+103bps in Q2FY21, +212bps in Q1FY22, HSIE -21bps) to 48.6%. EBITDA margin came in at 25% (HSIE 24.3%), growing 21% YoY (HSIE 29%). CT saw recovery in operating profitability in H1FY22 after showing dismal margin last year. IMPCO, too, saw margin recovery, while GSK China remained weak. Given the company's leadership position and innovative product pipeline, we believe it is well positioned to gain from a strong season (missed the last two seasons). We value the stock at 35x P/E on 24E EPS and derive a TP of INR 1,300. Maintain ADD.**

- **Another miss on revenue:** Standalone revenue is up by 25% YoY (-43% in Q2FY21 and +160% in Q1FY22) vs. HSIE 38% YoY. The loss of peak summer season continued to hamper the domestic performance (high channel inventory). Domestic revenue grew by 29% YoY (HSIE +38%) and -6% on two-year CAGR. Channel inventory pressure continued, but collections were strong (80% share of collections from the dealers), led by a unique business model. Exports declined 29% YoY (HSIE +36%) to INR 50mn. The RoW was down by 1% YoY during a seasonally weak quarter.
- **Broadly in-line margin:** Standalone GM expanded 36bps YoY to 48.6% (+103bps in Q2FY21 and +212bps in Q1FY22) vs. expectation of -21bps YoY. Employee/ASP/other expenses were up by 15/100/45% YoY. EBITDA was up 21% YoY vs. our expectation of 29%. Domestic business reported an EBIT of INR 410mn up 24% YoY. On a consolidated basis, the company's gross margin expanded 148bps YoY (-345bps in Q2FY21 and 148bps in Q1FY22) to 45%. The RoW EBIT margin was at 2% compared to an EBIT loss in Q2FY21. The RoW EBIT for Q2FY22 was INR 20mn vs. loss of INR 100mn YoY.
- **Con call takeaways:** (1)The company is cautiously optimistic for the upcoming quarters as the worst is over. (2) Exports are more skewed towards Q3 and Q4, when the company expects to see high growth. (3) Industrial coolers can be bigger than residential due to greater scope of usage. (4) Better Diwali season for other durables and electrical will help distributors with their cash flows. (5) Gross profit margin for CT expanded despite the higher input and freight costs. (6) The company has reclassified its industry and commercial cooling as large space ventilation cooling, given its presence in ventilation.

### Quarterly/annual financial summary

| YE Mar (Rs mn) | Q2FY22 | Q2FY21 | YoY (%) | Q1FY22 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 1,400 | 1,120 | 25.0 | 1,040 | 34.6 | 9,000 | 12,348 | 13,532 | 14,876 |
| EBITDA | 350 | 290 | 20.7 | - | na | 1,390 | 2,558 | 2,999 | 3,248 |
| APAT | 320 | 270 | 18.5 | 70 | 357.1 | 1,119 | 1,970 | 2,334 | 2,648 |
| Diluted EPS (Rs) | 4.6 | 3.9 | 18.5 | 1.0 | 357.1 | 16.0 | 28.1 | 33.3 | 37.8 |
| P/E (x) | | | | | | 67.1 | 38.1 | 32.2 | 28.3 |
| EV / EBITDA (x) | | | | | | 51.8 | 27.4 | 22.8 | 20.5 |
| RoCE (%) | | | | | | 24.5 | 44.6 | 58.4 | 68.8 |

Source: Company, HSIE Research * Quarter numbers are standalone

## ADD

| | |
|---|---|
| **CMP *(as on 26 Oct 2021)*** | **INR 1,070** |
| **Target Price** | **INR 1,300** |
| **NIFTY** | **18,268** |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | ADD | ADD |
| Price Target | INR 1,300 | INR 1,300 |
| EPS % | FY22E | FY23E |
| | 0% | 0% |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | SYML IN |
| No. of Shares (mn) | 70 |
| MCap (INR bn) / ($ mn) | 75/1,006 |
| 6m avg traded value (INR mn) | 140 |
| 52 Week high / low | INR 1,530/811 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 4.9 | (11.5) | 24.3 |
| Relative (%) | (11.2) | (38.3) | (28.5) |

| SHAREHOLDING PATTERN (%) | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 73.25 | 73.25 |
| FIs & Local MFs | 9.64 | 9.46 |
| FPIs | 4.19 | 4.24 |
| Public & Others | 12.94 | 13.04 |
| Pledged Shares | 0.00 | 0.00 |

*Source : BSE*

Pledged shares as % of total shares

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# Orient Electric

## All-round strong performance

**Orient Electric reported strong revenue and EBITDA growth, a beat on our estimates. Revenue grew 37%, with two-year CAGR at 17% vs. Crompton and Havells CAGRs of 13% and 20%. ECD segment grew 38%, with two-year CAGR at 22% vs. Crompton/Havells CAGRs of 18/22%. Leading players are sustaining strong growth in ECD. Orient's ECD growth was mainly driven by the premium, economy and portable fans segments while water heaters (+50% YoY) and small appliances saw pent-up demand. The lighting segment too saw a robust topline recovery, growing 35% YoY, with two-year CAGR at 7% vs. Crompton/Havells CAGRs of 0/18%. The growth in lighting was driven by B-C; however, B-B private business enquiries have increased. Orient also delivered an EBITDA margin of 10.4% (HSIE 9.4%, higher than consensus), a 290bps contraction vs. expectation of a 396bps contraction. EBITDA grew by 7% YoY, with two-year CAGR at 68% vs. Crompton/Havells CAGRs of 29/37%. We expect the ECD growth momentum and lighting margin expansion to sustain, going forward. We maintain our estimates and value Orient Electric at 38x P/E on FY24E EPS to derive a TP of INR 400. Maintain BUY.**

- **Robust topline performance:** Net revenue grew by 37% YoY (flat in Q2FY21 and +74% in Q1FY22). ECD saw 38% YoY growth (+7% in Q2FY21, 213% in Q1FY22, HSIE 17%) with good performance in fans, water heaters, and other small appliances. Lighting revenue was up by 35% YoY (-15% in Q2FY21, +30% in Q1FY22, HSIE +20%). The YoY growth was equally driven by, both, volume and value. Consumer luminaries saw strong traction during Q2FY22.
- **Lighting business drives margin expansion:** GM contracted by 477bps YoY to 28.5% (-96bps in Q2FY21 and -132bps in Q1FY22). It improved 120bps QoQ, led by price increase, mix improvements, and cost reduction. Lighting EBIT margin was at 16%, +121bps YoY (+737bps in Q2FY21 and +410bps in Q1FY22). ECD EBIT margin contracted by 453bps YoY to 12% (+747bps in Q2FY21 and +1,383bps in Q1FY22). Employee/other expenses grew by 16/32% YoY. EBITDA margin, at 10.4%, saw a 290bps YoY contraction (+828bps in Q2FY21 and +1,605bps in Q1FY22; 9.4% HSIE). EBITDA grew by 7% YoY to INR 619mn (HSIE INR 478mn). PBT/APAT grew 8/7% YoY.
- **Con call takeaways:** (1) Pent-up demand was visible in the early part of Q2FY22, which tapered out from the third week of Sep. Company remains optimistic about a good festive season. (2) Higher pricing has not impacted the consumer demand. (3) B-B lighting has shown improvement; however, the tender business (government) was slow. (3) The company has seen no significant down-trading, whereas it continues to have good mix across premium and economy. (4) Commodity costs was up by 20% YoY; the company has taken price hikes and introduced cost saving programs to combat the same. Commodity impact in ECD GM was higher vs. lighting. (5) Capex for FY22 is INR 600-650mn, including the Hyderabad land.

### Quarterly/annual financial summary

| YE Mar (INR mn) | 2QFY22 | 2QFY21 | YoY (%) | 1QFY22 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 5,944 | 4,338 | 37 | 4,223 | 41 | 20,618 | 20,326 | 25,833 | 29,840 |
| EBITDA | 619 | 578 | 7 | 223 | 177 | 1,764 | 2,195 | 2,497 | 3,158 |
| APAT | 348 | 324 | 7 | 50 | 594 | 786 | 1,197 | 1,417 | 1,860 |
| Diluted EPS (INR) | 1.6 | 1.5 | 7.3 | 0.2 | 594.4 | 3.7 | 5.6 | 6.7 | 8.8 |
| P/E (x) | | | | | | 90.7 | 59.5 | 50.3 | 38.3 |
| EV / EBITDA (x) | | | | | | 40.9 | 31.4 | 27.6 | 21.5 |
| RoCE (%) | | | | | | 20.5 | 33.9 | 49.9 | 51.9 |

Source: Company, HSIE Research

**BUY**

| | |
|---|---|
| **CMP *(as on 25 Oct 2021)*** | **INR 338** |
| **Target Price** | **INR 400** |
| **NIFTY** | **18,125** |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | BUY | BUY |
| Price Target | INR 400 | INR 400 |
| EPS % | FY22E | FY23E |
| | 0% | 0% |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | ORIENTEL IN |
| No. of Shares (mn) | 212 |
| MCap (Rs bn) / ($ mn) | 72/963 |
| 6m avg traded value (INR mn) | 181 |
| 52 Week high / low | INR 368/194 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | (2.9) | 19.0 | 67.9 |
| Relative (%) | (18.0) | (8.4) | 18.0 |

| SHAREHOLDING PATTERN (%) | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 38.48 | 38.52 |
| FIs & Local MFs | 22.35 | 23.78 |
| FPIs | 8.80 | 8.74 |
| Public & Others | 30.37 | 28.96 |
| Pledged Shares | 0.00 | 0.00 |

*Source : BSE*

Pledged shares as % of total shares

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# TCNS Clothing

## Recovery in line, but lags peers

**TCNS Clothing grew 66% YoY (recovered 75% of Q2FY20 revenue). Performance was in line but lagged that of bigger peers (Trent/ABFRL/VMART). Dependence on online channel remains high vs pre-pandemic levels (22% vs 13%). GM surprised positively (62.7% vs HSIE: 58%) as we reckon (1) inventory provisioning was lower and (2) product mix was superior YoY. EBITDAM came in at 12.6% (HSIE: 13.1%). Inventory build-up for festive season lags peers too. However, commentary on store additions remains strong. FY23/24 EBITDA estimates are marginally revised upwards (1-3%). Maintain SELL rating with a DCF-based TP of INR540/sh (implying 13x Dec-23 EBITDAR).**

- **Q2FY22 highlights**: Revenue grew 66% YoY to INR 2.39bn (in-line). 2-yr CAGR stands at -14%. Recovery in offline revenue lagged expectations (INR1.86bn vs HSIE: 1.95bn). EBO/LFS/MBO sales clocked 68/69/38% recovery from Q2FY20 levels. Online sales continue to remain strong (up 129% from Q2FY20 levels. Despite the higher online salience, GM was only ~230bps lower (62.7%) vs Q2FY20 levels. We suspect the key GM drivers were: (1) lower inventory provisioning and (2) superior product mix. Faster-than-expected cost normalisation nullified GM gains. EBITDA came in at INR302mn (vs -163mn in Q2FY21, HSIE: INR319mn). Given the aggressive expansion plans, management highlighted that margin levers are likely to be muted. Inventory build-up for festive season lags peers. WC efficiency continues to normalise (162 days vs 197 days in 2QFY21). Cash position improved YoY (now INR1.67bn vs INR1.46bn). PAT stood at INR111mn.
- **Outlook**: While INR 1.7bn cash & reserves seem comfortable, capital (especially WC) efficiency remains a concern for the category (as was the case pre-COVID too). Immediate peers are worse off. Also, with increasing online reliance (even post-COVID), the risk of conceding pricing power, ergo margins, remains high for TCNS Clothing over the medium-to-long term. Hence, we maintain our SELL rating on the stock with a revised DCF-based target price of INR 540/sh (implying 13xDec-23 EV/EBITDAR).

### Quarterly financial summary

| (INR mn) | Q2FY22 | Q2FY21 | YoY (%) | Q2FY21 | QoQ (%) | FY20 | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|---|
| Net Revenue | 2,393 | 1,441 | 66.0 | 938 | 155.0 | 11,487 | 6,355 | 9,632 | 12,713 | 14,566 |
| EBITDA | 302 | (163) | (285.9) | (234) | (229.3) | 865 | 24 | 1,011 | 2,208 | 2,540 |
| APAT | 111 | (276) | (140.1) | (361) | (130.7) | 839 | (564) | 90 | 856 | 1,475 |
| EPS (Rs) (Reported) | 1.7 | (4.2) | (140.9) | (5.4) | (131.3) | 11.8 | (8.7) | 0.3 | 12.9 | 22.6 |
| P/E (x) | | | | | | 54.4 | (81.8) | NM | 53.9 | 31.3 |
| EV/EBITDA (x) | | | | | | 48.7 | 1,719.5 | 41.2 | 18.6 | 15.5 |
| Core RoCE(%) | | | | | | 11.4 | (8.6) | 1.8 | 15.0 | 25.1 |

Source: Company, HSIE Research, Standalone Financials

### Change in estimates

| (INR mn) | FY22E | | | FY23E | | | FY24E | | |
|---|---|---|---|---|---|---|---|---|---|
| | New | Old | Change (%) | New | Old | Change (%) | New | Old | Change (%) |
| Revenue | 9,632 | 9,632 | - | 12,713 | 12,713 | - | 14,566 | 14,566 | - |
| Gross Profit | 5,730 | 5,586 | *2.6* | 7,951 | 7,951 | - | 9,102 | 9,102 | - |
| Gross Profit Margin(%) | 59.5 | 58.0 | ***150 bps*** | 62.5 | 62.5 | **-** | 62.5 | 62.5 | **-** |
| EBITDA (Reported) | 1,011 | 921 | *9.7* | 2,234 | 2,205 | *1.3* | 2,622 | 2,535 | *3.4* |
| EBITDA margin (%) | 10.5 | 9.6 | ***93 bps*** | 17.6 | 17.3 | ***23 bps*** | 18.0 | 17.4 | ***59 bps*** |

*Estimates not comparable as we have shifted our financials to IND AS 116 accounting

## SELL

| | |
|---|---|
| **CMP** ***(as on 12 Nov 2021)*** | **INR 822** |
| **Target Price** | **INR 540** |
| **NIFTY** | **18,103** |

| **KEY CHANGES** | **OLD** | **NEW** |
|---|---|---|
| Rating | SELL | SELL |
| Price Target | INR 500 | INR 540 |
| EBITDA % | FY23E<br>+1.3 | FY24E<br>+3.4 |

| **KEY STOCK DATA** | |
|---|---|
| Bloomberg code | TCNSBR IN |
| No. of Shares (mn) | 62 |
| MCap (INR bn) / ($ mn) | 51/680 |
| 6m avg traded value (INR mn) | 117 |
| 52 Week high / low | INR 845/354 |

| **STOCK PERFORMANCE (%)** | **3M** | **6M** | **12M** |
|---|---|---|---|
| Absolute (%) | 46.2 | 61.7 | 103.8 |
| Relative (%) | 35.5 | 37.0 | 63.8 |

| **SHAREHOLDING PATTERN (%)** | **Jun-21** | **Sep-21** |
|---|---|---|
| Promoters | 32.3 | 32.3 |
| FIs & Local MFs | 3.6 | 3.5 |
| FPIs | 17.8 | 18.9 |
| Public & Others | 46.3 | 45.3 |
| Pledged Shares | - | - |

*Source : BSE*

Pledged shares as % of total shares

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# Consumer Staples

# Hindustan Unilever

## Miss in volume, no respite on margin front

**HUL's headline numbers are broadly in line. However, weak internals (miss in volume) and cautious outlook on demand and margin are raising questions about the near-term performance. Revenue grew at 11% YoY (HSIE 10%) while UVG, at 4%, was below our estimates (6% HSIE). UVG on two-year CAGR was weak at 2.5% but improved sequentially (-0.4% in Q1FY22) after the second wave of COVID impacted Q1FY22. Health, hygiene, and nutrition portfolio (85% mix) sustained healthy growth at 7% YoY. Within the nutrition portfolio, health food drinks volume grew in double digits. Nutrition portfolio should sustain the momentum as 85% of GTM integration is completed. Gross margin pressure continued in Q2FY22 with 142bps YoY contraction due to elevated commodity costs (crude, CPO, tea, and plastic) and higher freight cost. EBITDA growth was at 9% (HSIE 7%). We expect margin to remain under pressure in the near term, owing to sustained inflation and calibrated price hikes. We cut our EPS estimates for FY22/FY23/FY24 by ~2%. We value HUL at 55x P/E on Sep-23E EPS to derive a TP of INR 2,482. Maintain REDUCE.**

- **In-line revenue, cautious demand outlook:** Revenue grew 11% YoY (16% in Q2FY21 and 13% in Q1FY22), with home care/BPC delivering 16/10% (7/5% two-year CAGR). Domestic revenue saw 11% YoY growth (7% two-year CAGR) with volume growth at 4% YoY. The health, hygiene, and nutrition portfolio grew 7% YoY (19% over Q2FY20). Discretionary clocked 31% YoY growth (-2% over Q2FY20) and OOH saw 74% YoY growth (+31% over Q2FY20).

- **No relief on margin pressure:** Gross margin contracted by 142bps YoY (-145bps in Q2FY21 and -139bps in Q1FY22) due to pressure from elevated commodity costs. Home care EBIT margin contracted by 147bps YoY (+278bps in Q2FY21) to 19%. BPC EBIT margin, at 27.8%, contracted 148bps YoY (+34bps in Q2FY21). F&R margin expanded 179bps YoY. Employee/A&P/other expenses grew by 4/7/9% YoY. EBITDA margin was down 46bps YoY to 24.6% (+28bps in Q2FY21 and -46bps in Q1FY22). EBITDA grew 9% YoY (HSIE 7%).

- **Call takeaways:** (1) While operating environment has improved, FMCG market growth (Nielsen data) saw moderation in Aug and Sep, led by rural slowdown; (2) urban demand is better on a weak base and better mobility; (3) HUL's rural growth remained strong in Q2FY22; (4) no impact from global supply chain issues, owing to Unilever's global procurement; (5) digital channels like Shikhar, eCommerce, and D2C contribute 15% of its demand; (6) the company maintains its EBITDA margin band at 24-25%.

### Quarterly/annual financial summary

| YE Mar (INR mn) | Q2 FY22 | Q2 FY21 | YoY (%) | Q1 FY22 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 127,240 | 114,420 | 11.2 | 119,150 | 6.8 | 470,280 | 512,321 | 554,608 | 599,769 |
| EBITDA | 30,270 | 27,640 | 9.5 | 27,420 | 10.4 | 116,260 | 127,560 | 140,994 | 154,411 |
| APAT | 21,870 | 20,350 | 7.5 | 19,620 | 11.5 | 81,793 | 90,634 | 100,890 | 111,121 |
| Diluted EPS (INR) | 9.3 | 8.7 | 7.5 | 8.4 | 11.5 | 34.8 | 38.6 | 42.9 | 47.3 |
| P/E (x) | | | | | | 73.1 | 66.0 | 59.3 | 53.8 |
| EV / EBITDA (x) | | | | | | 50.9 | 46.2 | 41.7 | 37.9 |
| RoCE (%) | | | | | | 27.7 | 18.1 | 19.7 | 21.2 |

Source: Company, HSIE Research

## REDUCE

| | |
|---|---|
| CMP *(as on 19 Oct 2021)* | INR 2,547 |
| Target Price | INR 2,482 |
| NIFTY | 18,419 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | REDUCE | REDUCE |
| Price Target | INR 2,534 | INR 2,482 |
| EPS % | FY22E | FY23E |
| | -2% | -2% |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | HUVR IN |
| No. of Shares (mn) | 2,350 |
| MCap (INR bn) / ($ mn) | 5,984/80,412 |
| 6m avg traded value (INR mn) | 3,942 |
| 52 Week high / low | INR 2,859/2,043 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 5.7 | 4.5 | 16.9 |
| Relative (%) | (11.7) | (24.2) | (35.7) |

| SHAREHOLDING PATTERN (%) | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 61.90 | 61.90 |
| FIs & Local MFs | 10.75 | 10.48 |
| FPIs | 15.11 | 15.45 |
| Public & Others | 12.24 | 12.17 |
| Pledged Shares | 0.00 | 0.00 |

*Source : BSE*

Pledged shares as % of total shares

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# ITC

## Steady show continues

**ITC delivered an in-line revenue growth with a few positives in key segments. Revenue was up 12% YoY with cigarettes/FMCG/hotels/agri/paper growing 10/6/260/-7/25% YoY. Cigarette revenue growth was 10% with volume growth of 9.5% (HSIE 8%). Given the positive exit growth rate for cigarette volumes and potential for price hikes, we expect a sustainable cigarette recovery in H2FY22. Cigarette EBIT growth was at 10%. FMCG business registered steady 6% growth (HSIE 8%) and clocked 11% two-year CAGR. FMCG EBITDA margin was at 10% (+30bps YoY, >300bps in Q2FY20) despite commodity headwinds. Paper continued to deliver revenue/EBIT growth of 25/24% YoY (HSIE 13/20%). With resumption of normalcy and higher mobility, we expect demand trends to improve to achieve cigarette recovery and FMCG sustainability. We maintain our EPS estimates for FY23/FY24, while cutting 2% for FY22. With FMCG sustaining healthy performance (growth + margin), we increase our EV/revenue multiple to 4x (earlier 2x). We value ITC on an SoTP basis to derive a target price of INR 280 (implied PE of 20x PE Sep-23E EPS). Maintain BUY.**

- **In-line revenue, broad-based recovery seen:** The revenue from cigarettes grew 10% YoY and volume grew 9.5%, a marginal beat on HSIE estimates. The discretionary/OOH categories recorded strong YoY and sequential growth due to increased mobility. Staples and convenience foods growth remained moderate on a high base; it saw a sequential pick-up this quarter as well. The company performed well across all channels, including MT, ecommerce (7% revenue share), and rural. **It increased its market coverage/direct outlet servicing by 1.4/1.1x YoY**. Hotel occupancy improved 3x over Q2FY21 and ARRs improved as well. The agri business exports saw strong growth in wheat, rice, leaf tobacco, aqua, and spices. The paper business clocked 25% YoY growth, led by value-added products and demand revival.
- **Margin was under pressure**: The cigarette EBIT grew 10% YoY to INR 35.8bn (7% lower than Q2FY20), but a full EBIT recovery is awaited. The FMCG EBITDA margin was up 32bps YoY in Q2FY22 to 10%. Hotels saw strong cost control; however, due to negative operating leverage, the hotels category reported an EBIT loss of INR 480mn (vs INR 1.8bn in Q2FY21). The agri EBIT grew 16% YoY. The paper margin improved, led by higher realisation, investments in pulp import substitution, and cost-competitive fibre chain. APAT was at INR 36.97bn vs. HSIE INR 37.01bn.
- **Other takeaways:** (1) ITC expects to take a price hike in cigarette in H2FY22. (2) Volume exit growth for cigarette rate is positive. (3) Other FMCG margin may see an impact due to the impact of the raw material inflation despite premiumisation. (4) Hotel business has normalised with improved leisure activities and business travel gaining momentum.

**Quarterly/annual financial summary**

| YE Mar (INR mn) | Q2FY22 | Q2FY21 | YoY (%) | Q1FY22 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 135,535 | 119,768 | *13.2* | 129,592 | *4.6* | 492,728 | 545,692 | 590,269 | 635,727 |
| EBITDA | 46,150 | 40,606 | *13.7* | 39,922 | *15.6* | 170,027 | 200,677 | 215,078 | 230,962 |
| APAT | 36,972 | 32,324 | *14.4* | 30,135 | *22.7* | 133,829 | 155,548 | 169,346 | 182,058 |
| Diluted EPS (INR) | 3.0 | 2.6 | *14.3* | 2.4 | *22.7* | 10.9 | 12.6 | 13.8 | 14.8 |
| P/E (x) | | | | | | 22.0 | 18.9 | 17.4 | 16.2 |
| EV / EBITDA (x) | | | | | | 15.6 | 13.1 | 12.1 | 11.2 |
| Core RoCE (%) | | | | | | 37.7 | 44.3 | 47.6 | 50.8 |

Source: Company, HSIE Research

# BUY

| | |
|---|---|
| **CMP *(as on 27 Oct 2021)*** | **INR 238** |
| **Target Price** | **INR 280** |
| **NIFTY** | **18,211** |

| **KEY CHANGES** | **OLD** | **NEW** |
|---|---|---|
| Rating | BUY | BUY |
| Price Target | INR 257 | INR 280 |
| EPS % | FY22E | FY23E |
| | -2% | 0% |

| **KEY STOCK DATA** | |
|---|---|
| Bloomberg code | ITC IN |
| No. of Shares (mn) | 12,310 |
| MCap (INR bn) / ($ mn) | 2,935/39,444 |
| 6m avg traded value (INR mn) | 5,887 |
| 52 Week high / low | INR 265/163 |

| **STOCK PERFORMANCE (%)** | **3M** | **6M** | **12M** |
|---|---|---|---|
| Absolute (%) | 14.3 | 16.1 | 42.6 |
| Relative (%) | (2.0) | (8.8) | (8.3) |

| **SHAREHOLDING PATTERN (%)** | **Jun-21** | **Sep-21** |
|---|---|---|
| Promoters | 0.00 | 0.00 |
| FIs & Local MFs | 45.86 | 43.72 |
| FPIs | 11.74 | 10.81 |
| Public & Others | 42.40 | 45.47 |
| Pledged Shares | 0.00 | 0.00 |

*Source : BSE*

Pledged shares as % of total shares

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# Nestle India

## Revenue momentum sustains; miss in margin

**Nestle's Q3CY21 revenue was in line while EBITDA margin was below our estimate. Domestic revenue growth was up by 10% (+10% 2-year CAGR, +10% HSIE), driven by volume and mix. E-commerce continued to gain traction, while organised trade (especially coffee and confectionary) and out-of-home (OOH) saw recovery. Exports remained weak and reported 1% YoY revenue growth. Gross margin came in lower than expected at 55.7%, contracting 239/130bps YoY/QoQ, due to rising raw material cost (edible oil and packaging material) but was partly offset by better realisation. EBITDA was up 6% YoY (+11% 2-year CAGR, HSIE 10%). We expect Nestle to sustain healthy growth for in-home products (aided by its ecommerce and hyper-local channels) and recovery in OOH products (higher mobility). We maintain our EPS estimates for CY21E/CY22E/CY23E and value Nestle at 55x P/E on Sep-23E EPS to derive a TP of INR 17,572. With rich valuation, the absolute upside is limited in the medium term, making the risk-reward unattractive. Maintain REDUCE.**

- **Revenue in line:** Revenue grew by 10% YoY (+10% in Q3CY20 and +14% in Q2CY21), a beat in line with our expectation. Domestic revenue grew by 10% YoY (+10% in Q3CY20 and +14% in Q1CY21, +10% HSIE) while exports grew 1% YoY (10% HSIE). E-commerce continued to gain traction. Maggi noodles and Masala-AE-Magic clocked healthy growth; however, Maggi sauce growth was muted on decreased in-home consumption, strong base, and increased competitive intensity. Milk products and nutrition, confectionary, and beverages saw double-digit growth.

- **Weak margin:** GM, impacted by rising raw material prices (edible oil and packaging materials), contracted by 239bps YoY (+54bps in Q3CY20 and +67bps in Q2CY21) vs. HSIE estimate of 109bps contraction. Employee/other expenses were up by 5/4% YoY. EBITDA margin contracted by 84bps YoY to 24.8% (+140bps in Q3CY20 and -75bps in Q1CY21) vs. our estimate of a YoY flat margin. EBITDA grew 6% YoY (HSIE 10% YoY). PAT was up 5%.
- **Press release takeaways:** (1) Double-digit growth is seen across milk products and nutrition, confectionary and beverages; (2) Organised trade (mid-twenties growth) and OOH are seeing recovery as the economy opens up; (3) E-commerce continued to gain traction; (4) Price outlook for key categories like wheat, coffee, and edible oils remains firm to bullish while costs of packaging material continue to increase; (5) Fresh milk prices are expected to remain firm with continued increase in demand and rise in feed costs to farmers; (6) Scrapping import duties on edible oils, post FY22, can positively impact and control food inflation pressures.

### Quarterly/annual financial summary

| YE Dec (INR mn) | Q3 CY21 | Q3 CY20 | YoY (%) | Q2 CY21 | QoQ (%) | CY20 | CY21E | CY22E | CY23E |
|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 38,826 | 35,417 | 9.6 | 34,767 | 11.7 | 133,500 | 149,250 | 165,424 | 182,908 |
| EBITDA | 9,629 | 9,079 | 6.0 | 8,490 | 13.4 | 32,619 | 37,146 | 41,766 | 46,966 |
| APAT | 6,174 | 5,871 | 5.2 | 5,386 | 14.6 | 20,928 | 24,598 | 28,363 | 31,620 |
| Diluted EPS(INR) | 64.0 | 60.9 | 5.2 | 55.9 | 14.6 | 217.0 | 255.1 | 294.2 | 327.9 |
| P/E (x) | | | | | | 89.2 | 75.9 | 65.8 | 59.1 |
| EV / EBITDA (x) | | | | | | 56.3 | 49.3 | 43.7 | 38.8 |
| RoCE (%) | | | | | | 76.9 | 67.7 | 58.9 | 57.7 |

Source: Company, HSIE Research

# REDUCE

| | |
|---|---|
| CMP *(as on 19 Oct 2021)* | INR 19,368 |
| Target Price | INR 17,572 |
| NIFTY | 18,419 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | REDUCE | REDUCE |
| Price Target | INR 17,572 | INR 17,572 |
| EPS % | CY21E | CY22E |
| | 0% | 0% |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | NEST IN |
| No. of Shares (mn) | 96 |
| MCap (INR bn) / ($ mn) | 1,867/25,094 |
| 6m avg traded value (INR mn) | 1,297 |
| 52 Week high / low | INR 20,609/15,425 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 9.1 | 13.3 | 20.4 |
| Relative (%) | (8.3) | (15.4) | (32.3) |

| SHAREHOLDING PATTERN (%) | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 62.76 | 62.76 |
| FIs & Local MFs | 7.92 | 7.99 |
| FPIs | 12.43 | 12.31 |
| Public & Others | 16.89 | 16.94 |
| Pledged Shares | 0.00 | 0.00 |

*Source : BSE*

Pledged shares as % of total shares

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# Dabur

## Another quarter of outperformance

**Dabur's Q2 performance was a beat on our estimates across revenue and EBITDA. Revenue growth was at 12% YoY (HSIE 7%), with 2-year CAGR at 13%. Domestic revenue/volume growth were at 12/10% YoY, with 2-year CAGR at 16/13% vs. HUL's 7/2%, Nestle's 10/9%, Marico's 15/9%, Colgate's 5/2%, and Emami's 11/8%. Dabur's domestic healthcare/HPC/F&B grew -5/17/43% YoY, with broad-based growth on two-year CAGR at 19/13/17%. The international business saw continued recovery, growing 14% YoY cc (11% in INR terms). EBITDA growth was at 9% YoY (HSIE 5%), while EBITDA margin was in line at 22%. We remain positive on Dabur's ability to deliver strong revenue growth, led by its positioning as a natural and trusted brand and its power brands strategy. We maintain our FY22/23/24 EPS estimates and value Dabur at 50x PE on Sep-23E EPS to derive a target price of INR 650. Maintain ADD.**

- **Food, HPC drive the show:** Net revenue grew by 12% YoY (+14% in Q2FY21 and +32% in Q1FY22), ahead of our expectation of 7% YoY growth. Domestic business grew by 12% YoY with 10% YoY volume growth. Due to a heavy base, health supplements declined 14% while digestives/OTC and ethical were up 23/2% YoY. On a two-year CAGR, health supplements /digestives/OTC were up 22/12/19%. **In HPC, oral care clocked 13/19% YoY/two-year CAGR with a superior growth trajectory (Colgate clocked 5/5% YoY/two-year CAGR).** Hair oils/shampoo/home care/skin and salon saw growth of 28/21/25/-12% YoY and 10/19/6/10% on two-year CAGR. Food/beverages were up 16/45% YoY, while on two-year basis, they were up 14/18%. Dabur saw strong market share gains across 95% of its categories. International revenue grew by 11% YoY with 14% YoY cc growth.
- **In-line EBITDA margin, beat on growth:** GM contracted by 204bps YoY (+9bps in Q2FY21 and -131bps in Q1FY22) to 48.8%. Employee and A&P expenses remained flat YoY while other expenses grew by 18% YoY (-3% in Q2FY21). Dabur continued its cost savings initiatives. EBITDA margin contracted by only 60bps YoY (+50bps in Q2FY21 and +10bps in Q1FY22) to 22% (in line with HSIE). EBITDA grew by 9% YoY (HSIE 5%). PBT grew by 12% YoY while PAT grew by 5% YoY on increase in tax rate.
- **Call takeaways:** (1) Modern trade and enterprise business saw strong growth of 26% and 44% YoY. E-commerce delivered a double-digit growth, contributing 7% of sales. (2) The company is looking to expand its direct village coverage from 83,500, currently to 90,000 next year. (3) Rural registered 12% growth vs. 9% for urban. (4) Rural demand was impacted in September due to liquidity issues. The company remains positive on the outlook due to a good monsoon, good harvest, positive MSP, and lower unemployment. (5) The hair oil industry has not yet recovered, down 2% YoY. The company continues to gain market share here.

### Quarterly/annual financial summary

| YE Mar (INR mn) | Q2FY22 | Q2FY21 | YoY (%) | Q1FY22 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 28,176 | 25,160 | 12.0 | 26,115 | 7.9 | 95,617 | 110,258 | 120,970 | 133,824 |
| EBITDA | 6,207 | 5,694 | 9.0 | 5,520 | 12.4 | 20,027 | 23,495 | 26,691 | 30,400 |
| APAT | 5,044 | 4,817 | 4.7 | 4,373 | 15.3 | 16,934 | 19,239 | 21,514 | 24,383 |
| Diluted EPS (INR) | 2.9 | 2.7 | 4.7 | 2.5 | 15.3 | 9.6 | 10.9 | 12.2 | 13.8 |
| P/E (x) | | | | | | 62.4 | 54.9 | 49.1 | 43.3 |
| EV / EBITDA (x) | | | | | | 50.8 | 42.9 | 37.5 | 32.7 |
| RoCE (%) | | | | | | 44.3 | 54.5 | 61.8 | 69.8 |

Source: HSIE Research

## ADD

| | |
|---|---|
| CMP *(as on 2 Nov 2021)* | INR 598 |
| Target Price | INR 650 |
| NIFTY | 17,889 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | ADD | ADD |
| Price Target | INR 650 | INR 650 |
| EPS % | FY22E | FY23E |
| | 0% | 0% |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | DABUR IN |
| No. of Shares (mn) | 1,768 |
| MCap (INR bn) / ($ mn) | 1,057/14,208 |
| 6m avg traded value (INR mn) | 1,475 |
| 52 Week high / low | INR 659/483 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | (0.2) | 11.2 | 18.1 |
| Relative (%) | (13.5) | (11.9) | (32.9) |

| SHAREHOLDING PATTERN (%) | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 67.36 | 67.36 |
| FIs & Local MFs | 4.66 | 3.41 |
| FPIs | 20.59 | 21.35 |
| Public & Others | 7.39 | 7.88 |
| Pledged Shares | 0.00 | 0.00 |

*Source : BSE*

Pledged shares as % of total shares

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# Godrej Consumers

## In-line revenue; slight miss on margin

**GCPL revenue growth was in line, but gross margin pressure led to a miss on EBITDA margin/growth. Consolidated revenue grew 9% YoY (HSIE 9%), with domestic revenue growing by 10% (HSIE 10%) and international revenue growing by 7% (HSIE 9%). Domestic revenue posted 10% two-year revenue CAGR. Domestic volume growth was at 4%, two-year CAGR at 4% vs. Dabur's 13%, Marico's 9%, Emami's 8%, Britannia's 5%, Colgate's 2% and HUL's 2%. GM fell by 616bps YoY to 49.8% due to a lag between increase in input cost and price increases (domestic). GCPL managed to keep its EBITDA margin at 21.5% (HSIE 22.3%), limiting its fall to 201bps YoY. While near-term margin pressure is evident, we expect the company to overcome it as benefits of price hikes begin to flow in. With demand drivers in place across home care and personal care, we continue to see steady growth for GCPL. Given the margin pressure, we cut FY22 EPS by 2%, but maintain FY23/FY24 EPS. We value the stock at 42x on Sep-23 EPS to derive a TP of INR 1,033. Maintain ADD.**

- **In-line revenue:** Consolidated revenue was up 9% YoY (11% in Q2FY21, 24% in Q1FY22), in line with our estimates, with domestic growing 10% YoY (11% in Q2FY21, 19% in Q1FY22; in-line HSIE) and international growing 7% YoY (11% in Q2FY21, 30% in Q1FY22; 9% HSIE). Domestic volume growth was 4% YoY. Indonesia/GUAM/LATAM & SAARC grew their revenue by 0/15/-3% YoY (5/10/41% in Q2FY21) with cc growth at -2/16/11% YoY. Home care/personal care posted 5/10% YoY revenue growth. Air fresheners in home care grew in double digits, whereas HI and home hygiene grew steadily. In personal care, sales of personal wash and hygiene products continued to climb in double digits. Soaps and hair colour gained market share.
- **Gross margin pressure continues in India business:** GM contracted by 616/234bps YoY/QoQ to 49.8% (-61bps in Q2FY21 YoY, -210bps in Q1FY22 YoY). Employee costs were down by 3% YoY (flat in Q1FY21), A&P was down 9% YoY (-2% in Q2FY21) and other expenses were down 5% (+9% in Q1FY21). EBITDA margin fell 201bps YoY (+156bps Q2FY21, +80bps Q1FY22) to 21.5%, against our estimate of 22.3%. EBITDA declined by 1% YoY vs. HSIE 4%. Operating EBITDA margin for Indonesia/GUAM/Latin America & SAARC came in at 26/12/16% vs. 25/11/19% in Q2FY21.
- **Con call takeaways**: (1) The company guides for double-digit growth in India business in the medium term; it expects margin to remain under pressure in Q3FY22 but recover in Q4FY22. (2) Palm oil prices impacted soap margin, but this is expected to improve sequentially. (3) GCPL has taken hikes across its soap and non-soap portfolios, the benefits of which will be visible from late December. (4) The huge difference between product price hikes and input cost increases in the soaps category should be covered through price hikes in the non-soaps portfolio. (4) Indonesia's poor performance is credited to economic slowdown and execution gaps. (5) HI segment had a mixed bag performance due to heavy rains in some of the geographies.

### Quarterly/annual financial summary

| YE Mar (INR mn) | Q2FY22 | Q2FY21 | YoY (%) | Q1FY21 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 31,637 | 29,151 | 8.5 | 28,945 | 9.3 | 110,286 | 126,244 | 139,647 | 153,463 |
| EBITDA | 6,792 | 6,844 | (0.8) | 6,111 | 11.1 | 23,883 | 27,447 | 30,988 | 34,432 |
| APAT | 4,800 | 4,836 | (0.7) | 4,149 | 15.7 | 17,150 | 20,028 | 23,603 | 26,611 |
| Diluted EPS (Rs) | 4.7 | 4.7 | (0.7) | 4.1 | 15.7 | 16.8 | 19.6 | 23.1 | 26.0 |
| P/E (x) | | | | | | 56.7 | 48.6 | 41.2 | 36.5 |
| EV / EBITDA (x) | | | | | | 45.7 | 40.2 | 34.6 | 30.3 |
| RoCE (%) | | | | | | 21.0 | 24.2 | 27.5 | 30.9 |

Source: HSIE Research

## ADD

| | |
|---|---|
| CMP *(as on 11 Nov 21)* | INR 951 |
| Target Price | INR 1,033 |
| NIFTY | 17,874 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | ADD | ADD |
| Price Target | INR 1,033 | INR 1,033 |
| EPS % | FY22E | FY23E |
| | -2% | 0% |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | GCPL IN |
| No. of Shares (mn) | 1,023 |
| MCap (INR bn) / ($ mn) | 972/13,063 |
| 6m avg traded value (INR mn) | 1,712 |
| 52 Week high / low | INR 1,139/644 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | (3.0) | 32.7 | 38.0 |
| Relative (%) | (12.9) | 10.9 | 0.5 |

| SHAREHOLDING PATTERN (%) | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 63.23 | 63.22 |
| FIs & Local MFs | 1.23 | 4.60 |
| FPIs | 26.97 | 26.21 |
| Public & Others | 8.57 | 5.97 |
| Pledged Shares | 0.42 | 0.42 |

*Source : BSE*

Pledged shares as % of total shares

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# Britannia Industries

## Weak volume growth; margin disappoints

**Britannia's Q2 saw a marginal miss on revenue but a significant miss on margin. Revenue grew 6% YoY (+11% in Q2FY21 and -1% in Q1FY22), a miss on our estimate (8% HSIE). Two-year revenue CAGR was at 8% vs. Nestle's 10%, Dabur's 16%, Marico's 15%, Emami's 11%, HUL's 7% and Colgate's 5%. Volume growth was lower than expected at 2% (HSIE 6%). High growth of FY21 is seeing a mean reversion in FY22. We expect volume growth to be constrained in the coming quarters, too, due to poor category growth and grammage reduction. Input costs pressure (palm oil and crude) led to gross margin reducing by 502bps YoY (+236bps in Q2FY21 and -296bps in Q1FY22) to 37.5% (lowest in the past 35 quarters). Thus, EBITDA margin fell by 428/80bps YoY/QoQ to 15.5% (lowest in the past nine quarters). A price hike has been initiated (10% by Q4FY22), which should alleviate inflationary pressure. A high-margin base and unprecedented cost inflation will continue to exert pressure on margin (even in H2FY22). ICDs slightly increased from INR 4.7bn in Q1FY22 to INR 5bn at Q2FY22. We cut our FY22/23/24 EPS estimates by 9/2/2%. We value Britannia at 40x P/E on Sep-23 EPS to derive a target price of INR 3,600. Maintain REDUCE.**

- **Miss on revenue/volume:** Consolidated revenue increased by 6% YoY (11% in Q2FY21 and -1% in Q1FY22), compared to our estimate of +8% YoY. Standalone revenue was up 7% YoY (10% in Q2FY21 and flat in Q1FY22). Domestic volume growth was only at 2% vs. the expected 6%. During Q2, the company launched Milk Bikis Classic in Tamil Nadu, expanded the presence of Potazos across India, and launched Treat Stix and Marble Cake. It continued to expand direct distribution and its rural footprint. This year, its market share is increasing, bolstering its position as the industry leader. In H2FY22, weak category growth combined with grammage reduction will continue to put pressure on volume growth.
- **Margin under pressure:** Consolidated GM contracted by 502/119bps YoY/QoQ (236bps in Q2FY21 and -296bps in Q1FY22) to 37.5%. RM inflation, as well as the lag in price rises, had an impact on gross margin (grammage reduction takes time). The overall RM inflation was 14% in the quarter. Employee/other expenses grew by 14/16% YoY. EBITDA margin fell by 428bps YoY (+361bps in Q2FY21 and -469bps in Q1FY22; -135bps HSIE) to 15.5%. EBITDA fell by 17% YoY, vs. a flat expectation. PBT declined by 22% YoY, while APAT declined by 23% YoY.
- **Con call takeaways:** (1) Britannia has raised prices, with a third of the increase coming from pricing actions and the rest from grammage reduction. (2) MT was affected during COVID; however, it has begun to pick up from Q2. (3) Through forward contracts, the company was able to alleviate some inflationary pressure. (4) Through efficiency strategies, it has saved costs up to INR 2.5bn. (5) It anticipates annualised inflation of INR 13bn in FY22. (6) It aims to increase rural market share to urban levels in the next 3-4 years.

### Quarterly/annual financial summary

| YE Mar (INR mn) | Q2FY22 | Q2FY21 | YoY (%) | Q1FY22 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 36,074 | 34,191 | 5.5 | 34,035 | 6.0 | 131,361 | 140,965 | 153,516 | 165,719 |
| EBITDA | 5,583 | 6,754 | (17.3) | 5,538 | 0.8 | 25,093 | 23,515 | 27,218 | 29,489 |
| APAT | 3,818 | 4,952 | (22.9) | 3,870 | (1.3) | 18,506 | 17,533 | 20,725 | 22,619 |
| Diluted EPS (Rs) | 15.9 | 20.6 | (22.8) | 16.1 | (1.3) | 76.8 | 72.8 | 86.0 | 93.9 |
| P/E (x) | | | | | | 47.1 | 49.8 | 42.1 | 38.6 |
| EV / EBITDA (x) | | | | | | 34.1 | 36.0 | 31.1 | 28.3 |
| RoCE (%) | | | | | | 59.1 | 58.7 | 66.1 | 68.0 |

Source: Company, HSIE Research

## REDUCE

| | |
|---|---|
| **CMP** ***(as on 9 Nov 2021)*** | **INR 3,622** |
| **Target Price** | **INR 3,600** |
| **NIFTY** | **18,044** |

| **KEY CHANGES** | **OLD** | **NEW** |
|---|---|---|
| Rating | REDUCE | REDUCE |
| Price Target | INR 3,679 | INR 3,600 |
| EPS % | FY22E | FY23E |
| | -9% | -2% |

| **KEY STOCK DATA** | |
|---|---|
| Bloomberg code | BRIT IN |
| No. of Shares (mn) | 241 |
| MCap (INR bn) / ($ mn) | 872/11,722 |
| 6m avg traded value (INR mn) | 1,635 |
| 52 Week high / low | INR 4,153/3,305 |

| **STOCK PERFORMANCE (%)** | **3M** | **6M** | **12M** |
|---|---|---|---|
| Absolute (%) | (0.4) | 5.0 | 2.4 |
| Relative (%) | (11.5) | (17.8) | (39.4) |

| **SHAREHOLDING PATTERN (%)** | **Jun-21** | **Sep-21** |
|---|---|---|
| Promoters | 50.55 | 50.55 |
| FIs & Local MFs | 11.18 | 11.53 |
| FPIs | 18.40 | 17.65 |
| Public & Others | 19.87 | 15.27 |
| Pledged Shares | - | - |

*Source : BSE*

Pledged shares as % of total shares

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# Marico

## Steady performance; beat in margin

**Marico posted steady revenue growth and beat in EBITDA margin. Revenue/EBITDA grew 22/9% YoY (HSIE 20/3%). Domestic revenue and volume grew 24/8% YoY, 15/9% on two-year CAGR - a strong performance. PCNO saw volume growth of 7% YoY, maintaining its long-term average growth. VAHO grew 16%, mainly driven by volumes in the mid and premium brands. Saffola clocked 46% value growth; however, volume remained muted due to trade destocking, given the volatility in edible oil prices. International continued its momentum (up 14% YoY, 12% in Q2FY21), but Vietnam continued to face COVID-led disruptions. Gross margin, at 42.5% (down 556bps YoY and 143bps QoQ), was broadly in line (HSIE 42%), with pressures from vegetable oil and crude. Copra prices were stable. Marico continued its investment in core brands and innovation in the food segment. We expect the growth momentum to sustain and margin pressure to ease in H2FY22. We maintain our EPS estimates and value Marico at 45x PE on Sep-23E EPS to derive a target price of INR 600. Maintain ADD.**

- **In-line revenue:** Revenue grew 22% YoY (+9% in Q2FY21 and +31% in Q1FY22), in line with our estimates. Domestic volume grew a strong 8% YoY (+11% in Q2FY21 and +21% in Q1FY22). PCNO saw 18/7% YoY value/volume growth while VAHO saw 16% YoY value growth. Saffola grew 46% YoY, while foods portfolio grew 70% YoY. Rural growth saw sequential moderation; however, it continued to outpace urban growth on YoY and two-year CAGR. Alternate channels grew in double digits YoY, while CSD saw recovery on a low base.
- **International revenue up 14%**: The international business clocked 14% YoY growth (13% cc). Bangladesh grew 16% cc growth in Q2, with new launches scaling well. MENA/South Africa saw cc growth of 20/8% YoY while South-East Asia grew a subdued 2% cc, given COVID disruptions in Vietnam.
- **Slight beat on margin:** GM dipped by 556bps YoY (+163bps in Q2FY21 and -759bps in Q1FY22) vs the HSIE estimate of a 601bps YoY decline. Rice bran/LLP/HDPE were up 59/30/26% YoY, but copra prices were down 5% YoY and 11% QoQ. Employee/adv/other expenses grew by 6/8/11% YoY. EBITDA margin contracted 207bps YoY to 17.5% (+26bps in Q2FY21 and -521bps in Q1FY22). EBITDA grew 9% YoY (HSIE 3%). Domestic EBIT margin dipped 263bps YoY (+12bps in Q2FY21) while international margin expanded by 78bps YoY (+120bps in Q2FY21).
- **Con call takeaways:** (1) Mobility is at the pre-pandemic level with further positive signs visible. (2) The company gained market share in 90% of its India portfolio. (3) While rural demand saw sequential moderation, it continued to grow on a YoY basis. (4) It sees Vietnam business as remaining soft in the near term and gradually picking up pace as the government eases restrictions. (5) Digital only portfolio will be scaled to INR 4.5-5bn by FY24.

### Quarterly/annual financial summary

| YE Mar (INR mn) | Q2FY22 | Q2FY21 | YoY (%) | Q1FY22 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 24,190 | 19,890 | 21.6 | 25,250 | (4.2) | 80,480 | 96,861 | 104,892 | 114,830 |
| EBITDA | 4,230 | 3,890 | 8.7 | 4,810 | (12.1) | 15,880 | 18,006 | 21,802 | 24,530 |
| APAT | 3,090 | 2,888 | 7.0 | 3,560 | (13.2) | 11,620 | 13,040 | 15,961 | 18,126 |
| Diluted EPS (INR) | 2.39 | 2.24 | 7.0 | 2.76 | (13.2) | 9.0 | 10.1 | 12.4 | 14.1 |
| P/E (x) | | | | | | 62.6 | 55.8 | 45.6 | 40.1 |
| EV / EBITDA (x) | | | | | | 45.9 | 40.4 | 33.4 | 29.7 |
| RoCE (%) | | | | | | 55.2 | 66.3 | 74.8 | 82.4 |

Source: Company, HSIE Research

## ADD

| | |
|---|---|
| CMP *(as on 28 Oct 2021)* | INR 564 |
| Target Price | INR 600 |
| NIFTY | 17,857 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | ADD | ADD |
| Price Target | INR 600 | INR 600 |
| EPS % | FY22E | FY23E |
| | 0% | 0% |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | MRCO IN |
| No. of Shares (mn) | 1,291 |
| MCap (INR bn) / ($ mn) | 729/9,794 |
| 6m avg traded value (INR mn) | 1,520 |
| 52 Week high / low | INR 608/350 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 6.5 | 37.2 | 55.5 |
| Relative (%) | (7.9) | 16.6 | 5.2 |

| SHAREHOLDING PATTERN (%) | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 59.61 | 59.52 |
| FIs & Local MFs | 9.54 | 8.50 |
| FPIs | 24.98 | 25.92 |
| Public & Others | 5.84 | 6.06 |
| Pledged Shares | 0.00 | 0.00 |

*Source : BSE*

Pledged shares as % of total shares

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# United Spirits

## In-line volume; favourable mix beats margin

**UNSP reported a strong beat on revenue and EBITDA margin. Net revenue was up 14% YoY (HSIE 8%) while volume was in line at 20.5mn cases, up 3% YoY. The super premium portfolio continued to grow strongly, leading to P&A realisation growth of 14% to INR 1,605/case. Thereby, gross margin expanded 207bps YoY to 44.2% (HSIE 44.6%) despite input cost pressure. The company saw strong EBITDA margin expansion of 483bps to 17.4% (adjusted EBITDA margin 16.4%, HSIE 15.2%), led by operating leverage. UNSP's EBITDA was up 58% YoY vs. 30% expected. Employee cost was up 19% YoY (-11% QoQ) to INR 1.66bn. A&P spend was down 3% YoY (+6% in Q2FY21). India is a spirit market with long-term premiumisation drivers. The new CEO is aiming for double-digit revenue growth on a sustainable basis through various initiatives for the P&A portfolio. It will also lead to better operating margin print in the coming years. We raise our EPS estimates for FY22/FY23/FY24 by 5% each. We value UNSP at 50x P/E on Sep-23E EPS (standalone) to derive a target price of INR 950 (including INR 48/share of non-core assets). Maintain ADD.**

- **In-line volume, favourable product mix:** Net revenue was up 14% YoY (-7% in Q2FY21 and +57% in Q1FY22, +8% HSIE). P&A revenue was up 21% (+1% in Q2FY21, +58% in Q1FY22, HSIE 8%), driven by strong premiumisation trend. Popular revenue was flat YoY (-12% in Q2FY21, +60% in Q1FY22, HSIE 4%). P&A volumes were up 6% YoY (flat in Q2FY21 and +60% in Q1FY22, HSIE 5%) while Popular volumes were flat YoY (-7% in Q2FY21 and +63% in Q1FY22, HSIE 4%). P&A realisation was up 14% (+1% in Q2FY22, -1% in Q1FY22) to INR 1,605/case. Popular realisation was flat YoY (-6% in Q2FY21, -4% in Q1FY22) to INR 673/case. We expect the premiumisation momentum to continue in the coming quarters.
- **Op-lev drives EBITDA margin:** Gross margin was up 207bps YoY and down 41bps QoQ to 44.2% (HSIE 44.6%). A&P spend was INR 1.78bn, at 7.3% of revenue, lower than our estimates. Employee costs were up 19% YoY to INR 1.63bn. Through operating leverage, the company expanded its EBITDA margin by 483bps to 17.4%; it was a miss on our estimate though (15.2%).
- **Con call takeaways:** (1) The company saw markets resuming faster than the first COVID wave recovery. (2) Off trade and on trade demand saw recovery. (3) The company has increased its focus on its gin portfolio and introduced a hipster Smirnoff in Vodka. (4) RCB is a core business for the company where it is seeing positive returns. (5) It may see policy-led tailwinds in case of a positive UK-India trade review and FTA. (6) Scotch is currently delivering in low double digits (of the overall portfolio) but, going forward, it may gain salience. (7) Capex is about 2-2.5% of revenue. (8) While inflation headwinds are seen, the company will continue to work on productivity pipeline, revenue management, and cogs productivity.

### Quarterly/annual financial summary (standalone)

| YE Mar (INR mn) | 2QFY22 | 2QFY21 | YoY (%) | 1QFY22 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 24,468 | 21,459 | 14.0 | 16,151 | 51.5 | 78,892 | 93,679 | 109,453 | 119,263 |
| EBITDA | 4,256 | 2,697 | 57.8 | 1,677 | 153.8 | 9,877 | 14,935 | 18,609 | 20,808 |
| APAT | 2,730 | 1,284 | 112.6 | 964 | 183.2 | 4,239 | 9,385 | 11,872 | 13,678 |
| Diluted EPS (INR) | 3.8 | 1.8 | 112.6 | 1.3 | 183.2 | 5.8 | 12.9 | 16.3 | 18.8 |
| P/E (x) | | | | | | 153.2 | 69.2 | 54.7 | 47.5 |
| EV / EBITDA (x) | | | | | | 66.4 | 43.6 | 34.6 | 30.5 |
| RoIC (%) | | | | | | 11.2 | 20.4 | 22.6 | 23.5 |

Source: Company, HSIE Research

## ADD

| | |
|---|---|
| CMP *(as on 28 Oct 2021)* | INR 894 |
| Target Price | INR 950 |
| NIFTY | 17,857 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | ADD | ADD |
| Price Target | INR 900 | INR 950 |
| | FY22E | FY23E |
| EPS % | 5% | 5% |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | UNSP IN |
| No. of Shares (mn) | 727 |
| MCap (INR bn) / ($ mn) | 649/8,727 |
| 6m avg traded value (INR mn) | 1,898 |
| 52 Week high / low | INR 945/495 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 40.5 | 66.7 | 74.4 |
| Relative (%) | 26.2 | 46.1 | 24.1 |

| SHAREHOLDING PATTERN (%) | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 56.76 | 56.73 |
| FIs & Local MFs | 8.30 | 9.65 |
| FPIs | 18.98 | 19.08 |
| Public & Others | 16.05 | 14.54 |
| Pledged Shares | 0.67 | 0.67 |

*Source : BSE*

Pledged shares as % of total shares

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# Colgate Palmolive

## Uninspiring show

**Colgate's Q2FY22 net revenue and EBITDA were below our estimates. Net revenue grew by 5% YoY (HSIE 8%), +5% two-year CAGR (similar trajectory achieved in the past four quarters). Volume growth was ~2% YoY (HSIE 5%) and 2.5% on two-year CAGR. Its go-to-market approach continues to see adoption of new business models and approaches as it expands its brands across different platforms. Overall penetration trends remain strong and are favourable quarter on quarter. Gross margin contracted by 130/232bps YoY/QoQ to 67%, after expanding for the past four quarters. While the company took price hikes at the end of the quarter, their impact was not visible. A&P grew by 13/16% YoY/QoQ in Q2FY21, while employee/other expenses were up 8/4%. EBITDA margin contracted by 221bps YoY to 29.6% (+541bps in Q2FY21, +87bps in Q1FY22) vs. HSIE 31%. We cut EPS estimates for FY22/FY23/FY24 by 1-2%. We value Colgate at 42x P/E on Sep-23E EPS and derive a target price of INR 1,800. Maintain ADD.**

- **Revenue below estimates; penetration trends strong:** Net revenue grew by 5% YoY (+5% in Q2FY21 and +12% in Q1FY22). Volume grew ~2% (+3% in Q2FY21, +8% in Q1FY22). The freshness and base segments saw good growth trajectory. While the premium launches are performing well, the company sees this segment growing in the long run but does not expect benefits to be visible in the short to medium term. The overall penetration trends remained strong. Rural performance outpaced urban growth.
- **Miss in EBITDA margin:** Gross margin contracted by 130bps YoY (+339bps in Q2FY21 and +301bps in Q1FY22) to 66.8% (67.3% HSIE) due to cost pressures coming from the rise in crude and flavour prices. Employee expenses grew 8% YoY (+18% Q2FY21), while A&P was up 13% YoY (-6% Q2FY21). Other expenses were up 4% YoY. EBITDA margin was down 221bps YoY (+541bps in Q2FY21 and +87bps in Q1FY22) to 29.6%, below our expectation of 31%. EBITDA declined by 2% YoY (HSIE +5%).
- **Press release takeaways:** (1) The overall growth momentum across brands and categories showed consistent growth trend with good QoQ recovery on volume. (2) The overall penetration trends remain strong. (3) The company saw continued strengthening of its brands and recent innovative launches. (4) Its go-to-market approach is seeing good adoption of new business models and approaches as it expands its brands across different platforms.

### Quarterly/annual financial summary

| YE Mar (INR mn) | 2Q FY22 | 2Q FY21 | YoY (%) | 1Q FY22 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 13,524 | 12,855 | *5.2* | 11,660 | *16.0* | 48,412 | 51,987 | 55,915 | 60,019 |
| EBITDA | 4,008 | 4,093 | *(2.1)* | 3,552 | *12.8* | 15,096 | 15,660 | 16,800 | 18,100 |
| APAT | 2,692 | 2,742 | *(1.8)* | 2,332 | *15.4* | 10,354 | 10,447 | 11,255 | 12,122 |
| Diluted EPS (Rs) | 9.9 | 10.1 | *(1.8)* | 8.6 | *15.4* | 38.0 | 38.4 | 41.3 | 44.5 |
| P/E (x) | | | | | | 40.3 | 39.9 | 37.1 | 34.4 |
| EV / EBITDA (x) | | | | | | 27.1 | 26.3 | 24.4 | 22.6 |
| RoCE (%) | | | | | | 118.4 | 183.7 | 165.3 | 203.2 |

Source: Company, HSIE Research

## ADD

| | |
|---|---|
| CMP *(as on 25 Oct 2021)* | INR 1,533 |
| Target Price | INR 1,800 |
| NIFTY | 18,125 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | ADD | ADD |
| Price Target | INR 1,846 | INR 1,800 |
| EPS % | FY22E | FY23E |
| | -1% | -2% |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | CLGT IN |
| No. of Shares (mn) | 272 |
| MCap (INR bn) / ($ mn) | 417/5,604 |
| 6m avg traded value (INR mn) | 949 |
| 52 Week high / low | INR 1,823/1,434 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | (16.6) | 1.3 | 4.7 |
| Relative (%) | (29.7) | (26.1) | (45.2) |

| SHAREHOLDING PATTERN (%) | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 51.00 | 51.00 |
| FIs & Local MFs | 8.21 | 6.42 |
| FPIs | 18.61 | 19.14 |
| Public & Others | 22.14 | 23.44 |
| Pledged Shares | 0.00 | 0.00 |

*Source : BSE*

Pledged shares as % of total shares

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# Crompton Consumer

## ECD share gain story continues; beat on margin

**Crompton's Q2FY22 was a marginal miss in revenue but beat in margin. Revenue was up 14% (HSIE 20%) with ECD clocking 18% growth (HSIE 21%, 18% two-year CAGR). Lighting was a dragger (mainly due to B-G business, B-C up by 19% YoY), reporting 2% growth (HSIE 18%, flat two-year CAGR). Within ECD, fans registered 17% growth (20% two-year CAGR) with premium fans growing >40%. Crompton gained market share in fans (2.7% in premium and 1.8% overall) during the last 12 months (only player gained as per retail pulse). Appliance business continued to deliver excellent growth (34% CAGR), while pump was slow at 8% growth. However, margin performance was the showstopper. Crompton clocked 15.5% EBITDA margin (HSIE 14.7%), only a 30bps YoY dip, despite the high commodity inflation and unfavorable base (+373bps in Q2FY21). EBITDA grew by 12% YoY and 29% on a two-year CAGR. Growth outlook remains positive with expectation of sustaining a healthy margin. We maintain our estimates and value Crompton at 42x P/E on FY24E EPS to derive a TP of INR 575. Maintain BUY.**

- **Slight miss on revenue, ECD delivers:** Net revenue grew by 14% YoY (+13% in Q2FY21 and 46% in Q1FY22, HSIE 20%). ECD saw 18% YoY growth (+18% in Q2FY21, 48% in Q1FY22, HSIE 21%). It has continued to gain market share in fans with super premium and premium fans growing 40% and 44% YoY respectively. Appliances grew 37% YoY with geysers, mixer grinder, and iron growing 33%, 56%, and 31% respectively. ECD was up 18% on two-year CAGR vs. 22% each for Havells/Orient. Lighting revenue was up by 2% YoY (-2% in Q2FY21, +34% in Q1FY22, HSIE +18%). B-C lighting registered 19% growth. Lighting was flat on two-year CAGR vs. 18/7% for Havells/Orient.
- **Positive surprise on margin:** GM contracted by 94/30bps YoY/QoQ to 32% (+106bps in Q2FY21 and -19bps in Q1FY22). Commodity headwinds continue to impact margins. Lighting EBIT margin was at 11%, -30bps YoY (+651bps in Q2FY21 and +462bps in Q1FY22). ECD EBIT margin was flat at 21% (+182bps in Q2FY21 and -288bps in Q1FY22). Employee/other expenses grew by 21/3% YoY. EBITDA margin, at 15.5%, saw 30bps YoY contraction (+372bps in Q2FY21 and -215bps in Q1FY22) vs expectation of 14.7%. EBITDA grew by 12% YoY to INR 2,141mn (HSIE INR 2,148mn). PBT clocked 19% YoY growth. APAT grew by 20%.
- **Con call takeaways:** (1) Premiumisation was significant focus for the company. (2) Primary and secondary sales are in line with no significant channel inventory build-up. (3) The premium end has seen good volume and value growth, so there has been no down-trading. Entry level volumes are, however, under pressure. (4) Margin improvement at GM level was achieved in Q1 but, with higher volume in Q2, the benefit has flown down to bottom line. (5) R&D budgets have increased significantly.

### Quarterly/Annual Financial summary

| YE Mar (INR mn) | 2QFY22 | 2QFY21 | YoY (%) | 1QFY22 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 13,848 | 12,132 | 14.1 | 10,505 | 31.8 | 47,500 | 56,470 | 65,458 | 73,312 |
| EBITDA | 2,141 | 1,913 | 12.0 | 1,250 | 71.2 | 7,047 | 8,141 | 9,560 | 10,899 |
| APAT | 1,705 | 1,417 | 20.3 | 948 | 79.9 | 5,345 | 6,323 | 7,529 | 8,589 |
| Diluted EPS (INR) | 2.71 | 2.26 | 20.2 | 1.51 | 79.8 | 8.5 | 10.1 | 12.0 | 13.7 |
| P/E (x) | | | | | | 53.0 | 44.8 | 37.6 | 33.0 |
| EV / EBITDA (x) | | | | | | 38.9 | 33.4 | 28.2 | 24.6 |
| RoCE (%) | | | | | | 55.3 | 55.3 | 58.9 | 61.7 |

Source: Company, HSIE Research

## BUY

| | |
|---|---|
| CMP *(as on 25 Oct 2021)* | INR 451 |
| Target Price | INR 575 |
| NIFTY | 18,125 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | BUY | BUY |
| Price Target | INR 575 | INR 575 |
| | FY22E | FY23E |
| EPS % | 0% | 0% |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | CROMPTON IN |
| No. of Shares (mn) | 628 |
| MCap (Rs bn) / ($ mn) | 283/3,804 |
| 6m avg traded value (INR mn) | 806 |
| 52 Week high / low | INR 513/286 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | (1.7) | 27.2 | 47.8 |
| Relative (%) | (16.8) | (0.2) | (2.1) |

| SHAREHOLDING PATTERN (%) | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 5.99 | 5.99 |
| FIs & Local MFs | 43.68 | 42.30 |
| FPIs | 40.14 | 41.47 |
| Public & Others | 10.19 | 10.24 |
| Pledged Shares | 0.00 | 0.00 |

*Source : BSE*

Pledged shares as % of total shares

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# Emami

## Steady revenue growth; beat in margin

**Emami posted steady revenue growth and beat in EBITDA margin. Revenue/EBITDA were up 7/8% YoY (HSIE 9/-1%). The two-year CAGR was at 9%. Domestic revenue/volume growth was at 9/6% YoY, clocking a two-year CAGR of 11/8% vs. Nestle's 10/9%, Marico's 15/9%, Colgate's 5/2% and HUL's 7/2%. Growth was broad-based, except for Navratna, which declined 9% YoY, but was up 2% on two-year CAGR. The immunity portfolio in healthcare, too, saw pressure as fears of COVID receded. Rural demand has slowed down in the past four weeks. Emami continues to expand its footprint in ecommerce, which now accounts for 4% of the domestic revenue. We expect margin to remain under pressure in H2FY22 due to the increase in commodity costs and a strong H2FY21 base. We maintain our EPS estimates for FY23/24. We value Emami at 25x P/E on Sep-23E EPS to derive a TP of INR 500. Maintain REDUCE.**

- **Slight miss on revenue:** Net revenue grew by 7% YoY (11% in Q2FY21, +37% in Q1FY21) vs. HSIE 9%. Demand trends were steady across most of the company's brands. Domestic/international/CSD revenue grew 9/-6/29% YoY. Boroplus/male grooming/Kesh King/7 Oils in One grew 29/15/15/50% YoY. Despite the large base, pain management/healthcare clocked 6/5% YoY and 18/26% two-year CAGR. Navratna declined 9% YoY; however, it was up 2% on two-year CAGR. The company saw strong MT (+31% YoY) and ecommerce (2.2x YoY) performance, with the latter accounting for 4% of the domestic revenue. The international business declined 6% YoY due to the impact from COVID and a high base of personal hygiene sales.
- **Beat in margins through pricing actions and efficiencies:** GM dipped by 150bps YoY (+55bps in Q2FY21, -47bps in Q1FY22) to 68.8% (HSIE 67%). Employee/advertising/other expenses grew by 5/-3/7% YoY. EBITDA margin expanded by 15bps YoY (+575bps in Q2FY21, +13bps in Q1FY22). EBITDA grew by 8% YoY (HSIE -1%). We expect margin to be under pressure in H2FY22 due to the increase in commodity costs and a strong H2FY21 base. Further, the company has guided for higher A&P spends in H2FY22 as it plans to shift its unused budget from H1 to H2. We model EBITDA margin close to 30% for FY22-24 (27/26% in FY19/20).
- **Con call takeaways:** (1) Emami saw an improvement in demand, including discretionary categories, as mobility levels increased. (2) Demand trends were steady for most of its brands, despite the high bases; however, the immunity portfolio slowed down as fears of COVID subsided. (3) Rural areas have witnessed broad-based slowdown over the past four weeks. (4) Emami expects 80-100bps YoY GM contraction for FY22. (5) Its A&P spends will be higher in H2FY22 as it plans to use the unspent ad budget from H1FY22.

### Quarterly/annual financial summary

| YE Mar (INR mn) | Q2FY22 | Q2FY21 | YoY (%) | Q1FY22 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 7,888 | 7,348 | 7.4 | 6,610 | 19.3 | 28,805 | 32,768 | 35,529 | 38,730 |
| EBITDA | 2,772 | 2,571 | 7.8 | 1,697 | 63.3 | 8,831 | 9,945 | 10,796 | 11,928 |
| APAT | 2,348 | 1,937 | 21.2 | 1,266 | 85.4 | 6,680 | 7,566 | 8,153 | 9,332 |
| Diluted EPS (INR) | 5.28 | 4.36 | 21.2 | 2.85 | 85.4 | 15.0 | 17.0 | 18.3 | 21.0 |
| P/E (x) | | | | | | 35.3 | 31.2 | 28.9 | 25.3 |
| EV / EBITDA (x) | | | | | | 26.3 | 23.0 | 20.9 | 18.6 |
| RoCE (%) | | | | | | 34.6 | 49.7 | 60.6 | 65.8 |

Source: Company, HSIE Research

## REDUCE

| | |
|---|---|
| CMP *(as on 29 Oct 2021)* | INR 531 |
| Target Price | INR 500 |
| NIFTY | 17,672 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | REDUCE | REDUCE |
| Price Target | INR 500 | INR 500 |
| EPS % | FY22E | FY23E |
| | +2% | 0% |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | HMN IN |
| No. of Shares (mn) | 445 |
| MCap (INR bn) / ($ mn) | 236/3,173 |
| 6m avg traded value (INR mn) | 395 |
| 52 Week high / low | INR 622/344 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | (3.7) | 6.9 | 46.4 |
| Relative (%) | (16.4) | (12.3) | (2.8) |

| SHAREHOLDING PATTERN (%) | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 53.86 | 53.86 |
| FIs & Local MFs | 24.48 | 24.17 |
| FPIs | 12.49 | 12.71 |
| Public & Others | 9.17 | 9.26 |
| Pledged Shares | 16.65 | 16.91 |

*Source : BSE*

Pledged shares as % of total shares

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# Radico Khaitan

## Robust P&A volume growth; miss in margin

**Radico delivered beat in revenue (largely on P&A volume) with miss in margin. Net revenue growth was at 13% (+11% in Q2FY21 and +47% in Q1FY22, HSIE 10%), while two-year CAGR came in at 11% vs 3% posted by UNSP. P&A volume grew 18% (HSIE 12%) to 1.99mn cases, with two-year CAGR at 10%. Radico's growth outperformance sustained in P&A (industry clocked 7% growth; UNSP clocked 3% two-year CAGR in Q2). P&A realisation was maintained YoY/QoQ to INR 1,480/case. Commodity inflation, especially in the non-IMFL segment, exerted pressure on gross margin (GM) while IMFL benefitted from a higher share of P&A. GM contracted by 306/160bps YoY/QoQ to 46% (HSIE 48.7%). Thereby, EBITDA saw a miss and grew by 4% YoY (HSIE 7%). Radico recently launched two super premium brands in whiskey and vodka, in line with its strategy to improve its P&A portfolio. With recovery in demand and further super premium launches in the pipeline, Radico can sustain the healthy trend. We maintain our FY23/24 EPS estimates while cut FY22 EPS by 3% due to margin pressure. We value Radico at 38x PE on Sep-23E EPS to derive a TP of INR 1,200. Maintain ADD.**

- **Strong P&A volume growth:** Net revenue grew by 12.5% YoY (+10.5% in Q2FY21 and +47% in Q1FY22; HSIE 10%). P&A and Popular revenues grew (YoY) 22% (15% two-year CAGR) and 10% (6% two-year CAGR). IMFL volume was up by 7% YoY to 6.47mn cases. P&A volume grew by 18% YoY (+4% in Q2FY21 and +41% in Q1FY22; 12% HSIE). Popular volume was up by 3% YoY (+5% in Q2FY21 and +67% in Q1FY22; 5% HSIE). The company launched Royal Ranthambore Heritage Collection-Royal Crafted Whisky and two variants (gold and silver) of Magic Moments Dazzle Vodka in Q2FY22.
- **Inflation impacts margin:** GM declined by 306/169bps YoY/QoQ to 45.9% (+91bps in Q2FY21 and -706bps in Q1FY22; -25bps HSIE). The company maintained its guidance of A&SP spends to be around 7-8% of IMFL revenue, double digit on P&A segment revenue. Employee costs were up 25% YoY (-35% in Q2FY21) while other expenses were up 11% YoY. EBITDA margin contracted 130bps YoY to 15.7% (+182bps in Q2FY21 and -325bps in Q1FY22) vs. HSIE 16.6%. EBITDA grew by 4% YoY (HSIE 7%).
- **Con call takeaways:** (1) The market conditions have normalised and the company is seeing broad-based demand across states and brands. (2) Export was impacted by higher freight rate - a temporary phenomenon. (3) The non-IMFL segment margin was impacted by significant increase in packaging material. (4) The company will take its new brands across India by FY23. (5) Industry volume growth in Q2 was 7%, in line with the company's growth; however, P&A grew faster for the company. (6) In Vodka, it has 58-60% market share and the new launches will give it widespread coverage.

### Quarterly/annual financial summary

| YE Mar (INR mn) | Q2FY22 | Q2FY21 | YoY (%) | Q1FY22 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 7,088 | 6,301 | 12.5 | 6,028 | 17.6 | 24,181 | 28,847 | 32,594 | 35,971 |
| EBITDA | 1,115 | 1,072 | 3.9 | 921 | 21.0 | 4,089 | 4,738 | 5,729 | 6,467 |
| APAT | 692 | 724 | (4.4) | 598 | 15.7 | 2,706 | 3,108 | 3,916 | 4,483 |
| Diluted EPS (INR) | 5.2 | 5.4 | (4.4) | 4.5 | 15.7 | 20.3 | 23.3 | 29.3 | 33.6 |
| P/E (x) | | | | | | 50.4 | 43.9 | 34.8 | 30.4 |
| EV / EBITDA (x) | | | | | | 33.6 | 28.7 | 23.3 | 20.1 |
| RoCE (%) | | | | | | 13.6 | 14.7 | 17.1 | 18.9 |

Source: Company, HSIE Research

**ADD**

| | |
|---|---|
| **CMP *(as on 3 Nov 2021)*** | **INR 1,021** |
| **Target Price** | **INR 1,200** |
| **NIFTY** | **17,829** |

| **KEY CHANGES** | **OLD** | **NEW** |
|---|---|---|
| Rating | ADD | ADD |
| Price Target | INR 1,200 | INR 1,200 |
| EPS % | FY22E | FY23E |
| | -3% | 0% |

| **KEY STOCK DATA** | |
|---|---|
| Bloomberg code | RDCK IN |
| No. of Shares (mn) | 134 |
| MCap (INR bn) / ($ mn) | 136/1,833 |
| 6m avg traded value (INR mn) | 684 |
| 52 Week high / low | INR 1,215/418 |

| **STOCK PERFORMANCE (%)** | **3M** | **6M** | **12M** |
|---|---|---|---|
| Absolute (%) | 15.1 | 81.6 | 142.9 |
| Relative (%) | 4.1 | 58.9 | 94.4 |

| **SHAREHOLDING PATTERN (%)** | **Jun-21** | **Sep-21** |
|---|---|---|
| Promoters | 40.29 | 40.27 |
| FIs & Local MFs | 18.16 | 18.64 |
| FPIs | 19.78 | 20.06 |
| Public & Others | 21.77 | 21.03 |
| Pledged Shares | 0.00 | 0.00 |

*Source : BSE*

Pledged shares as % of total shares

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# Infrastructure, Construction

# G R Infraprojects

## Ordering pick-up awaited

**G R Infra (GRIL) delivered a subdued performance, missing revenue/EBITDA /APAT by 11/16/12%. Execution was affected by the monsoon and commodity price volatility impacted margins. GRIL awaits AD on seven HAM assets, which is likely to be received in Q4FY22. Revenue contribution from these assets will be substantial from FY23 onwards. For FY22, the company has guided for revenue growth of 5-10%, with EBITDA margin of 17%. It is foraying into Power T&D EPC/asset ownership. It plans to bid independently for projects worth INR 20-30bn in H2FY22, with a view to monetising them after completion. We maintain BUY with an unchanged TP of INR 2,372 (18x Sep-23E EPS, HAM 1.2x P/BV).**

- **Financial performance highlights:** Revenue: INR 17bn (+45%/-20% YoY/QoQ, 11% miss). EBITDA: INR 2.8bn (+8%/-20% YoY/QoQ, 16% miss). EBITDA margin, at 16.4% (-562/+16bps YoY/QoQ), was muted annually due to absence of completion bonus, and came in below our estimate of 17.3%. RPAT/APAT: INR 1.6bn (+16%/-20% YoY/QoQ, a 12% miss). Seven HAM projects are awaiting AD, which is expected in Q4FY22. FY22 revenue growth is pegged at 5-10%, with EBITDA margin at 17%.
- **Foray into Power T&D EPC/asset ownership**: GRIL has taken a step toward entering the EPC work in power transmission segment by establishing a business vertical and a bidding team. Its existing capacities like galvanizing plant in Ahmedabad and other manufacturing units complement this new segment. The initial step would be to bid on projects of less than INR 10bn and an IRR of at least 20%, as an independent bidder. GRIL will be bidding for 4-5 projects worth INR 20-30bn in H2FY22. It expects to win 1-2 projects worth INR 5-7bn each, with a cumulative equity requirement of INR 3-4bn (over two years). It plans to monetise the asset after it is completed.
- **Order book (OB) stable, new wins awaited:** The OB stands at INR 158bn, excluding an L1 of INR 6bn. Seven HAM projects worth INR 80bn have yet to enter the execution phase and are awaiting AD, which is expected in Q4. GRIL is aiming to maintain 2.5-3x book to bill ratio. The current OB consists of 95% of road projects and, in 3-5 years, the company expects non-road segments to make up for 15-20% of the OB.
- **Asset monetisation being worked on:** GRIL has 16 HAM assets, of which 7/2/7 are operational/under-construction/awaiting AD. The required equity is INR 14bn, which will be invested over the next 2-2.5 years. As of Sep-21, INR 12bn of capital is already invested in them. With interest rates low, management believes that now is the time to monetise some assets, either via InVIT or asset sale, and expects to have a mechanism in place over the next six months. Total Capex FYTD is INR 1.3bn, with a maximum of INR 3bn expected for FY22. The standalone debt is INR 12bn (INR 14.4bn, as of Jun-21), with a D/E ratio of 0.34x (0.45x as of Jun-21).

### Standalone Financial Summary (INR Mn)

| YE March | Q2FY22 | Q2FY21 | YoY (%) | Q1FY22 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 16,995 | 11,683 | *45.5* | 21,332 | *(20.3)* | 70,406 | 85,274 | 1,00,127 | 1,13,991 |
| EBITDA | 2,779.0 | 2,567 | *8.3* | 3,454 | *(19.5)* | 11,065 | 14,319 | 17,575 | 20,663 |
| APAT | 1,630 | 1,411 | *15.6* | 2,036 | *(19.9)* | 5,806 | 7,390 | 9,432 | 11,771 |
| EPS (INR) | 16.9 | 14.6 | *15.6* | 21.1 | *(19.9)* | 60.0 | 76.4 | 97.5 | 121.7 |
| P/E (x) | | | | | | 33.3 | 26.2 | 20.5 | 16.4 |
| EV/EBITDA (x) | | | | | | 18.6 | 14.4 | 11.6 | 9.9 |
| RoE (%) | | | | | | 18.1 | 18.4 | 19.0 | 19.1 |

Source: Company, HSIE Research

## BUY

| | |
|---|---|
| **CMP*(as on 16 Nov 2021)*** | **INR 2,001** |
| **Target Price** | **INR 2,372** |
| **NIFTY** | **17,999** |

| **KEY CHANGES** | **OLD** | **NEW** | |
|---|---|---|---|
| Rating | BUY | BUY | |
| Price Target | INR 2,372 | INR 2,372 | |
| EPS Change % | FY22E | FY23E | FY24E |
| | - | - | - |

| **KEY STOCK DATA** | |
|---|---|
| Bloomberg code | GRINFRA IN |
| No. of Shares (mn) | 97 |
| MCap (INR bn) / ($ mn) | 194/2,600 |
| 6m avg traded value (INR mn) | - |
| 52 Week high / low | INR 2,277/1,543 |

| **STOCK PERFORMANCE (%)** | **3M** | **6M** | **12M** |
|---|---|---|---|
| Absolute (%) | 24.9 | - | - |
| Relative (%) | 16.4 | - | - |

| **SHAREHOLDING PATTERN (%)** | **Jul-21** | **Sep-21** |
|---|---|---|
| Promoters | 86.54 | 86.54 |
| FIs & Local MFs | 3.25 | 7.09 |
| FPIs | 2.28 | 2.87 |
| Public & Others | 7.93 | 3.50 |
| Pledged Shares | - | - |

*Source: BSE*

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# IRB Infra

## Platform ready

**IRB is platform ready with likely INR 53.5bn of fund infusion from Cintra and GIC. This shall tackle the twin issues of leverage and growth capital. Post infusion, the net D/E, at consolidated level, will see a decline to 1.2x from 2.1x currently and growth capital earmarked at INR 15bn will help in winning larger projects with potential asset addition of INR 200bn. This deal at IRB level is first of its kind in India and augurs well for creating a long-term asset growth platform for the company. We roll forward the valuation to Sep-23E, taking our SOTP TP to INR 345/sh (higher BOT valuation on better-than-expected toll growth and EPC rollover to Sep-23E). We shall factor in the deal once the infusion takes place.**

- **Q2FY22 mixed performance:** Revenue: INR 14.6bn (11% miss). EBITDA: INR 7.2bn (5.8% beat). EBITDA margin: 49% (-43/+593bps YoY/QoQ, est. 41%). IRB's share of losses from Private InvIT expanded to INR 356mn from INR 340mn in Q1FY22. APAT came in at INR 423mn (19% beat). Toll collection improved to pre-COVID levels across all BOT assets with the Mumbai-Pune project revenue growing at 39% YoY, thus becoming cash positive. BOT/TOT segmental revenue clocked in INR 4.4bn (+13/18% YoY/QoQ).
- **Largest equity fundraise by an Indian road developer at INR 53.5bn:** IRB will be bringing in Cintra, a Spain-based Ferrovial group company, and Bricklayers, a GIC affiliate, for an equity capital of INR 31.8bn (24.9% stake in holdco) and INR 21.6bn (16.9% stake in holdco) respectively, valued at INR 211.79 per preferential share. The combined proceeds of INR 53.5bn will be used to (1) de-lever the holdco domestic debt by INR 32.5bn, leaving ~INR 30bn of self-liquidating debt; (2) provide growth capital of INR 15bn which, on 7.5% equity commitment, gives potential additional asset size of INR 200bn with deployment timeline of 2-3 years: and (3) earmarking the remaining INR 6bn for general corporate purpose. The transaction is expected to be completed by Dec-21. IRB bagged one HAM project of INR 9bn during the quarter, taking the order book to INR 131bn.
- **Net debt to decrease:** The consolidated net debt rose to INR 148bn (vs INR 142bn in Jun-end), with net D/E at 2.1x. With fresh equity coming in from new investors, the net D/E, at consolidated level, will decrease to 1.2x.

### Consolidated financial summary

| (INR mn) | Q2FY22 | Q2FY21 | YoY (%) | Q1FY22 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 14,652 | 11,233 | 30.4 | 16,257 | (9.9) | 52,986 | 59,078 | 65,596 | 76,079 |
| EBITDA | 7,176 | 5,550 | 29.3 | 6,999 | 2.5 | 25,127 | 27,235 | 30,240 | 35,224 |
| APAT | 423 | (197) | 315.0 | 719 | (41.2) | 1,171 | 1,916 | 2,779 | 5,822 |
| EPS (INR) | 1.2 | (0.6) | 315.0 | 2.0 | (41.2) | 3.3 | 5.5 | 7.9 | 16.6 |
| P/E (x) | | | | | | 88.2 | 53.9 | 37.2 | 17.7 |
| EV/EBITDA (x) | | | | | | 10.3 | 10.0 | 9.0 | 7.8 |
| RoE (%) | | | | | | 1.7 | 2.7 | 3.9 | 7.8 |

### Consolidated estimate change summary

| | FY22E New | FY22E Old | % Chg. | FY23 New | FY23 Old | % Chg. |
|---|---|---|---|---|---|---|
| Revenues (Rs mn) | 59,078 | 58,345 | 1.3 | 65,596 | 63,471 | 3.3 |
| EBITDA (Rs mn) | 27,235 | 26,547 | 2.6 | 30,240 | 28,879 | 4.7 |
| Margin (%) | 46.1 | 45.5 | 60 | 46.1 | 45.5 | 60 |
| APAT (Rs mn) | 1,916 | 1,682 | 13.9 | 2,779 | 4,384 | (36.6) |

Source: Company, HSIE Research, Consolidated financials

## BUY

| | |
|---|---|
| CMP *(as on 26 Oct 2021)* | INR 292 |
| Target Price | INR 345 |
| NIFTY | 18,268 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | BUY | BUY |
| Price Target | INR 258 | INR 345 |
| EPS % | FY22E | FY23E |
| | 13.9 | -36.6 |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | IRB IN |
| No. of Shares (mn) | 351 |
| MCap (INR bn) / ($ mn) | 103/1,381 |
| 6m avg traded value (INR mn) | 1,028 |
| 52 Week high / low | INR 347/97 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 79.2 | 178.4 | 157.5 |
| Relative (%) | 63.1 | 151.6 | 104.6 |

| SHAREHOLDING PATTERN (%) | Jun -21 | Sep-21 |
|---|---|---|
| Promoters | 58.46 | 58.46 |
| FIs & Local MFs | 13.53 | 11.90 |
| FPIs | 14.41 | 13.34 |
| Public & Others | 13.60 | 16.3 |
| Pledged Shares | 10.00 | 10.00 |

*Source: BSE*

Pledged shares as % of total shares

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# Dilip Buildcon

## Weak financial performance

**Dilip Buildcon's (DBL) execution in the quarter was weak, missing our estimate at all levels. Slow execution in large projects; an extended monsoon; spike in commodity prices, especially bitumen, diesel and steel; and no early completion bonus suppressed EBITDA margin to 10.6%. High commodity price volatility has led to price escalation coverage reducing to 50-60% in EPC projects and 40% in EPC HAM, while the rest gets realised with annuity payments. Therefore, going forward, margins are likely to be in 14-15% range. To fund the equity requirement in HAM, DBL has subscribed to CPPIB NCDs worth INR 10bn. Ex-Cube deal HAMs, all completed HAMs will be monetised via a listed InVIT to get better equity valuation. We maintain BUY, however, given the margin pressure and cut our EPS along with TP to INR 722/sh (12x Sep-23E EPS, 1x P/BV HAM equity investment).**

- **Financial performance highlights:** Revenue was INR 21.5bn (+12%/0% YoY/QoQ, 28% miss); EBITDA margin, at 10.6%, contracted sharply (-534/-262bps YoY/QoQ, est. of 13.9%) on account of under-absorption of fixed overheads and elevated raw material prices; Exceptional item: INR 20mn profit from stake sale in eight subsidiaries. APAT: loss of INR 208mn (vs est. profit of INR 1.2bn). The topline is expected at INR 95-100bn for FY22, with margin expected to be around 14-15% for H2FY22.
- **NHAI restriction on bidding lifted; OI of INR 80-100bn in FY22:** The order book (OB), as of Sep-21, stood at INR 231bn, with INR 80-100bn expected in FY22. 47.15% of the OB is now road projects and this is likely to increase, following the lifting of restriction from bidding NHAI projects.
- **Tie-up with CPPIB; monetisation via listed InVIT:** DBL has 12 HAM assets earmarked for divestment, of which five have been committed to Cube for a consideration of INR 7.5bn (INR 3bn in FY22 and the rest in FY23). The remaining seven assets (INR 17.8bn monetisation estimate) will be transferred to a private listed InVIT, which shall be formed by Mar-22. Going forward, all completed HAMs will be transferred to this InVIT to better optimise the value of invested equity, given low bank rates. The total equity requirement in all 23 HAMs is INR 29bn, with 17.7bn invested till now. The remaining equity will be funded largely by proceeds from Cube deal and CPPIB deal. CPPIB under the deal has subscribed to NCDs worth INR 9.9bn issued by DBL Infra. The NWC days were at 127 and, with execution picking up in H2FY22, it is expected to decrease to 100 days.

### Standalone Financial Summary (INR mn)

| YE March | Q2FY22 | Q2FY21 | YoY (%) | Q1FY22 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 21,561 | 19,252 | 12.0 | 21,463 | 0.5 | 91,035 | 95,220 | 1,12,360 | 1,29,439 |
| EBITDA | 2,277 | 3,060 | (25.6) | 2,828 | (19.5) | 13,636 | 12,480 | 15,851 | 18,867 |
| APAT | (208) | 473 | (144.1) | 270 | (177.1) | 3,193 | 1,782 | 4,754 | 7,029 |
| EPS (INR) | (1.4) | 3.2 | (144.1) | 1.8 | (177.1) | 21.8 | 12.2 | 32.5 | 48.1 |
| P/E (x) | | | | | | 28.8 | 51.5 | 19.3 | 13.1 |
| EV/EBITDA (x) | | | | | | 8.6 | 2.3 | 2.0 | 1.8 |
| RoE (%) | | | | | | 8.5 | 4.2 | 9.8 | 12.9 |

### Standalone Estimate Change Summary

| Particulars (INR mn) | FY22E | | | FY23E | | | FY24E | | |
|---|---|---|---|---|---|---|---|---|---|
| | New | Old | Chg. (%) | New | Old | Chg. (%) | New | Old | Chg. (%) |
| Revenue | 95,220 | 1,10,507 | (13.8) | 1,12,360 | 1,30,398 | (13.8) | 1,29,439 | 1,49,958 | (13.7) |
| EBITDA | 12,480 | 15,469 | (19.3) | 15,851 | 18,921 | (16.2) | 18,867 | 22,025 | (14.3) |
| EBITDA (%) | 13.1 | 14.0 | (89) | 14.1 | 14.5 | (40) | 14.6 | 14.7 | (11) |
| APAT | 1,782 | 4,926 | (63.8) | 4,754 | 7,300 | (34.9) | 7,029 | 9,155 | (23.2) |

Source: Company, HSIE Research

## BUY

| CMP *(as on 12 Nov 2021)* | INR 629 |
|---|---|
| Target Price | INR 722 |
| NIFTY | 18,103 |

| KEY CHANGES | OLD | | NEW |
|---|---|---|---|
| Rating | BUY | | BUY |
| Price Target | INR 913 | | INR 722 |
| EPS Change % | FY22E | FY23E | FY24E |
| | *(63.8)* | *(34.9)* | *(23.2)* |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | DBL IN |
| No. of Shares (mn) | 146 |
| MCap (INR bn) / ($ mn) | 92/1,235 |
| 6m avg traded value (INR mn) | 326 |
| 52 Week high / low | INR 750/341 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 16.5 | 17.6 | 78.0 |
| Relative (%) | 5.9 | (7.1) | 38.0 |

| SHAREHOLDING PATTERN (%) | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 70.15 | 70.15 |
| FIs & Local MFs | 9.89 | 11.07 |
| FPIs | 11.63 | 10.79 |
| Public & Others | 8.33 | 7.99 |
| Pledged Shares | 17.88 | 17.53 |

*Source: BSE*

Pledged shares as % of total shares

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# PNC Infratech

## Robust performance

**PNC Infratech (PNC) reported a strong quarter with revenue/EBITDA/APAT of INR 16/2.2/1.4bn beating our estimates by 23/20/38%. The order inflow was tepid as the company did not win any awards in Q2. Management has maintained its guidance of ~20% topline growth and 13.5-13.7% EBITDA margin. Aligarh asset proceed is likely to flow in by the end of Nov-21; it will be partly used for funding INR 8bn of balance equity requirement in 11 HAM assets. However, PNC expects to meet this equity requirement mainly through internal accruals. In the water segment, it has INR 32bn worth of projects under JJM, and going forward, it expects to retain 25% of the order book (OB) under projects from this scheme. Given a strong OB and a comfortable balance sheet, we maintain BUY with an unchanged TP at INR 420 (15x Sep-23E).**

- **Strong financial performance:** Revenue: INR 16bn (+53%/+29% YoY/QoQ, a 23% beat); EBITDA: INR 2.2bn (+56% YoY, +26% QoQ, a 20% beat); EBITDA margin: 13.7% (+23/-30 bps YoY/QoQ, vs estimate of 14.0%). Interest cost came in at INR 243mn, (+12% YoY, +35% QoQ); APAT/RPAT: INR 1.4bn (+95% YoY, +45% QoQ, a 38% beat). Revenue from Jal Jeevan Mission (JJM) project is expected to start flowing in Q3FY22, with significant contribution from it to total revenue coming in Q4FY22. PNC expects annual growth of ~20% in FY22 topline, with margin in the range of 13.5-13.7%.
- **INR 1trn of JJM projects in UP, but focus remains on road EPC:** In the absence of order wins in Q2, the OB stands at INR 130bn (~2.7x FY21 revenue). Road EPC constitutes 72% of the OB with water & irrigation projects forming 28%. PNC expects an order inflow of INR 80bn in FY22 with INR 92bn already bid (EPC/HAM 30/70%). Under JJM, it has INR 32.6bn worth of projects in its OB, executable in two phases, with Phase 1 having INR 2.6bn worth of work (10% work completed). EBITDA margin is expected to be in the range of 13.5-14%. In FY22, INR 2-2.5bn is the expected revenue from these JJM projects. Water supply projects in UP worth INR 1trn are expected under JJM, funded equally by centre and state government. JJM projects are expected to remain at the same proportion of OB as they are now – at 25%.
- **Ghaziabad-Aligarh asset proceed likely by end of Nov-21**: For the Aligarh project, PNC has received "change in ownership" from the NHAI in the name of Cube Highways and, with two NOCs pending, the proceeds, which have yet to be finalised, are likely to come in by end of Nov-21. The company has received valuations for other five HAM and one BOT assets, but has yet to finalise them. It has not ruled out a divestment through InVIT. INR 6.7bn of equity has been infused in them. The total equity requirement for 11 HAM assets is INR 15bn, with INR 6.7bn already infused. The remainder will be infused in tranches of INR 3.3/3.2/2bn in H2FY22/FY23/FY24, with majority of the funds coming through internal accruals.

### Standalone Financial Summary (INR mn)

| YE March | Q2FY22 | Q2FY21 | YoY (%) | Q1FY22 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 16,150 | 10,535 | *53.3* | 12,512 | *29.1* | 49,254 | 58,120 | 67,140 | 75,533 |
| EBITDA | 2,216.2 | 1,421 | *56.0* | 1,754 | *26.3* | 6,728 | 7,981 | 9,370 | 10,856 |
| APAT | 1,353 | 692 | *95.5* | 933 | *45.1* | 3,619 | 4,704 | 5,899 | 7,129 |
| EPS (INR) | 5.3 | 2.7 | *95.5* | 3.6 | *45.1* | 14.1 | 18.3 | 23.0 | 27.8 |
| P/E (x) | | | | | | 23.3 | 17.9 | 14.3 | 11.8 |
| EV/EBITDA (x) | | | | | | 12.0 | 10.4 | 9.0 | 7.5 |
| RoE (%) | | | | | | 13.3 | 15.1 | 16.4 | 17.0 |

Source: Company, HSIE Research

## BUY

| | |
|---|---|
| **CMP** *(as on 15 Nov 2021)* | **INR 329** |
| **Target Price** | **INR 420** |
| **NIFTY** | **18,109** |

| **KEY CHANGES** | **OLD** | | **NEW** |
|---|---|---|---|
| Rating | BUY | | BUY |
| Price Target | INR 420 | | INR 420 |
| EPS Change % | FY22E | FY23E | FY24E |
| | - | - | - |

| **KEY STOCK DATA** | |
|---|---|
| Bloomberg code | PNCL IN |
| No. of Shares (mn) | 257 |
| MCap (INR bn) / ($ mn) | 84/1,134 |
| 6m avg traded value (INR mn) | 277 |
| 52 Week high / low | INR 396/157 |

| **STOCK PERFORMANCE (%)** | **3M** | **6M** | **12M** |
|---|---|---|---|
| Absolute (%) | 6.6 | 43.9 | 100.0 |
| Relative (%) | (2.9) | 19.3 | 60.9 |

| **SHAREHOLDING PATTERN (%)** | **Jun-21** | **Sep-21** |
|---|---|---|
| Promoters | 56.07 | 56.07 |
| FIs & Local MFs | 29.18 | 28.34 |
| FPIs | 9.32 | 11.57 |
| Public & Others | 5.43 | 4.02 |
| Pledged Shares | - | - |

*Source : BSE*

Pledged shares as % of total shares

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# KNR Constructions

## Strong performance

**KNR delivered a strong Q2FY22 financial performance with revenue/EBITDA/APAT beat of 13/27/37%. It allayed concerns on real estate investment of INR 500mn for a land in Hyderabad; management highlighted that it was earlier for collateral purpose but, later, the promoters advanced it to the company in order to nullify this impact. KNR has stated that it has no plans to enter the real estate development business. The asset monetisation deal with Cube is expected to be finalised by Dec-22. We maintain BUY with a TP of INR 331 (18x Sep-23E EPS, HAM 1x P/BV). We have changed our FY22/FY23 estimates by 1.9/-5.7% to factor in the guidance cut.**

- **Financial performance highlights:** · Revenue: INR 7.5bn (13% beat). EBITDA: INR 1.7bn (27% beat). EBITDA margin: 22.2% (+154/+281 bps YoY/QoQ); ahead of our estimate of 19.6%. RPAT/APAT: INR 952mn (37% beat). Gross debt, at INR 1bn, increased INR 992mn from Q1FY22. KNR has revised FY22E revenue guidance to INR 30bn (vs. INR 34bn) due to slowing down of irrigation execution and delayed appointed date (AD) in HAM projects. EBITDA margin is pegged at 19-20%.
- **Strong OB, work on INR 50bn projects yet to start:** The OB stands at INR 116bn (~4.3x FY21 revenue), with work on three HAM and one EPC amounting to INR 51bn yet to start. KNR has INR 33.4bn of HAM projects in Kerala, where aggregate mining is an issue and is costly at INR 25-30/cubic ft. It is buying an INR 970mn quarry land; with crusher and other equipment Capex, the landed price for KNR will be INR 16-18/cubic ft. This will ensure aggregate supplies to the project and aid margins. Following completion, KNR intends to sell this land at a similar price as land prices may increase once the highway is built. Order inflows in H2 are pegged at INR 20bn.
- **Irrigation receivables impacted by NGT stay on Palamuru project:** Gross debt stood at INR 1bn; KNR is now net cash, post receipt of INR 1.5bn irrigation payment in Nov-21. Irrigation receivables stand at INR 7bn, of which INR 3bn is attributable to the stalled Palamaru project (NGT has ordered a stay on projects where DPR approval is pending; the residual OB is INR 2.5bn). A part of the payment may be received by Dec-21 and the balance by Mar-22.

### Standalone Financial Summary (INR Mn)

| YE March | Q2FY22 | Q2FY21 | YoY (%) | Q1FY22 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 7,556 | 6,012 | *25.7* | 7,400 | *2.1* | 27,026 | 32,179 | 37,144 | 43,181 |
| EBITDA | 1,675 | 1,240 | *35.1* | 1,433 | *16.9* | 5,358 | 6,441 | 7,299 | 8,420 |
| APAT | 952 | 582 | *63.8* | 730 | *30.4* | 2,554 | 3,502 | 4,302 | 5,034 |
| EPS (INR) | 3.4 | 2.1 | *63.8* | 2.6 | *30.4* | 9.08 | 12.45 | 15.30 | 17.90 |
| P/E (x) | | | | | | 31.0 | 22.6 | 18.4 | 15.8 |
| EV/EBITDA (x) | | | | | | 14.6 | 12.3 | 10.8 | 9.4 |
| RoE (%) | | | | | | 14.6 | 17.5 | 18.5 | 18.5 |

### Standalone Estimate Change Summary

| Particulars (INR mn) | FY22E | | | FY23E | | | FY24E | | |
|---|---|---|---|---|---|---|---|---|---|
| | New | Old | *Chg (%)* | New | Old | *Chg (%)* | New | Old | *Chg (%)* |
| Revenues | 32,179 | 33,679 | *(4.5)* | 37,144 | 38,998 | *(4.8)* | 43,181 | 43,181 | - |
| EBITDA | 6,441 | 6,554 | *(1.7)* | 7,299 | 7,660 | *(4.7)* | 8,420 | 8,420 | - |
| Margin (%) | 20.0 | 19.5 | *55.6* | 19.6 | 19.6 | *0.7* | 19.5 | 19.5 | - |
| APAT | 3,502 | 3,438 | *1.9* | 4,302 | 4,562 | *(5.7)* | 5,034 | 5,034 | - |

Source: Company, HSIE Research

## BUY

| | |
|---|---|
| **CMP*(as on 15 Nov 2021)*** | **INR 282** |
| **Target Price** | **INR 331** |
| **NIFTY** | **18,109** |

| **KEY CHANGES** | **OLD** | **NEW** |
|---|---|---|
| Rating | BUY | BUY |
| Price Target | INR 340 | INR 331 |

| EPS Change % | FY22E | FY23E | FY24E |
|---|---|---|---|
| | *1.9* | *(5.7)* | - |

| **KEY STOCK DATA** | |
|---|---|
| Bloomberg code | KNRC IN |
| No. of Shares (mn) | 281 |
| MCap (INR bn) / ($ mn) | 79/1,066 |
| 6m avg traded value (INR mn) | 320 |
| 52 Week high / low | INR 344/129 |

| **STOCK PERFORMANCE (%)** | **3M** | **6M** | **12M** |
|---|---|---|---|
| Absolute (%) | (1.3) | 35.3 | 119.7 |
| Relative (%) | (10.8) | 10.7 | 80.6 |

| **SHAREHOLDING PATTERN (%)** | **Jun-21** | **Sep-21** |
|---|---|---|
| Promoters | 53.25 | 51.48 |
| FIs & Local MFs | 34.35 | 33.86 |
| FPIs | 2.29 | 4.29 |
| Public & Others | 10.11 | 10.37 |
| Pledged Shares | - | - |

*Source: BSE*

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# NCC

## All eyes on execution pick-up

**BUY**

| | |
|---|---|
| CMP *(as on 9 Nov 2021)* | INR 81 |
| Target Price | INR 116 |
| NIFTY | 18,044 |

| KEY CHANGES | OLD | | NEW |
|---|---|---|---|
| Rating | BUY | | BUY |
| Price Target | INR 125 | | INR 116 |
| EPS change % | FY22E | FY23E | FY24E |
| | -20.9 | -2.9 | -1.6 |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | NJCC IN |
| No. of Shares (mn) | 610 |
| MCap (INR bn) / ($ mn) | 49/662 |
| 6m avg traded value (INR mn) | 458 |
| 52 Week high / low | INR 100/35 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | (5.2) | 5.3 | 127.6 |
| Relative (%) | (16.2) | (17.5) | 85.7 |

| SHAREHOLDING PATTERN (%) | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 19.68 | 19.68 |
| FIs & Local MFs | 12.02 | 11.49 |
| FPIs | 13.40 | 13.26 |
| Public & Others | 54.09 | 55.54 |
| Pledged Shares | 3.28 | 3.39 |

*Source : BSE*

Pledged shares as % of total shares

**Higher raw material prices hurt NCC's revenue/EBITDA/APAT, which came in at INR 22/2.4/0.8bn, 2.6/8.5/16% below our expectations. With order inflow of INR 24bn in Q2FY22, the order backlog was at INR 391bn (5.4x FY21 revenue). NCC has not given an official guidance for FY22 but expects revenue of INR 90bn and EBITDA margin of 11-11.25% in the year. Order inflow is pegged at INR 150bn (INR 56bn achieved in H1FY22, L1 of INR 26bn). Given that labour is nearly at pre-COVID level, supply chain issues have smoothed out, and COVID impact has mitigated, the stock's rerating would be subject to execution picking up from Q3FY22. We maintain BUY with a TP of INR 116 (9x Sep-23E), given (1) growth visibility on a robust OB; (2) abating AP risk; and (3) balance sheet strengthening with INR 3.7bn inflow from Vizag land by Jun-22E.**

- **Q2FY22 financial highlights:** NCC reported revenue of INR 22bn (43/16% YoY/QoQ), a 2.6% miss. EBITDA came in at INR 2.4bn (13/18% YoY/QoQ, 8.5% miss). EBITDA margin fell 286bps YoY to 10.8% due to higher raw material prices (+367bps GM contraction YoY). APAT came in at INR 809mn (38/56% YoY/QoQ), a 16% miss. An exceptional gain of INR 311mn was realised on additional area allotment in an investment property.
- **Order book robust at ~5.4x FY21 revenue:** NCC secured INR 24bn of orders in Q2FY22, which resulted in an order backlog of INR 391bn (5.4x FY21 revenue), of which buildings/water & environment accounted for 57/22% and roads, electrical, irrigation and mining constituted 4-6% each. The management has shied away from providing an official guidance for the year as uncertainty of a third COVID wave persists; however, given the strong OB momentum, it believes 20-25% growth is achievable.
- **Closing FY22 with INR 18bn debt; land monetisation to help deleverage:** Gross debt increased to INR 21bn at Sep-21 end vs INR 19.3bn in Jun-21. The company is aiming for a debt level of INR 18bn by FY22 end. This shall be aided by INR 3.7bn of Vizag land sale inflows (Dec-21- INR 2.6bn, Mar/Jun-22- INR 0.6/0.6bn), while Capex for FY22 is budgeted at INR 2.5bn (INR 860mn incurred). Net receivables (including retention money) from AP running/halted projects stand at INR 6.5/2.5bn. NCC has a running AP order book of INR 50bn. The Sembcorp final hearing is expected in Apr-22.

### Financial summary standalone

| YE March (INR mn) | Q2FY22 | Q2FY21 | *YoY (%)* | Q1FY22 | *QoQ (%)* | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 21,990 | 15,408 | *42.7* | 18,926 | *16.2* | 72,557 | 100,693 | 123,940 | 138,592 |
| EBITDA | 2,366 | 2,098 | *12.8* | 1,997 | *18.5* | 8,545 | 11,046 | 15,121 | 17,185 |
| APAT | 809 | 584 | *38.5* | 517 | *56.5* | 2,611 | 3,852 | 6,652 | 8,170 |
| Diluted EPS (INR) | 1.3 | 1.0 | *38.5* | 0.85 | *56.5* | 4.3 | 6.3 | 10.9 | 13.4 |
| P/E (x) | | | | | | 18.9 | 12.8 | 7.4 | 6.0 |
| EV / EBITDA (x) | | | | | | 7.4 | 5.4 | 4.1 | 3.7 |
| RoE (%) | | | | | | 5.0 | 6.9 | 11.0 | 12.1 |

### Estimate change summary (standalone)

| Particulars (INR mn) | FY22E | | | FY23E | | | FY24E | | |
|---|---|---|---|---|---|---|---|---|---|
| | New | Old | % Chg. | New | Old | % Chg. | New | Old | % Chg. |
| Revenues | 100,693 | 102,869 | (2.1) | 123,940 | 123,940 | - | 138,592 | 139,525 | (0.7) |
| EBIDTA | 11,046 | 12,036 | (8.2) | 15,121 | 15,121 | - | 17,185 | 17,301 | (0.7) |
| Margins (%) | 11.0 | 11.7 | (73.0) | 12.2 | 12.2 | - | 12.4 | 12.4 | - |
| APAT | 3,852 | 4,867 | (20.9) | 6,652 | 6,849 | (2.9) | 8,170 | 8,302 | (1.6) |

Source: Company, HSIE Research

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# HG Infra

## Marginal miss

**HG Infra (HG) reported revenue/EBITDA/APAT of INR 7.5/1.2/0.7bn, a miss of 6.6/5.1/5.5%. NWC days are stable at 76 (71 in Mar-21), aided by timely government payment. HG is in advanced talks with potential investors about the monetisation of three HAM projects (COD by Q4FY22). If talks fructify, it may recycle INR 2.8bn of its equity investments at an implied valuation of 1x P/BV. The latest order book (OB) stands at INR 90bn (~3.6x FY21 revenue, INR 46bn under execution). Given robust order inflows and strong execution, we increase our EPS estimate. We maintain BUY with an increased SOTP-based TP of INR 920 (14x Sep-22E EPS, HAM 1x P/BV).**

- **Financial highlights:** HG reported revenue of INR 7.5bn (+60%/-18% YoY/QoQ, a 6.6% miss). EBITDA came in at INR 1.2bn (+58/-18% YoY/QoQ, a 5.1% miss). EBITDA margin was steady at 16.3% (-21/-4bps YoY/QoQ) and had a 0.3-0.4% impact of higher raw material prices. RPAT/APAT was INR 698mn (+2.1x/-21% YoY/QoQ, a 5.5% miss). Labour availability returned to pre-COVID level in Q2. HG raised its revenue/EBITDA guidance for FY22 to INR 34/5.5bn with EBITDA margin expected to be in the 16.7-17% range.
- **OB diversification in progress:** The OB stood at INR 68bn at the end of Sep-21 (inclusion of two new HAM orders, received in Oct-21, would take the OB to INR 90bn). FYTD order inflow is at INR 38.5bn, with HG expecting INR 22bn for H2FY22. In line with its diversification strategy, the company has bid for INR42bn of railway projects and INR 32bn of water supply projects through JJM scheme in collaboration with a JV partner. The appointed date (AD) for all five new HAMs is expected to be before Q1FY23.
- **NWC days stable; asset monetisation deal in near term:** The standalone net debt remained flat at INR 1.6bn (similar level as in Jun'21), with net D/E at 0.13x. HG NWC days were stable at 76 vs. 71 in Mar-21. Debtors, currently at INR 4.5bn, are likely to be reduced to INR 4bn by Mar-22. In nine HAM projects, equity invested until date stands at INR 2.76bn, of the total INR-11.9bn required by mid-FY25. INR 1.9/4.3/1.8bn will be invested in H2FY22/FY23/FY24 respectively. HG is in talks with buyers for asset monetisation of three HAM projects. These projects will be completed by Jan-22, with deal likely to be finalised in the next six months. HG is targeting for an equity valuation of at least 1x P/BV or INR 2.8bn. Private debtors have reduced - IRB at INR 1.4bn, Adani at INR 350mn, and Tata at INR 120mn.

### Standalone financial summary – INR mn

| YE March | Q2FY22 | Q2FY21 | YoY (%) | Q1FY22 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 7,496 | 4,674 | *60.4* | 9,117 | *(17.8)* | 25,275 | 33,502 | 37,949 | 42,579 |
| EBITDA | 1,218 | 769 | *58.3* | 1,485 | *(18.0)* | 4,107 | 5,285 | 6,045 | 6,606 |
| APAT | 698 | 327 | *113.8* | 889 | *(21.5)* | 2,110 | 3,058 | 3,439 | 3,728 |
| EPS (INR) | 10.7 | 5.0 | *113.8* | 13.6 | *(21.5)* | 32.4 | 46.9 | 52.8 | 57.2 |
| P/E (x) | | | | | | 22.9 | 15.8 | 14.0 | 12.9 |
| EV/EBITDA (x) | | | | | | 12.1 | 9.5 | 8.5 | 7.6 |
| RoE (%) | | | | | | 22.8 | 25.8 | 22.8 | 20.0 |

### Standalone Estimate Change Summary

| Particulars (INR mn) | FY22E | | | FY23E | | | FY24E | | |
|---|---|---|---|---|---|---|---|---|---|
| | New | Old | % Chg | New | Old | % Chg | New | Old | % Chg |
| Revenues | 33,502 | 30,802 | 8.8 | 37,949 | 35,449 | 7.1 | 42,579 | 40,766 | 4.4 |
| EBIDTA | 5,285 | 4,836 | 9.3 | 6,045 | 5,669 | 6.6 | 6,606 | 6,423 | 2.9 |
| EBIDTA Margins (%) | 15.8 | 15.7 | 0.5 | 15.9 | 16.0 | (0.4) | 15.5 | 15.8 | (1.5) |
| APAT | 3,058 | 2,584 | 18.3 | 3,439 | 3,063 | 12.3 | 3,728 | 3,484 | 7.0 |

Source: Company, HSIE Research, Standalone financials

## BUY

| | |
|---|---|
| CMP *(as on 10 Nov 2021)* | INR 740 |
| Target Price | INR 920 |
| NIFTY | 18,017 |

| KEY CHANGES | OLD | | NEW |
|---|---|---|---|
| Rating | BUY | | BUY |
| Price Target | INR 843 | | INR 920 |
| EPS Change % | FY22E | FY23E | FY24E |
| | *+18.3* | *+12.3* | *+7.0* |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | HGINFRA |
| No. of Shares (mn) | 65 |
| MCap (INR bn) / ($ mn) | 48/648 |
| 6m avg traded value (INR mn) | 216 |
| 52 Week high / low | INR 831/176 |

**STOCK PERFORMANCE (%)**

| | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 39.0 | 168.2 | 303.4 |
| Relative (%) | 28.4 | 146.3 | 263.9 |

**SHAREHOLDING PATTERN (%)**

| | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 74.53 | 74.53 |
| FIs & Local MFs | 16.48 | 14.64 |
| FPIs | 0.47 | 2.16 |
| Public & Others | 8.52 | 8.67 |
| Pledged Shares | - | - |

*Source: BSE*

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# Mahindra Lifespaces

## Back on track

**Mahindra Lifespaces Developers Ltd (MLDL) delivered better-than-expected financial performance with INR 65mn of profit vs INR 105mn loss expectation, aided by land sales in MWC. MLDL announced new JDA land bank addition in Dahisar East with an INR 10-bn presales potential, likely to be launched in FY23. The business development pipeline is robust with INR 30bn presales potential (MLDL is in advanced stages of negotiations on one outright land buy and two redevelopment projects) and expected closure over 6-9 months. The launch pipeline is healthy for H2FY22, with MLDL looking to sustain the Q2 presales of INR 3bn in each quarter. The industrial business is witnessing robust inquiries and traction due to a strong manufacturing push. Given the strong growth trajectory, robust balance sheet, trustworthy brand, and tailwinds for organised players, we remain constructive on MLDL and maintain a BUY rating with an unchanged NAV-based TP of INR 349/sh.**

- **Q2FY22 financial highlights:** Revenue: INR 592mn (92%/-60% YoY/QoQ, ~63% miss). EBITDA came in at INR 125mn (INR -179/-242mn in Q2FY21/Q1FY22, vs INR -185mn est.). Interest cost: INR 54mn (~2.4x/~4.3x YoY/QoQ). Other income: INR 182mn (INR 103/74mn Q2FY21/Q1FY22). RPAT/APAT: INR 65mn (INR -132/-139mn Q2FY21/Q1FY22) vs estimated loss of INR 104mn). Traction in the industrial business aided profitability.
- **Presales momentum robust:** Presales value for the quarter stood at INR 3.03bn (2.6x/2.1x YoY/QoQ, in line with our estimate of INR 3bn) and volume stood at 0.39msf (2.4x/2.1x YoY/QoQ). Collections came in at INR 1.7bn (+28%/-16% YoY/QoQ). Construction outflow was INR 700mn (INR 450/510mn in Q2FY21/Q1FY22). During the quarter, new launches were at 0.2msf (0.18/0 in Q2FY21/Q1FY22). Within IC&IC, the company leased 27.7acres to three customers for INR 742mn. The company has 4.95msf of projects with INR 23bn of future cash flows.
- **Turnaround in land bank addition:** MLDL announced INR 10bn of gross development value (GDV) addition in Dahisar and highlighted that it is in advanced stages of negotiations on INR 30bn GDV addition over the next 6-9 months. The prospects pipeline beyond nine months is robust. The new land addition has allayed concerns over presales growth.
- **Healthy balance sheet supportive of growth:** MLDL's consolidated net debt stood at INR 166mn with net D/E at 0.01x, which provides ample room for expansion. The Q2FY22 standalone/consolidated borrowing cost stood at 5.7/6.7% vs 5.9/6.95% QoQ, which is the lowest amongst peers. MLDL needs to add ~INR 20bn saleable area annually to achieve the target of INR 25bn in 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 (INR mn) | Q2FY22 | Q2FY21 | YoY (%) | Q1FY22 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 592 | 308 | 92.3 | 1,482 | (60.0) | 1,663 | 3,580 | 7,663 | 10,171 |
| EBITDA | 125 | (179) | - | (242) | - | (935) | (629) | 157 | 416 |
| APAT | 65 | (132) | - | (139) | - | (717) | (345) | 1,433 | 1,783 |
| Diluted EPS (Rs) | 0.4 | (0.9) | - | (0.9) | - | (4.7) | (2.2) | 9.3 | 11.6 |
| P/E (x) | | | | | | (59.5) | (121.8) | 29.3 | 23.9 |
| EV / EBITDA (x) | | | | | | (46.8) | (75.2) | 316.1 | 124.3 |
| RoE (%) | | | | | | (4.3) | (2.1) | 8.6 | 9.8 |

Source: Company, HSIE Research

## BUY

| | |
|---|---|
| CMP *(as on 27 Oct 2021)* | INR 278 |
| Target Price | INR 349 |
| NIFTY | 18,211 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | BUY | BUY |
| Price Target | INR 349 | INR 349 |
| EPS Change % | FY22E - | FY23E - |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | MLIFE IN |
| No. of Shares (mn) | 154 |
| MCap (INR bn) / ($ mn) | 43/575 |
| 6m avg traded value (INR mn) | 90 |
| 52 Week high / low | INR 299/80 |

**STOCK PERFORMANCE (%)**

| | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 12.5 | 67.8 | 217.1 |
| Relative (%) | (3.8) | 42.9 | 166.2 |

**SHAREHOLDING PATTERN (%)**

| | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 51.45 | 51.44 |
| FIs & Local MFs | 15.79 | 15.61 |
| FPIs | 12.59 | 11.60 |
| Public & Others | 20.17 | 20.94 |
| Pledged Shares | - | - |

*Source: BSE*

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# Ahluwalia Contracts

## Margin pick-up awaited

**BUY**

| CMP *(as on 15 Nov 2021)* | INR 450 |
|---|---|
| Target Price | INR 519 |
| NIFTY | 18,109 |

| KEY CHANGES | OLD | | NEW |
|---|---|---|---|
| Rating | BUY | | BUY |
| Price Target | INR 480 | | INR 519 |
| EPS Change % | FY22E | FY23E | FY24E |
| | *(7.5)* | *5.5* | *9.6* |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | AHLU IN |
| No. of Shares (mn) | 67 |
| MCap (INR bn) / ($ mn) | 30/405 |
| 6m avg traded value (INR mn) | 28 |
| 52 Week high / low | INR 540/202 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 18.2 | 55.8 | 95.3 |
| Relative (%) | 8.7 | 31.2 | 56.2 |

| SHAREHOLDING PATTERN (%) | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 58.00 | 55.32 |
| FIs & Local MFs | 26.62 | 28.73 |
| FPIs | 11.91 | 12.15 |
| Public & Others | 3.47 | 3.80 |
| Pledged Shares | 15.81 | 15.81 |

*Source: BSE*

Pledged shares as % of total shares

**Ahluwalia Contracts (AHLU) reported revenue/EBITDA/APAT beat of 24/(1.1)/(1.4)%. Whilst execution normalised since the start of Q2FY22, commodity price volatility negatively impacted margins. Given robust execution, AHLU increased the earlier 15-20% revenue growth guidance for FY22 to 20-25% and, given benign commodity prices, it lowered 11-12% EBITDA margin guidance to ~10%. The NWC days reduced to 91, from 107 in Q1FY22. Given robust order book (OB) and execution, we have increased our estimates for FY22/23/24. We maintain BUY with an increased TP of INR 519 (13x multiple; Sep-23E EPS), given the robust OB, net cash balance sheet, and better RoE/RoCE than peers. We expect the uptick in growth and margin expansion to continue through H2FY22 as COVID-19 headwinds recede.**

- **Financial highlights**: Revenue: INR 6.9bn (+24% beat). EBITDA: INR 631mn (+85%/+5% YoY/QoQ, est. in-line). EBITDA margin: 9.0% (+118/-137bps YoY/QoQ, vs est. of 11.3%). Depreciation: INR 84mn (+15%/+2% YoY/QoQ). Interest cost: INR 117mn (+19%/+2% YoY/QoQ). APAT: INR 358mn (est. in-line). AHLU has increased its FY22 revenue growth guidance from 15-20% to 20-25% now, with 10% EBITDA margin. FY23E revenue growth is pegged at 15-20%, with 11-12% EBITDA margin.
- **OB robust and largely government led:** OB at the end of Sep-21 stands at INR 73.3bn (~2.6x FY22E revenue) with L1 of INR 7.4bn expected to be converted into order book during Q3FY22. Sector-wise, government orders form 85% of OB and, segment-wise, hospitals are the major drivers, contributing 44%, with infra contributing 12%, institutional 22% and residential 17% to OB. AHLU has a strong bid pipeline amounting to INR 30bn for Q3FY22. It has guided for an order inflow of INR 25bn for FY22.
- **Stable NWC and gross debt**: Standalone gross debt increased marginally to INR 250mn, from INR 220mn in Jun-21 end. NWC days reduced to 91 from 107 in Q1FY22, mainly because of improving payment from the states. Capex undertaken in H1FY22 was at INR 151mn, with INR 300mn having been planned for the full-year FY22. Cash level remained stable at INR2.2bn during the quarter vs. INR 2.2bn at Jun-21 end.

### Standalone Financial Summary (INR mn)

| YE March | Q2FY22 | Q2FY21 | YoY (%) | Q1FY22 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 6,980 | 4,345 | *60.6* | 5,801 | *20.3* | 19,822 | 27,671 | 31,822 | 36,150 |
| EBITDA | 631 | 342 | *84.7* | 604 | *4.5* | 1,542 | 2,734 | 3,876 | 4,512 |
| APAT | 358 | 180 | *99.2* | 348 | *2.9* | 772 | 1,574 | 2,376 | 2,809 |
| EPS (INR) | 5.3 | 2.7 | *99.2* | 5.2 | *2.9* | 11.5 | 23.5 | 35.5 | 41.9 |
| P/E (x) | | | | | | 39.0 | 19.1 | 12.7 | 10.7 |
| EV/EBITDA (x) | | | | | | 17.5 | 7.8 | 6.0 | 5.3 |
| RoE (%) | | | | | | 9.2 | 16.6 | 20.9 | 20.2 |

### Standalone Estimate Change Summary

| Particulars (INR mn) | FY22E | | | FY23E | | | FY24E | | |
|---|---|---|---|---|---|---|---|---|---|
| | New | Old | *Chg (%)* | New | Old | *Chg (%)* | New | Old | *Chg (%)* |
| Revenues | 27,671 | 24,777 | 11.7 | 31,822 | 28,494 | 11.7 | 36,150 | 31,999 | 13.0 |
| EBITDA | 2,734 | 2,894 | (5.5) | 3,876 | 3,647 | 6.3 | 4,512 | 4,089 | 10.3 |
| Margin (%) | 9.9 | 11.7 | (180.0) | 12.2 | 12.8 | (62.0) | 12.5 | 12.8 | (30.0) |
| APAT | 1,574 | 1,701 | (7.5) | 2,376 | 2,251 | 5.5 | 2,809 | 2,562 | 9.6 |

Source: Company, HSIE Research

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# Ashoka Buildcon

## Subdued quarter

**Ashoka Buildcon (ASBL) reported standalone revenue/EBITDA/PAT of INR 9.2/1.05/0.9bn, 7/16/7% miss on our estimates. Execution was subdued, largely on account of monsoon. Toll collections, however, improved sequentially by 17% to INR 2.4bn. FYTD order inflow has been INR 33.5bn and orders worth INR 20-30bn are expected in H2FY22. Including the recently-won orders, the order book (OB) stands at INR 120bn. The company has reduced FY22 revenue growth guidance from 25% to 20%, with 11.7% EBITDA margin. The SBI Macquarie deal was renegotiated earlier in Oct-21 for a consideration of minimum INR 11bn (capped at INR 12bn with interest), with Dec-21 as the deadline for completion. If delayed, the asset swap clause might get exercised. We maintain BUY and cut our EPS along with TP to INR 157 (9x Sep-23E EPS), given the cut in guidance and higher share in mix from EPC orders vs HAM. This may lower the EBITDA margin as HAM projects have higher margins.**

- **Financial highlights:** Revenue: INR 9.2bn (+5%/-9% YoY/QoQ, a 7.5% miss). EBITDA: INR 1.05bn (-19% YoY, -12% QoQ, a 15.7% miss). EBITDA margin: 11.5% (-244/-265 bps YoY/QoQ, vs est of 12.6%). Interest cost: INR 210mn (+6%/+28% YoY/QoQ). APAT: INR 956mn (-9% YoY, -6% QoQ, a 6.5% miss). The management has lowered the revenue guidance to 20% YoY growth in FY22, with EBITDA margin similar to H1FY22, i.e., 11.7%.
- **Robust order book:** OB stood at INR 119bn at the end of Sep-21 (ex-power T&D order in Assam worth INR 1.4bn). ASBL has received INR 33.5bn order inflow until now in FY22 and is expecting INR 20-30bn in H2FY22. It is striving to increase contribution to OB from segments other than roads & railways to 30%, from the current 22%, with focus on EPC projects.
- **ACL asset sale by Dec-21; toll-collection improves:** ASBL renegotiated the deal with SBI Macquarie for ACL's BOT/annuity asset sale earlier in Oct-21 for a consideration of INR 11bn, along with interest (capped at INR 1bn). This deal has a deadline of Dec-21 and includes an asset swap clause in case of delays. The equity requirement in 10 HAM assets is INR 13bn, with INR 9.4bn invested so far. An infusion of INR 1.6/1.4bn is expected in FY22/23. The current BOT portfolio has INR 400-500mn annual loss funding requirement. Debt, at standalone level, dropped to INR 3.8bn (INR 5.3bn as at Jun-21). The gross toll collection stood at INR 2.4bn (+8.5/17% YoY/QoQ).

### Standalone Financial Summary (INR mn)

| YE March | Q2FY22 | Q2FY21 | YoY (%) | Q1FY22 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 9,171 | 8,775 | 4.5 | 10,114 | (9.3) | 38,175 | 44,665 | 50,025 | 55,027 |
| EBITDA | 1,055 | 1,309 | (19.4) | 1,199 | (12.0) | 5,195 | 5,136 | 5,903 | 6,603 |
| APAT | 956 | 1,047 | (8.7) | 1,013 | (5.7) | 4,081 | 2,571 | 2,975 | 3,369 |
| EPS (INR) | 3.4 | 3.7 | (8.7) | 3.6 | (5.7) | 14.5 | 9.2 | 10.6 | 12.0 |
| P/E (x) | | | | | | 7.1 | 11.2 | 9.7 | 8.6 |
| EV/EBITDA (x) | | | | | | 6.2 | 6.0 | 4.9 | 3.9 |
| RoE (%) | | | | | | 14.6 | 8.1 | 8.4 | 8.5 |

### Estimates Change Summary (INR mn)

| Particulars (INR mn) | FY22E | | | FY23E | | | FY24E | | |
|---|---|---|---|---|---|---|---|---|---|
| | New | Old | Chg (%) | New | Old | Chg (%) | New | Old | Chg (%) |
| Revenues | 44,665 | 45,810 | (2.5) | 50,025 | 51,307 | (2.5) | 55,027 | 56,438 | (2.5) |
| EBITDA | 5,136 | 5,497 | (6.6) | 5,903 | 6,413 | (8.0) | 6,603 | 7,337 | (10.0) |
| EBITDA (%) | 11.5 | 12.0 | (50.0) | 11.8 | 12.5 | (70.0) | 12.0 | 13.0 | (100.0) |
| APAT | 2,571 | 2,838 | (9.4) | 2,975 | 3,352 | (11.3) | 3,369 | 3,912 | (13.9) |

Source: Company, HSIE Research

## BUY

| | |
|---|---|
| CMP *(as on 15 Nov 2021)* | INR 103 |
| Target Price | INR 157 |
| NIFTY | 18,109 |

| KEY CHANGES | OLD | | NEW |
|---|---|---|---|
| Rating | BUY | | BUY |
| Price Target | INR 172 | | INR 157 |
| EPS Change % | FY22E | FY23E | FY24E |
| | (9.4) | (11.3) | (13.9) |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | ASBL IN |
| No. of Shares (mn) | 281 |
| MCap (INR bn) / ($ mn) | 29/390 |
| 6m avg traded value (INR mn) | 268 |
| 52 Week high / low | INR 125/70 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | (1.4) | 20.6 | 49.9 |
| Relative (%) | (11.0) | (4.0) | 10.7 |

| SHAREHOLDING PATTERN (%) | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 54.48 | 54.48 |
| FIs & Local MFs | 24.30 | 23.02 |
| FPIs | 3.48 | 2.80 |
| Public & Others | 17.74 | 19.70 |
| Pledged Shares | - | - |

*Source : BSE*

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# PSP Projects

## Gaining traction

**PSP Projects (PSP) reported revenue/EBITDA/APAT at INR 3,904/547/366mn for the quarter, 12/26/32% ahead of our estimates. Its entire order book of INR 35bn (excluding the INR 6bn Bhiwandi order) was under execution, which led to strong revenue booking. Excess provision reversals in near-completion projects led to a strong EBITDA margin of 14%. The bid pipeline is robust at INR 30bn, precast facility is operational and has received INR 300mn of orders, and working capital is under control. We expect PSP to upgrade its revenue growth guidance of 25-30% YoY to 35-40% in Q3FY22 whilst EBITDA margin guidance might stay at 11.5-13%, given high commodity inflation. Bhiwandi project remains a pain point, which the company might terminate, writing off INR 153mn in case the client doesn't agree for escalation. We maintain BUY on PSP with an unchanged TP of INR 620/sh (13x Sep-23E EPS).**

- **Q2 financial highlights:** PSP posted revenue of INR 3.9bn (+61/+23% YoY/QoQ), 12% ahead of our estimate. EBITDA was at INR 547mn (123/39% YoY/QoQ), a beat of 26%. EBITDA margin stood at 14% (+393/+160bps YoY/QoQ, vs 12.5% estimate). APAT came in at INR 366mn (154/46% YoY/QoQ, a beat of 32%). EBITDA margin outperformance was led by reversals of excess provisions in the near-completion Surat Diamond Bourse project and Shri Kashi Vishwanath Dham project. PSP has maintained an EBITDA margin guidance of 11.5-13% in the normal course of business (without impact of any external event), post factoring in commodity impact.
- **Strong bid pipeline, execution to ramp up in H2FY22:** PSP highlighted that its entire order book (INR 35bn), excluding the Bhiwandi PMAY projects worth INR 6bn, is under execution. In the Bhiwandi EWS project, the next court hearing will be on 13 Nov 2021. The Pandharpur project (INR 1.3bn) is still in a slow lane; while local authorities have auctioned the housing units, buyers have not yet paid. PSP shall ramp up execution on receipt of payments. It has started work at six UP hospital projects while the one remaining has received design approval. On the Surat Diamond Bourse, INR 2.1bn worth of work is pending, which will be executed in Q3FY22. The precast facility work has been completed and PSP has received INR 300mn of order from the High Speed Rail project. The bid pipeline is at INR 30bn, with Gujarat accounting for INR 21bn. The order inflow guidance for FY22 is INR 20bn, of which PSP has achieved INR 6.4bn, and is L1 in INR 3.4bn.
- **Comfortable balance sheet:** Standalone gross debt increased to INR 1.9bn (D/E 0.32x), from INR 1.2bn (D/E 0.21x) in Q1FY22. Receivables increased to INR 3.5bn from INR 2.8bn at Q1FY22-end due to major billing in Sep-21. However, PSP has received INR 1.2bn in the early part of Oct-21.

### Standalone financial summary (INR mn)

| YE March | 2QFY22 | 2QFY21 | YoY (%) | 1QFY22 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 3,904 | 2,431 | 60.6 | 3,174 | 23.0 | 12,409 | 16,579 | 20,179 | 22,750 |
| EBITDA | 547 | 245 | 123.1 | 394 | 38.9 | 1,348 | 1,934 | 2,456 | 2,998 |
| APAT | 366 | 144 | 154.0 | 251 | 45.8 | 835 | 1,260 | 1,534 | 1,902 |
| Diluted EPS (INR) | 10.2 | 4.0 | 154.0 | 7.0 | 45.8 | 23.2 | 35.0 | 42.6 | 52.8 |
| P/E (x) | | | | | | 22.8 | 15.1 | 12.4 | 10.0 |
| EV / EBITDA (x) | | | | | | 14.3 | 10.1 | 8.0 | 6.3 |
| RoE (%) | | | | | | 16.8 | 21.4 | 21.8 | 22.5 |

Source: Company, HSIE Research

## BUY

| | |
|---|---|
| CMP *(as on 27 Oct 2021)* | INR 528 |
| Target Price | INR 620 |
| NIFTY | 18,211 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | BUY | BUY |
| Price Target | INR 620 | INR 620 |
| EPS change % | FY22E<br>- | FY23E<br>- |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | PSPPL IN |
| No. of Shares (mn) | 36 |
| MCap (INR bn) / ($ mn) | 19/256 |
| 6m avg traded value (INR mn) | 135 |
| 52 Week high / low | INR 552/375 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 12.5 | 26.1 | 35.6 |
| Relative (%) | (3.8) | 1.2 | (15.3) |

| SHAREHOLDING PATTERN (%) | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 74.19 | 69.88 |
| FIs & Local MFs | 3.97 | 4.94 |
| FPIs | 1.29 | 1.27 |
| Public & Others | 20.55 | 23.91 |
| Pledged Shares | - | |

*Source: BSE*

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# JMC Projects

## One-offs impact performance

**JMC Projects (JMC) reported a loss of INR 2.1bn on account of INR 2.9bn non-cash write-off in its road asset portfolio. We believe that it is more of balance sheet cleaning as (1) KEPL (FY20 loss funding of INR 400mn) saw force majeure termination due to non collection of tolls, (2) WEPL (FY20 loss funding INR 200mn) may get restructured, and (3) VEPL (FY20 loss funding INR 200mn) may be monetised by FY22 as per JMC guidance. The order inflow was robust at INR 44.3bn, taking the order book (OB) to an all-time high of INR 187bn. JMC rerating may continue, given (1) an all-time high OB (~5x 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/FY23/24 EPS by (6.3)/3.8/5.1%. We maintain BUY with target price of INR 155 (11x Sep-23E EPS).**

- **Q2FY22 financial highlights:** Revenue: INR 13.2bn (11% beat). Adjusted EBITDA: INR 865mn (20% miss), owing to higher-than-expected material and overhead cost. EBITDA margin: 6.5% (9.1% est.). Exceptional item: INR 2.9bn (vs INR 2.6bn estimate) on account of (1) INR 1.8bn of provision for expected credit loss against loan given to Kurukshetra Expressway. (2) INR 982 and INR 152mn of provision for impairment of equity in Kurukshetra expressway and Wainganga Expressway respectively. Interest cost: INR 278mn (-8.7%/+3.4% YoY/QoQ). Reported loss was at INR 2,115mn vs expectation of INR 1,101mn loss. APAT: INR 172mn (+2.4x/+5.9% YoY/QoQ, 49% miss, owing to lower EBITDA margin).
- **Robust order inflows and backlog:** JMC received orders of INR 44.3bn in Q2, with OB now at INR 187bn (ex of INR 28bn L1 orders). JMC has increased its FY22 order inflow guidance from INR 75-80bn to INR 120-130bn with INR 79.6bn already booked during H1FY22.
- **BOT assets resolution closer:** Standalone net debt decreased to INR 7bn (net D/E 0.85x) from INR 7.2bn at the end of Jun-21. The Wainganga expressway restructuring is expected to complete by Sep-21 and the sale of Vindhyachal asset would be complete by Dec-21. JMC has written off its investment in the KEPL project, invoking force majeure clause of toll stoppage. The loss funding is expected to reduce from INR 800mn to INR 100-150mn.

### Standalone financial summary

| YE March | Q2FY22 | Q2FY21 | YoY (%) | Q1FY22 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 13,207 | 8,038 | 64.3 | 11,243 | 17.5 | 36,888 | 50,179 | 57,208 | 65,632 |
| EBITDA | 865 | 730 | 18.5 | 806 | 7.2 | 3,315 | 4,258 | 5,492 | 6,563 |
| APAT | 172 | 72 | 140.1 | 162 | 5.9 | 711 | 1,248 | 2,023 | 2,714 |
| Diluted EPS (INR) | 1.0 | 0.4 | 140.1 | 1.0 | 5.9 | 4.2 | 7.4 | 12.0 | 16.2 |
| P/E (x) | | | | | | 24.6 | 14.0 | 8.6 | 6.4 |
| EV / EBITDA (x) | | | | | | 7.0 | 5.9 | 4.4 | 3.4 |
| RoE (%) | | | | | | 7.2 | 13.1 | 20.8 | 22.9 |

### Estimate change summary (standalone)

| INR mn | FY22E | | | FY23E | | | FY24E | | |
|---|---|---|---|---|---|---|---|---|---|
| | New | Old | % chg. | New | Old | % chg. | New | Old | % chg. |
| Revenues | 50,179 | 44,600 | 12.5 | 57,208 | 51,723 | 10.6 | 65,632 | 59,203 | 10.9 |
| EBIDTA | 4,258 | 4,237 | 0.5 | 5,492 | 5,224 | 5.1 | 6,563 | 6,216 | 5.6 |
| EBIDTA Margins (%) | 8.5 | 9.5 | (101) | 9.6 | 10.1 | (50) | 10.0 | 10.5 | (50) |
| APAT | 1,248 | 1,332 | (6.3) | 2,023 | 1,949 | 3.8 | 2,714 | 2,583 | 5.1 |

Source: Company, HSIE Research

## BUY

| | |
|---|---|
| CMP *(as on 01 Nov' 21)* | INR 104 |
| Target Price | INR 155 |
| NIFTY | 17,930 |

| KEY CHANGES | | OLD | NEW |
|---|---|---|---|
| Rating | | BUY | BUY |
| Price Target | | INR 160 | INR 155 |
| | FY22E | FY23E | FY24E |
| EPS % | *-6.3* | *+3.8* | *+5.1* |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | JMCP IN |
| No. of Shares (mn) | 168 |
| MCap (INR bn) / ($ mn) | 18/236 |
| 6m avg traded value (INR mn) | 42 |
| 52 Week high / low | INR 130/45 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | (16.8) | 27.4 | 124.3 |
| Relative (%) | (31.1) | 4.1 | 72.5 |

| SHAREHOLDING PATTERN (%) | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 67.75 | 67.75 |
| FIs & Local MFs | 16.21 | 16.75 |
| FPIs | 0.53 | 0.93 |
| Public & Others | 15.51 | 14.55 |
| Pledged Shares | - | - |

*Source : BSE*

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# J. Kumar Infraprojects

## Strong performance

**JKIL reported strong performance in Q2FY22, with revenue/EBITDA/APAT at 7.7/1.1/0.4bn, beating our estimates by 19/20/60%. Execution picked up during the quarter and, with better momentum in the second half of the year, FY22 revenue is expected at INR 32-35bn. The order inflow of INR 4.6bn from the MCGM increased the order book (OB) to INR 112bn. The coastal road project worth INR 4bn - the only slow-moving project in the OB - has been hampered by an environment clearance issue, which is expected to be resolved in the next four months. All contracts are now covered with price escalation clauses, providing a safety net for margins, which JKIL expects to be in the range of 14-16% in the coming quarters. The company has bid for Agra, Chennai and Kanpur metro projects on account of three surplus machines; with this, the total bids stand at INR 40-50bn. The total bid pipeline is also robust at INR 150bn. We maintain BUY with a target price of INR 259 (7x Sep-23E EPS).**

- **Strong financial performance:** Revenue: INR 7.7bn (+62%/+14% YoY/QoQ, a 19% beat). Metro contributed 55% to revenue, with 24% coming from the Mumbai metro line 3 project. EBITDA: INR 1.1bn (+74%/+13.7% YoY/QoQ, a 20% beat); EBITDA margin of 14.3% (+101/-8bps YoY/QoQ, vs 14.2% est.). RPAT/APAT: INR 411mn (+5.7x/+28% YoY/QoQ, a 60% beat). JKIL has maintained its revenue target of INR 50bn for FY25E and margin target of 14-16%. The revenue guidance for FY22 has been raised to INR 32-35bn. The expected execution run-rate for H2FY22 is INR 20-21bn, with INR 11bn in Q4FY22. All JKIL contracts are protected by price escalation clauses, which ensure protection against commodity inflation.
- **Robust order book and bid pipeline:** JKIL received an order for INR 4.6bn from the MCGM in Q2, bringing the OB to INR 112bn as of Sep-21. While metro projects contribute 58% towards the OB, flyover, bridges and roads projects contribute ~40%. JKIL is targeting for INR 40bn of order inflows for FY22 (INR 25bn in H2FY22), with an OB size of INR 120bn by Mar-22. The bid pipeline stands at INR 150bn. The coastal road project, worth INR 4bn, is JKIL's only slow-moving project in its OB, which is affected by environment clearance issues. The project is expected to begin in the next four months.
- **Leverage stable:** Gross debt fell to INR 5.1bn (INR 5.5 at the end of Jun-21), leading to a D/E of 0.26x. JKIL expects a debt level of INR 5.5bn by end of Mar-22. Capex in H1 stands at INR 450mn, with INR 0.8-1bn expected for the full year FY22. Mobilisation advances and retention stand at INR 4.4bn and INR 2.2bn. In H2, a mobilisation advance of INR 3.9bn is expected.

### Financial summary (standalone)

| YE March (INR mn) | Q2FY22 | Q2FY21 | YoY (%) | Q1FY22 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 7,720 | 4,774 | *61.7* | 6,751 | *14.4* | 25,708 | 33,421 | 38,935 | 44,776 |
| EBITDA | 1,100 | 632 | *74.1* | 968 | *13.7* | 3,114 | 4,363 | 5,575 | 6,403 |
| APAT | 411 | 71 | *477.7* | 321 | *27.9* | 639 | 1,641 | 2,530 | 3,077 |
| Diluted EPS (INR) | 5.4 | 0.9 | *477.7* | 4.2 | *27.9* | 8.4 | 21.7 | 33.4 | 40.7 |
| P/E (x) | | | | | | 21.6 | 8.4 | 5.5 | 4.5 |
| EV / EBITDA (x) | | | | | | 6.0 | 4.0 | 2.7 | 1.9 |
| RoE (%) | | | | | | 3.4 | 8.3 | 11.7 | 12.7 |

Source: Company, HSIE Research

## BUY

| | |
|---|---|
| CMP *(as on 10 Nov 2021)* | INR 183 |
| Target Price | INR 259 |
| NIFTY | 18,017 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | BUY | BUY |
| Price Target | INR 259 | INR 259 |
| EPS Change % | FY22E - | FY23E - | FY24E - |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | JKIL IN |
| No. of Shares (mn) | 76 |
| MCap (INR bn) / ($ mn) | 14/186 |
| 6m avg traded value (INR mn) | 82 |
| 52 Week high / low | INR 232/105 |

**STOCK PERFORMANCE (%)**

| | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | (10.6) | 1.0 | 68.5 |
| Relative (%) | (21.2) | (21.0) | 29.1 |

**SHAREHOLDING PATTERN (%)**

| | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 46.65 | 46.65 |
| FIs & Local MFs | 10.39 | 10.56 |
| FPIs | 9.24 | 8.62 |
| Public & Others | 33.72 | 34.17 |
| Pledged Shares | 10.57 | 10.57 |

*Source: BSE*

Pledged shares as % of total shares

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# ITD Cementation

## Recovery awaited

**ITD Cementation (ITD) reported weak revenue/EBITDA/PAT at INR 8.1/0.5/0.15bn, with revenue in line but EBITDA/PAT below our estimates by 37%/27%. Operating margin was subdued at 6.2% on account of higher commodity costs, a margin booking threshold yet to be reached on projects worth INR 41bn (moved into execution in Q2FY22), and a provision of INR 250mn on the Bengaluru elevated metro project. The order backlog (OB) is robust at INR 115bn (4.2x FY21 revenue). 20% of contracts are without price escalation clauses. Given we expect a strong recovery, we have increased our revenue estimate. We retain BUY with TP of INR 126 (10x Sep-23E EPS).**

- **Financial performance:** ITD's reported revenue of INR 8.1bn (+47%/-2% YoY/QoQ) was in line with our estimates. EBITDA came in at INR 504mn (37% miss). EBITDA margin stood at 6.2% (-326bps QoQ, est. 10.0%). Interest cost was flat sequentially at INR 359mn. APAT came in at INR 149mn (INR (497)/179mn in Q2FY21/Q1FY22), missing our estimate by 27%. ITD expects to maintain a run-rate of INR 10bn per quarter from Q3 onwards and a 15-20% revenue growth in FY22.
- **Strong order book, robust pipeline:** Order inflow (OI) during Q2FY22 stood at INR 2bn (INR 18bn FYTD), taking the OB to INR 115bn (excl. INR 2bn of L1), as of Sep-21. INR 50bn worth of OI is expected for FY22. ITD has submitted (or will submit in Nov-21) a bid worth INR 250bn, with an expected inflow of INR 40-50bn. It made a final provision of INR 250mn for the loss-making Bengaluru elevated metro project and has filed claims with the client, which it expects would materialise in its favour. The project, which is currently 98% complete, is likely to be finished by Jul-22. ITD gained certification from the insurance authority in the Kolkata underground metro project, which is 95% complete. No provision will be made for this project. Myanmar project of INR 5.6bn is on track (INR 2.7bn worth of work completed), with INR 420mn received in Q2FY22. ITD expects to finish it by the middle of FY23.
- **Balance sheet comfortable:** ITD's consolidated gross debt increased marginally to INR 5.2bn (INR 5.1bn as of Jun-21) with D/E at 0.5x. It was due to payment delays and mobilsation expenditure. Debt is expected to reduce to INR 5bn by Mar-22-end on account of better execution in H2FY22.

### Consolidated Financial Summary (INR mn)

| YE March | Q2FY22 | Q2FY21 | YoY (%) | Q1FY22 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 8,115 | 5,527 | *46.8* | 8,255 | *(1.7)* | 27,277 | 32,460 | 38,952 | 45,963 |
| EBITDA | 504 | (14) | *3,671.3* | 782 | *(35.5)* | 2,129 | 3,468 | 4,451 | 5,620 |
| APAT | 149 | (497) | *129.9* | 179 | *(16.9)* | 159 | 1,213 | 1,921 | 2,363 |
| EPS (INR) | 0.9 | (2.9) | *129.9* | 1.0 | *(16.9)* | 0.9 | 7.1 | 11.2 | 13.8 |
| P/E (x) | | | | | | 84.2 | 11.1 | 7.0 | 5.7 |
| EV/EBITDA (x) | | | | | | 7.1 | 4.4 | 3.2 | 2.6 |
| RoE (%) | | | | | | 1.5 | 10.8 | 14.9 | 15.5 |

### Consolidated Estimate Change Summary

| Particulars (INR mn) | FY22E | | | FY23E | | | FY24E | | |
|---|---|---|---|---|---|---|---|---|---|
| | New | Old | % Chg | New | Old | % Chg | New | Old | % Chg |
| Revenues | 36,824 | 32,460 | 13.4 | 42,900 | 38,952 | 10.1 | 49,507 | 45,963 | 7.7 |
| EBIDTA | 3,307 | 3,468 | (4.6) | 4,768 | 4,451 | 7.1 | 5,814 | 5,620 | 3.5 |
| EBIDTA Margins (%) | 9.0 | 10.7 | (170.4) | 11.1 | 11.4 | (31.2) | 11.7 | 12.2 | (48.3) |
| APAT | 997 | 1,213 | (17.8) | 1,948 | 1,906 | 2.2 | 2,395 | 2,331 | 2.8 |

Source: Company, HSIE Research

## BUY

| | |
|---|---|
| CMP *(as on 11 Nov 21)* | INR 78 |
| Target Price | INR 126 |
| NIFTY | 17,874 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | BUY | BUY |
| Price Target | INR 125 | INR 126 |

| EPS Change % | FY22E | FY23E | FY24E |
|---|---|---|---|
| | *(17.8)* | *2.2* | *2.8* |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | ITCE IN |
| No. of Shares (mn) | 172 |
| MCap (INR bn) / ($ mn) | 13/180 |
| 6m avg traded value (INR mn) | 109 |
| 52 Week high / low | INR 98/50 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | (7.4) | (1.6) | 55.5 |
| Relative (%) | (17.2) | (23.5) | 18.1 |

| SHAREHOLDING PATTERN (%) | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 46.64 | 46.64 |
| FIs & Local MFs | 19.59 | 15.26 |
| FPIs | 10.67 | 10.35 |
| Public & Others | 23.10 | 27.75 |
| Pledged Shares | - | - |

*Source : BSE*

*Pledged shares as % of total shares*

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# Capacite Infraprojects

## Execution recovery awaited

**Capacite Infraprojects' (CIL) execution was in line, with 13.4% APAT beat. The MHADA-sponsored BDD Chawl project in Worli has now commenced, which CIL is executing in a joint operation with Tata Projects via an SPV (in which CIL's stake is 35%). Revenue from this project will be recognised from Q3FY22. CIL expects a topline of INR 4/5.5bn in Q3/Q4FY22, given improved labour availability and execution ramp-up. The order book (OB) stood at INR 87.8bn (ex-MHADA) at the end of Sep-21, with a near 100% price inflation pass-through clause. Post the rating downgrade to 'default', India Rating issued a letter that debt servicing has been standard and the company's credit rating will be reviewed after the 90-day cooling period, which ends on 21 Nov 2021. We cut our EPS estimate to factor in slower-than-expected execution recovery. Reiterate BUY with reduced TP of INR 269/sh.**

- **Financial highlights**: Revenue: INR 3.4bn (4.6% miss). EBITDA: INR 612mn (a 3.7% beat, on account of lower-than-expected material and employee expenses). EBITDA margin: 17.8% (-371/+376bps YoY/QoQ, vs estimate of 16.4%). APAT: INR 172mn (+3.7x/+4x YoY/QoQ, a 13.4% beat). Revenue was affected because of: (1) 10-12 days of lost work, owing to monsoon, translating to an INR 400mn revenue loss. Revenue from the BDD chawl project will start getting recognised from Q3FY22 onwards.
- **Robust OB:** CIL has guided for INR 20bn of order inflows in FY22, of which it has received INR 6bn FYTD. Excluding the BDD project, the OB stands at INR 87.8bn (INR 131bn, including it). Work on 100% of the OB has started. The MHADA-sponsored BDD chawl project has begun now, with INR 38bn worth of work open for execution. FY22/FY23 revenues are expected at INR 2/7bn (CIL's share in it at 35%). In CIDCO project, the monthly run-rate is currently at INR 200mn, with INR 350/400mn expected from Dec-21/Mar-22.
- **Comfortable balance sheet:** Standalone gross debt decreased to INR 2.9bn (INR 3bn in Q1FY22) with a D/E of 0.3x. Collections improved to INR 3.05bn (INR 2.7bn in Q1FY22). The fund/non-fund requirement (except for MHADA, CIDCO, and MCGM projects) is INR 1.9/8.1bn. Current utilisation of the non-fund limit stands at INR 4.5bn. CIL has spent INR 270mn on Capex so far, with INR 750-800mn expected for FY22. Unbilled revenue is currently at INR 6.15bn and is expected to fall to INR 5.1bn by FY22-end.

### Standalone Financial Summary (INR mn)

| YE March | Q2FY22 | Q2FY21 | YoY (%) | Q1FY22 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| Revenues | 3,434 | 1,813 | 89 | 2,800 | 23 | 8,797 | 16,220 | 22,733 | 26,540 |
| EBITDA | 612 | 390 | 57 | 394 | 55 | 1,365 | 2,660 | 3,751 | 4,379 |
| APAT | 172 | 46 | 278 | 43 | 301 | 18 | 819 | 1,500 | 1,979 |
| EPS (INR) | 2.5 | 0.7 | 278.0 | 0.6 | 300.9 | 0.3 | 12.1 | 22.1 | 29.2 |
| P/E (x) | | | | | | 658.4 | 14.4 | 7.9 | 6.0 |
| EV/EBIDTA (x) | | | | | | 9.6 | 4.9 | 3.6 | 3.0 |
| RoE (%) | | | | | | 0.2 | 8.4 | 13.9 | 15.9 |

### Standalone Estimate Change Summary

| Particulars (INR mn) | FY22E | | | FY23E | | | FY24E | | |
|---|---|---|---|---|---|---|---|---|---|
| | New | Old | Chg. (%) | New | Old | Chg. (%) | New | Old | Chg. (%) |
| Revenue | 16,220 | 17,420 | (6.9) | 22,733 | 25,000 | (9.1) | 26,540 | 27,963 | (5.1) |
| EBITDA | 2,660 | 2,674 | (0.5) | 3,751 | 4,137 | (9.3) | 4,379 | 4,628 | (5.4) |
| EBITDA (%) | 16.4 | 15.4 | 105.0 | 16.5 | 16.6 | (5.0) | 16.5 | 16.6 | (5.0) |
| APAT | 819 | 804 | 1.9 | 1,500 | 1,822 | (17.7) | 1,979 | 2,194 | (9.8) |

Source: Company, HSIE Research

## BUY

| | |
|---|---|
| CMP *(as on 12 Nov 2021)* | INR 174 |
| Target Price | INR 269 |
| NIFTY | 18,103 |

| KEY CHANGES | OLD | | NEW |
|---|---|---|---|
| Rating | BUY | | BUY |
| Price Target | INR 301 | | INR 269 |
| EPS Change % | FY22E | FY23E | FY24E |
| | *1.9* | *(17.7)* | *(9.8)* |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | CAPACITE IN |
| No. of Shares (mn) | 68 |
| MCap (INR bn) / ($ mn) | 12/158 |
| 6m avg traded value (INR mn) | 108 |
| 52 Week high / low | INR 252/127 |

**STOCK PERFORMANCE (%)**

| | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | (18.8) | (10.2) | 17.9 |
| Relative (%) | (29.5) | (34.9) | (22.1) |

**SHAREHOLDING PATTERN (%)**

| | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 38.64 | 38.64 |
| FIs & Local MFs | 18.52 | 16.99 |
| FPIs | 12.35 | 7.25 |
| Public & Others | 30.49 | 37.12 |
| Pledged Shares | 7.36 | 7.36 |

*Source : BSE*

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# Sadbhav Engineering

## Execution pick-up awaited

**Sadbhav Engineering (SEL) continued its weak operating performance in Q2 as revenue/EBITDA, at INR 2.6/0.35bn, were a (miss)/beat of (6.3)/31%. It reported an exceptional loss of INR 50mn on the sale of fixed assets. SEL has been caught in a tightened liquidity conundrum and is in the midst of deleveraging through asset monetisation (INR17-18bn). Execution pick-up is contingent on the same. We await progress on monetisation of Ahmedabad ring road and three HAM assets along with the remaining 2.5% stake sale in Indinfravit trust. Further, proceeds from Maharashtra border check post and arbitration claims shall aid deleveraging. Given slower-than-expected recovery in execution & monetisation and high commodity prices, we have cut our estimates. We downgrade our rating to ADD (from BUY) with a reduced TP of INR 47/sh.**

- **Q2 highlights**: Revenue: INR 2.6bn (-36/0% YoY/QoQ, a 6.3% miss). EBITDA: INR 352mn (-29/+46% YoY/QoQ, a 31% beat due to lower-than-expected material cost). EBITDA margin came in at 13.4% (+132/+421bps YoY/QoQ, vs estimate of 9.6%). Exceptional item: INR 50mn in loss on sale of fixed assets. Consequently, APAT was at INR 81mn (vs the estimated loss of INR 146mn).
- **Order book strong; SEL-SIPL merger conclusion awaited**: The implied OB was at INR 88bn in Sep-21, with transport sector being the major contributor. On FY21 revenue, the OB is 5.5x, which looks strong, given continuing weaker execution. The SEL-SIPL merger is likely to be finalised by Dec-21.
- **Liquidity issue lingers, asset monetisation key for revival:** SEL standalone gross debt is at INR 10.9bn, down from INR 11.4bn at Jun-21 end. INR 5.5bn sale proceeds from the concluded Maharashtra border check post deal is yet to be realised; with this, the likely proceed of INR 5.5-6bn from Ahmedabad ring road and three HAM assets and INR 1.6-1.8bn from the sale of remaining 2.5% units in Indinfravit Trust will further reduce the debt. Half of these proceeds, however, will be used to cover working capital needs. The net worth of Rohtak-Panipat and Rohtak-Hisar has fully eroded. Both have issued notices for termination of concession agreement and filed claims with the NHAI for INR 30bn/12bn respectively. The carrying value of loans given by SEL to these entities is at INR 1.5bn (no provision or adjustment was made).

### Standalone Financial Summary (INR mn)

| YE March | Q2FY22 | Q2FY21 | YoY (%) | Q1FY22 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 2,625 | 4,122 | *(36.3)* | 2,628 | *(0.1)* | 16,236 | 17,089 | 20,960 | 23,786 |
| EBITDA | 352 | 498 | *(29.3)* | 242 | *45.6* | 2,114 | 1,965 | 2,452 | 2,878 |
| APAT | 81 | 52 | *54.7* | (169) | *(148.1)* | (204) | 186 | 545 | 788 |
| EPS (INR) | 0.5 | 0.3 | *54.7* | (1.0) | *(148.1)* | (1.2) | 1.1 | 3.2 | 4.6 |
| P/E (x) | | | | | | (36.8) | 40.5 | 13.8 | 9.5 |
| EV/EBITDA (x) | | | | | | 8.7 | 8.9 | 5.6 | 5.0 |
| RoE(%) | | | | | | (1.0) | 0.9 | 2.5 | 3.5 |

### Standalone Estimate Change Summary (INR mn)

| Particulars (INR mn) | FY22E | | | FY23E | | | FY24E | | |
|---|---|---|---|---|---|---|---|---|---|
| | New | Old | Chg. (%) | New | Old | Chg. (%) | New | Old | Chg. (%) |
| Revenues | 17,089 | 17,476 | *(2.2)* | 20,960 | 27,789 | *(24.6)* | 23,786 | 30,723 | *(22.6)* |
| EBITDA | 1,965 | 2,010 | *(2.2)* | 2,452 | 3,196 | *(23.3)* | 2,878 | 3,718 | *(22.6)* |
| EBITDA margin (%) | 11.5 | 11.5 | (0.0) | 11.7 | 11.5 | 20.0 | 12.1 | 12.1 | 0.0 |
| APAT | 186 | 230 | *(19.3)* | 545 | 1,040 | *(47.6)* | 788 | 1,308 | *(39.8)* |

Source: Company, HSIE Research

## ADD

| | |
|---|---|
| **CMP *(as on 18 Nov 2021)*** | **INR 44** |
| **Target Price** | **INR 47** |
| **NIFTY** | **17,765** |

| KEY CHANGES | OLD | | NEW |
|---|---|---|---|
| Rating | BUY | | ADD |
| Price Target | INR 76 | | INR 47 |
| EPS Change % | **FY22E** | **FY23E** | **FY24E** |
| | *(19.3)* | *(47.6)* | *(39.8)* |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | SADE IN |
| No. of Shares (mn) | 172 |
| MCap (INR bn) / ($ mn) | 8/101 |
| 6m avg traded value (INR mn) | 104 |
| 52 Week high / low | INR 97/43 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | (25.3) | (32.8) | (13.3) |
| Relative (%) | (32.5) | (51.7) | (48.3) |

| SHAREHOLDING PATTERN (%) | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 44.89 | 44.86 |
| FIs & Local MFs | 22.17 | 15.59 |
| FPIs | 4.39 | 4.39 |
| Public & Others | 28.55 | 35.16 |
| Pledged Shares | 31.93 | 39.46 |

*Source: BSE*

*Pledged shares as % of total shares*

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# IT, Exchanges

# Tata Consultancy Services

## Deal momentum continues

**We maintain ADD on TCS despite a slight miss on revenue and margin, supported by healthy deal wins (book-to-bill of 1.2x was similar to Accenture outsourcing). TCS continues to witness strength in its core business segment and has bagged higher mid-sized deals spread across verticals. We expect the growth to continue, supported by (1) strong demand environment, led by a secular shift to cloud, (2) growth pick-up in Europe, led by BFSI, (3) continued strong deal wins in retail & CPG vertical and recovery in manufacturing, and (4) +25% YoY (excluding mega-deal) growth in TCV, led by TCS Cognix. The ongoing supply side crunch (attrition increased to 11.9%, yet industry-best) and return of discretionary spend will limit margin expansion despite operating leverage and higher pricing. Our target price of INR 4,180 is based on 32x Dec-23E EPS with EPS CAGR of 14% over FY21-24E.**

- **Q2FY22 highlights**: (1) Revenue came in at +4% QoQ CC (+15.5% YoY), marginally lower than our estimate (+4.4% QoQ CC). (2) EBIT margin, at 25.6% (ahead of our estimate of 25.2%), remained flattish QoQ (+9bps QoQ) despite the higher subcontracting cost. (3) Revenue growth was led by Communication & Media (+6.8% QoQ), followed by Retail & CPG (+6.6% QoQ) and Manufacturing (+6.3% QoQ), supported by the ramp-up of deal wins and strong bookings during the quarter. (4) Net additions during the quarter were at 19,690 while attrition increased to 11.9% TTM (+330bps QoQ). (5) Deal TCV in Q2 was USD 7.6bn with book-to-bill at 1.2x (increased 25% YoY, excluding Phoenix deal of USD 2.5bn in Q2FY21). The total deal wins included BFSI TCV at USD 2.1bn; Retail & CPG TCV at USD 1.2bn; and NorthAm TCV at USD 3.9bn.
- **Outlook**: We have factored in USD revenue growth of +15.6%/13.1%/9.8% for FY22/23/24E with Q3FY22 at 2.3% QoQ. EBIT margin for TCS is factored in at 25.4%/26%/26.1% for FY22/23/24E. Valuations are at 38/33x (FY22/23E) with FY21-24E EPS CAGR at 14%.

### Quarterly financial summary

| YE March (INR Bn) | Q2 FY22 | Q2 FY21 | YoY (%) | Q1 FY22 | QoQ (%) | FY20 | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue (USD mn) | 6,333 | 5,424 | 16.8 | 6,154 | 2.9 | 22,032 | 22,174 | 25,637 | 28,987 | 31,830 |
| Net Sales | 468.67 | 401.35 | 16.8 | 454.11 | 3.2 | 1,569.49 | 1,641.77 | 1,895.92 | 2,174.05 | 2,419.04 |
| EBIT | 120.00 | 105.15 | 14.1 | 115.88 | 3.6 | 385.80 | 424.81 | 480.78 | 565.38 | 631.28 |
| APAT | 96.24 | 84.01 | 14.6 | 90.08 | 6.8 | 323.40 | 333.56 | 383.56 | 447.46 | 495.10 |
| Diluted EPS (INR) | 26.0 | 22.7 | 14.6 | 24.4 | 6.8 | 87.4 | 90.2 | 103.7 | 121.0 | 133.8 |
| P/E (x) | | | | | | 45.0 | 43.6 | 38.0 | 32.5 | 29.4 |
| EV / EBITDA (x) | | | | | | 34.0 | 30.7 | 27.0 | 22.9 | 20.5 |
| RoE (%) | | | | | | 37.3 | 39.1 | 43.0 | 46.5 | 46.8 |

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) | 25,710 | 25,637 | (0.3) | 28,774 | 28,987 | 0.7 | 31,545 | 31,830 | 0.9 |
| Revenue | 1,901.24 | 1,895.92 | (0.3) | 2,158.06 | 2,174.05 | 0.7 | 2,397.43 | 2,419.04 | 0.9 |
| EBIT | 482.64 | 480.78 | (0.4) | 562.01 | 565.38 | 0.6 | 629.15 | 631.28 | 0.3 |
| EBIT margin (%) | 25.4 | 25.4 | -3bps | 26.0 | 26.0 | -4bps | 26.2 | 26.1 | -15bps |
| APAT | 377.85 | 383.56 | 1.5 | 435.91 | 447.46 | 2.7 | 487.07 | 495.10 | 1.6 |
| EPS (INR) | 102.1 | 103.7 | 1.5 | 117.8 | 121.0 | 2.7 | 131.7 | 133.8 | 1.6 |

Source: Company, HSIE Research

**ADD**

| | |
|---|---|
| CMP *(as on 8 Oct 2021)* | INR 3,936 |
| Target Price | INR 4,180 |
| NIFTY | 17,895 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | ADD | ADD |
| Price Target | INR 4,100 | INR 4,180 |
| | FY22E | FY23E |
| EPS % | +1.5 | +2.7 |

**KEY STOCK DATA**

| | |
|---|---|
| Bloomberg code | TCS IN |
| No. of Shares (mn) | 3,699 |
| MCap (INR bn) / ($ mn) | 14,558/1,95,633 |
| 6m avg traded value (INR mn) | 8,408 |
| 52 Week high / low | INR 3,990/2,600 |

**STOCK PERFORMANCE (%)**

| | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 20.8 | 18.6 | 39.3 |
| Relative (%) | 6.5 | (2.1) | (10.2) |

**SHAREHOLDING PATTERN (%)**

| | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 72.19 | 72.19 |
| FIs & Local MFs | 7.97 | 7.90 |
| FPIs | 15.43 | 15.37 |
| Public & Others | 4.41 | 4.54 |
| Pledged Shares | 0.34 | 0.34 |

*Source : BSE*

Pledged shares as % of total shares

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# Infosys

## Growth engine revving up

**We maintain BUY on Infosys (INFY), following the beat on both revenue and margin and a strong growth outlook. Revenue growth guidance for FY22E was increased to 16.5-17.5% CC (14-16% 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 and sustainable improvement in NN large deals (USD 7.8bn TTM new large deal wins); (2) momentum across verticals – BFSI (five large deals in Q2), retail, manufacturing, life-science and hi-tech; (3) structural operational pivots of offshoring and utilisation mitigating the near-term impact from higher sub-contracting; (4) uptick in fresher onboarding (45k in FY22 vs. 35k planned earlier and 21k in FY21) to fulfil demand and offset the near-term attrition surge (+620bps QoQ). We remain positive on INFY (top pick in tier-1 IT) with >13% EPS CAGR and >40% RoIC, valuing the company at INR 1,995, based on 30x Dec-23E EPS.**

- **Q2FY22 highlights**: (1) INFY reported revenue growth of +6.3% QoQ CC and +19.4% YoY CC. Growth was broad-based across verticals, with digital revenue growing +10% QoQ in USD terms while core revenue remained flat QoQ. (2) EBIT margin declined 12bps QoQ to 23.6%, impacted by wage hike (-150bps), higher sub-contracting (-50bps) and hiring costs, offset by improved utilisation (+100bps QoQ) and FX tailwind (+30bps QoQ). (3) Attrition spiked to 20.1% and will remain at elevated levels. (4) Out of the 22 large deals wins in Q2, five each were in BFSI/ENU, three were in retail and manufacturing and three each were in communication/hi-tech verticals. By region, fifteen deals were in the US, six in Europe and one in RoW. (5) Large deal TCV was at USD 2.2bn (vs. 2.6bn inQ1), of which 37% of the deals were net new. (5) INFY added a headcount of 11,664 in Q2 and plans to add 45k freshers in FY22E.
- **Outlook**: We have factored in USD revenue growth of 18.5/13.8/10.1% for FY22/23/24E with Q3FY22 at ~4% QoQ. EBIT margin is factored in at 23.4/23.2/23.5% for FY22/23/24E. Valuation is at 25.1x FY24E (~8% discount to TCS) with FY21-24E EPS CAGR at 13.9%.

### Quarterly financial summary

| YE March (INR bn) | Q2 FY22 | Q2 FY21 | YoY (%) | Q1 FY22 | QoQ (%) | FY20 | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue (USD mn) | 3,998 | 3,312 | 20.7 | 3,782 | 5.7 | 12,774 | 13,658 | 16,191 | 18,422 | 20,289 |
| Net Revenue | 296.02 | 245.70 | 20.5 | 278.96 | 6.1 | 907.91 | 1,004.72 | 1,199.09 | 1,381.68 | 1,541.98 |
| EBIT | 69.72 | 62.28 | 11.9 | 66.03 | 5.6 | 193.74 | 246.21 | 280.55 | 319.97 | 362.38 |
| APAT | 54.21 | 48.45 | 11.9 | 51.95 | 4.4 | 164.04 | 193.51 | 218.74 | 256.17 | 285.73 |
| Diluted EPS (INR) | 12.9 | 11.6 | 11.9 | 12.4 | 4.4 | 39.1 | 46.2 | 52.2 | 61.1 | 68.2 |
| P/E (x) | | | | | | 43.7 | 37.0 | 32.8 | 28.0 | 25.1 |
| EV / EBITDA (x) | | | | | | 31.4 | 24.6 | 22.1 | 19.3 | 17.0 |
| RoE (%) | | | | | | 25.2 | 27.3 | 30.3 | 35.9 | 36.4 |

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) | 16,049 | 16,191 | 0.9 | 18,164 | 18,422 | 1.4 | 20,007 | 20,289 | 1.4 |
| Revenue | 1186.20 | 1199.09 | 1.1 | 1362.29 | 1381.68 | 1.4 | 1520.50 | 1541.98 | 1.4 |
| EBIT | 273.61 | 280.55 | 2.5 | 316.63 | 319.97 | 1.1 | 360.31 | 362.38 | 0.6 |
| EBIT margin (%) | 23.1 | 23.4 | 33bps | 23.2 | 23.2 | -8bps | 23.7 | 23.5 | -20bps |
| APAT | 215.45 | 218.74 | 1.5 | 253.76 | 256.17 | 1.0 | 284.10 | 285.73 | 0.6 |
| EPS (INR) | 51.4 | 52.2 | 1.5 | 60.5 | 61.1 | 1.0 | 67.8 | 68.2 | 0.6 |

Source: Company, HSIE Research

## BUY

| | |
|---|---|
| CMP *(as on 13 Oct 2021)* | INR 1,709 |
| Target Price | INR 1,995 |
| NIFTY | 18,162 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | BUY | BUY |
| Price Target | INR 1,980 | INR 1,995 |
| | FY22E | FY23E |
| EPS % | +1.5 | +1.0 |

**KEY STOCK DATA**

| | |
|---|---|
| Bloomberg code | INFY IN |
| No. of Shares (mn) | 4,261 |
| MCap (INR bn) / ($ mn) | 7,283/97,874 |
| 6m avg traded value (INR mn) | 10,369 |
| 52 Week high / low | INR 1,788/1,051 |

**STOCK PERFORMANCE (%)**

| | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 10.6 | 22.3 | 47.6 |
| Relative (%) | (4.5) | (2.8) | (1.9) |

**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

## Continued growth momentum

**Wipro delivered a strong revenue performance in Q2; organic growth of 4.6% QoQ (following +4.8%) was ahead of guidance and estimates. The total revenue growth of +8.6% QoQ CC (including Capco and Ampion) was broad-based and Q3FY22E guidance of +2-4% QoQ was in line with estimate. Wipro has revived its growth engine and aligned its organic growth for FY22E (~16% YoY) in line with larger peers'. The deal pipeline remains robust with a good mix of large deals. Wipro closed more mid-sized deals in the quarter; TCV was up 19% YoY and ACV was up 28% YoY. The IT services margin registered a decline in Q2, led by Capco, supply side challenges, wage hikes, increasing sub-con costs and higher intake of freshers (8K in Q2) to offset the near-term attrition surge. The ongoing talent crunch will keep margins under check in the near term, offset by higher offshoring, utilisation, and operating leverage. We increase our revenue estimate for FY22/23E by +1.4/2.5% to factor in better growth visibility. Our target price of INR 690 is based on 24x Dec-23E EPS (~20% discount to INFY). The stock is trading at 27/22.4x FY23/24E EPS. Maintain ADD.**

- **Q2FY22 highlights**: (1) Revenue growth of 6.9% QoQ (est. +5.5% QoQ) was at the higher end of the guided range; (2) IT services' EBIT margin stood at 17.8% (-126 bps QoQ, estimate of 18.5%), impacted by two months of wage increase for senior executives and rising attrition; (3) Growth was led by BFSI/communication/consumer/technology verticals; (4) Offshoring stood at 55.6% (+160bps QoQ), utilisation stood at 89.2% (+240bps QoQ), and attrition increased to 20.5% (+500bps QoQ); (5) Wipro will roll out the wage hike for 80% of its employees, effective Oct 2021.
- **Outlook**: We have factored in +27.6/+12.8% USD revenue growth for FY22/23E respectively, which implies Q2-Q4FY22 CQGR of 3%. The IT services EBIT margin is factored in at 18.2/18.5% for FY22/23E, resulting in an EPS CAGR of 15.1% over FY21-24E.

### Quarterly Financial summary

| YE March (INR bn) | Q2 FY22 | Q2 FY21 | YoY (%) | Q1 FY22 | QoQ (%) | FY20 | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|---|
| IT revenue (USD mn) | 2,580 | 1,992 | 29.5 | 2,415 | 6.9 | 8,256 | 8,137 | 10,386 | 11,711 | 12,909 |
| Net Sales | 196.67 | 151.15 | 30.1 | 182.52 | 7.8 | 610.23 | 619.43 | 786.81 | 894.59 | 997.94 |
| EBIT | 33.97 | 27.98 | 21.4 | 31.41 | 8.2 | 101.42 | 120.14 | 131.61 | 154.41 | 187.07 |
| APAT | 29.31 | 24.66 | 18.9 | 32.32 | (9.3) | 97.22 | 107.95 | 122.16 | 136.54 | 164.55 |
| Diluted EPS (INR) | 5.3 | 4.5 | 18.9 | 5.9 | (9.3) | 17.7 | 19.7 | 22.3 | 24.9 | 30.0 |
| P/E (x) | | | | | | 37.9 | 34.1 | 30.2 | 27.0 | 22.4 |
| EV / EBITDA (x) | | | | | | 28.1 | 23.3 | 21.2 | 17.9 | 14.7 |
| RoE (%) | | | | | | 17.3 | 19.4 | 20.9 | 21.0 | 22.7 |

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 % |
|---|---|---|---|---|---|---|---|---|---|
| IT revenue (USD mn) | 10,247 | 10,386 | 1.4 | 11,420 | 11,711 | 2.5 | 12,564 | 12,909 | 2.7 |
| Revenue | 774.73 | 786.81 | 1.6 | 872.97 | 894.59 | 2.5 | 971.93 | 997.94 | 2.7 |
| EBIT | 131.05 | 131.61 | 0.4 | 152.95 | 154.41 | 1.0 | 178.71 | 187.07 | 4.7 |
| EBIT margin (%) | 16.9 | 16.7 | -19bps | 17.5 | 17.3 | -26bps | 18.4 | 18.7 | 36bps |
| APAT | 123.00 | 122.16 | (0.7) | 136.29 | 136.54 | 0.2 | 158.81 | 164.55 | 3.6 |
| EPS (INR) | 22.5 | 22.3 | (0.7) | 24.9 | 24.9 | 0.2 | 29.0 | 30.0 | 3.6 |

Source: Company, HSIE Research

## ADD

| | |
|---|---|
| CMP *(as on 13 Oct 2021)* | INR 673 |
| Target Price | INR 690 |
| NIFTY | 18,162 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | ADD | ADD |
| Price Target | INR 670 | INR 690 |
| EPS % | FY22E | FY23E |
| | -0.7 | +0.2 |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | WPRO IN |
| No. of Shares (mn) | 5,481 |
| MCap (INR bn) / ($ mn) | 3,686/49,538 |
| 6m avg traded value (INR mn) | 5,515 |
| 52 Week high / low | INR 699/331 |

**STOCK PERFORMANCE (%)**

| | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 28.2 | 60.5 | 78.9 |
| Relative (%) | 13.1 | 35.4 | 29.4 |

**SHAREHOLDING PATTERN (%)**

| | Mar-21 | Jun-21 |
|---|---|---|
| Promoters | 73.02 | 73.02 |
| FIs & Local MFs | 6.15 | 5.69 |
| FPIs | 9.21 | 9.83 |
| Public & Others | 11.62 | 11.46 |
| Pledged Shares | 0.00 | 0.00 |

*Source : BSE*

Pledged shares as % of total shares

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HDFC securities INSTITUTIONAL RESEARCH

# HCL Technologies

## Deal wins to boost growth

**We maintain BUY on HCL Tech (HCLT), supported by strong growth in services (+5.2% QoQ CC) and healthy deal wins. The miss in P&P (-8% QoQ) is a one-off, from which it should recover in Q3. Key attributes that support our positive outlook include (1) strong growth momentum in ER&D services (+5.4 QoQ CC), supported by life-sciences and hi-tech verticals; (2) healthy growth in IT & BS segment and expected recovery in P&P business; (3) large deal momentum (thirteen large services deals and one product win) with 38% YoY growth in Q2 new TCV at USD 2.25bn; (4) strong client mining (one client added in USD 100mn and 12 clients in USD 50mn bucket); and (5) the highest ever headcount addition in the past six years (11,135 net addition in Q2), which is leading to better visibility. HCLT has lowered its P&P guidance (0-1% vs. mid-single-digit) due to the miss in Q2; however, the overall guidance of double-digit growth is unchanged. Its new payout policy of distributing at least 75% of net income is encouraging. We have increased the EPS estimate for FY23/24E by +2.6/3.4%. We maintain our BUY rating with a target price of INR 1,450, valuing the HCLT stock at 20x Dec-23E EPS, factoring in 12/14% CAGRs in revenue/EPS over FY21-24E.**

- **Q2FY21 highlights**: (1) HCLT's revenue growth of 3.5% QoQ CC came in slightly below our estimates (+3.8% QoQ). (2) The IT&BS segment grew +5.2% QoQ CC (led by app modernisation and cloud transformation), ER&D saw robust growth of +5.4% QoQ CC (led by digital engineering) and products & platform continued to decline -8% QoQ CC, impacted by deal deferment. (3) Among the verticals, growth was led by manufacturing (+8.1% QoQ CC) and life-sciences (+7% QoQ CC), which offset the flattish growth in financial services and retail & CPG. (4) HCLT reported a new TCV of USD 2.25bn (+38% YoY), which includes thirteen large services deal wins and one product win. (5) EBIT margin declined 63bps QoQ to 19%, largely impacted by a decline in P&P business and FX headwind. (6) HCLT reiterated its double-digit revenue guidance (CC terms) and the EBIT margin band of 19-21% for FY22E. (7) It announced a payout policy of not less than 75% of net income.
- **Outlook**: We have factored in USD revenue growth at +12.2/13.3/11.5%, IT&BS growth at +15/14/12%, ER&D growth at +12/13/12%, and P&P growth at +0/6/7% for FY22/23/24E respectively. EBIT margins are estimated at 19.4/20.5/20.7% over the same period, translating into an EPS CAGR of 14% over FY21-24E (TCS/INFY/WPRO at 14/14/15% CAGR). Valuation, at ~18x FY24E, is inexpensive with ~5% FCF yield and ~25% RoIC.

### Quarterly Financial summary (Consolidated)

| YE March (INR bn) | Q2 FY22 | Q2 FY21 | YoY (%) | Q1 FY22 | QoQ (%) | FY20 | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue (USD mn) | 2,790 | 2,507 | 11.3 | 2,720 | 2.6 | 9,936 | 10,176 | 11,413 | 12,931 | 14,417 |
| Net Sales | 206.55 | 185.94 | 11.1 | 200.68 | 2.9 | 706.78 | 753.79 | 844.06 | 969.85 | 1,095.73 |
| EBIT | 39.16 | 40.16 | (2.5) | 39.31 | (0.4) | 138.53 | 160.71 | 163.84 | 199.05 | 226.28 |
| APAT | 32.65 | 31.42 | 3.9 | 32.14 | 1.6 | 110.62 | 124.62 | 133.24 | 161.04 | 184.68 |
| Diluted EPS (INR) | 12.0 | 11.6 | 3.9 | 11.8 | 1.6 | 40.8 | 45.9 | 49.1 | 59.3 | 68.1 |
| P/E (x) | | | | | | 30.7 | 27.2 | 25.5 | 21.1 | 18.4 |
| EV / EBITDA (x) | | | | | | 19.9 | 16.3 | 15.1 | 12.5 | 10.8 |
| RoE (%) | | | | | | 23.8 | 22.4 | 21.0 | 22.6 | 22.8 |

### 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) | 11,379 | 11,413 | 0.3 | 12,658 | 12,931 | 2.2 | 14,033 | 14,417 | 2.7 |
| Revenue | 840.02 | 844.06 | 0.5 | 949.35 | 969.85 | 2.2 | 1066.48 | 1095.73 | 2.7 |
| EBIT | 166.52 | 163.84 | (1.6) | 194.72 | 199.05 | 2.2 | 219.34 | 226.28 | 3.2 |
| EBIT margin (%) | 19.8 | 19.4 | -41bps | 20.5 | 20.5 | 1bps | 20.6 | 20.7 | 8bps |
| APAT | 133.06 | 133.24 | 0.1 | 156.98 | 161.04 | 2.6 | 178.52 | 184.68 | 3.4 |
| EPS (INR) | 49.0 | 49.1 | 0.1 | 57.8 | 59.3 | 2.6 | 65.8 | 68.1 | 3.4 |

Source: Company, HSIE Research

## BUY

| | |
|---|---|
| CMP *(as on 14 Oct 2021)* | INR 1,251 |
| Target Price | INR 1,450 |
| NIFTY | 18,339 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | BUY | BUY |
| Price Target | INR 1,400 | INR 1,450 |
| EPS % | FY22E | FY23E |
| | +0.1 | +2.6 |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | HCLT IN |
| No. of Shares (mn) | 2,714 |
| MCap (INR bn) / ($ mn) | 3,395/45,616 |
| 6m avg traded value (INR mn) | 5,656 |
| 52 Week high / low | INR 1,378/792 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 26.4 | 28.6 | 42.0 |
| Relative (%) | 10.5 | 2.3 | (8.3) |

| SHAREHOLDING PATTERN (%) | Mar-21 | Jun-21 |
|---|---|---|
| Promoters | 60.33 | 60.33 |
| FIs & Local MFs | 10.54 | 11.33 |
| FPIs | 24.14 | 23.22 |
| Public & Others | 4.99 | 5.12 |
| Pledged Shares | 0.00 | 0.00 |

*Source : BSE*

Pledged shares as % of total shares

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# Tech Mahindra

## Growth acceleration

**We maintain BUY on Tech Mahindra (TechM), based on decade-best Q2 and healthy net-new deal wins (TTM +25%). TechM delivered growth of 7.2% QoQ CC (better than expectation) and was broad-based across CME and enterprise. The net-new TCV stood at USD 750mn; there were more of mid-sized deals, but the pipeline remains robust. The key attributes that underscore our positive stance are (1) healthy deal wins in the enterprise vertical (~USD 1.8bn TTM); (2) healthy growth in BPS; (3) highest ever fresher intake in a decade; (4) double-digit growth in telecom, led by 5G (telecom TCV is ~2x on TTM basis); and (5) continued growth momentum in enterprise led by technology, BFSI, and manufacturing verticals. The margin was flat QoQ but 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 4.0/5.7% for FY23/24E to factor in growth acceleration. Our target price stands at INR 1,710, based on 21x Dec-23E EPS (earlier 20x). The stock is trading at 20.7/18.1x FY23/24E (~20% discount to tier-1 1Y forward P/E multiple).**

- **Q2FY22 highlights**: (1) TechM revenue stood at USD 1,473mn (higher than our estimate of USD 1,435mn), +6.4% QoQ (+7.2% QoQ CC); (2) telecom business witnessed healthy growth of 7.7% QoQ CC and enterprise business grew by 7% QoQ CC; (3) technology/retail/BFSI/manufacturing registered growth of +8.4/+7.7/+6.0/3.1% QoQ; (4) EBIT margin, at 15.2%, remained flat sequentially, supported by operating leverage, which was offset by lower utilisation and higher subcontracting cost; (5) net-new TCV stood at USD 750mn (-8% QoQ), of which telecom/enterprise TCV was at USD 255/495mn.
- **Outlook**: We have factored in USD revenue growth at +16.8/14.8/12.7%, factoring in telecom growth at +15.7/12.1/10.6% and enterprise growth at +17.6/16.6/14.1% over FY22/23/24E respectively. EBIT margins are estimated at 15.2/15.4/15.5% over the same period, translating into an EPS CAGR of 18% over FY21-24E.

### Quarterly Financial summary

| YE March (INR Bn) | Q2 FY22 | Q2 FY21 | YoY (%) | Q1 FY22 | QoQ (%) | FY20 | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue (USD mn) | 1,473 | 1,265 | *16.4* | 1,384 | *6.4* | 5,182 | 5,111 | 5,972 | 6,856 | 7,729 |
| Net Revenue | 108.81 | 93.72 | *16.1* | 101.98 | *6.7* | 368.68 | 378.55 | 441.34 | 514.18 | 587.44 |
| EBIT | 16.52 | 13.31 | *24.1* | 15.45 | *6.9* | 42.80 | 53.89 | 66.90 | 79.08 | 91.09 |
| APAT | 13.39 | 10.65 | *25.7* | 13.53 | *(1.1)* | 42.51 | 45.06 | 56.65 | 65.09 | 74.18 |
| Diluted EPS (INR) | 15.2 | 12.1 | *25.7* | 15.3 | *(1.1)* | 48.2 | 51.1 | 64.2 | 73.8 | 84.1 |
| P/E (x) | | | | | | 31.6 | 29.8 | 23.7 | 20.7 | 18.1 |
| EV / EBITDA (x) | | | | | | 22.4 | 18.1 | 15.2 | 12.8 | 11.1 |
| RoE (%) | | | | | | 20.2 | 19.3 | 21.8 | 22.8 | 23.6 |

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) | 5,827 | 5,972 | *2.5* | 6,517 | 6,856 | *5.2* | 7,244 | 7,729 | *6.7* |
| Revenue | 430.78 | 441.34 | *2.5* | 488.78 | 514.18 | *5.2* | 550.56 | 587.44 | *6.7* |
| EBIT | 64.28 | 66.90 | *4.1* | 75.93 | 79.08 | *4.1* | 85.95 | 91.09 | *6.0* |
| EBIT margin (%) | 14.9 | 15.2 | 24bps | 15.5 | 15.4 | -16bps | 15.6 | 15.5 | -11bps |
| APAT | 54.62 | 56.65 | *3.7* | 62.60 | 65.09 | *4.0* | 70.20 | 74.18 | *5.7* |
| EPS (INR) | 61.9 | 64.2 | *3.7* | 71.0 | 73.8 | *4.0* | 79.6 | 84.1 | *5.7* |

Source: Company, HSIE Research

## BUY

| | |
|---|---|
| **CMP *(as on 25 Oct 2021)*** | **INR 1,524** |
| **Target Price** | **INR 1,710** |
| **NIFTY** | **18,125** |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | BUY | BUY |
| Price Target | INR 1,550 | INR 1,710 |
| EPS % | FY22E | FY23E |
| | +3.7 | +4.0 |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | TECHM IN |
| No. of Shares (mn) | 969 |
| MCap (INR bn) / ($ mn) | 1,477/19,850 |
| 6m avg traded value (INR mn) | 4,372 |
| 52 Week high / low | INR 1,639/772 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 34.8 | 62.5 | 85.5 |
| Relative (%) | 19.7 | 35.2 | 35.7 |

| SHAREHOLDING PATTERN (%) | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 35.73 | 35.70 |
| FIs & Local MFs | 16.51 | 16.90 |
| FPIs | 36.14 | 35.54 |
| Public & Others | 11.62 | 11.86 |
| Pledged Shares | 0.00 | 0.00 |

*Source : BSE*

Pledged shares as % of total shares

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# L&T Infotech

## Riding the wave

**We maintain ADD on L&T Infotech (LTI), following a robust Q2 (beat on revenue and margin) and strong growth visibility for H2, based on deal wins. LTI has consistently delivered an industry-leading growth rate and the momentum will continue, based on (1) healthy growth in BFS vertical, supported by Temenos partnership, (2) large deal wins in Europe (TCV of USD 30mn) and a strong large deal pipeline, (3) expected pick-up in insurance and retail & CPG verticals, (4) decade best demand environment, supported by rising discretionary spends by enterprises, which will last for at least three years, (5) scale-up in products (Mosaic and Leni) and partnerships (Snowflake), and (6) aggressive hiring/re-skilling plans, which would help overcome the supply side constraints (hired ~6.4K in H1, planned net hiring ~2x of FY21 adds). We increase our target multiple to 35x (33x earlier), led by improving growth outlook and margin resilience. Our target price of INR 6,400 values LTI at 35x Dec-23E EPS.**

- **Q2FY22 highlights**: (1) LTI's revenue came in at USD 509mn, +8.9/+25.5% QoQ/YoY (CC terms), which was above our estimate of USD 491mn; (2) EBIT margin improved by 79bps QoQ to 17.2% (estimate of 16.5%), supported by SG&A leverage (+70bps) and offshoring (59.2%, +190bps QoQ), offset by lower utilisation (-70bps); (3) broad-based across verticals, led by manufacturing (+12.9% QoQ CC) and BFSI (+10.6% QoQ CC); (4) T5 account improved +8.3% QoQ and T6-10 grew by +3.3% QoQ in USD terms; (5) LTI had the highest ever headcount addition of 4,084 employees in Q2 and it plans to add more freshers in H2FY22; (6) as per management, LTI will deliver top quartile topline growth and PAT margin will be in the range of 14-15% for FY22E.
- **Outlook**: We have factored in USD revenue growth of +26/20.1/14.7% and EBIT margin of 17.4/17.7/18.2% for FY22/23/24E respectively. APAT margin is estimated at 14.4/14.6/15.1% for FY22/23/24E. At the CMP, LTI is trading at 37.2x FY23E with an FY21-24E EPS CAGR at 20%.

### Quarterly Financial summary

| YE March (INR bn) | Q2 FY22 | Q2 FY21 | YoY (%) | Q1 FY22 | QoQ (%) | FY20 | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue (USD mn) | 509 | 405 | *25.8* | 470 | *8.3* | 1,525 | 1,670 | 2,104 | 2,527 | 2,899 |
| Net Sales | 37.67 | 29.98 | *25.6* | 34.63 | *8.8* | 108.79 | 123.70 | 155.53 | 189.54 | 220.32 |
| EBIT | 6.48 | 5.96 | *8.8* | 5.68 | *14.1* | 17.56 | 23.93 | 27.11 | 33.55 | 40.12 |
| APAT | 5.52 | 4.57 | *20.8* | 4.97 | *11.1* | 15.21 | 18.95 | 22.42 | 27.61 | 33.30 |
| Diluted EPS (Rs) | 31.7 | 26.2 | *20.8* | 28.5 | *11.1* | 87.3 | 111.3 | 128.8 | 158.6 | 191.2 |
| P/E (x) | | | | | | 67.6 | 53.1 | 45.9 | 37.2 | 30.9 |
| EV / EBITDA (x) | | | | | | 49.3 | 36.1 | 31.7 | 25.3 | 20.9 |
| RoE (%) | | | | | | 29.5 | 29.8 | 28.2 | 29.0 | 29.0 |

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) | 2,020 | 2,104 | *4.2* | 2,396 | 2,527 | *5.5* | 2,794 | 2,899 | *3.8* |
| Revenue | 149.36 | 155.53 | *4.1* | 179.71 | 189.54 | *5.5* | 212.31 | 220.32 | *3.8* |
| EBIT | 25.90 | 27.11 | *4.7* | 31.96 | 33.55 | *5.0* | 37.97 | 40.12 | *5.7* |
| EBIT margin (%) | 17.3 | 17.4 | 9bps | 17.8 | 17.7 | -8bps | 17.9 | 18.2 | 32bps |
| APAT | 21.68 | 22.42 | *3.4* | 26.70 | 27.61 | *3.4* | 31.79 | 33.30 | *4.7* |
| EPS (INR) | 124.5 | 128.8 | *3.4* | 153.3 | 158.6 | *3.4* | 182.6 | 191.2 | *4.7* |

Source: Company, HSIE Research

## ADD

| | |
|---|---|
| **CMP** *(as on 18 Oct 2021)* | **INR 5,906** |
| **Target Price** | **INR 6,400** |
| **NIFTY** | **18,477** |

| **KEY CHANGES** | **OLD** | **NEW** |
|---|---|---|
| Rating | ADD | ADD |
| Price Target | INR 5,780 | INR 6,400 |
| EPS % | FY22E | FY23E |
| | +3.4 | +3.4 |

| **KEY STOCK DATA** | |
|---|---|
| Bloomberg code | LTI IN |
| No. of Shares (mn) | 175 |
| MCap (INR bn) / ($ mn) | 1,035/13,902 |
| 6m avg traded value (INR mn) | 1,740 |
| 52 Week high / low | INR 6,499/2,821 |

**STOCK PERFORMANCE (%)**

| | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 38.0 | 44.7 | 92.5 |
| Relative (%) | 20.5 | 15.9 | 39.7 |

**SHAREHOLDING PATTERN (%)**

| | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 74.25 | 74.09 |
| FIs & Local MFs | 4.77 | 4.73 |
| FPIs | 13.07 | 13.25 |
| Public & Others | 7.91 | 7.93 |
| Pledged Shares | 0.00 | 0.00 |

*Source : BSE*

Pledged shares as % of total shares

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# Mindtree

## Decade-high growth!

**Mindtree (MTCL) delivered an exceptional quarter with double-digit QoQ growth and beat on margins despite wage hikes and supply side issues. The dependence on the top account is coming down and growth was broad-based across verticals/geographies/service lines. Mindtree's growth momentum will continue, supported by non-T1 accounts (+17.6% QoQ), customer success (+21.8% QoQ) and investments in Europe (manufacturing). Its sustainable structural improvement is validated by (1) the uptick in Q2 deal TCV at >USD 300mn and lower dependence on non-T1 account, (2) improved cross-sell and addition of strategic logos (seven in Q2), and (3) healthy growth in the travel vertical, supported by core modernisation. The company remains confident of delivering an EBITDA margin of >20% despite the ongoing supply side challenges, supported by better margins in new deals, increasing offshoring, and better utilisation. To address the rising attrition (+400bps) the company will continue to hire freshers, focus on reskilling existing employees, and rely on sub-contracting for niche talent. We increase revenue/EPS estimates by 6/10% for FY23/24E to factor in higher growth. Our target price of INR 4,400 is based on 35x Dec-23E EPS (23% CAGR over FY21-24E on a high base in FY21 of >70%). Maintain ADD.**

- **Q2FY22 highlights**: (1) MTCL reported decade-high revenue at USD 350mn (above our estimate of USD 337mn), +12.8% QoQ in USD terms, supported by continued strong growth in non-T1 business at +17.6% QoQ while T1 growth remained flat QoQ. (2) EBITDA margin improved by 25bps QoQ to 20.5%, helped by operational efficiencies (+190bps QoQ), which offset the negative impact of wage hike (-140bps QoQ) and FX headwind (-25bps). (3) Growth was broad-based across verticals, led by retail, CPG and manufacturing (+29.7% QoQ); travel (+14.2% QoQ); BFSI (+8.9% QoQ) and comms, media & tech (+5.4% QoQ). (4) Deal TCV was at USD 360mn, 19% YoY (book to bill at 1.03x compared to 1.16x in Q2FY21). (5) The company had a net headcount addition of 2,476 in Q2.
- **Outlook** We have factored in USD revenue growth of +31.1/+19/+14.5% and EBITDA at 20.3/20.7/21.4% for FY22/23/24E respectively. We expect an EPS CAGR of 23% over FY21-24E and RoIC of >40% to support the valuation (40x FY23E).

### Quarterly Financial summary

| YE March (INR bn) | Q2 FY22 | Q2 FY21 | YoY (%) | Q1 FY22 | QoQ (%) | FY20 | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue (USD mn) | 350 | 261 | *34.1* | 311 | *12.8* | 1,089 | 1,077 | 1,411 | 1,679 | 1,922 |
| Net Sales | 25.86 | 19.26 | *34.3* | 22.92 | *12.9* | 77.64 | 79.68 | 104.32 | 125.95 | 146.09 |
| EBIT | 5.31 | 3.90 | *36.0* | 4.65 | *14.3* | 7.87 | 13.83 | 18.50 | 22.80 | 27.32 |
| APAT | 3.99 | 2.54 | *57.2* | 3.43 | *16.2* | 6.66 | 11.57 | 14.81 | 17.98 | 21.63 |
| Diluted EPS (INR) | 24.2 | 15.4 | *57.2* | 20.8 | *16.2* | 40.4 | 70.3 | 89.9 | 109.2 | 131.3 |
| P/E (x) | | | | | | 107.9 | 62.1 | 48.5 | 40.0 | 33.2 |
| EV / EBITDA (x) | | | | | | 66.4 | 42.0 | 32.5 | 26.0 | 21.4 |
| RoE (%) | | | | | | 19.5 | 29.7 | 30.8 | 30.4 | 29.7 |

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 % |
|---|---|---|---|---|---|---|---|---|---|
| Revenue (USD mn) | 1,354 | 1,411 | *4.2* | 1,575 | 1,679 | *6.7* | 1,805 | 1,922 | *6.5* |
| Revenue | 100.16 | 104.32 | *4.2* | 118.09 | 125.95 | *6.7* | 137.15 | 146.09 | *6.5* |
| EBIT | 17.34 | 18.50 | *6.7* | 20.61 | 22.80 | *10.6* | 24.37 | 27.32 | *12.1* |
| EBIT margin (%) | 17.3 | 17.7 | 42bps | 17.5 | 18.1 | 65bps | 17.8 | 18.7 | 93bps |
| APAT | 13.79 | 14.81 | *7.4* | 16.33 | 17.98 | *10.1* | 19.43 | 21.63 | *11.3* |
| EPS (INR) | 83.7 | 89.9 | *7.4* | 99.2 | 109.2 | *10.1* | 117.9 | 131.3 | *11.3* |

Source: Company, HSIE Research

## ADD

| | |
|---|---|
| **CMP *(as on 13 Oct 2021)*** | **INR 4,364** |
| **Target Price** | **INR 4,400** |
| **NIFTY** | **18,162** |

| **KEY CHANGES** | **OLD** | **NEW** |
|---|---|---|
| Rating | ADD | ADD |
| Price Target | INR 3,960 | INR 4,400 |
| EPS % | FY22E | FY23E |
| | +7.4 | +10.1 |

| **KEY STOCK DATA** | |
|---|---|
| Bloomberg code | MTCL IN |
| No. of Shares (mn) | 165 |
| MCap (INR bn) / ($ mn) | 719/9,660 |
| 6m avg traded value (INR mn) | 3,581 |
| 52 Week high / low | INR 4,734/1,262 |

**STOCK PERFORMANCE (%)**

| | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 74.9 | 112.8 | 175.3 |
| Relative (%) | 59.8 | 87.7 | 125.8 |

**SHAREHOLDING PATTERN (%)**

| | Mar-21 | Jun-21 |
|---|---|---|
| Promoters | 61.03 | 61.02 |
| FIs & Local MFs | 10.86 | 11.98 |
| FPIs | 13.92 | 13.66 |
| Public & Others | 14.19 | 13.34 |
| Pledged Shares | 0.00 | 0.00 |

*Source : BSE*

Pledged shares as % of total shares

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# Mphasis

## Growth continuity

**We maintain BUY on Mphasis (MPHL) and reiterate it as our preferred pick in mid-tier IT, given the strong growth in the direct business (+9.9% QoQ) and high visibility on delivering industry-leading growth. MPHL's growth is expected to be driven by (1) growth in the direct business, based on deal wins; (2) continuity of strong growth in large accounts (market share gains in BFSI accounts); (3) increased focus on new client acquisition; (4) healthy deal pipeline (68% of the deals are in new-gen services); (5) steady operating profile (margin guidance maintained); and (6) healthy pipeline in Europe. The DXC decline was steep (-25%) in the quarter and is now contributing only 6.5% to revenue. There will be a convergence of the company's growth with direct core growth (25% CAGR over FY21-24E) supported by healthy deal wins (fifth consecutive quarter with TCV of more than USD 240mn). The integration of Blink and the ongoing supply-side challenges will have an impact on margins; the target EBIT margin range is 15.5-17%. Our target price of INR 3,450 values MPHL at 30x Dec-23E EPS.**

- **Q2FY22 highlights:** (1) Revenue came in at USD 385mn, +6.6/+17.2% QoQ/YoY (CC terms), led by growth of +9.9/+31.5% QoQ/YoY (CC terms) in the direct business (92% of revenue), offset by DXC-HP (6% of revenue) de-growth of -24.5/-53.4% QoQ/YoY (CC terms); (2) EBIT margin stood at 15.1% (in line with our estimates at 15.3%), -81/-105bps QoQ/YoY, impacted by M&A related charges. Adjusting the same, EBIT margin declined -10bps QoQ; (3) management has maintained its operating margin guidance of 15.5-17%; (4) deal wins in direct international, at USD 241mn, declined 52% QoQ (excluding large deal growth was 21% YoY), while new deal TCV and the pipeline remained strong; (5) the company added a billable headcount of 2,816 in H1FY22, compared to 2,888 in FY21; (6) top client grew 6.6% QoQ while the top 6-10 clients witnessed a healthy growth of 23% QoQ during the quarter.
- **Outlook:** We have factored in 22/19/16% growth in revenue, based on the growth in the direct business at 36/23/17% and DXC-HP at -49/-32/-13% for FY22/23/24E respectively, and factored in the EBIT margin at 15.6/16/17% for FY22/23/24E, resulting in an EPS CAGR of 23% over FY21-24E.

### Quarterly Financial summary

| YE Mar (INR bn) | Q2 FY22 | Q2 FY21 | YoY (%) | Q1 FY22 | QoQ (%) | FY20 | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue (USD mn) | 385 | 327 | *17.7* | 363 | *6.1* | 1,240 | 1,309 | 1,601 | 1,902 | 2,199 |
| Net Sales | 24.74 | 22.77 | *8.7* | 24.35 | *1.6* | 88.44 | 97.22 | 118.72 | 142.62 | 167.16 |
| EBIT | 4.05 | 3.69 | *9.6* | 3.92 | *3.2* | 14.19 | 15.61 | 18.49 | 22.85 | 28.40 |
| APAT | 3.26 | 2.94 | *10.9* | 2.99 | *8.8* | 11.42 | 12.17 | 14.59 | 18.12 | 22.58 |
| Diluted EPS (INR) | 17.5 | 15.8 | *10.9* | 16.1 | *8.8* | 61.3 | 65.3 | 78.3 | 97.2 | 121.2 |
| P/E (x) | | | | | | 53.1 | 49.9 | 41.6 | 33.5 | 26.9 |
| EV / EBITDA (x) | | | | | | 35.7 | 32.4 | 27.1 | 21.8 | 17.5 |
| RoE (%) | | | | | | 20.6 | 19.7 | 21.2 | 23.4 | 25.6 |

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) | 1,573 | 1,601 | *1.8* | 1,868 | 1,902 | *1.8* | 2,159 | 2,199 | *1.9* |
| Revenue | 116.47 | 118.72 | *1.9* | 140.07 | 142.62 | *1.8* | 164.10 | 167.16 | *1.9* |
| EBIT | 17.91 | 18.49 | *3.3* | 22.91 | 22.85 | *(0.3)* | 28.61 | 28.40 | *(0.7)* |
| EBIT margin (%) | 15.4 | 15.6 | 20bps | 16.4 | 16.0 | -33bps | 17.4 | 17.0 | -45bps |
| APAT | 14.14 | 14.59 | *3.1* | 18.16 | 18.12 | *(0.2)* | 22.74 | 22.58 | *(0.7)* |
| EPS (INR) | 75.9 | 78.3 | *3.1* | 97.4 | 97.2 | *(0.2)* | 122.0 | 121.2 | *(0.7)* |

Source: Company, HSIE Research

## BUY

| | |
|---|---|
| **CMP *(as on 22 Oct 2021)*** | **INR 3,255** |
| **Target Price** | **INR 3,450** |
| **NIFTY** | **18,115** |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | BUY | BUY |
| Price Target | INR 3,475 | INR 3,450 |
| EPS % | FY22E | FY23E |
| | +3.1 | -0.2 |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | MPHL IN |
| No. of Shares (mn) | 187 |
| MCap (INR bn) / ($ mn) | 609/8,186 |
| 6m avg traded value (INR mn) | 2,170 |
| 52 Week high / low | INR 3,660/1,269 |

**STOCK PERFORMANCE (%)**

| | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 37.0 | 100.0 | 143.3 |
| Relative (%) | 21.9 | 73.5 | 93.4 |

**SHAREHOLDING PATTERN (%)**

| | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 55.99 | 55.95 |
| FIs & Local MFs | 18.42 | 17.88 |
| FPIs | 20.80 | 20.85 |
| Public & Others | 4.79 | 5.32 |
| Pledged Shares | 0.00 | 0.00 |

*Source : BSE*

Pledged shares as % of total shares

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# L&T Technology Services

## ER&D leadership shines through

**We upgrade L&T Technology Services (LTTS) to ADD, based on robust performance in Q2 and improving growth outlook due to deal wins. The management has increased the growth guidance for FY22E to 19-20% (vs. 15-17% earlier), citing a strong demand environment. We believe LTTS' growth will be driven by (1) robust deal wins - five wins of TCV >USD 10mn, including two of TCV >USD 25mn; (2) impressive client base and mining capability - 57 of the top-100 ER&D spenders are LTTS clients and the deal pipeline remains strong, especially in EACV (electric), med-tech, and digital ER&D (manufacturing); and (3) leadership in industrial products and plant engineering, supported by recovery in telecom and hi-tech verticals. The margin performance will be supported by offshoring, operating leverage, and improving segmental mix; however, the ongoing hiring of freshers (to counter attrition) and the expected increase in travel and operational expenses could impact margins. The target EBIT margin range is ~18%. We acknowledge LTTS' prowess/diversity in digital ER&D and have increased our EPS estimate by ~10% and multiple to 40x (vs 35x earlier). Our target price of INR 5,350 is based on 40x Dec-23E EPS.**

- **Q2FY22 highlights:** (1) LTTS' revenue stood at USD 217mn (vs. estimate of USD 214mn), +5.7/+22.1% QoQ/YoY (+6/+22.3% QoQ/YoY CC); (2) growth was largely led by process industry (+10.2% QoQ), followed by industrial products (+8.4% QoQ) and transportation (+6.2% QoQ); (3) nine large deals were won in Q2, of which five were >USD 10mn TCV and two of >USD 25mn TCV (in transportation & telecom vertical); (4) EBIT margin improved 116bps QoQ to 18.4% (higher than the estimated 16.6%), supported by operational efficiencies, which offset the negative impact of wage hikes given to mid to senior employees; (5) digital engineering contributed 55% to revenue (+7.6% QoQ).
- **Outlook:** We have factored in USD revenue growth of +22.4/+19.7/+16.2% and EBIT margin at 18.1/18.3/18.4% for FY22/23/24E respectively. LTTS is currently trading at 45x FY23E with the FY21-24E EPS CAGR at 33%.

### Quarterly financial summary

| YE Mar (INR bn) | Q2 FY22 | Q2 FY21 | YoY (%) | Q1 FY22 | QoQ (%) | FY20 | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue (USD mn) | 217 | 178 | *22.1* | 206 | *5.7* | 786 | 737 | 901 | 1,079 | 1,254 |
| Net Sales | 16.08 | 13.14 | *22.4* | 15.18 | *5.9* | 56.19 | 54.50 | 66.65 | 80.92 | 95.27 |
| EBIT | 2.96 | 1.80 | *64.6* | 2.62 | *13.0* | 9.28 | 7.89 | 12.05 | 14.80 | 17.53 |
| APAT | 2.30 | 1.36 | *69.1* | 2.16 | *6.4* | 7.51 | 6.27 | 9.73 | 11.91 | 14.65 |
| Diluted EPS (INR) | 22.0 | 13.0 | *69.1* | 20.7 | *6.4* | 72.0 | 60.1 | 93.3 | 114.1 | 140.4 |
| P/E (x) | | | | | | 71.3 | 85.5 | 55.0 | 45.0 | 36.5 |
| EV / EBITDA (x) | | | | | | 47.5 | 51.4 | 35.6 | 28.8 | 24.0 |
| RoE (%) | | | | | | 28.6 | 20.1 | 25.3 | 25.6 | 26.1 |

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) | 863 | 901 | *4.4* | 1,018 | 1,079 | *6.0* | 1,198 | 1,254 | *4.7* |
| Revenue | 63.86 | 66.65 | *4.4* | 76.33 | 80.92 | *6.0* | 91.03 | 95.27 | *4.7* |
| EBIT | 10.66 | 12.05 | *13.0* | 13.23 | 14.80 | *11.8* | 15.73 | 17.53 | *11.5* |
| EBIT margin (%) | 16.7 | 18.1 | 139bps | 17.3 | 18.3 | 95bps | 17.3 | 18.4 | 112bps |
| APAT | 8.84 | 9.73 | *10.1* | 10.70 | 11.91 | *11.2* | 13.29 | 14.65 | *10.2* |
| EPS (INR) | 84.8 | 93.3 | *10.1* | 102.6 | 114.1 | *11.2* | 127.4 | 140.4 | *10.2* |

Source: Company, HSIE Research

## ADD

| | |
|---|---|
| CMP *(as on 19 Oct 2021)* | INR 5,132 |
| Target Price | INR 5,350 |
| NIFTY | 18,419 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | REDUCE | ADD |
| Price Target | INR 4,240 | INR 5,350 |
| EPS % | FY22E | FY23E |
| | +10.1 | +11.2 |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | LTTS IN |
| No. of Shares (mn) | 105 |
| MCap (INR bn) / ($ mn) | 540/7,253 |
| 6m avg traded value (INR mn) | 1,481 |
| 52 Week high / low | INR 5,549/1,602 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 51.0 | 91.0 | 192.5 |
| Relative (%) | 33.6 | 62.3 | 139.9 |

| SHAREHOLDING PATTERN (%) | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 74.23 | 74.15 |
| FIs & Local MFs | 6.68 | 6.14 |
| FPIs | 8.92 | 9.50 |
| Public & Others | 10.17 | 10.21 |
| Pledged Shares | 0.00 | 0.00 |

*Source : BSE*

Pledged shares as % of total shares

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# Tata Elxsi

## Healthy growth but valuation expensive

**We maintain our REDUCE rating on TELX, based on diminishing margin of safety at 56x FY23E and following an in-line revenue performance. The margin came in better than expected, led by higher-than-expected offshoring (~75%), but we believe it has reached the peak level, considering supply-side concerns. While we remain positive on the company's prospects and growth leadership in ER&D (+26/29% revenue/EPS CAGR over FY21-24E), the unfavourable risk-reward can be construed from (1) lower revenue growth in the IDV segment impacted by project completion and delay in decision making, (2) reducing growth premium vs. ER&D peers, and (3) diminishing margin due to supply-side challenges and increased hiring of freshers to manage attrition (13.9%). The near-term prospects remain strong with FY22E revenue growth expected at 32%, which would subsequently normalise to ~25% in FY23E. Our TP of INR 5,275 is based on 44x Dec-23E EPS, supported by an EPS CAGR of 29% over FY21-24E.**

- **Q2FY22 highlights**: (1) TELX reported healthy revenue growth of 7.4% QoQ CC and 37.2% YoY CC, led by EPD (+10.6/+34.4% QoQ/YoY). (2) Segmental growth: EPD (86% of revenue) grew 10.6% QoQ CC, which included transportation growth at 14.1% QoQ CC (led by electric & autonomous technology), broadcast & comms at 8.6% QoQ CC, and healthcare & medical at 6.9% QoQ CC. IDV (11% of revenue) declined 13.9% QoQ CC, impacted by a shift in program timelines for a large ongoing design-led innovation project. (3) Margin: EBITDA margin improved 398bps QoQ to 30.8% (higher than our estimate of 29.7%), supported by lower employee cost and lower SG&A expense. (4) TELX had strong net headcount addition of 705 in Q2 and attrition increased 370bps QoQ to 13.9%. (5) Management commentary included a strong order book and a strong outlook for the EPD business, driven by the transportation vertical.
- **Outlook**: We have factored in the USD revenue growth of 32/25/21% for FY22/23/24E, factoring in EPD growth of 30/26/21% and IDV growth of 51/15/27%. EBITDA margin has been taken at 28.8/28.7/28.3% for FY22/23/24E, translating into a 29% EPS CAGR over FY21-24E. Following the recent stock performance (+37/82% in 3M/6M), TELX is currently trading at 56x FY23E.

### Quarterly Financial summary

| YE Mar (INR bn) | Q2 FY22 | Q2 FY21 | YoY (%) | Q1 FY22 | QoQ (%) | FY20 | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue (USD mn) | 80 | 58 | 38.7 | 76 | 6.1 | 227 | 247 | 326 | 406 | 493 |
| Net Sales | 5.95 | 4.30 | 38.4 | 5.58 | 6.6 | 16.10 | 18.26 | 24.10 | 30.48 | 37.44 |
| EBIT | 1.70 | 1.07 | 59.2 | 1.38 | 23.2 | 3.00 | 4.78 | 6.42 | 8.12 | 9.82 |
| APAT | 1.25 | 0.79 | 58.9 | 1.13 | 10.5 | 2.71 | 3.68 | 5.07 | 6.43 | 7.81 |
| Diluted EPS (INR) | 20.1 | 12.7 | 58.9 | 18.2 | 10.5 | 43.6 | 59.1 | 81.5 | 103.2 | 125.5 |
| P/E (x) | | | | | | 133.3 | 98.3 | 71.3 | 56.3 | 46.3 |
| EV / EBITDA (x) | | | | | | 103.5 | 67.4 | 50.7 | 39.9 | 32.6 |
| RoE (%) | | | | | | 26.7 | 30.1 | 35.6 | 38.0 | 36.9 |

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) | 329 | 326 | *(0.8)* | 398 | 406 | *2.0* | 480 | 493 | *2.6* |
| Revenue | 24.30 | 24.10 | *(0.8)* | 29.88 | 30.48 | *2.0* | 36.49 | 37.44 | *2.6* |
| EBIT | 6.32 | 6.42 | *1.7* | 7.94 | 8.12 | *2.2* | 9.50 | 9.82 | *3.3* |
| EBIT margin (%) | 26.0 | 26.7 | 65bps | 26.6 | 26.6 | 6bps | 26.0 | 26.2 | 18bps |
| APAT | 5.02 | 5.07 | *1.2* | 6.30 | 6.43 | *2.1* | 7.58 | 7.81 | *3.1* |
| EPS (INR) | 80.5 | 81.5 | *1.2* | 101.1 | 103.2 | *2.1* | 121.7 | 125.5 | *3.1* |

Source: Company, HSIE Research

## REDUCE

| | |
|---|---|
| **CMP** *(as on 25 Oct 2021)* | **INR 5,800** |
| **Target Price** | **INR 5,275** |
| **NIFTY** | **18,125** |

| **KEY CHANGES** | **OLD** | **NEW** |
|---|---|---|
| Rating | REDUCE | REDUCE |
| Price Target | INR 5,130 | INR 5,275 |
| EPS % | FY22E | FY23E |
| | +1.2 | +2.1 |

| **KEY STOCK DATA** | |
|---|---|
| Bloomberg code | TELX IN |
| No. of Shares (mn) | 62 |
| MCap (INR bn) / ($ mn) | 361/4,851 |
| 6m avg traded value (INR mn) | 1,201 |
| 52 Week high / low | INR 6,610/1,443 |

| **STOCK PERFORMANCE (%)** | **3M** | **6M** | **12M** |
|---|---|---|---|
| Absolute (%) | 36.5 | 83.2 | 253.5 |
| Relative (%) | 21.4 | 55.9 | 203.6 |

| **SHAREHOLDING PATTERN (%)** | **Jun-21** | **Sep-21** |
|---|---|---|
| Promoters | 44.53 | 44.53 |
| FIs & Local MFs | 5.76 | 4.95 |
| FPIs | 11.81 | 12.71 |
| Public & Others | 37.90 | 37.81 |
| Pledged Shares | 0.00 | 0.00 |

*Source : BSE*

Pledged shares as % of total shares

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# Persistent Systems

## Growth flywheel

**We maintain ADD on Persistent Systems (PSYS), following a robust Q2 and a healthy deal momentum. PSYS' growth leadership is premised on (1) strong new deal wins (USD 149mn new win TCV with total book to bill of 1.4x in Q2), driven by (1) healthcare & life-sciences and hi-tech verticals; (2) improved client mining reflected in strong scale-up in >USD 5mn+ client bucket; (3) robust headcount addition (~2.1K added in H1 and continued freshers' hiring in H2); and (4) traction in Salesforce and Azure practice. The company has converted a large IP contract into T&M, which will be margin accretive; however, margin would be offset by higher ESOP charges (~80% of employees covered under ESOP) and the ongoing war for talent (targeted EBITDA margin is ~16%). We increase the EPS estimates by 4.2/5.3% for FY23/24E and multiple to 35x (from 32x earlier). Our target price of INR 4,350 values PSYS at 35x Dec-23E, supported by a 30% EPS CAGR over FY21-24E.**

- **Q2FY22 highlights:** (1) PSYS' revenue came in at USD 182mn (higher than our estimate of USD 178mn), +9.3/+34% QoQ/YoY, supported by healthy growth in services (+10.1% QoQ) and recovery in IP revenue (+4.2% QoQ). (2) Growth in Q2FY22 was broad-based across the verticals, led by healthcare & life-sciences at +13% QoQ, followed by the BFSI vertical at +8.9% QoQ, and technology & emerging vertical at +7.9% QoQ. (3) Revenue from T1 improved 8.6% QoQ, contributing 16.9% of the total, while revenue from the top 5/10 witnessed robust growth of 7.2/6.2% QoQ respectively. (4) EBIT margin stood at 13.9% (higher than our estimate of 12.8%), +32bps QoQ, supported by operational efficiencies, partially offset by the negative impact of the wage hike. (5) PSYS reported TCV growth of 15% QoQ to USD 283mn, which included new TCV wins of USD 149mn (flat QoQ).
- **Outlook**: We have factored in USD revenue growth at 33/24/18% and EBITDA margin at 16.4/15.5/15.6% over FY22/23/24E, resulting in FY21-24E EPS CAGR at 30%. At CMP, PSYS is trading at a PE of 37.3/31.2x FY23/24E.

### Quarterly Financial summary

| YE March (INR bn) | Q2 FY22 | Q2 FY21 | *YoY (%)* | Q1 FY22 | *QoQ (%)* | FY20 | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue (USD mn) | 182 | 136 | *34.0* | 167 | *9.3* | 502 | 566 | 754 | 935 | 1,108 |
| Net Sales | 13.51 | 10.08 | *34.1* | 12.30 | *9.9* | 35.66 | 41.88 | 55.80 | 70.13 | 84.17 |
| EBIT | 1.87 | 1.22 | *53.8* | 1.67 | *12.5* | 3.27 | 5.07 | 7.55 | 9.12 | 11.08 |
| APAT | 1.62 | 1.02 | *58.6* | 1.51 | *6.9* | 3.59 | 4.51 | 6.74 | 8.27 | 9.90 |
| Diluted EPS (INR) | 21.2 | 13.3 | *58.6* | 19.8 | *6.9* | 47.0 | 59.0 | 88.3 | 108.2 | 129.5 |
| P/E (x) | | | | | | 86.0 | 68.5 | 45.8 | 37.3 | 31.2 |
| EV / EBITDA (x) | | | | | | 59.7 | 42.3 | 31.3 | 26.2 | 21.3 |
| RoE (%) | | | | | | 14.4 | 17.4 | 22.2 | 23.2 | 23.5 |

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) | 739 | 754 | *2.1* | 913 | 935 | *2.5* | 1,078 | 1,108 | *2.8* |
| Revenue | 54.67 | 55.80 | *2.1* | 68.44 | 70.13 | *2.5* | 81.89 | 84.17 | *2.8* |
| EBIT | 6.85 | 7.55 | *10.2* | 8.72 | 9.12 | *4.6* | 10.47 | 11.08 | *5.9* |
| EBIT margin (%) | 12.5 | 13.5 | 100bps | 12.7 | 13.0 | 27bps | 12.8 | 13.2 | 38bps |
| APAT | 6.37 | 6.74 | *5.8* | 7.94 | 8.27 | *4.2* | 9.40 | 9.90 | *5.3* |
| EPS (INR) | 83.4 | 88.3 | *5.8* | 103.9 | 108.2 | *4.2* | 123.0 | 129.5 | *5.3* |

Source: Company, HSIE Research

## ADD

| | |
|---|---|
| **CMP** *(as on 27 Oct 2021)* | **INR 4,038** |
| **Target Price** | **INR 4,350** |
| **NIFTY** | **18,211** |

| **KEY CHANGES** | **OLD** | **NEW** |
|---|---|---|
| Rating | ADD | ADD |
| Price Target | INR 3,785 | INR 4,350 |
| EPS % | FY22E | FY23E |
| | +5.8 | +4.2 |

**KEY STOCK DATA**

| | |
|---|---|
| Bloomberg code | PSYS IN |
| No. of Shares (mn) | 76 |
| MCap (INR bn) / ($ mn) | 309/4,147 |
| 6m avg traded value (INR mn) | 884 |
| 52 Week high / low | INR 4,390/1,075 |

**STOCK PERFORMANCE (%)**

| | **3M** | **6M** | **12M** |
|---|---|---|---|
| Absolute (%) | 27.7 | 106.9 | 241.3 |
| Relative (%) | 11.4 | 82.0 | 190.4 |

**SHAREHOLDING PATTERN (%)**

| | **Jun-21** | **Sep-21** |
|---|---|---|
| Promoters | 31.26 | 31.26 |
| FIs & Local MFs | 29.17 | 27.87 |
| FPIs | 19.44 | 19.30 |
| Public & Others | 20.13 | 21.57 |
| Pledged Shares | 0.00 | 0.00 |

*Source : BSE*

Pledged shares as % of total shares

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# Endurance Technologies

## Endurance to gain share amidst tepid industry growth

**Endurance Q2 revenue was up +16% YoY; even after adjusting for commodity price hikes, the auto part company revenue has grown in high single digits vs. a -4% YoY decline for the 2W segment. While Endurance will continue to grow ahead of the 2W market as several of its initiatives have come onstream during H1FY22, including the ABS facilities, the 2W industry demand remains lacklustre. Further, the stock is trading at an elevated valuation (42.9x on FY22E, 32.5x on FY23E) and the valuation gap between mass market 2W OEMs and Endurance remains elevated at 2x (vs. an average premium of 1.6x). We reiterate our ADD rating on the stock and set a TP of INR 1,820 at 30x Sep-23E EPS (we are rolling forward our TP timeframe to Sep-22).**

- **Q1FY22 financials: Standalone:** Revenue, at INR 15bn, grew 16% YoY, 30% QoQ – revenues have grown due to price hikes and new capacities being commissioned. EBITDA margin, at 14.2%, was up 80bps QoQ (-380bp YoY). APAT was INR 1.2bn (+39% QoQ, -9% YoY). **Consolidated:** revenue, at INR 18.8bn (+7% YoY, 11% QoQ), was impacted by weaker European operations. The EBITDA margin, at 13.8%, contracted 60bps QoQ, -390bp YoY. APAT, at INR 1.3, declined -20% YoY, +4% QoQ. **Europe operations:** Revenue came in at INR 3.8bn (-20% YoY) while margin, at 12.3%, contracted 440bps QoQ. It contributed 20% to consolidated revenue (vs. 32% QoQ).
- **Key highlights: (1) New capacities:** Endurance's ABS supplies have commenced from Sep-21 with a capacity of 400K units. The ramp-up is expected over H2, particularly as shortage of ABS ECU chips ease. The company is likely to gain market share as Bosch controls 85% of the market. The aluminum alloy wheel capacity is increasing by 80,000 units a month to ~340K units. **(2) Electric:** Supplies of brake assemblies to Ather Electric will commence in Q1FY23E. The parts company is increasing its focus on 2W start-ups as proliferation of EVs increases. **(3) European subsidiary** operations declined 20% YoY due to the shortage of chips, which impacted the car industry. This should normalise in the year.

### Financial Summary (Consolidated)

| YE March (Rs mn) | 2Q FY22 | 2Q FY21 | YoY (%) | 1Q FY22 | QoQ (%) | FY20 | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 18,876 | 17,701 | 7 | 16,937 | 11 | 69,177 | 65,470 | 77,996 | 89,909 | 1,02,007 |
| EBITDA | 2,600 | 3,132 | (17) | 2,443 | 6 | 11,308 | 10,402 | 11,436 | 14,357 | 16,416 |
| APAT | 1,333 | 1,672 | (20) | 1,280 | 4 | 5,655 | 5,309 | 5,953 | 7,873 | 9,165 |
| Adj. EPS (Rs) | 9.5 | 11.9 | (20) | 9.1 | 4 | 40.2 | 37.7 | 42.3 | 56.0 | 65.2 |
| APAT Gr (%) | | | | | | 9.6 | (6.1) | 12.1 | 32.3 | 16.4 |
| P/E (x) | | | | | | 45.2 | 48.1 | 42.9 | 32.5 | 27.9 |
| RoE (%) | | | | | | 20.3 | 16.2 | 15.7 | 18.0 | 17.9 |

Source: Company, HSIE Research

### Change in estimates

| INR mn | New | | | Old | | | Change (%) | | |
|---|---|---|---|---|---|---|---|---|---|
| | FY22E | FY23E | FY24E | FY22E | FY23E | FY24E | FY22E | FY23E | FY24E |
| Revenue | 77,996 | 89,909 | 1,02,007 | 76,041 | 86,903 | 98,661 | 3 | 3 | 3 |
| EBITDA | 11,436 | 14,357 | 16,416 | 12,186 | 14,108 | 16,020 | (6) | 2 | 2 |
| EBITDA Margin (%) | 14.7 | 16.0 | 16.1 | 16.0 | 16.2 | 16.2 | -136 bps | -27 bps | -14 bps |
| PAT | 5,953 | 7,873 | 9,165 | 6,432 | 7,506 | 8,650 | (7) | 5 | 6 |
| EPS | 42.3 | 56.0 | 65.2 | 45.7 | 53.4 | 61.5 | (7) | 5 | 6 |

Source: Company, HSIE Research

## ADD

| | |
|---|---|
| **CMP** ***(as on 12 Nov 2021)*** | **INR 1,818** |
| **Target Price** | **INR 1,820** |
| **NIFTY** | **18,103** |

| **KEY CHANGES** | **OLD** | **NEW** |
|---|---|---|
| Rating | ADD | ADD |
| Price Target | INR 1,750 | INR 1,820 |
| EPS % | FY22E | FY23E |
| | -7% | +5% |

| **KEY STOCK DATA** | |
|---|---|
| Bloomberg code | ENDU IN |
| No. of Shares (mn) | 141 |
| MCap (INR bn) / ($ mn) | 256/3,434 |
| 6m avg traded value (INR mn) | 203 |
| 52 Week high / low | INR 1,989/1,020 |

| **STOCK PERFORMANCE (%)** | **3M** | **6M** | **12M** |
|---|---|---|---|
| Absolute (%) | 5.8 | 38.9 | 73.3 |
| Relative (%) | (4.8) | 14.3 | 33.3 |

| **SHAREHOLDING PATTERN (%)** | **Jun-21** | **Sep-21** |
|---|---|---|
| Promoters | 75.0 | 75.0 |
| FIs & Local MFs | 15.2 | 15.3 |
| FPIs | 8.3 | 8.0 |
| Public & Others | 1.5 | 1.6 |
| Pledged Shares | 0.0 | 0.0 |

*Source : BSE*

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# IndiaMART InterMESH

## Strong cash collection provides visibility

**IndiaMART posted a flattish quarter with revenue of INR 1.82bn (+0.4% QoQ), lower than our estimate of INR 1.87bn. EBITDA margin stood at 45.6%, missing our estimate by 159bps. The paying suppliers increased by 2.7% QoQ (+4k vs. our estimate of 8k) as high churn was witnessed at the lower end of the pyramid (monthly packages); however, the top suppliers continue to hold ground. We maintain our positive stance, based on (1) higher visibility, given the 20% YoY growth in deferred revenue; (2) strong cash collections of INR 2.2bn, an increase of 31.3/36.2% QoQ/YoY; (3) gradual economic recovery leading to improving business conditions; (4) expected margin expansion on account of growth and cost savings; (5) healthy cash reserves of INR 24.7bn 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 9,500 is based on 50x FY24 EV/EBITDA (DCF implied), supported by revenue/EPS CAGRs of +19/14% over FY21-24E. Maintain BUY.**

- **Q2FY22 highlights**: (1) IndiaMart revenue stood at INR 1.82bn (vs. estimate of INR 1.88bn), registering 0.4% growth QoQ, driven by +2.7/-2.6% QoQ growth in paid suppliers/ARPU; (2) cash collections from customers/deferred revenue increased by +31.3/+5.7% QoQ; (3) business enquiries were down -6.8/-13.7% QoQ/YoY and unique business enquiries per paying supplier were down -2.7/-12.7% QoQ/YoY; (4) EBITDA margin was down 317bps QoQ to 45.6% (vs. our estimate of 47.2%) due to +9.4/+5.1% QoQ increase in manpower/outsourced cost; (5) paying suppliers increased by ~4k vs. our estimate of ~8k; the normalised rate will be ~5-6k/quarter; (6) churn in the monthly users improved but higher than pre-COVID level; (7) the proportion of yearly suppliers stands increased to ~75%; (8) the total expenses per quarter are expected to increase to INR 1.1bn (~90% of pre-COVID level) by Q4FY22E.
- **Outlook**: We expect revenue growth of +22.4/21.8%, based on paid supplier growth of +17.1/15.6% and ARPU growth of 4.5/5.4% for FY23/24E respectively. EBITDA margin estimate stands at 44.5/45.2% for FY23/24E, leading to an EPS CAGR of 14% over FY21-24E.

### Quarterly financial summary

| YE March (INR mn) | Q2 FY22 | Q2 FY21 | YoY (%) | Q1 FY22 | QoQ (%) | FY20 | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 1,824 | 1,632 | *11.8* | 1,816 | *0.4* | 6,389 | 6,696 | 7,608 | 9,314 | 11,348 |
| EBITDA | 832 | 817 | *1.8* | 886 | *-6.1* | 1,689 | 3,282 | 3,501 | 4,144 | 5,125 |
| APAT | 822 | 698 | *17.8* | 879 | *-6.5* | 1,474 | 2,798 | 3,220 | 3,641 | 4,182 |
| EPS | 27.1 | 24.2 | *11.9* | 29.0 | *-6.7* | 47.9 | 91.0 | 104.8 | 118.4 | 136.1 |
| P/E (x) | | | | | | 165.0 | 86.9 | 75.5 | 66.8 | 58.2 |
| EV / EBITDA (x) | | | | | | 138.7 | 67.1 | 62.2 | 51.5 | 40.6 |
| RoE* (%) | | | | | | 67.8 | 50.1 | 46.8 | 37.8 | 32.8 |

Source: Company, HSIE Research, Consolidated Financials, *ROE excludes QIP issuance cash

### Change in estimates

| YE March (INR mn) | FY22E Old | FY22E Revised | Change % | FY23E Old | FY23E Revised | Change % | FY24E Old | FY24E Revised | Change % |
|---|---|---|---|---|---|---|---|---|---|
| Revenue | 7,760 | 7,608 | *-2.0* | 9,516 | 9,314 | *-2.1* | 11,561 | 11,348 | *-1.8* |
| EBITDA | 3,577 | 3,501 | *-2.1* | 4,210 | 4,144 | *-1.6* | 5,086 | 5,125 | *0.8* |
| EBITDA margin (%) | 46.1 | 46.0 | -7 bps | 44.2 | 44.5 | 25 bps | 44.0 | 45.2 | 117 bps |
| APAT | 3,266 | 3,220 | *-1.4* | 3,689 | 3,641 | *-1.3* | 4,152 | 4,182 | *0.7* |
| EPS (INR) | 106.3 | 104.8 | *-1.4* | 120.1 | 118.4 | *-1.4* | 135.1 | 136.1 | *0.7* |

Source: Company, HSIE Research

# BUY

| | |
|---|---|
| **CMP** *(as on 22 Oct 2021)* | **INR 7,912** |
| **Target Price** | **INR 9,500** |
| **NIFTY** | **18,115** |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | BUY | BUY |
| Price Target | INR 9,650 | INR 9,500 |
| EPS % | FY23E | FY24E |
| | -1.4 | +0.7 |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | INMART IN |
| No. of Shares (mn) | 31 |
| MCap (INR bn) / ($ mn) | 242/3,250 |
| 6m avg traded value (INR mn) | 1,307 |
| 52 Week high / low | INR 9,952/4,515 |

**STOCK PERFORMANCE (%)**

| | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 12.8 | (1.0) | 62.2 |
| Relative (%) | (2.3) | (27.5) | 12.3 |

**SHAREHOLDING PATTERN (%)**

| | June-21 | Sep-21 |
|---|---|---|
| Promoters | 49.82 | 49.52 |
| FIs & Local MFs | 4.70 | 4.68 |
| FPIs | 26.68 | 27.91 |
| Public & Others | 18.80 | 17.89 |
| Pledged Shares | 0.00 | 0.00 |

*Source : BSE*

Pledged shares as % of total shares

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# Cyient

## Improving growth vectors

**Cyient reported a good quarter; revenue was up 4.6% QoQ (in line with estimate) and margin performed better than expected. The services segment recovered (+5.5% QoQ CC), led by aerospace (+4% QoQ, positive YoY growth after ten quarters). The worst phase of commercial aerospace is over; from here on, there should be gradual pick-up, led by Avionics upgrades and MRO revival. The management has maintained its double-digit growth guidance for services, which would be led by communications, utilities, and aerospace verticals. DLM will grow 15-20% YoY with improvement in profitability. The pipeline of large deals (won six deals worth TCV of USD 63.5mn, up 38% QoQ) remains strong and investments in sales and marketing will continue. Margin expansion has been impressive over the past five quarters. Further margin expansion in the near term will be capped due to supply side concerns, but the company has upgraded the margin guidance for FY22E by 100bps. We increase our EPS estimate by +5.8/6.3% for FY23/24E, based on expected recovery in core business and margin beat. Our target price stands at INR 1,330, based on 22x Dec-23E EPS. The stock is trading at 21.2/18.7x FY23/24E, a discount of ~50% to LTTS. Maintain BUY.**

- **Q2FY22 highlights**: (1) USD revenue grew 4.6% QoQ vs. expectation of 3.9% QoQ; core services/DLM revenue grew 4.9/5.7% QoQ; (2) services EBIT margin improved 90bps QoQ to 15.5% (estimate 14%), supported by operational efficiency (+265bps), revenue mix (+110bps), partially offset by wage hike (-100bps) and higher SG&A (-220bps); (3) additional impact of merit increase will come in H2FY22, which will affect margins; (4) DLM margin was at 6.8%, +99bps QoQ; (5) the company won six large deals of TCV USD 63.5mn, of which four were in services and one in DLM.
- **Outlook**: We have factored in +11.7/+15.5/+13.6% USD revenue growth for FY22/23/24E respectively; FY22E implies +10.5/+17.8% growth in services/DLM. We have factored in a 13.7/13.9/13.9% EBIT margin for FY22/23/24E, resulting in an EPS CAGR of 23% over FY21-24E.

### Quarterly Financial summary

| YE March (INR bn) | Q2 FY22 | Q2 FY21 | YoY (%) | Q1 FY22 | QoQ (%) | FY20 | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue (USD Mn) | 150 | 135 | *11.2* | 144 | *4.6* | 625 | 557 | 622 | 718 | 816 |
| Net Sales | 11.12 | 10.03 | *10.8* | 10.58 | *5.1* | 44.27 | 41.32 | 45.99 | 53.87 | 62.00 |
| EBIT | 1.56 | 1.11 | *41.1* | 1.39 | *12.3* | 4.08 | 4.16 | 6.31 | 7.50 | 8.63 |
| APAT | 1.21 | 0.84 | *44.5* | 1.15 | *5.5* | 3.73 | 3.72 | 4.96 | 6.02 | 6.83 |
| Diluted EPS (INR) | 11.0 | 7.6 | *44.5* | 10.5 | *5.5* | 33.9 | 33.8 | 45.1 | 54.8 | 62.1 |
| P/E (x) | | | | | | 34.2 | 34.3 | 25.7 | 21.2 | 18.7 |
| EV / EBITDA (x) | | | | | | 20.7 | 19.2 | 13.6 | 11.3 | 9.8 |
| RoE (%) | | | | | | 14.5 | 13.5 | 16.1 | 17.9 | 18.6 |

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) | 621 | 622 | *0.1* | 716 | 718 | *0.3* | 813 | 816 | *0.4* |
| Revenue | 45.93 | 45.99 | *0.1* | 53.71 | 53.87 | *0.3* | 61.77 | 62.00 | *0.4* |
| EBIT | 6.08 | 6.31 | *3.9* | 7.07 | 7.50 | *6.2* | 8.10 | 8.63 | *6.5* |
| EBIT margin (%) | 13.2 | 13.7 | 50bps | 13.2 | 13.9 | 77bps | 13.1 | 13.9 | 80bps |
| APAT | 4.89 | 4.96 | *1.5* | 5.69 | 6.02 | *5.8* | 6.43 | 6.83 | *6.3* |
| EPS (INR) | 44.5 | 45.1 | *1.5* | 51.8 | 54.8 | *5.8* | 58.5 | 62.1 | *6.3* |

Source: Company, HSIE Research

## BUY

| | |
|---|---|
| CMP *(as on 14 Oct 2021)* | INR 1,160 |
| Target Price | INR 1,330 |
| NIFTY | 18,339 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | BUY | BUY |
| Price Target | INR 1,250 | INR 1,330 |
| EPS % | FY22E | FY23E |
| | +1.5 | +5.8 |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | CYL IN |
| No. of Shares (mn) | 110 |
| MCap (INR bn) / ($ mn) | 128/1,716 |
| 6m avg traded value (INR mn) | 363 |
| 52 Week high / low | INR 1,172/365 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 32.7 | 67.9 | 209.6 |
| Relative (%) | 16.8 | 41.6 | 159.3 |

| SHAREHOLDING PATTERN (%) | Mar-21 | Jun-21 |
|---|---|---|
| Promoters | 23.47 | 23.45 |
| FIs & Local MFs | 19.88 | 19.94 |
| FPIs | 38.47 | 38.34 |
| Public & Others | 18.18 | 18.27 |
| Pledged Shares | 0.00 | 0.00 |

*Source : BSE*

Pledged shares as % of total shares

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# Zensar Technologies

## Signs of revival; organic growth encouraging

**We maintain BUY on Zensar, following a better-than-expected revenue performance, aided by healthy organic growth and acceleration in deal wins. Zensar delivered growth of 12.3% QoQ CC (organic growth of 5.4% QoQ), supported by recovery in the retail (+18.9% QoQ CC) and insurance verticals (+13.4% QoQ CC) and modest BFS performance (+2.3% QoQ CC). The TCV stood at USD 187.5mn (book to bill at 1.3x) and includes the large City of San Diego deal (USD 122mn, eight-year duration). Even after excluding the large deal, TCV grew 31% QoQ, which implies an improving deal trajectory and organic growth visibility for H2. The margin was lower than the estimate, impacted by wage hike, higher sub-con cost, and fresher hiring. The management has guided for EBITDA margin in the range of 17-18%, which we believe will be a key monitorable. We increase our EPS estimates by 3.4/3.8% for FY23/24E to factor in better organic growth. Our TP of INR 550 is based on 22x FY23E EPS. The stock is trading at a PE of 22/18.4x FY23/24E EPS, a discount of ~20% to tier-2 IT.**

- **Q2FY22 highlights:** (1) Zensar's revenue came in at USD 141.9mn, +11.6/+12.7% QoQ/YoY (organic growth +5.4% QoQ), higher than our estimate of USD 139.3mn; (2) growth was broad-based across verticals in Q2, led by banking/consumer/insurance verticals, registering a growth of +39.2/+18.9%/+13.4% QoQ CC, followed by manufacturing/hi-tech with the growth of +7.2%/+4.2% QoQ CC; (3) among the geographies, growth was led by the US (+11.9% QoQ), recovery in Europe (+11.6% QoQ), and South Africa (+9.7% QoQ); (4) EBITDA margin contracted 308bps QoQ to 15.3% (vs. our expectation of 17%), impacted by FX headwind (-30bps) and wage hike & cost of delivery (-530bps), partially offset by operational efficiencies (+200bps); (5) attrition inched up to 23.2% (+510bps QoQ) and offshoring improved by 80bps QoQ at 42.5%.
- **Outlook:** We expect USD revenue growth of +16.2/15.3/10.9% and EBIT margin of 12.6/13.3/14.0% for FY22/23/24E, resulting in a revenue/EPS CAGRs of +14.1/+19.5% over FY21-24E.

### Quarterly Financial summary

| YE March (INR bn) | Q2 FY22 | Q2 FY21 | YoY (%) | Q1 FY22 | QoQ (%) | FY20 | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue (USD Mn) | 142 | 126 | 12.8 | 127 | 11.6 | 566 | 494 | 574 | 662 | 734 |
| Net Sales | 10.51 | 9.36 | *12.2* | 9.37 | *12.2* | 40.10 | 36.68 | 42.45 | 49.65 | 55.81 |
| EBIT | 1.14 | 1.39 | *-17.7* | 1.30 | *-12.0* | 3.47 | 5.11 | 5.35 | 6.60 | 7.80 |
| APAT | 0.94 | 0.88 | *7.5* | 1.01 | *-6.5* | 2.63 | 3.50 | 4.17 | 4.99 | 5.97 |
| Diluted EPS (INR) | 4.2 | 3.9 | *7.5* | 4.4 | *-6.5* | 11.5 | 15.3 | 18.2 | 21.8 | 26.1 |
| P/E (x) | | | | | | 41.7 | 31.4 | 26.3 | 22.0 | 18.4 |
| EV / EBITDA (x) | | | | | | 20.4 | 14.0 | 13.1 | 10.5 | 8.7 |
| RoE (%) | | | | | | 12.7 | 15.7 | 16.3 | 17.7 | 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) | 562 | 574 | *2.2* | 643 | 662 | *3.0* | 717 | 734 | *2.4* |
| Revenue | 41.55 | 42.45 | *2.2* | 48.22 | 49.65 | *3.0* | 54.53 | 55.81 | *2.4* |
| EBIT | 5.75 | 5.35 | *-6.8* | 6.44 | 6.60 | *2.4* | 7.65 | 7.80 | *2.1* |
| EBIT margin (%) | 13.8 | 12.6 | -122bps | 13.4 | 13.3 | -7bps | 14.0 | 14.0 | -4bps |
| APAT | 4.33 | 4.17 | *-3.9* | 4.83 | 4.99 | *3.4* | 5.76 | 5.97 | *3.8* |
| EPS (INR) | 19.0 | 18.2 | *-3.9* | 21.1 | 21.8 | *3.4* | 25.2 | 26.1 | *3.8* |

Source: Company, HSIE Research

## BUY

| | |
|---|---|
| **CMP** *(as on 27 Oct 2021)* | **INR 480** |
| **Target Price** | **INR 550** |
| **NIFTY** | **18,211** |

| **KEY CHANGES** | **OLD** | **NEW** |
|---|---|---|
| Rating | BUY | BUY |
| Price Target | INR 530 | INR 550 |
| EPS % | FY22E | FY23E |
| | -3.9 | +3.4 |

| **KEY STOCK DATA** | |
|---|---|
| Bloomberg code | ZENT IN |
| No. of Shares (mn) | 226 |
| MCap (INR bn) / ($ mn) | 108/1,456 |
| 6m avg traded value (INR mn) | 695 |
| 52 Week high / low | INR 587/172 |

| **STOCK PERFORMANCE (%)** | **3M** | **6M** | **12M** |
|---|---|---|---|
| Absolute (%) | 19.6 | 80.1 | 151.4 |
| Relative (%) | 3.3 | 55.2 | 100.5 |

| **SHAREHOLDING PATTERN (%)** | **Jun-21** | **Sep-21** |
|---|---|---|
| Promoters | 49.18 | 49.12 |
| FIs & Local MFs | 9.71 | 9.54 |
| FPIs | 17.10 | 15.75 |
| Public & Others | 24.01 | 25.59 |
| Pledged Shares | 0.00 | 0.00 |

*Source : BSE*

Pledged shares as % of total shares

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# Sonata Software

## Strong execution

**We maintain our BUY rating on Sonata, following strong growth of 11% QoQ (~5% organic) in the IT services segment (IITS) and better margin performance. Revenue from Microsoft related services (~50% of IITS) is driving growth (+10.6% QoQ), which is further expected to come in high teens. The Microsoft Dynamics modernisation program is a multi-year opportunity and Sonata is constantly investing in this area. Travel vertical has recovered but will accelerate with an increase in leisure travel (currently at ~50% of pre-COVID level). The IITS EBITDA margin expanded 365bps QoQ, despite supply side concerns, led by offshoring (~69%), higher utilisation (89%), and lower sub-contracting cost. The company has stepped up the hiring of freshers and attrition has touched 23-24% level; the target margin range for IITS is ~23-24%. DPS was weak (seasonality), but the growth in DPS will be driven by higher cloud adoption (~77/75% of DPS is revenue is from cloud/annuity). Sonata's growth profile is sturdy, led by the Microsoft ecosystem, recovery in travel, and strong DPS business. We increase our EPS estimates by +3.6/3.3% for FY22/23E. Our target price of INR 1,050 is based on 22x Dec-23E EPS. The stock trades at a P/E of 21.9/18.6x FY23/24E.**

- **Q2FY22 highlights**: IITS revenue stood at USD 49.4mn with +11% QoQ growth, in line with our estimate of USD 49.2mn. Digital/IP-led/platform revenue contributed 70/35/22% to IITS revenue and grew +14.3/11/22.1% QoQ. Retail/ISV/distribution/travel grew +14/5.9 /5.2/4.5% QoQ. IITS EBITDA margin stood at 24.9% (+365bps QoQ) and DPS EBITDA margin stood at 5.6% (+214bps QoQ). Consolidated revenue decelerated by -24.1% QoQ due to a decline in DPS (-36% QoQ) and EBITDA margin stood at 12.8% (+482bps QoQ).
- **Outlook:** We expect IITS growth of +24.9/+18.8/16.2% and DPS growth of +25.9/21.2/21.7% for FY22/23/24E. IITS margin will be at 23.8/23.7/24.3% and DPS margin at 3.1/3.5/3.5% for FY22/23/24E respectively. Revenue/EPS CAGRs for FY21-24E are expected to be +20/28%.

### Quarterly Financial summary

| YE March (INR bn) | Q2 FY22 | Q2 FY21 | YoY (%) | Q1 FY22 | QoQ (%) | FY20 | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|---|
| IITS Revenues (USD mn) | 49.4 | 39 | *26.7* | 44.5 | *11.0* | 181 | 160 | 200 | 238 | 276 |
| Net Sales | 9.63 | 8.04 | *19.8* | 12.69 | *(24.1)* | 37.43 | 42.28 | 53.08 | 64.38 | 77.42 |
| EBIT | 1.11 | 0.77 | *44.2* | 0.91 | *22.3* | 3.36 | 3.40 | 4.40 | 5.38 | 6.44 |
| APAT | 0.91 | 0.57 | *59.4* | 0.87 | *5.1* | 2.77 | 2.44 | 3.56 | 4.35 | 5.13 |
| Diluted EPS (INR) | 8.8 | 5.5 | *59.4* | 8.3 | *5.1* | 26.7 | 23.5 | 34.3 | 41.9 | 49.4 |
| P/E (x) | | | | | | 34.4 | 39.1 | 26.8 | 21.9 | 18.6 |
| EV / EBITDA (x) | | | | | | 25.2 | 23.9 | 18.4 | 14.9 | 12.2 |
| RoE (%) | | | | | | 38.5 | 31.0 | 36.5 | 38.3 | 38.8 |

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 % |
|---|---|---|---|---|---|---|---|---|---|
| IITS Revenues (USD mn) | 199 | 200 | *0.4* | 237 | 238 | *0.5* | 275 | 276 | *0.5* |
| Revenue | 54.36 | 53.08 | *(2.3)* | 65.53 | 64.38 | *(1.8)* | 77.14 | 77.42 | *0.4* |
| EBIT | 4.24 | 4.40 | *3.7* | 5.20 | 5.38 | *3.6* | 6.38 | 6.44 | *0.9* |
| EBIT margin (%) | 7.8 | 8.3 | 48bps | 7.9 | 8.4 | 43bps | 8.3 | 8.3 | 5bps |
| APAT | 3.43 | 3.56 | *3.6* | 4.21 | 4.35 | *3.3* | 5.09 | 5.13 | *0.9* |
| EPS (INR) | 33.1 | 34.3 | *3.6* | 40.5 | 41.9 | *3.3* | 49.0 | 49.4 | *0.9* |

Source: Company, HSIE Research

## BUY

| | |
|---|---|
| **CMP** *(as on 20 Oct 2021)* | **INR 918** |
| **Target Price** | **INR 1,050** |
| **NIFTY** | **18,267** |

| **KEY CHANGES** | **OLD** | **NEW** |
|---|---|---|
| Rating | BUY | BUY |
| Price Target | INR 1,030 | INR 1,050 |
| EPS % | FY22E | FY23E |
| | +3.6 | +3.3 |

| **KEY STOCK DATA** | |
|---|---|
| Bloomberg code | SSOF IN |
| No. of Shares (mn) | 105 |
| MCap (INR bn) / ($ mn) | 96/1,297 |
| 6m avg traded value (INR mn) | 296 |
| 52 Week high / low | INR 1,030/300 |

**STOCK PERFORMANCE (%)**

| | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 19.5 | 58.3 | 162.7 |
| Relative (%) | 2.2 | 29.8 | 111.6 |

**SHAREHOLDING PATTERN (%)**

| | Mar-21 | Sep-21 |
|---|---|---|
| Promoters | 28.17 | 28.17 |
| FIs & Local MFs | 12.96 | 12.98 |
| FPIs | 13.82 | 16.49 |
| Public & Others | 45.05 | 42.36 |
| Pledged Shares | 0.00 | 0.00 |

*Source : BSE*

Pledged shares as % of total shares

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# Teamlease Services

## Economic recovery aiding growth

**We maintain BUY on Teamlease, following a better-than-expected revenue (+10.7% QoQ) and in-line margin performance. The robust performance was witnessed across all the business segments with the core/specialised/HR services growing +10.0/+17.4/+12.7% QoQ, supported by strong net associate headcount addition in general and specialised staffing (+11.2/11.5% QoQ). Strong developments in hiring activity across key verticals (ecommerce, telecom, consumer, and BFSI), the addition of 59 new logos, and improved hiring outlook across industries will aid growth in the core staffing segment (90% of revenue). The specialised staffing (8% of revenue) will continue to grow, led by traction in IT hiring, increase in open positions/hiring across domains, and improvement in realisations. We expect margins for general staffing to remain in a narrow band on account of the growth and increasing wage costs. Margin expansion will be led by specialised staffing and positive contribution from HR services. The company made provision of INR 750mn related to PF trust investments in two NBFCs. We believe that the company was late in providing for these provisions as this is an old issue; however, we don't expect further provisions. We reduce our EPS estimates by -6.6/4.0% for FY23/24E to factor in lower margin for general staffing. Our target price of INR 5,270 is based on 43x Dec-23E EPS (five-year average PE of ~35x). The stock is trading at a PE of 47/36x FY23/24E.**

- **Q2FY22 highlights**: Revenue stood at INR 15.2bn, up 10.7% QoQ, vs. our estimate of INR 14.6bn. Core/specialised/HR services revenue was up +10.0/+17.4/+12.7% QoQ. The mark-up increased marginally to INR 703 and the associate to core ratio increased to 366 (+6.7% QoQ). EBITDA margin for core staffing/specialised staffing/HR services stood at 1.7/9.1/4.3%. The company has a free cash balance of INR 2.4bn, which it may use for M&A activity. The cash collections continue to be robust (OCF/EBITDA at 100%).
- **Outlook:** We expect revenue growth of 25.3/20.6% in FY23/24E and EBITDA margin of 2.3/2.5% respectively, leading to revenue and EPS CAGRs of 25% and 40% over FY21-24E.

### Quarterly financial summary

| YE March (INR bn) | 2Q FY22 | 2Q FY21 | YoY (%) | 1Q FY22 | QoQ (%) | FY20 | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|---|
| Net Revenue | 15.24 | 11.29 | *34.9* | 13.77 | *10.7* | 52.01 | 48.81 | 62.37 | 78.18 | 94.32 |
| EBITDA | 0.34 | 0.23 | *48.5* | 0.30 | *15.7* | 0.95 | 0.98 | 1.38 | 1.80 | 2.33 |
| APAT | 0.26 | 0.22 | *17.1* | 0.24 | *5.4* | 0.85 | 0.81 | 1.22 | 1.69 | 2.23 |
| Diluted EPS (INR) | 15.0 | 12.8 | *17.1* | 14.2 | *5.4* | 49.5 | 47.6 | 71.3 | 98.6 | 130.5 |
| P/E (x) | | | | | | 94.4 | 98.0 | 65.5 | 47.3 | 35.8 |
| EV / EBITDA (x) | | | | | | 83.9 | 77.6 | 55.1 | 41.4 | 31.1 |
| RoE (%) | | | | | | 15.2 | 13.3 | 18.0 | 21.5 | 22.7 |

Source: Company, HSIE Research

### Change in estimates

| YE March (INR bn) | FY22E Old | FY22E Revised | Change % | FY23E Old | FY23E Revised | Change % | FY24E Old | FY24E Revised | Change % |
|---|---|---|---|---|---|---|---|---|---|
| Revenue | 61.22 | 62.37 | *1.9* | 77.90 | 78.18 | *0.4* | 94.65 | 94.32 | *(0.3)* |
| EBITDA | 1.41 | 1.38 | *(2.0)* | 1.92 | 1.80 | *(6.2)* | 2.43 | 2.33 | *(3.8)* |
| EBITDA margin (%) | 2.3 | 2.2 | -9bps | 2.5 | 2.3 | -16bps | 2.6 | 2.5 | -9bps |
| APAT | 1.26 | 1.22 | *(3.2)* | 1.80 | 1.69 | *(6.6)* | 2.32 | 2.23 | *(4.0)* |
| EPS (INR) | 73.6 | 71.3 | *(3.2)* | 105.6 | 98.6 | *(6.6)* | 135.9 | 130.5 | *(4.0)* |

Source: Company, HSIE Research

## BUY

| | |
|---|---|
| **CMP** ***(as on 12 Nov 2021)*** | **INR 4,668** |
| **Target Price** | **INR 5,270** |
| **NIFTY** | **18,103** |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | BUY | BUY |
| Price Target | INR 5,520 | INR 5,270 |
| EPS % | FY23E | FY24E |
| | -6.6 | -4.0 |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | TEAM IN |
| No. of Shares (mn) | 17 |
| MCap (INR bn) / ($ mn) | 80/1,072 |
| 6m avg traded value (INR mn) | 140 |
| 52 Week high / low | INR 5,550/2,305 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 19.9 | 46.0 | 97.9 |
| Relative (%) | 9.2 | 21.4 | 57.9 |

| SHAREHOLDING PATTERN (%) | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 34.01 | 32.51 |
| FIs & Local MFs | 12.61 | 12.80 |
| FPIs | 37.00 | 37.65 |
| Public & Others | 16.38 | 17.04 |
| Pledged Shares | 0.49 | 1.51 |

*Source : BSE*

Pledged shares as % of total shares

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# Mastek

## Minor misses, recovery underway

**We maintain a BUY on Mastek, despite a soft Q2 (though in line with estimate), based on an expected recovery in the UK government business and ongoing turnaround in the US business. The softness in the quarter was mainly due to project completion in the NHS (health segment) and the contract awarding has been slow; excluding NHS, growth was ~9% QoQ. We expect the growth trajectory for Mastek to revive, based on (1) a strong footing in the UK government business; (2) cloud migration/transformation agenda, which is driving Evosys growth; (3) expected recovery in the NHS, based on deal wins; and (4) healthy recovery in the US geography and UK private segment. The deal pipeline is healthy, with around 25 deals of > USD 5mn+ in the pipeline and a large deal of ~USD 40mn (three-year deal) is near closure. Mastek closed a large deal in Europe, which is expected to ramp up from Q4, providing revenue visibility. The next phase of growth will be driven by US geography; the company is looking for an M&A for a head start. The EBIT margin was maintained but there will be headwinds due to planned investments, higher attrition, and an increase in freshers' hiring. We have cut our EPS estimate by 2-3% and our TP of INR 3,300 is based on 24x Dec-23E EPS. The stock is trading at a P/E 25.2/20.5x FY22/23E, which is a discount of ~36% to the tier-2 IT average.**

- **Q2FY22 highlights**: (1) Revenue stood at USD 72mn (+3.9% QoQ CC) vs. the estimate of USD 71.8mn, supported by a strong recovery in the US geography (+21.2% QoQ) and UK private offset by weakness in NHS; (2) the 12-month executable order book stood at USD 156mn, down 1.6% QoQ; (3) EBIT margin contracted 77bps QoQ to 19.2% due to wage hike and supply side concerns (attrition inched up to 24.2%); (4) retail/UK government/BFSI vertical supported growth (+7.5/+6.4%/+4.6% QoQ) while the healthcare vertical was under stress (-16.3% QoQ); (5) cloud and enterprise apps, which is primarily Evosys, was up 7.7/37.5% QoQ/YoY; (5) Mastek hired 208 employees on a net basis and plans to add more freshers in H2.
- **Outlook**: We expect USD revenue growth of +25.7/15.3/14.8% in FY22/23/24E, which implies a CQGR of +2.5% for Q2-Q4FY22E. We estimate EBIT margin would come in at 17.8/18.0% in FY22/23E, resulting in an FY21-24E EPS CAGR of 25.3%.

### Quarterly Financial summary

| YE Mar (INR Bn) | Q2 FY22 | Q2 FY21 | YoY (%) | Q1 FY22 | QoQ (%) | FY20 | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue (USD Mn) | 72.0 | 55.1 | 30.7 | 70.2 | 2.6 | 151 | 232 | 291 | 336 | 386 |
| Net Sales | 5.34 | 4.10 | 30.3 | 5.16 | 3.4 | 10.71 | 17.22 | 21.54 | 25.21 | 29.32 |
| EBIT | 1.02 | 0.75 | 36.7 | 1.03 | (0.6) | 1.32 | 3.20 | 3.83 | 4.52 | 5.65 |
| APAT | 0.72 | 0.51 | 41.9 | 0.69 | 4.3 | 1.31 | 2.11 | 2.72 | 3.34 | 4.11 |
| Diluted EPS (INR) | 25.37 | 17.88 | 41.9 | 24.32 | 4.3 | 46.1 | 73.5 | 95.4 | 117.2 | 144.4 |
| P/E (x) | | | | | | 64.1 | 40.2 | 31.0 | 25.2 | 20.5 |
| EV / EBITDA (x) | | | | | | 53.4 | 21.4 | 17.6 | 14.5 | 11.3 |
| RoE (%) | | | | | | 17.4 | 25.4 | 28.3 | 28.1 | 28.0 |

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) | 290 | 291 | *0.4* | 338 | 336 | *(0.7)* | 388 | 386 | *(0.7)* |
| Revenue | 21.46 | 21.54 | *0.4* | 25.38 | 25.21 | *(0.7)* | 29.51 | 29.32 | *(0.7)* |
| EBIT | 3.80 | 3.83 | *0.8* | 4.72 | 4.52 | *(4.1)* | 5.84 | 5.65 | *(3.2)* |
| EBIT margin (%) | 17.7 | 17.8 | 7bps | 18.6 | 18.0 | -65bps | 19.8 | 19.3 | -50bps |
| APAT | 2.71 | 2.72 | *0.4* | 3.45 | 3.34 | *(3.2)* | 4.21 | 4.11 | *(2.2)* |
| EPS (INR) | 95.1 | 95.4 | *0.4* | 121.1 | 117.2 | *(3.2)* | 147.7 | 144.4 | *(2.2)* |

Source: Company, HSIE Research

# BUY

| | |
|---|---|
| **CMP *(as on 20 Oct 2021)*** | **INR 2,956** |
| **Target Price** | **INR 3,300** |
| **NIFTY** | **18,267** |

| **KEY CHANGES** | **OLD** | **NEW** |
|---|---|---|
| Rating | BUY | BUY |
| Price Target | INR 3,385 | INR 3,300 |
| EPS % | FY22E | FY23E |
| | +0.4 | -3.2 |

| **KEY STOCK DATA** | |
|---|---|
| Bloomberg code | MAST IN |
| No. of Shares (mn) | 25 |
| MCap (INR bn) / ($ mn) | 75/1,008 |
| 6m avg traded value (INR mn) | 512 |
| 52 Week high / low | INR 3,669/770 |

**STOCK PERFORMANCE (%)**

| | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 18.4 | 114.1 | 266.1 |
| Relative (%) | 1.0 | 85.7 | 215.0 |

**SHAREHOLDING PATTERN (%)**

| | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 44.25 | 37.75 |
| FIs & Local MFs | 10.71 | 7.99 |
| FPIs | 5.67 | 4.16 |
| Public & Others | 39.37 | 50.01 |
| Pledged Shares | 0.00 | 0.00 |

*Source : BSE*

Pledged shares as % of total shares

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# Subros

## Awaiting supply normalisation

**Q2 PAT, at INR 51mn (-71% YoY, +65% QoQ), was impacted by the constrained production, particularly at Maruti (due to the ongoing semi conductor issue). However, the medium-term drivers remain in place, including new order wins for the Maruti-Toyota joint production models from FY23E onwards (~8-10% of revenues) and the expected ramp-up in the home AC segment. We maintain BUY with a target price of INR 410, at 22x Sep-23E EPS.**

- **Q2FY22 financials:** Revenue, at INR 5.3bn, was up +10% YoY (+16% QoQ) – sales growth remains constrained due to the chips issue, which has impacted production from September onwards. EBITDA margin, at 6.6% (+100bps QoQ, -510bps YoY), remains below trend levels due to lower capacity utilisation as well as elevated RM costs (+20bps QoQ, +390bps YoY). Tax rates remain elevated at 33.2%. Reported PAT, at INR 51mn (-71% YoY, +65% QoQ), was subdued.
- **Key takeaways: market share trends:** Subros' market share has come off to 41% in Q2 (from 44% earlier), due to supply constraints at its key customer MSIL. The management is confident of regaining market share once Maruti normalises. The company also has 30% market share with Mahindra and 26% with Tata Motors and expects to ramp up its business with these customers. **Maruti-Toyota tie-up:** Subros expects supplies to commence for the joint platform from FY23E. The expected revenue will be ~ INR 1.7bn (~8-10% of revenue). **Cost pressures:** Subros highlighted that while the company has a pass-through clause with customers with a one-quarter lag, the extent of input inflation (30-60% increase in steel, alum and copper) has been significant. Though OEMs will give price increases in phases, the margins will be impacted in the near term. **Others**: The ACs for electric vehicles have a 4x higher realisation, as the compressor needs a separate drive (in gasoline vehicles, the system is powered by the engine). As Denso is a market leader in this technology, the company will benefit from any potential shift towards the same.

### Financial summary

| YE March (INR mn) | Q2 FY21 | Q2 FY21 | YoY (%) | Q1 FY22 | QoQ (%) | FY20 | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 5,295 | 4,581 | 16 | 4,805 | 10 | 19,928 | 17,957 | 21,542 | 25,348 | 28,909 |
| EBITDA | 347 | 535 | (35) | 268 | 29 | 1,890 | 1,538 | 1,702 | 2,459 | 2,949 |
| APAT | 51 | 177 | (71) | 31 | 65 | 563 | 467 | 500 | 1,052 | 1,370 |
| Adj. EPS (Rs) | 0.8 | 2.7 | (71) | 0.5 | 65 | 8.6 | 7.2 | 7.7 | 16.1 | 21.0 |
| APAT Gr (%) | | | | | | (28.2) | (17.1) | 7.0 | 110.6 | 30.2 |
| P/E (x) | | | | | | 40.8 | 49.2 | 46.0 | 21.8 | 16.8 |
| RoE (%) | | | | | | 7.9 | 6.0 | 6.1 | 12.0 | 13.9 |

Source: Company, HSIE Research

### Change in estimates

| INR mn | New | | | Old | | | Change (%) | | |
|---|---|---|---|---|---|---|---|---|---|
| | FY22E | FY23E | FY24E | FY22E | FY23E | FY24E | FY22E | FY23E | FY24E |
| Revenue | 21,542 | 25,348 | 28,909 | 21,194 | 24,932 | 28,228 | 2 | 2 | 2 |
| EBITDA | 1,702 | 2,459 | 2,949 | 1,950 | 2,593 | 3,105 | (13) | (5) | (5) |
| EBITDA margin (%) | 7.9 | 9.7 | 10.2 | 9.2 | 10.4 | 11.0 | -130 bps | -70 bps | -80 bps |
| PAT | 500 | 1,052 | 1,370 | 716 | 1,136 | 1,488 | (30) | (7) | (8) |
| EPS | 7.7 | 16.1 | 21.0 | 11.0 | 17.4 | 22.8 | (30) | (7) | (8) |

Source: Company, HSIE Research

## BUY

| | |
|---|---|
| **CMP** ***(as on 25 Oct 2021)*** | **INR 355** |
| **Target Price** | **INR 410** |
| **NIFTY** | **18,125** |

| **KEY CHANGES** | **OLD** | **NEW** |
|---|---|---|
| Rating | BUY | BUY |
| Price Target | INR 410 | INR 410 |
| EPS % | FY22E | FY23E |
| | -13% | -5% |

| **KEY STOCK DATA** | |
|---|---|
| Bloomberg code | SUBR IN |
| No. of Shares (mn) | 65 |
| MCap (INR bn) / ($ mn) | 23/311 |
| 6m avg traded value (INR mn) | 33 |
| 52 Week high / low | INR 430/257 |

**STOCK PERFORMANCE (%)**

| | **3M** | **6M** | **12M** |
|---|---|---|---|
| Absolute (%) | 11.1 | 20.3 | 38.1 |
| Relative (%) | (4.0) | (7.1) | (11.8) |

**SHAREHOLDING PATTERN (%)**

| | **Jun-21** | **Sep-21** |
|---|---|---|
| Promoters | 36.8 | 36.8 |
| FIs & Local MFs | 10.9 | 11.6 |
| FPIs | 0.6 | 0.6 |
| Public & Others | 51.7 | 51.0 |
| Pledged Shares | | |

*Source : BSE*

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# CDSL

## Outperformance on all fronts

**We maintain our BUY rating, following a strong revenue performance (+24.5% QoQ), driven by continued traction in transaction income and strong uptick in IPO/corporate action charges (+177.4% QoQ). Key attributes that underscore our positive stance include (1) strong momentum in transaction revenue (+12.2% QoQ), driven by retail activity (online brokers) and pledge income, (2) continued gains in BO account market share (+1,000bps YoY to 66+%), (3) sustained growth in annual issuer charges (annuity income), driven by BO accounts addition and unlisted opportunity, (4) visibility in IPO/corporate action revenue, owing to a large number of companies lined up for IPOs, (5) high cash generation and net cash of INR 9.7bn, and (6) +31/36% revenue/EBITDA CAGRs over FY21-24E, following a strong H1FY22. The operating margin expanded 439bps QoQ to 65.9% (higher than our estimate), led by operating leverage. The reduced authentication charges by UIDAI would result in revenue decline; however, net realisations would remain intact. We increase our revenue and EPS estimates for FY23/24E by 10.9/8.2% and 11.6/6.8% respectively. We value CDSL on an SoTP basis by assigning 45x to Dec-23E core profit and adding net cash to arrive at a target price of INR 1,750.**

- **Q2FY22 highlights**: CDSL revenue stood at INR 1.46bn (+24.5/+63.6% QoQ/YoY), higher than our estimate of INR 1.24bn. The annual issuer/transaction/KYC revenues were up +2.4/+12.2/+21.4% QoQ. Revenue from IPO/corporate action was up 177.4% QoQ, while other comprising e-voting and e-CAS revenue was up 29.4% QoQ. On the cost front, employee/technology/other costs were up +2.9/41.4/2.7%, and EBITDA margin expanded 509bps QoQ, led by strong growth. CDSL derives ~71% of its revenue from market linked activity.
- **Outlook:** We expect revenue growth of 65.4/16.7/16.3% and an EBITDA margin of 67.1/68.0/68.6% in FY22/23/24E. The revenue CAGR of 31% over FY21-24E assumes +22/36/50/32% CAGR in issuer/transaction/IPO/KYC revenue. Core PAT CAGR over FY21-24E is at +36%.

### Quarterly financial summary

| YE March (INR mn) | Q2 FY22 | Q2 FY21 | YoY (%) | Q1 FY22 | QoQ (%) | FY20 | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|---|
| Net Revenue | 1,460 | 892 | *63.6* | 1,173 | *24.5* | 2,251 | 3,437 | 5,684 | 6,631 | 7,711 |
| EBITDA | 992 | 544 | *82.5* | 737 | *34.5* | 1,084 | 2,118 | 3,816 | 4,507 | 5,290 |
| APAT | 859 | 488 | *76.3* | 639 | *34.5* | 1,255 | 2,003 | 3,306 | 3,892 | 4,469 |
| Diluted EPS | 8.2 | 4.7 | *76.3* | 6.1 | *34.5* | 12.0 | 19.2 | 31.6 | 37.2 | 42.8 |
| P/E (x) | | | | | | 117.6 | 73.6 | 44.6 | 37.9 | 33.0 |
| EV / EBITDA (x) | | | | | | 129.5 | 65.3 | 35.9 | 30.0 | 25.1 |
| RoE (%) | | | | | | 17.3 | 22.8 | 31.2 | 30.6 | 29.4 |
| Cash/Mcap (%) | | | | | | 4.2 | 5.1 | 5.6 | 6.8 | 8.1 |

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 | 4,899 | 5,684 | *16.0* | 5,980 | 6,631 | *10.9* | 7,128 | 7,711 | *8.2* |
| EBITDA | 3,122 | 3,816 | *22.2* | 3,999 | 4,507 | *12.7* | 4,872 | 5,290 | *8.6* |
| EBITDA margin (%) | 63.7 | 67.1 | 340bps | 66.9 | 68.0 | 109bps | 68.3 | 68.6 | 26bps |
| APAT | 2,865 | 3,306 | *15.4* | 3,489 | 3,892 | *11.6* | 4,183 | 4,469 | *6.8* |
| EPS (INR) | 27.4 | 31.6 | *15.4* | 33.4 | 37.2 | *11.6* | 40.0 | 42.8 | *6.8* |

Source: Company, HSIE Research

## BUY

| | |
|---|---|
| CMP *(as on 3 Nov 2021)* | INR 1,412 |
| Target Price | INR 1,750 |
| NIFTY | 17,829 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | BUY | BUY |
| Price Target | INR 1,615 | INR 1,750 |
| EPS % | FY23E | FY24E |
| | +11.6 | +6.8 |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | CDSL IN |
| No. of Shares (mn) | 105 |
| MCap (INR bn) / ($ mn) | 148/1,983 |
| 6m avg traded value (INR mn) | 825 |
| 52 Week high / low | INR 1,579/459 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 2.5 | 77.4 | 204.9 |
| Relative (%) | (8.5) | 54.7 | 156.4 |

| SHAREHOLDING PATTERN (%) | June-21 | Sep-21 |
|---|---|---|
| Promoters | 20.00 | 20.00 |
| FIs & Local MFs | 25.86 | 22.33 |
| FPIs | 8.31 | 8.57 |
| Public & Others | 45.83 | 49.10 |
| Pledged Shares | 0.00 | 0.00 |

*Source : NSE*

Pledged shares as % of total shares

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# Multi Commodity Exchange

## Growth to revive; worst over

**We maintain BUY on MCX, following in-line revenue and margin performance. ADTV declined (-8% QoQ) sequentially for the fourth consecutive quarter due to an increase in upfront margin requirements (phase-4 at 100% implemented in Sep-21). Trading volume was down 5.1% QoQ due to continued weakness in bullion (-19% QoQ) and decline in metals (-16% QoQ), while energy volumes were robust (+26% QoQ). We maintain our positive stance, based on (1) increase in algo trading (~50% of volume); (2) strong traction in energy volumes; (3) implementation of cross margin benefits; (4) regulatory approval to launch new products; and (5) additional revenue stream from option contracts. The company has started charging for options contracts, effective Oct-21 (ADTV of INR 60bn, +217% QoQ). The launch of new products (electricity futures, TMT bars and natural gas options) could give a further boost to volumes. The shift to the new trading platform and new revenue streams will lead to a margin tailwind in FY23/24E. We moderate our EPS estimates for FY23/24E by 2.0/6.0% to adjust for lower volume. We assign 35x P/E to Dec-23E core PAT and add net cash (ex-SGF) to arrive at a target price of INR 2,300.**

- **Q2FY22 highlights**: MCX revenue stood at INR 0.83bn (-5.0/-30.5% QoQ/YoY), in line with our expectation of INR 0.84bn. The total traded value was at INR 16.83trn (-5.1/-33.0% QoQ/YoY) and ADTV stood at INR 255bn (-8.0/-33.0% QoQ/YoY). Bullion/metals/agri ADTV was down -21.6/-18.0/-31.8 QoQ, while energy ADTV increased by +22.3% YoY. EBITDA margin stood at 40.6%, down 144bps QoQ, on account of declining revenue. Active UCC was up 7/62% QoQ/YoY, indicating higher retail participation. Options are charged at an average of INR 450/mn on premium, ~1/3rd of futures pricing, based on notional volume.
- **Outlook:** We estimate a 13% futures ADTV CAGR over FY21-24E, resulting in +18/+31% revenue/EBITDA CAGRs over FY21-24E. The change in technology vendor in Oct-22 should lead to a margin benefit of ~500bps over FY23-24E.

### Quarterly financial summary

| YE March (INR mn) | Q2 FY22 | Q2 FY21 | YoY (%) | Q1 FY22 | QoQ (%) | FY20 | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 832 | 1,197 | *(30.5)* | 876 | *(5.0)* | 3,978 | 3,906 | 3,814 | 5,078 | 6,370 |
| EBITDA | 338 | 657 | *(48.5)* | 369 | *(8.3)* | 1,784 | 1,852 | 1,729 | 2,957 | 4,132 |
| APAT | 327 | 586 | *(44.2)* | 398 | *(17.9)* | 2,365 | 2,252 | 1,975 | 3,067 | 4,034 |
| EPS | 6.4 | 11.5 | *(44.2)* | 7.8 | *(17.9)* | 46.5 | 44.3 | 38.8 | 60.3 | 79.3 |
| P/E (x) | | | | | | 36.0 | 37.8 | 43.1 | 27.8 | 21.1 |
| EV / EBITDA (x) | | | | | | 41.8 | 39.9 | 42.2 | 24.4 | 17.2 |
| RoE (%) | | | | | | 18.1 | 16.2 | 13.7 | 20.6 | 25.7 |

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 | 3,916 | 3,814 | *-2.6* | 5,192 | 5,078 | *-2.2* | 6,647 | 6,370 | *-4.2* |
| EBITDA | 1,762 | 1,729 | *-1.9* | 3,035 | 2,957 | *-2.6* | 4,392 | 4,132 | *-5.9* |
| EBITDA margin (%) | 45.0 | 45.3 | 33bps | 58.4 | 58.2 | -21bps | 66.1 | 64.9 | -122bps |
| APAT | 2,140 | 1,975 | *-7.7* | 3,129 | 3,067 | *-2.0* | 4,299 | 4,034 | *-6.2* |
| EPS (INR) | 42.1 | 38.8 | *-7.7* | 61.5 | 60.3 | *-2.0* | 84.5 | 79.3 | *-6.2* |

Source: Company, HSIE Research

## BUY

| | |
|---|---|
| **CMP *(as on 25 Oct 2021)*** | **INR 1,673** |
| **Target Price** | **INR 2,300** |
| **NIFTY** | **18,125** |

| **KEY CHANGES** | **OLD** | **NEW** |
|---|---|---|
| Rating | BUY | BUY |
| Price Target | INR 2,450 | INR 2,300 |
| EPS % | FY23E | FY24E |
| | -2.0 | -6.2 |

| **KEY STOCK DATA** | |
|---|---|
| Bloomberg code | MCX IN |
| No. of Shares (mn) | 51 |
| MCap (INR bn) / ($ mn) | 85/1,146 |
| 6m avg traded value (INR mn) | 1,096 |
| 52 Week high / low | INR 2,135/1,432 |

| **STOCK PERFORMANCE (%)** | **3M** | **6M** | **12M** |
|---|---|---|---|
| Absolute (%) | 1.8 | 14.6 | (7.1) |
| Relative (%) | (13.3) | (12.7) | (56.9) |

| **SHAREHOLDING PATTERN (%)** | **June-21** | **Sep-21** |
|---|---|---|
| Promoters | 0.00 | 0.00 |
| FIs & Local MFs | 39.19 | 41.87 |
| FPIs | 35.27 | 32.49 |
| Public & Others | 25.54 | 25.64 |
| Pledged Shares | 0.00 | 0.00 |

*Source : BSE*

Pledged shares as % of total shares

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# BSE

## Strong momentum continues

**BUY**

**BSE Ltd reported a very strong quarter with better-than-expected revenue (INR 1.88bn vs. INR 1.60bn) and in-line EBITDA margin. Growth was driven by corporate services revenue (+30.4% QoQ), with book building fees increasing by 95.3% QoQ. BSE improved its market share to 7.4% (+28bps) in the cash segment, supported by interoperability. The exchange is trying to rebuild the derivatives volume, whose current market share is only ~4.1% (vs. 3.8% in Q2FY21); 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, with ADTV of USD 12bn, is growing strongly and can be a revenue driver if BSE starts charging (expected in FY23E). We increase the EPS estimate by +5.9/4.1% for FY23/24E, based on volume uptick and better margin. We assign an SoTP-based target price of INR 1,660, by assigning 20x to core Dec-23E PAT (INR 770/share), INR 517/share for the CDSL stake, and adding net cash of INR 372/share. Maintain BUY.**

- **Q2FY22 highlights**: Revenue was up 20.2% QoQ to INR 1.88bn vs. estimate of INR 1.60bn. Cash transaction revenue was up 15.5% QoQ, supported by a higher exclusive volume. StAR MF realisation remained flat QoQ at INR 2.8/order but volume was up 99/20% YoY/QoQ, leading to revenue growth of 21.2%. Listing/book building revenue was up 15.7/95.3% QoQ. INX ADTV stood at USD 12bn (~4x YoY) and the number of daily trades were at 112k (+7% YoY). EBITDA margin stood at 32.3%, flat QoQ but expanded by 1,451bps YoY, supported by strong revenue growth and non-linearity.
- **Outlook:** We expect revenue growth of 15.5/11.2% and EBITDA margins of 31.9/33.6% in FY23/24E respectively. We are assuming StAR MF revenues of INR 0.78/1.0bn in FY23/24E. Core profits after taxes for FY23/24E stand at INR 1.5/1.8bn.

### Quarterly Financial summary

| YE March (INR mn) | Q2 FY22 | Q2 FY21 | YoY (%) | Q1 FY22 | QoQ (%) | FY20 | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 1,887 | 1,254 | *50.5* | 1,570 | *20.2* | 4,505 | 5,014 | 6,676 | 7,709 | 8,571 |
| EBITDA | 610 | 223 | *173.1* | 507 | *20.4* | 81 | 725 | 1,844 | 2,460 | 2,879 |
| APAT | 730 | 524 | *39.3* | 628 | *16.2* | 1,410 | 1,750 | 2,886 | 3,405 | 3.812 |
| EPS | 16.2 | 11.6 | *39.3* | 14.0 | *16.2* | 31.3 | 38.9 | 64.1 | 75.7 | 84.7 |
| P/E (x) | | | | | | 45.2 | 36.5 | 22.1 | 18.7 | 16.7 |
| EV / EBITDA (x) | | | | | | 566.1 | 64.9 | 24.9 | 18.0 | 14.8 |
| RoE (%) | | | | | | 5.8 | 7.0 | 10.8 | 12.4 | 13.6 |

Source: Company, HSIE Research

### Change in estimates

| YE March (INR mn) | FY22E Old | FY22E Revised | Change % | FY23E Old | FY23E Revised | Change % | FY24E Old | FY24E Revised | Change % |
|---|---|---|---|---|---|---|---|---|---|
| Revenue | 6,213 | 6,676 | *7.5* | 7,252 | 7,709 | *6.3* | 8,081 | 8,571 | *6.1* |
| EBITDA | 1,581 | 1,844 | *16.6* | 2,228 | 2,460 | *10.4* | 2,666 | 2,879 | *8.0* |
| EBITDA margin (%) | 25.4 | 27.6 | 217bps | 30.7 | 31.9 | 118bps | 33.0 | 33.6 | 59bps |
| APAT | 2,667 | 2,886 | *8.2* | 3,214 | 3,405 | *5.9* | 3,662 | 3,812 | *4.1* |
| EPS (INR) | 59.3 | 64.1 | *8.2* | 71.4 | 75.7 | *5.9* | 81.4 | 84.7 | *4.1* |

Source: Company, HSIE Research

| | |
|---|---|
| **CMP *(as on 12 Nov 2021)*** | **INR 1,417** |
| **Target Price** | **INR 1,660** |
| **NIFTY** | **18,103** |

| **KEY CHANGES** | **OLD** | **NEW** |
|---|---|---|
| Rating | BUY | BUY |
| Price Target | INR 1,580 | INR 1,660 |
| EPS % | FY23E | FY24E |
| | +5.9 | +4.1 |

| **KEY STOCK DATA** | |
|---|---|
| Bloomberg code | BSE IN |
| No. of Shares (mn) | 45 |
| MCap (INR bn) / ($ mn) | 64/857 |
| 6m avg traded value (INR mn) | 1,324 |
| 52 Week high / low | INR 1,478/491 |

| **STOCK PERFORMANCE (%)** | **3M** | **6M** | **12M** |
|---|---|---|---|
| Absolute (%) | 23.1 | 92.6 | 185.7 |
| Relative (%) | 12.4 | 68.0 | 145.7 |

| **SHAREHOLDING PATTERN (%)** | **Jun-21** | **Sep-21** |
|---|---|---|
| Promoters | 0.00 | 0.00 |
| FIs & Local MFs | 2.52 | 2.37 |
| FPIs | 10.14 | 7.59 |
| Public & Others | 87.34 | 90.04 |
| 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 2,855/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 of INR 969 (+72% YoY; +13% QoQ) and EBITDA of 124bn, (+62% YoY; +13% QoQ), 7% below our estimates in Q2. Standalone APAT stood at INR 92bn (+41% YoY; +10% QoQ) (HSIE est: INR 102bn).
- **Standalone oil to chemicals (O2C) segment**: Revenue grew 67% YoY to INR 1,065bn, primarily due to improved realisation, supported by increase in oil prices and higher volumes. EBITDA for Q2 improved by 45% YoY to INR 122bn, primarily on account of better transportation fuel cracks, higher intermediates product deltas, and efficient product placement and yield management. Crude throughput at 18.7mmt was +22% YoY and -2% QoQ.
- **Oil & gas:** Revenue grew 19% QoQ to INR 12bn and EBITDA improved 36% QoQ to INR 9bn, primarily due to increase in the production from KG D6 block and US Shale and increase in price realisation. The average KG D6 production for Q2 was at ~18 MMSCMD, supported by sustained R-Cluster production and ramp-up of Satellite Cluster to 6 mmscmd.
- **RJPL**: Revenue improved by 10% YoY and 4% QoQ to INR 232bn due to a meaningful increase in gross subscriber addition of 35.6mn in Q2. ARPU increased to INR 143.6 +4% QoQ, while the net subscriber addition was -11mn on COVID-led spike in churn of low-end subscribers.
- **Reliance Retail (RR):** Reliance Retail's gross revenue (ex-petro) grew 16% YoY to INR 454.3bn (HSIE: INR 507bn). Core retail revenue grew 22% YoY (2-yr CAGR: 2%) to INR 257.7bn (HSIE: 290.5bn). Grocery (incl. JioMART)/consumer electronics/F&L/connectivity segments are estimated to have clocked 9/11/100/10% YoY resp. Digital + new commerce contributed 20% to sales. Adj EBITDA (excl. INR 4.77bn investment income) grew 24% YoY to INR 24.36bn (HSIE: INR 24.78bn). Stronger-than-expected F&L growth cushioned the misses in other categories. Adj. EBITDAM expanded 72bps YoY to 6.1% (HSIE: 5.6%). Core retail EBITDAM stood at 7.8%, up 32bps YoY.
- **Valuation:** We use EV/EBITDA to value downstream at Sep-23E EV/e, retail on peer benchmarked EV/e and E&P and Jio on DCF. The stock is currently trading at 12.2x Sep-23E EV/EBITDA and 24.6x Sep-23E EPS. Maintain ADD.

### Financial Summary – Consolidated

| Year Ending March (INR bn) | 2Q FY22 | 1Q FY22 | QoQ (%) | 2Q FY21 | YoY (%) | FY20 | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 1,676 | 1,399 | *19.8* | 1,112 | *50.7* | 5,975 | 4,669 | 8,044 | 9,261 | 10,395 |
| EBITDA | 260 | 234 | *11.3* | 189 | *37.3* | 890 | 807 | 1,098 | 1,396 | 1,649 |
| PAT | 154 | 138 | *11.5* | 105 | *47.1* | 427 | 437 | 527 | 721 | 874 |
| Diluted EPS (INR) | 20.9 | 18.7 | *11.5* | 14.8 | *40.7* | 67.4 | 67.8 | 77.9 | 106.7 | 129.3 |
| P/E (x) | | | | | | 38.9 | 38.7 | 33.7 | 24.6 | 20.3 |
| EV / EBITDA (x) | | | | | | 22.1 | 23.5 | 16.0 | 12.2 | 9.9 |
| RoE (%) | | | | | | 10.2 | 7.6 | 7.1 | 8.8 | 9.8 |

Source: Company, HSIE Research

# ADD

| | |
|---|---|
| **CMP** ***(as on 22 Oct 2021)*** | **INR 2,626** |
| **Target Price** | **INR 2,855** |
| **NIFTY** | **18,115** |

| **KEY CHANGES** | **OLD** | **NEW** |
|---|---|---|
| Rating | ADD | ADD |
| Price Target | INR 2,845 | INR 2,855 |
| EPS % | FY22E | FY23E |
| | -2.2% | +2.6% |

| **KEY STOCK DATA** | |
|---|---|
| Bloomberg code | RIL IN |
| No. of Shares (mn) | 6,343 |
| MCap (INR bn) / ($ mn) | 16,664/223,935 |
| 6m avg traded value (INR mn) | 17,175 |
| 52 Week high / low | INR 2,802/1,746 |

**STOCK PERFORMANCE (%)**

| | **3M** | **6M** | **12M** |
|---|---|---|---|
| Absolute (%) | 23.9 | 37.8 | 24.7 |
| Relative (%) | 8.8 | 11.3 | (25.3) |

**SHAREHOLDING PATTERN (%)**

| | **Jun-21** | **Sep-21** |
|---|---|---|
| Promoters | 50.59 | 50.61 |
| FIs & Local MFs | 13.27 | 13.22 |
| FPIs | 25.09 | 25.39 |
| Public & Others | 11.05 | 10.78 |
| Pledged Shares | 0.0 | 0.0 |

*Source : BSE*

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# ONGC

## Higher realisation, lower tax aid earnings

**We maintain BUY on ONGC with a target price of INR 208, based on (1) increase in crude price realisation and (2) improvement in domestic gas price realisation (to USD 2.9/mmbtu). We expect oil price realisation to increase to USD 69/bbl in FY22E and USD 71/bbl in FY23E vs. USD 44/bbl in FY21, given the expected global economic rebound, post COVID. Q2FY22 revenue was 5% below our estimate, owing to a lower-than expected crude oil price realisation of USD 71.1/bbl (HSIE USD 72.5/bbl) and below expectation crude oil sales. Q2 EBITDA was 3% below our estimate, though APAT was 2x above estimate, owing to lower-than-expected exploration cost, lower-than-expected interest cost, higher-than-expected other income, and lower tax expenses.**

- **Standalone financial performance:** Revenue for Q2FY22 stood at INR 244bn (+44% YoY, +6% QoQ). EBITDA was at INR 132bn (+57% YoY, +9% QoQ) due to lower opex. APAT in Q2 was INR 129bn, up 5x YoY, 3x QoQ, mainly on account of lower tax regime adopted by the company.
- **Standalone operational performance**: Q2 crude oil realisation was USD 71.1/bbl (+72% YoY, +6% QoQ), while gas realisation was USD 1.9/mmbtu (-25% YoY, -1% QoQ). Oil sales volume was 4.3mmt (-3%YoY, -2%QoQ). Gas sales volume was 4bcm (-7% YoY, +4% QoQ).
- **Con call takeaways**: (1) Capex guided at INR 290-320bn for FY22/FY23E. (2) ONGC's FY22 targeted O+OEG production delayed by a year due to (a) COVID-related supply chain issues, (b) unplanned power shutdowns at Ratna R series fields due to monsoons, (c) disruption at offshore and onshore projects due to cyclone Tauktae, and (d) customer offtake issues. (3) KG 98/2 production is currently at 0.7mmscmd and is expected to improve to 1.8mmscmd by Dec-21. Delay in sourcing equipment from Singapore/Malaysia, where supply chain operations remain affected by COVID, could impact the KG 98/2 output target.
- **We value ONGC's standalone business at INR 173 and its investments at INR 35. The stock is currently trading at 4x FY23E EPS.**

### Standalone financial summary

| YE March (INR bn) | Q2 FY22 | Q1 FY22 | QoQ (%) | Q2 FY21 | YoY (%) | FY20* | FY21* | FY22* | FY23E* | FY24E* |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenues | 244 | 230 | 5.8 | 169 | 44.0 | 4,250 | 3,606 | 4,259 | 4,567 | 4,801 |
| EBITDA | 132 | 122 | 8.8 | 84 | 56.8 | 611 | 566 | 780 | 893 | 951 |
| APAT | 129 | 43 | 196.9 | 28 | 366.7 | 180 | 207 | 410 | 490 | 521 |
| AEPS (INR) | 10.2 | 3.4 | 196.9 | 2.3 | 352.3 | 14.3 | 16.5 | 32.6 | 38.9 | 41.4 |
| P/E (x) | | | | | | 10.8 | 9.4 | 4.7 | 4.0 | 3.7 |
| EV/EBITDA(x) | | | | | | 4.9 | 5.5 | 3.3 | 2.8 | 2.5 |
| RoE (%) | | | | | | 8.5 | 9.7 | 17.6 | 19.0 | 18.2 |

Source: Company, HSIE Research | *Consolidated

### Change in estimates (consolidated)

| | FY22E | | | FY23E | | | FY24E | | |
|---|---|---|---|---|---|---|---|---|---|
| | Old | New | Ch% | Old | New | Ch% | Old | New | Ch% |
| EBITDA (INR bn) | 780 | 780 | - | 893 | 893 | - | 951 | 951 | - |
| AEPS (INR/sh) | 30.9 | 32.6 | 5.2 | 37.0 | 38.9 | 5.3 | 39.4 | 41.4 | 5.3 |

Source: Company, HSIE Research

## BUY

| | |
|---|---|
| CMP *(as on 12 Nov 2021)* | INR 155 |
| Target Price | INR 208 |
| NIFTY | 18,103 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | BUY | BUY |
| Price Target | INR 195 | INR 208 |
| EPS % | FY22E | FY23E |
| | +5.2% | +5.3% |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | ONGC IN |
| No. of Shares (mn) | 12,580 |
| MCap (INR bn) / ($ mn) | 1,946/26,144 |
| 6m avg traded value (INR mn) | 3,305 |
| 52 Week high / low | INR 173/70 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 33.0 | 34.4 | 116.1 |
| Relative (%) | 22.4 | 9.7 | 76.2 |

| SHAREHOLDING PATTERN (%) | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 60.41 | 60.41 |
| FIs & Local MFs | 17.60 | 17.87 |
| FPIs | 8.06 | 8.08 |
| Public & Others | 13.93 | 13.64 |
| Pledged Shares | 0.00 | 0.00 |

*Source: BSE*

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# Indian Oil Corporation

## In-line performance

**Our ADD rating on Indian Oil Corporation (IOC) with a price target of INR 145 is premised on (1) recovery in domestic demand for petroleum products in FY22 and FY23, (2) improvement in refining margins in FY22/23, and (3) sustainability of auto fuel gross margins over INR 3/lit.**

- Reported EBITDA/APAT were 4/7% above our estimates, owing to higher-than-anticipated GRM of USD 6.6/bbl, higher-than-expected other income, offset by lower-than-expected throughputs, and higher-than-anticipated finance cost and depreciation.
- **Refining:** Crude throughput in Q2 stood at 15.3mmt (+9.3% YoY and -8.5% QoQ). Capacity utilisation stood at 87% on an average. Reported GRM stood at USD 6.6/bbl vs USD 6.6/bbl in Q1FY22 and USD 8.6/bbl in Q2FY21. We estimate core GRM at USD 3.2/3.4/bbl in FY22/23E.
- **Marketing:** Domestic marketing sales volume remained flat sequentially at 17.2mmt (+7.2 YoY). We expect blended gross margins of INR 4.8/4.6/lit in FY22/23E.
- **Updates**: (1) Board declared an interim dividend at 50% i.e., INR 5 per equity share of face value of INR 10 each for FY22. (2) Borrowings, as at Sep'21-end, stood at INR 840bn. (3) Forex gain of INR 2bn was reported in Q2.
- **Our SOTP target, at INR 145/sh, is based on (5.0x Mar-23E EV/e for standalone refining and petchem businesses, 5.5x Mar-23E EV/e for marketing business, 6.0x Mar-23E EV/e for pipeline business, and INR 34/sh for other investments). The stock is currently trading at 8.3x on FY23E EPS. Maintain ADD.**

### Standalone financial summary

| YE March (INR bn) | Q2 FY22 | Q1 FY22 | QoQ (%) | Q2 FY21 | YoY (%) | FY20* | FY21* | FY22E* | FY23E* | FY24E* |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 1,354 | 1,187 | *14.1* | 856 | *58.2* | 4,838 | 3,639 | 4,040 | 4,317 | 4,512 |
| EBITDA | 106 | 111 | *(4.5)* | 94 | *12.7* | 162 | 417 | 299 | 318 | 318 |
| APAT | 64 | 59 | *7.0* | 62 | *2.1* | (159) | 228 | 135 | 146 | 139 |
| AEPS (INR) | 6.9 | 6.5 | *7.0* | 6.8 | *2.1* | (5.0) | 23.6 | 14.7 | 15.9 | 15.1 |
| P/E (x) | | | | | | (26.6) | 5.6 | 9.0 | 8.3 | 8.7 |
| EV / EBITDA (x) | | | | | | 14.6 | 5.2 | 5.9 | 5.7 | 5.8 |
| RoE (%) | | | | | | (15.3) | 22.0 | 11.6 | 11.7 | 10.5 |

Source: Company, HSIE Research | *Consolidated

## ADD

| | |
|---|---|
| CMP *(as on 1 Nov 2021)* | INR 131 |
| Target Price | INR 145 |
| NIFTY | 17,930 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | ADD | ADD |
| Price Target | INR 145 | INR 145 |
| | FY22E | FY23E |
| EPS % | - | - |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | IOCL IN |
| No. of Shares (mn) | 9,414 |
| MCap (INR bn) / ($ mn) | 1,237/16,629 |
| 6m avg traded value (INR mn) | 1,889 |
| 52 Week high / low | INR 140/77 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 27.4 | 44.7 | 65.2 |
| Relative (%) | 13.1 | 21.4 | 13.4 |

| SHAREHOLDING PATTERN (%) | Jun-21 | Sept-21 |
|---|---|---|
| Promoters | 51.50 | 51.50 |
| FIs & Local MFs | 12.48 | 4.68 |
| FPIs | 6.70 | 7.21 |
| Public & Others | 29.32 | 36.61 |
| Pledged Shares | 0.0 | 0.0 |

*Source : BSE*

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# Bharat Petroleum Corporation

## Demand recovery supporting growth

**Our ADD rating on Bharat Petroleum (BPCL) with a price target of INR 475 is premised on (1) recovery in domestic demand for petroleum products in FY22 and FY23, (2) improvement in refining margins over the coming 18 months, and (3) sustainability of auto fuel gross margin over INR 4.5/lit. Q2FY22 EBITDA/APAT were 6/26% above our estimates, owing to higher-than-anticipated GRM at USD 6.04/bbl, higher-than-expected refining throughput, higher-than-expected other income and lower-than-expected finance cost.**

- **Refining:** Crude throughput in Q2 stood at 7.2mmt (+27% YoY, +5% QoQ). GRM stood at USD 6.0/bbl vs. USD 5.8/bbl YoY, USD 4.1/bbl QoQ. With the bounce-back in demand post the second wave of COVID-19, the refinery is working at full capacity now and refining margins have improved.
- **Marketing:** Domestic marketing sales volume was 9.9mmt (+11% YoY, +3% QoQ). Blended gross margin stood at INR 5.4/lit (+4% YoY, +13% QoQ), owing to a better demand scenario. We expect blended gross margin at INR 4.8/lit in FY22E and INR 5.0/lit in FY23E.
- **Con call takeaways:** (1) Capex guidance for FY22/23 is of INR 100/100bn. (2) Debt at the end of Q2 was INR 210bn, with a D/E ratio of 0.4x. (3) The Propylene Derivatives Petrochemical Project (PDPP) at Kochi is to be commissioned by Dec-21. Production from the PDPP will be ramped up in Q4FY22. On a full-year basis, this project shall contribute a GRM of USD 1/bbl. (4) 485 retail outlets were added in the quarter. (5) BPCL has gained market share in Q2 and holds ~30% retail market share in MS and HSD segments.
- **Change in estimates:** We adjust our FY23/24E EPS estimates by -5.5/-7.8% to INR 55.7/63.2, post incorporating the Q2FY22 results.
- **SOTP-based valuation: Our price target comes to INR 475/sh (5x Mar-23E EV/e for the standalone refining business, 5.5x Mar-23E EV/e for the marketing business, 6x Mar-23E EV/e for the pipeline business, and INR 176/sh for other investments). The stock is currently trading at 7.6x on FY23E EPS.**

### Standalone financial summary

| YE March (INR bn) | 2Q FY22 | 1Q FY22 | QoQ (%) | 2Q FY21 | YoY (%) | FY20* | FY21* | FY22E* | FY23E* | FY24E* |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenues | 815 | 709 | *15.0* | 501 | *62.6* | 2,846 | 2,302 | 3,408 | 3,690 | 3,958 |
| EBITDA | 45 | 33 | *37.7* | 39 | *16.3* | 89 | 213 | 176 | 202 | 224 |
| APAT | 27 | 16 | *70.6* | 24 | *13.6* | 31 | 162 | 99 | 116 | 132 |
| AEPS (INR) | 12.7 | 7.4 | *70.6* | 11.3 | *11.6* | 14.6 | 77.2 | 47.3 | 55.7 | 63.2 |
| P/E (x) | | | | | | 29.0 | 5.5 | 8.9 | 7.6 | 6.7 |
| EV/EBITDA (x) | | | | | | 16.3 | 5.7 | 7.2 | 6.1 | 5.2 |
| RoE (%) | | | | | | 8.1 | 35.9 | 18.1 | 19.8 | 20.2 |

Source: Company, HSIE Research | *Consolidated

### Change in estimates (consolidated)

| | FY22E | | | FY23E | | | FY24E | | |
|---|---|---|---|---|---|---|---|---|---|
| | Old | New | Ch% | Old | New | Ch% | Old | New | Ch% |
| EBITDA (INR bn) | 176 | 176 | - | 211 | 202 | (4.1) | 239 | 224 | (6.0) |
| AEPS (INR/sh) | 47.3 | 47.3 | - | 58.9 | 55.7 | (5.5) | 68.5 | 63.2 | (7.8) |

Source: Company, HSIE Research

**ADD**

| | |
|---|---|
| CMP *(as on 1 Nov 2021)* | INR 422 |
| Target Price | INR 475 |
| NIFTY | 17,930 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | ADD | ADD |
| Price Target | INR 500 | INR 475 |
| EPS % | FY22E | FY23E |
| | - | -5.5% |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | BPCL IN |
| No. of Shares (mn) | 2,169 |
| MCap (INR bn) / ($ mn) | 915/12,291 |
| 6m avg traded value (INR mn) | 3,125 |
| 52 Week high / low | INR 470/318 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 2.3 | 8.1 | 28.6 |
| Relative (%) | (12.0) | (15.2) | (23.2) |

| SHAREHOLDING PATTERN (%) | Jun-21 | Sept-21 |
|---|---|---|
| Promoters | 52.98 | 52.98 |
| FIs & Local MFs | 23.21 | 22.90 |
| FPIs | 12.63 | 11.97 |
| Public & Others | 11.18 | 12.15 |
| Pledged Shares | 0.00 | 0.00 |

*Source: BSE*

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# GAIL (India)

## Petchem and NG marketing segments outshine!

**Our BUY recommendation on GAIL with a price target of INR 210 is based on 9% CAGR expansion in gas transmission volume over FY22-24E to 136mmscmd 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. Q2FY22 EBITDA/APAT were 34/47% above our estimates, owing to a 7% higher revenue, lower-than-expected raw material cost, higher-than-expected other income, and lower-than-expected tax outgo.**

- **NG marketing:** Q2 revenue came in at INR 179bn (+70% YoY, +25% QoQ). Marketing volume came in at 98mmscmd (+10% YoY, +2% QoQ) and tariff at INR 1,250/tscm (+159% QoQ). The operating profit came in at INR 11bn (+166% QoQ).
- **Petchem:** Q2 revenue was reported at INR 23bn (+36% YoY, +68% QoQ), with sales volume at 221kT, (-1% YoY, +60% QoQ). The overall revenue was up YoY with improvement in realisation. Realisation remains healthy at INR 103/kg (+37% YoY, +5% QoQ). The operating profit of the segment was at INR 5bn on account of improved price realisation and operating leverage.
- **Con call takeaways**: (1) The company incurred a Capex of INR ~32bn for H1FY22. (2) The management has guided for further 6mmscmd increase in gas transmission volume by FY22-end. (3) The company expects to sustain its petchem margins despite high gas prices. (4) The Kochi-Mangalore pipeline transmits 2.5mmscmd currently, which is expected to go up to 5mmscmd.
- **Change in estimates:** We adjust our FY22E EPS estimate by +11.5% to INR 20.3, post incorporating the Q2FY22 results.
- **Our SOTP, at INR 210/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 52 for investments). The stock is currently trading at 7.4x FY23E EPS.**

### Standalone financial summary

| YE March (INR bn) | Q2 FY22 | Q1 FY22 | QoQ (%) | Q2 FY21 | YoY (%) | FY20* | FY21* | FY22E* | FY23E* | FY24E* |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 215 | 174 | 23.7 | 136 | 57.7 | 725 | 574 | 794 | 896 | 952 |
| EBITDA | 35 | 24 | 44.1 | 13 | 159.7 | 90 | 72 | 119 | 121 | 139 |
| APAT | 29 | 15 | 87.1 | 12 | 130.9 | 94 | 61 | 90 | 90 | 103 |
| AEPS (INR) | 6.4 | 3.4 | 87.1 | 2.8 | 130.9 | 21.2 | 13.8 | 20.3 | 20.2 | 23.1 |
| P/E (x) | | | | | | 7.0 | 10.8 | 7.4 | 7.4 | 6.4 |
| EV / EBITDA (x) | | | | | | 7.9 | 9.9 | 5.6 | 5.4 | 4.2 |
| RoE (%) | | | | | | 19.8 | 12.0 | 15.6 | 13.5 | 13.5 |

Source: Company, HSIE Research | *Consolidated

### Change in estimates

| | FY22E | | | FY23E | | | FY24E | | |
|---|---|---|---|---|---|---|---|---|---|
| | Old | New | Ch% | Old | New | Ch% | Old | New | Ch% |
| EBITDA (INR bn) | 106 | 119 | 11.7 | 121 | 121 | (0.2) | 139 | 139 | (0.2) |
| AEPS (INR/sh) | 18.2 | 20.3 | 11.5 | 20.3 | 20.2 | (0.2) | 23.2 | 23.1 | (0.2) |

Source: Company, HSIE Research

## BUY

| | |
|---|---|
| CMP *(as on 29 Oct 2021)* | INR 149 |
| Target Price | INR 210 |
| NIFTY | 17,672 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | BUY | BUY |
| Price Target | INR 205 | INR 210 |
| | FY22E | FY23E |
| EPS % | +11.5% | - |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | GAIL IN |
| No. of Shares (mn) | 4,440 |
| MCap (INR bn) / ($ mn) | 661/8,888 |
| 6m avg traded value (INR mn) | 2,428 |
| 52 Week high / low | INR 171/82 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 8.3 | 10.5 | 78.5 |
| Relative (%) | (4.3) | (8.7) | 29.3 |

| SHAREHOLDING PATTERN (%) | Jun-21 | Sept-21 |
|---|---|---|
| Promoters | 51.83 | 51.85 |
| FIs & Local MFs | 27.33 | 25.66 |
| FPIs | 16.96 | 18.36 |
| Public & Others | 3.88 | 4.13 |
| Pledged Shares | 0.0 | 0.0 |

*Source : BSE*

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# Hindustan Petroleum Corporation

## Muted quarter

**Our ADD rating on Hindustan Petroleum Corporation (HPCL) with a price target of INR 345 is premised on (1) recovery in domestic demand for petroleum products in FY22/23, (2) improvement in refining margins over the coming 18 months, and (3) sustainability of auto fuel gross margin over INR 4.5/lit. Q2FY22 EBITDA/APAT were 3/20% above our estimates, owing to lower-than-expected employee cost, higher-than-anticipated other income, and a lower-than-expected tax rate. GRM was reported at USD 2.4/bbl (HSIE: USD 5.9/bbl).**

- **Refining:** Crude throughput in Q2 stood at 2.5mmt (-38% YoY, +1% QoQ), on account of the planned shutdown in the refineries, resulting in an overall combined capacity utilisation of 64% at its refineries in Q2FY22. GRM stood at USD 2.4/bbl vs. USD 5.1/bbl YoY, USD 3.3/bbl QoQ. GRMs declined despite better product cracks owing to the planned shutdown, non-availability of secondary units and a higher fuel loss component.
- **Marketing:** Domestic marketing sales volume was 9.1mmt (+8% YoY, +3% QoQ). Blended gross marketing margin for the quarter including adventitious gains stood at INR 5.9/lit. We estimate blended core gross margin at INR 4.8/lit in FY22E and INR 5.0/lit in FY23E.
- **Con call takeaways**: (1) Capex planned for FY22 and FY23 is INR 145bn each. (2) Borrowings as at Sep'21-end stood at INR 377bn. (3) 440 retail outlets added, taking the total to 19,216 as at Sep'21-end. (4) Mumbai refinery shall reach 100% utilisation by Q4FY22. (5) HPCL clocked in the highest ethanol blending rate in the industry in Q2 at 8.96%.
- **Change in estimates:** We adjust our FY22/23/24E EPS estimates by -5.3/-6.5/-3.6% to INR 35.3/47.8/61.6, post incorporating the Q2FY22 results.
- **Our SOTP at INR 345 is based on (5.0x Mar-23E EV/e for standalone refining, 5.5x Mar-23E EV/e for marketing business, 6.0x Mar-23E EV/e for pipeline business, and INR 72/sh for other investments). The stock is currently trading at 6.3x on FY23E EPS.**

### Standalone financial summary

| YE March (INR bn) | Q2 FY22 | Q1 FY22 | QoQ (%) | Q2 FY21 | YoY (%) | FY20* | FY21* | FY22E* | FY23E* | FY24E* |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 831 | 724 | 14.7 | 518 | 60.4 | 2,691 | 2,332 | 2,467 | 2,656 | 2,804 |
| EBITDA | 30 | 32 | (5.6) | 36 | (16.4) | 47 | 160 | 87 | 120 | 150 |
| APAT | 19 | 18 | 7.2 | 25 | (22.4) | 3 | 107 | 51 | 69 | 90 |
| AEPS (INR) | 13.6 | 12.7 | 7.2 | 17.1 | (20.5) | 2.1 | 73.4 | 35.3 | 47.8 | 61.6 |
| P/E (x) | | | | | | 143.4 | 4.1 | 8.6 | 6.3 | 4.9 |
| EV / EBITDA (x) | | | | | | 16.7 | 5.0 | 9.0 | 6.3 | 4.8 |
| RoE (%) | | | | | | 8.6 | 30.9 | 12.9 | 15.8 | 18.2 |

Source: Company, HSIE Research | *Consolidated

### Change in estimates (consolidated)

| | FY22E | | | FY23E | | | FY24E | | |
|---|---|---|---|---|---|---|---|---|---|
| | Old | New | Ch% | Old | New | Ch% | Old | New | Ch% |
| EBITDA (INR bn) | 90.5 | 86.7 | (4.2) | 125.9 | 119.7 | (4.9) | 154.2 | 149.7 | (2.9) |
| AEPS (INR/sh) | 37.3 | 35.3 | (5.3) | 51.2 | 47.8 | (6.5) | 64.0 | 61.6 | (3.6) |

Source: HSIE Research

## ADD

| CMP *(as on 02 Nov 2021)* | INR 303 |
|---|---|
| Target Price | INR 345 |
| NIFTY | 17,889 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | ADD | ADD |
| Price Target | INR 370 | INR 345 |
| EPS % | FY22E | FY23E |
| | - | - |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | HPCL IN |
| No. of Shares (mn) | 1,419 |
| MCap (INR bn) / ($ mn) | 430/5,785 |
| 6m avg traded value (INR mn) | 1,525 |
| 52 Week high / low | INR 355/181 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 11.2 | 29.3 | 62.0 |
| Relative (%) | (2.1) | 6.3 | 11.0 |

| SHAREHOLDING PATTERN (%) | Jun-21 | Sept-21 |
|---|---|---|
| Promoters | 54.90 | 54.90 |
| FIs & Local MFs | 18.93 | 15.93 |
| FPIs | 17.84 | 18.29 |
| Public & Others | 8.33 | 10.88 |
| Pledged Shares | 0.0 | 0.0 |

*Source : BSE*

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# Gujarat Gas

## High gas cost dents EBITDA margin

**Our BUY recommendation on Gujarat Gas (GGL) with a price target of INR 790 is premised on (1) volume growth at 15% CAGR over FY21-24E; (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. Q2FY22 EBITDA was 36% below our estimate and APAT was 42% below, owing to 46% below-than-expected per unit EBITDA margin due to higher spot gas cost, higher-than-expected operating expenses, offset by 17% higher volumes and lower-than-expected employee expenses and interest cost.**

- **Volumes:** Overall sales volume bounced back post the impact of the second COVID wave seen in Q1. Blended volume stood at 11.41mmscmd (HSIE 9.72), supported by industrial demand of 8.69mmscmd (2-yr CAGR: +10%, +12% QoQ). CNG volumes were at 1.96mmscmd (2-yr CAGR: +15%, +27% QoQ), domestic PNG volumes at 0.64mmscmd (2-yr CAGR: +9%, +8%QoQ) and commercial PNG volumes at 0.12mmscmd (2-yr CAGR: +5%, +37% QoQ).
- **Margin:** Per unit gross spread was at INR 6.06 (-41% YoY, -42% QoQ), impacted by higher spot LNG costs, which is primarily used for the industrial segment. This, in turn, dented EBITDA margin to INR 4.01/scm (-50% YoY and QoQ). We expect per unit EBITDA of INR 6.1/6.3/scm in FY22/23E.
- **Change in estimates:** We reduce our EPS estimates for FY22E by 10% and FY23E by 7.1% to INR 23.5/27.4 as we expect near-term margin pressure due to high gas cost.
- **DCF-based valuation: Our target price of INR 790 is based on Mar-23E free cash flows (WACC 9%, terminal growth rate 3%). The stock is currently trading at 21.7x FY23E EPS.**

### Standalone financial summary

| YE March (INR bn) | 2Q FY22 | 1Q FY22 | QoQ (%) | 2Q FY21 | YoY (%) | FY20 | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 36 | 30 | 20.0 | 25 | 43.8 | 103 | 99 | 152 | 183 | 213 |
| EBITDA | 4 | 7 | (41.8) | 7 | (42.6) | 16 | 21 | 25 | 29 | 34 |
| APAT | 2 | 5 | (47.7) | 5 | (47.5) | 12 | 13 | 16 | 19 | 23 |
| AEPS (INR) | 3.6 | 6.9 | (47.7) | 6.9 | (47.5) | 17.2 | 18.5 | 23.5 | 27.4 | 33.2 |
| P/E (x) | | | | | | 34.5 | 32.1 | 25.3 | 21.7 | 17.9 |
| EV / EBITDA (x) | | | | | | 25.8 | 19.9 | 16.2 | 13.6 | 10.9 |
| RoE (%) | | | | | | 43.3 | 32.8 | 31.1 | 28.0 | 26.6 |

Source: Company, HSIE Research

### Change in estimates

| | FY22E | | | FY23E | | |
|---|---|---|---|---|---|---|
| | Old | New | *Ch%* | Old | New | *Ch%* |
| Volume (mmscmd) | 11.7 | 11.4 | *(2.5)* | 13.0 | 12.5 | *(3.8)* |
| Per unit EBITDA (INR/scm) | 6.4 | 6.1 | *(5.2)* | 6.5 | 6.3 | *(2.0)* |
| EBITDA (INR bn) | 27.5 | 25.1 | *(8.6)* | 30.8 | 29.0 | *(5.8)* |
| AEPS (INR/sh) | 26.1 | 23.5 | *(10.0)* | 29.5 | 27.4 | *(7.1)* |

Source: Company, HSIE Research

## BUY

| | |
|---|---|
| **CMP *(as on 28 Oct 2021)*** | **INR 594** |
| **Target Price** | **INR 790** |
| **NIFTY** | **17,857** |

| **KEY CHANGES** | **OLD** | **NEW** |
|---|---|---|
| Rating | BUY | BUY |
| Price Target | INR 825 | INR 790 |
| EPS % | **FY22E** | **FY23E** |
| | (10.0)% | (7.1)% |

| **KEY STOCK DATA** | |
|---|---|
| Bloomberg code | GUJGA IN |
| No. of Shares (mn) | 688 |
| MCap (INR bn) / ($ mn) | 409/5,496 |
| 6m avg traded value (INR mn) | 1,385 |
| 52 Week high / low | INR 787/290 |

**STOCK PERFORMANCE (%)**

| | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | (15.8) | 10.0 | 101.5 |
| Relative (%) | (30.1) | (10.6) | 51.3 |

**SHAREHOLDING PATTERN (%)**

| | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 60.89 | 60.89 |
| FIs & Local MFs | 7.90 | 7.86 |
| FPIs | 8.17 | 8.07 |
| Public & Others | 23.04 | 23.18 |
| Pledged Shares | 0.0 | 0.0 |

*Source : BSE*

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# Petronet LNG

## Volume, marketing margin aid earnings

**We maintain our REDUCE recommendation on Petronet LNG (PLNG) with a TP of INR 240, owing to: (1) the adverse impact of seasonally-adjusted high spot LNG price of over USD 20/mmbtu and (2) rising domestic gas production on spot LNG demand in the medium term. Q2 EBITDA was 32% above our estimate while PAT was 40% above, driven by higher-than-expected volume and marketing margin.**

- **Financial performance:** Q2 EBITDA was INR 13bn (-5% YoY, +23% QoQ), with an EBITDA margin of 12% (-987bps YoY, -27bps QoQ). EBITDA increased sequentially due to (1) +15% QoQ increase in volume and (2) rise in marketing margin to USD5.4/mmbtu, from USD2.6/mmbtu in Q1.
- **Terminal-wise Q2 performance:** Utilisation was 101% at Dahej and 24% at Kochi. Volumes at Dahej and Kochi were 225tbtu and 15tbtu with total volume at 240tbtu (HSIE 218tbtu; -6% YoY, +15% QoQ). Dahej's services volume was 117tbtu (-13% YoY, +18% QoQ). While Q2 volume improved sequentially due to COVID impact seen in Q1, YoY volume declined due to the impact of high spot LNG prices. The utilisation at Kochi terminal is likely to rise from current level to 33-35% by FY22-end, as volume ramps up and increases further in the coming years, with the completion of connectivity to Bengaluru and expansion of the CGD network in the adjoining cities.
- **Con call takeaways**: (1) The management, over the next 3-4 years, has proposed the following Capex plans: (a) INR 12bn for two LNG tanks at Dahej, (b) INR 17bn for third jetty at Dahej , (c) INR 2-2.5bn for Phase I and INR 7-7.5bn for Phase II expansion at Dahej to improve PLNG's overall capacity from current 17.5MTPA to 22.5MTPA, (d) an estimated Capex of INR 19bn for the east coast terminal. (2) The company believes current spot LNG prices are not sustainable and are likely to normalise by the end of Mar-22; spot volumes are taking a hit due to higher prices.
- **DCF valuation: Our TP of INR 240 is based on Mar-23E cash flow (WACC 10%, terminal growth rate 3%). The stock is trading at 14.5x FY23E EPS.**

### Financial summary

| YE March (INR bn) | Q2 FY22 | Q1 FY22 | QoQ (%) | Q2 FY21 | YoY (%) | FY20 | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenues | 108 | 86 | 25.8 | 62 | 73.4 | 355 | 260 | 445 | 466 | 485 |
| EBITDA | 13 | 11 | 23.0 | 14 | (4.9) | 40 | 47 | 42 | 39 | 41 |
| APAT | 8 | 6 | 29.5 | 9 | (11.2) | 28 | 29 | 27 | 24 | 24 |
| AEPS (INR) | 5.5 | 4.2 | 29.5 | 6.2 | (11.2) | 18.3 | 19.7 | 17.7 | 16.2 | 16.3 |
| P/E (x) | | | | | | 12.8 | 11.9 | 13.3 | 14.5 | 14.4 |
| EV/EBITDA (x) | | | | | | 8.6 | 7.0 | 7.8 | 8.4 | 8.1 |
| RoE (%) | | | | | | 26.2 | 26.1 | 22.4 | 19.8 | 19.3 |

Source: Company, HSIE Research

### Change in estimates

| | FY22E | | | FY23E | | | FY24E | | |
|---|---|---|---|---|---|---|---|---|---|
| | Old | New | Ch% | Old | New | Ch% | Old | New | Ch% |
| EBITDA (INR bn) | 38 | 43 | 13.3 | 39 | 39 | - | 41 | 41 | - |
| AEPS (INR/sh) | 15 | 18 | 16.3 | 16 | 16 | - | 16 | 16 | - |

Source: Company, HSIE Research

## REDUCE

| | |
|---|---|
| CMP *(as on 10 Nov 2021)* | INR 235 |
| Target Price | INR 240 |
| NIFTY | 18,017 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | REDUCE | REDUCE |
| Price Target | INR 240 | INR 240 |
| EPS % | FY22E | FY23E |
| | +16.3 | - |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | PLNG IN |
| No. of Shares (mn) | 1,500 |
| MCap (INR bn) / ($ mn) | 352/4,736 |
| 6m avg traded value (INR mn) | 954 |
| 52 Week high / low | INR 275/211 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 10.0 | (2.6) | 1.4 |
| Relative (%) | (0.6) | (24.5) | (38.1) |

| SHAREHOLDING PATTERN (%) | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 50.00 | 50.00 |
| FIs & Local MFs | 5.11 | 4.65 |
| FPIs | 31.06 | 32.13 |
| Public & Others | 13.83 | 13.22 |
| Pledged Shares | 0.00 | 0.00 |

*Source: BSE*

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# Indraprastha Gas

## Sales volume drives profitability

**We maintain our BUY recommendation on Indraprastha Gas (IGL) with a target price of INR 720, based on (1) robust volume growth at ~18% CAGR over FY21-24E, (2) regulatory support from the government to curb pollution in the Delhi/NCR region, and (3) a strong portfolio of mature, semi-mature, and new geographical areas (GA). Due to increased sales volume and higher-than-expected other income, IGL's Q2FY22 EBITDA was 19% above our estimate, while PAT was 36% above.**

- **Volumes:** Blended volume stood at 7.2mmscmd (HSIE: 6.5mmscmd; +31.6% YoY, +36.1% QoQ). While CNG (5.3mmscmd, +35.4% YoY), industrial/commercial (1mmscmd, +26.1% YoY) and trading volumes (0.5mmscmd, + 34.6% YoY) remained robust, domestic PNG (0.45mmscmd, +3.9% YoY) volume saw a QoQ decline of 6.4%. Overall PNG volume was at 2mmscmd, up 22% YoY, 15.9% QoQ.
- **Margins**: Per-unit gross spread in Q2 was at INR 13.6 (-1.4% YoY, -5.6% QoQ; HSIE: INR 13.1), impacted by higher gas cost of INR 13.9 (+15.7% YoY, +20% QoQ). Per-unit EBITDA came in at INR 8, -1.0% YoY, +1.2% QoQ, as against HSIE's INR 7.5/scm. Per-unit opex was broadly in line at INR 5.6.
- **Outlook on volume**: We estimate average CNG volume to increase by 33% YoY to 5.6mmscmd in FY23E. Total volume is estimated to increase by 29% YoY to 7.7mmscmd in FY23E.
- **Outlook on per-unit EBITDA**: Per-unit EBITDA is expected to remain flat YoY at INR 7.7/scm in FY22E on account of elevated gas cost. Subsequently, per-unit EBITDA should improve to INR 8/scm in FY23E (+5% YoY). Consolidated EBITDA should grow by 13% YoY in FY22E to INR 17bn and 35% YoY in FY23E to INR 23bn, driven by improvement in volumes, positive outlook, and healthy per-unit margins.
- **DCF-based valuation: Our target price is INR 720 (WACC 9%, terminal growth rate 3.0%). The stock is trading at 19.7x FY23E PE.**

### Standalone financial summary

| YE March (INR bn) | Q2 FY22 | Q1 FY22 | QoQ (%) | Q2 FY21 | YoY (%) | FY20* | FY21* | FY22E* | FY23E* | FY24E* |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenues | 18.31 | 12.57 | 45.6 | 13.05 | 40.3 | 64.85 | 49.41 | 60.70 | 79.50 | 93.97 |
| EBITDA | 5.30 | 3.81 | 39.2 | 4.07 | 30.2 | 15.20 | 14.83 | 16.78 | 22.62 | 25.97 |
| APAT | 4.01 | 2.44 | 64.0 | 3.08 | 30.1 | 10.95 | 10.47 | 11.72 | 16.14 | 18.88 |
| AEPS (INR) | 5.7 | 3.5 | 64.0 | 4.4 | 30.1 | 17.8 | 16.8 | 18.5 | 25.0 | 27.4 |
| P/E (x) | | | | | | 27.7 | 29.5 | 26.6 | 19.7 | 18.0 |
| EV/EBITDA(x) | | | | | | 21.3 | 22.6 | 19.2 | 13.7 | 11.4 |
| RoE (%) | | | | | | 25.8 | 20.1 | 18.9 | 21.6 | 20.0 |

Source: Company, HSIE Research | *Consolidated

## BUY

| | |
|---|---|
| **CMP** *(as on 9 Nov 2021)* | **INR 494** |
| **Target Price** | **INR 720** |
| **NIFTY** | **18,044** |

| **KEY CHANGES** | **OLD** | **NEW** |
|---|---|---|
| Rating | BUY | BUY |
| Price Target | INR 720 | INR 720 |
| EPS % | **FY22E** | **FY23E** |
| | - | - |

| **KEY STOCK DATA** | |
|---|---|
| Bloomberg code | IGL IN |
| No. of Shares (mn) | 700 |
| MCap (INR bn) / ($ mn) | 346/4,647 |
| 6m avg traded value (INR mn) | 1,499 |
| 52 Week high / low | INR 604/416 |

| **STOCK PERFORMANCE (%)** | **3M** | **6M** | **12M** |
|---|---|---|---|
| Absolute (%) | (6.0) | (4.1) | 16.7 |
| Relative (%) | (17.1) | (26.9) | (25.1) |

| **SHAREHOLDING PATTERN (%)** | **Jun-21** | **Sep-21** |
|---|---|---|
| Promoters | 45.00 | 45.00 |
| FIs & Local MFs | 19.80 | 21.05 |
| FPIs | 23.87 | 21.88 |
| Public & Others | 11.33 | 12.07 |
| Pledged Shares | 0.00 | 0.00 |

*Source: BSE*

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# Oil India

## Outlook remains strong

**BUY**

| | |
|---|---|
| CMP *(as on 11 Nov 21)* | INR 217 |
| Target Price | INR 320 |
| NIFTY | 17,874 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | BUY | BUY |
| Price Target | INR 315 | INR 320 |
| EPS % | FY22E | FY23E |
| | - | - |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | OINL IN |
| No. of Shares (mn) | 1,084 |
| MCap (INR bn) / ($ mn) | 235/3,157 |
| 6m avg traded value (INR mn) | 366 |
| 52 Week high / low | INR 268/89 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 32.5 | 67.4 | 139.4 |
| Relative (%) | 22.6 | 45.5 | 101.9 |

| SHAREHOLDING PATTERN (%) | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 56.66 | 56.66 |
| FIs & Local MFs | 18.50 | 18.11 |
| FPIs | 8.53 | 9.96 |
| Public & Others | 16.31 | 15.27 |
| Pledged Shares | 0.00 | 0.00 |

*Source : BSE*

**Our BUY recommendation on Oil India with a target price of INR 320 is premised on (1) increase in crude price realisation and (2) improvement in domestic gas price realisation (at USD 2.9/mmbtu). We expect oil price realisation to increase to ~USD 68/bbl in FY22E and USD 70/bbl in FY23E vs. USD 44/bbl in FY21, given the expected global economic rebound, post COVID. Q2FY22 revenue was 1% below our estimates while EBITDA was 32% below, owing to higher-than-expected operating expenses (on account of provisions and write-offs). RPAT came in 32% below our estimate, impacted by higher depreciation, which was offset by higher other income and lower interest cost.**

- **Standalone financial performance:** Sales in Q2 were INR 33bn (+53% YoY, +10% QoQ). Crude realisation in rupee terms was at INR 5,154/bbl (+67% YoY, +7% QoQ). EBITDA came in at INR 9bn (HSIE INR 13bn, -26% QoQ), owing to higher provision of INR 5bn and exploration write-off of INR 1bn.
- **Standalone operational performance**: Crude oil realisation increased to USD 69.6/bbl, (+67% YoY, +7% QoQ); gas realisation was at USD 1.9/mmbtu, (-47% YoY, +3% QoQ). Oil sales volumes were at 0.74mmt (+2% YoY, +2% QoQ), while gas sales volumes were at 0.67bcm, (+70.2% YoY, +11% QoQ).
- **Call takeaways**: (1) The standalone Capex budgets for FY22 and FY23 are INR 41bn and INR 42bn respectively. (2) The NRL refinery expansion to 9mmt will incur Capex of ~INR 300bn, which will be payable over FY24-26. (3) The company has guided oil production for FY23/24E at 3-3.1mmt and gas production at 3.2-3.25bcm. (4) The exploration write-offs were high in Q2 due to commercial unviability of blocks at KG basin and Mizoram. However, management expects no major write-offs in the near future.
- **We value Oil India's standalone business at INR 173 (5.5x Mar-23E EPS) and its investments at INR 147. The stock is currently trading at 4x FY23E EPS.**

### Standalone financial summary

| YE March (INR bn) | Q2 FY22 | Q1 FY22 | QoQ (%) | Q2 FY21 | YoY (%) | FY20* | FY21* | FY22* | FY23E* | FY24E* |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenues | 33 | 30 | 10.2 | 22 | 52.9 | 206 | 225 | 360 | 389 | 405 |
| EBITDA | 9 | 12 | (25.7) | 7 | 24.4 | 53 | 57 | 104 | 120 | 124 |
| APAT | 5 | 5 | (0.7) | 1 | 264.0 | 52 | 46 | 62 | 59 | 62 |
| AEPS (INR) | 4.7 | 4.7 | (0.7) | 3.1 | 48.7 | 48.3 | 42.2 | 56.9 | 54.7 | 56.9 |
| P/E (x) | | | | | | 4.5 | 5.1 | 3.8 | 4.0 | 3.8 |
| EV/EBITDA (x) | | | | | | 6.3 | 7.5 | 2.7 | 1.9 | 1.4 |
| RoE (%) | | | | | | 22.5 | 19.5 | 23.1 | 18.1 | 15.9 |

Source: Company, HSIE Research | *Consolidated

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# Gujarat State Petronet

## Decent performance

**Our ADD rating on Gujarat State Petronet with a TP of INR 370 is premised on (1) robust transmission volume growth (+12% CAGR over FY21-23E to 46mmscmd) with increase in gas supply from domestic sources. This should drive volumes and translate to growth in standalone EBITDA at 16% and APAT at 20% CAGR to INR 20bn and INR 13bn in FY23E and (2) compelling valuation at 8.0x FY23E EPS, considering high RoE of 24% in 23E and combined FCF of INR 54bn over FY22-24E.**

- **View on the result:** Q2FY22 EBITDA/APAT were 6/30% above our estimates, owing to 10% rise in revenue, lower-than-expected interest cost, higher-than-anticipated other income, and lower-than-expected tax rate. Volumes, at 37.5mmscmd, were above our estimate, offset by lower-than-expected tariff at INR 1,260/tscm.
- **Volume:** Gas transmission volume in Q2 was 37.5mmscmd (-6% YoY, +2% QoQ) vs our estimate of 36.0mmscmd. Volume break-up in mmscmd was: refinery 10.1, power 5.2, CGD 13.1, fertilizers 3.4, and others 6.4.
- **Tariffs:** Calculated blended transmission tariff for Q2 stood at INR 1,260/tscm (+2% YoY, -2% QoQ), 4% below our estimate.
- **Change in estimates:** We tweak our FY22/23/24E consolidated EPS estimates by -4.6/-0.2/+1.5% to INR 33.8/40.6/33.9.
- **DCF-based valuation: We value the transmission business using discounted cash flow (DCF) at INR 132/sh (WACC of 10% and terminal growth rate of 3%). To this, we add INR 238/sh as the value of its investments in Gujarat Gas, Sabarmati Gas, etc. to arrive at a target price of INR 370/sh. The stock is trading at 8.0x FY23E PER.**

### Standalone financial summary

| YE March (INR bn) | Q2 FY22 | Q1 FY22 | QoQ (%) | Q2 FY21 | YoY (%) | FY20* | FY21* | FY22E* | FY23E* | FY24E* |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 6 | 5 | 11.6 | 6 | 2.0 | 122 | 115 | 177 | 212 | 233 |
| EBITDA | 4 | 4 | 1.6 | 4 | (0.0) | 32 | 36 | 42 | 49 | 46 |
| APAT | 3 | 2 | 41.6 | 3 | 21.9 | 17 | 16 | 19 | 23 | 19 |
| AEPS (INR) | 5.9 | 4.1 | 42.2 | 4.8 | 22.3 | 30.6 | 28.5 | 33.8 | 40.6 | 33.9 |
| P/E (x) | | | | | | 10.6 | 11.4 | 9.6 | 8.0 | 9.6 |
| EV / EBITDA (x) | | | | | | 6.7 | 6.0 | 4.9 | 3.8 | 3.7 |
| RoE (%) | | | | | | 42.3 | 28.5 | 26.0 | 24.2 | 16.6 |

Source: Company, HSIE Research | *Consolidated

### Change in estimates

| | FY22E | | | FY23E | | | FY24E | | |
|---|---|---|---|---|---|---|---|---|---|
| | Old | New | Ch% | Old | New | Ch% | Old | New | Ch% |
| EBITDA (INR bn) | 44 | 42 | (5.3) | 50 | 49 | (1.9) | 46 | 46 | (0.4) |
| EPS (INR/sh) | 35.4 | 33.8 | (4.6) | 40.7 | 40.6 | (0.2) | 33.4 | 33.9 | 1.5 |

Source: Company, HSIE Research

## ADD

| CMP *(as on 3 Nov 2021)* | INR 325 |
|---|---|
| Target Price | INR 370 |
| NIFTY | 17,829 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | ADD | ADD |
| Price Target | INR 360 | INR 370 |
| EPS % | FY22E | FY23E |
| | -4.6% | - |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | GUJS IN |
| No. of Shares (mn) | 564 |
| MCap (INR bn) / ($ mn) | 183/2,463 |
| 6m avg traded value (INR mn) | 386 |
| 52 Week high / low | INR 383/184 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | (6.4) | 19.4 | 75.3 |
| Relative (%) | (17.5) | (3.3) | 26.9 |

| SHAREHOLDING PATTERN (%) | Jun-21 | Sept-21 |
|---|---|---|
| Promoters | 37.63 | 37.63 |
| FIs & Local MFs | 27.33 | 31.01 |
| FPIs | 17.46 | 17.47 |
| Public & Others | 14.89 | 13.89 |
| Pledged Shares | 0.0 | 0.0 |

*Source: BSE*

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# Mahanagar Gas

## High gas cost dents margin

**Our ADD recommendation on Mahanagar Gas (MGL) with a price target of INR 1,135 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. Q2FY22 EBITDA, at INR 3.02bn, and APAT, at INR 2.04bn, were 9/10% below our estimates due to higher gas costs and operating expenses, offset by a 64% YoY increase in revenue.**

- **Volume and margin:** Blended volume stood at 3.10mmscmd (10% above our estimate). CNG segment's volume came in at 2.23mmscmd (2-yr CAGR: 1%, +44.1% QoQ), given the economic recovery post unlock. PNG segment's volume in Q2 was at 0.86mmscmd. The per-unit gross spread, at INR 15.6/scm, contracted by INR 1.7/scm YoY and INR 3.9/scm QoQ in Q2. Per-unit EBITDA was at INR 10.5/scm vs. INR 11.6per scm YoY and INR 13.9per scm QoQ. Margins were primarily impacted by high gas cost in Q2.
- **Earnings call takeaways**: (1) MGL added three new CNG stations in Q2, taking the count to 277. It also added 77 new industrial/commercial PNG customers, taking the count to 4,219. 10,214 new domestic households were connected in Q2, taking the count to ~1.71mn households. (2) The company has given a Capex guidance of INR 6.0bn for FY22E and FY23E.
- **Change in estimates**: We decrease our FY22 EPS estimate by 4.3% to INR 84.1 and FY23 EPS estimate by 4.4% to INR 91.2 to account for EBITDA margin pressure on near-term rising gas cost.
- **DCF-based valuation:** Our target price is INR 1,135, based on Mar-23E free cash flows (WACC 10%, terminal growth rate 3.0%). The stock is currently trading at 10.9x FY23E EPS.

### Financial Summary

| YE March (INR bn) | 2Q FY22 | 1Q FY22 | QoQ (%) | 2Q FY21 | YoY (%) | FY20 | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 8 | 6 | 34.9 | 5 | 63.8 | 30 | 25 | 30 | 35 | 37 |
| EBITDA | 3 | 3 | (0.7) | 2 | 36.5 | 11 | 13 | 12 | 13 | 13 |
| APAT | 2 | 2 | 0.1 | 1 | 41.5 | 8 | 10 | 8 | 9 | 9 |
| AEPS (INR) | 20.7 | 20.7 | 0.1 | 14.6 | 41.5 | 80.3 | 100.3 | 84.1 | 91.2 | 90.4 |
| P/E (x) | | | | | | 12.4 | 9.9 | 11.9 | 10.9 | 11.0 |
| EV / EBITDA (x) | | | | | | 8.1 | 6.4 | 6.8 | 6.3 | 6.2 |
| RoE (%) | | | | | | 29.7 | 32.0 | 24.1 | 23.1 | 20.4 |

Source: Company, HSIE Research

### Change in estimates

| | FY22E | | | FY23E | | |
|---|---|---|---|---|---|---|
| | Old | New | Ch% | Old | New | Ch% |
| Volume (mmscmd) | 2.8 | 2.8 | - | 3.1 | 3.1 | - |
| Per unit EBITDA (INR/scm) | 12.5 | 12.0 | (3.9) | 12.0 | 11.5 | (4.1) |
| EBITDA (INR bn) | 13 | 12 | (3.9) | 13 | 13 | (4.1) |
| AEPS (INR/sh) | 87.8 | 84.1 | (4.3) | 95.4 | 91.2 | (4.4) |

Source: Company, HSIE Research

**ADD**

| | |
|---|---|
| CMP *(as on 27 Oct 2021)* | INR 997 |
| Target Price | INR 1,135 |
| NIFTY | 18,211 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | ADD | ADD |
| Price Target | INR 1,200 | INR 1,135 |
| EPS % | FY22E | FY23E |
| | (4.3)% | (4.4)% |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | MAHGL IN |
| No. of Shares (mn) | 99 |
| MCap (INR bn) / ($ mn) | 98/1,323 |
| 6m avg traded value (INR mn) | 637 |
| 52 Week high / low | INR 1,284/807 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | (12.3) | (10.0) | 18.4 |
| Relative (%) | (28.6) | (35.0) | (32.5) |

| SHAREHOLDING PATTERN (%) | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 32.50 | 32.50 |
| FIs & Local MFs | 28.35 | 27.39 |
| FPIs | 29.59 | 29.38 |
| Public & Others | 9.56 | 10.73 |
| Pledged Shares | 0.0 | 0.0 |

*Source : BSE*

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# Pharmaceuticals, Hospitals

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# Sun Pharma

## Good quarter; outlook reinforced

**Sun's Q2 EBITDA beat our estimate by 7%, led by higher gross margin and lower R&D expenses. Its global specialty business grew 6% QoQ to USD157mn (flat QoQ ex-milestone income) despite a decline in Absorica and Levulan and greater COVID impact in the US. The sustained growth in Sun's specialty portfolio over the past five quarters reinforces our view of its ability to grow this business, which would be further aided by ramp-up in key products, including Winlevi (recently-launched) and normalisation of patient footfalls. Its strong balance sheet with net-cash position are likely to aid specialty spends and inorganic initiatives. We revise our FY22/23E EPS by 9%/4% to factor in the Q2 beat and forecast 19% earnings CAGR over FY21-24E. We roll forward to Sep'23 EPS to arrive at a TP of INR990/sh, based on SOTP of 25x Sep'23 EPS and NPV of INR15/sh for gRevlimid. BUY.**

- **In-line revenue, EBITDA/PAT beat:** Revenue grew by 13% YoY to INR96bn, as strong growth in India (+26% YoY, outperformance in semi-chronic, acute) and EMs (+16% YoY) offset muted performance in the US (-5% QoQ, +8% YoY, Taro led), RoW (+5% YoY) and API business (-15% YoY, lower opiates sales). EBITDA margin came in ahead of expectation at 28.1% (flat QoQ) as higher gross margin (+106bps QoQ, product/region mix) and lower R&D (-55bps QoQ, lower enrollment) offset increase in staff costs (+67bps QoQ) and other expenses (+103bps QoQ, normalisation of selling and travelling expenses). Lower tax led to 20% PAT beat.
- **India outperformance led by strong recovery in base:** Despite reduction in COVID contribution (~2% in Q2 vs. ~8-10% in Q1), India business grew by 26% YoY (vs. ~15% for the IPM), driven by increased demand due to recovery in patient footfalls (~85-90% of pre-COVID level) and seasonality benefits, leading to growth in key therapies and market share gains. Sun outperformed the IPM in the sub-chronic and acute segments. It launched 28 products in Q2 and aims to outperform the IPM over the coming quarters.
- **Specialty business shaping up well:** The specialty business (USD157mn, 6% QoQ, flat QoQ ex-milestone income) was a tad lower than estimate as decline in Absorica (generic entry in Q1) and Levulan (supply constraints) offset ramp-up in Ilumya and Absoric LD. Sun recently launched Winlevi in the US, which is expected to further ramp up the specialty business. The US generics business (ex-Taro) declined marginally QoQ as new launches (six in Q2) were partially offset by price erosion. Sun believes it has visibility on the launch pipeline, which can potentially drive growth in the business.
- **Con call takeaways:** (a) Taro: GM at ~47% (one-time COGS impact); (b) Winlevi: increasing awareness among doctors, DTC can start six months after launch, added field force; (c) Absorica franchise: ~7% share maintained YoY; (d) to evaluate M&A opportunities in EMs, EU; (e) Halol plant: no intimation of FDA audit.

### Financial summary

| | 2Q FY22 | 2Q FY21 | YoY (%) | 1Q FY22 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 96,259 | 85,531 | 12.5 | 97,187 | (1.0) | 3,34,981 | 3,89,961 | 4,32,718 | 4,78,047 |
| EBITDA | 27,063 | 23,096 | 17.2 | 27,412 | (1.3) | 84,677 | 1,07,044 | 1,20,623 | 1,35,650 |
| EBITDA Margin | 28.1 | 27.0 | 4.1 | 28.2 | (0.3) | 25.3 | 27.5 | 27.9 | 28.4 |
| APAT | 21,234 | 16,409 | 29.4 | 19,954 | 6.4 | 59,448 | 77,684 | 87,953 | 99,285 |
| Adj. EPS (INR) | 8.8 | 6.8 | 29.4 | 8.3 | 6.4 | 24.8 | 32.4 | 36.7 | 41.4 |
| P/E (x) | | | | | | 32.3 | 24.7 | 21.8 | 19.4 |

Source: Company, HSIE Research

## BUY

| | |
|---|---|
| **CMP** ***(as on 02 Nov 2021)*** | **INR 815** |
| **Target Price** | **INR 990** |
| **NIFTY** | **17,889** |

| **KEY CHANGES** | **OLD** | **NEW** |
|---|---|---|
| Rating | BUY | BUY |
| Price Target | INR 900 | INR 990 |
| EPS % | FY22E | FY23E |
| | +9% | +4% |

**KEY STOCK DATA**

| | |
|---|---|
| Bloomberg code | SUNP IN |
| No. of Shares (mn) | 2,399 |
| MCap (INR bn) / ($ mn) | 1,956/26,290 |
| 6m avg traded value (INR mn) | 3,790 |
| 52 Week high / low | INR 851/459 |

**STOCK PERFORMANCE (%)**

| | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 5.2 | 24.6 | 73.7 |
| Relative (%) | (8.2) | 1.5 | 22.7 |

**SHAREHOLDING PATTERN (%)**

| | Sep-21 | Jun-21 |
|---|---|---|
| Promoters | 54.48 | 54.48 |
| FIs & Local MFs | 21.73 | 21.97 |
| FPIs | 12.07 | 11.50 |
| Public & Others | 11.72 | 12.05 |
| Pledged Shares | 3.55 | 3.47 |

*Source : BSE*

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# Dr. Reddy's Labs

## All-round beat; outlook intact

**Dr. Reddy's Q2 revenue/EBITDA/PAT beat our estimates by 12%/18%/24% due to strong growth in India and EM markets, partially led by its COVID portfolio. US business grew ~8% QoQ, led by ramp-up in existing products and new launches, including gVascepa. We expect US growth to accelerate in H2 with improved launch momentum (company guidance) and further ramp-up in gVascepa and gRevlimid (in Canada). The medium-term outlook for the US remains strong with opportunities such as gRevlimid (settled), gCopaxone, and gNuvaring in the pipeline. The Sputnik V opportunity in India stands reduced, in our view, given the vaccine penetration (booster dose/Sputnik light trials ongoing). We revise our estimates by 4%/-4% for FY22/23E to factor in the Q2 beat/margin moderation and roll forward to Sep'23E EPS to arrive at a TP of INR5,225, based on SOTP of 23x Sep'23E EPS, NPV of INR249 for gRevlimid, and INR27 for Sputnik V. Maintain ADD.**

- **Strong beat:** Revenue grew 18% YoY to INR58bn, as strong growth in India (+25% YoY, mid-teens ex-Sputnik vaccine), Russia/CIS (+32% YoY, seasonally strong, bevacizumab launch) and RoW (+93% YoY, volume gains in base, COVID portfolio) offset the subdued performance of PSAI business (-2% YoY, volume/price declines). Adj. EBITDA margin was at ~23% (-235bps YoY) as savings in R&D expense (-101bps YoY) offset the decline in GM (-141bps YoY, price erosion, lower export benefits) and increase in SG&A cost (+205bps QoQ, investments in digitisation, marketing spends).
- **Decent performance in US, pipeline strong:** The US revenue rose to ~USD255mn (+8% QoQ) as new launches and base business volumes offset price erosion. Dr. Reddy's expects launch momentum to improve from H2. The medium-term growth visibility remains strong with key products in the pipeline such as gCopaxone and gNuvaring awaiting approval along with potential launch of gRevlimid (litigation settled).
- **Con call highlights:** (a) US pipeline: 93 pending ANDAs, including 36 Para IVs and 23 FTFs. (b) gCopaxone: addressing FDA queries; gNuvaring: awaiting FDA response; gSuboxone: expects share to improve. (c) Biosimilars: meaningful contribution by CY24; Rituximab in phase-3 trials and 4 products in pipeline, awaiting partner to launch Peg-F upon FDA approval. (e) Facilities: FDA has issued Form 483 with eight observations to the Duvvada plant, which are product specific (PAI audit), along with a few GMP observations. (f) Molnupiravir: clinical trials are likely to conclude in next few weeks in India. (g) gVascepa – API secured for next few quarters. (h) US price erosion higher in the past few quarters than historic levels.

### Financial summary

| | Q2 FY22 | Q2 FY21 | YoY (%) | Q1 FY22 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 56,548 | 48,967 | *15.5* | 49,194 | *14.9* | 1,89,222 | 2,13,971 | 2,36,857 | 2,61,933 |
| EBITDA | 12,952 | 12,364 | *4.8* | 9,512 | *36.2* | 45,257 | 46,429 | 54,769 | 61,166 |
| EBITDA Margin | 22.9 | 25.2 | *-235bps* | 19.3 | *357bps* | 23.9 | 21.7 | 23.1 | 23.4 |
| Rep. PAT | 9,920 | 7,623 | *30.1* | 5,708 | *73.8* | 19,058 | 29,477 | 32,959 | 38,665 |
| EPS (INR) | 46.7 | 50.5 | *-7.5* | 34.3 | *36.2* | 103.5 | 177.1 | 198.0 | 232.3 |
| P/E* (x) | | | | | | 42.3 | 24.8 | 22.1 | 18.9 |
| EV/ EBITDA* (x) | | | | | | 22.4 | 20.8 | 16.6 | 13.7 |
| RoCE* (%) | | | | | | 13.2 | 12.7 | 13.9 | 14.5 |

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

# ADD

| | |
|---|---|
| CMP*(as on 29 Oct 2021)* | INR 4,659 |
| Target Price | INR 5,225 |
| NIFTY | 17,672 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | ADD | ADD |
| Price Target | INR 5,210 | INR 5,225 |
| EPS % | FY22E | FY23E |
| | +4% | -4% |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | DRRD IN |
| No. of Shares (mn) | 166 |
| MCap (INR bn) / ($ mn) | 775/10,415 |
| 6m avg traded value (INR mn) | 3,599 |
| 52 Week high / low | INR 5,650/4,135 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | (0.3) | (8.7) | (5.7) |
| Relative (%) | (12.9) | (27.9) | (54.9) |

| SHAREHOLDING PATTERN (%) | Sep-21 | Jun-21 |
|---|---|---|
| Promoters | 26.72 | 26.73 |
| FIs & Local MFs | 21.40 | 15.74 |
| FPIs | 27.76 | 29.04 |
| Public & Others | 24.12 | 28.49 |
| Pledged Shares | 0.00 | 0.00 |

*Source : BSE*

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# Cipla

## In-line quarter; upbeat on outlook

**Cipla's Q2 results were largely in line with estimates as strong growth trends in India, South Africa, and EM markets were partially offset by lower gross margin (~80-100bps impact, inventory provisioning). EBITDA margin, at 22.2%, largely came in line with company guidance. India business continues to remain on a strong footing (+16% YoY) and is expected to outperform the market growth by 100-200bps over the next few years. The US business witnessed improved traction and grew ~1% QoQ, led by market share gains in Albuterol and Arformoterol. Its respiratory pipeline in the US (Abraxane, gAdvair, and gDulera), along with gRevlimid, offers good growth visibility in the medium term. Maintain BUY.**

- **Revenue beat, EBITDA/PAT in line:** Revenue grew +10% YoY to INR55bn as healthy growth in India (+16% YoY, strong volume), South Africa (+25% YoY) and other international markets (+14% YoY, strong recovery in EMs) offset weak performance in CGA (-20% YoY, order delays in tender business) and API business (-9% YoY). EBITDA margin declined to 22.2% (-224bps QoQ) on the back of lower gross margin (-112bps QoQ, COVID led inventory provision) and increase in other expenses (+133bps QoQ).
- **Strong growth visibility in the US:** US business grew 1% QoQ to USD142mn, largely in line with estimates as steady momentum in core portfolio offset price erosion (mid-single digit). Cipla expects its quarterly run-rate to improve materially from H2FY23 with key launches such as gAbraxane, gRevlimid and gAdvair.
- **Con call takeaways:** (a) gAdvair – under agency review, gAbraxane – TAD in place, market formation TAD and resolution of Goa plant is key; gAlbuterol – 18.2% Gx share and 14.6% share (including brands); gAformoterol - 39% Gx share and 24% share (including brands); (b) India: the company aims to outperform IPM growth of 10-12%, respiratory portfolio to peak in Q3, aims to improve MR productivity; (c) EU – witnessing competition for select products, launched bevacizumab biosimilar in Spain; (d) Guidance - EBITDA margin: 22%+ for FY22, R&D: 6-7% of sales and Capex: INR8-9bn in FY22; (e) Pre-paid USD137.5mn loan during Q2.
- **Maintain BUY:** We tweak our estimates by -2%/-5% for FY22/23e and roll forward our estimates to Sep'23e. Our revised TP of INR1,085/sh. is based on SOTP of 24x Sep'23e EPS, NPV of INR27/sh for gAdvair, and INR43/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) | 2Q FY22 | 2Q FY21 | YoY (%) | 1Q FY22 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 55,198 | 50,383 | *9.6* | 55,044 | *0.3* | 1,91,596 | 2,18,278 | 2,36,155 | 2,58,824 |
| EBITDA | 12,262 | 11,766 | *4.2* | 13,459 | *(8.9)* | 42,524 | 49,022 | 53,152 | 58,892 |
| EBITDA Margin | 22.2% | 23.4% | -114bps | 24.5% | -224bps | 22.2% | 22.5% | 22.5% | 22.8% |
| APAT | 7,114 | 6,654 | *6.9* | 8,044 | *(11.6)* | 24,049 | 28,843 | 32,230 | 36,126 |
| Dil. EPS (INR) | 8.8 | 8.2 | *6.9* | 10.0 | *(11.6)* | 29.8 | 35.8 | 40.0 | 44.8 |
| P/E (x) | | | | | | 28.1 | 23.4 | 20.9 | 18.7 |
| EV/ EBITDA (x) | | | | | | 16.0 | 13.7 | 12.1 | 10.5 |
| RoCE (%) | | | | | | 13.1 | 14.2 | 14.1 | 14.1 |

Source: Company, HSIE Research, nos. ex-gRevlimid and gAdvair

## BUY

| | |
|---|---|
| **CMP*(as on 26 Oct 2021)*** | **INR 908** |
| **Target Price** | **INR 1,085** |
| **NIFTY** | **18,268** |

| **KEY CHANGES** | **OLD** | **NEW** |
|---|---|---|
| Rating | BUY | BUY |
| Price Target | INR 1,080 | INR 1,085 |
| EPS % | FY22E | FY23E |
| | -2% | -5% |

| **KEY STOCK DATA** | |
|---|---|
| Bloomberg code | CIPLA IN |
| No. of Shares (mn) | 807 |
| MCap (INR bn) / ($ mn) | 732/9,836 |
| 6m avg traded value (INR mn) | 3,543 |
| 52 Week high / low | INR 1,005/706 |

| **STOCK PERFORMANCE (%)** | **3M** | **6M** | **12M** |
|---|---|---|---|
| Absolute (%) | 8.3 | 21.2 | 79.4 |
| Relative (%) | (8.1) | (0.3) | 67.1 |

| **SHAREHOLDING PATTERN (%)** | **Sep-21** | **Jun-21** |
|---|---|---|
| Promoters | 35.93 | 36.66 |
| FIs & Local MFs | 20.93 | 16.22 |
| FPIs | 24.66 | 24.78 |
| Public & Others | 18.48 | 22.34 |
| Pledged Shares | 0.00 | 0.00 |

*Source : BSE*

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# Apollo Hospitals

## Going from strenth to strength

**Apollo's Q2 EBITDA beat our estimates by ~9%, driven by robust margin expansion. While the core hospitals and AHLL business (ex-diagnostics) witnessed strong sequential growth due to recovery of non-COVID business, the outlook for high-growth pharmacy and diagnostics businesses remains intact, partially aided by integration of Apollo 24/7. With multiple growth drivers in place, we expect Apollo to report strong revenue/EBITDA CAGRs of 19%/24% over FY20-24E. Besides this, it expects to announce two strategic funding partnerships for Apollo HealthCo (Apollo 24/7, back-end pharmacy) in the near term. We raise our estimates by 19%/14% for FY22/23E to factor in Q2 beat/faster-than-expected recovery from COVID and roll forward to Sep-23 to arrive at an SOTP based TP of INR5,295/sh. ADD.**

- **Hospital business recovery on track as COVID subsides:** Revenue grew by 12% QoQ to INR21.7bn, owing to strong revival in non-COVID business and local market share gains, which translated to improvement in ARPOBs (+15% QoQ, high-end electives), reduction in ALOS (3.8 days in Q2 vs. 4.8 in Q1) and higher volumes (IP volumes up 24% QoQ). All units - mature, new and Proton - reported decent growth of 15%/6%/9% QoQ with ~300bps EBITDA margin improvement at a broad level. Apollo expects the next leg of margin improvement to come from recovery in international business and further operational efficiencies across units.
- **Pharmacy business outlook intact; diagnostics to drive AHLL growth:** The pharmacy business revenue declined by 23% QoQ due to high base effect. Notwithstanding short-term lumpiness, Apollo remains confident of growing this business at ~20% CAGR in the medium term, driven by ~400 store additions p.a. and Apollo 24/7 benefits. AHLL revenue grew by 23% QoQ as non-diagnostics verticals recovered from COVID, which also drove ~78bps margin improvement QoQ. Going forward, it expects AHLL revenue growth to come mainly from the diagnostics business as it expects to ramp up the diagnostics vertical at 25%+ CAGR with an aim to touch INR10bn revenue in 2-3 years (from current annualised rate of ~INR3.5-4bn).
- **Con call takeaways:** (a) Hospitals – acquired ~64% stake in Asclepius Hospitals (runs a ~180 bed hospital at Guwahati) for an EV of INR2.1bn, looking for brownfield expansions in Bengaluru (~300 beds in two years) and increasing presence in Mumbai (~300-400 beds in 3-4 years on an asset light model); (b) Pharmacy – 12% discount on blended basis, higher discounts to loyal customers; (c) Apollo 24/7: 19,000+ PIN codes (added ~2,000); aim to break-even in 2-3 years.

### Financial summary

| | 2Q FY22 | 2Q FY21 | YoY (%) | 1Q FY22 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| **Revenues** | | | | | | | | | |
| Hospitals | 21,686 | 12,374 | *75.3* | 19,393 | *11.8* | 50,023 | 85,909 | 99,195 | 1,10,318 |
| Pharmacy | 11,671 | 13,519 | *(13.7)* | 15,120 | *(22.8)* | 48,760 | 54,744 | 65,479 | 78,199 |
| AHLL | 3,813 | 1,716 | *122.2* | 3,090 | *23.4* | 6,818 | 13,251 | 18,040 | 23,906 |
| **Consolidated** | **37,170** | **27,609** | ***34.6*** | **37,603** | ***(1.2)*** | **1,05,600** | **1,56,380** | **1,89,520** | **2,26,574** |
| **EBITDA margins** | | | | | | | | | |
| Hospitals | 23.3 | 13.2 | *1,018bps* | 20.3 | *304bps* | *13.8%* | *21.4%* | *22.5%* | *23.6%* |
| Pharmacy* | 8.1 | 8.6 | *-45bps* | 7.6 | *+47bps* | *7.5%* | *8.1%* | *8.3%* | *8.5%* |
| AHLL | 16.3 | 12.4 | *393bps* | 15.5 | *78bps* | *11.3%* | *16.1%* | *17.2%* | *18.5%* |
| **Consolidated** | **16.5** | **10.9** | ***570bps*** | **13.8** | ***272bps*** | ***10.8%*** | ***15.7%*** | ***15.9%*** | ***16.5%*** |
| EBITDA | 6,150 | 2,998 | *105.1* | 5,199 | *18.3* | 11,374 | 24,575 | 30,102 | 37,411 |
| EV/ EBITDA (x) | | | | | | 61.9 | 28.6 | 23.1 | 18.2 |
| RoCE (%) | | | | | | 6.9 | 17.7 | 21.0 | 23.7 |

Source: Company, HSIE Research, * margins ex-Apollo 24/7 costs

## ADD

| | |
|---|---|
| **CMP** ***(as on 12 Nov 2021)*** | **INR 4,670** |
| **Target Price** | **INR 5,295** |
| **NIFTY** | **18,103** |

| **KEY CHANGES** | **OLD** | **NEW** |
|---|---|---|
| Rating | ADD | ADD |
| Price Target | INR 4,410 | INR 5,295 |
| EBITDA % | FY22E | FY23E |
| | +19% | +14% |

| **KEY STOCK DATA** | |
|---|---|
| Bloomberg code | APHS IN |
| No. of Shares (mn) | 144 |
| MCap (INR bn) / ($ mn) | 671/9,022 |
| 6m avg traded value (INR mn) | 3,535 |
| 52 Week high / low | INR 5,198/2,094 |

| **STOCK PERFORMANCE (%)** | **3M** | **6M** | **12M** |
|---|---|---|---|
| Absolute (%) | 13.0 | 46.1 | 121.3 |
| Relative (%) | 2.3 | 21.4 | 81.3 |

| **SHAREHOLDING PATTERN (%)** | **Sep-21** | **Jun-21** |
|---|---|---|
| Promoters | 29.82 | 29.82 |
| FIs & Local MFs | 12.28 | 10.85 |
| FPIs | 51.54 | 53.23 |
| Public & Others | 6.36 | 6.10 |
| Pledged Shares | 6.58 | 8.93 |

*Source : BSE*

***TP based on Sep'23 estimates:***
*a) 20x EV/EBITDA for hospitals*
*b) 25x EV/EBITDA for pharmacy*
*c) 2x EV/sales for Apollo 24/7 (discounted FY26 revenue)*

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# Cadila Healthcare

## US outlook remains challenging

**Cadila's Q2 revenue grew 3% YoY, led by decent growth in India and EMs. EBITDA margin, at 22.7%, was in line, given lower R&D and other expenses. It expects US business to grow 5% in FY23. But we are cautious on the outlook, given potential competition in its key (high-margin) product Asacol HD, which could affect pricing. Moreover, the new launches in the US are contingent on Moraiya resolution. We see limited upside in ZyCov–D vaccine, given the delay and incremental competition in the adolescent segment. We cut our FY22/23E estimates by 1%/10% to factor in the US business' tepid outlook and roll forward to Sep'23E EPS to arrive at a TP of INR525, based on 21x Sep'23 EPS (vs 22x earlier) and NPV of INR11/22 for COVID vaccine/gRevlimid. REDUCE.**

- **In-line revenue, margins tad higher:** Revenue grew to INR38bn, led by strong India growth in India (+12% YoY, +17% YoY ex-COVID), EMs (+48% YoY, strong demand in base business, institutional sales for COVID), and consumer wellness (+12% YoY, growth across key brands), offsetting muted performance in API business (-16% YoY). EBITDA margin was at 22.7% (-44bps QoQ) as savings in R&D (-140bps QoQ) and other expenses (-280bps QoQ, lower marketing spends for Wellness) offset decline in gross margin (-237bps QoQ, COVID-led inventory provisioning, higher material cost).
- **Near-term US growth to stay tepid:** Revenue was up 3% QoQ and down 12% YoY to USD 202mn in Q2. Its Mesalamine franchise - gAsacol HD (lower Rx) and gLialda (increased competition) - too declined, but was partly offset by volume growth in existing products and new launches. Cadila launched three products, including a complex injectable (Enoxaparin, in-licensed) in the quarter. It expects Q4 sales to be lower (competition in Asacol HD) but guides for FY23 growth at ~5%, given ~50 new launches, subject to Moraiya facility's timely resolution.
- **Con call highlights:** (a) Saroglitazar – to file for PBC and NASH indications by 2023-end and FY26/27 respectively in the US. (b) CUTX 101 - rolling submission to begin from Q3, expect product to break even in the first year of launch; payback period less than 3 years. (c) US - aims to scale generic injectables business to USD250mn in 2-3 years (currently ~USD35mn). (d) Vaccines – ~10mn ZyCov-D doses/month (~25% for private market); Cadila would procure drug substance from Shilpa Medicare, and aims to scale overall vaccine portfolio to USD250mn by FY25. (e) R&D at ~8% of sales; other expenses to normalise at INR9.5bn quarterly run-rate; EBITDA margin to improve by over 80-100bps from FY23, based on certain initiatives. Net debt at INR4bn (vs. 35bn in Mar'21), Capex of INR8-9bn in FY22 (lower in FY23). (e) Moraiya expects an FDA audit in the next 1-2 quarters.

### Financial summary

| | 2Q FY22 | 2Q FY21 | YoY (%) | 1Q FY22 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 37,848 | 36,589 | *3.4* | 40,255 | *-6.0* | 1,51,022 | 1,54,451 | 1,63,959 | 1,78,751 |
| EBITDA | 8,608 | 8,138 | *5.8* | 9,331 | *-7.7* | 33,410 | 34,350 | 35,264 | 38,659 |
| EBITDA Margin | 22.7 | 22.2 | *50bps* | 23.2 | *-44bps* | 22.1 | 22.2 | 21.5 | 21.6 |
| APAT | 6,019 | 5,713 | *5.4* | 5,649 | *6.5* | 23,387 | 22,049 | 23,037 | 25,154 |
| Adj. EPS (INR) | 4.9 | 4.3 | *15.2* | 5.5 | *-10.4* | 22.8 | 21.5 | 22.5 | 24.6 |
| P/E (x) | | | | | | 20.6 | 21.9 | 20.9 | 19.2 |
| EV/ EBITDA (x) | | | | | | 16.1 | 14.3 | 13.7 | 12.2 |
| RoCE (%) | | | | | | 12.8 | 11.5 | 11.2 | 11.4 |

Source: Company, HSIE Research, ratios adjusted for NPV of INR11/sh. for COVID vaccine and INR22/sh. for gRevlimid

## REDUCE

| | |
|---|---|
| **CMP** *(as on 29 Oct 2021)* | **INR 503** |
| **Target Price** | **INR 525** |
| **NIFTY** | **17,672** |

| **KEY CHANGES** | **OLD** | **NEW** |
|---|---|---|
| Rating | REDUCE | REDUCE |
| Price Target | INR 585 | INR 525 |
| EPS % | FY22E | FY23E |
| | -1% | -10% |

| **KEY STOCK DATA** | |
|---|---|
| Bloomberg code | CDH IN |
| No. of Shares (mn) | 1,024 |
| MCap (INR bn) / ($ mn) | 515/6,917 |
| 6m avg traded value (INR mn) | 2,827 |
| 52 Week high / low | INR 674/404 |

| **STOCK PERFORMANCE (%)** | **3M** | **6M** | **12M** |
|---|---|---|---|
| Absolute (%) | (12.1) | (10.5) | 22.3 |
| Relative (%) | (24.7) | (29.6) | (26.9) |

| **SHAREHOLDING PATTERN (%)** | **Sep-21** | **Jun-21** |
|---|---|---|
| Promoters | 74.88 | 74.88 |
| FIs & Local MFs | 11.25 | 10.50 |
| FPIs | 4.11 | 4.65 |
| Public & Others | 9.76 | 9.97 |
| Pledged Shares | 0.00 | 0.00 |

*Source : BSE*

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# Torrent Pharma

## Tepid quarter; steady outlook

**Torrent's Q2 results were marginally below estimates due to subdued gross margin (~100bps impact), primarily on account of higher acute mix in India, inventory provisioning, and price erosion in the US. Barring Germany (-4% YoY, customer consolidation), most key markets such as India, Brazil and US reported healthy growth. While the US business has largely bottomed out (USD35mn, -3% QoQ), the outlook remains subdued until the key facilities are resolved. Ex-US, we expect Torrent to outperform the industry growth in most key markets. The company repaid debt of INR4.9bn in H1 and is on track to reduce it by ~INR10bn in FY22. We reduce our EBITDA estimates by 4-5% for FY22-23e and roll forward our TP, based on Sep'23e estimates. Our revised TP is INR3,240/sh, based on 16x Sep'23 EV/EBITDA. Maintain ADD.**

- **Soft quarter:** Revenue increased by 6% to INR21bn as strong growth in India (+16% YoY, adj. for high base) and Brazil (+21% YoY, key brands, new launches, price increase) was offset by muted performance in the US (-3% QoQ, price erosion) and Germany (-4% YoY, customer consolidation leading to inventory normalisation, COVID impact). EBITDA margin moderated to ~31% (-84bps QoQ) on account of decline in gross margin (-29bps QoQ, price erosion, inventory provisioning) and marginal increase in other expenses.
- **India business continues to report healthy growth:** Revenue grew by ~13% YoY (+16% on adj. basis) to INR11bn, led by robust recovery in acute segment and market share gains in the chronic portfolio. Torrent's secondary market sales grew at ~19% vs. ~15% for the IPM. The company managed to maintain its MR productivity at ~INR 1mn per month (vs. 0.85 in FY21) for the second consecutive quarter with attrition rates in mid-single digits vs. ~10-15% for the industry.
- **US business bottoming out:** US revenue declined by 3% QoQ to USD35mn on account of price erosion (~ low double digit) and lack of new launches. Contribution from Levittown facility is expected to begin from Q3. Torrent's pipeline consists of 53 pending ANDAs; however, the approvals hinge on facility clearance from the FDA. It expects to file 10+ ANDAs per year.
- **Key call takeaways:** (a) India growth - volume: 7%, price: 8%, new launches: 4%; (b) Germany – wholesalers have merged, RoICs are decent with negative working capital; (c) Brazil growth - volume: 10%, price: 5%, new launches: 5%, expects ~3 new launches in H2; (d) US –gRevlimid settled, awaiting Dapsone approval (litigations ongoing, TA in place); (e) Guidance - GM expected to improve from current level; Torrent aims to repay INR5bn debt in H2; Capex: INR2.5-3bn in FY22, INR3-3.5bn in FY23, inventory level to normalise by Q4, trade payable reduction due to change in credit period in Germany; (f) the company expects FDA visit in ~3 months.

### Financial Summary

| | Q2 FY22 | Q2 FY21 | YoY (%) | Q1 FY22 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 21,370 | 20,170 | 5.9 | 21,340 | 0.1 | 80,048 | 86,038 | 96,078 | 1,07,422 |
| EBITDA | 6,600 | 6,350 | 3.9 | 6,770 | (2.5) | 24,857 | 26,845 | 30,745 | 34,912 |
| EBITDA Margin | 30.9 | 31.5 | -60bps | 31.7 | -84bps | 31.1 | 31.2 | 32.0 | 32.5 |
| APAT | 3,160 | 3,100 | 1.9 | 3,300 | (4.2) | 12,523 | 13,208 | 16,288 | 19,304 |
| Adj. EPS (INR) | 18.7 | 18.3 | 1.9 | 19.5 | (4.2) | 74.0 | 78.0 | 96.2 | 114.1 |
| P/E (x) | | | | | | 39.8 | 37.7 | 30.6 | 25.8 |
| EV/ EBITDA (x) | | | | | | 21.2 | 18.8 | 15.8 | 13.3 |
| RoCE (%) | | | | | | 17.2 | 16.8 | 19.4 | 20.6 |

Source: Company, HSIE Research

**ADD**

| | |
|---|---|
| **CMP*(as on 26 Oct 2021)*** | **INR 2,944** |
| **Target Price** | **INR 3,240** |
| **NIFTY** | **18,268** |

| **KEY CHANGES** | **OLD** | **NEW** |
|---|---|---|
| Rating | ADD | ADD |
| Price Target | INR 3,155 | INR 3,240 |
| EBITDA % | FY22E | FY23E |
| | -4% | -5% |

**KEY STOCK DATA**

| | |
|---|---|
| Bloomberg code | TRP IN |
| No. of Shares (mn) | 169 |
| MCap (INR bn) / ($ mn) | 498/6,695 |
| 6m avg traded value (INR mn) | 671 |
| 52 Week high / low | INR 3,250/2,311 |

**STOCK PERFORMANCE (%)**

| | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | (4.4) | 17.2 | 10.8 |
| Relative (%) | (20.5) | (9.6) | (42.0) |

**SHAREHOLDING PATTERN (%)**

| | Sep-21 | Jun-21 |
|---|---|---|
| Promoters | 71.25 | 71.25 |
| FIs & Local MFs | 8.72 | 8.42 |
| FPIs | 11.53 | 11.65 |
| Public & Others | 8.50 | 8.68 |
| Pledged Shares | 0.00 | 0.00 |

*Source : BSE*

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# Alkem Labs

## Strong India recovery continues

**Alkem's Q2 revenue/EBITDA beat our estimates by 5%/14%, led by good growth in India and international markets. India business delivered a 26% YoY growth, led by strong volume-led recovery in acute and outperformance in chronic and trade Gx businesses. However, the company expects to witness raw material pricing pressure over the coming months. The near-term outlook for the US business remains bleak as the company guides for a flat year on the back of high single-digit price erosion (to be offset by new launches). With cost base largely normalised (other expenses at ~95% of pre-COVID levels), we expect 11% EPS growth over FY21-24E, led by operating leverage. We revise our EPS estimates by -6% for FY23E to factor in the Q2 beat, near-term margin headwinds, and lower taxes and roll forward to Sep-23 EPS to arrive at a TP of INR 4,110/sh, based on 23x Sep-23E EPS. BUY.**

- **Strong beat:** Revenue grew INR28bn (+19% YoY) as robust growth in India (+26% YoY) and RoW markets (+28% YoY, Australia, Chile, and UK) offset muted performance in the US (-1% YoY, +1% QoQ). EBITDA margin declined to ~22% (-182bps QoQ) as higher gross margin (+92bps QoQ, product mix) and savings in staff cost (-79bps QoQ) was offset by rise in other expenses (+281bps QoQ, normalisation of expenses).
- **India business continues its robust recovery; outperformance to continue:** India business grew by 26% YoY vs. ~15% for the IPM. This was driven by strong volume growth in key therapies (especially in the acute segment), improved MR productivity, and some seasonality benefits. The company also gained market shares in key chronic therapies, while its trade Gx business (15%+ share in India business) continues to outperform its Rx business. Alkem has guided for low-to-mid teen (12-15%) growth for its India business in the medium term.
- **US business faces pressure:** Revenue grew ~1% QoQ to USD83mn as new launches offset high single-digit price erosion and market share losses in some products. Having already launched eight products in the year, Alkem expects to launch 3-4 more in FY22. However, it expects these launches to offset elevated price erosion and guides for a flat FY22 topline.
- **Con call takeaways:** (a) India – launched pulmono division, aim to launch 1-2 low competition products p.a.; (b) Biosimilars – launched two products in Q2; (c) gDuexis: two competitors have entered, aim to maintain share at 20-25%; (d) Guidance – GMs: ~60% for FY22, other expenses (incl. R&D) at 23-25% of revenues, EBITDA margin: ~20 in FY22, ETR: 10-11% in FY22; Capex: INR4.5-5bn in FY22; (e) Taloja center: remote inspection successfully closed, Indore plant: awaiting pre-approval inspection.

### Financial summary

| YE Mar (INR mn) | 2Q FY22 | 2Q FY21 | YoY (%) | 1Q FY22 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 28,000 | 23,628 | *18.5* | 27,314 | *2.5* | 88,650 | 1,06,032 | 1,17,841 | 1,33,796 |
| EBITDA | 6,244 | 6,005 | *4.0* | 6,589 | *(5.2)* | 20,224 | 21,452 | 23,900 | 28,432 |
| EBITDA Margin | 22.3 | 25.4 | *-311bps* | 24.1 | *-182bps* | 22.8 | 20.2 | 20.3 | 21.3 |
| APAT | 5,443 | 4,721 | *15.3* | 5,341 | *1.9* | 16,299 | 17,278 | 18,506 | 22,430 |
| Adj. EPS (INR) | 45.5 | 39.5 | *15.3* | 44.7 | *1.9* | 136.3 | 144.5 | 154.8 | 187.6 |
| P/E (x) | | | | | | 26.0 | 24.6 | 22.9 | 18.9 |
| EV/ EBITDA (x) | | | | | | 21.8 | 20.2 | 17.7 | 14.5 |
| RoCE (%) | | | | | | 19.8 | 18.5 | 17.7 | 19.0 |

Source: Company, HSIE Research

## BUY

| | |
|---|---|
| CMP*(as on 12 Nov 2021)* | INR 3,550 |
| Target Price | INR 4,110 |
| NIFTY | 18,103 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | BUY | BUY |
| Price Target | INR 3,960 | INR 4,110 |
| EPS % | FY22E | FY23E |
| | - | -6% |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | ALKEM IN |
| No. of Shares (mn) | 120 |
| MCap (INR bn) / ($ mn) | 425/5,706 |
| 6m avg traded value (INR mn) | 707 |
| 52 Week high / low | INR 4,070/2,540 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | (2.6) | 18.2 | 33.7 |
| Relative (%) | (13.2) | (6.4) | (6.2) |

| SHAREHOLDING PATTERN (%) | Sep-21 | Mar-21 |
|---|---|---|
| Promoters | 58.84 | 60.16 |
| FIs & Local MFs | 13.99 | 13.20 |
| FPIs | 5.33 | 4.42 |
| Public & Others | 21.84 | 22.22 |
| Pledged Shares | 0.00 | 0.00 |

*Source : BSE*

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# Lupin

## Disappointment continues

**Lupin's Q2 results disappointed, primarily due to a subdued gross margin and higher other expenses. Revenue was in line, with the US showing signs of stabilising (+7% QoQ). However, EBITDA margin dipped to 13.5% (-330bps YoY, -70bps QoQ), the lowest in the past seven quarters. Lupin has again revised its EBITDA margin guidance downward, from 17-18% to 16%+ in H2FY22, despite reduction in R&D guidance (~50-100bps) and savings in specialty burn (~75bps, Solosec write-off). While there is reasonable progress in its pipeline and it has meaningful opportunities such as gSpiriva, gSuprep, gRevlimid, Peg-F (US) and gFostair (UK) to drive growth in near to medium term, its inability to improve cost efficiencies and sustain savings is proving to be a dampener. We cut our estimates by 20%/14% for FY22/23 to factor in the Solosec write-off and lower margins. We roll forward to Sep'23 EPS and revise our TP to INR915/sh, based on 21x Sep'23e (vs 23x earlier). REDUCE.**

- **In-line revenue; margin miss:** Revenue grew by ~5% to INR40bn as healthy growth in India (+16% YoY, low base), growth markets (+20% YoY), and US (+2% YoY, +7% QoQ, Albuterol, gBrovana AG) offset subdued performance in the API business (-28% YoY). EBITDA margin declined to 13.5% (-70bps QoQ), largely on account of lower gross margin (-103bps QoQ, product mix, input costs), higher other expenses (+274bps QoQ, sales promotion, travel) offsetting lower staff costs (-165bps QoQ) and R&D expenses (-142bps QoQ). Reported net loss of INR21bn was on account of one-time settlement charges of USD253mn for Glumetza and impairment of INR7bn for Solosec.
- **US business stabilising, pipeline holds promise:** US revenue rose to USD184mn (+7% QoQ) on account of a steady ramp-up of Albuterol and Brovana AG, despite the mid-to-high single digit price erosion in the base business. The company reiterated its Q1 guidance to reach a quarterly run-rate of USD200mn from Q3. It expects Albuterol to continue to ramp up and gain ~18-20% total share (vs. ~16% currently, ~20% share in Gx market). Key products like Albuterol and Brovana AG and new product pipeline with gSpiriva (litigation settled), gSuprep (FTF, USD200mn, Sep'23), and gRevlimid provide decent growth visibility in the near to medium term.
- **Con call takeaways:** (a) Guidance: R&D: 8-8.5% of sales, ETR: below 30% for FY22; (b) Key products in EU **– gFostair**: launched in the UK, partnerships to launch in other EU5 countries, potential to achieve USD50mn sales in 2-3 years**, bEnbrel**: launched in France, Mylan is planning to launch in other EU countries, with a potential to contribute USD20-30mn to topline in ~2 years; (c) US pipeline **– Peg-F**: filed, awaiting FDA inspection, aims to launch in FY23, Peg-F Onpro to be filed in Q3FY23**, gSpiriva**: responded to CRL, awaiting approval, litigation settled with favourable launch date; (d) Plants: Goa observations to be responded to in 2-3 months.

### Financial summary

| | Q2 FY22 | Q2 FY21 | YoY (%) | Q1 FY21 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 40,413 | 38,350 | 5.4 | 38,968 | 3.7 | 1,50,869 | 1,61,789 | 1,77,095 | 1,97,009 |
| EBITDA | 5,463 | 6,452 | -15.3 | 5,542 | -1.4 | 24,908 | 24,190 | 32,343 | 38,417 |
| EBITDA Margin | 13.5 | 16.8 | -331 bps | 14.2 | -70 bps | 16.5 | 15.0 | 18.3 | 19.5 |
| APAT | 2,580 | 2,571 | 0.3 | 2,060 | 25.2 | 11,405 | 11,700 | 17,544 | 22,004 |
| Adj. EPS (INR) | 5.7 | 5.7 | 0.2 | 4.5 | 25.2 | 25.1 | 25.8 | 38.6 | 48.5 |
| P/E (x) | | | | | | 35.2 | 34.2 | 22.8 | 18.2 |
| EV/ EBITDA (x) | | | | | | 17.3 | 18.3 | 13.4 | 10.9 |
| RoCE (%) | | | | | | 6.8 | 8.3 | 11.0 | 12.5 |

Source: Company, HSIE Research

## REDUCE

| | |
|---|---|
| CMP*(as on 28 Oct 2021)* | INR 882 |
| Target Price | INR 915 |
| NIFTY | 17,857 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | REDUCE | REDUCE |
| Price Target | INR 1,040 | INR 915 |
| EPS % | FY22E | FY23E |
| | -20% | -14% |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | LPC IN |
| No. of Shares (mn) | 454 |
| MCap (INR bn) / ($ mn) | 400/5,378 |
| 6m avg traded value (INR mn) | 2,344 |
| 52 Week high / low | INR 1,268/855 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | (20.1) | (16.4) | (6.4) |
| Relative (%) | (34.4) | (37.0) | (56.6) |

| SHAREHOLDING PATTERN (%) | Sep-21 | Jun-21 |
|---|---|---|
| Promoters | 46.83 | 46.84 |
| FIs & Local MFs | 24.47 | 21.81 |
| FPIs | 15.66 | 18.60 |
| Public & Others | 13.04 | 12.75 |
| Pledged Shares | 0.00 | 0.00 |

*Source : BSE*

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# Aurobindo Pharma

## Tepid quarter; outlook intact

**Aurobindo's Q2 revenue/EBITDA missed estimates by 4%/10%, owing to lackluster performance across businesses (ex-US and EU). The EBITDA margin missed estimates by 143bps due to lower GM. However, its US pipeline provides good growth visibility across injectables, biosimilars, vaccines, and OTC drugs as management remains cautiously optimistic on the near-term outlook due to price erosion (likely to normalise by year-end). The injectables and Eugia businesses' potential value unlocking, as well as the FDA's resolution of facilities, are key near-term triggers. We cut our FY22/23E estimates by 4%/1% to factor in the Q2 miss and roll forward to Sep'23E EPS to arrive at an SOTP TP of INR990/sh, based on 15x FY23e EPS and NPV of INR40/38 for the PLI/gRevlimid opportunities. BUY.**

- **Revenue/ EBITDA miss**: Revenue, at INR59bn (-2% YoY, adj. for Natrol), was below estimate as strong traction in the US (+10% QoQ, +7% YoY adj. for Natrol) and EU (+9% YoY in cc terms) was offset by muted growth in ARV (-71% YoY, high base), growth markets (-13% YoY), and API business (-6% YoY). EBITDA margin declined to ~20% (-124bps QoQ) as savings in staff costs (-80bps QoQ) were offset by moderation in gross margin (-97bps QoQ) and increase in other expenses (+137bps QoQ, logistics).
- **US business back on track; sustenance is the key:** US revenue grew ~10% QoQ (~8% adj. for OTC product sales) to USD401mn, primarily due to strong OSD volume traction across segments, which offset high single digit price erosion. Spillover effects from previous quarters supported some of the volume growth. In view of current market conditions, management has expressed a cautiously optimistic outlook for US business in the near term as it expects pricing pressure to return to normal in the next 1-2 quarters.
- **Con call highlights:** (a) The company reiterates its goal for global injectables–USD105mn in Q2 revenue– to reach USD650-700mn by FY24; (b) Biosimilars – trial for second onco biosimilar with EU authorities, three more in the pipeline, including a MAB (can be filed by next year); (c) Vaccines – pneumococcal vaccine in phase-3 trials, with aim to launch by Q3FY23 in India; (d) COVID portfolio – in-licensed Molnupiravir (waiting for DGCA approval, US SEC meeting scheduled for Nov-end); (e) Respiratory portfolio – six MDIs (two to be filed in FY23) and two DPIs (working with partners); (f) gRevlimid: litigation settled (FY23 launch); (g) EU–low teens margins, including Apotex (turned around); (h) Guidance – to file 40-50 products per year; contemplating Eugia (sterile onco and hormonal products) demerger; (i) Plants – responded to Unit-1 observations (awaiting FDA revert); Aurolife plant (US OSD plant) inspection ongoing.

### Financial summary

| YE Mar (INR mn) | 2Q FY22 | 2Q FY21 | YoY (%) | 1Q FY22 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 59,419 | 64,834 | (8.4) | 57,020 | 4.2 | 2,47,746 | 2,47,490 | 2,64,910 | 2,83,038 |
| EBITDA | 11,867 | 14,328 | (17.2) | 12,094 | (1.9) | 53,334 | 50,339 | 56,633 | 60,853 |
| EBITDA Margin | 20.0 | 22.1 | -213bps | 21.2 | -124bps | 21.5 | 20.3 | 21.4 | 21.5 |
| APAT | 6,956 | 8,016 | (13.2) | 7,485 | (7.1) | 32,921 | 30,437 | 34,213 | 36,894 |
| Adj. EPS (INR) | 11.9 | 13.7 | (13.2) | 12.8 | (7.1) | 56.2 | 51.9 | 58.4 | 63.0 |
| P/E (x) | | | | | | 10.7 | 11.5 | 10.3 | 9.5 |
| EV/ EBITDA (x) | | | | | | 6.6 | 6.5 | 5.6 | 4.9 |
| RoCE (%) | | | | | | 10.1 | 11.1 | 11.7 | 11.7 |

Source: Company, HSIE Research, ratios adj. for NPV of PLI scheme and gRevlimid

## BUY

| | |
|---|---|
| CMP*(as on 9 Nov 2021)* | INR 677 |
| Target Price | INR 990 |
| NIFTY | 18,044 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | BUY | BUY |
| Price Target | INR 985 | INR 990 |
| EPS % | FY22E | FY23E |
| | -4% | -1% |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | ARBP IN |
| No. of Shares (mn) | 586 |
| MCap (INR bn) / ($ mn) | 397/5,331 |
| 6m avg traded value (INR mn) | 2,330 |
| 52 Week high / low | INR 1,064/660 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | (23.7) | (33.2) | (13.9) |
| Relative (%) | (34.8) | (56.0) | (55.8) |

| SHAREHOLDING PATTERN (%) | Sep-21 | Jun-21 |
|---|---|---|
| Promoters | 51.83 | 51.83 |
| FIs & Local MFs | 15.52 | 14.66 |
| FPIs | 21.71 | 23.70 |
| Public & Others | 10.94 | 9.81 |
| Pledged Shares | 11.91 | 10.71 |

*Source : BSE*

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# Max Healthcare

## Stellar show continues

**Max's Q2 proforma EBITDA came broadly in line to ~INR3.2-3.3bn (ex-COVID vaccine), led by the all-time-high ARPOBs and strong volumes on the back of robust traction in non-COVID business (ex-international business). With a multitude of short and long term growth catalysts (recovery in international business, improvement in payor mix, and expansion plans), we expect Max EBITDA to grow at ~15% CAGR over FY22-FY28E. Despite the aggressive expansion plans, we expect post-tax RoCEs to stay at ~18-23% levels through FY28E. We raise our estimates by ~1% for FY23/24E, to factor in encouraging overall outlook and arrive at an SOTP TP of INR430/sh, based on ~23x FY24E EBITDA. BUY.**

- **Hospital business almost at pre-COVID levels:** Adjusting for the COVID vaccine (INR0.9bn), hospital revenue grew ~8% QoQ to INR12.1bn, led by all-time-high ARPOBs (+15% QoQ, strong traction in non-COVID business) and robust recovery in patient volumes. Barring international business (~50% of pre-COVID at Q2-end), the company is operating at pre-pandemic levels with non-COVID beds accounting for ~99% of total occupied beds (vs. ~60% in Q1). The company remains confident of maintaining ~75-78% occupancy levels (among industry-best) on a sustained basis. With international business recovering in the coming months and improvement in payor mix, we believe the company is well-poised to improve its core hospitals' EBITDA margin profile, from ~26-27% currently.
- **Max Labs – non-COVID business witnesses healthy growth:** Lab revenue came in at INR220mn (-39% QoQ), as COVID business plunged ~80%. However, the non-COVID business continued to grow at a healthy pace (+18% QoQ), primarily led by expansion of service coverage (~20 cities now vs. 14 in Q1) and addition of channel partners (added ~140 in Q2, 600+ in total). Addition of channel partners, centers and one-off expenses on new website launch weighed in on the EBITDA margin in the quarter.
- **Further acquisitions announced; strong balance sheet and CFs provide headroom for growth:** The company announced further expansion plans with 1,000+ beds to be added via the greenfield route in Gurugram to go along with the existing 2,300+ beds (~68% of existing capacity) announced earlier. Given the strong CF generation on the cards (management expects INR1-1.2bn CFs per year post maintenance Capex), Max aims to fund most of the Capex requirements (~INR3.5-4bn over 4-5 years) through internally generated CFs. With an adj. net debt/ EBITDA of less than 1x in FY22E, the company has enough capacity to leverage the balance sheet that provides potential headroom for growth.
- **Con call takeaways:** (a) Nanavati: VRS participation slightly below expectations; (b) Gurugram expansion – acquired ~11.4 acres of land for INR3bn, two ~500 bed hospitals planned around the Golf Course road vicinity (a prime location in the city).

### Financial summary

| | 2Q FY22 | 2Q FY21 | YoY (%) | 1Q FY22 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 13,533 | 8,827 | 53.3 | 13,222 | 2.4 | 36,290 | 51,112 | 55,155 | 63,557 |
| EBITDA | 3,621 | 1,430 | 153.2 | 3,603 | 0.5 | 6,362 | 12,899 | 14,729 | 17,904 |
| EBITDA Margin | 26.8 | 16.2 | 1,056 | 27.3 | -50 | 17.5 | 25.2 | 26.7 | 28.2 |
| Adj. PAT | 2,113 | 360 | 487.0 | 2,097 | 0.8 | 451 | 8,387 | 9,827 | 12,362 |
| Adj. EPS (INR) | 2.2 | 0.4 | 179 | 2.2 | 2 | 0.5 | 8.7 | 10.2 | 12.8 |
| EV/ EBITDA (x) | | | | | | 57.6 | 28.2 | 24.6 | 20.1 |
| RoCE (%) | | | | | | 8.3 | 22.0 | 22.3 | 23.1 |

Source: Company, HSIE Research, projections excluding vaccine opportunity

## BUY

| | |
|---|---|
| CMP *(as on 15 Nov 2021)* | INR 364 |
| Target Price | INR 430 |
| NIFTY | 18,109 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | BUY | BUY |
| Price Target | INR 410 | INR 430 |
| EBITDA % | FY23E +1% | FY24E +1% |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | MAXHEALT IN |
| No. of Shares (mn) | 969 |
| MCap (INR bn) / ($ mn) | 352/4,733 |
| 6m avg traded value (INR mn) | 977 |
| 52 Week high / low | INR 473/118 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 14.1 | 65.2 | 197.4 |
| Relative (%) | 4.5 | 40.6 | 158.3 |

| SHAREHOLDING PATTERN (%) | Sep-21 | Jun-21 |
|---|---|---|
| Promoters | 60.91 | 70.46 |
| FIs & Local MFs | 8.70 | 7.95 |
| FPIs | 14.23 | 14.05 |
| Public & Others | 16.16 | 7.54 |
| Pledged Shares | 0.00 | 0.34 |

*Source : BSE*

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# Ajanta Pharma

## Good show; outlook robust

**Ajanta's Q2 revenue/EBITDA came in 8%/9% ahead of our expectations, primarily on account of robust growth in Indian and African businesses. EBITDA margin, at 29.7%, was broadly in line as higher other expenses were offset by savings in staff cost. The company has guided towards higher opex of ~INR2.25bn per quarter vs. the average run-rate of ~INR2bn in preceding quarters, which is likely to offset some benefits on account of operating leverage. However, the growth outlook for the branded generic business, such as the India, Africa (outperformance to continue) and US generics business (new launches led), remains strong. We expect 15%/16% revenue/EPS CAGRs over FY21-24e. We revise our EPS by 4%/-5% for FY22/23 to factor in Q2 beat/ margin moderation and roll forward to Sep'23 EPS to arrive at a TP of INR2,440/sh, based on 23x Sep'23e EPS. ADD.**

- **Revenue beat, margin in line:** Revenue grew 24% YoY to INR8.8bn as strong growth in India (+23% YoY, outperformance across key therapies), Africa branded (+42% YoY, ~25% YoY excluding pre-order shipments), and the US (+15% QoQ, low base) offset muted growth in Asia (+6% YoY, COVID-led disruptions). EBITDA margin rose to ~30% (+26bps QoQ) as savings in staff costs (-303bps QoQ) offset decline in gross margin (-330ps QoQ, higher API costs, price erosion in the US).
- **Key therapies continue to outperform in India:** India revenue grew by 23% YoY, mainly led by market share gains, new launches, and price increases. As per the AIOCD, cardiac, ophthal, and derma outperformed the therapy growth by 13%, 17% and 13% respectively in Q2. Trade Gx sales grew to INR300mn (+25% YoY) in the quarter. The company launched five products including three first-to-market ones. Although Ajanta expects India growth to moderate in the coming quarters, it is confident of outperforming the industry growth in near to medium term.
- **Africa, US to grow in healthy double digits over next two years:** Africa branded business recovered strongly, growing 42% YoY (~25% growth excluding preorder shipment) due to strong market recovery. However, Asia business grew at a modest 6% YoY as some countries continued to face COVID-led disruptions. Ajanta expects high-teens growth in Africa and expects to outperform in Asia. Its US business grew to ~USD26mn (+15% QoQ, +28% YoY) despite pricing pressure, driven by ramp-up of existing products. It plans to file ~10 ANDAs in FY22 and ~10-15 in FY23. We expect 16%/24% sales CAGRs in Africa branded/US business over FY21-24E.
- **Con call takeaways:** (a) US - gChantix: awaiting approval; Apotex and some other competitor (possibly PAR, in our view) have already entered. (b) Guidance: GM: 74-76%, R&D: ~6% of sales, ETR: ~23% for FY22, Capex: INR2bn in FY22. (c) WC – branded Gx business: inventory days are similar in India and other EMs; receivables are higher in EMs vs. India. US generics have higher inventory and receivables vis-à-vis branded generic business.

### Financial summary

| | 2Q FY22 | 2Q FY21 | YoY (%) | 1Q FY22 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 8,848 | 7,159 | *23.6* | 7,480 | *18.3* | 28,897 | 33,635 | 38,412 | 43,823 |
| EBITDA | 2,628 | 2,743 | *(4.2)* | 2,202 | *19.3* | 9,986 | 9,763 | 11,542 | 13,755 |
| EBITDA Margin | 29.7 | 38.3 | *-860* | 29.4 | *26* | 34.6 | 29.0 | 30.0 | 31.4 |
| APAT | 1,959 | 1,702 | *15.1* | 1,738 | *12.8* | 6,539 | 7,262 | 8,289 | 10,081 |
| Dil. EPS (INR) | 22.6 | 19.5 | *314* | 20.1 | *12.8* | 75.1 | 83.9 | 95.8 | 116.5 |
| P/E (x) | | | | | | 28.2 | 25.3 | 22.1 | 18.2 |
| EV/ EBITDA (x) | | | | | | 18.0 | 18.0 | 14.7 | 12.0 |
| RoCE (ex-cash) % | | | | | | 25.2 | 23.4 | 27.7 | 32.1 |

Source: Company, HSIE Research

# ADD

| | |
|---|---|
| **CMP *(as on 29 Oct 2021)*** | **INR 2,120** |
| **Target Price** | **INR 2,440** |
| **NIFTY** | **17,672** |

| **KEY CHANGES** | **OLD** | **NEW** |
|---|---|---|
| Rating | ADD | ADD |
| Price Target | INR 2,520 | INR 2,440 |
| EPS % | FY22E | FY23E |
| | +4% | -5% |

| **KEY STOCK DATA** | |
|---|---|
| Bloomberg code | AJP IN |
| No. of Shares (mn) | 87 |
| MCap (INR bn) / ($ mn) | 183/2,465 |
| 6m avg traded value (INR mn) | 218 |
| 52 Week high / low | INR 2,435/1,487 |

**STOCK PERFORMANCE (%)**

| | **3M** | **6M** | **12M** |
|---|---|---|---|
| Absolute (%) | (11.5) | 12.0 | 29.5 |
| Relative (%) | (24.1) | (7.1) | (19.7) |

**SHAREHOLDING PATTERN (%)**

| | **Sep-21** | **Jun-21** |
|---|---|---|
| Promoters | 70.34 | 70.34 |
| FIs & Local MFs | 12.07 | 11.81 |
| FPIs | 8.72 | 8.94 |
| Public & Others | 8.87 | 8.91 |
| Pledged Shares | 9.66 | 10.52 |

*Source : BSE*

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# Narayana Health

## India recovering, Cayman stabilising

**NH's adj. Q2 EBITDA missed estimates by 6%, mainly due to muted recovery in the flagship units. In addition to the other mature and new units performing well, the Cayman business too performed decently despite some challenges in the quarter. We believe the company is well on course to improve its profitability profile, primarily led by turnaround in new units (8-9% margin by FY24E), recovery in international business (1-2% in Q2 vs. ~10% pre-COVID), and supply chain efficiencies that will lead to a robust EBITDA margin improvement to ~20% (+648bps) over FY20-24E. RoCEs would improve to ~20% (+887bps) over the same period. However, potential entry of a listed player (Aster DM) in Cayman (over-supplied market) could throw a spanner in the works and remains a major risk. We cut our FY22/23 EBITDA estimates by 2-6% to factor in Q2 miss and roll forward to Sep-23 EBITDA to arrive at a SOTP based TP of INR625/sh. ADD.**

- **COVID impact softens; non-flagship units continue to do the heavy-lifting:** NH's India revenue improved to INR7.6bn (+12% QoQ), primarily due to reduced incidence of COVID, leading to recovery in volumes (elective surgeries), despite muted recovery at the flagship units (subdued international business). While the new units did well, growing 4% QoQ as they close in on breaking even (-1% EBITDA margin), the mature units led to improved profitability for the India business with their margins expanding to ~20% (+528bps QoQ, led by non-flagship units). We forecast further profitability improvement to be driven by a turnaround of new units (~8-9% margin by FY24E) and recovery of international business at flagship units.
- **Cayman business stabilising at the new base:** Cayman revenue came at ~USD 20mn (+1% YoY, -15% QoQ) as natural calamities (hurricanes) impacted the business to an extent. EBITDA margin moderated to 42.1% (-442bps QoQ), in line with the management guidance in Q1, as the company shifted its focus to retaining market share in the post-COVID world.
- **Con call takeaways:** (a) India: Q2 vaccine revenue is at INR230mn (+7% QoQ) with INR25mn margin (INR35mn in Q1); (b) aim to take onco share to ~20% (13% currently); (c) focus on improving efficiencies in current operations rather than entering into health-tech, where it is seeking partners.

### Segmental quarterly performance

| | 2Q FY22 | 2Q FY21 | YoY (%) | 1Q FY22 | QoQ (%) |
|---|---|---|---|---|---|
| **Revenues** | | | | | |
| India | 7,638 | 4,550 | 67.9 | 6,815 | 12.1 |
| Cayman | 1,550 | 1,457 | 6.3 | 1,783 | (13.1) |
| Total | 9,188 | 6,007 | 52.9 | 8,598 | 6.9 |
| **EBITDA margins** | | | | | |
| India hospitals* | 17.0% | -2.7% | 1,976bps | 12.4% | 465bps |
| Cayman* | 42.1% | 45.6% | -351bps | 46.6% | -442bps |
| Total | 16.0% | 4.5% | 1,159bps | 15.5% | 49bps |

Source: Company, HSIE Research, *ex-corporate overheads allocation

### Financial summary

| | 2Q FY22 | 2Q FY21 | YoY (%) | 1Q FY22 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 9,188 | 6,007 | 52.9 | 8,598 | 6.9 | 25,823 | 37,144 | 41,954 | 46,555 |
| EBITDA | 1,474 | 268 | 450.8 | 1,337 | 10.3 | 1,821 | 6,133 | 7,976 | 9,310 |
| EBITDA Margin | 16.0 | 4.5 | 1159bps | 15.5 | 49bps | 7.1 | 16.5 | 19.0 | 20.0 |
| APAT | 809 | -34 | (2,464.0) | 762 | 6.2 | -143 | 3,002 | 4,020 | 4,804 |
| Adj. EPS (INR) | 4.0 | -0.2 | 412.6 | 3.7 | 6.2 | -0.7 | 14.7 | 19.7 | 23.5 |
| EV/ EBITDA (x) | | | | | | 61.5 | 18.8 | 14.6 | 12.0 |
| RoCE (%) | | | | | | 3.6 | 18.4 | 19.5 | 19.8 |

Source: Company, HSIE Research, multiples adj. for NPV of Cayman expansion

**ADD**

| | |
|---|---|
| **CMP** *(as on 12 Nov 2021)* | **INR 547** |
| **Target Price** | **INR 625** |
| **NIFTY** | **18,103** |

| **KEY CHANGES** | **OLD** | **NEW** |
|---|---|---|
| Rating | ADD | ADD |
| Price Target | INR 575 | INR 625 |
| EBITDA % | FY22E<br>-6% | FY23E<br>-2% |

**KEY STOCK DATA**

| | |
|---|---|
| Bloomberg code | NARH IN |
| No. of Shares (mn) | 204 |
| MCap (INR bn) / ($ mn) | 120/1,503 |
| 6m avg traded value (INR mn) | 271 |
| 52 Week high / low | INR 623/339 |

**STOCK PERFORMANCE (%)**

| | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 8.7 | 33.0 | 53.4 |
| Relative (%) | (2.0) | 8.4 | 13.4 |

**SHAREHOLDING PATTERN (%)**

| | Sep-21 | Jun-21 |
|---|---|---|
| Promoters | 63.85 | 63.85 |
| FIs & Local MFs | 19.63 | 20.05 |
| FPIs | 10.74 | 10.12 |
| Public & Others | 5.78 | 5.98 |
| Pledged Shares | 0.00 | 0.00 |

*Source : BSE*

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# Real Estate

# DLF

## Strong comeback

**DLF surprised positively with presales at INR 15bn (+1.05x/+48% YoY/QoQ) on the back of record sales in Camellias (INR 10.4bn). While office collection remains robust at 100%, occupancy at DCCDL was flat at 86%. With FYTD presales of INR 25bn, DLF is well on course to surpass FY22 INR 40bn guidance, aided by 7.7msf launches in H2FY22 and traction in premium and luxury segments. Net debt continues to trend down (INR 40bn vs INR 47bn in Jun-21). Given the fact that (1) DLF is reviving office Capex plans, (2) it is taking price hikes in the premium segment, (3) there is stabilisation of office vacancy, and (4) the company has robust launch plans, we maintain BUY, with an increased TP of INR 460/sh (roll forward to Sep-23E) to factor in demand recovery (office and residential) and better property price realisation.**

- **Financial highlights:** Revenue: INR 14.8bn (24% beat). EBITDA: INR 4.6bn (24% beat). EBITDA margin: 30.9% (est. in-line). Share of profits in associates and JVs: INR 1.52bn (+33.6%/+12.7% YoY/QoQ). APAT: INR 3.78bn (14% beat). DCCDL revenue/profit grew 8/36% YoY to INR 11.2/2.3bn.
- **Record sales in super luxury segment; traction in independent floors**: Presales for Q2FY22, at INR 15bn (+1.05x/+48% YoY/QoQ), was robust, on the back of record new sales in the super luxury segment (Camellias) at INR 10.4bn (vs INR 3bn in Q1FY22). DLF has been taking price hikes in Camellias (up 20% in past 12 months, of which 13-14% in Sep-21), which has brought fence sitters to deal closure. With INR 25bn of presales FYTD, DLF is well-placed to better INR 40bn guidance for full year. Seeing the traction in independent floors, new launches in the segment are planned in Gurugram and Panchkula at INR 12bn. The DCCDL office portfolio collection was at 100%, with occupancy flat at 86%. Office Capex program is robust with INR 15bn balance to be deployed in 15-18 months. In rental space, DLF has stopped offering discounts except for F&B and cinemas (running on 50% attendance restriction). The footfall across malls is now 80-85% of pre-COVID level. Exit rental for Mar-22/23 is guided at INR 42/47bn.
- **Balance sheet comfortable:** DLF generated cash surplus of INR 7.6bn, the highest in past five years, which aided net debt reduction to INR 39.8bn (vs. INR 47.4bn at Jun-21 end), with net D/E at 0.11x. Construction outflow for H2FY22 is likely to be higher than that in Q2 (at INR 1.2bn). The company also brought down interest costs sequentially from 8.2% to 7.96% in Q2.

### Consolidated financial summary (INR mn)

| YE March | Q2FY22 | Q2FY21 | YoY (%) | Q1FY22 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 14,809 | 16,098 | *(8.0)* | 11,395 | *30.0* | 54,141 | 60,080 | 66,402 | 67,383 |
| EBITDA | 4,583 | 4,631 | *(1.0)* | 3,954 | *15.9* | 14,178 | 17,138 | 19,769 | 20,115 |
| APAT | 3,781 | 2,278 | *66.0* | 3,372 | *12.1* | 12,201 | 17,251 | 22,546 | 26,200 |
| EPS (INR) | 1.5 | 0.9 | *66.0* | 1.4 | *12.1* | 4.4 | 7.0 | 9.1 | 10.6 |
| P/E (x) | | | | | | 90.1 | 57.1 | 43.7 | 37.6 |
| EV/EBITDA (x) | | | | | | 73.2 | 59.9 | 51.1 | 49.3 |
| RoE (%) | | | | | | 3.2 | 4.8 | 6.0 | 6.7 |

### Consolidated Estimate Change Summary

| Particulars (INR mn) | FY22E | | | FY23E | | | FY24E | | |
|---|---|---|---|---|---|---|---|---|---|
| | New | Old | *% Change* | New | Old | *% Change* | New | Old | *% Change* |
| Revenues | 60,080 | 61,456 | *(2.2)* | 66,402 | 68,831 | *(3.5)* | 67,383 | 75,714 | *(11.0)* |
| EBITDA | 17,138 | 20,306 | *(15.6)* | 19,769 | 23,394 | *(15.5)* | 20,115 | 26,112 | *(23.0)* |
| Margin (%) | 28.5 | 33.0 | *(451.7)* | 29.8 | 34.0 | *(421.6)* | 29.9 | 34.5 | *(463.5)* |
| APAT | 17,251 | 18,098 | *(4.7)* | 22,546 | 21,190 | *6.4* | 26,200 | 24,175 | *8.4* |

Source: Company, HSIE Research

## BUY

| | |
|---|---|
| **CMP *(as on 29 Oct 2021)*** | **INR 399** |
| **Target Price** | **INR 460** |
| **NIFTY** | **17,672** |

| **KEY CHANGES** | **OLD** | | **NEW** |
|---|---|---|---|
| Rating | BUY | | BUY |
| Price Target | INR 390 | | INR 460 |
| EPS Change % | FY22E | FY23E | FY24E |
| | (4.7) | 6.4 | 8.4 |

| **KEY STOCK DATA** | |
|---|---|
| Bloomberg code | DLFU IN |
| No. of Shares (mn) | 2,475 |
| MCap (INR bn) / ($ mn) | 987/13,259 |
| 6m avg traded value (INR mn) | 3,858 |
| 52 Week high / low | INR 450/151 |

| **STOCK PERFORMANCE (%)** | **3M** | **6M** | **12M** |
|---|---|---|---|
| Absolute (%) | 17.2 | 59.9 | 160.4 |
| Relative (%) | 4.6 | 40.7 | 111.2 |

| **SHAREHOLDING PATTERN (%)** | **Jun-21** | **Sep-21** |
|---|---|---|
| Promoters | 74.95 | 74.95 |
| FIs & Local MFs | 2.56 | 3.01 |
| FPIs | 16.99 | 17.00 |
| Public & Others | 5.5 | 5.04 |
| Pledged Shares | - | - |

*Source: BSE*

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HDFC securities INSTITUTIONAL RESEARCH

# Godrej Properties

## Launches awaited

**Godrej Properties Ltd (GPL) reported a strong Q2FY22 with presales volume/value of 3.6msf (+2.1x/+4.7x YoY/QoQ)/INR 25.7bn (+2.4x/+5.2x YoY/QoQ) and launch of four new projects/phases contributing INR 13bn to sales. Strong sustenance sales resulted in 'unsold inventory to launched inventory ratio' to be at its lowest level with GPL currently having one year of sustenance sales inventory. It took price hikes across the portfolio in low to mid single digits to counter inflation and maintain margins. H2FY22 is expected to be strong with execution ramp-up, 11msf of launch pipeline, traction on JV deals, and business development activities planned for Mumbai and Bengaluru. GPL has access to INR 75bn of deployable cash (including debt), which could be used to capture growth opportunities. However, given punchy valuation, we reiterate REDUCE, as all the positives seem fairly priced in. We have increased our SOTP TP to INR 1,800 to factor in price hikes and likely upsides from new business development.**

- **Financial highlights:** Revenue came in at INR 1.3bn (in-line). EBITDA: INR (562)mn (INR (580)mn est.). Other income: INR 2.05bn (+27.5%/+16.5% YoY/QoQ). Consequently, RPAT/APAT was at INR 357mn (+5x/+2.1x YoY/QoQ, 93% beat). Execution will ramp up in the coming quarters with work strength at 164% of pre-COVID level. GPL is expecting H2FY22 to be the best ever six months for the company as new launch momentum picks up, supported by traction in sustenance sales.
- **Robust sustenance sale; strong H2FY22 expectation:** The presales value in Q2 came in at INR 25.7bn (+2.4x/+5.2x YoY/QoQ) and volume stood at 3.6msf (+2.1x/+4.7x YoY/QoQ). With strong sustenance sales, the unsold inventory to launched inventory ratio was at its lowest level. GPL currently has one year of sustenance sales inventory. The launch pipeline for H2FY22 is healthy at 11msf. GPL added one new project in MMR with a saleable area of 1.6msf in the quarter. JV deals in the past few quarters have been underwhelming in view of the fact that GPL expects a strong H2 in terms of deal announcement, with the company looking for deals with bottom-line potential of more than INR 3bn. Also, higher rate of business development is expected to fructify in H2 with focus on Mumbai and Bengaluru markets.
- **Strong balance sheet; collections to ramp up:** Collection stood at INR 15.4bn. Consequently, net operating cash flow was at INR 4.3bn during Q2. With a robust launch pipeline, collections are expected to grow at 30-40% CAGR for FY22/FY23. Average borrowing cost declined to 6.5% from 6.65% as on Jun'21. Net debt, however, was marginal at INR 160mn (INR -238mn in Jun'21). GPL currently has INR ~75bn of deployable cash with 6-7x development value.

### Consolidated financial summary

| YE March (INR mn) | Q2FY22 | Q2FY21 | YoY (%) | Q1FY22 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 1,293 | 895 | 44 | 862 | 50 | 7,649 | 15,504 | 20,536 | 19,501 |
| EBITDA | (562) | (714) | (21) | (635) | (12) | -3,336 | 1,666 | 6,010 | 6,098 |
| APAT | 357 | 71 | 403 | 170 | 110 | 393 | 4,984 | 8,861 | 9,636 |
| Diluted EPS (INR) | 1.3 | 0.3 | 403.1 | 0.6 | 110.0 | 1.4 | 17.9 | 31.9 | 34.7 |
| P/E (x) | | | | | | 1,661.0 | 131.0 | 73.7 | 67.8 |
| EV / EBITDA (x) | | | | | | (196.2) | 396.1 | 110.0 | 105.1 |
| RoE (%) | | | | | | 0.6 | 5.8 | 9.6 | 9.5 |

Source: Company, HSIE Research

## REDUCE

| | |
|---|---|
| CMP *(as on 02 Nov 2021)* | INR 2,350 |
| Target Price | INR 1,800 |
| NIFTY | 17,889 |

| KEY CHANGES | OLD | NEW | |
|---|---|---|---|
| Rating | REDUCE | REDUCE | |
| Price Target | INR 1,500 | INR 1,800 | |
| EPS Change % | FY22E | FY23E | FY24E |
| | - | - | - |

**KEY STOCK DATA**

| | |
|---|---|
| Bloomberg code | GPL IN |
| No. of Shares (mn) | 278 |
| MCap (INR bn) / ($ mn) | 653/8,778 |
| 6m avg traded value (INR mn) | 2,437 |
| 52 Week high / low | INR 2,598/902 |

**STOCK PERFORMANCE (%)**

| | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 41.8 | 71.7 | 105.8 |
| Relative (%) | 28.4 | 48.7 | 54.8 |

**SHAREHOLDING PATTERN (%)**

| | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 58.43 | 58.43 |
| FIs & Local MFs | 5.14 | 4.33 |
| FPIs | 28.07 | 30.02 |
| Public & Others | 8.36 | 7.22 |
| Pledged Shares | - | - |

*Source : BSE*

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# Oberoi Realty

## Positives in the price

**Oberoi Realty (ORL) registered strong Q2FY22 performance with presales volume of 0.4msf (+3.4x/+4.8x YoY/QoQ) for a value of INR 8.3bn (+2.5x/+4.9x YoY/QoQ) due to strong demand across all projects. Revenue recognition for Three Sixty West (TSW) is expected from Q3FY22 with OC expected in 30-45 days. To pass on the elevated input cost, ORL has taken price hikes on its Goregaon Elysian Phase-2 project by INR 500-1000psf with plans to hike prices for TSW after OC. For its non-MMR strategy, ORL will be cautiously taking 2-3msf project via land acquisition with total investment of less than INR 10bn. We believe recent share price rally factors in much of its growth story, namely, (1) foray into new markets outside the Mumbai Metropolitan Region; (2) focus on short cycle redevelopment projects; (3) strong brand pull; (4) preferred developer of first choice in MMR markets; and (5) a strong balance sheet. Thus, accordingly, we change our rating to ADD (earlier BUY). We have considered calibrated price hikes across projects, reduced cap rate from 10% to 8% for rental assets, and added 10% NAV premium for non MMR foray, leading to an increase in our NAV-based TP to INR 1,060.**

- **Financial highlights**: ORL reported revenue/EBITDA at INR 7.5/3.7bn, 6%/17% beat on our estimate. EBITDA margin was 49.5% (est. 45.1%). APAT came in at INR 2.7bn (13% beat). Revenue in Q3 is expected to be strong, given continuing momentum for Borivali, Mulund and Goregoan projects seen in this quarter. We expect ORL to clock FY22/23E presales of INR 45/46bn vs. FY21 presales of INR 32.9bn.
- **Strong presales momentum:** Oberoi registered strong sustenance sales with third highest ever quarterly sales. For Q2FY22, area booked was at 0.4msf (3.4x/4.8x YoY/QoQ) for a value of INR 8.3bn (2.5x/4.9x YoY/QoQ). The Tower B launch in Elysian project, Goregoan, on 28 Oct 2021 saw robust presales of INR 7.9bn (~40% sales by area, 0.39msf). In terms of pricing, projects price in Borivali and Mulund are retained; however, prices in Worli project will be pushed once ORL has OC. Thane project is expected to be launched before Dec'21.
- **Three Sixty West OC awaited:** ORL is expecting OC in another 30-45 days, post which the presales momentum may pick up. Our channel checks suggest a strong leads pipeline, along with bunching of sales, in Q3FY22. We estimate ORL would book about INR 8-10bn, post OC.
- **Balance sheet position comfortable**: The consolidated net debt stood at INR 19.5bn (vs INR 15.1bn on Jun-21) with net D/E at 0.20x (vs 0.16x on Jun-21). With collections of INR 5.3bn, ORL generated a positive CFO of INR 377mn. Strong cash flow generation is expected from Three Sixty West along with Mulund and Borivali projects.

### Consolidated financial summary

| (INR mn) | Q2FY22 | Q2FY21 | YoY | Q1FY21 | QoQ | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 7,543 | 3,161 | 138.6 | 2,843 | 165.3 | 20,526 | 22,716 | 24,683 | 27,398 |
| EBITDA | 3,731 | 1,865 | 100.1 | 1,249 | 198.8 | 10,004 | 10,903 | 10,963 | 12,412 |
| APAT | 2,666 | 1,269 | 110.2 | 806 | 230.6 | 7,393 | 11,413 | 9,600 | 10,887 |
| Diluted EPS (INR) | 7.3 | 3.5 | 110.2 | 2.2 | 230.6 | 20.3 | 31.4 | 26.4 | 29.9 |
| P/E (x) | | | | | | 47.5 | 30.7 | 36.6 | 32.2 |
| EV / EBITDA (x) | | | | | | 36.5 | 32.8 | 32.5 | 28.4 |
| RoE (%) | | | | | | 8.2 | 11.5 | 8.8 | 9.2 |

Source: Company, HSIE Research

# ADD

| CMP *(as on 01 Nov 2021)* | INR 965 |
|---|---|
| Target Price | INR 1,060 |
| NIFTY | 17,930 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | BUY | ADD |
| Price Target | INR 800 | INR 1,060 |
| | FY22E | FY23E |
| EPS % | - | - |

**KEY STOCK DATA**

| | |
|---|---|
| Bloomberg code | OBER IN |
| No. of Shares (mn) | 364 |
| MCap (INR bn) / ($ mn) | 351/4,716 |
| 6m avg traded value (INR mn) | 1,045 |
| 52 Week high / low | INR 1,008/424 |

**STOCK PERFORMANCE (%)**

| | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 43.5 | 76.4 | 117.8 |
| Relative (%) | 29.2 | 53.1 | 66.0 |

**SHAREHOLDING PATTERN (%)**

| | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 67.70 | 67.70 |
| FIs & Local MFs | 5.91 | 7.32 |
| FPIs | 23.49 | 22.21 |
| Public & Others | 2.90 | 2.77 |
| Pledged Shares | - | - |

*Source : BSE*

Pledged shares as % of total shares

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# Prestige Estates

## Growth on track

**Prestige Estates (PEPL) delivered an in-line Q2FY22 financial performance with PAT beat of 4.5%. Given robust recovery, PEPL has increased its presales target of INR 65bn in FY22 to INR 70-80bn on the back of new launches in Mumbai, Noida, and Bengaluru. While net D/E rose to 0.43x 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 has added new residential development potential in Mumbai worth INR 150bn. We maintain ADD with an increased SOTP of INR 540/sh to factor in strong business development in Mumbai, traction in office asset class, hospitality segment recovery, and strong residential demand. We value office CWIP at 1.5x.**

- **Q2FY22 financial highlights:** Revenue: INR 13.4bn (16% miss). EBITDA margins: 29.1% (vs 23.5% est.). EBITDA: INR 3.9bn (4.5% beat because of lower-than-expected material cost). EBIDTA margins: 29.1% (+60/+474bps YoY/QoQ, vs 23.5% est.). Depreciation: INR 1.15bn (-31%/+1.3% YoY/QoQ) Interest cost: INR 1.8bn ( -26.3%/+36.5% YoY/QoQ). Other income: INR 478mn (+14.6%/-17% YoY/QoQ). Share of associates: INR -29mn (INR -121/-151mn Q2FY21/Q1FY22). RPAT/APAT: INR 759mn (INR 596/573mn in Q2FY21/Q1FY22, 5.6% beat, on account of lower-than-expected share of losses from associates).
- **Robust presales and launch pipeline:** PEPL registered highest-ever quarterly gross sales at INR 21.1bn (2.8x/88% QoQ/YoY) with collections at INR 15.5bn (1.5x/35% QoQ/YoY) in Q2FY22. Volume-wise gross sales was 3.5msf (3.2x/100% QoQ/YoY). With this, H1FY22 sales stand at INR 28.5bn, collections at INR 25.7bn, and volume at 4.6msf up 80/37/92% YoY respectively. New launch of "Prestige Great Acres" (development plots) in Bengaluru helped clock better sales number, with it being sold out within a day of launch. PEPL expects H2FY22 to be more exciting with launches planned in southern market, three projects in Mumbai, and one project in NCR with a combined launch pipeline of ~10msf. PEPL is dealing with a regulatory issue with its Goa land that will be resolved in 3-6 months. The current land bank has development potential of 27msf (PEPL share at 24msf).
- **Land acquisitions/Capex lead to increase in debt:** Net debt increased from INR 21.7bn on Jun-21 to INR 30.8bn (net D/E at 0.43x) as PEPL made INR 10bn of land payments for balance dues on existing land parcels in Bengaluru/Mumbai and land deposits/stake buyout. The Blackstone Phase-2 deal is expected to conclude in Q3FY22 with a trimmed EV of INR 13.5bn, 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. Total collection during the quarter was at INR 15.5bn (+52% QoQ).

### Consolidated Financial Summary (INR mn)

| YE March | Q2FY22 | Q2FY21 | YoY (%) | Q1FY22 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 13,445 | 18,750 | *(28.3)* | 14,158 | *(5.0)* | 72,644 | 66,142 | 72,094 | 79,304 |
| EBITDA | 3,918 | 5,351 | *(26.8)* | 3,454 | *13.4* | 19,722 | 15,088 | 16,127 | 17,476 |
| APAT | 759 | 596 | *27.3* | 573 | *32.5* | 3,539 | 5,552 | 6,274 | 7,338 |
| EPS (INR) | 8.0 | 6.3 | *27.3* | 6.0 | *32.5* | 8.8 | 13.8 | 15.7 | 18.3 |
| P/E (x) | | | | | | 57.9 | 36.9 | 32.7 | 27.9 |
| EV/EBITDA (x) | | | | | | 11.2 | 14.5 | 13.9 | 13.1 |
| RoE (%) | | | | | | 5.9 | 8.0 | 8.5 | 9.2 |

Source: Company, HSIE Research

**ADD**

| | |
|---|---|
| CMP *(as on 12 Nov 2021)* | INR 511 |
| Target Price | INR 540 |
| NIFTY | 18,103 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | ADD | ADD |
| Price Target | INR 387 | INR 540 |

| EPS Change % | FY22E | FY23E | FY24E |
|---|---|---|---|
| | - | - | - |

**KEY STOCK DATA**

| | |
|---|---|
| Bloomberg code | PEPL IN |
| No. of Shares (mn) | 401 |
| MCap (INR bn) / ($ mn) | 205/2,750 |
| 6m avg traded value (INR mn) | 634 |
| 52 Week high / low | INR 522/248 |

**STOCK PERFORMANCE (%)**

| | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 43.8 | 90.3 | 95.7 |
| Relative (%) | 33.2 | 65.7 | 55.7 |

**SHAREHOLDING PATTERN (%)**

| | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 65.48 | 65.48 |
| FIs & Local MFs | 3.92 | 5.68 |
| FPIs | 28.15 | 25.31 |
| Public & Others | 2.45 | 3.53 |
| Pledged Shares | - | - |

*Source : BSE*

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# Phoenix Mills

## Consumption back on track

**Phoenix Mills (PHNX) reported strong revenue/APAT, at INR 3.7/0.6bn, 21%/14.5x beat. Consumption grew 3.8x QoQ to INR 10bn with consumption in Oct'21 at 90% of its pre-COVID level (Oct'19). Non-Maharashtra malls will see reset to normal contractual rentals from Oct'21 (Nov'21 for Maharashtra) and, to offset the discounts given during pandemic, PML will charge higher revenue share for 6-12 months starting FY23. We maintain BUY, tweak our EPS estimates, and increase our SOTP to INR 1,360 (from INR 1,188) to account for: (1) slightly better rental pricing; (2) 15% NAV premium on account of likely new malls additions (PML has huge growth headroom as balance sheet is under leveraged and it may now shift gear from capital perseveration to growth); and (3) likely ramp-up in new office additions.**

- **Financial highlights:** Revenue: INR 3.7bn (21% beat). EBITDA: INR 1.87bn (75% beat). EBITDA margin: 50.2% (vs 34.7% est.). RPAT/APAT: INR 595mn (INR(359)/INR(262) Q2FY21/Q1FY22, vs INR 41mn est.). Ex-Phoenix Palassio, retail rental income came in at INR 1.74bn (67% of Q2FY20, pre-COVID level) with EBITDA at INR 1.65bn (67% of Q2FY20, pre-COVID level).
- **Consumption picked up; higher revenue share to offset discounts offered:** Retail consumption in Q2FY22 was at INR 10bn vs INR 2.6bn in the previous quarter. Consumption in Q2FY22/Oct-21 was INR 6.6bn (90% of corresponding pre-COVID period). Retail rent for Q2FY22/H1FY22 stood at 67/49%. To offset the discounts, waivers, and rebates given to mall tenants during this pandemic, PML will be taking a 15-20% higher revenue share starting FY23 for a limited time of 6-12 months. Also, the non-Maharashtra malls contractual rents with in-built higher escalation will kick in from Oct'21 (Nov'21 for Maharashtra malls). Phoenix Palassio Lucknow generated a robust EBITDA of INR 253mn in Q2FY22 with INR 1bn expected for 12 months. Comparatively, Market City malls took 4-5 years to achieve this milestone. All four under-construction malls are expected to be 60-90% leased out by FY22.
- **Comfortable liquidity position; construction Capex to start:** Consolidated net debt stood at INR 29.7bn (INR 26.9bn in Q1FY22). Construction Capex of INR 6.5bn for project rise and INR 1.8bn quarterly Capex for under-construction malls will be funded largely through internal accruals. The group liquidity stood at INR 13.2bn.

### Consolidated financial summary

| YE March | Q2FY22 | Q2FY21 | YoY (%) | Q1FY22 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 3,713 | 2,149 | *72.8* | 2,043 | *81.8* | 10,733 | 13,341 | 20,897 | 26,130 |
| EBITDA | 1,863 | 917 | *103.2* | 761 | *144.7* | 4,942 | 7,026 | 12,982 | 16,151 |
| APAT | 595 | (359) | *(265.6)* | (262) | *(327.0)* | 526 | 1,799 | 5,105 | 6,669 |
| EPS (INR) | 3.5 | (2.1) | *(265.6)* | (1.5) | *(327.0)* | 3.07 | 10.5 | 29.8 | 39.0 |
| P/E (x) | | | | | | 328.9 | 96.2 | 33.9 | 25.9 |
| EV/EBITDA (x) | | | | | | 43.1 | 29.0 | 15.7 | 12.4 |
| RoE (%) | | | | | | 0.9 | 3.3 | 9.5 | 11.4 |

### Consolidated Estimate Change Summary

| Particulars (INR mn) | FY22E | | | FY23E | | | FY24E | | |
|---|---|---|---|---|---|---|---|---|---|
| | New | Old | % Chg. | New | Old | % Chg. | New | Old | % Chg. |
| Revenue | 13,341 | 13,670 | (2.4) | 20,897 | 21,554 | (3.0) | 26,130 | 27,116 | (3.6) |
| EBITDA | 7,026 | 6,394 | 9.9 | 12,982 | 12,390 | 4.8 | 16,151 | 15,514 | 4.1 |
| EBITDA margin | 52.7 | 46.8 | 588.7 | 62.1 | 57.5 | 463.7 | 61.8 | 57.2 | 459.6 |
| APAT | 1,799 | 1,395 | 29.0 | 5,105 | 4,726 | 8.0 | 6,669 | 6,262 | 6.5 |
| AEPS (Rs/sh.) | 10.5 | 8.2 | 29.0 | 29.8 | 27.6 | 8.0 | 39.0 | 36.6 | 6.5 |

Source: Company, HSIE Research

## BUY

| | |
|---|---|
| CMP *(as on 02 Nov 2021)* | INR 1,011 |
| Target Price | INR 1,360 |
| NIFTY | 17,889 |

| KEY CHANGES | OLD | | NEW |
|---|---|---|---|
| Rating | BUY | | BUY |
| Price Target | INR 1,188 | | INR 1,360 |
| EPS Change % | FY22E | FY23E | FY24E |
| | *+29.0* | *+8.0* | *+6.5* |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | PHNX IN |
| No. of Shares (mn) | 172 |
| MCap (INR bn) / ($ mn) | 174/2,336 |
| 6m avg traded value (INR mn) | 244 |
| 52 Week high / low | INR 1,066/548 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 12.7 | 41.0 | 79.0 |
| Relative (%) | (0.6) | 17.9 | 28.1 |

| SHAREHOLDING PATTERN (%) | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 45.50 | 45.48 |
| FIs & Local MFs | 16.22 | 18.04 |
| FPIs | 34.43 | 32.29 |
| Public & Others | 3.85 | 4.19 |
| Pledged Shares | - | - |

*Source : BSE*

Pledged shares as % of total shares

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# Brigade Enterprises

## Robust performance

**BRGD reported presales of 1.31msf (+33%/+72% YoY/QoQ) for a value of INR 8.3bn (+44%/+73% YoY/QoQ). Collection of INR 7.4bn in residential business (vs INR 5.3bn in Q1FY22) was the second highest ever. Collection in the commercial portfolio continued to be healthy at 99%. Retail segment is seeing signs of revival with consumption at 90% of the pre-COVID level and 12-15% increase in average rentals. However, 50% of the tenants are still given COVID relief in Q3FY22 (which will drop to 15% in Q4FY22). Given BEL's strong cash position of INR 11.7bn, we ascribe it an NAV premium of 30% to factor in new land acquisitions. We have also increased hospitality valuation, given strong recovery. We maintain ADD, but increase TP to INR 530. We have cut our FY22/23/24 estimates to account for higher interest/depreciation.**

- **Financial highlights:** Revenue: INR 7.5bn (+2.4x/+96.6% YoY/QoQ, 64% beat); real estate revenue at INR 5.8bn (+2.6x/+2.2x YoY/QoQ), hospitality at INR 0.4bn (+2.5x/+2.1x YoY/QoQ) and leasing at INR 1.4bn (+68%/+22%YoY/QoQ). EBITDA: INR 1.9bn (+2.2x/+73% YoY/QoQ, 40% beat). An exceptional loss of INR 158mn was reported for the balance stamp duty payable on demerger of its wholly-owned subsidiary. Adjusting for it, APAT comes to INR 239mn against the HSIE estimate of a INR 86mn loss.
- **Residential sales strong; revival signs in rentals:** BRGD registered presales volume/value at 1.31msf/INR 8.3bn for the quarter, up +33/+44% YoY, with average realisation up 9% YoY, owing to product mix and price hike. In the rental segment, leases are 12-15% on average higher than pre-COVID levels. Occupancy in all three malls is above 85%, with consumption recovering to 90% of pre-COVID level. 0.12msf is under fitout, which will be operational in Q3FY22. In hospitality, all eight hotels are now GOP positive with ARR at 60% of pre-COVID level and the latest average occupancy at 55-70%.
- **Second-best quarter for residential collection:** Strong residential collections, at INR 7.4bn, helped reduce RE debt by INR 1.2bn to INR 3.5bn. Debt in hospitlity/leasing segments stands at INR 6/32bn (+9.5%/0% QoQ). The consolidated gross debt stands at INR 41.3bn (INR 42.2bn as at Jun-21). The average cost of borrowing has also come down to 7.92%, from 8.14% in Q1FY22. Rental debt of INR 32bn has around INR 15bn of LRD potential left, which will be used by BRGD as growth capital.

### Consolidated Financial Summary (INR mn)

| YE March | Q2FY22 | Q2FY21 | YoY (%) | Q1FY22 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 7,527 | 3,108 | *142.2* | 3,828 | *96.6* | 19,500 | 26,759 | 31,910 | 37,351 |
| EBITDA | 1,924 | 874 | *120.2* | 1,113 | *72.9* | 4,719 | 6,871 | 8,344 | 9,984 |
| APAT | 239 | (171) | *(239.6)* | (244) | *(197.8)* | 300 | 693 | 1,375 | 2,696 |
| EPS (INR) | 1.2 | (0.8) | *(239.6)* | (1.2) | *(197.8)* | (2.2) | 1.4 | 6.0 | 11.7 |
| P/E (x) | | | | | | (229) | 354 | 84 | 43 |
| EV/EBITDA (x) | | | | | | 30 | 22 | 18 | 16 |
| RoE (%) | | | | | | (2) | 1 | 4 | 8 |

### Consolidated Estimate Change Summary

| Consolidated (INR mn) | FY22E | | | FY23E | | | FY24E | | |
|---|---|---|---|---|---|---|---|---|---|
| | New | Old | Chg.(%) | New | Old | Chg.(%) | New | Old | Chg.(%) |
| Revenues | 26,759 | 28,006 | (4.5) | 31,910 | 32,815 | (2.8) | 37,351 | 37,351 | 0.0 |
| EBIDTA | 6,871 | 6,753 | 1.7 | 8,344 | 8,573 | (2.7) | 9,984 | 10,659 | (6.3) |
| EBIDTA Margins (%) | 25.7 | 24.1 | 157 | 26.2 | 26.1 | 2 | 26.7 | 28.5 | (181) |
| APAT | 693 | 933 | (25.8) | 1,375 | 1,807 | (23.9) | 2,696 | 3,117 | (13.5) |

Source: Company, HSIE Research

## ADD

| CMP *(as on 12 Nov 2021)* | INR 503 |
|---|---|
| Target Price | INR 530 |
| NIFTY | 18,103 |

| KEY CHANGES | OLD | | NEW |
|---|---|---|---|
| Rating | ADD | | ADD |
| Price Target | INR 357 | | INR 530 |
| EPS Change % | FY22E | FY23E | FY24E |
| | *(25.8)* | *(23.9)* | *(13.5)* |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | BRGD IN |
| No. of Shares (mn) | 230 |
| MCap (INR bn) / ($ mn) | 116/1,553 |
| 6m avg traded value (INR mn) | 301 |
| 52 Week high / low | INR 529/190 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 49.0 | 101.1 | 159.3 |
| Relative (%) | 38.3 | 76.5 | 119.3 |

| SHAREHOLDING PATTERN (%) | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 44.11 | 43.96 |
| FIs & Local MFs | 23.80 | 24.98 |
| FPIs | 12.89 | 13.08 |
| Public & Others | 19.20 | 17.98 |
| Pledged Shares | - | - |

*Source : BSE*

Pledged shares as % of total shares

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# Sobha

## Strong performance

**Sobha's (SDL) reported the largest ever quarterly presales of 1.3msf (+51%/+52% YoY/QoQ), valued at INR 10.3bn. It expects INR 10bn in quarterly sales to be the new normal, if demand momentum continues. The non-Bengaluru market accounted for 41% of total presales volume (vs 26% in previous quarter). The launch pipeline stands at 10.8msf, with 43% of launches planned for markets other than Bengaluru. SDL has taken price hikes of 2-7% in a few of its projects to offset rising input costs, and expects prices to be 25-30% higher in 2-3 years than they are now. With a major portion of the launches coming from the existing land bank, we enhance our land valuation and consider 5-7% price hike on residential projects. We have raised our TP to INR 964 (from INR 690 previously). We downgrade our rating to ADD due to the limited upside in our NAV (earlier BUY). We've also tweaked our EPS to account for near-term positive demand momentum.**

- **Financial highlights:** Sobha reported revenue of INR 8.2bn (+57%/+60% YoY/QoQ), which was 49% higher than our estimate with real estate (RE) contributing 79% of total revenue. Under the completed contract method, SDL has INR 72.3bn in revenue to be recognised from sales made until Sep-21. EBITDA came in at INR 1.6bn (41% beat). Due to rising employee costs, EBITDA margin fell to 19% (-84/-65bps YoY/QoQ). RPAT/APAT was INR 483mn (+3x/+4.5x YoY/QoQ), which was 3.4x our estimate.
- **Best-ever quarterly presales; non-Bengaluru contribution increases:** SDL registered the largest ever quarterly presales of 1.3msf (+51%/+52% YoY/QoQ), valued at INR 10.3bn (+49%/+50% YoY/QoQ), with Sobha's share at INR 8.5bn. Non-Bengaluru sales accounted for 41% to total volume (vs 26% in Q1FY22), with Gurugram/Kochi/Pune contributing 14/9/6% more. SDL has a launch pipeline of 10.81msf, with 10.49msf in RE. In addition, by 22 Feb, 2msf of launches are scheduled, for which existing land banks will be used. The current payable on the land bank is INR 1.4-1.5bn.
- **Balance sheet remains stable; collections robust:** The consolidated net debt reduced to INR 27.8bn (vs INR 28.2bn as of Jun-21), with net D/E at 1.13x (1.15x as at Jun'21). SDL aims for a net D/E ratio of 1.1x for FY22. The average borrowing cost has dropped to 8.85%, from 8.98% in Q1. The real estate collection was robust at INR 7.2bn (vs INR 5.5bn in Q1). The cash flow from both ongoing and completed projects is expected to be INR 72.1bn.

### Consolidated financial summary (INR mn)

| YE March | Q2FY22 | Q2FY21 | YoY (%) | Q1FY22 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 8,191 | 5,220 | *56.9* | 5,123 | *59.9* | 21,098 | 27,087 | 32,299 | 35,831 |
| EBITDA | 1,557 | 1,036 | *50.3* | 1,007 | *54.6* | 4,102 | 5,228 | 7,203 | 7,990 |
| APAT | 483 | 162 | *198.1* | 108 | *347.2* | 623 | 1,558 | 3,092 | 3,510 |
| EPS (INR) | 5.1 | 1.7 | *198.1* | 1.1 | *347.2* | 6.6 | 16.4 | 32.6 | 37.0 |
| P/E (x) | | | | | | 138.1 | 55.2 | 27.8 | 24.5 |
| EV/EBITDA (x) | | | | | | 27.9 | 22.2 | 15.6 | 13.8 |
| RoE (%) | | | | | | 2.6 | 6.2 | 11.4 | 11.7 |

### Consolidated Estimate Change Summary

| (INR mn) | FY22E | | | FY23E | | | FY24E | | |
|---|---|---|---|---|---|---|---|---|---|
| | New | Old | % Chg. | New | Old | % Chg. | New | Old | % Chg. |
| Revenue | 27,087 | 23,195 | *16.8* | 32,299 | 33,420 | *(3.4)* | 35,831 | 37,038 | *(3.3)* |
| EBITDA | 5,228 | 4,523 | *15.6* | 7,203 | 7,519 | *(4.2)* | 7,990 | 8,333 | *(4.1)* |
| EBITDA margin | 19.3 | 19.5 | *(20.0)* | 22.3 | 22.5 | *(20)* | 22.3 | 22.5 | *(20)* |
| APAT | 1,558 | 1,026 | *51.9* | 3,092 | 3,306 | *(6.5)* | 3,510 | 3,743 | *(6.2)* |
| AEPS (INR/sh.) | 16.4 | 10.8 | *51.9* | 32.6 | 34.9 | *(6.5)* | 37.0 | 39.5 | *(6.2)* |

Source: Company, HSIE Research

## ADD

| | |
|---|---|
| CMP *(as on 9 Nov 2021)* | INR 907 |
| Target Price | INR 964 |
| NIFTY | 18,044 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | BUY | ADD |
| Price Target | INR 690 | INR 964 |
| EPS Change % | FY22E / FY23E / FY24E | |
| | *+51.9* / *(6.5)* / *(6.2)* | |

**KEY STOCK DATA**

| | |
|---|---|
| Bloomberg code | SOBHA IN |
| No. of Shares (mn) | 95 |
| MCap (INR bn) / ($ mn) | 86/1,156 |
| 6m avg traded value (INR mn) | 447 |
| 52 Week high / low | INR 980/282 |

**STOCK PERFORMANCE (%)**

| | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 50.3 | 94.4 | 215.1 |
| Relative (%) | 39.2 | 71.6 | 173.2 |

**SHAREHOLDING PATTERN (%)**

| | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 51.99 | 51.99 |
| FIs & Local MFs | 13.09 | 13.72 |
| FPIs | 17.89 | 17.05 |
| Public & Others | 17.03 | 17.24 |
| Pledged Shares | 10.54 | 10.54 |

*Source: BSE*

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# Kolte Patil Developers

## Robust recovery

**Kolte Patil Developers (KPDL) reported strong presales of 0.67msf (+91/+68% YoY/QoQ). In value terms, sales grew by +2.2x/+73% YoY/QoQ to INR 4.3bn. KPDL is well on the path to cross 2.5msf presales guidance for FY22. In value terms, the contribution of non-Pune sales was maintained at ~35%, the same as previous quarter. Contribution to sales from premium inventories was at an all-time high and with price increase of 2-4%, average price realisation was up by 15%/2% YoY/QoQ. Collections were also robust at INR 3.7bn (vs INR 2.8bn in Q1FY22). We increase our FY22/FY23 estimates by 7.4/11.6%. Maintain BUY with a revised TP of INR 377 (Sep-23E), given a comfortable balance sheet, traction in Mumbai, and an accelerated launch pipeline.**

- **Financial highlights:** KPDL reported revenue of INR 3.0bn (47% beat) in Q2FY22. EBITDA came in at INR 528mn (3% beat). EBITDA margin was at 17.4% (24.6% estimated). APAT was at INR 177mn (30% miss). KPDL's under development portfolio of 9msf has revenue potential of INR 50bn realizable evenly between FY22/23/24. For FY22, EBITDA margin is expected to be within the range of 22-25% with PAT margin around 10-15%.
- **Mumbai sales robust; higher contribution from premium projects:** KPDL reported presales of INR 4.3bn (+2.2x/73% YoY/QoQ) with volume of 0.67msf (+91/+68% YoY/QoQ). Demand outside Pune was strong with contribution from Mumbai and Bengaluru, in value terms, around 35%, thus leading to diversification of business risk. Mumbai, in particular, reported sales value of INR 1.1bn (vs INR 155mn in Q2FY21) on the back of Verve and Vaayu projects. As a result, Mumbai sales in H1FY22 have touched its FY21 numbers of INR 1.8bn. For the city, KPDL is targeting to offer inventory with ticket size of INR 15-30mn, i.e., INR 15,000-17,000psf. The average price realisation in Q2 was up at INR 6,370psf (+15%/+2% YoY/QoQ) due to (1) higher contribution from premium inventory in Mumbai and Pune, which is at an all-time high, and (2) in general, price increase across inventories.
- **Balance sheet robust:** Collections were robust at INR 3.7bn (+86%/+34%, YoY/QoQ). Hence, operating cash flow was at INR 1.5bn (vs INR 780mn in Q1FY22). Consolidated net debt reduced by INR 670mn in Q2 to INR 1.84bn, with net D/E at 0.23x.

### Consolidated financial summary

| YE (INR mn) | Q2FY22 | Q2FY21 | YoY (%) | Q1FY22 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 3,038 | 646 | 370.4 | 1,973 | 54.0 | 6,917 | 12,508 | 13,515 | 16,448 |
| EBITDA | 528 | (95) | (654.1) | 625 | (15.6) | 624 | 2,831 | 3,583 | 4,774 |
| APAT | 177 | (219) | (180.9) | 295 | (40.0) | (55.2) | 1,606 | 2,134 | 2,981 |
| EPS (INR) | 2.3 | (2.9) | (180.9) | 3.9 | (40.0) | (0.7) | 21.2 | 28.2 | 39.3 |
| P/E (x) | | | | | | (442.0) | 15.2 | 11.4 | 8.2 |
| EV/EBITDA (x) | | | | | | 45.6 | 10.1 | 7.9 | 5.8 |
| RoE (%) | | | | | | (0.7) | 16.4 | 17.9 | 20.4 |

### Consolidated estimate change summary

| Particulars (INR mn) | FY22E | | | FY23E | | | FY24E | | |
|---|---|---|---|---|---|---|---|---|---|
| | New | Old | % Chg. | New | Old | % Chg. | New | Old | % Chg. |
| Revenues | 12,508 | 12,358 | *1.2* | 13,515 | 13,215 | *2.3* | 16,448 | 15,696 | *4.8* |
| EBITDA | 2,831 | 2,682 | *5.6* | 3,583 | 3,284 | *9.1* | 4,774 | 4,023 | *18.7* |
| EBITDA (%) | 22.6 | 21.7 | *93.8* | 26.5 | 24.8 | *166.6* | 29.0 | 25.6 | *339.6* |
| APAT | 1,606 | 1,495 | *7.4* | 2,134 | 1,912 | *11.6* | 2,981 | 2,425 | *22.9* |

Source: Company, HSIE Research

## BUY

| | |
|---|---|
| CMP *(as on 01 Nov'21)* | INR 322 |
| Target Price | INR 377 |
| NIFTY | 17,930 |

| KEY CHANGES | OLD | | NEW |
|---|---|---|---|
| Rating | BUY | | BUY |
| Price Target | INR 350 | | INR 377 |
| EPS Change % | FY22E | FY23E | FY24E |
| | 7.4 | 11.6 | 22.9 |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | KPDL IN |
| No. of Shares (mn) | 76 |
| MCap (INR bn) / ($ mn) | 24/329 |
| 6m avg traded value (INR mn) | 318 |
| 52 Week high / low | INR 360/164 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 35.4 | 51.5 | 90.2 |
| Relative (%) | 21.0 | 28.3 | 38.4 |

| SHAREHOLDING PATTERN (%) | Jun-21 | Sep-21 |
|---|---|---|
| Promoters | 74.45 | 74.45 |
| FIs & Local MFs | 0.04 | 2.57 |
| FPIs | 5.26 | 1.58 |
| Public & Others | 20.25 | 21.4 |
| Pledged Shares | 0.0 | 0.0 |

*Source: BSE*

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# Utilities

# PGCIL

## Strong capitalisation in H1FY22

**PGCIL's asset capitalisation in Q2FY22 came in at INR76.3bn (-29% YoY, but above our estimate), while Capex declined 17% YoY to INR26bn. Revenue increased 10% YoY, led by strong growth across the transmission and consultancy segment. EBITDA, in Q2FY22, grew by 10% due to improved operational metrics, leading to higher margins. PAT came in at INR33.4bn (+7% YoY), above our estimate, as unfavourable movement in regulatory deferral account was offset by deferred tax credit during the quarter. While PGCIL is well poised to benefit from the transmission investment opportunity, the transmission tendering activity has been much slower than expected. The impending opportunity in the sector over the next two years is merely ~INR265bn and we expect a capitalisation of INR184bn/166bn for FY22/23. The company is also eyeing new avenues like smart metering and distribution network strengthening, for which it plans to invest ~INR250bn over the next 3-4 years. However, we will incorporate this into our model only after a detailed discussion with management. We ugrade our TP marginally to INR202 (from INR196 earlier) and retain our ADD rating.**

- **PAT above estimate:** PGCIL's reported revenue of INR99.3bn (+9.6% YoY) was led by 7.3%/73.4% YoY growth in its transmission/consulting segment. Telecom revenue was flat at INR1.9bn. EBITDA grew 10.2% YoY to INR87.8bn, while the margin improved 50bps YoY to 88.5%. Other income fell 34.8% YoY to INR5.4bn due to lower surcharge income and dividends from subsidiaries. Interest expenses declined 6.5% YoY to INR19.6bn, while depreciation rose 8.5% YoY to INR31.4bn. PAT came in at INR33.4bn (+7% YoY), above our estimate, as unfavourable movement in regulatory deferral account was offset by deferred tax credit during the quarter.
- **Expect ~INR184bn capitalisation in FY22**: In Q2, capitalisation/Capex stood at INR76.3bn/INR25.9bn, down 28.6%/16.6% YoY. However, capitalisation rose 11.8% YoY to INR132.8bn in H1FY22. The total projects in hand are now down at INR275bn (CWIP, new, and TBCB stood at INR103bn, INR34bn, and INR138bn respectively), and they are expected to be capitalised over the next two years. Further, tendering activity in the transmission space has been extremely slow, with a total opportunity of only ~INR 265bn likely to emerge in the next two years; we expect INR184bn/166bn capitalisation for FY22/23.
- **Maintain ADD**: While PGCIL is well poised to gain from the transmission opportunity, the tendering activity has been much slower than expected, which restricts its near-term growth potential. Furthermore, the company's plan to venture into the smart metering and discom network infrastructrure segment is in nascent stages and, hence, we have not factored it into our valuation. We maintain ADD with a marginally revised TP of INR202.

### Financial summary

| (INR mn, Mar YE) | 2Q FY22 | 2Q FY21 | *YoY (%)* | 1Q FY22 | *QoQ (%)* | FY21 | FY22E | FY23E |
|---|---|---|---|---|---|---|---|---|
| Net Revenues | 99,292 | 90,579 | *9.6* | 97,766 | *1.6* | 3,76,657 | 4,11,691 | 4,26,299 |
| EBITDA | 87,851 | 79,711 | *10.2* | 85,724 | *2.5* | 3,30,559 | 3,59,739 | 3,70,857 |
| APAT | 33,383 | 31,211 | *7.0* | 32,790 | *1.8* | 1,23,346 | 1,33,001 | 1,42,124 |
| Diluted EPS (INR) | 6.4 | 6.0 | *7.0* | 6.3 | *1.8* | 23.6 | 19.1 | 20.4 |
| P/E (x) | | | | | | 7.8 | 9.7 | 9.1 |
| P/BV (x) | | | | | | 1.3 | 1.6 | 1.5 |
| RoE (%) | | | | | | 17.9 | 17.4 | 17.1 |

Source: Company, HSIE Research

**ADD**

| | |
|---|---|
| **CMP** ***(as on 10 Nov 2021)*** | **INR 184** |
| **Target Price** | **INR 202** |
| **NIFTY** | **18,017** |

| **KEY CHANGES** | **OLD** | **NEW** |
|---|---|---|
| Rating | ADD | ADD |
| Price Target | INR196 | INR202 |
| EPS Change % | FY22E | FY23E |
| | *0.5%* | *1.5%* |

| **KEY STOCK DATA** | |
|---|---|
| Bloomberg code | PWGR IN |
| No. of Shares (mn) | 6,975 |
| MCap (INR bn) / ($ mn) | 1,286/17,285 |
| 6m avg traded value (INR mn) | 2,441 |
| 52 Week high / low | INR 210/134 |

**STOCK PERFORMANCE (%)**

| | **3M** | **6M** | **12M** |
|---|---|---|---|
| Absolute (%) | 6.8 | 11.8 | 32.3 |
| Relative (%) | (3.8) | (10.1) | (7.2) |

**SHAREHOLDING PATTERN (%)**

| | **Sep-21** | **Jun-21** |
|---|---|---|
| Promoters | 51.3 | 51.3 |
| FIs & Local MFs | 8.34 | 13.8 |
| FPIs | 27.9 | 28.3 |
| Public & Others | 12.5 | 6.5 |
| Pledged Shares | - | - |

*Source : BSE*

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# PGCIL

## Strong capitalisation in H1FY22

**PGCIL's asset capitalisation in Q2FY22 came in at INR76.3bn (-29% YoY, but above our estimate), while Capex declined 17% YoY to INR26bn. Revenue increased 10% YoY, led by strong growth across the transmission and consultancy segment. EBITDA, in Q2FY22, grew by 10% due to improved operational metrics, leading to higher margins. PAT came in at INR33.4bn (+7% YoY), above our estimate, as unfavourable movement in regulatory deferral account was offset by deferred tax credit during the quarter. While PGCIL is well poised to benefit from the transmission investment opportunity, the transmission tendering activity has been much slower than expected. The impending opportunity in the sector over the next two years is merely ~INR265bn and we expect a capitalisation of INR184bn/166bn for FY22/23. The company is also eyeing new avenues like smart metering and distribution network strengthening, for which it plans to invest ~INR250bn over the next 3-4 years. However, we will incorporate this into our model only after a detailed discussion with management. We ugrade our TP marginally to INR202 (from INR196 earlier) and retain our ADD rating.**

- **PAT above estimate:** PGCIL's reported revenue of INR99.3bn (+9.6% YoY) was led by 7.3%/73.4% YoY growth in its transmission/consulting segment. Telecom revenue was flat at INR1.9bn. EBITDA grew 10.2% YoY to INR87.8bn, while the margin improved 50bps YoY to 88.5%. Other income fell 34.8% YoY to INR5.4bn due to lower surcharge income and dividends from subsidiaries. Interest expenses declined 6.5% YoY to INR19.6bn, while depreciation rose 8.5% YoY to INR31.4bn. PAT came in at INR33.4bn (+7% YoY), above our estimate, as unfavourable movement in regulatory deferral account was offset by deferred tax credit during the quarter.
- **Expect ~INR184bn capitalisation in FY22**: In Q2, capitalisation/Capex stood at INR76.3bn/INR25.9bn, down 28.6%/16.6% YoY. However, capitalisation rose 11.8% YoY to INR132.8bn in H1FY22. The total projects in hand are now down at INR275bn (CWIP, new, and TBCB stood at INR103bn, INR34bn, and INR138bn respectively), and they are expected to be capitalised over the next two years. Further, tendering activity in the transmission space has been extremely slow, with a total opportunity of only ~INR 265bn likely to emerge in the next two years; we expect INR184bn/166bn capitalisation for FY22/23.
- **Maintain ADD**: While PGCIL is well poised to gain from the transmission opportunity, the tendering activity has been much slower than expected, which restricts its near-term growth potential. Furthermore, the company's plan to venture into the smart metering and discom network infrastructructure segment is in nascent stages and, hence, we have not factored it into our valuation. We maintain ADD with a marginally revised TP of INR202.

### Financial summary

| (INR mn, Mar YE) | 2Q FY22 | 2Q FY21 | YoY (%) | 1Q FY22 | QoQ (%) | FY21 | FY22E | FY23E |
|---|---|---|---|---|---|---|---|---|
| Net Revenues | 99,292 | 90,579 | 9.6 | 97,766 | 1.6 | 3,76,657 | 4,11,691 | 4,26,299 |
| EBITDA | 87,851 | 79,711 | 10.2 | 85,724 | 2.5 | 3,30,559 | 3,59,739 | 3,70,857 |
| APAT | 33,383 | 31,211 | 7.0 | 32,790 | 1.8 | 1,23,346 | 1,33,001 | 1,42,124 |
| Diluted EPS (INR) | 6.4 | 6.0 | 7.0 | 6.3 | 1.8 | 23.6 | 19.1 | 20.4 |
| P/E (x) | | | | | | 7.8 | 9.7 | 9.1 |
| P/BV (x) | | | | | | 1.3 | 1.6 | 1.5 |
| RoE (%) | | | | | | 17.9 | 17.4 | 17.1 |

Source: Company, HSIE Research

**ADD**

| | |
|---|---|
| CMP(as on 10 Nov 2021) | INR 184 |
| Target Price | INR 202 |
| NIFTY | 18,017 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | ADD | ADD |
| Price Target | INR196 | INR202 |
| EPS Change % | FY22E | FY23E |
| | 0.5% | 1.5% |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | PWGR IN |
| No. of Shares (mn) | 6,975 |
| MCap (INR bn) / ($ mn) | 1,286/17,285 |
| 6m avg traded value (INR mn) | 2,441 |
| 52 Week high / low | INR 210/134 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 6.8 | 11.8 | 32.3 |
| Relative (%) | (3.8) | (10.1) | (7.2) |

| SHAREHOLDING PATTERN (%) | Sep-21 | Jun-21 |
|---|---|---|
| Promoters | 51.3 | 51.3 |
| FIs & Local MFs | 8.34 | 13.8 |
| FPIs | 27.9 | 28.3 |
| Public & Others | 12.5 | 6.5 |
| Pledged Shares | - | - |

*Source : BSE*

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# Tata Power

## Margin impacted, but high JV share boosts PAT

**Tata Power reported an 18% YoY rise in consolidated revenue to INR98.1bn in Q2FY22, led by improvement across the standalone business and strong execution in the solar EPC segment. EBITDA, however, declined 17% YoY due to a steep rise in Mundra under-recovery and higher raw material cost. Margin was impacted by ~718 bps YoY due to a rise in module prices and Mundra losses. However, lower interest expenses from deleveraging, higher share from JV companies, and lower tax expenses led to APAT rising 36% YoY to INR5.1bn. We revise our earnings estimates upwards for FY22/FY23 by 5%/8% to factor in the 1.5GW p.a. solar capacity addition across its renewable portfolio, increased profit at Bumi mines, and earnings adjustment at Mundra (low PLF, going ahead). Accordingly, we revise our TP upwards to INR209 by assigining higher multiples to the solar business, reducing losses at Mundra, and robust growth in its solar rooftop and pump business. However, since the stock has risen a steep 70% over the past three months to INR218, it seems fairly valued currently. Hence, we downgrade it to REDUCE from a BUY.**

- **High share of JV profit boosts PAT:** Consolidated revenue grew by 18.3% YoY to INR981.bn, led by a strong performance in standalone business (+15% YoY), inclusion of Odisha business, and healthy growth in solar EPC (+49% YoY). EBITDA, however, declined 16.9% YoY to INR16.6bn due to a steep rise in Mundra under-recovery and higher module prices. Margin was also impacted by ~718 bps YoY, coming in at 17%. APAT, though, rose 36.3% YoY to INR5.1bn, driven by higher profit share from the Indo coal business, savings in ineterst expenses, and lower tax expenses.
- **ESG aspiration by Tata Power well appreciated**: 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 continued strong performances with 4x/3x growth during Q2FY22 with the highest-ever order book of ~INR11.8bn in the solar rooftop business. Factoring in these growth levels, we revise our earnings estimates upwards for FY22/FY23 by 5%/8%, which also factors in increased profit at Bumi mines and earnings adjustment at Mundra (low PLF, going ahead).
- **Downgrade to REDUCE on fair valuation**: We revise our TP upwards to INR209/share from INR156/share by assigining higher multiples to the solar businesses, reducing losses at Mundra, and robust growth in its solar rooftop and pump business. However, the stock has risen a steep 70% over the past three months to INR218 and seems fairly valued at the current level. Hence, we downgrade it to REDUCE from a BUY.

### Financial summary

| (INR mn, Mar YE) | 2Q FY22 | 2Q FY21 | YoY (%) | 1Q FY22 | QoQ (%) | FY21 | FY22E | FY23E |
|---|---|---|---|---|---|---|---|---|
| Net Revenues | 98,102 | 82,898 | *18.3* | 1,01,324 | *-3.2* | 3,24,681 | 3,91,360 | 4,17,495 |
| EBITDA | 16,636 | 20,012 | *-16.9* | 23,452 | *-29.1* | 69,285 | 84,420 | 91,810 |
| APAT | 5,057 | 3,710 | *36.3* | 4,657 | *8.6* | 13,551 | 22,810 | 26,944 |
| Diluted EPS (INR) | 1.32 | 0.88 | *36.3* | 1.22 | *8.6* | 5.0 | 7.1 | 8.4 |
| P/E (x) | | | | | | 43.7 | 30.5 | 25.9 |
| Price/BV (x) | | | | | | 3.1 | 2.9 | 2.7 |
| RoE (%) | | | | | | 6.1 | 8.6 | 9.6 |

Source: Company, HSIE Research

## REDUCE

| | |
|---|---|
| **CMP** ***(as on 28 Oct 2021)*** | **INR 218** |
| **Target Price** | **INR 209** |
| **NIFTY** | **17,857** |

| **KEY CHANGES** | **OLD** | **NEW** |
|---|---|---|
| Rating | BUY | REDUCE |
| Price Target | INR156 | INR209 |
| EPS Change % | FY22E | FY23E |
| | *5.0* | *8.3* |

| **KEY STOCK DATA** | |
|---|---|
| Bloomberg code | TPWR IN |
| No. of Shares (mn) | 3,195 |
| MCap (INR bn) / ($ mn) | 697/9,361 |
| 6m avg traded value (INR mn) | 9,074 |
| 52 Week high / low | INR 270/52 |

| **STOCK PERFORMANCE (%)** | **3M** | **6M** | **12M** |
|---|---|---|---|
| Absolute (%) | 81.1 | 122.6 | 310.5 |
| Relative (%) | 66.8 | 102.0 | 260.3 |

| **SHAREHOLDING PATTERN (%)** | **Sep-21** | **Jun-21** |
|---|---|---|
| Promoters | 46.86 | 46.86 |
| FIs & Local MFs | 19.77 | 16.57 |
| FPIs | 11.06 | 11.26 |
| Public & Others | 22.31 | 25.31 |
| Pledged Shares | - | - |

*Source : BSE*

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# JSW Energy

## Results below estimates; maintain SELL

**Net generation increased 2.4% YoY to 6.8bn units, led by strong generation across the Vijayanagar and Ratnagiri plants; it was partially offset by lower output across Barmer stations and hydro plant. Accordingly, PLF declined for the Barmer stations and hydro plant, while it improved for Vijayanagar and Ratnagiri stations. EBITDA was flat but PAT decreased 5.5% YoY to INR3.4bn due to increased other expenses and tax expenses. JSW Energy 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 is carrying out scoping for a pilot project. It has also signed MoUs with Maharashtra for resources for 5GW wind and 1.5GW hydro pumped storage projects, which are in nascent stages. JSW Energy's current net D/E stands at 0.4x, while net debt/EBITDA stands at 2.0x. We maintain SELL along with our TP of INR118/share, as the stock price has risen steeply to INR346, which is unjustifiable to our valuation metrics (RoE - ~7%, FY23 P/E – 57x, P/BV – 3.8x).**

- **Non-regulated stations report strong growth:** Net generation increased 2.4% YoY to 6.8bn units, led by strong generation across the Vijayanagar (16.3% YoY) and Ratnagiri plants (+5.6% YoY), partially offset by lower output across the Barmer stations (-1.3% YoY) and hydro plants (-0.6% YoY). Accordingly, PLF improved across Ratnagiri/Vijayanagar stations by 300bps/480bps YoY to 37%/62%, while it declined across the Barmer/hydro projects by 170bps/330 bps to 78%/99%. Revenue increased 7.7% YoY to INR20.9bn in Q2, led by improved generation and realisations. While EBITDA remained flat at INR93bn, PAT decreased 5.5% YoY to INR3.4bn 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 this, PAT increased 17.6% YoY to INR4.1bn (above our estimate of INR3.7bn).
- **PPA signed for 2.25GW of RES capacity**: The company expects to add 15.5GW of RES capacity by FY30, of which 2.5GW/3GW would be added by FY24/FY25. 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 generates a strong cash flow of~ INR17bn-21bn p.a., which is sufficient to meet its equity Capex for the upcoming RES capacities.
- **Maintain SELL on expensive valuation:** We maintain our PAT estimates for FY22/23 and TP of INR118. However, the stock price has risen substantially to INR346, which seems highly unjustifiable to our valuation metrics (RoE - ~7%, FY23 P/E – 57x, P/BV – 3.8x). Hence, we retain our SELL rating.

### Financial Summary

| (INR mn, Mar YE) | 2Q FY22 | 2Q FY21 | YoY (%) | 1Q FY22 | QoQ (%) | FY21 | FY22E | FY23E |
|---|---|---|---|---|---|---|---|---|
| Net Revenues | 20,875 | 19,386 | 7.7 | 17,275 | 20.8 | 69,222 | 83,333 | 85,897 |
| EBITDA | 9,298 | 9,238 | 0.6 | 6,984 | 33.1 | 29,066 | 30,715 | 31,412 |
| APAT | 3,366 | 3,563 | -5.5 | 2,086 | 61.4 | 8,227 | 10,171 | 10,756 |
| Diluted EPS (INR) | 2.1 | 2.2 | -5.5 | 1.3 | 61.4 | 5.0 | 6.2 | 6.5 |
| P/E (x) | | | | | | 69.1 | 60.2 | 57.0 |
| Price/BV (x) | | | | | | 3.9 | 4.0 | 3.8 |
| RoE (%) | | | | | | 6.3 | 6.8 | 6.9 |

Source: Company, HSIE Research

## SELL

| | |
|---|---|
| CMP*(as on 29 Oct 2021)* | INR 349 |
| Target Price | INR 118 |
| NIFTY | 17,672 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | SELL | SELL |
| Price Target | INR118 | INR118 |
| EPS Change % | FY22E | FY23E |
| | - | - |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | JSW IN |
| No. of Shares (mn) | 1,644 |
| MCap (INR bn) / ($ mn) | 573/7,703 |
| 6m avg traded value (INR mn) | 859 |
| 52 Week high / low | INR 409/58 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 39.4 | 219.9 | 478.2 |
| Relative (%) | 26.8 | 200.7 | 429.0 |

| SHAREHOLDING PATTERN (%) | Sep-21 | Jun-21 |
|---|---|---|
| Promoters | 74.66 | 74.7 |
| FIs & Local MFs | 7.49 | 6.5 |
| FPIs | 5.92 | 5.9 |
| Public & Others | 11.93 | 13.0 |
| Pledged Shares | 74.66 | 17.0 |

*Source : BSE*

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# NHPC

## Fairly valued at current level

**NHPC's revenue increased by 7.5% YoY to INR27.5bn in Q2FY22, given 6.0% YoY rise in generation due to improved water availability in the reservoir and better plant availability (PAF). EBITDA also increased 14.2% YoY to INR18.0bn on the back of increased revenue and lower other expenses. Depreciation declined 16% YoY and interest expenses were down 8% due to a fall in interest rates. Other income declined 60% YoY due to low dividend income that led to a flat PAT growth of 0.5% YoY to INR13.0bn Q2. Parbati IV and Subansiri are expected to be commissioned in FY24, while the company is also foraying agrressively into solar segments. We have marginally raised our SoTP target price to INR31 (vs INR29 earlier), assigning an improved mutlpiptple for under-construction projects that are nearing completion deadline (valuation - core business – 1.4x P/BV, RoE – 10.0%, CoE – 13.5% and FY23BV of INR36/share). However, the stock price has seen a sharp rally in the past few month and seems to be fairly valued at current level. Hence, we downgrade our rating to REDUCE from ADD.**

- **Lower dividend income impacted PAT growth:** Generation increased 6.0% YoY to 9.9bn units, led by improved water availability at reservoir and PAF. Accordingly, revenue increased to INR27.5bn (+7.5% YoY) in Q2FY22. Generation expenses increased marginally by 0.8% YoY to INR3.2bn; however, other expenses decreased 11.3% YoY to INR2.8bn due to lower O&M expenses. Employee expenses declined 10.9% YoY to INR3.1bn due to superannuation. Accordingly, EBITDA increased 14.2% YoY to INR18.0bn. Depreciation declined 15.9% YoY to INR2.8bn, while other income decreased 59.8% YoY due to lower dividend income. Interest expenses declined 8.3% YoY to INR1.3bn due to a fall in interest rates and debt repayments. Accordingly, PAT came in flat at INR13.0bn (+0.5% YoY).
- **Management discussion**: NHPC plans to incur a Capex of INR91bn/INR80bn in FY22E/FY23E on various under-construction hydro and solar projects. 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. It has also received forest stage II clearance for its Dibang project. The company is also aggressively foraying into solar segments, with 1.25GW currently in the tendering stage. It expects to commission it by FY24-FY25.
- **Downgrade to REDUCE**: We have marginally revised our SoTP target price upwards to INR31 (vs INR29 earlier), assigning an improved mutlpiptple for under-construction that are nearing completion deadline (valuation - core business – 1.4x P/BV, RoE – 10.0%, CoE – 13.5% and FY23BV of INR36/share). However, the stock price has witnessed a sharp rally in the past few month and seems to be fairly valued at current level. Hence, we downgrade our rating to REDUCE from ADD.

### Financial Summary

| (INR mn, Mar YE) | 2Q FY22 | 2Q FY21 | YoY (%) | 1Q FY22 | QoQ (%) | FY21 | FY22E | FY23E |
|---|---|---|---|---|---|---|---|---|
| Net Revenues | 27,454 | 25,540 | 7.5 | 21,702 | 26.5 | 85,066 | 92,708 | 1,01,514 |
| EBITDA | 17,960 | 15,728 | 14.2 | 12,793 | 40.4 | 46,047 | 51,240 | 55,148 |
| APAT | 13,048 | 12,985 | 0.5 | 9,123 | 43.0 | 33,846 | 35,056 | 35,438 |
| Diluted EPS (INR) | 1.2 | 1.2 | 0.5 | 0.8 | 43.0 | 3.37 | 3.49 | 3.53 |
| P/E (x) | | | | | | 9.4 | 9.1 | 9.0 |
| P/BV (x) | | | | | | 1.0 | 0.9 | 0.9 |
| RoE (%) | | | | | | 10.0 | 10.4 | 10.0 |

Source: Company, HSIE Research

## REDUCE

| | |
|---|---|
| CMP(as on 15 Nov 2021) | INR 32 |
| Target Price | INR 31 |
| NIFTY | 18,109 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | ADD | REDUCE |
| Price Target | INR29 | INR31 |
| | CY22E | CY23E |
| EPS Change % | - | - |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | NHPC IN |
| No. of Shares (mn) | 10,045 |
| MCap (INR bn) / ($ mn) | 319/4,292 |
| 6m avg traded value (INR mn) | 299 |
| 52 Week high / low | INR 37/20 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 19.5 | 23.0 | 52.5 |
| Relative (%) | 10.0 | (1.6) | 13.4 |

| SHAREHOLDING PATTERN (%) | Sep-21 | Jun-21 |
|---|---|---|
| Promoters | 71.0 | 71.0 |
| FIs & Local MFs | 15.8 | 15.2 |
| FPIs | 5.1 | 4.3 |
| Public & Others | 8.2 | 9.6 |
| Pledged Shares | - | - |

*Source : BSE*

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# Torrent Power

## RES capacity to scale up 2.5x to 5GW by FY26

**Torrent Power (TPW) reported consolidated revenue of INR 36.5bn (+16.6% YoY) in Q2FY22. The growth was largely led by improved power demand, lower T&D losses, and improved collection during the quarter. EBITDA increased 31.9% YoY to INR9.4bn due to a fall in T&D losses and lower other expenses. Deleveraging, along with a fall in interest rates, has led to lower interest expenses. After adjusting for one-offs, PAT stands increased by 14.1% YoY at INR3.7bn, surpassing ours and consensus estimates. We have revised our SoTP TP to INR528, factoring in the company's recent acquisitions of 156MW wind and 50MW solar projects. We maintain ADD, given improved industrial demand, fall in T&D losses, healthy net D/E ratio, and sustainable FCFE of ~INR10bn p.a.**

- **Lower T&D losses and interest cost lift PAT:** Power demand increased significantly across its franchisee segment from the industrial and commercial consumers. T&D losses in H1FY22 declined across Ahmedabad/Surat/ Bhiwandi/Agra/SMK to 6.1%/3.1%/13.1%/13.1%/42.3% from 9.3%/3.8%/ 23.0%/16.0%/46.4%, led by improved consumer mix and collections. Revenue grew by 16.6% YoY to INR36.5bn in Q2FY22, led by YoY rise in generation across the AGEN (+93%), Unosugen (+8%) and wind stations (+27%), while generation declined across the Sugen (-15%) and solar stations (-7% YoY). EBITDA also increased 31.9% YoY to INR9.4bn on the back of lower T&D losses and a fall in other expenses (-30.5% YoY). Interest cost declined 22% YoY, given the deleveraging exercise and fall in interest rates. After adjusting for one-offs (INR1.2bn in Q2FY21 as provision for doubtful debts and under recoveries), PAT increased by 14.1% YoY to INR3.7bn in Q2FY22.
- **Target to scale up RES capacity to 5GW by FY26**: TPW aims to scale up its RES capacity to 5GW by FY25-26E from 2GW as on date (through both organic and inorganic route). In the near term, the company targets to commission 450 MW of solar capacity (including the 50-MW project acquired from Lightsource India Ltd, but excluding the 300-MWof AP project for which LOA is yet to be awarded) and 156 MW of CESC's wind project, which it acquired for INR7.7bn. As of FY21, TPW's debt stands at INR66.7bn and it has a healthy net D/E of 0.6x, net debt/EBITDA of 1.8x, and a sustainable FCFE of ~INR10bn p.a. This gives it enough room to fund the new capacities.
- **Reiterate ADD**: We have revised our SoTP target price to INR528 (from INR511), factoring in its recent acquisition of 156MW wind and 50MW solar projects. We maintain ADD, given the improved industrial demand, fall in T&D losses, healthy net D/E ratio, scaling up of RES portfolio, and sustainable FCFE of ~INR10bn p.a. Further, we expect TPW's RoE to improve to 15.9% by FY23 from 13.4% in FY21. Hence, we reiterate the ADD rating.

### Financial Summary

| (INR mn, Dec YE) | 2QFY22 | 2QFY21 | YoY(%) | 2QFY21 | QoQ (%) | FY21 | FY22E | FY23E |
|---|---|---|---|---|---|---|---|---|
| Net Revenues | 36,476 | 31,287 | *16.6* | 30,989 | *17.7* | 1,21,727 | 1,29,218 | 1,37,624 |
| EBITDA | 9,383 | 7,111 | *31.9* | 7,281 | *28.9* | 34,652 | 37,790 | 41,625 |
| APAT | 3,674 | 3,218 | *14.1* | 2,066 | *77.8* | 12,909 | 16,168 | 18,749 |
| Diluted EPS (INR) | 7.6 | 6.7 | *14.1* | 4.30 | *77.8* | 26.9 | 33.6 | 39.0 |
| P/E (x) | | | | | | 18.6 | 14.9 | 12.8 |
| P/BV (x) | | | | | | 2.4 | 2.2 | 1.9 |
| RoE (%) | | | | | | 13.4 | 14.5 | 15.9 |

Source: Company, HSIE Research

# ADD

| | |
|---|---|
| **CMP*(as on 28 Oct 2021)*** | **INR 489** |
| **Target Price** | **INR 528** |
| **NIFTY** | **17,857** |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | ADD | ADD |
| Price Target | INR511 | INR528 |
| | CY22E | CY23E |
| EPS Change % | *(4.6%)* | *2.4%* |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | TPW IN |
| No. of Shares (mn) | 481 |
| MCap (INR bn) / ($ mn) | 235/3,157 |
| 6m avg traded value (INR mn) | 739 |
| 52 Week high / low | INR 545/293 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 7.5 | 24.6 | 59.0 |
| Relative (%) | (6.9) | 3.9 | 8.7 |

| SHAREHOLDING PATTERN (%) | Sep-21 | Jun-21 |
|---|---|---|
| Promoters | 53.57 | 53.57 |
| FIs & Local MFs | 20.13 | 18.78 |
| FPIs | 7.33 | 8.14 |
| Public & Others | 18.97 | 26.22 |
| Pledged Shares | - | - |

*Source : BSE*

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# APL Apollo

## Strong delivery despite turbulent times

**APL Apollo Tubes' (APL) Q2 revenue increased 40% QoQ to INR30.8bn, aided by higher realisation despite a 11% YoY volume decline. Value-added products contributed to 62% of overall volume in Q2 vs 57% YoY, aided by strong volume growth across heavy structures and Apollo Z segment. As a result, EBITDA/ton increased to INR5,199 vs INR3,514 YoY (+48% YoY), led by better product mix, and higher realisation. EBITDA increased 31% YoY to INR2.2bn; however, margin contracted marginally by 50 bps YoY to 7.2% due to high input costs. Adj PAT surged by 43% YoY to INR1,313mn. With normalcy resuming in business, APL would continue on its growth trajectory. We maintain estimates and expect APL to post revenue/PAT CAGRs of 20%/34% over FY21-24E, led by an increased mix of value-added products (75% in FY25 vs 57% in FY21), capacity expansion, improved margin, and enhanced government infrastructure spending. We retain our TP of INR1,113 (35xFY24 EPS) and BUY rating on APL.**

- **Rise in raw material cost offset by strong realisation:** Overall volumes declined by 11.2% YoY to 427,387MT (+14.5% QoQ) as the management shifted its focus to higher margin products. Within value-added products, heavy structures/Apollo Z recorded strong volume growth of 23.9%/21.5% YoY to 26,464MT/111,562MT, with corresponding EBITDA/MT growing by 48.6%/23% to INR6,240/INR7,525. Fall in volume was offset by a strong 44% YoY rise in realisation to INR69,668 (price hike taken by the management to counter the increase in input cost), which led to a 40% YoY rise in revenue to INR30.8bn. EBITDA/ton increased 48% YoY to INR5,199, led by better product mix and higher realisation, which aided EBITDA growth of 31.4% YoY to INR2.2bn. PAT surged by 42.5% YoY to INR1.3bn, led by strong operating performance and 32.7% YoY fall in interest expenses.
- **Capacity expansion and outlook**: APL's capacity expansion plan of 1.4 mtpa (0.4 mtpa in FY22, 0.6 mtpa in FY23 and 0.4mtpa in FY24) in Raipur is on track. Management expects to achieve a utilisation level of 25%/50%/100% by Q4FY22/1QFY23/2QFY23. The Capex on this expansion would be INR8bn, of which INR4bn has already been deployed and the INR4bn will be deployed by H2FY22. Management has guided to achieve a volume of 1.8-2.0MT in FY22 and 2.5MT/3.2MT/4MT by FY23/FY24/FY25.
- **Reiterate BUY**: We maintain our estimates and expect APL's revenue/PAT to grow at CAGRs 20%/34% over FY21-24E, led by healthy volume growth, margin expansion, reduced working capital, and reduced debt. We maintain our TP of INR1,113/share, based on 35x FY24E EPS, which reflects APL's superior performance, operational efficiency, and a strong positive outlook.

### Financial summary

| (INR mn, Dec YE) | 2Q FY22 | 2Q FY21 | YoY (%) | 2Q FY21 | QoQ (%) | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| Net Revenues | 30,839 | 22,021 | 40.0 | 25,343 | 21.7 | 84,998 | 1,04,855 | 1,25,649 | 1,46,034 |
| EBITDA | 2,222 | 1,691 | 31.4 | 2,547 | -12.7 | 6,787 | 8,669 | 10,738 | 12,928 |
| APAT | 1,313 | 921 | 42.5 | 1,474 | -10.9 | 3,602 | 5,067 | 6,982 | 8,711 |
| Diluted EPS (INR) | 5.3 | 3.7 | 42.5 | 5.9 | -10.9 | 28.8 | 18.3 | 25.2 | 31.4 |
| P/E (x) | | | | | | 58.9 | 44.0 | 31.9 | 25.6 |
| P/BV (x) | | | | | | 12.5 | 10.0 | 8.2 | 6.6 |
| RoE (%) | | | | | | 23.6 | 25.8 | 28.3 | 28.7 |

Source: Company, HSIE Research

## BUY

| | |
|---|---|
| CMP(as on 29 Oct 2021) | INR 800 |
| Target Price | INR 1,113 |
| NIFTY | 17,672 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | BUY | BUY |
| Price Target | INR1113 | INR1113 |
| EPS Change % | FY22E | FY23E |
| | - | - |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | APAT IN |
| No. of Shares (mn) | 250 |
| MCap (INR bn) / ($ mn) | 200/2,686 |
| 6m avg traded value (INR mn) | 502 |
| 52 Week high / low | INR 1,050/306 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | (10.7) | 20.3 | 158.1 |
| Relative (%) | (23.3) | 1.1 | 108.9 |

| SHAREHOLDING PATTERN (%) | Sep-21 | Jun-21 |
|---|---|---|
| Promoters | 36.8 | 36.9 |
| FIs & Local MFs | 8.4 | 9.4 |
| FPIs | 25.2 | 25.7 |
| Public & Others | 29.5 | 28.0 |
| Pledged Shares | - | - |

*Source : BSE*

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# CESC

## One-off in Malegaon business impacts PAT

**CESC's consolidated PAT in Q2FY22 decreased by 12% YoY due to increased losses in the distribution franchisee (DF) segment (a loss of INR410mn vs INR80mn YoY), given the one-off impact of INR200mn in the Malegaon segment. Haldia and Dhariwal continued to perform strongly, while standalone PAT growth remained flat despite the delayed WBERC tariff order. Standalone generation increased 2.5% YoY, while T&D losses were flat at 8.6%. CESC's bid for a 100% stake in the Chandigarh discom is likely to receive a letter of intent (LoI) by Q3FY22. We retain our BUY rating with a revised TP of INR109 (from INR101), as we now assign a higher multiple to the company's regulated business, factoring in the improved performance at the Noida and Dhariwal businesses. We have not yet factored in the Chandigarh discom, as we await clarity on the bid and letter of award (LoA).**

- **Franchisee losses widen due to one-off expense:** Sales volume in standalone business increased 5% YoY, given increased economic activity, while T&D losses remained flat at 8.6% YoY in Q2. PAT grew marginally by 2.6% YoY despite the delayed WBERC tariff order, which has impacted tariff realisation. However, consolidated PAT decreased 12.1% YoY to INR3.4bn, due to increased losses in the DF business (INR410mn vs INR80mn in Q2FY21), given the one-off impact of INR200mn in the Malegaon circle from revenue adjustments. Dhariwal continued to perform strongly with PAT increasing by 47.8% YoY to INR340mn in Q2FY22. In H1FY22, both Haldia and Dhariwal achieved an improved PLF of 90%/80% vs 84%/77% YoY.
- **CESC's divestment in Surya Vidyut - a fair move:** CESC has entered an agreement to sell its 156MW of operating wind projects to Torrent Power for an EV of ~INR 7.65bn (excluding INR250mn cash on books of Surya Vidyut). It had invested an equity of ~INR2.5bn across these wind portfolios, which have yielded a subdued RoE of 3-5% over the past four years, with profits ranging from INR50 mn-INR144 mn. The deal would fetch CESC an equity value of INR2.9bn, implying a multiple of 1.2x multiple (ex-cash in the subsidiary), which we believe is a much better value for projects with a low single digit RoE. Hence, the stake sale benefits CESC.
- **Maintain BUY**: On a consolidated basis, CESC is currently valued at an attractive P/BV of 1.0x FY23BV and PE of 8.1x FY23. A high dividend yield of ~6% is in tune with investor 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 a reduction in AT&C losses, and achieve a PAT of INR450mn in FY23. Hence, we maintain BUY with a revised TP of INR109 (vs INR101), factoring in improved performance across the Dhariwal and Noida businesses. We have not yet factored in the Chandigarh discom, as we await clarity on the bid and letter of award (LoA).

### Financial Summary (Standalone)

| (INR mn, Mar YE) | 2Q FY22 | 2Q FY21 | YoY (%) | 1Q FY22 | QoQ (%) | FY21 | FY22E | FY23E |
|---|---|---|---|---|---|---|---|---|
| Net Revenues | 20,910 | 19,890 | *5.1* | 19,310 | *8.3* | 69,210 | 82,643 | 87,292 |
| EBITDA | 4,180 | 3,380 | *23.7* | 3,110 | *34.4* | 11,750 | 16,505 | 17,424 |
| APAT (Consol) | 3,400 | 3,870 | *-12.1* | 2,800 | *21.4* | 13,630 | 14,116 | 14,977 |
| Diluted Consol EPS (INR) | 2.6 | 2.9 | *-12.1* | 2.1 | *24.7* | 10.3 | 10.6 | 11.3 |
| P/E (x) | | | | | | 8.9 | 8.6 | 8.1 |
| Price/BV | | | | | | 1.2 | 1.1 | 1.0 |
| RoE (%) | | | | | | 12.1 | 13.7 | 14.0 |

Source: Company, HSIE Research

# BUY

| | |
|---|---|
| **CMP*(as on 11 Nov 21)*** | **INR 91** |
| **Target Price** | **INR 109** |
| **NIFTY** | **17,874** |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | BUY | BUY |
| Price Target | INR 101 | INR 109 |
| | FY22E | FY23E |
| EPS Change % | - | - |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | CESC IN |
| No. of Shares (mn) | 1,326 |
| MCap (INR bn) / ($ mn) | 121/1,629 |
| 6m avg traded value (INR mn) | 621 |
| 52 Week high / low | INR 102/29 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 21.0 | 40.5 | 56.6 |
| Relative (%) | 11.1 | 18.6 | 19.1 |

| SHAREHOLDING PATTERN (%) | Sep-21 | Jun-21 |
|---|---|---|
| Promoters | 52.1 | 49.9 |
| FIs & Local MFs | 23.0 | 23.5 |
| FPIs | 12.9 | 13.4 |
| Public & Others | 11.9 | 13.2 |
| Pledged Shares | - | - |

*Source : BSE*

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**Disclosure:**

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