INSTITUTIONAL RESEARCH

India Equity Strategy

Quarterly flipbook

Quarterly flipbook: Q3 - upgrades galore!

Q3FY21 was another strong quarter, beating expectations across most sectors, led by margin surprises and even slight beat on revenues. Sales continue to rebound at a faster pace than costs post the lockdown, resulting in earnings beat. Key highlights of the quarter: (1) Q3 margins beat estimates across multiple sectors such as Cement, IT, Chemicals, Paints, Durables due to (a) cost efficiencies leading to lower SG&As (A&P, travel expenses, etc.), (b) improved pricing power in the wake of lower competition; (2) Festive season and unlock led sharp demand rebound; (3) larger companies gained market share; (4) collection trends improved for lenders; (5) commodity costs rising sharply helped oil and metals sectors while gross margin pressures were visible in autos/durables etc.

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Like Q2, ~70% of our coverage universe of ˜160 stocks beat Q3 earnings and ˜65% of them saw earning upgrades for FY21/FY22, which is quite commendable. Q3FY21 saw aggregate PAT beat of ˜10% resulting in ˜7.1/4.2%% PAT upgrade for FY21/FY22. While the extent of earnings beat was lower in Q3 vs Q2, FY22/FY23 upgrades were higher than Q2 due to increased confidence in economic recovery.

Given the positive base effect from Q4, markets would focus more on QoQ trends in revenues and costs compared to Q2/Q3 levels, which has become a benchmark. Given the sharp rally in markets and Nifty valuations at ˜22x FY22 PE, absolute upsides look capped at index level. However, we still see a positive risk-reward on the economy-facing sectors and spot bottom-up investment ideas across most sectors for the next 12 months.

Our preferred sectors continue to be IT, Chemicals, large Banks, Cement, Consumer Durables, Gas, and Insurance while we remain underweight on Consumption (Staples, Discretionary and Autos). Our large-cap picks in the model portfolio include Infosys, ITC, SBI, SBI Life, ICICI Bank, Axis Bank, L&T, Bharti. Within mid-caps, we like Persistent, Max Life, Gujarat Gas, Radico, Crompton Consumer, Alkyl Amines, Galaxy Surfactants, JK Cement, and KNR Construction.

Q3FY21 results: Consumer Discretionary, Cement, IT, Banks were the standout performers, Consumer staples/Pharma/Infra/Real Estate were below par.
Significant and broad-based earnings beat were visible in Cement, Chemicals, IT, Consumer discretionary, leading to further EPS upgrades for FY22/FY23. Earning misses were more prevalent in Consumer Staples, Pharma, and Infra/Real Estate.

So, what happens to FY21/FY22/FY23 earnings?
Given Q3 trends and management commentaries for our coverage universe, we have seen aggregate PAT upgrades by +7.1%/+4.2% for FY22/FY23 (FY21 PAT upgrades largely due to earnings normalisation of oil& gas sector, ex oil at ~5%). **We are now building in 28%/21%/17% YoY growth for aggregate PAT for FY21/FY22/FY23 respectively**. Nifty consensus EPS for FY22 has also increased by ˜10% in the past six months. Consensus Nifty EPS growth is now pegged at 33%/18% for FY22/FY23, which makes further upgrades less likely.

Our view: Index absolute upsides capped; bottom-up opportunities still visible across sectors as economic recovery plays out in FY22/FY23.
While our sector preference has remained largely unchanged in past six months, post the sharp rally of ˜100% from March lows and valuations at ˜22x FY22 PE, index upsides look capped for the next 6-9 months. However, we still see select bottom-up investment ideas across most sectors. The economy-facing ones like Banks, Cement, Infrastructure, Real Estate, Utilities, and Gas still have room for re-rating while IT and Pharma look fairly valued with earnings driven upsides. Consumer Staples and Discretionary face PE de-rating risks, given stretched valuations.

Model portfolio: Maintain bias towards economy-facing and value sectors. We add weights in L&T, GAIL India, Birla Corp, Dabur, Teamlease, ICICI Sec, Maruti and Alkem Labs while we fund the same from high quality but very expensive large caps, where we remain underweight.

Q3 deviation in estimates in comparison to previews

Sector	Revenue	PAT
Autos	3.5%	24.5%
Banks and NBFCs	3.6%	16.5%
Insurance	8.7%	18.1%
Capital Markets	9.1%	36.3%
Consumer- Staples	2.1%	0.3%
Consumer Discretionary (ex-Autos)	5.7%	15.1%
Industrials (Infrastructure+ Cap Goods+ Logistics)	-2.6%	10.0%
Real Estate	0.3%	25.0%
IT and Exchanges	1.3%	6.4%
Energy (Oil & Gas)	1.6%	5.6%
Cement and Building Materials	2.3%	22.4%
Chemicals	5.2%	29.8%
Pharma	0.0%	10.8%
Total	**2.0%**	**10.6%**

Source: Bloomberg & HSIE Research

Sectoral Change in PAT Estimates in comparison to previews

Sector	FY22E	FY23E
Autos	8.5%	7.5%
Banks and NBFCs	2.7%	5.8%
Insurance	2.1%	1.1%
Capital Markets	2.2%	3.6%
Consumer- Staples	1.1%	0.8%
Consumer Discretionary (ex-Autos)	6.7%	5.5%
Industrials (Infrastructure+ Cap Goods+ Logistics)	4.6%	7.5%
Real Estate	1.9%	1.6%
IT and Exchanges	4.8%	4.9%
Energy (Oil & Gas)	18.9%	3.4%
Cement and Building Materials	4.2%	5.0%
Chemicals	1.5%	1.1%
Pharma	-1.4%	-2.2%
Total	**7.1%**	**4.2%**

Source: HSIE Research

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Result Scorecard- Quarterly Snapshot

HSIE Coverage (INR Bn)	Q3 FY21 Preview Estimates			Q3 FY21 Actuals			Deviation		
	Revenue	EBITDA	PAT	Revenue	EBITDA	PAT	Revenue	EBITDA	PAT
	Q3FY21 E	Q3FY21 E	Q3FY21 E	Q3FY21 A	Q3FY21 A	Q3FY21 A	Q3FY21	Q3FY21	Q3FY21
Autos	**1,422.0**	**178.1**	**84.0**	**1,472.3**	**227.6**	**104.6**	3.5%	27.8%	24.5%
Maruti Suzuki India	237.0	24.2	18.1	234.6	22.3	19.4	-1.0%	-7.9%	7.1%
Bajaj Auto	87.6	15.4	13.6	89.1	17.3	15.6	1.8%	12.2%	14.4%
Mahindra & Mahindra	134.4	22.2	13.5	140.6	23.9	17.4	4.6%	7.6%	28.9%
Eicher Motors	28.0	6.3	5.1	28.3	6.7	5.3	1.2%	7.3%	3.6%
Hero MotoCorp	94.3	12.7	9.8	97.8	14.1	10.8	3.7%	11.0%	11.2%
Tata Motors	716.8	82.1	15.6	756.5	127.6	27.3	5.5%	55.5%	74.5%
Ashok Leyland	48.4	2.6	0.4	48.1	2.5	0.3	-0.6%	-3.0%	-39.3%
Escorts	20.8	3.6	2.7	20.2	3.6	2.8	-3.2%	2.2%	4.9%
Subros	5.1	0.6	0.3	6.0	0.7	0.3	17.9%	12.6%	7.0%
Endurance	20.4	3.5	1.9	20.4	3.5	2.0	0.1%	1.6%	6.5%
Amara Raja	19.9	3.3	1.9	19.6	3.1	1.9	-1.7%	-5.7%	-0.4%
Sundaram Fasteners	9.3	1.8	1.0	11.1	2.3	1.4	18.9%	29.5%	44.6%
Banks and NBFCs	**679.1**	**492.7**	**154.3**	**703.9**	**516.9**	**179.8**	3.6%	4.9%	16.5%
ICICI Bank	95.5	80.1	40.8	99.1	88.2	49.4	3.8%	10.2%	21.2%
Kotak Mahindra Bank	39.9	29.9	17.3	40.1	30.8	18.5	0.5%	3.0%	7.3%
Bajaj Finance	35.3	30.9	12.1	33.6	29.1	11.5	-4.9%	-6.0%	-5.0%
State Bank of India	278.5	169.0	23.6	288.2	173.3	52.0	3.5%	2.5%	120.6%
Axis Bank	64.5	57.4	17.6	73.7	61.0	11.2	14.3%	6.1%	-36.4%
IndusInd Bank	32.2	27.4	6.8	34.1	29.7	8.5	5.7%	8.7%	25.7%
AU Small Finance Bank	5.6	3.1	1.4	6.3	3.9	0.6	13.0%	27.4%	-58.2%
Shriram Trans Finance	20.7	15.8	6.1	21.5	16.6	7.3	3.7%	5.2%	19.9%
Cholamandalam Investment & Finance Company	11.9	8.7	3.4	12.9	10.0	4.1	7.8%	14.8%	19.2%
Mahindra & Mahindra Financial	14.1	10.4	2.6	13.5	10.2	(2.7)	-4.2%	-1.7%	NM
Federal Bank	13.7	8.6	3.4	14.4	9.6	4.0	4.7%	12.6%	20.4%
LIC Housing	13.0	11.6	4.7	12.8	11.5	7.3	-1.2%	-1.0%	55.5%
City Union Bank	4.7	3.6	1.4	4.9	4.6	1.7	3.4%	25.7%	22.5%
RBL Bank	9.1	6.9	1.4	9.1	8.0	1.5	-0.6%	16.1%	7.2%
DCB Bank	3.2	2.1	0.8	3.3	2.8	1.0	3.3%	32.3%	18.0%
Karur Vysya Bank	6.4	4.5	0.8	5.8	2.6	0.3	-9.1%	-42.4%	-54.7%
Indostar Capital Finance	1.2	0.6	0.8	1.0	0.8	0.2	-15.9%	26.3%	-68.4%
REPCO Home Finance	1.4	1.2	0.7	1.4	1.3	0.8	3.5%	9.5%	13.9%
UJJIVAN SFB	4.8	2.2	0.7	4.3	2.0	(2.8)	-9.4%	-7.7%	NM
CREDAG	3.7	2.2	0.3	3.1	1.7	(0.8)	-17.2%	-22.6%	NM
Bandhan Bank	19.5	16.5	8.0	20.7	19.1	6.3	6.3%	16.0%	-21.2%
Insurance	**229.0**	**NA**	**28.8**	**249.0**	**NA**	**34.0**	8.7%	NM	18.1%
SBI Life	34.5	NA	7.2	35.1	NA	7.5	1.6%	NM	4.9%
ICICI Prudential	12.4	NA	2.7	12.3	NA	3.5	-1.2%	NM	31.3%
GIC Reinsurance	80.6	(8.7)	7.5	91.7	(9.8)	9.3	13.8%	-12.7%	24.8%
ICICI Lombard	26.7	(0.2)	3.7	26.1	(1.6)	3.2	-2.3%	-620.0%	-14.9%
New India Assurance	58.1	(6.1)	3.6	67.2	(10.1)	6.2	15.8%	-66.1%	73.9%
Max Financial	16.7	NA	4.2	16.7	NA	4.3	-0.2%	NM	1.7%
Capital Markets	**18.9**	**9.3**	**7.4**	**20.6**	**10.9**	**10.0**	9.1%	16.5%	36.3%
Nippon Life India	2.8	1.5	1.6	2.7	1.5	2.1	-4.1%	-4.9%	31.4%
ICICI Securities	6.0	3.3	2.4	5.8	3.6	2.7	-2.6%	8.3%	9.8%
Motilal Oswal Financial Services	6.2	2.8	2.0	8.1	4.4	3.3	30.9%	57.9%	67.9%
UTI AMC	2.1	0.9	0.8	2.1	0.6	1.4	0.1%	-32.6%	70.9%
CAMS	1.8	0.8	0.5	1.9	0.8	0.6	3.6%	0.5%	3.6%

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	Revenue	EBITDA	PAT	Revenue	EBITDA	PAT	Revenue	EBITDA	PAT
	Q3FY21 E	Q3FY21 E	Q3FY21 E	Q3FY21 A	Q3FY21 A	Q3FY21 A	Q3FY21	Q3FY21	Q3FY21
Consumer- Staples	**436.8**	**116.5**	**86.7**	**445.8**	**115.6**	**87.0**	2.1%	-0.8%	0.3%
Hindustan Unilever	114.8	29.2	20.9	116.8	28.5	19.5	1.8%	-2.2%	-6.5%
ITC	118.7	43.5	35.7	124.9	42.8	36.6	5.3%	-1.7%	2.6%
Dabur India	26.4	5.7	4.7	27.3	5.7	4.9	3.4%	1.6%	4.4%
Britannia Industries	32.0	6.0	4.2	31.1	6.1	4.5	-2.9%	2.4%	6.5%
United Spirits	24.5	3.5	2.0	24.9	3.8	2.3	1.7%	9.4%	16.2%
Nestle	34.7	8.2	5.4	34.2	7.8	4.8	-1.6%	-5.6%	-10.2%
Marico	20.3	4.2	3.0	21.2	4.1	3.1	4.6%	-1.2%	3.3%
Colgate Palmolive	12.2	3.6	2.3	12.2	3.7	2.5	0.7%	3.5%	6.8%
Emami	9.1	3.2	1.9	9.3	3.4	2.1	2.3%	5.1%	7.3%
GCPL	30.6	7.3	5.1	30.3	7.1	5.0	-1.3%	-2.2%	-3.1%
Radico Khaitan	7.1	1.2	0.8	6.8	1.2	0.8	-3.6%	4.5%	5.0%
TTK Prestige	6.4	1.0	0.7	6.8	1.2	0.9	5.5%	20.0%	23.2%
Consumer Discretionary (ex-Autos)	**360.8**	**54.6**	**33.0**	**381.5**	**61.0**	**37.9**	5.7%	11.7%	15.1%
Avenue Supermart	73.3	6.4	4.4	74.3	6.9	4.7	1.5%	7.9%	7.7%
Titan Co	76.0	8.9	5.9	76.2	8.5	5.3	0.2%	-5.1%	-10.0%
Havells India	26.9	3.9	2.7	31.7	5.1	3.5	17.9%	30.1%	29.9%
Trent	7.0	1.4	0.3	7.3	1.8	0.8	2.9%	29.6%	154.5%
Jubilant Foodworks	10.9	2.9	1.3	10.6	2.8	1.3	-2.6%	-5.2%	-5.6%
Voltas	17.0	1.1	1.0	19.9	1.5	1.3	17.4%	35.4%	34.8%
Aditya Birla Fashion	18.7	2.5	(0.4)	20.6	3.7	0.7	10.4%	48.9%	255.5%
Crompton Consumer	12.7	1.8	1.4	13.5	2.0	1.5	6.0%	10.6%	10.9%
Symphony	1.5	0.5	0.4	1.2	0.4	0.4	-19.6%	-25.2%	-18.5%
V-Guard	7.1	0.8	0.6	8.3	1.1	0.8	16.0%	42.3%	28.7%
V-Mart	4.5	0.9	0.4	4.7	1.0	0.5	4.5%	20.9%	13.5%
TCNS Clothing	2.4	0.4	0.1	2.4	0.4	0.1	-1.8%	-6.6%	-6.1%
Shoppers Stop	7.0	1.2	(0.0)	7.1	0.9	(0.2)	1.7%	-17.8%	-516.4%
Asian Paints	61.9	15.4	10.6	67.9	17.9	12.7	9.7%	16.3%	19.7%
Berger Paints	19.7	3.9	2.6	21.2	4.1	2.7	7.8%	5.4%	4.9%
Kansai Nerolac	14.3	2.7	1.7	14.7	2.9	2.0	3.1%	8.7%	15.6%
Industrials (Infrastructure+ Cap Goods+ Logistics)	**628.4**	**78.9**	**35.5**	**612.1**	**79.3**	**39.0**	-2.6%	0.5%	10.0%
Larsen & Toubro	366.4	41.7	19.8	356.0	42.8	22.6	-2.9%	2.7%	14.3%
Siemens	28.6	3.4	2.6	29.0	3.6	2.9	1.5%	6.2%	12.4%
Container Corporation	16.4	3.4	2.0	17.5	3.7	2.4	6.8%	7.8%	18.4%
ABB India	19.7	0.8	0.6	17.0	1.0	1.3	-13.8%	26.5%	129.3%
KEC International	33.5	3.0	1.5	32.6	2.9	1.4	-2.7%	-3.1%	-4.0%
Kalpataru Power Transmission	20.8	2.2	1.3	19.9	2.1	1.4	-4.1%	-7.2%	10.9%
PNC Infratech	13.2	1.8	0.9	13.2	1.8	1.0	0.5%	0.6%	11.0%
Dilip Buildcon	24.7	3.9	1.0	24.7	4.1	1.1	0.1%	4.6%	11.1%
KNR Constructions	7.3	1.4	0.7	6.9	1.4	0.8	-6.0%	-3.0%	4.0%
IRB Infrastructure	13.5	6.3	0.5	11.2	5.6	(0.2)	-16.7%	-11.9%	NM
Ashoka Buildcon	9.3	1.2	0.9	9.8	1.1	0.9	5.0%	-11.5%	-5.4%
Ahluwalia Contracts	4.8	0.4	0.3	5.4	0.3	0.1	12.9%	-25.4%	-42.2%
NCC	21.0	2.6	1.0	19.2	2.4	0.7	-8.6%	-8.0%	-27.7%
PSP Projects	3.9	0.5	0.3	3.9	0.5	0.3	0.8%	-0.6%	4.6%
HG Infra	6.6	1.0	0.5	7.3	1.2	0.7	10.5%	18.4%	38.6%
Gateway Distriparks	3.0	0.7	0.2	3.1	0.8	0.3	5.8%	11.3%	94.0%
JMC Projects	10.8	1.2	0.4	10.7	1.0	0.3	-0.8%	-19.5%	-41.3%
Sadbhav Engineering	7.8	0.9	0.4	5.6	0.7	0.2	-28.9%	-19.1%	-61.4%

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	Revenue	EBITDA	PAT	Revenue	EBITDA	PAT	Revenue	EBITDA	PAT
	Q3FY21 E	Q3FY21 E	Q3FY21 E	Q3FY21 A	Q3FY21 A	Q3FY21 A	Q3FY21	Q3FY21	Q3FY21
Capacite Infraprojects	3.5	0.6	0.2	3.1	0.5	0.2	-12.6%	-11.9%	-0.4%
ITD Cementation	7.0	0.7	0.2	7.9	0.7	0.3	13.1%	-3.5%	84.3%
J Kumar Infraprojects	6.7	1.1	0.4	8.2	1.2	0.4	21.1%	6.9%	12.0%
Real Estate	**60.6**	**18.1**	**7.4**	**60.8**	**18.1**	**9.3**	0.3%	-0.2%	25.0%
DLF	16.8	5.5	4.2	15.4	5.0	4.5	-8.1%	-9.0%	8.1%
Oberoi Realty	5.2	2.3	1.4	8.3	3.8	2.9	60.0%	68.5%	103.7%
Prestige Estates	18.0	5.0	0.8	18.5	4.5	0.6	2.6%	-10.4%	-22.7%
Brigade Enterprises	6.9	1.6	0.2	6.4	1.5	0.2	-5.9%	-5.8%	-1.0%
Sobha Developers	7.3	1.6	0.5	6.8	1.3	0.2	-5.9%	-22.7%	-58.4%
Kolte Patil	3.3	0.9	0.4	1.9	0.5	0.2	-42.7%	-48.2%	-43.5%
Phoenix Mills	3.2	1.3	(0.1)	3.4	1.6	0.7	6.7%	24.0%	NM
IT and Exchanges	**1,264.3**	**318.4**	**222.4**	**1,280.6**	**339.1**	**236.7**	1.3%	6.5%	6.4%
Tata Consultancy Services	413.8	114.6	83.8	420.2	122.1	87.0	1.5%	6.6%	3.8%
Infosys	255.1	73.0	50.6	259.3	74.2	52.0	1.6%	1.6%	2.7%
HCL Technologies	191.8	51.4	32.3	156.7	54.4	29.7	-18.3%	5.8%	-8.2%
Wipro	156.4	35.5	25.9	193.0	41.2	34.3	23.4%	16.0%	32.4%
Tech Mahindra	95.1	17.4	11.7	96.5	19.0	13.1	1.5%	9.1%	11.6%
L&T Infotech	31.4	7.1	4.9	31.5	7.3	5.2	0.4%	3.5%	5.7%
L&T Technologies	13.9	2.7	1.7	14.0	2.8	1.8	0.6%	2.6%	3.3%
Mphasis	25.4	4.6	3.2	24.7	4.7	3.3	-2.5%	1.1%	1.9%
Mindtree	19.8	3.9	2.6	20.2	4.7	4.0	2.2%	19.3%	56.4%
MCX	1.0	0.5	0.5	1.0	0.5	0.7	-0.1%	-1.3%	46.3%
Persistent	10.7	1.8	1.2	10.8	1.8	1.2	0.3%	2.4%	3.6%
Cyient	10.1	1.4	0.7	10.4	1.6	1.0	3.2%	15.3%	34.2%
TeamLease	12.7	0.3	0.2	12.8	0.2	0.2	0.7%	-12.8%	11.7%
Sonata	11.2	0.9	0.6	14.0	1.1	0.8	24.7%	17.1%	20.1%
Zensar Technologies	9.5	1.7	0.9	9.1	1.9	1.0	-5.1%	6.5%	7.5%
CDSL Ltd	0.9	0.6	0.5	0.9	0.6	0.5	-6.9%	-0.9%	4.4%
BSE	1.3	0.2	0.4	1.2	0.1	0.4	-8.3%	NM	-6.4%
Mastek	4.2	0.8	0.5	4.4	1.0	0.6	5.8%	27.8%	8.5%
Energy (Oil & Gas)	**4,010.9**	**519.3**	**270.4**	**4,075.2**	**522.2**	**285.5**	1.6%	0.6%	5.6%
Reliance Industries	1,273.3	238.0	126.5	1,178.6	215.7	132.2	-7.4%	-9.4%	4.5%
Oil & Natural Gas Corp	163.6	70.7	16.2	170.2	83.5	13.8	4.1%	18.1%	-15.0%
Indian Oil Corp	1,035.8	81.9	45.4	1,063.4	96.2	49.2	2.7%	17.5%	8.3%
Bharat Petroleum Corp	623.8	42.0	27.4	667.3	43.1	32.0	7.0%	2.4%	16.9%
GAIL India	119.4	14.9	9.4	154.5	19.2	14.9	29.5%	29.2%	59.0%
Petronet LNG	70.4	12.0	7.8	73.3	13.4	8.8	4.1%	11.3%	12.8%
Indraprastha Gas	14.7	5.6	3.9	14.5	5.0	3.3	-1.5%	-9.8%	-13.9%
HPCL	646.6	34.7	23.2	686.6	33.0	23.5	6.2%	-5.0%	1.3%
Gujarat Gas	22.8	4.8	2.8	28.3	6.1	3.9	24.0%	26.8%	39.5%
Gujarat State Petronet	6.7	4.1	2.5	5.8	4.0	2.5	-13.4%	-3.4%	-2.9%
OIL India	22.1	6.0	2.1	21.3	(0.9)	(1.4)	-4.0%	-115.6%	NM
Mahanagar Gas	7.4	3.7	2.6	6.7	3.2	2.2	-9.5%	-14.6%	-16.5%
Gulf Oil Lubricants	4.4	0.8	0.6	4.8	0.8	0.6	9.5%	4.6%	10.3%
Cement and Building Materials	**298.6**	**67.2**	**30.4**	**305.4**	**73.7**	**37.2**	2.3%	9.6%	22.4%
UltraTech Cement	116.1	26.7	12.0	122.5	30.9	15.8	5.6%	15.9%	32.5%
Shree Cement	32.6	9.7	4.9	33.1	10.9	6.3	1.5%	12.3%	26.6%
ACC	44.9	7.5	4.1	41.4	7.0	4.5	-7.6%	-6.3%	9.3%
Ramco Cements	13.2	3.8	1.8	13.4	4.0	2.0	1.3%	4.3%	11.8%
Dalmia Bharat/ Odisha Cem	27.3	6.4	1.8	28.6	6.9	1.8	4.7%	8.2%	2.8%

HSIE Coverage (INR Bn)	Q3 FY21 Preview Estimates			Q3 FY21 Actuals			Deviation		
	Revenue	EBITDA	PAT	Revenue	EBITDA	PAT	Revenue	EBITDA	PAT
	Q3FY21 E	Q3FY21 E	Q3FY21 E	Q3FY21 A	Q3FY21 A	Q3FY21 A	Q3FY21	Q3FY21	Q3FY21
JK Cement	17.6	4.2	2.1	18.3	4.5	2.2	4.2%	8.0%	6.6%
Birla Corporation	17.7	3.4	1.2	17.8	3.6	1.5	0.6%	5.4%	21.7%
Heidelberg Cement	5.8	1.3	0.6	6.0	1.2	0.6	2.5%	-7.4%	1.1%
STAR Cement	4.1	0.6	0.4	4.2	0.8	0.5	4.5%	30.5%	43.1%
JK Lakshmi	11.1	1.8	0.7	11.9	1.9	1.0	7.0%	7.4%	45.0%
Orient Cement	6.2	1.3	0.5	6.0	1.4	0.5	-2.1%	1.7%	6.6%
Deccan Cement	2.1	0.4	0.3	2.1	0.5	0.3	-2.8%	10.2%	13.9%
Chemicals	**54.4**	**11.5**	**6.8**	**57.2**	**14.0**	**8.9**	5.2%	21.5%	29.8%
Vinati Organics	2.5	1.0	0.7	2.2	0.7	0.6	-10.2%	-27.2%	-11.9%
Navin Fluorine	3.4	1.0	0.6	3.0	0.8	0.6	-12.2%	-13.7%	-8.9%
Galaxy Surfactants	6.8	1.0	0.6	6.7	1.2	0.9	-1.0%	15.9%	31.7%
Alkyl Amines	2.7	0.8	0.5	3.2	1.2	0.8	19.8%	52.8%	54.3%
Balaji Amines	2.6	0.6	0.4	3.6	1.0	0.7	41.3%	71.7%	86.5%
Aarti Industries	11.8	2.5	1.4	11.9	2.8	1.7	0.5%	14.9%	21.8%
SRF Ltd	20.2	4.1	2.3	21.5	5.4	3.2	6.1%	33.4%	43.4%
Sudarshan Chemical	4.4	0.6	0.3	5.1	0.8	0.4	15.9%	25.1%	23.9%
Pharma	**380.4**	**88.5**	**52.5**	**380.5**	**89.4**	**58.2**	0.0%	1.1%	10.8%
Sun Pharmaceutical Industries	86.7	22.1	13.9	88.4	23.3	18.5	1.9%	5.6%	32.8%
Dr Reddy's Laboratories	49.6	12.8	7.3	48.8	10.9	5.7	-1.7%	-14.8%	-22.6%
Torrent Pharma	20.5	6.2	3.1	20.0	6.1	3.0	-2.5%	-2.8%	-5.2%
Cipla Ltd/India	50.7	11.1	6.3	51.7	12.3	7.5	2.0%	10.4%	19.2%
Aurobindo Pharma	63.3	13.3	8.1	63.6	13.7	8.4	0.6%	3.0%	3.0%
Lupin	40.4	7.1	3.6	39.5	7.4	4.0	-2.4%	4.1%	10.9%
Cadila	38.7	8.3	4.7	38.0	8.1	5.3	-1.8%	-2.9%	13.4%
Alkem Labs	23.6	5.4	4.2	23.2	5.3	4.2	-1.6%	-2.3%	-0.9%
Ajanta Pharma	6.9	2.1	1.3	7.5	2.4	1.8	8.0%	16.2%	40.4%
Total	**9,844.1**	**1,953.1**	**1,019.7**	**10,045.0**	**2,067.6**	**1,128.2**	2.0%	5.9%	10.6%

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					**15.2%**	**15.0%**	**77.7%**	**35.5%**	**8.5%**	**7.5%**
Maruti Suzuki India	7,498	31.2	BUY	9,000	17.9%	18.2%	66.3%	27.6%	-1.6%	-0.9%
Bajaj Auto	4,115	16.4	BUY	4,200	14.4%	15.0%	10.5%	17.9%	4.9%	6.0%
Mahindra & Mahindra	894	15.3	ADD	870	13.9%	12.9%	5.4%	19.0%	12.9%	13.6%
Eicher Motors	2,650	10.0	REDUCE	2,600	29.7%	22.8%	53.9%	31.7%	11.2%	14.6%
Hero MotoCorp	3,523	9.7	BUY	3,850	12.3%	11.8%	15.9%	18.8%	4.1%	7.4%
Tata Motors	324	14.7	BUY	315	13.6%	13.9%	NA	325.4%	1141.6%	23.2%
Ashok Leyland	129	5.2	REDUCE	122	31.5%	24.7%	2710.6%	37.3%	0.0%	0.0%
Escorts	1,379	2.6	ADD	1,480	12.0%	12.9%	7.1%	12.6%	2.5%	0.0%
Amara Raja	892	2.1	ADD	1,000	15.9%	14.9%	21.7%	19.2%	0.0%	0.0%
Endurance	1,406	2.7	BUY	1,680	16.1%	15.1%	26.1%	22.0%	11.5%	12.9%
Subros	344	0.3	BUY	410	16.4%	16.4%	78.6%	43.9%	4.5%	5.9%
Sundaram Fasteners	692	2.0	ADD	630	16.3%	15.2%	14.9%	28.4%	7.7%	8.6%
Banks and NBFCs					**12.8%**	**12.9%**	**46.3%**	**28.9%**	**2.7%**	**5.8%**
ICICI Bank	645	61.3	BUY	625	16.0%	15.9%	30.0%	30.0%	0.2%	1.2%
Kotak Mahindra Bank	1,945	53.0	REDUCE	1,717	13.2%	13.1%	15.2%	17.0%	2.0%	1.1%
Bajaj Finance	5,563	46.1	ADD	4,829	18.2%	27.6%	76.0%	30.6%	1.2%	0.4%
State Bank of India	415	51.0	BUY	455	10.6%	8.4%	43.5%	35.5%	11.9%	27.3%
Axis Bank	777	32.8	BUY	705	13.3%	12.8%	84.3%	26.3%	-5.4%	-6.3%
IndusInd Bank	1,046	10.9	REDUCE	749	12.7%	15.9%	98.6%	30.8%	3.4%	3.7%
AU Small Finance Bank	1,135	4.8	ADD	932	21.3%	22.0%	95.4%	26.9%	7.0%	6.1%
Shriram Trans Finance	1,439	5.0	ADD	1,355	7.4%	8.1%	33.0%	17.5%	5.8%	1.4%
Cholamandalam Investment & Finance Company	528	6.0	BUY	502	10.3%	10.2%	22.2%	15.8%	6.3%	3.8%
Mahindra & Mahindra Financial	219	3.7	BUY	207	14.4%	17.3%	73.5%	16.1%	-2.6%	-6.6%
Federal Bank	87	2.4	BUY	92	8.1%	10.4%	43.0%	11.2%	9.9%	8.6%
LIC Housing	479	3.3	REDUCE	381	8.2%	12.2%	-6.2%	14.2%	-2.3%	-1.4%
City Union Bank	167	1.7	BUY	192	16.0%	13.0%	18.9%	21.4%	-4.2%	-9.1%
RBL Bank	250	2.1	REDUCE	214	14.7%	17.1%	114.1%	44.2%	-8.1%	-8.7%
DCB Bank	116	0.5	ADD	157	9.2%	16.8%	32.5%	22.9%	4.2%	-2.5%
Karur Vysya Bank	58	0.6	REDUCE	43	12.8%	13.2%	24.7%	63.6%	4.4%	2.6%
Indostar Capital Finance	322	0.5	REDUCE	310	41.4%	30.0%	323.5%	60.9%	3.0%	-3.6%
REPCO Home Finance	356	0.3	ADD	306	4.4%	9.7%	5.8%	10.3%	1.5%	1.1%
UJJIVAN SFB	36	0.9	ADD	44	13.8%	21.2%	NA	44.7%	-2.0%	-5.9%
CREDAG	705	1.5	BUY	814	31.2%	29.7%	221.8%	67.0%	-8.6%	-5.8%
Bandhan Bank	346	7.7	BUY	406	19.5%	19.1%	83.9%	34.4%	-7.1%	-5.6%
Insurance					**12.6%**	**10.5%**	**8.9%**	**25.8%**	**2.1%**	**1.1%**
SBI Life	894	12.3	BUY	1,170	15.8%	15.7%	17.5%	17.8%	2.4%	3.3%
ICICI Prudential	486	9.6	ADD	545	16.6%	15.4%	11.7%	17.3%	-0.4%	0.4%
ICICI Lombard	1,498	9.4	REDUCE	1,230	33.4%	14.2%	27.7%	20.7%	1.7%	2.2%
GIC Reinsurance	171	4.1	BUY	178	8.8%	8.4%	10.6%	61.4%	2.2%	1.8%
New India Assurance	164	3.7	SELL	106	8.4%	7.5%	-21.1%	20.8%	-2.4%	-11.9%
Max Financial	870	4.1	ADD	850	11.6%	16.1%	5.1%	17.5%	11.4%	11.7%
Capital Markets					**-8.0%**	**8.5%**	**-24.3%**	**15.0%**	**2.2%**	**3.6%**
Nippon Life India	345	2.9	ADD	335	12.4%	12.7%	-9.6%	21.1%	2.1%	10.5%
ICICI Securities	414	1.8	BUY	650	12.6%	8.2%	-23.9%	17.1%	-53.5%	-49.1%
Motilal Oswal Financial Services	611	1.2	ADD	560	-15.8%	5.2%	-20.1%	8.6%	50.2%	37.6%
UTI AMC	567	1.0	ADD	740	-23.1%	7.8%	-47.2%	14.7%	52.7%	47.0%
CAMS	1,883	1.3	ADD	1,751	18.7%	11.9%	17.7%	17.2%	6.1%	4.5%

HSIE Coverage	CMP	MCAP ($ Bn)	Rating	TP	Revenue Growth		PAT Growth		Change in PAT estimates	
					FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Consumer- Staples					**11.7%**	**8.5%**	**17.7%**	**9.5%**	**1.1%**	**0.8%**
Hindustan Unilever	2,147	69.4	REDUCE	2,315	9.4%	8.1%	16.4%	11.2%	-0.5%	-0.1%
ITC	219	37.1	BUY	245	13.3%	7.7%	20.3%	6.6%	1.7%	1.2%
Dabur India	520	12.7	ADD	550	12.2%	11.0%	9.6%	11.8%	1.6%	1.1%
Britannia Industries	3,359	11.1	REDUCE	3,589	6.2%	9.4%	1.5%	9.9%	1.9%	0.0%
United Spirits	560	5.6	ADD	640	23.7%	7.4%	122.3%	18.2%	0.3%	0.0%
Nestle	16,365	21.7	REDUCE	16,326	11.8%	10.9%	18.9%	15.1%	0.0%	0.0%
Marico	417	7.4	ADD	460	12.9%	9.2%	17.7%	12.5%	1.3%	2.3%
Colgate Palmolive	1,562	5.8	ADD	1,772	9.1%	8.0%	8.1%	10.5%	3.2%	2.8%
Emami	468	2.9	REDUCE	425	12.0%	7.5%	6.7%	7.9%	4.0%	4.6%
GCPL	719	10.1	ADD	786	9.3%	8.2%	11.8%	8.8%	2.4%	0.0%
Radico Khaitan	562	1.0	ADD	546	17.9%	10.0%	22.3%	14.2%	1.6%	0.1%
TTK Prestige	7,158	1.4	ADD	7,850	19.9%	9.8%	22.5%	10.2%	6.3%	4.8%
Consumer Discretionary (ex-Autos)					**33.9%**	**16.0%**	**56.0%**	**18.8%**	**6.7%**	**5.5%**
Avenue Supermart	3,128	27.9	SELL	2,160	45.0%	23.3%	78.2%	22.0%	3.9%	3.2%
Titan Co	1,433	17.5	SELL	1,300	34.5%	17.8%	88.9%	21.6%	5.6%	5.1%
Havells India	1,166	10.0	ADD	1,150	24.6%	12.2%	17.3%	16.5%	14.8%	9.4%
Trent	779	3.8	SELL	510	87.7%	21.7%	NA	6.7%	17.1%	12.9%
Jubilant Foodworks	2,903	5.3	REDUCE	2,204	37.1%	11.5%	86.0%	18.3%	0.1%	0.0%
Voltas	1,017	4.6	ADD	1,100	30.6%	11.7%	58.8%	17.9%	6.7%	9.5%
Aditya Birla Fashion	164	2.1	BUY	140	62.2%	12.9%	86.6%	NA	66.8%	-156.2%
Crompton Consumer	399	3.4	BUY	460	20.1%	13.0%	23.1%	14.8%	5.2%	4.7%
Symphony	1,049	1.0	ADD	1,115	36.3%	11.3%	70.1%	18.5%	0.2%	0.1%
V-Guard	229	1.4	ADD	255	23.3%	10.9%	36.5%	15.6%	14.6%	16.1%
V-Mart	2,732	0.7	ADD	2,650	58.7%	29.0%	558.0%	31.9%	33.1%	22.7%
TCNS Clothing	483	0.4	REDUCE	400	68.7%	14.8%	NA	20.9%	0.0%	-19.8%
Shoppers Stop	213	0.3	SELL	175	73.8%	9.9%	57.7%	49.6%	0.0%	0.0%
Asian Paints	2,471	32.6	SELL	2,300	19.0%	12.1%	18.1%	14.8%	2.9%	2.9%
Berger Paints	759	10.1	SELL	490	21.8%	12.2%	24.8%	13.0%	3.8%	4.3%
Kansai Nerolac	586	4.4	ADD	520	18.2%	13.0%	14.5%	15.0%	0.7%	1.1%
Industrials (Infrastructure+ Cap Goods+ Logistics)					**22.1%**	**12.6%**	**54.4%**	**21.5%**	**4.6%**	**7.5%**
Larsen & Toubro	1,525	29.5	BUY	1,657	21.1%	10.8%	49.4%	16.2%	-1.6%	2.8%
Siemens	1,863	9.1	REDUCE	1,662	16.5%	12.0%	20.7%	15.0%	16.7%	18.0%
Container Corporation	556	4.7	ADD	520	22.9%	25.7%	50.6%	30.0%	3.5%	3.4%
ABB India	1,533	4.5	REDUCE	1,426	33.2%	13.2%	125.1%	34.2%	33.4%	50.9%
KEC International	432	1.5	BUY	476	12.5%	12.0%	40.7%	16.9%	15.9%	17.4%
Kalpataru Power Transmission	380	0.8	BUY	553	10.0%	11.0%	-2.1%	15.4%	19.9%	18.2%
PNC Infratech	267	0.9	BUY	338	26.5%	15.5%	55.9%	20.2%	14.6%	20.3%
Dilip Buildcon	566	1.1	BUY	640	17.4%	14.5%	76.5%	33.1%	13.1%	-0.4%
KNR Constructions	217	0.8	BUY	281	19.3%	24.5%	50.0%	33.4%	18.1%	19.5%
IRB Infrastructure	108	0.5	BUY	157	14.1%	10.5%	NA	100.0%	-49.9%	-31.2%
Ashoka Buildcon	112	0.4	BUY	168	16.5%	15.3%	-19.1%	NA	18.8%	25.0%
Ahluwalia Contracts	281	0.3	BUY	388	27.2%	21.0%	101.4%	36.3%	-16.4%	-8.1%
NCC	89	0.7	BUY	115	49.7%	13.8%	108.9%	23.7%	76.0%	55.2%
PSP Projects	463	0.2	BUY	506	33.6%	17.4%	80.8%	14.8%	3.2%	-3.2%
HG Infra	306	0.3	BUY	408	21.7%	15.0%	13.9%	20.8%	0.0%	0.0%
Gateway Distriparks	170	0.3	BUY	165	11.7%	15.7%	27.8%	41.9%	7.4%	4.3%
JMC Projects	76	0.2	BUY	110	13.2%	14.2%	105.4%	32.9%	8.5%	10.5%
Sadbhav Engineering	78	0.2	BUY	105	67.7%	23.3%	477.4%	54.1%	0.0%	-4.1%

HSIE Coverage	CMP	MCAP ($ Bn)	Rating	TP	Revenue Growth		PAT Growth		Change in PAT estimates	
					FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Capacite Infraprojects	220	0.2	BUY	320	146.2%	25.6%	4374.6%	54.7%	28.8%	24.3%
ITD Cementation	73	0.2	BUY	106	40.1%	20.0%	NA	29.9%	30.4%	40.9%
J Kumar Infraprojects	211	0.2	BUY	220	35.0%	15.0%	133.5%	30.6%	8.7%	11.0%
Real Estate					**28.1%**	**12.1%**	**51.9%**	**27.2%**	**1.9%**	**1.6%**
DLF	306.25	10.4	BUY	320	10.0%	5.0%	25.6%	2.9%	0.5%	0.6%
Oberoi Realty	571.55	2.9	BUY	697	12.1%	17.5%	-21.9%	21.3%	0.0%	0.0%
Prestige Estates	311.75	1.7	ADD	324	12.1%	10.0%	115.3%	16.8%	0.8%	1.0%
Brigade Enterprises	282	0.8	ADD	288	50.6%	12.0%	NA	56.5%	-0.1%	3.2%
Sobha Developers	461.5	0.6	BUY	600	60.9%	15.0%	309.5%	26.3%	0.0%	0.0%
Kolte Patil	249.55	0.3	BUY	321	87.3%	15.0%	784.3%	31.3%	0.9%	0.1%
Phoenix Mills	832.65	2.0	BUY	982	72.7%	15.9%	764.4%	48.5%	6.3%	4.3%
Godrej Properties	1,505	5.2	REDUCE	1,353	65.4%	28.9%	281.5%	126.5%	14.3%	5.3%
IT and Exchanges					**15.6%**	**13.4%**	**19.9%**	**15.0%**	**4.8%**	**4.9%**
Tata Consultancy Services	3,057	157.9	ADD	3,435	16.7%	13.7%	22.6%	15.4%	3.5%	4.0%
Infosys	1,292	75.8	BUY	1,580	18.6%	15.9%	23.9%	16.6%	7.5%	8.5%
HCL Technologies	948	35.4	BUY	1,110	14.8%	13.4%	15.4%	15.4%	1.9%	0.6%
Wipro	433	34.1	ADD	470	10.2%	7.5%	11.5%	8.4%	7.3%	6.9%
Tech Mahindra	1,011	13.5	BUY	1,110	10.0%	11.1%	11.5%	13.5%	4.2%	2.9%
L&T Infotech	3,871	9.3	ADD	4,280	22.8%	18.4%	27.8%	22.2%	10.9%	9.8%
L&T Technologies	2,659	3.8	REDUCE	2,175	18.8%	15.6%	46.5%	18.4%	2.4%	5.5%
Mphasis	1,694	4.4	BUY	1,740	15.2%	12.6%	20.3%	13.4%	1.8%	-2.2%
Mindtree	1,704	3.9	ADD	1,735	14.8%	13.6%	12.6%	12.4%	12.9%	8.3%
MCX	1,501	1.1	ADD	1,770	18.8%	23.6%	16.1%	27.2%	-5.9%	-6.0%
Persistent	1,689	1.8	BUY	1,900	18.7%	16.3%	28.9%	23.7%	6.3%	7.1%
Cyient	617	0.9	ADD	680	10.7%	13.9%	14.8%	18.1%	2.7%	6.7%
TeamLease	3,115	0.7	BUY	3,170	24.3%	22.8%	49.6%	37.6%	3.1%	2.6%
Sonata	396	0.6	BUY	460	17.5%	17.1%	21.0%	17.3%	6.0%	7.5%
Zensar Technologies	243	0.8	ADD	260	8.3%	10.6%	7.9%	12.5%	3.2%	5.0%
CDSL Ltd	554	0.8	BUY	580	8.5%	11.8%	4.0%	12.8%	-3.2%	-1.7%
BSE	586	0.4	BUY	700	18.3%	13.5%	20.5%	14.2%	-2.4%	4.7%
Mastek	1,219	0.4	BUY	1,500	16.6%	14.7%	17.9%	17.7%	3.5%	6.4%
Energy (Oil & Gas)					**18.0%**	**6.3%**	**0.2%**	**6.8%**	**18.9%**	**3.4%**
Reliance Industries	2,068	187.3	ADD	2,330	31.1%	9.8%	37.4%	11.3%	11.5%	7.4%
Oil & Natural Gas Corp	111	19.2	REDUCE	101	10.3%	3.3%	-0.4%	-13.3%	90.8%	25.5%
Indian Oil Corp	99	12.8	ADD	107	14.6%	3.8%	-39.8%	14.9%	13.1%	11.8%
Bharat Petroleum Corp	432	12.9	ADD	461	11.9%	3.9%	-46.1%	13.3%	11.9%	-34.3%
GAIL India	143	8.9	BUY	153	19.8%	12.3%	37.7%	1.2%	31.5%	20.9%
Petronet LNG	246	5.1	BUY	295	23.6%	21.0%	-1.0%	7.7%	2.8%	2.7%
Indraprastha Gas	568	5.5	ADD	588	24.7%	18.1%	16.8%	14.6%	0.0%	0.0%
HPCL	246	5.0	ADD	246	13.4%	4.7%	-32.0%	-9.5%	5.2%	-12.0%
Gujarat Gas	478	4.5	ADD	404	25.0%	10.9%	7.2%	11.6%	8.0%	6.5%
Gujarat State Petronet	259	2.0	BUY	271	1.2%	10.0%	15.4%	9.5%	3.0%	2.6%
OIL India	122	1.8	REDUCE	119	12.0%	2.2%	0.3%	-0.5%	56.9%	29.0%
Mahanagar Gas	1,165	1.6	ADD	1,204	34.6%	12.5%	17.2%	11.8%	6.4%	6.3%
Gulf Oil Lubricants	745	0.5	BUY	880	13.1%	9.6%	7.5%	8.2%	10.0%	1.7%
Cement & Building Materials					**13.2%**	**11.4%**	**7.9%**	**17.0%**	**4.2%**	**5.0%**
UltraTech Cement	6,326	25.1	BUY	6,720	10.9%	9.0%	5.8%	16.7%	11.9%	12.0%
Shree Cement	27,623	13.7	ADD	25,500	11.0%	16.4%	15.3%	16.9%	0.0%	0.0%
Ambuja Cement	283	7.7	BUY	294	13.0%	10.5%	7.9%	6.0%	0.0%	0.0%
ACC	1,788	4.6	BUY	1,985	20.7%	8.7%	8.2%	15.5%	1.9%	8.0%

HSIE Coverage	CMP	MCAP ($ Bn)	Rating	TP	Revenue Growth		PAT Growth		Change in PAT estimates	
					FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Ramco Cements	968	3.1	ADD	908	19.9%	17.5%	6.8%	35.6%	0.0%	0.0%
Dalmia Bharat/ Odisha Cem	1,476	3.8	BUY	1,470	11.1%	11.6%	-24.3%	38.8%	-0.2%	4.1%
JK Cement	2,687	2.9	BUY	2,545	13.8%	16.4%	23.8%	31.8%	5.5%	6.3%
Birla Corporation	889	0.9	BUY	1,371	11.9%	17.7%	11.7%	20.0%	0.0%	0.0%
Heidelberg Cement	231	0.7	BUY	266	18.8%	8.6%	41.7%	4.6%	0.0%	0.0%
STAR Cement	97	0.6	BUY	125	27.8%	13.3%	54.5%	19.0%	0.0%	0.0%
JK Lakshmi	382	0.6	BUY	460	5.0%	9.1%	2.2%	10.6%	0.0%	0.0%
Orient Cement	94	0.3	BUY	117	12.7%	10.1%	-17.3%	28.0%	0.0%	0.0%
Deccan Cement	422	0.1	BUY	535	0.0%	7.7%	-29.1%	-0.1%	4.6%	-1.4%
Supreme Industries	1,947	3.4	ADD	2,045	11.7%	9.8%	-2.6%	4.4%	0.0%	0.0%
Kajaria Ceramics	967	2.1	BUY	1,010	25.4%	15.9%	29.6%	19.1%	0.0%	0.0%
Chemicals					**13.4%**	**13.1%**	**9.6%**	**15.8%**	**1.5%**	**1.1%**
Vinati Organics	1,459	2.1	SELL	1,015	26.3%	13.4%	27.4%	9.7%	-0.4%	-0.6%
Navin Fluorine	2,524	1.7	ADD	2,720	25.5%	27.8%	40.0%	25.2%	0.0%	0.0%
Galaxy Surfactants	2,174	1.1	BUY	2,750	17.8%	11.0%	15.9%	13.5%	8.6%	6.0%
Alkyl Amines	5,184	1.5	ADD	5,450	14.0%	12.3%	10.9%	11.3%	1.7%	0.3%
Balaji Amines	1,647	0.7	ADD	1,540	16.7%	11.7%	2.3%	13.0%	19.9%	19.7%
Aarti Industries	1,229	2.9	BUY	1,440	11.7%	17.5%	1.6%	30.9%	-4.0%	-3.2%
SRF	5,681	4.6	ADD	6,080	8.3%	8.5%	1.3%	8.7%	0.0%	0.0%
Sudarshan Chemical	500	0.5	BUY	605	15.6%	13.7%	8.0%	27.5%	0.0%	-0.1%
Pharma					**9.6%**	**9.1%**	**9.5%**	**16.1%**	**-1.4%**	**-2.2%**
Sun Pharmaceutical Industries	616	20.3	ADD	660	10.2%	8.7%	3.4%	12.2%	6.9%	2.8%
Dr Reddy's Laboratories	4,617	10.6	ADD	5,300	12.5%	10.0%	24.4%	15.2%	-8.3%	-8.3%
Torrent Pharma	2,521	5.9	ADD	2,835	10.7%	10.9%	14.0%	21.4%	-3.6%	-4.0%
Cipla Ltd/India	825	9.2	BUY	1,020	9.6%	8.6%	5.6%	18.5%	-0.2%	0.7%
Aurobindo Pharma	912	7.4	BUY	1,080	3.5%	7.2%	2.5%	10.1%	-2.1%	-2.0%
Lupin	1,049	6.6	BUY	1,175	14.9%	10.1%	62.9%	28.3%	-5.7%	-8.1%
Cadila	468	6.6	ADD	480	8.2%	8.3%	2.4%	20.4%	-6.6%	-2.8%
Alkem Labs	2,841	4.7	BUY	3,370	10.2%	11.1%	-1.8%	15.4%	-4.8%	-5.4%
Ajanta Pharma	1,778	2.1	BUY	2,250	12.9%	12.2%	8.4%	21.0%	2.9%	4.5%
Total					**16.8%**	**9.8%**	**20.8%**	**17.4%**	**7.1%**	**4.2%**

Note: Upside change in PAT estimates above 5% has been highlighted in green and downside change above 5% has been highlighted in red
Source: Bloomberg & HSIE Research

HSIE Model Portfolio

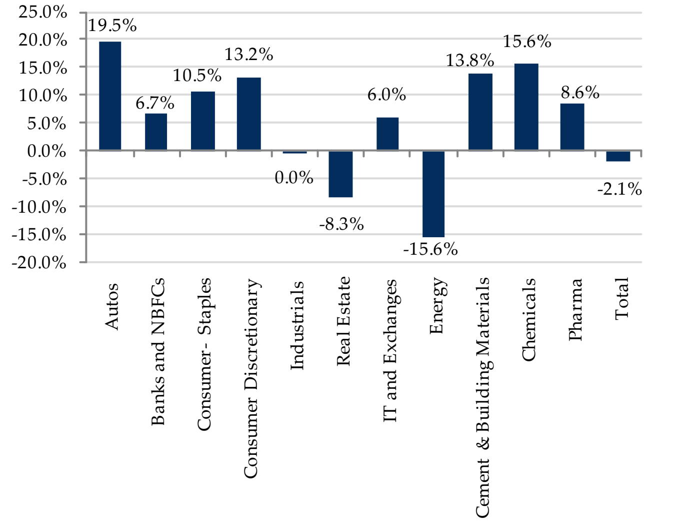
HSIE Model Portfolio	Price	Rating	TP	M Cap ($ Bn)	Model port on 180220			P/E	
					Wt	Port Wt	Rel wt	FY22 E	FY23 E
Nifty	15119				100.0%	100.0%	0 bps		
Autos					**6.2%**	**2.0%**	**-418 bps**		
Eicher Motors	2,650	REDUCE	2,600	10.0	0.5%		-54 bps	29.7	24.0
Mahindra & Mahindra	894	ADD	870	15.3	1.6%		-159 bps	21.7	19.0
Hero MotoCorp	3,523	BUY	3,850	9.7	0.9%		-91 bps	18.6	16.9
Maruti Suzuki India	7,498	BUY	9,000	31.2	1.6%	1.0%	-63 bps	30.0	24.7
Tata Motors	324	BUY	315	14.7	0.8%		-75 bps	21.7	12.1
Bajaj Auto	4,115	BUY	4,200	16.4	0.8%		-75 bps	21.9	18.8
Endurance	1,406	BUY	1,680	2.7		1.0%	100 bps	28.5	23.7
Banks and NBFCs					**40.0%**	**38.5%**	**-150 bps**		
Axis Bank	777	BUY	705	32.8	3.3%	4.4%	114 bps	17.0	13.7
State Bank of India	415	BUY	455	51.0	2.6%	5.6%	297 bps	10.6	8.9
HDFC Bank	1,554			117.9	13.6%	13.6%	0 bps	22.8	19.0
Housing Development Finance Corp	2,745			68.1	7.0%	7.0%	0 bps	24.9	21.5
Kotak Mahindra Bank	1,945	REDUCE	1,717	53.0	3.9%		-392 bps	38.3	31.9
IndusInd Bank	1,046	REDUCE	749	10.9	1.0%		-100 bps	14.5	11.1
Bajaj Finance	5,563	ADD	4,829	46.1	2.2%		-217 bps	40.6	31.1
ICICI Bank #	645	BUY	625	61.3	6.4%	7.9%	148 bps	14.0	10.6
Insurance					**1.0%**	**3.1%**	**210 bps**		
Bajaj Finserv	10,199			22.3	1.0%		-100 bps	27.8	19.9
SBI Life	894	BUY	1,170	12.3		2.1%	210 bps	44.0	43.6
Max Financial	870	ADD	850	4.1		1.0%	100 bps	57.5	51.0
ICICI Securities	414	BUY	650	1.8		1.0%	100 bps	15.8	14.7
Consumer- Staples					**6.5%**	**7.1%**	**55 bps**		
ITC	219	BUY	245	37.1	2.5%	4.1%	160 bps	16.8	15.4
Hindustan Unilever	2,147	REDUCE	2,315	69.4	2.8%		-281 bps	52.1	44.9
Nestle India	16,365	REDUCE	16,326	21.7	0.9%		-93 bps	65.6	56.7
Britannia Industries	3,359	REDUCE	3,589	11.1	0.3%		-30 bps	42.1	37.2
Dabur India	520	ADD	550	12.7		1.0%	100 bps	47.0	41.2
United Spirits	560	ADD	640	5.6		1.0%	100 bps	42.9	35.2
Radico Khaitan	562	ADD	546	1.0		1.0%	100 bps	20.5	17.9
Consumer Discretionary (ex-Autos)					**2.7%**	**0.0%**	**-274 bps**		
Titan Co	1,433	SELL	1,300	17.5	0.3%		-25 bps	62.7	51.1
Asian Paints	2,471	SELL	2,300	32.6	2.5%		-248 bps	63.1	53.3
Industrials (Infra+ Cap Goods)					**3.0%**	**5.4%**	**235 bps**		
Larsen & Toubro	1,525	BUY	1,657	29.5	2.4%	4.3%	194 bps	20.9	17.5
Adani Ports & Special Economic Zone	664			18.6	0.6%		-64 bps	21.5	18.4
KNR Constructions	217	BUY	281	0.8		1.1%	105 bps	22.2	17.4
IT and Exchanges					**15.3%**	**15.0%**	**-25 bps**		
Wipro	433	ADD	470	34.1	1.1%		-106 bps	20.8	19.0
Infosys	1,292	BUY	1,580	75.8	6.9%	6.5%	-42 bps	24.5	21.7
HCL Technologies	948	BUY	1,110	35.4	1.6%	0.5%	-113 bps	17.9	16.0
Tata Consultancy Services	3,057	ADD	3,435	157.9	4.7%	2.0%	-270 bps	28.9	25.9
Tech Mahindra	1,011	BUY	1,110	13.5	1.0%	2.0%	105 bps	17.0	15.2
Mphasis	1,694	BUY	1,740	4.4		1.0%	100 bps	21.5	19.0
Persistent	1,689	BUY	1,900	1.8		1.0%	100 bps	24.3	20.5
TeamLease	3,115	BUY	3,170	0.7		1.0%	100 bps	43.1	33.3
CDSL	554	BUY	580	0.8		1.0%	100 bps	29.5	26.7
Energy (Oil & Gas)					10.8%	9.5%	-131 bps		

HSIE Model Portfolio	Price	Rating	TP	M Cap ($ Bn)	Model port on 180220			P/E	
					Wt	Port Wt	Rel wt	FY22 E	FY23 E
Reliance Industries	**2067.7**	**ADD**	**2,330**	**187.3**	**9.0%**	**4.5%**	**-450 bps**	**22.6**	**18.5**
Bharat Petroleum Corp	432	ADD	461	12.9	0.6%		-60 bps	10.4	9.1
Indian Oil Corp	99	ADD	107	12.8	0.3%		-28 bps	5.9	5.3
Oil & Natural Gas Corp	111	REDUCE	101	19.2	0.4%		-42 bps	7.4	6.3
GAIL India	143	BUY	153	8.9	0.5%	2.0%	149 bps	9.0	8.5
Indraprastha Gas	568	ADD	588	5.5		1.0%	100 bps	26.7	23.3
Gujarat Gas	478	ADD	404	4.5		1.0%	100 bps	24.2	20.5
Gujarat State Petronet	259	BUY	271	2.0		1.0%	100 bps	7.8	6.9
Metals & Mining					**2.7%**	**1.3%**	**-147 bps**		
Hindalco Industries	310			9.6	0.6%		-64 bps	9.9	9.4
Tata Steel	698			11.1	0.7%		-68 bps	7.2	7.6
JSW Steel	408			13.6	0.6%		-64 bps	11.0	10.4
Vedanta	195			10.0	0.4%		-45 bps	7.3	7.2
Coal India	140			11.9	0.3%	1.3%	94 bps	6.1	5.8
Cement					**3.1%**	**3.3%**	**19 bps**		
UltraTech Cement	6,326	BUY	6,720	25.1	1.1%	1.1%	-3 bps	30.2	25.2
Grasim Industries	1,230			11.1	0.7%		-72 bps	23.0	20.7
Shree Cement	27,623	ADD	25,500	13.7	1.3%		-126 bps	45.8	38.3
JK Cement	2,687	BUY	2,545	2.9		1.1%	110 bps	25.5	21.9
Birla Corporation	889	BUY	1,371	0.9		1.1%	110 bps	12.3	10.3
Chemicals					**0.4%**	**2.9%**	**247 bps**		
UPL	541			5.7	0.4%		-53 bps	11.6	9.9
AARTI Industries	1,229	BUY	1,440	2.9		1.0%	100 bps	30.3	23.2
Galaxy Surfactants	2,174	BUY	2,750	1.1		1.0%	95 bps	24.5	21.4
Alkyl Amines	5,184	ADD	5,450	1.5		1.0%	95 bps	40.6	33.5
Media					**0.3%**	**0.0%**	**-27 bps**		
Zee Entertainment Enterprises	212			2.8	0.3%		-27 bps	13.0	11.3
Pharma					**2.6%**	**3.9%**	**126 bps**		
Sun Pharmaceutical Industries	616	ADD	660	20.3	1.1%		-110 bps	24.2	21.1
Cipla Ltd/India	825	BUY	1,020	9.2	0.7%	1.9%	124 bps	24.2	20.1
Dr Reddy's Laboratories	4,617	ADD	5,300	10.6	0.9%		-87 bps	24.2	19.8
Aurobindo Pharma	912	BUY	1,080	7.4		1.0%	100 bps	15.1	13.6
Alkem Labs	2,841	BUY	3,370	**4.7**		1.0%	100 bps	21.4	18.7
Telecom					2.5%	3.2%	72 bps		
Bharti Airtel	**589.05**			**44.2**	**2.2%**	**3.2%**	**96 bps**	**-ve**	**40.4**
Indus Towers	260			9.6	0.2%		-24 bps	11.0	10.3
Utilities					1.4%	4.0%	257 bps		
NTPC	**103.4**			**14.1**	**0.6%**	**2.0%**	**136 bps**	**6.9**	**5.8**
Power Grid Corp of India Ltd	237			17.0	0.8%	2.0%	121 bps	8.7	8.0
Cash					**0.0%**	**0.9%**	**90 bps**		

Note: CMP as on 18.02.2021
Stocks highlighted pink represent those which are a part of nifty but not under HSIE coverage
Source: Bloomberg and HSIE Research

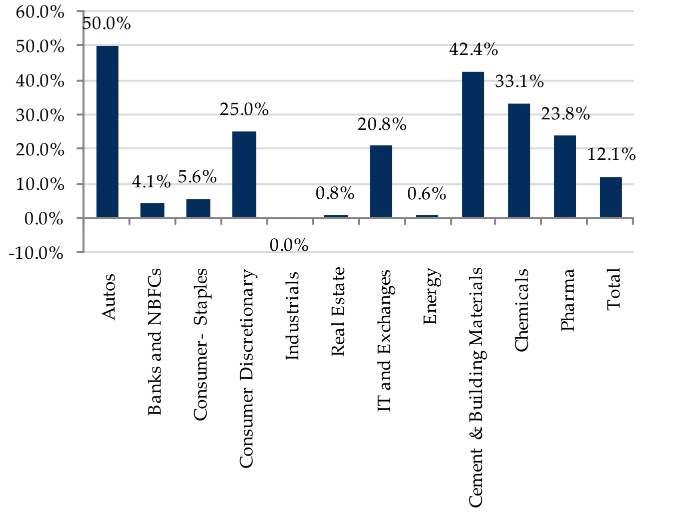
Sectorwise Growth (YoY)- Q3FY21

YoY Revenue Growth



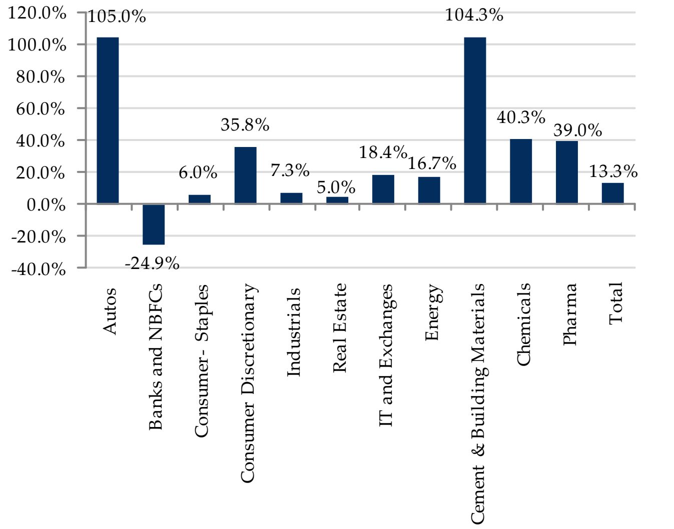
Source: Bloomberg, HSIE Research

YoY EBITDA Growth



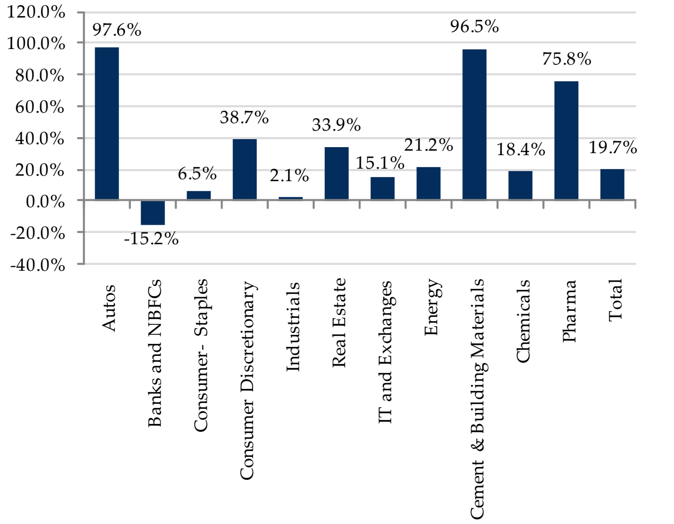
Source: Bloomberg, HSIE Research

YoY PBT Growth



Source: Bloomberg, HSIE Research

YoY PAT Growth



Source: Bloomberg, HSIE Research

AMC, Broking & Insurance

SBI Life Insurance

Growth returns

With business recovery underway (3QFY21 APE: +4.3/29.6% YoY/QoQ), along with an increasing adj. VNB (VNB: +7.1/37.5% YoY/QoQ), we believe SBILIFE is on track to deliver a respectable FY21E (APE/VNB 0.4/3.9% YoY). We are fans of the strong distribution footprint of its parent SBI (24k+ branches), improving protection share (9MFY21: 11.1%, +314bps YoY), and lowest operating cost ratios (9MFY21: 8.5%, -150bps YoY). We expect SBILIFE to deliver a healthy FY21-23E VNB CAGR of 11.4% and RoEVs of ~15.0-16.7% over FY21-23E. We retain our BUY rating on SBILIFE with an increased TP of Rs 1,170 (Sep-22E EV + 26.3x Sep-22E VNB). The stock is currently trading at FY22/23E P/EV of 2.4/2.1x and P/VNB of 20.1/15.6x. Lower growth, renewals, and protection share are key risks.

- **3QFY21 highlights**: Total APE at Rs 33.0bn (4.3/29.6% YoY/QoQ) was in line with estimates. Increased awareness and company's strong focus resulted in the YoY doubling of individual protection, with share increasing by 300bps YoY to 6.3%. ROP product is driving growth. ULIPs/NPAR stole the show with growth of 48.0/50.0% QoQ; this resulted in 854/140bps QoQ increase in the share to 68.6/10.3%. Persistency during 9MFY21 improved across cohorts except for the 49th month on a YoY basis and was reflected in strong renewal premiums, which grew 24.3/18.0% YoY/QoQ. Total expense ratio was contained at 8.4% (-107/+62bps YoY/QoQ) as the company continues to keep a strong vigil on costs. Commission ratio increased 61bps QoQ to 3.8% as growth returned. Solvency improved to 234% (+400bps YoY) as equity markets recovered. AUM growth was strong at 27.6/12.4% YoY/QoQ.
- **Adj. VNB margin** (at ETR) at 21.5% improved 56/123bps YoY/QoQ, while reported VNBM (at ATR) was at 19.3% (+100bps YoY). Reported margin improved 100bps YoY, mainly due to (1) mix change (+370bps, higher share of NPAR savings and protection), (2) change in operating assumptions (-110bps), and (3) change in economic assumptions (-150bps, mainly risk-free rate). Protection contributes 26-30% to VNB, implying a margin of ~63.9%.
- **Outlook:** We expect SBILIFE to deliver an APE/VNB growth of 0.4/3.9% in FY21E. The company is in the process of obtaining approvals on its revised protection product filing- expected to be very competitively priced. Overall, we expect FY21E-23E APE/VNB CAGR of 10.3/11.4% YoY.

Financial Summary

(Rs mn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
NBP	54.40	49.70	9.5	59.50	-8.6	137.9	165.9	176.0	202.5	241.5
APE	35.05	33.60	4.3	27.05	29.6	96.9	107.4	107.8	124.9	144.5
Adj. VNB	7.53	7.03	*7.1*	5.48	*37.5*	19.2	22.2	23.1	27.1	31.9
Adj. VNBM (%)	21.5	20.9	56bps	20.2	123bps	19.8	20.7	21.4	21.7	22.1
EV						236.6	276.4	317.8	365.6	417.7
MCap/EV (x)						3.6	3.1	2.7	2.4	2.1
P/VNB (x)						34.5	28.2	25.4	20.1	15.6
ROEV(%)						18.9	16.8	15.0	16.4	16.7

Source: Company, HSIE Research

BUY

CMP *(as on 22 Jan 2021)*	Rs 862
Target Price	Rs 1,170
NIFTY	14,372

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 1,140	Rs 1,170
VNB %	FY21E	FY22E
	2.4	2.4

KEY STOCK DATA	
Bloomberg code	SBILIFE IN
No. of Shares (mn)	1,000
MCap (Rs bn) / ($ mn)	862/11,809
6m avg traded value (Rs mn)	1,404
52 Week high / low	Rs 1,020/519

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	10.3	0.3	(12.2)
Relative (%)	(10.2)	(28.8)	(31.1)

SHAREHOLDING PATTERN (%)	Sep-20	Dec-20
Promoters	60.7	60.7
FIs & Local MFs	7.0	5.9
FPIs	25.8	27.0
Public & Others	6.5	6.4
Pledged Shares	Nil	Nil

Source : BSE

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ICICI Prudential Life

Non-linked business drives growth

We like IPRU's re-engineered business model, which is focused on a more diversified product mix, industry-leading protection share (9MFY21: 13.0%) and increasing share of traditional products (9MFY21: 28.5%). It is expected to drive margins higher by 435bps YoY in FY21E to 26.1%. We expect VNB to grow at FY21E-23E CAGR of 14.5%. We retain our ADD rating with a higher DCF-derived target price of Rs 545 (Sep-21 EV + 26.3x Sep-22E VNB). The stock is currently trading at FY22/23E P/EV of 2.4/2.1x and P/VNB of 26.1/20.6x. Key risks are lower-than-expected growth, protection share.

- **3QFY21 highlights**: Total APE grew -18.2/+13.9% YoY/QoQ to Rs 16.7bn. Protection share moderated to 15.4% (+230/-40bps YoY/QoQ) as individual protection declined 36.3/1.5% YoY/QoQ to Rs 1.3bn, while group protection saw strong growth at 117.7/28.1% YoY/QoQ on the back of increased group term insurance and credit protect. Management stated that retail protection growth moderated as it focused on risk management in a pandemic-hit environment and was not writing large ticket size business as ability to conduct medicals was limited. Led by lower share of individual protection (-130bps QoQ) and non-linked savings (-80bps QoQ) in the mix, partially offset by strong growth in group protection +117.7/28.9% YoY/QoQ, VNB margins declined sequentially 170bps to 25.7%. IPRU added RBL Bank and AU SMB as partners, in addition to IndusInd Bank and IDFC First Bank; we believe these additions can drive significant growth over the long term. IPRU also launched a deferred annuity, as hedging becomes viable with the use of FRAs, which too were at a favourable rate. Management stated that COVID reserve has not been used and some of it may get released based on experience over the next few months.
- Persistency for 8MFY21 improved 60/50bps QoQ for 31st/61st month, with persistency improving even for ULIPs. Renewal premium grew 8.7% YoY, while PAT growth was weak at +1.3/1.0% YoY/QoQ at Rs 3.1bn.
- **Outlook**: We expect IPRU to deliver APE/VNB growth of 16.6/11.7% YoY in FY21E. High share of traditional and protection products drive VNB growth.

Quarterly financial summary

(Rs bn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
NBP	34.7	30.4	*14.3*	28.5	*21.9*	103.6	124.9	107.9	126.5	148.6
APE	16.7	20.4	*-18.3*	14.7	*13.7*	78.0	73.8	60.0	70.0	80.8
VNB	4.28	4.26	*0.5*	4.01	*6.7*	13.3	16.1	15.7	17.5	20.5
VNBM (%)	25.7	20.9	*480bps*	27.4	*-170bps*	17.0	21.7	26.1	25.0	25.4
EV						216.2	230.3	261.1	296.0	335.2
P/EV (x)						3.3	3.1	2.8	2.4	2.1
P/VNB (x)						39.9	31.3	31.1	26.1	20.6
ROEV (%)						19.6	8.4	13.7	14.7	15.3

Source: Company, HSIE Research

Change in estimates

(Rs bn)	FY21E			FY22E			FY23E		
	Revised	Old	*Change % / bps*	Revised	Old	*Change % / bps*	Revised	Old	*Change % / bps*
APE	60.0	60.0	*0.0*	70.0	68.6	*2.0*	80.8	78.6	*2.8*
VNB	15.7	15.5	*1.2*	17.5	17.6	*-0.4*	20.5	20.4	*0.4*
VNBM (%)	26.1%	25.8%	*30*	25.0%	25.6%	*-60*	25.4%	26.0%	*-60*
EV	261.1	260.9	*0.1*	296.0	296.1	*0.0*	335.2	334.1	*0.3*

Source: Company, HSIE Research

ADD

CMP *(as on 27 Jan 2021)*	**Rs 499**
Target Price	**Rs 545**
NIFTY	**13,968**

KEY CHANGES	**OLD**	**NEW**
Rating	ADD	ADD
Price Target	Rs520	Rs 545
	FY21E	FY22E
VNB %	+1.2%	-0.4%

KEY STOCK DATA	
Bloomberg code	IPRU IN
No. of Shares (mn)	1,436
MCap (Rs bn) / ($ mn)	716/9,825
6m avg traded value (Rs mn)	999
52 Week high / low	Rs 538/222

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	21.0	9.0	(5.2)
Relative (%)	3.0	(15.3)	(19.1)

SHAREHOLDING PATTERN (%)	**Sep-20**	**Dec-20**
Promoters	73.5	73.5
FIs & Local MFs	4.6	4.6
FPIs	15.8	15.8
Public & Others	6.1	6.1
Pledged Shares	0.0	0.0

Source : BSE

Pledged shares as % of total shares

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ICICI Lombard

COR continues to improve

While FY21E is expected to be a muted year in topline growth, ICICIGI is expected to deliver lower CORs. Lower COVID-19 cases and vaccination make us incrementally positive on the health segment. Additionally, changing motor regulations are expected to drive down both claims and tariffs, creating supernormal profitability in the short term. We believe that this period (of supernormal profitability) will be shortlived, as we expect IRDAI to restrict TP pricing growth, thereby limiting profitability. We believe the market is not factoring in this risk; accordingly, we rate ICICIGI a REDUCE with a revised target price of Rs 1,230 (DDM derived Sep-22E P/E of 27.9x and a P/ABV of 5.4x).

- **3QFY21 highlights**: NEP was 2.3% below estimates at Rs 26.1bn (6.3/6.0% YoY/QoQ) as 3Q saw strong growth in new business, which yet needs to be earned. Overall loss ratios improved to 65.9% (-579/-127bps bps YoY/QoQ) as the company saw reserve releases in motor TP (9MFY21: 65.7%, -10bps vs. 1HFY21) and health segments (9MFY21: 77.3%, -150bps vs. 1HFY21). Management stated that non-COVID claims were below pre-COVID levels. Loss ratios were also down for P&C segments, e.g. Property (9MFY21: 73.9%, -1,060bps vs. 1HFY21). Overall, 3QFY21 CoR (calculated) was at 98.6% (-92/-210bps YoY/QoQ), as lower claims ratio was offset by higher commission ratio (7.0%, +409/37bps YoY/QoQ) and expense ratios (25.7%, +78/-119bps YoY/QoQ). Commission and expense ratios were higher on account of 20.7/28.8% YoY/QoQ growth seen in NWP. The company has grown motor OD business selectively. Within health, credit-linked business declined 34.4% YoY due to ICICI Bank's reduced focus. Investment yield (including unrealised MTM) was 13.1% (+393/102bps YoY/QoQ). ICICIGI posted an APAT of Rs 3.17bn +7.9/-27.7% YoY/QoQ.
- **Outlook**: We expect FY21E to be a muted year in terms of NEP growth; however, lower loss ratios should result in higher margins.

Quarterly financial summary

(Rs bn)	3QFY21	3QFY20	YoY(%)	2QFY21	QoQ(%)	FY19	FY20	FY21E	FY22E	FY23E
Premium (NEP)	26.11	24.56	*6.3*	24.63	*6.0*	83.8	94.0	100.2	133.7	152.7
Operating profit	4.23	3.75	*13.0*	5.85	*(27.7)*	16.2	16.5	21.1	27.0	32.5
OP margin (%)	16.2	15.3	*95bps*	23.8	*-757bps*	19.4	17.5	21.0	20.2	21.3
APAT	3.17	2.94	*7.9*	4.39	*(27.7)*	10.5	12.3	15.5	19.8	23.9
AEPS	6.5	6.0	*7.9*	8.9	*(27.7)*	23.1	27.1	34.0	40.3	48.6
P/E (x)						65.4	55.6	44.3	37.4	31.0
P/B (x)						12.3	11.8	8.8	7.2	6.1
ROE (%)						19.2	21.7	22.7	19.5	17.9

Note: FY22E onwards, numbers include Bharti AXA GI's merger.
Source: Company, HSIE Research

Estimate Change

Rs bn	FY21E			FY22E			FY23E		
	Revised	Old	*Change %/bps*	Revised	Old	*Change %/bps*	Revise	Old	*Chan %/bp*
Premium (NWP)	107	103	*4.0*	137	137	*0.2*	157	157	*0.2*
Premium (NEP)	100	100	*0.3*	134	133	*0.2*	153	152	*0.2*
COR (%)	98.6	98.5	*4bps*	99.0	99.1	*-7bps*	99.6	99.7	*-6bps*
COR (%) IRDAI	94.4	95.7	*-129bps*	92.2	92.3	*-12bps*	92.6	92.7	*-10bps*
APAT	15	16	*(2.0)*	20	19	*1.7*	24	23	*2.2*

Source: Company, HSIE Research

REDUCE

CMP *(as on 19 Jan 2021)*	**Rs 1,510**
Target Price	**Rs 1,230**
NIFTY	**14,521**

KEY CHANGES	**OLD**	**NEW**
Rating	REDUCE	REDUCE
Price Target	Rs 1,210	Rs 1,230
EPS %	FY21E	FY22E
	-2.0	+1.7

KEY STOCK DATA	
Bloomberg code	ICICIGI IN
No. of Shares (mn)	455
MCap (Rs bn) / ($ mn)	686/9,378
6m avg traded value (Rs mn)	832
52 Week high / low	Rs 1,626/805

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	20.4	17.2	6.9
Relative (%)	(1.8)	(16.3)	(10.9)

SHAREHOLDING PATTERN (%)

	Sep-20	Dec-20
Promoters	51.9	51.9
FIs & Local MFs	13.6	12.5
FPIs	27.1	28.4
Public & Others	7.4	7.2
Pledged Shares	0.0	0.0

Source : BSE

Pledged shares as % of total shares

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Max Financial

NPAR business drives margin beat

MAXL delivered an APE growth of 21.3% YoY (beating the top 3 listed peers). Higher share of NPAR business coupled with better fixed cost absorption drove margins higher by 488bps YoY to 25.9% in 9MFY21. We expect margins to slightly moderate in 4QFY21 as proportion of PAR and ULIPs increases in 4Q. We expect an FY21-23E APE/VNB CAGR of 13.8/11.1% and have adjusted our estimates to build in higher margins. We retain our ADD rating with a higher target price of INR 850 (Sep-21E EV + 24.2x Sep-22E VNB *less* group level expenses and hold-co discount).

- **3QFY21 highlights:** Total APE was broadly in-line with estimates at INR 12.4bn (21.3/6.2% YoY/QoQ). The share of protection in the mix moderated to 11.9% as individual/group protection declined 23.8/28.2% QoQ, however group credit protect grew 50.0% sequentially as disbursements picked up across partners. Share of NPAR savings in the mix was higher (35.3%, +1,533/-422bps YoY) as a result of launch of new NPAR products. Share of ULIP revived as customers returned to market-linked products. Strong beat on VNB margin (+707bps vs. estimates) at 28.6% (758/41bps YoY/QoQ) was driven by a significantly higher share of NPAR savings.
- Persistency declined (on YoY basis) across all cohorts except for the 61st month. Sequentially persistency remained flat across buckets except for the 49th/61st month (-100bps/+100bps). Share of Banca channel continues to increase (+325/210bps YoY/QoQ) to 72.0% (we believe this is mainly due to strong performance of AXSB), while declining for the proprietary channel to 27.5% (-275/239bps YoY/QoQbps). AUM growth was healthy at 23.5/9.0% YoY/QoQ to INR 847bn. Max reported solvency of 208%. Operating RoEV was at 18.0% for 9MFY21.
- **MAXF-AXSB deal update:** CCI approval for Axis Bank and subsidiaries to take stake in MAXL has been received, while application to IRDAI for the same is in progress.
- **Outlook:** NPAR business is expected to moderate in 4QFY21. For FY21E, we expect MAXL to deliver an APE/VNB growth of 13.8/11.1% YoY.

Financial Summary

(INR bn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
NBP	17.5	14.0	*24.8*	16.0	*9.7*	51.6	55.8	63.3	71.0	82.8
APE	12.3	10.1	*21.3*	11.5	*6.2*	39.5	41.5	47.1	52.6	61.1
VNB	3.50	2.12	*65.1*	3.25	*7.7*	8.6	9.0	12.2	12.8	15.1
VNB Margin (%)	28.6	21.0	*758bps*	28.2	*41bps*	21.7	21.6	25.9	24.4	24.7
EV						89.7	99.8	117.7	137.7	161.2
MCap/EV (x)*						4.0	2.7	2.7	2.3	2.0
P/Adj. VNB (x)*						43.1	26.1	17.8	15.5	11.9
ROEV						22.4	20.3	17.9	19.6	19.5

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

Estimate Change

INR bn	FY21E			FY22E			FY23E		
	Revised	Old	Change %/bps	Revised	Old	Change %/bps	Revised	Old	Change %/bps
APE	47.1	46.5	*1.3*	52.6	51.9	*1.3*	61.1	60.3	*1.3*
VNB	12.2	10.4	*17.7*	12.8	11.5	*11.4*	15.1	13.6	*10.7*
VNB Margin	25.9	22.3	*360bps*	24.4	22.2	*220bps*	24.7	22.6	*210bps*
EV	117.7	115.8	*1.6*	137.7	134.6	*2.3*	161.2	156.5	*3.0*

Source: Company, HSIE Research

ADD

CMP ***(as on 9 Feb 2021)***	**Rs 738**
Target Price	**Rs 850**
NIFTY	**15,109**

KEY CHANGES	**OLD**	**NEW**
Rating	ADD	ADD
Price Target	Rs 800	Rs 850
	FY21E	FY22E
VNB %	17.7%	11.4%

KEY STOCK DATA	
Bloomberg code	MAXF IN
No. of Shares (mn)	345
MCap (Rs bn) / ($ mn)	255/3,495
6m avg traded value (Rs mn)	1,126
52 Week high / low	Rs 752/276

STOCK PERFORMANCE (%)

	3M	**6M**	**12M**
Absolute (%)	20.5	39.6	54.3
Relative (%)	(0.0)	4.7	29.6

SHAREHOLDING PATTERN (%)

	Sep-20	**Dec-20**
Promoters	22.3	17.3
FIs & Local MFs	30.4	29.0
FPIs	32.4	19.7
Public & Others	14.9	34.1
Pledged Shares	22.3	17.1

Source : BSE

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GIC Reinsurance

Weak CoRs yet again

GICRE is India's largest reinsurer, but it continues to make significant underwriting losses (3QFY21 COR: 107.9%). A calibrated approach to underwriting is expected to change this over FY21-23E. While we are not entirely convinced about the pathway to underwriting profitability, we are enthused by the company's exit from weak portfolios; inexpensive valuations—FY22E P/ABV of 0.5x—result in our BUY recommendation with a target price of Rs 178. We estimate an FY22/23E adj. RoE of 9.4/11.5%, and value GICRE at 0.7x Sep-22E ABV less 10% discount for an additional 10.8% stake to be sold by GoI.

- **3QFY21 highlights:** NEP grew **+14.9/-4.1% YoY/QoQ** to **Rs 91.7bn** as crop segment delivered strong 32.1% YoY growth. COR (cal.) at 107.9% (-2,136/-1,421bps YoY/QoQ) was broadly in line with estimates as ICR came down 1,835/1,137bps YoY/QoQ to 88.7%. This was mainly due to lower losses in property and health segments. Commission ratio declined 252/210bps YoY/QoQ to 18.4%.
- **Crop (23.3% of 9MFY21 NWP)** declined 40.6% YoY (9MFY21) as management consciously reduced exposure to loss-making geographies such as MP and TN (for rabi season). CORs are high at 111.8% as the segment was seeing loss development of the business underwritten in FY19 resulting in higher CORs. Additionally, management stated that it had provided an ICR of 83% for the kharif season, for which it expected a final loss ratio of only 75%; potential reserve releases to the tune of Rs 5bn may materialise in 4Q if all goes well. Despite price hikes, the **Property segment (23.8% of 3Q NWP)** reported a COR of 114.8% in 9MFY21, mainly due to provisions related to CAT events in Japan and hurricanes in the U.S. **Motor (22.7% of 3Q NWP)** reported CoR of 101.3% due to better underwriting in the international book. Loss ratios remain high in domestic business at 108.2%. Management stated that provisioning is conservative and that there may be reserve releases in 4Q. **International:** Renewals in Jan-21 have been lower by 18%, despite price hikes of 8-15%. This should aid profits in FY22.
- Investment book grew 10.7% QoQ to Rs 881bn as equity markets posted strong gains. Realised investment yields (net of provisions) came in at 12.0% (annualized) as the corporation booked equity gains. GICRE provided Rs 0.9bn for bad investments in R Cap and Simplex Infra. Solvency deteriorated to 153%.
- **Outlook: GICRE claims that it is exiting weak portfolios and moving towards underwriting profitability; we await better performance.**

Quarterly financial summary

(Rs bn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Premium (NEP)	91.72	79.82	*14.9*	95.60	*-4.1*	382.5	443.5	409.1	445.1	482.6
COR (%)	107.9	129.2	*-2,136bps*	122.1	*-1,421bps*	105.1	114.1	112.5	106.0	103.7
APAT	9.31	-10.36	*NM*	2.28	*307.79*	27.6	-2.7	16.1	17.8	28.7
AEPS	5.3	-5.9	*NM*	1.3	*307.8*	15.7	-1.6	9.2	10.1	16.4
P/E (x)						9.1	NM	15.6	14.1	8.7
P/ABV (x)						0.5	0.7	0.6	0.5	0.5
Adj. ROE (%)						6.9	-28.8	24.6	9.4	11.5

Estimate Change

Rs bn	FY21E			FY22E			FY23E		
	Revised	Old	*Change %/bps*	Revised	Old	*Change %/bps*	Revised	Old	*Change %/bps*
Premium (NWP)	414	426	*(2.9)*	459	460	*(0.3)*	500	502	*(0.3)*
Premium (NEP)	409	407	*0.5*	445	442	*0.7*	483	484	*(0.3)*
COR (%)	112.5	112.0	*43bps*	106.0	106.2	*-18bps*	103.7	103.8	*-5bps*
COR (%) IRDAI	112.5	112.0	*43bps*	106.0	106.2	*-18bps*	103.7	103.8	*-5bps*
APAT	16	11	*53.1*	18	17	*2.2*	29	28	*1.8*

Source: Company, HSIE Research

BUY

CMP *(as on 12 Feb 2021)*	**Rs 143**
Target Price	**Rs 178**
NIFTY	**15,163**

KEY CHANGES	**OLD**	**NEW**
Rating	BUY	BUY
Price Target	Rs 165	Rs 178
EPS %	FY21E	FY22E
	53.1%	2.2%

KEY STOCK DATA

Bloomberg code	GICRE IN
No. of Shares (mn)	1,754
MCap (Rs bn) / ($ mn)	250/3,437
6m avg traded value (Rs mn)	75
52 Week high / low	Rs 243/82

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	14.3	(0.3)	(40.1)
Relative (%)	(4.6)	(34.6)	(64.1)

SHAREHOLDING PATTERN (%)

	Sep-20	Dec-20
Promoters	85.8	85.8
FIs & Local MFs	12.0	11.8
FPIs	0.3	0.2
Public & Others	2.0	2.2
Pledged Shares	Nil	Nil

Source : BSE

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New India Assurance

High COR dents profits

NIACL is India's largest insurer but continues to make high underwriting losses. We note that the company's competitive positioning is weakening and remain concerned about its ability to write profitable business. We estimate an FY23E adj. ROE of just 8.7% and can at best assign a valuation of just 0.6x Sep-22E ABV (less 10% discount for additional 10.4% supply). We rate NIACL a SELL with a TP of INR 106.

- **3QFY21 highlights**: NWP grew +7.5/-3.0% YoY/QoQ to INR 63.8bn as health portfolio posted strong growth (+15.2/10.8% YoY/QoQ) along with motor growing 5.3/13.7% YoY/QoQ. NWP for Crop grew 7.7x YoY; thus, ex. Crop, NWP grew 5.6% YoY to INR 62.5bn. This resulted in a higher-than-expected growth in NEP at INR 67.2bn (+8.8/1.8% YoY/QoQ). Loss ratios in motor OD/motor TP/ health shot up to 99.0/79.0/106.0% in 3Q vs. 64.0/63.0/74.0% in 1HFY21. Coupled with provision for pension liability due to fall in interest rates (INR 4.7bn), it resulted in overall 3QFY21 COR at 116.6% (+90/860bps YoY/QoQ). Investment income (net of provisions) was at INR 18.0bn (-18.5/34.7% YoY/QoQ), resulting in a realised investment yield of 11.6%, most likely driven by booking of equity gains. Full provisions on investments in debentures of ILFS/RCAP for INR 195/2,032mn were made in 3QFY21. Total investment yield (including MTM) for the quarter was 36.1% (annualised), given strong equity market performance. Solvency remains strong at 215% (+500/+100bps YoY/QoQ). Higher-than-estimated underwriting losses were partially offset by higher investment income, resulting in a decline of 41.6/5.8% YoY/QoQ APAT of INR 6.3bn. RPAT at INR 5.2bn (+7.7/-7.1% YoY/QoQ).
- **Outlook**: We expect FY21E to be a muted year in terms of NEP/APAT growth (FY21E: 4.6/-38.5% YoY) but we expect underwriting losses to reduce substantially (-56.1% YoY).

Quarterly financial summary

(Rs bn)	3QFY21	3QFY20	*YoY(%)*	2QFY21	*QoQ(%)*	FY19	FY20	FY21E	FY22E	FY23E
Premium (NEP)	67.2	61.8	*8.8*	66.0	*1.8*	216.1	236.6	262.8	284.8	306.2
Operating profit	7.91	13.08	*(39.5)*	8.16	*(3.1)*	6.3	27.5	22.8	17.7	21.5
OP margin (%)	11.8	21.2	*-940bps*	12.4	*-60bps*	2.9	11.6	8.7	6.2	7.0
APAT	6.23	10.72	*(41.8)*	6.64	*(6.2)*	6.0	24.1	17.0	13.4	16.2
AEPS	3.8	6.5	*(41.8)*	4.0	*(6.2)*	3.7	14.7	10.3	8.2	9.8
P/E (x)						37.2	9.3	13.2	16.7	13.9
P/ABV (x)						0.7	0.9	0.7	0.7	0.6
AROE (%)						0.5	-21.0	30.2	8.9	8.7

Source: Company, HSIE Research

Estimate Change

Rs bn	FY21E			FY22E			FY23E		
	Revised	Old	*Change %/bps*	Revised	Old	*Change %/bps*	Revised	Old	*Change %/bps*
Net written premium	270.9	254.3	*6.5*	293.6	279.7	*4.9*	315.6	304.5	*3.7*
Net earned premium	262.8	246.7	*6.5*	284.8	271.3	*4.9*	306.2	295.4	*3.7*
COR (%)	109.6	108.5	*110bps*	107.6	107.6	*0bps*	107.3	107.2	*10bps*
COR (%) IRDAI	105.5	104.1	*137bps*	103.7	103.5	*19bps*	103.5	103.3	*24bps*
Underwriting profits	(27.6)	(23.0)	*NM*	(23.8)	(22.6)	*NM*	(24.6)	(23.4)	*NM*
APAT	17.0	14.5	*17.2*	13.4	13.8	*(2.4)*	16.2	18.4	*(11.8)*
Investment book	664.5	607.7	*9.3*	702.2	629.5	*11.5*	755.4	671.1	*12.6*
Adj. ROE (%)	30.2	18.9	*1130bps*	8.9	5.3	*357bps*	8.7	6.7	*198bps*

Source: Company, HSIE Research

SELL

CMP *(as on 15 Feb 2021)*	**Rs 136**
Target Price	**Rs 106**
NIFTY	**15,315**

KEY CHANGES	**OLD**	**NEW**
Rating	SELL	SELL
Price Target	Rs 110	Rs 106
EPS %	FY21E	FY22E
	+17.2	-2.4

KEY STOCK DATA	
Bloomberg code	NIACL IN
No. of Shares (mn)	1,648
MCap (Rs bn) / ($ mn)	225/3,095
6m avg traded value (Rs mn)	74
52 Week high / low	Rs 144/74

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	19.6	17.4	(0.3)
Relative (%)	0.1	(20.3)	(26.7)

SHAREHOLDING PATTERN (%)	**Sep-20**	**Dec-20**
Promoters	85.4	85.4
FIs & Local MFs	13.3	13.5
FPIs	0.0	0.0
Public & Others	1.2	1.2
Pledged Shares	0.0	0.0

Source : BSE

Pledged shares as % of total shares

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HDFC securities
INSTITUTIONAL RESEARCH

Nippon Life India Asset Management

Cost optimization to drive earnings

NAM has been able to stabilise its equity market share over the past two quarters to 7.0%. We expect it to focus on improving performance and continue to recoup its lost market share. Additionally, we expect the company to benefit from increased credibility to raise HNI/institutional capital. Driven by cost optimization, we increase our estimates and now expect the company to deliver an FY21-23E revenue/NOPLAT CAGR of 12.6/16.9%. We upgrade the stock one notch to ADD with a target price of Rs 335, valuing the stock at 36x Sep-22E NOPLAT + cash and investments. The stock is currently trading at FY22E/23E EV/NOPLAT of 37.1/30.1 and P/E of 32.6/26.9x.

- **3QFY21 highlights:** Revenue at Rs 2.69bn (-11.4%/+3.8% YoY/QoQ) was 4.1% below estimates. Equity QAAUM market share was stable at 7.0% (-6bps QoQ) whereas debt QAAUM market share dropped 79bps QoQ to 6.6%. Over the past nine months, equity/debt market shares have dropped 122/101 bps, which remains a concern. Core operating profit at Rs 1.38bn, 1.5/8.5% YoY/QoQ was 5.1% below estimates, mainly as a result of lower revenue, partially offset by lower staff costs. Management stated that cost savings would continue as ESOP costs would not grow. Recovery in equity markets resulted in treasury income of Rs 1.30bn (+126.7/104.7% YoY/QoQ) and drove APAT to Rs 2.12bn (+42.0/45.9% YoY/QoQ).
- NAM's equity performance has lagged that of peers. Management is focused on improving the same through diversifying and having improved risk management. It is looking to raise overseas assets using Nippon Life's network; this could be meaningful over the medium term.
- **Outlook:** We have finetuned our estimates to build in higher other income. We expect a gradual recovery in assets and earnings. For FY21E, we expect revenue/EBIT to decline by 12.0/8.3% YoY respectively.

Financial Summary

(Rs bn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	2.68	3.03	*-11.4*	2.59	*3.8*	14.8	12.0	10.6	11.9	13.4
Operating profits	1.38	1.36	*1.5*	1.27	*8.5*	5.3	5.7	5.2	6.1	7.3
OP Margin (%)	51.8	45.5	*632bps*	49.7	*220bps*	35.8	47.3	49.5	51.3	54.6
APAT	2.12	1.49	*42.0*	1.45	*45.9*	4.9	4.2	6.7	6.1	7.4
EV/NOPLAT (x)						48.0	41.4	42.7	37.1	30.1
P/E (x)						40.0	47.8	29.5	32.6	26.9
ROE (%)						19.5	16.1	24.6	20.4	22.3

Source: Company, HSIE Research

Change in estimates

(Rs bn)	FY21E			FY22E			FY23E		
	Revised	Old	*Change (%)*	Revised	Old	*Change (%)*	Revised	Old	*Change (%)*
Revenues	10.6	10.6	*0.0*	11.9	12.3	*-3.6*	13.4	13.4	*-0.3*
EBIT	5.3	5.1	*4.2*	6.2	6.2	*-1.4*	7.4	6.8	*7.8*
EBIT margin (%)	49.9	47.9	*201bps*	51.7	50.5	*116bps*	55.0	50.9	*410bps*
NOPLAT	4.0	3.8	*6.8*	4.6	4.7	*-1.4*	5.5	5.1	*7.8*
APAT	6.7	5.9	*15.1*	6.1	6.0	*1.8*	7.4	6.7	*10.2*
RoE (%)	24.6	21.7	*287bps*	20.4	20.5	*-9bps*	22.3	21.0	*139bps*

Source: Company, HSIE Research

ADD

CMP *(as on 27 Jan 2021)*	Rs 318
Target Price	Rs 335
NIFTY	13,968

KEY CHANGES	OLD	NEW
Rating	REDUCE	ADD
Price Target	Rs 320	Rs 335
EPS %	FY21E	FY22E
	15.1%	+1.8%

KEY STOCK DATA	
Bloomberg code	NAM IN
No. of Shares (mn)	613
MCap (Rs bn) / ($ mn)	194/2,665
6m avg traded value (Rs mn)	308
52 Week high / low	Rs 453/201

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	16.0	17.3	(13.5)
Relative (%)	(2.1)	(7.0)	(27.4)

SHAREHOLDING PATTERN (%)	Sep-20	Dec-20
Promoters	75.0	75.8
FIs & Local MFs	6.3	6.6
FPIs	5.1	5.4
Public & Others	13.6	12.2
Pledged Shares	Nil	Nil

Source : BSE

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ICICI Securities

Bumpy road ahead

Led by healthy trading activity (ADTV cash/derivative: +80.4/29.2% YoY), ISEC reported pure broking revenue growth of 61.3/-7.6% YoY/QoQ. With part implementation of peak margin, ISEC lost 250bps QoQ in derivative market share. This loss was stark at 460bps MoM in Dec-20. We remain wary of the impact of the successive phases of peak margin regulations on overall trading activity. Discount brokers acquiring higher client share remains a concern. Given the highly cyclical nature of the business, we are concerned that we may be closer to peak earnings and worry that the market may be giving the company closer-to-peak multiple. We maintain an ADD rating with a target price of Rs 560, i.e. 23x Sep-22E EPS.

- **3QFY21 highlights**: Total broking revenues at Rs 4.48bn (+70.7%/-6.3% YoY/QoQ) were 3.1% below estimates, as peak margin regulations kicked in, impacting the trading activity. Management stated that the company was allowing higher levels of leverage, which was now not permitted, negatively impacting derivative/cash market share by 460/90bps MoM in Dec-20. Active client base growth was healthy at 17.3% YoY, but sub-par compared to that of discount brokers. The NEO plan is gaining significant traction amongst traders with ~20k customer additions in ~1.5 months. ISEC expects higher volumes to compensate for lower pricing. MF distribution revenue was at Rs 627mn (+8.9/9.8% YoY/QoQ) as AAUM recovered 8.8% sequentially. This drove total distribution revenue higher 4.9/9.0% YoY/QoQ to Rs 1.08bn. IB reported revenues at Rs 234mn (+33.0/-62.4% YoY/QoQ).
- Employee expenses improved (-2.2/-27.7% YoY/QoQ) as performance for maximum payable variable pay was achieved in 1HFY21; which was already provided for in 1HFY21. Strong beat on APAT (+9.8% vs. est.) at Rs 2.43bn (94.6/-4.0% YoY/QoQ) was driven mainly by the steep sharp fall in staff costs.
- **Outlook:** Driven by higher volumes ISEC is expected to report a strong FY21E; however, we remain watchful of the impact of changing regulations, particularly in the derivative segment, and believe earnings are peaking out.

Quarterly financial summary

(Rs mn)	3Q FY21	3Q FY20	*YoY (%)*	2Q FY21	*QoQ (%)*	FY19	FY20	FY21E	FY22E	FY23E
Adj. revenues	6,201	4,222	*46.9*	6,807	*-8.9*	16,456	16,116	22,292	18,764	19,741
EBITDA	3,970	2,214	*79.3*	4,141	*-4.1*	7,358	7,873	12,711	10,101	10,607
EBITDA Margin (%)	64.0	52.4	*1158bps*	60.8	*319bps*	44.7	48.9	57.0	53.8	53.7
APAT	2,670	1,372	*94.6*	2,781	*-4.0*	4,773	5,622	9,452	7,555	8,205
AEPS	8.3	4.3	*94.4*	8.6	*(3.8)*	14.8	17.5	29.3	23.5	25.5
EV/EBITDA (x)						20.1	20.4	12.8	15.9	15.2
P/E (x)						30.1	25.5	15.2	19.0	17.5
ROE (%)						50.4	49.8	63.6	41.8	41.4

Change in estimates

	FY21E			FY22E			FY23E		
(Rs mn)	Revised	Old	*Change % / bps*	Revised	Old	*Change % / bps*	Revised	Old	*Change % / bps*
Revenues	22,292	22,068	*1.0*	18,764	18,861	*-0.5*	19,741	20,016	*-1.4*
EBITDA	12,711	12,728	*-0.1*	10,101	10,516	*-4.0*	10,607	11,168	*-5.0*
EBITDA margin (%)	57.0	57.7	*-66bps*	53.8	55.8	*-193bps*	53.7	55.8	*-207bps*
APAT	9,452	9,297	*1.7*	7,555	7,584	*-0.4*	8,205	8,125	*1.0*
RoE (%)	63.6	62.9	*72bps*	41.8	42.1	*-37bps*	41.4	41.1	*27bps*

Source: Company, HSIE Research

ADD

CMP *(as on 25 Jan 2021)*	Rs 446
Target Price	Rs 560
NIFTY	14,239

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	Rs 560	Rs 560
	FY21E	FY22E
EPS %	+1.7	-0.4

KEY STOCK DATA	
Bloomberg code	ISEC IN
No. of Shares (mn)	322
MCap (Rs bn) / ($ mn)	144/1,968
6m avg traded value (Rs mn)	325
52 Week high / low	Rs 569/204

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	0.4	(17.1)	(5.7)
Relative (%)	(18.5)	(43.9)	(21.8)

SHAREHOLDING PATTERN (%)	Sep-20	Dc-20
Promoters	77.2	75.0
FIs & Local MFs	10.1	9.9
FPIs	4.0	4.6
Public & Others	8.7	10.5
Pledged Shares	Nil	Nil

Source : BSE

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Computer Age Management Services

Well-positioned for strong growth!

Being a market leader in a two-player RTA market with a market share of 73.0% (inc. FT AMC), CAMS is a play on India's growing asset management industry. Significant entry barriers coupled with customer stickiness puts the company in a uniquely advantageous position. We expect FY21-23E revenue/operating profit (OP) CAGR of 15.3/19.5%, which we expect would be driven by a resurgence in flows and improved performance of nascent businesses i.e., payments, AIF, and insurance. We maintain our ADD rating on the stock with a DCF-based target price of INR 1,751. The stock is currently trading at FY22E/23E EV/NOPLAT of 39.8/34.1 and P/E of 39.1/33.3x. Equity market declines impacting AAUMs, high client concentration impacting pricing power and any major IT system disruptions remain key risks.

- **3QFY21 highlights:** CAMS printed revenues at INR 1,860mn (+5.6/8.7% YoY/QoQ), 3.6% ahead of estimates. Higher staff and operating expenses meant that the core operating profit beat estimates by only 0.7% coming in at INR 692mn (+27.5/13.4% YoY/QoQ). Higher-than-estimated treasury income of INR 64mn (-5.0/26.1% YoY/QoQ) drove APAT to INR 564mn (+22.0/15.3% YoY/QoQ).
- CAMS' MF 9MFY21 AAUM market share rose 170bps to 70.4% resulting in MF AAUM at INR 20.8trn. MF asset-based revenue grew 11.0/8.3% YoY/QoQ as share of equity declined in overall mix, which was partly compensated by higher flows in debt. Non-asset-based revenues grew 14.5/20.4% YoY/QoQ as transaction revenue picked up. Paper-based transactions have dropped to 15% in 3Q, management expects it to grow to ~20-25%, which should aid yields. Non-MF based revenue declined 31.3/4.2% YoY/QoQ as a result of (1) drop in ECS processing mandates and lower Insurance revenues, and (2) winding down of banking/NBFC outsourcing business.
- **Outlook:** Over FY21-23E, we expect a gradual recovery in assets and earnings. For FY21E, we expect revenue/NOPLAT to grow by 1.3/12.6% YoY.

Financial Summary

(Rs bn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenues	1.9	1.8	*5.6*	1.7	*8.7*	6.9	7.0	7.1	8.4	9.4
Operating profits	0.7	0.5	*27.5*	0.6	*13.4*	2.0	2.3	2.5	3.0	3.5
OP margin (%)	37.2	30.8	*638bps*	35.7	*156bps*	29.0	32.7	34.7	36.2	37.3
NOPLAT	0.5	0.4	*25.6*	0.5	*14.3*	1.3	1.6	1.8	2.3	2.6
APAT	0.6	0.5	*22.0*	0.5	*15.3*	1.4	1.8	2.1	2.4	2.8
EV/NOPLAT (x)						69.8	56.2	50.5	39.8	34.1
P/E (x)						66.2	53.3	45.9	39.1	33.3
ROIC (%)						71.2	92.1	93.3	110.8	127.1

Source: Company, HSIE Research

Change in estimates

(Rs bn)	FY21E			FY22E			FY23E		
	Revised	Old	Change (%)	Revised	Old	Change (%)	Revised	Old	Change (%)
Revenues	7.1	6.9	*3.1*	8.4	7.8	*8.3*	9.4	8.7	*8.5*
OP	2.5	2.3	*7.2*	3.0	2.8	*6.9*	3.5	3.4	*4.5*
OP margin (%)	34.7	33.4	*130bps*	36.2	36.6	*-48bps*	37.3	38.8	*-145bps*
NOPLAT	1.8	1.7	*7.2*	2.3	2.1	*6.9*	2.6	2.5	*4.5*
APAT	2.1	1.9	*7.2*	2.4	2.3	*6.1*	2.8	2.7	*4.5*
RoE (%)	41.4	32.6	*882bps*	48.2	32.9	*1539bps*	46.7	33.1	*1361bps*

Source: Company, HSIE Research

ADD

CMP *(as on 12 Feb 2021)*	Rs 1,930
Target Price	Rs 1,751
NIFTY	15,163

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	Rs 1,680	Rs 1,751
EPS %	FY21E	FY22E
	7.2%	6.1%

KEY STOCK DATA	
Bloomberg code	CAMS IN
No. of Shares (mn)	49
MCap (Rs bn) / ($ mn)	94/1,294
6m avg traded value (Rs mn)	-
52 Week high / low	Rs 2,025/1,260

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	47.9	-	-
Relative (%)	29.0	-	-

SHAREHOLDING PATTERN (%)	Sep-20	Dec-20
Promoters	31.0	31.0
FIs & Local MFs	32.2	32.3
FPIs	8.7	22.1
Public & Others	28.2	14.6
Pledged Shares	Nil	Nil

Source : BSE

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Motilal Oswal Financial Services

Uncertainities ahead

Strong cash/derivative volume at +42.1/102.6% YoY drove capital markets APAT +63.3 YoY to Rs 818mn. Recovery in equity markets with some outflows meant net improvement of just 14.4/7.2% YoY/QoQ in closing AUM. The AMC's APAT recovered +31.7% QoQ to Rs 382mn. Significant MTM gain (Rs 2.1bn, +286.1% YoY) on treasury resulted in MOFS (ex. MOHFL) APAT growth of 120.5/22.5% YoY/QoQ. We have increased our FY21E APAT estimate by 21.3% to factor in the higher treasury and lower operating expenses, while mildly changing FY22/23E estimates. We retain an ADD with a TP of Rs 740 (15/25x Sep-22E Broking/AMC APAT, + 0.7/0.5x for Sep-22E treasury/ MOHL).

- **3QFY21 highlights: AMC (ex-WM):** Revenue/EBITDA/PAT were at Rs 1,557/652/451mn (-8.4/-4.2/-5.6% YoY). MOAMC continued to witness net outflows to the tune of Rs 13.9bn as investors booked profits. No upfront commissions on PMS also meant reduced sales by distributors. **Capital Markets (in. WM)** reported stellar PAT of Rs 818mn (+63.6/-6.9% YoY/QoQ). Broking ADTVs grew 98.0/30.8% YoY/QoQ, resulting in 52.7/-2.9% YoY/QoQ growth in broking revenues. Broking yields (blended) declined 0.3bps sequentially as a result of reduced share of cash in the ADTV mix. Distribution AUM recovered 7.2% QoQ to Rs 119bn as equity markets recovered. **Impact of** the second **phase of peak margin requirement on trading volumes remains a key risk in 4Q. Treasury** reported MTM gain on investments of Rs 2.1bn on account of sharp improvement in the equity markets. **MOHFL** Disbursements were muted at Rs 0.5bn/qtr (-18.9/-17.1% YoY/QoQ). NNPA (ex. SC verdict impact) was at Rs 2.3% (+110bps QoQ). Management highlighted that provisioning is expected to go up in the next 2-3 quarters on account of COVID-19. Collection efficiency saw an improving trend from 74-94% over Jul- Dec-20. Staff expansion is underway for ramping up disbursements over the next year, which management targets at Rs 1bn/mth from 4QFY22.
- **Outlook:** The AMC business is expected to consolidate over FY21 as new sales are most likely constrained by regulatory changes. The capital markets business is expected to perform well over FY21E as volumes continue to show strong traction. Regulatory changes requiring the peak margin collection remains a key risk to volumes.

Financial Summary: MOFS (ex-MOHL)

(Rs bn)	3QFY21	3QFY20	YoY(%)	2QFY21	QoQ(%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	7.78	4.66	66.9	7.14	8.9	17.2	13.9	26.4	20.3	21.9
EBITDA	4.35	1.87	132.6	3.82	14.0	6.1	2.3	11.9	7.3	8.0
EBITDA Margin (%)	56.0	40.1	1581bps	53.5	247bps	35.7	16.3	45.1	35.7	36.3
APAT	3.29	1.49	120.5	2.69	22.5	4.1	1.1	9.9	5.2	6.0
P/E (x)						21.1	75.8	8.8	16.6	14.5
ROE (%)						15.0	4.0	31.6	14.5	15.2

Source: Company, HSIE Research

Estimate Change

Rs bn	FY21E			FY22E			FY23E		
	Revised	Old	Change % / bps	Revised	Old	Change % / bps	Revised	Old	Change % / bps
Revenues	26.45	25.91	2.1	20.33	20.09	1.2	21.92	21.99	-0.3
EBITDA	11.93	10.17	17.3	7.25	6.92	4.7	7.96	7.96	0.0
EBITDA margin (%)	45.1	39.3	584	35.7	34.5	120	36.3	36.2	9
APAT	9.88	8.14	21.3	5.21	5.03	3.7	5.98	5.96	0.3
RoE (%)	31.6	26.5	507	14.5	14.5	4	15.2	15.6	-44

Source: Company, HSIE Research

ADD

CMP *(as on 29 Jan 2021)*	Rs 617
Target Price	Rs 740
NIFTY	13,635

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	Rs 740	Rs 740
EPS %	FY21E	FY22E
	21.3%	3.7%

KEY STOCK DATA	
Bloomberg code	MOFS IN
No. of Shares (mn)	147
MCap (Rs bn) / ($ mn)	90/1,239
6m avg traded value (Rs mn)	83
52 Week high / low	Rs 839/426

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	11.0	(9.3)	(23.9)
Relative (%)	(5.4)	(30.9)	(36.3)

SHAREHOLDING PATTERN (%)

	Sep-20	Dec-20
Promoters	70.3	70.5
FIs & Local MFs	4.6	4.4
FPIs	9.4	9.4
Public & Others	15.7	15.7
Pledged Shares	0.0	0.0

Source : BSE

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UTI Asset Management Company

Market share stabilising

While UTIAM's equity performance and market share have improved, high staff costs continue to pose a significant challenge to core profitability. We do expect employee costs reduction (to 20.2bps of AAUM in FY23E vs. 25.8bps in FY21E) as a result of natural retirements. AUM growth and cost rationalisation are expected to drive near term performance and we expect the company to deliver an FY21-23E revenue/NOPLAT CAGR of 10.3/32.5%. We retain a BUY with a DCF-derived target price of Rs 650 (10% execution discount to DCF), valuing the stock at 27.5x Sep-22E NOPLAT + Sep-21E cash and investments. The stock is currently trading at FY22E/23E EV/NOPLAT of 18.1/14.0 and P/E of 20.0/17.1x.

- **3QFY21 highlights:** Revenue at Rs 2.12bn (+6.9%/+6.3% YoY/QoQ) was in line with estimates. Net outflows in equity schemes were Rs 18bn (market share of 4.3%) as tenure of two close-ended focused funds expired in 3QFY21. The core operating profit at Rs 477mn (-35.3/-29.3% YoY/QoQ) was 37.9% below estimates, mainly as a result of high employee costs (+53.5/27.5% YoY/QoQ), which in turn were due to (1) ESOP expenses (Rs 73mn) (2) increased variable pay in 3Q, and (3) impact of non-managerial settlement payment of Rs 120mn in Mar-20. Higher-than-estimated treasury income of Rs 1.32bn (+198.3/67.3% YoY/QoQ) drove APAT to Rs 1.40bn (+66.7/18.3% YoY/QoQ). We have adjusted our FY21E estimates, mainly to build in higher other income.
- For the fixed income segment, UTIAM has hired three new credit analysts to boost performance. For the equity segment, the company is focusing on gaining market share by targeting top 25 IFAs in T-15 cities. In terms of performance, management highlighted that 80% of the UTIAM's equity funds are in top quartile 1 and 2.
- **Outlook:** Over FY21-23E, we expect a gradual recovery in assets and earnings. For FY21E, we expect revenue/NOPLAT to grow by 2.0/-22.9% YoY.

Financial Summary

(Rs bn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	2.12	1.98	*6.9*	1.99	*6.3*	8.9	7.9	8.0	9.0	9.8
Operating profits	0.48	0.74	*-35.3*	0.67	*(29.3)*	3.2	2.7	2.2	3.1	3.9
OP Margin (%)	22.5	37.2	*-1471bps*	33.9	*-1133bps*	36.0	34.1	27.5	34.7	39.7
APAT	1.40	0.84	*66.7*	1.19	*18.3*	3.5	2.7	4.6	3.5	4.1
EV/NOPLAT (x)						20.5	21.3	26.5	18.1	14.0
P/E (x)						20.0	25.8	15.2	20.0	17.1
ROE (%)						14.2	10.2	16.2	11.7	13.0

Source: Company, HSIE Research

Change in estimates

(Rs bn)	FY21E			FY22E			FY23E		
	Revised	Old	*Change (%)*	Revised	Old	*Change (%)*	Revised	Old	*Change (%)*
Revenues	8.0	7.7	*4.8*	9.0	8.7	*3.8*	9.8	9.7	*1.4*
EBIT	2.3	2.3	*1.2*	3.3	3.2	*2.1*	4.0	4.0	*-0.1*
EBIT margin (%)	28.7	29.7	*-102bps*	36.0	36.5	*-58bps*	40.9	41.6	*-62bps*
NOPLAT	1.7	1.6	*1.3*	2.4	2.3	*2.2*	2.9	2.9	*-0.2*
APAT	4.6	3.5	*31.9*	3.5	3.4	*3.3*	4.1	4.1	*1.5*
RoE (%)	16.2	12.4	*383bps*	11.7	11.5	*20bps*	13.0	13.0	*-1bps*

Source: Company, HSIE Research

BUY

CMP *(as on 01 Feb 2021)*	**Rs 556**
Target Price	**Rs 650**
NIFTY	**14,281**

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 650	Rs 650
EPS %	FY21E	FY22E
	31.9%	+3.3%

KEY STOCK DATA	
Bloomberg code	UTIAM IN
No. of Shares (mn)	127
MCap (Rs bn) / ($ mn)	71/947
6m avg traded value (Rs mn)	-
52 Week high / low	Rs 608/471

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	11.4	-	-
Relative (%)	0.5	-	-

SHAREHOLDING PATTERN (%)	Sep-20	Dec-20
Promoters	NA	0.0
FIs & Local MFs	NA	49.8
FPIs	NA	5.2
Public & Others	NA	45.0
Pledged Shares	Nil	Nil

Source : BSE

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Autos, Transportation & Logistics

Maruti Suzuki

Demand backlog to offset commodity headwinds

Maruti reported an in-line 3QFY21 with PAT at Rs 19.4bn (+24% YoY), driven by 13% YoY growth in revenue and higher other income. However, the EBITDA margin at 9.5% was below estimates (vs. expectation of 10.2%). We remain enthused by Maruti's strong demand outlook, with pending orders of 215k units, and believe the commodity headwinds will be partially offset by - (1) rising utilisation levels as we expect double-digit demand growth (15%) in FY22-23E (2) price hikes and (3) normalising product mix over FY22-23E as demand revives. Reiterate BUY. Our target price is revised marginally lower to Rs 9,000 (at 27x FY23E EPS) as we trim our estimates over FY22-23E.

- **3QFY21 financials:** Revenue grew 13% YoY to Rs 234bn, owing to a similar growth in volumes (+13.4/26.1% YoY/QoQ). Average realisation at Rs 473k came in flat YoY/QoQ due to higher share of entry-level cars in the mix. EBITDA margin at 9.5% (-65/80bps YoY/QoQ) was a miss owing to commodity cost pressure (raw material cost ratio costs up 165/250bps YoY/QoQ). Other income at Rs ~10bn was up 27/65% YoY/QoQ due to higher fair value gains. PAT grew by 24/42% YoY/QoQ to Rs 19.4bn.
- **Key takeaways: (1) Demand sustains post the festive season:** Demand momentum continued post the festive season as well. The company currently has a backlog of 215k units (c. 1.5 month of sales). System inventories remain extremely low (21k units at the beginning of Jan-21). **(2) RM cost pressure:** Commodity costs had a 300bps impact on the EBITDA margin in 3QFY21, with the cost pressure expected to sustain in 4QFY21 as well. The company has undertaken cost-cutting initiatives and taken price hikes in the range of 6-34k to offset the above. **(3) First-time buyers increase:** Due to COVID, the share of replacement buyers has fallen from 26% in FY20 to 19% currently. Against this, the share of first-time buyers has risen from 44 to 49%, due to a shift in consumer preference towards personal mobility. **(4) Others:** Maruti has launch e-financing services to promote end-to-end digital buying experience. The company has commenced exports of the Jimny SUV. The plant in Gujarat is operating at peak capacity of 500k units.

Financial Summary

YE March (Rs mn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	234,578	207,068	13.3	187,445	25.1	860,203	756,106	682,608	804,724	951,479
EBITDA	22,261	21,021	5.9	19,336	15.1	109,993	73,026	54,609	90,129	113,892
APAT	19,414	15,648	24.1	13,716	41.5	75,006	56,506	47,330	78,702	100,441
Adj. EPS (Rs)	64.3	51.8	24.1	45.4	41.5	248.4	187.1	156.7	260.6	332.6
APAT Gr (%)						(2.9)	(24.7)	(16.2)	66.3	27.6
P/E (x)						30.5	40.5	48.4	29.1	22.8
RoE (%)						17.1	11.9	9.4	14.4	16.5

Source: Company, HSIE Research

Change in Estimates

Rs mn	New			Old			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	682,608	804,724	951,479	670,806	792,247	936,679	2	2	2
EBITDA	54,609	90,129	113,892	55,006	91,901	116,804	(1)	(2)	(2)
EBITDA margin (%)	8.0	11.2	12.0	8.2	11.6	12.5	-20 bps	-40 bps	-50 bps
PAT	47,330	78,702	100,441	47,155	79,968	101,380	0	(2)	(1)
EPS	156.7	260.6	332.6	156.1	264.8	335.7	0	(2)	(1)

Source: Company, HSIE Research

BUY

CMP *(as on 28 Jan 2021)*	Rs 7,589
Target Price	Rs 9,000
NIFTY	13,818

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 9,065	Rs 9,000
EPS %	FY21E	FY22E
	0%	-2%

KEY STOCK DATA	
Bloomberg code	MSIL IN
No. of Shares (mn)	302
MCap (Rs bn) / ($ mn)	2,292/31,384
6m avg traded value (Rs mn)	8,651
52 Week high / low	Rs 8,400/4,001

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	5.6	20.8	8.5
Relative (%)	(11.8)	(1.0)	(6.0)

SHAREHOLDING PATTERN (%)	Sep-20	Dec-20
Promoters	56.4	56.4
FIs & Local MFs	16.7	15.7
FPIs	21.9	23.1
Public & Others	5.0	4.9
Pledged Shares	0.0	0.0

Source : BSE

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HDFC securities
INSTITUTIONAL RESEARCH

Mahindra & Mahindra

Tractors in the limelight

M&M's margins sustained at 17% levels in 3QFY21 as well, driven by strong tractor sales growth. The management has raised its tractor guidance to ~20% growth for FY21E, driven by the sustained agri momentum. M&M has provided another Rs 12bn as write-offs towards SsangYong in the quarter – which is now under bankruptcy process in Korea and the parent will no longer fund its operations. We reiterate our ADD rating on the stock and set a revised SOTP-based target price of Rs 880. Our estimates are increased by ~13% over FY22/23E to factor in the higher margin trajectory.

- **3QFY21 financials — Tractor segment:** Revenue grew 23% YoY, led by a 20% volume growth. The segment reported record EBIT margin of 23.4% (+400bps YoY). **Automotive:** Volumes were down 8% YoY due to supply constraints. EBIT margin came in at 7.4% vs 6.5% QoQ. **M&M+MVML:** Revenue grew 16% YoY to Rs 140.5bn. EBITDA margin at 17% expanded 220bps YoY (-80bp QoQ), led by higher share of tractors in the mix/cost-cutting initiatives (other expenses down 14% YoY). There was an exceptional expense of Rs 12bn related to impairment on SsangYong. Adj. PAT came in at Rs 17.4bn (+33% QoQ), aided by higher dividend from subsidiaries.
- **Call takeaways: (1) Farm segment:** The segment recorded the highest-ever EBIT margin of 23.4% due to positive rural sentiment/encouraging Kharif procurement. The management expects the tractor industry to register a growth of 20% YoY in FY21E as the outlook remains positive **(2) Supply side issues:** The semiconductor shortage continues and the sharp rise in precious metal prices will impact profitability. M&M is operating at the lowest system inventory in the automotive segment due to the above. **(3) Positive on new models:** The new Thar has an order booking of 39k+ units (6k+ in Jan-21, 200+/day). The target is to reach 4k units production. M&M will launch 2 new model refreshes to strengthen its SUV portfolio. **(4) Subsidiaries**: The management believes that substantial write downs have been taken over the year as the company has exited multiple loss-making ventures. This trend should moderate from here onwards.

Financial Summary (M&M + MVML)

YE March (Rs mn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	140,565	121,203	16.0	115,903	21.3	528,482	448,655	460,050	523,911	591,668
EBITDA	23,856	17,888	33.4	20,573	16.0	75,301	63,506	72,688	78,063	89,342
APAT	17,448	9,808	77.9	13,112	33.1	54,239	35,509	48,294	50,890	60,535
Adj. EPS (Rs)	14.6	8.2	77.9	11.0	33.1	45.5	29.8	40.5	42.7	50.7
APAT Gr (%)						29.5	(34.5)	36.0	5.4	19.0
P/E (x)						19.0	29.0	21.3	20.2	17.0
RoE (%)						16.6	10.2	13.6	13.3	14.1

Change in Estimates

Rs mn	New			Old			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Net Revenue	460,050	523,911	591,668	439,364	497,693	561,887	5	5	5
EBITDA	72,688	78,063	89,342	59,314	70,672	80,350	23	10	11
EBITDA margin (%)	15.8	14.9	15.1	13.5	14.2	14.3	230 bps	70 bps	80 bps
APAT	48,294	50,890	60,535	39,730	45,085	53,288	22	13	14
EPS	40.5	42.7	50.7	33.3	37.8	44.7	22	13	14

Source: Company, HSIE Research

ADD

CMP *(as on 5 Feb 2021)*	Rs 866
Target Price	Rs 880
NIFTY	14,924

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	Rs 790	Rs 880
EPS %	FY21E	FY22E
	22%	13%

KEY STOCK DATA	
Bloomberg code	MM IN
No. of Shares (mn)	1,243
MCap (Rs bn) / ($ mn)	1,076/14,759
6m avg traded value (Rs mn)	4,332
52 Week high / low	Rs 894/245

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	43.8	40.9	48.1
Relative (%)	21.0	6.2	24.8

SHAREHOLDING PATTERN (%)	Sep-20	Dec-20
Promoters	19.6	19.4
FIs & Local MFs	35.1	32.6
FPIs	34.7	37.9
Public & Others	10.6	10.0
Pledged Shares	0.0	0.0

Source : BSE

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Bajaj Auto

A strong show, encouraging outlook

Bajaj Auto's 3QFY21 PAT (+24/37% YoY/QoQ) beat was driven by strong profitability (EBITDA margin came in at 19.4%, +150/170bps YoY/QoQ). We have recently upgraded the stock to a BUY on the back of a firming recovery (link to our note- Beyond the Festive Season: Recovery Sustains). The management expects double-digit growth in FY22 in the domestic 2W market while export demand will remain healthy, driven by low-system inventories. Further, the local 3W volumes are expected to improve from hereon. We maintain BUY, given: (1) exports are firm across frontier markets as crude prices and other commodities are firming up; (2) 3W sales are expected to revive, particularly after the vaccine rollout; and (3) after Bajaj has finalised its agreement with Triumph, it is building a new facility in Chakan to increase production for premium vehicles.

- **3QFY21 Financials:** Total vols grew 9/24% YoY/QoQ. Export vols witnessed strong growth at 22% YoY as international markets are now opening up. Realisations at Rs 68k improved 7% YoY, owing to BSVI cost pass-on to the customers and higher share of exports in the mix (53% vs 47/46% YoY/QoQ). Revenue grew 17/25%. EBITDA margin at 19.4% came in at a multi-quarter high (+150/170bps) owing to a rich product mix and cost controls. Reported PAT came in at Rs 15.5bn (+24/37% YoY/QoQ), which was above estimates.
- **Key takeaways: (1) Positive outlook on exports**: In 3QFY21, the company witnessed the highest-ever exports at 687k units (+22% YoY, 53% of overall volumes) as it gained share across markets. Further, demand in most markets is now recovered to ~90% of pre-COVID levels - Africa was not as impacted by COVID, LATAM is at 80-90%, while the Middle East and Sri Lanka have recovered to normalised levels. Bajaj remains in the top-2 OEMs in most of the overseas markets it operates in. **(2) Premium portfolio to drive domestic segment:** Bajaj's market share in the premium category stands at over 50% YTD. Pulsar recorded the highest-ever sales, driven by the 125cc. The OEM is investing in its 250cc super premium with its three brands - the Dominar, KTM and Husqvarna. This will be further supplemented with Triumph. Bajaj is investing in a new capacity in Chakan for its premium portfolio. **(3) 3W sales** are likely to witness an improvement over FY22 – sales are expected to improve as financing picks-up and the environment normalises (as cities open-up).
- **Maintain BUY:** We increase our FY21/22/23E EPS by ~6% to factor in the higher-than-expected margins in 3QFY21. We value the stock at 20x on FY23E EPS (at a 10% premium to its long-term average trading multiple to factor in the improving outlook) and set a revised target price of Rs 4,250. **Key risks:** Any further COVID-related lockdown on the downside.

Financial Summary

YE March (Rs mn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	89,099	76,397	*16.6*	71,559	*24.5*	303,576	299,187	268,051	304,230	352,281
EBITDA	17,296	13,672	*26.5*	12,663	*36.6*	51,925	50,962	47,713	52,206	62,354
APAT	15,563	12,616	*23.4*	11,382	*36.7*	44,366	51,000	47,024	51,944	61,237
Adj. EPS (Rs)	53.8	43.6	*23.4*	39.3	*36.7*	153.3	176.2	162.5	179.5	211.6
APAT Gr (%)						8.5	15.0	(7.8)	10.5	17.9
P/E (x)						24.3	21.1	22.9	20.8	17.6
RoE (%)						21.7	24.5	22.4	22.3	23.7

Source: Company, HSIE Research

BUY

CMP *(as on 21 Jan 2021)*	**Rs 3,703**
Target Price	**Rs 4,250**
NIFTY	**14,590**

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 4,000	Rs 4,250
EPS %	FY21E	FY22E
	7%	5%

KEY STOCK DATA	
Bloomberg code	BJAUT IN
No. of Shares (mn)	289
MCap (Rs bn) / ($ mn)	1,072/14,680
6m avg traded value (Rs mn)	2,895
52 Week high / low	Rs 3,808/1,789

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	23.2	24.0	20.4
Relative (%)	1.3	(6.8)	0.3

SHAREHOLDING PATTERN (%)

	Sep-20	Dec-20
Promoters	53.7	53.7
FIs & Local MFs	10.4	9.1
FPIs	13.6	13.1
Public & Others	22.3	24.1
Pledged Shares	0.0	0.0

Source : BSE

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Tata Motors

Firing on all cylinders; raising TP

We remain positive on Tata Motors *(link to our upgrade note: With improving outlook, FCF to turn positive)*, post solid 3QFY21 results. The OEM reported consolidated PAT of Rs 29.4bn (vs. loss QoQ), driven by multi-quarter high margins both at JLR and India. The luxury OEM reported positive FCF of GBP 562mn (GBP 463mn in 2Q), which has resulted in the net automotive debt reducing from Rs 678bn (in 1Q) to Rs 547bn currently. The India PV business performance improved further with margins at 3.8% (vs. 1.6% QoQ). We are raising our sum of the parts-based FY23 target price to Rs 315 as we increase our FY23E estimates by 23%.

- **3QFY21 financials: (1) Standalone:** Revenue grew 35/51% YoY/QoQ to Rs 146bn, led by 22/43% growth in volumes. EBITDA margin at 7.4% surprised positively owing to operating leverage. Adj. net loss came in lower at Rs 5.8bn vs a loss of Rs 10.4/12bn YoY/QoQ. **(2) JLR:** Revenue at GBP 5.9bn grew 37% QoQ (-22% YoY) due to 39% QoQ (-7% YoY) growth in volumes. EBITDA margin at 15.8% came in at multi-quarter high, driven by Charge+ initiative; favorable fx (GBP 39mn) and provision write-back (GBP55m). PAT grew 3x QoQ to GBP 351mn. **(3) Consolidated:** an all-round strong performance with 6/55/75% YoY growth in revenue/EBITDA/PAT.
- **Key highlights: (1) JLR leading the show:** For a second consecutive quarter, JLR reported positive FCF at GBP 562mn (GBP 463mn QoQ) and EBITDA margin of 15.8% (at a multi quarter high). This profitability was driven by demand recovery across markets (retails up 13% QoQ), and Charge+ savings (GBP 0.4bn in 3Q, GBP 2.2bn YTD, GBP 2.5bn target for FY21). China retails are up 19% YoY and market share has held up in this key market. The Defender has crossed 5k units/month and has an order bank of 14k units (worth ~3 months of sales). **(2) Electrification is key focus area:** JLR will be ramping up its EV offerings, which currently account for 53% of sales (12% of this is BEVs + PHEVs). The OEM has written back provisions of GBP55m relating to EU CO2 fines as it has delivered more of EV variants last quarter. **(3) India CV sales gaining share:** Tata Motors' market share in CVs has improved 210bps over the quarter to 38.9%. Demand is supported by infrastructure, mining and e-com sectors. Segment EBITDA at 8% expanded 580/480bps YoY/QoQ. **(3) PV segment growth is ahead of the industry:** PV revenues are up 79% YoY as TTMT has gained market share. The segment has reached milestone revenue of Rs 50bn (for the first time) and has reported positive EBITDA margin of 3.8%. The Nexon-EV accounts for 64% of industry's EV volumes. **(4) Dynamix capex targets:** Due to strong demand in India, TTMT has increased its capital expenditure program to Rs 18.5bn (from Rs 15bn earlier) for FY21. The management will take a pragmatic view of the business and will not hesitate to increase spends if required.

Financial Summary (Consolidated)

YE March (Rs bn)	3Q FY21	3Q FY20	% YoY	2Q FY21	% QoQ	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	757	717	6	535	41	3,019	2,611	2,485	2,823	3,216
EBITDA	128	82	55	67	91	298	239	278	341	395
APAT	27	16	75	(7)	NA	(13)	(79)	(48)	12	50
Adj. EPS (Rs)	7.6	4.3	75	(2.0)	NA	(3.9)	(22.0)	(13.3)	3.3	14.0
P/B (x)						1.5	1.5	1.6	1.6	1.5
EV/EBITDA (x)						5.0	7.0	6.2	4.9	4.1

Source: Company, HSIE Research

BUY

CMP *(as on 29 Jan 2021)*	Rs 263
Target Price	Rs 315
NIFTY	13,635

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 240	Rs 315
EPS %	FY21E	FY22E
	-	-

KEY STOCK DATA	
Bloomberg code	TTMT IN
No. of Shares (mn)	3,089
MCap (Rs bn) / ($ mn)	811/11,121
6m avg traded value (Rs mn)	14,973
52 Week high / low	Rs 307/64

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	99.1	148.3	39.6
Relative (%)	82.6	126.7	27.3

SHAREHOLDING PATTERN (%)	Sep-20	Dec-20
Promoters	42.4	42.4
FIs & Local MFs	13.2	12.7
FPIs	15.8	15.6
Public & Others	28.6	29.3
Pledged Shares	*1.7*	*1.7*

Source : BSE

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Eicher Motors

A steady quarter

Eicher's consolidated 3QFY21 PAT at Rs 5.3bn (+7% YoY) was led by a sharp revival in the VECV segment. On Royal Enfield, while demand for the Meteor remains encouraging, the waiting periods on other models has fallen. The company is resolving production bottlenecks at RE. We set a revised Mar-22 TP of Rs 2,600 (we are raising our FY22/23E by ~13% to factor in the improving production and enhanced VECV profitability). The stock trades at elevated valuations of 51x / 33x on FY21/22E earnings.

- **3QFY21 financials: Standalone:** RE volumes at 199.6k units were up +9% YoY and realisations grew ~8% YoY (flattish QoQ) to Rs 141k. Revenue at Rs 28bn grew 18% YoY. EBITDA margin at 23.5% was up 70bp QoQ (-170bps YoY). While standalone PAT was flat YoY at Rs.4.8bn, the consolidated PAT grew +7% YoY, 55% QoQ due to improved performance at VECV - Margins at 8.6% (+170bp QoQ) surprised positively due to operating leverage benefits and the business reported a PAT of Rs.580mn (vs a loss QoQ).
- **Call and other takeaways: (1) Supply situation:** The supply bottlenecks at RE are gradually easing up, with overall production at 75K units in December **(2) Demand scenario:** The demand in urban cities is now picking up with top 10 cities share rising to 25% of sales as these centers have opened up (up from 20% levels earlier). While demand for the Meteor remains encouraging, the waiting on other models has come down **(3) Margin outlook:** To offset rising commodity prices, (RM costs were higher by 140bp QoQ), RE has raised prices by 3-5% across models recently **(4) Exports**: remains a focus area for the company, with a new store opened in Japan recently. The management continues to expand its distribution network overseas **(4) CVs:** VECV volumes are reviving, led by market share gains on its new BSVI portfolio. Volumes were up +3% YoY to 12,800 units and profitability surprised with margins of 8.6%. The management expects to gain further market share due to its superior BSVI products.

Financial Summary (Consolidated)

YE Mar (Rs mn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	28,283	23,710	*19.3*	21,336	*32.6*	97,971	91,536	85,804	111,286	136,629
EBITDA	6,720	5,923	*13.5*	4,711	*42.7*	29,031	21,804	18,379	26,171	34,158
APAT	5,326	4,987	*6.8*	3,433	*55.1*	22,203	18,275	15,514	23,871	31,439
Adj. EPS (Rs)	19.5	18.3	*6.8*	12.6	*55.1*	81.4	66.9	56.8	87.4	115.2
APAT Gr (%)						1.9	(17.7)	(15.1)	53.9	31.7
P/E (x)						35.6	43.3	51.0	33.2	25.2
RoE (%)						27.8	19.3	14.6	19.6	21.8

Source: Company, HSIE Research

Change in estimates

Rs mn	New			Old			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	85,804	111,286	136,629	82,253	100,130	122,932	4	11	11
EBITDA	18,379	26,171	34,158	18,020	24,688	31,020	2	6	10
EBITDA margin (%)	21.4	23.5	25.0	21.9	24.7	25.2	-49 bps	-114 bps	-23 bps
PAT	15,514	23,871	31,439	14,638	21,461	27,445	6	11	15
EPS	56.8	87.4	115.2	53.6	78.6	100.5	6	11	15

Source: Company, HSIE Research

REDUCE

CMP ***(as on 10 Feb 2021)***	**Rs 2,900**
Target Price	**Rs 2,600**
NIFTY	**15,107**

KEY CHANGES	**OLD**	**NEW**
Rating	REDUCE	REDUCE
Price Target	Rs 2,390	Rs 2,600
EPS %	FY21E	FY22E
	6%	11%

KEY STOCK DATA	
Bloomberg code	EIM IN
No. of Shares (mn)	273
MCap (Rs bn) / ($ mn)	793/10,884
6m avg traded value (Rs mn)	4,530
52 Week high / low	Rs 3,037/1,245

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	29.8	35.9	52.2
Relative (%)	11.3	1.5	27.0

SHAREHOLDING PATTERN (%)	**Sep-20**	**Dec-20**
Promoters	49.3	49.3
FIs & Local MFs	10.1	8.9
FPIs	28.2	28.9
Public & Others	12.5	12.4
Pledged Shares	0.0	0.0

Source : BSE

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Hero Motocorp

Changing narrative

Hero's 3Q PAT (+23% YoY) surprised as profits exceeded the Rs 10bn level after several (13) quarters. The narrative at Hero is gradually changing with a focus on premium products as (1) Hero is steadily ramping up its product portfolio in the 150cc+ range; (2) the collaboration with Harley will provide the OEM an entry in the 'heritage' segment. We maintain BUY and raise our FY22/23 estimates by ~6% over FY21-23 to factor in the improved operational performance. We set a target price of Rs 3,890 at 19x FY23E EPS (at a 15% premium to its long-term average trading multiple).

- **3QFY21 financials:** Volume grew ~20% to 1.84mn units while ASP at ~Rs 53k was up ~17% YoY (+3% QoQ), led by higher premium bikes/spare parts in the mix. Revenue grew 40% YoY to Rs 97.7bn. RM cost, despite higher input costs declined -60bps QoQ. EBITDA margin at 14.5% (+80bps QoQ, -40bps YoY) benefitted from a 100bps savings from the leap program. Reported PAT grew 23% YoY to Rs 10.8bn.
- **Key highlights: (1) Demand outlook:** While near-term sales have been soft post festive season, management believes growth drivers remain intact and demand will revive given (a) pro-growth budget, (b) positive rural sentiment – good rabi crop, government support, (c) gradual reopening of the economy – student demand should return, etc. **(2) Focus on premium:** The company continues to focus on expanding its share in the high-end segment and has gained market share post the launch of the Xtreme 160R. The tie-up with Harley will further increase its presence and allow it an entry in the 'heritage' biking segment. Hero is also working on its EV model, which will roll out in CY22E. **(3) Exports:** The company is steadily increasing its presence in overseas markets (recent tie-up with a large distributor in Mexico). As part of its strategy, the management will spend 70-75% of its focus in the large 2W markets (such as Nigeria, Latam). **(4) Margins:** The margins have benefitted due to price hikes taken in Oct-20, an improved product mix (higher share of premium bikes and spares) as well as cost-cutting initiatives (leap program savings of 100bps). Management reiterates its medium-term margin band of 14-16%.

Financial Summary (Standalone)

YE March (Rs mn)	3Q FY21	3QF Y20	YoY (%)	2Q FY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	97,758	69,967	40	93,673	4	336,505	288,361	293,657	329,763	368,596
EBITDA	14,136	10,390	36	12,865	10	49,301	39,580	37,899	43,546	51,620
APAT	10,845	8,804	23	9,535	14	33,849	30,952	29,407	34,081	40,769
Adj. EPS (Rs)	54.3	44.1	23	47.7	14	169.5	155.0	147.2	170.6	204.1
APAT Gr(%)						(8.5)	(8.6)	(5.0)	15.9	19.6
P/E (x)						20.2	22.1	23.3	20.1	16.8
RoE (%)						27.5	22.9	19.7	20.6	21.8

Source: Company, HSIE Research

Change in estimates

Rs mn	New			Old			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	293,657	329,763	368,596	284,486	319,492	357,045	3	3	3
EBITDA	37,899	43,546	51,620	35,179	42,350	48,575	8	3	6
EBITDA margin (%)	12.9	13.2	14.0	12.4	13.3	13.6	54bps	-5bps	40bps
PAT	29,407	34,081	40,769	27,473	32,738	37,703	7	4	8
EPS	147.2	170.6	204.1	137.5	163.9	188.7	7	4	8

Source: Company, HSIE Research

BUY

CMP *(as on 5 Feb 2021)*	Rs 3,429
Target Price	Rs 3,890
NIFTY	14,924

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 3,590	Rs 3,890
EPS %	FY21E	FY22E
	7%	4%

KEY STOCK DATA	
Bloomberg code	HMCL IN
No. of Shares (mn)	200
MCap (Rs bn) / ($ mn)	685/9,396
6m avg traded value (Rs mn)	4,959
52 Week high / low	Rs 3,575/1,475

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	16.5	27.2	44.5
Relative (%)	(6.3)	(7.5)	21.2

SHAREHOLDING PATTERN (%)	Sep-20	Dec-20
Promoters	34.8	34.8
FIs & Local MFs	22.9	20.0
FPIs	33.3	35.9
Public & Others	9.1	9.4
Pledged Shares	0.0	0.0

Source : BSE

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Endurance Technologies

Import substitution to drive outperformance

3Q revenues (+24% YoY/15% QoQ) and margins at 17.3% were above estimates as the parts supplier continues to grow ahead of industry, driven by new order wins. Further margins from the castings segment are scaling up due to increased share of machining and addition of 4W customers (Kia). New order wins stand at Rs.4.4b in FY21YTD (~10% of current sales) and the company has RFQs of Rs.11.5bn (of which at least 1/3rd should be converted) as Endurance continues to win orders in the brakes segment. We raise estimates by 13% over FY22-23E to factor in the improved performance and set a Mar'22 TP of Rs.1,680. We value the stock at 30x PE (from 28x earlier) to factor in a strong order book and resilient business model.

- **3QFY21 financials: Standalone results surprised as** revenue came in higher at Rs 15.2bn (+32% YoY) and EBITDA margins were at 17% (expanded +290bp YoY, -100bp QoQ). **Consolidated:** Consolidated revenues were healthy at Rs 20.4bn (+24% YoY, +15% QoQ), while EBITDA margin at 17.3% were higher 140bp YoY, (-40bp QoQ). PAT at Rs 2bn was up 62% YoY, 20% QoQ. European operations contributed ~25% of revenues in 3Q.
- **Concall highlights: (1) Capacity expansion:** The company is expanding disc brake assembly capacity to 570K units p.m. (from 285K) and the disc capacity to 675K units p.m. (from 375K) in FY22E. Endurance is also expanding capacity of alloy wheels to 160K sets (up from 120K). The Vallum plant for castings has commenced operations this month. **(2) Import substitution:** The company gained new orders (Rs.4.4bn new order wins in 9MFY21) as OEMs are substituting imports – i.e. TVS has given ~Rs.2bn orders, largely for brakes (which were imported). These assemblies cost over Rs.1,000 per vehicle. The ABS brake assemblies business should start in 1QFY22. **(3) Margin expansion:** The management is guiding for higher margin band of 14.5-16% for the core India business as the casting segment profitability is scaling up **(4) Europe outlook:** While 4Q production will be impacted due to component shortages, the company has Euro120m order book from EVs/hybrids.

Financial Summary (Consolidated)

YE Mar (Rs mn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY19	FY20	FY21E	FY23E	FY23E
Net Sales	20,409	16,405	*24.4*	17,701	*15.3*	75,105	69,177	63,317	73,537	84,672
EBITDA	3,521	2,605	*35.2*	3,132	*12.4*	11,288	11,308	10,340	12,228	14,372
APAT	2,013	1,240	*62.3*	1,672	*20.4*	5,158	5,655	5,107	6,441	7,859
Adj. EPS (Rs)	14.3	8.8	*62.3*	11.9	*20.4*	36.7	40.2	36.3	45.8	55.9
APAT Growth(%)						23.5	9.6	(9.7)	26.1	22.0
P/E (x)						40.4	36.8	40.8	32.3	26.5
RoE (%)						21.8	20.3	15.9	17.5	18.3

Source: Company, HSIE Research

Change in estimates

Rs mn	New			Old			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	63,317	73,537	84,672	59,818	68,401	78,574	6	8	8
EBITDA	10,340	12,228	14,372	9,006	11,457	13,303	15	7	8
EBITDA margin (%)	16.3	16.6	17.0	15.1	16.7	16.9	127 bps	-12 bps	4 bps
PAT	5,107	6,441	7,859	4,138	5,775	6,962	23	12	13
EPS	36.3	45.8	55.9	29.4	41.1	49.5	23	12	13

Source: Company, HSIE Research

BUY

CMP *(as on 10 Feb 2021)*	Rs 1,483
Target Price	Rs 1,680
NIFTY	15,107

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 1,270	Rs 1,680
EPS %	FY21E	FY22E
	23%	12%

KEY STOCK DATA	
Bloomberg code	ENDU IN
No. of Shares (mn)	141
MCap (Rs bn) / ($ mn)	209/2,864
6m avg traded value (Rs mn)	173
52 Week high / low	Rs 1,492/562

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	41.9	53.5	41.6
Relative (%)	23.4	19.1	16.4

SHAREHOLDING PATTERN (%)	Sep-20	Dec-20
Promoters	75.0	75.0
FIs & Local MFs	11.9	12.8
FPIs	11.6	10.6
Public & Others	1.6	1.5
Pledged Shares	0.0	0.0

Source : BSE

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Escorts

Positive demand outlook

Escorts' 3QFY21 EBITDA at Rs 3.6bn (+18%, -30bps QoQ) was largely in line with estimates. The tractor industry maintains a healthy growth outlook, driven by a good rabi crop and sustained government support. We maintain ADD with a target price of Rs 1,480 at 16x FY23E EPS. Our FY22/23E estimates are largely unchanged. We recommend accumulating the stock on declines.

- **3QFY21 financials:** (1) Tractors volume at 31.5k units grew by ~26/29% YoY/QoQ. The average realisation at Rs 639k was down 2/5% owing to a change in mix (Powertrac's share increased and; sales of sub-40HP tractors increased in the mix as commercial tractor demand revived). (2) Revenue at Rs 20.1bn grew 23.5% YoY. The company recorded an EBITDA margin of 18.0% (-30bps QoQ, +510bps YoY), driven by better product mix and operating leverage. (3) Agri/RED segment's EBIT margin came in at 20/12.7%; ECM revenue at Rs 2.44bn grew 13/56% YoY/QoQ. EBIT margin at 7.5% (vs 4.8/1.7%). (4) Escorts PAT at Rs 2.81bn grew 83/22% YoY/QoQ.
- **Key highlights: (1) Strong retails:** The management highlighted that the retail momentum is strong and supported by higher production levels. While most players have raised inventory, the industry stock levels remain below pre-COVID levels. **(2) Commodity cost pressures:** In 4QFY21, margins will be impacted by input cost escalation of ~5%, against which the company has already taken a price hike of ~2% in Nov-20. Escorts is planning to take another price increase in early 1QFY22. **(3) Railway segment:** The company has Rs 3.3bn of order book with an execution timeline of 6-8 months. In FY21, rail revenues remain flat YoY. The tendering process will get back to the pre-COVID level by the end of 4QFY21. With GoI sustaining its commitment to IR, management is confident about the long-term growth potential of this segment. **(4) Construction equipment:** Segmental volumes grew 20/53% YoY/QoQ to 1,254 units. This segment is expected to grow, given the government's focus on infrastructure.

Financial Summary (Standalone)

YE Mar (Rs mn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	20,174	16,334	24	16,397	23	61,964	57,610	63,251	70,835	79,986
EBITDA	3,641	2,123	72	3,009	21	7,333	6,758	10,057	10,200	11,358
APAT	2,807	1,531	83	2,299	22	4,764	4,925	7,761	8,311	9,354
Adj. EPS (Rs)	27.8	15.2	83	22.8	22	53.6	55.4	76.7	82.3	92.6
Adj. EPS Growth (%)						36.4	3.4	38.5	7.2	12.6
P/E (x)						24.8	24.0	17.3	16.2	14.4
RoE (%)						17.1	15.1	17.9	14.9	14.6

Source: Company, HSIE Research

Change in estimates

Rs mn	New			Old			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	63,251	70,835	79,986	63,061	70,627	80,310	0	0	(0)
EBITDA	10,057	10,200	11,358	8,892	9,747	11,163	13	5	2
EBITDA margin (%)	15.9	14.4	14.2	14.1	13.8	13.9	180 bps	60 bps	30 bps
PAT	7,761	8,311	9,354	6,977	8,109	9,353	11	2	0
EPS	76.7	82.3	92.6	69.0	80.3	92.6	11	2	0

Source: Company, HSIE Research

ADD

CMP *(as on 02 Feb 2021)*	Rs 1,334
Target Price	Rs 1,480
NIFTY	14,648

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	Rs 1,480	Rs 1,480
EPS %	FY21E	FY22E
	11%	2%

KEY STOCK DATA	
Bloomberg code	ESC IN
No. of Shares (mn)	135
MCap (Rs bn) / ($ mn)	180/2,465
6m avg traded value (Rs mn)	2,725
52 Week high / low	Rs 1,453/526

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	8.6	17.6	72.4
Relative (%)	(16.6)	(14.8)	47.1

SHAREHOLDING PATTERN (%)	Sep-20	Dec-20
Promoters	36.6	36.6
FIs & Local MFs	8.5	7.1
FPIs	21.6	23.8
Public & Others	33.3	32.5
Pledged Shares	0.0	0.0

Source : BSE

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Sundram Fasteners

Significant results beat

Sundram Fasteners reported a strong result beat with consolidated PAT of Rs 1.4bn (+37% YoY), which is at a record high. The performance was driven by healthy top-line growth as the company benefitted from its diversified portfolio across domestic and overseas markets. The company passed on partial price hikes to customers. We raise our estimates by ~8% over FY22-23 to factor in the results and maintain our ADD rating with a target price of Rs 630 at 27x FY23E EPS. We recommend accumulating the stock on declines.

- **3QFY21 financials: (1) Standalone:** Revenue at Rs 9.4bn grew by 36/23% YoY/QoQ. This strong growth was driven by 43% YoY rise in the domestic market (Rs 6.4bn) and 24% in the export markets (Rs 2.8bn). Despite rising commodity prices, EBITDA margin at 21.5% expanded 475/50bps as the firm passed on price hikes. PAT at Rs 1.24bn grew 21/28% YoY/QoQ, driven by lower interest costs. **(2) Consolidated:** Revenue from subsidiaries grew 28% YoY, which led to a growth of 35/25% YoY/QoQ in the consolidated revenue. Revenue came in at Rs 11bn. EBITDA margin expanded 540/70bps to 20.8%. Adj. PAT at Rs 1.42bn grew 37/39%.
- **Key highlights: (1) Growth driven by broad-based segment mix:** Sundram has benefitted from its presence in multiple segments. In particular, the tractor segment outperformed in 3QFY21, while in passenger cars, the company benefitted from rising supplies to Maruti and Hyundai. **(2) Exports:** While exports grew 24% YoY, the contribution from overseas shipments dropped to 29% vs ~36% in FY20, due to the strong domestic segment sales. **(3) Commodity cost pressures:** To counter the impact of rising input prices, the company has taken a price hike of ~4-5%. While Sundram is passing on cost inflation to customers, the margins are likely to moderate from the elevated levels of 20%+.

Financial Summary (Consolidated)

YE Mar (Rs mn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	11,087	8,225	35	8,893	25	45,579	37,232	33,969	39,522	45,520
EBITDA	2,305	1,267	82	1,786	29	8,004	5,929	6,114	6,758	8,148
APAT	1,427	1,042	37	1,024	39	4,575	3,249	3,325	3,820	4,904
Adj. EPS (Rs)	6.8	5.0	37	4.9	39	21.8	15.5	15.8	18.2	23.3
Adj. EPS Growth (%)						18.3	(29.0)	2.3	14.9	28.4
P/E (x)						27.7	39.1	38.2	33.2	25.9
RoE (%)						26.9	16.8	15.6	15.8	17.7

Source: Company, HSIE Research

Change in estimates

Rs mn	New			Old			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	33,969	39,522	45,520	31,814	37,023	42,657	7	7	7
EBITDA	6,114	6,758	8,148	5,154	6,331	7,636	19	7	7
EBITDA Margin (%)	18.0	17.1	17.9	16.2	17.1	17.9	180 bps	0 bps	0 bps
PAT	3,325	3,820	4,904	2,677	3,547	4,514	24	8	9
EPS	15.8	18.2	23.3	12.7	16.9	21.5	24	8	9

Source: Company, HSIE Research

ADD

CMP *(as on 4 Feb 2021)*	Rs 604
Target Price	Rs 630
NIFTY	14,896

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	Rs 580	Rs 630
EPS %	FY21E	FY22E
	24%	8%

KEY STOCK DATA	
Bloomberg code	SF IN
No. of Shares (mn)	210
MCap (Rs bn) / ($ mn)	127/1,740
6m avg traded value (Rs mn)	68
52 Week high / low	Rs 625/249

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	37.0	49.1	23.8
Relative (%)	12.4	14.8	(0.3)

SHAREHOLDING PATTERN (%)

	Sep-20	Dec-20
Promoters	49.5	49.5
FIs & Local MFs	18.6	18.3
FPIs	8.9	9.8
Public & Others	23.0	22.4
Pledged Shares	0.0	0.0

Source : BSE

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Subros

On a firm recovery path

Subros reported a strong 3QFY21 with profit rising 55% QoQ to Rs 274mn. Revenue growth surprised at Rs 6bn (+30/32% YoY/QoQ). The company has gained market share with its key customer Maruti – where Subros has reported 28% sales growth (vs. 23% at Maruti) due to improved model mix (higher share of gasoline models). Reiterate BUY, as the company will benefit from its dominant position in car ACs as well as expanding presence in the Home AC segment. The company is localising more components in this segment, including the ODU and IDU units. We raise our estimates by 3/2% for FY22/23E and set a revised target price of Rs 410 at 22x FY23E.

- **3QFY21 financials:** Revenue grew 30% YoY to Rs 6bn, above our expectations (contribution from car AC segment was 77%, 14% from ECM, 4% from Home AC and 5% from other segments). However, EBITDA margin at 11.0% (+60bps/-70bps YoY/QoQ) marginally missed our estimates (11.5%) due to higher commodity costs (~72% of sales, +185/250bps). Reported PAT at Rs 274mn grew 2x YoY, driven by lower interest costs (-56% YoY).
- **Key takeaways: (1) Margins to sustain in double digits:** GM declined 185bps in 3QFY21 due to commodity cost fluctuations. However, Subros' has a pass-through clause with customers with a one-quarter lag. Margins are expected to sustain at current levels, given Subros' efforts towards localisation and backward integration. **(2) Home AC segment:** The segment has again started to contribute to the revenue (in 3QFY21 - Rs 240mn, 4% of sales) after a year of weak sales. The margins will gradually improve as localisation levels improve. **(3) Subros to benefit from Maruti-Toyota partnership:** Subros is bidding for new platforms/models under the Maruti-Toyota venture and is hopeful of winning their orders. **(4) New products:** Subros' will be launching its upgraded technology of Vane Rotary compressors in the New Baleno in Nov-21. The size of the opportunity is Rs 800-1,000mn p.a. **(5) Higher tax rates:** Tax rates will be higher (+30% p.a.) until FY25, as the company will avail MAT credit. Post FY25, the tax rate would normalise to ~25%.

Financial Summary

YE March (Rs mn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	6,039	4,656	30	4,581	32	21,245	19,928	16,384	19,104	22,642
EBITDA	663	482	37	535	24	2,282	1,890	1,425	2,101	2,581
APAT	274	135	103	177	55	785	563	353	862	1,212
Adj. EPS (Rs)	4.2	2.1	103	2.7	55	12.0	8.6	5.4	13.2	18.6
APAT Gr (%)						27.0	(28.2)	(37.3)	144.0	40.6
P/E (x)						27.9	38.9	62.0	25.4	18.1
RoE (%)						14.5	7.9	4.6	10.6	13.4

Source: Company, HSIE Research

Change in Estimates

Rs mn	New			Old			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	16,384	19,104	22,642	16,198	18,844	22,303	1	1	2
EBITDA	1,425	2,101	2,581	1,505	2,073	2,543	(5)	1	2
EBITDA margin (%)	8.7	11.0	11.4	9.3	11.0	11.4	-59 bps	0 bps	0 bps
PAT	353	862	1,212	380	840	1,183	(7)	3	2
EPS	5.4	13.2	18.6	5.8	12.9	18.1	(7)	3	2

Source: Company, HSIE Research

BUY

CMP *(as on 02 Feb 2021)*	Rs 333
Target Price	Rs 410
NIFTY	14,648

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 400	Rs 410
EPS %	FY21E	FY22E
	-7%	3%

KEY STOCK DATA	
Bloomberg code	SUBR IN
No. of Shares (mn)	65
MCap (Rs bn) / ($ mn)	22/298
6m avg traded value (Rs mn)	30
52 Week high / low	Rs 365/117

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	18.8	85.1	33.1
Relative (%)	(6.5)	52.6	7.8

SHAREHOLDING PATTERN (%)	Sep-20	Dec-20
Promoters	36.8	36.8
FIs & Local MFs	9.5	10.5
FPIs	1.2	1.2
Public & Others	52.5	51.6
Pledged Shares		

Source : BSE

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InterGlobe Aviation

Gradual improvement

IndiGo's operational performance continues to steadily improve as the airline operated at a 60% capacity in 3Q (vs. average capacity of 37% in 2Q). The airline reported an EBITDAR of Rs 9bn (vs. 2.8bn QoQ). Cash burn has further reduced to Rs 150mn/day (from Rs 250mn QoQ). We believe that IndiGo will benefit from the expected market consolidation (market share sustaining above 50%). Maintain ADD. We set a revised target price of Rs 1,600 based on FY23 estimates. We continue to value the business at 7x EV/EBITDAR. Key risks: an increase in oil prices on the downside, further opening of aviation services on the upside.

- **3QFY21 Financials:** Revenue at Rs 49.1bn grew 79% QoQ (-51% YoY) as the airlines operated at 60% of pre-COVID capacity (including international). PAX yields came in at Rs 3.7 (Rs 3.9/3.8 YoY/QoQ) and ancillary revenue (17% of sales vs. 12% YoY) was higher 1.5x QoQ due to increased cargo revenues. IndiGo reported a positive EBITDAR of Rs 9bn (margin of 18.4%). Lower fuel prices (23.3% of sales vs. 33.6% YoY), a 37% YoY reduction in employee expenses, and forex gain of Rs 2bn led to the above. Net loss came in at Rs 6.2bn (vs. a loss of Rs 12bn QoQ).
- **Call and other takeaways:** (1) The management has called off its decision to raise funds via QIP, given that the capacity could be increased to 100% soon and liquidity boosting measures worth Rs 21bn in 3QFY21 have resulted in Rs 5bn QoQ increase in free cash levels. (2) IndiGo is currently operating at ~60% level; however, in Jan-21 it operated at 80% (majorly domestic). International capacity was at ~28%, as travel is restricted due to new virus strains that are being discovered in S-Africa and other countries. (3) Daily cash burn rate has reduced significantly to Rs 150mn vs Rs 250mn QoQ, driven by cost-cutting initiatives. (4) As NEOs are now over 50% of the overall fleet, it will drive fuel cost savings at a time when crude oil has risen. Further, the fleet is expected to remain at current levels over FY22 (~290 planes). (4) As the COVID vaccine drive strengthens, demand will gain momentum. The airline is witnessing an early resumption of corporate travellers and traffic is improving amongst Tier-II/III towns.

Financial Summary

YE March (Rs mn)	3Q FY21	3Q FY20	% YoY	2Q FY21	% QoQ	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	49,100	99,317	(51)	27,410	79	284,968	357,560	159,172	237,674	344,034
EBITDAR	9,030	18,042	(50)	2,806	222	47,940	45,348	3,675	46,419	86,871
APAT	(6,266)	4,905	NA	(11,948)	NA	1,562	(2,481)	(41,049)	(7,606)	29,292
Adj. EPS(Rs)	(16.3)	12.7	NA	(31.0)	NA	4.1	(6.4)	(106.7)	(19.8)	76.1
P/E (x)						NA	NA	NA	NA	20.3
EV/EBITDAR						17.0	9.5	NA	14.2	6.8
RoE (%)						2.2	NA	NA	NA	NA

Source: Company, HSIE Research

Change in Estimates

Rs mn	New			Old			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenues	159,172	237,674	344,034	190,032	270,650	364,315	(16)	(12)	(6)
EBITDAR	3,675	46,419	86,871	17,899	58,044	92,972	(79)	(20)	(7)
Adj. PAT	(41,049)	(7,606)	29,292	(27,959)	2,436	33,963	NA	NA	(14)
EPS	(106.7)	(19.8)	76.1	(72.7)	6.3	88.3	NA	NA	(14)

Source: Company, HSIE Research

ADD

CMP *(as on 29 Jan 2021)*	Rs 1,548
Target Price	Rs 1,600
NIFTY	13,635

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	Rs 1,350	Rs 1,600
EPS %	FY21E	FY22E
	NA%	NA%

KEY STOCK DATA	
Bloomberg code	INDIGO IN
No. of Shares (mn)	385
MCap (Rs bn) / ($ mn)	596/8,166
6m avg traded value (Rs mn)	3,186
52 Week high / low	Rs 1,787/765

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	16.3	70.1	5.9
Relative (%)	(0.1)	48.6	(6.5)

SHAREHOLDING PATTERN (%)	Sep-20	Dec-20
Promoters	74.9	74.9
FIs & Local MFs	7.7	5.6
FPIs	14.8	17.3
Public & Others	2.7	2.2
Pledged Shares	0.0	0.0

Source : BSE

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Container Corporation

To benefit from DFC, but LLF overhang remains

CONCOR's 3QFY21 PAT at Rs 2.4bn (+36% YoY) was above estimates as the CTO benefitted from higher realisations (+7% QoQ). While the company will gain from the commissioning of the Dedicated Freight Corridor (a portion of it has already commenced), the resolution of the LLF remains an overhang. The operator has levied a surcharge of Rs 5,000/TEU on import containers at its prime TKD terminal (which accounts for ~15% of EXIM volumes), to partially offset the potential higher levies. We reiterate our ADD rating on the stock and set the target price of Rs 520 at 22x on FY23E EPS as our estimates are increased marginally by 3% over FY22-23E.

- **3QFY21 financials:** Volumes at 966k TEUs grew 6/9% YoY/QoQ, after six quarters of decline. Blended realisation was at Rs 18k grew 8/7%, driven by improved loads and increased leads. Revenue came in at Rs 17.5bn (+15/17%). EBITDA margin at 21.2% was higher by 40bps QoQ - the operating expenses included Rs 3.5bn as provision for LLF. Also, employee expenses included Rs 690mn towards employee welfare; this will be a recurring expense. Reported PAT came in at Rs 2.37bn (+36/27%).
- **Key takeaways: (1) Revision in volume guidance:** With volumes recovering in domestic as well as EXIM segment, the management is now expecting a lower decline of 5% YoY in FY21 vs earlier guidance of 10% decline. **(2) Resolution around LLF soon:** As per IR's demand notice, for FY21, CONCOR has to pay Rs 13.37bn based on the extant policy of IR (at 6% of land value). The resolution around this is expected soon. However, CONCOR's assessment is Rs 4.5bn, and it has represented to IR for the same. **(3) LLF surcharge:** To cover the higher demand of railways, CONCOR has levied a land usage surcharge of Rs 5k/TEU at its flagship ICD Tughlakabad. As per the management, this has not affected any volumes. **(4) DFC:** The Rewari-Madar route is operational and trial runs have commenced up to Palanpur. CONCOR expects market share gains/improved profitability from higher double-stacked volumes, enhanced turnaround times, and timetabled train. **(5) Others:** IR has provided a 15 days period for exempting empty running charges in the current quarter.

Financial Summary (Standalone)

YE March	3Q FY21	3Q FY20	*YoY (%)*	2Q FY21	*QoQ (%)*	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	17,538	15,276	*15*	15,027	*17*	68,819	64,738	61,190	75,229	94,532
Adj. EBITDA	3,719	3,717	*0*	3,130	*19*	14,408	16,749	12,116	16,731	21,270
APAT	2,379	1,755	*36*	1,876	*27*	12,154	10,282	7,334	11,044	14,358
Adj. EPS (Rs)	3.9	2.9	*36*	3.1	*27*	19.9	16.9	12.0	18.1	23.6
P/E (x)						23.4	27.7	38.8	25.8	19.8
EV / EBITDA (x)						19.6	15.3	20.7	14.8	11.3
RoE (%)						12.3	10.1	7.2	10.4	12.8

Source: Company, HSIE Research

Change in estimates

Rs mn	New			Old			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Net Revenue	61,190	75,229	94,532	59,351	72,969	91,692	3	3	3
EBITDA	12,116	16,731	21,270	11,752	16,228	20,631	3	3	3
EBITDA margin (%)	19.8	22.2	22.5	19.8	22.2	22.5	0 bps	0 bps	0 bps
APAT	7,334	11,044	14,358	7,061	10,668	13,879	4	4	3
EPS (Rs)	12.0	18.1	23.6	11.6	17.5	22.8	4	4	3

Source: Company, HSIE Research

ADD

CMP *(as on 5 Feb 2021)*	Rs 467
Target Price	Rs 520
NIFTY	14,924

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	Rs 500	Rs 520
EPS %	FY21E 4%	FY22E 4%

KEY STOCK DATA	
Bloomberg code	CCRI IN
No. of Shares (mn)	609
MCap (Rs bn) / ($ mn)	284/3,901
6m avg traded value (Rs mn)	1,163
52 Week high / low	Rs 602/263

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	14.6	2.0	(21.5)
Relative (%)	(8.1)	(32.7)	(44.8)

SHAREHOLDING PATTERN (%)	Sep-20	Dec-20
Promoters	54.8	54.8
FIs & Local MFs	15.8	16.7
FPIs	24.5	23.3
Public & Others	4.9	5.3
Pledged Shares	0.0	0.0

Source : BSE

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Gateway Distriparks

An all-round results beat, encouraging outlook

In 3QFY21, Gateway Distriparks' (GDL) EBITDA margin expanded 150bps QoQ to 26.3% and interest costs reduced to Rs 177mn (-18% QoQ) as the company deleveraged its balance sheet. This led to a significant PAT beat (Rs 327mn vs 40mn QoQ). The management has provided an upbeat outlook. In Sep-20, we upgraded Gateway Distriparks to BUY, given the company's improving fundamentals. We raise our FY22/23 estimates by ~6%. Maintain BUY with an SOTP-based target price of Rs 165, at 9x FY23E EV/EBITDA for the rail business.

- **3QFY20 financials:** GDL's revenue at Rs 3.1bn grew 5/20% YoY/QoQ, owing to 9/19% growth in rail volumes. CFS volumes were up 7% QoQ (-11% YoY). EBITDA margin at 26.3% surprised positively (+150bps QoQ, 600 bps YoY) as the company benefitted from higher volumes and 5% rebate on container volumes offered by IR (till Apr-21). The company has been repaying its debt post the fundraise and, hence, the interest cost is down 33% YoY. APAT grew 3x YoY to Rs 327mn (due to lower tax rate of 6% in 3Q, aided by the availing of MAT credit).
- **Call and other takeaways: (2) Balance sheet deleveraging:** The company's net debt stands reduced at Rs 4.94bn (vs Rs 5.09bn QoQ, 6.81bn in FY20). In the previous quarter, GDL used Rs 1.15bn raised via rights issue towards debt repayment. **(2) DFC to benefit: *(Link to our report: Indian Railways - getting aggressive)*** with the 306km long stretch from Rewari to Madar being inaugurated in Jan-21, the company expects a boost in volumes. The management expects rail throughput of 25k TEU/month vs ~21k currently. It also expects the 342-km stretch of Madar-Palanpur to commence by Sep-21. It will facilitate market share shift towards the rail as the journey time will be reduced from ~70 hours to below 40 hours. Further, shipping fleets will drive the shift to rail, and manufacturers will move the business towards the hinterland based ICDs. **(3) Port connectivity:** The Pipavav Port feeder line is expected to connect with the DFC by Sep-21 while Mundra Port feeder lines will perhaps be connected by Mar-22 (Palanpur - Gandhidham - Mundra).

Financial Summary (Consolidated)

YE March (Rs mn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	3,138	2,989	5	2,625	20	4,306	12,372	11,360	12,692	14,681
EBITDA	826	605	36	652	27	824	2,586	2,818	2,931	3,277
APAT	327	109	202	42	674	1,688	983	511	653	926
Adj. EPS (Rs)	2.6	0.9	202	0.3	674	15.5	9.0	4.1	5.2	7.4
P/E (x)						7.5	12.9	28.6	22.3	15.7
EV / EBITDA (x)						24.7	8.3	7.5	6.8	5.8
RoE (%)						14.5	7.4	3.7	4.5	6.4

Source: Company, HSIE Research

Change in estimates

Rs mn	New			Old			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	11,360	12,692	14,681	11,131	12,267	14,188	2	3	3
EBITDA	2,818	2,931	3,277	2,655	2,736	3,125	6	7	5
EBITDA margin (%)	24.8	23.1	22.3	23.9	22.3	22.0	95 bps	79 bps	30 bps
PAT	511	653	926	381	608	888	34	7	4
EPS	4.1	5.2	7.4	3.1	4.9	7.1	34	7	4

Source: Company, HSIE Research

BUY

CMP *(as on 19 Jan 2021)*	Rs 117
Target Price	Rs 165
NIFTY	14,521

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 160	Rs 165
EPS %	FY21E	FY22E
	34%	7%

KEY STOCK DATA	
Bloomberg code	GDPL IN
No. of Shares (mn)	125
MCap (Rs bn) / ($ mn)	15/200
6m avg traded value (Rs mn)	18
52 Week high / low	Rs 138/69

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	26.1	35.0	(8.1)
Relative (%)	3.9	1.6	(25.9)

SHAREHOLDING PATTERN (%)	Sep-20	Dec-20
Promoters	32.1	32.1
FIs & Local MFs	27.7	28.6
FPIs	25.9	25.5
Public & Others	14.3	13.8
Pledged Shares	6.0	5.4

Source : BSE

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Banks, NBFCs

ICICI Bank

More hits than misses; primed for multiple re-rating

ICICI Bank reported a positive surprise on most operating metrics as the bank navigated through a difficult quarter with very few misses. Restructured loans were benign at 0.4% of loans (two-thirds from corporate pool) while pro forma slippages clocked in at 1.2% of loans (90% from retail portfolio). ICICI Bank ticks most boxes on the asset quality front in terms of a handle on the sources of potential stress, the likely pace of incremental stress accretion and the need for incremental provisions. Incrementally, the bank's comfort and confidence in kick-starting growth in its corporate portfolio holds a gradual re-rating potential. We maintain BUY with a SOTP-based revised TP of INR 625 (standalone bank: 79% of SOTP valuation).

- **Pro forma slippages dominated by retail:** Pro forma slippages clocked in at INR82bn (~1.2% of loans) while the bank received restructuring proposals to the tune of 0.4% of loans. Retail loans accounted for ~90% of the pro forma slippages and one-third of the restructuring proposals. A larger system-wide issue revolves around the potential stress building up even in mortgage loans, which are symptomatic of continued weak cash flows for borrowers. We build in slippages of 2.5% over FY21-23E.
- **Conservative and adequate provisions:** ICICI Bank continued to build its standard asset cover with a net addition of INR1.2bn during the quarter towards potential stress. The bank has also prudently raised its provisioning policy on early-vintage stress buckets (higher provisions on sub-standard assets), which reduces the scope for potential P&L shocks in the future. Moderating provisions are likely to be the biggest driver of return ratios. We expect LLPs of 1.6% over FY21-23E.
- **Ripe for de-anchoring from Axis Bank:** With standalone RoAs likely to inch to 1.8% by FY23E (almost completely driven by continued normalization of credit costs) and a gradual diversification of profitability engines, we envision ICICIBC to embark a smoother to its franchise RoE (vs. AXSB). This trend will warrant a higher multiple. This underpins the revision in our target multiple from 1.9x to 2.0x FY23E ABV.

(Rs bn)	3Q FY21	3Q FY20	*YoY (%)*	2Q FY21	*QoQ (%)*	FY20	FY21E	FY22E	FY23E
NII	99.1	85.5	16.0%	93.7	5.8%	332.7	385.6	447.3	518.5
PPOP	88.2	75.5	16.8%	82.6	6.8%	281.0	356.6	388.2	452.2
PAT	49.4	41.5	19.1%	42.5	16.2%	79.3	153.5	199.6	259.5
EPS (Rs)	7.2	6.4	11.9%	6.2	16.1%	12.3	22.3	29.0	37.7
ROAE (%)						7.5	12.0	13.1	14.9
ROAA (%)						0.77	1.3	1.6	1.8
ABVPS (Rs)						155.2	184.6	215.1	248.8
P/ABV (x)						2.7	2.2	1.9	1.6
P/E (x)						33.6	18.4	14.0	10.6

Change in estimates

Rs bn	FY21E			FY22E			FY23E		
	Old	New	Chg	Old	New	Chg	Old	New	Chg
Loan	6,989	7,201	3.0%	7,885	8,129	3.1%	9,036	9,321	3.1%
NIM (%)	3.6	3.7	11 bps	3.7	3.8	6 bps	3.8	3.8	4 bps
NII	376.5	385.6	2.4%	445.8	447.3	0.3%	518.6	518.5	0.0%
PPOP	351.4	356.6	1.5%	386.5	388.2	0.4%	449.5	452.2	0.6%
PAT	151.8	153.5	1.1%	199.1	199.6	0.2%	256.3	259.5	1.2%
ABVPS (Rs)	187.9	184.6	-1.8%	217.2	215.1	-0.9%	250.4	248.8	-0.6%

Source: Bank, HSIE Research

BUY

CMP ***(as on 29 Jan 2021)***	**INR 537**
Target Price	**INR 625**
NIFTY	**13,635**

KEY CHANGES	**OLD**	**NEW**
Rating	BUY	BUY
Price Target	INR 599	INR 625
EPS %	FY21E	FY22E
	1.1%	0.2%

KEY STOCK DATA	
Bloomberg code	ICICIBC IN
No. of Shares (mn)	6,905
MCap (Rs bn) / ($ mn)	3,708/50,831
6m avg traded value (Rs mn)	13,644
52 Week high / low	Rs 561/268

STOCK PERFORMANCE (%)

	3M	**6M**	**12M**
Absolute (%)	34.3	53.0	2.0
Relative (%)	17.8	31.4	(10.4)

SHAREHOLDING PATTERN (%)

	Sept-20	**Dec-20**
Promoters	-	-
FIs & Local MFs	43.8	40.5
FPIs	45.7	47.4
Public & Others	10.5	12.1
Pledged Shares	0.0	0.0

Source : BSE

Pledged shares as % of total shares

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Kotak Mahindra Bank

Positives fully priced in

KMB's 3Q operating performance was in line with estimates, and was backed by a QoQ revival in credit growth and sustained CASA traction. Current lofty valuations fully price in (1) an imminent pick-up in loan growth momentum, (2) strong CASA traction and resulting CoF tailwinds, and (3) a gradual return to the pre-COVID-19 credit cost trajectory post FY21E. This underpins our REDUCE rating (SoTP value of Rs 1,717).

- **Pro forma stress rises:** Like several banks this quarter, KMB witnessed a rise in pro forma GNPAs to ~3.3% (vs. ~2.7% QoQ), implying pro forma slippages of ~Rs 20bn (3.8% ann.). Retail unsecured loans disproportionately contributed to a majority of incremental stress (~45% of slippages vs. ~6% of loans). We continue to conservatively build GNPAs of ~4.0% in FY21E as we expect SME and unsecured retail loans to contribute to incremental stress as suggested by commentary and significant disbursals under the ECLGS.
- **Lower-than-expected provisions:** Overall non-tax provisions rose 34.9/62.5% to ~Rs 6bn, albeit ~11.3% below our estimates. Adjusted for interest reversals on pro forma slippages, credit costs would've been ~30bps lower at 86bps. The bank held COVID-19 provisions of ~60bps of loans (flat QoQ). We continue to conservatively build LLPs of 1.0% over FY21-23E.
- **Growth revives, sequentially:** While outstanding loans dipped 1.2% YoY, they witnessed a QoQ growth of 4.5%, led by corporate (+5.8%), mortgages (+4.7%) and agri (+5.9%) segments. Commentary suggests that KMB continues to log sustained improvement in monthly business volumes, which are nearing pre-COVID-19 levels across several businesses. We continue to factor in a sharp uptick in loan growth to ~13.6% over FY22-23E.
- **CASA engine continues to fire:** Aggregate deposits grew 10.8/1.7%, while CASA balances grew at nearly double the rate (+21.5/4.5%). Consequently, the CASA ratio rose, yet again, to an all time high of ~58.9% (+517/173bps).

Financial summary

YE Mar (Rs mn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
NII	40,068	34,295	16.8%	39,132	2.4%	134,997	156,104	176,675	1,99,783
PPOP	30,833	23,881	29.1%	32,975	-6.5%	100,208	120,903	133,618	1,48,602
PAT	18,535	15,959	16.1%	21,845	-15.1%	59,472	70,735	81,492	95,379
EPS (Rs)	9.4	8.4	12.0%	11.0	-15.2%	31.1	35.8	41.2	48.2
ROAE (%)						13.9	13.2	12.5	12.9
ROAA (%)						1.78	1.89	1.98	2.09
ABVPS (Rs)						232	293	336	382
P/E (x)						48.9	42.4	36.3	30.4
P/ABV (x)						6.56	5.17	4.45	3.83

Change in estimates

Rs bn	FY21E			FY22E			FY23E		
	Old	New	Chg	Old	New	Chg	Old	New	Chg
Loan	2,235	2,235	0.0%	2,515	2,515	0.0%	2,882	2,882	0.0%
NIM (%)	4.4	4.4	0 bps	4.5	4.5	0 bps	4.5	4.5	-2 bps
NII	155.7	156.1	0.2%	174.3	176.7	1.3%	194.8	199.8	2.5%
PPOP	120.3	120.9	0.5%	131.4	133.6	1.7%	147.2	148.6	1.0%
PAT	70.3	70.7	0.7%	79.9	81.5	2.0%	94.3	95.4	1.1%
ABVPS (Rs)	293.0	293.3	0.1%	335.1	336.1	0.3%	380.8	382.4	0.4%

Source: Bank, HSIE Research

REDUCE

CMP *(as on 25 Jan 2021)*	Rs 1,795
Target Price	Rs 1,717
NIFTY	14,239

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	Rs 1,686	Rs 1,717
EPS %	FY21E	FY22E
	0.7%	2.0%

KEY STOCK DATA	
Bloomberg code	KMB IN
No. of Shares (mn)	1,980
MCap (Rs bn) / ($ mn)	3,554/48,706
6m avg traded value (Rs mn)	9,068
52 Week high / low	Rs 2,027/1,000

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	29.7	32.9	9.2
Relative (%)	10.9	6.1	(7.0)

SHAREHOLDING PATTERN (%)	Sept-20	Dec-20
Promoters	26.1	26.0
FIs & Local MFs	15.3	13.2
FPIs	45.2	46.6
Public & Others	13.5	14.4
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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State Bank of India

Get on the dance floor

SBIN's 3Q earnings were significantly ahead of our estimates on the back of (1) better-than-expected margins and (2) lower-than-expected provisions. The biggest surprise, however, was SBIN's performance on asset quality metrics with pro forma slippages (94bps annualised) and restructuring requests (0.8% of loans) coming in well within management guidance. With the back-book sufficiently provisioned against (pro forma PCR at 67%) and potential build-up in stress in line with the best-in-class private sector banks (evidence of comparable quality of underwriting in retail and SME), we see potential for a meaningful narrowing of SBIN's valuation discount to its private bank peers. We continue to be conservative on accretion to stress (possible lagged impact) and loan loss provisions (on both pools of potential stress). We raise FY21-23 earnings by 12-27% and reiterate BUY with a revised target price of INR455.

- **Asset quality surprises positively**: Over 9MFY21, SBIN witnessed pro forma slippages of just ~INR165bn (94bps annualised, net of recoveries and upgrades), of which the share of the agri segment was ~50%, implying very low incremental stress accretion across corporate, retail and SME credit. Consequently, pro forma GNPLs dipped 44bps QoQ to ~5.4% while the stock of restructuring proposals at INR181bn (0.8% of loans) was also well within the guided range of ~1%. While the management retained its FY21E stressed asset addition guidance at ~INR600bn, we conservatively build in slippages of INR619bn (2.6% annualised) in FY21E.
- **Provisioning below estimates:** Non-tax provisions at INR103bn were 24% below our estimates. SBIN provided ~INR21bn against pro forma slippages, pushing the derived pro forma PCR up 213bps sequentially to 67%. SBIN incrementally provided INR30bn towards contingencies during the quarter, taking the total stock of COVID-19 related provisions to ~INR60bn (25bps of loans). Further, SBIN held ~INR15bn against restructured assets (~8% of restructuring requests). We reduce our FY21E credit cost estimates to ~1.8%, from ~1.9% earlier and we build ~1.6% over FY22-23E.

Financial summary

YE Mar (INR bn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
NII	288.2	277.8	3.7%	281.8	2.3%	980.8	1,098.2	1,214.1	1,316.4
PPOP	173.3	182.2	-4.9%	164.6	5.3%	681.3	714.3	807.1	873.4
PAT	52.0	55.8	-6.9%	45.7	13.6%	144.9	189.2	271.5	368.0
EPS (INR)	5.8	6.3	-6.9%	5.1	13.6%	16.2	21.2	30.4	41.2
ROAE (%)						6.4	7.8	10.3	12.6
ROAA (%)						0.38	0.46	0.60	0.75
ABVPS (INR)						175.2	196.6	236.0	265.7
P/ABV (x)						1.25	1.11	0.92	0.81
P/E (x)						13.53	10.29	7.14	5.24

Change in estimates

INR bn	FY21E			FY22E			FY23E		
	Old	New	Change	Old	New	Change	Old	New	Change
Loan	24,623	24,398	-0.9%	26,802	26,852	0.2%	29,310	29,629	1.1%
NIM (%)	2.9	3.0	9 bps	2.9	3.0	11 bps	2.9	3.0	13 bps
NII	1,061	1,098	3.5%	1,147	1,214	5.8%	1,222	1,316	7.7%
PPOP	697	714	2.4%	768	807	5.2%	807	873	8.2%
PAT	159	189	18.8%	243	271	11.9%	289	368	27.3%
ABVPS (INR)	190.1	196.6	3.4%	226.4	236.0	4.3%	252.5	265.7	5.2%

Source: Bank, HSIE Research

BUY

CMP *(as on 4 Feb 2021)*	Rs 355
Target Price	Rs 455
NIFTY	14,896

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 363	Rs 455
EPS %	FY21E	FY22E
	39.3%	16.6%

KEY STOCK DATA	
Bloomberg code	SBIN IN
No. of Shares (mn)	8,925
MCap (Rs bn) / ($ mn)	3,169/43,436
6m avg traded value (Rs mn)	13,288
52 Week high / low	Rs 358/149

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	71.5	85.3	16.0
Relative (%)	46.9	51.0	(8.1)

SHAREHOLDING PATTERN (%)

	Sep-20	Dec-20
Promoters	57.6	57.6
FIs & Local MFs	24.3	23.8
FPIs	7.8	9.8
Public & Others	10.3	8.8
Pledged Shares		

Source : BSE

Pledged shares as % of total shares

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Axis Bank

One step forward…

AXSB continued to build higher-than-expected provisions on its pro forma portfolio as it continued to search for stability in its back book coverage. The sustained build-up in standard asset provisions was a negative surprise. Although prudence is generally welcome, at 2.1% standard asset cover, the road to credit cost normalisation is longer than originally envisaged. We trim our FY21 full-year earnings estimates by ~13% and continue with our BUY recommendation with a revised target price of Rs 705.

- **Signs of stability in asset quality:** On a pro forma basis, slippages rose to Rs 6.7bn (~1.6% annualised over 9MFY21), driven by unsecured retail loans, which contributed to 80%+ of pro forma NPA accretion. Consequently, pro forma GNPLs rose to ~4.6%, despite aggressive 'rule-based' write-offs during the quarter (to the tune of Rs 43bn). Stress accretion in the corporate and SME portfolios appears to be within expected threshold limits thus far, given the minor difference between reported and pro forma GNPAs (30bps and 60bps respectively). The BB and below rated pool of corporate loans dipped sequentially to ~Rs 87bn (1.5% of advances) - slippages from this pool accounted for nearly all of the corporate pro forma slippages during the quarter. Retail collection efficiency has been inching up even as demand resolution for December clocked in at 98% (vs. 94% earlier).
- **Provisioning continues to haemorrhage:** In line with the overarching theme of prudence, the bank continued to make elevated provisions, higher than our forecasts. Non-tax provisions were stubborn at ~Rs 46bn (+33% YoY, ~39% ahead of our estimates), driven by pro forma loan loss provisions of ~Rs 50bn. Reported PCR now stands at ~79% (pro forma at ~74%); in addition, the bank holds non-specific provisions of ~Rs 119bn (2.1% of loans). We find (1) the current level of elevated provisions, and (2) guidance on the need for further 'prudent' provisions inconsistent with management narrative of benign asset quality, especially, given the already-elevated stock of non-specific provisions. We build LLPs of 1.9% over FY21-23E.

Financial summary

(Rs bn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
NII	73.7	64.5	*14.3%*	73.3	*0.6%*	252.1	286.7	324.7	366.4
PPOP	61.0	57.4	*6.1%*	69.0	*-11.6%*	234.4	247.7	283.8	317.3
PAT	11.2	17.6	*-36.4%*	16.8	*-33.6%*	16.3	65.7	121.1	152.9
EPS (Rs)	3.6	6.2	*-41.5%*	5.5	*-33.7%*	5.8	21.5	39.6	50.0
ROAE (%)						2.1	7.0	11.3	12.8
ROAA (%)						0.19	0.70	1.19	1.36
ABVPS (Rs)						268	308	350	398
P/ABV (x)						2.30	1.99	1.74	1.55
P/E (x)						106.7	28.6	15.4	12.3

Change in estimates

Rs bn	FY21E			FY22E			FY23E		
	Old	New	Chg	Old	New	Chg	Old	New	Chg
Loan	6,229	6,055	*-2.8%*	7,083	6,883	*-2.8%*	8,121	7,891	*-2.8%*
NIM (%)	3.5	3.6	*15 bps*	3.7	3.7	*4 bps*	3.8	3.8	*-1 bps*
NII	275.5	286.7	*4.1%*	325.9	324.7	*-0.3%*	378.0	366.4	*-3.1%*
PPOP	248.9	247.7	*-0.4%*	288.5	283.8	*-1.6%*	328.2	317.3	*-3.3%*
PAT	76.3	65.7	*-13.9%*	128.0	121.1	*-5.4%*	163.1	152.9	*-2.4%*
ABVPS (Rs)	306	308	*0.7%*	348	350	*0.4%*	396	398	*0.4%*

Source: Bank, HSIE Research

BUY

CMP *(as on 27 Jan 2021)*	**Rs 634**
Target Price	**Rs 705**
NIFTY	**13,968**

KEY CHANGES	**OLD**	**NEW**
Rating	BUY	BUY
Price Target	Rs 739	Rs 705
EPS %	FY21E	FY22E
	-13.9%	-5.4%

KEY STOCK DATA	
Bloomberg code	AXSB IN
No. of Shares (mn)	3,062
MCap (Rs bn) / ($ mn)	1,940/26,599
6m avg traded value (Rs mn)	12,182
52 Week high / low	Rs 761/285

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	24.7	46.8	(14.4)
Relative (%)	6.6	22.5	(28.3)

SHAREHOLDING PATTERN (%)	**Sept-20**	**Dec-20**
Promoters	14.8	13.9
FIs & Local MFs	22.3	21.8
FPIs	53.5	55.3
Public & Others	9.5	9.0
Pledged Shares	0.0	0.0

Source : BSE

Pledged shares as % of total shares

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IndusInd Bank

Strategic priorities to prolong RoE normalisation

IIB witnessed better-than-expected P&L outcomes, largely on the back of stronger-than-expected NIMs and high PSL income. At 1.8% of loans, IIB reported one of the highest ratios of (potentially) restructured loans amongst its peers, which we believe will prolong the materialisation of stress. Further, the CCB* portfolio contributed disproportionately towards aggregate stress at ~40% of potential restructuring and pro forma slippages, indicating that the portfolio is yet to stabilise completely. With both sides of the balance sheet being re-engineered, we expect ROE normalisation to take longer and maintain our REDUCE stance with a target price of INR 749.

- **CCB* portfolio yet to stabilise:** Even after haemorrhaging for most of FY20, IIB's CCB portfolio contributed to ~40% of potential restructuring (total at ~1.8% of loans - highest amongst peers) and pro forma slippages (total at ~INR 25.1bn, ~1.2% of loans). The share of corporate loans in potential stress is relatively higher than that of peers. This pool could disproportionately contribute to slippages beyond FY21E. We remain circumspect of the bank's asset quality prospects and build slippages of 3.8% over FY21-23E.
- **In-line provisions:** Non-tax provisions were elevated in line with estimates at ~INR 18.5bn (3.6% annualised). On a pro forma basis, coverage was sequentially flat at ~77%. In addition, IIB held COVID-19 provisions of ~INR 9.7bn (0.4% of loans). We expect credit costs to gradually moderate here on and accordingly build LLPs of 3.1% during FY21E and 1.6% over FY22-23E.
- **CFD disbursements normalising:** Retail disbursements, especially in the vehicle finance and micro-credit portfolios, are nearing pre-COVID levels, as collection efficiencies gradually improve in the CFD book (VF: 97% and MFI: 94%). The CFD segment accounted for 85% of pro forma slippages and 45% of the restructuring proposals, largely stemming from the unsecured pools of assets (including micro-credit), which we consider par for the course.

Financial summary

(INR bn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
NII	34,061	30,740	*10.8%*	32,780	*3.9%*	120,587	134,933	152,080	176,221
PPOP	29,733	27,456	*8.3%*	28,305	*5.0%*	107,727	116,246	131,861	154,138
PAT	8,528	13,002	*-34.4%*	6,470	*31.8%*	44,179	30,486	60,551	79,213
EPS (INR)	11.3	18.8	*-40.0%*	8.6	*31.7%*	63.7	39.5	78.4	102.6
ROAE (%)						14.7	8.0	13.3	15.2
ROAA (%)						1.51	0.92	1.63	1.92
ABVPS (INR)						459	519	583	655
P/ABV (x)						13.3	21.4	10.8	8.2
P/E (x)						1.84	1.63	1.45	1.29

Change in estimates

INR bn	FY21E			FY22E			FY23E		
	Old	New	Chg	Old	New	Chg	Old	New	Chg
Loan	2,206	2,173	-1.5%	2,501	2,466	-1.4%	2,884	2,846	-1.3%
NII	130.9	134.9	3.1%	150.9	152.1	0.8%	173.3	176.2	1.7%
PPOP	119.5	116.2	-2.7%	132.7	131.9	-0.7%	152.9	154.1	0.8%
PAT	30.0	30.5	1.5%	58.6	60.6	3.4%	76.4	79.2	3.7%
ABVPS (INR)	516.9	519.5	0.5%	576.1	583.2	1.2%	643.7	654.6	1.7%

Source: Bank, HSIE Research

**CCB- Corporate and Commercial Banking and CFD- Consumer Finance Division*

REDUCE

CMP *(as on 29 Jan 2021)*	**INR 846**
Target Price	**INR 749**
NIFTY	**13,635**

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 721	INR 749
EPS %	FY21E	FY22E
	1.5%	3.4%

KEY STOCK DATA	
Bloomberg code	IIB IN
No. of Shares (mn)	757
MCap (INR bn) / ($ mn)	641/8,784
6m avg traded value (INR mn)	12,899
52 Week high / low	INR 1,346/236

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	43.7	53.7	(32.8)
Relative (%)	27.3	32.1	(45.1)

SHAREHOLDING PATTERN (%)	Sept-20	Dec-20
Promoters	14.7	14.7
FIs & Local MFs	15.8	15.6
FPIs	47.5	50.3
Public & Others	22.1	19,4
Pledged Shares	0.0	0.0

Source : BSE

Pledged shares as % of total shares

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Bandhan Bank

Prudently cushioning for potential event risk

BANDHAN's 3QFY21E PAT disappointed on account of higher-than-anticipated provisions as it sought to insulate the balance sheet from stress emanating from its Assam portfolio. We will continue to closely track progress on this front, and we have reduced our earnings estimates to account for this. Low-cost deposit traction remains impressive in its granularity- this along with BANDHAN's strong RoAE potential underpin our stance. Maintain BUY with a target price of Rs 406.

- **Worrisome trends surface:** While EEB (micro-credit) collection efficiencies (CE) remained stable until December at ~92%, they have deteriorated significantly since. This trend has been led by BANDHAN's Assam portfolio, in the case of which, below average CE (88% in December) plummeted to 78% in the first fortnight of January. Pro forma NPAs jumped to ~7.2%, however, in this calculation, the bank appears to have included part payment cases. Unsurprisingly, ~95% of the incremental stress is emanating from the bank's Assam portfolio. BANDHAN's prospects are now, more than ever, hinged upon its eastern/ north-eastern portfolio. We have raised our FY21E GNPA estimates to 5.8%.
- **Prudent provisioning build-up for potential event risk:** BANDHAN stepped up the balance sheet insulation process, in anticipation of stress, building an additional ~Rs 10bn of provisions. This takes aggregate stock of COVID-19 related provisions to Rs 31.2bn (~4.1% of total advances). Further, pro forma net NPAs stood at ~2.4%. The management raised its credit cost guidance to ~4.5% for FY21E. We conservatively build in ~5% (vs. 3.2% earlier) and we have raised our cumulative credit costs over FY22-23E by 106bps to 2.1% ann..
- **Individual loans lead EEB growth:** The EEB segment continued to see strong growth at 32.3/6.6% and constitutes 66.1% of overall AUMs. Growth within this space, in turn, was led by a ~8x growth in individual loans, which now form ~10% of overall EEB loans.

Financial summary

(Rs mn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
NII	20,717	15,402	34.5%	19,231	7.7%	63,239	75,669	90,402	1,07,713
PPOP	19,141	12,638	51.5%	16,275	17.6%	54,466	66,550	77,630	90,510
PAT	6,326	7,309	-13.5%	9,200	-31.2%	30,237	21,296	39,153	52,615
EPS (Rs)	3.9	4.5	-13.5%	5.7	-31.2%	18.8	13.2	24.3	32.7
ROAE (%)						22.9	13.1	20.4	22.5
ROAA (%)						4.08	2.14	3.32	3.73
ABVPS (Rs)						91.9	101.0	122.9	150.7
P/ABV (x)						3.71	3.38	2.77	2.26
P/E (x)						18.2	25.8	14.0	10.4

Changes in estimates

Rs bn	FY21E			FY22E			FY23E		
	Old	New	Chg	Old	New	Chg	Old	New	Chg
Loan	836	840	0.5%	995	1,014	1.9%	1,239	1,246	0.5%
NIM (%)	7.9	8.0	12 bps	7.9	7.9	4 bps	8.1	7.9	-25 bps
NII	73.7	75.7	2.6%	87.8	90.4	3.0%	108.5	107.7	-0.7%
PPOP	62.9	66.5	5.7%	74.2	77.6	4.6%	90.3	90.5	0.3%
PAT	28.6	21.3	-25.6%	42.2	39.2	-7.1%	55.7	52.6	-5.6%
ABPVS (Rs)	106.4	101.0	-5.1%	128.4	122.9	-4.2%	159.1	150.7	-5.3%

Source: Bank, HSIE Research

BUY

CMP *(as on 21 Jan 2021)*	Rs 341
Target Price	Rs 406
NIFTY	14,590

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 443	Rs 406
EPS %	FY21E	FY22E
	-25.6%	-7.1%

KEY STOCK DATA

Bloomberg code	BANDHAN IN
No. of Shares (mn)	1,610
MCap (Rs bn) / ($ mn)	549/7,516
6m avg traded value (Rs mn)	5,566
52 Week high / low	Rs 488/152

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	9.8	(0.9)	(28.3)
Relative (%)	(12.1)	(31.8)	(48.4)

SHAREHOLDING PATTERN (%)

	Sept-20	Dec-20
Promoters	40.0	40.0
FIs & Local MFs	20.1	16.4
FPIs	32.2	35.2
Public & Others	7.7	8.4
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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AU Small Finance Bank

Normalising ahead of expectations

AUBANK used non-core proceeds (1.1% of average assets) booked during the quarter to shore up its coverage. With cumulative cover at 2% of loans, AUBANK appears to have adequately provided against pro forma and potential stress, largely stemming from its secured businesses. Collection efficiencies and customer activation rates have normalised across segments close to last year levels. With the dependence on corporate and inter-bank deposits reducing, AUBANK's deposit franchise is getting more granular. We reiterate ADD with a target price of INR 932 (4.1x FY23E ABVPS).

- **Portfolio stress increasingly appears under control:** Pro forma GNPAs rose 170bps QoQ to 3.3%. We expect incremental slippages to moderate and GNPAs to inch up only marginally here on to 3.6% in FY21E. Our stance is premised on (1) a sustained and broad-based uptrend in collection efficiency (97% in 3QFY21 vs. 96/98% YoY/QoQ), (2) seasoning of the pro forma NPA pool, especially from the secured, vintage businesses and (3) a broad-based normalisation of customer activation.
- **Prudent provisioning:** AUBANK smartly utilised gains from its stake sale in AAVAS to further insulate the balance sheet. Non-tax provisions rose ~7/4x to ~INR 2.8bn (3.6% annualised), taking the cumulative stock of provisions to ~2%. We expect provisions to moderate here on and we build LLPs of 1.8% in FY21E and of 1.2% over FY22-23E.
- **Full steam ahead on deposits:** AUBANK's build-out of its deposit franchise continues to surprise positively. Deposits grew 25% YoY, double the pace of loan growth, led by 72% growth in CASA and improving granularity as reflected in reducing dependence on corporate and inter-bank deposits.
- **Disbursals accelerate:** Disbursal run rate picked up**,** registering a 34%/91% growth to INR 65.2bn. Consequently, sequential AUM growth accelerated to 8.6%, with faster growth in retail segments, the share of which has risen to ~91%. We model an AUM CAGR of 15.9% over FY21-23E.

Financial summary

(INR mn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
NII	6,331	5,068	24.9	5,606	12.9	19,089	23,182	28,111	34,296
PPOP	3,930	3,128	25.6	3,220	22.1	11,112	14,046	17,042	20,509
PAT	4,790	1,902	151.9	3,219	48.8	6,747	10,349	9,050	11,481
EPS (INR)	1.9	6.3	(69.9)	10.5	(82.0)	22.2	34.0	29.8	37.8
ROAE (%)						18.6	21.4	15.6	17.0
ROAA (%)						1.6	1.0	1.7	1.9
ABVPS (INR)						135.1	155.7	190.8	227.5
P/ABV (x)						6.5	5.6	4.6	3.8
P/E (x)						39.4	25.7	29.3	23.1

Change in estimates

INR mn	FY21E			FY22E			FY23E		
	Old	New	Chg	Old	New	Chg	Old	New	Chg
AUM	340,577	349,845	2.7%	396,614	406,773	2.6%	457,636	481,021	5.1%
NIM (%)	4.9	5.1	21 bps	5.2	5.3	9 bps	5.4	5.5	16 bps
NII	21,581	23,182	7.42%	26,235	28,111	7.15%	31,455	34,296	9.03%
PPOP	13,316	14,046	5.48%	16,139	17,042	5.59%	19,110	20,509	7.32%
APAT	9,907	10,349	4.46%	8,456	9,050	7.03%	10,819	11,481	6.11%
ABVPS (INR)	159.7	155.7	-2.50%	189.7	190.8	0.58%	222.6	227.5	2.22%

Source: Bank, HSIE Research

ADD

CMP *(as on 29 Jan 2021)*	INR 873
Target Price	INR 932
NIFTY	13,635

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 903	INR 932
EPS %	FY21E	FY22E
	4.5%	7.0%

KEY STOCK DATA	
Bloomberg code	AUBANK IN
No. of Shares (mn)	307
MCap (INR bn) / ($ mn)	268/3,669
6m avg traded value (INR mn)	740
52 Week high / low	INR 1,218/366

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	11.5	16.9	(16.6)
Relative (%)	(5.0)	(4.7)	(29.0)

SHAREHOLDING PATTERN (%)	Sept-20	Dec-20
Promoters	29.0	29.0
FIs & Local MFs	16.7	20.1
FPIs	40.0	39.5
Public & Others	14.3	11.4
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Federal Bank

Sustained improvement in key metrics

FB's 3QFY21 operating performance increasingly demonstrates an improving franchise that is beginning to find and consistently exercise pricing power (a gradual 9bps QoQ NIM expansion and strong fee traction). Provisions remained sticky (~130bps ann.), as FB continued to cover pro forma slippages. Even as we continue to monitor asset quality outcomes, we revise our earnings upwards as we foresee a sustained improvement in operating metrics. Maintain BUY with a target price of Rs 92 (1.0x FY23E ABV).

- **Strong operating momentum**: For a second consecutive quarter, FB registered a strong operating performance, clocking a PPOP growth of 30% YoY (13% ahead of our estimates) on the back of 9bps margin expansion and strong fee momentum (~1% of loans, ann.).
- **Pricing power at play:** FB registered a 22/9bps YoY/QoQ reflation in margins to 3.2%, on the back of declining CoF (4.7% calc., -107/-32bps). This, in turn was aided by sustained re-pricing on the liabilities' side and strong CASA accretion (34.8%, +302/80bps). We've revised our NIM estimates to ~3.2% over FY21-23E (vs. ~3.1% earlier) to factor in CoF tailwinds.
- **Pro forma stress rising**; **par for the course:** FB's pro forma GNPAs rose to 3.38% (+39bps YoY), led by a spike in the retail segment. Over 9MFY21, the bank clocked pro forma slippages of ~Rs 10.8bn. Collection efficiency came in at 95% in 3QFY21, an improvement of sorts from 2QFY21 levels (excluding the moratorium portfolio). The bank reported a restructured portfolio to the tune of Rs 10.6bn and expects to restructure a further ~Rs 6bn (total ~1.2%). Surprisingly, the retail segment (and mortgages in particular) contributed to a significant chunk of the COVID-19 restructured portfolio. Adjusted for proforma slippages, the PCR improved marginally to 67% - we build blended credit costs at 75bps over F21-22E.

Financial summary

YE Mar (Rs mn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
NII	14,370	11,549	*24.4%*	13,799	*4.1%*	46,489	55,271	59,747	65,973
PPOP	9,629	7,438	*29.5%*	10,065	*-4.3%*	32,047	37,771	40,635	43,265
PAT	4,041	4,406	*-8.3%*	3,076	*31.4%*	15,428	14,684	20,998	23,356
EPS (Rs)	2.0	2.2	*-8.5%*	1.5	*31.4%*	7.7	7.4	10.5	11.7
ROAE (%)						11.1	9.7	12.5	12.5
ROAA (%)						0.91	0.77	1.00	1.01
Adj. BVPS (Rs)						64.7	69.9	81.5	92.7
P/ABV (x)						1.19	1.10	0.95	0.83
P/E (x)						9.9	10.4	7.3	6.6

Change in estimates

Rs bn	FY21E			FY22E			FY23E		
	Old	New	*Chg*	Old	New	*Chg*	Old	New	*Chg*
Loan	1,316	1,310	*-0.5%*	1,479	1472	*-0.5%*	1,671	1664	*-0.5%*
Deposits	1,685	1,669	*-0.9%*	1,852	1844	*-0.4%*	2,041	2052	*0.5%*
NIM (%)	3.1	3.2	*9 bps*	3.0	3.2	*14 bps*	3.1	3.2	*9 bps*
NII	53.9	55.3	*2.6%*	57.3	59.7	*4.2%*	64.2	66.0	*2.7%*
PPOP	37.0	37.8	*2.1%*	38.7	40.6	*4.9%*	41.6	43.3	*3.9%*
PAT	13.9	14.7	*5.5%*	19.1	21.0	*9.9%*	21.5	23.4	*8.6%*
ABVPS (Rs)	0.1	0.1	*2.7%*	0.1	0.1	*2.9%*	0.1	0.1	*4.1%*

Source: Bank, HSIE Research

BUY

CMP *(as on 20 Jan 2021)*	Rs 77
Target Price	Rs 92
NIFTY	14,645

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 84	Rs 92
EPS %	FY21E	FY22E
	5.5	9.9

KEY STOCK DATA	
Bloomberg code	FB IN
No. of Shares (mn)	1,995
MCap (Rs bn) / ($ mn)	154/2,112
6m avg traded value (Rs mn)	2,299
52 Week high / low	Rs 97/36

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	36.0	43.9	(17.5)
Relative (%)	13.2	10.9	(37.4)

SHAREHOLDING PATTERN (%)

	Sept-20	Dec-20
Promoters	-	-
FIs & Local MFs	38.3	44.6
FPIs	24.6	21.7
Public & Others	37.0	33.7
Pledged Shares	0.0	0.0

Source : BSE

Pledged shares as % of total shares

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City Union Bank

Potential stress rises ahead of estimates

Despite higher-than-expected LLPs, CUBK's 3Q earnings were ~22% ahead of estimates on the back of a strong operating performance, driven by (1) an uptick in NIMs, (2) elevated treasury gains, and (3) better operating leverage. However, the pace and quantum of potential stress evolving at the bank, disappointed, especially when set against the backdrop of improving macros and consequently, peers' performance. We reduce our earnings estimates by ~7% over FY22-23E; we maintain BUY with a target price of INR 192.

- **Pro forma stress evident:** On a pro forma basis, slippages for 9MFY21 came in at ~INR11.5bn (nearly 85%+ of FY21E guidance of 3.5%). While the management did not explicitly disclose pro forma GNPLs, we estimate that this number was ~6%. Collection efficiency dipped from ~95% in September to ~89% in December. Further, the bank restructured close to ~2.2% of loans until 3QFY21 and the management continues to guide for the total stock of such assets reaching ~5% by the end of the year. The sharper than expected surge in stress (pro forma albeit) prompts us to revise our FY21 slippage/ GNPA estimates to 4.8/6% from 4/5.2% earlier.
- **Provisions remain elevated:** CUBK continued to make elevated provisions at INR2.2bn (22% ahead of our estimates). COVID-19 provisions for the quarter came in at INR1.3bn, taking the total stock of such provisions to INR4.7bn (1.3% of loans). Despite significant COVID-19 related provisions held by the bank, relative to those of its peers, we raise our LLP estimates in tandem with our NPL estimates to 1.6% over FY21-23E.
- **Growth improves:** Advances clocked a growth of 7.9% YoY vs. 6.5% in the previous quarter. Much of the incremental growth was driven by gold loans and disbursals under the ECLGS scheme (INR20.8bn) as CUBK made disbursals to most eligible borrowers. Further, the management indicated an overlap of ~20% between recipients of ECLGS disbursals and restructured accounts. We build in a loan growth of ~13% CAGR over FY21-23E.

Financial summary

(INR mn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
NII	4,890	4,273	14.5%	4,751	2.9%	16,752	19,038	22,079	24,960
PPOP	4,584	3,084	48.6%	3,847	19.2%	13,414	15,914	17,631	19,361
PAT	1,699	1,924	-11.7%	1,577	7.8%	4,763	6,649	8,112	9,849
EPS (INR)	2.3	2.6	-12.0%	2.1	7.8%	6.5	9.0	11.0	13.4
ROAE (%)						9.4	11.9	12.9	13.8
ROAA (%)						1.00	1.29	1.43	1.54
ABVPS (INR)						61.3	63.4	79.6	91.9
P/ABV (x)						2.98	2.88	2.29	1.99
P/E (x)						28.2	20.2	16.6	13.7

Change in estimates

INR bn	FY21E			FY22E			FY23E		
	Old	New	Chg	Old	New	Chg	Old	New	Chg
Loan	369	379	2.9%	415	427	2.9%	474	488	2.9%
NIM (%)	3.8	3.9	12 bps	4.1	4.1	-2 bps	4.2	4.1	-12 bps
NII	18.2	19.0	4.8%	21.5	22.1	2.6%	24.9	25.0	0.1%
PPOP	14.3	15.9	11.5%	16.8	17.6	4.8%	19.5	19.4	-0.9%
PAT	5.7	6.6	17.4%	8.5	8.1	-4.2%	10.8	9.8	-9.1%
ABVPS (INR)	65.4	63.4	-3.1%	78.7	79.6	1.1%	92.6	91.9	-0.8%

Source: Bank, HSIE Research

BUY

CMP *(as on 3 Feb 2021)*	INR 182
Target Price	INR 192
NIFTY	14,790

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 203	INR 192
EPS %	FY21E	FY22E
	+17.4%	-9.2%

KEY STOCK DATA	
Bloomberg code	CUBK IN
No. of Shares (mn)	738
MCap (Rs bn) / ($ mn)	135/1,847
6m avg traded value (Rs mn)	381
52 Week high / low	Rs 239/110

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	15.2	55.0	(20.7)
Relative (%)	(9.6)	18.9	(46.8)

SHAREHOLDING PATTERN (%)	Jun-20	Sept-20
Promoters	-	-
FIs & Local MFs	32.2	35.2
FPIs	18.7	18.7
Public & Others	49.1	46.1
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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RBL Bank

Retail proforma slippages springing up in a hurry

RBK reported an in-line NII performance on the back of sequentially softer NIMs stemming from interest reversals. Operating profit was better-than-expected, led by stronger fee momentum, albeit with a continued over-dependence on credit cards (66% of fees during 3Q). Pro forma GNPAs spiked to ~4.6% in 3Q, despite aggressive write-offs. Over the past 18 months, RBK has seen asset quality slips across its portfolio. Our broader concerns on underwriting stem from a growing concentration risk with the loan mix skewed towards high-risk, high-RoA segments. We trim our FY21E earnings by ~8% and reiterate our REDUCE stance with a target price of Rs 214.

- **Slippages spike, led by retail:** On a pro forma basis, RBK's slippages rose to ~Rs 14.7bn (9MFY21: ~3.4% annualised), ~90% contributed by its non-wholesale assets. Pro forma GNPLs rose to ~4.6% despite aggressive write-offs during the quarter (~39% of opening pro forma GNPLs). Segmental pro forma stress differed with micro-credit (2.6%) significantly lower than credit cards (5.7%), other non-wholesale (4.5%) and wholesale (4.5%) segments. We have cautiously raised our end-FY21E GNPL estimates to 4.9%.
- **Provisions jump, to remain elevated:** Non-tax provisions remained elevated at Rs 6.1bn (-4.2% annualised), ~20% higher than our estimates. RBK drew down on close to half its contingency buffer (remaining stock of ~Rs 2.8bn, 0.5% of loans), propping up the pro forma PCR to ~70%. The management expects the current provisioning run rate to continue into 4QFY21. We raise our LLP estimates to ~3% over FY21-23E, from 2.7% earlier.
- **Granular liability traction continues:** RBK's deposit momentum surprised positively with relatively strong traction in CASA (+23.5/3.8%) and deposits from retail and small business customers (+24/10%, 36.3% of total deposits). The bank's ability to sustain this granular deposit traction will be key.

Financial summary

(Rs mn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
NII	9,082	9,227	*-1.6%*	9,321	*-2.6%*	36,296	38,038	43,627	51,098
PPOP	8,048	7,322	*9.9%*	7,198	*11.8%*	27,516	29,573	31,172	36,460
PAT	1,471	700	*110.2%*	1,442	*2.0%*	5,057	4,604	9,859	14,213
EPS (Rs)	2.5	1.4	*78.8%*	2.8	*-13.1%*	9.9	7.7	16.5	23.8
ROAE (%)						5.6	4.0	7.6	10.1
ROAA (%)						0.60	0.49	0.93	1.16
ABVPS (Rs)						184.6	200.2	210.3	232.0
P/ABV (x)						1.16	1.07	1.02	0.93
P/E (x)						21.6	27.9	13.0	9.0

Change in estimates

Rs bn	FY21E			FY22E			FY23E		
	Old	New	*Chg*	Old	New	*Chg*	Old	New	*Chg*
Loan	6,14,712	5,94,788	*-3.2%*	6,93,945	6,73,743	*-2.9%*	8,19,997	7,96,018	*-2.9%*
NIM (%)	4.5	4.5	*7 bps*	4.6	4.5	*-4 bps*	4.6	4.6	*-5 bps*
NII	37,260	38,038	*2.1%*	43,904	43,627	*-0.6%*	52,145	51,098	*-2.0%*
PPOP	27,455	29,573	*7.7%*	31,912	31,172	*-2.3%*	38,067	36,460	*-4.2%*
PAT	4,990	4,604	*-7.7%*	10,723	9,859	*-8.1%*	15,569	14,213	*-8.7%*
ABVPS (Rs)	197.1	200.2	*1.6%*	212.4	210.3	*-0.9%*	235.7	232.0	*-1.6%*

Source: Bank, HSIE Research

REDUCE

CMP *(as on 28 Jan 2021)*	**Rs 215**
Target Price	**Rs 214**
NIFTY	**13,818**

KEY CHANGES	**OLD**	**NEW**
Rating	REDUCE	REDUCE
Price Target	Rs 231	Rs 214
EPS %	FY21E	FY22E
	-7.7%	-8.1%

KEY STOCK DATA

Bloomberg code	RBK IN
No. of Shares (mn)	598
MCap (Rs bn) / ($ mn)	129/1,760
6m avg traded value (Rs mn)	4,295
52 Week high / low	Rs 347/102

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	22.6	18.2	(36.7)
Relative (%)	5.2	(3.5)	(51.1)

SHAREHOLDING PATTERN (%)

	Sept-20	Dec-20
Promoters	-	-
FIs & Local MFs	20.4	23.4
FPIs	40.4	39.2
Public & Others	39.2	37.4
Pledged Shares		

Source : BSE

Pledged shares as % of total shares

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Ujjivan Small Finance Bank and Ujjivan Financial Services

Accelerated provisions dent earnigns

UJJIVANS' 3QFY21 reported a net loss of INR 2.8bn (vs. our estimate of a PAT of INR 703mn) on account of accelerated provisions (INR 5.8bn) against potential stress (pro forma slippages and restructuring), and interest reversals. The bank's performance in terms of granular deposit traction and operating efficiency remained creditable- although sustainability will be the key. We continue to watch for potential corporate action at both UJJIVANS and UJJIVAN, especially in context of the recent RBI IWG report on the ownership of private banks. We maintain BUY on UJJIVAN with a target price of INR 394 and ADD on UJJIVANS with a target price of INR 44 (adjusted for 25% holding company discount).

- **Pro forma stress rises:** UJJIVANS, like some of its micro-lending peers clocked a sharp rise in stress, with pro forma GNPAs touching 4.8%, led by the micro-credit segment which constitutes 72% of the bank's portfolio. PAR 0 remained sticky at 16.2% (vs. 16.8% in 2QFY21 and 2.1% in 3QFY20). However, when viewed on a monthly basis, the bank held onto gains in overall collection efficiency, which came in at 92% in January vs. 88% in October. Further, the bank restructured ~8.5% of its micro-credit portfolio. We have revised our GNPA estimates upwards to 5.5% in FY21E.
- **Provisions jump:** UJJIVANS made accelerated provisions of INR 5.8bn (~17% of loans, annualised). It thus held a total cover amounting to ~8% of loans. After utilising ~INR 690mn of provisions towards restructured loans, the bank held a pro forma PCR of 59%. Elevated slippages from the pool of restructured micro-credit assets could keep credit costs elevated. We build LLPs of 2.7% over FY22-23E.
- **Deposit growth improves:** The bank registered a slight improvement in deposit traction, with YoY growth at 9% vs. 6% in 2QFY21, which in turn was led by 69.4/23.3% growth in SA balances. Consequently, the CASA rose 122bps sequentially to 17.7%, ensuring significant CoF tailwinds (-30bps QoQ). We will continue to monitor UJJIVANS' efforts in building a granular low-cost liability base.

Financial summary (USFB)

(INR bn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
NII	4.3	4.3	*1.3%*	4.7	*-8.1%*	16.3	18.1	20.6	24.9
PPOP	2.0	1.4	*41.5%*	2.3	*-12.2%*	6.4	8.5	9.8	12.0
PAT	(2.8)	0.9	*NA*	1.0	*NA*	3.5	(0.1)	3.7	5.3
EPS (INR)	4.3	4.3	*NA*	0.6	*NA*	2.0	(0.1)	2.1	3.1
ROAE (%)						15.2	(0.3)	11.7	14.8
ROAA (%)						2.2	(0.1)	1.8	2.1
ABVPS (INR)						17.1	16.4	18.6	21.7
P/ABV (x)						2.2	2.3	2.0	1.7
P/E (x)						18.3	NA	17.3	12.0

Change in estimates (USFB)

INR bn	FY21E			FY22E			FY23E		
	Old	New	*Chg*	Old	New	*Chg*	Old	New	*Chg*
Loan	149.4	144.3	*-3.4%*	174.9	168.8	*-3.5%*	213.6	206.1	*-3.5%*
NIM (%)	10.6	10.6	*-5 bps*	10.8	10.8	*0 bps*	10.9	10.9	*0 bps*
NII	18.5	18.1	*-2.2%*	21.2	20.6	*-3.2%*	25.1	24.9	*-0.6%*
PPOP	8.3	8.5	*2.2%*	10.0	9.8	*-1.8%*	12.4	12.0	*-3.7%*
PAT	2.4	(0.1)	*NA*	3.8	3.7	*-2.0%*	5.7	5.3	*-5.9%*
Adj. BVPS (INR)	17.4	16.4	*-5.8%*	20.3	18.6	*-8.6%*	23.9	21.7	*-9.1%*

Source: Bank, HSIE Research

Ujjivan Small Finance Bank

ADD

CMP ***(as on 3 Feb 2021)***	**INR 37**
Target Price	**INR 44**
NIFTY	**14,790**

KEY STOCK DATA	
Bloomberg code	UJJIVANS IN
No. of Shares (mn)	1,728
MCap (Rs bn) / ($ mn)	64/875
6m avg traded value (Rs mn)	79
52 Week high / low	Rs 58/23

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	19.6	12.7	(30.6)
Relative (%)	(5.2)	(23.4)	(56.7)

Ujjivan Financial Services

BUY

CMP ***(as on 3 Feb 2021)***	**INR 263**
Target Price	**INR 394**
NIFTY	**14,790**

KEY STOCK DATA	
Bloomberg code	UJJIVAN IN
No. of Shares (mn)	122
MCap (Rs bn) / ($ mn)	32/438
6m avg traded value (Rs mn)	314
52 Week high / low	Rs 416/125

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	22.8	15.7	(30.0)
Relative (%)	(2.0)	(20.3)	(56.0)

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Karur Vysya Bank

Need for further build-up in provisioning buffers

KVB's 3Q earnings were ~55% below estimates, despite lower than expected LLPs, on account of significant interest reversals and one-off operating costs. The build up of COVID-19 related stress at the bank was evident from the widening gap (~170bps) between reported and pro forma GNPAs (~9.1%). We believe the bank will need to make significant additional provisions, as the current stock of provisions doesn't seem adequate, keeping return ratios subdued in the near-medium term, thus anchoring our REDUCE rating. An improvement in CRAR to 18.5%, however, was a silver lining.

- **Operating performance hit by one-offs:** PPOP dipped a whopping ~43% QoQ and was ~42% below our preview estimates, driven by (1) significant interest reversals on pro forma slippages (~INR 530mn, 30bps NIM impact) and (2) ~INR 1.35bn of provisions related to wage revisions. Adjusted for these, PPOP would have been in line with our estimates.
- **Pro forma stress evident:** On a pro forma basis, slippages for 9MFY21 came in at ~INR 8.9bn (2.3% annualised), and the share of the retail and commercial segments stood at ~72%. Consequently, pro forma GNPLs rose to ~9%. With ~93% of pro forma slippages emanating from the moratorium portfolio, the management indicated that stress was largely from pre-identified pools. Further, it retained its slippage guidance for the year at ~INR 10bn (2.1% annualised). <u>We conservatively build in slippages of 4,3% in FY21E</u>. Until 3QFY21, the bank had restructured ~INR 6.8bn (1.3% of loans) and it expects overall restructuring to be limited to ~2.5% of loans.
- **Provision buffers running low:** At ~INR 2bn, non-tax provisions, including ~INR800mn of additional COVID-19 related provisions, were ~45% below our estimates. Adjusted for provisions against pro forma slippages (pro form derived PCR at 57%), the remaining stock of COVID-19 provisions stood at a mere ~INR 1.7bn (0.4% of loans). We expect further build-up in provisioning buffers and conservatively build <u>LLPs of 2.1% over FY21-23E.</u>

Financial summary

(INR mn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
NII	5,836	5,772	*1.1%*	6,015	*-3.0%*	23,479	23,487	26,494	29,990
PPOP	2,569	3,847	*-33.2%*	4,488	*-42.8%*	17,608	16,301	17,676	19,539
PAT	346	151	*129.8%*	1,149	*-69.9%*	2,350	2,914	3,634	5,944
EPS (INR)	0.4	0.2	*129.8%*	1.4	*-69.9%*	2.9	3.6	4.5	7.4
ROAE (%)						3.6	4.4	5.4	8.4
ROAA (%)						0.3	0.4	0.5	0.7
ABVPS (INR)						59.9	49.8	62.1	69.2
P/ABV (x)						18.7	15.1	12.1	7.4
P/E (x)						0.9	1.1	0.9	0.8

Change in estimates

INR bn	FY21E			FY22E			FY23E		
	Old	New	*Chg*	Old	New	*Chg*	Old	New	*Chg*
Loan	500	507	*1.3%*	555	562	*1.3%*	623	631	*1.3%*
NIM (%)	3.5	3.6	*5 bps*	3.7	3.7	*0 bps*	3.8	3.8	*6 bps*
NII	23.1	23.5	*1.5%*	26.7	26.5	*-0.7%*	30.1	30.0	*-0.3%*
PPOP	16.5	16.3	*-1.5%*	17.3	17.7	*2.0%*	19.2	19.5	*1.9%*
PAT	2.2	2.9	*29.7%*	3.5	3.6	*4.4%*	5.8	5.9	*2.6%*
ABVPS (INR)	51.0	49.8	*-2.5%*	62.6	62.1	*-0.8%*	69.2	69.2	*-0.1%*

Source: Bank, HSIE Research

REDUCE

CMP ***(as on 12 Feb 2021)***	**INR 55**
Target Price	**INR 43**
NIFTY	**15,163**

KEY CHANGES	**OLD**	**NEW**
Rating	REDUCE	REDUCE
Price Target	INR 42	INR 43
EPS %	FY21E	FY22E
	+29.7%	+4.4%

KEY STOCK DATA	
Bloomberg code	KVB IN
No. of Shares (mn)	799
MCap (Rs bn) / ($ mn)	44/605
6m avg traded value (Rs mn)	139
52 Week high / low	Rs 60/18

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	52.4	57.7	12.6
Relative (%)	33.5	23.3	(11.4)

SHAREHOLDING PATTERN (%)	**June-20**	**Sept-20**
Promoters	2.1	2.1
FIs & Local MFs	22.1	20.8
FPIs	21.1	20.9
Public & Others	54.7	56.2
Pledged Shares	0.5	0.3

Source : BSE

Pledged shares as % of total shares

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DCB Bank

Provisioning cushion emerges ahead of expectations

DCBB's 3QFY21 earnings were significantly ahead of estimates on account of strong treasury gains and CoF tailwinds, despite higher-than-anticipated provisions. We've revised our earnings estimates to factor in a slight improvement in margins and a higher non-interest income trajectory. We maintain ADD with a target price of Rs 157 (1.2xFY23E). Inexpensive valuations and the bank's conservative approach to lending, underpin our stance. We will watch for trends in asset quality and credit growth.

- **Stress build-up visible**: Pro forma asset quality metrics registered significant deterioration- GNPAs at 3.7% (vs. ~2.4% in 2QFY21) and slippages at ~2.4% annualised (9MFY21). However, these included accounts to the tune of ~Rs 1.6bn, which were eligible for restructuring. The outstanding stock of restructured advances stood at Rs 6.9bn (2.7% of loans) and the management continued to guide that this eventually inch up to 3-5%. We continue to expect GNPAs to reach 4.1% in FY21E.
- **Provisions remain elevated**: The bank clocked a 150.4/30.6% rise in non-tax provisions, which came in ~38% higher than our estimates, at Rs 1.48bn; including additional COVID-19 related provisions of Rs 860mn. The total stock of such provisions stood at ~Rs 2.3bn (~90bps of loans). We have increased our FY21E LLP estimates to 1.76% (vs. 1.53% earlier).
- **Focus to shift to growth**: We expect DCBB's credit growth to have bottomed in 3QFY21 at -0.5/+1.7% YoY/QoQ. At present, growth appears to be limited to select segments such home loans (+11% YoY) gold loans (+105% YoY). A more broad-based uptick in growth across the bank's portfolio is likely post FY21. We estimate DCBB to register a loan CAGR of 16.8% over FY22-23E. The management has guided for 'double digit' to 'high-teen' growth in FY22E and has begun building operational capacity.

Financial summary

YE Mar (Rs mn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
NII	3,348	3,231	3.6%	3,339	0.3%	12,649	13,062	14,257	16,650
PPOP	2,773	1,899	46.0%	2,248	23.4%	7,531	8,814	9,237	10,489
PAT	962	967	-0.5%	823	16.9%	3,379	3,142	4,164	5,118
EPS (Rs)	3.1	3.1	-0.7%	2.7	16.9%	10.9	10.1	13.4	16.5
ROAE (%)						10.3	8.8	10.6	11.7
ROAA (%)						0.9	0.8	1.0	1.1
Adj. BVPS (Rs)						93.1	97.1	116.0	131.9
P/ABV (x)						1.3	1.2	1.0	0.9
P/E (x)						10.7	11.5	8.7	7.0

Change in estimates

Rs bn	FY21E			FY22E			FY23E		
	Old	New	Chg	Old	New	Chg	Old	New	Chg
Loan	2,67,570	2,60,626	-2.60%	3,09,503	3,01,385	-2.62%	3,65,267	3,55,606	-2.64%
Deposits	3,11,128	2,90,553	-6.61%	3,51,708	3,38,635	-3.72%	4,05,852	3,95,118	-2.64%
NIM (%)	3.27	3.62	35	3.56	3.72	16	3.95	3.77	-18
NII	12,716	13,062	2.7%	14,268	14,257	-0.1%	16,524	16,650	0.8%
PPOP	7,884	8,814	11.8%	8,728	9,237	5.8%	10,156	10,489	3.3%
PAT	3,001	3,142	4.7%	3,823	4,164	8.9%	4,768	5,118	7.4%
ABVPS (Rs)	93.8	97.1	3.4%	113.0	116.0	2.7%	126.6	131.9	4.2%

Source: Bank, HSIE Research

ADD

CMP *(as on 22 Jan 2021)*	**Rs 116**
Target Price	**Rs 157**
NIFTY	**14,372**

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	Rs 151	Rs 157
EPS %	FY21E	FY22E
	+4.7%	+8.9%

KEY STOCK DATA	
Bloomberg code	DCBB IN
No. of Shares (mn)	310
MCap (Rs bn) / ($ mn)	36/493
6m avg traded value (Rs mn)	241
52 Week high / low	Rs 186/58

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	44.1	42.4	(35.8)
Relative (%)	23.6	13.3	(54.7)

SHAREHOLDING PATTERN (%)	Sept-20	Dec-20
Promoters	14.9	14.9
FIs & Local MFs	37.7	39.0
FPIs	14.4	13.8
Public & Others	33.0	32.4
Pledged Shares	0.0	0.0

Source : BSE

Pledged shares as % of total shares

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Bajaj Finance

Priced to perfection

BAF reported a mixed quarter as LLPs remained expectedly sticky even as AUM growth showed signs of broad-based recovery as most businesses (excluding auto finance) recovered to 85-100% of pre-COVID disbursal levels. BAF is now focussing on business transformation exercises centered around an enhanced payment solutions and collaborating with DBS Bank on co-branded credit cards; improving its perception among customers. We are ~40bps north of management credit cost guidance for FY22-23E - we believe the stock is priced to perfection and offers no room for any disappointment.

- **Soft operating performance:** BAF's operating performance came in below estimates as PPOP dipped ~3% YoY/QoQ to ~Rs 29bn (~6% below estimates).
- **Uptick in stress:** Reported GNPAs dipped sharply (-106/-48bps) to 55bps on account of the standstill on NPA marking as per the recent SC order. Pro forma GNPAs came in at 2.86%, despite sizeable write-offs made (~Rs 23.4bn). The management indicated that while collections have improved, stress persisted in certain pockets, particularly auto finance (11.5% pro forma GNPAs). BAF restructured loans to the tune of ~Rs 20.4bn, and the management does not expect significant incremental restructuring. We anticipate GNPAs to reach ~3.9% by FY21E.
- **Provisions dipped** ~21% QoQ to Rs 13.5bn, and were ~8.3% below estimates. On a pro forma basis, calculated coverage dipped to ~57%. We build provisions of Rs 60.4bn (4.3% ann.) in FY21E (vs. guidance of ~Rs 59.8bn). Our provisioning estimates remain conservative over FY22-23E at 2.1% ann. (vs. guidance of 160-170bps).
- **Sequential uptick in growth:** After declining for two quarters, AUM grew 4.7% QoQ, led by a sequential uptick across most businesses (excluding auto finance). BAF acquired 2.19mn customers (vs. 2.46mn in 3QFY20) and the management remarked that disbursals across segments had reached 85-100% of pre-COVID-19 levels. We build flattish AUMs (YoY) in FY21E, followed by an 24.1% CAGR over FY22-23E

Financial summary

YE Mar (Rs mn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
Net int. income	33,598	36,147	*(7.1)*	34,050	*(1.3)*	1,34,972	1,37,605	1,62,687	2,07,659
PPOP	29,062	30,008	*(3.2)*	30,049	*(3.3)*	1,12,516	1,21,587	1,43,309	1,76,629
PAT	11,890	16,181	*(26.5)*	9,508	*25.1*	52,638	45,893	80,764	1,05,506
EPS (Rs)	15.8	26.2	*(39.5)*	15.1	*4.6*	87.7	76.5	134.6	175.9
RoAA (%)						3.65	2.77	4.39	4.72
RoAE (%)						20.2	13.3	19.8	21.3
Adj. BVPS (Rs)						523	571	715	880
P/ABV (x)						9.52	8.72	6.97	5.66
P/E (x)						56.8	65.1	37.0	28.3

Changes in estimates

Rs bn	FY21E			FY22E			FY23E		
	Old	New	*Chg*	Old	New	*Chg*	Old	New	*Chg*
AUM	1,479	1,467	*-0.77%*	1,827	1,813	*-0.78%*	2,277	2,259	*-0.79%*
NIM (%)	9.4	9.4	*-3 bps*	10.0	9.9	*-3 bps*	10.2	10.2	*-5 bps*
NII	139	138	*-0.68%*	164	163	*-1.08%*	210	208	*-1.27%*
PPOP	122	122	*-0.07%*	142	143	*0.78%*	176	177	*0.16%*
PAT	46	46	*0.16%*	80	81	*1.24%*	105	106	*0.40%*
ABVPS (Rs)	571	571	*0.07%*	713	715	*0.28%*	878	880	*0.30%*

Source: Bank, HSIE Research

ADD

CMP *(as on 20 Jan 2021)*	Rs 4,981
Target Price	Rs 4,829
NIFTY	14,645

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	Rs 4,745	Rs 4,829
EPS %	FY21E	FY22E
	0.2%	1.2%

KEY STOCK DATA	
Bloomberg code	BAF IN
No. of Shares (mn)	603
MCap (Rs bn) / ($ mn)	3,002/41,109
6m avg traded value (Rs mn)	20,874
52 Week high / low	Rs 5,373/1,783

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	52.7	44.8	20.0
Relative (%)	29.9	11.7	0.1

SHAREHOLDING PATTERN (%)

	Sept-20	Dec-20
Promoters	56.1	56.2
FIs & Local MFs	8.9	7.7
FPIs	21.3	23.9
Public & Others	13.7	12.2
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Cholamandalam Investment and Finance Company

Macro tailwinds aid strong fundamentals

CIFC's 3QFY21 earnings were 19.2% ahead of estimates, on account of better-than-expected operating performance (PPOP 14.8% ahead of estimates), offset by higher provisions. Higher margins, a strong rebound in disbursals and better efficiencies were among the positives. Improving macros reflected in a cyclical uptick in CV sales, adding to CIFC's potent combination of a fortified balance sheet and a superior ability to access funds. We reiterate BUY with a revised target price of INR 502; CIFC remains our top pick among NBFCs.

- **Disbursals surge:** CIFC clocked an overall disbursal growth of 6/22.8% YoY/QoQ to ~INR 79.3bn, led by 55.1/33.8% growth in HE disbursals (17.8% of overall disbursals). Used vehicle disbursals grew the fastest at ~19.3/69%, constituting 40% of total VF disbursals. CIFC disbursed ~INR 15bn under the ECLGS, of which ~INR 11.6bn was towards the VF segment (on a relative basis, CIFC's disbursals were much higher than that of peer asset financiers'). Overall AUM growth came in at 13.1/2.3% and we build in an AUM CAGR of 14.1% over FY21-23E.
- **HE high on pro forma stress, but not too worrisome:** Pro forma GS-III came in at ~3.8% (VF: ~2.8% and HE: ~7.3%). While the management guides for stable to slightly improving impairment ratios from current levels, we conservatively build in GNPAs of 4.1% in FY21E. Non-tax provisions remained elevated at ~Rs 4.4bn (2.6% annualised) and were 9.7% ahead of our estimates. We believe CIFC is adequately provided with Stage II/III coverage at 16.2/43.5%. We build LLPs of ~1.3% over FY21-23E.
- **NIMs rise:** Driven by a benign funding environment (CoF down 120/40bps) and gradual reduction in balance sheet liquidity, CIFC's NIMs expanded 80/50bps to 7.8%, ahead of our estimates. We see limited scope for incremental expansion in spreads although receding liquidity buffers may continue to have an offsetting impact in the near-term. We model NIMs of ~7% over FY21-23E.

Financial summary

YE Mar (INR mn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
Net int. income	12,859	9,280	38.6	11727.9	9.6	35,319	47,162	52,021	57,332
PPOP	9,956	6,581	51.3	8,996	10.7	24,831	35,096	38,894	42,884
PAT	4,089	3,885	5.2	4,319	(5.3)	10,524	17,946	21,926	25,389
EPS (INR)	5.0	4.7	5.2	5.3	(5.3)	12.1	21.9	26.7	31.0
RoAE (%)						13.8	20.0	20.3	19.6
RoAA (%)						1.63	2.60	2.78	2.85
Adj. BVPS (INR)						84.2	97.4	126.9	155.1
P/ABV (x)						5.27	4.56	3.50	2.86
P/E (x)						36.8	20.3	16.6	14.3

Changes in estimates

INR mn	FY21E			FY22E			FY23E		
	Old	New	Chg	Old	New	Chg	Old	New	Chg
NII	45,004	47,162	4.8%	49,476.3	52,021	5.1%	55,563.0	57,332	3.2%
PPOP	33,142	35,096	5.9%	37,304.0	38,894	4.3%	41,932.3	42,884	2.3%
PAT	17,120	17,946	4.8%	20,620.0	21,926	6.3%	24,457.8	25,389	3.8%
ABVPS	96.8	97.4	0.6%	124.8	126.9	1.7%	152.2	155.1	1.9%
EPS	20.9	21.9	4.8%	25.1	26.7	6.3%	29.8	31.0	3.8%

Source: Bank, HSIE Research

BUY

CMP *(as on 01 Feb 2021)*	INR 442
Target Price	INR 502
NIFTY	14,281

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 486	INR 502
EPS %	FY21E +4.8%	FY22E +6.3%

KEY STOCK DATA	
Bloomberg code	CIFC IN
No. of Shares (mn)	820
MCap (INR bn) / ($ mn)	363/4,966
6m avg traded value (INR mn)	1,996
52 Week high / low	INR 465/117

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	62.1	118.7	39.1
Relative (%)	39.4	89.5	16.7

SHAREHOLDING PATTERN (%)	Sept-20	Dec-20
Promoters	51.6	51.6
FIs & Local MFs	25.8	24.8
FPIs	11.9	13.2
Public & Others	10.6	10.4
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Shriram Transport Finance

Proxy to cyclical rebound

SHTF outperformed on the back of sharper-than-anticipated improvement in asset quality and lower-than-expected provisions. SHTF is now also benefiting from a benign funding environment, which bodes well for growth and margins. We revise our FY21/22E earnings upwards by 8.5%/5.8% to reflect these tailwinds. SHTF increasingly appears to be well-poised to capture any uptick in the used vehicle financing space, which has strong links to the economic cycle. We maintain ADD (revised target price of Rs 1,355).

- **Asset quality stabilising ahead of expectations:** On a pro forma basis, GS-III dipped ~15bps sequentially to ~7.1% in tandem with a sustained improvement in collection efficiency (from 95% in September to 104% in December). SHTF also tweaked internal probabilities of default downwards, reflective of a relative improvement in its outlook. Further, the management estimate of the restructured portfolio remained benign at ~2%. In light of these trends, we now build exit-FY21E GNPAs of 9.5% (vs. 10.3% earlier).
- **Provisions to moderate, faster than expected:** Even as provisions remained elevated in 3Q at ~Rs 6.7bn (+51.8/2.9% YoY/QoQ), they were 12.7% below our estimates. In light of (1) faster-than-anticipated improvement in asset quality and (2) already-sizeable provisioning buffers (Stage III coverage- 40.8%, Stage I & II coverage- 4.8% and COVID-19 related provisions of 2.2%), we expect the pace of incremental provisions to moderate considerably. We now build LLPs of 2.7% in FY21E (vs. 2.8% earlier) and 2.1% over FY21-23E (vs. 2.2% earlier).
- **Better access to funding to support growth and NIMs:** Outstanding term loans grew ~10% QoQ. SHTF also saw reasonable traction in public deposits, which grew 18.6/10.5%. We believe the sharp fall in funding costs (-16bps QoQ) is indicative of an improvement in SHTF's ability to access funds, supported by a benign funding environment. We raise our FY21E NIM estimates by 10bps to 7.2%. Further, these trends should allow SHTF to capture a larger share of the cyclical uptick in the demand for asset financing. We build in an AUM CAGR of 7.8% over FY21-23E.

Financial summary

(Rs bn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
NII	21,452	20,641	*3.9*	20,368	*5.3*	79,972	81,705	87,757	94,827
PPOP	16,637	16,307	*2.0*	15,759	*5.6*	62,336	63,701	67,174	73,087
PAT	7,871	8,797	*(10.5)*	7,056	*11.6*	25,018	24,534	32,636	38,354
EPS (Rs)	28.8	38.8	*(25.8)*	27.9	*3.1*	110.3	97.0	129.0	151.6
ROAE (%)						14.8	12.3	14.0	14.5
ROAA (%)						2.28	2.06	2.53	2.75
ABVPS (Rs)						530	600	750	918
P/ABV (x)						2.2	2.0	1.6	1.3
P/E (x)						10.7	12.1	9.1	7.8

Change in estimates

Rs bn	FY21E			FY22E			FY23E		
	Old	New	*Chg*	Old	New	*Chg*	Old	New	*Chg*
AUM	1,184	1,187	*0.2%*	1,251	1,257	*0.5%*	1,360	1,373	*0.9%*
NIM (%)	7.0	7.2	*10 bps*	7.1	7.2	*11 bps*	7.2	7.2	*0 bps*
NII	80.4	81.7	*1.6%*	86.1	87.8	*2.0%*	94.2	94.8	*0.7%*
PPOP	62.4	63.7	*2.0%*	65.5	67.2	*2.5%*	72.6	73.1	*0.7%*
PAT	22.6	24.5	*8.5%*	30.8	32.6	*5.8%*	37.8	38.4	*1.4%*
ABVPS (Rs)	564	600	*6.3%*	732	750	*2.5%*	905	918	*1.5%*

Source: Bank, HSIE Research

ADD

CMP *(as on 29 Jan 2021)*	**Rs 1,292**
Target Price	**Rs 1,355**
NIFTY	**13,635**

KEY CHANGES	**OLD**	**NEW**
Rating	ADD	ADD
Price Target	Rs 1,270	Rs 1,355
EPS %	FY21E	FY22E
	+8.5%	+5.8%

KEY STOCK DATA	
Bloomberg code	SHTF IN
No. of Shares (mn)	253
MCap (Rs bn) / ($ mn)	327/4,481
6m avg traded value (Rs mn)	4,198
52 Week high / low	Rs 1,332/429

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	84.8	78.3	19.7
Relative (%)	68.3	56.7	7.4

SHAREHOLDING PATTERN (%)	**Sept-20**	**Dec-20**
Promoters	26.5	26.5
FIs & Local MFs	4.4	5.4
FPIs	60.5	61.7
Public & Others	8.6	6.4
Pledged Shares	0.0	0.0

Source : BSE

Pledged shares as % of total shares

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LIC Housing Finance

Potentially elevated provisions ahead

While LICHF's operating performance was in line with estimates, (PPOP growth at 1.3/3.4%), earnings were ahead of estimates as provisioning continued to undershoot estimates. Over the years, non-core assets have contributed to a bulk of the portfolio growth, resulting in disproportionate risk (already reflecting in high developer NPAs). Furthermore, the company holds negligible provisions on early-bucket stressed assets. Potentially elevated provisions, coupled with stiff competition from banks in LICHF's core business underpin our REDUCE rating (revised target price of INR 381).

- **Asset quality concerns remain:** Even as collection efficiency improved from ~96% in September to ~98%, on a pro forma basis, GS-III climbed to ~3.7%. Reported individual home loan NPAs were ~1.1% while project NPAs were ~16.2%. GS-II rose to ~7% (+123/563bps) - we believe this is indicative of imminent stress that is yet to flow through. Over the years, non-core segments have contributed to a majority of the loan growth at LICHF, resulting in the company taking disproportionate risk. We continue to expect GNPAs to rise further to 4.2% in FY21E.
- **Provisions remain below expectations:** Provisions clocked a 75.6% sequential rise, but came in 66% below our estimates. Reported GS-III coverage witnessed an optical 450/340bps rise to ~50%. On Stage I and II assets, however, LICHF held negligible provisions. Grossly inadequate coverage on early buckets remains a concern. Consequently, we expect provisions over FY21-23E (0.52%) to be significantly higher than the company's previous run rate (0.25% over FY16-19).
- **Resurgent growth:** In line with the earlier commentary, LICHF witnessed a sharp surge 28/36% YoY/QoQ surge in disbursals to ~INR 169bn, with disbursals in the individual segment growing 50.2/54.3% to INR 160bn (the highest ever). Consequently, AUM growth accelerated further to 7.1/3.2%. We expect AUM growth to accelerate further to 11.4% over FY21-23E.

Financial summary

(INR bn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
NII	12,810	12,537	2.2	12,380	3.5	48,215	50,595	54,725	61,378
PPOP	11,506	11,360	1.3	11,123	3.4	42,692	44,276	48,716	54,863
PAT	7,214	5,956	21.1	7,913	(8.8)	24,018	27,110	25,442	29,048
EPS (INR)	14.3	11.8	21.1	15.7	(8.8)	47.6	53.7	50.4	57.5
ROAE (%)						13.9	14.0	11.8	12.2
ROAA (%)						1.15	1.20	1.03	1.04
ABVPS (INR)						294	279	305	351
P/ABV (x)						1.35	1.42	1.30	1.13
P/E (x)						8.3	7.4	7.9	6.9

Change in estimates

INR bn	FY21E			FY22E			FY23E		
	Old	New	Chg	Old	New	Chg	Old	New	Chg
AUM	2,231	2,274	1.9%	2,440	2,513	3.0%	2,796	2,911	4.1%
NIM (%)	2.3	2.3	4 bps	2.3	2.3	3 bps	2.2	2.3	4 bps
NII	49.2	50.6	2.8%	52.8	54.7	3.7%	58.3	61.4	5.3%
PPOP	43.6	44.3	1.5%	46.9	48.7	3.8%	52.0	54.9	5.5%
PAT	23.3	27.1	16.4%	26.0	25.4	-2.3%	29.5	29.0	-1.4%
ABVPS (INR)	295.9	278.7	-5.8%	317.8	305.3	-3.9%	374.5	350.9	-6.3%

Source: Bank, HSIE Research

REDUCE

CMP *(as on 29 Jan 2021)*	INR 396
Target Price	INR 381
NIFTY	13,635

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 387	INR 381
EPS %	FY21E	FY22E
	16.4%	-2.3%

KEY STOCK DATA	
Bloomberg code	LICHF IN
No. of Shares (mn)	505
MCap (Rs bn) / ($ mn)	200/2,738
6m avg traded value (Rs mn)	2,245
52 Week high / low	Rs 465/185

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	37.9	44.7	(13.8)
Relative (%)	21.5	23.1	(26.1)

SHAREHOLDING PATTERN (%)	Sept-20	Dec-20
Promoters	40.3	40.3
FIs & Local MFs	10.7	15.4
FPIs	34.3	29.3
Public & Others	14.8	15.0
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Mahindra & Mahindra Financial Services

Charge-offs likely to have peaked

MMFS registered an in-line operating performance, clocking a PPOP growth of 14.6%, with lower-than-expected NII offset by lower opex intensity. Disbursals recovered sequentially but came in ~50% lower YoY. GS-II, GS-III and non-tax provisions registered a sharp rise, ahead of estimates. We revise our FY21/22E earnings estimates by 6.1/2.0% downwards to factor in these trends. Relatively inexpensive valuations and MMFS' parentage-enabled access to funds underpin our BUY rating (revised target price of Rs 207).

- **Pro forma stress rises across buckets:** Stress crystallised ahead of our expectations as MMFS witnessed a sharp jump in GS-II and GS-III (pro forma) to 14.1% (>600bps QoQ) and ~10% (~300bps QoQ). The management attributed this rise to negligible restructuring during the quarter (vs. earlier guidance of 6-7%). Further, ~6% of the borrowers under moratorium did not make any payments in 3QFY21. In light of these trends, we raise our GNPA estimates to 10.7% in FY21E, from 9.9% earlier.
- **Provisions likely to have peaked:** For the quarter, non-tax provisions registered a 3.5/2.2x YoY/QoQ rise to ~Rs 13.9bn and were nearly double our estimates. While Stage II coverage dipped 610bps sequentially to 12.9%, a 150bps QoQ rise in Stage III coverage to 36.6%, resulted in a rise in overall stock of ECL provisions to 6.6% of AUM (+160bps QoQ). We increase our LLP estimates (in tandem with our GNPA estimates) to 2.9% over FY21-23E, from 2.8% earlier. However, we believe that the accelerated provisions during the quarter indicate a near-term peak in charge-off rates.
- **Disbursals remained depressed YoY:** While disbursals rebounded 21.1% sequentially, they remained ~49% lower YoY at ~Rs 65.4bn. On a sequential basis, the used vehicle and other segment registered the highest sequential growth in disbursals at 43.8%. The management expects disbursals to rebound to pre-COVID-19 levels in 4QFY21. We build in an AUM growth of 11.8% over FY21-23E.

Financial summary

(Rs bn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
NII	13,538	13,328	*1.6*	13,606	*(0.5)*	51,130	55,513	63,519	74,536
PPOP	10,180	8,883	*14.6*	10,311	*(1.3)*	33,982	42,267	45,941	51,351
PAT	(2,510)	3,650	*(168.8)*	2,943	*(185.3)*	9,064	9,835	17,065	19,808
EPS (Rs)	(2.0)	3.0	*(168.7)*	2.4	*(185.2)*	14.7	8.0	13.8	16.1
ROAE (%)						8.1	7.3	10.6	11.2
ROAA (%)						1.28	1.29	2.04	2.12
ABVPS (Rs)						120.2	83.8	110.3	126.7
P/ABV (x)						1.14	1.63	1.24	1.08
P/E (x)						9.3	17.2	9.9	8.5

Change in estimates

Rs bn	FY21E			FY22E			FY23E		
	Old	New	*Chg*	Old	New	*Chg*	Old	New	*Chg*
Loan	839	826	*-1.5%*	936	928	*-0.8%*	1,075	1,069	*-0.6%*
NIM (%)	7.1	6.9	*-12 bps*	7.4	7.2	*-14 bps*	7.6	7.5	*-16 bps*
NII	56.9	55.5	*-2.5%*	65.5	63.5	*-3.0%*	76.7	74.5	*-2.9%*
PPOP	42.5	42.3	*-0.6%*	46.4	45.9	*-1.0%*	51.6	51.4	*-0.4%*
PAT	10.6	9.8	*-7.2%*	17.5	17.1	*-2.6%*	21.2	19.8	*-6.6%*
ABVPS (Rs)	89.3	83.8	*-6.1%*	112.6	110.3	*-2.0%*	137.4	126.7	*-7.8%*

Source: Bank, HSIE Research

BUY

CMP ***(as on 29 Jan 2021)***	**Rs 155**
Target Price	**Rs 207**
NIFTY	**13,635**

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 231	Rs 207
EPS %	FY21E	FY22E
	-6.1%	-2.0%

KEY STOCK DATA	
Bloomberg code	MMFS IN
No. of Shares (mn)	1,236
MCap (Rs bn) / ($ mn)	191/2,621
6m avg traded value (Rs mn)	1,639
52 Week high / low	Rs 246/76

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	27.9	15.3	(31.1)
Relative (%)	11.5	(6.3)	(43.4)

SHAREHOLDING PATTERN (%)

	Sept-20	Dec-20
Promoters	52.2	52.2
FIs & Local MFs	13.9	16.4
FPIs	21.4	21.2
Public & Others	12.5	10.2
Pledged Shares	0.0	0.0

Source : BSE

Pledged shares as % of total shares

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CreditAccess Grameen

Micro-credit stress playing out

At a consolidated level, CREDAG reported a net loss, on the back of a sharp rise in provisions. While disbursals saw a sharp uptick and the improvement in collection efficiency sustained (~91% excluding arrears in December), the manifestation of sticky back-book stress (implied PAR 60 of ~14% on the portfolio that is more than 6 months old) was also evident. However, at a consolidated level, CREDAG held an ECL cover of ~5.7% of loans, vs. overall GS-III of 6.1%, indicative of a fortified balance sheet. We believe current stress is not entirely unexpected, as is in fact, characteristic of the event-driven stress that micro-credit is associated with. We maintain BUY with a revised target price of INR 814. Our assigned multiple, we believe, is reflective of CREDAG's high RoE potential, relatively conservative approach to the busines as well as inherent business risks.

- **Sticky back book stress forming:** Despite clocking a sustained improvement in collection efficiency (standalone) from 88% in September to 91% in December (96% including arrears), PAR 60 remained sticky at 7% and PAR 90 inched up to 5.2%, on the standalone portfolio. Further, disbursals between June and December accounted for ~49% of the standalone portfolio which had a PAR 60 of ~10bps, implying sticky stress in the back book. We now build GNPA (PAR 60) of 4.8% in FY21E.
- **Jump in provisions dents earnings:** Non-tax provisions surged 5x/3x YoY/QoQ to ~INR 2.8bn (9.4% annualised) and CREDAG wrote-off ~INR 1.1bn including accelerated write-offs of INR 847mn. At a consolidated level, CREDAG holds an ECL cover of 5.7% vs. PAR 60 of 6.1%. We build LLPs of 3.4% over FY21-23E, an upward revision of 25bps vs. our earlier estimates.
- **Revival in disbursal growth:** Consolidated disbursals grew ~38/184% YoY/QoQ to ~INR 40bn. Consequently, AUMs grew ~39/10% YoY/QoQ, reaching ~INR 123bn, led by a growth in the IGL segment. Average outstanding per borrower (group loans) grew ~13.8/10% to INR 35.4bn. We model an AUM growth of ~22.3% over FY21-23E.

Financial summary

YE Mar (INR mn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
Net int. income	3,095	3,061	1.1%	3,377	(8.4%)	10,534	13,588	17,824	23,120
PPOP	1,703	2,005	(15.1%)	1,969	(13.5%)	6,989	8,708	11,878	15,671
PAT	(791)	1,113	(171.0%)	670	(218.0%)	3,355	1,658	5,335	8,911
EPS (INR)	(5.5)	7.5	(173.0%)	6	(199.4%)	23.2	10.5	33.8	56.4
RoAE (%)						13.1	5.0	12.8	18.2
RoAA (%)						3.34	1.19	3.19	4.30
Adj. BVPS (INR)						187.7	243.3	277.1	333.5
P/ABV (x)						3.70	2.85	2.50	2.08
P/E (x)						29.9	66.1	20.5	12.3

Changes in estimates

INR bn	FY21E			FY22E			FY23E		
	Old	New	Chg	Old	New	Chg	Old	New	Chg
AUM	134.9	131.2	-2.7%	172.3	167.5	-2.8%	224.0	217.5	-2.9%
NIM (%)	12.0	10.8	-114 bps	12.2	11.9	-23 bps	12.1	12.0	-8 bps
NII	15.2	13.6	-10.8%	18.7	17.8	-4.6%	24.0	23.1	-3.5%
PPOP	10.2	8.7	-14.7%	12.4	11.9	-4.3%	16.2	15.7	-3.3%
PAT	3.1	1.7	-46.1%	5.8	5.3	-8.6%	9.5	8.9	-5.8%
ABVPS (INR)	252.3	243.3	-3.6%	289.2	277	-4.2%	349.1	333	-4.5%

Source: Bank, HSIE Research

BUY

CMP *(as on 29 Jan 2021)*	INR 694
Target Price	INR 814
NIFTY	13,635

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 851	INR 814
EPS %	FY21E	FY22E
	-46.1%	-8.6%

KEY STOCK DATA	
Bloomberg code	CREDAG IN
No. of Shares (mn)	155
MCap (INR bn) / ($ mn)	108/1,479
6m avg traded value (INR mn)	94
52 Week high / low	INR 1,001/305

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	7.8	27.8	(19.1)
Relative (%)	(8.6)	6.2	(31.4)

SHAREHOLDING PATTERN (%)	Sept-20	Dec-20
Promoters	79.9	74.0
FIs & Local MFs	10.1	11.9
FPIs	5.4	9.5
Public & Others	4.6	4.6
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Indostar Capital Finance

Soft core; asset quality concerns galore

INDOSTAR's 3QFY21 earnings were ahead of our estimates aided by one-off gains on de-recognition of loan assets. The company witnessed improving business traction, with a broad-based rise in disbursals (~3x QoQ) - a comfortable capitalisation offers valuable dry powder for growth. Despite a reasonable asset quality performance with pro forma GNPAs at 2.8% (vs. 2.9% in 2Q), we are cautious in our outlook given the sizeable pool of GS-II (~20% of loans), underpinning our REDUCE rating (revised target price of INR309). In the near term, we will watch for steps towards compliance with promoter shareholding requirements and possible inorganic growth.

- **Weak core operating performance:** Adjusted for one-off gains of INR300mn on de-recognition of loans in 3Q, PPOP dipped ~8% sequentially on the back of a 14.6% drop in NII (15.9% below our estimates). The significant sequential dip in NII was driven by a lower margins. We reduce our NIM forecasts over FY21-23E to 6.4% from 6.7% earlier.
- **Asset quality concerns :** Pro forma GNPAs were just 2.8% and the company restructured ~3.7% of its retail portfolio. The corporate book, which has been the largest source of stress, witnessed no restructuring (except for DCCO extension in select projects). GS-II stood at ~20% and was significantly higher than pre-COVID-19 levels and peers (SHTF reported a GS-II of ~11% in 3QFY21) with retail businesses contributing disproportionately. We are cautious on asset quality as we build GNPAs of 4.8% in FY21E.
- **Business traction improving:** INDOSTAR witnessed a sustained uptrend in disbursals in 3QFY21, clocking overall disbursals of ~INR6.6bn (~3x QoQ), led by the retail segment, which constituted ~72% of overall disbursals. However, overall AUMs de-grew 2.4% QoQ, driven by conscious de-growth in the corporate segment (-7.6% QoQ, part of a conscious strategy) and higher repayments in the VF segment (-3.7% QoQ). Although the company is comfortable on capitalisation (CRAR of ~35%) , we build in an AUM CAGR of 8.8% over FY21-23E.

Financial summary

YE Mar (INR mn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
Net int. income	1,050	1,584	*(33.7)*	1,229	*(14.6)*	6,028	4,679	6,617	8,601
PPOP	766	1,110	*(31.0)*	506	*51.4*	3,837	2,546	4,029	5,584
PAT	242	2	*NM*	316	*(23.5)*	(3,246)	474	1,940	3,228
EPS (INR)	2.0	0.0	*NM*	2.6	*(23.6)*	(35.1)	3.5	14.4	24.0
RoAE (%)						(11.4)	1.7	4.8	7.5
RoAA (%)						(3.0)	0.45	1.67	2.53
Adj. BVPS (INR)						226.2	248.2	265.9	293.5
P/ABV (x)						1.5	1.38	1.28	1.16
P/E (x)						NA	97.1	23.7	14.2

Changes in estimates

INR mn	FY21E			FY22E			FY23E		
	Old	New	*Chg*	Old	New	*Chg*	Old	New	*Chg*
AUM	92,360	92,615	0.3%	103,278	102,418	-0.8%	130,382	128,257	-1.6%
NIM (%)	5.6	4.9	-76 bps	7.0	6.8	-18 bps	7.6	7.5	-9 bps
NII	5,405	4,679	-13.4%	6,809	6,617	-2.8%	8,822	8,601	-2.5%
PPOP	3,035	2,546	-16.1%	3,955	4,029	1.9%	5,494	5,584	1.6%
PAT	580	474	-18.4%	1,948	1,940	-0.4%	3,348	3,228	-3.6%
ABVPS (INR)	249.1	248.2	-0.4%	265.8	265.9	0.0%	291.3	293.5	0.7%

Source: Bank, HSIE Research

REDUCE

CMP *(as on 5 Feb 2021)*	**INR 342**
Target Price	**INR 309**
NIFTY	**19,924**

KEY CHANGES	**OLD**	**NEW**
Rating	REDUCE	REDUCE
Price Target	INR 314	INR 309
EPS %	FY21E	FY22E
	-18.4%	-0.4%

KEY STOCK DATA	
Bloomberg code	INDOSTAR IN
No. of Shares (mn)	123
MCap (INR bn) / ($ mn)	42/579
6m avg traded value (INR mn)	22
52 Week high / low	INR 424/225

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	15.6	36.3	19.7
Relative (%)	(7.1)	1.6	(3.6)

SHAREHOLDING PATTERN (%)	**Sept-20**	**Dec-20**
Promoters	93.7	93.5
FIs & Local MFs	2.5	2.7
FPIs	-	-
Public & Others	3.8	3.8
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Repco Home Finance

Outperforming low-ball expectations

REPCO's 3Q performance surprised positively on several fronts- (1) margins improved aided by falling CoF, (2) the rise in pro forma stress was measured, (3) restructuring undershot previous management guidance and (4) stage III coverage improved. We maintain ADD with a revised target price of INR 306. Attractive valuations, better-than-expected asset quality performance and the company's comfortable capital position underpin our stance.

- **Strong PPOP growth aided by recoveries:** At ~INR1.3bn, REPCO's PPOP grew 22.3/11% YoY/QoQ, and was driven by (1) sticky asset yields, (2) falling CoF (-50/-30bps) and (3) recoveries from written-off accounts of ~INR 90mn. Adjusted for said recoveries, PPOP would have grown 13.7/3.2%.
- **Pro forma stress evident, but not worrisome:** On a pro forma basis, REPCO's GS-III rose ~30bps sequentially to 4.3% and was ~100bps higher than reported GS-III. Until 3QFY21, REPCO restructured ~INR 360mn (~30bps of AUM) undershooting the management's earlier guidance of ~INR2-3bn. So far, REPCO's performance on this front, in a challenging external environment, is creditable. We remain conservative and project GNPAs of 5.2% in FY21E.
- **In-line provisions:** Non-tax provisions rose sharply (+92/208%) to ~INR 220mn and were broadly in line with estimates. Consequently, reported Stage III coverage also rose 1526/245bps to 43.8%. Further, REPCO holds an ECL cover of ~30% on the pool of restructured loans.
- **Business traction:** Even as REPCO clocked a sharp sequential rise (+23.2%) in disbursals, they came in below the management's earlier guidance. Further, AUM growth slowed to just 3.7% YoY with core home loan growth slowing to ~3.5%. We build an AUM growth of 8.6% over FY21-23E.

Financial summary

YE Mar (INR mn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
Net int. income	1,425	1,232	*15.7*	1,346	*5.9*	4,924	5,405	5,645	6,192
PPOP	1,282	1,048	*22.3*	1,155	*11.0*	4,196	4,643	4,758	5,184
PAT	799	696	*14.7*	806	*(0.9)*	2,804	2,908	3,077	3,395
EPS (INR)						44.8	46.5	49.2	54.3
RoAA (%)						2.44	2.31	2.24	2.26
RoAE (%)						16.9	15.1	13.9	13.5
Adj. BVPS (INR)						250	283	332	390
P/ABV (x)						1.08	0.95	0.81	0.69
P/E (x)						6.0	5.8	5.5	5.0

Changes in estimates

INR bn	FY21E			FY22E			FY23E		
	Old	New	*Chg*	Old	New	*Chg*	Old	New	*Chg*
AUM	128.3	125.6	*-2.1%*	140.3	137.3	*-2.1%*	154.6	151.3	*-2.1%*
NIM (%)	4.3	4.5	*14 bps*	4.3	4.3	*4 bps*	4.2	4.3	*4 bps*
NII	5.3	5.4	*2.2%*	5.7	5.6	*-1.1%*	6.3	6.2	*-1.1%*
PPOP	4.5	4.6	*3.2%*	4.8	4.8	*-1.0%*	5.2	5.2	*-1.0%*
PAT	2.8	2.9	*5.2%*	3.0	3.1	*1.5%*	3.4	3.4	*1.1%*
ABVPS (INR)	272	283	*4.1%*	322	332	*2.9%*	381	390	*2.2%*

Source: Bank, HSIE Research

ADD

CMP ***(as on 12 Feb 2021)***	**INR 269**
Target Price	**INR 306**
NIFTY	**15,163**

KEY CHANGES	**OLD**	**NEW**
Rating	ADD	ADD
Price Target	INR 303	INR 306
EPS %	FY21E	FY22E
	5.2%	1.5%

KEY STOCK DATA	
Bloomberg code	REPCO IN
No. of Shares (mn)	63
MCap (INR bn) / ($ mn)	17/231
6m avg traded value (INR mn)	104
52 Week high / low	INR 339/90

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	22.5	103.1	(17.2)
Relative (%)	3.6	68.8	(41.2)

SHAREHOLDING PATTERN (%)	**Sept-20**	**Dec-20**
Promoters	37.1	37.1
FIs & Local MFs	20.9	23.1
FPIs	19.1	19.8
Public & Others	22.9	20.0
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Capital Goods

Larsen & Toubro

Marginal miss, bracing for recovery

LT reported revenue at Rs 356bn, marginally shy of pre-COVID level (-2% YoY) and our estimates (-3%). Margin expansion and higher other income led to 4.5% YoY growth in APAT. Large order wins helped the company clock highest ever quarterly order inflow of Rs 732bn, taking order book to record Rs 3.31tn. Strong cash collection kept working capital in check. With near normal operational recovery, focus has now shifted to monetization of concessional assets, which would be an uphill task in the current environment, in our view. We maintain BUY on LT, given its (1) strong order book (Rs 3.31tn, ~3x FY20 core EPC revenue), (2) healthy balance sheet and (3) robust services business. We increase our FY21 estimate by 16% to account for higher other income and revise target price to Rs 1,657/sh (Rs 1,602 earlier).

- **Near normal execution recovery:** LT reported revenue at Rs 356bn (-2%/15% YoY/QoQ), marginal miss on our estimates. While services business remained resilient with IT & TS growing by 7% YoY and finance declining by 4% YoY, core business faced productivity headwinds, declining 5% YoY. Lower PLF at Nabha Power and continued challenges at Hyderabad Metro led to 34% YoY decline in revenue from developmental segment. EBITDA grew by 4% on margin expansion. Higher than expected other income (supported by gains in treasury operations) and lower finance cost led to 14% beat on APAT. With highest ever order book and recovery in productivity, LT aims to repeat FY20 nos. However, we remain cautious and factor 6% and 27% de-growth in revenue and APAT respectively.
- **Order inflow grows by 76% YoY; OB at Rs 3.31tn**: Total order inflow came in at Rs 732bn, (below our estimate of Rs 818bn, seems LOA timing difference). With strong domestic ordering and large order wins in infra., (high speed rail from NHSRCL) and hydrocarbon (from an HPCL JV and ONGC), LT reported 107% YoY growth in ex-services order inflow. Order book now stands at Rs 3.31tn, providing three years of revenue visibility for EPC business. The order pipeline for 4QFY21 stands at Rs 2.7tn (domestic Rs 2.2tn and international at Rs 0.5tn). Continuous focus on infrastructure by the Government, uptick in economic indicators, push for self-reliance for defense requirement and rebound in crude oil prices augurs well for LT.
- **Balance sheet remains comfortable:** Net debt remained stable at Rs 1tn (vs Rs 1tn on Sep. 20-end). Cash remained at elevated level (Rs 450bn) as the company looks to support developmental business (mainly Hyderabad Metro, Rs 5bn infused in the quarter) and finance business. This seems to be peak debt with likely reduction over next 2-3qtrs. While the NWC as a % of sales remains elevated at 26.2% due to lower denominator, robust customer collection helped generate Rs 40bn FCFF during the quarter.

Consolidated Financial summary

(Rs mn)	3QFY21	3QFY20	YoY (%)	2QFY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Net Revenues	3,55,964	3,62,427	*(1.8)*	3,10,347	*14.7*	13,52,203	14,54,524	13,70,233	16,59,776	18,38,588
EBITDA	42,800	41,178	*3.9*	33,348	*28.3*	1,53,296	1,63,290	1,50,072	1,91,479	2,14,168
APAT	22,574	21,608	*4.5*	11,066	*104.0*	80,410	88,945	65,055	97,204	1,12,904
Diluted EPS (Rs)	16.1	15.4	*4.5*	7.9	*104.0*	57.3	63.4	46.4	69.3	80.5
P/E (x)						24.1	21.8	29.8	20.0	17.2
EV / EBITDA (x)						19.2	18.9	21.6	16.4	14.4
RoE (%)						15.1	14.6	16.3	13.4	14.5

Source: Company, HSIE Research

BUY

CMP *(as on 25 Jan 2021)*	**Rs 1,361**
Target Price	**Rs 1,657**
NIFTY	**14,239**

KEY CHANGES		OLD	NEW
Rating		BUY	BUY
Price Target		Rs 1,602	Rs 1,657
EPS %	FY21E	FY22E	FY23E
	15.8	0.1	-0.6

KEY STOCK DATA	
Bloomberg code	LT IN
No. of Shares (mn)	1,404
MCap (Rs bn) / ($ mn)	1,912/26,203
6m avg traded value (Rs mn)	5,958
52 Week high / low	Rs 1,396/648

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	47.4	53.5	2.1
Relative (%)	28.6	26.7	(14.1)

SHAREHOLDING PATTERN (%)

	Sep-20	Dec-20
Promoters	0.0	0.0
FIs & Local MFs	35.43	32.96
FPIs	17.89	21.11
Public & Others	46.68	45.93
Pledged Shares	0.0	0.0

Source : BSE

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Siemens

Largely in-line quarter, margins beat

SIL delivered Revenue/EBIDTA/APAT beat of 1.5%/6.2/1.6%, the result came in largely on expected lines. Margins across all segments, except Energy and Portfolio companies, saw YoY dip. 2QFY21E will give an even better visibility on normalised margins going ahead as some impact of COVID-19 may still be reflecting upon overall execution and profitability. SIL had earlier indicated good margins in order backlog backed by corrective cost optimization measures and some of it sustaining. Whilst we acknowledge Govt intent to drive infrastructure creation and gradual recovery in private capex on back of improving capacity utilization, recent run up and punchy valuation limit further re-rating. We roll forward our valuation (35x) to Mar-23E and arrive at TP of Rs 1,662 vs Rs 1,489 Dec-22E. We maintain REDUCE on Siemens India Ltd. (SIL). We have upgraded FY21/22/23E EPS on account of improved execution by 5/6.8/6.8% respectively.

- **1QFY21 Highlights:** Revenue: Rs 29bn (+8.7%/-17.6% YoY/QoQ, 1.5% beat). EBITDA: Rs 3.6bn (+7.3%/-22% YoY/QoQ, beat of 6.2%). EBIDTA margin: 12.4% (-16/-42bps YoY/QoQ) vs est of Rs 11.9%. Profit from operations of mechanical drives business (sold to Flender in Jan-21) for the quarter stood at Rs 278mn. Consequently, APAT: Rs 2.6bn (-0.2%/-21% YoY/QoQ, 1.6% beat). Order inflow stood at Rs 32.1bn (+4.2% YoY, driven by DI and MO) and order backlog at Rs 128bn (+3% YoY). SIL highlighted slowdown in the energy transmission business due to delay in TBCB projects awards.
- **Segmental performance:** Gas & Power (34% revenue contribution): Revenue at Rs 10.2bn (+14/-36% YoY/QoQ) and margins at 12.6% (+160/+42 bps YoY/QoQ). Smart infrastructure (30%): revenue at Rs 8.8bn (+16%/-4% YoY/QoQ) and margins at 7.5% (-230/-306bps YoY/QoQ). Mobility (6%): revenue at Rs 1.9bn (-11%/-38% YoY/QoQ) and margins at 9% (-230/-474bps YoY/QoQ). Digital Industries (26%): revenue at Rs 7.7bn (+28/+22% YoY/QoQ) and margins at 10.4% (-8/+253bps YoY/QoQ). Portfolio of companies(3%): revenue at Rs 936mn (-7/-27% YoY/QoQ) and margins at 5.3% (+265/-320bps YoY/QoQ). Quarterly outperformance was driven by Gas & Power and Digitial Industries.

Financial summary

(Rs mn, Sep YE)	1QFY21	1QFY20	YoY (%)	4QFY20	QoQ (%)	FY20	FY21E	FY22E	FY22E
Net Revenues	29,011	26,686	8.7	35,190	(17.6)	98,694	1,36,326	1,58,874	1,77,939
EBITDA	3,611	3,365	7.3	4,529	(20.3)	9,903	16,840	20,404	23,551
APAT	2,622	2,627	(0.2)	3,331	(21.3)	7,574	13,035	15,731	18,098
Diluted EPS (Rs)	7.4	7.4	(0.2)	9.4	(21.3)	21.3	36.6	44.2	50.8
P/E (x)						79.1	46.0	38.1	33.1
EV / EBITDA (x)						54.9	32.5	26.4	22.7
RoE (%)						8.2	13.1	14.3	14.7

Source: Company, HSIE Research

Change in Estimates

Standalone Rs Mn	FY21E			FY22E			FY23E		
	Old	Revised	% Chg	Old	Revised	% Chg	Old	Revised	% Chg
Net Sales	1,29,886	1,36,326	5.0	1,48,724	1,58,874	6.8	1,66,570	1,77,939	6.8
EBITDA	15,408	16,840	9.3	19,101	20,404	6.8	22,046	23,551	6.8
EBIDTA Margin (%)	11.9	12.4	49.0	12.8	12.8	0.0	13.2	13.2	0.0
Adj PAT	11,877	13,035	9.7	14,618	15,731	7.6	16,742	18,098	8.1
AEPS (Rs)	33.4	36.6	9.7	41.1	44.2	7.6	47.0	50.8	8.1

Source: Company, HSIE Research

REDUCE

CMP *(as on 12 Feb 2021)*	Rs 1,846
Target Price	Rs 1,662
NIFTY	15,163

KEY CHANGES	OLD		NEW
Rating	REDUCE		REDUCE
Price Target	Rs 1,489		Rs 1,662
EPS change %	FY21E	FY22E	FY23E
	9.7	7.6	8.1

KEY STOCK DATA	
Bloomberg code	SIEM IN
No. of Shares (mn)	356
MCap (Rs bn) / ($ mn)	657/9,037
6m avg traded value (Rs mn)	989
52 Week high / low	Rs1,900/947

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	31.4	57.4	29.7
Relative (%)	12.5	23.1	5.7

SHAREHOLDING PATTERN (%)	Sep-20	Dec-20
Promoters	75.00	75.00
FIs & Local MFs	10.44	10.56
FPIs	4.07	4.22
Public & Others	10.49	10.22
Pledged Shares	-	-

Source : BSE

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Voltas

Market leading show; momentum sustaining

Voltas reported a strong 3QFY21 with UCP and EMPS delivering a beat on revenue as well as margins. UCP delivered a growth of 40% YoY (43% volume growth for RAC), driven by pent-up demand as well as pre-buying by the channel. Market share gains continued with RAC (26%, up 170bps YoY) and Inverter AC gained salience with 75% YoY growth (22% market share). We expect Voltas to continue fortifying its leadership in RAC, and margins to sustain with oplev and market leadership. EMPS too posted strong growth (26% YoY), led by improved speed of execution and better liqudity. Volt-Beko continued to receive an encouraging response and the demand is ahead of supply. Distribution expansion and increased manufacturing capacity is expected to drive success for the brand. We increase our EPS estimates by 7/9% for FY22/FY23. We value Voltas on an SoTP basis, arriving at an implied P/E of 38x (UCP/EPMS/EPS P/E at 45/15/15x and Volt-Beko P/S of 4x) to derive a target price of Rs 1,100. Downgrade to ADD from BUY on account of sharp stock run-up of 36/19% in 3M/1M and limited upside in the near term.

- **Surprises continues in UCP:** Consolidated revenue grew by 34% YoY (flat in 3QFY20 and +13% in 2QFY21), beating our above consensus estimates (HSIE 14%). UCP revenue was up by a robust 40% YoY (14% in 3QFY20 and +9% in 2QFY21), vs expected growth of 15% YoY. UCP volume growth stood at 40% YoY (14% YoY in 2QFY21), driven by RAC volume growth of 43% YoY (11% YoY in 2QFY21). Commercial Refrigeration grew by 100% YoY (20% YoY in 2QFY21) and Air cooler by 11% YoY (28% YoY in 2QFY21). EMPS grew by 26% YoY growth (-8% in 3QFY20 and +15% in 2QFY21) and EPS was up 46% YoY (-1% in 3QFY20 and +16% in 2QFY21).
- **Robust margins:** GM dipped 402bps YoY to 24.6% (+172bps in 3QFY20 and -236bps in 2QFY21). EBITDA grew by 50% YoY (-16% in 3QFY20 and -8% in 2QFY21), beating our above consensus estimates (HSIE 11%). UCP EBIT was up by a robust 72% YoY (36% in 3QFY20 and +36% in 2QFY21) vs expected 25% YoY growth. EMPS EBIT margin was at 3.2% (4.6% in 3QFY20 and 2.5% in 2QFY21), HSIE 2.5%. PBT grew by 39% YoY while PAT was up 46% YoY.
- **Call takeaways:** (1) PLI scheme is not expected to provide significant support; (2) 5-6% price hike in RAC is expected to cover commodity inflation; (3) Inverter mix stood at 60% vs 49% YoY; (4) Volt-Beko factory produced 2.1 lakh units of DC refrigerators in the first year; (5) EMPS order book stands at Rs 73bn; (6) EMPS sustainable margin is 6-7%.

Quarterly/annual financial summary

YE March (Rs mn)	Q3FY21	Q3FY20	*YoY (%)*	Q2FY21	*QoQ (%)*	FY20	FY21E	FY22E	FY23E
Net Sales	19,946	14,925	*33.6*	16,125	*23.7*	76,581	74,395	97,149	108,548
EBITDA	1,459	976	*49.6*	980	*48.9*	6,867	5,775	9,445	13,087
APAT	1,287	880	*46.3*	797	*61.5*	5,547	5,060	8,037	9,474
Diluted EPS (Rs)	3.9	2.7	*46.3*	2.4	*61.5*	16.8	15.3	24.3	28.6
P/E (x)						63.2	69.2	43.6	37.0
EV / EBITDA (x)						50.9	59.7	36.4	25.9
Core RoCE (%)						22.1	18.8	28.4	35.4

Change in Estimates

	FY21E			FY22E			FY23E		
	New	Old	*Chg (%)*	New	Old	*Chg (%)*	New	Old	*Chg (%)*
Sales	74,395	71,191	*4.5%*	97,149	90,794	*7.0%*	108,548	101,446	*7.0%*
EBITDA	5,775	5,378	*7.4%*	9,445	8,768	*7.7%*	13,087	11,919	*9.8%*
APAT	5,060	4,717	*7.3%*	8,037	7,530	*6.7%*	9,474	8,649	*9.5%*
EPS	15.3	14.3	*7.3%*	24.3	22.8	*6.7%*	28.6	26.1	*9.5%*

Source: Company, HSIE Research

ADD

CMP *(as on 15 Feb 2021)*	**Rs 1,059**
Target Price	**Rs 1,100**
NIFTY	**15,315**

KEY CHANGES	OLD	NEW
Rating	BUY	ADD
Price Target	Rs 981	Rs 1,100
EPS %n	FY22E	FY23E
	7%	9%

KEY STOCK DATA	
Bloomberg code	VOLT IN
No. of Shares (mn)	331
MCap (Rs bn) / ($ mn)	350/4,820
6m avg traded value (Rs mn)	1,842
52 Week high / low	Rs 1,132/427

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	39.3	71.9	53.8
Relative (%)	19.8	34.2	27.4

SHAREHOLDING PATTERN (%)	Sep-20	Dec-20
Promoters	30.30	30.30
FIs & Local MFs	38.94	37.36
FPIs	12.44	14.55
Public & Others	18.32	17.79
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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ABB India

Margin expansion key to further re-rating

ABB-adjusted EBITDA margin of 10.9% came in as a surprise (adjusted for Rs 930mn one-off expenses, 6% reported margin) though, historically, 4QCY is a better margin quarter for the company. Going ahead, the key to further re-rating is contigent on utilisation levels picking up in Industrial/Robotics automation as ABB business model is overly sensitive to operating leverage and resultant margins impact. We believe there will be no further stress coming out of the streamlining of Industrial Automation (IA) segment. Robotics remains sub-scale; though recent OLA order and management efforts to demonstrate applications/use-cases across industries presents a multiplier opportunity. Most of the potential upsides on cyclical recovery is already priced into the lofty valuation. Hence, we maintain REDUCE on ABB and roll forward our valuation to Mar-23E. We revise our TP to Rs 1,426/sh vs. Rs 1,268/sh earlier. We have retained our estimates.

- **Margin surprise despite Rs 930mn one-off expense:** Revenue – Rs 17bn (-13%/+5.5% YoY/QoQ, 14% miss). EBITDA – Rs 1bn (-26/-16% YoY/QoQ, 27% beat) and margin of 6% (-105/-150bps YoY/QoQ, 192bps beat). Adjusted for a one-time impact of Rs 800mn in certain businesses of IA due to ramp-down of power-gen segment and Rs 135mn of VRS costs, adjusted EBITDA margins stood at ~10.9%. Other income at Rs 144mn (-63/-29% YoY/QoQ). RPAT: Rs 622mn (-27% QoQ, Rs 50mn loss YoY; 8% beat). APAT stood at Rs 1,320 mn (-1.6% YoY, +54% QoQ).
- **Order inflows resilient but remain moderate:** 4QCY20/CY20 order inflows stood at Rs 14.7/59.3bn (vs Rs 15.8/69.7bn YoY), taking the backlog to Rs 41.1bn (vs Rs 41.2bn YoY). Infrastructure investments and PLI incentives by government may further drive new order inflows. Ola today announced that it has selected ABB as one of its key partners for robotics and automation solutions for its mega scooter factory. This is emerging as a unique opportunity and may have a multiplier effect on revenue with improvement kicking in on profitability.
- **Segmental outlook:** While Motion & Electrification have recovered performance in 4QCY20, Robotics is seeing encouraging market response; it remains sub-scale as of now. Auto Capex will also take some time to materialise. Industrial Automation is exposed to the core sector vis-à-vis energy/power, mining, metals, cement and other process industries. This segment will gradually pick up pace as the economy gathers steam. High growth end-user industries: Data Centres, Renewables & Electronics. Moderate growth: Food & Beverage, Pharmaceuticals, Power Distribution, Water & Waste water, Railways & Metro, Automotive. Low growth: Buildings & Infra, Oil & Gas, Chemicals, Cement & Steel.

Financial Summary

(Rs mn, Dec year-end)	4Q CY20	4Q CY19	YoY (%)	3Q CY20	QoQ (%)	CY20	CY21E	CY22E	CY23E
Net Revenues	17,008	19,533	*(12.9)*	16,122	*5.5*	61,712	82,191	93,025	1,05,154
EBITDA	1,026	1,384	*(25.9)*	1,214	*(15.5)*	3,194	6,870	9,118	10,893
APAT	1,320	1,344	*(1.8)*	855	*54.3*	2,261	5,090	6,832	8,284
Diluted EPS (Rs)	6.2	6.3	*(1.8)*	4.0	*54.3*	10.7	24.0	32.2	39.1
P/E (x)						132.7	59.0	43.9	36.2
EV / EBITDA (x)						88.3	40.8	30.3	25.0
RoE (%)						6.2	12.9	15.5	16.5

Source: Company, HSIE Research

REDUCE

CMP(*as on 11 Feb 2021*)	Rs 1,416
Target Price	Rs 1,426
NIFTY	15,173

KEY CHANGES		OLD	NEW
Rating		REDUCE	REDUCE
Price Target		Rs 1,268	Rs 1,426
EPS Change %	CY21E	CY22E	CY23E
	-	-	-

KEY STOCK DATA	
Bloomberg code	ABB IN
No. of Shares (mn)	212
MCap (Rs bn) / ($ mn)	302/4,140
6m avg traded value (Rs mn)	226
52 Week high / low	Rs 1,541/722

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	50.7	57.6	6.7
Relative (%)	32.5	23.4	(18.3)

SHAREHOLDING PATTERN (%)

	Sep-20	Dec-20
Promoters	75.00	75
FIs & Local MFs	6.34	6.96
FPIs	3.47	4.06
Public & Others	15.19	13.98
Pledged Shares	-	-

Source : BSE

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Cummins

Recovery in sight

Cummins India's (CIL) 3QFY21 strong financial performance is underpinned by positive commentary on (1) calibrated demand normalisation, (2) likely stabilisation of exports market, barring COVID-19 waves, (3) pick-up on power gen viz. data centres, etc., (4) being open to various long term corporate action pertaining to CITL + CIL, and (5) new technology like Hydrogen being routed via the listed entity. We believe this will support long-term valuation rerating. Management clarified that the new hydrogen technology will be rolled out in the medium term via CIL in product/market segments, where it has good scale. We roll forward to FY23E and revise FY21E/22E/23E EPS upwards by 8.2%/12.8%/11.8%, given strong margin recovery. Maintain BUY with increased TP of Rs 810 vs Rs 724 earlier (SOTP).

- **3QFY21—domestic segment recovery, margins surprise:** Revenue: Rs 14.2bn (-2%/+23% YoY/QoQ, 11% beat). EBITDA: Rs 2.5bn (+12/+26% YoY, beat of 20%). EBITDA margin: 17% (+213/+48bps YoY/QoQ) vs est. of 14.2%. While depreciation and interest expenses were in line, other income saw a sharp jump of 36%/70% YoY/QoQ to Rs 984mn, driven by dividend income and forex gains. This drove even higher RPAT beat. Consequently, RPAT: Rs 2.34bn (+26/61% YoY/QoQ, 38% beat). Domestic: Exports split – 73:27, vs 65:35 QoQ and 75:35 YoY. BoD declared an interim dividend of Rs. 7 per equity share (277mn shares). High EBITDA margin is not likely to sustain, as costs will rise when business activity picks up steam. Moreover, there was a large high-value domestic order that skewed mix favorably.
- **Segmental commentary strong**: Construction segment, which has supported growth, is expected to be strong in the near term. Implementation CPCB-4 norms have been delayed by six months. CIL expects orders in this regard from 1QFY23E and is looking for market share gain on the back of better engine and emissions technology. Railways has been lagging and will take a couple of quarters to normalise. Compressors is a very unpredictable cyclical segment and will keep growing as agriculture powers up further. Mining has rebounded strongly as demand for coal, iron ore and other metals is expected to sustain. New products in the marine segment have been introduced, with focus on capturing market share from global players.
- **Export markets gradual recovery**: Exports had begun reviving, but due to the second COVID-19 wave, Latin America and EU region have turned sluggish. Asian markets continue to recover well. MENA region has been lukewarm and lies somewhere in between Asia & EU/Latin regions in terms of recovery.
- **Return ratios to expand, all-round cyclical recovery:** We expect key segments—Infra, Data Centers, Healthcare, Residential—to see strong cyclical recovery. This shall coincide with lagged recovery in commercial real estate, hospitality and exports. Growth pick-up with better pricing should lead to RoE expansion from 14.2% in FY21E to 18.5% in FY23E.

Standalone Financial summary

(Rs mn)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
Net Revenues	14,243	14,534	(2.0)	11,602	22.8	51,577	45,331	55,115	62,643
EBITDA	2,417	2,158	12.0	1,913	26.4	5,863	6,540	8,951	10,152
APAT	2,341	2,023	15.7	1,695	38.1	6,492	6,037	7,925	8,991
Diluted EPS (Rs)	8.4	7.3	15.7	6.1	38.1	23.4	21.8	28.6	32.4
P/E (x)						28.2	30.3	23.1	20.3
EV/EBIDTA (x)						29.9	26.7	19.1	16.7
RoE (%)						15.6	14.2	17.6	18.5

Source: Company, HSIE Research

BUY

CMP *(as on 29 Jan 2021)*	Rs 666
Target Price	Rs 810
NIFTY	13,635

KEY CHANGES		OLD	NEW
Rating		BUY	BUY
Price Target		Rs 724	Rs 810
EPS change %	FY21E	FY22E	FY23E
	+8.2	*+12.8*	*+11.8*

KEY STOCK DATA	
Bloomberg code	KKC IN
No. of Shares (mn)	277
MCap (Rs bn) / ($ mn)	185/2,532
6m avg traded value (Rs mn)	767
52 Week high / low	Rs 690/280

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	50.9	66.3	10.8
Relative (%)	34.4	44.7	(1.5)

SHAREHOLDING PATTERN (%)	Sep-20	Dec-20
Promoters	51.00	51.00
FIs & Local MFs	31.29	27.50
FPIs	8.17	8.97
Public & Others	11.54	12.53
Pledged Shares	-	-

Source : BSE

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KEC International

In-line performance

KEC reported revenue/EBITDA/PAT at Rs 33/3/1.5bn, marginally behind our estimates. Slower execution in Brazil and NCR impacted the top-line. YTD, order inflow stood at Rs 68.3bn and the company is confident of a good show in 4QFY21, given its strong order pipeline. KEC is seeing good traction in railways and civil segment, even as the domestic T&D ordering has slowed down. Order book stood at Rs 179bn (ex. L1 of Rs 60bn), of which 38% is from international market. Net debt increased to Rs 37.4bn in 3QFY21 from Rs 34.8bn at the end of Sep-20. NWC also increased from 132 to 144 days during the same period. With robust prequalification in domestic/international markets and across sectors, KEC is well-placed for a re-rating. However, sustained higher commodity prices could impact the margins. We maintain BUY on KEC with unchanged target price of Rs 476/sh, 14x Dec-22 EPS.

- **Largely in-line performance; slower execution recovery in international T&D:** KEC reported revenue at Rs 33bn (+7/+1% YoY/QoQ), marginal miss of 2% on our estimate. While execution in T&D fell by 12% YoY, revenue growth was driven by non-T&D segment, mainly from railways (Rs 8.7bn, +44% YoY) and civil (Rs 2.3bn, ~3x 3QFY20). As per management commentary, execution could have been better, if it were not for COVID-related challenges in Brazil and slower execution in some of the projects in NCR due to farmers' protests and NGT issues in the region. Moreover, KEC slowed down execution at some of the sites due to rising commodity prices. EBITDA declined 6.4% YoY as margins shrunk by 130bps to 9.1%. (vs estimate of 9.0%). The impact on margins came largely from Brazilian operations. Higher commodity prices could impact margins further. Finance cost remained stable at Rs 0.66bn. Consequently, APAT came flattish YoY at Rs 1.5bn.
- **International T&D and Domestic non-T&D fills the order book:** KEC has received Rs 68.3bn of orders in FY21 till now, primarily driven by International-T&D. Order book stood at Rs 179bn at the end of Dec-20, ex L1 order of Rs 60bn. KEC is confident of a good show in 4QFY21 with bid pipeline of Rs 600bn (Rs 300bn already bid and additional Rs 300bn lined up). The pace of awarding, however, has been slow since COVID struck. Management expects domestic T&D to pick up with ordering for green corridor, TBCB and by private players. With increased traction, Railways and Civil could become a large part of the portfolio.
- **Balance sheet stable despite increase in Debt/NWC days:** Consolidated net debt, including the interesting bearing acceptances, stood at Rs 37.4bn (Rs 34.8bn at the end of Sep-20). NWC days also increased to 144 days vs 132 days QoQ as the company increased inventory to guard against rising commodity prices. The medium-term target is to bring NWC down to ~100 days.

Financial summary

(Rs mn)	3QFY21	3QFY20	YoY (%)	2QFY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
Net Revenues	32,892	30,731	7.0	32,577	1.0	1,19,654	1,27,788	1,43,788	1,60,985
EBITDA	2,987	3,185	(6.2)	2,931	1.9	12,344	11,527	14,968	16,732
APAT	1,451	1,449	0.1	1,426	1.8	5,655	5,516	7,759	9,068
Diluted EPS (Rs)	5.6	5.6	0.1	5.5	1.8	22.0	21.5	30.2	35.3
P/E (x)						16.3	16.7	11.9	10.2
EV/EBITDA (x)						10.0	10.4	7.8	6.8
RoE (%)						21.6	17.6	20.3	19.8

Source: Company, HSIE Research

BUY

CMP *(as on 29 Jan 2021)*	Rs 360
Target Price	Rs 476
NIFTY	13,635

KEY CHANGES		OLD	NEW
Rating		BUY	BUY
Price Target		Rs 476	Rs 476
EPS Change %	FY21E	FY22E	FY23E
	-	-	-

KEY STOCK DATA	
Bloomberg code	KECI IN
No. of Shares (mn)	257
MCap (Rs bn) / ($ mn)	92/1,268
6m avg traded value (Rs mn)	163
52 Week high / low	Rs 386/154

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	10.3	28.5	4.3
Relative (%)	(6.2)	6.9	(8.1)

SHAREHOLDING PATTERN (%)	Sep-20	Dec-20
Promoters	51.82	51.82
FIs & Local MFs	26.87	25.31
FPIs	9.67	9.84
Public & Others	11.64	13.03
Pledged Shares	-	-

Source : BSE

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Kalpataru Power Transmission

Marginal beat

Kalpataru Power (KPTL) reported 11% APAT beat. It has received 3QFY21 orders of Rs 29bn and is optimistic on achieving full-year guidance of Rs 90-100bn. The sale of Alipurduar asset was completed during the quarter, and divestment of Kohima asset is on track. Restructuring of JMC's BOT road assets is likely to be concluded by June-21. KPTL acquired Fasttel during 4QFY21. It remains on track to achieve net zero debt status, with Indore real estate monetisation picking pace and Shubham Logistics operation performance improving. We maintain BUY on KPTL with an unchanged target price of Rs 536. Key risk: delay in monetisation/restructuring of assets.

- **Recovery on expected lines:** Revenue: Rs 19.9bn (-0.7/+5.9% YoY/QoQ, 4% miss). EBITDA: Rs 2bn (-0.5/+2.5% YoY/QoQ, 7% miss). EBITDA margin: 10.4% (-12/+35bps YoY/QoQ, estimate of 10.7%). Interest cost: Rs 230mn (-45% YoY, flat QoQ). Other income: Rs 190mn (+19%/-48% YoY/QoQ). Exceptional items: Rs 1.54bn (Rs 1.47/0.7bn gain on sale of Alipurduar/Jhajjar assets). RPAT: Rs 2.57bn (+88%/+62x YoY/QoQ). APAT: Rs 1.42bn (+25.5/-2.2% YoY/QoQ), beating our estimates by 11%, on account of lower-than-expected interest cost, higher other income and lower effective tax rate. Net debt: Standalone net debt decreased to Rs 6.1bn from Rs 8.2bn QoQ (net D/E at ~0.16x). KPTL has maintained its guidance of flattish to positive growth and ~10.5% EBITDA margin for FY21, and double-digit growth FY22E onwards.
- **Monetisation of Kohima assets expected by FY21-end:** KPTL successfully divested Jhajjar and Alipurduar asset and has already received the proceeds from the sale. Kohima asset achieved full commissioning, and is awaiting approvals for transfer. Management expects this asset to be sold by FY21-end. KPTL is well on track to achieve its zero net debt target on the standalone level. About Rs 6bn of inflows are expected from Kohima asset sale.
- **Order inflow guidance maintained:** The company received orders of Rs 28.7bn during the quarter, taking the order book to Rs 133.2bn (~1.7x FY20 revenue). Additionally, it has won Rs 8.4bn of orders so far in 4QFY21 and is L1 in orders worth Rs 31bn. Total order book including FYTD21 wins and L1 stands at Rs 172.6bn. Management has retained annual order inflow guidance at Rs 90-100bn and expects to achieve it from a pick-up in domestic T&D and railways segments. The company declared an interim dividend of Rs 8.5 per share. KPTL also bought back shares for Rs ~1.8bn.
- **Update on acquisition:** KPTL signed definitive agreements to acquire controlling stake of 51% in Fasttel, Brazil, for USD 8.8mn (Rs ~640mn). USD 4.7mn will be paid for acquiring shares from existing shareholders and USD 4.1mn will be infused into Fasttel for issuance of new shares to Kalpataru. With this acquisition, the company has made an inroad into the Brazilian market.

Standalone Financial Summary

(Rs mn)	3QFY21	3QFY20	YoY (%)	2QFY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
Net Revenues	19,930	19,790	0.7	18,820	5.9	79,040	80,096	88,138	97,792
EBITDA	2,070	2,080	(0.5)	2,020	2.5	8,600	9,275	9,435	10,579
APAT	1,418	1,370	3.5	1,590	(10.8)	4,390	5,574	5,458	6,299
Diluted EPS	9.2	8.93	3.5	10.36	(10.8)	28.6	36.3	35.6	41.0
P/E (x)						12.9	10.2	10.4	9.0
EV/EBITDA (x)						7.7	6.9	6.5	5.7
RoE (%)						13.1	14.7	12.7	13.3

Source: Company, HSIE Research

BUY

CMP(as on 15 Feb 2021)	Rs 369
Target Price	Rs 536
NIFTY	15,315

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 536	Rs 536
EPS %	FY22E	FY23E
	-	-

KEY STOCK DATA	
Bloomberg code	KPP IN
No. of Shares (mn)	149
MCap (Rs bn) / ($ mn)	55/757
6m avg traded value (Rs mn)	149
52 Week high / low	Rs 391/170

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	32.4	52.2	(4.0)
Relative (%)	12.9	14.5	(30.4)

SHAREHOLDING PATTERN (%)	Sep-20	Dec-20
Promoters	55.29	56.49
FIs & Local MFs	25.98	28.54
FPIs	6.46	4.37
Public & Others	12.27	10.60
Pledged Shares	31.79	31.25

Source : BSE

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Cement

UltraTech Cement

Solid show!

UTCEM delivered yet another stellar quarter, as its 3QFY21 consolidated net sales/EBITDA/APAT soared 17/47/98% YoY to Rs 122.5/30.9/15.8bn respectively. It is driven by a robust 14% volume growth (2x industry growth) and superior opex controls (down 4% YoY). Healthy realisation also boosted the gains. The company further lowered its working capital, reducing net debt/EBITDA to 0.9x (vs 1.8x in Mar'20). We continue to like UTCEM for its strong volume focus along with superior margin delivery and working capital controls. We maintain BUY with a higher target price of Rs 6,720/share (16x Dec'22E consolidated EBITDA).

- **Results highlights**: Grey sales volume/revenues surged 14/17% YoY riding on strong traction across both trade and non-trade segment. Utilisation firmed up to 83% vs 74% YoY. While segmental NSR cooled off 3% QoQ, it remained 2% higher YoY. Even RMC and white/putty revenues jumped 24/17% YoY. Despite rising fuel and diesel prices QoQ, UTCEM's opex remained stable through improved efficiency, fixed cost controls, and op-lev gains. Thus, opex fell 4% YoY, bolstering blended unitary EBITDA by 28% YoY to Rs 1,296/MT (vs our estimate of Rs 1,151/MT). Robust EBITDA, continued working capital reduction, and low capex spend reduced net debt by 20% QoQ.
- **Outlook**: UTCEM continues to deliver on all the fronts - market share gain, margin expansion, and working capital reduction, thereby bolstering its cash flows and return ratios. We increase our consolidated EBITDA estimates for FY21/22/23E by 10/7/7% to factor in strong growth momentum and cost controls. We maintain BUY with a higher target price of Rs 6,720/share (16x Dec'22E consolidated EBITDA).

Consolidated Quarterly/Annual Financial summary

YE Mar (Rs bn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Sales (mn MT)*	23.9	20.9	*14.3*	20.1	*19.0*	85.8	82.5	81.9	90.4	97.5
NSR (Rs/MT)*	5,132	4,995	*2.7*	5,178	*(0.9)*	4,851	5,106	5,180	5,206	5,258
Opex (Rs/MT)*	3,836	3,985	*(3.7)*	3,833	*0.1*	3,995	3,965	3,840	3,928	3,986
EBITDA(Rs/MT)*	1,296	1,010	*28.3*	1,345	*(3.6)*	857	1,141	1,340	1,278	1,272
Net Sales	122.5	104.4	*17.4*	103.9	*18.0*	416.1	421.2	424.3	470.5	512.6
EBITDA	30.9	21.1	*46.5*	27.0	*14.7*	73.5	94.2	109.7	115.5	124.0
APAT	15.8	8.0	*97.5*	12.3	*28.7*	25.1	37.9	51.1	54.0	63.1
AEPS (Rs)	54.9	27.8	*97.5*	42.6	*28.7*	91.4	131.4	177.0	187.2	218.5
EV/EBITDA (x)						19.2	14.4	15.7	14.5	13.0
EV/MT (Rs bn)						12.5	11.8	14.6	13.7	12.8
P/E (x)						47.6	31.5	31.5	29.8	25.5
RoE (%)						8.3	10.4	12.3	11.7	12.2

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

Estimates revision

Rs Bn	FY21E Old	FY21E Revised	*Change %*	FY22E Old	FY22E Revised	*Change %*	FY23E Old	FY23E Revised	*Change %*
Net Sales	411.6	424.3	*3.1*	458.9	470.5	*2.5*	500.0	512.6	*2.5*
EBITDA	100.0	109.7	*9.8*	108.4	115.5	*6.6*	116.4	124.0	*6.5*
APAT	44.3	51.0	*15.3*	48.2	54.0	*12.0*	56.3	63.0	*12.0*
AEPS (Rs)	153.5	177.0	*15.3*	167.2	187.2	*11.9*	195.0	218.5	*12.0*

Source: Company, HSIE Research

BUY

CMP *(as on 22 Jan 2021)*	**Rs 5,581**
Target Price	**Rs 6,720**
NIFTY	**14,372**

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 6,250	Rs 6,720
EBITDA %	FY21E	FY22E
	9.8	*6.6*

KEY STOCK DATA	
Bloomberg code	UTCEM IN
No. of Shares (mn)	289
MCap (Rs bn) / ($ mn)	1,598/21,895
6m avg traded value (Rs mn)	3,226
52 Week high / low	Rs 5,697/2,910

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	19.9	43.3	23.6
Relative (%)	(0.6)	14.2	4.7

SHAREHOLDING PATTERN (%)	Sep-20	Dec-20
Promoters	59.91	59.97
FIs & Local MFs	15.38	14.10
FPIs	15.30	16.80
Public & Others	9.41	9.13
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Shree Cement

Robust volume growth and margin sustained

Shree Cement (SRCM) reported a strong 3QFY21. Standalone net sales/EBITDA/APAT rose 16/28/102% YoY to INR 33.1/10.9/6.3bn respectively. This is led by strong 15% YoY volume uptick and as margin firmed up, 11% YoY to INR 1,511/MT on lower opex. SRCM continues to deliver industry-leading operating performance and return ratios, owing to its robust cost controls and its strong focus on high trade sales (~75-80%). We upgrade to ADD with an unchanged SOTP-based target price of INR 25,500.

- **Robust volume growth**: SRCM's 3QFY21 volumes rose 15% YoY, mainly driven by strong growth in the eastern region and rising sales in the southern region. Utilisation firmed up to 71% vs 62% YoY. Share of trade sales remained flattish at ~77%. NSR fell 1% QoQ (down 2% YoY), mainly pulled down by price correction in the east and south markets.
- **Cost reduction keeps margin buoyant:** SRCM's opex fell 7% YoY due to fuel mix optimisation and strong cost controls. On QoQ basis, higher fuel prices led to ~5% rise in its power cost (on calorific value basis). Freight cost was up 5% QoQ on rising share of the east (in SRCM's sales mix) and higher diesel prices. However, fixed costs control and op-lev gains offset the impact, leading to 2% QoQ opex decline. Subsequently, unitary EBITDA (standalone) remained flat QoQ at INR 1,511 (up 11% YoY).
- **Subsidiary performance, Capex updates:** During 3QFY21, while SRCM's UAE subsidiary reported a 22% revenue decline YoY to INR 2.32bn, its EBITDA rose 22% YoY to INR 370mn on lower input costs. SRCM will commission its 3mn MT split grinding units in Odisha and Maharashtra each in 4QFY21. Thereafter, it will commission the ongoing 4mn MT clinker expansion at Chhattisgarh by Sep'22E. These will increase SRCM's standalone clinker/cement capacity to 29/46mn MT by FY23E.
- **Outlook**: SRCM continues to deliver industry-leading operating performance and return ratios, owing to its robust cost controls and strong focus on high trade sales (~75-80%). We maintain our earnings estimates and our SOTP-based target price of INR 25,500. We value its standalone business at 16.5x its Dec'22E EBITDA and its UAE subsidiary at 1x BV. We upgrade rating to ADD from REDUCE earlier.

Standalone Quarterly/Annual Financial summary

YE Mar (INR mn)	Q3 FY21	Q3 FY21	YoY (%)	Q2 FY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	33,094	28,483	*16.2*	30,224	*9.5*	117,220	119,040	122,285	135,753	158,017
EBITDA	10,890	8,493	*28.2*	9,880	*10.2*	27,693	36,745	39,124	43,879	51,487
APAT	6,262	3,100	*102.0*	5,473	*14.4*	12,457	15,702	20,960	24,168	28,240
AEPS (INR)	173.6	85.9	*102.0*	151.7	*14.4*	357.6	435.2	580.9	669.8	782.7
EV/EBITDA (x)						29.5	21.2	19.6	17.3	14.6
EV/MT (INR bn)						19.75	18.51	17.37	17.24	15.37
P/E (x)						65.3	51.8	38.8	33.7	28.8
RoE (%)						13.5	13.9	15.2	15.4	15.8

Source: Company, HSIE Research

ADD

CMP *(as on 29 Jan 2021)*	22,749
Target Price	25,500
NIFTY	13,635

KEY CHANGES	OLD	NEW
Rating	REDUCE	ADD
Price Target	25,500	25,500
EBITDA %	FY21E	FY22E
	-	-

KEY STOCK DATA	
Bloomberg code	SRCM IN
No. of Shares (mn)	36
MCap (INR bn) / ($ mn)	821/11,252
6m avg traded value (Rs mn)	1,529
52 Week high / low	Rs 25,980/15,410

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	4.9	4.6	(3.1)
Relative (%)	(11.5)	(17.0)	(15.4)

SHAREHOLDING PATTERN (%)	Sep-20	Dec-20
Promoters	62.55	62.55
FIs & Local MFs	11.54	11.04
FPIs	11.37	12.18
Public & Others	14.54	14.20
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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ACC

Profits surge on healthy pricing

During 4QCY20, strong pricing in south and stable opex drove ACC's consolidated revenue/EBITDA/APAT by 2/30/65% YoY to INR 41.4/7.0/4.5 bn respectively. ACC commissioned its 1.4mn MT Sindri grinding unit in Jan'21 and expects to commission the greenfield plants (4.8mn MT) in central region by mid-2022, thus boosting its volume growth outlook. We maintain BUY rating on the stock with a revised TP of INR 1,985/share (10x Dec'22 Consolidated EBITDA).

- **4QCY20 key highlights**: Cement volumes fell 1% YoY constrained by capacity ex-south. NSR remained 5% higher YoY despite a 4% QoQ fall (mainly in east and south markets). Unitary opex (adjusted for one-off) rose 1% QoQ (stable YoY) on higher slag and fuel prices. Thus, unitary EBITDA rose 40% YoY to INR 844/MT. RMC division's sales volume/revenue/ EBITDA fell 22/21/32% YoY to 0.73 cbm/INR 3.1bn/INR 0.5bn respectively on lower demand in the infrastructure segment.
- **Outlook**: During CY20, ACC generated OCF of INR 22.2bn (flat YoY) and spent INR 7.5bn in capex (vs INR 4.9bn YoY). It has accelerated capex spent 4QCY20 towards its ongoing expansions. In Jan'21, ACC commissioned 1.4mn MT SGU in Sindri (Jharkhand). It expects to commission its greenfield plants in central market (4.8mn MT) by mid-2021. This should boost its volume growth outlook CY22 onwards. We have marginally increased CY21/22E EBITDA estimates by 1/6% respectively. We maintain BUY rating on the stock with a revised TP of INR 1,985/share (10x Dec'22 Consolidated EBITDA).

Consolidated Financial Summary

YE Mar (INR mn)	Q4 CY20	Q4 CY19	*YoY (%)*	Q3 CY20	*QoQ (%)*	CY19	CY20	CY21E	CY22E	CY23E
Sales (mn MT)	7.7	7.8	*(0.6)*	6.5	*18.8*	28.9	25.5	30.4	32.5	37.0
NSR (INR/MT)	4,970	4,731	*5.0*	5,148	*(3.5)*	4,907	5,023	4,985	5,056	5,098
Opex (INR/MT)	4,126	4,128	*(0.1)*	4,077	*1.2*	4,124	4,063	4,121	4,148	4,187
EBITDA (INR/MT)	844	603	*40.0*	1,071	*(21.1)*	782	960	864	908	911
Net Sales	41,447	40,603	*2.1*	35,373	*17.2*	156,576	137,860	166,442	180,859	206,638
EBITDA	7,008	5,410	*29.5*	6,714	*4.4*	24,128	24,840	27,464	31,105	35,523
APAT	4,509	2,733	*65.0*	3,639	*23.9*	12,782	14,088	15,247	17,615	19,197
AEPS (INR)	24.0	14.5	*65.0*	19.4	*23.9*	68.1	75.0	81.2	93.8	102.2
EV/EBITDA (x)						10.0	11.0	10.2	8.7	7.5
EV/MT (INR bn)						7.29	8.23	8.11	6.93	6.76
P/E (x)						22.5	23.5	21.7	18.8	17.3
RoE (%)						11.6	11.6	11.6	12.5	12.6

Source: Company, HSIE Research

Estimates Revision Consolidated

INR Bn	CY21E Old	CY21E Revised	*Chg%*	CY22E Old	CY22E Revised	*Chg%*
Net Revenues	160.2	166.4	*3.9*	169.0	180.9	*7.0*
EBITDA	27.1	27.5	*1.2*	29.3	31.1	*6.1*
APAT	15.0	15.2	*1.9*	16.3	17.6	*8.0*
AEPS	79.7	81.2	*1.9*	86.8	93.8	*8.0*

Source: Company, HSIE Research

BUY

CMP *(as on 12 Feb 2021)*	INR 1,764
Target Price	INR 1,985
NIFTY	15,163

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 1,855	INR 1,985
EBITDA %	CY21E *1.2*	CY22E *6.1*

KEY STOCK DATA

Bloomberg code	ACC IN
No. of Shares (mn)	188
MCap (INR bn) / ($ mn)	332/4,558
6m avg traded value (INR mn)	2,251
52 Week high / low	INR 1,814/895

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	5.4	25.5	21.9
Relative (%)	(13.5)	(8.8)	(2.1)

SHAREHOLDING PATTERN (%)

	Sep-20	Dec-20
Promoters	54.53	54.53
FIs & Local MFs	25.61	20.68
FPIs	6.60	11.55
Public & Others	13.26	13.24
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Dalmia Bharat

Robust show continues

Dalmia Bharat (DBEL) reported a strong 3QFY21 performance, led by robust volume growth (production ramp-up in east), healthy pricing (south-led) and continued cost controls. DBEL continues to gain market share in both east and south regions. Consolidated net sales/EBITDA grew 18/51% YoY to INR 28.6/6.9n respectively. DBEL has also used its cash balance to reduce debt. We continue to like the company for its continued strong volume and margin performance. Despite major ongoing expansions, the balance sheet remains well under control. We maintain our BUY rating on the stock with a revised target price of INR 1,470 (10.5x Dec'22E consolidated EBITDA).

- **Strong sales growth on capacity ramp-up in east**: DBEL's sales volume firmed up 14/21% YoY/QoQ to 5.8 mn MT. This is led by strong production ramp-up in the east (new Odisha clinker line 70% utilisation, Kalyanpur at 62%) and better-than-industry performance in south. Despite 2% QoQ fall, NSR remained 4% up YoY, aided by continued healthy pricing in south markets. DBEL's trade: non-trade mix stood at 65:35%.
- **Healthy margin:** Despite DBEL's slag and pet coke prices rising 10/18% QoQ, overall input cost remained flattish. Freight cost went up only 1% YoY, despite ~15% YoY rise in diesel prices. In addition to efficiency gains, better fixed cost controls, overall opex fell 3% YoY, boosting unitary EBITDA by 33% YoY to INR 1,191/MT. Robust volume and margin performance led to consolidated EBITDA rise by 51% YoY. On a low base, APAT rose 6.6x.
- **Capex and balance sheet:** During 3QFY21, SRCM started commercial production from its 3mn MT clinker expansion in Odisha. It also debottlenecked grinding capacity at various locations by 2mn MT. DBEL's pending 8mn MT SGUs and Murli plant will become operational between 4FY21 and FY23E, taking its total capacity to 38mn MT. DBEL has continued to liquidate cash to reduce its debt on books. Thus, gross debt fell 13% YoY to INR 45.9bn. Net debt/EBITDA (ex IEX and MFs) remained comfortable at 1.2x vs 1.3x YoY, despite ongoing expansion.
- **Outlook**: We continue to like DBEL for its continued strong volume and margin performance. Despite major ongoing expansions, DBEL's balance sheet remains well under control. We increase EBITDA estimates for FY21/22/23E by 8/5/6%, factoring-in higher volume growth. We maintain our BUY rating on the stock with a revised target price of INR 1,470 (10.5x Dec'22E consolidated EBITDA).

Consolidated Quarterly/Annual Financial summary

YE Mar (INR mn)	Q3 FY21	Q3 FY21	*YoY (%)*	Q2 FY21	*QoQ (%)*	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	28,570	24,180	*18.2*	24,100	*18.5*	94,660	95,810	103,534	115,033	128,372
EBITDA	6,910	4,570	*51.2*	7,020	*(1.6)*	19,240	21,050	26,388	25,498	28,568
APAT	1,820	240	*658.3*	2,320	*(21.6)*	2,900	2,230	7,284	5,514	7,652
AEPS (INR)	9.7	1.2	*682.8*	12.4	*(21.6)*	15.0	11.6	39.0	29.6	41.0
EV/EBITDA (x)						14.2	12.8	10.1	10.1	8.5
EV/MT (INR bn)						10.4	10.3	8.8	7.2	6.4
P/E (x)						78.5	102.1	31.3	41.3	29.8
RoE (%)						*2.8*	*2.1*	*6.8*	*4.9*	*6.5*

Source: Company, HSIE Research

BUY

CMP *(as on 5 Feb 2021)*	INR 1,240
Target Price	INR 1,470
NIFTY	14,924

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	1,385	1,470
EBITDA %	FY21E	FY22E
	8.4	*5.0*

KEY STOCK DATA

Bloomberg code	DALBHARA IN
No. of Shares (mn)	187
MCap (INR bn) / ($ mn)	232/3,177
6m avg traded value (INR mn)	192
52 Week high / low	INR 1,305/403

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	42.1	60.6	40.1
Relative (%)	19.4	25.9	16.8

SHAREHOLDING PATTERN (%)

	Sep-20	Dec-20
Promoters	56.07	56.07
FIs & Local MFs	3.64	3.93
FPIs	14.22	13.53
Public & Others	26.07	26.47
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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The Ramco Cements

Industry-leading margin despite lower utilisation

The Ramco Cements (TRCL) reported a strong 3QFY21 performance. Standalone net sales/EBITDA/APAT grew 5/96/112% YoY to INR 13.4/4.0/2.0bn respectively. While weak demand in south pulled down sales volume by 8% YoY, unitary EBITDA doubled to industry-leading INR 1,508/MT on buoyant pricing in south, TRCL's large retail focus (90% of sales) and continued cost controls. We like TRCL for its large retail focus and superior cost controls that continue to support its industry-leading margin. Upcoming expansions should bolster volume growth FY22 onwards. We maintain our ADD rating with an unchanged target price of INR 908/share (12x its standalone Dec'22E EBITDA).

- **Key highlights - 3QFY21**: Sales volume fell 8% YoY to 2.61 mn MT on continued weak demand and heavy monsoon in south and on retail focus of the company (90% trade). However, TRCL registered growth in the east. Cement utilisation fell to 54% vs 65% YoY. NSR fell 8% QoQ on slower sales growth QoQ in high-realisation south markets. Despite this, NSR stood 13% higher YoY. Unitary EBITDA doubled YoY to INR 1,508/MT (down-20% QoQ), riding on strong realisation gains YoY and 5% opex fall. TRCL continues to benefit from low-cost fuel inventory while freight costs went up on rising diesel price. Unitary fixed cost fell 8% YoY on strong fixed cost controls. TRCL's gross debt went up 16/6% YoY/QoQ to INR 31.1bn, owing to the ongoing capex. However, interest cost fell 26% YoY, on lower interest rate and interest cost capitalisation.
- **Capex updates and outlook**: TRCL spent INR 4.8/11.7bn during 3Q/9MFY21, towards its ongoing Capex. Its 9MW WHRS in Jayanthipuram is expected to be operational in Feb'21. In 1QFY22, TRCL expects to commission the clinkering unit of 1.5mn MT along with 9MW WHRS in Jayanthipuram and 2.25 mn MT clinkering unit in Kurnool. Thereafter, its 1mn MT cement grinding, 12MW of WHRS, and 18MW of TPP in Kurnool are expected during FY22E. The pending Capex amount stands at INR 5.4 bn. We maintain our ADD rating with an unchanged target price of INR 908/share (12x its standalone Dec'22E EBITDA).

Standalone Quarterly/Annual Financial summary

YE Mar (INR mn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Sales (mn MT)	2.6	2.8	*(8.1)*	2.2	*18.1*	11.1	11.2	9.9	11.8	13.6
NSR (INR/MT)	5,090	4,487	*13.4*	5,550	*(8.3)*	4,581	4,740	5,119	5,114	5,235
Opex (INR/MT)	3,582	3,762	*(4.8)*	3,658	*(2.1)*	3,687	3,759	3,726	3,790	3,821
EBITDA(INR/MT)	1,508	726	*107.8*	1,892	*(20.3)*	895	981	1,392	1,324	1,414
Net Sales	13,391	12,780	*4.8*	12,570	*6.5*	51,564	53,684	50,988	61,149	71,876
EBITDA	3,970	2,029	*95.7*	4,420	*(10.2)*	10,365	11,367	14,039	16,092	19,667
APAT	2,014	948	*112.3*	2,358	*(14.6)*	5,151	6,012	7,247	7,743	10,502
AEPS (INR)	8.5	4.0	*112.0*	10.0	*(14.6)*	21.9	25.5	30.8	32.9	44.6
EV/EBITDA (x)						21.0	20.4	16.6	14.0	11.3
EV/MT (INR bn)						13.1	12.4	11.8	10.8	10.6
P/E (x)						39.4	33.8	28.0	26.2	19.3
RoE (%)						12.1	12.8	13.8	13.1	15.6

Source: Company, HSIE Research

ADD

CMP *(as on 3 Feb 2021)*	**INR 862**
Target Price	**INR 908**
NIFTY	**14,790**

KEY CHANGES	**OLD**	**NEW**
Rating	ADD	ADD
Price Target	INR 908	INR 908
EBITDA %	FY21E -	FY22E -

KEY STOCK DATA	
Bloomberg code	TRCL IN
No. of Shares (mn)	236
MCap (INR bn) / ($ mn)	203/2,782
6m avg traded value (INR mn)	674
52 Week high / low	INR 903/455

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	4.1	27.3	8.8
Relative (%)	(20.8)	(8.7)	(17.2)

SHAREHOLDING PATTERN (%)	**Sep-20**	**Dec-20**
Promoters	42.62	42.61
FIs & Local MFs	23.64	22.87
FPIs	7.55	8.03
Public & Others	26.19	26.49
Pledged Shares	4.89	26.49

Source : BSE

Pledged shares as % of total shares

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JK Cement

Both segments continue to perform

JK Cement delivered strong volume growth across both grey (+25% YoY) and white/putty (+17% in India) segments, gaining market share. Healthy realization across both segments and increased grey cement productivity (from new capacity) drove margin expansion. Subsequently, consolidated Revenue/EBITDA/APAT rose 25/56/75% YoY to Rs 18.3/4.5/2.2bn resp. We continue to like JKCE for its continued healthy traction across both its segments. We maintain BUY rating on the stock with a revised target price of INR 2,545/share (10.5x Dec'22E consolidated EBITDA).

- **3QFY21 performance**: Grey cement volumes rose 25% YoY on production ramp-up from new expansions in north. NSR growth remained firm at 4%. In our view, grey segmental unitary EBITDA rose 60% YoY to INR 1,040/MT, on healthy pricing and lower opex. Grey EBITDA thus doubled YoY to INR 2.9bn. In the white/putty segment strong 17% YoY domestic volume uptick boosted total segmental volumes by 10% YoY, driving up segmental EBITDA by ~13% YoY to INR 1.6bn. Strong fixed costs controls and higher utilisation across both business segments and increased efficiencies from new grey cement plants offset impact of rising fuel prices.
- **Capex update and Outlook**: JKCE expects to complete clinker debottlenecking in Rajasthan by 2QFY22. Its 4mn MT green-field expansion in Panna, MP (INR 29.5bn capex) is expected to be completed by 1HFY24E. In the interim, capacity expansions across both grey and white/putty segments will continue to drive volume growth and margin expansion. We raise our FY21E/22E/23E EBITDA estimates by 3/4/4% respectively on strong volume and cost performance. We maintain BUY on JKCE with a higher target price of INR 2,545/sh (10.5x Dec'22E consolidated EBITDA).

Consolidated Financial Summary

YE Mar (INR mn)	Q3 FY21	Q3 FY20	*YoY (%)*	Q2 FY21	*QoQ (%)*	FY19	FY20	FY21E	FY22E	FY23E
Sales (mn MT)*	3.26	2.66	*22.5*	2.93	*11.2*	10.2	10.2	11.4	12.7	14.4
NSR (INR/MT)*	5,622	5,533	*1.6*	5,575	*0.8*	5,155	5,666	5,491	5,628	5,749
Opex (INR/MT)*	4,240	4,444	*(4.6)*	4,103	*3.3*	4,337	4,481	4,176	4,253	4,312
EBITDA (INR/MT)*	1,381	1,088	*26.9*	1,471	*(6.1)*	818	1,185	1,315	1,375	1,437
Net Sales	18,327	14,718	24.5	16,344	12.1	52,587	58,016	62,631	71,287	83,010
EBITDA	4,503	2,895	55.5	4,314	4.4	8,345	12,134	14,998	17,415	20,745
APAT	2,194	1,255	74.8	2,217	(1.1)	2,703	4,964	6,510	8,061	10,625
AEPS (INR)	28.4	16.2	74.8	28.7	(1.1)	35.0	64.2	84.2	104.3	137.5
EV/EBITDA (x)						23.4	16.5	13.2	11.4	9.4
EV/MT (INR bn)						13.29	11.0	10.2	10.2	10.0
P/E (x)						64.8	35.3	26.9	21.7	16.5
RoE (%)						11.6	17.4	19.7	20.4	22.2

Source: Company, HSIE Research, *Quarterly numbers are blended

Estimates Revision Consolidated

INR Bn	FY21E Old	FY21E Revised	*Chg%*	FY22E Old	FY22E Revised	*Chg%*	FY23E Old	FY23E Revised	*Chg%*
Net Revenues	62.3	62.6	*0.5*	70.9	71.3	*0.5*	82.6	83.0	*0.5*
EBITDA	14.5	15.0	*3.3*	16.8	17.4	*3.5*	20.0	20.7	*4.0*
APAT	6.2	6.5	*5.2*	7.6	8.1	*5.5*	10.0	10.6	*6.3*
AEPS	80.1	84.2	*5.2*	98.8	104.3	*5.5*	129.4	137.5	*6.3*

Source: Company, HSIE Research

BUY

CMP *(as on 9 Feb 2021)*	**INR 2,268**
Target Price	**INR 2,545**
NIFTY	**15,109**

KEY CHANGES	**OLD**	**NEW**
Rating	BUY	BUY
Price Target	INR 2,450	INR 2,545
EBITDA %	FY21E	FY22E
	3.3	*3.5*

KEY STOCK DATA	
Bloomberg code	JKCE IN
No. of Shares (mn)	77
MCap (INR bn) / ($ mn)	175/2,403
6m avg traded value (INR mn)	249
52 Week high / low	INR 2,385/795

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	21.4	44.9	59.5
Relative (%)	0.9	9.9	34.8

SHAREHOLDING PATTERN (%)	**Sep-20**	**Dec-20**
Promoters	58.07	57.74
FIs & Local MFs	23.29	21.64
FPIs	13.95	15.41
Public & Others	4.69	5.21
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Birla Corporation

Margin buoyancy continues

Birla Corp's (BCORP) 3QFY21 consolidated revenue/EBITDA/APAT surged 4/23/83% YoY to Rs 17.77/3.62/1.50bn respectively, led by healthy realisation and lower opex. Thus, unitary EBITDA firmed up 19% YoY to Rs 998/MT. We continue to prefer BCORP in the mid-cap space for its large retail presence in the northern/central markets and ongoing opex reduction. Further, the ongoing expansion will increase its capacity to 21mn MT by 1QFY23, boosting volume growth visibility. We maintain BUY with an unchanged target price of Rs 1,371 (8.5x Dec'22E consolidated EBITDA).

- **Strong margin sustained in 3QFY21**: Sales volume picked up 3% YoY (in-line our estimates), mainly driven by higher sales in the central region. The share of premium cement sales increased to 53% vs 41% YoY. NSR stood 1% higher despite 2% QoQ dip. Adjusted for Rs 326mn write-off of certain receivables from the government, opex went up 1% QoQ, mainly led by fuel and diesel price increase. It still remained 3% lower YoY, bolstering unitary EBITDA by 19% YoY to Rs 998/MT (our estimate Rs 953/MT).
- **Capex updates and outlook**: BCORP noted that its 0.6mn MT clinker expansion in Rajasthan, 4mn MT Greenfield plant in Maharashtra, and 1.2mn MT SGU expansion in UP will get commissioned by 1QFY22, 3QFY22 and 1QFY23 respectively. These will bolster its volume growth FY22 onwards. We continue to prefer BCORP in the mid-cap space for its extensive retail presence in the north/central regions, substantial ongoing opex reduction initiatives, and stable balance sheet outlook despite significant expansion. We maintain our estimates and target price of Rs 1,371/share (8.5x Dec'22E consolidated EBITDA). We reiterate our BUY rating on the stock.

Consolidated Quarterly/Annual Financial summary

YE Mar (Rs mn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Sales (mn MT)	3.55	3.44	*3.2*	3.26	*8.9*	13.6	13.6	12.8	15.0	18.8
NSR (Rs/MT)	4,765	4,719	*1.0*	4,875	*(2.3)*	4,551	4,819	4,849	4,781	4,887
Opex (Rs/MT)	3,767	3,881	*(3.0)*	3,722	*1.2*	3,870	3,857	3,862	3,782	3,876
EBITDA(Rs/MT)	998	837	*19.2*	1,153	*(13.4)*	680	962	987	998	1,011
Net Sales	17,766	17,151	*3.6*	16,543	*7.4*	65,487	69,157	64,735	72,445	85,257
EBITDA	3,624	2,946	*23.0*	3,827	*(5.3)*	9,487	13,360	12,751	14,753	17,307
APAT	1,495	815	*83.4*	1,666	*(10.3)*	2,558	5,052	4,456	4,980	5,977
AEPS (Rs)	19.4	10.6	*83.4*	21.6	*(10.3)*	33.2	65.6	57.9	64.7	77.6
EV/EBITDA (x)						9.4	6.7	7.6	6.5	5.5
EV/MT (Rs bn)						5.69	5.71	6.21	4.89	4.57
P/E (x)						21.9	11.1	12.6	11.3	9.4
RoE (%)						7.2	13.2	10.7	10.0	10.2

Source: Company, HSIE Research

BUY

CMP *(as on 22 Jan 2021)*	**Rs 728**
Target Price	**Rs 1,371**
NIFTY	**14,372**

KEY CHANGES	**OLD**	**NEW**
Rating	BUY	BUY
Price Target	Rs 1,371	Rs 1,371
EBITDA %	FY21E	FY22E
	-	-

KEY STOCK DATA	
Bloomberg code	BCORP IN
No. of Shares (mn)	77
MCap (Rs bn) / ($ mn)	56/761
6m avg traded value (Rs mn)	192
52 Week high / low	Rs 808/372

STOCK PERFORMANCE (%)

	3M	**6M**	**12M**
Absolute (%)	13.1	28.8	(2.7)
Relative (%)	(7.5)	(0.2)	(21.6)

SHAREHOLDING PATTERN (%)

	Sep-20	**Dec-20**
Promoters	62.90	62.90
FIs & Local MFs	15.15	13.59
FPIs	3.38	3.80
Public & Others	18.57	19.71
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Heidelberg Cement

Major maintenance work inflated opex during 3Q

Heidelberg Cement's (HEIM) 3QFY21 revenue grew by 9% YoY to INR 5.95bn led by both higher sales volume and realisation. However, EBITDA came in flat YoY at INR 1.20bn as input cost inflated (due to OLBC maintenance work at Damoh). Further, the higher tax outgo led to APAT falling 2% YoY to INR 0.64bn. Net cash balance increased to INR 2.2bn in Dec'20 vs net debt of INR 71mn in Mar'20. We continue to like HEIM for its retail presence in the lucrative central market, increased volume growth visibility and a net cash balance sheet. We maintain BUY with an unchanged target price of INR 266/share (8.5x Dec'22E EBITDA).

- **Results highlights**: Sales volume grew 4/15% YoY/QoQ to 1.27mn MT. Utilisation for the quarter was at 80% (on expanded capacity after de-bottlenecking) vs 92% YoY. NSR firmed up 1% QoQ, on ~80% QoQ rise in premium cement sales, thus driving up NSR 4% YoY. Unitary opex rose 7/7% QoQ/YoY, led by a sharp increase in unitary input costs as major maintenance work of OLBC at Damoh (taken up in two parts, second work to happen in 1HFY22) inflated costs by ~INR 100/MT (one off). Thus, unitary EBITDA fell 3/17% YoY/QoQ to INR 947/MT, leading to a flat EBITDA YoY (down 5% QoQ). Interest expense continued to fall, now down 35% YoY, driven by continued debt reduction. Other income and depreciation rose marginally YoY. Tax rate rose to 31% vs 25% YoY. APAT, hence, fell 2% YoY due to higher tax outgo. Net cash balance rose to INR 2.2bn in Dec'20 vs net debt of INR 71mn in Mar'20. Amid low capex spend and working capital controls.
- **Outlook**: We maintain our earnings estimates. We expect HEIM to deliver 7% CAGR during FY20-23E, on ramp-up of its recent capacity enhancements. Along with a strong margin, this should drive 9% EBITDA CAGR, sustaining its superior profitability. HEIM is working on increased AFR usage in its MP plant and will also debottleneck its clinker capacity by 1mn MT. Its Greenfield expansion in Gujarat is at least three years away. We maintain our BUY rating with an unchanged target price of INR 266/sh (8.5x Dec'22E EBITDA).

Financial Summary

YE Mar (INR mn)	Q3 FY21	Q3 FY20	YoY (%)	Q2 FY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Sales (mn MT)	1.27	1.22	3.8	1.11	14.5	4.9	4.7	4.6	5.4	5.8
NSR (INR/MT)	4,691	4,485	4.6	4,637	1.2	4,356	4,611	4,600	4,669	4,739
Opex (INR/MT)	3,744	3,504	6.9	3,500	7.0	3,369	3,490	3,520	3,508	3,564
EBITDA (INR/MT)	947	981	(3.4)	1,137	(16.7)	987	1,122	1,080	1,161	1,175
Net Sales	5,953	5,485	8.5	5,138	15.9	21,334	21,696	21,160	25,129	27,291
EBITDA	1,202	1,200	0.2	1,260	(4.6)	4,833	5,278	4,970	6,249	6,767
APAT	636	646	(1.5)	624	2.0	2,207	2,681	2,378	3,370	3,524
AEPS (INR)	2.8	2.9	(1.5)	2.8	2.0	9.7	11.8	10.5	14.9	15.6
EV/EBITDA (x)						11.2	9.8	10.1	8.1	7.6
EV/MT (INR bn)						10.41	8.27	8.02	8.11	8.22
P/E (x)						23.4	19.3	21.7	15.3	14.7
RoE (%)						19.9	21.6	17.4	22.3	20.6

Source: Company, HSIE Research

BUY

CMP *(as on 11 Feb 2021)*	INR 228
Target Price	INR 266
NIFTY	15,173

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 266	INR 266
EBITDA %	FY21E	FY22E
	-	-

KEY STOCK DATA	
Bloomberg code	HEIM IN
No. of Shares (mn)	227
MCap (INR bn) / ($ mn)	52/710
6m avg traded value (INR mn)	91
52 Week high / low	INR 244/120

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	19.9	25.9	11.5
Relative (%)	1.7	(8.3)	(13.6)

SHAREHOLDING PATTERN (%)	Sep-20	Dec-20
Promoters	69.39	69.39
FIs & Local MFs	6.74	7.10
FPIs	8.76	9.25
Public & Others	15.11	14.26
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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JK Lakshmi Cement

Strong volume growth

In 3QFY21, JKLC's standalone revenue/EBITDA/APAT firmed up 19/26/108% YoY to INR 11.93/1.92/1.02bn respectively, buoyed by strong volume growth, stable realisation, and lower interest and tax outgo. Both standalone and consolidated unitary EBITDA rose ~10% each to INR 712/MT and INR 815/MT respectively. We continue to like JKLC for its continued deleveraging and asset sweating. We maintain our earnings estimates and BUY rating, with revised SOTP-based target price of INR 460/sh.

- **Key highlights- 3QFY21**: JKLC's (standalone) cement sales volume firmed up 16% YoY to 2.7mn MT, aided by higher sales in Rajasthan and Gujarat. Higher sales in these markets also buoyed NSR 2.5% YoY. Trade: Non-trade sales mix stood at 50:50%. However, the benefits of NSR gain got moderated by higher share of purchased-sales, diesel prices and fixed costs. Thus, unitary EBITDA went up 9% YoY to INR 712/MT and EBITDA rose 26% YoY. Lower gross debt (down 10% YoY), higher cash balance (2x rise), and lower tax rate (20% vs 35%) further drove APAT 108% up. JKLC's subsidiary Udaipur Cement (UCWL) also reported similar unitary EBITDA of INR 721/MT. Adjusted for inter-unit sales, consolidated unitary EBITDA stood at ~INR 815/MT (+10% YoY). Standalone/consolidated net debt stood at INR 5.5/10.2bn respectively. JKLC guided healthy volume growth outlook for 4QFY21. It also expects the full impact of the surge in pet coke prices on its fuel cost to be seen from 1QFY22E.
- **Capex updates and outlook**: JKLC will be commissioning 15MW WHRS at Sirohi by Oct'21. Udaipur Cement's clinker/cement capacity will increase by 0.3/0.5mn MT by Mar'21 (debottlenecking). By 4QFY24, JKLC expects to increase UCWL's clinker/cement capacity by another 1.5/2.5 mn MT (brownfield expansion), incurring ~Rs 14bn capex. UCWL will both borrow and raise equity (through rights issue) to fund the expansion. We continue to like JKLC for its continued deleveraging and asset sweating. WHRS ramp-up will also lead to margin expansion. We maintain our earnings estimates and maintain BUY with revised SOTP-based target price of INR 460/sh. We value the standalone cement business at 8x Dec'22E and JKLC's 72.5% holding in UCWL at a 20% discount to current Mcap.

Standalone Quarterly/Annual Financial summary

YE Mar (INR mn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Sales (mn MT)	2.7	2.3	*15.8*	2.4	*13.0*	9.7	9.2	9.8	10.1	10.8
NSR (INR/MT)	4,426	4,319	*2.5*	4,381	*1.0*	4,023	4,403	4,270	4,368	4,456
Opex (INR/MT)	3,714	3,666	*1.3*	3,598	*3.2*	3,593	3,671	3,595	3,681	3,701
EBITDA(INR/MT)	712	653	*9.0*	783	*(9.1)*	430	732	674	687	756
Net Sales	11,928	10,050	*18.7*	10,448	*14.2*	38,823	40,435	41,813	43,909	47,912
EBITDA	1,918	1,519	*26.3*	1,867	*2.7*	4,151	6,724	6,604	6,908	8,125
APAT	1,023	492	*108.1*	806	*27.0*	796	2,554	2,549	2,604	2,880
AEPS (INR)	8.7	4.2	*108.1*	6.8	*27.0*	6.8	21.7	21.7	22.1	24.5
EV/EBITDA (x)						12.9	7.6	7.8	7.6	7.1
EV/MT (INR bn)						4.91	4.39	4.38	4.49	4.08
P/E (x)						51.7	16.1	16.2	15.8	14.3
RoE (%)						5.4	15.8	13.9	12.5	12.3

Source: Company, HSIE Research

BUY

CMP *(as on 02 Feb 2021)*	INR 350
Target Price	INR 460
NIFTY	14,648

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	445	460
	FY21E	FY22E
EBITDA %	-	-

KEY STOCK DATA	
Bloomberg code	JKLC IN
No. of Shares (mn)	118
MCap (INR bn) / ($ mn)	41/566
6m avg traded value (Rs mn)	117
52 Week high / low	Rs 369/180

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	24.5	19.2	3.6
Relative (%)	(0.8)	(13.2)	(21.7)

SHAREHOLDING PATTERN (%)	Sep-20	Dec-20
Promoters	46.21	46.21
FIs & Local MFs	23.57	23.86
FPIs	9.92	10.65
Public & Others	20.30	19.28
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Star Cement

Regional disruptuion hits volume

Star Cement's 3QFY21 performance was hit by logistic disruptions in Meghalaya which pulled down sales and inflated its opex. Thus, consolidated Revenue/EBITDA/APAT fell 6/11/26% YoY to INR 4.23/0.84/0.53 bn respectively. As the disruption is expected to continue until mid-Feb'21, even 4Q profits will remain impacted. Star's newly commissioned Siliguri plant will reduce its costs of sales for outside-NE region. Strong balance sheet will support Star's planned expansions in NE region. We maintain our BUY rating with an unchanged target price of INR 125 (9x its Dec'22 Consol EBITDA).

- **Key highlights**: Logistic disruption in Meghalaya during the second half of 3QFY21 pulled down Star's total sales volume by 8% YoY. Star's cement sales in NE region rose 1% YoY while its sales outside NE fell 32% YoY. While, cement prices fell QoQ across both the markets, reported NSR stood flat QoQ (+4% YoY) owing to increased sales in the high-realisation NE markets in 3Q. Unitary Opex went up 5% YoY led by higher input costs and negative op-lev arising out of lower sales. Subsequently, unitary EBITDA declined 3% YoY to INR 1,213/MT. Star expensed INR 646mn (pre-tax, one off) in 3Q, on reversal of its earlier claim of 50% excise refund made in 2012.
- **Capex and Outlook**: Star will add a 13MW WHRS in Meghalaya by end of FY23E. It is also working on a 2mn MT clinker expansion in Meghalaya (expected in FY24E) to support its recent 2mn MT grinding expansion in Siliguri. The Siliguri plant will increase Star's sales outside the NE region and will also lower its opex in these markets 4QFY21 onwards. We maintain our earnings estimates and BUY rating on the stock with an unchanged target price of INR 125/share (9x its Dec'22 Consol EBITDA).

Consolidated Financial Summary

YE Mar (INR mn)	Q3 FY21	Q3 FY20	*YoY (%)*	Q2 FY21	*QoQ (%)*	FY19	FY20	FY21E	FY22E	FY23E
Sales (mn MT)	0.71	0.79	*(9.6)*	0.68	*5.0*	2.9	3.0	2.8	3.7	4.3
NSR (INR/MT)	5,947	5,725	*3.9*	5,929	*0.3*	6,098	5,912	5,853	5,770	5,728
Opex (INR/MT)	4,768	4,533	*5.2*	4,764	*0.1*	4,602	4,645	4,697	4,473	4,374
EBITDA (INR/MT)	1,213	1,251	*(3.0)*	1,218	*(0.4)*	1,570	1,337	1,193	1,306	1,355
Net Sales	4,234	4,512	*(6.1)*	4,019	*5.4*	18,310	18,439	16,893	21,584	24,464
EBITDA	840	940	*(10.7)*	789	*6.4*	4,492	3,951	3,336	4,850	5,785
APAT	531	712	*(25.5)*	616	*(13.9)*	2,988	2,856	2,209	3,412	4,061
AEPS (INR)	1.3	1.7	*(26.7)*	1.5	*(13.9)*	7.1	6.9	5.4	8.3	9.8
EV/EBITDA (x)						8.8	9.6	11.7	8.1	7.0
EV/MT (INR bn)						10.65	10.55	9.05	7.96	7.54
P/E (x)						13.4	14.0	18.1	11.7	9.9
RoE (%)						*17.9*	*15.4*	*11.2*	*16.0*	*17.1*

Source: Company, HSIE Research

BUY

CMP *(as on 9 Feb 2021)*	**INR 96**
Target Price	**INR 125**
NIFTY	**15,109**

KEY CHANGES	**OLD**	**NEW**
Rating	BUY	BUY
Price Target	INR 125	INR 125
	FY21E	FY22E
EBITDA %	-	-

KEY STOCK DATA	
Bloomberg code	STRCEM IN
No. of Shares (mn)	412
MCap (INR bn) / ($ mn)	40/546
6m avg traded value (INR mn)	44
52 Week high / low	INR 108/56

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	12.9	8.7	9.6
Relative (%)	(7.6)	(26.2)	(15.2)

SHAREHOLDING PATTERN (%)	**Sep-20**	**Dec-20**
Promoters	67.17	67.11
FIs & Local MFs	8.29	8.05
FPIs	0.18	0.09
Public & Others	24.36	24.75
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Orient Cement

Strong in-line performance

Orient Cement (ORCMNT) reported a solid 3QFY21 (in line with our estimates). Strong pricing and fuel mix optimisation more than offset impact of sales loss, mainly in Telangana. Thus, revenue/EBITDA grew 7/149% YoY to Rs 6.05/1.37 bn. Lower depreciation further boosted APAT to Rs 539mn vs net loss of Rs 57mn YoY. We continue to like ORCMNT for its efficient opex and balance sheet focus. We maintain our BUY rating on the stock with an unchanged target price of Rs 117sh (7x Dec'22E EBITDA).

- **Key highlights**: Orient's sales volume fell 8% YoY, dragged by continued contraction in project demand, particularly in Telangana. NSR remained firm at +17% YoY, despite 5% QoQ cool off. Orient's fuel mix optimisation and efficiency gains offset the impact of high diesel prices and lower utilisation. Thus, opex remained flat YoY. Unitary EBITDA remained firm at Rs 1,006/MT (+171% YoY), on solid pricing gains. Amid low Capex spends and better WC controls, Orient used its cash flow to reduce gross/net debt over the past nine months by 25/30% to Rs 9/8.2bn respectively. Orient is debottlenecking its Telangana grinding capacity by 0.5 mn MT (by 1QFY22), adding 13MW solar power plant in Maharashtra through JV (by 2QFY23) and setting up 10MW WHRS in Karnataka (by 2QFY23). It is also planning to add a 2mn MT green-field grinding unit (by end FY23). The plant location is not yet finalized.
- **Outlook**: We maintain our earnings estimates. We like ORCMNT for its improved cost efficiencies (which is bolstering its profit outlook), and balance sheet focus. We maintain our BUY rating on the stock with an unchanged target price of Rs 117sh (7x Dec'22E EBITDA).

Quarterly/Annual Financial summary

YE Mar (Rs mn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Sales (mn MT)	1.4	1.5	*(8.1)*	1.0	*33.1*	6.4	5.8	4.9	5.8	6.3
NSR (Rs/MT)	4,449	3,817	*16.6*	4,677	*(4.9)*	3,933	4,171	4,609	4,402	4,446
Opex (Rs/MT)	3,443	3,445	*(0.1)*	3,568	*(3.5)*	3,447	3,512	3,634	3,675	3,688
EBITDA(Rs/MT)	1,006	372	*170.7*	1,109	*(9.3)*	487	659	975	727	758
Net Sales	6,046	5,645	*7.1*	4,775	*26.6*	25,222	24,218	22,747	25,633	28,220
EBITDA	1,367	550	*148.7*	1,132	*20.7*	3,120	3,829	4,813	4,231	4,811
APAT	539	(57)		348	*54.8*	476	866	1,554	1,286	1,645
AEPS (Rs)	2.6	(0.3)		1.7	*54.8*	2.3	4.2	7.6	6.3	8.0
EV/EBITDA (x)						9.6	7.7	5.4	6.3	6.4
EV/MT (Rs bn)						3.75	3.66	3.27	3.33	3.84
P/E (x)						36.6	20.1	11.2	13.5	10.6
RoE (%)						*4.6*	*8.0*	*13.1*	*9.9*	*11.6*

Source: Company, HSIE Research

BUY

CMP *(as on 29 Jan 2021)*	Rs 85
Target Price	Rs 117
NIFTY	13,635

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 117	Rs 117
EBITDA %	FY21E	FY22E
	-	-

KEY STOCK DATA	
Bloomberg code	ORCMNT IN
No. of Shares (mn)	205
MCap (Rs bn) / ($ mn)	17/237
6m avg traded value (Rs mn)	48
52 Week high / low	Rs 91/35

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	27.4	29.9	0.1
Relative (%)	11.0	8.3	(12.2)

SHAREHOLDING PATTERN (%)	Sep-20	Dec-20
Promoters	37.37	37.37
FIs & Local MFs	26.39	25.14
FPIs	3.00	1.48
Public & Others	33.24	36.01
Pledged Shares	*7.25*	*7.25*

Source : BSE

Pledged shares as % of total shares

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Deccan Cement

Strong show; geared up for doubling its capacity!

During 3QFY21, Deccan Cement (DECM) reported strong surge in volumes and profits riding on solid demand in AP, healthy regional pricing and robust cost controls. Thus, its sales vol/revenue/EBITDA/APAT grew 58/80/363/737% YoY. The icing on the cake is a 2.2mn MT expansion announcement (long due). Given that DECM has a net cash balance sheet (INR 1.3bn) and robust cash flow outlook, the doubling of capacity should not deteriorate its balance sheet. We maintain BUY rating on the stock with a revised TP of INR 535/share (5.5x Dec'22 EBITDA).

- **Strong 3QFY21**: Sales volume firmed up 13% QoQ (+58% YoY on a low base) to 0.51mn MT, riding on strong demand in AP markets. Utilisation firmed up to 90%, its highest-ever utilisation in the past 12 years. NSR fell 7% QoQ on both price decline QoQ as well as increased share of sales in AP (low-price market). However, it stood 14% higher YoY. Opex fell 4% YoY and 5% QoQ, aided by both lower input costs (increased PPC sales and benefits from WHRS ramp-up) and lower freight costs (lower lead distance). Thus, unitary EBITDA surged 192% YoY to INR 960/MT. DECM commissioned 6.3MW WHRS during Dec'20. This will drive down its power cost by ~INR 40mn every quarter.
- **Long due Capex announced**: DECM has also announced 2.2mn MT brownfield expansion (after a gap of nine years), thereby doubling its capacity by early FY24E. We increase FY21/22E EBITDA by 12/4% factoring in strong performance and subsequently raise target price to INR 535/share (5.5x Dec'22E EBITDA).

Financial Summary

YE Mar (INR mn)	Q3 FY21	Q3 FY20	YoY (%)	Q2 FY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Sales (mn MT)	0.51	0.32	58.3	0.45	12.6	1.7	1.4	1.8	1.9	2.1
NSR (INR/MT)	4,080	3,594	13.5	4,372	(6.7)	3,745	3,860	4,220	3,946	3,973
Opex (INR/MT)	3,121	3,266	(4.4)	3,269	(4.5)	3,197	3,316	3,228	3,259	3,300
EBITDA (INR/MT)	960	328	192.4	1,103	(13.0)	547	544	992	687	673
Net Sales	2,081	1,158	79.8	1,981	5.1	6,514	5,558	7,680	7,684	8,279
EBITDA	489	106	363.0	500	(2.0)	952	783	1,806	1,337	1,402
APAT	331	40	737.2	338	(2.2)	461	433	1,165	826	825
AEPS (INR)	23.6	2.8	737.2	24.2	(2.2)	32.9	30.9	83.2	58.9	58.9
EV/EBITDA (x)						5.1	7.0	2.6	4.8	6.2
EV/MT (INR bn)						2.15	2.44	2.09	2.86	3.89
P/E (x)						12.2	13.0	4.8	6.8	6.8
RoE (%)						11.9	10.1	23.1	13.9	12.3

Source: Company, HSIE Research

Estimates Revision

INR Mn	FY21E Old	FY21E Revised	Chg%	FY22E Old	FY22E Revised	Chg%	FY23E Old	FY23E Revised	Chg%
Net Revenues	7,284	7,680	5.4	7,365	7,684	4.3	8,038	8,279	3.0
EBITDA	1,616	1,806	11.7	1,288	1,337	3.8	1,402	1,402	0.0
APAT	1,022	1,165	14.0	789	826	4.6	836	825	(1.4)
AEPS	73.0	83.2	14.0	56.3	58.9	4.6	59.7	58.9	(1.4)

Source: Company, HSIE Research

BUY

CMP *(as on 12 Feb 2021)*	INR 401
Target Price	INR 535
NIFTY	15,163

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 500	INR 535
EBITDA %	FY21E	FY22E
	-	-

KEY STOCK DATA

Bloomberg code	DECM IN
No. of Shares (mn)	14
MCap (INR bn) / ($ mn)	6/77
6m avg traded value (INR mn)	32
52 Week high / low	INR 409/147

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	17.9	53.6	37.0
Relative (%)	(1.0)	19.2	13.0

SHAREHOLDING PATTERN (%)

	Sep-20	Dec-20
Promoters	56.24	56.24
FIs & Local MFs	4.19	2.75
FPIs	2.48	2.62
Public & Others	37.09	38.39
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Chemicals

SRF

Returning to normalcy

We retain our ADD rating on SRF with a target price of INR 6,080 on the back of (1) continued healthy performance from Speciality Chemicals business and Packging Films business, (2) recovery in the Technical Textile segment, (3) strong balance sheet, and (4) deployment of Capex towards high-growth Speciality Chemicals business over 3-4 years to tap the opportunities emerging from the agrochemical and pharmaceutical industry. EBITDA/APAT were 33/43% above estimates, owing to 6% higher revenue and lower-than-anticipated operating expenses and interest costs.

- **Financial performance:** Revenue/EBITDA grew 16/40% YoY to INR 21.5/5.4bn in 3Q, owing to a healthy performance in the Speciality Chemicals and Packaging Films businesses. All business segments have returned to normalcy post the pandemic, and are performing well.
- **Chemicals business (CB):** Revenue/EBIT jumped 12/33% YoY to INR 9/2bn. Specialty Chemicals Business performed exceedingly well, given strong demand from the overseas markets, higher capacity utilisation of dedicated/ multipurpose facilities and significant cost savings across all product streams. The Fluorochemicals business witnessed a revival in demand of refrigerants and healthy contribution from the chloromethanes segment, leading to a much better overall performance.
- **Packaging Films business (PFB)**: Revenue/EBIT jumped 26/42% YoY to INR 8/2bn. New capacities in Thailand and Hungary aided further volume growth and both the BOPET and BOPP segments witnessed robust performance due to better operating leverage, improved margins, and healthy demand.
- **Technical Textile business (TTB):** Revenue/EBIT jumped 9/86% YoY to INR 4/1bn owing to a faster-than-expected recovery in the tyre industry. The Belting Fabrics segment contributed significantly to the TTB's performance.
- **Interim dividend:** The Board has declared an interim dividend at 190% i.e. INR 19 per share on the paid-up equity share capital of the company.
- **DCF-based valuation: Our target price is INR 6,080 (WACC 10%, terminal growth 3.5%). The stock is trading at 29.7x FY23E EPS.**

Financial Summary (Consolidated)

INR mn	3QFY21	2QFY21	QoQ (%)	3QFY20	YoY (%)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	21,464	21,008	*2.2*	18,505	*16.0*	69,499	70,621	75,411	81,650	88,572
EBITDA	5,446	5,821	*(6.4)*	3,902	*39.6*	12,970	14,549	18,848	19,545	21,145
APAT	3,243	3,157	*2.7*	3,455	*(6.1)*	6,297	10,015	9,800	9,926	10,791
AEPS (INR)	54.7	53.3	*2.7*	58.3	*(6.1)*	109.5	174.2	165.4	167.5	182.1
P/E (x)						49.4	31.0	32.7	32.3	29.7
EV/EBITDA(x)						26.3	23.4	18.4	17.7	16.1
RoE (%)						16.4	22.1	18.3	15.9	15.1

Source: Company, HSIE Research

ADD

CMP *(as on 22 Jan 2021)*	**INR 5,406**
Target Price	**INR 6,080**
NIFTY	**14,372**

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 6,080	INR 6,080
EPS %	FY21E	FY22E
	-	-

KEY STOCK DATA	
Bloomberg code	SRF IN
No. of Shares (mn)	59
MCap (Rs bn) / ($ mn)	320/4,389
6m avg traded value (Rs mn)	1,255
52 Week high / low	Rs 6,075/2,468

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	23.5	41.8	49.7
Relative (%)	3.0	12.7	30.8

SHAREHOLDING PATTERN (%)	Sept-20	Dec-20
Promoters	52.32	50.77
FIs & Local MFs	11.34	11.23
FPIs	17.11	19.38
Public & Others	19.23	18.62
Pledged Shares	0.00	0.00

Source : BSE

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Aarti Industries

Pharma segment outshines

We maintain our BUY recommendation on Aarti Industries (AIL) with a target price of INR 1,400/share. We expect AIL's PAT to grow at a 15% CAGR over FY21-23E. AIL's constant focus on R&D will enable the company 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. 3Q EBITDA/APAT were 15/22% above our estimates, attributable to lower-than-anticipated raw material expenses, a lower-than-expected interest cost, offset by a higher-than-expected tax outgo.

- **Financial performance:** Revenue grew 10/1% YoY/ QoQ to INR 11.9bn, with revenue growth driven mainly by volume expansion and 76% contribution attributable to value-added products. EBITDA was up 12/12% YoY/ QoQ to INR 2.9bn, owing to a significant reduction in raw material expenses. Sequentially, interest cost has fallen by 40/22% YoY/QoQ to INR 173mn. APAT grew 18/18% YoY/ QoQ to INR 1.7bn.
- **Speciality Chemicals segment:** Revenue/EBIT grew 4/4% YoY to INR 10.8/2.2bn. Revenue growth was backed by 90% utilisation across operationalised facilities. EBIT margin for the segment was reported at 20.7%. Return of demand from established markets drove margin improvement.
- **Pharma segment**: Revenue/EBIT grew 32/54% YoY to INR 2.3/0.6bn, with the highest-ever revenue reported in a quarter, owing to more share of value-added products in the product basket. EBIT margins for the segment grew by 338bps YoY to 23.8% on the back of a better operating leverage.
- **Concall takeaways:** (1) Capex spent in 3Q/9MFY21 was INR 4/9bn. (2) Interest cost has fallen significantly due to lower cost of funds and forex-linked revaluation gains on long-term borrowings. (3) AIL is considering demerging its Pharma segment as it is performing well and has a different manufacturing process and market from the rest of the company's.
- **Change in estimates:** We raise our FY21 EPS estimate by 3.5% to INR 27.0 and cut FY22E EPS by 4.0% to INR 27.4 to account for overall performance in 9MFY21.
- **DCF-based valuation: Our target price is INR 1,400 (WACC 10%, terminal growth 3.5%). The stock is currently trading at 32.4x FY23E EPS.**

Financial Summary (Consolidated)

INR mn	3Q FY21	2Q FY21	QoQ (%)	3Q FY20	YoY (%)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	11,868	11,726	*1.2*	10,836	*9.5*	41,676	41,863	44,638	49,844	58,543
EBITDA	2,850	2,543	*12.1*	2,542	*12.1*	9,651	9,773	9,366	10,075	12,236
APAT	1,653	1,402	*17.8*	1,398	*18.2*	5,042	5,468	4,804	4,877	6,352
AEPS (INR)	9.5	8.0	*17.8*	8.0	*18.2*	28.2	30.8	27.0	27.4	35.8
P/E (x)						41.1	37.7	43.0	42.4	32.4
EV/EBITDA(x)						22.6	22.6	24.1	22.3	18.2
RoE (%)						23.4	19.1	14.7	13.2	15.2

Source: Company, HSIE Research

Change in estimates (Consolidated)

YE Mar	FY21E Old	FY21E New	% Ch	FY22E Old	FY22E New	% Ch	FY23E Old	FY23E New	% Ch
EBITDA (INR mn)	9,080	9,366	*3.2*	10,336	10,075	*(2.5)*	12,508	12,236	*(2.2)*
AEPS (INR/sh)	26.1	27.0	*3.5*	28.5	27.4	*(4.0)*	37.0	35.8	*(3.2)*

Source: Company, HSIE Research

BUY

CMP *(as on 29 Jan 2021)*	**INR 1,159**
Target Price	**INR 1,400**
NIFTY	**13,635**

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 1,440	INR 1,400
EPS %	FY21E	FY22E
	+3.5%	-4.0%

KEY STOCK DATA	
Bloomberg code	ARTO IN
No. of Shares (mn)	174
MCap (Rs bn) / ($ mn)	202/2,769
6m avg traded value (Rs mn)	423
52 Week high / low	Rs 1,366/662

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	14.4	20.1	17.2
Relative (%)	(2.0)	(1.5)	4.8

SHAREHOLDING PATTERN (%)	Sept-20	Dec-20
Promoters	47.55	47.34
FIs & Local MFs	15.78	14.60
FPIs	7.52	9.00
Public & Others	29.15	29.06
Pledged Shares	0.00	0.00

Source: BSE

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Vinati Organics

IBB clocks in the highest-ever volumes!

Our SELL recommendation on Vinati Organics with a discounted cash flow-based target price of INR 1,015 (WACC 10%, terminal growth 3.5%) is driven by (1) demand slowdown for the high-margin 2-Acrylamido 2-Methylapropane Sulphonic Acid (ATBS) that contributed ~60% to its revenue mix in FY20, (2) shift in revenue mix towards lower-margin Iso Butyl Benzene (IBB), which formed ~25% of the mix in 3Q versus 16% in FY20, and (3) slow ramp-up in the recently-commissioned Butyl Phenol product line. In the absence of a new product pipeline, we believe current valuations are high at ~33x FY23E EPS. 3Q EBITDA/PAT were 27/12% below estimates owing to a 10% decline in revenue, higher-than-expected opex, higher-than-anticipated depreciation, offset by higher-than-anticipated other income and lower-than-anticipated tax outgo.

- **Financial performance:** 3Q EBITDA stood at INR 721mn, -13/-14% YoY/QoQ, owing to sluggish demand for ATBS and IBB in the quarter. EBITDA margin dropped to 32.3% (34.8/38.3/40.2% in 3QFY20/2QFY21/FY20).
- **Capex:** The Capex plan of INR 1.5bn for manufacturing four new speciality chemicals, expanding the capacity of PTBBA plant, and the outlay of INR 0.6bn for new products and expansion are all on track. First revenues would accrue from 2HFY22 onwards. Expected revenue from the total Capex is ~INR 3bn at full capacity by FY25.
- **ATBS**: Weakness in demand for ATBS continues in 3Q despite increased crude oil prices. The demand slowdown for ATBS is due to its reduced demand by the oil and gas industry that forms 25-30% of its global demand. It contributed 38% to the 3Q topline (35% in 2QFY21). The brownfield expansion of 14ktpa shall be completed by FY21 end, although the current demand for the product remains to be subdued and can be met through the existing capacity of 26ktpa.
- **Iso Butyl Benzene (IBB)**: Revenue contribution came at ~25% in 3Q. The product witnessed a good offtake and recorded the highest sales volumes in a quarter in 3Q. IBB capacity runs at a full capacity currently.
- **Butyl Phenol**: The Butyl Phenol plant continued to run at a low capacity, given its muted demand in 3Q, although it is now showing traction.
- **Change in estimates:** We cut our FY21 EPS estimate by 8.2% to INR 26.0 per share to factor in the overall performance in 9MFY21.

Financial summary

YE March (INR mn)	3Q FY21	2Q FY21	QoQ (%)	3Q FY20	YoY (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenues	2,235	2,194	*1.8*	2,385	*(6.3)*	11,279	10,289	9,041	11,416	12,950
EBITDA	721	841	*(14.3)*	830	*(13.1)*	4,234	4,139	3,382	4,347	4,818
APAT	641	620	*3.4*	668	*(4.0)*	2,825	3,338	2,668	3,401	3,731
AEPS (INR/sh)	6.2	6.0	*3.4*	6.5	*(4.0)*	27.5	32.5	26.0	33.1	36.3
P/E (x)						44.1	37.3	46.6	36.6	33.4
EV/EBITDA (x)						29.2	29.4	35.8	27.5	24.4
RoE (%)						30.6	28.6	19.4	20.9	19.3

Source: Company, HSIE Research

Change in estimates

	FY21E			FY22E			FY23E		
	Old	New	Ch%	Old	New	Ch%	Old	New	Ch%
EBITDA(INR mn)	3,720	3,382	(9.1)	4,485	4,347	(3.1)	4,976	4,818	(3.2)
AEPS(INR/sh)	28.3	26.0	(8.2)	33.2	33.1	(0.4)	36.5	36.3	(0.6)

Source: Company, HSIE Research

SELL

CMP *(as on 3 Feb 2021)*	**INR 1,209**
Target Price	**INR 1,015**
NIFTY	**14,790**

KEY CHANGES	**OLD**	**NEW**
Rating	SELL	SELL
Price Target	INR 1,020	INR 1,015
	FY21E	**FY22E**
EPS %	-8.2%	0.0%

KEY STOCK DATA	
Bloomberg code	VO IN
No. of Shares (mn)	103
MCap (Rs bn) / ($ mn)	124/1,702
6m avg traded value (Rs mn)	230
52 Week high / low	Rs 1,419/651

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	4.4	21.7	24.0
Relative (%)	(20.5)	(14.3)	(2.1)

SHAREHOLDING PATTERN (%)	**Sept-20**	**Dec-20**
Promoters	74.06	74.06
FIs & Local MFs	6.58	6.65
FPIs	3.93	3.66
Public & Others	15.43	15.63
Pledged Shares	0.00	0.00

Source : BSE

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Navin Fluorine International

High-value business drives growth

We retain our ADD rating on NFIL with a TP of INR 2,720 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 14/9% below our estimates, owing to a 12% lower revenue, offset by lower-than-anticipated tax outgo.

- **Financial performance:** Revenue/EBITDA/APAT grew 18/26/43% YoY, but fell 4/12/14% QoQ to INR 2,966/823/557mn. EBITDA margin increased by 185bps YoY to ~28% in 3Q. Revenue and EBITDA margin grew on the back of strong momentum in high-value business. The contribution of the high-value business to total revenue was 65% in 3Q.
- **Segmental performance:** Specialty Chemicals (41% of revenue mix) and CRAMS (24%) business units (BU) grew 26/51% YoY to INR 1,220mn/710mn. Inorganic Fluorides BU (19% of revenue mix) grew 12% YoY to INR 570mn as demand recovery was witnessed in its end-user industries such as stainless steel and glass. Refrigerant BU (16% of revenue mix) de-grew 18% YoY to INR 470mn, with trade and service sectors slowly reviving.
- **Other income adjustment**: (1) Marked to market gains of INR 21mn, and (2) one-off gain from investments sale of INR 9mn have been excluded from (gross) other income of INR 91mn to arrive at APAT of INR 557mn in 3Q.
- **Concall takeaways**: (1) The company's capital expansion projects are on track. MPP's capacity is expected to come on stream during 1HFY23 and HPP would be commercialised in 4QFY22. MPP's asset turnover is estimated to be around 1.35-1.45x at peak utilisation with an expected peak annual revenue of INR 2.6-2.8bn. (2) NFIL strengthened both demand generation and demand fulfilment capabilities for CRAMS BU. It hired two new human resource professionals, one in North America and the other as a consultant in Europe, to enhance its order book. It also enhanced the capabilities of its Dewas team to aid demand fulfilment. (3) Growth guidance of 20-22% YoY was given for Specialty Chemicals BU for FY22. Whereas growth for Inorganic Fluorides and Refrigerant BUs is expected to remain in the low teens for FY22. NFIL plans to achieve a USD 10mn per quarter revenue run-rate in the CRAMS BU.
- **DCF-based valuation: Our target price is INR 2,720 (WACC 10%, terminal growth 3.5%). The stock is trading at 32.8x FY23E EPS.**

Financial Summary (Standalone)

INR mn	3Q FY21	2Q FY21	QoQ (%)	3Q FY20	YoY (%)	FY19*	FY20*	FY21E*	FY22E*	FY23E*
Net Sales	2,966	3,077	*(3.6)*	2,516	*17.9*	9,959	10,616	12,447	15,616	19,961
EBITDA	823	935	*(11.9)*	652	*26.3*	2,184	2,635	3,320	4,665	5,946
APAT	557	646	*(13.8)*	389	*43.3*	1,372	3,855	2,137	2,991	3,744
AEPS (INR)	11.3	13.1	*(13.9)*	7.9	*43.1*	27.7	77.9	43.2	60.5	75.7
P/E (x)						89.4	31.8	57.4	41.0	32.8
EV/EBITDA(x)						55.2	45.2	35.9	25.7	20.1
RoE (%)						13.3	31.0	14.0	17.1	18.9

Source: Company, HSIE Research, *Consolidated

ADD

CMP *(as on 27 Jan 2021)*	INR 2,495
Target Price	INR 2,720
NIFTY	13,968

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 2,720	INR 2,720
EPS %	FY21E	FY22E
	-1.0%	0.0%

KEY STOCK DATA	
Bloomberg code	NFIL IN
No. of Shares (mn)	49
MCap (Rs bn) / ($ mn)	123/1,693
6m avg traded value (Rs mn)	330
52 Week high / low	Rs 2,850/977

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	16.8	33.5	125.1
Relative (%)	(1.3)	9.1	111.2

SHAREHOLDING PATTERN (%)	Sept-20	Dec-20
Promoters	30.51	30.51
FIs & Local MFs	20.33	16.89
FPIs	21.06	24.53
Public & Others	28.10	28.07
Pledged Shares	0.91	0.91

Source : BSE

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Alkyl Amines

Blockbuster quarter!

Our ADD recommendation on AACL with a target price of INR 5,310 is premised on (1) robust demand from pharmaceutical and agrochemical customers that form ~70% of AACL's revenue mix, (2) rising domestic market share in Methyl Amines, (3) impending capacity expansion for (high-margin) Acetonitrile, and (4) production-linked incentive scheme that provides the right tailwinds for long-term volume growth. 3Q EBITDA/APAT was 53/54% above estimates, owing to a 20% rise in revenue, lower-than-anticipated raw material costs, offset by a higher-than-anticipated tax outgo.

- **Margins surprise positively**: Sales grew 11/26% QoQ/YoY to INR 3.2bn. Sales grew in 9MFY21 mainly due to value with better realisations, and not volumes. Gross margins rose to a record high of ~60.9% (+343/550bps QoQ/YoY) in 3Q, given benign raw material prices, better product mix, and higher margins, courtesy the robust pharma demand. Backed by high gross margins, operating leverage and well-rounded performance by all products, EBITDA margins shot up to 38.0% (+530/976bps QoQ/YoY). Ethylamines and its derivatives performed well in 3Q and helped drive realisation. Tight supply of Acetonitrile in the global market continues to drive realisation, and we expect the currently elevated prices to sustain in the near to mid-term. However, the current EBITDA margin does not seem sustainable and should cool off to 29.6/29.7% in FY22/23E as COVID-induced pharma demand and, in turn, product prices come off.
- **Call takeaways**: (1) The Board has approved an investment of INR 3.0-3.5bn to set up 30-40% additional capacities (of the current 80-90 ktpa) of Aliphatic amines at Kurkumbh and Patalganga in anticipation of increasing demand in the domestic and export market. Capex guidance for FY22/23 is INR 1.5/2.0bn. (2) The Board has declared an interim dividend at 200% i.e., INR 10/sh for FY21. (3) Average capacity utilisation of all plants in 3Q was 80-90%.
- **Change in estimates:** We raise our FY21/FY22E EPS estimates by 5.1/1.7% to INR 118.2/131.1 per share to factor in better realisation from Ethylamines and its derivatives, and to account for the overall performance in 9MFY21.
- **DCF-based valuation:** Our price target is INR 5,310 (WACC 10%, terminal growth 3.5%). The stock is trading at 34.3x FY23E EPS.

Financial Summary

YE Mar (INR mn)	3Q FY21	2Q FY21	QoQ (%)	3Q FY20	YoY (%)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	3,239	2,913	*11.2*	2,569	*26.1*	8,464	9,929	11,293	12,873	14,459
EBITDA	1,231	953	*29.2*	726	*69.6*	1,644	2,590	3,579	3,810	4,287
APAT	845	655	*29.0*	550	*53.6*	837	1,798	2,411	2,675	2,978
Adj. EPS (Rs)	41.4	32.1	*29.0*	27.0	*53.5*	41.1	88.2	118.2	131.1	146.0
P/E (x)						122.1	56.9	42.4	38.2	34.3
EV/EBITDA(x)						63.1	39.6	28.4	26.5	23.3
RoE (%)						25.3	47.8	37.3	30.5	26.3

Source: Company, HSIE Research

Change in estimates

YE Mar	FY21E Old	FY21E New	% Ch	FY22E Old	FY22E New	% Ch	FY23E Old	FY23E New	% Ch
EBITDA (INR mn)	3,259	3,579	*9.8*	3,724	3,810	*2.3*	4,195	4,287	*2.2*
Adj. EPS (INR/sh)	112.5	118.2	*5.1*	128.9	131.1	*1.7*	145.5	146.0	*0.3*

Source: Company, HSIE Research

ADD

CMP *(as on 3 Feb 2021)*	INR 5,020
Target Price	INR 5,310
NIFTY	14,790

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 5,310	INR 5,310
EPS %	FY21E	FY22E
	+5.1%	+1.7%

KEY STOCK DATA	
Bloomberg code	AACL IN
No. of Shares (mn)	20
MCap (Rs bn) / ($ mn)	102/1,404
6m avg traded value (Rs mn)	287
52 Week high / low	Rs 5,610/1,021

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	74.3	118.2	271.7
Relative (%)	49.5	82.2	245.6

SHAREHOLDING PATTERN (%)	Sept-20	Dec-20
Promoters	74.19	74.13
FIs & Local MFs	1.84	1.78
FPIs	0.38	0.95
Public & Others	23.64	23.14
Pledged Shares	0.00	0.00

Source : BSE

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Galaxy Surfactants

Speciality Care performing well

Our BUY recommendation on GALSURF with a price target of INR 2,750 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 23/23% in FY23E). 3Q EBITDA/APAT was 16/32% higher than estimates due to lower-than-expected raw material costs and opex, higher-than-anticipated other income and lower-than-anticipated tax outgo.

- **Revenue:** 3Q revenue was INR 7bn -6/+8% QoQ/YoY, on account of better sales volumes in both Performance Surfactants and Speciality Care business, and a better sales mix.
- **Margins**: Gross margin jumped by 144/511bps QoQ/YoY to 37.7% on the back of improving share of specialities, new products mix and higher capacity utilisations. EBITDAM grew 80/458bps QoQ/YoY to 17.7% in 3Q.
- **Volumes**: Total volumes in 3Q came at 58kT (-8/+7% QoQ/YoY). Performance Surfactants (63% of volume mix) volumes were at 37kT (-12/+5% QoQ/YoY) and Speciality Care volumes came to 22kT (+0/+12% QoQ/YoY). Speciality Care made a strong comeback and registered YoY growth for the first time in a quarter. Growth was driven by both the segments across geographies in 3Q. India's market grew 14.4% YoY, AMET grew 2.9% YoY and Rest of the World grew 4.3% YoY in 3Q.
- **Concall takeaways**: (1) Out of the Capex plan of INR 1.5bn to be spent in FY21, INR 0.75bn to be spilled over to FY22 due to COVID-19 led disruptions. Capex guidance for FY22 at INR 1.0-1.5bn. (2) 5% of the revenues in 3Q came from sulphate free surfactants, proteins and other new products. (3) Volume growth guidance given of 5-8% YoY for medium term. (4) The Board has declared an interim dividend of INR 14 per equity share for FY21.
- **Change in estimates:** We raise our FY21/22 EPS estimates by 12.5/8.6% to INR 87.8/101.7 to account overall performance in 9MFY21.
- **DCF-based valuation: Our price target is of INR 2,750 (WACC 10%, Terminal growth 3.5%). The stock is trading at 19.8x FY23E EPS.**

Financial Summary (Consolidated)

INR mn	3Q FY21	2Q FY21	QoQ (%)	3Q FY20	YoY (%)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	6,747	7,187	(6.1)	6,259	7.8	27,630	25,964	27,432	32,311	35,860
EBITDA	1,195	1,215	(1.7)	821	45.4	3,534	3,689	4,641	5,283	5,928
APAT	852	817	4.3	480	77.6	1,910	2,244	3,111	3,606	4,094
AEPS (INR)	24.0	23.1	4.3	13.5	77.6	53.9	65.0	87.8	101.7	112.3
P/E (x)						41.3	34.2	25.4	21.9	19.8
EV/EBITDA(x)						21.6	20.5	16.7	14.8	13.5
RoE (%)						23.9	23.1	26.1	24.8	23.3

Source: Company, HSIE Research

Change in estimates (Consolidated)

YE Mar	FY21E Old	FY21E New	% Ch	FY22E Old	FY22E New	% Ch	FY23E Old	FY23E New	% Ch
EBITDA (INR bn)	4.21	4.64	10.3	4.92	5.28	7.3	5.64	5.93	5.2
Adj. EPS (INR/sh)	78.0	87.8	12.5	93.7	101.7	8.6	105.9	112.3	6.0

Source: Company, HSIE Research

BUY

CMP *(as on 9 Feb 2021)*	INR 2,233
Target Price	INR 2,750
NIFTY	15,109

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 2,600	INR 2,750
EPS %	FY21E	FY22E
	+12.5%	+8.6%

KEY STOCK DATA	
Bloomberg code	GALSURF IN
No. of Shares (mn)	35
MCap (Rs bn) / ($ mn)	79/1,087
6m avg traded value (Rs mn)	84
52 Week high / low	Rs 2,381/975

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	30.8	30.3	37.2
Relative (%)	10.3	(4.6)	12.5

SHAREHOLDING PATTERN (%)	Sept-20	Dec-20
Promoters	70.93	70.93
FIs & Local MFs	13.42	12.98
FPIs	3.21	3.49
Public & Others	12.44	12.60
Pledged Shares	0.0	0.0

Source: BSE

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Sudarshan Chemical

Well-rounded performance

We maintain a BUY recommendation on Sudarshan Chemical (SCIL) with a target price of INR 605/share. We expect SCIL's PAT to grow at a 17% CAGR over FY21-23E, led by a 15% CAGR in revenue. Two major global players shifting away from the pigment business could act as a tailwind for Indian pigment manufacturers. We believe SCIL is in a sweet spot to seize this opportunity by offering products similar to those of global players. 3Q EBITDA/APAT were 25/24% above our estimates, mainly due to a 16% higher revenue.

- **Financial performance:** Revenue grew 18/20% QoQ/YoY to INR 5,064mn as business has returned back to normalcy with demand picking up in the domestic market, supported by steady exports demand. Production has returned to pre-COVID levels. EBITDA was up 18/27% QoQ/YoY to INR 796mn. APAT grew by 29/32% QoQ/YoY to INR 392mn.
- **Pigment segment (94% of the revenue mix):** Revenue/EBIT jumped 19/33% QoQ and 22/41% YoY to INR 4,771/590mn owing to good traction in coatings, plastics and paints industries. Speciality /Non-speciality pigments' volumes grew by 21/24% YoY. EBIT margin for the segment improved by 130/168bps QoQ/YoY to 12.4%.
- **Takeaways from earnings call**: (1) Exports accounted for 44% of revenues for the Pigment segment. (2) High performance Yellow pigment is under trials with customers and first sale is expected during 1HFY22. (3) Capex target for FY21 is INR 1.5bn and INR 2.1bn for FY22. (4) The company plans to introduce new 4-5 major high-performance pigments, and 15-20 minor products in FY22. (5) Demand has picked up in Asia with good offtake in paints and plastics industries. Europe and North America are showing subdued demand, especially in plastics, due to the ongoing lockdown.
- **Change in estimates:** We raised our FY21 EPS estimate by 6.1% to INR 18.4 to account for the overall performance and reduced tax rate adopted by the company in 9MFY21.
- **DCF-based valuation: Our target price is INR 605 (WACC 10%, terminal growth 3.5%). The stock is currently trading at 20.1x FY23E EPS.**

Financial Summary (Consolidated)

INR mn	3Q FY21	2Q FY21	QoQ (%)	3Q FY20	YoY (%)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	5,064	4,289	*18.1*	4,235	*19.6*	15,930	17,082	17,403	20,126	22,889
EBITDA	796	677	*17.7*	629	*26.5*	2,040	2,463	2,648	2,938	3,500
APAT	392	303	*29.1*	298	*31.5*	1,011	1,311	1,272	1,374	1,751
AEPS (INR)	5.7	4.4	*29.1*	4.3	*31.5*	14.6	18.9	18.4	19.8	25.3
P/E (x)						34.8	26.8	27.7	25.6	20.1
EV/EBITDA(x)						19.0	16.2	15.3	13.9	11.7
RoE (%)						20.1	22.4	20.1	19.7	22.6

Source: Company, HSIE Research

Change in estimates (Consolidated)

YE Mar	FY21E Old	FY21E New	% Ch	FY22E Old	FY22E New	% Ch	FY23E Old	FY23E New	% Ch
EBITDA (INR mn)	2,496	2,648	*6.1*	2,888	2,938	*1.7*	3,429	3,500	*2.1*
AEPS (INR/sh)	17.3	18.4	*6.1*	19.9	19.8	*0.0*	25.3	25.3	*-0.1*

Source: Company, HSIE Research

BUY

CMP *(as on 29 Jan 2021)*	**INR 506**
Target Price	**INR 605**
NIFTY	**13,635**

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 610	INR 605
EPS %	FY21E	FY22E
	+6.1%	0.0%

KEY STOCK DATA

Bloomberg code	SCHI IN
No. of Shares (mn)	69
MCap (Rs bn) / ($ mn)	35/481
6m avg traded value (Rs mn)	156
52 Week high / low	Rs 538/286

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	13.6	30.0	6.2
Relative (%)	(2.8)	8.5	(6.1)

SHAREHOLDING PATTERN (%)

	Sept-20	Dec-20
Promoters	42.66	40.03
FIs & Local MFs	4.25	6.75
FPIs	8.13	9.30
Public & Others	44.96	43.92
Pledged Shares	0.00	0.00

Source: BSE

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Consumer Discretionary

Asian Paints

Bolt out of the blue

APNT delivered a strong surprise in 3QFY21 with top-line growth of 25% YoY. Growth was all-round. Domestic decorative business clocked 33/26% volume/value growth underpinned by (1) Strong pent-up + festive/marriage demand, (2) pick-up in Metros and Tier 1/2 cities (double-digit volume growth). Projects and large institutional business performed well too. EBITDAM expanded 440bp to 26.3% courtesy high GMs and strong cost control. While the rebound in demand has certainly surprised us, normalisation trend is unlikely to change in a category like Paints. We marginally revise our FY22/23 EPS estimates upwards (~3% resp), consequently, our DCF-based TP stands revised to Rs. 2,300/sh (earlier TP: Rs. 2,250/sh) implying 56x FY23 P/E. Maintain Sell.

3QFY21 highlights: Revenue grew 25% YoY to Rs. 67.9bn (HSIE: Rs. 61.9bn) as all business vectors fired. Decorative volume/value grew 33/26% YoY underpinned by (1) pent-up demand from 1H and festive/marriage demand, (2) pick-up in Metros and Tier 1/2 cities. Projects and large institutional business performed well too. GMs expanded 207bp to 45.1% (in-line), aided by benign RM prices and better sourcing efficiency. Note: RM prices are likely to inch up in 4Q post their recent December spike. EBITDA grew 50% YoY to Rs. 17.8bn (HSIE: Rs. 15.4bn). EBITDAM expanded 440bp YoY to 26.3% (HSIE: 24.8%) as GM savings trickled down and management continued to keep a tight leash on operating costs. International revenue grew 22.4/1.3% YoY to Rs. 7/17.56bn in 3Q/9MFY21 and PBT grew 171/46% YoY to Rs. 740/1,470mn respectively in 3Q/9M. Industrial Paints too pivoted to growth (double-digit volume growth). .

- **Outlook**: While the demand rebound has certainly surprised us (courtesy pent-up demand timing), the normalisation trend is unlikely to change in a category like Paints. We marginally revise our FY22/23 EPS estimates upwards (~3% resp), and consequently, our DCF-based TP stands revised to Rs. 2,300/sh (earlier TP: Rs. 2,250/sh), implying 56x FY23 P/E. Maintain SELL.

Quarterly financial summary

(Rs mn)	3QFY21	2QFY20	YoY (%)	1QFY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Net Revenue	67,885	54,203	*25.2*	53,502	*26.9*	193,415	202,113	205,014	244,027	273,559
EBITDA	17,879	11,894	*50.3*	12,652	*41.3*	35,245	41,618	45,316	51,997	57,681
APAT	12,654	7,797	*62.3*	8,519	*48.5*	21,595	27,101	28,879	34,113	39,154
EPS (Rs)	13.2	8.1	*62.3*	8.88	*48.5*	22.5	28.3	30.1	35.6	40.8
P/E (x)						120.1	95.7	89.8	76.0	66.3
EV/EBITDA (x)						73.7	62.2	56.9	49.2	44.1
Core RoCE(%)						25.2	27.7	27.2	31.4	35.9

Source: Company, HSIE Research, Standalone Financials

Change in estimates

(Rs mn)	FY21E			FY22E			FY23E		
	New	Old	*Change (%)*	New	Old	*Change (%)*	New	Old	*Change (%)*
Revenue	205,014	198,690	*3.2*	244,027	236,490	*3.2*	273,559	265,118	*3.2*
Gross Profit	91,129	88,166	*3.4*	105,856	102,802	*3.0*	118,004	114,606	*3.0*
Gross Profit Margin (%)	44.5	44.4	***8 bps***	43.4	43.5	***(9 bps)***	43.1	43.2	***(9 bps)***
EBITDA	45,316	42,922	*5.6*	51,997	50,369	*3.2*	57,681	55,880	*3.2*
EBITDA margin (%)	22.1	21.6	***50 bps***	21.3	21.3	***1 bps***	21.1	21.1	***1 bps***
APAT	28,879	27,222	*6.1*	34,113	33,143	*2.9*	39,154	38,063	*2.9*
APAT margin (%)	14.1	13.7	***39 bps***	14.0	14.0	***(4 bps)***	14.3	14.4	***(4 bps)***
EPS (Rs)	30.1	28.4	*6.1*	35.6	34.6	*2.9*	40.8	39.7	*2.9*

Source: Company, HSIE Research

SELL

CMP ***(as on 21 Jan 2021)***	**Rs 2,716**
Target Price	**Rs 2,300**
NIFTY	**14,590**

KEY CHANGES	OLD	NEW
Rating	SELL	SELL
Price Target	Rs 2,250	Rs 2,300
EPS %	FY22E	FY23E
	+2.9	+2.9

KEY STOCK DATA	
Bloomberg code	APNT IN
No. of Shares (mn)	959
MCap (Rs bn) / ($ mn)	2,606/35,693
6m avg traded value (Rs mn)	5,447
52 Week high / low	Rs 2,873/1,431

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	29.4	60.2	52.7
Relative (%)	7.4	29.4	32.6

SHAREHOLDING PATTERN (%)	Sep-20	Sep-20
Promoters	52.79	52.79
FIs & Local MFs	3.23	2.79
FPIs	19.84	21.13
Public & Others	24.14	23.29
Pledged Shares	6.26	5.63

Source : BSE

Pledged shares as % of total shares

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Avenue Supermarts

Finally hits growth!

D-MART finally hits the growth phase (after a disappointing 1HFY21). The grocer clocked a healthy 10% topline growth (HSIE: 8.5%). While gross margin delivery was strong (15.1% vs HSIE: 14.8%), its underpinnings remain weak (on the back of lower discounting in staples). Non-essential sales remain weak. EBITDAM expanded 52/256bp YoY/QoQ to 9.3% courtesy strong cost control. (HSIE: 9%). While we increase our FY22/23 EPS estimates by 5-6% resp. to account for marginally higher revenue/sq. ft, we downgrade the stock to Sell (Earlier Reduce) as the recent run-up leaves no room for an investment case (DCF-based TP: 2,160/sh – implying 34x FY23 EV/EBITDA + 2x FY23 sales for e-comm business).

- **3QFY21 highlights**: Revenue grew 10.1% to Rs. 74.3bn (HSIE: Rs.73.3bn) as footfalls continued to recover from the wrath of COVID-19. While GM expanded to 11/189bp YoY/QoQ to 15.1% (HSIE: 14.8%), its underpinnings remain weak. We suspect lower discounting levels in staples (200-400bp lower) continue to cushion the adverse margin impact of lower non-essential sales. Management, too, highlighted that recovery in OOH categories remains weak. EBITDAM expanded 52/256bp YoY/QoQ to 9.3%, courtesy strong cost control (HSIE: 9%). DMART added 1 store in 3Q (now: 221 stores). >/=2-year-old stores (162) have hit 96% of Dec-19 sales. Non-FMCG supplies remain inconsistent and RM prices are also inching up; hence, inferior sales mix and margin pressure can't be ruled out in the near term.
- **Outlook**: While DMART remains best-placed within the peer set to carve out a recovery, it's still not out of the woods. An extended slump in non-essential sales could mean that discounting in staples will be lower, thereby opening up the space for competition. This, coupled with punchy valuations (FY23 P/E: 75x+), leaves no margin of safety/error for the investor and the business. We downgrade the stock to Sell with a DCF-based TP of Rs. 2,160/sh, implying 34x FY23 EV/EBITDA for std biz + 2x sales for e-comm business).

Quarterly financial summary

(Rs mn)	3QFY21	3QFY20	*YoY (%)*	2QFY21	*QoQ (%)*	FY19	FY20P	FY21E	FY22E	FY23E
Net Revenue	74,327	67,519	*10.1*	52,182	*42.4*	199,163	246,750	238,962	352,708	352,708
EBITDA	6,914	5,931	*16.6*	3,249	*112.8*	16,422	20,385	17,682	30,666	30,666
APAT	4,702	3,943	*19.3*	2,106	*123.3*	9,363	13,685	11,687	20,647	25,495
EPS (Rs)	7.3	6.3	*15.6*	3.25	*123.2*	15.0	21.6	18.0	31.9	39.4
P/E (x)						197.8	137.3	164.5	93.1	75.4
EV/EBITDA (x)						113.1	90.6	106.9	61.6	47.5
Core RoCE(%)						17.5	18.8	11.7	18.6	19.0

Source: Company, HSIE Research, Standalone Financials

Change in estimates

(Rs mn)	FY21E			FY22E			FY23E		
	New	Old	*Change (%)*	New	Old	*Change (%)*	New	Old	*Change (%)*
Revenue	238,962	235,426	*1.5*	352,708	342,577	*3.0*	438,887	423,674	*3.6*
Gross Profit	34,810	33,946	*2.5*	52,874	51,364	*2.9*	65,806	63,538	*3.6*
Gross Profit Margin (%)	14.6	14.4	***15 bps***	15.0	15.0	***(0 bps)***	15.0	15.0	***(0 bps)***
EBITDA	17,682	16,775	*5.4*	30,666	29,329	*4.6*	38,261	36,408	*5.1*
EBITDA margin (%)	7.4	7.1	***27 bps***	8.7	8.6	***13 bps***	8.7	8.6	***12 bps***
APAT	11,687	10,994	*6.3*	20,647	19,622	*5.2*	25,495	24,085	*5.9*
APAT margin (%)	4.9	4.7	***22 bps***	5.9	5.7	***13 bps***	5.8	5.7	***12 bps***
EPS (Rs)	18.0	17.0	*6.3*	31.9	30.3	*5.2*	39.4	37.2	*5.9*

Source: Company, HSIE Research

SELL

CMP *(as on 09 Jan 2021)*	**Rs 2,968**
Target Price	**Rs 2,160**
NIFTY	**14,347**

KEY CHANGES	**OLD**	**NEW**
Rating	REDUCE	SELL
Price Target	Rs 1,850	Rs 2,160
EPS %	FY22E	FY23E
	+5.2	+5.9

KEY STOCK DATA	
Bloomberg code	DMART IN
No. of Shares (mn)	648
MCap (Rs bn) / ($ mn)	1,922/26,250
6m avg traded value (Rs mn)	1,681
52 Week high / low	Rs 3,100/1,729

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	43.7	27.9	62.2
Relative (%)	22.3	(6.3)	42.7

SHAREHOLDING PATTERN (%)	**Sep-20**	**Dec-20**
Promoters	74.99	74.99
FIs & Local MFs	5.39	6.07
FPIs	10.27	10.09
Public & Others	9.35	8.85
Pledged Shares	0	0

Source : BSE

Pledged shares as % of total shares

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Titan

In-line performance

Titan's 3QFY21 print was largely in-line (esp. in Jewellery). That said, Titan's relative market share among big-box jewelers seems to have hit a pit stop as most grew at a similar clip to Titan's 16% (jewellery biz, adj. for bullion sale). Jewellery margins at 11.2% were in-line too. Non-jewellery recovering progressively with improving profitability, but isn't a needle mover. We marginally increase our FY22/23 EPS estimates to account for marginally better revenue growth/profitability, consequently our DCF-based target price stands revised at Rs 1,300/sh (earlier: Rs. 1,280/sh) - implying 51x FY23 P/E.

- **3QFY21 highlights**: Consol revenue grew 16.7% YoY to Rs. 76.2bn (HSIE: Rs. 76bn). Jewellery grew 22% YoY to Rs. 68.36bn. (including Rs. 3.4bn of Gold Bullion sales; in-line). Adj. for Bullion sales, Jewellery grew ~16% YoY to Rs. 64.96bn. Volumes were down 14% YoY (in-line) and realizations were up 32%. Note: Gold Coin sales in mix remain high at 8% (receding though; 5% in 3QFY20). Ticket sizes remain elevated, ergo footfall recovery (97% of base) lags revenue recovery. Studded jewellery grew 9% YoY in 3Q. Jewellery EBIT margins at 11.2% contracted 136bp YoY (in-line). Mgt highlighted that retail sales (jewellery) in Jan-21 were healthy at 26%. Watches/Eyewear declined 12/7% YoY resp. However, recovery in non-jewellery margins lagged expectations (4.6% vs HSIE: 6.3%). Mgt remains bullish on wedding demand for the next two quarters (Wedding sales grew 9/16% respectively in 3Q/Jan-21 and is expected to grow in double digits in 4Q). Adj Consol. EBIT margins declined 40bp YoY to 9.9% (HSIE: 10.5%). Adj. PAT grew 11.8% YoY to Rs. 5.3bn (HSIE: Rs. 5.88bn).
- **Outlook**: While Titan's recovery execution (esp. in Jewellery) has been on point; a strong bounce-back in volumes is already baked in FY22. Note: Big-box jewelers continue to sit on significant GM gains which can be used to remain more competitive momentarily. In this backdrop, the stock at 62x FY23 P/E doesn't offer comfort. We maintain our Sell recommendation with a DCF –based TP of Rs. 1,300/sh (implying 51x FY23 P/E).

Quarterly financial summary

(Rs mn)	3QFY21	3QFY20	*YoY (%)*	2QFY21	*QoQ (%)*	FY19	FY20E	FY21E	FY22E	FY23E
Net Revenue	76,190	65274	*16.7*	45530	*67.3*	197,785	210,515	197,328	265,344	312,484
EBITDA	8,480	7584	*11.8*	3130	*170.9*	21,365	24,666	17,153	29,901	35,417
APAT	5,300	4742	*11.8*	1730	*206.4*	15,337	14,927	9,758	18,434	22,425
EPS (Rs)	6	5.34	*11.8*	1.95	*206.4*	17.3	16.8	11.0	20.8	25.3
P/E (x)						90.5	93.0	142.2	75.3	61.9
EV/EBITDA (x)						66.1	58.1	83.3	47.9	40.4
Core RoCE(%)						18.0	15.3	9.0	16.3	17.9

Source: Company, HSIE Research, Consolidated Financials

Change in estimates

(Rs mn)	FY21E			FY22E			FY23E		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Revenue	197,328	194,681	*1.4*	265,344	262,073	*1.2*	312,484	308,674	*1.2*
Gross Profit	52,339	51,637	*1.4*	70,924	70,049	*1.2*	83,383	82,366	*1.2*
Gross Profit Margin(%)	26.5	26.5	***0 bps***	26.7	26.7	***(0 bps)***	26.7	26.7	***0 bps***
EBITDA	17,153	14,392	*19.2*	29,901	28,746	*4.0*	35,417	34,213	*3.5*
EBITDA margin (%)	8.7	7.4	***130 bps***	11.3	11.0	***30 bps***	11.3	11.1	***25 bps***
APAT	9,758	7,640	*27.7*	18,434	17,464	*5.6*	22,425	21,342	*5.1*
APAT margin (%)	4.9	3.9	***102 bps***	6.9	6.7	***28 bps***	7.2	6.9	***26 bps***
EPS	11.0	8.6	*27.7*	20.8	19.7	*5.6*	25.3	24.0	*5.1*

Source: Company, HSIE Research

SELL

CMP *(as on 10 Feb 2021)*	Rs 1,563
Target Price	Rs 1,300
NIFTY	15,107

KEY CHANGES	OLD	NEW
Rating	SELL	SELL
Price Target	Rs 1,280	Rs 1,300
EPS %	FY22E	FY23E
	+5.5	+5.0

KEY STOCK DATA

Bloomberg code	TTAN IN
No. of Shares (mn)	888
MCap (Rs bn) / ($ mn)	1,388/19,053
6m avg traded value (Rs mn)	3,629
52 Week high / low	Rs 1,621/721

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	19.7	41.1	24.3
Relative (%)	1.2	6.8	(0.9)

SHAREHOLDING PATTERN (%)

	Sep-20	Dec-20
Promoters	52.90	52.90
FIs & Local MFs	4.64	4.25
FPIs	18.05	18.59
Public & Others	24.41	24.26
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Berger Paints

Mark-up over leader unjustified

Berger Paints continues to execute well and beat estimates (24.9% YoY vs HSIE: 16%). However, performance fell short of APNT's 26%. The former lagged APNT in margin delivery too over 9MFY21. (APNT: ~230bp vs BRGR's 56bp) as APNT managed costs better. Given the immateriality in relative top-line performance and weaker margin delivery over 9M, BRGR's steep premium over APNT (79x FY23 P/E vs APNT's 61x) seems unjustified. While we marginally revise our EPS estimates upwards by 3-4% each for FY22/23 to account for quicker revenue pick-up, we maintain our SELL recommendation with a DCF-based target price of Rs. 610/sh (implying 62x FY23 P/E).

- **3QFY21 highlights**: Consolidated revenue grew 24.9% to Rs. 21.2bn (HSIE: Rs. 19.7bn). Decorative paints is estimated to have clocked a healthy 31/5% volume/value growth led by pent-up demand timing, strong festive season, share gains from unorganised, recovery in metro/tier-1 catchments. Note: APNT clocked volume/value growth of 33/26% and KNPL is estimated to have clocked 23/18.6% volume/value growth in 3Q. Within the Industrial portfolio, Auto industrials were strong, while protective coating lagged other segments. Management called out RM spikes, even as no price hikes have been taken in decorative paints, although negotiations are underway in industrial coatings. BRGR has brought forward capacity augmentation plans for the UP unit, given strong demand revival. 300k KL capacity is scheduled to be commissioned by 4QFY22 (Phase 1) and a Capex of ~Rs5 bn+ is earmarked for the same over next 2-3 years. Most subsidiaries witnessed improved topline and profitability. Consolidated EBITDA/APAT grew 40/51% to Rs. 4.15/2.75bn resp (HSIE: Rs. 3.94/2.62bn).
- **Outlook**: While BRGR continues to execute well, it has lagged APNT over 9MFY21 (on top-line as well as margin delivery), despite being 1/3rd the leader's size and having relatively lower metro exposure. Hence, in our view, the steep premium it enjoys over APNT seems unjustified (79x FY23 P/E vs APNT's 61x). We maintain our SELL recommendation with a DCF-based target price of Rs. 610/sh (implying 62x FY23 P/E).

Quarterly financial summary

(Rs mn)	3QFY21	3QFY20	*YoY (%)*	2QFY21	*QoQ (%)*	FY19	FY20	FY21E	FY22E	FY23E
Net Revenue	21,182	16,959	*24.9*	17,426	*21.6*	60,619	63,658	64,567	78,653	88,213
EBITDA	4,150	2,963	*40.1*	3,352	*23.8*	8,816	10,610	11,144	13,630	15,419
APAT	2,750	1,819	*51.2*	2,211	*24.4*	4,975	6,561	6,735	8,405	9,498
EPS (Rs)	2.8	1.9	*51.2*	2.3	*24.4*	5.1	6.8	6.9	8.7	9.8
P/E (x)						149.0	113.0	110.0	88.2	78.0
EV/EBITDA (x)						84.4	70.1	66.6	54.3	47.6
Core RoCE(%)						17.9	21.0	19.3	21.8	22.6

Source: Company, HSIE Research, Standalone Financials

Change in estimates

(Rs mn)	FY21E			FY22E			FY23E		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Revenue	64,567	62,569	*3.2*	78,653	76,503	*2.8*	88,213	86,051	*2.5*
Gross Profit	27,815	26,673	*4.3*	33,175	32,268	*2.8*	37,119	36,210	*2.5*
Gross Profit Margin(%)	43.1	42.6	***45.0***	42.2	42.2	-	42.1	42.1	***(0.0)***
EBITDA	11,144	10,530	*5.8*	13,630	13,181	*3.4*	15,419	14,869	*3.7*
EBITDA margin (%)	17.3	16.8	***43 bps***	17.3	17.2	***10 bps***	17.5	17.3	***20 bps***
APAT	6,735	6,402	*5.2*	8,405	8,102	*3.8*	9,498	9,108	*4.3*
APAT margin (%)	10.4	10.2	***20 bps***	10.7	10.6	***10 bps***	10.8	10.6	***18 bps***
EPS (Rs)	6.9	6.6	*5.2*	8.7	8.3	*3.8*	9.8	9.4	*4.3*

Source: Company, HSIE Research

SELL

CMP ***(as on 12 Feb 2021)***	**Rs 770**
Target Price	**Rs 610**
NIFTY	**15,163**

KEY CHANGES	**OLD**	**NEW**
Rating	SELL	SELL
Price Target	Rs 600	Rs 610
EPS %	FY22E	FY23E
	+3.8	+4.3

KEY STOCK DATA	
Bloomberg code	BRGR IN
No. of Shares (mn)	971
MCap (Rs bn) / ($ mn)	748/10,284
6m avg traded value (Rs mn)	919
52 Week high / low	Rs 823/389

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	18.2	40.1	32.3
Relative (%)	(0.6)	5.7	8.3

SHAREHOLDING PATTERN (%)	**Sep-20**	**Dec-20**
Promoters	74.99	74.98
FIs & Local MFs	0.97	0.92
FPIs	11.37	11.52
Public & Others	12.67	12.58
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Havells India

Beat across the board; justifying rich valuation

Havells posted a stellar revenue/EBITDA growth of 40/89% YoY, beating our as well as the street's expectations. Such performances in adverse phase reiterate Havells' superior execution and strong business model. Company capitalised improving consumer sentiments (with ease in lockdown), festive demand, pre-buying, market share gains and distribution expansion. Broad based growth was heartening and gives confidence on improving underlying demand. Lloyd recovery (65% growth in the last 2 quarters) was also driven by several initiatives (pricing, product, distribution and confidence boost to trade partners) taken in the last 12 months. Commodity inflation is kicking in and leading into pricing action. With supply constraints, share gain, and oplev, we do not foresee impact on operating margin. We increase EPS by 21/15/9% for FY21/22/23. We value Havells at 50x P/E on Mar-23E EPS to derive a target price of Rs 1,150. We believe rich valuation will sustain owing to non-linear growth and several growth drivers (PLI also on cards). Maintain ADD.

- **Robust growth across segments:** Revenue grew by 39% YoY (HSIE 18%). Switchgears/Cables/Lighting/ECD/Others grew by 32/27/28/46/28% YoY. Consumer and Residential portfolio registered ~40% growth whereas Industrial and Infra grew mid-teens. Lloyd sustained its momentum with a robust 70% YoY growth (-16% in 3QFY20 and +56% in 2QFY21). Festive demand was encouraging and supported growth along with distribution expansion and supply chain constraints for marginal players. Havells saw market share gains, led by supply chain disruptions for marginal players.
- **EBITDA margin expansion continues:** Contribution margin was flat at 23.6% due to commodity inflation. Employee/Other expenses grew by 7/24% YoY while ASP fell by 34% YoY despite sharp cut in 1HFY21. EBITDA margin expanded by 420bps YoY to 16% (+15bps in 3QFY20 and +662bps in 2QFY21). EBITDA grew by 89% YoY (HSIE +45%). EBIT margin was up by 495/57/554/358/1,030 bps YoY for Switchgears/Cables/Lighting/ECD/Lloyd to 31/11/23/18/6%. PAT grew by robust 75% to Rs 3.5bn.
- **Concall takeaways:** (1) Rural revenue clocked >100% YoY growth; (2) rural and e-comm revenue mix stood at 12%; (3) copper related products like wires saw 15% price hike in 3QFY21; (4) all ECD categories could see double digit price hike if inflation sustains; (5) operating margin will be healthy.

Quarterly/Annual Financial summary

YE Mar (Rs mn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
Net Sales	31,659	22,699	39.5	24,518	29.1	94,292	1,03,775	1,29,319	1,45,123
EBITDA	5,081	2,690	88.9	4,207	20.8	10,274	15,269	17,828	20,207
APAT	3,491	1,995	75.0	3,249	7.5	7,330	10,415	12,219	14,238
Diluted EPS (Rs)	5.6	3.2	75.0	5.2	7.5	11.7	16.6	19.5	22.8
P/E (x)						96.5	67.9	57.9	49.7
EV / EBITDA (x)						67.8	45.2	38.2	33.3
RoCE (%)						21.2	29.1	33.2	37.3

Change in Estimates

(Rs mn)	FY21E			FY22E			FY23E		
	New	Old	Chg (%)	New	Old	Chg (%)	New	Old	Chg (%)
Sales	1,03,775	95,352	8.8	1,29,319	1,18,912	8.8	1,45,123	1,33,449	8.7
EBITDA	15,269	12,811	19.2	17,828	15,981	11.6	20,207	18,777	7.6
PAT	10,415	8,602	21.1	12,219	10,646	14.8	14,238	13,012	9.4
EPS	16.6	13.7	21.1	19.5	17.0	14.8	22.8	20.8	9.4

Source: HSIE Research

ADD

CMP *(as on 21 Jan 2021)*	Rs 1,131
Target Price	Rs 1,150
NIFTY	14,590

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	Rs 1,040	Rs 1,150
	FY22E	FY23E
EPS %	15%	9%

KEY STOCK DATA	
Bloomberg code	HAVL IN
No. of Shares (mn)	626
MCap (Rs bn) / ($ mn)	709/9,707
6m avg traded value (Rs mn)	1,971
52 Week high / low	Rs 1,148/447

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	56.4	93.6	88.5
Relative (%)	34.5	62.8	68.4

SHAREHOLDING PATTERN (%)	Sep-20	Dec-20
Promoters	59.50	59.50
FIs & Local MFs	9.86	8.36
FPIs	22.22	24.36
Public & Others	8.42	7.78
Pledged Shares	0.05	0.05

Source : BSE

Pledged shares as % of total shares

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Jubilant FoodWorks

Uninspiring 3Q; recovery priced in

Jubilant's 3QFY21 was slightly weaker than expected as the company saw a miss on revenue and margins. Revenue/EBITDA was up 0/10% YoY vs. expectation of 3/16%. SSG was at -1% (HSIE +1%), while LFL (excluding temporary closures) was in line at +1%. The company returned to expanding its network with 57 new stores openings (50 for Domino's) and entered into Biryani with its brand 'Ekdum!'. Delivery charges, along with benign raw material, drove gross margin expansion by 340bps YoY. Effective cost control also led to healthy EBITDA margin expansion. Despite encouraging sequential growth (system sales recovered to 100% for 3QFY21 and 106% in Jan-21), Jubilant did not get benefits of pent-up demand and improvement in macros like other discretionary companies. We expect the recovery to gain pace in 4QFY21 and healthy growth in FY22. We maintain our EPS estimate for FY21/22/23. We value Jubilant at 50x P/E on Mar-23E EPS and derive a target price of Rs 2,204. We believe a large part of the recovery is priced in since the stock has run up sharply (40% in 6M). Maintain REDUCE.

- **Sequential recovery continues:** Net revenue remained flat YoY (+14% in 3QFY20 and -19% in 2QFY21), clocking a strong 31% QoQ growth. However, it was below our expectation of 3% YoY growth. SSG stood at -1.4% YoY (HSIE +1%) while like-for-like growth (excluding temporarily closed restaurants) stood at 1.7%. YoY. OLO contribution to delivery stood at 98%. System sales recovered to above 100% of last year as demand continued to improve sequentially. Domino's sales in Jan were up by 6% YoY.
- **Store expansion across brands:** Jubilant opened 50 new Domino's stores, 2 Dunkin' Donuts and 5 Hong's Kitchens, along with its entry into Biryani with its own brand- Ekdum! Store expansion spree will continue across JFL's brands. Hong's and Ekdum! have been receiving solid consumer response and expanding the addressable market (Biryani and Chinese are top delivery cuisines) for JFL.
- **Delivery fee led margin expansion:** GM expanded by 340bps YoY to 78.3% (-65bps in 3QFY20 and +351bps in 2QFY21) vs HSIE +329bps YoY. Employee/rent expenses grew by 6/10% YoY while Other expense declined by 2% YoY. EBITDA margin expanded by 242bps YoY to 26.4% (+557bps in 3QFY20 and +286bps in 2QFY21) vs expectation of 27.1%. EBITDA grew by 10% YoY (HSIE 16%). PBT was up 20% YoY while PAT grew by 21% YoY.
- **Call takeaways:** (1) Dine-in remained under pressure due to continued restrictions. It is expected to return to pre-COVID level in the near term; (2) Bird flu led to a shift from non-veg to veg in North and West; (3) the company will scale Hong's across markets in 2021; (4) Jubilant will open ~110 new Domino's stores in FY21; (5) Domino's store potential in India is seen at 3,000 in the medium term.

Quarterly/Annual Financial summary

YE Mar (Rs mn)	3Q FY21	3Q FY20	*YoY (%)*	2Q FY21	*QoQ (%)*	FY20	FY21E	FY22E	FY23E
Net Sales	10,572	10,596	*(0.2)*	8,055	*31.2*	39,273	33,397	45,780	51,029
EBITDA	2,786	2,536	*9.9*	2,147	*29.8*	8,756	7,777	11,006	12,315
APAT	1,343	1,123	*19.6*	817	*64.3*	3,537	2,644	4,918	5,818
Diluted EPS (Rs)	10.17	8.51	*19.6*	6.19	*64.3*	26.8	20.0	37.3	44.1
P/E (x)						98.6	132.0	71.0	60.0
EV / EBITDA (x)						59.4	70.6	42.9	37.1
RoCE (%)						38.1	22.0	37.1	43.7

Source: Company, HSIE Research

REDUCE

CMP *(as on 3 Feb 2021)*	**Rs 2,646**
Target Price	**Rs 2,204**
NIFTY	**14,790**

KEY CHANGES	**OLD**	**NEW**
Rating	REDUCE	REDUCE
Price Target	Rs 2,204	Rs 2,204
EPS %	FY22E	FY23E
	0%	0%

KEY STOCK DATA	
Bloomberg code	JUBI IN
No. of Shares (mn)	132
MCap (Rs bn) / ($ mn)	349/4,785
6m avg traded value (Rs mn)	2,618
52 Week high / low	Rs 2,988/1,138

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	22.7	52.2	35.3
Relative (%)	(2.1)	16.1	9.3

SHAREHOLDING PATTERN (%)	**Sep-20**	**Dec-20**
Promoters	41.94	41.94
FIs & Local MFs	14.45	12.75
FPIs	37.86	39.43
Public & Others	5.75	5.88
Pledged Shares	1.14	0.91

Source : BSE

Pledged shares as % of total shares

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Performance lags leader

KNPL's 3Q performance (18% YoY; Rs. 14.7bn vs HSIE: Rs. 14.3bn) was nothing to scoff at. However, it's decorative segment (volume/value growth estimated at 23/18.6%) did lag that of market leader APNT (33/26% YoY). Industrial Coating grew at 17% (off a low base). Performance gap was attributed to higher primers/putties sold by the leader. GM expansion lagged that of APNT's (93bp YoY to 39.2% vs APNT +207bp) as mix continues to normalise in favour of low-margin industrials business. While the all-round demand recovery is heartening, RM inflation could weigh on profitability, going forward (already factored in). We largely maintain our EPS estimates and DCF-based TP of Rs. 650/sh (implying 51x Sept-22 P/E).

- **3QFY21 highlights**: Revenue grew 18% YoY to Rs. 14.7bn (HSIE: 14.3bn). Decorative business grew 23/18.6% in volume/value terms and industrial business grew by 17% (HSIE) as pent-up demand timing, strong festive season, share gains from unorganised, recovery in metro/tier-1 catchments, and strong Auto sales underpinned growth. Within Non-Auto Industrials, Powder Coatings continues to do well. On the international front, Nepal clocked strong double-digit growth (led by pent-up demand) post market re-opening in Dec-20. Sri Lanka remains impacted, though it is witnessing signs of recovery. Bangladesh sustained its growth momentum (high double-digit growth YoY). Among subsidiaries, Marpol and Perma grew in high double digits. GM expansion lagged that of APNT's (93bp YoY to 39.2% vs APNT +207bp) as mix continues to normalise in favour of lower-margin industrials business. EBITDAM expanded 430bp to 19.7% (HSIE: 18.6%). as company continued to keep a tight lease on costs. PAT grew 65% to Rs. 2bn (HSIE: Rs. 1.75bn).
- **Outlook:** While all-round demand recovery is heartening, RM inflation could weigh on profitability, going forward (already factored in). While Decorative business continues to perform well and Industrial performance progressively improves, a secular recovery in the latter can't still be called out. Hence, we remain cautiously optimistic on KNPL. We largely maintain our EPS estimates and DCF-based TP of Rs. 650/sh, (implying 51x FY23 P/E).

Quarterly financial summary

(Rs mn)	3QFY21	2QFY20	YoY (%)	1QFY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Net Revenue	15,926	13,319	*19.6*	13,832	*15.1*	54,243	52,800	48,439	57,244	64,708
EBITDA	3,044	1,977	*54.0*	2,686	*13.4*	7,525	8,045	8,394	9,470	10,898
APAT	2,038	1,146	*77.8*	1,682	*21.2*	4,477	5,158	5,194	5,948	6,838
EPS (Rs)	3.8	2.1	*77.8*	3.1	*21.2*	8.3	9.6	9.6	11.0	12.7
P/E (x)						70.3	61.0	60.6	52.9	46.0
EV/EBITDA (x)						43.2	40.4	38.4	33.8	29.6
Core RoCE(%)						12.8	13.6	12.9	14.1	14.5

Source: Company, HSIE Research, Standalone Financials

Change in estimates

(Rs mn)	FY21E			FY22E			FY23E		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Revenue	48,439	47,981	*1.0*	57,244	56,693	*1.0*	64,708	63,912	*1.2*
Gross Profit	19,149	19,183	*(0.2)*	22,347	22,396	*(0.2)*	25,130	25,111	*0.1*
Gross Profit Margin(%)	39.5	40.0	***(45 bps)***	39.0	39.5	***(47 bps)***	38.8	39.3	***(45 bps)***
EBITDA	8,394	7,623	*10.1*	9,470	9,398	*0.8*	10,898	10,777	*1.1*
EBITDA margin (%)	17.3	15.9	***144 bps***	16.5	16.6	***(3 bps)***	16.8	16.9	***(2 bps)***
APAT	5,194	4,623	*12.4*	5,948	5,906	*0.7*	6,838	6,764	*1.1*
APAT margin (%)	10.7	9.6	***109 bps***	10.4	10.4	***(3 bps)***	10.6	10.6	***(2 bps)***
EPS (Rs)	9.6	8.6	*12.4*	11.0	11.0	*0.7*	12.7	12.6	*1.1*

Source: Company, HSIE Research

ADD

CMP *(as on 5 Feb 2021)*	**Rs 584**
Target Price	**Rs 650**
NIFTY	**14,924**

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	Rs 650	Rs 650
	FY22E	FY23E
EPS %	+0.7	+1.1

KEY STOCK DATA	
Bloomberg code	KNPL IN
No. of Shares (mn)	539
MCap (Rs bn) / ($ mn)	315/4,327
6m avg traded value (Rs mn)	179
52 Week high / low	Rs 680/294

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	12.3	32.2	15.9
Relative (%)	(10.4)	(2.5)	(7.4)

SHAREHOLDING PATTERN (%)

	Sep-20	Dec-20
Promoters	74.99	74.99
FIs & Local MFs	8.1	8.04
FPIs	4.03	4.17
Public & Others	12.88	12.80
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Crompton Consumer

Surprises continue; market share story intact

Crompton continued its strong run in 3QFY21 as revenue/EBITDA grew by 26/46% YoY (HSIE 19/32%). ECD saw 32% YoY broad-based growth, as Fans/Pumps/Geysers posted 36/19/49% YoY growth. Crompton saw market share gains across its portfolio, share gain in fans by 1% YoY. Lighting sustained recovery, B-C clocked 13% volume growth while B-B remained a laggard. Consistent focus on distribution reach (mainly in rural), cost optimisation, and product innovation is driving overall performance. EBITDA margin was up >200bps YoY despite RM inflation, as cost control, product mix, and oplev supported margin. We expect earnings momentum to sustain in the coming quarters too. We increase EPS by 6/4% for FY22/23. We value Crompton at 40x P/E on Mar-23E EPS to derive a TP of Rs 460. Maintain BUY.

- **ECD-led beat in revenue:** Revenue grew by 26% YoY (+4% in 3QFY20 and +13% in 2QFY21), beating our expectation of 19% YoY growth. ECD revenue was up by 32% YoY (+11% in 3QFY20 and +32% in 2QFY21). Lighting revenue was up by 10% YoY (-11% in 3QFY20 and -2% in 2QFY21). ECD saw broad-based growth while Lighting B-C was strong (13% growth) with weak B-B. E-com and MT grew by >50% YoY while rural grew by 88% YoY.
- **Robust margin expansion:** GM expanded by 13bps YoY (+21bps in 3QFY20 and +106bps in 2QFY21) vs expectation of 25bps YoY expansion. Employee/Other expenses grew by 20/9% YoY as operations returned to normal for the company. EBITDA margin expanded by 206bps YoY to 14.8% (+54bps in 3QFY20 and 373bps in 2QFY21). EBITDA grew by 46% YoY (HSIE 32%).
- **Lighting margin recovery sustained**: EBIT margins were healthy for Lighting with an expansion of 539bps YoY (-198bps in 3QFY20 and +651bps in 2QFY21) while ECD margin remained flat YoY (+119bps in 3QFY20 and +182bps in 2QFY21). Price stability in Lighting supported margins. However, ECD margins were impacted by the sharp increase in commodity inflation. PBT clocked 46% YoY growth while PAT declined by 6% YoY due to tax refund in the base quarter.
- **Concall takeaways:** (1) Capacity utilisation is 30-40% higher YoY; (2) secondary data indicated no inventory buildup in the channel; (3) Crompton took a 5-8% price hike in ECD due to commodity inflation; (4) the company intends to restore ECD margin to industry-leading level; (5) several players including Crompton announced a 5% price hike in B-C Lighting in Jan'2021; (6) premium fans saw 51% YoY growth.

Quarterly/Annual Financial summary

YE Mar (Rs mn)	3QFY21	3QFY20	YoY (%)	2QFY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
Net Sales	13,482	10,713	*25.8*	12,132	*11.1*	45,120	47,207	58,494	65,405
EBITDA	2,001	1,369	*46.2*	1,913	*4.6*	5,969	6,986	8,367	9,335
APAT	1,511	1,043	*44.8*	1,417	*6.6*	4,401	5,230	6,490	7,354
Diluted EPS (Rs)	2.41	1.66	*44.9*	2.26	*6.7*	7.0	8.1	10.1	11.5
P/E (x)						58.4	50.3	40.6	35.8
EV / EBITDA (x)						42.7	36.7	30.2	26.7
RoCE (%)						38.9	41.4	46.4	48.3

Change in Estimates

	FY21E			FY22E			FY23E		
	OLD	NEW	Chg (%)	OLD	NEW	Chg (%)	OLD	NEW	Chg (%)
Sales	44,568	47,207	*5.9*	54,000	58,494	*8.3*	61,049	65,405	*7.1*
EBITDA	6,431	6,986	*8.6*	7,960	8,367	*5.1*	9,090	9,335	*2.7*
APAT	4,825	5,230	*8.4*	6,107	6,490	*6.3*	7,048	7,354	*4.3*
EPS	7.5	8.1	*8.4*	9.5	10.1	*6.3*	11.0	11.5	*4.3*

Source: Company, HSIE Research

BUY

CMP *(as on 25 Jan 2021)*	Rs 412
Target Price	Rs 460
NIFTY	14,239

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 440	Rs 460
EPS %	FY22E	FY23E
	6%	4%

KEY STOCK DATA	
Bloomberg code	CROMPTON IN
No. of Shares (mn)	627
MCap (Rs bn) / ($ mn)	259/3,545
6m avg traded value (Rs mn)	550
52 Week high / low	Rs 456/177

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	35.1	64.6	57.1
Relative (%)	16.2	37.8	40.9

SHAREHOLDING PATTERN (%)

	Sep-20	Dec-20
Promoters	26.19	17.42
FIs & Local MFs	26.05	37.59
FPIs	30.32	34.33
Public & Others	17.44	10.66
Pledged Shares	17.17	11.43

Source : BSE

Pledged shares as % of total shares

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Trent

Surprises positively

Trent's 3Q performance surprised positively. Revenue recovery at 83% of base quarter was commendable (HSIE: 81% recovery). Westside recovered 78% (In-line). Hence, the revenue beat has come from its value play – Zudio. Bigger surprise was on GM recovery, which expanded 574bp YoY to 56.4% (HSIE: 48%). We suspect GM expansion was led by (1) write back of the conservative inventory provisions made in 1Q (Impact of Rs. 140mn in 3Q), (2) better GMs in Zudio. Note: GMs are still down ~280bp in 9MFY21. Costs continue to normalise; hence, EBITDAM beat lags GM beat. We maintain our SELL recommendation on the stock with an SOTP-based TP of Rs. 575/sh (implying 32x FY23 EV/EBITDA). Note: TP change largely mimics EPS change.

- **3QFY21 highlights**: Revenue recovery at 83.4% of 3QFY20 (Rs. 7.25bn vs HSIE: Rs. 7.05bn) was better than expected. Westside recovered 78% YoY (LTL growth: -26%), implying that Zudio overshot expectations. MoM sales trends are encouraging. Jan-21 EoSS sales witnessed similar traction as 3QFY20. GMs expanded 574bp YoY to 56.4% (HSIE: 48%). We believe GM expansion was led by (1) write back of the conservative inventory provisions made in 1Q (Impact of Rs. 140mn in 3Q), and (2) better GMs in Zudio. Note: GMs are still down ~280bp in 9MFY21 (47.6%). Rental concessions in 3Q/9MFY21 stood at Rs. 188/772mn. However, cost of retailing seems to be normalising faster than expected (31.6% vs HSIE: 28.3%). Ergo, EBITDAM expansion (486bp) lagged GM expansion. Adj. PBT/PAT declined/grew -3%/+43%. YoY to Rs. 1/.8bn respectively. Rs. 0.8bn of the Rs. 9.5bn raised in FY20 (via Tata Sons) remain unutilized. The Board approved an enabling resolution to raise Rs. 5bn via NCD issuance largely to refinance existing debt.
- **Outlook**: Trent's revenue and margin recovery seem most promising within our apparel universe. It remains well-capitalised (net cash position (ex-JV/associate investments of Rs. 8.15bn in 1H). However, valuations remain uncomfortably high (>40x FY23 EV/EBITDA). Ergo, we maintain our SELL recommendation on the stock with an SOTP-based TP of Rs. 575/sh.

Quarterly financial summary

(Rs mn)	3QFY21	3QFY20	YoY (%)	2QFY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Net Revenue	7,254	8,697	*(16.6)*	4,521	*60.4*	25,317	31,777	20,111	37,740	45,947
EBITDA	1,800	1,735	*3.7*	64	*2,718.8*	2,365	5,632	2,255	6,615	7,732
APAT	797	557	*42.9*	(481)	*(265.6)*	1,275	1,546	(941)	1,589	1,696
EPS (Rs)	2.2	1.6	*42.9*	(1.3)	*(266.3)*	3.8	4.3	(2.6)	4.5	4.8
P/E (x)						183.1	162.8	(267.5)	158.4	148.4
EV/EBITDA (x)						99.9	44.3	110.9	38.4	33.4
Core RoCE(%)						7.5	7.2	(0.3)	6.8	6.8

Source: Company, HSIE Research, Standalone Financials

Change in estimates

(Rs mn)	FY21E			FY22E			FY23E		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Revenue	20,111	19,180	*4.9*	37,740	37,241	*1.3*	45,947	45,591	*0.8*
Gross Profit	9,868	8,531	*15.7*	18,367	17,992	*2.1*	21,935	21,666	*1.2*
Gross Profit Margin(%)	49.1	44.5	***459 bps***	48.7	48.3	***35 bps***	47.7	47.5	***22 bps***
EBITDA	2,255	1,458	*54.6*	6,615	6,365	*3.9*	7,732	7,551	*2.4*
EBITDA margin (%)	11.2	7.6	***361 bps***	17.5	17.1	***44 bps***	16.8	16.6	***26 bps***

Source: Company, HSIE Research

SELL

CMP ***(as on 4 Feb 2021)***	**Rs 670**
Target Price	**Rs 575**
NIFTY	**14,896**

KEY CHANGES	**OLD**	**NEW**
Rating	SELL	SELL
Price Target	Rs 565	Rs 575
EBITDA %	FY21E	FY22E
	+3.9	+2.4

KEY STOCK DATA	
Bloomberg code	TRENT IN
No. of Shares (mn)	355
MCap (Rs bn) / ($ mn)	238/3,263
6m avg traded value (Rs mn)	726
52 Week high / low	Rs 809/365

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	0.2	19.5	11.5
Relative (%)	(24.4)	(14.8)	(12.6)

SHAREHOLDING PATTERN (%)	**Jun-20**	**Sep-20**
Promoters	74.99	74.99
FIs & Local MFs	6.56	5.39
FPIs	9.62	10.27
Public & Others	8.83	9.35
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Aditya Birla Fashion and Retail

Just got nimbler

Recovery was all-round at 80% (HSIE: 73%) as all verticals beat expectations. Madura/Pantaloons recovered 81/75% resp. (HSIE: 72/71%). Gross margin recoup (52.3%) was sharper than expected, led by 1. Lower inventory provisioning and discounting levels and 2. Higher retail sales in Lifestyle brands. EBITDAM expanded 193bp YoY to 17.9%. A nimble ABFRL was a welcome change (debt was down from Rs. 33.4bn in Jun-20 to Rs. 5.8bn in Feb-21). We upgrade ABFRL to a Buy recommendation with a DCF-based TP of Rs. 200/sh, implying 14x FY23 EV/EBITDA, given 1. a stronger balance sheet (FY21 net debt/equity estimated at 0.2x), 2. stronger top-line/margin recovery and 3. ebbing working capital stress. (FY22/23 EBITDA estimate changes 8/2% resp).

- **3QFY21 highlights**: Revenue declined 19.6% YoY to Rs. 20.6bn (standalone). Lifestyle brands recovered 79% (HSIE: 71%) underpinned by strong recovery in retail channel (92%). Wholesale channel remains in stress (declined 63.5%). Primary sales are expected to bounce back in 4Q. Secondary sales recovery stood at 70-80%. Pantaloons declined 25% (HSIE: -30%). Other business grew 49% growth in 3Q. Gross margin recoup was sharper than expected led by 1. Lower Inventory provisioning, 2. Lower discounting levels and 3. Lifestyle brand's higher retail skew in 3Q. GM/EBITDAM expanded 30/193bp YoY to 52.3/17.9%. Cash release in 3Q stood at Rs. 5.88bn (Rs. 3.25bn came from inventory reduction). Total cost savings for 9MFY21 stood at Rs. 10.3bn. Company added 88/2 stores (net) in Lifestyle brands/Pantaloons resp (9MFY21) and intends to aggressively start store additions by FY22. The much-awaited deleveraging exercise in now near completion (courtesy Flipkart money + Rights issue). Net debt is likely to reduce to Rs. 2.5bn (ex-Sabyasaachi acquisition) by FY21.
- **Outlook**: We are encouraged with ABFRL's top-line/margin recovery and more so by its receding leverage concerns. With its newfound nimbleness, we expect ABFRL to now focus on disciplined growth. Hence, we upgrade ABFRL to a BUY recommendation with a DCF-based TP of Rs. 200/sh (earlier Rs. 180/sh), implying 14x FY23 EV/EBITDA.

Quarterly financial summary

(Rs mn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY22E	FY23E
Net Revenue	20,590	25,625	(20)	10,186	102	81,177	87,425	54,926	89,085	100,554	114,799
Adj EBITDA	1,685	2,158	(22)	(1,817)	(193)	5,541	4,655	2,148	12,041	14,041	16,567
APAT	1,245	(207)	(701)	(1,142)	(209)	3,212	(796)	(5,775)	(775)	465	1,466
EPS (Rs)	0.81	(0.43)	(288)	(2.21)	(137)	4.2	(1.0)	(6.7)	(0.8)	0.5	1.6
P/E (x)						36.8	NM	NM	NM	NM	NM
EV/EBITDA (x)						24.3	30.5	71.5	12.2	8.7	7.5
Core RoCE(%)						8.7	6.4	(14.6)	3.7	6.2	9.7

Source: Company, HSIE Research, Standalone Financials

Change in estimates

	New	Old	*Change (%)*	New	Old	*Change (%)*	New	Old	*Change (%)*
Revenue	54,926	50,212	*9.4*	89,085	81,452	*9.4*	100,554	97,026	*3.6*
Gross Profit	26,171	23,925	*9.4*	44,674	40,846	*9.4*	50,928	49,141	*3.6*
Gross Profit Margin (%)	47.6	47.6	-	50.1	50.1	-	50.6	50.6	-
EBITDA	2,148	1,944	*10.5*	12,041	11,105	*8.4*	14,041	13,739	*2.2*
EBITDA margin (%)	3.9	3.9	*4 bps*	13.5	13.6	*(12 bps)*	14.0	14.2	*(20 bps)*

Source: Company, HSIE Research

BUY

CMP *(as on 8 Feb 2021)*	**Rs 164**
Target Price	**Rs 200**
NIFTY	**15,116**

KEY CHANGES	OLD	NEW
Rating	ADD	BUY
Price Target	Rs 180	Rs 200
	FY21E	FY22E
EBITDA %	+8.4	+2.2

KEY STOCK DATA	
Bloomberg code	ABFRL IN
No. of Shares (mn)	848
MCap (Rs bn) / ($ mn)	139/1,910
6m avg traded value (Rs mn)	442
52 Week high / low	Rs 281/96

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	7.4	35.9	(36.1)
Relative (%)	(15.2)	0.9	(60.9)

SHAREHOLDING PATTERN (%)	Sep-20	Dec-20
Promoters	59.79	59.76
FIs & Local MFs	18.23	17.77
FPIs	6.09	6.28
Public & Others	15.89	16.19
Pledged Shares	0	0

Source : BSE

Pledged shares as % of total shares

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V-Guard Industries

Inspiring show; beat across the board

V-Guard posted a stellar set of numbers as revenue/EBITDA grew by 32/91% YoY (HSIE 14/34%). Growth was visible across the board as all segments grew >30%. Growth was led primarily by positive sentiment, re-stocking of distribution channels and pre-buying. Growth in Non-South markets continued to be a key driver with 43% YoY growth while South markets grew by 25% YoY. Stabilizers, wires, fans, kitchen appliances and digital UPS were the leaders in growth while water heaters struggled due to supply disruptions. Effective cost control and price hikes led to robust margins despite high commodity inflation. We expect V-Guard to sustain its strong growth momentum in the near term, led by (1) pent-up demand (summer driven products), (2) price hike, (3) share gain from unorganised player, (4) pick-up in housing activities and (5) favourable base. EBITDA margin should sustain at 10.5-11% during FY22-23. We increase our EPS estimates by 15/16% for FY22/FY23. We value V-Guard at 35x P/E on Mar'23 to derive a target price of Rs 255. Maintain ADD.

- **Strong growth across the board:** Revenue grew by 32% YoY (+5% in 3QFY20 and flat in 2QFY21), beating our expectation of 14% YoY growth. Growth was visible across categories as Electronics/Electricals/Consumer Durables segments grew by 35/31/31% YoY. Non-south markets continued to grow ahead of southern markets with a growth of 43% YoY vs 25% in southern markets. Non-south revenue mix grew to 41%. Strong growth momentum is expected to sustain in the coming quarters too.

- **Robust margins:** GM saw a contraction of 55bps YoY to 32.6% (+318bps in 3QFY20 and -220bps in 2QFY21). Employee/other expenses grew by 7/4% YoY while S&D expenses remained muted. EBITDA margin expanded by 424bps YoY to 13.7% (+192bps in 3QFY20 and -54bps in 2QFY21) vs HSIE 171bps YoY expansion. EBITDA grew by 91% YoY (HSIE 34%). EBIT margins for Electronics/Electrical/Consumer Durables segments expanded by 880/110/440bps YoY to 25/9/10%. PBT clocked 92% YoY growth while PAT grew by 80% YoY due to lower tax rate in the base quarter.
- **ConCall takeaways:** (1) Secondary sales were in line with primary in 3QFY21, it was ahead of primary in 2QFY21; (2) MT and e-comm mix is 12-15% excluding wires; (3) V-Guard took 3-3.5% price hike in 3Q (15% in wires), and further 4-7% hike is expected in 4QFY21; (4) V-Guard is facing supply constraints across products like fans, modular switches and mixers; (5) the company has 40,000 retail touch points, of which 18,000 are in south.

Quarterly/Annual Financial summary

YE Mar (Rs mn)	3QFY21	3QFY20	*YoY (%)*	2QFY21	*QoQ (%)*	FY20	FY21E	FY22E	FY22E
Net Sales	8,274	6,266	*32.0*	6,167	*34.2*	24,820	27,019	33,314	36,943
EBITDA	1,136	594	*91.1*	739	*53.6*	2,533	2,867	3,618	4,099
APAT	770	429	*79.6*	481	*60.3*	1,776	1,953	2,667	3,083
Diluted EPS (Rs)	1.79	1.00	*78.8*	1.12	*60.0*	4.15	4.56	6.23	7.20
P/E (x)						60.8	55.3	40.5	35.0
EV / EBITDA (x)						42.0	36.9	28.9	25.2
RoCE (%)						20.5	20.3	26.3	28.1

Change in Estimates

(Rs mn)	FY21E			FY22E			FY23E		
	OLD	NEW	*Chg (%)*	OLD	NEW	*Chg (%)*	OLD	NEW	*Chg (%)*
Sales	24,719	27,019	*9.3*	30,073	33,314	*10.8*	33,500	36,943	*10.3*
EBITDA	2,353	2,867	*21.8*	3,144	3,618	*15.1*	3,534	4,099	*16.0*
APAT	1,653	1,953	*18.2*	2,326	2,667	*14.6*	2,655	3,083	*16.1*
EPS	3.9	4.6	*18.2*	5.4	6.2	*14.6*	6.2	7.2	*16.1*

Source: Company, HSIE Research

ADD

CMP *(as on 4 Feb 2021)*	**Rs 252**
Target Price	**Rs 255**
NIFTY	**14,896**

KEY CHANGES	**OLD**	**NEW**
Rating	ADD	ADD
Price Target	Rs 217	Rs 255
EPS %	FY22E	FY23E
	15%	16%

KEY STOCK DATA	
Bloomberg code	VGRD IN
No. of Shares (mn)	429
MCap (Rs bn) / ($ mn)	108/1,484
6m avg traded value (Rs mn)	182
52 Week high / low	Rs 255/149

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	48.7	54.3	16.8
Relative (%)	24.1	20.0	(7.2)

SHAREHOLDING PATTERN (%)	**Sep-20**	**Dec-20**
Promoters	62.64	62.55
FIs & Local MFs	13.14	13.01
FPIs	12.51	13.20
Public & Others	11.71	11.24
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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TTK Prestige

Broad-based recovery, improving earnings visibility

TTK delivered a stellar performance as revenue/EBITDA grew by 24/42% YoY (HSIE 18/19%). Festive demand, improving consumer sentiments, pent-up benefits and ease out in supply chain issue supported the growth (even sustained in Jan-21 with 20% growth). E-comm remained the fastest growing channel, although all channels saw recovery, specifically MFIs. New launches performed well for the company and categories like dishwashers and chimneys will continue to drive premiumisation. Price hike (~9%) supported GM despite high RM pressure. Oplev and cost control led to the company clocking 10-year high EBITDA margin (17%). The performance in 3QFY21 is encouraging for TTK, which was weaker than peers in 1HFY21. We expect the company to sustain a healthy earnings trajectory supported by (1) improving consumer sentiments; (2) normalised trade inventory; (3) new launches aiding addressable market; (4) revival in MFIs and (5) favorable base. We increase our EPS estimates for FY22/FY23 by 6/5%. With improving visibility on earnings and having a pure B-C story, we increase target multiple to 38x (35x earlier) on Mar-23E EPS. Our target price is Rs 7,850. Maintain ADD.

- **Broad-based revenue growth:** Revenue grew by 24% YoY (-1% in 3QFY20 and +3% in 2QFY21), HSIE 18% YoY. Cookers/Cookware/Appliances/Others clocked 29/34/19/26% YoY growth. Recovery was robust across segments, channels and market with volume growth of ~18%. E-comm clocked 50-60% growth while other channels also posted strong recovery. Rural growth remained ahead of urban throughout 9MFY21. TTK introduced 25 new SKUs during the quarter. Exports grew by 50% YoY.
- **10 year high EBITDA margin:** Gross margin contracted by 29bps YoY to 41.5% (-111bps in 3QFY20 and -258bps in 2QFY21) vs our expectation of 141bps YoY expansion. Employee/Other expenses grew by 6/16% YoY as operations normalized. EBITDA margin expanded by 219bps YoY to 10 Year high margin of 17.4% (-25bps in 3QFY20 and -50bps in 2QFY21), beating expectations of 8bps YoY expansion. EBITDA grew by 42% YoY (HSIE 19%). PBT grew by 46% YoY while PAT was up 42% YoY.
- **Call takeaways:** (1) TTK took an average price hike of 9% in 3QFY21 across two tranches; (2) channel inventory is at normal levels (<1 month); (3) E-comm revenue mix stood at 16%; (4) EBITDA margin expansion was despite no drastic cuts; (5) MFI sales recovered well and revenue mix was ~5%.

Quarterly/Annual Financial summary

YE Mar (Rs mn)	3QFY21	3QFY20	*YoY (%)*	2QFY21	*QoQ (%)*	FY20	FY21E	FY22E	FY23E
Net Sales	6,794	5,461	*24*	5,902	*15*	20,730	21,131	25,327	27,810
EBITDA	1,182	830	*42*	860	*37*	2,635	3,008	3,686	4,059
APAT	865	609	*42*	622	*39*	1,933	2,124	2,602	2,867
Diluted EPS (Rs)	62.4	43.9	*42*	44.9	*39*	139.4	153.1	187.5	206.6
P/E (x)						49.9	45.4	37.1	33.6
EV / EBITDA (x)						35.2	30.2	24.3	21.6
RoCE (%)						20.0	22.5	26.3	26.6

Change in Estimates

	FY21E			FY22E			FY23E		
	New	Old	Chg (%)	New	Old	Chg (%)	New	Old	Chg (%)
Sales	21,131	20,344	3.9	25,327	24,649	2.8	27,810	27,106	2.6
EBITDA	3,008	2,715	10.8	3,686	3,491	5.6	4,059	3,864	5.0
APAT	2,124	1,898	11.9	2,602	2,448	6.3	2,867	2,737	4.8
EPS	153.1	136.8	11.9	187.5	176.4	6.3	206.6	197.2	4.8

Source: Company, HSIE Research

ADD

CMP ***(as on 10 Feb 2021)***	**Rs 6,933**
Target Price	**Rs 7,850**
NIFTY	**15,107**

KEY CHANGES	**OLD**	**NEW**
Rating	ADD	ADD
Price Target	Rs 6,900	Rs 7,850
	FY22E	FY23E
EPS %	6%	5%

KEY STOCK DATA

Bloomberg code	TTKPT IN
No. of Shares (mn)	14
MCap (Rs bn) / ($ mn)	96/1,319
6m avg traded value (Rs mn)	62
52 Week high / low	Rs 7,103/3,901

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	16.6	27.0	21.5
Relative (%)	(1.9)	(7.4)	(3.7)

SHAREHOLDING PATTERN (%)

	Sep-20	Dec-20
Promoters	70.41	70.41
FIs & Local MFs	11.76	11.72
FPIs	9.42	9.48
Public & Others	8.41	8.39
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Symphony

Domestic in line; RoW improving

Symphony's domestic revenue was in line (33% down YoY), while exports were down by 79% due to delays in shipment (bunch-up expected in 4Q). Thereby, 3QFY21 was below our estimates (down 40% YoY). Trade inventory is at a normal level (marginally lower) compared to last year. As a result, domestic revenue is expected to revive from 4Q onwards (new launches closer to the season). Trade sentiment is healthy and pent-up demand is also possible in the upcoming season (similar to other appliance categories). The Rest of the World (RoW) put up a weak show due to continued impact of COVID-19. CT delivered 1% growth in 9MFY21 while margin was impacted by supply constraints leading to high raw material cost. IMPCO and GSK are on the road to recovery, while gross margin was healthy. We have recently upgraded Symphony to ADD on the expectation of strong domestic recovery in the upcoming season and operational improvement for subsidiaries. We maintain EPS estimates for FY22/FY23. We value Symphony at 35x P/E on Mar-23E EPS and derive a TP of Rs 1,115. Maintain ADD.

- **Exports drag revenue:** Standalone revenue declined by 40% YoY (+30% in 3QFY20 and -43% in 2QFY21), vs estimated decline of 25% YoY. The miss was primarily on account of exports. Domestic revenue declined 34% YoY (in-line) while exports saw a 79% YoY decline (HSIE +10%). High trade inventory kept domestic revenue weak. The company is taking several initiatives to revive domestic revenue, the result of which is expected to be visible in the upcoming season. RoW was down 13% YoY as the impact of COVID-19 was visible across markets. CT clocked 1% YoY growth in 9MFY21 while IMPCO and GSK continued to recover.
- **A miss in margins:** Standalone GM remained flat YoY at 49.2% (+22bps in 3QFY20 and +103bps in 2QFY21) vs expectation of 122bps YoY expansion. Employee/ASP/Other expenses declined by 7/67/33% YoY. EBITDA margin contracted by 414bps YoY to 28.2% (+218bps in 3QFY20 and -539bps in 2QFY21), missing expectation of 199bps YoY dip. Standalone EBITDA declined by 48% YoY (HSIE -30%). PBT declined by 43% YoY while PAT declined by 40% YoY. RoW posted EBIT loss of Rs 70mn vs profit of Rs 90mn last year. Subsidiary margins continued to remain impacted. However, the company expects margins to improve from 4QFY21 onwards.
- **Call takeaways:** (1) Channel inventory in India is higher since September but in line YoY; (2) consolidated inventory with the company was Rs 950mn while standalone inventory was Rs 350mn; (3) trade collection in Dec-20 was higher than Dec-19; (4) standalone sales in FY22 are expected to at least recover to FY20 level; (5) the company expects market share gains in the upcoming season due to supply chain constraints for other players.

Quarterly/Annual Financial summary

YE Mar (Rs mn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
Net Sales	1,240	2,070	*(40.1)*	1,120	*10.7*	11,030	8,254	11,250	12,522
EBITDA	350	670	*(47.8)*	290	*20.7*	2,120	1,432	2,451	2,768
APAT	350	580	*(39.7)*	270	*29.6*	1,820	1,107	1,883	2,232
Diluted EPS (Rs)	5.0	8.3	*(39.7)*	3.9	*29.6*	26.0	15.8	26.9	31.9
P/E (x)						38.1	62.6	36.8	31.1
EV / EBITDA (x)						31.5	46.5	27.0	23.6
RoCE (%)						42.2	23.5	43.0	49.3

Source: Company, HSIE Research * Quarter numbers are standalone

ADD

CMP ***(as on 22 Jan 2021)***	**Rs 990**
Target Price	**Rs 1,115**
NIFTY	**14,372**

KEY CHANGES	**OLD**	**NEW**
Rating	ADD	ADD
Price Target	Rs 1,115	Rs 1,115
EPS %	FY22E	FY23E
	0%	0%

KEY STOCK DATA	
Bloomberg code	SYML IN
No. of Shares (mn)	70
MCap (Rs bn) / ($ mn)	69/950
6m avg traded value (Rs mn)	77
52 Week high / low	Rs 1,405/690

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	14.8	15.3	(16.4)
Relative (%)	(5.7)	(13.8)	(35.2)

SHAREHOLDING PATTERN (%)	**Sep-20**	**Dec-20**
Promoters	75.00	73.25
FIs & Local MFs	10.62	10.98
FPIs	4.40	3.55
Public & Others	9.98	12.22
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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V-MART Retail

Continues to lead apparel universe in recovery

V-MART recovered ~84% (LTL growth at 81%; HSIE: 80%) of base quarter sales (most within our apparel universe along with Trent). Recovery was led by strong festive and marriage season along with early winter sales. Better inventory relevance/control (translating into lower discounting) led to gross margin expansion. GM expanded 40bp to 36.7% (HSIE: 35%). EBITDAM expanded 131bp to 22.1% (the highest since FY14), led by strong cost control. Working capital (WC) remains smartly managed and the company remains net cash positive. Note: VMART recently raised Rs. 3.75bn (for furthering growth aspirations). We revise our FY22/23 EBITDA estimates by ~3% each YoY to account for marginally higher margins, courtesy a struggling ecosystem. Ergo, revise our DCF-based TP to Rs. 2,650/sh (implying 22x FY23 EV/EBITDA)

- **2QFY21 highlights**: Revenue declined 16.4% YoY to Rs. 4.7bn (HSIE: Rs. 4.5bn) - the fastest recovery within our apparel universe given its predominant Tier 2-4 presence and a strong festive and marriage season along with the tailwind of an early winter. LTL growth stood at 81% YoY. Note: footfall recovery (72%) continues to lag top-line recovery (84%). The ASP/average bill sizes/conversion rates remain elevated (+2%/+16%/62% respectively) as consumers continue to prefer purposeful shopping. GM expanded 40bp to 36.7% (HSIE: 35%). EBITDAM expanded 131bp to 22.1% (the highest since FY14), led by strong cost control. Working capital (WC) remains smartly managed and the company remains net cash positive. Inventory levels were down Rs. 1.7bn and -37% on a per store level basis since 4QFY20 – the only apparel retailer to achieve this. PAT declined 18% to Rs. 479mn (HSIE: Rs. 422mn).
- **Outlook**: VMART's 9MFY21 gives a glimpse of how an efficient retailer operates during a crisis. We believe that market share gains would expedite in the post-pandemic world as VMART's strong balance sheet (even so post the Rs. 3.75bn fund raise) meets precariously-placed regional peers (suffering from liquidity challenges). Hence, we maintain our ADD recommendation with a DCF-based TP of Rs. 2,650/sh (implying 22x FY23 EV/EBITDA). FY22/23 EBITDA estimates revised upwards by ~3% each respectively.

Quarterly financial summary

(Rs mn)	3QFY21	3QFY20	YoY (%)	2QFY21	QoQ (%)	FY19	FY20E	FY21E	FY22E	FY23E
Net Revenue	4,700	5,622	*(16.4)*	1,755	*167.8*	14,337	16,630	10,660	16,920	21,833
Adj EBITDA	835	944	*(11.5)*	(97)	*(957.6)*	1,329	1,324	442	1,422	1,924
EV/EBITDA (x)						33.2	33.9	98.7	30.7	22.4
Core RoCE(%)						21.5	19.2	1.3	18.5	22.6

Source: Company, HSIE Research, Standalone Financials

Change in estimates

(Rs mn)	FY21E			FY22E			FY23E		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Revenue	10,660	10,660	-	16,920	16,920	-	21,833	21,833	-
Gross Profit	3,439	3,334	*3.1*	5,475	5,393	*1.5*	7,108	7,003	*1.5*
Gross Profit Margin(%)	32.3	31.3	***98 bps***	32.4	31.9	***48 bps***	32.6	32.1	***48 bps***
EBITDA	442	305	*44.8*	1,422	1,374	*3.5*	1,924	1,863	*3.3*
EBITDA margin (%)	4.1	2.9	***128 bps***	8.4	8.1	***28 bps***	8.8	8.5	***28 bps***

Source: Company, HSIE Research

ADD

CMP *(as on 5 Feb 2021)*	**Rs 2,490**
Target Price	**Rs 2.650**
NIFTY	**14,924**

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	Rs 2,425	Rs 2,650
EBITDA %	FY22E +3.5	FY23E +2.7

KEY STOCK DATA	
Bloomberg code	VMART IN
No. of Shares (mn)	18
MCap (Rs bn) / ($ mn)	45/621
6m avg traded value (Rs mn)	68
52 Week high / low	Rs 2,613/1,200

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	26.4	39.5	18.8
Relative (%)	3.7	4.8	(4.5)

SHAREHOLDING PATTERN (%)

	Sep-20	Dec-20
Promoters	50.8	50.6
FIs & Local MFs	17.6	18.5
FPIs	23.2	22.6
Public & Others	8.5	8.3
Pledged Shares	50.8	50.6

Source : BSE

Pledged shares as % of total shares

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Gulf Oil Lubricants

An improved demand outlook

Gulf Oil witnessed a healthy demand in 3Q, with volumes rising 16% YoY – with this, the FY21E volumes are expected to be flat YoY (vs. expectations of a decline earlier). However, the EBITDA margins at 17.3% moderated (-170bp QoQ) on firming costs. The company expects double-digit growth in FY22E as the management is confident of growing at 2-3x the industry. Diversification initiatives: After entering the battery segment in the past, Gulf has made its first strategic move into the e-charging segment with a minor investment in Indra, a UK-based electric charging company. We reiterate our BUY rating on the stock and set a revised Mar'22 PT of Rs.880. Our estimates for FY22-23E are increased by 10% / 2% - we value the company at 20x forward earnings.

- **3QFY21 financials:** Net revenue came in at Rs 4.8bn (+14% YoY, 17% QoQ) as volumes grew 16%. EBITDA margin, at 17.3% was lower QoQ on firming input costs. Reported PAT at Rs.640mn was up 15% YoY.
- **Call and other takeaways: (1) Demand growth surprises:** Gulf reported 3Q volumes of 33,000 litres. With this, the company has gained market share as it has grown 4x the industry. The share of higher-margin B2C segment remains above 60% - contribution from personal mobility segment has sustained at 24% and DEO was 37% of sales as CV volumes have revived. **(2) Margins:** The 3Q margins were lower at 17.3%(-170bp QoQ) on firming costs (RM costs +30bps, other exp +240bps). To offset the impact of rising crude, industry has taken price hikes in 3Q. **(3) Diversification initiatives:** The 2W battery business has broken even this quarter as sales have reached Rs.250mn (5% of revenue). The company has also invested in the EV charging company as highlighted above. The management highlights that the lubricants will be in used over the next 2-3 decades based on their assessment. However, they are gradually diversifying into newer businesses.

Financial Summary

(Rs mn)	3Q FY21	3Q FY20	% YoY	2Q FY21	% QoQ	FY19	FY20	FY21E	FY22E	FY23E
Net Revenues	4,819	4,117	*17.0*	4,219	*14.2*	17,058	16,435	15,791	17,858	19,570
EBITDA	834	783	*6.4*	775	*7.5*	2,831	2,865	2,601	2,806	3,060
PAT	640	591	*8.3*	559	*14.6*	1,778	2,025	1,896	2,038	2,204
EPS (Rs)	12.9	11.9	*8.3*	11.2	*14.6*	35.7	40.4	37.8	40.7	44.0
PAT growth (%)						12.1	13.9	(6.4)	7.5	8.2
P/E (x)						20.0	17.7	18.9	17.6	16.3
ROE (%)						33.7	30.0	23.4	22.3	21.6

Source: Company, HSIE Research

Change in Estimates

Rs mn	New			Old			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	15,791	17,858	19,570	14,397	15,908	17,849	10	12	10
EBITDA	2,601	2,806	3,060	2,421	2,677	3,058	7	5	0
EBITDA margin	16.5	15.7	15.6	16.8	16.8	17.1	-34 bps	-112 bps	-150 bps
PAT	1,896	2,038	2,204	1,648	1,852	2,167	15	10	2
EPS	37.8	40.7	44.0	32.9	37.0	43.3	15	10	2

Source: Company, HSIE Research

BUY

CMP *(as on 8 Feb 2021)*	**Rs 714**
Target Price	**Rs 880**
NIFTY	**15,116**

KEY CHANGES	**OLD**	**NEW**
Rating	BUY	BUY
Price Target	Rs 865	Rs 880
EPS %	FY21E	FY22E
	15%	10%

KEY STOCK DATA	
Bloomberg code	GOLI IN
No. of Shares (mn)	50
MCap (Rs bn) / ($ mn)	36/492
6m avg traded value (Rs mn)	27
52 Week high / low	Rs 850/450

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	4.8	14.0	(11.0)
Relative (%)	(17.7)	(21.0)	(35.8)

SHAREHOLDING PATTERN (%)

	Jun-20	Sep-20
Promoters	72.3	72.2
FIs & Local MFs	5.8	6.6
FPIs	11.9	11.0
Public & Others	10.1	10.2
Pledged Shares	0.0	0.0

Source : BSE

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TCNS Clothing

Not out of the woods yet!

TCNS Clothing's recovered 72.3% of base sales, marginally missing estimates (HSIE: 73.6%). However, recovery has been more arduous vs peers (given its an ethnic wear play). GMs contracted 670bp YoY due to (1) higher dormancy provisioning, (2) higher online sales in mix (23% of sales vs 13% in 3QFY20). While the company was back in the black, cost normalisation continues to outpace offline revenue recovery (64%). EBITDAM contracted 446bp to 16.2% (HSIE: 17%). Cash position improved by Rs. 450mn courtesy (1) WC release and (2) internal accruals (albeit more needs to be done on this front). We revise our FY22/23 EBITDA estimates downwards to account for moderation in revenue/higher cost of retailing expectations in a post-pandemic world and maintain our REDUCE recommendation on the stock with a revised DCF-based target price of Rs. 400/sh (implying 20x FY23 EV/EBITDA).

- **3QFY21 highlights**: Revenue declined 27.7% YoY to Rs. 2.38bn (HSIE: Rs. 2.42bn) as recovery in offline business lagged expectations (EBO/LFS/MBO declined 36/33/76% YoY respectively). Online sales grew 28% YoY (secondary sales at 1.7x pre-COVID, primary sales up 15% YoY). GMs contracted 670bp YoY due to (1) higher dormancy provisioning, (2) higher online sales in mix (23% of sales vs 13% in 3QFY20). While the company was back in the black, cost normalisation continues to outpace offline revenue recovery (64%). This is despite the company securing 35% rental savings for FY21 (Rs. 60mn in 3Q). EBITDAM contracted 446bp to 16.2% (HSIE: 17%). Cash position improved by Rs. 450mn courtesy (1) WC release and (2) internal accruals (although more needs to be done on this front). PAT declined 77% YoY to Rs. 127mn (HSIE: Rs. 135mn)
- **Outlook**: Rs. 1.55bn cash + unutilised bank limits give comfort; capital (especially WC) efficiency remains a concern for the category (holds true 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 in TCNS Clothing over the medium-to-long term. Hence, we maintain our REDUCE recommendation on the stock with revised DCF-based target price of Rs. 400/sh (implying 20x FY23 EV/EBITDA).

Quarterly financial summary

(Rs mn)	3QFY21	3QFY20	YoY (%)	2QFY21	QoQ (%)	FY19	FY20E	FY21E	FY22E	FY23E
Net Revenue	2,379	3,290	(27.7)	1,441	65.0	11,480	11,487	6,540	11,034	12,663
EBITDA	385	679	(43.3)	(163)	(336.6)	1,768	865	(707)	937	1,236
APAT	127	550	(77.0)	(276)	(145.9)	1,478	839	(336)	708	813
EPS (Rs) (Reported)	1.9	9.0	(78.7)	(4.2)	(145.9)	20.6	11.8	(5.2)	9.9	12.2
P/E (x)						17.1	30.3	(76.4)	36.2	31.6
EV/EBITDA (x)						12.9	26.2	(31.5)	23.7	18.1
Core RoCE(%)						33.8	15.9	(13.0)	13.4	15.0

Source: Company, HSIE Research, Standalone Financials

Change in estimates

(Rs mn)	FY21E			FY22E			FY23E		
	New	Old	*Change (%)*	New	Old	*Change (%)*	New	Old	*Change (%)*
Revenue	6,540	6,319	***3.5***	11,034	10,948	***0.8***	12,663	13,458	***(5.9)***
Gross Profit	3,704	3,460	***7.1***	7,168	7,111	***0.8***	8,220	8,735	***(5.9)***
Gross Profit Margin (%)	56.6	54.8	***188 bps***	65.0	65.0	***-***	64.9	64.9	***-***
EBITDA (Reported)	(707)	(761)	***NM***	937	935	***0.2***	1,236	1,455	***(15.0)***
EBITDA margin (%)	(10.8)	(12.0)	***123 bps***	8.5	8.5	***(5 bps)***	9.8	10.8	***(105 bps)***

Source: Company, HSIE Research

REDUCE

CMP ***(as on 5 Feb 2021)***	**Rs 399**
Target Price	**Rs 400**
NIFTY	**14,924**

KEY CHANGES	**OLD**	**NEW**
Rating	REDUCE	REDUCE
Price Target	Rs 420	Rs 400
EBITDA %	FY22E	FY23E
	-0.6	-17.1

KEY STOCK DATA	
Bloomberg code	TCNSBR IN
No. of Shares (mn)	62
MCap (Rs bn) / ($ mn)	24/336
6m avg traded value (Rs mn)	25
52 Week high / low	Rs 616/295

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	2.0	21.0	(30.7)
Relative (%)	(20.7)	(13.7)	(54.0)

SHAREHOLDING PATTERN (%)

	Sep-20	Dec-20
Promoters	32.3	32.3
FIs & Local MFs	2.4	1.9
FPIs	16.4	17.0
Public & Others	48.9	48.8
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Shoppers Stop

Still not out of the woods!

STOP (while recovering) continues to be among the worst hit within our apparel universe, given its pre-dominant mall-based presence (~87% of stores). Topline recovery at ~71% was marginally better than expected (HSIE: 70%). Gross margin still remains lower than 3QFY20; improving sequentially though (GAAP: 38.6% vs HSIE: 37.5%). However, cost savings were lower than expected (Post IND-AS 116 Cost of retailing stood at 25.2% vs HSIE: 21%) as mean reversion in rental concessions and employee expenses outpaced topline recovery. We continue to remain circumspect on the longevity of the business as cost arbitrage between pure-play department stores and online platforms continues to shrink with each passing year. Maintain FY22/23 EPS estimates and SELL recommendation with an unchanged DCF-based TP of Rs. 175/sh.

- **3QFY21 highlights**: Revenue declined 29% to Rs. 7.07bn (HSIE: Rs.6.96bn) as footfalls continued to recover from the wrath of COVID-19 (now 50% of 3QFY20). E-Comm initiatives continue to track well. (Up 3x YoY). GM (GAAP/Non-GAAP) declined to 404/120bp YoY to 38.6/32% (underpinnings: ~Rs 30mn inventory provision and higher discount on Private label). Reported EBITDA declined by 52% YoY to Rs 949 mn due to (1) GM contraction and higher-than-expected mean-reversion of rental concessions and employee expenses. Net losses stood at -Rs. 207mn (HSIE: -Rs. 34mn). Management intends to commence expansion plans by 2HFY22. The recent Rs. 3bn rights issue is likely to come in handy.
- **Outlook**: Company remains debt-free (post the Rs. 3bn rights issue). We continue to remain circumspect on the longevity of the format (pure-play department stores) as their cost arbitrage vis-à-vis online platforms continues to shrink rapidly. This makes the former less competitive with time. Hence, we maintain our SELL recommendation on the stock with unchanged FY22/23 EPS estimates and DCF-based TP of Rs. 175/sh (implying 10x FY23 EV/EBITDA).

Quarterly financial summary

(Rs mn)	3QFY21	3QFY20	*YoY (%)*	2QFY21	*QoQ (%)*	FY19	FY20E	FY21E	FY22E	FY23E
Net Revenue	7,076	9,941	*(28.8)*	2,924	*142.0*	34,813	33,810	16,743	29,411	32,490
Adj EBITDA	949	1,975	*(51.9)*	(347)	*(373.5)*	2,533	1,807	(1,417)	1,496	1,978
APAT	(207)	(52)	*296.7*	(1,023)	*(79.8)*	788	(1,299)	(493)	(360)	(108)
EPS (Rs)	(1.89)	(0.59)	*219.2*	(11.62)	*(83.7)*	9.0	(14.8)	(5.6)	(4.1)	(1.2)
EV/EBITDA (x)						12.2	17.9	(23.0)	21.1	15.4
Core RoCE(%)						9.7	(63.5)	96.0	14.6	4.8

Source: Company, HSIE Research, Standalone Financials

Change in estimates

(Rs mn)	FY21E			FY22E			FY23E		
	New	Old	*Change (%)*	New	Old	*Change (%)*	New	Old	*Change (%)*
Revenue	16,743	16,743	-	29,411	29,411	-	32,490	32,490	-
Gross Profit	6,201	6,201	-	12,217	12,217	-	13,821	13,821	-
Gross Profit Margin (%)	37.0	37.0	-	41.5	41.5	-	42.5	42.5	-
EBITDA	(1,417)	(1,417)	-	1,496	1,496	-	1,978	1,978	-
EBITDA margin (%)	(8.5)	(8.5)	-	5.1	5.1	-	6.1	6.1	-
APAT	(493)	(493)	-	(360)	(360)	-	(108)	(108)	-
APAT margin (%)	(2.9)	(2.9)	-	(1.2)	(1.2)	-	(0.3)	(0.3)	-
EPS (Rs)	(5.6)	(5.6)	-	(4.1)	(4.1)	-	(1.2)	(1.2)	-

Source: Company, HSIE Research

SELL

CMP *(as on 21 Jan 2021)*	Rs 204
Target Price	Rs 175
NIFTY	14,590

KEY CHANGES	OLD	NEW
Rating	SELL	SELL
Price Target	Rs 175	Rs 175
EPS %	FY22E	FY23E
	-	-

KEY STOCK DATA	
Bloomberg code	SHOP IN
No. of Shares (mn)	109
MCap (Rs bn) / ($ mn)	22/306
6m avg traded value (Rs mn)	62
52 Week high / low	Rs 412/124

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	18.2	36.6	(47.9)
Relative (%)	(3.7)	5.7	(68.0)

SHAREHOLDING PATTERN (%)

	Sep-20	Dec-20
Promoters	63.86	65.46
FIs & Local MFs	14.64	15.12
FPIs	6.58	5.58
Public & Others	14.92	13.84
Pledged Shares	8.04	6.47

Source : BSE

Pledged shares as % of total shares

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Consumer Staples

Hindustan Unilever

A mixed bag, focus on strengthening the core

HUL posted a mixed result, with revenue/EBITDA growth of 20/17% (HSIE 18/19%). Ex-GSK, revenue grew by 7% YoY with UVG of 4% YoY (in-line). The company saw a recovery in demand for discretionary as well as OOH categories and revenue pressure eased out. Health, Hygiene and Nutrition (80% mix) continued to deliver strong double-digit growth, supported by new launches and price hikes. Market share gains in e-comm (market share above pre-COVID level) and strong rural growth (2x YoY) drove revenue growth. Nutrition portfolio (GSK) posted double-digit growth, and supply issues are over. High commodity inflation impacted GM, despite an improved product mix. A&P expenses returned to growth as the company resumed investments. We expect a sustained recovery in the discretionary portfolio along with growth acceleration in nutrition portfolio. We maintain our EPS estimates for FY21/FY22/FY23. We value HUL at 52x P/E on Mar-23E EPS to derive a TP of Rs 2,315. Maintain REDUCE, as there is limited scope for re-rating.

- **Discretionary continues recovery:** Overall revenue grew 20% YoY (HSIE 18%) while ex-GSK revenue was up 7% YoY (+4% in 3QFY20 and +4% in 2QFY21). BPC/F&R (incl GSK) grew by 10/80% YoY (F&R 19% ex-GSK) while Home Care dipped by 1% YoY. Health, Hygiene and Nutrition portfolio (80% mix) clocked a sustained growth at 10% YoY, while discretionary (-1% YoY) and OOH (-15% YoY) continued to recover. The company has seen sequential improvement and expects growth to sustain. Rural growth is outperforming, and it is expected to sustain in the near term.
- **Slight miss in margins:** Gross margin contracted by 24bps YoY (+44bps in 3QFY20 and -145bps in 2QFY21) vs an expectation of 52bps YoY contraction. Unprecedented commodity inflation (especially in crude, palm oil and tea) impacted the margin, despite an improving product mix. Home care/BPC EBIT margin expanded by 75/81bps YoY while F&R margin contracted by 381bps YoY. Employee/A&P/Other expenses grew by 23/19/28% YoY. Ad spends by the company were competitive, and it retained the highest share of voice. EBITDA margin contracted by 87bps YoY to 24.1% (+352bps in 3QFY20 and +28bps in 2QFY21). EBITDA grew 17% YoY (HSIE 19%). PBT clocked 13% YoY growth while PAT grew by 19% YoY.
- **Call takeaways:** (1) 86% of the portfolio gained penetration during the quarter; (2) Horlicks and Boost saw double-digit growth, led by large packs (>500gm); (3) e-comm growth rate as well as revenue mix doubled YoY; (4) skin cleansing, skincare and tea saw improved growth within the premium segment; and (5) the company remains focused on driving innovation across categories.

Quarterly/Annual Financial summary

YE Mar (Rs mn)	3QFY21	3QFY20	YoY (%)	2QFY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
Net Sales	1,18,620	98,080	20.9	1,14,420	3.7	3,97,830	4,60,960	5,04,456	5,45,120
EBITDA	27,490	23,324	17.9	27,640	(0.5)	98,610	1,14,782	1,30,720	1,44,257
APAT	19,510	16,910	15.4	20,350	(4.1)	68,604	80,731	93,976	1,04,468
Diluted EPS (Rs)	8.3	7.8	6.3	8.7	(4.1)	31.7	34.4	40.0	44.5
P/E (x)						75.8	69.9	60.1	54.0
EV / EBITDA (x)						52.1	48.4	42.3	38.2
RoCE (%)						72.2	30.8	21.6	23.3

Source: Company, HSIE Research

REDUCE

CMP (as on 27 Jan 2021)	Rs 2,403
Target Price	Rs 2,315
NIFTY	13,968

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	Rs 2,315	Rs 2,315
EPS %	FY22E	FY23E
	0%	0%

KEY STOCK DATA	
Bloomberg code	HUVR IN
No. of Shares (mn)	2,350
MCap (Rs bn) / ($ mn)	5,646/77,423
6m avg traded value (Rs mn)	5,015
52 Week high / low	Rs 2,603/1,749

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	10.4	8.6	17.1
Relative (%)	(7.7)	(15.7)	3.1

SHAREHOLDING PATTERN (%)	Sep-20	Dec-20
Promoters	61.90	61.90
FIs & Local MFs	10.82	10.72
FPIs	14.54	14.92
Public & Others	12.74	12.46
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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ITC

In-line show; FMCG continues to shine

ITC's 3QFY21 was broadly in line as the company saw sequential recovery across categories. FMCG sustained broad-based double digit growth, and cigarettes continued sequential recovery. Cigarette net revenue/vol/EBIT clocked -8/-7/-8% YoY growth vs. our expectation of -3/-7/-7% growth. Comparable FMCG growth at 11% was ahead of peers like Britannia (6% YoY). Urban growth continued to lag rural for cigarettes, although the product mix improved. Increased mobility of consumers and gradual return to offices will support recovery in cigarettes over the next few months. FMCG continues to shine as new launches and the essentials portfolio maintained its momentum, and ITC continued to capitalise on the high demand for health, hygiene and packaged food products. OOH and discretionary categories are expected to continue the strong growth witnessed in 3QFY21. We remain optimistic on the company's ability to delivery healthy earnings growth and maintain our EPS estimates for FY22/FY23. We value ITC on SoTP to derive a target price of Rs 245 (implied P/E of 18x P/E Mar-23E EPS). Maintain BUY.

- **In-line revenue, FMCG outperformance continues:** Net revenue grew by 5% YoY (+5% in 3QFY20 and +1% in 2QFY21). Cigarettes saw 4% YoY growth in gross revenue while net revenue declined by 8% YoY, with a volume decline of ~7% (HSIE 7% dip). FMCG/Agri clocked 8/19% YoY growth while Hotels/Paper declined by 57/5% YoY. FMCG clocked 11% growth on a comparable basis. The growth was broad-based across hygiene, packaged foods, discretionary and OOH categories as sentiments improved. FMCG EBITDA margin was at 9.2% (up 140bps YoY). Hotel occupancy improved due to increased mobility of consumers. ITC saw strong growth in Agri driven by trading opportunity in rice, soya and wheat.
- **Flat cigarette EBIT margin, strong FMCG margin:** GM contracted by 200bps YoY to 60.2% (-23bps in 3QFY20 and -180bps in 2QFY21) vs expectation of 35bps YoY expansion. Employee/other expenses grew by 8/17% YoY. EBITDA margin dipped by 437bps YoY to 34% (+56bps in 3QFY20 and -453bps in 2QFY21) vs expectation of 204bps YoY contraction. EBITDA declined by 7% YoY (HSIE -6%). Cigarettes EBIT declined by 8% while margin was flat YoY after contraction in 1HFY21. FMCG clocked EBIT/EBITDA margin of 5.8/9.2% (28% growth in EBITDA). Hotels clocked an EBIT loss of Rs 673mn (breakeven at EBITDA). High other income restricted the decline in PBT to 4% YoY while APAT was down 3% YoY.
- **Other takeaways:** (1) Savlon reached Rs 10bn at consumer spends; (2) ITC saw market share gains in cigarettes; (3) e-comm revenue salience stood at 5%; (4) the company expanded its market and outlet coverage to 1.3 and 1.1x of pre-COVID level; (5) hotels reached breakeven at EBITDA level and the company reduced controllable cash costs by 44%; (5) DPS was at Rs 5/share.

Quarterly/Annual Financial summary

YE Mar (Rs mn)	3QFY21	3QFY20	YoY (%)	2QFY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
Net Sales	125,804	120,130	*4.7*	119,768	*5.0*	494,041	482,918	546,911	589,080
EBITDA	42,814	46,127	*(7.2)*	40,606	*5.4*	192,602	171,009	203,776	218,069
APAT	36,629	37,766	*(3.0)*	32,324	*13.3*	152,275	134,346	161,638	172,288
Diluted EPS (Rs)	3.0	3.1	*(3.1)*	2.6	*13.3*	12.4	10.9	13.1	14.0
P/E (x)						18.2	20.7	17.2	16.1
EV / EBITDA (x)						12.6	14.1	11.6	10.7
RoCE (%)						45.7	38.6	45.8	47.3

Source: Company, HSIE Research

BUY

CMP *(as on 11 Feb 2021)*	**Rs 226**
Target Price	**Rs 245**
NIFTY	**15,173**

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 243	Rs 245
EPS %	FY22E	FY23E
	1%	1%

KEY STOCK DATA	
Bloomberg code	ITC IN
No. of Shares (mn)	12,305
MCap (Rs bn) / ($ mn)	2,787/38,245
6m avg traded value (Rs mn)	6,863
52 Week high / low	Rs 239/135

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	22.2	11.5	6.5
Relative (%)	4.0	(22.6)	(18.5)

SHAREHOLDING PATTERN (%)	Sep-20	Dec-20
Promoters	0.00	0.00
FIs & Local MFs	43.54	42.94
FPIs	12.96	13.31
Public & Others	43.50	43.75
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Nestle India

Steady revenue show; employee cost dents margins

Nestle's 4QCY20 revenue growth was largely in line with beat in gross margin. High employee cost (long-term compensation arrangements to factory employees) impacted the margin (miss in EBITDA). Domestic revenue grew by 10% YoY while exports were down by 8% YoY. Thereby, overall revenue growth of 9% was slightly below estimates (HSIE 11%). Packaged food category continued to perform well, and Nestle's performance in CY20 was steady (8% YoY growth). Maggi, Kitkat and Nescafe (in-home consumption) posted double-digit growth during the year, capitalising on the reduced mobility among consumers. However, weak coffee exports impacted overall exports (-8% in 4Q and +1% in CY20). GM expanded by robust 231bps YoY to 59%, the highest in the past eight quarters. EBITDA grew by 10.4% as compared to our expectation of 17% growth; the key difference was due to high employee cost (25% up YoY). We expect Nestle to deliver steady earnings growth, aided by new launches and improved distribution. Moderation in in-home consumption categories will impact key brands but revival in OOH will support growth. We maintain our EPS estimate for CY21E/CY22E. We value Nestle at 55x P/E on CY22E EPS to derive a TP of Rs 16,326. The stock is trading at 58x P/E on CY22E EPS and limits absolute upside in the medium term, making the risk-reward unattractive. Maintain REDUCE.

- **Marginal miss in revenue:** Revenue grew by 9% YoY (+9% in 4QCY19 and +10% in 3QCY20) vs the expectation of 11% YoY growth. Domestic revenue grew by 10% YoY while Exports saw an 8% YoY decline. OOH consumption continued its sequential recovery. E-commerce continued its stellar growth (>100% growth in CY20), contributing 4% of domestic revenue. Maggi Noodles, Kitkat and Nescafe clocked double-digit growth during CY20.
- **Employee cost dents EBITDA:** GM expanded by 231bps YoY (-218bps in 4QCY19 and +54bps in 3QCY20), HSIE +73bps expansion. Employee cost was up by 25/19% YoY in 4Q/CY20 on account of high incentives due to COVID and finalisation of long-term compensation arrangements for factory employees. Other expenses grew by 11% YoY. EBITDA margin expanded by 29bps YoY to 22.6% (+94bps in 4QCY19 and +140bps in 3QCY20), vs our estimate of 122bps YoY expansion. EBITDA grew by 10% YoY, HSIE 17% YoY. Lower other income and high depreciation resulted in 7% PBT growth while PAT declined by 1% YoY due to lower tax rate in base quarter.
- **Press release takeaways:** (1) Out of home demand showed improvement during the quarter; (2) domestic sales growth, broad-based and largely driven by volume and mix; (3) in-home consumption (65% of domestic), posted double-digit growth; (4) Innovation and Renovation pipeline continues to be a thrust area; (5) Exports were impacted by lower coffee exports; (6) the company recommended a final dividend of Rs 65 per share.

Quarterly/Annual Financial summary

YE Dec (Rs mn)	4QCY20	4QCY19	YoY (%)	3QCY20	QoQ (%)	CY19	CY20P	CY21E	CY22E
Net Sales	35,417	32,158	10.1	30,505	16.1	123,689	133,500	149,250	165,550
EBITDA	9,079	7,794	16.5	7,677	18.3	29,275	32,619	36,547	41,240
APAT	5,871	5,952	(1.4)	4,866	20.7	19,879	20,928	24,874	28,620
Diluted EPS(Rs)	60.9	61.7	(1.4)	50.5	20.7	206.2	217.0	258.0	296.8
P/E (x)						83.4	79.2	66.7	57.9
EV / EBITDA (x)						55.6	49.9	44.4	39.2
RoCE (%)						73.7	76.9	63.5	53.9

Source: HSIE Research

REDUCE

CMP (as on 16 Feb 2021)	Rs 17,217
Target Price	Rs 16,326
NIFTY	15,313

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	Rs 16,326	Rs 16,326
EPS %	CY21E	CY22E
	0%	0%

KEY STOCK DATA	
Bloomberg code	NEST IN
No. of Shares (mn)	96
MCap (Rs bn) / ($ mn)	1,660/22,830
6m avg traded value (Rs mn)	2,370
52 Week high / low	Rs 18,844/12,200

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	2.3	5.3	5.3
Relative (%)	(17.1)	(32.3)	(21.0)

SHAREHOLDING PATTERN (%)	Sep-20	Dec-20
Promoters	62.76	62.76
FIs & Local MFs	8.91	7.75
FPIs	11.51	12.84
Public & Others	16.82	16.65
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Dabur

Topline growth outperformance continues

Dabur's 3QFY21 saw strong revenue growth, beating our as well as the street's expectations. Domestic value/volume growth was at 18% YoY (HSIE 14/10%) with broad-based recovery. Healthcare portfolio clocked stellar 28% YoY growth, led by continued traction for health supplements. HPC clocked 16% YoY growth, led by sustained outperformance in oral care (up by 28%). Food recovery was encouraging with 5% YoY growth, after posting 21% decline in 1HFY21. New launches across categories continued to witness strong traction with rising share of e-comm (6% mix). The growth was also led by market share gains for the company across categories. Gross margins were stable at ~50%, while A&P saw a sharp 39% jump to accommodate aggression for new launches. EBITDA margin was stable at 21%. We remain positive on Dabur's ability to deliver strong revenue growth, led by its positioning as a natural and trusted brand along with the power brands strategy. We marginally increase EPS estimates for FY21/FY22/FY23. We value Dabur at 45x P/E on Mar-23E EPS to derive a target price of Rs 550. Maintain ADD.

- **Healthcare drives growth:** Net revenue grew by 16% YoY (+7% in 3QFY20 and +14% in 2QFY21), ahead of our expectation of 12% YoY growth. Domestic business grew by 18% YoY (HSIE 14%) with 18% YoY volume growth. Hair Care/Oral Care/OTC/Ethicals/Skin Care/Foods clocked growth of 14/28/34/23/9/19% YoY. Juices, excluding Enterprise revenue, saw growth of 8% YoY while culinary business grew by 16% YoY. Digestives remained flat YoY while Home Care declined by 1% YoY. Dabur saw strong market share gains in oral care, hair oils, home care, Chyawanprash and juices. International revenue grew by 13% YoY with 14% YoY cc growth.
- **A&P reinvestments limit margin expansion:** GM expanded by 31bps YoY (+80bps in 3QFY20 and flat in 2QFY21), in line with estimates. GM was impacted by steep inflation of ~6% in key input materials. Employee/ A&P/Other expenses grew by 12/39/3% YoY. EBITDA margin remained flat YoY at 21% (+70bps in 3QFY20 and +50bps in 2QFY21). EBITDA grew by 16.5% YoY (HSIE 15%). Dabur's focus on cost-saving initiatives helped the company expand margins despite growth in A&P spends. PBT grew by 18% YoY while PAT grew by 24% YoY.
- **Call takeaways:** (1) New products mix in 3QFY21 was 5%; (2) the company's direct reach is expected to increase to 1.4mn in FY21; (3) the company expects savings of Rs 1.5bn under Samridhi program; (4) Dabur is expanding the Hajmola brand, which is a potential power brand for the company; (5) increased salience of e-comm will continue to drive premiumisation.

Quarterly/Annual Financial summary

YE Mar (Rs mn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
Net Sales	27,288	23,530	*16.0*	25,160	*8.5*	86,846	96,172	107,893	119,718
EBITDA	5,742	4,929	*16.5*	5,694	*0.8*	17,924	20,825	23,485	26,766
APAT	4,921	4,142	*18.8*	4,817	*2.2*	15,254	17,634	19,322	21,594
Diluted EPS (Rs)	2.78	2.34	*18.8*	2.73	*2.2*	8.63	9.98	10.94	12.22
P/E (x)						59.7	51.6	47.1	42.1
EV / EBITDA (x)						49.8	42.6	37.7	32.9
RoCE (%)						43.5	42.9	45.5	48.7

Source: HSIE Research

ADD

CMP *(as on 29 Jan 2021)*	**Rs 515**
Target Price	**Rs 550**
NIFTY	**13,635**

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	Rs 544	Rs 550
	FY22E	FY23E
EPS %	2%	1%

KEY STOCK DATA	
Bloomberg code	DABUR IN
No. of Shares (mn)	1,767
MCap (Rs bn) / ($ mn)	909/12,468
6m avg traded value (Rs mn)	1,920
52 Week high / low	Rs 553/385

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	(1.0)	5.1	4.7
Relative (%)	(17.4)	(16.5)	(7.7)

SHAREHOLDING PATTERN (%)	Sep-20	Dec-20
Promoters	67.87	67.87
FIs & Local MFs	6.90	5.94
FPIs	18.08	18.52
Public & Others	7.15	7.67
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Britannia Industries

Growth moderates; margin remains elevated

Britannia reported a mixed result as the company clocked a miss on revenue but a marginal beat in margins. Revenue growth decelerated to 11% YoY in 2QFY21, after posting 26% YoY growth in 1QFY21, which further moderated to 6% YoY in 3QFY21 (HSIE 9%). Domestic volume growth of ~4% was much slower than ~17% in 1HFY21. Demand for essentials and in-home categories remained muted as consumer buying shifted from essentials to non-essentials. Non-biscuits (wafers, dairy, value added cake) saw double-digit growth, reflecting even lower growth for biscuits. The company saw robust margin expansion (249bps YoY), led by benign commodity inflation and effective cost management. We continue to believe that most consumer categories will see mean-reversion, discretionary will see pick-up and essentials will remain at moderated level (particularly biscuits). We maintain our EPS estimate for FY22/23. Rising debt, inter group transactions and modest FY22 earnings growth will keep valuations in check. We value Britannia at 40x P/E on Mar-23 EPS to derive a TP of Rs 3,589. Maintain REDUCE.

- **Growth deceleration continues:** Consolidated revenue grew by 6% YoY (+4% in 3QFY20 and +11% in 2QFY21), vs. HSIE 9% growth. Standalone revenue clocked 6% YoY growth (+4% in 3QFY20 and +11% in 2QFY21). Volume growth was close to 4% YoY (9% in 2QFY21 and 2% in 3QFY20). GT, which is the largest channel for Britannia, continued to grow well, driven by strong growth in rural and recovery in urban. MT remained under stress due to lower footfalls, although sequential recovery continued. The company enjoyed the benefit of pantry loading during 1HFY21 which has begun to normalise now. It continued to focus on expanding its distribution reach, especially in rural areas, and resumed investing behind its brands.
- **Margin expansion continued, watchful for FY22:** GM expanded by 224bps YoY to 43.1% (-44bps in 3QFY20 and +236bps in 2QFY21) vs. HSIEI 175bps YoY. RM inflation remained soft, except Palm Oil which saw high inflation. Employee/Other expenses grew by 8/4% YoY as the company enhanced its focus on cost control to overcome the impact from RM inflation. EBITDA margin expanded by 249bps YoY to 19.3% (+94bps in 3QFY20 and +361bps in 2QFY21) vs. expectation of 154bps YoY expansion. EBITDA grew by 22% YoY (HSIE 19%). With a sharp EBITDA margin expansion in 9MFY21, we expect margin pressure in FY22 (several costs will be restored).
- **Call takeaways:** (1) Britannia has sustained the efficiencies attained during 1HFY21; (2) direct reach grew to 2.3mn and 22% of dispatches are now direct to distributors vs. 8% earlier; (3) overall inflation has been moderate, barring palm oil; (4) MT revenue mix stood at 10% while e-comm mix was 1% (up from 0.5% earlier); and (5) the company is constructing production facilities for dairy (Pune) and cakes (Tamil Nadu).

Quarterly/Annual Financial summary

YE Mar (Rs mn)	3QFY21	3QFY20	YoY (%)	2QFY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
Net Sales	31,656	29,828	*6.1*	34,191	*(7.4)*	115,996	131,247	139,319	152,451
EBITDA	6,115	5,021	*21.8*	6,754	*(9.5)*	18,432	25,698	26,092	28,498
APAT	4,526	3,700	*22.3*	4,952	*(8.6)*	14,061	19,331	19,626	21,578
Diluted EPS (Rs)	18.8	15.4	*22.1*	20.6	*(8.7)*	58.5	80.4	81.6	89.7
P/E (x)						59.4	43.2	42.6	38.7
EV / EBITDA (x)						44.1	32.1	31.3	28.6
RoCE (%)						42.5	57.4	53.9	55.6

Source: Company, HSIE Research

REDUCE

CMP *(as on 8 Feb 2021)*	Rs 3,473
Target Price	Rs 3,589
NIFTY	15,116

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	Rs 3,589	Rs 3,589
EPS %	FY22E	FY23E
	2%	0%

KEY STOCK DATA	
Bloomberg code	BRIT IN
No. of Shares (mn)	241
MCap (Rs bn) / ($ mn)	837/11,465
6m avg traded value (Rs mn)	2,788
52 Week high / low	Rs 4,015/2,100

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	(1.2)	(11.7)	6.8
Relative (%)	(23.7)	(46.7)	(18.0)

SHAREHOLDING PATTERN (%)	Sep-20	Dec-20
Promoters	50.58	50.55
FIs & Local MFs	11.47	10.75
FPIs	16.03	17.66
Public & Others	21.92	21.14
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Godrej Consumers

In-line revenue; international margin shines

GCPL's 3QFY21 was a mixed bag with in-line revenue but a marginal miss in EBITDA. Domestic revenue/EBIT grew by 11/5% YoY, while International revenue/EBIT grew by 11/21% YoY. Domestic volume growth was at 7%, with strong market share gains, specifically in soaps. Recovery in discretionary demand drove the growth in Hair Colours while an increased focus on cleanliness aided soaps. HI was dragged by a weak performance in the burning format, although aerosol, electric and non-mosquito portfolio posted strong growth. GCPL continued to improve its performance in GUAM (17% cc growth) and LATAM & SAARC (35% cc growth). GUAM and LATAM led the international margin expansion. The company is focusing on expanding the addressable market for the India business along with improving performance in ex-Indonesia geographies. We marginally increase our EPS estimate for FY22 while maintaining it for FY23. We value GCPL at 38x P/E on Mar-23E EPS to derive a target price of Rs 786. Maintain ADD.

- **Healthy domestic growth, GUAM and LATAM standout:** Revenue grew by 10% YoY (+2% in 3QFY20 and +11% in 2QFY21) in-line with our estimates. India revenue saw 11% YoY growth (+1% in 3QFY20 and +11% in 2QFY21) with 7% YoY vol growth. HI/Soaps/Hair Colour grew by 7/15/14%. HI, Hygiene and Value For Money products (81% of portfolio), delivered 14% growth. HI was at 5% growth (7% in India); Hygiene (incl soaps) at 19% and value for money clocked 22%. Company continued to gain market share for soaps. International revenue was up 8% YoY (cc +11% YoY), led by GUAM which clocked 17% YoY cc growth and LATAM & SAARC, which grew by 35% YoY. Indonesia disappointed with cc revenue decline of 2% YoY.
- **Weak India margin, International margin shines:** India GM was down by 271bps YoY to 57% (+15bps in 3QFY20 and -109bps in 2QFY21). Employee/A&P expenses were up by 6/11% YoY while other expenses declined by 3% YoY. India EBITDA/EBIT grew by 7/5% while International EBIT was up by a strong 21% YoY. GUAM/LATAM saw sharp 190/900bps YoY expansion in EBITDA margin. Consolidated EBITDA saw growth of 13% YoY (HSIE 15%). APAT was up by 12% YoY (HSIE 15%) to Rs 4.9bn.
- **Call takeaways:** (1) Burning format was a drag on the HI portfolio while other segments clocked strong growth; (2) hygiene growth was driven by a structural change among consumers with increased focus on cleanliness; (3) GCPL has continued to gain market share in soaps and its is now the second largest player; (4) the company has targeted reaching 200k retail stores and it is well on track to do so; (5) GT has 33% mix in India while it is 50% in Indonesia.

Quarterly/Annual Financial summary

YE Mar (Rs mn)	3QFY21	3QFY20	YoY (%)	2QFY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
Net Sales	30,554	27,781	10.0	29,151	4.8	99,108	110,037	120,226	130,142
EBITDA	7,112	6,313	12.6	6,844	3.9	21,430	24,986	27,240	29,290
APAT	4,970	4,459	11.5	4,836	2.8	14,725	17,358	19,408	21,126
Diluted EPS (Rs)	4.9	4.4	11.5	4.7	2.8	14.4	17.0	19.0	20.7
P/E (x)						51.1	43.3	38.8	35.6
EV / EBITDA (x)						36.0	35.4	29.9	27.2
RoCE (%)						19.0	20.4	22.7	24.7

Source: HSIE Research

ADD

CMP *(as on 8 Feb 2021)*	**Rs 736**
Target Price	**Rs 786**
NIFTY	**15,116**

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	Rs 786	Rs 786
	FY22E	FY23E
EPS %	2%	0%

KEY STOCK DATA	
Bloomberg code	GCPL IN
No. of Shares (mn)	1,022
MCap (Rs bn) / ($ mn)	752/10,306
6m avg traded value (Rs mn)	1,148
52 Week high / low	Rs 808/425

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	9.8	6.7	13.7
Relative (%)	(12.7)	(28.3)	(11.1)

SHAREHOLDING PATTERN (%)	Sep-20	Dec-20
Promoters	63.23	63.23
FIs & Local MFs	3.07	3.09
FPIs	26.77	26.77
Public & Others	6.93	6.91
Pledged Shares	0.42	0.42

Source : BSE

Pledged shares as % of total shares

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Marico

Saffola and VAHO shine; miss on margin

Marico's 3Q was a mixed bag- while revenue was ahead of expectations, margin was a miss (in-line EBITDA). Domestic recovery was broad-based. PCNO continued its steady growth momentum, while VAHO saw an improved demand towards the top end of the pyramid. Saffola sustained its growth, aided by improved penetration. The International business saw recovery, led by SAARC and MENA markets. However, high RM inflation impacted margins sharply despite the improved product mix. Marico ramped up its A&P expenses as the company continued to be aggressive in new launches, but cost-saving initiatives in other areas limited the dip in EBITDA margin. We expect the growth momentum to sustain, and the pressure on margins to ease in FY22 owing to muted RM inflation and cost savings. We marginally increase our EPS estimates for FY22/FY23. We value Marico at 40x P/E on Mar-23E EPS to derive a target price of Rs 460. Maintain ADD.

- **Robust 18% domestic growth:** Revenue grew by 16% YoY (-2% in 3QFY20 and +9% in 2QFY21), vs expectation of 11% YoY growth, led by 18% YoY Domestic growth. Domestic volume grew by strong 15% YoY (-1% in 3QFY20 and +11% in 2QFY21). PCNO saw 9/8% YoY value/volume growth while VAHO saw 21% YoY growth driven entirely by volumes. Saffola value/volume grew by 26/17% YoY. Premium Personal Care portfolio continued its recovery and reduced the decline to 4% YoY. Foods grew by 74% YoY while Oats saw 50% YoY growth. GT growth in rural/urban stood at 24/10% YoY. MT recovered to pre-COVID levels while e-commerce posted strong 88% YoY growth. However, CSD declined by 10% YoY.
- **Bangladesh driving international**: International clocked 11% YoY growth, led by 8% CC growth. Bangladesh continued its strong performance with 15% YoY cc growth, and non-coconut portfolio saw 27% growth. MENA/South East Asia continued to struggle with cc decline of 1/3% YoY. South Africa/Other geographies saw 7/16% YoY cc growth.
- **RM inflation impacts margin:** GM dipped by 223bps YoY (+282bps in 3QFY20 and -163bps in 2QFY21), vs expectation of a dip of 82bps YoY, due to high RM inflation (Copra/LLP/HDPE were up 26/12/18% YoY). Employee/ Advertising/Other expenses grew by 28/4/9% YoY. EBITDA margin contracted by 99bps YoY to 19.5% (+170bps in 3QFY20 and +26bps in 2QFY21). EBITDA grew by 11% YoY (HSIE 12%). Domestic EBIT margin dipped by 162bps YoY while International margin expanded by 25bps YoY. PBT grew by 10% YoY while PAT grew by 13% YoY.
- **Call takeaways:** (1) 65% of Saffola's growth was driven by increased penetration; (2) Saffola honey achieved >20% market share in e-comm; (3) e-comm revenue mix grew to 8%; (4) Foods revenue reached Rs 3.25bn in FY21 and is expected to reach Rs 4.5bn in FY22; (5) working capital days reduced to 23 days vs 35 days earlier, and can sustain at around 23-25 days.

Quarterly/Annual Financial summary

YE Mar (Rs mn)	3QFY21	3QFY20	*YoY (%)*	2QFY21	*QoQ (%)*	FY20	FY21E	FY22E	FY23E
Net Sales	21,220	18,240	*16.3*	19,890	*6.7*	73,150	78,487	88,583	96,754
EBITDA	4,130	3,730	*10.7*	3,890	*6.2*	14,690	16,053	18,626	20,744
APAT	3,070	2,720	*12.9*	2,888	*6.3*	10,364	11,211	13,192	14,842
Diluted EPS (Rs)	2.38	2.11	*12.9*	2.24	*6.3*	8.03	8.69	10.23	11.51
P/E (x)						51.2	47.3	40.2	35.7
EV / EBITDA (x)						36.1	33.0	28.6	25.6
RoCE (%)						43.2	48.4	60.9	69.8

Source: Company, HSIE Research

ADD

CMP *(as on 28 Jan 2021)*	Rs 411
Target Price	Rs 460
NIFTY	13,818

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	Rs 450	Rs 460
EPS %	FY22E	FY23E
	1%	2%

KEY STOCK DATA	
Bloomberg code	MRCO IN
No. of Shares (mn)	1,291
MCap (Rs bn) / ($ mn)	531/7,274
6m avg traded value (Rs mn)	1,167
52 Week high / low	Rs 435/234

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	13.3	13.7	22.8
Relative (%)	(4.1)	(8.1)	8.4

SHAREHOLDING PATTERN (%)

	Sep-20	Dec-20
Promoters	59.61	59.61
FIs & Local MFs	10.26	10.00
FPIs	23.66	24.16
Public & Others	6.47	6.23
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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United Spirits

Gradual revenue recovery; resilient margins

UNSP continued its recovery in 3QFY21, with revenue/EBITDA decline of 4/10% YoY (HSEI -5/-17%). Recovery in P&A was strong with value/volume decline of 1/0% YoY, despite the heavy base (strong new year demand in base quarter). Underlying growth in P&A (ex-AP impact) was strong at 4.5%. The reopening of pubs and bars and targeted marketing campaigns for in-home occasions supported the recovery. Popular continued to remain under pressure as excise-led price hikes (West Bengal) kept demand muted. IMFL industry volume was down by ~1%. Gross margin remained healthy on the back of improved product mix and benign RM inflation, which is expected to sustain. Cost control initiatives by UNSP also led to a healthy EBITDA margin of 15.4%. We expect the recovery trend to continue, led by improvement in sentiment and occupancy of bars. We maintain our EPS estimates for FY21/FY22/23. We value UNSP at 42x P/E on Mar-23E EPS to derive a target price of Rs 640. Maintain ADD.

- **Gradual revenue recovery:** Net revenue declined by 4% YoY (+3% in 3QFY20 and -7% in 2QFY21), better than our estimated decline of 5% YoY. P&A/Popular revenue declined by 1/7% YoY as higher in-home consumption and opening of pubs and bars aided partial recovery. Popular segment was impacted by an adverse state mix. P&A volumes remained flat YoY (+3% in 3QFY20 and flat in 2QFY21) while Popular volumes declined by 2% YoY (-7% in 3QFY20 and -7% in 2QFY21). Revenue recovery was supported by focused marketing campaigns for in-home occasions and renovation of core brands.
- **Resilient margins:** Gross margin expanded by 24bps YoY to 44.6% (-421bps in 3QFY20 and -283bps in 2QFY21), ahead of our expectation of 100bps YoY contraction. The expansion was driven by benign RM inflation. Employee costs grew by 23% YoY while A&P/Other expenses declined by 7/2% YoY. A&P improved 28% QoQ as the company resumed investing in its brands. A&P investment remained healthy at 9.4% of sales. EBITDA margin contracted by 100bps YoY (+207bps in 3QFY20 and -553bps in 2QFY21) to 15.4% (HSIE 14.3%). EBITDA declined by 10% YoY (HSIE 17% decline). PBT was down 12% YoY while PAT declined by 11% YoY. We expect both revenue and EBITDA margin recovery in FY22.
- **Call takeaways:** (1) 85% of bars are now operational, but occupancy remains low; (2) home consumption growth has remained resilient; (3) excise hike in West Bengal has adversely impacted the hard liquor industry; (4) the company expects no RM inflation over the next few months; (5) if regulatory changes in Delhi go through, it will be a huge positive for the industry.

Quarterly/annual financial summary

YE Mar (Rs mn)	3QFY21	3QFY20	YoY (%)	2QFY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
Net Sales	24,887	25,825	(3.6)	21,459	16.0	90,909	80,158	99,179	106,566
EBITDA	3,838	4,240	(9.5)	2,697	42.3	15,061	9,082	15,156	16,957
APAT	2,299	2,588	(11.2)	1,284	79.0	7,904	4,059	9,025	10,668
Diluted EPS (Rs)	3.2	3.6	(11.2)	1.8	79.0	10.9	5.6	12.4	14.7
P/E (x)						54.6	106.3	47.8	40.5
EV / EBITDA (x)						30.0	48.7	29.0	25.4
RoCE (%)						14.8	9.5	18.1	19.0

Source: Company, HSIE Research

ADD

CMP *(as on 28 Jan 2021)*	**Rs 594**
Target Price	**Rs 640**
NIFTY	**13,818**

KEY CHANGES	**OLD**	**NEW**
Rating	ADD	ADD
Price Target	Rs 640	Rs 640
	FY22E	FY23E
EPS %	0%	0%

KEY STOCK DATA	
Bloomberg code	UNSP IN
No. of Shares (mn)	727
MCap (Rs bn) / ($ mn)	432/5,913
6m avg traded value (Rs mn)	1,328
52 Week high / low	Rs 743/443

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	16.0	1.6	(9.4)
Relative (%)	(1.4)	(20.2)	(23.8)

SHAREHOLDING PATTERN (%)

	Sep-20	Dec-20
Promoters	56.76	56.76
FIs & Local MFs	7.48	8.06
FPIs	18.83	18.98
Public & Others	16.93	16.20
Pledged Shares	0.67	0.67

Source : BSE

Pledged shares as % of total shares

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Colgate Palmolive

Healthy recovery, innovation to drive growth

Colgate reported a healthy 3QFY21 with 8% YoY net revenue growth (HSIE 7%) and 10% domestic business growth. Toothpaste saw 10% growth with volume growth of 5%. Market share was maintained (slightly up) despite rising competition. Toothbrush saw recovery, posting low single digit growth. Personal care growth remained robust, led by new launches and accelerating demand. The company saw strong performance across channels, especially in MT and e-comm. GM expansion was healthy, aided by price hike and product mix. Entry into new categories and expansion of existing brands will continue to drive growth for Colgate. Revenue contribution from new launches should increase in the coming years (as of now 2-3%) as most of the new launches are scalable and not seeing cannibalisation. We slightly increase our EPS estimates for FY22/FY23. We value Colgate at 42x P/E on Mar-23E EPS and derive a target price of Rs 1,772. Maintain ADD.

- **Steady revenue growth, innovation to drive FY22:** Revenue grew by 8% YoY (+4% in 3QFY20 and +5% in 2QFY21), slightly ahead of our expectation of 7% YoY growth. Domestic net sales grew by 10% YoY. Toothbrush saw low single digit growth, but it was compensated by higher growth in personal care. Toothpaste grew at 10% YoY, with 5% volume growth. The company continued its aggression within new launches with the launch of Colgate Magik- a first-of-its-kind augmented reality toothbrush for kids. During 9MFY21, Colgate Vedshakti franchise was broadened into mouth spray and oil pulling. The company also made several other new launches and relaunches in toothpaste and toothbrush during this period.

- **Strong margin expansion:** Gross margin was healthy with an expansion of 403bps YoY to 69.8% (+60bps in 3QFY20 and +339bps in 2QFY21), beating our estimate of 147bps YoY expansion. Employee/A&P expenses grew by 13/38% YoY while other expenses declined by 6% YoY. EBITDA margin expanded by 253bps YoY to 30.1% (-105bps in 3QFY20 and +541bps in 2QFY21), ahead of our expectation of 167bps YoY expansion. EBITDA grew by 17% YoY (HSIE 13%). PBT grew by 24% YoY while PAT grew by 25% YoY.

- **Management call takeaways:** (1) Sustained commodity inflation can lead to price hikes in FY22; (2) the company does not believe it has lost any market share; (3) new launches have a revenue mix of ~3%; (4) e-comm revenue mix stands at ~2.5% with potential to reach ~5-6%; (5) A&P is expected to remain slightly more than 13% of revenue.

Quarterly/Annual Financial summary

YE Mar (Rs mn)	3QFY21	3QFY20	*YoY (%)*	2QFY21	*QoQ (%)*	FY20	FY21E	FY22E	FY23E
Net Sales	12,319	11,472	*7.4*	12,855	*(4.2)*	45,251	48,183	52,567	56,750
EBITDA	3,706	3,161	*17.3*	4,093	*(9.5)*	12,017	14,415	15,456	16,812
APAT	2,484	1,991	*24.7*	2,742	*(9.4)*	8,165	9,621	10,397	11,487
Diluted EPS (Rs)	9.1	7.3	*24.7*	10.1	*(9.4)*	30.0	35.3	38.2	42.2
P/E (x)						52.1	44.2	40.9	37.0
EV / EBITDA (x)						35.0	29.1	26.8	24.4
RoCE (%)						64.9	76.8	89.1	98.8

Source: Company, HSIE Research

ADD

CMP *(as on 28 Jan 2021)*	**Rs 1,563**
Target Price	**Rs 1,772**
NIFTY	**13,818**

KEY CHANGES	**OLD**	**NEW**
Rating	ADD	ADD
Price Target	Rs 1,723	Rs 1,772
EPS %	FY22E	FY23E
	3%	3%

KEY STOCK DATA	
Bloomberg code	CLGT IN
No. of Shares (mn)	272
MCap (Rs bn) / ($ mn)	425/5,824
6m avg traded value (Rs mn)	1,169
52 Week high / low	Rs 1,676/1,065

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	1.5	12.4	5.5
Relative (%)	(15.9)	(9.4)	(8.9)

SHAREHOLDING PATTERN (%)	**Sep-20**	**Dec-20**
Promoters	51.00	51.00
FIs & Local MFs	10.82	10.11
FPIs	15.67	16.59
Public & Others	22.51	22.30
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Emami

Healthcare momentum sustains; beat in margins

Emami delivered a strong set of numbers with revenue/EBITDA growth of 15/29% YoY (HSIE 12/23%). The growth was driven by a broad-based pick-up in discretionary demand and strong performance of the winter portfolio. Healthcare and Boroplus led the revenue growth and the winter portfolio benefited from channel filling, following the weak performance in 2QFY21 (-39% YoY). Kesh King sustained its momentum with 16% YoY growth (base +18%). Strong performance in MT and e-comm also supported growth. International business performed well, led by SAARC and MENAP markets. EBITDA margin expansion was robust (400bps YoY) despite high RM inflation, as the company was able to execute its cost control initiatives. We expect Emami to sustain its growth, led by continued recovery in discretionary demand. While restoration of normal operations and RM inflation will bear down on margins, we expect EBITDA margin to remain healthy (but expansion may be muted in FY22). We increase EPS FY22/FY23 by ~4%. We value Emami at 25x P/E on Mar-23E EPS to derive a TP of Rs 425. Maintain REDUCE.

- **Healthcare momentum sustains:** Revenue grew by 15% YoY (flat in 3QFY20 and +11% in 2QFY21) vs an expectation of 12% YoY growth. Domestic/International saw 16/26% YoY growth while CSD declined by 27% YoY. Domestic business saw 13% YoY volume growth. Healthcare/ Boroplus/F&H/Pain Mgt/7 Oils grew by 38/21/5/12/32% YoY while Navratna declined by 12% YoY. Rural growth remained strong while urban markets saw an improvement. Growth was visible across channels as MT grew 51% YoY and e-comm grew 3.5x YoY. In 3QFY21, the company entered the home hygiene category with 'Emasol', which received an encouraging response. Emami continued to drive innovation with 60+ SKUs launched during the quarter, and new launches salience stood at 4% of domestic revenue.
- **11-year high EBITDA margin:** GM expanded by 214bps YoY (+124bps on 3QFY20 and +55bps on 2QFY21). Employee/Advertising/Other expenses grew by 2/12/10% YoY. EBITDA margin expanded by 395bps YoY (flat in 3QFY20 and +575bps in 2QFY21). EBITDA grew by 29% YoY (HSIE 23%). We expect the possibility of margin pressure in FY22, led by a sharp margin expansion in FY21 and many costs will be restored in FY22. However, EBITDA margin is expected to sustain around 30%. PBT grew by 36% YoY.
- **Call takeaways:** (1) Penetration improved across brands by 2-4%; (2) Chyawanprash grew by 24% YoY while Honey grew >2x YoY; (3) E-comm/MT revenue contribution rose to 3.1/9%; (4) Emami does not intend to enter any new category where gross margin is <50%; (5) promoter pledge stands at 36%, out of which 8% is with Novoco.

Quarterly/Annual Financial summary

YE Mar (Rs mn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
Net Sales	9,336	8,126	*14.9*	7,348	*27.1*	26,540	28,525	31,944	34,324
EBITDA	3,402	2,640	*28.9*	2,571	*32.3*	6,896	9,087	9,721	10,527
APAT	2,588	1,949	*32.8*	1,937	*33.6*	4,966	6,573	7,011	7,564
Diluted EPS (Rs)	5.82	4.29	*35.7*	4.36	*33.6*	11.0	14.7	15.7	17.0
P/E (x)						44.3	32.9	30.9	28.6
EV / EBITDA (x)						31.9	23.5	21.7	20.0
RoCE (%)						22.5	34.1	40.5	44.0

Source: Company, HSIE Research

REDUCE

CMP *(as on 27 Jan 2021)*	Rs 485
Target Price	Rs 425
NIFTY	13,968

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	Rs 405	Rs 425
	FY22E	FY23E
EPS %	4%	4%

KEY STOCK DATA	
Bloomberg code	HMN IN
No. of Shares (mn)	445
MCap (Rs bn) / ($ mn)	216/2,956
6m avg traded value (Rs mn)	323
52 Week high / low	Rs 505/131

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	31.0	104.3	49.5
Relative (%)	12.9	80.0	35.5

SHAREHOLDING PATTERN (%)	Sep-20	Dec-20
Promoters	53.86	53.86
FIs & Local MFs	28.60	27.37
FPIs	8.95	9.61
Public & Others	8.59	9.16
Pledged Shares	25.05	20.97

Source : BSE

Pledged shares as % of total shares

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Radico Khaitan

Miss in revenue; Beat in margin

Radico delivered a mixed result as there was a miss in revenue but a beat in margin. P&A volume grew by 5% YoY, supported by exports while Popular volume declined by 1% YoY. Radico's overall volume growth of 1% YoY was slightly ahead of the industry, which declined by 1%. Excluding AP (4% mix vs. 8% YoY) and CSD (down 25% YoY, ~10% mix), domestic volume growth stood at 9% YoY. Gross margin was up by sharply 232bps YoY to 50.8%, supported by benign RM inflation and improved mix (IMFL mix grew to 81.7%). Radico continued to gain market share in most major states. We expect Radico to sustain a strong earnings show over the next few quarters, led by (1) recovery in the industry (the most impacted states are recovering), (2) market share gains supported by new launches, (3) stable ENA prices, (4) strong traction in exports, and (5) reducing interest cost. We maintain our EPS estimates for FY21/Y22/FY23. We value Radico at 20x P/E on Mar-23E EPS to derive a target price of Rs 546. Maintain ADD.

- **Premiumisation trend sustains:** Net revenue grew by 6% YoY (+17% in 3QFY20 and +11% in 2QFY21), vs our estimate of 10% YoY growth. P&A volume grew by 5% YoY (+21% in 3QFY20 and +4% in 2QFY21) while Popular volume declined by 1% YoY (+11% in 3QFY20 and +5% in 2QFY21). IMFL/Non-IMFL revenue grew by 5/10% YoY. Key markets like Maharashtra, Karnataka, UP and Telangana have returned to growth, but a few large states remained under pressure. AP impacted most and its revenue mix declined to 4% (8% last year) as regional players are gaining share (most leading players impacted). Radico saw sequential improvement in volumes, highest ever monthly volumes in December 2020. Ban on BIO products in CSD gave a boost to premium brands. New launches as well expanding portfolio in newer markets will grow P&A portfolio.
- **Benign RM boosts margins:** GM expanded by 232bps YoY to 50.8% (-115bps in 3QFY20 and +91bps in 2QFY21), owing to benign RM inflation and improved product mix (higher IMFL mix, exports). S&D costs grew by 18% YoY as the company resumed investments in its brands. Employee costs declined by 5% YoY while other expenses remained flat YoY. EBITDA margin expanded by 238bps YoY to 18.2% (-151bps in 3QFY20 and +184bps in 2QFY21) vs expectation of 97bps YoY expansion. EBITDA grew by 22% YoY (HSIE 16%). PBT grew by 30% YoY while APAT grew by 29% YoY.
- **Call takeaways:** (1) 8PM Premium Black volumes will be 1mn in FY21; (2) new UP excise policy will aid P&A growth and the company expects the policy to be emulated in more states of the country; (3) ENA remained stable on QoQ (7-8% down YoY), and the company expects prices to be stable in 4QFY21; (4) exports mix in revenue/volume stands at 7.5/6%; (5) net debt stood at Rs 2.5bn in December vs. Rs 3.8bn in March; (6) Radico is leader in CSD with 28% market share.

Quarterly/Annual Financial summary

YE Mar (Rs mn)	3QFY21	3QFY20	YoY (%)	2QFY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
Net Sales	6,842	6,479	*5.6*	6,301	*8.6*	24,270	23,863	28,134	30,960
EBITDA	1,246	1,025	*21.5*	1,072	*16.1*	3,718	4,100	4,856	5,371
APAT	805	623	*29.2*	724	*11.2*	2,156	2,608	3,191	3,645
Diluted EPS (Rs)	6.1	4.7	*29.2*	5.4	*11.2*	16.1	19.5	23.9	27.3
P/E (x)						30.4	25.1	20.5	17.9
EV / EBITDA (x)						18.6	16.1	13.3	11.6
RoCE (%)						14.5	13.7	16.0	16.9

Source: Company, HSIE Research

ADD

CMP *(as on 29 Jan 2021)*	**Rs 489**
Target Price	**Rs 546**
NIFTY	**13,635**

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	Rs 546	Rs 546
EPS %	FY21E	FY22E
	0%	0%

KEY STOCK DATA	
Bloomberg code	RDCK IN
No. of Shares (mn)	134
MCap (Rs bn) / ($ mn)	65/896
6m avg traded value (Rs mn)	192
52 Week high / low	Rs 530/220

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	9.8	30.4	27.3
Relative (%)	(6.6)	8.8	14.9

SHAREHOLDING PATTERN (%)

	Sep-20	Dec-20
Promoters	40.31	40.31
FIs & Local MFs	16.59	16.96
FPIs	18.03	18.25
Public & Others	25.07	24.48
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Infrastrcture, Construction

HDFC securities
INSTITUTIONAL RESEARCH

Dilip Buildcon

Marginal beat, monetisation awaited

Dilip Buildcon (DBL) reported in-line revenue at Rs 24.7bn (5%/28% YoY/QoQ). However, APAT beat stood at 11% owing to better-than-expected EBITDA margin. DBL has won orders worth Rs 158bn in FY21 till now, taking the order book to Rs 261bn (~3x FY20 revenue). While NWC days increased marginally from 101 days to 104 days in 3QFY21, net debt remained stable at Rs 34bn. The company unveiled its 5-year strategy to achieve 15-20% top-line growth by focusing on diversification and churning the capital by monetising the assets. We maintain BUY on DBL, with a target price of Rs 640/sh, given its (1) diversified and robust order book of Rs 256bn and (2) continued focus on asset recycling. We have valued the EPC business at 10x Dec-22E EPS and HAM at 1x P/BV.

- **APAT beat driven by margin outperformance:** DBL reported revenue at Rs 24.7bn, in line with our estimate. EBITDA/APAT came in at Rs 4.1/1.1bn, 5/11% ahead of our estimate, on better-than-expected margin (16.5% vs 15.8% estimate). Margins are expected to remain in the 16-17% range despite the increase in commodity prices due to built-in price escalation clause. DBL has guided for flattish revenue growth for 4QFY21 and 15-20% for FY22E.
- **Strong order booking led by non-roads sector; diversification achieved:** DBL won new orders worth Rs 158bn FYTD21 across road, irrigation and tunnel segments and expects to win additional orders of Rs 50-70bn with likely FY21E order backlog of Rs 280-300bn. The company has already bid for tenders worth Rs 200bn, while the bid pipeline is at Rs 1tn till Mar-21. It has successfully diversified its order book over the past few years as roads contribute only 44% in outstanding work, compared to 87% at FY18-end. With closing order book at Rs 256bn, DBL has three-year revenue visibility.
- **Monetisation of the assets at the final stage:** Net debt remained stable at Rs 34bn with net D/E at 0.9x. DBL expects to bring down net D/E to 0.3x in the next three years with ~Rs 20bn proceeds from monetisation of the HAM assets. The deal for monetisation of the 7 HAM assets is in advance stages and is expected to be closed soon. DBL generated positive cash flow of Rs 1.4bn during the quarter.

Quarterly/Annual Financial summary

YE March (Rs mn)	3QFY21	3QFY20	*YoY (%)*	2QFY21	*QoQ (%)*	FY20	FY21E	FY22E	FY23E
Net Sales	24,667	23,480	*5.1*	19,252	*28.1*	88,556	89,794	105,445	120,735
EBITDA	4,069	3,871	*5.1*	3,060	*33.0*	14,438	14,102	16,844	19,348
APAT	1,111	1,230	*(9.7)*	473	*135.0*	4,160	3,069	5,416	7,211
Diluted EPS (Rs)	8.1	9.0	*(9.7)*	3.5	*135.0*	30.4	22.4	39.6	52.7
P/E (x)						17.2	23.3	13.2	9.9
EV / EBITDA (x)						7.0	7.4	1.9	1.5
RoE (%)						12.2	8.2	13.0	15.2

Estimate change summary

DBL (Rs mn)	FY21E			FY22E			FY23E		
	New	Old	*% Chg.*	New	Old	*% Chg.*	New	Old	*% Chg.*
Revenues	89,794	89,794	-	105,445	105,445	-	120,735	120,735	-
EBIDTA	14,102	13,903	*1.4*	16,844	16,844	-	19,348	19,348	-
Margins (%)	15.7	15.5	*22*	16.0	16.0	-	16.0	16.0	-
APAT	3,069	3,111	*(1.3)*	5,416	5,416	-	7,211	7,211	-
AEPS	22.4	22.7	*(1.3)*	39.6	39.6	-	52.7	52.7	-

Source: Company, HSIE Research, Standalone financials

BUY

CMP *(as on 12 Feb 2021)*	Rs 523
Target Price	Rs 640
NIFTY	15,163

KEY CHANGES		OLD	NEW
Rating		BUY	BUY
Price Target		Rs 640	Rs 640
EPS %	FY21E	FY22E	FY23E
	(1.3)	-	-

KEY STOCK DATA	
Bloomberg code	DBL IN
No. of Shares (mn)	137
MCap (Rs bn) / ($ mn)	72/984
6m avg traded value (Rs mn)	120
52 Week high / low	Rs 547/190

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	48.2	52.2	37.1
Relative (%)	29.3	17.9	13.1

SHAREHOLDING PATTERN (%)	Sep -20	Dec-20
Promoters	75.00	75.00
FIs & Local MFs	7.17	7.14
FPIs	8.83	8.84
Public & Others	9.00	9.02
Pledged Shares	18.92	18.92

Source : BSE

Pledged shares as % of total shares

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PNC Infratech

In-line quarter

PNC Infratech (PNC) delivered an in-line 3QFY21 financial performance. Management commentary was upbeat on (1) FY21/22E order inflows pegged at Rs 100bn, (2) revenue guidance maintained at flattish YoY, (3) NWC improvement in 3QFY21, (4) initiation of talks on BOT/HAM asset part monetisation over next few quarters, (5) healthy NHAI bid-pipeline for FY22E/FY23E, and (6) growth backed by low peak debt levels of Rs 4.5bn. Valuations are supportive at 9.2/7.7x FY22/23E (core EPC EPS). Maintain BUY on PNC, with an unchanged target price of Rs 338/sh, given a strong order book and robust balance sheet. Key risks: (1) slowdown in NHAI ordering and (2) delay in the monetisation of HAM projects. Successful diversification, away from the roads sector, could expand the multiple further.

- **Results in line, execution picking up, guidance maintained:** Revenues: Rs 13.2bn (+9%/+26% YoY/QoQ, in-line). EBITDA: Rs 1.79bn (+4% YoY, +26% QoQ, in-line). EBITDA margins: 13.5% (-56/+1 bps YoY/QoQ, in-line). Interest cost came in at Rs 153mn, (-62% YoY, -30% QoQ). No exceptional item during the quarter. APAT: Rs 1,032mn (+45% YoY, +49% QoQ, 11% beat). NWC improved to 67 days from 85days QoQ. Appointed Date (AD) is expected by 4QFY21E for four recently-awarded HAMs, as well as 2 Delhi-Vadodara packages. Land 3G status in these four HAMs and two Delhi Vadodara EPC packages is ~90%. AP Irrigation project will too come under execution from Mar-21. PNC has maintained FY21 revenue guidance to flattish, with decent growth in FY22E.
- **Strong OB lends revenue visibility; diversification efforts on:** Order book (OB) stands at 180bn (~3.7x FY20 revenue, vs Rs 158bn QoQ). While PNC has diversified into irrigation and rural water supply projects, roads will remain the focused sector and contribute ~80% to the OB. PNC expects to close FY21 with ~100bn inflows (secured Rs ~77bn FYTD21). To diversify away from the road segment, PNC is looking at water, metro and railways sector. Focus will be execution of existing non-roads orders before further diversification. Eight projects (6HAM+1Annuity+1BOT) are up for monetisation (~Rs 9.4bn equity invested). PNC has won Rs ~38bn of water-related orders in FYTD21.
- **Balance sheet robust; monetisation of HAM projects key to watch**: NWC improved to 67 days vs 85 days QoQ (57 days on FY20 end). PNC maintained net cash at the standalone level, with gross debt of Rs 3.65bn (D/E 0.13x) and cash of Rs 8.3bn. Consolidated gross debt stood at Rs 38.1bn (1.31x D/E) and cash of Rs 15bn. PNC would require to infuse Rs ~10bn equity in under construction and recently-won HAM projects by FY24E. While PNC could fund the equity requirement from internal accruals, we believe monetisation of HAM projects would be key to churn capital and unlock the value. Capex budgeted for FY21 is Rs 1.25bn, with no loss funding envisaged for any SPV.

Quarterly/annual financial summary

YE March (Rs mn)	3QFY21	3QFY20	YoY (%)	2QFY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
Net Sales	13,224	12,180	*8.6*	10,535	*25.5*	48,779	47,211	59,706	68,972
EBITDA	1,785.2	1,712	*4.3*	1,421	*25.6*	7,643	6,343	8,283	9,722
APAT	1,032	709	*45.5*	693	*48.9*	3,243	3,138	4,893	5,882
Diluted EPS (Rs)	4.0	2.8	*45.5*	2.7	*48.9*	12.6	12.2	19.1	22.9
P/E (x)						19.8	20.5	13.1	10.9
EV / EBITDA (x)						7.9	9.1	7.1	6.2
RoE (%)						13.9	11.7	16.0	16.6

Source: Company, HSIE Research, Standalone financials

BUY

CMP *(as on 5 Feb 2021)*	**Rs 245**
Target Price	**Rs 338**
NIFTY	**14,924**

KEY CHANGES		OLD	NEW
Rating		BUY	BUY
Price Target		Rs 338	Rs 338
EPS change %	FY21E	FY22E	FY23E
	-	-	-

KEY STOCK DATA	
Bloomberg code	PNCL IN
No. of Shares (mn)	257
MCap (Rs bn) / ($ mn)	63/862
6m avg traded value (Rs mn)	164
52 Week high / low	Rs 268/80

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	49.9	91.3	23.8
Relative (%)	27.1	56.6	0.5

SHAREHOLDING PATTERN (%)	Sep-20	Dec-20
Promoters	56.07	56.07
FIs & Local MFs	24.29	23.81
FPIs	6.06	5.82
Public & Others	13.58	14.30
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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KNR Constructions

Another strong quarter, debtors overhang over

KNR met expectations and delivered largely in-line numbers, with revenue/EBIDTA/APAT vs HSIE estimates at -6/-3/+4%. Roads/irrigation segment contributed 58/42% to the order book (OB). The OB is robust at Rs 82bn (vs. Rs 85.5bn QoQ, ~3.6x FY20), having won projects worth Rs 5.4bn in 3QFY21 (1 order), and Rs ~40bn in 9MFY21. The NHAI bid pipeline is strong with KNR targeting Rs ~30-40bn inflow for the rest of FY21. It has bid for 15 projects totalling Rs ~200bn, and will participate actively in upcoming NHAI bids. 4QFY21 is expected to be a very strong quarter in terms of awarding. KNR is gearing up to further diversify into water & urban infra projects. We maintain a BUY on KNR with an increased target price of Rs 281/sh. We have increased our multiple from 15x to 18x, and roll forward our valuation to Mar-23E.

- **Another strong quarter, largely in-line:** Revenue: Rs 6.9bn (+23% YoY, -14% QoQ, 6% miss on estimates). EBITDA: Rs 1,353mn (+8.7% YoY, +9% QoQ, 3% miss). EBITDA margin came in at 19.7% (-259bps/-92bps YoY/QoQ, 61bps beat on est. 19.1%). Interest cost: Rs 184mn (+30%/+17% YoY/QoQ). Depreciation: Rs 373mn (-28%/+6% Yoy/QoQ). RPAT came in at Rs 776mn (+65%/+56% YoY/QoQ, 4% beat), driven by higher than envisaged other income and margins, despite revenue miss. Margins are expected to sustain at 18%+, with ~42% Irrigation's share in OB. Execution efficiency normalised to pre-COVID level during 3QFY21. Execution was driven by all 5 HAMs.
- **Balance sheet strengthens further with Telangana debtors realisation:** Standalone debt reduced further to Rs 160mn (from Rs 640mn/2.3bn as on Sep-20/Mar-20). Debt/Equity is ~0.01x. With Rs 430mn of cash, KNR remains net cash. NWC moderated by 10 days vs Sep-20 to 54 days (53 days as on Mar-20). However, it was driven by Rs 3.33bn receivables from HAMs, as the company typically draws down debt at SPV level only when cash is needed at standalone level.
- **Irrigation debtors realised, no more an overhang:** KNR has been repeatedly cross examined for the Telangana State government irrigation project receivables, which have been piling up since COVID-19 pandemic. The total debtors from Irrigation project have come down by Rs 5.4bn since the Nov-20 level of Rs 6.8bn. Hence, Rs 1.4bn is left of the old liability. On top of that Rs 2.9bn is liability (billed + unbilled) for additional work done, taking the total to Rs 4.3bn. This removes the key overhang on the stock.
- **Multiple triggers for re-rating:** The bid pipeline is strong with KNR targeting 3-4 order wins worth Rs ~30-40bn. 3 HAMs to be monetised will be completed in 1HFY21. Discussion for monetisation of 4th HAM is underway. Irrigation debtors overhang is now over. Margins remain best in class. KNR remains our top sectoral pick.

Financial summary

YE March (Rs mn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
Net Sales	6,863	5,579	*23.0*	6,012	*14.2*	22,442	24,008	28,637	35,644
EBITDA	1,353	1,244	*8.7*	1,240	*9.0*	4,871	4,472	5,580	7,006
APAT	776	469	*65.3*	498	*55.7*	2,359	2,034	3,051	4,069
Diluted EPS (Rs)	5.5	3.3	*65.3*	3.5	*55.7*	8.39	7.23	10.85	14.47
P/E (x)						26.6	30.8	20.6	15.4
EV / EBITDA (x)						13.3	14.0	11.2	8.8
RoE (%)						15.5	11.8	15.6	17.7

Source: Company, HSIE Research

BUY

CMP *(as on 12 Feb 2021)*	Rs 223
Target Price	Rs 281
NIFTY	15,163

KEY CHANGES		OLD	NEW
Rating		BUY	BUY
Price Target		Rs 224*	Rs 281
EPS Change %	FY21E	FY22E	FY23E
	-	-	-

** Adjusted for 1:1 bonus issue*

KEY STOCK DATA	
Bloomberg code	KNRC IN
No. of Shares (mn)	281
MCap (Rs bn) / ($ mn)	62/858
6m avg traded value (Rs mn)	145
52 Week high / low	Rs 242/86

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	72.7	112.1	59.4
Relative (%)	53.8	77.8	35.4

SHAREHOLDING PATTERN (%)	Sep-20	Dec-20
Promoters	55.03	55.03
FIs & Local MFs	34.34	34.28
FPIs	1.54	1.53
Public & Others	9.09	9.16
Pledged Shares	-	-

Source : BSE

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NCC

Growth comeback

NCC reported revenue/EBITDA/APAT at Rs 19.1/2.4/0.7 bn, 9/8/28% behind our estimate, on slower-than-expected execution recovery, lower other income and higher taxes. However, with order inflow of Rs 119bn during the quarter, order book now stands at Rs 392bn (~4.9x FY20 revenue), setting a base for significant ramp-up in revenue from the next quarter. The likely real estate monetisation of Rs 3bn (Mar-21 – Rs 1.5bn and FY22E – Rs 1.5bn) will aid further deleveraging. We maintain BUY on NCC with an increased target price of Rs 115/sh given (1) improved earnings visibility on robust order book (2) abating AP risk and (3) stable balance sheet. Key risks to our estimates: (1) deterioration in NWC days and (2) weak real estate monetisation.

- **Muted recovery in execution:** NCC registered revenue of Rs 19.1bn (-9/+24% YoY/QoQ), miss of 9% as COVID-related challenges impacted execution. EBITDA miss was also at 9% on inline margin. Consequently, APAT came in at Rs 703mn (+17%/+20% YoY/QoQ), 28% below our est., on lower other income and higher taxes. Management expects higher commodity prices to impact margins in the short-term. 4QFY21 revenue is expected at Rs 26bn.
- **Order book ~4.9x FY20 revenue; Execution pick-up in sight:** NCC secured Rs 119bn of orders during the quarter, more that its annual guidance for FY21, on large order wins in water segment. Further, it has secured order of Rs 11bn in Jan-21 and expects additional Rs 10bn during the quarter. Management is confident of carrying the order win momentum forward in FY22 with focus on affordable housing and Jal Jeevan Mission. At the end of the quarter, order backlog stood at Rs 392bn (FYTD21 inflows of Rs 202bn), of which Buildings/Water & Railways accounted for 58/17% and Roads, Electrical, Irrigation and Mining constituted 6-7% each. AP accounts for only 10-12% of the OB now. NCC has guided for Rs 100bn+ revenue for FY22, which we think is achievable given strong order book of ~5x FY20 revenue.
- **Balance sheet position remains stable:** Debt stood at Rs 19.7bn (net D/E at 0.41x) at the end of the quarter and is expected to come down to Rs ~18bn by FY21, basis management commentary. Finance cost reduced to Rs 1.1bn (-25%-10%). NCC is positive on recovering AP dues soon, which stood at Rs 7bn, including the retention money.

Financial Summary Standalone

YE March (Rs mn)	3QFY21	3QFY20	*YoY (%)*	2QFY21	*QoQ (%)*	FY20	FY21E	FY22E	FY23E
Net Sales	19,184	21,172	*(9.4)*	15,408	*24.5*	82,188	72,791	1,08,955	1,23,940
EBITDA	2,393	2,500	*(4.3)*	2,098	*14.1*	10,302	8,802	13,075	14,997
APAT	703	601	*17.0*	584	*20.4*	4,147	2,821	5,893	7,289
Diluted EPS (Rs)	1.2	1.0	*17.0*	0.97	*20.4*	6.8	4.6	9.7	12.0
P/E (x)						13.2	19.5	9.3	7.5
EV / EBITDA (x)						6.9	7.6	5.2	4.4
RoE (%)						8.4	5.4	10.4	11.6

Estimate Change Summary (Standalone)

(Rs mn)	FY21E			FY22E			FY23E		
	New	Old	*% Chg.*	New	Old	*% Chg.*	New	Old	*% Chg.*
Revenues	72,791	74,691	*(2.5)*	1,08,955	1,08,955	-	1,23,940	1,23,940	-
EBIDTA	8,802	9,150	*(3.8)*	13,075	13,075	-	14,997	14,997	-
Margins (%)	12.1	12.2	*(15.8)*	12.0	12.0	-	12.1	12.1	-
APAT	2,821	3,151	*(10.5)*	5,893	5,858	*0.6*	7,289	7,259	*0.4*

Source: Company, HSIE Research

BUY

CMP ***(as on 11 Feb 2021)***	**Rs 90**
Target Price	**Rs 115**
NIFTY	**15,173**

KEY CHANGES	**OLD**	**NEW**
Rating	BUY	BUY
Price Target	Rs 109	Rs 115

EPS change %	FY21E	FY22E	FY23E
	-10.5	+0.6	+0.4

KEY STOCK DATA	
Bloomberg code	NJCC IN
No. of Shares (mn)	610
MCap (Rs bn) / ($ mn)	55/755
6m avg traded value (Rs mn)	683
52 Week high / low	Rs 100/16

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	144.6	184.4	87.6
Relative (%)	126.4	150.2	62.6

SHAREHOLDING PATTERN (%)	**Sep-20**	**Sep-20**
Promoters	19.68	19.68
FIs & Local MFs	12.32	11.31
FPIs	9.80	10.32
Public & Others	58.20	58.69
Pledged Shares	5.16	4.58

Source : BSE

Pledged shares as % of total shares

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IRB Infra

Smart recovery

IRB reported stellar 3QFY21 with revenue at Rs 15.5bn, beating our estimate by 15%. The outperformance was driven by 32% QoQ recovery in toll collections and improved EPC execution with 41.5% QoQ growth. There were no new order wins during the quarter. The company registered a profit of Rs 695mn, 37% beat. While toll collection in most BOT assets has surpassed pre-COVID levels, aided by unlocks, execution too ramped up with normalisation of labour and streamlining of the supply chain. Consolidated net debt is stable at Rs 125bn, with net D/E at 1.9x. We maintain BUY on IRB, given attractive valuation and comfortable liquidity position. Our SOTP-based target price of Rs 157/sh and EPS estimates for FY21/22/23E remain unchanged.

- **Revenue beat on speedy recovery in toll collection:** Revenue: Rs 15.5bn (-11/+38% YoY/QoQ, 14.8% beat). EBITDA: Rs 7.2bn (+1/+30% YoY/QoQ, 14.3% beat). EBITDA margin 46.5% (+558/-287bps YoY/QoQ, in line). No exceptional item. Loss from the share of private - InVIT narrowed to Rs 192mn vs. Rs 417mn QoQ. Consequently, IRB reported profit at Rs 695mn (vs Rs +1,597/-197mn YoY/QoQ, 36.5% beat), which wiped out 1HFY21 accumulated losses. While revenue from the BOT segment increased 26.5% QoQ, recovery in the EPC segment too saw 41.5% QoQ growth.
- **Toll collections near pre-COVID level:** Basis management commentary, toll collections have surpassed pre-pandemic level across the majority of BOT assets and is likely to sustain with further ease of restrictions, with ~32% QoQ growth in collection across 13 toll assets housed in IRB and private-InVIT, aided by the festive season and easing of travel restrictions. Mumbai Pune Expressway saw 42% growth in collection QoQ (Rs 38mn/day surpassed). IRB has achieved financial closure for VM7 Expressway (@8.25%).
- **HAM to fill order book in the absence of BOT ordering:** As on Dec-20, order book (OB) of IRB stood at Rs 113bn, of which Rs 69bn (61% of OB) is in O&M, and Rs 44bn (39% of OB) is in construction of ongoing BOT/TOT/HAM projects. IRB is targeting Rs 60-90bn of orders in 4QFY21E. Although IRB continues to prefer BOT/TOT over HAM, IRB is looking to replenish order book with HAM projects, in the absence BOT ordering. NHAI bid-pipeline stands at Rs ~600bn till Mar-21.
- **Debt to stabilise by FY22-end:** Consolidated net debt is stable at Rs 125bn vs. Rs 127bn on Sep 20-end (net D/E at 1.9x). Net debt would increase further as remaining two tranches of payment (Rs 8.5bn each) for Mumbai-Pune TOT scheduled at Mar-21 and Mar-22. For that, IRB will utilise its Rs 23bn cash & bank balance. Hence, IRB could see some moderation in debt after FY22. For under-construction projects, IRB and GIC will together infuse incrementally Rs ~3bn each in the near term.

Consolidated Quarterly/Annual Financial summary

YE March (Rs mn)	3QFY21	3QFY20	YoY (%)	2QFY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
Net Sales	15,472	17,426	*(11.2)*	11,233	*37.7*	68,522	50,775	57,850	62,915
EBITDA	7,200	7,137	*0.9*	5,550	*29.7*	29,714	22,087	26,322	28,627
APAT	695	1,597	*(56.5)*	(197)	*(453.1)*	6,635	1,851	4,129	5,720
Diluted EPS (Rs)	2.0	4.5	*(56.5)*	(0.6)	*(453.1)*	18.9	5.3	11.7	16.3
P/E (x)						6.1	21.9	9.9	7.1
EV / EBITDA (x)						5.9	7.8	6.8	6.2
RoE (%)						10.2	2.7	5.9	5.9

Source: Company, HSIE Research, Consolidated financials

BUY

CMP *(as on 19 Jan 2021)*	**Rs 116**
Target Price	**Rs 157**
NIFTY	**14,521**

KEY CHANGES		**OLD**	**NEW**
Rating		BUY	BUY
Price Target		Rs 157	Rs 157
	FY21E	FY22E	FY23E
EPS %	-	-	-

KEY STOCK DATA	
Bloomberg code	IRB IN
No. of Shares (mn)	351
MCap (Rs bn) / ($ mn)	41/556
6m avg traded value (Rs mn)	179
52 Week high / low	Rs 139/46

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	5.2	(2.6)	15.2
Relative (%)	(17.0)	(36.0)	(2.6)

SHAREHOLDING PATTERN (%)	**Sep-20**	**Dec-20**
Promoters	58.01	58.61
FIs & Local MFs	11.39	11.42
FPIs	15.37	16.30
Public & Others	15.23	13.67
Pledged Shares	10.14	10.14

Source : BSE

Pledged shares as % of total shares

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Ashoka Buildcon

Monetisation awaited

Ashoka Buildcon (ASBL) reported APAT at Rs 856mn (+0%/-18% YoY/QoQ), missing our estimates by 5.4% despite 5% execution beat on lower-than-expected margins. Labour availability has now fully normalised. Toll collections have also surpassed pre-COVID levels. ASBL didn't win any major orders during the quarter (order book Rs 91.5bn). Low net D/E of ~0.1x and comfortable liquidity provide comfort. We maintain BUY on Ashoka Buildcon (ASBL) with an unchanged target price of Rs 175/sh. Potential monetisation of HAM/BOT assets and diversification of the order book could be positive triggers for the stock. No change in estimates.

- **Slight beat on execution, margin profile deteriorates:** Revenues: Rs 9.8bn (-0.3%/+12% YoY/QoQ, 5% beat). EBITDA: Rs 1.06bn (-15% YoY, -19% QoQ, 11.6% miss). EBITDA margins: 10.8% (-188/-416 bps YoY/QoQ, vs est of 12.8%). Interest cost: Rs 222mn (-8%/-7% YoY/QoQ). APAT: Rs 856mn (+0% YoY, -18% QoQ, 5.4% miss). Medium-term margin guidance was revised downward by 100bps from 12-13% to 11-12%, due to higher competition in roads segment and gradual scaling up of non-roads segments. Labour availability has now completely normalised. ASBL expects flattish standalone revenue growth YoY.
- **Order book at Rs 91.5bn; diversification work-in-progress:** Ashoka didn't win any major orders in 3QFY21 and won a couple of small power T&D orders totaling Rs ~3.2bn, taking the order book to Rs 91.5bn (~2.2x FY20 revenue). While the Roads segment continues to dominate the order book with 76% share, Power T&D and Railways constitute 16% and 8% respectively. The company has been bidding for water projects and will start bidding in buildings segment. However, ASBL has found little success in diversifying its order book. ASBL is looking to win additional Rs 20-30bn of orders in 4QFY21E, and Rs 50-60bn in FY22E. 4QFY21 execution ramp-up will be supported by Kandi project (commenced execution) and 2 NHAI Bihar EPC projects that will also start execution. While TS-III is likely to receive FC and AD in 4QFY21, TS-IV is now delayed due to only ~60% land availability.
- **Liquidity position comfortable:** Consolidated gross/net debt stood at Rs 60/55bn (Rs 56/52bn QoQ), while standalone gross/net debt stood at Rs 3.5/2.8bn (~0.1x net D/E, vs Rs 2.2/1.2bn QoQ). Management expects standalone debt to sustain at current levels. Monetisation plans for company's HAM and BOT assets are in progress. The company expects to receive a binding agreement by Apr 21-end. ASBL is looking to divest maximum stake wherever possible (100% in post COD projects, 49% in under construction). NFB debt limits utilisation at ~60%.

Financial summary

YE March (Rs mn)	Standalone					Consolidated			
	3QFY21	3QFY20	YoY (%)	2QFY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
Net Sales	9,807	9,836	*(0.3)*	8,775	*11.8*	50,705	46,774	54,442	62,738
EBITDA	1,055	1,243	*(15.1)*	1,309	*(19.4)*	15,752	13,933	14,490	16,599
APAT	856	855	*0.1*	1,047	*(18.2)*	1,653	(308)	(211)	1,015
Diluted EPS (Rs)	3.1	3.0	*0.1*	3.7	*(18.2)*	5.9	(1.1)	(0.8)	3.6
P/E (x)						18.0	(96.8)	(140.8)	29.3
EV / EBITDA (x)						5.1	7.0	6.9	6.2
RoE (%)						8.9	(1.6)	(1.2)	5.7

Source: Company, HSIE Research

BUY

CMP *(as on 8 Feb 2021)*	**Rs 106**
Target Price	**Rs 175**
NIFTY	**15,116**

KEY CHANGES		OLD	NEW
Rating		BUY	BUY
Price Target		Rs 175	Rs 175
EPS Change %	FY21E	FY22E	FY23E
	-	-	-

KEY STOCK DATA	
Bloomberg code	ASBL IN
No. of Shares (mn)	281
MCap (Rs bn) / ($ mn)	29/403
6m avg traded value (Rs mn)	162
52 Week high / low	Rs 117/37

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	66.8	80.6	(8.0)
Relative (%)	44.2	45.6	(32.8)

SHAREHOLDING PATTERN (%)	Sep-20	Dec-20
Promoters	54.48	54.48
FIs & Local MFs	27.35	29.75
FPIs	3.20	1.13
Public & Others	14.97	14.64
Pledged Shares	-	-

Source : BSE

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Ahluwalia Contracts

Margin miss

Ahluwalia (AHLU) reported revenue at Rs 5.4bn (8%/23% YoY/QoQ), beating our estimate by 13%. However, EBITDA/APAT at Rs 317/147mn missed estimate by 25%/42% as higher employee cost, provisioning for expected credit loss (Rs 80mn) and higher commodity prices impacted margin (5.9% vs 8.9% est.). AHLU won new orders worth Rs 20.9bn 9MFY21, taking the order book to Rs 82bn at the end of 3QFY21. Gross debt decreased to Rs 320mn from Rs 440mn in 2QFY21. With cash balance at Rs 2bn, AHLU remains a net cash company. We have cut our FY21/FY22/FY23 estimates by 14/17/9% to accommodate potential impact on margins of higher commodity prices. We maintain BUY on AHLU with a reduced TP of Rs 388 (13x Mar-23E EPS), given its robust order book, strong balance sheet, and better RoE/RoCE than peers.

- **Contraction in margins overshadows execution beat**: Execution recovered to pre-COVID level as Ahluwalia reported 3QFY21 revenue at Rs 5.4bn (+8/+23% YoY/QoQ, 13% beat). EBITDA margin deteriorated to 5.9% (-284/-196bps YoY/QoQ) on higher employee cost, provisioning for expected credit loss (Rs 80mn) and higher commodity prices. Consequently, PAT came in at Rs 147mn, a decline of 31%/39% YoY/QoQ and miss of 42%. Margin would continue to be lower in 4QFY21 and will normalise in FY22. Management expects revenue to grow by 15% in FY22, which we believe is very conservative, given its robust order book and strong execution capability.
- **Order book remains robust at Rs ~82bn (~4x FY20):** AHLU has won Rs 20.9bn of new orders 9MFY21 taking order book to Rs 82bn (Government 81%). The company has already bid for Rs 20bn of orders but is not expecting any major orders in the remainder of the year. It is also looking at hospital projects in Rajasthan and Maharashtra. For FY22, the order inflow guidance is Rs 20bn.
- **Balance sheet remains robust**: Gross debt reduced to Rs 320mn from Rs 440mn at the end of 2QFY21. With cash balance of Rs 2bn, AHLU remains a net cash company. In a bid to clean up the balance sheet, management has provisioned Rs 138mn in 9MFY21 and will further provide Rs 60mn in 4QFY21 against expected credit losses. Net of provision, contested/delayed receivables stood at Rs 1bn at the end of 3QFY21.

Quarterly/Annual Financial summary (Standalone)

YE March (Rs mn)	3QFY21	3QFY20	*YoY (%)*	2QFY21	*QoQ (%)*	FY20	FY21E	FY22E	FY23E
Net Sales	5,361	4,980	*7.7*	4,345	*23.4*	18,849	17,705	22,517	27,245
EBITDA	317	436	*(27.3)*	342	*(7.3)*	1,530	1,358	2,499	3,215
APAT	147	214	*(31.0)*	241	*(38.8)*	644	704	1,418	1,933
Diluted EPS (Rs)	2.2	3.2	*(31.0)*	3.6	*(38.8)*	9.6	10.5	21.2	28.9
P/E (x)						32.2	29.5	14.6	10.7
EV / EBITDA (x)						12.8	13.2	6.9	5.0
RoE (%)						8.4	8.5	15.2	17.7

Change in Estimates (Standalone)

Rs mn	FY21E			FY22E			FY23E		
	New	Old	*% chg.*	New	Old	*% chg.*	New	Old	*% chg.*
Revenues	17,705	17,094	*3.6*	22,517	22,517	*(0.0)*	27,245	27,245	*0.0*
EBIDTA	1,358	1,444	*(6.0)*	2,499	2,882	*(13.3)*	3,215	3,460	*(7.1)*
EBIDTA Margins (%)	7.7	8.4	*(77.9)*	11.1	12.8	*(169.9)*	11.8	12.7	*(90.0)*
APAT	704	816	*(13.7)*	1,418	1,701	*(16.6)*	1,933	2,115	*(8.6)*

Source: Company, HSIE Research

BUY

CMP *(as on 15 Feb 2021)*	**Rs 307**
Target Price	**Rs 388**
NIFTY	**15,315**

KEY CHANGES	OLD		NEW
Rating	BUY		BUY
Price Target	Rs 403		Rs 388
EPS change %	FY21E	FY22E	FY23E
	(13.7)	(16.6)	(8.6)

KEY STOCK DATA	
Bloomberg code	AHLU IN
No. of Shares (mn)	67
MCap (Rs bn) / ($ mn)	21/283
6m avg traded value (Rs mn)	30
52 Week high / low	Rs 370/136

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	33.4	25.9	(5.6)
Relative (%)	13.9	(11.8)	(32.0)

SHAREHOLDING PATTERN (%)

	Sep-20	Dec-20
Promoters	58.00	58.00
FIs & Local MFs	24.60	25.87
FPIs	12.95	11.62
Public & Others	4.45	4.51
Pledged Shares	23.68	23.68

Source : BSE

Pledged shares as % of total shares

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Kolte Patil Developers

Launches critical for sales ramp-up

KPDL reported sequential recovery in pre-sales at 0.55msf (57% QoQ) in 3QFY21. In terms of value, sales grew by 63% QoQ. With the launch of two projects at the end of December, management is confident of achieving full-year guidance of 1.8mn sq ft for FY21. A sharp rebound in the collection (Rs 3.8bn vs Rs 2bn in 2QFY21) led to reduction in net D/E to 0.41x from 0.52x on Sep-20. We cut our FY21 estimate by 70% to account for deferment in revenue recognition and maintain BUY on KPDL, with an unchanged target price of Rs 321/sh, given comfortable balance sheet (net D/E 0.4x) and robust launch pipeline (~5.9mn sqft). Any delay in launches key risk to our estimates.

- **Financial highlight:** KPDL reported revenue at Rs 1.9bn (+46.1/+195% YoY/QoQ), 43% behind our estimates on slower-than-expected recovery in execution. A sequential decline in finance cost and depreciation led to APAT of Rs 226mn, miss of 44%. On POCM basis, revenue fell by 4% YoY and profit was at Rs 468mn (vs Rs 377mn profit in 3QFY20).
- **A sequential recovery in pre-sales; launches key monitorable:** KPDL reported pre-sales at 0.55msf (-33/+57% YoY/QoQ), with average realisation of Rs 5,764/sf. After a hiatus of close to two years, KPDL launched two new projects during the quarter. It also added three new projects recently with a saleable area of 2.2msf. KPDL is planning to launch projects across categories and across key target markets with saleable area of ~5.9msf and topline potential of Rs 52bn. We believe these launches and new business developments are critical for KPDL to ramp up sales.
- **Lean balance sheet provides room for expansion:** KPDL completed the buyout of ICICI Venture's 50% stake in Life Republic with the final payment of Rs 700mn. Despite this, consolidated net debt decreased to Rs 3.6bn (vs Rs 4.5bn on Sep 20), on robust collections during the quarter. Persistence with asset-light strategy has helped in keeping the balance sheet in good shape, which provides KPDL scope for expansion.

Consolidated Financial Summary

YE March (Rs mn)	3QFY21	3QFY20	*YoY (%)*	2QFY21	*QoQ (%)*	FY20	FY21E	FY22E	FY23E
Net Sales	1,903	1,302	*46.1*	646	*194.6*	11,295	6,651	12,454	14,320
EBITDA	455	28	*1,543.7*	(95)	*NA*	2,336	1,020	2,888	3,454
APAT	226	(131)	*NA*	(219)	*NA*	657	119	1,057	1,387
Diluted EPS (Rs)	3.0	(1.7)	*NA*	(2.9)	*NA*	8.7	1.6	13.9	18.3
P/E (x)						31.1	171.2	19.4	14.8
EV / EBITDA (x)						10.8	20.5	9.0	7.7
RoE (%)						5.2	0.8	9.9	12.2

Estimate change summary

Consolidated (Rs mn)	FY21E			FY22E			FY23E		
	New	Old	*% Chg.*	New	Old	*% Chg.*	New	Old	*% Chg.*
Revenues	6,651	9,495	*(30.0)*	12,454	12,454	-	14,320	14,320	-
EBITDA	1,020	1,744	*(41.5)*	2,888	2,888	*0.0*	3,454	3,443	*0.3*
EBITDA (%)	15.3	18.4	*(303.4)*	23.2	23.2	*0.3*	24.1	24.0	*7.5*
APAT	119	400	*(70.1)*	1,057	1,047	*0.9*	1,387	1,385	*0.1*
AEPS (Rs/sh)	1.6	5.3	*(70.1)*	13.9	13.8	*0.9*	18.3	18.3	*0.1*

Source: Company, HSIE Research

BUY

CMP *(as on 5 Feb'21)*	**Rs 270**
Target Price	**Rs 321**
NIFTY	**14,924**

KEY CHANGES		OLD	NEW
Rating		BUY	BUY
Price Target		Rs 321	Rs 321
EPS change (%)	FY21	FY22	FY23
	(70.1)	0.9	0.1

KEY STOCK DATA	
Bloomberg code	KPDL IN
No. of Shares (mn)	76
MCap (Rs bn) / ($ mn)	21/282
6m avg traded value (Rs mn)	48
52 Week high / low	Rs 286/103

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	59.5	83.6	18.3
Relative (%)	36.8	48.9	(5.0)

SHAREHOLDING PATTERN (%)	Sep-20	Dec-20
Promoters	74.45	74.45
FIs & Local MFs	0.00	0.01
FPIs	14.18	14.22
Public & Others	11.37	11.32
Pledged Shares	0.0	0.0

Source : BSE

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PSP Projects

In-line quarter

PSP's 3QFY21 performance was mostly in line. While execution is back on track, order book ramp up remains key from revenue visibility standpoint. Private players are deferring Capex plans due to steep rise in cement and steel prices. Coupled with conservative bidding to maintain margins, this has led to PSP missing out on a few large projects, and hence, resulting in just Rs 2.2bn inflows in 9MFY21. Having said that, PSP expects order inflows for 4QFY21 to be at Rs 10bn, which is now a key monitorable. Long-term focus remains on Building & Factories segment with growth likely to pick up from FY22E. No change in estimates. We maintain BUY on PSP Projects with a target price of Rs 506/sh (12x Dec-22E EPS).

- **3QFY21 financial highlights:** Revenue reported at Rs 3.9bn (-8/+61% YoY/QoQ, in-line). EBITDA reported at Rs 469mn (-13/+91% YoY/QoQ, in-line). EBITDA margin at Rs 12% (-75/+194bps YoY/QoQ, in line). Interest cost came in at Rs 30mn (-26%/-29% YoY/QoQ, vs HSIE est. of Rs 63mn). Exceptional item (net of tax) represents impairment of investment in PSP Projects & Proactive Constructions amounting to Rs 27.4mn. Rs ~20mn impairment loss was taken on US entity, with no further impairment expected (Rs 40mn cumulative). These exceptional losses, apart from additional Rs ~10mn labor mobilisation expense due to COVID, impacted EBITDA negatively by ~1.4% as per the management. RPAT/APAT reported at Rs 279/307mn (APAT -17/+113% YoY, beat of 4.5%). EBITDA margin guidance maintained at 12-13%. Of the Rs 750-800mn pre-caste plant Capex by 1QFY22, Rs 90/260mn have been incurred in 3QFY21/1HFY21.
- **3QFY21 operational highlights:** SDB project revenue contribution for the quarter stood at Rs 1.3bn (Rs 12bn of 15.8bn recognised till 3QFY21), and is on track to be handed over by 1QFY22E. Sabha Hall (Rs 1bn) and Bhiwandi affordable housing project (Rs 6bn) remain slow moving as of now, with all clearances expected by 4QFY21. Order inflows have been disappointing at Rs 1.1/2.2bn in 3QFY21/9MFY21, as a couple of major orders could not be won and general slackness in private sector awards. Total order book including SDB (Rs 3.8bn) and the two slow moving orders stands at Rs 25.2bn. The order bid book stands at Rs 50bn. PSP expects order inflows for FY21 to be ~12-13bn, in line with its revenue guidance. Pre-cast factory will start production in the next six months, with an annual expected turnover of Rs 0.5-0.8bn for the next three years. It has won an order from L&T for HSR.
- **Balance sheet:** Gross debt stood at Rs ~0.95bn (vs Rs 1.14bn QoQ), including Rs 0.45bn OD against FD. The cost of borrowing has come down gradually from ~8.25% to 7.25% now. However, there has been no specific reduction in LC/BG charges.

Financial summary

Year Ending March	3QFY21	3QFY20	*YoY (%)*	2QFY21	*QoQ (%)*	FY20	FY21E	FY22E	FY23E
Net Sales	3,902	4,231	*-8*	2,431	*61*	14,993	12,076	16,129	18,929
EBITDA	469	541	*-13*	245	*91*	1,910	1,335	2,124	2,493
APAT	307	367	*-17*	144	*113*	1,293	755	1,365	1,567
Diluted EPS (Rs)	8.5	10.2	*-17*	4.0	*113*	35.9	21.0	37.9	43.5
P/E (x)						11.4	19.5	10.8	9.4
EV / EBITDA (x)						7.9	11.2	7.0	5.9
RoE (%)						31.2	15.5	23.7	22.5

Source: Company, HSIE Research

BUY

CMP *(as on 27 Jan 2021)*	Rs 409
Target Price	Rs 506
NIFTY	13,968

KEY CHANGES		OLD	NEW
Rating		BUY	BUY
Price Target		Rs 506	Rs 506
EPS chg %	FY21E	FY22E	FY23E
	-	-	-

KEY STOCK DATA	
Bloomberg code	PSPPL IN
No. of Shares (mn)	36
MCap (Rs bn) / ($ mn)	15/202
6m avg traded value (Rs mn)	27
52 Week high / low	Rs 545/232

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	5.0	2.7	(22.7)
Relative (%)	(13.1)	(21.6)	(36.6)

SHAREHOLDING PATTERN (%)	Sep-20	Dec-20
Promoters	74.16	74.19
FIs & Local MFs	5.82	5.41
FPIs	1.27	1.27
Public & Others	18.75	19.13
Pledged Shares	-	

Source: BSE

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Sadbhav Engineering

Headwinds receding

Sadbhav Engineering (SEL) reported revenue/EBITDA/PAT miss of 29/19/61%. Labour availability has normalised. Standalone order book stood at Rs 97bn as it won orders of Rs 7.8bn in 3QFY21. Net debt remained at Rs ~11bn. However, with receivables of ~Rs 17bn, working capital still remains stretched. Improvement in balance sheet and pick-up in execution will lead to rerating. With Rs 7.5bn of NCD inflow, liquidity issues will get alleviated and execution will pick up. We maintain BUY with TP of Rs 105/sh.

- **Execution recovery weaker than expected**: Revenue stood at Rs 5.6bn (+26/+35% YoY/QoQ, 29% miss). EBITDA: Rs 737mn (+34/+48% YoY/QoQ, 19% miss). RPAT stood at Rs 152mn (+30/+189% YoY/QoQ, 61% miss). SEL is targeting about Rs 6-6.5bn of topline for 4QFY21. SEL-SIPL merger approvals have been received from shareholders and creditors. PCOD for 3 HAMs have been received, with PCOD for 2 more HAMs expected in 4QFY21E, and another 2 projects by 2QFY22E. Hence, 7 out of 9 HAMs are expected to receive PCOD by 2QFY22. Execution is expected to stabilise to Rs 90mn daily run-rate by 4QFY21.
- **SIPL debt position:** Debt of operational SPVs under SEL-SIPL stood at Rs 29.4bn (including ARRIL), while under-construction SPVs' debt stood at Rs 21.9bn. SIPL standalone debt stood at Rs 7.8bn, including Rs 3.9bn loan from SEL. Rs 7.5bn equity has been infused until date, with balance Rs 3.3bn to be infused over two months from Rs 7.5bn NCDs to be issued at SEL. The balance NCD proceeds will be utilised for repaying SIPL debt. ARRIL proceeds will be utilised to repay NCDs. Hence, with ramping up of operations further, SEL debt is expected to remain at broadly the current level of Rs 11bn.
- **Order book at Rs 96.8bn; Rs 45-50bn inflow guidance for FY21**: Standalone order book stood at Rs 97bn at the end of the 3QFY21. SEL won one EPC contract (Surat Metro) in 3QFY21 amounting to Rs 7.8bn. Cumulatively, SEL is targeting Rs 45-50bn of orders in FY21, implying Rs 22-27bn incremental inflows. In that direction, the company has submitted 15 bids for a total value of Rs ~134bn for various road projects.

Quarterly/annual financial summary

YE March	3Q FY21	3Q FY20	*YoY (%)*	2Q FY21	*QoQ (%)*	FY20	FY21E	FY22E	FY23E
Net Sales	5,560	4,400	*26.4*	4,122	*34.9*	22,517	17,808	29,860	36,822
EBITDA	737	548	*34.3*	498	*47.9*	2,795	2,260	3,732	4,492
APAT	152	117	*30.1*	52	*189.4*	681	214	1,237	1,905
Diluted EPS (Rs)	0.9	0.8	*15.1*	0.3	*189.5*	4.0	1.2	7.2	11.1
P/E (x)						20.3	64.5	11.2	7.2
EV / EBITDA (x)						8.9	8.9	6.5	5.5
RoE (%)						3.2	1.0	5.6	8.0

Source: Company, HSIE Research, Standalone financials

Change in estimates

Standalone Rs Mn	FY21E			FY22E			FY23E		
	Old	Revised	*% Chg*	Old	Revised	*% Chg*	Old	Revised	*% Chg*
Net Sales	24,023	17,808	*(25.9)*	29,860	29,860	-	36,822	36,822	-
EBITDA	2,722	2,260	*(17.0)*	3,732	3,732	-	4,492	4,492	-
EBIDTA Margin (%)	11.3	12.7	*135.9*	12.5	12.5	-	12.2	12.2	-
Adj PAT	696	214	*(69.2)*	1,237	1,237	-	1,905	1,905	-
AEPS (Rs)	4.1	1.2	*(69.2)*	7.2	7.2	-	11.1	11.1	-

Source: Company, HSIE Research, Standalone financials

BUY

CMP *(as on 15 Feb 2021)*	Rs 80
Target Price	Rs 105
NIFTY	15,315

KEY CHANGES	OLD		NEW
Rating	BUY		BUY
Price Target	Rs 105		Rs 105
EPS %	FY21E	FY22E	FY23E
	(69)	-	-

KEY STOCK DATA	
Bloomberg code	SADE IN
No. of Shares (mn)	172
MCap (Rs bn) / ($ mn)	14/189
6m avg traded value (Rs mn)	60
52 Week high / low	Rs 101/23

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	60.8	67.0	(19.8)
Relative (%)	41.3	29.3	(46.2)

SHAREHOLDING PATTERN (%)	Sep-20	Dec-20
Promoters	46.83	46.74
FIs & Local MFs	26.14	25.09
FPIs	6.17	4.34
Public & Others	20.86	23.83
Pledged Shares	29.66	29.63

Source : BSE

Pledged shares as % of total shares

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Capacite Infraprojects

In-line performance

Whilst CIL missed our revenue/EBIDTA estimates by 12/11%, EBITDA margin outperformance led to in-line APAT. Despite multiple headwinds (urban areas were the worst hit by COVID-19, large exposure to real estate sector), CIL execution is gradually recovering towards normalcy with the company guiding for Rs 20bn+ of revenue and 17.5-18.5% EBITDA margins (including other income). The uptick in private real estate (~40% of order book) and government push on health/housing (~60% of order book) augurs well for the overall growth outlook and order bookings (we believe Rs 30bn FY22E inflow guidance is conservative). CIL expects NWC to improve further as share of low NWC CIDCO projects execution ramps up. Given execution ramp-up and increase in share of Government orders, CIL is well-placed for re-rating. We retain our estimates and roll forward our valuation to Mar-23E. Maintain BUY with Rs 320/sh target price vs. Rs 293/sh earlier.

- **Strong comeback during 3QFY21**: Revenues: Rs 3bn (-24.5% YoY, +68.7% QoQ, 12% miss). EBITDA stood at Rs 546mn (-24.4% YoY, +39.9% QoQ, 12% miss). EBITDA margin at 17.9% (+2bps YoY, -367bps QoQ, 20bps beat). Interest cost at Rs 174mn (+7.7% YoY, +28.9% QoQ). APAT: Rs 152mn (-35% YoY, ~3.3x 2QFY21, in-line), lower-than-expected interest cost and higher other income resulted in in-line APAT.
- **Positive guidance on balance sheet strengthening, NWC and debt reduction:** CIL expects to reduce gross debt to Rs 2.6bn (pre-COVID levels) by 1QFY22 vs Rs 3.7bn (-Rs 400mn QoQ) in 3QFY21. This may be driven by conversion of CC limits to LC limits. NWC is expected to stabilise in line with historical trend at ~70-72days. CIL has removed all slow-moving orders and is carrying Rs 600mn of ECL provisions in the books already. The current order book of Rs 91.5bn is an active one. Residential order book has Tier 1 clients like Oberoi, Godrej, Brigade, CIDCO, BSNL, K Raheja, and Brookfield and, hence, we believe NWC will reduce as share in mix of these clients increases. CIL remains focused on maintaining optimal debtor/creditor mix. Gross D/E has improved QoQ from 0.5x to 0.4x.
- **Order book mix tilts towards government (Rs 55.3bn, 60% order book) execution ramps up, augurs well:** CIL has ramped up government share in the order backlog to 60% vs near zero over the past two years on expectations of limited opportunities of order inflow from Tier 1 developers and likely pain in the sector, given NBFC crisis. Now with real estate recovery, market share gains for organised players and pick-up in government ordering, CIL stands to gain. The company has indicated about Rs 400bn of government bid pipeline and Rs 260bn on the private side. Given this backdrop, ~Rs 30bn order inflow guidance for FY22E seems conservative. Other segments like the Metro project depot and BDD Chawl will add incrementally to the overall order book.

Financial Summary (Standalone)

YE March (Rs mn)	3QFY21	3QFY20	*YoY (%)*	2QFY21	*QoQ (%)*	FY20	FY21E	FY22E	FY23E
Net Revenues	3,058	4,049	*(24.5)*	1,813	*68.7*	15,287	9,608	23,651	29,713
EBITDA	546	723	*(24.4)*	390	*39.9*	2,567	1,491	3,713	4,665
APAT	152	235	*(35.2)*	46	*234.5*	757	30	1,349	2,086
Diluted EPS (Rs)	2.2	3.5	*(35.2)*	0.7	*234.5*	11.1	0.4	19.9	30.7
P/E (x)						19.1	479.7	10.7	6.9
EV/EBITDA (x)						5.8	9.6	4.0	3.0
RoE (%)						8.6	0.3	13.7	18.1

Source: Company, HSIE Research

BUY

CMP *(as on 12 Feb 2021)*	**Rs 213**
Target Price	**Rs 320**
NIFTY	**15,163**

KEY CHANGES	**OLD**		**NEW**
Rating	BUY		BUY
Price Target	Rs 293		Rs 320
EPS change %	FY21E	FY22E	FY23E
	-	-	-

KEY STOCK DATA

Bloomberg code	CAPACITE IN
No. of Shares (mn)	68
MCap (Rs bn) / ($ mn)	14/199
6m avg traded value (Rs mn)	28
52 Week high / low	Rs 221/70

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	44.5	99.9	16.4
Relative (%)	25.6	65.6	(7.6)

SHAREHOLDING PATTERN (%)

	Sep-20	Dec-20
Promoters	43.79	43.79
FIs & Local MFs	22.03	21.34
FPIs	7.24	7.42
Public & Others	26.94	27.45
Pledged Shares	7.36	7.36

Source : BSE

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J. Kumar Infraprojects

Execution recovery leads to beat

J Kumar (JKIL) reported revenue/EBITDA/PAT at Rs 8.1/1.2/0.45bn, beating our estimate by 21/7/12% on better-than-expected execution recovery. However, the company disappointed on margin (14.2% vs 16% est.). YTD order inflow stood at Rs 21bn. While the order backlog is robust at 3.7x FY20 revenue, near-term execution challenges have alleviated now to a large extent. At 5.6x FY23E EPS, valuations are compelling. We maintain BUY on JKIL with an increased target price of Rs 220/sh (7x Dec-22E EPS) and revise FY21/FY22/FY23 EPS est. by 5.5x/5%/7% to account for execution recovery. Key risk: Delay in order conversion within estimated timeline.

- **Strong momentum in execution:** JKIL registered revenue at Rs 8.1bn, above the pre-COVID level and 21% ahead of our estimates as execution ramped up significantly. However, lower-than-expected margins, narrowed the EBITDA beat to 7%. Consequently, higher other income and lower taxes led to APAT of Rs 450mn (-19%/6.3x YoY/QoQ), beat of 12% on estimate. JKIL has increased revenue guidance to Rs 24bn for FY21E and retained Rs 35bn for FY22. EBITDA margin guidance remained unchanged at 13-14%/15%+ for FY21/FY22 respectively. All the projects are expected to start contributing to revenue from 1QFY22, aiding execution ramp-up.
- **Order book healthy; Rs 40bn inflow targeted for FY21/FY22:** Total order book as on 3QFY21 stood at Rs 109.2bn (3.7x FY20 revenue). While metro projects contribute ~51%, flyover, bridges & roads projects contribute ~48% to the order book. YTD order inflows stood at Rs 21bn. With an L1 position in Rs 14bn Mumbai Metro order, JKIL is confident of achieving Rs 40bn guidance for FY21.
- **Stable leverage and NWC:** Gross debt remained stable at Rs 5.7bn (Rs 5.9/6.7bn at the end of 2QFY21/4QFY20), with gross D/E at 0.31x. JKIL has incurred Capex of Rs 600mn in 9MFY21 and further Rs 200-400mn outlay is envisaged for 4QFY21. With ramp-up in execution, debt may increase, going forward. JKIL expects NWC to be at 120days for FY21 vs 144days in FY20.

Financial Summary (Standalone)

YE March (Rs mn)	3QFY21	3QFY20	*YoY (%)*	2QFY21	*QoQ (%)*	FY20	FY21E	FY22E	FY23E
Net Sales	8,162	7,930	*2.9*	4,774	*71.0*	29,706	24,186	32,651	37,548
EBITDA	1,155	1,180	*(2.1)*	632	*82.8*	4,290	3,269	4,886	5,768
APAT	450	557	*(19.2)*	71	*533.1*	1,836	827	1,930	2,522
Diluted EPS (Rs)	5.9	7.4	*(19.2)*	0.9	*533.1*	24.3	10.9	25.5	33.3
P/E (x)						7.7	17.0	7.3	5.6
EV / EBITDA (x)						4.7	5.8	3.5	2.9
RoE (%)						10.5	4.4	9.7	11.5

Estimate Change Summary (Standalone)

Particulars	FY21E			FY22E			FY22E		
	New	Old	*% Chg.*	New	Old	*% Chg.*	New	Old	*% Chg.*
Revenues (Rs mn)	24,186	20,605	*17.4*	32,651	29,877	*9.3*	37,548	34,359	*9.3*
EBITDA (Rs mn)	3,269	2,199	*48.7*	4,886	4,651	*5.1*	5,768	5,349	*7.8*
Margins (%)	13.5	10.7	284.5	15.0	15.6	(60.2)	15.4	15.6	(20.6)
APAT (Rs mn)	827	152	*445.4*	1,930	1,843	*4.8*	2,522	2,350	*7.3*

Source: Company, HSIE Research

BUY

CMP *(as on 10 Feb 2021)*	**Rs 188**
Target Price	**Rs 220**
NIFTY	**15,107**

KEY CHANGES		**OLD**	**NEW**
Rating		BUY	BUY
Price Target		Rs 206	Rs 220
EPS change %	FY21E	FY22E	FY23E
	+445.4	+4.8	+7.3

KEY STOCK DATA	
Bloomberg code	JKIL IN
No. of Shares (mn)	76
MCap (Rs bn) / ($ mn)	14/196
6m avg traded value (Rs mn)	30
52 Week high / low	Rs 197/65

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	73.9	98.9	28.8
Relative (%)	55.3	64.6	3.5

SHAREHOLDING PATTERN (%)	**Sep-20**	**Dec-20**
Promoters	45.32	45.32
FIs & Local MFs	10.88	10.83
FPIs	7.7	7.96
Public & Others	36.1	35.89
Pledged Shares	10.57	10.57

Source: BSE

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HDFC securities
INSTITUTIONAL RESEARCH

HG Infra

Beat on all fronts

HG Infra reported revenue of Rs 7.3bn, 10.5% beat to our estimate and 28% YoY growth. The company also surprised positively on margins (16.1% vs 15% estimated), leading to 39% beat on APAT. While HG did not secure any orders during 9MFY21, it aims to win Rs 30-40bn during FY21. Order backlog is robust at Rs 59.7bn (~3x FY20 Rev). Standalone net debt reduced to Rs 1.1bn from Rs 1.7bn in Dec-20. We increase our FY21 estimates to factor in robust quarter and maintain BUY with an SOTP-based TP of Rs 408/Sh, valuing the EPC business at 10x Dec-22E EPS. With concerns over Rajasthan receivables receding, high competitive intensity in NHAI ordering remains a key risk.

- **Execution beats estimate; surprises on margin as well:** Revenue for 2QFY21 stood at Rs 7.3bn, 28%/57% YoY/QoQ growth and 10.5% beat on our estimate. EBITDA also grew by 34% YoY (18% beat) as EBITDA margin expanded by 70bps YoY to 16.1% (vs 15% est.). APAT stood at Rs 655mn (-58%/101% YoY/QoQ, 39% beat). Having received the Appointment Date (AD) for the remaining four projects, the entire order book is under execution now. Management expects to clock Rs 22bn revenue for the full year FY21.
- **No order wins in 9M; Guidance of Rs 30-40bn inflows in FY21 retained:** Despite the pick-up in ordering activity by NHAI, HG is yet to secure any order in FYTD21 as it maintained a conservative stance on bidding to protect margins. The sole order it managed to win in the quarter from IRCON, was cancelled due to the bid being higher than the cost estimated by the client. Nonetheless, HG has stuck to its order inflow guidance of Rs 30-40bn for FY21. The company has already placed bids for Rs 140bn worth of orders and plans to bid for additional Rs 350bn in the next two months. HG is now diversifying into railways civil and water supply projects. Its order book stands at Rs 59.7bn (~3x FY20 revenue).
- **Balance sheet comfortable:** HG's standalone net debt reduced to Rs 1.1bn (including Rs 0.23bn in promoter loans) from Rs 1.7bn in Sep 20-end. Outstanding receivables from the Rajasthan WB-funded project has come down to Rs 450mn, from Rs 2.7bn in Sep 20-end. HG has Rs 4.9bn outstanding receivables, as of 3QFY21. Management plans to infuse Rs 0.75bn equity in HAM projects in 4QFY21 and will invest 0.7/0.3bn in FY22/FY23. The company is in advance stages of monetising the HAM assets, which it expects would be completed by 2QFY22.

Estimate change table

Rs mn	FY21E New			FY22E New			FY23E New		
	New	Old	% Chg.	New	Old	% Chg.	New	Old	% Chg.
Revenues	22,445	20,231	10.9	27,318	27,318	-	36,129	36,129	-
EBIDTA	3,607	3,152	14.4	4,194	4,195	(0.0)	5,682	5,682	(0.0)
EBIDTA Margin (%)	16.1	15.6	3.1	15.4	15.4	(0.0)	15.7	15.7	(0.0)
APAT	1,761	1,438	22.5	2,006	2,006	(0.0)	2,904	2,904	(0.0)
EPS	27	22	22.5	31	31	(0.0)	45	45	(0.0)

Quarterly/Annual Financial summary - INR Mn

YE March	3QFY21	3QFY20	*YoY (%)*	2QFY21	*QoQ (%)*	FY20	FY21E	FY22E	FY23E
Net Sales	7,343	5,730	*28.2*	4,674	*57.1*	21,961	22,445	27,318	31,416
EBITDA	1,181	882	*34.0*	769	*53.5*	3,423	3,607	4,194	4,884
APAT	655	415	*57.9*	327	*100.7*	1,657	1,761	2,006	2,423
Diluted EPS (Rs)	10.1	6.4	*57.9*	5.0	*100.7*	25.4	27.0	30.8	37.2
P/E (x)						8.6	8.1	7.1	5.9
EV / EBITDA (x)						5.2	4.8	4.1	3.2
RoE (%)						22.4	19.4	18.4	18.5

Source: Company, HSIE Research, Standalone financials

BUY

CMP *(as on 29 Jan 2021)*	Rs 219
Target Price	Rs 408
NIFTY	13,635

KEY CHANGES	OLD		NEW
Rating	BUY		BUY
Price Target	Rs 408		Rs 408
EPS	FY21E	FY22E	FY23E
change %	22.5	-	-

KEY STOCK DATA	
Bloomberg code	HGINFRA IN
No. of Shares (mn)	65
MCap (Rs bn) / ($ mn)	14/195
6m avg traded value (Rs mn)	19
52 Week high / low	Rs 277/126

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	22.2	19.1	(18.1)
Relative (%)	5.7	(2.5)	(30.4)

SHAREHOLDING PATTERN (%)	Sep-20	Dec-20
Promoters	74.04	74.04
FIs & Local MFs	19.59	18.12
FPIs	0.50	0.40
Public & Others	5.87	7.44
Pledged Shares	-	-

Source : BSE

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HDFC securities
INSTITUTIONAL RESEARCH

JMC Projects

Some hits, some misses

JMC Projects (JMC) reported in-line revenue at Rs 10.7bn (+15%/+32% YoY/QoQ). However, EBITDA/APAT missed our estimate by 20%/41% as the additional cost related to labour transportation and higher commodity prices impacted margin. YTD order inflow stood at Rs 75bn, taking the order book to Rs 142bn (ex. L1 of Rs 7.5bn). We remain constructive on JMC, given (1) a healthy order book (~4x FY20 revenue) and (2) comfortable balance sheet. We reiterate BUY with an unchanged target price of Rs 110. We have cut our FY21 estimate to incorporate the miss on margin in 3QFY21. Key risks: (1) delay in restructuring/monetisation of BOT assets and (2) increase in leverage.

- **Execution recovery achieved:** JMC reported revenue at Rs 10.7bn (+15%/+32% YoY/QoQ), driven by robust execution in Infrastructure and Buildings & Factories (B&F) segments. EBITDA came in at Rs 1bn (-7%/+31% YoY/QoQ) and was impacted by additional cost incurred on labour transportation and higher commodity prices. Consequently, APAT came in at Rs 257mn (-34% YoY), 41% less than our estimate. With COVID challenges receding, margin is expected to revert to normal in 4QFY21. Management has guided for double-digit topline growth for FY22, which we believe is achievable, given the strong order book.
- **YTD order inflow at Rs 75bn:** JMC has received orders of Rs 75bn so far in FY21, driven by orders in commercial B&F and water segment. The company is also L1 in orders worth Rs 7.5bn, on course to achieve its guidance of Rs 60bn to Rs 80bn inflow for the year. Excluding the L1 orders of Rs 7.5bn, the order book stands at Rs 142bn (~4x FY20 revenue). B&F and Infrastructure constitute 55% and 38% of the order book respectively.
- **Sharp reduction in net debt; BOT asset restructuring progressing well:** Standalone net debt reduced to Rs 6.6bn from Rs 8.1bn at the end of Sep 2020 on better collections and working capital management. The company expects debt to remain at a similar level in FY22. Toll collections in road assets improved from Rs 5.2m per day in 2QFY21 to Rs 6.1m per day during the quarter. Basis management commentary, the restructuring process of two of the BOT road assets (Wainganga and Kurukshetra Expressway) is in an advanced stage. JMC is hopeful of concluding the process by 1QFY22.

Standalone Financial Summary

YE March	3QFY21	3QFY20	*YoY (%)*	2QFY21	*QoQ (%)*	FY20	FY21E	FY22E	FY23E
Net Sales	10,660	9,288	*14.8*	8,038	*32.6*	37,130	34,992	39,620	45,227
EBITDA	955	1,030	*(7.3)*	730	*30.9*	3,319	3,180	4,120	4,749
APAT	257	387	*(33.6)*	72	*258.8*	1,584	591	1,213	1,611
Diluted EPS (Rs)	1.5	2.3	*(33.6)*	0.4	*258.8*	9.4	3.5	7.2	9.6
P/E (x)						8.2	21.9	10.7	8.0
EV / EBITDA (x)						6.3	6.3	4.8	4.1
RoE (%)						16.7	6.0	11.8	14.2

Estimate Change Summary (Standalone)

Rs mn	FY21E			FY22E			FY23E		
	New	Old	*% chg.*	New	Old	*% chg.*	New	Old	*% chg.*
Revenues	34,992	34,992	*0.0*	39,620	39,620	*0.0*	45,227	45,227	*0.0*
EBIDTA	3,180	3,500	*(9.2)*	4,120	4,120	*(0.0)*	4,749	4,749	*0.0*
EBIDTA Margins (%)	9.1	10.0	*(91.6)*	10.4	10.4	*(0.0)*	10.5	10.5	*0.0*
APAT	591	818	*(27.8)*	1,213	1,213	*(0.0)*	1,611	1,611	*0.0*

Source: Company, HSIE Research

BUY

CMP *(as on 15 Feb 2021)*	Rs 76
Target Price	Rs 110
NIFTY	15,315

KEY CHANGES		OLD	NEW
Rating		BUY	BUY
Price Target		Rs 110	Rs 110
EPS %	FY21E	FY22E	FY23E
	(27.8)	-	-

KEY STOCK DATA	
Bloomberg code	JMCP IN
No. of Shares (mn)	168
MCap (Rs bn) / ($ mn)	13/176
6m avg traded value (Rs mn)	22
52 Week high / low	Rs 88/30

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	55.4	51.8	(11.8)
Relative (%)	35.9	14.2	(38.2)

SHAREHOLDING PATTERN (%)	Sep-20	Dec-20
Promoters	67.75	67.75
FIs & Local MFs	17.06	16.53
FPIs	0.25	0.25
Public & Others	14.94	15.47
Pledged Shares	-	-

Source : BSE

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ITD Cementation

Gradual recovery shaping up

While ITD saw robust execution (Rs 7.9bn, +12%/+43% YoY/QoQ, 13% beat), margins have still not normalised to pre-COVID levels (9%, -9/+922 bps YoY/QoQ, vs 10.8% HSIE est.). Labour availability has fully normalised. Order backlog is robust at Rs 130bn (4.5x FY20 revenue), aided by FYTD21 order wins of Rs ~40bn. Although consolidated net debt (Rs 4.4bn vs Rs 3.4bn at 2QFY21) has increased QoQ, the balance sheet remains robust at 0.4x net D/E, as cash utilisation has gone up. We maintain BUY on ITD with an unchanged target price of Rs 106/sh, (1) given large order book (~4.5x FY20 revenue), (2) strong balance sheet and (3) supportive valuation (6.1x FY23E EPS). No change in our financial estimates.

- **Good QoQ recovery, margins still subdued:** Revenues: Rs 7.9bn (+12%/+43% YoY/QoQ, 13% beat). EBITDA: Rs 710mn (+10.8% YoY, vs loss of Rs 14 mn in 2QFY21, 3.5% miss). EBITDA margin: 9% (-9/+922 bps YoY/QoQ, vs 10.8% est.). Interest cost came in at Rs 343mn, growth of 4.7%/4.7% YoY/QoQ. APAT: Rs 300mn (+184% YoY, vs loss of Rs 497mn QoQ and est. of Rs 163mn). APAT beat led by higher share of PAT from associates at Rs 213mn (vs Rs 68/41mn YoY/QoQ, est. of Rs 41mn) as tunneling works of Mumbai and Kolkata metro UG projects got completed.
- **Brief segmental update:** 3 Underground (UG) MRTS projects – (1) Mumbai Metro tunneling complete and station work is in full swing, (2) Kolkata Metro has seen a full turnaround post 2019 fiasco, and by Jun-21, the entire tunneling will be complete, and (3) Bengaluru Metro – 9-10% of the work done, main tunneling work to start from Apr-21. 3 Elevated projects: (1) Nagpur Metro work will be done in 2-3 months, (2) Kolkata Metro is also progressing well, and (3) Bangalore Metro will take a year to complete (88% completed); 1 of the total 4 jobs is delayed. Marine: Myanmar project is now facing some delays due to local issues and operating at ~50-60% efficiency (20% done), while other projects are at various stages of completion and progressing well.
- **Order book strong at Rs ~130n:** Order inflow during the quarter stood at Rs 11.4bn, taking the order book as on 3QFY21 to Rs 120bn. Post 3Q, it has further won two orders totaling Rs 5.3bn. The current order book gives revenue visibility for more than four years, based on FY20 revenue, and three years, based on envisaged execution. Basis management commentary, the current bid pipeline is at Rs 160-200bn. JNPT marine projects bidding has been delayed by 9-12 months toward 3QFY22E.
- **Balance sheet comfortable:** ITD's consolidated net debt increased to Rs ~4.4bn, ~0.4x (vs Rs 3.35/1.8bn at 2QFY21/FY20-end) due to mobilisation of new orders. While gross debt has remained at similar levels, cash utilisation has gone up. Debt might inch downwards as it receives mobilisation advances due for a few projects. ITD expects Capex intensity to remain at the same level despite the rise in the order book.

Quarterly/annual financial summary

YE March (Rs mn)	3QFY21	3QFY20	YoY (%)	2QFY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
Net Sales	7,917	7,073	*11.9*	5,527	*43.2*	28,607	25,521	35,762	42,914
EBITDA	710	640	*10.8*	(14)	*(5,124.8)*	2,956	2,052	4,012	4,900
APAT	300	106	*183.7*	(497)	*(160.4)*	848	(23)	1,528	1,985
Diluted EPS (Rs)	2.1	0.7	*183.7*	(3.4)	*(160.4)*	5.9	(0.2)	10.6	13.7
P/E (x)						8.5	*NM*	4.7	3.6
EV / EBITDA (x)						4.1	6.0	3.3	2.4
RoE (%)						8.2	(0.2)	13.5	15.3

Source: Company, HSIE Research, Consolidated financials

BUY

CMP *(as on 15 Feb 2021)*	**Rs 70**
Target Price	**Rs 106**
NIFTY	**15,315**

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 106	Rs 106

	FY21E	FY22E	FY23E
EPS %	-	-	-

KEY STOCK DATA

Bloomberg code	ITCE IN
No. of Shares (mn)	172
MCap (Rs bn) / ($ mn)	12/165
6m avg traded value (Rs mn)	68
52 Week high / low	Rs 81/26

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	36.0	58.7	15.3
Relative (%)	16.5	21.0	(11.1)

SHAREHOLDING PATTERN (%)

	Sep-20	Dec-20
Promoters	46.64	46.64
FIs & Local MFs	21.29	20.54
FPIs	8.49	10.63
Public & Others	23.58	22.19
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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IT, Exchanges

Tata Consultancy Services

Stellar performance continues

We maintain ADD on TCS, following a back-to-back stellar performance and positive commentary. Key positives included (1) broad-based (verticals & services) growth outperformance (strongest 3Q in nine years) supported by better conversions, (2) robust deal wins with TCV at USD 6.8bn (ex-PBS Deutsche deal), 9MFY21 TCV higher by 23% and strong bookings/ramp-up expected in 4Q, (3) margin outperformance supported by operating leverage & efficiencies. Management provided 'double-digit' outlook for FY22/CY21 (we have factored in 14.8% for FY22E) and 'sustainability of momentum' for 3-5 years secular cycle of cloud adoption. Strong outlook for BFSI vertical (strongest-ever BFSI deal bookings), investments in hyperscalers units, improving supply-side metrics (stronger linkages with revenue growth and an uptick in contextual masters), and lowest-ever attrition were other highlights. Our target price of Rs 3,435 is based on 28x Dec-22E EPS (27x earlier) with EPS CAGR at 19% over FY21-23E.

- **3QFY21 highlights**: (1) Revenue came at the highest ever 3Q in the past nine years at 4.1% QoQ CC (0.4% YoY). (2) EBIT margin hit a 19-quarter high at 26.6%, +42bps QoQ supported by operating leverage and FX tailwind, which offset the negative impact of salary hike (-160bps QoQ). (3) Net additions included 1,500 from Pramerica Ireland (Prudential) and 12,000 trainees were onboarded in 3Q. (4) BFSI and Retail & CPG verticals grew 2% QoQ and 3.1% QoQ in CC terms and BFSI growth ex-seasonality impact was similar to 2Q.
- **Outlook**: TCS' gold standard in execution/scale will be supported by industry tailwind of strong tech cycle. We have factored in USD revenue growth of 0.4%, 14.8%, 10.7% for FY21/22/23E with 4QFY21 at 3.9% QoQ. EBIT margin for TCS factored at 26.8%, 27.3% for FY22/23E. Valuations are at 28.4/24.6x with FY21-23E EPS CAGR at 19%.

Quarterly financial summary

Y/E March	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue (USD mn)	5,702	5,586	2.1	5,424	5.1	20,913	22,032	22,112	25,393	28,121
Net Sales	420.15	398.54	5.4	401.35	4.7	1,464.63	1,569.49	1,643.31	1,917.46	2,179.41
EBIT	111.84	99.74	12.1	105.15	6.4	374.5	385.8	425.95	513.77	595.03
APAT	87.01	81.18	7.2	84.01	3.6	314.72	323.4	331.68	406.68	469.37
Diluted EPS (Rs)	23.5	21.9	7.2	22.7	3.6	85.1	87.4	89.7	109.9	126.9
P/E (x)						36.7	35.7	34.8	28.4	24.6
EV / EBITDA (x)						28.9	26.8	24.2	20.2	17.5
RoE (%)						36.1	37.3	40.3	48.4	51.1

Source: Company, HSIE Research, Consolidated Financials

Change in estimates

Rs Bn	FY21E Old	FY21E Revised	Change %	FY22E Old	FY22E Revised	Change %	FY23E Old	FY23E Revised	Change %
Revenue (USD mn)	21,831	22,112	1.3	24,687	25,393	2.9	27,358	28,121	2.8
Revenue	1,622.64	1,643.31	1.3	1,864.23	1,917.46	2.9	2,120.23	2,179.41	2.8
EBIT	406.68	425.95	4.7	487.63	513.77	5.4	569.64	595.03	4.5
EBIT margin (%)	25.1	25.9	86bps	26.2	26.8	64bps	26.9	27.3	44bps
APAT	322.46	331.68	2.9	393.11	406.68	3.5	451.38	469.37	4.0
EPS (Rs)	87.2	89.7	2.9	106.3	109.9	3.5	122	126.9	4.0

Source: Company, HSIE Research

ADD

CMP *(as on 8 Jan 2021)*	Rs 3,121
Target Price	Rs 3,435
NIFTY	14,347

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	Rs 3,200	Rs 3,435
EPS %	FY21E	FY22E
	+2.9	+3.5

KEY STOCK DATA	
Bloomberg code	TCS IN
No. of Shares (mn)	3,752
MCap (Rs bn) / ($ mn)	11,709/1,59,867
6m avg traded value (Rs mn)	11,165
52 Week high / low	Rs 3,128/1,504

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	10.4	40.6	38.4
Relative (%)	(11.0)	6.3	18.8

SHAREHOLDING PATTERN (%)

	Sep-20	Dec-20
Promoters	72.05	72.05
FIs & Local MFs	7.86	7.72
FPIs	16.00	15.88
Public & Others	4.09	4.35
Pledged Shares	2.12	2.12

Source : BSE

Pledged shares as % of total shares

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Infosys

Growth certainty on explosive deal wins

We maintain BUY on Infosys (INFY), following a strong 3Q print (best 3Q in 8 years) and the highest-ever deal wins translating into growth leadership in tier-1 IT. TCV of large deal wins (including largest-ever Daimler deal) stood at USD 7.1bn (net new TCV at USD 5.2bn). Growth in 3Q was led by NorthAm-BFSI (Vanguard ramp-up), E&U, Life sciences vertical and NorthAm-Manufacturing/Communications. INFY scores high on growth visibility based on a staggering 3.5x growth in 9MFY21 net-new large deal TCV over the prior period. Growth ahead is predicated on (1) strong momentum in BFSI (8 large deal wins), (2) 4-4-3 large deal wins in Manufacturing, Communications, E&U verticals, (3) consolidation opportunities and continued growth in digital, driven by improving competitive advantage led by Infosys Cobalt and strong supply-side metrics (80% of digital fulfilment over past 3 years via re-skilling). Our target price is Rs 1,580 at 25x Dec-22E (~10% discount to TCS and 24x earlier), supported by 20% EPS CAGR over FY21-23E.

- **3QFY21 highlights**: (1) INFY delivered its best sequential growth in the past eight years at 5.3% QoQ CC (6.6% YoY CC). (2) EBIT margin stood at 25.4%, remained flat (+7bps QoQ), supported by operating levers of higher utilisation & offshore mix (+100bps), FX tailwind (+20bps), offset by transition & re-badging (-50bps), employee promotion (-20bps) and higher sub-con cost (-50bps). (3) Wage increase effective 4QFY21 will impact margins. (4) Out of the 22 large deals wins, 8 were in BFSI, 4 in Manufacturing, 4 in E&U, 3 in Communication and 1 each in Retail/Hi-tech/Other vertical. By region, 13 deal in US, 7 in EU and 2 in ROW. (5) Utilisation stood at an all-time high of 86.3% and management is targeting 82-85%.
- **Outlook**: INFY's growth leadership is backed by large deal wins which is key positive for revenue visibility in the near term. We have factored in USD revenue growth of 7%, 16.1%, 12.9% for FY21/22/23E with 4QFY21 at 3.5% QoQ. EBIT margin factored in at 23.9% for 4Q and 24.1/24.5% for FY22/23E. Valuations are at 24.8/21.2x (~14% discount to TCS) with FY21-23E EPS CAGR at 20%.

Quarterly financial summary

YE March (Rs bn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue (USD mn)	3,516	3,243	*8.4*	3,312	*6.2*	11,799	12,774	13,669	15,876	17,931
Net Revenue	259.27	230.92	*12.3*	245.70	*5.5*	826.76	907.91	1,010.98	1,198.86	1,389.64
EBIT	65.89	50.64	*30.1*	62.28	*5.8*	188.79	193.74	246.32	289.20	340.42
APAT	51.97	42.72	*21.6*	48.45	*7.3*	157.73	164.04	192.18	238.19	277.66
Diluted EPS (Rs)	12.2	10.1	*21.5*	11.4	*7.2*	37.1	38.6	45.2	56.0	65.3
P/E (x)						37.3	35.9	30.7	24.8	21.2
EV / EBITDA (x)						26.7	25.2	19.9	16.9	14.2
RoE (%)						24.3	25.2	27.8	30.8	31.9

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

YE March (Rs bn)	FY21E Old	FY21E Revised	*Change %*	FY22E Old	FY22E Revised	*Change %*	FY23E Old	FY23E Revised	*Change %*
Revenue (USD mn)	13,520	13,669	*1.1*	15,385	15,876	*3.2*	17,299	17,931	*3.7*
Revenue	1001.43	1010.98	*1.0*	1161.78	1198.86	*3.2*	1340.66	1389.64	*3.7*
EBIT	241.75	246.32	*1.9*	271.40	289.20	*6.6*	317.01	340.42	*7.4*
EBIT margin (%)	24.1	24.4	*22bps*	23.4	24.1	*76bps*	23.6	24.5	*85bps*
APAT	191.82	192.18	*0.2*	221.63	238.19	*7.5*	255.88	277.66	*8.5*
EPS (Rs)	45.2	45.2	*0.2*	52.2	56.0	*7.4*	60.2	65.3	*8.5*

Source: Company, HSIE Research

BUY

CMP *(as on 13 Jan 2021)*	**Rs 1,387**
Target Price	**Rs 1,580**
NIFTY	**14,565**

KEY CHANGES	**OLD**	**NEW**
Rating	BUY	BUY
Price Target	Rs 1,400	Rs 1,580
EPS %	FY21E	FY22E
	+0.2	+7.4

KEY STOCK DATA	
Bloomberg code	INFY IN
No. of Shares (mn)	4,260
MCap (Rs bn) / ($ mn)	5,911/80,756
6m avg traded value (Rs mn)	12,691
52 Week high / low	Rs 1,393/509

STOCK PERFORMANCE (%)

	3M	**6M**	**12M**
Absolute (%)	19.9	74.1	79.4
Relative (%)	(2.0)	39.2	61.2

SHAREHOLDING PATTERN (%)

	Sep-20	**Dec-20**
Promoters	12.95	12.95
FIs & Local MFs	24.96	23.75
FPIs	31.31	32.26
Public & Others	30.78	31.04
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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HCL Technologies

Mode-2, 3 driven momentum

We maintain BUY on HCL Tech (HCLT), based on solid 3Q and a strong outlook across multiple growth vectors. Large deal momentum (>13% YoY and 13 transformational deals >USD25mn TCV in 3Q) and pipeline at nearly an all-time high (many USD 200-300mn deals) supports the growth outlook. Operational highlights include offshore-led improvement in ER&D and IT & Business services margins and continuity in strong cash generation with OCF/EBIT at 114% (119% in 2Q). P&P business traction (>14,000 customers 6,000 sales transactions across new and renewals) is expected to continue (beyond 4Q weak seasonality), supported by new product releases (15+ in 3Q), strong deal activity (USD 91mn net new license bookings) and more cross-sell/up-sell transactions across products/services. The absence of large acquisitions and subsequent accretion to FCF/payout are upside risks to valuations. Our target price is Rs 1,110 at 18x Dec-22E (15% EPS CAGR over FY21-23E).

- **3QFY21 highlights**: (1) HCLT's revenue came in marginal above our estimates at 4.4% QoQ (3.5% QoQ CC), supported by +2.7% QoQ CC in IT & BS, +2.5% QoQ in ER&D and +8.3% QoQ in P&P segment. (2) EBIT margin was 22 quarter high at 22.9% (+127bps QoQ) supported by SG&A leverage (+50bps), Offshoring (+50bps), revenue catch up in Mode 2 & Mode 3 (+80bps), offset by wage hike (-50bps). (3) Growth was broad-based across the verticals with TME/Tech/Mfg/Retail delivering 12.1/6.8/5.6/3.7% QoQ respectively (CC terms). (4) 4QFY21 margins to be impacted by wage hike impact (-80 to -90 bps). (5) Revenue guidance revised at +2% to +3% QoQ (CC terms) for 4QFY21E while EBIT margin guidance revised upward to 21-21.5% for FY21E.
- **Outlook**: We have factored in USD revenue growth at +2.4/13.1/10.5%, factoring in IT & BS growth at +0.6/13.7/10.4%, ER&D growth at -4.2/+11.8/+12.6% and P&P growth at +23.1/11.7/8.6% over FY21/22/23E respectively. EBIT margins are estimated at 21.6/21.7/21.9% over the same period, translating into an EPS CAGR of 15% over FY21-23E (TCS/INFY at 19/20% CAGR).

Quarterly Financial summary

YE March (Rs bn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue (USD mn)	2,617	2,543	2.9	2,507	4.4	8,632	9,936	10,174	11,507	12,712
Net Sales	193.02	181.35	6.4	185.94	3.8	604.27	706.78	756.75	868.93	985.21
EBIT	44.15	36.70	20.3	40.16	9.9	118.21	138.53	163.81	188.35	215.73
APAT	34.33	30.37	13.1	31.42	9.3	101.23	110.62	128.75	148.59	171.53
Diluted EPS (Rs)	12.7	11.2	13.1	11.6	9.3	37.3	40.8	47.4	54.8	63.2
P/E (x)						26.5	24.3	20.9	18.1	15.7
EV / EBITDA (x)						18.8	15.7	12.5	10.7	9.1
RoE (%)						26.0	23.8	23.2	23.4	23.6

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

YE March (Rs bn)	FY21E Old	FY21E Revised	Change %	FY22E Old	FY22E Revised	Change %	FY23E Old	FY23E Revised	Change %
Revenue (USD mn)	10,147	10,174	0.3	11,454	11,507	0.5	12,652	12,712	0.5
Revenue	754.61	756.75	0.3	864.96	868.93	0.5	980.57	985.21	0.5
EBIT	162.91	163.81	0.6	187.68	188.35	0.4	214.87	215.73	0.4
EBIT margin (%)	21.6	21.6	6bps	21.7	21.7	-2bps	21.9	21.9	-2bps
APAT	127.15	128.75	1.3	145.76	148.59	1.9	170.57	171.53	0.6
EPS (Rs)	46.9	47.4	1.3	53.7	54.8	1.9	62.9	63.2	0.6

Source: Company, HSIE Research

BUY

CMP *(as on 15 Jan 2021)*	Rs 990
Target Price	Rs 1,110
NIFTY	14,434

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 1,100	Rs 1,110
EPS %	FY21E	FY22E
	+1.3	+1.9

KEY STOCK DATA	
Bloomberg code	HCLT IN
No. of Shares (mn)	2,714
MCap (Rs bn) / ($ mn)	2,686/36,761
6m avg traded value (Rs mn)	7,403
52 Week high / low	Rs 1,099/375

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	15.1	60.9	66.1
Relative (%)	(8.3)	24.9	49.0

SHAREHOLDING PATTERN (%)

	Sep-20	Dec-20
Promoters	60.33	60.33
FIs & Local MFs	10.61	10.24
FPIs	24.92	24.92
Public & Others	4.14	4.51
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Wipro

Growth acceleration

We maintain ADD on Wipro, following a strong revenue performance (the best in nine years) and better-than-expected margin performance. Revenue growth of 3.4% QoQ CC was broad-based and 4Q growth guidance of +1.5-3.5% indicates continued growth momentum. The deal pipeline remains strong and the company won 12 deals of TCV greater than USD 30mn. The total TCV stood at USD 1.2bn, which includes Metro AG (TCV of USD 700mn). Wipro under the new structure will be more agile and will focus on accelerating growth, supported by large deal wins, leveraging partner ecosystem, and higher investments in talent. Key positives include (1) strong guidance, (2) pick-up in deal wins, (3) robust cash generation (OCF of ~149% of net income), and, (4) 246bps QoQ improvement in IT services margin. We increase our FY22/23E EPS by +6.6/6.3% and target multiple to 20x (vs. 18x earlier) to factor in better growth visibility. Our target price of Rs 470 is based on 20x Dec-22E EPS (~20% discount to INFY). The stock is trading at 23.2/20.8x FY21/22x EPS.

- **3QFY21 highlights**: (1) Revenue growth of 3.9% QoQ (est. of +3.5% QoQ); (2) IT Services EBIT margin at 21.7% (the highest in last 23 quarters) was supported by lower employee cost (+221bps) and operational efficiency (+25bps); (3) Growth was led by Consumer/ENU/Healthcare/Technology; (4) BFSI growth was weak but will catch up; (5) Offshoring stood at 52.7% (+270 bps QoQ) and Utilisation at 86.3% is nearing a peak; (6) Wage hike in 4Q for 80% of the employees will impact margins.
- **Outlook**: We have factored in -1.6/+8.6/+5.5% USD revenue growth for FY21/22/23E respectively; implying 4Q revenue growth of 3.2%. IT services EBIT Margin factored in at 20.6% for 4Q and 20.0/20.5% for FY22/23E, resulting in EPS CAGR of 10% over FY21-23E.

Quarterly Financial summary

YE March (Rs bn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
IT revenue (USD Mn)	2,071	2,095	*-1.1*	1,992	*3.9*	8,120	8,256	8,123	8,820	9,305
Net Sales	156.70	154.71	*1.3*	151.15	*3.7*	585.85	610.23	620.31	683.84	735.06
EBIT	33.25	26.51	*25.4*	27.98	*18.8*	92.62	101.42	120.5	131.45	141.72
APAT	29.67	24.56	*20.8*	24.66	*20.3*	90.86	97.22	109.07	121.6	131.79
Diluted EPS (Rs)	5.2	4.3	*20.8*	4.3	*20.3*	15.9	17.0	19.8	22.1	23.9
P/E (x)						28.8	26.9	23.2	20.8	19.2
EV / EBITDA (x)						20.8	19.4	15.3	13.8	12.6
RoE (%)						17.3	17.3	19.8	21.9	22.4

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

YE March (Rs bn)	FY21E Old	FY21E Revised	Change %	FY22E Old	FY22E Revised	Change %	FY23E Old	FY23E Revised	Change %
IT revenue (USD Mn)	8,087	8,123	*0.4*	8,692	8,820	*1.5*	9,148	9,305	*1.7*
Revenue	618.03	620.31	*0.4*	674.68	683.84	*1.4*	723.41	735.06	*1.6*
EBIT	110.80	120.50	*8.8*	123.20	131.45	*6.7*	133.21	141.72	*6.4*
EBIT margin (%)	17.9	19.4	*150bps*	18.3	19.2	*96bps*	18.4	19.3	*87bps*
APAT	99.81	109.07	*9.3*	113.31	121.6	*7.3*	123.22	131.79	*6.9*
EPS (Rs)	18.2	19.8	*8.6*	20.7	22.1	*6.6*	22.5	23.9	*6.3*

Source: Company, HSIE Research

ADD

CMP ***(as on 13 Jan 2021)***	**Rs 459**
Target Price	**Rs 470**
NIFTY	**14,565**

KEY CHANGES	**OLD**	**NEW**
Rating	ADD	ADD
Price Target	Rs 400	Rs 470
EPS %	FY21E	FY22E
	+8.6	+6.6

KEY STOCK DATA	
Bloomberg code	WPRO IN
No. of Shares (mn)	5,715
MCap (Rs bn) / ($ mn)	2,622/35,820
6m avg traded value (Rs mn)	5,807
52 Week high / low	Rs 467/159

STOCK PERFORMANCE (%)

	3M	**6M**	**12M**
Absolute (%)	22.0	101.6	80.0
Relative (%)	0.2	66.7	61.8

SHAREHOLDING PATTERN (%)

	Sep-20	**Dec-20**
Promoters	74.02	74.01
FIs & Local MFs	6.49	6.08
FPIs	8.39	8.46
Public & Others	11.10	11.45
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Tech Mahindra

Strong operational performance

We maintain our BUY rating on Tech Mahindra based on better-than-expected growth and improving margin profile. USD revenue was up 2.8% QoQ CC vs. TCS/INFY/WIPRO/HCLT performance of +4.1/+5.3/+3.4/+3.5% QoQ CC respectively. Telecom growth bounced back to +4.4% QoQ (better than expected), led by rebound in Network Services and traction in BPM (+11.5% QoQ). Enterprise growth of 2.8% QoQ was supported by Retail and rebound in Manufacturing. Net-new TCV improved to USD 455mn (+8.1% QoQ), the pipeline remains robust and deal closures will improve. Spend on 5G (Networks & 5G Enterprise) is gradually increasing, and TechM, being the leader, is well-placed to benefit from this trend. Growth will be driven by both Telecom (Network services) and Enterprise (BFSI and Technology and Retail). Operational performance continues to improve, margin expansion of +173/373bps QoQ/YoY was better than expected, led by Offshoring, lower sub-con and higher utilisation. We increase our EPS estimate by +4.2/2.9% for FY22/23E to factor in better growth and margin profile. Our target price stands at Rs 1,110, based on 17x Dec-22E EPS (5Y average 1Y fwd P/E of 14x). The stock currently trades at a P/E of 18.1/16.2x FY21/22E EPS.

- **3QFY21 highlights**: TechM revenue stood at USD 1,309mn +3.4% QoQ (vs. our estimate of USD 1,293mn). Manufacturing/Retail grew at +4.7/+8.9% QoQ while BFSI was stable at +0.9% QoQ. EBIT margin stood at 15.9% (eight quarter high), expansion was led by offshoring, utilisation (+80bps), and operating leverage. The EBIT margin of portfolio companies (22% of revenue) stood at 8.1%. Wage hike will be given in a staggered manner and operating margin band will be 14-15%.
- **Outlook**: We expect USD revenue growth of -1.2/+8.2/+8.9% in FY21/22/23E with Telecom growth at 5.6/7.2/7.4% and Enterprise growth at +1.9/8.9/9.9% for FY21/22/23E respectively. We estimate EBIT margin at 14.0/14.2/14.7% over FY21/22/23E, resulting in FY21-23E EPS CAGR at 12.5%.

Quarterly Financial summary

YE March (Rs bn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue (USD mn)	1,309	1,353	-3.3	1,265	3.4	4,971	5,182	5,121	5,540	6,033
Net Revenue	96.47	96.55	-0.1	93.72	2.9	347.42	368.68	380.36	418.32	464.55
EBIT	15.37	11.79	30.4	13.31	15.5	52.08	42.80	53.06	59.54	68.25
APAT	13.10	11.46	14.3	10.65	23.0	42.98	42.51	46.80	52.18	59.25
Diluted EPS (Rs)	14.9	13.0	14.3	12.1	23.0	48.9	48.3	53.2	59.3	67.4
P/E (x)						19.7	19.9	18.1	16.2	14.3
EV / EBITDA (x)						12.2	13.7	11.3	10.0	8.7
RoE (%)						22.0	20.2	20.5	21.0	21.8

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

YE March (Rs bn)	FY21E Old	FY21E Revised	Change %	FY22E Old	FY22E Revised	Change %	FY23E Old	FY23E Revised	Change %
Revenue (USD mn)	5,090	5,121	0.6	5,474	5,540	1.2	5,960	6,033	1.2
Revenue	377.78	380.36	0.7	413.30	418.32	1.2	458.96	464.55	1.2
EBIT	49.48	53.06	7.2	56.25	59.54	5.9	65.67	68.25	3.9
EBIT margin (%)	13.1	14.0	85bps	13.6	14.2	62bps	14.3	14.7	38bps
APAT	44.17	46.80	6.0	50.09	52.18	4.2	57.57	59.25	2.9
EPS (Rs)	50.2	53.2	6.0	57.0	59.3	4.2	65.5	67.4	2.9

Source: Company, HSIE Research

BUY

CMP *(as on 29 Jan 2021)*	Rs 961
Target Price	Rs 1,110
NIFTY	13,635

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 1,080	Rs 1,110
EPS %	FY21E	FY22E
	+6.0	+4.2

KEY STOCK DATA	
Bloomberg code	TECHM IN
No. of Shares (mn)	968
MCap (Rs bn) / ($ mn)	930/12,754
6m avg traded value (Rs mn)	4,614
52 Week high / low	Rs 1,097/461

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	19.5	44.8	21.8
Relative (%)	3.1	23.3	9.5

SHAREHOLDING PATTERN (%)

	Sep-20	Dec-20
Promoters	35.82	35.79
FIs & Local MFs	14.23	13.54
FPIs	38.87	39.04
Public & Others	11.08	11.63
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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L&T Infotech

Leadership continues

We maintain ADD on L&T Infotech (LTI), following a robust 3Q (in-line) and continuity in its growth leadership ahead. The positive outlook is premised on (1) strong net new large deal TCV at USD 278mn (including USD 204mn Injazat deal) as compared to USD 235mn in TTM, (2) robust growth across client buckets validating client mining prowess (F500 base of 69 accounts), (3) improving partner rankings with leading cloud providers & hyperscalers and traction in LTI Canvas & Mosaic platform, (4) broad-based momentum across verticals and BFS outperformance driven by public cloud, platform (Nordic) and core infrastructure transformation projects. LTI's valuation premium to peers reflects its growth/return metrics outperformance vs. peers and the franchise's scalability on a sustainable swing. Our target price of Rs 4,280 is based on 26x Dec-22E EPS, supported by industry-leading 25% EPS CAGR over FY21-23E, >50% RoIC.

- **3QFY21 highlights**: (1) Revenue came in line at USD 428mn (USD 426mn estimated), +5.3/+7.4% QoQ/YoY (CC terms). (2) Digital (44.4% of revenue) grew +9.5/17.5% QoQ/YoY, supported by strong demand for cloud-based IT-solutions. (3) EBIT margin came at 20.6%, +75bps QoQ (19.9% est), supported by enhanced productivity, higher offshore-mix and SG&A leverage. (4) Better growth in BFSI (+7.5% QoQ CC) and Manufacturing vertical (+9.2% QoQ CC) offset the flattish Insurance/E&U verticals. (4) T5/T10 accounts improved +3.3/3.5% QoQ, while T11-20 outperformed with +7.2% QoQ growth in USD terms. (5) Wage hike to be rolled out in 4QFY21, which will negatively impact margins to the extent of -160 to -170bps.
- **Outlook**: We have factored in USD revenue growth of 9.9/20.9/15.4% and EBIT margin at 19.5/19.4/20.0% for FY21/22/23E respectively. APAT margin is estimated at 15.4/16.0/16.5% for FY21/22/23E. At CMP, LTI trades at 29.1/23.8x FY22/23E (3Y average at 20x).

Quarterly Financial summary

YE March (Rs bn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue (USD mn)	428	394	*8.5*	405	*5.8*	1,349	1,525	1,676	2,026	2,337
Net Sales	31.53	28.11	*12.2*	29.98	*5.1*	94.46	108.79	124.56	152.98	181.14
EBIT	6.50	4.57	*42.4*	5.96	*9.1*	17.36	17.56	24.27	29.66	36.31
APAT	5.19	3.77	*37.8*	4.57	*13.7*	15.16	15.21	19.13	24.44	29.88
Diluted EPS (Rs)	29.8	21.6	*37.8*	26.2	*13.7*	87.0	87.3	109.9	140.4	171.6
P/E (x)						47.0	46.8	37.2	29.1	23.8
EV / EBITDA (x)						36.7	33.8	24.4	19.8	15.8
RoE (%)						34.6	29.5	31.6	32.3	31.5

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

YE March (Rs bn)	FY21E Old	FY21E Revised	*Change %*	FY22E Old	FY22E Revised	*Change %*	FY23E Old	FY23E Revised	*Change %*
Revenue (USD mn)	1,669	1,676	*0.4*	1,977	2,026	*2.5*	2,280	2,337	*2.5*
Revenue	124.03	124.56	*0.4*	149.28	152.98	*2.5*	176.69	181.14	*2.5*
EBIT	23.32	24.27	*4.1*	26.53	29.66	*11.8*	32.95	36.31	*10.2*
EBIT margin (%)	18.8	19.5	*68bps*	17.8	19.4	*162bps*	18.7	20.0	*139bps*
APAT	18.30	19.13	*4.6*	22.03	24.44	*10.9*	27.20	29.88	*9.8*
EPS (Rs)	105.1	109.9	*4.6*	126.5	140.4	*10.9*	156.2	171.6	*9.8*

Source: Company, HSIE Research

ADD

CMP *(as on 20 Jan 2021)*	**Rs 4,091**
Target Price	**Rs 4,280**
NIFTY	**14,645**

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	Rs 3,605	Rs 4,280
EPS %	FY21E	FY22E
	+4.6	+10.9

KEY STOCK DATA	
Bloomberg code	LTI IN
No. of Shares (mn)	175
MCap (Rs bn) / ($ mn)	714/9,783
6m avg traded value (Rs mn)	1,311
52 Week high / low	Rs 4,500/1,208

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	38.0	81.8	115.8
Relative (%)	15.2	48.8	95.9

SHAREHOLDING PATTERN (%)

	Sep-20	Dec-20
Promoters	74.36	74.31
FIs & Local MFs	6.40	4.59
FPIs	11.21	13.29
Public & Others	8.03	7.81
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Mphasis

Growth vectors intact

We maintain BUY on Mphasis (MPHL), based on strong growth outlook in Direct International (85% of revenue) and despite the uncertainty around the diminishing DXC portfolio (13% of revenue). Key indicators for Direct International growth are (1) deal pipeline increase by 49% and 9MFY21 net new TCV growth of 68% YoY, (2) increase in large & integrated deal component and broad-based growth (T10 and >USD5mn accounts), (3) acceleration in sub-segments such as Europe geography and Direct-Hi-tech sub-vertical, and (4) recent wins expected to improve the growth prospects of Insurance vertical. Operating performance of MPHL remains consistent within its 15.5-16.5% EBIT band and presents an upward bias with levers such as offshore/utilisation. MPHL's valuation discount to mid-tier IT is expected to reduce, supported by an improving mix of high-growth Direct business, limiting the impact from DXC and on FCF yield >5%, ~30% RoIC, FY21-23E EPS CAGR at 16%. Our target price is Rs 1,740, valuing MPHL at 20x Dec-22E EPS.

- **3QFY21 highlights:** (1) Revenue came in at USD 334mn, +1.6/+4.3% QoQ/YoY (CC terms), led by Direct business (85% of revenue) growth at +5.3/+19.0% QoQ/YoY (CC terms), offset by DXC-HP (13% of revenue) de-growth at -18.2/-42.2% QoQ/YoY (CC terms). (2) EBIT margin stood at 16.4%, +25/+13bps QoQ/YoY, supported by better gross margins and APAT stood at Rs 3.26bn, +8.8% QoQ. (3) The management maintained operating margins outlook in the band of 15.5-16.5%; however, higher demand for offshore service might be upside risk to the margin. (4) Deal wins in Direct International were strong at USD 247mn, growing +25% YoY (+59% YoY on TTM basis), which was fourth consecutive quarter of net new TCV>USD 200mn. Pipeline continues to be healthy, which will add revenue visibility, offsetting the risks in DXC portfolio beyond 2QFY22.
- **Outlook:** We have factored in 5.9/13.4/9.8% growth in revenue, based on Direct business growth at 18/20.1/14.1% and DXC-HP at -35.5/-22.5/-25% for FY21/22/23E respectively, and factored in EBIT% at 16.1/16.5/16.5% for FY21/22/23E, resulting in 17% EPS CAGR over FY21-23E.

Quarterly Financial summary

YE March (Rs bn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue (USD mn)	334	318	4.9	327	1.9	1,119	1,240	1,313	1,489	1,634
Net Sales	24.74	22.77	8.7	24.35	1.6	77.31	88.44	97.60	112.45	126.67
EBIT	4.05	3.69	9.6	3.92	3.2	12.48	14.19	15.70	18.59	20.87
APAT	3.26	2.94	10.9	2.99	8.8	10.73	11.42	12.33	14.83	16.81
Diluted EPS (Rs)	17.5	15.8	10.9	16.1	8.8	57.6	61.3	66.1	79.6	90.2
P/E (x)						27.8	26.1	24.2	20.1	17.7
EV / EBITDA (x)						21.5	17.0	15.2	12.7	11.2
RoE (%)						20.0	20.6	20.1	21.8	21.9

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

YE March (Rs bn)	FY21E Old	FY21E Revised	Change %	FY22E Old	FY22E Revised	Change %	FY23E Old	FY23E Revised	Change %
Revenue (USD mn)	1,328	1,313	*-1.2*	1,511	1,489	*-1.5*	1,651	1,634	*-1.0*
Revenue	98.61	97.60	*-1.0*	114.12	112.45	*-1.5*	127.98	126.67	*-1.0*
EBIT	15.51	15.70	*1.3*	18.28	18.59	*1.7*	21.40	20.87	*-2.5*
EBIT margin (%)	15.7	16.1	36bps	16.0	16.5	52bps	16.7	16.5	-24bps
APAT	12.16	12.33	*1.4*	14.58	14.83	*1.8*	17.18	16.81	*-2.2*
EPS (Rs)	65.2	66.1	*1.4*	78.2	79.6	*1.8*	92.2	90.2	*-2.2*

Source: Company, HSIE Research

BUY

CMP *(as on 22 Jan 2021)*	**Rs 1,599**
Target Price	**Rs 1,740**
NIFTY	**14,372**

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 1,765	Rs 1,740
EPS %	FY21E	FY22E
	+1.4	+1.8

KEY STOCK DATA	
Bloomberg code	MPHL IN
No. of Shares (mn)	187
MCap (Rs bn) / ($ mn)	299/4,093
6m avg traded value (Rs mn)	678
52 Week high / low	Rs 1,735/612

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	18.5	60.7	79.9
Relative (%)	(2.1)	31.6	61.0

SHAREHOLDING PATTERN (%)

	Sep-20	Dec-20
Promoters	56.16	56.12
FIs & Local MFs	16.17	15.98
FPIs	22.14	22.75
Public & Others	5.53	5.15
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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L&T Technology Services

Trajectory improving, but priced in

We maintain REDUCE on L&T Technology Services (LTTS) as valuations more than adequately factor in the recovery curve despite a strong (in-line) 3Q and accelerating growth/margin profile in the near term. We acknowledge LTTS' prowess in digital ER&D across verticals and addressability, yet the business cyclicality feeds into the volatile profile over the medium term. Deal momentum has evidently picked up in ER&D (USD 100mn-5yr Oil & Gas deal and seven deals >USD 10mn a validation). Margin recovery is supported by increasing utilisation/offshore (now a familiar trend), better mix and operating leverage, which should support the strong earnings momentum for FY22. The company is targeting 17%+ EBIT margins and raised its FY21 revenue growth guidance to -6.5% (-7 to -8% earlier). Our target price is Rs 2,175, at 22x Dec-22E EPS (20x earlier).

- **3QFY21 highlights:** (1) Revenue stood at USD 190mn, +6.8 QoQ (USD 189mn est.) and -4.6% YoY (-5.2% CC). (2) Growth was broad-based across verticals, with a recovery in Telecom & Hi-Tech vertical (+14.3% QoQ in USD terms) helped by Orchestra acquisition (~2/3 of the increase). (3) Seven large deal wins in 3Q, including one deal >USD 100mn TCV, two deals >USD 15mn TCV and seven deals >USD 10mn TCV. (4) EBIT margin improved 151bps QoQ (in-line) at 15.2%, supported by higher utilisation, better offshore-mix, and operational efficiency, partially offset by variable pay and sub-contracting cost. (5) LTTS to roll out wage in 1QFY22 (junior staff) and 2QFY22 (senior staff). (6) LTTS revised USD revenue guidance to -6.5% in USD terms for FY21.
- **Outlook:** We have factored in USD revenue growth of -6.2/+16.8/+12.6% and EBIT margin at 14.4/16.7/17.4% over FY21/22/23E respectively. 4QFY21 revenue growth is estimated at +4.4% QoQ, and FY22/23 revenue growth implies 3.6% CQGR each, translating into FY21-23E EPS CAGR at 32%. LTTS currently trades at 30.8/26.0x FY22/23E (3Y average at 21x).

Quarterly financial summary

YE March (Rs bn)	3Q FY21	3Q FY20	*YoY (%)*	2Q FY21	*QoQ (%)*	FY19	FY20	FY21E	FY22E	FY23E
Revenue (USD mn)	190	199	*-4.6*	178	*6.8*	723	786	738	862	970
Net Sales	14.01	14.23	*-1.6*	13.14	*6.6*	50.78	56.19	54.77	65.06	75.21
EBIT	2.13	2.39	*-10.8*	1.80	*18.4*	8.11	9.28	7.91	10.85	13.06
APAT	1.79	1.93	*-7.3*	1.36	*31.5*	6.87	7.51	6.14	9.00	10.66
Diluted EPS (Rs)	17.1	18.5	*-7.3*	13.0	*31.5*	65.8	72.0	58.9	86.3	102.1
P/E (x)						40.4	36.9	45.2	30.8	26.0
EV / EBITDA (x)						29.5	24.2	25.6	19.1	15.8
RoE (%)						31.1	28.6	19.9	24.1	24.1

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

YE March (Rs bn)	FY21E Old	FY21E Revised	*Change %*	FY22E Old	FY22E Revised	*Change %*	FY23E Old	FY23E Revised	*Change %*
Revenue (USD mn)	735	738	*0.3*	853	862	*1.0*	956	970	*1.5*
Revenue	54.59	54.77	*0.3*	64.39	65.06	*1.0*	74.12	75.21	*1.5*
EBIT	7.79	7.91	*1.6*	10.59	10.85	*2.5*	12.41	13.06	*5.2*
EBIT margin (%)	14.3	14.4	*18bps*	16.4	16.7	*24bps*	16.7	17.4	*61bps*
APAT	6.11	6.14	*0.5*	8.79	9.00	*2.4*	10.10	10.66	*5.5*
EPS (Rs)	58.6	58.9	*0.5*	84.3	86.3	*2.4*	96.8	102.1	*5.5*

Source: Company, HSIE Research

REDUCE

CMP *(as on 20 Jan 2021)*	**Rs 2,658**
Target Price	**Rs 2,175**
NIFTY	**14,645**

KEY CHANGES	**OLD**	**NEW**
Rating	REDUCE	REDUCE
Price Target	Rs 1,900	Rs 2,175
EPS %	FY21E	FY22E
	+0.5	+2.4

KEY STOCK DATA	
Bloomberg code	LTTS IN
No. of Shares (mn)	105
MCap (Rs bn) / ($ mn)	279/3,822
6m avg traded value (Rs mn)	498
52 Week high / low	Rs 2,780/995

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	51.9	88.5	63.3
Relative (%)	29.1	55.4	43.4

SHAREHOLDING PATTERN (%)	**Sep-20**	**Dec-20**
Promoters	74.36	74.27
FIs & Local MFs	5.82	6.39
FPIs	7.97	8.87
Public & Others	11.85	10.47
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Mindtree

Into another operating orbit

We maintain ADD on Mindtree, following broad-based growth (a second successive quarter of non-T1 growing ahead of T1) and a stellar 3Q operational performance (offshore + utilisation led). Margins have increased an astounding 13pp since the pre-COVID trough and management expects the >20% EBITDA to continue. Growth accelerated beyond the T1 account as deal TCV was a robust USD 312mn (9MFY21 TCV at >USD 1bn up 20%). While Travel & Hospitality vertical bounced back, it is still ~45% off the 4Q levels. The BFSI vertical performance was soft (relative to larger peers), but the narrative changes in Tech & Media vertical and CPG, Retail & Mfg with greater than mid-single-digit sequential growth. The near-term growth outlook remains positive and blends well with the favourable operational outcome of the strategic initiatives (annuity, partnerships, tail rationalisation and re-skilling focus). Our target price is Rs 1,735, valued at 20x Dec-22E EPS (13% CAGR over FY21-23E following ~70% in FY21).

- **3QFY21 highlights**: (1) Mindtree's revenue came at USD 274mn, 5% QoQ in USD terms with T1 growth at 3.6% QoQ following -1% QoQ in 2Q and strong growth in ex-T1 business (+5.6% QoQ following +4.9% QoQ in 2Q). (2) EBITDA margin improved by +286bps QoQ to 23.1% supported by healthy revenue growth and operational efficiencies; wage hike across the board to be rolled out in 4QFY21, which will have a negative impact of -250bps on margins (offset by the absence of 3Q one-time provision). (4) Management expects EBITDA margin to be in the range 20%+, going ahead. (4) Growth was broad-based across the verticals with recovery in Travel (+13% QoQ); however, softness has been witnessed in BFSI (+0.8% QoQ).
- **Outlook**: With healthy deal pipeline, recovery in travel vertical will support growth ahead. We have factored in USD revenue growth of -1.7/+12.9/+10.7% and EBITDA% at 20.6/20.8/20.7% for FY21/22/23E respectively. EPS CAGR of 13% over FY21-23E, >40% RoIC, >5% FCF yield support valuations (21.0/18.7x FY22/23E).

Quarterly Financial summary

YE March (Rs Bn)	3Q FY21	3Q FY20	*YoY (%)*	2Q FY21	*QoQ (%)*	FY19	FY20	FY21E	FY22E	FY23E
Revenue (USD mn)	274	275	*-0.4*	261	*5.0*	1,001	1,089	1,070	1,208	1,337
Net Sales	20.24	19.65	*3.0*	19.26	*5.1*	70.22	77.64	79.44	91.19	103.58
EBIT	4.68	3.06	*52.8*	3.90	*19.9*	9.00	7.87	13.86	16.24	18.29
APAT	4.00	1.97	*103.1*	2.54	*57.7*	7.25	6.66	11.61	13.07	14.69
Diluted EPS (Rs)	24.3	12.0	*102.9*	15.4	*57.7*	44.1	40.5	70.5	79.3	89.2
P/E (x)						37.8	41.1	23.6	21.0	18.7
EV / EBITDA (x)						24.7	24.5	15.3	12.8	10.9
RoE (%)						24.9	19.5	31.4	29.6	27.1

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

YE March (Rs Bn)	FY21E Old	FY21E Revised	*Change %*	FY22E Old	FY22E Revised	*Change %*	FY23E Old	FY23E Revised	*Change %*
Revenue (USD mn)	1,060	1,070	*1.0*	1,186	1,208	*1.9*	1,311	1,337	*2.0*
Revenue	78.63	79.44	*1.0*	89.52	91.19	*1.9*	101.60	103.58	*2.0*
EBIT	12.41	13.86	*11.7*	14.51	16.24	*11.9*	17.11	18.29	*6.9*
EBIT margin (%)	15.8	17.4	*167bps*	16.2	17.8	*160bps*	16.8	17.7	*82bps*
APAT	9.63	11.61	*20.6*	11.57	13.07	*12.9*	13.56	14.69	*8.3*
EPS (Rs)	58.4	70.5	*20.6*	70.2	79.3	*13.0*	82.3	89.2	*8.4*

Source: Company, HSIE Research

ADD

CMP ***(as on 18 Jan 2021)***	**Rs 1,664**
Target Price	**Rs 1,735**
NIFTY	**14,281**

KEY CHANGES	**OLD**	**NEW**
Rating	ADD	ADD
Price Target	Rs 1,590	Rs 1,735
EPS %	FY21E	FY22E
	+20.6	+13.0

KEY STOCK DATA

Bloomberg code	MTCL IN
No. of Shares (mn)	165
MCap (Rs bn) / ($ mn)	274/3,739
6m avg traded value (Rs mn)	1,874
52 Week high / low	Rs 1,780/692

STOCK PERFORMANCE (%)

	3M	**6M**	**12M**
Absolute (%)	24.0	62.8	88.3
Relative (%)	2.5	31.6	72.5

SHAREHOLDING PATTERN (%)

	Sep-20	**Dec-20**
Promoters	67.59	61.03
FIs & Local MFs	11.96	10.61
FPIs	12.02	13.27
Public & Others	8.43	15.09
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Persistent Systems

Structural pivot to high growth

We maintain BUY on Persistent Systems (PSYS) and assign it in our top picks, due to a solid 3Q (in-line), strong growth visibility supported by robust TCV bookings (including high ACV component), and a structural pivot towards high growth. The strong technology-led differentiation overlaid by improved client mining/bigger deals and focus on partnerships/sourcing will drive PSYS into industry-leading quadrant. With growth markers established around Technology services, acceleration in Alliance can be an added trigger as PSYS realigns with top customer around Red Hat, hybrid cloud (Cloud Paks) opportunities. Operational performance continues to improve with margin improvement despite two-month impact of wage hike and stronger cash generation/payout. Our upgraded target price of INR 1,900 values PSYS at 22x Dec-22E (21x earlier), supported by 26% EPS CAGR over FY21-23E and >38% RoIC.

- **3QFY21 highlights:** Revenue came in at USD 146mn, +7.4/12.9% QoQ/YoY. Within the segments, Technology Services posted +6.0/17.5% QoQ/YoY and Alliance business posted +12.1/-0.2% QoQ/YoY. Growth was led by Technology & Emerging vertical at +13.1% QoQ, and Healthcare & Life-sciences vertical at 6.3% QoQ while BFSI remained flat (-0.7% QoQ), given ramp down in large customers due to seasonality. Revenue from T1 improved 2.4% QoQ, contributing 18.5% of the revenue. EBIT margin stood at 12.7%, +60bps QoQ, which was negatively impacted by wage hike (-200bps) and currency (-20bps), offset by revenue growth and operational efficiency. PSYS reported the strongest TCV of USD 302mn during the quarter.
- **Outlook**: We have factored in USD revenue growth at 12.3/16.7/13.3% with Technology Services growth at 17.5/18.7/14.9% and Alliance growth at -2.0/+9.9/+7.7% over FY21/22/23E respectively. We estimate EBITDA margin at 16.1/16.8/17.2% over FY21/22/23E, resulting in FY21-23E EPS CAGR at 26.3%. At CMP, PSYS is trading at 21/17x FY22/23E.

Quarterly Financial summary

YE March (Rs bn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue (USD mn)	146	129	12.9	136	7.4	481	502	564	658	746
Net Sales	10.75	9.23	16.5	10.08	6.7	33.66	35.66	41.87	49.68	57.78
EBIT	1.36	0.81	69.2	1.22	12.0	4.23	3.27	4.88	6.17	7.83
APAT	1.21	0.92	31.7	1.02	18.6	3.66	3.59	4.31	5.55	6.87
Diluted EPS (Rs)	15.8	12.0	31.7	13.3	18.6	47.8	47.0	56.4	72.7	89.9
P/E (x)						31.9	32.5	27.0	21.0	17.0
EV / EBITDA (x)						17.6	20.8	14.8	11.6	9.4
RoE (%)						15.7	14.4	17.1	19.4	20.7

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

YE March (Rs bn)	FY21E Old	FY21E Revised	Change %	FY22E Old	FY22E Revised	Change %	FY23E Old	FY23E Revised	Change %
Revenue (USD mn)	560	564	0.7	639	658	2.9	720	746	3.6
Revenue	41.79	41.87	0.2	48.57	49.68	2.3	55.78	57.78	3.6
EBIT	4.86	4.88	0.5	5.82	6.17	6.1	7.26	7.83	7.9
EBIT margin (%)	11.6	11.7	3bps	12.0	12.4	44bps	13.0	13.5	54bps
APAT	4.27	4.31	0.9	5.23	5.55	6.3	6.41	6.87	7.1
EPS (Rs)	55.8	56.4	0.9	68.4	72.7	6.3	83.9	89.9	7.1

Source: Company, HSIE Research

BUY

CMP *(as on 29 Jan 2021)*	Rs 1,524
Target Price	Rs 1,900
NIFTY	13,635

KEY CHANGES	OLD	NEW
Rating	ADD	BUY
Price Target	Rs 1,675	Rs 1,900
EPS %	FY21E	FY22E
	+0.9	+6.3

KEY STOCK DATA	
Bloomberg code	PSYS IN
No. of Shares (mn)	76
MCap (Rs bn) / ($ mn)	116/1,597
6m avg traded value (Rs mn)	266
52 Week high / low	Rs 1,700/420

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	30.1	71.7	117.5
Relative (%)	13.7	50.1	105.1

SHAREHOLDING PATTERN (%)	Sep-20	Dec-20
Promoters	31.29	31.29
FIs & Local MFs	28.86	29.51
FPIs	18.74	18.71
Public & Others	21.11	20.49
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Multi Commodity Exchange

Taking a pause; recovery awaited

MCX delivered a weak revenue (-15.7% QoQ) and margin performance but was in line with our expectations. Trading volume was down 17.5% QoQ due to a decline in bullion volume (-31.8% QoQ), the high-margin requirement for a crude contract, seasonality, and lower volatility. Bullion's volume almost doubled in 9M (+97% YoY) but has paused in the quarter. Crude (~25% of volume) is picking up but a higher margin requirement (~50%) makes it less attractive for traders. Tailwinds like institutional participation, index derivative, and increasing retail penetration will boost volumes in the long run but the pick-up is slower than expected. We lower our EPS estimate for FY21/22E by -5.9/-6.0% to factor in the volume drop. The stock is already trading at a premium valuation of ~33x P/E FY22E core PAT; further re-rating will take place with a volume up-tick. We assign 30x P/E to Dec-22E core PAT and add net cash (ex-SGF) to arrive at a target price of Rs 1,770. Maintain ADD.

- **3QFY21 highlights**: MCX revenue was down 15.7 QoQ but up 13.0% YoY to Rs 1.01bn, in line with expectation of Rs 1.01bn. Traded volume was down 17.5/+3.3% QoQ/YoY to Rs 20.71trn. Total ADTV was down 16.2/+3.3% QoQ/YoY to Rs 319bn. The bulk of the decline in 3Q was due to Bullion (-31.8% QoQ) and Metals (-3.5% QoQ). EBITDA margin stood at 48.2%, down 658bps QoQ, slightly lower than our estimate of 48.8%.
- We estimate 15% ADTV CAGR over FY20-23E would result in a +17/+28% revenue/EBITDA CAGR over FY20-23E. The change in technology vendor will further reduce cost and pose an upside risk to FY23E margin estimate.

Quarterly Financial summary

YE March (Rs bn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Net Revenues	1.01	0.89	*13.0*	1.20	*-15.7*	3.00	3.74	4.05	4.81	5.95
EBITDA	0.49	0.39	*24.2*	0.66	*-25.8*	0.94	1.55	1.86	2.41	3.28
APAT	0.72	0.52	*39.3*	0.58	*22.8*	1.70	2.33	2.33	2.70	3.44
Diluted EPS (Rs)	14.1	10.1	*39.3*	11.5	*22.8*	33.4	45.7	45.8	53.2	67.6
P/E (x)						50.1	36.6	36.6	31.5	24.8
EV / EBITDA (x)						81.1	48.2	40.0	30.7	22.4
RoE (%)						12.9	17.8	16.9	19.1	23.5

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

YE March (Rs Bn)	FY21E Old	FY21E Revised	Change %	FY22E Old	FY22E Revised	Change %	FY22E Old	FY22E Revised	Change %
Revenue	4.17	4.05	*-2.8*	5.04	4.81	*-4.4*	6.23	5.95	*-4.5*
EBITDA	1.96	1.86	*-5.1*	2.61	2.41	*-7.5*	3.53	3.28	*-7.0*
EBITDA Margin(%)	47.2	46.0	*-116bps*	51.8	50.1	*-165bps*	56.6	55.2	*-144bps*
APAT	2.41	2.33	*-3.4*	2.87	2.70	*-5.9*	3.66	3.44	*-6.0*
EPS (Rs)	47.4	45.8	*-3.4*	56.5	53.2	*-5.9*	71.9	67.6	*-6.0*

Source: Company, HSIE Research

ADD

CMP *(as on 22 Jan 2021)*	Rs 1,675
Target Price	Rs 1,770
NIFTY	14,372

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	Rs 1,880	Rs 1,770
EPS %	FY21E	FY22E
	-3.4	-5.9

KEY STOCK DATA	
Bloomberg code	MCX IN
No. of Shares (mn)	51
MCap (Rs bn) / ($ mn)	85/1,171
6m avg traded value (Rs mn)	642
52 Week high / low	Rs 1,875/805

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	(7.1)	11.3	21.1
Relative (%)	(27.6)	(17.8)	2.2

SHAREHOLDING PATTERN (%)	Sep-20	Dec-20
Promoters	0.00	0.00
FIs & Local MFs	39.64	38.97
FPIs	36.63	37.06
Public & Others	23.73	23.97
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Cyient

Gradual acceleration

We maintain ADD on Cyient, based on improving growth outlook in the services business and strong margin recovery in DLM. The services segment (~82% of revenue) was up 0.3% QoQ CC, led by ENU (+13.9% QoQ) and Communication (+5.2% QoQ), offset by A&D (-5.7% QoQ) and Transportation (-2.5% QoQ). The aerospace vertical (27% of rev) has been under stress due to the pandemic and gradual recovery is expected in FY22E. The focus is on growing services business by winning large deals (won 5 deals with TCV of USD 106mn) and mining Top-30 clients. The growth outlook for Transportation, Medical, and Communication are positive while A&D will stabilise in 4QFY21. Services margin contracted only 90bps QoQ despite wage hike and furlough impact, offset by offshoring benefit and lower sub-con. DLM (+24.9% QoQ) is driving growth and reported a margin of 10.5% (+597bps QoQ), which is sustainable. The FCF generation is strong (FCF/EBITDA at 113%), led by higher collections and net cash stands at Rs 7.7bn (~18% of Mcap). Based on better margin performance, we increase our EPS estimate by +2.7/6.7% for FY22/23E. Our target price stands at Rs 600, based on 14x Dec-22E EPS, ~8% premium to 5Y average 1Y-fwd P/E multiple. The stock trades at 15.5/13.5x FY21/22E, a discount of ~50% to LTTS.

- **3QFY21 highlights**: (1) USD revenue grew 4.7% QoQ vs. expectation of 2.0% QoQ. (2) Services EBIT margin declined 90 bps QoQ to 11.3% (estimate 9.5%) due to wage hike (-150 bps), furlough (-90 bps) offset by cost optimization (+150 bps). (3) DLM margin was at 10.5% vs. 0.3% YoY. (4) Management indicated a recovery in deal activity and growth in DLM to continue.
- **Outlook**: We have factored in -11.7/+9.2% USD revenue growth for FY21/22E respectively; FY21E implies -16.6/+24.6% growth in Services /DLM. EBIT margin in 4Q will be better than 3Q. We have factored in 9.8/10.8% EBIT margin for FY21/22E resulting in EPS CAGR of 9.4% over FY20-23E.

Quarterly Financial summary

YE March (Rs bn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue (USD Mn)	141	155	*-8.9*	135	*4.7*	660	625	552	603	674
Net Sales	10.44	11.06	*-5.6*	10.03	*4.1*	46.18	44.27	41.12	45.52	51.87
EBIT	1.16	1.06	*9.6*	1.11	*5.3*	5.33	4.08	4.03	4.93	6.10
APAT	0.95	1.08	*-11.9*	0.84	*13.5*	4.90	3.73	3.60	4.13	4.88
Diluted EPS (Rs)	8.7	9.8	*-11.9*	7.6	*13.5*	44.4	33.9	32.7	37.6	44.4
P/E (x)						11.4	15.0	15.5	13.5	11.4
EV / EBITDA (x)						7.7	8.5	8.1	6.7	5.4
RoE (%)						20.0	14.5	13.6	14.8	16.4

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

YE March (Rs Bn)	FY21E Old	FY21E Revised	Change %	FY22E Old	FY22E Revised	Change %	FY23E Old	FY23E Revised	Change %
Revenue (USD mn)	546	552	*1.2*	596	603	*1.1*	656	674	*2.6*
Revenue	40.60	41.12	*1.3*	45.04	45.52	*1.1*	50.54	51.87	*2.6*
EBIT	3.74	4.03	*7.7*	4.77	4.93	*3.3*	5.85	6.10	*4.4*
EBIT margin (%)	9.2	9.8	*59bps*	10.6	10.8	*24bps*	11.6	11.8	*20bps*
APAT	3.26	3.60	*10.3*	4.02	4.13	*2.7*	4.57	4.88	*6.7*
EPS (Rs)	29.7	32.7	*10.3*	36.6	37.6	*2.7*	41.6	44.4	*6.7*

Source: Company, HSIE Research

ADD

CMP *(as on 21 Jan 2021)*	Rs 508
Target Price	**Rs 600**
NIFTY	**14,590**

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	Rs 565	Rs 600
EPS %	FY21E +10.3	FY22E +2.7

KEY STOCK DATA	
Bloomberg code	CYL IN
No. of Shares (mn)	110
MCap (Rs bn) / ($ mn)	56/765
6m avg traded value (Rs mn)	267
52 Week high / low	Rs 563/184

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	19.2	70.5	4.8
Relative (%)	(2.7)	39.7	(15.3)

SHAREHOLDING PATTERN (%)

	Sep-20	Dec-20
Promoters	23.48	23.48
FIs & Local MFs	22.11	21.31
FPIs	34.38	35.70
Public & Others	20.03	19.51
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Zensar Technologies

Margin reset, growth to catch up

We maintain our ADD rating; Zensar reported excellent margin performance (decade-high) but the growth engine is still under pressure (-3.7% QoQ CC). The fall in revenue was due to stress in the Hi-Tech vertical (-10.2% QoQ); ex Hi-Tech, revenue was up 3.5% QoQ. Project closures and lower spending by top clients led to the decline. However, Zensar has not lost wallet share in the account, and revival will take another 1-2 quarters. Under the new CEO, the company will focus on reviving growth, maintaining a margin profile in a narrow band, and close large deals. TCV wins stood at USD 200mn (+14.3% QoQ) and the deal pipeline improved to USD 1.7bn (highest ever). Margin expansion of ~560bps in 9MFY21 was achieved by cost optimisation, offshoring, and lower subcontracting cost. Margin expansion will be limited as the company will have to invest in S&M to fuel growth. The company is now debt-free and has net cash of USD 160mn (22% of Mcap). We increase our EPS estimate by 3.2/5.0% for FY22/23E to factor in better margin. Our TP of Rs 260 is based on 14x Dec-22E EPS. The stock is trading at a P/E of 15.3/14.2x FY21/22E EPS, which is a ~13% premium to the 5-year average.

- **3QFY21 highlights:** Zensar's revenue came in at USD 122.8mn, -2.4/-10.9% QoQ/YoY, lower than our est. of USD 130mn. The revenue decline was led by Hi-Tech (-460 bps), offset by currency (+120bps) and productivity (+90bps). Consumer recovery continued (+6.2% QoQ CC). Banking (+1.3%) and Insurance (-8.7%) will recover. Digital is now 65% of revenue, down 0.6% QoQ, while Legacy fall continues to be steep (-5.6% QoQ).
- EBIT margin expanded 106bps QoQ to 15.9% vs. our expectation of 13.7%. Margin expansion was led by SG&A optimisation (+140bps), offset by volume and utilisation impact of 100bps QoQ. Margin will fall in 4Q due to wage hike impact. We expect revenue growth of -11.8/6.8% in FY21/22E and revenue/EPS CAGR of +7.6/+10.2% over FY21-23E.

Quarterly Financial summary

YE March (Rs bn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue (USD mn)	123	138	*-10.9*	126	*-2.4*	557	566	499	533	578
Net Sales	9.06	9.82	*-7.7*	9.36	*-3.2*	37.25	40.10	37.18	40.25	44.53
EBIT	1.44	0.27	*441.1*	1.39	*3.7*	4.38	3.47	5.13	5.23	5.93
APAT	0.99	0.38	*157.9*	0.88	*12.3*	3.39	2.63	3.59	3.88	4.36
Diluted EPS (Rs)	4.3	1.7	*158.1*	3.6	*20.4*	14.8	11.5	15.7	17.0	19.1
P/E (x)						16.3	21.0	15.3	14.2	12.6
EV / EBITDA (x)						10.0	9.7	6.8	6.1	5.1
RoE (%)						18.4	12.7	16.0	15.8	16.3

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

YE March (Rs bn)	FY21E Old	FY21E Revised	Change %	FY22E Old	FY22E Revised	Change %	FY23E Old	FY23E Revised	Change %
Revenue (USD mn)	525	499	*-4.9*	561	533	*-5.0*	601	578	*-3.7*
Revenue	39.08	37.18	*-4.9*	42.36	40.25	*-5.0*	46.24	44.53	*-3.7*
EBIT	4.80	5.13	*6.9*	5.20	5.23	*0.6*	5.77	5.93	*2.9*
EBIT margin (%)	12.3	13.8	152bps	12.3	13.0	72bps	12.5	13.3	85bps
APAT	3.41	3.59	*5.4*	3.75	3.88	*3.2*	4.15	4.36	*5.0*
EPS (Rs)	14.8	15.7	*6.4*	16.4	17.0	*3.2*	18.2	19.1	*5.0*

Source: Company, HSIE Research

ADD

CMP *(as on 22 Jan 2021)*	**Rs 241**
Target Price	**Rs 260**
NIFTY	**14,372**

KEY CHANGES	**OLD**	**NEW**
Rating	ADD	ADD
Price Target	Rs 250	Rs 260
EPS %	FY21E	FY22E
	+6.4	+3.2

KEY STOCK DATA	
Bloomberg code	ZENT IN
No. of Shares (mn)	225
MCap (Rs bn) / ($ mn)	54/745
6m avg traded value (Rs mn)	68
52 Week high / low	Rs 267/64

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	27.0	72.2	23.1
Relative (%)	6.5	43.1	4.2

SHAREHOLDING PATTERN (%)	**Sep-20**	**Dec-20**
Promoters	49.23	49.22
FIs & Local MFs	1.69	1.69
FPIs	16.00	16.22
Public & Others	33.08	32.87
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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CDSL

Revenue moderates; market share gain continues

CDSL delivered a muted performance on revenue but margin came in above estimate. Revenue declined 3.4% QoQ due to a drop in transaction charges, IPO/corporate action, and e-voting. The transaction revenue run-rate, which almost tripled YoY, declined 6.9% QoQ (ex-Pledge) due to moderation in retail activity. Revenue from pledge (~INR 10mn monthly) will provide some cushion to transaction charges (market-linked). The annual issuer revenue (annuity) was stable, the rate hike is pending and the unlisted opportunity is unfolding, albeit at a slower pace. BO accounts are the building blocks for a depository business. CDSL continued to gain BO account market share from NSDL (stood at 58.1% in Dec-20 vs. 50.1% in Dec-19). Its incremental market share stood at 86% due to exclusive arrangements with discount brokers. Margin expanded 409bps QoQ to 65% (above expectation) due to lower provisions and overall cost savings. We cut our revenue estimates for FY22/23 by 6.0/5.9% due to moderation in growth (high base). FY22/23E EPS gets cut by 3.2/1.7%. We value CDSL on SoTP basis by assigning 30x to Dec-22E core profit and adding net cash to arrive at a target price of Rs 580. The stock trades at a P/E of 27.2/26.2x FY21/22E EPS. Maintain BUY.

- **3QFY21 highlights:** CDSL revenue stood at INR 0.86bn (-3.4/+59.2% QoQ/YoY), lower than our estimate of INR 0.92bn. Annual Issuer/Transaction/IPO/KYC revenue was up +0.5/+1.3/-10.9/+0.8% QoQ. Revenue from others was down 17.3% QoQ due to lower e-voting revenue (seasonality). Other income increased 42.7% QoQ due to M2M gains. On the cost front, Employee/Technology/Other cost was down 10.2/23.1/12.5%, leading to EBITDA margin expansion. Provisions for the quarter declined 76.5% QoQ as collections improved. Net cash stood at Rs 8.1bn (~15% of Mcap).
- **Outlook:** We expect revenue growth of +45.8/+8.5/+11.8 and EBITDA margin of 62.3/62.2/63.3% in FY21/22/23E. The revenue CAGR of 10% over FY21-23E assumes +15/8/8/10/8% revenue CAGR in Issuer/Transaction/IPO/KYC/ others. Revenue/core PAT CAGR over FY20-23E is at +21/35%.

Quarterly Financial summary

YE March (Rs mn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Net Revenues	861	541	*59.2*	892	*-3.4*	1,947	2,251	3,281	3,560	3,981
EBITDA	560	266	*110.3*	544	*3.0*	1,089	1,084	2,043	2,215	2,519
APAT	537	314	*71.1*	487	*10.1*	1,135	1,255	1,995	2,075	2,341
Diluted EPS (Rs)	5.1	3.0	*71.1*	4.7	*10.1*	10.9	12.0	19.1	19.9	22.4
P/E (x)						47.8	43.2	27.2	26.2	23.2
EV / EBITDA (x)						43.8	43.4	22.6	20.3	17.3
RoE (%)						17.0	17.3	23.9	21.9	21.7
Cash/Mcap (%)						10.7	11.5	12.9	14.9	17.0

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

YE March (Rs mn)	FY21E Old	FY21E Revised	Change %	FY22E Old	FY22E Revised	Change %	FY23E Old	FY23E Revised	Change %
Revenue	3,375	3,281	*-2.8*	3,787	3,560	*-6.0*	4,231	3,981	*-5.9*
EBITDA	2,003	2,043	*2.0*	2,296	2,215	*-3.5*	2,611	2,519	*-3.5*
EBITDA margin (%)	59.4	62.3	*293bps*	60.6	62.2	*160bps*	61.7	63.3	*159bps*
APAT	1,917	1,995	*4.0*	2,144	2,075	*-3.2*	2,381	2,341	*-1.7*
EPS (Rs)	18.3	19.1	*4.0*	20.5	19.9	*-3.2*	22.8	22.4	*-1.7*

Source: Company, HSIE Research

BUY

CMP *(as on 3 Feb 2021)*	**Rs 519**
Target Price	**Rs 580**
NIFTY	**14,790**

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 600	Rs 580
EPS %	FY21E	FY22E
	+4.0	-3.2

KEY STOCK DATA

Bloomberg code	CDSL IN
No. of Shares (mn)	105
MCap (Rs bn) / ($ mn)	54/744
6m avg traded value (Rs mn)	687
52 Week high / low	Rs 566/180

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	12.1	53.4	104.1
Relative (%)	(12.7)	17.3	78.0

SHAREHOLDING PATTERN (%)

	Sep-20	Dec-20
Promoters	20.00	20.00
FIs & Local MFs	31.83	29.42
FPIs	2.85	6.13
Public & Others	45.32	44.45
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Teamlease Services

Strong rebound

Teamlease registered strong recovery in growth (+13% QoQ), while the margin performance was below expectation. A sharp recovery in core staffing (+13.8% QoQ. 91% of revenue) was led by recovery in hiring activity in stressed verticals (Manufacturing and Infra) and strong festive demand (Consumer Durables and BFS). The core staffing headcount jumped 8.5% QoQ, led by core/NETAP additions (+4.8/21.1% QoQ) and have reached pre-COVID levels. Core Staffing margin contracted 17bps QoQ to 1.9% (estimate of 2.0%) due to a high proportion of fixed mark-up associates (festive demand), but will improve with growth and improving productivity. The specialised staffing growth was muted (+2.6% QoQ) but margin improved to 10.6% (+145bps QoQ).

Growth will be driven by factors such as (1) recovery in demand in verticals like Auto, e-commerce, BFS and Consumer Durables, (2) vendor consolidation, (3) formalisation of jobs, and (4) change in labour laws. There is scope for margin expansion through productivity benefits, restructuring of HR services and improving business mix. Cash generation also improved due to tax refunds and lower DSO days. We increase our multiple to 33x (30x earlier) to factor in growth recovery in core business and increase EPS by +3.1/2.6% for FY22/23E. Our target price of Rs 3,170 is based on 33x Dec-22E EPS (5Y average P/E of ~35x). The stock is trading at a P/E of 37.6/27.3x FY22/23E. Maintain BUY.

- **3QFY21 highlights**: Revenue stood at Rs 12.75bn, up 13.0% QoQ, vs. our estimate of Rs 12.67bn. Core/Specialised/HR services revenue was up 13.8/2.6/30.3% QoQ. The mark-up was flat Rs 718 and the associate to core ratio increased to 334 (+11.3% QoQ). EBITDA margin for core staffing/IT Staffing/Evolve/IMSI stood at 1.9/14.1/3.9/15.8% and HR services reported loss. Net cash stands at Rs 1.4bn.

Quarterly Financial summary

YE March (Rs bn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Net Revenue	12.75	13.51	-5.6	11.29	13.0	44.48	52.01	48.76	60.63	74.44
EBITDA	0.25	0.27	-9.8	0.23	7.9	0.94	0.95	1.00	1.37	1.85
APAT	0.23	0.26	-10.7	0.22	7.0	0.98	0.85	0.86	1.28	1.76
Diluted EPS (Rs)	13.5	15.1	-10.7	12.6	7.0	57.3	49.5	50.1	75.0	103.2
P/E (x)						49.2	57.0	56.3	37.6	27.3
EV / EBITDA (x)						49.7	50.5	47.1	33.8	24.4
RoE (%)						20.0	15.2	13.9	17.8	20.2

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

YE March (Rs Bn)	FY21E Old	FY21E Revised	Change %	FY22E Old	FY22E Revised	Change %	FY23E Old	FY23E Revised	Change %
Revenue	48.58	48.76	0.4	60.00	60.63	1.0	73.37	74.44	1.5
EBITDA	1.07	1.00	-6.6	1.48	1.37	-7.5	1.96	1.85	-5.5
EBITDA margin (%)	2.2	2.0	-15bps	2.5	2.3	-21bps	2.7	2.5	-18bps
APAT	0.80	0.86	7.2	1.24	1.28	3.1	1.72	1.76	2.6
EPS (Rs)	46.7	50.1	7.2	72.7	75.0	3.1	100.5	103.2	2.6

Source: Company, HSIE Research

BUY

CMP *(as on 28 Jan 2021)*	Rs 2,819
Target Price	Rs 3,170
NIFTY	13,818

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 2,810	Rs 3,170
EPS %	FY21E	FY22E
	+7.2	+3.1

KEY STOCK DATA	
Bloomberg code	TEAM IN
No. of Shares (mn)	17
MCap (Rs bn) / ($ mn)	48/660
6m avg traded value (Rs mn)	77
52 Week high / low	Rs 2,899/1,415

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	23.8	52.5	8.5
Relative (%)	6.4	30.8	(5.9)

SHAREHOLDING PATTERN (%)

	Sep-20	Dec-20
Promoters	40.02	34.01
FIs & Local MFs	13.64	12.55
FPIs	37.36	38.26
Public & Others	8.98	15.18
Pledged Shares	0.49	0.49

Source : BSE

Pledged shares as % of total shares

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Sonata Software

Growth momentum to continue

Sonata posted better-than-expected growth in the IT services (IITS) and Domestic Product Services (DPS) segment. IITS revenue grew 5.1% QoQ (estimate +4%) and margin expanded 428bps QoQ to 27.9% (8 quarter high). The growth in IITS was led by a revival in ISV (+14.8% QoQ) and Retail (+13.7% QoQ). Travel also recovered (TUI was stable) but more clarity will emerge in April-21 (leisure travel is expected to resume). The Microsoft portfolio (~48% of IITS revenue) registered a strong growth of 7.1% QoQ, led by ISV and Dynamic 365. The Microsoft Dynamics modernisation program is a multi-year opportunity (~10K enterprises yet to upgrade) and Sonata is investing in R&D and sales capabilities to capture this opportunity. The IITS EBITDA margin expansion was led by offshoring and higher utilisation, the target range being ~23-24%. DPS growth was impressive (+20% YoY) and is driven by higher cloud adoption (~63% of DPS is cloud). We like Sonata's IP-led business model, the high margin in IITS, focus on high growth Microsoft ecosystem, healthy RoE (~35%), and high dividend yield (~4%). We increase our EPS estimate by +6.0/7.5% for FY22/23E to factor in growth acceleration. Our target price of Rs 460 is based on 14x Dec-22E EPS. Maintain BUY. The stock trades at a P/E of 16.9/14.0x FY21/22E.

- **3QFY21 highlights**: IITS revenue stood at USD 41mn (+4.5% QoQ CC) vs. an estimate of USD 40.6mn. Digital/IP-led/Platform revenue contributed 64/33/18% to IITS revenue and grew 12/5/5% QoQ. Utilisation at 89% (+200bps QoQ) and Offshoring (+300bps QoQ) led to IITS margin expansion. Consolidated revenue was up 73.7% QoQ due to DPS (+110% QoQ) and EBITDA margin stood at 7.9% vs. an estimate of 8.5%, due to the lower margin in DPS (-126bps QoQ). The salary hike will be effective Jan-21. Net cash is at INR 6bn (14% of mcap). The company partially settled the contingent liability on its balance sheet by INR 500mn by paying a tax of INR 218mn under the special tax settlement scheme.
- **Outlook:** We expect IITS growth of -12.1/+13.4/+11.6% and DPS growth of +22.9/+18.2/+18.3% for FY21/22/23E. IITS margin will be at 24.2/23.2/23.6% and DPS margin at 2.8/2.8/2.9% for FY21/22/23E respectively. Revenue/EPS CAGR for FY21-23E is expected at +17/+19%.

Quarterly Financial summary

YE March (Rs Bn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
IITS Net Revenues (US $mn)	41	47	*-12.4*	39	*5.1*	161	181	159	180	201
Net Sales	13.96	12.37	*12.9*	8.04	*73.7*	29.61	37.43	42.22	49.59	58.06
EBIT	1.01	1.01	*0.5*	0.77	*30.8*	3.23	3.36	3.31	3.72	4.38
APAT	0.76	0.76	*-0.3*	0.57	*32.2*	2.47	2.77	2.49	3.02	3.54
Diluted EPS (Rs)	7.3	7.3	*-0.3*	5.5	*32.2*	23.7	26.7	24.0	29.0	34.1
P/E (x)						17.1	15.2	16.9	14.0	11.9
EV / EBITDA (x)						12.1	10.9	10.8	9.4	7.9
RoE (%)						34.7	38.5	35.1	37.5	38.5

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

YE March (Rs Bn)	FY21E Old	FY21E Revised	Change %	FY22E Old	FY22E Revised	Change %	FY23E Old	FY23E Revised	Change %
Revenue (USD mn)	158	159	0.6	177	180	2.0	197	201	2.1
Revenue	38.67	42.22	9.2	44.39	49.59	11.7	49.88	58.06	16.4
EBIT	3.09	3.31	6.9	3.49	3.72	6.5	4.05	4.38	8.2
EBIT margin (%)	8.0	7.8	-17bps	7.9	7.5	-37bps	8.1	7.5	-57bps
APAT	2.51	2.49	-0.6	2.85	3.02	6.0	3.29	3.54	7.5
EPS (Rs)	24.2	24.0	-0.6	27.4	29.0	6.0	31.7	34.1	7.5

Source: Company, HSIE Research

BUY

CMP *(as on 5 Feb 2021)*	Rs 406
Target Price	Rs 460
NIFTY	14,924

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 430	Rs 460
	FY21E	FY22E
EPS %	-0.6	+6.0

KEY STOCK DATA	
Bloomberg code	SSOF IN
No. of Shares (mn)	105
MCap (Rs bn) / ($ mn)	43/586
6m avg traded value (Rs mn)	170
52 Week high / low	Rs 435/147

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	19.7	42.4	20.5
Relative (%)	(3.0)	7.7	(2.8)

SHAREHOLDING PATTERN (%)	Sep-20	Dec-20
Promoters	28.17	28.17
FIs & Local MFs	13.49	14.35
FPIs	10.41	11.88
Public & Others	47.93	45.60
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Mastek

Strong performance, leadership overhang remains

Mastek delivered strong revenue and margin performance, which were ahead of our estimates. Mastek's organic business was up 8.3% QoQ due to strong growth in UK government business (NHS) and stability in UK private portfolio post Brexit. The UK government business will continue to perform, given Mastek's strong relationship, integration of Evosys capabilities, and revival of UK government spending. Strong growth in Evosys continues (+10.6% QoQ), driven by cloud adoption. Mastek's and Evosys' go-to-market strategy will provide access to new clients and geographies with ample cross-sell opportunities. Mastek's margin profile has witnessed a complete reset in the last few quarters, led by the integration of higher-margin Evosys business and margin expansion in the core business. An increase in offshoring, lower sub-con, and operating leverage resulted in EBIT margin expansion of ~800bps in 9MFY21. Uncertainty around the hiring of the new CEO remains the biggest overhang; clarity will emerge in 1-2 quarters. We increase our EPS estimates by 4/6% for FY22/23E due to margin reset. Our target price of Rs 1,500 is based on 15x Dec-22E EPS. The stock trades at a P/E 16.0/13.5x FY21/22E. Maintain BUY.

- **3QFY21 highlights**: Revenue stood at USD 60.1mn (+9.1% QoQ) vs. est. of USD 57mn. In CC terms, revenue was up 7.3/73.9% QoQ/YoY. The order book growth, which was muted due to seasonality, stood at USD 130mn (+1.6% QoQ). The UK government/Healthcare/BFSI was up +2.5/31.1/17.0% QoQ. Mastek added 57 new clients and resumed offshore hiring. Net cash stands at INR 5.21bn (15% of mcap), which the company will use for the US acquisition.
- **Outlook**: We expect USD revenue growth of +51/15/13% in FY21/22/23E with Mastek growth at +7/13/11% and Evosys growth at +14/19/15% for FY21/22/23E respectively. We estimate EBIT margin at 18.5/17.5/18.1% over FY21/22/23E, resulting in FY21-23E EPS CAGR at 17.8%.

Quarterly Financial summary

YE March (Rs Bn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue (USD mn)	60	34	75.6	55	9.1	148	151	228	262	295
Net Sales	4.43	2.44	81.7	4.1	8.1	10.33	10.71	16.98	19.80	22.71
EBIT	0.92	0.28	231.5	0.75	23.0	1.16	1.32	3.14	3.47	4.11
APAT	0.57	0.31	88.1	0.51	12.7	1.01	1.31	2.13	2.52	2.96
Diluted EPS (Rs)	22.2	12.0	85.7	19.8	12.6	39.9	51.5	74.9	88.3	103.9
P/E (x)						29.9	23.2	16.0	13.5	11.5
EV / EBITDA (x)						21.6	19.2	8.6	7.4	5.9
RoE (%)						15.9	17.4	24.5	24.0	23.6

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

YE March (Rs Bn)	FY21E Old	FY21E Revised	Change %	FY22E Old	FY22E Revised	Change %	FY22E Old	FY22E Revised	Change %
Revenue (USD Mn)	222	228	*2.9*	254	262	*3.3*	287	295	*2.9*
Revenue	16.49	16.98	*3.0*	19.17	19.80	*3.3*	22.06	22.71	*2.9*
EBIT	2.80	3.14	*12.1*	3.27	3.47	*6.1*	3.86	4.11	*6.6*
EBIT margin (%)	17.0	18.5	151bps	17.1	17.5	46bps	17.5	18.1	63bps
APAT	2.09	2.13	*2.3*	2.43	2.52	*3.5*	2.78	2.96	*6.4*
EPS (Rs)	73.2	74.9	*2.3*	85.3	88.3	*3.5*	97.7	103.9	*6.4*

Source: Company, HSIE Research

BUY

CMP *(as on 02 Feb 2021)*	**Rs 1,195**
Target Price	**Rs 1,500**
NIFTY	**14,648**

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 1,420	Rs 1,500
EPS %	FY21E	FY22E
	+2.3	+3.5

KEY STOCK DATA

Bloomberg code	MAST IN
No. of Shares (mn)	25
MCap (Rs bn) / ($ mn)	30/408
6m avg traded value (Rs mn)	237
52 Week high / low	Rs 1,464/166

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	36.4	108.8	174.9
Relative (%)	11.1	76.3	149.5

SHAREHOLDING PATTERN (%)

	Sep-20	Dec-20
Promoters	44.63	44.25
FIs & Local MFs	14.06	14.25
FPIs	5.63	5.39
Public & Others	35.68	36.11
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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INSTITUTIONAL RESEARCH

BSE

Taking steps to accelerate growth

BSE revenue declined 3.8% QoQ due to lower market-linked revenue (core transaction and book building). The StAR MF platform volume witnessed a growth of +14/+71% QoQ/YoY, but the pricing has been renegotiated at INR 5/transaction (~30% lower). The growth in StAR MF will be volume led and stake sale will lead to value unlocking. BSE cash market share further slipped to 5.9% (-80bps YoY), the increase in transaction charges by ~20% (effective March-21) will provide some boost to transaction revenue. BSE is also trying to rebuild the derivative volume, the current market share is ~7%, but it can be a potential revenue driver. New initiatives like the Insurance platform, Power, and Spot exchange are promising, but currently there is less clarity. INX volume is growing at ~90% YoY, and we expect it to break even in FY23E. We assign an SoTP-based target price of INR 700 by assigning 10x to core Dec-22E PAT (INR 123/share), INR 180/share for the CDSL stake taking 25% discount, and adding net cash excluding SGF and clearing cash (INR 397/share). Maintain BUY.

- **3QFY21 highlights**: Revenue was down 3.8% QoQ to INR 1.21bn vs. est. of INR 1.31bn. Transaction/annual listing/book building revenue was up +4.3/+2.1/-48.1% QoQ. Core cash transaction revenue was down 12.9% QoQ. INX ADTV stood at USD 7.5bn (+227% YoY) and the number of daily trades was at 178K (+195% YoY). EBITDA margin declined to 9.9% in the quarter but will improve with growth.
- **Outlook:** We expect revenue growth of +6.8/18.3/+13.5% and an EBITDA margin of 9.5/18.0/22.7% in FY21/22/23E respectively. We are assuming INX contribution INR 0.14/0.28bn and StAR MF revenue of INR 0.68/0.95bn in FY22/23E. Core PAT for FY22/23E is at INR 0.29/0.64bn.

Quarterly Financial summary

YE March (Rs mn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Net Revenues	1,206	1,099	9.7	1,254	-3.8	4,503	4,505	4,811	5,692	6,462
EBITDA	119	-11	NM	223	-46.7	311	81	459	1,022	1,464
APAT	421	288	45.9	524	-19.7	2,122	1,410	1,805	2,175	2,484
Diluted EPS (Rs)	9.3	6.4	45.9	11.6	-19.7	41.0	31.3	40.1	48.3	55.2
P/E (x)						14.7	19.2	15.0	12.5	10.9
EV / EBITDA (x)						22.2	114.0	22.1	10.1	6.7
RoE (%)						7.2	5.8	7.5	9.0	10.3

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

YE March Rs Mn	FY21E Old	FY21E Revised	Change %	FY22E Old	FY22E Revised	Change %	FY23E Old	FY23E Revised	Change %
Revenue	5,003	4,811	-3.8	5,764	5,692	-1.3	6,304	6,462	2.5
EBITDA	646	459	-29.0	1,089	1,022	-6.2	1,323	1,464	10.7
EBITDA margin(%)	12.9	9.5	-338bps	18.9	18.0	-95bps	21.0	22.7	167bps
APAT	1,938	1,805	-6.8	2,237	2,175	-2.8	2,390	2,484	3.9
EPS (Rs)	43.1	40.1	-6.8	49.7	48.3	-2.8	53.1	55.2	3.9

Source: Company, HSIE Research

BUY

CMP *(as on 11 Feb 2021)*	Rs 603
Target Price	Rs 700
NIFTY	15,173

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 705	Rs 700
EPS %	FY21E	FY22E
	-6.8	-2.8

KEY STOCK DATA

Bloomberg code	BSE IN
No. of Shares (mn)	45
MCap (Rs bn) / ($ mn)	27/372
6m avg traded value (Rs mn)	271
52 Week high / low	Rs 658/275

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	22.2	19.6	5.8
Relative (%)	4.0	(14.6)	(19.2)

SHAREHOLDING PATTERN (%)

	Sep-20	Dec-20
Promoters	0.00	0.00
FIs & Local MFs	3.59	1.99
FPIs	12.47	12.41
Public & Others	83.94	85.60
Pledged Shares	0.00	0.00

Source : NSE

Pledged shares as % of total shares

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Sailed through the tough times!

Our ADD rating on RIL with a price target of INR 2,330 /sh is premised on (1) induction of Facebook, Google, Intel and Qualcomm as partners in Jio Platforms, which should help the company accelerate the growth of digital connectivity and create value in the digital ecosystem through technology offerings, (2) recovery in refining and petchem businesses in FY22E, (3) the emergence of a clear path to a stronger balance sheet, and (4) stake sale in the retail business.

- RIL reported standalone revenue/EBITDA of INR 613/87bn, -29/-33% YoY and +9/+14% QoQ (4/17% lower than our estimates). Standalone APAT stood at INR 87bn, -9/+34% YoY/QoQ (HSIE est: INR 64bn). The company has provided for impairment in its investment in Shale Gas subsidiaries to the extent of INR 1.2bn. The company has also recognised Deferred Tax Assets of INR 156bn in respect of the difference between the book base and tax base of the Shale Gas operations. This has resulted in a lower tax outgo for 3Q.
- **Standalone Oil to Chemicals (O2C) segment**: Revenue grew 11% QoQ to INR 708bn, primarily on account of higher volumes, mainly in transportation fuels, PTA and Polyester supported by improved product realisation across Polymers, Intermediates and Polyester. EBITDA for 3Q improved by 9% QoQ to INR 92bn, primarily on account of higher product sales and shifting of product placement from exports to domestic market. Crude throughput declined 4% YoY and grew 9% QoQ to 16.7mmt. During the quarter, Polymers margins were at a record high, while intermediate margins were sequentially better. Cracker operating rate was 96%, impacted by scheduled shutdown of ROGC at Jamnagar.
- **RJio**: Revenue grew by ~5% QoQ to INR 195bn. ARPU rose to INR 151 (+18/4% YoY/QoQ) while the gross/net subscriber addition was ~25/5mn. During the quarter, Google invested an amount of INR 337bn into JPL for a 7.73% stake. This has resulted in a total investment of INR 1,521bn by the investors for a stake of 32.88% in JPL.
- **Reliance Retail (RR):** Reliance Retail's net revenue declined 18.8% YoY to INR 378.5bn. Core operations (ex-F&L) disappointed. While there have been a few restructuring/re-purposing of segments such as (1) Reliance Market transitioning into fulfillment centers, and (2) Petro Retailing being transferred to RMBL (The RIL-BP JV). Adj. performance in grocery and CE remained weak too. F&L segment rebounded strongly and doubled QoQ. Adj EBITDAM (ex-INR 7.75bn investment income) came in at 7%.

Financial Summary – Consolidated

Year Ending March (INR bn)	3Q FY21	2Q FY21	QoQ (%)	3Q FY20	YoY (%)	FY20	FY21E	FY22E	FY23E
Net Sales	1,179	1,112	*6.0*	1,532	*(23.1)*	5,967	5,003	6,560	7,204
EBITDA	216	189	*13.8*	226	*(4.7)*	882	802	1,025	1,117
PAT	148	105	*41.2*	118	*25.8*	427	450	618	688
Diluted EPS (INR)	20.5	14.8	*38.2*	19.9	*3.2*	67.4	69.9	91.5	101.8
P/E (x)						30.4	29.3	22.4	20.1
EV / EBITDA (x)						17.7	16.7	12.2	10.8
RoE (%)						10.2	9.4	11.1	10.8

Source: Company, HSIE Research

ADD

CMP *(as on 22 Jan 2021)*	**INR 2,050**
Target Price	**INR 2,330**
NIFTY	**14,372**

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 2,140	INR 2,330
EPS %	FY21E +22.0%	FY22E +11.5%

KEY STOCK DATA	
Bloomberg code	RIL IN
No. of Shares (mn)	6,339
MCap (INR bn) / ($ mn)	12,993/178,,078
6m avg traded value (INR mn)	36,555
52 Week high / low	INR 2,371/867

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	(2.7)	2.3	34.9
Relative (%)	(23.2)	(26.8)	16.1

SHAREHOLDING PATTERN (%)	Sept-20	Dec-20
Promoters	50.49	50.54
FIs & Local MFs	13.39	13.11
FPIs	25.20	25.16
Public & Others	10.92	11.19
Pledged Shares	0.0	0.0

Source : BSE

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ONGC

Muted performance

Our REDUCE recommendation on ONGC with a price target of INR 101 is premised on (1) muted crude oil and gas realisations and (2) lack of production growth for oil. We expect oil prices to remain at ~USD 50/bbl in FY22/23E vs. USD 59/bbl in FY20, given the weak global macro. Lower oil and gas realisations will drag profitability down for ONGC. 3QFY21 revenue was 4% above our estimate, owing to a higher-than-expected crude oil price realisation of USD 44.2/bbl (vs the estimated USD 43.4/bbl). EBITDA in 3Q was 18% above our estimate owing to lower-than-expected opex. APAT was 15% below our estimate due to higher-than-anticipated finance cost and tax outgo.

- **Standalone financial performance:** Revenue for 3QFY21 stood at INR 170bn (-28/+1% YoY/QoQ). It fell YoY, mainly due to lower crude and gas realisations. EBITDA fell by ~32% YoY to INR 83bn due to the the trickle-down effect of lower revenue and higher opex. APAT came to INR 14bn.
- **Standalone operational performance**: 3Q crude oil realisation was USD 44.2/bbl (USD 59.7/41.4 YoY/QoQ) whereas gas realisation was USD 1.9/mmbtu vs. USD 3.4/2.5 YoY/QoQ. Oil sales volumes were 5.3mmt, +1/+5% YoY/QoQ. Gas sales volumes were 4.5bcm, -6/-1% YoY/QoQ.
- **Call takeaways**: (1) The Board has approved creation of a wholly-owned subsidiary of the company for focusing on Gas & LNG business value chain. The subsidiary is being formed with the objective of sourcing, marketing and trading of natural gas, LNG business, Hydrogen enriched CNG, Gas to Power business, bioenergy/bio-gas/bio methane/other bio fuels business. (2) The Board has approved acquisition of 5% equity in Indian Gas Exchange Ltd (IGX) as a strategic investment. (3) Capex target for FY21/22 is ~INR 290/320bn. (4) Standalone debt as on Dec-20 end stood at INR 128.6bn.
- **Change in estimates**: We raise our FY21/22E EPS estimate by 407.2/90.8% to INR 12.6/12.5 to factor in overall performance in 9MFY21 and a change in crude oil price assumption.
- **We value ONGC's standalone business at INR 76 and its investments at INR 25. The stock is currently trading at 7.8x FY22E EPS.**

Standalone Financial summary

YE March (INR bn)	3Q FY21	2Q FY21	QoQ (%)	3Q FY20	YoY (%)	FY19*	FY20*	FY21E*	FY22E*	FY23E*
Revenues	170	169	*0.6*	237	*(28.2)*	4,537	4,250	3,783	4,174	4,311
EBITDA	83	84	*(1.1)*	123	*(32.1)*	840	612	631	651	641
APAT	14	29	*(52.1)*	42	*(66.8)*	349	181	158	157	136
AEPS (INR)	1.1	2.4	*(53.6)*	3.3	*(66.8)*	27.7	14.4	12.6	12.5	10.8
P/E (x)						3.5	6.8	7.8	7.8	9.0
EV/EBITDA (x)						2.8	3.8	3.6	3.7	4.2
RoE (%)						16.6	8.5	7.5	7.3	6.2

Source: Company, HSIE Research | *Consolidated

Change in estimates (Consolidated)

	FY21E			FY22E			FY23E		
	Old	New	*Ch%*	Old	New	*Ch%*	Old	New	*Ch%*
EBITDA (INR bn)	408.99	630.95	*54.3*	522.13	651.43	*24.8*	604.59	641.48	*6.1*
AEPS(INR/sh)	2.5	12.6	*407.2*	6.6	12.5	*90.8*	8.6	10.8	*25.5*

Source: Company, HSIE Research

REDUCE

CMP ***(as on 15 Feb 2021)***	**INR 98**
Target Price	**INR 101**
NIFTY	**15,315**

KEY CHANGES	**OLD**	**NEW**
Rating	REDUCE	REDUCE
Price Target	INR 70	INR 101
EPS %	**FY21E**	**FY22E**
	+407.2%	+90.8%

KEY STOCK DATA	
Bloomberg code	ONGC IN
No. of Shares (mn)	12,580
MCap (Rs bn) / ($ mn)	1,239/17,052
6m avg traded value (Rs mn)	2,483
52 Week high / low	Rs 108/50

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	35.5	27.7	(4.7)
Relative (%)	16.0	(10.0)	(31.1)

SHAREHOLDING PATTERN (%)	**Sept-20**	**Dec-20**
Promoters	60.41	60.41
FIs & Local MFs	17.53	17.71
FPIs	7.69	7.67
Public & Others	14.37	14.21
Pledged Shares	0.00	0.00

Source: BSE

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Indian Oil Corporation

In-line performance

We maintain ADD on IOC with a target price of INR 107, owing to an expected recovery in demand for petroleum products and, subsequently, refining margins in FY22/23. Reported EBITDA/APAT were 18/8% above our estimates, owing to higher GRM of USD 1.26/bbl (HSIE: USD 0.8/bbl), higher-than-expected throughputs, a higher-than-expected other income, offset by higher-than-expected tax outgo and finance cost. Refining and marketing business' inventory gains were INR 9.2bn and INR 17.1bn. Adjusting for inventory gains and forex gain, core EBITDA comes to INR 66bn.

- **Refining**: Crude throughput in 3Q stood at 17.9mmt (+2/+28% YoY and QoQ). Throughput grew as utilisation across refineries was at full capacity in 3Q, as demand grew post un-lock. Core GRM stood at USD 1.3/bbl vs USD +2.0/-0.8 in 3QFY20/2QFY21.
- **Marketing:** Domestic marketing sales volume was 23.1mmt (-2/+22% YoY/QoQ). Blended gross margin stood at INR 4.5/lit (+12/+3% YoY/QoQ) in 3Q, but these do not seem sustainable in the near term. We expect blended gross margins to correct to INR ~4/lit in FY22/23E.
- **Call takeaways:** (1) Utilisation in 3Q for refinery/pipeline stood at 102/92% owing to recovery in demand. Polypropylene plant at Paradip is operating at 52% capacity. (2) Capex plan for FY22 is of INR 250-300bn. (3) Borrowings as at Dec'20 end stood at INR 725bn. (4) The Board has approved implementation of a 9 MMTPA refinery at Cauvery Basin, Nagapattinam by Chennai Petroleum Corporation Limited (subsidiary) at an estimated cost of INR 294bn, to meet the demand of petroleum products in southern India. (5) The Board has declared an interim dividend of 75% i.e. INR 7.5/sh for FY21.
- **Change in estimates:** We raise our FY21/22 EPS estimates by 68.9/13.1% to INR 20.8/12.5 per share to account for overall performance in 9MFY21 and a change in crude oil price assumption.
- **Our SOTP target comes to INR 107/sh (5.0x Dec-22E EV/e for standalone refining, marketing and petchem businesses and 5.5x Dec-22E EV/e for pipeline business and INR 28/sh for other investments). The stock is currently trading at 7.9x on FY22E EPS.**

Standalone financial summary

YE March (INR bn)	3Q FY21	2Q FY21	QoQ (%)	3Q FY20	YoY (%)	FY19*	FY20*	FY21E*	FY22E*	FY23E*
Revenues	1,063	856	*24.2*	1,246	*(14.7)*	5,282	4,844	3,912	4,481	4,653
EBITDA	96	94	*2.1*	67	*44.7*	352	168	342	276	308
APAT	49	62	*(21.0)*	23	*110.2*	174	(159)	191	115	132
AEPS (Rs)	5.4	6.8	*(21.0)*	2.5	*110.2*	18.9	(5.0)	20.8	12.5	14.4
P/E (x)						5.2	(19.9)	4.8	7.9	6.9
EV/EBITDA (x)						4.9	12.3	5.9	7.5	6.8
RoE (%)						15.4	(15.3)	18.9	10.5	11.3

Source: Company, HSIE Research | *Consolidated

Change in estimates (Consolidated)

YE Mar	FY21E Old	FY21E New	% Ch	FY22E Old	FY22E New	% Ch	FY23E Old	FY23E New	% Ch
EBITDA (INR bn)	199	342	*71.6*	254	276	*8.7*	284	308	8.3
AEPS (INR/sh)	12.3	20.8	*68.9*	11.1	12.5	*13.1*	12.9	14.4	11.8

Source: Company, HSIE Research

ADD

CMP *(as on 02 Feb 2021)*	**INR 99**
Target Price	**INR 107**
NIFTY	**14,648**

KEY CHANGES	**OLD**	**NEW**
Rating	ADD	ADD
Price Target	INR 83	INR 107
EPS %	**FY21E**	**FY22E**
	+68.9%	+13.1%

KEY STOCK DATA	
Bloomberg code	IOCL IN
No. of Shares (mn)	9,414
MCap (Rs bn) / ($ mn)	930/12,743
6m avg traded value (Rs mn)	2,036
52 Week high / low	Rs 118/71

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	26.3	11.7	(9.3)
Relative (%)	1.1	(20.7)	(34.6)

SHAREHOLDING PATTERN (%)	**Sept-20**	**Dec-20**
Promoters	51.50	51.50
FIs & Local MFs	13.48	13.65
FPIs	6.07	5.83
Public & Others	28.95	29.02
Pledged Shares	0.00	0.00

Source : BSE

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Bharat Petroleum Corporation

Decent performance

We maintain ADD on Bharat Petroleum (BPCL) with a price target of INR 461, owing to an expected recovery in demand for petroleum products and, subsequently, refining margins. 3Q EBITDA/APAT was 2/2% higher than our estimates owing to 7% rise in revenue, lower-than-expected opex, higher-than-expected other income, offset by higher-than-anticipated finance cost. Total inventory gains were INR 8bn. Forex gain stood at INR 0.8bn. Adjusting for these, core EBITDA stood at INR 35bn (HSIE INR 30bn), +53/+178% YoY/QoQ.

- **Refining**: Crude throughput in 3Q stood at 7.2mmt (-13.9/+28.6% YoY/QoQ). Utilisation at the refineries improved to 105% as demand recovery was witnessed post un-lock. Core GRM stood at USD 1.2/bbl vs. USD 2.2/1.5 YoY/QoQ.
- **Marketing:** Domestic marketing sales volume was 11.1mmt (+1/24% YoY/QoQ). Blended gross margins stood at INR 5.6/lit (+36/8% YoY/QoQ), but these do not seem sustainable in the near term. We expect blended gross margins to correct to INR 4.6/4.7/lit in FY22/23E.
- **Call takeaways**: (1) The FY21 Capex guidance has been revised from INR 80bn to INR 90bn, out of which INR 56bn was expended in 9MFY21. Capex guidance for FY22 is of INR 100bn (2) BPCL added 730 retail outlets in 3Q. (3) Net debt at the end of 3Q was INR 247bn, with a debt-equity ratio of 0.6x in 3Q. (4) Two out of the three units of the Propylene Derivatives Petrochemical Project at Kochi shall be commissioned by March'21, and one unit will be commissioned in May'21. (5) The Board has declared an interim dividend at 160% of the paid-up equity share capital i.e., INR 16/sh.
- **Change in estimates:** We raise our FY21/22 EPS estimates by 170.0/11.9% to INR 98.7/53.2 per share to account for overall performance in 9MFY21, inventory gains for 9MFY21 and a change in crude oil price assumption.
- **Sum of the total parts-based valuation:** Our price target comes to INR 461/sh (5.5x Dec-22E EV/e for the standalone refining and marketing businesses, 6x Dec-22E EV/e for the pipeline business, and INR 146/sh for other investments). The stock is currently trading at 7.9x on FY22E EPS.

Standalone financial summary

INR bn	3Q FY21	2Q FY21	QoQ (%)	3Q FY20	YoY (%)	FY19*	FY20*	FY21E*	FY22E*	FY23E*
Net Sales	667	501	33.1	747	(10.7)	2,982	2,846	2,219	2,484	2,580
EBITDA	43	39	11.8	27	59.3	151	83	168	116	127
APAT	32	24	34.8	13	153.6	78	31	194	105	119
AEPS (INR)	16.01	11.88	34.8	6.31	153.6	39.7	15.5	98.7	53.2	60.3
P/E (x)						10.6	27.0	4.2	7.9	7.0
EV/EBITDA(x)						8.0	16.7	7.2	10.3	8.9
RoE (%)						20.7	8.1	43.8	19.4	19.8

Source: Company, HSIE Research | *Consolidated

Change in estimates (Consolidated)

YE Mar	FY21E Old	FY21E New	% Ch	FY22E Old	FY22E New	% Ch	FY23E Old	FY23E New	% Ch
EBITDA (INR bn)	95	168	76.0	114	116	1.3	121	127	5.1
AEPS (INR/sh)	36.5	98.7	170.0	47.6	53.2	11.9	91.8	60.3	-34.3

Source: Company, HSIE Research

ADD

CMP *(as on 9 Feb 2021)*	INR 419
Target Price	INR 461
NIFTY	15,109

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 384	INR 461
EPS %	FY21E	FY22E
	+170.0%	+11.9%

KEY STOCK DATA	
Bloomberg code	BPCL IN
No. of Shares (mn)	2,169
MCap (Rs bn) / ($ mn)	910/12,482
6m avg traded value (Rs mn)	3,814
52 Week high / low	Rs 496/252

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	9.5	1.0	(13.6)
Relative (%)	(11.0)	(33.9)	(38.4)

SHAREHOLDING PATTERN (%)	Sept-20	Dec-20
Promoters	52.98	52.98
FIs & Local MFs	21.42	20.92
FPIs	11.98	11.56
Public & Others	13.62	14.54
Pledged Shares	0.0	0.0

Source: BSE

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GAIL (India)

Capacity utilisations meet normalcy

Our BUY recommendation on GAIL with a price target of INR 153 is based on 14% CAGR expansion in gas transmission volume over FY21-23E to 137mmscmd on the back of (1) increase in domestic gas production, (2) increase in demand of RLNG, and (3) completion of major pipelines in the eastern and southern part of India. 3QFY21 EBITDA/APAT was 29/59% above our estimates owing to 29% rise in revenue, higher-than-expected other income and lower-than-expected finance cost.

- **NG transmission**: 3Q revenue grew 5/2% QoQ/YoY to INR 16bn, owing to increased demand post un-lock. Transmission volumes came to 110.3mmscmd +4/0% QoQ/YoY and tariff to INR 1,631/tscm up 1/6% QoQ/YoY.
- **Petchem**: Revenue in 3Q grew 15/31% QoQ/YoY to INR 19bn, led by an increase in sales volumes by 3/10% QoQ/YoY to 231kT and increase in realisations by 12/19% QoQ/YoY to INR 84/kg. On account of better physical performance and price realisation, the operating profit of the segment has reached INR 5.5bn. The plant utilisation for the quarter was above 100%.
- **Call takeaways**: **Capacity utilisation** in 3Q met normalcy: natural gas transmission 54%, LPG transmission 114%, polymers 114%, and liquid hydrocarbon 88%. **Capex** of INR 17/37bn was spent in 3Q/9MFY21, and the target for FY21/22 is of INR 66/66bn. The Board approved **Buyback** of not exceeding 69.76mn fully paid-up equity shares of FV INR 10/sh at a price of INR 150/sh. **Interim dividend** was declared at 25% i. e. INR 2.5/sh.
- **Change in estimates:** We raise our FY21/22E EPS estimate by 26.1/31.5% each to INR 11.9/16.4 to factor in the overall performance in 9MFY21, faster-than-anticipated increase in petchem plant utilisation and better realisation for petchem products.
- **Our target price is INR 153/sh (6.0x Dec-22E EV/e for the stable Gas, LPG transmission and gas marketing business, 4.0x EV/e for the cyclical petchem and LPG/LHC business, INR 37 for investments). The stock is currently trading at 8.2x FY22E EPS.**

Standalone financial summary

YE March (INR bn)	3Q FY21	2Q FY21	QoQ (%)	3Q FY20	YoY (%)	FY19*	FY20*	FY21E*	FY22E*	FY23E*
Revenues	155	136	*13.3*	178	*(13.0)*	762	725	564	676	759
EBITDA	19	13	*43.4*	21	*(7.4)*	97	90	71	99	101
APAT	15	12	*20.0*	13	*18.9*	65	94	54	74	75
AEPS (INR)	3.3	2.7	*20.0*	2.8	*18.9*	14.5	20.9	11.9	16.4	16.6
P/E (x)						9.2	6.4	11.2	8.2	8.1
EV/EBITDA (x)						6.3	7.3	8.8	6.2	5.6
RoE (%)						14.9	19.8	10.4	12.7	11.4

Source: Company, HSIE Research | *Consolidated

Change in estimates (Consolidated)

YE Mar	FY21E Old	FY21E New	*% Ch*	FY22E Old	FY22E New	*% Ch*	FY23E Old	FY23E New	*% Ch*
EBITDA (INR bn)	56	71	*26.7*	75	99	*31.6*	84	101	*20.7*
AEPS (INR/sh)	9.5	11.9	*26.1*	12.5	16.4	*31.5*	13.7	16.6	*20.9*

Source: Company, HSIE Research

BUY

CMP ***(as on 10 Feb 2021)***	**INR 134**
Target Price	**INR 153**
NIFTY	**15,107**

KEY CHANGES	**OLD**	**NEW**
Rating	BUY	BUY
Price Target	INR 129	INR 153
EPS %	**FY21E**	**FY22E**
	+26.1%	+31.5

KEY STOCK DATA	
Bloomberg code	GAIL IN
No. of Shares (mn)	4,510
MCap (Rs bn) / ($ mn)	603/8,273
6m avg traded value (Rs mn)	2,286
52 Week high / low	Rs 146/65

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	48.1	37.7	9.7
Relative (%)	29.6	3.3	(15.5)

SHAREHOLDING PATTERN (%)	**Sept-20**	**Dec-20**
Promoters	52.11	52.12
FIs & Local MFs	28.38	28.21
FPIs	15.09	15.62
Public & Others	4.42	4.05
Pledged Shares	0.00	0.00

Source: BSE

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Indraprastha Gas

Muted performance

Our ADD recommendation on Indraprastha Gas with a target price of INR 588 is premised on (1) robust volume growth led by its quasi-monopolistic position in Delhi/ NCR with regulatory support in the form of prioritized gas allocation and (2) portfolio of mature, semi-mature and new geographical areas (GA). 3QFY21 EBITDA/APAT was 10/14% below our estimates, owing to higher-than-expected operating expenses, lower-than-expected other income and higher-than-expected tax rate.

- **Volumes:** Blended volume stood at 6.3mmscmd (vs 5.5/6.7mmscmd QoQ/YoY). Volumes were up as CNG demand (72% of volume mix in 3Q) started to recover post un-lock. CNG/PNG volumes stood at 4.5/1.8mmscmd in the quarter.
- **Margins**: Per unit gross spread expanded by INR 0.8/2.8 QoQ/YoY to INR 14.6/scm. This is attributable to part retention of the benefit of falling RMC. Subsequently, per-unit EBITDA grew by INR 0.7 QoQ and 2.3 YoY to INR 8.7/scm, offset by a higher per-unit opex.
- **Outlook on volumes**: We believe that CNG volumes should decline by ~11% YoY to 4.2mmscmd in FY21E, dragging overall volumes to 5.9mmscmd from 6.4mmscmd in FY20. However, we expect CNG volumes to rise ~20% YoY to 5.1mmscmd in FY22E, leading to a 19%YoY jump in the total volumes to 7.1mmscmd.
- **Outlook on per unit EBITDA**: Per-unit EBITDA should rise by 22% YoY to INR 7.9/scm in FY21E. Subsequently per unit EBITDA should correct to INR 7.5/scm in FY22E (-4% YoY). Consolidated EBITDA should grow 12% YoY in FY21E to INR 17bn and 14% YoY in FY22E to INR 19bn driven by a robust volume outlook and healthy per-unit margins.
- **DCF-based valuation:** Our target price is INR 588 (WACC 10%, Terminal growth rate 3.0%). The stock is trading at 26.3x FY22E EPS.

Standalone Financial summary

YE March (INR bn)	3Q FY21	2Q FY21	QoQ (%)	3Q FY20	YoY (%)	FY19*	FY20*	FY21E*	FY22E*	FY23E*
Revenues	14.46	13.05	*10.8*	16.64	*(13.1)*	57.65	64.85	55.67	69.41	81.94
EBITDA	5.01	4.07	*23.0*	3.92	*27.8*	12.57	15.20	17.00	19.42	22.12
APAT	3.35	3.08	*8.7*	2.84	*18.0*	7.55	10.95	11.73	13.49	15.52
AEPS (INR)	4.8	4.4	*8.7*	4.1	*18.0*	12.0	17.8	18.0	21.1	24.1
P/E (x)						46.1	31.1	30.8	26.3	23.0
EV/EBITDA (x)						29.4	24.1	21.2	18.3	15.6
RoE (%)						21.2	25.8	21.5	21.1	20.4

Source: Company, HSIE Research | *Consolidated

ADD

CMP *(as on 10 Feb 2021)*	**INR 557**
Target Price	**INR 588**
NIFTY	**15,107**

KEY CHANGES	**OLD**	**NEW**
Rating	ADD	ADD
Price Target	INR 475	INR 588
EPS %	**FY21E**	**FY22E**
	-	-

KEY STOCK DATA	
Bloomberg code	IGL IN
No. of Shares (mn)	700
MCap (Rs bn) / ($ mn)	390/5,348
6m avg traded value (Rs mn)	1,655
52 Week high / low	Rs 581/284

STOCK PERFORMANCE (%)

	3M	**6M**	**12M**
Absolute (%)	31.5	43.1	8.5
Relative (%)	13.0	8.7	(16.7)

SHAREHOLDING PATTERN (%)

	Sept-20	**Dec-20**
Promoters	45.00	45.00
FIs & Local MFs	22.38	21.07
FPIs	21.27	23.22
Public & Others	11.35	10.71
Pledged Shares	0.00	0.00

Source: BSE

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Petronet LNG

Faring well

Our BUY recommendation on PLNG with a price target of INR 295 is premised on robust volume offtake in FY22/23E as (1) benign LNG prices will ensure its high imports, in turn allowing full utilisation at Dahej on its expanded capacity, and (2) with the completion of the Kochi-Mangalore pipeline, it will raise utilisation at the Kochi terminal. 3Q EBITDA/APAT was 11/13% above our estimates, owing to higher-than-anticipated marketing margin and lower-than-anticipated depreciation.

- **Financial performance:** 3Q EBITDA came to INR 13bn -2/+21% QoQ/YoY, clocking in a healthy EBITDA margin of 18% (-364/+579bps QoQ/YoY). It is mainly on account of higher utilisation, higher marketing margins, reduced opex due to cut down in publicity, repairs and power costs, the positive impact of inventory revaluations, and impact of Ind AS 116. Calculated marketing margin was INR 2.5bn (HSIE INR 1.8bn).
- **Terminal-wise performance**: Utilisation at Dahej/Kochi stood at 100/20%. Services volumes at Dahej came at 2.1mmt (104tbtu) -23/-6% QoQ/YoY. Kochi terminal utilisation is expected to rise from current levels as volume will ramp up to 30% in FY22 and further to 60% by FY24 with completion of connectivity to Bengaluru and expansion of the CGD network in the adjoining cities.
- **Call takeaways**: (1) Capex incurred in 9MFY21 is INR 0.65bn from the plan of INR 3.5bn for FY21. Capex spending was affected by COVID-led labor disruption. Capex target for FY22 is INR 5.3bn, out of which INR 1.25bn is to be spent on adding two new tanks at Dahej. PLNG plans to expand Dahej's capacity to 20 MMTPA in the next three years with a Capex of INR 4.0-4.5bn. (2) The Board has approved incorporation of a wholly owned subsidiary company of PLNG for undertaking GUCD operations, LNG Bunkering and other allied services. (3) Trading gains of INR 0.54bn and inventory gains of INR 0.6bn were witnessed in 3Q.
- **Change in estimates:** We raise our FY21/FY22E EPS estimates by 38.0/2.8% to INR 21.3/21.1 per share to factor in the overall performance in 9MFY21.
- **DCF-based valuation:** Our target price is INR 295, based on Dec-22E cash flows (WACC 11%, terminal growth rate 3%). The stock is trading at 11.5x FY22E EPS**.**

Financial summary

YE Mar (INR bn)	3Q FY21	2Q FY21	QoQ (%)	3Q FY20	YoY (%)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	**73**	**62**	***17.5***	**89**	***(17.8)***	**384**	**355**	**271**	**335**	**405**
EBITDA	13	14	*(2.0)*	11	*20.6*	33	40	49	49	52
APAT	**9**	**9**	***(5.3)***	**7**	***30.1***	**22**	**28**	**32**	**32**	**34**
Adj. EPS (INR/sh)	5.9	6.2	*(5.3)*	4.5	*30.1*	14.4	18.3	21.3	21.1	22.7
P/E (x)						**16.8**	**13.2**	**11.4**	**11.5**	**10.7**
EV/EBITDA(x)						10.3	8.0	6.1	6.0	5.6
RoE (%)						**21.8**	**26.2**	**28.4**	**26.6**	**27.2**

Source: Company, HSIE Research

Change in estimates

YE Mar	FY21E Old	FY21E New	% Ch	FY22E Old	FY22E New	% Ch	FY23E Old	FY23E New	% Ch
EBITDA (INR bn)	39.6	49.2	*24.2*	49.3	49.3	-	52.4	52.4	-
Adj. EPS (INR/sh)	15.4	21.3	*38.0*	20.5	21.1	2.8	22.1	22.7	*2.7*

Source: Company, HSIE Research

BUY

CMP ***(as on 12 Feb 2021)***	**INR 242**
Target Price	**INR 295**
NIFTY	**15,163**

KEY CHANGES	**OLD**	**NEW**
Rating	BUY	BUY
Price Target	INR 294	INR 295
EPS %	FY21E	FY22E
	+38.0%	+2.8%

KEY STOCK DATA	
Bloomberg code	PLNG IN
No. of Shares (mn)	1,500
MCap (Rs bn) / ($ mn)	363/4,993
6m avg traded value (Rs mn)	1,168
52 Week high / low	Rs 275/165

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	2.6	(3.2)	(5.4)
Relative (%)	(16.3)	(37.5)	(29.4)

SHAREHOLDING PATTERN (%)	**Sept-20**	**Dec-20**
Promoters	50.00	50.00
FIs & Local MFs	8.42	7.00
FPIs	28.07	29.49
Public & Others	13.51	13.51
Pledged Shares	0.00	0.00

Source : BSE

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Hindustan Petroleum Corporation

Marketing performing well

We maintain ADD on Hindustan Petroleum (HPCL) with a price target of INR 246, owing to an expected recovery in demand for petroleum products and, subsequently, refining margins. 3Q EBITDA was 5% below our estimate, owing to lower-than-expected core GRM, higher-than-expected inventory costs, offset by 6% rise in sales and higher-than-anticipated inventory and forex gains. APAT was in line with our estimates. EBITDA came to INR 33bn (vs. EBITDA of INR 19bn in 3QFY20 and INR 36bn in 2QFY21). Refining business' inventory gains were INR 6bn and marketing inventory gains were INR 7bn. Forex gains stood at INR 3bn. Adjusting for these, core EBITDA stood at INR 17bn (+17/+29% YoY/QoQ).

- **Refining**: Crude throughput in 3Q stood at 4.0mmt (-4/-2% YoY and QoQ). HPCL achieved an overall combined capacity utilisation of over 100% at its refineries. Core GRM stood at USD -0.9/bbl vs. USD 1.5/2.8 in 3QFY20/2QFY21. GRMs declined sequentially with fall in gas oil, gasoline and jet kero cracks.
- **Marketing:** Domestic marketing sales volume was 10.4mmt (-2/+23% YoY/QoQ). Blended gross margin stood at INR 4.6/lit (+19% YoY). We expect it to sustain at INR 4.6/4.7 per litre in FY22/23E.
- **Call takeaways**: (1) **Vizag and Mumbai refinery** to be commissioned in CY21. **Rajasthan refinery** to come onstream in CY23. (2) **Capex** of INR 88bn expended in 9M out of the target of INR 120bn for FY21. Capex target for FY22 is of INR 140bn. (3) **Debt** currently stands at INR 300bn.
- **Change in estimates:** We raise our FY21/22E EPS estimate by 133/7% each to INR 54.1/36.8 to factor in inventory gains and overall performance in 9MFY21.
- **Our SOTP target comes to INR 246/sh (5.0x Dec-22E EV/e for standalone refining, marketing and petchem businesses and 5.5x Dec-22E EV/e for pipeline business and INR 34/sh for other investments). The stock is currently trading at 6.1x on FY22E EPS.**

Standalone financial summary

YE March (INR bn)	3Q FY21	2Q FY21	QoQ (%)	3Q FY20	YoY (%)	FY19*	FY20*	FY21E*	FY22E*	FY23E*
Revenues	687	518	*32.6*	707	*(3.0)*	2,755	2,691	2,236	2,534	2,653
EBITDA	33	36	*(8.4)*	19	*76.8*	116	47	131	103	105
APAT	24	25	*(5.0)*	7	*215.1*	67	3	81	55	50
AEPS (INR)	15.7	16.5	*(5.0)*	5.0	*215.1*	43.9	2.0	54.1	36.8	33.3
P/E (x)						5.1	112.3	4.2	6.1	6.8
EV/EBITDA (x)						4.7	14.5	5.4	6.8	6.5
RoE (%)						23.9	8.6	24.2	14.6	12.2

Source: Company, HSIE Research | *Consolidated

Consolidated change in estimates

YE Mar	FY21E Old	FY21E New	% Ch	FY22E Old	FY22E New	% Ch	FY23E Old	FY23E New	% Ch
EBITDA (INR bn)	70.4	131.5	86.7	99.4	103.0	3.6	114.1	105.0	(8.0)
AEPS (INR/sh)	23.2	54.1	133.0	34.4	36.8	7.0	37.2	33.3	(10.5)

Source: Company, HSIE Research

ADD

CMP ***(as on 5 Feb 2021)***	**INR 226**
Target Price	**INR 246**
NIFTY	**14,924**

KEY CHANGES	**OLD**	**NEW**
Rating	ADD	ADD
Price Target	INR 205	INR 246
	FY21E	**FY22E**
EPS %	+133.0%	+7.0%

KEY STOCK DATA	
Bloomberg code	HPCL IN
No. of Shares (mn)	1,495
MCap (Rs bn) / ($ mn)	336/4,614
6m avg traded value (Rs mn)	1,716
52 Week high / low	Rs 245/150

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	9.6	5.7	(5.0)
Relative (%)	(13.1)	(29.0)	(28.3)

SHAREHOLDING PATTERN (%)	**Sept-20**	**Dec-20**
Promoters	51.11	51.57
FIs & Local MFs	22.29	20.81
FPIs	15.49	15.92
Public & Others	11.11	11.70
Pledged Shares	0.00	0.00

Source: BSE

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Gujarat Gas

Volumes surprise positively!

Our ADD recommendation on Gujarat Gas (GGL) with a price target of INR 404 is premised on (1) volume growth of 17% CAGR over FY21-23E, (2) portfolio of mature, semi-mature and new geographical areas (GAs) and (3) compelling valuations, given superior return ratios among the city gas distribution players. 3QFY21 EBITDA/APAT was 27/40% above our estimates owing to, higher-than-expected per unit gross margin, 16% higher-than-anticipated volumes at 11.45mmscmd, lower-than-anticipated depreciation and finance cost, offset by a higher-than-expected tax outgo.

- **Volumes**: Blended volume stood at 11.45mmscmd (HSIE 9.90), pushed by strong industrial demand (9.16mmscmd or 80% of volume mix). CNG/Domestic PNG/Commercial PNG volumes stood at 1.54/0.64/0.10mmscmd in 3Q vs 1.28/0.64/0.07mmscmd in 2Q. Volumes were at a record high in 3Q, the highest-ever in a quarter in the past five years. The company's gas sales volume has shown a robust recovery post lockdown.
- **Margin:** Per unit gross spread expanded by INR 1.25 YoY to INR 7.8/scm. This is attributable to part retention of the benefit of falling RMC. Per unit EBITDA came to INR 5.8/scm (vs. INR 4.3/8.1 per scm in 3QFY20/2QFY21). However, we believe that these margins are not sustainable, and expect them to correct from the current levels in the future. For FY21/22E, we are factoring in a per unit EBITDA margin of INR 5.1/5.1/scm.
- **Change in estimates:** We raise our FY21/22E EPS estimate by 17.1/8.0% each to INR 18.8/20.1 to factor in better-than-expected volumes and the overall performance in 9MFY21.
- **DCF-based valuation: Our target price of INR 404 is based on Dec-22E free cash flows (WACC 11%, terminal growth rate 3.0%). The stock is currently trading at 18.9x FY22E EPS**.

Standalone financial summary

YE March (INR bn)	3Q FY21	2Q FY21	QoQ (%)	3Q FY20	YoY (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenues	28	25	*12.6*	25	*12.9*	78	103	94	117	130
EBITDA	6	7	*(16.1)*	4	*65.9*	10	16	21	22	24
APAT	4	5	*(17.4)*	2	*99.5*	4	12	13	14	15
AEPS (INR)	5.7	6.9	*(17.4)*	2.9	*99.5*	6.1	17.2	18.8	20.1	22.4
P/E (x)						62.6	22.1	20.3	18.9	16.9
EV/EBITDA (x)						27.4	16.8	12.7	12.0	10.5
RoE (%)						20.6	43.3	33.6	27.7	24.5

Source: Company, HSIE Research

Standalone change in estimates

	FY21E			FY22E			FY23E		
	Old	New	% Ch	Old	New	% Ch	Old	New	% Ch
Volume (mmscmd)	8.5	9.3	9.6	11.1	11.8	6.7	11.9	12.7	6.6
Per unit EBITDA (INR/scm)	5.9	5.9	-	5.0	5.1	1.7	5.0	5.1	1.0
EBIDTA (INR bn)	18.9	21.3	12.8	20.1	21.8	8.5	21.9	23.6	7.7
AEPS (INR/sh)	16.0	18.8	17.1	18.6	20.1	8.0	21.1	22.4	6.5

Source: Company, HSIE Research

ADD

CMP *(as on 5 Feb 2021)*	**INR 380**
Target Price	**INR 404**
NIFTY	**14,924**

KEY CHANGES	**OLD**	**NEW**
Rating	ADD	ADD
Price Target	INR 346	INR 404
EPS %	**FY21E**	**FY22E**
	+17.1%	+8.0%

KEY STOCK DATA

Bloomberg code	GUJGA IN
No. of Shares (mn)	688
MCap (Rs bn) / ($ mn)	262/3,586
6m avg traded value (Rs mn)	302
52 Week high / low	Rs 412/191

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	26.0	23.2	28.2
Relative (%)	3.3	(11.5)	4.9

SHAREHOLDING PATTERN (%)

	Sept-20	Dec-20
Promoters	60.89	60.89
FIs & Local MFs	7.31	7.32
FPIs	9.07	9.01
Public & Others	22.73	22.78
Pledged Shares	0.00	0.00

Source : BSE

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Gujarat State Petronet

Muted quarter

Our BUY recommendation on Gujarat State Petronet with a TP of INR 271 is premised on the following: (1) robust transmission volume (+12% CAGR over FY21-23E to 49mmscmd) as benign spot LNG prices should continue to drive volume growth from industrial customers and encourage RIL to continue using LNG. This should translate into growth in standalone EBITDA and APAT by 10% and 12% CAGR to INR 44bn and INR 20bn in FY23E; (2) compelling valuation at 6.8x FY22E EPS, considering the high return ratios (RoE of 25/22% in FY22/23E) and steady cash flows (combined FCF of INR 49bn over FY21-23E).

- **View on the result**: 3QFY21 EBITDA/APAT was 3/3% lower than our estimates, mainly due to lower-than-anticipated volumes and transmission tariffs.
- **Volumes:** Gas transmission volume for the quarter was 39.4mmscmd (+1/-1% YoY/QoQ) as against our estimate of 41.8mmscmd. Volume break-up in mmscmd was: Refinery 7.1, Power 9.1, CGD 13.0, Fertilisers 3.9, and others 6.3.
- **Tariffs:** Calculated blended transmission tariff for 3Q stood at was INR 1,245/tscm (-7/+0% YoY and QoQ), which was 1% lower than our estimates.
- **Change in estimates:** We raise our FY21/22E consolidated EPS estimates by 20.1/3.0% in FY21/FY22E to INR 28.6/33.0 to factor in the company's 9MFY21 performance.
- **DCF-based valuation**: We value the transmission business using Discounted Cash Flow (DCF) at INR 96/sh (WACC of 11% and terminal growth rate of 3%). To this, we add INR 175/sh as the value of its investments in Gujarat Gas, Sabarmati Gas, etc. to arrive at the target price of INR 271/sh. The stock is trading at 6.8x FY22E PER.

Standalone financial summary

YE Mar (INR bn)	3Q FY21	2Q FY21	QoQ (%)	3Q FY20	YoY (%)	FY19	FY20*	FY21E*	FY22E*	FY23E*
Net Sales	6	6	*0.5*	6	*(7.3)*	93	122	145	146	161
EBITDA	4	4	*4.6*	4	*4.8*	25	32	37	41	44
APAT	2	3	*(8.7)*	2	*11.4*	10	17	16	19	20
Adj. EPS (INR/sh)	4.4	4.8	*(8.7)*	3.9	*11.8*	17.9	30.7	28.6	33.0	36.2
P/E (x)						12.5	7.3	7.9	6.8	6.2
EV/EBITDA(x)						7.0	4.9	3.9	3.2	2.7
RoE (%)						35.3	42.3	28.3	25.1	21.7

Source: Company, HSIE Research | *Consolidated

Consolidated change in estimates

(INR bn)	FY21E Old	FY21E New	*% Ch*	FY22E Old	FY22E New	*% Ch*	FY23E Old	FY23E New	*% Ch*
EBIDTA	29	37	24.4	39	41	4.3	42	44	3.6
EPS (INR/sh)	23.8	28.6	20.1	32.1	33.0	3.0	35.3	36.2	2.6

Source: Company, HSIE Research

BUY

CMP *(as on 10 Feb 2021)*	**INR 227**
Target Price	**INR 271**
NIFTY	**15,107**

KEY CHANGES	**OLD**	**NEW**
Rating	BUY	BUY
Price Target	INR 270	INR 271
EPS %	FY21E	FY22E
	+20.1%	+3.0%

KEY STOCK DATA	
Bloomberg code	GUJS IN
No. of Shares (mn)	564
MCap (Rs bn) / ($ mn)	128/1,755
6m avg traded value (Rs mn)	216
52 Week high / low	Rs 250/146

STOCK PERFORMANCE (%)

	3M	**6M**	**12M**
Absolute (%)	22.3	7.1	(7.6)
Relative (%)	3.8	(27.3)	(32.8)

SHAREHOLDING PATTERN (%)

	Sept-20	**Dec-20**
Promoters	37.63	37.63
FIs & Local MFs	30.93	31.00
FPIs	15.58	15.94
Public & Others	15.86	15.43
Pledged Shares	0.00	0.00

Source: BSE

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Oil India

Reeling under stress

Our REDUCE recommendation on Oil India with a price target of INR 119 is premised on (1) a muted oil and gas realisation and (2) lack of production growth for both oil and gas. We expect oil prices to remain at ~USD 50 per barrel in FY22/23E vs. USD 61/bbl in FY20, given the weak global macro. With no subsidy sharing with OMCs, OIL remains a pure play on the crude oil price. 3QFY21 revenue was in line with our estimates, but EBITDA was 116% below our estimate, owing to dry wells write-off of INR 6.5bn. RPAT was above our estimate, owing to higher-than-anticipated other income and credit of INR 12bn of taxes.

- **Standalone financial performance:** Sales in 3Q was INR 21bn -28% YoY, led by a 27% fall in crude realisation in rupee terms to INR 3,158/bbl. EBITDA came at INR -1bn as opex to sales inched up by 3638bps YoY to 82%.
- **Exceptional loss:** The expense of INR 1,514mn incurred to control the blowout incident of May/June 2020 at Oil India's well in Baghjan has been classified as an exceptional item in 3Q. OIL settled all its pending income tax disputes from AY2003-04 to AY2016-17 and received a settlement of INR 12bn in 3Q for the same, which led to a spike in the RPAT. Adjusting for these one-offs, OIL reported a loss of INR 1.4bn in 3Q.
- **Standalone operational performance**: Crude oil realisation corrected to USD 42.8/bbl, +3/-30% QoQ/YoY; also, gas realisation contracted to USD 1.7/mmbtu, -46/-45% QoQ/YoY. Oil sales volumes remained flat QoQ/YoY at 0.72mmt, while gas sales volumes were 0.59bcm, +48/-2% QoQ/YoY.
- **Con call takeaways**: (1) The Board approved an interim dividend at 35% i.e., INR 3.5/sh. (2) Debt on Dec-21 end stands at USD 1.275bn. (3) Capex target for FY22 is of INR 40bn.
- **Change in estimates**: We raise our FY21/22E EPS estimate by 57.3/56.9% to INR 27.1/27.2 to factor in overall performance in 9MFY21.
- **We value Oil India's standalone business at INR 59 (5.5x Dec-22E EPS) and its investments at INR 60. The stock is currently trading at 4.3x FY22E EPS.**

Standalone Financial Summary

YE March (INR bn)	3Q FY21	2Q FY21	QoQ (%)	3Q FY20	YoY (%)	FY19*	FY20*	FY21E*	FY22E*	FY23E*
Revenues	21	22	(2.0)	30	(28.0)	138	122	94	106	108
EBITDA	-1	7	NA	11	NA	56	32	28	30	30
APAT	(1)	3	NA	4	NA	39	36	29	30	29
AEPS (INR)	(1.3)	3.1	NA	3.7	NA	36.3	33.2	27.1	27.2	27.1
P/E (x)						3.2	3.5	4.3	4.3	4.3
EV/EBITDA (x)						3.0	6.5	7.1	5.8	5.2
RoE (%)						13.6	12.5	9.7	8.9	8.1

Source: Company, HSIE Research | *Consolidated

Change in estimates (Consolidated)

	FY21E			FY22E			FY23E		
	Old	New	Ch%	Old	New	Ch%	Old	New	Ch%
EBITDA (INR bn)	14	28	94.6	16	30	88.2	22	30	40.2
AEPS(INR/sh)	17.3	27.1	57.3	17.4	27.2	56.9	21.0	27.1	29.0

Source: Company, HSIE Research

REDUCE

CMP *(as on 12 Feb 2021)*	INR 116
Target Price	INR 119
NIFTY	15,163

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 88	INR 119
EPS %	FY21E	FY22E
	+57.3%	+56.9%

KEY STOCK DATA	
Bloomberg code	OINL IN
No. of Shares (mn)	1,084
MCap (Rs bn) / ($ mn)	125/1,724
6m avg traded value (Rs mn)	140
52 Week high / low	Rs 139/64

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	25.8	22.0	(15.0)
Relative (%)	7.0	(12.3)	(39.0)

SHAREHOLDING PATTERN (%)	Sept-20	Dec-20
Promoters	56.66	56.66
FIs & Local MFs	6.17	19.60
FPIs	7.06	6.75
Public & Others	30.11	16.99
Pledged Shares	0.00	0.00

Source : BSE

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Mahanagar Gas

On the path to normalcy

Our ADD recommendation on Mahanagar Gas (MGL) with a price target of INR 1,204 is premised on its loyal customer base of CNG and commercial establishments (together comprising ~80% of the sales mix in FY20), which are less price-sensitive than industrial customers that enable the company to maintain its per-unit margins higher than peers. 3QFY21 EBITDA/APAT was 15/16% below estimates, owing to 11% lower-than-anticipated volumes, and 4% lower per-unit EBITDA margin.

- **Volumes**: Blended volume stood at 2.77mmscmd (HSIE 3.11), led by a strong demand in CNG segment post lockdown (1.88mmscmd or 68% of volume mix). PNG segment's volume in 3Q was at 0.89mmscmd.
- **Margin:** Per-unit gross spread expanded by ~INR 0.5/3.8 QoQ/YoY to INR 17.7/scm. This is attributable to part retention of the benefit of falling RMC. Per-unit EBITDA came to INR 12.4/scm (vs. INR 11.6/9.2 per scm QoQ/YoY). This was primarily due to improvement in 3Q volumes that led to a decrease in per-unit operating expenditure to INR 5.3.
- **Takeaways from the earnings conference call:** (1) Capex target for FY21/22 is INR ~4/7bn. (2) MGL added six new CNG stations in 3Q, taking their count up to 265. It also added 47 new industrial/commercial PNG customers, taking the count up to 4,093. 49,171 new domestic households were connected in 3Q. (3) The Board has declared an interim dividend at 90%, i. e. INR 9/sh for FY21.
- **Change in estimates:** We raise our FY21/22E EPS estimate by 13.2/6.4% each to INR 64.0/74.9, to factor in better-than-expected volumes, the overall performance in 9MFY21 and the management's guidance of sustainability of the current per unit margins owing to pricing power.
- **DCF-based valuation: our target price is INR 1,204, based on Dec-22E free cash flows (WACC 10%, terminal growth rate 3.0%). The stock is currently trading at 15.0x FY22E EPS**.

Financial summary

YE March (INR bn)	3Q FY21	2Q FY21	QoQ (%)	3Q FY20	YoY (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenues	6.66	5.07	*31.5*	7.45	*(10.5)*	27.91	29.72	21.15	28.47	32.04
EBITDA	3.17	2.21	*43.3*	2.59	*22.4*	8.85	10.53	9.17	10.99	11.64
APAT	2.17	1.44	*50.5*	1.86	*16.8*	5.46	7.94	6.32	7.40	8.27
AEPS (INR)	22.0	14.6	*50.5*	19.6	*12.2*	55.3	80.3	64.0	74.9	83.8
P/E (x)						20.3	14.0	17.6	15.0	13.4
EV/EBITDA (x)						11.5	9.3	10.8	8.5	7.7
RoE (%)						24.3	29.7	20.3	21.3	21.3

Source: Company, HSIE Research

Change in estimates

	FY21E			FY22E			FY23E		
	Old	New	% Ch	Old	New	% Ch	Old	New	% Ch
Volume (mmscmd)	2.5	2.3	(8.9)	2.9	2.9	-	3.0	3.0	-
Per unit EBITDA (INR/scm)	9.1	11.0	20.8	9.7	10.3	5.6	9.9	10.5	5.9
EBIDTA (INR bn)	8	9	10.0	10	11	5.6	11	12	5.9
AEPS (INR/sh)	56.5	64.0	13.2	70.4	74.9	6.4	78.8	83.8	6.3

Source: Company, HSIE Research

ADD

CMP *(as on 10 Feb 2021)*	INR 1,129
Target Price	INR 1,204
NIFTY	15,107

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 916	INR 1,204
	FY21E	FY22E
EPS %	+13.2%	+6.4%

KEY STOCK DATA	
Bloomberg code	MAHGL IN
No. of Shares (mn)	99
MCap (Rs bn) / ($ mn)	111/1,531
6m avg traded value (Rs mn)	1,081
52 Week high / low	Rs 1,220/653

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	32.4	18.5	(4.0)
Relative (%)	13.8	(15.9)	(29.2)

SHAREHOLDING PATTERN (%)

	Sept-20	Dec-20
Promoters	32.50	32.50
FIs & Local MFs	30.10	28.09
FPIs	25.63	29.56
Public & Others	11.77	9.85
Pledged Shares	0.00	0.00

Source: BSE

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Pharmaceuticals

Sun Pharma

All-round beat

Strong recovery across markets, good traction in specialty business (USD 148mn, +25% YoY, +37% QoQ), and lower spends helped Sun deliver a 6%/33% beat on EBITDA/ net income. We expect stabilisation in the US generics, growth recovery in acute segment in India, and ramp-up in specialty business to drive healthy topline growth of 9% CAGR over the next two years. However, increasing R&D investments (Phase 3 trials of Ilumya for psoriatic arthritis indication) and other expenses (as Covid restrictions ease) is likely to cap earnings growth at ~8% CAGR over FY21e-FY23e. We increase our estimates for FY21-23e by 3-14% to factor in the Q3 beat. Maintain ADD. Our revised TP is Rs660/sh.

- **Revenue and margin beat:** Revenue grew 8% YoY, driven by robust growth across US (+11% QoQ and YoY, specialty driven), India (+9% YoY, chronic led), EMs (+8% YoY) and RoW markets (+16% YoY, Japan, EU and Taro's RoW business). EBITDA margin came ahead of expectation at 26% (+480bps YoY), largely led by lower R&D spends (-10bps YoY, -75bps QoQ) and other expenses (-460bps YoY).
- **Strong performance in India:** Sun's India business grew by 9% YoY, outperforming the IPM by 310bps in the quarter, led by strong performance in chronic and recovery in sub-chronic and acute segments (sequentially). In line with our expectations, Sun's brands have gained market share in most therapies. Sun launched 27 new products in Q3.
- **Specialty business traction is encouraging:** Sun's global specialty business grew ~37% QoQ to USD148mn, driven by a ramp-up in key products such as Ilumya, Cequa, Odomzo and Absorica. Global sales for Ilumya in 9mFY21 crossed FY20 sales of USD94mn. Ilumya received good response in Japan (Psoriasis market is USD500mn in Japan vs. USD10bn in the US).
- **Key call takeaways:** a) Specialty R&D - 27% of overall R&D, started Phase-III studies for psoriatic arthritis indication for Ilumya; b) Debt repayment – USD490mn in 9mFY21, net debt (ex-Taro) at ~USD250mn; c) Halol resolution – awaiting response from the FDA; d) US generics – Pending ANDAs: 90, NDAs: 8; e) Cequa – recently started DTC campaign (spends won't be as high as Ilumya); f) Absorica – no visibility on generic entry, will continue to market LD version.
- **Maintain ADD, risks:** Our target price is marginally revised upwards to Rs660/sh, based on 23x FY23e EPS. **Key risks**: delay in resolution of Halol 483s, higher price erosion in the US, slower ramp-up in specialty portfolio, and adverse outcome on SEBI investigation.

Financial Summary

	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
Net Sales	88,368	81,549	*8.4*	85,531	*3.3*	3,28,375	3,36,925	3,71,332	4,03,820
EBITDA	23,345	17,596	*32.7*	23,096	*1.1*	69,742	85,878	92,388	1,03,008
EBITDA Margin	26.4	21.6	*22.4*	27.0	*(2.2)*	21.2	25.5	24.9	25.5
APAT	18,515	8,317	*122.6*	15,245	*21.4*	40,100	59,454	61,451	68,974
Diluted EPS (Rs)	7.7	3.5	*122.6*	6.4	*21.4*	16.7	24.8	25.6	28.7
P/E (x)						35.1	23.7	22.9	20.4
EV/ EBITDA (x)						20.3	16.3	14.6	12.6
RoACE (%)						*8.9*	*15.4*	*12.9*	*13.1*

Source: Company, HSIE Research

ADD

CMP *(as on 29 Jan 2021)*	**Rs 586**
Target Price	**Rs 660**
NIFTY	**13,635**

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	Rs 645	Rs 660
	FY22E	FY23E
EPS %	7%	3%

KEY STOCK DATA	
Bloomberg code	SUNP IN
No. of Shares (mn)	2,399
MCap (Rs bn) / ($ mn)	1,406/19,282
6m avg traded value (Rs mn)	5,523
52 Week high / low	Rs 628/312

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	28.5	18.9	30.2
Relative (%)	12.0	(2.7)	17.9

SHAREHOLDING PATTERN (%)	Dec-20	Sep-20
Promoters	54.48	54.69
FIs & Local MFs	20.84	20.45
FPIs	12.19	12.38
Public & Others	12.49	12.48
Pledged Shares	4.91	4.97

Source : BSE

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Dr. Reddy's Labs

Hits pause, pipeline execution is key

Dr. Reddy's Q3 EBITDA margin disappointed (22.3%, down 300bps QoQ, higher SG&A), after achieving ~25% levels in the past couple of quarters. Reported PAT was further impacted by impairment charge (Rs6bn, including gNuvaring). While there are multiple triggers that could play out over the next few years such as (a) complex launches of gVascepa, gCopaxone, gRevlimid, gNuvaring in the US (factored in estimates) and (b) Covid upsides (Sputnik V vaccine, Favipiravir trial in US), we reckon they come with high degree of uncertainty with respect to timelines and extent of upsides. With recovery in India, tailwinds in PSAI, strong pipeline in the US and cost optimisation efforts, the core business performance is expected to improve and drive 11% revenue and 19% earnings CAGR over FY21e-23e. We cut FY21-23e estimates by 8-10% to factor in the Q3 miss and delay in key launches. Our revised TP is Rs 5,300/sh. Maintain ADD.

- **Muted performance in US, PSAI offset by strong growth in India, EU:** Revenue grew by 11% YoY (flat QoQ) as strong growth in India (+26% YoY, 8% YoY ex-Wockhardt), EU (+34% YoY, new launches, currency gains offset price erosion) and RoW markets (+21% YoY, volumes, new launches) offset muted performance in Russia (-8% YoY, weakening of ruble), PSAI (+1% YoY, -18% QoQ, lower volumes) and US (-5% QoQ, price erosion offset new launches gains).
- **Margins disappoint:** EBITDA margin declined by ~300bps QoQ to 22.3% due to lower gross margins (down 57bps) and higher SG&A cost (+270bps QoQ, investment in brands, one-time litigation cost). Dr. Reddy's aims to achieve ~25% EBITDA margin over the next few quarters, driven by revenue growth and cost optimisation efforts. Adjusted PAT (impairment charge: Rs6bn, milestone income: Rs500mn) at Rs5.7bn was ~20% below our estimate.
- **Key call highlights:** a) gVascepa – high value launch, gCopaxone – received another CRL, response few months away, gNuvaring – submitted response in Dec'20, the product is completely written off, gRemodulin – launch is some time away; b) Sputnik V – rights to distribute 125mn doses (vs 100mn earlier) – expect phase 3 trial data by Mar'21; c) Wockhardt business– progressing well.
- **Valuation and risks**: We maintain ADD rating and reduce our SOTP-based target price to Rs 5,300 (vs. Rs 5,745 earlier). Our target price is based on 22x FY23e EPS and NPV of Rs384/share for gRevlimid. Key risks: delay in key approvals, higher price erosion in the US, and lower growth in India.

Financial Summary

	Q3 FY21	Q3 FY20	YoY (%)	Q2 FY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
Net Sales	48,796	43,838	*11.3*	48,967	*-0.3*	1,67,371	1,90,991	2,14,878	2,36,441
EBITDA	10,888	10,416	*4.5*	12,364	*-11.9*	34,546	45,753	53,614	59,966
EBITDA Margin	22.3	23.8	*-145 bps*	25.2	*-294 bps*	20.6	24.0	25.0	25.4
Rep. PAT	198	-5,697	*NA*	7,623	*-97.4*	19,497	19,697	32,281	37,185
EPS (Rs)	1.2	-34.2	*NA*	45.8	*-97.4*	117.1	118.3	193.9	223.4
P/E* (x)						36.0	35.6	21.7	18.9
EV/ EBITDA* (x)						31.6	21.5	16.9	13.9
RoACE* (%)						14.4	13.8	15.4	15.8

Source: Company, HSIE Research; *Adjusted for gRevlimid

ADD

CMP*(as on 29 Jan 2021)*	**Rs 4,603**
Target Price	**Rs 5,300**
NIFTY	**13,635**

KEY CHANGES	**OLD**	**NEW**
Rating	ADD	ADD
Price Target	Rs 5,745	Rs 5,300
	FY22E	FY23E
EPS %	-8%	-8%

KEY STOCK DATA	
Bloomberg code	DRRD IN
No. of Shares (mn)	166
MCap (Rs bn) / ($ mn)	765/10,493
6m avg traded value (Rs mn)	9,616
52 Week high / low	Rs 5,607/2,495

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	(6.9)	7.0	46.2
Relative (%)	(23.3)	(14.6)	33.9

SHAREHOLDING PATTERN (%)	**Dec -20**	**Sep -20**
Promoters	26.73	26.74
FIs & Local MFs	16.30	15.59
FPIs	29.13	29.58
Public & Others	27.62	28.09
Pledged Shares	0.00	0.00

Source : BSE

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Cipla

Strong quarter, upbeat on outlook

Cipla delivered yet another solid quarter, driven by healthy growth across businesses (India, CGA, Europe, API). EBITDA margin came ahead of expectation at 24% (+647bps YoY, +46bps QoQ), aided by tight control on costs. Cipla is tracking ahead of its initial cost saving guidance of Rs4-5bn for FY21 and expects to retain part of these benefits in the coming quarters. Its US business outlook remains strong as respiratory/ niche filings add longer-term growth visibility. Cipla expects to add USD300-500mn to its US revenue base of USD500mn+ by FY25. In India, while Covid sales contribution is likely to go down materially, recovery in ex-Covid business is expected to drive double-digit growth of ~10% CAGR over the next two years. We expect RoCE to expand by ~550bps over FY20-23e, driven by operating leverage benefits and cost optimisation efforts. Maintain BUY. Our revised TP is Rs 1,020/sh.

- **Revenues in line, Margin beat:** Revenues at Rs51.7bn were largely in line as strong growth across markets offset muted performance in US (flat QoQ). While gross margins were stable (61.4%, -93bps YoY, flat QoQ), continued savings in staff cost (-72bps YoY, flat QoQ) & other exp (-668bps YoY, -44bps QoQ) improved EBITDA margin to 23.8% (+647bps YoY, +46bps QoQ).
- **Strong pipeline drives growth visibility in the US:** US revenue remained flat QoQ at USD141mn as market share gains in Albuterol were partly offset by product recall (USD2-3mn impact). Cipla has ~12% market share in Albuterol and ~85% in gProventil category and believes it can gradually ramp up as capacity is not a constraint. US pipeline remains strong with gAdvair, gAbraxane, Albuterol and other respiratory filings driving visibility over the next few years. Its pipeline includes 35 para IV assets with market size of USD42bn. Cipla expects to add USD300-500mn in revenue to its base of USD500mn+ revenue by FY25.
- **Key call takeaways:** a) US business - margins are at corporate average levels, expect one niche launch per quarter staring from 1QFY22 (USD 15-20mn+); b) gAdvair – TAD is late Q4FY21 or early Q1FY22, R&D spends to remain at 6-7%; c) India – ex-Covid portfolio, growth was at 6-7%, d) US respiratory portfolio – USD100mn+ in 9mFY21; e) Albuterol – Cipla will defend its share as it has a cost edge; f) plans to ramp up consumer business in India and South Africa to 12%+ of sales (vs. 5-7% currently).
- **Maintain BUY; risks:** We marginally tweak our estimates and revise TP to Rs 1,020, based on 23x FY23e EPS and NPV of Rs30/sh for gAdvair and Rs40/sh for gRevlimid. **Risks:** lower-than-expected growth in India, slower market share gains in Albuterol, delay in resolution of Goa warning letter, higher price erosion in the US.

Financial Summary

YE Mar (Rs mn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
Net Sales	51,687	43,710	*18.2*	50,383	*2.6*	1,71,320	1,95,181	2,13,929	2,32,233
EBITDA	12,309	7,583	*62.3*	11,766	*4.6*	32,060	45,732	47,362	54,303
EBITDA Margin	23.8%	17.3%	646.5	23.4%	46.2	18.7%	23.4%	22.1%	23.4%
APAT	7,481	3,510	*113.1*	6,654	*12.4*	14,995	26,639	28,121	33,326
Diluted EPS (Rs)	9.3	4.4	*113.1*	8.3	*12.4*	18.6	33.0	34.9	41.3
P/E (x)						40.7	22.9	21.7	18.3
EV/ EBITDA (x)						19.7	13.3	12.4	10.3
RoACE (%)						8.8	14.1	13.4	14.2

Source: Company, HSIE Research

BUY

CMP*(as on 29 Jan 2021)*	**Rs 826**
Target Price	**Rs 1,020**
NIFTY	**13,635**

KEY CHANGES	**OLD**	**NEW**
Rating	BUY	BUY
Price Target	Rs 1,015	Rs 1,020
EPS %	FY22E	FY23E
	-	+1%

KEY STOCK DATA	
Bloomberg code	CIPLA IN
No. of Shares (mn)	806
MCap (Rs bn) / ($ mn)	666/9,131
6m avg traded value (Rs mn)	6,217
52 Week high / low	Rs 870/354

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	8.3	21.2	79.4
Relative (%)	(8.1)	(0.3)	67.1

SHAREHOLDING PATTERN (%)	**Dec-20**	**Sep-20**
Promoters	36.64	36.65
FIs & Local MFs	17.93	21.01
FPIs	22.05	20.02
Public & Others	23.38	22.32
Pledged Shares	0.00	0.00

Source : BSE

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Aurobindo Pharma

Steady quarter, outlook remains strong

Q3 revenue/PAT grew by 8%/17% YoY, in line with estimates. Barring weakness in API (-14% YoY), most markets grew at healthy pace. In contrast to peers, Aurobindo's US business (ex-Natrol) performed well and grew 4% QoQ driven by volume gains and improvement in injectables revenues. In addition to PLI scheme investments (Rs30bn, benefits to be back ended), Aurobindo plans to augment its capacities in APIs (to invest Rs8bn over 2-2.5 years) and expects to double its revenues over the next 4-5 years. The progress on complex/vaccine pipeline remains on track and we remain positive on Aurobindo's capabilities to monetize these over the next few years. The growth outlook for EU, ARVs and RoW markets remain strong with ~7-10% revenue CAGR estimated over FY21-23e. The balance sheet is further strengthened as it turned net debt free as of Dec'20. We ascribe NPV of Rs51/sh. for PLI opportunity and revise our TP to Rs1,080/sh. Maintain BUY.

- **Steady margins despite higher R&D**: Revenue at Rs63.6bn grew by 8% YoY as strong traction across businesses (EU: +1% YoY, +10% QoQ, lockdown lifted; ARVs: +36% YoY, TLE to TLD conversion; RoW: +10% YoY) offset muted growth in API (-14% YoY). Despite higher R&D (6.1% of sales, +178bps YopY) and withdrawal of MEIS, EBITDA margin improved to 21.5% (+101bps YoY) led by improvement in gross margin (+120bps YoY, EU, favorable mix, currency). Reported PAT at Rs29bn was boosted by one-off items.
- **Pipeline update**: **Generic injectables** – portfolio is expected to grow from ~USD380mn to USD650-700mn in the next 3 years; **Biosimilars** – 13 assets under development (6 in first wave, 2 Onco products to complete Phase 3 trials by Q1-Q2FY22); **Vaccines** – Covid vaccine - UB-612 (Covaxx) – to complete phase 3 trials by July'21, own vaccine and one in collaboration with CSIR; **PCV vaccine** - to start phase 3 by Mar'21, to target India/ GAVI in next 1-1.5 years; **Viral vaccine** - developing 4 (incl. 1 for Covid).
- **PLI scheme benefits are back-ended** – The recent approval for 3 key drugs (Pen-G, 7-ACA, TIOC) offers opportunity to manufacture it for external sales as well as internal consumption (requirement of ~40-45%). It may opt to go ahead with 2 or 3 products based on clarifications (awaited) on its queries. Assuming, asset turns of ~1.2-1.5x with ~15-35% margins (incl. incentives), we believe the opportunity can add an NPV of Rs51/sh to our target price.
- **Key call highlights:** a) Europe - ~15% margins, scope to improve exists as it gains scale; b) China – Setting up an OSD facility, expect 8-10 approvals in 2021; c) Capex – ~USD200mn (ex-PLI); d) Covid vaccine - to double existing 220mn dose capacity to 480mn by Jun'21; e) Net cash position of USD117mn.
- **Maintain BUY, risks:** We revise our TP to Rs1,080 based on 16x FY23e EPS and NPV of Rs51 for the PLI opportunity. **Key risks**: higher price erosion in the US, delay in plant resolution (Unit I, IX, XI, VII, AuroLife).

Financial Summary

YE Mar (Rs mn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
Net Sales	63,649	58,950	*8.0*	64,834	*(1.8)*	2,30,985	2,51,112	2,59,975	2,78,628
EBITDA	13,686	12,080	*13.3*	14,328	*(4.5)*	48,643	54,600	55,895	61,298
EBITDA Margin	21.5	20.5	*101*	22.1	*(60)*	21.1	21.7	21.5	22.0
APAT	9,343	7,145	*30.8*	8,016	*16.6*	28,493	33,418	34,247	37,714
Diluted EPS (Rs)	15.9	12.2	*30.8*	13.7	*16.6*	48.6	57.0	58.5	64.4
P/E (x)						18.2	15.5	15.1	13.7
EV/ EBITDA (x)						11.2	9.4	8.6	7.4
RoACE (%)						14.3	13.9	12.9	13.1

Source: Company, HSIE Research, ratios adjusted for NPV of Rs51/sh for PLI scheme

BUY

CMP*(as on 11 Feb 2021)*	Rs 935
Target Price	Rs 1,080
NIFTY	15,173

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 1,050	Rs1,080
EPS %	FY22E	FY23E
	-2%	-2%

KEY STOCK DATA	
Bloomberg code	ARBP IN
No. of Shares (mn)	586
MCap (Rs bn) / ($ mn)	548/7,521
6m avg traded value (Rs mn)	3,421
52 Week high / low	Rs 1,024/281

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	15.3	(1.0)	70.6
Relative (%)	(2.9)	(35.2)	45.6

SHAREHOLDING PATTERN (%)	Dec-20	Sep-20
Promoters	51.94	52.01
FIs & Local MFs	12.61	13.67
FPIs	24.99	23.01
Public & Others	10.46	11.31
Pledged Shares	4.82	4.86

Source : BSE

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Cadila Healthcare

In-line quarter; US revenues sluggish

Cadila's Q3 results were broadly in line as subdued performance in the US (-6 QoQ) was offset by healthy growth in India formulations (+21% YoY) and consumer business (+16% YoY). Despite higher R&D spends (9.2% of sales, +178bps QoQ), EBITDA margin came in line, aided by controlled other expenditure (costs at 70-80% of pre-Covid levels). US business is expected to witness improved traction from FY22, driven by 40+ launches (including 8-10 complex ones). R&D investments in vaccines, biosimilars, NCE/NBEs, Covid portfolio provide potential upside monetisation opportunities. We trim our EPS estimate by 7%/ 3% for FY22/23e to factor in lower US sales and increased R&D spends. Revised TP at Rs480/sh. Maintain ADD.

- **In-line performance:** Revenue grew by 4% YoY to Rs38bn as strong growth in India formulations (+21% YoY, specialty business, Covid portfolio), Consumer biz (+16% YoY, double digit growth in key brands) and animal health (+17% YoY) offset muted performance in the US (-8% YoY, -6% QoQ, weak flu, inventory correction). Despite higher R&D expense (+97bps YoY, +178bps QoQ), EBITDA margin came in line with expectations at 21.3% (+208bps YoY, -134bps QoQ), aided by lower other expenses (-247bps YoY, -33bps QoQ, continued cost savings).
- **Muted show in the US:** US business declined 8% YoY and 6% QoQ on the back of a weak flu season and inventory correction (order delays). Cadila expects to launch 40+ products, including 8-10 complex ones in FY22. It filed 10 ANDAs and received 9 approvals (incl. 4 TA) in the quarter.
- **Key call takeaways:** a) Saroglitazar - to start Phase 3 trials in the US, expects to enter in CY23 for PBC (targets to be in the first wave of launches) and, in CY25, for NASH indication. In India, the company expects it to be a Rs2.5bn molecule in 3-5 years; b) ZyCov-D – data read out in 1QFY22, to incur ~Rs1.5-2bn capex in plant, current dose capacity -10-20mn, 120mn capacity to come by Q2FY22, looking at CMO for 70mn doses; c) Vaccine contribution (ex-Covid) to rise from Rs700mn to ~USD100mn by FY24-25; d) Capex guidance: ~Rs7-8bn annually; R&D – 8-9% of sales; e) US – Q4 sales to be ~USD220mn; gRevlimid – litigation is ongoing; e) Net debt – Rs38bn as at Dec'20; f) Moraiya plant – no further updates, awaiting response from FDA.

Financial Summary

	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
Net Sales	37,956	36,381	*4.3*	38,200	*-0.6*	1,42,531	1,50,385	1,62,703	1,76,279
EBITDA	8,069	6,978	*15.6*	8,634	*-6.5*	27,834	32,778	34,573	39,890
EBITDA Margin	21.3	19.2	*207.8*	22.6	*(134.3)*	19.5	21.8	21.2	22.6
APAT	5,272	3,801	*38.7*	6,054	*-12.9*	15,402	19,834	20,369	24,521
Diluted EPS (Rs)	5.1	3.7	*38.7*	5.9	*-12.9*	15.0	19.4	19.9	24.0
P/E (x)						31.6	24.4	23.9	19.8
EV/ EBITDA (x)						20.4	16.8	15.7	13.3
RoACE (%)						8.6	11.4	11.7	12.6

Source: Company, HSIE Research

Change in estimates

Change in Estimates	FY21E			FY22E			FY23E		
	Old	Revised	*YoY*	Old	Revised	*YoY*	Old	Revised	*YoY*
Revenues	1,52,835	1,50,385	*-2%*	1,66,838	1,62,703	*-2%*	1,82,623	1,76,279	*-3%*
EBITDA	33,807	32,778	*-3%*	37,135	34,573	*-7%*	41,573	39,890	*-4%*
EPS	19.0	19.4	*2%*	21.3	19.9	*-7%*	24.6	24.0	*-3%*

Source: Company, HSIE Research

ADD

CMP *(as on 5 Feb 2021)*	**Rs 475**
Target Price	**Rs 480**
NIFTY	**14,924**

KEY CHANGES	**OLD**	**NEW**
Rating	ADD	ADD
Price Target	Rs 495	Rs 480
	FY22E	FY23E
EPS %	-7%	-3%

KEY STOCK DATA	
Bloomberg code	CDH IN
No. of Shares (mn)	1,024
MCap (Rs bn) / ($ mn)	487/6,673
6m avg traded value (Rs mn)	2,109
52 Week high / low	Rs 509/202

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	7.3	20.0	74.9
Relative (%)	(15.4)	(14.7)	51.6

SHAREHOLDING PATTERN (%)	**Dec-20**	**Sep-20**
Promoters	74.88	74.88
FIs & Local MFs	11.72	12.50
FPIs	5.24	4.38
Public & Others	8.16	8.24
Pledged Shares	0.00	0.00

Source : BSE

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Torrent Pharma

Soft quarter; steady outlook

Torrent's Q3 results were a tad below expectation due to a miss in the US (-9% QoQ, price erosion, lack of new launches). EBITDA margin at 30.4% (+300bps YoY, -106bps QoQ) came in line with our estimate. Barring US, other markets witnessed recovery and are well on track to outperform industry growth. With cost normalisation, management expects margin in FY22 to taper down to ~29% levels from ~30%+ levels in FY21. We like Torrent's India franchise (chronic focused portfolio) and its superior return profile, which justifies higher valuation multiple. The company repaid debt of Rs4bn in 3Q and is on track to reduce it by Rs10bn in FY21. We marginally tweak our estimates & revise the TP to Rs2,835, based on 16x FY23e EV/EBITDA. Maintain ADD.

- **Topline marred by exchange loss, margins in line:** Revenues grew by 2% to Rs20bn as good growth in India (+7% YoY), Germany (+21% YoY, +10% in cc terms) was offset by Brazil (-8% YoY, +16% in cc terms, currency depreciation offset new launches and volume growth) and US (-9% QoQ in cc terms, price erosion, lack of new launches). EBITDA margin declined by 106bps QoQ to 30.4% on the back of a lower gross margin (-70bps QoQ) and increase in other expenses (+44bps QoQ).
- **India outperformance to continue:** Revenues grew by 7% YoY vs. IPM growth of 6% for Q3FY21, led by recovery in market, growth in chronic/sub-chronic therapies. The company restructured its field force strength from 4,000 in Q2 to 3,600 at start of Q4 as it de-focuses on low growth brands. It expects to outperform the industry growth by 200bps, driven by price led growth (~5-6%) and new launches (~3-3.5%).
- **US business witnessed pressure:** US business (USD39mn, -9% QoQ, -24% YoY) was impacted by price erosion, lack of new launches and discontinuation of sartans. We expect gradual recovery on the back of new launches - 6 approved products, re-launches of 3-4 sartans, Levittown facility to contribute from Apr'21 and third-party sourced products.
- **Key call takeaways:** a) India – expect higher growth in Q4, aims to launch 4-5 products in Q4 (17 YTD); b) Germany – ~7% market share (vs. the previous peak of 7.2% in Sep'19), targets to be among top 3 players with ~9-11% share in 2-3 years; c) Brazil – Branded Gx business grew by 10.1% vs. 7.9% industry growth, expects to launch 3-5 products; d) open to M&A in India, focus is on deleveraging; e) US – high single digit price erosion, Dahej and Indrad –awaiting response.

Financial Summary

	Q3 FY21	Q3 FY20	YoY (%)	Q2 FY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
Net Sales	19,950	19,650	*1.5*	20,170	*(1.1)*	79,393	80,995	89,541	99,217
EBITDA	6,070	5,390	*12.6*	6,350	*(4.4)*	21,704	25,125	26,751	30,261
EBITDA Margin	30.4	27.4	*300*	31.5	*-106*	27.3	31.0	29.9	30.5
APAT	2,970	2,510	*18.3*	3,100	*(4.2)*	10,247	12,370	14,102	17,115
Adj. EPS (Rs)	17.5	14.8	*18.3*	18.3	*(4.2)*	60.5	73.1	83.3	101.1
P/E (x)						45.6	37.7	33.1	27.3
EV/ EBITDA (x)						23.2	19.7	18.0	15.5
RoACE (%)						15.1	17.0	18.8	22.3

Source: Company, HSIE Research

ADD

CMP*(as on 8 Feb 2021)*	Rs 2,758
Target Price	Rs 2,835
NIFTY	15,116

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	Rs 2,875	Rs 2,835
	FY22E	FY23E
EPS %	-4%	-4%

KEY STOCK DATA	
Bloomberg code	TRP IN
No. of Shares (mn)	169
MCap (Rs bn) / ($ mn)	467/6,397
6m avg traded value (Rs mn)	1,638
52 Week high / low	Rs 3,040/1,583

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	7.9	(6.2)	37.5
Relative (%)	(14.7)	(41.2)	12.7

SHAREHOLDING PATTERN (%)	Dec-20	Sept-20
Promoters	71.25	71.25
FIs & Local MFs	8.09	8.44
FPIs	11.96	12.17
Public & Others	8.70	8.14
Pledged Shares	0.00	0.00

Source : BSE

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Lupin

Stays on course for higher profitability

Lupin's 3Q results beat our EBITDA/PAT estimates by 4%/11%, respectively. Adj. EBITDA margin improved ~185bps QoQ to 18.7% led by gross margin expansion and lower R&D cost. US business traction (4% QoQ) was a tad below expectation as Albuterol contribution was offset by weak flu product sales. We continue to remain positive on Lupin's ability to execute (market share gains in Albuterol) and monetize its complex pipeline in the US (inhalers, complex injectables). This, along with recovery in India and cost control measures is expected to drive margin improvement of ~370bps over FY21e-23e. We trim our estimates by 6-8% for FY21-23e to account for lower US sales assumption. The revised TP is Rs 1,175/sh.

- **Margin beat** – Revenue at Rs39.5bn (+5% YoY) was largely in line with the estimate. EBIDTA margin expanded to 18.7% (+730bps YoY, +185bps QoQ) led by improvement in gross margin (+120bps YoY/QoQ, favorable product mix, lower freight cost), lower staff cost (-175bps YoY, flat QoQ) and other expenses (-180bps YoY, +50bps QoQ). Reported PAT (Rs4.4bn) was buoyed by one-time litigation settlement income (~Rs700mn) and lower tax rate. Adj. PAT (excl. forex loss) at Rs3.6bn beat our estimates by 11%.
- **US pipeline provides good growth visibility:** Ramp-up in Albuterol (9% Gx share, targets 20% in couple of quarters), Levothyroxine (17% Gx share, targets 20%), Metformin products (re-launched) and new product pipeline – gBrovana (FY22), gSpiriva (mid FY23), gSuprep (FTF, USD200mn, FY23) and possibly gDulera (FY23) provides strong growth visibility in the near to medium term. However, Solosec continues to face challenges (Covid hit) and accordingly we trim our estimates for the same. Overall, we forecast US revenues to grow at 18% CAGR over FY21e-23e.
- **Key call takeaways:** a) Guidance: EBIDTA margin target of 20-22%, ETR – below 30% over FY22/23; b) key product timelines in EU – **gFostair** launch (1HFY22), bEnbrel – gradual ramp-up, to be launched in France; **Peg-filgrastim** filing (Q4 FY21); c) US – expects 30-35 filings including 15-20 OSDs, 6+ injectables and 3-4 inhalation assets every year from FY22; d) key launches in US are de-risked (filed from Nagpur/ Pithampur Unit 3).
- **Maintain BUY, risks:** We trim our estimates by 6-8% for FY21-23e to account for lower US sales assumption and revise our TP to Rs1,175 (from Rs1,280 earlier) based on 23x Mar'23e EPS. **Key risks**: delay in key approvals, delay in resolution of plants, lower than expected margin expansion.

Financial Summary

	Q3 FY21	Q3 FY20	YoY (%)	Q2 FY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
Net Sales	39,474	37,693	*4.7*	38,350	*2.9*	1,52,307	1,52,841	1,75,634	1,93,390
EBITDA	7,367	4,291	*71.7*	6,452	*14.2*	22,107	26,449	34,265	40,630
EBITDA Margin	18.7	11.4	*728 bps*	16.8	*184 bps*	14.5	17.3	19.5	21.0
APAT	3,962	-5,798	*-168.3*	2,533	*56.4*	3,526	11,075	18,042	23,156
Adj. EPS (Rs)	8.7	-12.8	*-168.3*	5.6	*56.4*	7.8	24.4	39.8	51.1
P/E (x)						129.6	41.2	25.3	19.7
EV/ EBITDA (x)						22.4	17.9	13.5	11.0
RoACE (%)						5.9	6.8	10.4	12.4

Source: Company, HSIE Research

BUY

CMP*(as on 29 Jan 2021)*	Rs1,008
Target Price	Rs 1,175
NIFTY	13,635

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 1,280	Rs 1,175
EPS %	FY22E	FY23E
	-6%	-8%

KEY STOCK DATA

Bloomberg code	LPC IN
No. of Shares (mn)	454
MCap (Rs bn) / ($ mn)	457/6,265
6m avg traded value (Rs mn)	4,124
52 Week high / low	Rs 1,122/505

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	9.0	17.3	35.3
Relative (%)	(7.5)	(4.3)	22.9

SHAREHOLDING PATTERN (%)

	Dec-20	Sep-20
Promoters	46.88	46.91
FIs & Local MFs	21.08	19.86
FPIs	18.97	20.35
Public & Others	13.07	12.88
Pledged Shares	0.00	0.00

Source : BSE

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Alkem Labs

3Q in line, outlook remains intact

Alkem's Q3 revenue was largely in line as recovery in India business (+6% YoY) offset flattish growth in the US. EBITDA margin came in line at 22.8% (down 259bps QoQ) as costs normalised compared to 1H (field activity at 80-85% of pre-Covid levels). The company expects margin to improve to ~19-20% in FY22 (+100bps improvement over FY20 levels) as part of cost savings are likely to sustain. We believe Alkem is a good bet on domestic recovery, given its dominant position in the acute segment and steady market share gains in chronic segment. Its rising scale in the US business (~USD300mn, expected to grow at 13% CAGR over next two years) will aid the overall margin expansion. Revise TP to Rs 3,370/sh.

- **Operationally inline:** Revenue at Rs23.2bn (+6% YoY) was broadly in line as growth in India (+6% YoY, recovery in key therapies) and EMs (+12% YoY, good traction in Australia, Chile) offset muted performance in the US (flat QoQ, price erosion, fewer launches). EBITDA margin declined ~259bpsQoQ, driven by normalisation of other expenses (+355bps QoQ, -188bps YoY). Reported PAT (Rs4.5bn) was boosted by a one-time compensation of Rs351mn (towards assignment of trademark) included in other income.
- **India business to further consolidate:** India business grew 6% YoY, driven by recovery in major acute therapies (Anti-Infectives, Gastro, Vitamins) and outperformance in key chronic segments (Cardiac, Anti-Diabetes). Alkem's key brands gained market share in respective categories. Trade Gx grew faster than branded business and contributed ~20-25% of sales in Q3. Alkem plans to restructure its acute division in FY22 – add MRs, de-clutter portfolio – which should aid further market share gains in this segment.
- **Key call takeaways:** a)US business - single digit price erosion; scale up to USD500-600mn on the back of OSDs, controlled substance launches over the next few years; maintains 12-15 filings and 10-12 launches guidance per year; pending ANDAs: 47; b) Ibuprofen and Famotidine - to evaluate an at-risk launch, given it is the sole defendant; favourable ruling in district court, case is in appeals court; c) received first approval from DGCI for a biosimilar (tracking ~Rs150mn in revenues); Enzene can achieve Rs20bn over 3-5 years in India; d) Expect ~5-7% savings in other expenditure to sustain; e) Net cash – Rs8bn vs. net debt in Mar'20; f) Indore facility is awaiting PAI inspection.

Financial Summary

YE Mar (Rs mn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
Net Sales	23,181	21,818	*6.2*	23,628	*(1.9)*	83,444	88,784	97,808	1,08,617
EBITDA	5,291	4,532	*16.7*	6,005	*(11.9)*	14,734	21,126	20,563	24,031
EBITDA Margin	22.8	20.8	*205*	25.4	*-259*	17.7	23.8	21.0	22.1
APAT	4,159	3,819	*8.9*	4,721	*(11.9)*	11,271	16,170	15,878	18,322
Diluted EPS (Rs)	34.8	31.9	*8.9*	39.5	*(11.9)*	94.3	135.2	132.8	153.2
P/E (x)						31.1	21.6	22.0	19.1
EV/ EBITDA (x)						24.8	16.9	16.8	13.9
RoACE (%)						16.6	20.2	17.8	18.3

Source: Company, HSIE Research

Change in estimates

Change in Estimates	FY21E			FY22E			FY23E		
	Old	Revised	*YoY*	Old	Revised	*YoY*	Old	Revised	*YoY*
Revenues	89,573	88,784	*-1%*	1,01,092	97,808	*-3%*	1,13,705	1,08,617	*-4%*
EBITDA	21,002	21,126	*1%*	21,557	20,563	*-5%*	25,316	24,031	*-5%*
EPS	135.5	135.2	*0%*	139.5	132.8	*-5%*	161.9	153.2	*-5%*

Source: Company, HSIE Research

BUY

CMP*(as on 5 Feb 2021)*	Rs 2.944
Target Price	Rs 3,370
NIFTY	14,924

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 3,560	Rs 3,370
	FY22E	FY23E
EPS %	-5%	-5%

KEY STOCK DATA

Bloomberg code	ALKEM IN
No. of Shares (mn)	120
MCap (Rs bn) / ($ mn)	352/4,828
6m avg traded value (Rs mn)	515
52 Week high / low	Rs 3,152/1,881

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	7.0	3.4	23.3
Relative (%)	(15.7)	(31.3)	0.0

SHAREHOLDING PATTERN (%)

	Dec-20	Sep-20
Promoters	62.43	62.43
FIs & Local MFs	12.96	12.89
FPIs	4.08	3.92
Public & Others	20.53	20.76
Pledged Shares	0.00	0.00

Source : BSE

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Ajanta Pharma

Poised to re-rate

Ajanta's Q3 revenue grew by 15% YoY driven by strong performance in branded markets and Africa Institutional business. Despite normalisation in fixed costs (at pre-Covid levels), EBITDA margin came higher at 32% (+372bps YoY) driven by improvement in gross margin (+344bps YoY). We believe Ajanta is poised to re-rate as: a) it's high exposure to branded business (~70% of revenue) offers good growth visibility with superior margins; b) rising scale in the US (USD 80mn, doubled in 2 years) will lead to meaningful improvement in profitability; c) with conclusion of major capex cycle (INR 16bn+ in the past 6 years, internally funded) and plant opex reflecting in P&L, operating leverage benefits are expected to drive strong earnings growth of 15% CAGR, core-ROCE expansion of ~465bps to 29% and FCF generation of ~INR 14bn over FY21e-FY23e. Maintain BUY with a revised TP of INR 2,250/sh. Refer our initiation report - Gearing for the next leap.

- **Strong operational beat:** Revenue at INR 7.5bn (+15% YoY) was driven by India (+13% YoY), EMs (+20% YoY) and Africa Institutional biz (+57% YoY). Gross Margin remained healthy at 77% (+344bps YoY, -83bps QoQ). Despite normalisation of other expenses (27% of sales, flat YoY, +525bps QoQ), EBITDA margin came higher at 32% (+372bps YoY, -603bps QoQ). Adj. PAT grew by 64% YoY aided by lower tax rate of 18%.
- **India growth bounces back:** Ajanta's India revenue grew by 13% YoY and outperformed the IPM by ~675bps in the quarter. As per AIOCD, all key therapies – Cardiac, Ophthal, Derma and Pain outperformed the therapy average. With a recovery in domestic market, we expect India business to grow at ~13% CAGR over FY21e-23e. Ajanta has managed to hold on its market share in the lockdown period, which is noteworthy (Exhibit 3).
- **Healthy performance in EMs, double digit growth to sustain:** EM business (Asia and Africa branded) grew by ~20% YoY and declined 2% QoQ. We expect Asia business to grow at ~13.5% CAGR driven by steady performance in Philippines (40% of Asia revenues), new launches and volume growth across markets; whereas Africa branded business to grow at high single digit rate over the next two years.
- **US remained flat despite Ranitidine recall; rising scale to drive higher profitability:** US biz at ~USD 22mn was largely flat on a YoY basis (Ranitidine in the base) and QoQ basis (weak gTamiflu season, new launches at the end of Dec Q). The company launched 3 products in Q3 (36 products on shelf) and has a pipeline of 18 pending ANDAs.
- **Maintain BUY, risks:** We increase our EPS estimate by 10% for FY21e to factor the Q3 beat and by 3-4% for FY22-23e on the back of improved growth visibility for the branded business. We revise our TP upwards to INR 2,250/sh, based on 23x FY23e EPS. **Key risks**: Expansion of NLEM list, lower growth in EMs, delay in US approvals, and currency volatility in EMs.

Financial Summary

(INR mn)	3Q FY21	3Q FY20	*YoY (%)*	2Q FY21	*QoQ (%)*	FY20	FY21E	FY22E	FY23E
Net Sales	7,487	6,512	*15.0*	7,159	*4.6*	25,879	28,982	32,706	36,703
EBITDA	2,417	1,860	*30.0*	2,743	*(11.9)*	6,833	9,841	10,226	11,934
EBITDA Margin	32.3	28.6	*372*	38.3	*-603*	26.4	34.0	31.3	32.5
APAT	1,766	1,078	*63.9*	1,702	*3.8*	4,705	6,448	6,991	8,458
Diluted EPS (INR)	20.4	12.3	*809*	19.5	*4.6*	53.9	74.2	80.8	97.7
P/E (x)						32.3	23.5	21.6	17.8
EV/ EBITDA (x)						22.0	15.2	14.0	11.5
Core-RoCE (%)						18.3	24.6	24.8	29.3

Source: Company, HSIE Research

BUY

CMP *(as on 02 Feb 2021)*	Rs 1,747
Target Price	Rs 2,250
NIFTY	14,648

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 2,150	Rs 2,250
EPS %	FY22E	FY23E
	+3%	+4%

KEY STOCK DATA	
Bloomberg code	AJP IN
No. of Shares (mn)	87
MCap (Rs bn) / ($ mn)	153/2,089
6m avg traded value (Rs mn)	286
52 Week high / low	Rs 1,845/961

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	10.9	7.2	54.6
Relative (%)	(14.4)	(25.2)	29.3

SHAREHOLDING PATTERN (%)	Dec-20	Sep-20
Promoters	70.34	70.51
FIs & Local MFs	11.72	11.44
FPIs	7.90	7.71
Public & Others	10.04	10.34
Pledged Shares	10.67	11.32

Source : BSE

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Real Estate

DLF

Smart recovery

DLF reported Revenue/EBITDA/APAT at Rs 15.4/5.0/4.5 bn, (8)/(9)/8% beat/(miss) on our estimates. Presales rebounded to Rs 10.2bn vs Rs 8.5bn QoQ. While office collection remains robust with +98% collections, occupancy declined to 94% from 97% on Sep 20-end. Retail is inching towards recovery with footfall at 60% and spending 70% of pre-pandemic level. Gradual recovery in presales, strong launch pipeline and REIT plans for DCCDL augur well for the company. We maintain BUY on DLF, with unchanged target price of Rs 320, given healthy balance sheet and change our FY21/FY22/FY23 EPS estimates by 4.2/0.5/0.6% to account for lower cost of debt.

- **3QFY21 highlights:** DLF registered consolidated revenue at Rs 16.1bn, -15%/-4% YoY/QoQ and 8% behind our estimate. Revenue recognition from Camellias stood at Rs 9bn during the quarter (vs Rs 7bn in 2QFY21). EBIDTA margins improved to 32.3% (17.0/28.8% 3QFY20/2QFY21), on revenue recognition from Camellias and reduction in cash overhead expenses. Finance costs continued downward trajectory, as it declined by 16.5%/12.3% YoY/QoQ, leading to APAT (Rs 4.5bn) beat of 8% on estimate.
- **Presales recovering; launch visibility across categories**: DLF reported sales booking at Rs 10.2bn, rise of 40/20% YoY/QoQ. Camellias, newly launched independent floors, plotted developments and National Devco contributed Rs 2.9bn, Rs 3.6bn, Rs 0.9bn and Rs 2.7bn respectively. The company plans to launch ~14msf over FY21-FY23 in commercial and residential space. With completed inventory of Rs 60bn and strategy of launching projects at initial stage of development, management expects to clock Rs 10bn sales/qtr, which we believe is not a tall task for DLF.
- **Balance sheet position comfortable:** Consolidated net debt remained stable at Rs 51bn at the end of quarter (vs Rs 52bn on Sep-20 end), with net D/E at 0.15x. Net debt is likely to remain at the same level given the planned residential launches will largely self-finance. The company also brought down interest cost from 9.1% in 2QFY21 to 8.9% during the quarter and is targeting further reduction of 30-40bps. DLF generated positive operating cashflow of Rs 1.8bn during 3QFY21.

Financial summary

YE March (Rs mn)	3QFY21	3QFY20	YoY (%)	2QFY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
Net Sales	15,430	13,419	*15.0*	16,098	*(4.1)*	60,828	55,961	61,558	64,636
EBITDA	4,991	2,283	*118.6*	4,631	*7.8*	11,350	16,376	18,545	18,037
APAT	4,512	1,831	*146.4*	3,284	*37.4*	10,063	12,194	15,314	15,755
Diluted EPS (Rs)	1.8	0.7	*146.4*	1.3	*37.4*	4.1	4.9	6.2	6.4
P/E (x)						63.0	52.0	41.4	40.3
EV / EBITDA (x)						59.3	40.9	34.2	34.4
RoE (%)						3.0	3.5	4.2	4.2

Estimate change summary

Rs mn	FY21			FY22			FY23		
	New	Old	% Chg.	New	Old	% Chg.	New	Old	% Chg.
Revenue	55,961	55,961	-	61,558	61,558	-	64,636	64,636	-
EBITDA	16,376	16,269	0.7	18,545	18,428	0.6	18,037	17,907	0.7
Margin (%)	29.3	29.1	19.1	30.1	29.9	19.1	27.9	27.7	20.0
APAT	12,194	11,706	4.2	15,314	15,232	0.5	15,755	15,664	0.6
AEPS	4.9	4.7	4.2	6.2	6.2	0.5	6.4	6.3	0.6

Source: Company, HSIE Research; Consolidated Financials

BUY

CMP *(as on 29 Jan 2021)*	Rs 255
Target Price	Rs 320
NIFTY	13,635

KEY CHANGES		OLD	NEW
Rating		BUY	BUY
Price Target		Rs 320	Rs 320
EPS Change %	FY21E	FY22E	FY23E
	4.2	0.5	0.6

KEY STOCK DATA	
Bloomberg code	DLFU IN
No. of Shares (mn)	2,475
MCap (Rs bn) / ($ mn)	632/8,667
6m avg traded value (Rs mn)	3,230
52 Week high / low	Rs 300/115

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	66.8	82.6	(1.2)
Relative (%)	50.4	61.0	(13.6)

SHAREHOLDING PATTERN (%)	Sep-20	Dec-20
Promoters	74.95	74.95
FIs & Local MFs	1.65	1.66
FPIs	18.33	18.28
Public & Others	5.07	5.11
Pledged Shares	-	-

Source: BSE

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Godrej Properties

Pre-sales momentum strong

Godrej Properties (GPL) reported an operationally robust 3QFY21 with pre-sales volume of 2.4msf (51%/39% YoY/QoQ) and value of Rs 14.9bn (25%/39% YoY/QoQ), on the back of three new launches during the quarter. GPL also added two new projects in Bangalore with sales potential of 4.1msf. With the intent to take a lead in the consolidating sector, the company board passed an enabling resolution to raise Rs 37.5bn. Given the strong brand recognition, robust execution capability and healthy balance sheet, GPL is well-poised to take advantage of the sectoral tailwinds. However, we reiterate REDUCE, as all the positives are fairly priced in. We change our FY21/FY22/FY23 estimates by (43)/14/5 to account for deferment in revenue recognition and leave the target price unchanged at Rs 1,353/sh.

- **Financial highlights:** GPL reported revenue at Rs 1.7bn (-56%/+91% YoY/QoQ), 57% below our estimates, on deferred revenue recognition. Finance cost declined by 9% sequentially to Rs 449mn. Consequently, APAT came in at Rs 146mn (-68%/+105% YoY/QoQ), 74% behind our estimates. We expect strong topline growth over FY21-23 as revenue starts getting recognised from the projects added over the past few years.
- **Strong pre-sales growth led by launches during the quarter:** GPL registered pre-sales at 2.4msf (up 51% YoY), with average realisation at Rs 6,211/sf. Three projects launched during the quarter contributed Rs 8.3bn to the total booking of Rs 14.9bn. Given the strong launch pipeline, management expects sales momentum to continue in 4QFY21. GPL continues to augment its business development portfolio as it added two new projects in Bangalore with outright land purchase during the quarter.
- **Healthy balance sheet to support growth:** Consolidated net debt increased to Rs 30.8bn (vs Rs 27.3bn on Sep-20). With Rs 13bn of cash, net D/E increased to 0.64x (0.57x on Sec-20). We believe comfortably levered balance sheet allows GPL to expand aggressively. In that direction, the company board passed an enabling resolution to raise capital of Rs 37.5bn to fund possible opportunities presented by the consolidating sector.

Estimate Change Summary

Consolidated (Rs mn)	FY21E			FY22E			FY23E		
	New	Old	% Chg.	New	Old	% Chg.	New	Old	% Chg.
Revenues	9,204	13,097	*(30)*	15,222	13,440	*13*	19,627	19,627	*0*
EBITDA	(1,277)	762	*(268)*	1,665	1,492	*12*	6,195	6,041	*3*
EBITDA margin (%)	(13.9)	5.8	*(1,970)*	10.9	11.1	*(16)*	31.6	30.8	*78*
APAT	917	1569	*(42)*	3,497	3,059	*14*	7,922	7,523	*5*
AEPS (Rs/sh.)	3.6	6.2	*(42)*	13.9	12.1	*14*	31.4	29.8	*5*

Consolidated Financial Summary

YE March (Rs mn)	3QFY21	3QFY20	*YoY (%)*	2QFY21	*QoQ (%)*	FY20	FY21E	FY22E	FY23E
Net Sales	1,705	3,828	*(55)*	895	*90*	24,414	9,204	15,222	19,627
EBITDA	(543)	423	*NA*	(714)	*NA*	3,454	(1,277)	1,665	6,195
APAT	146	455	*(68)*	71	*105*	2,672	917	3,497	7,922
EPS (Rs)	0.6	1.8	*(0.3)*	0.3	*0.4*	10.6	3.6	13.9	31.4
P/E (x)						126.5	368.8	96.7	42.7
EV/EBITDA (x)						101.2	(286.3)	224.1	60.6
RoE (%)						7.3	1.9	6.9	14.0

Source: Company, HSIE Research

REDUCE

CMP *(as on 4 Feb 2021)*	Rs 1,340
Target Price	Rs 1,353
NIFTY	14,896

KEY CHANGES		OLD	NEW
Rating		REDUCE	REDUCE
Price Target		Rs 1,353	Rs 1,353
EPS cha. (%)	FY21	FY22	FY23
	(42.6)	14.3	5.3

KEY STOCK DATA	
Bloomberg code	GPL IN
No. of Shares (mn)	252
MCap (Rs bn) / ($ mn)	338/4,631
6m avg traded value (Rs mn)	1,480
52 Week high / low	Rs 1,528/505

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	37.0	43.9	22.0
Relative (%)	12.4	9.6	(2.1)

SHAREHOLDING PATTERN (%)	Sep-20	Dec-20
Promoters	64.44	64.44
FIs & Local MFs	4.25	4.40
FPIs	19.81	20.21
Public & Others	11.50	10.95
Pledged Shares	-	-

Source : BSE

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Oberoi Realty

Blockbuster quarter

ORL surprised positively as revenue jumped to 1.5x/2.6x YoY/QoQ. Booking value also jumped to Rs 9.7bn during the quarter (vs 3.3bn in 3QFY20). We expect the momentum to continue for ORL, given the stamp duty cut, low-interest rate, strong brand recognition and market consolidation. Residential launches remain on track to hit market from 4QFY21 in Borivali, Goregaon and Thane. Platform deal for commercial assets is off-the table for the time being.

- **3QFY21 Financial Highlights**: Revenue: Rs 8.3bn (+57% YoY, 162% QoQ, 60% beat); While real estate segment contributed Rs 8.2bn (+67% YoY, 164% QoQ), revenue from hospitality segment came in at Rs 113mn (-71%/+72% YoY/QoQ). EBITDA: Rs 3.8bn (+66% YoY, 105% QoQ, 69% beat). EBITDA margins: 46.2% (vs 43.6% YoY/ 59% QoQ). APAT: Rs 2.9bn (+93% YoY, +108% QoQ, 104% beat).
- **3QFY21 Operational Highlights**: Pre-sales (including Three Sixty West): Volume 0.51msf (0.11msf in 2QFY21); Value Rs 9.7bn (Rs 3.3bn in 2QFY21). ORL achieved lifetime high pre-sales considering despite having no launches and sold 231 units in the quarter, compared to 42/5 units in 2Q/1Q FY21. Oberoi mall is seeing gradual recovery with consumption varying from 70-125% from tenant to tenant.
- **Rental assets**: Platform deal for rental assets is off the table for time being as ORL is confident of its execution & fund raising capabilities without BS bloating to build out rental assets, and finds ~15% asking IRR by investors in current market unreasonable. Major assets like Commerz-3, Sky City Mall and Worli Mall are slated for completion by FY24, with FY24 exit rental guidance maintained at Rs ~14bn.
- **Balance sheet position comfortable**: Consolidated gross debt stood at Rs 17.2bn (vs Rs 16.7bn on Sep-20 end) and net debt stood at Rs 15bn (vs Rs 13.6bn on Sep-20 end) with net D/E at 0.17x (vs 0.15x on 2QFY21 end), which is comfortable in our view. With the sequential improvement in collections to Rs 2.4bn (vs Rs 1.8/0.8bn in 2QFY21/1QFY21), ORL generated positive CFO of Rs 1.9bn.

Quarterly/Annual Financial summary

(Rs mn)	3QFY21	3QFY20	*YoY*	2QFY21	*QoQ*	FY20	FY21E	FY22E	FY23E
Net Sales	8,284	5,274	*57.1*	3,161	*162.1*	22,376	19,395	21,737	25,533
EBITDA	3,825	2,299	*66.3*	1,865	*105.1*	10,480	9,568	9,814	11,587
APAT	2,867	1,482	*93.4*	1,377	*108.1*	6,893	10,386	8,110	9,839
Diluted EPS (Rs)	7.9	4.4	*93.4*	3.8	*108.1*	19.0	28.6	22.3	27.1
P/E (x)						29.2	19.4	24.8	20.4
EV / EBITDA (x)						20.5	21.7	21.3	17.8
RoE (%)						8.3	11.5	8.3	9.2

Source: Company, HSIE Research, Consolidated financials

Estimate change summary

Consolidated Rs Mn	FY21E			FY22E			FY23E		
	Old	Revised	*% Chg*	Old	Revised	*% Chg*	Old	Revised	*% Chg*
Net Sales	16,184	19,395	*19.8*	21,737	21,737	-	25,533	25,533	-
EBITDA	7,683	9,568	*24.5*	9,814	9,814	-	11,587	11,587	-
EBIDTA Margin (%)	47.5	49.3	*186.1*	45.1	45.1	-	45.4	45.4	-
Adj PAT	8,507	10,386	*22.1*	8,110	8,110	-	9,839	9,839	-
AEPS (Rs)	23.4	28.6	*22.1*	22.3	22.3	-	27.1	27.1	-

Source: Company, HSIE Research

BUY

CMP *(as on 25 Jan 2021)*	Rs 551
Target Price	Rs 697
NIFTY	14,239

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 697	Rs 697
EPS %	FY21E	FY22E
	22.1	-

KEY STOCK DATA

Bloomberg code	ORL IN
No. of Shares (mn)	364
MCap (Rs bn) / ($ mn)	200/2,745
6m avg traded value (Rs mn)	272
52 Week high / low	Rs 635/290

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	20.5	41.5	(2.5)
Relative (%)	1.6	14.7	(18.7)

SHAREHOLDING PATTERN (%)

	Sep-20	Dec-20
Promoters	67.70	67.70
FIs & Local MFs	4.48	4.44
FPIs	25.40	25.61
Public & Others	2.42	2.25
Pledged Shares	-	

Source : BSE

Pledged shares as % of total shares

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Phoenix Mills

All-round recovery

Phoenix Mills (PHNX) reported strong recovery as revenue came in 7% ahead of our estimate and surprised positively on EBITDA margin for the quarter (47% vs 40% est.). Consequently, PAT came in at Rs 654mn, against our estimated loss of Rs 60mn (aided buy Rs 249mn of MAT credit reinstatement). Consumption recovered to 67% of 3QFY20 level during 3QFY21 on the back of festive season and further improved to 83% in Jan-21. Revenue from commercial was at 94% of 3QFY20. Residential segment also posted strong recovery with sales of Rs 556mn. Hospitality busines has started breaking even from 3QFY21. Despite the near term challenges, we expect PHNX FY22E rental to be at par with FY20E as discount unwinds to pre-COVID contract rentals including FY21 escalations. Maintain BUY with unchanged TP of Rs 982/sh.

- **3QFY21 consumption recovers to 67% of 3QFY20 :** PHNX registered QoQ growth of 57% in revenue as consumption reached 67% of pre-COVID level. Revenue from retail segment reached 69% of 3QFY20 as ~70% of the stores have crossed threshold in December for MG rent to kick in. Management expects rent to normalise from 1QFY22E. Hospitality revenue grew by 26% QoQ. EBITDA came in at Rs 1.6bn, 24% ahead of our estimate on better-than-expected margin (47% vs 40% est.). Finance cost reduced sequentially from Rs 945mn to Rs 857mn. Taxes were negative at Rs 249mn on reinstatement of MAT credit in some of the subsidiaries. Consequentaly, PAT came in at Rs 654mn, decline of 29% YoY (vs est. loss of Rs 60mn).
- **Balance sheet remains stable with strong liquidity:** Consolidated gross debt reduced to Rs 44bn (PML net debt share - Rs 27bn) from Rs 46.4bn in Sep 20-end. The average cost of borrowing further reduced by 42bps to 8.46% in 3QFY21 and is likely to decrease further by FY21-end. Debt to remain at similar level in FY22, as management is not looking draw-down debt for Capex at under-construction assets. PHNX generated positive operating cash flow of Rs 1bn during the quarter. Talks with GIC are progressing well for retail-led mixed-use development platform. The company acquired a land parcel in Kolkata, which would see capital outlay of Rs 8.2bn for Phase-1 development and expects to earns first rental income by FY25E.

Consolidated Quarterly/Annual Financial summary

YE March (Rs mn)	3QFY21	3QFY20	YoY (%)	2QFY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
Net Sales	3,378	5,118	*(34.0)*	2,149	*57.2*	19,411	10,917	18,850	21,841
EBITDA	1,588	2,593	*(38.8)*	917	*73.2*	9,671	5,192	9,628	11,994
APAT	654	919	*(28.8)*	(359)	*(282.2)*	3,347	350	3,021	4,487
Diluted EPS (Rs)	3.8	5.4	*(28.8)*	(2.1)	*(282.2)*	21.9	2.04	17.6	26.1
P/E (x)						37.3	401.3	46.4	31.3
EV / EBITDA (x)						17.3	33.3	18.4	14.6
RoE (%)						8.4	0.4	5.4	7.8

Consolidated Estimate Change Summary

Consolidated (Rs mn)	FY21E			FY22E			FY23E		
	New	Old	% Chg.	New	Old	% Chg.	New	Old	% Chg.
Revenue	10,917	10,917	-	18,850	18,850	-	21,841	21,841	-
EBITDA	5,192	4,880	*6.4*	9,628	9,636	*(0.1)*	11,994	12,003	*(0.1)*
EBITDA margin	47.6	44.7	*286.4*	51.1	51.1	*(4.3)*	54.9	55.0	*(4.1)*
APAT	350	(157)	*(322.6)*	3,021	2,843	*6.3*	4,487	4,301	*4.3*
AEPS (Rs/sh.)	2.0	(0.9)	*(322.6)*	17.6	16.6	*6.3*	26.1	25.0	*4.3*

Source: Company, HSIE Research

BUY

CMP *(as on 12 Feb 2021)*	**Rs 816**
Target Price	**Rs 982**
NIFTY	**15,163**

KEY CHANGES		OLD	NEW
Rating		BUY	BUY
Price Target		Rs 982	Rs 982
EPS %	FY21E	FY22E	FY23E
	NA	6.3	4.3

KEY STOCK DATA	
Bloomberg code	PHNX IN
No. of Shares (mn)	172
MCap (Rs bn) / ($ mn)	140/1,926
6m avg traded value (Rs mn)	369
52 Week high / low	Rs 980/465

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	35.3	36.4	(7.5)
Relative (%)	16.4	2.0	(31.5)

SHAREHOLDING PATTERN (%)	Sep-20	Dec-20
Promoters	45.56	45.53
FIs & Local MFs	15.67	16.78
FPIs	33.91	33.45
Public & Others	4.86	4.24
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Prestige Estates Projects

Capex cycle to gather pace

PEPL reported an operationally strong 3QFY21 with pre-sales of Rs20.2bn (+55% YoY, Prestige share – Rs 15.6bn, +44% YoY). Gross bookings came in at 3mn sq ft (+85% YoY). Collections were also healthy at Rs 14.3bn (+26% YoY, PEPL share Rs 11.3bn, +27% YoY). PEPL expects to maintain similar pre-sales momentum for 4QFY21 in residential segment with further ramp-up in new launches. On financial front, revenue/EBITDA/APAT beat/(miss) estimates by 3/(10)/(23)%. Net debt reduced marginally from Rs 86.7bn on Sep 20-end to Rs 84.6bn. Blackstone deal is in the final stages of closure. PEPL has embarked on a new asset Capex cycle in Bengaluru/Mumbai and, given the launches ramp-up by peers, it may see some saturation setting in on residential segment. We maintain ADD with SOTP-based target price unchanged at Rs 324/sh.

- **3QFY21 financial highlights:** Revenue: Rs 18.5bn (3% beat). EBITDA: Rs 4.5bn (10% miss). Margins came in at 24.2% (vs estimate of 27.7%). Interest cost was Rs 2.4bn (in-line). Depreciation at Rs 1.4bn (vs est. of 1.6bn). Other income was higher at Rs 0.8bn on repeal of land acquisition compensation by the government. The share of loss from associates is at Rs 112mn while Minority Interest is at Rs 291mn. Consequently, RPAT came in at Rs 587mn, 23% miss.
- **3QFY21 operational highlights:** Pre-sales (PG share): Rs 15.8bn (vs Rs 8.4bn QoQ). Collections (PG share): Rs 11.3bn (vs Rs 9.1bn QoQ). Rental Income (PG): Rs 2.1bn (vs Rs 2.2bn). Leased 0.02mn sq ft during 3QFY21. Launches: 3.15mn sq ft (vs 3.95mn sq ft QoQ). PEPL expects sales momentum to continue, given the strong pipeline of new launches.
- **Blackstone deal progressing well:** Net debt stood at Rs 84.6bn (vs Rs 86.7bn QoQ) with net D/E at 1.47x (vs 1.5x QoQ). Average borrowing cost further reduced by 35bps QoQ to 9.3%. With proceeds from Blackstone deal, Prestige will enter in a new Capex cycle. PEPL has 63/37/7 mn sqft residential / commercial / retail projects, which are ongoing / under construction at the end of 3QFY21. While the company intends to be largely debt free in residential business, going forward, debt would be a function of new Capex on office/retail assets.

Financial Summary (Consolidated)

YE March (Rs mn)	3QFY21	3QFY20	YoY (%)	2QFY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
Net Sales	18,476	26,809	*(31.1)*	18,750	*(1.5)*	81,248	69,015	77,392	85,131
EBITDA	4,476	7,188	*(37.7)*	5,351	*(16.4)*	23,560	19,526	22,530	24,516
APAT	587	1,618	*(63.7)*	596	*(1.5)*	3,651	2,090	4,500	5,256
Diluted EPS (Rs)	1.5	4.3	*(66.1)*	1.6	*(7.9)*	9.1	5.2	11.2	13.1
P/E (x)						31.5	55.0	25.6	21.9
EV / EBITDA (x)						8.1	10.1	8.8	7.9
RoE (%)						14.4	8.8	10.5	10.7

Estimate Change Summary (Consolidated)

Consolidated (Rs mn)	FY21E			FY22E			FY22E		
	New	Old	% Chg.	New	Old	% Chg.	New	Old	% Chg.
Revenues	69,015	66,664	*3.5*	77,392	77,869	*(0.6)*	85,131	85,656	*(0.6)*
EBITDA	19,526	20,062	*(2.7)*	22,530	22,949	*(1.8)*	24,516	24,976	*(1.8)*
Margins (%)	28.3	30.1	(180)	29.1	29.5	(36)	28.8	29.2	(36)
APAT	2,090	2,121	*(1.4)*	4,500	4,466	*0.8*	5,256	5,202	*1.0*
AEPS (Rs/sh.)	5.2	5.3	(1.4)	11.2	11.1	0.8	13.1	13.0	1.0

Source: Company, HSIE Research

ADD

CMP *(as on 12 Feb 2021)*	Rs 286
Target Price	Rs 324
NIFTY	15,163

KEY CHANGES		OLD	NEW
Rating		ADD	ADD
Price Target		Rs 324	Rs 324
EPS Change %	FY21E	FY22E	FY23E
	(1.4)	*0.8*	*1.0*

KEY STOCK DATA	
Bloomberg code	PEPL IN
No. of Shares (mn)	401
MCap (Rs bn) / ($ mn)	115/1,577
6m avg traded value (Rs mn)	170
52 Week high / low	Rs 381/134

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	9.7	23.6	(23.1)
Relative (%)	(9.2)	(10.8)	(47.1)

SHAREHOLDING PATTERN (%)	Sep-20	Dec-20
Promoters	65.48	65.48
FIs & Local MFs	2.91	2.42
FPIs	29.66	29.45
Public & Others	1.95	2.65
Pledged Shares	-	-

Source : BSE

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Brigade Enterprises

Robust turnaround

BRGD reported operationally a robust quarter as residential pre-sales grew to 1.53msf (+41%/+55% YoY/QoQ). Sales value jumped to Rs 9.2bn (+53%/+60% YoY/QoQ), as realisation grew by +8%/+3.5% YoY/QoQ. Collection from the resi. sales also increased by 29% sequentially to Rs 5.1bn. While leasing activity remained tepid, rental collection from existing portfolio continued to be healthy at 99% in 3QFY21. While mall consumption reached 65% of pre-COVID level, hospitality business surpassed the break-even mark during the quarter. Consolidated net debt decreased marginally to Rs 29.5bn (BRGD's share) from Rs 29.5bn on Sep-20. Despite the mid-term challenges in hospitality and retail business, maintain ADD with an unchanged TP of Rs 288, given the strong momentum in residential business. We have tweaked our est. marginally. Pick-up in commercial leasing would lead to further re-rating.

- **Revenue misses estimates:** Revenue for the quarter came in at Rs 6.5bn (+17%/+107% YoY/QoQ), 6% below our estimates. EBITDA declined by 5% YoY as margin contracted by 514bps. Adjusting for the exception item (write-off of Rs 400mn investment in Laxmi Vilas Bank), APAT came in at Rs 239mn, 52% decline YoY and inline with our estimate. With improving labour availability, increasing occupancy in hotels and rising footfalls at malls, we expect revenue to recover from next fiscal.
- **Residential sales at record high; leasing pick-up awaited:** BRGD registered record pre-sales of 1.53msf on good response to a newly-launched project in Hyderabad (0.45msf). However, Brigade continues to face headwinds in the commercial business as new leasing remained tepid at 0.12msf in 3QFY21. Basis management commentary, BRGD has ~1msf leasing pipeline but closures are getting delayed due to prevailing market condition.
- **Balance sheet remains stable:** Consolidated net debt decreased marginally to Rs 38.1bn (vs Rs 38.3bn on Sep-20), of which Rs 21.4bn is LRD/GOP securitised debt. With Rs 4.8bn of cash, net D/E stood at 1.27x. Total collections improved to Rs 6.8bn during the quarter from Rs 5.4bn in 2QFY21 as collections from residential segment increased to Rs 5.2bn (vs Rs 4bn in 2QFY21). BRGD generated positive OCF of Rs 2.5bn during 3QFY21.

Consolidated Quarterly/Annual Financial summary

YE March (Rs mn)	3QFY21	3QFY20	YoY (%)	2QFY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
Net Sales	6,446	5,523	*16.7*	3,108	*107.4*	26,322	19,813	29,842	33,433
EBITDA	1,484	1,556	*(4.6)*	874	*69.9*	6,633	4,795	8,762	10,602
APAT	239	493	*(51.6)*	(171)	*NA)*	1,511	(108)	1,839	2,878
Diluted EPS (Rs)	1.2	2.4	*(51.6)*	(0.8)	*NA*	6	(1)	9	14
P/E (x)						42	(511)	30	19
EV / EBITDA (x)						14	21	12	10
RoE (%)						6	(1)	8	12

Estimate change summary

Consolidated Rs mn	FY21E			FY22E			FY23E		
	New	Old	Chg. %	New	Old	Chg. %	New	Old	Chg. %
Revenues	19,813	20,769	(4.6)	29,842	29,842	-	33,433	33,433	-
EBIDTA	4,795	4,990	(3.9)	8,762	8,855	(1.0)	10,602	10,645	(0.4)
Margins (%)	24.2	24.0	17	29.4	29.7	(31)	31.7	31.8	(13)
APAT	(108)	(120)	NA	1,839	1,841	(0.1)	2,878	2,789	3.2
Adj. EPS (Rs)	(0.5)	(0.6)	NA	9.0	9.0	(0.1)	14.1	13.6	3.2

Source: Company, HSIE Research

ADD

CMP *(as on 5 Feb'21)*	Rs 270
Target Price	Rs 288
NIFTY	14,924

KEY CHANGES		OLD	NEW
Rating		ADD	ADD
Price Target		Rs 288	Rs 288
EPS %	FY21E	FY22E	FY23E
	NA	-0.1	3.2

KEY STOCK DATA	
Bloomberg code	BRGD IN
No. of Shares (mn)	208
MCap (Rs bn) / ($ mn)	56/773
6m avg traded value (Rs mn)	64
52 Week high / low	Rs 281/91

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	32.8	95.8	16.5
Relative (%)	10.1	61.1	(6.8)

SHAREHOLDING PATTERN (%)	Sep-20	Dec-20
Promoters	47.33	47.79
FIs & Local MFs	20.55	20.89
FPIs	11.36	11.68
Public & Others	20.76	19.64
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Sobha

Launches key trigger

Sobha Ltd. (SDL) reported an operationally robust 3QFY21 with pre-sales volume of 1.13msf (+7%/+27% YoY/QoQ). Pre-sales value grew by 22% YoY to Rs 8.9bn. Real estate collections have also improved to Rs 6.6bn (vs Rs 5bn in 2QFY21). With 14.4 msf of new launch pipeline, management expects further momentum in sales as largely the current pre-sales is driven by older projects under execution. We maintain BUY on SDL as we expect the strong momentum in pre-sales to continue. We leave the TP unchanged at Rs 600/sh and cut FY21 EPS by 49%, owing to lagged completions and slow contract business execution.

- **Revenue misses estimates:** Sobha reported revenue at Rs 6.8bn (-23%/+31% YoY/QoQ), 6% below our estimates, on slower-than-expected recovery in real estate/contracts segment execution. EBITDA margin came in at 20% (-117bps YoY, -224bps QoQ). While interest cost remained flattish sequentially, other income declined by 34%/50% YoY/QoQ. Consequently, APAT declined 71% YoY and 59% behind our estimates.
- **Launch pipeline robust:** SDL registered pre-sales at 1.13msf (up 7% YoY), with average realisation at Rs 7,830/sqft. Bookings were dominated by Bengaluru (70% of the sales) market, which nearly recovered to pre-COVID level. The total unsold inventory from ongoing projects stood at 14.3msf at the end of the quarter. SDL is looking to launch 14msf of new projects across geographies, of which 10mn sq ft would be launched by 1HFY22. We believe new project launches would support recovery in pre-sales.
- **Balance sheet remains stable:** Consolidated net debt reduced marginally to Rs 29.7bn (vs Rs 30.5bn on Sep-20). With Rs 1.6bn of cash, net D/E decreased to 1.23x (1.28x on Sep-20). We expect debt to remain at a similar level. Total collections, including from contracts segment, have improved from Rs 6.9bn in 2QFY21 to Rs 8.7bn during the quarter. SDL generated net operating cash flow of Rs 1.8bn in 3QFY21.

Consolidated Financial Summary

YE Mar (Rs mn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
Net Sales	6,844	8,832	*(22.5)*	5,220	*31.1*	37,539	23,278	37,452	43,070
EBITDA	1,259	1,984	*(36.5)*	1,036	*21.5*	7,593	4,750	8,240	9,475
APAT	216	732	*(70.5)*	162	*33.3*	2,815	809	3,314	4,185
Diluted EPS (Rs)	2.3	7.7	*(70.5)*	1.7	*33.3*	29.7	8.5	34.9	44.1
P/E (x)						15.0	52.3	12.8	10.1
EV / EBITDA (x)						9.6	14.1	8.7	7.6
RoE (%)						12.1	3.3	12.7	14.2

Estimate change summary

Consolidated (Rs mn)	FY21E			FY22E			FY23E		
	New	Old	*% Chg.*	New	Old	*% Chg.*	New	Old	*% Chg.*
Revenues	23,278	25,507	*(8.7)*	37,452	37,452	-	43,070	43,070	-
EBITDA	4,750	5,841	*(18.7)*	8,240	8,240	-	9,475	9,475	-
Margins (%)	20.4	22.9	(250)	22.0	22.0	-	22.0	22.0	-
APAT	809	1,573	*(48.6)*	3,314	3,314	-	4,185	4,185	-
AEPS (Rs/sh.)	8.5	16.6	(48.6)	34.9	34.9	-	44.1	44.1	-

Source: Company, HSIE Research

BUY

CMP *(as on 15 Feb 2021)*	**Rs 446**
Target Price	**Rs 600**
NIFTY	**15,315**

KEY CHANGES		**OLD**	**NEW**
Rating		BUY	BUY
Price Target		Rs 600	Rs 600
EPS cha. (%)	FY21	FY22	FY23
	(48.6)	-	-

KEY STOCK DATA	
Bloomberg code	SOBHA IN
No. of Shares (mn)	95
MCap (Rs bn) / ($ mn)	42/582
6m avg traded value (Rs mn)	162
52 Week high / low	Rs 496/118

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	49.1	94.8	16.8
Relative (%)	29.6	57.1	(9.6)

SHAREHOLDING PATTERN (%)	**Sep-20**	**Dec-20**
Promoters	51.99	51.99
FIs & Local MFs	11.42	13.30
FPIs	17.16	15.97
Public & Others	19.43	18.74
Pledged Shares	10.54	10.54

Source : BSE

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