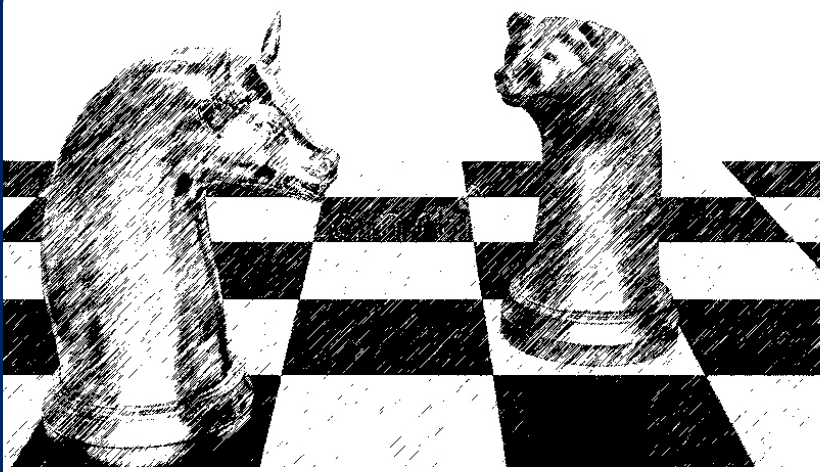
YES SECURITIES
INSTITUTIONAL EQUITIES

INDIA STRATEGY



# Sense & Sentiment...

# Q3 FY21

## Earnings Review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February 15, 2021

Q3 FY 21 Earnings Review

YES SECURITIES
INSTITUTIONAL EQUITIES

# India Strategy

## NSE 200 Companies

- ✓ PBT growth of NSE200 stood at 53% y/y and excluding Financials and Telecom at 41%. Revenue de-growth (ex-finance) at 0.4% – significantly better than the preceding quarters of FY21, thanks to strong volume recovery in both urban and rural markets on sequential basis, accompanied with sustained price hikes.
- ✓ Higher realization on sales, effective cost management and improving economies of scale resulted into EBITDA (ex-finance) growth of 26.5% growth y/y
- ✓ Consensus FY22 Nifty50 EPS witness further upgrades, this comes after a healthy upside revision during Q2 earnings results. Sequential earnings upgrade has been quite rare, the first time since Q2 FY15.
- ✓ Steel stocks, CV players and select PSU banks see major EPS upgrades for FY22. Consumer facing companies like Aviation, Hotels and Retail get an EPS downgrade
- ✓ Interest coverage ratio for NSE200, improved to 4.7x, depicting the most favorable situation for enterprises in last 12 quarters

## Y-Sec Coverage Universe (ex-Financials)

Sales grew by 6.2% y/y, matching our estimate of 6.3% y/y, while EBITDA improvement of 248bps was much better than our expectation of 184bps. This translated into a PAT growth of 39%y/y growth, exceeding our estimate of 29% y/y. PAT Including financial grew at 19.3%y/y, when compared with our estimate of 16.1%.

### Exhibit 1: Q3 FY21 NSE 200 Earnings snapshot

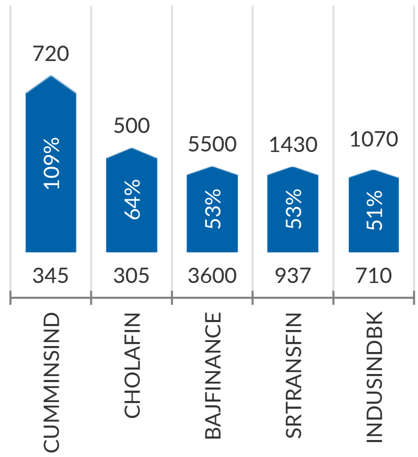
| NSE 200 (INR bn) | Q3 FY21 | YoY % | QoQ % |
|---|---|---|---|
| Revenues (ex-Financials) | 12,269 | (0.4) | 15.1 |
| EBITDA (ex-Financials) | 2,468 | 26.5 | 16.8 |
| PBT (ex-Financials & Telecom) | 1,710 | 40.7 | 32.5 |
| Total PBT | 2,346 | 52.9 | 21.0 |
| **PBT – Sector wise** | | | |
| Agro Chemicals | 20.6 | 11.8 | (2.1) |
| Auto / Auto Ancillaries | 156.1 | 60.5 | 124.9 |
| Bank | 371.7 | 458.2 | 2.9 |
| Building Material | 364.9 | 172.1 | 63.8 |
| Cap Goods | 53.2 | 31.0 | 571.9 |
| Chemicals | 5.4 | 1.5 | 19.2 |
| Commodities | 4.5 | (23.0) | (19.5) |
| Consumer Durables | 2.5 | 17.1 | (12.1) |
| Consumer Food | 70.0 | 2.9 | 10.8 |
| Consumer Retail | 8.8 | (45.2) | LP |
| Consumer Staples | 46.0 | 20.8 | 3.6 |
| Energy | 306.6 | 31.3 | (5.3) |
| Entertainment | 10.4 | (19.8) | 193.3 |
| Healthcare | 138.4 | 95.5 | 26.7 |
| Infrastructure | (2.3) | PL | LL |
| IT Services | 315.1 | 16.8 | 13.4 |
| Logistics | 16.9 | (35.0) | 101.3 |
| Miscellaneous | 31.0 | 114.1 | 68.9 |
| NBFC | 262.7 | 4.5 | 4.4 |
| New Age / E-Comm | 157.8 | 3.9 | 43.8 |
| Non-Lending Financials | 42.3 | 170.6 | 42.0 |
| Telecom Services | (41.5) | LL | PL |
| Textiles | 4.4 | 70.9 | 2.5 |

Source: YES Sec - Research, Note: PL - profit to loss, LP – loss to profit, LL – loss to loss Note: Assessment based on results of 190 companies (out of NSE 200). Note : PBT includes exceptional gains & losses

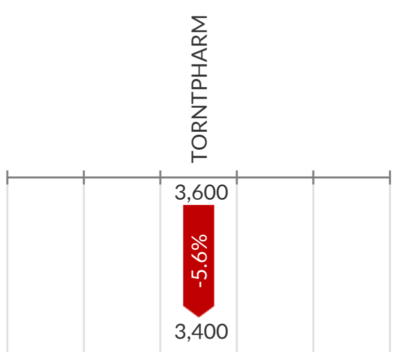
### Best Result BUYs

| Sector | Stock |
|---|---|
| AMC | Nippon India AMC, CAMS |
| Building Materials | Birla Corp, Greenpanel, Greenlam, Century |
| Capital Goods | L&T |
| Discretionary | Page Ind, Jubilant Food, Asian Paints |
| Electricals | Crompton, Dixon Tech, Polycab |
| Infrastructure | PNC, KNR |
| Life Insurance | SBI Life |
| Logistics | TCI Express |
| Staples | Emami, Dabur, Marico |
| Financials | HDFC Bank, ICICI Bank, SBI, IndusInd Bank, AU SFB and Shriram Transport |
| Pharma | Torrent Pharma, Ajanta Pharma |

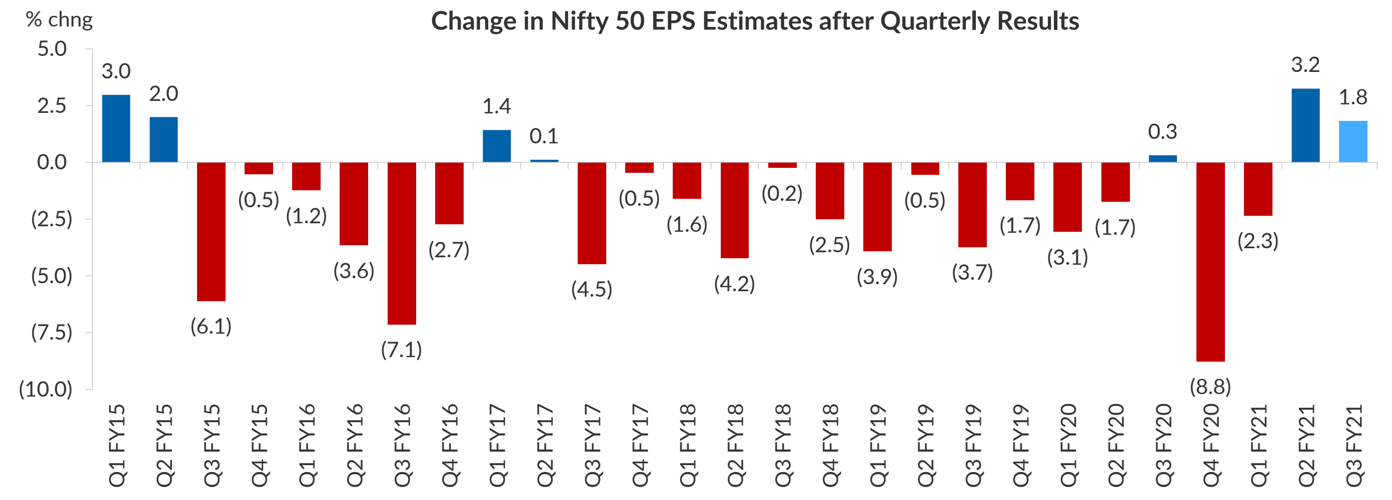
### Target Upgrades




### Target Downgrade

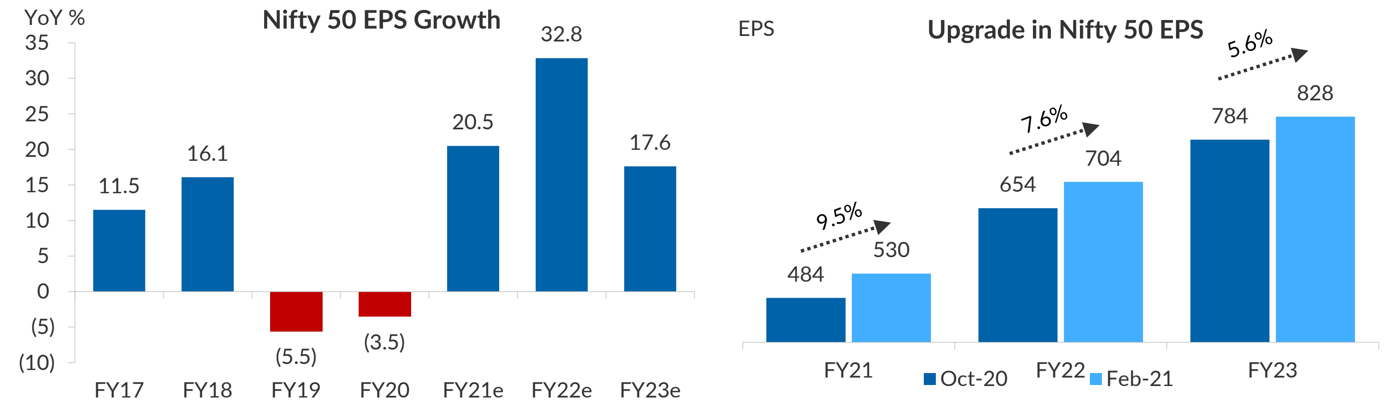


## Exhibit 2: Upgrade in Earnings outlook for next FY continues for the second consecutive earnings season…



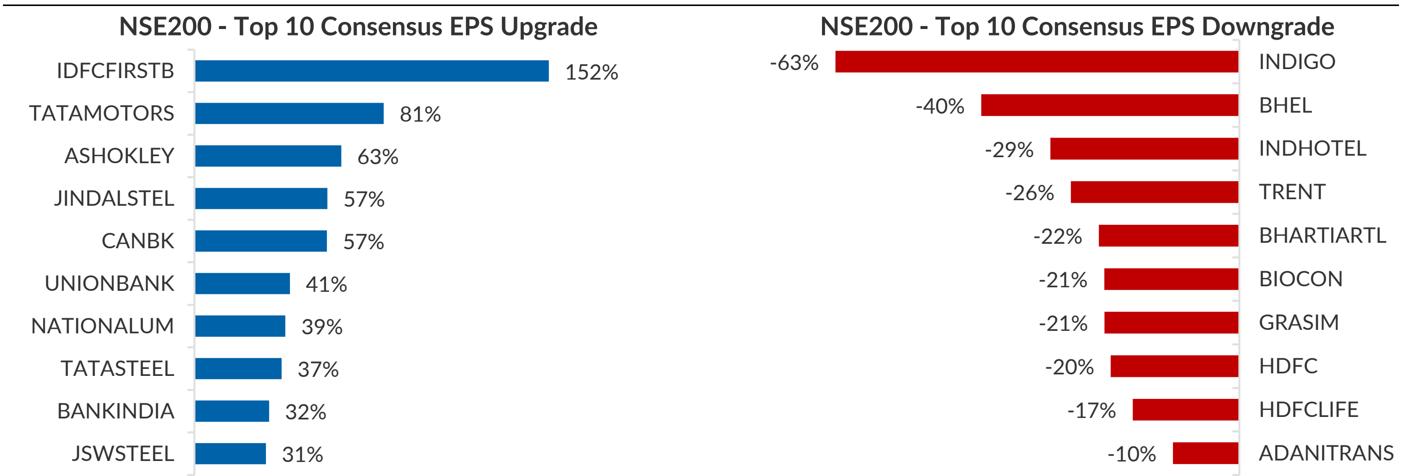

Source: Bloomberg, YES Sec – Research

## Exhibit 3: …upgrade not confined to FY22, higher earnings seen for FY23 as well




Source: Bloomberg, YES Sec – Research

## Exhibit 4: Steel stocks, CV players and select PSU Banks witness upgrades, while consumer facing stocks like Aviation, Hotels and Retail see downgrades




Source: Bloomberg, YES Sec – Research

**Read our January 2021 report**

## INDIAN EQUITIES IN 2021 & BEYOND...

INDIA STRATEGY

Sense & Sentiment

Indian Equities in 2021 & beyond...

AMAR AMBANI — HITESH JAIN — HEMANT NAHATA

January 03, 2021

Indian Equities in 2021 & beyond...

**Indian stock market journey to continue unabated**

Indian Economy has fared much better than feared, given the magnitude of the pandemic induced dislocation on both, the supply and demand. Mobility has improved across the board, ditto for movement of Goods. Manufacturing and industrial activity on a V-shaped trajectory, while Service activity is also back in expansion mode after a prolonged period of weakness. Consequentially, India Economic Growth projections witnesses substantial upgrades, with RBI and economists scaling down on its earlier pessimistic GDP projection for FY21. On corporate earnings, we reckon strong expansion is due, as history reckons that an era of strong reforms generally precedes sharp rebound in corporate profitability. Liberalisation measures during early 1990s and reforms on infrastructure during Atal Bihari Vajpayee regime (1999-2003) is a classic example in this respect. Pertinently, reforms undertaken by the Modi regime over the past few years are poised to reap rich dividends soon.

Global monetary easing this year has been at an unprecedented scale and expected to continue in 2021. As a result, EMs will hay from ultracheap interest rate induced weak USD, while P/E multiples will remain on the expansion mode. From Indian perspective, Balance Sheets of listed enterprises have remained resilient to the devastating impact of the pandemic, while cost of the capital has never been so conducive for business expansion. It is also heartening to see several troubled sectors out of the woods. This along with pro-growth government measures like incentivising manufacturing, labour reforms, lower tax rates and global hunt for a manufacturing alternative to China will certainly make India an epicenter of growth for years to come.

**Themes at Play in 2021**

- ✓ Dollar Exceptionalism has ended
- ✓ Bullish Industrial Commodities, thanks to China
- ✓ Benign Oil for foreseeable time, comfortable supply, prolonged demand dislocation
- ✓ RBI and Government more tilted towards fiscal situation & growth; Inflation focus secondary
- ✓ ATMANIRBHAR: Manufacturing focus, Cannibalization of Imports
- ✓ Indian Pharma to remain resilient to vagaries of US politics
- ✓ Bank Credit: Risk shifting from Banks to Government

**Indian Equities beyond 2021**

Market Cycles suggest that a mega rally may be in the offing for Indian equities from 2021. Importantly, a host of factors lend credible support to the market cycle. Concrete signals of ensuing Economic recovery and Earnings growth, coupled with abundance of liquidity makes us believe that 2021 could well be akin to the year 2003, from a market standpoint. In our reckoning, the best for the market lies ahead.

**Stocks we like:** ICICI Bank, HDFC Bank, Bajaj Auto, ITC, Ajanta Pharma, Birla Corp, CAMS, CCL Products, KNR Cons and Credit Access Grameen.

For important information about YES Securities (India) Ltd. and other disclosures, refer to the end of this material.

1

**What we said:**

### Indian stock market journey to continue unabated

- ✓ Economy catches up better than widely anticipated...
- ✓ ...And, so have corporate earnings
- ✓ Vaccine is almost here... hopefully
- ✓ Liquidity infusion to continue by central bankers
- ✓ INDIA Inc. B/S fortifies despite the pandemic
- ✓ TINA factor a perennial catalyst for Equities

### Themes at Play in 2021

- ✓ Dollar Exceptionalism has ended
- ✓ Bullish Industrial Commodities, thanks to China
- ✓ Benign Oil for foreseeable time, comfortable supply, prolonged demand dislocation
- ✓ RBI and Government more tilted towards fiscal situation & growth; Inflation focus secondary
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- ✓ Indian Pharma to remain resilient to vagaries of US politics
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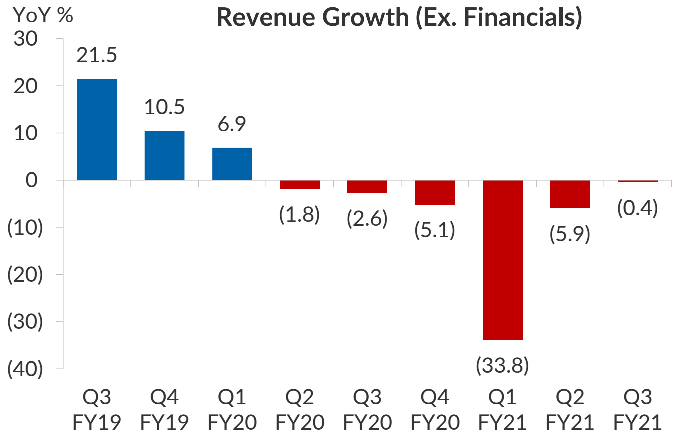
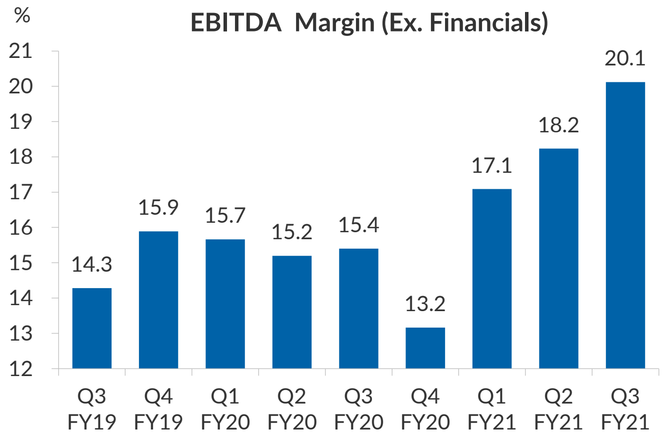
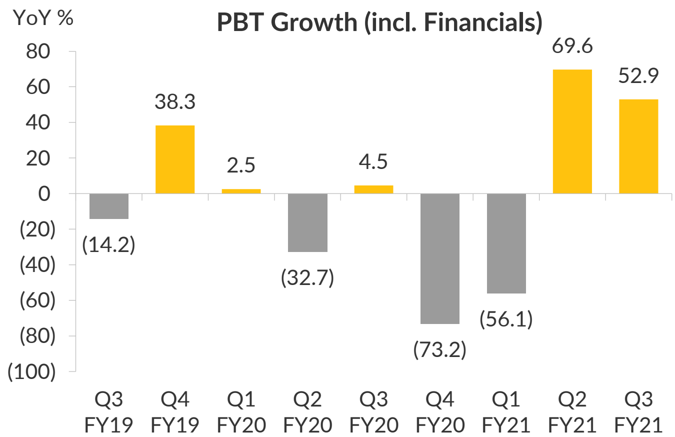
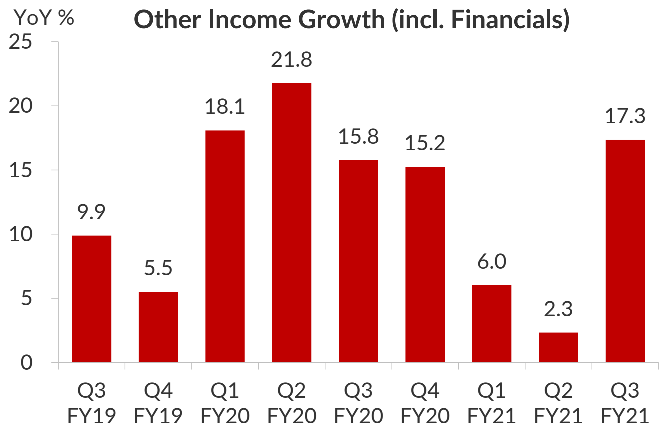
**Stocks we like:** ICICI Bank, HDFC Bank, Bajaj Auto, ITC, Ajanta Pharma, Birla Corp, CAMS, CCL Products, KNR Cons and Credit Access Grameen

**Exhibit 5: Though Revenue remained flat for NSE 200 companies, stellar rise in EBITDA is quite a story to tell, rising on the back of higher realization on sales and cost optimization**



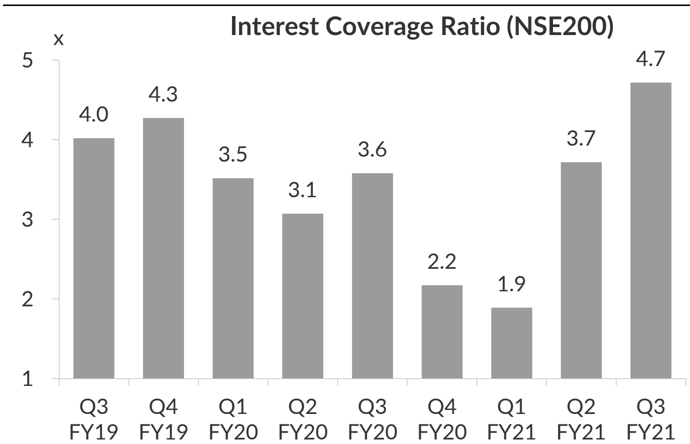



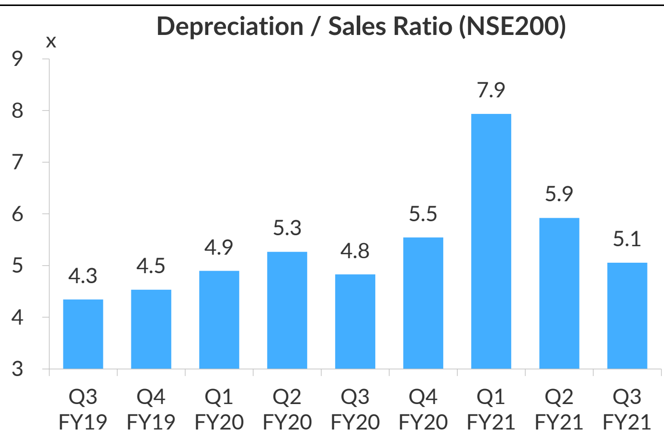




Source: Bloomberg, YES Sec – Research Note: Assesment based on results of 190 companies (out of NSE 200)

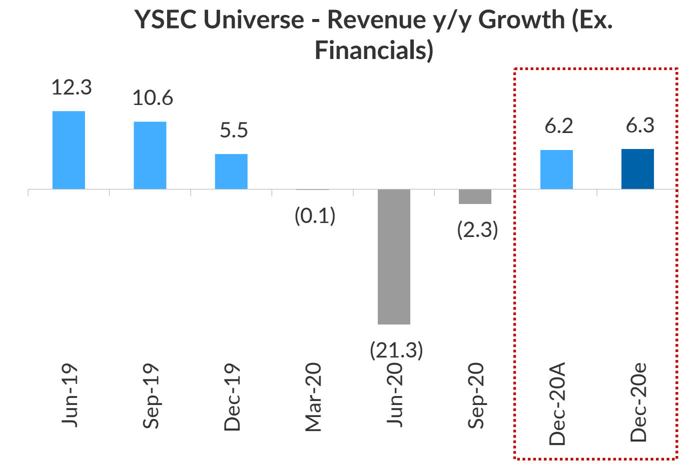
**Exhibit 6: Significant improvement in profits places India Inc in a much comfortable position to service debt, while utilisation of assets returns to pre-COVID levels**

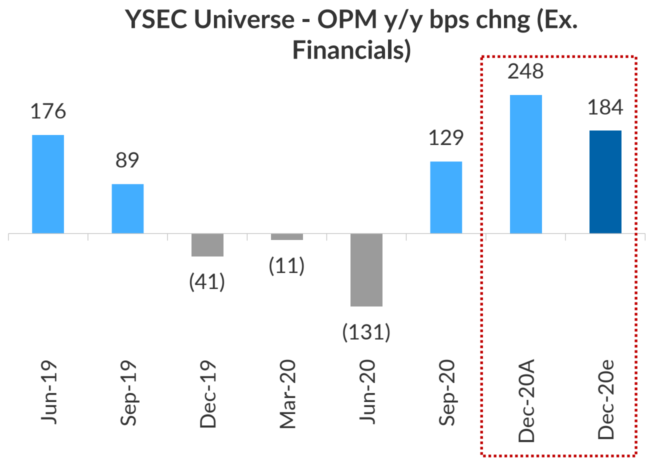


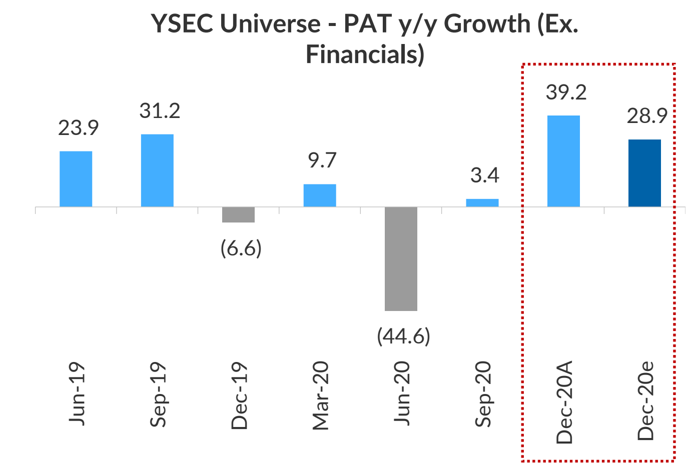



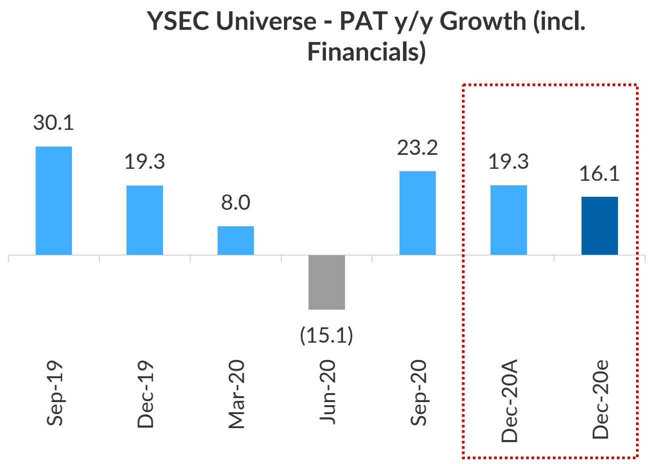

Source: Bloomberg, YES Sec – Research Note: Data excludes Banks & Financials

**Exhibit 7: Like NSE 200, earnings Performance of YSEC coverage has handsomely surpassed our estimates**




Source: Bloomberg, YES Sec – Research

### Exhibit 8: YES Sec Coverage Universe – Estimates v/s Actuals…

| | Revenue/ NII | | | EBITDA/PPOP | | | Reported PAT | | |
|---|---|---|---|---|---|---|---|---|---|
| INR mn | Estimates | Actuals | Deviation (%) | Estimates | Actuals | Deviation (%) | Estimates | Actuals | Deviation (%) |
| **Cement and Building materials** | | | | | | | | | |
| INDIACEM | 12,458 | 11,847 | -4.9% | 2,214 | 2,230 | 0.7% | 616 | 694 | 12.6% |
| ACC | 44,342 | 41,447 | -6.5% | 6,978 | 7,008 | 0.4% | 3,795 | 4,724 | 24.5% |
| ULTRACEMCO | 113,698 | 122,541 | 7.8% | 26,108 | 30,943 | 18.5% | 11,500 | 15,846 | 37.8% |
| DALBHARAT | 26,272 | 28,570 | 8.7% | 6,536 | 6,910 | 5.7% | 2,141 | 1,830 | -14.5% |
| BIRLACORPN | 17,665 | 17,766 | 0.6% | 3,555 | 3,624 | 1.9% | 1,527 | 1,484 | -2.8% |
| SANGHIIND | 2,326 | 2,905 | 24.9% | 487 | 727 | 49.3% | 166 | 420 | 153.2% |
| SAGCEM | 3,612 | 3,637 | 0.7% | 961 | 1,044 | 8.6% | 428 | 496 | 15.9% |
| STARCEMENT | 4,913 | 4,234 | -13.8% | 1,014 | 840 | -17.2% | 818 | 583 | -28.7% |
| GREENLAM | 3,322 | 3,346 | 0.7% | 493 | 579 | 17.4% | 242 | 320 | 32.1% |
| CENTURYPLY | 5,956 | 6,601 | 10.8% | 923 | 1,237 | 34.0% | 552 | 658 | 19.2% |
| GREENPANEL | 2,589 | 3,169 | 22.4% | 445 | 684 | 53.7% | 110 | 305 | 176.8% |
| GREENPLY | 3,149 | 3,404 | 8.1% | 362 | 417 | 15.3% | 209 | 250 | 19.6% |
| **AMC** | | | | | | | | | |
| CAMS | 1,817 | 1,860 | 2.4% | 779 | 819 | 5.1% | 539 | 564 | 4.7% |
| HDFCAMC | 4,839 | 4,819 | -0.4% | 3,907 | 3,858 | -1.3% | 3,419 | 3,693 | 8.0% |
| NAM-INDIA | 2,796 | 2,685 | -4.0% | 1,529 | 1,470 | -3.8% | 1,636 | 2,115 | 29.2% |
| UTIAMC | 2,135 | 2,118 | -0.8% | 815 | 555 | -31.9% | 1,249 | 1,402 | 12.3% |
| **General Insurance** | | | | | | | | | |
| ICICIGI | 30,564 | 26,114 | -14.6% | (45) | (1,354) | - | 3,500 | 3,135 | -10.4% |
| **Life Insurance** | | | | | | | | | |
| HDFCLIFE | 51,886 | 50,512 | -2.6% | 20,163 | 21,570 | 7.0% | 5,268 | 5,700 | 8.2% |
| SBILIFE | 53,428 | 54,388 | 1.8% | 28,407 | 35,000 | 23.2% | 5,872 | 7,600 | 29.4% |
| ICICIPRULI | 29,186 | 34,430 | 18.0% | 17,150 | 16,660 | -2.9% | 4,621 | 4,280 | -7.4% |
| MFSL | 15,821 | 17,480 | 10.5% | 11,119 | 12,250 | 10.2% | 3,046 | 3,500 | 14.9% |
| **Financials** | | | | | | | | | |
| HDFCBANK | 164,065 | 163,176 | -0.5% | 148,435 | 151,860 | 2.3% | 80,300 | 87,583 | 9.1% |
| ICICIBANK | 95,986 | 99,125 | 3.3% | 88,631 | 88,198 | -0.5% | 39,098 | 49,396 | 26.3% |
| AXISBANK | 75,957 | 73,728 | -2.9% | 68,020 | 60,955 | -10.4% | 23,596 | 11,166 | -52.7% |
| KOTAKBANK | 40,597 | 40,068 | -1.3% | 31,985 | 30,833 | -3.6% | 17,719 | 18,535 | 4.6% |
| INDUSINDBK | 33,270 | 34,061 | 2.4% | 29,769 | 29,636 | -0.4% | 10,032 | 8,304 | -17.2% |
| RBLBANK | 9,756 | 9,082 | -6.9% | 7,594 | 8,048 | 6.0% | 1,430 | 1,471 | 2.9% |
| SBIN | 285,884 | 288,199 | 0.8% | 181,042 | 173,332 | -4.3% | 53,626 | 51,962 | -3.1% |
| AUBANK | 5,799 | 6,331 | 9.2% | 8,395 | 8,728 | 4.0% | 4,783 | 4,790 | 0.1% |
| EQUITASBNK | 4,784 | 4,839 | 1.1% | 2,242 | 2,750 | 22.6% | 802 | 1,107 | 38.0% |
| UJJIVANSFB | 4,804 | 4,323 | -10.0% | 2,370 | 2,038 | -14.0% | 651 | (2,788) | PL |
| BAJFINANCE | 44,894 | 42,934 | -4.4% | 31,593 | 29,062 | -8.0% | 12,473 | 11,460 | -8.1% |
| CHOLAFIN | 12,947 | 13,644 | 5.4% | 9,075 | 9,956 | 9.7% | 4,130 | 4,089 | -1.0% |

| INR mn | Revenue/ NII Estimates | Revenue/ NII Actuals | Revenue/ NII Deviation (%) | EBITDA/PPOP Estimates | EBITDA/PPOP Actuals | EBITDA/PPOP Deviation (%) | Reported PAT Estimates | Reported PAT Actuals | Reported PAT Deviation (%) |
|---|---|---|---|---|---|---|---|---|---|
| M&MFIN | 14,467 | 13,835 | -4.4% | 10,352 | 10,180 | -1.7% | 3,368 | (2,741) | PL |
| SRTRANSFIN | 20,545 | 22,021 | 7.2% | 15,456 | 16,637 | 7.6% | 6,050 | 7,277 | 20.3% |
| CANFINHOME | 2,104 | 2,135 | 1.5% | 1,821 | 1,791 | -1.6% | 1,287 | 1,319 | 2.5% |
| REPCOHOME | 1,413 | 1,523 | 8% | 1,164 | 1,282 | 10% | 736 | 796 | 8% |
| CREDITACC | 3,550 | 3,166 | -10.8% | 2,055 | 1,703 | -17.1% | 527 | (790) | PL |
| SPANDANA | 2,678 | 2,137 | -20% | 2,168 | 1,568 | -28% | 1,060 | (304) | PL |
| MANAPPURAM | 10,112 | 10,866 | 7.5% | 6,517 | 7,375 | 13.2% | 3,827 | 4,832 | 26.2% |
| **FMCG/Retail** | | | | | | | | | |
| ABFRL | 21,781 | 20,590 | -5.5% | 2,396 | 3,685 | 53.8% | (153) | 664 | LP |
| CCL | 3,269 | 2,962 | -9.4% | 817 | 688 | -15.8% | 522 | 471 | -9.8% |
| DMART | 69,545 | 74,327 | 6.9% | 5,336 | 6,914 | 29.6% | 3,670 | 4,703 | 28.1% |
| TATACONSUM | 28,488 | 30,696 | 7.7% | 4,444 | 3,613 | -18.7% | 2,663 | 2,435 | -8.6% |
| PAGEIND | 8,732 | 9,271 | 6% | 1,746 | 2,261 | 30% | 1,157 | 1,537 | 33% |
| VMART | 5,059 | 4,700 | -7.1% | 858 | 1,038 | 21.0% | 414 | 479 | 15.6% |
| DIXON | 13,641 | 21,828 | 60.0% | 729 | 1,005 | 37.9% | 400 | 616 | 54.0% |
| HINDUNILVR | 116,715 | 116,820 | 0.1% | 29,762 | 28,540 | -4.1% | 21,365 | 19,210 | -10.1% |
| BRITANNIA | 32,511 | 31,656 | -2.6% | 5,527 | 6,115 | 10.6% | 4,142 | 4,526 | 9.3% |
| ITC | 122,779 | 117,874 | -4.0% | 46,656 | 42,814 | -8.2% | 37,113 | 36,629 | -1.3% |
| **Capital Goods & Defense** | | | | | | | | | |
| ABB | 18,072 | 17,008 | -5.9% | 1,344 | 1,026 | -23.6% | 965 | 622 | -35.5% |
| AIAENG | 7,175 | 6,987 | -2.6% | 1,652 | 1,723 | 4.2% | 1,360 | 1,598 | 17.5% |
| ENGINERSIN | 8,461 | 8,367 | -1.1% | 1,015 | 751 | -26.1% | 1,143 | 882 | -22.8% |
| CUMMINSIND | 12,577 | 14,310 | 13.8% | 1,446 | 2,421 | 67.4% | 1,254 | 2,403 | 91.7% |
| LT | 375,951 | 355,964 | -5.3% | 42,456 | 42,800 | 0.8% | 21,180 | 22,574 | 6.6% |
| SIEMENS | 27,415 | 29,011 | 6% | 3,140 | 3,676 | 17% | 2,383 | 2,622 | 10% |
| THERMAX | 13,122 | 14,106 | 7.5% | 919 | 1,476 | 60.7% | 662 | 1,111 | 67.9% |
| HONAUT | 8,749 | 8,742 | -0.1% | 1,750 | 1,876 | 7.2% | 1,421 | 1,499 | 5.5% |
| BDL | 6,614 | 4,593 | -31% | 1,225 | 397 | -68% | 944 | 492 | -48% |
| BEL | 32,249 | 22,962 | -28.8% | 6,290 | 4,404 | -30.0% | 4,159 | 2,619 | -37.0% |
| GRSE | 4,170 | 3,596 | -13.8% | 290 | 416 | 43.6% | 513 | 576 | 12.4% |
| COCHINSHIP | 9,268 | 7,487 | -19% | 1,828 | 3,161 | 73% | 1,521 | 2,237 | 47% |
| **Infra** | | | | | | | | | |
| PNCINFRA | 12,302 | 13,224 | 7.5% | 1,655 | 1,785 | 7.8% | 893 | 1,032 | 15.5% |
| KNRCON | 6,137 | 6,863 | 12% | 1,225 | 1,353 | 10% | 573 | 776 | 35% |
| CAPACITE | 3,240 | 3,058 | -5.6% | 583 | 546 | -6.3% | 188 | 152 | -18.9% |
| HGINFRA | 5,902 | 7,343 | 24.4% | 944 | 1,181 | 25.1% | 469 | 655 | 39.8% |
| DBL | 20,930 | 24,667 | 17.9% | 3,349 | 4,070 | 21.5% | 666 | 1,111 | 66.8% |
| PSPPROJECT | 3,977 | 3,902 | -1.9% | 418 | 469 | 12.4% | 268 | 307 | 14.6% |
| JMCPROJECT | 8,823 | 10,660 | 20.8% | 838 | 955 | 13.9% | 189 | 257 | 35.6% |

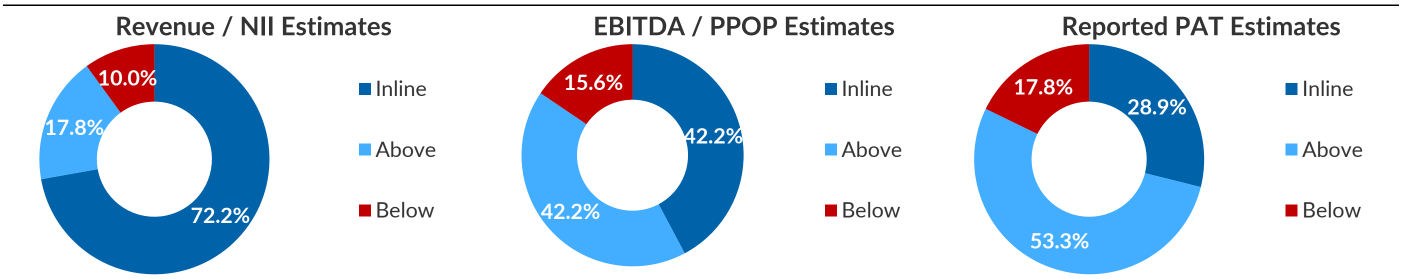
| | Revenue/ NII | | | EBITDA/PPOP | | | Reported PAT | | |
|---|---|---|---|---|---|---|---|---|---|
| INR mn | Estimates | Actuals | Deviation (%) | Estimates | Actuals | Deviation (%) | Estimates | Actuals | Deviation (%) |
| APARINDS | 17,498 | 17,142 | -2.0% | 1,242 | 1,630 | 31.2% | 540 | 825 | 52.6% |
| STRTECH | 12,267 | 13,144 | 7.2% | 2,085 | 2,301 | 10.3% | 635 | 870 | 37.1% |
| **Logistics** | | | | | | | | | |
| ADANIPORTS | 35,364 | 37,465 | 6% | 22,987 | 26,942 | 17% | 14,581 | 15,615 | 7% |
| TCIEXP | 2,818 | 2,625 | -6.8% | 370 | 454 | 22.5% | 270 | 336 | 24.7% |
| TCI | 6,681 | 8,071 | 20.8% | 581 | 797 | 37.3% | 334 | 534 | 59.7% |
| MAHLOG | 9,023 | 10,468 | 16.0% | 393 | 530 | 34.9% | 149 | 183 | 22.8% |
| CONCOR | 14,393 | 17,669 | 22.8% | 1,737 | 3,761 | 116.5% | 799 | 2,331 | 191.7% |
| BLUEDART | 8,836 | 10,371 | 17.4% | 1,746 | 2,520 | 44.3% | 292 | 870 | 197.5% |
| **Pharma** | | | | | | | | | |
| TORNTPHARM | 19,943 | 19,720 | -1.1% | 6,014 | 6,070 | 0.9% | 2,757 | 2,970 | 7.7% |
| AJANTPHARM | 6,837 | 7,487 | 9.5% | 2,119 | 2,417 | 14.0% | 1,436 | 1,766 | 23.0% |
| ALKEM | 23,337 | 23,181 | -0.7% | 5,134 | 5,291 | 3.1% | 3,501 | 4,639 | 32.5% |
| APLLTD | 14,237 | 13,143 | -7.7% | 3,877 | 3,651 | -5.8% | 2,782 | 2,592 | -6.8% |
| APOLLOHOSP | 28,250 | 27,598 | -2.3% | 3,740 | 3,903 | 4.4% | 575 | 1,342 | 133.3% |
| AUROPHARMA | 66,589 | 63,531 | -4.6% | 14,413 | 13,686 | -5.0% | 8,865 | 8,057 | -9.1% |
| DRREDDY | 51,218 | 49,296 | -3.8% | 12,993 | 5,393 | -58.5% | 7,297 | 279 | -96.2% |
| IPCALAB | 12,590 | 14,098 | 12.0% | 2,930 | 3,669 | 25.2% | 2,072 | 2,676 | 29.1% |
| LUPIN | 40,767 | 39,173 | -3.9% | 7,135 | 7,787 | 9.1% | 2,909 | 4,414 | 51.7% |
| SUNPHARMA | 87,821 | 87,818 | 0.0% | 22,854 | 24,061 | 5.3% | 14,315 | 19,181 | 34.0% |
| SYNGENE | 6,050 | 5,845 | -3.4% | 1,845 | 1,762 | -4.5% | 980 | 1,022 | 4.3% |
| CIPLA | 49,850 | 51,542 | 3.4% | 10,430 | 12,309 | 18.0% | 6,120 | 7,525 | 23.0% |
| DIVISLAB | 17,115 | 17,014 | -0.6% | 6,705 | 6,912 | 3.1% | 4,701 | 4,706 | 0.1% |

Source: YES Sec - Research

Notes:

1. For GI companies we have take NEP in place of revenues, underwriting profit in place of EBIDTA
2. For LI companies we have taken NBP in place of revnues, APE in place of EBIDTA and VNB in place of PAT
3. For Max Financials preview is for its subsidiary Max Life Insurance, NBP is based on IRDAI data
4. For Finacials NII and PPoP used instead of revenue and EBITDA
5. Deviation in Auropharma and Bluedart is due to high exceptional gains, while Dr. Reddy took an impariment which translated into lower EBITDA and PAT vis-à-vis our estimates
6. PL - profit to loss, LP – loss to profit, LL – loss to loss

**Exhibit 9: ...revenue growth has been in line with estimates, though EBITDA and PAT growth has surprised positively**




Source: YES Sec – Research

Q3 FY21 Result Review

# Capital Goods

## Recovery underway

Q3FY21 was sequentially a better quarter as economic activities revived due to labor availability, resumption of supply chain, and enough liquidity in the system. Union Budget indicated a clear intent by government to focus on infra and to promote domestic manufacturing. Indian Railways budgeted capex is expected to grow at 33%YoY to Rs2.15tn for FY22E with significant investment planned in electrification, rolling stocks and doubling. The capital outlay for defence is expected to remain flat at Rs1.35tn, however, government's thrust on increasing emphasis on indigenization would be positive for defence PSU's. Earnings of the companies under our coverage increased by 5%YoY while revenues declined marginally by 1.4%YoY. EBITDA increased by 6.5%YoY with 94bps expansion in margins led by cost rationalization. Ordering activity gained traction with orders seen from Railways, Metro, drinking water/sanitation, Oil & Gas, Roads, and healthcare.

The increasing emphasis on indigenization, driven by the recent slogan "Aatmanirbhar Bharat" (self-dependent India) will take a multi-pronged approach, encompassing aspects such as duties, procurement, taxes, SMEs, and technology, etc., over longer run to gain share. India is expected to invest significantly for infrastructure creation over the next few years with governments' thrust on domestic manufacturing through 'Make in India' initiative, the companies with focus on domestic market are in a sweet spot compared to export-centric companies. Planned Rs102tn National Infrastructure Pipeline (NIP) for India over FY20-FY25 is a major boost for the sector with focus towards key segments of energy, roads, urban infrastructure, railways and irrigation. The measures announced so far are oriented towards improving the structural growth prospects for the industry and may result in a cyclical uptick in ordering for the capital goods industry. We still await the measures that can address chronic challenges of funding, land acquisition, regulatory clearances and time/cost overruns which would trigger a significant cyclical demand uptick.

The companies having healthy balance sheet, strong cash and long-term scalability throughout disruptions will have potential market share gains. Our sector top picks include L&T, Honeywell Automation & GRSE. We perceive Cummins and Bharat Electronics as pure structural plays over medium to long term.

| Stock | Rating | TP |
|---|---|---|
| ABB IN | ADD | 1,472 |
| AIAE IN | ADD | 2,209 |
| KKC IN | ADD | 720 |
| LT IN | BUY | 1,584 |
| TMX IN | ADD | 1,245 |
| HWA IN | BUY | 48,258 |
| BHE IN | BUY | 145 |
| GRSE IN | BUY | 265 |
| ENGR IN | BUY | 102 |

**Note:** Target and Recommendation as on Result date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**Q4 CY20 Result Review** | Sector: Capital Goods

YES SECURITIES INSTITUTIONAL EQUITIES

# ABB India

| ADD | CMP Rs1,467 | Target Rs1,472 | Upside 0.4% |
|---|---|---|---|

- **Our view:** We retain our CY21E/CY22E earnings estimates as we have already factored in earnings recovery led by margin expansion on the account of i) Increasing contribution of high margin 'electrification products', ii) Parent's endeavor to increase margins by leveraging relatively low cost India operations, iii) Exit from solar inverter business which had wafer thin margins, iv) Higher sales contribution by exports and services, v) Increase in local content, and vi) Efficiency improvement through cost rationalization. We believe, ABB will retain its focus on growth segments like Data Center, Electronics manufacturing, Food & beverages, Pharma, Renewables, Rail & Metros while conventional sectors like Powergen, Oil & Gas, Metal & Mining would continue to remain muted. Post our Q3CY20 result note, the stock has rallied by ~50% and we now lot of positives are priced in at current levels. Hence, we downgrade the stock to ADD from BUY for a target price of Rs1472.

## Key highlights of earning con-call

- The company is witnessing highest growth in data center followed by renewables, electronics manufacturing, Food & Beverage (growing in mid-double digit), Power distribution (electrification distribution portfolio has seen lot of initiatives by government), water & waste treatment (continues to see traction), railway and metro (growing at 10%), and automotive (witnessing a comeback). Some of the muted segments are building & Infrastructure, Oil & Gas, chemicals, cement, steel, metal & mining, with Power generation at the bottom.

- **Key highlights of the quarter** – i) ABB completed commissioning of winder drives for ITC, ii) ABB launched new series of high-output motors in India, iii) ABB became the first company in India to offer LV motors on a e-market place, and iv) ABB has set up world's largest pipe conveyor belt for JSW.

## Segmental performance

- **Electrification** – the segment witnessed an order inflow of Rs6.3 bn during the quarter with order backlog of Rs13.2 bn. The major orders were from Data Centers, Metro rail, Food & Beverage. ABB launched Mid-Range (Formulae Air) LV Breakers during the quarter.

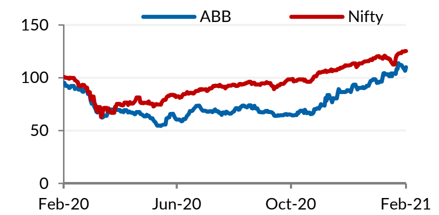
  In case of electrification the company has focused on best-in-class technology in Low Voltage that goes with OEM, panel builder who serve market with high rise buildings, this segment has continued to grow rapidly. Moreover, EV charging is a part of Electrification portfolio for which market is yet to develop in India and ABB is the largest supplier of EV charging globally. Besides, building automation, Hotel & Home automation, Large data centers have preference for ABB given its global expertise built over the years.

- **Motion** – the segment witnessed an order inflow of Rs5.4bn during the quarter with order backlog of Rs15.1bn. The focus was on transportation, digitalization and services. The Q4 order basket had good share of Channel business, Exports and Packaging. The profitability improved substantially due to cost optimization, higher capacity utilization, and favorable product mix.

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 1534 / 722 |
| Market cap (Rs/USD mn) | 310838 / 4272 |
| Outstanding Shares (mn) | 212 |
| 6m Avg t/o (Rs mn): | 214 |
| Div yield (%): | 0.3 |
| Bloomberg code: | ABB IN |
| NSE code: | ABB |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | 15.6% | 51.6% | 15.7% |

**Shareholding pattern (As of Dec'21 end)**

| | |
|---|---|
| Promoter | 75.00% |
| FII+DII | 9.81% |
| Others | 15.17% |

**Δ in stance**

| (1-Yr) | New | Old |
|---|---|---|
| Rating | ADD | BUY |
| Target Price | 1472 | 1041 |

**Δ in earnings estimates**

| | CY20 | CY21e | CY22e |
|---|---|---|---|
| EPS (New) | 8.1 | 18.8 | 24.5 |
| EPS (Old) | 8.1 | 18.8 | 24.5 |
| % change | - | - | - |

**Financial Summary**

| Y/e 31 Dec (Rs mn) | CY20 | CY21e | CY22e |
|---|---|---|---|
| Revenues | 58,210 | 69,727 | 78,730 |
| EBITDA | 2,759 | 5,156 | 6,601 |
| EBITDAM (%) | 4.7 | 7.4 | 8.4 |
| Adj. PAT | 1,717 | 3,980 | 5,200 |
| growth (%) | (53.8) | 131.9 | 30.7 |
| EPS (Rs) | 8.1 | 18.8 | 24.5 |
| P/E (x) | 181.1 | 78.1 | 59.8 |
| P/B (x) | 8.6 | 7.9 | 7.2 |
| Core RoIC (%) | 5.9 | 16.7 | 19.4 |
| RoE (%) | 4.8 | 10.6 | 12.6 |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- ✓ **Industrial Automation** – the segment witnessed an order inflow of Rs2.8bn during the quarter with order backlog of Rs12.2bn. The segment was impacted by one-offs which was in line with the strategic decision to ramp-down and de-risk exposure. The revenues were impacted due to – i) delay in customer clearances and lower service revenues, and ii) Impact of legacy projects of power generation. Profitability was impacted due to – i) Project mix & execution challenges (EPC & conventional power generation segment), ii) Rs0.8bn of one-time provision based on the strategic decision to ramp down and de-risk exposure in conventional power generation segment, iii) Higher personnel costs due to certain employees availing voluntary retirement, and iv) Decline in service & export component.

- ✓ **Robotics and Discrete Automation** – The segment witnessed an order inflow of Rs0.47bn with order backlog of Rs1.28bn. The segment witnessed early signs of recovery from 2-wheeler and electronics segment, however, orders remained muted from Auto OEMs and Tier1 as they continued to be cautious on investments.

- ✓ **Key challenges** – the challenges on the macro side are i) pace of vaccination coverage and slowdown led by pandemic would affect the growth, and ii) Geopolitical risk between India and China. While on the Operational side: i) Inflation might inch upwards, ii) The company is experiencing strong increase in commodities – Oil, copper, steel, and aluminum which are key ingredient for material cost, and iii) Currencies are gaining against Indian rupee, so business with high import content might be impacted.

- ✓ **Shift from conventional power gen** – In case of Conventional power generation, the focus has shifted toward renewable sources of energy. Besides, the number of conventional greenfield project coming up have receded. Though company continues to keep focus on services portion of installed bases but when it comes to greenfield it would be extremely selective. This has allowed company to focus on few areas – pharmaceuticals, renewables, Chemicals and paints.

- ✓ **Digital marketplace** – Globally digital market for ABB has grew from USD200mn to USD400mn in last 2-2.5 years. Most of the digital offering goes into process automation and analytics based products. When it comes to MO/RA/EL, RA is very digitalized solution. In case of EL & MO, all the product which were non-digital earlier are being 'IoT'ized and are integrated as a part of digital network. Though for ABB, focus remains on core with layers of digital on top of it

- ✓ **Nascent markets** – The current geopolitical situation has certainly led to de-risking with companies setting up facility in India by leveraging footprints of local companies. The management stated it is witnessing large scale manufacturing that might double up every two and half year. The other area where manufacturing is visible is 2W-electric vehicles. On the electronics manufacturing especially mobile devices and ancillary material that goes into the device is witnessing traction at this point.

- ✓ **Utilization of cash** –The cash will be a strong support to plan investments in a market. Besides, in terms of capex investment, when the company builds strategy going forward as pandemic situation normalizes in Q3/Q4 would enable management to have long term view and to complement this company has good amount of land. Going forward, ABB India would be investment destination globally.

  The management emphasized more importance on cash over revenue and when the market picks up focus would be selective and only in niche area.

## Q4 CY20 Result summary

- ✓ ABB's sales declined by 13%YoY to Rs17bn (-6% vs our estimates) as Motion(MO)/ Industrial Automation (IA)/ Electrification (EL)/ Robotics & Discrete Automation (RA) segment reported a revenue decline of 5%/7%/22%/35% YoY

- ✓ EBITDA declined by 26%YoY to Rs1.02bn (-24% vs our estimates) with margin contracting by 105bps at 6% (7.4% vs our estimates). Adjusted PAT stood at Rs622mn, down by 54%YoY (-36% vs our estimates).

# ABB India

- Order inflow de-grew by 8%YoY to Rs14.7bn as ABB secured orders for – i) Enhancement of distribution networks for a large construction company in Nepal, ii) Orders for double fed induction generators (DFIG) for a private energy major for wind energy and flue gas desulphurization (FGD) for power plants, iii) Process automation for a bottling plant of a refining major, and iv) Rectifier and busbar solutions for a large mining company.
- During the quarter, ABB India's Motion business area became the first business to list its low voltage motors online on eMart- ABB's online marketplace. In line with increased focus on self-reliance in manufacturing, Motion business area launched the sturdy, made in India M3BP high performance motors, which delivers higher output than the defined standard of the same frame size standard motors.
- Electrification business area launched Formula DIN-Rail, a complete range of Miniature Circuit Breakers (MCBs), Residual Current Circuit Breakers (RCCBs) and Isolators for the electrical retail market.
- The Robotics and Discrete Automation business area also launched a compact interior paint application and easy programing tool for IRB 1100 robots for customers globally

**Result table (Consolidated)**

| Particulars (Rs mn) | Q4CY20 | Q4CY19 | % yoy | Q3CY20 | % qoq |
|---|---|---|---|---|---|
| Total sales | 17,008 | 19,533 | (13) | 16,122 | 5 |
| EBITDA | 1,026 | 1,384 | (26) | 1,214 | (15) |
| EBITDAM (%) | 6.0 | 7.1 | (105) bps | 7.5 | (150)bps |
| Depreciation | 297 | 224 | 32 | 247 | 20 |
| Interest | 69 | 47 | 47 | 28 | 148 |
| Other income | 144 | 384 | (63) | 201 | (29) |
| PBT | 804 | 1,497 | (46) | 1,140 | (29) |
| Tax | 182 | 153 | 19 | 285 | (36) |
| Adjusted PAT | 622 | 1,344 | (54) | 855 | (27) |
| Exceptional item | 0 | 697 | | 0 | |
| Reported PAT | 622 | 647 | (4) | 855 | (27) |
| PATM (%) | 3.7 | 6.9 | (322) bps | 5.3 | (165) bps |
| EPS (Rs) | 2.9 | 6.3 | (54) | 4.0 | (27) |

| Y/e 31 Dec | Q4CY20 | Q4CY19 | % yoy | Q3CY20 | % qoq |
|---|---|---|---|---|---|
| **Revenues (Rs mn)** | | | | | |
| Robotics and Discrete Automation | 431 | 652 | (34) | 449 | (4) |
| Motion | 6,483 | 6,848 | (5) | 6,292 | 3 |
| Electrification | 6,472 | 8,331 | (22) | 5,945 | 9 |
| Industrial Automation | 3,868 | 4,140 | (7) | 3,675 | 5 |
| **PBIT (Rs mn)** | | | | | |
| Robotics and Discrete Automation | 34 | 79 | (57) | 45 | (25) |
| Motion | 1,191 | 632 | 89 | 693 | 72 |
| Electrification | 910 | 998 | (9) | 864 | 5 |
| Industrial Automation | (701) | 10 | NA | 102 | NA |
| **PBIT margins (%)** | | | | | |
| Robotics and Discrete Automation | 7.9 | 12.2 | (428) | 10.1 | (220) |
| Motion | 18.4 | 9.2 | 915 | 11.0 | 736 |
| Electrification | 14.1 | 12.0 | 207 | 14.5 | (49) |
| Industrial Automation | (18.1) | 0.2 | NA | 2.8 | NA |

YES SECURITIES INSTITUTIONAL EQUITIES

# AIA Engineering Ltd

| ADD | CMP Rs1,956 | Target Rs2,209 | Upside 13% |
|---|---|---|---|

- ✓ **Our View:** We have introduced FY23E volume estimates at 326K assuming i) incremental volumes from mining markets, ii) incremental contribution from mill lining solutions, and ii) ~75 bps margin expansion over FY21-23E led by the benefits of INR depreciation and addition of relatively higher margin mill lining solutions. We believe company deserves a premium multiple due to its cost leadership, product superiority, and strong business MOAT. We remain positive on AIAE's story of multi-year shift from forged media to HCMI led by healthy FCF generation, prudent capital allocation, and strong balance sheet. Post our Q2FY21 result note, the stock has rallied by 15% which leaves us with limited upside in the near term. Hence, we downgrade stock to 'ADD' from 'BUY' rating with a Target price of Rs2209 at 28x FY23E earnings.
- ✓ **Growth prospects intact**: Mining market continues to be AIAE's growth engine. It represents a large opportunity for conversion of conventional forged grinding media to high chrome grinding media. Management is extremely bullish on medium to long term business prospects from Gold & Copper mining. Annual consumption of grinding media for the mining segment is estimated at 2.5mn tons with less than 20% of the same converted to high chrome, thus offering a sizeable growth opportunity of conversion.
- ✓ **Value added offerings like EEMS product solutions to aid in growth FY22E onwards**: AIAE increasing its wallet share with Mill linings which has ~0.3mn tons global market and represents a growth opportunity. It is focusing on effective penetration through, a) Ability to offer significant reduction in the grinding media cost through use of high chrome media in place of forged media resulting in much lower wear rates, b) Reduction of costly consumables in the down process by using high chrome grinding media & thereby improving recoveries, c) Optimization via unique high chrome mill lining solutions resulting into higher throughputs & cost reduction.

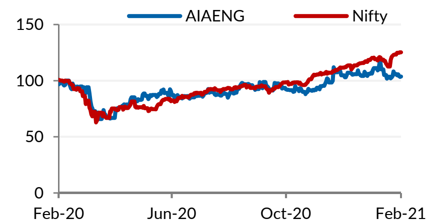
## Key highlights of earning con-call

- ✓ On a 9-month basis, Mining volumes were similar to the previous year as mining operations were largely unaffected during the pandemic, however, cement & other utility volumes were impacted during the first quarter due to lockdown in India, and outside non-business got affected.
- ✓ Structurally and fundamentally there is no change in business direction/initiatives, the company is currently facing restrain due to traveling restriction. In India, Covid is largely under control, however, globally - North America, Europe, Latin America it's very difficult to travel. Predominantly, the development of new conversions is suffering. The management expects by Q4-end with vaccination gaining momentum and travel starting from Q1 FY22E, things should start accelerating.
- ✓ The company is facing headwinds in terms of an extremely sharp increase in Raw material prices (increase in Ferro chrome prices), volatile shipping rates strengthening rupee. However, management expects these are temporary in nature and the better picture would emerge by the end of the quarter. Given increasing raw material prices, the management has not taken a price hike (increase/decrease in RM prices is a function of pass-through).

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 2234 / 1102 |
| Market cap (Rs/USD mn) | 184443 / 2535 |
| Outstanding Shares (mn) | 94 |
| 6m Avg t/o (Rs mn): | 106 |
| Div yield (%): | 1.4 |
| Bloomberg code: | AIAE IN |
| NSE code: | AIAENG |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | -2.6% | 12.5% | 9.1% |

**Shareholding pattern (As of Dec'21 end)**

| | |
|---|---|
| Promoter | 58.47% |
| FII+DII | 38.36% |
| Others | 2.83% |

**∆ in stance**

| (1-Yr) | New | Old |
|---|---|---|
| Rating | ADD | BUY |
| Target Price | 2209 | 1738 |

**∆ in earnings estimates**

| | FY21e | FY22e | FY23e |
|---|---|---|---|
| EPS (New) | 57.1 | 69.6 | 78.9 |
| EPS (Old) | 57.1 | 69.6 | - |
| % change | - | - | |

**Financial Summary**

| Y/e 31 Mar (Rs mn) | FY21E | FY22E | FY23E |
|---|---|---|---|
| Revenues | 27,596 | 33,651 | 37,931 |
| EBITDA | 6,356 | 7,921 | 9,018 |
| EBITDAM (%) | 23.0 | 23.5 | 23.8 |
| Adj. PAT | 5,347 | 6,562 | 7,440 |
| growth (%) | (8.8) | 21.9 | 13.4 |
| EPS (Rs) | 57.1 | 69.6 | 78.9 |
| P/E (x) | 34.3 | 28.1 | 24.8 |
| P/B (x) | 4.5 | 4.0 | 3.6 |
| Core RoIC (%) | 17.0 | 20.0 | 20.9 |
| RoE (%) | 13.8 | 15.1 | 15.2 |

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- Key drivers for the company are – 1) As compared to forged media, Chrome is known for cost-saving as it leads to a significant drop in wear rates and a significant drop in consumption, 2) DPA (Down Process Time advantage) which technically improves the recovery and reduces the consumption of toxic reagent like Cyanide makes the process more environment friendly, and as a natural fallout Copper and gold have prone to demonstrate these benefits, and 3) Special mill lining solution increases the throughput and efficiency of the grinding circuit.
- Capex – The company plans to add a wind turbine by March/ April. Besides, the company will incur Rs1.3-1.4bn towards the mill lining plant (payables are due this quarter). Moreover, after Covid hit, the company paused Grinding media expansion and it has been shifted to next FY. Once things stabilize the expansion will be executed. Grinding media capex is Rs2.5bn.
- The company is in midst of setting up a manufacturing plant of Mill Liners with a capacity of 50,000 MT with an estimated capex of Rs2.5 bn and it is expected to be commissioned by June-2021 (commission was delayed as equipment were imported from Europe OEM which led to delay in installation due to travel restriction). Post its commissioning, management expects the plant to reach an optimum level in the next 4 years.
- In Brazil, volumes are affected due to import duty (Interim duty was 36% and Final duty is 11.8%) and with customers preferring multiple vendors. However, management remains optimistic about getting some volume from that market. In Canada, there is a likelihood of interim duty between mid of March and April. Annually, 25000 MT volume is exported to Canada. Suppose, if a duty is levied there might be disruption in volume for a quarter or two.
- The management expects FY21E volumes to be +/-5000 of FY20 volumes.
- Treasury income was at Rs0.23 bn during the quarter
- Average USD/INR realization was Rs73 during the quarter
- The company had a net cash position of Rs18.3 bn, with cash of Rs20.2 bn and debt of Rs1.9 bn

## Other key highlights from Q3FY21

- Revenue increased marginally by 0.7% YoY at Rs6.9 bn (-3% vs our estimates)
- Mining volumes came in at 43,397 MT, growth of 5.4% YoY and Cement & other utility volumes were at 21,766 MT, a growth of 14%YoY.
- EBITDA was flat at Rs1.7 bn (+4% vs our estimates) with marginal contraction of EBITDA Margin by 25 bps at 24.7%.
- PAT increased by 9.3% at Rs1.5bn (+17% vs our estimates) due to higher other income at Rs0.5 bn
- Order book as of 1st January 2021 was Rs5.60 bn
- The Present Installed Capacity is 3,90,000 TPA
- Capex incurred for Nine Months FY21 is Rs 0.88 bn

**Exhibit 1: Result table (Consolidated)**

| Particulars (Rs mn) | Q3FY21 | Q3FY20 | % yoy | Q2FY21 | % qoq |
|---|---|---|---|---|---|
| Total sales | 6,987 | 6,941 | 0.7 | 7,423 | (5.9) |
| EBITDA | 1,723 | 1,729 | (0.3) | 1,903 | (9.5) |
| EBITDAM (%) | 24.7 | 24.9 | (25)bps | 25.6 | (98)bps |
| Depreciation | 230 | 252 | (8.6) | 233 | (1.2) |
| Interest | 10 | 13 | (25.0) | 12 | (23.7) |
| Other income | 494 | 460 | 7.5 | 248 | 99.6 |
| PBT | 1,977 | 1,924 | 2.8 | 1,905 | 3.8 |
| Tax | 416 | 360 | 15.5 | 433 | (4.0) |
| Adjusted PAT | 1,591 | 1,457 | 9.3 | 1,440 | 10.5 |
| Exceptional item | (37) | 104 | | 37 | |
| Reported PAT | 1,561 | 1,564 | (0.2) | 1,471 | 6.1 |
| PATM (%) | 22.8 | 21.0 | 179bps | 19.4 | 338bps |
| EPS (Rs) | 16.5 | 16.5 | (0.4) | 15.7 | 5.3 |

YES SECURITIES INSTITUTIONAL EQUITIES

# Cummins India

| ADD | CMP Rs754 | Target Rs720 | Upside -4.5% |
|---|---|---|---|

## Improving earnings visibility; Upgrade to 'ADD'

Cummins India (KKC) reported healthy Q3FY21 performance (26% qoq EBITDA growth) led by demand recovery in power generation (PG) business & strong margins due to favorable sales mix, cost control initiatives & lower employee cost. We believe, Government's thrust on the Road, Rail and Metro projects (National Infra pipeline of ~Rs100trn+) along with new investments into data centre and 5G telecom network will aid in faster demand revival for KKC's products. In addition, mgmt. expects healthy pre-buy demand before implementation of new emission norms. Though KKC reported 16.7% adjusted EBITDAM over Q2-Q3FY21, we expect it to normalize at ~15% owing to likely tilt in sales mix in favor of PG, rollback of few costs & commodity price headwinds. We raise FY22 earnings estimates by 30% to factor in better than expected recovery in earlier estimated sales & margins. Hence, we upgrade KKC to 'ADD' rating with revised TP of Rs720 based on SOTP methodology.

### Faster sales recovery led by multiple tailwinds

Domestic demand traction has improved significantly for KKC especially from sectors like Data Center, infra, mining, construction etc., while hospitality, retail, and commercial segments are recovering relatively at slower pace. Export markets like South Asia, MENA & LATAM are also showing good signs of demand recovery while Europe & USA remained weak due to 2nd wave of COVID. KKC is eying for market share gain through customized offerings, & by increasing power density & fuel economy of products. CPCB IV norms implementation can lead to further market share gains. KKC is looking at ideas for the long term, such as merging Cummins Technology India Limited (CTIL unlisted group entity) with itself, but nothing is planned as of now. Mgmt. indicated that hydrogen technologies for rail & construction (where KKC is already present) will remain with the company, which offers high growth potential.

Industrial sales are directly dependent on infra awarding activities, hence pick up in NHAI ordering, roads, rail & metro projects lead to strong sales volumes. Under the National infrastructure pipeline Government has laid out aggressive investment plan of Rs100trn+. Hence, we expect strong growth prospects for KKC's industrial business. Given the large distribution network & large installed base of machines (0.6mn+), demand for spares is expected to remain robust.

### Sustainable cost reduction initiatives

Cost optimization measures & VRS scheme coupled with favorable sales mix in terms of higher distribution & exports sales has resulted in adjusted EBITDA margins of 16.7% (excl. impairment of Rs230mn in Q2) during Q2-Q3FY21. KKC provided customized value-added products for data center, which helped in better price realization. We assume 15% EBITDAM in Q4FY21 to factor in rise in raw material prices & roll back of few expenses as guided by management. The Company is planning to take price hike in Q1FY22 to mitigate the impact of adverse commodity prices.

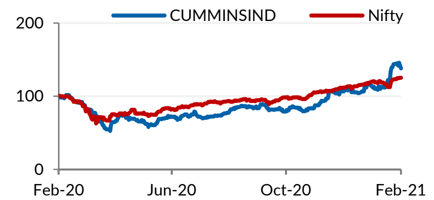
### Valuation re-rating on the cards

KKC is at an advantage versus other domestic peers and is ahead with regards to its preparedness, on the back of a global portfolio which is already compliant with the new norms and will need certain modifications to adapt to local conditions. Strong FCF and dividend pay-out caps downside risks for KKC, while pickup in demand can aid earning upsides through operating leverage. We expect valuation re-rating of the stock with EBITDA CAGR of 17% over FY21-FY23E, improvement in return ratios & better earnings quality (Non-core income 29% of FY23E PBT vs 37% in FY20). Hence, we upgrade KKC to 'ADD' with TP of Rs720

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 808 / 280 |
| Market cap (Rs/USD mn) | 208940 / 2872 |
| Outstanding Shares (mn) | 277 |
| 6m Avg t/o (Rs mn): | 860 |
| Div yield (%): | 1.9 |
| Bloomberg code: | KKC IN |
| NSE code: | CUMMINSIND |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | 22.0% | 58.9% | 40.1% |

**Shareholding pattern (As of Dec'21 end)**

| | |
|---|---|
| Promoter | 51.00% |
| FII+DII | 35.21% |
| Others | 12.53% |

**Δ in stance**

| (1-Yr) | New | Old |
|---|---|---|
| Rating | ADD | SELL |
| Target Price | 720 | 345 |

**□ in earnings estimates**

| | FY21e | FY22e | FY23e |
|---|---|---|---|
| EPS (New) | 23.7 | 27.2 | 31.5 |
| EPS (Old) | 19.2 | 20.3 | - |
| % change | 23.2 | 34.1 | |

**Financial Summary**

| Y/e 31 Mar (Rs mn) | FY21E | FY22E | FY23E |
|---|---|---|---|
| Revenues | 44,272 | 51,762 | 57,971 |
| EBITDA | 6,330 | 7,409 | 8,672 |
| EBITDAM (%) | 14.3 | 14.3 | 15.0 |
| Adj. PAT | 6,556 | 7,543 | 8,734 |
| yoy growth (%) | (9.6) | 15.1 | 15.8 |
| EPS (Rs) | 23.7 | 27.2 | 31.5 |
| P/E (x) | 31.9 | 27.7 | 23.9 |
| P/B (x) | 4.4 | 4.1 | 3.8 |
| Core RoIC (%) | 10.0 | 11.6 | 13.2 |
| RoE (%) | 14.4 | 15.5 | 16.7 |

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### Exhibit 1: Result table (Consolidated)

| (Rs mn) | Q3FY21 | Q3FY20 | % yoy | Q2FY21 | % qoq |
|---|---|---|---|---|---|
| Total sales | 14,310 | 14,564 | (2) | 11,700 | 22 |
| EBITDA | 2,421 | 2,165 | 12 | 1,916 | 26 |
| EBITDAM (%) | 16.92 | 14.86 | 205.8 | 16.38 | 54 |
| Depreciation | 324 | 300 | 8 | 330 | (2) |
| Interest | 48 | 48 | 0 | 40 | 20 |
| Other income | 606 | 629 | (4) | 580 | 4 |
| PBT | 2,655 | 2,445 | 9 | 2,125 | 25 |
| Tax | 694 | 582 | 19 | 428 | 62 |
| Adjusted PAT | 2,403 | 2,159 | 11 | 1,962 | 23 |
| Exceptional item | 0 | 161 | | 230 | |
| Reported PAT | 2,403 | 1,999 | 20 | 1,732 | 39 |
| PATM (%) | 17 | 15 | 197 | 17 | 3 |
| EPS (Rs) | 8.7 | 7.8 | 11 | 7.1 | 23 |

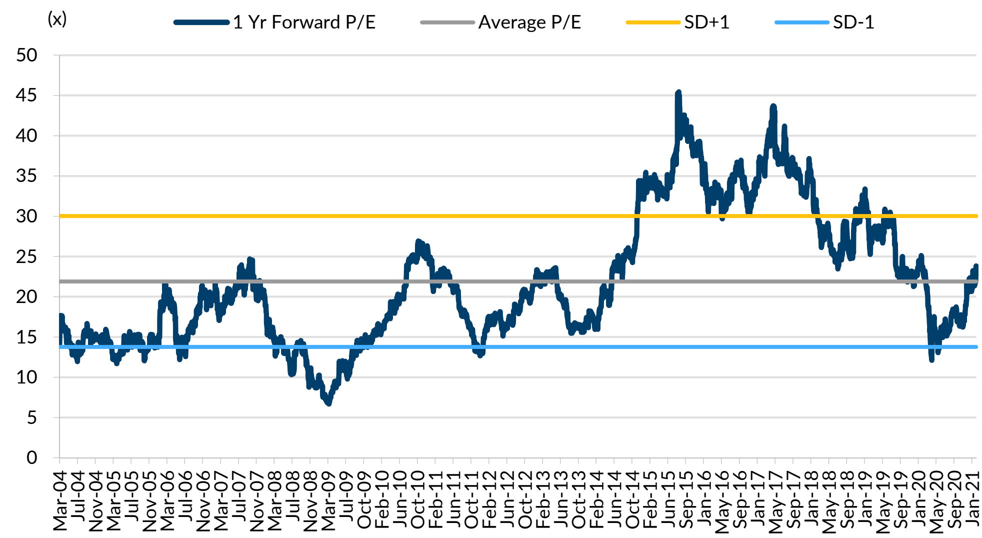
Source: Company, YES Sec – Research

### Exhibit 2: Cost analysis (Consolidated)

| As a % of net sales | Q3 FY21 | Q3 FY20 | bps yoy | Q2 FY21 | bps qoq |
|---|---|---|---|---|---|
| COGS | 64.0 | 64.6 | (55.0) | 61.6 | 244.1 |
| Employee cost | 9.0 | 10.0 | (102.2) | 10.5 | (150.9) |
| Other expenses | 10.0 | 10.5 | (48.5) | 11.5 | (147.7) |
| Total costs | 83.1 | 85.1 | (205.8) | 83.6 | (54.5) |

Source: Company, YES Sec – Research

### Exhibit 3: Trading at 15-yr average 1-yr forward P/E



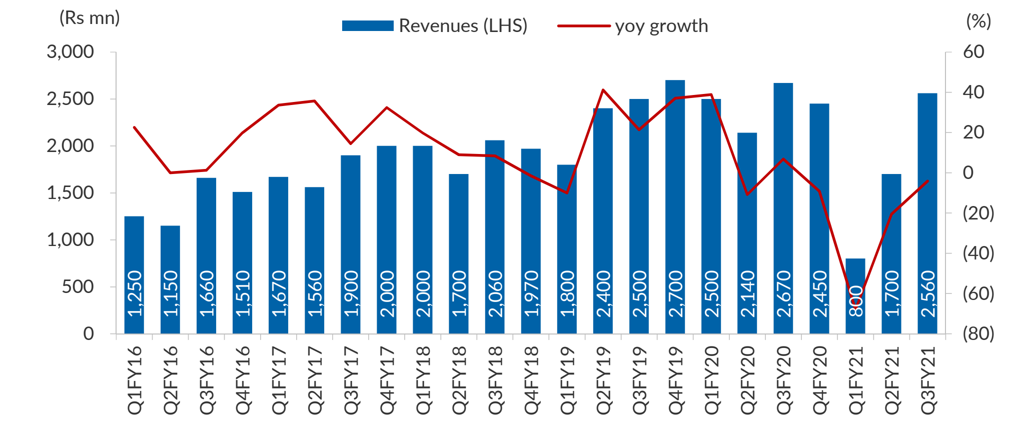

Source: Company, YES Sec – Research

# Cummins India

## Key highlights from Q3FY21 earnings conference call:

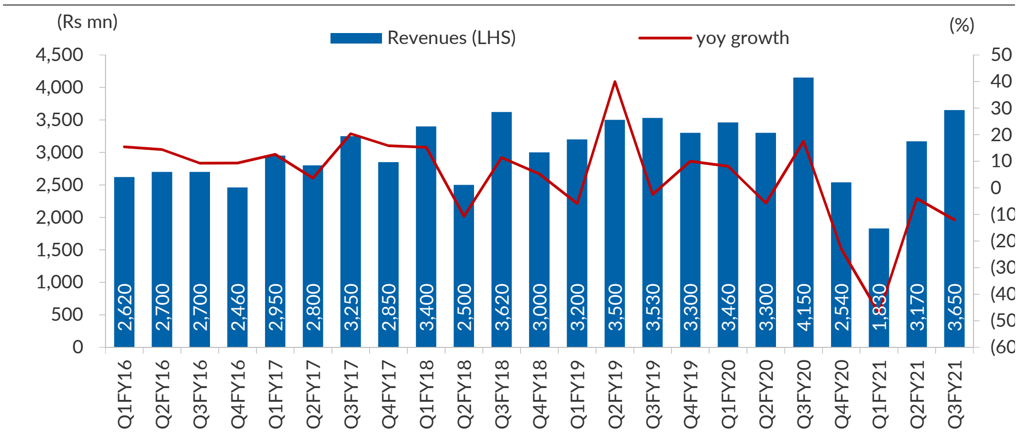
- ✓ Sales Break up segment wise in the domestic market, industrial Rs2.56bn, power gen Rs4.2bn, distribution Rs3.65bn, exports- HHP Rs2.3bn, LHP Rs1.46bn
- ✓ Power gen break up: HHP: Rs2.34bn, MHP Rs950mn, LHP Rs930mn
- ✓ Industrial sales break up: Compressor- Rs250mn, Construction- Rs1,020mn, Mining- Rs470mn, Rail- Rs480mn, Miscellaneous- Rs350mn
- ✓ The distribution business has been able to grow steadily on 6-8% annualized for the last 3-5 years and the company continues to maintain that trend for the future as well
- ✓ Company has not been impacted significantly by the steel commodity price fluctuations. Overall material margins have remained stead
- ✓ Management has not provided FY2021 guidance. Management is seeing gradual recovery over the next two to three months. The company is overall optimistic going ahead. The power generation segment has recovered better than expectations due to strong recovery in end-user segments, data centres, infrastructure, rentals, and industrial. Growth has been slower in medium horse power due to muted demand from hospitality, retail, and commercial segments.
- ✓ Globally, Cummins is the largest player in data centres. High-speed diesel is not available with competitors. Cummins has the right technology to grow in India.
- ✓ The construction segment is expected to remain strong for next 12 months
- ✓ CPCB-IV norms are expected to be delayed for six months (originally during July-August 2021). The new norms are most likely expected in April 2022. The industry has been asking for relief due to COVID-19. Cost of products as per the new norms will be higher. So, selling price is expected to be higher but the price hike cannot be said right now. Although it would be significant compared to other industries.
- ✓ The mining segment has come back strongly, led by demand in coal and metal industries. In marine, the company has introduced new products to capture market share and will grow well.
- ✓ Higher other income is on account of Rs380mn dividend received from its subsidiary, Valvoline Cummins, and exchange gains.
- ✓ Rise in key commodity prices such as copper and steel would be hitting the company in the next quarter. The company would be increasing prices next year depending on products and segments to partially mitigate the impact of commodity rise.

### Exhibit 4: Industrial revenues declined by 4% yoy in Q3FY21



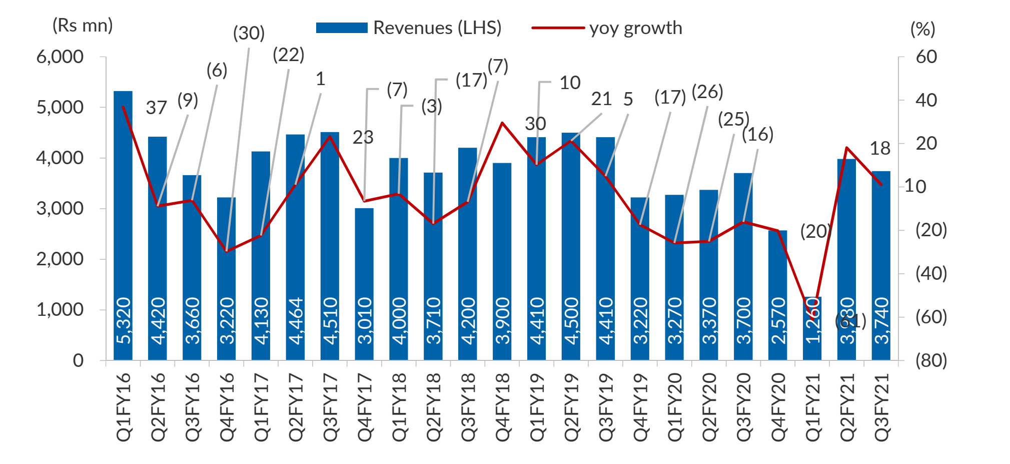

Source: Company, YES Sec – Research

### Exhibit 5: Distribution revenues declined by 12% yoy in Q3FY21



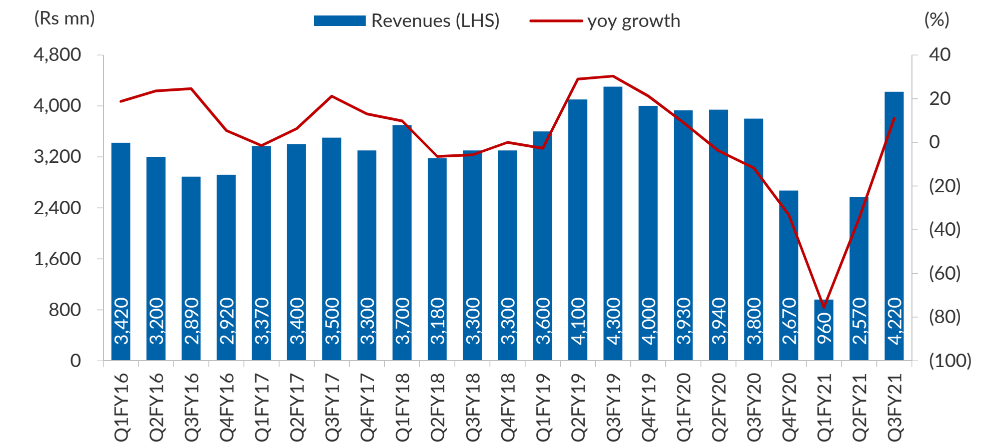

Source: Company, YES Sec – Research

### Exhibit 6: Exports revenues grew by 1% yoy in Q3FY21



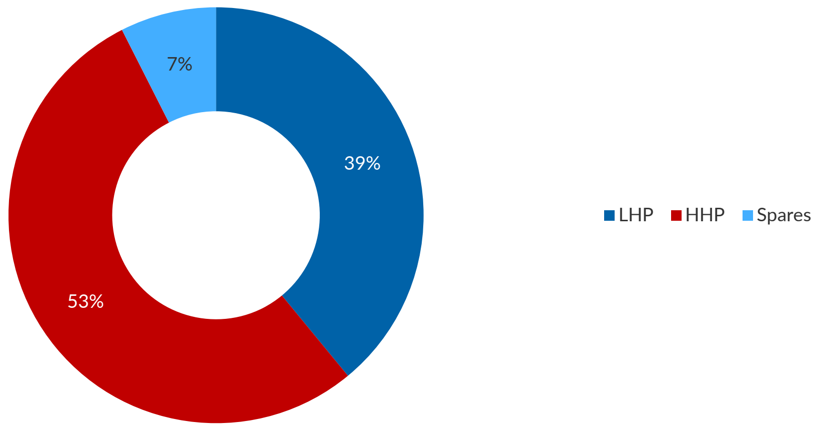

Source: Company, YES Sec – Research

**Exhibit 7: Powergen revenue grew by 11% in Q3FY21**



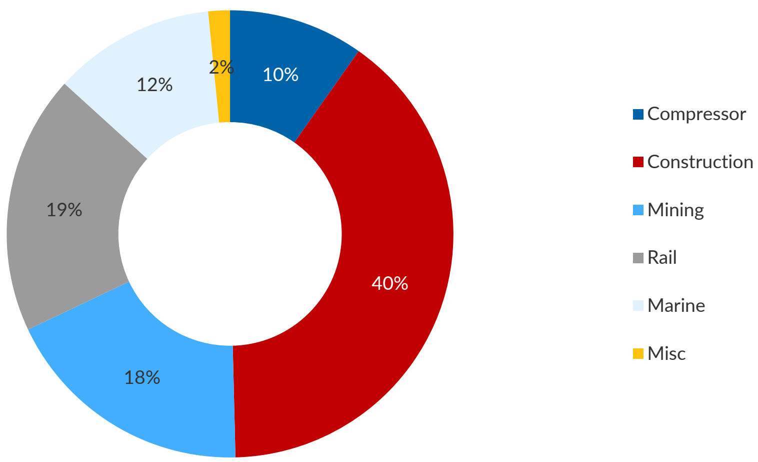

Source: Company, YES Sec – Research

**Exhibit 8: Within exports, growth driven by HHP**



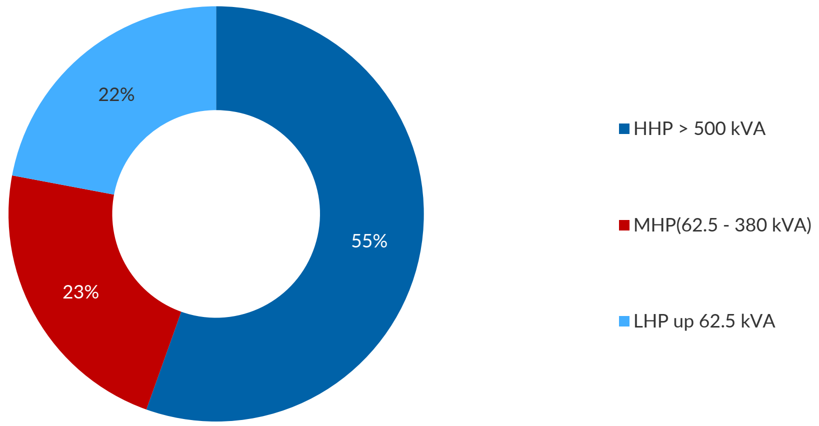

Source: Company, YES Sec – Research

**Exhibit 9: Industrial growth driven by construction, rail & mining segments**



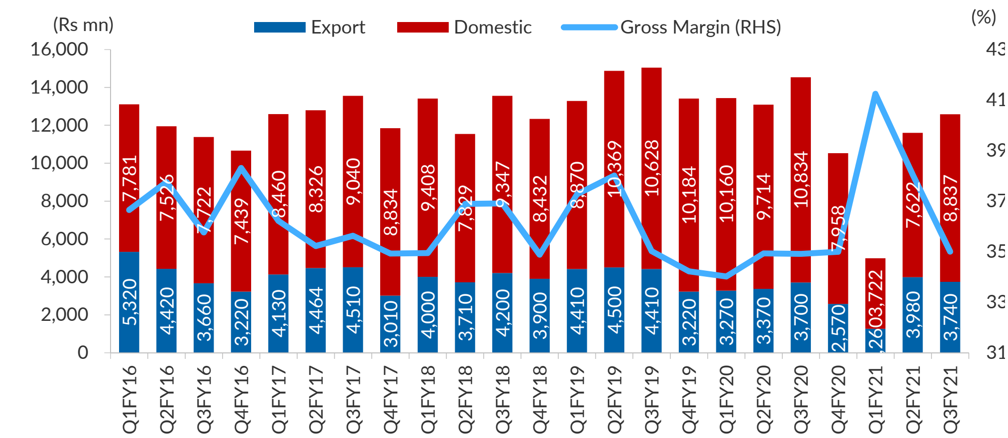

Source: Company, YES Sec – Research

### Exhibit 10: Powergen revenues driven by HHP market




Source: Company, YES Sec – Research

### Exhibit 11: Encouraging margins due to favorable sales mix




Source: Company, YES Sec – Research

YES SECURITIES
INSTITUTIONAL EQUITIES

# Engineers India

| BUY | CMP Rs75 | Target Rs102 | Upside 36.1% |
|---|---|---|---|

**Our View**: When compared to GDP growth, the average energy multiplier for India has been at ~0.8x of GDP growth. Hence, assuming 5% CAGR demand for petroleum products, India is likely to face supply deficit situation by FY25. In addition, current refining capacity utilization stands at 100%+, which warrants significant capex, implying improving business prospects for ENGR over medium to long term. Hence, Govt. has set up a plan to nearly double its oil refining capacity in the next 5 years (refining capacity expansion of ~250MMTPA), so the cumulative capex is expected to be Rs7-8trn, implying a PMC opportunity size of ~Rs450-500bn for ENGR. Engineers India's core business is services based on strong technical knowhow which enables it to operate on negative working capital & negligible capex (Infinite core RoIC) leading to strong free cash flows. We cut FY22E/FY23E EPS by 11%/8% to factor in the subdued margin in LSTK segment & lower other income. Margins seems to have bottomed out in FY21 & expect its improving trend over FY22-FY23. Given debt-free balance sheet, market leadership, superlative avg. FCF yield of 14%, strong execution capability and inexpensive valuation (8.6x FY23 earnings, -1.5SD of long term average). Retain BUY with TP of Rs102.

## Key highlights from Q3FY21 earnings call

- ✓ FY22 order inflow guidance at Rs15-20bn: ENGR has two committed order from i) Indian Oil for Panipat refinery expansion, and ii) the other project for BPCL. The major project execution for these is targeted next year. So, phase 2 of these projects is targeted by middle of next year. The main project execution for Panipat refinery is expected to be in the range of Rs6bn and for BPCL – Rs2bn. Besides, ENGR is looking for new refinery at Kaveri basin from Indian Oil (Indian Oil has approved capex for this refinery and bidding process has been initiated with order expected this end of the year or beginning of next year). Moreover, company is looking for Mangalore refinery expansion project for which feasibility study has been done. One or more small project from Numaligarh could materialize by the end of quarter for revamp and quality upgrade of Numaligarh refinery. In addition, HEML cracker expansion from 1.2 to 1.5mmtpa; Cracker project is currently ongoing for 1.2 mmtpa and subsequent expansion is planned next year. Order inflow for FY22E is expected to be in the range of Rs15bn – Rs20bn.

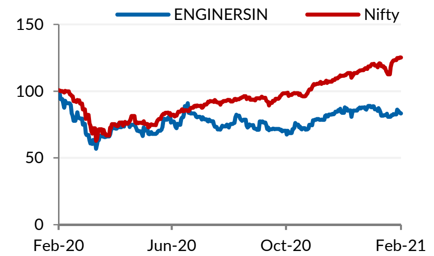
- ✓ Margins of Turnkey segment (LSTK) likely to remain muted in near term: Currently, the company is executing two jobs - i) Rajasthan refinery project, and ii) HPCL VRMP project which are cost plus project with margins at competitive pricing. The company has provided certain provisions – Guarantee/warranty liabilities for these projects which resulted in lower margin. So, when these projects are completed, the provisions might be released leading to higher margins. With current orderbook, turnkey margin is expected to be in the range of 2-3%

- ✓ Update on RFPL: Commissioning of RFPL was targeted during Dec-2020. However, it got delayed due to equipment related problem in CPP plant executed by BHEL. Problem has been rectified now. Now, the targeted commissioning of project is in Feb-2021.

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 91 / 49 |
| Market cap (Rs/USD mn) | 47362 / 651 |
| Outstanding Shares (mn) | 632 |
| 6m Avg t/o (Rs mn): | 201 |
| Div yield (%): | 6.9 |
| Bloomberg code: | ENGR IN |
| NSE code: | ENGINERSIN |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | -5.3% | 5.9% | -11.0% |

**Shareholding pattern (As of Dec'21 end)**

| | |
|---|---|
| Promoter | 51.50% |
| FII+DII | 26.84% |
| Others | 21.67% |

**Financial Summary**

| Y/e 31 Mar (Rs mn) | FY21E | FY22E | FY23E |
|---|---|---|---|
| Revenues | 28,351 | 32,190 | 36,529 |
| EBITDA | 2,686 | 3,863 | 4,997 |
| EBITDAM (%) | 9.5 | 12.0 | 13.7 |
| Adj. PAT | 3,430 | 4,384 | 5,356 |
| yoy growth (%) | (20.3) | 27.8 | 22.2 |
| EPS (Rs) | 5.4 | 6.9 | 8.5 |
| P/E (x) | 13.8 | 10.8 | 8.8 |
| P/B (x) | 1.9 | 1.8 | 1.6 |
| Core RoIC (%) | 14.3 | 17.1 | 19.4 |
| RoE (%) | 14.2 | 17.1 | 19.4 |

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- Barmer Refinery: The total capex for Barmer refinery is estimated around Rs450-480bn. ENGR is currently executing two jobs - i) PMC: Rs11.8bn, and ii) OB job: Rs37bn. Overall progress for the project is at 20-25% on the capex with proportionate contracts with ENGR.
- Exports markets are still sluggish due to fall in crude oil prices. Mgmt. expects recovery in ordering activities in early FY22.
- Healthy cash balance of Rs25bn including customer advance Rs1-1.5bn as of Q3FY21
- Capex guidance: Capex for FY21/FY22 at Rs0.75bn/Rs1.5bn respectively.

## Q3FY21 standalone results

- Sales declined by 6% yoy to Rs8.4bn (marginal miss vs our est.) as Consultancy/LSTK segment revenues were down by 2%/9% yoy respectively.
- Consultancy/LSTK segment sales mix was 43%/57% for Q3FY21
- EBITDA was down 12% yoy as LSTK segment margin declined from 3.0% to 1.4% while consultancy segment margin improved by 70bps yoy to 25.4%
- Other income was down 27% yoy.
- Adjusted PBT stood at Rs1.2bn, down 19% yoy (-23% vs our est.)

**Exhibit 1: Quarterly results table (Standalone)**

| (Rs mn) | Q3FY21 | Q3FY20 | % yoy | Q2FY21 | % qoq | Q3FY21 Yes Sec | vs. our est |
|---|---|---|---|---|---|---|---|
| Total sales | 8,367 | 8,906 | (6.0) | 6,834 | 22.4 | 8,461 | (1.1) |
| EBITDA | 751 | 856 | (12.3) | 773 | (2.8) | 1,015 | (26.1) |
| EBITDAM (%) | 9.0 | 9.6 | (63.6) | 11.3 | (233.2) | 12.0 | (302.8) |
| Depreciation | (51) | (56) | (9.0) | (60) | (14.6) | (62) | (17.9) |
| Interest | (4) | (4) | (7.4) | (5) | (13.1) | (5) | (19.3) |
| Other income | 480 | 657 | (27.0) | 533 | (9.9) | 580 | (17.3) |
| PBT | 1,176 | 1,452 | (19.1) | 1,241 | (5.3) | 1,528 | (23.1) |
| Tax | (294) | (366) | (19.8) | (314) | (6.5) | (385) | (23.8) |
| Adjusted PAT | 882 | 1,086 | (18.8) | 927 | (4.8) | 1,143 | (22.8) |
| Exceptional item | 0 | 0 | | 0 | | 0 | |
| Reported PAT | 882 | 1,086 | (18.8) | 927 | (4.8) | 1,143 | (22.8) |
| PATM (%) | 10.5 | 12.2 | (165.7) | 13.6 | (302.0) | 13.5 | (297.0) |
| EPS (Rs) | 1.4 | 1.7 | (18.8) | 1.5 | (4.8) | 1.8 | (22.8) |

**Q3 FY21 Result Review** | Sector: Capital Goods

YES SECURITIES INSTITUTIONAL EQUITIES

# Honeywell Automation India

| BUY | CMP Rs41,830 | Target Rs48,258 | Upside 15.4% |
|---|---|---|---|

## Broadly in-line with estimates; Retain BUY

### Key highlights from Q3FY21 results

- ✓ Revenues came in at Rs8.7bn, up 15% qoq & down 3% yoy (in-line with estimates).
- ✓ Gross margin was at ~47.3%, contraction of ~183bps yoy led by unfavorable sales mix.
- ✓ However, EBITDA margin expanded by 53bps yoy as Honeywell Automation (HWA) continues to focus on rationalization of discretionary spends, productivity drives etc.
- ✓ Employee cost & other expenses declined by 74bps/162bps yoy respectively. EBITDA was largely flat yoy, 7.2% ahead of estimates.
- ✓ Other income increased by 48% yoy to Rs285mn (+1.6% vs our est.)
- ✓ PAT marginal beat (+5.5% vs our estimates) & it came in at Rs1.5bn, up 3.6% yoy.

### Exhibit 1: Quarterly Results Table

| (Rs mn) | Q3FY21 | Q3FY20 | % yoy | Q2FY21 | % qoq | YSEC est. | vs our est. |
|---|---|---|---|---|---|---|---|
| Total sales | 8,742 | 9,012 | (3.0) | 7,597 | 15.1 | 8,749 | (0.1) |
| EBITDA | 1,876 | 1,886 | (0.6) | 1,443 | 30.0 | 1,750 | 7.2 |
| EBITDAM (%) | 21.5 | 20.9 | 52.8 | 19.0 | 246.2 | 20.0 | 145.5 |
| Depreciation | (127) | (115) | 10.2 | (114) | 11.1 | (114) | 10.7 |
| Interest | (13) | (18) | (27.9) | (18) | (25.0) | (15) | (12.0) |
| Other income | 285 | 192 | 48.3 | 144 | 98.1 | 280 | 1.6 |
| PBT | 2,020 | 1,944 | 3.9 | 1,455 | 38.8 | 1,900 | 6.3 |
| Tax | (521) | (497) | 4.9 | (374) | 39.2 | (479) | 8.8 |
| Adjusted PAT | 1,499 | 1,447 | 3.6 | 1,081 | 38.7 | 1,421 | 5.5 |
| Exceptional item | 0 | 0 | | 0 | | 0 | |
| Reported PAT | 1,499 | 1,447 | 3.6 | 1,081 | 38.7 | 1,421 | 5.5 |
| PATM (%) | 17.1 | 16.1 | 108.6 | 14.2 | 292.4 | 16.2 | 90.0 |
| EPS (Rs) | 170 | 164 | 3.6 | 122 | 38.7 | 161 | 5.5 |

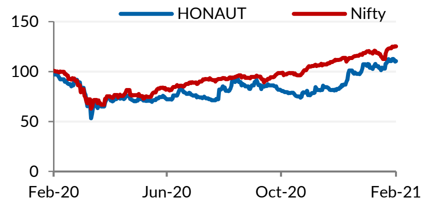
Source: Company, YES Sec – Research

- ✓ **Our View:** We like HWA based on its ongoing product portfolio upgradation, focus on software industrial business model, faster adoption of automated solutions by domestic market post Covid-19 episode & relentless execution on cost control. As India moves to add more smart cities, drive a gas - based economy, and build digital infrastructure for the future, HWA would have tremendous business opportunities. We believe domestic market recovery to happen at faster rate than exports as its parent indicated that performance of the Global Services segment would improve in H2CY21. We expect domestic revenue CAGR of 16% over FY21E-23E led by, i) Planned investments into Data Centers, Metro, Airport & Smart Infra projects, ii) HWA's focus on double digit connected software growth, iii) Major beneficiary of India's move to build energy security, drive gas-based economy by encouraging digital solutions & iv) Gaining traction from buoyant sectors like Pharma & Chemical sectors via new product launches. Export revenue CAGR of 13% over FY21E-23E driven by, i) Business integration with Parent's entities by leveraging cost efficient services,

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 43231 / 20149 |
| Market cap (Rs/USD mn) | 369840 / 5083 |
| Outstanding Shares (mn) | 9 |
| 6m Avg t/o (Rs mn): | 195 |
| Div yield (%): | 0.2 |
| Bloomberg code: | HWA IN |
| NSE code: | HONAUT |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | 4.6% | 44.9% | 13.7% |

**Shareholding pattern (As of Dec'21 end)**

| | |
|---|---|
| Promoter | 75.00% |
| FII+DII | 14.95% |
| Others | 10.05% |

**Δ in stance**

| (1-Yr) | New | Old |
|---|---|---|
| Rating | BUY | BUY |
| Target Price | 48258 | 36310 |

**▯ in earnings estimates**

| | FY21e | FY22e | FY23e |
|---|---|---|---|
| EPS (New) | 578.0 | 718.2 | 877.4 |
| EPS (Old) | 546 | 725.1 | - |
| % change | 5.8% | -0.9% | |

**Financial Summary**

| Y/e 31 Mar (Rs mn) | FY21E | FY22E | FY23E |
|---|---|---|---|
| Revenues | 32,552 | 37,091 | 43,061 |
| EBITDA | 6,501 | 7,604 | 9,258 |
| EBITDAM (%) | 20.0 | 20.5 | 21.5 |
| Adj. PAT | 5,109 | 6,349 | 7,756 |
| growth (%) | 4.0 | 24.3 | 22.2 |
| EPS (Rs) | 578.0 | 718.2 | 877.4 |
| P/E (x) | 72.4 | 58.2 | 47.7 |
| P/B (x) | 14.0 | 11.4 | 9.3 |
| Core RoIC (%) | 53.6 | 62.7 | 72.4 |
| RoE (%) | 21.2 | 21.6 | 21.5 |

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ii) New portfolios, offerings and geographic expansion supporting Honeywell's global growth agenda & ii) Supply chain localization. Average OCF/EBITDA ratio was strong at 0.67x (one of the best in industry) during FY15-20, expect it to ~1x by FY22E. HWA's continued earnings outperformance among its peers, asset light tech model & robust return ratios (RoE ex-cash/ RoIC at 71%/58% in FY20) justify its valuations. Retain 'BUY' rating on the stock with TP of Rs48,258 at 55x FY23E EPS as we introduce FY23 estimates.

HWA will continue to accelerate India's move towards automation, digitalization & smart infra through best-in-class tech offerings:

- ✓ **Remote Monitoring:** Connected buildings can play an important role in managing a crisis like Covid-19. One important thing to consider with many people working from home – including facility management teams – is remote management. Remote monitoring tools allow a facility team to remotely diagnose issues with a building, conduct preventative maintenance and improve building performance and help reduce downtime.

- ✓ **Security:** Using access control and video analytics, companies can ensure the right people are in the right part of a building as well as to understand a person's access history to understand where a person has traveled throughout a building campus. Space utilization tools can also help companies implement social distancing guidelines within a building.

- ✓ **Tech protection:** Protecting the utility plant's operational technology (OT) environments from cyberattacks is equally important as the security of facilities. OT environments comprise the machinery, sensors, actuators and other building automation equipment forming the backbone of operations but have not traditionally connected to the Internet. Within smart building environments, control systems act as easy targets. Common cyber threat scenarios to consider when evaluating vulnerabilities include: accessing building control systems, disrupting power management functions, tampering with temperature settings on HVAC systems and improper network segregation using OT systems (allowing hackers potentially to access to other, more secure environments).

- ✓ **Resource optimization:** Honeywell Forge platform helps building owners and building portfolio owners to decrease operating expenses, improve energy consumption, implement predictive maintenance and manage space optimization across an entire building portfolio while also enhancing the individual occupant experience. Honeywell Forge is a hardware agnostic platform which can help building owners optimize non-Honeywell systems using the platform. This software-focused approach allows to help reduce electronic waste because there's no need to rip and replace current systems.

**Q3 FY21 Result Review | Sector: Capital Goods**

YES SECURITIES INSTITUTIONAL EQUITIES

# Larsen & Toubro Ltd

| BUY | CMP Rs1,521 | Target Rs1,584 | Upside 4.1% |
|---|---|---|---|

## Healthy core margins; Execution to pick up

L&T delivered healthy operational performance despite commodity price headwinds (Core EBITDA margins of 10.2%, up 80 bps yoy) led by efficient execution, favorable job mix & sale of commercial space by realty. Core business execution has almost reached to normalization level in Q3FY21 barring few project sites. We expect L&T's execution to gain traction in next few quarters on the back of strong order backlog of ~Rs3.3trn (3.5x TTM Core business sales). Hydrocarbon segment and heavy engineering should continue to see improving margin trends. Rising share of domestic execution backed by orders picked up in the last 2 years gives margin comfort. L&T's focus on cash flows has been evident from the past few quarters. Working capital as % of sales would likely to remain flat yoy by Q4FY21 due to better collections from customers & advance payments for large projects. Order book diversification, global competence, technology differentiation, proven track record and cost efficiencies bode well for the company. Raise our FY22 earnings estimates marginally (~2%) & retain BUY rating with SOTP based price target of Rs1,584 as we roll forward to FY23. Core business revenue ramp up, infra margin recovery, prudent capital allocation & improving return ratios over FY21-23E are key stock triggers.

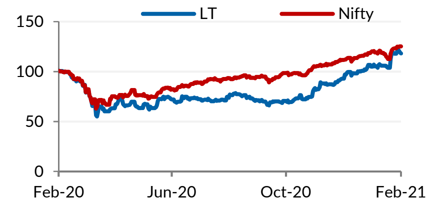
### Key highlights of earning concall

- ✓ The management has refrained from giving guidance on revenue and margins
- ✓ **Order prospect** - Order prospects for Q4FY21 are at Rs2.65tn with domestic orderbook constituting Rs2.2tn. It appears government has focused on key areas to boost economic recovery such as Metro, RRTS, HSR, roads, expressways, renewables, water and T&D.
- ✓ **Orderbook** – Order Book stands at Rs3,311bn with international order book constituting 20% of the total. Domestic orderbook is split across: Central govt – 12%, State govt – 34%, PSU-41%, and Private – 15%. In challenging times, a large proportion of orders from public space would mitigate credit risk. Out of this orderbook Rs90bn is Multi-lateral funded.
- ✓ **Outlook** – Reflecting on 9MFY21, the management stated performance has been robust primarily due to Govt and RBI proactiveness to create ordering opportunities and abundant liquidity. Revenue and Margins were impacted due to lack of labor availability and supply chain bottleneck in Q1 and in Q2&Q3 due to lower productivity arising out of safety protocols at the site level. The management has refrained from giving guidance on revenue and margins for EPC business. Meanwhile, services business continues to pursue profitable opportunities. And once normalcy returns, the focus would be to address refinancing of Hyderabad metro. With pandemic yet lingering and aftereffects continuing business pursuit need to factor additional risk warranted to ensure responsible conduct toward news emerging opportunities and prospects. Against such a backdrop the group would continue to pursue large project wins, smart execution of orderbook, and continue to preserve liquidity and optimum use of capital.

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 1593 / 648 |
| Market cap (Rs/USD mn) | 2136637 / 29368 |
| Outstanding Shares (mn) | 1,404 |
| 6m Avg t/o (Rs mn): | 6,105 |
| Div yield (%): | 0.5 |
| Bloomberg code: | LT IN |
| NSE code: | LT |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | 12.7% | 41.8% | 22.3% |

**Shareholding pattern (As of Dec'21 end)**

| | |
|---|---|
| Promoter | 0.00% |
| FII+DII | 54.41% |
| Others | 31.18% |

**Δ in stance**

| (1-Yr) | New | Old |
|---|---|---|
| Rating | BUY | BUY |
| Target Price | 1584 | 1203 |

**Δ in earnings estimates**

| | FY21e | FY22e | FY23e |
|---|---|---|---|
| EPS (New) | 52.7 | 70.9 | 88.9 |
| EPS (Old) | 47.2 | 69.6 | - |
| % change | 11.7% | 1.9% | |

**Financial Summary**

| Y/e 31 Mar (Rs bn) | FY21E | FY22E | FY23E |
|---|---|---|---|
| Revenues | 1,341 | 1,640 | 1,852 |
| EBITDA | 144 | 187 | 220 |
| EBITDAM (%) | 10.8 | 11.4 | 11.9 |
| Adjusted PAT | 74 | 100 | 125 |
| yoy growth (%) | -16.8 | 34.7 | 25.4 |
| EPS (Rs) | 52.7 | 70.9 | 88.9 |
| P/E (x) | 28.9 | 21.5 | 17.1 |
| P/BV (x) | 2.4 | 2.2 | 2.0 |
| ROE (%) | 8.9 | 11.4 | 12.4 |
| ROCE (%) | 4.0 | 5.1 | 5.6 |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- ✓ **Hyderabad Metro** – The company has infused Cash to the tune of Rs500 crore in Hyderabad Metro during Q3FY21. Currently average monthly traffic is at 0.1mn passengers per day, however, during weekdays ridership increases to 0.125-0.13mn passengers per day. (PnL for Hyderabad metro as of Q3FY21: Revenue - Rs0.50bn (Rs0.30bn due to passenger ridership), Operational expense – Rs0.50-0.60bn, Depreciation - Rs0.75bn, Interest - Rs3.65bn; Debt - Rs140bn, Equity – Rs25bn). Discussion are in process with stakeholders for refinancing, however, a substantial progress would be seen before Q1FY22E

- ✓ **Strategy for Q1 & Q2 claims** - As most of the customers are repeat customers, the company has adopted a conciliation approach which would be win-win situation for both the parties. As most of the customers are government parties, hence, an immediate settlement might not be possible. The management expects in the next 3-4 quarters some of the claims to materialize.

- ✓ **Realty Business** – Total units as per the plan are 5600. Of these, 2600 have been sold and of the balance 3000, 1900 are contracted to be sold while unsold inventory being 1100. Response to second phase in Navi Mumbai property and Bangalore property has been favorable. The mid-ticket segment has seen an uptick and would continue to be favorable in next 2-3 quarters. In contracting opportunity, mass housing opportunity is seen in a more pronounced form. The management does see uptick in in healthcare, data center and low cost residential housing. The overall exposure in real estate is Rs450bn with major part being moving/execution able orderbook barring Navi Mumbai International Airport.

- ✓ **Debt to prune** – As a pre-emptive measure during Covid, the parent undertook the borrowing of Rs120bn, the main reason debt levels shot up. And after EIC divestments, the company has started pruning debt. In the next 2-3 quarter, the management expects standalone debt to come down with incremental debt at parent level being ruled out. Currently, net debt to equity ratio is 0.1 at parent level which is expected to be negligible post March.

## Segment Performance

- ✓ **Infrastructure:** Infrastructure Segment secured orders of Rs455bn, up by 80%YoY due to the receipt of two marquee orders of High Speed Rail. Besides, notable orders received included an order for a special bridge project (Assam), domestic orders for rural water supply schemes (Madhya Pradesh), international orders in Power Transmission & Distribution and Metallurgical and Material Handling business. International orders constituted 7% of the total order inflow for the segment during the quarter. The segment order book stood at Rs2453bn as on December 31, 2020, with the share of international order book at 19%. The segment recorded revenue of Rs158bn for Q3FY21, registering a sequential growth of 22%. However, compared to the corresponding quarter of the previous year, the revenue declined by 7% primarily on account of progress being impacted due to Covid-19 preventive measures. The share of international revenue was 23% of the total customer revenue of the segment during the quarter. The EBITDA margin of the segment for Q3FY21 is at 6.2% for the current quarter as compared to 6.1% for Q3FY20. The Smart World and Communication business which was reported under Infrastructure Segment has been reclassified to "Others Segment"

- ✓ **Power:** The Power Segment did not secure any major order during Q3FY21 due to absence of green field thermal power project opportunities. The order book of the segment stood at Rs137bn as on December 31, 2020, with the international order book constituting 6% of the total order book. The segment recorded customer revenue of Rs9bn, up by 29%YoY on the back of strong opening order book. International revenue constituted 7% of the total customer revenue. EBITDA margin for the quarter was at 2.0%, lower compared to 3.4% recorded in the corresponding quarter of the previous year. The margin for the quarter reflects a major portion of the jobs at their early stages of execution and yet to achieve the margin recognition threshold.

- ✓ **Heavy Engineering Segment:** Heavy Engineering Segment secured orders at Rs10bn, up by 100%YoY led by orders contracted in the Nuclear business. International orders constituted 61% of the total order inflow. The order book of the segment stood at Rs36bn as on

December 31, 2020, with export orders having a 48% share. The segment recorded customer revenue of Rs7bn, marginally higher than the corresponding quarter of the previous year. International sales comprised 55% of the total customer revenue of the segment during the quarter. The EBITDA margin of the segment at 20.0% for Q3FY21 registered a decline over the corresponding quarter of the previous year at 23.5%, on account of changes in job mix.

- **Defence Engineering Segment:** Defence Engineering Segment received orders worth Rs7bn during Q3FY21 which were mainly domestic, registering substantial growth on a low base of the corresponding quarter of the previous year. The order book of the segment stood at Rs88bn as on December 31, 2020, with export orders constituting 13%. The segment recorded customer revenue of Rs10bn registering a marginal growth of 2% over the corresponding quarter of the previous year. Exports constituted 31% of the total customer revenue of the segment during the quarter. The EBITDA margin of the segment at 16.9% for Q3FY21 was lower as compared to the corresponding quarter of the previous year at 20.9%, as previous year witnessed a order reaching margin recognition threshold. The Military Communication Business of Defence Engineering Segment has been transferred to Smart World and Communication business and reclassified to "Others Segment".

- **Hydrocarbon:** The Hydrocarbon Segment secured orders valued at Rs128bn during Q3FY21, supported by receipt of some large value domestic orders in the petrochemicals space. International orders constituted 4% of the total order inflow of the segment during the quarter. The segment order book stood at Rs458bn as at December 31, 2020, with the international order book constituting 36%. The segment reported customer revenue of Rs44bn during the quarter ended December 31, 2020, marginally higher than the corresponding quarter of the previous year. The international revenue constituted 51% of the same. The EBITDA margin of the segment for Q3FY21 at 12.2% is almost in line with that of the corresponding quarter of the previous year.

- **Developmental Projects Segment:** The segment registered a revenue of Rs8bn during Q3FY21, a decline of 34% over the corresponding quarter of the previous year on account of lower ridership in Metro services at Hyderabad and lower PLF in Rajpura 1400 MW power station, affected due to rail roko agitation by farmers in the state of Punjab. The EBITDA margin of the segment for the quarter ended December 31, 2020 declined to 0.1% as compared to 17.3% during the corresponding quarter of the previous year due to under-utilization of Metro services on Covid-19 related restrictions.

- **"Others" Segment** comprises (a) Realty, (b) Construction & Mining Machinery, (c) Rubber Processing Machinery, (d) Valves and (e) Smart World and Communication. During the quarter, the Construction and Mining equipment business was awarded its biggest order ever for supply of 46 units of Komatsu Mining equipment to an esteemed customer. Customer revenue of "Others" Segment during the quarter ended December 31, 2020 at Rs20bn registered growth of 30% over the corresponding quarter of the previous year, with sale of commercial property in the Realty business. Export sales constituted 9% of the total customer revenue of the segment during the quarter, majorly pertaining to the Valves business. During the quarter ended December 31, 2020, the segment EBITDA margin stood at 34.3%, higher compared to 18.7% in the corresponding quarter of the previous year on the back of the aforesaid commercial property sale in the Realty business.

## Other details

- The company received one major advance of Rs4.5bn against High Speed Rail order during the quarter

- Hydrocarbon margins were at 11% mainly due to efficient execution

- Nabha Power – No conclusion yet

- The sharp jump in Other income was mainly due to high investable surplus

- NWC for the core business is Rs220bn while for group level it is 310bn. The management expects to maintain WC position at same level as of FY20. The management has adopted a strategy of ramping of operation where collections are visible, whereas in case of weak collection execution is in line with collection momentum

## Key highlights from Q3FY21 Consolidated results:

- ✓ Revenues declined 2% yoy (-5 vs our est.) as core revenues (ex-services) were down 7% yoy while IT services posted 6.6% yoy growth.
- ✓ Order inflow stood at Rs732.3bn, up 76% yoy (vs our estimates of Rs725bn) led by biggest EPC contract in the country and first of its kind - the prestigious High Speed Rail order. International orders were at Rs102bn (14% of the total order inflow). Infrastructure segment secured orders of Rs456bn, up 80% yoy. International orders constituted 7% of the total. Other notable orders received included an order for a special bridge project (Assam), domestic orders for rural water supply schemes (Madhya Pradesh), international orders in Power Transmission Et Distribution and Metallurgical and Material Handling business.
- ✓ Consolidated Order Book stands at Rs3,311bn with international order book constituting 20% of the total.
- ✓ EBITDA came in at Rs42.9bn (+1% vs our est.), up 4% yoy.
- ✓ Infra EBIT margins was flat yoy at 5.2%
- ✓ Adjusted PAT came in at Rs22.6bn, up 4.5% yoy (+6.6% vs our est.) due to higher other income of Rs10.6bn.
- ✓ Reported PAT stood at Rs24.7bn, up 5% yoy.

# Larsen & Toubro Ltd

### Exhibit 1: Consolidated Result Table

| (Rs mn) | Q3FY21 | Q3FY20 | % yoy | Q2FY21 | % qoq | Q3FY21 YSEC Est. | % change |
|---|---|---|---|---|---|---|---|
| Order Inflow | 732,330 | 415,780 | 76.1 | 280,390 | 161.2 | 250,000 | 192.9 |
| Total sales | 355,964 | 362,427 | (1.8) | 310,347 | 14.7 | 375,951 | (5.3) |
| EBITDA | 42,910 | 41,177 | 4.2 | 33,348 | 28.7 | 42,456 | 1.1 |
| EBITDAM (%) | 12.1 | 11.4 | 69.3 | 10.7 | 130.9 | 11.3 | 76.2 |
| Depreciation | (7,131) | (6,602) | 8.0 | (7,131) | 0.0 | (6,932) | 2.9 |
| Interest | (9,620) | (7,092) | 35.7 | (10,425) | (7.7) | (9,500) | 1.3 |
| Other income | 10,647 | 4,749 | 124.2 | 5,590 | 90.4 | 5,500 | 93.6 |
| PBT | 36,805 | 32,233 | 14.2 | 21,382 | 72.1 | 31,524 | 16.8 |
| Tax | (10,408) | (7,110) | 46.4 | (6,754) | 54.1 | (7,944) | 31.0 |
| Minority Interest | (3,824) | (3,515) | 8.8 | (3,563) | 7.3 | (2,400) | 59.3 |
| Adjusted PAT | 22,574 | 21,608 | 4.5 | 11,066 | 104.0 | 21,180 | 6.6 |
| Reported PAT | 24,667 | 23,521 | 4.9 | 55,203 | (55.3) | 22,480 | 9.7 |
| EPS (Rs) | 16.1 | 15.4 | 4.5 | 7.9 | 104.0 | 15.1 | 6.6 |

Source: Company, YES Sec – Research

### Exhibit 2: Segment Revenues

| Revenues (Rs mn) | Q3 FY21 | Q3 FY20 | % yoy | Q2 FY21 | % qoq |
|---|---|---|---|---|---|
| Consolidated (ex-services) | 251,822 | 270,971 | (7.1) | 215,240 | 17.0 |
| Infrastructure | 159,732 | 171,758 | (7.0) | 130,957 | 22.0 |
| Power | 9,037 | 6,983 | 29.4 | 6,887 | 31.2 |
| Heavy Engineering | 8,034 | 8,061 | (0.3) | 7,081 | 13.5 |
| Defence Engineering | 10,240 | 10,042 | 2.0 | 7,688 | 33.2 |
| Electrical & Automation | 48 | 14,198 | (99.7) | 8,460 | (99.4) |
| Hydrocarbon | 44,224 | 43,926 | 0.7 | 40,497 | 9.2 |
| Others | 20,507 | 16,004 | 28.1 | 13,672 | 50.0 |
| IT and Technology services | 65,301 | 61,259 | 6.6 | 61,998 | 5.3 |
| Financial services | 34,007 | 35,501 | (4.2) | 33,419 | 1.8 |
| Developmental projects | 8,138 | 12,382 | (34.3) | 11,396 | (28.6) |
| Total revenues | 359,268 | 380,114 | (5.5) | 322,053 | 11.6 |
| Inter-segment revenue | 3,256 | 3,489 | (6.7) | 3,246 | 0.3 |
| Discontinued ops rev. | 48 | 14,198 | (99.7) | 8,460 | (99.4) |
| Net revenue | 355,964 | 362,427 | (1.8) | 310,347 | 14.7 |

Source: Company, YES Sec – Research

### Exhibit 3: Segment EBIT

| EBIT (Rs mn) | Q3FY21 | Q3FY20 | % yoy | Q2 FY21 | % qoq |
|---|---|---|---|---|---|
| Consolidated (ex-services) | 22,497 | 22,406 | 0.4 | 14,208 | 58.3 |
| Infrastructure | 8,226 | 8,796 | (6.5) | 6,586 | 24.9 |
| Power | 88 | 139 | (36.9) | 125 | (29.7) |
| Heavy Engineering | 1,347 | 1,586 | (15.1) | 187 | 619.1 |
| Defence Engineering | 1,384 | 1,746 | (20.8) | 1,508 | (8.3) |
| Electrical & Automation | (32) | 2,571 | (101.3) | 698 | (104.6) |
| Hydrocarbon | 4,932 | 4,930 | 0.0 | 2,990 | 65.0 |
| Others | 6,553 | 2,638 | 148.4 | 2,114 | 209.9 |
| IT and Technology services | 13,595 | 9,955 | 36.6 | 11,307 | 20.2 |
| Financial services | 3,520 | 7,269 | (51.6) | 3,283 | 7.2 |
| Developmental projects | (760) | 1,825 | (141.6) | (168) | 351.2 |
| Total EBIT | 38,853 | 41,455 | (6.3) | 28,630 | 35.7 |

Source: Company, YES Sec – Research

### Exhibit 4: Segments EBIT margins

| EBITM (%) | Q3 FY21 | Q3 FY20 | bps yoy | Q2 FY21 | bps qoq |
|---|---|---|---|---|---|
| Consolidated (ex-services) | 8.9 | 8.3 | 66 | 6.6 | 233 |
| Infrastructure | 5.2 | 5.1 | 3 | 5.0 | 12 |
| Power | 1.0 | 2.0 | (102) | 1.8 | (84) |
| Heavy Engineering | 16.8 | 19.7 | (291) | 2.6 | 1,412 |
| Defence Engineering | 13.5 | 17.4 | (387) | 19.6 | (611) |
| Electrical & Automation | (66.7) | 18.1 | (8,477) | 8.3 | (7,492) |
| Hydrocarbon | 11.2 | 11.2 | (7) | 7.4 | 377 |
| Others | 32.0 | 16.5 | 1,547 | 15.5 | 1,649 |
| IT and Technology services | 20.8 | 16.3 | 457 | 18.2 | 258 |
| Financial services | 10.4 | 20.5 | (1,013) | 9.8 | 53 |
| Developmental projects | (9.3) | 14.7 | (2,407) | (1.5) | (786) |

Source: Company, YES Sec – Research

# Thermax Ltd

| ADD | CMP Rs1,141 | Target Rs1,245 | Upside 9.2% |
|---|---|---|---|

## Rich valuations imply limited upside; downgrade to ADD

**Our view:** Thermax (TMX) delivered robust Q3FY21 earnings results led by, i) Strong execution in an environment business (+28% yoy) & ii) Healthy 243bps yoy EBITDA margin expansion driven by favorable sales mix, operating leverage & cost rationalization initiatives. Although order backlog was down 4% yoy to Rs52bn (1.15x TTM sales), TMX witnessed broad based recovery with momentum in sectors ranging from food & beverage to cement and steel. We believe sectors such as steel, cement, chemical, pharma and food processing are likely to continue witnessing demand in the coming quarters. TMX has immense opportunities in the areas of clean water, clean air, and clean energy (under Environment segment), which in our view would be unprecedented. It is going through significant product enhancements and capability upgradations. As a part of this, the Company has recently launched compact sewage recycle system, 'atoM' which is an ideal solution to build a smart and green buildings. TMX Chemical business remains in sweet spot & hence we believe it could achieve sales of ~Rs10bn in medium term by increasing its market share from 2% as demand from exports especially North America remains strong. Specialty resins (~USD1bn market globally) offers huge growth potential for TMX, it can grow to Rs5bn with sustainable margin of ~25%. Thermax has once again managed the downturn relatively well with promising cash flow generation via strong control over working capital. Post our Q2FY21 results note, the stock has rallied by ~60% during last 3 months & is currently trading at 50x/34x FY22E/FY23E, implying limited room for further upside in near term. Hence we downgrade the stock to 'ADD' from 'BUY' rating with TP of Rs1,245 at 35x FY23E earnings.

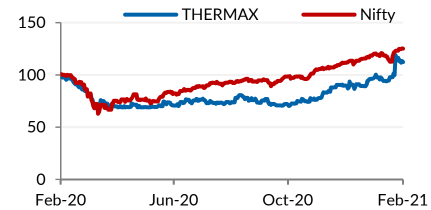
### Key highlights of earning con-call

- ✓ **Long term outlook:** The nature of energy is changing dramatically outside India and even reasonably in India with a shift in trend expected to accelerate and gain momentum in future quarters. These whole new changes carry some thereat to TMX as the company has exposure to coal based captive power plant with zero exposure to large scale utility coal. Besides, in coming decade, refinery, oil & gas projects will also have change in their business nature and overall volume sizes. On the flip side, TMX has immense opportunities in the areas of clean water, clean air, and clean energy, which in our view would be unprecedented. In addition, TMX is one of the biggest player in biomass and associated space. The company's capability in managing fuel flexibility in heating solutions provides an edge over its peers. TMX is going through significant product enhancements and capability upgradations. As a part of this, Thermax has recently launched compact sewage recycle system, 'atoM' which incorporates the Membrane Bioreactor based technology. TMX's atoM is an ideal solution to build a smart and green building. Moreover, in energy business, transition to electrification will drive changes for which new products needs to be introduced. Hence mgmt. foresees plethora of opportunities in domestic as well as export markets.

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 1286 / 570 |
| Market cap (Rs/USD mn) | 135910 / 1868 |
| Outstanding Shares (mn) | 119 |
| 6m Avg t/o (Rs mn): | 75 |
| Div yield (%): | 0.6 |
| Bloomberg code: | TMX IN |
| NSE code: | THERMAX |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | 15.6% | 47.1% | 12.9% |

**Shareholding pattern (As of Dec'21 end)**

| | |
|---|---|
| Promoter | 61.98% |
| FII+DII | 24.16% |
| Others | 8.36% |

**∆ in stance**

| (1-Yr) | New | Old |
|---|---|---|
| Rating | ADD | BUY |
| Target Price | 1245 | 865 |

**? in earnings estimates**

| | FY21e | FY22e | FY23e |
|---|---|---|---|
| EPS (New) | 18.3 | 24.3 | 35.6 |
| EPS (Old) | 16 | 27.9 | - |
| % change | 15% | -13% | |

**Financial Summary**

| Y/e 31 Mar (Rs mn) | FY21E | FY22E | FY23E |
|---|---|---|---|
| Revenues | 46,044 | 53,050 | 65,904 |
| EBITDA | 3,131 | 3,993 | 5,602 |
| EBITDAM (%) | 6.8 | 7.5 | 8.5 |
| Adj. PAT | 2,184 | 2,901 | 4,239 |
| yoy growth (%) | 2.8 | 32.9 | 46.1 |
| EPS (Rs) | 18.3 | 24.3 | 35.6 |
| P/E (x) | 62.3 | 46.9 | 32.1 |
| P/B (x) | 4.4 | 4.2 | 3.8 |
| Core RoIC (%) | 7.1 | 9.1 | 12.5 |
| RoE (%) | 7.8 | 11.8 | 18.2 |

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- **TMX's atoM is an ideal solution to build a smart and green building**: atoM is a compact modularized product to treat sewage efficiently; contributing to the circular economy model of reduce, reuse and recycle. The product is completely automated and is suitable for commercial, hospitality and industrial segments given its contemporary aesthetics, sleek design, easy installation and operation and maintenance features. It is a plug n play single basement installation system with nitrogen and phosphorus removal technology and automated operations. atoM incorporates the Membrane Bioreactor based technology, a widely used wastewater treatment process, involving biological degradation of organic load and nutrients integrated with membrane filtration. It is engineered for automated operations and provides consistent water quality, even with varying inlet loads.

- **Outlook on overseas subsidiaries:** Danstoker's profitability got impacted in Q3FY21. The management was expecting improvement in profitability with expectation that economy in Europe would get better. However, after second wave in Europe travel has been a big challenge. Resultantly, Danstoker had a loss again this quarter. Taking a view of this, the company took accounting review and all the goodwill on the book has been written down this quarter. *Danstoker has a plant in Denmark & Poland. The changes that were happening is that whole business used to work on district heating in Europe. With the whole change in environment in Europe, the district heating market has changed slightly. While some portion of market will continue to remain strong viz. renewables, biomass. The company is also adding capability for electric boiler at Danstoker. The management expects uptick in demand by March end. Mgmt is planning to turn this business into breakeven in FY22.* In South east Asia, the company has a plant in Indonesia even that has underperformed. But challenges and opportunities are slightly different than Danstoker. In South East Asia, the pipeline continues to be decent given a big move towards biomass, and fuel flexibility which is strength for TMX.  Outside of this two, the company is seeing fair amount strength for chemicals in US. The cooling business in US is witnessing slow down but is expected to pick up soon.

- **Better ordering prospects ahead:** The overall recovery is decent (not spectacular), however order pipeline is looking much better than last year. Recovery is broad-based across cement, distilleries, refinery, food and pharma. Expectations that budget will kick start infrastructure spending which would be beneficial for TMX. Besides, there is pipeline of FGD project, however, competitiveness remains to be seen. The management stated it we will not play if profitability/ cash flow is not right. TMX is banking on, i) Select large enquiries in the metals and steel segment, ii) Several small-sized enquiries from pharma/chemicals, iii) Chemicals segment led by specialty resin, iv) Increasing acceptance of its green offerings from utilities & v) Emission control or recycle equipment for industrial wastes. Share of short cycle orders is increasing as products and services constitute ~50% of order inflows since past 2 years which will eventually help in mitigating risks of large orders.

- **Broad-based recovery visible:** TMX has won orders worth ~Rs4bn for the applications based on green energy. Multiple customers are deploying waste heat recovery systems (WHRS). Besides, company had seen success in paints, wash, and distilleries industries. In Mexico, the win in last quarter was for WHRS. Moreover, TMX has also secured a 10-year long contract based on Build-Operate Model from leading mining company in India where it would be converting biomass into power.

- **Data centers not a big area for TMX:** Data center investment is increasing at rapid pace. Data center works on mainly power that comes in through grid or with back up from gensets. In case of water treatment, TMX provide solutions. Going forward, what is provided through gensets can be provided through battery technology, fuel cell, integrated solar & micro grid solutions, and water solution driven by nature of power. So, the future can be different, but currently not a big area for TMX.

- **Healthy margin in Energy business during Q3FY21** was witnessed due to higher volumes and better mix due to bigger portion of one international order executed with relatively higher margin.

- **Focus on digitalization:** TMX is in putting into digitalization efforts on two fronts. From customer perspective, TMX would continue focus on i) remote commissioning and monitoring, ii) Asset maintenance for outsourced utility delivery services & iii) CRM. To improve internal efficiency, TMX has also initiated few steps like opex project management app, control over 3rd party expenses & process automation.

- ✓ **Short term capacity constraint in Chemical business**: Phase 2 of Dahej plant has come into play but management expects it to stabilize by Q1FY22E. So, right now TMX has constraint on supply side rather than demand on the chemical side. Chemicals business had remained resilient even in the current environment with change in product mix towards higher share of specialty chemicals. Thermax has already established itself in the export markets and expects to see continued strength in this business. This business offerings primarily, revolves around Ion Exchange Resins, Water and Fuel Treatment, Chemicals, Oil Field Chemicals & Construction Chemicals.

- ✓ **Shift in revenue cycle for two FGD orders**: Execution on two FGD orders have started, but revenue cycle on both would shift from FY21E-FY22E to FY22E-FY23E (a shift of six months).

- ✓ **Lower margin FGD orders might get compensated through leverage play:** Environmental business is mainly water solution and clean air. In case of FGD business, margins are relatively lower than average profitability of overall environment business. However, mgmt. seems confident of mitigating its impact through leverage play.

- ✓ **Water segment**: The management has high expectation from this business, though focus will remain on B2B and not venturing into municipality/government projects (though depends on case-by-case basis). The management sees enough pipeline from current set of products.

- ✓ **Capex guidance**: Capex for FY21E/FY22E would be around Rs0.4-0.5bn/ Rs0.7bn.

### Key highlights from Q3FY21 results:

- ✓ Revenue was flat YoY at Rs14.10bn (+7% vs our est.)
- ✓ Environmental sales increased by 28.4% YoY, while Energy & Chemical segmental revenues declined by 4.9%YoY and 4.7%YoY respectively.
- ✓ EBITDA grew 30%YoY to Rs1.47bn (+60% vs est.)
- ✓ EBITDA margin expanded by 243bps at 10.46% (7% vs our est.)
- ✓ EBIT margin for Energy/Environment/Chemical came in at 9.1%/7.1%/26.1% for the quarter
- ✓ Adj. PAT increased by 31% at Rs1.1bn (+68% vs est.)
- ✓ The company had an order balance of Rs52.08bn (Rs54.39bn), down 4%YoY (Segment wise order backlog: Energy-Rs35.96bn, Environment-Rs15.32bn, and Chemical-Rs0.79bn).
- ✓ Order inflows for the quarter were at 2.6%YoY lower at Rs15.65bn (Rs16.06bn) (Segment wise order booking: Energy – Rs12.91bn, Environment- Rs1.72bn, and Chemical-Rs1.02bn)
  - Thermax's order book witnessed broad based recovery with momentum in sectors ranging from food & beverage to cement and steel
  - This includes the major EPC order from a biorefinery in Assam for setting up captive Combined Heat and Power plant
  - In the Energy segment, the company secured – i) Major order from an Indian chemical company for their new cogen plant bagged in January 2021, ii) first gasification order from a mining company, iii) Major order for waste heat recovery boiler from Mexican refinery
  - In the environment segment, the company secured – i) First breakthrough order for atoM from an e-commerce giant for their data center, ii) Water and waste solutions

commissioned at landmark facilities in India – WTP for world's largest mobile factory and a pharma major's new facility

- In the chemical segment, the company received major order for specialty resins from a USA customer for ground water remediation application.

**Exhibit 1: Result Table (Consolidated)**

| Particulars (Rs mn) | Q3FY21 | Q3FY20 | % yoy | Q2FY21 | % qoq |
|---|---|---|---|---|---|
| Total sales | 14,106 | 14,101 | 0 | 11,412 | 24 |
| EBITDA | 1,476 | 1,132 | 30 | 793 | 86 |
| EBITDAM (%) | 10.46 | 8.03 | 243 | 6.95 | 351 |
| Depreciation | 291 | 316 | (8) | 287 | 1 |
| Interest | 57 | 19 | 193 | 47 | 20 |
| Other income | 282 | 258 | 10 | 228 | 24 |
| PBT | 1,411 | 1,054 | 34 | 687 | 105 |
| Tax | 300 | 205 | 46 | 129 | 133 |
| Adjusted PAT | 1,111 | 850 | 31 | 559 | 99 |
| Exceptional item | 279 | 0 | | 247 | |
| Reported PAT | 833 | 850 | (2) | 312 | 166 |
| PATM (%) | 5.9 | 6.0 | (12) | 2.7 | 316 |
| EPS (Rs) | 9.3 | 7.1 | 31 | 4.7 | 99 |

# Consumer Staples, Discretionary & Durables

## Strong recovery led by pent-up and festive demand

### Our observations on 3QFY21 results in the Consumer Staples, Discretionary and Durables Space

**Key trends visible across consumption categories include a recovery in urban demand in large cities with the markets opening up, strong growth in demand during the festive period, benefits of pent-up demand in some discretionary categories, continued market share gains for leading brands across categories, gross margins impacted by input cost inflation offset by cost efficiencies and mostly lower marketing spends, strong growth in online channel and shift in corporate spends towards digital media and continued product and service innovation by companies. Most staples companies reported double-digit volume growth and a marginal decline in margins. On the discretionary side, paints, jewellery saw strong growth led by pent-up demand and recovery in larger cities while apparel and QSR still remain below pre-COVID levels. All durable companies reported strong growth led by pent-up demand during festive season and pre-buying before the recent price hikes. While gross margins were impacted due to RM inflation, margins improved for most companies led by reduced marketing and G&A spends by most companies. We expect 4Q to see full recovery for the few discretionary categories, base effect benefits for staples and some cool-off in growth trajectory fir durables. Our top picks in staples currently are Nestle, Marico, Emami, Tata Consumer and Radico Khaitan. Our top picks in the discretionary space are Jubilant Foods, Page Industries, Relaxo and ABFRL. Our top picks in the durables space are Crompton Consumer, Polycab and Dixon Tech.**

### Consumer Staples quarter highlights

- ✓ Staples companies continued to sharply improve their volume growth trajectory led by continued growth in health, hygiene and nutrition categories and sharp recovery in other lagging categories.
- ✓ Categories like soaps, oral care, packaged foods, beverages saw strong double-digit growth; discretionary categories like skin care, cosmetics, premium personal care and out-of-home saw sequential recovery.
- ✓ Rural demand has continued to grow faster than urban demand across companies led by improved disposable income and other government measures; urban demand staged a smart recovery in metros and large cities while momentum in smaller cities also sustained.
- ✓ In terms of channels, e-commerce remains the fastest growing channel for all companies with increasing consumer adoption, while General Trade has also seen a strong recovery; Modern Trade has started to recover while CSD ordering remains muted.
- ✓ Another clear trend was continued market share gains for leading brands in all categories which continued to benefit from supply chain and manufacturing disruptions for local and unorganized players and consumer shift towards more trusted brands.
- ✓ Some companies have picked up pace on the innovation agenda with multiple launches in booming categories like hygiene, immunity, convenience foods; others have launched smaller pack sizes suited for rural markets and e-commerce specific variants to benefit from e-com and rural growth.

| Stock | Rating | TP |
|---|---|---|
| ABFRL | Buy | 206 |
| Avenue Supermarts | Add | 3,080 |
| V-Mart Retail | Buy | 2,400 |
| Dixon Technologies | Add | 15,430 |
| Page Industries | Add | 33,920 |
| CCL Products | Buy | 352 |
| Tata Consumer | Buy | 617 |
| Nestle India | Add | 18,232 |
| HUL | Not Rated | |
| ITC | Not Rated | |
| Britannia | Not Rated | |
| Dabur India | Not Rated | |
| Marico | Not Rated | |
| Jyothy Labs | Not Rated | |
| Radico Khaitan | Not Rated | |
| United Spirits | Not Rated | |
| Emami | Not Rated | |
| Berger Paints | Not Rated | |
| Asian Paints | Not Rated | |
| Titan | Not Rated | |
| Westlife Dev | Not Rated | |
| VIP Industries | Not Rated | |
| Sheela Foam | Not Rated | |
| Jubilant Food | Not Rated | |
| Voltas | Under Review | |
| Bajaj Electricals | Not Rated | |
| V-Guard Ind | Not Rated | |
| Whirlpool | Under Review | |
| Blue Star | Under Review | |
| Orient Electric | Under Review | |
| Polycab | Under Review | |
| Crompton Cons | Under Review | |
| Havells India | Under Review | |

**Note: Target and Recommendation as on Result Date**

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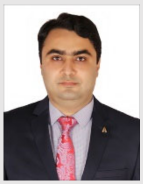

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- ✓ Gross margins saw a declining trend with strong inflation in few commodities like palm oil, tea and agri products while softness in dairy and crude derivatives offset that to some extent.
- ✓ While A&P spends increased sequentially, it remained marginally below normal levels for most players which helped offset gross margin weakness; a majority of cutbacks on discretionary spends and production efficiencies were retained to a large extent which helped protect margins.
- ✓ Witnessing strong trends in January as well, most players have guided for the positive growth trajectory to continue in the near-term if there are no further demand-supply shocks.
- ✓ Overall, biggest positive surprises came from Dabur, Emami and Radico Khaitan while negative surprises came in from Britannia, Tata Consumer and ITC.

## Consumer Discretionary quarter highlights

- ✓ Most discretionary categories saw a sharp sequential recovery with growth being driven by a recovery in larger cities and continued momentum in smaller cities in towns in categories like paints, adhesives, apparel, jewellery, footwear and QSR.
- ✓ Paint/adhesives companies saw 20-30% volume growth in decorative paints benefitted by pent-up demand and improving sentiments although revenue growth was lower given an inferior mix; strong cost controls and muted input costs led to sharp margin improvement.
- ✓ Apparel retailers reached about 80% of last year's levels from a low of 20% in 1Q led by increase in store operations, innerwear segment saw a strong growth with increasing demand for athleisure and kidswear, strong cuts in overheads and savings on rentals limited the impact on profitability; most players are hopeful of complete recovery in 4Q.
- ✓ Grocery retailers also saw a strong recovery with the progressive reopening of stores although margins remained under pressure given the inferior sales mix and higher store operating expenses.
- ✓ On the jewelry front, pent-up demand coupled with aggressive promotions seems to have driven business back to growth trajectory earlier than expected; margins were lower given the inferior mix in favor of plain gold jewelry vs studded jewelry in addition to higher hedging expenses.
- ✓ Footwear companies saw a sharp increase in demand for open footwear in smaller markets which helped Relaxo; demand for premium closed footwear remained weak impacting Bata; downtrading was visible which impacted realizations but margins remained strong given favorable RM and cut on discretionary expenses.
- ✓ QSR chains also saw a sharp recovery in 3Q led by convenience platforms like delivery and takeaway with gradual m-o-m improvement seen during the quarter which has continued in January. Significant market share gains from unorganized players and consumer acceptance of delivery and takeaway formats have offset the decline in dine-in; margins saw a sharp improvement given savings on rentals, store efficiencies and manpower optimization.
- ✓ Biggest positive surprises came from Asian Paints, Avenue Supermarts, Titan, Page Industries and Jubilant Foods while negative surprises came from VIP Industries, V-Mart and Westlife.

## Consumer Electricals quarter highlights

- ✓ All electrical companies saw strong 20-40% growth in durables and appliances given a combination of pent-up demand, pre buying before the 10% plus hikes being announced from January and more people staying at home.
- ✓ Most B2C categories grew in 30% plus while the B2B/industrial categories also staged some recovery.
- ✓ Gross margins were under pressure for most players given input cost pressures and availability issues while EBITDA margins still expanded given much lower expenses on both marketing and G&A fronts.
- ✓ There was strong improvement in demand across white goods categories like TVs, washing machines and ACs mainly in smaller cities which have seen a step up in penetration levels.
- ✓ Biggest positive surprises came from Bajaj Electricals, Havells, Dixon Tech and V-Guard.

**Exhibit 1: 3QFY21 Results**

| Company | Rev growth (% YoY) | GP margin (bps change YoY) | EBITDA margin (bps change YoY) | PAT growth (% YoY) | Comments |
|---|---|---|---|---|---|
| **Consumer Staples** | | | | | |
| Britannia | 6.0% | 300 | 250 | 22.0% | Muted 4% volume growth given normalization of pantry stocking, marginsled by cost efficencies |
| Tata Consumer | 23.1% | -570 | -100 | 31.3% | Mixed quarter impacted by tea inflation, storng cost contols helped, strong international performance |
| CCL Products | -2.1% | 520 | -90 | 0.2% | Volumes impacte dby logistics issues, margins impacted by MEIS non-realization, India business strong |
| ITC | -0.2% | -400 | -280 | -14.0% | 3.5% growth in cigarettes, 7.5% in FMCG, sharp margin decline given inferior mix and volume decline |
| Dabur | 18.5% | 0 | 10 | 21.2% | 18% volume growth, 13% international growth, growth led by helthcare, oral care, HPC segments |
| Marico | 16.3% | -200 | -100 | 12.9% | 15% volume growth, rural growth of 24%; growth led by VAHO (21%) and Saffola (17%) |
| HUL | 21.0% | -20 | -80 | 15.0% | 7% organic, 4% volume and 10% health/hygiene growth, margins impacted by tea and palm oil inflation |
| Jyothy Labs | 13.0% | 10 | 90 | 18.0% | 15% volume growth, better mix drove margins despite higehr A&P, dishwashing and personal care led growth |
| Radico Khaitan | 6.0% | 230 | 230 | 44.6% | 5% growthin P&A, 1% decline in popular, muted input prices and better mix helped margins despite high A&P |
| United Spirits | -3.6% | 20 | 100 | 22.1% | 4.5% ex-AP P&A growth, popular segment declined 7%, soft RM prices helped margins |
| Emami | 14.9% | 210 | 390 | 45.0% | 13% volume growth led by healthcare, Boru Plus, Kesh King; storng cost reductiona and RM tailwinds |
| **Consumer Discretionary** | | | | | |
| Berger Paints | 24.0% | 300 | 240 | 53.0% | Led by 32% decorative volume growth with growth in metros coming back and soft input costs as well |
| Asian Paints | 25.0% | 200 | 400 | 62.0% | Led by 30% plus decorative volume growth, reocvery in industrial, better mix and cost initiatives helped margins |
| Titan Company | 16.7% | -200 | -50 | 10.8% | Led by 16% jewellery growth, 93% recovery in eyewear, 88% in watches; inferior mix impacts margins |
| Page Industries | 16.8% | 240 | 690 | 76.6% | Led by 10% volume growth given strong demand for athleisure and kidswear, strong opex controls |

| Company | Rev growth (% YoY) | GP margin (bps change YoY) | EBITDA margin (bps change YoY) | PAT growth (% YoY) | Comments |
|---|---|---|---|---|---|
| Westlife Development | -25.0% | -30 | -290 | -64.0% | Revenue recovery of 75% led by convenience platforms, margins recovered led by new cost structures |
| ABFRL | -19.6% | 30 | 190 | nm | Revenue recovery of 80% led by Madura retail, all time high margins in Pantaloons, 24% innerwear growth |
| VIP Industries | -44.0% | -1200 | -800 | nm | Revenue recovery of 56%, lower margins due to discounting and inferior sourcing mix, strong cost cuts |
| Sheela Foam | 26.0% | -500 | 310 | 54.0% | Strong mattress demand increase across geographies, lower marketign spends protected margins |
| Jubilant Foodworks | 0.0% | 330 | 250 | 22.0% | Full recovery led by delivery and dine-in, record store addition in Domino's, cost controls continue |
| Avenue Supermarts | 10.1% | 10 | 50 | 19.3% | Strong recovery in festive period, strong cost controls offset inferior mix, 92% growth in Dmart Ready |
| V-Mart Retail | -16.4% | 40 | 130 | -17.7% | Revenue recoveryof 84% with storng festive and winter sales, reduced discounting, higher ticket sizes |
| **Consumer Durables** | | | | | |
| Voltas | 34.0% | -400 | 80 | 46.0% | 40% growth in Room AC, 11% in coolers, 100% in commercial and 26% in projects business |
| Bajaj Electricals | 16.8% | 80 | 460 | 948.0% | 34% growth in consumer business, strong margin improvement, EPC receivables down sharply |
| V-Guard Industries | 32.0% | -60 | 420 | 79.3% | Growth driven by pent-up demand and pre buying, margin impacted by input pressures |
| Whirlpool of India | 17.5% | -290 | 140 | 14.8% | Continued share gains, recovery in large cities and significant increase in white goods penetration |
| Dixon Technologies | 119.6% | -320 | -60 | 134.2% | Growth led by TVs and lighting given strong festive demand, improved scale offset input cost pressures |
| Blue Star | -9.1% | -50 | 270 | 82.0% | UCP revenue up 17%, projects down 23%, margin expansion led by product mix and cost rationalization |
| Orient Electric | 24.7% | -310 | 450 | 171.8% | Durables growth of 42% led by festive and pre buying, consumer lighting grew in mid-teens |
| Polycab India | 11.6% | -320 | -10 | 19.1% | FMEG growth of 41%, wires and cables up 11%, exports down 33%, EPC down 47%, strong cost savings |
| Crompton Consumer | 25.8% | 10 | 200 | 45.0% | ECD growth of 32%, B2B lighting muted, strong cost controls helped margin despite commodity inflation |
| Havells India | 39.5% | -150 | 410 | 75.0% | 70% growth in Lloyd, 46% in ECD, 32% in switchgears, margin expansion led by lower A&P spends |

# Britannia Industries

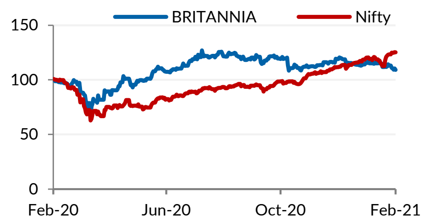
## Soft demand outlook would be the headline, but strong margins and attractive valuation cannot be overlooked

- ✓ **View** – While growth performance was disappointing, even the outlook going forward looks a bit soft with no sustainable demand tailwinds. The new adjacent categories remain the key driver for a pick-up in growth trajectory which needs to be closely watched. Margins, however, can offset that with most cost efficiency measures sustaining which can stabilize margins at much above historical levels. With no significant change to estimates, the stock is currently at 39x FY23E earnings which is among the cheapest in the FMCG pack and hence should gradually re-rate towards 45x indicating a fair value of close to Rs 4,050.
- ✓ **Operating environment** – Robust GT and rural growth but MT and institutional business muted, diversification of consumer purchase basket, normalization of pantry stocking and diet diversification, steep palm oil inflation while others commodities in control.
- ✓ **Quarter highlights** – 6% topline growth, 250bps margin improvement and 22% PAT growth (9MFY21 11% volume and 14% revenue growth), market share gains for 36 straight quarters.
- ✓ **Distribution ramp-up restarted** – Strong increase in direct reach post March lows, rural ramp-up continues unabated, double-digit growth continues in Hindi belt with 1.3x-1.6x growth of FY18 growth rates.
- ✓ **Marketing and innovation normalizing** – Marketing activities levels back to normal, promotions started on few recent launches, muted new launches as of now.
- ✓ **Key cost efficiencies sustained** – 7% better factory productivity, 30% lower wastages, 50% higher direct dispatches from factories to distributors and 10% lesser depot space of pre-COVID levels.
- ✓ **Adjacent businesses** – Healthy growth in Middle East and Africa, better margins in bread, stable growth and better margins in rusk, cheese growth in double-digits, some pick-up in drinks, better margins given lower milk prices.
- ✓ **Commodity costs** – Broadly in control with flour down 7%, milk down 15%, sugar up 1% and palm oil up 25%.
- ✓ **Consumer behavior trends** – Higher in-home consumption, shift towards top brands, preference for comfort foods at reasonable prices, some level of downtrading, multiple cost saving opportunities, health & wellness focus.
- ✓ **Demand outlook** – Should get back to pre-COVID growth rates of 9-10% for next few quarters, significant impact on MT channel especially Big Bazaar issue plus softness in alternate channels like offices, hotels, railways etc led to lower than expected growth; will take more time for large cities, MT channels and transit channels to normalize; will get more growth momentum once those normalize and rural and GT continue with momentum.
- ✓ **Rusk and cake** - Rusk has seen strong double-digit growth but cake is muted given its urban centricity and high share from schools.
- ✓ **Market share** – Strong execution from No.2 player and better value for money has helped them gain more market share in last 3 quarters, while No.3 and unorganized players have lost significant share.

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty: | 15,163 |
| 52 Week h/l (Rs) | 4010 / 2100 |
| Market cap (Rs/USD mn) | 824071 / 11327 |
| Outstanding Shares (mn) | 241 |
| 6m Avg t/o (Rs mn): | 2726 |
| Div yield (%): | 0.7 |
| Bloomberg code: | BRIT IN |
| NSE code: | BRITANNIA |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | -5.8% | -2.7% | 12.7% |

**Shareholding pattern** (As of Sep'20 end)

| | |
|---|---|
| Promoter | 50.6% |
| FII+DII | 27.5% |
| Others | 21.9% |

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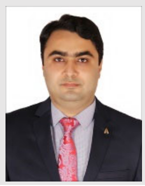

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# Britannia Industries

- **Margin outlook**- Will endeavor to maintain current level of margins; brand extensions and new innovative products should be margin accretive.
- **Wafers and crossiants** – Strong 30% plus growth in wafers from a small base, croissants also saw growth but only in test markets post fine tuning of the product.
- **E-commerce and MT contribution**– E-commerce contribution very low still at only 1%, MT contributes about 10% which has come off.
- **Capex** – FY21 capex would be 60% of normal about 200crs, FY22 yet to be finalized.
- **Small packs** – Rural growth has driven increase in share of small packs, weak MT channel has also contributed to that; should normalize in next 3-4 months.
- **Wafer competition** – Some large organized players have increased competition; trying differentiated strategy by reducing dealer margins, lowering promotions and differentiated product quality; have become No. 2 player in the category.
- **Hindi belt opportunity** – 4 largest states are 35-40% Of entire biscuits market, company still relatively weak which means large growth opportunity as company started at 33% of its national market share 4 years back which has now increased to 50% of national market share.
- **IT transformation project** – Investing in a new updated ERP system, revamped dealer management system and a new vendor management system which should be complete in 3-4 months.
- **Ranjangaon mega project status** – Have invested 700crs till now, target total of 1500crs investment till FY24 including dairy project; will get incentives from Maharashtra government.

**Result Report Q3 FY21** | Sector: Consumer Staples

# CCL Products (India) Ltd

| BUY | CMP Rs244 | Target Rs352 | Upside 44% |
|---|---|---|---|

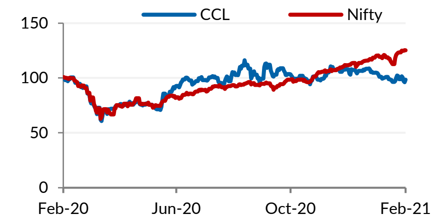
## 3QFY21 result update - Quarter impacted by temporary logistics issues; reiterate BUY given a strong growth platform for FY22

- ✓ **Our view – While the current quarter performance was below our estimates mainly on account of the temporary logistics issues, we remain positive on the medium term growth outlook for the company. Continued penetration into developed markets, multiple ongoing value addition initiatives, stable demand environment for coffee and strong progress on the branded business are key positives which should more than offset the impact of MEIS shortfall and some delays in expansion. In any case, FY22 should not see any MEIS impact as overdue payments for FY21 should be received by the company. Company remains on track to deliver 12% revenue and 16% earnings CAGR over FY20-23E with 20% average ROCEs. After a large period of underperformance given a tepid performance from India business, we see FY22 delivering very strong growth and therefore reiterate our BUY rating with a target price of Rs 352 based on 18x FY23E earnings.**
- ✓ **Quarter summary –** Revenue/EBITDA/PBT decline of 2%/18%/18% respectively impacted by a combination of logistics and container availability issues which deferred a few FDC shipments from India and non-realization of MEIS subsidies worth 28cr which are earned for 9MFY21.
- ✓ **Logistics issue details –** Currently there is a 15-20 day delay and a sharp price rise in procuring food grade containers which has led to a postponement of a few FDC shipments worth ~50cr which should be delivered in 4Q; no significant margin impact as most contracts were FOB basis and therefore paid for by clients; expect the situation to continue till end-4Q at least.
- ✓ **Increase in gross margins and other expenses –** Gross margins increased sharply by 390bps to 55% led by higher sales in small packs and a better sales mix in Vietnam while other expenses increased on account of 12-15cr expenses on packing material for small packs and higher freight expenses.
- ✓ **Near term demand outlook –** Some Russian customers who has postponed orders for months are now starting see to deliveries albeit the lag of 2-3 months will continue.
- ✓ **MEIS scheme impact –** Scheme expired officially on 31 December and will be replaced with a new scheme from January which has still not been notified, so uncertainty with regards to extent of incentives remains, but 28crs of dues for 9MFY21 should be received in next few quarters in any case; currently company is pricing its products based on market situation, confident of passing on any MEIS shortfalls.
- ✓ **Ongoing capex projects –** Both the granulation/packing plant in Chittoor and the 3500MT expansion in Vietnam will be commissioned in 1QFY22.
- ✓ **4QFy21 outlook –** Expect some degree of normalcy to return as company is trying to time its imports with its scheduled dispatches, should be able to do better sequentially.
- ✓ **Volume guidance –** While 10% volume growth remains achievable, MEIS shortfall can impact revenue and profitability to some extent; still targeting to reach 80% plus utilization levels on expanded capacity in FY22 with new clients for Vietnam expansion already tied up; realizations will also increase with more granulation and small pack sales.

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty: | 15,163 |
| 52 Week h/l (Rs) | 292 / 137 |
| Market cap (Rs/USD mn) | 32459 / 446 |
| Outstanding Shares (mn) | 133 |
| 6m Avg t/o (Rs mn): | 62 |
| Div yield (%): | 0.8 |
| Bloomberg code: | CCLP IN |
| NSE code: | CCL |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | -6.0% | 0.0% | 0.1% |

**Shareholding pattern** (As of Sep'20 end)

| | |
|---|---|
| Promoter | 46.2% |
| FII+DII | 27.1% |
| Others | 26.7% |

**Financial Summary**

| | FY21E | FY22E | FY23E |
|---|---|---|---|
| Revenues | 12,667 | 14,818 | 16,188 |
| Yoy growth (%) | 11.2 | 17.0 | 9.2 |
| OPM (%) | 23.9 | 24.4 | 24.6 |
| EPS (Rs) | 14.0 | 17.2 | 19.5 |
| EPS growth | 12.1 | 23.1 | 13.6 |
| P/E (x) | 17.4 | 14.2 | 12.5 |
| EV/EBITDA (x) | 11.8 | 9.8 | 8.7 |
| Debt/Equity (x) | 0.3 | 0.3 | 0.2 |
| RoE (%) | 18.9 | 20.8 | 20.9 |
| RoCE (%) | 18.3 | 20.8 | 21.8 |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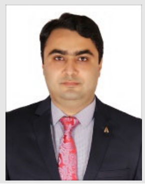

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# CCL Products (India) Ltd

- ✓ **Current capacity utilization –** Vietnam at 90% utilization Chittoor FDC plant at 80-85% utilization and Duggirala plant at 60-65% utilization currently.
- ✓ **India branded business –** Achieved branded sales of 70cr and overall domestic sales of 105cr in 9MFY21 with marginal loss of 1.2cr; FY21 guidance increased to 140cr from 125cr earlier given strong traction in ecom and GT channel.
- ✓ **US business –** Already doubled US volumes in last one year vs historical levels; also launched an innovative instant cold brew in US retail market with strong response.
- ✓ **Capacity expansion plans –** Started exploring next round of expansion in Vietnam, whereby capacity will be doubled at a much lower cost as infrastructure is already in place.

**Exhibit 1: Result Summary**

| YE March (Rs mn) | 3QFY21 | 3QFY20 | 2QFY21 | YoY (%) | QoQ (%) |
|---|---|---|---|---|---|
| Net Revenues | 2,962 | 3,027 | 3,221 | (2.1) | (8.0) |
| COGS | 1,333 | 1,479 | 1,619 | (9.9) | (17.7) |
| (% of sales) | 45.0 | 48.9 | 50.2 | | |
| Employee cost | 196 | 163 | 180 | 20.1 | 9.0 |
| (% of sales) | 14.7 | 11.0 | 11.1 | | |
| Others | 745 | 543 | 647 | 37.2 | 15.1 |
| (% of sales) | 25.2 | 17.9 | 20.1 | | |
| EBITDA | 688 | 842 | 775 | (18.3) | (11.3) |
| EBITDA margin (%) | 23.2 | 27.8 | 24.1 | | |
| Other income | 36 | 6 | 1 | 459.8 | 4,617.4 |
| PBIDT | 724 | 848 | 776 | (14.6) | (6.7) |
| Depreciation | 125 | 120 | 126 | 4.2 | (0.5) |
| Interest | 38 | 41 | 39 | (6.4) | (0.8) |
| PBT | 561 | 687 | 612 | (18.4) | (8.3) |
| Tax | 90 | 217 | 137 | (58.8) | (34.6) |
| ETR (%) | 16.0 | 31.6 | 22.4 | | |
| Adjusted PAT | 471 | 470 | 475 | 0.2 | (0.7) |
| PATAMI margin (%) | 15.9 | 15.5 | 14.7 | | |
| Extraordinary income/ (exp.) | - | - | - | | |
| Reported PAT | 471 | 470 | 475 | 0.2 | (0.7) |

**Result Report Q3 FY21** | Sector: Consumer Staples

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# Dabur India

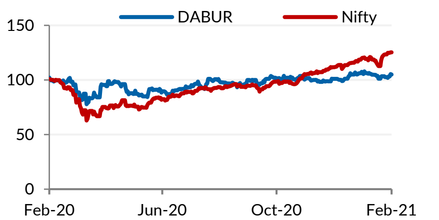
## 3Q results and investor call takeaways – Industry-leading growth momentum continues led by oral care and healthcare; further re-rating potential intact

- ✓ **View –** Dabur continues to grow well ahead of peers for the second consecutive quarter given tailwinds for the healthcare space and strong performance in oral care. While healthcare trajectory can come off a bit, FY22 growth can be driven by a recovery in HPC and foods business. Despite RM headwinds, margins can continue improving with reduced promotions, calibrated price hikes and cost efficiencies. Dabur remains one of our top picks which we believe should move towards 45x FY23 P/E vs current multiple of 39x, indicating 15% upside.
- ✓ **Result highlights –** 18% India volume growth, 19.5% India revenue growth, 13% international growth, 16.5% EBITDA growth with 10bps margin improvement and 19% PAT growth; Healthcare grew 28%, HPC grew 16%, foods grew 5%; 120bps share gain in chyawanprash, 700bps share gain in honey, 28% growth in oral care with share gain of 120bps, 27% growth in shampoo, juices grew 8% ex-HORECA and culinary grew 16%; sharp 170ps in A&P supported growth, eCommerce now 6% of business with 150% growth, new launches contributed 4-5% in 3Q and 6% YTD.
- ✓ **Oral category –** Category has grown 9% in value and 3% in volume terms, herbal and natural segment (30%) is growing at 14%, grew well ahead of market at 28%.
- ✓ **New launches performance –** Sanitizers, surface cleaners, home hygiene products have not done well with reduced demand and commoditization; Products that did well include healthcare juices, health drops, hair oil variants, herbal toothpaste, pulling oil, e-commerce only products like baby range, vinegar.
- ✓ **Margin outlook –** RM prices are firming up across the board, will be passing on via calibrated price hikes, reduced promotions and some cost efficiencies will also help.
- ✓ **Chyawanprash and honey trends –** No moderation in momentum visible yet, growth rate can come off somewhat post COVID; penetration levels of both have increased. Honey – 40% market share in 1500cr category, no impact of recent purity controversy post FSSAI clarification.
- ✓ **E-commerce and MT outlook –** Expect e-commerce channel to keep getting bigger in both urban and semi-urban markets, MT chains will also have their own platform, B2B e-com is also catching up; with MT also recovering, will eat into GT share.
- ✓ **Juices –** 8% growth ex-HORECA, colas recovery looks temporary, pet bottle foray also doing well for Real.
- ✓ **Export subsidiary –** Formed new subsidiary to cater to export opportunities in markets like US (both white label and own brand) to complement business of international units.
- ✓ **Distribution reach –** On track to reach target of 1.4mn direct reach by FY21-end.
- ✓ **Digestives –** Hajmola portfolio has been flattish, impulse purchase of sachets declined sharply with reduced OOH consumption, bottle is up 15% but contributes only 25% of segment.

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty: | 15,163 |
| 52 Week h/l (Rs) | 553 / 386 |
| Market cap (Rs/USD mn) | 943803 / 12972 |
| Outstanding Shares (mn) | 1767 |
| 6m Avg t/o (Rs mn): | 1813 |
| Div yield (%): | 0.6 |
| Bloomberg code: | DABUR IN |
| NSE code: | DABUR |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | -1.3% | 3.1% | 3.4% |

**Shareholding pattern** (As of Sep'20 end)

| | |
|---|---|
| Promoter | 67.9% |
| FII+DII | 25.0% |
| Others | 7.1% |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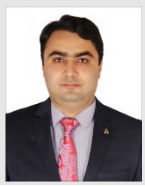

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# Dabur India

- ✓ **Healthcare growth not reflecting in higher margin –** Significant 5-6% RM inflation in herbs, spices has impacted margins to some extent, higher A&P spends on new products have also been another reason.
- ✓ **A&P spends –** Currently trending around 10%, would want to go upto 11.5-12% if gross margins are supportive.
- ✓ **Supply chain –** Happy with supply chain capabilities to take care of the ever expanding portfolio, consolidated from 36 to 25 warehouses; limited stockist bandwidth for a diverse portfolio therefore breaking up the lines into 3 parts – healthcare, HPC and foods.
- ✓ **Overseas business outlook –** SAARC growth at 15% sustainable, MENA also doing well on low base, US and Egypt also doing well.
- ✓ **Channel inventory –** Down to 13 days from 21 days which is improving business hygiene and improving distributor ROIs.

# Emami Ltd

## 3Q investor call takeaways

### Strong momentum continues across segments and channels, margins reach record levels

- ✓ **Our view –** As expected, growth momentum has continued for Emami with muted growth over the past couple of years forming a favorable base, most brand re-launches now delivering good results, aggression on new launches contributing, COVID tailwinds also helping and margins reaching new highs. As valuations are still undemanding compared to peers at about 30x FY23 earnings, we expect Emami to outperform the FMCG pack and continue its re-rating with expected release of promoter pledge another driver for the same.

- ✓ **Quarter highlights –** Growth momentum continued with broad-based growth coupled with margin improvement, 16% domestic sales growth and 13% volume growth led by 38% growth in healthcare, 21% in Boro Plus, 16% in Kesh King and 12% in pain management, Navratna declined by 12% due to strong winter; foray into home hygiene with Emasol;, new launches contributed 3% to sales in 3Q and 4% in 9M; urban growth has also recovered with 3.5x growth in eCom (3.1% of sales now), 51% growth in MT (9% of sales now); international business grew 26%; GMs up 210bps and EBITDA margins grew 390bps 36.4% driving 45% PAT growth

- ✓ **Management commentary** - New launch momentum to remain strong; urban growth has recovered all across channels, focus on increasing direct rural coverage, increasing sales manpower in key focus states; confident of sustaining growth rate and ending FY21 with high single-digit growth rate.

- ✓ **Honey controversy –** Issue seems to have died down with overall market growing quite well; sales momentum for Emami remains strong albeit base is small, making it a mainstream product now.

- ✓ **Emasol strategy –** Category is challenging and competitive but initial response strong in channels like e-Commerce, MT, rural GT; believe pricing is a key determinant which will be used in initial phases.

- ✓ **Margin outlook –** Not witnessing much margin pressure as of now despite margins currently at all-time high which can cool-off somewhat (by 100-150bps in FY22); RM inflation has started but menthol remains benign; still see more room for cost reduction and some price hikes.

- ✓ **New launches –** 30 new launches (60 SKUs) so far in FY21 are contributing 4% to sales; see strong potential in 5-6 products; success seen in soaps, aloe vera gels and floor cleaners.

- ✓ **Healthcare segment outlook –** Target 25-30% growth in healthcare portfolio, many new launches in pipeline, ramping up retail reach for the segment.

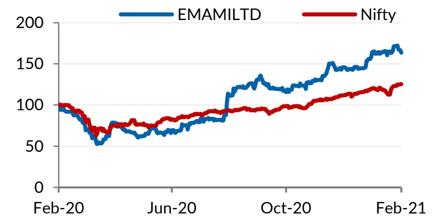
- ✓ **Fair & Handsome –** Doing well since re-launch and change of celebrity from Shahrukh to Salman Khan, back to positive trajectory.

- ✓ **Hair oils outlook –** Increased focus on all hair oil brands like 7 Oils in One and Kesh King is driving strong growth; category is doing really well both in India and abroad even in month of January.

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 520 / 131 |
| Market cap (Rs/USD mn) | 213033 / 2928 |
| Outstanding Shares (mn) | 445 |
| 6m Avg t/o (Rs mn): | 312 |
| Div yield (%): | 1.7 |
| Bloomberg code: | HMN IN |
| NSE code: | EMAMILTD |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | 0.3% | 25.9% | 68.8% |

**Shareholding pattern** (As of Sep'20 end)

| | |
|---|---|
| Promoter | 53.9% |
| FII+DII | 37.0% |
| Others | 9.1% |

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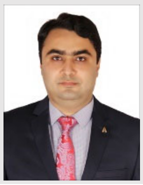

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# Emami Ltd

- ✓ **Pledge details –** Currently at 36%, promoters remain committed to bring it down to zero in 6-9 months depending on timing of asset monetization of promoters.
- ✓ **Rural coverage expansion –** Looking to expand coverage starting with 4 states in Phase 1 and 12 states in Phase 2, will be spending 7-8cr.
- ✓ **4Q outlook -** Confident of double-digit volume growth in 4Q as well with January going well, evaluating a few selective price increases.

Result Report Q3 FY21 | Sector: Consumer Staples

# Hindustan Unilever Ltd

## 3Q results and investor call takeaways

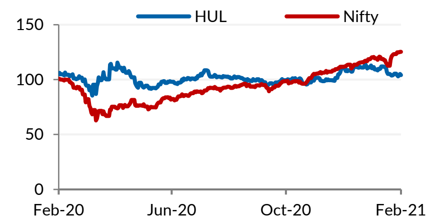
### Good topline performance with improving demand, but margins surprise negatively; expect a phase of consolidation

- ✓ **Our view –** While growth coming back to 7% was a positive, we do not find the 4% volume growth very exciting. The decline in margins was slightly disappointing as well especially in light of recent RM inflation. While the management's strategy of prioritizing growth over margins in the near term is a positive, this could lead to some sort of a cap on margins thereby leading to some earnings downgrades. With the stock trading at 50x FY23 earnings, we don't expect a further re-rating in the near-term and expect peers like Marico, Nestle, Tata Consumer, Emami to perform relatively better.
- ✓ **Industry trends –** FMCG industry growth has revived to 5% in 3Q vs 1% in 2Q with rural markets and health & hygiene leading growth, tea and palm oil prices up 40% yoy but crude down 30% yoy.
- ✓ **Quarter highlights –** Overall, 21% revenue and 15% PAT growth (negative surprise on margins) LFL growth at 7% with 4% UVG and overall revenue growth at 20%; 7 categories grew in double-digits, health and hygiene portfolio again grew at 10%, discretionary portfolio down 1% and OOH down 15%, margins at 24% down 80bps, other income sharply lower.
- ✓ **Margin drivers –** GMs down given sharp RM inflation (tea, palm oil) which was not fully passed on; significant improvement in mix, other expenses up 70bps led by aggressive investments in developing GTM, channels of future, capabilities.
- ✓ **Segmental performance –** BPC now growing at 9% vs flat in 2Q led by skin cleansing, Lux, oral care, hair care; foods continuing to grow at 19% retaining growth momentum (nutrition in double digits) led by ketchups, soaps, beverage; home care declined 2% as laundry impacted by category slowdown – with mobility improving seeing sequential pick up.
- ✓ **Demand outlook –** Near-term priority would be volume growth for next couple of quarters; demand trends improving with rural continuing double-digit growth and urban back to positive, focus on investing in innovation, market development and capabilities; looking at mix, pricing and cost savings to counter inflation.
- ✓ **Nutrition business outlook -** On target for double digit growth in the GSK portfolio now after overcoming some supply chain issues given industrial relation issues; picking up traction in both Horlicks and Boost, launched affordable pouch packs, also exploring sachets at a later date, high sciences also large opportunity; going much ahead of planned timelines on cost synergies and profitability front.
- ✓ **Segmental outlook –** Home care business will pick up going forward to offset slowdown in products like sanitizers etc, also expect discretionary and ice creams to pick up next year; demand is picking up but pace of recovery is still unknown; rural and GT doing really well but urban and MT muted due to lack of mobility.
- ✓ **Foods margins –** Margins impacted by tea inflation which was not fully passed on to gain volume share, higher investments to continue in packaged foods A&P and capabilities.
- ✓ **Laundry portfolio –** Shares are still strong but growth impacted by limited mobility; expect a quick recovery with economy opening up.
- ✓ **Margin outlook -** RM inflation in tea and skin cleansing was unprecedented which was not fully passed to avoid growth disruption and gains shares, ready to sacrifice near-term margins in key categories to retain consumers.

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 2603 / 1750 |
| Market cap (Rs/USD mn) | 5266648 / 72389 |
| Outstanding Shares (mn) | 2350 |
| 6m Avg t/o (Rs mn): | 5004 |
| Div yield (%): | 1.2 |
| Bloomberg code: | HUVR IN |
| NSE code: | HUL |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | -5.7% | 2.3% | 0.9% |

**Shareholding pattern** (As of Sep'20 end)

| | |
|---|---|
| Promoter | 61.9% |
| FII+DII | 25.4% |
| Others | 12.7% |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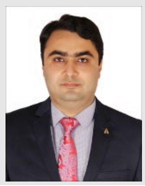

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Result Report Q3 FY21 | Sector: Consumer Staples

# ITC

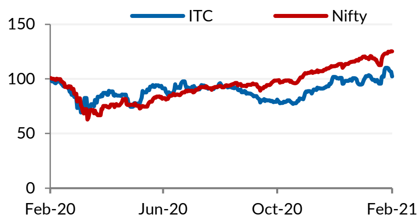
## Soft quarter but setting up for a strong recovery in FY22, valuations remain attractive

- ✓ **View** - Given still attractive valuations at 15x FY23, we remain positive on the stock despite this muted performance and see a gradual re-rating towards 18-20x and move towards Rs 270 and beyond.
- ✓ **Summary** - Overall results weaker than expectations with flat revenue, 7% decline in EBITDA and 14% decline in PAT given muted revenue performance in FMCG and sharp margin decline in cigarettes and losses in hotels.
- ✓ **Revenue performance** - Cigarette revenue growth of 3.5% (~5% volume decline), 7.5% growth in FMCG (expected 14% growth), 57% decline in hotels, 18.5% growth in agri and 5% decline in paper.
- ✓ **Margins** - Cost saving initiatives partially offset the sharp gross margin decline of 400bps to 57.5% with EBITDA margin decline of 280bps to 36.3%; margins declined in all segments other than FMCG which saw 260bps growth to 5.8%, cigarettes saw a sharp decline of 800bps to 62.8% given inferior mix and volume decline.
- ✓ **Outlook** - Despite a muted FY21, FY22 should see a strong recovery with cigarettes volumes bouncing back and FMCG sustaining a strong growth trajectory coupled with improving margins.

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty: | 15,163 |
| 52 Week h/l (Rs) | 239 / 135 |
| Market cap (Rs/USD mn) | 2675801 / 36778 |
| Outstanding Shares (mn) | 12305 |
| 6m Avg t/o (Rs mn): | 6553 |
| Div yield (%): | 2.3 |
| Bloomberg code: | ITC IN |
| NSE code: | ITC |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | 5.3% | 15.7% | 7.3% |

**Shareholding pattern** (As of Sep'20 end)

| | |
|---|---|
| Promoter | 0.0% |
| FII+DII | 56.2% |
| Others | 43.8% |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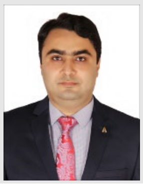

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# Jyothy Labs Ltd

## 3Q investor call takeaways

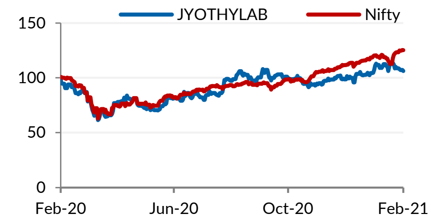
### Valuations attractive, signs of growth coming back across categories led by increasing investments and innovation

- ✓ **Our view –** While valuations remain quite attractive for smaller FMCG players like Jyothy Labs, secular growth across segments has been a challenge. With the company getting aggressive on new launches and A&P in recent times and margins also moving up gradually, revenue and earnings growth rates can pick up vs historical levels, thereby driving some re-rating for the stock.
- ✓ **Quarter highlights –** Revenue up 13%, FMCG sales up 15% with 15% volume growth, GMs up 10bps despite mild inflation given better mix, EBITDA margins up 90bps to 16.7% despite 40% increase in A&P spends, PAT up 18%; while fabric care was muted at 2% growth, dishwashing grew 21%, personal care grew 48% and HI up 10%; demand has revived for Ujala post economy opening up, Henko normalized with MT and eCom channel back on track; focused distribution helped Exo and Pril; HI growth driven by share gains in LVs; investments in Margo drove personal care growth.
- ✓ **Key sector trends -** Healthy demand trends in HPC category, strong rural demand continues with some improvement in urban as well, gradual recovery in institutional business with GT momentum strong, acceleration in digital adoption; focused GTM strategy adopted, focus on enhancing rural coverage and omnichannel capabilities.
- ✓ **Distribution strategy –** Improved distribution efficiency/productivity and reach especially in rural GT channel; lower priced SKU portfolio across segments also helped drive growth.
- ✓ **Margin outlook –** Positive operating leverage has been helping, some cost savings structural in nature; target remains ~16% EBITDA margins; expect RM inflation in soaps due to higher palm oil prices, will balance trade schemes and take some price hikes.
- ✓ **Hygiene play –** To leverage hygiene equity of Exo, launched new all-surface cleaner; Margo and T-Shine brands also getting strengthened because of the shift towards hygiene-related products.
- ✓ **HI outlook –** Still remain in losses in this category as company is investing aggressively on the liquid vaporizers category but confident given the large opportunity and share gains.
- ✓ **Rural vs urban –** Metro and larger markets GT and MT channels normalized; rural is growing at 1.3x urban growth rate currently.
- ✓ **Dishwashing category –** Growth around 20% look sustainable with Exo doing really well especially in the LUP packs led by strong brand investments and continued innovation.

**Stock data** (as on Feb 12, 2021 )

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 166 / 85 |
| Market cap (Rs/USD mn) | 55816 / 767 |
| Outstanding Shares (mn) | 367 |
| 6m Avg t/o (Rs mn): | 84 |
| Div yield (%): | 2.0 |
| Bloomberg code: | JYL IN |
| NSE code: | JYOTHYLAB |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | -1.1% | 12.0% | 11.1% |

**Shareholding pattern** (As of Sep'20 end)

| | |
|---|---|
| Promoter | 62.9% |
| FII+DII | 29.2% |
| Others | 7.9% |

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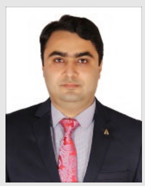

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# Marico Ltd

## Strong recovery in demand led by VAHO and Saffola

- ✓ **Quarter highlights –** Robust quarter with encouraging demand trends across segments, consol revenue up 16% with domestic volumes up 15%, 95% portfolio grew ahead of medium-term aspirations, GT led growth with rural growing 24% and urban 10%, e-commerce contributed 8% to revenue growing 80%, MT flat yoy, CSD had a 10% decline.

- ✓ **Parachute growth -** Parachute grew 8% despite price hikes of 5%, copra prices cooling off by 10% from peak and should correct 10% more, don't expect copra inflation in FY22.

- ✓ **VAHO performance -** VAHO grew 21% volume growth led by NIhar Shanti Amla share gains, estimate healthy and sustainbale share gains with double digit volume growth.

- ✓ **Saffola performance -** Saffola delivered 17% volume growth with 65% growth attributable to higher consumer penetration, can continue high single digit growth going forward, taken 15% price hikes to counter RM inflation.

- ✓ **Foods performance -** Foods grew 74% led by oats growing 50% on volume front, Honey ramping up fast with 20% market share in e commerce, target 100cr revenue in FY22

- ✓ **International –** Bangladesh grew 15% in CC terms, South Africa was resilient, SE asia was down 3% led by Vietnam weakness, MENA business also negative due to ME softness

- ✓ **Marketing spends -** A&P spends up 4% at 9% of sales, continue to invest aggressively.

- ✓ **Outlook -** Near-term outlook more promising than medium term aspirations with 19-20% margins comfortably; 20% plus revenue growth expected in 4Q with 12-15% volume growth

- ✓ **RM outlook -** Cost pressures expected to ease starting Fy22, so not going aggressive on price increases, 150cr in India and 50cr cost savings target

- ✓ **Focus areas -** Focus on execution excellence, SKU rationalization, quality vs quantity, simplicity; reduced distributor stocks to 2015-16 levels, improved quality of rural distribution (rural stockists will increase by 30%), VAHO mix corrected across all brands instead of Shanti Amla focus coupled with premiumization, innovation in large categories like foods, focus on cost efficiencies

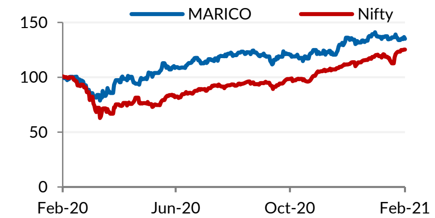
- ✓ **Saffola consumer behavior and opportunity –** More in-home cooking plus choice of trusted brands helped, getting 2/3rd growth from higher consumer penetration and retention and 1/3rd through higher usage

- ✓ **Cost savings –** Rationalized 26% SKUs to reduce wastages which contributed 2% to sales, better inventory planning, 70% hybrid working model to reduce admin costs, increase spend effectiveness

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 433 / 234 |
| Market cap (Rs/USD mn) | 531565 / 7306 |
| Outstanding Shares (mn) | 1291 |
| 6m Avg t/o (Rs mn): | 1106 |
| Div yield (%): | 0.7 |
| Bloomberg code: | MRCO IN |
| NSE code: | MARICO |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | -2.7% | 10.0% | 36.2% |

**Shareholding pattern** (As of Sep'20 end)

| | |
|---|---|
| Promoter | 59.6% |
| FII+DII | 33.9% |
| Others | 6.2% |

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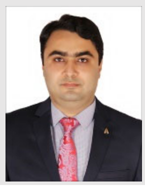

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- **Working capital –** Debtor days reduced from 36 to 23 days given tightening of credit to GT, lower contribution from MT and CSD also helped, paused supply chain finance program for some time which increased payables.

- **VAHO growth –** Not growing earlier as mass brands were doing well, correction in mix, pricing, communication, positioning, journey started in October which is delivering good results, strong share gains.

- **Honey and chywaprash supply chain –** Known sourcing programs in copra, safflower so confident of offering pure consistent product at large scale

- **Employee cost –** Up 28% due to Beardo included, share price based incentives and higher incentive payouts, 4Q will also be higher price increase and cost rationalization measures. Some cost savings are expected to reverse as situation normalizes and the company has guided that cost savings would be invested into increasing rural presence and new product launches.

- Crompton even during the tough operating scenario of Q2 FY21 managed to launch a series of new products across categories. The refreshed range in its water heater segment has aided the company in gaining market share and rising to No.2 Position (close to leader). The company continues to make inroads in the mixer grinder segment and targets to achieve top 3 position over the next 2-3 years. The company plans to increase its R&D spend and targets to develop products towards its long term strategic areas of connectivity of products, healthcare, cooling and energy efficiency. We believe new product segments would continue to accelerate overall growth for the company over the next five years.

- Cash collections for the company remained buoyant and the company continues to strengthen its balance sheet. Company's cash conversion cycle continues to remain strong and net C&CE stood at Rs7.6bn from Rs4.6bn at the end of Q1.

## Concall highlights

- Secondary sales tracking through 'Tally Patch' has improved to 76% of the sales vs. +50% in Mar'20.

- Overall, the company highlighted that demand has shown sequential improvement every month. The element of pent-up would be small, as per the management. Only two segments namely B2G lighting and Agri-pumps (eastern centric) have not shown. Management highlighted that institutional business has slowed down as project awarding activity has seen a declined of ~20-25% recently. Going forward, Management expects business environment remains volatile. The company will stay cautious and vigilant in its approach

- The Fans industry saw revenue declines in July and Aug though at a lower quantum compared with Q1. Crompton has gained market share and it is from small organized players and not from unorganized players

- Sales via rural channel have grown exponentially. The company has gained significant market share this quarter. Use of e-commerce channel has also aided growth.

- Channel is churning inventory at a faster pace and inventory levels are at normal levels. Company-level inventory is slightly lower as there are some challenges in labor availability and supply chain issues. Management is endeavoring to further ramp up inventory at the company level.

- In fans, the company gained 100 bps yoy. The super-premium category is showing strong traction, with 300% growth yoy, driven by new product launches across the product portfolio.

- In pumps, the company registered 18% yoy growth in volume terms with residential pumps growing 24% yoy. Agri-pumps continued to face some challenges. Value growth in pumps segment was 13% yoy.

- Appliances grew at 32% yoy led by 43% yoy growth in water heaters. The company sold 0.1mn units of water heaters in August and September.

- Lighting segment witnessed double digit growth in B2C segments. Pricing remained stable to positive and aided in improving margins.

- The company said that some part of cost saving may not be recurring. The company had held back salary increased which has been restored from 1st Oct 2020. There were other cost cuts which would have contributed about 0.5% of margin. Advertisement spend was also curtailed. Management highlighted that lighting margin improvement is largely structural

**Exhibit 1: Cost Analysis**

| As a % of net sales | Q2FY21 | Q2FY20 | bps yoy | Q1FY21 | bps qoq |
|---|---|---|---|---|---|
| COGS | 67.0 | 68.1 | (106) | 67.5 | (42) |
| Employee cost | 6.6 | 7.5 | (96) | 10.0 | (343) |
| Other expenses | 10.6 | 12.3 | (172) | 8.5 | 214 |
| Total costs | 84.2 | 88.0 | (375) | 85.9 | (171) |

**Result Report Q3 FY21** | Sector: Consumer Staples

# Radico Khaitan

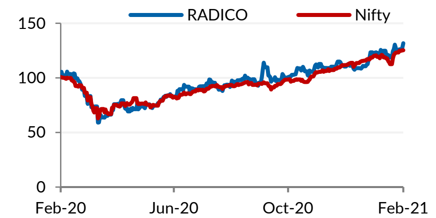
## 3QFY21 investor call takeaways - Strong growth again ex-AP, margins continue to move up sharply; setting up for strong growth in FY22 as well

- ✓ **View –** Over the last 2-3 years, company has consistently grown ahead of the market while improving margins and freeing up working capital at the same time, leading to a sharp deleveraging. It has delivered well on the premiumization journey as well given innovative launches and aggressive brand investments; now venturing into the super-premium spirits segment and the exports markets, which can further improve margin profile. With FY22 expected to be a strong year for the industry, Radico is poised to deliver 20% plus earnings growth well which should continue its ongoing re-rating.
- ✓ **Quarter highlights –** 1% volume growth (9% ex-AP), 5% growth in P&A volumes with contribution now at 30.7% and 1% decline in popular, industry declined by 1% in 3Q, saw highest ever volumes in December, 120% growth in exports from low base; Revenue up 6%, GMs up 230bps to 50.8% with muted input prices and better mix, EBITDA margins up 230bps to 18.1% despite 37% increase in A&P spends led by cost controls, PBT up 45% with further decline in interest costs given debt reduction of 127cr since Mar'20.
- ✓ **Management commentary –** Top states have come back to positive trajectory but few large states still under pressure, strong m-o-m improvement, BIO banned in defense markets a good opportunity for premium products, RM prices remain muted, growth led by 8PM Premium Black whisky, Verve Premium Vodka and Jaisalmer Gin as they were introduced in more states; single malt capacity expansion will start to delivering results over next couple of years.
- ✓ **Delhi regulations opposition –** Radico has suggested a few modifications in the intended policy announced by the government; proposed to maintain parity between govt and private shops to prevent cartelization.
- ✓ **UP regulation change –** See increasing consumption of premium brands as license fee being proposed for storage of liquor is quite nominal; other states might also follow.
- ✓ **Home delivery channel –** Still at a nascent stage, still witnessing a few teething issues but see good long term potential.
- ✓ **Ethanol and glass price outlook -** Alcohol prices were higher than ethanol prices, so supply still not impacted, bumper crop has brought down grain prices, using 65-70% grain-based alcohol, molasses-based alcohol will be diverted towards ethanol which can drive some inflation.
- ✓ **Industry outlook –** 4Q should see the benefits of progressive policies and the retail completely opening up and industry back to normal growth trajectory.
- ✓ **Brand-wise outlook –** 8PM Premium Black should reach 1mn cases in FY21 and see growth acceleration, Jaisalmer Gin should do well in all metro cities, will launch two premium whiskies in FY22.
- ✓ **AP market –** Have 4% industry share in AP market which is severely impacted, expect normalcy of 3mn cases (currently at 2.3mn cases) in a few months and consumer prices have been brought down which reduces risk of a complete ban.

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 549 / 220 |
| Market cap (Rs/USD mn) | 72554 / 997 |
| Outstanding Shares (mn) | 134 |
| 6m Avg t/o (Rs mn): | 188 |
| Div yield (%): | 0.8 |
| Bloomberg code: | RDCK IN |
| NSE code: | RADICO |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | 7.1% | 18.4% | 28.0% |

**Shareholding pattern** (As of Sep'20 end)

| | |
|---|---|
| Promoter | 40.3% |
| FII+DII | 35.2% |
| Others | 24.5% |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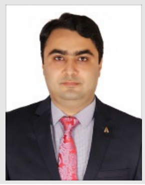

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- **Price increases –** Kerala has increased prices from February, other states also looking favorably at this.
- **Premiumisation –** Seen strong success on recent premium launches across segments, premium segment is growing in double-digits so will enter the super-premium whisky segment.
- **Competitive intensity –** Given buoyancy in market, competition expected to remain intense; as FY21 has been weak, FY22 should be very strong as government would try to cover excise shortfall.
- **CSD channel –** CSD segment still declining by 12-14%; maintain 28% market share, contributes 10% to Radico's volumes; Jaisalmer Gin and Rampur Single Malt approved which will benefit due to the BIO ban.
- **Geography wise outlook –** Maharashtra and Rajasthan still weak as retail outlets have opened late; AP all companies trying to shift from basic to premium products.
- **Margin outlook –** 7-8% yoy reduction in ENA prices helped expand gross margins in addition to better mix in favor of premium products.
- **Change in consumer behavior –** Increased in-house consumption is driving premiumization, as difficult for consumer to downgrade once he has shifted to premium products.

**Result Report Q3 FY21** | Sector: Consumer Staples

# Tata Consumer Products Ltd

| BUY | CMP Rs608 | Target Rs617 | Upside 1% |
|---|---|---|---|

## Market share gains continue in both tea and salt; RM headwinds should normalize by 1QFY22

**Tata Consumer Products (TCPL) reported a mixed performance in a difficult quarter where it faced unprecedented tea price inflation. While revenues were ahead of expectations, profitability fell short of expectations despite strong cost controls and premiumization. Other than the India tea business, most other businesses delivered a strong performance led by strong growth in the salt business, sequential recovery in Starbucks and Nourishco and strong profitability and growth in international beverages. While margin headwinds impacted tea margins, market share gains was a key positive. In the foods business, continued premiumization in salt, strong performance in pulses, and recent acquisition of Soulfull brand should help achieve aggressive growth targets. Integration is also going ahead of schedule and start delivering benefits from 4Q onwards. While near-term margin headwinds remain for the tea business, sustained improvement in foods and international business margins should help offset that in addition to synergy benefits flowing in. Starbucks and Nourishco are also quickly proceeding towards normalcy and the company continues steady footprint expansion. Overall, we do not find any deviation in narrative and execution from the new leadership and continue to view TCPL as a solid structural story with both growth and margin tailwinds which can deliver industry-leading earnings growth over the next few years. We reduce our FY21 EPS estimate by 3% to build in the margin weakness, but increase our FY22 and FY23 estimate by 5% and 8% to build in higher realizations in India businesses and better growth rates in international beverages. We are building in a 12.5% revenue and 22.7% earnings CAGR over FY20-23E. We reiterate our BUY rating with a revised SOTP-based TP of Rs 617 (from Rs 574), implying 48x/42x FY22/FY23E P/E.**

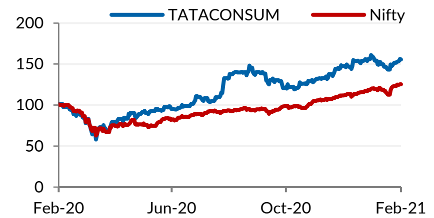
### Financial highlights

- ✓ Standalone revenue/EBITDA growth of 34%/-5% and consolidated revenue/EBITDA growth of 23%/14%; sharp growth and margin decline mainly in account of tea price inflation in India
- ✓ India beverages business grew 43% with 10% volume growth in tea and Nourishco contributing Rs 33cr with revenue growing 9%
- ✓ India foods business grew 19% with 12% volume growth led by 19% growth in salt (2.7x growth in value-added salts) and high double digit growth in Tata Sampann
- ✓ India business EBITDA margins down 410bps to 10% despite strong cost controls and better sales mix given sharp tea price inflation, which led to sharp fall in tea business gross margins while foods business saw improved margin performance given strong growth in salt business
- ✓ International tea business grew 13% with 4% volume growth led by a 7% currency benefit; margins saw a sharp 690bps increase to 11.8% led by better mix, cost cuts and weak Kenyan tea prices
- ✓ US coffee business also saw a 19% growth with 10% volume growth and 7% currency benefit; margins flattish at 20.6%
- ✓ Tata Coffee saw 10% revenue and 6% volume growth led by ramp-up in Vietnam operations; margins up 320bps to 12.1% given better tea and pepper realizations
- ✓ Profit from associates/JVs at Rs 3.5mn with losses at Starbucks offset by tea price-led profitability improvement in associate plantations

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty: | 15,163 |
| 52 Week h/l (Rs) | 635 / 214 |
| Market cap (Rs/USD mn) | 559,843 / 7695 |
| Outstanding Shares (mn) | 922 |
| 6m Avg t/o (Rs mn): | 2,401 |
| Div yield (%): | 0.4 |
| Bloomberg code: | TATACONS IN |
| NSE code: | TATACONSUM |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | -2.7% | 19.4% | 54.9% |

**Shareholding pattern** (As of Jun'20 end)

| | |
|---|---|
| Promoter | 34.7% |
| FII+DII | 39.3% |
| Others | 25.9% |

**Financial Summary**

| | FY21E | FY22E | FY23E |
|---|---|---|---|
| Revenues | 115,507 | 125,773 | 137,234 |
| Yoy growth (%) | 19.9 | 8.9 | 9.1 |
| OPM (%) | 14.2 | 15.0 | 15.4 |
| EPS (Rs) | 10.8 | 12.8 | 14.7 |
| EPS growth | 35.4 | 18.5 | 15.0 |
| P/E (x) | 56.3 | 47.5 | 41.3 |
| EV/EBITDA (x) | 33.7 | 29.0 | 25.4 |
| Debt/Equity (x) | 0.0 | -0.1 | -0.1 |
| RoE (%) | 7.0 | 7.9 | 8.5 |
| RoCE (%) | 8.2 | 9.1 | 9.8 |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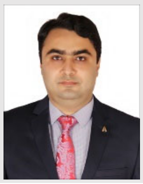

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## Presentation highlights

- **Unlocking synergies** – Integration to be completed by 4Q, realizations started from 3Q, distribution channel partner consolidation done, channel partner digitization completed for urban markets, integrated ERP to go live in 4Q, pan India CFA consolidation by 4Q, integrated demand planning to go live by 4Q.
- **Sales and distribution benefits** – Trimmed number of distributors by 63%, dedicated sales reps up by 30%, to double direct distribution in 12 months, 65% increase in outlets billed (80% outlets billed monthly), 100% channel partners automated, 50% decrease in debtor days from March moving from wholesale to retail servicing model.
- **New engines of growth** – Sampann which is up 40% YTD, value added salt up 110% YTD, coffee saw sequential improvement +3%/31%/22% in first three quarters of FY21, Nourishco now up 9% in 3Q.
- **Soulfull acquisition in foods** – Entry into breakfast, snacking, mini meals health food category with a present reach of 15000 select urban outlets which TCPL can multiply with its 2.4mn reach, valued at 156crs for FY21 revenue of Rs 33cr and margin accretive, "For Better" food products growing at 15% plus.
- **Commodity prices** – After a 70-80% growth in September-October, now prices are coming down, still 25-30% above last year levels in January.
- **Industry growth** – US tea -0.3%, bags coffee +9.5%, K cup coffee +8.7%, UK black tea -1.3%, UK non-black +12.8%, Canda black +11.2%, Canada specialty _26.4%, India volume growth of 4% and value growth of 14%
- **India beverages** - Continued market share gains in tea, 50bps qoq and 90bps yoy.
- **India foods** – Salt up 19% with highest ever volume in December, Sampann grew high double digits, margins expanded despite 2x ad spends given mix and cost controls, value added salt 2.7x yoy.
- **Nourishco** – 33 cr revenue with 9% revenue growth, Dec up 40%, Water Plus up 1.6x.
- **Tata Coffee** – Overall 1% revenue growth, 6% growth in plantations and 3% decline in extractions, Vietnam running at 93% capacity.
- **Starbucks** – December revenue at 90% of last year, 77% SSG recovery, EBITDA positive in December led by strong cost savings on rentals and other overheads.
- **UK** – 1% revenue growth with 5% volume growth with 32% growth in Teapigs, 20.3% market share.
- **US** – 6% coffee revenue growth and volume growth of 7%, 4.7% market share; Tea grew 18% and volume growth of 22%.
- **Canada** – 24% revenue growth with 19% volume growth, 41% in specialty tea , 29.5% market share.
- **Outlook**- India seems to be recovering well with in-home consumption normalizing, second wave of COVID in US and UK presents uncertainty as pantry loading not seen, tea inflation remains a near term challenge, will need to navigate near term margin pressure, distribution expansion key growth engine for foods, beverages and RTD, Soufull addition will help drive foods growth.

## Q&A takeaways

- ✓ **Salt business outlook** – Seen strong share gains at both mass and premium end, now seeing traction in value added led by distribution expansion, ATL spends and product innovation.
- ✓ **Soulfull outlook** – Strong positioning and product pipeline, can grow just by distribution expansion in 1st phase, will not dilute niche positioning as of now; 39cr turnover in FY21 and margin accretive.
- ✓ **International beverages margin outlook** – some improvement can sustain with better mix, premiumization and channel mix while category volume rates can come off somewhat.
- ✓ **Tea pricing strategy** – margins, volume, market share will be balanced – gaining market share despite 30% price/mix hike, prices still 25-30% higher than last year levels, expected to cool off in April-May, will remain competitive; costs will be normalized in 1Q, till then margins can remain under pressure as tea inflation has not been fully passed on.
- ✓ **Synergy benefits** – Well ahead of plans to realize all synergies from the merger – should start flowing in this quarter, 2-3% synergies will be delivered ahead of time.
- ✓ **Associate/JV losses** – Starbucks has been in losses, progressively improving; plantations businesses have done well, EBITDA +ve in December for Starbucks
- ✓ **Budget disallowing depreciation on goodwill** – Studying the proposal in further detail; No accounting impact but will impact cash flows
- ✓ **Tata Coffee Grand** – Believe can make a significant dent in coffee category given Tata brand, distribution, ATL and product disruption and take away a decent market share.

### Exhibit 1: SOTP Valuation

| Segment | Metric | Multiple (x) | Value (Rs mn on FY23E) | Per share (Rs) | % of total value |
|---|---|---|---|---|---|
| India Beverages | EV/EBITDA | 30 | 251,768 | 273 | 44% |
| India Foods | EV/EBITDA | 35 | 221,990 | 241 | 39% |
| Tata Coffee | 20% disc to CMP | | 9,564 | 10 | 2% |
| EOC (TGBL 50% stake) | EV/EBITDA | 8 | 13,241 | 14 | 2% |
| Tetley/Others | EV/EBITDA | 12 | 28,476 | 31 | 5% |
| Starbucks JV | Price/Sale | 8 | 29,533 | 32 | 5% |
| Net Debt | | | -13,964 | 15 | |
| Equity Value | | | 568,537 | | |
| **TP** | | | | **617** | |

### Exhibit 2: Summary financials

| Revenue (Rs mn) | 1QFY19 | 2QFY19 | 3QFY19 | 4QFY19 | 1QFY20 | 2QFY20 | 3QFY20 | 4QFY20 | 1QFY21 | 2QFY21 | 3QFY21 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Standalone | 9,086 | 8,473 | 8,897 | 7,841 | 14,640 | 14,272 | 14,635 | 13,353 | 16,054 | 17,361 | 19,627 |
| Growth YoY (%) | 5.7% | 6.6% | 4.9% | 9.7% | 61.1% | 68.4% | 64.5% | 70.3% | 9.7% | 21.6% | 34.1% |
| Growth QoQ(%) | 27.1% | -6.7% | 5.0% | -11.9% | 86.7% | -2.5% | 2.5% | -8.8% | 20.2% | 8.1% | 13.1% |
| Tetley/ others | 4,718 | 4,577 | 5,575 | 5,309 | 4,617 | 4,387 | 5,281 | 5,530 | 5,210 | 5,018 | 5,741 |
| Growth YoY (%) | -1.2% | -11.2% | 10.4% | -0.5% | -2.2% | -4.1% | -5.3% | 4.2% | 12.8% | 14.4% | 8.7% |
| Growth QoQ(%) | -11.5% | -3.0% | 21.8% | -4.8% | -13.0% | -5.0% | 20.4% | 4.7% | -5.8% | -3.7% | 14.4% |
| Tata Coffee Standalone | 1,591 | 1,774 | 1,652 | 2,013 | 2,003 | 1,857 | 1,662 | 1,673 | 1,756 | 1,856 | 1,578 |
| Growth YoY (%) | -12.3% | 3.3% | -0.5% | 8.0% | 25.9% | 4.7% | 0.6% | -16.9% | -12.3% | 0.0% | -5.0% |
| Growth QoQ(%) | -14.6% | 11.5% | -6.9% | 21.8% | -0.5% | -7.3% | -10.5% | 0.7% | 5.0% | 5.7% | -15.0% |
| Eight O Clock | 2,631 | 2,785 | 3,002 | 2,593 | 2,664 | 2,956 | 3,353 | 3,494 | 4,119 | 3,578 | 3,750 |
| Growth YoY (%) | 41.2% | 32.4% | 42.2% | 2.0% | 1.3% | 6.1% | 11.7% | 34.8% | 54.6% | 21.1% | 11.8% |
| Growth QoQ(%) | 3.5% | 5.9% | 7.8% | -13.6% | 2.7% | 11.0% | 13.4% | 4.2% | 17.9% | -13.1% | 4.8% |
| Consolidated | 18,026 | 17,609 | 19,126 | 17,755 | 23,924 | 23,471 | 24,930 | 24,050 | 27,139 | 27,813 | 30,696 |
| Growth YoY (%) | 5.8% | 4.1% | 10.5% | 5.2% | 32.7% | 33.3% | 30.3% | 35.5% | 13.4% | 18.5% | 23.1% |
| Growth QoQ(%) | 6.8% | -2.3% | 8.6% | -7.2% | 34.7% | -1.9% | 6.2% | -3.5% | 12.8% | 2.5% | 10.4% |

| EBITDA Margin (%) | 1QFY19 | 2QFY19 | 3QFY19 | 4QFY19 | 1QFY20 | 2QFY20 | 3QFY20 | 4QFY20 | 1QFY21 | 2QFY21 | 3QFY21 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Standalone | 18.4% | 11.6% | 12.8% | 7.5% | 15.9% | 14.3% | 14.1% | 12.0% | 20.3% | 14.6% | 10.0% |
| Tetley/others | 3.3% | 2.1% | 4.9% | 9.8% | 8.5% | 7.2% | 4.9% | 12.8% | 8.9% | 11.4% | 11.8% |
| Tata Coffee Standalone | 13.0% | 8.5% | 6.0% | 6.7% | 11.4% | 9.4% | 8.9% | 0.4% | 8.7% | 6.2% | 12.1% |
| Eight O Clock | 17.3% | 15.7% | 15.1% | 19.1% | 21.0% | 20.9% | 21.0% | 21.9% | 23.2% | 21.6% | 20.6% |
| Consolidated | 13.8% | 9.5% | 10.3% | 9.8% | 14.7% | 13.4% | 12.8% | 12.8% | 17.8% | 14.4% | 11.8% |

**Result Report Q3 FY21** | Sector: Consumer Staples

# United Spirits Ltd

## 3Q investor call takeaways – marginal disappointment on growth, demand normalization still some time away

- ✓ **View –** After a good recovery in 2Q, 3Q growth was slightly disappointing as the on-trade channel also opened up. While it can be explained to some extent by high base and recovery in beer, this increases the uncertainty with regards to timing of normalization of demand which might be an overhang for valuations. While multiples at 33x FY23 are undemanding, given the uncertainties as alluded to by the management, we do not see near-term positive triggers for the stock.

- ✓ **Management commentary -** Good progressive recovery but large events substituted by smaller gatherings, reopening of 85% on-trade channel albeit with low occupancy, muted celebrations, home consumption remains buoyant, continued rollout of renovated No.1 and RC whisky, strong OCF led to debt coming down further, happy with premiumization working well, no short-term guidance given ongoing uncertainties.

- ✓ **Quarter highlight s-** Revenue down 3.6%, adj for RTM change in AP, net sales grew 0.2%; P&A grew 4.5% ex-AP, popular declined 6.7%, increased consumer prices impacted demand, 24bps GM improvement due to productivity interventions and benign RM prices, A&P investments remain in 9-10% range, EBITDA margins back to mid-teens at 15.4%, commodities prices remain in check in near term.

- ✓ **Surrogate advertising restrictions –** Some states have imposed restrictions, working with ASCI to come up with an agreement on acceptable level of advertising, don't expect a complete ban, would still focus more on BTL promotions.

- ✓ **Growth trajectory –** Base quarter had high growth in P&A and large celebrations were subdued this year, but still happy with sequential recovery given the consumption environment and significant price hikes in a few states which impacted demand for popular.

- ✓ **Home delivery scenario –** Expect this emerging accessibility channel to fuel higher category growth, inflexion point is still some time away, some states like West Bengal, Maharashtra showing traction, should pick up once a couple states are successful.

- ✓ **McDowells No.1 and RC relaunch –** Full impact of No.1 relaunch will be seen in Maharashtra in current quarter, RC doing well in all states so far; local players have taken price correction to counter this.

- ✓ **Regulation highlights –** West Bengal demand under severe stress due to irrational rise in excise rates for spirits, still trying to get that corrected; Delhi can be a big positive if legal drinking age is reduced.

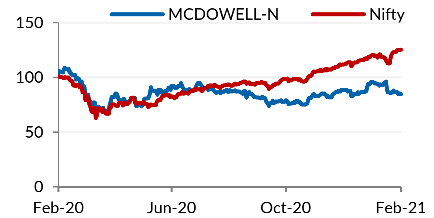
- ✓ **Market share –** No official date yet but seem to have gained market share overall since the lockdown has ended in P&A as per on-ground checks.

- ✓ **Premiumization –** Bottom end of BIO doing really well as consumer upgrades happening from BII, scotch brands doing really well with duty-free business shut; even once travel opens up, expect to retains a significant share of duty-free sales.

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 743 / 443 |
| Market cap (Rs/USD mn) | 412476 / 5669 |
| Outstanding Shares (mn) | 727 |
| 6m Avg t/o (Rs mn): | 1362 |
| Div yield (%): | NA |
| Bloomberg code: | UNSP IN |
| NSE code: | MCDOWELL-N |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | -11.9% | 1.7% | -18.0% |

**Shareholding pattern** (As of Sep'20 end)

| | |
|---|---|
| Promoter | 56.8% |
| FII+DII | 26.3% |
| Others | 15.2% |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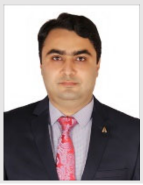

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# United Spirits Ltd

- ✓ **ENA outlook –** Watchful on pricing which can move up in near-term given ethanol blending norms, but prices stable as of now.
- ✓ **A&P Spends –** Will continue to invest aggressively now onwards with the market conditions now stable and amenable to new launches, relaunches etc; want to remain ahead of competition.
- ✓ **Guidance –** No guidance as it is difficult to forecast the impact of lesser socialization in the country, but will continue to provide all inputs to drive growth.

Result Report Q3 FY21 | Sector: Retail

# Aditya Birla Fashion and Retail

| BUY | CMP Rs166 | Target Rs206 | Upside 24% |
|---|---|---|---|

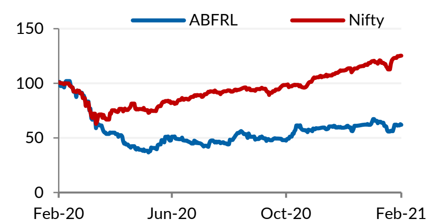
## Growth prospects and balance sheet strong but capital allocation and margin concerns remain

- **View** – We would rate this as a mixed performance with the positives being growth in innerwear, recovery in Madura retail sales, better margins in Pantaloons, strong cash generation and the negatives being weak recovery in Pantaloons, margin decline in Madura and aggressive investments in ethnic wear. While valuations do have a room for re-rating, it would be contingent upon sustenance of balance sheet health which has improved post the equity infusions and strong cost controls which have driven margin improvement. At this stage, we would give higher weightage to strong growth prospects for the company and therefore be in the bullish camp.
- **Quarter highlights** - Revenue up 100% qoq and recovered to 80% yoy; EBITDA flattish despite lower sales given better discount management and cost savings, total savings of 157crs on rent, employee, other costs in 3Q, product innovation and digitization efforts continue, opened 230 plus stores as footprint addition accelerated, strong CFO of 588crs (led by 325cr inventory reduction) helped paring debt, will reduce net debt by 90% to 250cr from FY20 levels.
- **Lifestyle business** – 92% recovery in retail channel sales and overall 80% recovery with wholesales down 63% and, margin expansion of 140bps, LFL decline of 17%, secondary sales in wholesale channel also recovered to 70-80% as primary sales were controlled to manage inventory, e-com sales rose sharply, opened 230 stores YTD, post success of Peter England Red (300 stores), now piloted Allen Solly Prime (6 stores).
- **Pantaloons** – 75% recovery in sales and highest ever EBITDA margins with 300bps expansion led by improved mix, lower discounting, cost controls; took longer to recover as stores recovered later than smaller stores, online sales up 2.3x, launched multiple new categories, opened 7 new stores in 3Q and 15 YTD.
- **Innerwear/other business** – Overall only 7% sales decline in other businesses with 11% margin vs losses yoy; Innerwear has now reached 20,000 outlets, saw 24% revenue growth, e-Commerce channel up 2.7x led by seasonal thermal wear and athleisure; fast recovery given wide MBO-led distribution and essential nature of category.
- **Global brands** – Forever 21% saw 80% revenue recovery and became profitable, 20% growth in other premium brands.
- **Ethnicwear** – Overall 15% decline in sales with marginal losses; Jeypore grew 15% led by online sales and opened 1st store, Shantanu & Nikhil opened 3 new stores, Sabyasachi also a big opportunity.
- **Margin outlook** - Industry using this opportunity to bring down inventory, improve freshness and commanding better gross margins which should sustain; EBITDA margin sustenance would need full sales recovery.
- **Geographic dynamics** – Smaller cities would have recovered to 85% plus levels vs slower growth in metros and larger cities, small store formats growing much faster than large format stores.
- **COVID learnings for company which should sustain** – 1) Change in merchandising process with better agility, 2) faster digital acceleration, 3) more frequency/lesser time to go to market, 4) variablization of fixed costs.

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 281 / 96 |
| Market cap (Rs/USD mn) | 148596 / 2042 |
| Outstanding Shares (mn) | 848 |
| 6m Avg t/o (Rs mn): | 464 |
| Div yield (%): | NA |
| Bloomberg code: | ABFRL IN |
| NSE code: | ABFRL |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | -4.6% | 7.0% | -37.3% |

**Shareholding pattern** (As of Sep'20 end)

| | |
|---|---|
| Promoter | 55.1% |
| FII+DII | 33.2% |
| Others | 10.7% |

**Financial Summary**

| | FY21E | FY22E | FY23E |
|---|---|---|---|
| Revenues | 55,271 | 90,124 | 100,456 |
| Yoy growth (%) | -37.1 | 63.1 | 11.5 |
| OPM (%) | 6.2 | 15.2 | 15.7 |
| EPS (Rs) | -4.8 | 1.3 | 2.8 |
| EPS growth | nm | nm | 115.4 |
| P/E (x) | -34.5 | 127.6 | 59.2 |
| EV/EBITDA (x) | 49.8 | 12.0 | 9.8 |
| Debt/Equity (x) | 0.2 | 0.1 | 0.1 |
| RoE (%) | -26.4 | 4.5 | 8.0 |
| RoCE (%) | -12.5 | 9.8 | 13.0 |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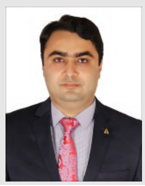

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- **Partnerships with Flipkart** – Continue to deepen omni channel collaborations especially for Madura stores with Myntra/Flipkart; multiply supply chain integration processes underway.
- **Near-term outlook**- November was exceptionally strong and December saw some cool-off; but January has again seen an encouraging organic sales recovery; confident of normalcy coming back soon but no certainty of full recovery in 4Q as of now.
- **Fabric price inflation** – Sharp inflation in cotton prices will need to be passed on but would remain competitive by leveraging other costs.

YES SECURITIES INSTITUTIONAL EQUITIES

# Asian Paints Ltd

## 3Q results and investor call takeaways

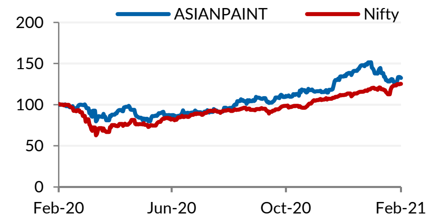
### strong margin performance despite revenue shortfall; well placed to gain market share

- ✓ **View –** While the stock has seen a significant outperformance and now trading at all-time high multiple of 63x FY23 earnings, all growth engines for the company including projects, international and industrial business are starting to fire at the same time with new avenues like décor also opening up. This should reset the growth expectations from the company in the medium-term from 12-13% to 15-20%. Even if some RM hikes are absorbed, margins should also sustain much above historical levels. With significant upgrade possibilities, we see the stock sustaining premium valuations and moving up further if growth trends sustain in the next few quarters.
- ✓ **Quarter highlights –** Strong performance with revenue/EBITDA/PAT growth of 25%/50%/62% respectively led by 30% plus volume growth in decorative paints with strong growth in premium and luxury portfolio, home improvement business also did well helping the foray into home décor business, protective industrial coatings and auto business also saw strong recovery, double-digit volume growth in international business, margin improvement led by superior sales mix and cost/sourcing optimization initiatives.
- ✓ **Key trends** – Strong recovery supported by new construction/renovation and robust festive demand; inflation across key raw materials since Dec'20 which might impact 4Q margins.
- ✓ **Decorative business** – Continued strong growth in Tier 2/3/4 markets further supported by strong recovery in metros and Tier 1 markets with strong pent-up demand, 33% broad-based volume and 26% value growth in 3Q led by strong push across regions/segments and market share gains, strong growth in institutional/project business as well, product mix has improved with strong growth in premium and luxury range, service offerings gaining store traction, décor entry panning out well, higher gross margins supported by lower prices and sourcing/formulation efficiencies.
- ✓ **International business** – Double-digit volume growth in all markets except Ethiopia, Bahrain and Indonesia, portfolio expansion initiatives working well in focus markets; margins supported by cost controls and low material prices; revenue growth of 22% and PBT growth of 171% in 3Q.
- ✓ **Industrial business –** Auto OE business saw strong recovery with double-digit value growth; refinish business also positive; industrial business also saw double-digit value growth led by powder coatings and industrial liquid paints.
- ✓ **Home Improvement business –** Double digit growth in kitchen components and full kitchens, projects business picked up EBITDA break-even achieved; strong demand pick-up in bath business, projects business also grew well, PBT level profit for first time.
- ✓ **4Q outlook** – 4Q demand expected to remain strong with improved sentiment with vaccination roll-out, will need to be cautious about a fresh surge in cases which could impact supply chain, 6-9% inflation in RM prices – will wait to take call on price hikes as do want to disrupt demand, continue to work on innovation and cost optimization.
- ✓ **Real estate and construction outlook** – Construction activity picking up in low and medium end properties, too early to know sustainability; current capacities comfortable to meet any surge in demand from real estate pick-up.

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 2873 / 1431 |
| Market cap (Rs/USD mn) | 2384662 / 32777 |
| Outstanding Shares (mn) | 959 |
| 6m Avg t/o (Rs mn): | 5682 |
| Div yield (%): | 0.3 |
| Bloomberg code: | APNT IN |
| NSE code: | ASIANPAINT |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | -8.6% | 14.5% | 32.1% |

**Shareholding pattern** (As of Sep'20 end)

| | |
|---|---|
| Promoter | 52.8% |
| FII+DII | 28.0% |
| Others | 19.2% |

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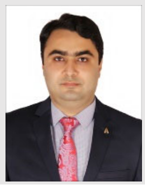

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- ✓ **Competition and growth in metros** – Will keep on growing the market in focus segments without worrying about competition being the market leader, metros and larger cities exhibiting strong demand recovery; continued market share gains for last few years including highest growth in 1HFY21.
- ✓ **Home Décor strategy –** Looking at best-in-class technological offerings to give customer delightful experience, will leverage strengths in kitchen and bathrooms, strong medium to long term opportunity.
- ✓ **Sustainable growth rate** – While 12-15% growth was the historical volume growth rate, company has now achieved 2x of that; difficult to predict growth rates going forward given the dynamic environment, will need to plan monthly or quarterly basis in the near term.
- ✓ **Sustainable margins** – Will keep offering consumer good value while deciding pricing; not too perturbed by new players entering the space.
- ✓ **Change in consumer behavior** – Clear trend of consumers shifting towards more trusted brands has helped gain share.
- ✓ **Inventory position** – No inventory build-up in channel inventory till price hikes are announced; believe company sales are very similar to retail sales.
- ✓ **Volume and value growth gap** – Value products like waterproofing, undercoats, value emulsions etc are growing at a much faster pace than premium and luxury products, hence the slight increase in gap.

Result Report Q3 FY21 | Sector: Consumer Discretionary

YES SECURITIES INSTITUTIONAL EQUITIES

# Avenue Supermarts Ltd.

| ADD | CMP RS2,929 | TARGET RS3,057 | UPSIDE 4% |
|---|---|---|---|

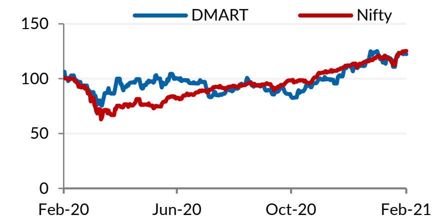
## Better than expected performance and strong 2-year earnings visibility, but valuations quite rich now

- ✓ **Result summary** - Overall better than expected performance led by a quicker normalization of overall business with a strong sequential recovery especially during the festive months of October and November. Revenue/EBITDA/PAT growth of 10%/17%/19%.
- ✓ **Topline** - Revenue growth of 10% yoy to Rs 74.3bn led by festive surge with slower growth in out of home usage categories like apparel, laundry, footwear and travel. Lesser trips and higher basket values continue to be the norm. SSSG decline of 4% in December for 162 stores more than 2 years old due to restricted store operations.
- ✓ **Margins** - Gross margins also surprised positively coming in at 15.1% (up 10bps) despite the inferior mix in favor of FMCG and staples while EBITDA margins improved 50bps to 9.3% led by strong cost controls.
- ✓ **Store expansion/closure** - Company opened 1 new store during the quarter taking the total store count to 221.
- ✓ **DMart Ready** - Revenue from subs (D Mart Ready) continued its strong trajectory growing 92% to Rs 109cr in 3Q. Company increased footprint to Ahmedabad, Bangalore and Hyderabad by leasing some space in its store to the e-com entity.
- ✓ **Near-term outlook** – December month has seen some slowdown (SSSG down 4%) after a strong October and November, near term sales mix and margins can be impacted by higher RM prices and supply/availability issues in few non-FMCG categories.
- ✓ **Our view** - After the recent outperformance, the stock is currently trading at 68x FY23E P/E and 45x EV/EBITDA. While we turned positive on the stock around Rs 2000 levels citing favorable multiples, increasing traction in online business and strong balance sheet advantages, those advantages seem to be broadly captured in current valuations around Rs 3000 levels. We therefore, expect a period of consolidation in the stock with investors waiting to see the impact of aggressive online competition in the grocery space. We expect the management to aggressively expand both its offline and online footprint over the next two years utilizing its strong balance sheet, which should provide strong earnings visibility and thereby sustain these premium multiples.

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 3173 / 1729 |
| Market cap (Rs/USD mn) | 1897267 / 26077 |
| Outstanding Shares (mn) | 648 |
| 6m Avg t/o (Rs mn): | 1612 |
| Div yield (%): | NA |
| Bloomberg code: | DMART IN |
| NSE code: | DMART |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | -2.3% | 22.0% | 18.0% |

**Shareholding pattern (As of Sep'20 end)**

| | |
|---|---|
| Promoter | 75.0% |
| FII+DII | 16.8% |
| Others | 8.2% |

**Financial Summary**

| | FY21E | FY22E | FY23E |
|---|---|---|---|
| Revenues | 239,997 | 359,996 | 449,995 |
| Yoy growth (%) | -3.5 | 50.0 | 25.0 |
| OPM (%) | 7.1 | 8.8 | 9.0 |
| EPS (Rs) | 17.0 | 32.0 | 40.8 |
| EPS growth | -15.3 | 88.3 | 27.2 |
| P/E (x) | 172.2 | 91.4 | 71.9 |
| EV/EBITDA (x) | 110.9 | 60.4 | 47.0 |
| Debt/Equity (x) | 0.0 | 0.0 | 0.0 |
| RoE (%) | 10.0 | 15.6 | 16.5 |
| RoCE (%) | 13.3 | 20.9 | 22.3 |

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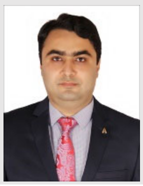

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# Avenue Supermarts Ltd.

### Exhibit 1: Result table

| YE March (Rs mn) | 3Q FY21 | 3Q FY20 | 2Q FY21 | YoY (%) | QoQ (%) |
|---|---|---|---|---|---|
| Net Revenues | 74,327 | 67,519 | 52,182 | 10.1 | 42.4 |
| Purchase of traded goods | 63,096 | 57,392 | 44,851 | 9.9 | 40.7 |
| (% of sales) | 84.9 | 85.0 | 86.0 | | |
| Employee cost | 1,268 | 1,110 | 1,228 | 14.2 | 3.2 |
| (% of sales) | 1.7 | 1.6 | 2.4 | | |
| Others | 3,050 | 3,086 | 2,854 | (1.2) | 6.9 |
| (% of sales) | 4.1 | 4.6 | 5.5 | | |
| EBITDA | 6,914 | 5,931 | 3,249 | 16.6 | 112.8 |
| EBITDA margin (%) | 9.3 | 8.8 | 6.2 | | |
| Other income | 492 | 69 | 558 | 608.9 | (11.8) |
| PBIDT | 7,406 | 6,001 | 3,807 | 23.4 | 94.5 |
| Depreciation | 1,003 | 867 | 904 | 15.6 | 10.9 |
| Interest | 87 | 160 | 79 | (45.6) | 10.2 |
| PBT | 6,316 | 4,973 | 2,824 | 27.0 | 123.6 |
| Tax | 1,614 | 1,031 | 719 | 56.5 | 124.5 |
| ETR (%) | 25.5 | 20.7 | 25.4 | | |
| Adjusted PAT | 4,702 | 3,943 | 2,106 | 19.3 | 123.3 |
| PATAMI margin | 6.3 | 5.8 | 4.0 | | |
| Adj EPS (Rs) | 7.3 | 6.1 | 3.3 | | |

YES SECURITIES INSTITUTIONAL EQUITIES

# Berger Paints

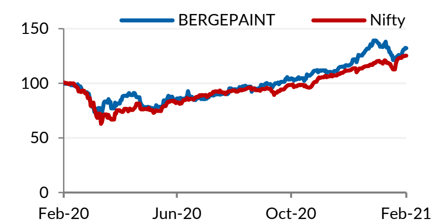
## Strong quarter led by pent-up demand, urban recovery and international traction; Grasim entry key concern

- ✓ **View** – Berger Paints has again posted a relatively better performance than Asian Paints given its relatively stronger position in smaller markets. While the management is not unduly worried as of now about Grasim's aggressive plans for the paints business, we believe that it would remain an overhang and a reason for valuation multiples to cool off a bit from current levels of 70x FY23E earnings.
- ✓ **Quarter summary** – 24% revenue growth (32% volume growth), 45% EBITDA growth and 53% PAT growth; robust growth in decorative business, significant recovery in automotive and industrial, resilient growth in infrastructure business; lower priced RM inventories especially solvents led to healthy GM expansion, but prices firming up now.
- ✓ **Management commentary** - Increased marketing spends aggressively to support growth, overheads well in control, new formulations led to some cost savings, strong growth in waterproofing segment, strong recovery in metro markets while Tier 2/3 trends sustained.
- ✓ **Subsidiary performance** – Healthy growth in topline and margins in Nepal, Saboo and STP, Bolix saw improved numbers in UK, Russia had MTM loss due to ruble depreciation, both JVs also saw improved performance.
- ✓ **Grasim entry into paints** – Grasim has plans for backward integration and plans to utilize the cement dealer network which gives it some advantage, but not unduly concerned and confident of expanding network and protecting market share, opportunity still quite large especially for value added products and services.
- ✓ **Tinting machine necessity** – Possible to reach consumers without tinting machines in few European markets like Poland, speed and response time is higher due to tinting machines with dealers.
- ✓ **Relative performance vs peers** – Did better than Asian Paints in 3Q (2% higher growth) given relatively late recovery in metro markets where Berger is relatively weaker; could have done better in protective coatings.
- ✓ **Demand drivers** – Combination of pent-up demand in larger markets and recovery in demand led by real estate, better consumer sentiment; momentum sustaining in smaller markets even now further helped by expansion in distribution network.
- ✓ **Home hygiene category** – Looking to ramp up distribution in home hygiene products like kitchen cleaners, currently selling only through paint network.
- ✓ **Margin outlook** – Evaluating price hikes in industrial paints to counter rising input costs, current RM inflation is manageable in decorative paints and will take a call on pricing in 1-2 quarters.
- ✓ **UP capacity expansion** - Commissioning of upcoming plant has been brought forward in addition to an additional outlay for higher capacity than originally planned given strong demand outlook; targeting completion by early CY22; will start with 300,000KL which is scalable upwards later, currently spending about 500crs.
- ✓ **Monthly progression** - Late Diwali also contributed to very strong growth in early part of quarter, but smaller cities performance has sustained even after the festive period.

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 823 / 389 |
| Market cap (Rs/USD mn) | 748237 / 10284 |
| Outstanding Shares (mn) | 971 |
| 6m Avg t/o (Rs mn): | 919 |
| Div yield (%): | 0.0 |
| Bloomberg code: | BRGR IN |
| NSE code: | BERGEPAINT |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | -4.1% | 18.2% | 32.8% |

**Shareholding pattern (As of Sep'20 end)**

| | |
|---|---|
| Promoter | 75.0% |
| FII+DII | 15.1% |
| Others | 9.9% |

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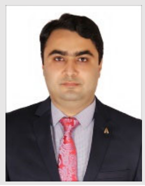

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# Berger Paints

- ✓ **Volume value mix** – Both economy and premium segments have done well, volume-value differential remains stable at 8% indicating 32% volume growth for the quarter.
- ✓ **Market share** – Unorganized players would have surely lost market share during the last few quarters while Top 2 players seem to have gained share.

YES SECURITIES
INSTITUTIONAL EQUITIES

# Jubilant Foodworks

## Narrative shifts to growth from recovery; new growth engines also added

**Jubilant Foods is one of the few discretionary names which have come back to a full recovery in 3Q and is now set for strong growth for 4Q onwards. In addition to an acceleration in store opening for Domino's and recovery in the dine-in channel with supply constraints going away, it has added new growth engines by entering in large segments like Chinese and biryani. While margins can come off somewhat with some RM inflation, we expect return ratios to improve further with better store economics for its delivery and takeaway-focused new stores. Its timely investments in technology should help drive further market share gains benefitting from reduction in overall industry supply in the restaurant space. We see the company getting back to its 20% plus earnings growth trajectory and with ROEs again moving up above 35%, premium valuations of 55x FY23 should sustain. Jubilant remains one of our top picks in the consumer discretionary space.**

### Presentation highlights

- ✓ **Quarter highlights** – Flat revenue yoy at Rs 10.7bn (+31.2% qoq), SSG at -1.7% and LFL -0.2%, GMs improved by 330bps to 78.2%, EBITDA margins up 250bps to 26.2%, PAT up 22% to Rs 1.24bn; delivery +18.5%, takeaway +64%, dine-in down 58%; opened 57 new stores including 50 Domino's (highest ever), highest ever app downloads at 7.4mn; January has seen sales growth of 6% with 19%/73% growth in delivery/takeaway and 43% decline in dine-in, cash flows improved further with cash rising significantly to Rs 9.5bn, OLO contribution to delivery increased to 98%.
- ✓ **New initiatives** – Entered the biryani segment with brand Ekdum which offers a vast menu of biryanis and kebabs with an open kitchen concept, launched the Unthinkable Pizza made from plant-based protein, Drive-N-Pick service launched nationwide in November.
- ✓ **International business** – Opened 1 store in Sri Lanka taking total to 23 stores with sales down 17%; Bangladesh has 4 stores with sales down 5%; OLO contribution much lower at 47% and 67%; positive EBITDA in both countries.
- ✓ **Dunkin' Donuts and new brands** – Opened 2 and closed 1 Dunkin' store taking total to 27; opened 5 restaurants under new brands Ekdum and Hong's Kitchen taking total to 10 stores.

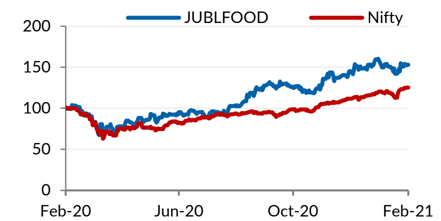
### Concall takeaways

- ✓ **Store footprint potential** – Target to open more than 110 Domino's stores in FY21 and further acceleration from FY22 given expectations of strong growth in the QSR space, see long-term potential of more than 3000 stores in India and 150 stores each in Sri Lanka and Bangladesh.
- ✓ **Barbeque Nation investment** – Bought 10.8% stake for 92crs, see great unit economics and solid execution in the chain, confident of creating shareholder value; were impacted severely due to COVID but believe offer strong learning opportunity in the casual dining space.

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 2988 / 1138 |
| Market cap (Rs/USD mn) | 368101 / 5059 |
| Outstanding Shares (mn) | 132 |
| 6m Avg t/o (Rs mn): | 2563 |
| Div yield (%): | 0.2 |
| Bloomberg code: | JUBI IN |
| NSE code: | JUBLFOOD |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | -3.1% | 19.2% | 53.8% |

**Shareholding pattern** (As of Sep'20 end)

| | |
|---|---|
| Promoter | 41.9% |
| FII+DII | 52.2% |
| Others | 5.4% |

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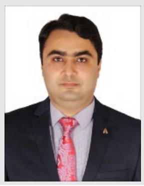

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- ✓ **Hong's Kitchen and Ekdum outlook** – Strong recovery in sales and orders in Hong's, strong acceptance of value range, opened 2 new stores in 3Q, working on more kitchen and process automation where strong supply chain is helping; Have entered the biryani segment with Ekdum post successful pilot, will offer widest variety and offer best value for money; hold potential for share gains in a large fragmented category, expect a faster scale-up than Hong's given lesser complexities; while gross margins will be lower in new brands, EBITDA would be similar post optimization of scale.
- ✓ **Multilingual app** - Launched Hindi version of app, will continue to add more languages to make ordering experience more personalized.
- ✓ **Outlook for dine-in given pick up in mobility** – Consumer anxiety is down which is driving gradual recovery, supply constraints as operating at only 50% capacity; with multiplexes allowed at 100% capacity., similar relaxation expected soon for restaurants as well which will bring back normalcy.
- ✓ **New brand strategy** – Will give required focus to both new brands which independently have large growth potential in the Chinese and biryani segments separately; too early to think about any consolidation with Domino's app or network.
- ✓ **Margin outlook** – Some softening in vegetable prices coupled with lower dairy prices helped gross margins, expect to see some hardening in dairy prices going forward; employee costs higher sequentially due to higher order volumes, special COVID incentives and increased strategic headcount in areas like technology.
- ✓ **Store expansion vs margins** – Despite aggressive expansion plans, don't think margins will get impacted as long as the choice of store location is correct which ensures profitable store economics.
- ✓ **Can improvement in dine-in channel be negative** – Despite very strong brand equity in delivery, do not think a recovery in dine-in will be negative, in fact recovery to pre COVID dine-in revenue will accelerate overall growth.
- ✓ **Revenue decline in December** - Restrictions in operating hours in few markets led to negative performance in December after moving to positive trajectory in November.
- ✓ **Chefboss outlook** – Had a good start with repeat orders in the e-commerce channel where it was launched, now working on range expansion and launching in other channels.
- ✓ **Consumer behavior and own app investments** - Delivery channel picking up in smaller towns as well, investments in building own digital platform has worked well driving record downloads and increase in share of ordering from own apps, new customers now coming via own app, own digital assets doing much better across metrics vs aggregator apps.
- ✓ **Plant protein based pizza** – Got a lot of trials and good feedback, bird flu impact led to drop in non-vegetarian mix especially in North market; have capability of taking it to other brands and geographies.
- ✓ **Drive-N-Pick** – Completely contactless digital experience, no plans to charge any convenience fee for this channel as takeaway channel needs more nurturing given it is the lowest cost channel.
- ✓ **Average order ticket size** – Significant increase given larger in-home consumer groups increasing order quantities coupled with up trading, delivery charges also drove increase in ticket size; recovery led by ticket size as order volumes flat.
- ✓ **Outlook** – Shifting narrative from recovery to growth, expect QSR to have hyper growth given convenience, preference for trusted brands, digital capabilities and omni-channel preference.

**Result Report Q3 FY21** | Sector: Consumer Discretionary

# Page Industries

| ADD | CMP Rs30,692 | Target Rs33,920 | Upside 10% |
|---|---|---|---|

## Strong beat led by growth recovery coupled with opex controls; reiterate ADD

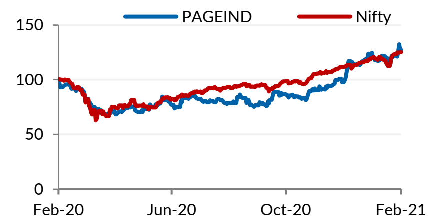
**Page Industries delivered a significant earnings beat led by strong growth in athleisure and kids wear segments, significant expansion in distribution footprint and strong festive sales trends which has sustained even post November. Volume growth also bounced back to double-digits at 10% led by athleisure and women's innerwear while men's innerwear remained flattish. A key reason for the growth would be strong supply chain management, accurate production planning and distribution execution and addition of 7,000 new MBOs and 80 EBOs to the company's distribution network in FY21 so far. In terms of future drivers, athleisure growth should sustain with strong repeat purchase trends from new consumers (contribution now similar to men's innerwear), while kids wear and rural markets are two specific segments being targeted by the company, This quarter was a good example of the company's pricing power and margin levers where it displayed its frugal cost structure. Ongoing capex towards doubling capacity in 5-6 years give increased confidence towards strong medium-term growth given still low penetration levels. We believe most of this growth is genuine led by a recovery in overall market and therefore should sustain. We revise our FY22 and FY23 earnings estimates upwards by 10% and 12% to reflect better growth rates and normalized margins of 22-23%. We reiterate ADD rating on the company with a revised PT of Rs 33,920 based on 60x FY23E earnings. We believe the company can get back to its historic earnings multiple of 60x given a recovery in its growth trajectory led by athleisure as margins, return ratios and competitive moats remain strong.**

- ✓ **Management commentary** - Strong festive demand and gradual lifting of lockdown which increased footfalls, volume growth of 10% yoy, 95% MBOs now operational, 100% EBOs open, 93% LFS operational, ecommerce growth remains strong, manufacturing and warehousing completely normalized, m-o-m growth continues since August, focus on POS investments helped, kids wear showed strong acceptance, now have 28 EBOs, 192 distributors and 150 sales people for Jockey Junior, strong potential in tier 3,4, rural markets which are being focused on, confident on growth sustaining going forward; revenue growth of 17% and volume growth of 10%, EBITDA margins at 24% led by strong opex controls on discretionary spends, A&P and labour efficiency; PAT up 77%; strong WC controls led to strong cash generation taking up net cash to 494crs.
- ✓ **RM inflation and pricing** – Yarn price increases slightly above normal inflation, had taken appropriate pricing actions in August and would re-evaluate pricing in next couple of months.
- ✓ **Kidswear** – Trying to place kids wear in women's EBOs given women being the target audience, 20 more EBOs in pipeline, opportunity size quite large.
- ✓ **Rural strategy –** Have designed a bouquet of 30 products suited for smaller tier 4 and below markets, extending the pilot across markets given encouraging response in few markets in South and West, will push in FY22 with a separate team being put in place.
- ✓ **3Q growth drivers** – Changed demand pattern in favor of at-home wear, close connect with channel partners, strong supply chain management, 3Q growth led by thermal wear demand surge, Increased MBO count by 7000 YTD and EBO count by 80; upswing in athleisure business (2-3x innerwear realization).

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 32206 / 16254 |
| Market cap (Rs/USD mn) | 342336 / 4705 |
| Outstanding Shares (mn) | 11 |
| 6m Avg t/o (Rs mn): | 1370 |
| Div yield (%): | 1.0 |
| Bloomberg code: | PAG IN |
| NSE code: | PAGIND |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | 2.1% | 38.9% | 30.2% |

**Shareholding pattern** (As of Sep'20 end)

| | |
|---|---|
| Promoter | 48.3% |
| FII+DII | 40.9% |
| Others | 10.1% |

**Financial Summary**

| | FY21E | FY22E | FY23E |
|---|---|---|---|
| Revenues | 26,641 | 34,846 | 40,247 |
| Yoy growth (%) | -9.6 | 30.8 | 15.5 |
| OPM (%) | 19.2 | 22.2 | 23.0 |
| EPS (Rs) | 292.3 | 467.4 | 565.3 |
| EPS growth | -4.6 | 59.9 | 20.9 |
| P/E (x) | 105.0 | 65.7 | 54.3 |
| EV/EBITDA (x) | 66.5 | 44.1 | 36.7 |
| Debt/Equity (x) | -0.2 | -0.1 | -0.2 |
| RoE (%) | 37.8 | 50.6 | 48.2 |
| RoCE (%) | 44.6 | 57.7 | 56.7 |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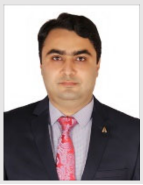

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- **Margins** - Margin improvement led by price hikes, positive operating leverage, better manufacturing efficiencies in terms of labor and manufacturing overheads.
- **Sustainability of cost savings** – Still target 22% plus sustainable margins as advertising and digital transformation expenses will increase to support medium term growth aspirations.
- **Pent-up demand –** Believe growth is genuine and not pent-up led by opening up of markets; believe it is sustainable given still low penetration levels across categories.
- **Segment mix** - Significant increase in share of athleisure which contributes close to men's innerwear now (about 40%), high double-digit growth in athleisure volumes yoy; strong acceptance from new consumers; women's innerwear growth in high double-digits, men's innerwear flattish.
- **MBO expansion** – Added 7,000 new outlets spread out across existing cities and towns, competitors faced some supply chain issues, target 10,000 outlet addition in FY21.
- **A&P spends** – Have cut spends in FY21 by 50% from a typical 4-4.5% of sales; should normalize again starting FY22.
- **Athleisure segment** – Have seen strong repeat business towards end of 3Q in core products in athleisure, sales were well above company expectations.
- **Market penetration** – Assume 150mn people as target audience (consumers who can buy Jockey products) as per BCG study; 20% penetration in men and 5-6% in women.
- **Capex guidance** – Target 3bn capex in FY22 for an upcoming capacity.
- **Online strategy** – Have covered all options from marketplaces to own platform; strong brand equity, strong offline presence and product quality should help gain market share online as well.

## Page Industries 3QFY21 results takeaways – Strong broad-based earnings beat led by athleisure and kids segments; margins at record highs

- **View** – As was expected after strong results from peers, Page Industries delivered a strong broad-based beat on earnings with growth making a strong comeback and margins making record highs as costs continued to be kept under control. We remain bullish on the company despite the recent run-up as this performance should again make the street significantly change its medium-term growth outlook for the company with no change in structural drivers for the company, which should drive further re-rating back to historical levels.
- **Revenue –** Strong revenue performance with 17% growth indicating further improvement in strong demand trends witnessed in October; growth led by solid traction in athleisure, kidswear and thermalwear demand.
- **Margins** – While gross margins improved by 220bps to 55.4% led by price hikes and better sales mix, EBITDA margins made a record high of 24.4%, up 690bps led by strong cost controls.
- **PAT** – Led by 63% growth in EBITDA, Page delivered 77% earnings growth.

# Page Industries

### Exhibit 1: Result summary

| YE March (Rs mn) | 3QFY21 | 3QFY20 | 2QFY21 | YoY (%) | QoQ (%) |
|---|---|---|---|---|---|
| Net Revenues | 9,271 | 7,938 | 7,403 | 16.8 | 25.2 |
| RM Costs | 2,395 | 2,045 | 2,087 | 17.1 | 14.8 |
| (% of sales) | 25.8 | 25.8 | 28.2 | | |
| Purchase of traded goods | 1,736 | 1,673 | 1,210 | 3.8 | 43.4 |
| (% of sales) | 18.7 | 21.1 | 16.4 | | |
| Employee cost | 1,462 | 1,346 | 1,299 | 8.6 | 12.5 |
| (% of sales) | 15.8 | 17.0 | 17.5 | | |
| Others | 1,417 | 1,486 | 1,153 | (4.7) | 22.8 |
| (% of sales) | 15.3 | 18.7 | 15.6 | | |
| EBITDA | 2,262 | 1,388 | 1,654 | 63.0 | 36.8 |
| EBITDA margin (%) | 24.4 | 17.5 | 22.3 | | |
| Other income | 42 | 35 | 37 | 19.1 | 11.8 |
| PBIDT | 2,303 | 1,423 | 1,691 | 61.9 | 36.2 |
| Depreciation | 156 | 164 | 157 | (4.7) | (0.2) |
| Interest | 74 | 90 | 75 | (17.5) | (1.6) |
| PBT | 2,073 | 1,169 | 1,459 | 77.3 | 42.1 |
| Tax | 536 | 299 | 350 | 79.2 | |
| ETR (%) | 25.8 | 25.6 | 24.0 | | |
| Adjusted PAT | 1,537 | 870 | 1,109 | 76.6 | 38.6 |
| PATAMI margin | 16.6 | 11.0 | 15.0 | | |
| Extraordinary income/ (exp.) | 0 | 0 | 0 | | |
| Reported PAT | 1,537 | 870 | 1,109 | 76.6 | 38.6 |
| No. of shares (mn) | 11.2 | 11.2 | 11.2 | | |
| Adj EPS (Rs) | 137.8 | 78.0 | 99.4 | | |

# Sheela Foam

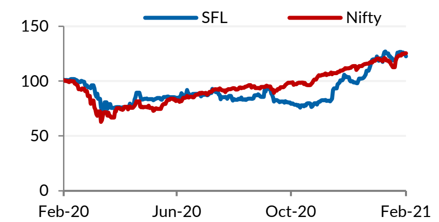
## Strong demand tailwinds across geographies; RM headwinds also managed well

- ✓ **View** – Sheela Foam posted a very strong set of results with industry tailwinds driving demand across geographies and the company demonstrating strong cost controls to offset the impact of a sharp rise in input costs. While demand is expected to sustain going forward with new B2B opportunities also opening up, the correction in input prices is expected to provide a further fillip to margins going ahead. Limited capex requirements should also drive up return ratios going ahead. While increasing competition from online players remains a risk, we view Sheela Foam is a strong medium-term growth story and hence believe the premium valuations of 35x FY23E earnings should sustain and gradually improve going forward.
- ✓ **Result highlights** – Strong performance with revenue/EBITDA/PAT growth of 26%/53%/54% led by strong increase in demand for mattresses across India, Australia and Spain. Margins moved up despite input price led gross margin decline led by much lower selling and marketing expenses.
- ✓ **Key trends-** Sales shifting significantly towards e-commerce channel, more focus on health & hygiene, pandemic impact waning quickly in India; Australia enforcing strict controls while Spain facing difficulties in pandemic control.
- ✓ **Budget takeaways** – Overall view the budget as big positive with 3 potential opportunities for the company – extra budget for Railways, focus on affordable housing and purchase of more buses opens up more business opportunities.
- ✓ **Input costs** – High volatility seen in last 6 months, prices went up significantly and now started cooling off, polyols (20% of sales) below 200 and TDI (30% of sales) about 170 after touching highs of 230 per kg, should stabilize in the 150-170 range by end of February; Australia prices stable, Spain also did not increase much.
- ✓ **US Bed in a Box program opportunity** – 600mn USD Market primarily supplied by ChIna, US looking at alternative options, strong enquiries, already begun supplying from India and Spain, should cross 100cr in FY22.
- ✓ **Mattress demand outlook** - Volume growth has positively surprised; Australia and Spain demand increased due to increased time at home, restricted imports from China and govt support; India demand growth led by increase in penetration from 30-35% with more consumers adopting mattresses given increased time at home and shift from unorganized players; expect demand momentum to sustain for entire industry with leading brands set to benefit most.
- ✓ **Margin outlook** – Lower marketing and selling expenses plus help from operating leverage helped increase margins to 17.5% from 14% in FY20 despite GMs falling to 43% from 49%; expect margins to sustain going forward.
- ✓ **International acquisition rationale** – Went to Australia given opportunities for cross learnings, common RM suppliers and a strong management; entered Spain in 2019 as wanted a foothold in EU, the world's largest PU foam market which is also a low cost alternative to cater to US.
- ✓ **Focus on value for money products** - Volume up 16% and price increase of only 2%; never want to pass on entire RM cost given volatility; lower value segment growing much faster given share gains from unorganized market.

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 2382 / 1152 |
| Market cap (Rs/USD mn) | 98234 / 1350 |
| Outstanding Shares (mn) | 49 |
| 6m Avg t/o (Rs mn): | 49 |
| Div yield (%): | NA |
| Bloomberg code: | SFL IN |
| NSE code: | SFL |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | 0.1% | 50.9% | 21.2% |

**Shareholding pattern** (As of Sep'20 end)

| | |
|---|---|
| Promoter | 73.0% |
| FII+DII | 24.9% |
| Others | 2.2% |

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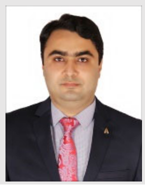

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- **Pricing strategy** – Try and maintain contribution margins across B2C and B2B segments; B2C margins higher given pricing power; B2B business has long term contracts and a time lag in passing on price hikes.
- **Capex plans** – New plant coming up in Central India in Jabalpur plus maintenance capex in next 2-3 years of 40-45 crs
- **E commerce competition** – Players like Wakefit have done well but do not see any significant price disruption, will not indulge in any price competition, e commerce channel growing from a small base, hold No.2 position in that channel and target the top slot there as well.
- **Spain integration** – RM availability, pricing has been in turmoil in last few quarters; full integration which was delayed due to COVID should be complete by March in terms of IT and processes

YES SECURITIES INSTITUTIONAL EQUITIES

# Titan Company

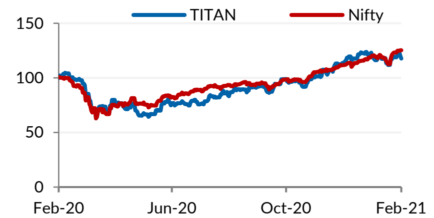
## Strong 3Q led by with growth picking up further in January

- ✓ **View – While the stock is quite expensive at 59x FY23E earnings, we believe the momentum can sustain in the near term with January seeing a further pick-up in jewelry growth rate to 28% led by increase in number of buyers in addition to higher ticket size, indicating continued market share gains. Expected margin improvement in watches and eyewear businesses in FY22 coupled with full recovery from 4Q onwards would also be taken positively. Another positive has been the reduced focus on non-core businesses like Mont Blanc and Favre Leuba.**
- ✓ **Quarter summary** – 12% revenue and 16% jewellery revenue growth (ex-bullion sales) with watches and eyewear also moving closer to full recovery; focus remains on reducing wastages, optimizing inventory and generating cash flows, Rs 51cr ineffective hedging loss, Rs 137cr impairment hit taken on Favre Leuba, divesting stake in Mont Blanc, 77% recovery in other businesses, 33% recovery in Caratlane.
- ✓ **Eyewear** – 93% recovery in 3Q; better product mix and lower discounts led to margin improvement.
- ✓ **Watches** – 88% recovery in 3Q, 30% growth in e-commerce channel, positive m-o-m momentum across all channels, new range of smart watches launched under TRAQ brand.
- ✓ **Jewellery** – 16% growth driven by higher contribution form coins (8% vs 5% yoy) and recovery in walk-ins, metros, studded and sub 1-lakh category; margin impacted by lower studded mix and coin sales.
- ✓ **Pace of revenue recovery** – Internal target was to reach full recovery in 3Q and grow in 4Q, currently running ahead of targets.
- ✓ **Jewellery growth picks up in January** - 13% retail growth and 16% primary growth in 3Q; 28% growth in retail in January led by 13% increase in number of buyers, studded growth rate has climbed from 9% in 3Q to 16% in January.
- ✓ **Wedding segment** - Wedding segment has done well with 10% growth in 3Q which has picked up to 16% in January.
- ✓ **Cost cutting initiatives** – Will see 64-65% gross margins in FY22; almost 50% of total cost savings can sustain going forward; A&P spends are close to normal in 4Q.
- ✓ **Golden Harvest Scheme** – Good recovery in GHS enrolments, have now moved to positive trajectory; growth in number of buyers.
- ✓ **Online purchase trends** – Online plus joint transaction closures (omni) grew 3.5x yoy but still less than 3% of sales; strong jump in digital remote shopping (online plus remote is 7.5%-8% of sales).
- ✓ **Taneira outlook** – Now have 14 stores in 6 cities, brand launched stitched kurta sets and started listing on Myntra and Nykaa, 17% growth in ticket size.

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 1621 / 721 |
| Market cap (Rs/USD mn) | 1326530 / 18233 |
| Outstanding Shares (mn) | 888 |
| 6m Avg t/o (Rs mn): | 3653 |
| Div yield (%): | 0.3 |
| Bloomberg code: | TTAN IN |
| NSE code: | TITAN |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | -2.2% | 16.9% | 18.2% |

**Shareholding pattern** (As of Sep'20 end)

| | |
|---|---|
| Promoter | 52.9% |
| FII+DII | 29.5% |
| Others | 17.3% |

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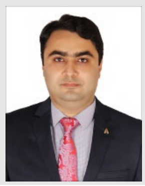

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# Titan Company

- ✓ **Broad demand drivers for Titan** – Believe have not seen much financial impact on target audience; overall spending on entertainment, travel etc has come down which has led to increased demand in current environment; supply side challenges for unorganized sector has driven share gains; consumers also shifting towards trusted brands.
- ✓ **Making charges** – Have held up well as percentage of sales; customers have absorbed the price increases in addition to increased gold prices; competitive intensity seen around gold rates.
- ✓ **Store addition** - Focus remains on store footprint addition, Good growth in both SSG and new stores, online growing faster.
- ✓ **Outlook on watches** – Recovery is better than expected, some migration towards wearables category and lower gifting have impacted; but still expect full recovery in 4Q; current wearables contribution at 5% and No.2 player in terms of volumes.
- ✓ **Outlook on eyewear** – Have taken longer than expected to progress on this business over the last few years; FY22 should see double-digit margins and return ratios.
- ✓ **Gold inventory** – Gold on loan is 56% of inventory value; number is sustainable at current levels given inventory optimization efforts.

YES SECURITIES
INSTITUTIONAL EQUITIES

# VIP Industries

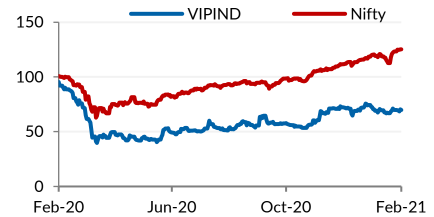
## Green shoots emerging but revenue and margin normalization still 5-6 quarters away

- ✓ **View** – VIP Industries reduced the extent of losses, but that was on the back of aggressive cost cutting as revenue recovery remains muted at 56%. While the company has done a good job of bringing down inventory and managing cash flows, sharp rise in input costs and high competitive intensity can lead to further delays in revenue and EBITDA normalization, which in any case is expected in 1QFY23. With Bangladesh production back on track, should see gradual improvement in gross margins which should be offset by increase in costs. Stock can underperform in the near term given current valuations at 33x FY23E earnings, which are at risk of some downgrades.
- ✓ **Result highlights** – Revenue recovered to 56% of last year's levels (125% qoq growth), with gross margins at 41% (vs 53% yoy and 42% qoq) due to higher discounts and high mix of production from India vs Bangladesh. Employee cost reduction of 46% and 51% yoy helped generate positive EBITDA with 8% margin (vs 16% yoy and -16% qoq); Net loss at 7cr vs 35cr qoq and profit of Rs 34cr yoy.
- ✓ **Outlook** – Expect 4Q to see some more recovery, pleased with demand uptick which has set platform for a much better FY22; reopening of schools, pick-up in travel and a good marriage season should drive demand.
- ✓ **Other highlights** – Production has started in full swing in 3Q with Rs 27cr revenue and 1cr loss; working capital has improved by 105cr to 274cr vs 379cr yoy and with PBT loss of 97 crs in 9M, have been able to maintain flattish net cash of 71cr at Dec-end.
- ✓ **Margin outlook** – Margins will remain for next few quarters with normalization expected only in FY23; RM prices have risen sharply by 60-70% which should come down soon, will take pricing action depending on competitive intensity; will try and maintain gross margins in 45-50% range for FY22.
- ✓ **Drivers of demand recovery** – Recovery is closely tracking recovery in domestic air traffic; others drivers were a recovery in wedding and gifting market; schools segment is lagging behind.
- ✓ **Inventory update** – Currently at 300cr as of now post decent reduction, now both factories are running full.
- ✓ **Fixed cost outlook** – Overall fixed cost will remain at Rs 25cr per month vs Rs 40cr pre-COVID; cut of 180cr in FY21 of which 50% will come back in FY22.
- ✓ **Export outlook** – See strong opportunity in international markets, new MD's experience in global markets should help.
- ✓ **Channel mix** - GT channel is slower than other channels; e-commerce doing well now contributing 25% of sales which should settle around 20%.
- ✓ **Receivables position** - Receivables position comfortable at 50% of pre-COVID levels, don't foresee any risk apart from Big Bazaar where Rs 35cr is outstanding, have starting receiving in January, carrying a 8cr provision for receivables and inventory.

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 520 / 188 |
| Market cap (Rs/USD mn) | 50182 / 690 |
| Outstanding Shares (mn) | 141 |
| 6m Avg t/o (Rs mn): | 162 |
| Div yield (%): | 0.9 |
| Bloomberg code: | VIP IN |
| NSE code: | VIPIND |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | -3.4% | 20.4% | -26.3% |

**Shareholding pattern** (As of Sep'20 end)

| | |
|---|---|
| Promoter | 53.5% |
| FII+DII | 18.1% |
| Others | 28.4% |

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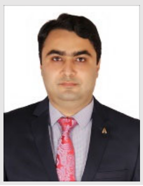

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**Result Report Q3 FY21** | Sector: Retail

# V-Mart Retail

| BUY | CMP Rs2,881 | Target Rs2,400 | Downside 17% |
|---|---|---|---|

## 3Q investor call takeaways

### Underlying demand still weak, good work on cash flows and margins; expect some correction post recent run-up

- ✓ **Our view –** After the recent run-up, we believe some correction can be expected in the near term with underlying demand still exhibiting weakness, competition not reducing significantly and some pressure on margins expected with normalization of costs and yarn inflation. While the medium to long term outlook remains strong with V-Mart expected to gain market share and successfully scale up its presence in new geographies, current valuations look rich. We would suggest waiting for corrections for fresh entry in the stock. The upcoming equity fund raise can also lead to some correction. We maintain our estimates for now with a TP of Rs 2,400 based on 40x FY23E earnings.

- ✓ **Management commentary** – Industry situation has improved significantly as festive demand was good and social events have restarted; frequency of visits from shoppers remained low but average bill size increased; farmer income increased but spending still cautious given uncertainties; urban businesses also coming back to normalcy gradually; winter portfolio did well supported by good marriage season but still not fully normalized; small unorganized apparel retailers under pressure due to supply chain, liquidity and social distancing issues; some regional retailers also faced inventory and cash flow issues; national retailers continued to expand footprint; e-com following discounting strategy.

- ✓ **Quarter highlights** – Smaller towns have fared relatively better than larger cities, operational restrictions in few states even in Oct-Nov; festive period muted in October but recovered sharply around Diwali and winter season; seeing some slowdown again towards late December post marriage season; sharp reduction in inventory from 550 to 360cr yoy in beginning of quarter but still did decent sales; reduced discounting and promotional activities; ASP up 2%, avg bill size up 16%, conversion rate high at 62%; gross margins up 40bps given fresh inventory and high pricing power; per store inventory lower by 35% without aggressive liquidation, shrinkage normalized to 0.9%, 11cr capex in 3Q and 17cr in 9M, 100cr cash on books; restarted expense normalization (21 cr rental savings in 9M); scaling up and streamlining online operations, still less than 1% of sales.

- ✓ **Demand outlook** – Full recovery is still some time away for fashion consumption, could reach 84% of normal sales despite multiple tailwinds like good festive, winter and marriage season indicating some underlying weakness given smaller size of social gatherings and need-based buying; but don't see long term impact on demand.

- ✓ **Regional competition** – Consistent execution and growth discipline remain key competitive advantages.

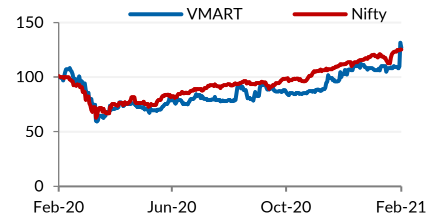
- ✓ **New store formats** – Pilots being run for last year in 6-7 locations for new formats; new stores will be opened in new formats – Value Dialup format for Tier 4 towns is a value pricing format and Fashion Dialup is a fresh look and feel; will gradually refurbish all stores under new format.

- ✓ **Employee cost –** No reduction in salaries but company did not fill up some positions at store level which will gradually increase now but still remain below historical levels.

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 3129 / 1200 |
| Market cap (Rs/USD mn) | 56767 / 780 |
| Outstanding Shares (mn) | 20 |
| 6m Avg t/o (Rs mn): | 72 |
| Div yield (%): | NA |
| Bloomberg code: | VMART IN |
| NSE code: | VMART |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | 17.4% | 46.7% | 26.4% |

**Shareholding pattern** (As of Sep'20 end)

| | |
|---|---|
| Promoter | 50.8% |
| FII+DII | 40.7% |
| Others | 8.5% |

**Financial Summary**

| | FY21E | FY22E | FY23E |
|---|---|---|---|
| Revenues | 12,190 | 19,025 | 25,899 |
| Yoy growth (%) | -26.7 | 56.1 | 36.1 |
| OPM (%) | 11.0 | 13.0 | 12.5 |
| EPS (Rs) | -5.3 | 38.0 | 60.0 |
| EPS growth | nm | nm | 57.9 |
| P/E (x) | -543.2 | 76.0 | 48.1 |
| EV/EBITDA (x) | 33.0 | 17.6 | 13.1 |
| Debt/Equity (x) | 1.2 | 1.1 | 1.0 |
| RoE (%) | -2.1 | 14.3 | 19.4 |
| RoCE (%) | 4.2 | 13.6 | 17.0 |

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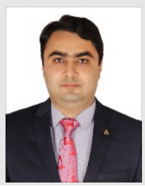

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# V-Mart Retail

- **Margin outlook –** Difficult to expand significantly as employee increments will be given and RM cost pressures will also increase given rising yarn and fabric prices.
- **Inventory outlook –** Currently working at all-time low inventory, will rebuild it gradually albeit will remain lower than historical levels.
- **Store expansion –** Will maintain long-term trajectory at annual increase of 20-25% in retail area.

## V-Mart Retail 3QFY21 results

- **Result summary** – While topline was below expectations, strong margin performance led to an earnings beat; revenue/EBITDA/PAT decline of 16%/11%/18% respectively.
- **Topline** - Revenue decline was 16% for the quarter, led by a decent recovery in the festive, winter and marriage season albeit it fell short of our expectations.
- **Margins** – Margins surprised positively with an uptick of 130bps to 22.1% with stable gross margins and benefits of cut down in discretionary spends, indicating better sales mix and lower than expected discounting.
- **Footprint expansion –** The company has opened net 10 stores during the quarter, taking the total store count to 274.

### Exhibit 1: Result summary

| YE March (Rs mn) | 3QFY21 | 3QFY20 | 2QFY21 | y-y (%) | q-q (%) |
|---|---|---|---|---|---|
| Net Revenues | 4,700 | 5,622 | 1,755 | (16.4) | 167.8 |
| Purchase of traded goods | 2,975 | 3,581 | 1,250 | (16.9) | 138.0 |
| (% of sales) | 63.3 | 63.7 | 71.2 | | |
| Employee cost | 325 | 406 | 300 | (20.0) | 8.1 |
| (% of sales) | 6.9 | 7.2 | 17.1 | | |
| Others | 362 | 467 | 208 | (22.5) | 74.0 |
| (% of sales) | 7.7 | 8.3 | 11.9 | | |
| EBITDA | 1,039 | 1,168 | -3 | (11.1) | nm |
| EBITDA margin (%) | 22.1 | 20.8 | (0.2) | | |
| Other income | 3 | 4 | 150 | (33.7) | (98.1) |
| PBIDT | 1,041 | 1,172 | 147 | (11.2) | 609.7 |
| Depreciation | 254 | 245 | 257 | 3.7 | (1.4) |
| Interest | 150 | 158 | 147 | (4.9) | 2.4 |
| PBT | 637 | 770 | -257 | (17.2) | nm |
| Tax | 158 | 188 | -68 | (15.5) | nm |
| ETR (%) | 24.9 | 24.4 | 26.3 | | |
| Adjusted PAT | 479 | 582 | -190 | (17.7) | nm |
| PATAMI margin | 10.2 | 10.4 | (10.8) | | |
| Extraordinary income/ (exp.) | - | - | - | | |
| Reported PAT | 478.9 | 582.2 | -189.6 | (17.7) | nm |
| No. of shares (mn) | 18.1 | 18.1 | 18.1 | | |
| Adj EPS (Rs) | 26.4 | 32.1 | (10.5) | | |

**Result Report Q3 FY21** | Sector: Consumer

YES SECURITIES INSTITUTIONAL EQUITIES

# Westlife Development Ltd

## 3Q results and investor call takeaways

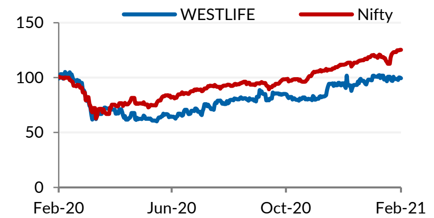
### strong margin performance despite revenue shortfall; well placed to gain market share

- ✓ **View – Revenue recovery seems to have fallen short of expectations especially given that 25-30% of restaurants are closed and convenience platforms are picking up, but company has done a good job on the margin front with structural cost savings and continued menu innovation which should shift the margin trajectory upwards once revenue normalizes. With store footprint addition restarting next year, we remain constructive on the stock with leading players like Westlife poised to gain market share with dine-in traffic normalizing and convenience platforms sustaining the growth. But Jubilant Foods remains our top pick in the space.**
- ✓ **Quarter highlights** – Revenue/EBITDA/PAT down 25%/37%/64% respectively with margins back to pre-COVID levels despite lower revenue led by new cost structures; convenience platform at 120% of pre-COVID levels and up 6% yoy in 3Q and dine-in recovered to 70-75% of pre-COVID levels; December revenues were back to 97% of pre-COVID levels and 80% yoy recovery despite some operational restrictions and night curfews in few markets with margins similar to last year; 3 new McDonalds and McCafes opened in 3Q and 10 stores closed taking YTD store closure to 19.
- ✓ **Management commentary** – Strong closed loop integrated supply chain helped improve menu offerings, strong omni-channel capabilities strengthened further by new platforms like on-the-go and digitally enabled takeaway; strong gradual recovery seen in key markets; higher volumes in drive-thrus and good growth in all small towns; average bill values have moved up; app saw 40% jump in downloads, 20% jump in active users; 25-30% reductions in fixed costs; will keep focus on driving affordability, convenience while maintaining a strong balance sheet/operational metrics and investing in footprint addition of 25-30 stores pa; expect QSR segment to explode in FY22.
- ✓ **Demand trends** – Expect to see sequential growth in 4Q as well with improving consumer sentiment; recovery in dine-in is not impacting the delivery business growth trajectory in last few months.
- ✓ **Margin outlook** – Should continue improving with operating leverage, better sales mix led by menu innovations; major part of cost savings look structural in nature.
- ✓ **Bird flu impact** – No significant impact as of now, expect consumers to shift from chicken to fish or even vegetarian products.
- ✓ **Platform mix** – Dine-in will remain an important platform but convenience channels will keep gaining share; will get strong SSSG as dine-in normalizes and convenience channel growth sustains.
- ✓ **Complete normalization of business** – Can get back to 100% normalization from 80% in December once multiplexes, colleges and offices footfalls normalize.
- ✓ **Industry supply** – Believe 25-30% of restaurants are currently not operational or closed down, so market share benefits accruing.
- ✓ **Store closure** – Have closed 19 stores as part of network optimization strategy, do not expect any further store closures.

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 498 / 267 |
| Market cap (Rs/USD mn) | 71506 / 983 |
| Outstanding Shares (mn) | 156 |
| 6m Avg t/o (Rs mn): | 101 |
| Div yield (%): | NA |
| Bloomberg code: | WLDL IN |
| NSE code: | WESTLIFE |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | 2.0% | 24.5% | 0.3% |

**Shareholding pattern** (As of Sep'20 end)

| | |
|---|---|
| Promoter | 59.1% |
| FII+DII | 30.3% |
| Others | 10.9% |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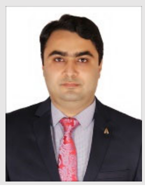

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**Q3 FY21 Result Review** | Sector: Consumer Electricals

YES SECURITIES
INSTITUTIONAL EQUITIES

# Bajaj Electricals Ltd

## Bajaj Electricals 3QFY21 Earnings call update

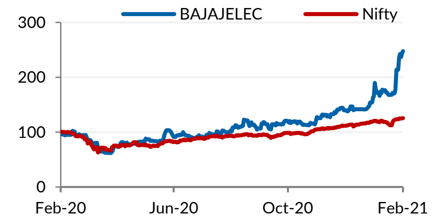
**Strong all-round performance with market share gains; remain cautious at current valuations**

- ✓ **Our View -** This is second consecutive quarter of earnings beat for the company led be solid performance of Consumer products division. Company has been strategically reducing its exposure to EPC business. Given that there has been a sharp re-rating given an improving balance sheet and prudent capital allocation, further re-rating would be dependent on sustenance of strong growth rates in the consumer business, which might be difficult in the near term. We remain cautious on the name at current valuations.
- ✓ **Margins and Cashflow** – Gross margin for the consumer business has seen improvement on change in product mix. Cashflow from operations continue to remain healthy at Rs 1.4bn bulk of which is used to repay debt. Debt levels has gone down on QoQ basis. Large part of margin improvement in consumer business is sustainable. Long term goal is to improve margins on sustainable basis.
- ✓ **Consumer business** – Growth in consumer business is 34% of which Appliances business grew 36%, Fans 28%, Lighting 18% and Morphy Richards 69%. Margins in this segment has improved sharply to 12.3% led by combination of cost controls and operating leverage playing out. Some part of the costs is likely to come back with A&P spends being restored in Q3. A&P spends stood at 3.9% of sales vs 2.9% in 3QFY20. Market share has increased at the expense of smaller and unorganized players.
- ✓ **EPC** – EPC receivables has come down to Rs16bn of which Rs6.9bn is receivables from UP project. There has been some recovery in Q3 leading to reduction in receivables. Company has adopted calibrated approach to bring down EPC revenue. EPC is expected to turn around to profit by 2HFY22. EPC losses are not expected to remain at elevated levels as earlier. Receivables have been fully provided. Company is comfortable with EPC business at 25% of the overall revenue.
- ✓ **Order book** – Company's order book stands at Rs12.2bn of which Transmission lines is Rs3.8bn, Power distribution is Rs5bn and Illumination is Rs3.3bn.
- ✓ **Channel inventory and supply chain** – Channel inventory is at optimal level as Bajaj operates on inventory replenishment model under RREP and TOC. Supply side challenges continues to persist and is expected to remain for next 2 quarters. This will give opportunity for market share gains for organized players.
- ✓ **Distribution and Channel expansion** – Dealer additions in Q3 stood at 530 vs 501 in Q2FY21. Online business saw growth of 79% yoy and now contributes 11% to the consumer business revenue. All channels except Canteen sales department and Police canteens are firing.
- ✓ **Price hikes and new launches -** Price hikes have been taken from 1st Jan to the tune of 5-9% depending on category at the current juncture is sufficient to cover for increased commodity prices.
- ✓ **Premiumization** – Company is looking to increase its offering in premium segment across all product categories and churn out more products quickly with strong emphasis on R&D.

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 1125 / 260 |
| Market cap (Rs/USD mn) | 122317 / 1681 |
| Outstanding Shares (mn) | 114 |
| 6m Avg t/o (Rs mn): | 336 |
| Div yield (%): | NA |
| Bloomberg code: | BJE IN |
| NSE code: | BAJAJELEC |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | 50.0% | 94.6% | 148.2% |

**Shareholding pattern** (As of Sep'20 end)

| | |
|---|---|
| Promoter | 63.2% |
| FII+DII | 22.8% |
| Others | 14.0% |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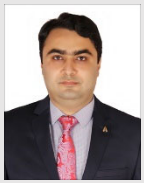

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# Blue star Ltd

## Blue star 3Q investor call takeaways

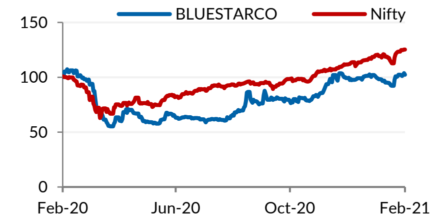
**Demand Pickup in RAC is sustainable, inventory normalizes**

- ✓ **Business update –** Demand revival and festive season sales led to better performance in Q3. Consumer sentiment is improving auguring well in coming quarters. Investments in manufacturing will lead to new opportunities, however company will continue with its conservative stance and execute orders keeping in mind customers credit profile and cash flows.
- ✓ **EMPS –** order inflow stood Rs6.36bn, slowdown continues in building sector which will take time to require. Continue to focus on infrastructure sector like metros, healthcare and sub-stations. Factories, data center etc. is expected to bring opportunities in coming quarters. Commercial air-conditioners has done well, however offices, marriage halls and auditorium is expected to remain muted and likely to improve from 2HFY22. On international front Dubai expo is expected to bring new opportunities in near term
- ✓ **Margins Unitary Products** – Festive season demand, e-comm sales and improving sentiments has led to growth in RAC. RAC market has grown by 25% in Q3 while blue star has grown by 32% with market share improving to 13%. Water purifier is an e-comm led product and has seen good growth. It is on track to break even in FY21. On commercial refrigeration space demand from healthcare and government vacation program has been encouraging. There has been healthy growth in supermarket refrigeration.
- ✓ **Pre-buying** – There has been some pre-buying by dealers fearing price hikes and filling inventory ahead of upcoming summer season. Pre-buying is usual phenomenon in Q3
- ✓ **PLI Scheme** – Company has land parcel at SRI-City which will be explored for PLI scheme once details of the PLI scheme is out.
- ✓ **Demand** – RAC demand is sustainable given the reduction in covid cases and improving consumer sentiment coupled with under penetration.
- ✓ **Channel inventory** – Channel inventory that was concern till Q2 is now at the normalize level across most of the players across brands.
- ✓ **Supply chain** – Supply chain is not likely to affect blue star as components for Q4 has already been procured in Q3 itself and more components are expected to reach by Feb and should be sufficient to cover Q1FY22.
- ✓ **E-commerce** – E-commerce sales for RAC now stands at 6% vs industry at 9%. Blue star is fast moving up in e-commerce channel.
- ✓ **Our View** – RAC segment's healthy growth is likely to offset by slow execution in EMPS segment. There can be downside risk to earnings if there is disruption in upcoming summer season leading to lower than expected volumes.

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 864 / 409 |
| Market cap (Rs/USD mn) | 78491 / 1079 |
| Outstanding Shares (mn) | 96 |
| 6m Avg t/o (Rs mn): | 104 |
| Div yield (%): | 1.2 |
| Bloomberg code: | BLSTR IN |
| NSE code: | BLUESTARCO |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | 2.0% | 22.1% | 4.0% |

**Shareholding pattern** (As of Sep'20 end)

| | |
|---|---|
| Promoter | 38.8% |
| FII+DII | 32.3% |
| Others | 28.9% |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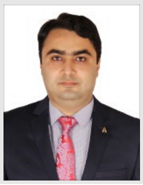

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YES SECURITIES
INSTITUTIONAL EQUITIES

# Crompton Greaves Consumer Electricals

## 3Q investor call takeaways

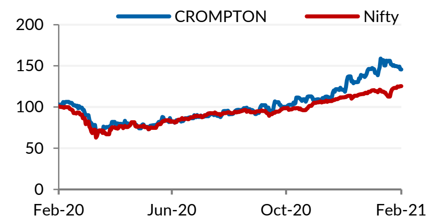
### Demand outlook remains positive; commodity price inflation is expected to impact margin in near term

- ✓ **Our View** – The stock should continue to outperform the industry, Crompton is best placed to counter commodity price inflation as it has cost leadership which coupled with price increase and cost reduction can bring back industry leading growth without any meaningful margin contraction. We expect Crompton to sail though this challenging period and gain further market share. We continue to remain positive on the stock given it is trading at discount to peers with better return ratios.
- ✓ **Distribution** – Focus on enhancing distribution, Fans reach has now improved by 3%. Higher credit period have helped improved increased business from the trade partners.
- ✓ **Technology** – Investments in tally patch are now giving dividends. Now 76% of the secondary sales are tracked through tally patch.
- ✓ **Premiumization and innovation** – focus on premiumization has now led to higher growth in premium product with premium fans growing 51% yoy. Innovation continues to remain the core focus with revamped portfolio have paid handsome dividends.
- ✓ **Commodity inflation** – Commodity inflation continues to pose some headwinds and would pose challenges in Q4 as well. To offset commodity price inflation have taken price increase of 5-8% across product categories.
- ✓ **Cost Savings** – Cost savings are on track, and have achieved Rs400mn cost savings in Q3. Company is on track for cost savings target for FY21.
- ✓ **ECD** – ECD has seen industry leading growth, with Fans growing at 36%, with premium Fans growing at 51% and super premium fans showing good traction. Have gained 1% market share in Fans on rolling basis. Pumps has seen 19% growth with residential pumps growing at 22% in volume terms and 25% in value terms. Appliances has seen 45% with Geysers has seen 49% growth and moving towards the leadership position. Sold around 1.25lakh geyser in Q3. Mixer grinder has seen exponential growth.
- ✓ **Lighting** – Lighting B2C LED volume growth has been 13% so has been the value growth. Conventional lighting has declined 17% and now contributes only 15% to the lighting revenue. On the margin front have now reached double digit and is likely to sustain. Price erosion has been behind the industry now.
- ✓ **Margin outlook** – Margins are likely to be balanced by passing some of the commodity increase and some cost savings. There could be near term pressure in margins but confident of restoring industry leading margin in medium term.
- ✓ **Supply chain** – Supply chain has eased considerably and utilization has improved 30-40% as compared to previous year. Even supply chain at the vendors has improved except there was some disruption due to farmers agitation as some of the capacity is located in northern region. Import is now less than 5% of the total revenue.
- ✓ **Market share gains** - Crompton has been fastest growing Fans brand in past 12 months and has seen market share gains.
- ✓ **PLI scheme benefits** – Awaiting the details of the scheme and will take any decision post that.

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 456 / 177 |
| Market cap (Rs/USD mn) | 250325 / 3441 |
| Outstanding Shares (mn) | 328 |
| 6m Avg t/o (Rs mn): | 605 |
| Div yield (%): | 0.8 |
| Bloomberg code: | CROMPTON IN |
| NSE code: | CROMPTON |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | -1.1% | 33.6% | 42.7% |

**Shareholding pattern** (As of Sep'20 end)

| | |
|---|---|
| Promoter | 26.2% |
| FII+DII | 56.4% |
| Others | 42.7% |

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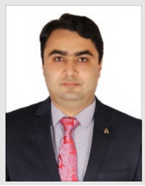

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# Crompton Greaves Consumer Electricals

- ✓ **New launches** – Looking to enter new product category, will let market and investors know as and when things materialize.
- ✓ **Demand outlook** – Demand outlook looks strong with retail and residential seeing signs of recovery. Its too early to gauge demand headwinds on price increase as full impact of price increase is effective from 15th Jan 2021.
- ✓ **Unorganized players** – Smaller players have lost out big time in Covid-19 crisis and Organized players have been big beneficiaries with Crompton gaining twice as that of other organized players. Gains toward organized players is sustainable.

## Crompton Consumer 3QFY21 results

- ✓ **Result summary** – Crompton is the second company in Electricals/Durables which has outperformed the expectations. Revenue/EBITDA grew 26%/46%, while reported PAT has declined 6.1% yoy as base quarter had tax reversal of Rs219mn. Adjusting for that PAT growth stood at 45%.
- ✓ **Topline** - Revenue grew 26% yoy. ECD continues to shine with growth of 32% yoy. ECD continued its strong performance across the categories and geographies. Lighting Segment delivered muted growth as B2B business remain challenging on slow order pickup from instructional clients, while B2C business improved on volume and value growth.
- ✓ **Margins** - Gross margins improved 13bps yoy to 31.1% despite commodity headwinds, while EBITDA margin improved 208bps on cost reduction initiatives.
- ✓ **Channel development and Investments –** Company's investment in E-com and rural channel have resulted in increased share in overall business. Its investments in product innovation and technology has led to higher revenue traction.
- ✓ **Near-term outlook** – ECD segment is expected to continue with its strong performance given inventory filling of Fans by the channel ahead of upcoming summer season and improved traction in B2B lighting as economic activity picks up.

### Exhibit 1: Result Summary

| Rs mn | Q3FY20 | Q2FY21 | Q3FY21 | YoY (%) | QoQ (%) |
|---|---|---|---|---|---|
| Net Sales | 10,713 | 12,132 | 13,482 | 25.8 | 11.1 |
| Raw Material | 7290 | 8133 | 9156 | 25.6 | 12.6 |
| as % of sales | 68.0 | 67.0 | 67.9 | | |
| Employee Cost | 774 | 797 | 929 | 20.1 | 16.7 |
| as % of sales | 7.2 | 6.6 | 6.9 | | |
| Other operating expenses | 1283 | 1290 | 1396 | 8.8 | 8.2 |
| as % of sales | 12.0 | 10.6 | 10.4 | | |
| Total Expenditure | 9346 | 10219 | 11481 | 22.8 | 12.3 |
| EBITDA | 1367 | 1913 | 2001 | 46.4 | 4.6 |
| EBITDA Margin | 12.8 | 15.8 | 14.8 | | |
| Other Income | 175 | 167 | 199 | 13.4 | 19.2 |
| EBIDT | 1542 | 2079 | 2199 | 42.6 | 5.8 |
| Depreciation | 64 | 77 | 69 | 7.2 | (10.2) |
| Interest | 87.2 | 111.3 | 105.6 | 21.1 | (5.1) |
| PBT | 1391 | 1891 | 2025 | 45.6 | 7.1 |
| Exceptional | 0.0 | 0.0 | 0.0 | | |
| PBT After Exceptional | 1391 | 1891 | 2025 | 45.6 | 7.1 |
| Tax | -219 | 475 | 514 | (334.9) | 8.3 |
| ETR | -15.7 | 25.1 | 25.4 | | |
| PAT | 1610 | 1417 | 1511 | (6.1) | 6.6 |

| Rs mn | Q3FY20 | Q2FY21 | Q3FY21 | YoY (%) | QoQ (%) |
|---|---|---|---|---|---|
| Electrical Consumer durables | 7,870 | 9,317 | 10,359 | 31.6 | 11.2 |
| Lighting Products | 2,843 | 2,815 | 3,123 | 9.8 | 10.9 |
| Net Sales | 10,713 | 12,132 | 13,482 | 25.8 | 11.1 |
| PBIT | | | | | |
| Electrical Consumer durables | 1561 | 1960 | 2046 | 31.0 | 4.4 |
| PBIT % | 19.8 | 21.0 | 19.8 | | |
| Lighting Products | 196 | 331 | 383 | 95.9 | 15.8 |
| PBIT % | 6.9 | 11.7 | 12.3 | | |
| Total PBIT | 1,757 | 2,291 | 2,429 | 38.3 | 6.0 |
| Finance Costs | 87 | 111 | 106 | 21.1 | (5.1) |
| Unallocable expense | 279 | 288 | 299 | 7.1 | 3.6 |
| as % of sales | 2.6 | 2.4 | 2.2 | | |
| Exceptional | 0 | 0 | 0 | | |
| PBT | 1391 | 1891 | 2025 | 45.6 | 7.1 |

| PBIT Margins (%) | | | | (bps) | (bps) |
|---|---|---|---|---|---|
| Electrical Consumer durables | 19.8 | 21.0 | 19.8 | (9) | (129) |
| Lighting Products | 6.9 | 11.7 | 12.3 | 539 | 52 |
| Total PBIT | 16.4 | 18.9 | 18.0 | 162 | (87) |

**Result Report Q3 FY21** | Sector: Consumer Durables

# Dixon Technologies

| ADD | CMP RS18,673 | TARGET RS15,430 | DOWNSIDE 17% |
|---|---|---|---|

## Strong beat led by TVs and lighting; exploring more PLI schemes after mobiles; reiterate ADD

**Dixon Technologies delivered a significant beat led by broad-based growth across verticals (especially TVs and lighting) given improved consumer sentiment and strong festive demand for electronics. Its revenue visibility for FY22 and beyond keeps getting better with addition of new clients and full order books necessitating further capacity expansions in multiple segments. While RM headwinds on account of component shortage can limit revenue growth and impact margins in the near term in the ODM business, the OEM business should keep exhibiting strong growth trends. The management is confident of delivering well above ceiling revenues in the mobile PLI segment and is also looking at benefitting from upcoming PLI in other products like lighting, wearables, laptops and set top boxes. Due to component availability issues, no company including Dixon will be able to meet threshold revenues in FY21 under the mobile PLI scheme, and have therefore requested the government for an extension. The company remains focused on ramping up its execution skills by strengthening its talent base and more backward integration wherever possible. After achieving global cost competitiveness in lighting and washing machine segments, it is exploring global opportunities in these products. We increase our FY22 and FY23 EPS estimates by 16% and 12% respectively to factor in better realizations in TVs and higher growth rates in washing machine and lighting segments. The recent outperformance has made valuations quite rich with further up move now expected once execution of the mobile PLI business starts and details on PLI in other products are announced. We will wait till then before ascribing an even higher multiple to the stock which currently has plenty of growth opportunities and triggers. While we remain structurally positive on the story, would wait for better entry points in the stock and reiterate our ADD rating with a PT of Rs 15,430 based on 40x FY23E earnings.**

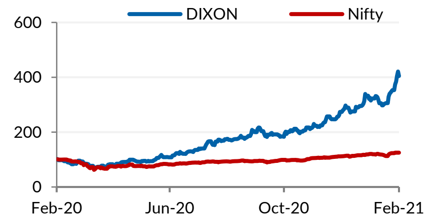
### Management commentary

- ✓ **Quarter highlights** – Margin contraction led by inferior segment mix, higher share of business from LED TVs and input cost pressures while scale benefits helped offset GM contraction; growth broad based led by improved consumer sentiment and festive season; orderbook and revenue visibility remains strong for FY22; while demand remains strong, RM headwinds remain with sharp price inflation and component shortage which can continue in near to medium term impacting ODM business margins, frugal cost structure and increasing scale should help, will be taking calibrated price increases and looking at better inventory planning; will keep entering new verticals with opportunities opening up.
- ✓ **LED TVs** – Revenue +199% led by volume and pricing growth, EBITDA +243% with margins increasing from 2.5% to 2.9% given operating leverage, higher backward integration, large screen size TVs of 42" and above, import restrictions on LED TVs, currently have 4.4mn capacity which is being expanded to 5.5mn by 2QFY22 before festive period (40% of India's requirement), automated 65" integrated line (40% of India's requirement), further adding to SMTP and PCBA capacity (2.8mn PCBA), also developed android solutions.

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 19900 / 2991 |
| Market cap (Rs/USD mn) | 218660 / 3005 |
| Outstanding Shares (mn) | 12 |
| 6m Avg t/o (Rs mn): | 802 |
| Div yield (%): | 0.0 |
| Bloomberg code: | DIXON IN |
| NSE code: | DIXON |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | 24.2% | 84.8% | 304.7% |

**Shareholding pattern** (As of Sep'20 end)

| | |
|---|---|
| Promoter | 36.0% |
| FII+DII | 33.8% |
| Others | 30.2% |

**Financial Summary**

| | FY21E | FY22E | FY23E |
|---|---|---|---|
| Revenues | 63,992 | 123,793 | 156,327 |
| Yoy growth (%) | 45.4 | 93.5 | 26.3 |
| OPM (%) | 4.7 | 4.5 | 4.5 |
| EPS (Rs) | 147.6 | 303.1 | 385.8 |
| EPS growth | 41.7 | 105.3 | 27.3 |
| P/E (x) | 126.5 | 61.6 | 48.4 |
| EV/EBITDA (x) | 96.8 | 72.1 | 38.7 |
| Debt/Equity (x) | 0.2 | 0.1 | 0.1 |
| RoE (%) | 27.0 | 35.9 | 33.0 |
| RoCE (%) | 39.0 | 48.1 | 45.0 |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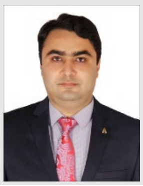

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- **Lighting** – Revenue +26% and EBITDA +39% with margins increasing from 8.6% to 9.5% led by operating leverage, more ODM solutions, value engineering and productivity improvement; large wallet share with all key customers, LED bulbs 300mn (45% of market), battens 2mn per month capacity further expanding to 3mn and 4mn per month in 2 phases(40-45% of market), downlighters 600k current capacity expanding to 1.2mn per month now; now setting up another factory for lighting which will be operative by 3QFY22, now among top global players in few SKUs, exporting for Philips to US and Indonesia, completed 33% automation to reduce manufacturing cost, looking at street lighting entry by 2QFY22.
- **Home appliances** – Revenue +68% and EBITDA +28%, margins down due to lag in passing on increase in input prices and freight rates, 4Q margins would also be under pressure; order book strong, expanding at a new site in adjacent plot, semi-automatic capacity will be increased from 1.2mn to 1.6mn; fully automatic top load almost complete, trials beginning from early March with capacity of 600k pa; will have a combined 2.2mn capacity vs Indian demand of 7-7.5mn.
- **Mobile phones and EMS** – Revenue +114%, STB and medical devices contributed 69cr and 11cr respectively, EBITDA +328% with margins improving from 2.3% to 4.6%, closed agreements with Motorola and Nokia for mobile PLI; Nokia production already started, Motorola production should start by end Feb or early March, new factory already set up, trials started, 50cr already spent. 20mn pa smartphone capacity in 2 years, 25-28k cr revenue in 5 years with 3% EBITDA margin after some ramp-up challenges, will do revenue much beyond ceiling revenues, not having own brand big advantage; exploring charges, batteries and camera backward integration; 9lac STB manufactured, 3-4 lac per month order book; wearables PLI scheme will also be explored.

## CONCALL TAKEAWAYS

- **Mobile PLI revenue visibility** – Motorola order size and projections mainly for global market almost cover the entire ceiling revenue, deep relationship should extend beyond FY25 as well as more backward integration would happen in Dixon and India, should become cost competitive by then, Xiaomi can be a prospective customer.
- **TVs share outlook** – Will do 2.9mn vs 2.1mn sets in FY21 with growth of 20-25%, open cell and glass availability will be challenge for 1-2 quarters; unit value moved from 9-10k to 14-15k with market shifting from 32 to 42 inches, new customers like Samsung, Flipkart, Reliance, Vu, Croma added; FY22 should also see 20-25% growth, not exploring exports as of now given open cell availability.
- **Lighting expansion** – New expanded capacity can be fully utilized soon as orders are coming ahead of expectations.
- **Wearables opportunity** – Market is 5000cr; tied up with Boat, see massive opportunity.
- **PLI base shifting to FY21 from FY20** – Given display and microprocessor availability issue, no one will meet thresholds in FY21, so industry and has requested for extension.
- **Motorola** – Current volumes of about 40-41mn handsets, target 15-20% of global share in 3rd to 4th year; currently in China and Brazil, China base of Motorola shifting to India.
- **Nokia** – is only for the domestic market as of now; in talks with 1-2 more global brands
- **TV client concentration**– 75% of revenue from Xiaomi and Samsung and balance from other brands, can come down to 65-67% in next 2 years; last year was 85%.
- **Component availability issues** – Mobiles - sourcing and procurement handled by brand owners to start with in mobile PLI; LED Lighting – accumulated driver IC and LED chips inventory in October which helped; TV – global shortfall of open cell but ahead of peers; OEM clients take care of sourcing, problem is in lighting and washing machines.

- **Budget proposals** – increase in duties will lead to small cost increase for brand owners but no impact on Dixon as cost is pass-thru, not looking at backward integration into PCBs, looking into chargers, battery packs etc
- **Capex targets** – 104 cr capex done in 9 months mainly on washing machine and mobile PLI, 145-155cr target for FY21 and FY22 as well, volumes – LED – 9lac vs 4.5lac, lighting – LED bulbs – 6cr , battons – 45lac, downlighters – 14 lac, others – 27 lac, washing machines – 2.4 lac, mobiles 75 – lac, 3 lac smartphones and 72 lac 2G phones, CCTV – 9 lac, STB – 9 lac, RT PCR- 450
- **Lighting PLI** – expect decision by 3rd week of February, will have to expand new facility in Uttarakhand, will align new factory if possible.
- **Capability building given rising opportunities** – Focusing on talent acquisition, focus on design, tooling, manufacturing, quality management, IT teams; tied up with global consultant for mobiles
- **Laptop/tablet opportunity** – closely exploring both IT and wearables PLI, will be pursuing it post announcement.
- **Opportunity size** – Lighting – 1300-1500cr revenue range (LED bulb global market is 8bn USD – global No.4 in volumes – target 7-8% global market – 500mn USD can get added to lighting revenue in 4-5 years) (Washers – also pursuing global opportunities) (Mobile – will foray into backward integration for basic phones)
- **Changing sales mix** – Mobile could be 35-40% of revenue and TV also could be higher, 3Q margins of 4.5-4.7% should be the margin range for FY22 as well
- **ODM share** – is currently at 35%, ODM share in TV can go upto 15-20%, Light can increase to 95-96%.
- **China Plus One beneficiaries** – Vietnam has been the biggest beneficiary bagging large business in electronics; (6-7bn USD is India exports, Vietnam is already at USD 100bn); while India is better on labor costs and equal on productivity, power tariff is same, Vietnam has edge on infrastructure side.

## Dixon technologies 3QFY21 Results First cut – Strong revenue and EBITDA beat led by strong showing in consumer electronics (TV) segment

- **Result summary** – Revenue growth beat estimates on strong consumer electronics business. Revenue/EBITDA/PAT grew 119.6%/95%/134% yoy.
- **Margins** – Gross margin contracted sharply by 324bps yoy to 9.6% on higher input costs. Gross margin are expected to remain under pressure as a result of input cost increase on back of increased components and commodity prices. Firm control on employee and other expenses restricted higher contraction in EBITDA margin. EBITDA margin contracted by 58bps yoy to 4.6%.
- **Consumer Electronics**: Revenue grew 199.4% yoy, on strong festive season growth and new clients addition. TV excluding AC-PCB grew 211% yoy, while AC PCBA was flat on yoy basis. The margin for the segment stood at 2.9%, expansion of 37bps yoy. Cost control and higher operating leverage led to margin expansion. Increase in demand for larger screen size TV would have led to stupendous growth in Televisions.
- **Lighting:** Lighting revenue grew 26% yoy on increased demand in consumer lighting. Margins in this segment stood at 9.5% expanding by 89bps yoy.
- **Home Appliances:** Revenue grew 68% yoy with EBITDA margin 10.2% contraction of 318bps. Festive season demand aided sale of washing machines.
- **Mobile phone and EMS segment**: Segment registered growth of 114% to Rs2992mn. Set-top box and Medical electronics stood at Rs693.2mn and Rs109.2mn respectively which are included in total segment revenue. Margin in this segment stood at 4.6% expansion of 230bps. Change in revenue mix has led to expansion in margins.

# Dixon Technologies

- **Reverse logistics and Security systems** – Security systems revenue stood at Rs555mn growth of 10.4% and EBITDA margin of 3.5%, while Reverse logistics revenue stood at Rs45mn with EBITDA margin of 10.3%.
- **Other Highlights** – Company has decided to sub-divide its equity share in the ratio 1:5.
- **Working Capital** – Cash conversion Cycle stood at 1 day which is in line with the management guidance of -3 to + 5 days. Company's RoE and RoCE stood at 23.8% and 31.7%.

### Exhibit 1: Financials summary

| Rs mn | Q3FY20 | Q2FY21 | Q3FY21 | YoY (%) | QoQ (%) |
|---|---|---|---|---|---|
| Net Sales | 9,938 | 16,387 | 21,828 | 119.6 | 33.2 |
| Raw Material | 8666 | 14447 | 19740 | 127.8 | 36.6 |
| as % of sales | 87.2 | 88.2 | 90.4 | | |
| Employee Cost | 272 | 359 | 377 | 38.7 | 5.0 |
| as % of sales | 2.7 | 2.2 | 1.7 | | |
| Other operating expenses | 486 | 688 | 706 | 45.3 | 2.7 |
| as % of sales | 4.9 | 4.2 | 3.2 | | |
| Total Expenditure | 9423 | 15494 | 20823 | 121.0 | 34.4 |
| EBITDA | 515 | 894 | 1005 | 95.0 | 12.4 |
| EBITDA Margin | 5.2 | 5.5 | 4.6 | | |
| Other Income | 18 | 3 | 1 | (92.3) | (44.0) |
| EBIDT | 534 | 896 | 1006 | 88.6 | 12.3 |
| Depreciation | 98 | 109 | 113 | 14.3 | 3.0 |
| Interest | 80.6 | 69.1 | 77.1 | (4.3) | 11.6 |
| PBT | 355 | 718 | 817 | 130.3 | 13.7 |
| Share of profit/(loss) of JV | 0.0 | 0.0 | 0.0 | | |
| Exceptional | 0.0 | 0.0 | 0.0 | | |
| PBT After Exceptional | 355 | 718 | 817 | 130.3 | 13.7 |
| Tax | 92 | 195 | 201 | 119.3 | 3.3 |
| ETR | 25.8 | 27.1 | 24.6 | | |
| PAT | 263 | 524 | 616 | 134.2 | 17.6 |
| | | | | | |
| **Margins (%)** | | | | **(bps)** | **(bps)** |
| Gross Margin | 12.8 | 11.8 | 9.6 | (324) | (228) |
| EBIDTA | 5.2 | 5.5 | 4.6 | (58) | (85) |
| EBIT | 5.4 | 5.5 | 4.6 | (76) | (86) |
| EBT | 3.6 | 4.4 | 3.7 | 17 | (64) |
| PAT | 2.6 | 3.2 | 2.8 | 18 | (37) |
| Effective Tax rate | 25.8 | 27.1 | 24.6 | (124) | (249) |

| Rs mn | Q3FY20 | Q2FY21 | Q3FY21 | YoY (%) | QoQ (%) |
|---|---|---|---|---|---|
| Consumer electronics | 4,543 | 9,569 | 13,598 | 199.4 | 42.1 |
| Lighting Products | 2,767 | 2,957 | 3,486 | 26.0 | 17.9 |
| Home Appliances | 684 | 1,454 | 1,152 | 68.4 | (20.8) |
| Mobile Phones | 1,395 | 1,974 | 2,992 | 114.4 | 51.6 |
| Reverse Logistics | 46 | 36 | 45 | (3.5) | 22.5 |
| Security Systems | 503 | 397 | 555 | 10.4 | 39.8 |
| Net Sales | 9,938 | 16,387 | 21,828 | 119.6 | 33.2 |
| EBITDA | | | | | |
| Consumer electronics | 115 | 265 | 394 | 243.2 | 48.6 |
| EBITDA % | 2.5 | 2.8 | 2.9 | | |
| Lighting Products | 239 | 277 | 332 | 39.0 | 19.6 |
| EBITDA % | 8.6 | 9.4 | 9.5 | | |
| Home Appliances | 92 | 173 | 118 | 28.4 | (32.2) |
| EBITDA % | 13.4 | 11.9 | 10.2 | | |
| Mobile Phones | 32 | 163 | 138 | 327.6 | (15.4) |
| EBITDA % | 2.3 | 8.2 | 4.6 | | |
| Reverse Logistics | 16 | 4 | 5 | | |
| EBITDA % | 34.4 | 10.2 | 10.3 | | |
| Security Systems | 22 | 12 | 20 | (12.6) | 66.7 |
| EBITDA % | 4.4 | 2.9 | 3.5 | | |
| Total EBITDA | 515 | 894 | 1,005 | 95.1 | 12.5 |
| EBITDA % | 5.2 | 85.2 | 94.8 | | |

YES SECURITIES INSTITUTIONAL EQUITIES

# Havells India Ltd

## 3Q investor call takeaways

### blockbuster quarter led by share gains and pre-buying ahead of price hikes; outperformance to continue

- ✓ **Price hikes and demand impact** – varied increases across categories with higher metal and plastic prices – copper related segments like domestic wires saw 15% price hike in 3Q and more in 4Q, switchgears saw increase of 5-7%, industrial products like switchgears and motors saw 10% increase, 5-13% price increase in most consumer products and appliances underway – may not impact demand much but trade partners did pre-buying in December due to price hike anticipation so could hold back on purchases in near term , but if retail demand holds up inventory will quickly normalize.

- ✓ **Outlook on employee costs and ad spends** – employee costs normalized in 3Q with incentives coming back and salaries normalizing; ad spends started coming back on absolute basis.

- ✓ **Impact of spurt in real estate demand** – better completion of stuck projects plus new launches also helped demand; market share gains from unorganized players was a bigger growth driver.

- ✓ **Lloyd business update** – efforts on rebuilding channel now starting to benefit, have recovered market share in last 2-3 quarters, pre-buying for all AC players helped given significant price hikes after a long time. New launches and entry into new products has increased trade confidence.

- ✓ **Industrial and infra segment** – Things looking up on power cables, industrial switchgears; professional luminaires still struggling although potential remains.

- ✓ **Key sector trends** – Structural demand tailwinds in both real estate and consumer segment, market share gains from unorganized sector continued, Make in India push given own manufacturing capabilities also helping.

- ✓ **Margin outlook** – Will endeavor to maintain gross margins despite commodity headwinds, but EBITDA margins would cool off somewhat with discretionary spends rising but operating leverage will continue; will target the 14-16% EBITDA margin range.

- ✓ **Capacity expansion plans** – Recent AC import restrictions and expected PLI benefits will increase domestic AC capacity significantly, export opportunities also opening up, will remain aggressive on capacity building including acquisitions.

- ✓ **Market share gains** - Market share gains led by supply chain issues for competition become sticky as consumer preferences have changed towards large domestic brands manufacturing in India.

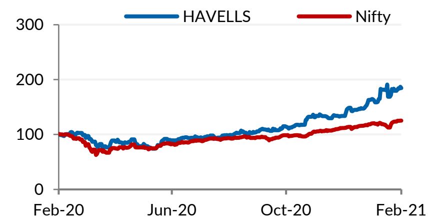
- ✓ **ECD business** – Saw 46% jump in growth given better festive demand; fans (strong pre-buying given price increase led to strong growth), water heaters (severe winter) and domestic appliances (ramp-up in distribution and new product categories).

- ✓ **PLI scheme benefits** – Will promote both domestic production and exports in both lighting and AC segments; will take 2-3 years which will give time for manufacturers to prepare for the export opportunity.

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 1195 / 447 |
| Market cap (Rs/USD mn) | 714876 / 9826 |
| Outstanding Shares (mn) | 626 |
| 6m Avg t/o (Rs mn): | 2294 |
| Div yield (%): | 0.3 |
| Bloomberg code: | HAVL IN |
| NSE code: | HAVELLS |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | 12.4% | 41.1% | 86.7% |

**Shareholding pattern** (As of Sep'20 end)

| | |
|---|---|
| Promoter | 59.5% |
| FII+DII | 32.1% |
| Others | 8.2% |

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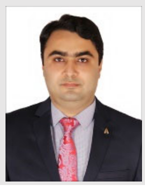

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# Havells India Ltd

- ✓ **New launches** – Have a complete durables portfolio now with refrigerators, washing machines, dishwashers and would aggressively pursue all large appliance categories.
- ✓ **Lloyd refrigerator and washing machine portfolio** – Have received strong response from trade and consumers, ACs still remain 65-70% of business as of now.
- ✓ **Water purifier** – Have crossed Rs 100cr milestone, working on expanding service network before getting aggressive.
- ✓ **New distribution channels** – Rural and online now contributing 4% to sales.
- ✓ **View** – The stock should continue to outperform as a significant part of share gains look sustainable and there is high probability that margins might also reset to higher than historical levels once the commodity prices normalize. But given the sharp recent up move, would suggest fresh entry on any corrections.

# Orient Electric

## 3QFY21 Results First cut – Revenue and EBITDA beat estimates on strong ECD performance

- **Result summary –** Revenue growth beat estimates on strong showing of ECD business. Revenue/EBITDA/PAT grew 24.7%/85.8%/171.8% yoy.

- **Margins –** Gross margin contracted 310bps yoy on change in segment mix and product mix with a higher share of ECD vs Lighting. Gross margin are expected to remain under pressure as a result of input cost increase on back of increased commodity prices. Firm control on expenses and higher operating leverage led to EBITDA margin expansion. EBITDA margin expanded by 447bps yoy to 13.6% its highest ever.

- **Electrical consumer durables:** Revenue grew 42% yoy, supported by the festive season and advance buying by Dealers due to anticipated price increase. Fans and Home appliances registered healthy growth, while coolers remained depressed. Speedier adoption of SFA (Sales force automation) and DMS (Distributor Management System) is helping acquire market visibility. The margin for the segment has grown substantially on the back of controlled costs and better leverage of expenses. ECD margins stood at 14.9% expansion of 249bps yoy.

- **Lighting and switchgears:** Consumer lighting saw mid-teens growth, while tender business saw substantial reduction on high base resulting in overall decline for lighting. The company has successfully entered into the Façade Lighting category and completed the prestigious "Dobra Chanti Bridge" project in Uttarakhand, "ODISHA Vidhan Sabha" building at Bhubaneswar, amongst other projects completed during this quarter. Switchgear market is small and OEL focus is on select markets and penetration in such markets coupled with the B2B segment. Margins in this segment stood at 14.6% expansion of 138bps.

- **Interim Dividend:** Company has declared Rs0.75/share as interim dividend

- **Working capital:** Sharper inventory planning, increased collections and channel financing, coupled with restructuring Vendor terms assisted a reduction of working capital from 60 days (Rs3.64bn) last year to 18 days (Rs1.46bn) end-Dec'20. This has also resulted in improving the cash conversion cycle by around 40 days y-o-y, thereby generating stronger cash flows in the quarter

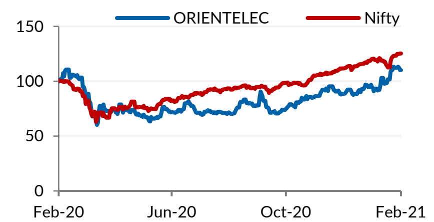
- **Near-term outlook –** We expect ECD and B2C to continue its growth momentum as channel filling for Fans largest component of ECD will start in Q4. B2B lighting is expected to improve as economy starts to gather pace. Margins are expected to remain strong on cost reduction measures.

- **Our view -** Stock trades at 35x FY23 EPS which is at discount to its peers like Havells and Crompton. Consistent delivery and outperformance will lead to multiple re-rating and EPS upgrades. We remain positive on the stock.

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 297 / 145 |
| Market cap (Rs/USD mn) | 58245 / 801 |
| Outstanding Shares (mn) | 212 |
| 6m Avg t/o (Rs mn): | 101 |
| Div yield (%): | 0.5 |
| Bloomberg code: | ORIENTEL IN |
| NSE code: | ORIENTELEC |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | 16.3% | 28.0% | 11.0% |

**Shareholding pattern** (As of Sep'20 end)

| | |
|---|---|
| Promoter | 38.5% |
| FII+DII | 28.1% |
| Others | 33.4% |

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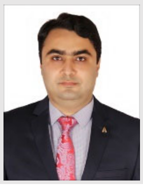

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### Exhibit 1: Quarterly Summary

| Rs mn | Q3FY20 | Q2FY21 | Q3FY21 | YoY (%) | QoQ (%) |
|---|---|---|---|---|---|
| Net Sales | 4,957 | 4,338 | 6,183 | 24.7 | 42.6 |
| Raw Material | 3265 | 2894 | 4265 | 30.6 | 47.3 |
| as % of sales | 65.9 | 66.7 | 69.0 | | |
| Employee Cost | 510 | 423 | 465 | (8.7) | 9.9 |
| as % of sales | 10.3 | 9.8 | 7.5 | | |
| Other operating expenses | 729 | 443 | 612 | (16.1) | 38.3 |
| as % of sales | 14.7 | 10.2 | 9.9 | | |
| Total Expenditure | 4504 | 3760 | 5342 | 18.6 | 42.1 |
| EBITDA | 453 | 578 | 842 | 85.8 | 45.8 |
| EBITDA Margin | 9.1 | 13.3 | 13.6 | | |
| Other Income | 12 | 7 | 7 | (45.2) | (8.1) |
| EBIDT | 466 | 585 | 849 | 82.3 | 45.1 |
| Depreciation | 104 | 107 | 108 | 4.0 | 1.0 |
| Interest | 66.1 | 44.7 | 45.9 | (30.6) | 2.7 |
| PBT | 295 | 433 | 694 | 135.2 | 60.4 |
| Exceptional | 0.0 | 0.0 | 0.0 | | |
| PBT After Exceptional | 295 | 433 | 694 | 135.2 | 60.4 |
| Tax | 104 | 109 | 175 | 67.9 | 60.8 |
| ETR | 35.3 | 25.1 | 25.2 | | |
| PAT | 191 | 324 | 519 | 171.8 | 60.2 |

| Margins (%) | | | | (bps) | (bps) |
|---|---|---|---|---|---|
| Gross Margin | 34.1 | 33.3 | 31.0 | (310) | (224) |
| EBIDTA | 9.1 | 13.3 | 13.6 | 447 | 30 |
| EBIT | 9.4 | 13.5 | 13.7 | 433 | 24 |
| EBT | 6.0 | 10.0 | 11.2 | 527 | 125 |
| PAT | 3.9 | 7.5 | 8.4 | 454 | 93 |
| Effective Tax rate | 35.3 | 25.1 | 25.2 | (1,008) | 7 |

### Exhibit 2: Segmental quarterly

| Rs mn | Q3FY20 | Q2FY21 | Q3FY21 | YoY (%) | QoQ (%) |
|---|---|---|---|---|---|
| Electrical Consumer durables | 3,248 | 3,044 | 4,605 | 41.8 | 51.3 |
| Lighting & Switchgear | 1,709 | 1,294 | 1,579 | (7.6) | 22.0 |
| Net Sales | 4,957 | 4,338 | 6,183 | 24.7 | 42.6 |
| PBIT | | | | | |
| Electrical Consumer durables | 402 | 512 | 685 | 70.3 | 33.9 |
| PBIT % | 12.4 | 16.8 | 14.9 | | |
| Lighting & Switchgear | 226 | 189 | 230 | 2.1 | 22.2 |
| PBIT % | 13.2 | 14.6 | 14.6 | | |
| Total PBIT | 628 | 700 | 915 | 45.8 | 30.7 |
| Finance Costs | 63 | 42 | 43 | (32.1) | 0.9 |
| Unallocable expense | 270 | 225 | 178 | (34.1) | (20.8) |
| as % of sales | 5.4 | 5.2 | 2.9 | | |
| Exceptional | 0 | 0 | 0 | | |
| PBT | 295 | 433 | 694 | 135.6 | 60.4 |

| PBIT Margins (%) | | | | (bps) | (bps) |
|---|---|---|---|---|---|
| Electrical Consumer durables | 12.4 | 16.8 | 14.9 | 249 | (194) |
| Lighting & Switchgear | 13.2 | 14.6 | 14.6 | 138 | 2 |
| Total PBIT | 12.7 | 16.1 | 14.8 | 214 | (134) |

# Polycab India

## 3Q investor call takeaways

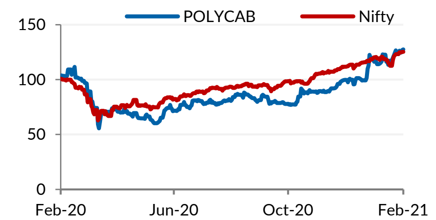
### FMEG delivers stellar growth, high input cost affects Gross margins

- ✓ **Our View** – We believe strong cash generation and sustainable improvement in working capital are key catalysts in multiple re-rating for the stock apart from increasing B2C business. We believe multiple re-rating for Polycab is likely to continue as company is able to deliver sustainable improvement in return ratios with continued market share gains.
- ✓ **Macro Indicators -** Broad based recovery across regions, B2C demand has sharply recovered with sentiment improvement, construction activity has picked up, private sector investment has picked up resulting in pickup in B2B business.
- ✓ **Business updates –** B2C categories continued to see strong traction, while B2B has seen improvement on QoQ basis. A&P Spends were higher on IPL related expenses. Commodity price increase continue to post challenges.
- ✓ **Wires and Cables** – Grew 6% yoy, domestic wires post double digit growth, while cables business remained flat. Instructional business was muted. Distribution led business continued to see handsome growth. Export business declined on high base of Dangote order. Margins in wires and Cables is likely to remain in range of 11-13%
- ✓ **FMEG** – FEMG continued its growth trajectory. It faced high competition, unavailability of product, supply and logistics issues in Q3. Demand of lighting product remained upbeat on back of festive season. Switchgear and switches have seen growth on back of home improvement. FMEG has seen margin improvement on back of change in product mix and cost rationalization. Company is on track to achieve high single digit margin in next 2 years. East has seen higher growth, with market share gains in Fans.
- ✓ **HOHM** – HOHM is the new brand of Polycab which consist of premium IOT based products will be available on online platform from next month. Margins are expected to be better than the base products. All these products will be manufactured in-house.
- ✓ **Working capital** – Working capital has seen improvement on higher channel financing and increasing in payables. Company is confident of further improving its working capital by reducing inventory levels and keeping payable at optimal level. Reduction in working capital has led to strong cash generation.
- ✓ **Gross Margin** – Gross margins have impacted on back of rising commodity prices. Complete cost of commodity price increase have not been passed on, it is likely to be passed on in calibrated manner.
- ✓ **Distribution** – Company has 4000 dealers/distributors catering to 1,50,000 retailers and distribution enhancement program is on track. Focus will be on increasing experience centers
- ✓ **Cash Generation** – Cash generation will be used as company required capex for getting into Defense and Railway sector. It will be also used to improve capability for getting more exports orders.
- ✓ **New product category** – Company will continue to focus on existing product categories as there is huge scope of increasing share in FMEG.

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 1340 / 570 |
| Market cap (Rs/USD mn) | 198139 / 2723 |
| Outstanding Shares (mn) | 149 |
| 6m Avg t/o (Rs mn): | 482 |
| Div yield (%): | 0.5 |
| Bloomberg code: | POLYCAB IN |
| NSE code: | POLYCAB |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | 9.7% | 45.1% | 25.7% |

**Shareholding pattern** (As of Sep'20 end)

| | |
|---|---|
| Promoter | 68.4% |
| FII+DII | 17.3% |
| Others | 14.3% |

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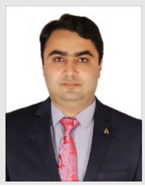

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# Vguard Industries Ltd

## V-Guard Industries 3QFY21 Earnings call update

**Demand outlook remains healthy, but margins to witness some pressure**

- ✓ **Our View** – After few quarters of underperformance V-Guard has managed to deliver both on the revenue and margin front, with beat on both fronts. We would watch for consistency of revenue and earnings growth given company has been not been able to deliver consistent revenue and profit growth. We maintain our cautious view on the stock for now as peers like Crompton and Havells look better placed.

- ✓ **Business Update** - Positive market sentiment during the festive season, reflected in significant growth reported across all markets and product categories. Some latent demand from earlier months, re-stocking of distribution channels and resumption of construction activities also enabled growth. Both south and Non-south delivered strong growth, company on track to achieve 50% revenue from non-south region. Growth is expected on base of Q4FY19 as Q4FY20 was washout as secondary sales continue to remain favorable. Expect summer products to come back strongly with some pent-up demand.

- ✓ **Margins** - At the gross margin level, there was some impact from the recent increase in commodity prices and company will continue to take pricing actions as appropriate over the next few months. Pricing action is expected in Q4 to cover increased commodity costs. Gross margin will remain under pressure for next 3-4 months. EBITDA Margins have improved on back of lower A&P spends. Target is to improve EBITDA margin by 100bps every two years. Margin improvement from the levels of FY19 is possible in FY22. On an average basis 4-7% of price increase is required to offset commodity price inflation.

- ✓ **Stabilizers** – Stabilizers has grown well in Q3 on back of pent up demand and pre-buying and expected to see catch up in Q4. Inventory for stabilizers is higher as there was some pre-buying in Q3.

- ✓ **Demand Drivers** – Smaller players are not back to their full operation which is leading to higher share of business coming to larger players. Low interest rate is leading to improvement in real estate which is sustainable in nature. 1) Evolving category mix and product mix, 2) GTM with focus on e-commerce and modern trade, 3) Distribution enhancement in smaller town and rural along with increase in non-south region and 4) In-organic expansion will generate growth for the company.

- ✓ **Capital deployment** – Primary focus is to look to use cash to enter adjacent categories including in-organic growth. If company is not able to find any avenue to deploy cash for elongated period then it would be returned back to investors.

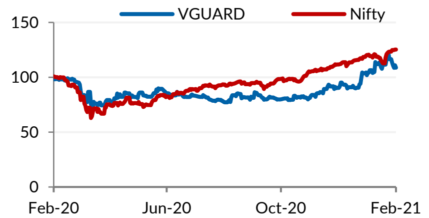
- ✓ **Channel inventory and mix** – Channel inventory is at healthy level while in some product categories like water heaters it is below historic low levels and dealers are in position to take and replenish inventory. E-commerce and modern retail contributes 14-15% of revenue excluding wires. Expect to add 3000 to 4000 retailers every year in non-south region. Company has 40,000 retail points with around 18,000 in south and balance in non-south.

- ✓ **Acquisition** - Company is looking for acquisition mainly in durable space (small appliances) where company has limited capabilities.

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 255 / 149 |
| Market cap (Rs/USD mn) | 96635 / 1328 |
| Outstanding Shares (mn) | 429 |
| 6m Avg t/o (Rs mn): | 177 |
| Div yield (%): | 0.4 |
| Bloomberg code: | VGRD IN |
| NSE code: | VGUARD |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | 6.6% | 34.0% | 9.2% |

**Shareholding pattern** (As of Sep'20 end)

| | |
|---|---|
| Promoter | 62.6% |
| FII+DII | 26.2% |
| Others | 11.2% |

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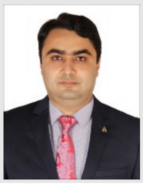

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# Vguard Industries Ltd

- ✓ **Price hikes and new launches -** Wires 15-20% higher and have completely passed on. In Q3 excluding wires 3-4% of prices have been taken. Company has entered in water purifier in Q3 and is planning to expand kitchen portfolio like entering hoods and hobs. New launches have been done on e-commerce and some company launched outlets. Company would be spending Rs40-70mn in developing platform for water purifiers.

- ✓ **Supply chain -** Company is facing supply chain issues in Fans, modular switches and switchgears and mixers as vendors are not upto the full capacities. V-guard is likely to work with higher inventory levels till supply chain are fully restored. Import constitute only 4-5% of the finished goods.

# Voltas Ltd

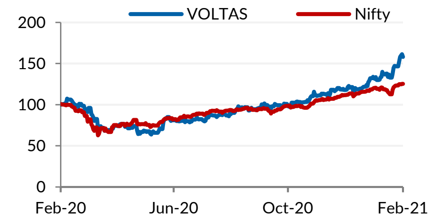
## Voltas 3QFY21 Results First cut – Strong operating performance with all round beat

- ✓ **Result summary** – Revenue growth beat estimates on strong performance of UCP and EMPS segment. Revenue/EBITDA/PAT grew 33.6%/49.6%/46.3%.
- ✓ **Margins** – Gross margin contracted sharply by 402bps yoy to 24.6% on higher input costs. Gross margin are expected to remain under pressure as a result of input cost increase on back of increased components and commodity prices. Firm control on employee and higher operating leverage led to expansion in EBITDA margin. EBITDA margin expanded by 78bps yoy to 7.3%.
- ✓ **UCP**: Revenue grew 40% yoy, on strong festive season growth with RAC delivering volume growth of 43% and 100% growth in commercial refrigeration products. Air-cooler also delivered 11% growth indicating gain in market share as market leader Symphony reported a decline. Voltas market share in RAC stands at 26% in YTD December'20. Margin in UCP stood at 12.5% expanding 235bps.
- ✓ **EMPS** Revenue grew 26% yoy indicating improvement in execution on better macro-economic conditions. EBIT margin in EMPS stood at 3.2% contracting 146bps yoy. Lower margins are primarily due to conservative time based provisions, amidst liquidity constraints on some of the legacy projects. Carry forward order book stood at Rs72.7bn in 3QFY20.
- ✓ **EPS:** Revenue grew 46.4% with EBIT margin of 26.5%.
- ✓ **Other Highlights**: Losses from JV has increased to Rs201mn indicating higher losses from its Volt-Bek JV.
- ✓ **Our view** - Voltas continues to deliver industry leading performance with both revenue and profitability growing faster than the industry. Voltas continues to gain market share despite significantly higher base. This continuing performance warrants for upgrades in both revenue and profit estimates. Voltas stock has already seen a significant re-rating, and can now see sustenance of higher multiples on the back of continued outperformance. We remain bullish on the stock and will revisit our estimates post the earnings call scheduled for Monday, 15 Feb.

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 1132 / 427 |
| Market cap (Rs/USD mn) | 357091 / 4908 |
| Outstanding Shares (mn) | 331 |
| 6m Avg t/o (Rs mn): | 1738 |
| Div yield (%): | 0.4 |
| Bloomberg code: | VOLT IN |
| NSE code: | VOLTAS |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | 19.5% | 42.9% | 59.2% |

**Shareholding pattern** (As of Sep'20 end)

| | |
|---|---|
| Promoter | 30.3% |
| FII+DII | 51.4% |
| Others | 18.0% |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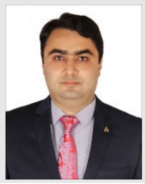

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# Whirlpool of India

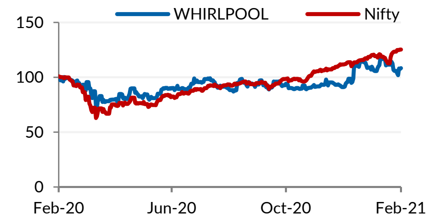
## Inline revenue with slight miss on margins

- ✓ **Result summary** – Revenue growth was in line with the estimates, while contraction in gross margin leads to margin miss. Revenue/EBITDA grew 17.5%/12.2%. Higher interest, depreciation and lower other income led to decline in PAT.
- ✓ **Revenue**: Our Channel checks have been highlighting double digit growth in the festive season which had continued in month of December as well.
- ✓ **Margins** – Gross margin contracted 292bps yoy on change in product mix towards high end refrigerators and high commodity prices. Consequently EBITDA margin contracted only 32bps yoy on cost control initiatives. Company had refrained from taking any price increase in 3Q to offset higher commodity prices leading to contraction in gross margins. Cost control initiatives and lower A&P spends might have led to marginal increase in other expense.
- ✓ **Near-term outlook** – Demand for both refrigerators and washing machines continue to remain strong, and our interaction with the dealers suggest company has taken prices increases from 1st Jan to offset commodity price inflation. We believe with strong demand momentum and gross margin improvement in Q4, we expect expansion in EBITDA margin.
- ✓ **Our view -** Stock trades at 43x FY23 EPS which is at discount to its peers like Havells and Hitachi. Given the quality of balance sheet and high cash balance and improvement in margin stock should command better multiples. We continue to remain positive on stock.

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 2787 / 1344 |
| Market cap (Rs/USD mn) | 314807 / 4327 |
| Outstanding Shares (mn) | 127 |
| 6m Avg t/o (Rs mn): | 241 |
| Div yield (%): | 0.2 |
| Bloomberg code: | WHIRL IN |
| NSE code: | WHIRLPOOL |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | -1.2% | 18.8% | 10.1% |

**Shareholding pattern** (As of Sep'20 end)

| | |
|---|---|
| Promoter | 75.0% |
| FII+DII | 14.7% |
| Others | 10.3% |

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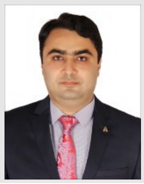

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# Financials

## Continuing earnings surprise for large banks and well-run NBFCs

Q3 FY21 was the second successive quarter of better-than-expected core PPOP performance and earnings surprises from large banks (Private Banks and SBI) and from strong NBFCs (BAF, CIFC and SHTF). The operating performance was strong on all fronts viz. stronger disbursements and loan growth, swift recovery in core fees, stable-to-sturdy NIMs due to significant incremental reduction in funding/deposit cost, sustained lid on opex growth and stable-to-lower provisions with lower-than-expected restructuring and gross accretion to proforma NPLs.

Except of AXSB, the large banks (incl. SBI) witnessed a strong sequential loan growth of 3-7%. Strong disbursement activity was seen in Home Loans, Auto Loans (excl. CV Financing), Cards, Gold Loans, MSME Loans (catalyzed by ECLGS) and even in Corporate segment for some. The consistent reduction in deposits rates over the past 12 months resonated once again in the NIMs, and most banks under our coverage delivered NII growth ahead of loan growth. With disbursement activity across multiple products normalizing or even surpassing pre-Covid levels, swift recovery continued in core fees and banks with higher retail composition in portfolio reported positive fee growth yoy. The controlled cost growth (despite business recovery) continues to surprise, standing in single-digits for most large banks.

Trends in asset quality, which was a key monitorable, were better than what was guided by most managements. The Covid stress (restructuring + proforma NPL) was much lower than street's expectations. Commentary on collections, overdues resolutions and incremental NPL accruals was assuaging too, and along with the material Covid/contingency provisioning buffer caused significant cuts in the consensus' credit cost estimates for FY21 and FY22. Overall, Q3 FY21 performance drove significant earnings upgrade for most banks and NBFCs.

Once space that disappointed investors was Microfinance wherein large provisions surprised negatively. While we had a view that MFIs will make cycle completing provisions in Q3 FY21, we too were surprised by the quantum. In our view, both CREDAG and SPANDANA have completed the provisions for non-paying customers and have also created an adequate buffer against part-paying and irregularly paying borrowers. Most likely, their credit will substantially normalize in Q4 FY21.

**We retained a strong BUY on HDFCB and ICICIBC and upgraded IIB and AU SFB in this earnings season. SBI, SHTF and CIFC were other companies in our coverage where operating performance significantly exceeded market's expectations.**

| Stock | Rating | TP |
|---|---|---|
| AUSFB | ADD | 950 |
| AXIS BANK | BUY | 775 |
| BAJAJ FIN. | ADD | 5,500 |
| CANFIN Ho. | BUY | 615 |
| CREDAG | BUY | 1,000 |
| HDFC BANK | BUY | 1,870 |
| ICICI BANK | BUY | 675 |
| INDUSIND | BUY | 1,070 |
| KMB | BUY | 2,005 |
| MGFL | BUY | 230 |
| RBL BANK | BUY | 265 |
| SHTF | BUY | 1,430 |
| SBIN | BUY | 440 |
| SPANDANA | BUY | 1,150 |
| UJJIVANSFB | ADD | 40 |

**Note:** Target and Recommendation as on Result date

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### Exhibit 1: Q3 FY21 Results – Core Performance Snapshot

| Company | Loan Growth | | Chg. in CoF | | Chg. In NIM | | NII Growth | | Core Fee Growth | | Opex Growth | | Core PPOP Growth | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | % qoq | % yoy | bps qoq | bps yoy | bps qoq | bps yoy | % qoq | % yoy | % qoq | % yoy | % qoq | % yoy | % qoq | % yoy |
| HDFC Bank | 3.5 | 15.8 | (26) | (130) | 10 | - | 3.4 | 15.1 | 23.0 | 9.6 | 6.5 | 8.6 | 8.7 | 17.2 |
| ICICI Bank | 3.4 | 6.4 | (24) | (95) | 10 | (10) | 5.8 | 16.0 | 14.7 | 0.1 | 12.6 | 3.7 | 4.9 | 17.7 |
| Axis Bank | 2.7 | 10.5 | (30) | (112) | 1 | 2 | 0.6 | 14.3 | 5.6 | 4.7 | 19.3 | 12.4 | (10.6) | 10.4 |
| SBI | (0.2) | 6.9 | (9) | (71) | 2 | 4 | 2.3 | 3.7 | 2.0 | (5.1) | 2.4 | 11.1 | 6.5 | (6.6) |
| Kotak Bank | 0.4 | (4.0) | (21) | (142) | (1) | (18) | 2.4 | 16.8 | 10.6 | 3.0 | 9.2 | (5.2) | 0.5 | 33.7 |
| IndusInd Bank | 1.6 | 2.1 | (20) | (99) | (4) | (3) | 3.9 | 10.8 | 30.9 | (7.8) | 5.5 | (0.9) | 14.7 | 9.4 |
| RBL Bank | (0.9) | (4.0) | (29) | (99) | (15) | (38) | (2.6) | (1.6) | 37.3 | 4.9 | 2.2 | 0.9 | 15.4 | 0.4 |
| Federal Bank | 1.4 | 6.5 | (32) | (107) | 9 | 22 | 4.1 | 24.4 | 23.8 | 14.8 | 8.3 | 16.7 | 6.7 | 29.5 |
| CUBK | 2.6 | 6.5 | (33) | (95) | 4 | 20 | 2.9 | 14.5 | 13.8 | (0.5) | 0.2 | (0.3) | 7.9 | 13.5 |
| CSB Bank | 11.7 | 11.0 | (29) | (123) | 67 | 130 | 9.6 | 61.8 | (2.3) | 66.5 | 20.4 | 36.5 | (8.3) | 139.6 |
| Bandhan | 3.1 | 19.4 | (20) | (120) | 30 | 40 | 7.7 | 34.5 | - | - | 5.0 | 12.1 | 17.6 | 51.4 |
| AUSFB | 3.7 | 9.8 | - | (60) | 53 | 13 | 12.9 | 24.9 | 63.9 | 18.3 | 11.5 | 19.3 | 29.2 | 20.6 |
| USFB | (3.4) | 7.8 | (30) | (100) | (50) | (120) | (8.1) | 1.3 | (23.3) | (26.7) | 8.8 | (8.0) | (34.3) | 18.3 |
| ESFB | 10.7 | 22.9 | (9) | (74) | (55) | (70) | 4.9 | 26.1 | 81.1 | 0.0 | 16.3 | 14.2 | 3.0 | 43.9 |
| BAF | (0.7) | 1.1 | (24) | (51) | 16 | (68) | 3.3 | (5.2) | - | - | 20.2 | (9.4) | (3.3) | (3.2) |
| CIFC | 5.8 | 13.3 | (40) | (120) | 50 | 80 | 9.0 | 26.0 | - | - | 3.9 | (13.1) | 10.7 | 51.3 |
| MMFS | 0.3 | 12.3 | (10) | (30) | (5) | (61) | (0.6) | 0.9 | - | - | 0.4 | (23.2) | (1.3) | 14.6 |
| SHTF | 1.4 | 4.8 | (16) | 30 | 22 | (26) | 5.6 | 1.6 | - | - | 6.0 | 0.5 | 5.6 | 2.0 |
| CREDAG | (4.9) | 16.5 | - | - | (133) | (160) | (6.7) | 3.0 | - | - | 3.0 | 38.1 | (13.5) | (15.1) |
| MGFL | 6.1 | 18.6 | (15) | (17) | 71 | (61) | 9.2 | 12.3 | - | - | 0.2 | (5.0) | 13.0 | 21.2 |
| SCUF | (3.2) | (7.4) | (32) | (47) | 52 | 29 | 4.4 | (3.2) | - | - | 7.0 | (1.0) | 0.2 | (6.4) |
| CAN Fin | (0.1) | 6.3 | (23) | (101) | 8 | 55 | 0.6 | 20.6 | - | - | 36.7 | 28.2 | (4.3) | 19.3 |
| SPANDANA | - | - | (36) | (28) | (30) | (80) | (15.8) | (17.5) | - | - | 16.2 | 14.8 | (24.6) | (26.2) |

# AU Small Finance Bank

| ADD | CMP Rs1,099 |
|---|---|

## Improving growth and credit cost visibility

### Growth is back and stress well provided for - Upgrade to ADD with 12 PT of Rs950

AU SFB posted a strong growth and core PPOP performance, while the Covid stress manifestation was in-line with expectations. On growth, the key positives were a robust 34% yoy growth in overall disbursements and 8-9% qoq expansion in Wheels and SBL MSME portfolios. Management expects business activity to further pick-up in Q4 FY21 and times to come. The core PPOP (ex. treasury, PSLC, stake sale and bad debts recovery) jumped 30% qoq (was higher 8% v/s our estimate) on solid AUM growth delivery, expansion in spread (benefits of improving liability franchise) and controlled cost growth despite sustained franchise investments.

The overall stress recognition, in the form of proforma slippages of Rs7.1bn (2.3% of AUM) and assessed restructuring of Rs4.7bn (1.5% of AUM), was well-contained considering the product mix and targeted customer segments. The bank holds significant provisions on this Covid stress – 55% on proforma slippages and ~30% on expected restructuring incl. the contingency buffer. These provisions were augmented in Q3 by utilizing the Aavas stake sale gains. Management expects much lower slippages and normalized credit cost from Q4 FY21, encouraged by reversion of customer activation (full and part payments against billing) and collection efficiency (including collection of overdues) to pre-Covid levels from December.

We expect 23-25% AUM growth for AU SFB over FY21-23 and a 2%+ RoA and 18%+ RoE delivery. Upgrade the stock to ADD from Reduce rating due to much better visibility on growth and credit cost post the Q3 results. Notably, the stock did underperform the market as envisaged when we tactically downgraded in Q1 FY21 result update (CMP was Rs792 then). We now anchor valuation to FY23 ABV which stands at 3.4x, palatable for a high-quality franchise on RoE expansion path. We upgrade 12m target to Rs950.

**Exhibit 1: Result table**

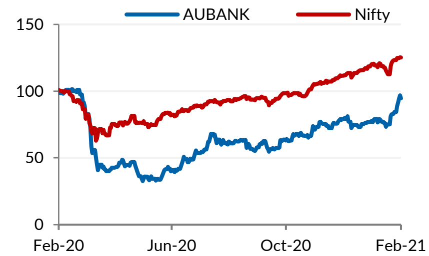
| (Rs mn) | Q3FY21 | Q2FY21 | % qoq | Q3FY20 | % yoy |
|---|---|---|---|---|---|
| Total Operating Income | 12,611 | 12,125 | 4.0 | 11,116 | 13.4 |
| Interest expended | (6,280) | (6,518) | (3.7) | (6,048) | 3.8 |
| Net Interest Income | 6,331 | 5,606 | 12.9 | 5,068 | 24.9 |
| Other income | 6,634 | 2,857 | 132.2 | 1,612 | 311.5 |
| Total Income | 12,965 | 8,463 | 53.2 | 6,681 | 94.1 |
| Operating expenses | (4,237) | (3,800) | 11.5 | (3,552) | 19.3 |
| PPOP | 8,728 | 4,663 | 87.2 | 3,128 | 179.0 |
| Provisions | (2,836) | (574) | 394.1 | (401) | 607.2 |
| PBT | 5,892 | 4,089 | 44.1 | 2,727 | 116.0 |
| Tax | (1,102) | (870) | 26.6 | (825) | 33.5 |
| PAT | 4,790 | 3,219 | 48.8 | 1,902 | 151.9 |

Source: Company, YES Sec – Research

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 1218 / 366 |
| Market cap (Rs/USD mn) | 337244 / 4635 |
| Outstanding Shares (mn) | 307 |
| 6m Avg t/o (Rs mn): | 591 |
| Div yield (%): | - |
| Bloomberg code: | AUBANK IN |
| NSE code: | AUBANK |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | 21.5% | 32.9% | -4.5% |

**Shareholding pattern (As of Dec'21 end)**

| | |
|---|---|
| Promoter | 29.0% |
| FII+DII | 51.7% |
| Others | 19.1% |

**Δ in stance**

| (1-Yr) | New | Old |
|---|---|---|
| Rating | ADD | REDUCE |
| Target Price | 950 | 757 |

**Δ in earnings estimates**

| | FY21e | FY22e | FY23e |
|---|---|---|---|
| EPS (New) | 38.4 | 36.3 | 47.1 |
| EPS (Old) | 22.8 | 32.7 | 45.6 |
| % change | 68.4% | 11.0% | 3.3% |

**Financial Summary**

| | FY21E | FY22E | FY23E |
|---|---|---|---|
| Op. Income | 37,321 | 38,019 | 48,025 |
| PPOP | 21,583 | 17,953 | 22,943 |
| PAT | 11,671 | 11,029 | 14,331 |
| EPS (Rs) | 38.4 | 36.3 | 47.1 |
| ABVPS (Rs) | 169.6 | 205.7 | 252.9 |
| P/E (x) | 28.6 | 30.3 | 23.3 |
| P/ABV (x) | 6.5 | 5.3 | 4.3 |
| ROE (%) | 23.5 | 18.1 | 19.5 |
| ROA (%) | 2.6 | 2.0 | 2.1 |

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### Exhibit 2: Business Data

| (Rs mn) | Q3 FY21 | Q2 FY21 | % qoq | Q3 FY20 | % yoy |
|---|---|---|---|---|---|
| AUM | 332,220 | 305,900 | 8.6 | 298,670 | 11.2 |
| Retail | 303,800 | 258,000 | 17.8 | 243,020 | 25.0 |
| Wheels | 134,730 | 123,260 | 9.3 | 124,110 | 8.6 |
| SBL MSME | 128,580 | 118,870 | 8.2 | 104,730 | 22.8 |
| HL | 9,870 | 7,070 | 39.6 | 4,620 | 113.6 |
| Others | 30,620 | 8,800 | 248.0 | 9,560 | 220.3 |
| SMC | 28,420 | 47,900 | (40.7) | 49,900 | (43.0) |
| NBFC | 13,860 | 14,780 | (6.2) | 20,850 | (33.5) |
| Real Estate | 5,430 | 7,380 | (26.4) | 8,200 | (33.8) |
| Business Banking | 4,290 | 12,550 | (65.8) | 9,600 | (55.3) |
| Deposits | 297,080 | 269,804 | 10.1 | 238,650 | 24.5 |
| CA | 12,540 | 10,410 | 20.5 | 9,320 | 34.5 |
| SA | 51,910 | 42,960 | 20.8 | 28,110 | 84.7 |
| TD | 217,580 | 201,000 | 8.2 | 183,090 | 18.8 |
| CD | 15,050 | 15,430 | (2.5) | 18,130 | (17.0) |
| Investments | 115,620 | 112,407 | 2.9 | 85,880 | 34.6 |
| Borrowings | 91,710 | 101,227 | (9.4) | 86,680 | 5.8 |

Source: Company, YES Sec – Research

### Exhibit 3: Key Ratios

| (%) | Q3 FY21 | Q2 FY21 | chg qoq | Q3 FY20 | chg yoy |
|---|---|---|---|---|---|
| NIM* | 5.8 | 5.2 | 0.5 | 5.6 | 0.1 |
| Portfolio Yield | 14.3 | 14.4 | (0.1) | 14.7 | (0.4) |
| Cost of Funds | 7.0 | 7.0 | - | 7.6 | (0.6) |
| CASA* | 22.9 | 21.0 | 1.9 | 17.0 | 5.9 |
| C/D | 102.0 | 100.9 | 1.0 | 111.3 | (9.4) |
| Cost to Income | 51.9 | 54.1 | (2.2) | 53.2 | (1.3) |
| Opex/ATA* | 3.7 | 3.4 | 0.3 | 3.8 | (0.1) |
| Gross NPA | 1.0 | 1.5 | (0.6) | 1.9 | (0.9) |
| Credit Cost | 2.5 | 0.5 | 2.0 | 0.4 | 2.1 |
| Net NPA | 0.2 | 0.5 | (0.2) | 1.0 | (0.8) |
| RoA | 1.6 | 1.8 | (0.2) | 2.1 | (0.5) |
| RoE | 14.0 | 16.5 | (2.5) | 19.6 | (5.6) |
| CAR | 18.8 | 21.5 | (2.6) | 19.3 | (0.5) |

Source: Company, YES Sec – Research; *Calculated

### Exhibit 4: Other Income break-up

| (Rs mn) | Q3 FY21 | Q2 FY21 | % qoq | Q3 FY20 | % yoy |
|---|---|---|---|---|---|
| Other Income | | | | | |
| Loan Assets & Pro. | 1,010 | 540 | 87.0 | 870 | 16.1 |
| Gen. Bkg & Deposits | 280 | 230 | 21.7 | 180 | 55.6 |
| Cross Sell, Distribution | 70 | 60 | 16.7 | 100 | (30.0) |
| PSLC Premium / Fees | 80 | 80 | - | 250 | (68.0) |
| Treasury Operations | 360 | 460 | (21.7) | 160 | 125.0 |
| Sale of Shares of AFL* | 4,800 | 1,440 | 233.3 | - | - |
| Bad Debt Recovery | 50 | 40 | 25.0 | 50 | - |

Source: Company, YES Sec – Research; * Income from sale of equity shares of Aavas Financiers Limited

YES SECURITIES INSTITUTIONAL EQUITIES

# Axis Bank

| BUY | CMP Rs750 | Target Rs775 | Upside 3.3% |
|---|---|---|---|

## Stress concerns easing

### Indicating towards significantly lower credit cost in FY22/23

Adjusted for the impact of stress recognition (proforma slippages and restructuring) in the form of significant interest reversals and accelerated provisioning, the earnings performance of AXSB was reasonably healthy. Rather, the manifestation of stress at a palatable 1.5% of customer assets was lower than anticipated by the management and investors. Notably, reversion of collection efficiency to normal levels (98% in December v/s 97% pre-Covid) and normalization of resolution rates across collection buckets and in various products, point towards lower and stable slippages in the coming quarters. In addition, the bank has consistently underwritten better-quality loans (by products and customer credit standing) in Corporate, Retail and SME segments. So, while the management has explicitly guided at elevated provisions in Q4 FY21 for further strengthening the balance sheet, the credit cost should come down from FY22. This underpins our sharp RoA expansion thesis for the bank over FY21-23. Margins too will be supportive of this with LDR expected to improve and excess balance sheet liquidity being redeployed as loans over the coming quarters. Robust capital position and a leading market position in most product segments will likely drive 12-15% loan growth in the next two years. AXSB trades at an undemanding valuation of 1.4x FY23 P/ABV (10% discount to ICICIBC) adjusted for the value of its subsidiaries.

### Management Commentary

### Asset Quality - Proforma GNPLs, Collection Efficiency, Restructuring

- ✓ Bounce rates have continued to improve m-o-m - 98% demand resolution in December v/s 94% in September and 97% pre-Covid.
- ✓ Resolutions across collection buckets and across products at pre-Covid levels – Beefing up of the collection infra has helped.
- ✓ Restructuring requests were much lower than initial expectations - approved restructured loans at 42 bps of customer assets.
- ✓ Restructuring as a % to respective loan books - Corporate 0.8%, Retail 0.3% and SME 0.02%.
- ✓ 60% of restructured book overlaps with BB and below - the linked but not restructured non-fund based facilities stand at Rs8.7bn.
- ✓ Overall provision coverage of 26% on restructured book, with unsecured retail provided at 100%.

**Exhibit 1: Result table**

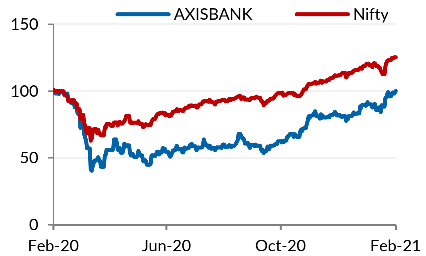
| (Rs mn) | Q3FY21 | Q2FY21 | % qoq | Q3FY20 | % yoy |
|---|---|---|---|---|---|
| Total Interest Income | 154,984 | 160,629 | (3.5) | 157,083 | (1.3) |
| Interest expended | (81,256) | (87,368) | (7.0) | (92,553) | (12.2) |
| Net Interest Income | 73,728 | 73,261 | 0.6 | 64,530 | 14.3 |
| Other income | 37,760 | 38,072 | (0.8) | 37,866 | (0.3) |
| Total Income | 111,488 | 111,333 | 0.1 | 102,396 | 8.9 |
| Operating expenses | (50,533) | (42,356) | 19.3 | (44,969) | 12.4 |
| PPOP | 60,955 | 68,976 | (11.6) | 57,427 | 6.1 |
| Provisions | (46,043) | (45,807) | 0.5 | (34,709) | 32.7 |
| PBT | 14,912 | 23,170 | (35.6) | 22,718 | (34.4) |
| Tax | (3,746) | (6,343) | (40.9) | (5,148) | (27.2) |
| PAT | 11,166 | 16,827 | (33.6) | 17,570 | (36.4) |

Source: Company, YES Sec – Research

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 766 / 286 |
| Market cap (Rs/USD mn) | 2297550 / 31579 |
| Outstanding Shares (mn) | 3,062 |
| 6m Avg t/o (Rs mn): | 12,494 |
| Div yield (%): | - |
| Bloomberg code: | AXSB IN |
| NSE code: | AXISBANK |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | 11.1% | 25.1% | -0.6% |

**Shareholding pattern (As of Dec'21 end)**

| | |
|---|---|
| Promoter | 14.8% |
| FII+DII | 73.2% |
| Others | 12.1% |

**∆ in stance**

| (1-Yr) | New | Old |
|---|---|---|
| Rating | BUY | BUY |
| Target Price | 775 | 770 |

**∆ in earnings estimates**

| | FY21e | FY22e | FY23e |
|---|---|---|---|
| EPS (New) | 21.0 | 47.5 | 58.3 |
| EPS (Old) | 25.9 | 48.7 | 59.8 |
| % change | -18.8% | -2.6% | -2.5% |

**Financial Summary**

| | FY21E | FY22E | FY23E |
|---|---|---|---|
| Op. Income | 440,853 | 498,831 | 571,519 |
| PPOP | 256,558 | 285,050 | 327,808 |
| PAT | 64,234 | 145,347 | 178,262 |
| EPS (Rs) | 21.0 | 47.5 | 58.3 |
| ABVPS (Rs) | 305.6 | 354.0 | 410.9 |
| P/E (x) | 35.7 | 15.8 | 12.9 |
| P/ABV (x) | 2.5 | 2.1 | 1.8 |
| ROE (%) | 6.9 | 13.4 | 14.3 |
| ROA (%) | 0.7 | 1.4 | 1.5 |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- ✓ Standard assets coverage improved to 2.1%, by raising provisions on restructured book and making NPL-like provisions on SC stand-still accounts. Fee and interest income have been reversed on SC stand-still accounts.
- ✓ Bank did not utilize any Covid provisions created in the earlier quarters - total Non-NPL provisions at Rs118.6bn, of which Rs50bn is Covid provisions and remaining is towards restructuring and other weak accounts.
- ✓ Latest stress test points towards 45-50% reduction in likely slippages compared to initial estimates of April.
- ✓ Q4 will see elevated provisioning, while proforma slippages will be lower than Q3 - continuance of excess provisions to further strengthen the balance sheet.

## Retail Assets, Corporate Banking & SME loans

- ✓ Disbursements in secured segments like HL, LAP & Auto were up 23% yoy, 11% yoy and 10% yoy, SBB disbursement up 35% yoy.
- ✓ HL logins and disbursements in December were highest ever.
- ✓ In unsecured loans, bank's focus is on ETB customers.
- ✓ Corporate loans (incl. TLTRO investments) grew 11% yoy.
- ✓ 94% of incremental sanctions in Q3 were A- and above - 83% share on stock basis.
- ✓ Deepening engagement with better-rated corporates – added 450+ new relationships in 9m FY21.
- ✓ Focused on lifting NIMs through right pricing – thus pursuing a balanced growth approach.
- ✓ SME loans grew 6% qoq and are 91% secured.
- ✓ Focus remains on collateralized lending – bank capitalizing on growth opportunities within risk parameters.
- ✓ 80% of portfolio is A- and above when benchmarked on external ratings.
- ✓ Portfolio spread across 35 sectors and is regionally well diversified with ATS is of Rs35mn.
- ✓ ECLGS sanctions Rs106bn to 25000+ customers – Disbursements at Rs89bn across SMEs, Individuals and Small Businesses.

**Exhibit 2: Business Data**

| (Rs mn) | Q3 FY21 | Q2 FY21 | % qoq | Q3 FY20 | % yoy |
|---|---|---|---|---|---|
| Advances | 5,827,539 | 5,763,725 | 1.1 | 5,501,380 | 5.9 |
| Large/Mid-corporate | 2,008,910 | 2,101,140 | (4.4) | 1,968,430 | 2.1 |
| SME | 639,690 | 605,730 | 5.6 | 617,410 | 3.6 |
| Retail | 3,178,940 | 3,056,850 | 4.0 | 2,915,540 | 9.0 |
| Home Loans | 1,144,418 | 1,100,466 | 4.0 | 1,049,594 | 9.0 |
| Rural Lending | 381,473 | 366,822 | 4.0 | 349,865 | 9.0 |
| Auto Loans | 413,262 | 397,391 | 4.0 | 379,020 | 9.0 |
| PL + CC | 540,420 | 550,233 | (1.8) | 495,642 | 9.0 |
| Others | 699,367 | 641,939 | 8.9 | 641,419 | 9.0 |
| Total Deposits | 6,541,403 | 6,354,543 | 2.9 | 5,916,760 | 10.6 |
| CA | 925,780 | 1,000,990 | (7.5) | 783,950 | 18.1 |
| SA | 1,898,140 | 1,806,890 | 5.1 | 1,653,530 | 14.8 |
| Others | 3,717,483 | 3,546,663 | 4.8 | 3,479,280 | 6.8 |
| Investments | 1,983,460 | 2,002,899 | (1.0) | 1,559,792 | 27.2 |
| Borrowings | 1,356,658 | 1,312,073 | 3.4 | 1,120,067 | 21.1 |

Source: Company, YES Sec – Research

### Exhibit 3: Key Ratios

| (%) | Q3 FY21 | Q2 FY21 | chg qoq | Q3 FY20 | chg yoy |
|---|---|---|---|---|---|
| NIM | 3.6 | 3.6 | 0.0 | 3.6 | 0.0 |
| Yield on advances | 8.0 | 8.6 | (0.6) | 9.2 | (1.2) |
| Yield on investments* | 6.4 | 6.4 | (0.0) | 6.7 | (0.3) |
| Cost of Funds* | 4.2 | 4.5 | (0.4) | 5.3 | (1.1) |
| CASA | 43.2 | 44.2 | (1.0) | 41.2 | 2.0 |
| C/D (x) | 89.1 | 90.7 | (1.6) | 93.0 | (3.9) |
| Non-int. inc./Int. exp. | 46.5 | 43.6 | 2.9 | 40.9 | 5.6 |
| Cost to Income | 45.3 | 38.0 | 7.3 | 43.9 | 1.4 |
| RoE | 4.9 | 8.0 | (3.0) | 8.8 | (3.9) |
| RoA | 0.5 | 0.7 | (0.3) | 0.9 | (0.4) |
| CAR | 18.7 | 18.9 | (0.2) | 18.2 | 0.5 |
| Gross NPA | 3.4 | 4.2 | (0.7) | 5.0 | (1.6) |
| Net NPA | 0.7 | 1.0 | (0.2) | 2.1 | (1.4) |

Source: Company, YES Sec – Research; * Calculated

YES SECURITIES INSTITUTIONAL EQUITIES

# Bajaj Finance

| **ADD** | **CMP Rs5,577** | | |
|---|---|---|---|

## Stress flow as expected; Commentary soothing

### Management commentary on Growth and Credit Cost soothing

- ✓ Overall Covid stress that came to the fore stood at 4-5% of AUM, which was in line with street's expectations. Its impact on the revenue line came through huge interest reversals, which along with still high negative carry (while the liquidity buffer was dialed down) led to tepid show on NII and PPOP fronts. Despite the NPL flow of ~3% of AUM, restructuring of 1.4% and one-time large write-off of unrecoverable accounts, the credit cost in Q3 FY21 was lower than preceding quarter with BAF utilizing the Covid-related provisioning buffer (residual at 50-60bps of AUM).
- ✓ Asset quality trends are encouraging - a) collection efficiencies in bucket 0 back to pre-COVID levels and in early buckets (1 and 2) are significantly better than pre-COVID levels, b) ~Rs12bn of customers have upgraded from stage-2 to stage-1 with collections and recoveries (sequential reduction in Stage 2 & 3 combined) and c) risk metrics of new volumes originated across businesses are tracking significantly better than pre-COVID origination
- ✓ Residual credit cost in Q4 FY21 estimated at Rs12-12.5bn (lower than Q3) with upside risks from collection efficiencies remaining better through the quarter. Management expects credit cost to revert to pre-COVID levels of 160-170 bps from FY22, again with upside risks from higher recoveries.
- ✓ On growth, the management expects to attain pre-Covid run-rate in Q4 FY21. Most businesses have started disbursing 85-100% of last year's volumes with incremental growth being observed every month. In mortgages, BAF has taken pricing actions to revert to pre-COVID traction.
- ✓ Margin profile in all lines of businesses is steady other than mortgages. The expected decline in funding cost, normalization of BS liquidity and reduction in delinquencies to aid margins in ensuing quarters. With business transformation process underway that focuses on enhancing business efficiencies and productivity, a material structural improvement in cost metric would be achieved in coming years.

**We believe that we should be ahead of consensus in projecting 30% earnings CAGR over FY20-23. Estimate RoA moving closer to 5% in FY22/23 on the back of core cost/income improvement and normalization of credit cost. See BAF delivering 23-24% RoE with controlled leverage. With the return of potential growth and estimated delivery of best-ever return ratios, the threat to current high valuation is low. Retain ADD rating with 12m TP of Rs5,500.**

### Exhibit 1: Result table

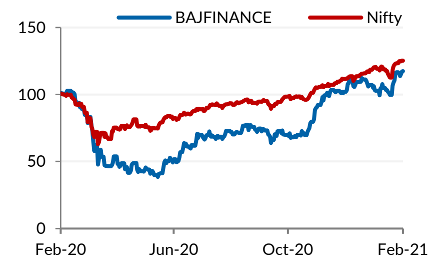
| (Rs mn) | Q3FY21 | Q2FY21 | % qoq | Q3FY20 | % yoy |
|---|---|---|---|---|---|
| Total Operating Income | 66,561 | 65,132 | 2.2 | 70,194 | (5.2) |
| Interest expended | (23,627) | (23,581) | 0.2 | (24,890) | (5.1) |
| Net Interest Income | 42,934 | 41,550 | 3.3 | 45,304 | (5.2) |
| Other income | 24 | 67 | (65.1) | 44 | (46.2) |
| Total Income | 42,958 | 41,618 | 3.2 | 45,347 | (5.3) |
| Operating expenses | (13,896) | (11,559) | 20.2 | (15,339) | (9.4) |
| PPOP | 29,062 | 30,059 | (3.3) | 30,008 | (3.2) |
| Provisions | (13,517) | (17,004) | (20.5) | (8,308) | 62.7 |
| Tax | (4,085) | (3,406) | 19.9 | (5,560) | (26.5) |
| PAT | 11,460 | 9,649 | 18.8 | 16,141 | (29.0) |

Source: Company, YES Sec – Research

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 5665 / 1783 |
| Market cap (Rs/USD mn) | 3360901 / 46195 |
| Outstanding Shares (mn) | 603 |
| 6m Avg t/o (Rs mn): | 18,561 |
| Div yield (%): | 0.2 |
| Bloomberg code: | BAF IN |
| NSE code: | BAJFINANCE |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | 10.6% | 29.8% | 17.2% |

**Shareholding pattern (As of Dec'21 end)**

| | |
|---|---|
| Promoter | 56.1% |
| FII+DII | 32.0% |
| Others | 11.6% |

**Δ in stance**

| (1-Yr) | New | Old |
|---|---|---|
| Rating | ADD | ADD |
| Target Price | 5,500 | 3,600 |

**Δ in earnings estimates**

| | FY21e | FY22e | FY23e |
|---|---|---|---|
| EPS (New) | 75.9 | 156.3 | 200.1 |
| EPS (Old) | 76.6 | 143.4 | 192.2 |
| % change | -0.9% | 9.0% | 4.1% |

**Financial Summary**

| | FY21E | FY22E | FY23E |
|---|---|---|---|
| Op. Income | 174,497 | 223,021 | 281,556 |
| PPOP | 120,719 | 155,799 | 198,873 |
| PAT | 45,536 | 93,751 | 120,064 |
| EPS (Rs) | 75.9 | 156.3 | 200.1 |
| ABVPS (Rs) | 577.7 | 719.8 | 893.7 |
| P/E (x) | 65.6 | 31.9 | 24.9 |
| P/ABV (x) | 8.6 | 6.9 | 5.6 |
| ROE (%) | 13.3 | 23.2 | 24.0 |
| ROA (%) | 2.7 | 4.9 | 5.1 |

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### Exhibit 2: Business Data

| (Rs mn) | Q3 FY21 | Q2 FY21 | % qoq | Q3 FY20 | % yoy |
|---|---|---|---|---|---|
| AUM | 1,435,510 | 1,370,900 | 4.7 | 1,450,920 | (1.1) |
| Consumer B2B -Auto Fin. | 127,070 | 126,870 | 0.2 | 131,760 | (3.6) |
| Consumer B2B -Sales Fin. | 101,860 | 79,180 | 28.6 | 139,600 | (27.0) |
| Consumer B2C | 290,420 | 282,620 | 2.8 | 293,810 | (1.2) |
| Rural Business | 133,920 | 120,990 | 10.7 | 126,650 | 5.7 |
| SME Business | 188,820 | 182,530 | 3.4 | 187,030 | 1.0 |
| Securities Lending | 50,740 | 53,270 | (4.7) | 65,130 | (22.1) |
| Commercial Lending | 75,100 | 65,550 | 14.6 | 65,030 | 15.5 |
| Mortgages | 467,580 | 459,890 | 1.7 | 441,910 | 5.8 |

Source: Company, YES Sec – Research

### Exhibit 3: Key Ratios

| (%) | Q3 FY21 | Q2 FY21 | chg qoq | Q3 FY20 | chg yoy |
|---|---|---|---|---|---|
| Op Income / Avg. AUM* | 19.0 | 18.9 | 0.0 | 20.0 | (1.0) |
| Int. Exp. / Avg. AUM* | 6.7 | 6.9 | (0.1) | 7.1 | (0.4) |
| NII / Avg. AUM* | 12.2 | 12.1 | 0.2 | 12.9 | (0.7) |
| Cost to Income | 32.3 | 27.8 | 4.6 | 33.8 | (1.5) |
| Prov. / Avg. AUM | 3.9 | 4.9 | (1.1) | 2.4 | 1.5 |
| RoE | 13.2 | 11.6 | 1.6 | 23.6 | (10.4) |
| RoA | 3.6 | 2.8 | 0.8 | 4.8 | (1.2) |
| CAR | 28.2 | 26.6 | 1.6 | 26.9 | 1.4 |
| Tier-1 | 24.7 | 23.0 | 1.7 | 23.2 | 1.6 |
| Gross NPA | 0.6 | 1.0 | (0.5) | 1.6 | (1.1) |
| Net NPA | 0.2 | 0.4 | (0.2) | 0.7 | (0.5) |
| PCR | 65.0 | 64.0 | 1.0 | 57.0 | 8.0 |

Source: Company, YES Sec – Research; *Calculated

### Exhibit 4: GNPA trend

| GNPA – (%) | Q3 FY21 | Q2 FY21 | chg qoq | Q3 FY20 | chg yoy |
|---|---|---|---|---|---|
| Consumer B2B-Auto Fin. | 3.2 | 4.5 | (1.3) | 5.7 | (2.5) |
| Consumer B2B-Sales Fin | 0.1 | 0.3 | (0.3) | 0.9 | (0.9) |
| Consumer B2C | 0.3 | 0.8 | (0.5) | 1.3 | (1.1) |
| Rural B2B | 0.0 | 0.1 | (0.1) | 0.6 | (0.6) |
| Rural B2C | 0.3 | 0.9 | (0.6) | 1.3 | (1.0) |
| SME | 0.5 | 1.1 | (0.6) | 1.4 | (0.9) |
| Commercial Lending | - | 0.0 | (0.0) | 0.6 | (0.6) |
| Mortgages | 0.3 | 0.6 | (0.3) | 1.4 | (1.1) |

Source: Company, YES Sec – Research

# CAN FIN Homes

| BUY | CMP Rs518 | Target Rs615 | Upside 18.7% |
|---|---|---|---|

## Confidence on growth resumption strengthens

### A decisive improvement in growth commentary

We retain BUY on Can Fin and raise 12m PT to Rs615, following the introduction of FY23 estimates. While the Q3 results were a beat, the management commentary pertaining to growth decidedly turned positive. The confidence on growth comes from multiple factors viz. a) robust disbursements in December despite partial impact of Telangana registration issue (now resolved), b) a strategic reduction in loan pricing (now in-line with competition) which has arrested BT Out, increased BT In and substantially expanded market for fresh disbursements and c) a strong pick-up in housing demand in affordable and lower-middle segments (target for Can Fin) witnessed across most regions. Management has guided towards achieving steady 16-18% disbursement and portfolio growth in 6-8 quarters.

Though the current pricing strategy would correct margin and spreads in ensuing quarters (guidance of sustainable NIM/Spread of 3%+/2.3%), the hit at the RoA level will cushioned by normalization of credit cost. The SC stand-still is at 30 bps of loan book and restructuring is at 45 bps, while the additional provisions are at 45 bps. The collection efficiency has attained pre-Covid level of 93%. We estimate growth rebounding to 13-14% in FY22 after a delivery of 5% in the current fiscal. RoA will come-off a little on margin reduction, while RoE will be constricted by stable leverage. We have not factored capital raise as its timing remains difficult to predict. Current valuation at 1.9x FY23 P/ABV is amenable to re-rating with improvement in growth prospects.

### Management Commentary

### Disbursements, BT and Portfolio Growth

- ✓ Disbursements in Q3 FY21 were impacted by registration issues in Telangana which contributed 20% of incremental business in earlier quarters – otherwise disbursements would have been at par with Q3 FY20.
- ✓ As a strategy focused on collection and asset quality in the past few quarters - Now the focus has shifted back to business growth – with Telangana issue resolved, Q4 FY21 should see reversion towards normal growth.
- ✓ In next 6-8 quarters, loan and disbursement growth could reach 16-18%.

**Exhibit 1: Result table**

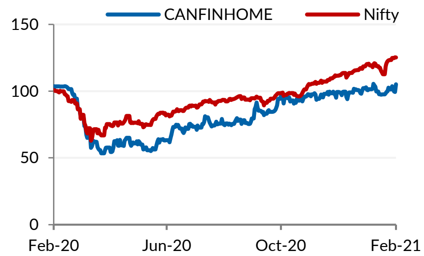
| (Rs mn) | Q3FY21 | Q2FY21 | % qoq | Q3FY20 | % yoy |
|---|---|---|---|---|---|
| Total Operating Income | 5,027 | 5,258 | (4.4) | 5,168 | (2.7) |
| Interest expended | (2,892) | (3,135) | (7.7) | (3,398) | (14.9) |
| Net Interest Income | 2,135 | 2,123 | 0.6 | 1,770 | 20.6 |
| Other income | 0.5 | 0.5 | (11.7) | - | - |
| Total Income | 2,135 | 2,124 | 0.6 | 1,770 | 20.6 |
| Operating expenses | (344) | (252) | 36.7 | (269) | 28.2 |
| PPOP | 1,791 | 1,872 | (4.3) | 1,501 | 19.3 |
| Provisions | (16) | (151) | (89.2) | (45) | - |
| PBT | 1,775 | 1,720 | 3.2 | 1,456 | 21.9 |
| Tax | (456) | (436) | 4.4 | (390) | 16.9 |
| PAT | 1,319 | 1,284 | 2.7 | 1,066 | 23.7 |

Source: Company, YES Sec – Research

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 530 / 253 |
| Market cap (Rs/USD mn) | 68907 / 947 |
| Outstanding Shares (mn) | 133 |
| 6m Avg t/o (Rs mn): | 237 |
| Div yield (%): | 0.4 |
| Bloomberg code: | CANF IN |
| NSE code: | CANFINHOME |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | 4.0% | 7.9% | 1.9% |

**Shareholding pattern (As of Dec'21 end)**

| | |
|---|---|
| Promoter | 30.0% |
| FII+DII | 15.3% |
| Others | 54.7% |

**Δ in stance**

| (1-Yr) | New | Old |
|---|---|---|
| Rating | BUY | BUY |
| Target Price | 615 | 550 |

**Δ in earnings estimates**

| | FY21e | FY22e | FY23e |
|---|---|---|---|
| EPS (New) | 36.3 | 35.4 | 39.6 |
| EPS (Old) | 34.5 | 35.2 | 38.7 |
| % change | 5.2% | 0.6% | 2.3% |

**Financial Summary**

| | FY21E | FY22E | FY23E |
|---|---|---|---|
| Op. Income | 8,302 | 8,017 | 8,995 |
| PPOP | 7,118 | 6,655 | 7,442 |
| PAT | 4,831 | 4,717 | 5,268 |
| EPS (Rs) | 36.3 | 35.4 | 39.6 |
| ABVPS (Rs) | 184.9 | 218.9 | 255.5 |
| P/E (x) | 14.3 | 14.6 | 13.1 |
| P/ABV (x) | 2.8 | 2.4 | 2.0 |
| ROE (%) | 20.4 | 16.8 | 16.1 |
| ROA (%) | 2.2 | 2.0 | 1.9 |

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- ✓ Strategically changed pricing strategy to retain book and push growth - generally kept pricing 100-150 bps higher than Banks and large HFCs, but now pricing loans at similar rates (starting rate 6.95%) – have seen significant improvement in customer retention (reduction in BT Out).
- ✓ Competition from PSU and Private Banks has increased due to lack of growth in other lending segments - Can Fin will keep taking stock of its current aggressive pricing strategy based on competitive dynamics – however, could maintain the stance for at least 4-6 quarters.
- ✓ Competitive pricing broad-basing growth opportunities; gives additional room in Metros and large cities and supports takeover of cases from Banks and HFCs – all this leading to a marginal increase in average disbursement ticket size.
- ✓ As of now, no plan to grow Construction Finance.
- ✓ Monthly run-off around Rs3.5-3.7bn.

## NIM & Spreads

- ✓ Yields are coming down due to onboarding of new customers at lower rates and even re-pricing of the existing book at lower rates.
- ✓ Substantial coming down of funding cost supported a higher NIM of 4.12% and Spread of 2.9% in Q3.
- ✓ Over 4-6 quarters NIM/Spread will correct to 3%+/2.3-2.4% due to the pricing strategy adopted and some increase in the cost of funds.
- ✓ Current incremental cost of borrowing at 5.5-5.6% - the co. has started to tap bond markets - incremental borrowing cost expected to remain at 5.5-6% in near term.
- ✓ Can Fin has access to Rs40bn liquidity - Interest and Principal repayments at ~Rs16bn in Q4 FY21 and ~Rs10bn in Q1 FY22.

## Asset quality

- ✓ Including SC stand-still GNPL is <1% - have provided even for accrued interest on stand-still accounts – hold a provision of Rs130mn.
- ✓ Restructuring at Rs870mn, <50bps of loan book.
- ✓ Rs6.6bn was outstanding as of Sept 30 from customers who had availed moratorium – it has come down to Rs4bn as of Dec 31 with them having served EMIs and some even becoming current (clearing overdues).
- ✓ Company continues to have the lowest delinquent pool in the industry.
- ✓ Collection Efficiency at 93% on the billing, slightly better than pre-Covid levels – has come-off compared to Sept-Nov period where it was unsustainably high due to moratorium relief.
- ✓ Average income of salaried customers at 40000/month.
- ✓ Covid provisioning at Rs730mn and Rs130mn on stand-still NPLs - total provisioning at Rs2.2bn.

## Other important

- ✓ DER is 7.3x and CAR is 24% – no immediate requirement to raise capital – management comfortable up to 8x on leverage.
- ✓ Q3 FY21 opex had one-off provision of Rs60mn on likely salary increases – cost/Income on sustainable basis to be at 15-16%.
- ✓ Major branch expansion not required for growth – existing branches can support 40-50% increase of the book – however, co. has plans to add 10-15 branches every year.

**Exhibit 2: Business Data**

| (Rs mn) | Q3 FY21 | Q2 FY21 | % qoq | Q3 FY20 | % yoy |
|---|---|---|---|---|---|
| Loan Book | 210,040 | 208,300 | 0.8 | 201,940 | 4.0 |
| Salaried | 150,930 | 148,180 | 1.9 | 143,200 | 5.4 |
| Housing | 140,130 | 137,500 | 1.9 | 132,550 | 5.7 |
| Top-up Personal | 4,990 | 4,820 | 3.5 | 4,660 | 7.1 |
| Mortgage/Flex LAP | 3,990 | 3,930 | 1.5 | 3,900 | 2.3 |
| Loans for sites | 1,490 | 1,580 | (5.7) | 1,710 | (12.9) |
| Others | 330 | 350 | (5.7) | 380 | (13.2) |
| Non-Salaried | 58,890 | 59,900 | (1.7) | 58,500 | 0.7 |
| Housing | 49980 | 50730 | (1.5) | 49280 | 1.4 |
| Top-up Personal | 2430 | 2490 | (2.4) | 2520 | (3.6) |
| Mortgage/Flex LAP | 5300 | 5440 | (2.6) | 5360 | (1.1) |
| Loans for sites | 620 | 660 | (6.1) | 700 | (11.4) |
| Others | 560 | 580 | (3.4) | 640 | (12.5) |
| Builder Loans | 50 | 50 | - | 70 | (28.6) |
| Staff Loans | 170 | 170 | - | 170 | - |

Source: Company, YES Sec – Research

**Exhibit 3: Key Ratios**

| (%) | Q3 FY21 | Q2 FY21 | chg qoq | Q3 FY20 | chg yoy |
|---|---|---|---|---|---|
| NIM | 4.0 | 3.9 | 0.1 | 3.4 | 0.6 |
| Yield | 9.8 | 10.0 | (0.2) | 10.2 | (4.1) |
| Cost of Funds | 6.9 | 7.1 | (0.2) | 7.9 | (1.0) |
| Spread | 2.9 | 2.9 | 0.1 | 2.3 | 0.6 |
| Cost to Income* | 16.1 | 11.9 | 4.3 | 15.2 | 0.9 |
| Gross NPA | 0.7 | 0.7 | (0.0) | 0.8 | (0.1) |
| Net NPA | 0.4 | 0.5 | (0.1) | 0.6 | (0.2) |
| PCR* | 39.2 | 36.4 | 2.8 | 26.2 | 13.0 |
| RoA | 2.3 | 2.1 | 0.1 | 2.0 | 0.3 |
| RoE | 18.8 | 18.8 | 0.1 | 19.7 | (0.9) |
| CAR | 24.4 | 24.8 | (0.4) | 22.1 | 2.3 |

Source: Company, YES Sec – Research; *Calculated

YES SECURITIES INSTITUTIONAL EQUITIES

# CreditAccess Grameen

| BUY | CMP Rs721 | Target Rs1,000 | Upside 38.6% |
|---|---|---|---|

## Growth & Profitability normalisation ahead

### Overall CREDAG's Cycle-completing provisions drives the loss in Q3 FY21; however, growth/profitability metric should be normal in FY22/23

- ✓ Accelerated provisioning and clean-up led to a loss in Q3 FY21, but focus should be on the return of growth and likely profitability normalization from Q4 itself. Based on the transient spike in PAR 60+/90+ portfolios and a conservative provisioning policy, CREDAG was required to make large provisions. This despite the likelihood of PAR 60+/90+ correcting over ensuing quarters, as witnessed during previous crisis/incidents. Also supporting this possibility is CREDAG's zero exposure to Assam and WB.
- ✓ Collection efficiency in Maharashtra, particularly in the more affected southern parts of the state, has started to recover which was reflected in increasing overdue collections (roll backs) in Dec and Jan. The company also cleaned-up pre-Covid NPLs located in southern Maharashtra and coastal Karnataka.
- ✓ Besides the provisioning requirement for aligning NPL recognition and provisioning policies of MMFL, the credit cost in Q4 should be low (pertaining only to incremental growth). With eventual loss estimated to be lower than the current provisioning held (ECL at 5.9% of GLP), management expects some provision to be write-back in H1 F22.
- ✓ The strong 10% sequential growth in the portfolio came as a positive surprise. Disbursements stood at Rs45bn (up 30%+ yoy). CREDAG added ~162000 new borrowers, who contributed 15-18% of the disbursements. With liquidity no more an issue, collections having improved and economic activity reviving at fast clip (raising confidence for new group formation), the strategic focus has shifted back to growth. Management now expects to surpass the earlier guidance of 10-12% growth in FY21.
- ✓ Our view of a normal growth and profitability in FY22/23 remains unchanged (rather earnings estimates undergo slight uptick), and thus we continue to expect a material re-rating of the stock. Valuation at 1.9x FY23 P/ABV for a best-in-class MFI franchise is attractive. Retain BUY recommendation and 12m TP of Rs1000.

### Exhibit 1: Result table

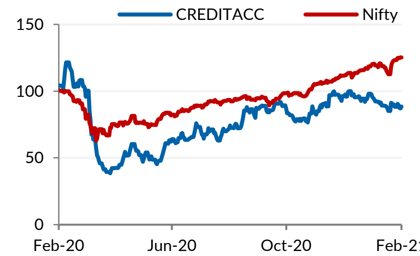
| (Rs mn) | Q3FY21* | Q2FY21* | % qoq | Q3FY20 | % yoy |
|---|---|---|---|---|---|
| Total Operating Income | 5,415 | 5,760 | (6.0) | 4,532 | 19.5 |
| Interest expended | (2,249) | (2,365) | (4.9) | (1,459) | 54.2 |
| Net Interest Income | 3,166 | 3,395 | (6.7) | 3,073 | 3.0 |
| Other income | 15 | 10 | 53.6 | 4 | 263.4 |
| Total Income | 3,181 | 3,405 | (6.6) | 3,077 | 3.4 |
| Operating expenses | (1,478) | (1,436) | 3.0 | (1,071) | 38.1 |
| PPOP | 1,703 | 1,969 | (13.5) | 2,006 | (15.1) |
| Provisions | (2,757) | (902) | 205.7 | (547) | 403.9 |
| PBT | (1,054) | 1,067 | (198.7) | 1,459 | (172.2) |
| Tax | 263 | (271) | (196.9) | (379) | (169.3) |
| Minority Interest | 18 | (4) | (608.6) | - | - |
| PAT | (773) | 792 | (197.6) | 1,080 | (171.6) |

Source: Company, YES Sec – Research, * Consolidation of Madura Microfinance from March 18, 2020

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 1000 / 305 |
| Market cap (Rs/USD mn) | 111802 / 1537 |
| Outstanding Shares (mn) | 155 |
| 6m Avg t/o (Rs mn): | 89 |
| Div yield (%): | - |
| Bloomberg code: | CREDAG IN |
| NSE code: | CREDITACC |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | -7.7% | 6.0% | -15.5% |

**Shareholding pattern (As of Dec'21 end)**

| | |
|---|---|
| Promoter | 74.0% |
| FII+DII | 18.9% |
| Others | 7.1% |

**∆ in stance**

| (1-Yr) | New | Old |
|---|---|---|
| Rating | BUY | BUY |
| Target Price | 1,000 | 1,000 |

**∆ in earnings estimates**

| | FY21e | FY22e | FY23e |
|---|---|---|---|
| EPS (New) | 23.4 | 47.1 | 61.5 |
| EPS (Old) | 14.3 | 49.5 | 62.7 |
| % change | 63.6% | -4.8% | -1.9% |

**Financial Summary**

| | FY21E | FY22E | FY23E |
|---|---|---|---|
| Op. Income | 14,682 | 19,143 | 24,486 |
| PPOP | 8,794 | 11,784 | 15,287 |
| PAT | 2,261 | 7,815 | 9,911 |
| EPS (Rs) | 14.3 | 49.5 | 62.7 |
| ABVPS (Rs) | 245.1 | 294.6 | 357.3 |
| P/E (x) | 50.4 | 14.6 | 11.5 |
| P/ABV (x) | 2.9 | 2.4 | 2.0 |
| ROE (%) | 6.8 | 18.3 | 19.2 |
| ROA (%) | 1.7 | 4.8 | 4.8 |

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## CAGL – Key Notables

- ✓ CAGL proforma GNPL at 6.8% (60+ dpd) against which ECL of 5.9% - MH 60+ dpd at 12.5%, KTK/TN at 5%/4%.
- ✓ MH has 90+ of 10%, highlighting slow improvement in monthly collection efficiency.
- ✓ The 6.8% PAR 60+ portfolio includes 2.5% representing customers who would have made part payment in December.
- ✓ Collection Efficiency (w/o arrears) of 91% in Dec with 88% customers making full payment, 7% customers making part payments and 5% making no payment (though may have paid full or part in earlier months).
- ✓ Collection Efficiency (with arrears) of 96% in Dec (v/s 92% in Nov), suggesting likely correction in PAR 60+/90+ figures in coming months - roll-back of partially paying customers and activation of non-paying.
- ✓ 70% ECL on done on PAR 60+ portfolio and 17% ECL on PAR 16-60 bucket.
- ✓ 99% of disbursals during June-Dec were to regular customers.
- ✓ Interest income of Rs612mn de-recognized in Q3 FY21 on PAR 60+.

## MMFL – Key Notables

- ✓ MMFL proforma GNPL at 2.8% (90+ dpd) against which ECL of 4.6%.
- ✓ Collection Efficiency (w/o arrears) of 86% in Dec with 86% groups making full payment, 12% making part payments (higher than CAGL due to monthly collections) and only 2% making no payment (though may have paid full or part in earlier months).
- ✓ Collection Efficiency (with arrears) of 87% in Dec (v/s 84% in Nov), suggesting likely correction in PAR 90+ figures in coming months.
- ✓ 64% ECL on done on PAR 90+ portfolio and 16% ECL on PAR 31-90 bucket.
- ✓ Interest income of Rs73mn de-recognized in Q3 FY21 on PAR 90+.

## Management Commentary

### Key takeaways

- ✓ Management expects majority of the part-paying customers and 10-20% of the non-paying customers to start regularly paying in the coming months.
- ✓ MH was under lockdown for 4.5 months, thus will take 2 more months for normalcy – speed of recovery quite fast in recent months.
- ✓ During December, the flow back in MH portfolio was higher than other states – indicating improvement in collection situation.
- ✓ Within MH, collections in Vidharbha near 94%, even coastal areas witnessing better collections – Southern part of the state is where CE is low.
- ✓ No political intervention in districts which are lagging in collections.
- ✓ Collections in KTK at 94%, and most large districts here – one of the Top 10 districts is Kolhapur, where collection is around 80%.
- ✓ Accelerated provisioning and write-off led to loss in Q3 - higher provisioning was triggered by transient high PAR figures.
- ✓ As PAR 60/90 is expected to come down in ensuing months, the eventual write-off will be lower than the current provisioning – expected to be near 5% of the portfolio.
- ✓ New portfolio/book, which is 49% of the GLP, is exhibiting usual collection trends.
- ✓ Going ahead, the BAU credit cost will be around 1% (higher than pre-Covid) due to behavior changes caused by the pandemic.

# CreditAccess Grameen

- ✓ Management expects robust business growth in FY22 and FY23 – guidance of 10-15% AUM growth for FY21 is likely to be surpassed.
- ✓ Rs46bn were disbursements in Q3 - added 162000 new borrowers, who contributed 15-18% of the disbursements.
- ✓ Majority of the disbursements came from new branches - in KTK, TN, BH, JH, RJ, GJ and some parts of MH.
- ✓ Want to carry liquidity buffer of 12-15% of BS in the near-term due to some uncertainty – this will come down to 8% over the medium term.
- ✓ Will make at least 2% RoA in FY21

### Exhibit 2: State-wise GLP mix

| (%) | Q3 FY21* | Q2 FY21* | chg qoq | Q3 FY20 | chg yoy |
|---|---|---|---|---|---|
| Karnataka | 38.3 | 39.6 | (1.3) | 49.4 | (11.1) |
| Maharashtra | 24.8 | 24.8 | - | 26.7 | (1.9) |
| Tamil Nadu | 19.5 | 19.8 | (0.3) | 11.1 | 8.4 |
| Madhya Pradesh | 8.1 | 7.6 | 0.5 | 8.6 | (0.5) |
| Others | 9.3 | 8.2 | 1.1 | 4.2 | 5.1 |

Source: Company, YES Sec – Research; * Consolidation of Madura Microfinance from March 18, 2020

### Exhibit 3: CAGL Standalone – Key ratios

| (%) | Q3 FY21 | Q2 FY21 | chg qoq | Q3 FY20 | chg yoy |
|---|---|---|---|---|---|
| NIM | 8.7 | 11.1 | (2.4) | 12.4 | (3.7) |
| C/I | 43.5 | 39.2 | 4.3 | 34.8 | 8.7 |
| Opex/GLP | 4.7 | 4.6 | 0.1 | 5.1 | (0.4) |
| GNPL | 6.8 | 1.6 | 5.2 | 0.9 | 6.0 |
| RoA | (2.5) | 2.7 | (5.2) | 4.6 | (7.1) |
| RoE | (9.0) | 11.3 | (20.3) | 16.5 | (25.5) |

Source: Company, YES Sec – Research

### Exhibit 4: MMFL Standalone – Key ratios

| (%) | Q3 FY21 | Q2 FY21 | chg qoq | Q3 FY20 | chg yoy |
|---|---|---|---|---|---|
| NIM | 10.2 | 11.2 | (1.0) | 11.9 | (1.7) |
| C/I | 52.6 | 49.9 | 2.7 | 39.4 | 13.2 |
| Opex/GLP | 5.9 | 5.9 | - | 5.5 | 0.4 |
| GNPL | 2.8 | 1.5 | 1.3 | 1.6 | 1.2 |
| RoA | (0.8) | 0.7 | (1.5) | 3.2 | (4.0) |
| RoE | (4.2) | 3.5 | (7.7) | 18.8 | (23.0) |

Source: Company, YES Sec – Research

Q3 FY21 Result Review | Sector: Financials

# HDFC Bank

| BUY | CMP Rs1,582 | Target Rs1,870 | Upside 18.2% |
|---|---|---|---|

## Sustainable earnings delivery model

### Upgrading earnings estimates again, now building 20% CAGR over FY20-23 - Valuation will get a lift; upgrade 12m TP to Rs1,870

We are revising FY21/22/23 earnings estimates by 10%/3%/4% respectively and ABV estimates by 1.5-2% for these years, after having upgraded these numbers even towards the end of November in our collection feedback report. Earnings revisions thus could be sharper for the consensus. The stand-alone bank trades at 2.8x P/ABV and 16x P/E on FY23 estimates, adjusted for the valuation of its holdings in HDB Financial and HDFC Securities. Valuation is palatable and can move higher as it stands just above the long-term mean on 1-yr rolling fwd. basis and the probability of 20% earnings CAGR over FY20-23 has improved substantially. Also, the bank trades at significant discount to KMB despite better growth delivery.

### Multiple positives to take home

Multiple positives to pay heed to viz. a) loan growth momentum near normalized (across products), b) persistent substantial SA accretion aiding margins, c) fee trajectory back on track, d) core PPOP margin at multi-quarter high, e) lower-than-expected Covid stress (restructuring + proforma NPL) and f) lower credit cost run-rate than H1 FY21. Management is confident of sustaining growth (gradual market share gains) in retail, SME and Corp. segments and the risk profile of the new acquisitions across products is significantly better than the industry; pointing towards robust asset quality performance even in future. For the bank, the impact of Covid is behind, there is no new risk on the anvil and the balance sheet is stronger than ever with high capitalization (16.8% Tier-1 ratio) and provisioning buffer (90-100 bps of advances). The only monitorable remains the performance of HDB Financial which reported a small loss in the quarter due to spike in delinquencies (GNPL at 5.9%) and upfront provisions taken.

### Management Commentary

### Retail Assets growth

- ✓ Strong growth momentum in Q3 FY21 with disbursements up 40% qoq – bank confident of continuing traction in Q4.
- ✓ Q3 FY21 disbursements surpassed pre-Covid run-rate, and in December it was 20% higher yoy.
- ✓ HL, Auto, Gold Loan, LAP, Unsecured and WC (Retail SME) driving growth.
- ✓ Card sales was up 20%+ qoq and spends were much higher.

**Exhibit 1: Result table**

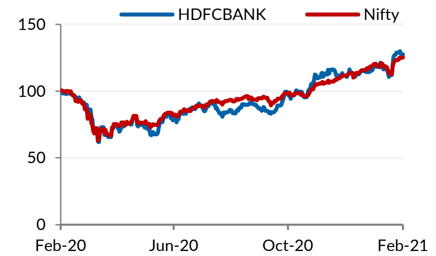
| (Rs mn) | Q3FY21 | Q2FY21 | % qoq | Q3FY20 | % yoy |
|---|---|---|---|---|---|
| Total Interest Income | 300,797 | 299,770 | 0.3 | 293,697 | 2.4 |
| Interest expended | (137,621) | (142,006) | (3.1) | (151,968) | (9.4) |
| Net Interest Income | 163,176 | 157,764 | 3.4 | 141,729 | 15.1 |
| Other income | 74,432 | 60,925 | 22.2 | 66,693 | 11.6 |
| Total Income | 237,608 | 218,688 | 8.7 | 208,422 | 14.0 |
| Operating expenses | (85,748) | (80,551) | 6.5 | (78,968) | 8.6 |
| PPOP | 151,860 | 138,138 | 9.9 | 129,454 | 17.3 |
| Provisions | (34,141) | (37,035) | (7.8) | (30,436) | 12.2 |
| PBT | 117,719 | 101,103 | 16.4 | 99,019 | 18.9 |
| Tax | (30,136) | (25,972) | 16.0 | (24,854) | 21.3 |
| PAT | 87,583 | 75,131 | 16.6 | 74,165 | 18.1 |

Source: Company, YES Sec – Research

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 1632 / 739 |
| Market cap (Rs/USD mn) | 8715268 / 119789 |
| Outstanding Shares (mn) | 5,509 |
| 6m Avg t/o (Rs mn): | 14,394 |
| Div yield (%): | - |
| Bloomberg code: | HDFCB IN |
| NSE code: | HDFCBANK |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | 6.8% | 15.3% | 26.7% |

**Shareholding pattern (As of Dec'21 end)**

| | |
|---|---|
| Promoter | 26.0% |
| FII+DII | 60.8% |
| Others | 12.9% |

**Δ in stance**

| (1-Yr) | New | Old |
|---|---|---|
| Rating | BUY | BUY |
| Target Price | 1,870 | 1,800 |

**Δ in earnings estimates**

| | FY21e | FY22e | FY23e |
|---|---|---|---|
| EPS (New) | 57.6 | 72.5 | 86.5 |
| EPS (Old) | 52.1 | 70.4 | 83.8 |
| % change | 10.6% | 3.0% | 3.2% |

**Financial Summary**

| | FY21E | FY22E | FY23E |
|---|---|---|---|
| Op. Inc. | 904,053 | 1,044,596 | 1,238,870 |
| PPOP | 566,380 | 649,519 | 774,654 |
| PAT | 316,034 | 397,714 | 474,498 |
| EPS (Rs) | 57.6 | 72.5 | 86.5 |
| ABV (Rs) | 352.5 | 414.2 | 488.4 |
| P/E (x) | 27.4 | 21.8 | 18.3 |
| P/ABV (x) | 4.5 | 3.8 | 3.2 |
| ROE (%) | 17.1 | 18.5 | 18.8 |
| ROA (%) | 1.9 | 2.1 | 2.1 |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- In auto and 2w, the bank is ahead of pre-Covid traction - PL is on same level - BL and others are lagging as market not conducive and bank's caution.
- CB sores of new customers acquisition across all products substantially better than the industry - about 50% better in unsecured products, 30% better in secured products and 2x better in CV financing.
- MFI biz collection stabilizing and normal disbursements will begin from January.
- For unsecured products, the bank has increased sourcing from internal customers.

## Wholesale Portfolio Growth

- Growth coming from high-rated public and private sector enterprises.
- Gross incremental portfolio rating at 4.37 – corresponds to AA and AAA external rating.
- Around 68% of portfolio below internal rating of 5 - average rating steady at 4.4.
- Unsecured book better rated than secured portfolio – weighted average rating of 3.4.
- Collection were higher 11% yoy – December collections higher 20%+ yoy.
- Wholesale SME OD utilization has normalized.
- No unusual restructuring and NPL trend in Corporate.

## SME Portfolio Trends

- Cash flows into customer's accounts has been improving from June – now stands higher 15% compared to February (pre-Covid).
- 30+ dpd improving m-o-m since September - FITL at 0.5-0.7% of the portfolio.
- Stress test results - initial estimate of 9% in June, then 3% in Sept and now further lowered to 2.3%.
- Utilization of loan facilities holding steady in early 70%.
- Delinquency trend qoq has shown improvement across all buckets – good resolutions and recoveries witnessed.
- Collateral coverage at 85%.
- Behavioral score of the portfolio gravitating towards the pre-Covid days.
- Bank has disbursed Rs220bn under ECLGS 1.0.

## Asset Quality – Collection, Restructuring/NPLs and Credit Cost

- Demand resolution was 95% in September, which moved to 97% in December – 98% was pre-Covid level, and this will be attained soon.
- Cheque bounce trends improving m-o-m since September – now closer to pre-Covid level – improvement seen across products.
- Collection resolution also improving – bounce resolution better than pre-Covid times – in older buckets, it yet to catch-up.
- Recoveries in w/off cases 15% better than pre-Covid times.
- Restructured assets at 0.5% of book – majority of it is Retail – will not see any meaningful addition in Q4.
- Restructuring was done based on customers request and not based on bank's view of these loans – the latter is reflected in proforma NPL reported - thus some restructured assets could be a part of it.

## NIMs, Fees and Cost/Income

- ✓ Cost/income to revert to 38-39% in short term – will come down though over the longer term.
- ✓ Interest reversals on proforma NPLs reflected in P&L.

## HDB Financial Services

- ✓ Disbursements were higher 20% qoq.
- ✓ Provisions at Rs8.2bn which is mainly GP – no benefits of standstill taken in P&L.
- ✓ Gross and Net NPLs at 2.7% and 1.7% respectively on reported basis - on proforma basis, the GNPL is at 5.9% v/s 2.9% as of last year.
- ✓ Strong capital adequacy at 19.5%.

### Exhibit 2: Business Data

| (Rs mn) | Q3 FY21 | Q2 FY21 | % qoq | Q3 FY20 | % yoy |
|---|---|---|---|---|---|
| Advances | 10,823,242 | 10,383,351 | 4.2 | 9,360,295 | 15.6 |
| Retail loans | 5,048,940 | 4,850,030 | 4.1 | 4,801,330 | 5.2 |
| Corp loans | 5,774,302 | 5,533,321 | 4.4 | 4,558,965 | 26.7 |
| Deposits | 12,711,239 | 12,293,104 | 3.4 | 10,674,335 | 19.1 |
| CA | 1,721,080 | 1,778,590 | (3.2) | 1,439,000 | 19.6 |
| SA | 3,746,390 | 3,484,320 | 7.5 | 2,779,280 | 34.8 |
| Others | 7,243,769 | 7,030,194 | 3.0 | 6,456,055 | 12.2 |
| Investments | 4,143,762 | 4,139,651 | 0.1 | 3,112,941 | 33.1 |
| Borrowings | 1,201,302 | 1,325,801 | (9.4) | 1,132,772 | 6.0 |
| RWA | 10,917,210 | 10,374,830 | 5.2 | 9,509,760 | 14.8 |

Source: Company, YES Sec – Research

### Exhibit 3: Key Ratios

| (%) | Q3 FY21 | Q2 FY21 | chg qoq | Q3 FY20 | chg yoy |
|---|---|---|---|---|---|
| NIM | 4.2 | 4.1 | 0.1 | 4.2 | - |
| Yield on advances* | 8.9 | 9.2 | (0.3) | 10.2 | (1.3) |
| Yield on funds* | 7.6 | 7.9 | (0.2) | 8.9 | (1.3) |
| Cost of funds* | 4.0 | 4.3 | (0.3) | 5.3 | (1.3) |
| CASA | 43.0 | 42.8 | 0.2 | 39.5 | 3.5 |
| C/D | 85.1 | 84.5 | 0.7 | 87.7 | (2.5) |
| Non-interest income | 31.3 | 27.9 | 3.5 | 32.0 | (0.7) |
| Cost to Income | 36.1 | 36.8 | (0.7) | 37.9 | (1.8) |
| Prov. /Avg. Adv. | 1.3 | 1.5 | (0.2) | 1.3 | (0.0) |
| RoE | 18.0 | 16.1 | 1.8 | 18.1 | (0.2) |
| RoA | 2.2 | 1.9 | 0.3 | 2.2 | - |
| CAR | 18.9 | 19.1 | (0.2) | 18.5 | 0.4 |
| Gross NPA | 0.8 | 1.1 | (0.3) | 1.4 | (0.6) |
| Net NPA | 0.1 | 0.2 | (0.1) | 0.5 | (0.4) |

Source: Company, YES Sec – Research; *Calculated

### Exhibit 4: Retail Loan Mix

| (Rs mn) | Q3 FY21 | Q2 FY21 | % qoq | Q3 FY20 | % yoy |
|---|---|---|---|---|---|
| Auto Loans | 818,800 | 796,640 | 2.8 | 835,520 | (2.0) |
| CV/CE | 271,150 | 269,800 | 0.5 | 281,240 | (3.6) |
| Two Wheelers | 95,040 | 94,940 | 0.1 | 101,490 | (6.4) |
| Personal Loans | 1,152,750 | 1,124,460 | 2.5 | 1,095,310 | 5.2 |
| Business Banking | 658,330 | 635,110 | 3.7 | 632,550 | 4.1 |
| LAS | 16,510 | 15,760 | 4.8 | 18,120 | (8.9) |
| Credit Cards | 633,320 | 581,420 | 8.9 | 576,780 | 9.8 |
| Home Loans | 666,440 | 628,470 | 6.0 | 617,290 | 8.0 |
| Gold | 66,960 | 60,390 | 10.9 | 53,180 | 25.9 |
| Others | 669,640 | 643,040 | 4.1 | 589,850 | 13.5 |
| Total | 5,048,940 | 4,850,030 | 4.1 | 4,801,330 | 5.2 |

Source: Company, YES Sec – Research

YES SECURITIES INSTITUTIONAL EQUITIES

# ICICI Bank

| BUY | CMP Rs648 | Target Rs675 | Upside 4.1% |
|---|---|---|---|

## Resilient asset quality show

### Strong growth and resilient asset quality leading to 5-6% ABV upgrades

The stand-out highlights of ICICBC's Q3 FY21 performance were a sharp uptick in loan growth, firm NIM despite higher interest reversals, and lesser-than-expected deterioration in asset quality causing lower provisioning. Even in the current challenging quarter (not so supportive growth and delinquency environment), the bank delivered 1.6% RoA and 15% RoE on computed basis. The significant loan growth was driven by mortgages (up 7% qoq), auto loans (up 7% qoq), business banking (up 12% qoq) and domestic corporate lending (up 8% qoq). The stock of proforma slippages at Rs82bn (120 bps of adv.) and invoked restructuring at Rs25bn (36 bps of adv.) were below our expectations, and highlights the strength of the balance sheet. The bank carries significantly higher-than-regulatory provisions on these pools, and a Covid-related buffer of 0.9% of advances which cushions the P&L from incremental pandemic-driven slippages. In addition, the normalizing overdue trends across segments underpins Management's confidence about a normal credit cost of 1.2-1.3% in FY22.

Our earnings and ABV estimates for FY22/23 undergo material upgrade, as we raised loan growth assumption and pruned credit cost forecast. We now expect the bank to deliver average 1.7% RoA and 14-15% RoE over FY22-23 with high capitalization levels. The core bank trades at 1.6x FY23 P/ABV, attractive in a scenario of improving growth and strong profitability. Retain BUY and raise 12m PT to Rs675, as we also assign a better multiple now.

## Management Commentary

### Key highlights

- ✓ Mortgage disbursements were significantly higher qoq - entire underwriting has been automated – strong growth in the portfolio driven by market improvement and strengthened distribution and execution.
- ✓ Auto disbursements crossed pre-Covid level.
- ✓ Rs126bn disbursements under the ECLGS scheme.
- ✓ Disbursements still lower than pre-Covid times in the CV financing segment.
- ✓ Domestic corporate loans grew 8.5% qoq – driven by lending to PSU entities and large corporate groups.

**Exhibit 1: Result table**

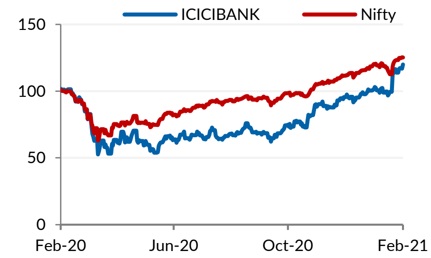
| (Rs mn) | Q3FY21 | Q2FY21 | % qoq | Q3FY20 | % yoy |
|---|---|---|---|---|---|
| Total Interest Income | 197,298 | 196,225 | 0.5 | 190,643 | 3.5 |
| Interest expended | (98,173) | (102,564) | (4.3) | (105,190) | (6.7) |
| Net Interest Income | 99,125 | 93,661 | 5.8 | 85,453 | 16.0 |
| Other income | 46,863 | 40,283 | 16.3 | 45,740 | 2.5 |
| Total Income | 145,987 | 133,944 | 9.0 | 131,193 | 11.3 |
| Operating expenses | (57,790) | (51,333) | 12.6 | (55,707) | 3.7 |
| PPOP | 88,198 | 82,611 | 6.8 | 75,486 | 16.8 |
| Provisions | (27,417) | (29,953) | (8.5) | (20,832) | 31.6 |
| PBT | 60,780 | 52,658 | 15.4 | 54,654 | 11.2 |
| Tax | (11,385) | (10,145) | 12.2 | (13,190) | (13.7) |
| PAT | 49,396 | 42,513 | 16.2 | 41,465 | 19.1 |

Source: Company, YES Sec – Research

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 650 / 268 |
| Market cap (Rs/USD mn) | 4473929 / 61493 |
| Outstanding Shares (mn) | 6,908 |
| 6m Avg t/o (Rs mn): | 13,347 |
| Div yield (%): | - |
| Bloomberg code: | ICICIBC IN |
| NSE code: | ICICIBANK |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | 18.2% | 35.9% | 17.9% |

**Shareholding pattern (As of Dec'21 end)**

| | |
|---|---|
| Promoter | 0.0% |
| FII+DII | 89.9% |
| Others | 9.6% |

**Δ in stance**

| (1-Yr) | New | Old |
|---|---|---|
| Rating | BUY | BUY |
| Target Price | 675 | 615 |

**Δ in earnings estimates**

| | FY21e | FY22e | FY23e |
|---|---|---|---|
| EPS (New) | 23.0 | 31.9 | 37.6 |
| EPS (Old) | 17.5 | 27.6 | 33.6 |
| % change | 31.4% | 15.6% | 11.9% |

**Financial Summary**

| | FY21E | FY22E | FY23E |
|---|---|---|---|
| Op. Income | 586,986 | 634,636 | 732,045 |
| PPOP | 370,842 | 386,070 | 452,409 |
| PAT | 158,406 | 219,679 | 258,889 |
| EPS (Rs) | 23.0 | 31.9 | 37.6 |
| ABVPS (Rs) | 195.0 | 226.6 | 263.9 |
| P/E (x) | 28.2 | 20.3 | 17.3 |
| P/ABV (x) | 3.3 | 2.9 | 2.5 |
| ROE (%) | 12.0 | 13.9 | 14.2 |
| ROA (%) | 1.4 | 1.7 | 1.7 |

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# ICICI Bank

- ✓ Overdues portfolio (0-90 dpd) improved further - Retail overdue portfolio currently 1.5% above normal – but has come down from 4% above normal as of Sept 30.
- ✓ Restructuring at 45bps of loan portfolio was much within expectation of <1% - includes Rs8.4bn worth of retail loans - Rs17bn restructuring (Corporate and SME loans) also a part of BB & Below portfolio.
- ✓ Proforma slippages at Rs82.8bn - Rs68bn got added in Q3 - includes a large part from retail book.
- ✓ Accrued interest has been reversed on the proforma NPLs.
- ✓ Current Covid provisions completely cushions the Balance Sheet from any incremental impact due to the pandemic.
- ✓ Bank tightened provisioning policy during Q3 by increasing provisioning rate for early bucket NPLs - thus carrying a high provisioning on proforma slippages (40-45% PCR) and even upping it on the stock.
- ✓ Management expects credit cost to normalize in FY22 i.e. fall to the level of 1.2-1.3%.
- ✓ CET-1 capital ratio at 16.8% incl. profits of 9m FY21.

**Exhibit 2: Business Data**

| (Rs mn) | Q3 FY21 | Q2 FY21 | % qoq | Q3 FY20 | % yoy |
|---|---|---|---|---|---|
| Loans | 6,990,175 | 6,526,080 | 7.1 | 6,356,543 | 10.0 |
| Domestic Corporate | 1,700,840 | 1,573,570 | 8.1 | 1,596,770 | 6.5 |
| Retail Business | 4,587,780 | 4,295,810 | 6.8 | 3,976,460 | 15.4 |
| Home Loans | 2,257,570 | 2,117,340 | 6.6 | 1,963,710 | 15.0 |
| Vehicle Loans | 624,490 | 597,870 | 4.5 | 584,060 | 6.9 |
| Unsecured Loans | 636,560 | 600,020 | 6.1 | 583,480 | 9.1 |
| SME | 270,930 | 233,410 | 16.1 | 217,440 | 24.6 |
| Overseas Branches | 430,610 | 423,290 | 1.7 | 565,870 | (23.9) |
| Deposits | 8,743,476 | 8,329,356 | 5.0 | 7,163,451 | 22.1 |
| CA | 1,167,410 | 1,075,170 | 8.6 | 1,009,890 | 15.6 |
| SA | 2,786,740 | 2,570,630 | 8.4 | 2,354,200 | 18.4 |
| Others | 4,789,326 | 4,683,556 | 2.3 | 3,799,361 | 26.1 |
| Investments | 2,752,606 | 2,896,230 | (5.0) | 2,274,800 | 21.0 |
| Borrowings | 1,116,081 | 1,364,269 | (18.2) | 1,373,747 | (18.8) |
| Total assets | 11,932,172 | 11,629,712 | 2.6 | 10,070,680 | 18.5 |
| RWA | 7,599,830 | 7,428,650 | 2.3 | 7,369,730 | 3.1 |

Source: Company, YES Sec – Research

### Exhibit 3: Key Ratios

| (%) | Q3 FY21 | Q2 FY21 | chg qoq | Q3 FY20 | chg yoy |
|---|---|---|---|---|---|
| NIM (%) | 3.7 | 3.6 | 0.1 | 3.8 | (0.1) |
| Yield on advances (%)* | 8.4 | 8.9 | (0.5) | 9.9 | (1.5) |
| Yield on investment (%)* | 6.6 | 6.7 | (0.2) | 6.9 | (0.4) |
| Cost of funds (%)* | 4.3 | 4.5 | (0.2) | 5.2 | (0.9) |
| CASA (%) | 45.2 | 43.8 | 1.4 | 47.0 | (1.8) |
| C/D (%) | 79.9 | 78.4 | 1.6 | 88.7 | (8.8) |
| Non-interest income (%) | 32.1 | 30.1 | 2.0 | 34.9 | (2.8) |
| Cost to Income (%) | 39.6 | 38.3 | 1.3 | 42.5 | (2.9) |
| Prov. / Avg. Adv. (%)* | 1.6 | 1.9 | (0.2) | 1.4 | 0.3 |
| RoE (%)* | 15.3 | 13.7 | 1.6 | 14.9 | 0.4 |
| RoA (%)* | 1.8 | 1.6 | 0.2 | 1.7 | 0.1 |
| CAR (%) | 19.5 | 18.5 | 1.0 | 16.5 | 3.0 |
| Gross NPA (%) | 4.4 | 5.2 | (0.8) | 6.0 | (1.6) |
| Net NPA (%) | 0.6 | 1.0 | (0.4) | 1.5 | (0.9) |

Source: Company, YES Sec – Research; *Calculated

### Exhibit 4: Non-Interest income – break-up

| (Rs mn) | Q3 FY21 | Q2 FY21 | % qoq | Q3 FY20 | % yoy |
|---|---|---|---|---|---|
| Fee income | 36,010 | 31,390 | 14.7 | 35,960 | 0.1 |
| Treasury Income | 7,660 | 5,420 | 41.3 | 5,310 | 44.3 |
| Lease & Misc. Income | 3,193 | 3,473 | (8.1) | 4,470 | (28.6) |
| Total non-interest income | 46,863 | 40,283 | 16.3 | 45,740 | 2.5 |

Source: Company, YES Sec – Research

### Exhibit 5: Rating profile

| (%) | Q3 FY21 | Q2 FY21 | chg qoq | Q3 FY20 | chg yoy |
|---|---|---|---|---|---|
| AA- and Above | 49.2 | 47.3 | 1.9 | 41.7 | 7.5 |
| A+, A, A- | 22.8 | 24.3 | -1.5 | 28.1 | -5.3 |
| A- and above | 72 | 71.6 | 0.4 | 69.8 | 2.2 |
| BBB+, BBB, BBB- | 24.3 | 25.6 | -1.3 | 26.9 | -2.6 |
| BB and below | 1.6 | 1.5 | 0.1 | 1.4 | 0.2 |
| Others | 2.1 | 1.3 | 0.8 | 1.9 | 0.2 |

Source: Company, YES Sec – Research

### Exhibit 6: Movement of Corporate and SME – BB and below

| (Rs mn) | Q3 FY21 | Q2 FY21 | % qoq | Q3 FY20 | % yoy |
|---|---|---|---|---|---|
| Opening | 161,670 | 171,100 | (5.5) | 160,740 | 0.6 |
| Slippage to NPA | (2,270) | (12,120) | (81.3) | (7,070) | (67.9) |
| Upgrades to Invest. grade | (1,180) | (14,290) | (91.7) | (6,300) | (81.3) |
| Downgrades | 22,390 | 16,980 | 31.9 | 26,660 | (16.0) |
| Closing | 180,610 | 161,670 | 11.7 | 174,030 | 3.8 |

Source: Company, YES Sec – Research

**Exhibit 7: Subsidiaries PAT**

| (Rs mn) | Q3 FY21 | Q2 FY21 | % qoq | Q3 FY20 | % yoy |
|---|---|---|---|---|---|
| ICICI Prudential Life | 3,060 | 3,030 | 1.0 | 3,020 | 1.3 |
| ICICI Lombard General | 3,140 | 4,160 | (24.5) | 2,940 | 6.8 |
| ICICI Pru. Asset Mgmt. | 3,580 | 2,820 | 27.0 | 3,050 | 17.4 |
| ICICI Sec. (Consolidated) | 2,670 | 2,780 | (4.0) | 1,370 | 94.9 |
| ICICI Sec. PD | 1,320 | 260 | 407.7 | 970 | 36.1 |
| ICICI Home Finance | 30 | 20 | 50.0 | 30 | - |
| ICICI Venture | (20) | (80) | (75.0) | 30 | (166.7) |
| ICICI Bank UK (USD mn) | 2 | 5 | (55.1) | 8 | (72.5) |
| ICICI Canada (CAD mn) | 5 | 5 | - | 22 | (76.9) |

Source: Company, YES Sec – Research

# IndusInd Bank

| BUY | CMP Rs1,027 | Target Rs1,070 | Upside 4.2% |
|---|---|---|---|

## En-route to RoA delivery in FY22-23

### Improving confidence around deposit franchise and credit cost trajectory

IIB Q3 FY21 earnings missed expectation on conservative provisioning and lower-than-estimated fee and treasury income. Loan growth of 3% qoq driven by revival in consumer finance segment (barring CV and LAP, most products recorded growth uptick) was in-line with expectations, while strong and granular deposit growth continue to surprise (5% qoq - CASA sustained at 40%). Despite funding cost benefits, the NIM was stable on account of interest reversals on proforma slippages. Overall asset quality performance was resilient with proforma slippages at Rs25bn (1.2% of adv.) and invoked restructuring at Rs12.5bn (60bps). Collection efficiency in the perceived vulnerable portfolios of Microfinance, Vehicle Finance and Gems & Jewellery has demonstrated encouraging recovery in recent months. Many of the weak accounts in Microfinance and Vehicle Finance portfolios slipped in Q3 (formed 40% of proforma slippages) and some more could slip in the current quarter. In other retail products, the overdues buckets have been coming down. The bank is carrying significant provisions on the recognized stress – 85% on reported GNPLs, 62% on proforma slippages and 32% on restructured portfolio, and in addition has provisions of 25-30 bps. In all likelihood, Q4 should be the last quarter of heady provisions.

We raise ABV estimates by 2-3% assuming better-than-earlier growth and credit cost outcomes. We believe that RoA delivery in FY22/23 could positively surprise on the current consensus estimates, and this could come from a strong recovery in vehicle finance (29% of adv.) and Microfinance (11%) portfolios. Based on increased confidence around the deposits franchise and credit cost trajectory, we upgrade rating to BUY (from ADD) and raise 12m PT to Rs1,070.

### Management Commentary

### Guidance (medium to long term)

- ✓ Loan mix: retail (55-60%) and wholesale (38-45%).
- ✓ PPoP to be >5%, NIMs within 415-425bps and RoA within 1.4-1.7%.
- ✓ Remain conservative on credit cost (shall provide in Q4FY21 as well).

### CV portfolio

- ✓ Share of performa slippages and restructurings stood at Rs502crs and Rs10.2bn respectively.
- ✓ On demand side, CV segment is ridden with overcapacity currently, shall normalise in near term.

**Exhibit 1: Result table**

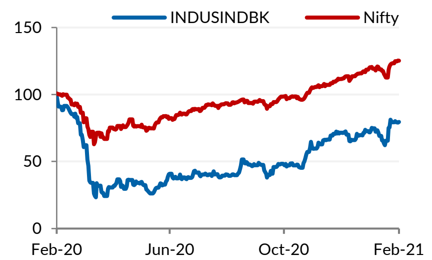
| (Rs mn) | Q3FY21 | Q2FY21 | % qoq | Q3FY20 | % yoy |
|---|---|---|---|---|---|
| Total Interest Income | 72,415 | 71,772 | 0.9 | 72,845 | (0.6) |
| Interest expended | (38,354) | (38,992) | (1.6) | (42,103) | (8.9) |
| Net Interest Income | 34,061 | 32,780 | 3.9 | 30,742 | 10.8 |
| Other income | 16,458 | 15,543 | 5.9 | 17,900 | (8.1) |
| Total Income | 50,519 | 48,323 | 4.5 | 48,642 | 3.9 |
| Operating expenses | (20,883) | (19,803) | 5.5 | (21,065) | (0.9) |
| PPOP | 29,636 | 28,520 | 3.9 | 27,577 | 7.5 |
| Provisions | (18,535) | (19,644) | (5.6) | (10,435) | 77.6 |
| PBT | 11,100 | 8,875 | 25.1 | 17,143 | (35.2) |
| Tax | (2,797) | (2,245) | 24.6 | (4,050) | (31.0) |
| PAT | 8,304 | 6,631 | 25.2 | 13,092 | (36.6) |

Source: Company, YES Sec – Research

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 1303 / 236 |
| Market cap (Rs/USD mn) | 778084 / 10695 |
| Outstanding Shares (mn) | 757 |
| 6m Avg t/o (Rs mn): | 12,888 |
| Div yield (%): | - |
| Bloomberg code: | IIB IN |
| NSE code: | INDUSINDBK |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | 10.8% | 33.6% | -19.6% |

**Shareholding pattern (As of Dec'21 end)**

| | |
|---|---|
| Promoter | 14.7% |
| FII+DII | 71.1% |
| Others | 13.4% |

**∆ in stance**

| (1-Yr) | New | Old |
|---|---|---|
| Rating | BUY | ADD |
| Target Price | 1,070 | 710 |

**∆ in earnings estimates**

| | FY21e | FY22e | FY23e |
|---|---|---|---|
| EPS (New) | 41.0 | 78.9 | 102.7 |
| EPS (Old) | 41.0 | 78.3 | 102.4 |
| % change | - | 0.8% | 0.3% |

**Financial Summary**

| | FY21E | FY22E | FY23E |
|---|---|---|---|
| Op. Income | 203,199 | 219,099 | 258,854 |
| PPOP | 120,554 | 121,579 | 143,779 |
| PAT | 31,012 | 59,670 | 77,649 |
| EPS (Rs) | 41.0 | 78.9 | 102.7 |
| ABVPS (Rs) | 515.4 | 581.4 | 666.2 |
| P/E (x) | 25.0 | 13.0 | 10.0 |
| P/ABV (x) | 2.0 | 1.8 | 1.5 |
| ROE (%) | 8.2 | 13.7 | 15.6 |
| ROA (%) | 1.0 | 1.6 | 1.8 |

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# IndusInd Bank

- ✓ Disbursements barring CV portfolio at pre-covid levels. Stress largely evident in HCV and MHCV.
- ✓ Having CE of 96.9% and expect to improve further.

## Restructurings / Asset quality / MFI stress

- ✓ DCCO extension in real estate is done selectively for 4-5 projects to the tune of single digit of residential portfolio.
- ✓ Break-up of proforma slippages (Rs25bn): vehicle and MFI piece at 20% each, secured retail 15%, unsecured retail 30% and corporate 15%.
- ✓ Break-up of restructuring (60 bps of adv.): Vehicle 30%, non-vehicle 13%, balance is Corporate, no restructurings done in MFI portfolio.
- ✓ Stress in MFI business at 2% only. Assam having exposure of Rs45crs (already provided) and WB exposure is at 13% (ticket sizes are much lower). Issue is limited to few districts in WB and not WB entirely.
- ✓ Retail overdue buckets have come off dramatically.
- ✓ Recovered Rs210crs in Q2FY21, working on 3-4 accounts (including IL&FS) and expect recoveries to come in Q4. Have no exposure in Dewan HF, already sold off.

## Advances / Disbursements

- ✓ Sanctions and disbursements under ECLGS at Rs44bn and Rs29bn respectively. Pick-up is very slow in ECLGS.
- ✓ Corporate exposure is giving a lot of confidence, concentrated towards supply chains, logistics, working capital and gems & Jewellery. Most of the stress have been taken up in restructurings. 66bps already invoked and 120bps is pending approvals.

**Exhibit 2: Business Data**

| (Rs mn) | Q3 FY21 | Q2 FY21 | % qoq | Q3 FY20 | % yoy |
|---|---|---|---|---|---|
| Advances | 2,071,280 | 2,012,468 | 2.9 | 2,074,130 | (0.1) |
| Consumer Finance | 1,186,460 | 1,158,198 | 2.4 | 1,121,600 | 5.8 |
| % share | 57.3 | 57.6 | - | 54.1 | - |
| Corp. & Comm. | 884,820 | 854,270 | 3.6 | 952,530 | (7.1) |
| % share | 42.7 | 42.4 | - | 45.9 | - |
| Deposits | 2,391,350 | 2,278,840 | 4.9 | 2,167,130 | 10.3 |
| Current | 323,130 | 347,730 | (7.1) | 269,700 | 19.8 |
| Savings | 643,330 | 570,730 | 12.7 | 648,950 | (0.9) |
| Others | 1,424,890 | 1,360,380 | 4.7 | 1,248,480 | 14.1 |
| Investments | 610,570 | 629,527 | (3.0) | 605,170 | 0.9 |
| Borrowings | 486,220 | 523,851 | (7.2) | 468,130 | 3.9 |

Source: Company, YES Sec – Research

### Exhibit 3: Key Ratios

| (%) | Q3 FY21 | Q2 FY21 | chg qoq | Q3 FY20 | chg yoy |
|---|---|---|---|---|---|
| NIM | 4.1 | 4.2 | (0.0) | 4.2 | (0.0) |
| Yield on Advances | 11.7 | 12.0 | (0.3) | 12.0 | (0.3) |
| Cost of Deposits | 5.3 | 5.6 | (0.2) | 6.5 | (1.2) |
| CASA | 40.4 | 40.3 | 0.1 | 42.4 | (2.0) |
| C/D (x) | 86.6 | 88.3 | (1.7) | 95.7 | (9.1) |
| Cost to Income | 41.3 | 41.0 | 0.4 | 43.3 | (2.0) |
| Provisions/Avg. Adv. (Ann) | 3.6 | 3.9 | (0.30) | 2.1 | 1.57 |
| RoE | 8.4 | 7.1 | 1.2 | 15.6 | (7.3) |
| RoA | 1.1 | 0.9 | 0.2 | 1.8 | (0.8) |
| CAR | 16.3 | 16.6 | (0.2) | 15.4 | 0.9 |
| Gross NPA | 1.7 | 2.2 | (0.5) | 2.2 | (0.4) |
| Net NPA | 0.2 | 0.5 | (0.3) | 1.1 | (0.8) |

Source: Company, YES Sec – Research

**Q3 FY21 Result Review** | Sector: Financials

# Kotak Mahindra Bank

| BUY | CMP Rs1,951 | Target Rs2,005 | Upside 2.7% |
|---|---|---|---|

## Sturdy growth and earnings performance

### Sturdy growth, asset quality and earnings performance; causing mild upgrades in EPS/ABV estimates. Retain BUY rating and raise 12m PT to Rs2,005

KMB delivered a better-than-expected core operating performance, reflected in marginal beat on core PPOP (up 33% yoy and reversion of core PPOP margin to pre-Covid level) and significantly lower credit cost. The latter was underpinned by a strong asset quality performance that was manifested in restrained 60bps sequential increase in proforma Gross NPLs (to 3.3%), marginal one-time restructuring at 0.28% of net advances and lower SMA-2 book at 31 bps of net advances. On the proforma NPLs, KMB provided for interest accrued but not collected even for the moratorium period. As the bank did not dip into its Covid buffer, it was stable at Rs12.8bn (60 bps of advances).

After delivering a strong broad-based 4.5% qoq growth (slower traction in CV/CE and unsecured retail), which was a seven-quarter high, the management sees momentum sustaining in large segments of Mortgages, Agri Finance and Corporate lending. The deposits mix trends remain impressive with incremental gains on CASA (59% of deposits) and granularization. The improvement in LDR (utilization of excess BS liquidity) will aid NIM in coming quarters and this along with normalization of credit cost will drive a solid earnings performance. We estimate 20% earnings CAGR for KMB during FY20-23 with a 20-30 bps expansion in RoA. RoE improvement will be contingent on the pace of growth. The core bank trades at 3.5x FY23 P/ABV, at 20-25% premium to HDFC Bank, thus scope for a large re-rating is restricted. We retain BUY rating and upgrade price target to Rs2,005.

## Management Commentary

### Key takeaways:

- ✓ A nearly Management sees continuance of loan growth - bank will focus on secured lending and better quality corporate lending - will pursue calibrated growth in unsecured consumer credit.
- ✓ Large difference in stress levels between unsecured and secured retail assets – unsecured loans are 6% of loan book, but contributed 40% to the delta increase in proforma GNPL during Q3 - corporate portfolio has been resilient.
- ✓ Some pockets of stress in secured retail too like CV financing, particularly the Bus segment (10-15% of CV portfolio for the industry) where fleet utilization is low or abysmal.

**Exhibit 1: Result table**

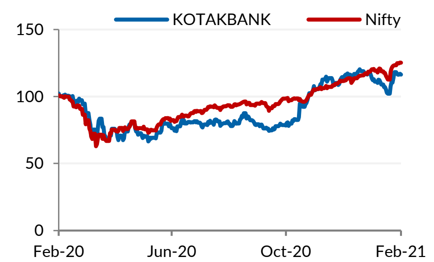
| (Rs mn) | Q3FY21 | Q2FY21 | % qoq | Q3FY20 | % yoy |
|---|---|---|---|---|---|
| Total Interest Income | 67,905 | 68,361 | (0.7) | 67,356 | 0.8 |
| Interest expended | (27,837) | (29,228) | (4.8) | (33,061) | (15.8) |
| Net Interest Income | 40,068 | 39,132 | 2.4 | 34,295 | 16.8 |
| Other income | 13,344 | 14,520 | (8.1) | 13,414 | (0.5) |
| Total Income | 53,412 | 53,652 | (0.4) | 47,710 | 12.0 |
| Operating expenses | (22,579) | (20,678) | 9.2 | (23,829) | (5.2) |
| PPOP | 30,833 | 32,975 | (6.5) | 23,881 | 29.1 |
| Provisions | (5,990) | (3,686) | 62.5 | (4,440) | 34.9 |
| PBT | 24,843 | 29,289 | (15.2) | 19,441 | 27.8 |
| Tax | (6,308) | (7,444) | (15.3) | (3,482) | 81.2 |
| PAT | 18,535 | 21,845 | (15.1) | 15,959 | 16.1 |

Source: Company, YES Sec – Research

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 2030 / 1001 |
| Market cap (Rs/USD mn) | 3865009 / 53124 |
| Outstanding Shares (mn) | 1,981 |
| 6m Avg t/o (Rs mn): | 9,226 |
| Div yield (%): | - |
| Bloomberg code: | KMB IN |
| NSE code: | KOTAKBANK |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | 2.5% | 11.2% | 13.8% |

**Shareholding pattern (As of Dec'21 end)**

| | |
|---|---|
| Promoter | 26.0% |
| FII+DII | 58.0% |
| Others | 16.0% |

**Δ in stance**

| (1-Yr) | New | Old |
|---|---|---|
| Rating | BUY | BUY |
| Target Price | 2,005 | 1,670 |

**Δ in earnings estimates**

| | FY21e | FY22e | FY23e |
|---|---|---|---|
| EPS (New) | 37.0 | 44.2 | 53.1 |
| EPS (Old) | 33.8 | 45.4 | 51.3 |
| % change | 9.5% | -2.6% | 3.5% |

**Financial Summary**

| | FY21E | FY22E | FY23E |
|---|---|---|---|
| Op. Income | 211,970 | 240,635 | 279,934 |
| PPOP | 124,345 | 137,238 | 159,994 |
| PAT | 73,284 | 87,334 | 104,964 |
| EPS (Rs) | 37.0 | 44.2 | 53.1 |
| ABVPS (Rs) | 309.1 | 353.5 | 403.7 |
| P/E (x) | 52.7 | 44.2 | 36.8 |
| P/ABV (x) | 6.3 | 5.5 | 4.8 |
| ROE (%) | 13.0 | 12.9 | 13.6 |
| ROA (%) | 1.9 | 2.1 | 2.2 |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- ✓ Restructuring done only for customers who will be able to pay – other stress allowed to flow.
- ✓ Some increase in SMA-2 compared to usual levels which would be closely monitored.
- ✓ Growth in Corporate portfolio driven by higher-rated corporates - RWA growth significant lower, while spreads are stable – the bank grew exposure to high-rated HFCs - remains cautious on office space LRD.
- ✓ Facility utilization and customer acquisition improving in SME segment - bank disbursed Rs97bn under ECLGS schemes.
- ✓ Mortgages witnessed best-ever disbursements in December with bank's focus on fine pricing.
- ✓ In unsecured retail lending (PL, Cards and BL), business traction in improving m-o-m, but currently is below pre-Covid levels.
- ✓ In CE financing, lending activity has fully normalized - strong equipment demand from infra and mining segments.
- ✓ In MSME working capital, the new acquisition is at pre-Covid level – focus is on building a high-quality franchise.
- ✓ In Tractor financing, disbursements stood higher qoq and yoy - Q4 also expected to be strong.
- ✓ Bank's MFI portfolio is largely non-urban – both collections and disbursements have improved m-o-m.
- ✓ Current bucket bounce is stabilizing – bank's focus will remain on late buckets collections and recoveries.
- ✓ Secured advances collections v/s demand for Dec'20 back to pre-Covid levels; for unsecured advances, it is nearing pre-Covid levels and improving m-o-m.

### Exhibit 2: Business Data - Standalone

| (Rs mn) | Q3 FY21 | Q2 FY21 | % qoq | Q3 FY20 | % yoy |
|---|---|---|---|---|---|
| Advances | 2,141,030 | 2,048,450 | 4.5 | 2,167,740 | (1.2) |
| CV & CE | 186,850 | 183,630 | 1.8 | 189,930 | (1.6) |
| Agri. | 218,580 | 209,260 | 4.5 | 204,810 | 6.7 |
| Mortgage loans | 499,770 | 477,320 | 4.7 | 460,310 | 8.6 |
| Small Busi, PLs & CC | 415,760 | 402,680 | 3.2 | 418,380 | (0.6) |
| Business + Corp. Bkg | 785,770 | 742,370 | 5.8 | 834,230 | (5.8) |
| Deposits | 2,653,040 | 2,615,636 | 1.4 | 2,393,540 | 10.8 |
| CA | 439,750 | 404,540 | 8.7 | 367,880 | 19.5 |
| SA | 1,121,990 | 1,089,900 | 2.9 | 917,290 | 22.3 |
| Others | 1,091,300 | 1,121,196 | (2.7) | 1,108,370 | (1.5) |
| Investments | 1,090,370 | 1,167,237 | (6.6) | 766,010 | 42.3 |
| Borrowings | 482,230 | 417,891 | 15.4 | 264,650 | 82.2 |

Source: Company, YES Sec – Research

### Exhibit 3: Key Ratios - Standalone

| (%) | Q3 FY21 | Q2 FY21 | chg qoq | Q3 FY20 | chg yoy |
|---|---|---|---|---|---|
| NIM | 4.5 | 4.5 | (0.0) | 4.7 | (0.2) |
| Cost of Funds | 3.6 | 3.8 | (0.2) | 5.0 | (1.4) |
| CASA | 58.9 | 57.1 | 1.8 | 53.7 | 5.2 |
| C/D (x) | 80.7 | 78.3 | 2.4 | 90.6 | (9.9) |
| Non-int. income | 25.0 | 27.1 | (2.1) | 28.1 | (3.1) |
| Non-int. income / Int. exp. | 47.9 | 49.7 | (1.7) | 40.6 | 7.4 |
| Cost to Income | 42.3 | 38.5 | 3.7 | 49.9 | (7.7) |
| Prov. /Income | 7.4 | 4.4 | 2.9 | 5.5 | 1.9 |
| RoE | 12.2 | 14.9 | (2.7) | 13.7 | (1.5) |
| RoA | 2.0 | 2.4 | (0.4) | 2.0 | (0.0) |
| CAR | 21.5 | 22.1 | (0.5) | 18.2 | 3.3 |
| Gross NPA | 2.3 | 2.6 | (0.3) | 2.5 | (0.2) |
| Net NPA | 0.5 | 0.6 | (0.1) | 0.9 | (0.4) |

Source: Company, YES Sec – Research

### Exhibit 4: Consolidated PAT - Subsidiaries

| (Rs mn) | Q3 FY21 | Q2 FY21 | % qoq | Q3 FY20 | % yoy |
|---|---|---|---|---|---|
| Kotak Mahindra Bank | 18,540 | 21,840 | (15.1) | 15,960 | 16.2 |
| Kotak Mahindra Prime | 1,490 | 1,330 | 12.0 | 1,870 | (20.3) |
| Kotak Life Insurance | 1,670 | 1,710 | (2.3) | 1,660 | 0.6 |
| Kotak Securities | 1,840 | 1,990 | (7.5) | 1,280 | 43.8 |
| Kotak Mahindra Capital | 380 | 140 | 171.4 | 400 | (5.0) |
| Kotak Mahindra AMC | 910 | 840 | 8.3 | 910 | - |
| Kotak Investments | 680 | 740 | (8.1) | 640 | 6.3 |

Source: Company, YES Sec – Research

YES SECURITIES INSTITUTIONAL EQUITIES

# Manappuram Finance

| BUY | CMP Rs176 | Target Rs230 | Upside 30.9% |
|---|---|---|---|

## Credit cost softening to aid earnings quality

### Better than expected operating show; incremental provisions may be required in non-Gold businesses - Retain BUY with 12m PT of Rs230

Manappuram delivered large earnings beat in Q3 FY21 on the back of strong operating performance and lower than expected provisioning. Overall AUM growth was marginally better-than-expectation at 3% qoq, supported by 2% growth in Gold Loans (though tonnage declined by 1% qoq) and 8% growth in MFI portfolio (disbursements at Rs13bn). The 20bps decline in funding cost drove an impressive 9% qoq growth in NII and a tight control over employee cost and overheads enlarged growth at PPOP level. Credit cost in the quarter was at Rs0.8bn, of which Rs0.5bn towards the MFI business.

With tonnage growth sluggish, price tailwinds behind and increased competition, the gold loans portfolio growth should come-off over the coming quarters. MFI portfolio could attract more provisioning (6% held) even as collection efficiency normalizes (was 99% in Dec incl. arrears) due to a substantial PAR 0 portfolio (Rs9.4bn - 15%+ of book). On the CV financing portfolio, the co. carries a 6% provisioning which may turn out to be adequate if the collection efficiency remains high as seen in recent months (110/112% in Nov/Dec incl. arrears).

We project 12-14% consol. AUM growth for FY22/23 even with modest growth in the mainstay gold loans business. Normalization of credit cost in MFI & CV businesses would improve overall RoA to 6%+. Earnings CAGR would likely be 15-20% over FY21-23. Valuation is undemanding at 1.2x FY23 P/ABV considering healthy earnings growth, strong profitability and robust capitalization. We retain BUY and 12m TP of Rs230.

## Management Commentary

### Key Takeaways

- ✓ Gold tonnage declined 1% qoq, due to inverse relationship between gold price - Gold Loan AUM up 24.4% yoy and 2.4% qoq.
- ✓ Portfolio LTV at 63% based on current gold price - Average duration of GL at 75 days - Auctions in Q3 at Rs36mn.
- ✓ The company has extended doorstep gold loan services across all its branches.
- ✓ Management still expects 15% growth in the Gold Loan AUM in FY22.

### Exhibit 1: Result table - Consolidated

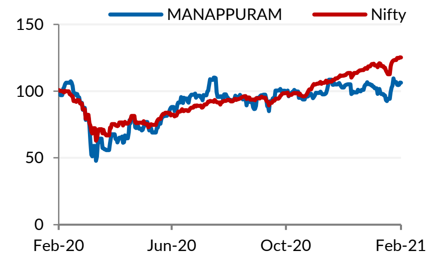
| (Rs mn) | Q3FY21 | Q2FY21 | % qoq | Q3FY20 | % yoy |
|---|---|---|---|---|---|
| Total Operating Income | 16,438 | 15,656 | 5.0 | 14,362 | 14.5 |
| Interest expended | (5,573) | (5,710) | (2.4) | (4,687) | 18.9 |
| Net Interest Income | 10,866 | 9,946 | 9.2 | 9,675 | 12.3 |
| Other income | 62 | 123 | (49.8) | 151 | (59.0) |
| Total Income | 10,928 | 10,070 | 8.5 | 9,826 | 11.2 |
| Operating expenses | (3,553) | (3,545) | 0.2 | (3,741) | (5.0) |
| PPOP | 7,375 | 6,524 | 13.0 | 6,085 | 21.2 |
| Provisions | (802) | (1,080) | (25.8) | (480) | 67.0 |
| PBT | 6,573 | 5,444 | 20.7 | 5,604 | 17.3 |
| Tax | (1,741) | (1,390) | 25.3 | (1,462) | 19.1 |
| PAT | 4,832 | 4,054 | 19.2 | 4,143 | 16.6 |

Source: Company, YES Sec – Research

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 187 / 74 |
| Market cap (Rs/USD mn) | 148970 / 2048 |
| Outstanding Shares (mn) | 846 |
| 6m Avg t/o (Rs mn): | 1,102 |
| Div yield (%): | 1.0 |
| Bloomberg code: | MGFL IN |
| NSE code: | MANAPPURAM |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | 2.0% | 10.5% | 8.7% |

**Shareholding pattern (As of Dec'21 end)**

| | |
|---|---|
| Promoter | 35.0% |
| FII+DII | 48.7% |
| Others | 16.3% |

**∆ in stance**

| (1-Yr) | New | Old |
|---|---|---|
| Rating | BUY | BUY |
| Target Price | 230 | 225 |

**∆ in earnings estimates**

| | FY21e | FY22e | FY23e |
|---|---|---|---|
| EPS (New) | 20.5 | 25.3 | 29.3 |
| EPS (Old) | 19.2 | 24.2 | 27.7 |
| % change | 6.8% | 4.5% | 5.8% |

**Financial Summary**

| | FY21E | FY22E | FY23E |
|---|---|---|---|
| Op. Income | 63,031 | 69,770 | 78,005 |
| PPOP | 27,625 | 31,659 | 36,147 |
| PAT | 17,343 | 21,410 | 24,717 |
| EPS (Rs) | 20.5 | 25.3 | 29.3 |
| ABVPS (Rs) | 82.7 | 105.2 | 131.3 |
| P/E (x) | 8.6 | 6.9 | 6.0 |
| P/ABV (x) | 2.1 | 1.7 | 1.3 |
| ROE (%) | 26.5 | 26.0 | 24.1 |
| ROA (%) | 5.7 | 6.4 | 6.6 |

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# Manappuram Finance

- ✓ Asirvad AUM up by 7.8% qoq - Q3 disbursements at Rs13bn - annual portfolio growth will accelerate from hereon.
- ✓ Taken Rs480mn provisions on MFI portfolio - so far done Rs3.2bn (6% of portfolio), which seems adequate going by the improvement in collection efficiency.
- ✓ PAR 0 portfolio in MFI business at Rs9.3bn (15%+) - has come down qoq from Rs10.4bn – with improving collection efficiency it has declined further in January.
- ✓ Only Rs400mn (<1%) exposure to the state of Assam – West Bengal contributes 12% of the portfolio.
- ✓ Collection Efficiencies including arrears in MFI for Nov/Dec at 93%/99% - new book collections at 99%.
- ✓ Collection Efficiencies including arrears in CV Finance for Nov/Dec at 110/112%.
- ✓ Collection against billing in the CV financing business at 74% in Q2, 82% in Q3 and 85% in December.
- ✓ Overall Cost of Funds are down 18 bps qoq, despite increasing tenor of liabilities – management expects further reduction in coming quarters.
- ✓ Raised fresh borrowing of Rs19bn in Q3 FY21 on standalone basis through NCDs and bank loans.
- ✓ Stand-alone RoA (includes GL and CV Loans) at 7.1% in Q3 v/s 6.2% in Q2.

### Exhibit 2: Business Data

| (Rs mn) | Q3 FY21 | Q2 FY21 | % qoq | Q3 FY20 | % yoy |
|---|---|---|---|---|---|
| AUM | 276,425 | 269,027 | 2.7 | 240,999 | 14.7 |
| Gold Loan | 202,116 | 197,360 | 2.4 | 162,430 | 24.4 |
| MFI | 53,577 | 49,710 | 7.8 | 50,221 | 6.7 |
| Mortgage | 6,334 | 6,206 | 2.1 | 6,012 | 5.4 |
| CV | 9,880 | 10,623 | (7.0) | 13,974 | (29.3) |
| Others | 4,517 | 5,128 | (11.9) | 8,362 | (46.0) |

Source: Company, YES Sec – Research

### Exhibit 3: Key Ratios - Consolidated

| (%) | Q3 FY21 | Q2 FY21 | chg qoq | Q3 FY20 | chg yoy |
|---|---|---|---|---|---|
| Op Income as % of AAUM | 23.3 | 23.7 | (0.3) | 23.2 | 0.1 |
| Int. Expense to AAUM | 8.2 | 8.7 | (0.6) | 8.0 | 0.2 |
| NII as % of AAUM | 15.9 | 15.2 | 0.7 | 16.5 | (0.6) |
| Cost to Income (%) | 32.5 | 35.2 | (2.7) | 38.1 | (5.6) |
| Provisions as % of AAUM | 1.2 | 1.7 | (0.5) | 0.8 | 0.4 |
| RoE (%) | 29.0 | 26.0 | 3.0 | 30.4 | (1.4) |
| RoA (%) | 6.1 | 5.1 | 1.0 | 6.3 | (0.2) |
| Gross NPA (%) – SA* | 1.3 | 1.1 | 0.2 | 0.5 | 0.8 |
| Net NPA (%) – SA* | 0.8 | 0.7 | 0.1 | 0.2 | 0.6 |

Source: Company, YES Sec – Research; * represents standalone figures; AAUM is Average AUM

# RBL Bank

| BUY | CMP Rs241 | Target Rs265 | Upside 9.8% |
|---|---|---|---|

## Near term headwinds

### Capping of Earnings challenges to prevail in near term, but recovery can be sharp thereafter; Retain BUY with 12m PT of Rs265

Growth and credit cost trajectory could remain challenging in next two quarters, as the bank recognizes residual pain in Credit Cards (though overall stress in-line with earlier guidance) and steps-up provision on MFI portfolio while pursuing calibrated growth. Further, core PCR at 45% stands low and requires material augmentation; and the Covid contingency buffer has been reduced to 50-60 bps of loan book after utilization in Q3. However, both Cards and MFI businesses, where the bank has a significant portfolio with a sizeable market position, typically have a sharp/quick normalization curve and thus can start uplifting loan growth and earnings after a couple of quarters. Penciling this curve in our estimates, we believe that RBL Bank can deliver respectable RoA from FY22 itself and earnings can jump by more than 100%. Corporate portfolio has surprisingly been resilient, in particular the BBB & Below rated portfolio which has not exhibited any meaningful stress from Covid. The key risk to our estimates remains protracted challenges in MFI portfolio, especially an Assam-like issue in West Bengal. RBL Bank currently trades at 0.9x FY23 P/ABV, and we retain BUY rating with revised 12m TP of Rs265.

### Management Commentary

### Credit cards

- ✓ Credit Cards business has bounced back well and new customer acquisition is now at pre-Covid level.
- ✓ The bank has gained market share in terms of cards-in-force – still operating with tightened credit filters.
- ✓ Spend per active card better than pre-Covid times.
- ✓ Restructuring at 4% in terms of value, representing about 53000 customers.
- ✓ Management had earlier guided for 10% credit cost for the year – tracking well on this, as credit cost in the first nine months is at 7.4%.
- ✓ Bounce rates and collection efficiency has normalized – thus stress is confined to the identified pool.
- ✓ Proforma GNPL at 5.7% - charge-off happens after 180 dpd, thus portfolio NPL levels will come-off after a couple of quarters – and credit cost will revert to the annualized rate of 5-6%.

**Exhibit 1: Result table**

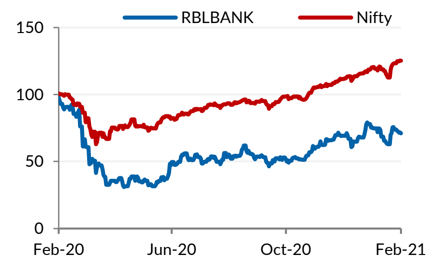
| (Rs mn) | Q3FY21 | Q2FY21 | % qoq | Q3FY20 | % yoy |
|---|---|---|---|---|---|
| Total Interest Income | 19,799 | 20,773 | (4.7) | 21,573 | (8.2) |
| Interest expended | (10,717) | (11,452) | (6.4) | (12,347) | (13.2) |
| Net Interest Income | 9,082 | 9,321 | (2.6) | 9,227 | (1.6) |
| Other income | 5,799 | 4,562 | 27.1 | 4,870 | 19.1 |
| Total Income | 14,880 | 13,883 | 7.2 | 14,096 | 5.6 |
| Operating expenses | (6,832) | (6,685) | 2.2 | (6,775) | 0.9 |
| PPOP | 8,048 | 7,198 | 11.8 | 7,322 | 9.9 |
| Provisions | (6,098) | (5,256) | 16.0 | (6,383) | (4.5) |
| PBT | 1,951 | 1,942 | 0.4 | 939 | 107.8 |
| Tax | (480) | (500) | (4.1) | (239) | 100.5 |
| PAT | 1,471 | 1,442 | 2.0 | 700 | 110.2 |

Source: Company, YES Sec – Research

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 344 / 102 |
| Market cap (Rs/USD mn) | 144332 / 1984 |
| Outstanding Shares (mn) | 598 |
| 6m Avg t/o (Rs mn): | 4,129 |
| Div yield (%): | 0.6 |
| Bloomberg code: | RBK IN |
| NSE code: | RBLBANK |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | -6.2% | 19.2% | -26.6% |

**Shareholding pattern (As of Dec'21 end)**

| | |
|---|---|
| Promoter | 0.0% |
| FII+DII | 49.3% |
| Others | 50.2% |

**Δ in stance**

| (1-Yr) | New | Old |
|---|---|---|
| Rating | BUY | BUY |
| Target Price | 265 | 230 |

**Δ in earnings estimates**

| | FY21e | FY22e | FY23e |
|---|---|---|---|
| EPS (New) | 9.7 | 20.2 | 27.5 |
| EPS (Old) | 7.8 | 23.7 | 31.9 |
| % change | 24.4% | -14.8% | -13.8% |

**Financial Summary**

| | FY21E | FY22E | FY23E |
|---|---|---|---|
| Op. Income | 59,202 | 71,625 | 88,267 |
| PPOP | 30,483 | 35,152 | 43,588 |
| PAT | 5,777 | 12,082 | 16,418 |
| EPS (Rs) | 9.7 | 20.2 | 27.5 |
| ABVPS (Rs) | 186.1 | 207.3 | 230.1 |
| P/E (x) | 24.9 | 11.9 | 8.8 |
| P/ABV (x) | 1.3 | 1.2 | 1.0 |
| ROE (%) | 5.0 | 9.1 | 11.3 |
| ROA (%) | 0.6 | 1.1 | 1.3 |

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- ✓ 7% of the card customers are SA customers of the bank also.
- ✓ 60%+ customers onboarded are from BAF partnership and they are credit tested.

## Micro Banking

- ✓ Collection Efficiency stable at 92% - most large states near 90% - Assam at 60%
- ✓ Has been running down the Assam portfolio – had stopped disbursement from Nov 2019
- ✓ In the state of West Bengal, the bank is disbursing only to existing customers
- ✓ Many customers are erratic in repayments - only 2% customers have not paid anything since the end of moratorium – flow into 90dpd+ is slower
- ✓ The new book generated from June which is at Rs22bn has a collection efficiency of 99%
- ✓ Disbursing new loans only in areas where collection is better
- ✓ Proforma GNPL at 2.7% - this will increase to 5-5.5% by March 2021 – the credit cost is expected at 2.5% for the year (gross of FLDG) - exposure to problematic states/pockets much lower
- ✓ In MFI, the management remains cautious but expects normalcy from Q4 FY21

## Wholesale & SME

- ✓ Wholesale portfolio has stabilized and the bank will start growing it soon - focus is on better-rated corporates
- ✓ BBB & Below has not shown any adverse movement
- ✓ Wholesale portfolio proforma GNPL at 4%
- ✓ On the retail MSME side, new business generation was slowed down deliberately
- ✓ BIL is a secured loan where LTV is conservative

## Other Important

- ✓ Rs13bn of the Rs14.7bn slippages in Q3 were from the retail segment
- ✓ Q3 write-offs mainly in the corporate segment – Q4 will see write-offs related to Retail and MFI segments
- ✓ Approved restructuring at Rs5.5bn was primarily in retail segment – it will be within 1.5% of advances by end FY21
- ✓ Over the next few months, the NIM and Fee trajectory would revert to pre-Covid run-rate
- ✓ Growth in granular deposits will continue - cost of funds will continue to decline
- ✓ Utilized around Rs2.5-3bn worth of the contingency provision buffer during the quarter – the unutilized balance is of similar quantum growth.

### Exhibit 2: Business Data

| (Rs mn) | Q3 FY21 | Q2 FY21 | % qoq | Q3 FY20 | % yoy |
|---|---|---|---|---|---|
| Advances | 564,440 | 561,620 | 0.5 | 596,350 | (5.4) |
| C&IB | 178,120 | 178,150 | (0.0) | 233,270 | (23.6) |
| CB | 56,940 | 62,040 | (8.2) | 80,300 | (29.1) |
| Retail | 329,380 | 242,070 | 36.1 | 282,780 | 16.5 |
| Deposits | 671,840 | 645,061 | 4.2 | 629,070 | 6.8 |
| CASA | 208,670 | 200,640 | 4.0 | 168,550 | 23.8 |
| Borrowings | 120,700 | 132,558 | (8.9) | 148,930 | (19.0) |
| Total Assets | 964,380 | 933,465 | 3.3 | 914,570 | 5.4 |
| RWA | 718,180 | 697,990 | 2.9 | 681,580 | 5.4 |

Source: Company, YES Sec – Research

### Exhibit 3: Key Ratios

| (%) | Q3 FY21 | Q2 FY21 | chg qoq | Q3 FY20 | chg yoy |
|---|---|---|---|---|---|
| NIM | 4.2 | 4.3 | (0.1) | 4.6 | (0.4) |
| Yield on Advances | 11.5 | 12.3 | (0.8) | 12.3 | (0.8) |
| Cost of Deposits | 5.7 | 6.0 | (0.3) | 6.7 | (1.0) |
| CASA | 31.1 | 31.1 | (0.0) | 26.8 | 4.3 |
| C/D | 84.0 | 87.1 | (3.1) | 94.8 | (10.8) |
| Non-interest income | 39.0 | 32.9 | 6.1 | 34.5 | 4.4 |
| Cost to Income | 45.9 | 48.2 | (2.2) | 48.1 | (2.1) |
| Prov./Avg. Advances (Ann) | 4.3 | 3.7 | 0.6 | 4.3 | 0.0 |
| RoE | 4.8 | 5.2 | (0.4) | 3.1 | 1.7 |
| RoA | 0.6 | 0.6 | 0.0 | 0.3 | 0.3 |
| CAR | 17.9 | 16.5 | 1.4 | 15.7 | 2.2 |
| Gross NPA | 1.8 | 3.3 | (1.5) | 3.3 | (1.5) |
| Net NPA | 0.7 | 1.4 | (0.7) | 2.1 | (1.4) |

Source: Company, YES Sec – Research

### Exhibit 4: Core fee income – break-up

| (Rs mn) | Q3 FY21 | Q2 FY21 | % qoq | Q3 FY20 | % yoy |
|---|---|---|---|---|---|
| Core Fees | 4,970 | 3,620 | 37.3 | 4,740 | 4.9 |
| Distribution + CC | 3,380 | 2,100 | 61.0 | 2,844 | 18.8 |
| Proc. Fees | 398 | 326 | 22.0 | 521 | (23.7) |
| Gen. Banking | 447 | 471 | (5.0) | 569 | (21.4) |
| Trade/Others | 348 | 362 | (3.9) | 427 | (18.4) |
| FX | 348 | 362 | (3.9) | 427 | (18.4) |

Source: Company, YES Sec – Research

**Q3 FY21 Result Review** | Sector: Financials

YES SECURITIES INSTITUTIONAL EQUITIES

# State Bank of India

| BUY | CMP Rs393 | Target Rs440 | Upside 12.0% |
|---|---|---|---|

## Receding stress to spur RoA recovery

### Strong indications of improved asset quality outcomes driving profitability normalization

SBI's Q3 FY21 performance was a pleasant surprise on both growth and asset quality. The bank experienced a healthy 3% qoq expansion in loan book aided by sustained robust traction in retail segment (grew 6% qoq/16% yoy) and a material increase in SME portfolio (6% qoq) partially driven by ECLGS disbursements. With domestic NIM stable (would be 8-9 bps lower if interest reversal was taken here), the NII growth stood at 20%+ yoy after adjusting for one-time interest income recovery in Q3 FY20. The nearly 75 bps decline in deposit cost over past 12m underpins the impressive NII growth in recent quarters.

On the asset quality front, net addition to proforma slippages in Q3 was marginal at Rs20bn and total restructuring requests were at Rs181bn (74 bps of adv.). The stock of proforma slippages (Q2 + Q3) stood at Rs165bn (67 bps of adv.). Overall stress manifestation till Dec 31 was at 1.4% of the book, which is pleasantly surprising as its comparable with any large private bank. Notably, the stress in retail portfolio was low at 70 bps, reflecting its composition (60% home loans) and credible underwriting in the fast-growing personal loan book. Even the stress manifestation in Corporate and SME portfolios was at palatable 1.5-2%. Non-overlapping Corporate SMA-2 exposure at 50 bps of bank's advances and overall collection efficiency at 96.5% are indicative of controlled slippages in Q4. Credit cost could also be lower considering unutilized Covid contingency buffer of 25 bps of advances, negligible incremental restructuring (8% cover on existing block) and 30%+ provisioning on proforma slippages.

**With capital and credit scenario no more a constraint, SBI's loan growth is expected to move past 10-12% over the medium term supported by increasing lending opportunities. Firm NIMs, revival in fee growth and recoveries, restrained increase in employee cost (provisions of wage revision behind) and normalization of credit cost should drive a smart RoA/RoE recovery in FY22/23. The stand-alone bank trades at an undemanding valuation of 0.6x P/ABV and 4x P/E on FY23 estimates. Rate the stock as BUY with a 12m PT of Rs440 (contribution of holdings in subsidiaries/associates at Rs174/share).**

### Exhibit 1: Result table

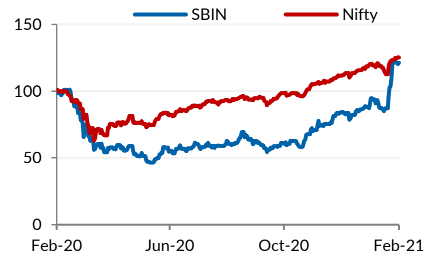
| (Rs mn) | Q3FY21 | Q2FY21 | % qoq | Q3FY20 | % yoy |
|---|---|---|---|---|---|
| Total Interest Income | 667,345 | 668,141 | (0.1) | 676,920 | (1.4) |
| Interest expended | (379,146) | (386,326) | (1.9) | (399,132) | (5.0) |
| Net Interest Income | 288,199 | 281,815 | 2.3 | 277,788 | 3.7 |
| Other income | 92,462 | 85,277 | 8.4 | 91,059 | 1.5 |
| Total Income | 380,661 | 367,092 | 3.7 | 368,847 | 3.2 |
| Operating expenses | (207,329) | (202,494) | 2.4 | (186,622) | 11.1 |
| PPOP | 173,332 | 164,598 | 5.3 | 182,226 | (4.9) |
| Provisions | (103,424) | (101,183) | 2.2 | (72,529) | 42.6 |
| PBT | 69,908 | 63,415 | 10.2 | 109,697 | (36.3) |
| Tax | (17,946) | (17,673) | 1.5 | (53,863) | (66.7) |
| PAT | 51,962 | 45,742 | 13.6 | 55,834 | (6.9) |

Source: Company, YES Sec – Research

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 408 / 149 |
| Market cap (Rs/USD mn) | 3508711 / 48226 |
| Outstanding Shares (mn) | 8,925 |
| 6m Avg t/o (Rs mn): | 13,870 |
| Div yield (%): | - |
| Bloomberg code: | SBIN IN |
| NSE code: | SBIN |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | 34.4% | 73.3% | 22.8% |

**Shareholding pattern (As of Dec'21 end)**

| | |
|---|---|
| Promoter | 57.6% |
| FII+DII | 34.7% |
| Others | 7.5% |

**Δ in stance**

| (1-Yr) | New | Old |
|---|---|---|
| Rating | BUY | BUY |
| Target Price | 440 | 440 |

**Δ in earnings estimates**

| | FY21e | FY22e | FY23e |
|---|---|---|---|
| EPS (New) | 23.9 | 39.5 | 46.1 |
| EPS (Old) | 23.9 | 39.5 | 46.1 |
| % change | - | - | - |

**Financial Summary**

| | FY21E | FY22E | FY23E |
|---|---|---|---|
| Op. Inc. | 1,483,017 | 1,660,721 | 1,845,331 |
| PPOP | 686,176 | 808,101 | 915,976 |
| PAT | 212,907 | 352,150 | 411,444 |
| EPS (Rs) | 23.9 | 39.5 | 46.1 |
| ABV (Rs) | 237.2 | 284.6 | 331.5 |
| P/E (x) | 14.9 | 9.0 | 7.7 |
| P/BV (x) | 1.5 | 1.2 | 1.1 |
| ROE (%) | 8.8 | 13.0 | 13.3 |
| ROA (%) | 0.5 | 0.8 | 0.8 |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# State Bank of India

### Exhibit 2: Business Data

| (Rs mn) | Q3 FY21 | Q2 FY21 | % qoq | Q3 FY20 | % yoy |
|---|---|---|---|---|---|
| Gross Advances/Credit | 24,566,070 | 23,836,240 | 3.1 | 23,016,690 | 6.7 |
| Corporate | 7,882,080 | 7,875,590 | 0.1 | 7,710,000 | 2.2 |
| SME | 2,936,540 | 2,772,480 | 5.9 | 2,780,350 | 5.6 |
| Retail / Per Segment | 8,311,340 | 7,853,450 | 5.8 | 7,197,660 | 15.5 |
| Agriculture | 2,136,680 | 2,109,450 | 1.3 | 2,099,970 | 1.7 |
| International | 3,299,430 | 3,225,260 | 2.3 | 3,228,700 | 2.2 |
| Total Deposits | 35,357,534 | 34,704,617 | 1.9 | 31,112,286 | 13.6 |
| Domestic | 34,248,150 | 33,641,350 | 1.8 | 29,981,970 | 14.2 |
| of which, TD | 18,783,910 | 18,371,280 | 2.2 | 16,573,670 | 13.3 |
| of which, Savings | 13,358,610 | 13,149,500 | 1.6 | 11,517,010 | 16.0 |
| of which, Current | 2,105,630 | 2,120,570 | (0.7) | 1,891,290 | 11.3 |
| International | 1,109,384 | 1,063,267 | 4.3 | 1,130,316 | (1.9) |

Source: Company, YES Sec – Research

### Exhibit 3: Key Ratios

| (%) | Q3 FY21 | Q2 FY21 | chg qoq | Q3 FY20 | chg yoy |
|---|---|---|---|---|---|
| Global NIM (%) | 3.1 | 3.1 | 0.0 | 3.1 | 0.0 |
| Yield on advances (%) | 8.2 | 8.2 | (0.1) | 8.9 | (0.8) |
| Cost of Deposits (%) | 4.3 | 4.4 | (0.1) | 5.0 | (0.7) |
| Domestic CASA (%) | 45.2 | 45.4 | (0.2) | 44.7 | 0.4 |
| C/D (%) | 67.0 | 66.1 | 0.9 | 70.7 | (3.7) |
| Non-interest income (%) | 32.1 | 30.3 | 1.8 | 32.8 | (0.7) |
| Non-int. inc. / Int. exp. (%) | 24.4 | 22.1 | 2.3 | 22.8 | 1.6 |
| Cost to Income (%) | 54.5 | 55.2 | (0.7) | 50.6 | 3.9 |
| Credit Cost (%) | 1.0 | 1.2 | (0.3) | 1.8 | (0.9) |
| CAR (%) | 14.5 | 14.7 | (0.2) | 13.7 | 0.8 |
| Gross NPA (%) | 4.8 | 5.3 | (0.5) | 6.9 | (2.2) |
| Net NPA (%) | 1.2 | 1.6 | (0.4) | 2.7 | (1.4) |

Source: Company, YES Sec – Research

### Exhibit 4: Fund based outstanding

| (Rs mn) | Q3 FY21 | Q2 FY21 | % qoq | Q3 FY20 | % yoy |
|---|---|---|---|---|---|
| Infrastructure | 3,226,790 | 3,137,110 | 2.9 | 3,334,370 | (3.2) |
| of which, Power | 1,952,410 | 1,912,400 | 2.1 | 1,991,940 | (2.0) |
| of which, Telecom | 277,140 | 315,300 | (12.1) | 377,930 | (26.7) |
| of which, Roads & Ports | 672,530 | 560,630 | 20.0 | 571,500 | 17.7 |
| Services | 2,531,340 | 2,578,730 | (1.8) | 2,406,320 | 5.2 |
| Iron & Steel | 498,880 | 531,990 | (6.2) | 538,030 | (7.3) |

Source: Company, YES Sec – Research

### Exhibit 5: Segmental NPA

| (Rs mn) | Q3 FY21 | Q2 FY21 | % qoq | Q3 FY20 | % yoy |
|---|---|---|---|---|---|
| Corporate | 594,000 | 621,680 | (4.5) | 937,430 | (36.6) |
| Corporate NPA (%) | 7.9 | 7.9 | | 12.2 | |
| SME | 201,170 | 227,110 | (11.4) | 260,540 | (22.8) |
| SME NPA (%) | 6.9 | 8.2 | | 9.4 | |
| Agriculture | 292,960 | 312,340 | (6.2) | 289,320 | 1.3 |
| Agriculture NPA (%) | 13.7 | 14.8 | | 13.8 | |
| Retail / Per Segment | 58,760 | 64,850 | (9.4) | 75,210 | (21.9) |
| Retail Per segment NPA (%) | 0.7 | 0.8 | | 1.0 | |
| International | 25,540 | 32,650 | (21.8) | 34,100 | (25.1) |
| Overseas NPA (%) | 0.8 | 1.0 | | 1.1 | |

Source: Company, YES Sec – Research

# Shriram Transport Finance

| BUY | CMP Rs1,438 | | |
|---|---|---|---|

## Strong earnings visibility

### Strong visibility on growth and credit cost normalization – Retain BUY with 12m PT of Rs1430

SHTF delivered a robust quarter with encouraging signals on sustainable growth and credit cost. Disbursements matched last year's performance in Q3, and the management is now confident about delivering 10%+ growth in FY22. On asset quality, the data on collection efficiency (normal for last three months), stage-wise movements (not much change in Stage-2 % over Q2) and restructuring (invoked 2% of book, actual to be lower) is assuaging, and thus the company believes that credit cost will remain within stated guidance in current year and move material lower next year. The company carries Covid-related additional provisions (over ECL) of Rs25bn (2.2% of AUM).

Liquidity/ALM pressures have ebbed with SHTF being able to raise significant sums through dollar bonds and term loans in FY21 YTD, and the current liquidity buffer covers next six months of liability repayments and ALM is positive in all shorter buckets. We expect earnings to get a fillip from AUM growth acceleration, NIM normalization and reduction in credit cost over FY21-23. Estimate RoA to improve 2.7-2.8% and RoE to 14-15%. Despite the sharp run-up in recent months, the valuation is undemanding at 1.2x FY23 P/ABV. Retain BUY and raise price target to Rs1,430.

### Management Commentary

#### Key takeaways

- ✓ Collection was consistently good through Q3 - Credit Cost was annualized 2.2%.
- ✓ Credit Cost to be within 2.7-2.8% guidance for FY21 – will move towards 2% in the longer term.
- ✓ Loan growth likely to be around 6% in FY21 – FY22 should be a double-digit growth year – if growth is much stronger, than co. would look to raise equity capital.
- ✓ Observing no idling of the vehicle for few vehicle owners as well as for larger operators – no of days vehicle run at 22-24 days a month, suggesting healthy vehicle utilization.
- ✓ Freight rates have gone up, taking care of fuel price increase.
- ✓ Demand for used vehicles improving – used LCV prices 20% higher than last year while used MHCV pricing has been stable.

**Exhibit 1: Result table**

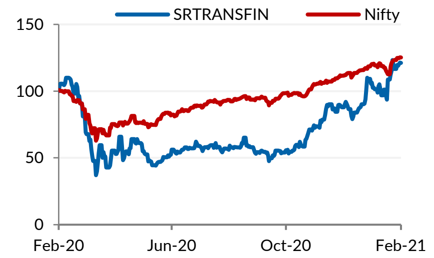
| (Rs mn) | Q3FY21 | Q2FY21 | % qoq | Q3FY20 | % yoy |
|---|---|---|---|---|---|
| Total Operating Income | 44,384 | 43,478 | 2.1 | 42,189 | 5.2 |
| Interest expended | (22,363) | (22,629) | (1.2) | (20,512) | 9.0 |
| Net Interest Income | 22,021 | 20,848 | 5.6 | 21,676 | 1.6 |
| Other income | 48 | 35 | 35.3 | 33 | 42.6 |
| Total Income | 22,069 | 20,883 | 5.7 | 21,710 | 1.7 |
| Operating expenses | (5,432) | (5,125) | 6.0 | (5,403) | 0.5 |
| PPOP | 16,637 | 15,759 | 5.6 | 16,307 | 2.0 |
| Provisions | (6,747) | (6,555) | 2.9 | (4,444) | 51.8 |
| PBT | 9,890 | 9,204 | 7.5 | 11,863 | (16.6) |
| Tax | (2,613) | (2,359) | 10.8 | (3,072) | (14.9) |
| PAT | 7,277 | 6,846 | 6.3 | 8,792 | (17.2) |

Source: Company, YES Sec – Research

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 1479 / 429 |
| Market cap (Rs/USD mn) | 363966 / 5003 |
| Outstanding Shares (mn) | 253 |
| 6m Avg t/o (Rs mn): | 4,369 |
| Div yield (%): | 0.4 |
| Bloomberg code: | SHTF IN |
| NSE code: | SRTRANSFIN |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | 13.9% | 67.0% | 22.0% |

**Shareholding pattern (As of Dec'21 end)**

| | |
|---|---|
| Promoter | 26.5% |
| FII+DII | 64.9% |
| Others | 8.6% |

**Δ in stance**

| (1-Yr) | New | Old |
|---|---|---|
| Rating | BUY | BUY |
| Target Price | 1,430 | 940 |

**Δ in earnings estimates**

| | FY21e | FY22e | FY23e |
|---|---|---|---|
| EPS (New) | 97.4 | 136.5 | 155.5 |
| EPS (Old) | 90.9 | 116.3 | 142.2 |
| % change | 7.2% | 17.4% | 9.4% |

**Financial Summary**

| | FY21E | FY22E | FY23E |
|---|---|---|---|
| Op. Income | 83,526 | 95,160 | 106,823 |
| PPOP | 63,569 | 73,208 | 82,675 |
| PAT | 24,664 | 34,563 | 39,361 |
| EPS (Rs) | 97.4 | 136.5 | 155.5 |
| ABVPS (Rs) | 655.3 | 785.9 | 895.9 |
| P/E (x) | 14.8 | 10.5 | 9.3 |
| P/ABV (x) | 2.2 | 1.8 | 1.6 |
| ROE (%) | 12.4 | 14.7 | 14.6 |
| ROA (%) | 2.1 | 2.7 | 2.8 |

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# Shriram Transport Finance

- ✓ Raised Rs120bn fresh borrowings through various instruments – Rs100bn was raised in Q2.
- ✓ Resale values of LCVs are higher than pre-covid levels – HCVs not much value discovery has happened in H2 FY21, but resale value should be stable.
- ✓ Completed a dollar bond issuance of US$500mn in January – fully hedge principal and interest and thus carry no forex risk.
- ✓ Liquidity at Rs130bn, covering next 6 months liability repayments – will continue will higher BS liquidity for next three quarters.
- ✓ Cumulative ALM surplus up to 1 year at Rs85bn with positive mismatch in all shorter buckets.
- ✓ Still there are 9600 borrowers who have not paid since March, where exposure is Rs1.1bn which is classified as Stage-3.
- ✓ ECLGS sanction/disbursement at Rs7bn - Restructuring requests received at Rs30bn, of which proposals invoked at Rs22bn – actual restructuring would be even lower than invoked - have done RBI required provisions on restructured assets.
- ✓ Stage-1 assets at 81% (82% as of Q2) and Stage-2 assets at 12% (v/s 11% as of Q2) - ECL provisions held at 3% on Stage-1 (PD/LGD at 7%/43%) and 10% on Stage-2 (PD/LGD at 23%/43%).
- ✓ Cumulative Covid provisions at Rs27bn (2.3% of AUM).
- ✓ Reduction in employee count driving a decline in employee cost – have started recruitment a couple of months before.

### Exhibit 2: Business Data

| (Rs mn) | Q3 FY21 | Q2 FY21 | % qoq | Q3 FY20 | % yoy |
|---|---|---|---|---|---|
| AUM | 1,149,321 | 1,133,459 | 1.4 | 1,089,314 | 5.5 |
| New | 84,940 | 92,325 | (8.0) | 104,651 | (18.8) |
| Used | 1,010,347 | 980,888 | 3.0 | 926,255 | 9.1 |
| Business Loans | 22,259 | 23,622 | (5.8) | 26,495 | (16.0) |
| Working Cap. Loans | 31,268 | 36,114 | (13.4) | 31,421 | (0.5) |
| Others | 507 | 510 | (0.6) | 491 | 3.3 |
| Loan Portfolio | 903,376 | 873,031 | 3.5 | 856,785 | 5.4 |
| Securitized Portfolio | 232,411 | 244,232 | (4.8) | 218,045 | 6.6 |
| Off-Book | 13,534 | 16,196 | (16.4) | 14,484 | (6.6) |

Source: Company, YES Sec – Research

### Exhibit 3: Key Ratios

| (%) | Q3 FY21 | Q2 FY21 | chg qoq | Q3 FY20 | chg yoy |
|---|---|---|---|---|---|
| NIM (%) | 6.9 | 6.7 | 0.2 | 7.1 | (0.3) |
| Cost to Income (%) | 24.6 | 24.5 | 0.1 | 24.9 | (0.3) |
| BV (Rs) | 827.8 | 802.7 | 3.1 | 783.8 | 5.6 |
| RoE (%) | 14.1 | 14.2 | (0.1) | 20.2 | (6.1) |
| RoA (%) | 2.3 | 2.2 | 0.1 | 3.1 | (0.7) |
| CAR (%) | 23.6 | 23.4 | 0.2 | 20.7 | 2.9 |
| Gross Stage 3 (%) | 7.1 | 7.3 | (0.1) | 9.1 | (2.0) |
| Net Stage 3 (%) | 4.3 | 4.5 | (0.2) | 6.2 | (1.9) |
| Stage 3 Coverage (%) | 41.2 | 39.7 | 1.5 | 32.1 | 9.1 |

Source: Company, YES Sec – Research

YES SECURITIES INSTITUTIONAL EQUITIES

# Spandana Sphoorty Financial

| BUY | CMP Rs683 | Target Rs1,150 | Upside 68.4% |
|---|---|---|---|

## Elevated coverage cushion comforting

### Adequate provisioning sets the tone for normative profitability; retain BUY with 12m PT of Rs1150

Spandana's Q3 FY21 earnings performance was marred by substantial portfolio write-off (Rs1.96bn - 2.5% of AUM) and the interest reversal associated with it (Rs160mn). The company did not utilize its Covid provisioning buffer/management overlay (which was marginally augmented to Rs4.1bn - 5.9% of on-BS portfolio), and thus made huge provisions pertaining to the write-off. The write-off related to non-paying loans which crossed 120 dpd in January. Spandana has another 2.2% non-paying borrowers, which are part of the 2.7% proforma GNPL. Collection Efficiency without arrears and pre-closures was around 93% in Q3 FY21 and proportion of borrowers making full-payments improved to 91.5% in December (84% in September).

Disbursements (Rs23bn - up 42% qoq/18% yoy) and AUM expansion (5.6% qoq, despite write-offs) in Q3 FY21 exceeded expectations; and it was courtesy large quantum (Rs20bn) of borrowings the company could raise. About 90% of disbursements during the quarter were to existing customers; largely in the form of migration to next cycle after pre-closure of exiting loans (reflected in disbursement ATS of Rs38000). New group formation (NGF) is expected to pick up from Q4 FY21. Management targets to close the fiscal with an AUM of Rs82-83bn (6-7% qoq growth in Q4).

Company expects provisioning to normalize from Q4 FY21. It is highly probable in our view too, considering that it holds a provisioning of ~40% (higher if adjusted for on-BS risk) on PAR 30-90 portfolio. Notably, unlike usual times, this bucket comprises of customers who are part-paying, irregularly paying and those having resumed repayments with some lag after the end of moratorium. Further improvement in collection efficiency in January (~95% without arrears and pre-closures) suggests slower flow to forward buckets with more customers making full-payments and consistent collection of overdues.

**The reported loss in Q3 FY21 neither significantly alters our earnings/ABV estimates for FY22/23, nor our positive view on the stock. We believe that Spandana carries adequate provisions to address the eventual impact of Covid, and thus growth and profitability could fully normalize from FY22. The likelihood of company delivering 6-7% RoA in FY22 should re-rate the stock from current low valuation of 1.1x FY23 P/ABV.**

### Exhibit 1: Result table

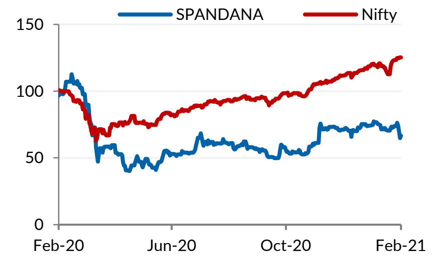
| (Rs mn) | Q3FY21 | Q2FY21 | % qoq | Q3FY20 | % yoy |
|---|---|---|---|---|---|
| Total Operating Income | 3,271 | 3,375 | (3.1) | 3,436 | (4.8) |
| Interest expended | (1,134) | (837) | 35.4 | (844) | 34.3 |
| Net Interest Income | 2,137 | 2,538 | (15.8) | 2,591 | (17.5) |
| Other income | 62 | 85 | (26.7) | 85 | (26.2) |
| Total Income | 2,199 | 2,623 | (16.2) | 2,676 | (17.8) |
| Operating expenses | (631) | (543) | 16.2 | (550) | 14.8 |
| PPOP | 1,568 | 2,080 | (24.6) | 2,126 | (26.2) |
| Provisions | (1,946) | (1,219) | 59.7 | (415) | 368.5 |
| PBT | (378) | 861 | (143.9) | 1,711 | (122.1) |
| Tax | 74 | (231) | (132.1) | (450) | (116.5) |
| PAT | (304) | 630 | (148.2) | 1,261 | (124.1) |

Source: Company, YES Sec – Research

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 1188 / 405 |
| Market cap (Rs/USD mn) | 43953 / 604 |
| Outstanding Shares (mn) | 64 |
| 6m Avg t/o (Rs mn): | 45 |
| Div yield (%): | - |
| Bloomberg code: | SPANDANA IN |
| NSE code: | SPANDANA |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | -10.7% | 9.1% | -31.2% |

**Shareholding pattern (As of Dec'21 end)**

| | |
|---|---|
| Promoter | 62.4% |
| FII+DII | 15.2% |
| Others | 22.5% |

**∆ in stance**

| (1-Yr) | New | Old |
|---|---|---|
| Rating | BUY | BUY |
| Target Price | 1,150 | 1,150 |

**∆ in earnings estimates**

| | FY21e | FY22e | FY23e |
|---|---|---|---|
| EPS (New) | 35.4 | 99.0 | 124.6 |
| EPS (Old) | 55.1 | 96.7 | 124.7 |
| % change | -35.8% | 2.4% | -0.1% |

**Financial Summary**

| | FY21E | FY22E | FY23E |
|---|---|---|---|
| Op. Income | 10,432 | 13,433 | 17,017 |
| PPOP | 8,053 | 10,341 | 13,074 |
| PAT | 2,279 | 6,369 | 8,012 |
| EPS (Rs) | 35.4 | 99.0 | 124.6 |
| ABVPS (Rs) | 441.0 | 540.0 | 664.6 |
| P/E (x) | 19.3 | 6.9 | 5.5 |
| P/ABV (x) | 1.5 | 1.3 | 1.0 |
| ROE (%) | 8.4 | 20.2 | 20.7 |
| ROA (%) | 3.4 | 7.4 | 7.3 |

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# Spandana Sphoorty Financial

## Management Commentary – Key takeaways

### Guidance

- ✓ AUM will be Rs82-83bn at the end of the year.
- ✓ No provision on the old portfolio (pre-Covid) will be required in coming quarters.

### Disbursements and AUM Growth

- ✓ Disbursements touched historical high of Rs23bn in Q3 FY21, up by 18% yoy and 42% qoq – thus, AUM grew 5.6% qoq to Rs78bn.
- ✓ 90% of disbursement to existing customers with track record of on-time repayments – only ~60000 new customers were acquired in Q3 – average disbursement ATS at Rs38,000.
- ✓ Disbursed Rs10.5bn in January which is an all-time high.
- ✓ 50% of current portfolio was created post April 2020 (post-Covid portfolio) – it has consistently had 100% collection efficiency.

### Funding and Liquidity

- ✓ Raised Rs20bn during Q3 FY21 - Rs9.2bn through money market instruments and Rs5bn from retail investors through wealth management channel – also added 8 new lenders.
- ✓ Marginal Cost of Borrowing at 11.4% in 9M v/s 10.6% yoy – increased due to higher-costing Market-linked debentures raised and higher sourcing fees on it.
- ✓ Sharp increase in interest cost qoq due to significant increase in on-BS borrowings.
- ✓ As of 31st Dec 2020, Cash & Cash equivalents is Rs7.8bn and sanctions in pipeline of over Rs.26bn.

### Asset quality and Provisions

- ✓ Collection Efficiency of 96% (excludes prepayments, but with arrears) in Q3 FY21 - January collections at 98.7%.
- ✓ Collection Efficiency without arrears at 93% v/s 89% in Q2 FY21.
- ✓ Rs20.7bn absolute collections in Q3 FY21 – collected 43% of pre Covid portfolio in 9m FY21.
- ✓ PAR 0 at 10.9%, PAR 30 at 9.4% and PAR 60 at 5.7% and PAR 90 (proforma GNPL) at 2.7%.
- ✓ PAR 30-90 bucket (5.7% of AUM) comprises of customers who are part-paying and those who started paying late – thus, flow forward into 90+ dpd should not be much in Q4 FY21.
- ✓ Cumulative provisions of Rs4.1bn, at 5.9% of on-Balance Sheet portfolio - ECL coverage of 17% on Stage-2 assets and 53% on Stage-3 assets + Rs1.2bn ad-hoc provisions.
- ✓ Wrote-off Rs2.1bn worth of loans (including accrued interest) in Q3 FY21, which crossed 120 dpd by January 15 – the write-off pool resided in Orissa, MP, MH and Chhattisgarh.
- ✓ Recent developments in Assam will not affect collections in other states.

# Spandana Sphoorty Financial

### Exhibit 2: Business data

| (Rs mn) | Q3 FY21 | Q2 FY21 | % qoq | Q3 FY20 | % yoy |
|---|---|---|---|---|---|
| Gross Loan Portfolio | 77,640 | 73,540 | 5.6 | 58,790 | 32.1 |
| Disbursement | 23,170 | 16,340 | 41.8 | 19,710 | 17.6 |
| Branches (no) | 1,034 | 1,027 | 0.7 | 980 | 5.5 |
| Employees (no) | 8,339 | 7,614 | 9.5 | 7,545 | 10.5 |
| Loan Officers (no) | 6,389 | 5,818 | 9.8 | 5,586 | 14.4 |
| Borrowers (mn) | 2.6 | 2.6 | (1.2) | 2.5 | 3.7 |
| Borrowers/Branch (no) | 2,468 | 2,511 | (1.7) | 2,506 | (1.5) |
| AUM/Borrowers (Rs) | 30,447 | 28,523 | 6.7 | 23,940 | 27.2 |
| AUM/Branch | 75 | 72 | 4.2 | 60 | 25.0 |
| AUM /LO (incl. trainees) | 12.2 | 12.6 | (3.9) | 10.5 | 15.5 |

Source: Company, YES Sec – Research

### Exhibit 3: Key ratios

| (%) | Q3 FY21 | Q2 FY21 | chg qoq | Q3 FY20 | chg yoy |
|---|---|---|---|---|---|
| NIM | 15.6 | 15.9 | (0.3) | 16.4 | (0.8) |
| Portfolio Yield | 23.3 | 22.4 | 0.9 | 24.0 | (0.7) |
| Cost of Borrowing (WA) | 10.6 | 11.0 | (0.4) | 10.9 | (0.3) |
| C/I | 23.4 | 20.9 | 2.5 | 20.7 | 2.7 |
| Opex/AUM | 3.4 | 4.0 | (0.6) | 4.7 | (1.3) |
| RoA | 9.4 | 10.0 | (0.6) | 9.1 | 0.3 |
| RoE | 24.5 | 26.4 | (1.9) | 21.1 | 3.4 |
| GNPA | 2.7 | 0.5 | 2.2 | 0.3 | 2.4 |
| CRAR | 39.0 | 45.0 | (6.0) | 50.5 | (11.5) |

Source: Company, YES Sec – Research

### Exhibit 4: Performance ratios - calculated

| (%) | Q3 FY20 | Q4 FY20 | Q1 FY21 | Q2 FY21 | Q3 FY21 |
|---|---|---|---|---|---|
| NII/Avg. AUM | 18.4 | 21.3 | 13.7 | 14.3 | 11.3 |
| Opex/Avg. AUM | 3.9 | 3.7 | 3.0 | 3.1 | 3.3 |
| PPoP/Avg. AUM | 15.1 | 18.2 | 10.8 | 11.7 | 8.3 |
| Prov./Avg. AUM | 2.9 | 11.8 | 6.5 | 6.9 | 10.3 |
| PAT/Avg. AUM | 8.9 | 4.9 | 3.2 | 3.5 | (1.6) |

Source: Company, YES Sec – Research

### Exhibit 5: Districts exposure

| % of Portfolio | Q3 FY21 | Q2 FY21 | Q3 FY20 |
|---|---|---|---|
| < 0.5% | 223 | 216 | 208 |
| 0.5% - 1% | 53 | 54 | 52 |
| 1% - 2% | 10 | 12 | 16 |
| > 2% | 0 | 0 | 0 |
| Total Districts | 286 | 282 | 276 |

Source: Company, YES Sec – Research

### Exhibit 6: Funding mix

| (%) | Q3 FY21 | Q2 FY21 | Q3 FY20 |
|---|---|---|---|
| Private banks | 36.0 | 36.0 | 51.0 |
| Public sector banks | 34.0 | 40.0 | 33.0 |
| Small finance banks | 0.0 | 2.0 | 3.0 |
| NBFCs | 18.0 | 10.0 | 8.0 |
| FPIs | 3.0 | 4.0 | 5.0 |
| Mutual funds | 0.0 | 0.0 | 1.0 |
| DFI | 9.0 | 9.0 | 0.0 |

Source: Company, YES Sec – Research

### Exhibit 7: AUM – State concentration

| States / (%) | Q3 FY21 | Q2 FY21 | Q3 FY20 |
|---|---|---|---|
| MP | 17.3 | 17.0 | 17.5 |
| Orissa | 16.8 | 17.0 | 17.9 |
| KTK | 12.8 | 13.0 | 13.4 |
| MH | 11.5 | 13.0 | 12.3 |
| AP | 10.7 | 10.0 | 8.2 |
| Chhattisgarh | 7.0 | 8.0 | 8.6 |
| Others | 23.9 | 22.0 | 22.1 |

Source: Company, YES Sec – Research

YES SECURITIES
INSTITUTIONAL EQUITIES

# Ujjivan Small Finance Bank

| ADD | CMP Rs35 | Target Rs40 | Upside 15.5% |
|---|---|---|---|

## Upfront provisioning led loss was a dampener

### Larger stress and upfront provisioning drives a big loss in Q3 FY21

USFB reported a big loss in Q3 FY21 with the bank opting to address the entire stress (including what may come) at one go - credit cost was Rs5.8bn and provisioning buffer was substantially raised to 8% of overall portfolio. While upfront provisioning is well appreciated, the quantum was a shocker considering that Management was not so perturbed about the credit cost outcome till the preceding quarter. Bulk of the provisions were built for the Microfinance portfolio (Group + Individual + Rural Finance is 75% of Bank's advances), where the cover was increased to 9%+. Provisions carried on the non-MFI portfolio (MSE + Affordable Housing + Other Retail Assets + FIG) was around 3%. Proforma Gross NPLs stood at 4.8%, PAR 0 was high at 16%+, and the bank restructured 8.5% of its Microfinance book. The large provisioning in the quarter was triggered by a high PAR 0 figure and uncertainty around Assam portfolio (2.7% of advances - collections dropped in January after passage of the MFI Bill).

On growth front, Q3 FY21 was encouraging with disbursements in all businesses posting a substantial jump qoq and surpassing even pre-Covid levels in December. Traction in loan book is likely to accelerate from Q4 FY21 and growth would be sharper in non-Microfinance segments. Bank believes that it has fully provided for the stress and that credit cost should revert to normal levels. There are encouraging indications in the stressed portfolio - 73% collection efficiency in restructured microfinance book in January (with repayments from many customers who were non-paying till December) and improving recoveries/roll-backs across SMA buckets. USFB has augmented its collection effort by onboarding many people who will only look after collections.

We are changing our rating from BUY to ADD with significant downward revisions (6-7%) in FY21-23 ABV estimates and with a view that valuation multiple will get impacted with the large negative surprise of Q3 FY21 (Management did not guide well). The stock currently trades at 1.7x FY23 P/ABV.

### Exhibit 1: Result table

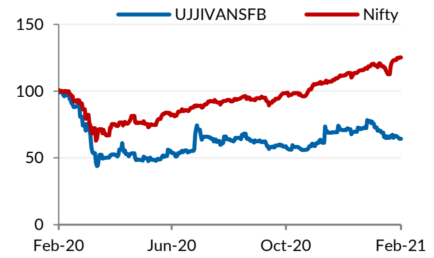
| (Rs mn) | Q3FY21 | Q2FY21 | % qoq | Q3FY20 | % yoy |
|---|---|---|---|---|---|
| Total Operating Income | 6,883 | 7,536 | (8.7) | 7,064 | (2.6) |
| Interest expended | (2,560) | (2,835) | (9.7) | (2,799) | (8.5) |
| Net Interest Income | 4,323 | 4,701 | (8.1) | 4,265 | 1.3 |
| Other income | 1,004 | 644 | 55.9 | 749 | 34.1 |
| Total Income | 5,327 | 5,345 | (0.3) | 5,014 | 6.2 |
| Operating expenses | (3,289) | (3,024) | 8.8 | (3,574) | (8.0) |
| PPOP | 2,038 | 2,322 | (12.2) | 1,440 | 41.5 |
| Provisions | (5,835) | (1,005) | 480.4 | (305) | 1,811.1 |
| PBT | (3,797) | 1,317 | (388.4) | 1,135 | (434.6) |
| Tax | 1,008 | (357) | (382.9) | (238) | (523.3) |
| PAT | (2,788) | 960 | (390.4) | 897 | (411.0) |

Source: Company, YES Sec – Research

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 56 / 23 |
| Market cap (Rs/USD mn) | 61094 / 840 |
| Outstanding Shares (mn) | 1,728 |
| 6m Avg t/o (Rs mn): | 74 |
| Div yield (%): | - |
| Bloomberg code: | UJJIVANS IN |
| NSE code: | UJJIVANSFB |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | -16.7% | 9.4% | -34.9% |

**Shareholding pattern (As of Dec'21 end)**

| | |
|---|---|
| Promoter | 83.3% |
| FII+DII | 9.4% |
| Others | 7.2% |

**Δ in stance**

| (1-Yr) | New | Old |
|---|---|---|
| Rating | ADD | BUY |
| Target Price | 40 | 40 |

**Δ in earnings estimates**

| | FY21e | FY22e | FY23e |
|---|---|---|---|
| EPS (New) | 0.0 | 2.5 | 3.4 |
| EPS (Old) | 1.4 | 2.5 | 3.5 |
| % change | - | - | -2.9% |

**Financial Summary**

| | FY21E | FY22E | FY23E |
|---|---|---|---|
| Op. Income | 21,084 | 23,907 | 30,799 |
| PPOP | 8,558 | 8,499 | 12,310 |
| PAT | 8 | 4,779 | 6,644 |
| EPS (Rs) | 0.0 | 2.5 | 3.4 |
| ABVPS (Rs) | 16.4 | 18.8 | 22.2 |
| P/E (x) | - | 14.3 | 10.3 |
| P/ABV (x) | 2.1 | 1.9 | 1.6 |
| ROE (%) | 0.0 | 13.9 | 16.6 |
| ROA (%) | 0.0 | 2.2 | 2.4 |

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### Exhibit 2: Business Data

| (Rs mn) | Q3 FY21 | Q2 FY21 | % qoq | Q3 FY20 | % yoy |
|---|---|---|---|---|---|
| Gross loan book | 136,380 | 138,810 | (1.8) | 136,180 | 0.1 |
| Micro - Group | 83,460 | 88,890 | (6.1) | 92,020 | (9.3) |
| Micro - Individual | 14,450 | 14,480 | (0.2) | 12,740 | 13.4 |
| Agri. & Allied | 1,870 | 1,820 | 2.7 | 1,370 | 36.5 |
| MSE | 11,420 | 10,590 | 7.8 | 9,310 | 22.7 |
| Affordable Housing | 17,980 | 16,340 | 10.0 | 13,810 | 30.2 |
| Others | 7,200 | 6,690 | 7.6 | 6,930 | 3.9 |
| Disbursements | 21,820 | 14,580 | 49.7 | 34,040 | (36) |
| Micro - Group | 13,810 | 9,410 | 46.8 | 24,340 | (43.3) |
| Micro - Individual | 2,430 | 1,610 | 50.9 | 3,970 | (38.8) |
| Agri. & Allied | 300 | 200 | 50.0 | 560 | (46.4) |
| MSE | 1,360 | 920 | 47.8 | 1,520 | (10.5) |
| Affordable Housing | 2,090 | 1,160 | 80.2 | 2,190 | (4.6) |
| Others | 1,830 | 1,280 | 43.0 | 1,460 | 25.3 |
| Deposits | 116,170 | 107,430 | 8.1 | 106,560 | 9.0 |
| CASA | 20,550 | 17,690 | 16.2 | 12,370 | 66.1 |
| Retail TD | 38,740 | 38,630 | 0.3 | 34,410 | 12.6 |
| Institutional TD | 55,290 | 48,740 | 13.4 | 49,780 | 11.1 |
| CD | 1,600 | 2,370 | (32.5) | 10,000 | (84.0) |

Source: Company, YES Sec – Research

### Exhibit 3: Key Ratios

| (%) | Q3 FY21 | Q2 FY21 | chg qoq | Q3 FY20 | chg yoy |
|---|---|---|---|---|---|
| NIM | 9.7 | 10.2 | (0.5) | 10.9 | (1.2) |
| Avg. Cost of Funds* | 7.1 | 7.4 | (0.3) | 8.1 | (1.0) |
| CASA + Retail TD | 51 | 52 | (1.4) | 44 | 6.7 |
| Cost to Income | 62.0 | 56.6 | 5.4 | 71.3 | (9.3) |
| Gross NPA | 1.0 | 1.0 | (0.0) | 0.9 | 0.1 |
| PCR | 95.0 | 86.0 | 9.0 | 60.0 | 35.0 |
| Net NPA | 0.1 | 0.1 | (0.1) | 0.4 | (0.4) |
| RoA | (5.8) | 2.0 | (7.8) | 2.1 | (7.9) |
| RoE | (34.7) | 11.6 | (46.3) | 14.0 | (48.7) |
| Tier-1 CAR | 26.0 | 30.1 | (4.1) | 27.5 | (1.5) |

Source: Company, YES Sec – Research; *Cost of funds (Borrowings + Deposits)

Q3 FY21 Result Review

# Infrastructure

## Awarding momentum continues through Q3 FY21; Execution and Margin performance improves

- ✓ The Ordering by various Government agencies continued through Q3 FY21 and most Infra Companies are sitting at highest ever order books. This provides significant revenue visibility. These Companies would go selective in bidding for future orders.
- ✓ Execution has drastically picked-up on qoq basis with labor availability improving every month and with Monsoon impact behind.
- ✓ Tight Cost controls have ensured Margins moving back to Pre-COVID levels for most of the Companies.
- ✓ Economic Activity is showing strong signs of revival with Toll collections improving every month and Fastag toll collections clocking a run rate of Rs.20 bn plus a month.
- ✓ The Working Capital management has been very robust by the Companies and it is well within the comfort levels.

## Budget focus on Infra and extremely robust order book provides growth visibility

- ✓ Contractors today are sitting on Order book of 3-4x TTM revenues and most of the projects are under active execution.
- ✓ Despite large number of projects already awarded by the Government in some segments, the bid pipeline is extremely robust. NHAI is targeting to end the year with orders of 4500 kms (~2200 kms in YTD FY21). This would mean significant opportunity for contractors just from the Road segment.
- ✓ Government Focus on Infra and higher allocations from Budget would support various Government authorities to ward more project over the next few years.
- ✓ Asset Monetization continues to be focus area for contractors which would keep Balance Sheet under control and allow contractors to take up more projects.

## Top pick – PNC Infratech

- ✓ PNC has won several projects in recent months in Water segment which has pumped up the order book to all time high levels. With the appointed dates of pending projects expected soon, execution is set to improve in FY22.
- ✓ The strong NHAI pipeline would translate to several new order flows in next few months. Taking all these factors into consideration and a comfortable balance sheet position, we believe PNC is very well placed to capitalize on the opportunity. We recommend a BUY rating for target of Rs.320 (based on SOTP valuation).

| Stock | Rating | TP |
|---|---|---|
| PNC Infra | BUY | 320 |
| HG Infra | BUY | 297 |
| Dilip Buildcon | BUY | 609 |
| PSP Projects | BUY | 528 |
| Apar Indutries | BUY | 449 |
| Sterlite Tech | SELL | 128 |
| KNR Construction | BUY | 256 |
| Capacite Infra | BUY | 251 |

Note: **Target and Recommendation as on Result date**


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YES SECURITIES INSTITUTIONAL EQUITIES

# Apar Industries

| BUY | CMP Rs439 | Target Rs449 | Upside 2.3% |
|---|---|---|---|

## Strong show - BUY

- ✓ **Conductor Segment:** The revenue declined by 15% yoy. The domestic revenue declined by 28% yoy driven by subdued demand for conventional conductors and HEC. Exports were down 6% yoy while share stood at 50% vs 44% yoy. The company's conventional conductor business may remain stagnant but have invested in the newer segments like HEC (15% share), Copper conductor for Railways (11% share), OPGW and the CPC for transformers. Rods revenue grew by 22% (14% share). EBITDA/MT stood at Rs.13,022 while EBITDA stood at Rs.410mn, down 9% yoy. Margins stood at 5.6%. Conductors new order inflow at Rs.10.47 bn, up 68% yoy of which exports share stood at 35%. Copper conductor for Railways contributed 46% to order inflow. The orderbook stood at Rs. 21.2 bn vs ~Rs17 bn in Q2FY21. Exports share at 55%.

  The company is getting more approvals from utilities and transformer OEMs in the copper transport and conductor segment. The company increased the execution and utilization of other segments. The company has no hedge against the sharp price hikes in steel while freight cost will hit under DDP and CFR contracts particularly with government and semi government utilities as these contracts don't have freight cost escalation clause. The freight and shipping cost have increased in recent months.

- ✓ **Specialty Oil Segment:** Revenue grew 18% in Q3 FY21 with strong global demand with Exports revenues growing 30% yoy (contribution increasing to 41% versus 37% in Q3 FY20). The segment benefited from its Hamriyah plant where the capacity utilization jumped to 99% during Q3 FY21 vs 65% in Q3 FY20. Domestic revenues grew 10% YoY driven by agri-lube demand. The white oil volumes grew by 24% yoy while Transformer Oils volumes grew 5%. The volumes growth in Transformer Oils was on account of exports. Domestic volumes declined due to both demand and cash flow issues. The company has maintained cautious order-booking. EBITDA improved significantly due to tightness in Base Oil market. Adj EBITDA/kl stood at Rs.8158, up 165% yoy. The management keep an inventory of 60 days for base oil. Sharp prices increase was seen in the commodities like steel, base oil, aluminum and copper. The company is in position to pass the price hike in base oil as supply chain is tight resulting into tight inventory at industry level. The market leader Castrol has also announced the second price increase in two months. The margins are non sustainable and may come down to Rs.4500/kl. The base oil volumes in Q4FY21 will be not be not be like Q3FY21 as restocking will be done and sales impacted by disrupted supply chain. The backlog stood at 8-10% in Jan-21 which can impact the volumes if corrective actions not taken quickly.

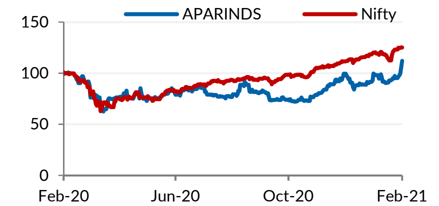
- ✓ **Lubricants:** Lubricants (Automotive & Industrial Oils) revenue grew 29% yoy led by 28% yoy growth in volumes. Industrial Oil volumes were up 19% yoy while Automotive volumes up 31% YoY driven by both agricultural and retail segment. Strategic focus on the agri lube segment has helped deliver strong performance despite COVID 19 lockdowns during 9M FY21.

- ✓ **Cables Segment:** The Company witnessed weak demand for cable with highly un-remunerative prices. However, Power cables continued to remain competitive while Elasto/ Ebeam cables see low demand from Railways, Defence and Solar segment. OFC/ Telecom cables revenue up 71% YoY. The Exports contribution improved to 16% vs 13% yoy. Order inflow strong in Q4FY21. The company has no plans to enter into extra high-voltage (EHV) segment. The company is witnessing good demand on the solar power cable side but the demand in railways and defense may not be that strong in Q4 vs Q3FY21

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 462 / 239 |
| Market cap (Rs/USD mn) | 16798 / 231 |
| Outstanding Shares (mn) | 38 |
| 6m Avg t/o (Rs mn): | 37 |
| Div yield (%): | 2.2 |
| Bloomberg code: | APR IN |
| NSE code: | APARINDS |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | 12.5% | 42.3% | 15.1% |

**Shareholding pattern (As of Dec'21 end)**

| | |
|---|---|
| Promoter | 59.80% |
| FII+DII | 26.54% |
| Others | 13.42% |

**Δ in stance**

| (1-Yr) | New | Old |
|---|---|---|
| Rating | BUY | BUY |
| Target Price | 449 | 360 |

**Δ in earnings estimates**

| | FY21e | FY22e | FY23e |
|---|---|---|---|
| EPS (New) | 26.5 | 45.3 | 64.2 |
| EPS (Old) | 14.0 | 32.7 | - |
| % change | 89% | 39% | - |

**Financial Summary**

| | FY21e | FY22e | FY23e |
|---|---|---|---|
| Revenues | 63,728 | 73,450 | 84,858 |
| yoy growth (%) | (14.6) | 15.3 | 15.5 |
| Operating profit | 3,719 | 4,678 | 5,643 |
| OPM (%) | 5.8 | 6.4 | 6.7 |
| Adjusted PAT | 1,013 | 1,735 | 2,456 |
| yoy growth (%) | (25.0) | 71.3 | 41.5 |
| EPS (Rs) | 26.5 | 45.3 | 64.2 |
| P/E (x) | 16.6 | 9.7 | 6.8 |
| EV/EBITDA (x) | 4.6 | 3.6 | 2.9 |
| Debt/Equity (x) | 0.2 | 0.2 | 0.1 |
| RoE (%) | 8.5 | 13.5 | 17.1 |

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# Apar Industries

- ✓ **Way Going ahead:** The production of railway, locomotives and coaches has been at a very low level due to pandemic and the management expects to see a jump from Q4 onwards. T&D companies have received orders of about Rs 86 bn. The management opines that the newer segments will start picking up along with growth from Hamriyah facility which will benefit the company's profitability in the longer run. The focus will be to improve the RoE and profitability.
- ✓ **Overall Revenues:** Revenues impacted by delayed tendering/lack of Central/State funding in domestic market. Domestic demand expected to improve in coming quarters. Exports was up 6% yoy, contributing 40% to revenues vs 35% yoy.
- ✓ **Finance Cost:** Finance costs down due to favourable LIBOR & local rates and focus on working capital. The company has taken necessary actions to bring the finance cost down. The debt stands at Rs.2bn long term, Rs1.85bn short term and Rs.2.4bn cash. LCM outstanding stands at Rs11.8bn of which Rs.8.27 is towards LIBOR and Rs.3.5bn for domestic.
- ✓ **Hamriyah facility:** The export of transformer oil going from India to Gulf countries has increased. Currently the company is the market leader with 80% share. New customer addition seen. The plant is automated thus if capacity increases via debottlenecks, the cost will not increase much.
- ✓ **Other Highlights:** 1) The company is eyeing opportunities coming from Latin and Central America. 2) The capacity utilization in conductor is 72%, oil at ~72%, and cable is 55%. OPGW and PTC is only 2%. 3) The payment cycle has improved and are back to normal levels. 2) The demand in locos and coaches will increase with an increase in outlay in coming years. 4) The company commissioned its 3rd electron beam. 5) Capex for 9M stands at Rs.300 mn.

**Our View:** We expect pick up in execution across segments backed by strong order book, supportive budget and demand uptake. The company is focusing on the cost control measures which would support overall profitability. The expected increase in the share of Value added products to also help realizations. We roll forward our estimates to FY23 and maintain our BUY rating for target of Rs. 449.

## Apar Industries Q3 FY21 result summary

- ✓ Apar Industries reported topline of Rs17.1 bn (down 7% yoy), largely in-line with our estimates of Rs.17.5 bn topline.
- ✓ While Conductor and Cables segment revenues declined by 15% and 18% yoy respectively, strong growth was seen in Specialty Oil segment which grew 18% yoy.
- ✓ Profitability saw a sharp improvement with blended Operating margins improving 281 bps yoy to 9.5% during the quarter.
- ✓ EBIT Margins improved primarily on account of Specialty segment whereas Cables margin was under pressure.
- ✓ The sharp decline in finance costs saw PAT jump 125% yoy to Rs.825 mn.

# Apar Industries

### Exhibit 1: Result table (Consolidated)

| Y/e 31 Mar (Rs mn) | Q3 FY21 | Q3 FY20 | yoy(%) | Q2 FY21 | qoq (%) |
|---|---|---|---|---|---|
| Revenue | 17,142 | 18,366 | (6.7) | 14,807 | 15.8 |
| Operating Profit | 1,630 | 1,231 | 32.4 | 1,191 | 36.9 |
| OPM (%) | 9.5 | 6.7 | 281 bps | 8.0 | 147 bps |
| Other Income | 31 | 14 | 125.4 | 30 | 5.1 |
| Depreciation | (235) | (225) | 4.5 | (231) | 1.5 |
| Interest | (369) | (518) | (28.7) | (296) | 24.8 |
| PBT | 1,057 | 502 | 110.5 | 694 | 52.4 |
| Tax | (233) | (136) | 71.7 | (159) | 46.7 |
| Reported PAT | 825 | 367 | 124.8 | 535 | 54.1 |

### Exhibit 2: Segmental Performance

| Particulars | Q3 FY21 | Q3 FY20 | yoy(%) | Q2 FY21 | qoq (%) |
|---|---|---|---|---|---|
| Revenue (Rs. mn) | | | | | |
| Conductors | 7,374 | 8,683 | (15.1) | 6,284 | 17.3 |
| Specialty Oil | 6,919 | 5,874 | 17.8 | 5,986 | 15.6 |
| Cables | 3,220 | 3,913 | (17.7) | 2,541 | 26.7 |
| Revenue Mix (%) | | | | | |
| Conductors | 42.1% | 47.0% | | 42.4% | |
| Specialty Oil | 39.5% | 31.8% | | 40.4% | |
| Cables | 18.4% | 21.2% | | 17.2% | |
| EBIT (Rs. mn) | | | | | |
| Conductors | 321 | 404 | (20.5) | 312 | 2.8 |
| Specialty Oil | 941 | 318 | 195.7 | 698 | 34.8 |
| Cables | 195 | 360 | (46.0) | 39 | 404.1 |
| EBIT Margin (%) | | | | | |
| Conductors | 4.4% | 4.7% | | 5.0% | |
| Specialty Oil | 13.6% | 5.4% | | 11.7% | |
| Cables | 6.0% | 9.2% | | 1.5% | |

# Capacite InfraProjects

| BUY | CMP Rs213 | Target Rs251 | Upside 18% |
|---|---|---|---|

## Execution set to improve - BUY

### Our View

The strong pick up in execution in key private sector projects and increasing contribution from CIDCO project would drive execution going forward. Margins are likely to stay elevated with strong cost control and economies of scale flowing in. With execution expected to pick up faster than expected, we increase our estimates for FY22. We roll forward our estimates to FY23 and retain our BUY rating on the stock for target price of Rs.251 (8x FY23 EPS). We believe the strategy to focus on Balance sheet control and managing receivables would augur well for the Company.

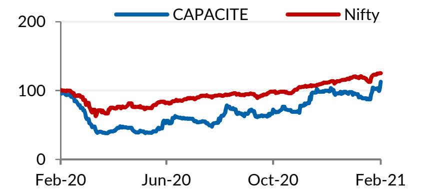
### Conference Call takeaways

- ✓ The softening of interest rates and reduction in stamp duty of properties in Maharashtra benefited the key regions ie Mumbai (MMR) and Pune. This paved the way for the buyer's interest. Good demand pickup was seen in the residential and commercial projects. The company continues to focus on the projects with heathy cashflow, strong balance sheet, cash flow, execution in public sector order where working capital is good.
- ✓ The orderbook stands at Rs.91.5 bn with ~100% of sites under execution. Around three projects were suspended from the order book during the quarter. The Oberoi mall project and Neelkanth Phase 2 were removed for Order book as they were slow moving and would be redesigned and renegotiated. A Kalpaturu project was suspended due to nonpayment of pending dues on time.
- ✓ Public Order Book stood at Rs 55.3 bn (60%) while Private Order Book was at Rs 36.2bn (40%). Marquee Client Groups constitute over 80% of the Total Order Book. MHADA orderbook stands at Rs.43.6 bn. The Residential and Commercial formed 24%/19% of the orderbook while Mix use formed 57%.
- ✓ The company has guided for Rs.20bn revenue in FY22 on the back of strong orderbook and rampup in ongoing projects. CIDCO is expected to contribute ~Rs.8 bn during FY22 out of the Rs.20 bn target topline. Expects to receive the order inflow of Rs.30 bn in FY22. The company expects Margins at ~17%-18.5% (incl other income).
- ✓ The company continues to focus on 7 geographies in the Affordable housing projects segment. The company has good visibility in the hospital and affordable housing segment for the next 6 months. The tenders that can be bid on the public sector side stands at Rs.406bn and Rs. 260bn on the private sector side. Hospital projects forms a decent portion of the project pipeline.
- ✓ **CIDCO:** Expects billing to start amounting Rs.550 mn/month in Q1, Rs.650 mn a month in Q2, Rs800-900 mn a month in Q3 and Rs1 bn+ a month from Q4. This is achievable as all the sites are mobilized. In the seventh site of CIDCO, 30 buildings have been handed over. The bill for the design has been paid. On the 8th location, the client has given one portion to the company and another to the competitor. ~20,000 houses may come up in April/May.
- ✓ **JJ Hospital project:** The blueprint has been approved and payment has been received. Site is mobilized. Expects revenue of Rs.1.5-1.6bn in FY22.
- ✓ **BDD project:** The government has issued the circular to speed up the project where height of the rehab building will be doubled to 44 storey from 22 storey.

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 221 / 70 |
| Market cap (Rs/USD mn) | 14447 / 199 |
| Outstanding Shares (mn) | 68 |
| 6m Avg t/o (Rs mn): | 26 |
| Div yield (%): | #N/A N/A |
| Bloomberg code: | CAPACITE IN |
| NSE code: | CAPACITE |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | 16.9% | 44.5% | 16.4% |

**Shareholding pattern (As of Dec'21 end)**

| | |
|---|---|
| Promoter | 43.79% |
| FII+DII | 29.28% |
| Others | 26.94% |

**∆ in stance**

| (1-Yr) | New | Old |
|---|---|---|
| Rating | BUY | BUY |
| Target Price | 251 | 181 |

**∆ in earnings estimates**

| | FY21e | FY22e | FY23e |
|---|---|---|---|
| EPS (New) | (1.3) | 19.0 | 31.4 |
| EPS (Old) | 5.4 | 20.1 | - |
| % change | - | -5.3% | - |

**Financial Summary**

| | FY21e | FY22e | FY23e |
|---|---|---|---|
| Revenues | 9,636 | 22,091 | 30,578 |
| yoy growth (%) | (37.0) | 129.3 | 38.4 |
| Operating profit | 1,335 | 3,407 | 4,825 |
| OPM (%) | 13.9 | 15.4 | 15.8 |
| Adjusted PAT | (86) | 1,293 | 2,133 |
| yoy growth (%) | NA | NA | 65.0 |
| EPS (Rs) | (1.3) | 19.0 | 31.4 |
| P/E (x) | NA | 11.2 | 6.8 |
| EV/EBITDA (x) | 10.1 | 4.9 | 3.6 |
| Debt/Equity (x) | 0.3 | 0.3 | 0.3 |
| RoE (%) | (0.9) | 13.2 | 18.6 |

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# Capacite InfraProjects

- **Other Details:** (1) The debtor levels at the government project levels are at 45-50 days which is better than the private sector (2) The company expects RoE and RoCE to improve in coming years (3) 98% of the orderbook has 100% passthrough, thus margins will not be affected despite sharp price increase in steel and other raw materials. (4) The debt now stands at Rs. 3.71bn and net debt at Rs. 1.71bn. The debt levels will remain similar to FY20 levels or will reduce despite strong orderbook. The company targets to be gross debt free by June 2023 (5) Capex: Did Rs400 mn in 9M FY21

## Capacite InfraProjects Q3 FY21 results review:

- Capacite InfraProjects reported topline de-growth of 25% yoy (to Rs.3.05 bn) which was marginally below our estimates of Rs.3.2 bn. With better labor availability, the execution has drastically improved over Q2 FY21.
- Operating margin remained stable at 17.9% during Q3 FY21 (17.8% in Q3 FY20). This was in-line with our estimate of 18% OPM.
- PAT de-grew 35% yoy to Rs.152 mn during the quarter.
- Order book at the end of Q3 FY21 stood at ~Rs.91 bn.
- During the quarter, the company won a repeat order worth Rs.1.48 bn from Raymond Ltd.

**Exhibit 1: Result table (Standalone)**

| Y/e 31 Mar (Rs m) | Q3 FY21 | Q3 FY20 | yoy(%) | Q2 FY21 | qoq (%) |
|---|---|---|---|---|---|
| Revenue | 3,058 | 4,049 | (24.5) | 1,813 | 68.7 |
| Operating Profit | 546 | 723 | (24.4) | 390 | 39.9 |
| OPM(%) | 17.9 | 17.8 | 2 bps | 21.5 | -367 bps |
| Other Income | 53 | 49 | 8.7 | 62 | (14.9) |
| Depreciation | (219) | (298) | (26.4) | (257) | (14.5) |
| Interest | (174) | (162) | 7.7 | (135) | 28.9 |
| PBT | 206 | 311 | (34.0) | 61 | 237.9 |
| Tax | (53) | (77) | (30.6) | (15) | 247.7 |
| Adjusted PAT | 152 | 235 | (35.2) | 46 | 234.5 |

# Dilip Buildcon

| BUY | CMP Rs523 | Target Rs609 | Upside 16.4% |
|---|---|---|---|

## Robust outlook - BUY

### Our View

The Company has won orders worth ~Rs.150 bn during YTD FY21 and is sitting on robust order book of Rs.261 bn. The massive order pipeline would mean further order inflows in the next few months. Taking all the factors into consideration, execution is set to pick up well in FY22 and beyond with healthy margins. Company's focus to bid only for well-funded projects would augur well over the long term. Constant focus on asset monetization would help keep the balance sheet under comfort zone. We upgrade our FY22 numbers to incorporate the strong Q3 performance. We roll forward our estimates to FY23 and maintain our BUY rating on the stock for revised target price of Rs.609.

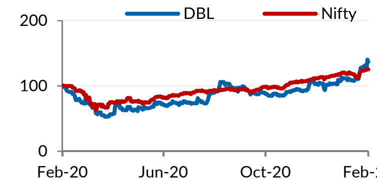
### Conference Call takeaways

- ✓ NHAI has a target to build 60,000 km of highways in the next five years. 7,597 Kms of national highways awarded till Jan-21 by MoRTH, expected to cross 10,000 Kms by the end of FY21. The budget allocation by the Road ministry has been on rise every year and the trend is expected to continue.
- ✓ The government has taken few steps to boost the infrastructure like 1) Relaxation in the payment terms 2) Relaxation in the change of Ownership clause in HAM projects to COD + 6 months vs COD + 2 year 3) Given extension of time by 3-6 months in all project due to pandemic 4) Released the work proportionate performance Bank guarantees 5) Introduction of PPP model in Railways 6) Allowed Privatization in Coal mining through new revenue sharing model.
- ✓ The company has won orders of Rs. 158.3 bn spread across 9 states and 6 sectors, Road forms ~39% of the new orders followed by irrigation (26%). Gujarat forms 32% of the book followed by Bihar/Jharkhand (12% each). EPC forms 67% while BOT/HAM forms 33% of the orderbook. The company has won new orders during the quarter 1) Won Delhi - Vadodara Greenfield Expressway tunnel project in Rajasthan 2) MDO Project in Odisha with a peak rated capacity of 50 MTPA (largest in private segment) 3) Entered into Railways segment and won New BG electrified double railway line project in Chhattisgarh
- ✓ Total Order Book stands at Rs.261.4 bn of which road segment forms ~44%, Irrigation 18.4% and Mining 16.1%.
- ✓ Revenue guidance: FY21 will be at ~FY20 levels while 15-20% growth expected for FY22/FY23 on the back of strong orderbook.
- ✓ Bid Pipeline: Bid for Rs.200 bn projects in Road segment of which Rs60 bn is on EPC segment. Expects to receive 50-70 bn orders to achieve the guidance of ~Rs.300 bn orderbook by year end.
- ✓ Equity: The company expects Rs20 bn of equity divestment from the projects in next 2 years. Rs.9 bn targeted in FY22 and Rs11 bn in FY23 come. This will help to reduce the debt at standalone level, and provide further capital for growth.
- ✓ Commodity prices has increased but escalation clause takes care of, thus no major impact seen.
- ✓ Debt: The company has plans to reduce the debt/equity to 0.5x in coming years.
- ✓ RVNL project: Mobilization advance has been received on-time. The company generally considers the budget allocation before bidding.
- ✓ Asset monetization: The company has already monetized 5 projects to Cube investments and 7 projects are in advance stage (can conclude in coming 2 months).

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 547 / 190 |
| Market cap (Rs/USD mn) | 71558 / 984 |
| Outstanding Shares (mn) | 137 |
| 6m Avg t/o (Rs mn): | 113 |
| Div yield (%): | 0.2 |
| Bloomberg code: | DBL IN |
| NSE code: | DBL |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | 21.6% | 48.2% | 37.5% |

**Shareholding pattern (As of Dec'21 end)**

| | |
|---|---|
| Promoter | 75.00% |
| FII+DII | 15.98% |
| Others | 9.02% |

**∆ in stance**

| (1-Yr) | New | Old |
|---|---|---|
| Rating | BUY | BUY |
| Target Price | 609 | 506 |

**? in earnings estimates**

| | FY21e | FY22e | FY23e |
|---|---|---|---|
| EPS (New) | 24.1 | 42.2 | 59.5 |
| EPS (Old) | 24.4 | 37.9 | 46.6 |
| % change | -1% | 11% | 28% |

**Financial Summary**

| | FY21e | FY22e | FY23e |
|---|---|---|---|
| Revenues | 88,491 | 104,419 | 121,126 |
| yoy (%) | (1.5) | 18.0 | 16.0 |
| Op Profit | 14,511 | 17,805 | 21,281 |
| OPM (%) | 16.4 | 17.1 | 17.6 |
| APAT | 3,289 | 5,766 | 8,135 |
| yoy (%) | (20.9) | 75.3 | 41.1 |
| EPS (Rs) | 24.1 | 42.2 | 59.5 |
| P/E (x) | 21.7 | 12.4 | 8.8 |
| EV/EBITDA (x) | 6.5 | 5.3 | 4.3 |
| D/E (x) | 0.7 | 0.6 | 0.5 |
| RoE (%) | 8.7 | 13.7 | 16.6 |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- Coal handling projects are long term in nature and provide longer revenue stream. The company has won 25 years contract for handing coal. The IRR for these projects are in high teens. Government of India to supply the electricity which reduces the cost. The coal unit will be set up in 6th year and production will be given to nearby units. This long term project is tied with Mahanadi coal field and has long term contracts with its customers.
- **Other details:** 1) Cost of borrowings stands at 9.5-10% vs ~11% earlier. 2) The early completion bonus is difficult to say for FY22. 3) The capex till 9M stands stands at Rs1.6 bn and target to end FY21 with Rs.2 bn. 4) The executable orderbook is Rs60bn 5) The o/s mobilization advances stand at Rs2 bn, retention money ~Rs.7 bn and unbilled revenue at Rs.5 bn.

## Dilip Buildcon Q3 FY21 results summary

- Dilip Buildcon reported topline growth of 3.6% yoy (at Rs.24.7 bn) on standalone basis. The execution improved sharply over Q2 with better labor availability and with monsoon impact behind.
- Operating margin remained heathy at 16.5% (17.6% in Q3 FY20 and 15.9% in Q2 FY21).
- Higher tax outgo saw PAT decline 10% yoy to Rs.1,111 mn.
- Order book at the end of Q3 FY21 stood at ~Rs.261 bn.

**Exhibit 1: Result table (Standalone)**

| Y/e 31 Mar (Rs m) | Q3 FY21 | Q3 FY20 | yoy(%) | Q2 FY21 | qoq (%) |
|---|---|---|---|---|---|
| Revenue | 24,667 | 23,810 | 3.6 | 19,252 | 28.1 |
| Operating Profit | 4,070 | 4,201 | (3.1) | 3,060 | 33.0 |
| OPM (%) | 16.5 | 17.6 | -114 bps | 15.9 | 60 bps |
| Other Income | 59 | 80 | (26.2) | 94 | (37.0) |
| Depreciation | (1,000) | (1,079) | (7.4) | (1,044) | (4.3) |
| Interest | (1,449) | (1,530) | (5.3) | (1,402) | 3.4 |
| PBT | 1,680 | 1,712 | (1.8) | 708 | 137.3 |
| Tax | (569) | (442) | 28.8 | (235) | 141.9 |
| Reported PAT | 1,111 | 1,270 | (12.5) | 473 | 135.0 |
| Adjusted PAT | 1,111 | 1,230 | (9.7) | 473 | 135.0 |

Q3 FY21 Result Review | Sector: Infrastructure

YES SECURITIES
INSTITUTIONAL EQUITIES

# HG Infra Engineering

| BUY | CMP Rs313 | Target Rs297 | Upside: -5% |
|---|---|---|---|

## Execution momentum to continue

### Our view

With appointed dates in place for all projects and better labor availability, the execution momentum is expected to continue. Operating margin is expected to remain healthy at ~15% levels. While the Order inflows have been disappointing, the current bid pipeline would ensure opportunity to bag orders over the next few months. Improving working capital position (certain slow moving debtors getting cleared) provides comfort. Expected Monetization of HAM projects to support balance sheet and improve bidding capacity. We marginally increase our estimates for FY21 to incorporate the better than expected performance and maintain our BUY rating for target of Rs.297 (based on SOTP valuation).

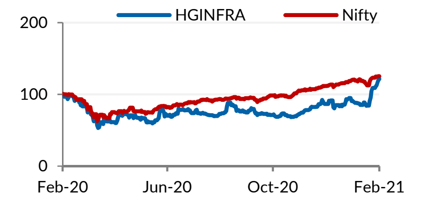
### Q3 FY21 Concall Highlights:

- ✓ With better labor availability, monsoon largely behind and appointed dates in place for several projects, execution jumped 28% yoy and 57% qoq during Q3 FY21. The Company clocked very strong margins of 16% driven by tight cost control and higher execution.
- ✓ **Order book:** Currently order book stands at Rs.59.7 bn of which HAM and EPC mix is at 22%:78%. The company saw no new order inflows during the quarter as competition was high and Company did not want to compromise on margins. The one order of IRCON where Company stood L1 was cancelled as HG Infra's bid was higher than authority estimates. The Company was unwilling to negotiate on price after being declared L1 and hence the project got cancelled. There has been minor change in scope of work in certain existing projects which has increased the order book by Rs.2-3 bn.
- ✓ **Order pipeline:** The bid pipeline is strong and HG expects Rs.35-40 bn worth of project wins during Q4 FY21. The Company has currently bid for Rs.140 bn worth of projects (Rs.80 bn is HAM and rest is EPC) where bids are yet to open. It is also seeing bid pipeline of Rs. 400 bn which would be up for bidding in near term. It is also participating in some projects in Railways and Water segment where the combined bid pipeline is to the tune of Rs.40 bn.
- ✓ With the appointed date received for all projects, the company is targeting to end FY21 with flat growth over FY20. The Company expects margins to sustain at 15%+ levels.
- ✓ The Company has invested ~Rs2 bn of Equity in the existing HAM projects. Going forward, HAM projects would require Equity of Rs. 750 mn in Q4 FY21, Rs. 700 mn in FY22 and Rs. 250 mn in FY23.
- ✓ The Company has received large part of its Rajasthan receivables and the overall Debtor position now stands at Rs. 4.9 bn. Key receivables outstanding include the receivables from SPV (Rs. 800 mn), Tata Projects, IRB and Adani (combined value Rs.1.4 bn), Maharashtra projects (Rs.420 mn) and NHAI (Rs.1 bn).
- ✓ As at end of December, Inventory stood at Rs1.6 bn, Retention money outstanding at Rs.1.25 bn, Mobilization Advance at Rs.2.7 bn, Creditors at Rs.4.35 bn and Unbilled revenues at Rs.2.8 bn.
- ✓ Capex addition stood at Rs.400 mn during 9M FY21. Rs.600-700 mn is capex target for FY21.
- ✓ The Company is in advanced stages of its HAM asset monetization. It expects some development on this in the next few quarters.

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 324 / 126 |
| Market cap (Rs/USD mn) | 20382 / 280 |
| Outstanding Shares (mn) | 65 |
| 6m Avg t/o (Rs mn): | 25 |
| Div yield (%): | #N/A N/A |
| Bloomberg code: | HGINFRA IN |
| NSE code: | HGINFRA |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | 33.3% | 67.7% | 22.4% |

**Shareholding pattern (As of Dec'21 end)**

| | |
|---|---|
| Promoter | 74.04% |
| FII+DII | 19.53% |
| Others | 6.44% |

**∆ in stance**

| (1-Yr) | New | Old |
|---|---|---|
| Rating | BUY | BUY |
| Target Price | 297 | 293 |

**? in earnings estimates**

| | FY21e | FY22e | FY23e |
|---|---|---|---|
| EPS (New) | 25.7 | 30.2 | 33.2 |
| EPS (Old) | 21.3 | 28.5 | 35.1 |
| % change | 20.7% | 6.0% | -5.4% |

**Financial Summary**

| | FY21e | FY22e | FY23e |
|---|---|---|---|
| Revenues | 22,181 | 26,174 | 28,791 |
| yoy growth (%) | 1.0 | 18.0 | 10.0 |
| Operating profit | 3,455 | 3,966 | 4,290 |
| OPM (%) | 15.6 | 15.2 | 14.9 |
| Reported PAT | 1,675 | 1,970 | 2,162 |
| yoy growth (%) | 1.1 | 17.6 | 9.8 |
| EPS (Rs) | 25.7 | 30.2 | 33.2 |
| P/E (x) | 8.4 | 7.1 | 6.5 |
| EV/EBITDA (x) | 3.7 | 2.9 | 2.3 |
| Debt/Equity (x) | 0.3 | 0.2 | 0.2 |
| RoE (%) | 18.6 | 18.3 | 16.9 |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# HG Infra Engineering

## HG Infra Engineering Q3 FY21 results summary

- ✓ HG Infra reported topline growth of 28% yoy (to ~Rs.7.3 bn) which was higher than our estimates. The execution improved sharply on qoq basis post monsoon and with improved labor availability. The start of some major projects during the quarter also supported execution.
- ✓ Operating margin improved to 16.1% (+70 bps yoy) with better execution.
- ✓ PAT stood at Rs.655 mn (58% yoy/ 101% qoq) led by higher revenues.
- ✓ Order book at the end of Q3 FY21 stood at ~Rs.60 bn. The company did not win any orders during Q3 FY21.

### Exhibit 1: Result table (Standalone)

| Y/e 31 Mar (Rs mn) | Q3 FY21 | Q3 FY20 | yoy(%) | Q2 FY21 | qoq (%) |
|---|---|---|---|---|---|
| Revenue | 7,343 | 5,730 | 28.2 | 4,674 | 57.1 |
| Operating Profit | 1,181 | 882 | 34.0 | 769 | 53.5 |
| OPM(%) | 16.1 | 15.4 | 70 bps | 16.5 | -38 bps |
| Other Income | 34 | 39 | (11.2) | 16 | 115.0 |
| Depreciation | (216) | (191) | 13.1 | (208) | 3.5 |
| Interest | (144) | (135) | 6.7 | (138) | 4.4 |
| PBT | 856 | 595 | 43.9 | 439 | 94.9 |
| Tax | (201) | (180) | 11.7 | (113) | 78.2 |
| Reported PAT | 655 | 415 | 57.9 | 327 | 100.7 |

YES SECURITIES INSTITUTIONAL EQUITIES

# KNR Constructions

| BUY | CMP Rs222 | Target Rs256 | Upside 15.4% |
|---|---|---|---|

## Well placed - BUY

### Our View

With better labor availability and with Monsoon largely behind, execution momentum is likely to continue through Q4 FY21. Operating margin is expected to remain healthy at ~17-18% levels driven by the high margin irrigation projects. The order book is in a comfortable position with ~3.5x FY21E revenues. The robust bid pipeline, continued focus on asset monetization and comfortable balance sheet position provide comfort. We increase our estimates to factor in the robust Q3 performance and improved outlook and maintain our BUY rating for revised target of Rs256 (based on SOTP valuation).

### Conference Call takeaways

- ✓ The Government is focused on Infra spending which would help support the Order inflows for the industry and the Company. The budget allocation has been sufficiently high and would allow for more project awarding.
- ✓ In terms of Q3 FY21 Revenue mix, while 49% came from HAM projects, around 25% was from Irrigation and balance from Road EPC segment.
- ✓ While the revenues have been very strong from Q3 FY21, the Company has retained its topline guidance of Rs.25 bn for FY21.
- ✓ Margins are expected to stay at 17-18% on sustainable basis.
- ✓ The orderbook for the company stands at Rs.76 bn of which irrigation forms 45%, HAM Road projects at 30% and balance being EPC. The Order book excludes the recently won Road EPC project.
- ✓ The Company has bid for ~15 projects is targeting new order inflows of ~Rs.30-40 bn in FY21. The incremental projects are expected from NHAI. Additionally the Company is also looking to bid for urban infra projects.
- ✓ Toll Collections have improved with pickup in Economic activity and passenger vehicle movement. The Company expects ~15% growth in toll collections during FY22.
- ✓ Utilizations for Company have moved to Pre-COVID levels.
- ✓ The Company is in discussions with Cube Highways for selling more HAM projects.
- ✓ Capex for 9M FY21 is Rs.600 mn and for FY21 is Rs.1 bn. The capex for FY22 is pegged at Rs.1.5 bn
- ✓ Overall, working capital days stood at 54 days. Standalone debt stood at Rs.160 mn and Cash at Rs.430 mn.
- ✓ On Consolidated basis, Debt stood at Rs.7.5 bn and Cash at Rs.750 mn

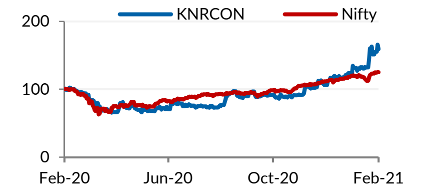
### KNR Construction Q3 FY21 results summary

- ✓ KNR Constructions reported topline growth of 23% yoy (at Rs.6.9 bn), ahead of our estimate of Rs.6.1 bn topline.
- ✓ Operating margin remained at an elevated levels of ~19.7% (-258bps yoy/ -92bps qoq). This was in-line with our estimates of 20% OPM.
- ✓ Adjusted PAT grew 65% yoy to Rs.776 mn during the quarter. Higher other income and lower depreciation supported profitability at the net level
- ✓ Order book at the end of Q3 FY21 stood at ~Rs.85 bn (Calculated as per orders announced by the Company adjusted for Q3 execution).

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 242 / 86 |
| Market cap (Rs/USD mn) | 62392 / 858 |
| Outstanding Shares (mn) | 281 |
| 6m Avg t/o (Rs mn): | 136 |
| Div yield (%): | 0.1 |
| Bloomberg code: | KNRC IN |
| NSE code: | KNRCON |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | 28.8% | 72.7% | 59.7% |

**Shareholding pattern (As of Dec'21 end)**

| | |
|---|---|
| Promoter | 55.03% |
| FII+DII | 35.81% |
| Others | 9.16% |

**Δ in stance**

| (1-Yr) | New | Old |
|---|---|---|
| Rating | BUY | BUY |
| Target Price | 256 | 209 |

**Δ in earnings estimates**

| | FY21e | FY22e | FY23e |
|---|---|---|---|
| EPS (New) | 9.1 | 12.8 | 16.5 |
| EPS (Old) | 6.2 | 10.1 | 13.1 |
| % change | 47% | 27% | 26% |

**Financial Summary**

| | FY21e | FY22e | FY23e |
|---|---|---|---|
| Revenues | 25,631 | 32,178 | 38,041 |
| yoy growth (%) | 14.2 | 25.5 | 18.2 |
| Operating profit | 5,340 | 6,578 | 8,081 |
| OPM (%) | 20.8 | 20.4 | 21.2 |
| Adjusted PAT | 2,566 | 3,586 | 4,641 |
| yoy growth (%) | 8.7 | 39.8 | 29.4 |
| EPS (Rs) | 9.1 | 12.8 | 16.5 |
| P/E (x) | 24.3 | 17.4 | 13.5 |
| EV/EBITDA (x) | 12.0 | 8.7 | 6.7 |
| Debt/Equity (x) | 0.1 | 0.1 | 0.0 |
| RoE (%) | 14.8 | 17.7 | 19.1 |

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# KNR Constructions

**Exhibit 1: Result table (Standalone)**

| Y/e 31 Mar (Rs m) | Q3 FY21 | Q3 FY20 | yoy(%) | Q2 FY21 | qoq (%) |
|---|---|---|---|---|---|
| Revenue | 6,863 | 5,579 | 23.0 | 6,012 | 14.1 |
| Operating Profit | 1,353 | 1,244 | 8.8 | 1,240 | 9.1 |
| OPM(%) | 19.7 | 22.3 | -258 bps | 20.6 | -92 bps |
| Other Income | 266 | 70 | 281.1 | 76 | 250.0 |
| Depreciation | (373) | (517) | (27.8) | (352) | 6.1 |
| Interest | (184) | (142) | 30.0 | (158) | 16.5 |
| Exceptional item | - | (67) | NA | (112) | NA |
| PBT | 1,061 | 588 | 80.5 | 694 | 52.9 |
| Tax | (285) | (186) | 53.4 | (196) | 45.7 |
| Reported PAT | 776 | 402 | 93.0 | 498 | 55.7 |
| Adjusted PAT | 776 | 469 | 65.4 | 611 | 27.1 |

YES SECURITIES
INSTITUTIONAL EQUITIES

# PNC Infratech Ltd

| BUY | CMP Rs278 | Target Rs320 | Upside 15% |
|---|---|---|---|

## Well placed to deliver - BUY

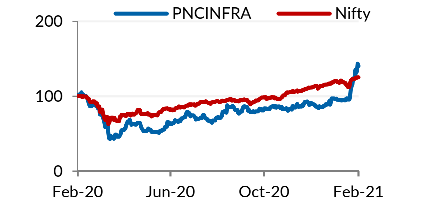
### Conference call takeaways

- ✓ PNC's execution during Q3 FY21 was robust with monsoon ending and certain projects moving under execution. The better labor availability also helped execution during the quarter. The company managed to maintain its operating margin at ~13%. Going forward, PNC expects margins to remain at 13.5-14% levels.
- ✓ Considering the current pace of execution and better labor availability, the Management now expects to close the year with flat to marginal growth in topline during FY21. This is as against 10% decline guided earlier.
- ✓ The order book at the end of Dec'20 stood at ~Rs.98 bn which excludes a) Challakere-Hariyur HAM project (EPC value: Rs.9.4 bn), b) Meerut Nazibabad section HAM project (BPC: Rs.14.1 bn) and c) Delhi - Vadodara Greenfield Alignment EPC project (2 packages having value: Rs.15.5bn) d) Irrigation/Water projects worth Rs.38 bn. Including these projects, the order book stands at ~Rs.180 bn.
- ✓ The Company has won Rs. 40 bn of Irrigation/ Water projects in recent past which has provided strong support to the order book. The Company has bid for ~Rs.150 bn of NHAI projects (40% EPC and balance HAM) and is targeting some NHAI projects in near term. It expects to keep its exposure to non-Road segment at not more than 20% of the overall order book.
- ✓ The Company recently received the appointed date in Challakere - Hariyur HAM project. The appointed date for the two EPC projects of Delhi Vadodara Expressway is also expected by March end. The timely receipt of appointed dates would see sharp pickup in execution during FY22 and beyond.
- ✓ For divestment of its stake in Ghaziabad Aligarh Road Project, the company is under advanced discussions with a prospective investor and the due diligence has been completed by the investor. Progress on this is likely in near term.
- ✓ The interest cost decline drastically during the quarter as the Company paid off certain high interest bearing Mobilization advance. Net Working Capital Days stood at 67 days (85 days in Q2 end). The WC is currently under comfortable zone for the Company.
- ✓ The equity requirement for existing HAM projects is ~Rs.8.5 bn of which ~Rs.5.4 bn has been invested and Rs.3.1 bn investment is pending. Additionally, Rs.6.2 bn of Equity would be required to be invested for the recently won 4 HAM projects. Thus total equity requirement including recently won projects stands at Rs.9.3 bn. The management has guided for Rs.3.5 bn/Rs.1.7 bn/Rs.1.2 bn towards equity requirement during period of FY22E/FY23E/FY24E respectively.
- ✓ As per the management, traffic level and toll collection saw good growth in Q3FY21 and in Jan-21.
- ✓ Toll collection: Ghaziabad-Aligarh (Rs.629 mn), Kanpur-Ayodhya (Rs.1.24 bn), Kanpur highway (Rs.250 mn), Bareilly-Almora (Rs.140 mn), Narela (Rs.99 mn), Rayalaseema (Rs.1.3 bn). Overall these tolls have shown a growth in the range of 20-40%. Kanpur highway have shown 40% yoy while Bareilly-Almora has grown 42%. Overall 22% yoy growth seen.

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 290 / 80 |
| Market cap (Rs/USD mn) | 71356 / 981 |
| Outstanding Shares (mn) | 257 |
| 6m Avg t/o (Rs mn): | 151 |
| Div yield (%): | 0.2 |
| Bloomberg code: | PNCL IN |
| NSE code: | PNCINFRA |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | 45.4% | 74.1% | 40.3% |

**Shareholding pattern (As of Dec'21 end)**

| | |
|---|---|
| Promoter | 56.07% |
| FII+DII | 30.35% |
| Others | 13.58% |

**Δ in stance**

| (1-Yr) | New | Old |
|---|---|---|
| Rating | BUY | BUY |
| Target Price | 320 | 261 |

**? in earnings estimates**

| | FY21e | FY22e | FY23e |
|---|---|---|---|
| EPS (New) | 12.5 | 15.2 | 21.2 |
| EPS (Old) | 11.1 | 13.8 | 19.5 |
| % change | 12.6% | 10.2% | 8.5% |

**Financial Summary**

| | FY21e | FY22e | FY23e |
|---|---|---|---|
| Revenues | 45,365 | 55,153 | 68,570 |
| yoy growth (%) | (7.0) | 21.6 | 24.3 |
| Operating profit | 6,349 | 7,597 | 9,939 |
| OPM (%) | 14.0 | 13.8 | 14.5 |
| Reported PAT | 3,213 | 3,908 | 5,430 |
| yoy growth (%) | (30.2) | 21.6 | 39.0 |
| EPS (Rs) | 12.5 | 15.2 | 21.2 |
| P/E (x) | 22.2 | 18.3 | 13.1 |
| EV/EBITDA (x) | 10.6 | 9.1 | 7.1 |
| Debt/Equity (x) | 0.1 | 0.2 | 0.2 |
| RoE (%) | 11.9 | 12.8 | 15.6 |

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# PNC Infratech Ltd

- ✓ The company has revised Capex guidance to Rs.2 bn versus Rs.1.25 bn earlier for FY21E as new projects have been awarded and need to mobilise resources for the projects. FY22 capex will be ~Rs750-1 bn. No major capex towards irrigation segment in this year.
- ✓ The standalone debt stands at Rs.3.65bn which is towards equipment finance. The cash stands at Rs.8.33 bn

## Our view

The Company has won several projects in recent months in Water segment which has pumped up the order book to all time high levels. With the appointed dates of pending projects expected soon, execution is set to improve in FY22. The strong NHAI pipeline would translate to several new order flows in next few months. Taking all these factors into consideration and a comfortable balance sheet position, we believe PNC is very well placed to capitalize on the opportunity. We increase our estimates for FY22/23 to incorporate the recent order flows, improved outlook and maintain our BUY rating for revised target of Rs.320 (based on SOTP valuation).

## PNC Infratech Q3 FY21 results summary

- ✓ PNC Infratech reported topline growth of 9% yoy (to Rs.13.2 bn) on standalone basis which was higher than our estimates of Rs.12.3 bn. The execution improved over Q2 with better labor availability and monsoon impact reducing.
- ✓ Operating margin remained heathy at 13.5% in Q3 FY 21 (flat qoq) which was in-line with our estimates. PAT grew 34% yoy to Rs.1.03 bn (higher than our estimate of Rs.893 mn) supported by sharp decline in finance cost.
- ✓ Order book at the end of Q3 FY21 stood at ~Rs.98 bn.
- ✓ The Company has received several projects recently in Water segment which has improved the Order book.

**Exhibit 1: Result table (Standalone)**

| Y/e 31 Mar (Rs m) | Q3 FY21 | Q3 FY20 | yoy(%) | Q2 FY21 | qoq (%) |
|---|---|---|---|---|---|
| Revenue | 13,224 | 12,180 | 8.6 | 10,535 | 25.5 |
| Operating Profit | 1,785 | 1,712 | 4.3 | 1,421 | 25.6 |
| OPM(%) | 13.5 | 14.1 | (56 bps) | 13.5 | 1 bps |
| Other Income | 243 | 144 | 68.9 | 148 | 63.8 |
| Depreciation | (282) | (326) | (13.7) | (272) | 3.4 |
| Interest | (153) | (401) | (62.0) | (218) | (30.0) |
| PBT | 1,594 | 1,128 | 41.3 | 1,079 | 47.7 |
| Tax | (562) | (356) | 57.6 | (386) | 45.5 |
| Adjusted PAT | 1,032 | 771 | 33.8 | 693 | 49.0 |

# PSP Projects

| BUY | CMP Rs475 | Target Rs528 | Upside 11.2% |
|---|---|---|---|

## Execution momentum to continue

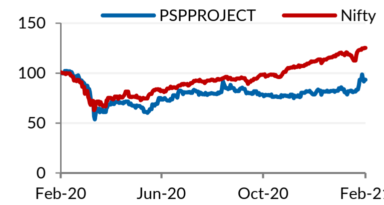
### Q3 FY21 Conference Call Highlights

- ✓ The labor availability is back to normal levels which supported execution during the quarter. All projects are under execution except for Bhiwandi project and Sabha Hall project. The company will receive the clearances on both projects by February end. The Bhiwandi projects is expected to start from March.
- ✓ Surat Diamond project - The revenue per month run-rate slowed during the quarter (Rs.400 mn per month average) versus the run-rate of Rs.600-700 mn as guided in Q2. This was primarily due to delay in arrival of raw material as steel prices saw a sharp price hike.
- ✓ Going forward the Management expects to close the year with a total standalone topline of Rs.12-13 bn during FY21. EBITDA margins are likely to be at ~13% in coming quarters.
- ✓ The margins for the quarter stood at 12% which could have been higher by ~1% on account of impairment cost (Rs.28 mn), CSR (Rs.20 mn) and some other expenses
- ✓ The other expenses during the quarter includes Rs.20 mn towards CSR activities (to comply with new notification on CSR).
- ✓ Work on Hand as on Q3 FY21 stood at Rs.25.2 bn of which Rs.3.7 bn is towards Surat Diamond Bourse (SDB) and balance Rs.21.49 bn for other projects.
- ✓ The company lost 2 projects worth ~Rs.7 bn which did not materialize due to aggressive bidding from the large players like Shapoorji (Central Vista) and L&T (Parliament). The company may not bid aggressively as it will compromise the margins and the company has sufficient projects in hand for the next few quarters.
- ✓ The current Order book stands at Rs.25.2 bn. The bid pipeline remains strong with projects worth Rs.40-50 bn under tendering (Residential project In Ahmedabad-Rs.5 bn, Township in Gujarat by MNC – Rs.20 bn, Hospitals in UP – Rs.14 bn, 1 mall in Ahmedabad – Rs.2 bn, Stadium in Baroda – Rs.2 bn, Corporate house of Pharma -Rs.1bn and one IT project in Hyderabad - Rs.1bn).
- ✓ The company is eyeing positive momentum in residential sector in Ahmedabad and Gujarat
- ✓ The slowdown in execution in some projects were due to external factors. The Bhiwandi project slowed due to approval issues and change in DCPR, Dahej project (Torrent pharma housing) slowed as they had to follow the COVID-19 guidelines strictly and Pandharpur project slowed due to some political issues. All projects will gather pace soon.
- ✓ Construction of Precast facility is progressing well and the Company is already discussing with certain prospective customers. The margins are likely to be at ~13% levels in those projects.
- ✓ Company reported exceptional item related to impairment of Investment in PSP projects and Proactive Constructions Pvt Ltd to the tune of Rs.27.4 mn. This was a JV where the company owned 74%. The balance 26% was acquired during the quarter. No new projects to come.

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 531 / 232 |
| Market cap (Rs/USD mn) | 17098 / 235 |
| Outstanding Shares (mn) | 36 |
| 6m Avg t/o (Rs mn): | 35 |
| Div yield (%): | 1.1 |
| Bloomberg code: | PSPPL IN |
| NSE code: | PSPPROJECT |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | 10.4% | 22.0% | -5.7% |

**Shareholding pattern (As of Dec'21 end)**

| | |
|---|---|
| Promoter | 74.19% |
| FII+DII | 6.68% |
| Others | 19.08% |

**∆ in stance**

| (1-Yr) | New | Old |
|---|---|---|
| Rating | BUY | BUY |
| Target Price | 528 | 519 |

**∆ in earnings estimates**

| | FY21e | FY22e | FY23e |
|---|---|---|---|
| EPS (New) | 18.5 | 34.3 | 40.6 |
| EPS (Old) | 18.5 | 39.9 | - |
| % change | - | -14.0% | - |

**Financial Summary**

| | FY21e | FY22e | FY23e |
|---|---|---|---|
| Revenues | 12,545 | 16,476 | 19,379 |
| yoy growth (%) | (16.3) | 31.3 | 17.6 |
| Operating profit | 1,237 | 2,152 | 2,568 |
| OPM (%) | 9.9 | 13.1 | 13.3 |
| Adjusted PAT | 668 | 1,236 | 1,463 |
| yoy growth (%) | (48.3) | 85.2 | 18.3 |
| EPS (Rs) | 18.5 | 34.3 | 40.6 |
| P/E (x) | 25.6 | 13.8 | 11.7 |
| EV/EBITDA (x) | 12.6 | 7.5 | 5.9 |
| Debt/Equity (x) | 0.4 | 0.4 | 0.4 |
| RoE (%) | 13.9 | 22.2 | 21.8 |

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# PSP Projects

- ✓ The steel and cement prices have shot up by ~35-40% during the quarter. The company was able to pass the cost in private projects while it was not able to pass 100% in the 2 ongoing government projects namely Varanasi and Pandharpur. The company had some old stock which benefited to some extent. Overall minimal impact of the sharp price hikes. The government projects have been affected by cement and steel price hikes and expects the government to take corrective actions soon. The January prices have remained stable in comparison to December prices. The private players who wanted to start the project immediately may postpone by 1-2 months.
- ✓ The debtors days stood at 62 days, creditor days at 63 days and inventory days at 21 days. There has been a delayed payment from one of the customers by 2.5 months. The total receivables for the quarter stood at Rs.2.23bn.
- ✓ The Company will incur Capex of Rs.400-500 mn in coming 4-5 months which would be majorly towards precast facility set up. Overall capex for FY21 for precast was set at Rs.750 mn and Rs.350 mn spent till date.
- ✓ Other Details: (1) Unbilled revenues as of December end stood at Rs.980 mn. (2) Gross Debt as of December end stood at Rs.1 bn. (3) Retention money and Mobilization Advance stood at Rs.1bn-1.15bn range. (4) The company completed 6 orders during the quarter and 10 in FY21. (5) The interest rate for the quarter declined to 7.25% vs 8.3% earlier. (6) Company has FD of Rs.1.95bn. (7) The investment in US subsidiary stood at Rs.250 mn. No further investments required from PSP except Rs.40-50 mn as fees and approval. Land has been acquired and projects are under approval.

## Our view

While the execution has picked up well on expected lines, order inflows have been below par. However the bid pipeline is strong and orders are expected to flow through in coming months. Going forward, the execution momentum is expected to continue with SDB execution moving up and new projects like Bhiwandi and Sabha Hall start their contribution to revenues. Operating margin is expected to remain healthy at ~13% levels. We roll forward our estimates to FY23 and maintain our BUY rating on the stock for target price of Rs.528.

## PSP Projects Q3 FY21 results Summary:

- ✓ PSP Projects reported topline de-growth of 8% yoy (to Rs.3.90 bn) on standalone basis which was largely in line with our estimate of Rs.3.98 bn. The execution improved drastically over Q2 with better labor availability and impact of monsoon largely behind.
- ✓ Operating margin stood at 12.0% during Q3 FY21 (10.1% in Q2 FY21). The margins were in line with our estimates and improved over qoq basis with execution picking up. During the quarter, the Company reported exceptional item related to impairment of Investment in PSP projects and Proactive Constructions Pvt Ltd to the tune of Rs.27.4 mn.
- ✓ Adjusted PAT declined 17% yoy to Rs.307 mn (Our estimate Rs 268 mn).

**Exhibit 1: Result table (Standalone)**

| Y/e 31 Mar (Rs m) | Q3 FY21 | Q3 FY20 | yoy (%) | Q2 FY21 | qoq (%) |
|---|---|---|---|---|---|
| Revenue | 3,902 | 4,231 | (7.8) | 2,431 | 60.5 |
| Operating Profit | 469 | 541 | (13.3) | 245 | 91.4 |
| OPM(%) | 12.0 | 12.8 | (77 bps) | 10.1 | 194 bps |
| Other Income | 38 | 58 | (34.2) | 45 | (15.8) |
| Depreciation | (64) | (70) | (7.8) | (63) | 2.7 |
| Interest | (30) | (40) | (25.6) | (42) | (28.8) |
| Exceptional item | (27) | - | NA | - | NA |
| PBT | 385 | 489 | (21.2) | 185 | 108.0 |
| Tax | (106) | (121) | (12.1) | (41) | 156.9 |
| Reported PAT | 279 | 368 | (24.2) | 144 | 94.0 |
| Adjusted PAT | 307 | 368 | (17) | 144 | 113 |

**Q3 FY21 Result Review** | Sector: Diversified

# Sterlite Technologies Ltd

| SELL | CMP Rs175 | Target Rs128 | Downside: 26.7% |
|---|---|---|---|

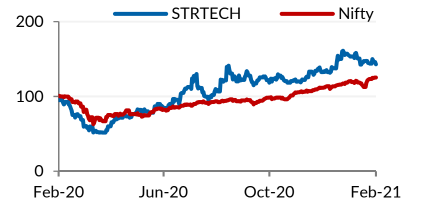
## Conference call takeaways

- During the quarter, the company saw sharp pick up in capacity utilization across fibre and product segment while service business execution improved sequentially. It expects this growth momentum to continue in Q4. The company continues to focus on the wireless segment and Open Radio Access Network (O-RAN) going forward.
- The Optical Fibre cable industry grew by 5% yoy while the company outpaced it. It is expanding Optic Cables capacity to 33 Mn. Fkm by June (18 Mn. Fkm currently). The demand for Optical Fibre in India is likely to remain strong in 2021 with increasing demand from Bharatnet and FTTH deployment. The demand for FTTH slowed down in Europe due to the second COVID-19 wave.
- India remained the key region for the company with ~56% revenue share in 9M FY21 followed by Europe (33% of revenue). Telco remained the largest revenue contributor with 64% in 9M FY21 followed by Citizen Networks (22%) and Enterprises (11%). The share of exports which stands at ~37%, is expected to move to 50% in the coming few years. The share of revenues from Products stood at ~50% with balance revenues coming from the Services segment.
- The margin for the quarter stood at 17.5% and the company expects the Operating margins to be at 18-20% levels going forward. The improvement in margins would be driven by increase in scale of operations. The mix of services and products is likely to be almost equal in near to medium term.
- Depreciation during the quarter declined yoy as it excluded certain amortization costs of Goodwill related the past acquisitions. The Q3 FY21 depreciation would be the normal run rate going forward.
- The company's Orderbook remained flattish qoq at Rs.107.4 bn. Customer Segment wise order book: Enterprise: 17.5%; Telcos: 47.8%; citizen network: 34.3% and cloud: 0.4%
- Key orders won during Q3 FY21 include 1) A 5 year, multi-million dollar contract for supply, warranty & maintenance of 5G RAN systems 2) Opticonn solution for a leading telecom player in Europe 3) IBR cable for a leading hyperscale company.
- Based on the current order pipeline and contractual deliveries, the Company expects ~Rs.15 bn of revenues during Q4 FY21.
- The company completed the acquisition of Optotec. The consolidation will start from 1st week of Q4 FY21 or from 19th Jan-21 (completion date of acquisition). This acquisition will be EPS accretive from the first year itself. This deal will provide a wide range of products to the clients.
- Other Details: (1) Loss of revenue due to pandemic in Europe stands at Rs.300-350 mn which may continue even during Q4. (2) New board members will get added taking the tally to 8 (3) The incremental cash generated will be used for retiring the debt (4) New products like Garuda, 5G Multi-Band Radio and Wi-Fi6 Access Solution will get rollout in FY22. (5) The company has stated with T-Fibre (A & B) project and has completed 87% of the Indian Navy project – Project Varun. Mahanet (A) project completion stood at 92%.

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 200 / 59 |
| Market cap (Rs/USD mn) | 69255 / 952 |
| Outstanding Shares (mn) | 397 |
| 6m Avg t/o (Rs mn): | 238 |
| Div yield (%): | 2.0 |
| Bloomberg code: | SOTL IN |
| NSE code: | STRTECH |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | -7.7% | 19.2% | 50.3% |

**Shareholding pattern (As of Dec'21 end)**

| | |
|---|---|
| Promoter | 54.76% |
| FII+DII | 10.02% |
| Others | 35.22% |

**∆ in stance**

| (1-Yr) | New | Old |
|---|---|---|
| Rating | SELL | SELL |
| Target Price | 128 | 97 |

**∆ in earnings estimates**

| | FY21e | FY22e | FY23e |
|---|---|---|---|
| EPS (New) | 5.9 | 9.7 | 12.8 |
| EPS (Old) | 5.3 | 10.8 | - |
| % change | 11.3% | -10.2% | - |

**Financial Summary**

| | FY21e | FY22e | FY23e |
|---|---|---|---|
| Revenues | 47,348 | 58,823 | 68,931 |
| yoy growth (%) | (8.1) | 24.2 | 17.2 |
| Operating profit | 7,907 | 10,147 | 11,891 |
| OPM (%) | 16.7 | 17.3 | 17.3 |
| Adjusted PAT | 2,368 | 3,890 | 5,090 |
| yoy growth (%) | (50.2) | 64.2 | 30.9 |
| EPS (Rs) | 5.9 | 9.7 | 12.8 |
| P/E (x) | 29.5 | 18.0 | 13.7 |
| EV/EBITDA (x) | 11.3 | 8.6 | 7.3 |
| Debt/Equity (x) | 1.1 | 1.0 | 0.8 |
| RoE (%) | 12.2 | 18.6 | 21.1 |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# Sterlite Technologies Ltd

## Our view

While topline performance has been decent, the margins have deteriorated on yoy basis. This is primarily due to higher share of low margin Services segment. We have increased our topline estimates for FY21 to incorporate the strong performance and improved outlook. We however do not expect significant improvement in margins from current levels based on the current product mix. STL has decent presence in Europe and extended lockdown in that region there could impact revenues. We roll forward our estimates to FY23 and maintain our negative view on the stock for revised target price of Rs.128. Retain SELL.

## Sterlite Technologies (STL) Q3 FY21 – Result Summary

- ✓ Sterlite technologies delivered revenues of Rs13.1 bn (+9% yoy) during Q3 FY21. It was higher than our estimates of Rs.12.2 bn topline.
- ✓ Operating Margins during Q3 FY21 came in at 17.5% (-257 bps yoy) vs our estimates of 17%.
- ✓ Lower depreciation and interest costs saw STL reported PAT of Rs.870 mn during Q3 FY21.
- ✓ The Order book at end of quarter stood almost flat at Rs. 107 bn.

**Exhibit 1: Results table (Cons.)**

| (Rs mn) | Q3 FY21 | Q3 FY20 | % yoy | Q2 FY21 | % qoq |
|---|---|---|---|---|---|
| Revenue | 13,144 | 12,027 | 9.3 | 11,595 | 13.4 |
| Operating Profit | 2,301 | 2,414 | (4.7) | 2,024 | 13.6 |
| OPM(%) | 17.5 | 20.1 | (257 bps) | 17.5 | 4 bps |
| Other Income | 77 | 60 | 27.1 | 93 | (18.1) |
| Depreciation | (682) | (701) | (2.7) | (816) | (16.5) |
| Interest | (498) | (557) | (10.7) | (498) | 0.0 |
| Exceptional item | (5) | (525) | NA | (16) | NA |
| PBT | 1,192 | 691 | 72.5 | 787 | 51.4 |
| Tax | (333) | (191) | 74.0 | (236) | 41.2 |
| PAT | 860 | 500 | 72.0 | 552 | 55.7 |
| Minority Interest | 6 | 26 | (78.4) | 33 | (82.6) |
| Adjusted PAT | 870 | 1,052 | (17.2) | 601 | 44.9 |

Q3 FY21 Result Review

# Logistics

## Festive season drives demand

Logistics industry saw further recovery in Q3 FY21 with strong support from festive season and economic activity picking up sharply on qoq basis. We have seen business picking up for Cold chain players (gearing up for vaccine distribution), Jump in E-way bills and pick up in FASTags toll collections. Key end use segments like Automotive, Consumer Durables, Pharma remained robust during the quarter. The strong growth which was seen in E-commerce in Q2 continued to be robust during Q3 FY21 as lot of population remained indoors.

- ✓ October witnessed a historical high of 64 mn E-way bills, up by 21% yoy. While this was primarily due to pent-up and festive demand, the number was again achieved in December which indicates the sustainability of improvement in logistics activity.
- ✓ Auto demand has seen strong pick-up in demand particularly from Tier 2 and 3 cities. Even tractor demand has been very robust with improving income and festive season helping. This has significant benefited players like Mahindra Logistics and others catering majorly to Auto segment.
- ✓ Warehousing demand continues to be robust driven by segments like Consumer and E-commerce. As festive demand rose and with Work from home continuing and several places in the country, E-commerce continued to grow and drove the demand for higher space to store goods.
- ✓ Demand for cold chain space saw a surge due to vaccine distribution. Players like TCI Express have ventured into this segment and have started working with a lot of vendors and companies under this segment.
- ✓ The Rail share continues to be stable at ~35% in the Container segment. While Rail share has spiked during lockdown, it is now stabilized to its previous levels. With DFC commissioning, the share is expected to move up.
- ✓ While fuel costs have been on the rise, the impact was not visible yet as Companies were able to pass on the increase in costs with improved festive demand.
- ✓ Overall, Q3 saw continuation of the momentum which was witnessed during Q2. Ecommerce continued to be a strong growth driver whereas other segments also saw strong traction. While the demand pickup seems sustainable going forward, fuel price changes and ability to pass on would be a monitorable.

| Stock | Rating | TP | Upside |
|---|---|---|---|
| Bluedart | ADD | 4,403 | (4.2%) |
| CONCOR | BUY | 558 | 1.5% |
| Mahindra Logistics | SELL | 391 | (20%) |
| TCI Express | BUY | 1,120 | 16% |
| Transport Corporation | Buy | 329 | 32% |

**Note:** Target and Recommendation as on Result date


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**Q3 FY21 Result Review** | Sector: Logistics

YES SECURITIES INSTITUTIONAL EQUITIES

# Bluedart Express Ltd

| ADD | CMP Rs4,598 | Target Rs4,403 | Upside: -4.2% |
|---|---|---|---|

| | |
|---|---|
| **HIGHLIGHTS** | ✓ Revenues grew by 21% yoy to Rs10.3 bn. The growth was driven by ~15% growth in volumes and balance in realizations. The Company saw strong pickup from sectors like E-commerce, Pharma and Consumer Electronics driven by shift in Consumer buying behavior and consumption pattern.<br>✓ During the quarter, volumes were driven by higher share of packages while document shipments were lower. With limited travel, documents related to passport delivery were low. Similarly, with several exams postponed, document delivery related to those exams got impacted.<br>✓ Moderation in Freight Handling costs and employee cost supported profitability. The margins were supported by operating leverage as festive demand supported volumes and pricing. The margins may marginally correct in coming quarters.<br>✓ During Q3, the Company reversed Rs.83 mn of past provision made related to restructuring exercise.<br>✓ BDE had levied Emergency Situations Surcharge on certain shipments to offset low capacity utilization which got over by December. It was to be replaced through general price increase (GPI) from January 2021. The Company is currently in discussion with customers to implement the price increase.<br>✓ During the quarter, BDE purchased two of the six aircraft it was leasing till now for Rs.500 mn. The Company maintains its capex guidance of Rs.1.5 bn for FY21. |
| **Our View** | ✓ The Company saw strong recovery across Air and Surface segments. The weakness in documents segment was more than covered by the packages segment growth.<br>✓ We expect BDE to enjoy premium pricing in some of the segments and we expect it to benefit from general economic recovery. Both Air and Surface cargo segments are likely to do well. |
| **Valuation** | ✓ We roll forward our estimates to FY23 and upgrade the stock from REDUCE to ADD with target of Rs. 4,403 (45x FY23 P/E). |
| **Risk to our call** | ✓ COVID 2nd wave leading impacting shipments. |

## Result table

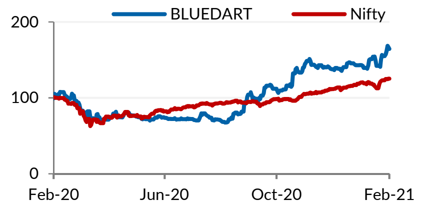
| Y/e 31 Mar (Rs mn) | Q3 FY21 | Q3 FY20 | yoy(%) | Q2 FY21 | qoq (%) |
|---|---|---|---|---|---|
| **Revenue** | **10,349** | **8,556** | **21.0** | **8,644** | **19.7** |
| **Operating Profit** | **1,734** | **669** | **159.0** | **1,475** | **17.5** |
| OPM (%) | 16.8 | 7.8 | 893 bps | 17.1 | -31 bps |
| Other Income | 24 | 34 | (30.1) | 19 | 21.8 |
| Depreciation | (547) | (383) | 42.9 | (509) | 7.6 |
| Interest | (77) | (76) | 0.7 | (88) | (12.6) |
| Exceptional item | 83 | (641) | NA | (342) | NA |
| PBT | 1,216 | (398) | NA | 556 | 118.7 |
| Tax | (278) | 67 | NA | (142) | NA |
| PAT | 938 | (331) | NA | 414 | 126.6 |
| **Adjusted PAT** | **855** | **310** | **175.4** | **756** | **13.1** |

Source: Company, YES Sec – Research

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 4765 / 1822 |
| Market cap (Rs/USD mn) | 109092 / 1499 |
| Outstanding Shares (mn) | 24 |
| 6m Avg t/o (Rs mn): | 190 |
| Div yield (%): | #N/A N/A |
| Bloomberg code: | BDE IN |
| NSE code: | BLUEDART |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | 14.8% | 13.6% | 65.4% |

**Shareholding pattern (As of Dec'21 end)**

| | |
|---|---|
| Promoter | 75.00% |
| FII+DII | 13.54% |
| Others | 11.46% |

**∆ in stance**

| (1-Yr) | New | Old |
|---|---|---|
| Rating | ADD | REDUCE |
| Target Price | 4,403 | 3,500 |

**? in earnings estimates**

| | FY21e | FY22e | FY23e |
|---|---|---|---|
| EPS (New) | 30.6 | 61.1 | 97.9 |
| EPS (Old) | 30.3 | 77.8 | - |
| % change | - | -21.5% | - |

**Financial Summary**

| | FY21E | FY22E | FY23E |
|---|---|---|---|
| **Revenues** | 32,620 | 37,676 | 42,725 |
| yoy growth (%) | 3.0 | 15.5 | 13.4 |
| **Operating profit** | 3,258 | 4,490 | 5,789 |
| OPM (%) | 10.0 | 11.9 | 13.5 |
| **Adjusted PAT** | 727 | 1,452 | 2,325 |
| yoy growth (%) | 181.8 | 99.6 | 60.1 |
| EPS (Rs) | 30.6 | 61.1 | 97.9 |
| P/E (x) | 150.2 | 75.2 | 47.0 |
| EV/EBITDA (x) | 32.4 | 23.0 | 17.4 |
| Debt/Equity (x) | 0.1 | 0.1 | 0.0 |
| ROE | 11.4 | 19.0 | 24.4 |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# MANAGEMENT INTERACTION HIGHLIGHTS

- ✓ The performance during the quarter was driven by ~15% growth in volumes and 5-6% growth in realization. The operating leverage played out which saw sharp improvement in margins
- ✓ The share of document shipment remained subdued as activities like Passport applications and Exam related documentation still not operating at pre COVID levels. Even credit card applications have been slowly picking leading to subdued logistics demand.
- ✓ The company had levied Emergency Situations Surcharge on certain shipments to offset the low capacity utilization which got over in December. The Company is discussing with clients on price hike and the same may be implemented soon.
- ✓ The margins delivered in last two quarters can be considered elevated due to festive demand, pent up demand and may marginally correct in next couple of quarters.
- ✓ Strong growth was witnessed across surface and air cargo segment. The outlook remains positive for both the segments. The current mix is 70% Air transport with balance being surface transportation.
- ✓ During the quarter, BDE purchased two of the six aircraft it was leasing till now for Rs.500 mn. The Company maintains its capex guidance of Rs.1.5 bn for FY21.
- ✓ Strong growth continues to be witnessed in the E-commerce segment. Other segments like Pharma and Durables also continue to do well for the Company.
- ✓ Vaccine business seems to be small opportunity and has not started yet for BDE in any significant way. When vaccine is distributed across for the entire population then BDE may get some business. However not counting on any major revenues from that space.
- ✓ As the Economy moves back on track, the Company expects growth momentum to continue. GST, Digitization and other reforms are all helping business move to organized players.

# Container Corporation

| BUY | CMP Rs550 | Target Rs558 | Upside 1.5% |
|---|---|---|---|

## Strong Operational performance to sustain – BUY

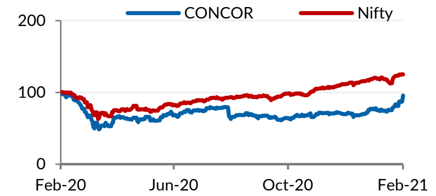
### Conference call takeaways

- **Land License Fee (LLF):** As per CONCOR calculations, the company's LLF stands at Rs 4.5 bn for FY21 for entire land (as against Railways demand of Rs.13.4 bn for 21 terminals). The Company has presented the case with the Railways Ministry and expects resolution in Company's favor soon.
- **Realization:** The rise in realization was on account of 1) more loaded trains 2) higher lead distance.
- **Guidance:** Volume guidance improved from -20% at the beginning of the year to -5% now for FY21.
- **Lead Distance:** Exim at 709km (681 km in Q2 FY21), domestic at 1401 km (1328 km in Q2 FY21) and total at 790 km (752 km in Q2 FY21).
- **Originating volumes:** Exim volumes at 536,563 TEUs, Domestic at 77,076 TEUs
- **Double stack trains:** 777 trains operated during the quarter
- **Empty running cost:** Exim Rs 328 mn and Domestic Rs.341.5 mn. Total: ~670 mn
- **New business:** The rail transport business in Middle east, Iran, Iraq is doing well. Demand for train service in Bangladesh and Nepal has picked up well.
- **Capex:** The capex for the year stands at Rs5 bn of which Rs2 bn spent till now. The company has ordered 60 rakes of 25 axle ton and may add 4 new rakes next year in addition to 4 this year. No rolling stocks will retire even after new rakes procured.
- **CONCOR Rail share for Q3:** JNPT: imports at 63% vs 62% yoy and exports at 64% vs 63%yoy; Mundra: imports at 47% from 41% yoy and Exports at 47% from 45% yoy, Pipavav: imports at 58% vs 52% yoy and exports at 50% vs 43% yoy.
- **Market share at ports:** JNPT: 36% vs 33% yoy, Mundra: 33% vs 31% yoy, Pipavav: 15% vs 11% yoy
- **DFC:** It will benefit the company with improvement in turnaround time and jump in volumes. Time table based train on DFC will start soon which would shift some volumes from Road to Rail. The management believes that market share for CONCOR will improve with DFC.
- **Other Details:** 1) will provide 1% of PBT in the employee trust fund 2) Other expenses were lower as security arrangements (TKD: down 50%) has been optimized. Surrendering of the terminals has also helped over the time. Impact of these measures are on sustainable basis. 3) The company has suspended the coastal shipping during the pandemic and will reassess the situation. 4) MMLP will get delayed to FY23, may add 1-2 new MMLP in FY21 and FY22. 5) started with bulk transport with Food Corporation of India, trial runs underway. 6) Rail freight margins at 33.9% vs 27.3% yoy. 7) The disinvestment by the Government is targeted to take place in FY22 as mentioned in the Union budget recently.

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 577 / 263 |
| Market cap (Rs/USD mn) | 334807 / 4602 |
| Outstanding Shares (mn) | 609 |
| 6m Avg t/o (Rs mn): | 1,115 |
| Div yield (%): | 1.1 |
| Bloomberg code: | CCRI IN |
| NSE code: | CONCOR |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | 23.3% | 38.5% | -2.2% |

**Shareholding pattern (As of Dec'21 end)**

| | |
|---|---|
| Promoter | 54.80% |
| FII+DII | 40.20% |
| Others | 4.86% |

**Δ in stance**

| (1-Yr) | New | Old |
|---|---|---|
| Rating | BUY | ADD |
| Target Price | 558 | 432 |

**Δ in earnings estimates**

| | FY21e | FY22e | FY23e |
|---|---|---|---|
| EPS (New) | 14.1 | 22.1 | 25.4 |
| EPS (Old) | 11.9 | 19.6 | - |
| % change | 18.5% | 12.8% | - |

**Financial Summary**

| | FY21e | FY22e | FY23e |
|---|---|---|---|
| Revenues | 62,228 | 75,444 | 86,187 |
| yoy growth (%) | (4.8) | 21.2 | 14.2 |
| Operating profit | 13,180 | 19,547 | 22,644 |
| OPM (%) | 21.2 | 25.9 | 26.3 |
| Reported PAT | 8,578 | 13,465 | 15,453 |
| Adjusted PAT | 8,578 | 13,465 | 15,453 |
| yoy growth (%) | (31.8) | 57.0 | 14.8 |
| EPS (Rs) | 14.1 | 22.1 | 25.4 |
| P/E (x) | 39.1 | 24.9 | 21.7 |
| EV/EBITDA (x) | 23.3 | 15.4 | 12.9 |
| RoE (%) | 8.3 | 12.0 | 12.5 |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# Container Corporation

**Our view:** The Q3 performance has been much better than estimates. While the volumes have picked up with opening up of the economy and trade, the margins have improved with focus on longer distance transportation and letting go off certain low profit routes. The Management has also increased the volume guidance for FY21 considering the traction witnessed in recent months. We increase our estimates for FY21 and FY22 to incorporate the Q3 performance and improved outlook. We roll forward our estimates to FY23 and upgrade the stock from ADD to BUY for target price of Rs.558/share (22x FY23E). The outcome of the LLF issue however remains a key monitorable.

## Container Corporation Q3 FY21 results:

- ✓ Container Corporation (Concor) reported topline growth of ~14% yoy (to Rs.17.7 bn) led by ~6% volume growth and 8% growth in realization.
- ✓ Domestic revenues witnessed strong growth (+25% yoy; contribution: 27%) as compared to the EXIM revenues (+11% yoy).
- ✓ CONCOR reported volumes of 966,015 TEUs in Q3 FY21 of which 804,557 TEUs were of EXIM and balance Domestic. Overall volumes grew by 6.1% yoy led by 5% yoy growth in EXIM and 12.5% yoy growth in Domestic volumes.
- ✓ Operating margin improved to 21% (up 1,126 bps qoq) and almost back towards Pre-COVID levels.
- ✓ Strong operating performance saw PAT grow 30% yoy to Rs 2.3 bn.
- ✓ During the quarter, the company has decided to surrender its ICD, Mulund (NGSM) terminal which was built on Railway land. The impact of surrendering this terminal is negligible.
- ✓ During 9M FY21, the company has provided ~Rs 3.5 bn towards Land License Fee (LLF) for all terminals on Railway Land. The Company has received a demand of Rs.13.36 bn from Ministry of Railways as the LLF for FY21 for 21 terminals of CONCOR. As per company's assessment, the above demand is not as per Railway's extant policy and has represented the matter to the Ministry of Railways.

### Exhibit 1: Result table (Consolidated)

| Y/e 31 Mar (Rs mn) | Q3 FY21 | Q3 FY20 | yoy(%) | Q2 FY21 | qoq (%) |
|---|---|---|---|---|---|
| Revenue* | 17,669 | 15,447 | 14.4 | 13,263 | 33.2 |
| Operating Profit | 3,761 | 3,762 | (0.0) | 1,330 | 182.8 |
| OPM (%) | 21.3 | 24.4 | (307 bps) | 10.0 | 1126 bps |
| Other Income | 752 | 656 | 14.7 | 647 | 16.3 |
| Depreciation | (1,444) | (1,342) | 7.6 | (1,350) | 7.0 |
| Interest | (106) | (84) | 25.6 | (108) | (2.0) |
| Exceptional item | 0 | 0 | 0.0 | 0 | 0.0 |
| PBT | 2,963 | 2,991 | (0.9) | 519 | 471.4 |
| Tax | (707) | (1,271) | (44.4) | (23) | 2,911.7 |
| PAT | 2,257 | 1,720 | 31.2 | 495 | 355.8 |
| Minority Interest | 74 | 74 | 0.1 | 85 | (13.2) |
| Reported PAT | 2,331 | 1,794 | 29.9 | 581 | 301.5 |
| Adjusted PAT | 2,331 | 1,794 | 29.9 | 581 | 301.5 |

*Q2 FY21 Revenues Adj of SEIS income of Rs.1.8 bn

### Exhibit 2: Segmental results (Consolidated)

| Particular | Q3 FY21 | Q3 FY20 | yoy(%) | Q2 FY21 | qoq (%) |
|---|---|---|---|---|---|
| Revenue (Rs. mn)* | 17,669 | 15,447 | 14.4 | 13,263 | 33.2 |
| EXIM | 12,989 | 11,715 | 10.9 | 9,475 | 37.1 |
| Domestic | 4,680 | 3,733 | 25.4 | 3,789 | 23.5 |
| | | | | | |
| Revenues Mix (%) | | | | | |
| EXIM | 73.5 | 75.8 | | 74.9 | |
| Domestic | 26.5 | 24.2 | | 25.1 | |
| | | | | | |
| EBIT (Rs. mn) | 2,529 | 2,795 | (9.5) | 220 | 1,047.4 |
| EXIM | 2,259 | 2,808 | (19.6) | 43 | 5,116.9 |
| Domestic | 270 | (13) | NA | 177 | 52.5 |
| | | | | | |
| EBIT Margin (%) | 14.3 | 18.1 | | 1.7 | |
| EXIM | 17.4 | 24.0 | | 0.5 | |
| Domestic | 17.4 | (0.3) | | 4.7 | |
| | | | | | |
| Volumes (TEUs) | 966,015 | 910,407 | 6.1 | 885,673 | 9.1 |
| EXIM | 804,557 | 766,822 | 4.9 | 744,788 | 8.0 |
| Domestic | 161,458 | 143,585 | 12.4 | 140,885 | 14.6 |
| | | | | | |
| Volume Mix (%) | | | | | |
| EXIM | 83.3 | 84.2 | | 84.1 | |
| Domestic | 16.7 | 15.8 | | 15.9 | |

*Q2 FY21 Revenues Adj of SEIS income of Rs.1.8 bn

YES SECURITIES INSTITUTIONAL EQUITIES

# Mahindra Logistics

| SELL | CMP Rs487 | Target Rs391 | Downside 20% |
|---|---|---|---|

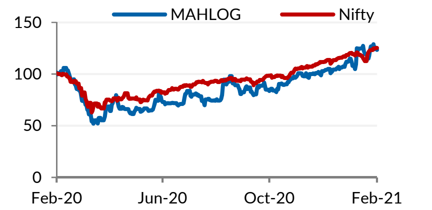
## Recovery priced in

- ✓ During Q3, the company saw strong logistics requirement across transportation and warehousing segment. The Festive season also helped in volumes growth and MLL saw 15% yoy growth in Consolidated revenues.
- ✓ Recent trends witnessed: 1) jump in volumes from fulfillment centers and higher transportation volumes. 2) Focus on expanding the partners for coverage 3) Expanding the presence in groceries and essential products and launching fulfillment centers in Q4.
- ✓ **Auto and tractor demand:** Strong turnaround was witnessed in the Auto segment. Tractor demand was driven from rural and semi-urban cities. The rural demand was high on the back of better cashflow and good Rabi sowing leading to strong tractor demand. The offtake from South was boosted due to the Pongal festival. Auto OEMs have shown strong improvement despite challenges. One of the large OEM in Maharashtra announced a shutdown, impact will be visible for some time but will be offset by the new client addition. The strong growth in Farm auto (30% yoy) was one of the key reason for the M&M revenue growth and contributed higher than auto (double digit growth).
- ✓ **E-comm:** Continue to see strong growth with focus on the digital side. Online shopping continued to be the preferred mode driven by safety issues due to COVID. The festive season gave further boost to the online sales. The company believes that the demand will continue to be strong.
- ✓ **Consumer/FMCG/Pharma/Durables and Apparels demand** have reached to Pre-COVID levels and segment like apparels benefited maximum from festive season. The customers of these segments are redesigning their business as they are moving on digital mode and B2C models. This has translated into good uptake for MLL.
- ✓ **Vaccine distribution:** The logistics sector would play an important role in the vaccine distribution. Domestic warehousing, last mile, and cross border logistics are some segments where logistics companies can play a role and MLL has presence. Monitoring at every stage is the value preposition for the 3PL players. Distribution and last mile delivery of vaccines is managed by government. The material volumes flowthrough has not happened in this quarter. The company is focusing on building cross border logistics for pharma, warehousing for storage of vaccine. The volumes are expected to come in FY22.
- ✓ **Freight Forwarding segment:** Saw the surge in freight rates. The segment has shown a strong growth of 90% yoy during the quarter on a low base.
- ✓ **Enterprise Mobility:** remained under stress despite improvement. Most companies in IT/ITes are continuing with work from home policy. Efforts are being made to add new clients. Maintains positive outlook on work to home travel and business-related travel. Expects 4-5 quarters for situation to normalize.
- ✓ **Warehousing:** MLL expects growth in this segment. Flex solution is providing flexible and strong supply chain solutions. The company expects segment to provide stable offering in coming future.
- ✓ **Integrated solutions:** Many customers are asking for integrated solutions, warehousing, sortation, inbound logistics etc. Earlier, different companies were partnered for providing different solutions which are changing over time. MLL is well positioned to provide end to end solutions and capitalize on the opportunity.

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 544 / 195 |
| Market cap (Rs/USD mn) | 34925 / 480 |
| Outstanding Shares (mn) | 72 |
| 6m Avg t/o (Rs mn): | 39 |
| Div yield (%): | 0.3 |
| Bloomberg code: | MAHLOG IN |
| NSE code: | MAHLOG |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | 7.3% | 26.7% | 22.3% |

**Shareholding pattern (As of Dec'21 end)**

| | |
|---|---|
| Promoter | 58.40% |
| FII+DII | 30.47% |
| Others | 10.90% |

**Δ in stance**

| (1-Yr) | New | Old |
|---|---|---|
| Rating | SELL | SELL |
| Target Price | 391 | 264 |

**? in earnings estimates**

| | FY21e | FY22e | FY23e |
|---|---|---|---|
| EPS (New) | 5.3 | 10.1 | 13.0 |
| EPS (Old) | 4.5 | 8.8 | - |
| % change | 17.8% | 14.8% | - |

**Financial Summary**

| | FY21e | FY22e | FY23e |
|---|---|---|---|
| Revenues | 33,428 | 38,341 | 43,175 |
| yoy growth (%) | (3.7) | 14.7 | 12.6 |
| Operating profit | 1,409 | 1,939 | 2,255 |
| OPM (%) | 4.2 | 5.1 | 5.2 |
| Adjusted PAT | 382 | 723 | 934 |
| yoy growth (%) | 382 | 723 | 934 |
| EPS (Rs) | 5.3 | 10.1 | 13.0 |
| P/E (x) | 91.3 | 48.2 | 37.3 |
| EV/EBITDA (x) | 6.1 | 5.5 | 4.8 |
| Debt/Equity (x) | 23.8 | 17.2 | 14.8 |
| RoE (%) | 0.1 | 0.1 | 0.1 |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# Mahindra Logistics

- ✓ Launched 100% EV based Last mile delivery service under 'Edel' Brand for the customers in E-Commerce, FMCG and other markets. The service will be provided at 6 cities namely Bengaluru, New Delhi, Mumbai, Pune, Hyderabad and Kolkata and targets to expand to 14 cities in next 12 month. EDel will provide package & trip-based services. These offerings will provide customers a scalable, sustainable and cost-efficient solution. Company expects to see growth in small package solution with EDel Mahindra logistics. Earlier, the company focused on B2C segment with bigger appliances for last mile delivery. Now it will start delivering small packets. This will be a partnership-based business model, and this will bring positive contribution from first day.

- ✓ **Customer addition:** The company has won large order from one of the India's largest consumer company for providing end to end services. 2) expanding the network in North for the large pharma companies. 3) Commissioning grocery center in eastern India 4) Auto outbound business, the company has an exclusive distribution of passenger car and SUVs. These new client additions will take 3-4 months to get added in the revenue. The response from the customer has been positive.

- ✓ **Other Details:** (1) The volatility in fuel supply and new project launch which are in the starting phase impacted the gross margin. The margins will ramp up and will remain stable. (2) The proportion of Mahindra group in revenue stood at 49% vs 50% qoq and 48% yoy. (3) Cash stood at Rs.1.88 bn at the end of Q3FY21. (4) For 9M FY21 cumulative capex stood at Rs.400 Mn (5) Top 20 clients account less than 60% of revenue reflecting well spread client base

## Our view

Q3 has been a decent quarter for both Auto and Non-Auto businesses. The cost cutting measures have also helped in improving margin performance. Going forward, we believe MLL's growth would be driven by growth in End use segments and also how the new initiatives like Flex Warehousing solutions and EDEL (last mile delivery) play out. We raise our estimates to factor in the improved outlook and also roll forward our estimates to FY23 and revise target price to Rs.391. While the outlook has improved and several new initiatives are being undertaken, we believe the positives are priced in at current levels (trades at 36x FY23 EPS). We would await better entry point and retain **SELL**.

## Mahindra Logistics Q3 FY21 first cut: Decent show

- ✓ Mahindra logistics reported topline of Rs10.5 bn (+15% yoy), higher than our estimate of Rs.9.0 bn.

- ✓ While Supply Chain Management (SCM) segment grew ~24% yoy, Enterprise Mobility (EM) division continued to struggle with revenue declining ~60% yoy. The performance in the EM segment was likely hit as large part of clients' employees continued to work from home (leading to lesser requirement of transportation).

- ✓ The Company reported Operating Profit of Rs530 mn, (+25% yoy). Margins came at 5.1% in Q3 FY21 vs 4.7% in Q3 FY20.

- ✓ APAT grew by 17.5% to Rs.183 mn during Q3 FY21

# Mahindra Logistics

### Exhibit 1: Result table (Consolidated)

| Y/e 31 Mar (Rs mn) | Q3 FY21 | Q3 FY20 | yoy(%) | Q2 FY21 | qoq (%) |
|---|---|---|---|---|---|
| Revenue | 10,468 | 9,079 | 15.3 | 8,325 | 25.7 |
| Operating Profit | 530 | 424 | 24.8 | 373 | 41.9 |
| OPM(%) | 5.1 | 4.7 | 39 bps | 4.5 | 58 bps |
| Other Income | 18 | 20 | (12.4) | 83 | (78.7) |
| Depreciation | (243) | (188) | 29.1 | (209) | 16.5 |
| Interest | (55) | (43) | 27.9 | (45) | 21.9 |
| PBT | 250 | 213 | 17.0 | 202 | 23.3 |
| Tax | (66) | (57) | 15.5 | (54) | 21.5 |
| PAT | 184 | 157 | 17.5 | 149 | 24.0 |
| Minority Interest | (1) | (1) | 16.8 | 1 | NA |
| Adjusted PAT | 183 | 155 | 17.5 | 150 | 22.0 |

### Exhibit 2: Segmental Performance

| Particulars | Q3 FY21 | Q3 FY20 | yoy(%) | Q2 FY21 | qoq (%) |
|---|---|---|---|---|---|
| Revenue (Rs. mn) | | | | | |
| Supply Chain | 10,098 | 8,169 | 23.6 | 8,039 | 25.6 |
| Enterprise Mobility | 369 | 911 | (59.5) | 287 | 28.8 |
| | | | | | |
| Revenues Mix (%) | | | | | |
| Supply Chain | 96.5 | 90.0 | | 96.6 | |
| Enterprise Mobility | 3.5 | 10.0 | | 3.4 | |
| | | | | | |
| EBIT (Rs. mn) | | | | | |
| Supply Chain | 805 | 687 | 17 | 631 | 27.5 |
| Enterprise Mobility | 12 | 86 | (86) | 6 | 96.7 |
| | | | | | |
| EBIT Margin (%) | | | | | |
| Supply Chain | 8.0 | 8.4 | -45 bps | 7.9 | 12 bps |
| Enterprise Mobility | 3.3 | 9.4 | -614 bps | 2.1 | 112 bps |

# TCI Express

| BUY | CMP Rs964 | Target Rs1,120 | Upside 16.2% |
|---|---|---|---|

## Strong show - BUY

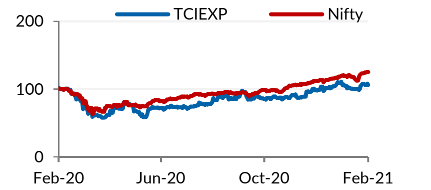
### Conference call takeaways

- ✓ **Volumes and Revenue:** Volumes stood at 0.215 MT during Q3 FY21 (0.225 MT in Q3 FY20). During 9M FY21 volumes stood at 0.46 MT vs 0.675 MT yoy. The revenue was affected due to slowdown in business (business slowed down post festive season in October) and evolving political situation in few parts of country which restricted the growth. Farmer protest had very miniscule impact on the revenue. The SME and corporate mix stood at 52%: 48% (value-wise). The revenue from air segment and e-com segment stood at 8% and 4% respectively. The Company is targeting to increase the share of air express to 10% E-comm proportion to 6-7% in coming years.
- ✓ **Price:** Price hike saw Realizations improved by ~2% during the quarter on blended basis
- ✓ **Demand:** Demand improved with the opening up of the economy and pick up in the business activities, most business near pre-Covid levels. October saw good demand growth due to festive season but November saw contraction in production across most sectors. Currently Machinery/Auto/Pharma doing well for the company. The other key segments that contribute to the revenue are Telecom, equipment, paints. None of the segments contribute more than 10%. Expects turnaround in textile segment.
- ✓ **Utilisation:** Capacity Utilisation stood at 86% for the quarter.
- ✓ **SME customers** too saw an improvement. October saw very good demand. Enquiries are coming from SME segment and has added few customers in this segment during the quarter
- ✓ **Margin:** The company reported gross margin of 32.3% vs 29.4 % YoY/ 32.2% QoQ. The margins improved on the back of 1) Healthy revenue 2) higher utilization 3) higher efficiency and 4) Digitisation. Targets to increase the Gross margin to 35% and reduce operating cost to 63-64% in coming years.
- ✓ **Labor cost:** Hikes given to the employees during the quarter which would reflect in Q4 FY22. Expects FY22 employee cost to be at FY20 levels or 2-3% higher.
- ✓ **Capex:** Incurred capex of Rs 150 mn in Q3 FY21 and Rs 410 mn during the 9M FY21 on the expansion of sorting centres and IT infrastructure. Pune sorting centre construction is complete and is expected to be operational in Q4 FY21. Delays in opening of Pune sorting centre was due to delay in receiving regulatory permissions due to Covid-19. The Company opened 20 new branches during 9MFY21 in the metro cities to deepen TCI Express presence (10 branches opened during 1H FY21). The company plans to commence Gurgaon sorting centre unit in Q1 FY22. The company plan to double the branch network in next 3-4 years remains intact.
- ✓ **Other Details** (1) The cash flow from operations and Free cash flow for 9MFY21 stood at Rs.857 mn and Rs.444 mn respectively (2) Interim dividend of Rs.2/sh declared (3) No of e-way bills increased in October but dipped in November due to contraction in production while it improved in December. (4) Currently has 28 sorting centres and 7-8 centres are under development.

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 1024 / 456 |
| Market cap (Rs/USD mn) | 37037 / 509 |
| Outstanding Shares (mn) | 38 |
| 6m Avg t/o (Rs mn): | 23 |
| Div yield (%): | 0.2 |
| Bloomberg code: | TCIEXP IN |
| NSE code: | TCIEXP |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | -1.0% | 19.6% | 4.2% |

**Shareholding pattern (As of Dec'21 end)**

| | |
|---|---|
| Promoter | 66.79% |
| FII+DII | 12.18% |
| Others | 21.03% |

**Δ in stance**

| (1-Yr) | New | Old |
|---|---|---|
| Rating | BUY | BUY |
| Target Price | 1,120 | 936 |

**▯ in earnings estimates**

| | FY21e | FY22e | FY23e |
|---|---|---|---|
| EPS (New) | 23.4 | 30.3 | 35.0 |
| EPS (Old) | 20.7 | 29.0 | - |
| % change | 13.0 | 4.5% | - |

**Financial Summary**

| | FY21e | FY22e | FY23e |
|---|---|---|---|
| Revenues | 8,341 | 10,641 | 12,189 |
| yoy growth (%) | (19.2) | 27.6 | 14.5 |
| Operating profit | 1,241 | 1,610 | 1,874 |
| OPM (%) | 14.9 | 15.1 | 15.4 |
| Reported PAT | 903 | 1,167 | 1,348 |
| yoy growth (%) | 1.4 | 29.2 | 15.5 |
| EPS (Rs) | 23.4 | 30.3 | 35.0 |
| P/E (x) | 41.1 | 31.8 | 27.5 |
| EV/EBITDA (x) | 29.6 | 22.7 | 19.4 |
| Debt/Equity (x) | 0.0 | 0.0 | 0.0 |
| RoE (%) | 23.8 | 24.8 | 23.5 |

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# TCI Express

**Our view:** While the volumes have been subdued, the margins have been a positive surprise. With the pickup in business activity, the volumes are expected to pick up in FY22/23. The addition of clients in SME segment and further pickup in Ecomm business would support growth. The asset light nature of business would allow the Company to capitalize on the expected improvement in business activity. We roll forward our estimates to FY23 and maintain our BUY rating on the stock for a revised target price of Rs.1120/sh (32x FY23).

## TCI Express Q3 FY21 Result Summary

- ✓ Revenue declined by 2% YoY (higher 23% QoQ) to Rs.2.6 bn. This was marginally lower than our estimates of Rs.2.8 bn
- ✓ The company reported gross margin of 32.3% vs 29.4 % YoY/ 32.2% QoQ. Operating profit saw sharp improvement (32% YoY) to Rs.453 mn as against a Rs.326 mn in Q2 FY21 which was impacted due to lockdown. Operating Margins improved to 17.3% vs 12.8% YoY/15.3% QoQ. The drop in cost was seen across employee cost, RM cost and other expenses.
- ✓ Higher operating profit saw APAT grow to Rs.336 mn during Q3 FY21 (Rs.255 mn in Q3 FY20). This was higher than our estimate of ~Rs.270 mn.
- ✓ The Company declared an Interim dividend of Rs.2 per share. (Record date – Feb 17)

### Exhibit 1: Result table (Consolidated)

| (Rs mn) | Q3 FY21 | Q3 FY20 | % yoy | Q2 FY21 | % qoq |
|---|---|---|---|---|---|
| Revenue | 2,625 | 2,684 | (2.2) | 2,130 | 23.3 |
| Operating Profit | 453 | 343 | 32.2 | 326 | 39.3 |
| OPM(%) | 17.3 | 12.8 | 449 bps | 15.3 | 198 bps |
| Other Income | 17 | 9 | 93.0 | 15 | 13.7 |
| Depreciation | (22) | (21) | 1.9 | (22) | - |
| Interest | (2) | (2) | 6.7 | (3) | (48.4) |
| PBT | 447 | 329 | 35.9 | 315 | 41.6 |
| Tax | (111) | (74) | 50.5 | (81) | 37.4 |
| APAT | 336 | 255 | 31.6 | 235 | 43.1 |

# Transport Corporation

| BUY | CMP Rs250 | Target Rs329 | Upside 31.7% |
|---|---|---|---|

## Robust outlook - BUY

### Conference call takeaways

- ✓ **TCI Freight business:** Revenue grew by 11% yoy on consolidated basis to Rs 4.1 bn. EBIT grew by 36% yoy to Rs.173 mn while EBIT margin stood at 4.2% vs 3.4% yoy/3.3% qoq. The company was able to ramp up operations to 85-90% amid increased movement of goods pent up demand and restocking due to festive season. The margins improved on the back of better cost management. Freight rates have increased due to fuel hikes and they have been able to pass on to large extent. The LTL mix which dropped marginally during the lockdown is improving and will be back to ~1/3 of the total mix. The farmers' protest had a very nominal impact on the business as the transportation of goods was done via alternative routes. Business was normal in the North with some difficulty.
- ✓ **Supply Chain business:** Revenues grew by 24% yoy to Rs 3 bn amid automotive demand revival and Growth in E-commerce & FMCG. Margins have been robust with better revenue realization and cost optimization measures. EBIT grew 52% yoy to Rs.200 mn. EBIT margins came higher at 6.7% vs 5.4% yoy/6.5% qoq. The Auto segment saw a good demand pickup along with FMCG and consumer durables segments. Heavy Machinery segment (Capital Goods) have dipped but it will revive once the capex cycle begins. Further infra support will also boost the demand. General consumption cargo is also seen good traction. The company is also into Yard management which has seen traction in recent times. The company owns 2 automotive rakes and it remains positive on the segment with growth coming in the auto segment. It does mix loading (2-3 customer coming together, and company gets larger business) in this vertical.
- ✓ **Seaways business:** Revenue grew by 5% yoy to Rs 1 bn with operations ramped up back to Pre-COVID levels amid high cargo volumes at ports. The EBIT margin stood at 22.6% vs 22.9% yoy/16.6% qoq. Margins compressed marginally due to higher depreciation on account of dry-dock amortization. The decision to sell a ship is due to 1) The ship that was sold had 400 TEU capacity and consumed fuel of an 800 TEU capacity vessel 2) the selling price of this ship has doubled 3) Dry dock for this ship will come in Sept-21 amounting Rs100 mn.
- ✓ **JV revenues during 9M FY21 stood as follows:** a) TCI Concor (Rs.2.4 bn) b) TCI ColdChain (Rs241 mn) c) Transystem (Rs.2.2 bn).

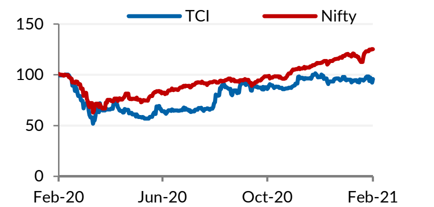
### Other details

- ✓ **Capex:** The company has spent Rs 870 mn till 9M FY21 and targets for Rs 1.5 Bn for FY21. The company is still looking for the right type of ship at right price. The capex of Rs400-500mn towards purchase of new ship may get delayed (FY22).
- ✓ **Dividend** of Rs1.2/sh has been announced.
- ✓ **Vaccine:** The company is in talks with one of the large manufacturing company for the last mile delivery. Don't foresee much long haul opportunity. When the vaccine programme will be available for the common public, that time may get some mid and last mile delivery. Overall opportunity is small as the vails are small in size and large volumes could be transported with lesser trips.
- ✓ **DFCC:** The company remains positive on the benefits that would accrue from commissioning of DFC. The Company's presence across verticals would help capitalize on the benefits of DFC.
- ✓ **Multi modal** helps the company in providing end to end service. It forms ~45-50% of the revenue.

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 280 / 122 |
| Market cap (Rs/USD mn) | 19241 / 264 |
| Outstanding Shares (mn) | 77 |
| 6m Avg t/o (Rs mn): | 17 |
| Div yield (%): | 0.9 |
| Bloomberg code: | TRPC IN |
| NSE code: | TCI |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | 1.7% | 7.8% | -2.9% |

**Shareholding pattern (As of Dec'21 end)**

| | |
|---|---|
| Promoter | 66.74% |
| FII+DII | 13.80% |
| Others | 19.46% |

**∆ in stance**

| (1-Yr) | New | Old |
|---|---|---|
| Rating | BUY | ADD |
| Target Price | 329 | 234 |

**□ in earnings estimates**

| | FY21e | FY22e | FY23e |
|---|---|---|---|
| EPS (New) | 16.7 | 21.1 | 27.5 |
| EPS (Old) | 13.8 | 18.0 | - |
| % change | 21.0% | 17.2% | - |

**Financial Summary**

| | FY21e | FY22e | FY23e |
|---|---|---|---|
| Revenues | 26,894 | 31,130 | 35,930 |
| yoy growth (%) | -1.0% | 15.7% | 15.4% |
| Operating profit | 2,398 | 2,878 | 3,557 |
| OPM (%) | 8.9% | 9.2% | 9.9% |
| Adjusted PAT | 1,291 | 1,625 | 2,116 |
| yoy growth (%) | -9.9% | 25.9% | 30.2% |
| EPS (Rs) | 16.7 | 21.1 | 27.5 |
| P/E (x) | 14.9 | 11.9 | 9.1 |
| EV/EBITDA (x) | 9.4 | 7.6 | 6.0 |
| Debt/Equity (x) | 0.3 | 0.3 | 0.2 |
| RoE(%) | 11.9 | 13.4 | 15.3 |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- ✓ **Warehousing:** Overall good demand in the warehousing side. The investments have increased in past few months. The demand has been able to match the growth of supply. May see double digit growth in coming year.
- ✓ **Customers:** The company has seen customer addition during the quarter and are in talks with few under different categories.
- ✓ **Scrapping policy:** The management is of the view that the voluntary scrapping of vehicles will be effective only if higher incentives are given.
- ✓ **IT system:** Many IT practices have been implemented at company level and at customer level for digitization of the process. However, as per the management, the customers are still asking for physical copy despite government rule of e-invoice.

**Our view:** Demand for logistics is likely to continue with the pickup in the economy and improving outlook. The pickup in the automotive will drive the demand in the supply chain segment while double digit growth is seen by the management in the warehousing segment. The Multi Modal operations catering to the end to end service will supplement the business post the commissioning of DFC. We maintain our FY21/FY22 earnings estimates and roll over to FY23 with revised target of Rs.329.

## Transport Corporation Q3 FY21 results: Robust performance

- ✓ Transport Corporation reported Consolidated topline growth of 14% yoy (to Rs.8.1 bn) led by robust demand from ecommerce, automotive, certain capital goods and other sectors. The company's end to end multimodal services to the neighbouring countries have provided new business opportunities. The revenues came higher than our estimates of Rs.6.7 bn.
- ✓ Freight division moved back on track and reported revenues of Rs.4.1 bn (11% yoy/ 16% qoq) while supply chain solutions business grew by 24% yoy/ 19% qoq.
- ✓ Seaways division posted 5% yoy revenue growth (to Rs.1bn).
- ✓ EBIT margins saw marked improvement in Freight segment (biggest revenue contributor). It stood at 4.2% during Q3 FY21 (3.4% in Q3 FY20).
- ✓ Overall Operating margin stood at 9.9% (+70 bps yoy).
- ✓ Exceptional item of Rs.104 mn was on account of impairment of asset under IND-AS 36.
- ✓ APAT stood at Rs.534 mn (64% yoy).

### Exhibit 1: Result table (Consolidated)

| Y/e 31 Mar (Rs mn) | Q3 FY21 | Q3 FY20 | yoy(%) | Q2 FY21 | qoq (%) |
|---|---|---|---|---|---|
| Revenue | 8,071 | 7,063 | 14.3 | 6,969 | 15.8 |
| Operating Profit | 797 | 648 | 23.0 | 622 | 28.0 |
| OPM(%) | 9.9 | 9.2 | 70 bps | 8.9 | 94 bps |
| Other Income | 46 | 57 | (19.9) | 66 | (30.0) |
| Depreciation | (233) | (215) | 8.3 | (209) | 11.4 |
| Interest | (63) | (89) | (29.2) | (69) | (8.4) |
| Exceptional item | (104) | - | NA | - | NA |
| PBT | 443 | 401 | 10.3 | 410 | 7.9 |
| Tax | (65) | (77) | (15.0) | (84) | (22.3) |
| Minority Interest | 52 | 19 | 173.2 | 47 | 11.6 |
| Reported PAT | 429 | 344 | 24.9 | 373 | 15.2 |
| Adjusted PAT | 534 | 344 | 55.3 | 373 | 43.2 |

## Exhibit 2: Segmental results (Consolidated)

| Particular | Q3 FY21 | Q3 FY20 | yoy(%) | Q2 FY21 | qoq (%) |
|---|---|---|---|---|---|
| **Revenue (Rs. mn)** | | | | | |
| Freight Division | 4,149 | 3,740 | 10.9 | 3,572 | 16.2 |
| Supply Chain Solution | 3,011 | 2,431 | 23.9 | 2,541 | 18.5 |
| Seaways Division | 1,038 | 989 | 4.9 | 932 | 11.3 |
| Energy Division | 3 | 5 | (43.5) | 17 | (84.5) |
| | | | | | |
| **Revenue Mix (%)** | | | | | |
| Freight Division | 50.6% | 52.2% | | 50.6% | |
| Supply Chain Solution | 36.7% | 33.9% | | 36.0% | |
| Seaways Division | 12.7% | 13.8% | | 13.2% | |
| Energy Division | 0.0% | 0.1% | | 0.2% | |
| | | | | | |
| **EBIT (Rs. mn)** | | | | | |
| Freight Division | 173 | 128 | 34.9 | 119 | 44.5 |
| Supply Chain Solution | 200 | 132 | 52.1 | 166 | 20.7 |
| Seaways Division | 235 | 226 | 3.8 | 155 | 52.0 |
| Energy Division | (3) | (13) | NA | 11 | NA |
| | | | | | |
| **EBIT Margin (%)** | | | | | |
| Freight Division | 4.2% | 3.4% | | 3.3% | |
| Supply Chain Solution | 6.7% | 5.4% | | 6.5% | |
| Seaways Division | 22.6% | 22.9% | | 16.6% | |
| Energy Division | -126.9% | -282.6% | | 64.3% | |

YES SECURITIES INSTITUTIONAL EQUITIES

# Materials

## Beginning of a new capex cycle!

### Highlights

- ✓ In the budget of FY21-22, Government of India delivered a clear message w.r.t their intent towards focus on growth and reforms. Accordingly, outlay towards infrastructure segment was increased by a mammoth 34.5% y/y along with sustained focus towards rural segment. This combined with pick-up in real estate segment (green shoots already visible) has given rise to animal spirits among building material companies – in-turn invigorating a new capex cycle!

- ✓ In terms of quarterly results, cement companies continue to display extremely strong numbers with better than expected profitability.

- ✓ Volume growth under coverage universe of cement stood at 9.3% y/y as compared to our expectation of 6.7% y/y. Companies with Eastern exposure continue to outperform on the volume front on the back of extremely healthy demand scenario in East market. Wtd. Average realization/te stood resilient at Rs 5,060 – an increase of 3.4% y/y vs our expected increase of 2.3% y/y. Wtd. Average EBITDA/te stood at Rs 1,221, translating into an improvement of 33.5% y/y as against our expectation of Rs 1,122. Accordingly, overall EBITDA growth stood strong at 46% y/y; vis-à-vis our estimates of 31% y/y growth.

- ✓ In terms of wood and wood panel industry, MDF segment continues to display robust demand growth of ~25% y/y. However, as a positive surprise, ply volumes for companies have started growing in double digits on the back of pick-up in tier 1 real estate market and pent-up demand. Laminates continue to witness modest recovery in demand – however, we expect the segment to start displaying strong growth from Q4FY21E onwards.

### Key capex announcements

- ✓ During the quarter gone by, UltraTech's proposed capacity expansion plan was a big positive surprise as the company envisages strong demand growth over the next decade. In addition to the already announced 6.7 MTPA expansion plan, UltraTech increased its total capacity addition to ~20 MTPA over FY21-FY23E.

- ✓ Shree targets to commission 6 MTPA grinding units (3 MTPA each in Odisha and Maharashtra) by Feb 21 along with 3 MTPA clinker expansion in Raipur over next 20 months. Further, the company maintains its long-term goal to scale up to 57 MTPA over next 3 years and 80 MTPA over next 7 years.

- ✓ Dalmia laid out its 3-5-year vision as the company plans to scale up from current 28.5 MTPA to 55-60 MTPA.

- ✓ JK Cement announced its greenfield capacity addition plan of 4 MTPA in Central India.

- ✓ STAR Cement announced its 5-year capacity addition plan where the company has ambitions to scale up from 5.7 MTPA currently to 10-12 MTPA with target markets of Bihar, West Bengal and North East region.

- ✓ Century ply plans to commission MDF capacity of 400 cbm/day through brownfield route in Punjab by Q4FY22E along with plans to setup greenfield MDF capacity of 700 cbm/day in South by FY23E

| Stock | Rating | TP |
|---|---|---|
| ACC | REDUCE | 1,845 |
| BIRLACORPN | BUY | 1,108 |
| DALBHARAT | UNDER REVIEW | - |
| INDIACEM | ADD | 155 |
| SAGCEM | ADD | 798 |
| SANGHIIND | UNDER REVIEW | - |
| STARCEMENT | BUY | 121 |
| ULTRACEMCO | BUY | 6,373 |
| CENTURYPLY | BUY | 356 |
| GREENPANEL | BUY | 230 |
| GREENPLY | BUY | 177 |
| GREENLAM | BUY | 1,190 |

**Note:** Target and Recommendation as on Result Date

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## Outlook

From a medium-term perspective, we continue to remain bullish on Central and North based players due to favorable supply-demand scenario while we remain cautious on pricing scenario in South (increase in probability of undercutting) and East (influx of effective capacity of ~12 MTPA over next 12-18 months). Further, we believe profitability of cement companies to remain under pressure going ahead due to sharp surge in input cost prices. Companies have highlighted of a possible 8-10% deterioration in per tonne profitability in Q4FY21E vs Q3FY21 (~total decline of 15-20% from Q2FY21).

### Exhibit 1: Q3 FY21 Results Snapshot

| Companies | Volumes (MT) | y/y | Net sales (Rs mn) | y/y | EBITDA (Rs mn) | y/y | EBITDA margin (%) | y/y (bps) |
|---|---|---|---|---|---|---|---|---|
| ACC | 7.70 | (1) | 41,447 | 2 | 7,008 | 30 | 16.9% | 358 |
| BIRLACORPN | 3.55 | 3 | 17,766 | 4 | 3,624 | 23 | 20.4% | 322 |
| DALBHARAT | 5.80 | 14 | 28,570 | 18 | 6,910 | 51 | 24.2% | 529 |
| INDIACEM | 2.38 | (11) | 11,847 | (5) | 2,230 | 72 | 18.8% | 838 |
| SAGCEM | 0.86 | 13 | 3,637 | 39 | 1,044 | 426 | 28.7% | 2,113 |
| SANGHIIND | 0.69 | 56 | 2,905 | 55 | 727 | 87 | 25.0% | 428 |
| SHREE | 7.03 | 18 | 33,094 | 16 | 10,890 | 28 | 32.9% | 310 |
| STARCEMENT | 0.69 | (8) | 4,234 | (6) | 840 | (11) | 19.8% | (99) |
| ULTRACEMCO | 23.88 | 14 | 122,541 | 17 | 30,943 | 56 | 25.3% | 630 |
| CENTURYPLY | NA | NA | 6,601 | 9 | 1,237 | 47 | 18.7% | 483 |
| GREENPANEL | NA | NA | 3,169 | 35 | 684 | 97 | 21.6% | 683 |
| GREENPLY | NA | NA | 3,404 | (2) | 417 | 5 | 12.3% | 76 |
| GREENLAM | NA | NA | 3,346 | (7) | 579 | 6 | 17.3% | 205 |

# ACC Ltd

| REDUCE | CMP Rs 1,766 | Target Rs 1,845 | Upside 5.6% |
|---|---|---|---|

## Results broadly in-line; downgrade from BUY to REDUCE due to lack of medium-term triggers

### Valuation & Outlook

- ✓ Q4CY20 of ACC was marked by distinct volume underperformance (-0.6% y/y) vis-à-vis industry growth rate (+5-7% y/y) and our estimates (+6% y/y). However, EBITDA/te at Rs 880 was ~8% higher than our estimates translating into EBITDA of Rs 7 bn for the quarter (vs. our estimates of Rs 6.97 bn).
- ✓ ACC has commissioned 1.4 MTPA brownfield grinding unit in Jharkhand during Jan 2021. Notwithstanding the fact that company's 4.8 MTPA expansion in Central market along with investments in WHRS system in East and Central plants would drive operating profits, these triggers remain fairly distant in nature as company would enjoy benefits of the same post CY22E.
- ✓ In the medium term, we expect volume/EBITDA CAGR of 12.2%/5.5% over CY20-CY22E. Further, balance sheet of ACC will continue to be strong as we expect net cash reserves to remain stable at ~Rs 60 bn despite expected capex of Rs 36 bn over next two years.
- ✓ We continue to assign EV/EBITDA multiple of 10x on CY22E and arrive at TP of Rs 1,845/share (previous TP of Rs 1,804). We downgrade ACC from BUY to REDUCE.

### Key Results Highlights:

- ✓ Cement volumes for the quarter stood at 7.71 MT ; a marginal decline of 0.6% y/y vis-à-vis expected growth of 6% y/y. RMC volumes were down 22% y/y at 0.73 mcm. We believe ACC has considerably underperformed w.r.t volumes as compared to industry growth rate (+5-7% y/y) and its peers (double digit growth).
- ✓ Blended NSR/te was Rs 5,203, declining sequentially by 2.2% (est. of 2.5% decline) but has improved by 3.6% y/y.
- ✓ Net sales for the company came in at Rs 41.45 bn – a growth of 2.1% y/y and 17.2% q/q but 6.5% below our estimates.
- ✓ However, profitability for ACC was better than our expectations as blended EBITDA/te was Rs 880 vis-à-vis our estimates of Rs 816. Although per tonne profitability improved by ~31.5% y/y (low base), it declined sequentially by ~13%. Accordingly, EBITDA for ACC stood at ~Rs 7bn (vs. our est. of Rs 6.97 bn) – witnessing growth of 29.5% y/y and 4.4% q/q.
- ✓ ACC has marked an exceptional charge of Rs 1.28 bn in other expenses and we have adjusted for the same to derive at core operating profits.

### Exhibit 1: Result Table

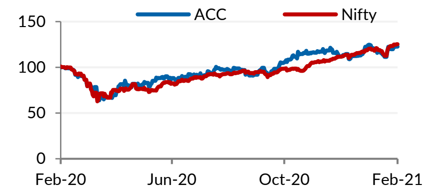
| Y/e 31 Mar (Rs mn) | Q4CY20* | Q3CY20 | qoq(%) | Q4CY19 | yoy (%) |
|---|---|---|---|---|---|
| Revenue | 41,447 | 35,373 | 17.2 | 40,603 | 2.1 |
| Operating Profit | 7,008 | 6,714 | 4.4 | 5,410 | 29.5 |
| OPM (%) | 16.9 | 19.0 | (207) bps | 13.3 | 358 bps |
| Other Income | 640 | 455 | 40.7 | 575 | 11.3 |
| Depreciation | 1,574 | 1,608 | (2.2) | 1,608 | (2.1) |
| EBIT | 6,074 | 5,561 | 9.2 | 4,377 | 38.8 |
| Interest | 174 | 160 | 8.6 | 293 | (40.6) |
| PBT | 2,890 | 5,407 | (46.5) | 4,133 | (30.1) |
| Tax | (1,835) | 1,768 | - | 1,400 | - |
| PAT | 4,724 | 3,639 | 29.8 | 2,733 | 72.9 |

Source: Company, YES Sec – Research

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 1814 / 895 |
| Market cap (Rs/USD mn) | 331585 / 4558 |
| Outstanding Shares (mn) | 188 |
| 6m Avg t/o (Rs mn): | 2,178 |
| Div yield (%): | 0.8 |
| Bloomberg code: | ACC IN |
| NSE code: | ACC |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | -1.6% | 5.4% | 23.4% |

**Shareholding pattern (As of Dec'21 end)**

| | |
|---|---|
| Promoter | 54.53% |
| FII+DII | 32.23% |
| Others | 13.09% |

**Δ in stance**

| (1-Yr) | New | Old |
|---|---|---|
| Rating | REDUCE | BUY |
| Target Price | 1845 | 1804 |

**Δ in earnings estimates**

| Rs Bn | CY20A | CY21E | CY22E |
|---|---|---|---|
| EBITDA (New) | 24.8 | 25.6 | 27.6 |
| EBITDA (Old) | 25.0 | 25.1 | 27.6 |
| % change | -0.54 | 2.04 | 0.24 |

**Financial Summary**

| Rs Mn | CY20A | CY21E | CY22E |
|---|---|---|---|
| Cement volumes (MTPA) | 25.53 | 29.08 | 31.8 |
| Revenues | 137860 | 160219 | 176405 |
| EBITDA | 24840 | 25565 | 27640 |
| EBITDA/te (Rs) | 944 | 843 | 834 |
| CFI | (7485) | (20000) | (16000) |
| Net debt | (60057) | (55788) | (60278) |
| Net debt/Eq (x) | (0.5) | (0.4) | (0.4) |
| Net debt/EBITDA (x) | (2.4) | (2.2) | (2.2) |
| ROE (%) | 11.3 | 11 | 10.1 |
| ROCE (%) | 16.2 | 15 | 13.8 |
| EV/EBITDA (x) | 8.5 | 10.7 | 9.9 |
| EV/ton ($) | 84 | 105 | 92 |

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### Exhibit 2: Per tonne analysis

| Per te (in Rs) | Q4CY20 | Q3CY20 | qoq(%) | Q4CY19 | yoy (%) |
|---|---|---|---|---|---|
| Cement volumes (MT) | 7.7 | 6.5 | 18.8 | 7.8 | (0.6) |
| Net realization | 5,203 | 5,318 | (2.2) | 5,022 | 3.6 |
| Raw Material cost | 1,077 | 1,023 | 5.3 | 1,177 | (8.5) |
| Employee cost | 314 | 309 | 1.4 | 288 | 8.8 |
| Power and fuel cost | 945 | 947 | (0.2) | 916 | 3.2 |
| Freight cost | 1,273 | 1,293 | (1.6) | 1,218 | 4.5 |
| Other expenses | 715 | 737 | (2.9) | 754 | (5.1) |
| EBITDA | 880 | 1,010 | (12.9) | 669 | 31.5 |

Source: Company, YES Sec – Research

### Exhibit 3: Financial Summary

| Y/e 31 Dec (In Rs mn) | CY19A | CY20A | CY21E | CY22E |
|---|---|---|---|---|
| Cement volumes (MTPA) | 28.89 | 25.53 | 29.08 | 31.80 |
| Revenues | 156,576 | 137,860 | 160,219 | 176,405 |
| EBITDA | 24,128 | 24,840 | 25,565 | 27,640 |
| EBITDA/te (Rs) | 801 | 944 | 843 | 834 |
| CFI | (3,217) | (7,485) | (20,000) | (16,000) |
| Net debt | (46,477) | (60,057) | (55,788) | (60,278) |
| Net debt/Equity (x) | (0.4) | (0.5) | (0.4) | (0.4) |
| Net debt/EBITDA (x) | (1.9) | (2.4) | (2.2) | (2.2) |
| ROE (%) | 11.9 | 11.3 | 11.0 | 10.1 |
| ROCE (%) | 18.4 | 16.2 | 15.0 | 13.8 |
| EV/EBITDA (x) | 8.5 | 8.5 | 10.7 | 9.9 |
| EV/ton ($) | 87 | 84 | 105 | 92 |

Source: Company, YES Sec – Research

**Q3 FY21 Result Review** | Sector: Cement

# Birla Corporation Ltd

| BUY | CMP Rs 825 | Target Rs 1,108 | Upside 34.3% |
|---|---|---|---|

## Results in-line; maintain TP of Rs 1,108

### Valuation & Outlook

- ✓ Post scaling up from 15.4 MTPA currently to 20.5 MTPA by Q1FY23E, BCORP plans to further scale up to 25 MTPA by 2025. We believe the company would increase capacity by ~65% over FY21E-FY25E with 85% of capex being self-funded.
- ✓ We keep our financial projections intact with expectation of volume/EBITDA CAGR at 14.7%/8.8% respectively over FY21E-FY23E. Further, we expect increase in net debt to be limited to ~Rs 4 bn (bear case scenario) over FY20-FY23E with peak net debt/EBITDA of 2.74x in FY21E which should decline to 2.34x by FY23E translating into balance sheet stability.
- ✓ We assign an EV/EBITDA multiple of 8x on Sep-22E and maintain our TP of Rs 1,108/share. **We maintain our BUY rating on the stock.**
- ✓ Key Risk: Any adverse outcome of on-going legal tussle w.r.t legacy would result into de-rating of the stock

### Key Results & Con-call Highlights:

- ✓ Birla Corp delivered volume growth of 3.2% y/y for Q3FY21 – at 3.55 MT vs our est. of 3.53 MT. Capacity utilization for the company stood amongst the highest in the industry at 92% during the quarter. Premium segment sales continue to be on the rise – at 53% of trade channel sales vs 41% in Q3FY20.
- ✓ Net sales realization/te stood at Rs 5,005 (+0.4% y/y and -1.4% q/q) vs our est. of Rs 5,004.
- ✓ Net sales for the quarter came in at Rs 17.76 bn; growing by 3.6% y/y – vs our est. of Rs 17.66 bn.
- ✓ Excluding one-off charges, BCORP's EBITDA stood at Rs 3.62 bn (vs our est. of Rs 3.56 bn) which was up by 23% y/y and down 5.3% q/q. Operational EBITDA/te was also broadly in-line with our estimates at Rs 1,021, witnessing an increase of ~19.2% y/y. On the back of efficiency improvement measures and softer input costs on y/y basis, BCORP's clinker production cost/te has declined by 10.2% y/y.
- ✓ In terms of capacity addition, BCORP plans to commission 3.9 MTPA IU at Mukutban, Maharashtra by Q3FY22E and 1.2 MTPA GU at Kundanganj, UP by Q1FY23E

### Exhibit 1: Result Table

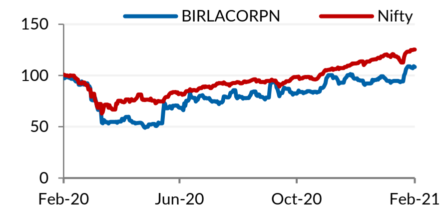
| Y/e 31 Mar (Rs mn) | Q3FY21 | Q2FY21 | qoq(%) | Q3FY20 | yoy (%) |
|---|---|---|---|---|---|
| Revenue | 17,766 | 16,543 | 7.4 | 17,151 | 3.6 |
| Operating Profit | 3,624 | 3,827 | (5.3) | 2,946 | 23.0 |
| OPM (%) | 20.4 | 23.1 | (274) | 17.2 | 322 |
| Other Income | 462 | 212 | 118.3 | 203 | 127.1 |
| Depreciation | 908 | 918 | (1.1) | 884 | 2.7 |
| Interest | 730 | 760 | (4.0) | 977 | (25.4) |
| PBT | 2,122 | 2,361 | (10.1) | 1,289 | 64.7 |
| Tax | 638 | 694 | (8.1) | 474 | 34.7 |
| PAT | 1,484 | 1,666 | (10.9) | 815 | 82.1 |

Source: Company, YES Sec – Research

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/I (Rs) | 850 / 372 |
| Market cap (Rs/USD mn) | 63502 / 873 |
| Outstanding Shares (mn) | 77 |
| 6m Avg t/o (Rs mn): | 190 |
| Div yield (%): | 0.9 |
| Bloomberg code: | BCORP IN |
| NSE code: | BIRLACORPN |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | 11.1% | 11.2% | 11.1% |

**Shareholding pattern (As of Dec'20 end)**

| | |
|---|---|
| Promoter | 62.90% |
| FII+DII | 17.39% |
| Others | 19.71% |

**Δ in stance**

| (1-Yr) | New | Old |
|---|---|---|
| Rating | BUY | BUY |
| Target Price | 1108 | 1108 |

**Δ in earnings estimates**

| Rs Bn | FY21e | FY22e | FY23e |
|---|---|---|---|
| EBITDA (New) | 13.6 | 14.7 | 16.0 |
| EBITDA (Old) | 13.6 | 14.6 | 16.0 |
| % change | -0.15 | 0.39 | 0.24 |

**Financial Summary**

| Rs Mn | FY21E | FY22E | FY23E |
|---|---|---|---|
| Cement vol (MTPA) | 13.05 | 15.09 | 17.17 |
| Revenues | 64,925 | 74,850 | 85,737 |
| EBITDA | 13,550 | 14,660 | 16,044 |
| EBITDA/te (Rs) | 1,039 | 971 | 935 |
| CFI | (9,159) | (7,950) | (9,750) |
| Net debt | 37,184 | 36,654 | 37,480 |
| Net debt/Equity (x) | 0.7 | 0.63 | 0.59 |
| Net debt/EBITDA (x) | 2.74 | 2.5 | 2.34 |
| ROE (%) | 10.2 | 9.8 | 9.6 |
| ROCE (%) | 11.1 | 11 | 10.7 |
| EV/EBITDA (x) | 6.8 | 6.3 | 5.8 |
| EV/ton ($) | 86 | 64 | 65 |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- ✓ **Total debt** of BCORP stood at Rs 40.99 bn vs Rs 41.72 bn in Q3FY20 despite investing a sum of Rs 7.32 bn for Mukutban plant – showcasing strong cash flow generation by the company. **Borrowing cost** stood at 7.82% in Q3FY21 – 104 bps lower than Q3FY20.

### Exhibit 2: Per tonne analysis

| Per te (in Rs) | Q3FY21 | Q2FY21 | qoq(%) | Q3FY20 | yoy (%) |
|---|---|---|---|---|---|
| Cement volumes (MT) | 3.55 | 3.26 | 8.9 | 3.44 | 3.2 |
| Net realization | 5,005 | 5,074 | (1.4) | 4,986 | 0.4 |
| Raw Material cost | 822 | 676 | 21.6 | 1,046 | (21.4) |
| Employee cost | 289 | 309 | (6.4) | 304 | (4.9) |
| Power and fuel cost | 940 | 973 | (3.5) | 916 | 2.5 |
| Freight cost | 989 | 958 | 3.2 | 973 | 1.7 |
| Other expenses | 944 | 984 | (4.1) | 890 | 6.0 |
| EBITDA | 1,021 | 1,174 | (13.0) | 856 | 19.2 |

Source: Company, YES Sec – Research

### Exhibit 3: Financial Summary

| Y/e 31 Mar (Rs mn) | FY20 | FY21E | FY22E | FY23E |
|---|---|---|---|---|
| Cement volumes (MTPA) | 13.80 | 13.05 | 15.09 | 17.17 |
| Revenues | 69,157 | 64,925 | 74,850 | 85,737 |
| EBITDA | 13,360 | 13,550 | 14,660 | 16,044 |
| EBITDA/te (Rs) | 968 | 1,039 | 971 | 935 |
| CFI | (11,840) | (9,159) | (7,950) | (9,750) |
| Net debt | 33,500 | 37,184 | 36,654 | 37,480 |
| Net debt/Equity (x) | 0.70 | 0.70 | 0.63 | 0.59 |
| Net debt/EBITDA (x) | 2.51 | 2.74 | 2.50 | 2.34 |
| ROE (%) | 10.5 | 10.2 | 9.8 | 9.6 |
| ROCE (%) | 11.8 | 11.1 | 11.0 | 10.7 |
| EV/EBITDA (x) | 4.9 | 6.8 | 6.3 | 5.8 |
| EV/ton ($) | 61 | 86 | 64 | 65 |

Source: Company, YES Sec – Research

# India Cements Ltd

| ADD | CMP Rs 171 | Target Rs 155 | Downside (9.3%) |
|---|---|---|---|

## Results in-line; balance sheet deleveraging to continue

### Valuation & Outlook

- ✓ We expect ICEM to close FY21E with volume de-growth of 17.4% y/y at 9.11 MT while EBITDA should stand at Rs 8.27 bn (+40% y/y). Going ahead, our financial projections are largely intact with volume/EBITDA CAGR of 13.8%/2.4% over FY21E-FY23E. Further, we expect balance sheet de-leveraging drive of ICEM to continue with net debt reduction from Rs 35.2 bn in FY20 to Rs 21.9 bn by FY23E.
- ✓ **We assign EV/te multiple of $60 on FY23E and arrive at TP of Rs 155/share.** However, we maintain our ADD rating on the stock as our long-term thesis remains intact for ICEM i.e. in a scenario of structural improvements in management profile, operating arbitrage remains significantly high.

### Key Results & Con-call Highlights:

- ✓ ICEM witnessed volume de-growth of 10.8% y/y during the quarter with volumes at 2.38 MT vs our est. of 2.53 MT. Although ICEM tried to chase demand in East with higher volume dispatches, subdued demand scenario in South weighed on overall volume trajectory. ICEM highlighted of benefitting from 15% railway freight concession for moving clinker from South to East which has encouraged the company to sell higher material in Eastern market. Further, for Southern markets, company continues to maintain a pricing over volume strategy.
- ✓ Blended sales realization/te stood at Rs 4,978 (+6.7% y/y and -3.6% q/q) vs our est. of Rs 4,930. Decline in realization sequentially was primarily on the back of change in sales mix – trade sales at 51% during Q3FY21 vs 56% in Q2FY21.
- ✓ Net sales for the quarter came in at Rs 11.85 bn; a decline of 4.8% y/y – vs our est. of Rs 12.46 bn.
- ✓ ICEM's EBITDA in Q3FY21 at Rs 2.23 bn was in-line with our est. of Rs 2.21 bn – translating into growth of 71.6% y/y and decline of 8.2% q/q. EBITDA/te at Rs 937 (est. of Rs 876) during the quarter witnessed a sharp improvement of 92.3% y/y primarily on account of (1) tight control on fixed costs/te (-9% y/y), (2) 6.7% y/y increase in realizations due to low base and (3) softer input cost curve (clinker production cost/te was down ~6% y/y). However, ICEM's freight cost/te increased by 6.1% y/y and 8% q/q due to increase in lead distance as company chased volumes in Eastern markets. Going ahead, company expects input costs to inch higher from Mar 21 with probable increase in energy costs to the tune of 10-15% sequentially.

### Exhibit 1: Result Table

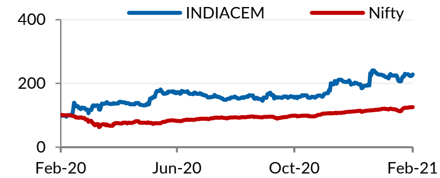
| Y/e 31 Mar (Rs mn) | Q3FY21 | Q2FY21 | qoq(%) | Q3FY20 | yoy (%) |
|---|---|---|---|---|---|
| Revenue | 11,847 | 10,900 | 8.7 | 12,443 | (4.8) |
| Operating Profit | 2,230 | 2,428 | (8.2) | 1,300 | 71.6 |
| OPM (%) | 18.8 | 22.3 | (345.2) | 10.4 | 838.1 |
| Other Income | 46 | 46 | (1.3) | 67 | (31.6) |
| Depreciation | 616 | 613 | 0.6 | 637 | (3.2) |
| Interest | 698 | 724 | (3.6) | 872 | (19.9) |
| PBT | 985 | 1,107 | (11.0) | (137) | - |
| Tax | 268 | 384 | (30.1) | (48) | - |
| PAT | 679 | 692 | (1.9) | (88) | - |

Source: Company, YES Sec – Research

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 186 / 70 |
| Market cap (Rs/USD mn) | 52992 / 728 |
| Outstanding Shares (mn) | 310 |
| 6m Avg t/o (Rs mn): | 371 |
| Div yield (%): | 0.4 |
| Bloomberg code: | ICEM IN |
| NSE code: | INDIACEM |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | 1.5% | 36.5% | 131.1% |

**Shareholding pattern (As of Dec'20 end)**

| | |
|---|---|
| Promoter | 28.42% |
| FII+DII | 21.65% |
| Others | 49.92% |

**Δ in stance**

| (1-Yr) | New | Old |
|---|---|---|
| Rating | ADD | ADD |
| Target Price | 155 | 142 |

**Δ in earnings estimates**

| Rs Bn | FY21e | FY22e | FY23e |
|---|---|---|---|
| EBITDA (New) | 8.3 | 7.9 | 8.7 |
| EBITDA (Old) | 8.4 | 7.5 | 8.1 |
| % change | -1.85 | 5.80 | 6.52 |

**Financial Summary**

| Rs Mn | FY21E | FY22E | FY23E |
|---|---|---|---|
| Cement vol (MTPA) | 9.1 | 11 | 11.8 |
| Revenues | 45903 | 54528 | 58665 |
| EBITDA | 8274 | 7935 | 8671 |
| EBITDA/te (Rs) | 909 | 720 | 735 |
| CFI | (1000) | (1000) | (1000) |
| Net debt | 30258 | 26645 | 21904 |
| Net debt/Equity (x) | 0.5 | 0.4 | 0.3 |
| Net debt/EBITDA (x) | 3.7 | 3.4 | 2.5 |
| ROE (%) | 4.3 | 4.1 | 5.1 |
| ROCE (%) | 6.9 | 6.6 | 7.5 |
| EV/EBITDA (x) | 9.9 | 9.8 | 8.5 |
| EV/ton ($) | 70 | 67 | 63 |

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- ICEM has managed to reduce net debt by Rs 3 bn during 9MFY21 with expected reduction of Rs 1.5 bn in Q4FY21E translating into total net debt of Rs 30.5 bn by FY21E. ICEM targets to further reduce net debt by Rs 4-4.5 bn in FY22E. Average cost of debt stood at 8.39%. In terms of capex plans, ICEM plans to commission a WHRS plant at Chilamkur unit over FY22E-FY23E.

### Exhibit 2: Per tonne analysis

| Per te (in Rs) | Q3FY21 | Q2FY21 | qoq(%) | Q3FY20 | yoy (%) |
|---|---|---|---|---|---|
| Cement volumes (MT) | 2.38 | 2.11 | 12.8 | 2.67 | (10.8) |
| Net realization | 4,978 | 5,166 | (3.6) | 4,665 | 6.7 |
| Raw Material cost | 781 | 968 | (19.3) | 994 | (21.4) |
| Employee cost | 339 | 357 | (4.9) | 334 | 1.6 |
| Power and fuel cost | 1,263 | 1,088 | 16.1 | 1,169 | 8.1 |
| Freight cost | 1,101 | 1,019 | 8.0 | 1,037 | 6.1 |
| Other expenses | 556 | 583 | (4.6) | 644 | (13.7) |
| EBITDA | 937 | 1,151 | (18.6) | 487 | 92.3 |

Source: Company, YES Sec – Research

### Exhibit 3: Financial Summary

| Y/e 31 Mar (Rs mn) | FY20 | FY21E | FY22E | FY23E |
|---|---|---|---|---|
| Cement volumes (MTPA) | 11.0 | 9.1 | 11.0 | 11.8 |
| Revenues | 51,865 | 45,903 | 54,528 | 58,665 |
| EBITDA | 5,948 | 8,274 | 7,935 | 8,671 |
| EBITDA/te (Rs) | 540 | 909 | 720 | 735 |
| CFI | (2,819) | (1,000) | (1,000) | (1,000) |
| Net debt | 35,239 | 30,258 | 26,645 | 21,904 |
| Net debt/Equity (x) | 0.6 | 0.5 | 0.4 | 0.3 |
| Net debt/EBITDA (x) | 5.9 | 3.7 | 3.4 | 2.5 |
| ROE (%) | 0.9 | 4.3 | 4.1 | 5.1 |
| ROCE (%) | 4.2 | 6.9 | 6.6 | 7.5 |
| EV/EBITDA (x) | 11.9 | 9.9 | 9.8 | 8.5 |
| EV/ton ($) | 65 | 70 | 67 | 63 |

Source: Company, YES Sec – Research

**Q3 FY21 Result Review** | Sector: Cement

# Sagar Cements Ltd

| ADD | CMP Rs 701 | Target Rs 798 | Upside 13.8% |
|---|---|---|---|

## Maintain ADD, upgrade TP from Rs 745 to Rs 798

### Valuation & Outlook

- ✓ Commissioning of 1 MTPA integrated unit in Indore, MP and 1.5 MTPA grinding unit in Jajpur, Odisha by Sep 21E would result into geographical diversification of volume and structurally improve the business model of Sagar. The current exposure in South should reduce from 82% currently to 55% by FY23E. Ramp-up of new plants along with improvement of demand scenario in South should result into volume CAGR of 31% over FY21E-FY23E from 3.10 MT to 5.33 MT.
- ✓ Led by extremely strong pricing scenario in South during 9MFY21 combined with low base, softer cost curve and cost rationalization measures has resulted into EBITDA growth of 110% y/y for Sagar during 9MFY21 while we expect full year growth to hover around 103% y/y. However, factoring in pricing normalization in Southern markets and input costs hike for overall industry from FY22E onwards, we expect EBITDA/te at Rs 702/Rs 712 for FY22E/FY23E respectively vis-à-vis Rs 1,217 for FY21E. Effectively, we expect earnings to be cyclical over FY21E-FY23E while EBITDA CAGR to be flat during the same period.
- ✓ Robust earnings profile and cash flow generation during 9MFY21 has provided cushion to on-going capex plans. We estimate peak net debt (full year basis) of Rs 6.76 bn in FY22E (previous estimate of Rs 7.32 bn in FY22E) vs Rs 5.57 bn currently. We expect peak net debt/EBITDA (full year basis) to hover around 2.3x in FY22E.
- ✓ We assign an EV/EBITDA multiple of 7x on Sep-22E and arrive at TP of Rs 798/share (previous TP of Rs 745/share). We maintain our ADD rating on the stock. Further upgrades in earnings estimates and stock price would depend upon sustainability of strong pricing in South.

### Key Con-call Highlights:

- ✓ Sagar delivered volume growth of 13% y/y during the quarter on the back of stable IHB and rural demand and pick-up in Govt projects. State specific dynamics-Normalization has been achieved in Andhra/Tamil Nadu/Kerala/Karnataka/Odisha while demand scenario remains subdued in Telangana due to muted govt spends. Demand in South is expected to witness de-growth of 7-10% y/y for FY21E.
- ✓ South and West experienced marginal pricing decline during the quarter while the decline in Odisha market was more pronounced. Management expects pricing to remain stable in Q4FY21E vis-à-vis Q3FY21.

### Exhibit 1: Result Table

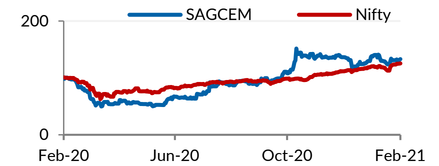
| Y/e 31 Mar (Rs mn) | Q3FY21 | Q2FY21 | qoq(%) | Q3FY20 | yoy (%) |
|---|---|---|---|---|---|
| Revenue | 3,637 | 3,259 | 11.6 | 2,621 | 38.8 |
| Operating Profit | 1,044 | 1,048 | (0.3) | 199 | 425.7 |
| OPM (%) | 28.7 | 32.1 | (344) bps | 7.6 | 2113 bps |
| Other Income | 20 | 33 | (40) | 5 | 1520 |
| Depreciation | 203 | 202 | 0.5 | 205 | (0.6) |
| Interest | 113 | 117 | (3.3) | 157 | (28.5) |
| PBT | 748 | 762 | (1.8) | (159) | - |
| Tax | 252 | 260 | (3.0) | (68) | - |
| PAT | 495 | 501 | (1.1) | (91) | - |

Source: Company, YES Sec – Research

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 821 / 236 |
| Market cap (Rs/USD mn) | 16477 / 226 |
| Outstanding Shares (mn) | 24 |
| 6m Avg t/o (Rs mn): | 35 |
| Div yield (%): | 0.3 |
| Bloomberg code: | SGC IN |
| NSE code: | SAGCEM |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | -3.6% | -2.0% | 36.6% |

**Shareholding pattern (As of Dec'21 end)**

| | |
|---|---|
| Promoter | 50.16% |
| FII+DII | 15.09% |
| Others | 34.74% |

**Δ in stance**

| (1-Yr) | New | Old |
|---|---|---|
| Rating | ADD | ADD |
| Target Price | 798 | 745 |

**Δ in earnings estimates**

| Rs Bn | FY21e | FY22e | FY23e |
|---|---|---|---|
| EBITDA (New) | 3.8 | 2.9 | 3.8 |
| EBITDA (Old) | 3.0 | 2.8 | 3.7 |
| % change | 24.78 | 5.02 | 3.63 |

**Financial Summary**

| Rs Mn | FY21E | FY22E | FY23E |
|---|---|---|---|
| Cement vol (MTPA) | 3.1 | 4.2 | 5.33 |
| Revenues | 13322 | 16900 | 22408 |
| EBITDA | 3772 | 2948 | 3799 |
| EBITDA/te (Rs) | 1217 | 702 | 712 |
| CFI | (4200) | (2030) | (200) |
| Net debt | 6410 | 6762 | 4953 |
| Net debt/Equity (x) | 0.54 | 0.54 | 0.36 |
| Net debt/EBITDA (x) | 1.7 | 2.29 | 1.3 |
| ROE (%) | 14.59 | 7.08 | 8.96 |
| ROCE (%) | 16.64 | 10.42 | 14.58 |
| EV/EBITDA (x) | 6.1 | 7.9 | 5.7 |
| EV/ton ($) | 53 | 38 | 35 |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# Sagar Cements Ltd

- ✓ In terms of incremental supply, Southern market is expected to witness capacity increase by Ramco in Kurnool district while Penna and Chettinad are expected to ramp-up their expanded capacity until Q1FY22E. On the other hand, Eastern market is set to witness capacity increase of 10-12 MTPA over next 12 months.
- ✓ With sharp increase in pet-coke prices, Sagar had switched to Australian coal in Q3FY21 at $57/te translating into landed cost of ~Rs 1.1 per kcal. The same coal stock hedging is expected to exhaust by June 2021. Current spot prices of Australian coal is hovering around $72/te translating into landed cost of ~Rs 1.3 per kcal – increase of ~20% from current consumption levels.
- ✓ For upcoming capacities at Indore and Jajpur, Sagar has incurred capex of Rs 3 bn for 9MFY21 with planned investment of Rs 1.25 bn for Q4FY21E. Remaining capex of Rs 1.25 bn would be incurred in H1FY22. Sagar expects peak net debt of Rs 7.5 bn in H1FY22E as against net debt of Rs 5.57 bn currently.

### Exhibit 2: Per tonne analysis

| Per te (in Rs) | Q3FY21 | Q2FY21 | qoq(%) | Q3FY20 | yoy (%) |
|---|---|---|---|---|---|
| Cement volumes (MT) | 0.86 | 0.72 | 19.3 | 0.76 | 12.7 |
| Net realization | 4,224 | 4,514 | (6.4) | 3,431 | 23.1 |
| Raw Material cost | 811 | 654 | 24.0 | 920 | (11.9) |
| Employee cost | 204 | 290 | (29.7) | 209 | (2.8) |
| Power and fuel cost | 784 | 844 | (7.1) | 821 | (4.5) |
| Freight cost | 740 | 769 | (3.8) | 714 | 3.6 |
| Other expenses | 473 | 505 | (6.4) | 507 | (6.7) |
| EBITDA | 1,213 | 1,451 | (16.4) | 260 | 366.5 |

Source: Company, YES Sec – Research

### Exhibit 3: Financial Summary

| Y/e 31 Mar (Rs mn) | FY20 | FY21E | FY22E | FY23E |
|---|---|---|---|---|
| Cement volumes (MTPA) | 3.13 | 3.10 | 4.20 | 5.33 |
| Revenues | 11,752 | 13,322 | 16,900 | 22,408 |
| EBITDA | 1,855 | 3,772 | 2,948 | 3,799 |
| EBITDA/te (Rs) | 592 | 1,217 | 702 | 712 |
| CFI | (2,270) | (4,200) | (2,030) | (200) |
| Net debt | 4,753 | 6,410 | 6,762 | 4,953 |
| Net debt/Equity (x) | 0.49 | 0.54 | 0.54 | 0.36 |
| Net debt/EBITDA (x) | 2.56 | 1.70 | 2.29 | 1.30 |
| ROE (%) | 2.74 | 14.59 | 7.08 | 8.96 |
| ROCE (%) | 7.61 | 16.64 | 10.42 | 14.58 |
| EV/EBITDA (x) | 6.1 | 6.1 | 7.9 | 5.7 |
| EV/ton ($) | 28 | 53 | 38 | 35 |

Source: Company, YES Sec – Research

Q3 FY21 Result Review | Sector: Cement

YES SECURITIES INSTITUTIONAL EQUITIES

# Sanghi Industries Ltd

| UNDER REVIEW | CMP Rs 40 | | |
|---|---|---|---|

## Outperformance led by buoyant demand scenario in Gujarat market

### Valuation & Outlook

- ✓ Sanghi delivered exceptional set of numbers during Q3FY21 with outperformance both on volume dispatches and margin front.
- ✓ Led by extremely buoyant demand scenario in Gujarat market (partly pent-up), Sanghi's cement volumes came in at 0.69 MT (vs. our est. of 0.53 MT) – a massive growth of 56.1% y/y. Further, company expects to commission Kutch integrated unit in Q4FY21E and targets to fully ramp up the expanded capacity over next 3-4 years.
- ✓ Further, company managed to maintain superior profitability with costs control on freight and other expenses translating into EBITDA/te of Rs 1058 for Q3FY21 (vs our est. of Rs 920) – translating into 20% y/y improvement. Accordingly, EBITDA grew by 87% y/y to Rs 727 mn (est. of Rs 487 mn).
- ✓ Sanghi has managed to increase volume dispatches through market share gains and healthy demand scenario in Gujarat market. However, due to extreme volatility in earning trends, we have kept the stock "UNDER REVIEW" as we remain skeptical w.r.t whether the improvement in performance is structural or led by pent-up demand.

### Key result and con-call highlights:

- ✓ **Volumes**: Company reported total sales of 687,000 Te (Vs 390,000 Te in previous quarter) wherein clinker sales were 57,000 Te and Cement sales was 630,000 Te.
- ✓ **Regional mix:** Gujarat formed ~83% of total sales and 17% constituted other regions.
- ✓ **Prices** have largely remained flat as compared to Q3FY20 in Gujarat. However, states of Maharashtra, Rajasthan and Kerala are witnessing improvement in prices.
- ✓ **Commissioning of New Capacity** got delayed due to unavailability of labor and Covid related regulations. However, management is confident of commissioning the plant from March 2021. The new plant will take ~3 years to ramp-up. Company aims to export clinkers from new capacities, however primary focus will remain on cement sales.

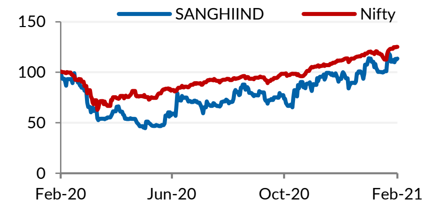
### Exhibit 1: Result table

| Y/e 31 Mar (Rs mn) | Q3FY21 | Q2FY21 | qoq(%) | Q3FY20 | yoy (%) |
|---|---|---|---|---|---|
| Revenue | 2,905 | 1,718 | 69.1 | 1,872 | 55.2 |
| Operating Profit | 727 | 362 | 100.7 | 388 | 87.3 |
| OPM (%) | 25.0 | 21.1 | 394.6 | 20.7 | 428.4 |
| Other Income | 28 | 17 | 62.7 | 24 | 14.6 |
| Depreciation | 159 | 155 | 2.6 | 155 | 2.7 |
| Interest | 175 | 183 | (4.0) | 208 | (15.6) |
| PBT | 420 | 42 | 912.8 | 50 | 748.6 |
| Tax | 0 | 0 | 0.0 | 0 | 0.0 |
| PAT | 420 | 42 | 912.8 | 50 | 748.6 |

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 43 / 14 |
| Market cap (Rs/USD mn) | 10027 / 138 |
| Outstanding Shares (mn) | 251 |
| 6m Avg t/o (Rs mn): | 65 |
| Div yield (%): | - |
| Bloomberg code: | SNGI IN |
| NSE code: | SANGHIIND |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | -0.4% | 29.1% | 14.5% |

**Shareholding pattern (As of Dec'20 end)**

| | |
|---|---|
| Promoter | 70.33% |
| FII+DII | 4.02% |
| Others | 25.65% |

**Δ in stance**

| (1-Yr) | New | Old |
|---|---|---|
| Rating | UNDER REVIEW | SELL |
| Target Price | - | 19 |

**Δ in earnings estimates**

| (Rs bn) | FY21e | FY22e | FY23e |
|---|---|---|---|
| EBITDA (New) | 2.20 | 2.75 | 3.35 |
| EBITDA (Old) | 1.78 | 2.33 | 2.97 |
| % change | 23.8 | 18.0 | 12.7 |

**Financial Summary**

| Rs Mn | FY21e | FY22e | FY23e |
|---|---|---|---|
| Cement vol (MTPA) | 2.13 | 3.07 | 3.80 |
| Revenues | 9,437 | 18,167 | 23,554 |
| EBITDA | 2,203 | 2,750 | 3,346 |
| EBITDA/te (Rs) | 1,035 | 897 | 882 |
| CFI | (3,404) | (200) | (200) |
| Net debt | 12,725 | 11,822 | 9,957 |
| Net debt/Equity (x) | 0.71 | 0.63 | 0.49 |
| Net debt/EBITDA (x) | 5.78 | 4.30 | 2.98 |
| ROE (%) | 4.55 | 4.38 | 7.61 |
| ROCE (%) | 5.10 | 6.16 | 8.20 |
| EV/EBITDA (x) | 10.16 | 7.81 | 5.86 |
| EV/ton ($) | 49 | 47 | 43 |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- **Reduction in RM cost** was mainly due to reduction in cost of gypsum. Also, Q3FY20 has an exceptional item of "clinker purchases". However, excluding the same company saved ~17-18% on RM cost as compared to Q3FY20.
- **Lignite Mix:** In order to mitigate rise in pet coke prices, company started procuring lignite which is cheaper Vs imported coal prices from GMDC. This enabled them to off-set overall rise in power and fuel cost.
- **Fund Raise** is mainly for debt substitution and lower the cost of capital.

### Exhibit 2: Per tonne analysis

| Per te (in Rs) | Q3FY21 | Q2FY21 | qoq(%) | Q3FY20 | yoy (%) |
|---|---|---|---|---|---|
| Cement volumes (MT) | 0.69 | 0.39 | 76.2 | 0.44 | 56.1 |
| Net realization | 4,229 | 4,406 | (4.0) | 4,254 | (0.6) |
| Cost of production | 1,496 | 1,469 | 1.8 | 1,344 | 11.4 |
| Employee cost | 164 | 275 | (40.5) | 283 | (42.1) |
| Freight cost | 1,181 | 1,311 | (10.0) | 1,257 | (6.0) |
| Other expenses | 330 | 422 | (21.8) | 488 | (32.4) |
| EBITDA | 1,058 | 929 | 13.9 | 882 | 20.0 |

Source: Company, YES Sec – Research

### Exhibit 3: Financial Summary

| Y/e 31 Mar (Rs mn) | FY20 | FY21E | FY22E | FY23E |
|---|---|---|---|---|
| Cement volumes (MTPA) | 1.97 | 2.13 | 3.07 | 3.80 |
| Revenues | 8,875 | 9,437 | 18,167 | 23,554 |
| EBITDA | 1,929 | 2,203 | 2,750 | 3,346 |
| EBITDA/te (Rs) | 979 | 1,035 | 897 | 882 |
| CFI | (4,710) | (3,404) | (200) | (200) |
| Net debt | 12,049 | 12,725 | 11,822 | 9,957 |
| Net debt/Equity (x) | 0.70 | 0.71 | 0.63 | 0.49 |
| Net debt/EBITDA (x) | 6.24 | 5.78 | 4.30 | 2.98 |
| ROE (%) | 3.81 | 4.55 | 4.38 | 7.61 |
| ROCE (%) | 4.82 | 5.10 | 6.16 | 8.20 |
| EV/EBITDA (x) | 6.57 | 10.16 | 7.81 | 5.86 |
| EV/ton ($) | 41 | 49 | 47 | 43 |

Source: Company, YES Sec – Research

Q3 FY21 Result Review | Sector: Cement

# Star Cement Ltd

| BUY | CMP Rs 96 | Target Rs 121 | Upside 26% |
|---|---|---|---|

## Quarter marked by one-offs; maintain TP of Rs 121

### Valuation & Outlook

- ✓ STAR's Q3FY21 performance was subdued as volumes/EBITDA stood 15%/17% lower than our estimates as repair and maintenance work of bridges near Shillong Pass led to sharp decline of 33% y/y in outside North East volumes (~20% of overall volumes). Accordingly, volume/EBITDA degrowth for the quarter was 8.2% y/y and 10.6% y/y respectively.
- ✓ However, key takeaway for us during Q3FY21 would be capacity expansion plans highlighted by company (from 5.7 MTPA currently to 10-12 MTPA over next 5 years) wherein STAR is contemplating to add 1.5-2 MTPA grinding unit in Guwahati, Bihar and Durgapur each alongside setting up clinker unit of ~3 MTPA in Madhya Pradesh/Chhattisgarh. STAR mentioned about procuring limestone block in Madhya Pradesh through group company. We believe that STAR's growth strategy is a focused one as company would continue to target demand growth in NER, Bihar and North Bengal regions – markets which are hedged against pricing disruption due to high cost of dispatch for peers.
- ✓ Further, our medium term investment thesis remains intact as we believe that ramp-up of 2 MTPA Siliguri unit would invigorate growth for the company – volume/EBITDA CAGR of 29.1%/21.1% respectively over FY21-FY23E. Moreover, despite capex of Rs 8.25 bn during the same period, STAR would continue to be debt-free with net cash reserves of Rs 2.75 bn by FY23E.
- ✓ In terms of valuations, at CMP of Rs 96, STAR is trading at EV/EBITDA of 6.8x on FY23E. We have assigned an EV/EBITDA multiple of 9x on FY23E and arrive at TP of Rs 121/share with potential upside of 26%. **We maintain our BUY rating on the stock. Key Risk:** Delay in EC grant for expansion of Meghalaya Clinker Unit.

### Key Results Highlights:

- ✓ STAR's total volumes during Q3FY21 were 15% lower than our estimates and came in at 0.691 MT, decline of ~8% y/y. De-growth in volumes was primarily led by repair of bridges near Shillong bypass, leading to logistical issues and resulted into lower sales volumes outside North East (NER) market – which witnessed sharp decline of 33.2% y/y. Volumes in NER market at 0.54 MT remained stable (+1.3% y/y).
- ✓ Net sales realization/te stood at Rs 6,128 which was up by 2.3% y/y vs our estimate of +1% y/y.
- ✓ Net sales stood at Rs 4,234 mn, witnessing de-growth of 6.1% y/y and was 14% lower than our estimates due to lower volumes.

### Exhibit 1: Result Table

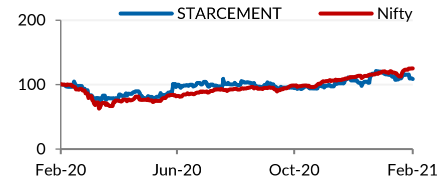
| Y/e 31 Mar (Rs mn) | Q3FY21 | Q2FY21 | qoq(%) | Q3FY20 | yoy (%) |
|---|---|---|---|---|---|
| Revenue | 4,234 | 4,019 | 5.4 | 4,512 | (6.1) |
| Operating Profit | 840 | 789 | 6.4 | 939 | (10.6) |
| OPM (%) | 19.8 | 19.6 | 19.1 bps | 20.8 | (99.2) bps |
| Other Income | 74 | 66 | 13.1 | 65 | 14.4 |
| Depreciation | 208 | 211 | (1.2) | 232 | (10.4) |
| Interest | 19 | 18 | 4.3 | 38 | (50.6) |
| PBT | 41 | 626 | (93.4) | 734 | (94.4) |
| Tax | 40 | 12 | 249.0 | 22 | 83.6 |
| PAT | (17) | 603 | - | 712 | - |

Source: Company, YES Sec – Research

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 108 / 60 |
| Market cap (Rs/USD mn) | 39511 / 543 |
| Outstanding Shares (mn) | 412 |
| 6m Avg t/o (Rs mn): | 40 |
| Div yield (%): | 1.0 |
| Bloomberg code: | STRCEM IN |
| NSE code: | STARCEMENT |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | -8.7% | 13.8% | 10.1% |

**Shareholding pattern (As of Dec'20 end)**

| | |
|---|---|
| Promoter | 67.11% |
| FII+DII | 8.14% |
| Others | 24.74% |

**∆ in stance**

| (1-Yr) | New | Old |
|---|---|---|
| Rating | BUY | BUY |
| Target Price | 121 | 121 |

**∆ in earnings estimates**

| Rs Bn | FY21e | FY22e | FY23e |
|---|---|---|---|
| EBITDA (New) | 3.5 | 4.2 | 5.2 |
| EBITDA (Old) | 3.6 | 4.2 | 5.2 |
| % change | -3.26 | 0.54 | 0.50 |

**Financial Summary**

| Rs Mn | FY21E | FY22E | FY23E |
|---|---|---|---|
| Cement vol (MTPA) | 2.8 | 3.8 | 4.6 |
| Revenues | 17074 | 23199 | 27522 |
| EBITDA | 3529 | 4244 | 5176 |
| EBITDA/te (Rs) | 1278 | 1110 | 1125 |
| CFI | (650) | (2450) | (5150) |
| Net debt | (4568) | (4563) | (2750) |
| Net debt/Equity (x) | (0.2) | (0.2) | (0.1) |
| Net debt/EBITDA (x) | (1.3) | (1.1) | (0.5) |
| ROE (%) | 9.6 | 12.4 | 13.8 |
| ROCE (%) | 14.6 | 15.3 | 16.9 |
| EV/EBITDA (x) | 10 | 8.3 | 6.8 |
| EV/ton ($) | 88 | 88 | 88 |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# Star Cement Ltd

- ✓ EBITDA/te for the quarter was broadly in-line with our expectations – at Rs 1,215 (vs. our est. of Rs 1,247) declining by 2.6% y/y. Clinker production cost/te was down 5.5% sequentially as the company completely shifted to procurement of coal from Eastern coalfields as against part consumption of high cost imported coal last quarter. Accordingly, EBITDA for STAR declined by 10.6% y/y to Rs 840 mn vis-à-vis our estimates of Rs 1,014 mn.
- ✓ STAR has incurred exceptional charge of Rs 645 mn related to differential excise duty and may result into cash outgo of Rs 300-350 mn. However, it remains as one-off in nature. This resulted into net loss for STAR at Rs 17 mn vs net profit of Rs 712 mn during Q3FY20.

## Key Con-call Highlights:

- ✓ Volumes declined by 8% y/y for STAR during the quarter as bridges near Shillong pass had undergone repair works translating into logistical issues. Accordingly, outside NER sales were significantly impacted – down 33.2% y/y. However, company expects the same to be resolved by 15th Feb 2021. Demand in North-east continues to remain stable (Q3FY21 NER volumes were +1.3% y/y).
- ✓ Prices in north east has remained steady but prices in eastern markets declined by ~Rs20-25/bag in Q3FY21 and further by Rs 10-15/bag in January 2021.
- ✓ Company has commissioned Siliguri grinding unit during the quarter. This unit will boost overall volumes in FY22E. Siliguri unit will help in overall cost savings as it will replace the 30% production of North-East that was traded to eastern markets. The unit will source its fly ash requirements from NTPC. Meghalaya clinker capacity will be operational by FY24E. For its WHRS plant, company targets to complete machinery ordering by this month end and expects the same to be operational in next 12-15 months.
- ✓ Company has shifted to procure entire coal requirement from eastern coal fields, and they did not import any quantity in Q3FY21. Coal India did take price hike of ~Rs 500/Te (+6-7%) which would be reflected from Q4FY21E onwards.
- ✓ In terms of company targeting to scale up capacity to 10-12 MTPA (5 year plan), STAR is contemplating the following locations for capacity additions – 1.5-2 MTPA grinding unit in Guwahati, Bihar and Durgapur each alongside setting up clinker unit of ~3 MTPA in Madhya Pradesh/Chhattisgarh.
- ✓ Trade-Non:Trade mix for Q3FY21 stood at 87%-13%
- ✓ Capex: The 2 MTPA clinker capacity coupled with WHRS plant combined will have capex of Rs 9.5 Bn of which Rs 2Bn will be spent in FY22E. The WHRS plant will be of 13-14 MW and total capex of this plant should be ~Rs 1.25 Bn.

## Exhibit 2: Per tonne analysis

| Per te (in Rs) | Q3FY21 | Q2FY21 | qoq(%) | Q3FY20 | yoy (%) |
|---|---|---|---|---|---|
| Cement volumes (MT) | 0.69 | 0.65 | 6.0 | 0.75 | (8.2) |
| Net realization | 6,128 | 6,164 | (0.6) | 5,992 | 2.3 |
| Raw Material cost | 1,206 | 1,756 | (31.3) | 1,314 | (8.2) |
| Employee cost | 493 | 474 | 4.1 | 430 | 14.6 |
| Power and fuel cost | 1,460 | 1,065 | 37.0 | 1,228 | 18.8 |
| Freight cost | 1,058 | 1,122 | (5.7) | 1,169 | (9.5) |
| Other expenses | 696 | 537 | 29.7 | 602 | 15.6 |
| EBITDA | 1,215 | 1,211 | 0.4 | 1,248 | (2.6) |

Source: Company, YES Sec – Research

## Exhibit 3: Financial Summary

| Y/e 31 Mar (Rs mn) | FY20 | FY21E | FY22E | FY23E |
|---|---|---|---|---|
| Cement volumes (MTPA) | 2.9 | 2.8 | 3.8 | 4.6 |
| Revenues | 18,439 | 17,074 | 23,199 | 27,522 |
| EBITDA | 3,951 | 3,529 | 4,244 | 5,176 |
| EBITDA/te (Rs) | 1,351 | 1,278 | 1,110 | 1,125 |
| CFI | (2,271) | (650) | (2,450) | (5,150) |
| Net debt | (2,686) | (4,568) | (4,563) | (2,750) |
| Net debt/Equity (x) | (0.1) | (0.2) | (0.2) | (0.1) |
| Net debt/EBITDA (x) | (0.7) | (1.3) | (1.1) | (0.5) |
| ROE (%) | 15.4 | 9.6 | 12.4 | 13.8 |
| ROCE (%) | 17.7 | 14.6 | 15.3 | 16.9 |
| EV/EBITDA (x) | 8.5 | 10.0 | 8.3 | 6.8 |
| EV/ton ($) | 130 | 88 | 88 | 88 |

Source: Company, YES Sec – Research

YES SECURITIES INSTITUTIONAL EQUITIES

# Ultratech Cement Ltd

| BUY | CMP Rs 6,397 | Target Rs 6,373 | Downside 0.5% |
|---|---|---|---|

## Big beat on volumes; upgrade TP to Rs 6,373

### Valuation & Outlook

- ✓ Post exceptional operating performance during Q3FY21, we upgrade our EBITDA estimates by 12.1%/6.5%/6.8% for FY21E/FY22E/FY23E respectively.
- ✓ Led by capacity additions in Central and East (~6.7 MTPA) over FY21E-FY23E and demand normalization, we factor in volume CAGR of 10.3% over FY21E-FY23E.
- ✓ However, we anticipate EBITDA/te to peak out in FY21E as we expect (1) increase in competitive intensity post new capacity commissioning (effective capacity addition of 33 MTPA over FY20-FY22E) pressurizing cement prices and (2) recent surge in input costs (pet-coke prices moving up from $55/te to $110/te over May-Dec 2020). These factors cumulatively would start weighing on the profitability. Accordingly, we factor in gradual reduction in EBITDA/te from Rs 1,267 in FY21E to Rs 1,121 in FY23E. Accordingly, we expect EBITDA CAGR to hover around ~3.7% over FY21E-FY23E.
- ✓ Alongside cash outflow of ~Rs 65.3 bn towards capacity addition of 19.5 MTPA over FY21E-FY23E, we reckon that de-leveraging drive of UTCEM would continue with net debt reduction of Rs 135 bn over FY21E-FY23E. Net debt/EBITDA should decline to 0.4x by FY23E vs 0.84x currently.
- ✓ Post plotting of EV/EBITDA band trajectory, we have observed that the stock has re-rated by minimum ~15% post every major capacity addition announcement. Accordingly, we assign an EV/EBITDA multiple of 16x on FY23E (previous multiple of 14x) and arrive at revised TP of Rs 6,373/share. **We upgrade UltraTech from ADD to BUY.**

### Key Result Highlights:

- ✓ **Volumes** for Q3FY21 came in at 23.88 MT, a sharp increase of ~14% y/y - vs our est. of 22.4 MT. Primary reasons for outperformance vs industry growth (~5% y/y) during the quarter was (1) 37% volume growth in Century assets (low base last year), (2) UltraTech Nathdwara was ramped up to 75% utilization level during the quarter vs 60% in Q3FY20 and (3) ramp-up of Bara line 1 to more than 70% utilization level (not present last year).
- ✓ **Net sales realization/te** stood at Rs 5,131 which was up by 2.7% y/y vs our estimate of +2.5% y/y.

### Exhibit 1: Result Table

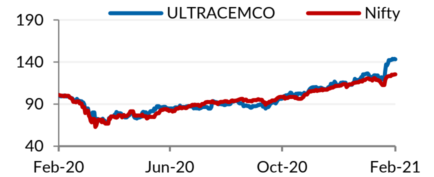
| Y/e 31 Mar (Rs mn) | Q3FY21 | Q2FY21 | qoq(%) | Q3FY20 | yoy (%) |
|---|---|---|---|---|---|
| Revenue | 122,541 | 103,871 | 18.0 | 104,393 | 17.4 |
| Operating Profit | 30,943 | 26,977 | 14.7 | 19,783 | 56.4 |
| OPM (%) | 25.3 | 26.0 | (72) bps | 18.9 | 630 bps |
| Other Income | 2,679 | 1,350 | 98.5 | 1,690 | 58.5 |
| Depreciation | 6,739 | 6,771 | (0.5) | 6,780 | (0.6) |
| Interest | 3,563 | 3,579 | (0.4) | 4,720 | (24.5) |
| PBT | 23,320 | 14,621 | 59.5 | 9,973 | 133.8 |
| Tax | 7,474 | 5,662 | 32.0 | 2,862 | 161.2 |
| PAT | 15,843 | 8,952 | 77.0 | 7,118 | 122.6 |

Source: Company, YES Sec – Research

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 6589 / 2910 |
| Market cap (Rs/USD mn) | 1846486 / 25380 |
| Outstanding Shares (mn) | 289 |
| 6m Avg t/o (Rs mn): | 3,522 |
| Div yield (%): | 0.2 |
| Bloomberg code: | UTCEM IN |
| NSE code: | ULTRACEMCO |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | 13.4% | 32.0% | 44.1% |

**Shareholding pattern (As of Dec'20 end)**

| | |
|---|---|
| Promoter | 59.91% |
| FII+DII | 30.68% |
| Others | 8.72% |

**Δ in stance**

| (1-Yr) | New | Old |
|---|---|---|
| Rating | BUY | ADD |
| Target Price | 6373 | 5175 |

**Δ in earnings estimates**

| Rs Bn | FY21e | FY22e | FY23e |
|---|---|---|---|
| EBITDA (New) | 106.3 | 105.2 | 114.4 |
| EBITDA (Old) | 92.7 | 94.4 | 108.1 |
| % change | 14.72 | 11.44 | 5.84 |

**Financial Summary**

| Rs Mn | FY21E | FY22E | FY23E |
|---|---|---|---|
| Cement vol (MTPA) | 83.9 | 94.2 | 102 |
| Revenues | 433,856 | 486,392 | 540,333 |
| EBITDA | 106,294 | 105,179 | 114,415 |
| EBITDA/te (Rs) | 1,267 | 1,117 | 1,121 |
| CFI | (15,000) | (40,500) | (39,770) |
| Net debt | 117,543 | 86,226 | 45,994 |
| Netdebt/Equity (x) | 0.27 | 0.18 | 0.09 |
| Netdebt/EBITDA (x) | 1.11 | 0.82 | 0.4 |
| ROE (%) | 10.7 | 10.3 | 10.6 |
| ROCE (%) | 14.2 | 13.4 | 14.3 |
| EV/EBITDA (x) | 16.1 | 16 | 14.4 |
| EV/ton ($) | 209 | 197 | 174 |

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- ✓ Accordingly, **Net sales** stood at Rs 122.5 bn, witnessing growth of 17.4% y/y – vs our estimate of Rs 113.6 bn.
- ✓ UltraTech delivered a strong performance on operating profit level as **EBITDA** surged by 56.4% y/y scaling to Rs 30.94 bn (vs. our estimate of Rs 26.1 bn). This was led by healthy improvement of 37% y/y in **EBITDA/te –** which stood at Rs 1,296 vs our est. of Rs 1,166. Per tonne profitability was higher than our estimates owing to lower than expected energy costs (expect to surge from Q4FY21E).
- ✓ **Working capital** release of Rs 7.8 bn during Q3FY21 and **Net debt** reduction of Rs 26.96 bn during the quarter with consol. Net debt/EBITDA at 0.84x. Total net debt reduction for 9MFY21 stood at Rs 74.24 bn with consol. Net debt of Rs 94.36 bn as of Dec 2020

## Key Presentation & Con-call Highlights:

- ✓ **Demand** has been strong on account of stable IHB demand and infrastructure spends. Incrementally, housing segment displayed healthy signs of revival from tier-2&3 regions along with demand pickup from tier 1 cities.
- ✓ **Regional mix:** Although demand trends have been encouraging across the regions, East continues to be an outperformer, driving overall industry demand. In terms of regional utilization levels, East operated at 100%+ levels while South hovered around 70% and other regions in the vicinity of 80%.
- ✓ **Cement Prices** were marginally lower sequentially with relatively sharper dips in Eastern and Sothern markets.
- ✓ **Variable Cost:** Pet coke prices have increased from $60-65/te in June 2020 to ~$110/te currently. However, management expects pet coke prices to have peaked out and expect prices to stabilize in coming 6 months. The high cost consumption will have impact in Q1FY22 which will not be as high as the current difference of $74/te (Q3FY21 consumption cost) Vs spot prices of $110/te.
- ✓ **Capacity addition:** Phase 2 Bara is expected to be commissioned by FY21 end while the ~19.6 MTPA capacity addition would be completed in staggered manner in FY23E. The 2MTPA grinding capacity of Binani which was earlier decided to be sold, will now be consolidated which will increase total UAE capacities to 5.4 MT.
- ✓ **Others:** Trade mix stood at 64% during the current quarter. Pet-coke/imported coal usage at 44%/43% respectively.

# Ultratech Cement Ltd

## Exhibit 2: Per tonne analysis

| Per te (in Rs) | Q3FY21 | Q2FY21 | qoq(%) | Q3FY20 | yoy (%) |
|---|---|---|---|---|---|
| Cement volumes (MT) | 23.88 | 20.06 | 19.0 | 20.90 | 14.3 |
| Net realization | 5,132 | 5,178 | (0.9) | 4,995 | 2.7 |
| Raw Material cost | 751 | 835 | (10.0) | 884 | (15.0) |
| Employee cost | 256 | 282 | (9.5) | 298 | (14.2) |
| Power and fuel cost | 1,006 | 920 | 9.4 | 983 | 2.4 |
| Freight cost | 1,193 | 1,146 | 4.1 | 1,122 | 6.3 |
| Other expenses | 630 | 649 | (3.0) | 762 | (17.3) |
| EBITDA | 1,296 | 1,345 | (3.6) | 947 | 36.9 |

Source: Company, YES Sec – Research

## Exhibit 3: Financial Summary

| Y/e 31 Mar (Rs mn) | FY20 | FY21E | FY22E | FY23E |
|---|---|---|---|---|
| Cement volumes (MTPA) | 82.3 | 83.9 | 94.2 | 102.0 |
| Revenues | 421,248 | 433,856 | 486,392 | 540,333 |
| EBITDA | 92,836 | 106,294 | 105,179 | 114,415 |
| EBITDA/te (Rs) | 1,128 | 1,267 | 1,117 | 1,121 |
| CFI | (42,094) | (15,000) | (40,500) | (39,770) |
| Net debt | 181,151 | 117,543 | 86,226 | 45,994 |
| Net debt/Equity (x) | 0.46 | 0.27 | 0.18 | 0.09 |
| Net debt/EBITDA (x) | 1.95 | 1.11 | 0.82 | 0.40 |
| ROE (%) | 9.4 | 10.7 | 10.3 | 10.6 |
| ROCE (%) | 11.7 | 14.2 | 13.4 | 14.3 |
| EV/EBITDA (x) | 12.0 | 16.1 | 16.0 | 14.4 |
| EV/ton ($) | 138 | 209 | 197 | 174 |

Source: Company, YES Sec – Research

Q3 FY21 Result Review | Sector: Building Materials

# Century Plyboards Ltd

| BUY | CMP Rs 300 | Target Rs 356 | Upside 18.6% |
|---|---|---|---|

## Firing on all cylinders; upgrade TP from Rs 270 to Rs 356

### Valuation & Outlook

- ✓ Century Ply delivered robust performance during Q3FY21 driven by (1) sturdy growth in plywood segment (volumes +12% y/y) – pent-up demand and market share gains, (2) sharp increase in operating margins of laminates (+538 bps y/y to 19.2%) – price hike of 3% y/y and absorption of low cost inventory and (3) sustained growth trajectory of MDF segment (volumes +18% y/y) – OEM driven demand combined with pick-up of premium MDF segment. Further, company has turned debt free during the quarter with net cash of Rs 106 Mn.
- ✓ In terms of key developments, Century has announced brownfield expansion in MDF segment at Hoshiarpur unit from 600 cbm/day to 1000 cbm/day (to be commissioned by Q4FY22E). Moreover, company is contemplating to setup a Greenfield MDF plant in South with capacity of 700 cbm/day (likely to be commissioned by FY23E).
- ✓ Based on sublime performance during Q3FY21 and announcement of brownfield expansion in MDF, we upgrade our EPS estimates for FY21E/FY22E/FY23E by 18%/18%/32% respectively. Accordingly, we factor in sales/EBITDA/PAT CAGR of 21.4%/28.2%/33.3% respectively over FY21E-FY23E.
- ✓ **Assigning DCF derived P/E multiple of 23.5x on FY23E EPS of Rs 15, we arrive at TP of Rs 356 and we maintain our BUY rating on the stock.**

### Key Result Highlights:

- ✓ **Sales:** Company's revenue grew by 26.4% q/q and 9.1% y/y to Rs 6,601 Mn which was majorly backed by strong volume growth across segments (refer exhibit 2). Sales were above our estimates of Rs 5,956 Mn. Plywood coupled with laminates & MDF (~90% of total sales) reported stellar sequential growth. Plywood sales stood at Rs 3,571 Mn (est Rs 3,159 Mn) reporting a growth of 10.6% y/y and 33.2% q/q. Laminates grew by 4.4% y/y & 17.9% q/q to Rs 1,200 Mn (est Rs 1,092 Mn). MDF sales stood at Rs 1,165 Mn (est Rs 1,130 Mn) registering a strong 20.6% y/y & 24.6% q/q growth.
- ✓ **EBITDA:** For Q3FY21, EBITDA stood at Rs 1,237 Mn reporting a massive growth of 47% y/y & 42.9% q/q on account of expansion in margins from 13.9%/16.6% in Q3FY20/Q2FY21 respectively to 18.7% (multi-quarter high). Overall margins expanded mainly on account of improvement in margins of Laminates which came in at 19.2% Vs 13.9%/13.4% in Q3FY20/Q2FY21 respectively. Further, plywood division witnessed impressive improvement in margins from 14.1%/13.1 in Q3FY20/Q2FY21 respectively to 15.1%. EBITDA margins of MDFs improved as compared to 25.9% in Q3FY20 to 27.7% in Q3FY21, however remained stable q/q.

### Exhibit 1: Result Table

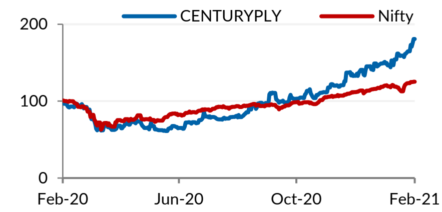
| Y/e 31 Mar (Rs mn) | Q3FY21* | Q2FY21 | qoq(%) | Q3FY20** | yoy (%) |
|---|---|---|---|---|---|
| Revenue | 6,601 | 5,222 | 26.4 | 6,050 | 9.1 |
| Gross Profit | 3,379 | 2,664 | 26.8 | 2,915 | 15.9 |
| GP margin (%) | 51.2 | 51.0 | 17.1bps | 48.2 | 302bps |
| Operating Profit | 1,237 | 866 | 42.9 | 841 | 47.0 |
| OPM (%) | 18.7 | 16.6 | 216bps | 13.9 | 483bps |
| Depreciation | 176 | 177 | (0.3) | 200 | (11.9) |
| Interest | 16 | 24 | (33.6) | 96 | (83.7) |
| PBT | 1058 | 678 | 55.9 | 48 | - |
| Tax | 281 | 175 | 60.4 | 44 | 537.4 |
| Reported PAT | 658 | 503 | 30.8 | 4 | - |

*includes exceptional charge of Rs 118 mn in Q3FY21
**impairment charge incurred to the tune of Rs 511 mn in Q3FY20
Source: Company, YES Sec – Research

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 306 / 95 |
| Market cap (Rs/USD mn) | 66707 / 917 |
| Outstanding Shares (mn) | 222 |
| 6m Avg t/o (Rs mn): | 92 |
| Div yield (%): | 0.3 |
| Bloomberg code: | CPBI IN |
| NSE code: | CENTURYPLY |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | 19.8% | 62.7% | 84.8% |

**Shareholding pattern (As of Dec'20 end)**

| | |
|---|---|
| Promoter | 73.05% |
| FII+DII | 16.79% |
| Others | 10.16% |

**Δ in stance**

| (1-Yr) | New | Old |
|---|---|---|
| Rating | BUY | BUY |
| Target Price | 356 | 270 |

**Δ in earnings estimates**

| | FY21e | FY22e | FY23e |
|---|---|---|---|
| EPS (New) | 8.5 | 12 | 15.1 |
| EPS (Old) | 7.2 | 10.2 | 11.5 |
| % change | 18.1 | 17.6 | 31.3 |

**Financial Summary**

| Rs Mn | FY21E | FY22E | FY23E |
|---|---|---|---|
| Revenues | 20247 | 25648 | 29835 |
| EBITDA | 3276 | 4291 | 5389 |
| EBITDA(%) | 16.2 | 16.7 | 18.1 |
| PAT | 1894 | 2675 | 3367 |
| PAT(%) | 9.4 | 10.4 | 11.3 |
| Netdebt/Equity | (0.0) | 0.1 | 0.2 |
| ROE (%) | 15.1 | 18.1 | 19.1 |
| ROCE (%) | 21.4 | 22.7 | 22.6 |
| PE | 34.1 | 24.1 | 19.2 |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# Century Plyboards Ltd

- ✓ **Net Profit:** Net profit stood at Rs 658 Mn vs Rs 4 mn in Q3FY20 (includes impairment of Rs 511 mn) while it grew by ~31% sequentially. Net profit margins came in at 9.8% Vs 8.8% in Q2FY21

## Key Con-call Highlights:

- ✓ **Demand** scenario was buoyant across all segments led by pent-up demand and pick-up in tier 1 real estate market. Company expects demand to further strengthen going ahead as surge in possession of homes will provide boost to building material industry.
- ✓ **Plywood:** Healthy demand in Plywood is expected to continue, management expects to achieve double digit growth in coming years. During the quarter realizations were flat as Sainik reported higher growth as compared to premium plywood. Moreover, in plywood company has gained some market share with their ViroKill brand. Management stated they have made plans to enhance capacity in plywood, however no formal decision has been made.
- ✓ **MDF Capex:** Company announced Rs 2 Bn capex (Rs 0.3 Bn in Q4FY21E & Rs 1.7 Bn in FY22E) to enhance MDF capacity at their Hoshiarpur unit from 600 cbm/day to 1,000 cbm/day. This Brownfield plant is expected to commission by Q4FY22E. Company expects to achieve 2X A/To (~Rs 4 Bn revenue) from the new capacity and EBITDA margins of the same are likely to be 3% lower Vs current plant as cost of wood is expected to be higher by 25-30 paisa/Kg. Commenting on the greenfield plant which is likely to come up in south with 700 cbm/day capacity, the plans should be finalized in couple of months. However, management expects to achieve EBITDA margins similar to new brownfield line.
- ✓ **Laminate** margins were higher as company revised some discounting policies and undertook significant cost cutting measures. Management expects to maintain 17-18% margins. During Q3FY21 company increased prices of laminates by 7-8%.
- ✓ **MDF demand** has been strong. Though 85% of the demand comes from OEMs, company is witnessing signs of shift in preference from unbranded marine plywood to premium segment MDFs. During the quarter company took a price increase of 10% (industry ~2-5%). Management expects margins to expand further as there is only one new capacity coming-up in south of 600 cbm/day. Also, imports have declined due to absurd surge in shipping rates and therefore the price hikes have been absorbed in the market.
- ✓ In **Particle Boards** as well, company took a price hike of 8-10%. Century has debottlenecked its particle board capacity from 180 cbm/day to 250 cbm/day during Q4FY21.
- ✓ **Capex**: Total capex in coming 2 years will be ~Rs 6.5Bn-7Bn (Rs 6-6.5Bn in MDF & Rs 0.5-0.6 Bn in Plywood).
- ✓ **Net Debt Free**: With Treasury assets at Rs 1.40 Bn more than Debt of Rs 1.29 Bn, company is Net-debt free.
- ✓ **Working Capital Cycle** stood at 51 days (historically low), however this is likely to be stable at ~60-65 days.
- ✓ **Myanmar political** issues has not impacted company's factory there. However, the new face veneer unit in Gabon will make up for any loss (if happens) at Myanmar. The new Gabon unit will fulfill company's internal requirement for face veneers.

### Exhibit 2: Financial Summary

| Financial Overview (Rs mn) | FY20 | FY21E | FY22E | FY23E |
|---|---|---|---|---|
| Net sales | 23,170 | 20,247 | 25,648 | 29,835 |
| EBITDA | 2,797 | 3,276 | 4,291 | 5,389 |
| EBITDA% | 12.1 | 16.2 | 16.7 | 18.1 |
| Net Profit | 1,254 | 1,894 | 2,675 | 3,367 |
| Net Profit % | 5.4 | 9.4 | 10.4 | 11.3 |
| EPS (Rs) | 6.5 | 8.5 | 12.0 | 15.1 |
| CFI | (245) | (620) | (3,342) | (4,466) |
| Net Debt | 2,689 | (200) | 1,228 | 2,856 |
| Net Debt/Equity (x) | 0.2 | (0.0) | 0.1 | 0.2 |
| Net Debt/EBITDA (x) | 1.0 | (0.1) | 0.3 | 0.5 |
| ROE (%) | 11.5 | 15.1 | 18.1 | 19.1 |
| ROCE (%) | 15.9 | 21.4 | 22.7 | 22.6 |
| P/E (x) | 31.0 | 34.1 | 24.1 | 19.2 |
| P/B (x) | 4.1 | 5.2 | 4.4 | 3.7 |

Source: Company, YES Sec – Research

### Exhibit 3: Segmental Volumes

| Volumes | Q3FY21 | Q2FY21 | % q-o-q | Q3FY20 | % y-o-y |
|---|---|---|---|---|---|
| Plywood (CBM) | 71,977 | 53,682 | 34.1 | 63,996 | 12.5 |
| Laminates (Nos) | 15,91,300 | 14,17,215 | 12.3 | 15,53,737 | 2.4 |
| MDF(CBM) | 49,207 | 39,599 | 24.3 | 41,553 | 18.4 |
| Particle Board (CBM) | 15,885 | 16,966 | (6.4) | 16,333 | (2.7) |
| Logistics (CFS) | 13,803 | 12,932 | 6.7 | 15,176 | (9.0) |

Source: Company, YES Sec – Research

### Exhibit 4: Segmental Revenue

| (Rs Mn) | Q3FY21 | Q2FY21 | % q-o-q | Q3FY20 | % y-o-y |
|---|---|---|---|---|---|
| Ply & allied products | 3,571 | 2,681 | 33.2 | 3,229 | 10.6 |
| Laminate and allied | 1,200 | 1,018 | 17.9 | 1,149 | 4.4 |
| Medium Density Fiber Board | 1,165 | 935 | 24.6 | 966 | 20.6 |
| Particle Board | 262 | 256 | 2.0 | 250 | 4.8 |
| CFS | 209 | 199 | 4.6 | 220 | (5.2) |
| Others | 138 | 110 | 25.4 | 141 | (2.3) |

Source: Company, YES Sec – Research

### Exhibit 5: Segmental EBITDA

| (Rs Mn) | Q3FY21 | Q2FY21 | % q-o-q | Q3FY20 | % y-o-y |
|---|---|---|---|---|---|
| Ply & allied products | 539 | 350 | 53.8 | 455.7 | 18.2 |
| *Margin (%)* | *15.1* | *13.1* | 201.6 bps | *14.1* | 97.5 bps |
| Laminate and allied | 231 | 136 | 69.5 | 159.2 | 45.0 |
| *Margin (%)* | *19.2* | *13.4* | 585bps | *13.9* | 537.8bps |
| Medium Density Fiber Board | 323 | 263 | 23.0 | 250.6 | 28.9 |
| *Margin (%)* | *27.7* | *28.1* | (35)bps | *25.9* | 180.1bps |
| Particle Board | 61 | 56 | 8.4 | 59.7 | 1.3 |
| *Margin (%)* | *23.1* | *21.8* | 137bps | *23.9* | (79.1)bps |
| CFS | 55 | 59 | (5.8) | 76.4 | (27.6) |
| *Margin (%)* | *26.5* | *29.4* | (293)bps | *34.7* | (821.5)bps |
| Others | 26 | 20 | 34.4 | 15.0 | 74.7 |
| *Margin (%)* | *19.0* | *17.7* | 126bps | *10.6* | 835.6bps |

Source: Company, YES Sec – Research

**Q3 FY21 Result Review** | Sector: Building Materials

# Greenlam Industries Ltd

| BUY | CMP Rs 909 | Target Rs 1190 | Upside 30.9% |
|---|---|---|---|

## Maintain BUY with a target price of Rs 1,190

### Valuation & Outlook

- ✓ Although net sales for Greenlam during Q3FY21 was in-line with our estimates (decline of ~6.5% y/y), company delivered healthy beat on operational performance as EBITDA/PAT stood 17.5%/31.2% higher than our estimates and witnessed growth of 6% y/y and 10% y/y respectively. EBITDA margins for laminate division witnessed extremely strong improvement of 140 bps y/y and 360 bps q/q – scaling to 19.8% on the back of consumption of low-cost inventory and operating leverage.
- ✓ Going ahead, we estimate sales/EBITDA/PAT CAGR of 16%/22%/38% over FY21E-FY23E. Further, we expect de-leveraging drive of Greenlam to continue despite cash outgo towards commissioning of Andhra plant – expect net debt to decline from Rs 2.63 bn to Rs 0.7 bn over FY20-FY23E.

**Assigning DCF derived P/E multiple of 23x on FY23E EPS of Rs 52, we maintain our TP of Rs 1,190 and we maintain our BUY rating on the stock. Key re-rating trigger – positive contribution from floors/doors segment with pick of real estate market.**

### Key Result Highlights:

- ✓ **Volumes:** Laminate volumes came in at 3.91 mn sheets (vs our estimates of 3.54 mn sheets) and grew by 10.5% y/y & 21.1% q/q. Q3FY21 witnessed highest laminate production of 3.98 mn sheets for Greenlam. Opening-up of economy led to improvement in overall performance of laminates, but many international markets like UK, Indonesia, Italy, Thailand witnessed fresh lockdowns which restricted company's growth. Accordingly, domestic market outperformed with volume growth of 12% y/y vis-à-vis 9% y/y volume growth for export division. Veneer segment continued to witness sluggish prospects as volumes stood at 0.36 msqm in Q3FY21 – a decline of ~22% y/y. Further, engineered floors/doors segment suffered considerable headwinds as volumes de-grew by ~39%/50% y/y respectively for the quarter.
- ✓ **Realizations:** Overall realizations were below our expectations. Laminate realizations stood at Rs 736/sheet, a decline of ~8% y/y & 5% q/q. Realization of veneer contracted by 3.5% y/y and remained flat sequentially at Rs 694/sqm.
- ✓ **Sales:** For Q3FY21, net sales stood at Rs 3,346 mn and was in-line with our estimates of Rs 3,322 mn; translating into growth of 15.6% q/q but 6.5% y/y degrowth. Laminate revenues came in at Rs 2,956 mn (vs our estimate of Rs 2,883 mn) which was flat y/y and grew by 14.4% q/q. Veneer and allied segment revenue stood at Rs 390 mn which declined by 36% y/y.

### Exhibit 1: Result Table

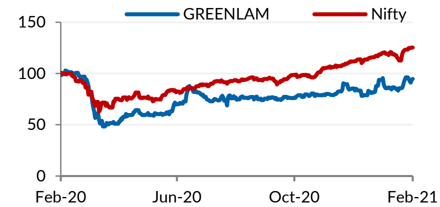
| Y/e 31 Mar (Rs mn) | Q3 FY21 | Q2 FY21 | q/q (%) | Q3 FY20 | y/y (%) |
|---|---|---|---|---|---|
| Revenue | 3,346 | 2,893 | 15.7 | 3,580 | (6.5) |
| Gross Profit | 1,743 | 1,416 | 23.1 | 1,799 | (3.1) |
| GP margin (%) | 52.1 | 49.0 | 314 bps | 50.3 | 184 bps |
| EBITDA | 579 | 405 | 43.1 | 546 | 6.0 |
| EBITDA Margin (%) | 17.3 | 14.0 | 332 bps | 15.3 | 205 bps |
| PBT | 419 | 235 | 78.5 | 367 | 14.0 |
| Tax | 99 | 49 | 101.2 | 77 | 29.2 |
| PAT | 320 | 186 | 72.4 | 291 | 10.0 |

Source: Company, YES Sec – Research

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 1004 / 442 |
| Market cap (Rs/USD mn) | 21940 / 302 |
| Outstanding Shares (mn) | 24 |
| 6m Avg t/o (Rs mn): | 7 |
| Div yield (%): | 0.4 |
| Bloomberg code: | GRLM IN |
| NSE code: | GREENLAM |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | -0.8% | 19.3% | -4.3% |

**Shareholding pattern (As of Dec'20 end)**

| | |
|---|---|
| Promoter | 54.90% |
| FII+DII | 18.09% |
| Others | 27.02% |

**Δ in stance**

| (1-Yr) | New | Old |
|---|---|---|
| Rating | BUY | BUY |
| Target Price | 1190 | 1190 |

**Δ in earnings estimates**

| | FY21e | FY22e | FY23e |
|---|---|---|---|
| EPS (New) | 22 | 39 | 52 |
| EPS (Old) | 22 | 39 | 52 |
| % change | - | - | - |

**Financial Summary**

| Rs Mn | FY21E | FY22E | FY23E |
|---|---|---|---|
| Revenues | 11537.1 | 14138.0 | 15514.7 |
| EBITDA | 1595.2 | 2094.1 | 2365.6 |
| EBITDA (%) | 13.83 | 14.81 | 15.25 |
| PAT | 657.9 | 1058.1 | 1254.7 |
| PAT (%) | 5.70 | 7.48 | 8.09 |
| Netdebt/ Equity | 0.24 | 0.25 | 0.10 |
| ROE (%) | 11.75 | 16.15 | 16.34 |
| ROCE (%) | 13.55 | 17.38 | 18.57 |
| PE | 30.94 | 19.24 | 16.22 |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- **EBITDA:** EBITDA came in at Rs 579 mn (vs our estimate of Rs 493 mn); reporting growth of 6% y/y & 43.1% q/q. EBITDA margins witnessed healthy improvement of 204.6 bps y/y & 331.6 bps q/q to 17.3%, which was above our estimate of 14.8%. In terms of segmental split, laminate division delivered robust operating margins of 19.8% (+140 bps y/y and +360 bps q/q) with EBITDA at Rs 585 mn. Margin expansion in laminates was led by absorption of low-cost inventory and operating leverage. Veneer division had insignificant contribution to overall operating profit while floors/doors business posted minor losses.
- **PAT:** Overall net profit for the quarter stood at Rs 320 mn (vs. our estimate of Rs 242 mn), growing by 10% y/y & 72.4% q/q. Net Profit margins came in at 9.6% as compared to 8.1%/6.4% in Q3FY20/Q2FY21 respectively.

## Key Con-call Highlights:

- Demand from residential real estate has been growing mainly on the back of lower interest rates and decline in stamp duty in few regions. Renovation and upgradation of homes is also is also picking up. Though demand from commercial real estate is stagnant, management stated they are witnessing signs of revival.
- During the quarter business witnessed headwinds on supply chain side due to unavailability of containers which largely impacted company's exports biz.
- Laminates utilization came in at 102% Vs 96% in Q3FY20. Veneers operated at 32% utilization in Q3FY21 Vs 43% in Q3FY20. Wooden floors/Wooden doors utilizations came in at 14%/18% in Q3FY21 as compared to 23%/36% in Q3FY20 respectively.
- 2 new-wholly subsidiaries were incorporated in Russia and Poland under the name of GREENLAM RUS LLC & GREENLAM POLAND LLC respectively during the quarter.
- Update on South Plant: Management mentioned that they are in-process of obtaining approvals. They expect to commence constructing plant from Q3FY22 and start commercial production within 12-15months of commencing construction works. Moreover, company is exploring possibility of setting up capacities of more than 1.5 mn sheet in the new plant.
- Margins: Management mentioned that such high margins in laminates (19.8% during Q3FY21) are unlikely to sustain. During the quarter company had low cost inventory which led to higher margins. Going ahead, company expects to maintain ~17-18% margins in laminate business.
- Cost increase: Cost of chemicals (1/3rd of RM) has gone up by ~20-25% and cost of kraft paper/decorative paper has gone up by 6%/3-5% respectively. In order to mitigate the same, Company undertook price increase of 2-3% in Q3FY21 and will increase another 2-3% over Feb-April 2021.
- Capex: For 9MFY21 capex stood at Rs 250 Mn. For FY21/FY22 capex will be ~Rs 350-400Mn/Rs250-300 Mn respectively.
- Wood doors & floors: With improvement in residential real estate, company expects pick-up in their doors and floors segment. Management expects operations of Veneers & allied product segment to achieve normalcy from Q4FY21E.
- Net Debt declined to Rs 1.8 bn in Q3FY21 Vs Rs 2.63 bn as of FY20.

### Exhibit 2: Financial Summary

| Financial Overview (Rs mn) | FY20 | FY21E | FY22E | FY23E |
|---|---|---|---|---|
| Laminate Vol (mn sheets) | 13.23 | 12.84 | 14.76 | 15.65 |
| Veneer Vol (msqm) | 1.54 | 0.98 | 1.54 | 1.62 |
| Net sales | 13,206 | 11,537 | 14,138 | 15,515 |
| EBITDA | 1,782 | 1,595 | 2,094 | 2,366 |
| EBITDA% | 13.5 | 13.8 | 14.8 | 15.2 |
| Net Profit | 866 | 658 | 1,058 | 1,255 |
| Net Profit % | 6.6 | 5.7 | 7.5 | 8.1 |
| EPS (Rs) | 35.9 | 27.3 | 43.9 | 52.0 |
| CFI | (588) | (400) | (1,050) | (450) |
| Net Debt | 2,634 | 1,338 | 1,667 | 743 |
| Net Debt/Equity (x) | 0.53 | 0.24 | 0.25 | 0.10 |
| Net Debt/EBITDA (x) | 1.48 | 0.84 | 0.80 | 0.31 |
| ROE (%) | 17.3 | 11.8 | 16.2 | 16.3 |
| ROCE (%) | 16.4 | 13.5 | 17.4 | 18.6 |
| P/E (x) | 20.7 | 30.9 | 19.2 | 16.2 |
| P/B (x) | 3.58 | 3.64 | 3.11 | 2.65 |

Source: Company, YES Sec – Research

Q3 FY21 Result Review | Sector: Building Materials

# Greenpanel Industries Ltd

| BUY | CMP Rs 173 | Target Rs 230 | Upside 32.9% |
|---|---|---|---|

## Exuberant performance; upgrade TP from Rs 174 to Rs 230

### Valuation & Outlook

- ✓ Greenpanel Industries delivered an exuberant performance during Q3FY21 showcasing its top-notch execution qualities with a beat on all fronts. Company's MDF division witnessed phenomenal volume growth of 43.2% y/y on the back of (1) 20-25% MDF industry growth led by pick-up in usage of readymade furniture and displacement of low end plywood by MDF combined with (2) aggressive product penetration strategies as the company increased its dealer network by ~22% during 9MFY21. This along with cost optimization and operating leverage resulted into EBITDA growth of ~105% y/y for MDF division during Q3FY21.
- ✓ Based on the sublime performance during Q3FY21, we upgrade our EBITDA estimates for Greenpanel by 28.7%/16.2%/21.2% for FY21E/FY22E/FY23E respectively. Further, we factor in sales/EBITDA/PAT CAGR of 21%/32%/89% over FY21E-FY23E. Cash flow generation would be primarily deployed towards deleveraging wherein net debt should reduce from Rs 5.45 bn in FY20 to Rs 2.02 bn by FY23E.
- ✓ In terms of stock price movement, post our initiation on Greenpanel at CMP of Rs 112 (report dated 21/12/2020), stock has achieved our first target of Rs 174. We upgrade our FY23E EPS from Rs 9.4 to Rs 12.4 and accordingly upgrade our TP for Greenpanel to Rs 230 - assigning DCF derived P/E multiple of 18.5x on FY23E. **We maintain our BUY rating on the stock.**

### Key Result & Con-call Highlights:

- ✓ **Volumes:** MDF volumes at 123,723 cbm (vs our est. of 100,736 cbm) grew by 43.2% y/y and 50.6% q/q on account of higher demand for ready-made furniture and shift in preference from low-end plywood to MDF. Moreover, Greenpanel added 230 dealers since beginning of FY21 which accelerated MDF volume growth. Domestic volumes stood at 100,000 cbm and exports came in at 23,723 cbm. Plywood volumes during Q3FY21 grew by 12% y/y & 18% q/q to 2.52 msqm (vs our est. of 2.15 msqm). In plywood segment, company added ~50 dealers since July 2020.
- ✓ **Realizations:** MDF realizations improved by 4.4% y/y to Rs 20,138/cbm (vs. our est of Rs 20,410/cbm) while Plywood realizations declined 5.6% y/y & 1% q/q to Rs 244/sqm (vs our est. of Rs 247/sqm). Company has undertaken price hikes in MDF division to the tune of 3-6% sequentially in Dec 20 and Jan 21 across regions primarily to mitigate 10% increase in raw material prices.

### Exhibit 1: Result Table

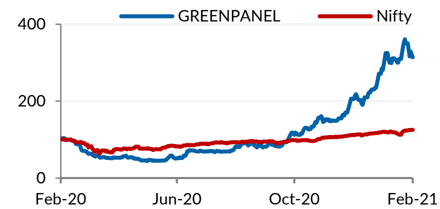
| Y/e 31 Mar (Rs mn) | Q3 FY21 | Q2 FY21 | q/q (%) | Q3 FY20 | y/y (%) |
|---|---|---|---|---|---|
| Revenue | 3,169 | 2,356 | 34.5% | 2,249 | 40.9% |
| Gross Profit | 1,761 | 1,246 | 41.3% | 1,292 | 36.2% |
| GP margin (%) | 55.5% | 52.9% | 266.3bps | 57.5% | (191.4bps) |
| EBITDA | 684 | 348 | 96.80% | 463 | 47.9% |
| EBITDA Margin (%) | 21.6% | 14.8% | 683.2bps | 20.6% | 101.5bps |
| PBT | 372 | 12 | - | 164 | 126.7% |
| Tax | 68 | 7 | 864.3% | (20) | - |
| PAT | 305 | 5 | - | 184 | 65.4% |

Source: Company, YES Sec – Research

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 203 / 24 |
| Market cap (Rs/USD mn) | 21190 / 291 |
| Outstanding Shares (mn) | 123 |
| 6m Avg t/o (Rs mn): | 21 |
| Div yield (%): | - |
| Bloomberg code: | GREENP IN |
| NSE code: | GREENPANEL |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | 12.0% | 106% | 211.1% |

**Shareholding pattern (As of Dec'20 end)**

| | |
|---|---|
| Promoter | 53.10% |
| FII+DII | 29.29% |
| Others | 17.61% |

**∆ in stance**

| (1-Yr) | New | Old |
|---|---|---|
| Rating | BUY | BUY |
| Target Price | 230 | 174 |

**∆ in earnings estimates**

| | FY21e | FY22e | FY23e |
|---|---|---|---|
| EPS (New) | 3.5 | 7.0 | 12.4 |
| EPS (Old) | 1.2 | 5.3 | 9.4 |
| % change | 191.7 | 32.1 | 31.9 |

**Financial Summary**

| Rs Mn | FY21E | FY22E | FY23E |
|---|---|---|---|
| Revenues | 9857 | 11992 | 14411 |
| EBITDA | 1802 | 2336 | 3140 |
| EBITDA(%) | 18.3 | 19.5 | 21.8 |
| PAT | 426 | 862 | 1523 |
| PAT(%) | 4.3 | 7.2 | 10.6 |
| Netdebt/Equity | 2.6 | 1.6 | 0.6 |
| ROE (%) | 6.1 | 10.9 | 16.2 |
| ROCE (%) | 9.7 | 14.3 | 21.3 |
| PE | 47.4 | 23.5 | 13.3 |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- ✓ **Utilizations:** MDF blended utilizations for Q3FY21 stood at 93% wherein Uttarakhand/Andhra utilizations stood at 108%/85% respectively. Plywood utilizations came in at 87%. Going ahead, management expects to achieve peak utilizations of 100-110% in MDF division by FY22E. In terms of incremental supply in MDF industry, only capacity expected in near term is of Rushil's - 800 cbm/day capacity is expected to commence production in FY22E. Century ply is planning to add MDF capacity, however it is unlikely to come before FY23E.
- ✓ **Sales:** Owing to extremely sharp increase in MDF volumes, total sales came in at Rs 3,169 mn (vs our est. of Rs 2,589 mn) translating into sturdy growth of 34.5% y/y and 41% q/q. MDF sales came in at Rs 2,549 mn (+44% y/y & 48% q/q) wherein domestic/exports sales stood at Rs 2,170 mn/ Rs 323 mn respectively. The Dealer-OEM sales mix stood at 70:30 during Q3FY21. Company expects to maintain double digit growth in Q4FY21 as well. Additionally, management expects MDF industry to grow by 15-20% in next fiscal and plywood industry to report steady 5-7% growth.
- ✓ **EBITDA:** For Q3FY21, EBITDA stood at Rs 684 mn (vs our estimates of Rs 445 mn); a phenomenal growth of 96.8% y/y & 47.9% q/q. EBITDA margins: With higher operational efficiency backed by cost saving measures, EBITDA margins improved to 21.6% Vs 14.8%/20.6% in Q3FY20/Q2FY21 respectively. MDF margins came in at 24.5% Vs 17.2% in Q3FY20 and plywood margins came in at 14.7% Vs 11.5% in Q3FY20. Going ahead, management expects to expand MDF margins by 50-100bps and Plywood margins to come in at 15% by FY22E.
- ✓ **ROE/ROCE** for quarter stood at 19.2%/17.8% respectively. Pre-tax ROCE is expected to improve from 17.8% to 22% and post-tax ROCE should expand to 18-18.5% in FY22E.
- ✓ **Capex** in FY22 will be ~Rs 550 mn which will be utilized for (1) expanding MDF annual capacity from 540,000 cbm to 650,000 cbm wherein new capacity will be only of thick MDFs and is expected to get operational by Nov-Dec 2021 and (2) operational capex for reduction in consumption of wax (RM for MDF manufacturing) by 30%.
- ✓ **Net Debt** stood at Rs 4.52 bn in Q3FY21 which is expected to reduce to Rs 4 bn by Q4FY21E and to Rs 2.5 bn by FY22E.

### Exhibit 2: Financial Summary

| Financial Overview (Rs mn) | FY20 | FY21E | FY22E | FY23E |
|---|---|---|---|---|
| Ply-Vol (Mn sqm) | 8.5 | 7.9 | 8.9 | 9.5 |
| MDF- Vol (cbm) | 316,022 | 381,818 | 473,618 | 583,714 |
| Net sales | 8,766 | 9,857 | 11,992 | 14,411 |
| EBITDA | 1,378 | 1,802 | 2,336 | 3,140 |
| EBITDA% | 15.7% | 18.3% | 19.5% | 21.8% |
| Net Profit | 145 | 426 | 862 | 1,523 |
| Net Profit (%) | 1.7% | 4.3% | 7.2% | 10.6% |
| EPS | 1.2 | 3.5 | 7.0 | 12.4 |
| CFI | (223.4) | (150.0) | (300.0) | (300.0) |
| Net Debt | 5,454 | 4,598 | 3,627 | 2,017 |
| Net Debt/Equity (x) | 0.8 | 0.7 | 0.5 | 0.2 |
| Net Debt/EBIDTA (x) | 4.0 | 2.6 | 1.6 | 0.6 |
| ROE (%) | 2.4% | 6.1% | 10.9% | 16.2% |
| ROCE (%) | 5.9% | 9.7% | 14.3% | 21.3% |
| P/E (x) | 24.2 | 47.4 | 23.5 | 13.3 |
| P/B (x) | 0.5 | 2.9 | 2.6 | 2.1 |

Source: Company, YES Sec – Research

### Exhibit 3: Q3FY21 performance overview:

| Volume | Q3 FY21 | Q3 FY20 | % yoy | Q2 FY21 | % qoq |
|---|---|---|---|---|---|
| Plywood (sqm) | 25,20,000 | 22,54,704 | 11.8% | 21,36,232 | 18.0% |
| MDF (cbm) | 123,723 | 86,369 | 43.2% | 82,133 | 50.6% |
| | | | | | |
| **Segmental Revenue (Rs mn)** | **Q3 FY21** | **Q3 FY20** | **% yoy** | **Q2 FY21** | **% qoq** |
| Plywood | 621 | 585 | 6.0% | 530 | 17.1% |
| MDF | 2,549 | 1,771 | 44.0% | 1,719 | 48.3% |
| | | | | | |
| **Avg Realization (Rs)** | **Q3 FY21** | **Q3 FY20** | **% yoy** | **Q2 FY21** | **% qoq** |
| Plywood (per sqm) | 244 | 259 | (5.6%) | 246 | (1.0%) |
| MDF(per cbm) | 20,138 | 19,296 | 4.4% | 20,926 | (3.8%) |
| | | | | | |
| **EBITDA (%)** | **Q3 FY21** | **Q3 FY20** | **% yoy** | **Q2 FY21** | **% qoq** |
| Plywood | 14.70% | 11.50% | 320bps | 16.40% | (170bps) |
| MDF | 24.50% | 17.20% | 730bps | 21.80% | 270bps |
| | | | | | |
| **EBITDA (Rs mn)** | **Q3 FY21** | **Q3 FY20** | **% yoy** | **Q2 FY21** | **% qoq** |
| Plywood | 91 | 67 | 35.5% | 87 | 4.9% |
| MDF | 624 | 305 | 105.1% | 375 | 66.7% |

Source: Company, YES Sec – Research

# Greenply Industries Ltd

| BUY | CMP Rs 164 | Target Rs 177 | Upside 7.9% |
|---|---|---|---|

## Healthy beat on all aspects; long term thesis remains intact; maintain TP of Rs 177

### Valuation & Outlook

- ✓ Although ply volumes for Greenply at 14 msqm during Q3FY21 witnessed decline of 2.4% y/y, it was better than our estimates of 12.8 msqm (outperformance primarily in outsourced segment which grew by ~17% y/y). Further, operational margins for the company continues to inch upwards – at 12.3% during Q3FY21 (+76.5 bps y/y) and 77 bps higher than our estimates. Greenply is striving to drive the same up to 14-14.5% by FY23E. However, Gabon unit for the company faced challenges during the quarter on two fronts – (1) persistent lockdowns and (2) logistical issues due to lack of containers and absurd surge in shipping rates; translating into sharp decline of 524 bps y/y in its operating margins.
- ✓ Going ahead, we estimate sales/EBITDA/PAT CAGR of 19%/34%/49% over FY21E-FY23E. Further, our long-term investment thesis remains intact as we believe that 1. Brand leveraging would drive asset light growth in future, 2. Gabon unit would act as supporting pillar for growth, and 3. High entry barriers in plywood industry would protect existing margins. Also, robust balance sheet and superior return ratios augurs well to our investment rationale -net cash of Rs 0.95 bn by FY23E Vs net debt of Rs 2.56 bn in FY20 and ROE/ROCE to stand at ~22%/ 25% respectively by FY23E.
- ✓ Assigning DCF derived P/E multiple of 14.5x on FY23E EPS of Rs 12.2, we maintain our TP of Rs 177, and we maintain our BUY rating on the stock.

### Key Result Highlights:

- ✓ **Volumes:** Company reported sales volumes of 14 msqm, a 26.7% q/q growth and minimal 2.4% y/y decline. Volumes were above our estimates of 12.8 msqm.
- ✓ **Sales:** Better than expected volumes coupled with higher than expected realizations (Rs 219/sqm Vs expectation Rs 216/sqm) led to overall beat in top-line estimates. Company's sales stood at Rs 3,404 Mn (est Rs 3,149 Mn) reporting a healthy 15.2% q/q growth and remained flat y/y. Sales of subsidiaries reported 14.3% y/y growth while declined sharply by 47% q/q to Rs 303 Mn.
- ✓ **EBITDA:** Company reported EBITDA of Rs 417 Mn (est Rs 362 Mn) registering a growth of 28.9% q/q & 4.9% y/y. Operational margins improved from 11.5%/11% in Q3FY20/Q2FY21 respectively to 12.3% mainly on account of better gross margins which came in at 42.1% Vs 41.1%/39.8% in Q3FY20/Q2FY21 respectively. EBITDA margins of subsidiary contracted from 18%/15% in Q3FY20/Q2FY21 respectively to 13%.

**Exhibit 1: Result Table**

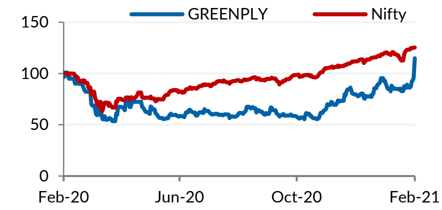
| Y/e 31 Mar (Rs mn) | Q3FY21 | Q2FY21 | qoq(%) | Q3FY20 | yoy (%) |
|---|---|---|---|---|---|
| Revenue | 3,404 | 2,955 | 15.2 | 3,460 | (1.6) |
| Gross Profit | 1,432 | 1,176 | 21.8 | 1,423 | 0.6 |
| GP margin (%) | 42.1 | 39.8 | 227.4bps | 41.1 | 94 bps |
| Operating Profit | 417 | 324 | 28.9 | 398 | 4.9 |
| OPM (%) | 12.3 | 11.0 | 131bps | 11.5 | 76bps |
| Depreciation | 59 | 57 | 4.4 | 64 | (7.1) |
| Interest | 36 | 38 | (4.0) | 49 | (24.9) |
| PBT | 338 | 241 | 40.4 | 288 | 17.4 |
| Tax | 87 | 45 | 94.3 | 73 | 18.5 |
| Reported PAT | 250 | 186 | 34.6 | 214 | 17.1 |
| Adjusted PAT | 276 | 200 | 38.3 | 215 | 28.5 |

Source: Company, YES Sec – Research

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 164 / 73 |
| Market cap (Rs/USD mn) | 20160 / 277 |
| Outstanding Shares (mn) | 123 |
| 6m Avg t/o (Rs mn): | 72 |
| Div yield (%): | 0.2 |
| Bloomberg code: | MTLM IN |
| NSE code: | GREENPLY |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | 23.6% | 73.6% | 19.7% |

**Shareholding pattern (As of Dec'20 end)**

| | |
|---|---|
| Promoter | 52.20% |
| FII+DII | 27.81% |
| Others | 19.70% |

**Δ in stance**

| (1-Yr) | New | Old |
|---|---|---|
| Rating | BUY | BUY |
| Target Price | 177 | 177 |

**Δ in earnings estimates**

| | FY21e | FY22e | FY23e |
|---|---|---|---|
| EPS (New) | 5.6 | 9.7 | 12.2 |
| EPS (Old) | 5.3 | 9.1 | 12.2 |
| % change | 5.7 | 6.6 | - |

**Financial Summary**

| Rs Mn | FY21E | FY22E | FY23E |
|---|---|---|---|
| Revenues | 11,957 | 15,251 | 17,014 |
| EBITDA | 1,257 | 1,879 | 2,255 |
| EBITDA (%) | 10.5 | 12.3 | 13.3 |
| PAT | 685 | 1185 | 1515 |
| PAT (%) | 5.7 | 7.8 | 8.9 |
| Netdebt/Equity | 0.2 | 0 | -0.1 |
| ROE (%) | 15.6 | 21.7 | 22.2 |
| ROCE (%) | 17.6 | 24.4 | 25 |
| PE | 24.5 | 14.2 | 11.1 |

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- **Net Profit:** Net profit stood at Rs 250 Mn (est Rs 209 Mn) reporting a growth of 17.1% y/y & 34.6% q/q. Net profit margins came in at 8.1% Vs 6.2%/6.8% in Q3FY20/Q2FY21 respectively.

## Key Con-call highlights

- Demand has improved and company expects H2FY21 to be better than H2FY20. During the quarter company faced some issues related to logistics and raw materials which led to marginal y/y decline in volumes.
- Company is Net debt free on standalone basis and aims to be net debt free on consolidated basis by FY23E
- NWC-Days improved to 42 days on standalone basis, going ahead NWC-days can further improve to ~36-37 days.
- Management guided that in FY22E revenues will grow in double digit and they continue to believe that EBITDA margins will improve by 400 bps (from FY20) to ~14-14.5% by FY23E.
- Premium products contributed 60%/70% in Vol/Value terms respectively & Low-mid end segment contributed 40%/30% in Vol/Value terms respectively during Q3FY21. With company's focus on penetrating into rural markets, low&mid end plywoods witnessed faster growth Vs premium segment.
- Metros accounted for ~42-43% of total sales Vs 35-37% earlier.
- Unit-1 of UP (outsourced unit) commenced production during Q3FY21, Unit-2 will start production by Q1FY22 end.
- Gabon operations faced challenges w.r.t logistics issues and persistent lockdown during the quarter. Currently company possesses huge inventory at docks and therefore they are not taking any fresh orders.
- Company stated any new investments will be done only into biz which yields 18-20% ROCE. With strengthening of balance sheet, company is exploring to enter new line of business which will be related to building materials only.
- Price Hikes were taken in February 2021 which was to mitigate the rise in RM cost.
- Capex for 9MFY21 stood at Rs 190-200 Mn and in Q4FY21 it will be ~Rs 40 Mn. For FY22E capex will be ~Rs170-180 Mn.

# Greenply Industries Ltd

### Exhibit 2: Financial Summary

| (Rs mn) | FY20 | FY21E | FY22E | FY23E |
|---|---|---|---|---|
| Plywood Vol (msqm) | 56.4 | 46.8 | 59.4 | 66.3 |
| Net sales | 14,204 | 11,957 | 15,251 | 17,014 |
| EBITDA | 1,556 | 1,257 | 1,879 | 2,255 |
| EBITDA% | 11.0 | 10.5 | 12.3 | 13.3 |
| Net Profit | 473 | 685 | 1,185 | 1,515 |
| Net Profit % | 3.3 | 5.7 | 7.8 | 8.9 |
| EPS (Rs) | 3.9 | 5.6 | 9.7 | 12.2 |
| CFI | (572) | (250) | (200) | (200) |
| Net Debt | 2,556 | 705 | 168 | (965) |
| Net Debt/Equity (x) | 0.7 | 0.2 | 0.0 | (0.1) |
| Net Debt/EBITDA (x) | 1.6 | 0.6 | 0.1 | (0.4) |
| ROE (%) | 20.5 | 15.6 | 21.7 | 22.2 |
| ROCE (%) | 20.5 | 17.6 | 24.4 | 25.0 |
| P/E (x) | 20.4 | 24.5 | 14.2 | 11.1 |
| P/B (x) | 2.5 | 3.8 | 3.1 | 2.5 |

Source: Company, YES Sec – Research

### Exhibit 3: Operational Highlights:

| Volumes | Q3FY21 | Q2FY21 | % q-o-q | Q3FY20 | % y-o-y |
|---|---|---|---|---|---|
| Production (msqm) | 7.95 | 6.67 | 19.2 | 9.19 | (13.5) |
| Utilizations (%) | 128 | 107 | 19.6bps | 148 | (13.5)bps |
| Sales (msqm) | 14.0 | 11.0 | 26.7 | 14.3 | (2.4) |
| Realizations (Rs/sqm) | 219.0 | 211.0 | 3.8 | 219.0 | - |

Source: Company, YES Sec – Research

### Exhibit 4: Revenue Split:

| (Rs Mn) | Q3FY21 | Q2FY21 | % q-o-q | Q3FY20 | % y-o-y |
|---|---|---|---|---|---|
| Greenply | 3089 | 2374 | 30.1 | 3184 | (3.0) |
| Subsidiary | 303 | 572 | (47.0) | 265 | 14.3 |

Source: Company, YES Sec – Research

### Exhibit 5: Gross Profit Split:

| (Rs Mn) | Q3FY21 | Q2FY21 | % q-o-q | Q3FY20 | % y-o-y |
|---|---|---|---|---|---|
| Greenply (Mn) | 1269 | 941 | 34.9 | 1218 | 4.2 |
| GP(%) | 41.1 | 39.6 | 144.4bps | 38.3 | 282.7bps |
| Subsidiary(Mn) | 151 | 225 | (32.9) | 194 | (22.2) |
| GP(%) | 49.8 | 39.3 | - | 73.2 | - |

Source: Company, YES Sec – Research

### Exhibit 6: EBITDA Split:

| (Rs Mn) | Q3FY21 | Q2FY21 | % q-o-q | Q3FY20 | % y-o-y |
|---|---|---|---|---|---|
| Greenply (Mn) | 394 | 251 | 57.0 | 351 | 12.3 |
| Margin (%) | 12.8 | 10.6 | 218.2bps | 11.0 | 173.1bps |
| Subsidiary(Mn) | 39 | 84 | (53.6) | 48 | (18.8) |
| Margin (%) | 12.9 | 14.7 | (181.4)bps | 18.1 | (524.2)bps |

Source: Company, YES Sec – Research

# Asset Management

## Yields remain stable, Other income spurs Profitability

### Industry Highlights for Q3FY21

- **AUM** – Industry AUM stood at Rs. 29.7 tn as on Q3FY21 growing by 11% YoY basis and 8% on sequential basis. Share of Equity AUM has started catching up and contributed 38% to the industry AUM compared to 37% in the previous quarter. During the quarter, Equity funds witnessed net outflows, whereas Debt funds continued to attract healthy net inflows. AUM growth trajectory is expected to continue on the back of strong Equity market returns and funds moving towards Debt funds as interest rates elsewhere remains benign. Share of equity AUM shall continue to improve on the back of MTM gains and higher share from B30 cities. However, we believe in the near term redemption pressure to restrict a substantial rise in the share of equity AUM.

- **Market share –** SBI MF remains the largest player in the industry with a market share of 15.4%, an improvement of 219bps on YoY basis. HDFC MF market share stood at 13.1%, on YoY basis and lost 117bps of market share. NAM remains the 5th largest fund house with 7.2% market share. Nevertheless, it's worth noting that the pace of market loss has moderated for HDFC AMC and can be seen stabilizing for NAM and UTI AMC. With consolidation in the industry, the top players are expected to garner additional market share. HDFC AMC, NAM and UTI AMC too shall benefit from the industry consolidation aided by increased focus on improving fund performance. CAMS industry market share stood at 69.5%, lower by 50bps on sequential basis mainly on back of marginal market share loss by its top clients.

- **Yields on Management fees** – Overall Yields have seen some pressure on YoY basis due to decline in the share of Equity AUM. However, on sequential basis, MTM gains have supported Equity AUM, thereby protecting the yields. We believe the yields will improve in the medium to long term with increase in the Equity AUM but would remain range bound in the near term.

- **Cost –** Cost was seen normalizing (low base in the previous quarter) on a sequential basis with the re-opening of the economy across all the three listed players. HDFC AMC and UTI AMC saw an increase in employee costs by 6% and 27% respectively (due to ESOP cost). NAM demonstrated better than expected cost efficiencies by maintaining the expenses. CAMS witnessed a reduction in expenses on Y/Y basis, however on sequential basis saw a rise of 7% mainly on account of normalization of operating expenses. We believe there is further room for cost efficiencies specially for NAM and UTI AMC.

- **Profitability –** Overall the listed players saw strong profitability on back of jump in other income on both yoy and qoq basis. HDFC AMC profitability grew by a moderate rate of 5%, whereas, PAT growth came at 42%, 56% and 22% respectively for NAM, UTI AMC and CAMS respectively. With operating leverage kicking in, the profitability is expected to remain robust and grow at a faster pace than the AUM.

| Stock | Rating | TP |
|---|---|---|
| NAM | BUY | 364 |
| CAMS | BUY | 2,319 |
| UTI AMC | BUY | 689 |
| HDFC AMC | ADD | 3,302 |

**Note:** Target and Recommendation as on Result date


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### Upgrading estimates and target multiples

Given our house view of a sustained rally in Indian equity markets in the near term, accompanied with benign interest rates, we expect AUM growth for the industry to remain strong. Hence, we have upgraded our Nifty return expectation from 12% to 15%. Also, we have raised our target multiples as we get more confident of a stronger growth trajectory. We believe these premium valuations are sustainable on back of (1) Strong AUM growth (2) Improving profitability with increasing pie of Equity AUM (3) Healthy return ratios. NAM and CAMS continue to be our top picks within the sector and currently trades at 24x and 31x FY23E PE respectively. We assigned a BUY rating on UTI AMC given its attractive valuations of 14x FY23E P/E. HDFC AMC remains ADD with the valuation of 33x FY23E PE.

**Exhibit 1: Q3FY21 Results – Core Performance Snapshot**

| Company | QAUM Growth | | Revenue Growth | | Yield | | EBITDA | | PAT | |
|---|---|---|---|---|---|---|---|---|---|---|
| | % yoy | % qoq | % yoy | % qoq | bps yoy | bps qoq | % yoy | % qoq | % yoy | % qoq |
| HDFC AMC | 2% | 4% | -8% | 6% | -5bps | 1bps | -7% | 6% | 5% | 9% |
| NAM | 4% | 6% | -11% | 4% | -9bps | -1bps | 0% | 8% | 42% | 46% |
| UTI AMC | 0% | 7% | 7% | 6% | 3bps | 0bps | -29% | -21% | 56% | 18% |
| CAMS | 12% | 7% | 6% | 9% | 0bps | 0bps | 18% | 11% | 22% | 15% |

Source: Company, Yes Sec Research

# Computer Age Management

| BUY | CMP Rs1930 | Target Rs2319 | Upside 20% |
|---|---|---|---|

## Strong performance – Ahead of estimates

### Market leader and a proxy to India's MF growth story with a potential to scale up Non-MF revenue– Retain BUY with upgraded 12m PT of Rs2319

We remain positive on CAMS business given our house view of robust equity market performance in the years to come. Also steady market share gains with 1) FT addition and 2) consolidation of market share amongst top 10 AMCs bodes well for CAMS. Non MF businesses will gain traction over the medium term especially AIFs and the payment business (the share of which is minimal currently). EBIDTA margins reported in the current quarter are sustainable and will possibly see some expansion over the medium term. We raise our estimates to factor in 1) higher market return expectations from 12% to 15% and 2) higher EBIDTA margins. This has resulted in our EPS estimates for FY22 and FY23 increasing by 9% and 9.5% respectively. We also raise our target multiple from 35x FY23E EPS to 37x FY23E EPS leading to our 1-year target price increasing from Rs2,000 to Rs2,319. Reiterate BUY.

**Exhibit 1: Result Table**

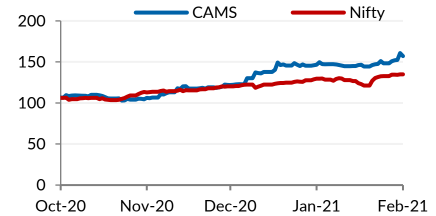
| Rs Mn | Q3FY21 | Q3FY20 | YoY | Q2FY21 | QoQ |
|---|---|---|---|---|---|
| Revenue | 1,860 | 1,760 | 6% | 1,711 | 9% |
| | | | | | |
| Employee exp | 643 | 646 | 0% | 624 | 3% |
| As % of rev | 34.6% | 36.7% | -210bps | 36.5% | -188bps |
| Operating exp | 230 | 235 | -2% | 192 | 20% |
| As % of rev | 12.4% | 13.4% | -99bps | 11.2% | 118bps |
| Other Exp | 167 | 182 | -8% | 157 | 6% |
| As % of rev | 9.0% | 10.3% | -137bps | 9.2% | -22bps |
| Total Expenses | 1,040 | 1,063 | -2% | 973 | 7% |
| As % of rev | 55.9% | 60.4% | -446bps | 56.9% | -91bps |
| EBIDTA | 819 | 697 | 18% | 738 | 11% |
| EBITDA Margin | 44.1% | 40% | 446bps | 43% | 91bps |
| | | | | | |
| Other Income | 64 | 67 | -5% | 51 | 26% |
| Interest | 20 | 26 | -24% | 20 | -3% |
| Depreciation | 108 | 129 | -17% | 108 | 0% |
| | | | | | |
| PBT | 756 | 610 | 24% | 661 | 14% |
| Tax | 192 | 148 | 30% | 171 | 12% |
| Tax Rate | 25% | 24% | 117bps | 26% | -58bps |
| | | | | | |
| PAT | 564 | 462 | 22% | 490 | 15% |
| PAT Margin | 30% | 26% | 408bps | 29% | 175bps |

Source: Company, Yes Sec Research

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 2023 / 1260 |
| Market cap (Rs/USD mn) | 94176 / 1294 |
| Outstanding Shares (mn) | 49 |
| 6m Avg t/o (Rs mn): | NA |
| Div yield (%): | 0.4 |
| Bloomberg code: | CAMS IN |
| NSE code: | CAMS |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | 7.1% | 48.6% | NA |

**Shareholding pattern** (As of Dec 20 end)

| | |
|---|---|
| Promoter | 30.98% |
| FII+DII | 48.40% |
| Others | 20.61% |

**∆ in stance**

| (1-Yr) | New | Old |
|---|---|---|
| Rating | BUY | BUY |
| Target Price | 2319 | 2000 |

**∆ in earnings estimates**

| | FY21e | FY22e | FY23e |
|---|---|---|---|
| EPS (New) | 43 | 51 | 63 |
| EPS (Old) | 42 | 47 | 57 |
| % change | 2.3% | 9.1% | 9.5% |

**Financial Summary**

| | FY20 | FY21E | FY22E |
|---|---|---|---|
| Net Revenue | 6,996 | 7,152 | 8,480 |
| YoY Growth | 1% | 2% | 19% |
| EBIDTA | 2,873 | 2,998 | 3,601 |
| YoY Growth | 18% | 4% | 20% |
| PAT | 1,735 | 2,075 | 2,476 |
| YoY Growth | 32.5% | 19.6% | 19.3% |
| ROE | 35.4% | 36.0% | 38.1% |
| EPS | 36 | 43 | 51 |
| P/E | 54.3 | 45.4 | 38.0 |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# Computer Age Management Services

## Result Update

- ✓ **Revenue –** Revenue came at Rs.1.86bn against our estimate of Rs.1.82bn. It was a growth of 6% on YoY basis and 9% on sequential basis.
- ✓ **EBITDA -** EBITDA stood at Rs.819mn against our estimate of Rs.779mn. EBITDA margin stood at 44% against our estimate of 43%, expanding by 446bps on YoY basis. On sequential basis, operating expenses saw a sharp jump of 20% led by normalization of the economic activities.
- ✓ **PAT –** PAT came at Rs.564mn v/s our estimate of Rs.539mn, growing by 22% on yoy basis and 15% on sequential basis.
- ✓ **Interim Dividend -** Declared an interim dividend of Rs.7.60/- per equity share

## Concall Takeaways

### MF Business

- ✓ FT transition is progressing well, ready to go live by April and May 2021.
- ✓ MyCAMS grew by 30% q/q
- ✓ Growth in Asset based Revenue mainly on account of AUM growth and asset mix.
- ✓ MF transactions stands at ~15% for the quarter.
- ✓ Transaction volume at 85% at last year's level.
- ✓ Realization loss is on back of TER structure and occasional rate re-negotiation with clients.
- ✓ EBITDA Improvement due to – (1) Traditionally MF revenue contributed to 87% which has moved to ~90% (2) Some amount of lag between transaction volume and associated cost incurred.
- ✓ Margin expected to be in the range of 38-39% as compared to 41% in the current quarter, (appears conservative).

### Non – MF Business

- ✓ Non-MF revenue impacted by shutting down of the Banking and non-banking services business, impact in insurance business and drop in ECS transactions
- ✓ Account aggregator is new concept in India, this creates a seamless links between financial service provider and information provider to them. There is no industry size estimate available, business will start contributing to revenue by 2022. Believed to have good opportunity.
- ✓ In terms of NPS business, one is to provide platform and the other is to acquire corporate clients. There is a fee structure to be charged to the clients.
- ✓ Overall MF platforms expanded to PMS and AIF business.
- ✓ CRA in sweet spot because it deals with investor service for which CAMS has business specialization.
- ✓ Time being not exploring any overseas opportunity, but may look at it in future.
- ✓ Huge expansion in payment and remain bullish on this business. Market place is crowded and competitive except for ENACH with MF which is at a good spot.
- ✓ These business are technology driven and margin accretive.
- ✓ Insurance Repository received licensed in 2011-2012, mature offering and shall benefit once there is trend change in the business. At some point of time, e-policies can become mandatory. Historically, insurance has been sold through agency channel, who are comfortable with paper format and in turn restricting traction in e-policies.

- Payment, AIF and Insurance channel has fallen down by certain bps (Each contribute to ~3% of Total Revenue). Payment and AIF business continues to remain profitable, however, Insurance is at breakeven due to adverse impact from lower transactions.
- Non-MF revenue to gain share needs to grow faster than MF business. The management aspires to bring the share of these business in mid-teens to aid revenue diversification.

## Cost

- Automation of activities has helped cost rationalization.
- Some amount of cost increase to be seen in next quarter.
- Slowdown in Capex in last 2 quarter, expected to reach the normalized level (almost at depreciation level) by next quarter.
- No exceptional cost in this quarter, spurt in operating expenses mainly due to increase in reimbursement cost.

## Others

- Dividend received from the subsidiary (Rs 250mn) is not part of standalone business therefore major difference in standalone and consolidated revenue.
- No change in dividend policy (65% of the PAT)

# HDFC AMC

| ADD | CMP Rs2998 | Target Rs3,302 | Upside 10% |
|---|---|---|---|

## Slight miss in terms of revenue, but PAT spurred by other income

### Stable Yields, Market returns aids AUM grow – Retain ADD with upgraded 12m PT of Rs3,302

Given our house view of a sustained rally in Indian equity markets in the near term, we expect AUM growth of the industry to remain strong. We have raised our MTM gains impact on AUM from 12% to 15% for the next three years. This will also lead to improvement in profitability as yields on Equity AUM is 2x of the overall yield. Rising investment book has translated into higher other income, which has been better than our estimates. Building these factors into our forecast, we have raised our earnings estimates by 10-15% and have raised our multiple to 36x from 34x FY23E EPS leading to our target price increase from Rs2,757 to Rs3,302. Retain our ADD rating

**Exhibit 1: Result table**

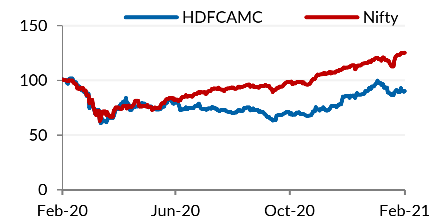
| Rs. Mn | Q3FY21 | Q3FY20 | YoY | Q2FY21 | QoQ |
|---|---|---|---|---|---|
| Revenue from operation | 4,819 | 5,247 | -8% | 4,563 | 6% |
| As % of QAUM | 0.49% | 0.55% | -5bps | 0.49% | 1bps |
| | | | | | |
| Fees and Commission | 14 | 71 | -80% | 13 | 7% |
| As % of revenues | 0.3% | 1.4% | -106bps | 0.3% | 0bps |
| Employee Expenses | 569 | 571 | 0% | 535 | 6% |
| As % of revenues | 11.8% | 10.9% | 93bps | 11.7% | 9bps |
| Other Expenses | 378 | 470 | -19% | 360 | 5% |
| As % of revenues | 7.9% | 9.0% | -110bps | 7.9% | -3bps |
| Total Expenses | 961 | 1,111 | -14% | 907 | 6% |
| | | | | | |
| **Operating Profit** | **3,858** | **4,136** | **-7%** | **3,655** | **6%** |
| As % of QAUM | 0.40% | 0.43% | -4bps | 0.39% | 1bps |
| As % of revenues | 80.1% | 78.8% | 124bps | 80.1% | -6bps |
| | | | | | |
| Other Income | 1,131 | 673 | 68% | 1,137 | -1% |
| Finance Cost | 22 | 22 | 0% | 22 | 0% |
| Depreciation | 140 | 126 | 11% | 141 | 0% |
| | | | | | |
| Profit before Tax | 4,826 | 4,660 | 4% | 4,630 | 4% |
| Tax Expense | 1,134 | 1,135 | 0% | 1,249 | -9% |
| Tax Rate | 23% | 24% | | 27% | |
| **Profit After Tax** | **3,693** | **3,526** | 5% | **3,381** | 9% |

Source: Company, Yes Sec Research

**Stock data** (as on February 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 3447 / 1962 |
| Market cap (Rs/USD mn) | 638487 / 8776 |
| Outstanding Shares (mn) | 213 |
| 6m Avg t/o (Rs mn): | 928 |
| Div yield (%): | 0.9 |
| Bloomberg code: | HDFCAMC IN |
| NSE code: | HDFCAMC |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | -6.7% | 23.1% | -9.7% |

**Shareholding pattern** (As of Dect'20 end)

| | |
|---|---|
| Promoter | 73.92% |
| FII+DII | 14.74% |
| Others | 11.34% |

**Δ in stance**

| (1-Yr) | New | Old |
|---|---|---|
| Rating | ADD | ADD |
| Target Price | 3,302 | 2,757 |

**Δ in earnings estimates**

| | FY21e | FY22e | FY23e |
|---|---|---|---|
| EPS (New) | 64.2 | 76.6 | 91.6 |
| EPS (Old) | 58.1 | 67.8 | 80.0 |
| % change | 10% | 13% | 14% |

**Financial Summary**

| | FY20 | FY21E | FY22E |
|---|---|---|---|
| AAUM | 3,728,590 | 3,827,070 | 4,454,384 |
| Revenue | 20,033 | 18,485 | 23,164 |
| YoY | 4.6% | -7.7% | 25.3% |
| EBIDTA | 15,722 | 14,614 | 18,914 |
| YoY | 30.4% | -7.0% | 29.4% |
| PAT | 12,624 | 13,643 | 16,302 |
| YoY | 35.7% | 8.1% | 19.5% |
| ROE | 35.5% | 31.7% | 34.1% |
| EPS | 59.2 | 64.1 | 76.6 |
| P/E | 50.7 | 46.8 | 39.2 |

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# HDFC AMC

## Result Highlights

- ✓ **Revenue –** Management Fees was at Rs.4.81bn was slightly lower than our estimates of Rs.4.83bn. Management fees declined by 8% yoy and witnessed a growth of 6% on sequential basis.
- ✓ **Yield on Management fees -** The Yield on Management fees was at 0.49%, which was a deterioration of 5bps YoY, against our estimate of 0.50%.
- ✓ **Operating Profit -** Operating profit came at Rs.3.86bn which was lower than our estimates of Rs.3.9bn due to higher than expected employee cost.
- ✓ **Profits** – PAT stood at Rs.3.69bn v/s our estimates of Rs.3.4bn led by higher other income. Other income included unrealized gain on NCDs to the tune of Rs.115.5mn recognized in Q3FY21.

## Concall Takeaways

### AUM

- ✓ Strong player in B30 AUM with 14.3% contributed by B30. It would be difficult to bridge the gap with SBI as it has vast number of branches. Lot of branches are opened in B30 market to continue increasing the B30 share.
- ✓ Economy has recovered but people's life is yet to normalize. The risk taking appetite of retail investors has not been unlocked and therefore, bank deposits are in an upswing even at bottom rock interest rate due to need for safe heaven. Once the Market stabilize, the appetite to invest in Equity funds shall come back.
- ✓ There is segment of retail investors who are better informed to make direct investment, but the industry is catering to a totally distinct and large audience who is not yet informed enough to invest into direct equity.
- ✓ Performance of the equity schemes in last 2-3 quarters has been relatively weak but the same saw a strong rebound in Q3FY21 (in comparison with Peer performance). In the next 2-3 quarters, shall see equity growth aligned to the market growth on back of diversified investment methodology.
- ✓ SIP December number has gone up compared to November due to spillover effect from the month of November (as last few days of November were public holiday). The momentum in SIP has almost remained stable.
- ✓ Able to increase market share in Debt funds on y/y basis. Witnessed strong inflows in the debt schemes. (13.8% in Q3FY21 from 13.2% in Q3FY20)
- ✓ Lower yields and increased systematic liquidity in the country has aided growth of Debt funds.
- ✓ The possibility of MTM gain in Debt Fund due to falling yields looks unlikely in the next year.
- ✓ New fund launched collected to Rs.15bn. Strong pipeline of new product as two new fund offers are awaiting SEBI approval and one product which is approved in Board meeting is expected to be filed with SEBI in the next 15 days.

### Yields

- ✓ 72% of the revenue is contributed by Equity AUM as its margin lucrative.
- ✓ Shift towards Debt funds from liquid funds shall contribute positively to the revenue growth but the impact on yield is not very clear.

## Expenses

- ✓ Would be doing some cost tightening, saw strong savings of Rs.250mn in 9MFY21. Some part of these savings were due to lockdown and part of this is a result of cost tightening efforts.
- ✓ Can witness some cost increase in line with revenue trajectory.

## Distribution

- ✓ B30 does not have any distinct distribution channel. Bank branches and IFAs with reach to smaller towns have been able to attract good flows in smaller towns.
- ✓ SBI MF has been a clear leader in B30 market as they benefit from SBI's branch reach in these cities.
- ✓ IFAs has always been the key and strong distribution channel. (41% of Equity AUM contributed by IFAs)
- ✓ Increased Debt Composition in total AUM has led to higher share of direct business.

## Other Income

- ✓ Better realization on Debt funds, increase in investment book size and MTM gain on NCDs has led to strong other income. However, this level of other income may not be sustainable.

**Exhibit 2: Business Data**

| Rs. Mn | Q3FY21 | Q3FY20 | YoY | Q2FY21 | QoQ |
|---|---|---|---|---|---|
| Quarterly Average AUM | 3,895,000 | 3,825,000 | 2% | 3,755,000 | 4% |
| QAUM Mix | | | | | |
| Equity | 39.6% | 44.0% | -440bps | 39.1% | 50bps |
| Debt | 37.3% | 28.3% | 900bps | 32.3% | 500bps |
| Liquid | 21.1% | 25.9% | -480bps | 26.5% | -540bps |
| Others | 2.0% | 1.8% | 20bps | 2.1% | -10bps |
| | | | | | |
| SIP Flows | 9,100 | 12,200 | -25% | 9,000 | 1% |
| | | | | | |
| Channel Mix | | | | | |
| Banks | 9.6% | 12.2% | -260bps | 10.0% | -40bps |
| HDFC Bank | 5.3% | 6.4% | -110bps | 5.4% | -10bps |
| IFA's | 24.4% | 26.3% | -190bps | 24.8% | -40bps |
| National Distributor | 16.8% | 19.8% | -300bps | 17.8% | -100bps |
| Direct | 49.2% | 41.7% | 750bps | 47.4% | 180bps |
| | | | | | |
| Geographical Spread | | | | | |
| T-30 | 85.6% | 87.1% | -150bps | 85.8% | -20bps |
| B-30 | 14.4% | 12.9% | 150bps | 14.2% | 20bps |

Source: Company, Yes Sec Research

**Q3 FY21 Result Review** | Sector: AMC

# Nippon Life Asset Management

| BUY | CMP Rs325 | Target Rs426 | Upside 31% |
|---|---|---|---|

## Miss in terms of revenue, PAT supported by strong other Income

### Market returns aids AUM grow, significant cost rationalization supports operating profit - Retain BUY with upgraded 12m PT of Rs426

Given our house view of a significant rally in Indian equity markets in the near term, we expect AUM growth of the industry to remain strong. On the same grounds we have raised our MTM gains impact on Equity AUM from 12% to 15% for the next three years. This shift of product mix towards higher share of equity AUM shall lead to better profitability as yields on Equity AUM is 2x of the overall yields. Rising investment book and higher equity MTM gains has translated into a very strong other income, which was much ahead of our estimates. It has also demonstrated improvement in cost efficiencies, which were better than our estimates, guarding the operating margin despite the contraction in yields. Building these factors into our forecast, we have raised our earnings estimates by around 5-6% and have raised our multiple to 30x from 29x FY23E EPS leading to our target price increase from Rs364 to R426. Retain our BUY rating.

**Exhibit 1: Result table**

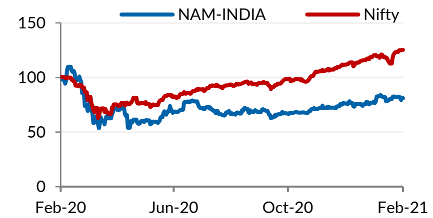
| Rs. mn | Q3FY21 | Q3FY20 | YoY | Q2FY21 | QoQ |
|---|---|---|---|---|---|
| Revenue from operation | 2,685 | 3,031 | -11% | 2,587 | 4% |
| As % of QAUM | 0.50% | 0.59% | -9bps | 0.52% | -1bps |
| | | | | | |
| Fees and Commission | 101 | 120 | -15% | 97 | 5% |
| As % of revenues | 3.78% | 3.95% | -17bps | 3.73% | 4bps |
| Employee Expenses | 665 | 814 | -18% | 679 | -2% |
| As % of revenues | 24.8% | 26.8% | -208bps | 26.3% | -151bps |
| Other Expenses | 449 | 627 | -28% | 447 | 0% |
| As % of revenues | 16.7% | 20.7% | -395bps | 17.3% | -57bps |
| Total Expense | 1,215 | 1,560 | -22% | 1,223 | -1% |
| | | | | | |
| Operating Profit | 1,470 | 1,471 | 0% | 1,363 | 8% |
| As % of QAUM | 0.28% | 0.29% | -1bps | 0.27% | 0bps |
| As % of revenues | 54.7% | 48.5% | 620bps | 52.7% | 204bps |
| | | | | | |
| Other Income | 1,304 | 575 | 127% | 637 | 105% |
| Finance cost | 11 | 19 | -44% | 12 | -10% |
| Depreciation | 78 | 91 | -15% | 79 | -2% |
| | | | | | |
| Profit before Tax | 2,685 | 1,936 | 39% | 1,910 | 41% |
| Tax Expense | 570 | 443 | 29% | 457 | 25% |
| Profit After Tax | 2,115 | 1,493 | 42% | 1,452 | 46% |
| As % of QAUM | 0.40% | 0.29% | 11bps | 0.29% | 11bps |
| As % of revenues | 78.8% | 49.3% | 2954bps | 56.1% | 2265bps |

Source: Company, Yes Sec Research

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 453 / 208 |
| Market cap (Rs/USD mn) | 199374 / 2740 |
| Outstanding Shares (mn) | 613 |
| 6m Avg t/o (Rs mn): | 288 |
| Div yield (%): | 1.5 |
| Bloomberg code: | NAM IN |
| NSE code: | NAM-INDIA |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | 4.9% | 14.9% | -17.5% |

**Shareholding pattern** (As of Sept'20 end)

| | |
|---|---|
| Promoter | 74.95% |
| FII+DII | 11.44% |
| Others | 13.62% |

**Δ in stance**

| (1-Yr) | New | Old |
|---|---|---|
| Rating | BUY | BUY |
| Target Price | 426 | 364 |

**Δ in earnings estimates**

| | FY21e | FY22e | FY23e |
|---|---|---|---|
| EPS (New) | 10.7 | 11.2 | 14.2 |
| EPS (Old) | 9.0 | 10.0 | 12.7 |
| % change | 19% | 12% | 12% |

**Financial Summary**

| | FY20 | FY21E | FY22E |
|---|---|---|---|
| AAUM | 2,086,199 | 2,045,879 | 2,447,666 |
| Revenue | 12,030 | 10,491 | 13,372 |
| YoY | -18.60% | -12.80% | 27.50% |
| EBIDTA | 6,085 | 5,280 | 7,903 |
| YoY | 12.90% | -13.20% | 49.70% |
| PAT | 4,158 | 6,569 | 6,891 |
| YoY | -14.60% | 58.00% | 4.90% |
| ROE | 16.10% | 24.40% | 23.90% |
| EPS | 6.8 | 10.7 | 11.2 |
| P/E | 47.9 | 30.3 | 28.9 |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# Nippon Life Asset Management

## Result Highlights

- **Revenue –** Management Fees was at Rs.2.68bn was lower than our estimates of Rs. 2.79bn. Management fees declined by 11% yoy and witnessed a growth of 4% on sequential basis.
- **Yield on Management fees -** The Yield on Management fees stood at 0.5% v/s our estimate of 0.53%. It declined by 9bps on YoY basis and 1bps on sequential basis.
- **Operating Profit -** Operating profit came at Rs. 1.47bn which was lower than our estimates of Rs. 1.53bn mainly on back lower revenue. Despite expenses been slightly lower than our estimates.
- **Profits –** PAT stood at Rs. 2.1bn v/s our estimates of Rs. 1.6bn led by strong other income.
- **Dividends –** Declared interim dividend of Rs. 3 per share

## Concall takeaways

### AUM

- Growth in Equity AUM largely due to MTM gain and increase in Debt AUM largely due to strong inflows by institutional investors.
- Gross flow market share – (1) Fixed income: lot of positivity, downfall has stopped, (2) ETFs – Market share continues to rise (3) Equities – lost a bit of market share there, expect the trajectory is become positive.
- SIP
  - Increase in December to some extent is owing to holiday season in November.
  - September to December SIP flows remained flat for NAM. SIP amount – 660crs actually collected for Dec 2020 and Rs. 620crs for Sept
- Institutional market share – post the brand change family offices and HNI are coming back. Some are coming back to FIs and some to ETFs, out of top 100 companies 25 companies have resumed business with NAM, gaining market share with MNCs where relatively lower presence, Japanese companies in India will also be looked to target.
- Strategy to garner foreign funds –Nippon Life shall continue to support, wherever Nippon Life do not have present in India so far, its present treasuries can look to invest in India, current fund is Rs10,000crore almost 50% contributed by Nippon.
- Brand remains strong in Institutional and HNIs category. Strong retail fund through distributors.
- Steps taken to improve fund performance has yielded some results, 1 new FM in Fixed Income and Equity each to be added in this quarter.

### Yields

- Equity yields have dropped in this quarter – Likely to see 2-3bps decline with old assets getting replaced by newer assets, Distribution of new NFOs done at a slightly higher price.
- Within the debt fund the shift from Long term to Short term funds have impacted yields. Trend can change very fast as risk averseness amongst customers is reducing.

### Cost

- Opex has gone down significantly as focus is on improving operating efficiencies.
- Not opening any new branches and utilizing Digitalization to reach to new cities, will be calibrated towards expansion
- Pre-dominantly the expenses are fixed in nature and do not see any significant increase post normalization of the economy.

- ✓ Employee costs – 80-85% of the ESOP costs absorbed. Overall number of employees have gone down driven by automation, compensation structure has been relooked with introduction of ESOPs reducing the variable component
- ✓ Incrementally do not see major reduction in opex costs, from now on operating leverage benefits shall kick in.

## Distribution

- ✓ Digital channel contributed to 55% of the AUM.

## Other Income

- ✓ Equity investment is purely into own schemes and intent to bring it down systematically.

## Others

- ✓ Focus will be on retail and SIPs where profitability is higher
- ✓ Stable market share of 29% in Unique Investors.
- ✓ New Digital SIP Purchase grew 62% in Q3 FY21 vis-à-vis Q3 FY20
- ✓ Added over 150,000 ETF folios in Q3FY21.
- ✓ IPO Proceeds + networth allow for any strategic acquisition in MFs, AIFs PMS along with Fintech. Nothing on serious discussions right now. Aim is to create value for minority shareholders.

**Exhibit 2: Business Data**

| | Q3FY21 | Q3FY20 | YoY | Q2FY21 | QoQ |
|---|---|---|---|---|---|
| QAUM | 2,130,000 | 2,044,000 | 4% | 2,000,000 | 6% |
| QAUM Mix | | | | | |
| Equity | 39% | 44% | -500bps | 39% | 0bps |
| Debt | 32% | 27% | 500bps | 30% | 200bps |
| Liquid | 14% | 16% | -200bps | 17% | -300bps |
| ETFs | 15% | 13% | 200bps | 14% | 100bps |
| | | | | | |
| SIP Flows | 6,600 | 7,100 | -7% | 6,200 | 6% |
| | | | | | |
| Channel Mix | | | | | |
| IFA's | 0% | 0% | 0bps | 0% | 0bps |
| Banks | 0% | 0% | 0bps | 0% | 0bps |
| National Distributor | 55% | 55% | 0bps | 54% | 100bps |
| | | | | | |
| Retail share | 26% | 26% | 0bps | 26% | 0bps |
| | | | | | |
| Geographical Spread | | | | | |
| T-30 | 83% | 81% | 150bps | 82% | 70bps |
| B-30 | 18% | 19% | -150bps | 18% | -70bps |

Source: Company, Yes Sec Research

YES SECURITIES INSTITUTIONAL EQUITIES

# UTI AMC

| BUY | CMP Rs565 | Target Rs689 | Upside 22% |
|---|---|---|---|

## Regaining market share, Attractive valuations

### Disappointing result on cost front but given the business strength and attractive valuation, we recommend BUY rating on UTI AMC with 12m PT of Rs689

We expect UTI AMC to report AAUM CAGR of 14% during FY21E-23E and a EBIDTA CAGR of 46% during the same period. The stock currently trades at FY23E P/E of 14x, which is a steep discount to 31x and 21x for its listed player HDFC AMC and NAM respectively. We believe this discount to narrow down on account of (1) Increase in market share (2) Improving cost efficiencies (3) Improving return ratios. We assign a multiple of 17x (~50% discount to our average target multiples of HDFC AMC and NAM) to FY23E EPS to arrive at our target price of Rs689. Recommend BUY.

**Exhibit 1: Result Table**

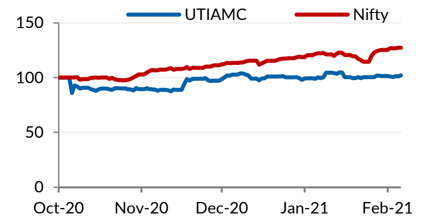
| | Q3FY21 | Q3FY20 | YoY | Q2FY21 | QoQ |
|---|---|---|---|---|---|
| Revenue from operation | 2,118 | 1,981 | 7% | 1,993 | 6% |
| As % of QAUM | 0.51% | 0.51% | 0bps | 0.60% | -8bps |
| | | | | | |
| Fees and Commission Expenses | 9 | 8 | 10% | 6 | 51% |
| As % of revenues | 0.40% | 0.39% | 1bps | 0.28% | 12bps |
| Employee Benefit Expenses | 1,161 | 756 | 53% | 911 | 27% |
| As % of revenues | 54.8% | 38.2% | 1662bps | 45.7% | 911bps |
| Other Expenses | 394 | 440 | -11% | 372 | 6% |
| As % of revenues | 18.6% | 22.2% | -363bps | 18.7% | -7bps |
| Total Expense | 1,563 | 1,204 | 30% | 1,288 | 21% |
| | | | | | |
| Operating Profit | 555 | 777 | -29% | 705 | -21% |
| As % of QAUM | 0.13% | 0.20% | -7bps | 0.21% | -8bps |
| As % of revenues | 26.2% | 39.2% | -1300bps | 35.4% | -917bps |
| | | | | | |
| Other Income | 1,365 | 504 | 171% | 877 | 56% |
| Finance cost | 23 | 19 | 22% | 23 | -2% |
| Depreciation | 95 | 80 | 18% | 92 | 4% |
| | | | | | |
| Profit before Tax | 1,802 | 1,182 | 52% | 1,467 | 23% |
| Tax Expense | 399 | 284 | 41% | 281 | 42% |
| Profit After Tax | 1,402 | 898 | 56% | 1,186 | 18% |
| As % of QAUM | 0.34% | 0.23% | 11bps | 0.35% | -2bps |
| As % of revenues | 66.2% | 45.3% | 2089bps | 59.5% | 671bps |

Source: Company, Yes Sec Research

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 596 / 471 |
| Market cap (Rs/USD mn) | 71654 / 985 |
| Outstanding Shares (mn) | 127 |
| 6m Avg t/o (Rs mn): | NA |
| Div yield (%): | 1.2 |
| Bloomberg code: | UTIAM IN |
| NSE code: | UTIAMC |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | 1.8% | 16.0% | NA |

**Shareholding pattern** (As of Sept'20 end)

| | |
|---|---|
| Promoter | 0.00% |
| FII+DII | 68.21% |
| Others | 48.76% |

**∆ in stance**

| (1-Yr) | New | Old |
|---|---|---|
| Rating | BUY | |
| Target Price | 689 | |

**∆ in earnings estimates**

| | FY21e | FY22e | FY23e |
|---|---|---|---|
| EPS (New) | 39.0 | 33.0 | 40.5 |
| EPS (Old) | | | |
| % change | | | |

**Financial Summary**

| | FY20 | FY21E | FY22E |
|---|---|---|---|
| AAUM | 1,551,816 | 1,568,174 | 1,871,950 |
| Revenue | 7,879 | 7,935 | 9,953 |
| YoY | -11.5% | 0.7% | 25.4% |
| EBIDTA | 2,822 | 2,352 | 3,857 |
| YoY | -16.6% | -16.6% | 64.0% |
| PAT | 2,765 | 4,948 | 4,189 |
| YoY | -20.5% | 79.0% | -15.3% |
| ROE | 10.2% | 17.2% | 13.6% |
| EPS | 21.5 | 39.0 | 33.0 |
| P/E | 26.1 | 14.4 | 17.0 |

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# UTI AMC

## Result Update

- **Revenue –** Management Fees was at Rs.2.1bn was in line with our estimate. Management fees grew by 7% yoy and witnessed a growth of 6% on sequential basis.
- **Yield on Management fees** - The Yield on Management fees was 51bps, remaining flat on YoY basis, against our estimate of 52bps.
- **Operating Profit** - Operating profit came at Rs. 0.5bn which was lower than our estimates of Rs. 0.8bn on back of higher employee cost.
- **Other Income –** Other Income came at Rs. 1.36bn was much higher than our estimates of Rs. 0.9bn.
- **Profits –** PAT stood at Rs. 1.4bn v/s our estimates of Rs. 1.2bn mainly led by robust other income.

## Concall Takeaways

### AUM

- Increase in market share of Equity + Hrbrid to 5.43% in Q3FY21 from 5.38% in Q2FY21.
- Rs 9,200mn mobilized through NFO of UTI Smallcap during the quarter, added 88,000 new folios.
- Appointed as advisors to J Safra Sarasin ESG Fund on 5th October 2020
- SDOF II achieved first close of INR 4,099 mn with commitments from existing investors of SDOF I only. The fund is planned to be launched for new investors in 2021
- Fixed income – Reviewed entire risk management framework, added 3 more Senior Credit Analyst, ensuring events of past to not be repeated, keep on engaging with every institutional client. They report confidence and have started re-investing in UTI AMC. Focusing on arresting market share loss.
- Strong Fund performance and engagement of sales and Fund manager is expected to improve market share significantly.
- Flagship Debt fund relaunched in Q2FY21, Q3FY21 – mobilized Rs. 25,000mn
- UTI Retirement Solutions – 22nd Jan was the last day to apply for RFP, if approved will be beneficial to increase the profitability. Not much cost involved with this, might require to hire 1-2 fund manager as all other infrastructure is in place.
- Well positioned to capture European and other international markets.
- Strong relationship with Japan, have offices in Dubai, London, Singapore and product presence in 34 countries. Fund performance across all these products is healthy. It will help in mobilizing more business. Might have to open branches in European countries due to Brexit. Offshore AUM – Rs. 2,17,000mn

### Distribution Channel

- Strong retail channel with branch offices, In top 15 cities – focus on each city to tie-up with top 25 IFAs. Traction for the same is increasing.
- Witnessed traction with NJ, PNB bank (19%), Bank of Baroda (7%)
- HDFC, Kotak, Axis and Citi Bank – all flagship products are empaneled.
- Communication strategy with top 25 IFAs in each cities has changed and organized multiple round of conversations with Fund managers. Above all fund performance has helped meaningfully.
- Pricing advantage due to small fund size is passed to the distributors.

- ✓ Continuously engaged with NJ to bring awareness and believe the active engagement along with their network and strong fund performance shall aid market share gain.

## Cost

- ✓ Increase in Employee cost due to (1) ESOP expense (Rs. 580mn to be apportioned for 4yrs) (2) Higher provision for Variable pay (3) Actuarial cost due change in interest rate from 6.5% to 6% (4) Non-remuneration settlement
- ✓ Absolute ESOP cost Rs.250mn in 9MFY21. (For whole year – Rs. 300mn)
- ✓ 250 employees retiring in next 4 years. Rs. 850 mn to be saved during the next 4 years.
- ✓ Will have strategy to bring cost efficiencies.
- ✓ In Process to hire young management graduates at nominal cost, this will lead to significant cost saving.

February 12, 2021

**Q3 FY21 Result Review**

# General Insurance

## Improved profitability

### Premium growth trajectory to head north

- ✓ **Overall premium growth:** GDPI for the industry saw a growth of 5% yoy primarily driven by fire, health and engineering segments. In line with economic recovery, segments like engineering, Marine and Motor have started demonstrating a momentum. With price hikes now in the based, we expect fire insurance to see slightly muted growth going ahead.

- ✓ **Motor segment:** During the quarter, overall Motor Segment premium increased by 8%. Personal mobility segment (passenger car and two wheelers) saw improving trends in terms of registrations. Also, with economy opening up and usage increasing, renewal rates have also picked up. Going ahead with retail auto sales picking up we see healthy trends. However, from claims perspective, while 9m FY21 was significantly better, we expect both OD and TP claims to inch up. In the near term, floods in certain parts of the country can add to claim ratios.

- ✓ **Health segment:** Overall health segment saw a growth of 9% during Q3 FY21 driven by 23% yoy jump in retail health. Group health business witnessed some moderation with flat premiums on yoy basis. Retail premium growth was led by higher prices and rising ticket sizes. We see these trends sustaining as COVID led fears drive customers towards getting them insured given the claim severity for COVID is significantly higher than average non COVID claims. Pricing has also been improving with insurers offering more benefits at higher prices. Claims will continue to rise as COVID claims continue to flow, while elective surgeries gather momentum.

- ✓ **Fire segment:** In Q3 FY21, the industry continued to see benefits of price hikes implemented by GIC for all occupancies. Premium growth was strong at 30% yoy reflective of some volume decline. However, claim ratios for most players improved on a qoq basis as benefits of the price hike come in. In the near future, floods can impact ratios but overall FY21 performance will be significantly better.

- ✓ **Crop insurance:** Crop insurance premium declined by 20% yoy during Q3 FY21. However, the traction is expected to improve with yields likely to improve going ahead. While floods, will impact claim ratios a bit, overall claim ratios are likely to improve.

### Strong improvement in profitability

Combined ratios for all listed entities improved significantly on yoy basis - ICICI Lombard 97.9% vs 98.7% and Bajaj Allianz 96.1% vs 103.6%. The improvement was driven by substantial improvement in claim ratios as motor claims were significantly lower than the average run rate and fire claim ratios improved as a result of the price hikes implemented. Expense management was also relatively better with rental costs coming down. However, going ahead we expect claim ratios to increase in motor and health segments in particular which could restrict profitability improvement.

### Valuations

ICICI Lombard is a great franchise to own with a profitable underwriting history, especially considering that investment yields are likely to reduce in the future. Impending merger with BAXA could bring some concerns, which we believe are adequately priced in the stock price correction. We retain our ADD rating on the stock.

| Stock | Rating | TP |
|---|---|---|
| ICICI Lombard | ADD | 1,557 |

**Note:** Target and Recommendation as on Result date


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# ICICI Lombard

| ADD | CMP Rs1,491 | Target Rs1,557 | Upside 4% |
|---|---|---|---|

## PAT below estimates

### Decent performance, remain positive on the long term potential led by healthy premium growth accompanied with sustainable return ratios – Retain ADD with upgraded 12m PT of Rs1,557

With economic recovery the commercial lines of businesses would pick up, while Motor business strength should continue on back of improving auto sales. Fire segment growth would slow down owing to the base effect, health business slowdown should continue as ICICI Bank restricts sale of benefit based products. In terms of claims, sequential growth in Q4 could be higher as severity and frequency in Motor and health are likely to increase, which could be partially offset by premium growth. Combined ratios trajectory should be steady in the near term. We have revised our estimates on premium growth as trajectory in Q3 has been better than initially forecasted, which has resulted in our earnings estimates moving higher by 3-4%. We value the stock at 31x FY23E P/E (Combined with BAXA) resulting in fair value of Rs1,557. Retain ADD rating.

**Exhibit 1: Result table**

| Rs Mn | Q3 FY21 | Q3 FY20 | % yoy | Q2 FY21 | % qoq |
|---|---|---|---|---|---|
| Gross Premiums written | 41,117 | 37,695 | 9.1 | 32,545 | 26.3 |
| Net Premium Written | 32,089 | 26,576 | 20.7 | 24,922 | 28.8 |
| Premium Earned Net | 26,114 | 24,562 | 6.3 | 24,625 | 6.0 |
| Income from Investments (net) | 4,419 | 3,364 | 31.4 | 4,086 | 8.2 |
| Total Income | 30,589 | 27,989 | 9.3 | 28,834 | 6.1 |
| Commission & Brokerage Net | 2,244 | 771 | 191.2 | 1,651 | 35.9 |
| Operating Expenses | 8,020 | 6,407 | 25.2 | 6,470 | 23.9 |
| Total claims | 17,205 | 17,604 | (2.3) | 16,538 | 4.0 |
| Underwriting Profit/(Loss) | (1,354) | (220) | 514.4 | (34) | 3,882.6 |
| Operating Profit | 3,121 | 3,207 | (2.7) | 4,175 | (25.2) |
| PAT | 3,135 | 2,941 | 6.6 | 4,157 | (24.6) |
| Key Ratios | | | | | |
| Solvency Ratio | 276.0% | 218.0% | 5800bps | 274.0% | 200bps |
| Expenses of management ratio | 25.0% | 24.1% | 88bps | 26.0% | -97bps |
| Incurred Claim Ratio | 65.9% | 71.7% | -580bps | 67.2% | -130bps |
| Net Retention Ratio | 78.0% | 70.5% | 750bps | 76.6% | 140bps |
| Combined Ratio | 97.9% | 98.7% | -80bps | 99.7% | -180bps |

Source: Company, Yes Sec Research

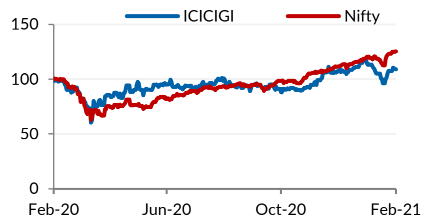
## Result Update

- ✓ **Gross Written Premium -** GWP came at Rs. 41.1bn against our expectation of Rs. 40.3bn, a growth of 9% on YoY and 26.3% on sequential basis.
- ✓ **Net Earned Premium –** NEP at Rs.26bn was lower than our estimates of Rs. 30.5bn, growth of 6% yoy, backed by strong performance across all major segments with growth of 66% in Fire segment, recovery in Marine segment with 16% growth and 13.5% growth in Health business. On Sequential basis NEP grew by 6%.

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 1626 / 805 |
| Market cap (Rs/USD mn) | 677725 / 9315 |
| Outstanding Shares (mn) | 455 |
| 6m Avg t/o (Rs mn): | 905 |
| Div yield (%): | N/A |
| Bloomberg code: | ICICIGI IN |
| NSE code: | ICICIGI |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | -4.8% | 18.4% | 10.3% |

**Shareholding pattern** (As of Dec 20 end)

| | |
|---|---|
| Promoter | 51.89% |
| FII+DII | 40.93% |
| Others | 7.14% |

**Δ in stance**

| (1-Yr) | New | Old |
|---|---|---|
| Rating | ADD | ADD |
| Target Price | 1,557 | 1,410 |

**Δ in earnings estimates**

| | FY21e | FY22e | FY23e |
|---|---|---|---|
| EPS (New) | 33.2 | 38.1 | 50.2 |
| EPS (Old) | 32.3 | 35.2 | 45.4 |
| % change | 3% | 8% | 11% |

**Financial Summary**

| | FY20 | FY21E | FY22E |
|---|---|---|---|
| NEP | 94,036 | 103,568 | 121,017 |
| % yoy | 12.3% | 10.1% | 16.8% |
| Op profit | 15,443 | 17,129 | 19,679 |
| % yoy | 25.4% | 10.9% | 14.9% |
| PAT | 11,940 | 15,079 | 17,297 |
| % yoy | 13.8% | 26.3% | 14.7% |
| EPS (Rs) | 26.3 | 33.2 | 38.1 |
| P/E (x) | 56.7 | 44.9 | 39.2 |
| RoE (%) | 19.5% | 20.4% | 19.9% |

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- **Claims –** Claims at Rs. 17.2 bn were lower than our estimate of Rs. 21.4bn and incurred claims ratio improved by 580bps to 65.9% in Q3FY21 from a year ago.
- **Underwriting Performance** – Underwriting loss at Rs. 1,345mn against our estimate of underwriting loss of Rs. 45mn on back of higher management expenses and commissions with combined ratio at 97.9% in Q3FY21.
- **Investment Income –** Income on Investments grew by 31% on YoY basis to Rs. 4.4bn which was higher our estimates.
- **Operating Profit –** Operating profit at Rs. 3.1bn was lower than our estimate of Rs. 4.0bn. Expenses of management increased by 88bps on YoY basis.
- **Profits –** PAT stood at Rs. 3.1bn which was below our estimates due to lower NEP and higher overall expenses.
- **Solvency –** Solvency Ratio stands strong at 276%.

# Concall Takeaways

## Health

- Bulk of Health benefit comes from ICICI Bank, even before the circular with regards to withdraw Credit linked policy, ICICI bank had decided to reduce the attachment business and to focus on core banking bank. Benefit business severely impacted on back of the same. (Benefit premium was Rs. 6.38bn in 9MFY20 against Rs.2.87bn in 9MFY21). The bank will re-assess this approach once the lending business normalizes.
- Shall add more banca partners to compensate the loss from to ICICI Bank.
- Credit linked business was 7.1% of GDP in FY20 and has come down to 2.9% in 9MFY21. It contributes to 7.5% of the overall Profitability.
- Indemnity premium was Rs. 5.31bn in 9MFY20 against Rs. 6.44bn in 9MFY21.
- Indemnity loss ratio stood at 70% for 9MFY20 against 83% in 9MFY21.
- Benefit segment has always been profitable segment and Loss ratio ranges between 35-45%.
- Threshold to maintain overall health ratios at 100%.
- Experience on loss ratios shall get better with regards to Covid Claims, however, non—Covid claims have started seeing an uptick and are higher than pre-covid level.
- Health frequency has still been on the lower side but the instances of surgeries have gone up impacting the severity of claims.
- Relaunched Health product which saw a month to start showing traction but saw an uptick from the month of December.
- Health Loss ratios has increased from 83% to 88%.

## Motor

- Q4FY21 expected to be positive.
- Benefit from reduction of Frequency losses was not taken in Q1FY21 and evened out through the entire year.
- Claim frequency has reached to pre-covid levels for Motor business, optimistic to see some price hike in Motor TP business in April 2021.
- 32-33% growth in CV segment and shall focus to grow in the profitable segments.

## Fire

- In terms of renewals that happen in January and April (bulk part) needs to factor moderation of growth
- No material reinsurance price hardening expected as the business quality has remained strong.

## Crop

- ✓ In Crop business, there was outflow with regards to business written earlier. It lead to reduction in IBNR.

## Expenses

- ✓ The quarter witnessed a strong in retail premiums due to which outsourcing cost was higher. And the cost is charged upfront to the P/L however, the benefit from premium income is spread through the policy term. This has resulted into higher expense ratio.
- ✓ Employee cost has remained stable as focused on improving productivity and hiring only in areas which needs to be grown.

## Others

- ✓ Launched website for SME segment during the quarter.
- ✓ 73% of group endorsements and 45% of the Motor policies sourced through digital solutions.
- ✓ Reduction in Investment leverage due to higher denominator since no dividend is paid out.
- ✓ Difference in NEP and NWP is a function of business written. Growth in NWP was lower in Q1 and Q2 therefore the ratio was lower. Going ahead with the recovery in business, the difference in NEP and NWP can be seen moving upside.
- ✓ Expect interest rate to remain range bond, and therefore, shifted towards slightly higher duration papers. Realized yield on portfolio is at ~7.9%.
- ✓ Increased in Retention ratio is a function of business written as for retail business only obligatory business is reinsured.

### Exhibit 2: Segmental Performance

| Rs mn | Q3 FY21 | Q3 FY20 | % yoy | Q2 FY21 | % qoq |
|---|---|---|---|---|---|
| Net Premium Earned | | | | | |
| Fire | 1,341 | 805 | 66.5% | 1,252 | 7.1% |
| Marine | 745 | 642 | 16.1% | 531 | 40.3% |
| Health including Personal Accident | 6,799 | 5,990 | 13.5% | 6,390 | 6.4% |
| Miscellaneous | 1,343 | 1,248 | 7.6% | 1,346 | -0.2% |
| Crop Insurance | 0 | 47 | -99.8% | 9 | -98.9% |
| Motor | 15,886 | 15,830 | 0.4% | 15,098 | 5.2% |
| Total | 26,114 | 24,562 | 6.3% | 24,625 | 6.0% |
| Segment Underwriting Profit / (Loss) | | | | | |
| Fire | 417 | 275 | 51.6% | 54 | 667.3% |
| Marine | -2 | 47 | - | -58 | - |
| Health including Personal Accident | 370 | 778 | -52.5% | -520 | - |
| Miscellaneous | 353 | 631 | -44.1% | 137 | 157.9% |
| Crop Insurance | 7 | -9 | - | -12 | - |
| Motor | -2,499 | -1,943 | 28.6% | 365 | - |
| Total | -1,354 | -220 | - | -34 | - |

Source: Company, Yes Sec Research

February 12, 2021

**Q3 FY21 Result Review**

# Life Insurance

## Profitability continues to be strong

### Product mix shifting towards savings

- ✓ **Protection** – a) Individual Protection – Sale of pure term plans slowed down during the quarter driven by 1) price hikes implemented in the previous quarter, 2) stricter underwriting norms wherein reinsurers have sought medical check ups for much higher number of applications and 3) return of banca channel wherein the focus is more on savings business. b) Credit Protect – During the quarter, the momentum in Credit protect sustained on a sequential basis, with retail lending surpassing pre-covid levels. Going forward, Credit protect is expected to remain heathy and contribute to the overall protection pie c) Group Protection – Group protection too demonstrated good performance and shall continue the growth trajectory.

- ✓ **Non – Linked Savings** – Demand for Non-Par savings remained strong on back of risk-averse attitude of customers a) Declining interest rates in other financial instruments such as FDs, corporate bonds led investors towards tax-free guaranteed return plans of Life Insurance companies. With interest rate trajectory not likely to reverse any time soon, we see these trends sustaining. b) Par segment too saw good momentum specially for HDFC Life, however the approach towards the same remain a bit conscious.

- ✓ **Linked Savings** – With equity markets hitting new highs, banca channel making a strong comeback and agency channel getting active (especially to meet MDRT targets), ULIP business gathered momentum in Q3 FY21. Persistency also seems to be getting better in the segment, which was a key challenge over the past couple of quarters. Most companies are hopeful of ending the year better than their estimates in terms of persistency on ULIP book.

### Recovery across all Channels

During Q2 FY21, bancassurance and agency channel picked up traction as unlocking led to increased one-on-one meetings and bank branch visits by customers. This trajectory should sustain going ahead and would help in increasing ticket size. Online channels, however, over medium term will continue to gain traction.

### Strong show on VNB Margins

VNB margins across the industry have increased on the back of rise in protection pricing and shift of product mix towards margin accretive products like Non-Par from low margin ULIP business. Max Life and SBI Life, in particular, saw strong performance in terms of profitability with margin expansion ahead of our forecasts. The trend of margin expansion may be constrained in the near term with rising share of ULIPs and moderation in protection segment growth.

### Valuations

Indian life Insurance players continues to trade at a premium but we believe the same to sustain on back of 1) Long term premium growth story remaining intact 2) Change in perception towards insurance products to sustain 3) Improving profitability due to margin accretive product profile. SBI Life is our top pick in the space considering that it trades at a steep discount to other players in the segment. It is a key beneficiary of recovery in credit protect and ULIP business. We also have a BUY recommendation on ICICI Pru Life given that it is trading at a discount to HDFC Life and should return to growth trajectory in the near term. We have an ADD rating on HDFC Life as we believe the positives with regards to stronger growth, higher margins, superior distribution and innovation wherewithal are factored in its premium valuations.

| Stock | Rating | TP |
|---|---|---|
| SBI Life | BUY | 1,137 |
| ICICI Pru Life | BUY | 562 |
| HDFC Life | ADD | 721 |
| Max Fin | Not Rated | - |

**Note:** Target and Recommendation as on Result date


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**Exhibit 1: Q3FY21 Results – Core Performance Snapshot**

| Company | NBP | | APE | | VNB | | VNB Margin | |
|---|---|---|---|---|---|---|---|---|
| | % yoy | % qoq | % yoy | % qoq | % yoy | % qoq | bps yoy | bps qoq |
| HDFC Life Insurance | 19% | -14% | 18% | 1% | 27% | 4% | 184bps | 79bps |
| SBI Life Insurance | 9% | -8% | 4% | 29% | 7% | 41% | 71bps | 179bps |
| ICICI Pru Life | 14% | 16% | -18% | 14% | 0% | 7% | 479bps | -168bps |
| Max Financial | 25% | 10% | 21% | 6% | 65% | 8% | 758bps | 41bps |

Source: Company, Yes Sec Research

# HDFC Life

| ADD | CMP Rs711 | Target Rs 721 | Upside 1% |
|---|---|---|---|

## Strong Performance, beats estimates

### Fair valuation with consistent outperformance, a balance product mix and strong distribution network – Retain ADD with upgraded 12m PT of Rs721

HDFC Life has outperformed private players in the current fiscal in terms of premium growth. However, its product mix has shifted towards lower margin products such as par. With pick up in ULIPs and conscious strategy to reduce non-par business to bring a balance in product mix coupled with stricter underwriting in pure term business, VNB margin expansion will be a challenge. Stock trades at FY23E P/EV of 4x which is significantly higher than other players. While we believe that HDFC Life deserves premium valuations given its balanced product mix, strong distribution network and group's track record of delivering healthy performance in all financial segments, current valuations are fair and we retain our ADD rating with a revised 1-year price target of Rs721.

**Exhibit 1: Result table**

| | Q3 FY21 | Q3 FY20 | % yoy | Q2 FY21 | % qoq |
|---|---|---|---|---|---|
| Gross premium | 96,282 | 80,011 | 20.3% | 101,825 | -5.4% |
| Net premium | 94,888 | 78,543 | 20.8% | 100,567 | -5.6% |
| NBP | 50,512 | 42,355 | 19.3% | 58,722 | -14.0% |
| Renewal premium | 45,770 | 37,656 | 21.5% | 43,104 | 6.2% |
| APE | 21,570 | 18,300 | 17.9% | 21,340 | 1.1% |
| Ind APE | 18,270 | 15,200 | 20.2% | 17,640 | 3.6% |
| Commission ratio | 4.7% | 4.5% | 24bps | 4.2% | 50bps |
| Opex ratio | 13.8% | 13.5% | 28bps | 11.0% | 283bps |
| | | | | | |
| Surplus/(Deficit) | 2,622 | 2,460 | 6.6% | 1,369 | 91.6% |
| APAT | 2,634 | 2,502 | 5.3% | 3,278 | -19.6% |
| | | | | | |
| VNB | 5,700 | 4,500 | 26.7% | 5,470 | 4.2% |
| VNB Margin | 26.4% | 24.6% | 184bps | 25.6% | 79bps |

Source: Company, Yes Sec Research

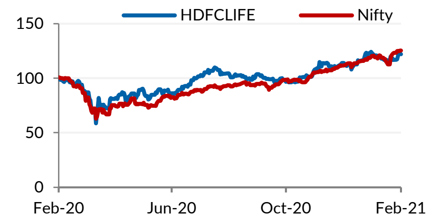
## Result Update

- ✓ **NBP –** NBP was at Rs50.5bn and registered a growth of 19%, which was in line with our estimate. The growth was a contribution of sharp 22% jump in single premium and healthy growth of 15% in First year premium on yoy basis.
- ✓ **APE –** APE at Rs21.5bn was higher than our estimate of Rs20.8bn. APE growth was at 18% yoy and remained flat on sequential basis. Growth was mainly led by jump of 122% in par business.
- ✓ **APE Mix –** Share of Par business jumped 1520bps. This was offset by decline of 691bps, 348bps and 317bps decline in share of ULIPs, Non-par and Individual Protection respectively.
- ✓ **VNB & VNB Margin –** Q3FY21 VNB at Rs5.7bn was higher than our forecasts of Rs5.3bn, while VNB margin at 26.4% was ahead of our estimates of 25.2%. On a yoy basis VNB margins improved by 184bps and sequentially margins improved by 79bps.

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 731 / 340 |
| Market cap (Rs/USD mn) | 1436443 / 19744 |
| Outstanding Shares (mn) | 2,020 |
| 6m Avg t/o (Rs mn): | 2,447 |
| Div yield (%): | N/A |
| Bloomberg code: | HDFCLIFE IN |
| NSE code: | HDFCLIFE |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | -1.0% | 12.8% | 22.9% |

**Shareholding pattern** (As of Sept'20 end)

| | |
|---|---|
| Promoter | 60.40% |
| FII+DII | 30.72% |
| Others | 8.56% |

**Δ in stance**

| (1-Yr) | New | Old |
|---|---|---|
| Rating | ADD | ADD |
| Target Price | 721 | 625 |

**Δ in earnings estimates**

| | FY21e | FY22e |
|---|---|---|
| VNB/Share (New) | 10.2 | 12.3 |
| VNB/Share | 9.1 | 11.8 |
| % change | 12% | 5% |

**Financial Summary**

| | FY20 | FY21E | FY22E |
|---|---|---|---|
| Net premium | 322,236 | 361,400 | 421,200 |
| % yoy | 11.40% | 12.20% | 16.50% |
| VNB | 19,200 | 20,628 | 24,910 |
| VNB Margin | 25.90% | 26.50% | 27.00% |
| PAT | 12,953 | 15,038 | 18,117 |
| % yoy | 1.40% | 16.10% | 20.50% |
| EV/Share (Rs) | 102.1 | 123 | 146.5 |
| P/EV (x) | 6.7 | 5.6 | 4.7 |
| P/VNB (x) | 72.3 | 67.3 | 55.7 |
| RoEV (%) | 18.10% | 18.50% | 18.50% |
| BVPS | 33.6 | 38.6 | 43.9 |

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- **Persistency improvement –** On a yoy basis, persistency improved across all time periods except 61st month. Sequentially, persistency for 25th Month,49th month and 61st month saw a decline.
- **Opex and commission ratios –** HDFC Life continued to demonstrate its cost efficiencies with cost ratios falling further. Commission ratios declined by 24bps yoy whereas opex ratio improved by 28bps.
- **EV –** Sequentially EV improved by Rs17bn (7%) to Rs250.5bn. Economic variance saw a positive movement of Rs15.7bn.
- **Profits** - PAT came at Rs2.6bn, growing by 5.3% on yoy basis and declining by 19.6% sequentially.
- **Channel Mix –** Mix of Banca channel increased by 1077bps on YoY basis and 705bps on qoq basis.

## Concall Takeaways

### Products

- Growth in premium led by increase in ticket size and no. of policies sold.
- Dynamic product re-pricing compared to products available in the market.
- Protection
  - Sign of demand reverting to normal levels in individual protection business. In terms of google searches, protection has gone down from the peak (Peaked in Q1FY21). Customers have however started realizing the need for Term insurance which normally come at a lag of 9months post pandemic. December and Jan has again seen surge in searches.
  - Collective underwriting approach of the industry will guide the reinsurance pricing.
  - Underwriting practice has been strengthening in the industry, improving the quality of protection book going forward.
  - Market preference is more inclined towards ROP rather than Pure term.
  - Growing 100-220bps in protection in mid-long term will be more sustainable compared to 500-600bps growth.
  - Higher Covid claim intimation in Q3FY21, however well within the estimates.
  - Credit protection in Q3FY21 stood at 94% of last year levels.
  - Not difficult to show surge in protection business in short term, however will impact the mortality experience in the long run. Adoption of calibrated approach in selling Protection product in the short term.
- Savings have started recovering, therefore impacting the sum assured towards lower levels. Post pandemic, people have started allocating higher part of income to savings product.
- Decrease in share of Non-Par has been a result for the desire to maintain a balance product.
- To launch the new standardized product from Feb 1 2021. Expect the underwriting to get more strengthen as the pricing of the product may be lower.
- ULIP is a very thinly priced and therefore profitable for policyholder. Over the period of time people will come to buy these products digitally.
- Annuity is a bigger opportunity than protection and aspirational on growing the annuity business by 3x by FY25. It's even a stickier business.
- Standardization of product is a good move by the regulator as it helps customers to understand the product. Standard Term protect may not impact the existing term business

as the target market will be different. Industry should not get very aggressive on this product at the initial stage, once the experience is gained one can take the appropriate action.

- ✓ Current annuity products are already very standardized in nature. Going forward, one may expect further standardized products by the regulator.

## VNB and Margins

- ✓ Improving margin is a result of growth and favorable product mix.
- ✓ Product mix, nuances of products, cost and persistency will be guiding the margin improvement.

## Persistency

- ✓ Non-Par product has persistency above 90%.
- ✓ ULIP persistency has witnessed stress but had strengthen the persistency at the start of year, not posing any adverse impact on EV. Positive operating variance on persistency.

## Distribution channel

- ✓ Agency has started showing traction with focus on profitable product mix.
- ✓ Banca has grown very well in 9MFY21 compared to muted growth in Agency, however shall the end the year in green for Agency. The growth looks disproportionally for different channel but that's due to base effect.
- ✓ Continue to monitor each channel based on persistency, quality of business and product mix.
- ✓ Market share in Protection at HDFC bank has gone up compared to last year. With the kind of products offered, the same is expected to continue inch upwards.

## Others

- ✓ Tax no-longer a major reason to buy insurance policy. Changes in any labor law or PF changes shall not have any material impact.
- ✓ Positive mortality experience
- ✓ Sensitivity to interest is at comfortable level, key will be to have proper balance in asset and liability.

### Exhibit 2: Business Data

| | Q3 FY21 | Q3 FY20 | % yoy | Q2 FY21 | % qoq |
|---|---|---|---|---|---|
| APE Mix | | | | | |
| UL | 4,202 | 4,830 | -13.0% | 3,629 | 15.8% |
| Par | 6,961 | 3,124 | 122.8% | 6,142 | 13.3% |
| Non par | 5,481 | 5,287 | 3.7% | 5,506 | -0.5% |
| Protection | 1,626 | 1,959 | -17.0% | 2,256 | -27.9% |
| Total individual | 18,270 | 15,200 | 20.2% | 17,640 | 3.6% |
| Group | 3,300 | 3,100 | 6.5% | 3,700 | -10.8% |
| Total APE | 21,570 | 18,300 | 17.9% | 21,340 | 1.1% |
| | | | | | |
| APE Mix | | | | | |
| UL | 19.5% | 26.4% | -691bps | 17.0% | 247bps |
| Par | 32.3% | 17.1% | 1520bps | 28.8% | 349bps |
| Non par | 25.4% | 28.9% | -348bps | 25.8% | -39bps |
| Protection | 7.5% | 10.7% | -317bps | 10.6% | -303bps |
| Total individual | 84.7% | 83.1% | 164bps | 82.7% | 204bps |
| Group | 15.3% | 16.9% | -164bps | 17.3% | -204bps |
| Total APE | 100.0% | 100.0% | 0bps | 100.0% | 0bps |
| | | | | | |
| Distribution mix (Ind) | | | | | |
| Banca | 12,360 | 8,647 | 42.9% | 10,691 | 15.6% |
| Agency | 1,909 | 1,841 | 3.7% | 2,400 | -20.5% |
| Others | 4,001 | 4,712 | -15.1% | 4,549 | -12.0% |
| | | | | | |
| Distribution mix | | | | | |
| Banca | 67.7% | 56.9% | 1077bps | 60.6% | 705bps |
| Agency | 10.4% | 12.1% | -166bps | 13.6% | -316bps |
| Others | 21.9% | 31.0% | -910bps | 25.8% | -389bps |
| | | | | | |
| Persistency | | | | | |
| 13 month | 92.9% | 88.8% | 410bps | 90.8% | 210bps |
| 61 month | 51.8% | 52.6% | -80bps | 52.4% | -60bps |
| | | | | | |
| Income from investments | 115,942 | 37,326 | 210.6% | 63,188 | 83.5% |

Source: Company, Yes Sec Research

# ICICI Prudential Life Insurance

| BUY | CMP Rs487 | Target Rs562 | Upside 15% |
|---|---|---|---|

## Subdued Performance in margins

### Disappointing results, retain our BUY rating with 12m PT of Rs537 on back of attractive valuations and a strong comeback in growth trajectory with recovery in ULIP and increasing focus on Non-Par

ICICI Pru Life Q3 FY21 results were weaker than our forecasts primarily on the back of higher share of ULIPs and a declining share of protection. We have cut our VNB margin assumption for future years by 50bps each but have raised our APE growth estimates given that ULIPs are making a strong comeback and the company is increasing its focus on the non-par segment. Valuations at FY23E P/EV are attractive when compared with HDFC Life's valuations of 4x. Furthermore, we expect ICICI Pru Life to return to premium growth from Q4 FY21. We expect the company to report a 20% and 14% VNB and EV CAGR during FY21E-23E. Retain BUY with a target price of Rs562.

**Exhibit 1: Result table**

| | Q3 FY21 | Q3 FY20 | % yoy | Q2 FY21 | % qoq |
|---|---|---|---|---|---|
| Gross premium | 91,520 | 82,637 | 10.8% | 87,335 | 4.8% |
| Net premium | 89,708 | 81,310 | 10.3% | 85,722 | 4.7% |
| NBP | 34,430 | 30,210 | 14.0% | 29,570 | 16.4% |
| Renewal premium | 56,801 | 52,255 | 8.7% | 57,742 | -1.6% |
| APE | 16,660 | 20,380 | -18.3% | 14,650 | 13.7% |
| | | | | | |
| Commission ratio | 4.3% | 5.3% | -96bps | 4.1% | 22bps |
| Opex ratio | 7.8% | 9.4% | -161bps | 7.5% | 34bps |
| | | | | | |
| Surplus | 4,046 | 3,870 | 4.5% | 5,391 | -25.0% |
| PAT | 3,043 | 3,025 | 0.6% | 3,025 | 0.6% |
| | | | | | |
| VNB | 4,280 | 4,260 | 0.5% | 4,010 | 6.7% |
| VNB Margin | 25.7% | 20.9% | 479bps | 27.4% | -168bps |

Source: Company, Yes Sec Research

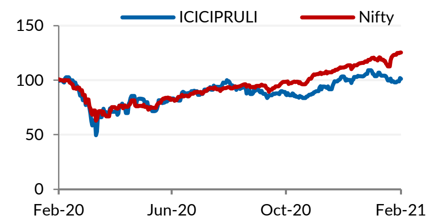
## Result Highlights

- ✓ **NBP** – NBP was at Rs34bn growing by 14% on YoY basis which was in line with our expectation. The performance was mainly supported by a sharp jump of 81% in single premium while First year premium registered a de-growth of 27%.
- ✓ **APE** – APE at Rs16.6bn slightly lower than our estimate of Rs16.9bn. APE de-grew by 18% yoy and grew by 13.7% qoq. The de-growth was led mainly on back of 39% decline in ULIP.
- ✓ **APE Mix** – Share of Protection surged 233bps and Non-linked savings business increased by 1477bps which was offset by decline of 1709bps in share of ULIPs.
- ✓ **VNB & VNB Margin** – Q3FY21 VNB at Rs4.2bn was lower than our forecasts of Rs4.6bn, while VNB margin at 25.7% was lower than our estimates of 27.5%. On a yoy basis VNB margins expanded by 479bps, however saw a contraction of 168bps on sequential basis.

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 538 / 226 |
| Market cap (Rs/USD mn) | 699663 / 9617 |
| Outstanding Shares (mn) | 1,436 |
| 6m Avg t/o (Rs mn): | 1,022 |
| Div yield (%): | N/A |
| Bloomberg code: | IPRU IN |
| NSE code: | ICICIPRULI |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | -6.6% | 13.5% | 1.4% |

**Shareholding pattern** (As of Sept'20 end)

| | |
|---|---|
| Promoter | 73.48% |
| FII+DII | 20.41% |
| Others | 6.09% |

**∆ in stance**

| (1-Yr) | New | Old |
|---|---|---|
| Rating | BUY | BUY |
| Target Price | 562 | 562 |

**∆ in earnings estimates**

| | FY21e | FY22e |
|---|---|---|
| VNB/Share (New) | 10.6 | 12.8 |
| VNB/Share | 11.3 | 13.7 |
| % change | -6% | -7% |

**Financial Summary**

| | FY20 | FY21E | FY22E |
|---|---|---|---|
| Net premium | 328,790 | 326,091 | 345,484 |
| % yoy | 7.50% | -0.80% | 5.90% |
| VNB | 16,050 | 15,258 | 18,338 |
| VNB Margin | 21.70% | 26.00% | 27.00% |
| PAT | 10,688 | 11,309 | 17,451 |
| % yoy | -6.30% | 5.80% | 54.30% |
| EPS (Rs) | 7.4 | 7.9 | 12.2 |
| EV/Share (Rs) | 160.4 | 179.1 | 202 |
| P/EV (x) | 3 | 2.7 | 2.4 |
| P/VNB (x) | 43.6 | 45.8 | 38.1 |
| RoEV (%) | 15.20% | 13.40% | 15.10% |

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- **Persistency improvement** – Sequentially, persistency saw a decline across all time periods expect 37th Month (where it remained flat). On a yoy basis only 25th month and 49th month persistency saw a marginal decline.
- **Opex and commission ratios** – Cost ratios have improved with commission ratios falling 96bps yoy whereas opex ratio improved by 161bps yoy to 7.8%
- **Profits** - PAT came at Rs3.04bn, remaining stable on YoY and QoQ basis.
- **Channel Mix –** Mix of other channel increased by 852bps on YoY basi, however saw a sharp decline of 1167bps in share of banca channel. On QoQ basis too, share of banca saw a decline.

## Concall Takeaways

### Product

- **Protection**

- Some decline in retail protection. There are concerns on supply side due to requirement to visit medical centers. Expect the supply chain friction to reduce as the situation normalize. Also, need to include the reinsurance constrains. Want to conscious on this business till it normalized but long term thesis on protection remains in-tact.
- The capacity for large sum assured has seen concerned. Risk management has become priority over top-line business.
- Saw good opportunity in group business.
- Credit life has seen strong bounce back.
- Everybody has started taking the price hike in protection product and the price difference is contracting. Companies with lower pricing are compromising on margin as all other aspects remain consistent.
- Share of Protection business expected to reach 20% during next 2-3years from current levels of 15%.
- Pricing change reflects the change the in the target audience and this looks a sustainable pricing.
- Launched innovative retirement plan and critical illness products, capitalizing the opportunity.
- Continue to reprise products in line with interest rate.
- Interest risk hedged through a combination of cash market instruments and derivatives. No interest rate risk expected due to change in product mix.
- Capacity for FRA has been growing and yield curves are conducive for hedging.
- No change in business philosophy in deferred annuity and guaranteed product, however better investment risk hedge has become more systematic and want to seize the opportunity on the same.
- Currently finding capacity in FRA only upto 10years as of now. Expect the same to expand with time.
- Enabling standardized product shall not impact the existing business. It's a welcome move as will open opportunity. Not easy to bring standardization for products other than Term and annuity product.
- Cross sell rates start picking in once the market is saturated, the focus continues to remain on new customer.

## ✓ VNB and Margin

- Focus on absolute VNB and VNB margin. Quarterly margin can be fluctuating.
- Will like to improve VNB led by growth in Savings and relatively faster growth in Protection.
- Addition of rider to the basic product to further aid margin trajectory. Have been able to increase attachment compared to start of the year.
- The margin on protection portfolio has remained at the same level as last year in 9MFY21.
- ROP margin are similar to Non-Par products. No view of pure v/s ROP as both of them have different customer segments.
- Attachment significantly improves the margin of protection business.

## ✓ Persistency

- 13th month persistency for Non-Linked remained stable and saw an improvement for Protection business.
- Persistency in ULIP also expected to improve from Q4FY21. Improving market segment and fund performance to aid bring persistency at last year's level.
- Don't expect persistency variance to be negative.

## ✓ Distribution

- Tie up with IDFC Bank and Indusind Bank have started yielding result.
- 83 new partners added during 9MFY21. Partnered with RBL bank, AU Small finance bank, PhonePay and BSE Ebix during Q3FY21
- APE for channels other than ICICI Bank grew by 9%.
- Share of ICICI bank in total APE at 34% for 9MFY21, share for all other banks at around 9%.
- ICICI Bank continues to focus on annuity and protection business. 400% growth in Annuity business from ICICI bank in 9MFY21 on Y/Y basis (though a small base yet)
- Introduction of Guaranteed pension product to bring higher traction in business from ICICI bank.
- Focus for ICICI bank is not the topline but improving VNB
- Agency channel focus was to increase digital onboarding.
- ULIP has seen positive trend sequentially from bank.

## ✓ Cost

- Reduction in discretionary expenses, infrastructure and employee cost.
- Headcount has reduced compared to last year, by re-deploying people to new areas.

## ✓ Others

- Issued Debt at 6.5% coupon rate to the tune of Rs.12bn
- Claims arising from mortality including Covid 19 has been well within the estimates.
- Total claims of Rs.3.44bn on account of Covid, Net claims on retained business amounted to Rs1.54bn
- Rs. 1bn additional provisioning for Covid 19 not yet utilized.

### Exhibit 2: Business Data

| | Q3 FY21 | Q3 FY20 | % yoy | Q2 FY21 | % qoq |
|---|---|---|---|---|---|
| **APE Mix** | | | | | |
| Savings | 14,090 | 17,710 | -20.4% | 12,320 | 14.4% |
| ULIP | 8,450 | 13,820 | -38.9% | 7,010 | 20.5% |
| Others | 5,640 | 3,880 | 45.4% | 5,310 | 6.2% |
| Protection | 2,570 | 2,670 | -3.7% | 2,320 | 10.8% |
| Total APE | 16,660 | 20,380 | -18.3% | 14,650 | 13.7% |
| | | | | | |
| APE Mix | | | | | |
| Savings | 84.6% | 86.9% | -233bps | 84.1% | 48bps |
| ULIP | 50.7% | 67.8% | -1709bps | 47.8% | 287bps |
| Others | 33.9% | 19.1% | 1477bps | 36.2% | -239bps |
| Protection | 15.4% | 13.1% | 233bps | 15.8% | -41bps |
| Total APE | 100.0% | 100.0% | 0bps | 100.0% | 0bps |
| | | | | | |
| **Distribution mix** | | | | | |
| Banca | 6,990 | 10,930 | -36.0% | 6,410 | 9.0% |
| Agency | 4,180 | 4,470 | -6.5% | 3,320 | 25.9% |
| Others | 5,490 | 4,980 | 10.2% | 4,920 | 11.6% |
| | | | | | |
| **Distribution mix** | | | | | |
| Banca | 42.0% | 53.6% | -1167bps | 43.8% | -180bps |
| Agency | 25.1% | 21.9% | 316bps | 22.7% | 243bps |
| Others | 33.0% | 24.4% | 852bps | 33.6% | -63bps |
| | | | | | |
| **Persistency** | | | | | |
| 13 month | 82.4% | 82.2% | 20bps | 89.2% | -680bps |
| 61 month | 58.8% | 58.4% | 40bps | 60.2% | -140bps |
| | | | | | |
| Income from investments | 192,783 | 45,587 | 322.9% | 79,494 | 142.5% |

Source: Company, Yes Sec Research

YES SECURITIES INSTITUTIONAL EQUITIES

# Max Financial

| NOT RATED | CMP Rs809 | | |
|---|---|---|---|

## Best in class profitability

### Strong set of performance across all parameters

Max Life Insurance has been outperforming its private peers in the past three quarters in terms of premium growth as well as profitability (VNB Margins). The company through an aggressive pricing strategy has been able to gain significant market share in the protection segment. Also, new product launches along with favorable environment for interest rate hedging mechanism has allowed them to strengthen their non-par business. The trajectory is likely to sustain. However, key to future business trajectory lies in the approval for Max Financial deal with Axis Bank. The stock currently trades at a FY23E P/EV of 2x and is at discount to peers owing to uncertainty over the Axis Bank deal and high promoter pledge.

**Exhibit 1: Result table**

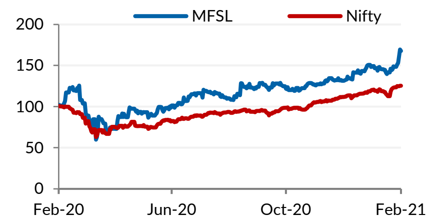
| | Q3FY21 | Q3FY20 | % yoy | Q2FY21 | % qoq |
|---|---|---|---|---|---|
| Premium Income | 45,573 | 38,219 | 19% | 44,473 | 2% |
| Renewal premium | 28,800 | 24,770 | 16% | 29,370 | -2% |
| APE | 12,250 | 10,100 | 21% | 11,540 | 6% |
| Ind APE | 12,100 | 10,010 | 21% | 11,440 | 6% |
| Commission ratio | 6.7% | 6.5% | 13bps | 6.6% | 5bps |
| Opex ratio | 15.8% | 15.6% | 22bps | 15.6% | 24bps |
| VNB | 3,500 | 2,120 | 65% | 3,250 | 8% |
| VNB Margin | 28.6% | 21.0% | 758bps | 28.2% | 41bps |
| | | | | | |
| APE Mix | | | | | |
| PAR | 2,083 | 2,857 | -27% | 1,631 | 28% |
| Individual protection | 862 | 707 | 22% | 1,253 | -31% |
| Group protection | 372 | 433 | -14% | 725 | -49% |
| Non PAR savings | 4,224 | 2,020 | 109% | 4,618 | -9% |
| ULIP | 4,710 | 4,083 | 15% | 3,313 | 42% |
| **Total APE** | **12,250** | **10,100** | **21%** | **11,540** | **6%** |
| | | | | | |
| APE Mix | | | | | |
| PAR | 17% | 28% | -1129bps | 14% | 286bps |
| Individual protection | 7% | 7% | 4bps | 11% | -382bps |
| Group protection | 3% | 4% | -125bps | 6% | -324bps |
| Non PAR savings | 34% | 20% | 1448bps | 40% | -554bps |
| ULIP | 38% | 40% | -198bps | 29% | 974bps |
| **Total APE** | 100% | 100% | | 100% | |
| **Distribution mix** | | | | | |
| Proprietary | 27% | 30% | -298bps | 30% | -229bps |
| Others | 0% | 1% | -100bps | -1% | 58bps |
| Other Banca | 73% | 69% | 398bps | 71% | 171bps |
| | | | | | |
| Income from investments | 11,481 | 9,987 | 15% | 11,422 | 1% |
| | | | | | |
| Persistency | | | | | |
| 13th Month | 83% | 85% | -200bps | 82% | 100bps |
| 64th Month | 54% | 53% | 100bps | 52% | 200bps |

Source: Company, Yes Sec Research

**Stock data** (as on February 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 832 / 276 |
| Market cap (Rs/USD mn) | 279316 / 3839 |
| Outstanding Shares (mn) | 345 |
| 6m Avg t/o (Rs mn): | 1,083 |
| Div yield (%): | N/A |
| Bloomberg code: | MAXF IN |
| NSE code: | MFSL |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | 12.4% | 33.1% | 64.7% |

**Shareholding pattern** (As of Sept'20 end)

| | |
|---|---|
| Promoter | 17.36% |
| FII+DII | 70.69% |
| Others | 11.95% |

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# Max Financial

## Result Update

- **Premium –** Premium Income was at Rs 45bn and grew by 19% on YoY basis and 2% on sequential basis.
- **APE** – APE at Rs12.25bn was higher than our estimates of Rs11.11bn. APE grew by 21% yoy and 6% qoq. The growth was led mainly on back more than doubling of Non-Par segment.
- **APE Mix** – Share of Non-Par increased by 1448bps which was offset by decline in share of ULIPs and Par business. Share of Individual Protection remained flat.
- **VNB & VNB Margin** – Q3FY21 VNB at Rs3.5bn was higher than our forecasts of R3.0bn, while VNB margin at 28.6% was above our estimates of 27.4%. On a yoy basis VNB margins expanded by 758bps.
- **Persistency improvement** – Sequentially, persistency improved by 100bps for 13th Month and 200bps for 61st Month. On a yoy basis 13th month persistency saw a decline.
- **Opex and commission ratios** – Commission ratios declined 13bps yoy whereas opex ratio declined by 22bps yoy
- **EV** – EV improved by 6% to Rs117bn from Sept 2020. ROEV stands at 18%
- **Channel Mix** – On YoY as well as QoQ basis, share of banca improved by 398bps and 171bps respectively.
- **Axis transaction update:** (a) CCI approval received (b) IRDAI application under progress (c) MSI transaction update: Concluded swap of MSI 20.57% stake in Max Life, with 21.87% stake in MFSL
- **Valuations** - The stock currently trades at FY23 P/EV of 2.0x.

## Management interaction takeaways

### Reasons for sequential improvement in VNB Margins

- Scale advantage as premium growth has been 20%+ as their VNB Margin are on actual cost basis.
- Protection price hike benefit for the full quarter
- Tweak in non-par IRR has also played out, no major advantage from favorable FRA environment in margins

### Persistency

- ULIP persistency continues to be a challenge, Other savings segment persistency has significantly improved, 500bps impact of ULIP
- Expect to end the year at last year level
- Operating variance impact was taken in H1 EV (1% impact), no structural impact and hence not changing any major assumptions
- Does not expect any negative variance in H2

### Product mix

- Will try to keep the non-par mix at 30-35% range
- Looking to keep the product mix balanced

### Protection slowdown

- Google trends indicated slowdown during October to December
- Pent up demand existed in the initial half
- January has seen a recovery

# Max Financial

- With savings segment picking up, especially in the banca channel, protection took a back seat
- Underwriting rules got stricter, but although not a major impact of the same

## ULIPs

- Tax change does not impact ULIP business materially, at worst it impacts long term IRR by 10-15bps
- Move is akin to levying capital gains tax on MFs
- See max 4-5% impact on Premium, even lesser on VNB
- Administrative hassles have increased; some uncertainty still exists with regards to implementation of the new rule

## Claims

- Claims have been higher and have impacted reserves a bit, although have reduced from peak
- Implications of COVID on long term mortality assumptions could be adverse
- Reinsurers having access to global data on COVID are extrapolating experiences elsewhere to India, which could lead to higher pricing in future

YES SECURITIES INSTITUTIONAL EQUITIES

# SBI Life

| BUY | CMP Rs897 | Target Rs1,137 | Upside 27% |
|---|---|---|---|

## Strong beat in terms of profitability

**With attractive valuation and improving business prospects, we recommend a conviction BUY on SBI Life with the 12mnth upgraded PT of Rs.1,137**

SBI Life Q3FY21 results were ahead of our estimates in terms of VNB growth and expansion in VNB Margin. SBI Life witnessed a strong momentum in the Credit Protect business which we expect to sustain given the uptick in the retail lending, auguring well for SBI Life with the opportunity to improve the attachment rates for SBI bank's existing as well as new customers. We expect SBI Life to see healthy premium growth led by recovery in ULIP business and increased opportunity to increase their presence in Non-par segment. These favorable changes in the product portfolio shall aid margin expansion for SBI Life.

### Exhibit 1: Result table

| Rs mn | Q3 FY21 | Q3 FY20 | % yoy | Q2 FY21 | % qoq |
|---|---|---|---|---|---|
| Gross premium | 138,744 | 117,597 | 18.0% | 130,897 | 6.0% |
| Net premium | 137,665 | 116,945 | 17.7% | 128,580 | 7.1% |
| NBP | 54,388 | 49,706 | 9.4% | 59,397 | -8.4% |
| Renewal premium | 84,356 | 67,891 | 24.3% | 71,499 | 18.0% |
| APE | 35,000 | 33,800 | 3.6% | 27,100 | 29.2% |
| Commission ratio | 3.9% | 3.9% | -2bps | 3.3% | 58bps |
| Opex ratio | 4.6% | 5.5% | -91bps | 4.6% | 0bps |
| Surplus/(Deficit) | 2,968 | 6,082 | -51.2% | 3,931 | -24.5% |
| APAT | 2,329 | 3,898 | -40.3% | 2,997 | -22.3% |
| VNB | 7,600 | 7,100 | 7.0% | 5,400 | 40.7% |
| VNB Margin | 21.7% | 21.0% | 71bps | 19.9% | 179bps |

Source: Company, Yes Sec Research

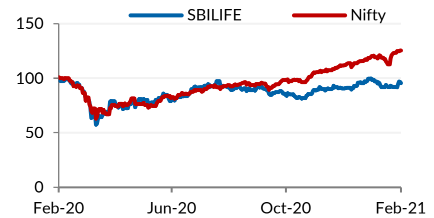
### Result Highlights

- ✓ **NBP –** NBP was at 54bn and registered a growth of 9%, which was in line with our forecast. The growth was led by a strong growth of 16% in single premium while First year premium registered a growth of 5%.
- ✓ **APE –** APE at Rs35bn was slightly lower than our estimates of Rs35.7bn. APE grew by 3.6% yoy and 29% qoq. The growth was led by 89.5% jump in Non-Par business and doubling of Individual Protection business.
- ✓ **APE Mix –** Share of Protection surged 303bps and that of Non-Par increased by 466bps. This was offset by decline of 149bps, 481bps and 52bps in share of Par, ULIPs and Group business respectively.
- ✓ **VNB & VNB Margin –** Q3FY21 VNB at Rs7.6bn was higher than our forecasts of Rs6.9bn, while VNB margin at 21.7% was above our estimates of 19.4%. On a yoy basis VNB margins expanded by 71bps.

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,163 |
| 52 Week h/l (Rs) | 955 / 519 |
| Market cap (Rs/USD mn) | 896903 / 12328 |
| Outstanding Shares (mn) | 1,000 |
| 6m Avg t/o (Rs mn): | 1,482 |
| Div yield (%): | N/A |
| Bloomberg code: | SBILIFE IN |
| NSE code: | SBILIFE |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | -3.0% | 7.1% | -3.9% |

**Shareholding pattern** (As of Sept'20 end)

| | |
|---|---|
| Promoter | 60.70% |
| FII+DII | 32.80% |
| Others | 6.50% |

**∆ in stance**

| (1-Yr) | New | Old |
|---|---|---|
| Rating | BUY | BUY |
| Target Price | 1137 | 1006 |

**∆ in earnings estimates**

| | FY21e | FY22e |
|---|---|---|
| VNB/Share (New) | 21.9 | 26.1 |
| VNB/Share (Old) | 18.8 | 23.2 |
| % change | 16% | 12% |

**Financial Summary**

| | FY20 | FY21E | FY22E |
|---|---|---|---|
| Net premium | 403,240 | 477,315 | 539,087 |
| % yoy | 22.6% | 18.4% | 12.9% |
| VNB | 20,100 | 21,880 | 26,094 |
| VNB Margin | 18.7% | 21.0% | 22.0% |
| PAT | 14,222 | 15,173 | 18,748 |
| % yoy | 7.2% | 6.7% | 23.6% |
| EPS (Rs) | 14.2 | 15.2 | 18.7 |
| EV/Share (Rs) | 262.7 | 311.5 | 368.0 |
| P/EV (x) | 3.4 | 2.9 | 2.4 |
| P/VNB (x) | 44.6 | 41.0 | 34.4 |
| RoEV (%) | 20.4% | 18.6% | 19.3% |

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- ✓ **Persistency improvement –** Sequentially, persistency except for 49th Month saw a decline across all time periods. On a yoy basis only 61st month persistency saw a decline.
- ✓ **Opex and commission ratios –** Commission ratios remained stable on yoy basis, however, witnessed an increase of 58bps on sequential basis. Whereas, Opex ratio improved by 91bps yoy to 4.6%. and remained stable sequentially.
- ✓ **Profits -** PAT came at Rs2.3bn, which was a de-growth of 40% on y/y basis and 22% sequentially on back of new business strain.
- ✓ **Channel Mix –** Mix of other channel increased by 63bps on YoY basis and that of banca grew by 261bps. On QoQ basis, share of other channel contracted by 656bps.

# Concall Takeaways

## Products

- ✓ Protection
  - Individual protection selling more even in mature markets, continuing to increase the share of business mix as protection gap is huge, industry will evolve more towards protection, SBI Bank has 45cr customers, SBI Branches are selling more and more protection, Demand for protection is not plateauing, just minor slowdown post the spike in the initial lockdown phase.
  - Expect the approval for priced protection re- product to come in Q4FY21.
  - More than 50% I protection in developed market. This is something which shall come in India in distinct future. Saving product is good way to push Insurance products and no harm in continuing the savings business.
  - Protection margin is higher than other products, TROP continues to dominate 75-80% share, Retail protection grew primarily from volume growth. The pricing for TROP not changed. TROP ticket is Rs.18,000-20,000
  - Emphasis on selling protection and good demand has helped doubling of Individual Protection APE. However, with pandemic gone people might lose that interest and the protection momentum may slow-down to 30-40%.
  - Credit life has picked up, credit protect now touching last year number expected to outgrow last year performance,
  - Group protection mix: 9m FY21 Rs870crore Credit protect, Rs270cr GTI, 9m FY20 Credit protect Rs945cr, Rs145cr GTI
- ✓ Non Par –
  - Repricing actively and monitoring regularly, able to sell the product, demand availability and hedging availability will be key for selling more, 1400crs partly paid up bonds last two year 14bn guarantees 5x exposure, started doing FRAs as well, PPB continuously hedging,
  - 1st premium does not require hedge as invested immediately
- ✓ Credit linked - One is more concerned in the loan procedure and is not keen on taking insurance at the time. So have started going back to the old customers in turn increasing the attachment rates to 43%. Large part of India has attachment rate greater then 50% however, in metro cities with higher ticket size, the attachment rates are low, trying to gradually increase the same. In attachment product 96% is contributed by home loan.
- ✓ 10lac Individual life covered in 9MFY21.
- ✓ New par product: Distribution is happening to all channel, minimum ticket is 1 lakh, mass affluent customers is the target, product offers lot of flexibility to customer and hence a strong response.

- ✓ 4 new product launched in Q3FY21.
- ✓ ULIP – Demand is moving towards equity, unrealized gains have increased on the back of market returns, new sales 60:40 debt equity from 65:35 last year.

## Distribution Channel

- ✓ Endeavour to increase the number of representative in each SBI bank. Started using analytics with the strong database of SBI bank to have specific target based selling.
- ✓ Agency is normalizing but banca has demonstrated a positive growth. Aspire to end FY21 with positive growth for both Agency and Banca channel.
- ✓ Video calls, and other digital modes are replacing branch visits, people are returning to branches but not a big influencer

## VNB and Margins

- ✓ Interest rate sensitivity to VNB – Worsened from H1, Partly paid up bonds, FRAs and LT bonds are used to minimize interest rate sensitivity, the reported data for H1 was with a lag of 1 quarter whereas the same for 9m FY21 is for the full period
- ✓ No VNB assumption changes made
- ✓ Interest sensitive products are re-priced to retain the margins.
- ✓ Product Mix and ticket size shall play a role in determining the margins.
- ✓ Aspire to achieve positive VNB growth in FY21.
- ✓ Created a buffer on VNB Margin with regards to COVID – will get reflected in Q4 FY21

## Expense ratio

- ✓ Low expense ratio because of lower conference and events, but invested in infra, some adjustments will happen going ahead, percentage term will remain lower.

## Others

- ✓ Measuring success by EV (highest in the industry), Persistency (healthy 61st month persistency and improve 13th month persistency at level with developed market), Accounting Profit, healthy solvency ratio above the regulatory norms. Shall continue to focus on these parameters going ahead.
- ✓ No information on BNP Paribas Cardiff selling stake

### Exhibit 2: Business Data

| Rs mn | Q3 FY21 | Q3 FY20 | % yoy | Q2 FY21 | % qoq |
|---|---|---|---|---|---|
| APE Mix | | | | | |
| Par | 3,000 | 3,400 | -11.8% | 2,400 | 25.0% |
| Non par | 3,600 | 1,900 | 89.5% | 2,400 | 50.0% |
| ULIP | 24,100 | 24,900 | -3.2% | 16,200 | 48.8% |
| Individual Protection | 2,200 | 1,100 | 100.0% | 1,900 | 15.8% |
| Group | 2,200 | 2,300 | -4.3% | 4,100 | -46.3% |
| Total APE | 35,000 | 33,800 | 3.6% | 27,100 | 29.2% |
| | | | | | |
| APE Mix | | | | | |
| Par | 8.6% | 10.1% | -149bps | 8.9% | -28bps |
| Non par | 10.3% | 5.6% | 466bps | 8.9% | 143bps |
| ULIP | 68.9% | 73.7% | -481bps | 59.8% | 908bps |
| Individual Protection | 6.3% | 3.3% | 303bps | 7.0% | -73bps |
| Total individual | 94.0% | 92.6% | 140bps | 84.5% | 950bps |
| Group | 6.3% | 6.8% | -52bps | 15.1% | -884bps |
| Total APE | 100.0% | 100.0% | 0bps | 100.0% | 0bps |
| | | | | | |
| Distribution mix | | | | | |
| Banca | 23,900 | 22,200 | 7.7% | 17,200 | 39.0% |
| Agency | 8,600 | 9,400 | -8.5% | 6,100 | 41.0% |
| Others | 2,500 | 2,200 | 13.6% | 3,700 | -32.4% |
| | 35,000 | 33,800 | | 27,000 | |
| Distribution mix | | | | | |
| Banca | 68% | 66% | 261bps | 64% | 458bps |
| Agency | 25% | 28% | -324bps | 23% | 198bps |
| Others | 7% | 7% | 63bps | 14% | -656bps |
| | | | | | |
| Persistency | | | | | |
| 13 month | 83.8% | 82.5% | 135bps | 84.8% | -102bps |
| 61 month | 59.6% | 61.1% | -146bps | 60.3% | -72bps |
| | | | | | |
| Income from investments | 127,769 | 40,733 | 213.7% | 55,904 | 128.6% |

Source: Company, Yes Sec Research

Q3 FY21 Result Review

# Pharmaceuticals

YES SECURITIES
INSTITUTIONAL EQUITIES

## Tale of domestic strength, lackluster US

### Domestic business - a valuable source of growth

Pharma results in Q3 comprised of a string of surprises and disappointment. Domestic business turned out to be better source of growth compared to Q2 with pretty much uniform improvement across companies. Most domestic players reported 5-7% yoy growth driven by chronic products, new launches and price hikes. Volumes continue to disappoint with a decline estimated across most of the companies. Q3 also represents yet another quarter where secondary data from third party providers is in contrast to the growth shown by frontline players. Indeed, while IPM market may have been weak in Oct-Dec quarter, the weakness was not manifest in the domestic results. It lends support to the consistent trend of market share growth for top 25 companies in the first 9 months of FY21. We continue to expect coverage companies to outperform IPM growth by 200-300bps. Notable surprise include Ajanta Pharma's domestic business where derma and ophthalmology sported an unexpected rebound which led to 13% yoy growth.

### US business - Write offs at DRRD, surprises at SUNP

US sales disappointed for most of the pack except Sun Pharma. Sun posted a strong US$240mn quarter ex-Taro which was the highest in past several quarters excluding the one-off ones in mid-2020. Improved growth in specialty business drove the growth for Sun while Taro continued to clock weak sales. Write offs related to Nuvaring resurfaced for Dr Reddy's while Aurobindo too wrote off intangibles, offset by large gains from Natrol sale. Lupin US revenues much weaker than expected as Albuterol continued with gradual ramp up with no fireworks expected in Q4. Mid-sized cos also had lackluster US performance due to elevated base of Sartans (Alembic), Ranitidine (Ajanta) or lack of approvals (Torrent).

### Margins - lower cost still supportive

Margin for most of the covered universe improved yoy as other expenses still remain lower compared to last year. R&D was a mixed picture and in some cases (LPC, lower R&D qoq) aided margins.

### TOP BUY's

### Torrent Pharma – BUY

- ✓ Healthy revenue visibility in 3 out of 4 key markets driven by revival in India, continued strength in Brazil and reboot in Germany.
- ✓ 29% margin guidance in FY22 is a dampener and leads to cut in our margin assumption by a similar quantum
- ✓ Believe margin hiccup is temporary due to costs revival which would reverse from FY23. BUY stays on a solid domestic franchise, growth in export markets ex-US and leaner balance sheet (net debt/EBIDTA back to pre-Unichem level in FY23).

### Ajanta Pharma - BUY

- ✓ Revised domestic growth guidance from -5% to +3% with sustained 32% margin
- ✓ US business will continue to clock 18-20% growth on back of 7-8 approvals
- ✓ While margin gain may be front loaded, US business operating leverage would offset the revived cost base next fiscal. BUY stays

| Stocks | Rating | TP |
|---|---|---|
| TORRENT | BUY | 3,400 |
| AJANTA PHARMA | BUY | 2,130 |
| IPCA LABS | BUY | 2,750 |
| ALKEM LABS | BUY | 3,600 |
| ALEMBIC PHARMA | BUY | 1,280 |
| AUROBINDO PHARMA | BUY | 1,080 |
| DR REDDYS' | ADD | 5,370 |
| LUPIN | SELL | 850 |
| SYNGENE | SELL | 400 |

**Note:** Target and Recommendation as on Result date


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# Ajanta Pharma

| BUY | CMP Rs1,817 | Target Rs2,130 | Upside 17.3% |
|---|---|---|---|

**Our View**

- ✓ Ajanta Pharma has revised its FY21 domestic growth guidance from -5% to +2% to +3% growth along with sustained 32% margin.
- ✓ We reckon US business will continue to clock 18-20% growth on FY21 base driven by 7-8 approvals and ~5% R&D spending. While margin gain has been front loaded, improvement in US business and minor operating leverage from Rs1.3bn ophthalmic block added in Guwahati would offset the revived cost base (as domestic revenues rebound).
- ✓ We revise our FY21/22/23 EPS on back of strong beat in Q3 by 17%/6%/6% and revise TP to Rs2,130 (from Rs2,000 earlier) based on unchanged target 25x FY23 EPS. AJP continues to be amongst Top BUYs along with TRP IN (TP Rs3,300) and IPCA IN (TP Rs2,750)

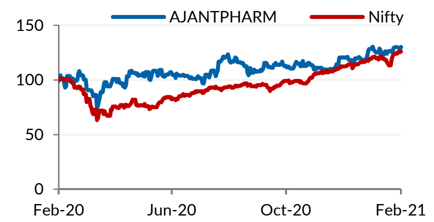
**Highlights**

- ✓ Domestic business breakup - vol - 60%, price increase and new launches 20% contribution each in Q3
- ✓ Domestic business now expected to be flat to +1-2% growth vs -5% decline expected earlier as Derma and Ophthal have come back. 85% doctors now operating out of clinic and MRs fully on ground
- ✓ India growth seen at 8-10% on annualized basis over 2 years
- ✓ US growth at 18-20% driven by 7-8 launches including niche ones. US business margin while very low should improve as revenues scale up and mix changes
- ✓ Branded market growth – Asia + Africa seen in the range of 9-11%.
- ✓ Africa Institutional – Rs2.4bn expected for FY21; volatile segment and next year guidance of Rs2bn retained for now. While order size is known for full year in March-April, during the year as competition fails to supply or additional demand leads to fresh orders during the year
- ✓ Costs – back to Rs1.8-1.9bn other expense run rate ex-R&D from Q4 since revenues have revived
- ✓ Margin guidance of 32% on sustainable basis – US margin expansion and operating leverage related to Rs1.3bn Ophthal block capex in Guwahati to offset the increase in costs.
- ✓ Capex- Only maintenance at Rs1.3bn

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,173 |
| 52 Week h/l (Rs) | 1878 / 961 |
| Market cap (Rs/USD mn) | 158529 / 2176 |
| Outstanding Shares (mn) | 87 |
| 6m Avg t/o (Rs mn): | 264 |
| Div yield (%): | 0.5 |
| Bloomberg code: | AJP IN |
| NSE code: | AJANTPHARM |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | 0.3% | 17.9% | 32.3% |

**Shareholding pattern** (As of Dec'20 end)

| | |
|---|---|
| Promoter | 70.3% |
| FII+DII | 19.7% |
| Others | 9.9% |

**Δ in stance**

| (1-Yr) | New | Old |
|---|---|---|
| Rating | BUY | BUY |
| Target Price | 2,130 | 2,000 |

**Δ in earnings estimates**

| | FY21e | FY22e | FY23e |
|---|---|---|---|
| EPS (New) | 71.5 | 75.0 | 85.2 |
| EPS (Old) | 61.1 | 70.6 | 80.1 |
| % change | 17.0 | 6.2 | 6.4 |

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# Ajanta Pharma

**Exhibit 1: Financial summary**

| Y/e 31 Mar (Rs mn) | FY19 | FY20 | FY21E | FY22E | FY23E |
|---|---|---|---|---|---|
| Revenues | 20,554 | 25,879 | 27,792 | 31,258 | 34,733 |
| yoy growth (%) | -3.5 | 25.9 | 7.4 | 12.5 | 11.1 |
| OPM (%) | 27.6 | 26.4 | 34.0 | 31.5 | 31.3 |
| EPS (Rs) | 44.1 | 53.3 | 71.5 | 75.0 | 85.2 |
| P/E (x) | 40.8 | 33.7 | 25.2 | 24.0 | 21.1 |
| P/BV (x) | 7.0 | 6.1 | 5.1 | 4.4 | 3.7 |
| EV/EBITDA (x) | 27.6 | 22.8 | 16.1 | 15.1 | 13.2 |
| Debt/Equity (x) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| ROE (%) | 18.1 | 19.5 | 22.0 | 19.6 | 19.1 |
| ROCE (%) | 22.8 | 25.8 | 27.9 | 24.7 | 23.4 |

Source: Company, YES Sec - Research

# Alembic Pharma

| BUY | CMP Rs936 | Target Rs 1280 | Upside 36.8% |
|---|---|---|---|

### Our View

- ✓ Sartans contribution saw first significant erosion after multiple quarters though US sales still hovered around US$70mn in Q3. We reckon focus would be on the ex-sartans portfolio which should pick up on back of incremental approvals.
- ✓ Expect US sales to consolidate over next 12-18 months till new facilities see ANDA approvals post inspection. In the meanwhile, domestic business and ROW sales would add to the growth.
- ✓ Continue to factor in margin decline in FY22 and FY23 and a pick up thereafter.
- ✓ Tweak FY21 and FY22 estimates by 3-5% based on continued lower tax rate as seen in Q3 FY21 but retain BUY based on unchanged 25x PE and TP of Rs1,280.

### Highlights

- ✓ Alembic reported lower than expected sales on weaker than expected US sales (-11% qoq, estimated -3% qoq)
- ✓ Gross margin declined on higher inventory provision; inventory days India rebounded with 14% growth yoy, better than estimated 5%
- ✓ ROW and API sales came in lower than expected but still healthy at 14% and 21% respectively
- ✓ EBIDTA marginally ahead of estimate at 27.8% but gross margin lower; PAT at Rs2.9bn, aided by lower than expected tax rate.

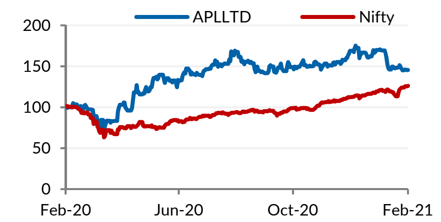
### Exhibit 1: Result table

| (Rs mn) | Q3 FY21 | Q2 FY21 | % qoq | Q3FY20 | % yoy |
|---|---|---|---|---|---|
| Revenues | 13,143 | 14,571 | (9.8) | 12,091 | 8.7 |
| RM + inventory changes | (2,230) | (2,404) | (7.2) | (2,397) | (7.0) |
| Purchase of goods | (700) | (716) | (2.3) | (588) | 19.1 |
| Staff | (2,625) | (2,761) | (4.9) | (2,269) | 15.7 |
| Other expenses | (3,938) | (4,256) | (7.5) | (3,587) | 9.8 |
| Operating profit | 3,651 | 4,434 | (17.7) | 3,251 | 12.3 |
| OPM (%) | 27.8 | 30.4 | -266 bps | 26.9 | 89 bps |
| Depreciation | (470) | (438) | 7.3 | (418) | 12.3 |
| Interest | (23) | (45) | (48.4) | (74) | (68.6) |
| Other income | 25 | 32 | (21.4) | 4 | 517.1 |
| PBT | 3,183 | 3,984 | (20.1) | 2,763 | 15.2 |
| Tax | (591) | (730) | (19.0) | (486) | 21.7 |
| Effective tax rate (%) | 16.8 | 17.9 | -113 bps | 17.2 | -37 bps |
| PAT | 2,592 | 3,254 | (20.3) | 2,277 | 13.8 |
| PAT margin (%) | 19.7 | 22.3 | -261 bps | 18.8 | 89 bps |
| Minority/Associate | 334 | 83 | | 65 | 412.6 |
| PAT | 2,926 | 3,337 | (12.3) | 2,342 | 24.9 |

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,173 |
| 52 Week h/l (Rs) | 1145 / 435 |
| Market cap (Rs/USD mn) | 183944 / 2525 |
| Outstanding Shares (mn) | 197 |
| 6m Avg t/o (Rs mn): | 370 |
| Div yield (%): | 0.7 |
| Bloomberg code: | ALPM IN |
| NSE code: | APLLTD |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | -14.3% | -2.2% | 46.8% |

**Shareholding pattern** (As of Dec'20 end)

| | |
|---|---|
| Promoter | 69.8% |
| FII+DII | 17.1% |
| Others | 13.1% |

**∆ in stance**

| (1-Yr) | New | Old |
|---|---|---|
| Rating | BUY | BUY |
| Target Price | 1,280 | 1,280 |

**∆ in earnings estimates**

| | FY21e | FY22e | FY23e |
|---|---|---|---|
| EPS (New) | 57.7 | 49.7 | 52.5 |
| EPS (Old) | 54.1 | 48.0 | 50.7 |
| % change | 6.7 | 3.5 | 3.6 |

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# Q3 CONFERENCE CALL HIGHLIGHTS

- ✓ EBITDA margin- should be in the range of 27-30%.
- ✓ The company has planned to launch 5+ products in 4QFY21E.
- ✓ Domestic business: Cold & Cough market is under performing due to which the company is also underperforming in the segment.
- ✓ India growth driven by old products and new products launches will take time to pick up
- ✓ Lost some market share in Sartans and bulk of loss in US sales is attributed to sartans
- ✓ US sales would be similar to US$70mn going ahead. US sales expectation by FY24 between US$400-500mn
- ✓ Can add 2-3 more injectable lines once the injectable facility is inspected and approved
- ✓ Stepping up investments on API; cumulative investment of Rs4-5bn on API and injectables over next 2 years
- ✓ Hopeful of FDA inspection in the next 2 quarters
- ✓ R&D will come down to 9-10% of sales once the facilities are commercialized and revenues kick in. R&D at Rs6.3bn for FY21 and Rs7-7.5bn in FY22
- ✓ In Timolol – there is good opportunity for the company (currently only the innovator and Sandoz are there in the market, but still there is supply shortage, which will provide the company with a good growth prospect).
- ✓ Negligible sales at Aleor derma JV and there is loss in the JV due to limited number of products in the portfolio
- ✓ During the quarter, the company has filed for 1 ANDA filling, they have also received 6 final approvals from USFDA.
- ✓ YTDFY21 the company has filed for 16 ANDA approvals. They have received 12 final approvals.
- ✓ Out of the total of 137 approvals, 110 approvals are from the oral solids, 13 from ophthalmic, 13 from Derma and 1 from injectables.
- ✓ The company till date has launched 89 products (in 3QFY21 the company has launched 7 products).

**Exhibit 2: Financial summary**

| Y/e 31 Mar (Rs mn) | FY19 | FY20 | FY21E | FY22E | FY23E |
|---|---|---|---|---|---|
| Revenues | 39,347 | 46,060 | 54,384 | 57,631 | 63,773 |
| yoy growth (%) | 25.7 | 17.1 | 18.1 | 6.0 | 10.7 |
| OPM (%) | 22.2 | 26.6 | 28.3 | 26.4 | 25.2 |
| yoy growth (%) | 40.9 | 41.9 | 31.2 | (13.8) | 5.5 |
| EPS (Rs) | 31.0 | 44.0 | 57.7 | 49.7 | 52.5 |
| P/E (x) | 33.2 | 23.4 | 17.8 | 20.7 | 19.6 |
| P/BV (x) | 7.1 | 6.1 | 4.7 | 4.0 | 3.4 |
| EV/EBITDA (x) | 22.6 | 16.7 | 13.1 | 12.8 | 11.7 |
| Debt/Equity (x) | 0.2 | 0.3 | 0.3 | 0.1 | 0.1 |
| ROE (%) | 24.0 | 28.6 | 28.9 | 20.2 | 18.1 |
| ROCE (%) | 23.5 | 25.3 | 24.9 | 21.9 | 19.9 |

Source: Company, YES Sec - Research

**Q3 FY21 Result Review** | Sector: Pharmaceuticals

# Alkem Labs

| BUY | CMP Rs2,891 | Target Rs 3,600 | Upside 24.5% |
|---|---|---|---|

| | |
|---|---|
| **Our View** | ✓ Healthy traction in chronic and market share growth in acute seen as sustainable trends.<br>✓ Marketing cost optimization to offset natural rebound in expenses as domestic sales revive from in FY22.<br>✓ Raise FY21 estimates by 6% on better than expected Q3 margin which effectively defers costs to FY22 leaving EPS for FY22/23 largely unchanged<br>✓ Believe stock trading at attractive 18x FY23 EPS; BUY stays on unchanged target PE of 22x FY23 EPS, at a moderate discount to chronic plays like Ajanta Pharma |
| **Highlights** | ✓ Gained market share in big brands and going forward will be looking to re-structure in the acute segment in the next fiscal year.<br>✓ Trade generics has outperformed the branded business in Q3; next year share to decline<br>✓ Capex for 9MFY21E- Rs1.3 bn.<br>✓ The company has a net cash position of Rs 7.8 bn at the end of the quarter.<br>✓ India business registered growth due to growth in chronic segment. |

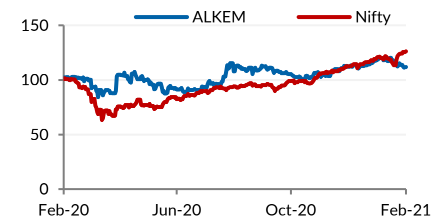
## Exhibit 1: Result table

| (Rs mn) | Q3 FY21 | Q2 FY21 | % qoq | Q3FY20 | % yoy |
|---|---|---|---|---|---|
| Revenues | 23,181 | 23,628 | (1.9) | 21,818 | 6.2 |
| RM + inventory changes | (5,104) | (5,659) | (9.8) | (4,510) | 13.2 |
| Purchase of goods | (3,773) | (3,681) | 2.5 | (3,834) | (1.6) |
| Staff | (4,098) | (4,080) | 0.4 | (3,956) | 3.6 |
| Other expenses | (4,915) | (4,204) | 16.9 | (4,985) | (1.4) |
| Operating profit | 5,291 | 6,005 | (11.9) | 4,533 | 16.7 |
| OPM (%) | 22.8 | 25.4 | -259 bps | 20.8 | 205 bps |
| Depreciation | (690) | (702) | (1.8) | (595) | 16.0 |
| Interest | (131) | (180) | (27.5) | (170) | (23.3) |
| Other income | 964 | 355 | 171.2 | 279 | 246.0 |
| PBT | 5,434 | 5,478 | (0.8) | 4,046 | 34.3 |
| Tax | (796) | (662) | 20.2 | (147) | 443.3 |
| Effective tax rate (%) | 14.6 | 12.1 | 255 bps | 3.6 | 1102 bps |
| PAT | 4,639 | 4,815 | (3.7) | 3,900 | 18.9 |
| PAT margin (%) | 20.0 | 20.4 | -37 bps | 17.9 | 214 bps |
| PAT | 4,639 | 4,815 | (3.7) | 3,900 | 18.9 |

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,173 |
| 52 Week h/l (Rs) | 3152 / 1881 |
| Market cap (Rs/USD mn) | 345674 / 4744 |
| Outstanding Shares (mn) | 120 |
| 6m Avg t/o (Rs mn): | 415 |
| Div yield (%): | 1.0 |
| Bloomberg code: | ALKEM IN |
| NSE code: | ALKEM |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | -5.8% | 8.5% | 11.7% |

**Shareholding pattern** (As of Dec'20 end)

| | |
|---|---|
| Promoter | 62.4% |
| FII+DII | 16.8% |
| Others | 20.8% |

**Δ in stance**

| (1-Yr) | New | Old |
|---|---|---|
| Rating | BUY | BUY |
| Target Price | 3,600 | 3,600 |

**Δ in earnings estimates**

| | FY21e | FY22e | FY23e |
|---|---|---|---|
| EPS (New) | 132.2 | 132.7 | 161.4 |
| EPS (Old) | 125.7 | 138.4 | 165.3 |
| % change | 5.2 | -4.1 | -2.4 |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# Q3 CONFERENCE CALL HIGHLIGHTS

- ✓ Maintains guidance of 200bps margin expansion (in FY19 margin was around 17.5% and the management expects margin expansion from the FY19 number).
- ✓ Gross margin will be in 60-62% range
- ✓ US business is expected to grow at around 15% for next year.
- ✓ Confident of filing 12-15 ANDA and launch 8-10 products every year.
- ✓ Marketing cost optimization to continue
- ✓ Indore facility is awaiting inspections from the USFDA.
- ✓ Other income is higher due to sale of asset and asset monetization (sale of brand to Abbott).

**Exhibit 2: Financial summary**

| Y/e 31 Mar (Rs mn) | FY19 | FY20 | FY21E | FY22E | FY23E |
|---|---|---|---|---|---|
| Revenues | 73,572 | 83,443 | 88,165 | 101,094 | 114,640 |
| yoy growth (%) | 14.9 | 13.4 | 5.7 | 14.7 | 13.4 |
| OPM (%) | 15.2 | 17.7 | 21.8 | 20.6 | 21.9 |
| yoy growth (%) | 20.5 | 51.1 | 37.5 | 0.4 | 21.7 |
| EPS (Rs) | 63.6 | 96.1 | 132.2 | 132.7 | 161.4 |
| P/E (x) | 45.6 | 30.2 | 21.9 | 21.9 | 18.0 |
| P/BV (x) | 6.4 | 5.6 | 4.7 | 4.0 | 3.4 |
| EV/EBITDA (x) | 3.1 | 2.3 | 1.7 | 1.6 | 1.3 |
| Debt/Equity (x) | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 |
| ROE (%) | 15.0 | 19.8 | 23.3 | 19.8 | 20.5 |
| ROCE (%) | 17.1 | 20.2 | 24.3 | 21.1 | 21.8 |

Source: Company, YES Sec - Research

Q3 FY21 Result Review | Sector: Pharmaceuticals

YES SECURITIES INSTITUTIONAL EQUITIES

# Aurobindo Pharma

| BUY | CMP Rs938 | Target Rs1,080 | Upside 13.2% |
|---|---|---|---|

| | |
|---|---|
| **Our View** | ✓ Strong momentum in injectables business to support US business as acceleration unlikely in slow growing oral solids<br>✓ Steady margin uptick over next 2 years as better margin injectables business offset to an extent by lackluster oral solids profitability<br>✓ Net cash balance sheet offers comfort; as also gives firepower to plug gaps in US portfolio<br>✓ FY21 estimates change as gains from Natrol sale are crystalized; minor 2% cut to FY23 EPS on marginally lower US sales assumption<br>✓ BUY stays on unchanged 15x PE; sustained execution to drive stock upside |
| **Highlights** | ✓ Adjusted for Natrol, US revs up 10% yoy vs reported 6% yoy. Cc growth at 2% yoy on reported basis. Injectables business remains on strong growth trajectory<br>✓ Europe cc growth less than 2% yoy as sales benefited from 12% yoy FX tailwind; company expects European margin to pick up pace from current low double digit run rate<br>✓ Margin stood at 21.5% with a gain of 100bps yoy. Gain could have been higher but for loss of export incentive and lack of 1mth of Natrol sales<br>✓ Auro took Rs4.3bn provisional write off relating to business and covid in some markets |
| **Risk to our call** | ✓ Any increased competition in injectables can lead to margin deterioration pretty quickly |

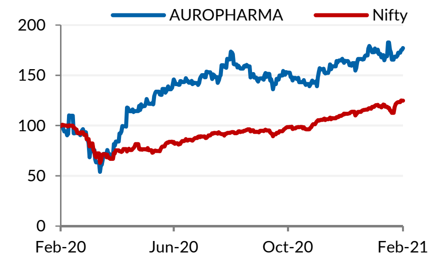
## Exhibit 1: Result table

| (Rs mn) | Q3 FY21 | Q2 FY21 | % qoq | Q3FY20 | % yoy |
|---|---|---|---|---|---|
| Revenues | 63,649 | 64,834 | (1.8) | 58,950 | 8.0 |
| RM + inventory | (20,253) | (18,411) | 10.0 | (20,119) | 0.7 |
| Purchase of goods | (5,470) | (6,746) | (18.9) | (5,531) | (1.1) |
| Staff | (8,807) | (9,119) | (3.4) | (7,978) | 10.4 |
| Other expenses | (15,433) | (16,230) | (4.9) | (13,242) | 16.6 |
| Operating profit | 13,686 | 14,328 | (4.5) | 12,080 | 13.3 |
| OPM (%) | 21.5 | 22.1 | -60 bps | 20.5 | 101 bps |
| Depreciation | (2,765) | (2,573) | 7.5 | (2,501) | 10.6 |
| Interest | (195) | (157) | 24.1 | (371) | (47.5) |
| Other income | 1,334 | 538 | 148.2 | 309 | 331.3 |
| Tax | (10,591) | (3,873) | 173.4 | (2,329) | 354.8 |
| Effective tax rate (%) | 88.9 | 32.5 | 56ppts | 24.5 | 64ppts |
| Minority/Associate | (145) | (205) | | (6) | |
| Exceptional | 28,139 | | | (129) | |
| PAT | 29,463 | 8,057 | 265.7 | 7,053 | 317.7 |

**Stock data** (as on Feb 13, 2021)

| | |
|---|---|
| Nifty | 15,173 |
| 52 Week h/l (Rs) | 1024 / 289 |
| Market cap (Rs/USD mn) | 547970 / 7521 |
| Outstanding Shares (mn) | 586 |
| 6m Avg t/o (Rs mn): | 3,270 |
| Div yield (%): | 0.6 |
| Bloomberg code: | ARBP IN |
| NSE code: | AUROPHARMA |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | -3.1% | 15.5% | 71.7% |

**Shareholding pattern** (As of Dec'20 end)

| | |
|---|---|
| Promoter | 51.9% |
| FII+DII | 37.6% |
| Others | 10.5% |

**Δ in stance**

| (1-Yr) | New | Old |
|---|---|---|
| Rating | BUY | BUY |
| Target Price | 1,080 | 1,080 |

**Δ in earnings estimates**

| | FY21e | FY22e | FY23e |
|---|---|---|---|
| EPS (New) | 93.7 | 61.6 | 70.7 |
| EPS (Old) | 59.6 | 64.3 | 72.2 |
| % change | 57.3 | -4.2 | -2.1 |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# Aurobindo Pharma

## Q3 HIGHLIGHTS

- ✓ Global injectables business should reach revenue of US$650-700mn in next 3-4 years.
- ✓ Injectables products - launching 4 products during 4Q FY21 and another 11-15 products in FY22. Injectables margins are better than orals.
- ✓ US business- increasing vols in the existing portfolio which has led to increase in sales.
- ✓ PLI incentive scheme - been awarded 3 products which will require Rs30bn of capex over 2-2.5 years; would require independent plants for these products.
- ✓ PLI capacity capex will be for both PLI scheme and captive consumption
- ✓ API- target to double sales in next 4-5 years; includes sales from PLI scheme and large volume products sales. The company is also internally expanding capacity which will help to drive the sales
- ✓ Vaccine - current facility is for Bacterial vaccine, completed the Phase 2 of the Pneumococcal vaccine and expect to start Phase 3 trials from March 2021.
- ✓ Timeline will be 12-18 months post getting approval for Phase 3 trials and the company will launch the product in Brazil
- ✓ Aurobindo forayed into viral vaccines with an acquisition through its step down subsidiary Auro Vaccines in Feb 2020. Auro Vaccines is developing 4 viral vaccines including one for COVID-19.
- ✓ UB612 - Covid vaccine in partnership with Covaxx - trial should by start by next month and expect it to get it done by July.
- ✓ Regular capex is US$ 200-225 mn (more capex will flow in API business for a short term).
- ✓ Commercialization of Vizag plant will take 15 months

### Exhibit 2: Financial summary

| Y/e 31 Mar (Rs mn) | FY19 | FY20 | FY21E | FY22E | FY23E |
|---|---|---|---|---|---|
| Revenues | 195,636 | 230,985 | 252,808 | 272,297 | 302,627 |
| yoy growth (%) | 18.6 | 18.1 | 9.4 | 7.7 | 11.1 |
| OPM (%) | 20.2 | 21.1 | 21.6 | 22.2 | 22.6 |
| yoy growth (%) | (2.4) | 19.7 | 93.8 | (34.3) | 14.8 |
| EPS (Rs) | 40.4 | 48.4 | 93.7 | 61.6 | 70.7 |
| P/E (x) | 23.2 | 19.4 | 10.0 | 15.2 | 13.3 |
| P/BV (x) | 4.0 | 3.3 | 2.5 | 2.2 | 1.9 |
| EV/EBITDA (x) | 13.4 | 10.8 | 9.1 | 7.8 | 6.4 |
| Debt/Equity (x) | 0.5 | 0.3 | 0.3 | 0.2 | 0.2 |
| ROE (%) | 19.6 | 19.0 | 14.1 | 15.4 | 15.3 |
| ROCE (%) | 24.8 | 24.5 | 21.5 | 20.0 | 19.8 |

Source: Company, YES Sec - Research

**Q3 FY21 Result Review |** Sector: Pharmaceuticals

# Dr Reddys'

| ADD | CMP Rs4,825 | Target Rs5,370 | Upside 36.8% |
|---|---|---|---|

| | |
|---|---|
| **Our View** | ✓ With cost levers having played out over FY19-21 coupled with no significant rise in dollar R&D budget, reckon margin support would have to come from revenue boost; which is what we assume with estimated ~10% sales growth in FY22 and FY23 each (ex-Revlimid). Dr Reddys' has a diversified US portfolio compared to Lupin and also less risky growth pathway in comparison to Sun Pharma.<br>✓ Hence, DRRD is a better proposition when compared to such peers and is our preferred bet in large cap pharma. Q3 proved to be a disappointing quarter as US revenues came in much weaker than our expectation on top a large impairment write off in Nuvaring, Metformin and other acquired products.<br>✓ Accordingly, we cut FY21 estimates to factor in the write off and also moderate FY22 margin estimate to around 25%. Also roll over to FY23 EPS (ex-Revlimid) and retain target PE of 24x to arrive at revised TP Rs5,370 (from Rs5,270 earlier, including unchanged Rs300/share Revlimid NPV). |
| **Highlights** | ✓ India – base business grew 8% excluding Wockhardt in Q3 and in single digits for 9m<br>✓ Revenue in Russia and other countries still not reach pre-covid level; expects it to reach the pre-covid level in next few quarters.<br>✓ One off litigation cost which is included in the quarter and is non-recurring in nature |

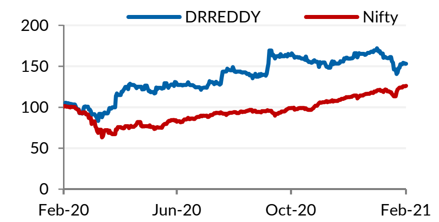
### Exhibit 1: Result table

| (Rs mn) | Q3 FY21 | Q2 FY21 | % qoq | Q3FY20 | % yoy |
|---|---|---|---|---|---|
| Revenues | 49419 | 49109 | 0.6 | 43971 | 12.4 |
| RM + inventory changes | (9574) | (8912) | 7.4 | (5727) | 67.2 |
| Purchase of goods | (6803) | (6889) | (1.2) | (8426) | (19.3) |
| Staff | (9157) | (9488) | (3.5) | (8377) | 9.3 |
| Other expenses | (18492) | (12259) | 50.8 | (24328) | (24.0) |
| Operating profit | 5393 | 11561 | (53.4) | (2887) | (286.8) |
| OPM (%) | 10.9 | 23.5 | -1263 bps | (6.6) | 1748 bps |
| Depreciation | (3112) | (3165) | (1.7) | (2869) | 8.5 |
| Interest | (188) | (252) | (25.4) | (152) | 23.7 |
| Other income | 705 | 512 | 37.7 | 673 | 4.8 |
| PBT | 2798 | 8656 | (67.7) | (5235) | (153.4) |
| Tax | (2670) | (1011) | 164.1 | (325) | 721.5 |
| Effective tax rate (%) | 90.5 | 11.6 | 7896 bps | (6.4) | NA |
| PAT | 128 | 7645 | (98.3) | (5560) | NA |
| PAT margin (%) | 0.3 | 15.6 | -1531 bps | (12.6) | NA |
| PAT | 279 | 7718 | (96.4) | (5384) | NA |

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,173 |
| 52 Week h/l (Rs) | 5513 / 2495 |
| Market cap (Rs/USD mn) | 802351 / 11012 |
| Outstanding Shares (mn) | 166 |
| 6m Avg t/o (Rs mn): | 9343 |
| Div yield (%): | 0.5 |
| Bloomberg code: | DRRD IN |
| NSE code: | DRREDDY |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | -10.9% | -1.2% | 52.2% |

**Shareholding pattern** (As of Dec'20 end)

| | |
|---|---|
| Promoter | 26.7% |
| FII+DII | 43.9% |
| Others | 29.4% |

**∆ in stance**

| (1-Yr) | New | Old |
|---|---|---|
| Rating | ADD | ADD |
| Target Price | 5,370 | 5,270 |

**∆ in earnings estimates**

| | FY21e | FY22e | FY23e |
|---|---|---|---|
| EPS (New) | 130.2 | 188.9 | 210.6 |
| EPS (Old) | 161.9 | 190.9 | - |
| % change | -19.6 | -1.0 | - |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# Q3 CONFERENCE CALL HIGHLIGHTS

- ✓ In the neighborhood of aspirational 25% margin and in the next few quarters should be in the range
- ✓ Nuvaring, Metformin and other acquired products from Teva have been impaired
- ✓ North American sales driven by new products launches, increase in volumes in the base business and a favorable forex, which was partially offset by price erosion
- ✓ Received another CRL on Copaxone and preparing response
- ✓ Price erosion is there in both oral solids and injectables
- ✓ Increase in inventory is in line with planned increase for certain products
- ✓ Witnessed COVID related slowdown towards end of quarter
- ✓ Ambitious digitization program lined up; investments behind brands and partly freight mix (more Air than sea) led to higher SG&A
- ✓ Recognized milestone income received for the compound AUR102.
- ✓ Large part of SG&A is getting normalized to pre COVID level
- ✓ Sourcing of Sputnik vaccine has increased to 125mn doses and more countries
- ✓ ETR of 25% not including impairment charges.

**Exhibit 2: Financial summary**

| Y/e 31 Mar (Rs m) | FY19 | FY20 | FY21E | FY22E | FY23E |
|---|---|---|---|---|---|
| Revenues | 154,482 | 175,170 | 191,019 | 208,476 | 228,566 |
| yoy growth (%) | 8.2 | 13.4 | 9.0 | 9.1 | 9.6 |
| Operating profit | 31,782 | 41,471 | 42,091 | 54,652 | 60,531 |
| OPM (%) | 20.6 | 23.7 | 22.0 | 26.2 | 26.5 |
| Reported PAT | 19,500 | 20,267 | 21,608 | 31,356 | 34,958 |
| yoy growth (%) | 106.0 | 3.9 | 6.6 | 45.1 | 11.5 |
| EPS (Rs) | 117.5 | 122.1 | 130.2 | 188.9 | 210.6 |
| P/E (x) | 39.2 | 37.7 | 35.3 | 24.4 | 21.8 |
| P/BV (x) | 5.4 | 4.9 | 4.4 | 3.8 | 3.3 |
| EV/EBITDA (x) | 24.0 | 17.7 | 17.1 | 12.9 | 11.3 |
| Debt/Equity (x) | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 |
| ROE (%) | 14.3 | 24.6 | 12.8 | 16.5 | 16.0 |
| ROCE (%) | 14.4 | 22.5 | 17.5 | 20.9 | 20.3 |

Source: Company, YES Sec - Research

Q3 FY21 Result Review | Sector: Pharmaceuticals

YES SECURITIES INSTITUTIONAL EQUITIES

# IPCA Labs

| BUY | CMP Rs1,947 | Target Rs2,750 | Upside 41.3% |
|---|---|---|---|

| | |
|---|---|
| **Our View** | ✓ Robust margin guidance of 25-26% implies OPM crosses previous all time high, a result of improved profitability and cost savings<br>✓ Solid revenue visibility in domestic market with leadership brand in pain management to potentially double in 5-6 years<br>✓ Cost normalisation built in FY22 but sustainable growth and robust margins of 31-32% on incremental revenues give comfort unavailable at US focused peers<br>✓ IPCA remains a top BUY based on unchanged target PE of 28x, at a slight premium to historical top end of range on a well oiled domestic business, lack of volatility in export markets and underrated API business which has scope for further scalability |
| **Highlights** | ✓ IPCA Q3 nos came ahead of estimate primarily driven by nearly 3x jump in institutional business<br>✓ Domestic growth healthy at 8% yoy<br>✓ Margins ahead of estimate at 26% as staff and other expenses decline qoq. We had built a higher cost ramp up<br>✓ Overall growth at 16% yoy vs 12% expectation<br>✓ PAT at Rs2.7bn beat estimates on strong institutional sales and no correction in margin |

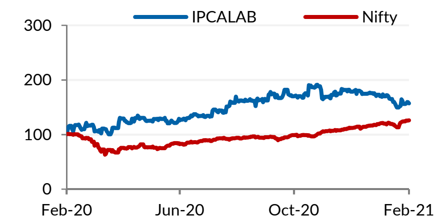
## Exhibit 1: Result table

| (Rs mn) | Q3 FY21 | Q2 FY21 | % qoq | Q3FY20 | % yoy |
|---|---|---|---|---|---|
| Revenues | 14,098 | 13,611 | 3.6 | 12,129 | 16.2 |
| RM + inventory changes | (4,178) | (3,847) | 8.6 | (3,271) | 27.7 |
| Purchase of goods | (976) | (579) | 68.5 | (967) | 1.0 |
| Staff | (2,451) | (2,545) | (3.7) | (2,313) | 6.0 |
| Other expenses | (2,824) | (3,037) | (7.0) | (2,841) | (0.6) |
| Operating profit | 3,669 | 3,602 | 1.9 | 2,737 | 34.1 |
| OPM (%) | 26.0 | 26.5 | -44 bps | 22.6 | 346 bps |
| Depreciation | (535) | (521) | 2.7 | (508) | 5.3 |
| Interest | (23) | (23) | (0.9) | (40) | (42.9) |
| Other income | 154 | 155 | (0.5) | 181 | (15.2) |
| PBT | 3,265 | 3,212 | 1.6 | 2,370 | 37.8 |
| Tax | (567) | (526) | 7.9 | (369) | 53.8 |
| Effective tax rate (%) | 17.5 | 16.5 | 102 bps | 15.7 | 176 bps |
| PAT | 2,698 | 2,686 | 0.4 | 2,001 | 34.8 |
| PAT margin (%) | 19.1 | 19.7 | -60 bps | 16.5 | 264 bps |
| Minority/Associate | (22) | (19) | | (25) | |
| PAT | 2,676 | 2,667 | 0.3 | 1,975 | 35.4 |

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,173 |
| 52 Week h/l (Rs) | 2460 / 1200 |
| Market cap (Rs/USD mn) | 246877 / 3388 |
| Outstanding Shares (mn) | 127 |
| 6m Avg t/o (Rs mn): | 1006 |
| Div yield (%): | 0.4 |
| Bloomberg code: | IPCA IN |
| NSE code: | IPCALAB |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | -14.3% | -2.2% | 46.8% |

**Shareholding pattern** (As of Dec'20 end)

| | |
|---|---|
| Promoter | 46.1% |
| FII+DII | 41.1% |
| Others | 12.8% |

**Δ in stance**

| (1-Yr) | New | Old |
|---|---|---|
| Rating | BUY | BUY |
| Target Price | 2,750 | 2,750 |

**Δ in earnings estimates**

| | FY21e | FY22e | FY23e |
|---|---|---|---|
| EPS (New) | 88.5 | 87.5 | 102.4 |
| EPS (Old) | 87.9 | 86.9 | 101.7 |
| % change | 0.7 | 0.7 | 0.7 |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# Q3 CONFERENCE CALL HIGHLIGHTS

## Guidance

- ✓ Confident of maintaining margins at 25-26%
- ✓ Capex to be around Rs 3-3.5 bn for FY22.
- ✓ India business to grow by 12-13% in FY22; There will some cost saved due to lower medical conferences.
- ✓ **Branded business** - see 10% growth in FY21. Confident of good growth in 4Q in this segment.

## Other highlights

- ✓ **Domestic business -** Pain and & Cardio business has shown good growth in the quarter. CMS, derma, ophthalmology has turned positive growth. Anti-malaria, cold and cough segment has continued to see de-growth
- ✓ **Margins** - Higher material and freight has impacted the margins. temporary phase as certain intermediaries were not available from China. The company expect things to normalize from 1Q FY22.
- ✓ **Sartans** - price reduction due to significant reduction in raw material prices and the company has passed on the benefit; currently prices stable
- ✓ **Branded promotion business**- CIS (Russia) was impacted due to COVID-19 due to lower offtake, in the current quarter the company has lowered the shipment due to COVID-19 and expect 4QFY21 to be normal.
- ✓ **Capex**- Setting up API plant at Ratlam; commissioning will start by March and commercial ops by Q2 FY22; will add 10% capacity
- ✓ By 2Q FY22, Devas plant should be ready for commissioning and by 4Q FY22 should be ready operational; to add 25% of capacity
- ✓ **Aurangabad plant** - delay due to covid-19 and the plant is commissioned now; company will look to set up another plant in FY22
- ✓ **API** - Largely it is helped by Covid-19 in current year
- ✓ Have Rs 3.6 bn MAT credit and will use Rs1 bn in FY21 and Rs1.6 bn in FY22E of the remaining MAT credit and balance will used in FY23E.

### Exhibit 2: Financial summary

| Y/e 31 Mar (Rs mn) | FY19 | FY20 | FY21E | FY22E | FY23E |
|---|---|---|---|---|---|
| Revenues | 37,732 | 46,487 | 54,399 | 60,823 | 68,367 |
| yoy growth (%) | 17.2 | 23.2 | 17.0 | 11.8 | 12.4 |
| Operating Profit | 6,919 | 9,067 | 15,245 | 15,277 | 17,777 |
| OPM (%) | 18.3 | 19.5 | 28.0 | 25.1 | 26.0 |
| Reported PAT | 4,422 | 6,036 | 11,187 | 11,055 | 12,933 |
| yoy growth (%) | 89.7 | 36.5 | 85.3 | (1.2) | 17.0 |
| EPS (Rs) | 35.0 | 47.8 | 88.5 | 87.5 | 102.4 |
| P/E (x) | 55.5 | 40.7 | 21.9 | 22.2 | 19.0 |
| P/BV (x) | 7.9 | 6.8 | 5.3 | 4.3 | 3.5 |
| EV/EBITDA (x) | 35.2 | 26.8 | 15.5 | 15.0 | 12.3 |
| Debt/Equity (x) | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| ROE (%) | 15.3 | 18.1 | 27.0 | 21.3 | 20.5 |
| ROCE (%) | 17.2 | 20.2 | 29.2 | 23.6 | 22.8 |

Source: Company, YES Sec - Research

# Lupin

| SELL | CMP Rs1,060 | Target Rs850 | Downside 20% |
|---|---|---|---|

| | |
|---|---|
| **Our View** | ✓ Gradual ramp up in ProAir and Levo translates in to a 10% cut in US sales in current fiscal as well as FY22/23; cut in R&D spends offsets to leave EPS largely unchanged<br>✓ Expect margins to inch towards 20% mark on sustained basis but US portfolio remains top heavy<br>✓ Company remains too reliant on Albuterol for margin and earnings delta over next 12 months; retain SELL |
| **Highlights** | ✓ Lupin US sales disappointed at US$188mn vs our expectation of US$210mn with ProAir and Levo being in most likelihood the key reason for the shortfall. Overall revenues in line at 4.8% qoq<br>✓ ProAir market share at 8%; reckon underlying business ex-ProAir remains weak since US sales barely above Q3 FY20 level despite a 3.6% currency boost yoy<br>✓ India growth at 5.4% yoy – missed expectation of +7% yoy<br>✓ Gross margin improvement at 180bps qoq was surprising given the lackluster US sales<br>✓ OPM at 19.4% better than expected but includes lower R&D qoq at Rs3.5bn, down 8% qoq and 19% yoy; other expenses declined qoq . |

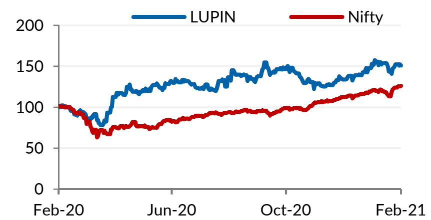
### Exhibit 1: Result table

| (Rs mn) | Q3 FY21 | Q2 FY21 | % qoq | Q3FY20 | % yoy |
|---|---|---|---|---|---|
| Revenues | 40,174 | 38,350 | 4.8 | 37,693 | 6.6 |
| RM + inventory changes | (7,726) | (6,562) | 17.7 | (7,970) | (3.1) |
| Purchase of goods | (6,024) | (7,256) | (17.0) | (5,624) | 7.1 |
| Staff | (7,068) | (6,853) | 3.1 | (7,407) | (4.6) |
| Other expenses | (11,569) | (11,868) | (2.5) | (12,402) | (6.7) |
| Operating profit | 7,787 | 5,812 | 34.0 | 4,291 | 81.5 |
| OPM (%) | 19.4 | 15.2 | 423 bps | 11.4 | 800 bps |
| Depreciation | (2,443) | (2,127) | 14.8 | (2,532) | (3.5) |
| Interest | (309) | (336) | (8.0) | (886) | (65.1) |
| Other income | 212 | 250 | (15.2) | 936 | (77.4) |
| PBT | 5,247 | 3,598 | 45.8 | 1,809 | 190.1 |
| Tax | (835) | (1,467) | (43.1) | (7,670) | (89.1) |
| Effective tax rate (%) | 16.0 | 41.0 | -2501 bps | 409.7 | - |
| Minority/Associate | (29) | (21) | 42.2 | 64 | - |
| Exceptional | | | | (2,887) | |
| PAT | 4,382 | 2,110 | 107.7 | (8,685) | - |

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,173 |
| 52 Week h/l (Rs) | 1122 / 505 |
| Market cap (Rs/USD mn) | 480881 / 6600 |
| Outstanding Shares (mn) | 454 |
| 6m Avg t/o (Rs mn): | 3917 |
| Div yield (%): | 0.6 |
| Bloomberg code: | LPC IN |
| NSE code: | LUPIN |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | -1.4% | 16.4% | 51.3% |

**Shareholding pattern** (As of Dec'20 end)

| | |
|---|---|
| Promoter | 46.9% |
| FII+DII | 40.3% |
| Others | 12.8% |

**Δ in stance**

| (1-Yr) | New | Old |
|---|---|---|
| Rating | SELL | SELL |
| Target Price | 850 | 850 |

**Δ in earnings estimates**

| | FY21e | FY22e | FY23e |
|---|---|---|---|
| EPS (New) | 25.2 | 35.7 | 43.1 |
| EPS (Old) | 25.3 | 35.0 | 43.2 |
| % change | -0.4 | 2.0 | -0.2 |

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# Q3 CONFERENCE CALL HIGHLIGHTS

- ✓ Market share ramping up in Albuterol; latest monthly data shows share at 9% of the generic market
- ✓ Have capacity for 20% market share in Albuterol; see scope for full ramp up in next quarter; targeting 14-15mn units out of 70mn units market
- ✓ Continue to make progress on Spiriva filing and on track for June 2022 launch
- ✓ See further improvements to cost rationalization and product mix
- ✓ Meaningful FDA activity on inspection pick up late in H2 CY21; not happy with the extent of Somerset observations but would not generalize to other plants
- ✓ R&D to stay at 9% of sales – generally file 30-35 products of which 20-25 oral
- ✓ 6 injectable filings every year of which 2 are complex
- ✓ Pegfilgrastim still continues to be a reasonable opportunity
- ✓ Levo – Couple of points away from 20% share but it remains a difficult product to gain share given the narrow therapeutic index
- ✓ US sales - One of the weakest flu season in US led to lower demand for Tamiflu, Cephalosporins while still building share in Metformin which would scale up in Q4
- ✓ Need US$20mn of annualized branded business for the current 40 MR strength in US; looking at other products
- ✓ Forstair – building like a branded market starting out with UK and will take couple of years to cover Europe; 2-3 players for Euro600mn market
- ✓ One time litigation related income included in other operating income adjusted for which margin would have been slightly lower
- ✓ Effort is to keep EBIDTA margin at 20-22%
- ✓ Gross margin – Albuterol sales, lower freight costs aided pick up
- ✓ Effective tax rate at 30% in FY22.

**Exhibit 2: Financial summary**

| Y/e 31 Mar (Rs m) | FY19 | FY20 | FY21E | FY22E | FY23E |
|---|---|---|---|---|---|
| Revenues | 146,646 | 153,748 | 152,115 | 171,882 | 191,881 |
| yoy growth (%) | -7.2 | 4.8 | -1.1 | 13.0 | 11.6 |
| OPM (%) | 17.5 | 15.3 | 16.9 | 19.4 | 20.3 |
| yoy growth (%) | 103.8 | - | - | 41.4 | 20.7 |
| EPS (Rs) | 11.3 | -8.8 | 25.2 | 35.7 | 43.1 |
| P/E (x) | 89.1 | - | 39.9 | 28.2 | 23.4 |
| P/BV (x) | 3.3 | 3.6 | 3.4 | 3.1 | 2.8 |
| EV/EBITDA (x) | 19.6 | 18.6 | 18.3 | 13.8 | 11.4 |
| Debt/Equity (x) | 0.6 | 0.2 | 0.2 | 0.2 | 0.2 |
| ROE (%) | 6.3 | 2.7 | 8.8 | 11.5 | 12.5 |
| ROCE (%) | 9.5 | 12.0 | 11.4 | 14.6 | 16.0 |

Source: Company, YES Sec - Research

**Q3 FY21 Result Review** | Sector: Pharmaceuticals

YES SECURITIES
INSTITUTIONAL EQUITIES

# Syngene International

| SELL | CMP Rs584 | Target Rs400 | Downside 32% |
|---|---|---|---|

| | |
|---|---|
| **Our View** | ✓ Revenue acceleration from Mangalore API manufacturing may be back ended beyond FY23, especially as company guides to a 3-5 year start up period<br>✓ Expect margins to inch up in FY23 as 200bps Mangalore cost inbuilt in current opex while revenues to start in FY23<br>✓ Build in 18%/22% growth in FY22/23 with contribution starting from Mangalore plant<br>✓ Remain 7% below consensus on FY22 and 4% below for FY23 estimates as we build in slower Mangalore ramp up<br>✓ Roll over 26x target PE to FY23 EPS for a revised TP Rs400. Await better entry point and retain SELL |
| **Highlights** | ✓ Clocked revenue growth of 12.5% vs our estimate of 16.5% - growth driven by sustained performance across all key segments – currency benefit has been ~3.5% yoy<br>✓ Deerfield collaboration to add 4 drug discovery projects – impact likely from an evolution perspective rather than near term dollars<br>✓ Research facility opened in Feb 20 would have added to growth yoy; co expanded facility with addition of 90 scientists after initial capacity of 150 scientists in Q3 |
| **Risk to our call** | ✓ Faster than expected growth from Mangalore facility would boost margins beyond 32% in FY23 which would drive further rerating |

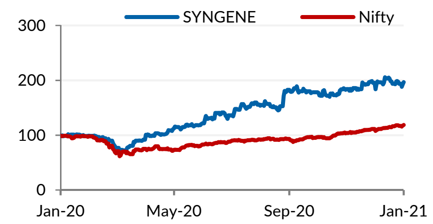
### Exhibit 1: Result table

| (Rs mn) | Q3 FY21 | Q2 FY21 | % qoq | Q3FY20 | % yoy |
|---|---|---|---|---|---|
| Revenues | 5,845 | 5,196 | 12.5 | 5,191 | 12.6 |
| RM + inventory changes | (1,477) | (1,276) | 15.8 | (1,446) | 2.1 |
| Staff | (1,760) | (1,612) | 9.2 | (1,523) | 15.6 |
| Other expenses | (846) | (751) | 12.6 | (687) | 23.1 |
| Operating profit | 1,762 | 1,557 | 13.2 | 1,535 | 14.8 |
| OPM (%) | 30.1 | 30.0 | 18 bps | 29.6 | 58 bps |
| Depreciation | (697) | (687) | 1.5 | (570) | 22.3 |
| Interest | (71) | (66) | 7.6 | (98) | (27.6) |
| Other income | 171 | 138 | 23.9 | 200 | (14.5) |
| PBT | 1,165 | 942 | 23.7 | 1,067 | 9.2 |
| Tax | (143) | (101) | 41.6 | (149) | (4.0) |
| Effective tax rate (%) | 12.3 | 10.7 | 155 bps | 14.0 | -169 bps |
| PAT | 1,022 | 841 | 21.5 | 918 | 11.3 |

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,173 |
| 52 Week h/l (Rs) | 645 / 213 |
| Market cap (Rs/USD mn) | 233760 / 3208 |
| Outstanding Shares (mn) | 400 |
| 6m Avg t/o (Rs mn): | 423 |
| Div yield (%): | - |
| Bloomberg code: | SYNG IN |
| NSE code: | SYNGENE |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | -2.6% | 8.0% | 89.7% |

**Shareholding pattern** (As of Dec'20 end)

| | |
|---|---|
| Promoter | 70.6% |
| FII+DII | 21.3% |
| Others | 8.1% |

**Δ in stance**

| (1-Yr) | New | Old |
|---|---|---|
| Rating | SELL | SELL |
| Target Price | 400 | 330 |

**Δ in earnings estimates**

| | FY21e | FY22e | FY23e |
|---|---|---|---|
| EPS (New) | 9.1 | 11.4 | 15.5 |
| EPS (Old) | 9.1 | 12.6 | 15.7 |
| % change | - | -9.4 | -1.5 |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# Q3 HIGHLIGHTS

- ✓ Mangalore capex is diluting opex by 200bps
- ✓ Mangalore would see gradual ramp and see strong return ratios only over a 3-5 year period
- ✓ US$100mn went to creating Mangalore facility (will see traction in revenue in the coming years). Currently under validation
- ✓ Pandemic still having an impact on key sites at client locations though there is light at the end of tunnel with vaccination underway
- ✓ Slight delay in capex will not affect business as have dormant capacity
- ✓ Deerfield partnership is not an inflection point but an evolution in the drug discovery field
- ✓ Sites in India lesser affected than client sites in US and Europe
- ✓ Delivering when local lockdown affected client ability to reach their laboratory or office, has been a positive experience during the pandemic
- ✓ Any business linked to clinical trials would be slow to start 2021 as hospitals at full capacity treating COVID though strongly catch up in latter half of year; Syngene is largely not related to such business
- ✓ Biologics business- Clinical molecules, manufacturing will support the clinical trials. Relatively the company is at a smaller scale in this segment.
- ✓ Gross margin - change in business mix and shift to renewable energy.
- ✓ Staff cost- the increase in head count due to expanded facility
- ✓ Interest income- have seen softening of interest rates due to which it is down.

**Exhibit 2: Financial summary**

| Y/e 31 Mar (Rs mn) | FY19 | FY20 | FY21E | FY22E | FY23E |
|---|---|---|---|---|---|
| Revenues | 18,260 | 20,120 | 22,937 | 27,524 | 33,579 |
| yoy growth (%) | 28.3 | 10.2 | 14.0 | 20.0 | 22.0 |
| OPM (%) | 29.5 | 30.0 | 28.5 | 30.1 | 31.0 |
| yoy growth (%) | 8.3 | 10.3 | 9.1 | 11.4 | 15.5 |
| EPS (Rs) | 8.5 | 24.1 | (11.6) | 25.4 | 35.4 |
| P/E (x) | 73.4 | 59.1 | 66.9 | 53.3 | 39.4 |
| P/BV (x) | 12.4 | 11.2 | 9.6 | 8.1 | 6.7 |
| EV/EBITDA (x) | 44.2 | 39.4 | 36.6 | 28.3 | 21.8 |
| Debt/Equity (x) | 0.3 | 0.2 | 0.2 | 0.1 | 0.1 |
| ROE (%) | 18.1 | 17.0 | 15.4 | 16.5 | 18.7 |
| ROCE (%) | 18.1 | 18.0 | 16.0 | 17.8 | 20.3 |

Source: Company, YES Sec - Research

**Q3 FY21 Result Review** | Sector: Pharmaceuticals

# Torrent Pharma

| BUY | CMP Rs2,609 | Target Rs3,400 | Upside 30.3% |
|---|---|---|---|

**Our View**

- ✓ Healthy revenue visibility in 3 out of 4 key markets driven by revival in India, continued strength in Brazil and reboot in Germany
- ✓ Benefit of optimization of low selling brands and field force in domestic market to be seen in Q4
- ✓ 29% margin guidance in FY22 is a dampener and leads to cut in our margin assumption by a similar quantum
- ✓ Believe margin hiccup is temporary due to costs revival which would reverse from FY23. Cut FY22/23 estimate by 12%/7% and accordingly lower TP to Rs3,400. BUY stays on a solid domestic franchise, growth in export markets ex-US and leaner balance sheet (net debt/EBIDTA back to pre-Unichem level in FY23)

**Highlights**

- ✓ In line quarter with sales up about 2% yoy as US revenues declined 24% yoy as no new approvals, sartan discontinuation in base quarter and price erosion
- ✓ India sales up 7% yoy on momentum in chronic and recovery in sub chronic brands
- ✓ Brazil cc sales up 16% yoy but INR sales down 8%. Germany cc sales up 10%
- ✓ Margin declined qoq as expected to 30% though yoy still up as other expenses still down. PAT up 18% yoy aided by lower tax rate.

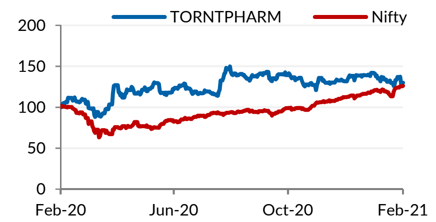
### Exhibit 1: Result table

| (Rs mn) | Q3 FY21 | Q2 FY21 | % qoq | Q3FY20 | % yoy |
|---|---|---|---|---|---|
| Revenues | 19,950 | 20,170 | (1.1) | 19,660 | 1.5 |
| RM + inventory changes | (3,360) | (2,810) | 19.6 | (3,180) | 5.7 |
| Purchase of goods | (2,260) | (2,730) | (17.2) | (2,240) | 0.9 |
| Staff | (3,630) | (3,630) | - | (3,540) | 2.5 |
| Other expenses | (4,630) | (4,650) | (0.4) | (5,300) | (12.6) |
| Operating profit | 6,070 | 6,350 | (4.4) | 5,400 | 12.4 |
| OPM (%) | 30.4 | 31.5 | -106 bps | 27.5 | 296 bps |
| Depreciation | (1,670) | (1,650) | 1.2 | (1,630) | 2.5 |
| Interest | (910) | (920) | (1.1) | (1,110) | (18.0) |
| Other income | 80 | 60 | 33.3 | 530 | (84.9) |
| PBT | 3,570 | 3,840 | (7.0) | 3,190 | 11.9 |
| Tax | (600) | (740) | (18.9) | (680) | (11.8) |
| Effective tax rate (%) | 16.8 | 19.3 | -246 bps | 21.3 | -451 bps |
| PAT | 2,970 | 3,100 | (4.2) | 2,510 | 18.3 |
| PAT margin (%) | 14.9 | 15.4 | -48 bps | 12.8 | 212 bps |
| PAT | 2,970 | 3,100 | (4.2) | 2,510 | 18.3 |

**Stock data** (as on Feb 12, 2021)

| | |
|---|---|
| Nifty | 15,173 |
| 52 Week h/l (Rs) | 3031 / 1583 |
| Market cap (Rs/USD mn) | 441458 / 6059 |
| Outstanding Shares (mn) | 169 |
| 6m Avg t/o (Rs mn): | 1574 |
| Div yield (%): | 1.4 |
| Bloomberg code: | TRP IN |
| NSE code: | TORNTPHARM |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | -8.5% | 2.1% | 31.8% |

**Shareholding pattern** (As of Dec'20 end)

| | |
|---|---|
| Promoter | 71.3% |
| FII+DII | 20.6% |
| Others | 8.1% |

**Δ in stance**

| (1-Yr) | New | Old |
|---|---|---|
| Rating | BUY | BUY |
| Target Price | 3,400 | 3,600 |

**Δ in earnings estimates**

| | FY21e | FY22e | FY23e |
|---|---|---|---|
| EPS (New) | 67.0 | 78.5 | 96.6 |
| EPS (Old) | 66.2 | 89.3 | 104.3 |
| % change | 1.2 | -12.1 | -7.4 |

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# Torrent Pharma

## Q3 CONFERENCE CALL HIGHLIGHTS

- ✓ **Margin**- FY22 margin can be looked at 29%; negative operating leverage of 100bps likely next fiscal
- ✓ **India** - New launch contribution at 3% in domestic market and to be maintained. 4-5 new launches in Q4
- ✓ Price increase of 5-6% not an issue in the near term
- ✓ Vol decline still a concern for IPM and Torrent
- ✓ Sales restructuring with MR strength now at 3,600 from 4k earlier; to be reflected in Q4 MR productivity. focus on better selling brands
- ✓ **Other expenses** - lower freight costs in Q3 offset promotional spend increase
- ✓ **Brazil** - volume increase in large brands and new launches. To launch 3-5 products every year in branded generics and looking at sales force expansion in few years. Generics (9% of sales) growth to be faster as market itself growing 15%
- ✓ **Germany** - quality issue now resolved and market share of 7% now almost same as peak seen in Sep 19
- ✓ **US -** await FDA guidance after Indrad and Dahej closure report submitted.
- ✓ Sales of liquid products from next year with gradual ramp up. Second year sales at US$10-15mn run rate as achieved prior to shut down of Levittown facility
- ✓ **US sales** - maintaining sales will be the focus as erosion takes toll.
- ✓ Losartan not growing as fast as Telmisartan. Would be relaunching 3-4 sartans which have inhouse API approved. At peak sartans contributed US$30mn and difficult to reach that figure given 20 players in market
- ✓ YTD debt reduction at Rs8.5bn. reiterate Rs10bn in lower debt; net debt/ebidta should be down to level prior to Unichem acquisition. Debt repayment main use of cash generated
- ✓ **Export incentive** - major part of earlier scheme should be back after March
- ✓ Tax rate of 21-22% in FY21 and 23% in FY22.

### Exhibit 2: Financial summary

| Y/e 31 Mar (Rs m) | FY19 | FY20 | FY21E | FY22E | FY23E |
|---|---|---|---|---|---|
| Revenues | 76,730 | 79,390 | 80,078 | 90,270 | 99,876 |
| yoy growth (%) | 27.8 | 3.5 | 0.9 | 12.7 | 10.6 |
| Operating profit | 19,840 | 21,700 | 24,833 | 26,075 | 29,105 |
| OPM (%) | 25.9 | 27.3 | 31.0 | 28.9 | 29.1 |
| PAT | 4,360 | 10,250 | 11,341 | 13,288 | 16,353 |
| yoy growth (%) | (40.3) | 135.1 | 10.6 | 17.2 | 23.1 |
| EPS (Rs) | 25.8 | 60.6 | 67.0 | 78.5 | 96.6 |
| P/E (x) | 107.1 | 45.5 | 41.2 | 35.1 | 28.5 |
| P/BV (x) | 9.9 | 9.7 | 8.3 | 7.1 | 5.9 |
| EV/EBITDA (x) | 25.1 | 22.9 | 19.8 | 18.4 | 16.0 |
| Debt/Equity (x) | 0.9 | 0.8 | 0.5 | 0.3 | 0.1 |
| ROE (%) | 17.0 | 21.5 | 21.7 | 21.7 | 22.5 |
| ROCE (%) | 15.9 | 19.1 | 21.9 | 23.1 | 25.5 |

Source: Company, YES Sec - Research

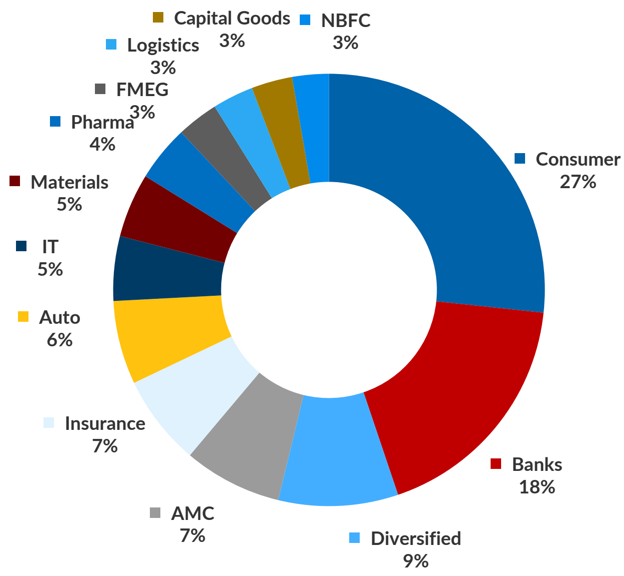
# YES MODEL PORTFOLIO

## Exhibit 10: YES Model Portfolio

| Stock Name | Sector | Weight (%) | CMP * | Market Cap (USD mn) | EPS CAGR FY20-23e | PE (x) – FY23e | ROE – FY22e |
|---|---|---|---|---|---|---|---|
| ICICIBANK | Banks | 9.1 | 648 | 61,493 | 34.5 | 18.0 | 13.2 |
| RELIANCE | Diversified | 9.0 | 2,042 | 184,546 | 21.1 | 18.3 | 9.7 |
| POLYCAB | Consumer | 6.8 | 1,329 | 2,723 | 11.3 | 18.9 | 18.3 |
| SBILIFE | Insurance | 6.8 | 897 | 12,328 | 13.0 | 43.8 | 16.0 |
| CAMS | Auto | 6.3 | 1,930 | 1,294 | 14.9 | 35.7 | 35.2 |
| RADICO | Consumer | 5.7 | 543 | 997 | 16.4 | 20.1 | 16.3 |
| JUBLFOOD | Consumer | 5.2 | 2,789 | 5,059 | 31.5 | 57.8 | 36.0 |
| KOTAKBANK | Banks | 5.1 | 1,951 | 53,124 | 10.6 | 32.0 | 12.7 |
| AJANTPHARM | Consumer | 4.9 | 1,805 | 2,165 | 20.3 | 19.3 | 20.7 |
| CONCOR | IT | 4.8 | 550 | 4,602 | 49.1 | 25.0 | 9.2 |
| ITC | Materials | 4.8 | 217 | 36,778 | 4.4 | 15.3 | 23.8 |
| NAM-INDIA | AMC | 4.8 | 325 | 2,740 | 19.8 | 27.9 | 21.9 |
| CREDITACC | Pharma | 4.2 | 722 | 1,542 | 34.1 | 12.9 | 16.4 |
| PAGE | Consumer | 4.1 | 30,692 | 4,705 | 20.7 | 56.7 | 49.1 |
| HDFCBANK | Banks | 4.0 | 1,582 | 119,789 | 18.0 | 19.3 | 17.2 |
| GREENLAM | FMEG | 3.1 | 909 | 302 | 13.7 | 17.2 | 17.3 |
| HDFC | Logistics | 3.1 | 2,792 | 69,071 | 1.0 | 21.8 | 14.1 |
| HONAUT | Capital Goods | 3.1 | 41,830 | 5,083 | 17.0 | 47.0 | 22.4 |
| TCS | NBFC | 2.7 | 3,191 | 164,568 | 11.0 | 27.1 | 42.1 |
| VSTIND | AMC | 2.6 | 3,610 | 766 | 7.7 | 14.7 | 33.8 |

Source: YES Sec – Research * CMP as on February 12, 2021

## Exhibit 11: YES Sector Allocation




Source: YES Sec – Research

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**ADD:** Potential return +5% to +15% over 12 months

**REDUCE:** Potential return -10% to +5% over 12 months

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