INSTITUTIONAL RESEARCH

HSIE Results Daily

Contents

Results Reviews

- **NTPC:** Generation/sales increased 10.5%/10.2% YoY to 74.8bn/69.3bn units in Q2FY22 due to demand recovery. Coal PAF, however, declined in Q2 to 85% vs 92% YoY, but coal PLF was up at 70% vs 64% YoY. Under-recovery came in at INR2.5bn while surcharge income declined to INR1.6bn vs INR6.6bn YoY. Consequently, after adjusting for one-offs, adj PAT declined 15% YoY to INR33.5bn, below our estimate. Overdue reduced to INR60.5bn vs INR90bn QoQ. NTPC plans to add 15GW of RES capacity by FY24 and another 45GW by FY32. We maintain our earnings estimates and expect its RoE to expand from 13.2% in FY21 to 13.7% in FY23 and generate an FCF of INR175bn over FY22-23E. Management plans to monetise its trading arm and renewable business, which will enhance the value proposition for stakeholders. We maintain BUY with a revised TP of INR 160/share (from INR143), assigning 1.5x BV to its equity investment in 8GW of upcoming solar capacities (~2GW to be operational and 6GW under construction), fetching an incremental value of INR12/share. The stock is trading at a discount to its peers with FY23 consolidated P/BV at 0.8x and PE at 7x.
- **DLF:** DLF surprised positively with presales at INR 15bn (+1.05x/+48% YoY/QoQ) on the back of record sales in Camellias (INR 10.4bn). While office collection remains robust at 100%, occupancy at DCCDL was flat at 86%. With FYTD presales of INR 25bn, DLF is well on course to surpass FY22 INR 40bn guidance, aided by 7.7msf launches in H2FY22 and traction in premium and luxury segments. Net debt continues to trend down (INR 40bn vs INR 47bn in Jun-21). Given the fact that (1) DLF is reviving office Capex plans, (2) it is taking price hikes in the premium segment, (3) there is stabilisation of office vacancy, and (4) the company has robust launch plans, we maintain BUY, with an increased TP of INR 460/sh (roll forward to Sep-23E) to factor in demand recovery (office and residential) and better property price realisation.
- **InterGlobe Aviation:** IndiGo reported a positive EBITDAR of INR 2.5bn in Q2 (vs loss of INR 14.2bn QoQ) as the industry traffic is improving post the second COVID wave. However, we believe that Indigo will witness formidable competition after a decade, post Tata's acquisition of Air India. With a combined domestic market share of 26% and an international share of ~18%, Tata will be able to make a broad-based offering as compared to the past – though it will take the group 12-24 months to consolidate operations. We set a revised TP of INR 1,925 at Indigo as we roll forward our TP timeframe to Sep-23E earnings. We value the stock at 7.5X EV/EBITDAR (vs. 7x earlier) to factor in the recovery in air traffic.
- **Tata Power:** Tata Power reported an 18% YoY rise in consolidated revenue to INR98.1bn in Q2FY22, led by improvement across the standalone business and strong execution in the solar EPC segment. EBITDA, however, declined 17% YoY due to a steep rise in Mundra under-recovery and higher raw material cost. Margin was impacted by ~718 bps YoY due to a rise in module prices and Mundra losses. However, lower interest expenses from deleveraging, higher share from JV companies, and lower tax expenses led to APAT rising 36% YoY to INR5.1bn. We revise our earnings estimates upwards for FY22/FY23 by 5%/8% to factor in the 1.5GW p.a. solar capacity

HSIE Research Team
hdfcsec-research@hdfcsec.com

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addition across its renewable portfolio, increased profit at Bumi mines, and earnings adjustment at Mundra (low PLF, going ahead). Accordingly, we revise our TP upwards to INR209 by assigining higher multiples to the solar business, reducing losses at Mundra, and robust growth in its solar rooftop and pump business. However, since the stock has risen a steep 70% over the past three months to INR218, it seems fairly valued currently. Hence, we downgrade it to REDUCE from a BUY.

- **GAIL (India):** Our BUY recommendation on GAIL with a price target of INR 210 is based on 9% CAGR expansion in gas transmission volume over FY22-24E to 136mmscmd on the back of (1) increase in domestic gas production, (2) increase in demand of RLNG, and (3) completion of major pipelines in eastern and southern India. Q2FY22 EBITDA/APAT were 34/47% above our estimates, owing to a 7% higher revenue, lower-than-expected raw material cost, higher-than-expected other income, and lower-than-expected tax outgo.

- **JSW Energy:** Net generation increased 2.4% YoY to 6.8bn units, led by strong generation across the Vijayanagar and Ratnagiri plants; it was partially offset by lower output across Barmer stations and hydro plant. Accordingly, PLF declined for the Barmer stations and hydro plant, while it improved for Vijayanagar and Ratnagiri stations. EBITDA was flat but PAT decreased 5.5% YoY to INR3.4bn due to increased other expenses and tax expenses. JSW Energy expects to add 15.5GW of RES capacity by FY30, of which 2.5GW would be added by FY24. It has signed a PPA for 2.25GW of these capacities until date. It plans to venture into the green hydrogen business and is carrying out scoping for a pilot project. It has also signed MoUs with Maharashtra for resources for 5GW wind and 1.5GW hydro pumped storage projects, which are in nascent stages. JSW Energy's current net D/E stands at 0.4x, while net debt/EBITDA stands at 2.0x. We maintain SELL along with our TP of INR118/share, as the stock price has risen steeply to INR346, which is unjustifiable to our valuation metrics (RoE - ~7%, FY23 P/E – 57x, P/BV – 3.8x).

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

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

- **Deepak Nitrite:** We maintain SELL on Deepak Nitrite with a price target of INR 1,800 (WACC 11%, terminal growth 4.5%). The stock is currently trading at 19.3x FY24E EPS. We believe that (1) further growth in DPL is capped as the Phenol plant is already running at over 110% utilisation since Q2FY21 and (2) IPA prices would fall as demand normalcy returns. Besides, DNL is entering into challenging chemistries vis-à-vis chemistries it is currently operating in. The fluorination and photochlorination chemistries will pave the way to tap agrochemical and pharmaceutical customers for the company. However, the company needs to demonstrate its competencies well over the period in these chemistries to seize business opportunities. EBITDA/APAT were 13/13% below estimates, owing to substantially higher-than-expected raw material costs, offset by lower-than-expected tax outgo.

- **Emami:** Emami posted steady revenue growth and beat in EBITDA margin. Revenue/EBITDA were up 7/8% YoY (HSIE 9/-1%). The two-year CAGR was at 9%. Domestic revenue/volume growth was at 9/6% YoY, clocking a two-year CAGR of 11/8% vs. Nestle's 10/9%, Marico's 15/9%, Colgate's 5/2% and HUL's 7/2%. Growth was broad-based, except for Navratna, which declined 9% YoY, but was up 2% on two-year CAGR. The immunity portfolio in healthcare, too, saw pressure as fears of COVID receded. Rural demand has slowed down in the past four weeks. Emami continues to expand its footprint in ecommerce, which now accounts for 4% of the domestic revenue. We expect margin to remain under pressure in H2FY22 due to the increase in commodity costs and a strong H2FY21 base. We maintain our EPS estimates for FY23/24. We value Emami at 25x P/E on Sep-23E EPS to derive a TP of INR 500. Maintain REDUCE.

- **APL Apollo:** APL Apollo Tubes' (APL) Q2 revenue increased 40% QoQ to INR30.8bn, aided by higher realisation despite a 11% YoY volume decline. Value-added products contributed to 62% of overall volume in Q2 vs 57% YoY, aided by strong volume growth across heavy structures and Apollo Z segment. As a result, EBITDA/ton increased to INR5,199 vs INR3,514 YoY (+48% YoY), led by better product mix, and higher realisation. EBITDA increased 31% YoY to INR2.2bn; however, margin contracted marginally by 50 bps YoY to 7.2% due to high input costs. Adj PAT surged by 43% YoY to INR1,313mn. With normalcy resuming in business, APL would continue on its growth trajectory. We maintain estimates and expect APL to post revenue/PAT CAGRs of 20%/34% over FY21-24E, led by an increased mix of value-added products (75% in FY25 vs 57% in FY21), capacity expansion, improved margin, and enhanced government infrastructure spending. We retain our TP of INR1,113 (35xFY24 EPS) and BUY rating on APL.

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

- **V-Guard Industries:** V-Guard delivered a beat on revenue with in-line EBITDA. Revenue grew by 46% YoY (21% two-year CAGR, HSIE 24%) with 26% volume growth. Electronics, electrical, and consumer durables segments were up 22/47/71% YoY. Robust growth was across markets, with south and non-south markets registering 45% and 49% YoY growth. South: non-south mix was at 61:39. Gross margin contracted by 64bps YoY to 30.9% due to the input cost pressure. The company had taken pricing actions to offset the cost pressure with further price hikes planned during H2FY22. EBITDA grew 27% YoY (HSIE 28%). EBITDA margin contracted 163bps YoY to 10.4% (HSIE 12.4%). Consumer durable EBIT margin remained weak (3% in Q2, <1% in H1FY22); the best margin was 6% in FY20. With normal channel inventory and positive demand momentum, we expect healthy revenue growth in H2FY22. We maintain our FY22/23/24 EPS estimates and value V-Guard at 35x PE on FY24 EPS to derive a target price of INR 285. Maintain ADD.
- **Sudarshan Chemical:** We maintain a BUY recommendation on Sudarshan Chemical (SCIL) with a target price of INR 765/share. We expect SCIL's PAT to grow at a 50% CAGR over FY22-24E, led by a 36% CAGR in EBITDA. Two major global players shifting away from the pigment business could act as a tailwind for Indian pigment manufacturers. We believe SCIL is in a sweet spot to seize this opportunity by offering products similar to those of global players. Q2 EBITDA/APAT were 34/43% below our estimates, owing to an 8% lower revenue, higher-than-expected employee cost and other expenses, lower-than-expected other income, offset by a lower-than-expected tax outgo.

NTPC

Lower PAF, surcharge income impact PAT

Generation/sales increased 10.5%/10.2% YoY to 74.8bn/69.3bn units in Q2FY22 due to demand recovery. Coal PAF, however, declined in Q2 to 85% vs 92% YoY, but coal PLF was up at 70% vs 64% YoY. Under-recovery came in at INR2.5bn while surcharge income declined to INR1.6bn vs INR6.6bn YoY. Consequently, after adjusting for one-offs, adj PAT declined 15% YoY to INR33.5bn, below our estimate. Overdue reduced to INR60.5bn vs INR90bn QoQ. NTPC plans to add 15GW of RES capacity by FY24 and another 45GW by FY32. We maintain our earnings estimates and expect its RoE to expand from 13.2% in FY21 to 13.7% in FY23 and generate an FCF of INR175bn over FY22-23E. Management plans to monetise its trading arm and renewable business, which will enhance the value proposition for stakeholders. We maintain BUY with a revised TP of INR 160/share (from INR143), assigning 1.5x BV to its equity investment in 8GW of upcoming solar capacities (~2GW to be operational and 6GW under construction), fetching an incremental value of INR12/share. The stock is trading at a discount to its peers with FY23 consolidated P/BV at 0.8x and PE at 7x.

- **Earnings below estimate:** Though energy sales increased 10.2% YoY to 69.3bn units in Q2FY22 due to strong power demand, coal/gas PAF declined 647/867bps YoY to 84.5%/81.6%. Coal PLF, however, rose to 69.6% vs 64.3% YoY. Accordingly, Q1FY22 under-recovery came in at INR2.4bn. Surcharge income in Q2 declined to INR1.6bn vs INR6.6bn due to a fall in surcharge rate and overdue levels. After adjusting for one-offs, PAT came in at INR33.5bn (-14.9% YoY), below our estimate.
- **Capacity addition**: For FY22E/FY23E, we expect NTPC to commercialise 5.5GW/6.7GW respectively. These projects will increase the standalone regulated equity by 21% to INR781bn in FY23E vs. INR648bn in FY21. On the renewable front, management targets to add 15GW of capacity by FY24 and 45GW by FY32. NTPC has 1.4GW of installed RES capacity at present, while another 6GWof RES capacity is under construction and at tendering stage.
- **Maintain BUY**: NTPC plans to add 60GW of RES capacity by FY32, and has 8GW under construction. Along with strong Capex on the thermal front, this should drive its earnings growth at 9% CAGR over FY21-23E and improve its RoE. The management plans to sell the surplus available from surrender of old PPAs by discoms in the open market. It also plans to monetise the trading arm and renewable business, going ahead. We maintain BUY with a revised TP of INR 160/share (vs INR143), assigning 1.5x BV to its equity investment in 8GW of upcoming solar capacities, which fetched an incremental value of INR12/share. The stock is trading at a discount to its peers with FY23 consolidated P/BV at 0.8x and PE at 6.7x.

Financial summary

(INR mn, Mar YE)	2Q FY22	2Q FY21	*YoY (%)*	1Q FY22	*QoQ (%)*	FY21	FY22E	FY23E
Net Revenues	2,84,908	2,46,357	*15.6*	2,59,914	*9.6*	9,91,536	10,86,028	11,92,182
EBITDA	73,956	71,495	*3.4*	74,598	*-0.9*	3,01,820	3,41,327	3,84,796
APAT	33,532	39,394	*-14.9*	31,629	*6.0*	1,44,375	1,52,645	1,68,943
Diluted EPS (INR)	4.1	4.8	*-14.9*	3.8	*6.0*	14.7	15.7	17.4
Consol P/E (x)						8.5	8.0	6.7
Consol Price/BV (x)						1.0	0.9	0.8
RoE (%)						13.2	13.4	13.7

Source: Company, HSIE Research

BUY

CMP ***(as on 29 Oct 2021)***	**INR 133**
Target Price	**INR 160**
NIFTY	**17,672**

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR143	INR160
	FY22E	FY23E
EPS Change %	-	-

KEY STOCK DATA	
Bloomberg code	NTPC IN
No. of Shares (mn)	9,697
MCap (INR bn) / ($ mn)	1,286/17,285
6m avg traded value (INR mn)	2,135
52 Week high / low	INR 155/83

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	13.6	28.7	53.4
Relative (%)	1.0	9.6	4.2

SHAREHOLDING PATTERN (%)	Sep-21	Jun-21
Promoters	51.1	51.1
FIs & Local MFs	32.0	32.2
FPIs	13.5	13.1
Public & Others	3.4	3.6
Pledged Shares	-	-

Source : BSE

Anuj Upadhyay
anuj.upadhyay@hdfcsec.com
+91-22-6171-7356

DLF

Strong comeback

DLF surprised positively with presales at INR 15bn (+1.05x/+48% YoY/QoQ) on the back of record sales in Camellias (INR 10.4bn). While office collection remains robust at 100%, occupancy at DCCDL was flat at 86%. With FYTD presales of INR 25bn, DLF is well on course to surpass FY22 INR 40bn guidance, aided by 7.7msf launches in H2FY22 and traction in premium and luxury segments. Net debt continues to trend down (INR 40bn vs INR 47bn in Jun-21). Given the fact that (1) DLF is reviving office Capex plans, (2) it is taking price hikes in the premium segment, (3) there is stabilisation of office vacancy, and (4) the company has robust launch plans, we maintain BUY, with an increased TP of INR 460/sh (roll forward to Sep-23E) to factor in demand recovery (office and residential) and better property price realisation.

- **Financial highlights:** Revenue: INR 14.8bn (24% beat). EBITDA: INR 4.6bn (24% beat). EBITDA margin: 30.9% (est. in-line). Share of profits in associates and JVs: INR 1.52bn (+33.6%/+12.7% YoY/QoQ). APAT: INR 3.78bn (14% beat). DCCDL revenue/profit grew 8/36% YoY to INR 11.2/2.3bn.
- **Record sales in super luxury segment; traction in independent floors**: Presales for Q2FY22, at INR 15bn (+1.05x/+48% YoY/QoQ), was robust, on the back of record new sales in the super luxury segment (Camellias) at INR 10.4bn (vs INR 3bn in Q1FY22). DLF has been taking price hikes in Camellias (up 20% in past 12 months, of which 13-14% in Sep-21), which has brought fence sitters to deal closure. With INR 25bn of presales FYTD, DLF is well-placed to better INR 40bn guidance for full year. Seeing the traction in independent floors, new launches in the segment are planned in Gurugram and Panchkula at INR 12bn. The DCCDL office portfolio collection was at 100%, with occupancy flat at 86%. Office Capex program is robust with INR 15bn balance to be deployed in 15-18 months. In rental space, DLF has stopped offering discounts except for F&B and cinemas (running on 50% attendance restriction). The footfall across malls is now 80-85% of pre-COVID level. Exit rental for Mar-22/23 is guided at INR 42/47bn.
- **Balance sheet comfortable:** DLF generated cash surplus of INR 7.6bn, the highest in past five years, which aided net debt reduction to INR 39.8bn (vs. INR 47.4bn at Jun-21 end), with net D/E at 0.11x. Construction outflow for H2FY22 is likely to be higher than that in Q2 (at INR 1.2bn). The company also brought down interest costs sequentially from 8.2% to 7.96% in Q2.

Consolidated financial summary (INR mn)

YE March	Q2FY22	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	FY21	FY22E	FY23E	FY24E
Net Sales	14,809	16,098	*(8.0)*	11,395	*30.0*	54,141	60,080	66,402	67,383
EBITDA	4,583	4,631	*(1.0)*	3,954	*15.9*	14,178	17,138	19,769	20,115
APAT	3,781	2,278	*66.0*	3,372	*12.1*	12,201	17,251	22,546	26,200
EPS (INR)	1.5	0.9	*66.0*	1.4	*12.1*	4.4	7.0	9.1	10.6
P/E (x)						90.1	57.1	43.7	37.6
EV/EBITDA (x)						73.2	59.9	51.1	49.3
RoE (%)						3.2	4.8	6.0	6.7

Consolidated Estimate Change Summary

Particulars (INR mn)	FY22E			FY23E			FY24E		
	New	Old	*% Change*	New	Old	*% Change*	New	Old	*% Change*
Revenues	60,080	61,456	*(2.2)*	66,402	68,831	*(3.5)*	67,383	75,714	*(11.0)*
EBITDA	17,138	20,306	*(15.6)*	19,769	23,394	*(15.5)*	20,115	26,112	*(23.0)*
Margin (%)	28.5	33.0	*(451.7)*	29.8	34.0	*(421.6)*	29.9	34.5	*(463.5)*
APAT	17,251	18,098	*(4.7)*	22,546	21,190	*6.4*	26,200	24,175	*8.4*

Source: Company, HSIE Research

BUY

CMP *(as on 29 Oct 2021)*	**INR 399**
Target Price	**INR 460**
NIFTY	**17,672**

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 390	INR 460

EPS Change %	FY22E	FY23E	FY24E
	(4.7)	6.4	8.4

KEY STOCK DATA	
Bloomberg code	DLFU IN
No. of Shares (mn)	2,475
MCap (INR bn) / ($ mn)	987/13,259
6m avg traded value (INR mn)	3,858
52 Week high / low	INR 450/151

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	17.2	59.9	160.4
Relative (%)	4.6	40.7	111.2

SHAREHOLDING PATTERN (%)	Jun-21	Sep-21
Promoters	74.95	74.95
FIs & Local MFs	2.56	3.01
FPIs	16.99	17.00
Public & Others	5.5	5.04
Pledged Shares	-	-

Source: BSE

Parikshit D Kandpal, CFA
parikshitd.kandpal@hdfcsec.com
+91-22-6171-7317

Manoj Rawat
manoj.rawat@hdfcsec.com
+91-22-6171-7358

InterGlobe Aviation

With reviving traffic, competition to intensify

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

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

Financial summary (standalone)

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

Source: Company, HSIE Research

Change in Estimates

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

Source: Company, HSIE Research

REDUCE

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

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

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

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

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

Source : BSE

Aditya Makharia
aditya.makharia@hdfcsec.com
+91-22-6171-7316

Tata Power

Margin impacted, but high JV share boosts PAT

Tata Power reported an 18% YoY rise in consolidated revenue to INR98.1bn in Q2FY22, led by improvement across the standalone business and strong execution in the solar EPC segment. EBITDA, however, declined 17% YoY due to a steep rise in Mundra under-recovery and higher raw material cost. Margin was impacted by ~718 bps YoY due to a rise in module prices and Mundra losses. However, lower interest expenses from deleveraging, higher share from JV companies, and lower tax expenses led to APAT rising 36% YoY to INR5.1bn. We revise our earnings estimates upwards for FY22/FY23 by 5%/8% to factor in the 1.5GW p.a. solar capacity addition across its renewable portfolio, increased profit at Bumi mines, and earnings adjustment at Mundra (low PLF, going ahead). Accordingly, we revise our TP upwards to INR209 by assigining higher multiples to the solar business, reducing losses at Mundra, and robust growth in its solar rooftop and pump business. However, since the stock has risen a steep 70% over the past three months to INR218, it seems fairly valued currently. Hence, we downgrade it to REDUCE from a BUY.

- **High share of JV profit boosts PAT:** Consolidated revenue grew by 18.3% YoY to INR981.bn, led by a strong performance in standalone business (+15% YoY), inclusion of Odisha business, and healthy growth in solar EPC (+49% YoY). EBITDA, however, declined 16.9% YoY to INR16.6bn due to a steep rise in Mundra under-recovery and higher module prices. Margin was also impacted by ~718 bps YoY, coming in at 17%. APAT, though, rose 36.3% YoY to INR5.1bn, driven by higher profit share from the Indo coal business, savings in ineterst expenses, and lower tax expenses.
- **ESG aspiration by Tata Power well appreciated**: Tata Power's transition into the green segment is gaining strong momentum, with nearly 40%/10% market share enjoyed by its EV charging/solar EPC segments. Its solar pump/solar rooftop business continued strong performances with 4x/3x growth during Q2FY22 with the highest-ever order book of ~INR11.8bn in the solar rooftop business. Factoring in these growth levels, we revise our earnings estimates upwards for FY22/FY23 by 5%/8%, which also factors in increased profit at Bumi mines and earnings adjustment at Mundra (low PLF, going ahead).
- **Downgrade to REDUCE on fair valuation**: We revise our TP upwards to INR209/share from INR156/share by assigining higher multiples to the solar businesses, reducing losses at Mundra, and robust growth in its solar rooftop and pump business. However, the stock has risen a steep 70% over the past three months to INR218 and seems fairly valued at the current level. Hence, we downgrade it to REDUCE from a BUY.

Financial summary

(INR mn, Mar YE)	2Q FY22	2Q FY21	*YoY (%)*	1Q FY22	*QoQ (%)*	FY21	FY22E	FY23E
Net Revenues	98,102	82,898	*18.3*	1,01,324	*-3.2*	3,24,681	3,91,360	4,17,495
EBITDA	16,636	20,012	*-16.9*	23,452	*-29.1*	69,285	84,420	91,810
APAT	5,057	3,710	*36.3*	4,657	*8.6*	13,551	22,810	26,944
Diluted EPS (INR)	1.32	0.88	*36.3*	1.22	*8.6*	5.0	7.1	8.4
P/E (x)						43.7	30.5	25.9
Price/BV (x)						3.1	2.9	2.7
RoE (%)						6.1	8.6	9.6

Source: Company, HSIE Research

REDUCE

CMP*(as on 28 Oct 2021)*	**INR 218**
Target Price	**INR 209**
NIFTY	**17,857**

KEY CHANGES	**OLD**	**NEW**
Rating	BUY	REDUCE
Price Target	INR156	INR209
EPS Change %	FY22E	FY23E
	5.0	*8.3*

KEY STOCK DATA	
Bloomberg code	TPWR IN
No. of Shares (mn)	3,195
MCap (INR bn) / ($ mn)	697/9,361
6m avg traded value (INR mn)	9,074
52 Week high / low	INR 270/52

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	81.1	122.6	310.5
Relative (%)	66.8	102.0	260.3

SHAREHOLDING PATTERN (%)	**Sep-21**	**Jun-21**
Promoters	46.86	46.86
FIs & Local MFs	19.77	16.57
FPIs	11.06	11.26
Public & Others	22.31	25.31
Pledged Shares	-	-

Source : BSE

Anuj Upadhyay
anuj.upadhyay@hdfcsec.com
+91-22-6171-7356

GAIL (India)

Petchem and NG marketing segments outshine!

Our BUY recommendation on GAIL with a price target of INR 210 is based on 9% CAGR expansion in gas transmission volume over FY22-24E to 136mmscmd on the back of (1) increase in domestic gas production, (2) increase in demand of RLNG, and (3) completion of major pipelines in eastern and southern India. Q2FY22 EBITDA/APAT were 34/47% above our estimates, owing to a 7% higher revenue, lower-than-expected raw material cost, higher-than-expected other income, and lower-than-expected tax outgo.

- **NG marketing:** Q2 revenue came in at INR 179bn (+70% YoY, +25% QoQ). Marketing volume came in at 98mmscmd (+10% YoY, +2% QoQ) and tariff at INR 1,250/tscm (+159% QoQ). The operating profit came in at INR 11bn (+166% QoQ).
- **Petchem:** Q2 revenue was reported at INR 23bn (+36% YoY, +68% QoQ), with sales volume at 221kT, (-1% YoY, +60% QoQ). The overall revenue was up YoY with improvement in realisation. Realisation remains healthy at INR 103/kg (+37% YoY, +5% QoQ). The operating profit of the segment was at INR 5bn on account of improved price realisation and operating leverage.
- **Con call takeaways**: (1) The company incurred a Capex of INR ~32bn for H1FY22. (2) The management has guided for further 6mmscmd increase in gas transmission volume by FY22-end. (3) The company expects to sustain its petchem margins despite high gas prices. (4) The Kochi-Mangalore pipeline transmits 2.5mmscmd currently, which is expected to go up to 5mmscmd.
- **Change in estimates:** We adjust our FY22E EPS estimate by +11.5% to INR 20.3, post incorporating the Q2FY22 results.
- **Our SOTP, at INR 210/sh, is based on (7.0x Mar-23E EV/e for the stable gas, LPG transmission, and gas marketing business, 5.0x EV/e for the cyclical petchem and LPG/LHC business, INR 52 for investments). The stock is currently trading at 7.4x FY23E EPS.**

Standalone financial summary

YE March (INR bn)	Q2 FY22	Q1 FY22	*QoQ (%)*	Q2 FY21	*YoY (%)*	FY20*	FY21*	FY22E*	FY23E*	FY24E*
Revenue	215	174	*23.7*	136	*57.7*	725	574	794	896	952
EBITDA	35	24	*44.1*	13	*159.7*	90	72	119	121	139
APAT	29	15	*87.1*	12	*130.9*	94	61	90	90	103
AEPS (INR)	6.4	3.4	*87.1*	2.8	*130.9*	21.2	13.8	20.3	20.2	23.1
P/E (x)						7.0	10.8	7.4	7.4	6.4
EV / EBITDA (x)						7.9	9.9	5.6	5.4	4.2
RoE (%)						19.8	12.0	15.6	13.5	13.5

Source: Company, HSIE Research | *Consolidated

Change in estimates

	FY22E			FY23E			FY24E		
	Old	New	Ch%	Old	New	Ch%	Old	New	Ch%
EBITDA (INR bn)	106	119	11.7	121	121	(0.2)	139	139	(0.2)
AEPS (INR/sh)	18.2	20.3	11.5	20.3	20.2	(0.2)	23.2	23.1	(0.2)

Source: Company, HSIE Research

BUY

CMP *(as on 29 Oct 2021)*	INR 149
Target Price	INR 210
NIFTY	17,672

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 205	INR 210
EPS %	FY22E	FY23E
	+11.5%	-

KEY STOCK DATA	
Bloomberg code	GAIL IN
No. of Shares (mn)	4,440
MCap (INR bn) / ($ mn)	661/8,888
6m avg traded value (INR mn)	2,428
52 Week high / low	INR 171/82

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	8.3	10.5	78.5
Relative (%)	(4.3)	(8.7)	29.3

SHAREHOLDING PATTERN (%)	Jun-21	Sept-21
Promoters	51.83	51.85
FIs & Local MFs	27.33	25.66
FPIs	16.96	18.36
Public & Others	3.88	4.13
Pledged Shares	0.0	0.0

Source : BSE

Harshad Katkar
harshad.katkar@hdfcsec.com
+91-22-6171-7319

Nilesh Ghuge
nilesh.ghuge@hdfcsec.com
+91-22-6171-7342

Rutvi Chokshi
rutvi.chokshi@hdfcsec.com
+91-22-6171-7356

JSW Energy

Results below estimates; maintain SELL

Net generation increased 2.4% YoY to 6.8bn units, led by strong generation across the Vijayanagar and Ratnagiri plants; it was partially offset by lower output across Barmer stations and hydro plant. Accordingly, PLF declined for the Barmer stations and hydro plant, while it improved for Vijayanagar and Ratnagiri stations. EBITDA was flat but PAT decreased 5.5% YoY to INR3.4bn due to increased other expenses and tax expenses. JSW Energy expects to add 15.5GW of RES capacity by FY30, of which 2.5GW would be added by FY24. It has signed a PPA for 2.25GW of these capacities until date. It plans to venture into the green hydrogen business and is carrying out scoping for a pilot project. It has also signed MoUs with Maharashtra for resources for 5GW wind and 1.5GW hydro pumped storage projects, which are in nascent stages. JSW Energy's current net D/E stands at 0.4x, while net debt/EBITDA stands at 2.0x. We maintain SELL along with our TP of INR118/share, as the stock price has risen steeply to INR346, which is unjustifiable to our valuation metrics (RoE - ~7%, FY23 P/E – 57x, P/BV – 3.8x).

- **Non-regulated stations report strong growth:** Net generation increased 2.4% YoY to 6.8bn units, led by strong generation across the Vijayanagar (16.3% YoY) and Ratnagiri plants (+5.6% YoY), partially offset by lower output across the Barmer stations (-1.3% YoY) and hydro plants (-0.6% YoY). Accordingly, PLF improved across Ratnagiri/Vijayanagar stations by 300bps/480bps YoY to 37%/62%, while it declined across the Barmer/hydro projects by 170bps/330 bps to 78%/99%. Revenue increased 7.7% YoY to INR20.9bn in Q2, led by improved generation and realisations. While EBITDA remained flat at INR93bn, PAT decreased 5.5% YoY to INR3.4bn due to increased other expenses and one-off costs related to prepayment charges and a write-off related to repayment of rupee denominated loans. After adjusting for this, PAT increased 17.6% YoY to INR4.1bn (above our estimate of INR3.7bn).
- **PPA signed for 2.25GW of RES capacity**: The company expects to add 15.5GW of RES capacity by FY30, of which 2.5GW/3GW would be added by FY24/FY25. It has signed a PPA for 2.25GW of these capacities. JSW Energy has one the strongest balance sheets in the industry, with the current net D/E at 0.4x, and generates a strong cash flow of~ INR17bn-21bn p.a., which is sufficient to meet its equity Capex for the upcoming RES capacities.
- **Maintain SELL on expensive valuation:** We maintain our PAT estimates for FY22/23 and TP of INR118. However, the stock price has risen substantially to INR346, which seems highly unjustifiable to our valuation metrics (RoE - ~7%, FY23 P/E – 57x, P/BV – 3.8x). Hence, we retain our SELL rating.

Financial Summary

(INR mn, Mar YE)	2Q FY22	2Q FY21	YoY (%)	1Q FY22	QoQ (%)	FY21	FY22E	FY23E
Net Revenues	20,875	19,386	*7.7*	17,275	*20.8*	69,222	83,333	85,897
EBITDA	9,298	9,238	*0.6*	6,984	*33.1*	29,066	30,715	31,412
APAT	3,366	3,563	*-5.5*	2,086	*61.4*	8,227	10,171	10,756
Diluted EPS (INR)	2.1	2.2	*-5.5*	1.3	*61.4*	5.0	6.2	6.5
P/E (x)						69.1	60.2	57.0
Price/BV (x)						3.9	4.0	3.8
RoE (%)						6.3	6.8	6.9

Source: Company, HSIE Research

SELL

CMP *(as on 29 Oct 2021)*	INR 349
Target Price	INR 118
NIFTY	17,672

KEY CHANGES	OLD	NEW
Rating	SELL	SELL
Price Target	INR118	INR118
	FY22E	FY23E
EPS Change %	-	-

KEY STOCK DATA	
Bloomberg code	JSW IN
No. of Shares (mn)	1,644
MCap (INR bn) / ($ mn)	573/7,703
6m avg traded value (INR mn)	859
52 Week high / low	INR 409/58

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	39.4	219.9	478.2
Relative (%)	26.8	200.7	429.0

SHAREHOLDING PATTERN (%)	Sep-21	Jun-21
Promoters	74.66	74.7
FIs & Local MFs	7.49	6.5
FPIs	5.92	5.9
Public & Others	11.93	13.0
Pledged Shares	74.66	17.0

Source : BSE

Anuj Upadhyay
anuj.upadhyay@hdfcsec.com
+91-22-6171-7356

Bandhan Bank

Accelerated provisioning appears too conservative

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

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

Financial summary

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

Change in estimates

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

Source: Company, HSIE Research

BUY

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

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

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

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	(0.4)	(12.2)	(0.6)
Relative (%)	(13.0)	(31.4)	(49.8)

SHAREHOLDING PATTERN (%)	Jun-21	Sep-21
Promoters	40.0	40.0
FIs & Local MFs	15.4	16.1
FPIs	35.4	33.6
Public & Others	9.1	10.3
Pledged Shares	0.0	0.0

Source : BSE

Pledged shares as % of total shares

Krishnan ASV
venkata.krishnan@hdfcsec.com
+91-22-6171-7314

Deepak Shinde
deepak.shinde@hdfcsec.com
+91-22-6171-7323

AU Small Finance Bank

No room for disappointments in investment mode

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

- **Higher opex partially offsets strong income growth:** AUBANK reported healthy NII growth of 34% YoY, driven by funding cost tailwinds (90bps YoY compression in H1FY22) and strong AUM growth (+24% YoY). Strong disbursals drove fee income surprise (+97% YoY) although PPOP was softer on account of higher opex.
- **Asset quality improves sequentially:** GNPA/NNPA declined sequentially from 4.3%/2.3% to 3.2%/1.7%, largely driven by upgrades & recoveries (nil write-offs), with ~70% resolution through cash recoveries. Restructured portfolio remained flat sequentially (3.7%) even as the contingency buffer was raised to 0.8% from 0.6% sequentially.
- **Near-term challenges at odds with a lofty valuation:** AUBANK's foray into credit cards and other new segments is likely to be a drag on its cost efficiency, even as the franchise invests in new growth avenues. The bank's historically low LGDs were driven by its secured asset portfolio (wheels in particular), which is unlikely to sustain in the case of unsecured businesses. We also highlight that AUBANK's ability to deliver profitability at scale is yet to be proven outside of the wheels business.

Financial summary

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

Change in estimates

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

Source: Company, HSIE Research

REDUCE

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

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

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

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

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

Source : BSE

Pledged shares as % of total shares

Krishnan ASV
venkata.krishnan@hdfcsec.com
+91-22-6171-7314

Deepak Shinde
deepak.shinde@hdfcsec.com
+91-22-6171-7323

Deepak Nitrite

Margin under pressure

We maintain SELL on Deepak Nitrite with a price target of INR 1,800 (WACC 11%, terminal growth 4.5%). The stock is currently trading at 19.3x FY24E EPS. We believe that (1) further growth in DPL is capped as the Phenol plant is already running at over 110% utilisation since Q2FY21 and (2) IPA prices would fall as demand normalcy returns. Besides, DNL is entering into challenging chemistries vis-à-vis chemistries it is currently operating in. The fluorination and photochlorination chemistries will pave the way to tap agrochemical and pharmaceutical customers for the company. However, the company needs to demonstrate its competencies well over the period in these chemistries to seize business opportunities. EBITDA/APAT were 13/13% below estimates, owing to substantially higher-than-expected raw material costs, offset by lower-than-expected tax outgo.

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

Financial summary (consolidated)

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

Source: Company, HSIE Research

Change in estimates (Consolidated)

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

Source: Company, HSIE Research

SELL

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

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

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

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

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

Source : BSE

Nilesh Ghuge
nilesh.ghuge@hdfcsec.com
+91-22-6171-7342

Harshad Katkar
harshad.katkar@hdfcsec.com
+91-22-6171-7319

Rutvi Chokshi
rutvi.chokshi@hdfcsec.com
+91-22-6171-7356

Emami

Steady revenue growth; beat in margin

Emami posted steady revenue growth and beat in EBITDA margin. Revenue/EBITDA were up 7/8% YoY (HSIE 9/-1%). The two-year CAGR was at 9%. Domestic revenue/volume growth was at 9/6% YoY, clocking a two-year CAGR of 11/8% vs. Nestle's 10/9%, Marico's 15/9%, Colgate's 5/2% and HUL's 7/2%. Growth was broad-based, except for Navratna, which declined 9% YoY, but was up 2% on two-year CAGR. The immunity portfolio in healthcare, too, saw pressure as fears of COVID receded. Rural demand has slowed down in the past four weeks. Emami continues to expand its footprint in ecommerce, which now accounts for 4% of the domestic revenue. We expect margin to remain under pressure in H2FY22 due to the increase in commodity costs and a strong H2FY21 base. We maintain our EPS estimates for FY23/24. We value Emami at 25x P/E on Sep-23E EPS to derive a TP of INR 500. Maintain REDUCE.

- **Slight miss on revenue:** Net revenue grew by 7% YoY (11% in Q2FY21, +37% in Q1FY21) vs. HSIE 9%. Demand trends were steady across most of the company's brands. Domestic/international/CSD revenue grew 9/-6/29% YoY. Boroplus/male grooming/Kesh King/7 Oils in One grew 29/15/15/50% YoY. Despite the large base, pain management/healthcare clocked 6/5% YoY and 18/26% two-year CAGR. Navratna declined 9% YoY; however, it was up 2% on two-year CAGR. The company saw strong MT (+31% YoY) and ecommerce (2.2x YoY) performance, with the latter accounting for 4% of the domestic revenue. The international business declined 6% YoY due to the impact from COVID and a high base of personal hygiene sales.
- **Beat in margins through pricing actions and efficiencies:** GM dipped by 150bps YoY (+55bps in Q2FY21, -47bps in Q1FY22) to 68.8% (HSIE 67%). Employee/advertising/other expenses grew by 5/-3/7% YoY. EBITDA margin expanded by 15bps YoY (+575bps in Q2FY21, +13bps in Q1FY22). EBITDA grew by 8% YoY (HSIE -1%). We expect margin to be under pressure in H2FY22 due to the increase in commodity costs and a strong H2FY21 base. Further, the company has guided for higher A&P spends in H2FY22 as it plans to shift its unused budget from H1 to H2. We model EBITDA margin close to 30% for FY22-24 (27/26% in FY19/20).
- **Con call takeaways:** (1) Emami saw an improvement in demand, including discretionary categories, as mobility levels increased. (2) Demand trends were steady for most of its brands, despite the high bases; however, the immunity portfolio slowed down as fears of COVID subsided. (3) Rural areas have witnessed broad-based slowdown over the past four weeks. (4) Emami expects 80-100bps YoY GM contraction for FY22. (5) Its A&P spends will be higher in H2FY22 as it plans to use the unspent ad budget from H1FY22.

Quarterly/annual financial summary

YE Mar (INR mn)	Q2FY22	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	FY21	FY22E	FY23E	FY24E
Net Sales	7,888	7,348	7.4	6,610	19.3	28,805	32,768	35,529	38,730
EBITDA	2,772	2,571	7.8	1,697	63.3	8,831	9,945	10,796	11,928
APAT	2,348	1,937	21.2	1,266	85.4	6,680	7,566	8,153	9,332
Diluted EPS (INR)	5.28	4.36	21.2	2.85	85.4	15.0	17.0	18.3	21.0
P/E (x)						35.3	31.2	28.9	25.3
EV / EBITDA (x)						26.3	23.0	20.9	18.6
RoCE (%)						34.6	49.7	60.6	65.8

Source: Company, HSIE Research

REDUCE

CMP *(as on 29 Oct 2021)*	INR 531
Target Price	INR 500
NIFTY	17,672

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 500	INR 500
EPS %	FY22E	FY23E
	+2%	0%

KEY STOCK DATA	
Bloomberg code	HMN IN
No. of Shares (mn)	445
MCap (INR bn) / ($ mn)	236/3,173
6m avg traded value (INR mn)	395
52 Week high / low	INR 622/344

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	(3.7)	6.9	46.4
Relative (%)	(16.4)	(12.3)	(2.8)

SHAREHOLDING PATTERN (%)	Jun-21	Sep-21
Promoters	53.86	53.86
FIs & Local MFs	24.48	24.17
FPIs	12.49	12.71
Public & Others	9.17	9.26
Pledged Shares	16.65	16.91

Source : BSE

Pledged shares as % of total shares

Naveen Trivedi
naveen.trivedi@hdfcsec.com
+91-22-6171-7324

Varun Lohchab
varun.lohchab@hdfcsec.com
+91-22-6171-7334

Saras Singh
saras.singh@hdfcsec.com
+91-22-6171-7336

APL Apollo

Strong delivery despite turbulent times

APL Apollo Tubes' (APL) Q2 revenue increased 40% QoQ to INR30.8bn, aided by higher realisation despite a 11% YoY volume decline. Value-added products contributed to 62% of overall volume in Q2 vs 57% YoY, aided by strong volume growth across heavy structures and Apollo Z segment. As a result, EBITDA/ton increased to INR5,199 vs INR3,514 YoY (+48% YoY), led by better product mix, and higher realisation. EBITDA increased 31% YoY to INR2.2bn; however, margin contracted marginally by 50 bps YoY to 7.2% due to high input costs. Adj PAT surged by 43% YoY to INR1,313mn. With normalcy resuming in business, APL would continue on its growth trajectory. We maintain estimates and expect APL to post revenue/PAT CAGRs of 20%/34% over FY21-24E, led by an increased mix of value-added products (75% in FY25 vs 57% in FY21), capacity expansion, improved margin, and enhanced government infrastructure spending. We retain our TP of INR1,113 (35xFY24 EPS) and BUY rating on APL.

- **Rise in raw material cost offset by strong realisation:** Overall volumes declined by 11.2% YoY to 427,387MT (+14.5% QoQ) as the management shifted its focus to higher margin products. Within value-added products, heavy structures/Apollo Z recorded strong volume growth of 23.9%/21.5% YoY to 26,464MT/111,562MT, with corresponding EBITDA/MT growing by 48.6%/23% to INR6,240/INR7,525. Fall in volume was offset by a strong 44% YoY rise in realisation to INR69,668 (price hike taken by the management to counter the increase in input cost), which led to a 40% YoY rise in revenue to INR30.8bn. EBITDA/ton increased 48% YoY to INR5,199, led by better product mix and higher realisation, which aided EBITDA growth of 31.4% YoY to INR2.2bn. PAT surged by 42.5% YoY to INR1.3bn, led by strong operating performance and 32.7% YoY fall in interest expenses.
- **Capacity expansion and outlook**: APL's capacity expansion plan of 1.4 mtpa (0.4 mtpa in FY22, 0.6 mtpa in FY23 and 0.4mtpa in FY24) in Raipur is on track. Management expects to achieve a utilisation level of 25%/50%/100% by Q4FY22/1QFY23/2QFY23. The Capex on this expansion would be INR8bn, of which INR4bn has already been deployed and the INR4bn will be deployed by H2FY22. Management has guided to achieve a volume of 1.8-2.0MT in FY22 and 2.5MT/3.2MT/4MT by FY23/FY24/FY25.
- **Reiterate BUY**: We maintain our estimates and expect APL's revenue/PAT to grow at CAGRs 20%/34% over FY21-24E, led by healthy volume growth, margin expansion, reduced working capital, and reduced debt. We maintain our TP of INR1,113/share, based on 35x FY24E EPS, which reflects APL's superior performance, operational efficiency, and a strong positive outlook.

Financial summary

(INR mn, Dec YE)	2Q FY22	2Q FY21	*YoY (%)*	2Q FY21	*QoQ (%)*	FY21	FY22E	FY23E	FY24E
Net Revenues	30,839	22,021	*40.0*	25,343	*21.7*	84,998	1,04,855	1,25,649	1,46,034
EBITDA	2,222	1,691	*31.4*	2,547	*-12.7*	6,787	8,669	10,738	12,928
APAT	1,313	921	*42.5*	1,474	*-10.9*	3,602	5,067	6,982	8,711
Diluted EPS (INR)	5.3	3.7	*42.5*	5.9	*-10.9*	28.8	18.3	25.2	31.4
P/E (x)						58.9	44.0	31.9	25.6
P/BV (x)						12.5	10.0	8.2	6.6
RoE (%)						23.6	25.8	28.3	28.7

Source: Company, HSIE Research

BUY

CMP *(as on 29 Oct 2021)*	**INR 800**
Target Price	**INR 1,113**
NIFTY	**17,672**

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR1113	INR1113
EPS Change %	FY22E	FY23E
	-	-

KEY STOCK DATA	
Bloomberg code	APAT IN
No. of Shares (mn)	250
MCap (INR bn) / ($ mn)	200/2,686
6m avg traded value (INR mn)	502
52 Week high / low	INR 1,050/306

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(10.7)	20.3	158.1
Relative (%)	(23.3)	1.1	108.9

SHAREHOLDING PATTERN (%)

	Sep-21	Jun-21
Promoters	36.8	36.9
FIs & Local MFs	8.4	9.4
FPIs	25.2	25.7
Public & Others	29.5	28.0
Pledged Shares	-	-

Source : BSE

Anuj Upadhyay
anuj.upadhyay@hdfcsec.com
+91-22-6171-7356

UTI Asset Management Company

Growth premium to sustain; staff cost savings delayed

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

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

Financial summary

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

Source: Company, HSIE Research

Change in estimates

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

Source: Company, HSIE Research

BUY

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

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

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

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

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

Source : BSE

Krishnan ASV
venkata.krishnan@hdfcsec.com
+91-22-6171-7314

Sahej Mittal
sahej.mittal@hdfcsec.com
+91-22-6171-7325

V-Guard Industries

Beat on revenue, in-line EBITDA

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

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

Quarterly/annual financial summary

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

Source: Company, HSIE Research

ADD

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

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

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

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

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

Source : BSE

Pledged shares as % of total shares

Naveen Trivedi
naveen.trivedi@hdfcsec.com
+91-22-6171-7324

Saras Singh
saras.singh@hdfcsec.com
+91-22-6171-7336

Sudarshan Chemical

Sluggish performance; margin takes a hit

We maintain a BUY recommendation on Sudarshan Chemical (SCIL) with a target price of INR 765/share. We expect SCIL's PAT to grow at a 50% CAGR over FY22-24E, led by a 36% CAGR in EBITDA. Two major global players shifting away from the pigment business could act as a tailwind for Indian pigment manufacturers. We believe SCIL is in a sweet spot to seize this opportunity by offering products similar to those of global players. Q2 EBITDA/APAT were 34/43% below our estimates, owing to an 8% lower revenue, higher-than-expected employee cost and other expenses, lower-than-expected other income, offset by a lower-than-expected tax outgo.

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

Financial summary (consolidated)

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

Source: Company, HSIE Research

Change in estimates (Consolidated)

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

Source: Company, HSIE Research

BUY

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

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

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

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

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

Source: BSE

Nilesh Ghuge
nilesh.ghuge@hdfcsec.com
+91-22-6171-7342

Harshad Katkar
harshad.katkar@hdfcsec.com
+91-22-6171-7319

Rutvi Chokshi
rutvi.chokshi@hdfcsec.com
+91-22-6171-7356

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

Disclosure:

Analyst	Company Covered	Qualification	Any holding in the stock
Anuj Upadhyay	NTPC, Tata Power, JSW Energy, APL Apollo	MBA	NO
Parikshit Kandpal	DLF	CFA	NO
Manoj Rawat	DLF	MBA	NO
Aditya Makharia	InterGlobe Aviation	CA	NO
Harshad Katkar	GAIL (India), Deepak Nitrite, Sudarshan Chemical	MBA	YES
Nilesh Ghuge	GAIL (India), Deepak Nitrite, Sudarshan Chemical	MMS	NO
Rutvi Chokshi	GAIL (India), Deepak Nitrite, Sudarshan Chemical	CA	NO
Krishnan ASV	Bandhan Bank, AU Small Finance Bank, UTI Asset Management Company	PGDM	NO
Deepak Shinde	Bandhan Bank, AU Small Finance Bank	PGDM	NO
Naveen Trivedi	Emami, V-Guard Industries	MBA	NO
Varun Lochab	Emami	PGDM	NO
Saras Singh	Emami, V-Guard Industries	PGDM	NO
Sahej Mittal	UTI Asset Management Company	ACA	NO

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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066 Compliance Officer: Binkle R. Oza Email: compliancеofficer@hdfcsec.com **Phone: (022) 3045 3600**
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HDFC securities
Institutional Equities
Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,
Senapati Bapat Marg, Lower Parel, Mumbai - 400 013
Board: +91-22-6171-7330 www.hdfcsec.com