INSTITUTIONAL RESEARCH

HSIE Results Daily

Contents

Results Reviews

- **Godrej Consumers:** GCPL revenue growth was in line, but gross margin pressure led to a miss on EBITDA margin/growth. Consolidated revenue grew 9% YoY (HSIE 9%), with domestic revenue growing by 10% (HSIE 10%) and international revenue growing by 7% (HSIE 9%). Domestic revenue posted 10% two-year revenue CAGR. Domestic volume growth was at 4%, two-year CAGR at 4% vs. Dabur's 13%, Marico's 9%, Emami's 8%, Britannia's 5%, Colgate's 2% and HUL's 2%. GM fell by 616bps YoY to 49.8% due to a lag between increase in input cost and price increases (domestic). GCPL managed to keep its EBITDA margin at 21.5% (HSIE 22.3%), limiting its fall to 201bps YoY. While near-term margin pressure is evident, we expect the company to overcome it as benefits of price hikes begin to flow in. With demand drivers in place across home care and personal care, we continue to see steady growth for GCPL. Given the margin pressure, we cut FY22 EPS by 2%, but maintain FY23/FY24 EPS. We value the stock at 42x on Sep-23 EPS to derive a TP of INR 1,033. Maintain ADD.

- **Astral:** We maintain our REDUCE rating on Astral with a revised TP of INR 2,110/sh (34x its Sep-23E consolidated EBITDA, implying 53x P/E), owing to its expensive valuation. Astral's Q2 consolidated revenue/EBITDA/APAT buoyed 55/47/63% YoY to INR 11.54/2.12/1.41bn respectively (EBITDA was in line with our estimates). The uptick is led by strong demand, market share gains in pipes, and sustained margin buoyancy across both pipes and adhesives. Astral expects pipes margin to expand further, benefitting from the recent price hikes and sustained plumbing demand momentum.

- **Oil India:** Our BUY recommendation on Oil India with a target price of INR 320 is premised on (1) increase in crude price realisation and (2) improvement in domestic gas price realisation (at USD 2.9/mmbtu). We expect oil price realisation to increase to ~USD 68/bbl in FY22E and USD 70/bbl in FY23E vs. USD 44/bbl in FY21, given the expected global economic rebound, post COVID. Q2FY22 revenue was 1% below our estimates while EBITDA was 32% below, owing to higher-than-expected operating expenses (on account of provisions and write-offs). RPAT came in 32% below our estimate, impacted by higher depreciation, which was offset by higher other income and lower interest cost.

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

- **Nuvoco Vistas:** We maintain our BUY rating on Nuvoco Vistas (Nuvoco) with an unchanged target price of INR 827/share (11x its consolidated Sep-23E EBITDA). We continue to like it for its leadership presence in the east, its various margin initiatives, and continued deleveraging of its balance sheet. Weak demand in the east and high opex hit its profitability in Q2. The

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impact, however, was moderated by rising contribution of synergy benefits and ongoing cost reductions. While consolidated revenue grew 13% YoY to INR 20.20bn, EBITDA fell 9% YoY to INR 3.31bn. Higher capital charges led to a net loss of INR 0.26bn (vs a net loss of INR 0.16bn YoY). Nuvoco reduced its net debt/EBITDA to 3.1x in Sep-21 (vs 4.7x in Mar-21) and aims to lower it further to 2.2x by Mar-22E.

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

- **CESC:** CESC's consolidated PAT in Q2FY22 decreased by 12% YoY due to increased losses in the distribution franchisee (DF) segment (a loss of INR410mn vs INR80mn YoY), given the one-off impact of INR200mn in the Malegaon segment. Haldia and Dhariwal continued to perform strongly, while standalone PAT growth remained flat despite the delayed WBERC tariff order. Standalone generation increased 2.5% YoY, while T&D losses were flat at 8.6%. CESC's bid for a 100% stake in the Chandigarh discom is likely to receive a letter of intent (LoI) by Q3FY22. We retain our BUY rating with a revised TP of INR109 (from INR101), as we now assign a higher multiple to the company's regulated business, factoring in the improved performance at the Noida and Dhariwal businesses. We have not yet factored in the Chandigarh discom, as we await clarity on the bid and letter of award (LoA).

- **Galaxy Surfactants:** Our BUY recommendation on GALSURF with a price target of INR 3,675 is premised on (1) stickiness of business, as 55% of the revenue mix comes from MNCs, (2) stable EBITDA margin at >12%, since fluctuations in raw material costs (RMC) are easily passed on to customers, and (3) strong return ratios (RoE/RoIC of 22/20% in FY24E). Q2 EBITDA/APAT were 40/50% lower than estimates due to substantially higher-than-expected raw material cost, higher-than-expected other expense, higher-than-expected depreciation, higher-than-expected tax outgo, offset by higher-than-expected other income.

- **ITD Cementation:** ITD Cementation (ITD) reported weak revenue/EBITDA/PAT at INR 8.1/0.5/0.15bn, with revenue in line but EBITDA/PAT below our estimates by 37%/27%. Operating margin was subdued at 6.2% on account of higher commodity costs, a margin booking threshold yet to be reached on projects worth INR 41bn (moved into execution in Q2FY22), and a provision of INR 250mn on the Bengaluru elevated metro project. The order backlog (OB) is robust at INR 115bn (4.2x FY21 revenue). 20% of contracts are without price escalation clauses. Given we expect a strong recovery, we have increased our revenue estimate. We retain BUY with TP of INR 126 (10x Sep-23E EPS).

Godrej Consumers

In-line revenue; slight miss on margin

GCPL revenue growth was in line, but gross margin pressure led to a miss on EBITDA margin/growth. Consolidated revenue grew 9% YoY (HSIE 9%), with domestic revenue growing by 10% (HSIE 10%) and international revenue growing by 7% (HSIE 9%). Domestic revenue posted 10% two-year revenue CAGR. Domestic volume growth was at 4%, two-year CAGR at 4% vs. Dabur's 13%, Marico's 9%, Emami's 8%, Britannia's 5%, Colgate's 2% and HUL's 2%. GM fell by 616bps YoY to 49.8% due to a lag between increase in input cost and price increases (domestic). GCPL managed to keep its EBITDA margin at 21.5% (HSIE 22.3%), limiting its fall to 201bps YoY. While near-term margin pressure is evident, we expect the company to overcome it as benefits of price hikes begin to flow in. With demand drivers in place across home care and personal care, we continue to see steady growth for GCPL. Given the margin pressure, we cut FY22 EPS by 2%, but maintain FY23/FY24 EPS. We value the stock at 42x on Sep-23 EPS to derive a TP of INR 1,033. Maintain ADD.

- **In-line revenue:** Consolidated revenue was up 9% YoY (11% in Q2FY21, 24% in Q1FY22), in line with our estimates, with domestic growing 10% YoY (11% in Q2FY21, 19% in Q1FY22; in-line HSIE) and international growing 7% YoY (11% in Q2FY21, 30% in Q1FY22; 9% HSIE). Domestic volume growth was 4% YoY. Indonesia/GUAM/LATAM & SAARC grew their revenue by 0/15/-3% YoY (5/10/41% in Q2FY21) with cc growth at -2/16/11% YoY. Home care/personal care posted 5/10% YoY revenue growth. Air fresheners in home care grew in double digits, whereas HI and home hygiene grew steadily. In personal care, sales of personal wash and hygiene products continued to climb in double digits. Soaps and hair colour gained market share.
- **Gross margin pressure continues in India business:** GM contracted by 616/234bps YoY/QoQ to 49.8% (-61bps in Q2FY21 YoY, -210bps in Q1FY22 YoY). Employee costs were down by 3% YoY (flat in Q1FY21), A&P was down 9% YoY (-2% in Q2FY21) and other expenses were down 5% (+9% in Q1FY21). EBITDA margin fell 201bps YoY (+156bps Q2FY21, +80bps Q1FY22) to 21.5%, against our estimate of 22.3%. EBITDA declined by 1% YoY vs. HSIE 4%. Operating EBITDA margin for Indonesia/GUAM/Latin America & SAARC came in at 26/12/16% vs. 25/11/19% in Q2FY21.
- **Con call takeaways**: (1) The company guides for double-digit growth in India business in the medium term; it expects margin to remain under pressure in Q3FY22 but recover in Q4FY22. (2) Palm oil prices impacted soap margin, but this is expected to improve sequentially. (3) GCPL has taken hikes across its soap and non-soap portfolios, the benefits of which will be visible from late December. (4) The huge difference between product price hikes and input cost increases in the soaps category should be covered through price hikes in the non-soaps portfolio. (4) Indonesia's poor performance is credited to economic slowdown and execution gaps. (5) HI segment had a mixed bag performance due to heavy rains in some of the geographies.

Quarterly/annual financial summary

YE Mar (INR mn)	Q2FY22	Q2FY21	YoY (%)	Q1FY21	QoQ (%)	FY21	FY22E	FY23E	FY24E
Net Sales	31,637	29,151	8.5	28,945	9.3	110,286	126,244	139,647	153,463
EBITDA	6,792	6,844	(0.8)	6,111	11.1	23,883	27,447	30,988	34,432
APAT	4,800	4,836	(0.7)	4,149	15.7	17,150	20,028	23,603	26,611
Diluted EPS (Rs)	4.7	4.7	(0.7)	4.1	15.7	16.8	19.6	23.1	26.0
P/E (x)						56.7	48.6	41.2	36.5
EV / EBITDA (x)						45.7	40.2	34.6	30.3
RoCE (%)						21.0	24.2	27.5	30.9

Source: HSIE Research

ADD

CMP *(as on 11 Nov 21)*	INR 951
Target Price	INR 1,033
NIFTY	17,874

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 1,033	INR 1,033
EPS %	FY22E	FY23E
	-2%	0%

KEY STOCK DATA	
Bloomberg code	GCPL IN
No. of Shares (mn)	1,023
MCap (INR bn) / ($ mn)	972/13,063
6m avg traded value (INR mn)	1,712
52 Week high / low	INR 1,139/644

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	(3.0)	32.7	38.0
Relative (%)	(12.9)	10.9	0.5

SHAREHOLDING PATTERN (%)	Jun-21	Sep-21
Promoters	63.23	63.22
FIs & Local MFs	1.23	4.60
FPIs	26.97	26.21
Public & Others	8.57	5.97
Pledged Shares	0.42	0.42

Source : BSE

Pledged shares as % of total shares

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Astral

Strong performance across both business segments

We maintain our REDUCE rating on Astral with a revised TP of INR 2,110/sh (34x its Sep-23E consolidated EBITDA, implying 53x P/E), owing to its expensive valuation. Astral's Q2 consolidated revenue/EBITDA/APAT buoyed 55/47/63% YoY to INR 11.54/2.12/1.41bn respectively (EBITDA was in line with our estimates). The uptick is led by strong demand, market share gains in pipes, and sustained margin buoyancy across both pipes and adhesives. Astral expects pipes margin to expand further, benefitting from the recent price hikes and sustained plumbing demand momentum.

- **Q2FY22 performance:** Astral reported both gross margin expansion and op-lev gains. Pipes division: Robust demand in plumbing segment and Astral's aggressive market share focus drove up sales volume by 20% YoY (2-year CAGR 11%). It passed on the inventory gains, as its segmental margin remained strong at INR 41/kg (+27% YoY, -2% QoQ). Thus, segmental EBITDA soared 52% YoY (2-year CAGR 33%). The adhesive division's revenue/EBITDA also jumped 37/36% YoY on strong demand and robust margin sustenance (at 15%).
- **H1FY22 performance:** Both business segments reported strong 72/80% EBITDA uptick YoY. However, OCF fell 23% to INR 1.81bn due to rise in inventory. As Capex accelerated to INR 1.9bn due to ongoing expansion, net cash on the books reduced 7% (vs Mar-21) to INR 3.7bn.
- **Outlook:** Astral remained upbeat on demand for H2 across both segments. It expects margin to firm up further, owing to price hikes (~10-12% in Oct) taken in both PVC and CPVC segments. Its ongoing expansion (tanks, valves and a greenfield plant) will be commissioned in Dec-21. It is also launching a low-noise drainage piping solution in H2. The company has also started work on a greenfield pipes plant in Telangana (expected by FY24E). Astral will soon announce details for its foray in the bathware segment. We increase our FY22/23/24E EBITDA estimates by 4/5/6%, factoring in strong traction across all business segments. We have also raised Capex estimates as per the company's guidance. We maintain our REDUCE rating with a revised TP of INR 2,110 (34x its Sep-23E consolidated EBITDA).

Quarterly/annual financial summary (consolidated)

YE Mar (INR mn)	Q2 FY22	Q2 FY21	YoY (%)	Q1 FY22	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
Pipes sales (K MT)	42.5	35.4	*20.1*	24.6	*72.5*	132.2	136.6	168.0	201.6	235.9
NSR (INR/kg)	214.3	160.3	*33.7*	210.0	*2.0*	154.5	182.0	223.9	223.9	226.1
EBITDA (INR/kg)	41.3	32.6	*26.7*	42.0	*(1.6)*	28.8	40.6	40.1	41.9	42.4
Adhesives Rev (INR mn)	2,601	1,904	*36.6*	1,918	*35.6*	5,830	7,345	10,270	12,674	15,209
Adhesives EBITDAM (%)	15.0	15.1		13.8	15.0	13.1	15.5	14.6	15.3	15.3
Net Sales	11,541	7,471	*54.5*	7,001	*64.8*	25,779	31,763	49,858	60,617	72,550
EBITDA	2,115	1,436	*47.3*	1,294	*63.4*	4,429	6,445	8,494	10,866	13,004
EBITDAM (%)	*18.3*	*19.2*		*18.5*		*17.2*	*20.3*	*17.0*	*17.9*	*17.9*
APAT	1,412	867	*62.9*	739	*91.1*	2,479	4,044	5,442	7,253	8,766
Diluted EPS (Rs)	7.0	4.3	*62.9*	3.7	*91.1*	12.3	20.1	27.0	36.0	43.5
EV / EBITDA (x)						101.5	69.1	52.1	40.0	32.8
P/E (x)						181.1	111.0	82.5	61.9	51.2
RoE (%)						*17.6*	*23.6*	*25.0*	*26.2*	*24.9*

Source: Company, HSIE Research

REDUCE

CMP *(as on 11 Nov 21)*	**INR 2,226**
Target Price	**INR 2,110**
NIFTY	**17,874**

KEY CHANGES	**NEW**	**OLD**
Rating	REDUCE	REDUCE
Price Target	INR 2,110	INR 2,010
EBITDA revision %	FY22E *4.1*	FY22E *5.4*

KEY STOCK DATA

Bloomberg code	ASTRA IN
No. of Shares (mn)	201
MCap (INR bn) / ($ mn)	447/6,009
6m avg traded value (INR mn)	807
52 Week high / low	INR 2,434/902

STOCK PERFORMANCE (%)

	3M	**6M**	**12M**
Absolute (%)	13.2	35.0	142.5
Relative (%)	3.3	13.1	105.0

SHAREHOLDING PATTERN (%)

	Jun-21	**Sep-21**
Promoters	55.74	55.73
FIs & Local MFs	8.03	10.72
FPIs	22.75	21.32
Public & Others	13.48	12.23
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Oil India

Outlook remains strong

Our BUY recommendation on Oil India with a target price of INR 320 is premised on (1) increase in crude price realisation and (2) improvement in domestic gas price realisation (at USD 2.9/mmbtu). We expect oil price realisation to increase to ~USD 68/bbl in FY22E and USD 70/bbl in FY23E vs. USD 44/bbl in FY21, given the expected global economic rebound, post COVID. Q2FY22 revenue was 1% below our estimates while EBITDA was 32% below, owing to higher-than-expected operating expenses (on account of provisions and write-offs). RPAT came in 32% below our estimate, impacted by higher depreciation, which was offset by higher other income and lower interest cost.

- **Standalone financial performance:** Sales in Q2 were INR 33bn (+53% YoY, +10% QoQ). Crude realisation in rupee terms was at INR 5,154/bbl (+67% YoY, +7% QoQ). EBITDA came in at INR 9bn (HSIE INR 13bn, -26% QoQ), owing to higher provision of INR 5bn and exploration write-off of INR 1bn.
- **Standalone operational performance**: Crude oil realisation increased to USD 69.6/bbl, (+67% YoY, +7% QoQ); gas realisation was at USD 1.9/mmbtu, (-47% YoY, +3% QoQ). Oil sales volumes were at 0.74mmt (+2% YoY, +2% QoQ), while gas sales volumes were at 0.67bcm, (+70.2% YoY, +11% QoQ).
- **Call takeaways**: (1) The standalone Capex budgets for FY22 and FY23 are INR 41bn and INR 42bn respectively. (2) The NRL refinery expansion to 9mmt will incur Capex of ~INR 300bn, which will be payable over FY24-26. (3) The company has guided oil production for FY23/24E at 3-3.1mmt and gas production at 3.2-3.25bcm. (4) The exploration write-offs were high in Q2 due to commercial unviability of blocks at KG basin and Mizoram. However, management expects no major write-offs in the near future.
- **We value Oil India's standalone business at INR 173 (5.5x Mar-23E EPS) and its investments at INR 147. The stock is currently trading at 4x FY23E EPS.**

Standalone financial summary

YE March (INR bn)	Q2 FY22	Q1 FY22	QoQ (%)	Q2 FY21	YoY (%)	FY20*	FY21*	FY22*	FY23E*	FY24E*
Revenues	33	30	10.2	22	52.9	206	225	360	389	405
EBITDA	9	12	(25.7)	7	24.4	53	57	104	120	124
APAT	5	5	(0.7)	1	264.0	52	46	62	59	62
AEPS (INR)	4.7	4.7	(0.7)	3.1	48.7	48.3	42.2	56.9	54.7	56.9
P/E (x)						4.5	5.1	3.8	4.0	3.8
EV/EBITDA (x)						6.3	7.5	2.7	1.9	1.4
RoE (%)						22.5	19.5	23.1	18.1	15.9

Source: Company, HSIE Research | *Consolidated

BUY

CMP *(as on 11 Nov 21)*	**INR 217**
Target Price	**INR 320**
NIFTY	**17,874**

KEY CHANGES	**OLD**	**NEW**
Rating	BUY	BUY
Price Target	INR 315	INR 320
	FY22E	**FY23E**
EPS %	-	-

KEY STOCK DATA	
Bloomberg code	OINL IN
No. of Shares (mn)	1,084
MCap (INR bn) / ($ mn)	235/3,157
6m avg traded value (INR mn)	366
52 Week high / low	INR 268/89

STOCK PERFORMANCE (%)

	3M	**6M**	**12M**
Absolute (%)	32.5	67.4	139.4
Relative (%)	22.6	45.5	101.9

SHAREHOLDING PATTERN (%)

	Jun-21	**Sep-21**
Promoters	56.66	56.66
FIs & Local MFs	18.50	18.11
FPIs	8.53	9.96
Public & Others	16.31	15.27
Pledged Shares	0.00	0.00

Source : BSE

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Vinati Organics

ATBS demand continues to be robust

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

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

Financial summary

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

Source: Company, HSIE Research

Change in estimates

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

Source: Company, HSIE Research

SELL

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

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

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

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

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

Source: BSE

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Nuvoco Vistas

Weak demand impacts profit; margin to rebound

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

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

Quarterly/annual financial summary (consolidated)

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

Source: Company, HSIE Research

BUY

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

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

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

STOCK PERFORMANCE (%)

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

SHAREHOLDING PATTERN (%)

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

Source : BSE

Pledged shares as % of total shares

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Sundram Fasteners

On track to exceed pre-COVID turnover

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

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

Financial Summary (Consolidated)

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

Source: Company, HSIE Research

Change in Estimates

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

Source: Company, HSIE Research

ADD

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

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

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

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	25.5	(3.0)	16.5
Relative (%)	4.8	4.9	16.9

SHAREHOLDING PATTERN (%)	Jun-21	Jun-21
Promoters	49.5	49.5
FIs & Local MFs	17.4	17.6
FPIs	11.1	11.3
Public & Others	22.0	21.5
Pledged Shares	0.0	0.0

Source : BSE

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CESC

One-off in Malegaon business impacts PAT

CESC's consolidated PAT in Q2FY22 decreased by 12% YoY due to increased losses in the distribution franchisee (DF) segment (a loss of INR410mn vs INR80mn YoY), given the one-off impact of INR200mn in the Malegaon segment. Haldia and Dhariwal continued to perform strongly, while standalone PAT growth remained flat despite the delayed WBERC tariff order. Standalone generation increased 2.5% YoY, while T&D losses were flat at 8.6%. CESC's bid for a 100% stake in the Chandigarh discom is likely to receive a letter of intent (LoI) by Q3FY22. We retain our BUY rating with a revised TP of INR109 (from INR101), as we now assign a higher multiple to the company's regulated business, factoring in the improved performance at the Noida and Dhariwal businesses. We have not yet factored in the Chandigarh discom, as we await clarity on the bid and letter of award (LoA).

- **Franchisee losses widen due to one-off expense:** Sales volume in standalone business increased 5% YoY, given increased economic activity, while T&D losses remained flat at 8.6% YoY in Q2. PAT grew marginally by 2.6% YoY despite the delayed WBERC tariff order, which has impacted tariff realisation. However, consolidated PAT decreased 12.1% YoY to INR3.4bn, due to increased losses in the DF business (INR410mn vs INR80mn in Q2FY21), given the one-off impact of INR200mn in the Malegaon circle from revenue adjustments. Dhariwal continued to perform strongly with PAT increasing by 47.8% YoY to INR340mn in Q2FY22. In H1FY22, both Haldia and Dhariwal achieved an improved PLF of 90%/80% vs 84%/77% YoY.
- **CESC's divestment in Surya Vidyut - a fair move:** CESC has entered an agreement to sell its 156MW of operating wind projects to Torrent Power for an EV of ~INR 7.65bn (excluding INR250mn cash on books of Surya Vidyut). It had invested an equity of ~INR2.5bn across these wind portfolios, which have yielded a subdued RoE of 3-5% over the past four years, with profits ranging from INR50 mn-INR144 mn. The deal would fetch CESC an equity value of INR2.9bn, implying a multiple of 1.2x multiple (ex-cash in the subsidiary), which we believe is a much better value for projects with a low single digit RoE. Hence, the stake sale benefits CESC.
- **Maintain BUY**: On a consolidated basis, CESC is currently valued at an attractive P/BV of 1.0x FY23BV and PE of 8.1x FY23. A high dividend yield of ~6% is in tune with investor expectations. The standalone business is expected to normalise in FY22 (amidst the tariff order). Further, we expect the overall DF business to turn profitable in FY22, with a reduction in AT&C losses, and achieve a PAT of INR450mn in FY23. Hence, we maintain BUY with a revised TP of INR109 (vs INR101), factoring in improved performance across the Dhariwal and Noida businesses. We have not yet factored in the Chandigarh discom, as we await clarity on the bid and letter of award (LoA).

Financial Summary (Standalone)

(INR mn, Mar YE)	2Q FY22	2Q FY21	*YoY (%)*	1Q FY22	*QoQ (%)*	FY21	FY22E	FY23E
Net Revenues	20,910	19,890	*5.1*	19,310	*8.3*	69,210	82,643	87,292
EBITDA	4,180	3,380	*23.7*	3,110	*34.4*	11,750	16,505	17,424
APAT (Consol)	3,400	3,870	*-12.1*	2,800	*21.4*	13,630	14,116	14,977
Diluted Consol EPS (INR)	2.6	2.9	*-12.1*	2.1	*24.7*	10.3	10.6	11.3
P/E (x)						8.9	8.6	8.1
Price/BV						1.2	1.1	1.0
RoE (%)						12.1	13.7	14.0

Source: Company, HSIE Research

BUY

CMP *(as on 11 Nov 21)*	INR 91
Target Price	INR 109
NIFTY	17,874

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 101	INR 109
	FY22E	FY23E
EPS Change %	-	-

KEY STOCK DATA	
Bloomberg code	CESC IN
No. of Shares (mn)	1,326
MCap (INR bn) / ($ mn)	121/1,629
6m avg traded value (INR mn)	621
52 Week high / low	INR 102/29

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	21.0	40.5	56.6
Relative (%)	11.1	18.6	19.1

SHAREHOLDING PATTERN (%)	Sep-21	Jun-21
Promoters	52.1	49.9
FIs & Local MFs	23.0	23.5
FPIs	12.9	13.4
Public & Others	11.9	13.2
Pledged Shares	-	-

Source : BSE

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Galaxy Surfactants

Reeling under supply chain issues

Our BUY recommendation on GALSURF with a price target of INR 3,675 is premised on (1) stickiness of business, as 55% of the revenue mix comes from MNCs, (2) stable EBITDA margin at >12%, since fluctuations in raw material costs (RMC) are easily passed on to customers, and (3) strong return ratios (RoE/RoIC of 22/20% in FY24E). Q2 EBITDA/APAT were 40/50% lower than estimates due to substantially higher-than-expected raw material cost, higher-than-expected other expense, higher-than-expected depreciation, higher-than-expected tax outgo, offset by higher-than-expected other income.

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

Financial Summary (Consolidated)

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

Source: Company, HSIE Research

Change in estimates (Consolidated)

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

Source: Company, HSIE Research

BUY

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

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

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

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	(1.3)	5.5	78.9
Relative (%)	(11.2)	(16.4)	41.5

SHAREHOLDING PATTERN (%)	Jun-21	Sept-21
Promoters	70.93	70.93
FIs & Local MFs	13.02	13.29
FPIs	2.91	2.42
Public & Others	13.14	13.36
Pledged Shares	0.0	0.0

Source: BSE

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ITD Cementation

Recovery awaited

ITD Cementation (ITD) reported weak revenue/EBITDA/PAT at INR 8.1/0.5/0.15bn, with revenue in line but EBITDA/PAT below our estimates by 37%/27%. Operating margin was subdued at 6.2% on account of higher commodity costs, a margin booking threshold yet to be reached on projects worth INR 41bn (moved into execution in Q2FY22), and a provision of INR 250mn on the Bengaluru elevated metro project. The order backlog (OB) is robust at INR 115bn (4.2x FY21 revenue). 20% of contracts are without price escalation clauses. Given we expect a strong recovery, we have increased our revenue estimate. We retain BUY with TP of INR 126 (10x Sep-23E EPS).

- **Financial performance:** ITD's reported revenue of INR 8.1bn (+47%/-2% YoY/QoQ) was in line with our estimates. EBITDA came in at INR 504mn (37% miss). EBITDA margin stood at 6.2% (-326bps QoQ, est. 10.0%). Interest cost was flat sequentially at INR 359mn. APAT came in at INR 149mn (INR (497)/179mn in Q2FY21/Q1FY22), missing our estimate by 27%. ITD expects to maintain a run-rate of INR 10bn per quarter from Q3 onwards and a 15-20% revenue growth in FY22.
- **Strong order book, robust pipeline:** Order inflow (OI) during Q2FY22 stood at INR 2bn (INR 18bn FYTD), taking the OB to INR 115bn (excl. INR 2bn of L1), as of Sep-21. INR 50bn worth of OI is expected for FY22. ITD has submitted (or will submit in Nov-21) a bid worth INR 250bn, with an expected inflow of INR 40-50bn. It made a final provision of INR 250mn for the loss-making Bengaluru elevated metro project and has filed claims with the client, which it expects would materialise in its favour. The project, which is currently 98% complete, is likely to be finished by Jul-22. ITD gained certification from the insurance authority in the Kolkata underground metro project, which is 95% complete. No provision will be made for this project. Myanmar project of INR 5.6bn is on track (INR 2.7bn worth of work completed), with INR 420mn received in Q2FY22. ITD expects to finish it by the middle of FY23.
- **Balance sheet comfortable:** ITD's consolidated gross debt increased marginally to INR 5.2bn (INR 5.1bn as of Jun-21) with D/E at 0.5x. It was due to payment delays and mobilsation expenditure. Debt is expected to reduce to INR 5bn by Mar-22-end on account of better execution in H2FY22.

Consolidated Financial Summary (INR mn)

YE March	Q2FY22	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	FY21	FY22E	FY23E	FY24E
Net Sales	8,115	5,527	*46.8*	8,255	*(1.7)*	27,277	32,460	38,952	45,963
EBITDA	504	(14)	*3,671.3*	782	*(35.5)*	2,129	3,468	4,451	5,620
APAT	149	(497)	*129.9*	179	*(16.9)*	159	1,213	1,921	2,363
EPS (INR)	0.9	(2.9)	*129.9*	1.0	*(16.9)*	0.9	7.1	11.2	13.8
P/E (x)						84.2	11.1	7.0	5.7
EV/EBITDA (x)						7.1	4.4	3.2	2.6
RoE (%)						1.5	10.8	14.9	15.5

Consolidated Estimate Change Summary

Particulars (INR mn)	FY22E			FY23E			FY24E		
	New	Old	% Chg	New	Old	% Chg	New	Old	% Chg
Revenues	36,824	32,460	13.4	42,900	38,952	10.1	49,507	45,963	7.7
EBIDTA	3,307	3,468	(4.6)	4,768	4,451	7.1	5,814	5,620	3.5
EBIDTA Margins (%)	9.0	10.7	(170.4)	11.1	11.4	(31.2)	11.7	12.2	(48.3)
APAT	997	1,213	(17.8)	1,948	1,906	2.2	2,395	2,331	2.8

Source: Company, HSIE Research

BUY

CMP ***(as on 11 Nov 21)***	**INR 78**
Target Price	**INR 126**
NIFTY	**17,874**

KEY CHANGES	**OLD**		**NEW**
Rating	BUY		BUY
Price Target	INR 125		INR 126
EPS Change %	FY22E	FY23E	FY24E
	(17.8)	*2.2*	*2.8*

KEY STOCK DATA	
Bloomberg code	ITCE IN
No. of Shares (mn)	172
MCap (INR bn) / ($ mn)	13/180
6m avg traded value (INR mn)	109
52 Week high / low	INR 98/50

STOCK PERFORMANCE (%)			
	3M	**6M**	**12M**
Absolute (%)	(7.4)	(1.6)	55.5
Relative (%)	(17.2)	(23.5)	18.1

SHAREHOLDING PATTERN (%)		
	Jun-21	**Sep-21**
Promoters	46.64	46.64
FIs & Local MFs	19.59	15.26
FPIs	10.67	10.35
Public & Others	23.10	27.75
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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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
Varun Lohchab	Godrej Consumers	PGDM	NO
Naveen Trivedi	Godrej Consumers	MBA	NO
Saras Singh	Godrej Consumers	PGDM	NO
Rajesh Ravi	Astral, Nuvoco Vistas	MBA	NO
Keshav Lahoti	Astral, Nuvoco Vistas	CA	NO
Harshad Katkar	Oil India, Vinati Organics, Galaxy Surfactants	MBA	NO
Nilesh Ghuge	Oil India, Vinati Organics, Galaxy Surfactants	MMS	NO
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