INSTITUTIONAL RESEARCH

HSIE Results Daily

Contents

Results Reviews

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

- **Marico:** Marico posted steady revenue growth and beat in EBITDA margin. Revenue/EBITDA grew 22/9% YoY (HSIE 20/3%). Domestic revenue and volume grew 24/8% YoY, 15/9% on two-year CAGR - a strong performance. PCNO saw volume growth of 7% YoY, maintaining its long-term average growth. VAHO grew 16%, mainly driven by volumes in the mid and premium brands. Saffola clocked 46% value growth; however, volume remained muted due to trade destocking, given the volatility in edible oil prices. International continued its momentum (up 14% YoY, 12% in Q2FY21), but Vietnam continued to face COVID-led disruptions. Gross margin, at 42.5% (down 556bps YoY and 143bps QoQ), was broadly in line (HSIE 42%), with pressures from vegetable oil and crude. Copra prices were stable. Marico continued its investment in core brands and innovation in the food segment. We expect the growth momentum to sustain and margin pressure to ease in H2FY22. We maintain our EPS estimates and value Marico at 45x PE on Sep-23E EPS to derive a target price of INR 600. Maintain ADD.

- **United Spirits:** UNSP reported a strong beat on revenue and EBITDA margin. Net revenue was up 14% YoY (HSIE 8%) while volume was in line at 20.5mn cases, up 3% YoY. The super premium portfolio continued to grow strongly, leading to P&A realisation growth of 14% to INR 1,605/case. Thereby, gross margin expanded 207bps YoY to 44.2% (HSIE 44.6%) despite input cost pressure. The company saw strong EBITDA margin expansion of 483bps to 17.4% (adjusted EBITDA margin 16.4%, HSIE 15.2%), led by operating leverage. UNSP's EBITDA was up 58% YoY vs. 30% expected. Employee cost was up 19% YoY (-11% QoQ) to INR 1.66bn. A&P spend was down 3% YoY (+6% in Q2FY21). India is a spirit market with long-term premiumisation drivers. The new CEO is aiming for double-digit revenue growth on a sustainable basis through various initiatives for the P&A portfolio. It will also lead to better operating margin print in the coming years. We raise our EPS estimates for FY22/FY23/FY24 by 5% each. We value UNSP at 50x P/E on Sep-23E EPS (standalone) to derive a target price of INR 950 (including INR 48/share of non-core assets). Maintain ADD.

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- **Gujarat Gas:** Our BUY recommendation on Gujarat Gas (GGL) with a price target of INR 790 is premised on (1) volume growth at 15% CAGR over FY21-24E; (2) portfolio of mature, semi-mature, and new geographical areas (GAs); and (3) compelling valuations, given superior return ratios among the city gas distribution players. Q2FY22 EBITDA was 36% below our estimate and APAT was 42% below, owing to 46% below-than-expected per unit EBITDA margin due to higher spot gas cost, higher-than-expected operating expenses, offset by 17% higher volumes and lower-than-expected employee expenses and interest cost.
- **Lupin:** Lupin's Q2 results disappointed, primarily due to a subdued gross margin and higher other expenses. Revenue was in line, with the US showing signs of stabilising (+7% QoQ). However, EBITDA margin dipped to 13.5% (-330bps YoY, -70bps QoQ), the lowest in the past seven quarters. Lupin has again revised its EBITDA margin guidance downward, from 17-18% to 16%+ in H2FY22, despite reduction in R&D guidance (~50-100bps) and savings in specialty burn (~75bps, Solosec write-off). While there is reasonable progress in its pipeline and it has meaningful opportunities such as gSpiriva, gSuprep, gRevlimid, Peg-F (US) and gFostair (UK) to drive growth in near to medium term, its inability to improve cost efficiencies and sustain savings is proving to be a dampener. We cut our estimates by 20%/14% for FY22/23 to factor in the Solosec write-off and lower margins. We roll forward to Sep'23 EPS and revise our TP to INR915/sh, based on 21x Sep'23e (vs 23x earlier). REDUCE.
- **Dalmia Bharat:** We maintain ADD on Dalmia Bharat (DBEL) with an unchanged target price of INR 2,240/share (13x Sep'23E consolidated EBITDA). In Q2FY22, while consolidated net sales (adj for prior-period incentives) rose 9% to INR 25.21bn on steady volume growth, elevated opex pulled down adj EBITDA/APAT by 19/53% YoY to INR 5.65/1.09bn. Unitary EBITDA fell 24% YoY to INR 1,108/MT. Despite the accelerated Capex spend, DBEL reduced debt by 17% (vs Mar'21) to INR 32bn, using its cash balances. The company is confident of (1) passing on soaring fuel price impact and (2) its major Capex (58% expansion by FY24E) and green power additions remaining on track.
- **Cummins:** Cummins India Ltd (CIL) has delivered, yet again, a stellar quarter with revenue/EBITDA/APAT beat at 29/25/26%. Demand outlook is robust with lagging segments like infra, marine, and railways yet to normalise and pick up. The exports market is also witnessing a sharp recovery with CIL targeting a turnover of INR 20bn from it. Good progress is being made on all options in the CIL/CTIL merger, and the company will announce the decision once it has finalised it. We remain positive on CIL due to: (1) new product offerings; (2) global consolidation and increased investment in clean tech; (3) start of a new Capex cycle globally; and (4) exports ramp-up, given that global economies are on a path to recovery. We maintain BUY on CIL with an unchanged SOTP-based target price of INR 1,191 (Sep-23E EPS).
- **Torrent Power:** Torrent Power (TPW) reported consolidated revenue of INR 36.5bn (+16.6% YoY) in Q2FY22. The growth was largely led by improved power demand, lower T&D losses, and improved collection during the quarter. EBITDA increased 31.9% YoY to INR9.4bn due to a fall in T&D losses and lower other expenses. Deleveraging, along with a fall in interest rates, has led to lower interest expenses. After adjusting for one-offs, PAT stands increased by 14.1% YoY at INR3.7bn, surpassing ours and consensus estimates. We have revised our SoTP TP to INR528, factoring in the

company's recent acquisitions of 156MW wind and 50MW solar projects. We maintain ADD, given improved industrial demand, fall in T&D losses, healthy net D/E ratio, and sustainable FCFE of ~INR10bn p.a.

- **Mahindra & Mahindra Financial Services:** MMFS's Q2FY22 earnings were significantly ahead of our estimates due to large write-backs on the provisioning undertaken in Q1FY22. MMFS' stressed asset pool (GS II + GS III) has declined moderately to 32%, after peaking out at 35% in the previous quarter, still a long way from the management guidance of ~23-25% by Mar'22. As economic activity improves further and more uniformly, we expect the elevated stress pool to normalise, thus reversing the lion's share of the additional provisioning undertaken during Q1. While disbursements gathered momentum (+61% YoY), it still remains nearly half of pre-COVID levels. We revise our FY22E earnings estimates upwards by 6% to factor in higher upgrades and recoveries driving lower credit costs. We maintain ADD with a revised SOTP-based TP of INR195 (earlier INR191), implying 1.3x Sep'23 ABVPS. Gradual normalisation of portfolio stress, sponsor-backed funding cost advantage, and inexpensive valuations underpin our ADD rating.
- **KEC International:** KEC reported robust execution with revenue at INR 35.8bn (in-line), driven by non-T&D segments. Barring supply chain constraints, revenue could have been 10% higher. The order book (OB), at INR 285bn (with L1 of INR 74bn), is at an all-time high. Margin, at 7.1%, was affected by raw material prices and losses in SAE legacy projects. KEC continued to diversify with the acquisition of Spur Infra, T&D EPC order in Europe, and airport civil work. The overhang in collection from railways and losses in SAE has started abating. However, stalled projects in Afghanistan with net exposure of INR 1.7bn continue to be an overhang. A well-diversified OB, strong H2FY22 bid pipeline of INR 650bn, and likely improvement in margins may lead to rerating. We maintain BUY on KEC with an unchanged target price of INR 556/sh (15x Sep-23E EPS).
- **RBL Bank:** RBL Bank (RBK) disappointed expectations with PAT at INR 0.3bn on account of an all-round miss in operating metrics and sustained steep provisions (4.6% annualised). Provisions have remained elevated (north of 4% for nine straight quarters), largely towards its highly-concentrated retail unsecured businesses (CC+MFI at ~31% of loans). Slippages were elevated at ~8.7% (annualised) for a fourth straight quarter. Our concerns and caution on RBK stem from the disproportionately high concentration of profit pools around two unsecured businesses (two-thirds of the fee income from credit cards), both of which are yet to fully stabilise. For a franchise that has been banking on a single engine (credit cards at over one-fifth of loans), the impairment in its cards business is disconcerting. We hack our FY22E/23E earnings forecasts further by 78%/20%; we maintain REDUCE with a revised TP of INR181 (earlier INR 184).
- **Balaji Amines:** Our REDUCE recommendation on Balaji Amines (BLA) with a price target of INR 3,630 is premised mainly on the pressure felt on the margins, owing to the rising raw material costs and logistical challenges. Q2 EBITDA/APAT were 11/11% below our estimates, owing to higher-than-anticipated raw material cost, higher-than-expected other expenses, higher-than-expected depreciation, offset by higher-than-expected other income.

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

Bajaj Auto

The right BET

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

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

Financial Summary

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

Source: Company, HSIE Research

Change in Estimates

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

Source: Company, HSIE Research

BUY

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

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

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

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	(3.1)	(4.9)	25.7
Relative (%)	(17.5)	(25.5)	(24.6)

SHAREHOLDING PATTERN (%)	Jun-21	Sep-21
Promoters	53.7	53.7
FIs & Local MFs	12.7	12.9
FPIs	11.8	11.2
Public & Others	21.8	22.2
Pledged Shares	0.0	0.0

Source : BSE

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Marico

Steady performance; beat in margin

Marico posted steady revenue growth and beat in EBITDA margin. Revenue/EBITDA grew 22/9% YoY (HSIE 20/3%). Domestic revenue and volume grew 24/8% YoY, 15/9% on two-year CAGR - a strong performance. PCNO saw volume growth of 7% YoY, maintaining its long-term average growth. VAHO grew 16%, mainly driven by volumes in the mid and premium brands. Saffola clocked 46% value growth; however, volume remained muted due to trade destocking, given the volatility in edible oil prices. International continued its momentum (up 14% YoY, 12% in Q2FY21), but Vietnam continued to face COVID-led disruptions. Gross margin, at 42.5% (down 556bps YoY and 143bps QoQ), was broadly in line (HSIE 42%), with pressures from vegetable oil and crude. Copra prices were stable. Marico continued its investment in core brands and innovation in the food segment. We expect the growth momentum to sustain and margin pressure to ease in H2FY22. We maintain our EPS estimates and value Marico at 45x PE on Sep-23E EPS to derive a target price of INR 600. Maintain ADD.

- **In-line revenue:** Revenue grew 22% YoY (+9% in Q2FY21 and +31% in Q1FY22), in line with our estimates. Domestic volume grew a strong 8% YoY (+11% in Q2FY21 and +21% in Q1FY22). PCNO saw 18/7% YoY value/volume growth while VAHO saw 16% YoY value growth. Saffola grew 46% YoY, while foods portfolio grew 70% YoY. Rural growth saw sequential moderation; however, it continued to outpace urban growth on YoY and two-year CAGR. Alternate channels grew in double digits YoY, while CSD saw recovery on a low base.
- **International revenue up 14%**: The international business clocked 14% YoY growth (13% cc). Bangladesh grew 16% cc growth in Q2, with new launches scaling well. MENA/South Africa saw cc growth of 20/8% YoY while South-East Asia grew a subdued 2% cc, given COVID disruptions in Vietnam.
- **Slight beat on margin:** GM dipped by 556bps YoY (+163bps in Q2FY21 and -759bps in Q1FY22) vs the HSIE estimate of a 601bps YoY decline. Rice bran/LLP/HDPE were up 59/30/26% YoY, but copra prices were down 5% YoY and 11% QoQ. Employee/adv/other expenses grew by 6/8/11% YoY. EBITDA margin contracted 207bps YoY to 17.5% (+26bps in Q2FY21 and -521bps in Q1FY22). EBITDA grew 9% YoY (HSIE 3%). Domestic EBIT margin dipped 263bps YoY (+12bps in Q2FY21) while international margin expanded by 78bps YoY (+120bps in Q2FY21).
- **Con call takeaways:** (1) Mobility is at the pre-pandemic level with further positive signs visible. (2) The company gained market share in 90% of its India portfolio. (3) While rural demand saw sequential moderation, it continued to grow on a YoY basis. (4) It sees Vietnam business as remaining soft in the near term and gradually picking up pace as the government eases restrictions. (5) Digital only portfolio will be scaled to INR 4.5-5bn by FY24.

Quarterly/annual financial summary

YE Mar (INR mn)	Q2FY22	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	FY21	FY22E	FY23E	FY24E
Net Sales	24,190	19,890	21.6	25,250	(4.2)	80,480	96,861	104,892	114,830
EBITDA	4,230	3,890	8.7	4,810	(12.1)	15,880	18,006	21,802	24,530
APAT	3,090	2,888	7.0	3,560	(13.2)	11,620	13,040	15,961	18,126
Diluted EPS (INR)	2.39	2.24	7.0	2.76	(13.2)	9.0	10.1	12.4	14.1
P/E (x)						62.6	55.8	45.6	40.1
EV / EBITDA (x)						45.9	40.4	33.4	29.7
RoCE (%)						55.2	66.3	74.8	82.4

Source: Company, HSIE Research

ADD

CMP *(as on 28 Oct 2021)*	INR 564
Target Price	INR 600
NIFTY	17,857

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 600	INR 600
EPS %	FY22E	FY23E
	0%	0%

KEY STOCK DATA	
Bloomberg code	MRCO IN
No. of Shares (mn)	1,291
MCap (INR bn) / ($ mn)	729/9,794
6m avg traded value (INR mn)	1,520
52 Week high / low	INR 608/350

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	6.5	37.2	55.5
Relative (%)	(7.9)	16.6	5.2

SHAREHOLDING PATTERN (%)	Jun-21	Sep-21
Promoters	59.61	59.52
FIs & Local MFs	9.54	8.50
FPIs	24.98	25.92
Public & Others	5.84	6.06
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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United Spirits

In-line volume; favourable mix beats margin

UNSP reported a strong beat on revenue and EBITDA margin. Net revenue was up 14% YoY (HSIE 8%) while volume was in line at 20.5mn cases, up 3% YoY. The super premium portfolio continued to grow strongly, leading to P&A realisation growth of 14% to INR 1,605/case. Thereby, gross margin expanded 207bps YoY to 44.2% (HSIE 44.6%) despite input cost pressure. The company saw strong EBITDA margin expansion of 483bps to 17.4% (adjusted EBITDA margin 16.4%, HSIE 15.2%), led by operating leverage. UNSP's EBITDA was up 58% YoY vs. 30% expected. Employee cost was up 19% YoY (-11% QoQ) to INR 1.66bn. A&P spend was down 3% YoY (+6% in Q2FY21). India is a spirit market with long-term premiumisation drivers. The new CEO is aiming for double-digit revenue growth on a sustainable basis through various initiatives for the P&A portfolio. It will also lead to better operating margin print in the coming years. We raise our EPS estimates for FY22/FY23/FY24 by 5% each. We value UNSP at 50x P/E on Sep-23E EPS (standalone) to derive a target price of INR 950 (including INR 48/share of non-core assets). Maintain ADD.

- **In-line volume, favourable product mix:** Net revenue was up 14% YoY (-7% in Q2FY21 and +57% in Q1FY22, +8% HSIE). P&A revenue was up 21% (+1% in Q2FY21, +58% in Q1FY22, HSIE 8%), driven by strong premiumisation trend. Popular revenue was flat YoY (-12% in Q2FY21, +60% in Q1FY22, HSIE 4%). P&A volumes were up 6% YoY (flat in Q2FY21 and +60% in Q1FY22, HSIE 5%) while Popular volumes were flat YoY (-7% in Q2FY21 and +63% in Q1FY22, HSIE 4%). P&A realisation was up 14% (+1% in Q2FY22, -1% in Q1FY22) to INR 1,605/case. Popular realisation was flat YoY (-6% in Q2FY21, -4% in Q1FY22) to INR 673/case. We expect the premiumisation momentum to continue in the coming quarters.
- **Op-lev drives EBITDA margin:** Gross margin was up 207bps YoY and down 41bps QoQ to 44.2% (HSIE 44.6%). A&P spend was INR 1.78bn, at 7.3% of revenue, lower than our estimates. Employee costs were up 19% YoY to INR 1.63bn. Through operating leverage, the company expanded its EBITDA margin by 483bps to 17.4%; it was a miss on our estimate though (15.2%).
- **Con call takeaways:** (1) The company saw markets resuming faster than the first COVID wave recovery. (2) Off trade and on trade demand saw recovery. (3) The company has increased its focus on its gin portfolio and introduced a hipster Smirnoff in Vodka. (4) RCB is a core business for the company where it is seeing positive returns. (5) It may see policy-led tailwinds in case of a positive UK-India trade review and FTA. (6) Scotch is currently delivering in low double digits (of the overall portfolio) but, going forward, it may gain salience. (7) Capex is about 2-2.5% of revenue. (8) While inflation headwinds are seen, the company will continue to work on productivity pipeline, revenue management, and cogs productivity.

Quarterly/annual financial summary (standalone)

YE Mar (INR mn)	2QFY22	2QFY21	YoY (%)	1QFY22	QoQ (%)	FY21	FY22E	FY23E	FY24E
Net Sales	24,468	21,459	14.0	16,151	51.5	78,892	93,679	109,453	119,263
EBITDA	4,256	2,697	57.8	1,677	153.8	9,877	14,935	18,609	20,808
APAT	2,730	1,284	112.6	964	183.2	4,239	9,385	11,872	13,678
Diluted EPS (INR)	3.8	1.8	112.6	1.3	183.2	5.8	12.9	16.3	18.8
P/E (x)						153.2	69.2	54.7	47.5
EV / EBITDA (x)						66.4	43.6	34.6	30.5
RoIC (%)						11.2	20.4	22.6	23.5

Source: Company, HSIE Research

ADD

CMP *(as on 28 Oct 2021)*	INR 894
Target Price	INR 950
NIFTY	17,857

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 900	INR 950
	FY22E	FY23E
EPS %	5%	5%

KEY STOCK DATA	
Bloomberg code	UNSP IN
No. of Shares (mn)	727
MCap (INR bn) / ($ mn)	649/8,727
6m avg traded value (INR mn)	1,898
52 Week high / low	INR 945/495

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	40.5	66.7	74.4
Relative (%)	26.2	46.1	24.1

SHAREHOLDING PATTERN (%)	Jun-21	Sep-21
Promoters	56.76	56.73
FIs & Local MFs	8.30	9.65
FPIs	18.98	19.08
Public & Others	16.05	14.54
Pledged Shares	0.67	0.67

Source : BSE

Pledged shares as % of total shares

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Gujarat Gas

High gas cost dents EBITDA margin

Our BUY recommendation on Gujarat Gas (GGL) with a price target of INR 790 is premised on (1) volume growth at 15% CAGR over FY21-24E; (2) portfolio of mature, semi-mature, and new geographical areas (GAs); and (3) compelling valuations, given superior return ratios among the city gas distribution players. Q2FY22 EBITDA was 36% below our estimate and APAT was 42% below, owing to 46% below-than-expected per unit EBITDA margin due to higher spot gas cost, higher-than-expected operating expenses, offset by 17% higher volumes and lower-than-expected employee expenses and interest cost.

- **Volumes:** Overall sales volume bounced back post the impact of the second COVID wave seen in Q1. Blended volume stood at 11.41mmscmd (HSIE 9.72), supported by industrial demand of 8.69mmscmd (2-yr CAGR: +10%, +12% QoQ). CNG volumes were at 1.96mmscmd (2-yr CAGR: +15%, +27% QoQ), domestic PNG volumes at 0.64mmscmd (2-yr CAGR: +9%, +8%QoQ) and commercial PNG volumes at 0.12mmscmd (2-yr CAGR: +5%, +37% QoQ).
- **Margin:** Per unit gross spread was at INR 6.06 (-41% YoY, -42% QoQ), impacted by higher spot LNG costs, which is primarily used for the industrial segment. This, in turn, dented EBITDA margin to INR 4.01/scm (-50% YoY and QoQ). We expect per unit EBITDA of INR 6.1/6.3/scm in FY22/23E.
- **Change in estimates:** We reduce our EPS estimates for FY22E by 10% and FY23E by 7.1% to INR 23.5/27.4 as we expect near-term margin pressure due to high gas cost.
- **DCF-based valuation: Our target price of INR 790 is based on Mar-23E free cash flows (WACC 9%, terminal growth rate 3%). The stock is currently trading at 21.7x FY23E EPS.**

Standalone financial summary

YE March (INR bn)	2Q FY22	1Q FY22	QoQ (%)	2Q FY21	YoY (%)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	36	30	20.0	25	43.8	103	99	152	183	213
EBITDA	4	7	(41.8)	7	(42.6)	16	21	25	29	34
APAT	2	5	(47.7)	5	(47.5)	12	13	16	19	23
AEPS (INR)	3.6	6.9	(47.7)	6.9	(47.5)	17.2	18.5	23.5	27.4	33.2
P/E (x)						34.5	32.1	25.3	21.7	17.9
EV / EBITDA (x)						25.8	19.9	16.2	13.6	10.9
RoE (%)						43.3	32.8	31.1	28.0	26.6

Source: Company, HSIE Research

Change in estimates

	FY22E			FY23E		
	Old	New	*Ch%*	Old	New	*Ch%*
Volume (mmscmd)	11.7	11.4	*(2.5)*	13.0	12.5	*(3.8)*
Per unit EBITDA (INR/scm)	6.4	6.1	*(5.2)*	6.5	6.3	*(2.0)*
EBITDA (INR bn)	27.5	25.1	*(8.6)*	30.8	29.0	*(5.8)*
AEPS (INR/sh)	26.1	23.5	*(10.0)*	29.5	27.4	*(7.1)*

Source: Company, HSIE Research

BUY

CMP *(as on 28 Oct 2021)*	**INR 594**
Target Price	**INR 790**
NIFTY	**17,857**

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 825	INR 790
EPS %	**FY22E**	**FY23E**
	(10.0)%	(7.1)%

KEY STOCK DATA	
Bloomberg code	GUJGA IN
No. of Shares (mn)	688
MCap (INR bn) / ($ mn)	409/5,496
6m avg traded value (INR mn)	1,385
52 Week high / low	INR 787/290

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	(15.8)	10.0	101.5
Relative (%)	(30.1)	(10.6)	51.3

SHAREHOLDING PATTERN (%)	Jun-21	Sep-21
Promoters	60.89	60.89
FIs & Local MFs	7.90	7.86
FPIs	8.17	8.07
Public & Others	23.04	23.18
Pledged Shares	0.0	0.0

Source : BSE

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Lupin

Disappointment continues

Lupin's Q2 results disappointed, primarily due to a subdued gross margin and higher other expenses. Revenue was in line, with the US showing signs of stabilising (+7% QoQ). However, EBITDA margin dipped to 13.5% (-330bps YoY, -70bps QoQ), the lowest in the past seven quarters. Lupin has again revised its EBITDA margin guidance downward, from 17-18% to 16%+ in H2FY22, despite reduction in R&D guidance (~50-100bps) and savings in specialty burn (~75bps, Solosec write-off). While there is reasonable progress in its pipeline and it has meaningful opportunities such as gSpiriva, gSuprep, gRevlimid, Peg-F (US) and gFostair (UK) to drive growth in near to medium term, its inability to improve cost efficiencies and sustain savings is proving to be a dampener. We cut our estimates by 20%/14% for FY22/23 to factor in the Solosec write-off and lower margins. We roll forward to Sep'23 EPS and revise our TP to INR915/sh, based on 21x Sep'23e (vs 23x earlier). REDUCE.

- **In-line revenue; margin miss:** Revenue grew by ~5% to INR40bn as healthy growth in India (+16% YoY, low base), growth markets (+20% YoY), and US (+2% YoY, +7% QoQ, Albuterol, gBrovana AG) offset subdued performance in the API business (-28% YoY). EBITDA margin declined to 13.5% (-70bps QoQ), largely on account of lower gross margin (-103bps QoQ, product mix, input costs), higher other expenses (+274bps QoQ, sales promotion, travel) offsetting lower staff costs (-165bps QoQ) and R&D expenses (-142bps QoQ). Reported net loss of INR21bn was on account of one-time settlement charges of USD253mn for Glumetza and impairment of INR7bn for Solosec.
- **US business stabilising, pipeline holds promise:** US revenue rose to USD184mn (+7% QoQ) on account of a steady ramp-up of Albuterol and Brovana AG, despite the mid-to-high single digit price erosion in the base business. The company reiterated its Q1 guidance to reach a quarterly run-rate of USD200mn from Q3. It expects Albuterol to continue to ramp up and gain ~18-20% total share (vs. ~16% currently, ~20% share in Gx market). Key products like Albuterol and Brovana AG and new product pipeline with gSpiriva (litigation settled), gSuprep (FTF, USD200mn, Sep'23), and gRevlimid provide decent growth visibility in the near to medium term.
- **Con call takeaways:** (a) Guidance: R&D: 8-8.5% of sales, ETR: below 30% for FY22; (b) Key products in EU – **gFostair**: launched in the UK, partnerships to launch in other EU5 countries, potential to achieve USD50mn sales in 2-3 years**, bEnbrel**: launched in France, Mylan is planning to launch in other EU countries, with a potential to contribute USD20-30mn to topline in ~2 years; (c) US pipeline – **Peg-F**: filed, awaiting FDA inspection, aims to launch in FY23, Peg-F Onpro to be filed in Q3FY23**, gSpiriva**: responded to CRL, awaiting approval, litigation settled with favourable launch date; (d) Plants: Goa observations to be responded to in 2-3 months.

Financial summary

	Q2 FY22	Q2 FY21	YoY (%)	Q1 FY21	QoQ (%)	FY21	FY22E	FY23E	FY24E
Net Sales	40,413	38,350	5.4	38,968	3.7	1,50,869	1,61,789	1,77,095	1,97,009
EBITDA	5,463	6,452	-15.3	5,542	-1.4	24,908	24,190	32,343	38,417
EBITDA Margin	13.5	16.8	-331 bps	14.2	-70 bps	16.5	15.0	18.3	19.5
APAT	2,580	2,571	0.3	2,060	25.2	11,405	11,700	17,544	22,004
Adj. EPS (INR)	5.7	5.7	0.2	4.5	25.2	25.1	25.8	38.6	48.5
P/E (x)						35.2	34.2	22.8	18.2
EV/ EBITDA (x)						17.3	18.3	13.4	10.9
RoCE (%)						6.8	8.3	11.0	12.5

Source: Company, HSIE Research

REDUCE

CMP *(as on 28 Oct 2021)*	INR 882
Target Price	INR 915
NIFTY	17,857

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 1,040	INR 915
EPS %	FY22E	FY23E
	-20%	-14%

KEY STOCK DATA	
Bloomberg code	LPC IN
No. of Shares (mn)	454
MCap (INR bn) / ($ mn)	400/5,378
6m avg traded value (INR mn)	2,344
52 Week high / low	INR 1,268/855

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	(20.1)	(16.4)	(6.4)
Relative (%)	(34.4)	(37.0)	(56.6)

SHAREHOLDING PATTERN (%)	Sep-21	Jun-21
Promoters	46.83	46.84
FIs & Local MFs	24.47	21.81
FPIs	15.66	18.60
Public & Others	13.04	12.75
Pledged Shares	0.00	0.00

Source : BSE

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Dalmia Bharat

Weak pricing pulls margin down

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

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

Quarterly/annual financial summary (consolidated)

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

Source: Company, HSIE Research

ADD

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

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

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

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

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

Source : BSE

Pledged shares as % of total shares

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Cummins

Power-packed performance

Cummins India Ltd (CIL) has delivered, yet again, a stellar quarter with revenue/EBITDA/APAT beat at 29/25/26%. Demand outlook is robust with lagging segments like infra, marine, and railways yet to normalise and pick up. The exports market is also witnessing a sharp recovery with CIL targeting a turnover of INR 20bn from it. Good progress is being made on all options in the CIL/CTIL merger, and the company will announce the decision once it has finalised it. We remain positive on CIL due to: (1) new product offerings; (2) global consolidation and increased investment in clean tech; (3) start of a new Capex cycle globally; and (4) exports ramp-up, given that global economies are on a path to recovery. We maintain BUY on CIL with an unchanged SOTP-based target price of INR 1,191 (Sep-23E EPS).

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

Standalone financial summary

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

Source: Company, HSIE Research

BUY

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

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

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

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	7.0	1.4	101.9
Relative (%)	(7.4)	(19.2)	51.6

SHAREHOLDING PATTERN (%)	Jun-21	Sep-21
Promoters	51.00	51.00
FIs & Local MFs	24.19	24.40
FPIs	11.69	11.97
Public & Others	13.12	12.63
Pledged Shares	-	-

Source: BSE

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Torrent Power

RES capacity to scale up 2.5x to 5GW by FY26

Torrent Power (TPW) reported consolidated revenue of INR 36.5bn (+16.6% YoY) in Q2FY22. The growth was largely led by improved power demand, lower T&D losses, and improved collection during the quarter. EBITDA increased 31.9% YoY to INR9.4bn due to a fall in T&D losses and lower other expenses. Deleveraging, along with a fall in interest rates, has led to lower interest expenses. After adjusting for one-offs, PAT stands increased by 14.1% YoY at INR3.7bn, surpassing ours and consensus estimates. We have revised our SoTP TP to INR528, factoring in the company's recent acquisitions of 156MW wind and 50MW solar projects. We maintain ADD, given improved industrial demand, fall in T&D losses, healthy net D/E ratio, and sustainable FCFE of ~INR10bn p.a.

- **Lower T&D losses and interest cost lift PAT:** Power demand increased significantly across its franchisee segment from the industrial and commercial consumers. T&D losses in H1FY22 declined across Ahmedabad/Surat/ Bhiwandi/Agra/SMK to 6.1%/3.1%/13.1%/13.1%/42.3% from 9.3%/3.8%/ 23.0%/16.0%/46.4%, led by improved consumer mix and collections. Revenue grew by 16.6% YoY to INR36.5bn in Q2FY22, led by YoY rise in generation across the AGEN (+93%), Unosugen (+8%) and wind stations (+27%), while generation declined across the Sugen (-15%) and solar stations (-7% YoY). EBITDA also increased 31.9% YoY to INR9.4bn on the back of lower T&D losses and a fall in other expenses (-30.5% YoY). Interest cost declined 22% YoY, given the deleveraging exercise and fall in interest rates. After adjusting for one-offs (INR1.2bn in Q2FY21 as provision for doubtful debts and under recoveries), PAT increased by 14.1% YoY to INR3.7bn in Q2FY22.
- **Target to scale up RES capacity to 5GW by FY26**: TPW aims to scale up its RES capacity to 5GW by FY25-26E from 2GW as on date (through both organic and inorganic route). In the near term, the company targets to commission 450 MW of solar capacity (including the 50-MW project acquired from Lightsource India Ltd, but excluding the 300-MWof AP project for which LOA is yet to be awarded) and 156 MW of CESC's wind project, which it acquired for INR7.7bn. As of FY21, TPW's debt stands at INR66.7bn and it has a healthy net D/E of 0.6x, net debt/EBITDA of 1.8x, and a sustainable FCFE of ~INR10bn p.a. This gives it enough room to fund the new capacities.
- **Reiterate ADD**: We have revised our SoTP target price to INR528 (from INR511), factoring in its recent acquisition of 156MW wind and 50MW solar projects. We maintain ADD, given the improved industrial demand, fall in T&D losses, healthy net D/E ratio, scaling up of RES portfolio, and sustainable FCFE of ~INR10bn p.a. Further, we expect TPW's RoE to improve to 15.9% by FY23 from 13.4% in FY21. Hence, we reiterate the ADD rating.

Financial Summary

(INR mn, Dec YE)	2QFY22	2QFY21	*YoY(%)*	2QFY21	*QoQ (%)*	FY21	FY22E	FY23E
Net Revenues	36,476	31,287	*16.6*	30,989	*17.7*	1,21,727	1,29,218	1,37,624
EBITDA	9,383	7,111	*31.9*	7,281	*28.9*	34,652	37,790	41,625
APAT	3,674	3,218	*14.1*	2,066	*77.8*	12,909	16,168	18,749
Diluted EPS (INR)	7.6	6.7	*14.1*	4.30	*77.8*	26.9	33.6	39.0
P/E (x)						18.6	14.9	12.8
P/BV (x)						2.4	2.2	1.9
RoE (%)						13.4	14.5	15.9

Source: Company, HSIE Research

ADD

CMP *(as on 28 Oct 2021)*	**INR 489**
Target Price	**INR 528**
NIFTY	**17,857**

KEY CHANGES	**OLD**	**NEW**
Rating	ADD	ADD
Price Target	INR511	INR528
EPS Change %	CY22E	CY23E
	(4.6%)	*2.4%*

KEY STOCK DATA	
Bloomberg code	TPW IN
No. of Shares (mn)	481
MCap (INR bn) / ($ mn)	235/3,157
6m avg traded value (INR mn)	739
52 Week high / low	INR 545/293

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	7.5	24.6	59.0
Relative (%)	(6.9)	3.9	8.7

SHAREHOLDING PATTERN (%)	**Sep-21**	**Jun-21**
Promoters	53.57	53.57
FIs & Local MFs	20.13	18.78
FPIs	7.33	8.14
Public & Others	18.97	26.22
Pledged Shares	-	-

Source : BSE

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Mahindra & Mahindra Financial Services

A gradual path to recovery

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

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

Financial summary

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

Change in estimates

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

Source: Company, HSIE Research

ADD

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

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

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

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

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

Source : BSE

Pledged shares as % of total shares

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KEC International

In-line performance

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

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

Consolidated financial summary

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

Source: Company, HSIE Research

BUY

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

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

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

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

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

Source: BSE

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RBL Bank

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

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

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

Financial summary

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

Change in estimates

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

Source: Company, HSIE Research

REDUCE

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

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

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

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

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

Source : BSE

Pledged shares as % of total shares

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Balaji Amines

Margin takes a hit!

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

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

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

Standalone financial summary

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

Source: Company, HSIE Research | *Consolidated

Consolidated Change in Estimates

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

Source: Company, HSIE Research

REDUCE

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

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

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

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

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

Source: BSE

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Sagar Cements

Weak performance as opex soars

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

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

Quarterly/annual financial summary (consolidated)

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

Source: Company, HSIE Research

ADD

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

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

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

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

SHAREHOLDING PATTERN (%)	**Jun-21**	**Jun-21**
Promoters	50.28	50.28
FIs & Local MFs	11.54	8.16
FPIs	3.05	6.14
Public & Others	35.13	35.42
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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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
Aditya Makharia	Bajaj Auto	CA	NO
Varun Lohchab	Marico, United Spirits	PGDM	NO
Naveen Trivedi	Marico, United Spirits	MBA	NO
Saras Singh	Marico, United Spirits	PGDM	NO
Bansi Desai	Lupin	CFA	YES
Karan Vora	Lupin	CA	NO
Rajesh Ravi	Dalmia Bharat, Sagar Cements	MBA	NO
Keshav Lahoti	Dalmia Bharat, Sagar Cements	CA	NO
Parikshit Kandpal	Cummins, KEC International	CFA	NO
Manoj Rawat	Cummins, KEC International	MBA	NO
Anuj Upadhyay	Torrent Power	MBA	NO
Krishnan ASV	Mahindra & Mahindra Financial Services, RBL Bank	PGDM	NO
Deepak Shinde	Mahindra & Mahindra Financial Services, RBL Bank	PGDM	NO
Harshad Katkar	Gujarat Gas, Balaji Amines	MBA	NO
Nilesh Ghuge	Gujarat Gas, Balaji Amines	MMS	NO
Rutvi Chokshi	Gujarat Gas, Balaji Amines	CA	NO

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