INSTITUTIONAL RESEARCH

HSIE Results Daily

Contents

Results Reviews

- **Jubilant FoodWorks:** Jubilant posted a revenue growth of 37% YoY (HSIE 34%, +5.5% two-year CAGR). SSG was at +26% (-20% in Q2FY21, HSIE +26%), two-year CAGR at +0.5%, despite price hike and delivery charges (implying volume contraction). System recovery was at 112% vs. 82% in Q2FY21 and 94% in Q1FY22, reflecting less impact of the second wave of COVID. Dine-in is at 82%, having seen recovery from 37% in Q1FY22, 54% in Q2FY21. GM was down 54bps, resulting in 66bps YoY dip in EBITDA margin to 26% (HSIE 24.4%). The company is committed to aggressive store expansion across brands. Investments in technology and digital marketing will further empower their brands and operations. Jubilant is a strong franchise among QSR peers, and its success in new initiatives and capital allocation will remain the key monitorables for the stock. We maintain our EPS estimates. Despite giving our best assumption and valuation to all the new brands/initiatives (India and international), the best value comes to INR 300/share. Our target price on Jubilant is INR 3,300, based on 60x P/E on Sep-23E EPS for Domino's India and INR 300/share for ex-Domino's India business. With no big surprises in earnings (unlike for other discretionary companies), we believe a large part of the recovery is priced in (trading at 88x/73x P/E on FY23/24). Maintain SELL.
- **Navin Fluorine International:** We retain our ADD rating on NFIL with a target price of INR 4,025 on the back of (1) earnings visibility, given long-term contracts, and (2) tilt in sales mix towards high-margin high-value business. EBITDA/APAT were 7/8% above our estimates, owing to lower-than-expected raw material costs, higher-than-expected other income, offset by a higher-than-expected opex and depreciation.
- **Sonata Software:** We maintain our BUY rating on Sonata, following strong growth of 11% QoQ (~5% organic) in the IT services segment (IITS) and better margin performance. Revenue from Microsoft related services (~50% of IITS) is driving growth (+10.6% QoQ), which is further expected to come in high teens. The Microsoft Dynamics modernisation program is a multi-year opportunity and Sonata is constantly investing in this area. Travel vertical has recovered but will accelerate with an increase in leisure travel (currently at ~50% of pre-COVID level). The IITS EBITDA margin expanded 365bps QoQ, despite supply side concerns, led by offshoring (~69%), higher utilisation (89%), and lower sub-contracting cost. The company has stepped up the hiring of freshers and attrition has touched 23-24% level; the target margin range for IITS is ~23-24%. DPS was weak (seasonality), but the growth in DPS will be driven by higher cloud adoption (~77/75% of DPS is revenue is from cloud/annuity). Sonata's growth profile is sturdy, led by the Microsoft ecosystem, recovery in travel, and strong DPS business. We increase our EPS estimates by +3.6/3.3% for FY22/23E. Our target price of INR 1,050 is based on 22x Dec-23E EPS. The stock trades at a P/E of 21.9/18.6x FY23/24E.

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- **Mastek:** We maintain a BUY on Mastek, despite a soft Q2 (though in line with estimate), based on an expected recovery in the UK government business and ongoing turnaround in the US business. The softness in the quarter was mainly due to project completion in the NHS (health segment) and the contract awarding has been slow; excluding NHS, growth was ~9% QoQ. We expect the growth trajectory for Mastek to revive, based on (1) a strong footing in the UK government business; (2) cloud migration/transformation agenda, which is driving Evosys growth; (3) expected recovery in the NHS, based on deal wins; and (4) healthy recovery in the US geography and UK private segment. The deal pipeline is healthy, with around 25 deals of > USD 5mn+ in the pipeline and a large deal of ~USD 40mn (three-year deal) is near closure. Mastek closed a large deal in Europe, which is expected to ramp up from Q4, providing revenue visibility. The next phase of growth will be driven by US geography; the company is looking for an M&A for a head start. The EBIT margin was maintained but there will be headwinds due to planned investments, higher attrition, and an increase in freshers' hiring. We have cut our EPS estimate by 2-3% and our TP of INR 3,300 is based on 24x Dec-23E EPS. The stock is trading at a P/E 25.2/20.5x FY22/23E, which is a discount of ~36% to the tier-2 IT average.

- **Heidelberg Cement:** We maintain ADD on Heidelberg Cement (HEIM) with an unchanged target price of INR 250/share (8.5x Sep'23E consolidated EBITDA). We like HEIM for its strong retail positioning, robust margin, and healthy balance sheet. Delays in major capacity additions would, however, subdue its sales growth beyond FY24E, thereby restricting valuation rerating. In Q2FY22, while revenue rose 12% YoY to INR 5.76bn, EBITDA/APAT fell 8/5% YoY to INR 1.16bn/ 0.6bn respectively, due to rising cost inflation. Unitary EBITDA cooled off 17/15% YoY/QoQ to INR 946/MT. The company guided that cement prices would increase by ~INR 100/bag during H2 to pass on the soaring energy costs.

Jubilant FoodWorks

No big fireworks unlike in other discretionary names

Jubilant posted a revenue growth of 37% YoY (HSIE 34%, +5.5% two-year CAGR). SSG was at +26% (-20% in Q2FY21, HSIE +26%), two-year CAGR at +0.5%, despite price hike and delivery charges (implying volume contraction). System recovery was at 112% vs. 82% in Q2FY21 and 94% in Q1FY22, reflecting less impact of the second wave of COVID. Dine-in is at 82%, having seen recovery from 37% in Q1FY22, 54% in Q2FY21. GM was down 54bps, resulting in 66bps YoY dip in EBITDA margin to 26% (HSIE 24.4%). The company is committed to aggressive store expansion across brands. Investments in technology and digital marketing will further empower their brands and operations. Jubilant is a strong franchise among QSR peers, and its success in new initiatives and capital allocation will remain the key monitorables for the stock. We maintain our EPS estimates. Despite giving our best assumption and valuation to all the new brands/initiatives (India and international), the best value comes to INR 300/share. Our target price on Jubilant is INR 3,300, based on 60x P/E on Sep-23E EPS for Domino's India and INR 300/share for ex-Domino's India business. With no big surprises in earnings (unlike for other discretionary companies), we believe a large part of the recovery is priced in (trading at 88x/73x P/E on FY23/24). Maintain SELL.

- **Robust revenue recovery:** Net revenue was up 37% YoY (-18% in Q2FY21, +131% in Q1FY22, 34% HSIE). SSG came in line at +26.3% YoY (-20% in Q2FY21, +114% in Q1FY22) while like-to-like growth was +29.4% YoY. OLO contribution to delivery stood at 97.8% while app downloads stood at 7.2mn. Domino's own delivery grew faster than the deliveries by aggregators.
- **Store expansion spree continued:** Jubilant opened 55 Domino's stores during Q2FY22 (75 in H1FY22) along with 1 Dunkin' store and 3 Hong's Kitchen stores. The company maintains its domestic store expansion target of 150-175 stores in FY22; however, it intends to push towards the upper limit. The company is on track to launch Popeye's by the end of FY22.
- **Raw material headwinds continue:** GM contracted by 54bps YoY to 78.2% (+351bps in Q2FY21 and -80bps in Q1FY22). Rent expenses are normalising as concessions are reducing. Employee expenses were up 15% YoY. EBITDA margin was at 26% vs. 26.7% in Q2FY21 and 24% in Q1FY22 (24.4% HSIE). EBITDA grew 33% YoY.
- **Call takeaways:** (1) Dine-in channel showed positive trends through Q2FY22; however, it is still below the pre-COVID level. (2) As revenue growth is back and things normalise, leverage will kick in; however, inflationary headwinds would remain. (3) Domestic store expansion target remains 150-175 stores in FY22; however, the company intends to push for the upper limit. (4) It is now entering tier-3/4 cities, where it is seeing encouraging response across all channels. (5) The company also plans to expand Hong's beyond the NCR region.

Quarterly/Annual Financial summary

(INR mn)	2QFY22	2QFY21	YoY (%)	1QFY22	QoQ (%)	FY21	FY22E	FY23E	FY24E
Net Sales	11,007	8,055	36.6	8,790	25.2	33,119	44,564	53,111	60,290
EBITDA	2,860	2,147	33.2	2,114	35.3	7,712	10,701	13,063	14,944
APAT	1,315	817	60.9	760	73.0	2,598	4,639	5,924	7,146
EPS (INR)	9.97	6.19	60.9	5.76	73.0	19.7	35.1	44.9	54.1
P/E (x)						200.9	112.5	88.1	73.0
EV / EBITDA (x)						108.3	67.0	52.8	45.2
RoCE (%)						19.8	27.5	33.7	41.7

Source: Company, HSIE Research

SELL

CMP *(as on 20 Oct 2021)*	INR 3,965
Target Price	INR 3,300
NIFTY	18,267

KEY CHANGES	OLD	NEW
Rating	SELL	SELL
Price Target	INR 3,000	INR 3,300
EPS %	FY22E	FY23E
	0%	0%

KEY STOCK DATA	
Bloomberg code	JUBI IN
No. of Shares (mn)	132
MCap (INR bn) / ($ mn)	523/7,032
6m avg traded value (INR mn)	2,409
52 Week high / low	INR 4,590/2,100

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	29.4	40.1	73.1
Relative (%)	12.0	11.7	22.0

SHAREHOLDING PATTERN (%)	Jun-21	Sep-21
Promoters	41.94	41.94
FIs & Local MFs	11.62	10.86
FPIs	40.87	41.41
Public & Others	6.57	5.79
Pledged Shares	0.91	0.63

Source : BSE

Pledged shares as % of total shares

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Navin Fluorine International

Muted performance

We retain our ADD rating on NFIL with a target price of INR 4,025 on the back of (1) earnings visibility, given long-term contracts, and (2) tilt in sales mix towards high-margin high-value business. EBITDA/APAT were 7/8% above our estimates, owing to lower-than-expected raw material costs, higher-than-expected other income, offset by a higher-than-expected opex and depreciation.

- **Financial performance:** Revenue grew 5/3% YoY/QoQ to INR 3,244mn. EBITDA fell 11% YoY, and grew 7% QoQ to INR 835mn in Q2 with EBITDA margin coming in at ~26% (-463/+90bps YoY/QoQ). The margin was impacted negatively on a YoY basis, owing to higher raw material costs, increased employee cost, higher maintenance expenses, and elevated freight cost.
- **Segmental performance:** Speciality chemicals (38% of revenue mix) grew 20% YoY to INR 1,220mn on the back of increased exports. Two new products were launched in the speciality chemicals business unit (BU) - one catering to the agrochemical sector, and the other to speciality materials sector. CRAMS BU (25% of revenue mix) de-grew 17% YoY to 820mn, owing to a higher base, as a substantial part of the realisation of revenue of Q1FY21 had spilled over to Q2FY21. CRAMS BU continues to perform well, owing to repeat orders from its existing customers and encouraging new enquiries. NFIL plans to debottleneck its cGMP-3 plant by this year end, post which, it plans to set up a cGMP-4 plant. The high performance product (HPP) plant shall commence supplies in Q4FY22 or Q1FY23 and the multi-purpose plant (MPP) capacity would come on stream in H1FY23, both of which would drive future growth.
- **Exceptional items adjustment**: Marked-to-market gains of INR 11mn have been excluded to arrive at an APAT of INR 610mn in Q2.
- **Change in estimates:** We cut our FY22/23/24 EPS estimate by 12.5/11.6/10.5% to INR 50.4/67.6/89.5 to account for a lower other income assumption and to factor in the overall performance in H1FY22.
- **DCF-based valuation: Our target price is INR 4,025 (WACC 10%, terminal growth 5.5%). The stock is trading at 39.5x FY24E EPS.**

Financial summary (standalone)

INR mn	Q2 FY22	Q1 FY22	QoQ (%)	Q2 FY21	YoY (%)	FY20*	FY21*	FY22E*	FY23E*	FY24E*
Net Sales	3,244	3,139	*3.4*	3,077	*5.4*	10,616	11,794	13,841	17,709	22,680
EBITDA	835	780	*7.1*	935	*(10.6)*	2,635	3,093	3,325	4,586	6,201
APAT	610	567	*7.5*	646	*(5.6)*	3,855	2,216	2,495	3,347	4,429
AEPS (INR)	12.3	11.5	*7.5*	13.1	*(5.8)*	77.9	44.8	50.4	67.6	89.5
P/E (x)						45.4	79.0	70.1	52.3	39.5
EV/EBITDA(x)						65.1	54.6	50.8	36.7	27.1
RoE (%)						31.0	14.6	14.5	17.4	20.2

Source: Company, HSIE Research, *Consolidated

Change in estimates (Consolidated)

(INR mn)	FY22E Old	FY22E New	% Ch	FY23E Old	FY23E New	% Ch	FY24E Old	FY24E New	% Ch
EBIDTA	3,386	3,325	*(1.8)*	4,717	4,586	*(2.8)*	6,412	6,201	*(3.3)*
EPS (INR/sh)	57.6	50.4	*(12.5)*	76.5	67.6	*(11.6)*	100.0	89.5	*(10.5)*

Source: Company, HSIE Research

ADD

CMP *(as on 20 Oct 2021)*	**INR 3,502**
Target Price	**INR 4,025**
NIFTY	**18,267**

KEY CHANGES	**OLD**	**NEW**
Rating	ADD	ADD
Price Target	INR 4,460	INR 4,025
EPS %	FY22E	FY23E
	-12.5%	-11.6%

KEY STOCK DATA	
Bloomberg code	NFIL IN
No. of Shares (mn)	49
MCap (INR bn) / ($ mn)	173/2,329
6m avg traded value (INR mn)	1,185
52 Week high / low	INR 4,213/2,014

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	(8.2)	16.2	71.7
Relative (%)	(25.6)	(12.2)	20.6

SHAREHOLDING PATTERN (%)	**Jun-21**	**Sept-21**
Promoters	30.22	30.22
FIs & Local MFs	15.18	15.17
FPIs	26.65	26.43
Public & Others	27.95	28.20
Pledged Shares	0.91	0.91

Source : BSE

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Sonata Software

Strong execution

We maintain our BUY rating on Sonata, following strong growth of 11% QoQ (~5% organic) in the IT services segment (IITS) and better margin performance. Revenue from Microsoft related services (~50% of IITS) is driving growth (+10.6% QoQ), which is further expected to come in high teens. The Microsoft Dynamics modernisation program is a multi-year opportunity and Sonata is constantly investing in this area. Travel vertical has recovered but will accelerate with an increase in leisure travel (currently at ~50% of pre-COVID level). The IITS EBITDA margin expanded 365bps QoQ, despite supply side concerns, led by offshoring (~69%), higher utilisation (89%), and lower sub-contracting cost. The company has stepped up the hiring of freshers and attrition has touched 23-24% level; the target margin range for IITS is ~23-24%. DPS was weak (seasonality), but the growth in DPS will be driven by higher cloud adoption (~77/75% of DPS is revenue is from cloud/annuity). Sonata's growth profile is sturdy, led by the Microsoft ecosystem, recovery in travel, and strong DPS business. We increase our EPS estimates by +3.6/3.3% for FY22/23E. Our target price of INR 1,050 is based on 22x Dec-23E EPS. The stock trades at a P/E of 21.9/18.6x FY23/24E.

- **Q2FY22 highlights**: IITS revenue stood at USD 49.4mn with +11% QoQ growth, in line with our estimate of USD 49.2mn. Digital/IP-led/platform revenue contributed 70/35/22% to IITS revenue and grew +14.3/11/22.1% QoQ. Retail/ISV/distribution/travel grew +14/5.9 /5.2/4.5% QoQ. IITS EBITDA margin stood at 24.9% (+365bps QoQ) and DPS EBITDA margin stood at 5.6% (+214bps QoQ). Consolidated revenue decelerated by -24.1% QoQ due to a decline in DPS (-36% QoQ) and EBITDA margin stood at 12.8% (+482bps QoQ).
- **Outlook:** We expect IITS growth of +24.9/+18.8/16.2% and DPS growth of +25.9/21.2/21.7% for FY22/23/24E. IITS margin will be at 23.8/23.7/24.3% and DPS margin at 3.1/3.5/3.5% for FY22/23/24E respectively. Revenue/EPS CAGRs for FY21-24E are expected to be +20/28%.

Quarterly Financial summary

YE March (INR bn)	Q2 FY22	Q2 FY21	YoY (%)	Q1 FY22	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
IITS Revenues (USD mn)	49.4	39	*26.7*	44.5	*11.0*	181	160	200	238	276
Net Sales	9.63	8.04	*19.8*	12.69	*(24.1)*	37.43	42.28	53.08	64.38	77.42
EBIT	1.11	0.77	*44.2*	0.91	*22.3*	3.36	3.40	4.40	5.38	6.44
APAT	0.91	0.57	*59.4*	0.87	*5.1*	2.77	2.44	3.56	4.35	5.13
Diluted EPS (INR)	8.8	5.5	*59.4*	8.3	*5.1*	26.7	23.5	34.3	41.9	49.4
P/E (x)						34.4	39.1	26.8	21.9	18.6
EV / EBITDA (x)						25.2	23.9	18.4	14.9	12.2
RoE (%)						38.5	31.0	36.5	38.3	38.8

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

YE March (INR bn)	FY22E Old	FY22E Revised	Change %	FY23E Old	FY23E Revised	Change %	FY24E Old	FY24E Revised	Change %
IITS Revenues (USD mn)	199	200	*0.4*	237	238	*0.5*	275	276	*0.5*
Revenue	54.36	53.08	*(2.3)*	65.53	64.38	*(1.8)*	77.14	77.42	*0.4*
EBIT	4.24	4.40	*3.7*	5.20	5.38	*3.6*	6.38	6.44	*0.9*
EBIT margin (%)	7.8	8.3	48bps	7.9	8.4	43bps	8.3	8.3	5bps
APAT	3.43	3.56	*3.6*	4.21	4.35	*3.3*	5.09	5.13	*0.9*
EPS (INR)	33.1	34.3	*3.6*	40.5	41.9	*3.3*	49.0	49.4	*0.9*

Source: Company, HSIE Research

BUY

CMP *(as on 20 Oct 2021)*	**INR 918**
Target Price	**INR 1,050**
NIFTY	**18,267**

KEY CHANGES	**OLD**	**NEW**
Rating	BUY	BUY
Price Target	INR 1,030	INR 1,050
EPS %	FY22E	FY23E
	+3.6	+3.3

KEY STOCK DATA

Bloomberg code	SSOF IN
No. of Shares (mn)	105
MCap (INR bn) / ($ mn)	96/1,297
6m avg traded value (INR mn)	296
52 Week high / low	INR 1,030/300

STOCK PERFORMANCE (%)

	3M	**6M**	**12M**
Absolute (%)	19.5	58.3	162.7
Relative (%)	2.2	29.8	111.6

SHAREHOLDING PATTERN (%)

	Mar-21	**Sep-21**
Promoters	28.17	28.17
FIs & Local MFs	12.96	12.98
FPIs	13.82	16.49
Public & Others	45.05	42.36
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Mastek

Minor misses, recovery underway

We maintain a BUY on Mastek, despite a soft Q2 (though in line with estimate), based on an expected recovery in the UK government business and ongoing turnaround in the US business. The softness in the quarter was mainly due to project completion in the NHS (health segment) and the contract awarding has been slow; excluding NHS, growth was ~9% QoQ. We expect the growth trajectory for Mastek to revive, based on (1) a strong footing in the UK government business; (2) cloud migration/transformation agenda, which is driving Evosys growth; (3) expected recovery in the NHS, based on deal wins; and (4) healthy recovery in the US geography and UK private segment. The deal pipeline is healthy, with around 25 deals of > USD 5mn+ in the pipeline and a large deal of ~USD 40mn (three-year deal) is near closure. Mastek closed a large deal in Europe, which is expected to ramp up from Q4, providing revenue visibility. The next phase of growth will be driven by US geography; the company is looking for an M&A for a head start. The EBIT margin was maintained but there will be headwinds due to planned investments, higher attrition, and an increase in freshers' hiring. We have cut our EPS estimate by 2-3% and our TP of INR 3,300 is based on 24x Dec-23E EPS. The stock is trading at a P/E 25.2/20.5x FY22/23E, which is a discount of ~36% to the tier-2 IT average.

- **Q2FY22 highlights**: (1) Revenue stood at USD 72mn (+3.9% QoQ CC) vs. the estimate of USD 71.8mn, supported by a strong recovery in the US geography (+21.2% QoQ) and UK private offset by weakness in NHS; (2) the 12-month executable order book stood at USD 156mn, down 1.6% QoQ; (3) EBIT margin contracted 77bps QoQ to 19.2% due to wage hike and supply side concerns (attrition inched up to 24.2%); (4) retail/UK government/BFSI vertical supported growth (+7.5/+6.4%/+4.6% QoQ) while the healthcare vertical was under stress (-16.3% QoQ); (5) cloud and enterprise apps, which is primarily Evosys, was up 7.7/37.5% QoQ/YoY; (5) Mastek hired 208 employees on a net basis and plans to add more freshers in H2.
- **Outlook**: We expect USD revenue growth of +25.7/15.3/14.8% in FY22/23/24E, which implies a CQGR of +2.5% for Q2-Q4FY22E. We estimate EBIT margin would come in at 17.8/18.0% in FY22/23E, resulting in an FY21-24E EPS CAGR of 25.3%.

Quarterly Financial summary

YE Mar (INR Bn)	Q2 FY22	Q2 FY21	YoY (%)	Q1 FY22	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
Revenue (USD Mn)	72.0	55.1	30.7	70.2	2.6	151	232	291	336	386
Net Sales	5.34	4.10	30.3	5.16	3.4	10.71	17.22	21.54	25.21	29.32
EBIT	1.02	0.75	36.7	1.03	(0.6)	1.32	3.20	3.83	4.52	5.65
APAT	0.72	0.51	41.9	0.69	4.3	1.31	2.11	2.72	3.34	4.11
Diluted EPS (INR)	25.37	17.88	41.9	24.32	4.3	46.1	73.5	95.4	117.2	144.4
P/E (x)						64.1	40.2	31.0	25.2	20.5
EV / EBITDA (x)						53.4	21.4	17.6	14.5	11.3
RoE (%)						17.4	25.4	28.3	28.1	28.0

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

YE Mar (INR Bn)	FY22E Old	FY22E Revised	Change %	FY23E Old	FY23E Revised	Change %	FY24E Old	FY24E Revised	Change %
Revenue (USD Mn)	290	291	*0.4*	338	336	*(0.7)*	388	386	*(0.7)*
Revenue	21.46	21.54	*0.4*	25.38	25.21	*(0.7)*	29.51	29.32	*(0.7)*
EBIT	3.80	3.83	*0.8*	4.72	4.52	*(4.1)*	5.84	5.65	*(3.2)*
EBIT margin (%)	17.7	17.8	7bps	18.6	18.0	-65bps	19.8	19.3	-50bps
APAT	2.71	2.72	*0.4*	3.45	3.34	*(3.2)*	4.21	4.11	*(2.2)*
EPS (INR)	95.1	95.4	*0.4*	121.1	117.2	*(3.2)*	147.7	144.4	*(2.2)*

Source: Company, HSIE Research

BUY

CMP *(as on 20 Oct 2021)*	**INR 2,956**
Target Price	**INR 3,300**
NIFTY	**18,267**

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 3,385	INR 3,300
EPS %	FY22E	FY23E
	+0.4	-3.2

KEY STOCK DATA	
Bloomberg code	MAST IN
No. of Shares (mn)	25
MCap (INR bn) / ($ mn)	75/1,008
6m avg traded value (INR mn)	512
52 Week high / low	INR 3,669/770

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	18.4	114.1	266.1
Relative (%)	1.0	85.7	215.0

SHAREHOLDING PATTERN (%)	Jun-21	Sep-21
Promoters	44.25	37.75
FIs & Local MFs	10.71	7.99
FPIs	5.67	4.16
Public & Others	39.37	50.01
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Heidelberg Cement

Cost pass-through efforts to protect margin

We maintain ADD on Heidelberg Cement (HEIM) with an unchanged target price of INR 250/share (8.5x Sep'23E consolidated EBITDA). We like HEIM for its strong retail positioning, robust margin, and healthy balance sheet. Delays in major capacity additions would, however, subdue its sales growth beyond FY24E, thereby restricting valuation rerating. In Q2FY22, while revenue rose 12% YoY to INR 5.76bn, EBITDA/APAT fell 8/5% YoY to INR 1.16bn/ 0.6bn respectively, due to rising cost inflation. Unitary EBITDA cooled off 17/15% YoY/QoQ to INR 946/MT. The company guided that cement prices would increase by ~INR 100/bag during H2 to pass on the soaring energy costs.

- **Q2FY22 performance:** Sales volume rose 11% YoY to 1.23mn MT (+4% QoQ) on strong demand recovery. This also led to flattish NSR QoQ despite the impact of monsoon. Opex rose 4% QoQ, mainly led by higher other expenses (~INR 150/MT QoQ) while all line items remained flattish QoQ (despite rising energy costs). The share of low-cost green power increased to 27% in Q2 vs 23% QoQ. Thus, unitary EBITDA cooled off 15% QoQ to INR 946/MT. On a YoY basis, energy cost inflation drove down unitary EBITDA by 17%. During H1FY22, HEIM generated OCF of INR 2.03bn, out of which INR 0.2bn was spent on Capex and INR 1.8bn as dividend; thus, debt and net debt remained the same as in Mar'21.
- **Management commentary and outlook:** HEIM has increased cement prices by INR 20-25/bag so far in October. It plans to raise prices by another INR 75-100/bag over the next 4-5months to pass on the soaring energy costs. HEIM guided that its opex would surge by ~INR 300-400/MT QoQ in Q3FY22 and is expected to rise further in Q4. Additionally, sourcing of fuel and fly ash is becoming challenging. It guided for a total Capex of INR 550-600mn (INR 400-500mn - maintenance capex, INR 160mn – AFR projects) for FY22E. With the onboarding of 22mn kWh annual solar PPA from Q3FY22, HEIM's share of green power consumption should expand to 30%+, reducing its blended power cost. We expect the industry to pass on the soaring costs, given the increased industry consolidation. We keep our estimates unchanged for FY22/23/24E. We maintain our ADD rating on the stock with an unchanged target price of INR 250/sh, valuing it at 8.5x the Sep'23E EBITDA.

Quarterly/annual financial summary

YE Mar (INR bn)	Q2 FY22	Q2 FY21	YoY (%)	Q1 FY21	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
Sales (mn MT)	1.23	1.11	*11.1*	1.18	*4.0*	4.71	4.49	5.20	5.57	5.96
NSR (INR/MT)	4,683	4,637	*1.0*	4,695	*(0.3)*	4,611	4,718	4,718	4,789	4,885
Opex (INR/MT)	3,737	3,500	*6.8*	3,588	*4.1*	3,490	3,589	3,727	3,731	3,773
EBITDA(INR/MT)	946	1,137	*(16.8)*	1,107	*(14.6)*	1,122	1,129	991	1,058	1,112
Net Sales	5.76	5.14	*12.2*	5.56	*3.7*	21.70	21.17	24.55	26.67	29.10
EBITDA	1.16	1.26	*(7.5)*	1.31	*(11.2)*	5.28	5.07	5.16	5.89	6.63
APAT	0.60	0.62	*(4.6)*	0.69	*(13.2)*	2.68	3.15	2.70	3.11	3.89
AEPS (INR)	2.6	2.8	*(4.6)*	3.0	*(13.2)*	11.8	13.9	11.9	13.7	17.2
EV/EBITDA (x)						8.3	8.5	10.4	9.4	8.6
EV/MT (INR bn)						7.00	6.86	8.56	8.82	9.13
P/E (x)						16.3	13.9	20.8	18.1	14.4
RoE (%)						*21.6*	*22.4*	*17.4*	*18.3*	*20.6*

Source: Company, HSIE Research

ADD

CMP *(as on 20 Oct 2021)*	**INR 248**
Target Price	**INR 250**
NIFTY	**18,267**

KEY CHANGES	**OLD**	**NEW**
Rating	ADD	ADD
Price Target	INR 250	INR 250
EBITDA revision %	FY22E -	FY23E -

KEY STOCK DATA	
Bloomberg code	HEIM IN
No. of Shares (mn)	227
MCap (INR bn) / ($ mn)	56/756
6m avg traded value (INR mn)	100
52 Week high / low	INR 285/179

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	(6.5)	7.0	32.3
Relative (%)	(23.8)	(21.4)	(18.8)

SHAREHOLDING PATTERN (%)	**Jun-21**	**Sep-21**
Promoters	69.39	69.39
FIs & Local MFs	10.09	10.94
FPIs	6.59	5.81
Public & Others	13.93	13.86
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	Jubilant FoodWorks	PGDM	NO
Naveen Trivedi	Jubilant FoodWorks	MBA	NO
Saras Singh	Jubilant FoodWorks	PGDM	NO
Nilesh Ghuge	Navin Fluorine International	MMS	NO
Harshad Katkar	Navin Fluorine International	MBA	NO
Rutvi Chokshi	Navin Fluorine International	CA	NO
Rachael Alva	Navin Fluorine International	CA	NO
Amit Chandra	Sonata Software, Mastek	MBA	NO
Vinesh Vala	Sonata Software, Mastek	MBA	NO
Rajesh Ravi	Heidelberg Cement	MBA	NO
Keshav Lahoti	Heidelberg Cement	CA	NO

Disclosure:

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