

HSIE Results Daily

Contents

Results Reviews

- SBI Life Insurance:** SBILIFE's total APE was in line with our estimates; however, growth in the protection segment moderated to 14% YoY due to limited access to physical medicals. With strong growth in the NPAR and annuities segment and a decent share of protection in the mix, VNB growth was stellar (+57% YoY). We are positively impressed by the growth in premium from other channels (incl. banca ex-SBIN), which is mitigating dependence on any single channel. The company's three growth levers continue to remain in place: (1) parent SBI's massive distribution network (24k+ branches); (2) healthy share of protection; and (3) lowest opex ratio amongst peers (9MFY22: 8.6%). We expect SBILIFE to deliver a healthy FY21-24E VNB CAGR of 25% and retain our BUY rating on the stock with an unchanged TP of INR1,530 (2.7x Sep-23E EV).
- Havells India:** Havells delivered strong topline performance, led by positive demand trends and pricing actions. Revenue grew 15% YoY (HSIE 12%; 27% two-year CAGR). It reported 29% and 22% two-year CAGRs in ECD and lighting segments vs. 22% and 7% for Orient Electric. Lloyd's revenue declined 9% YoY (-5% HSIE) on a high base, but it was up 24% on two-year CAGR. Lloyd was unable to take price hikes due to the existence of hyper-competition in the RAC industry. As a result, it reported an EBIT loss of INR 418mn vs. a profit of INR 309mn in Q3FY21. Gross margin continued to be under pressure, contracting 583bps YoY to 32.3% due to input cost pressure and unfavourable segment mix. EBITDA margin contracted 399bps YoY to 12.1% (HSIE 14.9%). The company plans to take 5-10% price hikes from Feb-March in ECD/Lloyd, with there being a strong possibility of higher hikes on account of further inflation. Given the loss of two summer seasons and positive trade sentiment, we expect large pent-up demand to show up in the upcoming season, which would benefit Lloyd too. With pricing actions and a positive sentiment, we remain optimistic for the stock. We cut our FY22 EPS by 5% while maintain it for FY23/FY24. We value the stock at 55x P/E on FY24E EPS to derive a target price of INR 1,550. Maintain ADD.
- Mphasis:** With continued momentum in the direct business (+9% QoQ CC) and healthy deal wins (eight consecutive quarter of TCV > USD 200mn), we reiterate Mphasis (MPHL) as our preferred pick in the mid-tier IT space. MPHL's growth is expected to be driven by (1) expansion in the direct business (organic +6.3% QoQ); (2) strong traction in BFSI vertical (increase in tech spend by global banks); (3) continued growth in the top-10 accounts (+9.5% QoQ); (4) increasing share/size of large deal wins (signed four large deal wins in Q3 with one at USD 92mn in healthcare); (5) Blink acquisition, which is aiding new deal wins (two synergy deal wins); and (6) better growth alignment with hyperscalers. The DXC decline was ~10% QoQ (in-line) and is only 5% of revenue. We expect the company's growth to converge with direct core growth (26% CAGR over FY21-24E), led by healthy deal wins (TCV CAGR of 43%). The ongoing supply side challenges will have some impact on margins; the target EBIT margin range is 15.5-17%. Our target price of INR 3,800 values MPHL at 32x Mar-24E EPS. Maintain BUY.

HSIE Research Team

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- **Bandhan Bank:** Bandhan Bank's Q3FY22 earnings were marginally ahead of our estimates, largely driven by higher-than-expected other income. The bank witnessed a sharp reduction in early delinquency buckets of its EEB portfolio (~1000bps reduction in 1-60dpd buckets) and restructured pool (INR17.3bn). However, the total stressed pool of its EEB portfolio (SMA-II+ GNPA+ restructured) remains sticky at 27% of loans (Q2FY22: 29%), indicating stubbornness of high-vintage stressed assets. Incremental disbursements were driven predominantly by non-EEB segments, in line with management guidance of portfolio diversification (Group EEB share of the portfolio at 30% by FY25). However, we remain watchful of the impending shift in the bank's sustainable RoE profile with these proposed changes to the portfolio mix. Given low-base earnings, a marginal increase in credit costs from slower resolution of high-vintage buckets of stressed loans results in a 75% cut to our FY22 earnings forecasts. Maintain BUY with a revised target price of INR363 (2.7x Sep'23 ABVPS).
- **Persistent Systems:** We maintain ADD on Persistent Systems (PSYS), following a robust Q2 (beat on all fronts) and a healthy deal momentum. PSYS' growth continuation is premised on (1) improving deal wins (TCV is up 18.3% QoQ with a healthy book-to-bill of 1.7x); (2) high volume of mid-sized deals leading to healthy ACV growth; (3) client mining capabilities reflected in strong scale-up in >USD 5mn+ client bucket; and (4) strong Salesforce and Azure practice and improving partnerships with GCP and AWS. Organic growth was 6.1% QoQ and acquisition of SCI will provide access to some top US banks while Shree Partners will give access to FTEs. The IP-led business was up 16.2% QoQ, supported by seasonality. The margin expanded 10bps, led by flat sub-con cost and better pricing, offset by higher ESOP cost (~70bps) and rising attrition. We reduce EPS estimates by 0.8/1.2% for FY23/24E and our target price of INR 4,900 values PSYS at 35x Mar-24E, supported by a 26% EPS CAGR over FY22-24E.
- **Orient Electric:** Orient Electric (Orient) posted a marginal beat on revenue; however, pressure on margin was more than expected. Revenue grew 10% (HSIE 8%) and sustained a healthy two-year CAGR of 17%. ECD segment clocked revenue growth of 5% YoY (in-line) over a strong base (22% two-year CAGR, Havells 29%). The lighting segment revenue saw a beat on estimate, growing 25% YoY and 7% two-year CAGR (Havells 22%). Growth in lighting was driven by B-C segment with recovery visible in B-B. EBITDA margin, at 9.8% (HSIE 10.7%), contracted 382bps YoY due to high input cost pressure (GM dipped 344bps). EBITDA declined 21% YoY (+21% two-year CAGR). With recovery in B-B lighting and positive trade sentiment for ECD, we expect the company to sustain healthy revenue growth across segments. We maintain our EPS estimates and value Orient Electric at 38x P/E on FY24E EPS to derive a TP of INR 400. Maintain BUY.

SBI Life Insurance

Steady growth; in-line performance

SBILIFE's total APE was in line with our estimates; however, growth in the protection segment moderated to 14% YoY due to limited access to physical medicals. With strong growth in the NPAR and annuities segment and a decent share of protection in the mix, VNB growth was stellar (+57% YoY). We are positively impressed by the growth in premium from other channels (incl. banca ex-SBIN), which is mitigating dependence on any single channel. The company's three growth levers continue to remain in place: (1) parent SBI's massive distribution network (24k+ branches); (2) healthy share of protection; and (3) lowest opex ratio amongst peers (9MFY22: 8.6%). We expect SBILIFE to deliver a healthy FY21-24E VNB CAGR of 25% and retain our BUY rating on the stock with an unchanged TP of INR1,530 (2.7x Sep-23E EV).

- Strong on growth and margins:** SBILIFE printed total APE at INR45.8bn (+31% YoY; 2y CAGR 17%), in line with the estimate and higher than the growth reported by private life insurers; the same was led by NPAR segment (86%), ULIP, and annuities. The retail protection segment is seeing growth moderate to 14% YoY, on the back of restricted medicals; however, management is confident of regaining traction in its new product (launched in Q2). The annuity segment delivered stellar growth (+100% YoY), supporting margins. Adj. VNB grew 57%, boosted by healthy VNB margin at 25.7% (+426bps YoY, on ETR). Management stated that margin expansion has been primarily a function of the rising share of NPAR and annuities in the mix and greater proportion of high-margin products. Persistencies improved across cohorts in the range of 49-448bps, except for the 61st month. Within the channel mix, new corporate partnerships registered an impressive +51% YoY growth. SBILIFE did not taken any price hikes in Q3.
- COVID reserves:** COVID claims softened to INR1.9bn (0.2x of Q2 claims) and were well within the mortality assumptions; however, the company continues to carry closing COVID reserves of INR2.66bn to cover for any spike on account of the Omicron variant.

Financial summary

(INR mn)	Q3FY22	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	FY21	FY22E	FY23E	FY24E
NBP	72.9	54.4	-10.6	81.5	0.0	206.2	286.4	338.8	411.1
APE	45.8	35.1	15.0	39.8	0.0	114.5	147.5	169.4	194.2
Adj. VNB	11.8	7.5	14.8	10.3	0.0	26.6	38.6	45.1	52.4
Adj. VNB (%)	25.7	21.5	426bps	25.8	-4bps	23.2	26.2	26.6	27.0
EV						350.6	411.6	483.7	566.3
MCap/EV (x)						3.5	3.0	2.6	2.2
P/VNB (x)						36.3	23.0	18.4	14.4
RoEV(%)						27.7	17.9	18.2	18.1

Source: Company, HSIE Research

Change in estimates

(INR bn)	FY22E			FY23E			FY24E		
	Revised	Old	Change % / bps	Revised	Old	Change % / bps	Revised	Old	Change % / bps
APE	147.5	147.5	0.0	169.4	169.4	0.0	194.2	194.2	0.0
VNB	38.6	38.6	0.0	45.1	45.1	0.0	52.4	52.4	0.0
VNB (%)	26.2	26.2	0	26.6	26.6	0	27.0	27.0	0
EV	411.6	411.6	0.0	483.7	483.7	0.0	566.3	566.3	0.0

Source: Company, HSIE Research

BUY

CMP (as on 21 Jan 2022)	INR 1,241
Target Price	INR 1,530
NIFTY	17,617

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 1,530	INR 1,530
	FY22E	FY23E
VNB %	Nil	Nil

KEY STOCK DATA

Bloomberg code	SBILIFE IN
No. of Shares (mn)	1,000
MCap (INR bn) / (\$ mn)	1,241/16,676
6m avg traded value (INR mn)	2,397
52 Week high / low	INR 1,315/838

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	7.1	22.3	41.3
Relative (%)	10.2	9.2	22.3

SHAREHOLDING PATTERN (%)

	Sep-21	Dec-21
Promoters	55.7	55.7
FIs & Local MFs	12.1	12.0
FPIs	24.5	24.5
Public & Others	7.8	7.8
Pledged Shares	Nil	Nil

Source : BSE

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Havells India

Strong revenue performance; positive outlook

Havells delivered strong topline performance, led by positive demand trends and pricing actions. Revenue grew 15% YoY (HSIE 12%; 27% two-year CAGR). It reported 29% and 22% two-year CAGRs in ECD and lighting segments vs. 22% and 7% for Orient Electric. Lloyd's revenue declined 9% YoY (-5% HSIE) on a high base, but it was up 24% on two-year CAGR. Lloyd was unable to take price hikes due to the existence of hyper-competition in the RAC industry. As a result, it reported an EBIT loss of INR 418mn vs. a profit of INR 309mn in Q3FY21. Gross margin continued to be under pressure, contracting 583bps YoY to 32.3% due to input cost pressure and unfavourable segment mix. EBITDA margin contracted 399bps YoY to 12.1% (HSIE 14.9%). The company plans to take 5-10% price hikes from Feb-March in ECD/Lloyd, with there being a strong possibility of higher hikes on account of further inflation. Given the loss of two summer seasons and positive trade sentiment, we expect large pent-up demand to show up in the upcoming season, which would benefit Lloyd too. With pricing actions and a positive sentiment, we remain optimistic for the stock. We cut our FY22 EPS by 5% while maintain it for FY23/FY24. We value the stock at 55x P/E on FY24E EPS to derive a target price of INR 1,550. Maintain ADD.

- Robust category performance:** Revenue grew 15% YoY (+39% in Q3FY21 and 31% in Q2FY22), a beat to our expectation of 12% YoY growth. Switchgears, cables, lighting, ECD, others grew 13/33/15/14/5% YoY. Two-year CAGRs were +22/+30/+22/+29/+27%. Lloyd declined 9% YoY vs. 5% expected. Demand from construction activities remained strong and industrial and infra continued to show signs of revival.
- Margin pressure continues:** GM was down 583bps YoY (-145bps in Q3FY21 and -597bps in Q2FY22; -262bps HSIE). Employee/A&P/other expenses grew 9/85/-7% YoY. The company's A&P spends are back to pre-COVID levels. EBIT margin for switchgear, cable, lighting, ECD, and others contracted by 209/92/167/520/152bps YoY to 29/10/21/13/2%. Contribution margin improved sequentially, except for ECD/Lloyd. ECD margin improvement is expected from Q4FY22. The upcoming season will be the key monitorable for Lloyd's overall show. EBITDA margin contracted 399bps YoY to 12.1% (+420bps in Q3FY21 and -339bps in Q2FY22). EBITDA declined by 13% YoY (HSIE +4%). PAT declined by 12% YoY to INR 3,059mn (HSIE INR 3,628mn).
- Con call takeaways:** (1) Festive demand, new construction activities, and industrial were strong. (2) Slowdown was seen in the later part of the quarter due to the COVID third wave. (3) RAC demand should be strong in the coming season (on a low base) due to loss of past two seasons. (4) Crabtree and Standard revenue was at INR 3bn and INR 6bn respectively. (5) Havells expects Lloyd RAC EBIT margin to reach double digits in the long term and blended margin (with W/M, Ref) near 7-8%. (6) Advertisement expenses are back at normalised levels. (7) Capex guidance for FY22 stands at INR 2-2.5bn.

Quarterly/annual financial summary

YE Mar (INR mn)	Q3FY22	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	FY21	FY22E	FY23E	FY24E
Net Sales	36,523	31,659	15.4	32,210	13.4	104,279	135,449	158,071	175,443
EBITDA	4,403	5,081	(13.3)	4,436	(0.7)	15,653	18,132	22,182	24,620
APAT	3,059	3,491	(12.4)	3,016	1.4	10,396	12,215	15,261	17,329
Diluted EPS (Rs)	4.9	5.6	(12.4)	4.8	1.4	16.6	19.5	24.4	27.7
P/E (x)						75.0	63.8	51.1	45.0
EV / EBITDA (x)						48.9	41.7	33.6	30.0
Core RoCE (%)						26.5	28.2	34.5	37.0

Source: Company, HSIE Research

ADD

CMP (as on 21 Jan 2022)	INR 1,242
Target Price	INR 1,550
NIFTY	17,617

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 1,550	INR 1,550
	FY22E	FY23E
EPS %	-5%	0%

KEY STOCK DATA

Bloomberg code	HAVL IN
No. of Shares (mn)	626
MCap (INR bn) / (\$ mn)	778/10,451
6m avg traded value (INR mn)	2,098
52 Week high / low	INR 1,504/958

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(3.4)	12.5	9.7
Relative (%)	(0.3)	(0.6)	(9.3)

SHAREHOLDING PATTERN (%)

	Sep-21	Dec-21
Promoters	59.47	59.47
FIs & Local MFs	6.12	6.26
FPIs	26.76	26.51
Public & Others	7.65	7.76
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Mphasis

Growth visibility powered by deal wins

With continued momentum in the direct business (+9% QoQ CC) and healthy deal wins (eight consecutive quarter of TCV > USD 200mn), we reiterate Mphasis (MPHL) as our preferred pick in the mid-tier IT space. MPHL's growth is expected to be driven by (1) expansion in the direct business (organic +6.3% QoQ); (2) strong traction in BFSI vertical (increase in tech spend by global banks); (3) continued growth in the top-10 accounts (+9.5% QoQ); (4) increasing share/size of large deal wins (signed four large deal wins in Q3 with one at USD 92mn in healthcare); (5) Blink acquisition, which is aiding new deal wins (two synergy deal wins); and (6) better growth alignment with hyperscalers. The DXC decline was ~10% QoQ (in-line) and is only 5% of revenue. We expect the company's growth to converge with direct core growth (26% CAGR over FY21-24E), led by healthy deal wins (TCV CAGR of 43%). The ongoing supply side challenges will have some impact on margins; the target EBIT margin range is 15.5-17%. Our target price of INR 3,800 values MPHL at 32x Mar-24E EPS. Maintain BUY.

- Q3FY22 highlights:** (1) Revenue came in at USD 414mn, +7.8/+24.2% QoQ/YoY (CC terms), led by growth of +9/+36.1% QoQ/YoY (CC terms) in the direct business (93% of revenue), offset by DXC-HP (5% of revenue) de-growth of -10.4/-49.2% QoQ/YoY (CC terms); (2) EBIT margin stood at 15.1% (in line with our estimate of 15%), flat sequentially and declining -129bps YoY. Adjusting the M&A related charges, EBIT margin improved 10bps QoQ; (3) management has maintained its organic operating margin guidance of 15.5-17% and industry leading revenue growth in the direct business; (4) deal wins in direct international, at USD 335mn, improved 39% QoQ - 57% of them were in New-Gen services; (5) the company added a billable headcount of 568 in Q3FY22 and it intends to add 5,500 freshers by FY22E; (6) top client grew 7.6% QoQ and the top-5/10 clients grew 10.1/9.5% QoQ in Q3.
- Outlook:** We have factored in 22/21/16% growth in revenue, based on growth in the direct business at 36/24/18% and DXC-HP at -50/-29/-13% for FY22/23/24E respectively; further, we have factored in EBIT margin at 15.2/15.5/16.3% for FY22/23/24E, resulting in an EPS CAGR of 24% over FY22-24E.

Quarterly Financial summary

YE March (INR bn)	Q3 FY22	Q3 FY21	YoY (%)	Q2 FY22	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
Revenue (USD mn)	414	334	24.0	385	7.5	1,240	1,309	1,597	1,926	2,243
Net Sales	24.74	22.77	8.7	24.35	1.6	88.44	97.22	119.45	144.49	170.50
EBIT	4.05	3.69	9.6	3.92	3.2	14.19	15.61	18.22	22.36	27.78
APAT	3.26	2.94	10.9	2.99	8.8	11.42	12.17	14.38	17.75	22.12
Diluted EPS (INR)	17.5	15.8	10.9	16.1	8.8	61.3	65.3	77.2	95.3	118.7
P/E (x)						49.3	46.3	39.2	31.8	25.5
EV / EBITDA (x)						33.1	30.0	25.3	20.5	16.4
RoE (%)						20.6	19.7	20.9	23.1	25.3

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 %
Revenue (USD mn)	1,586	1,597	0.7	1,903	1,926	1.3	2,216	2,243	1.3
Revenue	118.48	119.45	0.8	142.69	144.49	1.3	168.38	170.50	1.3
EBIT	18.24	18.22	(0.1)	22.81	22.36	(2.0)	28.50	27.78	(2.5)
EBIT margin (%)	15.4	15.2	-15bps	16.0	15.5	-51bps	16.9	16.3	-63bps
APAT	14.35	14.38	0.3	18.09	17.75	(1.9)	22.66	22.12	(2.4)
EPS (INR)	77.0	77.2	0.3	97.1	95.3	(1.9)	121.6	118.7	(2.4)

Source: Company, HSIE Research

BUY

CMP (as on 21 Jan 2022)	INR 3,025
Target Price	INR 3,800
NIFTY	17,617

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 3,900	INR 3,800
	FY22E	FY23E
EPS %	+0.3	-1.9

KEY STOCK DATA

Bloomberg code	MPHL IN
No. of Shares (mn)	187
MCap (INR bn) / (\$ mn)	567/7,620
6m avg traded value (INR mn)	2,789
52 Week high / low	INR 3,660/1,387

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(10.9)	28.9	90.7
Relative (%)	(7.9)	15.8	71.7

SHAREHOLDING PATTERN (%)

	Sep-21	Dec-21
Promoters	55.95	55.90
FIs & Local MFs	17.88	17.72
FPIs	20.85	21.10
Public & Others	5.32	5.28
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Bandhan Bank

Low-hanging gains accrued; tough grind ahead

Bandhan Bank's Q3FY22 earnings were marginally ahead of our estimates, largely driven by higher-than-expected other income. The bank witnessed a sharp reduction in early delinquency buckets of its EEB portfolio (~1000bps reduction in 1-60dpd buckets) and restructured pool (INR17.3bn). However, the total stressed pool of its EEB portfolio (SMA-II+ GNPA+ restructured) remains sticky at 27% of loans (Q2FY22: 29%), indicating stubbornness of high-vintage stressed assets. Incremental disbursements were driven predominantly by non-EEB segments, in line with management guidance of portfolio diversification (Group EEB share of the portfolio at 30% by FY25). However, we remain watchful of the impending shift in the bank's sustainable RoE profile with these proposed changes to the portfolio mix. Given low-base earnings, a marginal increase in credit costs from slower resolution of high-vintage buckets of stressed loans results in a 75% cut to our FY22 earnings forecasts. Maintain BUY with a revised target price of INR363 (2.7x Sep'23 ABVPS).

- **Disbursements gain traction, driven by non-MFI portfolio:** Bandhan's disbursements grew 32%/61% YoY/QoQ, with incremental growth driven by the non-MFI portfolio. EEB-individual's share in the portfolio continued to inch up steadily to 14% (Q3FY21: 6%), while the mix of housing and commercial segments remained largely stable.
- **Early-stage delinquencies normalise; late-stage stays stubborn:** Bandhan reported GNPA/NNPA at 10.8%/3%, broadly stable sequentially as strong recoveries were offset by higher delinquencies (slippages at 17% annualised) in the early-delinquency buckets. The bulk of the stress continues to emanate from the vulnerable EEB portfolio (84% of GNPA). Improvement in collection efficiency in the MFI portfolio in two key states (West Bengal at 96% and Assam at 91%) is a positive. While early-stage delinquent buckets witnessed a sharp sequential improvement, the late-stage delinquency buckets (SMA-II+NPA) remain extremely stubborn, suggesting that the low-hanging gains have already accrued during the quarter. Unwinding of the late-stage stress pool remains a key monitorable.

Financial summary

(INR bn)	Q3FY22	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	FY21	FY22E	FY23E	FY24E
NII	21.2	20.7	2.6%	19.4	9.8%	75.6	83.9	95.6	115.6
PPOP	19.5	19.1	1.9%	15.5	25.9%	68.6	71.7	78.4	91.9
PAT	8.6	6.3	35.8%	(30.1)	NM	22.1	1.4	40.1	51.4
EPS (INR)	5.3	3.9	36.0%	(18.7)	NM	13.7	0.9	24.9	31.9
ROAE (%)						13.5	0.8	21.0	22.3
ROAA (%)						2.1	0.1	2.9	3.1
ABVPS (INR)						90.3	96.0	119.5	147.4
P/ABV (x)						3.3	3.1	2.5	2.0
P/E (x)						21.5	338.2	11.9	9.2

Change in estimates

(INR bn)	FY22E			FY23E			FY24E		
	Old	New	Change	Old	New	Change	Old	New	Change
Net advances	884	880	-0.4%	1,067	1,065	-0.2%	1,295	1,300	0.4%
NIM (%)	7.5	7.5	-2 bps	7.5	7.4	-3 bps	7.5	7.5	-1 bps
NII	84.2	83.9	-0.3%	96.1	95.6	-0.5%	115.5	115.6	0.0%
PPOP	71.7	71.7	0.0%	79.0	78.4	-0.7%	91.8	91.9	0.1%
PAT	5.6	1.4	-75.0%	40.6	40.1	-1.3%	51.5	51.4	-0.1%
Adj. BVPS (INR)	102.3	96.0	-6.1%	128.8	119.5	-7.2%	155.4	147.4	-5.2%

Source: Company, HSIE Research

BUY

CMP (as on 21 Jan 2022)	INR 296
Target Price	INR 363
NIFTY	17,617

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 371	INR 363
EPS %	FY22E	FY23E
	-75%	-1%

KEY STOCK DATA

Bloomberg code	BANDHAN IN
No. of Shares (mn)	1,611
MCap (INR bn) / (\$ mn)	476/6,396
6m avg traded value (INR mn)	2,258
52 Week high / low	INR 373/230

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(6.6)	(2.4)	(13.3)
Relative (%)	(3.5)	(15.5)	(32.2)

SHAREHOLDING PATTERN (%)

	Sep-21	Dec-21
Promoters	40.0	40.0
FIs & Local MFs	16.1	15.5
FPIs	33.6	34.6
Public & Others	10.3	9.9
Pledged Shares	0.0	0.0

Source : BSE

Pledged shares as % of total shares

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Persistent Systems

Deal wins trending upwards

We maintain ADD on Persistent Systems (PSYS), following a robust Q2 (beat on all fronts) and a healthy deal momentum. PSYS' growth continuation is premised on (1) improving deal wins (TCV is up 18.3% QoQ with a healthy book-to-bill of 1.7x); (2) high volume of mid-sized deals leading to healthy ACV growth; (3) client mining capabilities reflected in strong scale-up in >USD 5mn+ client bucket; and (4) strong Salesforce and Azure practice and improving partnerships with GCP and AWS. Organic growth was 6.1% QoQ and acquisition of SCI will provide access to some top US banks while Shree Partners will give access to FTEs. The IP-led business was up 16.2% QoQ, supported by seasonality. The margin expanded 10bps, led by flat sub-con cost and better pricing, offset by higher ESOP cost (~70bps) and rising attrition. We reduce EPS estimates by 0.8/1.2% for FY23/24E and our target price of INR 4,900 values PSYS at 35x Mar-24E, supported by a 26% EPS CAGR over FY22-24E.

- Q3FY22 highlights:** (1) PSYS' revenue came in at USD 199.1mn (higher than our estimate of USD 196.5mn), +9.2/+36.2% QoQ/YoY, supported by healthy growth in services revenue (+8.3% QoQ) and IP revenue (+15.9% QoQ). (2) Growth in Q3FY22 was broad-based across verticals, led by BFSI at +14.6% QoQ, followed by technology & emerging at +6.9% QoQ and healthcare & life-sciences at +6.6% QoQ. (3) Revenue from the top account reported robust growth of +13.1% QoQ, contributing 17.5% of the total, and revenue from top-5/10 grew by +10.1/8.3% QoQ respectively. (4) EBIT margin stood at 14% (higher than our estimate of 13.4%), +10bps QoQ, supported by better gross margins. (5) PSYS reported TCV growth of +18% at USD 334mn, which included new TCV wins of USD 158mn (+5.6% QoQ). (6) It added a headcount of 1,110 in Q3FY22 (vs. 975 in Q2FY22) and attrition increased by 330bps QoQ at 26.9%.
- Outlook:** We have factored in USD revenue growth at 34/26/19% and EBITDA margin at 16.6/15.9/16.3% over FY22/23/24E, resulting in FY22-24E EPS CAGR at 26%. At CMP, PSYS is trading at a PE of 37.7/30.7x FY23/24E.

Quarterly Financial summary

YE March (INR bn)	Q3 FY22	Q3 FY21	YoY (%)	Q2 FY22	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
Revenue (USD mn)	199	146	36.2	182	9.2	502	566	759	955	1,141
Net Sales	14.92	10.75	38.7	13.51	10.4	35.66	41.88	56.55	71.65	86.68
EBIT	2.08	1.36	52.7	1.87	11.2	3.27	5.07	7.73	9.69	12.11
APAT	1.76	1.21	45.9	1.62	9.1	3.59	4.51	6.75	8.72	10.70
Diluted EPS (INR)	23.1	15.8	45.9	21.2	9.1	47.0	59.0	88.3	114.1	140.1
P/E (x)						91.6	72.9	48.7	37.7	30.7
EV / EBITDA (x)						63.8	45.3	32.7	26.6	21.1
RoE (%)						14.4	17.4	22.2	24.3	25.0

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 %
Revenue (USD mn)	754	759	0.6	946	955	1.0	1,131	1,141	0.9
Revenue	56.21	56.55	0.6	70.96	71.65	1.0	85.93	86.68	0.9
EBIT	7.71	7.73	0.3	9.80	9.69	(1.1)	12.30	12.11	(1.5)
EBIT margin (%)	13.7	13.7	-5bps	13.8	13.5	-28bps	14.3	14.0	-34bps
APAT	6.79	6.75	(0.6)	8.79	8.72	(0.8)	10.83	10.70	(1.2)
EPS (INR)	88.8	88.3	(0.6)	115.0	114.1	(0.8)	141.7	140.1	(1.2)

Source: Company, HSIE Research

ADD

CMP (as on 21 Jan 2022)	INR 4,302
Target Price	INR 4,900
NIFTY	17,617

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 4,960	INR 4,900
EPS %	FY22E -0.6	FY23E -0.8

KEY STOCK DATA

Bloomberg code	PSYS IN
No. of Shares (mn)	76
MCap (INR bn) / (\$ mn)	329/4,418
6m avg traded value (INR mn)	1,286
52 Week high / low	INR 4,988/1,482

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	6.6	53.3	169.2
Relative (%)	9.7	40.2	150.2

SHAREHOLDING PATTERN (%)

	Sep-21	Dec-21
Promoters	31.26	31.26
FIs & Local MFs	27.87	26.87
FPIs	19.30	19.92
Public & Others	21.57	21.95
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Orient Electric

Sustaining healthy growth; margin remains a drag

Orient Electric (Orient) posted a marginal beat on revenue; however, pressure on margin was more than expected. Revenue grew 10% (HSIE 8%) and sustained a healthy two-year CAGR of 17%. ECD segment clocked revenue growth of 5% YoY (in-line) over a strong base (22% two-year CAGR, Havells 29%). The lighting segment revenue saw a beat on estimate, growing 25% YoY and 7% two-year CAGR (Havells 22%). Growth in lighting was driven by B-C segment with recovery visible in B-B. EBITDA margin, at 9.8% (HSIE 10.7%), contracted 382bps YoY due to high input cost pressure (GM dipped 344bps). EBITDA declined 21% YoY (+21% two-year CAGR). With recovery in B-B lighting and positive trade sentiment for ECD, we expect the company to sustain healthy revenue growth across segments. We maintain our EPS estimates and value Orient Electric at 38x P/E on FY24E EPS to derive a TP of INR 400. Maintain BUY.

- Healthy topline performance:** Net revenue grew by 10% YoY (+25% in Q3FY21 and +37% in Q2FY22), with decent growth across segments. ECD saw 5% YoY growth (+42% in Q3FY21, 38% in Q2FY22, HSIE 5%), with good performance in fans; however, appliances were impacted by delay in the onset of winter. Lighting & switchgear segment revenue was up by 25% YoY (-8% in Q3FY21, +35% in Q2FY22, HSIE +18%). Lighting business grew by 22% YoY, while switchgear continued to deliver double-digit growth.
- Input cost pressure compresses margins:** GM contracted by 344bps YoY to 27.6% (-310bps in Q3FY21 and -477bps in Q2FY22). Commodity headwinds continue to impact margins. Lighting EBIT margin was at 14.7%, +8bps YoY (+138bps in Q3FY21 and +121bps in Q2FY22). ECD EBIT margin contracted by 379bps YoY to 11.1% (+138bps in Q3FY21 and -453bps in Q2FY22). Employee/other expenses grew 5/18% YoY. EBITDA margin, at 9.8% (10.7% HSIE), saw a 382bps YoY contraction (+447bps in Q3FY21 and -290bps in Q2FY22). EBITDA declined 21% YoY to INR 665mn (HSIE INR 718mn). The company needs price hikes of 4-6% to offset the margin pressure.
- Con call takeaways:** (1) Air coolers and water heaters are major focus areas, besides fans. (2) Orient has taken 15% price hikes in fans in 2021, which was met with resistance by the trade. (3) Orient remains the market leader in the premium fans category (MRP above INR 4,000), which contributes 10% of its fans revenue. (4) The ecommerce channel (10-20% revenue across ECD products) saw slow growth on a strong base. (5) The company has taken a price increase of ~15% in fans in the past year. (6) Room heater category was impacted by delay in onset of winter while air cooler was impacted as channel inventory remains at high levels. (7) Hyderabad plant will commercialise at the end of 2023.

Quarterly/annual financial summary

YE Mar (INR mn)	Q3FY22	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	FY21	FY22E	FY23E	FY24E
Net Sales	6,784	6,183	9.7	5,944	14.1	20,326	25,921	29,937	33,849
EBITDA	665	842	(21.1)	619	7.4	2,195	2,496	3,159	3,711
APAT	381	519	(26.7)	348	9.5	1,197	1,416	1,861	2,232
Diluted EPS (INR)	1.8	2.4	(26.7)	1.6	9.5	5.6	6.7	8.8	10.5
P/E (x)						62.0	52.5	39.9	33.3
EV / EBITDA (x)						32.7	28.8	22.4	18.6
RoCE (%)						33.9	49.8	51.9	56.7

Source: Company, HDFC Sec Inst Research

BUY

CMP (as on 21 Jan 2022) INR 350

Target Price INR 400

NIFTY 17,617

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 400	INR 400
	FY22E	FY23E
EPS %	0%	0%

KEY STOCK DATA

Bloomberg code	ORIENTEL IN
No. of Shares (mn)	212
MCap (INR bn) / (\$ mn)	74/999
6m avg traded value (INR mn)	154
52 Week high / low	INR 408/234

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	5.2	1.8	46.6
Relative (%)	8.3	(11.3)	27.7

SHAREHOLDING PATTERN (%)

	Sep-21	Dec-21
Promoters	38.52	38.52
FIs & Local MFs	23.78	24.94
FPIs	8.74	8.99
Public & Others	28.96	27.55
Pledged Shares	0.00	0.00

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
Krishnan ASV	SBI Life Insurance, Bandhan Bank	PGDM	NO
Sahej Mittal	SBI Life Insurance	ACA	NO
Naveen Trivedi	Havells India, Orient Electric	MBA	NO
Saras Singh	Havells India, Orient Electric	PGDM	NO
Amit Chandra	Mphasis, Persistent Systems	MBA	NO
Deepak Shinde	Bandhan Bank	PGDM	NO
Neelam Bhatia	Bandhan Bank	PGDM	NO

Disclosure:

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