INSTITUTIONAL RESEARCH

HSIE Results Daily

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Results Reviews

- **ONGC:** We maintain BUY on ONGC with a target price of INR 208, based on (1) increase in crude price realisation and (2) improvement in domestic gas price realisation (to USD 2.9/mmbtu). We expect oil price realisation to increase to USD 69/bbl in FY22E and USD 71/bbl in FY23E vs. USD 44/bbl in FY21, given the expected global economic rebound, post COVID. Q2FY22 revenue was 5% below our estimate, owing to a lower-than expected crude oil price realisation of USD 71.1/bbl (HSIE USD 72.5/bbl) and below expectation crude oil sales. Q2 EBITDA was 3% below our estimate, though APAT was 2x above estimate, owing to lower-than-expected exploration cost, lower-than-expected interest cost, higher-than-expected other income, and lower tax expenses.
- **Berger Paints:** BRGR's topline delivery (28% YoY; INR22.3bn) exceeds expectations (HSIE: 22%). Two-year topline CAGR (standalone) lagged that of APNT (16% vs APNT's 20%). However, BRGR found a better balance between growth-margin as (1) lower rebating (especially in lower ASP products); (2) formulation gains; and (3) strategic inventory buying cushioned the RM-inflation led GM decline on a relative basis (H1FY22 GM decline for BRGR was 380bps vs APNT's 840bps). Value exceeded volume growth, courtesy price hikes (5%). FY23-24 EPS estimates revised downwards by 4-7% to account for lower GM. Maintain SELL rating with a DCF-based TP of INR710/sh (implying 57x Jun-23 P/E).
- **Apollo Hospitals:** Apollo's Q2 EBITDA beat our estimates by ~9%, driven by robust margin expansion. While the core hospitals and AHLL business (ex-diagnostics) witnessed strong sequential growth due to recovery of non-COVID business, the outlook for high-growth pharmacy and diagnostics businesses remains intact, partially aided by integration of Apollo 24/7. With multiple growth drivers in place, we expect Apollo to report strong revenue/EBITDA CAGRs of 19%/24% over FY20-24E. Besides this, it expects to announce two strategic funding partnerships for Apollo HealthCo (Apollo 24/7, back-end pharmacy) in the near term. We raise our estimates by 19%/14% for FY22/23E to factor in Q2 beat/faster-than-expected recovery from COVID and roll forward to Sep-23 to arrive at an SOTP based TP of INR5,295/sh. ADD.
- **Hero Motocorp:** Hero's Q2FY22 PAT, at INR 7.9bn (-17% YoY), is impacted by weak industry demand (volume down 20% YoY) as sales have been impacted by delayed monsoons as well as elevated fuel prices. The management expects H2 demand to improve, driven by pick-up in rural segment and opening up of the tourism, hospitality, and dining sector (which will support entry level bike demand). Further, Hero will launch its EV scooter in Mar-22, with the scooter being produced in the new Chittoor plant (in AP). The OEM has collaborated with Gogoro, Taiwan, for battery swapping and EV products. Further, Hero is scaling up the distribution network for its premium Harley Davidson range. We maintain ADD with a revised TP of INR 3,000 at 17.5x Sep-23E EPS (we are lowering estimates by ~13% to factor in weak Q2 results).

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- **Bharat Forge:** Bharat Forge's (BFL) Q2FY22 was yet another strong quarter, with EBITDA margin exceeding the 30% level (+170bps QoQ) and demand outlook remaining robust – both in India and overseas. The company will benefit from (1) recovery in India infra spends, (2) passing of the USD 500bn+ trillion infra spend bill, which will increase demand for heavy equipment such as construction equipment, trucks, etc., (3) ramp-up in India defense – targeted to reach 10% of turnover in the next two years. We reiterate Bharat Forge as our preferred pick in CVs due to its global OEM base. We maintain BUY with a TP of INR 1,000 on 35x Sep-23 EPS (we roll forward our TP timeframe to Sep).
- **Endurance Technologies:** Endurance Q2 revenue was up +16% YoY; even after adjusting for commodity price hikes, the auto part company revenue has grown in high single digits vs. a -4% YoY decline for the 2W segment. While Endurance will continue to grow ahead of the 2W market as several of its initiatives have come onstream during H1FY22, including the ABS facilities, the 2W industry demand remains lacklustre. Further, the stock is trading at an elevated valuation (42.9x on FY22E, 32.5x on FY23E) and the valuation gap between mass market 2W OEMs and Endurance remains elevated at 2x (vs. an average premium of 1.6x). We reiterate our ADD rating on the stock and set a TP of INR 1,820 at 30x Sep-23E EPS (we are rolling forward our TP timeframe to Sep-22).
- **Dilip Buildcon:** Dilip Buildcon's (DBL) execution in the quarter was weak, missing our estimate at all levels. Slow execution in large projects; an extended monsoon; spike in commodity prices, especially bitumen, diesel and steel; and no early completion bonus suppressed EBITDA margin to 10.6%. High commodity price volatility has led to price escalation coverage reducing to 50-60% in EPC projects and 40% in EPC HAM, while the rest gets realised with annuity payments. Therefore, going forward, margins are likely to be in 14-15% range. To fund the equity requirement in HAM, DBL has subscribed to CPPIB NCDs worth INR 10bn. Ex-Cube deal HAMs, all completed HAMs will be monetised via a listed InVIT to get better equity valuation. We maintain BUY, however, given the margin pressure and cut our EPS along with TP to INR 722/sh (12x Sep-23E EPS, 1x P/BV HAM equity investment).
- **Teamlease Services:** We maintain BUY on Teamlease, following a better-than-expected revenue (+10.7% QoQ) and in-line margin performance. The robust performance was witnessed across all the business segments with the core/specialised/HR services growing +10.0/+17.4/+12.7% QoQ, supported by strong net associate headcount addition in general and specialised staffing (+11.2/11.5% QoQ). Strong developments in hiring activity across key verticals (ecommerce, telecom, consumer, and BFSI), the addition of 59 new logos, and improved hiring outlook across industries will aid growth in the core staffing segment (90% of revenue). The specialised staffing (8% of revenue) will continue to grow, led by traction in IT hiring, increase in open positions/hiring across domains, and improvement in realisations. We expect margins for general staffing to remain in a narrow band on account of the growth and increasing wage costs. Margin expansion will be led by specialised staffing and positive contribution from HR services. The company made provision of INR 750mn related to PF trust investments in two NBFCs. We believe that the company was late in providing for these provisions as this is an old issue; however, we don't expect further provisions. We reduce our EPS estimates by -6.6/4.0% for FY23/24E to factor in lower margin for general staffing. Our target price of INR 5,270 is based on 43x Dec-23E EPS (five-year average PE of ~35x). The stock is trading at a PE of 47/36x FY23/24E.

ONGC

Higher realisation, lower tax aid earnings

We maintain BUY on ONGC with a target price of INR 208, based on (1) increase in crude price realisation and (2) improvement in domestic gas price realisation (to USD 2.9/mmbtu). We expect oil price realisation to increase to USD 69/bbl in FY22E and USD 71/bbl in FY23E vs. USD 44/bbl in FY21, given the expected global economic rebound, post COVID. Q2FY22 revenue was 5% below our estimate, owing to a lower-than expected crude oil price realisation of USD 71.1/bbl (HSIE USD 72.5/bbl) and below expectation crude oil sales. Q2 EBITDA was 3% below our estimate, though APAT was 2x above estimate, owing to lower-than-expected exploration cost, lower-than-expected interest cost, higher-than-expected other income, and lower tax expenses.

- **Standalone financial performance:** Revenue for Q2FY22 stood at INR 244bn (+44% YoY, +6% QoQ). EBITDA was at INR 132bn (+57% YoY, +9% QoQ) due to lower opex. APAT in Q2 was INR 129bn, up 5x YoY, 3x QoQ, mainly on account of lower tax regime adopted by the company.
- **Standalone operational performance**: Q2 crude oil realisation was USD 71.1/bbl (+72% YoY, +6% QoQ), while gas realisation was USD 1.9/mmbtu (-25% YoY, -1% QoQ). Oil sales volume was 4.3mmt (-3%YoY, -2%QoQ). Gas sales volume was 4bcm (-7% YoY, +4% QoQ).
- **Con call takeaways**: (1) Capex guided at INR 290-320bn for FY22/FY23E. (2) ONGC's FY22 targeted O+OEG production delayed by a year due to (a) COVID-related supply chain issues, (b) unplanned power shutdowns at Ratna R series fields due to monsoons, (c) disruption at offshore and onshore projects due to cyclone Tauktae, and (d) customer offtake issues. (3) KG 98/2 production is currently at 0.7mmscmd and is expected to improve to 1.8mmscmd by Dec-21. Delay in sourcing equipment from Singapore/Malaysia, where supply chain operations remain affected by COVID, could impact the KG 98/2 output target.
- **We value ONGC's standalone business at INR 173 and its investments at INR 35. The stock is currently trading at 4x FY23E EPS.**

Standalone financial summary

YE March (INR bn)	Q2 FY22	Q1 FY22	QoQ (%)	Q2 FY21	YoY (%)	FY20*	FY21*	FY22*	FY23E*	FY24E*
Revenues	244	230	5.8	169	44.0	4,250	3,606	4,259	4,567	4,801
EBITDA	132	122	8.8	84	56.8	611	566	780	893	951
APAT	129	43	196.9	28	366.7	180	207	410	490	521
AEPS (INR)	10.2	3.4	196.9	2.3	352.3	14.3	16.5	32.6	38.9	41.4
P/E (x)						10.8	9.4	4.7	4.0	3.7
EV/EBITDA(x)						4.9	5.5	3.3	2.8	2.5
RoE (%)						8.5	9.7	17.6	19.0	18.2

Source: Company, HSIE Research | *Consolidated

Change in estimates (consolidated)

	FY22E			FY23E			FY24E		
	Old	New	Ch%	Old	New	Ch%	Old	New	Ch%
EBITDA (INR bn)	780	780	-	893	893	-	951	951	-
AEPS (INR/sh)	30.9	32.6	5.2	37.0	38.9	5.3	39.4	41.4	5.3

Source: Company, HSIE Research

BUY

CMP *(as on 12 Nov 2021)*	INR 155
Target Price	**INR 208**
NIFTY	**18,103**

KEY CHANGES	**OLD**	**NEW**
Rating	BUY	BUY
Price Target	INR 195	INR 208
EPS %	**FY22E** +5.2%	**FY23E** +5.3%

KEY STOCK DATA

Bloomberg code	ONGC IN
No. of Shares (mn)	12,580
MCap (INR bn) / ($ mn)	1,946/26,144
6m avg traded value (INR mn)	3,305
52 Week high / low	INR 173/70

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	33.0	34.4	116.1
Relative (%)	22.4	9.7	76.2

SHAREHOLDING PATTERN (%)

	Jun-21	Sep-21
Promoters	60.41	60.41
FIs & Local MFs	17.60	17.87
FPIs	8.06	8.08
Public & Others	13.93	13.64
Pledged Shares	0.00	0.00

Source: BSE

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Berger Paints

Growth-margin balance better than peers

BRGR's topline delivery (28% YoY; INR22.3bn) exceeds expectations (HSIE: 22%). Two-year topline CAGR (standalone) lagged that of APNT (16% vs APNT's 20%). However, BRGR found a better balance between growth-margin as (1) lower rebating (especially in lower ASP products); (2) formulation gains; and (3) strategic inventory buying cushioned the RM-inflation led GM decline on a relative basis (H1FY22 GM decline for BRGR was 380bps vs APNT's 840bps). Value exceeded volume growth, courtesy price hikes (5%). FY23-24 EPS estimates revised downwards by 4-7% to account for lower GM. Maintain SELL rating with a DCF-based TP of INR710/sh (implying 57x Jun-23 P/E).

- **Q2FY22 highlights**: Consolidated revenue grew 27.7% to INR22.25bn (HSIE: INR 21.5bn). Standalone revenue growth of 16% (two-year CAGR) lagged APNT's 20%). Decorative segment continued its strong momentum. Value exceeded volume growth, courtesy price hikes (5%). BRGR found a better balance between growth-margin this quarter as (1) lower rebating (especially in lower ASP products), (2) formulation gains, (3) strategic inventory buying cushioned the RM-inflation led GM decline on a relative basis (H1FY22 GM decline for BRGR was 380bps vs APNT's 840bps). H1 price hikes (6-7%) meaningfully lag RM inflation. However, management is confident of bridging this gap meaningfully in H2. Standalone EBITDA remained nearly flat YoY at INR3.04bn (in-line), thanks to the RM inflation. Price hikes in industrial segment have lagged that in decorative business. Demand trends have remained healthy in both decorative as well as industrial verticals. Metros/tier-1s were key growth drivers. Dealer addition is expected to pick up pace in H2. APAT stood at INR2.19bn (HSIE: 2.27bn).
- **Outlook**: Our thesis of valuation multiples converging between APNT and BRGR continues to play out, owing to the inconsequential variance in medium-to-long term performance of the two. However, we would prefer more comfort on valuation (currently trading at 63x Dec-23 P/E) to get more constructive on BRGR. Maintain SELL with a DCF TP of INR 710/sh (implying 57x Dec-23 P/E).

Quarterly financial summary

(INR mn)	Q2FY22	Q2FY21	YoY (%)	Q2FY21	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
Net Revenue	22,250	17,426	*27.7*	17,985	*23.7*	63,658	68,176	83,990	95,940	1,08,540
EBITDA	3,540	3,352	*5.6*	2,385	*48.4*	10,610	11,880	12,564	17,037	20,002
APAT	2,192	2,211	*(0.8)*	1,422	*54.2*	6,561	7,197	7,534	10,532	12,716
EPS (Rs)	2.3	2.3	*(0.8)*	1.5	*54.2*	6.8	7.4	7.8	10.8	13.1
P/E (x)						109.2	99.5	95.1	68.0	56.3
EV/EBITDA (x)						67.8	60.3	57.0	41.7	35.1
Core RoCE(%)						21.0	20.6	18.7	23.4	26.4

Source: Company, HSIE Research, Standalone Financials

Change in estimates

(INR mn)	FY22E			FY23E			FY24E		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Revenue	83,990	83,990	-	95,940	95,940	-	1,08,540	1,08,540	-
Gross Profit	33,326	35,426	*(5.9)*	40,466	41,425	*(2.3)*	46,323	46,866	*(1.2)*
Gross Profit Margin (%)	39.7	42.2	*(250.0)*	42.2	43.2	*(100.0)*	42.7	43.2	*(50.0)*
EBITDA	12,564	14,663	*(14.3)*	17,037	17,968	*(5.2)*	20,002	20,567	*(2.7)*
EBITDA margin (%)	15.0	17.5	*(250 bps)*	17.8	18.7	*(97 bps)*	18.4	18.9	*(52 bps)*
APAT	7,534	9,223	*(18.3)*	10,532	11,358	*(7.3)*	12,716	13,269	*(4.2)*
APAT margin (%)	9.0	11.0	*(201 bps)*	11.0	11.8	*(86 bps)*	11.7	12.2	*(51 bps)*
EPS (Rs)	7.8	9.5	*(18.3)*	10.8	11.7	*(7.3)*	13.1	13.7	*(4.2)*

Source: Company, HSIE Research

SELL

CMP *(as on 12 Nov 2021)*	**INR 795**
Target Price	**INR 710**
NIFTY	**18,103**

KEY CHANGES	**OLD**	**NEW**
Rating	SELL	SELL
Price Target	INR 710	INR 710
EPS %	FY23E	FY24E
	-7.3	-4.2

KEY STOCK DATA	
Bloomberg code	BRGR IN
No. of Shares (mn)	971
MCap (INR bn) / ($ mn)	772/10,370
6m avg traded value (INR mn)	787
52 Week high / low	INR 873/626

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	(2.5)	8.2	21.9
Relative (%)	(13.2)	(16.4)	(18.0)

SHAREHOLDING PATTERN (%)	**Jun-21**	**Sep-21**
Promoters	74.98	74.99
FIs & Local MFs	0.88	1.16
FPIs	11.25	11.22
Public & Others	12.89	12.63
Pledged Shares	0	0

Source : BSE

Pledged shares as % of total shares

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Apollo Hospitals

Going from strenth to strength

Apollo's Q2 EBITDA beat our estimates by ~9%, driven by robust margin expansion. While the core hospitals and AHLL business (ex-diagnostics) witnessed strong sequential growth due to recovery of non-COVID business, the outlook for high-growth pharmacy and diagnostics businesses remains intact, partially aided by integration of Apollo 24/7. With multiple growth drivers in place, we expect Apollo to report strong revenue/EBITDA CAGRs of 19%/24% over FY20-24E. Besides this, it expects to announce two strategic funding partnerships for Apollo HealthCo (Apollo 24/7, back-end pharmacy) in the near term. We raise our estimates by 19%/14% for FY22/23E to factor in Q2 beat/faster-than-expected recovery from COVID and roll forward to Sep-23 to arrive at an SOTP based TP of INR5,295/sh. ADD.

- **Hospital business recovery on track as COVID subsides:** Revenue grew by 12% QoQ to INR21.7bn, owing to strong revival in non-COVID business and local market share gains, which translated to improvement in ARPOBs (+15% QoQ, high-end electives), reduction in ALOS (3.8 days in Q2 vs. 4.8 in Q1) and higher volumes (IP volumes up 24% QoQ). All units - mature, new and Proton - reported decent growth of 15%/6%/9% QoQ with ~300bps EBITDA margin improvement at a broad level. Apollo expects the next leg of margin improvement to come from recovery in international business and further operational efficiencies across units.
- **Pharmacy business outlook intact; diagnostics to drive AHLL growth:** The pharmacy business revenue declined by 23% QoQ due to high base effect. Notwithstanding short-term lumpiness, Apollo remains confident of growing this business at ~20% CAGR in the medium term, driven by ~400 store additions p.a. and Apollo 24/7 benefits. AHLL revenue grew by 23% QoQ as non-diagnostics verticals recovered from COVID, which also drove ~78bps margin improvement QoQ. Going forward, it expects AHLL revenue growth to come mainly from the diagnostics business as it expects to ramp up the diagnostics vertical at 25%+ CAGR with an aim to touch INR10bn revenue in 2-3 years (from current annualised rate of ~INR3.5-4bn).
- **Con call takeaways:** (a) Hospitals – acquired ~64% stake in Asclepius Hospitals (runs a ~180 bed hospital at Guwahati) for an EV of INR2.1bn, looking for brownfield expansions in Bengaluru (~300 beds in two years) and increasing presence in Mumbai (~300-400 beds in 3-4 years on an asset light model); (b) Pharmacy – 12% discount on blended basis, higher discounts to loyal customers; (c) Apollo 24/7: 19,000+ PIN codes (added ~2,000); aim to break-even in 2-3 years.

Financial summary

	2Q FY22	2Q FY21	YoY (%)	1Q FY22	QoQ (%)	FY21	FY22E	FY23E	FY24E
Revenues									
Hospitals	21,686	12,374	*75.3*	19,393	*11.8*	50,023	85,909	99,195	1,10,318
Pharmacy	11,671	13,519	*(13.7)*	15,120	*(22.8)*	48,760	54,744	65,479	78,199
AHLL	3,813	1,716	*122.2*	3,090	*23.4*	6,818	13,251	18,040	23,906
Consolidated	**37,170**	**27,609**	***34.6***	**37,603**	***(1.2)***	**1,05,600**	**1,56,380**	**1,89,520**	**2,26,574**
EBITDA margins									
Hospitals	23.3	13.2	*1,018bps*	20.3	*304bps*	*13.8%*	*21.4%*	*22.5%*	*23.6%*
Pharmacy*	8.1	8.6	*-45bps*	7.6	*+47bps*	*7.5%*	*8.1%*	*8.3%*	*8.5%*
AHLL	16.3	12.4	*393bps*	15.5	*78bps*	*11.3%*	*16.1%*	*17.2%*	*18.5%*
Consolidated	**16.5**	**10.9**	***570bps***	**13.8**	***272bps***	***10.8%***	***15.7%***	***15.9%***	***16.5%***
EBITDA	6,150	2,998	*105.1*	5,199	*18.3*	11,374	24,575	30,102	37,411
EV/ EBITDA (x)						61.9	28.6	23.1	18.2
RoCE (%)						6.9	17.7	21.0	23.7

Source: Company, HSIE Research, * margins ex-Apollo 24/7 costs

ADD

CMP *(as on 12 Nov 2021)*	**INR 4,670**
Target Price	**INR 5,295**
NIFTY	**18,103**

KEY CHANGES	**OLD**	**NEW**
Rating	ADD	ADD
Price Target	INR 4,410	INR 5,295
EBITDA %	FY22E +19%	FY23E +14%

KEY STOCK DATA	
Bloomberg code	APHS IN
No. of Shares (mn)	144
MCap (INR bn) / ($ mn)	671/9,022
6m avg traded value (INR mn)	3,535
52 Week high / low	INR 5,198/2,094

STOCK PERFORMANCE (%)

	3M	**6M**	**12M**
Absolute (%)	13.0	46.1	121.3
Relative (%)	2.3	21.4	81.3

SHAREHOLDING PATTERN (%)

	Sep-21	**Jun-21**
Promoters	29.82	29.82
FIs & Local MFs	12.28	10.85
FPIs	51.54	53.23
Public & Others	6.36	6.10
Pledged Shares	6.58	8.93

Source : BSE

TP based on Sep'23 estimates:
a) 20x EV/EBITDA for hospitals
b) 25x EV/EBITDA for pharmacy
c) 2x EV/sales for Apollo 24/7 (discounted FY26 revenue)

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Hero Motocorp

EV launch in Q4; demand to improve in H2

Hero's Q2FY22 PAT, at INR 7.9bn (-17% YoY), is impacted by weak industry demand (volume down 20% YoY) as sales have been impacted by delayed monsoons as well as elevated fuel prices. The management expects H2 demand to improve, driven by pick-up in rural segment and opening up of the tourism, hospitality, and dining sector (which will support entry level bike demand). Further, Hero will launch its EV scooter in Mar-22, with the scooter being produced in the new Chittoor plant (in AP). The OEM has collaborated with Gogoro, Taiwan, for battery swapping and EV products. Further, Hero is scaling up the distribution network for its premium Harley Davidson range. We maintain ADD with a revised TP of INR 3,000 at 17.5x Sep-23E EPS (we are lowering estimates by ~13% to factor in weak Q2 results).

- **Q2FY22 financials:** Volumes, at 1.4mn units, declined 20% YoY due to weak industry demand. ASP's though was higher at INR 58,760 (+13% YoY, +10% QoQ) due to higher spares revenue (INR 11.4bn), richer product mix, as well as price hikes (Hero has taken an increase of INR3,000 in the year). EBITDA margin, at 12.6% (-110bps YoY, +320bps QoQ), was impacted by higher RM costs (+120bps YoY, -20bps QoQ). However, as commodity prices are stabilising at current levels, it will be supportive of margins in H2. Reported PAT declined 17% YoY to INR 7.9bn.
- **Key takeaways**: **(1) Demand to revive in H2FY22:** The opening up of the economy, along with onset of marriage season in north India and improvement in rural segment, will drive a revival in demand. **(2) Gearing for EV launch:** Hero will launch its inhouse e-2W in Mar-22 - the scooter along with the battery pack will be manufactured at the the Andhra Pradesh plant. **(3) Exports** have more than doubled to 177K units in H1 as the OEM is increasing its focus on overseas markets, including Mexico and Africa. The management highlights that Hero is customising vehicles for various markets such as longer seat and rugged products for the bike taxi market in Nigeria, and so on.

Financial Summary (Standalone)

YE March (INR mn)	2Q FY22	2Q FY21	YoY (%)	1Q FY22	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	84,534	93,673	*(10)*	54,871	*54*	2,88,361	3,08,006	3,29,324	3,60,624	3,91,277
EBITDA	10,664	12,865	*(17)*	5,148	*107*	39,580	40,192	39,536	45,095	50,883
APAT	7,945	9,535	*(17)*	3,654	*117*	30,952	29,642	29,068	32,228	36,426
Adj. EPS (Rs)	39.8	47.7	*(17)*	18.3	*117*	155.0	148.4	145.5	161.3	182.3
APAT Gr (%)						(8.6)	(4.2)	(1.9)	10.9	13.0
P/E (x)						17.3	18.1	18.4	16.6	14.7
RoE (%)						22.9	20.2	18.7	19.7	21.0

Source: Company, HSIE Research

Change in estimates

INR mn	New			Old			Change (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	3,29,324	3,60,624	3,91,277	3,39,124	3,71,248	4,06,636	(3)	(3)	(4)
EBITDA	39,536	45,095	50,883	45,460	50,136	54,913	(13)	(10)	(7)
EBITDA Margin (%)	12.0	12.5	13.0	13.4	13.5	13.5	-140bps	-100bps	-50bps
PAT	29,068	32,228	36,426	34,189	37,024	40,489	(15)	(13)	(10)
EPS	145.5	161.3	182.3	171.2	185.3	202.7	(15)	(13)	(10)

Source: Company, HSIE Research

ADD

CMP *(as on 12 Nov 2021)*	**INR 2,683**
Target Price	**INR 3,000**
NIFTY	**18,103**

KEY CHANGES	**OLD**	**NEW**
Rating	ADD	ADD
Price Target	INR 3,150	INR 3,000
EPS %	FY22E	FY23E
	-15%	-13%

KEY STOCK DATA	
Bloomberg code	HMCL IN
No. of Shares (mn)	200
MCap (INR bn) / ($ mn)	536/7,204
6m avg traded value (INR mn)	1,877
52 Week high / low	INR 3,616/2,636

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	(3.6)	(5.2)	(12.6)
Relative (%)	(14.2)	(29.8)	(52.6)

SHAREHOLDING PATTERN (%)	**Jun-21**	**Sep-21**
Promoters	34.8	34.8
FIs & Local MFs	20.2	21.970.2
FPIs	35.0	32.25.0
Public & Others	10.1	11.0
Pledged Shares	0.0	0.0

Source : BSE

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Bharat Forge

Another strong quarter; reiterate as preferred CV pick

Bharat Forge's (BFL) Q2FY22 was yet another strong quarter, with EBITDA margin exceeding the 30% level (+170bps QoQ) and demand outlook remaining robust – both in India and overseas. The company will benefit from (1) recovery in India infra spends, (2) passing of the USD 500bn+ trillion infra spend bill, which will increase demand for heavy equipment such as construction equipment, trucks, etc., (3) ramp-up in India defense – targeted to reach 10% of turnover in the next two years. We reiterate Bharat Forge as our preferred pick in CVs due to its global OEM base. We maintain BUY with a TP of INR 1,000 on 35x Sep-23 EPS (we roll forward our TP timeframe to Sep).

- **Q2FY22 financials:** Q2 revenue, at INR16bn, was up a healthy 82% YoY, 17% QoQ, as shipment tonnage came in at 57k (+40% YoY, 4% QoQ). Exports mix was higher at 59% of sales vs 52% YoY. The EBITDA margin at 30.2% surprised positively, expanding by 170bps QoQ, despite firm steel prices – a richer product mix led to the same. APAT was at INR 3.1bn, +37% QoQ.
- **Key highlights: (1) Chip shortage to impact exports in Q3:** While there is a strong backlog of Class 8 trucks – exports will be weak in Q3 due to the chip shortage. The shortfall will likely be made up in CY22E. **(2) Oil & Gas ramp-up:** The oil & gas segment revenue ramped up further to INR 2bn (vs. INR 1.7bn in Q1FY22). Management expects increased focus on natural gas would benefit BFL in the medium term. **(3) Defense segment:** BFL's defense focus is on artillery guns, armoured vehicles, and mounted guns. While it has won orders for the vehicles, the Garuda 155mm gun and the mounted guns are in an advanced phase of development with one gun already in army trials and the mounted guns likely to move into the trial stage soon. Defense will account for 10% of revenue in the next two years. **(4) DFC to impact domestic CV segment**: Management stated that commissioning of DFC is impacting medium-term demand for MHCVs in India. This is partially offset by higher demand for ICVs due to ecommerce-led demand.

Financial Summary (Standalone)

YE Mar (INR mn)	2Q FY22	2Q FY21	YoY (%)	1Q FY22	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	16,066	8,815	82	13,718	17	45,639	36,515	53,025	67,891	79,998
EBITDA	4,853	1,565	210	3,914	24	10,155	7,276	15,059	19,145	22,400
APAT	3,118	732	326	2,283	37	5,485	3,190	8,673	11,957	14,386
Adj. EPS (Rs)	6.7	1.6	326	4.9	37	11.8	6.9	18.6	25.7	30.9
AEPS Gr (%)						(48.8)	(41.8)	171.9	37.9	20.3
P/E (x)						65.8	113.1	41.6	30.2	25.1
RoE (%)						10.2	5.6	13.8	16.8	17.4

Source: Company, HSIE Research

Change in estimates

INR mn	New			Old			Change (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	53,025	67,891	79,998	50,975	65,274	76,919	4	4	4
EBITDA	15,059	19,145	22,400	14,171	18,407	21,537	6	4	4
EBITDA Margin (%)	28.4	28.2	28.0	27.8	28.2	28.0	60 bps	0 bps	0 bps
PAT	8,673	11,957	14,386	8,697	12,415	15,455	(0)	(4)	(7)
EPS	18.6	25.7	30.9	18.7	26.7	33.2	(0)	(4)	(7)

Source: Company, HSIE Research

BUY

CMP *(as on 12 Nov 2021)*	INR 775
Target Price	INR 1,000
NIFTY	18,103

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 1,000	INR 1,000
EPS %	FY22E	FY23E
	-	-4%

KEY STOCK DATA	
Bloomberg code	BHFC IN
No. of Shares (mn)	466
MCap (INR bn) / ($ mn)	361/4,848
6m avg traded value (INR mn)	1,960
52 Week high / low	INR 848/478

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(6.3)	16.6	56.0
Relative (%)	(17.0)	(8.0)	16.1

SHAREHOLDING PATTERN (%)

	Jun-21	Sep-21
Promoters	44.8	44.8
FIs & Local MFs	12.3	13.2
FPIs	25.3	25.1
Public & Others	17.7	16.7
Pledged Shares		

Source : BSE

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Endurance Technologies

Endurance to gain share amidst tepid industry growth

Endurance Q2 revenue was up +16% YoY; even after adjusting for commodity price hikes, the auto part company revenue has grown in high single digits vs. a -4% YoY decline for the 2W segment. While Endurance will continue to grow ahead of the 2W market as several of its initiatives have come onstream during H1FY22, including the ABS facilities, the 2W industry demand remains lacklustre. Further, the stock is trading at an elevated valuation (42.9x on FY22E, 32.5x on FY23E) and the valuation gap between mass market 2W OEMs and Endurance remains elevated at 2x (vs. an average premium of 1.6x). We reiterate our ADD rating on the stock and set a TP of INR 1,820 at 30x Sep-23E EPS (we are rolling forward our TP timeframe to Sep-22).

- **Q1FY22 financials: Standalone:** Revenue, at INR 15bn, grew 16% YoY, 30% QoQ – revenues have grown due to price hikes and new capacities being commissioned. EBITDA margin, at 14.2%, was up 80bps QoQ (-380bp YoY). APAT was INR 1.2bn (+39% QoQ, -9% YoY). **Consolidated:** revenue, at INR 18.8bn (+7% YoY, 11% QoQ), was impacted by weaker European operations. The EBITDA margin, at 13.8%, contracted 60bps QoQ, -390bp YoY. APAT, at INR 1.3, declined -20% YoY, +4% QoQ. **Europe operations:** Revenue came in at INR 3.8bn (-20% YoY) while margin, at 12.3%, contracted 440bps QoQ. It contributed 20% to consolidated revenue (vs. 32% QoQ).
- **Key highlights: (1) New capacities:** Endurance's ABS supplies have commenced from Sep-21 with a capacity of 400K units. The ramp-up is expected over H2, particularly as shortage of ABS ECU chips ease. The company is likely to gain market share as Bosch controls 85% of the market. The aluminum alloy wheel capacity is increasing by 80,000 units a month to ~340K units. **(2) Electric:** Supplies of brake assemblies to Ather Electric will commence in Q1FY23E. The parts company is increasing its focus on 2W start-ups as proliferation of EVs increases. **(3) European subsidiary** operations declined 20% YoY due to the shortage of chips, which impacted the car industry. This should normalise in the year.

Financial Summary (Consolidated)

YE March (Rs mn)	2Q FY22	2Q FY21	*YoY (%)*	1Q FY22	*QoQ (%)*	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	18,876	17,701	*7*	16,937	*11*	69,177	65,470	77,996	89,909	1,02,007
EBITDA	2,600	3,132	*(17)*	2,443	*6*	11,308	10,402	11,436	14,357	16,416
APAT	1,333	1,672	*(20)*	1,280	*4*	5,655	5,309	5,953	7,873	9,165
Adj. EPS (Rs)	9.5	11.9	*(20)*	9.1	*4*	40.2	37.7	42.3	56.0	65.2
APAT Gr (%)						9.6	(6.1)	12.1	32.3	16.4
P/E (x)						45.2	48.1	42.9	32.5	27.9
RoE (%)						20.3	16.2	15.7	18.0	17.9

Source: Company, HSIE Research

Change in estimates

INR mn	New			Old			Change (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	77,996	89,909	1,02,007	76,041	86,903	98,661	3	3	3
EBITDA	11,436	14,357	16,416	12,186	14,108	16,020	(6)	2	2
EBITDA Margin (%)	14.7	16.0	16.1	16.0	16.2	16.2	-136 bps	-27 bps	-14 bps
PAT	5,953	7,873	9,165	6,432	7,506	8,650	(7)	5	6
EPS	42.3	56.0	65.2	45.7	53.4	61.5	(7)	5	6

Source: Company, HSIE Research

ADD

CMP *(as on 12 Nov 2021)*	**INR 1,818**
Target Price	**INR 1,820**
NIFTY	**18,103**

KEY CHANGES	**OLD**	**NEW**
Rating	ADD	ADD
Price Target	INR 1,750	INR 1,820
EPS %	FY22E	FY23E
	-7%	+5%

KEY STOCK DATA	
Bloomberg code	ENDU IN
No. of Shares (mn)	141
MCap (INR bn) / ($ mn)	256/3,434
6m avg traded value (INR mn)	203
52 Week high / low	INR 1,989/1,020

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	5.8	38.9	73.3
Relative (%)	(4.8)	14.3	33.3

SHAREHOLDING PATTERN (%)	**Jun-21**	**Sep-21**
Promoters	75.0	75.0
FIs & Local MFs	15.2	15.3
FPIs	8.3	8.0
Public & Others	1.5	1.6
Pledged Shares	0.0	0.0

Source : BSE

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Dilip Buildcon

Weak financial performance

Dilip Buildcon's (DBL) execution in the quarter was weak, missing our estimate at all levels. Slow execution in large projects; an extended monsoon; spike in commodity prices, especially bitumen, diesel and steel; and no early completion bonus suppressed EBITDA margin to 10.6%. High commodity price volatility has led to price escalation coverage reducing to 50-60% in EPC projects and 40% in EPC HAM, while the rest gets realised with annuity payments. Therefore, going forward, margins are likely to be in 14-15% range. To fund the equity requirement in HAM, DBL has subscribed to CPPIB NCDs worth INR 10bn. Ex-Cube deal HAMs, all completed HAMs will be monetised via a listed InVIT to get better equity valuation. We maintain BUY, however, given the margin pressure and cut our EPS along with TP to INR 722/sh (12x Sep-23E EPS, 1x P/BV HAM equity investment).

- **Financial performance highlights:** Revenue was INR 21.5bn (+12%/0% YoY/QoQ, 28% miss); EBITDA margin, at 10.6%, contracted sharply (-534/-262bps YoY/QoQ, est. of 13.9%) on account of under-absorption of fixed overheads and elevated raw material prices; Exceptional item: INR 20mn profit from stake sale in eight subsidiaries. APAT: loss of INR 208mn (vs est. profit of INR 1.2bn). The topline is expected at INR 95-100bn for FY22, with margin expected to be around 14-15% for H2FY22.
- **NHAI restriction on bidding lifted; OI of INR 80-100bn in FY22:** The order book (OB), as of Sep-21, stood at INR 231bn, with INR 80-100bn expected in FY22. 47.15% of the OB is now road projects and this is likely to increase, following the lifting of restriction from bidding NHAI projects.
- **Tie-up with CPPIB; monetisation via listed InVIT:** DBL has 12 HAM assets earmarked for divestment, of which five have been committed to Cube for a consideration of INR 7.5bn (INR 3bn in FY22 and the rest in FY23). The remaining seven assets (INR 17.8bn monetisation estimate) will be transferred to a private listed InVIT, which shall be formed by Mar-22. Going forward, all completed HAMs will be transferred to this InVIT to better optimise the value of invested equity, given low bank rates. The total equity requirement in all 23 HAMs is INR 29bn, with 17.7bn invested till now. The remaining equity will be funded largely by proceeds from Cube deal and CPPIB deal. CPPIB under the deal has subscribed to NCDs worth INR 9.9bn issued by DBL Infra. The NWC days were at 127 and, with execution picking up in H2FY22, it is expected to decrease to 100 days.

Standalone Financial Summary (INR mn)

YE March	Q2FY22	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	FY21	FY22E	FY23E	FY24E
Net Sales	21,561	19,252	12.0	21,463	0.5	91,035	95,220	1,12,360	1,29,439
EBITDA	2,277	3,060	(25.6)	2,828	(19.5)	13,636	12,480	15,851	18,867
APAT	(208)	473	(144.1)	270	(177.1)	3,193	1,782	4,754	7,029
EPS (INR)	(1.4)	3.2	(144.1)	1.8	(177.1)	21.8	12.2	32.5	48.1
P/E (x)						28.8	51.5	19.3	13.1
EV/EBITDA (x)						8.6	2.3	2.0	1.8
RoE (%)						8.5	4.2	9.8	12.9

Standalone Estimate Change Summary

Particulars (INR mn)	FY22E			FY23E			FY24E		
	New	Old	Chg. (%)	New	Old	Chg. (%)	New	Old	Chg. (%)
Revenue	95,220	1,10,507	(13.8)	1,12,360	1,30,398	(13.8)	1,29,439	1,49,958	(13.7)
EBITDA	12,480	15,469	(19.3)	15,851	18,921	(16.2)	18,867	22,025	(14.3)
EBITDA (%)	13.1	14.0	(89)	14.1	14.5	(40)	14.6	14.7	(11)
APAT	1,782	4,926	(63.8)	4,754	7,300	(34.9)	7,029	9,155	(23.2)

Source: Company, HSIE Research

BUY

CMP *(as on 12 Nov 2021)*	INR 629
Target Price	INR 722
NIFTY	18,103

KEY CHANGES	OLD		NEW
Rating	BUY		BUY
Price Target	INR 913		INR 722
EPS Change %	FY22E	FY23E	FY24E
	(63.8)	*(34.9)*	*(23.2)*

KEY STOCK DATA	
Bloomberg code	DBL IN
No. of Shares (mn)	146
MCap (INR bn) / ($ mn)	92/1,235
6m avg traded value (INR mn)	326
52 Week high / low	INR 750/341

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	16.5	17.6	78.0
Relative (%)	5.9	(7.1)	38.0

SHAREHOLDING PATTERN (%)	Jun-21	Sep-21
Promoters	70.15	70.15
FIs & Local MFs	9.89	11.07
FPIs	11.63	10.79
Public & Others	8.33	7.99
Pledged Shares	17.88	17.53

Source: BSE

Pledged shares as % of total shares

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Teamlease Services

Economic recovery aiding growth

We maintain BUY on Teamlease, following a better-than-expected revenue (+10.7% QoQ) and in-line margin performance. The robust performance was witnessed across all the business segments with the core/specialised/HR services growing +10.0/+17.4/+12.7% QoQ, supported by strong net associate headcount addition in general and specialised staffing (+11.2/11.5% QoQ). Strong developments in hiring activity across key verticals (ecommerce, telecom, consumer, and BFSI), the addition of 59 new logos, and improved hiring outlook across industries will aid growth in the core staffing segment (90% of revenue). The specialised staffing (8% of revenue) will continue to grow, led by traction in IT hiring, increase in open positions/hiring across domains, and improvement in realisations. We expect margins for general staffing to remain in a narrow band on account of the growth and increasing wage costs. Margin expansion will be led by specialised staffing and positive contribution from HR services. The company made provision of INR 750mn related to PF trust investments in two NBFCs. We believe that the company was late in providing for these provisions as this is an old issue; however, we don't expect further provisions. We reduce our EPS estimates by -6.6/4.0% for FY23/24E to factor in lower margin for general staffing. Our target price of INR 5,270 is based on 43x Dec-23E EPS (five-year average PE of ~35x). The stock is trading at a PE of 47/36x FY23/24E.

- **Q2FY22 highlights**: Revenue stood at INR 15.2bn, up 10.7% QoQ, vs. our estimate of INR 14.6bn. Core/specialised/HR services revenue was up +10.0/+17.4/+12.7% QoQ. The mark-up increased marginally to INR 703 and the associate to core ratio increased to 366 (+6.7% QoQ). EBITDA margin for core staffing/specialised staffing/HR services stood at 1.7/9.1/4.3%. The company has a free cash balance of INR 2.4bn, which it may use for M&A activity. The cash collections continue to be robust (OCF/EBITDA at 100%).
- **Outlook:** We expect revenue growth of 25.3/20.6% in FY23/24E and EBITDA margin of 2.3/2.5% respectively, leading to revenue and EPS CAGRs of 25% and 40% over FY21-24E.

Quarterly financial summary

YE March (INR bn)	2Q FY22	2Q FY21	YoY (%)	1Q FY22	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
Net Revenue	15.24	11.29	*34.9*	13.77	*10.7*	52.01	48.81	62.37	78.18	94.32
EBITDA	0.34	0.23	*48.5*	0.30	*15.7*	0.95	0.98	1.38	1.80	2.33
APAT	0.26	0.22	*17.1*	0.24	*5.4*	0.85	0.81	1.22	1.69	2.23
Diluted EPS (INR)	15.0	12.8	*17.1*	14.2	*5.4*	49.5	47.6	71.3	98.6	130.5
P/E (x)						94.4	98.0	65.5	47.3	35.8
EV / EBITDA (x)						83.9	77.6	55.1	41.4	31.1
RoE (%)						15.2	13.3	18.0	21.5	22.7

Source: Company, HSIE Research

Change in estimates

YE March (INR bn)	FY22E Old	FY22E Revised	Change %	FY23E Old	FY23E Revised	Change %	FY24E Old	FY24E Revised	Change %
Revenue	61.22	62.37	*1.9*	77.90	78.18	*0.4*	94.65	94.32	*(0.3)*
EBITDA	1.41	1.38	*(2.0)*	1.92	1.80	*(6.2)*	2.43	2.33	*(3.8)*
EBITDA margin (%)	2.3	2.2	-9bps	2.5	2.3	-16bps	2.6	2.5	-9bps
APAT	1.26	1.22	*(3.2)*	1.80	1.69	*(6.6)*	2.32	2.23	*(4.0)*
EPS (INR)	73.6	71.3	*(3.2)*	105.6	98.6	*(6.6)*	135.9	130.5	*(4.0)*

Source: Company, HSIE Research

BUY

CMP *(as on 12 Nov 2021)*	**INR 4,668**
Target Price	**INR 5,270**
NIFTY	**18,103**

KEY CHANGES	**OLD**	**NEW**
Rating	BUY	BUY
Price Target	INR 5,520	INR 5,270
EPS %	FY23E	FY24E
	-6.6	-4.0

KEY STOCK DATA	
Bloomberg code	TEAM IN
No. of Shares (mn)	17
MCap (INR bn) / ($ mn)	80/1,072
6m avg traded value (INR mn)	140
52 Week high / low	INR 5,550/2,305

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	19.9	46.0	97.9
Relative (%)	9.2	21.4	57.9

SHAREHOLDING PATTERN (%)	**Jun-21**	**Sep-21**
Promoters	34.01	32.51
FIs & Local MFs	12.61	12.80
FPIs	37.00	37.65
Public & Others	16.38	17.04
Pledged Shares	0.49	1.51

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
Harshad Katkar	ONGC	MBA	NO
Nilesh Ghuge	ONGC	MMS	NO
Akashay Mane	ONGC	PGDM	NO
Rutvi Chokshi	ONGC	CA	NO
Jay Gandhi	Berger Paints	MBA	NO
Karan Vora	Apollo Hospitals	CA	NO
Aditya Makharia	Hero Motocorp, Bharat Forge, Endurance Technologies	CA	NO
Parikshit Kandpal	Dilip Buildcon	CFA	NO
Manoj Rawat	Dilip Buildcon	MBA	NO
Amit Chandra	Teamlease Services	MBA	NO
Mohit Motwani	Teamlease Services	MBA	NO

Disclosure:

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