INSTITUTIONAL RESEARCH

HSIE Results Daily

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Results Reviews

- **Dabur:** Dabur's Q1 revenue growth and EBITDA margin were in line. Revenue grew 8% YoY (HSIE 8%), with three-year CAGR at 7%. Domestic revenue/volume grew 10/5% YoY, with three-year CAGR at 12/8% vs. HUL 9/2%, Nestle 11/7%. Dabur is sustaining its volume outperformance among its peers. Dabur's Healthcare/HPC/F&B grew -21/16/50% YoY, with three-year CAGR at 11/8/20%. Healthcare contraction is due to the high base (COVID contextual products), while new launches would continue to drive growth, going ahead. Despite the stressed demand environment, the company delivered its growth on the back of expansion of its rural distribution and new-age channels in urban. The company gained share in 98% of its portfolio. GM contracted 224bps YoY to 45.9% (HSIE 45.5%), and besides the impact of RM inflation, low healthcare mix also daunted margin. EBITDA margin declined by 188bps to 19.3%, while EBITDA was down 2% YoY (in-line). We maintain underlying revenue growth of 9% for FY23/24. Dabur has the ability to manage margins even in adversity, given its diversified product and limited sensitivity to RM vs. peers. We model 21% EBITDA margin in FY23/24. We value the stock at 42x P/E on Jun-24E EPS to derive a target price of INR 550. Maintain ADD.

- **Britannia Industries:** Britannia's Q1 revenue growth was broadly in line, but EBITDA margin was a miss. Revenue grew 9% YoY (10% HSIE), driven by pricing actions. Three-year revenue CAGR was at 11% vs. Nestle's 11%. Volume contracted by 2% YoY (HSIE +1%), while the underlying volume trajectory is largely sustaining. Unlike other FMCG players, Britannia continued to see traction in rural India, driven by improved market share (1.5x higher gain than All-India). The margin pressure sustained with GM contracting 182/116bps YoY/QoQ to 36.9% (in-line). EBITDA margin was down by 274bps to 13.5% (lowest in the last 30 quarters). The company is taking additional price hikes to cover the commodity pressure. EBITDA declined 10% YoY (HSIE flat). Volume growth acceleration along with improvement in margin will be a tough task in the current challenging demand environment. ICDs, at the end of Q1FY23, stood at INR 6.9bn vs. INR 7.4bn in Q4FY22. We value Britannia at 35x P/E on Jun-24 EPS to derive a target price of INR 3,200. Maintain REDUCE.

- **Godrej Consumers:** GCPL's revenue growth and EBITDA margin were broadly in line. Consolidated revenue grew 8% YoY, domestic/international clocked 12/3% YoY growth, with 12/7% three-year CAGR. India business continued to be led by a high share of price hike (18% YoY), with domestic volume declining 6% (HSIE -4%, three-year CAGR at 4% vs. HUL/Emami at 6/1%). Personal care sustained robust +20% growth (price hike led), HI was down 4% (8% three-year CAGR) with weak season and high base. Indonesia remained weak, down 8% YoY and flat on three-year CAGR. Consolidated EBITDA margin was broadly in line at 17% (HSIE 17.3%), domestic at 22.9% (HSIE 23.6%) and international at 9.2% (in-line). New CEO remained focus on accelerating growth, but seasonality impact in India and challenges in Indonesia continued to check the outcomes. We maintain 10% underlying revenue growth with 20-21% EBITDA margin for FY23/24. We value the stock at 35x on Jun-24 EPS to derive a TP of INR 850. We maintain ADD.

HSIE Research Team
hdfcsec-research@hdfcsec.com

- **GAIL (India):** Our BUY recommendation on GAIL with a target price of INR 180 is based on expansion in gas transmission volume over FY22-24E to 126mmscmd on the back of (1) increase in domestic gas production, (2) increase in demand of RLNG, and (3) completion of major pipelines in eastern and southern India. Q1FY23 EBITDA/APAT, at INR 44/29bn, came in ahead of our estimates, mainly driven by higher-than-expected transmission and marketing volumes and higher marketing margins.
- **Voltas:** Voltas' Q1FY23 saw a mixed bag performance. UCP revenue was in line with market share recovery in RAC, while segment margin saw a miss (seen industry-wide). EMPS continued to disappoint, by missing both on revenue and margin. UCP delivered a 125/111% value/volume YoY growth (HSIE 123%), with the three-year CAGR at 8%. Voltas also regained some of its market share, which touched 24% (June exit) vs 19% earlier (March exit), a market share lead of 950bps over the No. 2 player. Voltas is also a leader in the inverter segment (earlier dominated by LG), with the market share at 22%, 300bps higher than LG. Despite increasing competition, we believe Voltas' core strength (after sales service, distribution network, etc.) will continue to support its market share. RAC is Voltas' core business (unlike for other players); we believe an aggressive and proactive approach will continue to bring efficiency and competitiveness in the long run. UCP EBIT margin saw pressure (7.7% vs. HSIE 9%); with commodity softening and easing trade inventory, we expect recovery in EBIT margin. We model 11% EBIT margin for FY24/25. Performance of project business remained weak and we do not expect immediate relief (although we model 6% EBIT margin for FY24/25). We cut our EPS estimates by 17/6/3% (largely to offset weak performance of project business) for FY23/24/25. We value the stock on SoTP (UCP/EMPS/EPS P/E at 43/10/15x and Volt-Beko P/S of 4x) on Jun-24 to derive a TP of INR 1,050. Maintain ADD.
- **Gujarat State Petronet:** Our ADD rating on Gujarat State Petronet with a TP of INR 265 is premised on (1) muted transmission volume over FY22-24E due to high spot LNG price environment, driven by geopolitical issues, low global inventories, and pick-up in demand post reopening of economies and (2) limited upside triggers in the near term. Hence, we believe that, at present, the stock is fairly valued with an RoE of 16% in FY24E and combined FCF of INR 36bn over FY22-24E.
- **KEC International:** KEC reported a mixed quarter, with revenue at INR 33.2bn, driven by non-T&D segments. EBITDA margin, at 5.1%, was affected, mainly by losses in SAE (INR 0.7/1bn EBIDTA/PBT loss), and higher freight costs (+INR 0.4bn). With Q1FY23 order inflow (OI) of INR 34.7bn (vs. INR 200bn guidance for FY23 i.e. ~17.4%) and L1 on INR 80bn, the order book (OB) stands at INR 317bn (~2.3x FY22 revenue). On the other hand, collections from Afghanistan are still stalled, with net exposure increasing to INR 2.6bn. The consolidated net debt increased to INR 60.8bn (vs. INR 47.7bn at the end of Mar'22) with interest cost for the quarter rising to 3% of sales (vs. 2.2% in Q4FY22). NWC worsened further to 148 days vs. 137 days in the previous quarter. Given continued high debt build up, elevated working capital and weak profitability, we downgrade KEC rating from BUY to REDUCE, with a revised target price of INR 375/share (14x Mar-24E EPS). We cut our FY23E/24E EPS by 36.6/14% and 1-yr forward multiple from 15x to 14x. Debt reduction is key for further rerating.

Dabur

Volume outperformance continues

Dabur's Q1 revenue growth and EBITDA margin were in line. Revenue grew 8% YoY (HSIE 8%), with three-year CAGR at 7%. Domestic revenue/volume grew 10/5% YoY, with three-year CAGR at 12/8% vs. HUL 9/2%, Nestle 11/7%. Dabur is sustaining its volume outperformance among its peers. Dabur's Healthcare/HPC/F&B grew -21/16/50% YoY, with three-year CAGR at 11/8/20%. Healthcare contraction is due to the high base (COVID contextual products), while new launches would continue to drive growth, going ahead. Despite the stressed demand environment, the company delivered its growth on the back of expansion of its rural distribution and new-age channels in urban. The company gained share in 98% of its portfolio. GM contracted 224bps YoY to 45.9% (HSIE 45.5%), and besides the impact of RM inflation, low healthcare mix also daunted margin. EBITDA margin declined by 188bps to 19.3%, while EBITDA was down 2% YoY (in-line). We maintain underlying revenue growth of 9% for FY23/24. Dabur has the ability to manage margins even in adversity, given its diversified product and limited sensitivity to RM vs. peers. We model 21% EBITDA margin in FY23/24. We value the stock at 42x P/E on Jun-24E EPS to derive a target price of INR 550. Maintain ADD.

- **In-line performance, healthcare impacted by high base:** Net revenue grew by 8% YoY (+32% in Q1FY22 and +8% in Q4FY22), in line with our expectation. HPC posted 16% YoY growth, with three-year CAGR at 8%. Health care posted 21% YoY decline, with three-year CAGR at 11%. F&B posted 50% YoY growth, with three-year CAGR at 50%. On a three-year CAGR, health supplement, digestives, OTC, hair oil, shampoo, oral care, home care and skin clocked 9/10/14/4/14/11/11/0%. Market shares gained across products, reflecting slow underlying category growth. International cc revenue growth was at 8% YoY and 5% on three-year CAGR.
- **Margin impacted by mix and RM inflation:** GM contracted by 224bps YoY (-131bps in Q1FY22 and -130bps in Q4FY22) to 45.9% (HSIE 45.5%). Employee/other expenses grew by 5/26% YoY (15/34% in Q1FY22). A&P spends were down 17% YoY. EBITDA margin contracted by 188bps YoY (+10bps in Q1FY22 and -92bps in Q4FY22) to 19.3% (HSIE 19.2%). EBITDA declined by 2% YoY. With limited RM sensitivity, we believe Dabur's EBITDA margin will be relatively more resilient than others in FY23.
- **Call takeaways:** (1) Beverages category saw strong traction with market share in juices and nectar category increasing 330bps. (2) Food portfolio crossed INR 1bn in revenue and is expected to reach INR 2bn by FY23 end and INR 5bn in the next 3-4 years. (3) Market share in Chyawanprash and honey expanded 200bps and 190bps respectively. (4) MT delivered 42 YoY growth and e-commerce contributes to 9% of revenue. (5) NPDs have scaled up well, especially in the real drinks and the non-COVID related health products. (6) Oral care category declined 3.5% though herbals are stagnant.

Quarterly/annual financial summary

YE Mar (INR mn)	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	FY22	FY23E	FY24E	FY25E
Net Sales	28,224	26,115	8.1	25,178	12.1	1,08,887	1,18,084	1,28,929	1,40,727
EBITDA	5,437	5,520	(1.5)	4,536	19.9	22,538	24,127	27,296	30,422
APAT	4,411	4,373	0.9	3,581	23.2	17,393	19,662	22,398	25,022
Diluted EPS (INR)	2.5	2.5	0.9	2.0	23.2	9.8	11.1	12.7	14.2
P/E (x)						58.3	51.6	45.3	40.5
EV / EBITDA (x)						42.8	39.7	34.8	31.0
RoCE (%)						57.0	61.3	68.3	75.7

Source: HSIE Research

ADD

CMP *(as on 4 Aug 2022)*	INR 574
Target Price	INR 550
NIFTY	17,382

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 550	INR 550
	FY23E	FY24E
EPS %	0%	0%

KEY STOCK DATA	
Bloomberg code	DABUR IN
No. of Shares (mn)	1,772
MCap (INR bn) / ($ mn)	1,017/13,664
6m avg traded value (INR mn)	1,098
52 Week high / low	INR 659/482

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	6.7	0.9	(2.4)
Relative (%)	1.9	1.5	(9.6)

SHAREHOLDING PATTERN (%)

	Mar-22	Jun-22
Promoters	67.38	67.24
FIs & Local MFs	3.83	4.01
FPIs	20.43	20.23
Public & Others	8.36	8.52
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

Varun Lohchab
varun.lohchab@hdfcsec.com
+91-22-6171-7334

Naveen Trivedi
naveen.trivedi@hdfcsec.com
+91-22-6171-7324

Saras Singh
saras.singh@hdfcsec.com
+91-22-6171-7336

Britannia Industries

Weak volume with pressure on margin

Britannia's Q1 revenue growth was broadly in line, but EBITDA margin was a miss. Revenue grew 9% YoY (10% HSIE), driven by pricing actions. Three-year revenue CAGR was at 11% vs. Nestle's 11%. Volume contracted by 2% YoY (HSIE +1%), while the underlying volume trajectory is largely sustaining. Unlike other FMCG players, Britannia continued to see traction in rural India, driven by improved market share (1.5x higher gain than All-India). The margin pressure sustained with GM contracting 182/116bps YoY/QoQ to 36.9% (in-line). EBITDA margin was down by 274bps to 13.5% (lowest in the last 30 quarters). The company is taking additional price hikes to cover the commodity pressure. EBITDA declined 10% YoY (HSIE flat). Volume growth acceleration along with improvement in margin will be a tough task in the current challenging demand environment. ICDs, at the end of Q1FY23, stood at INR 6.9bn vs. INR 7.4bn in Q4FY22. We value Britannia at 35x P/E on Jun-24 EPS to derive a target price of INR 3,200. Maintain REDUCE.

- **Revenue meets expectation:** Consolidated revenue increased by 9% YoY (-1% in Q1FY22 and 13% in Q4FY22), compared to our estimate of +10% YoY. Standalone revenue was up 9% YoY (+1% in Q1FY22 and +13% in Q4FY22). Domestic volume declined 2% vs. the expected growth of 1%. Revenue from e-commerce has grown 30% YoY. The company continued to see strong growth from its adjacent products in bakery. It further scaled up its croissant business which is now moving towards an INR 1bn revenue size. Dairy continued to witness double-digit YoY growth. Nepal and the Middle East performed well in the international business.
- **Weak EBITDA show, down 10% YoY:** Consolidated GM contracted by 182bps YoY (-296bps in Q1FY22 and -243bps in Q4FY22) to 36.9%. Gross margin was impacted by the high inflation seen in wheat (up 80% YoY) and palm oil (up 90%) YoY. The company is taking price hikes to cover the current inflationary pressure, the result of which will be visible from Q2. Employee/other expenses grew by 6/15% YoY. EBITDA margin fell by 274bps YoY (-469bps in Q1FY22 and -66bps in Q4FY22; -149bps HSIE) to 13.5%. EBITDA declined by 10% YoY, vs. flat expected. Consolidated EPS was down 13% to INR 14 (vs. INR 16.1 in Q1FY22, INR 15.7 in Q4FY22).
- **Con call takeaways:** (1) The company continued to gain market share in biscuits despite taking price hikes. (2) Despite price hikes, there has not been a downtrading towards the small packs with saliency of large vs. small SKUs not changing much. (3) The company will need to take 6-7% price hikes in H1FY23 to cover the entire commodity cost. (4) It has reached 27,000 rural distributors in Q1, with growth 1.5x of domestic growth.

Quarterly/annual financial summary

YE Mar (INR mn)	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	FY22	FY23E	FY24E	FY25E
Net Sales	37,010	34,035	8.7	35,505	4.2	1,41,363	1,55,870	1,69,364	1,84,074
EBITDA	5,007	5,538	(9.6)	5,497	(8.9)	22,015	24,947	29,281	32,094
APAT	3,357	3,870	(13.2)	3,780	(11.2)	15,152	17,813	21,363	23,434
Diluted EPS (Rs)	14.0	16.1	(13.2)	15.7	(11.2)	62.9	73.9	88.7	97.3
P/E (x)						60.0	51.1	42.6	38.8
EV / EBITDA (x)						41.3	36.9	31.2	28.3
RoCE (%)						49.6	49.6	53.2	57.7

Source: Company, HSIE Research

REDUCE

CMP *(as on 4 Aug 2022)*	INR 3,775
Target Price	INR 3,200
NIFTY	17,382

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 3,200	INR 3,200
EPS %	FY23E	FY24E
	-2%	0%

KEY STOCK DATA	
Bloomberg code	BRIT IN
No. of Shares (mn)	241
MCap (INR bn) / ($ mn)	909/12,219
6m avg traded value (INR mn)	1,340
52 Week high / low	INR 4.153/3,050

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	11.5	6.0	5.5
Relative (%)	6.8	6.6	(1.7)

SHAREHOLDING PATTERN (%)	Mar-22	Jun-22
Promoters	50.55	50.55
FIs & Local MFs	7.94	8.74
FPIs	17.17	16.65
Public & Others	24.34	24.06
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

Varun Lohchab
varun.lohchab@hdfcsec.com
+91-22-6171-7334

Naveen Trivedi
naveen.trivedi@hdfcsec.com
+91-22-6171-7324

Saras Singh
saras.singh@hdfcsec.com
+91-22-6171-7336

Godrej Consumers

In-line performance; margin recovery expected

GCPL's revenue growth and EBITDA margin were broadly in line. Consolidated revenue grew 8% YoY, domestic/international clocked 12/3% YoY growth, with 12/7% three-year CAGR. India business continued to be led by a high share of price hike (18% YoY), with domestic volume declining 6% (HSIE -4%, three-year CAGR at 4% vs. HUL/Emami at 6/1%). Personal care sustained robust +20% growth (price hike led), HI was down 4% (8% three-year CAGR) with weak season and high base. Indonesia remained weak, down 8% YoY and flat on three-year CAGR. Consolidated EBITDA margin was broadly in line at 17% (HSIE 17.3%), domestic at 22.9% (HSIE 23.6%) and international at 9.2% (in-line). New CEO remained focus on accelerating growth, but seasonality impact in India and challenges in Indonesia continued to check the outcomes. We maintain 10% underlying revenue growth with 20-21% EBITDA margin for FY23/24. We value the stock at 35x on Jun-24 EPS to derive a TP of INR 850. We maintain ADD.

- **In-line revenue, volume contraction continues:** Consolidated revenue was up 8% YoY (24% in Q1FY22, 7% in Q4FY22, 9% HSIE), with domestic growing 12% YoY (19% in Q1FY21, 9% in Q4FY22; 11% HSIE) and international growing 3% YoY (30% in Q1FY22, 4% in Q4FY22; 7% HSIE). Domestic volume declined 6% YoY (HSIE -4%). Indonesia, GUAM, and LATAM & SAARC revenues grew -9/+12/-5% YoY (1/59/26% in Q1FY22); cc growth was at -12/+12/+15% YoY. Personal Care revenue grew 25% YoY; Home Care declined 4% YoY. The company saw market share with higher penetration in soaps. Hair colour delivered strong growth on category uptick. HI delivered a weak performance due to muted season and high base.
- **Weak but in-line margin:** GM contracted by 558bps YoY to 46.6%. Employee costs were down by 11% YoY (+11% in Q1FY22), A&P was up 37% YoY (+41% in Q1FY22), and other expenses were flat YoY (+9% in Q1FY22). EBITDA margin fell 407bps YoY (+80bps Q1FY22, -382bps Q4FY22) to 17% (HSIE 17.3%). EBITDA declined by 13% YoY vs. the HSIE decline of 10%. EBITDA margin for Indonesia/GUAM/Latin America & SAARC came in at 15.3/8.3/1.4% vs. 23.4/9.9/13.6% in Q1FY22. EPS was down 12% at 3.6.
- **Con call takeaways**: (1) The company expects to see low to mid-single digit volume growth with double-digit revenue growth. It expects domestic margin to be in the mid 20s range. (2) GCPL has increased its media spends which has led to increase in the three-year CAGR trajectory to 12%, from 7% in the previous quarter. (3) HI category is 70-80% penetration but it is driven by incense stick. The company is investing to develop the aerosol and electric HI category. (4) Indonesia business was impacted by weak macros and fewer investments. With macros improving and restart of investments, the offtakes have started to improve. The large channel pipeline is expected to normalise by Q3 to improve the growth trajectory in this business.

Quarterly/annual financial summary

YE Mar (INR mn)	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	FY22	FY23E	FY24E	FY25E
Net Sales	31,250	28,945	8.0	29,158	7.2	1,22,765	1,35,630	1,49,051	1,63,489
EBITDA	5,326	6,111	(12.8)	5,024	6.0	23,951	26,602	31,438	35,306
APAT	3,635	4,149	(12.4)	3,072	18.3	17,017	19,747	23,412	26,513
Diluted EPS (Rs)	3.6	4.1	(12.4)	3.0	18.3	16.6	19.3	22.9	25.9
P/E (x)						51.3	44.2	37.3	32.9
EV / EBITDA (x)						36.4	36.1	31.9	26.4
RoCE (%)						18.1	18.6	21.5	24.0

Source: Company Data, HSIE Research

ADD

CMP *(as on 4 Aug 2022)*	INR 854
Target Price	INR 850
NIFTY	17,382

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 850	INR 850
EPS %	FY23E	FY24E
	-2%	0%

KEY STOCK DATA	
Bloomberg code	GCPL IN
No. of Shares (mn)	1,023
MCap (INR bn) / ($ mn)	874/11,741
6m avg traded value (INR mn)	1,253
52 Week high / low	INR 1,139/660

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	13.1	(6.3)	(13.6)
Relative (%)	8.4	(5.8)	(20.8)

SHAREHOLDING PATTERN (%)	Mar-22	Jun-22
Promoters	63.22	63.22
FIs & Local MFs	6.74	6.05
FPIs	24.16	24.03
Public & Others	5.88	6.70
Pledged Shares	0.42	0.42

Source : BSE

Pledged shares as % of total shares

Varun Lohchab
varun.lohchab@hdfcsec.com
+91-22-6171-7334

Naveen Trivedi
naveen.trivedi@hdfcsec.com
+91-22-6171-7324

Saras Singh
saras.singh@hdfcsec.com
+91-22-6171-7336

GAIL (India)

Marketing segment drives the beat

Our BUY recommendation on GAIL with a target price of INR 180 is based on expansion in gas transmission volume over FY22-24E to 126mmscmd on the back of (1) increase in domestic gas production, (2) increase in demand of RLNG, and (3) completion of major pipelines in eastern and southern India. Q1FY23 EBITDA/APAT, at INR 44/29bn, came in ahead of our estimates, mainly driven by higher-than-expected transmission and marketing volumes and higher marketing margins.

- **NG marketing:** Q1 revenue came in at INR 346bn (+2.4x YoY, +50% QoQ). Marketing volume was at 101mmscmd (+5% YoY, +6% QoQ) and trading margin stood at INR 2,618/tscm (+25% QoQ). The operating profit came in at INR 24bn (+35% QoQ).
- **Petchem:** Revenue was reported at INR 15bn (+7% YoY, -42% QoQ), with sales volume at 109kT, (-21% YoY, -50% QoQ). Volume and revenue saw a sharp decline QoQ owing to plant shutdown due to annual maintenance activities. However, this was offset by higher realisation of INR 134/kg (+35% YoY, +15% QoQ). Operating profit declined to INR 2bn (-34% YoY, -66% QoQ).
- **NG transmission:** Transmission segment volumes at 109.5mmscmd (+2% YoY, +2% QoQ), came in ahead of our estimates while transmission tariffs stood at INR 1,665/tscm (+10% YoY, +1% QoQ). EBITDA declined to INR 11bn (-7% YoY, -6% QoQ), owing to higher-than-expected transmission expenses.
- **Key takeaways**: (1) The company has guided for FY23 Capex of INR ~75bn. (2) Management has indicated a decline in transmission and marketing volume by 5-7mmscmd due to supply shortfall of ~8 cargoes by Gazprom's Singapore entity, starting Jun-22; GAIL continues to look for alternate sources of gas supply. (3) Currently, GAIL continues to honour all contracts with take or pay, enabling them to deal with the current situation.
- **Change in estimates:** We revise our FY23/24 EPS estimates by +3/-2% to INR 22.7/21.3 to factor in lower transmission and marketing volumes over FY23/24 and higher marketing margins for FY23, delivering a revised target price of INR 180/sh.
- **Our SOTP, at INR 180/sh, is based on 7x Mar-24E EV/e for the stable natural gas and LPG transmission business, 6x EV/e for gas marketing business, 5x EV/e for the cyclical petchem and LPG/LHC business, INR 49 for investments. The stock is currently trading at 6.6x FY24E EPS.**

Standalone financial summary

YE March (INR bn)	Q1 FY23	Q4 FY22	QoQ (%)	Q1 FY22	YoY (%)	FY20*	FY21*	FY22P*	FY23E*	FY24E*
Revenue	376	270	39.3	174	116.1	725	574	928	1,448	1,383
EBITDA	44	37	17.5	24	81.1	90	72	152	135	128
APAT	29	27	8.6	15	90.5	94	61	123	101	95
AEPS (INR)	6.6	6.0	8.6	3.4	90.5	21.2	13.8	27.6	22.7	21.3
P/E (x)						6.6	10.1	5.1	6.2	6.6
EV / EBITDA (x)						7.5	9.3	4.5	4.4	3.9
RoE (%)						19.8	12.0	20.9	14.6	12.0

Source: Company, HSIE Research | *Consolidated

Change in estimates

	FY23E			FY24E		
	Old	New	Ch%	Old	New	Ch%
EBITDA (INR bn)	132	135	2.7	132	128	(2.8)
AEPS (INR/sh)	22.0	22.7	3.1	21.8	21.3	(2.0)

Source: Company, HSIE Research

BUY

CMP *(as on 4 Aug 2022)*	INR 140
Target Price	INR 180
NIFTY	17,382

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 195	INR 180
EPS change	FY23E	FY24E
	+3.1%	-2.0%

KEY STOCK DATA	
Bloomberg code	GAIL IN
No. of Shares (mn)	4,383
MCap (INR bn) / ($ mn)	614/8,252
6m avg traded value (INR mn)	1,861
52 Week high / low	INR 174/125

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	(11.1)	(4.4)	(1.6)
Relative (%)	(15.8)	(3.8)	(8.8)

SHAREHOLDING PATTERN (%)	Mar-22	Jun-22
Promoters	51.80	51.89
FIs & Local MFs	23.83	23.33
FPIs	19.62	19.92
Public & Others	4.75	4.86
Pledged Shares	0.0	0.0

Source : BSE

Harshad Katkar
harshad.katkar@hdfcsec.com
+91-22-6171-7319

Nilesh Ghuge
nilesh.ghuge@hdfcsec.com
+91-22-6171-7342

Akshay Mane
akshay.mane@hdfcsec.com
+91-22-6171-7338

Rutvi Chokshi
rutvi.chokshi@hdfcsec.com
+91-22-6171-7356

Voltas

Recoup in market share restores trust

Voltas' Q1FY23 saw a mixed bag performance. UCP revenue was in line with market share recovery in RAC, while segment margin saw a miss (seen industry-wide). EMPS continued to disappoint, by missing both on revenue and margin. UCP delivered a 125/111% value/volume YoY growth (HSIE 123%), with the three-year CAGR at 8%. Voltas also regained some of its market share, which touched 24% (June exit) vs 19% earlier (March exit), a market share lead of 950bps over the No. 2 player. Voltas is also a leader in the inverter segment (earlier dominated by LG), with the market share at 22%, 300bps higher than LG. Despite increasing competition, we believe Voltas' core strength (after sales service, distribution network, etc.) will continue to support its market share. RAC is Voltas' core business (unlike for other players); we believe an aggressive and proactive approach will continue to bring efficiency and competitiveness in the long run. UCP EBIT margin saw pressure (7.7% vs. HSIE 9%); with commodity softening and easing trade inventory, we expect recovery in EBIT margin. We model 11% EBIT margin for FY24/25. Performance of project business remained weak and we do not expect immediate relief (although we model 6% EBIT margin for FY24/25). We cut our EPS estimates by 17/6/3% (largely to offset weak performance of project business) for FY23/24/25. We value the stock on SoTP (UCP/EMPS/EPS P/E at 43/10/15x and Volt-Beko P/S of 4x) on Jun-24 to derive a TP of INR 1,050. Maintain ADD.

- **UCP in line, EMPS miss:** Consolidated revenue was up 55% YoY (+38% in Q1FY22, +1% in Q4FY22), below our estimate of 68% growth. Revenue was up 1% on three-year CAGR. UCP revenue was up 125% YoY (+19% in Q1FY22, +10% in Q4FY22, HSIE +123%). EMPS declined 34% YoY (+67% in Q1FY22, -21% in Q4FY22, HSIE +2%). Order book at the end of Q1FY23 was at INR 58.1bn vs. INR 61.5bn in Q1FY22 and INR 53.6bn in Q4FY22. EP&S clocked 8% growth (+142% in Q1FY22, +26% in Q4FY22, HSIE +10%).
- **Margin pressure seen:** EBITDA grew by 30% YoY (+103% in Q1FY22, -21% in Q4FY22, +71% HSIE). EBITDA margin contracted 121bps to 6.4% (7.7% HSIE). UCP EBIT grew 41% YoY (+4% in Q1FY22, -26% in Q4FY22, HSIE +64%). UCP margin was at 7.7% (12.3% in Q1FY22, 10.6% in Q4FY22, HSIE 9%). EMPS segment reported an EBIT loss of INR 125mn against INR 306mn profit in Q1FY22 and INR 476mn in Q4FY22. The company's JV loss (Beko) was at INR 310mn vs INR 306mn YoY. Consolidated EPS came in at INR 3.3, down 11% YoY (vs. INR 3.7 in Q1FY22, INR 5.5 in Q4FY22 and HSIE INR 6.6).
- **Con call takeaways:** (1) Competitiveness in the market remains the same, with the gap between LG widening. (2) Primary volume for the industry was ~3mn in Q1FY23. Secondary sales for the industry/company were down 15-20%/10-12% over FY20. (3) UCP GM was stable sequentially, while EBIT margin contracted due to higher A&P spends. (4) Benefits of commodity softening will be visible in the margin from Q3. Voltas may look at price hikes before Q3 depending on the competitive landscape. (5) Highly JV may hit regulatory issues. South plant is on track to start production by Q3FY24.

Quarterly/annual financial summary

YE Mar (Rs mn)	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	FY22	FY23E	FY24E	FY25E
Net Sales	27,680	17,852	55.1	26,666	3.8	79,345	93,860	1,10,489	1,22,975
EBITDA	1,770	1,358	30.4	2,610	(32.2)	6,816	7,763	10,278	11,784
APAT	1,095	1,224	(10.6)	1,827	(40.1)	5,060	6,856	9,113	10,546
Diluted EPS (Rs)	3.3	3.7	(10.6)	5.5	(40.0)	15.3	20.7	27.5	31.9
P/E (x)						65.4	48.3	36.3	31.4
EV / EBITDA (x)						48.3	42.5	32.0	27.6
RoCE (%)						22.2	23.3	25.3	25.6

Source: Company, HSIE Research

ADD

CMP *(as on 4 Aug 2022)*	INR 1,000
Target Price	INR 1,050
NIFTY	17,382

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 1,150	INR 1,050
	FY23E	FY24E
EPS %	-17%	-6%

KEY STOCK DATA	
Bloomberg code	VOLT IN
No. of Shares (mn)	331
MCap (INR bn) / ($ mn)	331/4,447
6m avg traded value (INR mn)	1,500
52 Week high / low	INR 1,357/923

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	(12.6)	(19.0)	(3.1)
Relative (%)	(17.3)	(18.4)	(10.4)

SHAREHOLDING PATTERN (%)	Mar-22	Jun-22
Promoters	30.30	30.30
FIs & Local MFs	27.83	29.15
FPIs	26.19	24.96
Public & Others	15.68	15.59
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

Naveen Trivedi
naveen.trivedi@hdfcsec.com
+91-22-6171-7324

Saras Singh
saras.singh@hdfcsec.com
+91-22-6171-7336

Gujarat State Petronet

Higher blended tariffs aid earnings

Our ADD rating on Gujarat State Petronet with a TP of INR 265 is premised on (1) muted transmission volume over FY22-24E due to high spot LNG price environment, driven by geopolitical issues, low global inventories, and pick-up in demand post reopening of economies and (2) limited upside triggers in the near term. Hence, we believe that, at present, the stock is fairly valued with an RoE of 16% in FY24E and combined FCF of INR 36bn over FY22-24E.

- **View on the result:** Q1FY23 EBITDA/APAT stood at INR 3.6/2.4bn, above our estimates, supported by broadly in-line volumes, lower-than-expected other expenses, and higher blended tariffs.
- **Volume:** Gas transmission volume in Q1 was 29.5mmscmd (-20% YoY, +1% QoQ), broadly in line with our estimate. Volume break-up in mmscmd was: refinery 9.1, power 1.7, CGD 10.9, fertilizers 3.3, and others 4.4.
- **Tariffs:** Calculated blended transmission tariff for Q1 stood at INR 1,523/tscm (+19% YoY, +9% QoQ), well above our estimate, which supported earnings.
- **Change in estimates:** We raise our FY23E consolidated EPS estimates by +2.7% to INR 36.8, to factor in higher transmission tariff, which offsets the decline in volume estimates while EPS estimate for FY24 is marginally reduced by 0.4% to INR 30.6, delivering a revised TP of INR 265/sh.
- **DCF-based valuation: We value the transmission business using discounted cash flow (DCF) at INR 92/sh (WACC of 11% and terminal growth rate of 3%). To this, we add INR 173/sh as the value of its investments in Gujarat Gas, Sabarmati Gas, etc. to arrive at a target price of INR 265/sh. The stock is trading at 7.8x FY24E PER.**

Standalone financial summary

YE March (INR bn)	Q1 FY23	Q4 FY22	*QoQ (%)*	Q1 FY22	*YoY (%)*	FY20*	FY21*	FY22P*	FY23E*	FY24E*
Revenue	5	4	11.2	5	(8.6)	122	115	180	207	228
EBITDA	4	3	17.6	4	(3.8)	32	36	35	44	43
APAT	2	2	16.5	2	0.9	17	16	17	21	17
AEPS (INR)	4.2	3.6	16.5	4.1	0.9	30.6	28.5	29.4	36.8	30.6
P/E (x)						7.8	8.4	8.1	6.5	7.8
EV / EBITDA (x)						5.1	4.7	4.7	3.3	3.2
RoE (%)						42.3	28.5	23.2	23.2	15.9

Source: Company, HSIE Research | *Consolidated

Change in estimates

	FY23E			FY24E		
	Old	New	*Ch%*	Old	New	*Ch%*
EBITDA (INR bn)	44	44	1.7	43	43	(0.2)
EPS (INR/sh)	35.8	36.8	2.7	30.7	30.6	(0.4)

Source: Company, HSIE Research

ADD

CMP *(as on 4 Aug 2022)*	INR 238
Target Price	INR 265
NIFTY	17,382

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 285	INR 265
EPS change %	FY22E	FY23E
	+2.7%	-0.4%

KEY STOCK DATA	
Bloomberg code	GUJS IN
No. of Shares (mn)	564
MCap (INR bn) / ($ mn)	135/1,808
6m avg traded value (INR mn)	249
52 Week high / low	INR 383/209

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	(7.4)	(25.2)	(30.8)
Relative (%)	(12.1)	(24.6)	(38.0)

SHAREHOLDING PATTERN (%)	Mar-22	Jun-22
Promoters	37.63	37.63
FIs & Local MFs	33.23	32.76
FPIs	16.21	16.54
Public & Others	12.93	13.07
Pledged Shares	0.0	0.0

Source: BSE

Harshad Katkar
harshad.katkar@hdfcsec.com
+91-22-6171-7319

Nilesh Ghuge
nilesh.ghuge@hdfcsec.com
+91-22-6171-7342

Akshay Mane
akshay.mane@hdfcsec.com
+91-22-6171-7338

Rutvi Chokshi
rutvi.chokshi@hdfcsec.com
+91-22-6171-7356

KEC International

Deleveraging key for rerating

KEC reported a mixed quarter, with revenue at INR 33.2bn, driven by non-T&D segments. EBITDA margin, at 5.1%, was affected, mainly by losses in SAE (INR 0.7/1bn EBIDTA/PBT loss), and higher freight costs (+INR 0.4bn). With Q1FY23 order inflow (OI) of INR 34.7bn (vs. INR 200bn guidance for FY23 i.e. ~17.4%) and L1 on INR 80bn, the order book (OB) stands at INR 317bn (~2.3x FY22 revenue). On the other hand, collections from Afghanistan are still stalled, with net exposure increasing to INR 2.6bn. The consolidated net debt increased to INR 60.8bn (vs. INR 47.7bn at the end of Mar'22) with interest cost for the quarter rising to 3% of sales (vs. 2.2% in Q4FY22). NWC worsened further to 148 days vs. 137 days in the previous quarter. Given continued high debt build up, elevated working capital and weak profitability, we downgrade KEC rating from BUY to REDUCE, with a revised target price of INR 375/share (14x Mar-24E EPS). We cut our FY23E/24E EPS by 36.6/14% and 1-yr forward multiple from 15x to 14x. Debt reduction is key for further rerating.

- **Mixed quarterly performance:** Revenue was INR 33.2bn (+30.6%/-22.4% YoY/QoQ, 14.6% beat); non-T&D segments, especially railways/civil/cables growing 19/99/26% YoY, drove revenue growth. Oil & gas pipeline segment added INR 0.9bn to revenue. T&D segment grew by 17% YoY. With commodity prices cooling off in the later part of the quarter, the gross margin came in at 25.8% (+503bps QoQ). EBITDA was INR 1.7bn (+5.3%/-33.1% YoY/QoQ, a 4.5% miss). EBITDA margin: 5.1% (-122/-81bps YoY/QoQ, vs our estimate of 6.1%); largely on account of losses in SAE (INR 0.7/1bn, EBIDTA/PBT loss), elevated other expenses (+INR 400mn higher freight cost impact). APAT came in at INR 310mn (-32.8%/-72.3% YoY/QoQ, a 3.5% miss). KEC expects margins to improve in H2FY23 as SAE turns around with completion of legacy projects.
- **Robust OB:** KEC received INR 34.7bn worth of orders (vs. INR 200bn guidance for FY23 i.e. ~17.4%) in Q1FY23, taking the OB to to INR 237.2bn at the end of Jun'22. Including L1 of INR 80bn, the order book stood at approximately INR 317bn (~2.3x FY22 revenue).
- **Concerning debt levels:** The consolidated net debt, including acceptances (INR 26.7bn), came at INR 60.8bn (vs. INR 47.7bn at the end of Mar'22). The interest cost for the quarter increased to 3% of sales (vs. 2.2% in Q4FY22). NWC worsened further to 148 days vs. 137 days in the previous quarter. KEC expects to bring down the interest costs and normalise NWC days in Q3FY23. KEC has guided to maintain 130-135 NWC days by Mar'23.

Consolidated financial summary (INR mn)

Particulars	1QFY23	1QFY22	YoY (%)	4QFY22	QoQ (%)	FY21	FY22	FY23E	FY24E
Revenues	33,181	25,400	30.6	42,748	(22.4)	1,31,142	1,37,423	1,48,735	1,61,636
EBITDA	1,684	1,599	5.3	2,517	(33.1)	11,412	9,035	9,504	15,176
APAT	310	461	(32.8)	1,120	(72.3)	5,527	3,321	2,932	6,890
EPS (INR)	1.2	1.8	(32.8)	4.4	(72.3)	21.5	12.9	11.4	26.8
P/E (x)	33,181	25,400	30.6	42,748	(22.4)	20.6	34.2	40.6	17.3
EV/EBIDTA (x)						12.8	17.9	18.0	11.2
RoE (%)						18.0	9.5	7.9	16.9

Source: Company, HSIE Research

Consolidated estimate change summary

Particulars	FY23E			FY24E		
	New	Old	% Chg	New	Old	% Chg
Revenues (INR mn)	1,48,735	1,48,735	-	1,61,636	1,68,889	(4.3)
EBITDA (INR mn)	9,504	11,180	(15.0)	15,176	15,771	(3.8)
Margins (%)	6.4	7.5	(112.7)	9.4	9.3	5.1
APAT (INR mn)	2,932	4,621	(36.6)	6,890	8,010	(14.0)

Source: Company, HSIE Research

REDUCE

CMP (as on 4 Aug 2022)	**INR 444**
Target Price	**INR 375**
NIFTY	**17,382**

KEY CHANGES	**OLD**	**NEW**
Rating	BUY	REDUCE
Price Target	INR 467	INR 375
EPS Change %	FY23E	FY24E
	(36.6)	(14.0)

KEY STOCK DATA	
Bloomberg code	KECI IN
No. of Shares (mn)	257
MCap (INR bn) / ($ mn)	114/1,534
6m avg traded value (INR mn)	167
52 Week high / low	INR 550/345

STOCK PERFORMANCE (%)

	3M	**6M**	**12M**
Absolute (%)	18.5	(15.4)	6.7
Relative (%)	13.7	(14.9)	(0.5)

SHAREHOLDING PATTERN (%)

	Mar-22	**Jun-22**
Promoters	51.82	51.88
FIs & Local MFs	26.39	26.46
FPIs	12.19	12.17
Public & Others	9.60	9.49
Pledged Shares	-	-

Source: BSE

Parikshit D Kandpal, CFA
parikshitd.kandpal@hdfcsec.com
+91-22-6171-7317

Nikhil Kanodia
nikhil.kanodia@hdfcsec.com
+91-22-6171-7362

Manoj Rawat
manoj.rawat@hdfcsec.com
+91-22-6171-7358

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	Dabur, Britannia Industries, Godrej Consumers	PGDM	NO
Naveen Trivedi	Dabur, Britannia Industries, Godrej Consumers, Voltas	MBA	NO
Saras Singh	Dabur, Britannia Industries, Godrej Consumers, Voltas	PGDM	NO
Harshad Katkar	GAIL (India), Gujarat State Petronet	MBA	NO
Nilesh Ghuge	GAIL (India), Gujarat State Petronet	MBA	NO
Akshay Mane	GAIL (India), Gujarat State Petronet	PGDM	NO
Rutvi Chokshi	GAIL (India), Gujarat State Petronet	CA	NO
Parikshit Kandpal	KEC International	CFA	NO
Manoj Rawat	KEC International	MBA	NO
Nikhil Kanodia	KEC International	MBA	NO

Disclosure:

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Any holding in stock –**No**

HDFC Securities Limited (HSL) is a SEBI Registered Research Analyst having registration no. INH000002475.

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

HDFC Securities Limited, SEBI Reg. No.: NSE, BSE, MSEI, MCX: INZ000186937; AMFI Reg. No. ARN: 13549; PFRDA Reg. No. POP: 11092018; IRDA Corporate Agent License No.: CA0062; SEBI Research Analyst Reg. No.: INH000002475; SEBI Investment Adviser Reg. No.: INA000011538; CIN - U67120MH2000PLC152193

HDFC securities

Institutional Equities

Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,

Senapati Bapat Marg, Lower Parel, Mumbai - 400 013

Board: +91-22-6171-7330 www.hdfcsec.com