

# HSIE Results Daily

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### Results Reviews

- **State Bank of India:** State Bank of India's (SBI) Q1FY22 earnings surprised (26% higher than our estimates) due to higher income from recoveries. SBI continued to surprise positively on the asset quality front for a third straight quarter with slippages at 2.8% (annualised), better than private banks (AXSB: 4.5%; ICICIBC: 4.2%). The incremental restructuring during the quarter was at ~0.2% of loans. With the back-book adequately provided for (PCR at 68%), and ~0.4% of loans as a COVID buffer, we expect normalisation of credit costs in H2FY22 (assuming no third wave). Loan growth was soft (+6% YoY) on account of muted economic activity, although the bank indicated a robust pipeline of undrawn limits in the corporate book. SBI's journey to a 1% potential RoA is contingent on the bank finding ways to reflate its core profitability (PPOP stagnant at ~1.8% of assets over the past 8 quarters), especially by way of higher asset yields (soft in Q1FY22 that reflected fewer deployment opportunities, a low-risk corporate portfolio and a mortgage-heavy retail book). We maintain BUY with a revised target price of INR 501 (earlier INR 490), valuing the standalone bank at 1.0x Mar'23 ABVPS - this revision reflects the valuation of listed subsidiaries.
- **Titan:** Titan's 1QFY22 topline grew 76% YoY. Jewellery (ex-bullion) grew 115% (2-yr CAGR: -21%). That said, Titan's relative market share gain (in jewellery) doesn't seem material as most big-box jewelers grew at a similar clip or faster. Profitability print beats expectations, primarily driven by the jewelry segment. Jewellery margin stood at 6.5% (HSIE: 1%). Non-jewellery recovered ~44% of 1QFY20 sales (i.e. pre-COVID sales) but disappointed on profitability. We marginally increase our FY23/24 EPS estimates by 3% each to account for lower cost of retailing. Our DCF-based target price stands revised to INR 1,500/sh (earlier INR1,400/sh), implying 51x Jun-23 P/E. Maintain SELL.
- **CDSL:** We maintain our BUY rating, following a strong revenue performance (+13.8% QoQ), driven by continued traction in transaction income and uptick in annual issuer charges. Key attributes that underscore our positive stance include (1) strong momentum in transaction revenue (+20% QoQ), driven by retail activity (online brokers) and pledge income, (2) continued gains in BO account market share (+1000bps YoY to 64%), (3) sustained growth in annual issuer charges (annuity income), driven by BO accounts addition and unlisted opportunity, (4) investments in technology for enhanced capacity/security, (5) high cash generation and net cash of INR 9.1bn and, (6) +27/31% revenue/EBITDA CAGR over FY21-24E, following a strong FY21. The operating margin expanded 156bps QoQ to 61.5% (stood higher than our estimate), led by operating leverage, offset by higher provisions and increase in regulatory cost. We increase our revenue estimates for FY22/23E by 10.7/14.6% and core P/E multiple to 45x (40x earlier). FY22/23E EPS increases by 17.8/17.6%. We value CDSL on an SoTP basis by assigning 45x to June-23E core profit and adding net cash to arrive at a target price of INR 1,440. The stock is trading at a P/E of 48.3/40.7x FY22/23E EPS.
- **Balaji Amines:** Our ADD recommendation on Balaji Amines (BLA) with a price target of INR 3,805 is premised on (1) robust demand from pharma and agrochemical industry that comprises 77% of its revenue mix; (2) ramp-up in BSCl's production; (3) doubling of methylamines by FY24; (4) capacity addition of acetonitrile and taking up the capacity to 25.5ktpa by FY23; and (5) production linked incentive scheme that provides the right tailwinds for long-term volume growth. Q1 EBITDA/APAT were 17/22% above our estimates, owing to lower-than-anticipated raw material cost, lower-than-expected other expenses, lower-than-expected finance cost, and lower-than-expected tax outgo.

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- **Kalpataru Power Transmission:** Kalpataru Power (KPTL) reported revenue/EBITDA of INR 15.8/1.6bn, a miss of 6/7%. APAT too missed our estimates by 21% on higher-than-expected interest cost and taxes. KPTL secured new orders worth INR 8.6bn in Q1, taking the order book (OB) to INR 134bn. Management has guided for 10-15% topline growth in FY22 with double-digit margins. It expects to achieve a net cash status by FY22, with INR 7bn of cumulative cash flows from the transmission asset divestment and Indore real-estate project. The Shubham logistics monetisation has been deferred by a couple of years, owing to limited interest. We roll forward our SOTP target price to INR 590/sh (Jun-23E, INR 560 earlier), maintain BUY, and retain our earnings estimates.
- **NOCIL:** Our BUY recommendation on NOCIL with a target price of INR 330 is premised on (1) ramp-up in capacity utilisation, (2) robust volume growth on the back of pick-up in demand in the tyre industry, and (3) expansion of margin with focus on specialised rubber chemicals. We expect NOCIL's PAT to grow at 27% CAGR over FY22-24E, led by 25% CAGR in EBITDA. In the absence of major Capex over the next two years, the RoCE shall expand from 9.6% in FY22E to 14.2% in FY24E and generate an FCF of INR ~5bn over FY22-24E. Q1 EBITDA/APAT were 43/58% above our estimates, owing to an 8% rise in revenue, lower-than-anticipated raw material costs, lower-than-expected other expenses, and lower-than-expected tax outgo.
- **JMC Projects:** JMC Projects (JMC) reported revenue of INR 11.2bn (+2.4x/+5.5% YoY/QoQ), 6% below our estimate. However, EBITDA/APAT missed our estimate by 7/21% on higher commodity prices, revenue mix and COVID-related expenses. The order inflow was robust at INR 46.5bn, taking the order book (OB) to an all-time high of INR 159bn. The road assets were affected by COVID and farmers agitation, with daily collection declining to INR 4.5mn (vs INR 5.3mn in Q4FY21). JMC rerating may continue, given (1) an all-time high order book (~4x FY21 revenue); (2) potentially stronger balance sheet, post restructuring of BOT assets by Q3FY22; and (3) likely growth outperformance on the back of robust order backlog. We upgrade our FY22/23 EPS by 5.6/9.2% and roll forward our valuation to Jun-23E. We reiterate BUY with an increased target price of INR 149 (11x Jun-23E EPS, INR 11/sh for BOT assets).

# State Bank of India

## Further rerating contingent on RoA reflation

State Bank of India's (SBI) Q1FY22 earnings surprised (26% higher than our estimates) due to higher income from recoveries. SBI continued to surprise positively on the asset quality front for a third straight quarter with slippages at 2.8% (annualised), better than private banks (AXSB: 4.5%; ICICIB: 4.2%). The incremental restructuring during the quarter was at ~0.2% of loans. With the back-book adequately provided for (PCR at 68%), and ~0.4% of loans as a COVID buffer, we expect normalisation of credit costs in H2FY22 (assuming no third wave). Loan growth was soft (+6% YoY) on account of muted economic activity, although the bank indicated a robust pipeline of undrawn limits in the corporate book. SBI's journey to a 1% potential RoA is contingent on the bank finding ways to reflate its core profitability (PPOP stagnant at ~1.8% of assets over the past 8 quarters), especially by way of higher asset yields (soft in Q1FY22 that reflected fewer deployment opportunities, a low-risk corporate portfolio and a mortgage-heavy retail book). We maintain BUY with a revised target price of INR 501 (earlier INR 490), valuing the standalone bank at 1.0x Mar'23 ABVPS - this revision reflects the valuation of listed subsidiaries.

- **Margins yet to reflate, strong other income drives PPOP beat:** SBI reported muted NII growth of 4% YoY due to muted loan growth of 6% YoY and ~10bps compression in NIM (at 2.92%). Fee income remained broadly steady, while other income included lumpy recoveries of INR 24bn. Opex-to-assets ratio remained steady at ~1.9% of assets.
- **Slippages better than peers; provisioning to normalise:** SBI's slippages surprised positively at 2.8% (annualised), lower than Axis Bank and ICICI Bank (>4%), although the underlying portfolio profitability is significantly different. ~93% of fresh slippages emerged from outside the corporate book (SME at 9.1%, Agri at 5.7% and Retail at 2.6%). The restructured portfolio is at 0.8% of loans, while SMA1+2 remained steady at 0.5% of loans. SBI expects reversals of a majority of slippages from home loans, personal loans, and SME segments during Q2FY22, as collections and recoveries were hindered during the quarter. We build in ~2% average slippages during FY22-FY23E.
- **Reflation in yields; higher credit deployment imperative for 1% ROA:** SBI delivered 0.6% RoA during the quarter. PPOP-to-assets has hovered around ~1.8% for several quarters, as the reflation in asset yields remains elusive (loan book skewed towards high-rated entities and home loans marginally offset by Xpress credit loans). Even assuming credit costs at 0.7% of loans in a best-case scenario, SBI's journey to a 1% RoA is contingent on consistent reflation in asset yields through gradual portfolio re-risking (without adding to credit costs) and better operating efficiencies.

### Financial summary

(INR bn)	1Q FY22	1Q FY21	YoY (%)	4Q FY21	QoQ (%)	FY20	FY21	FY22E	FY23E
NII	276.4	266.4	3.7%	270.7	2.1%	980.8	1,107.1	1,262.3	1,397.4
PPOP	189.7	180.6	5.1%	197.0	-3.7%	681.3	715.5	848.5	953.8
PAT	65.0	41.9	55.2%	64.5	0.8%	144.9	204.1	316.8	388.8
EPS (INR)	7.3	4.7	55.4%	7.2	0.8%	16.2	22.9	35.5	43.6
ROAE (%)						6.4	8.4	11.8	12.9
ROAA (%)						0.4	0.5	0.7	0.8
ABVPS (INR)						201.8	243.2	280.3	319.6
P/ABV (x)						2.3	1.9	1.6	1.4
P/E (x)						28.1	19.9	12.8	10.5

Source: Company, HSIE Research

## BUY

CMP (as on 04 Aug 2021)	INR 457
Target Price	INR 501
NIFTY	16,259

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 490	INR 501
EPS %	FY22E	FY23E
	0%	0%

### KEY STOCK DATA

Bloomberg code	SBIN IN
No. of Shares (mn)	8,925
MCap (INR bn) / (\$ mn)	4,078/54,802
6m avg traded value (INR mn)	18,213
52 Week high / low	INR 467/176

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	30.0	28.7	138.5
Relative (%)	17.3	21.3	94.2

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	57.6	57.6
FIs & Local MFs	23.5	23.1
FPIs	9.9	10.3
Public & Others	9.0	8.8
Pledged Shares	0.0	0.0

Source : BSE

Pledged shares as % of total shares

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# Titan

## Jewellery drives performance beat

Titan's 1QFY22 topline grew 76% YoY. Jewellery (ex-bullion) grew 115% (2-yr CAGR: -21%). That said, Titan's relative market share gain (in jewellery) doesn't seem material as most big-box jewelers grew at a similar clip or faster. Profitability print beats expectations, primarily driven by the jewelry segment. Jewellery margin stood at 6.5% (HSIE: 1%). Non-jewellery recovered ~44% of 1QFY20 sales (i.e, pre-COVID sales) but disappointed on profitability. We marginally increase our FY23/24 EPS estimates by 3% each to account for lower cost of retailing. Our DCF-based target price stands revised to INR 1,500/sh (earlier INR1,400/sh), implying 51x Jun-23 P/E. Maintain SELL.

- 1QFY22 highlights:** Consolidated revenue grew 76% YoY to INR 34.7bn. Jewellery grew 67% YoY to INR 30.5bn. Adjusted for bullion/B2B sales, jewellery grew ~115% YoY to INR26.2bn (HSIE, INR25.3bn). Standalone volumes were up 124% YoY. Studded ratio, at 22% (vs 18% in 1QFY21, HSIE: 22%), improved YoY but remains sub-optimal. Expansion in jewellery EBIT margin was a given; however, the extent of the swing surprised us (6.5% vs HSIE: 1%) against the backdrop of (1) higher-than-expected bullion sales and (2) similar studded ratio expectations. Non-jewellery recovered ~44% of 1QFY20 sales (i.e, pre-COVID sales) but disappointed on profitability. Watches/eyewear clocked EBIT losses of INR 610/130mn resp (HSIE: INR318/78mn). Adj. consol PAT stood at INR 180mn (HSIE: INR586mn).
- Outlook:** While Titan's recovery execution (esp. in jewellery) has been on point, a strong bounce-back in volumes is already baked in FY22/23, despite the impact of partial lockdowns (Q1) in Maharashtra and Delhi. Against this backdrop, the margin of safety seems non-existent at 62x Jun-23 P/E. Hence, we maintain our SELL recommendation with a DCF-based TP of INR 1,500/sh; (earlier INR1,400/sh), implying 51x Jun-23 P/E.

### Quarterly financial summary

(INR mn)	1QFY22	1QFY21	YoY (%)	4QFY21	QoQ (%)	FY21	FY22E	FY23E	FY24E
Net Revenue	34,730	19,790	75.5	74,940	(53.7)	2,16,440	2,64,336	3,16,598	3,67,114
EBITDA	1,370	-2,530	(154.2)	8,170	(83.2)	17,240	31,180	37,867	44,699
APAT	180	-2,970	(106.1)	5,680	(96.8)	9,740	20,233	24,791	29,462
EPS (Rs)	0.2	-3.35	(106.1)	6.40	(96.8)	11.0	22.8	27.9	33.2
P/E (x)						164.0	79.0	64.4	54.2
EV/EBITDA (x)						94.6	52.2	43.2	36.6
Core RoCE(%)						9.1	17.8	19.0	19.8

Source: Company, HSIE Research, Consolidated Financials

### Change in estimates

(INR mn)	FY22E			FY23E			FY24E		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Revenue	2,64,336	2,56,019	3.2	3,16,598	3,05,749	3.5	3,67,114	3,51,438	4.5
EBITDA	31,180	31,710	(1.7)	37,867	36,234	4.5	44,699	42,228	5.9
EBITDA margin (%)	11.8	12.4	(59 bps)	12.0	11.9	11 bps	12.2	12.0	16 bps
APAT	20,233	20,220	0.1	24,791	24,073	3.0	29,462	28,562	3.2
APAT margin (%)	7.7	7.9	(24 bps)	7.8	7.9	(4 bps)	8.0	8.1	(10 bps)
EPS	22.8	22.8	0.1	27.9	27.1	3.0	33.2	32.2	3.2

Source: Company, HSIE Research

## SELL

CMP (as on 4 Aug 2021)	INR 1,800
Target Price	INR 1,500
NIFTY	16,259

KEY CHANGES	OLD	NEW
Rating	SELL	SELL
Price Target	INR 1,400	INR 1,500
EPS %	FY23E	FY24E
	+3.0%	+3.2%

### KEY STOCK DATA

Bloomberg code	TTAN IN
No. of Shares (mn)	888
MCap (INR bn) / (\$ mn)	1,598/21,469
6m avg traded value (INR mn)	3,067
52 Week high / low	INR 1,859/1,049

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	28.3	18.9	67.4
Relative (%)	15.6	11.5	23.1

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	52.90	52.90
FIs & Local MFs	4.40	4.15
FPIs	18.10	18.41
Public & Others	24.60	24.54
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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# CDSL

## Strong momentum continues

We maintain our BUY rating, following a strong revenue performance (+13.8% QoQ), driven by continued traction in transaction income and uptick in annual issuer charges. Key attributes that underscore our positive stance include (1) strong momentum in transaction revenue (+20% QoQ), driven by retail activity (online brokers) and pledge income, (2) continued gains in BO account market share (+1000bps YoY to 64%), (3) sustained growth in annual issuer charges (annuity income), driven by BO accounts addition and unlisted opportunity, (4) investments in technology for enhanced capacity/security, (5) high cash generation and net cash of INR 9.1bn and, (6) +27/31% revenue/EBITDA CAGR over FY21-24E, following a strong FY21. The operating margin expanded 156bps QoQ to 61.5% (stood higher than our estimate), led by operating leverage, offset by higher provisions and increase in regulatory cost. We increase our revenue estimates for FY22/23E by 10.7/14.6% and core P/E multiple to 45x (40x earlier). FY22/23E EPS increases by 17.8/17.6%. We value CDSL on an SoTP basis by assigning 45x to June-23E core profit and adding net cash to arrive at a target price of INR 1,440. The stock is trading at a P/E of 48.3/40.7x FY22/23E EPS.

- Q1FY22 highlights:** CDSL revenue stood at INR 1.17bn (+13.8/+79.7% QoQ/YoY), higher than our estimate of INR 1.08bn. The Annual issuer/transaction/KYC revenue were up +27.5/+19.6/+24.6% QoQ. Revenue from IPO/corporate action was down 40.6% QoQ, while other comprising e-voting and e-CAS revenue was up 11.2% QoQ. On the cost front, employee/technology/other costs were up 6/1.2/13.4%, but EBITDA margin expanded 138bps QoQ, led by strong growth. The other expenses were higher due to provisions (+14.1% QoQ), higher IPF contribution and elevated SMS cost. CDSL derives 67% of its revenue from market linked activity.
- Outlook:** We expect revenue growth of +40.8/+21.8 and an EBITDA margin of 63.3/66.4% in FY22/23E. The revenue CAGR of 27% over FY21-24E assumes +22/34/18/36% revenue CAGR in issuer/transaction/IPO/KYC revenue. Core PAT CAGR over FY21-24E is at +32%.

### Quarterly Financial summary

YE March (INR mn)	1Q FY22	1Q FY21	YoY (%)	4Q FY21	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
Net Revenues	1,173	653	79.7	1,031	13.8	2,251	3,437	4,838	5,895	6,997
EBITDA	737	381	93.7	634	16.3	1,084	2,118	3,061	3,915	4,741
APAT	639	462	38.4	517	23.4	1,255	2,003	2,885	3,420	4,079
Diluted EPS (INR)	6.1	4.4	38.4	5.0	23.4	12.0	19.2	27.6	32.7	39.0
P/E (x)						111.0	69.5	48.3	40.7	34.2
EV / EBITDA (x)						121.9	61.4	42.1	32.5	26.4
RoE (%)						17.3	22.8	27.8	27.9	28.2
Cash/Mcap (%)						4.5	5.4	5.9	7.0	8.2

Source: Company, HSIE Research, Consolidated Financials

### Change in Estimates

INR mn	FY22E Old	FY22E Revised	Change %	FY23E Old	FY23E Revised	Change %	FY24E Old	FY24E Revised	Change %
Revenue	4,372	4,838	10.7	5,144	5,895	14.6	6,048	6,997	15.7
EBITDA	2,686	3,061	14.0	3,265	3,915	19.9	3,909	4,741	21.3
EBITDA margin (%)	61.4	63.3	185bps	63.5	66.4	293bps	64.6	67.8	312bps
APAT	2,450	2,885	17.8	2,909	3,420	17.6	3,429	4,079	18.9
EPS (INR)	23.4	27.6	17.8	27.8	32.7	17.6	32.8	39.0	18.9

Source: Company, HSIE Research

## BUY

CMP (as on 4 Aug 2021)	INR 1,333
Target Price	INR 1,440
NIFTY	16,259

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 1,075	INR 1,440
EPS %	FY22E +17.8	FY23E +17.6

### KEY STOCK DATA

Bloomberg code	CDSL IN
No. of Shares (mn)	105
MCap (INR bn) / (\$ mn)	139/1,872
6m avg traded value (INR mn)	1,000
52 Week high / low	INR 1,579/339

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	71.6	153.1	280.5
Relative (%)	58.9	145.7	236.3

### SHAREHOLDING PATTERN (%)

	Mar-21	June-21
Promoters	20.00	20.00
FIs & Local MFs	26.76	25.86
FPIs	8.02	8.31
Public & Others	45.22	45.83
Pledged Shares	0.00	0.00

Source : NSE

Pledged shares as % of total shares

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# Balaji Amines

## Robust performance

Our ADD recommendation on Balaji Amines (BLA) with a price target of INR 3,805 is premised on (1) robust demand from pharma and agrochemical industry that comprises 77% of its revenue mix; (2) ramp-up in BSCL's production; (3) doubling of methylamines by FY24; (4) capacity addition of acetonitrile and taking up the capacity to 25.5ktpa by FY23; and (5) production linked incentive scheme that provides the right tailwinds for long-term volume growth. Q1 EBITDA/APAT were 17/22% above our estimates, owing to lower-than-anticipated raw material cost, lower-than-expected other expenses, lower-than-expected finance cost, and lower-than-expected tax outgo.

- Volumes, realisations and margins:** Total sales volume was 22kt (+20/-12% YoY/QoQ). The tabulated per-kg realisation from the amines segment comes to INR 177 (+54/20% YoY/QoQ). Back calculated per-kg EBITDA improved by 86/18% YoY/QoQ to INR 52. EBITDA margin remained healthy at 29.2% (+493/-17bps YoY/QoQ) on the back of a better product mix, higher price realisations across most of the products, and increase in operating leverage due to surge in volume offtake.
- Con call takeaways:** (1) The new plant of ethylamines at Solapur has achieved capacity utilisation of over 90% in Q1FY22 itself. This plant has led to a lower cost of production due to a new technology adopted by the company. (2) The construction of a di-methyl carbonate (DMC) plant is ongoing, and BLA expects it to commence operations by the end of FY22. (3) Capex of INR ~0.7-0.8bn has been planned to set up an additional acetonitrile plant having capacity of 50 tonnes per day at the 90-acre greenfield project (Unit IV). This plant will get commissioned in FY23. (4) BSCL recorded 1,500 tons of average production per month in Q1. Non-agrochemical clients constituted about 40% of total sales of ethylenediamine (EDA) in Q1, up from about 10% in earlier quarters.
- Change in estimates:** We raise our FY22/23E EPS estimates by 13.3/12.7% each to INR 90.5/103.3, to factor in a higher realisation for DMF, offset by an increase in the key raw material prices such as methanol and ammonia.
- DCF-based valuation:** Our price target is of INR 3,805 (WACC 11%, terminal growth 5%). The stock is trading at 33.3x FY23 EPS.

### Standalone financial summary

INR mn	Q1 FY22	Q4 FY21	QoQ (%)	Q1 FY21	YoY (%)	FY20*	FY21*	FY22E*	FY23E*	FY24E*
Net Sales	3,916	3,717	5.4	2,105	86.0	9,358	13,115	16,088	18,119	21,139
EBITDA	1,143	1,091	4.8	511	123.9	1,807	3,732	4,347	4,960	6,085
APAT	818	792	3.3	347	136.1	975	2,435	2,932	3,346	4,175
AEPS (INR)	25.3	24.5	3.3	10.7	136.1	30.1	75.2	90.5	103.3	128.9
P/E (x)						114.2	45.7	38.0	33.3	26.7
EV/EBITDA(x)						63.0	30.1	25.2	21.7	17.2
RoE (%)						14.6	26.8	24.8	22.3	22.1

Source: Company, HSIE Research | \*Consolidated

### Consolidated Change in Estimates

Y/E Mar	FY22E Old	FY22E New	% Ch	FY23E Old	FY23E New	% Ch
EBITDA (INR mn)	3,855	4,347	12.8	4,403	4,960	12.6
Adj. EPS (INR/sh)	79.9	90.5	13.3	91.6	103.3	12.7

Source: Company, HSIE Research

## ADD

CMP (as on 4 Aug 2021)	INR 3,414
Target Price	INR 3,805
NIFTY	16,259

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 3,155	INR 3,805
EPS %	FY22E +13.3%	FY23E +12.7%

### KEY STOCK DATA

Bloomberg code	BLA IN
No. of Shares (mn)	32
MCap (INR bn) / (\$ mn)	111/1,487
6m avg traded value (INR mn)	536
52 Week high / low	INR 3,977/600

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	36.6	179.8	458.2
Relative (%)	23.9	172.4	414.0

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	53.70	53.68
FIs & Local MFs	0.46	0.30
FPIs	2.18	2.35
Public & Others	43.66	43.67
Pledged Shares	0.00	0.00

Source: BSE

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# Kalpataru Power Transmission

## Muted performance

Kalpataru Power (KPTL) reported revenue/EBITDA of INR 15.8/1.6bn, a miss of 6/7%. APAT too missed our estimates by 21% on higher-than-expected interest cost and taxes. KPTL secured new orders worth INR 8.6bn in Q1, taking the order book (OB) to INR 134bn. Management has guided for 10-15% topline growth in FY22 with double-digit margins. It expects to achieve a net cash status by FY22, with INR 7bn of cumulative cash flows from the transmission asset divestment and Indore real-estate project. The Shubham logistics monetisation has been deferred by a couple of years, owing to limited interest. We roll forward our SOTP target price to INR 590/sh (Jun-23E, INR 560 earlier), maintain BUY, and retain our earnings estimates.

- Q1FY22 financial highlights:** KPTL reported revenue of INR 15.8bn (+8.7%/32.1% YoY/QoQ), a miss of 6%. T&D revenue grew by 12% YoY, O&G by 28% YoY and railways by 23% YoY. EBITDA came in at INR 1.6bn (+3.8/-33.3% YoY/QoQ, a miss of 7%). KPTL continues to hold (cost to completion) CTC provisioning of INR 1.4bn made in Q4FY21 as commodity prices have not reversed. Other operating expenses, at INR 1.6bn, were higher by 40% YoY, partly on account of higher freight cost. The company is expecting a hit of USD 6mn in FY22 and has booked USD 3mn in Q1FY22. APAT was at INR 760mn (+10.1%/-41.5% YoY/QoQ), missing our estimates by 20.7%.
- Lifting of the World Bank ban in Oct-21 to aid access to larger bidding pool:** KPTL received orders of INR 8.6bn, taking the order book to INR 134bn. Including the L1 of INR 25.5bn, the OB stands at INR 159.5bn. The company expects order inflows of INR 90bn for FY22 with INR 20bn each in O&G and railways and INR 50bn in T&D. Internationally, it is expecting a few orders in O&G in FY22; in transmission, significant opportunity opens up after Oct-21, when the World Bank imposed debarment ends (on World Bank funded projects in Africa and SAARC); in railways, KPTL is confident of receiving a few more orders from neighboring countries in FY22. For the remaining part of the year, the order pipeline is expected at INR 400-450bn.
- Net cash status by FY22:** The Kohima transmission asset sale to CLP India is now expected to complete by Q2FY22 as a few banking and regulatory approvals are pending. The standalone net debt stood at INR 12.2bn (net D/E 0.31x). KPTL is well on track to achieve a net cash target at the standalone level, following the sale of Kohima asset and collection from Indore Real estate project. KPTL is targeting FY22 cash inflow of more than INR 1.5bn from the Indore project and expecting around INR 5.5bn from the Kohima asset sale. KPTL promoters have maintained their commitment of reducing pledged shares to 40% of holding by Dec-21.

### Standalone Financial Summary

(Rs mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY22E	FY23E	FY24E
Net Revenues	15,860	14,590	8.7	23,370	(32.1)	76,710	85,227	98,187	107,094
EBITDA	1,620	1,560	3.8	2,430	(33.3)	8,080	8,400	10,546	11,261
APAT	760	690	10.1	1,300	(41.5)	4,890	4,692	6,242	6,711
Diluted EPS (Rs)	5.1	4.63	10.1	8.73	(41.5)	32.8	31.5	41.9	45.1
P/E (x)						14.3	14.9	11.2	10.4
EV/EBITDA (x)						9.7	9.2	7.3	6.7
RoE (%)						13.2	11.5	14.0	14.0

Source: Company, HSIE Research

## BUY

CMP (as on 04 Aug 2021)	INR 472
Target Price	INR 590
NIFTY	16,259

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 560	INR 590
EPS %	FY22E	FY23E
	-	-

### KEY STOCK DATA

Bloomberg code	KPP IN
No. of Shares (mn)	149
MCap (INR bn) / (\$ mn)	70/945
6m avg traded value (INR mn)	183
52 Week high / low	INR 496/224

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	31.1	30.1	105.4
Relative (%)	18.4	22.7	61.2

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	56.49	54.55
FIs & Local MFs	26.45	27.62
FPIs	6.33	7.30
Public & Others	10.73	10.53
Pledged Shares	28.70	25.04

Source : BSE

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# NOCIL

## Pass-through price hikes protect topline

Our BUY recommendation on NOCIL with a target price of INR 330 is premised on (1) ramp-up in capacity utilisation, (2) robust volume growth on the back of pick-up in demand in the tyre industry, and (3) expansion of margin with focus on specialised rubber chemicals. We expect NOCIL's PAT to grow at 27% CAGR over FY22-24E, led by 25% CAGR in EBITDA. In the absence of major Capex over the next two years, the RoCE shall expand from 9.6% in FY22E to 14.2% in FY24E and generate an FCF of INR ~5bn over FY22-24E. Q1 EBITDA/APAT were 43/58% above our estimates, owing to an 8% rise in revenue, lower-than-anticipated raw material costs, lower-than-expected other expenses, and lower-than-expected tax outgo.

- Financial performance:** Revenue grew 7/223% QoQ/YoY to INR 3.4bn, the highest-ever booked in any quarter till date, supported by increase in price realisation. The sequential de-growth of 13% in volumes was offset by an improved realisation by 20% in Q1. Domestic volumes were impacted by the strike of the second wave of the COVID-19 pandemic as most of the company's customers had to shut down their plants. However, the company witnessed a growth in export volumes. Gross margin came at ~49.4% (+524/+81bps QoQ/YoY) in Q1, mainly on account of high inventory gains. EBITDA grew 45/871% QoQ/YoY to INR 7bn with EBITDA margin coming in at 21.1% (+547/+1407bps QoQ/YoY).
- Con call takeaways:** (1) Plants operated at 70% capacity utilisation in Q1. Operations were affected with demand from customers falling as majority of them faced issues due to COVID-led disruptions. (2) NOCIL has been instrumental in passing through the increased raw material and freight costs to its customers which has protected its topline. (3) NOCIL plans to reach 100% capacity utilisation at all its plants by Sep'23. This will help it achieve a 7-8% market share globally. (4) China plus one strategy continues to play out well for NOCIL, as over 75% of the global demand of rubber chemicals is met by China and companies worldwide are de-risking their businesses.
- Change in estimates:** We raise our FY22/FY23E EPS estimates by 8.9/8.6% to INR 8.2/10.3 per share to factor in the overall performance of Q1, and a reduced tax rate.
- DCF-based valuation:** Our price target is INR 330 (WACC 10%, terminal growth 4.5%). The stock is trading at 26.9x FY23E EPS.

### Financial Summary

INR mn	Q1 FY22	Q4 FY21	QoQ (%)	Q1 FY21	YoY (%)	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	3,445	3,220	7.0	1,065	223.4	8,463	9,247	13,247	14,836	16,617
EBITDA	727	503	44.5	75	871.4	1,765	1,269	2,136	2,647	3,353
APAT	471	360	30.7	118	300.3	1,309	865	1,366	1,709	2,213
AEPS (INR)	2.8	2.2	30.7	0.7	300.3	7.9	5.2	8.2	10.3	13.3
P/E (x)						35.2	53.2	33.7	26.9	20.8
EV/EBITDA(x)						25.9	35.4	20.7	16.5	12.9
RoE (%)						11.2	7.1	10.5	12.5	15.4

Source: Company, HSIE Research

### Change in estimates

Y/E Mar	FY22E Old	FY22E New	% Ch	FY23E Old	FY23E New	% Ch	
EBITDA (INR mn)		2,133	2,136	0.2	2,621	2,647	1.0
Adj. EPS (INR/sh)		7.5	8.2	8.9	9.5	10.3	8.6

Source: Company, HSIE Research

## BUY

CMP (as on 4 Aug 2021)	INR 277
Target Price	INR 330
NIFTY	16,259

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 315	INR 330
EPS %	FY22E	FY23E
	+8.9%	+8.6%

### KEY STOCK DATA

Bloomberg code	NOCIL IN
No. of Shares (mn)	166
MCap (INR bn) / (\$ mn)	46/620
6m avg traded value (INR mn)	407
52 Week high / low	INR 294/108

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	40.0	82.2	155.0
Relative (%)	27.3	74.8	110.8

### SHAREHOLDING PATTERN (%)

	Mar-21	Jun-21
Promoters	33.93	33.89
FIs & Local MFs	5.18	4.34
FPIs	2.15	2.16
Public & Others	58.74	59.61
Pledged Shares	0.00	0.00

Source: BSE

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# JMC Projects

## Strong growth visibility

JMC Projects (JMC) reported revenue of INR 11.2bn (+2.4x/+5.5% YoY/QoQ), 6% below our estimate. However, EBITDA/APAT missed our estimate by 7/21% on higher commodity prices, revenue mix and COVID-related expenses. The order inflow was robust at INR 46.5bn, taking the order book (OB) to an all-time high of INR 159bn. The road assets were affected by COVID and farmers agitation, with daily collection declining to INR 4.5mn (vs INR 5.3mn in Q4FY21). JMC rerating may continue, given (1) an all-time high order book (~4x FY21 revenue); (2) potentially stronger balance sheet, post restructuring of BOT assets by Q3FY22; and (3) likely growth outperformance on the back of robust order backlog. We upgrade our FY22/23 EPS by 5.6/9.2% and roll forward our valuation to Jun-23E. We reiterate BUY with an increased target price of INR 149 (11x Jun-23E EPS, INR 11/sh for BOT assets).

- Q1FY22 financial highlights:** JMC reported revenue of INR 11.2bn (+2.4x/+5.5% YoY/QoQ), driven by robust execution across all segments. EBITDA, at INR 806mn, was impacted by higher commodity prices, job mix and COVID-related expenses. APAT, at INR 162mn (-2.7x YoY), was 38% below our estimate. Management has guided for 15-20% topline growth in FY22, which we believe is achievable, given the robust OB. 90% of the orders in the OB are variable pass-through contracts.
- Order book at all time high:** JMC received orders of INR 46.5bn in Q1FY22, with which the order book stands at INR 159bn. L1 orders stand at INR 25bn, comprising mainly of water infra and international B&F orders. JMC guided for INR 75-80bn of order inflow in FY22. The pipeline looks robust with INR 500bn each in water, urban infra and international segments.
- BOT assets resolution closer:** Standalone net debt increased to INR 7.2bn (net D/E 0.69x) from INR 5.1bn at the end of Mar-21. JPC is targeting net debt at INR 5bn by the end of FY22. The Wainganga-Kurukshetra expressway restructuring is expected to complete by Sep-21 and the sale of Vindhyaachal asset would be complete by Dec-21. JPC invested INR 530mn in Q1FY22, taking the total investment in four BOT assets to INR 9.3bn, of which an INR 280mn would be reversed after the WEPL-KEPL restructuring completes.

### Standalone Financial Summary

YE March	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY22E	FY23E	FY24E
Net Sales	11,243	4,704	139.0	10,660	5.5	36,888	44,600	51,723	59,203
EBITDA	806	279	189.5	955	(15.6)	3,315	4,237	5,224	6,216
APAT	162	(218)	(174.3)	257	(36.8)	711	1,332	1,949	2,583
EPS (Rs)	1.0	-1.3	(174.3)	1.5	(36.8)	4.2	7.9	11.6	15.4
P/E (x)						27.3	14.6	10.0	7.5
EV/EBITDA (x)						7.6	6.0	4.7	3.7
RoE (%)						7.2	12.4	16.1	18.4

Source: Company, HSIE Research

### Estimate Change Summary (Standalone)

INR mn	FY22E			FY23E		
	New	Old	% chg.	New	Old	% chg.
Revenues	44,600	43,100	3.5	51,723	49,385	4.7
EBITDA	4,237	4,095	3.5	5,224	4,988	4.7
EBITDA Margins (%)	9.5	9.5	0.0	10.1	10.1	0.0
APAT	1,332	1,261	5.6	1,949	1,785	9.2

Source: Company, HSIE Research

## BUY

CMP (as on 04 Aug 2021)	INR 116
Target Price	INR 149
NIFTY	16,259

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 126	INR 149
EPS %	FY22E	FY23E
	+5.6	+9.2

### KEY STOCK DATA

Bloomberg code	JMCP IN
No. of Shares (mn)	168
MCap (INR bn) / (\$ mn)	19/262
6m avg traded value (INR mn)	44
52 Week high / low	INR 130/45

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	40.0	54.9	150.4
Relative (%)	27.4	47.5	106.2

### SHAREHOLDING PATTERN (%)

	Mar-20	Jun-20
Promoters	67.75	67.75
FIs & Local MFs	16.35	16.21
FPIs	0.24	0.53
Public & Others	15.66	15.51

Pledged Shares - -

Source : BSE

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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	State Bank of India	PGDM	NO
Deepak Shinde	State Bank of India	PGDM	NO
Punit Bahlani	State Bank of India	ACA	NO
Jay Gandhi	Titan	MBA	NO
Amit Chandra	CDSL	MBA	NO
Mohit Motwani	CDSL	MBA	NO
Nilesh Ghuge	Balaji Amines, NOCIL	MMS	NO
Harshad Katkar	Balaji Amines, NOCIL	MBA	NO
Rutvi Chokshi	Balaji Amines, NOCIL	CA	NO
Rachael Alva	Balaji Amines, NOCIL	CA	NO
Parikshit Kandpal	Kalpataru Power Transmission, JMC Projects	CFA	NO
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