

HSIE Results Daily

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Results Reviews

- Bajaj Finance:** Bajaj Finance's (BAF) Q3FY22 earnings were in line with our estimates, led by strong operating performance (PPoP +35% YoY), partially offset by surplus provisioning (management overlay at 60bps). Asset quality improved sharply, owing to a 140bps decline in GS-II+GS-III, driving adjusted credit costs to 2%. Business momentum picked up further with 17% YoY growth in new customer acquisitions and 24% YoY growth in new loans disbursed. Phase-I of the company's much-anticipated digital transformation, focusing on ETB customers, was launched in a staggered manner, while Phase-II, focusing on NTB customers, is likely to go live by Sep-22. Given the early stage of the super-app launch, we will watch out for evidence of traction in NTB customer acquisitions and impact on overall growth and profitability before building it into our explicit forecasts. We revise our FY22/FY23 earnings estimates by -1%/2% to factor in higher credit costs (sustained management overlay), which are offset by improving margins. Our REDUCE stance with a revised TP of INR5,536 is based on current steep valuations (8.2x Sep-23 ABVPS).
- ICICI Prudential Life:** ICICI Prudential Life (IPRU) reported slower-than-industry APE growth (+16% YoY, in-line with estimates), translating into a 20% YoY VNB growth. We like IPRU's reengineered business model, which is focused on a more diversified product and channel mix, industry-leading share in sum assured (9MFY22: 12.7%), and rising share of traditional products. We expect the launch of new products coupled with strong momentum from non-ICICIBC channel to aid future growth. We expect VNB to clock a 21.6% CAGR over FY21-24E. We retain our ADD rating with a DCF-derived target price of INR700 (Sep-23 EV + 24.5x Sep-23E VNB). The stock is currently trading at FY22/23E P/EV of 2.8/2.4x and P/VNB of 27.3/21.6x.
- L&T Technology Services:** L&T Technology Services (LTTS) reported a moderate quarter, with a slight miss on revenue growth while the margins fared well. The management has maintained its guidance of 19-20% growth for FY22E, which implies Q4 growth of ~2-4% QoQ. We believe LTTS' growth will be led by (1) robust deal wins with TCV of USD 90mn - three wins of TCV >USD 10mn and one deal of USD 45mn from a tier-1 automotive company in the US; (2) strong client portfolio/relationships and mining capability (added one client in USD 30mn+ bucket); (3) traction in transportation vertical led by electric, connected, and autonomous; and (4) growth in plant engineering and medical devices vertical. The telecom & hi-tech vertical will face challenges in Q4 due to one client-specific issue in the media vertical. The long-term guidance of hitting USD 1bn run-rate in Q2FY23E and USD 1.5bn in FY25E remains on track. The company expects to maintain at least 18% EBIT margin and the ongoing supply side challenges will be offset by operational efficiencies. We acknowledge LTTS' prowess/diversity in digital ER&D, but citing near-term challenges, we cut estimates by ~2-3%. Our target price of INR 5,750 is based on 42x Mar-24E EPS. Maintain ADD.

HSIE Research Team

hdfcsec-research@hdfcsec.com

- **ICICI Securities:** ISEC printed flattish pure broking revenue in line with estimates, as share of cash moderated in the volume mix. While the customer addition run-rate has been impressive, we continue to watch out for a potential rise in ARPUs from digitally-sourced customers. We draw comfort from ISEC's (1) channel-agnostic client acquisition and (2) renewed focus on building digital capabilities. However, we continue to remain wary of the impact of any significant market correction on delivery volumes (~75% of broking revenue). We adjust our estimates to build in the beat on non-broking income in FY22 and the impact on ESOP book on the back of regulation change. Given the positive macro lead indicators (rising retail participation and turbocharged pipeline of primary issuances), we maintain our positive stance on ISEC and maintain ADD with a target price of INR920 (23x Sep-23 EPS).
- **Angel One:** ANGELONE delivered a 10% beat on the top-line led by better-than-estimated customer activity levels (higher average revenue-generating orders per customer), higher depositary fees and stronger net interest income. We are positively surprised with the rising efficacy of the marketing spend reflecting in lower customer acquisition costs (CAC) and a six-quarter high EBITDA margin of 51%, constant iteration around improving customer journeys, and a steady growth in aggregate revenue generating orders. ANGELONE remains one of the best plays on the secular growth story in the Indian capital markets and our highest-conviction BUY. We raise our FY22/23E earnings estimates by 15/6% on better-than-expected numbers and maintain BUY with an increased target price of INR1,870 (20.5x Sep-23 EPS).
- **Sonata Software:** We maintain our BUY recommendation on Sonata, following strong growth of 8.6% QoQ CC (~4% organic) in the IT services segment (IITS) and continued traction in the DPS business (+33% YoY). The Microsoft portfolio (~50% of IITS) is driving growth (+9.6% QoQ), with the company remaining optimistic that the opportunity (digital services + dynamics 365) can deliver >20% YoY growth consistently. Travel vertical reported second consecutive quarter of >+4% growth but the recovery trajectory might be prolonged due to the impact of the third wave (in Europe). The IITS EBITDA margin declined 80bps QoQ to 24.1%, owing to ongoing supply side concerns, partially offset by offshoring and peak utilisation (~90%). Attrition inched up to 22-23% level and the company is expected to hike wages in Q4 and Q1FY23E to counter attrition. The target margin range for IITS is ~23-25%; however, we believe it would be closer to the lower end. DPS growth was strong, supported by growth in cloud license sales. Sonata's growth will be driven by Microsoft account, data analytics and cloud services, and strong DPS business. We increase our revenue estimates by ~2% but cut our EPS estimates by 2.1/1.2% for FY22/23E due to lower margin (~100bps margin cut for IITS). Our target price of INR 1,085 is based on 22x Mar-24E EPS. The stock is trading at a P/E of 20.8/17.4x FY23/24E.

Bajaj Finance

Strong earnings but priced beyond perfection

Bajaj Finance's (BAF) Q3FY22 earnings were in line with our estimates, led by strong operating performance (PPoP +35% YoY), partially offset by surplus provisioning (management overlay at 60bps). Asset quality improved sharply, owing to a 140bps decline in GS-II+GS-III, driving adjusted credit costs to 2%. Business momentum picked up further with 17% YoY growth in new customer acquisitions and 24% YoY growth in new loans disbursed. Phase-I of the company's much-anticipated digital transformation, focusing on ETB customers, was launched in a staggered manner, while Phase-II, focusing on NTB customers, is likely to go live by Sep-22. Given the early stage of the super-app launch, we will watch out for evidence of traction in NTB customer acquisitions and impact on overall growth and profitability before building it into our explicit forecasts. We revise our FY22/FY23 earnings estimates by -1%/2% to factor in higher credit costs (sustained management overlay), which are offset by improving margins. Our REDUCE stance with a revised TP of INR5,536 is based on current steep valuations (8.2x Sep-23 ABVPS).

- **All-round strong operating performance:** BAF reported strong NII/PPoP growth of 41%/35% YoY, led by strong disbursements and healthy margin (11.6% of AUM). We build in a robust 25% AUM CAGR over FY23-FY24E. Cost-to-income, at 35%, was driven by investments in new initiatives.
- **Asset quality improves; credit costs normalising:** GNPA/NNPA improved to 1.7%/0.8%, with most segments trending better although the auto segment continued to be an exception with GNPA at 11%. While the third wave has had little impact on portfolio performance so far, management has prudently increased the cumulative provisions to INR10.8bn (0.6% of AUM). We build in average loan loss provisions at 1.7% of AUM for FY23-FY24E.
- **Super-app – an unproven journey:** Phase-II of BAF's digital initiatives is targeted at NTB customer acquisitions and cross-sell to existing customers. However, we will wait for evidence of significant traction from these initiatives, before turning constructive on potential medium-term growth forecasts.

Financial summary

(INR bn)	3Q FY22	3Q FY21	YoY (%)	2Q FY22	QoQ (%)	FY21	FY22E	FY23E	FY24E
NII	47.3	33.6	40.7	42.9	10.2	138.9	174.3	208.5	263.1
PPOP	39.2	29.1	34.9	33.0	18.6	119.6	142.3	170.1	215.1
PAT	21.3	11.5	85.5	14.8	43.6	44.2	69.0	99.8	126.5
EPS (INR)	35.0	19.8	76.8	24.4	43.3	73.5	114.8	166.0	210.3
ROAE (%)						12.8%	17.2%	20.7%	21.5%
ROAA (%)						2.6%	3.7%	4.4%	4.4%
ABVPS (INR)						594.8	697.5	849.5	1,037.1
P/ABV (x)						13.1	11.1	9.1	7.5
P/E (x)						105.8	67.7	46.8	36.9

Change in estimates

INR bn	FY22E			FY23E			FY24E		
	Old	New	Chg	Old	New	Chg	Old	New	Chg
AUM	1,918	1,918	0.0%	2,409	2,409	0.0%	3,021	3,021	0.0%
NIM (%)	9.9	10.1	24bps	9.5	9.6	10bps	9.7	9.7	0bps
NII	170.1	174.3	2.5%	206.4	208.5	1.0%	263.0	263.1	0.0%
PPOP	139.3	142.3	2.2%	168.1	170.1	1.2%	215.1	215.1	0.0%
PAT	69.7	69.0	-1.0%	97.7	99.8	2.2%	126.4	126.5	0.0%
ABVPS (Rs)	695	698	0.4%	845	849	0.6%	1,034	1,037	0.3%

Source: Company, HSIE Research

REDUCE

CMP (as on 18 Jan 2022)	INR 7,744
Target Price	INR 5,536
NIFTY	18,113

KEY CHANGES	OLD	NEW	
Rating	REDUCE	REDUCE	
Price Target	INR5529	INR 5536	
EPS %	FY22E -1.0%	FY23E 2.2%	FY24E 0%

KEY STOCK DATA

Bloomberg code	BAF IN
No. of Shares (mn)	604
MCap (INR bn) / (\$ mn)	4,674/62,808
6m avg traded value (INR mn)	9,108
52 Week high / low	INR 8,100/4,362

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(1.5)	26.4	64.1
Relative (%)	0.1	12.1	39.0

SHAREHOLDING PATTERN (%)

	Jun-21	Sep-21
Promoters	56.0	56.0
FIs & Local MFs	7.9	8.7
FPIs	24.0	24.2
Public & Others	12.0	11.4
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

Krishnan ASV

venkata.krishnan@hdfcsec.com
+91-22-6171-7314

Deepak Shinde

deepak.shinde@hdfcsec.com
+91-22-6171-7323

Neelam Bhatia

neelam.bhatia@hdfcsec.com
+91-22-6171-7341

ICICI Prudential Life

All eyes on momentum picking up

ICICI Prudential Life (IPRU) reported slower-than-industry APE growth (+16% YoY, in-line with estimates), translating into a 20% YoY VNB growth. We like IPRU's reengineered business model, which is focused on a more diversified product and channel mix, industry-leading share in sum assured (9MFY22: 12.7%), and rising share of traditional products. We expect the launch of new products coupled with strong momentum from non-ICICIBC channel to aid future growth. We expect VNB to clock a 21.6% CAGR over FY21-24E. We retain our ADD rating with a DCF-derived target price of INR700 (Sep-23 EV + 24.5x Sep-23E VNB). The stock is currently trading at FY22/23E P/EV of 2.8/2.4x and P/VNB of 27.3/21.6x.

- In-line performance:** Total APE grew slower than the private life insurance industry, at 16% YoY (2-year CAGR at -3%), to come in at INR19.3bn, +3% vs. estimates. Group protection exhibited strong growth (+70% YoY) on the back of a pick-up in disbursements and new group-term arrangements while retail protection de-grew 28% YoY as a result of limited medicals in a restrictive environment; ULIP sale has remained encouraging, in line with capital market buoyancy. Banca partners, other than ICICIBC, continue to deliver strong growth momentum (+40% YoY). VNBM for Q3FY22 was in line at 26.7% (+60bps sequentially), largely on account of higher share of protection (+170bps QoQ) in the mix, driving VNB +20%YoY to INR5.2bn.
- COVID provisioning and repricing products:** Net COVID claims in Q3 were just shy of INR1.2bn (0.3x Q2 claims). IPRU additionally carries INR2bn as closing reserves to cover any potential claims from the third wave. **The company has launched two products: long-term (30-yr) NPAR savings product and a ROP protection plan to cater to underserved customer cohorts.** The company is aggressively expanding its agency network (6k additions in Q3 vs. 12k in H1) to ramp up new business while also targeting productivity gains. Persistency for 8MFY22 improved across cohorts in the range of 150-300bps YoY, except in the 49th and 61st months.

Quarterly financial summary

(INR bn)	Q3FY22	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	FY21	FY22E	FY23E	FY24E
NBP	39.0	34.7	12.3	37.3	4.6	132.3	184.7	220.7	259.1
APE	19.3	16.7	15.8	19.8	-2.4	64.6	80.6	95.6	109.1
VNB	5.15	4.28	20.3	5.15	-	16.2	21.3	25.3	29.1
VNBM (%)	26.7	25.7	100bps	26.0	60bps	25.1	26.5	26.5	26.7
EV						291.1	318.2	362.0	412.0
P/EV (x)						3.0	2.7	2.4	2.1
P/VNB (x)						39.8	27.3	22.0	17.6
ROEV (%)						26.4	9.4	15.6	15.7

Source: Company, HSIE Research

Change in estimates

(INR mn)	FY22E			FY23E			FY24E		
	Revised	Old	Change % / bps	Revised	Old	Change % / bps	Revised	Old	Change % / bps
APE	80.6	80.6	0.0	95.6	95.6	0.0	109.1	109.1	0.0
VNB	21.3	21.2	0.8	25.3	25.3	0.0	29.1	29.1	0.0
VNBM (%)	26.5%	26.3%	20	26.5%	26.5%	0	26.7%	26.7%	0
EV	318.2	318.1	0.1	362.0	361.9	0.0	412.0	411.8	0.0

Source: Company, HSIE Research

ADD

CMP (as on 18 Jan 2022)	INR 608
Target Price	INR 700
NIFTY	18,113

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR700	INR700
	FY22E	FY23E
VNB %	+0.8%	0.0%

KEY STOCK DATA

Bloomberg code	IPRU IN
No. of Shares (mn)	1,437
MCap (INR bn) / (\$ mn)	874/11,743
6m avg traded value (INR mn)	1,018
52 Week high / low	INR 725/411

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(9.7)	(3.0)	19.9
Relative (%)	(8.1)	(17.4)	(5.2)

SHAREHOLDING PATTERN (%)

	Sep-21	Dec-21
Promoters	73.4	73.4
FIs & Local MFs	4.1	4.3
FPIs	17.2	16.9
Public & Others	5.3	5.4
Pledged Shares	Nil	Nil

Source : BSE

Pledged shares as % of total shares

Krishnan ASV

venkata.krishnan@hdfcsec.com
+91-22-6171-7314

Sahej Mittal

sahej.mittal@hdfcsec.com
+91-22-6171-7325

L&T Technology Services

Minor miss; long-term growth drivers intact

L&T Technology Services (LTTS) reported a moderate quarter, with a slight miss on revenue growth while the margins fared well. The management has maintained its guidance of 19-20% growth for FY22E, which implies Q4 growth of ~2-4% QoQ. We believe LTTS' growth will be led by (1) robust deal wins with TCV of USD 90mn - three wins of TCV >USD 10mn and one deal of USD 45mn from a tier-1 automotive company in the US; (2) strong client portfolio/relationships and mining capability (added one client in USD 30mn+ bucket); (3) traction in transportation vertical led by electric, connected, and autonomous; and (4) growth in plant engineering and medical devices vertical. The telecom & hi-tech vertical will face challenges in Q4 due to one client-specific issue in the media vertical. The long-term guidance of hitting USD 1bn run-rate in Q2FY23E and USD 1.5bn in FY25E remains on track. The company expects to maintain at least 18% EBIT margin and the ongoing supply side challenges will be offset by operational efficiencies. We acknowledge LTTS' prowess/diversity in digital ER&D, but citing near-term challenges, we cut estimates by ~2-3%. Our target price of INR 5,750 is based on 42x Mar-24E EPS. Maintain ADD.

- Q3FY22 highlights:** (1) LTTS' revenue stood at USD 225.1mn (lower than our estimate of USD 227.6mn), +3.6/+18.5% QoQ/YoY (+4.2/+19.5% QoQ/YoY CC); (2) growth was largely led by transportation (+5.1% QoQ CC), followed by telecom & hi-tech (+4.7% QoQ CC) and plant engineering (+4.4% QoQ CC); (3) LTTS won a USD 45mn deal from a tier-1 automotive player and will set up a center in Poland; (4) EBIT margin improved 20bps QoQ to 18.6% (higher than the estimated 17.8%), supported by operational efficiencies and pyramid rationalisation, offset by higher onsite revenue; (5) digital engineering contributed 56% to revenue (+5.5% QoQ); (6) the company added 2,135 employees vs. 1,531 employees in H1FY22 and this addition will continue in Q4FY22.
- Outlook:** We have factored in USD revenue growth of +19.7/+18.8/+17.2% and EBIT margin at 18.1/17.9/18.3% for FY22/23/24E respectively. LTTS is currently trading at 50x FY23E with the FY21-24E EPS CAGR at 32%.

Quarterly financial summary

YE Mar (INR bn)	Q3 FY22	Q3 FY21	YoY (%)	Q2 FY22	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
Revenue (USD mn)	225	190	18.5	217	3.6	786	737	882	1,047	1,227
Net Sales	16.88	14.01	20.5	16.08	5.0	56.19	54.50	65.64	78.53	93.25
EBIT	3.14	2.13	47.5	2.96	6.1	9.28	7.89	11.89	14.03	17.04
APAT	2.49	1.79	39.1	2.30	8.2	7.51	6.27	9.51	11.24	14.28
Diluted EPS (INR)	23.8	17.1	39.1	22.0	8.2	72.0	60.1	91.2	107.7	136.9
P/E (x)						75.3	90.3	59.4	50.3	39.6
EV / EBITDA (x)						50.2	54.4	38.4	32.0	26.1
RoE (%)						28.6	20.1	24.7	24.2	25.7

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

YE Mar (INR bn)	FY22E Old	FY22E Revised	Change %	FY23E Old	FY23E Revised	Change %	FY24E Old	FY24E Revised	Change %
Revenue (USD mn)	889	882	(0.8)	1,064	1,047	(1.6)	1,243	1,227	(1.3)
Revenue	65.71	65.64	(0.1)	79.82	78.53	(1.6)	94.46	93.25	(1.3)
EBIT	11.70	11.89	1.6	14.49	14.03	(3.2)	17.50	17.04	(2.7)
EBIT margin (%)	17.8	18.1	31bps	18.2	17.9	-29bps	18.5	18.3	-26bps
APAT	9.39	9.51	1.3	11.57	11.24	(2.9)	14.62	14.28	(2.3)
EPS (INR)	90.0	91.2	1.3	110.9	107.7	(2.9)	140.1	136.9	(2.3)

Source: Company, HSIE Research

ADD

CMP (as on 18 Jan 2022)	INR 5,421
Target Price	INR 5,750
NIFTY	18,113

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 5,880	INR 5,750
EPS %	FY22E +1.3	FY23E -2.9

KEY STOCK DATA

Bloomberg code	LTTS IN
No. of Shares (mn)	105
MCap (INR bn) / (\$ mn)	572/7,685
6m avg traded value (INR mn)	1,836
52 Week high / low	INR 5,958/2,296

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	12.0	60.0	128.7
Relative (%)	13.6	45.6	103.6

SHAREHOLDING PATTERN (%)

	Sep-21	Dec-21
Promoters	74.15	73.93
FIs & Local MFs	6.14	5.42
FPIs	9.50	9.23
Public & Others	10.21	11.42
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

Amit Chandra
 amit.chandra@hdfcsec.com
 +91-22-6171-7345

ICICI Securities

Tough quarter navigated well; maintain ADD

ISEC printed flattish pure broking revenue in line with estimates, as share of cash moderated in the volume mix. While the customer addition run-rate has been impressive, we continue to watch out for a potential rise in ARPUs from digitally-sourced customers. We draw comfort from ISEC's (1) channel-agnostic client acquisition and (2) renewed focus on building digital capabilities. However, we continue to remain wary of the impact of any significant market correction on delivery volumes (~75% of broking revenue). We adjust our estimates to build in the beat on non-broking income in FY22 and the impact on ESOP book on the back of regulation change. Given the positive macro lead indicators (rising retail participation and turbocharged pipeline of primary issuances), we maintain our positive stance on ISEC and maintain ADD with a target price of INR920 (23x Sep-23 EPS).

- MTF to the rescue:** Total broking revenue, at INR5.7bn (+5% QoQ), was 7% ahead of our estimates, primarily on account of a significant beat on MTF book. Pure broking revenues remained flattish sequentially as cash volumes moderated in the mix, reflecting in blended yields at 0.53bps (-8bps YoY). Growth in the average MTF + ESOP book was impressive (+29% QoQ) and much ahead of pure broking revenue, suggesting that clients with prime and NEO plans are leveraging heavily, albeit not translating into broking revenue on account of lower rack rates. Market share in cash/derivatives segment slipped further 50/9bps QoQ to 3% /8.3% - a large part of the market share loss is accruing from low-yielding institutional volumes. While the client acquisition run-rate fared well at 676k (Q2: 589k), activation and monetisation remain long-term challenges. Distribution revenues beat estimates on the back of higher life insurance yields from NBPs. Buoyant markets and a slew of primary issuances drove all-time high advisory service revenue to INR1.1bn (+52% QoQ).
- Sustained healthy margin:** Marketing expenses rose on account of higher customer acquisitions but were partially offset by lower operating expenses; however, EBITDA margin was strong at 61%. Adjusted PAT came in at INR3.8bn (+8% QoQ), led by better-than-expected traction in the MTF portfolio and strong distribution and advisory revenues. Management expects RBI's new circular capping ESOP funding limits at INR2mn/customer for a bank's subsidiary to impact NII by ~INR100mn/qtr.

Quarterly financial summary

(INR mn)	Q3FY22	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	FY21	FY22E	FY23E	FY24E
Adj. revenues	9,416	6,201	25.8	8,564	14.9	24,304	31,628	27,348	32,025
EBITDA	6,082	3,970	31.3	5,436	15.5	14,365	19,009	15,449	19,326
EBITDA Margin (%)	64.6	64.0	57bps	63.5	112bps	59.1	60.1	56.5	60.3
APAT	3,804	2,670	26.3	3,512	13.0	10,678	14,260	11,139	14,621
AEPS	11.8	8.3	26.3	10.9	13.0	33.1	44.3	34.6	45.4
EV/EBITDA (x)						21.1	16.5	19.2	15.7
P/E (x)						24.7	18.5	23.7	18.1
ROE (%)						70.4	66.0	44.1	51.1

Source: Company, HSIE Research

Change in estimates

(INR mn)	FY22E			FY23E			FY24E		
	Revised	Old	Change % / bps	Revised	Old	Change % / bps	Revised	Old	Change % / bps
Revenues	31,628	29,607	6.8	27,348	27,231	0.4	32,025	32,019	0.0
EBITDA	19,009	17,383	9.4	15,449	15,500	-0.3	19,326	19,487	-0.8
EBITDA margin (%)	60.1	58.7	140bps	56.5	56.9	-43bps	60.3	60.9	-52bps
APAT	14,260	13,047	9.3	11,139	11,104	0.3	14,621	14,672	-0.3
RoE (%)	44.3	40.5	9.3	34.6	34.5	0.3	45.4	45.5	-0.3

Source: Company, HSIE Research

ADD

CMP (as on 18 Jan 2022)	INR 820
Target Price	INR 920
NIFTY	18,113

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 920	INR 920
EPS %	FY22E +9.3%	FY23E +0.3%

KEY STOCK DATA

Bloomberg code	ISEC IN
No. of Shares (mn)	323
MCap (INR bn) / (\$ mn)	264/3,554
6m avg traded value (INR mn)	462
52 Week high / low	INR 896/357

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(2.8)	7.2	92.0
Relative (%)	(1.2)	(7.1)	66.9

SHAREHOLDING PATTERN (%)

	Sep-21	Dec-21
Promoters	74.9	74.9
FIs & Local MFs	7.5	7.8
FPIs	6.3	6.6
Public & Others	11.3	10.7
Pledged Shares	Nil	Nil

Source : BSE

Krishnan ASV

venkata.krishnan@hdfcsec.com
+91-22-6171-7314

Sahej Mittal

sahej.mittal@hdfcsec.com
+91-22-6171-7325

Angel One

Sustaining the blitzscale; maintain BUY

ANGELONE delivered a 10% beat on the top-line led by better-than-estimated customer activity levels (higher average revenue-generating orders per customer), higher depositary fees and stronger net interest income. We are positively surprised with the rising efficacy of the marketing spend reflecting in lower customer acquisition costs (CAC) and a six-quarter high EBITDA margin of 51%, constant iteration around improving customer journeys, and a steady growth in aggregate revenue generating orders. ANGELONE remains one of the best plays on the secular growth story in the Indian capital markets and our highest-conviction BUY. We raise our FY22/23E earnings estimates by 15/6% on better-than-expected numbers and maintain BUY with an increased target price of INR1,870 (20.5x Sep-23 EPS).

- All-round impressive performance:** Net broking revenue at INR2.75bn (+19% QoQ) was 15% ahead of our estimates, on the back of better than estimated avg. orders per customer at 22.6 (vs. estimated 19.1orders/customer). Customer acquisition run-rate continues to remain elevated at 0.46mn/month; however, on a positive note, the company has calibrated its unit marketing expenses reflecting in a 6-quarter high adjusted EBITDA margin of 51%. Depositary income at INR358mn continues to offer a cushion to broking revenues. Retail ADTO market share stayed impressive at 14/21% (+20/-40bps QoQ) for equity cash and F&O segments. Strong growth in NII on MTF book coupled with depositary income drove a 23% beat on profitability at INR1.65bn (+23% QoQ).
- Sustained tech leadership:** The new super-app is well on time and the management has stated that the rollout will take place in a phased manner with the first version involving broking services (in Q1FY23). Within the next 8-10 months, the super-app will be fully functional in four phases). Also, with the continuous iteration on the mobile app, the company has improved its e-KYC journey to onboard customers resulting in an increased conversion rate at 41% (vs. 30.7% earlier). The company expensed INR1bn on tech spends during 9MFY22 and believes that the launch of its refined super-app will further help in understanding customer behaviour and hence, improving their activity levels.

Quarterly financial summary

(INR mn)	Q3FY22	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	FY21	FY22E	FY23E	FY24E
Adj. revenues	4,450	2,222	100.3	3,882	14.6	8,978	16,252	18,816	21,697
EBITDA	2,259	1,096	106.2	1,842	22.6	4,431	8,071	9,507	11,034
EBITDA Margin (%)	50.8	49.3	145bps	47.4	332bps	49.4	49.7	50.5	50.9
APAT	1,646	732	124.8	1,343	22.6	3,073	5,878	6,912	8,012
AEPS	20	9	121.9	16	24.0	37.6	71.8	84.5	97.9
EV/EBITDA (x)						24.4	10.1	6.6	5.2
P/E (x)						37.1	19.4	16.5	14.2
ROE (%)						35.7	44.5	39.8	36.0

Source: Company, HSIE Research

Change in estimates

(INR mn)	FY22E			FY23E			FY24E		
	Revised	Old	Change % / bps	Revised	Old	Change % / bps	Revised	Old	Change % / bps
Revenues	16,252	15,442	5%	18,816	17,877	5%	21,697	20,654	5%
EBITDA	8,071	7,053	14%	9,507	9,001	6%	11,034	10,474	5%
EBITDA margin (%)	49.7	45.7	399bps	50.5	50.3	18bps	50.9	50.7	14bps
APAT	5,878	5,119	15%	6,912	6,539	6%	8,012	7,602	5%
RoE (%)	36.2	33.2	302bps	36.7	36.6	16bps	36.9	36.8	12bps

Source: Company, HSIE Research

BUY

CMP (as on 18 Jan 2022)	INR 1,384
Target Price	INR 1,870
NIFTY	18,113

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 1,770	INR 1,870
EPS %	FY22E	FY23E
	+15%	+6%

KEY STOCK DATA

Bloomberg code	ANGELONE IN
No. of Shares (mn)	83
MCap (INR bn) / (\$ mn)	115/1,539
6m avg traded value (INR mn)	778
52 Week high / low	INR 1,689/282

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(13.2)	8.8	300.0
Relative (%)	(11.5)	(5.5)	274.9

SHAREHOLDING PATTERN (%)

	Sep-21	Dec-21
Promoters	43.8	43.7
FIs & Local MFs	7.6	7.8
FPIs	4.7	5.4
Public & Others	44.0	43.0
Pledged Shares	Nil	Nil

Source : BSE

Krishnan ASV

venkata.krishnan@hdfcsec.com
+91-22-6171-7314

Sahej Mittal

sahej.mittal@hdfcsec.com
+91-22-6171-7325

Sonata Software

Steady growth, margin moderation

We maintain our BUY recommendation on Sonata, following strong growth of 8.6% QoQ CC (~4% organic) in the IT services segment (IITS) and continued traction in the DPS business (+33% YoY). The Microsoft portfolio (~50% of IITS) is driving growth (+9.6% QoQ), with the company remaining optimistic that the opportunity (digital services + dynamics 365) can deliver >20% YoY growth consistently. Travel vertical reported second consecutive quarter of >+4% growth but the recovery trajectory might be prolonged due to the impact of the third wave (in Europe). The IITS EBITDA margin declined 80bps QoQ to 24.1%, owing to ongoing supply side concerns, partially offset by offshoring and peak utilisation (~90%). Attrition inched up to 22-23% level and the company is expected to hike wages in Q4 and Q1FY23E to counter attrition. The target margin range for IITS is ~23-25%; however, we believe it would be closer to the lower end. DPS growth was strong, supported by growth in cloud license sales. Sonata's growth will be driven by Microsoft account, data analytics and cloud services, and strong DPS business. We increase our revenue estimates by ~2% but cut our EPS estimates by 2.1/1.2% for FY22/23E due to lower margin (~100bps margin cut for IITS). Our target price of INR 1,085 is based on 22x Mar-24E EPS. The stock is trading at a P/E of 20.8/17.4x FY23/24E.

- Q3FY22 highlights:** IITS revenue stood at USD 53.4mn, with +8.1% QoQ growth, above our estimate of USD 52.5mn. Digital/platform revenue contributed 72/23% to IITS revenue and grew +11/+13% QoQ while IP-led revenue (32% of the revenue) declined 1.2% QoQ. Retail/distribution ISV/travel grew +16/8.6/8.4/4.8% QoQ. IITS EBITDA margin stood at 24.1% (-80bps QoQ) and DPS EBITDA margin stood at 2.5% (-310bps QoQ). Consolidated revenue witnessed robust growth of +92% QoQ, supported by strong growth in DPS (+142% QoQ) and EBITDA margin stood at 7.1% (-569bps QoQ), largely impacted by the change in mix and lower IITS margin. The wage hike will have an impact of ~150bps in Q4 and attrition is expected to moderate.
- Outlook:** We expect IITS growth of +26.4/+20.1/16.2% and DPS growth of +30.7/21.2/21.7% for FY22/23/24E. IITS margin will be at 23.3/22.9/23.3% and DPS margin at 3.5/3.5/3.6% for FY22/23/24E respectively. We expect to see revenue/EPS CAGRs of +21/28% for FY21-24E.

Quarterly Financial summary

YE March (INR bn)	Q3 FY22	Q3 FY21	YoY (%)	Q2 FY22	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
IITS Revenues (USD mn)	53	41	30.2	49.4	8.1	181	160	203	243	283
Net Sales	18.58	13.96	33.1	9.63	92.9	37.43	42.28	54.77	66.52	80.26
EBIT	1.19	1.01	17.8	1.11	6.9	3.36	3.40	4.39	5.35	6.50
APAT	0.98	0.76	29.2	0.91	7.1	2.77	2.44	3.66	4.30	5.12
Diluted EPS (INR)	9.4	7.3	29.2	8.8	7.1	26.7	23.5	35.2	41.4	49.3
P/E (x)						32.3	36.6	24.4	20.8	17.4
EV / EBITDA (x)						23.6	22.3	17.1	13.9	11.2
RoE (%)						38.5	31.0	37.4	37.8	38.6

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

YE March (INR bn)	FY22E Old	FY22E Revised	Change %	FY23E Old	FY23E Revised	Change %	FY24E Old	FY24E Revised	Change %
Revenue (USD mn)	201	203	1.0	239	243	1.8	278	283	1.8
Revenue	53.23	54.77	2.9	64.46	66.52	3.2	77.80	80.26	3.2
EBIT	4.44	4.39	(1.3)	5.44	5.35	(1.6)	6.53	6.50	(0.4)
EBIT margin (%)	8.4	8.0	-34bps	8.4	8.0	-39bps	8.4	8.1	-29bps
APAT	3.58	3.66	2.1	4.39	4.30	(2.1)	5.18	5.12	(1.0)
EPS (INR)	34.5	35.2	2.1	42.3	41.4	(2.1)	49.8	49.3	(1.0)

Source: Company, HSIE Research

BUY

CMP (as on 18 Jan 2022)	INR 860
Target Price	INR 1,085
NIFTY	18,113

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 1,100	INR 1,085
EPS %	FY22E +2.1	FY23E -2.1

KEY STOCK DATA

Bloomberg code	SSOF IN
No. of Shares (mn)	105
MCap (INR bn) / (\$ mn)	90/1,215
6m avg traded value (INR mn)	341
52 Week high / low	INR 1,030/354

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(7.1)	9.9	119.0
Relative (%)	(5.5)	(4.4)	93.9

SHAREHOLDING PATTERN (%)

	Sep-21	Dec-21
Promoters	28.17	28.17
FIs & Local MFs	12.98	14.65
FPIs	16.49	13.94
Public & Others	42.36	43.24
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

Amit Chandra

amit.chandra@hdfcsec.com

+91-22-6171-7345

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	Bajaj Finance, ICICI Prudential Life, ICICI Securities, Angel One	PGDM	NO
Deepak Shinde	Bajaj Finance	PGDM	NO
Neelam Bhatia	Bajaj Finance	PGDM	NO
Sahej Mittal	ICICI Prudential Life, ICICI Securities, Angel One	ACA	NO
Amit Chandra	L&T Technology Services, Sonata Software	MBA	NO

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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

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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