INSTITUTIONAL RESEARCH

HSIE Results Daily

Contents

Results Reviews

- **Torrent Power:** Torrent Power (TPW) reported a healthy operational performance in Q4FY22, led by reduction in AT&C losses, higher demand, and improved collections efficiencies across its distribution business. Consolidated revenue increased 21.4% YoY to INR 37.0bn, led by the above factors and gain from sale of LNG. This made EBITDA rise 8.3% YoY to INR9.9bn. Interest expenses declined on deleveraging and a fall in interest rates. TPW, however, reported a loss of INR4.9bn due to impairment of INR13bn towards DGEN station. At record high RLNG prices, the PLF across its gas-based stations has declined steeply, thus impacting PLF and fuel-based incentives from these projects. Further, the rise in module prices has delayed its upcoming solar projects, which will impact its projected earnings for FY23E/24E. Accordingly, we have cut our EPS estimates by 18%/17% for FY23E/24E and reduced our TP to INR501, vs INR555 earlier. However, the stock price has corrected steeply in the past two weeks and is now trading below our target price. Hence, we upgrade our rating to ADD, from REDUCE earlier.
- **BSE:** BSE Ltd reported a better-than-expected revenue growth (+6.2% QoQ) and in-line margin performance. Uptick in transaction charges (+10.3% QoQ) is lifting growth, which in turn is driven by special rate (+20% QoQ) and StAR MF (+11% QoQ). The special rate transaction volume has high correlation with market sentiment and can be volatile in nature. BSE StAR MF continues to drive strong volume growth (+97% YoY) and BSE is open to monetise the platform (revenue of INR 0.5bn), yet no bids have been received. On the traditional business, cash market share is maintained at 7.5%, while the derivatives market share further declined to 2.5% (vs. 6.3% YoY). New initiatives like the insurance platform, power exchange, INX, gold spot exchange appear promising but lack revenue visibility. We expect growth in transaction charges to moderate in FY23E and there is a possibility to grow listing revenue with differential pricing. We cut our revenue estimate by 3.9/3.4% and EPS estimate by 7.7/5.4% for FY23/24E, based on lower growth expectation. We assign a SoTP-based target price of INR 830, by assigning 30x core P/E to Mar-24E PAT + CDSL stake + net cash. The stock is trading at a core P/E of 29/24x FY23/24E. Maintain ADD.
- **Mahanagar Gas:** Our ADD recommendation on Mahanagar Gas (MGL) with a target price of INR 865 is premised on its loyal customer base in CNG and commercial establishments, which is less price-sensitive than the industrial customer base and enables the company to maintain higher per-unit margins than peers. Q4FY22 EBITDA, at INR 2.2bn, and APAT, at INR 1.3bn, were 2.3x/2.9x above our estimates, mainly due to higher realisation and lower-than-estimated gas cost.
- **Birla Corporation:** We maintain our BUY rating on Birla Corporation (BCORP), with a revised TP of INR 1,472/share (9x Mar-24E consolidated EBITDA). While demand/NSR recovered 2/4% YoY, sharp energy inflation pulled down unitary EBITDA by 31% YoY (+2% QoQ). Thus, while consolidated revenue rose 6% YoY to INR 22.64bn, EBITDA/APAT fell 29/51% YoY to INR 2.77/1.5bn respectively. We continue to like BCORP for its large retail presence in the lucrative north/central regions and various cost-cutting initiatives. With major Capex done, we expect leverage ratio to cool off during FY23-24E.

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- **Zensar Technologies:** We maintain BUY on Zensar, following a better-than-expected revenue and margin performance and healthy deal wins (+32% QoQ). Zensar delivered growth of 4.2% QoQ CC, supported by healthy growth in the BFSI (+5.1% QoQ) and consumer (+4.1% QoQ) verticals. The TCV stood at USD 165.6mn and it was the best in the last five quarters (excluding one large deal in Q2) and consisted of wins across verticals. The investments in the BFSI/retail vertical coupled with M3Bi are yielding results. The management focus remains on delivering consistent and predictable revenue growth. The EBITDA margin was stable sequentially but down 565bps YoY to 14.2%, impacted by higher employee cost and rising sub-con expenses (+55% YoY). The management expects EBITDA margin to stabilise in mid-teens; higher fresher intake and near-shore locations will reduce dependence on subcontractors and increase utilisation. We reduce our EPS estimates by 3/5% for FY23/24E to factor in the 100bps margin drop in FY23E. Our TP of INR 440 is based on 20x FY24E EPS (earlier 22x). The stock is trading at a PE of 17/13x FY23/24E EPS, a discount of ~40% to mid-tier IT median.

- **Orient Electric:** Orient Electric (Orient) delivered a subdued revenue performance due to the company's stance on protecting its margins and delayed channel filling towards the close of peak season. Revenue declined 6% YoY (HSIE +12%) due to 11% decline in ECD segment (HSIE +8%). With Jan/Feb seeing disruption in trade, the company focused on filling channel inventory in the peak season (Q1FY23). Thereby, primary numbers for ECD are weak in Q4 despite healthy secondary/offtake (trade inventory was low while company inventory was high at the end of March). With sustaining market share, we expect ECD to bounce back strongly in Q1. This move helped the company maintain its gross margin YoY and sequentially. Lighting & switchgear segment sustained demand momentum. While we remain bullish on ECD and especially fans as a long-term play, we believe that, amongst the top peers, Orient lags on execution. We, therefore, cut our target P/E to 35x on FY24E EPS, from 38x earlier. We cut our FY23/24 EPS by -4/-5%. We downgrade our BUY rating to ADD, with a revised TP of INR 340.

- **NCC:** NCC Q4FY22 revenue/EBITDA/APAT came in at INR 31/2.7/1bn, with EBITDA and PAT missing our estimates. The higher raw material prices impacted margin by 110bps, compared to Q4FY21 when it was 11.1%. With order inflow (OI) of INR 99bn in FYn22, the order book (OB) stood at INR 393bn (incl. subs). Strong order inflows are expected in Q1FY23, with a major sewage treatment plant order in Mumbai. NCC expects revenue growth of 10-15% in FY23, with an EBITDA margin of ~10%. During the quarter, NCC sold its stake in NCC Urban for INR 2bn against its equity investment of INR 500mn and has received INR 470mn till date, with the balance expected to come in FY23/24. The collection period has reduced to 92days from 134days in Mar-21 on account of better collections from state governments. Consequently, gross debt has come down to INR 11.8bn (vs INR 20.4bn as on Dec-21). The total receivables from AP project now stand at INR 5.1bn. We maintain BUY with a reduced TP of INR 108 (9x Mar-24E), given high commodity inflation and resultant impact on margins.

Torrent Power

Gain from lower T&D offset by DGEN impairment

ADD

CMP*(as on 11 May 22)*	INR 452
Target Price	INR 501
NIFTY	16,167

KEY CHANGES	OLD	NEW
Rating	REDUCE	ADD
Price Target	INR555	INR501
EPS Change %	FY23E	FY24E
	18%	*17%*

KEY STOCK DATA	
Bloomberg code	TPW IN
No. of Shares (mn)	481
MCap (INR bn) / ($ mn)	218/2,922
6m avg traded value (INR mn)	500
52 Week high / low	INR 607/421

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	(8.7)	(15.5)	3.1
Relative (%)	(1.7)	(5.7)	(7.0)

SHAREHOLDING PATTERN (%)	Mar-22	Dec-21
Promoters	53.57	53.57
FIs & Local MFs	20.91	20.13
FPIs	6.86	7.33
Public & Others	18.66	18.97
Pledged Shares	-	-

Source : BSE

Torrent Power (TPW) reported a healthy operational performance in Q4FY22, led by reduction in AT&C losses, higher demand, and improved collections efficiencies across its distribution business. Consolidated revenue increased 21.4% YoY to INR 37.0bn, led by the above factors and gain from sale of LNG. This made EBITDA rise 8.3% YoY to INR9.9bn. Interest expenses declined on deleveraging and a fall in interest rates. TPW, however, reported a loss of INR4.9bn due to impairment of INR13bn towards DGEN station. At record high RLNG prices, the PLF across its gas-based stations has declined steeply, thus impacting PLF and fuel-based incentives from these projects. Further, the rise in module prices has delayed its upcoming solar projects, which will impact its projected earnings for FY23E/24E. Accordingly, we have cut our EPS estimates by 18%/17% for FY23E/24E and reduced our TP to INR501, vs INR555 earlier. However, the stock price has corrected steeply in the past two weeks and is now trading below our target price. Hence, we upgrade our rating to ADD, from REDUCE earlier.

- **T&D losses improved across segments:** In Q4FY22, TPW gained from the trading of LNG and improved AT&C losses across both distribution and franchisee segment. Revenue grew by 21.4% YoY to INR37.4bn. T&D losses in FY22 declined in Ahmedabad, Surat, Bhiwandi, Agra, and SMK to 4.2%/3.4%/11.6%/12.1%/40.5%, from 6.0%/4.1%/16.2/13.5%/44.9%, led by improved demand, consumer mix, and collections. Accordingly, EBITDA increased 8.3% YoY to INR9.6bn. Interest cost declined 7.6% YoY, given the deleveraging exercise and fall in interest rates, while depreciation was up 3.6% YoY due to incremental Capex. However, TPW reported a loss of INR4.9bn due to impairment charges of INR13bn towards its DGEN assets. Adjusting for the same, PAT increased by 26.8% YoY to INR4.9bn in Q4FY22.
- **Rise in module prices to delay RES projects**: TPW has delayed the execution of 100MW - GUVNL & 300MW – TPLD by 5-7 months, factoring in the steep rise in module prices, thus postponing the equipment ordering. A further delay could significantly impact the project level IRR and could lead to cancellation of these projects with a nominal penalty payment. However, the management has guided to scale up its RES capacity to 5GW by FY25-26E, from 2GW now. TPW has a healthy net D/E of 0.6x, net debt/EBITDA of 1.8x, and a sustainable FCFE of ~INR10bn, which is enough to fund new capacities.
- **Upgrade to add on steep correction:** Factoring in loss on PLF-based incentives and delay in RES project, we have cut our EPS estimates by 18%/17% for FY23E/FY24E and, thus, lower SOTP TP to INR501, from INR555 earlier. The stock price has also seen a steep correction, given these issues. At the CMP of INR456, TPW is trading at 1.8x FY24 P/BV and 13xFY24 P/E, which is below our TP. Hence, we upgrade TPW to ADD, from REDUCE earlier.

Financial Summary

(INR mn, Mar YE)	4Q FY22	4Q FY21	*YoY (%)*	3Q FY22	*QoQ (%)*	FY22E	FY23E	FY24E
Net Revenues	37,437	30,841	*21.4*	37,674	*-0.6*	1,42,576	1,51,625	1,56,588
EBITDA	9,906	9,145	*8.3*	9,340	*6.1*	35,910	39,626	40,668
APAT	4,870	3,842	*26.8*	3,681	*32.3*	14,290	15,117	16,572
Diluted EPS (INR)	10.1	8.0	*26.8*	7.66	*32.3*	29.7	31.5	34.5
P/E (x)						15.3	14.5	13.2
P/BV (x)						2.2	2.0	1.8
RoE (%)						14.4	14.5	14.4

Source: Company, HSIE Research

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BSE

Growth moderation

BSE Ltd reported a better-than-expected revenue growth (+6.2% QoQ) and in-line margin performance. Uptick in transaction charges (+10.3% QoQ) is lifting growth, which in turn is driven by special rate (+20% QoQ) and StAR MF (+11% QoQ). The special rate transaction volume has high correlation with market sentiment and can be volatile in nature. BSE StAR MF continues to drive strong volume growth (+97% YoY) and BSE is open to monetise the platform (revenue of INR 0.5bn), yet no bids have been received. On the traditional business, cash market share is maintained at 7.5%, while the derivatives market share further declined to 2.5% (vs. 6.3% YoY). New initiatives like the insurance platform, power exchange, INX, gold spot exchange appear promising but lack revenue visibility. We expect growth in transaction charges to moderate in FY23E and there is a possibility to grow listing revenue with differential pricing. We cut our revenue estimate by 3.9/3.4% and EPS estimate by 7.7/5.4% for FY23/24E, based on lower growth expectation. We assign a SoTP-based target price of INR 830, by assigning 30x core P/E to Mar-24E PAT + CDSL stake + net cash. The stock is trading at a core P/E of 29/24x FY23/24E. Maintain ADD.

- **Q4FY22 highlights**: Revenue was up 6.2% QoQ to INR 2.05bn, higher than our estimate of INR 1.97bn. Cash transaction revenue increased by 11.3% QoQ due to growth in exclusive volume (+37% QoQ). StAR MF realisation stood at INR 2.7/order (-1.4% QoQ) and volume was up +92/13% YoY/QoQ, leading to revenue growth of 11% QoQ. Listing/book building revenue was down 0.2/58.3% QoQ. INX ADTV stood at USD 11.2bn (-28% QoQ) and the number of daily trades were at 0.18mn. EBITDA margin stood at 34.1% (-42 bps QoQ), impacted by higher employee cost, but partially offset by a drop in technology expenses. The search for new MD & CEO is under process. Net cash stands at INR 22bn and dividend yield is at 2%.
- **Outlook:** We expect revenue growth of 10.3/13.6% and EBITDA margins of 33.0/34.9% in FY23/24E respectively. We are assuming StAR MF revenues of INR 0.78/1.1bn for FY23/24E. Core profits after taxes for FY22/23E/24E stand at INR 1.77/1.89/2.35bn.

Quarterly Financial summary

YE March (INR mn)	Q4 FY22	Q4 FY21	YoY (%)	Q3 FY22	QoQ (%)	FY20	FY21	FY22	FY23E	FY24E
Net Revenues	2,046	1,522	*34.4*	1,927	*6.2*	4,505	5,014	7,432	8,195	9,311
EBITDA	697	461	*51.4*	665	*4.9*	81	725	2,481	2,704	3,252
APAT	833	414	*101.2*	702	*18.6*	1,410	1,750	2,895	3,685	4,250
Diluted EPS (INR)	6.2	3.1	*101.2*	5.2	*18.6*	10.4	12.9	21.4	27.2	31.4
P/E (x)						68.8	55.4	33.5	26.3	22.8
EV / EBITDA (x)						975.9	110.7	30.1	28.0	23.1
RoE (%)						5.8	7.0	10.9	14.0	16.2

Source: Company, HSIE Research

Change in estimates

YE March (INR mn)	FY23E Old	FY23E Revised	Change %	FY24E Old Revised	FY24E Revised	Change %
Revenue	8,526	8,195	(3.9)	9,635	9,311	(3.4)
EBITDA	3,101	2,704	(12.8)	3,648	3,252	(10.9)
EBITDA margin (%)	36.4	33.0	-337bps	37.9	34.9	-294bps
APAT	3,994	3,685	(7.7)	4,493	4,250	(5.4)
EPS (INR)	29.5	27.2	(7.7)	33.2	31.4	(5.4)

Source: Company, HSIE Research

ADD

CMP *(as on 11 May 22)*	INR 717
Target Price	INR 830
NIFTY	16,167

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 925	INR 830
	FY23E	FY24E
EPS %	-7.7	-5.4

KEY STOCK DATA	
Bloomberg code	BSE IN
No. of Shares (mn)	135
MCap (INR bn) / ($ mn)	97/1,302
6m avg traded value (INR mn)	3,126
52 Week high / low	INR 1,047/227

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	(5.3)	51.3	204.5
Relative (%)	1.7	61.0	194.5

SHAREHOLDING PATTERN (%)	Dec-21	Mar-21
Promoters	0.00	0.00
FIs & Local MFs	1.61	1.02
FPIs	9.06	12.77
Public & Others	89.33	86.21
Pledged Shares	0.00	0.00

Source : NSE

Pledged shares as % of total shares

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Mahanagar Gas

Higher realisation supports margins

Our ADD recommendation on Mahanagar Gas (MGL) with a target price of INR 865 is premised on its loyal customer base in CNG and commercial establishments, which is less price-sensitive than the industrial customer base and enables the company to maintain higher per-unit margins than peers. Q4FY22 EBITDA, at INR 2.2bn, and APAT, at INR 1.3bn, were 2.3x/2.9x above our estimates, mainly due to higher realisation and lower-than-estimated gas cost.

- **Volume and margin:** Blended volume stood at 3.17mmscmd (5% below our estimate). CNG volume stood at 2.28mmscmd, up +13% YoY but declined -5% QoQ due to third wave of COVID and the resultant travel curbs. PNG segment's volume in Q4 was at 0.89mmscmd (+3% YoY, -2% QoQ). The per-unit gross spread, at INR 13.3/scm, declined by INR 4.4/scm YoY; however, it improved INR 4.7/scm QoQ in Q4. Per-unit EBITDA was at INR 7.6/scm vs. INR 12.1/scm YoY and INR 3.4/scm QoQ. The beat on margin was largely driven by better-than-expected realisation of INR 38.1/scm (+38% YoY, +13% QoQ) coupled with a 2% QoQ decline in gas cost to INR 24.8/scm.
- **Earnings call takeaways**: (1) MGL added 14 new CNG stations in Q4, taking the count to 290. It also added 107 new industrial/commercial PNG customers, taking the count to 4,339. 79,130 new domestic households were connected in Q4, taking the count to ~1.86mn households. (2) The company incurred Capex of ~INR 7bn in FY22 and has guided for Capex of INR 7bn for FY23E. (3) MGL signed another new-term contract in Q4, which will reduce dependency on volatile spot gas; with this, the total term contract volumes from three contracts are at ~0.45mmscmd. (4) MGL announced a final dividend of INR 15.5/sh, in addition to the interim dividend of INR 9.5/sh.
- **Change in estimates**: We reduce our FY23/24 EPS estimates by 9.5/4.8% to INR 77.2/79.7, to account for EBITDA margin pressure on near-term rising gas cost, and higher opex, which is partially offset by expectation of an improvement in CNG volumes, given the higher conversion rate.
- **DCF-based valuation:** Our target price is INR 865, based on Mar-24E free cash flow (WACC 11%, terminal growth rate 3.0%). The stock is currently trading at 9.6x FY24E EPS.

Financial Summary

YE March (INR bn)	Q4 FY22	Q3 FY22	QoQ (%)	Q4 FY21	YoY (%)	FY20	FY21	FY22P	FY23E	FY24E
Revenue	11	10	5.7	7	51.4	30	22	36	46	50
EBITDA	2	1	109.0	3	(31.8)	11	9	9	11	12
APAT	1	1	132.1	2	(38.1)	8	6	6	8	8
AEPS (INR)	13.3	5.7	132.1	21.5	(38.1)	80.3	62.7	60.4	77.2	79.7
P/E (x)						9.5	12.2	12.7	9.9	9.6
EV / EBITDA (x)						5.9	6.4	6.5	5.2	5.0
RoE (%)						29.7	20.0	17.5	20.1	18.7

Source: Company, HSIE Research

Change in estimates

	FY23E			FY24E		
	Old	New	Ch%	Old	New	Ch%
EBITDA (INR bn)	12	11	(6.5)	12	12	(1.8)
AEPS (INR/sh)	85.3	77.2	(9.5)	83.6	79.7	(4.8)

Source: Company, HSIE Research

ADD

CMP *(as on 11 May 22)*	INR 765
Target Price	INR 865
NIFTY	16,167

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 925	INR 865
EPS %	FY23E	FY24E
	(9.5)%	(4.8)%

KEY STOCK DATA	
Bloomberg code	MAHGL IN
No. of Shares (mn)	99
MCap (INR bn) / ($ mn)	76/1,015
6m avg traded value (INR mn)	535
52 Week high / low	INR 1,284/680

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	(4.3)	(24.0)	(34.4)
Relative (%)	2.7	(14.2)	(44.5)

SHAREHOLDING PATTERN (%)	Dec-21	Mar-22
Promoters	32.50	32.50
FIs & Local MFs	29.05	27.34
FPIs	25.32	24.98
Public & Others	13.13	15.18
Pledged Shares	0.0	0.0

Source : BSE

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Birla Corporation

Volume pick-up; energy inflation pulls margin down

We maintain our BUY rating on Birla Corporation (BCORP), with a revised TP of INR 1,472/share (9x Mar-24E consolidated EBITDA). While demand/NSR recovered 2/4% YoY, sharp energy inflation pulled down unitary EBITDA by 31% YoY (+2% QoQ). Thus, while consolidated revenue rose 6% YoY to INR 22.64bn, EBITDA/APAT fell 29/51% YoY to INR 2.77/1.5bn respectively. We continue to like BCORP for its large retail presence in the lucrative north/central regions and various cost-cutting initiatives. With major Capex done, we expect leverage ratio to cool off during FY23-24E.

- **Q4FY22 performance:** Sales volume rose 27/2% QoQ/YoY on better demand. Even NSR firmed up 3/4% QoQ/YoY. However, unitary opex went up 3/13% QoQ/YoY on a sharp jump in energy costs. Thus, unitary EBITDA slumped 31% YoY despite a modest 2% QoQ recovery to INR 649/MT. Blended cement production jumped to 92% vs 91/88% YoY/QoQ. Green power consumption remained steady in FY22 at 22% vs 19% YoY.
- **FY22 performance**: While volume/NSR rose 6/2% YoY, unitary EBITDA fell 26% YoY on a sharp 10% rise in opex (mainly led by energy cost inflation), leading to 19% fall in consol EBITDA. As working capital remained stable, OCF fell 22% YoY to INR 10.4bn. BCORP spent INR 7.8bn mainly on Mukutban expansion. Net debt rose a modest 2% YoY to INR 36bn.
- **Capex update and outlook**: The 3.9mn MT integrated plant in Maharashtra got operational at the end of Apr-22. With this, BCORP's capacity has increased to 20mn MT. We expect ramp-up from this plant and slower Capex in medium term to moderate gearing over next two years. BCORP is working to scale up usage of both alt fuel (7% in FY22) and green power (22% in FY22), which will both reduce opex inflation and reduce its carbon footprint. We marginally trim our EBITDA estimates for FY23/24E by 5/3%, factoring in fuel price inflation.

Quarterly/annual financial summary (consolidated)

YE Mar (INR bn)	Q4 FY22	Q4 FY21	YoY (%)	Q3 FY22	QoQ (%)	FY20	FY21	FY22P	FY23E	FY24E
Sales Vol (mn MT)	4.24	4.17	*1.7*	3.35	*26.6*	13.64	13.39	14.20	16.83	18.14
NSR (INR/MT)	5,071	4,856	*4.4*	4,934	*2.8*	4,819	4,848	4,962	5,185	5,201
EBITDA(INR/MT)	649	935	*(30.6)*	637	*1.9*	962	1,007	650	703	876
Net Sales	22.64	21.33	*6.2*	17.50	*29.4*	69.16	67.85	74.61	92.21	99.45
EBITDA	2.77	3.92	*(29.4)*	2.22	*24.4*	13.36	13.70	11.10	12.33	16.40
APAT	1.50	3.07	*(51.3)*	0.53	*179.7*	5.05	6.89	4.30	3.04	5.32
AEPS (INR)	19.4	39.9	*(51.3)*	6.9	*179.7*	65.6	89.5	55.8	39.5	69.1
EV/EBITDA (x)						8.2	8.0	9.9	9.1	6.8
EV/MT (INR bn)						6.96	6.95	7.00	5.52	5.47
P/E (x)						14.6	10.7	17.2	24.3	13.9
RoE (%)						*13.2*	*15.9*	*8.0*	*4.9*	*8.2*

Source: Company, HSIE Research

Estimates revision summary

(INR bn)	Current Estimates		Old Estimates		Revisions (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Net Sales	92.21	99.45	88.76	97.17	*1.8*	*2.0*
EBITDA	12.33	16.40	16.10	18.88	*(5.2)*	*(3.3)*
APAT	3.04	5.32	5.24	7.12	*(3.7)*	*(7.9)*

Source: Company, HSIE Research

BUY

CMP *(as on 11 May 22)*	**INR 960**
Target Price	**INR 1,472**
NIFTY	**16,167**

KEY CHANGES	**OLD**	**NEW**
Rating	BUY	BUY
Price Target	INR 1,550	INR 1,472
EBITDA revision %	FY22E *(5.2)*	FY23E *(3.3)*

KEY STOCK DATA	
Bloomberg code	BCORP IN
No. of Shares (mn)	77
MCap (INR bn) / ($ mn)	74/993
6m avg traded value (INR mn)	194
52 Week high / low	INR 1,650/928

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(19.9)	(36.9)	(3.6)
Relative (%)	(12.9)	(27.2)	(13.6)

SHAREHOLDING PATTERN (%)

	Dec-21	Mar-22
Promoters	62.90	62.90
FIs & Local MFs	15.35	16.29
FPIs	3.68	4.16
Public & Others	18.07	16.65
Pledged Shares	-	-
Source : BSE		

Pledged shares as % of total shares

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Zensar Technologies

Healthy deal wins, margin under check

We maintain BUY on Zensar, following a better-than-expected revenue and margin performance and healthy deal wins (+32% QoQ). Zensar delivered growth of 4.2% QoQ CC, supported by healthy growth in the BFSI (+5.1% QoQ) and consumer (+4.1% QoQ) verticals. The TCV stood at USD 165.6mn and it was the best in the last five quarters (excluding one large deal in Q2) and consisted of wins across verticals. The investments in the BFSI/retail vertical coupled with M3Bi are yielding results. The management focus remains on delivering consistent and predictable revenue growth. The EBITDA margin was stable sequentially but down 565bps YoY to 14.2%, impacted by higher employee cost and rising sub-con expenses (+55% YoY). The management expects EBITDA margin to stabilise in mid-teens; higher fresher intake and near-shore locations will reduce dependence on subcontractors and increase utilisation. We reduce our EPS estimates by 3/5% for FY23/24E to factor in the 100bps margin drop in FY23E. Our TP of INR 440 is based on 20x FY24E EPS (earlier 22x). The stock is trading at a PE of 17/13x FY23/24E EPS, a discount of ~40% to mid-tier IT median.

- **Q4FY22 highlights:** (1) Zensar's revenue came in at USD 153.2mn, +4.1/+27.4% QoQ/YoY (+4.2/28.5% QoQ/YoY CC terms), higher than our estimate of USD 150mn; (2) among the verticals, banking/insurance verticals led growth, clocking +5.9/+4.9% QoQ CC, supported by healthy traction in insurance/fintech clients & M3bi acquisition, followed by consumer/hi-tech with growth of +4/+3.5% QoQ CC respectively; (3) among the geographies, growth was led by Europe (+9.9% QoQ), followed by the US (+3.4% QoQ; supported by healthy growth in BFS & consumer vertical), while South Africa continued to remain muted (-0.5% QoQ); (4) EBITDA margin contracted 20bps QoQ to 14.2% (in line with our expectation of 14.3%), management endeavor is to achieve mid-teen margins in FY23E; (5) ZENT will roll out a wage hike effective from Q2FY23E, which would impact margins; (6) company robustly added 2,331 headcount in Q4 and plans to add more.
- **Outlook:** We expect USD revenue growth of 13.7/11.6% and EBITDA margin of 14.5/15.6% for FY23/24E, resulting in revenue/EPS CAGRs of +14/10% over FY22-24E.

Quarterly Financial summary

YE March (INR bn)	Q4 FY22	Q4 FY21	YoY (%)	Q3 FY22	QoQ (%)	FY20	FY21	FY22	FY23E	FY24E
Revenue (USD Mn)	153	120	27.4	147	4.1	566	494	569	647	722
Net Sales	11.54	8.77	*31.6*	11.03	*4.7*	40.10	36.68	42.44	49.20	55.62
EBIT	1.16	1.30	*-10.5*	1.11	*4.5*	3.47	5.11	4.72	4.98	6.22
APAT	1.30	0.90	*43.4*	0.91	*42.5*	2.63	3.50	4.16	4.00	5.02
Diluted EPS (INR)	5.7	4.0	*43.4*	4.0	*42.5*	11.5	15.3	18.2	17.5	22.0
P/E (x)						25.5	19.2	16.1	16.8	13.4
EV / EBITDA (x)						12.0	7.9	8.3	7.3	5.7
RoE (%)						12.7	15.7	16.3	13.9	15.9

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

YE March (INR bn)	FY23E Old	FY23E Revised	Change %	FY24E Old	FY24E Revised	Change %
Revenue (USD mn)	639	647	*1.3*	718	722	*0.6*
Revenue	48.54	49.20	*1.3*	55.27	55.62	*0.6*
EBIT	5.24	4.98	*-4.9*	6.68	6.22	*-6.9*
EBIT margin (%)	10.8	10.1	-66bps	12.1	11.2	-90bps
APAT	4.14	4.00	*-3.3*	5.29	5.02	*-5.1*
EPS (INR)	18.1	17.5	*-3.3*	23.2	22.0	*-5.1*

Source: Company, HSIE Research

BUY

CMP *(as on 11 May 22)*	INR 294
Target Price	INR 440
NIFTY	16,167

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 510	INR 440
EPS %	FY23E	FY24E
	-3.3	-5.1

KEY STOCK DATA	
Bloomberg code	ZENT IN
No. of Shares (mn)	226
MCap (INR bn) / ($ mn)	67/894
6m avg traded value (INR mn)	771
52 Week high / low	INR 587/255

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	(24.6)	(37.0)	9.7
Relative (%)	(17.7)	(27.3)	(0.3)

SHAREHOLDING PATTERN (%)	Dec-21	Mar-22
Promoters	49.10	49.09
FIs & Local MFs	14.09	13.36
FPIs	17.81	16.55
Public & Others	19.00	21.00
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Orient Electric

ECD miss despite healthy secondary sales

Orient Electric (Orient) delivered a subdued revenue performance due to the company's stance on protecting its margins and delayed channel filling towards the close of peak season. Revenue declined 6% YoY (HSIE +12%) due to 11% decline in ECD segment (HSIE +8%). With Jan/Feb seeing disruption in trade, the company focused on filling channel inventory in the peak season (Q1FY23). Thereby, primary numbers for ECD are weak in Q4 despite healthy secondary/offtake (trade inventory was low while company inventory was high at the end of March). With sustaining market share, we expect ECD to bounce back strongly in Q1. This move helped the company maintain its gross margin YoY and sequentially. Lighting & switchgear segment sustained demand momentum. While we remain bullish on ECD and especially fans as a long-term play, we believe that, amongst the top peers, Orient lags on execution. We, therefore, cut our target P/E to 35x on FY24E EPS, from 38x earlier. We cut our FY23/24 EPS by -4/-5%. We downgrade our BUY rating to ADD, with a revised TP of INR 340.

- **Weak ECD show:** Revenue declined 6% YoY (+42% in Q4FY21 and +10% in Q3FY22). ECD revenue declined 11% YoY (+42% in Q4FY21, +5% in Q3FY22, HSIE +8%) due to demand disruptions in Jan, Feb, and mid-March and price hikes. Secondary sales for Orient were strong and thereby maintained market share (as per the co.). Havells/Polycab delivered 18/24% three-year CAGR vs. Orient's at 6%. Orient had taken price hikes ahead of its peers/higher price hikes and avoided quick channel filling in Q4. Lighting & switchgear revenue was up 15% YoY (+44% in Q4FY21, +25% in Q3FY22, HSIE +27%).
- **Beat on margin:** GM contracted by 13bps YoY to 27.8% (-257bps in Q4FY21 and -344bps in Q3FY22). Margin contraction was arrested through price hikes. Lighting EBIT margin was at 15.7%, +125bps YoY (+309bps in Q4FY21 and +8bps in Q3FY22). ECD EBIT margin contracted by 153bps YoY to 12.8% (-141bps in Q4FY21 and -379bps in Q3FY22). Employee/other expenses grew -4/4% YoY. EBITDA margin, at 10.7% (10.1% HSIE), saw a 137bps YoY contraction (+50bps in Q4FY21 and -382bps in Q3FY22). EBITDA declined 17% YoY to INR 807mn (HSIE INR 905mn). The company has taken 15-18% price hike in FY22 against commodity inflation of 18-20%.
- **Con call takeaways:** (1) Primary sales were impacted by COVID-related uncertainties in the initial part of Q4FY22; secondary sales remained strong. (2) Direct-to-dealer approach for fans in Bihar and Orissa helped gain market share, albeit in early stages. (3) Orient will look at the direct-to-dealer approach in the underpenetrated states. (4) Lighting & switchgear performed well due to its long-term strategic initiatives. (5) The Hyderabad greenfield will add an annual capacity of 4.8mn units. Fan capacity is currently at >100%, while outsourcing has increased. Capacity utilisation of non-peak season is ~40%. (6) The company has taken 15-18% price hikes in FY22.

Quarterly/annual financial summary

YE Mar (INR mn)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	FY21	FY22P	FY23E	FY24E
Net Sales	7,533	8,017	(6)	6,784	11	20,326	24,484	28,958	32,358
EBITDA	807	969	(17)	665	21	2,195	2,313	2,863	3,318
APAT	488	627	(22)	381	28	1,197	1,266	1,718	2,033
Diluted EPS (INR)	2.3	3.0	(22.2)	1.8	28.1	5.6	6.0	8.1	9.6
P/E (x)						54.9	51.9	38.3	32.4
EV / EBITDA (x)						28.9	27.8	22.7	19.2
RoCE (%)						33.9	38.0	33.8	34.5

Source: Company, HSIE Research

ADD

CMP *(as on 11 May 22)*	INR 310
Target Price	INR 340
NIFTY	16,167

KEY CHANGES	OLD	NEW
Rating	BUY	ADD
Price Target	INR 400	INR 340
EPS %	FY23E	FY24E
	-4%	-5%

KEY STOCK DATA	
Bloomberg code	ORIENTEL IN
No. of Shares (mn)	212
MCap (INR bn) / ($ mn)	66/884
6m avg traded value (INR mn)	85
52 Week high / low	INR 408/277

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	(6.9)	(16.6)	7.3
Relative (%)	0.1	(6.9)	(2.7)

SHAREHOLDING PATTERN (%)	Dec-21	Mar-22
Promoters	38.52	38.52
FIs & Local MFs	24.94	26.30
FPIs	8.99	8.26
Public & Others	27.55	26.92
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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NCC

Mixed performance

NCC Q4FY22 revenue/EBITDA/APAT came in at INR 31/2.7/1bn, with EBITDA and PAT missing our estimates. The higher raw material prices impacted margin by 110bps, compared to Q4FY21 when it was 11.1%. With order inflow (OI) of INR 99bn in FYn22, the order book (OB) stood at INR 393bn (incl. subs). Strong order inflows are expected in Q1FY23, with a major sewage treatment plant order in Mumbai. NCC expects revenue growth of 10-15% in FY23, with an EBITDA margin of ~10%. During the quarter, NCC sold its stake in NCC Urban for INR 2bn against its equity investment of INR 500mn and has received INR 470mn till date, with the balance expected to come in FY23/24. The collection period has reduced to 92days from 134days in Mar-21 on account of better collections from state governments. Consequently, gross debt has come down to INR 11.8bn (vs INR 20.4bn as on Dec-21). The total receivables from AP project now stand at INR 5.1bn. We maintain BUY with a reduced TP of INR 108 (9x Mar-24E), given high commodity inflation and resultant impact on margins.

- **Financial highlights:** Revenue came in at INR 31bn (20/16% YoY/QoQ), a 2% beat. EBITDA was at INR 2.7bn (-8/-9% YoY/QoQ, 20% miss). EBITDA margin fell by 255bps YoY to 8.5% due to higher raw material prices (229bps GM contraction YoY). RPAT came in at INR 2.4bn (+2.1x/+2.6x, YoY/QoQ). There was an exceptional gain of INR 1.3bn from stake sale in NCC Urban. Consequently, APAT was at INR 1bn (-4.5/-4.7% YoY/QoQ), a 24% miss. NCC expects 10-15% YoY growth in revenue in FY23, with an EBITDA margin of ~10%.
- **Order inflow tepid:** NCC secured INR 43bn of orders in Q4FY22, taking the OB to INR 393bn, of which buildings/water & environment accounted for 57/18% and roads, electrical, irrigation, and mining constituted 3-11% each. The total OI for FY22 stood at INR 99.2bn, lower than the guidance of INR 140bn, owing to aggressive bidding intensity. NCC expects INR 150bn of order inflows in FY23. Also, a major sewage treatment plant project in Mumbai is expected to come to NCC in Q1FY23. NCC executed INR 12bn worth of JJM orders in FY22 and expects to achieve a turnover of INR 50bn in FY23 from JJM projects.
- **NCC Urban stake sold; debt free in next 2-3 years:** Gross debt decreased to INR 11.8bn, as of Mar-22, vs INR 20.4bn, as of Dec-21. It was achieved mainly on account of improved receivables from state governments. Collection period has also come down to 92days from 134 in Mar-21. Of the INR 2bn to be received from NCC Urban, NCC has received INR 470mn and the remaining will be realised in three quarterly tranches. INR 1.5bn from loans and advances to NCC Urban will be received in FY23 and the balance INR 1.5bn will be received in FY24. These proceeds will be used for debt reduction and WC utilisation. Consequently, NCC expects to be debt-free by FY25.

Financial summary standalone

(INR mn)	Q3FY22	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	FY21	FY22	FY23E	FY24E
Net Sales	31,343	26,177	19.7	27,039	15.9	72,557	99,300	123,940	138,592
EBITDA	2,669	2,897	(7.9)	2,928	(8.8)	8,545	9,961	12,890	15,384
APAT	1,071	1,121	(4.5)	1,124	(4.7)	2,611	3,460	5,380	7,289
Diluted EPS	1.8	1.8	(4.5)	1.84	(4.7)	4.3	5.7	8.8	12.0
P/E (x)						14.7	11.1	7.1	5.3
EV/EBITDA (x)						6.1	4.6	4.1	3.5
RoE (%)						5.0	6.2	8.9	11.0

Standalone estimate change summary (INR mn)

Particulars (INR mn)	FY23E			FY24E		
	New	Old	Chg. (%)	New	Old	Chg. (%)
Revenues	123,940	123,940	-	138,592	138,592	-
EBITDA	12,890	15,121	(14.8)	15,384	17,185	(10.5)
EBITDA margin (%)	10.4	12.2	(180.0)	11.1	12.4	(130.0)
APAT	5,380	6,592	(18.4)	7,289	8,108	(10.1)

Source: Company, HSIE Research

BUY

CMP *(as on 11 May 22)*	INR 63
Target Price	INR 108
NIFTY	16,167

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 122	INR 108
EPS change %	FY23E	FY24E
	-18.4	-10.1

KEY STOCK DATA

Bloomberg code	NJCC IN
No. of Shares (mn)	610
MCap (INR bn) / ($ mn)	38/516
6m avg traded value (INR mn)	300
52 Week high / low	INR 99/56

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(10.6)	(20.3)	(22.3)
Relative (%)	(3.6)	(10.5)	(32.3)

SHAREHOLDING PATTERN (%)

	Dec-21	Mar-22
Promoters	19.68	19.68
FIs & Local MFs	11.62	12.25
FPIs	12.15	8.89
Public & Others	56.55	59.18
Pledged Shares	3.82	3.70

Source : BSE

Pledged shares as % of total shares

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Rating Criteria
BUY: >+15% return potential
ADD: +5% to +15% return potential
REDUCE: -10% to +5% return potential
SELL: > 10% Downside return potential

Disclosure:

Analyst	Company Covered	Qualification	Any holding in the stock
Anuj Upadhyay	Torrent Power	MBA	NO
Hinal Choudhary	Torrent Power	CA	NO
Amit Chandra	BSE, Zensar Technologies	MBA	NO
Vinesh Vala	BSE, Zensar Technologies	MBA	NO
Apurva Prasad	Zensar Technologies	MBA	NO
Harshad Katkar	Mahanagar Gas	MBA	NO
Nilesh Ghuge	Mahanagar Gas	MMS	NO
Akshay Mane	Mahanagar Gas	PGDM	NO
Rutvi Chokshi	Mahanagar Gas	CA	NO
Rajesh Ravi	Birla Corporation	MBA	NO
Keshav Lahoti	Birla Corporation	CA	NO
Naveen Trivedi	Orient Electric	MBA	NO
Saras Singh	Orient Electric	PGDM	NO
Parikshit Kandpal	NCC	CFA	NO
Manoj Rawat	NCC	MBA	NO
Nikhil Kanodia	NCC	MBA	NO

Disclosure:
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