HSIE Results Daily

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Results Reviews

- **Hindustan Unilever:** HUL reported higher-than-expected revenue and volume growth; however, volume growth saw sequential deceleration on three-year CAGR. Domestic revenue (ex-GSK) was up 9% on a three-year CAGR (8% in Q4), with volume CAGR seeing slight deceleration at 1.7% (6% YoY) vs. ~3% CAGR in the previous three quarters. The volume growth was broad-based despite the industry declining 6% YoY. The company continued to gain market share as regional/small players faced inflation pressures. Home Care continued to be the outlier, growing 12% on three-year CAGR, while BPC clocked 6%. HFD continued to remain subdued due to high retail inflation impacting demand. Gross margin, at 47.4%, came in line as RM inflation sustained. EBITDA growth was at 14% (HSIE 11%). With the inflationary trend still sustaining, we expect near-term demand and margin pressure to continue. With ongoing demand disruptions in mass segments and structural pressures from new age/D2C brands in the premium space (as highlighted in our recent thematic), we see limited surprise opportunities for HUL. We give 45x P/E on Jun-24E EPS to derive a TP of INR 2,100. Maintain REDUCE.
- **Ambuja Cement:** We maintain our REDUCE rating on Ambuja Cements (ACEM), with an unchanged TP of INR 360/share (SOTP based), owing to its expensive valuation. ACEM reported decent performance, led by 15% YoY volume uptick (94% utilisation). In a high-cost environment, it reported a healthy EBITDA margin of INR 926/MT (though 38% down YoY). The company has noted that its ongoing 8.5mn MT expansions (1.5mn MT in Punjab by CY23 and 7mn MT in the east) are on track. It will be commissioning 53MW WHRS across plants in Q3CY22, reducing its power costs.
- **ICICI Lombard:** ICICI Lombard (ICICIGI) reported an in-line revenue; however, reinvestments in retail health resulted in higher-than-expected opex ratios (30.4%, +320bps vs. est.), dragging calculated CORs to 105% and APAT to INR3.5bn (8% below estimates). We expect loss ratios in the health segment to normalise during the rest of FY23, while we also expect loss ratios in motor segment to improve on the back of a growth rebound. We trim our FY23E/FY24E earnings by 6%/12% to factor in management guidance on elevated opex ratios in the near term. Given the stock's sharp correction and strong demand outlook in motor insurance, we upgrade the stock to ADD (from REDUCE), with a TP of INR1,370 (implying a Mar-24E PE of 32x and a P/ABV of 5.4x).
- **Heidelberg Cement:** We maintain our REDUCE rating on Heidelberg Cement (HEIM), with an unchanged target price of INR 180/share (8x Mar-24E EBITDA). In the absence of any major planned expansion for the next three years, we expect subdued volume growth and loss in market share to continue, as other players expand in HEIM's core markets. HEIM reported weak results due to continuous volume decline and sharp fuel cost inflation, which pulled profitability down. Reported EBITDA came in below ours and consensus estimates on higher-than-estimated costs. Volume declined 6% YoY, while adj NSR improved 10% QoQ. Thus, due to strong realisation, adj unitary EBITDA recovered 14% QoQ to INR 855/MT (down 23% YoY).The company has opted for lower tax rate from FY23. HEIM started receiving solar power under its long-term power purchase agreement (green power share increased to 30%). HEIM guided that its power and fuel costs have peaked out in Q1. As there is no major ongoing Capex, the net cash balance has increased to INR 2.24bn at Jun-22 end vs INR 1.34bn QoQ.

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Hindustan Unilever

Resilient performance

HUL reported higher-than-expected revenue and volume growth; however, volume growth saw sequential deceleration on three-year CAGR. Domestic revenue (ex-GSK) was up 9% on a three-year CAGR (8% in Q4), with volume CAGR seeing slight deceleration at 1.7% (6% YoY) vs. ~3% CAGR in the previous three quarters. The volume growth was broad-based despite the industry declining 6% YoY. The company continued to gain market share as regional/small players faced inflation pressures. Home Care continued to be the outlier, growing 12% on three-year CAGR, while BPC clocked 6%. HFD continued to remain subdued due to high retail inflation impacting demand. Gross margin, at 47.4%, came in line as RM inflation sustained. EBITDA growth was at 14% (HSIE 11%). With the inflationary trend still sustaining, we expect near-term demand and margin pressure to continue. With ongoing demand disruptions in mass segments and structural pressures from new age/D2C brands in the premium space (as highlighted in our recent thematic), we see limited surprise opportunities for HUL. We give 45x P/E on Jun-24E EPS to derive a TP of INR 2,100. Maintain REDUCE.

- **Marginal beat on volume:** Revenue grew 20% YoY (13% in Q1FY22 and 11% in Q4FY22), with home care/BPC/F&R growing 30/17/9% (12/5/23% three-year CAGR). Domestic revenue grew 19% YoY, a beat on our estimates (HSIE 16%), led by better-than-expected volume growth (+6 YoY vs. +4% HSIE). Growth in home care was broad-based, with both fabric wash and household care values growing in high double digits YoY. BPC growth was driven by double-digit growth in hair care, soaps and soft base for skin care and color cosmetics. F&R growth was led by ice cream. With inflation impacting both urban and rural demand, we remain cautious on the growth outlook.

- **In-line EBITDA margin:** Gross margin contracted by 309bps YoY (-139bps in Q1FY22 and -301bps in Q4FY22) due to high commodity inflation. Home care EBIT margin expanded by 19bps YoY (-134bps in Q1FY22) to 17.6%. BPC EBIT margin, at 26.3%, contracted 184bps YoY (+7bps in Q1FY22). F&R margin contracted 214bps YoY to 15.9% due to an unfavourable product mix. Employee/A&P/other expenses grew by -3/30/4% YoY. EBITDA margin contracted 114bps YoY to 22.8% (-114bps in Q1FY22; -27bps in Q4FY22). EBITDA grew 14% YoY (HSIE 11%).

- **Call takeaways:** (1) HUL continued to gain volume and value market share in more than 75% of its portfolio. (2) Despite the recent correction in palm oil price, inflation across many other commodities are at their decadal peaks. (3) INR depreciating against USD is also impacting input prices. (4) Industry demand is weak, with 6% demand volume contraction seen in the quarter, of which 3% was in urban India and 7% in rural. (5) In the long term, rural demand and urban demand are in tandem. (6) ETR for FY23 is at 26%.

Quarterly/annual financial summary

YE Mar (INR mn)	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	FY22	FY23E	FY24E	FY25E
Net Sales	142,720	119,150	19.8	134,620	6.0	524,460	587,905	633,751	683,507
EBITDA	32,470	28,470	14.0	32,450	0.1	128,570	139,165	153,904	168,152
APAT	22,890	19,620	16.7	22,830	0.3	89,200	97,061	107,704	118,709
Diluted EPS (INR)	9.7	8.4	16.7	9.7	0.3	38.0	41.3	45.8	50.5
P/E (x)						67.6	62.2	56.0	50.8
EV / EBITDA (x)						46.4	42.8	38.5	35.0
RoCE (%)						17.0	18.0	19.3	20.4

Source: Company, HSIE Research

REDUCE

CMP (*as on 19 Jul 2022*)	INR 2,569
Target Price	INR 2,100
NIFTY	16,341

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 2,100	INR 2,100
	FY23E	FY24E
EPS %	+1%	+1%

KEY STOCK DATA	
Bloomberg code	HUVR IN
No. of Shares (mn)	2,350
MCap (INR bn) / ($ mn)	6,034/81,080
6m avg traded value (INR mn)	4,797
52 Week high / low	INR 2,859/1,902

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	21.5	11.2	6.6
Relative (%)	24.5	20.0	2.4

SHAREHOLDING PATTERN (%)

	Mar-22	Jun-22
Promoters	61.90	61.90
FIs & Local MFs	11.61	12.20
FPIs	13.66	13.30
Public & Others	12.83	12.60
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Ambuja Cement

Strong volume; operates at higher utilisation

We maintain our REDUCE rating on Ambuja Cements (ACEM), with an unchanged TP of INR 360/share (SOTP based), owing to its expensive valuation. ACEM reported decent performance, led by 15% YoY volume uptick (94% utilisation). In a high-cost environment, it reported a healthy EBITDA margin of INR 926/MT (though 38% down YoY). The company has noted that its ongoing 8.5mn MT expansions (1.5mn MT in Punjab by CY23 and 7mn MT in the east) are on track. It will be commissioning 53MW WHRS across plants in Q3CY22, reducing its power costs.

- **Q2CY22 performance:** Revenue rose by 19% YoY on account of strong volume growth. The sharp margin contraction pulled down EBITDA by 29% YoY. APAT rose by 20% YoY due to higher other income (large ACC dividend of INR 5.45bn) and lower tax rate. RPAT jumped 45% YoY to INR 10.5bn on write-back of prior period tax provisions of INR 1.8bn. Ramp-up from the recently commissioned plant in Rajasthan drove volumes up 15% YoY (down 1% QoQ). NSR rose a modest 3% QoQ (up 3% YoY as well). The sharp rise in fuel and freight costs dented costs and margin. Input cost rose ~INR 135/720 per MT QoQ/YoY. Unitary other expenses also rose ~10% QoQ on higher clinker production. Thus, opex rose 19% YoY/7% QoQ, resulting in unitary EBITDA falling by 38% YoY/12% QoQ. H1CY22 OCF fell 33% YoY on weak operating profits. ACEM spent INR 4.7bn on Capex in H1CY22 (flattish YoY, 30% down vs H2CY21).
- **ESG and Capex updates:** ACEM reduced its specific CO_2 emissions by 5% YoY to 519kg/MT of cement in Q2. It noted that its ongoing 8.5mn MT expansions (1.5mn MT Punjab by CY23 and 7mn MT in east) costing ~INR 38bn are on track, and these will increase its capacity to 40mn MT (no timeline mentioned for the east expansion). It will be commissioning 53MW WHRS across plants in Q3CY22, reducing its power costs. We maintained our estimates for CY22/23/24E. We maintain our REDUCE rating on the stock, with an unchanged TP of INR 360/sh (SOTP based). We value the standalone cement business at 14x its Mar-24E EBITDA and the company's 50% holding in ACC at a 30% discount to our target market cap for ACC.

Standalone quarterly/annual financial summary

YE Dec (INR bn)	Q2 CY22	Q2 CY21	YoY (%)	Q1 CY22	QoQ (%)	CY20	CY21	CY22E	CY23E	CY24E
Sales (mn MT)	7.39	6.42	*15.1*	7.49	*(1.3)*	22.67	27.02	28.59	30.59	32.12
NSR (INR/MT)	5,404	5,251	*2.9*	5,241	*3.1*	5,016	5,168	5,369	5,421	5,528
Opex (INR/MT)	4,477	3,756	*19.2*	4,185	*7.0*	3,849	3,981	4,524	4,312	4,457
EBITDA(INR/MT)	926	1,495	*(38.0)*	1,055	*(12.2)*	1,167	1,187	845	1,109	1,222
Net Sales	39.93	33.71	*18.5*	39.25	*1.7*	113.72	139.65	153.49	165.83	177.57
EBITDA	6.85	9.60	*(28.7)*	7.90	*(13.4)*	26.47	32.07	24.16	33.92	39.25
APAT	8.67	7.23	*20.0*	4.95	*75.2*	17.90	21.46	17.84	24.76	28.54
AEPS (INR)	4.4	3.6	*20.0*	2.5	*75.2*	9.0	10.8	9.0	12.5	14.4
EV/EBITDA (x)						22.3	15.9	22.8	16.2	13.7
EV/MT (INR bn)						20.01	16.23	17.55	16.70	16.42
P/E (x)						41.0	34.2	41.2	29.7	25.7
RoE (%)						8.4	10.1	7.9	10.5	11.3

Source: Company, HSIE Research

REDUCE

CMP *(as on 19 Jul 2022)*	**INR 371**
Target Price	**INR 360**
NIFTY	**16,341**

KEY CHANGES	**OLD**	**NEW**
Rating	REDUCE	REDUCE
Price Target	INR 360	INR 360
EBITDA revision %	CY22E -	CY23E -

KEY STOCK DATA	
Bloomberg code	ACEM IN
No. of Shares (mn)	1,986
MCap (INR bn) / ($ mn)	737/9,898
6m avg traded value (INR mn)	2,241
52 Week high / low	INR 443/274

STOCK PERFORMANCE (%)

	3M	**6M**	**12M**
Absolute (%)	4.7	(1.0)	(4.0)
Relative (%)	7.7	7.8	(8.2)

SHAREHOLDING PATTERN (%)

	Mar-22	**Jun-22**
Promoters	63.19	63.20
FIs & Local MFs	16.25	14.98
FPIs	12.97	12.82
Public & Others	7.60	9.01
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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ICICI Lombard

In-line revenue; CORs to improve with a lag

ICICI Lombard (ICICIGI) reported an in-line revenue; however, reinvestments in retail health resulted in higher-than-expected opex ratios (30.4%, +320bps vs. est.), dragging calculated CORs to 105% and APAT to INR3.5bn (8% below estimates). We expect loss ratios in the health segment to normalise during the rest of FY23, while we also expect loss ratios in motor segment to improve on the back of a growth rebound. We trim our FY23E/FY24E earnings by 6%/12% to factor in management guidance on elevated opex ratios in the near term. Given the stock's sharp correction and strong demand outlook in motor insurance, we upgrade the stock to ADD (from REDUCE), with a TP of INR1,370 (implying a Mar-24E PE of 32x and a P/ABV of 5.4x).

- **CORs remain elevated**: ICICIGI's NEP growth came in line, with NEP at INR34.7bn (+10% YoY), owing to slowdown in fire segment and selective pick-up in the retail health segment. Loss ratios in the health segment, at 73.7% (-290bps QoQ), failed to improve as per expectations, primarily due to higher elective surgeries, while normalisation of road traffic coupled with pricing pressure pushed up the claims ratio in the motor business. Opex ratios continue to remain elevated at 30.4% (+320bps vs. estimates) on the back of continued investments in building retail health segment, driving combined ratio (calculated) to 105% (+140bps QoQ). Management guidance suggests that CoRs are likely to remain in the range of 103-104% in the near- to medium-term. Lower-than-est. float income of INR6.8bn drove APAT to INR3.5bn (-8% vs. estimates).
- **Growth outlook:** With the parent ICICIBC resuming distribution of benefit policies, the share of this segment has inched up to 23% (+820bps YoY); retail health continues to remain a valuable proposition and a key focus area for ICICIGI. It continues to be defensive on motor OD, given the competitive pricing environment; however, the management believes that proper implementation of the six-month timeline to file motor accident claims will aid motor TP losses.

Quarterly financial summary

(INR bn)	Q1FY23	Q1FY22	YoY(%)	Q4FY22	QoQ(%)	FY21	FY22	FY23E	FY24E
Premium (NEP)	34.68	31.52	10.0	33.18	4.5	100.1	130.3	153.9	178.5
Operating profit	4.65	2.58	80.1	4.10	13.5	20.6	17.2	24.4	28.4
OP margin (%)	13.4	8.2	522bps	12.3	106bps	20.5	13.2	15.8	15.9
APAT	3.49	1.94	79.6	3.12	11.7	15.3	12.7	18.0	21.0
AEPS	7.1	4.0	79.6	6.4	11.7	33.6	25.8	36.7	42.8
P/E (x)						37.7	49.0	34.5	29.6
P/B (x)						7.3	6.6	5.8	5.0
ROE (%)						22.1	14.5	17.7	17.9

Note: FY22 onwards, numbers include Bharti AXA GI's merger. Source: Company, HSIE Research

Change in estimates

(INR bn)	FY23E Old	FY23E Revised	Change %	FY24E Old	FY24E Revised	Change %
Net written premium	159	158	0.7	186	184	1.0
Net earned premium	154	154	-	179	177	1.0
COR (%)	104.7	101.8	290bps	104.2	101.4	280bps
COR (%) IRDAI	103.4	101.5	193bps	102.1	100.4	169bps
PAT	18.04	19	(5.5)	21	24	(11.8)

Source: Company, HSIE Research

*We include management expenses in operating expenses to calculate underwriting profits.

ADD

CMP *(as on 19 Jul 2022)*	INR 1,269
Target Price	INR 1,370
NIFTY	16,341

KEY CHANGES	OLD	NEW
Rating	REDUCE	ADD
Price Target	INR 1,350	INR 1,370
EPS %	FY23E	FY24E
	-5.5%	-11.8%

KEY STOCK DATA	
Bloomberg code	ICICIGI IN
No. of Shares (mn)	491
MCap (INR bn) / ($ mn)	622/8,364
6m avg traded value (INR mn)	959
52 Week high / low	INR 1,703/1,071

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	(5.6)	(10.9)	(14.9)
Relative (%)	(2.6)	(2.1)	(19.1)

SHAREHOLDING PATTERN (%)	Mar-22	Jun-22
Promoters	48.0	48.0
FIs & Local MFs	13.7	15.4
FPIs	26.9	25.0
Public & Others	11.3	11.6
Pledged Shares	Nil	Nil

Source : BSE

Pledged shares as % of total shares

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Heidelberg Cement

Weak volume + higher fuel cost = weak quarter

We maintain our REDUCE rating on Heidelberg Cement (HEIM), with an unchanged target price of INR 180/share (8x Mar-24E EBITDA). In the absence of any major planned expansion for the next three years, we expect subdued volume growth and loss in market share to continue, as other players expand in HEIM's core markets. HEIM reported weak results due to continuous volume decline and sharp fuel cost inflation, which pulled profitability down. Reported EBITDA came in below ours and consensus estimates on higher-than-estimated costs. Volume declined 6% YoY, while adj NSR improved 10% QoQ. Thus, due to strong realisation, adj unitary EBITDA recovered 14% QoQ to INR 855/MT (down 23% YoY).The company has opted for lower tax rate from FY23. HEIM started receiving solar power under its long-term power purchase agreement (green power share increased to 30%). HEIM guided that its power and fuel costs have peaked out in Q1. As there is no major ongoing Capex, the net cash balance has increased to INR 2.24bn at Jun-22 end vs INR 1.34bn QoQ.

- **Q1FY23 performance:** Volume decline continues for third consecutive quarter (down 6% YoY) at 1.11mn MT (lower compared to volume achieved eight years ago in Q1FY15). Utilisation stood at 71% vs 76% YoY and 79% QoQ. The share of trade sales bounced back to 83% in Q1 (flat YoY) vs 75% QoQ. Adj NSR (net of ~INR 210/MT of prior-period incentives booked in Q4FY22) improved 10% QoQ. Realisation improved in Q1 on a strong price increase in April, rise in premium cement sales, and the gap between trade and non-trade sales narrowing. Energy cost inflation drove up opex by 24% YoY/10% QoQ (unitary input cost shot up by ~INR 650 YoY and INR 270 QoQ). Thus, due to strong realisation, adj unitary EBITDA recovered 14% QoQ to INR 855/MT (down 23% YoY).
- **Outlook:** Management expects 7-8% YoY volume growth in FY23, despite a dip in Q1 volumes. HEIM has migrated to lower tax rate of 25.2% from FY23. HEIM has started an online initiative of buy cement through WhatsApp. It expects to improve volume. Management guided that its power and fuel costs peaked out in Q1. It is looking to scale up its alternative fuel/green power usage over the next 2-3 years. It is also undertaking 0.3/0.5mn MT clinker/grinding expansion by FY24E. The Gujarat greenfield IU expansion (3-3.5mn MT cement and 2mn MT clinker costing INR 25bn) is expected in FY26 (SEZ clearance and mining lease are obtained). We maintain our estimates for FY23/24E.

Quarterly/annual financial summary

YE Mar (INR bn)	Q1 FY23	Q1 FY22	YoY (%)	Q4 FY22	QoQ (%)	FY20	FY21	FY22	FY23E	FY24E
Sales (mn MT)	1.11	1.18	*(6.1)*	1.23	*(9.9)*	4.71	4.49	4.78	5.16	5.42
NSR (INR/MT)	5,305	4,695	*13.0*	4,815	*10.2*	4,611	4,718	4,808	5,049	5,074
Opex (INR/MT)	4,450	3,588	*24.0*	4,064	*9.5*	3,490	3,589	3,899	4,298	4,132
EBITDA(INR/MT)	855	1,107	*(22.8)*	751	*13.9*	1,122	1,129	910	751	942
Net Sales	5.90	5.56	*6.1*	6.20	*(4.9)*	21.70	21.17	22.97	26.05	27.49
EBITDA	0.95	1.31	*(27.5)*	1.19	*(19.8)*	5.28	5.07	4.35	3.87	5.10
APAT	0.52	0.69	*(24.8)*	0.94	*(44.9)*	2.68	3.15	2.52	1.75	3.00
AEPS (INR)	2.3	3.0	*(24.8)*	4.1	*(44.9)*	11.8	13.9	11.1	7.7	13.2
EV/EBITDA (x)						8.3	8.5	9.1	10.5	8.6
EV/MT (INR bn)						7.00	6.87	6.32	6.49	6.52
P/E (x)						16.3	13.9	16.3	23.4	13.7
RoE (%)						21.6	22.4	16.5	11.0	17.7

Source: Company, HSIE Research

REDUCE

CMP *(as on 19 Jul 2022)*	INR 181
Target Price	INR 180
NIFTY	16,341

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 180	INR 180
EBITDA revision %	FY23E -	FY24E -

KEY STOCK DATA	
Bloomberg code	HEIM IN
No. of Shares (mn)	227
MCap (INR bn) / ($ mn)	41/549
6m avg traded value (INR mn)	47
52 Week high / low	INR 278/164

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	(10.5)	(23.2)	(31.5)
Relative (%)	(7.5)	(14.4)	(35.7)

SHAREHOLDING PATTERN (%)	Mar-22	Jun-22
Promoters	69.39	69.39
FIs & Local MFs	10.65	10.04
FPIs	5.45	6.40
Public & Others	14.50	14.17
Pledged Shares	-	-

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
Varun Lohchab	Hindustan Unilever	PGDM	NO
Naveen Trivedi	Hindustan Unilever	MBA	NO
Saras Singh	Hindustan Unilever	PGDM	NO
Rajesh Ravi	Ambuja Cement, Heidelberg Cement	MBA	NO
Keshav Lahoti	Ambuja Cement, Heidelberg Cement	CA	NO
Krishnan ASV	ICICI Lombard	PGDM	NO
Sahej Mittal	ICICI Lombard	ACA	NO

Disclosure:

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