INSTITUTIONAL RESEARCH

HSIE Results Daily

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Results Reviews

- **Havells India:** Havells delivered a strong topline performance, led by broad-based growth across all categories, with a beat on our RAC and Switchgear estimates. Revenue grew by 16% on three-year CAGR (15% ex-Lloyd) while Lloyd business sustained 18% three-year revenue CAGR. All segments including Switchgear saw close to mid-teen three-year revenue CAGR. Contribution margin improved sequentially for switchgears and lighting while it remained flat for ECD and Lloyd. RM softening benefits were marginally visible in Q1. EBITDA margin came in at 8.5% (HSIE 11.2%). The sharp miss on EBITDA margin was due to (1) cables being impacted by inventory loss as commodity prices saw a sharp decline and (2) higher-than-expected A&P spends on ECD and Lloyd. With the recent correction in commodity prices and easing of high priced inventory in cables, we expect the margin to improve from Q2FY23 onwards. Healthy underlying CAGR reflects sustenance of new housing and home improvement theme for CD categories. We remain positive on Havells' superior execution and margin upcycle trajectory. We value the stock at 50x P/E on June-24 EPS, giving a target price of INR 1,400. Maintain ADD.
- **JSW Energy:** Consolidated revenue increased 75.2% YoY to INR30.3bn in Q1, led by improved demand, strong contribution from short-term sales, solar capacity addition, and 45MW uprating at Karcham Wangtoo station. EBITDA also increased 46.3% YoY to INR10.2bn, but to a lesser extent than revenue, as the strong revenue growth was partially offset by 110.9% YoY rise in fuel cost (given that global disruptions have pushed up international coal prices to record highs). However, adjusted PAT increased 122.8% YoY to INR4.6bn, far above consensus estimates, aided by higher-than-estimated sales and lower interest expenses on its deleveraging exercise. PAT has been adjusted for a one-time reversal of a loss of INR1.2bn recognised in earlier years on loan given to JPVL. In Q1FY23, JSW commenced 225MW of group captive solar project while SECI IX and X projects of 1.26GW wind capacities will be commissioned by Q3FY24. DPR for 2.5GW pumped hydro storage is submitted to CEA. JSW Energy's net D/E stands at 0.46x, while net debt/EBITDA stands at 1.75x. We maintain SELL and retain our target price of INR160, as we believe the stock has been trading at an unjustifiable valuation, at INR234 (RoE - ~7.2%, FY24 P/E – 35x, P/BV – 2.0x).
- **Kajaria Ceramics:** We maintain our BUY rating on Kajaria Ceramics (KJC), with an unchanged target price of INR 1,310/share (21x its Mar'24E consolidated EBITDA). We continue to like KJC for its market share gain and healthy margin in the tiles segment (function of its robust distribution and cost controls) and its fast expansion in the bath ware and ply businesses. KJC delivered 10% EBITDA beat in Q1FY23. Consolidated net sales/ EBITDA/APAT delivered 13/13/22% CAGRs (3-year), indicating healthy traction. Despite elevated gas prices, KJC maintained its OPM QoQ at ~15%. It expanded its tiles capacity by ~20% in Q1FY23, which will boost its volume growth. It is also acquiring a 51% stake in a Telangana-based floor tiles company (capacity - 4.79 MSM) by the end of FY23 to increase its foothold in the southern market. It refrained from giving a margin guidance, amidst elevated gas prices and erratic supplies (in the north).

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- **ICICI Securities:** ISEC printed de-growth (-19% QoQ) in pure broking revenue on a weak base (Q4: -5% QoQ), as cash volumes plunged 20% sequentially (illustrating the dependence on cash volumes). We draw comfort from ISEC's renewed focus on building digital capabilities; however, given the high dependence on cash delivery volumes and tech-based handicap, we believe that its revenues will remain cyclical and face headwinds from the new-age FinTech brokers. We cut our FY23/24E APAT estimates by 4/8% to build in weak cash volumes, pressure on broking yields, and drag from staff costs in the medium term. Given the healthy retail participation and attractive valuation, we maintain our positive stance on ISEC; however, we trim our target multiple to 17.5x (from 20x) as we roll forward our earnings to Mar-24E (from Sep-23E) and maintain ADD with a revised target price of INR675.

- **Cyient:** Cyient reported a decent quarter; revenue was up 4.4% QoQ CC (better than the estimate), led by core services (+6.5% QoQ CC, +2.5% organic). The services growth was driven by communications and new growth areas like automotive and mobility. Investments in new areas (EV and mobility) will help the company align its growth with the industry. Aerospace remained stable while transportation and utilities continue to drag growth, but improvement in the two is likely in H2. The company has tweaked the organisational structure to align sales efforts and accelerate services growth. The strong TCV wins of USD 424mn indicate a positive momentum. Management guidance of 13-15% YoY CC organic growth, ~6-7% inorganic and EBIT margin of 13-14% appear encouraging. The margin was down ~300bps QoQ but we believe it has bottomed out. We increase our FY24E EPS estimate by ~2% while maintaining our BUY rating. Our target price of INR 940 is based on 16x FY24E EPS. The stock is trading at 16/14x FY23/24E, a steep discount of ~50% to ER&D peers (LTTS).

- **Mastek:** Mastek reported a weak quarter with lower-than-expected revenue and margin performance. The revenue was down 4.7% QoQ (-0.1% QoQ CC) due to issues in the NHS account. One large program was put on hold due to political uncertainty and organisational restructuring in NHS UK. The UK government technology spending has slowed down, indicating near-term moderation in deal wins. The order book improved by 4% QoQ CC to USD 191mn, led by Evosys, but the pace of growth moderated. The company expects to scale the US geography and investments have been made to strengthen the sales team and the partner ecosystem. The acquisition of MST Solutions (salesforce consulting partner) appears to be a decent acquisition and will strengthen the US portfolio. The target EBITDA margin range is 19-20%; we see near-term headwinds of ~100bps related to ongoing supply side concerns and integration of MST. We cut our FY23/24E EPS by 4.9/2.5% and maintain our REDUCE rating, considering a slowdown in organic growth and margin pressure. Our TP of INR 2,060 is based on 16x FY24E EPS.

- **RBL Bank:** Despite a moderation in NIMs (~4.4%) and steep rise in opex, RBK reported a significant beat on the back of strong loan growth (~7% YoY) and lower credit costs (1.7%). Gross slippages were elevated (4.5% annualised), predominantly from the MFI and cards businesses; however, higher upgrades/write-off led to a 32bps QoQ improvement in GNPA. Deposit traction was relatively muted, but the management guided for retail deposits to gain momentum through the rest of FY23. While the management articulated its strategy around building a desired scale and market share gains in its segments of choice, we opine that the recalibration of the deposit mix is likely to call for elevated investments in distribution, which is likely to prolong the time-to-maturity and return to optimal profitability. We lower our FY23E and FY24E earnings forecasts by 8%/2% respectively and maintain

REDUCE with a revised TP of INR105, implying 0.5x Mar-24 ABVPS (earlier TP at INR113).

- **Sagar Cements:** We maintain our BUY stance on Sagar Cements with an unchanged TP of INR 230/share (7.5x Mar-24E consolidated EBITDA). We like Sagar for its prudent capacity growth, rising regional diversification, and increased focus on green fuel/power consumption and blended cement production. In Q1FY23, Sagar reported in-line performance. While healthy demand in south and ramp-up of Jeerabad/Jajpur plants drove up volumes, elevated fuel costs and negative EBITDA contribution from the new plants pulled down margin, leading to a net loss. Sagar expects its P&F cost to be flat QoQ in Q2. The new plants are also expected to turn EBITDA break-even in FY23. Sagar is also expecting to acquire Andhra Cements by Q3, which will increase its capacity to ~11mn MT.

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INSTITUTIONAL RESEARCH

Havells India

Beat on revenue; margin recovery in play

Havells delivered a strong topline performance, led by broad-based growth across all categories, with a beat on our RAC and Switchgear estimates. Revenue grew by 16% on three-year CAGR (15% ex-Lloyd) while Lloyd business sustained 18% three-year revenue CAGR. All segments including Switchgear saw close to mid-teen three-year revenue CAGR. Contribution margin improved sequentially for switchgears and lighting while it remained flat for ECD and Lloyd. RM softening benefits were marginally visible in Q1. EBITDA margin came in at 8.5% (HSIE 11.2%). The sharp miss on EBITDA margin was due to (1) cables being impacted by inventory loss as commodity prices saw a sharp decline and (2) higher-than-expected A&P spends on ECD and Lloyd. With the recent correction in commodity prices and easing of high priced inventory in cables, we expect the margin to improve from Q2FY23 onwards. Healthy underlying CAGR reflects sustenance of new housing and home improvement theme for CD categories. We remain positive on Havells' superior execution and margin upcycle trajectory. We value the stock at 50x P/E on June-24 EPS, giving a target price of INR 1,400. Maintain ADD.

- **Robust broad-based performance:** Revenue grew 63% YoY (+76% in Q1FY22 and 33% in Q4FY22), a beat on our expectation of 54% YoY growth. It has grown 16% on a three-year CAGR. Switchgears/cables/lighting/ECD grew by 38/48/77/46% YoY. Three-year CAGR was at 15/15/14/14%. Switchgears growth was supported by the renewed construction cycle. Consumer lighting benefited from increased penetration and range expansion. Lloyd revenue grew 119% YoY due to continued strong RAC demand.
- **Margin pressure continues:** GM was down by 669bps YoY (+99bps in Q1FY22 and -812bps in Q4FY22), vs. our expectation of a 518-bps YoY contraction. Employee/A&P/Other expenses grew by 30/151/52% YoY. EBIT margin for switchgears/cables contracted by 113/830bps YoY to 26/7% while lighting/CD margin expanded by 135/141bps to 17/13%. Lloyd reported INR 559mn EBIT loss vs. INR 103mn profit in Q1FY22 and INR 213mn loss in Q4FY22. EBITDA margin contracted by 505bps YoY to 8.5% (+474bps in Q1FY22 and -339bps in Q4FY22). EBITDA grew by 2% YoY. PAT grew by 4% YoY to INR 2,424mn (HSIE INR 3,122mn).
- **Con call takeaways:** (1) Demand was strong for most categories, but some slowdown is seen in industrial demand from the second half of Q1FY23 due to high inflation, which is expected to ease as RM prices have eased. (2) Lloyd gained market share (top-3 brand in the RAC space) in H1CY22. (3) RAC capacity is sufficient to fulfill FY23 volume. (4) RAC inventory at company level is high (normal at channel); using high-cost RM, expect Lloyd's contribution margin to normalise to double digits from Q3FY23. (5) Expect C&W margin to normalise from Q3FY23 as there is still some high cost inventory in Q2FY23. (6) The company has 14,000 dealers for its Havells brands and 1,000 distributors for Lloyd.

Quarterly/annual financial summary

YE Mar (INR mn)	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	FY22	FY23E	FY24E	FY25E
Net Sales	42,301	25,982	62.8	44,171	(4.2)	138,885	164,647	182,665	200,943
EBITDA	3,614	3,531	2.3	5,205	(30.6)	17,576	20,319	24,016	26,429
APAT	2,424	2,343	3.5	3,530	(31.3)	11,947	14,201	17,235	19,160
Diluted EPS (Rs)	3.9	3.7	3.5	5.6	(31.3)	19.1	22.7	27.5	30.6
P/E (x)						65.8	55.4	45.6	41.0
EV / EBITDA (x)						43.5	37.3	31.1	27.8
Core RoCE (%)						27.5	31.4	35.4	37.4

Source: Company, HSIE Research

ADD

CMP *(as on 21 Jul 2022)*	INR 1,257
Target Price	INR 1,400
NIFTY	16,605

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 1,400	INR 1,400
EPS %	FY23E	FY24E
	-4%	0%

KEY STOCK DATA	
Bloomberg code	HAVL IN
No. of Shares (mn)	627
MCap (INR bn) / ($ mn)	788/10,583
6m avg traded value (INR mn)	1,282
52 Week high / low	INR 1,504/1,037

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(4.8)	1.2	13.9
Relative (%)	(1.0)	6.9	7.2

SHAREHOLDING PATTERN (%)

	Mar-22	Jun-22
Promoters	59.47	59.45
FIs & Local MFs	8.15	8.95
FPIs	24.44	23.10
Public & Others	7.94	8.50
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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JSW Energy

Strong generation and realisation aid PAT

Consolidated revenue increased 75.2% YoY to INR30.3bn in Q1, led by improved demand, strong contribution from short-term sales, solar capacity addition, and 45MW uprating at Karcham Wangtoo station. EBITDA also increased 46.3% YoY to INR10.2bn, but to a lesser extent than revenue, as the strong revenue growth was partially offset by 110.9% YoY rise in fuel cost (given that global disruptions have pushed up international coal prices to record highs). However, adjusted PAT increased 122.8% YoY to INR4.6bn, far above consensus estimates, aided by higher-than-estimated sales and lower interest expenses on its deleveraging exercise. PAT has been adjusted for a one-time reversal of a loss of INR1.2bn recognised in earlier years on loan given to JPVL. In Q1FY23, JSW commenced 225MW of group captive solar project while SECI IX and X projects of 1.26GW wind capacities will be commissioned by Q3FY24. DPR for 2.5GW pumped hydro storage is submitted to CEA. JSW Energy's net D/E stands at 0.46x, while net debt/EBITDA stands at 1.75x. We maintain SELL and retain our target price of INR160, as we believe the stock has been trading at an unjustifiable valuation, at INR234 (RoE - ~7.2%, FY24 P/E – 35x, P/BV – 2.0x).

- **Improved demand and hydrology boost generation:** Generation increased notably at Vijaynagar (+50.1% YoY) and Ratnagiri (+7.7%), led by strong power demand which boosted short-term sales (+5x on YoY to 874 Mus). Generation also improved at hydro stations (+12.8%) due to better hydrology. Accordingly, PLF improved YoY at Vijayanagar (63% vs 43% YoY), Ratnagiri (63% vs 59% YoY) and hydro stations (54% vs 49% YoY). Revenue grew 75.2% YoY to INR30.3bn, led by improved generation (+13.8% YoY) and higher realisations (+56.8% YoY to INR5.5/unit). EBITDA also went up 46.3% YoY to INR10.2bn while PAT, after adjusting for a one-off gain of INR1.2bn, increased 122.8% YoY to INR4.6bn (further aided by lower interest cost).
- **Capacity addition at a strong pace**: In Q1FY23, JSW commenced 225MW of group captive solar project while the balance 733MW of wind project will be commissioned from Q2FY23 onwards. JSW expects to commission SECI IX (810MW) and SECI X (450MW) of wind tender in a phased manner from Q2FY23 and expect their full commissioning by Q3FY24 and Q2FY24 respectively. 240MW Kutehr project is also progressing well in line with the scheduled period and is expected to achieve CoD by Q2FY25. Overall Capex for these projects is INR106bn, of which INR38.3bn has been incurred.
- **Maintain SELL:** We maintain our PAT estimates for FY23/24 and retail the target price of INR160. While JSW has one of the strongest balance sheets in the industry (net D/E – 0.5x and net D/EBITDA – 1.75x), we believe that the valuation at CMP of INR234 is highly unjustifiable (RoE - ~7.2%, FY24 P/E – 35x, P/BV – 2.0x). Hence, we retain our SELL rating.

Financial summary

(INR mn, Mar YE)	1Q FY23	1Q FY22	*YoY (%)*	4Q FY22	*QoQ (%)*	FY22	FY23E	FY24E
Net Revenues	30,263	17,275	*75.2*	18,873	*60.3*	75,712	88,025	88,937
EBITDA	10,220	6,984	*46.3*	5,784	*76.7*	29,730	30,668	31,106
APAT	4,648	2,086	*122.8*	3,784	*22.8*	11,389	10,191	10,932
Diluted Consol EPS (INR)	2.8	1.3	*122.9*	2.3	*22.8*	6.9	6.2	6.7
P/E (x)						33.7	37.6	35.1
Price/BV						2.2	2.1	2.0
RoE (%)						7.2	5.7	5.9

Source: Company, HSIE Research

SELL

CMP *(as on 21 Jul 2022)*	**INR 234**
Target Price	**INR 160**
NIFTY	**16,605**

KEY CHANGES	**OLD**	**NEW**
Rating	SELL	SELL
Price Target	INR160	INR160
EPS Change %	FY22E	FY23E
	-	-

KEY STOCK DATA	
Bloomberg code	JSW IN
No. of Shares (mn)	1,644
MCap (INR bn) / ($ mn)	387/5,204
6m avg traded value (INR mn)	249
52 Week high / low	INR 409/182

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	(30.7)	(23.7)	16.9
Relative (%)	(26.9)	(18.0)	10.2

SHAREHOLDING PATTERN (%)	**Mar-22**	**Jun-23**
Promoters	74.7	74.7
FIs & Local MFs	10.2	10.1
FPIs	5.4	5.3
Public & Others	9.7	9.9
Pledged Shares	9.1	13.6

Source : BSE

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Kajaria Ceramics

Healthy performance amidst elevated energy costs

We maintain our BUY rating on Kajaria Ceramics (KJC), with an unchanged target price of INR 1,310/share (21x its Mar'24E consolidated EBITDA). We continue to like KJC for its market share gain and healthy margin in the tiles segment (function of its robust distribution and cost controls) and its fast expansion in the bath ware and ply businesses. KJC delivered 10% EBITDA beat in Q1FY23. Consolidated net sales/ EBITDA/APAT delivered 13/13/22% CAGRs (3-year), indicating healthy traction. Despite elevated gas prices, KJC maintained its OPM QoQ at ~15%. It expanded its tiles capacity by ~20% in Q1FY23, which will boost its volume growth. It is also acquiring a 51% stake in a Telangana-based floor tiles company (capacity - 4.79 MSM) by the end of FY23 to increase its foothold in the southern market. It refrained from giving a margin guidance, amidst elevated gas prices and erratic supplies (in the north).

- **Q1FY23 performance:** KJC delivered ~10% EBITDA beat on both ours and consensus estimates. On a low base, its consolidated revenue/EBITDA/APAT rose 80/91/115% YoY and at three-year CAGRs of 13/13/22%, indicating healthy traction. Tiles sales volume rose 53% YoY on a low base YoY (three-year vol CAGR: +6%), better demand in tier-2 and below markets, and continued market share gains. NSR rose 2% QoQ on a price hike taken in May. Bath ware/ply revenues also continue to grow at a fast pace (three-year CAGRs of 20/36%). Despite elevated gas prices (gas prices went up 10% QoQ), KJC's consolidated OPM remained stable QoQ at ~15%.
- **Outlook**: KJC guided for good demand in domestic markets. It also expects FY23 exports from India to grow by ~30%, which in turn should reduce Morbi's supply influx in the domestic market. Amidst elevated gas prices and heavy inventory pile-up, most of the Morbi plants are taking a month-long production shutdown mid-Aug onwards. Organised players are not participating in the shutdown. Gas prices in Europe and China have spiked way ahead of India, boosting Indian manufacturers competitiveness in the export market. KJC expanded its tiles capacity by ~20% in Q1FY23 (~12 MSM) and it is acquiring a 4.8 MSM plant in Telangana to expand its reach in the south. KJC refrained from giving a margin guidance amidst erratic gas supplies in the north and rising gas prices across all its plants. We maintain our earnings estimates, target price, as well as the BUY rating on the stock.

Quarterly/annual financial summary (consolidated)

YE Mar (INR mn)	Q1 FY23	Q1 FY22	YoY (%)	Q4 FY22	QoQ (%)	FY20	FY21	FY22	FY23E	FY24E
Tiles sales (MSM)	23.3	15.3	52.9	26.0	-10.2	78.1	75.4	91.7	108.4	128.3
NSR (Rs/Kg)	393	340	15.4	385	2.0	360	369	404	446	453
Tiles Revenue	9,165	5,194	76.5	9,999	-8.3	26,049	25,328	33,634	43,455	51,969
Other Revenue	917	423	116.8	1,019	-10.0	2,032	2,481	3,418	4,851	6,119
Net Sales	10,082	5,617	79.5	11,018	-8.5	28,080	27,809	37,052	48,306	58,087
EBITDA	1,536	804	91.0	1,659	-7.4	4,159	5,088	6,107	7,288	9,732
EBITDAM (%)	15.2	14.3		15.1		14.8	18.3	16.5	15.1	16.8
APAT	923	431	114.4	958	-3.6	2,553	3,081	3,770	4,638	6,422
Diluted EPS (Rs)	5.8	2.7	114.6	6.0	-3.4	16.0	19.4	23.7	29.1	40.3
EV / EBITDA (x)						41.4	33.3	27.9	23.4	17.5
P/E (x)						67.5	55.9	45.7	37.1	26.8
RoE (%)						14.9	16.6	18.3	20.0	24.5

Source: Company, HSIE Research, Other revenues comprises bath ware and ply

BUY

CMP *(as on 21 Jul 2022)*	INR 1,074
Target Price	**INR 1,310**
NIFTY	**16,605**

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 1,310	INR 1,310
EBITDA revision %	FY23E -	FY24E -

KEY STOCK DATA	
Bloomberg code	KJC IN
No. of Shares (mn)	159
MCap (INR bn) / ($ mn)	171/2,297
6m avg traded value (INR mn)	233
52 Week high / low	INR 1,375/885

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	0.6	(15.3)	7.6
Relative (%)	4.4	(9.6)	0.9

SHAREHOLDING PATTERN (%)	Mar-22	Jun-22
Promoters	47.50	47.50
FIs & Local MFs	20.32	22.40
FPIs	21.27	19.58
Public & Others	10.91	10.52
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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ICICI Securities

Washout quarter; negatives priced in

ISEC printed de-growth (-19% QoQ) in pure broking revenue on a weak base (Q4: -5% QoQ), as cash volumes plunged 20% sequentially (illustrating the dependence on cash volumes). We draw comfort from ISEC's renewed focus on building digital capabilities; however, given the high dependence on cash delivery volumes and tech-based handicap, we believe that its revenues will remain cyclical and face headwinds from the new-age FinTech brokers. We cut our FY23/24E APAT estimates by 4/8% to build in weak cash volumes, pressure on broking yields, and drag from staff costs in the medium term. Given the healthy retail participation and attractive valuation, we maintain our positive stance on ISEC; however, we trim our target multiple to 17.5x (from 20x) as we roll forward our earnings to Mar-24E (from Sep-23E) and maintain ADD with a revised target price of INR675.

- **Slowdown across segments**: Total broking revenue, at INR5.1bn (-9% QoQ), was 3% below estimates, primarily because of a 11% miss on pure broking revenues, partly offset by strong growth in transactional charges under the NEO plan. After five quarters of weak trends, pure broking revenues de-grew 19% sequentially, as cash volume declined 20% QoQ, reflecting in lowest-ever blended yields at 0.31bps (-13bps QoQ). Growth in the average MTF + ESOP book was impressive (-2% QoQ) and much ahead of pure broking revenue, suggesting that clients on the prime and NEO plans are leveraging heavily, albeit not translating into broking revenue on account of lower rack rates. Retail market share in cash segment dipped 28bps to 9.7%; however, ISEC arrested market share erosion in the derivative segment, which stabilised at 3.5% (+16bps). Client acquisition run-rate decelerated in line with industry at 416k (Q4FY22: 589k); however, customer quality and monetisation remain a major concern. Softer primary issuances dragged advisory service revenue 46% QoQ to INR0.35bn.
- **Margins under pressure:** Tight control on marketing and discretionary spends drove operating expenses down 14% sequentially; management stated that tech spends have been selectively calibrated to navigate weak capital markets and sustain medium-term EBITDA margins. However, higher-than-estimated staff costs alongside slowdown in revenue dragged adjusted PAT to INR2.76bn (-19% QoQ, -5% vs. estimates). ISEC has tied up with Chola Finance to originate ESOP funding on a shared-spread basis; we believe this is compliant with the RBI's circular capping ESOP funding at INR2mn per borrower. The management also highlighted that the new mobile app is expected to be launched in FY23E.

Quarterly financial summary

(INR mn)	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	FY21	FY22	FY23E	FY24E
Adj. revenues	7,936	7,453	6.5	8,917	-11.0	24,304	30,932	26,986	30,285
EBITDA	4,846	4,705	3.0	5,632	-14.0	14,365	18,437	13,644	16,503
EBITDA Margin (%)	61.1	63.1	-206bps	63.2	-209bps	59.1	59.6	50.6	54.5
APAT	2,756	3,107	-11.3	3,403	-19.0	10,678	13,826	10,050	12,427
AEPS	8.6	9.6	(11.3)	10.6	-19.0	33.1	42.9	31.2	38.6
P/E (x)						13.2	10.8	13.5	11.5
ROE (%)						14.2	10.9	15.0	12.2

Source: Company, HSIE Research

Change in estimates

(INR mn)	FY23E			FY24E		
	Revised	Old	*Change % / bps*	Revised	Old	*Change % / bps*
Revenues	26,986	27,615	-2.3	30,285	31,189	-2.9
EBITDA	13,644	14,750	-7.5	16,503	17,868	-7.6
EBITDA margin (%)	50.6	53.4	-286bps	54.5	57.3	-280bps
APAT	10,050	10,455	-3.9	12,427	13,492	-7.9

Source: Company, HSIE Research

ADD

CMP *(as on 21 Jul 2022)*	**INR 469**
Target Price	**INR 675**
NIFTY	**16,605**

KEY CHANGES	**OLD**	**NEW**
Rating	ADD	ADD
Price Target	INR 740	INR 675
EPS %	FY22E	FY23E
	-3.9%	-7.9%

KEY STOCK DATA	
Bloomberg code	ISEC IN
No. of Shares (mn)	323
MCap (INR bn) / ($ mn)	151/2,034
6m avg traded value (INR mn)	277
52 Week high / low	INR 896/408

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	(21.5)	(39.7)	(38.3)
Relative (%)	(17.6)	(34.0)	(45.0)

SHAREHOLDING PATTERN (%)	**Mar-22**	**Jun-22**
Promoters	74.9	74.9
FIs & Local MFs	7.1	6.7
FPIs	7.3	7.1
Public & Others	10.7	11.3
Pledged Shares	Nil	Nil

Source : BSE

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Cyient

Improving outlook

Cyient reported a decent quarter; revenue was up 4.4% QoQ CC (better than the estimate), led by core services (+6.5% QoQ CC, +2.5% organic). The services growth was driven by communications and new growth areas like automotive and mobility. Investments in new areas (EV and mobility) will help the company align its growth with the industry. Aerospace remained stable while transportation and utilities continue to drag growth, but improvement in the two is likely in H2. The company has tweaked the organisational structure to align sales efforts and accelerate services growth. The strong TCV wins of USD 424mn indicate a positive momentum. Management guidance of 13-15% YoY CC organic growth, ~6-7% inorganic and EBIT margin of 13-14% appear encouraging. The margin was down ~300bps QoQ but we believe it has bottomed out. We increase our FY24E EPS estimate by ~2% while maintaining our BUY rating. Our target price of INR 940 is based on 16x FY24E EPS. The stock is trading at 16/14x FY23/24E, a steep discount of ~50% to ER&D peers (LTTS).

- **Q1FY23 highlights**: (1) Revenue, at USD 161.6mn, improved by +3.1/12.6% QoQ/YoY (vs. our estimate of +2.1/11.5% QoQ/YoY), supported by growth in core services (+5% QoQ), while DLM revenue declined by -6.1% QoQ; (2) EBIT margin declined 296bps QoQ to 11.5% (estimate of 11.4%) due to higher SG&A (-254bps), lower utilisation (-246bps), and a wage increase (-153bps), but the same was offset by operational efficiency (+94bps), revenue mix (+165bps), and automation (+131bps); (3) DLM margin declined 558bps QoQ to 4.1%, and was impacted by a one-off; adjusted for which, margin stood at 7% (-174bps QoQ); (4) the company won six large deals, with TCV of USD 424mn in Q1FY23 (vs USD 313mn in FY22); (5) attrition inched up by 160bps QoQ to 27.9% in Q1FY23; (6) organic revenue growth guidance of 13-15% CC and inorganic is of 6-7%. The EBIT margin for FY23 will be in the range of 13-14%.
- **Outlook**: We have factored in +20/11% USD revenue growth for FY23/24E, implying growth of 23/11% in services and 9/12% in DLM respectively. The EBIT margin is estimated at 12.5/13.4% for FY23/24E, resulting in an EBIT CAGR of 12% over FY22-24E.

Quarterly Financial summary

YE March (INR bn)	Q1 FY23	Q1 FY22	*YoY (%)*	Q4 FY22	*QoQ (%)*	FY20	FY21	FY22	FY23E	FY24E
Revenue (USD Mn)	162	144	*12.6*	157	*3.1*	625	557	608	733	814
Net Sales	12.50	10.58	*18.1*	11.81	*5.8*	44.27	41.32	45.34	57.03	64.28
EBIT	1.44	1.39	*3.5*	1.71	*(15.9)*	4.08	4.16	6.30	7.15	8.63
APAT	1.16	1.15	*0.9*	1.54	*(24.7)*	3.73	3.72	5.22	5.43	6.48
Diluted EPS (INR)	10.5	10.4	*0.9*	14.0	*(24.7)*	33.8	33.7	47.3	49.2	58.7
P/E (x)						23.7	23.7	16.9	16.3	13.6
EV / EBITDA (x)						14.0	12.6	9.6	8.5	6.9
RoE (%)						14.5	13.5	17.2	16.7	18.2

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

YE Mar (INR bn)	FY23E Old	FY23E Revised	Change %	FY24E Old	FY24E Revised	Change %
Revenue (USD mn)	747	733	*(1.9)*	818	814	*(0.6)*
Revenue	58.10	57.03	*(1.8)*	64.64	64.28	*(0.6)*
EBIT	7.33	7.15	*(2.5)*	8.41	8.63	*2.5*
EBIT margin (%)	12.6	12.5	*-8bps*	13.0	13.4	*41bps*
APAT	5.49	5.43	*(1.2)*	6.35	6.48	*2.0*
EPS (INR)	49.8	49.2	*(1.2)*	57.5	58.7	*2.0*

Source: Company, HSIE Research

BUY

CMP *(as on 21 Jul 2022)*	**INR 799**
Target Price	**INR 940**
NIFTY	**16,605**

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 920	INR 940
EPS %	FY23E	FY24E
	-1.2	+2.0

KEY STOCK DATA	
Bloomberg code	CYL IN
No. of Shares (mn)	110
MCap (INR bn) / ($ mn)	88/1,185
6m avg traded value (INR mn)	266
52 Week high / low	INR 1,292/720

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	(3.9)	(16.6)	(18.3)
Relative (%)	(0.0)	(11.0)	(24.9)

SHAREHOLDING PATTERN (%)	Mar-22	Jun-22
Promoters	23.41	23.40
FIs & Local MFs	21.97	22.52
FPIs	34.02	32.68
Public & Others	20.60	21.40
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Mastek

Near-term uncertainty

Mastek reported a weak quarter with lower-than-expected revenue and margin performance. The revenue was down 4.7% QoQ (-0.1% QoQ CC) due to issues in the NHS account. One large program was put on hold due to political uncertainty and organisational restructuring in NHS UK. The UK government technology spending has slowed down, indicating near-term moderation in deal wins. The order book improved by 4% QoQ CC to USD 191mn, led by Evosys, but the pace of growth moderated. The company expects to scale the US geography and investments have been made to strengthen the sales team and the partner ecosystem. The acquisition of MST Solutions (salesforce consulting partner) appears to be a decent acquisition and will strengthen the US portfolio. The target EBITDA margin range is 19-20%; we see near-term headwinds of ~100bps related to ongoing supply side concerns and integration of MST. We cut our FY23/24E EPS by 4.9/2.5% and maintain our REDUCE rating, considering a slowdown in organic growth and margin pressure. Our TP of INR 2,060 is based on 16x FY24E EPS.

- **Q1FY23 highlights**: (1) Revenue, at USD 73.6mn (-0.1/+13.4% QoQ/YoY CC), came in lower than our estimate of USD 76.3mn. UK geography reported a decline of -6.6% QoQ, impacted by the UK private (-15.7% QoQ) and UK government reported muted growth (+0.7% QoQ); (2) among the verticals, healthcare & life science declined by -18.8% QoQ due to client issue and financial services de-grew by -8.5% QoQ due to delay in deal decision making; while retail/manufacturing/government grew +1.9/+0.5/+0.7% respectively; (3) EBIT margin declined 33bps QoQ at 17.2% (in line with our estimate of 17.5%), impacted by FX headwind, higher employee cost and lower utilisation; (4) Evosys reported revenue growth of +1.4% QoQ; (5) Mastek hired 576 employees on a net basis in Q1FY23 (vs. 192 in Q4FY22), with attrition declining by 300bps QoQ to 25%; (6) the 12-month order backlog improved +20.6% YoY to USD 191mn.
- **Outlook**: We expect USD revenue growth of +14.3/18% in FY23/24E, which implies a CQGR of +4.6/+2.8% for FY23/24E. We estimate EBIT margin at 17.1/17.4% in FY23/24E, resulting in an FY22-24E EPS CAGR of 15%.

Quarterly Financial summary

YE Mar (INR bn)	Q1 FY23	Q1 FY22	YoY (%)	Q4 FY22	QoQ (%)	FY20	FY21	FY22	FY23E	FY24E
Revenue (USD mn)	74	70	4.8	77	(4.7)	151	232	293	335	395
Net Sales	5.70	5.16	10.4	5.82	(1.9)	10.71	17.22	21.84	26.09	31.22
EBIT	0.98	1.03	(4.8)	1.09	(9.6)	1.32	3.20	4.20	4.45	5.42
APAT	0.77	0.69	11.4	0.80	(3.4)	1.33	2.09	2.95	3.09	3.93
Diluted EPS (INR)	25.26	24.32	3.8	26.15	(3.4)	46.7	73.5	96.6	101.2	128.8
P/E (x)						44.0	27.9	21.3	20.3	16.0
EV / EBITDA (x)						37.0	14.4	12.3	11.8	9.3
RoE (%)						17.6	25.4	30.6	25.7	26.3

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

YE Mar (INR Bn)	FY23E Old	FY23E Revised	Change %	FY24E Old	FY24E Revised	Change %
Revenue (USD Mn)	328	335	*2.0*	378	395	*4.7*
Revenue	25.55	26.09	*2.1*	29.83	31.22	*4.7*
EBIT	4.53	4.45	*(1.7)*	5.50	5.42	*(1.4)*
EBIT margin (%)	17.7	17.1	*-66bps*	18.4	17.4	*-108bps*
APAT	3.25	3.09	*(4.9)*	4.03	3.93	*(2.5)*
EPS (INR)	106.5	101.2	*(4.9)*	132.0	128.8	*(2.5)*

Source: Company, HSIE Research

REDUCE

CMP *(as on 21 Jul 2022)*	INR 2,054
Target Price	INR 2,060
NIFTY	16,605

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 2,100	INR 2,060
EPS %	FY23E	FY24E
	-4.9	-2.5

KEY STOCK DATA	
Bloomberg code	MAST IN
No. of Shares (mn)	30
MCap (INR bn) / ($ mn)	62/829
6m avg traded value (INR mn)	264
52 Week high / low	INR 3,669/1,851

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	(27.3)	(27.8)	(17.8)
Relative (%)	(23.5)	(22.2)	(24.4)

SHAREHOLDING PATTERN (%)	Mar-22	Jun-22
Promoters	37.30	37.31
FIs & Local MFs	6.65	5.71
FPIs	6.62	8.01
Public & Others	49.43	48.97
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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RBL Bank

Lots of moving parts pose unanswered questions

Despite a moderation in NIMs (~4.4%) and steep rise in opex, RBK reported a significant beat on the back of strong loan growth (~7% YoY) and lower credit costs (1.7%). Gross slippages were elevated (4.5% annualised), predominantly from the MFI and cards businesses; however, higher upgrades/write-off led to a 32bps QoQ improvement in GNPA. Deposit traction was relatively muted, but the management guided for retail deposits to gain momentum through the rest of FY23. While the management articulated its strategy around building a desired scale and market share gains in its segments of choice, we opine that the recalibration of the deposit mix is likely to call for elevated investments in distribution, which is likely to prolong the time-to-maturity and return to optimal profitability. We lower our FY23E and FY24E earnings forecasts by 8%/2% respectively and maintain REDUCE with a revised TP of INR105, implying 0.5x Mar-24 ABVPS (earlier TP at INR113).

- **Sequentially better loan growth, but margins moderate:** Loan growth (~7% YoY) was entirely driven by low-yielding corporate (+25%) and commercial banking (+11%), whereas retail loan growth was dragged by micro-banking (-36%) and business loans (-25%). The management has guided for a 15-18% loan growth in FY23, led by rebound in MFI/BL and increasing focus on emerging segments such as housing and rural vehicles. However, we remain sceptical of the recently-articulated management strategy, which appears to pose more questions and offers few answers.
- **Higher opex intensity to keep PPOP in check**: In order to fund its desired loan growth through retail deposits, the management has guided for opex (adjusted for ESOP expense) to remain elevated. Continued investments in distribution, technology, and new business segments, thus, make an elevated cost-to-income ratio in the medium-term inevitable. Better overall asset quality metrics, higher provisioning coverage, and a lower restructured book at 2.3% (Q4FY22: 2.5%) are likely to help reduce credit costs.

Financial summary

(INR bn)	1Q FY23	1Q FY22	YoY (%)	4Q FY22	QoQ (%)	FY21	FY22	FY23E	FY24E
NII	10.3	9.7	6.0%	11.3	-9.2%	37.9	40.3	43.0	50.2
PPOP	5.3	8.1	-34.5%	6.6	-19.6%	30.9	27.5	26.7	32.5
PAT	2.0	(4.6)	-143.7%	2.0	1.6%	5.1	(0.7)	8.0	12.9
EPS (INR)	3.4	(7.6)	-144.0%	3.3	1.8%	8.5	(1.2)	13.4	21.6
ROAE (%)						4.4	(0.6)	6.2	9.4
ROAA (%)						0.5	(0.1)	0.7	1.0
ABVPS (INR)						191.0	197.0	211.5	226.7
P/ABV (x)						0.5	0.5	0.4	0.4
P/E (x)						11.2	(76.0)	7.1	4.4

Change in estimates

(INR bn)	FY23E			FY24E		
	Old	New	Change	Old	New	Change
Net advances	706	709	0.4%	813	818	0.5%
NIM (%)	4.7	4.7	-1 bps	4.8	4.8	-4 bps
NII	43.1	43.0	0.0%	50.3	50.2	-0.2%
PPOP	28.9	26.7	-7.8%	35.4	32.5	-8.2%
PAT	8.8	8.0	-8.1%	13.2	12.9	-1.9%
Adj. BVPS (INR)	209.2	211.5	1.1%	226.4	226.7	0.1%

Source: Company, HSIE Research

REDUCE

CMP *(as on 21 Jul 2022)*	INR 95
Target Price	INR 105
NIFTY	16,605

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 113	INR 105
EPS %	FY23E	FY24E
	-8%	-2%

KEY STOCK DATA	
Bloomberg code	RBK IN
No. of Shares (mn)	600
MCap (INR bn) / ($ mn)	57/765
6m avg traded value (INR mn)	2,283
52 Week high / low	INR 221/74

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	(25.0)	(35.3)	(53.5)
Relative (%)	(21.1)	(29.6)	(60.2)

SHAREHOLDING PATTERN (%)	Mar-22	Jun-22
Promoters	0.0	0.0
FIs & Local MFs	20.8	20.8
FPIs	28.6	28.6
Public & Others	47.9	47.9
Pledged Shares	0.0	0.0

Source : BSE

Pledged shares as % of total shares

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Sagar Cements

Strong volumes; elevated costs keep margin depressed

We maintain our BUY stance on Sagar Cements with an unchanged TP of INR 230/share (7.5x Mar-24E consolidated EBITDA). We like Sagar for its prudent capacity growth, rising regional diversification, and increased focus on green fuel/power consumption and blended cement production. In Q1FY23, Sagar reported in-line performance. While healthy demand in south and ramp-up of Jeerabad/Jajpur plants drove up volumes, elevated fuel costs and negative EBITDA contribution from the new plants pulled down margin, leading to a net loss. Sagar expects its P&F cost to be flat QoQ in Q2. The new plants are also expected to turn EBITDA break-even in FY23. Sagar is also expecting to acquire Andhra Cements by Q3, which will increase its capacity to ~11mn MT.

- **Q1FY23 performance:** Volume grew by 35% YoY due to robust demand in south and production ramp-up from Jajpur and Jeerabad plants. CU stood at 58% vs 61/55% YoY/QoQ. The share of blended cement improved to 50% vs ~45% QoQ/YoY. In a muted price environment in the south, realisation also registered a good uptick of 6% QoQ. A sharp rise in fuel costs led to a spike in opex by 29% YoY/ 7% QoQ. Input cost rose ~INR 395/915 per MT QoQ/YoY and came in higher than our estimate. Sagar lowered its lead distance ~5% QoQ to 268km. Higher cost led to 5% QoQ contraction in unitary EBITDA to INR 514 per MT. Capacity additions led to a surge in capital charges leading to a net loss. Jeerabad/Jajpur plants operated at 46/8% CU in Q1. Jajpur ramp-up was delayed due to delays in composite cement approvals (now received). Low utilisation at these plants led to negative EBITDA contribution, pulling down consolidated unitary EBITDA by ~INR 150 per MT.
- **Outlook:** Cement prices are broadly flat MoM in July. P&F costs are expected to be flat QoQ in Q2. The Jeerabad/Jajpur plants are getting stabilised and management expects that, at ~50/40% CU, the plants would turn EBITDA break-even (expect this to happen in this financial year itself). These plants are expected to also boost volume growth to 5mn MT (+40% YoY) in FY23 and increase share of blended cement from FY23 onwards. If all goes well, Sagar will complete the acquisition of Andhra Cements in Q3FY23 (2.6mn MT cement and 1.65mn MT clinker) and make it operational by Q4. Net debt is expected to peak out at INR 15bn, post acquisition. Sagar remains committed to doubling its capacity every 10 years. We maintain our earnings estimates for FY23/24E as well as our BUY rating.

Quarterly/annual financial summary (consolidated)

YE Mar (INR bn)	Q1 FY23	Q1 FY22	*YoY (%)*	Q4 FY22	*QoQ (%)*	FY20	FY21	FY22	FY23E	FY24E
Sales (mn MT)	1.19	0.88	*34.9*	1.13	*5.2*	3.13	3.16	3.60	5.08	5.65
NSR (INR/MT)	4,702	4,463	*5.3*	4,448	*5.7*	3,752	4,339	4,431	4,611	4,657
EBITDA (INR/MT)	514	1,218	*(57.8)*	542	*(5.0)*	592	1,267	765	634	838
Net Sales	5.58	3.93	*42.1*	5.02	*11.2*	11.75	13.71	15.97	23.41	26.30
EBITDA	0.61	1.07	*(43.0)*	0.61	*(0.1)*	1.86	4.00	2.76	3.22	4.73
APAT	(0.07)	0.50		-0.12	*(37.3)*	0.26	1.86	0.49	0.31	1.38
AEPS (INR)	(0.6)	4.2		-1.0	*(43.6)*	2.4	15.8	4.2	2.3	10.6
EV/EBITDA (x)						14.1	6.7	12.7	9.9	6.5
EV/MT (INR bn)						4.56	4.70	4.23	3.88	3.72
P/E (x)						79.4	11.3	42.6	75.8	16.9
RoE (%)						*2.8*	*16.4*	*3.8*	*2.0*	*7.9*

Source: Company, HSIE Research

BUY

CMP *(as on 21 Jul 2022)*	**INR 178**
Target Price	**INR 230**
NIFTY	**16,605**

KEY CHANGES	**OLD**	**NEW**
Rating	BUY	BUY
Price Target	INR 230	INR 230
EBITDA revision %	FY23E -	FY24E -

KEY STOCK DATA	
Bloomberg code	SGC IN
No. of Shares (mn)	131
MCap (INR bn) / ($ mn)	23/312
6m avg traded value (INR mn)	26
52 Week high / low	INR 319/154

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	(26.9)	(33.5)	(23.7)
Relative (%)	(23.0)	(27.8)	(30.4)

SHAREHOLDING PATTERN (%)	**Mar-22**	**Jun-22**
Promoters	50.28	45.22
FIs & Local MFs	8.87	18.21
FPIs	5.24	4.47
Public & Others	35.61	32.12
Pledged Shares	5.49	38.32

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
Naveen Trivedi	Havells India	MBA	NO
Saras Singh	Havells India	PGDM	NO
Anuj Upadhyay	JSW Energy	MBA	NO
Hinal Choudhary	JSW Energy	CA	NO
Rajesh Ravi	Kajaria Ceramics, Sagar Cements	MBA	NO
Keshav Lahoti	Kajaria Ceramics, Sagar Cements	CA	NO
Sahej Mittal	ICICI Securities	ACA	NO
Krishnan ASV	ICICI Securities, RBL Bank	PGDM	NO
Amit Chandra	Cyient, Mastek	MBA	NO
Apurva Prasad	Cyient, Mastek	MBA	NO
Vinesh Vala	Cyient, Mastek	MBA	NO
Deepak Shinde	RBL Bank	PGDM	NO
Neelam Bhatia	RBL Bank	PGDM	NO

Disclosure:
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