KRChoksey | research

Q1FY22 Post Earnings Review

Optimism returns but external challenges remain

31st August 2021

Low base boost YoY growth but COVID 2.0 hurts sequential growth

- Earnings growth in Q1FY22 was driven by low base in the corresponding period last year owing to the nation-wide lockdown in 2020
- However, COVID 2.0 negatively impacted financial performance of coverage companies due to localised lockdown and consequential decline in business sentiment

Commodity inflation remains a challenge

- Significant fiscal and monetary stimulus to tackle slowdown caused by the pandemic, has resulted into higher commodity prices and inflationary pressures
- Sectors such as Automobiles and Consumer witnessed higher raw material prices in the form of steel, metals, agricultural and dairy products
- We believe that inflationary pressure may sustain, and companies will take another round of product price hikes to sustain their operating margins

Buoyant investor sentiment in cement sector; while Pharma faces headwinds in US business

- Cement sector earnings were supported by price hikes and volume growth. Investors remain positive on the sector given the infrastructure and housing push in the government budget outlay
- Domestic Pharma sales peaked around April 2021 during COVID 2.0. However, the major concern for Pharmaceutical companies emerges from pricing pressure seen in the US market

Future outlook

- Rapid decline in COVID cases towards the end of Q1FY22, coupled with aggressive vaccination roll-out, will facilitate recovery and growth in company earnings in subsequent quarters
- However, third wave of COVID pandemic can pose downside risk to corporate performance in the remaining quarters of FY22

HEAD RESEARCH
Parvati Rai, head-research@krchoksey.com, +91-22-6696 5413

Focus Coverage Companies

KRChoksey | research

Coverage Companies
BFSI – Banking
HDFC Bank
ICICI Bank
Kotak Bank
Axis Bank
SBI bank
IndusInd Bank
Karur Vysya Bank
Bandhan Bank
BFSI – NFBCs / Specialty Finance
Bajaj Finance Ltd.
Bajaj Finserv Ltd.
Cholamandalam Investments
HDFC AMC
HDFC Ltd.
NAM
CreditAccess Grameen
ICICI Securities
BFSI – Life Insurance
HDFC Life
ICICI Prudential
SBI Life
Max Financial
Holding Companies
Bajaj Holdings
EID Parry
Ramco Industries
Pilani Investments

Coverage Companies
Consumer – Essentials
Britannia Industries
Nestle India
ITC Ltd.
Hindustan Unilever
Tata Consumer Products
Consumer – Personal Care
Colgate Palmolive India
Godrej Consumers
Emami Ltd.
Consumer – Durables
Blue Star
Whirlpool India
Symphony
Consumer – Others
Asian Paints
Berger Paints
Avenue Supermarts
Cements
Ultratech Cement
Ramco Cement
Shree Cement
ACC Cement

Coverage Companies
IT
Infosys
TCS
HCL Technologies
Tech Mahindra
Wipro
Persistent Systems
Tata Elxsi
Mindtree
Sonata Software
Happiest Minds
Infibeam Avenues
Pharmaceuticals
Sun Pharma
Dr. Reddy Labs
Cipla
Lupin
Glenmark Pharma
Cadila Healthcare
Aurobindo Pharma
Alembic Pharma
Granules India
Torrent Pharma

Coverage Companies
Oil & Gas
Indraprastha Gas Ltd
Mahanagar Gas Ltd
Petronet LNG Ltd
BPCL
HPCL
Auto and Auto Ancillary
Tata Motors
Maruti Suzuki
Bajaj Auto
Ashok Leyland
Eicher Motors
Minda Corporation
Minda Industries
Sundaram Fasteners
Balkrishna Industries
Bharat Forge
Endurance Technology
Miscellaneous
Emmbi Industries
Solar Industries
ABB
Petrochemical and Chemicals
Reliance Industries
Supreme Petrochemicals
UPL Ltd.
Aarti Industries
Himadri Specialty Chemicals

HEAD RESEARCH
Parvati Rai, head-research@krchoksey.com, +91-22-6696 5413

BFSI Sector

Asset Quality worsens

- GNPAs/NNPAs across all the banks were higher sequentially. Most of the banks reported higher slippages as the second wave of Covid-19 hits the retail and SME loan segment.
- The Collection efficiency of the banks were hampered due to lower business operations in the month of April & May-21.
- The banks have been seeing a good momentum in recovery of collection efficiency in June-July-21 months which will improve the asset quality and lower the slippages in coming quarters.
- The Provision coverage for almost all the banks remains healthy with buffer provisioning to reduce the impact of the uncertainties on the credit cost going ahead.

Advance growth modest sequentially

- Banks reported muted advance growth impacted due to lower business activities.
- The disbursement in the retail segment fell QoQ. Some banks saw improvement in the corporate loans.
- Few banks reported a strong liability franchise with healthy capital positioning.

NIMs have remained largely stable

- NIMs were aided by the decline in the cost of funds where most of the banks have been focusing on the deposit mix.
- The liquidity remains higher than the regulatory requirement.

Operating expenses slightly at higher

- There has been YoY increase in cost on account of the employee expenses coming back to pre-covid levels and increase in the business momentum.
- The Banks are expecting some relieve in terms of cost as they are working on shifting their activities in digital form to improve the operating efficiencies.

Valuation

- Banks are currently trading at a premium to its average industry P/B multiple.
- We expect the earnings outlook to improve with healthy business momentum, reducing credit cost and improving operating efficiencies.
- We continue to like ICICI Bank, IndusInd bank and SBI bank.

Companies	Net Interest Income/Earnings	Asset Quality / Provisioning	Outlook / Strategy
HDFC Bank	• NII grew 8.6% YoY but de-grew 0.6% QoQ. • PPoP grew 18.0% YoY/ de-grew 2.5% QoQ. • PAT grew 16.1% YoY/ degrew 5.6% QoQ. • Advances grew 14.4% YoY/ 1.3% QoQ whereas deposits grew 13.2% YoY/ 0.8% QoQ.	• Provisions stood at INR 48,308 Mn, up by 24.1% YoY/2.9% QoQ. • The GNPAs and NNPAs stood at 1.5% and 0.48% vs 1.3% and 0.40% in Q4FY21, respectively. • PCR stood at 67.9% vs 69.8% in Q4FY21.	• The operating income was slightly lower than expectation due to lower yields on advances; the credit costs are higher than estimates. • We expect the credit cost to normalize from H2FY22. • We expect a healthy growth in advance and the bank remains well funded.
ICICI Bank	• NII grew 17.8% YoY/4.8% QoQ with NIMs expanded 20 bps YoY to 3.89%. • PPoP de-grew by 17.5% YoY due to lower other income. • PAT grew 77.6% YoY/ 4.8% QoQ. • Advances grew 17% YoY with deposits growing at 15.5% YoY.	• Provisions stood at INR 28,517 Mn, down by 62.4% YoY/ 1.1% QoQ. • GNPA and NNPA were 5.15% and 1.16% respectively vs 4.38% and 1.14% in Q4FY21. • PCR stood at 77.10% vs 78.7% in Q4FY21.	• The banks continues to gain market share with better asset mix. • The higher credit cost is on account of the second wave lockdown resulting in higher slippages . • We expect GNPAs to improve in Q2FY22E with substantial improvement in H2FY22E. The bank remains well positioned across all factors versus peers.
Kotak Mahindra Bank	• NII grew 5.8% YoY/ 2.6% QoQ to INR 39,417 Mn. • The NIMs were higher by 20 bps YoY and 8 bps QoQ at 4.52%. • PPoP grew 19.0% YoY but degrew by 8.4% QoQ. • PAT grew 32% YoY/ de-grew 2.4% QoQ • Advances grew 6.6% with deposits growth of 9.6% YoY	• Provision for the quarter was INR 9,348 Mn, down by 2.8% YoY/ 20.7% QoQ • GNPA was 3.56% & NNPA was 1.28% vs 3.25% and 1.21% in Q4FY21, respectively. • PCR stood at 64.04% vs 62.77% in Q4FY21.	• KMB maintains high asset quality and look for higher wallet share in corporates in a manner that its non-risk incomes grow faster and significantly faster than the asset and can maintain a sustainable ROE in the business. The focus on granular customer acquisition continues.
Axis Bank	• NII grew 11.1% YoY/ 2.7% QoQ with marginal YoY improvement in NIMs at 3.46%. PPoP grew 10% YoY but de-grew by 6.5% QoQ. • PAT was down sequentially by 19% but grew 94% YoY. • Advances grew 12% YoY with deposits growing at 16.0% YoY.	• Provisions stood at INR 35,320 Mn in Q1FY22, up 7.2% YoY. • GNPA and NNPA levels were 3.85% and 1.20% vs 3.7% and 1.05% in Q4FY21, respectively. • PCR stood at 70.0% vs 71.6% in Q4FY21.	• AXSB continues to strengthen the five focus areas as part of the GPS strategy vis a vis; granular & risk calibrated growth; strengthening the balance sheet; technology and digital leadership; focus on profitability and One Axis. • We expect pressure on credit cost to continue in Q2FY22E.

Parvati Rai, head-research@krchoksey.com, +91-22-6696 5413

Companies	Net Interest Income/Earnings	Asset Quality / Provisioning	Outlook / Strategy
SBI	• NII grew 3.7% YoY/ 2.1% QoQ to INR 276,384 Mn. • NIMs were lower by 9 bps YoY and sequential improvement of 4 bps at 3.15%. • PPoP grew 15% YoY/ de-grew by 4% QoQ. PAT grew by 55% YoY, sequentially it was flattish. • Advances grew by 5.8% YoY and deposits by 8.8% YoY.	• Provisions stood at INR 100,520 Mn, down by 20% YoY/9% QoQ. • The GNPA were 5.3% and NNPA were 1.77% vs 5.0% and 1.5% in Q4FY21, respectively. • PCR stood at 65.36% vs 66.54% in Q4FY21.	• The bank has seen a pullback in slippages in the month of July-21 across the retail segment which includes home loan, Personal retail loan and SME loans. • The Bank expects further improvement in the C/I ratio on the back of strong growth in the fee income. • We see SBI at better place than its PSU peers to weather further crisis especially related to the pandemic.
IndusInd Bank	• Net Interest Income (NII) increased 7.7% YoY and was flattish sequentially at INR 35,637 Mn. • NIMs were slightly lower by 11 bps YoY and 2 bps higher sequentially at 5.0% • PPoP grew 11.3% YoY/ 1.8% QoQ. • PAT grew 121% YoY/ 9.7% QoQ. • Advances grew by 6.6% YoY whereas deposits grew by 26.7% YoY.	• Provisions stood at INR 18,440 Mn, down by 18% YoY/ 1% QoQ. • GNPAs were 2.9% and NNPAs were 0.8% vs 2.2% and 0.5% on Q4FY21, respectively. • PCR stood at 70.8% vs 76.4% in Q1FY21.	• Deposit mobilization continues at pace. The deposit growth was entirely driven by retail deposits. • IIB expects deposit growth momentum to continue with focus on reducing cost of deposits while maintaining the retail acquisition run rate. • The Bank has been upfront in taking provisions and expect these to downtrend unless COVID resurfaces.
Karur Vysya Bank	• NII grew 14% YoY at INR 6,379 Mn. NIMs expanding by 19 bps YoY at 3.55%. • PPoP grew 71.6% QoQ but de-grew by 9.6% YoY. • PAT grew 3.2% YoY/ 4.3% QoQ. • Advances grew 8% YoY with deposits growing at 7% YoY.	• Provisions stood at INR 2,640 Mn, up by269% QoQ. • The GNPA and NNPA were 7.97% and 369% vs 7.85% and 3.41% in Q4FY21, respectively. • PCR stood at 72.4% vs 72.7% in Q4FY21.	• Effective allocation of capital sourced at low cost has enabled the bank to deliver decent returns. • A strong capital base, high levels of liquidity, and diversified credit portfolio will provide a solid foundation for an attractive and sustainable return on capital to shareholders for the bank.
Bandhan Bank	• NII up 16.7% YoY to INR 21.1 bn and NIM improved by 35bps YoY at 8.5% • Non-interest income up 37.7% YoY at INR 5.3 bn	• Gross NPA / Net NPA stood at 8.2% / 3.3%, respectively • It has provided accelerated provision on NPA accounts of INR 7.5 bn which includes additional standard asset provisions amounting to INR 3.2 bn and provisions on restructured assets worth INR 5.3 bn.	• Healthy balance sheet, improved PCR and expected improvement in Assam portfolio enable business prospects. Bank is gaining confidence over borrowers' payment behavior, as it expects to improve the repayments once the situation is normalised.

Operating profit remains stable but Credit costs relatively elevated

Particulars (INR Mn)	HDFC Bank	ICICI Bank	Kotak Bank	Axis Bank	SBI Bank	IndusInd Bank	Karur Vysya Bank	Bandhan Bank
Net Interest Income	170,090	109,358	39,417	77,603	276,384	35,637	6,379	21,140
Pre-Provision Profit	151,370	88,944	31,211	64,160	189,748	31,855	4,286	18,710
Provisions	48,308	28,517	9,348	35,320	100,520	18,440	2,640	13,750
Net Profit	77,296	46,160	16,419	21,602	65,040	10,161	1,089	3,730
Advances	1,14,76,516	73,85,978	21,74,650	61,48,737	2,43,19,081	21,11,590	523,150	747,660
Deposits	1,34,58,293	92,62,239	28,65,600	71,38,622	3,72,09,870	26,76,290	643,980	773,360
CASA (%)	45.5%	45.9%	60.2%	40.5%	46.0%	42.1%	35.0%	42.9%
NIM (%)	4.0%	3.9%	4.52%	3.46%	3.15%	5.0%	3.6%	8.5%
Cost to Income (%)	35.0%	40.4%	43.5%	43.5%	51.9%	45.3%	50.0%	29.3%
GNPA (%)	1.5%	5.15%	3.56%	3.85%	5.3%	2.9%	8.0%	8.18%
NNPA (%)	0.48%	1.16%	1.28%	1.2.0%	1.8%	0.8%	3.7%	3.29%
PCR (%)	67.9%	77.1%	64.0%	70.0%	67.9%	70.8%	72.4%	62.0%

Source: Company, KRChoksey Research

Operating profit remains stable but Credit costs relatively elevated

Particulars	HDFC Bank		ICICI Bank		Kotak Bank		Axis Bank		SBI		IndusInd Bank		Karur Vyasa Bank		Bandhan Bank	
Change (%)	QoQ	YoY	QoQ	YoY	QoQ	YoY	QoQ	YoY	QoQ	YoY	QoQ	YoY	QoQ	YoY	QoQ	YoY
Net Interest Income	-0.6%	8.6%	4.8%	17.8%	2.6%	5.8%	2.7%	11.1%	2.1%	3.7%	0.8%	7.7%	4.1%	13.5%	20.3%	16.7%
Pre-Provision Profit	-2.5%	18.0%	4.2%	-17.5%	-8.4%	19.0%	-6.5%	9.8%	-3.7%	14.9%	1.8%	11.3%	71.6%	-9.6%	8.2%	18.1%
Provisions	2.9%	24.1%	-1.1%	-62.4%	-20.7%	-2.8%	7.2%	-20.0%	-9.0%	-19.6%	-1%	-18.4%	269.5%	-21.8%	-13.8%	61.9%
Net Profit	-5.6%	16.1%	4.8%	77.6%	-2.4%	31.9%	-19.3%	94.2%	0.8%	55.3%	9.7%	120.6%	4.3%	3.2%	262.1%	-32.1%
Advances	1.3%	14.4%	0.7%	17.0%	-2.8%	6.6%	0.1%	12.0%	-0.7%	5.8%	-0.7%	6.6%	-1.0%	7.6%	-8.4%	7.2%
Deposits	0.8%	13.2%	-0.7%	15.5%	2.3%	9.6%	0.9%	16.0%	1.1%	8.8%	4.6%	26.7%	1.8%	7.2%	-0.8%	27.6%
(in Bps)																
CASA (%)	-66	532	-39	341	-27	345	138	-133	-16	63	36	212	100	185	-50	582
NIM (%)	-15	-23	5	20	8	20	-10	6	4	-9	2	-11	9	19	170	35
Cost to Income (%)	-212	2	-84	,031	233	185	-38	452	-260	-36	-198	-231	-1983	395	-270	139
GNPA (%)	15	11	77	-31	31	86	15	-87	34	-12	68	70	12	-37	137	675
NNPA (%)	8	15	2	-7	7	41	15	-3	27	-9	32	-21	28	25	-22	281
PCR (%)	-189	-827	--1115	-142	-128	-436	-162	-500	-302	79	-553	1900	-30	-34	1169	-464

Source: Company, KRChoksey Research

NBFC: AUM growth gradually picked up

- Earnings for NBFCs have softened sequentially as a result of reduced business operations during the quarter.
- The disbursement & loan growth moderated in the vehicle finance business as an impact of the lockdowns in majority of the states. The home finance and LAP segment saw a decent pick up in disbursements and is expected to remain healthy in the coming quarter.
- The collection efficiency was severely impacted in April and May-21 but has seen signs of improvement since Jun-21.
- Most of the NBFCs have reported a decent share of restructuring during the quarter.
- The cost of funds have seen improvement with improvement in the borrowing mix for the NBFCs.
- With greater provisioning during Q1FY22, CIFC's asset quality deteriorated even further. It is expected to continue to keep a close eye on the book's quality for the coming quarters.
- Bajaj Finance saw an increase in the credit costs, but the company expects a robust rebound when things stabilizes. It is putting a lot of emphasis on its digital initiatives to improve efficiency.
- HDFC reported healthy disbursement on YoY basis due to the low base of FY20. The NBFC continues to make buffer reserves which resulted in higher provisions for Q1FY22.

Asset Managers: AUM largely a function of MTMs

- The AUM growth for asset managers were driven by the strong performance from the equity segment and improving share of the equity mix.
- The focus is on strategy change and its impact on AUM especially for HDFC AMC, given its size and relatively loss in share.

Valuation

- The stocks are trading at a premium to its historical average multiple.
- We are watchful of the impact of the third wave uncertainties and the vaccination drive progress on earning and businesses for companies under coverage.
- CIFC remain our top pick.

Companies	Net Interest Income/Earnings	Asset Quality / Provisioning	Outlook / Strategy
Bajaj Finance Ltd.	• NII grew 8.1% YoY but de-grew by 3.8% QoQ. • AUM grew 15% YoY. The quarter saw an increase in the contribution from commercial loans. • IPO financing for the quarter stood at ~INR 29,800 Mn. • Profit after tax for Q1FY22 increased by 4% to INR 10,024 Mn from INR 9,619 Mn in Q1FY21.	• ·GNPA and NNPA stood at 2.96% and 1.46% respectively. The provisioning coverage ratio was 51%. • Provisions stood at INR 17,503 Mn. • Gross slippages- Stage 3 for the quarter stood at INR 47,400 Mn. • The Company has management overlay provision of INR 4,830 Mn for this quarter.	• Management has indicated optimism in achieving normalised targets in the absence of adverse lockdowns. It has also engaged in technology to improve efficiencies and widen its consumer base. • Credit Cost for FY22E is expected to be at INR 42,000-43,000 Mn. • We continue to like the franchise, market position, technological initiatives, credit discipline, portfolio, and geographic distribution in the medium to long term.
Bajaj Finserv Ltd.	• Revenue from operations degrew by 11.2% QoQ/ 0.3% YoY. • Gross written premium for BALIC increased by 9% YoY to INR 24,940 Mn. • Gross Written premium for BAGIC was at INR 25,160 Mn - an increase of 48% YoY. • The Operating profits degrew by 57.7% YoY/ 24.7% QoQ. • In Q1FY22, Consolidated PAT stood at INR 14,328 Mn, down by 25.5% YoY.	• GNPA and NNPA of concerned subsidiary stood at 2.96% and 1.46% respectively. The provisioning coverage ratio was 51%.	• BAGIC has grown faster than the market in key business lines and delivered underwriting profits in most difficult times. BALIC had an excellent quarter of growth was enabled to increase its new business value YoY. • BAF expects credit costs for FY22E to be in the range of INR 42,000-43,000 Mn. • The claims are expected to subside given that vaccination and infrastructure are well in place to tackle any probable impact of wave 3. • We expect revenues show a strong rebound from H2FY22E.
Cholamandalam Investment and Finance Company Ltd.	• NII grew 34.8% YoY/1.4% QoQ. PPOP grew 56% YoY due to higher other income during the quarter. • AUM grew 7.0% YoY. • Profits after Tax (PAT) for Q1FY22 were at INR 3,268 Mn compared to INR 4,309 Mn in Q1FY21, registering a decline of 24%.	• The asset quality as at end of June 2021, represented by Gross Stage 3 assets stood at 6.79% with a provision coverage of 35.51%, as against 3.34% as at end of June 2020 with a provision coverage of 41.62%.	• CIFC expects loan losses to return to normal levels in the coming quarters, as it did in Q3 and Q4 of FY21, when customers began paying up when the lockdown was eased, and normalcy resumed. • CIFC is working to diversify its product offering within the existing segments.

Companies	Net Interest Income/Earnings	Asset Quality / Provisioning	Outlook / Strategy
HDFC AMC	• Revenues grew 23.2% YoY/0.8% QoQ. • EBITDA grew by 20.4% YoY. • Other income was higher by 26% YoY/ 136% QoQ at INR 1,009 Mn on back of one-off income from Essel NCD exposure, mark-to-market gain on investments and some sell-off of debentures. • In Q1FY22, PAT grew 9% QoQ/ 14% YoY at INR 3,455 Mn. • AUM stood at INR 41,69,000 Mn in Q1FY21, a growth of 17% YoY.	• Not applicable	• HDFCAMC will continue to launch products to fill the gap between the Company and the industry. • HDFCAMC believes that the efforts of the Company including the performance improvement will be noticed by the market resulting in a gradual improvement in market share. • The management remains confident about the positive trend of MF flows and anticipates the trend to sustain in the next quarters.
HDFC Ltd.	• NII grew 34.6% YoY on an AUM growth of 8.0% YoY. • NIM were at 3.7% higher by 60 bps YoY. • PAT declined by 2% YoY/ down 6% QoQ led by higher tax. • AUM grew 8% YoY at INR 57,41,360 Mn.	• GNPA were 2.24% vs 1.98% in Q4FY21 of the loan portfolio. • Provisions stood at INR 6,860 Mn. • The Company's restructured loans for Q1FY22 stood at INR 77,800 Mn.	• HDFC is optimistic about delivering growth the soft lockdowns. • HDFC is positive about reducing credit costs in the coming years, driven by provision reversals/write-backs on customer accounts, where it has conservatively made provisions. • Margins should be stable despite pressure on retail lending yield
CreditAccess Grameen Ltd.	• NII de-grew by 7.3% YoY / 27.1% QoQ • NIM stood at 10.2% lowered by 220 bps YoY. • PAT declined by 71.9% YoY / down 73.5% QoQ led by higher provisioning.	• GNPA (GL: 60+dpd, RF: 90+dpd) were 7.6% vs 4.4% in Q4FY21 of the loan portfolio. • Provisions for Q1FY22 stood at INR 1,880 Mn.	• It is expected to maintain its business growth on account of branch as well as employees 10-15% of growth which is expected to deliver 10-20% growth in customer base and 25-30% growth in overall gross loan portfolio.
ICICI Securities	• Revenue reported at INR 7.5 bn (+36.5% yoy, +0.8% qoq). • EBITDA reported at INR 4.7 bn (-3.1% qoq, +59.3% yoy). EBITDA margin was at 63.1% (-258bps qoq, +904bps yoy). • PAT reported at INR 3.1 bn (-5.7% qoq, +60.9% yoy)	• Not applicable	• An asset light business model has delivered efficient operations which has further resulted into improved margins. • Constant efforts on digitisation and business partnerships with various entities to gain momentum.

HDFC fared well as home loans performed better

Particulars (INR Mn)	Bajaj Finance Ltd.	Bajaj Finserv Ltd.	Cholamandalam Investments	HDFC AMC	HDFC Ltd.	Nippon Asset Management	CreditAccess Grameen	ICICI Securities
Net Interest Income / Revenue	44,884	117,590	12,674	5,071	40,014	3,023	3,380	7,450
Other Income	11	0	958	1,009	11,398	669	0	24
Employee Cost	6,165	12,383	1,523	835	3,197	697	1,010	1,510
Other Operating Expenses	7,568	87,237	2,182	427	2,310	552	510	2,890
Pre-Provision Profit	31,162	17,970	9,927	NA	45,906	NA	2,160	NA
Provisions	17,503	298	5,519	NA	6,860	NA	1,880	NA
Net Profit	10,024	14,328	3,268	3,455	30,007	1,814	200	3,110
Asset Under Management	15,90,570	15,90,570	757,630	41,69,000	57,41,360	37,87,690	126,640	44,00,000
Cost to Income (%)	30.6%	84.7%	27.2%	20.7%	8.0%	53.2%	41.2%	44.0%

Source: Company, KRChoksey Research

HDFC fared well as home loans Performed better

Particulars	Bajaj Finance Ltd.		Bajaj Finserv Ltd.		Cholamandalam Investments		HDFC AMC		HDFC Ltd.		Nippon Asset Management		CreditAccess Grameen		ICICI Securities	
Change (%)	QoQ	YoY	QoQ	YoY	QoQ	YoY	QoQ	YoY	QoQ	YoY	QoQ	YoY	QoQ	YoY	QoQ	YoY
Net Interest Income / Revenue	-3.8%	8.1%	-11.2%	-0.3%	1.4%	34.8%	0.8%	23.2%	3.1%	34.6%	-15.1%	-28.3%	-27.1%	-7.3%	0.8%	36.5%
Operating Expenses	-14.5%	18.7%	-8.2%	32.0%	-27.9%	7.1%	18.3%	32.8%	10.4%	38.9%	10.5%	-26.8%	-5.4%	15.2%	8.1%	9.5%
Pre-Provision Profit	1.8%	4.0%	-24.7%	-57.7%	19.9%	55.8%	NA	NA	-1.1%	-4.5%	NA	NA	-34.2%	-15.3%	NA	NA
Provisions	42.2%	3.8%	-0.4%	-98.2%	9.6%	882.9%	NA	NA	-4.6%	-42.8%	NA	NA	-25%	7125.8%	NA	NA
Net Profit	-26.1%	4.2%	-17.9%	-25.5%	34.4%	-24.2%	9.3%	14.3%	-5.6%	-1.7%	3698.5%	24.3%	-73.5%	-71.9%	-5.7%	60.9%
Asset Under Management	4.0%	15.2%	4.0%	15.2%	-1.0%	7.0%	5.4%	17.0%	0.7%	8.1%	4.1%	24.7%	-7.3%	8%	15.8%	29.4%
(in Bps)																
Change in PAT Margin	-489	40	-39	-259	352	-703	528	-535	-696	-2763	6547	2834	-1015	-1309	-287	633
Cost to Income (%)	-381	273	275	2074	1111	-800	121	141	30	-100	-4119	-920	850	700	410	-815

Source: Company, KRChoksey Research

Overall performance of the companies saw a severe hit sequentially

- Premium of the listed companies de-grew by 44.7%QoQ but saw a growth of 20.1% YoY.
- Renewal premium grew 11% YoY, declined 43.8% QoQ.
- The NBP grew 35.4% YoY, declined 46.0% QoQ.
- The APE grew 33.5% YoY/ fell 53.2% QoQ and Value of New Business (VNB) grew 51.5% YoY/ de-grew 52.8% QoQ. The margins improved for all companies, most for IPRU.
- 13th Month persistency improved for almost all the four companies, but later stage performance was mixed.
- The AUMs have grown 4.3%QoQ/30.6% YoY of the four insurers.
- The mortality pay-outs have been higher as a severe impact of the second wave of Covid-19. Across all the companies, the claim ratio was higher. Thus, the companies have taken a cautious stance for short term due to uncertainties of the third wave going ahead.
- Most of the companies are shifting their product strategies with focus on high margin segments which will help to keep the growth intact.
- The companies saw strong growth in the protection and non-linked saving segment during the quarter.
- We believe Protection segment and Annuity segment to continue to see good growth momentum. Most of the companies will capitalize on these prospects.
- The companies will be focusing on new product innovation and expanding its distribution reach with a balanced channel mix.
- The stocks trade below their averages since listing. We maintain our positive stance on the sector and prefer SBI life insurance.

Company	Premium/APE performance	Product mix/Market share
HDFC Life	• Premium grew 30.6% YoY, de-grew 40.7% QoQ. APE grew 30.3% YoY, de-grew 45.8% QoQ. • YoY growth in premium was led by growth in the new business premium of 44% YoY. • APE growth was led by strong growth from the Non-Par and Annuity segment.	• The product mix between Unit linked/non par saving/Annuity/non par protection/par was 27%/32%/5%/8%/29% respectively. • The total new business market share of the Company stood at 22.3% in Q1FY22, improved from 20.7% in Q1FY21.
ICICI PruLife	• The GWP grew 19.5% YoY on improved momentum but saw a decline by 43% QoQ. APE grew 48.1% YoY, fell 51.4% QoQ. • The annuity business grew by 159% YoY in Q1FY22. • The retail traditional savings APE grew by 77.6% YoY while Protection APE grew by 26.2% YoY.	• The product mix between Unit linked/non par saving/non par protection/group was 44%/29%/22%/5%, respectively. • The market share in terms of new business sum assured stood at 14.7% in Q1FY22 vs 12.5% in FY21.
SBI Life	• The GWP for Q1FY22 grew 10% YoY, de-grew 46.4% QoQ. APE grew 27.6% YoY at INR 16,200 Mn. • Individual APE grew 36% YoY. • New business premium grew 10% YoY while renewal premium grew 10% YoY.	• The product mix between Unit linked/non par saving/non par protection/par/group was 37%/22%/13%/4%/24% respectively. • The market share in terms of Individual new business premium stood at 18.9%, an improvement of 130 bps YoY.
Max Life	• GWP rose 26.6% YoY, declined -51.0% QoQ. APE grew 32.4% YoY but saw a fall of 54.4% QoQ. YoY growth in APE was on back of healthy growth in Non- Par segment and recovery in Unit linked segment. • Annuity segment grew 88% YoY in Q1FY22.	• The share of Par/Individual protection/Group protection/non-Par savings/ULIP is 17%/10%/9%/27%/37%, respectively. • The market share in terms of new business premiums on APE basis stood at 11.3% vs 10.7% in Q1FY21.

Company	VNB/Margin Performance	Persistency/Solvency/AUM
HDFC Life	• Margins grew 190 bps YoY and dropped 80 bps QoQ at 26.2%. • The VNB stood at INR 4,100 Mn, a growth of 41% YoY on the back of higher volumes and balanced product mix.	• Its 13th month persistency improved 280 bps YoY declined 20 bps QoQ to 89.8%. 61st month persistency was stable YoY at 53%. • AUM rose 29.5% YoY to INR 18,13,000 Mn. • Solvency ratio was 203%.
ICICI PruLife	• VNB margin for Q1FY22 stood at 29.4% vs 24.4% in Q1FY22 and 23.6% in Q4FY21driven by increased contribution from high margin products. • Value of New Business rose 78.1% YoY declined 39.4% QoQ.	• The 13th month persistency rose 360 bps YoY to 85.4% and 61st month grew 100 bps YoY to 57.8% • AUM grew by 31.3% YoY/4.1% QoQ. • Solvency was at 194%.
SBI Life	• The VNB margins improved to 21.2% higher by 250 bps YoY/80 bps QoQ. This has been aided by strong new business. • VNB stood at INR 3,400 Mn, growth of 41.7% YoY, declined 61.4% QoQ.	• Persistency improved ~295 bps YoY to 84.5% for the 13th month. The 61st month persistency stood at 60.9% for the quarter. • AUM stood at INR 23,15,600 Mn up by 32.1%YoY/4.8% QoQ. • Solvency ratio was 215%.
Max Life	• The New Business Margin was 19.7%, up 260 bps YoY. • VNB stood at INR 1,720 Mn, an increase by 32.4% YoY declined by 62.7% QoQ.	• Persistency for the 13th and 61st month are 85% and 54%. 13th Month persistency improved by 300 bps YoY while 61st Month improved by 200 bps. • AUM stood at INR 936,970 Mn, a growth of 28% YoY and 3.6% QoQ. • Solvency ratio was at 197%.

Companies	Channel mix	Industry Outlook / Strategy
HDFC Life	• Distribution mix between Banca/Agency/Broker/Direct was 56%/15%/6%/23% respectively.	• HDFCLIFE saw a modest increase in economic activity across the country beginning in June. The Company anticipates a steady resurgence with the relaxation of lockdown restrictions and massive vaccination program and is hoping that future incidents will be less severe • It witnessed an increased in the share of contribution from the annuity segment which also aided in improvement of margins. • HDFCLIFE will focus on surpassing the industry new business growth and delivering an upward trajectory on new business margins while adhering to a robust risk management approach.
ICICI PruLife	• Banca/agency/Direct/Partnership/Group for Q1FY22 stood at 39%/23%/13%/8%/17% respectively. • Share of ICICI bank declined to 28% from 31% in FY21 in overall distribution mix.	• With focus on acquisition of new partners and investment in creation of new sourcing channels, the Company continue to diversify its distribution mix. • IPRU continues to leverage on the innovative and comprehensive suite of products, distribution strength, robust technology and strong risk management architecture. • IPRU continues to maintain its objective of doubling FY19 VNB by FY23E, which requires the compounded annual growth rate of 28% over FY21-23E.
SBI Life	• Banca/agency/Others stands at 45%/19%/36% respectively.	• SBILIFE is making efforts to improve the ULIP persistency going ahead. • The Company expects the non-par book to be in double digit by end of Q4FY22E from 7% in Q1FY22. • To further on to enhance its vibrant distribution network to penetrate the reach, SBILIFE will continue to maintain sustainable and consistent product mix, improve customer satisfaction and provide value to all its stakeholders.
Max Life	• The share of proprietary vs banca was 30% and 70% respectively. • Axis bank share in banca stood at 63%.	• Max Life to make significant investments in growing its proprietary channel. • The VNB margin moderated on QoQ basis due to seasonal factors, but the outlook remains stable

HEAD RESEARCH
Parvati Rai, head-research@krchoksey.com, +91-22-6696 5413

In INR Mn.	HDFC Life	ICICI Prudential	SBI Life	Max Life
Key Financial & Actuarial Metrics				
New Business Premium (Individual + Group)	37,666	27,325	33,449	12,390
Renewal Premium (Individual+ Group)	38,893	41,375	50,317	22,440
Total Premium	76,559	68,700	83,767	34,840
Profit After Tax	3,024	-1,857	2,232	7,700
Asset Under Management (AUM)	18,13,000	22,31,710	23,15,600	936,970
Value of New Business (VNB)	4,100	3,580	3,400	1,720
Annualized Premium Equivalent (EV)	15,610	12,190	16,200	8,750
Key Financial Ratios (%)				
Solvency Ratio	203%	194%	215%	197%
Persistency Ratio				
13^{th} Month	89.8%	85.4%	84.5%	85%
61^{st} Month	53.0%	57.8%	60.9%	54%
VNB Margin	26.2%	29.4%	21.2%	19.7%

Source: Company Reports, Bloomberg, KRChoksey Research

Particulars	HDFC Life		ICICI Pru		SBI Life		Max Life	
Key Financial & Actuarial Metrics	Y-o-Y	Q-o-Q	Y-o-Y	Q-o-Q	Y-o-Y	Q-o-Q	Y-o-Y	Q-o-Q
New Business Premium (Individual + Group)	43.6%	-42.6%	70.0%	--47.3%	9.3%	-45.9%	37.8%	-52.0%
Renewal Premium (Individual+ Group)	20.1%	-38.8%	-0.1%	-40.1%	10.5%	-46.8%	21.2%	-50.4%
Total Premium	30.6%	-40.7%	19.5%	-43.2%	10.0%	-46.4%	26.6%	-51%
Profit After Tax	-33.1%	-4.9%	-164.6%	-391.2%	-42.9%	-58.7%	**-55.0%**	**-27.4%**
Assets Under Management (AUM)	29.5%	4.3%	31.3%	4.1%	32.1%	4.8%	27.9%	3.6%
Value of new business (VNB)	40.9%	-47.4%	78.1%	-39.4%	41.7%	-61.4%	52.2%	-62.7%
Total APE (Annualized Premium Equivalent)	30.3%	-45.8%	48.1%	-51.4%	27.6%	-59.2%	32.4%	-54.4%
Key Financial Ratios (bps)								
Solvency Ratio	1,300	200	-1140	-2310	24	0	-1500	100
Persistency Ratio								
13th Month	280	-190	360	60	295	-342	300	100
61st Month	0	0	100	-50	-226	-75	200	0
Value of New Business Margin	190	-80	498	580	250	80	260	-530

Source: Company Reports, Bloomberg, KRChoksey Research

KRChoksey | research

ICICI Bank, IIB and SBI Bank are our top picks

Stocks	Recommendation		Market Cap.	CMP	Target Price (INR)		Upside	P/ BV (x)	
	Revised	Old	INR Mn.	INR	New	Old	%	5 Yr. Avg.	FY23 E
HDFC Bank	ACCUMULATE	BUY	86,86,460	1,569	1,720	1,720	9.6%	4.0	3.3
ICICI Bank	ACCUMULATE	ACCUMULATE	49,48,310	714	787	705	10.2%	2.1	2.5
Kotak Mahindra Bank	BUY	BUY	34,40,760	1,735	2,078	2,050	19.5%	5.7	4.2
Axis Bank	HOLD	HOLD	23,99,870	783	807	770	3.1%	2.5	1.9
SBI	BUY	ACCUMULATE	37,74,220	422	532	450	26.1%	1.7	1.1
IndusInd Bank	BUY	ACCUMULATE	780,950	1,009	1,160	1,100	15.0%	3.5	1.5
Karur Vysya Bank	BUY	ACCUMULATE	33,250	44	60	60	36.4%	1.0	0.6
Bandhan Bank	ACCUMULATE	HOLD	460,490	286	307	307	7.3%	4.5	1.9

Note: 1) 4-year average P/BV
2) Valuation ratios are provided for last 4-year average P/E (x) and FY22E P/E (x)
Source: Company, KRChoksey Research, CMP as of 30th August 2021

Cholamandalam Investments is our top pick

Stocks	Recommendation		Market Cap.	CMP	Target Price (INR)		Upside	P/ BV (x)	
	Revised	Old	INR Mn.	INR	New	Old	%	5 Yr. Avg*.	FY23 E
Bajaj Finance	HOLD	HOLD	43,16,070	7,151	7,170	6,315	0.3%	6.5	8.1
Bajaj Finserv	HOLD	HOLD	26,29,750	16,525	17,187	13,547	4.0%	3.4	5.4
Cholamandalam Investments	BUY	ACCUMULATE	448,110	546	628	560	15.0%	3.4	3.2
HDFC AMC	HOLD	ACCUMULATE	653,120	3,064	3,200	3,200	4.4%	10.8	9.1
HDFC Ltd.	ACCUMULATE	BUY	49,81,710	2,756	3,012	3,012	9.3%	4.7	4.2
NAM	UR	UR	260,640	421	-	-	UR	UR	UR
CreditAccess Grameen	BUY	BUY	104,940	672	843	843	25.4%	2.7	1.9
ICICI Securities [2]	ACCUMULATE	BUY	235,050	729	830	708	13.9%	17.4[3]	16.2[3]

Note: 1) 4 year average P/BV, 2) Valuation ratios are provided for last 4 year average P/E (x) and FY22E P/E (x), 3) ICICI securities valuation based on P/E ratio , Source: Company, KRChoksey Research

SBI Life is among our top picks

Stocks	Recommendation		Market Cap.	CMP	Target Price (INR)		Upside	P/ EV (x)	
	Revised	Old	INR Mn.	INR	New	Old	%	Avg*.	FY23 E
HDFC Life	ACCUMULATE	BUY	14,41,010	713	790	790	10.8%	4.8	3.9
ICICI Prudential	HOLD	HOLD	948,110	660	679	630	2.9%	2.7	2.2
SBI Life	ACCUMULATE	BUY	1179,480	1,179	1240	1,200	5.2%	2.9	2.6
Max Financial	HOLD	HOLD	366,170	1,061	1,100	1,100	3.7%	6.7	3.2

Consumer Sector

Growth driven by e-com, health, hygiene, and discretionary products

- **Strong rebound across segments**
  - Strong rebound across segments despite operational constraints in the wake of the second wave.
  - Hygiene portfolio performs well, delivering strong sequential growth, after normalizing in H2FY21 at elevated levels.
  - Sales in e-commerce channel more than doubled YoY; the overall contribution of e-com in the total sales stood at around 8-10%.
  - Strong YoY growth in discretionary / out-of-home products on favorable base; sequential performance impacted by second wave.
  - High base effect in staples and convenience foods leads to moderation in YoY growth rates; sequential pick-up in the wake of the second wave – lower impact compared to the first wave in the absence of pantry loading.
- **Inflationary trend in input cost keeps margins under pressure**
  - Gross margin could see contraction due to rising commodity prices.
  - However, most of the companies under coverages has posted decent growth in the margin on YoY basis. The cost-effective measures and operational efficiency has helped the companies to maintain the margin level, despite all the headwinds.
  - ITC margin was higher compared other peer companies; however, margins of Britannia has witnessed growth during the quarter.
- **FMCG Industry trends**
  - Demand for Health & Hygiene, Immunity, Ayurveda products remained elevated; albeit at lower levels Vs. FY21.
  - Staples & Convenience foods demand normalized after a surge in H1
  - Rural markets continue to grow ahead of Urban/Metro
  - Higher crude and vegetable oil prices drive increase in input costs.
  - ITC e-commerce FMCG Sales doubled: now accounts for ~8% of revenue.
  - Increasing digital adoption by Traditional Trade & Collaboration with Online-delivery platforms.

Companies	Revenue Performance
Britannia Industries	• Britannia reported Q1FY22 revenue growth of 8.7% QoQ, however, marginally lower by 0.5% YoY to INR 34,035 Mn; the revenue was impacted due to the second wave of COVID -19 that struck the nation followed by lockdowns imposed by various states governments.
HUL	• HUL reported healthy revenue growth of 13.6% YoY (-1.9% QoQ) at INR 121,940 Mn mainly due to growth in Beauty & Personal care and Food & refreshment segment. Domestic consumer growth up by 13.6% YoY. Food & Refreshment segment (~27% of revenue) reported a growth of 12.2% YoY.
ITC Ltd.	• ITC's revenue during the Q1FY22 stood at INR 142,408 Mn (+35.9% YoY / -7.6% QoQ). The growth was mainly driven by strong recovery across all the operating segments including Cigarettes (+34% YoY). The FMCG-Others had a robust performance led by Sunrise Biscuits, the FMCG segment revenue grew by 10.4% YoY. After several quarters of de-growth, the Hotels segment has witnessed signs of recovery, its revenue grew by 436% YoY, however the segment is yet to fully recover from the disruption due to the second wave of the pandemic
Nestle India	• For Q2CY21, Nestle India reported revenue growth of 14% YoY (-3.7% QoQ) to INR 34,767 Mn. Domestic sales grew by 13.7% driven by volume and price mix. Export sales outperformed domestic sales registering a growth of 17.7% YoY as surge in demand witnessed in the international markets.
Tata Consumer Products	• In Q1FY22, Tata Consumer Products reported healthy revenue growth of 10.9% YoY (-0.9% QoQ) at INR 30,085 Mn with volume growth across all segments, the growth was mainly driven by volume and value growth in the Indian branded business and improved performance of the non-branded business.

Companies	Margin Performance
Britannia Industries	• The gross margins declined by 296 bps YoY and 178 bps QoQ. At the operating level, the consolidated EBITDA during Q1FY22, grew by 9.6% QoQ to INR 5,538 Mn, with OPM at 16.3% (-469bps YoY / +13 bps QoQ). On the commodity cost front, palm oil, packing material, and dairy products witnessed sudden and steep increase in prices, the palm oil prices were up by 49% YoY and milk prices were up by 13% YoY.
HUL	• For Q1FY22, Gross Margin declined by 182 bps YoY / 217 bps QoQ on account of increase in RM cost. EBITDA stood at INR 29,210 Mn which grew by 6.1% YoY / -4% QoQ. • EBITDA margins contracted by 171 bps YoY and 52 bps QoQ in Q1FY22. Higher employee expenses (+7.6% YoY), advertisement spends (+28.6% YoY), and other expenses (+7% YoY) attributed to contraction in margins.
ITC Ltd.	• ITC also performed well at the operating level as compared to the last year. EBITDA margin expanded by 309 bps YoY (down 42 bps QoQ) to 31.2% while absolute EBITDA grew by 50.9% YoY (-8.8% QoQ) to INR 44,437 Mn due to recovery in demand and better product mix, the margins were impacted on QoQ basis due to higher excise duty which increased by 41% YoY due to increase in National Contingent Calamity Duty (NCCD).
Nestle India	• The raw material cost as % of sales increased by ~300bps YoY and 60bps QoQ due to increase in commodity prices particularly milk and its derivatives than in the corresponding quarter of FY20. This has resulted in EBITDA contraction by 12bps YoY and 136bps YoY. EBITDA for the quarter stood at INR 8,480 Mn (+13.4% YoY / -8.8% QoQ), with OPM at 24.4%. Net Profit increased by 10.7% YoY / -10.6% QoQ to INR 5,386 Mn, with NPM of 15.5% (-46 bps YoY; -119 bps QoQ).
Tata Consumer Products	• EBITDA stood at INR 3,995 Mn (-17.2% YoY / +33.1% QoQ), with OPM at 13.3% (-451 bps YoY / 339 bps QoQ), the margins were impacted mainly due to higher Ads spends in the India business and partially got offset by low-cost tea inventory that benefited the base quarter. • PAT for the quarter stood at INR 1,851 Mn (-43.5% YoY / +243.5% QoQ), with NPM at 6.2% (-592 bps YoY / +438 bps QoQ).

Companies	Industry/Outlook/ Strategy	New Launches/Market share
Britannia	• The company plans on improving the distributor channels and continue to ramp up the direct reach. Currently the direct reach of Britannia is ~2.1 mn outlets as of Q1FY22 (~2.4 mn in March 2021). • Number of rural distributors were 23K outlets for the quarter compared to 19.3K in March 2020, which helped the company to increase its market share considerably. • The company's focused efforts on distribution & processes will help them get back on high growth trajectory and consistently enhance value for all stakeholders.	• The company relaunched Goodday Chocochips with a surprise campaign and launched 50-50 Potazos in the North-East. • The brands had strong comeback and its full range of products in the market as the supply chain was impacted due to the pandemic. • Britannia's biscuit portfolio witnessed market share gains sequentially as compared to the top 2 largest competitors in the segment.
HUL	• HUL is confidently moving ahead with a strategic purpose to be future-fit. • HUL has also accelerated its journey in e-commerce and strengthened the execution in the traditional trade through its E-RTM initiatives. • The company is focusing on fundamental growth which is led by purposeful brands, improved penetration, and impactful innovation. • Moving forward on account of competitive volume-led growth.	• HUL launched Domex toilet cleaner with power of sodium hypochlorite. • HUL relaunched Surf Excel with a new variant 'Active Hygiene' known to fight tough stains and capable to remove 99.9% of viruses. • HUL also introduced new hygiene products in Lifebuoy. Lifebuoy laundry sanitizer an anti-germ post wash liquid. • Lifebuoy has introduced instant germ kill spray that kills illness-causing bacteria and viruses instantly.
ITC Ltd	• The Company also formed strategic partnerships, deployed innovative delivery models and enhanced usage of digital technologies for efficient market servicing. • Relentless focus on cost reduction across Businesses aided in partially mitigating the impact of negative operating leverage.	• Innovative 120+ new launches in record time • 'Reimagine Next' launched – 'crowdsourcing' innovation. • Aashirvaad Salt gained traction in key focus geographies along with healthy performance. • Aashirvaad Salt portfolio was augmented with the launch of two new variants – Iodized Crystal Salt and Salt Proactive (with 15% lesser sodium).

Companies	Industry/Outlook/ Strategy	New Launches/Market share
Nestle	• The management plans to invest INR 2,600 Cr in next 3-4 years to augment its existing manufacturing capacities, as well as towards the new under construction 'state-of-art' factory in Sanand, Gujarat.	• Retains market leadership in the key brands.
Tata Consumer	• India business integration is now complete. TCPL continue to invest in building blocks for the future - R&D infrastructure, Digital, A&P & Innovation. • In line with TCPL's strategic priority of exploring new opportunities, it has acquired 100% stake in Ready to Drink (RTD) business (NourishCo). • The company also expanded its foods portfolio through acquisition of Kottaram Agro Foods Pvt Limited (Soulfull) – now Tata Soulfull. • It has also rationalized its International business – by exiting coffee business in Australia (MAP) and foodservice business in the US (Empirical).	• During the year TCPL gained market share in both the core categories of tea and salt. • Launched 5 products under Tata Sampann Ready to Cook (RTC) portfolio during the quarter. • Tata Salt won 2 Silver Medals for digital campaigns at ET-Brand Equity Digi Plus awards 2021. • Starbucks collaborated with Label Life – a leading lifestyle brand to launch "Starbucks Optimist Series', a range of limited-edition merchandise during Q4. • Tetley grew share in the rapidly growing segments of Decaf, F&H and Green tea during the year.

HEAD RESEARCH
Parvati Rai, head-research@krchoksey.com, +91-22-6696 5413

Phone: +91-22-6696 5555, Fax: +91-22-6691 9576
www.KRChoksey Research.com

ITC has a better margin profile compared to its peers due to high margin cigarette business

Particulars (INR Mn)	Britannia	HUL	ITC	Nestle	Tata Consumer
Sales	**34,035**	**121,940**	**142,408**	**34,767**	**30,085**
Total Expenditure	**28,497**	**92,730**	**97,970**	**26,287**	**26,090**
Cost of Raw Materials	18,823	36,800	38,934	14,785	13,136
Purchase of Stock	2,657	22,320	23,244	517	5,427
Changes in Inventories	-615	1,330	-4,108	(354)	-739
Employee Cost	1,393	6,540	11,718	3,783	2,654
Other expenses	6,239	25,740	28,184	7,556	5,611
EBITDA	**5,538**	**29,210**	**44,437**	**8,480**	**3,995**
EBITDA Margin (%)	**16.3%**	**24.0%**	**31.2%**	**24.4%**	**13.3%**
Depreciation	491	2,600	4,141	953	668
EBIT	**5,047**	**26,610**	**40,296**	**7,527**	**3,327**
Interest Expense	342	130	93	517	204
Other Income	605	660	4,470	295	280
PBT	**5,310**	**27,140**	**44,673**	**7,305**	**3,403**
Exceptional Items	0	-270	0	0	-39
Tax	1,442	5,870	11,239	1,919	957
Share of Associates/Minorities	28	30	670	0	-555
PAT	**3,896**	**20,970**	**32,765**	**5,386**	**1,851**
PAT Margin	**11.4%**	**17.2%**	**23.0%**	**15.5%**	**6.2%**
EPS	**16.2**	**8.9**	**2.7**	**55.9**	**2.0**

Source: Company, KRChoksey

KRChoksey | research

Britannia outperformed its peers in topline growth owing to the nature of its product offerings

Particulars	Britannia		HUL		ITC Ltd.		Nestle		Tata Consumer	
Change (%)	QoQ	YoY	QoQ	YoY	QoQ	YoY	QoQ	YoY	QoQ	YoY
Sales	8.7%	-0.5%	-1.9%	13.6%	-7.6%	35.9%	-3.7%	14.0%	-0.9%	10.9%
Total Expenditure	8.5%	5.4%	-1.2%	16.2%	-7.0%	30.1%	-1.9%	14.1%	-4.7%	16.9%
EBITDA	9.6%	-22.8%	-4.0%	6.1%	-8.8%	50.9%	-8.8%	13.4%	33.1%	-17.2%
Change in EBITDA Margin (bps)	13 bps	-469bps	-52 bps	-171bps	-42 bps	309 bps	-136 bps	-12 bps	339 bps	-451 bps
Depreciation	-7.1%	2.3%	-2.3%	3.2%	1.4%	-1.2%	1.8%	3.1%	1.4%	7.9%
EBIT	11.5%	-24.6%	-4.2%	6.4%	-9.7%	59.5%	-10.0%	14.9%	42.0%	-20.9%
Interest Expense	44.4%	33.6%	18.2%	-56.7%	224.3%	-41.0%	-4.3%	26.7%	32.2%	18.2%
Other income	-4.3%	-35.5%	-39.4%	-57.4%	-22.9%	-51.7%	-0.6%	-22.3%	-34.8%	-14.4%
Exceptional items	-	-	-292.9%	-77.1%	NM	NM	0	0	-93.9%	NM
PBT	7.9%	-28.0%	-5.6%	3.3%	-11.3%	30.0%	-10.0%	12.0%	30.0%	-22.0%
Tax	8.7%	-25.8%	-16%	9.9%	-8.1%	29.4%	-8.4%	15.8%	48.2%	-13.3%
PAT	6.9%	-28.6%	-4.1%	6.2%	-12.8%	30.5%	-10.6%	10.7%	243.5%	-43.5%
Change in PAT Margin (bps)	-19 bps	-451 bps	-39 bps	-121bps	-137 bps	-96 bps	-119 bps	-46 bps	438 bps	-592bps

Source: Company, KRChoksey

Personal and Home Care witnessed volume momentum

- **Strong rebound across segments**
  - Strong rebound across segments despite operational constraints in the wake of the second wave.
  - Hygiene portfolio performs well, delivering strong sequential growth, after normalizing in H2FY21 at elevated levels.
  - Sales in e-commerce channel more than doubled YoY; the overall contribution of e-com in the total sales stood at around 8-10%.
  - Strong YoY growth in discretionary / out-of-home products on favorable base; sequential performance impacted by second wave.
  - High base effect in staples and convenience foods leads to moderation in YoY growth rates; sequential pick-up in the wake of the second wave – lower impact compared to the first wave in the absence of pantry loading.
- **Inflationary trend in input cost keeps margins under pressure**
  - Gross margin could see contraction due to rising commodity prices.
  - However, most of the companies under coverages has posted decent growth in the margin on YoY basis. The cost-effective measures and operational efficiency has helped the companies to maintain the margin level, despite all the headwinds.
- **FMCG Industry trends**
  - Demand for Health & Hygiene, Immunity, Ayurveda products remained elevated; albeit at lower levels Vs. FY21.
  - Staples & Convenience foods demand normalized after a surge in H1
  - Rural markets continue to grow ahead of Urban/Metro
  - Higher crude and vegetable oil prices drive increase in input costs.
  - Increasing digital adoption by Traditional Trade & Collaboration with Online-delivery platforms.

Companies	Revenue and Segment-wise Performance
Colgate	• Colgate revenue was up 12% YoY at INR 11,660 Mn. The growth was mainly led by recovery in demand and better performance of new product launches. In this quarter, Colgate saw broad based growth across categories unlike previous quarters. • Both toothpaste (~80% of sales) and toothbrush (~18% of sales) noticed growth through increase in house penetration. • The continued investments in brand building and innovation has strengthen the core brand metrics. The company delivered sustainable growth despite the challenging external circumstances.
Godrej Consumer Products Ltd (GCPL)	• Godrej Ltd reported double-digit revenue growth of 24.4% YoY (+6% QoQ) at INR 28,945 Mn. Growth on sequential basis was on account of excellent growth in Household Insecticides and Hygiene business which are value for money products. • Domestic sales (~54% of total sales) grew 19% YoY while volume grew by 15% YoY in Q1FY22 led by resurgence in Soaps, Hair Colour and Household insecticides and scale of up of hygiene. Indonesian business grew by 1% YoY, while US, Africa and the Middle East and LATM grew by 59% YoY. • Segment wise, household insecticides business, including Goodknight and incense sticks (~85% of revenue) reported a growth of 21% YoY in Q1. Indonesia delivered sales growth of 0% (y-o-y CC) with a two-year CC CAGR of 3%.
Emami Ltd	• In Q1FY22, Emami reported revenue growth of 37.3% YoY (-9.6% QoQ) to INR 6,610 Mn against our estimates of INR 5,391 Mn. The growth was on account of double-digit volume growth of 42% YoY in the domestic business; international business grew by 17% YoY, and institutional business grew by 34% YoY.

Companies	Margin Performance
Colgate	• Gross margin improved sharply by 300bps YoY to 69.2% led by cost optimization. Advertisement spend as a percentage of sales declined to 13.7% during the quarter (11.6% in Q4FY21/ 10.9% in Q1FY21). • Employee cost marginally grew by 4.7% YoY. However, the Change in inventory helped in elevating EBITDA margin to 32.5%, up by 87 bps YoY. • Net Profit grew 17.7% YoY to 2,332 Mn with NPM at 20% (+96 bps YoY) due to higher volume sales and cost savings.
GCPL	• EBITDA outperformed our estimates, however gross margins were under pressure due to rise in input cost and declined by 400 bps YoY. • EBITDA for the quarter stood INR 6,000 Mn (+26.8% YoY), with OPM at 20.7% (+39 bps YoY). PAT for the quarter stood at INR 4,137 Mn (+4.9% YoY), with NPM at 14.3% (-266 bps YoY). • On margin front, the India business witnessed a margin expansion of 300bps YoY and 400bps QoQ; the Indonesia business margins were contracted by 100 bps YoY and 1200 bps QoQ.
Emami Ltd	• The company posted strong profits which helped to mitigate the 2nd wave of COVID challenges. During the quarter the EBITDA stood at INR 1,697 Mn (+38% YoY / +4.2% QoQ), with OPM at 25.7% (+13bps YoY / +340 bps QoQ), despite input cost pressure the margin expansion was mainly due to better product mix. Input cost pressure increased due to inflation in key commodities which led to a gross margin decline of 47 bps YoY. • PAT stood at 778 Mn (+91.7% YoY / -11.4% QoQ), with NPM at 11.8% (+334 bps YoY mainly due to lower interest expenses.

Companies	Industry/Outlook/ Strategy	New Launches/Market share
Colgate	• The company's strategic and disciplined approach to building brands, driving innovation & relentless focus on winning on the ground continues to deliver growth. • The company continue to invest in its brands with higher advertising spends to support innovations. • The continued efforts to amplify efficiencies across operations have helped deliver strong gross margins, EBITDA and NPAT growth. • The management is focusing on increasing its online channels and tied up with dentists over Colgate platform to counter the COVID-19 impact.	• In Q1FY22, the company launched three new products namely Colgate Visible White Instant, Colgate Vedshakti Mouth spray and the new Colgate Gentle line of toothbrushes (across price points that ranges between INR 30-130). • Also, relaunched its flagship toothbrush, Colgate Zig Zag, with anti-bacterial bristle technology. • The company is also aiming at acquiring market share which has been lost against ayurvedic and natural brands over the last few years.
Godrej Consumer	• The company will be focus on achieving consistent double-digit revenue growth in the medium term. • Sustained double-digit growth in the Africa business and recovery in the Indonesia business are key medium-term revenue growth drivers for the company. • The company expects to mitigate input cost pressures by improving revenue mix, better cost saving initiatives in the key geographies and prudent price hikes in key SKUs.	• New launches in Health scaling up well • Market share gains in HI, soaps, hair color continues in Indian as well as Indonesia Market. • Continue to gain market shares - 60 bps gain in value and 100 bps gain in volume share. • Launched Saniter health soaps that provides 99.9% protection from germs and viruses. • Launched the Darling range of hair extensions in the UAS with Walmart.
Emami Ltd	• Cost reduction helped maintain cash profits (despite lower sales). It also improved gross margins and cash profit margins. • International revenues grew 28% in Q4 and 12% in FY21. Third party manufacturing initiated in Sri Lanka. • Strategy of tapping opportunities in non-focus markets with high hair oil usage, with focus brands like Kesh King & 7 Oils in One has been paying off well.	• 40+ New Launches, with 4% contribution in domestic business. • Chyavanprash with Jaggery and No Added Sugar launched for the first time in India. • Ayurvedic Onion range with unique and potent blend of 21 ayurvedic herbs and onion extracts. • Light, non-sticky oil with a blend of premium herbs, exotic flowers and goodness of almond.

Colgate & Emami's margin was higher compared GCPL

Particulars (INR Mn)	Colgate	GCPL	Emami
Sales	**11,660**	**28,945**	**6,610**
Total Expenditure	**8,108**	**22,945**	**4,912**
Cost of Raw Materials	3,107	14,553	1,839
Purchase of Stock	811	901	433
Changes in Inventories	-321	-1,607	-26
Employee Cost	950	2,904	845
Other expenses	3,560	6,194	1,821
EBITDA	**3,552**	**6,000**	**1,697**
EBITDA Margin (%)	**30.5%**	**20.7%**	**25.7%**
Depreciation	447	509	830
EBIT	**3,105**	**5,491**	**867**
Interest Expense	15	273	6
Other Income	52	209	107
PBT	**3,142**	**5,409**	**968**
Exceptional Items	0	16	0
Tax	810	1,272	175
Share of Associates/Minorities	0	0-3	-15
PAT	**2,332**	**4,137**	**778**
PAT Margin	**20.0%**	**14.3%**	**11.8%**
EPS	**8.6**	**4.05**	**1.7**

Source: Company, KRChoksey

KRChoksey | research

Overall Colgate Palmolive performed relatively better than peers

Particulars	Colgate Palmolive India		Godrej Consumer		Emami Ltd.	
Change (%)	QoQ	YoY	QoQ	YoY	QoQ	YoY
Sales	**-9.1%**	**12.0%**	**6.0%**	**24.4%**	**-9.6%**	**37.3%**
Total Expenditure	**-5.9%**	**10.7%**	**5.2%**	**23.8%**	**-13.5%**	**37.1%**
EBITDA	**-15.8%**	**15.3%**	**9.3%**	**26.8%**	**4.2%**	**38.0%**
Change in EBITDA Margin (bps)	**-240 bps**	**87 bps**	**62bps**	**39bps**	**340 bps**	**13 bps**
Depreciation	-1.7%	-1.5%	-6.6%	0.3%	0.0%	11.0%
EBIT	**-17.5%**	**18.2%**	**11.0%**	**29.9%**	**8.6%**	**79.9%**
Interest Expense	-1.3%	-22.6%	19.2%	-43.5%	-86.4%	-86.4%
Other income	-21.3%	-17.0%	26.1%	-4.0%	-76.9%	60.0%
Exceptional items	0	0	-97.6%	-111.8%	NM	NM
PBT	**-17.6%**	**17.7%**	**27.4%**	**32.2%**	**-20.4%**	**92.8%**
Tax	21.4%	17.8%	117.2%	764.4%	-46.3%	84.4%
PAT	**-25.9%**	**17.7%**	**13.1%**	**4.9%**	**-11.4%**	**91.7%**
Change in PAT Margin (bps)	**-452 bps**	**96 bps**	**89bps**	**-266bps**	**-24 bps**	**334 bps**

Source: Company, KRChoksey

Improved sentiments leads to demand recovery

- The quarter commenced on a promising note with a normal summer season coupled with a general improvement in the consumer sentiments.
- However, from mid of April 2021, the growth momentum was interrupted due to the resurgence of second wave of COVID-19.
- For the second consecutive year, the revenue was impacted during the peak selling seasons of consumer durable products. However, the impact was less as compared to Q1FY21 due to the staggered and localized nature of the restrictions and pick-up in business activities as the restrictions were gradually eased in the month of June 2021.
- As people spent more time at home, they are tended to upgrade their consumer durable products.

- **Pressure on operating margin continues**
  - Higher revenue, backed by Cost control measures partially offset by a higher change in inventory resulting in improvement in margin for Blue Star Ltd.
  - Margins of Whirlpool was impacted due rising inflation in the commodity prices.
  - Symphony's EBITDA declined by 300% YoY & 88.1% QoQ to INR 100 Mn. EBITDA margin decreased by 2043 bps QoQ but increased 759 bps YoY to 4.3% backed by higher gross margins which ultimately helped partial recovery of EBITDA margin.

- **Corporate outlook**
  - Blue Star will continue to focus on controlling cost and improving working capital efficiencies and operating cash flow.
  - Whirlpool is expanding distribution reach, entering new product categories, and expanding capacity in core products to recover and grow its business.
  - A huge investments in manufacturing sector consequent to the domestic demand growth and localization under the Atmanirbhar Bharat program.
  - Symphony's management expects exports to grow exponentially over the next 2-3 years once the company's Australia and US business commence operations on a full scale.

- **New product launches and Market share**
  - Whirlpool India gained market share during the quarter.
  - Blue Star increased its market share in Air Conditioners, while it is looking to grow in water purifiers.

HEAD RESEARCH
Parvati Rai, head-research@krchoksey.com, +91-22-6696 5413

Companies	Revenue and Segment-wise Performance
Blue Star Ltd	• Blue Star reported revenue growth of 68.1% YoY (-34.7% QoQ) at INR 10,530 Mn in Q1FY22. The growth was mainly due to healthy demand witnessed in the Unitary segment which grew by 83.9% YoY; also, the company witnessed continued opportunities from BFSI, healthcare, pharma, food delivery and food processing segments. • In terms of segment, Revenue of the Electro-Mechanical Projects and Commercial Air Conditioning Systems segment (~48% of revenue) stood at INR 5,052 Mn (+61.7% YoY / -35.2% QoQ); segment witnessed a gradual recovery with a major order from the infrastructure segment. The Commercial Air Conditioning business recovery was attributed to Healthcare, Pharma and Government sectors. • Unitary Products revenue (~48% of revenue) increased (+83.9% YoY/-35.4% QoQ to INR 5,054 Mn while Professional Electronics and Industrial Systems Business (~4% of revenue) registered a revenue growth of 7%YoY to INR 414 Mn.
Whirlpool India	• Whirlpool reported revenue growth of 30.5% YoY (-24.7% QoQ) at INR13,406 Mn. The double-digit growth was on account of higher volume growth and pent-up demand during the quarter. The revenue was above our estimates by 16.5%.
Symphony Ltd	• Symphony Ltd. reported total revenue from operations of INR 2300 Mn(+49.4% YoY/ -32.2% QoQ), due to the lack of growth observed across all markets. Domestic sales (~37.4% of total sales) declined 99.5% QoQ, while international sales declined by 12.7% QoQ. • Exports for this quarter was comparatively less impacted by the COVID 19 pandemic in comparison to the domestic sales.

Companies	Margin Performance
Blue Star Ltd	• EBITDA margin expanded 380 bps YoY to 4% in Q1FY22 while EBITDA exponential growth of 3005% to INR 422 Mn due to low base in Q1FY21. Improvement in profitability across business segment was mainly driven by cost realization measures. • Net Profit stood at INR 127 Mn as against net loss of 195 Mn in Q1FY21; margin for the quarter grew by 433 bps YoY to 1.2%. The improvement in margins were mainly due to better product mix and improved price realization and order execution
Whirlpool India	• EBITDA margin contracted by 40bps YoY / 652bps QoQ to 10.7% in Q1FY22 while EBITDA grew by 18.9% YoY to INR 555 Mn mainly due to significant increase in raw material prices which increased by 168.7% YoY, raw material cost as a % of sales has increased by 3735 bps, which was much higher than anticipated. Employee cost and other expenses grew by 6% and 32% YoY respectively, as a % of sales employee cost and other expenses decreased by 534 bps and 115 bps respectively. • PAT grew by 62%YoY to INR 255 Mn while Net Profit margin for the quarter expanded by 37 bps YoY and contracted by 541 bps to 1.9% due to higher tax expenses.
Symphony Ltd	• EBITDA declined by 300% YoY & 88.1% QoQ to INR 100 Mn. EBITDA margin decreased by 2043 bps QoQ but increased 759 bps YoY to 4.3% backed by higher gross margins which ultimately helped partial recovery of EBITDA margin. • PAT increased by 200% YoY but declined 90.5% QoQ to INR 60 Mn. The YoY increase was supported by lower base.

HEAD RESEARCH
Parvati Rai, head-research@krchoksey.com, +91-22-6696 5413

Phone: +91-22-6696 5555, Fax: +91-22-6691 9576
www.KRChoksey Research.com

Companies	Industry/Outlook/ Strategy	New Launches/Market share
Blue Star Ltd	• In the Electro-Mechanical projects business, BSL continue to prioritize its project execution based on assessment of customer credit profile and operating cash flow visibility. • BSL witnessing huge investments in mfg sector consequent to the domestic demand growth and localization under the Atmanirbhar Bharat program. • Growth momentum expected in the Room-AC and Commercial Refrigeration businesses to continue in the coming quarters.	• Water Purifiers, Air Purifiers and Air Coolers are performing well in line with the plans, and it continued to gain market share. • Water purifiers achieved 3% market share. • VRF market share stands at 19.5% and is 2nd largest player in it, while Chiller market share stands at 25-30%.
Whirlpool India	• Whirlpool has delivered a very strong quarter across all financial levers. Underlying growth momentum in the home appliances industry continues to be very healthy. • The performance came on the back of strong and broad-based double-digit volume growth. • All categories and geographies showed continued momentum which helped end the year with the business growing ahead of markets. • Overall, there has been improvement in penetration of the durable's category and with a strong pipeline of consumer relevant innovations, the company is very optimistic about its short- and medium-term prospects.	• Whirlpool had been benefitted of market share gain.
Symphony Ltd	• The Management expects gross margin on domestic sales for FY22 will be back to normal margin of around 50%. • Management expects exports to grow exponentially over the next 2-3 years once the company's Australia and US business commence operations on a full scale. • Turnaround of Climate Technologies accelerated in Australia in FY22 despite until Dec-20 it had been below expectation.	• In commercial air cooler and cooling fan segment, the company launched Duet 3D, Sumo, Hi-Flo and Duet I-s for the Indian market. • The company also launched a wide range of accessories in the industrial air coolers segment.

Whirlpool margin was higher compared to Blue Star and Symphony

Particulars (INR Mn)	Blue Star	Whirlpool	Symphony
Sales	**10,520**	**13,406**	**2,300**
Total Expenditure	**10,098**	**12,851**	**2,280**
Cost of Raw Materials	5,470	7,978	650
Purchase of Stock	2,005	1,504	700
Changes in Inventories	477	-501	-50
Employee Cost	1,159	1,576	290
Other expenses	988	2,295	610
EBITDA	**422**	**555**	**100**
EBITDA Margin (%)	**4.0%**	**4.1%**	4.3%
Depreciation	201	331	60
EBIT	**222**	**224**	**40**
Interest Expense	107	37	20
Other Income	80	140	80
PBT	**194**	**327**	**100**
Exceptional Items	0	0	0
Tax	65	94	40
Share of Associates/Minorities	(2)	22	0
PAT	**127**	**255**	**60**
PAT Margin	**1.2%**	**1.9%**	2.6%
EPS	**1.32**	**2.01**	**0.86**

Source: Company, KRChoksey

Performance of all the companies under consumer durables was severely impacted

Particulars	Bluestar		Whirpool India		Symphony	
Change (%)	QoQ	YoY	QoQ	YoY	QoQ	YoY
Sales	**-34.7%**	**68.1%**	**-24.7%**	**30.5%**	**-32.2%**	**49.4%**
Total Expenditure	**-33.1%**	**61.7%**	**-19.2%**	**31.1%**	**-13.3%**	**37.3%**
EBITDA	**-58.5%**	**3005.1%**	**-70.8%**	**18.9%**	**-88.1%**	**-300.0%**
Change in EBITDA Margin (bps)	-230 bps	380 bps	-652 bps	-40 bps	-2043 bps	759 bps
Depreciation	-19.3%	-4.1%	-8.6%	16.8%	20.0%	20.0%
EBIT	**-71.2%**	**-213.5%**	**-85.4%**	**22.3%**	**-94.9%**	**-140.0%**
Interest Expense	-20.0%	-42.1%	1500.0%	-50.0%	-33.3%	0.0%
Other income	-80.0%	-7.7%	6.5%	-1.3%	33.3%	0.0%
Exceptional items	0	0	NM	NM	NA	NA
PBT	**-81.2%**	**- to +**	**-80.3%**	**30.1%**	**-87.8%**	**-350.0%**
Tax	-82.0%	- to +	-78.0%	8.1%	-78.9%	-166.7%
PAT	**-81.3%**	**- to +**	**-80.4%**	**62.0%**	**-90.5%**	**200.0%**
Change in PAT Margin (bps)	-301 bps	433 bps	-541 bps	37 bps	-1598 bps	131 bps

Source: Company, KRChoksey

Demand Recovery in Paints and Retail sector

- **Normalcy in operations**
  - Uptick in demand witnessed in April and June, despite muted May due to the second wave.
  - The sector witnessed strong volume momentum.
  - Key brands has maintained its market share.

- **Improvement in operating margins**
  - Most of the companies under coverages has posted decent growth in the margin on YoY basis. The cost-effective measures and operational efficiency has helped the companies to maintain the margin level, despite all the headwinds.
  - Asian Paint's margin was higher compared other peer companies, however, margins of Berger Paints and Avenue Supermarts has witnessed growth during the quarter.
  - Gross margins for the quarter better than last year supported by lower prices and good work on driving sourcing / formulation efficiency.

- **Industry trends**
  - Strong growth in Paint market in Q1 following a positive Q4; led by continued strong growth in tier 2 / 3 / 4 markets.
  - Strong growth in Projects and large institutional sales.
  - Strong growths in the Premium and Luxury range across regions well supported by Smartcare & Economy range Increase in digital option by traditional trade. Modern trade footfalls lower as consumer prefer e-com stores.

<table>
<tr><th>Companies</th><th>Revenue and Segment-wise Performance</th></tr>
<tr><td>Asian Paints</td><td>• On consolidated basis, Asian Paints reported revenue growth of 91.1% YoY / -16% QoQ to INR 55,854 Mn. The growth was attributed to premium and luxury product range. During the quarter, the company recorded a robust volume growth of 106%.
• On a segmental basis, Paints (~98% revenue) grew 90% YoY/ -16% QoQ to INR 54,647 Mn and Home improvement revenue up by 133% YoY / (-35% QoQ) to INR 1,215 Mn in Q1FY22.
• The domestic business delivered a stellar performance registering a 106% YoY volume growth in Q1FY22, which was led by robust growth in the premium and luxury product range; however, the 3-year volume CAGR stood at 15.4% considering Q1FY19 as the base year. The home improvement business also grew in a big way, registering record sales for the quarter aided by the foray into the Home Decor business.</td></tr>
<tr><td>Berger Paints</td><td>• Berger Paints reported revenue growth of 93.2% YoY (-11.2% QoQ) to INR 17,985 Mn against our estimates of INR 10,704 Mn (+68% than our estimates) on account of surge in demand.
• The growth was mainly due to revival in demand and gradual lifting-up of lockdown restriction in major parts of the country. Decorative business showed an improved performance after the COVID affected earlier quarters. General Industrial and Protective Coatings business line also showed improved performance for the quarter.</td></tr>
<tr><td>Avenue Supermarts</td><td>• Consolidated Revenue from operations grew by 33.5% YoY / (-30.1% QoQ) to INR 51,831 Mn in Q1FY22 on account of ease in lockdown restrictions and gradual recovery noted. On sequential basis the company suffered significant loss of stores operating hours.
• The overall sales and sales mix are trending close to pre-COVID levels, expect for specific segments. Apparel, Laundry, Footwear, Travel and such other relevant out of home usage categories are still taking more time to recover.
• Besides, discretionary consumption also showed early signs of recovery and did better compared to last quarters.</td></tr>
</table>

Companies	Margin Performance
Asian Paints	• Overall, Q1FY22 EBITDA margin marginally declined by 21 bps YoY (-346 bps QoQ) to 16.4%, the sequential decline was due to rise in raw material cost than anticipated. • Q1FY22 Net Profit was up by 160% YoY / (-33% QoQ) to INR 5,685 Mn with NPM of 10.2% (+270 bps YoY). The huge inflationary trend in raw material prices has been worrying, however, its impact on profitability has been mitigated by some path-breaking work on sourcing and cost optimization. • Some key raw materials are showing early sings of softening and we expect this trend to emerge more strongly in coming quarters.
Berger Paints	• Overall, EBITDA margin expanded by 337bps YoY to 13.3% (-330 bps QoQ) indicating an improvement in the cost efficiencies annually. EBITDA witnessed significant jump of 159% YoY to INR 2,385 Mn. There was a significant increase in the raw material cost, which raised by 1918 bps YoY as a % of sales, however, this was offset by lower inventory levels (-1743 bps YoY), employee cost (-520 bps YoY), and other expenses (-55 bps YoY) as % of sales. • Net Profit increased by 853.8% YoY to INR 1,406 Mn (-32.6% QoQ) with NPM at 7.8% (+623 bps YoY). NPM expanded due to lower depreciation (-236 bps YoY) and interest expenses (-80 bps YoY) as a % of sales.
Avenue Supermarts	• Q1FY22 Gross profit margin stood at 13.1% (14.8% in Q4FY21 / 14.2% in Q1FY21) as sale of low margin FMCG and staples demand remains robust. • EBITDA improved on YoY basis by 100.6% to INR 2,242 Mn; with expansion in EBITDA margin by 146 bps YoY to 4.3%. Sequential decline in margins were due to partial lockdowns in several states as the stores were not fully operational. • Net Income improved 138% YoY to INR 954 Mn. PAT margin grew 81 bps YoY to 1.8%.

Companies	Industry/Outlook/ Strategy	New Launches/Market share
Asian Paints	• Q1 demand conditions expected to be strong with strong recovery in consumer sentiments. • Roll-out of Covid vaccination program augurs well for the domestic demand recovery to become broad-based and well entrenched. • Raw Material prices already seeing a sharp inflation – need to see if prices sustain at the higher levels, before any impact on product prices. • Focus on cost optimization and expenses shall be restricted only for critical requirements.	• With view to strengthen its presence as household names company has foray into other décor segment like Lighting, Furnishing& furniture. • Company has launched 1500+ SKUs across three brand: Nilaya, Royale and Ador. With foraying into this segment its home improvement category is expected to report healthy growth going forward.
Avenue Supermarts	• D-Mart follows Everyday low cost - Everyday low price (EDLC-EDLP) strategy which aims at procuring goods at competitive price, using operational and distribution efficiency and thereby delivering value for money to customers by selling at competitive prices.	• 4 stores were added in Q1FY22, and 22 stores were added in FY21. • These were converted into Fulfillment Center for its E-Commerce Business in FY21.

Asian Paints enjoys higher margin compared to Berger Paints

Particulars (INR Mn)	Asian Paints	Berger Paints	Avenue Supermarts
Sales	**55,854**	**17,985**	51,831
Total Expenditure	**46,718**	**15,600**	**49,589**
Cost of Raw Materials	34,261	9,724	0
Purchase of Stock	6,657	1,568	44,510
Changes in Inventories	-6,529	-245	528
Employee Cost	4,321	1,310	1,465
Other expenses	8,008	3,243	3,086
EBITDA	**9,136**	**2,385**	**2,242**
EBITDA Margin (%)	**16.4%**	**13.3%**	**4.3%**
Depreciation	2,006	548	1,074
EBIT	**7,130**	**1,837**	**1,167**
Interest Expense	215	96	108
Other Income	896	170	315
PBT	**7,811**	**1,912**	**1,374**
Exceptional Items	0	0	0
Tax	2,043	498	420
Share of Associates/Minorities	-83	-7	0
PAT	**5,685**	**1,406**	**954**
PAT Margin	**10.2%**	**7.8%**	**1.8%**
EPS	**5.9**	**1.4**	**1.5**

Source: Company, KRChoksey

KRChoksey research

The performance of all the companies was negatively impacted due to discretionary nature of business

Particulars	Asian Paints		Berger Paints		Avenue Supermarts	
Change (%)	QoQ	YoY	QoQ	YoY	QoQ	YoY
Sales	**-16.0%**	**91.1%**	**-11.2%**	**93.2%**	-30.1%	33.5%
Total Expenditure	**-12.4%**	**91.6%**	**-7.7%**	**86.0%**	**-0.8%**	**16.4%**
EBITDA	**-30.7%**	**88.7%**	**-28.9%**	**159.0%**	**-63.4%**	**100.6%**
Change in EBITDA Margin (bps)	-346 bps	-21 bps	-330 bps	337 bps	-391bps	146bps
Depreciation	-6.0%	4.9%	1.2%	8.9%	2.4%	13.4%
EBIT	**-35.5%**	**143.3%**	**-34.7%**	**340.2%**	**-77.0%**	**587.1%**
Interest Expense	-28.1%	6.7%	-19.7%	-22.7%	-11.6%	22.9%
Other income	18.8%	90.3%	13.5%	117.5%	-34.6%	-37.8%
Exceptional items	NA	NA	NA	NA	NA	NA
PBT	**-32.1%**	**144.1%**	**-32.8%**	**414.3%**	**-74.7%**	**133.7%**
Tax	-28.7%	137.1%	-33.3%	183.0%	-67.6%	124.7%
PAT	**-33.3%**	**160.2%**	**-32.6%**	**853.8%**	**-77.0%**	**137.9%**
Change in PAT Margin (bps)	-263 bps	270 bps	-248 bps	623 bps	-372bps	81bps

Source: Company, KRChoksey

KRChoksey | research

Our top picks are Bluestar, ITC Ltd. and Colgate

Stocks	Recommendation		Market Cap.	CMP	Target Price (INR)		Upside	PE (x)	
	Revised	Old	INR Mn	INR	New	Old	%	5 Yr. Avg.	FY22E
Britannia Industries	HOLD	ACUUMULATE	960,185	3,986	4,000	4,000	0.4%	46.1	45.6
Nestle India	HOLD	ACCUMULATE	1,903,463	19,742	20,000	19,640	1.3%	66.5	56.9
ITC Ltd.	ACCUMULATE	ACUUMULATE	2,561,641	208	228	228	9.7%	27.6	11.1
Hindustan Unilever	HOLD	ACUUMULATE	6,314,990	2,688	2,805	2,805	4.4%	55.2	52.5
Tata Consumer Products	UR	UR	792,995	861	-	-	-	33.0	46.9
Colgate Palmolive India	ACCUMULATE	ACCUMULATE	462,144	1,699	1,850	1,850	8.9%	42.7	39.1
Godrej Consumers	HOLD	ACCUMULATE	1,112,016	1,088	1,100	925	1.1%	43.4	37.9
Emami Ltd.	UR	UR	270,353	608	-	-	-	58.3	28.3
Bluestar	BUY	ACUUMULATE	74,138	770	900	900	16.9%	38.1	35.9
Whirlpool India	UR	UR	256,979	2,026	-	-	-	48.4	43.1
Symphony	BUY	BUY	67,043	958	1,230	1,230	28.4%	65.1	45.6
Asian Paints	ACCUMULATE	ACCUMULATE	2,981,906	3,109	3,275	3,180	5.3%	53.1	53.9
Berger Paints	ACCUMULATE	UR	787,380	811	875	UR	7.8%	54.0	59.8
Avenue Supermarts	HOLD	UR	2,518,775	3,888	3,960	UR	1.9%	103.0	70.4

Source: Company, KRChoksey, CMP as of 30th August 2021, UR denotes UnRated

Cement Sector

Price hikes coupled with volume growth have aided earnings

- During the quarter, cement industry witnessed higher realization due to price hikes taken across all the five regions in the country. In the Central and Northern region average prices have gone up by INR 5/bag and INR 6/bag respectively, while Western region has seen an average price hike of INR 7/bag. Southern and Eastern region have seen the steepest hike of INR 40/bag on sequential basis. Higher realization coupled with strong volume growth on a low base of a lockdown hit last year aided earnings.
- Among our coverage universe, Ultratech reported strong volume growth of 47% YoY to 21.5 MT, due to robust demand from both rural & urban regions, while Shree Cement reported 37.9% YoY growth in cement volumes to 6.8 MT. ACC's cement sales volume saw a growth of 43.7% YoY to 6.8 MT from 4.8 MT in Q2CY20, mainly driven by robust demand and low base effect, while Ramco Cement reported 11% YoY growth in cement volumes to 2.1 MT.

Sustained demand from infrastructure sector helped cement companies to post strong revenue growth

- Cement demand got impacted during April-May'21 period, due to business restriction imposed by several states in the wake of second wave of Covid. However, sustained demand from infrastructure sector and continued production unlike last year have helped the cement companies to report strong YoY growth in cement volumes, thereby aiding their revenue growth.
- In Q1FY22, among our coverage companies, Shree Cement reported revenue growth of 46.2% YoY, while Ultratech saw 54.2% YoY revenue growth. ACC witnessed revenue growth of 49.3% YoY, while Ramco Cements clocked 17.9% YoY revenue growth.

Fuel optimization techniques coupled with operating efficiency supported EBITDA margins

- Despite higher input costs due to rising coal and pet coke prices, as well as higher power & fuel costs, companies were able to hold on to their EBITDA margins due to operating efficiency and various cost control measures like fuel optimization techniques.
- Ultratech saw an expansion of 234 bps QoQ in its EBITDA margin, while ACC and Ramco's EBITDA margins expanded by 233 bps and 209 bps respectively on QoQ basis. Shree cement however saw a decline of 128 bps QoQ in its EBITDA margins.

Companies	Revenue	Volume
Ultratech Cement	• Consolidated revenue grew 54.2% YoY /-17.9% QoQ in Q1FY22 to INR 1,18,298 mn. • Blended realizations grew 5.4% YoY and 6% QoQ to INR 5,495/t in Q1FY22. • Capacity utilization for Q1FY22 stood at 73% against 46% in Q1FY21.	• Cement sales volume saw a growth of 47% YoY to 21.5 MT against 14.7 MT in Q1FY21, driven by higher utilization, robust demand and low base effect. • The quarter saw revival in demand in both trade & non-trade segment.
Ramco Cement	• The Ramco cement reported revenue growth of 17.9% YoY (down 24.6% QoQ) to INR 12,287 mn in Q1FY22. • Realization for the quarter stood at INR 5,631/ton, a growth of 6.7% YoY/11.3% QoQ, on account of higher prices in Southern and Eastern regions.	• Ramco Cement reported 11% YoY growth in cement volumes to 2.1 mt against our estimate of 2.5 mt, due to lower off-take on the back of weak demand owing to lockdowns during May/June'21 in its areas of operations (South & East).
Shree Cement	• For the quarter, revenue grew 46.2% YoY (down 14.2% QoQ) to INR 36,348 mn. • Blended realization for the quarter stood at INR 5,345/ton, a growth of 13.3% YoY/11.7% QoQ.	• Shree Cement reported 37.9% YoY (down 17.1% QoQ) growth in cement volumes to 6.8 mt on the back of robust demand for cement in the country.
ACC*	• For Q2CY21, revenue grew 49.3% YoY/-9.5% QoQ to INR 38,849 mn. ACC's cement revenue rose 46.6% YoY, backed by 43.7% YoY increase in cement volume to 6.8 MT. RMX revenue grew 3x YoY due to 293% YoY rise in RMX volume to 0.58 mn m3. • Blended realization was mostly flat YoY at INR 5,135/t vs INR 5,133/t in Q2CY20. Though, realization improved 5.3% QoQ (INR 4,876/t in Q1CY21).	• During the quarter, cement volume saw strong growth of 43.7% YoY to 6.8 MT from 4.8 MT in Q2CY20, mainly driven by robust demand and low base effect.

Note: * stands for closing as per Calendar Year

Companies	Margin	Outlook
Ultratech Cement	• EBITDA grew by 59.2% YoY to INR 33,075 mn, while EBITDA margin expanded by 87 bps YoY/ 234 bps QoQ to 28%. EBITDA/t stood at INR 1,536 in Q1FY22, a rise of 8.4% YoY. • Reported PAT has seen a growth of 114.4% YoY to INR 17,026 mn, though on QoQ basis PAT saw a decline of 4.1%. PAT margin improved by 404 bps YoY/ 207 bps QoQ to 14.4%.	• Ultratech's 19.5 MT capacity expansion plan is on track and will get completed by FY23. • Ultratech has received stage-1 approval from MOEF for Dalla Super plant (2.3 MT clinker unit acquired from Jaypee), it will get commissioned by FY22. • Net Debt/ EBITDA stood at 0.44x against 0.55x on QoQ basis. In Q1FY22, company witnessed reduction of INR 7.3 bn in Net Debt. Management expects to turn Net Cash by FY23.
Ramco Cement	• EBITDA rose 40% YoY (down 18.9% QoQ) to INR 3,640 mn, while EBITDA margin expanded 467 bps YoY/209 bps QoQ to 29.6% in Q1FY22. • Net Profit for the quarter grew 54.2% YoY (down 21.2% QoQ) to INR 1,690 mn. Net Profit margin expanded by 323 bps YoY/ 61 bps QoQ to 13.8%.	• During Q1FY22, Ramco commissioned 1.5 mtpa of clinker capacity in Jayanthipuram. It is having another 2.25 mtpa of clinker capacity at Kurnool which is expected to be commissioned by Q2FY22. • Further 1 mtpa of grinding unit at Kurnool will get operational next year in FY23.
Shree Cement	• EBITDA rose 48.7% YoY (down 17.9% QoQ) to INR 10,230 mn. EBITDA margin expanded 48 bps YoY to 28.1%. Though, on QoQ basis margin declined by 128 bps. • Net Profit for the quarter grew 91.1% YoY (down 21.1% QoQ) to INR 6,299 mn. Net Profit margin for the quarter expanded by 408 bps YoY to 17.3%. Though on QoQ basis margin contracted by 152 bps.	• To capitalize on the strong demand in the country, Shree Cement has re-commenced its plan to double its capacity in next 6-7 years. The company aims to reach 57 mtpa of capacity in next 3 years and 80 mtpa of capacity in next 6-7 years time.
ACC*	• EBITDA for the quarter was up by 65.5% YoY (1.1% QoQ) to INR 8,693 mn. EBITDA margin expanded by 219 bps YoY/ 233 bps QoQ to 22.4%. • Net Profit margin for the quarter expanded by 425 bps YoY to 14.7% (+155 bps QoQ).	• ACC has started construction work at its Ametha plant (2.7 mtpa clinker & 1 mtpa cement expansion project), and is also expanding its grinding capacity at Tikaria plant by 1.6 mt. The company is further setting up a greenfield grinding unit at Shonebhadra, UP of 2.2 mtpa capacity.

Note: * stands for closing as per Calendar Year

Revenue growth across the companies

Particulars (INR Mn)	Ultratech Cement	Ramco Cement	Shree Cement	ACC Cement
Sales	**1,18,298**	**12,287**	**36,348**	**38,849**
Total Expenditure	85,224	8,647	26,119	**30,156**
EBITDA	**33,075**	**3,640**	**10,230**	**8,693**
EBITDA Margin (%)	**28.0%**	**29.6%**	**28.1%**	**22.4%**
Depreciation	6,598	956	2,735	1,465
EBIT	**26,477**	**2,684**	**7,494**	**7,229**
Interest Expense	3,261	243	545	134
Other income	2,049	60	1,411	456
Exceptional items	0	0	0	0
PBT	**25,265**	**2,501**	**8,361**	**7,550**
Tax	8,269	811	2,052	1,888
Share of Associates/Minorities	-21.1	0	10	32.7
PAT	**17,026**	**1,690**	**6,299**	**5,694**
PAT Margin	**14.4%**	**13.8%**	**17.3%**	**14.7%**
Adj. PAT	**17,026**	**1,690**	**6,299**	**5,694**
Adj. PAT Margin	**14.4%**	**13.8%**	**17.3%**	**14.7%**
EPS	**59.0**	**7.2**	**174.6**	**30.3**
Adj. EPS	**59.0**	**7.2**	**174.6**	**30.3**

Source: Company, KRChoksey

KRChoksey | research

Q1FY22 witnessed improvement in operational efficiency

Particulars (INR Mn)	Ultratech Cement		Ramco Cement		Shree Cement		ACC Cement	
Change (%)	QoQ	YoY	QoQ	YoY	QoQ	YoY	QoQ	YoY
Sales	**-17.9%**	**54.2%**	**-24.6%**	**17.9%**	**-14.2%**	**46.2%**	**-9.5%**	**49.3%**
Total Expenditure	**-20.5%**	**52.4%**	**-26.8%**	**10.6%**	**-12.6%**	**45.2%**	**-12.1%**	**45.2%**
EBITDA	**-10.4%**	**59.2%**	**-18.9%**	**40.0%**	**-17.9%**	**48.7%**	**1.1%**	**65.5%**
Change in EBITDA Margin (bps)	234 bps	87 bps	209 bps	467 bps	-128 bps	48 bps	233 bps	219 bps
Depreciation	-5.5%	1.3%	-0.2%	13.2%	-17.2%	-8.9%	2.3%	-10.0%
EBIT	**-11.5%**	**85.6%**	**-24.0%**	**52.9%**	**-18.2%**	**93.3%**	**0.8%**	**99.3%**
Interest Expense	-13.5%	-17.3%	60.1%	-18.8%	-3.2%	-23.9%	19.1%	2.4%
Other Income	239.6%	-26.5%	-39.3%	-40.5%	17.4%	11.5%	3.6%	-11.2%
Exceptional Items	NA	NA	NA	NA	NA	NA	NA	NA
PBT	**-4.2%**	**119.0%**	**-28.1%**	**60.6%**	**-14.7%**	**88.9%**	**0.7%**	**88.3%**
Tax	-4.4%	129.5%	-39.3%	75.9%	14.0%	82.7%	-1.5%	42.9%
Share of Associates/Minorities	NA	NA	NA	NA	-27.2%	32.0%	-26.7%	48.0%
PAT	**-4.1%**	**114.4%**	**-21.2%**	**54.2%**	**-21.1%**	**91.1%**	**1.2%**	**110.2%**
Change in PAT Margin (bps)	207 bps	404 bps	61 bps	323 bps	-152 bps	408 bps	155 bps	425 bps

Source: Company, KRChoksey Research

Ultratech remains our top pick in Cement Industry

Stocks	Recommendation		Market Cap.	CMP	Target Price (INR)		Upside	PE (x)	
	Revised	Old	INR Mn	INR	New	Old	%	5 Yr. Avg.	FY23E
Ultratech Cement	ACCUMULATE	ACCUMULATE	22,23,449	7,704	8,128	7,415	5.5%	39.5	29.3
The Ramco Cement	ACCUMULATE	ACCUMULATE	2,34,485	994	1,119	1,107	12.6%	29.9	25.0
Shree Cement	ACCUMULATE	ACCUMULATE	9,79,861	27,158	30,321	30,321	11.6%	50.6	33.1
ACC	ACCUMULATE	ACCUMULATE	4,48,544	2,386	2,540	2,185	6.5%	25.2	22.2*

Source: Bloomberg, KRChoksey Research, CMP as of 30th August 2021

* ACC follows calendar year, thus FY23E would be CY22E for ACC

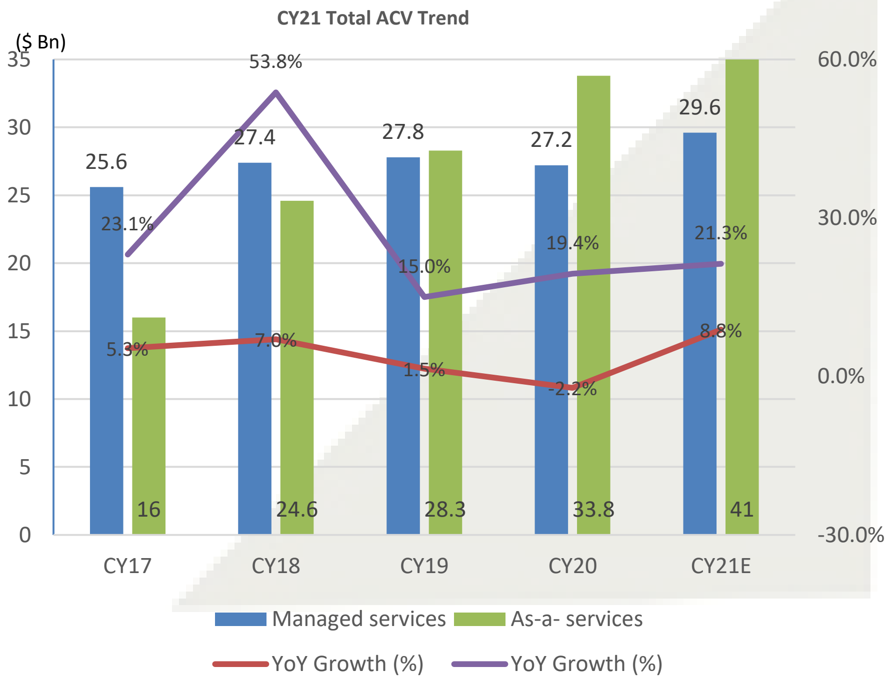
IT Sector

Global Technology Outlook

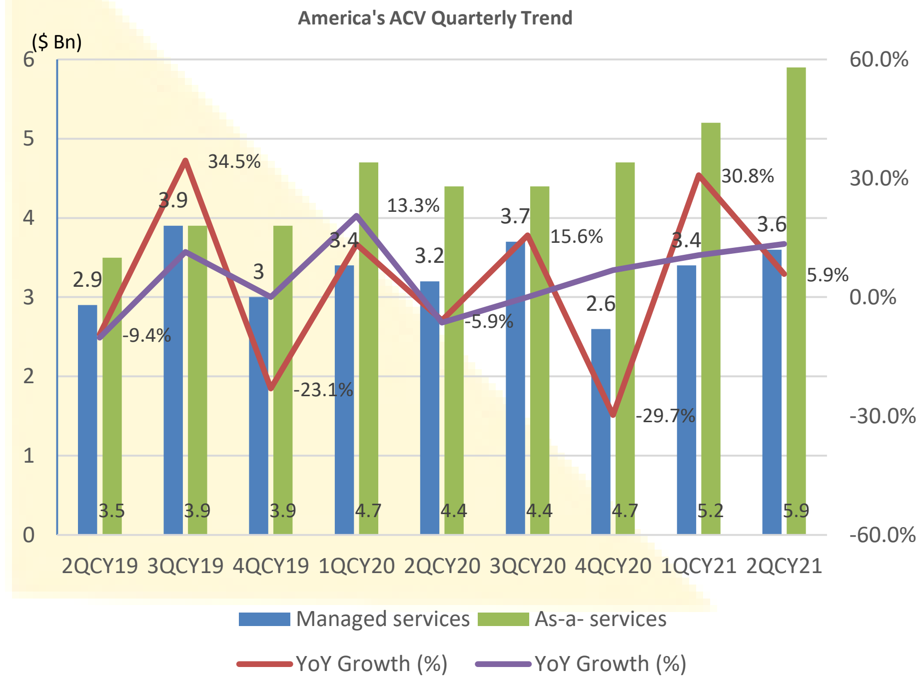
- ISG expects a positive trend to continue for the overall technology sector for CY21 in managed services /Xaas (with 9%/21% growth rate YoY basis) on the back of strong mid-sized deal momentum, ADM Driving ITO deals, Strong growth in ER&D and stable pricing despite supply crunch.
- The pipeline showed strength in ADM businesses which is contributing ~60% of the total ITO deals. Mega projects are awarded from US as well as EMEA region. ISG expects the trend in deal wins to continue in the coming future. As a result, the complete focus is on 3rd quarter (CY21) which will tell us the trend for the next few quarters.
- Automation playing a key role to lower the correlation between labour cost and rates. Despite the competitive market, there is no longer aggressive pricing discount due to scarcity of resources along with no significant changes/reduction for the large deals. The recruitment activity for the providers is high to address the upcoming demands in the competitive areas with a prevalence of tiered pricing structure backed by skills and scope.
- Engineering services has witnessed a multi-quarter tailwind with a significant uptick of 30% in terms of average deal volumes to $15mn mainly led by IT/OT integration, software development & industry consolidation.

Global ACV Trends for Managed services and as-a-services ISG Index

CY21 Total ACV growth expected to be 15%



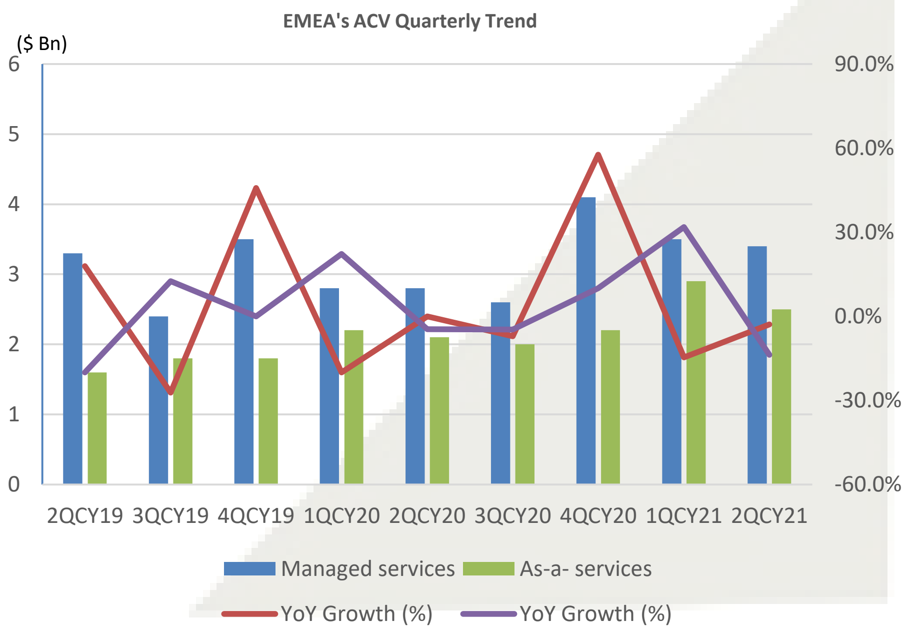
America's ACV Quarterly Trend



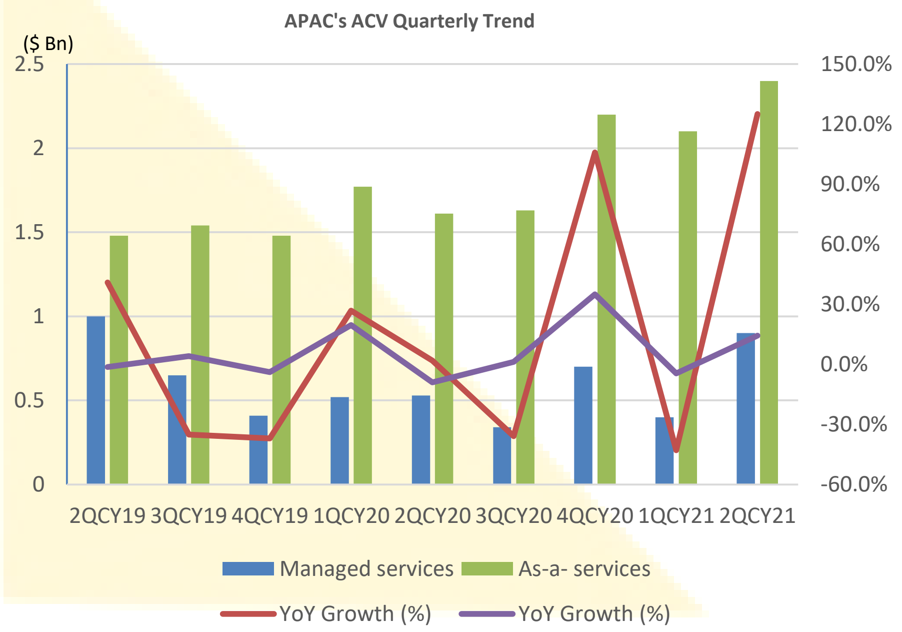
KRChoksey | research

Global ACV Trends for Managed services and as-a-services (Contn..)

EMEA's ACV Quarterly Trend



APAC's ACV Quarterly Trend



Infosys and Wipro stand out among top-tier IT; Persistent, Tata Elxsi and Mindtree among mid-sized firms

- Mid-sized managed services deals (with ACV value of $20-40mn, both pipeline and large deal bookings), digital transformation of broad based industry verticals, positive cyclical indicator in product development/engineering services & consulting, accelerated hiring and improved alignment with hyperscaler/XaaS indicated the strong growth momentum for the sector. Margin was impacted by wage inflation, increase in sub-contracting, higher attrition which were partially offset by operating leverage and forex/ offshoring. We believe that the elevated supply side pressure is transient and will normalize over the next 1-2 quarters.

- Deal wins (TCS: Proximus, Ericsson, Alcatel-Lucent, Virgin Atlantic; Infosys: Archrock, RXR, Britvic; HCL Technologies: Hitachi, ABB; Wipro: Levis Strauss, Bristol Water; LTI: Hoist Finance) remained strong in 1QFY22. Acquisition volumes continued to augment the capabilities in Cyber security, DevOps, Product development/analytics (Wipro: Ampion; Tech Mahindra: DigitalOnUS, Eventus; LTI: Cuelogic; Persistent: Sureline Systems; Mindtree: NxT Digital, Zensar Technologies: M3bi).

Infosys and Wipro stand out among top-tier IT

- Among top-tier IT stocks, Infosys (4.8% QoQ CC) and Wipro (12% QoQ CC) reported stand-out performances; the remaining IT majors clocked in the range of 0.7%-4.0% QoQ CC revenue growth (2.4% for TCS, 0.7% for HCLT and 3.9% for Tech Mahindra). Growth was fairly broad-based, with BFSI, Manufacturing, Consumer/Retail & CPG, Life Sciences, Technology and Communications verticals all clocking healthy all-round growth.
- Margin-wise, TCS and Infosys Mahindra were the key out-performers among the top-tier IT pack, with 25.5% and 23.7% respectively, aided by growth leverage, cost control, higher utilization and offshore revenue. Margins for most of IT majors were partially contracted by wage hike.
- Large deal execution, with a mix of smaller deals with lower execution time frames aided revenue growth for top-tier IT firms, and clients investing in digital transformation initiatives also underscores how core IT has become to enterprises. The total TCV for TCS rose by 17.3% YoY for 1QFY22, while that of Infosys rose by an extraordinary 49.4% YoY, reflecting healthy underlying traction.

Persistent Systems, Tata Elxsi and Mindtree stand out among mid-sized firms

- Persistent Systems reported a stand-out performance in 1QFY22, with USD revenue up 9.2% QoQ led by Healthcare, BFS, Emerging verticals and Technology; EBIT margin rose by ~30bps QoQ to 13.5%, aided by growth leverage, higher offshore.
- Robust growth in Healthcare & Medical Devices verticals drove robust performance by Tata Elxsi, with CC revenue up 6.4% QoQ along with a EBIT margin of 24.2%, reflecting strong growth recovery and FY22 outlook.
- Mindtree has clocked a robust 7.6% QoQ CC and 7.7% QoQ reported USD revenue growth, aided by growing proportion of Annuity deals and all-round industry growth (especially Retail/CPG/Manufacturing and Travel/Transport/Hospitality). EBIT margin Contracted by 90bps to 17.7% owing to higher head counts, greater visa costs which was partially offset by forex gain & operational efficiency.

Companies	Revenue	Margin	Industry Outlook / Strategy
TCS	TCS' revenue came at 2.4% CC QoQ growth, aided Manufacturing (+4.8% QoQ), Retail & CPG (+4.4% QoQ), Life Sciences (+7.3%) and Technology & Services (+2.8% QoQ); Deal TCV in Q1 was $8.1bn with book-to-bill at 1.32x	EBIT margin was 25.5%, down by 133bps, impacted by wage hike of -170bps (including +30bps of lower-subcontracting) which was partially offset by Rupee depreciation (+30bps)	In-spite of Q1 miss for India revenue, core segment showed strength and continuity in market share gain. Increasing the supply-side pressure (attrition headed towards double digits, and return of discretionary spend (ex-travel) will cap margin gains despite operating leverage and differential pricing. Medium-term revenue visibility even beyond FY22 appears strong, and robust TCV data, all-time high hiring and recent deal wins
Infosys	Revenue rose 4.8% QoQ in CC terms. Growth broad based across Vertical, with digital revenue growing +9.7%QoQ in USD term. (9 out of 22 large deal wins in Q1 were in BFSI and 4 each were in Retail and E&U. Large deal TCV was at $2.5bn (+22% QoQ), of which 30% deals are net new.	EBIT margin declined by 81bps QoQ to 23.7%, impacted by higher subcontracting and hiring costs, offset by improved utilization (+40bps QoQ) and Forex tailwind (+10bps QoQ)	The growth guidance for FY22 was increased to 14-16% CC and the EBIT margin band was maintained at 22%-24% (despite the near-term supply crunch). Release in pent-up demand to restart the delayed projects, sustainable improvement in large deals, momentum across verticals and structural operational pivots of offshoring and utilization will help fulfill demand and will offset near term surge in attrition.
Wipro	Revenue grew by +12.2% QoQ in Dollar term. Both organic (+4.9% QoQ in CC term) and inorganic business (Capco revenue ~$157 mn) beat expectations. 2Q22 guidance of 5-7% QoQ CC revenue growth implies strong 2-4% QoQ organic growth and considerably shift full year FY22 growth (~26%)	EBIT margin came at 18.4% decline by 210bps QoQ to 21.0%. Management guided 17-17.5% margin for FY22 (~200-250 bps lower YoY) due to impact of wage hikes (for junior employees effective Sept 21), talent retention costs and Capco acquisition charges.	We believe new management's aggressive yet sharp focus towards growth and fast speed of execution can potentially lift up and sustain revenue growth trajectory over medium term on the back of BFSI, Communications, Consumer business unit and EN&U.
HCL Technologies	HCLT delivered a growth of 0.7% QoQ (CC term), led by weak growth in IT Services (+0.5%) and Products & Platforms (-1%). Mode-1/2 (61.5%/23.7% of the business) grew 0.8%/2.3% QoQ, while Mode-3 (14.8%) declined by 2% in constant currency terms.	Margin declined by 80bp YoY to 19.6% in 1QFY22. Forex gains and higher amortization in 4QFY21 had aided margin. This was offset by an impact on revenue, increase in hiring/retention costs, COVID-19 support cost, and investments in new markets. HCLT benefitted by USD10m from a favorable tax ruling in 1QFY22	The management expects robust growth in the coming quarters on the back of strong headcount addition and increased deal ramp up.The Products/ Platforms segment is expected to grow at a low to mid-single digit growth rate in FY22. In terms of margin, increased investments in geographies should be a headwind. The management expects them to be in the 19-21% range.

Companies	Revenue	Margin	Industry Outlook / Strategy
Tech Mahindra	Revenue ($1,383.6 mn) growth of 3.9% QoQ CC in 1QFY22 on account of Communications (+2.9% growth) and Enterprise business (+ 4.7% QoQ growth). New deal wins fell 20% QoQ to USD815m, but stayed ahead of past trends, while the qualified pipeline remained at historical peaks.	EBIT margin stood at 15.2%, down 130bp QoQ, on account of wage hikes, visa cost, seasonal decline in Mobility business, and increase in sub-contracting cost. This was offset by higher operational efficiency and cost optimization.	The management guided at double-digit growth in FY22. This is on the back of a broad based growth across sectors and strong deal wins. As the Platforms business has shown a multi-year tailwind, Company has increased investments in the area of 5G, Customer experience, Data & IOT and has registered over 60 new wins. Healthcare, Hi-Tech, BPS are showing strong traction.
Mindtree	Reported revenue up 7.6% QoQ in CC terms led by broad based growth across client buckets. Record high in deal wins at $504mn (1.6x book to bill), with a growing proportion of annuity deals, which offers better visibility, but having larger than renewal shares.	EBIT margin declined by 90bps QoQ to 17.7% owing to highest ever net headcount addition(-170bp), and greater visa costs (-40bp). This was partly offset by cross currency, increased revenue growth, and operational efficiency (+50bp).	Since the ownership has changed, management has taken steps to stabilize it's clients and employee count. Higher sub-contracting expenses and initiation of new engagements are the short term phenomenon and does not intend to keep at the same elevated level over the long run. The management's increased focus on annuity revenue and tail account rationalization which is already reflected in revenue and client mix.
Persistent Systems	In USD terms, revenue grew 9.2% QoQ to USD166.8m (albeit aided by Capiot acquisition revenue) which was led by an 11.5% QoQ growth in Services, but was partially offset by a 4.1%QoQ decline in the IP business. Healthcare, BFS, Technology and emerging verticals witnessed a strong traction In 1QFY22.	EBIT margin, adjusted for one time expense(-60bps) and visa cost (-50bps), stood at 13.5%. The one-time expense was on account of the impairment of an investment made in a startup. TCV stood at a robust $245mn	After a change in the management/strategy, we have noticed a steady progress for IP portfolio on the execution front. A healthy order book/ strong deal pipeline and higher emphasis on annuity revenue indicate an encouraging near-term outlook.
Tata Elxsi	Tata Elxsi reported revenue growth of 6.4% QoQ in CC terms and 37.6% YoY in CC term at a strong but reducing it's growth Premium to ER&D peer (LTTS). Healthcare & medical remains the concentrated growth pockets with 25% of the business driving 50% of growth (IDV and medical device-EPD)	EBIT margin stood at 24.2%, down by 6ppts led by sharp fall in IDV business along with soft revival of transportation. Except for the top cutomer (automotive business; up 12% QoQ),non-top automotive business has shown actual decline.	Management has added more than 1000 employees (Approx. 15% of the total employees) to address the upcoming pipeline. Company is witnessing a lot of traction in EV business because most of the OEMs are investing in EV space. Embedded soln. with IPR helps them to strength the relationship with existing customers.

Companies	Revenue	Margin	Industry Outlook / Strategy
Sonata Software	Microsoft related services (product engineering + dynamics) is ~50% of IITS revenue and Encore Software Services will add ~9% to IITS revenue. IITS revenue up 1.6% QoQ USD terms, was due to supply side supply side issues(Covid Impact and hire attrition), however deal flow and pipeline continues to robust on the back of Retail Essential (+8.7% QoQ USD), Retail Non-Essential (+35.4% QoQ USD) and domestic Product Business (+24% QoQ USD, cloud based annuity deals)	Consolidated EBIT margin rose 7.2%QoQ, on the back of higher other income (Reversal of Provision of 121.7mn for EFPO & forex gain) was partially offset by lower utilization (88%, -100bps), hiring costs and covid-related expenses.	Going forward there will be margin pressures due to capacity expansion and opening of global delivery centers. Company expects margins to be maintained at 25- 26%. We believe that strong demand momentum will sustain, led by accelerated demand for cloud transformation. In addition to that, revenues from new alliances (AWS and GCP) will start flowing in from FY22. Sonata expects to add up $3mn of Encore revenues from 1st Aug'21 and per quarter it will add $3mn revenue
Happiest Minds Technologies	Happiest Minds Technologies (HMT) reported revenue up 9.6% QoQ to US$ 33.1 mn, aided by organic growth along with the PGS acquisition; vertical-wise, it was Edu-tech (+23.4% QoQ), Travel, Media & Entertainment (+13.9%), Retail (+9.6% QoQ), Hi-tech (+14.2%) and BFSI (+13.4%).	EBIT margin contracted by a 165bps QoQ to 20.3%, on the account of wage increase and higher attrition which was partially offset by revenue growth and continued high utilization. Operational efficiency includes higher offshore (84%), higher FPP share (26.0%) and higher utilization (82.1%).	Medium-term aspiration is to grow revenue at 20% annually mostly driven by IMSS, PES and some client additions especially in the middle eastern markets, with an EBITDA aspiration of 22-24%, even as some operating costs (especially the sub-contracting expenses) could lower in the near term.
Infibeam Avenues	For Q1FY22 on a consolidated basis Infibeam revenue grew 7.5% QoQ to INR 2,164 mn. It was driven by Payments' TPV (Transactions Processed Value) of INR ~319 bn and Platforms' TPV of INR ~188 bn. Strong growth in revenue was partially offset by rise in operating expenses such as Payment Getaways and Processing charges in 1QFY22.	Adjusted EBITDA declined 13.2% YoY (down 10.7% QoQ) to INR 339 mn. EBITDA margin contracted by 320 bps QoQ to 15.7%, driven by 30% YoY fall in reported Net Take Rate (NTR), flattish on 1FY22. The company believes that the lower discretionary spend amidst the second wave of Pandemic coupled with adverse change in revenue segments' mix, more towards utility, education and retail sectors, than towards hospitality, aviation and entertainment segments have been leading to lower NTRs.	Going forward, continued rise in transactions processed volumes with increasing India penetration and recovery in traditional sectors of consumption and international expansions, should help the company to post revenue growth at a CAGR of 37% over FY21-FY25. Also, additional streams of revenue coming from new businesses (value added) like CPGS, Neo Banking, cash collection services (GoPayments) and Assisted Commerce to help to aid the margin expansion. Hence, we believe the company can post a CAGR earnings growth of 57% over FY21-FY25.

Particulars (INR Mn)	Infosys	TCS	HCL Technologies	Tech Mahindra	Wipro
Sales	**2,78,960**	**4,54,110**	**2,00,680**	**1,01,980**	**1,82,520**
Total Expenditure	2,04,640	3,27,480	1,50,060	83,210	1,42,720
EBITDA	**74,320**	**1,26,630**	**50,620**	**8,760**	**39,800**
EBITDA Margin (%)	**26.6%**	**27.9%**	**25.2%**	**18.4%**	**21.8%**
Depreciation	8,290	10,750	11,280	3,310	8,260
EBIT	**66,030**	**1,15,880**	**39,340**	**15,450**	**31,540**
Interest Expense	490	1,460	890	380	750
Other income	6,220	7,210	2,550	2,870	7,930
Exceptional Items	-	-	-	-	-10
PBT	**7,17,600**	**12,16,300**	**4,10,000**	**1,79,400**	**3,87,300**
Tax	19,750	31,320	8,870	4,290	6,250
Share of Associates/Minorities	60	230	80	-	-
PAT	**51,950**	**90,080**	**32,050**	**13,660**	**32,480**
PAT Margin	**18.6%**	**19.8%**	**16.0%**	**13.4%**	**17.8%**
EPS (INR)	**12.24**	**24.35**	**11.81**	**15**	**5.9**

Source: Company, KRChoksey Research

Particulars (INR Mn)	Persistent Systems	Tata Elxsi	Mindtree	Sonata Software
Sales	**12,300**	**5,580**	**22,920**	**12,690**
Total Expenditure	10,280	4,080	18,270	11,680
EBITDA	**2,020**	**1,500**	**4,650**	**1,010**
EBITDA Margin (%)	**16.4%**	**26.9%**	**20.3%**	**8.0%**
Depreciation	350	120	580	100
EBIT	**1,670**	**1,380**	**4,060**	**910**
Interest Expense	20	20	130	40
Other income	390	180	720	280
Exceptional items	0	0	0	0
PBT	**2,030**	**1,540**	**4,650**	**1,150**
Tax	520	410	,1220	280
Share of Associates/Minorities	0	0	0	0
PAT	**,1510**	**1,130**	**3,430**	**870**
PAT Margin	**12.3%**	**20.3%**	**15.0%**	**6.8%**
EPS (INR)	**20**	**18**	**21**	**8**

Source: Company, KRChoksey Research

Particulars (INR Mn)	Happiest Minds Technologies	Infibeam Avenues
Sales	**2,450**	**2,160**
Total Expenditure	**1,880**	**1,880**
EBITDA	**570**	**340**
EBITDA Margin (%)	**23.3%**	**15.7%**
Depreciation	**70**	**170**
EBIT	**500**	**120**
Interest Expense	20	10
Other income	90	30
Exceptional items	60	0
PBT	**510**	**170**
Tax	150	30
Share of Associates/Minorities	0	30
PAT	**360**	**130**
PAT Margin	**14.6%**	**6.2%**
EPS (INR)	**2**	**0.10**

Source: Company, KRChoksey Research

KRChoksey | research

Particulars	Infosys		TCS		HCL Technologies		Tech Mahindra		Wipro	
Change (%)	QoQ	YoY	QoQ	YoY	QoQ	YoY	QoQ	YoY	QoQ	YoY
Sales	**6%**	**17.9%**	**3.9%**	**18.5%**	**2.2%**	**12.5%**	**4.8%**	**12%**	**13.6%**	**21%**
Total Expenditure	**7.5%**	**16.6%**	**6.5%**	**16.3%**	**4.2%**	**14.2%**	**6.9%**	**6.6%**	**16.3%**	**19.7%**
EBITDA	**2%**	**21.4%**	**-2.4%**	**24.7%**	**-3.7%**	**7.5%**	**-3.7%**	**44.3%**	**2.3%**	**21.6%**
Change in EBITDA Margin (bps)	-99bps	78bps	-177bps	136bps	-149bps	-114bps	-162bps	412bps	-181bps	83bps
Depreciation	-0.2%	9.7%	0.7%	10.1%	-11%	5.9%	-3.9%	-13.6%	5.5%	25.4%
EBIT	**2.5%**	**23.1%**	**-2.7%**	**26.2%**	**-2.9%**	**10.2%**	**-3.6%**	**68.5%**	**2.8%**	**23.4%**
Interest Expense	-2%	2.1%	5.8%	2.8%	-44%	.28.8%	-8.6%	-24.3%	-33.5%	-42.6%
Other income	14.1%	30.9%	-22.6%	20.6%	4.5%	-13.6%	88.3%	-45.6%	-	2116%
Exceptional items	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
PBT	**3.5%**	**23.9%**	**-1.8%**	**29.5%**	**21.8%**	**6.2%**	**12.5%**	**39.8%**	**3%**	**24.7%**
Tax	6.4%	29.9%	-3.5%	27.6%	-60.7%	-4.3%	-14.2%	30.8%	-19.7%	-9%
Share of Associates/Minorities	200%	-84.6%	-36.1%	-43.9%	-11.1%	100%	-66.3%	-25.1%	170%	-74.4%
PAT	**2.3%**	**22.7%**	**-1%**	**30.6%**	**2.2%**	**12.5%**	**27.4%**	**41.7%**	**8.8%**	**11.2%**
Change in PAT Margin (bps)	-67bps	74bps	-101bps	187bps	1036bps	-46bps	240bps	284bps	-57bps	-121bps

Source: Company, KRChoksey Research

Particulars	Persistent Systems		Tata Elxsi		Mindtree		Sonata Software	
Change (%)	QoQ	YoY	QoQ	YoY	QoQ	YoY	QoQ	YoY
Sales	**10.5%**	**24.1%**	**7.7%**	**39.4%**	**8.6%**	**20.1%**	**17.5%**	**32.7%**
Total Expenditure	**11.2%**	**21.7%**	**16.5%**	**32.7%**	**3.2%**	**14.5%**	**20%**	**33.5%**
EBITDA	**7%**	**37.6%**	**-10.7%**	**61.8%**	**0.4%**	**44.3%**	**-2%**	**29.3%**
Change in EBITDA Margin (bps)	**-53bps**	**161bps**	**-555bps**	**372bps**	**-166bps**	**340bps**	**-162bos**	**-24bps**
Depreciation	16.5%	19.6%	5.5%	10.1%	-18.4%	-2.5%	5.4%	-3.1%
EBIT	**13.7%**	**61.8%**	**-11.9%**	**68.6%**	**3.8%**	**54.9%**	**-2.8%**	**34.2%**
Interest Expense	21.6%	8.2%	-13.4%	18.6%	13.2%	-1.5%	24.5%	28.9%
Other income	-37.3%	224.4%	156.5%	30.1%	84.6%	76.8%	48.8%	799.4%
Exceptional Items	0%	0%	0%	0%	0%	0%	0%	0%
PBT	**9.8%**	**66.4%**	**-4.8%**	**63.8%**	**11.1%**	**60.5%**	**5.3%**	**69.9%**
Tax	9.9%	61.7%	-12.8%	61.7%	20%	58.6%	8%	59.2%
Share of Associates/Minorities	0%	0%	0%	0%	0%	0%	0%	0%
PAT	**9.8%**	**68%**	**-1.6%**	**64.6%**	**8.2%**	**61.2%**	**4.4%**	**73.7%**
Change in PAT Margin (bps)	**-8bps**	**322bps**	**-191bps**	**311bps**	**-6bps**	**383bps**	**-88bps**	**160bps**

Source: Company, KRChoksey Research

Particulars	Happiest Minds Technologies		Infibeam Avenues	
Change (%)	QoQ	YoY	QoQ	YoY
Sales	**10.8%**	**38.2%**	**7.5%**	**120.3%**
Total Expenditure	**8.9%**	**42.1%**	14.6%	179.9%
EBITDA	**25.2%**	**78.3%**	**-10.7%**	**-13.2%**
Change in EBITDA Margin (bps)	**329bps**	**643bps**	**-320 bps**	**-2,413 bps**
Depreciation	-1.5%	41.2%	47.3%	-26.5%
EBIT	**19.3%**	**52.8%**	**-55.2%**	**37.6%**
Interest Expense	-27.1%	11.8%	-20.7%	-19.8%
Other Income	205.3%	7.2%	5.9%	-1.6%
Exceptional Items	-	-	-116.7%	-100.4%
PBT	**42.7%**	**72.1%**	**-35.8%**	**6.4%**
Tax	17.2%	-265.5%	-154.9%	-16.6%
Share of Associates/Minorities	0%	0%	-370.5%	-59.0%
PAT	**-0.9%**	**-28.8%**	**-57.6%**	**-6.0%**
Change in PAT Margin (bps)	**-115bps**	**-1063bps**	**-951 bps**	**-830 bps**

Source: Company, KRChoksey Research

KRChoksey research

Stocks	Recommendation		Market Cap.	CMP	Target Price (INR)		Upside	PE (x)	
	Revised	Old	INR Mn.	INR	New	Old	%	5 Yr. Avg.	FY23 E
TCS	ACCUMULATE	ACCUMULATE	13,69,16,670	3,701	4,053	3,700	10%	21.2	28.9
Infosys	ACCUMULATE	ACCUMULATE	72,02,050	1,698	1,850	1,675	9%	16.4	26.9
Wipro	ACCUMULATE	HOLD	34,63,990	632	693	555	10%	15.7	22.4
HCL Tech.	ACCUMULATE	BUY	31,55,990	1,163	1,275	1,130	4%	15.4	18.4
Tech Mahindra	ACCUMULATE	ACCUMULATE	13,75,870	1,419	1,625	1,200	8%	14.3	15.2
Mindtree	ACCUMULATE	HOLD	593,200	3,600	3,810	2,700	6%	20.7	29.4
Persistent	HOLD	HOLD	253,200	3,313	3,504	2,890	6%	17.2	32.7
Tata Elxsi	ACCUMULATE	ACCUMULATE	300,320	4,822	5,174	4,600	7%	25.6	45.6
Sonata	BUY	ACCUMULATE	88,930	846	1,001	810	18%	11.2	20.7
Happiest Minds Technologies	ACCUMULATE	ACCUMULATE	207,590	1,413	1,510	1,084	7%	47.3	61.8
Infibeam Avenues	BUY	BUY	53,150	40	86	86	115%	30.7	23.9

Source: Company, KRChoksey Research, CMP as of 30th August 2021

Pharmaceutical Sector

Strong improvement both QoQ and YoY

US market prove a concern:

- The increased number of ANDA filings from generic players for similar therapies in the past, lack of new approvals amidst Pandemic while distributors are consolidating in the US have led to highly competitive market with significant price erosion. Nevertheless, Indian generic players have the largest share of the ANDA filings in the US with the diversified geographical presence, and they have been foraying into complex generics and specialty products with limited competition as well.

Indian Pharma Market (IPM) growth normalizing post a peak in April 21:

- The IPM market increased at 13.7% YoY in July 21 vs. a 14.1% YoY growth witnessed in June 21 driven by 4.5% YoY increase in volumes (June 21: 4.0% YoY), and price growth of 5.7% YoY (June 21: 5.7% YoY). It was largely normalization of demand.
- The growth in IPM for July 21 was driven by demand for acute therapy products such as anti-infectives (30.2% YoY), analgesics (24.1% YoY), and respiratory (22.8% YoY) and by demand for gastro therapy products (19.6% YoY). Chronic segments such as Cardio and anti-diabetic grew at a lower rates of 4.1% and 3.3% YoY, respectively, though.
- The IPM market is experiencing demand normalization post strong growth witnessed during Q1FY22. The market is expected to grow at 12% rate YoY in F22 vs earlier estimate of 10% for FY22.

Improved performance both QoQ (indicating normalization of demand) and YoY (due to low base effect) :

- For Q1FY22, the aggregate revenue of coverage companies increased 15.7% YoY (vs. 3.0% YoY in Q4FY21) and hearteningly improved at 8.3% QoQ (vs. -4.1% QoQ in Q4FY21) due to low base effect YoY and normalization of demand for other therapy products, QoQ. As a result, EBITDA increased 19.1% YoY (vs. 17.2% YoY in Q4FY21) and 17.0% QoQ (vs. -10.4% QoQ in Q4FY21). EBITDA margins improved 66 bps YoY (vs. 270 bps YoY in Q4FY21) and 174 bps QoQ (vs. -150 bps QoQ in Q4FY21). Adjusted net profits excluding forex gains / losses and exceptional items increased 12.5% YoY (+12.3% QoQ) with net profits margin declining by 43 bps YoY (+53 bps QoQ) to 14.8% in Q1FY22 due to reduction in these unusual items YoY and a marginal growth in it QoQ (8%).

Strong improvement both QoQ and YoY

- Aurobindo Pharma witnessed worst sales performance QoQ and YoY among coverage companies, while Cipla exhibited strongest revenue growth QoQ and Sun Pharma YoY. Alembic Pharma exhibited worst EBITDA growth both QoQ and YoY while Cipla and Lupin witnessed strongest EBITDA growth QoQ and YoY, respectively. Alembic Pharma experienced worst EBITDA margin declines, QoQ and YoY, while Cipla and Lupin exhibited highest EBITDA margins growth QoQ and YoY, respectively, among the coverage companies. Consequently, Alembic Pharma fared worst on adjusted net income growths, both QoQ and YoY basis, while Cipla witnessed highest adjusted net profits growth QoQ and YoY in Q1FY22.
- Nearly 49% of Cipla's revenue comes from India market while Alembic Pharma's (36% of revenue from India and 28% of revenue from the US) and Aurobindo Pharma's shares of revenue from India market (India share estimated to be lower than 10% of revenue and the US' revenue being 47% of revenue) are lower, relatively. Concerns in the US with respect to pricing erosion and lack of new ANDA approvals due to Pandemic has affected Alembic Pharmaceuticals and Aurobindo Pharma Ltd. more than others.
- Cipla faced similar competitive issues in the US but due to it having captured larger share of blockbuster drug, Albuterol market for Proventil HFA (used for treating COVID 19 patients as well) as its authorized generic and for the overall generic market of Albuterol in the US, and recovery in other therapies QoQ, helped Cipla post strong QoQ growth in Q1FY22 among the coverage companies.
- Alembic Pharma has been facing acute pricing erosion in Sartan products' sales and that is likely to drive its US sales down in the foreseeable future. It is expected to be offset by new products launches and growth in volumes of the base products in the US and other geographies.
- Sun Pharma (draws 34% of revenue from India and 29% from the US) witnessed strongest revenue growth YoY in Q1FY22 due to strong growth across markets including India and higher growth in specialty products in the US (USD 148 mn in Q1FY22 – 11% of revenue vs. 139 mn in Q4FY21, 12% of revenue).
- Cipla experienced highest EBITDA margins growth (717 bps QoQ), due to improved products mix and lower operating costs, among the coverage companies. Lupin experienced highest EBITDA margins growth YoY due to unusual milestone payment from Boehringer Ingelheim MEK program in Q1FY22. Cipla witnessed highest adjusted net income growth QoQ and YoY while Alembic Pharma posted highest decline in adjusted net income both QoQ and YoY. Glenmark Pharmaceuticals fared well on sales, EBITDA and adjusted net income growths basis, both QoQ and YoY in Q1FY22.

Companies	Revenue and Segment-wise Performance
Sun Pharma	• Sun Pharma reported consolidated total Revenue growth of 28.1% YoY (up 14.0% QoQ) to INR 97,187 mn. • The growth was primarily led by stronger than expected performance across all markets, especially in the US markets; partially offset by lower-than-expected performance in API segment revenue. • India grew 38.5% YoY (+23.9% QoQ, 34% of revenue), while US grew 31.1% YoY (+3.9% QoQ, 29% of revenue), EM's revenue grew at 22% YoY (+14.5% QoQ, 17% of revenue) and RoW's revenue increased at 32.8% YoY (+14.8% QoQ, 14% of revenue). At the same time, API revenue declined at 7.0% YoY (+18.2% QoQ, 5% of revenue) • The company witnessed a strong Q1FY22 results, driven by a combination of robust core business growth, low base effect, and COVID 19 products' sales. India business continues to perform while the specialty business has increased QoQ across the markets. • India segment was benefited by the fact that Sun Pharma is the largest pharma company in India with an 8% market share of Indian Pharmaceutical Market (IPM), which is valued at INR 1.60 trillion (Source: AIOCD AWACS MAT June 21).
Lupin	• Lupin reported Revenue growth of 21.0% YoY (up 12.9% QoQ) to INR 42,702 mn. The double-digit growth in revenue, QoQ, is largely driven by New Chemical Entity (NCE) driven license income (9.0% of total revenue) of INR 3,734 mn in Q1FY22 vs. none in Q4FY21 and Q1FY21. The company received USD 50 mn from Boehringer Ingelheim for achieving key milestones for its MEK inhibitor compound collaboration. Besides that, strong growth in formulations revenue at 18.3% YoY (+3.3% QoQ) to INR 36,181 mn led to strong total revenue growth YoY in Q1FY22. • Formulations' revenue growth was driven by 27.3% YoY (+27.2% QoQ) growth in India business (38.6% of total revenue), 23.3% YoY (+9.7% QoQ) growth in growth markets (8% of total revenue), 43.1% YoY (25.4% QoQ) rise in Rest of the World (RoW) revenue (1% of total revenue), 9.6% YoY (-10.8% QoQ) growth in North America business (31% of total revenue) and 4.5% YoY (-30.3% QoQ) growth in EMEA markets (6% of total revenue); partially offset by a 39.9% YoY (-3.8% QoQ) decline in API revenue (6% of total revenue) in Q1FY22.
Cipla	• Cipla reported strong revenue growth of 26.6% YoY (up 19.5% QoQ) to INR 55,044 mn in Q1FY22 due to stronger growth in India market, SAGA, and APIs, than anticipated. It was partially offset by lower than anticipated growth in the US markets. • India revenue grew 68.5% YoY (up 50.0% QoQ, 49% of revenue), North America increased 1.7% YoY (up 3.6% QoQ, 19% of revenue), SAGA revenue rose 9.7% YoY (down 1.3% QoQ, 15% of revenue), South Africa (part of SAGA, 76% of SAGA) increased 15.7% YoY (up 4.6% QoQ, 12% of total revenue) and international market revenue (including Emerging Markets and Europe) declined 16.5% YoY (down 14.5% QoQ, 11% of revenue). • India business was benefited by strong volume traction in core therapies and COVID 19 portfolio contribution. SAGA market was driven by continued faster growth, than markets, in the South Africa Private business segment. • The international market revenue was affected by timing deferral in emerging markets pertaining to in country currency allocation for its middle eastern supplies.

Companies	Revenue and Segment-wise Performance
Dr. Reddy's	• Dr. Reddy's laboratories reported Revenue growth of 11.7% YoY (up 3.7% QoQ) to INR 49,451 mn driven by 17.2% YoY (+6.2% QoQ) growth in Global Generics market to INR 41,113 mn, driven primarily by India and Europe branded markets; partially offset by price erosion in some of its products and adverse forex rates. • The sequential rise in global generic's revenue was on account of higher sales in India due to higher volumes, and new launches; partly offset by price erosion in certain products. India segment was benefited by increased sales of its existing products, led by COVID 19 drugs. It was also driven by new product launches. The segment launched 6 new products including Sputnik V vaccine, 2-deoxy-D-Glucose for COVID and Curehealth for building immunity in Q1FY22. • North America revenue increased at a flat pace of +0.6% YoY (down 0.6% QoQ, 35% of revenue), Europe grew 12.5% YoY (up 1.0% QoQ, 8% of revenue), India grew 69.3% YoY (up 25.5% QoQ, 22% of revenue), Emerging markets grew 14.4% YoY (up 3.2% QoQ, 19% of revenue), PSAI declined 11.8% YoY (down 4.7% QoQ, 15% of revenue), while PP & Others declined by 14.4% YoY (down 1.1% QoQ, 1% of revenue).
Cadila Healthcare	• Cadila Healthcare reported Revenue growth of 14.5% YoY (+9.0% QoQ) to INR 40,254 mn in Q1FY22. • India geography, which comprises of Human health formulations business and Consumer wellness business, (50% of total revenue), posted strong growth at 43.0% YoY to INR 194 bn during the quarter. • At the same time, US formulations business registered revenue of INR 145 bn for Q1FY22. • ROW business grew by 17.0% YoY and posted revenue of INR 2,770 mn.
Glenmark	• Glenmark Pharmaceuticals reported revenue growth of 26.4% YoY (+3.7% QoQ) to INR 29,649 mn, mainly led by growth in all its segments including India, US, RoW, EU, LA, and API revenue segments, YoY. The company's sequential revenue growth at 3.7% QoQ, (better than Q4FY21's sequential growth of 2.6%), was driven by strong growth clocked in in India while all the other segments reported QoQ decline. • India business (~41% of revenue) grew 57.1% YoY (+48.7% QoQ). API business (~10% of revenue) grew 29.5% YoY (-8.2% QoQ). EU business (~10% of revenue) grew 11.7% YoY (-27.6% QoQ). ROW (~9% of revenue) grew 26.7% YoY (-19.6% QoQ). US (~ 27% of revenue) grew 6.1% YoY (-1.7% QoQ). LA (~ 2% of revenue) grew 2.6% YoY (-48.0% QoQ).

Companies	Revenue and Segment-wise Performance
Torrent Pharma	• Torrent Pharma reported strong recovery in revenue growth at 3.8% YoY (up 10.2% QoQ) to INR 21,340 mn. • India business grew at a strong pace of 18.2% YoY (+18.5% QoQ, 51.6% of revenue). As per AIOCD data, Torrent's Q1FY22 revenue growth was 24.0% vs. the IPM growth of 37.0% for the quarter. The growth was driven by high contribution from Covid 19 drugs and low base of last year. • Germany business grew at 5.7% YoY (-2.6% QoQ, 12% of revenue). The US business revenue declined –28.7% YoY (-1.1% QoQ, 13% of revenue), Brazil business grew 9.3% YoY (-19.0% QoQ, 7% of revenue). At the same time, other revenue including contract manufacturing declined 6.5% YoY (+20.0% QoQ, 16% of revenue.) • The US revenue were impacted by continued price erosion in the base business and lack of new approvals pending re-inspection of facilities.
Aurobindo Pharma	• Aurobindo reported Revenue de-growth of 3.8% YoY (-5.0% QoQ) to INR 57 bn, due to decline in the US and antiretroviral (ARV) segments; partially offset by growth in Europe, growth markets, and API Non-Betalactam segments. Natrol sales has been excluded while reporting the US sales, historically, in the press release and not in financial statements. • Overall Formulation business grew 2.7 YoY (-6.2% QoQ, ~ 86% of sales), while API business revenue increased 4.1% YoY (+2.2% QoQ, ~14.2% of sales). • Within Formulations, US sales (excluding Natrol) de-grew 1.5% YoY (-6.3% QoQ, 47% of revenue). Growth markets increased 13.7% YoY (+7.7% QoQ, 6% of revenue). Europe sales increased 19.7% YoY (+2.0% QoQ, 27.8% of revenue), and ARV de-grew 30.3% YoY (-39.7% QoQ, ~5.2% of revenue). • The ARV segment was affected by higher stocking by multilateral agencies earlier amidst COVID 19 uncertainty. The growth market segment was led by strong growth witnessed in Brazil and South African businesses.
Alembic Pharma	• Alembic Pharma reported 1.1% YoY (+3.6% QoQ) decline in revenue to INR 13 bn in Q1FY22, as formulations segment experienced 2.8% YoY decline in revenue to INR 11 bn. This was as US formulations' revenue decline was sharper than we had anticipated. We had forecast a 27.6% YoY (-9.2% QoQ) decline in the US formulations' revenue (28% of revenue) on account of loss of SARTAN sales due to higher competition. The US sales declined rather by 38.1% YoY (-22.3% QoQ) to INR 4 bn. • The QoQ revenue growth in formulations revenue was driven by strong growth witnessed in India branded business (36% of revenue, +57.2% YoY/+34.4% QoQ) to INR 5 bn and equally strong growth in API revenue (21% of revenue, +5.7% YoY, +30.4% QoQ) to INR 3 bn. This was partially offset by Ex-USA revenue (15% of revenue, +12.6% YoY / -15.5% QoQ) declining sequentially to INR 2 bn in Q1FY22. • India business growth was driven by faster growth in acute and specialty segments than the pharma market.

Companies	Revenue and Segment-wise Performance
Granules India	• Granules India reported 15.5% YoY (up 6.3% QoQ) growth in revenue to INR 84,985 Lakhs in Q1FY22, mainly on account of new launches and increase in market share of existing products. The company faced challenges though in the quarter, such as shortage of raw materials, lower utilization in capacities, especially in Paracetamol, and logistic disruption. • The annual growth in revenue was driven by strong growth in PFI sales (20% of revenue in Q1FY22 vs. 19% in Q1FY21), which was up 50.0% YoY (+19.4% QoQ) and FD sales (53% of revenue in Q1FY22 vs. 29% in Q1FY21), which was up 25.0% YoY (-1.5% QoQ). Sequential growth in sales was driven by sequentially strong growth in PFI segment and API segment (26% of revenue in Q1FY22 vs. 52% in Q1FY21), which rose by 15.5% QoQ (-41.9% YoY).

Companies	Margin Performance
Sun Pharma	• The company's GPM remained under pressure as it contracted by 129 bps YoY / 97 bps QoQ to 72.7% in Q1FY22. However, lower employee and other costs led to 495 bps YoY and 404 bps QoQ rise in EBITDA margins to 28.2% in Q1FY22. • Consequently, and with fall in interest expenses by 32.5% YoY (+16.6% QoQ) to INR 351 mn, the company's reported PAT line turned profitable to INR 14,442 mn in Q1FY22 vs. loss of INR 16,556 mn in Q1FY21. • Adjusted Net profits excluding exceptional items increased 81.1% YoY / 32.4% QoQ to INR 20,752 mn. The adjusted NPM expanded by 624 bps YoY and 297 bps QoQ to 21.4% for Q1FY22.
Lupin	• EBITDA margin expanded by 789 bps YoY/302 bps QoQ to 21.7% in Q1FY22, mainly on account of lower operating expenses, both YoY and QoQ and receipt of NCE related income in Q1FY22. • Company's reported Net Profit of INR 5,425 mn in Q1FY22 vs. Net Profit of INR 1,069 million in Q1FY21. Net Profit margin came in at 12.7% (vs 3.0% in Q1FY21 and 12.2% in Q4FY21).
Cipla	• Gross Profits Margin (GPM) increased to 62.4% in Q1FY22 vs. 60.4% in Q4FY21 and 63.4% in Q1FY21. • EBITDA for the quarter grew 28.3% YoY (up 69.0% QoQ) to INR 13,459 mn. EBITDA margin expanded by 32 bps YoY (up 717 bps QoQ) to 24.5%. YoY improvement in EBIDTA margin was on account of higher GPMs and lower operating costs both YoY and QoQ. It was the result of cost containment measures the company has taken up. • The company recorded an exceptional loss of INR 1,246 mn in Q1FY22 pertaining to impairment of its investments in Avenue Tramadol IV NDA. • Reported Net Profit grew 23.7% YoY (up 72.9% QoQ) to INR 7,147 mn. However, net profit margin (NPM) contracted by 31 bps YoY (up 401 bps QoQ) to 13.0%. The YoY fall in margins was due to exceptional loss incurred in Q1FY22.

Companies	Margin Performance
Dr. Reddy's	• GPM contracted by 461 bps YoY (down 209 bps QoQ) due to price erosion and increase in inventory provisions related to few products. • EBITDA declined by 18.1% YoY (down 12.9% QoQ) to INR 9,183 mn while EBITDA margin contracted by 676 bps YoY / 355 bps QoQ to 18.6% in Q1FY22, primarily on account of lower Gross Profit Margin and higher other expenses (as a% of revenue) at 27.9% of revenue in Q1FY22 (vs 26.8% in Q4FY21 and 25.2% in Q1FY21). Expenses increased due to additional expenses incurred on the integration of Wockhardt's acquired portfolio. • Company's Reported Net Profit was at INR 3,804 mn during the quarter, a decline of 36.0% YoY (down 31.7% QoQ). The decline in Reported Net Profit was on account of lower EBITDA margins and impairment cost of INR 1,838 mn taken in Q1FY22. Finance cost declined by 17.2% YoY/35.0%, QoQ. Adjusted Net Profit Margin contracted at a slower pace by 31 bps QoQ while it compressed at a higher rate of 202 bps YoY to 11.4% in Q1FY22.
Cadila Healthcare	• The gross profits margin (GPM) declined 59 bps YoY and by 18 bps QoQ to 65.8% in Q1FY22. • EBITDA rose 18.0% YoY (+15.9% QoQ) to INR 9,330 mn. EBITDA margin expanded 69 bps YoY (+137bps QoQ). • EBITDA margin improvement YoY was on account of lower other operating expenses at 43% of revenue in Q1FY22 vs 44% in Q4FY21 and Q1FY21. each. • Finance cost declined 59.7% YoY (+17.7% QoQ) to INR 273 mn, while the company reported other non-operating gains at INR 224 mn (net income from discontinued operations) vs. such non-operating income of INR 156 mn in Q1FY21 and exceptional loss and income from discontinued operations of INR 463 mn in Q4FY21, thereby Adj. PAT grew 28.4% YoY (-23.8% QoQ) to INR 5,670 mn.
Glenmark Pharma	• EBITDA grew 20.0% YoY (+9.6% QoQ) to INR 5,736 mn. EBITDA margin contracted 104 bps YoY (+104 bps QoQ) to 19.3% due to reduced gross profits margin (GPM) YoY and QoQ. The GPM declined 394 bps YoY (-560 bps QoQ) to 61.6% in Q1FY22. • The adjusted net profits increased 35.6% YoY (+31.1% QoQ) to INR 3,065 mn due to increased EBITDA margins YoY, lower interest expenses; partially offset by lower other income, YoY. Strong double digit QoQ increase in adjusted net income was due to lower interest expenses QoQ and 590.6% rise in other income, sequentially. • Adjusted net profit margin expanded 70 bps YoY (+216 bps QoQ) to 10.3%.

Companies	Margin Performance
Torrent Pharma	• Gross margin for the quarter was at 72.4% and was lower by 153 bps YoY and by 195 bps QoQ due to higher Cost of Goods Sold (COGS) YoY and QoQ, respectively. • EBITDA grew 2.4% YoY (+16.3% QoQ) to INR 6,770 mn. EBITDA margin contracted 43 bps YoY to 31.7% in Q1FY22 (from 32.1% in Q1FY21), on account of higher COGS at 27.6% in Q1FY22 vs. 26.0% in Q1FY21. On a sequential basis though, EBITDA margin rose by 168 bps due to lower costs QoQ. • Net Profit grew 2.8% YoY (up 1.9% QoQ) with 15 bps YoY (-126 bps QoQ) decline in Net Profit Margin due to lower operating profitability. Other income grew 900% YoY / 2.6% QoQ to INR 400 mn while interest costs fell 33.3% YoY and by 6.8% QoQ to INR 680 mn.
Aurobindo Pharma	• EBITDA for the quarter declined 3.8% YoY (-5.1% QoQ) to INR 12 bn while EBITDA margin remained almost stable with 1 bps YoY (-3 bps QoQ) contraction in EBITDA margins to 21.2% in Q1FY22. • Reported Net Profit declined 1.7% YoY (-3.9% QoQ) to INR 8 bn mainly on account of decline in sales, both QoQ and YoY, coupled with 87 bps YoY (-139 bps QoQ) contractions in Gross Profit Margin (GPM) in Q1FY22. While Adj. Net Profit (adjusted for exceptional items and foreign exchange gains) declined 2.6% YoY (-5.8% QoQ) to INR 7 bn.
Alembic Pharma	• The company witnessed 1,258 bps YoY / 889 bps QoQ fall in EBITDA margins to 17.8% in Q1FY22 due to increased costs, both YoY and QoQ. • As a result, the PAT declined 45.4% YoY / 34.4% QoQ to INR 2 bn for the quarter.
Granules India	• Gross margin declined 300 bps QoQ and 530 bps YoY to 54.2% in Q1FY22. • EBITDA grew 9.7% YoY (down 0.3% QoQ) to INR 20,143 Lakhs in Q1FY22. EBITDA margin contracted 126 bps YoY and 157 bps QoQ to 23.7% in Q1FY22. Growth in EBITDA was on account of sales growth, especially in North America. • Net Profit grew 7.9% YoY / -5.8% QoQ to INR 12,020 Lakhs.

Coverage universe reported QoQ and YoY improvements

Particulars (INR Mn)	Sun Pharma	Lupin	Cipla	Dr. Reddy's
Total Revenue	**97,187**	**42,702**	**55,044**	**49,451**
Total Expenditure	**69,775**	**33,426**	**41,585**	**40,268**
Material Cost	26,494	15,280	20,688	17,021
Employee Cost	17,587	7,837	8,873	9,465
Other expenses	25,694	10,309	12,023	13,782
EBITDA	**27,412**	**9,276**	**13,459**	**9,183**
EBITDA Margin (%)	***28.21%***	***21.72%***	***24.45%***	***18.57%***
Depreciation	5,032	2,088	2,611	2,839
EBIT	**22,380**	**7,188**	**10,848**	**6,344**
Interest Expense	351	335	296	193
Other Income	1,525	278	649	1079
Exceptional Items	6311	0	0	0
Net (gain) /loss on FX	-799	-372	1,246	1,838
PBT	**18,042**	**7,503**	**9,955**	**5,392**
Tax	3,956	2,023	2,837	1,754
Share of Associates	-46	2	-19	166
Minority Interest	-401	57	-48	0
PAT	**14,442**	**5,425**	**7,147**	**3,804**
PAT Margin	***14.86%***	***12.70%***	***12.98%***	***7.69%***
Adj. PAT	**19,954**	**5,053**	**8,393**	**5,642**
Adj. PAT Margin	***20.53%***	***11.83%***	***15.25%***	***11.41%***
Adj. EPS	**8.3**	**11.1**	**10.4**	**33.9**

Source: Company, KRChoksey Research

KRChoksey research

Cipla and Sun led in margin improvement on QoQ and YoY basis

Particulars	Sun Pharma		Lupin		Cipla		Dr. Reddy's	
Change %	QoQ	YoY	QoQ	YoY	QoQ	YoY	QoQ	YoY
Sales	14.0%	28.1%	12.9%	21.0%	19.5%	26.6%	3.7%	11.7%
Total Expenditure	7.9%	19.9%	8.7%	10.0%	9.1%	26.1%	8.4%%	21.8%
Material Cost	18.2%	34.5%	16.0%	18.6%	13.5%	30.2%	10.4%	29.0%
Employee Cost	4.8%	0.0%	22.4%	-1.2%	8.9%	15.0%	6.0%	8.5%
Other expenses	0.9%	22.8%	-7.8%	7.6%	2.5%	28.4%	7.8%	23.8%
EBITDA	**33.1%**	**55.4%**	**31.1%**	**90.0%**	**69.0%**	**28.3%**	**-12.9%**	**-18.1%**
EBITDA Margin (bps)	***404 bps***	***495 bps***	***302 bps***	***789 bps***	***717 bps***	***32 bps***	***-355 bps***	***-676 bps***
Depreciation	-9.1%	1.5%	-3.2%	-2.7%	-8.4%	-2.9%	-8.1%	-2.9%
EBIT	**48.6%**	**76.4%**	**46.2%**	**162.9%**	**112.3%**	**39.1%**	**-14.9%**	**-23.5%**
Interest Expense	16.6%	-32.5%	5.1%	-24.4%	7.7%	-35.7%	-35.0%	-17.2%
Other Income	37.4%	-0.8%	-52.2%	-35.7%	8.0%	-0.8%	30.6%	23.9%
Exceptional Items	-6.2%	-82.6%	NM	NM	NM	NM	NM	NM
PBT	**99.8%**	**-182.6%**	**NM**	**NM**	**83.1%**	**24.6%**	**-32.4%**	**-39.6%**
Tax	618.7%	60.9%	274.6%	23.1%	121.3%	24.6%	-32.0%	-42.7%
Share of associates	-17.5%	-228.8%	-5.9%	-71.4%	-53.0%	-65.1%	-7.3%	115.6%
Minority Interest	-22.4%	-94.8%	42.1%	216.7%	156.7%	-59.6%	NA	NA
PAT	**61.5%**	**NM**	**17.8%**	**407.4%**	**72.9%**	**23.7%**	**-31.7%**	**-36.0%**
PAT Margin	***437 bps***	***3,669 bps***	***53 bps***	***967 bps***	***401 bps***	***-31 bps***	***-400 bps***	***-574 bps***
Adj .PAT	**26.5%**	**-3.0%**	**9.8%**	**372.7%**	**103.0%**	**45.2%**	**1.0%**	**-5.1%**
Adj PAT Margin	***202 bps***	***-659 bps***	***-34 bps***	***880 bps***	***627 bps***	***195 bps***	***-31 bps***	***-202 bps***

Source: Company, KRChoksey Research

Coverage universe reported improved performance QoQ and YoY

Particulars (INR Mn)	Cadila	Glenmark	Aurobindo	Torrent Pharma
Total Revenue	**40,254**	**29,649**	**57,020**	**21,340**
Total Expenditure	**30,924**	**23,913**	**44,926**	**14,570**
Material Cost	13,748	11,390	23,662	5,880
Employee Cost	6,542	5,964	8,699	3,850
Other expenses	10,634	6,559	12,564	4,840
EBITDA	**9,330**	**5,736**	**12,094**	**6,770**
EBITDA Margin (%)	***23.18%***	***19.35%***	***21.21%***	***31.72%***
Depreciation	1,827	1,131	2,797	1,650
EBIT	**7,503**	**4,605**	**9,297**	**5,120**
Interest Expense	273	756	129	680
Other Income	316	586	813	400
Exceptional Items	-224	0	-286	0
Net (gain) /loss on FX	0	0	0	0
PBT	**7,770**	**4,436**	**10,267**	**4,840**
Tax	1,415	1,370	2,477	1,540
Share of Associates	70	0	-90	0
Minority Interest	553	0	0	0
PAT	**5,872**	**3,065**	**7,700**	**3,300**
PAT Margin	***14.59%***	***10.34%***	***13.50%***	***15.46%***
Adj. PAT	**5,648**	**3,065**	**7,414**	**3,300**
Adj. PAT Margin	***14.03%***	***10.34%***	***13.00%***	***15.46%***
Adj. EPS	**5.3**	**10.9**	**12.7**	**19.5**

Source: Company, KRChoksey Research

EBITDA margin improvement across half the coverage companies on both QoQ and YoY basis

Particulars	Cadila Healthcare		Glenmark Pharma		Torrent Pharma		Aurobindo Pharma	
Change %	QoQ	YoY	QoQ	YoY	QoQ	YoY	QoQ	YoY
Sales	9.0%	14.5%	3.7%	26.4%	10.2%	3.8%	-5.0%	-3.8%
Total Expenditure	7.1%	13.5%	2.3%	28.1%	7.5%	4.4%	-5.0%	-3.7%
Material Cost	9.6%	16.5%	9.9%	39.9%	18.5%	9.9%	-1.7%	-1.7%
Employee Cost	7.2%	7.0%	11.0%	17.0%	12.9%	3.2%	1.8%	-2.0%
Other expenses	4.0%	14.0%	-23.8%	19.5%	-6.6%	-0.6%	-14.3%	-8.4%
EBITDA	**15.9%**	**18.0%**	**9.6%**	**20.0%**	**16.3%**	**2.4%**	**-5.1%**	**-3.8%**
EBITDA Margin (%)	***137 bps***	***69 bps***	***104 bps***	***-104 bps***	***168 bps***	***-43 bps***	***-3 bps***	***-1 bps***
Depreciation	-1.0%	5.7%	1.8%	-0.1%	0.0%	2.5%	5.1%	9.5%
EBIT	**20.9%**	**21.5%**	**11.7%**	**26.2%**	**22.8%**	**2.4%**	**-7.8%**	**-7.2%**
Interest Expense	17.7%	-59.7%	-9.3%	-19.3%	-6.8%	-33.3%	-29.3%	-38.9%
Other Income	-203.6%	40.4%	590.6%	0.2%	2.6%	900.0%	27.3%	-12.9%
Exceptional Items	-148.4%	43.6%	NM	-100.0%	NA	NA	NM	NM
PBT	49.2%	32.1%	31.4%	24.0%	26.4%	20.4%	-4.0%	-6.4%
Tax	-167.1%	19.7%	32.2%	32.3%	161.0%	90.1%	-4.6%	-17.7%
Share of associates	84.2%	-58.1%	NA	NA	NA	NA	7.5%	-25.0%
Minority Interest	-2.0%	69.6%	NA	NA	NA	NA	NA	NA
PAT	**-13.5%**	**29.3%**	**31.1%**	**20.7%**	**1.9%**	**2.8%**	**-3.9%**	**-1.7%**
PAT Margin	***-380 bps***	***167 bps***	***216 bps***	***-50 bps***	***-126 bps***	***-15 bps***	***15 bps***	***29 bps***
Adj. PAT	**-22.1%**	**28.8%**	**31.1%**	**35.6%**	**1.9%**	**28%**	**-5.7%**	**-2.6%**
Adj. PAT Margin	***-561 bps***	***156 bps***	***216 bps***	***70 bps***	***-126 bps***	***-15 bps***	***-10 bps***	***16 bps***

Source: Company, KRChoksey Research

KRChoksey research

Cipla and Sun reported highest growth in revenue on QoQ and YoY basis, respectively.

Particulars (INR Mn)	Alembic Pharma	Granules India
Total Revenue	**13,260**	**8,498**
Total Expenditure	**10,901**	**6,484**
Material Cost	3,851	3,891
Employee Cost	2,899	954
Other expenses	4,151	1,640
EBITDA	**2,359**	**2,014**
EBITDA Margin (%)	***17.79%***	***23.70%***
Depreciation	532	394
EBIT	**1,828**	**1,620**
Interest Expense	21	68
Other Income	19	76
Exceptional Items	0.00	0.00
Net (gain) / loss in FX	0.00	0.00
PBT	**1,826**	**1,629**
Tax	342	427
Share of Associates	99.2	0
Minority Interest	63	0
PAT	**1,645**	**1,202**
PAT Margin	***12.41%***	***14.14%***
EPS	**12.76**	**4.83**

Source: Company, KRChoksey Research

Cipla reports robust EBITDA and Adj. PAT growth.

Particulars	Alembic Pharma		Granules India	
Change %	QoQ	YoY	QoQ	YoY
Sales	3.6%	-1.1%	6.3%	15.5%
Total Expenditure	16.1%	16.7%	8.6%	17.5%
Material Cost	22.4%	14.0%	13.9%	30.7%
Employee Cost	22.2%	5.3%	-4.5%	14.0%
Other expenses	7.3%	29.4%	5.2%	-4.0%
EBITDA	**-31.0%**	**-42.1%**	**-0.3%**	**9.7%**
EBITDA Margin (bps)	***-889 bps***	***-1,258 bps***	***-157 bps***	***-126 bps***
Depreciation	3.8%	28.1%	-11.5%	15.6%
EBIT	**-37.1%**	**-50.0%**	**2.9%**	**8.4%**
Interest Expense	-17.6%	-68.4%	-0.4%	14.1%
Other Income	-52.4%	487.5%	132.5%	35.4%
Exceptional Items	NA	NA	NA	NM
PBT	-37.5%	-49.2%	5.8%	9.2%
Tax	-37.2%	-48.8%	61.5%	13.1%
Share of associates	96.4%	2,104.%	NA	NA
Minority Interest	-24.2%	-24.5%	NA	NA
PAT	**-34.4%**	**-45.4%**	**-5.8%**	**7.9%**
PAT Margin	***-717 bps***	***-1,007 bps***	***-182 bps***	***-101 bps***
Adj .PAT	**-34.4%**	**-45.4%**	**-5.8%**	**7.9%**
Adj PAT Margin	***-717 bps***	***-1,007 bps***	***-182 bps***	***-101 bps***

Source: Company, KRChoksey Research

KRChoksey research

Cipla and Glenmark remains our top picks in our Pharma coverage

Stocks	Recommendation		Market Cap.	CMP	Target Price (INR)		Upside	PE (x)	
	Revised	Old	INR Mn	INR	New	Old	%	5 Yr. Avg.	FY23 E
Sun Pharmaceutical Industries Ltd.	HOLD	HOLD	1,888,750	787	827	706	5.1%	25.9	24.1
Cadila Healthcare	BUY	ACCUMULATE	568,126	555	666	634	20.0%	24.3	22.9
Dr Reddy's Labs	HOLD	HOLD	778,343	4,678	4,790	5,575	2.4%	24.1	20.8
Cipla Ltd.	ACCUMULATE	HOLD	754,259	935	997	997	6.7%	24.7	22.4
Lupin	ACCUMULATE	ACCUMULATE	432,614	953	1,072	1,258	12.5%	24.9	21.5
Granules India	BUY	BUY	82,228	332	459	459	38.2%	14.0	12.2
Glenmark	BUY	ACCUMULATE	148,999	528	696	696	31.8%	13.0	12.3
Aurobindo Pharma	ACCUMULATE	ACCUMULATE	419,737	716	801	1,044	11.9%	11.9	11.2
Torrent Pharma	UR	UR	523,051	3,092	NA	NA	NA	35.9	32.0
Alembic Pharma	ACCUMULATE	HOLD	147,619	751	804	995	7.0%	18.4	17.0

Source: Bloomberg, KRChoksey Research
*Prices are taken as of 30th Aug 2021 ; Note: UR denotes UnRated

Petrochemicals and Chemical Sector

Chemical companies witnessed YoY revenue growth in Q1FY22

- Q1FY22 revenue growth was driven by growth in volume as well as on a low base of a covid hit previous year.
- UPL's revenue growth was led by strong growth in India (27%), Latin America (24%) and North America (19%), while Europe (-11%) and Rest of World (ROW) (-14%) reported negative growth for the quarter.
- Aarti Industries revenue growth was led by specialty chemical division's growth while Supreme Petrochemical's revenue growth was supported by buoyant growth in exports as the company faced reduced demand for its products in the domestic market due to partial lockdowns on account of Covid second wave .
- While for Himadri, sales volume increased from 63,084 MT in Q1FY21 to 86,200 MT in Q1FY22, a growth of 36.6% YoY, however due to disruption in operation on account of Covid 2nd wave, the company observed slow pick up in volumes for the quarter.

EBITDA Margins expanded across the company

- From our coverage universe, Supreme Petrochem's margin expanded by 1,993 bps YoY to 18.8% on a negative base of last year.
- Aarti Industries EBITDA margin expanded 442 bps YoY/231 bps QoQ to 23.8% in Q1FY22. Margin expansion was on account of higher margin in specialty segment (18.8% margin for Q1FY22 against 15.4% margin for Q1FY21).
- Himadri Speciality Chemical's EBITDA margin expanded by 541 bps YoY to 6.7% for the quarter.
- UPL was the only exception, for which EBITDA margin contracted by 255 bps YoY to 20.8% in Q1FY22.

Valuation & Outlook

- Specialty chemical companies are now seeing uptrend in demand with picking up of discretionary end use sector.
- For Supreme Petrochem, with enhanced capacity as well as lifting of lockdown, domestic demand will see revival in the coming quarter. For UPL, the sustainable solutions portfolio will be the growth driver over the next few years, while Aarti Industries growth will be driven by growth in both its pharma as well as specialty chemicals division.

Companies	Revenue	Margin	Industry Outlook / Strategy
UPL Ltd.	• UPL's consolidated revenue grew 8.7% YoY/-33.5% QoQ to INR 85,150 mn, on the back of strong growth in Latin American (24%), North American (19%) and Indian market (27%). Though Europe (-11%) and Rest of World (ROW) (-14%) reported negative growth for the quarter. • Volume growth for the quarter stood at 6% compared to 18% in Q4FY21.	• EBITDA has seen a decline of 3.2% YoY/33.1% QoQ to INR 17,740 mn, while EBITDA margin contracted by 255 bps YoY to 20.8% in Q1FY22, though on QoQ basis margin was mostly flat (12 bps increase). • Reported PAT has seen a strong growth of 22.9% YoY to INR 6,770 mn, adjusted for exceptional items PAT has grown by 28.5% YoY. Though on QoQ basis adjusted PAT declined by 35.3%.	• Despite a muted Q1FY22, UPL management is optimistic about the company's future growth and retained its 7-10% revenue and 12-15% EBITDA growth guidance for FY22E. • UPL has been gaining market share for last 10 years in all its market and has highest margin in its business as it is lowest cost manufacturer in all its products. • More than 80% of the potential sales of new product pipeline comes from Sustainable solutions business. The company is aiming for a sales mix target of 50% from sustainable solutions business in the medium term.
Aarti Industries	• Aarti Industries' consolidated revenue grew 40.5% YoY/8.9% QoQ to INR 13.2 bn. Specialty Chemical revenue grew 50.2% YoY/12.5% QoQ to INR 12.6 bn, while Pharma sales grew 23.7% YoY/7.3% QoQ to INR 2.4 bn. • The company was able to clock 9-10% QoQ volume growth in its specialty segment, driven by strong demand from established markets.	• Gross Profit margin expanded 135 bps YoY to 53.7% in Q1FY22, mainly due to lower inventory. Though on QoQ basis GPM remained mostly flat (14 bps decline). • EBITDA grew 72.4% YoY/20.6% QoQ to INR 3.1 bn. EBITDA margin expanded 442 bps YoY/231 bps QoQ to 23.8% in Q1FY22. Margin expansion was on account of higher margin in specialty segment (18.8% margin for Q1FY22 against 15.4% margin for Q1FY21).	• Company has maintained its guidance of 25-30% growth in topline and bottomline in FY22E. • Raw material cost is a pass through for the company, so higher raw material costs if persist for the subsequent quarters also, will not materially impact margin for the company. • Capex requirement will be funded partly by internal accruals, partly by debt and partly by QIP proceeds. • Despite higher capex requirement, company is targeting INR 16-17 bn of net debt level by March 2022.

Companies	Revenue	Margin	Industry Outlook / Strategy
Supreme Petrochemicals	• For the quarter, Supreme Petrochem's (SPL) revenue increased more than two times by 258.5% YoY to INR 10,478 mn mainly on account of low base and plant operations returning to normalcy as compared to a Covid hit last year. • During the quarter, the company faced reduced demand for its products in the domestic market due to partial lockdowns, though export demand was buoyant.	• EBITDA has grown manifold, from a negative INR 32 mn in Q1FY21 to INR 1,974 mn in Q1FY22, however sequentially EBITDA saw a decline of 37.6%. EBITDA margin expanded by 1993 bps YoY to 18.8% on a negative base of last year. • Net Profit stood at INR 1,463 mn against a loss of INR 119 mn in the corresponding quarter of last year. • PAT margin expanded by 1802 bps YoY.	• Supreme Petrochem is enhancing its Polystyrene capacity by 100,000 TPA with a total capex of INR 2500 mn, which will be completed by December 2021. • With enhanced capacity as well as lifting of lockdown, domestic demand will see revival in the coming quarter. Revival in domestic demand coupled with already strong export demand will help SPL to clock strong growth in the coming quarters.
Himadri Specialty Chemicals	• Revenue increased by 109.3% YoY/-4.6% QoQ to INR 5,398 mn. • Sales volume increased from 63,084 MT in Q1FY21 to 86,200 MT in Q1FY22, a growth of 36.6% YoY. Due to disruption in operation on account of Covid 2nd wave, the company observed slow pick up in volumes for the quarter.	• EBITDA grew by 1015.5% YoY/-11.1% QoQ to INR 359 mn. • EBITDA margin expanded by 541 bps YoY to 6.7%, though on QoQ basis EBITDA margin declined slightly by 49 bps. • The company reported Net Profit of INR 145 mn, against a loss of INR 126 mn in the corresponding quarter of previous year. • PAT margin expanded by 756 bps YoY, though on QoQ basis margin declined by 135 bps.	• Himadri is the most integrated speciality carbon corporation globally. The company is transforming towards high value products, like from coal tar to advance carbon material, from naphthalene to sulphonated naphthalene formaldehyde. • The company has a strong R&D division and is working towards increasing productivity of certain grades through debottlenecking and adopting new techniques and processes.

Companies	Revenue	Margin	Industry Outlook / Strategy
Reliance Industries	• Consolidated Net Revenue for the quarter stood at INR 1,400 bn, down 6.4% QoQ (+58.6% YoY) due to 18.1% QoQ (+21.9% YoY, 21.5% of gross revenue) decline in Retail segment revenue, slower 2.1% QoQ (+75.2% YoY, 57.6% of gross revenue) growth in Oil to Chemicals segment revenue and 3.4% QoQ (+9.9% YoY, 13.1% of gross revenue) increase in digital segment revenue.	• EBITDA margin increased 109 bps QoQ (-242 bps YoY) to 16.7% as O2C segment EBITDA increased by 57 bps QoQ (-201 bps YoY) to 11.9%, Retail segment EBITDA declined 263 bps QoQ (+162 bps YoY) to 5.1%, and Digital segment EBITDA remained flat as it increased by 7 bps QoQ (+297 bps YoY) to 39.6%.	• RIL's focus on new businesses such as Digital and Organized Retail for driving growth and their ability to quickly diversify into new businesses through acquisitions and successfully at that, can create long term shareholders' value once these new businesses generate the desired return on capital employed.

Supreme Petrochem and Aarti Industries reported healthy YoY revenue growth

Particulars (INR Mn)	Reliance Industries	UPL Ltd.	Aarti Industries	Supreme Petrochem	Himadri Speciality Chemical
Sales	**1,399,490**	**85,150**	**13,168**	**10,478**	**5,398**
Total Expenditure	**1,165,810**	67,410	10,030	8,504	5,038
EBITDA	**233,680**	**17,740**	**3,138**	**1,974**	**359**
EBITDA Margin (%)	**16.7%**	**20.8%**	**23.8%**	**18.8%**	**6.7%**
Depreciation	68,830	5,510	686	100	120
EBIT	**164,850**	**12,230**	**2,452**	**1,874**	**239**
Interest Expense	33,970	6,070	**383**	**11**	79
Other income	42,190	480	1	82	13
Exceptional items	**0**	**630**	**0**	**0**	0
PBT	**173,070**	**6,010**	**2,070**	**1,944**	**173**
Tax	**34,640**	**-1,520**	**419**	**482**	29
Share of Associates/Minorities	-370	680	2	0	-1
PAT	**138,060**	**6,770**	**1,649**	**1,463**	**145**
PAT Margin	**9.9%**	**8.0%**	**12.5%**	**14.0%**	**2.7%**
Adj. PAT	**138,060**	**7,400**	**1,649**	**1,463**	**145**
Adj. PAT Margin	**9.9%**	**8.7%**	**12.5%**	**14.0%**	**2.7%**
EPS	**18.63**	**8.8**	**4.5**	**15.6**	**0.3**
Adj. EPS	**18.63**	**9.7**	**4.5**	**15.6**	**0.3**

Source: Company, KRChoksey Research

KRChoksey | research

EBITDA margin expansion across the company except UPL & Reliance

Particulars	Reliance Industries		UPL Ltd.		Aarti Industries		Supreme Petrochem		Himadri Speciality Chemical	
Change (%)	QoQ	YoY	QoQ	YoY	QoQ	YoY	QoQ	YoY	QoQ	YoY
Sales	**-6.4%**	**58.6%**	**-33.5%**	**8.7%**	**8.9%**	**40.5%**	**-17.4%**	**258.5%**	**-4.6%**	**109.3%**
Total Expenditure	-7.6%	63.3%	**-33.6%**	**12.3%**	**5.7%**	**32.8%**	**-11.7%**	**179.0%**	**-4.1%**	**97.9%**
EBITDA	**0.1%**	**38.5%**	**-33.1%**	**-3.2%**	**20.6%**	**72.4%**	**-37.6%**	**NA**	**-11.1%**	**1015.5%**
Change in EBITDA Margin (bps)	109bps	-242bps	12bps	-255bps	231bps	442bps	-609bps	1993bps	-49bps	541bps
Depreciation	-1.3%	9.1%	-4.3%	5.6%	4.5%	31.9%	-0.6%	6.8%	0.7%	4.2%
EBIT	**0.7%**	**56.0%**	**-41.1%**	**-6.6%**	**26.0%**	**88.6%**	**-38.8%**	**NA**	**-16.1%**	**NA**
Interest Expense	-16.0%	-49.6%	44.2%	10.2%	77.1%	51.2%	-29.6%	-39.5%	11.1%	-25.1%
Other income	30.3%	-3.9%	-2.0%	-28.4%	400.0%	-77.3%	27.6%	360.7%	-54.8%	-49.4%
Exceptional items	-100.0%	-100.0%	-21.3%	152.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
PBT	**11.1%**	**110.5%**	**-63.0%**	**-25.0%**	**19.6%**	**97.3%**	**-37.5%**	**NA**	**-28.7%**	**NA**
Tax	149.7%	1,232.3%	-147.2%	-206.3%	24.3%	93.1%	-39.3%	NA	92.7%	NA
Share of Associates/Minorities	-364.3%	-111.5%	-81.0%	-29.9%	-93.2%	-83.6%	NA	NA	NA	NA
PAT	**-7.9%**	**4.2%**	**-35.3%**	**28.5%**	**21.1%**	**101.4%**	**-36.9%**	**NA**	**-36.5%**	**NA**
Change in PAT Margin (bps)	-16bps	-515bps	-24bps	134bps	127bps	379bps	-430bps	1802bps	-135bps	756bps

Source: Company, KRChoksey Research

KRChoksey research

Reliance Industries is the top pick

Stocks	Recommendation		Market Cap.	CMP	Target Price (INR)		Upside	PE (x)	
	Revised	Old	INR Mn	INR	New	Old	%	5 Yr. Avg.	FY23 E
Reliance Industries	BUY	BUY	14,631,980	2,270	2,818	2,464	24.1%	23.8	20.6
UPL Ltd.	BUY	ACCUMULATE	5,66,100	740	856	856	15.7%	21.1	11.2
Aarti Industries	ACCUMULATE	ACCUMULATE	1,62,566	933	1,050	916	12.6%	30.4	17.8
Supreme Petrochemicals	BUY	ACCUMULATE	59,233	630	806	784	27.9%	20.9	8.6
Himadri Speciality Chem.	UR	UR	19,503	47	-	-	-	19.5	-

Source: Bloomberg, KRChoksey Research, CMP as of 30th August 2021

Oil and Gas

Region-wise COVID related restrictions impacted CNG and PNG volumes for the quarter

- **CNG Segment:**
  - IGL is currently India's largest CNG distributor, operating CGD networks across 27 districts in 10 geographies.
  - IGL's reported CNG volumes of 332 million SCM (+126.1% YoY, -24.3% QoQ) upon favorable regulatory environment.
  - Total CNG stations operational by MGL were 274 stations out of which 19 stations were operational at Raigad GA as on quarter ended June 2021 . Overall sales volumes reduced by 17.1% compared to the previous quarter due to the second wave of COVID-19 at the onset of Q1FY22.
  - MGL connected 29,162 domestic households during Q1FY22 and thus established connectivity for nearly 1.63 million households.
- **PNG – Domestic and Commercial & Industrial connection:**
  - IGL's domestic PNG volumes increased 3% YoY & Industrial/Commercial PNG volumes increased 81% YoY.
  - IGL had tied up long term contract for RLNG to meet PNG Industrial & Commercial demand.
  - In Raigad GA MGL had laid 7.94 kilometers of pipeline during the quarter thereby taking the total length of pipeline to 268.81 kilometers.
  - MGL's Average realization/SCM for the quarter reached to INR 27.9/SCM & EBITDA/SCM was INR 13.9/scm.

KRChoksey | research

Companies	Revenue Performance
Indraprastha Gas Ltd	• Net Revenue for the quarter came in at INR 12,574 Mn (+96.9% YoY / -18.9% QoQ), mainly due to 96% YoY increase in total volumes backed by modest uptick in demand post lockdown relaxations with economic and business activities returning back to normalcy. • CNG & PNG volumes increased by 126.1% YoY & 51.0% YoY respectively. • There was decrease in sales volume by 22.1% QoQ due to lockdown restrictions arisen by second wave of the pandemic. • Realization (INR/scm) grew by 1.9% YoY/2.4% QoQ to INR 28.4/scm.
Mahanagar Gas Ltd	• Net revenue was reported at INR 6,155 Mn up 135.1% YoY (-14.2% QoQ) impacted by total volume growth of 115.46% YoY but degrowth of 16.14% QoQ. • CNG volume increased 222.9% YoY but decreased 23.65% QoQ to 141.11 SCM Million, PNG Domestic Volume improved 9.14% YoY/3.57% QoQ to 42.57 SCM Million and PNG Industrial/Commercial volume showed growth of 85.97% YoY but degrowth of 6.59% QoQ to reach 34.57 SCM Million.
Petronet LNG Ltd	• Q1FY22 revenue of Petronet LNG Ltd. Rose by 76.1% YoY (+13.5% QoQ) to INR 85.98 bn owing to increase in throughput by 10% QoQ. • During this quarter, Dahej terminal processed 194 TBTU of LNG (204 TBTU in Q4FY21) with a utilization rate of 87% while Kochi volumes remained stable at 15 TBTU with 24% utilization rate.
BPCL	• Bharat Petroleum Corporation Ltd (BPCL) reported standalone revenue of INR 709 bn (82.9% YoY), on account of a low base but fell by 7.8% QoQ as demand slowed down due to the second wave of Covid-19 . Market sales increased to 9.63MMT (+27.89% YoY). • The export sales decreased by 60.75% YoY (-51% QoQ) to 0.31 MMT. The company's throughput increased by 33.07%YoY at 6.84 MMT compared to prior year period, however, de-grew by 18.47% on a sequential basis.
HPCL	• Hindustan Petroleum Corporation Ltd (HPCL) reported standalone revenue of INR 724.4 bn which de-grew by 3.2% QoQ (up 92.1% YoY), as sales decreased due to second Covid wave impact. • GRM stood at US$ 3.31/bbl as against US $ 8.1 /bbl last quarter. Total domestic and export sales volumes reported at 8.45 million metric tonnes (+16.71% YoY) and 0.38 million metric tonnes (no change YoY), respectively. • The company's crude throughput decreased by 36.8% YoY(42% QoQ) to 2.51 MMT.

KRChoksey research

Companies	Margin Performance
Indraprastha Gas Ltd	• Gross Margin/scm stood at INR 14.2/ scm up 5.0% YoY & 5.3% QoQ. • EBITDA margin expanded by 1722 bps YoY (-142 bps QoQ) to 30.3% due to higher gross margin (INR 14.2/scm in Q1FY22 vs INR 13.5/scm in Q1FY21) and lower gas prices. • Company reported PAT margin of 19.4%, up by 1444 bps YoY (-192 bps QoQ) supported by decrease in effective tax rate by 3.3% YoY.
Mahanagar Gas Ltd	• Gross Margin/scm stood at INR 19.4/ scm up 20.9% YoY/9.9% QoQ led by lower natural gas price in Q1FY22. • Company reported EBITDA margin of 49.4%, up 1883 bps YoY (+533 bps QoQ) aided by higher gross margin & 18.7% YoY decrease in employee benefit expenses. • Company reported PAT margin of 33.2% (+1587 bps YoY/ +349 bps QoQ) backed by superior EBITDA margin and flat effective tax rate.
Petronet LNG Ltd	• EBITDA rose 15.9% YoY (-3.4% QoQ) to INR 10,543 Mn and margin declined 637 bps YoY to 12.3%, due to high cost of sales. • For Q1FY22, Petronet LNG Ltd. reported Net Profit of INR 6357 mn (+22.2% YoY /+ 2% QoQ) due to lower finance costs & higher other income.
BPCL	• EBITDA margin was at 4.6% down by 551 bps YoY due to rise in raw material costs and down by 199 bps QoQ and foreign exchange loss. • Profit after tax for Q1FY22 stood at INR 15017 mn reported a decrease of 87.4% QoQ(-27.7% YoY) as it had recorded a one time exceptional employee share based expense for Q1FY22 as against exceptional gain of 69.93 bn in the previous quarter.
HPCL	• EBITDA margin was at 4.4% down by 713 bps YoY (-183 bps QoQ), due to a) lower crude throughput as a result of planned shutdown of a refinery, b) foreign exchange loss of 710 mn and c) weak demand • For Q1FY22, PAT stood at 17.9 bn and PAT margin at 2.5% down by 498 bps YoY (-155 bps QoQ).

Companies	Outlook / Strategy
Indraprastha Gas Ltd	• An agreement had been finalized between IGL & Kinetic Green Energy & Power Solutions for setting up battery-swapping stations at Delhi-NCR initially and thereafter at mutually agreed locations. • Total volumes of IGL were up from 5.3 mmscmd in Q1FY21 to 7 mmscmd in July. CNG volumes of IGL had recovered to 5.2 mmscmd in July from 3.6mm scmd in Q1FY22.
Mahanagar Gas Ltd	• MGL added 40 new industrial/commercial PNG customers, taking the count up to 4,196. • Management expects Capex of INR 8000 Mn for FY22 depending on the approvals & lockdown restrictions being uplifted completely. • Added 5 new CNG stations (Total- 274) in Q1FY22 with 19 operational stations in Raigad GA. • MGL extended domestic household network to 1.63 Mn (+29,162 in Q1FY22) and laid 43.12 kms of steel and PE pipeline, totaling upto 5950 kms (Raigad GA ~ 7.94 kms in Q1FY22; Total ~ 268.81 kms).
Petronet LNG Ltd	• Expansion of Dahej terminal from 17.5 MTPA to 20 MTPA is expected to be concluded by FY23 end. • Company has a full fledged capex plans for the coming 5 years with an allocation of INR 150,000 Mn on different projects including addition of 2 tanks at the Dahej terminal, Dahej terminal's capacity expansion, introduction of 1,000 LNG stations, biogas project with MoPNG, tanker capacity expansion in Dahej & Kochi and other projects. • Utilization rate of Kochi terminal is expected to reach ~50% in the coming 2 years.
BPCL	• Capex guidance for FY22 is around INR 100 bn including INR 26 bn in refinery projects, INR 9.5 bn in petchem, INR 33 bn in marketing, 13 bn in equity investments in BPRL and remaining in other projects. • The company has added 130 retail outlets in this quarter. The PDPP project in Kochi shall lead to higher GRM boosting the company's profitability. • Improvement in product cracks, recovery in fuel demand, vaccination drive across the country etc will further support the future performance of the company. • The divestment of government stake in the company will be a major aspect to look forward to.
HPCL	• During the quarter, the company added 142 new retail outlets taking the total count to 18,776. It has added CNG facilities to 50 retail outlets taking the total number of outlets with CNG facilities to 724). • Capex for FY22 planned at INR 145 bn, which includes INR 50 bn in refining, INR 50 bn in marketing and rest on JVs, IT and R&D. • The refinery expansion and upgradation projects in Mumbai and Vizag are likely to aid company's future growth.

MGL has a better margin profile compared with IGL

Profit & Loss Account	CGD		Energy	OMC	
(INR Mn)	IGL	MGL	PLNG	BPCL	HPCL
Revenue from Operations	12574	6155	85,979	709213	724434
Expenses:					
COGS	5620	1910	73,396	626675	654333
Gross Profit	6954	4245	12,584	82538	70101
Gross Margin (%)	**55.3%**	**69.0%**	**14.6%**	**11.6%**	**9.7%**
Employee benefit expenses	374	200	429	7389	8359
Other expenses	2771	1005	1,612	42622	29812
EBITDA	3809	3040	10,543	32527	31930
EBITDA Margin (%)	30.3%	49.4%	12.3%	4.6%	4.4%
Depreciation and amortisation expenses	778	453	1,916	11446	9139
EBIT	3031	2587	8,627	21082	22790
Finance Cost	29	17	800	4867	2542
Other income	298	186	685	4517	3720
Profit/Loss before exceptional items	3299	2756	8,512	20732	23969
Exceptional item	0	0	0	-771	0
Profit before Tax (PBT)	3299	2756	8,512	19961	23969
Total Tax expense	857	716	2,155	4945	6019
PAT	2443	2041	6,357	15017	17950
PAT Margin (%)	**19.4%**	**33.2%**	**7.4%**	**2.1%**	**2.5%**
Diluted EPS	3.49	20.66	4.24	7.08	12.60

Source: Company, KRChoksey Research

MGL delivered highest annual revenue growth for the quarter

Particulars (INR Mn)	IGL		MGL		PLNG		BPCL		HPCL	
Change %	YoY	QoQ	YoY	QoQ	YoY	QoQ	YoY	QoQ	YoY	QoQ
Revenue from Operations	96.9%	-18.9%	135.1%	-14.2%	76.1%	13.5%	82.9%	-7.8%	92.1%	-3.2%
Expenses:										
COGS	87.9%	-21.3%	93.3%	-25.7%	91.3%	16.8%	104.6%	-4.8%	118.6%	0.4%
Gross Profit	104.8%	-16.9%	160.5%	-7.9%	20.2%	-2.7%	1.1%	-25.3%	-10.0%	-27.6%
Gross Margin (%)	**214 bps**	**134 bps**	**672 bps**	**477 bps**	**-680 bps**	**-244 bps**	**-941 bps**	**-273 bps**	**-1098 bps**	**-325 bps**
Employee benefit expenses	19.1%	9.0%	-18.7%	10.1%	19.1%	-0.3%	-18.2%	-34.8%	-3.3%	92.1%
Other expenses	23.4%	-10.8%	72.3%	-20.5%	59.4%	1.0%	27.5%	-12.2%	15.9%	-34.8%
EBITDA	356.4%	-22.5%	280.0%	-3.9%	15.9%	-3.4%	-16.9%	-35.7%	-26.7%	-31.6%
EBITDA Margin (%)	**1722 bps**	**-142 bps**	**1883 bps**	**533 bps**	**-637 bps**	**-214 bps**	**-551 bps**	**-199 bps**	**-713 bps**	**-183 bps**
Depreciation and amortisation expenses	14.1%	2.2%	7.1%	1.0%	-1.0%	-5.5%	14.9%	14.5%	5.5%	-2.5%
EBIT	1884.6%	-27.1%	585.7%	-4.7%	20.4%	-2.9%	-27.8%	-48.1%	-34.7%	-38.9%
Finance Cost	24.1%	-18.3%	11.1%	-10.5%	-9.2%	-1.6%	-17.1%	1.9%	-21.0%	23.8%
Other income	-2.6%	6.5%	-24.1%	8.3%	0.2%	39.3%	-23.9%	-72.9%	-33.9%	-31.7%
Profit/Loss before exceptional items	658.0%	-25.0%	354.0%	-3.9%	22.2%	-0.6%	-29.1%	-60.5%	-35.7%	-41.1%
Exceptional item	NA	NA	NA	NA	NA	NA	NA	-101.1%	NA	NA
Profit before Tax (PBT)	658.0%	-25.0%	354.0%	-3.9%	22.2%	-0.6%	-31.8%	-83.7%	-35.7%	-41.1%
Total Tax expense	632.7%	-21.4%	362.6%	-3.0%	22.2%	-7.4%	-41.8%	66.3%	-34.2%	-42.7%
PAT	667.2%	-26.2%	351.0%	-4.1%	22.2%	2.0%	-27.7%	-87.4%	-36.2%	-40.5%
PAT Margin (%)	**1444 bps**	**-192 bps**	**1587 bps**	**349 bps**	**-326 bps**	**-83 bps**	**-324 bps**	**-1341 bps**	**-498 bps**	**-155 bps**
Diluted EPS	675.6%	-26.2%	351.1%	-4.1%	22.2%	1.9%	-33.0%	-88.1%	-31.8%	-38.3%

Source: Company, KRChoksey Research

KRChoksey | research

Our top picks are Petronet LNG, HPCL and MGL

Stocks	Recommendation		Market Cap.	CMP	Target Price (INR)		Upside	PE (x)	
	Revised	Old	INR Mn.	INR	New	Old	%	5 Yr. Avg.	FY23 E
Indraprastha Gas Ltd	ACCUMULATE	HOLD	372295	532	574	574	8.1%	23.4	24.5
Mahanagar Gas Ltd	ACCUMULATE	ACCUMULATE	112286	1137	1293	1293	13.7%	19.1	12.4
Petronet LNG Ltd	BUY	BUY	345450	230	319	319	38.7%	16.4	9.5
BPCL	ACCUMULATE	ACCUMULATE	1025189	473	540	490	14.2%	9.3	11.8
HPCL	BUY	ACCUMULATE	368255	260	325	325	25.0%	6.5	6.1

Source: Bloomberg, KRChoksey Research

Auto and Auto Ancillary Sector

KRChoksey research

Risking its own survival ; Auto Industry putting all efforts to supply oxygen for medical use

Inflations continues to remain high

- The leading players of the auto industry had shut down their manufacturing plants to divert the oxygen from industrial use to medical use, which had impacted the production during the quarter.
- The industry continues to face heavy headwinds in the form of global semi-conductor shortage and steep rise in commodity prices.
- On one hand the industry is managing the supply chain challenges while on the other hand industry is also keeping a close eye on the onset of a likely 3rd wave o COVID-19 in India and across the globe.
- Amidst such challenging and uncertain business environment, industry is trying to maximize production and sales. However, the PV sales for Q1FY22 are still lower than the levels of FY17; for 2-w segments, sales is still lower than the levels of FY12; and for 3-w segments, sales has been pushed back by many years.

The growth in Q1FY22 attributed to differed sales of previous quarters.

- On YoY basis all the segments have performed well and have registered a decent growth; the 2-w was up by 17%, 3-w was up by 22%, PV was up by 43%, tractors were up by 14%, and CV was up by 236% (on a very low base due to non-availability of BS-6 vehicles).
- Positive momentum from Q1FY22 is expected to continue in FY22; with many states in India opening up, a further pick-up in demand is expected.

Macro Developments

- On the sales front, a deep structural slowdown in the industry even before the pandemic, combined with the impact of COVID-19 in FY21, has pushed all vehicle segments back by many years. Recovery from here will require time and efforts, by all stakeholders.
- There is uncertainty in the value chain owing to semiconductors, lockdowns and raw material. In an environment of uncertainty, instead of trying to predict the future, we will all work hard to create it.

KRChoksey | research

Companies	Revenue and Segment-wise Performance
Maruti Suzuki	• MSIL reported total revenue from operations of INR 177,764 Mn, growth of 332.5% YoY (down 26.0% QoQ). In domestic market, the company sold 308,095 vehicles, higher by 359.7% over the same period previous year, and down by 32.5% QoQ. • Exports were at 45,519 vehicles, higher by 375.5% over the same period previous year, and 28.1% QoQ due to surge in demand. The average realization for the quarter decreased by 1.1% YoY and increased by 2% QoQ to INR 475,091 per unit. • The PV segment demonstrated weak performance during the quarter with a volume de-growth of 31.8% QoQ, however, due to the low base effect and gradual signs of recovery the volume grew by 351.0% YoY. • The PV segment was impacted due to the state-wise lockdown in Q1FY21 which dragged the performance of PV.
Tata Motors	• In Q1FY22, consolidated revenue grew by 107.6% YoY/ -25.1% QoQ to INR 664,065 Mn. Revenue growth was due to strong demand for M&HCV +524.4%, ILCV +521%, SCV & Pick Ups +284% and CV Passenger +572%; Domestic PV volumes were up 342% on YoY basis. Wholesales increased by 351% to 114,170 units in CV as the volume across all segments grew as compared to Q1FY21, however, they were lower than Q4FY21 due to the lockdowns imposed due to the second wave of pandemic. • Domestic Retails continues to be higher than wholesales in PV due to continued strong demand. Market shares of CV retails was steady at 40.5%, PV market shares at 10%. EV business continues to grow rapidly and delivered 5x revenue growth and highest quarterly sales at 1,715 units. JLR retail sales were 124.5K vehicles, up 68% YoY.
Bajaj Auto	• For Q1FY22, Bajaj Auto reported total revenue from operations of INR 73,860 Mn, a growth of 140% YoY (-14% QoQ). For Q1FY22 2-W domestic volumes grew by 84.2% YoY at 342,552 units whereas 2-W Export volume has outperformed the domestic business with a growth of 160% YoY at 556,753. After four consecutive quarters the CV segment has witnessed robust growth, Domestic CV grew by 176% YoY, the CV exports grew by 143% YoY. • The average realization for Q1FY22 stood at INR 71,734 per unit (+7.8% YoY) as against INR 66,543 per unit in Q1FY21. The realization growth was led by price hike across all the models in the range of 1.5-2%. The average realization has beat our estimates of INR 69,204 per unit (actual realization per unit reported +3.7% than our estimates).
Eicher Motors	• Eicher Motors reported consolidated revenue from operations of INR 19,743 Mn, a growth of 141.3% YoY (-32.9% QoQ). Average price realization increased by 10.7% YoY and by 15.6% QoQ due to higher mix of BS-VI motorcycles. • Total volumes sales increased by 117.9% YoY at 129,446 vehicles due to gradual revival in demand. • In its Joint venture business, VECV continued to be affected by demand slowdown in commercial vehicle space. VECV sold 5,806 trucks and buses registering a growth of 172.7% YoY.
Ashok Leyland	• Revenue in Q1FY22 increased by 353.4% YoY (-57% QoQ) to INR 29,510 Mn. The increase in YoY revenue was driven by the growth in the company's domestic MHCV sales which increased by 1041%, nearly double the industry average of 562%. • LCV domestic sales volumes for the company also saw an increase of 224% YoY and export (MHCV & LCV) sales volume increased by 254% YoY.

Companies	Margin Performance
Maruti Suzuki	• EBITDA stood at INR 8,189 Mn (-194.6% YoY / -58.9% QoQ), OPM increased by 2565bps YoY, and reduced by 369bps QoQ to 4.6% in Q1FY22, OPM was below our expectations on account of rise in raw material prices, unfavorable product mix and adverse forex fluctuation. • Net Profit stood at INR 4,750 Mn (-277% YoY / -61.7% QoQ), with NPM at 2.7% (+920bps YoY / -249bps QoQ). There was a cascading effect on margins due to higher employee expenses which increased by 45.3% YoY and other expenses which almost doubled as compared to the last year same quarter. • The margin performance was also hit by adverse commodity prices, adverse foreign exchange fluctuation and lower fair value gains on invested surplus, though it was supported by improved capacity utilization, and increase in selling prices.
Tata Motors	• EBITDA increased sharply by 727% YoY/ -58.7% QoQ to INR 52,577 Mn, with OPM at 7.9% (+593 bps YoY / -646 bps QoQ), due to better volumes, improved product mix, lower VME and cost savings offset partially by lower proportion of CV in total sales, commodity inflation and financing costs. • Free cash flow for the quarter was INR -8.0KCr, majorly impacted by working capital of INR -7.1KCr, expected to improve from Q2FY22. While EBIT margin was (3.9%) improving 1,546 bps YoY. • The shortage of semiconductor supplies constrained production resulting in a pre-tax loss of £110 million with an EBIT margin of (0.9) % and a free cash outflow of £996 million marking a significant improvement from the loss of £413 million and cash outflow of £1.6 billion at the peak of the pandemic a year ago.
Bajaj Auto	• Gross margins contracted by 590 bps YoY and 110 bps QoQ due to inflationary trends in raw material costs however, it was partially offset by price hike and favorable forex. • As the quarter witnessed sharp increase in the input cost and higher employee cost, EBITDA margin contracted on QoQ basis by 260 bps however, it expanded by 165 bps YoY. EBTIDA for the quarter stood at INR 11,177 Mn (+174% YoY). • For the quarter, Net Profit stood at INR 11,699 Mn (+122% YoY), with NPM at 16.2% (-168 bps YoY.
Eicher Motors	• Absolute EBITDA decreased by 42.8% QoQ to INR 3,630 Mn due to rise in raw material costs; while EBITDA margin expanded 1792 bps YoY, contracted by 319 bps QoQ to 18.4%. The contraction in margins was due to inflationary trends in the commodity prices. Overall, bottom line recorded a profit of INR 2,371 Mn (-54.9% QoQ) with NPM of 12% (+1876 bps YoY / -588 bps QoQ).
Ashok Leyland	• Absolute EBITDA diminished by 58.0% YoY (-126.2% QoQ) to EBITDA loss of INR 1401.0 Mn. One-offs worth INR 400-450 Mn related to CSR, R&D and MTM losses & negative operating leverage together resulted in higher EBITDA loss. • Company reported Net Loss of INR 2822.9 Mn (+27.4% YoY / -217.1% QoQ) .Net Profit margin stood at -9.57% (+5017 bps YoY / -1301 bps QoQ). • EPS for the quarter stood at INR -0.96 (-27.4% YoY / -217.1 % QoQ).

KRChoksey research

Companies	Industry/Outlook/ Strategy
Maruti Suzuki	• The management anticipates that replacement demand will recover and normalise to 25–26% levels (from 18% in FY21). • Commodity inflation (350bp QoQ) and operating deleverage (400bp) reduced 1QFY22 EBITDA margins. Furthermore, COVID-related charges increased staff costs by 20bp (INR0.3b). The launch of a 250k capacity in Gujarat impacted 1QFY22 margins even further. • The Management expects a further impact in 2Q as well and should see some stability thereafter. Precious metals have seen a sharp cost increase; it is already working on lowering the consumption of the same. • It took price increases in January (1.3%) and April (1.6%) and has taken one in July as well (small increase). It is attempting to strike a balance between cost pass-through, demand, and market share.
Tata Motors	• Sequential improvement in overall performance is expected from the second half of FY22. • In CVs, the focus remains on growing market share and protecting margins amidst a volatile environment, while in PVs, the company will continue to enhance the sales momentum by leveraging its portfolio and "Reimagining" the front end. • Profitability impacted by lower operating leverage and commodity inflation. • JLR now expects semiconductor supply shortages in the second quarter ended 30 September 2021 to be greater than in the first quarter, potentially resulting in wholesale volumes about 50% lower than planned.
Bajaj Auto	• The company may face supply side constraints due to the current pandemic situation in India. • The other focus area for Bajaj Auto would be premiumization of the segments going forward. • The company is already facing inflation pressure due to higher commodity prices which may continue in H1FY22. • The company expects cost to increase by 3.0% in Q1FY22 of which it would recover ~2.0% through price hikes. • The management will be focusing on cost optimization measures to improve margins in the coming quarters. • The company expects FY22 to be the best year for exports. It expects inflection point in between 3-5 years in EV (electric vehicle) segment.
Eicher Motors	• Royal Enfield announces local motorcycle assembly unit in Colombia, the second such facility for the company outside India after Argentina. • During the quarter, Royal Enfield expanded its presence in international markets and commenced operations in Singapore and the Netherlands with the launch of standalone, flagship stores. • The company remained focused on deepening its presence in India and international markets. EML has added 535 dealerships and studio format stores, taking the retail presence to 2056 retail touchpoints across 1,750+ cities. • Royal Enfield expanded its presence in international markets by announcing its entry into Japan with its 1st standalone flagship store in Tokyo. The company witnessed a significant recovery in the truck segment.
Ashok Leyland	• Management saw a strong demand for their AVTR line and expects the trend to continue, contributing to the top line of the company. • Management also expects the demand for LCV's and ICV's to go up, citing an increase in e commerce activity as the main driver for demand in this segment. • The strategic plan of the management is to enter addressable markets using their LCV line and penetrating it further with the ICV and M&HCV lines.

Companies	New Launches/Market share
Maruti Suzuki	• In 1QFY22, the segment share was 38% (up from 32% in FY21), with a comparable split between Entry and Mid-SUV. • MSIL anticipates that SUV market share will grow to 42–43% over the next five years and then plateau. MSIL's mid-SUV category is a weak spot, and it will be scrutinized more closely in the future. • Share was lower at 40% v/s wholesale share of 46% in 1QFY22 due to CNG availability being impacted for MSIL (impacted 5.1% of market share), faster growth in the SUV biz, & lower stock levels impacting retail in Apr–May'21.
Tata Motors	• All models gained market share in respective segments. • Achieved highest ever UV sales in history of Tata Motors. Nexon and Harrier witnessed their respective highest sales since launch. • Continued to lead the EV market with 71.4% market share in FY21. • Nexon EV crossed 4000 sales mark since launch.
Bajaj Auto	• The key focus area for Bajaj Auto would be on capturing market share and it is positive on demand outlook from overseas market. • Share of 125cc+ (cubic capacity) increased from 46.0% in FY20 to 60.0% in FY21 in overall motorcycle volume. • The share of premium motorcycles (Pulsar and Dominar brand) in exports increased from ~13.0% in FY20 to ~16.0% in FY21, further strengthening the financial performance of the company. • New version of Pulsar, three upgraded variants of Platina & CT110 were introduced and distributed to dealers and distributors in FY21 and April 2021. • The re-opened bookings for electric scooter, Chetak was closed within 48 hours due to surge in demand.
Eicher Motors	• Royal Enfield launch its all-new, grounds up motorcycle in the cruiser segment, the Royal Enfield Meteor 350. The motorcycle has received excellent response from the end users. • The market share of Royal Enfield declined marginally by 70 bps from 26.6% in FY20 to 25.9% in FY21. • Vintage Store opened in Chennai, Bangalore, Delhi, Mumbai, Patna, Kanpur, Indore, Patiala, Hyderabad, Dehradun, Kolkota, Mathura, Bhadrak, Ghaziabad and Noida. Pre-owned, refurbished and restored motorcycles - a first-of-its-kind in twowheeler industry. • Launched the new Himalayan in three new distinctive, terrain-inspired colorways, combined with a host of functional upgrades including the Tripper navigation pod.
Ashok Leyland	• Management states that the focus is on West Asia and Africa to expand the company's market share in the LCV and AVTR segments of those markets. • The company plans to expand its product basket in the coming quarters in order to cater to global demand. The management rationalizes this by looking at the market share increase they have seen over the past year.

KRChoksey | research

Margin highest for Bajaj Auto due to favorable currency and better cost rationalization.

Particulars (INR Mn except no. of vehicles)	Maruti Suzuki	Tata Motors	Bajaj Auto	Eicher Motors	Ashok Leyland
No of vehicles	**353,614**	**114,531**	**1,006,014**	**129,446**	**17,987**
Sales	**177,764**	**664,065**	**73,860**	**19,743**	**29,510**
Total Expenditure	**177,237**	**695,691**	**63,348**	**16,113**	**30,615**
Cost of Raw Materials	85,435	375,307	48,801	11,393	22,334
Purchase of Stock	49,396	36,778	3,842	689	2,117
Changes in Inventories	(1,913)	13,416	1,301	-665	-2,579
Employee Cost	10,721	79,947	3,623	2,234	4,243
Other expenses	25,936	106,189	5,115	2,463	4,795
EBITDA	**8,189**	**52,577**	**11,177**	**3,630**	**(1,401)**
EBITDA Margin (%)	4.6%	7.9%	15.5%	18.4%	(4.7%)
Depreciation	7,438	62,021	642	1,116	**1,835**
EBIT	**751**	**-25,811**	**10,535**	**2,513**	**(3,236)**
Interest Expense	224	22,033	23	64	**707**
Other Income	5,079	5,816	3,293	1,220	**134**
Exceptional Items	0	-25	0	0	**17**
PBT	**5,606**	**-25,785**	**14,915**	**3,669**	**(3,826)**
Tax	1,215	17,420	3,215	904	**-1,003**
Share of Associates/Minorities	**4,750**	-1,295	0	-394	**0**
PAT	**4,750**	**-44,508**	**11,699**	**2,371**	**(2,823)**
PAT Margin	2.7%	-6.7%	16.2%	12.0%	(9.6%)
EPS	**15.7**	**-11.6**	**40.4**	**8.7**	**(0.96)**

Source: Company, KRChoksey

KRChoksey | research

Volumes of all segments was negatively impacted leading to significant decline in revenue/profitability

Particulars	Maruti Suzuki		Tata Motors		Bajaj Auto		Eicher Motors		Ashok Leyland	
Change (%)	QoQ	YoY	QoQ	YoY	QoQ	YoY	QoQ	YoY	QoQ	YoY
No of vehicles	(28.2%)	361.6%	(40.1%)	358.5%	(14.0%)	127.0%	(41.9%)	117.9%	(59.2%)	371.6%
Sales	(26.0%)	332.5%	(25.1%)	107.6%	(14.1%)	139.9%	(32.9%)	141.3%	(57.8%)	353.4%
Total Expenditure	(22.3%)	206.8%	(16.8%)	79.4%	(11.3%)	131.5%	(30.1%)	97.9%	(53.7%)	240.2%
EBITDA	(58.9%)	(194.6%)	(58.7%)	727.2%	(26.5%)	173.9%	(42.8%)	9,477.0%	(126.2%)	(58.0%)
Change in EBITDA Margin	-369bps	2565bps	-646bps	593bps	-260bps	165bps	-319bps	1792bps	(1238 bps)	(4645 bps)
Depreciation	0.3%	(5.1%)	(0.2%)	10.8%	(3.1%)	0.6%	(10.6%)	13.7%	(16.0%)	12.1%
EBIT	(94.0%)	(104.6%)	(145.3%)	-58.3%	(27.6%)	206.0%	(50.7%)	NM	(202.5%)	34.9%
Interest Expense	(31.3%)	27.3%	2.7%	17.4%	12.3%	141.1%	63.5%	26.5%	(8.2%)	(7.9%)
Other income	466.2%	(61.5%)	(15.9%)	-4.1%	16.1%	-2.5%	7.1%	6.8%	(64.7%)	(47.7%)
Exceptional items	-	-	(100.0%)	-21.7%	-	-	-	-	(104.5%)	0.6%
PBT	(57.2%)	(260.9%)	(66.3%)	-58.3%	(23.8%)	118.9%	(52.4%)	NM	(221.9%)	30.4%
Tax	(14.7%)	(219.8%)	(1415.5%)	-20.8%	(21.1%)	109.3%	(44.4%)	1,904.2%	(237.9%)	37.7%
PAT	(61.7%)	(277.0%)	(41.5%)	-47.3%	(24.6%)	121.7%	(54.9%)	NM	(217.0%)	27.4%
Change in PAT Margin	-249bps	920bps	188bps	1968bps	-222bps	-168bps	-588bps	1876bps	(1301 bps)	5017 bps

Source: Company, KRChoksey

Agri Demand on surge

Healthy growth as demand recovers

- The strong recovery in end market demand across sector continued into this quarter enabling the company to register healthy double digit-growth in key parameters. The union budgets focus on infrastructure development along with the vehicle scrapping policy bodes well for both the Commercial Vehicles & Industrial sector growth over the medium term.
- Agriculture demand remains stronger. Other sectors demand stable.
- Significant changes in product mix due to evolving demand scenario in the end market.
- The global trucking industry is witnessing synchronized recovery in demand levels driven by improving economic growth prospects and strong trucking fundamentals.
- The PV segments continues to witness strong momentum across geographies and quarterly revenues hitting all time high.

Performance overview

- Balkrishna Industries has strengthened its distribution channels within the Indian market
- Balkrishna is expected to reach 100% utilization levels at Bhuj plant in next few years.
- Bharat Forge Industrial business revenue have started to recover meaningfully primarily driven by the oil & gas space. With the crude prices hovering around USD70 mark, the viability of the shale drilling industry has improved and prospects over the coming few quarters looks positive.

Gearing up new launches to bolster sales; Rural recovery expected to boost domestic demand

- Rural market led by good monsoon and robust crop output is expected to show strong growth as compared to urban region .
- This will drive the demand for Tractor, Small Commercial Vehicles and Motorcycle in coming quarters.

KRChoksey | research

Companies	Revenue
Minda Corporation	• Revenue reported at INR 5586.3 Mn (-29.65% qoq) as volumes were impacted in most states due to lockdown restrictions and lower consumer sentiment during the quarter. Q1FY22 financials are not comparable with Q1FY21 due to change in industry dynamics related to COVID. • In revenue breakdown by geography, India continues to be the focus area contributing to 77.9%. By end product, the 2-3 Wheelers market contribute to 50.4%, passenger vehicles to 15.9% ,commercial vehicles to 22.6% and aftermarket to 11.1%. From business vertical, the mechatronics + aftermarket vertical and the information & connected systems vertical constitutes 60.8% and 39.2% respectively.
Minda Industries	• Minda Industries Ltd (MIL) reported consolidated revenue of INR 16,025 Mn (+243% YoY; -28% QoQ), industry volumes were down by ~35%. • Switches, Lighting, Acoustics, Castings, Seatings & Others business segments accounted for 27%, 20%, 9%, 17%, 12% and 14% respectively of total revenue of the company in Q1FY22.
Sundram Fasteners	• Sundram Fasteners Ltd (SFL) reported consolidated revenue of INR 11,124 Mn (+198.1% YoY / -14.8% QoQ). The Company's domestic and export sales grew strongly by 321.5% & 163.9% respectively on YoY basis. • SFL benefited by the opening up of western geographies which in turn resulted in higher exports for the company. • Company's revenue from subsidiaries declined 10% QoQ.
Balkrishna Industries	• In Q1FY22, revenue from operations stood at INR 18,029 Mn (+91.3% YoY/+2.8% QoQ) owing to sales volume growth of 80% YoY at 68,608 MT units. • The volume recovery was mainly due to strong demand from agriculture segment across all geographies. • In other segments, demand has seen an uptick on back of increased commodity prices, infrastructure creation and pick-up in economic activities.
Bharat Forge	• For Q1FY22, Bharat Forge reported consolidated revenue from operations of INR 21,077 Mn, a growth of 82.6% YoY (+1.2% QoQ). The strong recovery in the end market demand across sector continued during the quarter enabled the company to register healthy double-digit growth. Total shipment tonnage grew by 199.9% YoY (-4.2% QoQ) to 53,512. • Standalone Domestic revenue registered a de-growth of 21.8% QoQ to INR 4,418 Mn, mainly due to COVID-19 lockdown in several states of India. However, it has registered a growth of 186.7% YoY on the back of low base last year due to nation-wide lockdown.
Endurance Technology	• Endurance Technologies Q1FY22 revenue increased by 180.8% YoY (-20.6% QoQ) to INR 16,937 Mn, backed by +116.9% YoY growth in 2W segment. There was de-growth of 35% QoQ in 2W volumes due to second wave of the pandemic. • The company recorded domestic aftermarket sales of INR 626 Mn vs INR 169 Mn in Q1FY21, showing a YoY growth of 270.4%. • European business revenue rose by 1% QoQ supported by improved new car registration numbers in EU & UK but partially offset by reduced production of cars in Germany.

Companies	Margin
Minda Corporation	• Consolidated EBTIDA for Q1FY22 stood at INR 308.1 mn (-65.37% qoq) and EBITDA margin stood at 5.52% (-569 bps qoq) due to lower operating leverage, adverse product mix and lag of commodity prices indexation. The management observes MoM recovery and it is optimistic to start double digit EBITDA margin numbers from Q1FY22 onwards. • Net Profit from continued operations reported at INR 71.1 mn (-87% qoq). PAT margin stood at 1.3%. • EPS for the quarter stood at INR 0.30 as against INR 2.28 in Q4FY21.
Minda Industries	• Consolidated EBITDA for Q1FY22 stood at INR 1467 Mn (-273.8% YoY / -51.4% QoQ). Consolidated EBITDA margin stood at 9.2% (+2719 bps YoY / --432 bps QoQ). Q1FY22 EBIDTA and EBIDTA margins were impacted by lower volumes which resulted in negative operating leverage. • Consolidated PAT stood at INR 154 Mn (-111.5% YoY / -89% QoQ). PAT margin stood at 0.96% (+2971 bps YoY / -531 bps QoQ).
Sundaram Fasteners	• EBITDA for the quarter stood at INR 2,005 Mn up by 1223.9% YoY (down by 15.3% QoQ) while EBITDA margin reported at 18.0% (+1396 bps YoY/ -58 bps QoQ). Annual growth in EBITDA margin was backed by stringent cost control measures & improvement in operational efficiency. • Net Profit for Q1FY22 stood at INR 1,196 Mn(+453.21 % YoY) benefitted by better operating profit margin & decrease in interest expense by 32% YoY. PAT margin for the quarter stood at 10.8% as against -9.08% in Q1FY22.
Balkrishna Industries	• EBITDA improved by 112.6% YoY to INR 5,112 Mn, while EBITDA margin expanded by 285 bps YoY due better product mix and operational efficiency. Though the margins improved on YoY basis, but it felt the heat of inflation in raw material prices, the raw material cost has increased by 451 bps YoY as a % of sales; on the other hand, lower employee cost (-267 bps YoY) and other expenses (-347 bps YoY) has negated the effect of raw material cost inflation. • PAT increased by 151.1% YoY to INR 3,307 Mn (-13% QoQ), PAT margin improved by 437 bps YoY to 18.3%. PAT was impacted due to higher income tax (+808 bps YoY / +728 bps QoQ).
Bharat Forge	• The Company reported Consolidated EBITDA of INR 4,503 Mn (+6.9% QoQ), with OPM at 21.4% (+2668 bps YoY / +72 bps QoQ). The margins were driven by improvement in performance of overseas operations. • PAT during the quarter stood at INR 1,527 Mn, with NPM at 7.2%. • BFL continues to focus on restructuring, operational optimization and cost improvement across business segment to stabilize margins.
Endurance Technology	• EBITDA for Q1FY22 increased by 471.8% YoY but declined 26.45% QoQ to INR 2,443 Mn, while EBITDA margin for Q1FY22 enhanced at 14.4% (up 734 bps YoY). EBITDA margin was affected by lower sales, increased employee costs. • Endurance Technologies Ltd. (ETL) reported net profit of INR 966 Mn as compared to net loss of INR 249 Mn in Q1FY21 (+487.7% YoY) supported by decrease in effective tax rate by 24.92% YoY.

Companies	Industry Outlook / Strategy
Minda Corporation	• Minda Corp observed steady order growth with INR 12.8 bn of lifetime orders in Q1FY22 as against INR 10.5 bn in Q4FY21. It has also received orders in Electric Vehicle (EV) segment worth INR 2.4 bn. • 'Mechatronics' and 'Information & Connected Systems' are expected to deliver growth of ~30% and ~15% during FY21-23E, respectively. The management sights major opportunity in EV segment backed by incremental growth in demand by customers. It also expects support from government for its 'Traffic Light Assistant (TLA) for Advanced Driver Assistance Systems (ADAS)' technology in partnership with Israel based 'Ridevision'. It will offer growth in 2Ws business post acceptance of collision system avoidance in Indian markets.
Minda Industries	• Management sights positive outlook on Harita Seatings business post addition of new 2W customer. Also, exports from Harita Seatings were ~INR 1000 Mn. Aftermarket sales of Harita Seatings will gain momentum from FY 23 onwards. • MIL aims to reduce Net Debt to Equity ratio to approx. 0.3 (current 0.47) by the end of FY22 through early repayment of Non-convertible Redeemable Preference (NCRPS) of approx. ~INR 2280 Mn by August 2021 end & also by utilization of QIP funds raised. • The company is in discussion with OLA, Ampere Electric and other new age EV OEMs to supply components.
Sundaram Fasteners	• The company expects INR 1000-1500 Mn towards capital expenditure every year for capacity expansion which in turn will result in enhanced capacity utilization. • Management expects to double company's revenue in the e-mobility division. • Company's focus is on developing products for alternate power trains, including EVs.
Balkrishna Industries	• The management is confident of maintaining 28-30% EBITDA margin on a long-term sustainable basis. • The company witnessed strong demand tailwinds across geographies and segments as sales volume numbers have clocked 68,608 MT for Q1FY22 which is the highest quarterly sales volumes. • Capex plan for FY22, FY23 is INR 1,900 Cr and Capex for FY22 INR 900-1,000 Cr out of which INR 366 Cr incurred in Q1FY22. • Current capacity is 285,000 MT which is maximum capacity for the company and further capacity could only be increased when new plants will come into operations; the management is confident of achieving sales volume target of 250,000 to 265,000 MT in FY22.
Bharat Forge	• Although the near-term outlook is negative due to the lockdown to curb the 2nd COVID 19, the medium to long term outlook is very encouraging especially for the M HCV sector. The focus on infrastructure spending, government's focus on increasing manufacturing as % of GDP from 16% to 25%, PLI schemes, AtmaNirbharta policy and the scrappage policy coupled with investment in road infrastructure points to a long runway for the MHCV sector. • The Company continues to identify and address new opportunity in the domestic automotive industry, the commencement of operations at CLWT enables BFL to open newer avenues for the company to address in traditional and new technology mobility solution going ahead.
Endurance Technology	• LPDC cylinder head plant with 720000 numbers capacity to be set up in Pantnagar by September 2021. • After-market exports are currently to 30 countries, 4 more countries will be added in this year. • Company's Disc brake assembly capacity to increase from last year's level of 285000 numbers p.m. to 570000 numbers p.m. through project executed in Pantnagar (45000 p.m.) and larger project in Aurangabad scheduled to begin production in Aug-21.

Margin highest for Balkrishna Industries due to better cost rationalization.

Particulars (INR Mn)	Minda Corporation	Minda Industries	Sundaram Fasteners	Balkrishna Industries	Bharat Forge	Endurance Technology
Sales	**5,586**	**16,026**	**11,124**	**18,029**	**21,077**	**16,937**
Total Expenditure	5,278	15,649	9,663	**12,917**	**16,574**	15,491
EBITDA	**308**	**1,467**	**2,005**	**5,112**	**4,503**	**2,443**
EBITDA Margin (%)	**5.5%**	**9.2%**	**18.0%**	**28.4%**	**21.4%**	**14.4%**
Depreciation	251	905	466	1,068	1,668	983
EBIT	**57**	**562**	**1,538**	**4,043**	**2,835**	**1460**
Interest Expense	75	185	78	25	501	15
Other income	77	61	171	822	407	127
Exceptional items	0	0	0	0	616	315
PBT	**59**	**438**	**1,632**	**4,840**	**2,125**	**1258**
Tax	14	139	427	1,535	507	293
Share of Associates/Minorities	26	-50	9	0	(91)	0
PAT	**71**	**154**	**1,196**	**3,307**	**1,527**	**966**
PAT Margin	**1.3%**	**0.96%**	**10.8%**	**18.3%**	**7.2%**	**5.7%**
Adj. PAT	**71**	**154**	**1,196**	**3,307**	**1,527**	**1,280**
Adj. PAT Margin	**1.3%**	**0.96%**	**10.8%**	**18.3%**	**7.2%**	**7.6%**
EPS	**0.3**	**0.55**	**5.70**	**17.1**	**3.3**	**6.6**
Adj. EPS	**0.3**	**0.55**	**5.70**	**17.1**	**3.3**	**8.8**

Source: Company, KRChoksey Research

KRChoksey | research

YoY Revenue growth witnessed in all the coverage companies due low base effect

Particulars	Minda Corp.		Minda Ind.		Sundaram Fast.		Balkrishna Ind.		Bharat Forge		Endurance Tech.	
Change (%)	QoQ	YoY	QoQ	YoY	QoQ	YoY	QoQ	YoY	QoQ	YoY	QoQ	YoY
Sales	-29.7%	213.9%	-28.4%	242.5%	-12.6%	198.1%	2.8%	91.3%	1.2%	82.6%	-20.6%	180.8%
Total Expenditure	-25.1%	166.2%	-24.0%	140.9%	-11.2%	133.6%	7.4%	84.0%	0.0%	41.9%	-19.1%	138.3%
EBITDA	-65.4%	NM	-51.4%	-273.8%	-15.3%	1223.9%	-7.1%	112.6%	5.8%	NM	-26.5%	471.8%
Change in EBITDA Margin	(569 bps)	1693bps	(432 bps)	2719 bps	(58 bps)	1396 bps	-304bps	285bps	92bps	2258bps	(115 bps)	734 bps
Depreciation	4.1%	23.8%	-15.55%	16.91%	3.2%	5.2%	0.6%	5.2%	3.8%	20.4%	-12.1%	14.9%
EBIT	91.3%	NM	-71.1%	134.8%	-19.7%	627.6%	-9.0%	191.2%	6.9%	NM	-33.7%	441.0%
Interest Expense	-2.1%	(2.7%)	22.6%	-6.7%	11.7%	-32.1%	-10.4%	-7.1%	118.3%	36.2%	-21.5%	-64.8%
Other income	6.4%	(13.5%)	-31.0%	-0.5%	98.5%	302.1%	34.1%	127.8%	-22.3%	-9.6%	84.7%	16.9%
Exceptional items	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NA	NA
PBT	-90.9%	NM	-76.9%	124.9%	-13.6%	610.9%	-3.7%	181.0%	-0.6%	-281.2%	-44.2%	448.4%
Tax	-91.1%	NM	-70.8%	134.3%	-11.2%	6453.7%	25.0%	277.0%	-11.4%	-367.2%	-23.1%	361.5%
PAT	-87%	NM	-89.0%	-111.5%	-15.0%	453.2%	-13.0%	151.1%	NM	NM	-48.5	487.7%
Change in PAT Margin	(560 bps)	2169 bps	60 bps	608 bps	(30 bps)	1983 bps	-333 bps	437 bps	-277bps	1828bps	(309 bps)	983 bps

Source: Company, KRChoksey Research

KRChoksey | research

Our top pick is Bajaj Auto

Stocks	Recommendation		Market Cap.	CMP	Target Price (INR)		Upside	PE (x)	
	Revised	Old	INR Mn.	INR	New	Old	%	5 Yr. Avg.	FY22 E
Tata Motors	BUY	BUY	969,364	292	394	394	35.1%	11.3	16.2
Maruti Suzuki	BUY	ACCUMULATE	2,053,208	6,797	8,000	8,000	17.7%	24.2	28.6
Bajaj Auto	BUY	ACCUMULATE	1,076,561	3,720	4,325	4,325	17.0%	18.8	16.2
Ashok Leyland	ACCUMULATE	ACCUMULATE	3,57,107	122	135	135	10.7%	15.2	59.2
Eicher Motors	UR	UR	698,272	2,554	UR	UR	-	39.5	26.6
Minda Corporation	BUY	BUY	29,156	122	152	152	24.6%	19.6	16.8
Minda Industries	ACCUMULATE	ACCUMULATE	2,04,347	715	790	687	10.5%	29.9	57.2
Sundaram Fasteners	HOLD	HOLD	1,68,176	800	850	815	6.3%	26.0	36.8
Balkrishna Industries	BUY	ACCUMULATE	439,342	2,273	2,700	2,455	18.8%	19.0	24.3
Bharat Forge	UR	UR	353,754	760	UR	UR	-	31.3	31.4
Endurance Technology	UR	UR	2,36,046	1,678	UR	UR	-	33.0	38.2

Source: Company, KRChoksey, CMP as of 30th August 2021

Holding Companies

Revenue witnessed recovery, driven by improved performance of underlying holdings

- On a YoY basis, holding companies reported good revenue growth, bolstered by the strong financials of their underlying portfolio firms.
- Revenue growth at Bajaj Holdings, EID Parry, Ramco Industries, and Pilani Investments improved both YoY and QoQ.

Expansion in margins on a QoQ basis

- Almost all the holding companies' EBITDA margins increased QoQ, owing to increasing revenues and fewer expenses.
- Bajaj Holding/EID Parry/Ramco Industries EBITDA margins saw a strong QoQ expansion of 801/225/764 bps, respectively.

Valuation & Outlook

- EID Parry and Pilani Investments are trading above their five-year Price/NAV discount average, offering upside potential for investor to invest.

Companies	Revenue	Margin	Industry Outlook / Strategy
Bajaj Holdings	• Revenues for the quarter stood at INR 977 Mn, an increase of 5.6% QoQ/ 8.2% YoY.	• EBITDA margins stood at 69.2% vs 74.9% in Q1FY21.	• BHIL remains essentially a holding and investment company. It holds strategic stakes in Bajaj Auto Ltd., Bajaj Finserv Ltd. and Maharashtra Scooters Ltd., which it consolidates and other investments of over INR 100,000 Mn (at market value). • As against a book value of INR 1,306 per share, NAV of its investments was INR 11,648 per share as on 30 June 2021.
EID Parry	• The consolidated revenue was INR 43,540 Mn registering an increase of 5% in comparison to the corresponding quarter of previous year of INR 41,420 Mn.	• The core operating margins excluding the other income stood at 10.0% vs 10.4% in Q1FY21. • PAT margins stood at 3.05% vs 0.71% in Q1FY21.	• The Company has commenced the operations of 60 KLPD Bagalkot Distillery project at the end of the quarter. • The debt reduction measures have helped in reduction of finance cost. • Industry is expecting an increase in MSP for Sugar which is long overdue.
Ramco Industries	• The consolidated revenues stood at INR 4,190 Mn, a growth of 23.4% QoQ/ 37.5% YoY.	• EBITDA margins stood at 19.3% vs 20.2% in Q1FY21. • PAT margins stood at 18.0% vs 20.3% in Q1FY21.	• The Company is taking various steps to expand its market presence both in domestic and international markets and hope to achieve higher volume of sales in value added yarns in the forthcoming years.
Pilani Investments	• The consolidated revenues stood at INR 550 Mn, a growth of 46.7% YoY/9.5% QoQ.	• The core operating margins excluding the other income stood at 97.2% vs 95.9% in Q1FY21. • PAT margins stood at 63.7% vs 22.0% in Q1FY21.	• The Company continues to hold significant strategic investments in various diversified and renowned Companies. • The Company will continue to focus on making long-term strategic investments.

KRChoksey research

Increase in topline for Holding Companies on a YoY basis

Particulars (INR Mn)	Bajaj Holdings	EID Parry	Ramco Industries	Pilani Investments
Sales	**977**	**43,540**	**4,188**	**549**
Total Expenditure	285	39,200	3,378	15
EBITDA	**692**	**4,340**	**810**	**534**
EBITDA Margin (%)	70.81%	9.98%	19.34%	97.23%
Depreciation	84	810	85	1
EBIT	**607**	**3,540**	**726**	**533**
Interest Expense	8	340	22	164
Other income	130	570	15	2
Exceptional items	0.0	0	0.0	0.0
PBT	**729**	**3,770**	**718**	**371**
Tax	218	990	296	93
Share of Associates/Minorities	7,274	-1,454	333	72
PAT	**7,786**	**1,330**	**756**	**350**
PAT Margin	797.30%	3.05%	18.05%	63.68%
Adj. PAT	**7,786**	**1,330**	**756**	**350**
Adj. PAT Margin	797.30%	3.05%	18.05%	63.68%
EPS	70.0	**7.49**	**9.05**	**31.62**
Adj. EPS	**70.0**	**7.49**	**9.05**	**31.62**

Source: Company, KRChoksey Research

Expansion in margins on a YoY basis

Particulars	Bajaj Holdings		EID Parry		Ramco Industries		Pilani Investments	
Change (%)	QoQ	YoY	QoQ	YoY	QoQ	YoY	QoQ	YoY
Sales	**5.6%**	**8.2%**	**11.4%**	**5.1%**	**23.4%**	**37.5%**	**9.5%**	**46.7%**
Total Expenditure	**-17.2%**	**25.8%**	**8.7%**	**5.6%**	**12.6%**	**39.0%**	**-13.1%**	**-1.7%**
EBITDA	**19.0%**	**2.3%**	**43.8%**	**0.9%**	**104.6%**	**31.4%**	**10.4%**	**48.7%**
Change in EBITDA Margin (bps)	801 bps	-409 bps	225 bps	-42 bps	764 bps	-90 bps	72 bps	136 bps
Depreciation	0.2%	0.4%	-0.9%	-3.7%	7.1%	4.1%	-21.8%	-21.5%
EBIT	**22.4%**	**2.6%**	**60.3%**	**2.0%**	**129.6%**	**35.6%**	**10.4%**	**49.0%**
Interest Expense	-13.3%	-17.9%	-14.6%	-61.5%	10.5%	-36.1%	3.6%	120.9%
Other income	-34.7%	-14.0%	178.7%	270.9%	-91.7%	-13.5%	-79.5%	NA
Exceptional items	NA	NA	-100.0%	NA	NA	NA	NA	NA
PBT	**6.3%**	**-0.6%**	**101.5%**	**37.8%**	**51.5%**	**38.7%**	**11.3%**	**30.7%**
Tax	-31.1%	-23.4%	-20.3%	-32.0%	**140.4%**	**75.5%**	13.1%	34.6%
Share of Associates/Minorities	-20.4%	14.7%	109.9%	47.3%	**6.5%**	**23.9%**	-356.9%	-154.0%
PAT	**-18.1%**	**14.6%**	**-2191.6%**	**351.8%**	**13.8%**	**22.3%**	**56.4%**	**324.2%**

Source: Company, KRChoksey Research

KRChoksey | research

EID Parry and Pilani Investments are top picks

Stocks	Recommendation		Market Cap.	CMP	Target Price (INR)		Upside	P/NAV Discount	
	Revised	Old	INR Mn.	INR	New	Old	%	5 Yr. Avg.	Current
Bajaj Holdings	ACCUMULATE	BUY	472,163	4,239	4,495	4,166	6.0%	53%	56%
EID Parry	BUY	BUY	71,789	406	514	514	26.6%	32%	54%
Ramco Industries	ACCUMULATE	ACCUMULATE	26,008	300	325	300	8.3%	52%	55%
Pilani Investments	BUY	BUY	20,396	1,838	2,300	2,300	25.1%	74%	84%

Source: Bloomberg, KRChoksey Research, CMP as of 30th August 2021

Miscellaneous

Companies in the miscellaneous sector witnessed YoY revenue growth in Q1FY22

- Q1FY22 revenue growth was driven by growth in volume as well as on a low base of a covid hit previous year.
- Emmbi's revenue growth was led by strong growth in exports market, volume growth for the quarter stood at 6% YoY.
- Solar Industries revenue growth was led by robust 45% YoY growth in its explosives volumes to 1,01,782 MT. The value of explosives increased by 74% YoY to INR 4,190 mn. While rate of explosives increased by 20% YoY to INR 41,161 per MT.
- While for ABB, total revenue grew 44.6% YoY to INR 14,250 mn driven by increase in revenue across business segments due to continued focus on execution of order backlog. Motion segment grew 27.3% YoY, while Electrification business grew 61.1% YoY. Robotics and Discrete Automation segment grew 261.7% YoY while Process Automation business grew 12.7% YoY.

EBITDA Margins expanded across the company on YoY basis except Emmbi

- From our coverage universe, ABB's margin expanded by 427 bps YoY to 6.6% for the quarter.
- Solar Industries EBITDA margin expanded 245 bps YoY/38 bps QoQ to 21.2% in Q1FY22. Margin expansion was on account of lower employee cost at 8.2% of revenue (vs 9.9% in Q1FY21) and lower other expenses at 13.7% of revenue (vs 16.4% of revenue).
- Emmbi was the only exception, for which EBITDA margin contracted by 95 bps YoY to 10.7% in Q1FY22, due to higher other expenses. Though on QoQ basis margin expanded by 125 bps.

Valuation & Outlook

- For Emmbi Industries, with domestic demand coming back after relaxation of Covid-19 curbs coupled with strong growth in export markets like US and Europe, the company is expected to clock 16.2% and 79.3% CAGR growth in its revenue and PAT over FY21-23E period. Solar Industries has a strong order book of INR 17 bn which is 0.7xFY21 sales, thereby providing good revenue visibility for the next two quarters. ABB will continue to leverage growth pockets and calibrate its businesses to the recovery of growth industries like datacenters, renewables, electronics, F&B, and pharmaceuticals that should re-start the long overdue capex cycle.

Companies	Revenue	Margin	Industry Outlook / Strategy
Emmbi Industries	• Emmbi's revenue grew 105% YoY/12.6% QoQ to INR 1,042 mn. It was the highest quarter revenue in company's history. • Volume growth for the quarter stood at 6% compared to 18% in Q4FY21.	• EBITDA has seen a growth of 88.2% YoY/27.6% QoQ to INR 111 mn, while EBITDA margin contracted by 95 bps YoY due to higher other expenses. Though on QoQ basis margin expanded by 125 bps to 10.7%. • Reported PAT has seen a strong growth of 322.9% YoY/46.1% QoQ to INR 45 mn, while PAT margin expanded 221 bps YoY/99 bps QoQ to 4.3%.	• During Q1FY22, Emmbi had redefined its product verticals. Emmbi will now operate from two main verticals, 1) B2B and 2) Avana – B2C. The B2B vertical will consists of Emmbi's a) domestic business and b) International business. While Avana – B2C vertical will consists of a) Avana Consumer Durables and b) Avana Consumer Goods. • With domestic demand coming back after relaxation of Covid-19 curbs coupled with strong growth in export markets like US and Europe, we expect Emmbi to report 16.2% and 79.3% CAGR growth in its revenue and PAT over FY21-23E period.
Solar Industries	• Solar Industries' (SOIL) revenue from operations grew by 68% YoY to INR 8,252 mn (up 4.3% QoQ). • The quantity of explosives increased by 45% YoY to 1,01,782 MT and its value increased by 74% YoY to INR 4,190 mn. While rate of explosives increased by 20% YoY to INR 41,161 per MT.	• Gross margin for the quarter declined to 43.1%, a contraction of 171 bps QoQ and 197 bps YoY. • EBITDA for the quarter grew a whopping 90.1% YoY to INR 1,747 mn, while on QoQ basis EBITDA saw a growth of 6.2%. • EBITDA margin for Q1FY22 rose to 21.2%, an expansion of 38 bps QoQ and 245 bps YoY. • Net Profit stood at INR 975 mn for the quarter, a growth of 7.1% QoQ and 131.6% YoY.	• The company has a strong order book of INR 17 bn which is 0.7xFY21 sales, thereby providing good revenue visibility for the next two quarters. • Solar Industries has a healthy balance sheet with comfortable leverage (D/E at 0.4x) and has an impressive return ratio profile (ROE=19%; ROCE=21% in FY21). • For FY22 the company has a capex plan of INR 3,150 mn which will be used for defence and some for expansion in the international markets.

Companies	Revenue	Margin	Industry Outlook / Strategy
ABB	• For Q2CY21, total revenue grew 44.6% YoY/-12.5% QoQ to INR 14,250 mn driven by increase in revenue across business segments due to continued focus on execution of order backlog. On a sequential basis, there was a decline of 12.5% primarily due to interruptions caused by the second wave of pandemic. • As far as segmental performance is concerned, Motion segment (34.7% of sales) grew 27.3% YoY/-20.7% QoQ, while Electrification business (40% of sales) grew 61.1% YoY/-8.9% QoQ. Robotics and Discrete Automation segment (6.2% of revenue) grew 261.7% YoY/85.6% QoQ while Process Automation business (18.5% of revenue) grew 12.7% YoY/-17.9% QoQ.	• EBITDA for the quarter saw a growth of 304.2% YoY/-28.4% QoQ to INR 948 mn. EBITDA margin saw an expansion of 427 bps YoY to 6.6%, though on QoQ basis margin declined by 147 bps. • PAT for continuing operation came at INR 683 mn for the quarter; up 307.9% YoY/-54.6% QoQ. PAT margin for the quarter stood at 4.8%.	• Order inflow for the quarter stood at INR 16.89 bn, a growth of 41% YoY, while total order backlog as of June 30, 2021, stood at INR 45.83 bn, widely spread across various end markets. • ABB has a business continuity plan in place with people and operations, and safety protocols with close monitoring and engagement in its key market segments. The cautious lookout for commodity price cycles is being factored in by the company's different business divisions. • The company will continue to leverage growth pockets and calibrate its businesses to the recovery of growth industries like datacenters, renewables, electronics, F&B, and pharmaceuticals and other large core industries that should re-start long overdue capex cycle.

Emmbi, Solar and ABB all have reported healthy YoY revenue growth

Particulars (INR Mn)	Emmbi Industries	Solar Industries	ABB
Sales	**1,042**	**8,252**	**14,250**
Total Expenditure	930	6,505	13,302
EBITDA	**111**	**1,747**	**948**
EBITDA Margin (%)	10.7%	21.2%	6.6%
Depreciation	21	252	284
EBIT	**90**	**1,495**	**664**
Interest Expense	33	**103**	**16**
Other income	0.1	0.8	252
Exceptional items	0	0	0
PBT	**57**	**1,401**	**900**
Tax	**12**	**392**	**216**
Share of Associates/Minorities	0	33	0
PAT	**45**	**975**	**683**
PAT Margin	4.3%	11.8%	4.8%
Adj. PAT	**45**	**975**	**683**
Adj. PAT Margin	4.3%	11.8%	4.8%
EPS	**2.5**	**10.8**	**3.2**
Adj. EPS	**2.5**	**10.8**	**3.2**

Source: Company, KRChoksey Research

EBITDA margin expansion on YoY basis across the company except Emmbi

Particulars	Emmbi Industries		Solar Industries		ABB	
Change (%)	QoQ	YoY	QoQ	YoY	QoQ	YoY
Sales	**12.6%**	**105.0%**	**4.3%**	**68.0%**	**-12.5%**	**44.6%**
Total Expenditure	**11.0%**	**107.2%**	**3.8%**	**62.9%**	**-11.1%**	**38.2%**
EBITDA	**27.6%**	**88.2%**	**6.2%**	**90.1%**	**-28.4%**	**304.2%**
Change in EBITDA Margin (bps)	125bps	-95bps	38bps	245bps	-147bps	427bps
Depreciation	12.0%	18.8%	11.8%	10.5%	12.4%	14.1%
EBIT	**31.8%**	**117.5%**	**5.3%**	**116.3%**	**-38.0%**	**NA**
Interest Expense	14.1%	15.9%	-2.1%	-16.6%	-49.7%	-57.3%
Other income	-90.0%	-56.0%	-67.2%	-79.4%	-0.2%	-5.3%
Exceptional items	0.0%	0.0%	0.0%	0.0%	NA	NA
PBT	**41.3%**	**337.9%**	**4.6%**	**130.7%**	**-30.3%**	**320.2%**
Tax	26.3%	402.0%	0.7%	134.2%	-59.2%	224.9%
Share of Associates/Minorities	NA	NA	-16.9%	78.6%	NA	NA
PAT	**46.1%**	**322.9%**	**7.1%**	**131.6%**	**-54.6%**	**307.9%**
Change in PAT Margin (bps)	99bps	221bps	31bps	324bps	-445bps	310bps

Source: Company, KRChoksey Research

KRChoksey | research

Emmbi Industries is the top pick due to its strong results and future growth potential

Stocks	Recommendation		Market Cap.	CMP	Target Price (INR)		Upside	PE (x)	
	Revised	Old	INR Mn	INR	New	Old	%	5 Yr. Avg.	FY23 E
Emmbi Industries	BUY	BUY	1,822	103	139	118	35.4%	15.3	7.4
Solar Industries	HOLD	ACCUMULATE	1,58,086	1,747	1,832	1,693	4.9%	39.2	38.1
ABB	UR	UR	4,07,447	1,922	-	-	-	74.5	-

Source: Bloomberg, KRChoksey Research, CMP as of 30th August 2021

Terms & Conditions and other disclosures:

- KRChoksey Shares and Securities Pvt. Ltd. (hereinafter referred to as KRCSSPL) is a registered member of National Stock Exchange of India Limited and Bombay Stock Exchange Limited. KRCSSPL is a registered Research Entity vides SEBI Registration No. INH000001295 under SEBI (Research Analyst) Regulations, 2014.
- We submit that no material disciplinary action has been taken on KRCSSPL and its associates (Group Companies) by any Regulatory Authority impacting Equity Research Analysis activities.
- KRCSSPL prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analyst cover.
- The information and opinions in this report have been prepared by KRCSSPL and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of KRCSSPL. While we would endeavor to update the information herein on a reasonable basis, KRCSSPL is not under any obligation to update the information. Also, there may be regulatory, compliance or other reasons that may prevent KRCSSPL from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or KRCSSPL policies, in circumstances where KRCSSPL might be acting in an advisory capacity to this company, or in certain other circumstances.
- This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. KRCSSPL will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. KRCSSPL accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice. Our employees in sales and marketing team, dealers and other professionals may provide oral or written market commentary or trading strategies that reflect opinions that are contrary to the opinions expressed herein, .In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.
- Associates (Group Companies) of KRCSSPL might have received any commission/compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of brokerage services or specific transaction or for products and services other than brokerage services.
- KRCSSPL or its Associates (Group Companies) have not managed or co-managed public offering of securities for the subject company in the past twelve months
- KRCSSPL encourages the practice of giving independent opinion in research report preparation by the analyst and thus strives to minimize the conflict in preparation of research report. KRCSSPL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither KRCSSPL nor Research Analysts have any material conflict of interest at the time of publication of this report.
- KRCSSPL or its associates (Group Companies) collectively or its research analyst do not hold any financial interest/beneficial ownership of more than 1% (at the end of the month immediately preceding the date of publication of the research report) in the company covered by Analyst, and has not been engaged in market making activity of the company covered by research analyst.
- This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other Jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject KRCSSPL and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investor persons in whose possession this document may come are required to inform them of and to observe such restriction.

Please send your feedback to research.insti@krchoksey.com
Visit us at www.krchoksey.com

KRChoksey Shares and Securities Pvt. Ltd.
Registered Office:
1102, Stock Exchange Tower, Dalal Street, Fort, Mumbai – 400 001.

Phone: 91-22-6633 5000; Fax: 91-22-6633 8060
Corporate Office:
Abhishek, 5th Floor, Link Road, Andheri (W), Mumbai – 400 053.
Phone: 91-22-6696 5555; Fax: 91-22-6691 9576.

Thank You