

HSIE Results Daily

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Results Reviews

- **ITC:** ITC's 1QFY21 beat revenue expectations as the company clocked 17% YoY decline vs the estimated decline of 28% YoY. Cigarette (adjusted for excise duty on inventory) net revenue/EBIT declined by 35/39% YoY with a volume dip of 35% YoY. The company saw sequential improvement in cigarette revenue with marginal sales in April, 30-35% YoY decline in May and a strong recovery in June. However, the last 10 days have been challenging due to the return of lockdowns. FMCG showed strong momentum as the company saw a comparable growth of 12% YoY, with 34% YoY growth in staples, convenience foods and health & hygiene (75% of the portfolio). The growth was led by packaged foods (biscuits, atta, and noodles) and hygiene products. We expect the FMCG momentum to sustain, at a slightly lower growth rate. We maintain our EPS estimate for FY21/FY22/FY23 as we expect a recovery in the company 2HFY21 onwards. We value ITC on SoTP and arrive at a target price of Rs 236 (implied P/E of 18x P/E Jun-22E EPS). Maintain BUY.
- **Ambuja Cements:** Ambuja delivered earnings beat in 2QCY20 as other expenses fell sharply, cushioning the impact of the COVID-led revenue loss. Standalone revenue/EBITDA fell 27/15% YoY to Rs 21.77/5.95bn. Dividend income from ACC, however, buoyed APAT by 10% to Rs 4.53bn. Volume fell 29% YoY, mainly on the large sales loss in April. However, execution of pent-up retail demand drove flattish volume growth in May/Jun. We expect continued traction in retail sales to yield slower volume decline of 10% in 2HCY20 vs the 19% YoY fall in 1H. We expect buoyant pricing in north markets, subdued energy cost outlook and healthy cost controls, to drive 8% EBITDA CAGR (CY19-22E). We maintain BUY with a revised target price of Rs 230.
- **AU Small Finance Bank:** AUBANK's 1QFY21 net earnings were 52% higher than estimates, driven by a sharp fall in operating expenditure and high treasury gains. The reduction in moratorium or improvement in collection efficiency and retail deposit traction were promising. We continue to believe that AUBANK is one of the best-placed SFBs due to its relatively better deposit franchise, largely secured book, and strong execution track record. Strong fundamentals and adequate opportunity bode well for the bank's long-term growth prospects. We maintain our ADD rating with a revised target price of Rs 724.)
- **Mphasis:** We maintain a BUY rating on Mphasis, based on stellar deal wins providing higher revenue visibility (growth in FY21) and a stable operating profile (improving business-mix towards Direct Core). We expect Mphasis to outperform peers based on the following: (1) robust large deal wins (>USD 100mn TCV-2-year BFSI win in 1Q and USD 216mn TCV-3-year existing logo win) to propel Direct Core growth in 2Q-3Q; (2) new logo and Blackstone-channel traction continues (>40% YoY in 1QFY21); (3) strong and diversified BFSI portfolio supported by growing Digital Risk segment; (4) MRC to restrict the near-term impact on DXC business; (5) improving business-mix to support margins (guidance of 15.5 to 16.5% EBIT margin for FY21E). Mphasis' valuation discount to mid-tier IT is expected to compress, supported by an improving mix of high-growth Direct Core limiting the impact from DXC and on FCF yield >7.5%. Our target price is Rs 1,280, 16x (15x earlier and 5-year average at 15x) Jun-22E EPS, following ~6% EPS estimate increase for FY22E.

HSIE Research Team

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- **ABB India:** We maintain SELL on ABB India Ltd. (ABB) with an increased target price of Rs 827/sh (42x), rolling forward to 2QCY22. The ABB business model is overly sensitive to operating leverage. ~45 days of revenue shortfall (offset partly by Mar-20 deferred billing) led to a sharp erosion in profitability with revenue/EBIDTA/APAT de-growing 43/81/79% YoY. With clients conserving capital and global growth outlook bleak, new capex headwinds remain, both locally and globally. In a restricted capex environment and deflationary expectations, high competitive intensity will curb further margin expansion. We believe the headwinds are not fully priced into the current rich valuations.
- **Radico Khaitan:** Radico Khaitan clocked a strong 1QFY21 with a beat in revenue and margin. Revenue saw a 34% YoY decline in revenue (IMFL declined 40% YoY), beating our estimate of 51% YoY decline. IMFL industry declined by >50% YoY, Radico continued its market share gain trajectory. The sequential improvement in demand since May indicates a better revenue show in coming quarters (-10% YoY in June). Gross margin expanded sharply by 666bps YoY (5-year high) to 54.6%, aided by favourable state & product mix and strong exports (7% revenue mix). Cost control led to the expansion in EBITDA margin of 242bps YoY to 18.5%. We continue to believe in quicker recovery in Radico. The beat in 1Q and gross margin expansion (~200bps) have led to our EPS estimate increasing by 13/10/9% for FY21/FY22/FY23. We value Radico at 18x P/E on Jun-22E EPS and derive a target price of Rs 426. Maintain ADD.
- **Zensar Technologies:** Zensar's fall in revenue (-4.8% QoQ CC) was in line with the estimate, while the margin performed better than expected. The revenue declined due to stressed verticals like Consumer and Manufacturing. The fall in BFS (-12.8% QoQ CC) was higher than peers, and Insurance (Cynosure) was under pressure due to the COVID-19 impact. Hi-Tech (46% of revenue) registered growth led by a top client. The recovery in TCV wins (USD 150mn, ~30% NN) is encouraging, and the deal pipeline at USD 1.5bn remains healthy. We expect a recovery in Zensar's growth in 2HFY21E and EBITDA margin will be in the range of 13-15%. Growth will be led by Hi-Tech, stability in Manufacturing/Retail and recovery in BFSI. We increase our EPS estimate by 13.0/3.1% for FY21/22E to factor in better growth visibility and margin recovery. We increase our P/E multiple to 12x (~8% discount to 5Y average) vs. 10x earlier. Our TP of Rs 170 is based on 12x June-22E EPS. The stock trades at a P/E of 13.0/10.5x FY21/22E EPS, which is ~20% discount to 5Y average. Maintain ADD.

ITC

Resilience in challenging times

ITC's 1QFY21 beat revenue expectations as the company clocked 17% YoY decline vs the estimated decline of 28% YoY. Cigarette (adjusted for excise duty on inventory) net revenue/EBIT declined by 35/39% YoY with a volume dip of 35% YoY. The company saw sequential improvement in cigarette revenue with marginal sales in April, 30-35% YoY decline in May and a strong recovery in June. However, the last 10 days have been challenging due to the return of lockdowns. FMCG showed strong momentum as the company saw a comparable growth of 12% YoY, with 34% YoY growth in staples, convenience foods and health & hygiene (75% of the portfolio). The growth was led by packaged foods (biscuits, atta, and noodles) and hygiene products. We expect the FMCG momentum to sustain, at a slightly lower growth rate. We maintain our EPS estimate for FY21/FY22/FY23 as we expect a recovery in the company 2HFY21 onwards. We value ITC on SoTP and arrive at a target price of Rs 236 (implied P/E of 18x P/E Jun-22E EPS). Maintain BUY.

- Beat in revenue:** Net revenue for ITC declined by 17% YoY (+6% in 1QFY20 and -6% in 4QFY20). Cigarette (net)/Hotels/Paper declined 35/94/33% YoY, while FMCG/Agri business saw 12/4% YoY growth. Cigarette revenue remained under pressure, with a volume decline of ~35% YoY, although the company has seen sequential improvement since May. FMCG portfolio (75% mix) showed strong growth of 34% YoY, led by robust growth in hygiene (Savlon grew to 5x YoY), noodles (>50% YoY) and atta (>30% YoY).
- Margins under pressure:** Gross margin fell sharply by 555bps YoY to 58.5% (+180bps in 1QFY20 and +220bps in 4QFY20) vs an expectation of flat YoY GM. Employee/other expenses grew 1/5% YoY, leading to an EBITDAM dip of 1,184bps YoY (+105bps in 1QFY20 and -100bps in 4QFY20). Overall EBITDA declined by 42% YoY. Cigarette (adjusting for excise duty on inventory)/Hotels/Agri/Paper EBIT margins dipped by 170/1,339/85/599bps YoY. FMCG EBITDA/EBIT margin expanded by 170/117bps YoY to 7.6/3.7%. Lower taxes and higher other income restricted the decline in APAT to 26% YoY.
- Press release and management call takeaways:** (1) 40-50% cigarette shops are operational across the country. South has the highest number of open shops; (2) cigarette channel inventory is back to the normal level; (3) the company saw market share gains in most FMCG categories; (4) modern trade/e-comm registered a growth of 20/90% YoY; (5) biscuits saw continued strength in demand in the first two weeks of July, but the momentum has now slowed down industry-wide.

Quarterly/Annual Financial summary

YE Mar (Rs mn)	1Q FY21	1Q FY20	YoY (%)	4Q FY20	QoQ (%)	FY20	FY21E	FY22E	FY23E
Net Sales	95,018	1,15,028	(17.4)	1,14,200	(16.8)	4,94,041	4,86,060	5,44,314	5,85,611
EBITDA	26,466	45,657	(42.0)	41,635	(36.4)	1,92,602	1,86,037	2,09,842	2,25,906
APAT	23,428	31,739	(26.2)	37,971	(38.3)	1,52,275	1,41,330	1,59,451	1,70,653
Diluted EPS (Rs)	1.9	2.6	(26.4)	3.1	(38.3)	12.4	11.5	13.0	13.9
P/E (x)						15.8	17.0	15.1	14.1
EV / EBITDA (x)						10.7	11.1	9.6	8.8
RoCE (%)						44.8	40.4	44.7	46.9

Source: Company, HSIE Research

BUY

CMP (as on 24 Jul 2020)	Rs 200
Target Price	Rs 236
NIFTY	11,194

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 236	Rs 236
	FY21E	FY22E
EPS %	0%	0%

KEY STOCK DATA

Bloomberg code	ITC IN
No. of Shares (mn)	12,293
MCap (Rs bn) / (\$ mn)	2,455/32,820
6m avg traded value (Rs mn)	5,804
52 Week high / low	Rs 273/135

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	10.9	(16.1)	(26.3)
Relative (%)	(10.8)	(7.8)	(27.0)

SHAREHOLDING PATTERN (%)

	Mar-20	June-20
Promoters	0.00	0.00
FIs & Local MFs	42.46	42.09
FPIs	14.65	14.60
Public & Others	42.89	43.31
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Ambuja Cements

Strong cost controls + healthy realisation

Ambuja delivered earnings beat in 2QCY20 as other expenses fell sharply, cushioning the impact of the COVID-led revenue loss. Standalone revenue/EBITDA fell 27/15% YoY to Rs 21.77/5.95bn. Dividend income from ACC, however, buoyed APAT by 10% to Rs 4.53bn. Volume fell 29% YoY, mainly on the large sales loss in April. However, execution of pent-up retail demand drove flattish volume growth in May/June. We expect continued traction in retail sales to yield slower volume decline of 10% in 2HCY20 vs the 19% YoY fall in 1H. We expect buoyant pricing in north markets, subdued energy cost outlook and healthy cost controls, to drive 8% EBITDA CAGR (CY19-22E). We maintain BUY with a revised target price of Rs 230.

- 2QCY20 highlights:** The sales loss in April and continued demand slump in Maharashtra led to 29% YoY volume decline. This implies that Ambuja registered a slight volume growth in May/June (ex-Maharashtra), despite COVID. A 6% QoQ price rise drove up NSR +2% YoY. Unitary opex fell 3% YoY on lower freight cost and strong fixed cost cuts. Thus, unitary EBITDA went up 19% YoY to Rs 1,421/MT, cushioning the impact of lower sales.
- Outlook:** We expect the volume decline to slow down in 2HCY20E, and rebound in CY21E as demand normalises. Subdued petcoke and coal prices should also continue to support margin expansion. Enthused by healthy agile fixed cost controls seen in 1H, we lower our cost assumptions. Subsequently, we upgrade EBITDA estimates for CY20/21/22E by 12/5/5% respectively. Ambuja's upcoming north expansion should accelerate volume growth CY21 onwards. We maintain BUY with a revised SOTP of Rs 230/sh; we value standalone Ambuja at 11x its Jun'22E EBITDA and its 50% holding in ACC at a 20% discount to our target Mcap for ACC.

Standalone Quarterly/Annual Financial summary

YE Dec (Rs mn)	2Q CY20	2Q CY19	YoY (%)	1Q CY20	QoQ (%)	CY18	CY19	CY20E	CY21E	CY22E
Sales (mn MT)	4.2	5.9	(28.6)	5.8	(27.4)	24.2	24.0	20.4	23.1	25.4
NSR (Rs/T)	5,195	5,083	2.2	4,900	6.0	4,697	4,870	4,938	5,002	5,120
Opex (Rs/T)	3,775	3,893	(3.0)	3,855	(2.1)	3,913	3,973	3,889	3,977	4,040
EBITDA(Rs/T)	1,421	1,190	19.4	1,045	35.9	784	897	1,049	1,026	1,080
Net Sales	21,768	29,836	(27.0)	28,275	(23.0)	113,568	116,679	100,910	115,509	130,056
EBITDA	5,952	6,984	(14.8)	6,032	(1.3)	18,953	21,489	21,436	23,680	27,439
APAT	4,534	4,121	10.0	3,991	13.6	12,129	14,770	13,540	14,656	17,377
AEPS (Rs)	2.3	2.1	10.0	2.0	13.6	6.1	7.4	6.8	7.4	8.8
EV/EBITDA (x)						13.1	10.9	10.9	9.8	8.1
EV/MT (Rs bn)						8.40	7.94	7.45	7.41	7.09
P/E (x)						32.9	27.0	29.5	27.2	23.0
RoE (%)						5.9	6.8	6.0	6.2	7.1

Source: Company, HSIE Research, Standalone Financials

Change in Estimates

Rs Bn	CY20E Old	CY20E Revised	Change %	CY21E Old	CY21E Revised	Change %	CY22E Old	CY22E Revised	Change %
Net Revenues	100.4	100.9	0.5	114.9	115.5	0.5	129.4	130.1	0.5
EBITDA	19.2	21.4	11.6	22.6	23.7	4.6	26.2	27.4	4.5
APAT	11.9	13.5	14.1	13.9	14.7	5.6	16.5	17.4	5.4
AEPS	6.0	6.8	14.1	7.0	7.4	5.6	8.3	8.8	5.4

Source: Company, HSIE Research

BUY

CMP (as on 24 July 2020)	Rs 201
Target Price	Rs 230
NIFTY	11,194

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 220	Rs 230
EBITDA %	CY20E 11.6	CY21E 4.6

KEY STOCK DATA

Bloomberg code	ACEM IN
No. of Shares (mn)	1,986
MCap (Rs bn) / (\$ mn)	399/5,334
6m avg traded value (Rs mn)	949
52 Week high / low	Rs 225/137

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	19.6	(6.9)	(6.8)
Relative (%)	(2.1)	1.4	(7.6)

SHAREHOLDING PATTERN (%)

	Mar-20	Jun-20
Promoters	63.28	63.27
FIs & Local MFs	14.56	13.60
FPIs	15.26	16.25
Public & Others	6.90	6.88
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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AU Small Finance Bank

Promising trends

AUBANK's 1QFY21 net earnings were 52% higher than estimates, driven by a sharp fall in operating expenditure and high treasury gains. The reduction in moratorium or improvement in collection efficiency and retail deposit traction were promising. We continue to believe that AUBANK is one of the best-placed SFBs due to its relatively better deposit franchise, largely secured book, and strong execution track record. Strong fundamentals and adequate opportunity bode well for the bank's long-term growth prospects. We maintain our ADD rating with a revised target price of Rs 724.)

- Deposit trends:** Sequential deposit growth at 2.2% (+34.7% YoY) was in line with previous trends. SA deposits grew 15.4/13.9%, and retail SA grew faster at 25.3/17.9%. While overall TDs grew 43/4.4%, retail TDs grew at 15.6/7.1%. The share of retail deposits increased 300/200bps to 45% and the focus on granular deposits was evident. We find that these trends are promising and will watch for progress on this front.
- AUM and disbursements:** Disbursements dipped sharply (-70.7/76.4%) to Rs 11.8bn (including Rs 2.5bn under TLTRO 2.0) due to COVID-19 related disruptions. Consequently, AUM growth slowed to 17.3% YoY (-2.8% QoQ). The share of retail loans (83.8%) continued to increase (+523bps YoY). Notably, within wholesale loans, loans to NBFCs dipped 41.5/18.7%. We expect AUBANK to register an AUM CAGR of 18% over FY21-22E. AUBANK's strong fundamentals, scope for geographical expansion, and dwindling competition provide a significant long-term growth opportunity.
- Moratorium:** ~11% of AUBANK's loan book is under moratorium vs. 25% in April, indicating significant improvement. Further, borrowers representing 67/8% of the bank's advances made full/partial EMI payments in June. The corresponding figures for April were 53/23% and for May were 53/8%. While these trends are encouraging, given the sustained spread of COVID-19, the uncertainty around the extension of the moratorium, and sporadic lockdowns across the country, we will watch the developments on this front.
- Non-tax provisions:** At Rs 1.8bn (2.4% of average AUMs), non-tax provisions remained elevated (+475/20.4%) and were driven by COVID-19 related provisions of Rs 1.4bn (total COVID-19 related provisions- Rs 2.8bn). PCR rose sharply (+2300/1097bps) to 63.5%. We have increased our provisioning estimates to 1.8% over FY21E (vs. 1.5% earlier) as we believe that the bank can prudently provide more to insulate the balance sheet from the impact of COVID-19, given the significant treasury gains this quarter.

Financial Summary

(Rs mn)	1Q FY21	1Q FY20	YoY (%)	4Q FY20	QoQ (%)	FY19	FY20	FY21E	FY22E
NII	5,159	3,956	30.4	5,549	-7.0	13,428	19,089	22,121	26,346
PPOP	4,183	2,138	95.6	3,071	36.2	7,221	11,112	14,549	16,016
Reported PAT	2,008	1,903	5.5	1,223	64.2	3,819	6,747	6,716	7,923
EPS (Rs)						13.1	22.2	22.1	26.1
ROAE (%)						14.7	18.6	14.5	14.8
ROAA (%)						1.5	1.6	1.4	1.5
Adj. BVPS (Rs)						90.7	135.1	147.8	174.8
P/ABV (x)						7.8	5.6	4.8	4.2
P/E (x)						60.5	35.6	35.8	30.3

Source: Bank, HSIE Research

ADD

CMP (as on 24 July 2020)	Rs 790
Target Price	Rs 724
NIFTY	11,194

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	Rs 577	Rs 724
EPS %	FY21E	FY22E
	9%	6%

KEY STOCK DATA

Bloomberg code	AUBANK IN
No. of Shares (mn)	306
MCap (Rs bn) / (\$ mn)	242/3,241
6m avg traded value (Rs mn)	712
52 Week high / low	Rs 1,218/366

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	52.7	(26.1)	25.0
Relative (%)	31.0	(17.7)	24.3

SHAREHOLDING PATTERN (%)

	Mar-20	Jun-20
Promoters	31.0	29.0
FIs & Local MFs	16.5	14.6
FPIs	52.3	53.3
Public & Others	0.2	3.1
Pledged Shares	7.0	7.0

Source : BSE

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Mphasis

Sprinting ahead

We maintain a BUY rating on Mphasis, based on stellar deal wins providing higher revenue visibility (growth in FY21) and a stable operating profile (improving business-mix towards Direct Core). We expect Mphasis to outperform peers based on the following: (1) robust large deal wins (>USD 100mn TCV-2-year BFSI win in 1Q and USD 216mn TCV-3-year existing logo win) to propel Direct Core growth in 2Q-3Q; (2) new logo and Blackstone-channel traction continues (>40% YoY in 1QFY21); (3) strong and diversified BFSI portfolio supported by growing Digital Risk segment; (4) MRC to restrict the near-term impact on DXC business; (5) improving business-mix to support margins (guidance of 15.5 to 16.5% EBIT margin for FY21E). Mphasis' valuation discount to mid-tier IT is expected to compress, supported by an improving mix of high-growth Direct Core limiting the impact from DXC and on FCF yield >7.5%. Our target price is Rs 1,280, 16x (15x earlier and 5-year average at 15x) Jun-22E EPS, following ~6% EPS estimate increase for FY22E.

- **1QFY21 highlights:** (1) Revenue growth of -4.6/+3.8% QoQ/YoY (CC terms) was led by Direct Core at -2.1/+6.9% QoQ/YoY (CC terms) and DXC at -15.8/-14.3% QoQ/YoY (CC terms). (2) EBIT margin came in at 15.7%, -67/+18bps QoQ/YoY. (3) Deal wins in Direct International was strong at USD 259mn (highest-ever EN+NN wins).
- **Outlook:** We have factored 2.7/10.1% growth in revenue based on Direct Core growth at 11.1/16.2% and DXC at -30/-10% for FY21/22E respectively; factored EBIT% at 16.0/17.0% for FY21/22E resulting in 10% EPS CAGR over FY20-22E. Key downside risks remain steeper decline in DXC.

Quarterly Financial summary

YE March (Rs bn)	1Q FY21	1Q FY20	YoY (%)	4Q FY20	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue (USD mn)	305.4	296.9	2.9	319.9	-4.5	1,119	1,240	1,273	1,401	1,523
Net Sales	22.88	20.63	10.9	23.46	-2.5	77.31	88.44	95.46	106.49	118.03
EBIT	3.58	3.19	12.2	3.83	-6.5	12.48	14.19	15.25	18.14	20.26
APAT	2.75	2.65	3.9	3.11	-11.5	10.73	11.42	11.42	13.87	15.89
Diluted EPS (Rs)	14.8	14.2	3.9	16.7	-11.5	57.6	61.3	61.3	74.5	85.3
P/E (x)						19.4	18.2	18.2	15.0	13.1
EV / EBITDA (x)						14.7	11.6	10.7	8.9	7.8
RoE (%)						20.0	20.6	19.0	21.4	22.4

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

Rs Bn	FY21E Old	FY21E Revised	Change %	FY22E Old	FY22E Revised	Change %
Revenue (USD mn)	1,221	1,273	4.3	1,336	1,401	4.9
Revenue	91.76	95.46	4.0	101.55	106.49	4.9
EBIT	14.00	15.25	9.0	16.69	18.14	8.7
EBIT margin (%)	15.3	16.0	72bps	16.4	17.0	60bps
APAT	10.91	11.42	4.7	13.11	13.87	5.8
EPS (Rs)	58.6	61.3	4.7	70.4	74.5	5.8

Source: Company, HSIE Research

BUY

CMP (as on 24 Jul 2020)	Rs 1,117
Target Price	Rs 1,280
NIFTY	11,194

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 1,055	Rs 1,280
EPS %	FY21E +4.7	FY22E +5.8

KEY STOCK DATA

Bloomberg code	MPLH IN
No. of Shares (mn)	187
MCap (Rs bn) / (\$ mn)	208/2,786
6m avg traded value (Rs mn)	289
52 Week high / low	Rs 1,175/612

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	65.8	23.0	22.2
Relative (%)	44.1	31.3	21.5

SHAREHOLDING PATTERN (%)

	Mar-20	Jun-20
Promoters	56.18	56.18
FIs & Local MFs	14.17	14.22
FPIs	23.87	23.65
Public & Others	5.78	5.95
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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ABB India

Lacking triggers

We maintain SELL on ABB India Ltd. (ABB) with an increased target price of Rs 827/sh (42x), rolling forward to 2QCY22. The ABB business model is overly sensitive to operating leverage. ~45 days of revenue shortfall (offset partly by Mar-20 deferred billing) led to a sharp erosion in profitability with revenue/EBIDTA/APAT de-growing 43/81/79% YoY. With clients conserving capital and global growth outlook bleak, new capex headwinds remain, both locally and globally. In a restricted capex environment and deflationary expectations, high competitive intensity will curb further margin expansion. We believe the headwinds are not fully priced into the current rich valuations.

- 2QCY20 beat aided by 1QCY20 revenue deferrals, cost-cutting:** Revenue came in at Rs 9.8bn (24% beat). EBITDA stood at Rs 234mn (estimate of Rs -867mn). HSIE EBITDA estimate miss was on account of ABB reporting positive delta on (1) lower-than-expected cut in employee cost (+Rs 400mn QoQ), (2) contribution delta from higher than expected execution (+Rs 671mn), and (3) favourable forex gains of Rs 340mn. The total delta was Rs 1,071mn vs our estimate of Rs 867mn loss. The net would have been Rs 204mn EBIDTA vs Rs 234mn reported. While material expenses remain stable at ~65%, employee expenses declined due to cuts in bonuses and performance incentives. APAT: Rs 148mn (vs our estimate of Rs -681mn).
- Resilient order inflows:** Order inflows for 2QCY20 stood at Rs 12bn (-32% YoY excluding Rs 2.4bn solar inverter biz orders in 2QCY19) despite the 45-days shutdown due to COVID lockdown. With current order book at Rs 46.7bn, there is revenue visibility for the next 6-9 months as ABB is expected to maintain book-bill with execution progressing at a decent pace across all five factories.
- Measures to stay resilient in CY20:** To tackle short-term challenges, ABB is focusing on (1) virtual/remote client servicing via sensors & cloud, (2) cost-cutting measures till headwinds remain, (3) Concerted efforts towards sectors where green shoots are emerging viz. Data Centers/Warehousing, Food & Beverage, Pharma, and Buildings & Factories, rather than spreading arms everywhere, and (4) conserving cash and further streamlining WC.

Financial Summary*

(Rs mn, Dec year-end)	2Q CY20	2Q CY19	YoY (%)	1Q CY20	QoQ (%)	CY19	CY20E	CY21E	CY22E
Net Revenues	9,858	17,258	(42.9)	15,222	(35.2)	73,151	64,139	75,135	83,349
EBITDA	234	1,239	(81.1)	145	61.7	5,312	4,527	5,290	6,293
APAT	108	697	(84.6)	(1,044)	(110.3)	3,719	3,199	3,816	4,526
Diluted EPS (Rs)	0.5	3.3	(84.6)	(4.9)	(110.3)	17.6	15.1	18.0	21.4
P/E (x)						52.0	60.5	50.7	42.7
EV / EBITDA (x)						33.4	38.8	33.1	27.6
RoE (%)						73,151	64,139	75,135	83,349

Source: Company, HSIE Research; * Ex discontinued Power Grids Business

Change in Estimates

Standalone Rs Mn	CY20E			CY21E			CY22E		
	Old	Revised	% Chg	Old	Revised	% Chg	Old	Revised	% Chg
Net Sales (Rs mn)	59,466	64,139	7.86	75,135	75,135	0	83,349	83,349	0
EBITDA (Rs mn)	959	4,527	372.33	5,290	5,290	0	6,293	6,293	0
EBIDTA Margin (%)	1.6	7.1	545bps	7.0	7.0	0.00bps	7.6	7.6	0.00bps
Adj PAT (Rs mn)	1,024	3,199	212.3	3,641	3,816	4.8	4,319	4,526	4.8
AEPS (Rs)	4.8	15.1	212.3	17.2	18.0	4.8	20.4	21.4	4.8

Source: Company, HSIE Research

SELL

CMP(as on 24 July 2020)	Rs 913
Target Price	Rs 827
NIFTY	11,194

KEY CHANGES	OLD	NEW	
Rating	SELL	SELL	
Price Target	Rs 755	Rs 827	
EPS %	CY20E	CY21E	CY22E
	212.3	4.8	4.8

KEY STOCK DATA

Bloomberg code	ABB IN
No. of Shares (mn)	212
MCap (Rs bn) / (\$ mn)	193/2,585
6m avg traded value (Rs mn)	143
52 Week high / low	Rs 1,442/722

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	2.1	(31.3)	(25.6)
Relative (%)	(19.6)	(23.0)	(26.3)

SHAREHOLDING PATTERN (%)

	Mar-20	Jun-20
Promoters	75.00	75.00
FIs & Local MFs	11.61	11.06
FPIs	3.31	3.78
Public & Others	10.08	10.16
Pledged Shares	0.0	0.0

Source : BSE

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Radico Khaitan

Outperforming continues

Radico Khaitan clocked a strong 1QFY21 with a beat in revenue and margin. Revenue saw a 34% YoY decline in revenue (IMFL declined 40% YoY), beating our estimate of 51% YoY decline. IMFL industry declined by >50% YoY, Radico continued its market share gain trajectory. The sequential improvement in demand since May indicates a better revenue show in coming quarters (-10% YoY in June). Gross margin expanded sharply by 666bps YoY (5-year high) to 54.6%, aided by favourable state & product mix and strong exports (7% revenue mix). Cost control led to the expansion in EBTIDA margin of 242bps YoY to 18.5%. We continue to believe in quicker recovery in Radico. The beat in 1Q and gross margin expansion (~200bps) have led to our EPS estimate increasing by 13/10/9% for FY21/FY22/FY23. We value Radico at 18x P/E on Jun-22E EPS and derive a target price of Rs 426. Maintain ADD.

- **Beat in revenue:** The revenue declined by 34% YoY (+21% in 1QFY20 and +15% in 4QFY20). It was due to a 44% YoY decline in IMFL volumes (+12% in 1QFY20, +13% in 4QFY20). P&A/regular IMFL saw volume decline of 47/42% YoY. IMFL revenue declined 40% YoY, beating the estimated decline of 60% YoY. We model -5/18/11% overall revenue growth in FY21/22/23.
- **Strong margin expansion:** The company surprised with a 666bps YoY expansion of GM to 54.6% (-291bps in 1QFY20 and -400bps in 4QFY20) vs estimated 46.5%. The expansion was led by improved state & product mix, increased traction in exports, and a 10% price increase in Telangana. Employee/S&D/Other expenses declined 8/38/23% YoY with ASP declining by 48% YoY, leading to an expansion of 242bps YoY in EBITDAM (-155bps in 1QFY20 and flat in 4QFY20). EBITDA dipped by 25% YoY. Lower taxes helped the company restrain the dip in APAT to 21% YoY.
- **Call takeaways:** (1) 85-88% shops are operational pan-India; (2) demand continued to improve in July, and the company expects to revert to pre-COVID revenue in 2QFY21; (3) ENA prices are expected to remain stable, and margins will continue to improve; (4) premiumisation trend remains intact; (5) net debt stood at Rs 2.6bn in June vs Rs 3.8bn in March.

Quarterly/Annual Financial summary

YE Mar (Rs mn)	1Q		YoY (%)	4Q		FY20	FY21E - FY23E		
	FY21	FY20		FY20	QoQ (%)		FY21E	FY22E	FY23E
Net Sales	4,092	6,236	(34.4)	5,854	(30.1)	24,270	23,001	27,084	30,012
EBITDA	758	986	(23.1)	810	(6.4)	3,718	3,878	4,608	5,186
APAT	441	557	(20.8)	449	(1.8)	2,134	2,366	3,033	3,527
Diluted EPS (Rs)	3.3	4.2	(20.8)	3.4	(1.8)	16.0	17.7	22.7	26.4
P/E (x)						24.9	22.5	17.5	15.1
EV / EBITDA (x)						15.3	13.9	11.3	9.6
RoCE (%)						14.5	12.8	15.2	16.4

Source: Company, HSIE Research

Change in Estimates

	OLD			NEW			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Sales	22,275	26,171	28,991	23,001	27,084	30,012	3.3	3.5	3.5
EBITDA	3,529	4,257	4,793	3,878	4,608	5,186	9.9	8.2	8.2
APAT	2,092	2,764	3,229	2,366	3,033	3,527	13.1	9.7	9.2
EPS	15.7	20.7	24.2	17.7	22.7	26.4	13.1	9.7	9.2

Source: Company, HSIE Research

ADD

CMP (as on 24 Jul 2020)	Rs 395
Target Price	Rs 426
NIFTY	11,194

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	Rs 391	Rs 426
EPS %	FY21E	FY22E
	+13%	+10%

KEY STOCK DATA

Bloomberg code	RDCK IN
No. of Shares (mn)	134
MCap (Rs bn) / (\$ mn)	53/703
6m avg traded value (Rs mn)	294
52 Week high / low	Rs 439/220

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	38.0	3.6	28.9
Relative (%)	16.2	12.0	28.2

SHAREHOLDING PATTERN (%)

	Mar-20	June-20
Promoters	40.31	40.31
FIs & Local MFs	12.99	15.42
FPIs	19.37	18.63
Public & Others	27.33	25.64
Pledged Shares	1.83	1.42

Source : BSE

Pledged shares as % of total shares

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Zensar Technologies

Getting back on track

Zensar's fall in revenue (-4.8% QoQ CC) was in line with the estimate, while the margin performed better than expected. The revenue declined due to stressed verticals like Consumer and Manufacturing. The fall in BFS (-12.8% QoQ CC) was higher than peers, and Insurance (Cynosure) was under pressure due to the COVID-19 impact. Hi-Tech (46% of revenue) registered growth led by a top client. The recovery in TCV wins (USD 150mn, ~30% NN) is encouraging, and the deal pipeline at USD 1.5bn remains healthy. We expect a recovery in Zensar's growth in 2HFY21E and EBITDA margin will be in the range of 13-15%. Growth will be led by Hi-Tech, stability in Manufacturing/Retail and recovery in BFSI. We increase our EPS estimate by 13.0/3.1% for FY21/22E to factor in better growth visibility and margin recovery. We increase our P/E multiple to 12x (~8% discount to 5Y average) vs. 10x earlier. Our TP of Rs 170 is based on 12x June-22E EPS. The stock trades at a P/E of 13.0/10.5x FY21/22E EPS, which is ~20% discount to 5Y average. **Maintain ADD.**

- 1QFY21 highlights:** Zensar posted a revenue of USD 130.8mn, -4.8/-12.1% QoQ/YoY CC in-line vs. the estimate of USD 130mn. Within verticals, the highest impact was witnessed in Consumer (-20.8% QoQ CC), Banking (-12.8%), Insurance (-7.0%), offset by growth in Hi-Tech (+3.5%). Digital is now 59.5% of revenue, down 3.2% QoQ, while the Legacy fall continues to be steep (-12.0% QoQ).
- EBIT margin expanded 11bps QoQ to 9.9% in a tough quarter vs. our expectation of 8.1%. Margin expansion was led by cost control (+240bps) offset by volume and utilisation impact of 190bps QoQ. Margin will remain stable; offshoring and lower sub-con cost will remain future margin levers.
- On the positive side, Cloud Infra Services (~19% of rev) stood up 8.5% QoQ CC. Collection improved significantly; the net cash is Rs 7.63bnm which is ~24% of MCap. We expect revenue growth of -1.2/+0.8/+1.4% in 2/3/4QFY21.

Quarterly Financial summary

YE March Rs bn	1Q FY21	1Q FY20	YoY (%)	4Q FY20	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue (USD mn)	131	153	-14.7	141	-7.0	557	590	522	558	603
Net Sales	9.91	10.66	-7.0	10.18	-2.6	39.15	41.77	39.28	42.42	45.80
EBIT	0.99	1.14	-13.2	1.00	-1.5	4.19	3.54	3.44	4.21	4.59
APAT	0.73	0.79	-7.1	0.70	5.3	3.24	2.68	2.54	3.13	3.43
Diluted EPS (Rs)	3.2	3.4	-7.1	3.0	5.3	14.2	11.7	11.1	13.7	15.0
P/E (x)						10.2	12.3	13.0	10.5	9.6
EV / EBITDA (x)						6.0	5.2	4.9	4.0	3.3
RoE (%)						17.7	12.9	11.4	13.1	13.4

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

Rs Bn	FY21E Old	FY21E Revised	Change %	FY22E Old	FY22E Revised	Change %
Revenue (USD mn)	515	522	1.3	560	558	-0.3
Revenue	38.72	39.28	1.4	42.55	42.42	-0.3
EBIT	3.13	3.44	10.1	4.10	4.21	2.5
EBIT margin (%)	8.1	8.8	69bps	9.6	9.9	27bps
APAT	2.25	2.54	13.0	3.04	3.13	3.1
EPS (Rs)	9.8	11.1	13.0	13.3	13.7	3.1

Source: Company, HSIE Research

ADD

CMP (as on 24 Jul 2020)	Rs 144
Target Price	Rs 170
NIFTY	11,194

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	Rs 135	Rs 170
EPS %	FY21E	FY22E
	+13.0	+3.1

KEY STOCK DATA

Bloomberg code	ZENT IN
No. of Shares (mn)	225
MCap (Rs bn) / (\$ mn)	33/435
6m avg traded value (Rs mn)	31
52 Week high / low	Rs 230/64

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	60.0	(17.2)	(33.2)
Relative (%)	38.3	(8.8)	(33.9)

SHAREHOLDING PATTERN (%)

	Mar-20	Jun-20
Promoters	49.23	49.23
FIs & Local MFs	1.81	1.68
FPIs	40.50	38.85
Public & Others	8.46	10.24
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Rating Criteria

BUY: >+15% return potential

ADD: +5% to +15% return potential

REDUCE: -10% to +5% return potential

SELL: > 10% Downside return potential

Disclosure:

Analyst	Company Covered	Qualification	Any holding in the stock
Varun Lohchab	ITC, Radico Khaitan	PGDM	NO
Naveen Trivedi	ITC, Radico Khaitan	MBA	NO
Aditya Sane	ITC, Radico Khaitan	CA	NO
Rajesh Ravi	Ambuja Cements	MBA	NO
Saurabh Dugar	Ambuja Cements	MBA	NO
Darpin Shah	AU Small Finance Bank	MBA	NO
Aakash Dattani	AU Small Finance Bank	ACA	NO
Punit Bahlani	AU Small Finance Bank	ACA	NO
Apurva Prasad	Mphasis, Zensar	MBA	NO
Amit Chandra	Mphasis, Zensar	MBA	NO
Vinesh Vala	Mphasis, Zensar	MBA	NO
Parikshit Kandpal	ABB India	CFA	NO
Rohan Rustagi	ABB India	MBA	NO
Chintan Parikh	ABB India	MBA	NO

Disclosure:

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