Sharekhan Special

July 14, 2021

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Q1FY2022 Results Preview

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Sharekhan
by BNP PARIBAS

Q1FY2022 Results Preview

Another good quarter, despite sequential drop

Summary:

- We expect a strong Q1FY22 with high earnings growth y-o-y across all major sectors due to the low base of last year (given COVID-19 lockdown). Sequentially, we see earnings to de-grow (expect for IT, Pharma and PSU banks) due to second wave of COVID-19.
- Aggregate revenue of Nifty companies is expected to grow by 55% y-o-y, while PAT is expected to see more than 2x y-o-y growth in Q1FY22. Aggregate revenue/PAT of Sensex companies is expected to grow by 35%/66% y-o-y in Q1FY22.
- Increased pace of vaccination and reducing COVID-19 cases has led to a sharp recovery in economic activity with near normalcy in high-frequency macro indicators (power demand, e-way bills, auto fuel demand, GST collection etc) in June-July 2021 so far. This coupled with positive management comments makes us confident of a strong recovery in corporate earnings across sectors in FY2022E.
- The Nifty's valuations at ~21x/19x FY2022E/FY2023E EPS is a bit higher than historical levels but is justified, given our expectation of 42% y-o-y earnings growth for FY22E and re-rating of global equities.
- **High-conviction investment ideas:**
  - **Large-caps:** Infosys, ICICI Bank, Escorts, L&T, UltraTech, SBI, Divis Labs, Titan and Godrej Consumer Products
  - **Mid-caps:** BEL, Gland Pharma, Dalmia Bharat, Laurus Labs, Max Financial Services, Balrampur Chini, Polycab, TCI Ltd and Persistent Systems
  - **Small-caps:** Himatsingka Seide, Globus Spirit, VA Wabag, Repco Home, PNC Infra, Mahindra Life, Mastek and Sudarshan Chemical

We expect strong earnings growth y-o-y across all sectors in Q1FY2022 owing to low earnings base of Q1FY2021 due to COVID-19-led impact. Along with a low base, an increase in volumes and realisations in metal & mining, upstream oil & gas, cement and infrastructure companies, lower provisions in banks, strong exports growth in agri-input and speciality chemical companies, improving order inflows and easy labour availability in capital goods and strong seasonality and broad-based demand across sectors in the IT sector would help report strong y-o-y earnings growth in Q1FY2022. However, we expect earnings would decline q-o-q for many sectors (except the Pharma, PSU banks & NBFCs, metal companies and IT Services) attributed to a resurgence in COVID-19 cases in the second wave led to localised lockdown, cost inflation, negative operating leverage and weak demand environment. We expect aggregate net profits of Nifty companies to maintain their strong growth momentum and are likely to grow by 101% y-o-y (although expect decline by 10% q-o-q) while aggregate net profit of Sensex companies are likely to grow by 66% y-o-y (expect 4.5% fall q-o-q). In the Sharekhan coverage universe, we expect a strong y-o-y growth in net profit for almost all sectors, while only a few sectors are expected to report earnings growth q-o-q, given strong seasonality (in IT services), sturdy growth in the domestic business (for pharmaceuticals) and restructuring, lower cost of fund and anticipated lower provision for some PSU banks despite localised lockdown restriction. We maintain a constructive stance on equities on the back of tactical tailwinds of ample liquidity flows, faster-than anticipated demand recovery in June 2021, and a pick-up in the pace of vaccinations. We expect revenue/net profit to grow 52%/74% y-o-y for the Sharekhan Universe in Q1FY2022.

Likely strong earnings recovery, but risk persists: Given a faster-than-expected recovery in economic activity in June 2021 post sharp increase in cases due to the second wave of COVID-19, increasing GST collections, the government's pro-growth policies and the RBI's accommodative policy for driving growth, and a pick-up in the vaccination program, we expect a strong recovery in net profits across sectors in FY2022E. Although earnings would decline sequentially in Q1FY2022 for many sectors owing to the negative impact of the second wave of COVID-19, we do not expect any meaningful earnings downgrades for FY2022E likely strong revival of economic activity from Q2FY2022, optimistic commentary of corporates from June 2021 as the second wave of the pandemic remained less deleterious than 1st wave of COVID-19, as highlighted by quarter-end updates from the several corporates on negligible impact of future COVID-19 waves. Given positive macro factors such as a strong cyclical earnings recovery, pro-growth government policies and revival in private capex, we expect strong earnings growth in the next couple of years. However, rising commodity prices, cost inflations, certain sector-specific headwinds, higher crude oil price and a potential increase in interest rate remains the key risks factors.

Valuation

Earnings momentum to sustain: Though there would be no meaningful earnings upgrades due to weak Q1FY2022 due to resurgence of COVID-19, nifty earnings would deliver a 27% CAGR over FY2021-2023E and importantly, BSE 500 earnings expect to grow at 30% CAGR over the same period. This reflects a broad-based earnings recovery over the next two years. On the valuation front, the Nifty looks a bit paunchy at 21x and 19x PER based on FY2022E/ FY2023E earnings, however strong earnings growth and global equity re-rating justify the premium. With respect to risks, global inflationary trends, higher crude oil prices and a potential rise in bond yields could impact flows. Near-term market volatility may be seen as an opportunity to accumulate stocks with strong balance sheets and robust business fundamentals. We maintain a constructive stance on equities on the back of tactical tailwinds of ample liquidity flows, faster-than anticipated recovery in economic activities and supportive policies.

Key risks:

Slower-than-expected earnings growth in FY22/23 and possible pause/downgrade in consensus earnings estimates with global uncertainties due to a resurgence of the pandemic.

Sector wise Q1FY2022 preview snapshot

Agri Inputs & Specialty Chemicals	Sector view: Positive

- Stable domestic demand, strong exports growth and prices hike would drive double-digit y-o-y earnings growth for agri-input companies. Large export-oriented players like UPL, PI Industries and Sumitomo Chemical India to outperform in Q1FY22.
- Specialty chemical companies to post high revenue/PAT growth y-o-y given strong export demand and a low base. Margins to remain largely stable y-o-y.
- Favourable agronomics, government support and a shift towards branded products would help large agri-input players gain market share. CRAMS opportunities and import substitution present strong growth opportunity for specialty chemical players. Overall, a strong earnings outlook would support high valuations of quality companies.

Preferred picks: Coromandel International, PI Industries, SRF, Atul Limited, Sumitomo Chemical India and Sudarshan Chemical

Automobiles	Sector view: Positive

- Lockdown restrictions amid wave-2 of OCVID-19 would dull Q1FY22 for automakers.
- Our universe of automobile companies is expected to clock a 133.2% y-o-y revenue growth in Q1FY2022 on a low base, while OPM is likely to slide q-o-q, led by cost inflation and negative operating leverage
- We nevertheless stay positive on the sector, led by pent-up demand and a recovery in rural and semi-urban economy, as the economy normalises

Preferred picks: Hero MotoCorp, Maruti Suzuki, M&M, Sundram Fasteners and Greaves Cotton

Banking	Sector view: Private Banks - Positive; PSU Banks – Neutral

- We believe loan growth would be modest sequentially for banks in Q1FY22, due to the second wave of COVID-19 and the resultant localised lockdown in April-May.
- We forecast Q1FY22 earnings for banks in our coverage to rise 44% y-o-y, driven by an 11% y-o-y rise in NII and 5% y-o-y increase in PPOP.
- Private banks have a superior loan composition, strong underwriting, focus on collateralised lending and better monitoring which has led to their superior asset quality vis-a-vis PSBs.

Preferred Picks: Private banks: ICICI Bank, HDFC Bank, IndusInd Bank and Axis Bank; PSU banks: SBI

NBFCs	Sector view: Positive

- NBFCs' loan growth is likely to contract sequentially in Q1FY22, due to the second wave of COVID-19 and the resultant localised lockdowns.
- However, earnings for our universe is likely to rise by 4% y-o-y, driven by a 17% y-o-y rise in NII and 6% y-o-y increase in pre-provision operating profit (PPOP).
- We believe that sequentially better growth, helped by business activity resumption in Q2FY2022, and a fall in marginal cost of funds will provide support to margins.

Preferred Picks: HDFC Ltd, LIC housing Finance, Cholamandalam Investment, Repco Home and M&M Financial Services.

Capital Goods	Sector view: Positive

- The second half of FY21 was good with many sectors clocking a strong earnings gains and companies de-leveraging their balance sheets as a result. In such a backdrop, while expectations from Q1FY22 ran high, the second wave of COVID-19 slightly disrupted the show.
- Good ordering traction was seen in sectors such as Railways, Metro Rail, power T&D, oil & gas, pharma, cement, chemicals and mining. Globally, enquiry levels have picked up from the Middle East, Africa, US, Europe, SAARC, etc.
- We believe that a strong ordering pipeline and improving conversions will lead to strong order inflows for our coverage universe in FY22. Further, timely reorganisation of cost structure by companies is expected to partially offset a rise in raw material prices and aid better working capital management, thereby positively impacting overall EBIDTA margins.

Preferred picks: L&T, Bharat Electronics, ISGEC Heavy Engineering, Honeywell Automation India, Carborundum Universal, Cummins India, KEC, Kirloskar Oil Engines, Polycab, Dixon Technologies, V-Guard, Amber Enterprises and KEI Industries.

Cement/Infra/Building Materials/Logistics	Sector view: Positive

- The cement sector is expected to report strong volume and realisation growth y-o-y, aiding in operational profitability. Higher execution led by easy labour availability y-o-y along with strong order backlog for infrastructure.
- Building material to report strong growth y-o-y due to healthy demand along with a favourable base impact. Logistics are likely to see minimal impact sequentially on account of continued operations.
- A focus on infrastructure investments to kick start from as early as next month. Property registrations show rebound from June. EXIM and domestic trade environment on an improving trajectory.

Preferred picks: UltraTech, Shree Cement, Dalmia Bharat, The Ramco Cements, JK Lakshmi Cement, PNC Infratech, Century Plyboards, Greenlam Industries, Greenpanel Industries, Pidilite Industries, TCI Express and TCI Ltd.

Consumer Discretionary	Sector view: Positive

- Closure of stores and restriction on mobility to second wave of covid-19 outbreak affected sales of discretionary companies in Q1FY22. Revenues of retail companies are expected to be lower by 40-70% on QoQ basis.
- Higher deliver sales would help QSR company like Jubilant Foodworks to post steady performance while higher export demand would help textile companies to post steady performance.
- With easing of lockdown norms post receding of covid-19 cases the stores operations have improved. The companies are expecting strong resurgence in demand from upcoming festive season and expected recovery in macro environment.

Preferred picks: Titan, Trent, Jubilant Foodworks, ABFRL, Himatsingka Seide and KPR Mill

Consumer Goods	Sector view: Positive

- Consumer goods companies to registered double-digit revenue growth of 11-30% led by agile supply chain, resilient demand and low base of Q1FY21.
- Higher input cost will affect the gross margins in Q1FY22. This along with increase in ad-spends compared to base quarter will lead to lower y-o-y OPM for most companies under coverage.
- Pre-quarter commentary of most companies suggest good recovery in sales in the month of June with demand remaining resilient urban and rural markets. Input prices have started cooling off from its high and would help in post better margins sequentially in the coming quarters.

Preferred Picks: Asian Paints, HUL, GCPL, Marico and Tata Consumer Products

IT Services	Sector view: Positive

- We expect Indian IT companies to continue to report healthy revenue growth on a sequential basis, led by accelerated digital spends, recovery in impacted verticals, ramp-up of large deals, and strong seasonality.
- EBIT margin is expected to decline on a sequential basis across the board owing to wage revision, one-time bonus payout, lower utilisation, higher attrition, and higher recruitment cost given talent war.
- We expect Infosys and LTTS to increase their FY2022E revenue growth guidance to 13-15% and 14-16%, respectively, while Wipro is expected to guide 5-7% revenue growth for Q2FY22. Infosys and HCL Tech are expected to retain their EBIT margin guidance.

Preferred Picks: Infosys, Tech Mahindra, HCL Tech, Mastek, Intellect Design and L&T Infotech

Oil & Gas	Sector view: Positive

- In Q1FY22, CGD companies' earnings would be hit q-o-q by a sharp decline in volumes amid a lockdown. Gujarat Gas' would however see earnings rise as an 18% q-o-q rise in margins would offset a fall in volumes.
- OMCs' earnings could decline q-o-q led by lower inventory gains, a fall in refining throughput and marketing sales volume. Rise in crude oil prices to $68.6/bbl and a weak rupee bode well for earnings growth of ONGC/Oil India. GAIL/Petronet LNG would be hit by lower volumes amid lockdowns.
- High valuation of CGD players would sustain and could even witness upgrades given strong volume growth, high RoE and robust FCF. OMCs' core earnings would improve led by a recovery in GRMs & BPCL privatisation key to re-rating of OMCs.

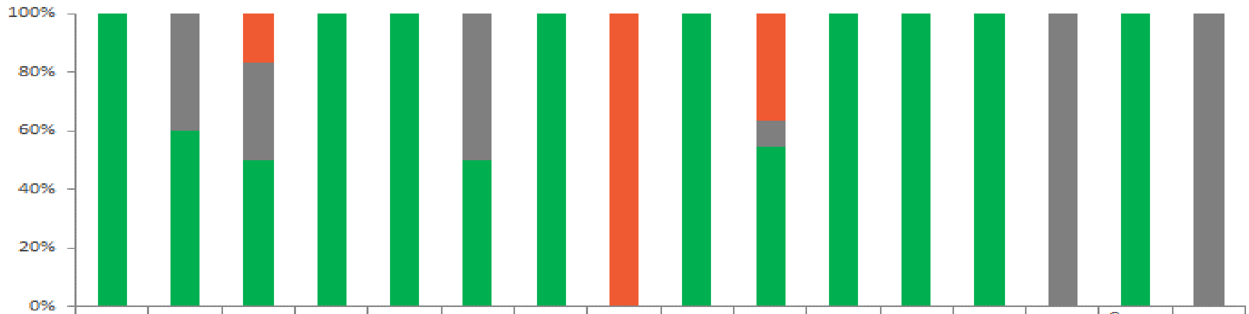
Preferred Picks: Reliance Industries, Gujarat Gas (G-GAS), MGL, IGL and GSPL

Pharmaceuticals	Sector view: Positive

- Pharmaceutical companies are expected to report a strong performance for Q1FY22 with the sales and PAT expected to post a double digit growth.
- Performance of the companies is expected to be driven by a sturdy growth in the domestic business while the overseas business is expected to stage an improvement.
- Improving growth prospects in the US, expected strong growth in the IPM, emerging opportunities in the API space and strong capabilities developed by the Indian companies leading to a shift in preference towards complex generics / biosimilars would drive the growth going ahead.

Preferred picks: Aurobindo, Cadila, Lupin, Dr Reddy's, Sun Pharma, Biocon, Gland Pharma, Laurus Labs, Strides Pharma Sciences, Solara Active Pharma Science, Caplin Point Laboratories

Q1FY22: Nifty cos' revenues to grow 55% y-o-y with high growth for most sectors

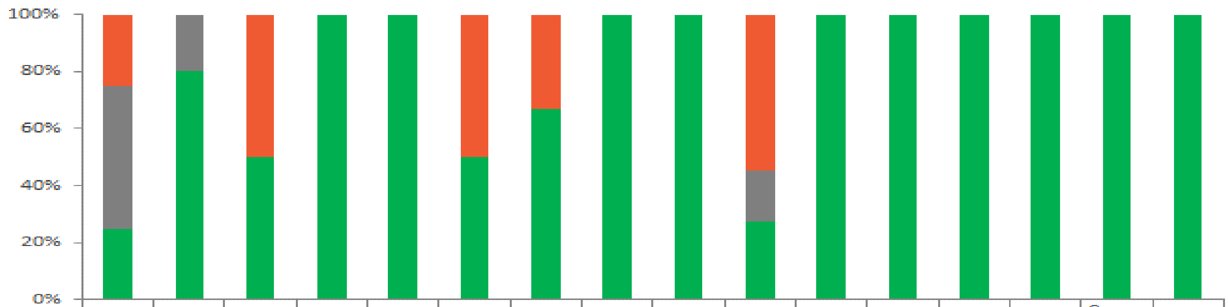


	Pharma (4)	IT (5)	FMCG (6)	Metal (3)	Auto (6)	Power (2)	Oil & Gas (3)	Telecom (1)	Cement (2)	BFSI (11)	Energy (1)	Diversified (2)	Capital Goods (1)	Infrastructure (1)	Consumer Discretionary (1)	Agro-chemical (1)
Weak Growth	0%	0%	17%	0%	0%	0%	0%	100%	0%	36%	0%	0%	0%	0%	0%	0%
Moderate Growth	0%	40%	33%	0%	0%	50%	0%	0%	0%	9%	0%	0%	0%	100%	0%	100%
High Growth	100%	60%	50%	100%	100%	50%	100%	0%	100%	55%	100%	100%	100%	0%	100%	0%

Note: High growth >=15%, Moderate growth >10%<15% and Weak growth <10%

Source: Bloomberg; Sharekhan Research

Q1FY22: Nifty companies to report 44% y-o-y EBITDA growth

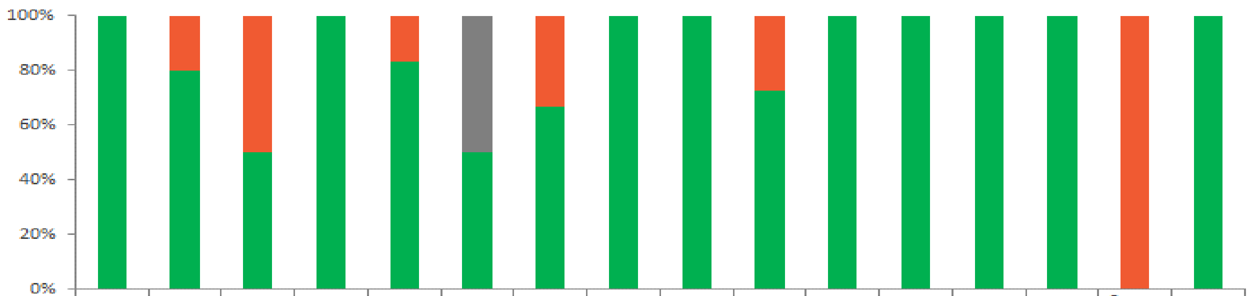


	Pharma (4)	IT (5)	FMCG (6)	Metal (3)	Auto (6)	Power (2)	Oil & Gas (3)	Telecom (1)	Cement (2)	BFSI (11)	Energy (1)	Diversified (1)	Capital Goods (1)	Infrastructure (1)	Consumer Discretionary (1)	Agro-chemical (1)
Weak Growth	25%	0%	50%	0%	0%	50%	33%	0%	0%	55%	0%	0%	0%	0%	0%	0%
Moderate Growth	50%	20%	0%	0%	0%	0%	0%	0%	0%	18%	0%	0%	0%	0%	0%	0%
High Growth	25%	80%	50%	100%	100%	50%	67%	100%	100%	27%	100%	100%	100%	100%	100%	100%

Note: Note: High growth >=15%, Moderate growth >10%<15% and Weak growth <10%

Source: Bloomberg; Sharekhan Research

Q1FY22: Low base, sector-specific tailwinds to drive strong 101% y-o-y earnings growth for Nifty cos

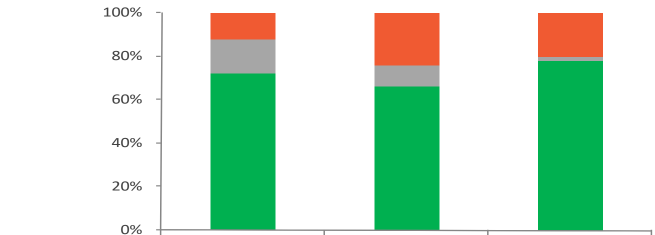


	Pharma (4)	IT (5)	FMCG (6)	Metal (3)	Auto (6)	Power (2)	Oil & Gas (3)	Telecom (1)	Cement (2)	BFSI (11)	Energy (1)	Diversified (1)	Capital Goods (1)	Infrastructure (1)	Consumer Discretionary (1)	Agro-chemical (1)
Weak Growth	0%	20%	50%	0%	17%	0%	33%	0%	0%	27%	0%	0%	0%	0%	100%	0%
Moderate Growth	0%	0%	0%	0%	0%	50%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
High Growth	100%	80%	50%	100%	83%	50%	67%	100%	100%	73%	100%	100%	100%	100%	0%	100%

Note: High growth >=15%, Moderate growth >10%<15% and Weak growth <10%

Source: Bloomberg; Sharekhan Research

78% of Nifty companies to post strong PAT growth on y-o-y

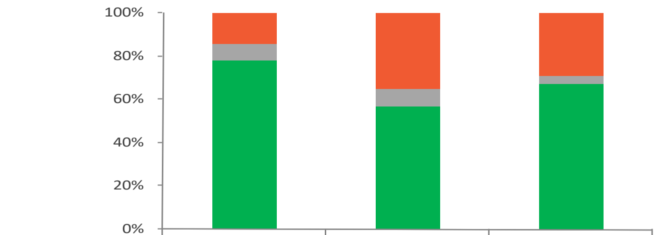


	Revenues	EBITDA	PAT
Weak growth	12%	24%	20%
Moderate growth	16%	10%	2%
High Growth	72%	66%	78%

Note: High growth >=15%, Moderate growth >10%<15% and Weak growth <10%

Source: Bloomberg; Sharekhan Research

67% of SK universe cos to post strong earnings growth

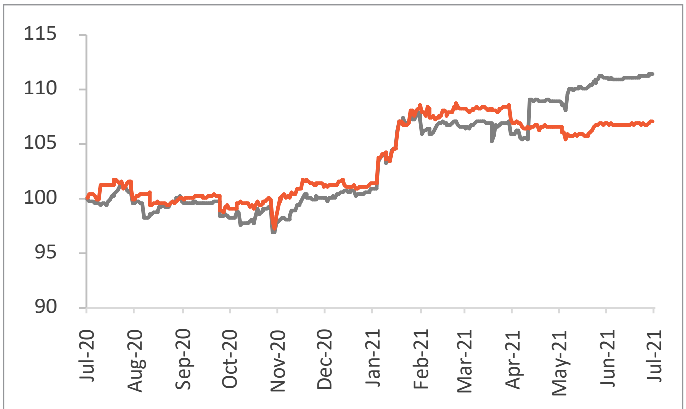


	Revenues	EBITDA	PAT
Weak growth	14%	35%	29%
Moderate growth	8%	8%	4%
High Growth	78%	57%	67%

Note: High growth >=15%, Moderate growth >10%<15% and Weak growth <10%

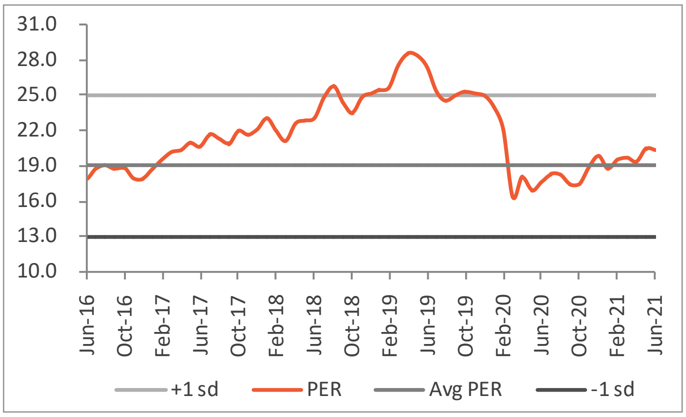
Source: Company; Sharekhan Research

Nifty earnings revision Trend



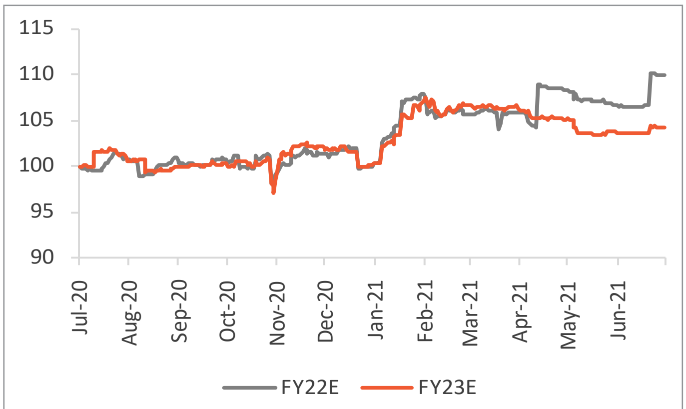
Source: Bloomberg; Sharekhan Research

Nifty's 1 year forward P/E band



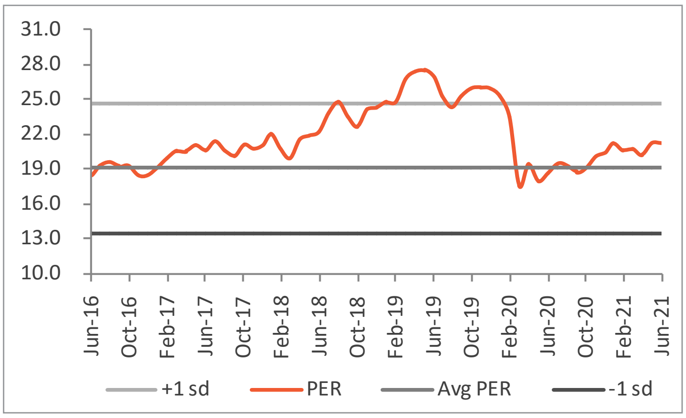
Source: Bloomberg; Sharekhan Research

Sensex earnings revision Trend



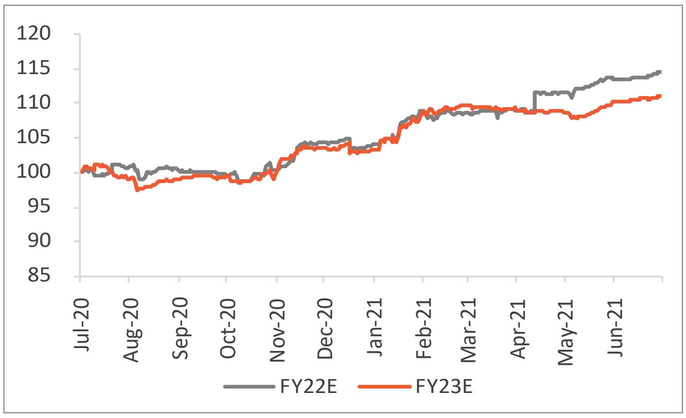
Source: Bloomberg; Sharekhan Research

Sensex' 1 year forward P/E band



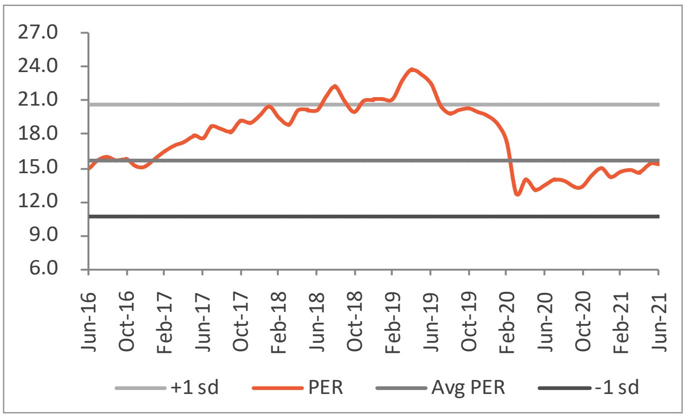
Source: Bloomberg; Sharekhan Research

BSE 500 earnings revision Trend



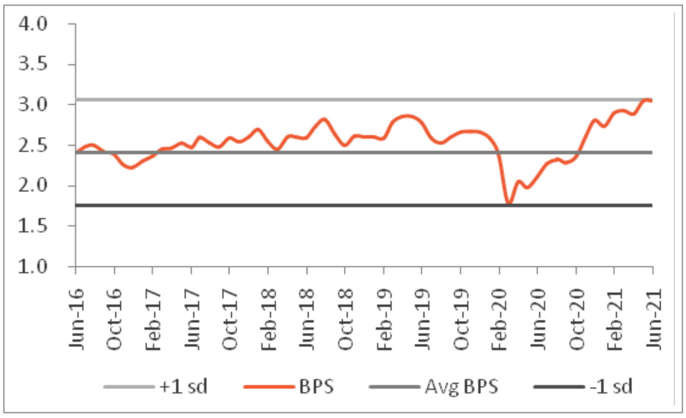
Source: Bloomberg; Sharekhan Research

BSE 500's 1 year forward P/E band



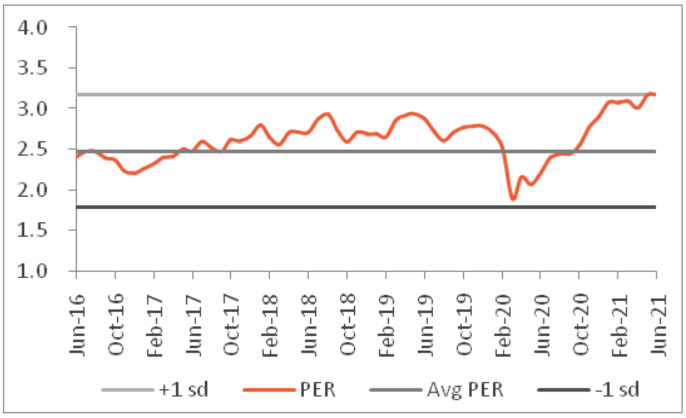
Source: Bloomberg; Sharekhan Research

Nifty's 1 year forward P/B band



Source: Bloomberg; Sharekhan Research

Sensex' 1 year forward P/B band



Source: Bloomberg; Sharekhan Research

Sharekhan
by BNP PARIBAS

Automobiles

Poised for a strong rebound

Q1FY2022 Results Preview

Sector: Automobiles

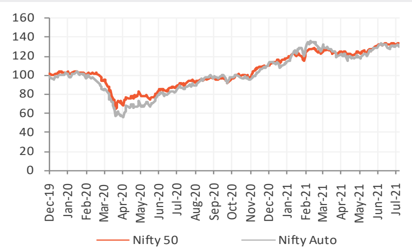
Sector View: Positive

Our coverage universe

Companies	CMP (Rs)	Reco.	PT (Rs)
Alicon Castalloy #	681	Buy	700
Amara Raja Batteries	739	Buy	1,146
Apollo Tyres	231	Buy	290
Ashok Leyland	124	Buy	151
Bajaj Auto	4,187	Buy	4,800
Balkrishna Industries	2,291	Hold	UR
Bosch	15,495	Buy	18,156
Escorts	1,204	Positive	1,460
Exide Industries $	183	Buy	229
Gabriel India	121	Buy	160
GNA Axles	462	Buy	490
Greaves Cotton	164	Buy	194
Hero Motocorp	2,914	Buy	4,030
Lumax Auto Technologies#	158	Buy	190
M&M @ $	777	Buy	1,000
Maruti Suzuki	7,451	Buy	8,587
Mayur Uniquoters	529	Buy	670
Ramkrishna Forgings	722	Buy	786
Schaeffler India	5,454	Buy	6,300
Sundram Fasteners #	793	Buy	994
Suprajit Engineering #	285	Buy	329
Tata Motors #	317	Buy	430
TVS Motors $	604	Buy	688

@ MM & MVML; # Consolidated; $ core business valuation; UR Under Review
Source: Company data, Sharekhan estimates
CMP as on July 07, 2021

Price chart



Source: NSE India, Sharekhan Research

Sharekhan universe of automobile companies is expected to show 133.2% y-o-y revenue growth in Q1FY2022 due to low base. Q1FY2021 was weak due to COVID-19 restrictions across the country. On a q-o-q basis, Sharekhan universe of automobiles is expected to decline by 18.5% because of restrictions imposed by states in May-June 2021 due to wave-2 of COVID-19. EBITDA of our coverage companies is expected to decline by 39.4% q-o-q on account of continued rise in raw-material costs, negative operating leverage, and high freight cost, partially mitigated by cost reductions. Q1FY2022 results are not strictly comparable either y-o-y or q-o-q due to COVID-19 led disruptions last year as well in the current quarter. We expect auto components companies to perform better as compared to auto OEMs due to exposure to export markets, which continued to remain robust in Q1FY2022. Even auto OEMs such as Bajaj Auto, TVS Motors, and Maruti Suzuki continued to perform well in exports in Q1FY2021 due to lower impact of wave-2 COVID-19 in export destinations. We continue to remain positive on the sector, as we expect pent-up demand to fuel growth from Q2FY2022, as the economy is getting normalised post lifting of lockdown restrictions. Moreover, government-led vaccination drive has taken centre stage after rapid spike of COVID infections in wave-2. Faster rollout of vaccinations will augur well for economic recovery. As far as demand is concerned, we expect pent-up demand will continue to drive growth for the automobile sector from Q2FY2022. Rural sentiments continue to remain strong due to strong kharif production in the previous year, strong reservoir, and prediction of favourable monsoon this year. Moreover, OEMs dependent on exports will be better positioned to drive volumes during the current scenario. We remain positive on the automobile sector and expect a strong rebound in FY2022E.

Outlook

Underlying demand remains strong; Auto OEMs to pass on increasing input costs to customers in phases

We continue to remain positive on the sector; however, management expects Q1FY2022 to be impacted by lockdown restrictions by states due to wave-2 of COVID-19. The passenger vehicle segment, both for two-wheelers and four-wheelers, is expected to remain strong amid COVID-19, as a preference for personal transport. Rural demand is expected to recover strongly in southern and western India, given timely arrival of the monsoon season, higher reservoir levels, and higher kharif sowing last year. Tractor sales are likely to remain healthy, ahead of the summer crop. We expect sequential improvement in M&HCV sales to continue, driven by rise in e-commerce, agriculture, infrastructure, and mining activities. We expect the CV segment to recover strongly in FY2022 and FY2023, driven by improved economic activities, low interest rate regime, and better financing availability. We expect M&HCVs to outpace other automobile segments in FY2022 and FY2023, followed by growth in the tractor, passenger vehicle, and two-wheeler segments. The bus and three-wheeler segments will remain under pressure due to closure of schools, colleges, offices, and lower use of public transport. We retain our Positive view on the sector.

Valuation

In the OEM space, we prefer rural-centric companies with a strong balance sheet. In the two-wheeler space, we prefer **Hero MotoCorp** because of positive sentiments in rural and semi-urban areas. In the PV space, we like **Maruti Suzuki** and expect it to maintain its dominant market share and robust export growth. In the tractor segment, we like **M&M**, given its leadership in the tractor segment and its continued strong performance in other segments such as LCV and UVs. In the auto-ancillary space, we like **Bosch** (due to its extensive network and brand equity), **Sundram Fasteners** (beneficiary of strong growth traction in CV, PV, 2Ws, and tractor and its strategy to de-risk business from cyclicality), **Suprajit Engineering** (on account of increased share of business with existing clients and new client additions), **Ramkrishna Forgings** (beneficiary of CV upcycle in India, North America, and Europe), **Gabriel India** (due to its leadership position and brand recall in the suspension components segment and focus on the e-mobility space), **Greaves Cotton** (beneficiary of e-2W adoption and focus on non-automotive segment), and **Apollo Tyres** (strong brand recall in India and Europe and focus on profitable growth).

Key risks:

The fear arising of the second or third wave of COVID-19 in few states may result in further extension of a partial lockdown. Any significant delay in recovery from COVID-19 infection or vaccination rollout continue to be key risks going forward.

Q1FY2022 Leaders: Bajaj Auto, M&M, Apollo Tyres, Escorts, Bosch, Ramkrishna Forgings, Sundram Fasteners, Suprajit Engineering

Q1FY2022 Laggards: Ashok Leyland, Tata Motors, GNA Axles

Preferred Picks: Hero MotoCorp, Maruti Suzuki, M&M, Bosch, Sundram Fasteners, Suprajit Engineering, Ramkrishna Forgings, Gabriel India, Greaves Cotton, and Apollo Tyres.

Q1FY2022 results estimates

Company	Sales (Rs cr)				EBIDTA margins (%)				PAT (Rs cr)			
	Q1 FY22	Q1 FY21	YoY %	QoQ %	Q1 FY22	Q1 FY21	YoY bps	QoQ bps	Q1 FY22	Q1 FY21	YoY %	QoQ %
Alicon Castalloy Limited #	290	53	448.0	(10.0)	14.5	(45.5)	5,998	(55)	18	(44)	NA	(30.4)
Amara Raja Batteries	1,766	1,151	53.4	(16.0)	14.0	13.2	76	(105)	132	63	111.3	(30.1)
Apollo Tyres #	4,322	2,873	50.4	(14.0)	14.1	8.3	584	(210)	147	(135)	NA	(48.8)
Ashok Leyland	2,801	651	330.3	(60.0)	(2.6)	(51.2)	NA	NA	(310)	(389)	NA	NA
Bajaj Auto	7,436	3,079	141.5	(13.5)	16.5	13.3	323	(123)	1,056	528	100.0	(20.7)
Balkrishna Industries	1,625	942	72.6	(6.9)	30.0	25.9	413	(103)	288	122	136.7	(22.5)
Bosch	2,733	992	175.7	(15.0)	18.6	(10.3)	2,893	(64)	391	76	412.0	(18.9)
Escorts	1,614	1,062	52.0	(27.0)	14.3	11.3	303	(129)	182	92	97.8	(32.8)
Exide Industries	2,292	1,548	48.1	(22.0)	12.2	9.6	261	(183)	145	44	229.9	(40.6)
Gabriel India	465	123	278.2	(20.0)	7.6	(13.9)	2,152	(88)	19	(24)	NA	(30.7)
GNA Axles	217	81	166.9	(30.0)	10.8	6.9	385	(479)	9	(7)	NA	(67.1)
Greaves Cotton	388	156	148.9	(15.0)	7.0	(17.1)	2,411	(335)	9	(23)	NA	(61.5)
Hero MotoCorp	5,795	2,875	101.6	(33.3)	11.2	3.8	744	(274)	452	61	637.4	(47.7)
Lumax Auto Technologies #	310	71	337.3	(20.0)	7.8	(17.6)	2,535	(321)	13	(12)	NA	(39.1)
M&M @ #	12,521	5,589	124.0	(7.3)	14.3	10.3	404	105	875	39	-	(6.4)
Maruti Suzuki	17,921	4,107	336.4	(25.4)	6.3	(21.0)	2,733	(198)	426	(249)	NA	(63.5)
MayurUniquoters	143	39	266.7	(20.0)	23.0	(3.6)	2,661	(641)	24	0	NA	(32.2)
Ramkrishna Forgings	388	116	235.3	(25.0)	17.5	(1.3)	1,879	(329)	17	(27)	NA	(52.4)
Schaeffler India	1,053	439	140.0	(20.0)	14.0	(4.5)	1,851	(216)	88	(42)	NA	(37.2)
Sundram Fasteners	1,018	373	172.9	(20.0)	16.5	4.0	1,245	(210)	113	(27)	NA	(20.0)
Suprajit Engineering #	436	178	145.6	(15.0)	13.5	(2.7)	1,620	(242)	45	(15)	NA	(21.2)
Tata Motors #	72,957	31,983	128.1	(17.7)	7.7	2.0	571	(668)	(307)	(8,441)	NA	NA
TVS Motors	4,151	1,432	189.9	(22.0)	7.9	(3.4)	1,131	(217)	135	(139)	NA	(53.5)
Soft Coverage												
Bharat Forge #	1,958	1,154	69.6	(6.0)	19.3	(1.2)	2,052	(114)	176	213	(17.2)	(2.3)
Eicher Motors	1,796	769	133.5	(38.5)	16.5	0.2	1,634	(637)	203	12	-	(58.8)
Motherson Sumi # ^	17,233	8,348	106.4	1.5	10.4	(7.4)	1,784	25	293	(810)	NA	(65.5)
SRK AUTO UNIVERSE	**1,63,632**	**70,183**	**133.2**	**(18.5)**	**9.9**	**0.8**	**906**	**(338)**	**4,638**	**(9,133)**	**NA**	**(67.9)**
SRK AUTO UNIVERSE - excl Tata Motors	**90,675**	**38,200**	**137.4**	**(19.2)**	**11.6**	**(0.2)**	**1,179**	**(74)**	**4,946**	**(691)**	**NA**	**(43.1)**

Source: Company, Sharekhan estimates
@ MM & MVML; # Consolidated; ^ Motherson Sumi excluding domestic wiring harness business

Valuations (As on July 07, 2021)

Company	CMP (Rs)	Reco	PT (Rs)	EPS			P/E		
				FY21	FY22E	FY23E	FY21	FY22E	FY23E
Alicon Castalloy #	681	Buy	700	(1.4)	31.2	53.8	NA	21.8	12.7
Amara Raja Batteries	739	Buy	1,146	36.3	43.8	50.5	20.4	16.9	14.6
Apollo Tyres	231	Buy	290	11.6	18.3	24.0	20.0	12.6	9.6
Ashok Leyland	124	Buy	151	(0.7)	2.9	7.0	NA	42.0	17.7
Bajaj Auto	4,187	Buy	4,800	157.5	189.5	218.5	26.6	22.1	19.2
Balkrishna Industries	2,291	Hold	UR	59.8	75.4	87.4	38.3	30.4	26.2
Bosch	15,495	Buy	18,156	415.7	482.1	585.7	37.3	32.1	26.5
Escorts	1,204	Positive	1,460	86.4	87.0	96.8	13.4	13.3	11.9
Exide Industries $	183	Buy	229	8.9	12.7	14.1	16.7	11.7	12.9
Gabriel India	121	Buy	160	3.8	7.0	8.9	31.9	17.3	13.6
GNA Axles	462	Buy	490	32.9	37.1	42.6	14.0	12.4	10.8
Greaves Cotton	164	Buy	194	2.5	5.4	8.1	66.0	30.6	20.3
Hero Motocorp	2,914	Buy	4,030	145.8	191.0	212.1	20.0	15.3	13.7
Lumax Auto Technologies#	158	Buy	190	6.8	9.7	11.9	23.1	16.3	13.3
M&M @ $	777	Buy	1,000	32.6	44.3	51.0	16.9	12.5	10.8
Maruti Suzuki	7,451	Buy	8,587	140.0	223.2	286.2	53.2	33.4	26.0
MayurUniquoters	529	Buy	670	19.6	24.2	29.4	26.9	21.8	18.0
Ramkrishna Forgings	722	Buy	786	8.8	29.1	49.1	82.0	24.8	14.7
Schaeffler India	5,454	Buy	6,300	93.1	140.5	185.3	58.6	38.8	29.4
Sundram Fasteners #	793	Buy	994	17.2	21.0	3.0	46.1	37.8	264.3
Suprajit Engineering #	285	Buy	329	9.6	13.4	16.5	29.7	21.3	17.3
Tata Motors #	317	Buy	430	(3.6)	19.5	33.0	NA	16.2	9.6
TVS Motors $	604	Buy	688	12.9	20.7	25.2	43.0	26.8	22.0

Source: Company data, Sharekhan estimates
@ MM & MVML; # Consolidated; $ core business valuation

Banking

Gradually reverting to normalcy

Q1FY2022 Results Preview

Sector: Banking

Sector View

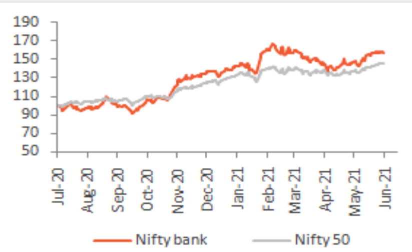
Private Banks	Positive
PSU Banks	Neutral

Our coverage universe

Companies	CMP (Rs)	Reco.	PT (Rs)
Private Banks			
ICICI Bank	639	Buy	800
Axis Bank	746	Buy	900
HDFC Bank	1511	Buy	1,810
Federal Bank	86	Buy	95
IndusInd Bank	1,045	Buy	1,340
Kotak Mahindra Bank	1,725	Buy	2,130
RBL Bank	219	Buy	240
City Union Bank	162	Buy	225
AU Small Finance	1163	Buy	1,350
PSU Banks			
State Bank of India	425	Buy	520
Bank of Baroda	84	Buy	100
Punjab National Bank	41	Hold	48
Bank of India	76	Buy	100

UR - Under review
CMP as on July 09, 2021

Price chart



We believe loan growth would be modest sequentially for banks in Q1FY22, due to the second wave of COVID-19 and the resultant localised lockdown in April-May 2021. Demand for retail loans - home, auto, LAP and gold loans- will be sluggish. We believe banks are likely to remain cautious on personal and microfinance loans. We forecast Q1FY22 earnings for banks in our coverage to rise 44% y-o-y, driven by an 11% y-o-y rise in NII and 5% y-o-y increase in pre-provision operating profit (PPOP).

We forecast advances for our universe of private banks to grow by 9.7% y-o-y. Similarly, public sector banks within our coverage will clock a 2.3% y-o-y increase in loans led primarily by SBI. Most large banks'gross non-performing loans (GNPLs) improved vis-à-vis proforma GNPLs in Q4FY21 following withdrawal of the Supreme Court order to classify loans as standard assets and not NPAs. However, we expect slippages to increase due to the second wave of COVID-19 that disrupted the first two months of Q1FY22.We have factored in 50-100bps increase in GNPLs in Q1FY22 for our universe. However, we may witness lower provisioning owing to: 1) cautious retail loan growth and 2) creation of provision buffers over the past four quarters irrespective of the Supreme Court order.

Credit growth for the system as a whole has been modest at 5.8% y-o-y in June 2021. In FY21, overall credit growth stood at 6% y-o-y. Rising bad loans, slower loan growth, higher credit costs and low CARs among PSU banks restricted their lending ability, allowing their private sector peers to capitalise on this. Private banks' share of total credit increased to 36% in FY20 from 19% in FY09. Over the past five years, while private banks' loan books clocked an 18% CAGR, PSBs' grew by a 4% CAGR. We forecast larger and well-capitalized banks (such as HDFC Bank, ICICI Bank, Axis Bank and SBI) are expected to report better advances growth, and would continue to gain market share.

Private banks have a superior loan composition, strong underwriting, focus on collateralised lending and better monitoring which has led to their superior asset quality vis-a-vis PSBs. Moreover, private banks are retail-focused and have created substantial provision buffers and are well-capitalised.

Outlook

We prefer private banks and select public sector bank such as SBI: The economy may face a temporary blip due to the second wave of COVID-19 and the subsequent localised lockdowns.The RBI has forecast GDP to grow by 9.5% in FY22 that augurs well for long-term demand outlook. However, the pace of vaccination is likely to cushion the impact on the earnings front (especially on the assetquality recognition part) and hence, we expect a gradual return to normalised business traction to be positive for banks. During Q1FY22, we expect stronger private banks to show better growth led by strong capital base, provision buffer, superior asset quality and retail focused portfolio. The recent spate of capital raising has been positive for strengthening of bank balance sheets, and the gradually reducing liquidity buffer will be a positive support for margins and medium-term return ratios.

Valuation

We prefer large corporate/retail private banks and SBI among PSBs as they are well capitalised, superior asset quality and has created substantial provision buffer. We believe that they have potential to gain market share as the situation normalises.

Key risks:

Prolonged delay in economic recovery, slower vaccinations and faster pace in slippages

Leaders for Q1FY2022: HDFC Bank, ICICI Bank, Axis, IndusInd Bank and SBI

Laggards for Q1FY2022: PNB

Preferred Picks:

Private banks: ICICI Bank, HDFC Bank, IndusInd Bank and Axis Bank

PSU bank: SBI

Q1FY2022 results estimates (Rs crore)

Private Banks	Metric	Q1FY21	Q4FY21	Q1FY22	y-o-y (%)	q-o-q (%)	Remarks
AU Small	NII	516	656	662	28%	1%	Loan AUM increased 22% y-o-y while deposits increased 38% y-o-y
	PPOP	446	374	365	-18%	-2%	NIM to remain in the vicinity of 5-5.5%
	PAT	201	169	151	-25%	-11%	PAT to decline due to high base.
ICICI Bank	NII	9,280	10,431	10,283	11%	-1%	Loan growth at 16% YoY to drive NII growth (11% y-o-y)
	PPOP	10,776	8,540	8,666	-20%	1%	NIM to remain stable at around 3.8%
	PAT	2,599	4,403	4,488	73%	2%	Provisions to decrease as the bank is likely to use the provision buffer
Axis Bank	NII	6,985	7,555	8,050	15%	7%	Loan growth at 10% YoY led by retail and SME loans
	PPOP	5,844	6,865	6,860	17%	0%	NIM to remain stable at around 3.5%
	PAT	5,844	6,865	6,860	17%	0%	PAT to increase 17% YoY
IIB	NII	2,599	4,403	4,488	73%	2%	Loans increased 7% y-o-y. NII to increase 73% y-o-y
	PPOP	2,861	3,062	3,156	10%	3%	PPoP to increase by 10% y-o-y
	PAT	461	876	921	100%	5%	GNPLs to remain at about 3%%
HDFCB	NII	15,665	17,120	16,636	6%	-3%	Loan increased 14% y-o-y while deposits increased 13% led by CASA
	PPOP	12,829	15,533	15,026	17%	-3%	Other income to increase 6% q-o-q: Total Income to increase 26% y-o-y
	PAT	6,659	8,187	7,796	17%	-5%	PAT to increase 17% y-o-y
KMB	NII	3,724	3,843	3,757	1%	-2%	Loan growth of 2.5% y-o-y.
	PPOP	2,624	3,408	3,306	26%	-3%	NIM to remain strong at 4.5%
	PAT	1,245	1,682	1,690	36%	0.5%	GNPLs to remain under control at 3%
RBL	NII	1,041	906	927	-11%	2%	Loan growth of 2% y-o-y, while deposit increased strongly at 21%
	PPOP	690	877	772	12%	-12%	Development in MFI and credit card business to watch out for
	PAT	141	75	93	-34%	24%	Credit cost may be higher due to higher slippages
FB	NII	1,296	1,420	1,506	16%	6%	Loan growth of 8% YoY, while deposit increased 9% YoY
	PPOP	932	885	958	3%	8%	NIM to remain steady at 3%
	PAT	401	478	502	25%	5%	Focus to remain on SME and retail portfolio
City	NII	4,370	4,285	4,763	9%	11%	Loan growth of 6% y-o-y
	PPOP	3,560	2,847	3,952	11%	39%	NII growth will be about 9% y-o-y
	PAT	1,540	1,112	1,140	-26%	2%	Asset Quality may deteriorate with GNPLs at 4.7

Source: Company, Sharekhan Research

Q1FY2022 results estimates (Rs crore)

Public Banks	Metric	Q1FY21	Q4FY21	Q1FY22	y-o-y (%)	q-o-q (%)	Remarks
SBIN	NII	26,642	27,067	28,906	9%	7%	Loan growth expected to increase by 4% y-o-y,
	PPOP	18,061	19,700	19,325	7%	-2%	NII growth will be about 9%
	PAT	4,189	6,451	7,331	75%	14%	NIM to remain stable at 3.1%
BOB	NII	6,816	7,107	7,907	16%	11%	Loan growth to reamin flat at 2% q-o-q
	PPOP	4,320	6,266	5,011	16%	-20%	50-60% of the international loan book may get restructured
	PAT	(864)	(1,047)	1,289	NA	NA	SME and retail portfolio may see higher slippages
PNB	NII	6,748	6,938	8,031	19%	16%	Loan to remain flat at about 2% q-o-q
	PPOP	5,280	5,634	4,990	-6%	-11%	GNPLs to remain high at about 14%
	PAT	308	586	434	41%	-26%	NIM to remain stable at about 2.8%
BOI	NII	3,481	2,936	3,133	-10%	7%	Loan to remain flat at about 1.3% q-o-q
	PPOP	2,845	2,094	2,689	-5%	28%	GNPLs to remain high at about 13.77%.
	PAT	844	250	265	-69%	6%	NIM to remain stable at about 2.8%

Source: Company, Sharekhan Research

Valuations (As on July 09, 2021)

Companies	CMP (Rs)	Reco	Price target (Rs)	BVPS (Rs)		P/BV (x)	
				FY22E	FY23E	FY22E	FY23E
Private Banks							
ICICI Bank	639	Buy	800	236	263	3.0	2.0
Axis Bank	746	Buy	900	322	248	2.3	3.0
HDFC Bank	1511	Buy	1,810	398	453	3.8	3.3
Federal Bank	86	Buy	95	87	97	1.0	0.9
IndusInd Bank	1,045	Buy	1,340	587	662	1.8	1.6
Kotak Mahindra Bank	1,725	Buy	2,130	374	422	4.6	4.1
RBL Bank	219	Buy	240	247	272	0.9	0.8
City Union Bank	162	Buy	225	91	108	1.8	1.5
AU Small Finance	1163	Buy	1,350	232	295	5.0	3.9
PSU Banks							
State Bank of India	425	Buy	520	226	281	1.9	1.5
Bank of Baroda	84	Buy	100	162	171	0.5	0.5
Punjab National Bank	41	Hold	48	48	68	0.9	0.6
Bank of India	76	Buy	100	131	155	0.6	0.5

Source: Company, Sharekhan Research
UR: Price targets Under review

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

Sharekhan
by BNP PARIBAS

NBFC

Q1 to be a blip; recovery eyed in Q2

Q1FY2022 Results Preview

Sector: NBFC

Sector View: Positive

We believe loan growth would contract sequentially for NBFCs in Q1FY22, due to the second wave of COVID-19 and the resultant localised lockdowns in April-May 2021. Demand for loans across - home, auto, LAP and gold - will be sluggish. We believe that NBFCs are likely to remain cautious on disbursements amid a tough macro-environment. We expect Q1FY22 earnings for the Sharekhan universe of NBFCs to rise by 4% y-o-y, driven by a 17% y-o-y rise in NII and 6% y-o-y increase in pre-provision operating profit (PPOP).

We expect advances for our universe to contract by 1.7% q-o-q in Q1FY22. Bajaj Finance's loan book increased 15% y-o-y and 4% q-o-q in Q1FY22. Most NBFCs'gross non-performing loans (GNPLs) improved vis-à-vis proforma GNPLs in Q4FY21, following withdrawal of the Supreme Court order to classify loans as standard assets and not NPAs. The fall in GNPLs was also aided by better collection efficiency. However, we expect slippages to increase due to the second wave of COVID-19 that disrupted the first two months of Q1FY22, which would also lower collections. The restructuring book may swell due to the lack of a moratorium this time around.

NBFCs accounted for 17% of the credit market that had a size of Rs. 143 lakh crore as of March 2020. Their credit growth slowed to 7% y-o-y in FY2020 from 16% y-o-y in FY19 and 32% y-o-y in FY18 after Infrastructure Leasing & Financial Services (IL&FS) defaulted on its short-term debt of Rs. 90,000 crore in September 2018. This led to concerns about the financial soundness of the NBFC sector, including their asset quality and asset-liability mismatch. Liquidity stress on NBFCs created difficulties in accessing capital and increased funding costs. Reflecting this and the economic slowdown due to the pandemic, NBFCs' loan growth slowed. The slowdown is likely to continue in FY2022 primarily due to the second wave of COVID-19.

Home sales have seen a temporary deterioration across key geographies during the quarter due to the second wave of COVID-19, despite incentives from the government (stamp duty cut, tax incentives, etc) and discounts by builders along with improving affordability. Tractor sales remains healthy led by the recovery in the rural economy.

Outlook

We prefer well-capitalised NBFCs - The economy may face a temporary blip due to the second wave of COVID-19 and the subsequent localised lockdowns.The RBI has forecast GDP to grow by 9.5% in FY2022 that augurs well for the long-term demand outlook for NBFCs. Agriculture will be a bright spot with strong growth in rural areas. During Q1, we expect stronger NBFCs to remain cautious due to the second wave of COVID-19. We believe that sequentially better growth, helped by business activity resumption in Q2FY2022, and a fall in marginal cost of funds will provide support to margins. We believe a key trend to monitor would be the collection efficiency in Q1FY2022.

Valuation

We prefer large well-capitalised NBFCs which are not focused on diversified loan book. We also like players with superior credit ratings and they can raise capital at a cheaper rate. We see potential for them to gain market share as the situation normalises.

Key risks:

Prolonged slowdown in economic recovery, slower vaccinations and faster pace in slippages

Leaders for Q1FY2022: HDFC Ltd, LIC Housing, Repco Home, Cholamandalam Investment

Laggards for Q1FY2022: Bajaj Finance

Preferred Picks:

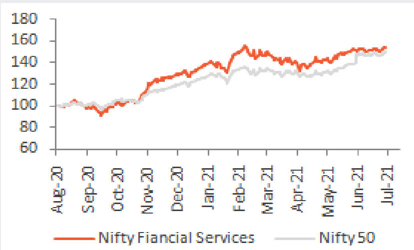
HDFC Ltd, LIC housing Finance, Cholamandalam Investment, Repco Home and M&M Financial Services.

Our coverage universe

Companies	CMP (Rs)	Reco.	PT (Rs)
Bajaj Finance	6136	Buy	7,000
Bajaj Finserv	12,331	Buy	13,140
Bajaj Holding	3,772	Buy	4,437
Cholamandalam Investment	519	Buy	650
HDFC Ltd	2497	Buy	3,100
IDFC Ltd	63	Positive	71
L&T Finance Holding	93	Buy	118
LIC Housing	456	Buy	610
M&M Financials	195	Buy	260
Repco Home Finance	367	Buy	400
Spandana Sphoorthy	689	Buy	UR

UR - Under review
CMP as on July 09, 2021

Price chart



Q1FY2022 results estimates (Rs crore)

NBFCs	Metric	Q1FY21	Q4FY21	Q1FY22	y-o-y (%)	q-o-q (%)	Remarks
Bajaj Finance	NII	3,296	3,839	3,790	15%	-1%	Loan AUM increased 15% y-o-y in 1QFY22
	PPOP	2,995	3,053	3,205	7%	5%	NII to increase by 15% y-o-y on the back of decrease in cost of funds
	PAT	962	1,347	1,251	30%	-7%	Provisions may increase led by higher Covid related stress
Cholamanda-lam Investment	NII	940	1,249	1,222	30%	-2%	Loan AUM to decline q-o-q due to lockdown in the Q1F22
	PPOP	637	828	911	43%	10%	NII to increase by 30% y-o-y on the back of decrease in cost of funds
	PAT	431	243	465	8%	91%	Provisions may increase led by Covid related stress
HDFC Ltd	NII	3,335	4,027	4,069	22%	1%	Loan AUM to grow 2% y-o-y
	PPOP	4,806	4,643	4,421	-8%	-5%	Credit cost to rise due to Covid related buffer
	PAT	3,052	3,180	2,960	-3%	-7%	higher Other expenses and lower capital gains to impact earings
L&T Finance holding	NII	1,257	1,540	1,408	12%	-9%	Loan to contract 6% y-o-y due to slowdown in infra and micro finance business
	PPOP	978	1,408	1,154	18%	-18%	NIM to decline 80-90 bps due lower credit offtake
	PAT	148	267	175	18%	-35%	Credit cost of 3% due to higher rural exposure
LIC Housing Finance	NII	1,221	1,505	1,514	24%	1%	Home loanto increase 2% q-o-q due to subdued home loan market in 1Q
	PPOP	1,076	1,337	1,399	30%	5%	LICHF to go slow on developer's book due to high inventory level
	PAT	818	399	777	-5%	95%	Restructured loans to increase which will lead to higher credit costs
M&M Financial	NII	1,345	1,475	1,385	3%	-6%	Loan book to contract 5.7% q-o-q due to weak macro environment
	PPOP	843	1,057	874	4%	-17%	Lower cost of funds of about 90 bps to improve margins
	PAT	156	150	159	2%	6%	We forecast 5.5% credit cost stable q-o-q
Repco home finance	NII	128	144	148	15%	2%	Loan book to contract 6% q-o-q due to weak macro environment
	PPOP	108	119	128	18%	7%	About 81% of the portfolio is in home loans
	PAT	64	63	68	6%	8%	We forecast 5.5% credit cost stable q-o-q
Spandana Spoorthy	NII	264	274	277	5%	1%	Growth in AUM to be muted at 2% q-o-q
	PPOP	279	282	290	4%	3%	Collection efficiencies to reduce due to 2nd wave Covid
	PAT	59	49	48	-19%	-3%	Earnings to contract due to hgher credit costs

Source: Company, Sharekhan Research

Valuations (As on July 09, 2021)

Companies	CMP (Rs)	Reco	Price target (Rs)	BVPS (Rs)		P/BV (x)	
				FY22E	FY23E	FY22E	FY23E
NBFC							
Bajaj Finance	6136	Buy	7,000	727	874	8.4	7.0
Cholamandalam Investment	519	Buy	650	108	133	4.8	3.9
HDFC Ltd	2497	Buy	3,100	558	606	4.5	4.1
L&T Finance Holding	93	Buy	118	75	82	1.2	1.1
LIC Housing	456	Buy	610	408	470	1.1	1.0
M&M Financials	195	Buy	260	114	122	1.7	1.6
Repco Home Finance	367	Buy	400	292	322	1.3	1.1
Spandana Sphoorthy	689	Buy	UR	485	577	1.4	1.2

Source: Company, Sharekhan Research
UR: Price targets Under review

Sharekhan by BNP PARIBAS

Insurance and AMCs

Healthy Q1 eyed; low penetration enlarges growth potential

Q1FY2022 Results Preview

Sector: Insurance and AMCs

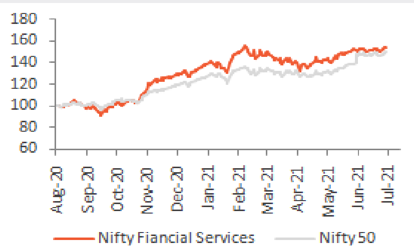
Sector View
Insurance: Positive
AMCs: Positive

Our coverage universe

Companies	CMP (Rs)	Reco.	PT (Rs)
ICICI lombard General Insurance	1,543	Buy	1,750
ICICI Prudential Life	626	Buy	650
HDFC Life	693	Buy	850
Max Financial Services	1,079	Buy	1,250
Nippon Life Asset Management	380	Buy	418

Source: Company, Sharekhan Research
CMP as on July 13, 2021

Price chart



We believe Q1FY2022 will be a strong quarter for life insurance players as they witnessed resumption in business and greater customer appetite for protection products. We expect annualised premium equivalent (APE) for life insurance companies in the Sharekhan universe to increase by 41% y-o-y on an average. We believe that cost savings, reserve releases and higher volumes are expected to support VNB margins in Q1FY2022.

For non-life insurance companies such as ICICI Lombard, premium growth is expected to be normal. We expect earnings to improve, led by lower claims and cost ratios. Traction in the motor and health businesses is encouraging. The latter has also seen traction amid the emergence of a second wave of COVID-19.

Asset management companies (AMCs) meanwhile saw a healthy growth in average assets under management (AAUM). After a sharp fall in March 2020, the mutual fund (MF) industry witnessed steady growth driven by fresh flows. AAUM increased 19% y-o-y in March 2021 to Rs.322 crore. Equity funds constituted~42% of total AUM as of March 2020 . We expect Nippon Life's AAUM to increase 15% q-o-q in Q1FY22.

The value of systematic investment plans (SIPs) has increased 3.7x to Rs. 3 crore during FY2015-FY2020, SIP purchases for Nippon AMC increased 46% y-o-y in March 2021. We expect this trend to continue in Q1FY22 as well.

Outlook

Insurance players to gain in Q2FY22, AMCs' outlook improving

The economy may face a temporary blip due to the second wave of COVID-19 and the subsequent localised lockdowns. Mutual fund penetration at 10% is low in India as compared to 12% for China and 104% in the US. There are only 2 crore pure mutual fund investors in India and 35 crore insurance policyholders, reveals data from the AMFI and IRDAI). This low penetration in itself offers a huge opportunity. We believe most life insurers would report modest growth in earnings over the next two years, impacted by the second wave of COVID-19. We expect a strong pick-up in premium growth (as seen from the monthly numbers traction in APE as well as new business premium). As for the MF industry, we expect customer preference for SIPs to continue given low penetration of MF products and buoyant equity market.

Valuation

We prefer large well-capitalised players which are market leaders. We believe that for Q1FY2022, the second wave of COVID-19 will take a toll on earnings, led by claims arising out of mortality. The sector may recover and revert to normalcy (in new business premium) and players like HDFC LIFE, Max and HDFC Life are expected to see healthy APE growth of 30-40%. We expect large well-managed AMCs to garner strong AUMs, given the prevalent market conditions and low financial savings of 6.4% of gross disposable incomes in India.

Key risks:

Due to the resurgence of COVID 19, the economic recovery may be prolonged. Economic distress may lead to further risk-off behaviour, impacting profitability and growth outlook.

Leaders for Q1FY2022: HDFC Life, ICICI Pru, Max Financials

Preferred Picks:

HDFC Life, Nippon Life AMC, Max Financial Services, ICICI Lombard

Q1FY2022 results estimates (Rs crore)

Companies	Metric	Q1FY21	Q4FY21	Q1FY22	y-o-y (%)	q-o-q (%)	Remarks
ICICI Lombard	GDPI	3,302	3,478	3,104	-6%	-11%	Gross domestic premium to contract 11% q-o-q
	PBT	475	450	523	10%	16%	Combined ratio to be maintained at 100%
	PAT	398	346	478	20%	38%	PAT to increase 20% y-o-y
ICICI Prudential	NPI	5,550	11,725	6,564	18%	-44%	APE increased 48% y-o-y; declined 51% q-o-q in Q1FY22
	PBT	305	222	242	-21%	9%	VBE contracted 50% q-o-q
	PAT	285	64	225	-21%	250%	PAT to decline 21% y-o-y
HDFC life	NPI	6,477	14,448	9,389	45%	-35%	APE to increase 44.5% y-o-y in Q1FY2022
	PBT	446	309	311	-30%	1%	VBE to increase 45-47% y-o-y
	PAT	386	314	305	-21%	-3%	PAT to decline 21% y-o-y
Max Financial	NPI	2,753	7,096	3,193	16%	-55%	APE growth of 27% y-o-y due to low base
	PBT	NA	NA	NA	NA	NA	VBE growth anticipated in excess of 80%
	PAT	164	107	122	-26%	14%	PAT to decline due to the COVID-19 overhang
Nippon Life AMC	Revenue	233	302	326	40%	8%	Total AUM to increase 5% y-o-y to Rs 3.71 trillion
	PBT	200	269	287	44%	7%	SIP to increase at a feverish pace.
	PAT	156	167	201	28%	20%	PAT to increase 28% y-o-y.

Source: Company, Sharekhan Research

Valuations (As on July 13, 2021)

General Insurance	CMP (Rs)	Reco	Price target (Rs)	EPS (Rs)		P/E (x)	
				FY22E	FY23E	FY22E	FY23E
ICICI Lombard	1,543	Buy	1,750	37	46	42	34
Life Insurance	**CMP (Rs)**	**Reco**	**Price target (Rs)**	**BVPS (Rs)**		**P/BV (x)**	
				FY22E	**FY23E**	**FY22E**	**FY23E**
ICICI Prudential Life	626	Buy	650	234	270	2.7	2.3
HDFC Life Insurance	693	Buy	850	157	188	4.4	3.7
Max Financial Services	1,079	Buy	1,250	378	449	2.9	2.4
Financial Services	**CMP (Rs)**	**Reco**	**Price target (Rs)**	**EPS (Rs)**		**P/E (x)**	
				FY22E	**FY23E**	**FY22E**	**FY23E**
Nippon Life AMC	380	Buy	418	11	13	35.2	29.7

Source: Company, Sharekhan Research

Sharekhan
by BNP PARIBAS

Capital Goods

Normalcy returns; growth to gain pace from H2

Q1FY2022 Results Preview

Sector Capital goods

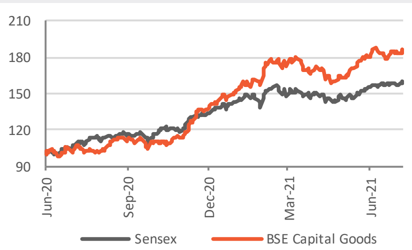
Sector View: Positive

Coverage Universe

Companies	CMP (Rs)	Reco.	PT (Rs)
LT	1,501	Buy	1795
Bharat Electronics	181	Buy	196
Finolex cables	512	Buy	623
KEC International	419	Buy	505
Kalpataru Power	426	Buy	485
Ratnamani Metals	2,046	Buy	2,400
Thermax	1,447	Buy	1720
Triveni Turbines	125	Buy	144
V-Guard	259	Buy	311
JMC Projects	121	Hold	UR
KEI Industries	730	Buy	750
Polycab India	1,967	Buy	2375
Dixon Technologies	4,531	Buy	4800
Amber Enterprises	3,003	Buy	3716
Cummins India	867	Buy	1030
Blue star Limited	860	Buy	1200
Carborundum Universal	655	Buy	UR
Honeywell Automation	42,162	Buy	52407
Va Tech Wabag	354	Buy	435
Soft Coverage			
ISGEC Heavy Engineering	824	Positive	20-22% upside

UR-Under Review
CMP as on July 08, 2021

Price chart



Source: NSE India, Sharekhan Research

The Q1FY22 earnings season has begun amid a scenario that has both positives and negatives. A fall in COVID-19 cases and the rising pace of vaccinations strengthen hopes of a recovery. The second half of FY21 was good with many sectors clocking a strong earnings gains and companies de-leveraging their balance sheets as a result. In such a backdrop, while expectations from Q1FY22 ran high, the second wave of COVID-19 slightly disrupted the show. Nonetheless, this time around, companies are well-prepared as they had prior experience managing migration of labour, supply chain disruption, and inventory management. Good ordering traction was seen in sectors such as Railways, Metro Rail, power T&D, oil & gas, pharma, cement, chemicals and mining. Globally, enquiry levels have picked up from the Middle East, Africa, US, Europe, SAARC, etc. We believe that a strong ordering pipeline and improving conversions will lead to strong order inflows for our coverage universe in FY22. Further, timely reorganisation of cost structure by companies is expected to partially offset a rise in raw material prices and aid better working capital management, thereby positively impacting overall EBIDTA margins. Many companies have also themselves started to organise vaccination drives, which will help reduce the spread of COVID-19 among staff. In addition, as economic activity normalises, we expect execution and utilisation to slowly revert to pre-COVID-19 levels. Gross margins, labour availability, ordering activity and companies' working capital cycle would be key monitorables. The low base of Q1FY2021 — when the lockdown had hit businesses and subsequently companies' results performance — would also be an aiding factor. Within the Sharekhan capital goods universe, we expect revenue/EBITDA/PAT growth of (excluding L&T) 49%/78%/120% y-o-y respectively owing to a favorable base and better adoption to 2nd wave of pandemic. EBITDA margin (ex-L&T) is likely to expand by ~170 bps y-o-y, due to better operating leverage, favorable base, price hikes, and cost control & better efficiencies. In the consumer durables segment, demand has been impacted due to the second wave of Covid-19 and lockdown restrictions in April and May. However, a gradual recovery has been seen post relaxation of the lockdown in June. Secondary sales of all products have been affected during the quarter. While consumer confidence is expected to bounce back in the near term amid widespread vaccinations, sustainability of long-term demand growth will depend on a recovery from the pandemic. Commodity prices have continued to rise even in Q1FY22 (prices of copper/aluminum are up 15%/ 16% q-o-q). We expect another 5-7% price hike in July (3%-5% in April) across product categories (Fans, white goods, kitchen appliances etc.). In Wires & Cables, with copper prices softening in June, channel has turned cautious in stocking inventory towards month end which can impact primary sales. Going forward, key growth drivers for the capital goods industry could include additions in captive power generation capacity, the infrastructure thrust, which is seeing investments flowing into mining, road projects, energy sector and downstream petrochemicals. In addition, there could be opportunities in replacing ageing equipment on the power transmission grid. We continue to prefer companies with strong balance sheets, low debt levels, good corporate governance, well-managed working capital cycle and long-term scalability that would sail through these turbulent times and be beneficiary in the long run.

Outlook

Resilience shown against second COVID-19 wave, momentum to continue:

Q1FY22 started on a promising note, but the second wave of COVID-19 and the subsequent lockdown impacted businesses again. However, they showed resilience and managed the situation and were able to continue. Almost all companies have started vaccination drives for the workers and have successfully completed administering the first dose of the vaccine to almost 90% of staff. We expect daily operations and utilisation levels to normalise as well as efficiencies at project sites to improve. Further, issues such as supply chain management, raw material procurement, etc, have been addressed to a large extent, along with easing of on-site labour seen across companies. Moreover, after easing of lockdown restrictions and resumption of economic activity, the industry has witnessed better-than-expected recovery in demand, led by rural India and small towns, which remains encouraging and remains key monitorable going ahead. The ordering momentum is expected to pick up driven by government spending. Nevertheless, we continue to prefer companies which can stand the test of time backed by a strong and diversified order book, execution capabilities, healthy balance sheet & better working capital management under capital goods coverage.

Our Call

Valuation: Prefer companies with inherent abilities to strive during turbulent times:

We have seen a strong rally in stock prices over the trailing two months, which is an indication of the momentum seen with regards to order booking and pick up in execution in capital good companies. FY21 witnessed organized players gaining share at expense of unorganized/ small regional players as they remained impacted given liquidity constraint & supply chain issues. Even though unorganized players are slowly inching back, organized players continue to retain shelf space & consumer mind share captured last year. We continue to prefer companies having a strong diversified order book, execution capabilities and healthy balance sheet (in case of project-based companies). In the consumer durables segment, we prefer companies with a strong cash flows and better working capital management, which are better prepared to revive their earnings growth trajectory once normalcy prevails. Hence, among project-based companies, we prefer L&T, Honeywell Automation India, Carborundum Universal, Cummins India, KEC, while in consumer durable space we prefer Polycab, Dixon Technologies Amber Enterprises and KEI Industries.

Key risks:

Weak domestic macroeconomic environment leading to feeble project tendering and higher commodity prices affecting OPM.

Leaders: L&T, KEC, Cummins India, Dixon Technologies, Honeywell Automation India, Va Tech Wabag

Laggards: Triveni Turbines, JMC Projects

Preferred Picks: L&T, Bharat Electronics, ISGEC Heavy Engineering, Honeywell Automation India, Carborundum Universal, Cummins India, KEC, Kirloskar Oil Engines, Polycab, Dixon Technologies, V-Guard, Amber Enterprises and KEI Industries.

Q1FY2022 results estimates

Company	Revenue (Rs. cr)			OPM (%)			Net profit (Rs. cr)		
	Q1 FY22E	Q1 FY21	y-o-y (%)	Q1 FY22E	Q1 FY21	y-o-y (%)	Q1 FY22E	Q1 FY21	y-o-y (%)
LT	30,796	21,260	45%	11%	8%	364	1,550	303	412%
Bharat Electronics	2,461	1,676	47%	15%	9%	677	191	54	254%
Finolex cables*	511	377	36%	12%	12%	-33	53	35	51%
KEC International	2,612	2,207	18%	7%	9%	-156	70	71	-1%
Kalpataru Power*	1,719	1,459	18%	10%	17%	-659	101	69	46%
Ratnamani Metals	591	578	2.3	17	12.7	426	71	50	43.8
Thermax	1,072	665	61%	7%	-	-	49	-15	-
Triveni Turbines	174	179	-3%	18%	21%	-228	22	27	-19%
V-Guard*	513	406	26%	6%	2%	422	21	4	425%
JMC Projects	845	470	80%	7%	6%	150	1	-22	-
KEI Industries*	906	745	22%	10%	10%	71	52	36	44%
Polycab India	1,892	977	94%	12%	6%	621	154	118	31%
Dixon Technologies	1901	517	268%	4%	3%	34	39	2	1850%
Amber Enterprises	392	259	51%	7%	-2%	-	2	-22	-
Cummins India	1160	503	131%	13%	0.40%	1219	181	53	242%
Blue star Limited	1047	626	67%	5%	0.20%	481	22	-20	-
Carborundum Universal	681	450	51%	17%	10%	733	71	20	255%
Honeywell Automation	797	736	8%	20%	17%	243	122	98	24%
Va Tech Wabag	631	431	46%	8%	7%	120	28	5	460%
Soft Coverage									
ISGEC Heavy Engineering	1,253	1,071	17%	8%	9%	-69	59	41	44%

*Source: Company, Sharekhan Research, *Standalone financials*

Valuations (As on July 08, 2021)

Company	CMP (Rs)	Reco	Price Target (Rs)	EPS			PE		
				FY2021	FY2022E	FY2023E	FY2021	FY2022E	FY2023E
LT	1,501	Buy	1,795	83	66	84	17	21	16.8
Bharat Electronics	181	Buy	196	10	11	12	15	14	13
Finolex cables*	512	Buy	623	19	24	28	28	21	18
KEC International	419	Buy	505	22	24	29	18	16	13
Kalpataru Power*	426	Buy	485	41	36	44	9	11	9
Ratnamani Metals	2,046	Buy	2,400	59	73	91	34	27	22
Thermax	1,447	Buy	1,720	18	30	35	80	48	41
Triveni Turbines	125	Buy	144	3.9	4.1	4.4	32	30	28
V-Guard*	259	Buy	311	4.6	5	6	57	49	43
JMC Projects	121	Hold	UR						
KEI Industries*	730	Buy	750	30	37	46	20	16	13
Polycab India	1,967	Buy	2,375	59	64	75	34	31	27
Dixon Technologies	4,531	Buy	4,800	27	43	60	147	93	67
Amber Enterprises	3,003	Buy	3,716	25	44	75	121	67	39
Cummins India	867	Buy	1,030	22	23	26	35	33	30
Blue star Limited	860	Buy	1,200	10	21	28	80	40	29
Carborundum Universal	655	Buy	UR						
Honeywell Automation	42,162	Buy	52,407	520	624	794	80	68	52
Va Tech Wabag	354	Buy	435	16	22	29	19	14	11
Soft Coverage									
ISGEC Heavy Engineering	824	Positive	20-22% upside	34	39	45	15	20	17

*Source: Company, Sharekhan Research, *Standalone financial, NR-Not Rate, UR-Under Review*

Sharekhan
by BNP PARIBAS

Consumer Discretionary

Second wave puts a halt on recovery of discretionary companies

Q1FY2022 Results Preview

Sector: Consumer Discretionary

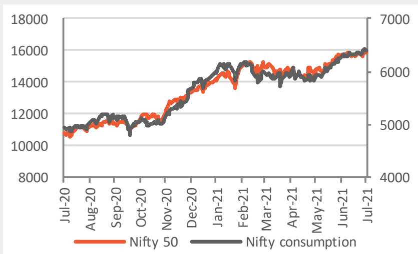
Sector View: Positive

Our coverage universe

Companies	CMP (Rs)	Reco./ View	PT (Rs)
Aditya Birla Fashion and Retail	213	Buy	255
Shoppers Stop	246	Positive	286
Trent	905	Buy	1018
Titan Company	1720	Buy	1910
Bata India	1571	Buy	1905
Relaxo Footwears	1170	Buy	1242
Jubilant FoodWorks	3107	Buy	3620
Indian Hotels Company	148	Buy	182
Wonderla Holidays	255	Buy	UR
Arvind	88	Buy	95
Himatsingka Seide	189	Positive	234
KPR Mill	1788	Buy	1990
Welspun India	106	Buy	125
Inox Leisure	316	Buy	400
Zee Entertainment	217	Buy	275

Source: Sharekhan Research;
**UR - Under Review*
CMP as on July 09, 2021

Price chart



Consumer discretionary companies posted strong operating performance in Q4FY2021 with recovery in sales led by improving footfalls and stark improvement in profitability because of better operating leverage and cost-saving initiatives undertaken by companies. Revenue of most branded apparel, footwear, and retail companies recovered to 100% in Q4 mainly on account of strong pent-up demand. However, jump in COVID-19 cases from fag-end of March and pick-up in April-May led to many states getting into the lockdown mode, putting restrictions on operations of non-essential stores, restaurants, and internal mobility. This has put a halt on recovery in the performance of discretionary companies in Q1FY2022. According to the retail industry's survey, the decline in sales was 79% in May versus a drop of 49% seen in April compared to pre-COVID sales due to stringent lockdown norms. Thus, we expect revenue of branded apparel, footwear, and jewellery companies to decline by 40-70% on a sequential basis in Q1FY2022. Dine-in was not allowed, while takeaways and delivery were permitted for restaurant and food joints. Thus, Jubilant FoodWorks Limited (JFL) is expected to post steady performance in Q1FY2022 with a marginal revenue decline of 12% q-o-q. Textile companies (excluding KPR Mill) are expected to post resilient performance in Q1FY2022 due to higher demand for garments and home textile from international markets. Higher cotton prices would lead to a q-o-q decline in gross margin of textile companies during the quarter. Indian Hotels Company Limited (IHCL) started Q1 with occupancy rate of ~50%, but the same declined substantially in April-May with restriction on internal mobility. IHCL's revenue is expected to be lower by 60% q-o-q. With a large part of cost being direct in nature (including employee cost and lease rentals), lower operating leverage would lead to losses at operating level for most in Q1FY2022. However, the picture is expected to better on a y-o-y basis. Companies would focus on controlling cost, negotiate with landlords for rentals, and would cut on brand spends. Further, most companies would focus on lesser cash burn during the quarter.

Outlook

Strong recovery anticipated by H2FY2022: Strong recovery is expected with receding COVID-19 cases from the fag-end of Q1FY2022 (although Q1 is expected to disrupted). The company expects the festive season and deferred wedding season to again bring in cheers for branded apparel and retail companies with higher footfalls and higher ticket size sales, which would drive sales for the apparel and jewellery segment. The government is focusing on opening up of the economy in the months ahead. This will drive demand for apparel and footwear products in the quarters ahead with vaccination drive happening at a good pace and receding fear amongst the common man. Tier 2/3 towns are also expected to recover due to expected another year of good monsoon, resulting in better agri production. Revenge tourism would give a boost to domestic traveling and demand for hotel rooms. Thus, companies such as Wonderla Holidays and IHCL would see higher bookings in the coming quarters. Textile companies would continue to benefit from sustained high demand from international markets and expected pickup from domestic retailers as old inventory is sold off in the market. We expect revenue of most companies to recover to FY2020 levels by FY2023. Better operating leverage benefits, cost-saving initiatives, and better revenue mix will enable companies to post consistent improvement in profitability in the coming years.

Valuation and preferred picks

We prefer companies having a stable balance sheet, pan-India presence, and strong brand recognition. Thus, we like Trent and ABFRL, which are likely to see faster recovery post normalisation of the pandemic situation. ABFRL will also gain from its steps undertaken to deleverage its balance sheet. Titan will continue to gain market share from small players due to sustained shift to strong brands, sustained new production addition, and its focus on improving penetration in tier 2/3 markets. We like KPR Mill and HimatSingka in the textile space due to improving growth prospects in the textile business in the domestic as well as international market. In the hospitality space, IHCL will be our preferred pick due to its relative stable balance sheet, strong room inventory, and brand recognition.

Key risk

Any slowdown in recovery in discretionary demand or frequent lockdowns affecting store-level operations due to spike of COVID-19 cases would act as a key risk to our earnings estimates.

Leaders in Q1FY2022 : JFL, HimatSingka, KPR Mill, and Relaxo Footwear

Laggards in Q1FY2022: Wonderla Holidays

Preferred Picks: Titan, ABFRL, KPR Mill, HimatSingka, JFL, and Trent

Q1FY2022 results estimates

Companies	Net sales (Rs. Cr)				Operating Profit (Rs. Cr)			Adjusted PAT (Rs. Cr)		
	Q1 FY22E	Q1 FY21	Y-o-Y (%)	Q-o-Q (%)	Q1 FY22E	Q1 FY21	Y-o-Y (%)	Q1 FY22E	Q1 FY21	Y-o-Y (%)
Branded Apparel & Retail Companies										
Aditya Birla Fashion and Retail	705.5	320.0	120.5	-60.4	-201.3	-351.3	-	-357.2	-559.2	-
Shoppers Stop	224.3	53.9	316.1	-66.6	-61.3	-102.4	-	-130.5	-115.2	-
Trent	268.5	96.3	178.8	-65.3	-59.5	-119.1	-	-94.9	-139.5	-
Titan Company	2859.6	1979.0	44.5	-61.8	61.6	-253.0	-	-20.4	-297.0	-
Bata India	264.6	134.8	96.3	-55.1	-41.4	-86.1	-	-84.8	-101.1	-
Relaxo Footwears	421.4	363.6	15.9	-43.6	72.5	57.0	27.1	38.3	24.2	58.3
Jubilant FoodWorks	901.5	380.3	137.1	-12.1	183.2	24.1	661.0	53.4	-72.6	-
Hotels & Tourism										
Indian Hotels Company	246.0	143.6	71.3	-60.0	-150.4	-266.0	-	-265.0	-381.5	-
Wonderla Holidays	6.6	0.0	30596.2	-80.2	-10.4	-11.9	-	-14.1	-14.5	-
Textile										
Arvind	1640.2	599.3	173.7	-0.9	165.6	-28.9	-	39.4	-97.3	-
Himatsingka Seide	765.7	179.4	326.7	2.6	119.1	-84.6	-	31.7	-139.8	-
KPR Mill	827.2	540.7	53.0	-26.0	189.8	120.1	58.0	115.2	60.3	91.0
Welspun India	2021.3	1201.8	68.2	-5.4	338.2	223.9	51.1	128.4	53.7	138.9
Total	**11152.5**	**5992.7**	**86.1**		**605.6**	**-878.3**		**-560.5**	**-1779.4**	
Media & Entertainment										
Inox Leisure	25.3	0.3	-	-72.0	14.3	33.4	-57.1	-88.7	-73.7	-
Zee Entertainment	1781.3	1312.0	35.8	-9.4	384.8	219.9	74.9	256.5	142.7	79.8
Grand total	**12959.1**	**7305.0**	**77.4**	**-**	**1004.7**	**-625.0**	**-**	**-392.6**	**-1710.4**	**-**

Source: Company, Sharekhan Research

Valuations (As on July 09, 2021)

Companies	CMP (Rs)	Reco.	Price Target (Rs)	EPS (Rs.)			EV/EBITDA (x)		
				FY2021	FY2022E	FY2023E	FY2021	FY2022E	FY2023E
Branded Apparel & Retail Companies									
Aditya Birla Fashion and Retail	213	Buy	255	-6.3	-1.4	2.0	35.9	22.4	14.9
Shoppers Stop	246	Positive	286	-23.1	-8.2	7.5	17.0	10.3	5.9
Trent	905	Buy	1,018	-1.3	1.8	7.6	82.9	53.9	36.4
Titan Company	1,720	Buy	1,910	11.0	19.5	28.2	89.2	54.2	39.2
Bata India	1,571	Buy	1,905	-5.9	16.6	35.3	78.9	29.8	19.0
Relaxo Footwears	1,170	Buy	1,242	12.3	13.3	17.7	58.5	52.0	41.0
Jubilant FoodWorks	3,107	Buy	3620	17.7	37.0	56.5	54.9	38.3	28.5
Hotels & Tourism									
Indian Hotels Company	148	Buy	182	-7.8	-1.5	1.7	-	49.9	24.7
Wonderla Holidays	255	Buy	UR	-8.8	-2.8	5.5	-	74.2	15.7
Textile									
Arvind	88	Buy	95	0.2	5.0	7.2	8.4	5.7	5.0
Himatsingka Seide	189	Positive	234	-5.4	16.7	29.7	14.1	7.2	5.2
KPR Mill	1,788	Buy	1,990	74.9	89.6	114.1	15.3	12.8	10.0
Welspun India	106	Buy	125	5.5	6.7	9.2	9.7	8.3	6.4
Media & Entertainment									
Inox Leisure	316	Buy	400	-32.4	8.5	20.5	-	9.5	4.3
Zee Entertainment	217	Buy	275	14.2	16.2	18.6	9.9	7.7	6.2

*Source: Company, Sharekhan Estimates; *UR - Under Review*

Sharekhan
by BNP PARIBAS

Consumer Goods

Agile supply chain to moderate impact of the second wave

Q1FY2022 Results Preview

Sector: Consumer Goods

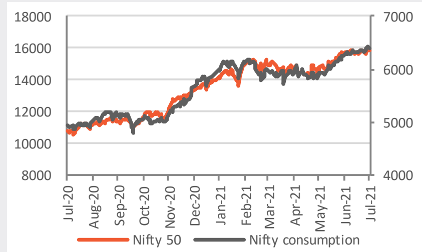
Sector View: Positive

Our coverage universe

Companies	CMP (Rs)	Reco.	PT (Rs)
Asian Paints	3,040	Buy	3,255
Bajaj Consumer Care	297	Buy	355
Britannia Industries	3,530	Buy	4,200
Colgate-Palmolive (India)	1,726	Buy	1,850
Dabur India	594	Buy	675
Emami Limited	553	Buy	636
Globus Spirits	719	Positive	756
Godrej Consumer Products	963	Buy	1,115
Hindustan Unilever	2,478	Buy	2,790
ITC	204	Buy	265
Jyothy Labs	177	Buy	188
Marico	533	Buy	610
Nestle India	17,709	Buy	19,055
Tata Consumer Products	764	Buy	875
Zydus Wellness	2,171	Buy	2,505

Source: Sharekhan Research
CMP as on July 07, 2021

Price chart



Consumer goods companies under Sharekhan's coverage universe are likely to post double-digit revenue growth of 11-30%, led by agile supply chain aiding products to remain available on store shelves, resilient demand, and low base of corresponding quarter last year. Double-digit revenue growth will largely be driven by mix of volume and price increases (undertaken to pass on raw-material inflation). Q1FY2021 was badly affected by stringent lockdown norms, affecting manufacturing and supply of products during the first 45 days of the quarter. Taking the cognizance of the impact of the first wave, most companies took decisive steps and kept agile its manufacturing/supply chain to feel less heat of the second wave of COVID-19 in Q1FY2022. Further, unlike national lockdown in the first wave, lockdown norms were state specific, defining the containment zones based on the efficacy of the virus spread. This did not have any significant impact on the manufacturing and supply of products. General trade/standalone modern trade shops were operational on all days with restricted hours during the quarter. Sales through online channels continue to see better traction on a q-o-q basis. Our interaction with companies indicated demand was resilient in urban and rural markets and, hence, good recovery was seen in June 2021, as lockdown norms eased out with reduction in COVID-19 cases. The companies such as Asian Paints, Marico, Godrej Consumer Products Limited (GCPL), and Emami posted 20%+ growth during the quarter. ITC's revenue is likely to grow by 22%, largely driven by 28% growth in cigarette business (with volume growth of 32%). Britannia is expected to post a decline in revenue due to high base of 25%+ revenue growth in Q1FY2021, led by pantry loading. HUL, Nestle India, Tata Consumer Products Limited (TCPL), Colgate Palmolive India Limited (Colgate), and Dabur India are expected to post 11-17% revenue growth. Overall, Sharekhan's consumer goods universe is expected to post revenue growth of ~15% in Q1FY2022.

Key input prices such as palm oil, Copra, raw tea, HPDE, and Tio2 were higher by 85%, 18%, 20.4%, 46.4%, and 14%, respectively, during the quarter. Hence, gross margins of most companies under coverage are expected to remain lower on a y-o-y basis. Price hikes undertaken by the company are not sufficient to fully mitigate input cost pressure. Further, ad spends started going up from Q3FY2021/Q4FY2021 with normalisation of business environment. We expect it to remain high in Q1FY2022 versus cut on ad-spends in Q1FY2021 to curtail cost in a disrupted quarter. Hence, OPM for most companies will be lower on a y-o-y basis (except for Asian Paints, Colgate, ITC, and Nestle India). Thus, Sharekhan's consumer goods universe PAT is expected to grow by ~13% in Q1FY2022.

Outlook

Demand remains resilient; Margins to improve sequentially

Pre-quarter commentary of most consumer goods companies indicated strong sales recovery from June 2021 with easing of lockdown restrictions in most parts of the country. Demand, which started recovering from Q3FY2021, remained resilient in Q1FY2022. With expected normal monsoon for the third consecutive year, agri production is predicted to be better in Kharif season 2021. This will give further boost to rural demand in the coming quarters. We believe the shift in demand for branded products, rural demand staying ahead of urban demand, gradual recovery in out-of-home categories, and new product launches remain key catalysts for revenue growth in the near to medium term. On the other hand, key raw-material prices (including palm oil, copra, and raw tea) have started correcting from their high. The substance of same along with calibrated price hikes would enable consumer goods companies to post better OPM on a sequential basis. Profitability is likely to be better off in H2FY2022. Improving revenue mix and better operational efficiencies remain key margin drivers in the medium term.

Valuation

The consumer goods sector saw fast recovery compared to some of the other sectors in the pandemic environment. In the large-cap space, we continue to like HUL and Asian Paints as both companies are market leaders in key categories, have strong distribution reach to cater to improving demand, and sturdy balance sheet to lead its innovation strategy. Change in leadership and strong growth prospects in domestic and international markets make GCPL a good pick in the FMCG space. We also like Marico because of its strong product profile and receding raw-material headwinds, providing visibility of strong earnings growth in the near term. With consistent double-digit revenue growth, steady margin improvement, and stable working capital management, TCPL expects return ratios to consistently improve in the coming years.

Key risks: Increased competition in some of the high penetrated categories and sustained spike in key input prices would act as key risks to the performance of consumer goods companies.

Q1FY2022 leaders: Asian Paints, GCPL, Colgate, ITC, and Globus Spirits.

Q1FY2022 Laggards: Tata Consumer products, Britannia Industries, Jyothy Labs and Bajaj Consumer Care.

Preferred picks: Asian Paints, Hindustan Unilever, Godrej Consumer Products, Marico, and Tata Consumer Products.

Q1FY2022 results estimates

Company	Net sales (Rs cr)			OPM (%)			Adjusted PAT (Rs cr)		
	Q1FY22E	Q1FY21	YoY (%)	Q1FY22E	Q1FY21	Y-o-Y BPS	Q1FY22E	Q1FY21	Y-o-Y %
Asian Paints	3762.7	2922.7	28.7	17.4	16.6	84	346.5	219.6	57.8
Bajaj Consumer Care	223.3	196.1	13.9	22.9	29.0	-610	49.4	54.2	-8.9
Britannia Industries	3091.7	3420.7	-9.6	16.8	21.0	-411	397.0	542.7	-26.8
Colgate-Palmolive (India)	1157.8	1040.6	11.3	30.5	29.6	94	231.8	198.2	17.0
Dabur India	2306.0	1980.0	16.5	20.3	21.0	-71	393.4	341.3	15.3
Emami	599.8	481.3	24.6	24.7	25.5	-88	102.0	85.1	19.9
Globus Spirits	282.6	230.1	22.8	22.5	17.1	539	34.9	18.7	87.0
Godrej Consumer Products	2799.6	2327.3	20.3	20.0	20.3	-35	392.7	305.4	28.6
Hindustan Unilever	11714.3	10560.0	10.9	24.4	25.0	-59	2023.9	1889.1	7.1
ITC	11542.2	9501.8	21.5	29.8	27.9	198	2883.6	2342.8	23.1
Jyothy Labs	473.6	432.9	9.4	15.8	17.7	-182	49.1	50.0	-1.8
Marico	2425.0	1925.0	26.0	20.4	24.3	-388	367.0	336.8	9.0
Nestle India	3439.5	3050.5	12.8	25.2	24.5	72	561.1	486.6	15.3
Tata Consumer Products	3141.6	2713.9	15.8	13.8	17.8	-394	268.4	305.8	-12.2
Zydus Wellness	594.2	537.4	10.6	21.3	22.8	-152	90.6	89.2	1.6
Grand Total	**47553.9**	**41320.2**	**15.1**	**23.4**	**23.7**	**-33**	**8191.5**	**7265.2**	**12.7**

Source: Company, Sharekhan estimates
** Estimates for HUL and Tata Consumer Products are including the merger of acquired businesses*
 # Nestle India is a calendar year ending company and, hence, estimates are for Q2CY2021

Valuations (As on July 07, 2021)

Company	CMP (Rs)	Reco	Price Target (Rs)	EPS (Rs)			P/E (x)		
				FY2021	FY2022E	FY2023E	FY2021	FY2022E	FY2023E
Asian Paints	3,040	Buy	3,255	33.4	39.6	48.4	90.9	76.7	62.8
Bajaj Consumer Care	297	Buy	355	15.2	15.8	18.5	19.6	18.8	16.0
Britannia Industries	3,530	Buy	4,200	76.8	85.6	97.7	46.0	41.2	36.1
Colgate-Palmolive (India)	1,726	Buy	1,850	38.1	39.3	42.5	45.3	44.0	40.6
Dabur India	594	Buy	675	9.6	11.0	13.4	61.9	54.1	44.5
Emami Limited	553	Buy	636	10.2	15.5	19.4	54.1	35.6	28.4
Globus Spirits	719	Positive	756	48.9	58.0	81.6	14.7	12.4	8.8
Godrej Consumer Products	963	Buy	1,115	17.3	20.1	23.8	55.8	48.0	40.5
Hindustan Unilever	2,478	Buy	2,790	34.6	42.1	49.4	71.5	58.8	50.1
ITC	204	Buy	265	10.6	11.7	13.8	19.3	17.5	14.7
Jyothy Labs	177	Buy	188	5.7	6.6	8.1	31.2	26.7	21.8
Marico	533	Buy	610	9.2	10.6	12.7	58.2	50.2	42.0
Nestle India	17,709	Buy	19,055	216.0	260.5	306.6	82.0	68.0	57.8
Tata Consumer Products	764	Buy	875	10.3	12.0	14.4	73.9	63.5	52.9
Zydus Wellness	2,171	Buy	2,505	39.4	48.4	62.6	55.1	44.8	34.7

Source: Company, Sharekhan estimates
 # Nestle India is a calendar year ending company
** Estimates for HUL and Tata Consumer Products are including the merger of acquired businesses*

Sharekhan
by BNP PARIBAS

Cement/Infrastructure/Building Material/Logistics

On a resilient growth path

Q1FY2022 Results Preview

Sector: Cement/Infra/ Building Material/Logistics

Sector View: Positive

Our cement universe (ex-Grasim) is likely to register strong 51% y-o-y (-15.8%) rise in revenue, led by 44.3% y-o-y rise in volumes (-20.4% q-o-q) and 4.6% growth in blended realisations (+6% q-o-q) for Q1FY2022. Strong cement demand witnessed in Q4FY2021 is expected to be sequentially impacted during Q1FY2022 by weak offtake during mid-April to May 2021 end (led by state-wise restrictions due to COVID-19 second wave), while June witnessed healthy improvement with easing restrictions and rising vaccination. As per our channel check, average pan-India cement prices in Q1FY2022 were up 6.8% q-o-q (up 5.5% y-o-y), which would aid in higher realisations for the sector. Further, Q1FY2022 is likely to be affected by increased power and fuel costs (as low-cost inventory gets exhausted) and higher freight costs (rise in diesel prices). However, higher realisations are likely to absorb the rise in input costs, leading to almost flat average EBITDA/tonne for our cement universe at Rs. 1,351 (although up 7.4% q-o-q). Low base impact and pricing discipline would aid in 63.5% y-o-y jump in net profit (-20.9% q-o-q) for our cement universe. Our infrastructure universe is expected to post revenue growth of 35.1% y-o-y (-32.7% q-o-q), as companies are much better placed in terms of labour availability and supply chain compared to last year. Order book position remains strong, providing revenue visibility over the next 2-3 years, while project awarding from both NHAI and MORTH is expected to pick up from as early as next month. OPM is expected to be affected sequentially (-118 bps q-o-q, flat y-o-y) owing to unfavourable revenue mix and rise in commodity prices. Strong rise in execution y-o-y, stable OPM, and lower leverage on the balance sheet (lower interest costs) to aid in strong 34.9% y-o-y rise in net profit (-37.8% q-o-q) for our infra universe. The building material sector had been significantly affected in terms of demand and OPM led by strict lockdown in Q1FY2021. However, Q1FY2022 saw healthy demand till mid-April 2021 and pick up in June 2021, which along with lower base of last year should aid in 72.6% y-o-y rise in revenue for our building material universe (-31.6% q-o-q). Further, higher revenue and low base of last year are likely to aid in 862 bps y-o-y rise in OPM (-237 bps q-o-q). Hence, the building material space is expected to post strong 281% y-o-y rise in net profit (-40.5% q-o-q). Sequential dip in piping players would also be due to absence of high inventory gains seen over the trailing few quarters. Stable pricing environment for wood panel companies and tile companies is expected to support OPM sequentially. The logistics space is expected to face minimal impact of COVID-led state-wise restrictions as companies remained operational during the period but would have been affected by weak demand. Hence, we expect our logistics coverage universe to post 74.6% y-o-y rise in revenue (-19% q-o-q). Higher y-o-y revenue is likely to aid in OPM expansion (up 193 bps y-o-y), leading to 113.5% y-o-y rise in net profit (-24.7% q-o-q). Gateway Distriparks is expected to benefit from improving EXIM trade, while other 3PL logistics players are expected to benefit from higher manufacturing activities as compared to last year.

Outlook

Structural growth drivers remain unhindered by COVID-19 second wave risk: The government's focus on increasing infrastructure investments, especially in roads, remains unhindered and is expected to start tendering activities from as early as next month. The rebound seen in property registrations in June 2021 suggests demand improving from the urban housing segment going ahead. We expect the cement sector to benefit from rebound in demand and healthy pricing discipline, which would lead to better control on input costs and maintaining operational profitability. The infrastructure sector is expected to see normal pre-covid level labour availability and easing supply chain operations to aid in higher execution. The expected pick up in road project tendering is expected to further improve the sector's already strong order backlog. Uptick in the housing sector aided by favourable state government policies is likely to benefit the building material industry. Additionally, it has witnessed organised players gaining market share due to rising commodity prices and unavailability of key raw materials. The logistics sector is expected to sustain healthy growth trend, led by improving EXIM and domestic trade environment.

Our Call

Valuation: Preferred companies in each sector: We prefer industry leader **UltraTech** and efficient regional players such as **Shree Cements, The Ramco Cements, Dalmia Bharat,** and **JK Lakshmi Cement** in the cement space. In the infrastructure space, we prefer companies having strong order books, low leverage, and distinct execution capabilities such as **KNR Construction** and **PNC Infratech**. In the building material space, we prefer companies that are poised to gain market share from unorganised players and have strong cash flow generation capabilities such as **Century Plyboards, Greenlam Industries, Greenpanel Industries,** and **Pidilite Industries**. In the logistics space, we prefer asset-light business models such as **Mahindra Logistics, TCI Ltd., and TCI Express along with asset-heavy models such as Gateway Distriparks.**

Key risks: Weak macroeconomic environment and rising interest rates are key risks across three sectors

Leaders for Q1FY2022: UltraTech, Dalmia Bharat, Ramco Cements, PNC Infratech, KNR Constructions, Century Plyboards, APL Apollo Tubes, and TCI Express.

Laggards for Q1FY2022: Mangalam Cement, Sadbhav Engineering, and Mahindra logistics

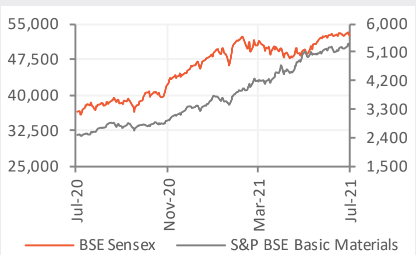
Preferred Picks: UltraTech, Shree Cement, Grasim, Dalmia Bharat, The Ramco Cements, JK Lakshmi Cement, KNR Construction, PNC Infratech, Century Plyboards, Greenlam Industries, Greenpanel Industries, Pidilite Industries, TCI Express, TCI Ltd., and Gateway Distriparks.

Our coverage universe

Companies	CMP (Rs)	Reco.	PT (Rs)
Cement			
Shree Cement	27486	Buy	31610
Ultratech Cement	6898	Buy	8000
Grasim Industries	1500	Buy	1680
The Ramco Cement	1094	Buy	1250
JK Lakshmi Cement	638	Buy	UR
Dalmia Bharat	2120	Buy	2150
Infrastructure			
Sadbhav Engineering	83	Hold	97
KNR Constructions	243	Buy	270
Ashoka Buildcon	115	Buy	125
PNC Infratech	301	Buy	360
Building Materials			
Supreme Industries	2165	Buy	2450
Century Plyboards	408	Buy	505
Greenlam Industries	1327	Buy	1400
Kajaria Ceramics	996	Buy	1270
Astral Poly Technik	2034	Hold	UR
Pidilite Industries	2280	Buy	UR
APL Apollo Tubes	1585	Buy	1620
Greenpanel Industries	240	Buy	335
Building Materials			
Gateway Distrparks	287	Buy	390
Mahindra Logistics	569	Buy	710
TCI Express	1437	Buy	1861
TCI	397	Buy	541

Source: Sharekhan Research,
UR - Under review
CMP as on July 09, 2021

Price chart



Q1FY2022 results estimates

Company	Revenue (Rs. cr)				OPM (%)				Net profit (Rs. cr)			
	Q1FY22E	Q1FY21	YoY %	QoQ %	Q1FY22E	Q1FY21	YoY (bps)	QoQ (bps)	Q1FY22E	Q1FY21	YoY %	QoQ %
Cement												
Grasim	3596	1940	85.3	-18.2	16.6	-7.5	2410	-188	266	-215	-	-47.1
UltraTech	11613	7374	57.5	-16.8	25.1	26.5	-141	-4	1461	914	60.0	-17.8
Shree Cement	3451	2326	48.4	-12.2	30.4	30.1	27	45	614	371	65.7	-20.0
The Ramco Cements	1493	1042	43.3	-8.4	27.9	25.0	299	41	221	110	101.9	3.2
JK Lakshmi Cement	1214	825	47.2	-8.2	19.5	17.4	209	-81	118	44	165.1	-29.7
Dalmia Bharat	2814	1974	42.5	-14.2	25.3	31.1	-584	161	248	189	31	-36.9
Soft Coverage												
India Cements	1052	757	39.0	-27.4	14.7	20.6	-586	88	36	17	111.5	-49.9
Mangalam Cement	296	226	31.0	-27.9	13.6	20.5	-690	-544	12	14	-10.4	-66.1
Total	**25530**	**16464**	**55.1**	**-16.0**	**24.0**	**22.7**	**132**	**4**	**2978**	**1443**	**106.4**	**-24.3**
Total (ex-Grasim)	**21,934**	**14,524**	**51.0**	**-15.8**	**25.2**	**26.7**	**-149**	**33**	**2712**	**1658**	**63.5**	**-20.9**
Infrastructure												
Sadbhav Engineering	389	230	69.3	-8.7	12.2	8.5	373	-388	-20	-27	-	-
KNR Constructions	648	479	35.2	-30.7	19.6	19.7	-8	13	65	40	63.7	-15.4
Ashoka Buildcon	748	572	30.6	-46.1	12.5	14.3	-179	-199	72	69	4.9	-51.4
PNC Infratech	1,170	905	29.3	-28.8	13.4	13.2	22	-69	92	60	53.0	-28.9
Total	**2,955**	**2,187**	**35.1**	**-32.7**	**14.4**	**14.4**	**-3**	**-118**	**210**	**142**	**47.5**	**-50.3**
Building Materials												
Century Plyboards	474	201	136.2	-35.8	16.7	-1.1	1784	-21	49	-10	-	-40.2
Greenlam Industries	271	160	68.8	-34.8	15.7	4.9	1079	-45	20	-8	-	-52.8
Greenpanel Industries	252	90	179.6	-35.2	20.1	-9.2	2927	-487	18	-36	-	-67.3
APL Apollo Tubes	1,959	1,110	76.5	-24.3	7.2	6.4	77	-80	73	17	333.5	-39.0
Pidilite Industries	1,680	878	91.4	-24.9	18.4	7.6	1081	-224	201	16	-	-35.5
Supreme Industries	1,288	1,054	22.2	-38.2	22.1	11.1	1103	-231	191	41	371.1	-57.6
Kajaria Ceramics	583	278	110.0	-38.8	16.3	-2.7	1901	-377	52	-27	-	-59.2
Astral Poly Technik	700	404	73.2	-38.0	19.4	13.4	591	-322	80	20	302.3	-54.1
Total	**7,206**	**4,174**	**72.6**	**-31.6**	**15.8**	**7.2**	**862**	**-237**	**684**	**12**	**-**	**-49.8**
Logistics												
Gateway Distriparks	289	253	14.4	-17.4	27.2	27.6	-43	0	23	11	108.5	-49.1
Mahindra Logistics	823	410	100.5	-15.5	4.3	-0.5	479	-49	6	-16	-	-58.6
TCI Express	225	89	153.5	-19.6	15.8	2.3	1354	-361	26	1	-	-39.5
TCI Ltd	684	406	68.7	-23.3	9.5	7.5	194	-44	32	4	-	-52.4
Total	**2,021**	**1,158**	**74.6**	**-19.0**	**10.6**	**8.7**	**193**	**-80**	**88**	**0**	**-**	**-48.9**

Source: Company, Sharekhan Research

Valuations (As on July 09, 2021)

Company	Reco	Price target (Rs.)	CMP (Rs)	EV/EBITDA (x)			P/E (x)		
				FY21	FY22E	FY23E	FY21	FY22E	FY23E
Cement									
Shree Cement	Buy	31610	27486	22.6	20.0	17.3	42.9	38.1	33.4
UltraTech Cement*	Buy	8000	6898	18.0	17.4	14.8	36.5	35.9	30.0
Grasim Industries*	Buy	1680	1500	45.7	32.9	25.7	110.7	81.0	60.4
The Ramco Cement	Buy	1250	1094	18.5	16.6	14.7	32.1	26.8	23.2
JK Lakshmi Cement	Buy	UR	638	9.1	8.7	7.3	20.6	18.3	15.2
Dalmia Bharat	Buy	2150	2120	14.1	13.5	11.6	39.5	41.5	33.7
Soft Coverage									
India Cements	Not Rated		193	9.4	9.1	8.1	27.5	25.7	20.9
Mangalam Cement	Not Rated		367	5.1	5.2	4.1	9.8	10.4	8.6
Infrastructure									
Sadbhav Engineering*	Hold	97	83	10.9	9.6	7.1	23.5	88.7	20.0
KNR Constructions*	Buy	270	243	11.8	11.7	9.8	26.7	21.5	17.5
Ashoka Buildcon	Buy	125	115	5.6	3.5	2.0	11.7	13.2	9.6
PNC Infratech*	Buy	360	301	11.4	9.6	8.0	21.3	17.8	14.4
Building Materials									
Century Plyboards	Buy	505	408	27.3	22.7	18.7	44.9	35.6	29.2
Greenlam Industries	Buy	1400	1327	20.0	16.3	14.0	37.2	29.8	23.9
Greenpanel Industries	Buy	335	240	16.0	10.4	8.5	42.8	18.7	13.6
APL Apollo Tubes	Buy	1,620	1,585	28.8	39.7	55.8	55.0	39.9	28.4
Pidilite Industries	Buy	UR	2280	66.2	60.1	47.2	102.5	92.8	71.5
Supreme Industries	Buy	2450	2165	21.5	22.4	19.6	28.1	32.1	28.1
Kajaria Ceramics	Buy	1270	996	30.1	23.1	18.9	51.4	38.5	31.0
Astral Poly Technik	Hold	UR	2034	62.7	51.6	43.1	101.1	80.4	66.4
Logistics									
Gateway Distriparks	Buy	390	287	13.0	13.2	10.6	34.6	34.2	21.9
Mahindra Logistics	Buy	710	569	29.6	21.3	17.7	124.5	66.2	50.0
TCI Express	Buy	1861	1437	40.3	28.2	22.8	54.9	39.3	31.9
TCI Ltd	Buy	541	397	11.8	10.2	8.9	19.0	16.7	15.1

*Source: Company, Sharekhan Research, * Standalone financials, UR – Under Review*

Sharekhan
by BNP PARIBAS

IT

Growth run to stay strong

Q1FY2022 Results Preview

Sector: IT

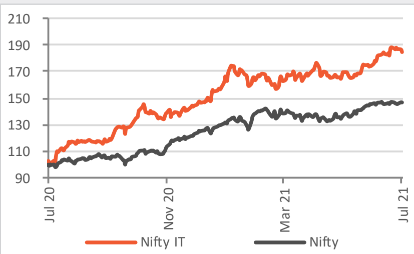
Sector View: Positive

Our coverage universe

Companies	CMP (Rs)	Reco.	PT (Rs)
Birlasoft Limited	385	Buy	450
HCL Tech	972	Buy	1,200
Infosys	1,563	Buy	1,700
Intellect Design	708	Buy	900
L&T Infotech	4,030	Buy	4,800
L&T Tech	2,901	Buy	3,100
Mastek Limited	2,250	Buy	2,400
Persistent Systems	2,911	Buy	2,975
Tata Elxsi	4,311	Buy	4,500
TCS	3,262	Buy	3,750
Tech Mahindra	1,050	Buy	1,250
Wipro	533	Buy	610

CMP as on July 06, 2021

Price chart



After reporting impressive revenue growth for the past three consecutive quarters of FY2021, Indian IT companies are expected to deliver another remarkable quarter in terms of sequential revenue growth during Q1FY2022. We expect organic revenue growth of 1.2-4.4% on constant currency (CC) basis for the top five Indian IT companies despite delivery pressures due to COVID-19 second wave (limited to HCL Tech), led by ramp-up of deals won earlier, broad-based growth across key verticals, gradual recovery in troubled verticals, acceleration in digital spends, and strong seasonality. We expect flat cross-currency benefits (of 10-20 bps q-o-q) and incremental revenue contribution through the inorganic route (Wipro and Tech Mahindra) to boost reported USD revenue growth of tier-I Indian IT companies to 1.4-9.5% q-o-q. Among the top five IT companies, Wipro is expected to report leading USD revenue growth of 9.5% q-o-q (incremental $128 million revenue contribution from Capco acquisition), followed by Infosys (4.5% q-o-q) and TCS (3.8% q-o-q), while Tech Mahindra would post 2.3% growth (expect 0.7% incremental revenue contribution from acquisitions). HCL Tech is expected to report slower USD revenue growth of 1.4% q-o-q among tier-I IT companies, owing to a decline in product revenue and delivery pressures owing to slightly higher employee absenteeism because of COVID-19 second wave. Among mid-tier IT services companies in our coverage universe, Persistent Systems Limited (PSL) is expected to lead with USD revenue growth of 6% q-o-q due to strong growth momentum in technology service units, followed by Mastek and L&T Infotech (LTI), which are expected to witness revenue growth of 4.7% q-o-q and 3.6% q-o-q, respectively. Under our pure-play ERD companies' coverage, Tata Elxsi and L&T Technology Services (LTTS) are expected to report USD revenue growth of 5.4% q-o-q and 3.4% q-o-q, respectively. We expect EBIT margin to decline on a sequential basis across the board (except PSL and Intellect Design) owing to wage revision (TCS, TechM, LTI, LTTS, and Wipro), one-time bonus payout (Tata Elxsi), lower utilisation, higher recruitment cost given talent war, and weak seasonality (Tech Mahindra and HCL Tech). Large deal win TCVs for many Indian IT companies is expected to remain strong. We expect Infosys and LTTS to increase their FY2022E revenue growth guidance to 13-15% and 14-16%, respectively, while HCL Tech is expected to retain its double-digit revenue growth guidance. Wipro is likely to guide for 5-7% revenue growth for Q2FY2022E because of incremental revenue contribution from acquisitions.

Outlook

Accelerated spend on digital and Cloud technologies to drive growth: Software and computing technologies are transforming businesses across industries around the world. Hence, large global enterprises are rapidly adopting digital and Cloud technologies to reimagine cost structures, increase business resilience and agility, and personalise experiences for customers and employees. We expect the Indian IT services sector to report strong revenue in FY2022 and FY2023, led by acceleration in digital transformation program (as most enterprises are committed to investments on transformation initiatives and increasing customer experience), rising focus on higher outsourcing by global clients, and improving demand environment across verticals. Further, BFS companies (largest revenue contributor to revenue of Indian IT companies) across US and Europe have accelerated their investments on digital and cloud technologies to enhance customer experience on online channels. Both digital leaders and laggards are stepping up investments on digital transformation initiatives and innovations as the former wants to extend the lead, while the latter wants to catch up. Accenture's stellar growth in outsourcing revenue (up 20.2% y-o-y), robust outsourcing order bookings (grew 52% y-o-y), and upward revision of guidance in its latest quarter indicate strong demand for technology transformation. However, margins could be impacted in the medium term by the next round of wage revisions, aggressive hiring activities, measures to retain talents, increased attrition rate, and return of COVID-19 related savings, which would be partially offset by strong revenue growth, rising offshore mix, better pricing for digital projects, and pyramid optimisation. Given strong demand tailwinds, we continue to maintain a Positive stance on the sector as Indian IT industry is well poised to gain revenue market share and transformation deal market share as well.

Valuations

Strong broad-based demand environment: Most Indian IT companies are confident on delivering double-digit revenue growth in FY2022E, led by strong demand environment across major verticals, gradual recovery in impacted verticals, strong momentum in deal win TCVs, and low base of FY2021. Although higher attrition rate and; increasing hires and measures to retain employees could impact margins in the medium term, few IT companies indicated that higher pricing power in niche digital work, sustainable offshoring revenue, and strong revenue growth would partially mitigate margin pressure in FY2022E. The CNX IT Index (up 5%) has outperformed benchmark indices (Nifty up 0.4%) by around 4.5% in the past one month. Stock prices of many IT companies have been trading higher than the historical average multiples, given strong earnings growth visibility over the next 2-4 years. We prefer companies with industry-leading revenue growth, a long runway for growth, strong business model, high return ratios, rise in payouts, improving cash conversion, and reasonable valuations.

Leaders: Wipro, Infosys, TCS, Persistent Systems, and Tata Elxsi.

Preferred picks:

- **Large-cap: Pecking order:** Pecking order: Infosys, Tech Mahindra, HCL Tech, TCS, and Wipro
- **Mid-cap: Pecking order:** Mastek, Intellect Design, L&T Infotech, Birlasoft, Persistent Systems, L&T Tech, and Tata Elxsi

Key things to watch out for: (1) Commentary on shifting of spends towards digital and Cloud technologies and its impact on Indian IT companies; (2) revenue growth and margin guidance from Infosys, HCL Tech, LTTS, and Wipro. We expect Infosys and LTTS to increase FY2022E revenue growth guidance to 13-15% and 14-16%, respectively, while HCL Tech is likely to retain its double-digit revenue growth guidance. Wipro is likely to guide revenue growth guidance of 5-7% for Q2FY2022E. Management of TCS and LTI would continue to indicate achieving double-digit revenue growth in FY2022E. On the margin front, Infosys and HCL Tech would maintain their EBIT margin guidance of 22-24% and 19-21%, respectively; (3) commentary on decision-making time on large deals. Companies may hint faster conversion of smaller deals; (4) demand outlook across verticals especially BFSI, retail, communication, manufacturing, and retail. Commentary on recovery in affected verticals such as travel, tourism, aviation, etc.; (5) commentary on availability of mega deals and addition of new logos in the ensuing quarters; expect TechM to report higher than normal net-new deal TCVs; (6) outlook on the margin trajectory to be keenly watched out for; (7) commentary on steps to manage supply-side challenges; and (8) commentary on outsourcing intensity, progress on vendor consolidation opportunities, and cost-saving measures.

Q1FY2022 results estimates

Company	Revenue (Rs. cr)				OPM (%)				Net profit (Rs cr)			
	Q1FY22E	Q1FY21	YoY (%)	QoQ (%)	Q1FY22E	Q1FY21	YoY (bps)	QoQ (bps)	Q1FY22E	Q1FY21	YoY (%)	QoQ (%)
TCS	45,836	38,322	19.6	4.9	28.3	26.2	211	-102	9,279	7,008	32.4	0.4
Infosys	27,852	23,665	17.7	5.9	27.4	25.9	153	-24	5,314	4,233	25.5	4.7
HCL Tech	20,167	17,841	13.0	2.7	25.5	25.6	-5	-41	3,203	2,923	9.6	34.2
Wipro	17,841	15,034	18.7	9.2	23.7	22.0	169	-149	2,874	2,390	20.2	-3.3
Tech M	10,030	9,106	10.1	3.1	17.8	14.3	357	-217	1,201	972	23.6	16.5
L&T Infotech	3,419	2,949	15.9	4.6	19.1	20.1	-102	-283	486	416	16.7	-0.6
L&T Tech	1,505	1,295	16.3	4.5	16.7	17.4	273	-171	190	117	61.9	-2.4
Persistent	1,195	991	20.5	7.3	16.6	14.8	187	-28	150	90	66.2	8.6
Birlasoft	939	915	2.6	4.0	16.3	12.3	395	-58	103	56	82.5	3.9
Tata Elxsi	551	400	37.7	6.3	28.0	23.1	485	-440	114	69	65.4	-1.1
Mastek	509	386	31.8	5.3	21.5	17.6	390	-38	66	40	63.1	8.9
Intellect Design	411	346	18.8	4.2	25.8	19.7	614	84	84	43	97.8	4.4

Source: Company, Sharekhan Research

Valuations (As on July 06, 2021)

Company	Reco	Price target (Rs.)	CMP (Rs)	EPS (Rs)			P/E (x)		
				FY21	FY22E	FY23E	FY21	FY22E	FY23E
TCS	Buy	3,750	3,262	89.3	108.9	122.7	36.5	30.0	26.6
Infosys	Buy	1,700	1,563	45.6	54.0	62.1	34.3	29.0	25.1
Wipro	Buy	610	533	19.1	20.8	23.7	27.9	25.6	22.5
HCL Tech	Buy	1,200	972	47.9	50.1	56.5	20.3	19.4	17.2
Tech Mahindra	Buy	1,250	1,050	51.2	61.7	68.6	20.5	17.0	15.3
L&T Infotech	Buy	4,800	4,030	110.3	128.5	149.5	36.6	31.4	27.0
L&T Tech	Buy	3,100	2,901	62.9	88.0	107.0	46.1	33.0	27.1
Persistent	Buy	2,975	2,911	59.0	79.4	99.1	49.4	36.7	29.4
Birlasoft	Buy	450	385	11.3	14.7	18.1	34.1	26.1	21.3
Tata Elxsi	Buy	4,500	4,311	59.1	82.9	98.0	72.9	52.0	44.0
Mastek	Buy	2,400	2,250	81.9	88.6	106.9	27.5	25.4	21.0
Intellect Design	Buy	900	708	19.6	24.5	32.6	36.2	28.8	21.7

Source: Company, Sharekhan Research

Sharekhan by BNP PARIBAS

Oil & Gas

Rising crude positive for upstream cos; G-GAS to outperform in CGD space

Q1FY2022 Results Preview

Sector: Oil & Gas

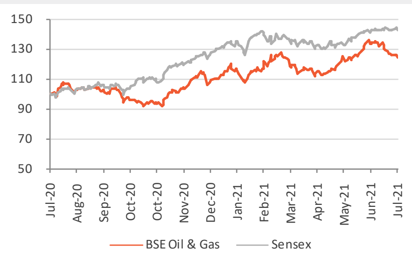
Sector View: Positive

Our coverage universe

Companies	CMP (Rs)	Reco.	PT (Rs)
RIL	2,093	Buy	2,400
Oil India	173	Hold	UR
Petronet LNG	224	Buy	285
Mahanagar Gas	1,166	Buy	1,450
IOCL	108	Buy	125
BPCL	458	Buy	520
HPCL	284	Buy	340
GAIL (India)	149	Buy	196
GSPL	308	Buy	410
Gujarat Gas	672	Buy	775
Indraprastha Gas Ltd	579	Buy	650

Source: Sharekhan Research
CMP as on July 08, 2021

Price chart



Source: BSE; Sharekhan Research

City gas distribution (CGD) companies are expected to witness a q-o-q decline in volumes (-20%/-19%/-13% q-o-q for MGL/IGL/Gujarat Gas) given lower demand for CNG and Industrial/commercial (I/C) PNG due to limited vehicular movement and shutdown of industries because of lockdown amid second wave of COVID-19. However, margins are likely to be mixed with expectation of sharp 18% q-o-q expansion for Gujarat Gas (G-GAS) to Rs. 6/scm as the full benefit of price hikes taken during Jan'21-Feb'21 would get reflected in Q1FY2022, marginal improvement for MGL to Rs. 12.4/scm and largely flat for IGL at Rs. 8.1/scm. Overall, Gujarat Gas is likely to outperform the CGD space with expectation of a 4% q-o-q increase in PAT versus a 19%/17% q-o-q decline in earnings for IGL/MGL. GAIL is also expected to report sharp 28% q-o-q fall in its earnings due to lower volumes across segments, higher operating expenses for petchem segment due to planned shutdown partially offset by higher marketing earnings given better marketing margins on US LNG contracts. Petronet LNG is also likely to post weak set of numbers as lower LNG demand to impact utilisation rate at its Dahej LNG terminal (utilisation rate expected at 84% versus 91% in Q4FY2021). We expect earnings of OMCs (IOCL, BPCL and HPCL) to decline sequentially as lockdown would result in lower volumes (decline in refining throughput and lower petroleum product sales volume), lower refinery & product inventory gain, forex loss because of depreciation in Indian rupee, higher fuel & loss due to steep rise in oil price and weak marketing margins on petrol. Overall, we expect a sequential decline of 34%/43%/25% in PAT for IOCL/BPCL/HPCL. Earnings of upstream PSUs are expected to improve sharply led by a sharp rise in crude oil price to $68.6/bbl (up $8/bbl q-o-q), a ~1.2% q-o-q depreciation in Indian rupee to Rs73.7 and slight moderation in operating cost. We thus expect ONGC/Oil India to report a PAT of Rs. 4,226 crore/Rs. 368 crore versus only Rs. 496 crore/(Rs. 155 crore) in Q4FY2020. We expect Reliance Industries' (RIL) consolidated operating profit to grow by ~3% q-o-q led by slight improvement in margin for oil-to-chemical (O2C) segment, steady EBITDA contribution from Jio which would offset likely sharp EBITDA decline in retail given impact of lockdowns. We stay positive on the gas value chain and expect CGD players to strongly outperform on the earnings front over FY2022E-FY2023E, led by sustained high volume growth (crackdown on polluting industrial areas and ramp-up of volume from exiting/new GAs) and a robust margin outlook (ability to pass likely hike in domestic gas price given favourable economics of CNG versus petrol). Core earnings of OMCs are expected to improve with a cyclical recovery in refining margins and structurally better marketing margin over FY2022-FY2023. The earnings trajectory of upstream PSUs expected to improve in the coming quarters supported by a sharp rally in oil price above $70/bbl and potential hike of 50-60% in domestic gas price for H2FY2022. We prefer Reliance Industries (RIL), Gujarat Gas, Mahanagar Gas (MGL), Indraprastha Gas (IGL), and Gujarat State Petronet Limited (GSPL) in the oil & gas space.

Outlook

Structural gas demand drivers to drive high volume growth for CGDs; higher crude price bode well for earnings recovery of upstream PSUs and BPCL privatization to re-rate OMCs: Although Q1FY2022 volumes would be impacted for CGD players due to lockdowns but the same seems to be transient and likely to normalise soon with easing of lockdown norms. In fact, we remain confident of a double-digit volume growth in FY2022 despite volume impact in Q1FY2022. In our view, the secular gas consumption theme would gain further momentum and drive sustained long-term volume growth for CGD players in the coming years. Our optimism on volume growth stems from: 1) the government's thrust to increase the share of gas in India's overall energy mix to 15% by 2030 (from just 6% currently), 2) a crackdown on polluting cities (the NGT has identified over 100 cities in India to reduce pollution) and 3) most importantly; potential inclusion of natural gas under the GST regime (could be a game changer and kick-start the next growth phase for gas consumption in India). High margins for CGD players are sustainable as they hold monopolies within their respective GAs along with pricing power (IGL has recently hiked price for CNG/Domestic PNG). OMCs have a decent earnings outlook and BPCL's privatisation could lead to a strong re-rating for OMCs and create long-term value for investors. Earnings outlook for upstream PSUs' have improved given a recent rise in crude oil prices above to $70/bbl mark and expectation of a steep hike in domestic gas price. Having said that, upstream PSUs would still make losses in the gas business and thus reforms in domestic gas pricing are crucial for ONGC and Oil India.

Valuations

We believe that the street would start appreciating CGDs high volume growth potential, sustained high margin/RoE and strong FCF generation and thus expect high valuation to sustain or even see meaningful upgrades as the green fuel wave could further boost the gas consumption theme. All three CGD companies are our preferred picks, with the pecking order being – G-GAS, MGL, and IGL. We prefer RIL among downstream players as the potential materialisation of a likely minority stake sale in oil-to-chemical (O2C) business and a cyclical GRM recovery could be key near-term catalysts and further value unlocking in the digital and retail businesses would add to shareholders' returns over the coming years. We prefer GSPL among gas utilities, as it is direct play on rising gas demand (exposure to gas transmission and CGD business) and is available at attractive valuations

Key Risks

1) Lower-than-expected gas sales volume amid COVID-19 led demand slowdown. 2) A delay in the development of new GAs and a sharp rise in domestic and imported gas prices. 3) Favourable policies for electric vehicles (although EV adoption has been slow in India) could affect the growth outlook for CGD companies.

Leaders for Q1FY2022: ONGC, Oil India and Gujarat Gas.

Laggards for Q1FY2022: Petronet LNG, GAIL, IOCL, BPCL and HPCL.

Preferred Picks: RIL, G-GAS, MGL, IGL and GSPL.

Q1FY2022 results estimates

Companies	Sales (Rs cr)				OPM (%)				PAT (Rs cr)			
	Q1 FY22E	Q1 FY21	YoY (%)	QoQ (%)	Q1 FY22E	Q1 FY21	YoY (bps)	QoQ (bps)	Q1 FY22E	Q1 FY21	YoY (%)	QoQ (%)
RIL#	1,41,615	88,253	60.5	-5.3	16.5	19.1	-260	127	10,603	8,267	28.3	-10.9
Oil India	3,065	1,744	75.8	18.8	28.5	11.3	1715	1199	368	-155	NA	-59.9
Petronet LNG	8,737	4,884	78.9	15.3	11.2	18.6	-746	-323	573	571	0.3	-15.0
Mahanagar Gas Ltd	565	262	115.8	-21.3	46.4	30.6	1588	239	176	45	289.2	-17.2
IOCL	1,32,197	62,397	111.9	6.9	8.1	8.8	-69	-277	5,809	1,911	204.0	-33.8
BPCL	80,292	38,785	107.0	4.4	4.8	10.1	-533	-182	2,226	2,076	7.2	-43.3
HPCL	72,586	37,498	93.6	-2.6	4.7	11.0	-632	-116.4	2,251	2,814	-20.0	-25.4
GAIL	17,403	12,087	44.0	11.9	12.5	5.2	739	-395	1,372	256	436.9	-28.1
ONGC	24,101	13,011	85.2	7.9	49.8	45.4	442	82	4,226	496	752.2	40.3
GSPL	479	464	3.2	3.1	73.9	74.6	-64	-10	221	199	11.0	6.4
Gujarat Gas	3,164	1,083	192.2	-7.7	18.2	17.2	104	203	365	59	522.2	4.3
Indraprastha Gas Ltd	1,312	639	105.3	-15.4	30.9	13.1	1775	-86	268	32	737.9	-19.0

Source: Company, Sharekhan estimates; # Consolidated financials

Valuations (As on July 08, 2021)

Companies	CMP (Rs)	EPS (Rs)			CAGR over FY21-23E (%)	P/E (x)			Reco	Price Target (Rs)
		FY21	FY22E	FY23E		FY21	FY22E	FY23E		
RIL	2,093	73.5	92.4	108.0	21.3	28.5	22.7	19.4	Buy	2,400
Oil India#	173	12.7	21.1	24.8	39.9	13.6	8.2	7.0	Hold	UR
Petronet LNG#	224	19.6	21.0	23.6	9.7	11.4	10.6	9.5	Buy	285
Mahanagar Gas Ltd#	1,166	62.7	81.8	93.1	21.8	18.6	14.3	12.5	Buy	1,450
IOCL#	108	18.5	17.2	19.2	1.8	5.8	6.2	5.6	Buy	125
BPCL#	458	67.2	32.1	34.4	-28.4	6.8	14.2	13.3	Buy	520
HPCL#	284	73.2	50.4	54.6	-13.6	3.9	5.6	5.2	Buy	340
GAIL (India)#	149	11.0	17.0	18.3	28.9	13.5	8.8	8.1	Buy	196
GSPL	308	16.5	19.6	22.1	15.9	18.7	15.7	6.7	Buy	410
Gujarat Gas	672	18.6	22.9	28.6	24.0	36.2	29.4	23.5	Buy	775
Indraprastha Gas Ltd#	579	14.4	19.9	22.7	25.6	40.3	29.0	25.6	Buy	650

Source: Sharekhan estimates; # Standalone financials; RIL's FY2022E—FY2023E EPS has been adjusted for enhanced equity base to factor rights issue

Sharekhan
by BNP PARIBAS

Pharmaceuticals

Strong Growth momentum to sustain

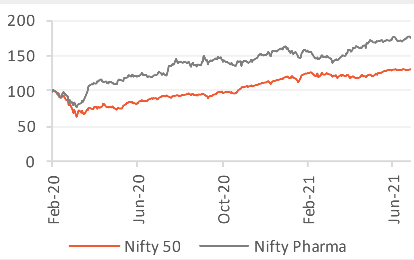
Q1FY2022 Results Preview
Sector: Pharmaceuticals
Sector View: Positive

Our coverage universe

Companies	CMP (Rs)	Reco.	PT (Rs)
Aurobindo	965	Buy	1,185
Cadila	638	Buy	720
Cipla	966	Buy	1,100
Divis	4,553	Buy	4,810
Ipca Labs	2,124	Buy	2,560
Lupin	1,149	Buy	1,400
Sun Pharma	680	Buy	810
Torrent Pharma	2,951	Buy	3,200
Biocon	392	Buy	470
Granules	343	Buy	475
Laurus Labs	683	Buy	750
Sanofi India	7,715	Buy	9,600
Abbott India	17,273	Buy	19,425
Strides Pharma sciences	784	Buy	1,020
Shilpa Medicare	536	Hold	540
Solara Active Pharma	1,682	Buy	2,000
Dr Reddys Laboratories	5,561	Buy	6,500
Gland Pharma	3,503	Buy	4,100
Caplin point Laboratories	672	Positive	840

Source: Sharekhan Research
CMP as on July 07, 2021

Price chart



Pharmaceutical companies in Sharekhan's universe are expected to report strong performance for Q1FY2022 on a y-o-y basis, driven by a sturdy performance of the domestic business. The performance of the companies is expected to be reflective of the strong growth in the Indian Pharmaceutical Markets (IPM) in Q1FY22 largely attributable to a low base in the corresponding quarter of the previous year coupled with a revival in acute therapies – anti-infective, pain / analgesics amongst others. Also the VMN (Vitamins/ Minerals/ Nutrients) space grew in strong double digits. The IPM growth for April – June 2021 period stood at 37.7% as compared to a decline of 5.9% in Q1FY21. Q1FY22 witnessed a severe wave of COVID in India and consequently, companies with Covid portfolio are expected to benefit substantially. Amongst the companies, Cipla has one of the widest portfolio of Covid drugs encompassing Remdesivir, Favipravir, Actemra, and an anti body cocktail (through the in-licensed route). Also Cadila and Dr Reddys have a sizeable presence in Covid drugs and consequently the domestic business of these companies are expected to report a strong double digit growth for the quarter. On the exports front, most of the key markets such as the US and Europe had witnessed lower cases / incidences of Covid and consequently the commentaries suggests of a pickup in patient footfalls leading to improving prescriptions. Consequently, the demand across the therapy areas of dermatology, ophthalmology are expected to pick up. Companies such as Cipla and Lupin are expected to benefit from market share gains in albuterol market in the US while a pick up in the specialty segment sales is expected to benefit Sun pharma as well. Also a chronic heavy presence in the domestic market could also drive domestic sales higher for Sun Pharma. Our universe of pharmaceutical companies are expected to report a 12.7% y-o-y revenue growth, while the operating margins are largely expected to be flattish on a y-o-y basis leading to a 12.2% y-o-y growth in the universe's earnings.

Outlook

Growth levers intact: Indian pharmaceutical companies are better placed to harness opportunities and post healthy growth going ahead. Indian companies are among the most competitive globally and hold a sizeable market share in most developed as well as other markets. Indian pharmaceutical companies have developed strong capabilities over the years, which are depicted in their inherent strength. Moreover, other factors such as - 1) improved growth prospects in the US including increasing preference for specialty / complex generics and injectables 2) revival in the IPM which is expected to stage a close to double digit growth in FY22, and 3) emerging opportunities in the API space would be key growth drivers. This would be complemented by strong capabilities developed by Indian companies (leading to a shift towards complex molecules and biosimilars) and commissioning of expanded capacities by select players over the medium term. The area of vaccines is also expected to bring about sizeable growth opportunities for Indian Pharmaceutical companies. Collectively, this points towards a strong growth potential going ahead, which would place pharmaceutical companies in a higher earnings growth trajectory as compared to slow earnings growth in the recent past.

Valuation

Sector view - Positive: The pharma index had largely underperformed the benchmark indices, considering a longer tenure from around April 2015 till date. However, in a little over a year, the Nifty Pharma index had bucked its trend and outperformed the benchmark, reporting a sturdy 76% return as compared to ~32% return by the benchmark. Strong outperformance is expected to continue going ahead as well and we see this as the beginning of a multi-year bull run for pharmaceutical companies. Indian pharmaceutical companies are among most competitive ones globally and, over the years, have developed strong capabilities, which have laid the footing for strong growth ahead. The confluence of other factors including improving growth prospects in exports as well as domestic markets, regulatory approvals for products flowing in and focus on specialty/complex products in addition to emerging opportunities in the API space would be key growth drivers. Improving growth prospects in the domestic market could benefit India-focused MNCs. Collectively, this points towards a strong growth potential, which would gradually unfold. Consequently, the earnings growth trajectory of pharmaceutical companies is expected to improve. Based on this, we have a Positive view on the sector.

Key Risks

1) Adverse regulatory changes / delay in approvals could impact the sector's performance.
2) Currency volatility could dent earnings.

Leaders: Laurus Labs, Sun Pharmaceutical Industries, Solara Active Pharma Science

Laggards: Shilpa Medicare, IPCA Laboratories

Preferred Picks

Large Caps: Aurobindo, Cadila, Lupin, Dr Reddy's, Sun Pharma, Biocon

Mid Caps: Gland Pharma, Laurus Labs, Strides Pharma Sciences, Solara Active Pharma Science, Abbott India, Caplin Point Laboratories

Q1FY2022 results estimates

Particulars	Net sales (Rs cr)				OPM (%)		BPS	BPS	Adj. PAT (Rs. cr)			
	Q1 FY22E	Q1 FY21	YoY %	QoQ %	Q1 FY22E	Q1 FY21	YoY %	QoQ %	Q1 FY22E	Q1 FY21	YoY %	QoQ %
Large Caps												
Aurobindo	6114.0	5925.0	3.2	1.9	21.4	21.2	19.1	17.4	797.7	780.6	2.2	-0.3
Cadila	3950.0	3640.0	8.5	2.7	23.3	22.4	89.0	105.8	566.0	454.0	24.7	-24.7
Cipla	5125.0	4346.2	17.9	11.3	22.6	24.1	-150.2	535.4	672.9	577.9	16.4	62.8
Divis	2000.0	1730.5	15.6	11.8	40.0	40.5	-45.6	-5.5	569.2	487.3	16.8	14.3
Lupin	4355.0	3528.0	23.4	15.1	22.0	13.8	820.9	333.9	448.0	106.9	319.1	-2.6
Sun Pharma	8798.0	7585.0	16.0	3.2	24.8	23.3	154.7	65.2	1523.5	1248.9	22.0	-3.4
Torrent Pharma	2174.1	2056.0	5.7	12.2	32.0	32.1	-13.7	196.7	365.6	321.0	13.9	12.8
Dr Reddy's Lab	5103.8	4426.5	15.3	7.0	23.4	25.3	-193.1	128.1	697.0	594.6	17.2	25.1
Biocon	1969.0	1672.0	17.8	7.0	24.3	24.7	-39.9	55.2	162.1	152.0	6.6	100.1
Mid Caps												
IPCA	1260.0	1534.0	-17.9	13.0	21.5	38.3	-1679.0	94.2	185.5	444.8	-58.3	15.1
Granules	7960.7	7356.0	8.2	-0.4	23.0	25.0	-195.7	-227.2	1020.8	1114.5	-8.4	-20.0
Laurus Labs	1480.2	974.3	51.9	4.8	32.8	22.6	1016.8	-64.5	312.0	114.0	173.7	5.2
Sanofi india*	767.3	710.5	8.0	5.8	23.1	24.9	-183.3	-301.4	137.0	135.2	1.3	-6.1
Abbott India	1270.0	1064.3	19.3	15.9	20.1	21.9	-182.8	134.4	186.7	180.4	3.5	22.4
Strides Pharma Science	971.6	781.8	24.3	7.0	17.1	19.3	-221.9	-43.0	57.5	53.0	8.5	21.1
Shilpa Medicare	211.7	222.9	-5.0	1.8	13.2	29.5	-1630.3	58.3	8.2	86.3	-90.5	7.9
Solara Active Pharma	432.0	348.4	24.0	-2.7	24.0	24.1	-4.9	169.3	58.6	42.3	38.5	3.5
Gland Pharma	999.0	884.2	13.0	12.5	39.0	46.7	-765.5	209.5	304.5	313.1	-2.7	16.9
Caplin Point Laboratories	290.5	240.1	21.0	4.2	32.0	29.8	219.0	126.4	75.5	54.6	38.3	12.2
Grand Total	**55231.9**	**49025.6**	**12.7**	**5.9**	**24.4**	**24.7**	**-25.4**	**87.0**	**8148.3**	**7261.4**	**12.2**	**2.7**

** Results for Q2CY2021*
Source: Company, Sharekhan Research

Valuation (As on July 07, 2021)

Particulars	CMP (Rs.)	Reco / View	PT (Rs.)	EPS (Rs.)			P/E (X)		
				FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Large Caps									
Aurobindo	965.0	Buy	1185	42.2	65.7	79.0	22.9	14.7	12.2
Cadila	638.0	Buy	720	22.4	21.8	26.9	28.5	29.3	23.7
Cipla	966.0	Buy	1100	29.8	37.8	45.4	32.4	25.6	21.3
Divis	4553.0	Buy	4810	74.8	99.8	129.9	60.9	45.6	35.1
Lupin	1149.0	Buy	1400	26.8	39.4	52.5	42.9	29.2	21.9
Sun Pharma	680.0	Buy	810	28.3	28.0	31.2	24.0	24.3	21.8
Torrent Pharma	2951.0	Buy	3200	73.6	82.5	106.6	40.1	35.7	27.7
Biocon	392.0	Buy	470	4.8	10.5	16.3	82.1	37.3	24.1
Dr Reddys Laboratories	5561.0	Buy	6500	117.6	179.1	238.7	47.3	31.0	23.3
Mid Caps									
Ipca Labs	2124.0	Buy	2560	90.5	89.3	102.1	23.5	23.8	20.8
Granules	343.0	Buy	475	22.2	22.6	31.5	15.4	15.2	10.9
Laurus Labs	683.0	Buy	750	18.5	23.0	29.4	36.9	29.7	23.2
Sanofi India	7715.0	Buy	9600	225.8	262.5	284.7	34.2	29.4	27.1
Abbott India	17273.0	Buy	19425	325.1	378.9	432.9	53.1	45.6	39.9
Strides Pharma sciences	784.0	Buy	1020	21.5	43.1	58.7	36.5	18.2	13.4
Shilpa Medicare	536.0	Hold	540	10.7	15.4	21.7	50.3	34.8	24.7
Solara Active Pharma	1682.0	Buy	2000	62.4	73.9	96.4	27.0	22.7	17.4
Gland Pharma	3503.0	Buy	4100	61.1	77.1	118.5	57.4	45.4	29.6
Caplin point Laboratories	672.0	Positive	840	33.2	39.6	49.8	20.2	17.0	13.5

Source: Company, Sharekhan Research

Sharekhan
by BNP PARIBAS

Agri Inputs and Speciality Chemical

Steady growth ahead for agri-input space; specialty chemical players to benefit from low base

Q1FY2022 Results Preview

Sector: Agri Inputs and Speciality Chemicals

Sector View: Positive

We expect a strong 23% y-o-y earnings growth for our universe of agri-input companies supported by a 12.8% y-o-y revenue growth and 69 bps y-o-y improvement in margins. The revenue growth is likely to be supported by market share gain for large players (such as UPL, PI Industries and Sumitomo Chemical India) in the domestic market and strong growth in exports led by elevated crop prices globally. We expect a stable demand environment for agri-inputs in domestic markets despite lower kharif acreage and high base effect of last year. Most of agri-input companies has undertaken price hikes across regions and the same bodes well for margins. We expect large players such as UPL, PI Industries and Sumitomo Chemical India to outperform the sector. Fertiliser companies like Coromandel would see good growth in revenue led by higher realisations from the subsidised business. Specialty chemical players are likely to post a strong quarter with revenue growth of 57.5% y-o-y for the companies under our coverage, led by a strong demand traction and low base of Q1FY2021 (operations were impacted by COVID-led disruption). However, margins are expected to be largely stable on the back of price hikes and a better product mix that offset the negative impact of removal of the MEIS scheme for exports. Favourable agronomics (expectation of good monsoons, rising water levels and high crop prices), supportive government policies (consistent hike in MSPs for key crops), shift towards branded products would lead to a strong growth in domestic business and market share gain in key export markets bode well for high growth for Indian agri-players. The outlook for fertiliser companies (integrated players of DAP and complex fertilizers) has also improved considerably as additional NBS subsidy of Rs15,000 crore would not only protect margins (from recent rise in raw material prices) but also improve demand for fertiliser going forward. Rising domestic demand, contract manufacturing opportunities and import substitution are likely to present a massive revenue opportunity for the specialty chemicals space. High double-digit earnings outlook and favourable government policies would support high valuation of quality companies in the sector. Preferred picks - Coromandel International, PI Industries, Sumitomo Chemical India, SRF, Atul Limited and Sudarshan Chemical.

Agri Inputs: With expectations of normal rainfall in India and good liquidity among farmers due to higher MSP, domestic demand for agri inputs is expected remain steady in Q1FY2022 despite high base of Q1FY2021 (advance purchases both for fertilizers and agrochemicals due to supply chain concerns because of lockdowns). Lower kharif sowing and less rainfall in last week of June also impacted planting in the kharif season. However, we expect strong demand for agrochemicals in export markets and higher realisation for fertilisers (recent sharp rise in subsidy on DAP) and thus expect 12.8% y-o-y revenue growth for companies under our coverage. We expect the EBITDA margins to improve by 69bps y-o-y supported by price hikes across regions and better product mix and expect aggregate earnings for companies under our coverage to grow strongly by 23% y-o-y in Q1FY2022.

Speciality chemicals: Strong demand for specialty chemicals in the preceding quarter is expected to sustain in Q1FY2022 led by high export demand. Overall, we expect aggregate revenues of specialty chemical companies under our coverage to witness strong growth 57.5% y-o-y in Q1FY2022 on the back of low base of Q1FY2021 (operations were impacted by COVID-led disruptions). Margins are expected to remain largely stable on the back of price hike and better product mix offsetting negative impact of removal of MEIS scheme for exports. Commissioning of new plants by SRF and Sudarshan Chemicals would drive volumes growth. Companies like Vinati Organics is expected to post earnings growth on the back of robust demand for ATBS (one of their key product) although margin are likely to decline on a y-o-y basis due to lower ATBS spreads. Overall, we expect aggregate earnings of specialty chemical companies under our coverage to increase strongly by 70% y-o-y led by strong demand traction and low base of Q1FY2021.

Outlook

After a good rabi season and higher procurement by government, the early monsoon and expectation of above-normal rainfall will be beneficial for kharif sowing. In addition, higher MSPs leading to better crop prices would bode well for the upcoming kharif season. This would help domestic agrochemical companies to report strong growth (monsoons during July to September 2021 will be crucial for earnings of domestic focused agri-input players) and favourable sourcing policies of global companies (China plus One factor) would drive market share gains in the exports segment. The above factors and the vast opportunity from products going off-patent are expected to drive a 7-8% growth annually for the Indian agrochemical industry. Hence, we expect high double-digit earnings growth for agri input companies over the next couple of years. We remain bullish on medium to long-term growth prospects for the Indian specialty chemical sector (expect a 9% CAGR over 2019-2025 and reach $304 billion by 2025), given a massive revenue opportunity both from the perspective of import substitution (India's total specialty chemical imports is estimated at $56 billion), potential increase in exports given the China Plus One strategy by global customers, and favourable government policies (such as tax incentive and production-linked incentive scheme similar to that of the pharmaceutical sector).

Valuation

Conducive government policies, product innovation, massive export opportunity (CRAMS) would help the sector witness sustained, high double-digit growth over the next 2-3 years. Structural revenue growth drivers (higher domestic demand, rising exports and import substitution) and potential for margin expansion (rise in share of high-margin value-added products) would help sustain high valuations of quality companies (like PI Industries and Sumitomo Chemical India) in the sector. Moreover, companies have raised money through QIPs, which would be utilised for capacity expansion and inorganic opportunities, thus boosting growth prospects. Hence, we stay positive on the sector.

Key Risks

Lower-than-expected sowing for kharif Season and higher raw material price could impact earnings of agri-input companies. Higher raw material cost for speciality chemical might impact margins if they are not able to pass it on to customers. Lower demand offtake for products as a result of a slowdown in economic activity for specialty chemicals may also affect earnings.

Leaders in Q1FY22: PI Industries, UPL, Sumitomo Chemical India, SRF, Aarti Industries and Atul Limited

Laggards in Q1FY22: Vinati Organics

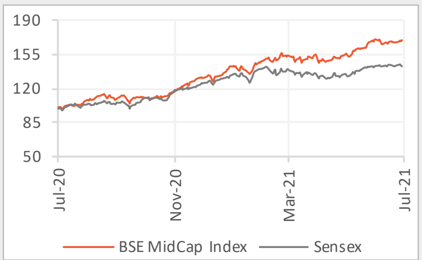
Preferred Picks: Coromandel International, PI Industries, Sumitomo Chemical India, SRF Limited, Atul Limited and Sudarshan Chemical

Our coverage universe

Companies	CMP (Rs)	Reco./ View	PT (Rs)
Agri Inputs			
Coromandel International	896	Buy	1,070
Insecticides (India)	751	Buy	900
PI Industries	2,987	Buy	3,300
UPL	814	Buy	930
Sumitomo Chemical India	424	Buy	448
Speciality Chemicals			
Aarti Industries#	853	Buy	925
Atul Limited	9,241	Buy	9,600
SRF Limited	7,603	Buy	8,100
Sudarshan Chemicals	752	Buy	780
Vinati Organics	1,959	Hold	UR

Source: Sharekhan Research
 # Adjusted for bonus issue
UR = Under Review
CMP as on July 09, 2021

Price chart



Source: BSE; Sharekhan Research

Q1FY2022 results estimates

Companies	Revenue (Rs. cr)				OPM (%)				Net profit (Rs. cr)			
	Q1 FY22E	Q1 FY21	YoY (%)	QoQ (%)	Q1 FY22E	Q1 FY21	YoY (bps)	QoQ (bps)	Q1 FY22E	Q1 FY21	YoY (%)	QoQ (%)
Agri Inputs												
Coromandel International	3,617	3,212	12.6	26.7	12.0	12.8	-80	291	285	248	14.7	82.8
Insecticides (India)	434	410	6.0	69.9	12.5	12.0	49	127	39	34	12.9	80.5
PI Industries	1,357	1,060	28.0	13.4	22.2	21.6	58	320	202	146	38.9	12.4
UPL	8,695	7,833	11.0	-32.1	23.0	21.8	125	50	733	599	22.4	-39.4
Sumitomo Chemical India	748	648	15.5	40.1	19.8	18.3	145	642	101	79	27.1	86.6
Agri Inputs Total	**14,851**	**13,163**	**12.8**	**5.2**	**19.8**	**19.1**	**69**	**-140**	**1,360**	**1,107**	**22.9**	**-12.4**
Speciality Chemicals												
Aarti Industries	1,268	937	35.3	4.8	20.5	19.4	108	-102	143	87	64.7	6.8
Atul	1,180	644	83.3	5.8	21.7	23.5	-185	-109	203	117	73.6	17.0
SRF	2,490	1,545	61.1	-4.5	23.4	23.5	-8	-55	335	186	79.8	-10.1
Sudarshan Chemicals	557	352	58.0	-3.5	16.0	15.0	99	92	41	15	175.6	-23.0
Vinati Organics*	347	232	50.0	24.2	35.4	42.0	-653	0	91	72	26.1	28.6
Speciality Chemicals Total	**5,842**	**3,710**	**57.5**	**16.5**	**22.5**	**22.8**	**-38**	**-196**	**813**	**477**	**70.4**	**7.8**

*Source: Company; Sharekhan Research, * standalone*

Valuation (As on July 09, 2021)

Companies	CMP (Rs)	EPS (Rs.)			CAGR over FY21-23E (%)	P/E (x)			Reco.	PT (Rs)
		FY21	FY22E	FY23E		FY21	FY22E	FY23E		
Agri Inputs										
Coromandel International	896	45.3	53.6	60.4	15.5	19.8	16.7	14.8	Buy	1,070
Insecticides (India)	751	50.1	66.4	84.8	30.0	15.0	11.3	8.9	Buy	900
PI Industries	2,987	48.0	57.3	74.5	24.6	62.2	52.1	40.1	Buy	3,300
UPL	814	40.6	54.4	63.0	24.5	20.0	15.0	12.9	Buy	930
Sumitomo Chemical India	424	6.9	8.3	10.0	20.0	61.2	51.1	42.5	Buy	448
Speciality Chemicals										
Aarti Industries	853	15.0	21.1	28.7	38.3	56.8	40.4	29.7	Buy	925
Atul	9,241	221.5	267.1	300.9	16.6	41.7	34.6	30.7	Buy	9,600
SRF	7,603	198.8	217.9	269.8	16.5	38.2	34.9	28.2	Buy	8,100
Sudarshan Chemicals	752	20.4	24.9	32.5	26.2	36.9	30.2	23.2	Buy	780
Vinati Organics*	1,959	26.2	37.0	46.1	32.6	74.7	52.9	42.5	Hold	UR

*Source: Company; Sharekhan Research, * standalone*

Miscellaneous

Q1FY2022 results estimates

Company	Net sales (Rs Cr)				OPM (%)				Adjusted PAT (Rs Cr)			
	Q1 FY22E	Q1 FY21	YoY (%)	QoQ (%)	Q1 FY22E	Q1 FY21	YoY BPS	QoQ BPS	Q1 FY22E	Q1 FY21	YoY (%)	QoQ (%)
Affle (India)	144	90	60.0	1.4	24.5	25.0	-53	12	27	19	44.2	2.1
Bharti Airtel	25,389	23,290	9.0	(1.4)	48.0	42.6	542	10	404	(544)	-	-
CESC	1,864	1,585	17.6	10.4	24.7	14.4	1035	637	214.4	134	60.0	(20.6)
Coal India	24,924	18,487	34.8	(6.7)	19.2	16.5	269	(468)	3,465	2,080	66.6	(24.3)
Info Edge	328	280	16.9	12.9	27.1	37.3	-1022	880	92	83	10.2	31.2
JSW Steel	28,829	11,782	144.7	7.0	32.1	11.4	2072	76	4,969	-561	NA	16.3
MOIL Ltd	320	152	109.8	(29.0)	31.2	31.7	-53	(347)	76	46	64.5	(34.5)
NMDC	7,535	1,938	288.9	10.0	48.5	38.5	1001	(1,344.0)	2,753	531	418.5	(2.9)
SAIL	18,585	9,068	105.0	(20.2)	32.2	(4.4)	NA	81.1	3,618	-1,226	NA	(17.1)
NTPC	25,830	23,453	10.1	(2.8)	32.5	33.0	-57	796	3,667	3,273	12.1	(18.1)
Power Grid Corp	10,465	8,989	16.4	5.3	88.5	87.6	87	52	3,376	2,875	17.4	(4.0)
Tata Power	8,950	6,453	38.7	(11.6)	18.4	26.8	-839	416	350	268	30.5	(27.3)
Polyplex Corp	1,325	1,160	14.3	2.4	21.6	26.9	-532	119	111	117	-5.3	(11.5)
Quess Corp	2,850.7	2,409.4	18.3	-5.1	4.9	5.4	-53	-39	40.16	31.09	29.2	-52.0
Triveni Engineering	1,173.7	1,223.8	-4.1	-1.2	11.9	12.7	-80	-190	70.4	83.75	-16	-17.2
Balrampur Chini Mills	1,558.9	1,430.3	9.0	53	16	15.2	80	-	162.2	139.1	16.6	-30.9
Castrol India	975	491	98.7	(14.4)	21.3	19.4	186	(859)	144	65	119.6	(41.1)
Phillip Carbon Black	859	360	138.9	(0.9)	19.4	10.7	864	(211)	100	2	NA	(21.6)
Mahindra Lifespace Developers	38	14	162.5	(32.9)	(48.2)	(139.6)	-	-	(17)	(21)	-	-

Source: Company, Sharekhan estimates

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