Emkay Confluence - Ideas for Tomorrow

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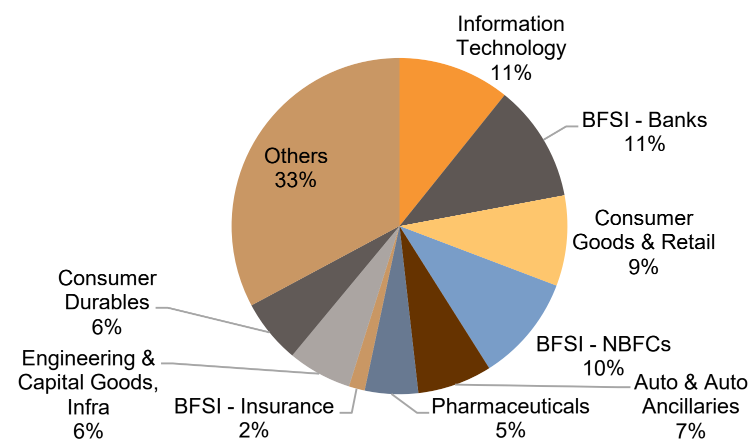
Post Conference Note

We organized our annual conference “Emkay Confluence - Ideas for Tomorrow”

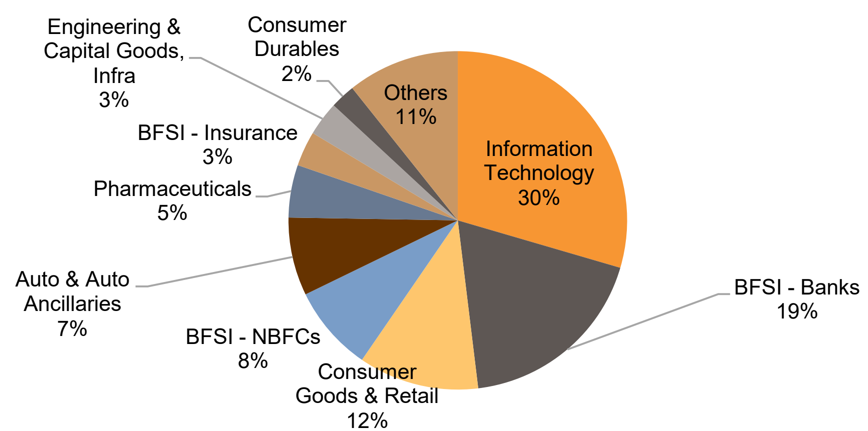
- Over 160 companies representing more than 19 sectors, an international expert on cryptocurrency, macro-policy dialogue, political dialogue, an EV panel discussion, and a panel discussion with market giants
- Maximum participation from companies in the IT services, followed by Banks, NBFCs, Consumer goods & Retail
- Maximum meeting requests for companies in Consumer Durables, Auto & Auto Ancillary, IT, Consumer Goods & Retail, and Speciality Chemicals
- Companies with the highest demand for meetings: Maruti Suzuki, Crompton Greaves, Orient Electric, Eicher Motors, Greenpanel

Sector-wise breakdown of companies that attended 2021 Confluence



Source: Emkay Research

Market-cap breakdown of companies that attended 2021 Confluence



Source: Bloomberg, Emkay Research

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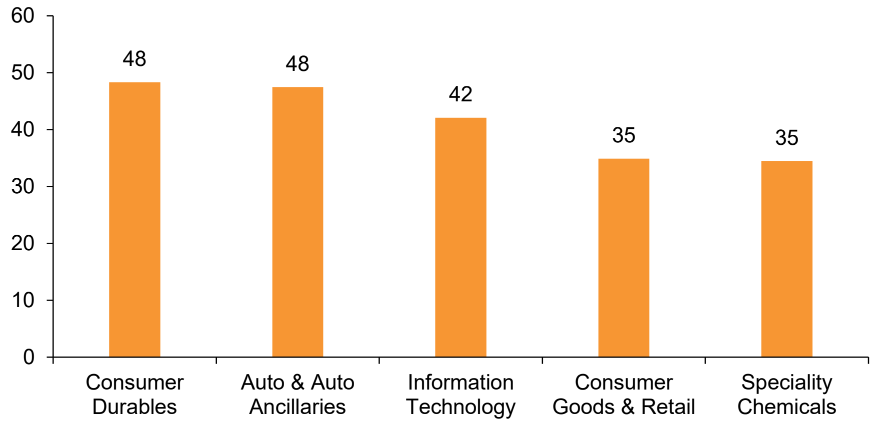
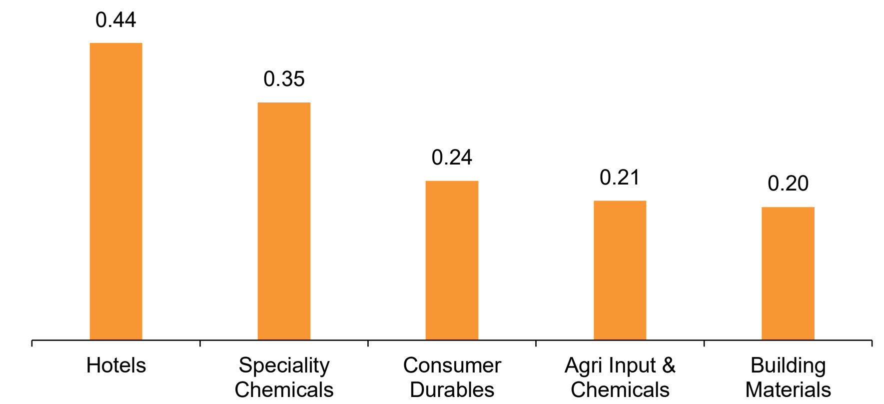
Top sectors with the highest meeting requests per company



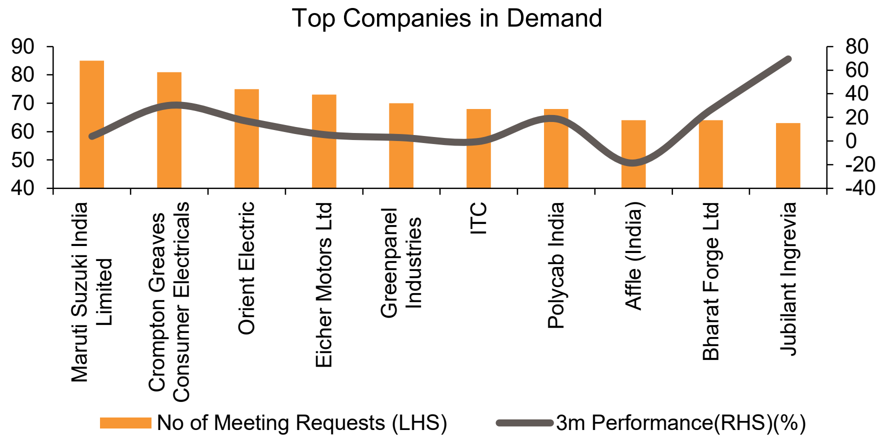
Source: Emkay Research

Number of meetings requests per Rs bn of market-cap



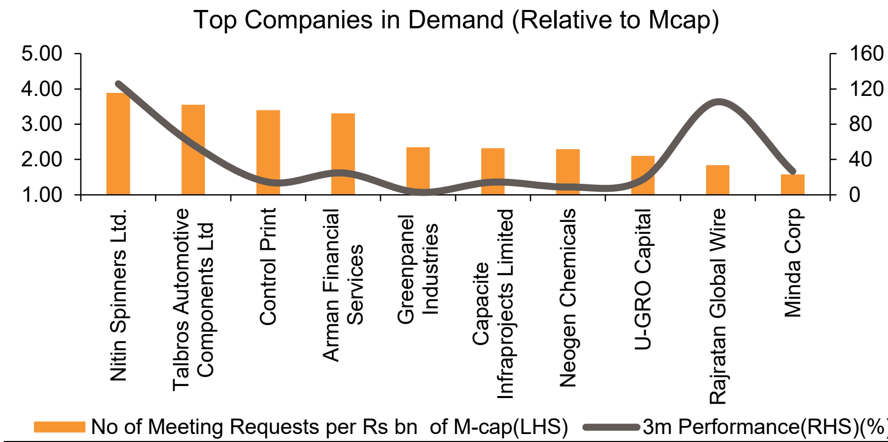
Source: Emkay Research

Companies with the highest demand for meetings



Source: Bloomberg, Emkay Research

Companies in demand for meetings adjusted for market-cap



Source: Bloomberg, Emkay Research

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CONFLUENCE 2021 | 9-13 AUGUST

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Day 5 of Confluence — our annual conference

Refer to important disclosures at the end of this report

August 16, 2021

Nifty: 16,529

Sensex: 54,437

With a line-up of 34 companies on Day-5, our conference saw the participation of a total of >160 companies. Further, we had two panels on Day 5 - one to discuss the imminent Electric Vehicle revolution, and the other to discuss the current state of the Indian markets.

- **Outlook on post-Covid recovery:** Subject to caveat about the risk of a 3rd wave, most corporates were quite optimistic about sales and margin recovery in H2FY22, fuelled by pent-up demand and the festive season. Exporters (IT services, Chemicals, Textiles) are already seeing robust revenue growth, except for Pharma cos that are experiencing a hiccup in the US. Auto OEMs are seeing strong volume recovery in the current quarter (Q2), although chip-shortage is likely to constrain production for the next several quarters. Banks indicated that bulk of the stress-formation is behind, and they expect asset-quality normalization in H2; credit growth recovery, however, will be back-ended in Q3/Q4, especially pick-up in corporate loan growth. Most companies cited resilience in rural demand, even as monsoon rains are running a tad below normal.
- **Common buzzwords across meetings: Digitization,** along with strategic investments in digital, was the most talked about theme in our conference. **Commodity and input cost inflation** was cited as an ongoing challenge (Autos, Cement, FMEG, EPC, Real Estate), and that pass-through via price hikes is happening but with a lag. **A revival in private capex** is seen ahead, led by Exports/PLI schemes, especially in the Chemicals sector. **Others: Gaining share from the domestic unorganized sector, growing export revenues.** Surprisingly, ESG did not emerge as a buzzword in our conference.

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Day 5 of Confluence — our annual conference

Refer to important disclosures at the end of this report

August 16, 2021

Nifty: 16,529

Sensex: 54,437

34 companies, and two panel discussions - one on the Electric Vehicle revolution and the other on Indian markets with the leading CIOs

Companies hosted on Day-5

1 APL Apollo	18 Hindustan Unilever
2 Arman Financial	19 IndusInd Bank
3 Astral Pipes	20 Lupin
4 Bharat Forge	21 MAS Financial Services
5 BSE India	22 Meghmani Finechem
6 Capacit'e Infraprojects	23 Meghmani Organics
7 Catholic Syrian Bank	24 Minda Corporation
8 CESC	25 Persistent Systems
9 City Union Bank	26 Phoenix Mills
10 Crompton Greaves CE	27 Suryoday Small Finance Bank
11 Eicher Motors	28 Symphony
12 Equitas SFB	29 Talbros Automotive
13 Firstsource	30 U-GRO Capital
14 Galaxy Surfactants	31 United Breweries
15 Gujarat Gas Limited	32 Voltas
16 HealthCare Global	33 Welspun India
17 HG Infra	34 Zee Entertainment

Panel Discussions

Electric Vehicle Revolution

JBM Auto *Mr. Nishant Arya, Managing Director*

Ampere Vehicles (Greaves Cotton) *Mr. Arun Srivastava, Head of Strategy*

NITI Aayog *Mr. Anil Srivastava, Ex-Director*

Octillion Batteries *Dr. Yashodhan Gokhale, Vice President*

Broad topics to be covered:

1) Expectations of EV penetration across categories
2) Government support and possible areas of improvement
3) Changing customer mind-set and barriers to adoption
4) Expansion of charging infrastructure
5) Development of supply-chain ecosystem

Roundtable with Market Giants

Hosted by: Mr. Krishna Kumar Karwa (Emkay Global MD) and Mr. Nirav Sheth, CEO - Institutional Equities

Panellists

Mr. Manish Gunwani, *CIO - Equity, Nippon India Mutual Fund*

Mr. Naren S *Chief Investment Officer, ICICI Prudential AMC*

Mr. Prashant Jain *ED and CIO, HDFC Mutual Fund*

Mr. Samir Arora *Founder and Fund Manager, Helios Capital*

India Market Panel

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An interaction with India's top CIOs

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On the final day of our conference, we hosted a scintillating panel that had the giants of Indian equity markets: Mr. Naren S, Mr. Prashant Jain, Mr. Manish Gunwani and Mr. Sameer Arora. We present key takeaways below.

Current state of the Indian markets: Are they overvalued?

- While Market cap-to-GDP ratio and P/E multiples are ahead of their historical averages, when adjusted for the prevailing low interest rates and cost of capital, markets are not trading at stretched valuations, even as there may be excesses in some pockets.
- New supply of paper (equity issuances) runs into lakhs of crores; however, considering the quantum of savings, FII flows and dividends received from the market, supply of paper is not very large and seems manageable.
- Cycle-wise, India is well-positioned in macro-terms but lacks sentiment/spark; India has tackled inflation, CAD, excess leverage and bank NPAs well.
- Expect equity returns ahead of the return from bonds.

Risks to the Indian markets: Where could they come from?

- Fed raising rates due to sustained rise in US inflation, corrections in global markets - all global corrections have played out in India
- Big pipeline of IPOs at demanding valuations; retail investors becoming more leveraged

Is capex poised to take off, especially private investment?

- Capex in the economy should outgrow consumption over the next 3-5 years
- Government capex is continuing (Roads, Defense, Water, Housing); capex in the States holding up well
- Next 3-5 years should see higher private capex compared to last few years
- Corporate balance sheets are in good shape; the recovery in profits and FCFs is broad-based, also aided by the reduction in indirect (GST) and direct tax rates
- PLI is for real and India should gain share in export markets

India market panel: an interaction with India’s top CIOs contd…

Which sectors are favourites?

- Real-estate sector has turned around. Supply-side has seen consolidation, while demand is being aided by low interest rates. New project launches would be key.
- IT sector has started doing well, salary increases are happening – this also drives the real-estate sector
- Financials, especially mortgage lenders - another way to play the real-estate cycle
- Telecom - a decade of underperformance, but now industry consolidation, demand tailwinds and reasonable valuations
- Views of the panelists on Power Utilities (Gencos) were mixed - sustainable demand growth + valuations are in favor, but the risk of disruption is high

Which sectors are avoidable?

- Consumer sector - valuations are steep like in the mid-90s; risk of multi-year de-rating even if there is no heavy price correction
- Infrastructure companies should see growth revival, but those companies may have challenges where government is the main customer
- Metals sector - earnings and valuations are near the peak, while the cycle may continue, FCFs do not come back to investors in this sector
- Need for caution in legacy sectors that are facing disruption from technological changes, ESG: Thermal Power, TV broadcasting, batteries, lubricants

Thoughts on new-age platform companies that are coming for IPO

- One needs to keep an open mind and can’t ignore these companies. Many such companies will impact other businesses and listed companies
- Look at global peers to assess value and value appreciation potential
- What cannot be modeled for such companies: how management would create value through strategic-pivots or monetization of data
    - These companies could get into adjacent categories
    - Many of them could grow to become a monopoly or part of a duopoly market
    - Their high valuations (currency) and cash chest – both can be thought of as moats

Other nuggets of investing and market wisdom

- Basket approach works in bear markets, not bull markets; in a bad cycle or bear market, basket approach works because one is investing in survivors
- Quality and safety are excessively valued, and prone to correction when interest rates go up abroad

Electric Vehicles

Entering 'fast charge' mode

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We hosted a panel discussion with Mr. Nishant Arya (Vice Chairman of JBM Group and MD & Vice Chairman of JBM Auto Ltd), Mr. Arun Srivastava (Head of Strategy and New Ventures), Mr. Anil Srivastava (Ex-Principal Consultant & Mission Director, NITI Aayog) and Dr. Yashodhan Gokhale (Vice President, Octillion Power Systems).

Key meeting takeaways:

EV penetration and total cost of ownership

- Driven by government measures, improving eco-system (more models, local production, service network and finance availability), and shifting consumer preferences, the penetration of E-2Ws, E-3Ws, light vehicles and buses should improve ahead.
- **In the next 4-5 years, EV penetration is expected to rise to 10-15% in E-2Ws, 50% in intra-city E-Buses and 20-25% in inter-city E-Buses.**
- The total cost of ownership (TCO) will be influenced by the asset purchase price and vehicle utilization.
- In E-2Ws, driven by central and state government incentives, some city-speed vehicles have achieved purchase price parity with ICEs. The cost of fuel is significantly lower in EVs, **almost 1/10th of the fuel cost in ICE vehicles.**
- For buses, TCO is expected to achieve parity by FY26. E-Bus OEMs like JBM are working with stakeholders, using the best technologies and focusing on route planning, resulting in better TCO management.
- **The cost of fuel is ~Rs40 for a 12-metre diesel bus with a mileage of 2.5 kms per litre, while it is ~Rs20 for a CNG bus. In comparison, it works out to ~Rs8 for an EV with an average usage of 1.3-1.4 KWH.**

Government initiatives

- Considering feedback from the industry, the government has remodeled the FAME-2 scheme with the following measures to improve acceptance: 1) **E-2Ws:** Increasing demand incentive to Rs15,000/KWH from Rs10,000/KWH, with a maximum cap at 40% of the cost of vehicles. 2) **E-Buses:** Targeting cities with over 4mn population (Mumbai, Delhi, Bangalore, Hyderabad, Ahmedabad, Chennai, Kolkata, Surat and Pune) for demand aggregation; the details shall be worked out by state-owned Energy Efficiency Services (EESL) for demand aggregation and implementation. 3) **E-3Ws:** EESL will come up with aggregate demand of 300,000 units for multiple user segments. This bulk tendering should lead to economies of scale for OEMs and a consequent reduction in the prices of products.

Electric Vehicles: Entering ‘fast charge’ mode (continued)

- Recently, Convergence Energy Services Limited (CESL), a subsidiary of EESL, has invited bids for the procurement of 100,000 electric three-wheelers at an estimated cost of Rs30bn. A request for proposals has been issued, inviting OEMs to provide quotations for E-3Ws under different use-cases – including garbage disposal, freight loaders, food and vaccine transport, and passenger autos.
- Niti Aayog is also working with states to come up with their own EV policy, with a focus on areas such as demand, supply, manufacturing, R&D and charging infrastructure. 13 states have announced policies so far.

Electric 2Ws to see faster adoption

- Customer awareness about EVs is improving. Some customers are shifting to EVs due to environmental benefits, but more importantly, a shift to EVs is being perceived by customers as an upgrade - a model that provides higher aspirational value or pride of ownership.
- Ampere is witnessing a surge in enquiries about E-2Ws. They are setting up a plant in Ranipet, Tamil Nadu, with an initial capacity of 100,000 units, which will eventually be expanded to 1mn units. The company is spending Rs0.7bn this year and expects to invest Rs7bn in the complete plant.
- Based on global experience, EV adoption is expected to be more pronounced in scooters and gradual in motorcycles. The gradual penetration in motorcycles is due to higher rural usage and the requirement for high-speed vehicles.
- **E-scooters are classified into three categories: 1) slow speed − 25kms top speed, 2) city speed − 45-50kms top speed, and 3) high speed − 70-80 kms top speed. Sales of high-speed and city-speed scooters are expected to grow faster than those of low-speed scooters.**
- Ampere has 3 types of vehicles: 1) M series: This commuter segment is gaining traction. It is for customers with daily running of 30-40kms and is available in city speed and high speed variants. 2) R series: It is used mainly in tier 3-4 cities by occasional users. It has a speed of less than 25kms/hr. 3) Z series: It is for the B2B segment, i.e. food delivery companies, with a daily usage of over 100kms. These scooters are mostly custom-built.
- Financing availability has been improving, especially for high-speed vehicles.

Building battery and components eco-system

- Battery manufacturers and component suppliers are gradually adapting to the EV transition through indigenous product development or global tie-ups. OEMs are working with vendors to increase localization.

Electric Vehicles: Entering ‘fast charge’ mode (continued)

- The Advance Chemistry Cell (ACC) PLI scheme is important, as battery localization and cost-competitiveness are vital for the development of the EV Industry. This scheme should help in achieving a manufacturing capacity of 50 GWH of ACC and 5 GWH of Niche ACC, considering the incentive outlay of Rs181bn. For ACC, companies will be selected through a competitive bidding process to set up a minimum 5 GWH plant. **Many companies are expected to participate either on their own or through consortiums.**
- Hydrogen fuel cells offer a potentially clean, dense and easy to recharge energy source for vehicles, but they are currently complicated, expensive and dangerous to operate. In comparison, Li-ion batteries, although less energy-dense and slower to recharge, are as clean as Hydrogen fuel cells and are much cheaper, easier and safer to handle. **In the commercial vehicle segment, the adoption of CNG, Electric and LNG vehicles is expected to increase in the medium term, while not much adoption is expected for hydrogen fuel cell vehicles.**

Others

- To address the range anxiety, OEMs like Ampere are offering portable batteries, high-range batteries and battery swapping options to customers.
- The charging infrastructure is being expanded significantly by power companies and startups at highways, tourist locations, hotels, offices, malls, parking areas, dealerships, residential societies, etc. Government subsidies for charging station capex are encouraging the expansion. Similar to global experience, it is expected that most of the charging needs will be met by home charging.

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APL Apollo Tubes

Refer to important disclosures at the end of this report

Capacity expansion boosts revenue

CMP	MCap (Rs bn)	TP & Rating
Rs 1,607	200	NR

We hosted Mr. Anubhav Gupta, Chief Strategy Officer

Key Meeting Takeaways

- APL is in the process of increasing the production capacity from 2.6mt to 3.0mt by the end of Mar'22, with the greenfield project at Raipur starting commercial output from Q1FY23. APL plans to increase the production capacity to 4.0mt in the next two years. APL is not looking out for any inorganic expansion.
- APL Apollo has the highest market share in the structural steel tube segment at ~50%, with the second biggest player's market share at 9%. APL is looking to expand in the eastern part of the country.
- APL was the first domestic company to bring in color-coated tubes to the country. The share of exports in total sales increased to ~8% from 5% earlier and APL targets to increase it further to 10% of sales in the coming years.
- Volumes in Q1FY22 were down not due to higher prices but due to covid-19. With vaccination and completion of the monsoon season, demand is expected to recover with the increase in construction activity.
- Full-year FY22 EBITDA/t guidance is Rs4,000-5,000/t on a conservative basis. EBITDA/t for Q1FY22 stood at Rs6,825/t. APL targets EBITDA per quarter of ~Rs2.5bn. APL is not considering the PLI scheme in speciality steel.
- The company did not pay any dividends in FY21 in order to conserve cash.
- APL is operating on a cash-and-carry model, which is accepted by distributors as they receive a 2% discount as compared to a 1% discount on a credit basis.

Financial Snapshot (Consolidated)

(Rs mn)	FY17	FY18	FY19	FY20	FY21
Revenue	39,239	53,348	71,523	77,232	84,998
EBITDA	3,330	3,710	3,928	4,773	6,787
EBITDA Margin (%)	8.5	7.0	5.5	6.2	8.0
APAT	1,521	1,582	1,482	2,368	3,602
EPS (Rs)	12.2	12.7	11.9	19.0	28.8
EPS (% chg)	30.5	4.0	-6.3	59.8	52.1
ROE (%)	23.9	20.5	16.4	20.4	23.6
P/E (x)	132.0	126.9	135.5	84.8	55.7

Source: Company, Emkay Research

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Arman Financial Services

Cautious stance on third wave

CMP	MCap (Rs bn)	TP & Rating
Rs686	5.66	NA – NR

We hosted Mr. Aalok Patel, Promoter & Joint MD, and Mr. Vivek Modi, Chief Operating Officer

Key Meeting Takeaways

- Management said Q1FY22 was all about dealing with the pandemic, but the company managed to witness a sharp recovery. Repayments fell to 75% in May and to 88% in June, with a slow improvement in July, mainly driven by MSME (which stood at 93.5%) and 2W segments.
- 90+DPD stood at 11%, but there are visible signs of improvement as non-paying customers have started to come back. The recovery rate of post-covid disbursements fell from 99% in April to 90% in May and bounced back to 99.8% in July, showing theresilience of the company's borrowers.
- The company is sitting on Rs1bn of excess liquidity as of Jun'21, which is equivalent to 2.5-3 months of debt servicing requirements and 1.5 months of disbursal requirements. Management said that although the company is carrying slightly lower levels of liquidity in comparison to its peers, it is adequate to meet any third wave challenges.
- Management believes that the microfinance segment has become a 2% loan loss segment, although the industry continues to evolve, with consumers becoming more and more resilient. The company continues to practice better underwriting and has only extended renewal loans from Aug'20 to Dec'20. It has seen ~20% new customer additions since Jan'21.
- Going cashless will definitely be a cost advantage, but it may come at the cost of losing repayments from microfinance or even from urban consumer segments, which saw a 20% cheque bounce rate. Currently, 3-4% of customers make repayments through QR scan.
- According to the current trends in the market, group loan demand will get slower as customer demand shifts to individual loans.

Financial Snapshot (Consolidated)

(Rs mn)	FY17	FY18	FY19	FY20	FY21
Net income	311	438	812	1,276	1,158
Net profit	63	73	264	415	106
EPS (Rs)	8.0	10.2	38.1	55.8	12.5
ABV (Rs)	80.3	73.3	136.8	228.8	245.2
RoA (%)	3.1	2.2	4.4	5.0	1.2
RoE (%)	11.9	13.2	29.7	28.1	5.9
PE (x)	85.8	67.2	18.0	12.3	54.7
P/ABV	8.5	9.4	5.0	3.0	2.8

Source: Company, Emkay Research

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Astral Pipes

Refer to important disclosures at the end of this report

Market consolidation and new launches to aid growth

CMP	MCap (Rs bn)	TP & Rating
Rs1,991	400	NA – NR

We hosted Mr. Hiranand Savlani, CFO

Key Meeting Takeaways

- The company sees a good demand environment going ahead, as the domestic economy normalizes. Management has highlighted that it will continue to undertake aggressive strategies to gain market share.
- On the pricing side, major competitors have taken successive price hikes in some end products, benefitting the company's pricing stance as well. Management believes that such elevated prices should remain at the current levels at least for the next 12 months, provided that the supply chain stress, healthy demand and high input costs remain the same.
- On the adhesives front, the company believes that sales should double in less than five years, while the PVC/CPVC businesses should see a 15-20% sales CAGR in the next 4-5 years. There are various launches planned for the adhesives business and cost inflation is passed on with a lag of one quarter.
- On a more positive note, government initiatives to improve product quality under new BIS standards should positively impact the company, as higher compliance costs and technology requirements will lead to market share consolidation. However, initially, margins may see some impact due to higher compliance costs.

Financial Snapshot (Consolidated)

(Rs mn)	FY17	FY18	FY19	FY20	FY21
Net Sales	18,947	20,729	25,073	25,779	31763
EBITDA	2,602	3,141	3,813	4,413	6375
EBITDA Margin (%)	13.7	15.2	15.2	17.1	20.1
APAT	1,448	1,740	1,955	2,471	4011
EPS (Rs)	7.2	8.7	9.7	12.3	20.0
EPS (% chg)	43.8	20.1	12.4	26.4	62.3
ROE (%)	18.7	18.7	17.0	17.8	23.6
P/E (x)	276.2	229.9	204.6	161.9	99.7

Source: Company, Emkay Research

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Bharat Forge

Outlook remains robust

CMP	MCap (Rs bn)	TP & Rating
Rs820	382	Rs920 | BUY

We hosted Mr. S Rajhagopalan, Associate Vice President

Key Meeting Takeaways

- The outlook for the auto segment is robust; however, growth should be lower than earlier expectations due to the shortage of semiconductors. Diversification remains a focus area in order to reduce volatility in business. Led by a stable balance sheet, the company may look for acquisitions that would expand the product portfolio.
- The order book for PVs is strong and the segment is likely to continue to outperform over the next five years.
- The revenue run-rate of Oil & Gas seen in Q1FY22 should continue for the rest of the year, if crude prices remain stable. The overseas Industrials segment is supported by a pick-up in the Construction Equipment segment. The company is focusing on increasing exposure to Agri, Mining and Renewable segments.
- The company expects strong revenues in the E-mobility segment over the medium term. It has won orders in both CV and PV segments.
- ATAGS (Advanced Towed Artillery Gun Systems) is under final summer/desert trials. After this last trial, ATAGS would qualify for orders. Capex for ATAGS would be mainly toward forging and assembly facilities. Forging capacity is ready with the company. It has recently won orders for M4 Kalyani armoured vehicles and aluminium cylinders in the defence segment. Revenues from aluminium cylinder orders should be visible from Q2FY22. The Defence business has a high asset turnover and ROCE.
- Sanghvi Forgings should witness improvement from FY23. Currently, the focus is on improving processes and de-bottlenecking capacity, which should strengthen the domestic industrials division.

Financial Snapshot (Standalone)

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	45,639	36,515	55,062	70,508	80,191
EBITDA	10,399	7,332	15,291	21,267	24,630
EBITDA Margin (%)	22.8	20.1	27.8	30.2	30.7
APAT	5,683	3,269	9,405	14,038	16,668
EPS (Rs)	12.2	7.0	20.2	30.1	35.8
EPS (% chg)	(45.4)	(42.5)	187.7	49.3	18.7
ROE (%)	10.6	5.8	15.0	19.9	20.4
P/E (x)	67.2	116.8	40.6	27.2	22.9

Source: Company, Emkay Research

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BSE India

Huge potential in new initiatives

CMP	MCap (Rs bn)	TP & Rating
Rs1,140	51.31	NA – NR

We hosted Mr. Nayan Mehta, CFO, and Mr Yogesh Joshi, Head – IR

Key Meeting Takeaways

- Management said that the business is cyclical by nature and volumes tend to drop after every 6-year bull run. However, in every bull run, old volumes are about to be breached and new highs are scaled. BSE has recorded the highest turnover till date in the last two quarters.
- Interoperability, along with the regulatory push toward best-price execution, is likely to increase liquidity on the BSE's electronic trading platform over time. BSE has imposed a penalty for brokers who do not comply with best-price execution and interoperability. Interoperability will work as a catalyst/enabler for the brokers, ensuring that they are neutral to trade using either of the exchanges using smartholder routing, which routes the order to the exchange where the investor is getting the best price.
- Further, the company's initiative to introduce Weekly Options has received a good response from market participants.
- Management highlighted the constitution of the IFSC authority and its board to facilitate growth of GIFT city as an international financial hub as well as growth of international exchange therein.
- The dividend payout strategy has been extended to pay out 99% in FY21 (proposed dividend of Rs21). Going forward, the company will continue with 95%+ DPS.

Financial Snapshot (Consolidated)

(Rs mn)	FY17	FY18	FY19	FY20	FY21
Revenue	6,183	6,989	6,875	6,300	6,547
EBITDA	2,601	2,994	2,477	1,790	2,258
EBITDA Margin (%)	42.1	42.8	36.0	28.4	34.5
APAT	2,206	2,148	1,942	902	1,449
EPS (Rs)	40.4	39.4	36.8	18.0	33.0
EPS (% chg)	66.0	(2.6)	(6.6)	(51.0)	82.9
RoE (%)	8.4	7.0	6.6	3.7	5.8
P/E (x)	28.2	29.0	31.0	63.2	34.5

Source: Company, Emkay Research

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Capacit'e Infraprojects Limited

Refer to important disclosures at the end of this report

Strong order book

CMP	MCap (Rs bn)	TP & Rating
Rs214	15	NA – NR

We hosted Mr. Rohit Katyal, Executive Director and Chief Financial Officer

Key Meeting Takeaways

- The impact of the second Covid wave on cities like Mumbai and Pune was severe and, hence, it impacted the financials of the company in Q1FY22. With the Covid infection receding, the labor availability has improved to ~10,000 workers. Activities have also improved now. A good uptick is expected in the coming quarters.
- The order book currently stands at ~Rs90bn. The company expects ~Rs18bn in revenue in F22, with stable EBITDA margin. EBITDAM stood at 18.2% in FY21/FY20. The majority of private contracts have a commodity pass-through clause and, hence, the rally in the steel price would not impact margin. Further, in the case of government contracts, the escalation clause acts as a buffer.
- In terms of the order inflow, the company expects to garner ~Rs20bn of orders in FY22, of which orders worth Rs4.5bn have been received in Q1FY22. Management highlighted that Q1 orders of Rs4.5bn did not include Rs2.5bn in steel/concrete. Including these RMs, the same inflows would have been ~Rs6.5bn.
- Collections were good last year and even in Q1FY22. While billing in FY21 stood at Rs9bn, collections stood at Rs11.5bn. Even in Q1FY22, collections were marginally better than the billing of Rs2.8bn. The company has excluded two orders from their order book, as there were delays in these projects. While the full payment from one of the projects has been received, ~Rs200mn is due from the other.
- The company had net debt of Rs3bn, which it expects to remain negligible over the next 2-3 years, mainly on the back of internal accruals.

Financial Snapshot (Consolidated)

(Rs mn)	FY17	FY18	FY19	FY20
Net Sales	11,553	13,411	17,966	15,290
EBITDA	2,035	2,036	2,511	2,567
EBITDA Margin (%)	17.6	15.2	14.0	16.8
APAT	692	789	972	910
EPS (Rs)	10.2	11.6	14.3	13.4
EPS (% chg)	42.4	14.1	23.2	-6.4
ROE (%)	29.7	15.1	12.2	10.3
P/E (x)	21.0	18.4	14.9	16.0

Source: Company, Emkay Research

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CESC

Fine blend of growth and dividend

CMP	MCap (Rs bn)	TP & Rating
Rs775	102	Rs980 | Buy

We hosted Mr. B L Chandak, ED, and Mr. Pankaj Kedia, IR

Key Meeting Takeaways

- The Kolkata license area tariff order for the period FY19-FY20 is expected in some time. The tariff orders for some of the entities have already been issued in West Bengal. The T&D loss in FY21 stood at 8.3% vs. 9.7% in FY18. The benefits from a lower-than-normative T&D loss are shared with customers to the extent of 25%.
- The Chandigarh distribution license is expected to be handed over to the company in the next 6 months. Capex for the current year would be ~Rs1.5bn. The T&D loss of the circle is 12%. The Residential/Commercial/Industrial mix stands at 50%/30%/20%. The current input/output power is 1800/1600MU in the circle. Once the circle is handed over, CESC will be able to see how the trajectory would pan out. While demand growth has not been very encouraging in the recent past due to Covid, 5% peak demand can be expected in the future.
- CESC will continue to look into other distribution franchise and license area for the bid. It has no interest in thermal power expansion.
- A short-term power purchase contract for Dhariwal with Maharashtra is valid till Oct'21. For the last three years, this contract has been renewed on an annual basis. Dhariwal has turned profitable since last year.
- Unless CESC wins a very large distribution circle, the dividend payout should remain at least at the current levels.

Financial Snapshot (Consolidated)

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	1,21,590	1,16,390	1,23,061	1,27,990	1,33,245
EBITDA	37,743	36,100	37,896	38,788	39,455
EBITDA Margin (%)	31.0	31.0	30.8	30.3	29.6
APAT	12,673	13,310	14,017	14,514	15,069
EPS (Rs)	95.1	99.9	105.2	108.9	113.1
EPS (% chg)	7.0	5.0	5.3	3.5	3.8
ROE (%)	13.8	13.8	13.6	13.1	12.6
P/E (x)	7.9	7.5	7.1	6.9	6.6

Source: Company, Emkay Research

City Union Bank

Plans to bring back its traditionally higher RoAs

CMP	MCap (Rs bn)	TP & Rating
Rs150	110	Rs210-Buy

We hosted Dr. N. Kamakodi, MD & CEO

Key Meeting Takeaways

- MD is not worried about aggressive pricing stance by large banks toward SME customers. As per him, such aggression is seen in a reduced interest rate scenario and reverses when interest rates move upward. Currently, higher liquidity and the desperation of large players to grow are leading to lower interest rates offered to SME customers.
- The bank expects high-single digit credit growth in FY22. As per management, nearly 1/3rd of growth comes from existing customers, 1/3rd from new branch-acquired customers and 1/3rd from old branch-acquired customers. CUB expects RoA to gradually normalize to its traditional range of 1.5% by H2FY22.
- The bank expects overall slippages to be similar/lower in FY22 and recoveries to improve gradually as the economy opens up, subject to a not-so-severe Covid wave. Specific PCR remains moderate at 39% to our annoyance, while CUBK carries an additional Covid buffer of Rs0.5-0.6bn (~0.1% of loans).
- Additional restructuring has been relatively lower than expected at ~Rs1.3bn, resulting in a pool of Rs19.8bn, 5.6% of loans. Management expects another 1-1.25% in the pipeline. SMA2 pool as of Jun'21 inched up to 3.2% of loans (2% in Q4).
- We continue to like CUBK in the small/mid-cap space, given its ability to achieve superior return ratios (RoA/RoE at 1.6%/15%), strong capital position (Tier I at 18.5%) and management stability.

Financial Snapshot (Standalone)

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net income	23,551	25,343	26,715	30,072	34,779
Net profit	4,763	5,928	7,328	9,238	10,949
EPS (Rs)	6.5	8.0	9.9	12.5	14.8
ABV (Rs)	63.9	68.2	75.7	85.8	97.6
RoA (%)	1.0	1.2	1.3	1.5	1.6
RoE (%)	9.4	10.6	11.9	13.6	14.7
PE (x)	23.7	19.1	15.4	12.3	10.3
P/ABV	2.4	2.2	2.0	1.8	1.6

Source: Company, Emkay Research

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Crompton Greaves Consumer Electricals

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On track

CMP	MCap (Rs bn)	TP & Rating
Rs464	291	Rs525 - BUY

We hosted Mr. Yeshwant Rege, Vice President, Strategy & Financial Planning

Key Meeting Takeaways

- **Demand** has been improving on a mom basis, with markets like the South and East recovering well. Channel inventory is at normal levels.
- **Product specific:** While the foray into small domestic appliances (led by mixer grinder) has been tracking well, management is optimistic on being able to replicate the strategy employed for the geyser and air-cooler product categories in this segment as well. In addition, there is further room for market share gains in the geyser and air-cooler categories. The market size for the geyser category stands in the range of ~Rs20-25bn, with low double-digit penetration. Growth in this particular product category, so far, has been driven by a revamp of the product portfolio (offering products across various price points), actions on the GTM strategy and leveraging existing electrical channel. Although a similar strategy has been employed in the air-cooler space, the Covid-19-induced disruption during the peak months has impacted sales.
- **Organized vs. unorganized:** While there has been a shift in market share from unorganized to organized players, management believes that the former category will come back into the market.
- **B2B** has witnessed some improvement in terms of the number of tenders, but management believes that it will take a couple of more quarters for this segment to ramp up.
- **BEE rating norms:** In terms of implementation, the company is prepared for this change as the original deadline for it was Jan'21. There will be an increase in the cost structure as there will be a change in the design and composition of the motors.

Financial Snapshot (Consolidated)

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	45,203	48,035	54,696	61,959	69,777
EBITDA	5,991	7,205	7,630	8,984	10,187
EBITDA Margin (%)	13.3	15.0	14.0	14.5	14.6
APAT	4,964	6,167	5,995	7,083	8,136
EPS (Rs)	7.9	9.8	9.6	11.3	13.0
EPS (% chg)	23.6	24.1	(2.8)	18.2	14.9
ROE (%)	38.7	36.3	29.1	30.1	30.1
P/E (x)	58.6	47.2	48.6	41.1	35.8

Source: Company, Emkay Research

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CSB Bank

Gold NPAs transient; plan to diversify retail portfolio

CMP	MCap (Rs bn)	TP & Rating
Rs322	54	NR

We hosted Mr. Rajendran, MD & CEO

Key Meeting Takeaways

- The asset-quality deterioration in Q1 was mainly due to higher NPAs in gold loans, which were mainly due to restricted mobility and prolonged lockdowns in Kerala. With easing lockdowns, the bank expects a meaningful recovery in the gold loan portfolio over the next 6m. As a strategy, the bank does not follow an aggressive auctioneering policy like NBFCs, as customers generally tend to pay-up, though late, given the underlying sentimental value attached with jewellery.
- The gold loan market is worth approx. Rs20trn, of which nearly Rs3trn is tapped by formal players, including Banks/NBFCs, and there is a long way to go. Thus, the bank is not perturbed by competition from larger private banks and PSBs, which do the business at a loss. The gold loan share in the bank’s book remains at 38% and will remain dominant. However, it plans to diversify its retail portfolio toward VF and will also launch a credit card at an appropriate time.
- Large players have become aggressive in pricing in the SME space. However, this is mainly due to lower CoF and excess liquidity with limited options for growth. The bank believes that price aggression has been seen in the past without much impact on banks like CSB.
- As per management, portfolio diversification could lead to some moderation in its sector-beating NIMs >5%, but will be offset by simultaneous moderation in otherwise higher costs. This, coupled with a moderation in credit costs, could lead to a significant improvement in its RoA/RoE.
- We believe that the bank has done reasonably well in its first phase of transformation over the past 2-3 years, reducing the influence of unions/a religious institution, rationalizing branches/employees and turning it from a capital-starved bank into a capital-excess bank. Its next leg-up journey will be keenly watched, once the dust of Covid settles. Currently, we do not have a rating on the stock.

Financial Snapshot (Standalone)

(Rs mn)	FY17	FY18	FY19	FY20	FY21
Net income	3,136	3,848	4,400	5,923	9,309
Net profit	-580	-1,271	-1,974	127	2,185
EPS (Rs)	-7.2	-15.7	-23.6	1.0	12.6
ABV (Rs)	54.5	54.7	53.9	94.6	104.0
RoA (%)	-0.4	-0.8	-1.2	0.1	0.9
RoE (%)	-7.9	-18.7	-31.8	1.0	9.0
PE (x)	-46.4	-21.2	-14.0	339.3	26.4
P/ABV	6.1	6.1	6.2	3.5	3.2

Source: Company, Emkay Research

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Eicher Motors

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Ramp-up of production to drive volumes in H2

CMP	MCap (Rs bn)	TP & Rating
Rs2,547	696	Rs3,040 - BUY

We hosted Mr. Anuj Bansal, Head, Financial Planning & Analysis and Mr. Dheeraj Agarwal, Investor Relations

Key Meeting Takeaways

- To drive customer aspirations and create differentiation, the focus remains on new products and customization options. Several new models are in the pipeline, and one new model or major refresh will be launched every quarter. All new products will have customization options.
- The store count stands at 2,071 units, with 1,033 large stores and 1,038 studio stores. Management expects to continue expansion with the addition of 300-400 stores annually to improve penetration. Stores are spread over North (328 large and 362 studio stores), South (309 large and 262 studios), West (210 large and 185 studios) and East (186 large and 228 studios).
- Export remains a focus area, with a presence in 140 exclusive outlets and 653 multi-brand stores. Exclusive store count will be expanded to 175 by FY22-end. Exclusive stores are spread across Latin America (51), APAC (48), UK/Europe/UAE (40) and North America (1). The company has an assembly unit in Argentina, and more are planned in Brazil, Thailand, etc.
- Management expects production to be hit by the global shortage of semiconductors in Q2FY22 and possibly through FY22. It expects a recovery in H2FY22 with an improvement in the supply chain.
- Mr. B Govindarajan will take on the responsibility of leading Royal Enfield as Executive Director, after the exit of Mr. Vinod Dasari. He has been the COO since 2013. He has spent more than 23 years with the company and has a deep understanding of the industry and strong technical know-how. He has been instrumental in expanding manufacturing facilities, improving product quality, delivery/development process, and setting up Technology Centers in India/UK.

Financial Snapshot (Consolidated)

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	91,536	87,204	105,787	143,933	164,135
EBITDA	21,804	17,813	24,336	36,677	43,797
EBITDA Margin (%)	23.8	20.4	23.0	25.5	26.7
APAT	18,274	13,469	19,437	31,129	39,361
EPS (Rs)	66.9	49.3	71.2	114.0	144.1
EPS (% chg)	(17.7)	(26.3)	44.3	60.1	26.4
ROE (%)	19.3	12.6	15.9	21.8	23.0
P/E (x)	38.1	51.7	35.8	22.3	17.7

Source: Company, Emkay Research

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Equitas Small Finance Bank

Strong CASA to support secured asset diversification

CMP	MCap (Rs bn)	TP & Rating
Rs60	69	Rs78 – BUY

We hosted Mr. Dheeraj Mohan, IR and Mr. Rahul Rajagoplan, Head - Strategy

Key Meeting Takeaways

- Management expects AUM growth to be back to pre-Covid levels with all seasoned products like VF, LAP and MFI being at a desirable level of product mix, giving comfort to press the accelerator. With the healthy CASA build-up leading to lower CoF, the bank plans to enter the relatively low-yielding affordable housing and Gold loan business. It also plans to launch the credit card business through a tie-up. Disbursements, which were impacted in Q1 due to the cautious stance in MFI and the slowdown in SBL/VF/LAP, have started to inch back to March levels (Rs10bn in July).

- Strong CASA traction in the past 6m has been mainly due to leadership change, change in product pricing/positioning and focus on digital acquisition followed by physical connect. NIM should remain above 8% in the near term, but should gradually settle around 7.5% in the long term. Better fee income (1.5% right now) and a moderation in costs should offset any NIM compression. The bank's business model is capable of delivering 2.25% RoA.

- The bank expects an improvement in collection efficiency, but the restructuring pool may rise to Rs14bn-17bn (10% of loans) in Q2 as customers need support to come out of stress. It has guided for higher LLP at ~2.5%, factoring in elevated provisions for NPAs/restructured pool.

- The proposed reverse merger of Equitas Holdco into SFB would require regulatory approval and is on course. However, if promoter lock-in norms are not relaxed from 3 years to 18m, then the proposed scheme could be executed only by Nov'23. That said, the bank expects a favorable move from the SEBI on this front.

- We continue to like the bank given the sharp improvement in its liability profile, asset diversification away from MFI and its ability to deliver higher return ratios.

Financial Snapshot (Standalone)

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net income	17,777	22,152	25,638	29,940	35,617
Net profit	2,438	3,857	3,936	5,587	7,870
EPS (Rs)	2.4	3.5	3.5	4.9	6.9
ABV (Rs)	24.7	29.1	30.9	36.1	43.1
RoA (%)	1.4	1.8	1.5	1.8	2.0
RoE (%)	9.8	12.6	11.0	13.7	16.6
PE (x)	26.6	17.9	18.3	12.9	9.1
P/ABV	2.4	2.1	1.9	1.7	1.4

Source: Company, Emkay Research

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Firstsource Solutions

Refer to important disclosures at the end of this report

Healthcare to drive growth in FY22

CMP	MCap (Rs bn)	TP & Rating
Rs202	141	Rs210 | HOLD

We hosted Mr Ankur Maheshwari, Head – Investor Relations

Key Meeting Takeaways

- FSOL is confident of achieving its FY22 revenue growth guidance of 15-18% CC (flat CQGR over Q2-Q4). It expects the weakness in the mortgage refinancing business to be partly negated by the recovery in the healthcare vertical and strong traction in UK BFS, driven by volume growth and expansion into new service lines, and a recovery in the collections business.
- FSOL expects FY22 EBITM to be in the range of 11.8-12.3% (flat to 50bps YoY expansion), considering the anticipated rebound in the profitable provider business and operating leverage. Over the medium term, the company targets to expand its margins by 40-50bps every year, aspiring to operate at mid-teens margin levels.
- It expects the mortgage business to deliver growth in the low double digits in FY22, implying a mid-single digit CQGR decline over Q2-Q4. The home purchase mortgage market remains strong. However, the refinance volumes in the mortgage business have started to decline and some clients have begun realigning their refinance capacities accordingly.
- FSOL expects revenues from the top client to remain soft in Q2 on lower consumption of media post the opening of the UK economy, but expects revenue from the top client to stabilize in H2FY22.
- Management expects Healthcare to lead growth in FY22, driven by strong growth traction in the HPHS business and the anticipated recovery in the provider business (by Dec-end).

Financial Snapshot (Consolidated)

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	40,986	50,780	60,330	68,973	78,585
EBITDA	6,289	8,042	9,806	11,378	12,981
EBITDA Margin (%)	15.3	15.8	16.3	16.5	16.5
APAT	3,397	4,767	5,602	6,675	7,829
EPS (Rs)	4.9	6.8	8.0	9.6	11.2
EPS (% chg)	(10.4)	39.9	17.4	19.2	17.3
ROE (%)	12.4	17.1	19.2	20.8	21.7
P/E (x)	41.3	29.5	25.1	21.1	18.0

Source: Company, Emkay Research

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Galaxy Surfactants

Near-term headwinds but medium-term outlook good

CMP	MCap (Rs bn)	TP & Rating
Rs3,063	109	NA – NR

We hosted Mr. Ganesh Kamath, CFO, and Mr. Paritosh Srivastava, IR

Key Meeting Takeaways

- **Speciality Care Products:** Management appeared optimistic about the prospects of mild surfactants and preservatives, as demand continues to gain traction in the developed markets. Currently, mild surfactants constitute around 18-20% of the overall sales. Demand for mild surfactants and preservatives is expected to remain strong in the medium to long term as premiumization further gains traction in developing markets.
- **RM Volatility:** Q1 operations were impacted by Covid-related supply chain issues and logistics problems. Nonetheless, the impeccable risk management mechanism guarded the company's financial performance.
- **Capacity expansion:** Volume offtake in Speciality Care products was impacted in the past few quarters by delays in the commissioning of new capacities, which is expected to happen in H2FY22.
- **Capex and R&D:** Management expects to invest ~Rs1.5-2.0bn p.a. to augment capacities. R&D focus will continue with the emphasis on green products.
- **AMET Market: The** AMET region suffered from logistical challenges, impacting volumes in Q1. However, demand in the region remains robust.
- **EBITDA/MT guidance:** Despite strong EBITDA/MT of ~Rs18,900 in Q1, management retained its guidance of Rs16-18,000 EBITDA/MT.

Financial Snapshot (Consolidated)

(Rs mn)	FY17	FY18	FY19	FY20	FY21
Net Sales	21,613	24,339	27,630	25,964	27841
EBITDA	2,714	2,877	3,534	3,689	4488
EBITDA Margin (%)	12.6	11.8	12.8	14.2	16.1
APAT	1,476	1,580	1,919	2,316	3021
EPS (Rs)	41.6	44.6	54.1	65.3	85.2
EPS (% chg)	43.3	7.0	21.4	20.7	30.5
ROE (%)	28.9	24.4	24.1	23.8	25.5
P/E (x)	73.6	68.7	56.6	46.9	35.9

Source: Company, Emkay Research

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Gujarat Gas Limited (GGL)

Focus on expanding volumes

CMP	MCap (Rs bn)	TP & Rating
Rs738	508	Under Review

We hosted Mr. Nitesh Bhandari, CFO, and Mr. Santosh Zope, Head – Corporate Affairs

Key Meeting Takeaways

- Margins in Q1FY22 were exceptionally high though it is not new for GGL as it was similar in Q2FY21. Opportunity was there due to favorable circumstances, which helped balance against possible bad quarters ahead. GGL is back on volumes with an average run-rate of 12mmsmcd currently. Though there was 1.5 months of restrictive phase, CNG volumes were down only 8% qoq despite seasonality.
- In July, CNG continued to recover. 11 stations were set up in Q1, while a total of 150 is planned for FY22. Non-Morbi demand remained consistent despite the lockdown. Recently, GGL launched its 50th CNG station in Haryana/Punjab. It remains focused on LCVs as the conversion of trucks would be a material driver.
- GGL is aggressively looking for opportunities in the domestic gas sourcing market and will bid on any such opportunity. Certain domestic sources are expected to come online in the next few months like ONGC/HOEC/RIL KGD6. The company will bid aggressively for them.
- In Morbi, alternative fuel propane is currently at a very high premium. However, GGL is not too concerned about rising prices. It expects non-Morbi demand to grow by 15% annually due to a low base, while Morbi should grow by 10%. Based on discussions with customers, 2 years' industrial PNG demand visibility is there, making it much easier to forecast.
- The company has planned for highway corridors, and thus has made space available at its CNG outlets for EV charging infra when required. It has also planned to provide gas to generators. It has signed contracts with large customers in Silvasa (0.1mmscmd additional).

Note: Estimates, TP and reco are currently under review

Financial Snapshot (Standalone)

(Rs mn)	FY17	FY18	FY19	FY20	FY21
Revenue	50,926	61,743	77,544	103,003	98,543
EBITDA	7,433	9,111	10,039	16,343	20,878
EBITDA Margin (%)	14.6	14.8	12.9	15.9	21.2
APAT	2,195	3,164	3,580	9,034	12,755
EPS (Rs)	3.2	4.6	5.2	13.1	18.5
EPS (% chg)	-1.2	44.2	13.1	152.4	41.2
ROE (%)	13.3	15.8	19.1	36.3	28.5
P/E (x)	8.6	10.7	11.2	18.4	24.0

Source: Company, Emkay Research

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HealthCare Global Enterprises

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Established player in oncology treatment

CMP	MCap (Rs bn)	TP & Rating
Rs253	32	NA – NR

We hosted Mr. Niraj Didwania, Investor Relations

Key Meeting Takeaways

- Healthcare Global Enterprises (HCG) is one of the largest providers of cancer care in India. It has comprehensive cancer diagnosis and treatment services, offering radiation therapy, medical oncology and surgery.
- HCG's revenue growth will be driven by 1) better execution of the go-to-market strategy for its new centers, 2) expanding its reach through better targeting and creating brand awareness in the multispecialty space, and 3) improving efficiencies in its mature centers and ramping up utilization in its new centers.
- Management noted that revenues were not impacted much during Covid as cancer surgeries are critical in nature.
- Karantaka remains an important region for the company. It expanded into new geographies where there was a demand-supply gap. However, It has no further plan to launch new centers other than the one in NCR as the focus is on sweating existing assets.
- The company had raised Rs6.25bn through a preferential allotment to a PE investor last year. Rs5.3bn out of Rs6.25bn has already been infused.

Financial Snapshot (Consolidated)

(Rs mn)	FY17	FY18	FY19	FY20	FY21
Net Sales	7,001	8,288	9,760	10,923	10,092
EBITDA	1,050	1,079	1,116	1,566	1,223
EBITDA Margin (%)	15.0	13.0	11.4	14.3	12.1%
APAT	207	151	-247	-1,068	-1,276
EPS (Rs)	1.7	1.2			-
EPS (% chg)	1820.4	-27.1	-	-	-
ROE (%)	4.8	3.2	-	-	-
P/E (x)	153.4	210.5	-	-	-

Source: Company, Emkay Research

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HG Infra Engineering

Growth prospects attractive

CMP	MCap (Rs bn)	TP & Rating
Rs535	35	Rs800 | BUY

We hosted Mr. Harendra Singh, Chairman and MD

Key Meeting Takeaways

- HG has emerged as one of the most efficient road EPC infrastructure development players in the last few years, reflected in its ever-improving project execution capabilities, robust order book growth (40% CAGR FY16-21; 2.8x TTM book to bill), adoption of technology in various verticals and increasing modern equipment ownership (~1900 equipment in house vs. ~1000 in FY17, eliminating rent & interest costs).
- Proceeds of ~Rs3bn from the new planned QIP should allow HG to improve its overall rating and reduce its working capital costs in the long term. The new areas that HG is planning to enter may have higher working capital requirements than the current business and the fresh proceeds shall help to meet the same.
- About 70% of orders under the Bharatmala Pariyojana 1 have already been awarded and the part 2 is under discussion with the respective authorities. Management believes that this should provide a solid impetus to the road awarding activity, which is currently around ~33kms/day to 40kms+/day.
- On the commodity inflation front, there is a very minimal gap between the company's purchases and what it enters into contracts with its clients, although there is a lag of at least one quarter to pass on the cost to customers.
- Management announced plans to diversify the order book position from only roads/highways (~98% of current OB) to railways & metro (civil works for track laying), water (water pipelines for last mile connectivity, 1 project) and aviation (runways, taxiways; 1 project). By the end of FY22, management expects the new sectors to contribute close to 10% of the total order book and ~Rs10bn in order inflows during the year.

Financial Snapshot (Standalone)

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	21,961	25,275	31,679	38,402	43,138
EBITDA	3,424	4,107	5,189	6,194	6,936
EBITDA Margin (%)	15.6	16.2	16.4	16.1	16.1
APAT	1,657	2,110	2,902	3,579	4,055
EPS (Rs)	25.4	32.4	44.5	54.9	62.2
EPS (% chg)	34.2	27.3	37.6	23.3	13.3
ROE (%)	22.4	22.8	24.7	23.8	21.5
P/E (x)	20.8	16.3	11.9	9.6	8.5

Source: Company, Emkay Research

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Hindustan Unilever

Refer to important disclosures at the end of this report

Positive growth outlook

CMP	MCap (Rs bn)	TP & Rating
Rs2,392	5,621	Rs2,330 | Hold

We hosted Mr. Ravishankar A., Group Financial Controller & Head – IR, and Saurabh Khaitan, Investor Relations Manager

Key Meeting Takeaways

- Demand in May was severely affected but recovered sharply in June. Rural demand remains resilient and is likely to be sustained due to a good monsoon.
- The integration of GSK and GTM is underway and is expected to be completed by Sep'21 (50% completed in JQ20). After the integration of depots (20 depots), which will drive some synergies, productivity enhancements in factories will be taken up in 2022.
- Factory issues hurt GSK's portfolio in H1FY21 and Q1FY22. The growth outlook is strong and HUL sees double-digit volume growth by 1) increasing penetration through Rs.2/5 sachets, 2) making pouch packs more accessible, 3) leveraging its distribution strength (double direct reach), and 4) market development.
- In laundry, HUL expects to continue the premiumization journey. Comfort has reached a critical size and HUL sees an equally promising opportunity to upgrade consumers to liquids (10% penetration). Category margin will be under stress and the focus will be on managing it in a sensible range in the short term. Skin cleansing has seen good momentum, led by Lifebuoy.
- In order to expand its Ecom footprint, HUL highlighted several initiatives, such as having the right pack and product price architecture and launching products that are ecom-ready. Ecom contribution doubled from last year and is over-indexed vs. MT/GT. It is investing in building D2C capabilities; Lakme/Indulekha have own websites and Ushop is a cross-category D2C initiative, which is being scaled beyond Delhi/Mumbai. Shikhar has been expanded to more than 0.5mn outlets.
- HUL is taking pricing in a judicious manner so as to continue gaining share. In the near term, HUL will maintain margins in the current range and will look at a modest expansion in the medium term.

Financial Snapshot (Standalone)

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	3,87,850	4,59,960	5,09,540	5,68,382	6,29,709
EBITDA	96,000	1,13,240	1,28,646	1,49,328	1,69,265
EBITDA Margin (%)	24.8	24.6	25.2	26.3	26.9
APAT	69,350	81,810	90,716	1,05,594	1,20,316
EPS (Rs)	32.0	34.8	38.6	44.9	51.2
EPS (% chg)	10.7	8.7	10.9	16.4	13.9
ROE (%)	88.4	29.5	19.0	21.6	24.0
P/E (x)	74.7	68.7	62.0	53.2	46.7

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IndusInd Bank

Some asset-quality niggles persist but set for rejuvenation

CMP	MCap (Rs bn)	TP & Rating
Rs1,025	793	Rs1,375 – BUY

We hosted Mr. Indrajit Yadav, Head- Strategy & IR

Key Meeting Takeaways

- The second Covid wave delayed the planned credit acceleration, but IIB believes that the underlying retail credit appetite remains strong, and thus it will look at accelerating growth, driven by secured products (mortgages/VF). The current reluctance to aggressively grow Cards/PL is to maintain a balance between secured-unsecured loans, which is already high due to MFI. It will grow Cards/PL at an appropriate time. The affordable housing portfolio is already at Rs20bn.
- Margins should remain range-bound between 4.1% and 4.3%. As of now, margins are under pressure due to excess liquidity and interest reversals. The bank would look at growing its high-rated corporate book as well, which could be a little gross margin dilutive but could have better risk-adjusted margins.
- Management believes that the bulk of the retail/SME stress formation is behind, and normalization should start from H2. The bank's fund-based exposure to Vodafone stands at Rs9.5bn (PCR Rs1.5bn, 16%) + NFB at Rs24bn and it intends to take the required provisioning on the same in FY22 itself. Overall LLP in FY22 should be around ~160-190bps on a Business-as-Usual (BAU) basis and 40-50bps on Vodafone in FY22E, partly offset by contingent provision buffer. The bank expects a fresh restructuring of Rs1-2bn in Q2 from CV, LAP, MFI.
- It has taken an enabling resolution, but there is no need to raise capital unless the bank goes for some inorganic acquisition. It will look at some small/minority stakes in broking, general insurance and Fintech businesses.
- We believe a resurgent IndusInd with a better liability profile, higher retail orientation and risk-guards in place should deliver sustainably higher return ratios.

Financial Snapshot (Standalone)

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net income	190,101	200,286	220,200	250,461	298,937
Net profit	44,179	29,297	53,921	73,534	94,437
EPS (Rs)	63.7	37.9	69.7	95.0	122.0
ABV (Rs)	469.8	540.6	597.9	670.1	764.3
RoA (%)	1.5	0.9	1.4	1.7	1.9
RoE (%)	14.6	7.6	11.8	14.5	16.5
PE (x)	15.3	25.8	14.0	10.3	8.0
P/ABV	2.1	1.8	1.6	1.5	1.3

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Lupin

Recovery on the horizon

CMP	MCap (Rs bn)	TP & Rating
Rs977	477	Rs1,300 | BUY

We hosted Mr. Ramesh Swaminathan, CFO

Key Meeting Takeaways

- The US business was impacted by a multitude of factors, such as 1) competition in Famotidine, 2) failure to supply (FTS) penalties and 3) Albuterol moving from spot contracts to long-term contracts. Q2 is expected to remain soft as Albuterol ramps up gradually and as minor FTS penalties might come through. On Albuterol, management is confident of increasing the market share to 20% as Lupin has entered into a long-term contract with 2 out of 3 wholesalers in the US.
- The company continues to invest in the future growth drivers, such as specialty, biosimilars and NCEs, with a total investment of ~US$100mn every year, which is putting pressure on the core business profitability.
- On the NCE front, the company has invested ~US$400mn over the last 10 years and has started seeing some reward in this aspect. The company has received ~US$120mn in licensing and milestone payments for a couple of molecules.
- In the domestic business, the company has witnessed margin improvement of ~5% over the last 4-5 years and expects margin expansion to continue going forward as productivity increases. The company is working relentlessly to improve productivity in this business through digitalization.
- US FDA issues at various plants have put significant pressure on topline growth. Had that not been the case, the company could have added ~US$30-35mn in incremental revenues. That being said, Lupin is quite confident about the resolution of such issues, specifically for important plants such as Goa and Pithampur.

Financial Snapshot (Consolidated)

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	163,931	150,854	168,464	190,902	217,911
EBITDA	25,456	25,799	33,059	39,700	50,242
EBITDA Margin (%)	15.5	17.1	19.6	20.8	23.1
APAT	9,983	11,385	17,861	22,253	29,756
EPS (Rs)	16.4	25.5	39.4	49.0	65.7
EPS (% chg)	(15.5)	55.3	54.6	24.6	33.9
ROE (%)	5.7	8.6	12.3	13.8	16.3
P/E (x)	59.6	38.3	24.8	19.9	14.9

Source: Company, Emkay Research

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MAS Financial Services

Well placed to accelerate future growth

CMP	MCap (Rs bn)	TP & Rating
Rs761	41.6	NA – NR

We hosted Mrs. Darshana Saumil Pandy, ED and CEO, Mr. Ankit Jain, CFO, and Mr. Nishant Vyas, Investor Relations

Key Meeting Takeaways

- The company has a strong CAR of 28.4% (Tier 1 26.6%) as of Q1FY22, which will help it maintain growth momentum and fuel its future growth. The company is targeting a CAGR of 20-30% in the next 4-5 years.
- It is in discussion with a few PSUs about co-lending facilities. The company wants to expand in the current geographies by extending the branch network to 250 from 99 in the next three years. Current wholesale: retail slit mix of 57%:43%.
- Disbursements stood at Rs10.4bn as of Q1FY22 and the company expects a quarterly run rate of Rs12-15bn in FY22.
- MAS Financial has strong liquidity of Rs8.1bn (16% of AUM) to cover opex and debt liabilities for at least the next 12 months.
- Collection efficiency increased to 96% in July from 93% in Q1FY22. Gujarat (CE of 95% in Q1FY22) has performed better than Maharashtra and Rajasthan.
- The company has GS3 of 2.21% and NS3 of 1.74% as of Q1FY21. It carries a high Covid provisioning buffer of Rs542.7mn, which is 1.34% of the on-book assets.
- MAS Financial is expecting incremental costs of borrowing in the range of 8.5-8.7% (COB in Q1FY22 5.72%).

Financial Snapshot (Consolidated)

(Rs mn)	FY17	FY18	FY19	FY20	FY21
Net income	1,902	2,760	3,551	4,005	3,294
Net profit	674	1,034	1,433	1,666	1,435
EPS (Rs)		18.9	26.2	30.5	26.2
BV (Rs)		130.5	157.9	179.3	214.4
RoA (%)	3.5	4.4	4.5	4.0	2.9
RoE (%)	28.4	19.2	18.9	19.3	14.7
PE (x)		6.4	4.6	4.0	4.6
P/BV		0.9	0.8	0.7	0.6

Source: Company, Emkay Research

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Meghmani Finechem

Capex to drive downstream derivatives expansion

CMP	MCap (Rs bn)	TP & Rating
NA	NA	NA – NR

We hosted Mr. Maulik Patel, Chairman & MD; Mr. Kaushal Soparkar, MD; Mr. Sanjay Jain, CFO; and Mr. Milind Kotecha, IR

Key Meeting Takeaways

- **Value addition through downstream expansion:** Management highlighted their focus on captive consumption of chlor-alkali for value-added/import substitute products, such as Chlorinated Poly Vinyl Chloride (CPVC) and Epichlotohydrin (ECH), and expects the derivatives' contribution to overall revenues to move up from 26% in FY21 to 56% by FY24.
- **Epichlorohydrin and CPVC resin:** MFL expects the 50,000 MT unit for ECH (application in epoxies) to commence operations by Q1FY23 and become the first domestic manufacturer of ECH. Overall domestic ECH demand is 80,000MT and is following broader GDP growth. MFL will become the second, but the largest, player in domestic CPVC (30,000MT) by Q2FY23 once it commences operations.
- **RM volatility:** RM costs have increased due to the logistical challenges. In turn, realisations have also risen. Owing to a better demand scenario, the customers are willing to absorb the impact for the short term.
- **Capex:** Total planned capex for the upcoming projects stands at Rs7.0bn, out of which Rs1.4bn has already been incurred during FY21.
- **Guidance:** MFL expects to clock Rs20bn top-line by FY24, owing to demand recovery from existing products and import substitute demand from upcoming products, ECH and CPVC. Despite capex, peak debt is expected to be at ~Rs7.0bn (~Rs6.4bn currently) in FY22, which should fall later.

Financial Snapshot

(Rs mn)	FY17	FY18	FY19	FY20	FY21
Net Sales	3,920	5,980	7,100	6,110	8,290
EBITDA	1,440	2,550	3,120	1,940	2,610
EBITDA Margin (%)	36.7	42.6	43.9	31.8	31.5
APAT	670	1,550	1,830	1,120	1,010

Source: Company, Emkay Research

Meghmani Organochem

Short-term margin headwinds

CMP	MCap (Rs bn)	TP & Rating
NA	NA	NA – NR

We hosted Mr. Ankit Patel, CEO; Mr. GS Chahal, CFO and Mr. Bharat Shah, Advisor & IR

Key Meeting Takeaways

- **Agrochemicals:** A new MPP at Dahej is expected to commence in Q1FY23. Management expects to further penetrate the domestic market by expanding its branded portfolio of products, earning higher margins.
- **Pigments:** Management focus remains on capturing market share and expanding its reach in the domestic market as well as other geographies. Management is optimistic about sustainable growth in the Pigment segment and is planning to foray into value-added specialty pigments.
- **RM cost inflation & Logistic issues:** Management highlighted that the availability of containers and higher freight costs are major concerns currently. RM prices are expected to remain high, which should impact margins in the near term; however, price increases could be passed on to customers with a lag of a quarter.
- **Capex:** Over the next three years, MOL has planned capex of Rs7.5bn, with a yearly outlay of Rs4.0bn, Rs2.5bn and Rs1.0bn in FY22, FY23, and FY24, respectively.
- **Debt:** Management highlighted the continuous improvement in debt-to-equity in the last three years, with the ratio remaining under 0.3%. With the ongoing capex too, management expects to keep the D/E under check.
- **Guidance:** Management has guided for revenues of Rs25bn and Rs30bn in FY23 and FY24, respectively. The Agro segment is expected to contribute Rs16.8bn/Rs20bn and the Pigment segment to contribute Rs8.5bn/Rs10bn in FY23/FY24. Management expects cons. EBITDA margins to remain in the range of 17-19% over the next three years. The Agro segment margins are expected to be in the range of 18-20%, while the Pigment segment's margins at 14-16%.

Financial Snapshot (Consolidated)

(Rs mn)	FY17	FY18	FY19	FY20	FY21
Net Sales	11,175	12,605	14,104	16,247	16,234
EBITDA	1,332	1,712	2,323	2,363	2,799
EBITDA Margin (%)	11.9	13.6	16.5	14.5	17.2
APAT	415	769	1,687	1,921	1,850
ROE (%)	6.8	11.6	22.0	21.1	16.0

Source: Company, Emkay Research

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Minda Corporation

Refer to important disclosures at the end of this report

New products to drive outperformance

CMP	MCap (Rs bn)	TP & Rating
Rs132	31	NA – NR

We hosted Mr. Aakash Minda, ED- Group Finance & Strategy & CEO, Plastics & Interior; and Mr. Bikas Dugar, Head of Investor Relations

Key Meeting Takeaways

- Revenue growth is expected at 8-10%, higher than the underlying industry, driven by a healthy order book, growth in exports, premiumization and new products. Minda expects a 20-25% CAGR in exports over the next 3-4 years and expects the share of exports to increase to 15-20% of revenues.
- Minda expects new growth opportunities arising from Premiumization, Electronics and Electrification. It is working on new products such as 2W Autonomous Driving Assistance System, Antenna, EV products, digital clusters, sensors – temperature and speed, plastic components and Airport services.
- Minda expects content per vehicle to increase to up to Rs20,000 for the E-2W segment − 60% from new products dedicated to EVs. Most of its portfolio is EV agnostic. Currently, revenue from EV-dedicated components is nominal. Offerings for Green mobility include battery charger, motor controller, DC-to-DC converter, BMS (under development), vehicle control unit (under development) and motor (under development).
- Wiring harness margins are expected to improve, driven by an increase in localization such as connectors for BS6 wiring. In PV wiring harness, the company has won orders from new OEMs.
- The increase in commodity prices is likely to impact margins in the near term due to a lag in the pass-through. Going ahead, the margin is expected to improve on better scale, cost reduction efforts and reducing import share.

Financial Snapshot (Consolidated)

(Rs mn)	FY17	FY18	FY19	FY20	FY21
Net Sales	20,598	25,935	30,920	22,226	23545
EBITDA	1,920	2,756	2,941	-876	1659
EBITDA Margin (%)	9.3	10.6	9.5	-3.9	7.0
APAT	914	1,442	1,575	-1,988	528
EPS (Rs)	3.8	6.0	6.6		2.2
EPS (% chg)	-7.6	57.8	9.2	-	-
ROE (%)	15.6	21.2	16.4	-	5.0
P/E (x)	34.4	21.8	20.0	-	59.6

Source: Company, Emkay Research

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Persistent Systems

Strong growth prospects

CMP	MCap (Rs bn)	TP & Rating
Rs3,167	239	3,000 – HOLD

We hosted Mr Saurabh Dwivedi, Head – IR, and Mr Harit Shah, Senior Manager – IR

Key Meeting Takeaways

- Management is confident of sustaining the revenue growth momentum in the coming quarters on the back of broad-based demand, robust deal intake (US$646mn in last three quarters including new TCV of US$331mn), healthy deal pipeline and new logo additions.
- A salary hike from July is likely to impact margins by 250-275bps QoQ; however, management expects the net impact to be restricted to around 75-100bps, considering benefits accruing from revenue momentum, lower visa costs, flattening pyramid and better utilization.
- PSYS added 4/6 and 10/13 clients QoQ/YoY to USD5mn+ and USD1-5mn buckets, respectively, in Q1. It expects to sustain steady progress across client buckets.
- PSYS plans to open CoE (Center of Excellence) in nearshore locations in Mexico and Canada, which would help with lowering subcontracting costs in the medium term.
- The Salesforce practice is approaching a USD100mn run rate and scaling up well for the company. Geographically, the US remains the largest market, followed by Europe for the Salesforce practice.
- The company is focusing on UK, Ireland, Germany, Switzerland and France markets in Europe and expects the revenue contribution from the Europe market to grow from the current 9.5% in Q1FY22.
- According to Zinnov, the Digital Engineering market is expected to see a 19% CAGR from USD404bn in 2019 to USD1,141bn by 2025.

Financial Snapshot (Consolidated)

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	35,658	41,879	53,961	65,516	77,485
EBITDA	5,171	6,855	9,036	11,106	13,138
EBITDA Margin (%)	14.5	16.4	16.7	17.0	17.0
APAT	3,403	4,507	6,395	7,786	9,179
EPS (Rs)	44.5	59.0	83.7	101.8	120.1
EPS (% chg)	0.2	32.4	41.9	21.7	17.9
ROE (%)	14.4	17.4	21.3	22.4	22.8
P/E (x)	71.1	53.7	37.9	31.1	26.4

Source: Company, Emkay Research

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Phoenix Mills

Growth plans intact

CMP	MCap (Rs bn)	TP & Rating
Rs861	148	NA – NR

We hosted Mr Advait Phatarfod, AGM – Finance

Key Meeting Takeaways

- The pace of recovery across the Mall portfolio (ex-Maharashtra) is encouraging. Adjusted for the number of operational days and select nonoperational categories, Jul'21 consumption was at 93% of Jul'19 and 120% of Mar'21. Watches, jewelry and fashion accessories stood at 91%, electronics at approximately 82%, and fashion and apparel at 75%. Notably, leasing demand in tier 2 cities from luxury brands is witnessing strong traction. The company expects its key assets (Mumbai mall portfolio) to show encouraging trends following the opening on Aug 15th, given the backdrop of held-up consumer spending due to lockdowns.
- The company highlighted that rental discussions are ongoing. However, the company expects the overall portfolio performance, both in terms of consumption and rental revenue, to be better YoY in FY22.
- The office portfolio remained resilient, with collection efficiency running in excess of 92% in Q1FY22.
- Phoenix is sticking with its growth plans both in the office and Mall operations. The company received IOD in Jun'21 for Project Rise (mixed use office development in Lower Parel), for which Phoenix paid Rs2.8bn to secure 1msf of development potential. Phoenix expects its four under-construction Mall portfolios to be operational by FY23 (Phoenix Citadel, Indore & Phoenix Palladium, Ahmedabad)/FY24 (Wakad & Hebbal, Pune). The company is sticking with its stated strategy to add at least 1msf annually to the retail space post FY24.
- On residential – the company expects to exhaust its existing/ongoing inventory in the next 4-5 years.

Financial Snapshot (Consolidated)

(Rs mn)	FY18	FY19	FY20	FY21
Net Sales	16,199	19,816	19,411	10,733
EBITDA	7,787	9,936	9,674	4,942
EBITDA Margin (%)	48.1	50.1	49.8	46
APAT	2,311	3,708	3,255	339
EPS (Rs)	13.4	21.6	18.9	3.19

Source: Company, Emkay Research

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Suryoday Small Finance Bank

Refer to important disclosures at the end of this report

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MFI stress continue to hurt

CMP	MCap (Rs bn)	TP & Rating
Rs179	19	NR

We hosted Mr. Bhaskar B. Ramchandaran, CEO and Mr. Bhavin Damania, CFO

Key Meeting Takeaways

- The bank is seeing good traction in its Paytm partnership for sourcing FD and MSME lending of up to Rs100,000 ticket size. It lends to Paytm merchants in geographies allocated by Paytm which can be different from geographies where the bank is present. The bank lends at 24% and makes 11-12% on portfolio post collection, credit costs and other expenses.
- The bank will increase its focus on non-MFI products like CV and Home loans once normalization happens. In Home loans, GNPA was high because home loans are currently concentrated on the outskirts of Mumbai and Pune which were highly impacted by the second Covid wave.
- The bank has restructured advances of Rs4.2bn (10.5% of Loans) which were mainly JLG loans. The bank has a PCR of 14% on the restructured pool and a collection efficiency of 39%.
- Overall collection efficiency improved to 107% in July from 89% in June, while one EMI-adjusted collection improved to 79% in July from 70% in June, which management expects to improve, provided there is no third Covid wave.
- Its sub-par liability profile and MFI-dominant asset portfolio with rising risks due to regular asset-quality shocks could put pressure on growth and return ratios in the near- to medium term.

Financial Snapshot (Standalone)

(Rs mn)	FY17	FY18	FY19	FY20	FY21
Net income	1,384	1,658	3,404	4,909	4,105
Net profit	151	115	904	1,112	119
EPS (Rs)	3.0	1.7	11.1	12.8	1.3
ABV (Rs)	74.9	76.9	106.9	121.6	150.4
RoA (%)	1.1	0.6	3.1	2.4	0.2
RoE (%)	4.3	2.2	12.7	11.4	1.0
PE (x)	NA	106.7	16.3	14.1	137.1
P/ABV	NA	2.4	1.7	1.5	1.1

Source: Company, Emkay Research

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Symphony Ltd

Holding onto market share

CMP	MCap (Rs bn)	TP & Rating
Rs921	64	NA – NR

We hosted Mr. Nrupesh Shah, Executive Director, Girish Thakkar, AVP - Finance & Accounts, Deval Shah, Principal - Treasury & Investor Relations

Key Meeting Takeaways

- Channel inventory is now at 35-37% of the pre-season + season sales, higher than in the Jun'20 quarter. Management expects higher inventories to be offset by lower collections during the upcoming festive season (September and December). However, collections are expected to be better than last year.
- Symphony holds a 6% share in the global air cooler market, and a 17% share in the domestic market (50% in the organized market). Within the overseas geographies, Symphony has a dominant share of 28% in both Australia and Mexico, followed by 5% in the US and 1.2% in China.
- The company expects exports to contribute more than 20% of PBIT in the next 2-3 years vs. <10% in FY21, with an acceleration expected to begin in Mar'22.
- For its domestic business, Symphony expects to achieve normalized gross margins of 50% in FY22E.
- The company is shifting its manufacturing base from Australia to India, as a result, all of the Australian business will be sourced from India. For the US business, >70% of the manufacturing will be done in India, the rest through GSK China. For the Climate Technology portfolio, 25-30% of the current year's sales will be catered by the India-based manufacturing facility.
- The company indicated a net gain position on liquidated IL&FS shares, and also mentioned that all IL&FS related provisions/right-offs have been fully compensated for, and do not pose any risk.

Financial Snapshot (Consolidated)

(Rs mn)	FY17	FY18	FY19	FY20	FY21
Revenue	7,648	7,983	8,436	11,026	8,998
EBITDA	1,993	2,197	1,089	2,095	1,332
EBITDA Margin (%)	26.1	27.5	12.9	19.0	14.8
APAT	1,641	1,872	1,083	1,840	1,125
EPS (Rs)	23.5	26.8	15.5	26.3	16.1
EPS (% chg)	51.4	14.0	-42.1	69.9	-38.9
ROE (%)	41.9	34.8	17.0	28.2	16.1
P/E (x)	39.3	34.4	59.5	35.0	57.3

Source: Company, Emkay Research

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Talbros Automotive Components

Your success is our success

New orders to drive growth

CMP	MCap (Rs bn)	TP & Rating
Rs318	4	NA – NR

We hosted Mr. Anuj Talwar, Joint Managing Director, and Mr Navin Juneja, Director & CFO

Key Meeting Takeaways

- The demand outlook for the automotive industry is positive for FY22. OEMs have indicated that the shortage of semiconductors could be sorted out by Oct-Nov'21. Talbros expects revenues to grow to Rs10bn in the next three years.
- Gasket revenues are expected to grow from Rs3.7bn to Rs5bn in the next three years, driven by a recovery in the underlying CV/2W segments and new orders from customers such as Cummins, JLR, Maruti Suzuki, VECV, Ashok Leyland, Hyundai, etc.
- Forging revenues are expected to grow from Rs1.7bn to Rs3bn in the next three years, driven by a recovery in the underlying Europe/India automotive industries and new orders from customers such as General Motors, JLR, Volvo Czech & China, BMW and Dana.
- Marelli Tablros (Suspension) revenues are expected to grow from Rs1.2bn to Rs3bn in the next three years, driven by a recovery in the underlying PV industry and new orders from customers such as Maruti Suzuki, Toyota, JLR, Ford, Marelli Poland, JBM Auto and Bajaj Auto.
- Talbros Marugo Rubber (anti-vibration and hoses) revenues are expected to grow from Rs400mn to Rs1bn in the next three years, driven by a recovery in the underlying domestic automotive industry and new orders from customers such as Maruti Suzuki, Isuzu, Daimler, Honda and Escorts.
- Talbros expects the current EBITDA margin range of 14-16% to be sustainable. BS6 products have improved margins, thanks to better pricing. Commodity cost pressure may impact margins in the near term as there is a lag in the pass-through. In exports, there is a lag of 1-2 months in the passed-through of input costs.

Financial Snapshot (Consolidated)

(Rs mn)	FY17	FY18	FY19	FY20	FY21
Net Sales	3,249	3,930	4,829	3,853	4,442
EBITDA	315	387	500	431	646
EBITDA Margin (%)	9.7	9.8	10.4	11.0	14.3
APAT	119	206	261	143	244
EPS (Rs)	9.7	16.7	21.2	11.6	19.8
EPS (% chg)	11.4	72.6	26.9	-45.2	70.6
ROE (%)	8.3	12.3	13.8	7.2	10.5
P/E (x)	33.0	19.1	15.1	27.4	16.1

Source: Company, Emkay Research

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U-GRO Capital

Steering growth as demand recovers

CMP	MCap (Rs bn)	TP & Rating
Rs122	8.67	NA – NR

We hosted Mr. Shachindra Nath, Executive Chairman & MD, Mr. Nirav Shah, Chief Strategy Officer, and Mr. Anuj Pandey, Chief Risk Officer

Key Meeting Takeaways

- Management stated that Ugro Capital is highly specialized, technology enabled small business lending platform, built on Built on 5 core pillar – strong corporate governance; experienced management team, large institutional capital, knowledge and deep domain expertise, and focus on technology to have a data driven approach.
- Company aspires to capture 1% market share of the total MSME lending market by 2025. It aims to achieve AUM of Rs200bn and disbursements of ~Rs119bn by FY25E, with ~68% CAGR over FY20-25E. ~70% contribution from Branch led channels led by Pratham, Sanjeevani, Saathi & Micro-Enterprise product.
- The company's distribution and liability strategies are both powered by proprietary technology modules. It has a strong branch channel with Prime and Micro branches across Tier I to Tier VI locations. It aims to to reach 270 total branches, of which 225 to be direct distribution branches by FY25E. It targets to open 36 new prime branches in Tier 2 & 3 cities by FY25E while no plans to open any new such branches in Tier 1 cities.
- Branch led channel remains as the largest contributor in total disbursals – with 70% of total disbursements. Going forward Partnerships and Alliances to remain a key distribution channel with ~15% contribution to total disbursals by FY25E; Digital channel to contribute 5-10% to the total disbursals.
- Liability book continues to expand with 32 lenders on its book and a leverage ratio of 0.86x indicating a long runway for growth.

Financial Snapshot (Consolidated)

(Rs mn)	FY19	FY20	FY21
AUM	800	8,610	13,169
Total income	439	1,051	1,533
Net profit	39	195	287
EPS (Rs)	0.8	2.9	4.1
BV (Rs)	-	130.7	135.0
RoA (%)	0.2	1.6	1.6
RoE (%)	0.2	2.1	3.1
PE (x)	194.3	41.2	29.9
P/BV	0.3	0.9	0.9

Source: Company, Emkay Research

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United Breweries

Faster recovery trends

CMP	MCap (Rs bn)	TP & Rating
Rs1,390	368	Rs1,570 | Buy

We hosted Mr. Rishi Pardal, CEO and MD, and Mr. Berend Odink, CFO

Key Meeting Takeaways

- The price correction through govt. policy intervention across states has been supporting recovery trends, with a strong improvement observed in UP and Rajasthan, followed by Karnataka and Maharashtra. While Telangana saw some price relief, further price cuts are needed to absorb the volume impact due to sharp excise duty hikes earlier. Recovery in North and Eastern markets is behind other markets due to the delayed impact of the pandemic.
- For beer, which is largely consumed outside and was impacted more by lockdowns, UBL is taking steps to drive higher in-home consumption by focusing on media campaigns and launching/increasing the availability of multi-packs.
- Management mentioned promising growth momentum in Ultra Witbier as it forms a strong foothold and witnesses market share gains in select states. Currently, the brand is available in Karnataka, Goa, Haryana, Delhi and parts of Maharashtra, and will be rolled out in other markets gradually. Amstel, initially launched in the South, has now been introduced to the Northern markets after receiving a positive response from consumers.
- Concerns about competitive intensity due to the craft beer segment are low as craft in India is driven by innovation and excitement and is seen as a move to compete against large industrial players, unlike in the western markets. Management said craft has a very small market size of ~5bn in India, though it is growing.
- Recycled bottles account for around two-thirds of the total consumption. While the usage has been lower during the pandemic, UBL said that it is getting back on track to normal levels as on-trade has opened across most key states.

Financial Snapshot (Standalone)

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	65,046	42,407	57,439	74,974	83,652
EBITDA	8,744	3,795	8,422	13,122	14,987
EBITDA Margin (%)	13.4	8.9	14.7	17.5	17.9
APAT	4,272	1,201	4,361	7,906	9,234
EPS (Rs)	16.2	4.5	16.5	29.9	34.9
EPS (% chg)	(24.1)	(71.9)	263.2	81.3	16.8
ROE (%)	12.8	3.4	11.6	18.5	18.4
P/E (x)	86.0	306.1	84.3	46.5	39.8

Source: Company, Emkay Research

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Voltas Ltd.

Long-term demand intact

CMP	MCap (Rs bn)	TP & Rating
Rs986	326	Rs1,120 - HOLD

We hosted Mr. Manish Desai, Head - Corporate Finance, Mr. Vaibhav Vora, Manager Corporate Finance

Key Meeting Takeaways

- **Chip shortage:** There is no major component shortage across the industry, except for TVs (LCD/LED).
- **Demand:** Voltas expects climate change to be in favor of the industry on the medium- to long-term basis. It expects macro factors like rising income levels to further cushion the sustenance of long-term growth.
- Voltas highlighted that its **inventory** levels are similar to last year. However, the channels are better-prepared this time and have inventory levels of not more than 35-40 days. July has been good for the industry in this regard.
- **Consumer Financing**: The company and the industry are seeing a tremendous increase in channel financing. Channel financing contributed >30% of volumes in Q1FY22 vs. 25% in FY21. Further, credit cards are gaining market share, while NBFCs' shares are declining.
- **VoltBek**: Out of the total 22,000 touch points of Voltas, around 80-85% are common across categories. The company is on track to utilize its channels fully to achieve its long-term market share targets.

Financial Snapshot (Consolidated)

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	76,581	75,558	85,337	1,05,152	1,17,381
EBITDA	6,867	6,414	8,022	10,252	11,503
EBITDA Margin (%)	9.0	8.5	9.4	9.8	9.8
APAT	5,722	5,288	6,276	9,001	10,684
EPS (Rs)	17.3	16.0	19.0	27.2	32.3
EPS (% chg)	8.9	(7.6)	18.7	43.4	18.7
ROE (%)	13.6	11.4	11.7	14.7	15.1
P/E (x)	57.0	61.7	52.0	36.2	30.5

Source: Company, Emkay Research

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Welspun India

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Well placed to capitalize on recovery

CMP	MCap (Rs bn)	TP & Rating
Rs133	134	NA – NR

We hosted Mr. Sanjay Gupta, CFO

Key Meeting Takeaways

- Management expects a demand recovery in most of its end products. It has recently undertaken a capacity expansion of ~7ktons to a total of 84ktons and expects benefits to accrue from FY22 onwards. Additionally, it has planned for incremental capacity in bed linens and rugs as well.
- The company has guided sales to touch Rs125bn by FY25, implying a 14-15% CAGR, with home textiles growing over 10%, advanced textiles growing ~25% and flooring business growing around ~50%. Operating margins should hover around 21-22%.
- The new flooring segment should deliver Rs15-18bn in sales at 70-80% operating levels. Management expects the business to reach the peak level in the next three years, while a breakeven should be achieved by Q4FY22. Export market growth has been more than expected and sales should be in an equal proportion for both domestic and international markets. Growth would be driven by lower fitting costs (Rs20-30 per sq. feet vs Rs60-80 approx. in conventional products).
- Currently, market opportunities for flooring products exist in both residential and institutional spaces, which undertake replacement. Replacement is generally 10% of the overall flooring market business.
- Except Pakistan, most countries face a 9-10% export duty on textile products, and if the FTA agreement goes ahead, management definitely sees a significant growth opportunity ahead, as 50-60% of the EU market is dominated by exports from Pakistan.

Financial Snapshot (Consolidated)

(Rs mn)	FY17	FY18	FY19	FY20	FY21
Net Sales	66,379	60,500	65,266	67,411	73402
EBITDA	11,186	11,234	8,002	12,147	13520
EBITDA Margin (%)	16.9	18.6	12.3	18.0	18.4
APAT	6,606	3,806	3,743	4,667	5379
EPS (Rs)	6.6	3.8	3.7	4.6	5.4
EPS (% chg)	-10.5	-42.4	-1.6	24.7	15.3
ROE (%)	30.3	15.2	13.9	16.2	16.3
P/E (x)	20.2	35.1	35.7	28.6	24.8

Source: Company, Emkay Research

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Zee Entertainment

Ad revenue recovery delayed

CMP	MCap (Rs bn)	TP & Rating
Rs185	178	Rs205 | HOLD

We hosted Mr. Saurabh Garg, Director − Investor Relations, FPA & Strategy

Key Meeting Takeaways

- **Ad revenue** recovery has been slower than anticipated. Ad pricing has normalized and reached pre-Covid-19 levels in markets, in which the company has a strong foothold. Having seen an erosion in the viewership share, the company is working on improving the same and plans to have multiple content launches over the next few months. This should help in retrieving ad revenues as well.
- **Margins & FCF/PAT guidance:** While the company lowered its EBITDA margin guidance for FY22, management believes that once the top-line bounces back, Zee could achieve margins of 25%. The FCF/PAT conversion will be in the positive territory this fiscal, but will not be close to the original guidance of 50%.
- **Zee5:** The revenue run-rate needs to be scaled up considerably for this platform in order to break-even.
- **NTO 2.0:** Zee has already prepared revised pricing. After the hearing in the Supreme Court on August 18, the Indian Broadcasting Foundation (IBF) will take a decision on the way forward.
- **Launch of new channels:** The company has launched 6-7 channels in the last 18 months, and does not plan to launch any in the near term.
- **Zee Music:** Currently, Zee has a strong foothold in the Marathi market and is in the process of scaling up in the Southern region.

Financial Snapshot (Consolidated)

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	81,299	77,299	83,476	94,988	1,04,645
EBITDA	16,346	17,901	18,336	22,472	25,176
EBITDA Margin (%)	20.1	23.2	22.0	23.7	24.1
APAT	10,705	11,229	12,415	15,488	17,563
EPS (Rs)	10.3	11.7	12.6	16.1	18.3
EPS (% chg)	(37.9)	14.0	7.9	27.8	13.4
ROE (%)	10.8	11.7	11.8	14.1	14.4
P/E (x)	18.0	15.8	14.7	11.5	10.1

Source: Company, Emkay Research

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