INSTITUTIONAL RESEARCH

HSIE Results Daily

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Results Reviews

- **United Spirits:** United Spirits (UNSP) posted net revenue growth of 16% YoY (a 6% two-year CAGR), a beat on our estimates, led by strong P&A realisation. The underlying sales were up 14% YoY (HSIE 13%), excluding the one-off sale of bulk scotch. P&A volume was in line at 12.3mn cases (HSIE 12.5mn), up 8% YoY (a 4% two-year CAGR). P&A realisation saw a sharp jump YoY/QoQ by 11/7% to INR 1,724/case (an all-time high), with the uptrend continuing. The underlying gross margin sustained at 44.3% (HSIE 44.6%), while EBITDA margin expanded by 159bps YoY to 17%, led by cost controls. EBITDA clocked 28% YoY and an 8% two-year CAGR (comparable to other FMCG companies). The journey from a debt of INR 40bn in FY17 to becoming debt free is a commendable feat and a result of consistent focus on OCFs. The COVID wave is impacting near-term demand, but we have not modeled a significant impact of it in our numbers. We are confident that the premiumisation trend in the liquor industry would sustain (unlike many FMCG categories). State-wise pricing actions and portfolio reshuffle are the key monitorables in the near term. We value UNSP at 50x P/E on Dec-23E EPS (standalone) to arrive at a TP of INR 970 (including INR 48/share of non-core assets). Maintain ADD.
- **Colgate Palmolive:** Colgate's Q3 net revenue was slightly below our estimates while EBITDA was in line. Net revenue grew by 4% YoY (HSIE 5%), at a +6% two-year CAGR. Volume grew 3% YoY (HSIE 2%), at a 4% two-year CAGR. The company took price hikes in November (similar to peers); however, volume did not decelerate like it did for other FMCG companies. Increased consumer promotions supported volume growth. Colgate, like other FMCG companies, saw volume decelerate in rural. We expect the pressure on rural to persist in the near term. Urban demand, however, would remain relatively unaffected, given a less severe COVID wave. Consumer traction in new launches (both pastes and brushes) remains good. Gross margin contracted by 316/23bps YoY/QoQ to 66.6% due to commodity inflation and promotions. EBITDA margin contracted by 36bps YoY to 29.7% (+253bps in Q3FY21, -221bps in Q2FY22) vs. HSIE 29.4%. We maintain our EPS estimates and value Colgate at 40x P/E on Dec-23E EPS to arrive at a TP of INR 1,700. Maintain ADD.
- **Deepak Nitrite:** We maintain SELL on Deepak Nitrite with a price target of INR 1,730 (WACC 11%, terminal growth 4.5%). The stock is currently trading at 18.9x FY24E EPS. We believe that (1) further growth in DPL is capped as the Phenol plant is already running at over 110% utilisation since Q2FY21 and (2) IPA prices would fall as demand normalcy returns. Besides, DNL is entering into challenging chemistries vis-à-vis chemistries it is currently operating in. The fluorination and photochlorination chemistries will pave the way to tap agrochemical and pharmaceutical customers for the company. However, the company needs to demonstrate its competencies well over the period in these chemistries to seize business opportunities. EBITDA/APAT were 21/17% below estimates, owing to higher-than-expected raw material costs, higher-than-expected other expense, offset by lower-than-expected finance cost, higher-than-expected other income, and a lower-than-expected tax outgo.

HSIE Research Team
hdfcsec-research@hdfcsec.com

- **Nippon Life India Asset Management:** NAM printed core revenue, in line with our estimates. However, revenue yields, in line with industry trends, continued to shrink. Market share in the high-margin equity segment moderated further (-13bps QoQ) and continues to remain a concern in medium- to long-term. We expect NAM to focus on improving its performance to recoup its lost market share. We trim our FY22E/23E/24E revenue estimates by 1.4/2.8/3.3% to build in the impact of a sharp correction in capital markets and lower admin expenses in FY22E. Driven by cost optimisation, we expect NAM to deliver FY21-24E revenue/NOPLAT CAGRs of 15%/25%. We maintain our ADD rating on the stock with a revised target price of INR425 (33x Sep-23E EV/NOPLAT + Sep-22E cash and investments). The stock is currently trading at FY23E/24E EV/NOPLAT of 26.6/21.6x and PE of 24.9/21.3x.

- **RBL Bank:** Despite a healthy NIM (4.3%) and a return to loan growth (+3% YoY), RBL Bank (RBK) missed estimates, with PAT at INR1.6bn. Opex for the quarter was significantly higher due to new card issuances (+0.6mn), spend-related reward expenses, and continuing investments in branches, people, and tech. Although slippages were elevated at 5.4% (annualised), predominantly from the MFI and cards businesses, these have tapered off >300bps sequentially, resulting in a multi-quarter low provisioning at 3% of loans. The management commentary around stability of deposits since end-Dec 2021 is particularly reassuring. While the ongoing investments in distribution channels and tech are understandable, we argue that the guidance around continued investments in the CC business calling for higher opex in FY22/23e are likely to stretch the 1% RoA narrative further into FY24. We hack our FY22E earnings forecasts by >80% and maintain REDUCE with a revised TP of INR155 (earlier INR159).

- **Star Cement:** We maintain BUY on Star Cement with an unchanged TP of INR 130/share (8x its Dec-23E consolidated EBITDA). In Q3FY22, Star's profitability slumped on weak realisation and elevated opex, despite a solid volume offtake. While consolidated revenue rose 31% YoY to INR 5.55bn, EBITDA/APAT fell 20/15% YoY to INR 675/438mn respectively. The ramp-up at Siliguri plant and price rebound should accelerate margin Q4FY22 onwards. The upcoming 12MW WHRS by H1FY23E should also reduce its power cost, bolstering the margin.

- **PSP Projects:** PSP Projects (PSP) reported revenue/EBITDA/APAT of INR 4,856/741/469mn in Q3, 18.5/40.6/39% ahead of our estimates. Its entire order book (OB) of INR 40bn (excluding Bhiwandi) is under execution, leading to strong revenue booking. Excess provision reversals in near-completion projects led to a strong EBITDA margin of 15.3%. However, on a sustainable basis, it is expected to remain at 12-13%. The bid pipeline is robust at INR 35bn. The precast facility received its first order of INR 490mn and it is expected to generate INR 3bn in revenue at full capacity utilisation. We maintain BUY on PSP with a revised TP of INR 671/sh (13x Dec-23E EPS). We have revised our estimates to factor in the robust revenue outperformance.

United Spirits

Uptrend story continues; beat on all fronts

United Spirits (UNSP) posted net revenue growth of 16% YoY (a 6% two-year CAGR), a beat on our estimates, led by strong P&A realisation. The underlying sales were up 14% YoY (HSIE 13%), excluding the one-off sale of bulk scotch. P&A volume was in line at 12.3mn cases (HSIE 12.5mn), up 8% YoY (a 4% two-year CAGR). P&A realisation saw a sharp jump YoY/QoQ by 11/7% to INR 1,724/case (an all-time high), with the uptrend continuing. The underlying gross margin sustained at 44.3% (HSIE 44.6%), while EBITDA margin expanded by 159bps YoY to 17%, led by cost controls. EBITDA clocked 28% YoY and an 8% two-year CAGR (comparable to other FMCG companies). The journey from a debt of INR 40bn in FY17 to becoming debt free is a commendable feat and a result of consistent focus on OCFs. The COVID wave is impacting near-term demand, but we have not modeled a significant impact of it in our numbers. We are confident that the premiumisation trend in the liquor industry would sustain (unlike many FMCG categories). State-wise pricing actions and portfolio reshuffle are the key monitorables in the near term. We value UNSP at 50x P/E on Dec-23E EPS (standalone) to arrive at a TP of INR 970 (including INR 48/share of non-core assets). Maintain ADD.

- **Product mix drives topline:** Reported/underlying net revenue was up 16/14% YoY (-4% in Q3FY21 and +14% in Q2FY22). Total volume was by 4% to 22.1mn cases (-1% in Q3FY21, 3% in Q2FY22) vs. HSIE 23.2mn. The P&A revenue was up 20% YoY (-1% in Q3FY21, +21% in Q2FY22; HSIE 14%), driven by strong performance in scotch. The P&A volume was up 8% YoY to 12.3mn cases (flat Q2FY21, +6% Q2FY22) vs. HSIE 12.5mn. Popular revenue was down 2% YoY (-7% in Q3FY21, flat in Q2FY22; HSIE +8%). Popular volume was down 1% YoY (-2% in Q3FY21 and flat in Q2FY22, HSIE +8%). Popular realisation was down 1% YoY (-5% in Q3FY21 and flat in Q1FY22).
- **Cost control drives EBITDA margin:** Reported GM contracted by 49bps YoY to 44.1%, while underlying GM contracted by 31bps YoY to 44.3% (+24bps in Q3FY21 and +207bps in Q2FY22), HSIE 43.5%. Employee costs declined 8% YoY (+23% in Q3FY21, 19% in Q2FY22) to INR 1,441mn. A&P grew 26% (-7% in Q3FY21, -3% in Q2FY22). Other expenses were up 2% YoY (-2% in Q3FY21, flat in Q2FY22). EBITDA margin came in at 17% (HSIE 16%).
- **Con call takeaways:** (1) Off-trade demand remained resilient with continued recovery in the on-trade channel. (2) Demand saw disruptions in the last week of December due to COVID; however, recovery is expected soon. (3) A&P spends in the quarter were higher to support innovation and renovations along with on-trade recovery. The company maintains annual A&P spends at 8-9% as a percentage of sales. (4) RM costs are expected to be up 4-5% YoY; further, they will be higher sequentially due to rising oil prices. (5) UNSP is in talks with states for pricing actions with the ongoing excise cycle until May. (6) It is seeing positive signs from the reduction in excise on BIO liquor. (7) Scotch salience is at 22-24% (50% is BIO).

Quarterly/annual financial summary (standalone)

YE Mar (INR mn)	3QFY22	3QFY21	YoY (%)	2QFY22	QoQ (%)	FY21	FY22E	FY23E	FY24E
Net Sales	28,847	24,887	15.9	24,468	17.9	78,892	94,883	111,605	121,027
EBITDA	4,907	3,838	27.9	4,256	15.3	9,877	15,704	19,696	21,652
APAT	2,911	2,299	26.6	2,730	6.6	4,239	9,555	12,053	13,672
Diluted EPS (INR)	4.0	3.2	26.6	3.8	6.6	5.8	13.2	16.6	18.8
P/E (x)						144.3	64.0	50.8	44.7
EV / EBITDA (x)						62.5	39.1	30.8	27.6
RoIC (%)						11.2	21.6	24.0	24.4

Source: Company, HSIE Research

ADD

CMP *(as on 27 Jan 2022)*	INR 842
Target Price	INR 970
NIFTY	17,110

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 975	INR 970
EPS %	FY22E	FY23E
	0%	0%

KEY STOCK DATA	
Bloomberg code	UNSP IN
No. of Shares (mn)	727
MCap (INR bn) / ($ mn)	612/8,223
6m avg traded value (INR mn)	2,105
52 Week high / low	INR 1,020/495

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	(4.6)	30.7	30.6
Relative (%)	2.0	22.3	12.1

SHAREHOLDING PATTERN (%)	Sep-21	Dec-21
Promoters	56.73	56.73
FIs & Local MFs	9.65	10.41
FPIs	19.08	17.94
Public & Others	14.54	14.92
Pledged Shares	0.67	0.67

Source : BSE

Pledged shares as % of total shares

Varun Lohchab
varun.lohchab@hdfcsec.com
+91-22-6171-7334

Naveen Trivedi
naveen.trivedi@hdfcsec.com
+91-22-6171-7324

Saras Singh
saras.singh@hdfcsec.com
+91-22-6171-7336

Colgate Palmolive

In-line show; macro headwinds to continue

Colgate's Q3 net revenue was slightly below our estimates while EBITDA was in line. Net revenue grew by 4% YoY (HSIE 5%), at a +6% two-year CAGR. Volume grew 3% YoY (HSIE 2%), at a 4% two-year CAGR. The company took price hikes in November (similar to peers); however, volume did not decelerate like it did for other FMCG companies. Increased consumer promotions supported volume growth. Colgate, like other FMCG companies, saw volume decelerate in rural. We expect the pressure on rural to persist in the near term. Urban demand, however, would remain relatively unaffected, given a less severe COVID wave. Consumer traction in new launches (both pastes and brushes) remains good. Gross margin contracted by 316/23bps YoY/QoQ to 66.6% due to commodity inflation and promotions. EBITDA margin contracted by 36bps YoY to 29.7% (+253bps in Q3FY21, -221bps in Q2FY22) vs. HSIE 29.4%. We maintain our EPS estimates and value Colgate at 40x P/E on Dec-23E EPS to arrive at a TP of INR 1,700. Maintain ADD.

- **Promotions-led volume growth:** Net revenue grew 4% YoY (+8% in Q3FY21 and +5% in Q2FY22). Volume grew 3% (+5% in Q3FY21, +2% in Q2FY22). The company continued with innovative product launches. The overall penetration trends remained strong. Rural was impacted but urban performed well. While rural demand is subdued, we expect the near-term urban demand to remain good on a lower impact of COVID's third wave.

- **In-line EBITDA:** Gross margin shrunk 316bps YoY (+403bps in Q3FY21 and 130bps in Q2FY22) to 66.6% (67.5% HSIE) due to commodity cost pressures. Employee expenses grew 16% YoY (+13% Q3FY21), while A&P was down 24% YoY (+38% Q3FY21). Other expenses were up 8% YoY. EBITDA margin was down 36bps YoY (+253bps in Q3FY21 and -221bps in Q2FY22) to 29.7%, broadly in line with our expectation of 29.4%. EBITDA grew 3% YoY (in-line).

- **Management interaction and press release takeaways:** (1) Rural demand was impacted in Q3 and Colgate remains cautious on near-term rural demand. (2) It took pricing actions in Q3FY22; however, volumes were still up on account of consumer offers. (3) There has been no grammage reduction by the company. (4) Raw material cost pressure was sequentially stable, but Colgate has limited levers to expand the near-term gross margin. (5) Ecommerce demand was a mixed bag with some segments doing well, but traffic was down. (6) The company continued to launch innovation products like Colgate Gum Expert as well as a new range of Palmolive face care products.

Quarterly/annual financial summary

(INR mn)	Q3FY22	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	FY21	FY22E	FY23E	FY24E
Net Sales	12,801	12,319	3.9	13,524	(5.3)	48,412	51,626	55,260	59,054
EBITDA	3,806	3,706	2.7	4,008	(5.0)	15,096	15,577	16,501	17,519
APAT	2,523	2,484	1.6	2,692	(6.3)	10,354	10,383	11,029	11,685
Diluted EPS (Rs)	9.3	9.1	1.6	9.9	(6.3)	38.0	38.1	40.5	42.9
P/E (x)						36.7	36.6	34.4	32.5
EV / EBITDA (x)						24.6	24.0	22.6	21.3
RoCE (%)						118.4	181.9	161.1	195.4

Source: Company, HSIE Research

ADD

CMP *(as on 27 Jan 2022)*	INR 1,395
Target Price	INR 1,700
NIFTY	17,110

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 1,700	INR 1,700
EPS %	FY22E	FY23E
	0%	0%

KEY STOCK DATA	
Bloomberg code	CLGT IN
No. of Shares (mn)	272
MCap (INR bn) / ($ mn)	379/5,095
6m avg traded value (INR mn)	814
52 Week high / low	INR 1,823/1,376

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(9.1)	(22.4)	(9.8)
Relative (%)	(2.4)	(30.8)	(28.2)

SHAREHOLDING PATTERN (%)

	Sep-21	Dec-21
Promoters	51.00	51.00
FIs & Local MFs	6.42	8.17
FPIs	19.14	18.02
Public & Others	23.44	22.81
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

Varun Lohchab
varun.lohchab@hdfcsec.com
+91-22-6171-7334

Naveen Trivedi
naveen.trivedi@hdfcsec.com
+91-22-6171-7324

Saras Singh
saras.singh@hdfcsec.com
+91-22-6171-7336

Deepak Nitrite

High input costs continue to dent margins

SELL

CMP *(as on 27 Jan 2022)*	INR 2,126
Target Price	INR 1,730
NIFTY	17,110

KEY CHANGES	OLD	NEW
Rating	SELL	SELL
Price Target	INR 1,800	INR 1,730
EPS %	FY22E	FY23E
	-5.6%	-3.8%

KEY STOCK DATA	
Bloomberg code	DN IN
No. of Shares (mn)	136
MCap (INR bn) / ($ mn)	290/3,898
6m avg traded value (INR mn)	2,849
52 Week high / low	INR 3,020/928

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	(12.3)	11.4	120.2
Relative (%)	(5.7)	3.0	101.7

SHAREHOLDING PATTERN (%)	Sept-21	Dec-21
Promoters	45.69	45.69
FIs & Local MFs	10.61	10.74
FPIs	10.85	8.84
Public & Others	32.85	34.73
Pledged Shares	0.00	0.00

Source : BSE

We maintain SELL on Deepak Nitrite with a price target of INR 1,730 (WACC 11%, terminal growth 4.5%). The stock is currently trading at 18.9x FY24E EPS. We believe that (1) further growth in DPL is capped as the Phenol plant is already running at over 110% utilisation since Q2FY21 and (2) IPA prices would fall as demand normalcy returns. Besides, DNL is entering into challenging chemistries vis-à-vis chemistries it is currently operating in. The fluorination and photochlorination chemistries will pave the way to tap agrochemical and pharmaceutical customers for the company. However, the company needs to demonstrate its competencies well over the period in these chemistries to seize business opportunities. EBITDA/APAT were 21/17% below estimates, owing to higher-than-expected raw material costs, higher-than-expected other expense, offset by lower-than-expected finance cost, higher-than-expected other income, and a lower-than-expected tax outgo.

- **Financial performance:** Revenue grew 40% YoY to INR 17.2bn in Q3, owing to a solid growth trajectory in the phenolics segment. This was further supported by gains in BI and PP segments, led by positive demand and higher realisation for key products. EBITDA grew 5% YoY to INR 3.5bn. The EBITDA margin has shrunk by 671bps YoY to 20%, owing to higher input prices as well as increased cost of power and logistics.
- **Basic intermediates (BI):** Revenue/EBIT jumped 76/47% YoY to INR 3/1bn, led by healthy realisation gains, as price hikes were undertaken for key products, in line with higher input costs.
- **Performance products (PP)**: Revenue/EBIT grew 88/476% YoY to INR 2/0.5bn, owing to higher realisations and volume growth across all products in its value chain. Volume growth for 9MFY22 was strong at 44%.
- **Deepak Phenolics (DPL):** Revenue/EBIT jumped 38/6% YoY to INR 10/2bn. The plants registered capacity utilisation of ~117%, supported by favourable demand in India and key export markets**.** The brownfield expansion of IPA has been commissioned in Dec-21, doubling the IPA capacity to 60ktpa.
- **Change in estimates:** We cut our FY22/23/24 EPS estimates by 5.6/3.8/3.2% to INR 81.8/96.0/112.2 to to factor in the overall performance in 9MFY22.

Financial summary (consolidated)

INR mn	Q3 FY22	Q2 FY22	QoQ (%)	Q3 FY21	YoY (%)	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	17,223	16,814	*2.4*	12,347	*39.5*	42,297	43,598	67,575	76,323	93,001
EBITDA	3,519	3,865	*(9.0)*	3,350	*5.0*	10,258	12,470	16,714	19,547	22,673
APAT	2,425	2,543	*(4.7)*	2,166	*12.0*	6,110	7,758	11,024	13,087	15,307
AEPS (INR)	17.8	18.6	*(4.7)*	15.9	*12.0*	44.8	56.9	81.8	96.0	112.2
P/E (x)						47.5	37.4	26.0	22.2	18.9
EV/EBITDA(x)						29.3	23.7	17.7	14.9	12.4
RoE (%)						46.2	39.6	39.3	34.4	30.7

Source: Company, HSIE Research

Change in estimates (Consolidated)

Y/E Mar	FY22E Old	FY22E New	% Ch	FY23E Old	FY23E New	% Ch	FY24E Old	FY24E New	% Ch
EBITDA (INR mn)	17,803	16,714	*-6.1%*	20,499	19,547	*-4.6%*	23,638	22,673	*-4.1%*
Adj. EPS (INR/sh)	86.6	81.8	*-5.6%*	99.7	96.0	*-3.8%*	115.9	112.2	*-3.2%*

Source: Company, HSIE Research

Nilesh Ghuge
nilesh.ghuge@hdfcsec.com
+91-22-6171-7342

Harshad Katkar
harshad.katkar@hdfcsec.com
+91-22-6171-7319

Rutvi Chokshi
rutvi.chokshi@hdfcsec.com
+91-22-6171-7356

Akshay Mane
akshay.mane@hdfcsec.com
+91-22-6171-7338

Nippon Life India Asset Management

Market share loss persists; yields under pressure

NAM printed core revenue, in line with our estimates. However, revenue yields, in line with industry trends, continued to shrink. Market share in the high-margin equity segment moderated further (-13bps QoQ) and continues to remain a concern in medium- to long-term. We expect NAM to focus on improving its performance to recoup its lost market share. We trim our FY22E/23E/24E revenue estimates by 1.4/2.8/3.3% to build in the impact of a sharp correction in capital markets and lower admin expenses in FY22E. Driven by cost optimisation, we expect NAM to deliver FY21-24E revenue/NOPLAT CAGRs of 15%/25%. We maintain our ADD rating on the stock with a revised target price of INR425 (33x Sep-23E EV/NOPLAT + Sep-22E cash and investments). The stock is currently trading at FY23E/24E EV/NOPLAT of 26.6/21.6x and PE of 24.9/21.3x.

- **Pressure on yield sustains:** Core revenue was broadly in line with the estimate (-2% vs. estimates) at INR3.36bn (+3% QoQ); revenue yields as a percentage of QAAUM continued to witness compression at 48.3bps (-1.1bps) despite a higher share of equity in the mix. The SIP book was weak as NAM's SIP market share dipped by a further 40bps sequentially to 6.1%. Admin/operating costs declined 16% sequentially (-12% vs. estimates) on the back of some IT-related one-off expenses in Q2, resulting in an 8% beat on the core operating profit. Other income was soft at INR304mn, primarily as a result of lower MTM on equity investments and higher interest rates on fixed income portfolio (translating into lower MTM), driving APAT lower to INR1.74bn (-19% QoQ).
- **Key con call takeaways:** The primary reasons for pressure on yields are: (1) lower yields in new flows as old assets are replaced; (2) low TERs in high AUM slabs; and (3) high commission pay-outs on NFOs. The company launched three NFOs in Jan-22 and it has a healthy pipeline on the passives front.

Financial summary

(INR bn)	Q3FY22	Q3FY21	YoY(%)	Q2FY22	QoQ(%)	FY21	FY22E	FY23E	FY24E
Revenue	3.39	2.68	26.1	3.28	3.3	10.6	13.0	14.4	16.2
Operating profits	2.05	1.38	48.4	1.86	10.4	5.2	7.4	8.6	10.1
OP Margin (%)	60.8	51.8	892bps	57.0	379bps	48.9	57.3	59.4	62.2
APAT	1.74	2.12	-17.9	2.14	-18.6	6.8	7.6	8.2	9.6
EV/NOPLAT (x)						44.6	30.6	26.6	21.6
P/E (x)						29.9	26.9	24.9	21.3
ROE (%)						23.9	23.4	23.3	25.0

Source: Company, HSIE Research

Change in estimates

(INR bn)	FY22E			FY23E			FY24E		
	Revised	Old	*Change (%)*	Revised	Old	*Change (%)*	Revised	Old	*Change (%)*
Revenues	12.986	13.2	-1.4	14.4	14.8	-2.8	16.2	16.8	-3.3
EBIT	7.5	7.3	2.2	8.6	8.7	-1.2	10.1	10.4	-2.7
EBIT margin (%)	57.6	55.6	202bps	59.7	58.6	100bps	62.5	62.1	40bps
NOPLAT	5.7	5.6	2.2	6.5	6.5	-1.2	7.6	7.8	-2.7
APAT	7.5	7.4	1.6	8.1	8.2	-1.0	9.5	9.8	-2.3
RoE (%)	23.4	23.1	34bps	23.3	23.6	-26bps	25.0	25.5	-51bps

Source: Company, HSIE Research

ADD

CMP *(as on 27 Jan 2022)*	INR 324
Target Price	INR 425
NIFTY	17,110

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 435	INR 425
EPS %	FY22E	FY23E
	+1.6%	-1.0%

KEY STOCK DATA

Bloomberg code	NAM IN
No. of Shares (mn)	622
MCap (INR bn) / ($ mn)	202/2,711
6m avg traded value (INR mn)	473
52 Week high / low	INR 477/270

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(25.4)	(16.7)	2.1
Relative (%)	(18.8)	(25.1)	(16.3)

SHAREHOLDING PATTERN (%)

	Sep-21	Dec-21
Promoters	74.0	73.8
FIs & Local MFs	8.8	8.4
FPIs	6.6	7.2
Public & Others	10.6	10.7
Pledged Shares	Nil	Nil

Source : BSE

Krishnan ASV
venkata.krishnan@hdfcsec.com
+91-22-6171-7314

Sahej Mittal
sahej.mittal@hdfcsec.com
+91-22-6171-7325

RBL Bank

Relief on provisions; opex narrative difficult to fathom

Despite a healthy NIM (4.3%) and a return to loan growth (+3% YoY), RBL Bank (RBK) missed estimates, with PAT at INR1.6bn. Opex for the quarter was significantly higher due to new card issuances (+0.6mn), spend-related reward expenses, and continuing investments in branches, people, and tech. Although slippages were elevated at 5.4% (annualised), predominantly from the MFI and cards businesses, these have tapered off >300bps sequentially, resulting in a multi-quarter low provisioning at 3% of loans. The management commentary around stability of deposits since end-Dec 2021 is particularly reassuring. While the ongoing investments in distribution channels and tech are understandable, we argue that the guidance around continued investments in the CC business calling for higher opex in FY22/23e are likely to stretch the 1% RoA narrative further into FY24. We hack our FY22E earnings forecasts by >80% and maintain REDUCE with a revised TP of INR155 (earlier INR159).

- **Weak core profitability offset by lower slippages:** Loan growth (+3% YoY) was driven by corporate (+17%) and commercial banking (+11%), whereas retail (-6%) was impacted by micro-banking (-28%) and business loans (-20%), as RBK recalibrated its loan mix**.** GNPA improved 56bps sequentially to 4.8% as asset quality stabilised, resulting in lower credit costs at 3% of loans (Q2FY22: 4.6%), even as PCR inched up marginally to 63%.
- **Higher opex likely to push back RoA reflation:** The management has guided for an elevated cost-to-income ratio in the medium-term as the bank continues to invest in its credit cards business, distribution, tech, and talent. While the disruption to near-term RoAs is disappointing, we fail to see how these investments in the cards business can strengthen the bank's medium-term RoA trajectory as the CIF mix transitions to a Tier-2 centric, NTCC-led model, which is likely to reflect an EMI-heavy portfolio (against the current revolve-heavy mix) and, hence, lower profitability on the cards business.

Financial summary

(INR bn)	3QFY22	3QFY21	*YoY (%)*	2QFY22	*QoQ(%)*	FY21	FY22E	FY23E	FY24E
NII	10.1	9.1	*11.3%*	9.2	*10.4%*	37.9	39.2	44.5	50.3
PPOP	6.3	8.0	*-21.6%*	6.9	*-8.7%*	30.9	28.5	31.9	36.8
PAT	1.6	1.5	*6.2%*	0.3	*406.9%*	5.1	0.3	10.2	14.4
EPS (INR)	2.6	2.6	*-1.1%*	0.5	*407.8%*	8.5	0.5	17.0	24.1
ROAE (%)						4.4	0.2	7.8	10.2
ROAA (%)						0.5	0.0	0.9	1.1
ABVPS (INR)						191.0	189.1	204.1	222.3
P/ABV (x)						0.8	0.8	0.7	0.7
P/E (x)						18.0	304.7	9.0	6.3

Change in estimates

(INR bn)	FY22E			FY23E			FY24E		
	Old	New	Δ	Old	New	Δ	Old	New	Δ
Net advances	630	640	1.6%	713	725	1.6%	810	819	1.1%
NIM (%)	4.3	4.3	-2 bps	4.5	4.5	0 bps	4.5	4.5	0 bps
NII	39.2	39.2	0.2%	44.0	44.5	1.2%	49.7	50.3	1.2%
PPOP	32.3	28.5	-11.9%	34.9	31.9	-8.5%	36.8	36.8	0.1%
PAT	1.6	0.3	-81.5%	10.3	10.2	-1.2%	14.3	14.4	0.9%
Adj. BVPS (INR)	191.2	189.1	-1.1%	207.6	204.1	-1.7%	228.4	222.3	-2.7%

Source: Company, HSIE Research

REDUCE

CMP *(as on 27 Jan 2022)*	**INR 153**
Target Price	**INR 155**
NIFTY	**17,110**

KEY CHANGES	**OLD**	**NEW**
Rating	REDUCE	REDUCE
Price Target	INR 159	INR 155
EPS %	FY22E	FY23E
	-81%	-1%

KEY STOCK DATA	
Bloomberg code	RBK IN
No. of Shares (mn)	599
MCap (INR bn) / ($ mn)	92/1,234
6m avg traded value (INR mn)	2,557
52 Week high / low	INR 269/124

STOCK PERFORMANCE (%)

	3M	**6M**	**12M**
Absolute (%)	(26.4)	(21.9)	(29.9)
Relative (%)	(19.8)	(30.2)	(48.4)

SHAREHOLDING PATTERN (%)

	Sep-21	**Dec-21**
Promoters	0.0	0.0
FIs & Local MFs	26.2	23.5
FPIs	29.2	28.9
Public & Others	44.6	47.5
Pledged Shares	0.0	

Source : BSE

Pledged shares as % of total shares

Krishnan ASV
venkata.krishnan@hdfcsec.com
+91-22-6171-7314

Deepak Shinde
deepak.shinde@hdfcsec.com
+91-22-6171-7323

Neelam Bhatia
neelam.bhatia@hdfcsec.com
+91-22-6171-7341

Star Cement

We maintain BUY on Star Cement with an unchanged TP of INR 130/share (8x its Dec-23E consolidated EBITDA). In Q3FY22, Star's profitability slumped on weak realisation and elevated opex, despite a solid volume offtake. While consolidated revenue rose 31% YoY to INR 5.55bn, EBITDA/APAT fell 20/15% YoY to INR 675/438mn respectively. The ramp-up at Siliguri plant and price rebound should accelerate margin Q4FY22 onwards. The upcoming 12MW WHRS by H1FY23E should also reduce its power cost, bolstering the margin.

- **Q3FY22 performance:** Star saw strong volume growth of 27/42% YoY/QoQ, aided by strong ramp-up in both the east and NE region. NE sales volume jumped 18% YoY and east sales soared 82% YoY, as Siliguri ramped up to 45% utilisation in Q3. The trade sales share remained high at 86%. However, unitary EBITDA slumped 34% QoQ to INR 772/MT on weak pricing (down 4% QoQ) and high opex (up 3% QoQ). Elevated P&F, freight (non-availability of trucks) and marketing expenses (to drive sales from Siliguri plant) led to 3% QoQ opex inflation, despite op-lev gains.
- **Capex update and outlook**: During FY22-25E, Star would incur total Capex of INR 19-20bn towards the following capacity additions: 24MW WHRS, 3mn MT clinker, and 2mn MT cement. 12MW WHRS is expected to be operational by H1FY23 and the rest are expected to be commissioned by the end of FY25, leading to a consolidated cement/clinker/WHRS capacity of 7.7mn MT/6mn MT/24MW. Star should be able to fund this addition mainly through internal accruals. While its Q3 numbers are weak, it expects healthy pricing recovery and op-lev gains to bolster the Q4 EBITDA margin to INR 1,500/MT+, thus offsetting the impact on FY22 profit estimates. We keep our EBITDA estimates for FY22/23/24 unchanged.

Quarterly/annual financial summary (consolidated)

YE Mar (INR mn)	Q3 FY22	Q3 FY21	YoY (%)	Q2 FY22	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
Sales Vol (mn MT)	0.87	0.69	26.5	0.62	41.7	3.0	2.70	3.31	3.80	4.37
NSR (INR/MT)	6,349	5,955	6.6	6,589	(3.7)	5,912	6,220	6,394	6,553	6,704
EBITDA (INR/MT)	772	1,215	-36.4	1,162	(33.5)	1,337	1,233	1,180	1,300	1,393
Net Sales	5,549	4,234	*31.0*	4,066	*36.5*	18,439	17,199	21,259	24,908	29,303
EBITDA	675	840	*(19.6)*	717	*(5.8)*	3,951	3,326	3,902	4,941	6,089
APAT	438	512	*(14.4)*	465	*(5.8)*	2,863	2,401	2,699	3,684	4,587
AEPS (INR)	1.0	1.2	*(14.4)*	1.1	*(5.8)*	6.9	5.8	6.7	9.1	11.3
EV/EBITDA (x)						9.2	10.1	8.7	7.2	6.1
EV/MT (INR bn)						10.1	8.2	7.8	7.6	7.4
P/E (x)						13.4	16.0	14.2	10.4	8.3
RoE (%)						*15.4*	12.0	12.6	*15.6*	*17.3*

Source: Company, HSIE Research

Estimates revision summary

INR mn	Current Estimates			Old Estimates			Revisions (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Net Sales	21,259	24,908	29,303	21,259	24,172	29,305	-	*3.0*	-
EBITDA	3,902	4,941	6,089	3,902	4,950	6,068	-	*(0.2)*	*0.4*
APAT	2,699	3,684	4,587	2,694	3,740	4,718	*0.2*	*(1.5)*	*(2.8)*

Source: Company, HSIE Research

BUY

CMP *(as on 27 Jan 2022)*	**INR 94**
Target Price	**INR 130**
NIFTY	**17,110**

KEY CHANGES	**OLD**	**NEW**
Rating	BUY	BUY
Price Target	INR 130	INR 130
EBITDA revision %	FY22E -	FY23E *(0.2)*

KEY STOCK DATA	
Bloomberg code	STRCEM IN
No. of Shares (mn)	412
MCap (INR bn) / ($ mn)	39/523
6m avg traded value (INR mn)	52
52 Week high / low	INR 120/88

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	(6.5)	(14.1)	(2.3)
Relative (%)	0.1	(22.5)	(20.7)

SHAREHOLDING PATTERN (%)	**Sep-21**	**Dec-21**
Promoters	66.89	67.06
FIs & Local MFs	6.50	6.33
FPIs	0.14	0.18
Public & Others	26.47	26.43
Pledged Shares	0.04	0.04

Source : BSE

Pledged shares as % of total shares

Rajesh Ravi
rajesh.ravi@hdfcsec.com
+91-22-6171-7352

Keshav Lahoti
keshav.lahoti@hdfcsec.com
+91-22-6171-7353

PSP Projects

Strong performance

PSP Projects (PSP) reported revenue/EBITDA/APAT of INR 4,856/741/469mn in Q3, 18.5/40.6/39% ahead of our estimates. Its entire order book (OB) of INR 40bn (excluding Bhiwandi) is under execution, leading to strong revenue booking. Excess provision reversals in near-completion projects led to a strong EBITDA margin of 15.3%. However, on a sustainable basis, it is expected to remain at 12-13%. The bid pipeline is robust at INR 35bn. The precast facility received its first order of INR 490mn and it is expected to generate INR 3bn in revenue at full capacity utilisation. We maintain BUY on PSP with a revised TP of INR 671/sh (13x Dec-23E EPS). We have revised our estimates to factor in the robust revenue outperformance.

- **Q3FY22 financial highlights:** PSP posted revenue of INR 4.9bn (+24.5/+24.4% YoY/QoQ), 18.5% ahead of our estimate. EBITDA was at INR 741mn (+57.8/+35.4% YoY/QoQ), a beat of 40.6%. EBITDA margin stood at 15.3% (+322/+124bps YoY/QoQ, vs 12.5% estimate). Depreciation came in higher at INR 94mn (+46/+34% YoY/QoQ), on account of the recently-commissioned precast facility. APAT came in at INR 469mn (53/28% YoY/QoQ, a beat of 39%). EBITDA margin outperformance was led by reversals of excess provisions in the near-completion projects. PSP has given a revenue guidance of INR 16.5-17.5bn for FY22 and 20%+ growth for FY23.
- **Strong bid pipeline:** With 9MFY22 order inflow (OI) of INR 9.8bn, the OB stands at INR 40bn (INR 35bn ex-Bhiwandi project). The Pandharpur project (INR 1.3bn) is still in a slow lane; on the other hand, local authorities have agreed to pay INR 60mn of the total outstanding amount of INR 200mn. All the six UP hospital projects have now been mobilised. On the Surat Diamond Bourse, INR 1.2bn worth of work is pending, which will be executed by Feb 2022. The bid pipeline stands at INR 35bn (60% Gujarat). A total OI of at least INR 16bn is expected in FY22.
- **Comfortable balance sheet:** Standalone gross debt remained unchanged at INR 1.9bn (D/E 0.3x). PSP has utilised INR 5.5bn (fund/non-fund is INR 840mn/4.7bn), of the INR 10.5bn credit limit.

Standalone financial summary (INR mn)

Particulars (INR mn)	Q3FY22	Q3FY21	YoY(%)	Q2FY22	QoQ(%)	FY21	FY22E	FY23E	FY24E
Net Sales	4,856	3,902	24.5	3,904	24.4	12,409	17,009	20,429	24,670
EBITDA	741	469	57.8	547	35.4	1,348	2,327	2,548	3,214
APAT	469	307	53.0	366	28.2	835	1,450	1,577	1,952
Diluted EPS (INR)	13.0	8.5	53.0	10.2	28.2	23.2	40.3	43.8	54.2
P/E (x)						24.9	14.3	13.2	10.7
EV / EBITDA (x)						15.6	9.2	8.3	6.5
RoE (%)						16.8	24.3	21.9	22.5

Standalone Estimate Change Summary (INR mn)

Particulars (INR mn)	FY22E			FY23E			FY24E		
	New	Old	Chg. (%)	New	Old	Chg. (%)	New	Old	Chg. (%)
Revenues	17,009	16,579	2.6	20,429	20,179	1.2	24,670	22,750	8.4
EBITDA	2,327	1,934	20.3	2,548	2,456	3.7	3,214	2,998	7.2
EBITDA margin (%)	13.7	11.7	201.1	12.5	12.2	30.0	13.0	13.2	-14.8
APAT	1,450	1,260	15.1	1,577	1,534	2.8	1,952	1,902	2.6

Source: Company, HSIE Research

BUY

CMP *(as on 27 Jan 2022)*	INR 578
Target Price	INR 671
NIFTY	17,110

KEY CHANGES		OLD	NEW
Rating		BUY	BUY
Price Target		INR 654	INR 671
EPS change %	FY22E	FY23E	FY24E
	15.1	*2.8*	*2.6*

KEY STOCK DATA	
Bloomberg code	PSPPL IN
No. of Shares (mn)	36
MCap (INR bn) / ($ mn)	21/280
6m avg traded value (INR mn)	136
52 Week high / low	INR 588/394

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	9.4	23.1	39.9
Relative (%)	16.0	14.7	21.5

SHAREHOLDING PATTERN (%)	Sep-21	Dec-21
Promoters	69.88	70.16
FIs & Local MFs	4.94	5.71
FPIs	1.27	1.71
Public & Others	23.91	22.42
Pledged Shares	-	

Source: BSE

Parikshit D Kandpal, CFA
parikshitd.kandpal@hdfcsec.com
+91-22-6171-7317

Manoj Rawat
manoj.rawat@hdfcsec.com
+91-22-6171-7330

Nikhil Kanodia
nikhil.kanodia@hdfcsec.com
+91-22-6171-7335

Rating Criteria

BUY: >+15% return potential

ADD: +5% to +15% return potential

REDUCE: -10% to +5% return potential

SELL: > 10% Downside return potential

Disclosure:

Analyst	Company Covered	Qualification	Any holding in the stock
Varun Lohchab	United Spirits, Colgate Palmolive	PGDM	NO
Naveen Trivedi	United Spirits, Colgate Palmolive	MBA	NO
Saras Singh	United Spirits, Colgate Palmolive	PGDM	NO
Nilesh Ghuge	Deepak Nitrite	MMS	NO
Harshad Katkar	Deepak Nitrite	MBA	NO
Rutvi Chokshi	Deepak Nitrite	CA	NO
Akshay Mane	Deepak Nitrite	PGDM	NO
Krishnan ASV	Nippon Life India Asset Management, RBL Bank	PGDM	NO
Sahej Mittal	Nippon Life India Asset Management	ACA	NO
Deepak Shinde	RBL Bank	PGDM	NO
Neelam Bhatia	RBL Bank	PGDM	NO
Rajesh Ravi	Star Cement	MBA	NO
Keshav Lahoti	Star Cement	CA	NO
Parikshit Kandpal	PSP Projects	CFA	NO
Manoj Rawat	PSP Projects	MBA	NO
Nikhil Kanodia	PSP Projects	MBA	NO

Disclosure:

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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066 Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600
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HDFC securities
Institutional Equities
Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,
Senapati Bapat Marg, Lower Parel, Mumbai - 400 013
Board: +91-22-6171-7330 www.hdfcsec.com