FIRST LIGHT

16 August 2021

RESEARCH

Insurance

Ample headroom for growth - prefer IPRU

eClerx Services | Target: Rs 2,880 | +33% | BUY

In-line quarter; robust outlook

Hero MotoCorp | Target: Rs 2,900 | +4% | HOLD

Lacklustre quarter

Ashok Leyland | Target: Rs 80 | –40% | SELL

Margin stress ahead; maintain SELL

Power

Expert call with Vinay Rustagi, MD, Bridge to India

Daily macro indicators

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.36	3bps	(1bps)	64bps
India 10Y yield (%)	6.23	(1bps)	0bps	36bps
USD/INR	74.26	0.3	0.4	0.8
Brent Crude (US$/bbl)	71.31	(0.2)	(5.1)	58.6
Dow	35,500	0.0	1.4	27.3
Shanghai	3,525	(0.2)	(0.7)	6.1
Sensex	54,844	0.6	4.7	43.2
India FII (US$ mn)	**11-Aug**	**MTD**	**CYTD**	**FYTD**
FII-D	39.2	10.5	(3,242.7)	(1,215.4)
FII-E	39.9	587.1	6,965.3	(361.0)

Source: Bank of Baroda Economics Research

SUMMARY

Insurance

- Low insurance coverage, positive working-class demographics and Covid-19 tailwinds to spur growth for India's life insurers
- Pandemic claims look manageable as insurers have built reserves worth 1.5-3% of EV which can cushion earnings
- Sector view positive – initiate with BUY on IPRU, SBILIFE and HDFCLIFE, in that order

Click here for the full report.

eClerx Services

- Q1 revenue growth at 1.4% QoQ USD, roughly in line with our estimate of 1.7% QoQ USD
- Rs 3bn buyback announced at a maximum price of Rs 3,200/sh, ~50% premium to CMP
- Maintain BUY as we roll to a new Jun'22 TP of Rs 2,880 (vs. Rs 1,620) on a higher target P/E of 19.5x

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Hero MotoCorp

- Q1 revenue fell 37% QoQ on reduced volumes and ASP. High RM cost and lower operating efficiency further dampened PAT
- RM headwinds to continue in the near term; domestic volumes forecast to grow just 8% in FY22 on high dealer inventory
- Mar'22 TP maintained at Rs 2,900; retain HOLD

Click here **for the full report.**

Ashok Leyland

- Q1 revenue and gross margin beat our estimates but lower operating efficiency crimped profitability
- Channel checks suggest an 8-10% QoQ rise in steel price, muting gross margin in the near term
- Maintain SELL with a Mar'22 TP of Rs 80

Click here **for the full report.**

Power

- Renewable sector has several tailwinds. Intermittency will be handled by demand-side management, policy and ultimately storage
- SECI's backlog of projects awaiting PPAs to come down as demand rises but annual capacity additions may not rise dramatically
- Market will remain fragmented as technology is easy to access and O&M costs are low

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INSURANCE

13 August 2021

Ample headroom for growth

- **Low insurance coverage, positive working-class demographics and Covid-19 tailwinds to spur growth for India's life insurers**
- **Pandemic claims look manageable as insurers have built reserves worth 1.5-3% of EV which can cushion earnings**
- **Sector view positive – initiate with BUY on IPRU, SBILIFE and HDFCLIFE, in that order**

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Insurance sector carries strong growth potential: Indians are heavily underinsured, but low insurance penetration versus global economies, positive demographics and financialisation of household savings present large opportunities for insurers. As per Swiss Re estimates, the closing of India's mortality protection gap (i.e. protection needs minus available financial cover) could generate US$ 78bn (~Rs 5.8tn) of additional life insurance premium every year on average between 2020 and 2030. We also expect Covid-19 to catalyse insurance uptake in India as both individual and corporate customers turn more cautious about potential catastrophic events.

Insurers well placed to manage Covid claims: India's low insurance penetration had an upside in the form of manageable Covid claims for major life insurers. In FY21, pandemic-related death claims for HDFCLIFE, IPRU and SBILIFE stood at 6-14% of their total claims and <1% of EV. Further, these insurers have built large provisions against potential claims arising from India's second Covid wave, totalling 1.5-3% of their FY21 EV, which should adequately cushion earnings. We believe insurers have been conservative and will comfortably meet their actual obligations. Nevertheless, the need for further reserves in the event of a third Covid wave cannot be ruled out.

Sector outlook positive: Apart from structural growth drivers, players are moving to diversify products and distribution channels besides capitalising on the agency route, which should bolster APE (annual premium equivalent) and VNB (value of new business) over the medium term. We model for a robust 12-19% CAGR in APE and 17-21% CAGR in VNB for our coverage stocks over FY21-FY24.

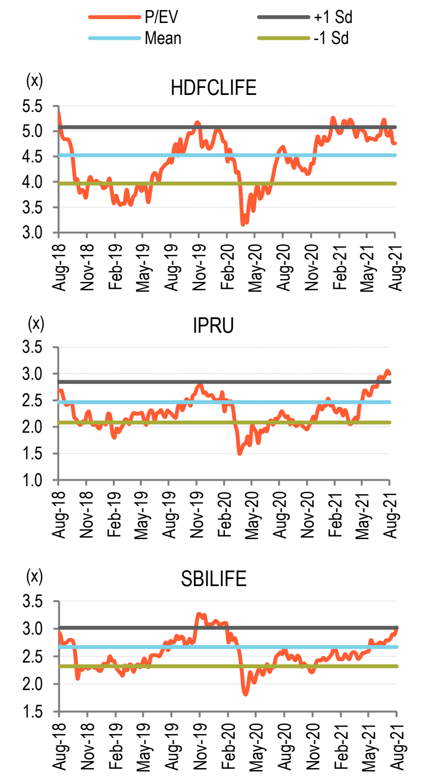
Prefer IPRU: We prefer ICICI Prudential Life (IPRU, BUY, Sep'22 TP Rs 810) as its initiatives to diversify the product and channel mix will buoy growth and aid margins. SBI Life (SBILIFE, BUY, TP Rs 1,380) has inherent strengths in distribution, leading to best-in-class cost ratios, and we believe access to its parent's large, captive client base offers a long runway for growth. Being an industry bellwether, we believe HDFC Life (HDFCLIFE, BUY, TP Rs 800) warrants premium valuations for its best-in-class business model and ability to alter the product mix without diluting margins.

Recommendation snapshot

Ticker	Price	Target	Rating
HDFCLIFE IN	675	800	BUY
IPRU IN	670	810	BUY
SBILIFE IN	1,134	1,380	BUY

Price & Target in Rupees | Price as of 12 Aug 2021

P/EV band 1Y forward



Source: Bloomberg, Company, BOBCAPS Research

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BUY
TP: Rs 2,880 | ⮝ 33%

ECLERX SERVICES | IT Services | 14 August 2021

In-line quarter; robust outlook

- **Q1 revenue growth at 1.4% QoQ USD, roughly in line with our estimate of 1.7% QoQ USD**
- **Rs 3bn buyback announced at a maximum price of Rs 3,200/sh, ~50% premium to CMP**
- **Maintain BUY as we roll to a new Jun'22 TP of Rs 2,880 (vs. Rs 1,620) on a higher target P/E of 19.5x**

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In-line operating performance: ECLX's Q1FY22 revenue grew 1.4% QoQ USD/ 1.2% CC, broadly in line with our USD estimate of 1.7%. Personiv revenue contributed US$ 7.5mn during the quarter (~US$ 30mn annual run-rate), with growth reaching a steady state. EBIT margin declined 200bps QoQ to 25.6% due to increased hiring and was broadly in line with our estimate of 25.9%. Attrition reduced 410bps QoQ but was still high at 31.7%. The company added 829 (organic) offshore employees in Q1 – a record high since it began this disclosure in Q1FY17, hinting at buoyant near-term demand. ECLX continues to pursue cross-selling and upselling with Personiv clients.

Offshore demand increasing: Due to work-from-home, the share of offshoring has increased from 77% a couple of quarters ago to 80% in Q1FY22. ECLX hired 800+ offshore staff in Q1, its highest ever organic employee additions in a quarter. Offshoring will be used as an important lever to defend margins against rising hiring and attrition-related costs.

Outlook encouraging: Per management, the demand environment remains positive, with BFSI seeing better traction. Although the company expects QoQ growth volatility to continue, it has signalled a positive outlook for FY22. However, labour conditions remain tight. There have been no client-level roll-offs yet in FY22, and top-10 client revenue has grown QoQ for the last four quarters. As of now, revenue addition has been bettering the revenue leakage from roll-offs. ECLX indicated that it is open to acquiring targets that are servicing unique clients in the BPO/KPO space, both tuck-in and sizeable like-to-like acquisitions.

Buyback announced: The board has approved buyback of equity shares through the tender offer route for an amount not exceeding Rs 3.03bn at a price not exceeding Rs 3,200/sh (47% premium to today's closing price).

Maintain BUY: We raise our target one-year forward P/E multiple to 19.5x (vs. 12x) on upbeat Q1 results, absence of roll-offs and a robust FY22 growth outlook. This represents a 35% discount to mid-cap IT services companies and translates to a revised Jun'22 TP of Rs 2,880 (vs. Rs 1,620).

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	ECLX IN/Rs 2,170
Market cap	US$ 1.1bn
Free float	45%
3M ADV	US$ 1.8mn
52wk high/low	Rs 2,380/Rs 632
Promoter/FPI/DII	54%/20%/26%

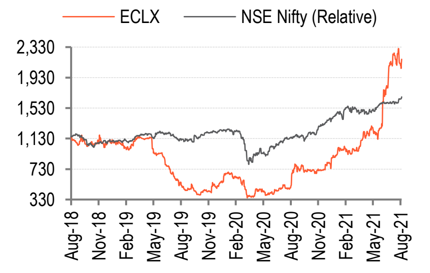
Source: NSE | Price as of 13 Aug 2021

Key financials

Y/E 31 Mar	FY21P	FY22E	FY23E
Total revenue (Rs mn)	15,644	20,743	23,831
EBITDA (Rs mn)	4,642	6,481	7,522
Adj. net profit (Rs mn)	2,828	4,156	4,939
Adj. EPS (Rs)	82.8	120.8	143.6
Consensus EPS (Rs)	82.8	100.0	108.0
Adj. ROAE (%)	18.7	23.0	24.9
Adj. P/E (x)	26.2	18.0	15.1
EV/EBITDA (x)	16.8	11.9	10.4
Adj. EPS growth (%)	49.4	45.9	18.8

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE

HOLD
TP: Rs 2,900 | ⮝ 4%

HERO MOTOCORP | Automobiles | 13 August 2021

Lacklustre quarter

- **Q1 revenue fell 37% QoQ on reduced volumes and ASP. High RM cost and lower operating efficiency further dampened PAT**
- **RM headwinds to continue in the near term; domestic volumes forecast to grow just 8% in FY22 on high dealer inventory**
- **Mar'22 TP maintained at Rs 2,900; retain HOLD**

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Higher RM cost dents profitability: HMCL's Q1FY22 sale volumes declined 35% QoQ to 10mn units impacted by the second Covid wave coupled with ASP decline. This resulted in a 37% QoQ decrease in revenue to Rs 54.9bn (Rs 57.3bn est.). Gross margin contracted 210bps QoQ while higher staff cost and a lack of operating leverage further weakened EBITDA margin, which slipped 455bps QoQ to 9.4% (12.6% est.). Adj. PAT declined 58% QoQ to Rs 3.7bn.

Above-normal inventory to subdue volumes: With inventories above normal, the sustainability of production will hinge on a pickup in retail sales. We expect flattish domestic sale volumes YoY in Q2FY22 despite pent-up demand and believe the wholesale segment would lag retail owing to the higher dealer inventory.

RM cost headwinds to continue: We remain cautious on profitability as the sharp inflation in key inputs is estimated to deplete near-term gross margin by >50bps (over FY21 levels), assuming the company takes a 6% hike in vehicle prices in FY22. Raw material costs are likely to remain elevated and will continue to impact margins and profitability in the near term.

Maintain HOLD: We maintain our FY22/FY23 revenue and earnings estimates and introduce forecasts for FY24, projecting a revenue/EBITDA/adj. PAT CAGR of +12%/+12%/+14% over FY21-FY24 with EBITDA margin at ~13%. Our FY22/FY23 EPS estimates are at Rs 170/Rs 192, 6-8% lower than consensus as we bake in softer gross margin assumptions. We continue to value HMCL at 15x FY23E EPS – in line with its 10-year average – for a Mar'22 TP of Rs 2,900. Reiterate HOLD.

Key changes

Target	Rating
◄►	◄►

Ticker/Price	HMCL IN/Rs 2,783
Market cap	US$ 7.5bn
Free float	65%
3M ADV	US$ 26.3mn
52wk high/low	Rs 3,629/Rs 2,740
Promoter/FPI/DII	35%/32%/19%

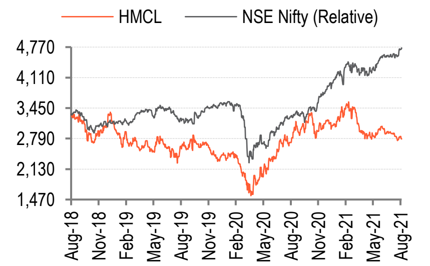
Source: NSE | Price as of 12 Aug 2021

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	308,006	352,605	388,430
EBITDA (Rs mn)	40,191	45,268	50,306
Adj. net profit (Rs mn)	29,641	33,981	38,363
Adj. EPS (Rs)	148.4	170.2	192.1
Consensus EPS (Rs)	148.4	180.1	208.0
Adj. ROAE (%)	19.5	20.0	19.9
Adj. P/E (x)	18.7	16.4	14.5
EV/EBITDA (x)	13.8	12.2	11.0
Adj. EPS growth (%)	0.3	14.6	12.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

RESULT REVIEW

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SELL

TP: Rs 80 | ∀ 40%

ASHOK LEYLAND | Automobiles | 13 August 2021

Margin stress ahead; maintain SELL

- **Q1 revenue and gross margin beat our estimates but lower operating efficiency crimped profitability**
- **Channel checks suggest an 8-10% QoQ rise in steel price, muting gross margin in the near term**
- **Maintain SELL with a Mar'22 TP of Rs 80**

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Lower volumes drive weak Q1: AL's Q1FY22 revenue declined 58% QoQ to Rs 29.5bn (Rs 27.5bn est.), with volumes down 59% QoQ. Despite an above-expected gross margin performance (+280bps QoQ), lower operating efficiencies and poor capacity utilisation in Q1 led to an EBITDA loss of Rs 1.4bn (-4.7% EBITDA margin vs. +3.2% expected). AL reported a net loss of Rs 2.8bn.

Margin stress ahead: Our channel checks suggest that steelmakers have taken an average price hike of Rs 4,000-5,000/t (8-10%) QoQ in Q1FY22. Tyre costs are also expected to rise by 3-4% QoQ in Q2. To mitigate this cost increase, AL will have to take a price hike in the range of 4-5% QoQ which looks difficult in the current environment. Clearly, gross margin pressures will continue in the near term until steel prices cool off.

Modest earnings outlook: We expect FY23 EBITDA per vehicle to improve by 7% over Q4FY21, assuming similar sales volume per quarter, lower discounts and pass-along of steel costs. Assuming steady other income but higher depreciation and interest costs, PAT margin is likely to be significantly lower than in FY18-FY19. Depreciation was high in FY19 and FY20 (due to the introduction of BSVI from FY21), and we believe the increased adoption of EVs, especially in the bus segment, would keep depreciation elevated, thus weighing on PAT.

Maintain SELL: We maintain our FY22/23 estimates and introduce FY24 forecasts, expecting AL to report a revenue CAGR of 29% during FY21-FY24, with ROE/ROCE of 18%/15% by end-FY24 (vs. peaks of 26%/21% in FY18). Our Mar'22 TP stands unchanged at Rs 80 and comprises (1) Rs 70 for AL (valued at 20x FY23E EPS, in line with its long-term average) and (2) a value of Rs 10 for the stake in Hinduja Leyland Finance (in line with consensus) s

The latest investment by Dana implies a ~US$ 1.8bn valuation for Switch which is subsidiary of AL. Since this is a strategic investment, it may not lead to immediate value discovery. We currently do not assign a value to Switch but note that it does carry upside potential if AL is successful in the global e-mobility segment.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	AL IN/Rs 134
Market cap	US$ 5.3bn
Free float	49%
3M ADV	US$ 30.9mn
52wk high/low	Rs 143/Rs 52
Promoter/FPI/DII	52%/17%/15%

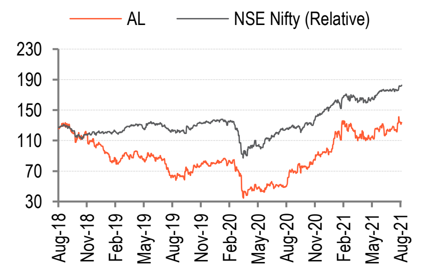
Source: NSE | Price as of 12 Aug 2021

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	153,014	231,600	293,848
EBITDA (Rs mn)	5,351	15,001	23,159
Adj. net profit (Rs mn)	(3,016)	3,644	10,247
Adj. EPS (Rs)	(1.1)	1.2	3.5
Consensus EPS (Rs)	(1.1)	2.1	5.9
Adj. ROAE (%)	(4.3)	5.3	14.0
Adj. P/E (x)	(125.0)	107.6	38.3
EV/EBITDA (x)	74.4	27.8	18.2
Adj. EPS growth (%)			181.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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POWER

13 August 2021

Expert call with Vinay Rustagi, MD, Bridge to India

- **Renewable sector has several tailwinds. Intermittency will be handled by demand-side management, policy and ultimately storage**
- **SECI's backlog of projects awaiting PPAs to come down as demand rises but annual capacity additions may not rise dramatically**
- **Market will remain fragmented as technology is easy to access and O&M costs are low**

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Recommendation snapshot

Ticker	Price	Target	Rating
CESC IN	781	751	HOLD
TPWR IN	133	161	BUY
TPW IN	464	461	HOLD

Price & Target in Rupees | Price as of 13 Aug 2021

We spoke to Vinay Rustagi, Managing Director of Bridge to India, a major renewable energy consultant. Key takeaways:

Renewables mix will increase: Renewables generation in India has strong policy and financing tailwinds. The current ~10% share in generation can potentially double to 20%, with intermittency being handled by smart loads and grid management. Some Indian states already have +20% share but many are at low single digits. To cope with the switch, demand-side management such as shifting 6-8-hours of agriculture load to daytime from nighttime will help. Regulatory changes such as time-of-the-day tariffs, support for flexible gas generation plants and ancillary services can also aid migration. Storage becoming viable in the next 2-3 years will be another key enabler.

SECI backlog should clear once demand improves: SECI's backlog of projects awaiting PPAs should come down as demand improves. Unlike in the past when discoms had fewer options and securing coal linkages was a challenge, renewable projects are easier to develop and have a very low gestation period.

Annual capacity addition may remain in the 10-15GW range: Annual capacity additions may not accelerate due to limited transmission infrastructure and low debt financing. But strong demand and a change in technology could propel additions. While there is no dearth of equity capital, Indian banks are reluctant to invest in the sector due to bad experiences in the past and tight margins. In addition, there are risks such as policy uncertainty related to import duties, among others. However, international green bonds have emerged as a good option for debt financing.

Sector may remain fragmented: The market may remain fragmented as easy access to technology and low O&M costs limit the potential to reduce costs and differentiate. Nevertheless, regulatory changes such as market-driven pricing may put industry players at an advantageous position versus financial investors.

Localisation of modules: Large Indian module developers can develop quality modules but backward integration to polysilicon will be challenging.

Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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