FIRST LIGHT

27 January 2022

RESEARCH

ICICI Bank | Target: Rs 755 | –5% | HOLD

Gaining traction; cut to HOLD on fair valuations

Cipla | Target: Rs 1,160 | +28% | BUY

Growth led by India business

IndiaMart InterMesh | Target: Rs 7,660 | +53% | BUY

Below-expected Q3; retain BUY on deferred revenue growth

Cera Sanitaryware | Target: Rs 5,590 | +24% | BUY

Healthy demand traction with positive outlook

Daily macro indicators

Indicator	24-Jan	21-Jan	Chg (%)
US 10Y yield (%)	1.77	1.76	1
India 10Y yield (%)	6.66	6.63	3
USD/INR	74.5675	74.43	(0.2)
Brent Crude (US$/bbl)	86.3	87.9	(1.8)
Dow	34,365	34,265	0.3
Hang Seng	24,656	24,966	(1.2)
Sensex	57,492	59,037	(2.6)
India FII (US$ mn)	**21-Jan**	**20-Jan**	**Chg ($ mn)**
FII-D	(7.0)	5.8	(12.8)
FII-E	(412.6)	(617.9)	205.3

Source: Bank of Baroda Economics Research

SUMMARY

ICICI Bank

- Augmented risk architecture to enhance overall performance with total CAR estimated at robust 19-20% levels, enabling growth
- Digitisation to play increasing role in growth – e.g. 33% of mortgage approvals and 43% of personal loan disbursals were digital in 9MFY22
- We value the core business at 2.1x Mar'24E P/ABV and raise our TP from Rs 675 to Rs 755; cut from BUY to HOLD as valuations fair

Click here for the full report.

Cipla

- Q3 sales growth modest at 6% YoY led by US and India formulations. API sales declined due to slowdown in orders from developed markets
- EBITDA margin remained healthy at 22.5% despite RM cost pressure and higher freight charges
- We roll over to FY24E valuations but retain our TP at Rs 1,160 with a reduced multiple of 16x EV/EBITDA (vs. 17x). Reiterate BUY

Click here for the full report.

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IndiaMart InterMesh

- Q3 revenue up 3% QoQ, short of our estimates due to weak ARPU growth
- EBITDA margin at 43% contracted 380bps QoQ on higher manpower and other operating costs
- We cut FY22-FY24 EPS by 5-8% and roll valuations over to Dec'23, arriving at a new TP of Rs 7,660 (vs. Rs 8,430). Retain BUY

Click here for the full report.

Cera Sanitaryware

- Q3 consolidated revenue grew 28% YoY with the sanitaryware/faucet segments increasing 51%/60%
- With ~95% of the RM basket stable and price hike benefits, operating margin expanded 280bps YoY to 16.5% and EBITDA grew 54%
- Maintain BUY with an unchanged TP of Rs 5,590 given strong growth prospects and improving return ratios

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HOLD
TP: Rs 755 | ▼ 5%

ICICI BANK | Banking | 25 January 2022

Gaining traction; cut to HOLD on fair valuations

- **Augmented risk architecture to enhance overall performance with total CAR estimated at robust 19-20% levels, enabling growth**
- **Digitisation to play increasing role in growth – e.g. 33% of mortgage approvals and 43% of personal loan disbursals were digital in 9MFY22**
- **We value the core business at 2.1x Mar'24E P/ABV and raise our TP from Rs 675 to Rs 755; cut from BUY to HOLD as valuations fair**

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Recent stability in performance: ICICIBC's pre-provision operating profit-to-asset ratio has been within a broad range of 2.5-3.5%, averaging at ~3% for the last 10 years. NIM has been at ~3.7% for the last two years and we expect it at ~4% for FY22. ROE improved to 12.3% in FY21 after averaging at 7.7% (ROA 0.9%) over FY16-FY20, low in comparison to some of the other well-run banks, with gross and net NPAs significantly higher. Net NPA has reduced considerably in FY21 with robust coverage. Gross/net NPA as at Q3FY22 stood at 4.1%/0.9% and PCR is among the best in the industry at 80%.

ROE set to rise: We expect ROE to build up to the 15-17% range (ROA 1.8-2%) in the medium term and to generally sustain above the cost of equity. Changes in management and risk architecture are likely to enhance the robustness of recent performance. We estimate tier-I capital at ~18-19% in the medium term, with total CAR in 19-20% range.

Strategy overhaul aimed at driving profits: The bank has overhauled its strategic approach to lending and risk in order to drive core operating profit, with a maximum targeted stress level at ~25% as a percentage of PPOP. A bank-wide integrated approach (cross-sell teams aided by technology) towards the asset and liability franchise has been implemented for maximum synergies over the past 2-3 years.

Valuations fair, downgrade to HOLD: We value ICICIBC's core business at 2.1x Mar'24E P/ABV and add Rs 135 for subsidiaries to arrive at our SOTP valuation of Rs 755 (from Rs 675). As current valuations appear fair in our view, we downgrade the stock from BUY to HOLD. Worsening of Covid-induced asset stress and a sharp rise in rates impacting asset quality materially are key downside risks to our estimates and valuation.

Key changes

Target	Rating
▲	▼

Ticker/Price	ICICIBC IN/Rs 798
Market cap	US$ 74.3bn
Free float	100%
3M ADV	US$ 164.9mn
52wk high/low	Rs 867/Rs 512
Promoter/FPI/DII	0%/45%/44%

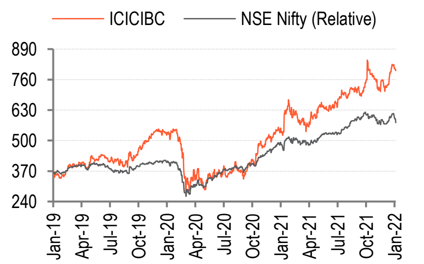
Source: NSE | Price as of 24 Jan 2022

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Net interest income	3,89,894	4,85,485	5,71,046
NII growth (%)	17.2	24.5	17.6
Adj. net profit (Rs mn)	1,61,927	2,45,835	2,89,058
EPS (Rs)	24.2	35.5	41.6
Consensus EPS (Rs)	24.2	32.3	39.6
P/E (x)	33.0	22.5	19.2
P/BV (x)	3.7	3.3	2.9
ROA (%)	1.4	1.9	1.9
ROE (%)	12.3	15.7	16.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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BUY
TP: Rs 1,160 | ⮝ 28%

CIPLA | Pharmaceuticals | 26 January 2022

Growth led by India business

- **Q3 sales growth modest at 6% YoY led by US and India formulations. API sales declined due to slowdown in orders from developed markets**
- **EBITDA margin remained healthy at 22.5% despite RM cost pressure and higher freight charges**
- **We roll over to FY24E valuations but retain our TP at Rs 1,160 with a reduced multiple of 16x EV/EBITDA (vs. 17x). Reiterate BUY**

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Strong traction in US business: Cipla reported modest 6% YoY sales growth in Q3FY22 with strong tractions in India formulations, US generics and branded portfolio in Africa. Contribution from the Covid-19 portfolio, however, declined by 17% QoQ and 10% YoY. US business reaches its highest revenues at US$ 150 mn with momentum in the core portfolio, especially respiratory and other products. The company's Rx share in Albuterol and Arformoterol was at 15.9% and 26.8% in 3QFY22 respectively.

'One India' India strategy delivers strong growth: India business grew 13% YoY led by sustained momentum across core therapies and traction in flagship brands, while contribution from the Covid portfolio remained modest. Order flow in the trade generics prescription (GRx) business remained healthy across therapies and regions. Cipla's consumer business witnessed steady growth with strong traction in core and transitioned brands. Lower order flow from developed markets affected API sales (-25% YoY).

Inline EBITDA margin despite headwinds: Cipla reported an EBITDA margin of 22.5% (-135bps YoY) despite raw material and freight cost headwinds, as these were partly offset by benefits from increased sales in complex and chronic launches. Gross margin came at 60.9% (-55bps YoY, -40bps QoQ) due to the cost inflation as well as certain provisions for inventory and lower contribution of Covid products. Management expects the gross margin to improve as complex launches will benefits with favourale product mix going forward.

Maintain BUY with TP of Rs 1,160: With a strong India franchise, rich US pipeline and low risk of price erosion in the US, Cipla is poised to leverage the network reach of the robust core portfolio to launch major generics. In our view, operating leverage in the US business will be a key margin driver for FY22-E-24E. We reiterate BUY and retain our TP at Rs 1,160 as we roll forward to FY24E EBITDA while lowering our target multiple from 17x to 16x EV/EBITDA (implied P/E of 26x) in light of the slowdown in API sales, lower Covid contribution and cost headwinds.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	CIPLA IN/Rs 906
Market cap	US$ 9.8bn
Free float	63%
3M ADV	US$ 28.9mn
52wk high/low	Rs 1,005/Rs 738
Promoter/FPI/DII	36%/25%/21%

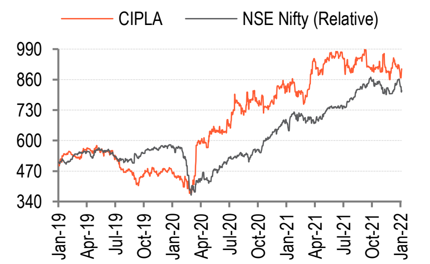
Source: NSE | Price as of 25 Jan 2022

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	1,90,682	2,15,698	2,34,785
EBITDA (Rs mn)	41,611	47,567	50,362
Adj. net profit (Rs mn)	23,135	27,604	29,768
Adj. EPS (Rs)	28.7	34.3	36.9
Consensus EPS (Rs)	28.7	35.1	41.7
Adj. ROAE (%)	13.5	14.2	13.6
Adj. P/E (x)	31.5	26.4	24.5
EV/EBITDA (x)	17.8	15.2	13.9
Adj. EPS growth (%)	57.3	19.3	7.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

RESULT REVIEW

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BUY

TP: Rs 7,660 | ⮝ 53%

INDIAMART INTERMESH | Technology & Internet | 25 January 2022

Below-expected Q3; retain BUY on deferred revenue growth

- **Q3 revenue up 3% QoQ, short of our estimates due to weak ARPU growth**
- **EBITDA margin at 43% contracted 380bps QoQ on higher manpower and other operating costs**
- **We cut FY22-FY24 EPS by 5-8% and roll valuations over to Dec'23, arriving at a new TP of Rs 7,660 (vs. Rs 8,430). Retain BUY**

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Revenue disappoints: INMART reported Q3FY22 revenue growth of 3% QoQ (8% YoY), below our estimate of 7% QoQ. The number of registered buyers increased 4% QoQ (20% YoY), with paying subscription suppliers also up 4% QoQ (5% YoY). ARPU remained flattish sequentially (3% YoY) and collections from customers were flat QoQ as well (25% YoY). Traffic growth was muted at 4% QoQ due to third-quarter seasonality. Deferred revenue grew 4% QoQ and 25% YoY, indicating a positive swing in momentum going forward.

Margin contracts sharply: EBITDA margin fell 380bps QoQ to 43%. Manpower and other operating expenses were up 7% and 15% QoQ respectively. INMART added 225 employees in Q3 and aims to increase its headcount by 100 per quarter. Other income declined 30% QoQ. PAT was down 13% QoQ (9% YoY).

Strategic acquisitions on the rise: During Q3, INMART acquired a 7.7% stake in Mynd Solutions for Rs 320mn (provider of computer software development, web design & web maintenance services) and a 26% stake in EasyEcom for Rs 133mn (AI-driven omnichannel platform for MSMEs). INMART's acquisition of Vyapar opens up a large opportunity in the accounting space. It has also bought 100% in Busy Infotech, the largest accounting software with a pan-India presence, for Rs 5bn. All these investments point towards INMART's strategic shift towards the SaaS ecosystem and provide synergies from cross- and up-selling.

Legistify growing rapidly: INMART has increased its stake in Legistify which provides internet-based software solutions and had a turnover of Rs 17.3mn in FY20 with over 160 paying customers. Legistify has delivered spectacular growth of 100-200% over the last two years. It has a flagship product called Legistrak (SaaS tool) which allows businesses to manage legal workflows.

Healthy revenue visibility; retain BUY: We cut FY22/FY23/FY24 EPS estimates by 5%/8%/8%, factoring in the Q3 results. On rolling valuations over to Dec'23, we arrive at a new TP of Rs 7,660 (vs. Rs 8,430), based on an unchanged P/E of 57.3x. Retain BUY given decent deferred revenue and paying subscriber growth.

Key changes

Target	Rating
▼	◄►

Ticker/Price	INMART IN/Rs 5,005
Market cap	US$ 2.0bn
Free float	42%
3M ADV	US$ 12.9mn
52wk high/low	Rs 9,950/Rs 4,970
Promoter/FPI/DII	50%/28%/23%

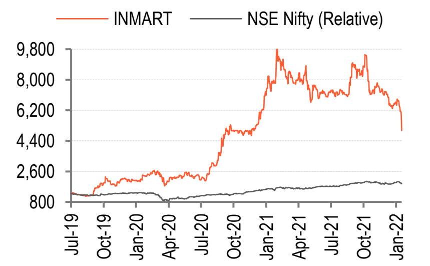
Source: NSE | Price as of 25 Jan 2022

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	6,650	7,478	9,134
EBITDA (Rs mn)	3,333	3,293	3,874
Adj. net profit (Rs mn)	2,867	3,265	3,789
Adj. EPS (Rs)	94.5	107.4	124.7
Consensus EPS (Rs)	94.5	115.8	133.3
Adj. ROAE (%)	30.3	18.5	18.3
Adj. P/E (x)	53.0	46.6	40.2
EV/EBITDA (x)	45.7	46.3	39.0
Adj. EPS growth (%)	89.8	13.7	16.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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BUY
TP: Rs 5,590 | ⮝ 24%

CERA SANITARYWARE | Construction Materials | 25 January 2022

Healthy demand traction with positive outlook

- **Q3 consolidated revenue grew 28% YoY with the sanitaryware/faucet segments increasing 51%/60%**
- **With ~95% of the RM basket stable and price hike benefits, operating margin expanded 280bps YoY to 16.5% and EBITDA grew 54%**
- **Maintain BUY with an unchanged TP of Rs 5,590 given strong growth prospects and improving return ratios**

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Healthy revenue growth led by strong demand traction: CRS reported 28% YoY growth in Q3FY22 consolidated revenue to Rs 4bn as (a) the company filled the space vacated by peers who depend on imports from China which declined due to high shipping costs, and (b) it saw a revival in real estate demand and increasing retail consumption led by home upgrades and improvement.

Operating margin expands: A higher revenue contribution of sanitaryware and faucetware at 88% in Q3FY22 vs. 73% in Q3FY21 had a positive bearing on EBITDA margin. In addition, ~95% of raw material cost was largely stable. Gross margin thus expanded 820bps YoY to 54.5% which coupled with a better product mix and price hike benefits spurred EBITDA margin gains of 280bps YoY (+120bps QoQ) to 16.5%.

Demand outlook healthy: Demand has been robust and the sanitaryware/faucet segments ran at optimal capacity utilisation of 103%/99% in Q3. CRS expects to see strong demand traction in coming quarters led by (a) real estate demand, (b) demand for home improvement and upgrades, (c) low interest rates, and (d) lower competition from peers who were dependent on sourcing from China and are now facing supply issues due to high freight cost.

Maintain positive view…: CRS is in a sweet spot and continues to witness material volume growth in its bathroom solutions segment aided by (a) market share gains across the product portfolio led by import substitution in the sanitaryware and faucet segments, which has opened up untapped potential (besides market share gains, CRS is witnessing a sizeable shift from the unorganised to organised sector); (b) Morbi's intensified focus on exports in the tile segment; and (c) demand pickup in the housing sector (both new construction and replacement).

…retain BUY: CRS trades at a P/E of 28.2x on FY24E which is reasonable compared to its five-year median of 37.6x. We continue to value the stock at 35x FY24E EPS for a TP of Rs 5,590 and retain BUY given the company's strong growth prospects, improving balance sheet driven by stricter control on receivables and rising return ratios.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	CRS IN/Rs 4,494
Market cap	US$ 781.5mn
Free float	46%
3M ADV	US$ 0.7mn
52wk high/low	Rs 6,450/Rs 3,315
Promoter/FPI/DII	54%/19%/27%

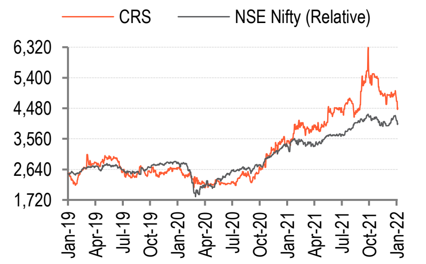
Source: NSE | Price as of 25 Jan 2022

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	12,243	14,436	16,780
EBITDA (Rs mn)	1,581	2,080	2,482
Adj. net profit (Rs mn)	1,008	1,427	1,754
Adj. EPS (Rs)	77.5	109.8	134.9
Consensus EPS (Rs)	77.5	113.5	141.2
Adj. ROAE (%)	12.3	15.4	16.9
Adj. P/E (x)	58.0	40.9	33.3
EV/EBITDA (x)	36.5	27.8	23.3
Adj. EPS growth (%)	(0.6)	41.6	22.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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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