# FIRST LIGHT

25 June 2021

## RESEARCH

### Cera Sanitaryware | Target: Rs 4,145 | –3% | HOLD

Near-term headwinds but outlook improving

### Power

RIL's Rs 750bn endorsement of renewables

### IT Services

Accenture's stellar show to energise Indian tech stocks

## SUMMARY

### Cera Sanitaryware

- CRS's management expects unlocking to rejuvenate demand led by tier-2-and-below cities and targets 17-18% revenue growth for FY22
- Operating margin is guided to hold in the range of 14.5-15.5% as price hikes in sanitaryware and faucetware likely offset higher RM cost
- We maintain estimates and keep our Mar'22 TP at Rs 4,145 while changing our rating to HOLD from REDUCE as per our new rating scale

**Click here for the full report.**

### Power

- RIL has announced a Rs 750bn foray into developing solar, storage and hydrogen technologies
- RIL's endorsement will attract more investors to renewables. While positive for module buyers, competition will grow if RIL participates in bids
- We prefer players with a focus on renewables and hence have a BUY on TPWR and HOLD ratings on PWGR, TPW, CESC and NTPC

**Click here for the full report.**

### Daily macro indicators

| Indicator | Current | 2D (%) | 1M (%) | 12M (%) |
|---|---|---|---|---|
| US 10Y yield (%) | 1.50 | 4bps | (16bps) | 75bps |
| India 10Y yield (%) | 6.02 | 0bps | 5bps | 12bps |
| USD/INR | 74.28 | 0.1 | (2.1) | 1.7 |
| Brent Crude (US$/bbl) | 75.62 | 1.1 | 12.6 | 75.5 |
| Dow | 33,874 | (0.2) | (0.8) | 29.8 |
| Shanghai | 3,566 | 0.2 | 2.0 | 19.8 |
| Sensex | 52,306 | (0.5) | 4.1 | 48.4 |
| **India FII (US$ mn)** | **22-Jun** | **MTD** | **CYTD** | **FYTD** |
| FII-D | 27.8 | (358.4) | (2,939.0) | (911.7) |
| FII-E | (91.7) | 1,526.7 | 8,112.8 | 786.5 |

Source: Bank of Baroda Economics Research

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## IT Services

- Accenture (ACN) reported a stellar Q3FY21 performance and raised its full-year growth guidance
- Outsourcing saw decade-high booking growth and management indicated secular demand growth, healthy deal momentum and a tight talent market
- ACN's results are a positive readthrough for Indian IT players. We prefer TECHM and HCLT among large-caps and Coforge among mid-caps

**Click here for the full report.**

**HOLD**

**TP: Rs 4,145 | ▼ 3%**

**CERA SANITARYWARE** | Construction Materials | 24 June 2021

# Near-term headwinds but outlook improving

- **CRS's management expects unlocking to rejuvenate demand led by tier-2-and-below cities and targets 17-18% revenue growth for FY22**
- **Operating margin is guided to hold in the range of 14.5-15.5% as price hikes in sanitaryware and faucetware likely offset higher RM cost**
- **We maintain estimates and keep our Mar'22 TP at Rs 4,145 while changing our rating to HOLD from REDUCE as per our new rating scale**

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We recently interacted with the CRS management. Key takeaways:

- Despite a healthy Q4FY21, demand has been tepid in Q1FY22 due to the lockdown, especially in the month of May. Management believes sales lost in the ongoing quarter will be recouped during the rest of the year.
- The sanitaryware plant which faced labour issues in H2FY21 has become fully functional in Q1FY22 and is running on three shifts to meet the anticipated pent-up demand.
- The company is targeting 17-18% revenue growth in FY22 as it believes tier-2-and-below markets, which accounted for ~72% of FY21 sales, will remain strong.
- CRS took a price hike of 5-7% in sanitaryware and 8-10% in faucetware in Feb'21 to pass on the raw material price increase. Management indicated that it is open to further hikes and expects to sustain operating margin at 14.5-15.5%.
- The company will continue to monitor working capital discipline but expects an increase in inventory days as it builds up stock to meet the expected demand.
- Over the next five years, management aims to double revenues and have the share of sanitaryware at ~50%, faucetware at ~30% and tiles at ~20%.
- A total of ~420 dealers were added in FY21, taking the overall tally to 3,985. Retail business formed ~71% of revenue with ~50% of this on cash-&-carry.
- South India is a major market for the company (44% of FY21 revenue) followed by the north (29%), west (17%) and east (9%).

**Our view:** We continue to like CRS for its broad product portfolio, strong balance sheet, widespread distribution and potential demand upsides from a growing housing market. However, valuations look full at 31x FY23E EPS. We maintain our Mar'22 TP of Rs 4,145 set at 30x FY23E P/E (in line with the five-year average), but migrate from REDUCE to HOLD in keeping with our new rating scale.

| | |
|---|---|
| Ticker/Price | CRS IN/Rs 4,293 |
| Market cap | US$ 751.7mn |
| Free float | 46% |
| 3M ADV | US$ 1.0mn |
| 52wk high/low | Rs 4,895/Rs 2,121 |
| Promoter/FPI/DII | 54%/15%/30% |

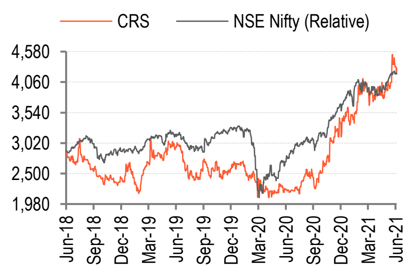
Source: NSE | Price as of 23 Jun 2021

## Key financials

| Y/E 31 Mar | FY21P | FY22E | FY23E |
|---|---|---|---|
| Total revenue (Rs mn) | 12,243 | 14,436 | 16,500 |
| EBITDA (Rs mn) | 1,581 | 2,178 | 2,538 |
| Adj. net profit (Rs mn) | 1,008 | 1,501 | 1,796 |
| Adj. EPS (Rs) | 77.5 | 115.4 | 138.1 |
| Consensus EPS (Rs) | 74.2 | 115.4 | 138.6 |
| Adj. ROAE (%) | 12.3 | 16.2 | 17.1 |
| Adj. P/E (x) | 55.4 | 37.2 | 31.1 |
| EV/EBITDA (x) | 34.8 | 25.3 | 21.8 |
| Adj. EPS growth (%) | (0.6) | 49.0 | 19.7 |

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

## Stock performance




Source: NSE

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**POWER**

24 June 2021

# RIL's Rs 750bn endorsement of renewables

- **RIL has announced a Rs 750bn foray into developing solar, storage and hydrogen technologies**
- **RIL's endorsement will attract more investors to renewables. While positive for module buyers, competition will grow if RIL participates in bids**
- **We prefer players with a focus on renewables and hence have a BUY on TPWR and HOLD ratings on PWGR, TPW, CESC and NTPC**

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**RIL announces entry into renewables…:** RIL has announced that it will invest Rs 750bn over three years to enter into: (1) the manufacture of solar modules starting from raw silicon, besides developing at least 100GW of solar capacity by 2030, mostly in the rooftop and distributed generation segments, (2) building grid-scale storage capacity through international collaboration, (3) manufacturing electrolysers that will be used to produce hydrogen, and (4) developing hydrogen fuel cells for mobile and stationary power applications. In addition, the company will set up a project finance division for renewable energy and construction.

**…endorsing irreversible shift towards green energy:** RIL's announcement in renewables is a big endorsement of a clean energy future. It is likely to increase investor interest in the sector.

**Mixed implications for existing renewable players:** Local production of modules, storage batteries and electrolysers will be positive for renewable generators. Over 80% of modules in Indian solar projects are imported, mostly from China. With duty rising from 15% to 40% from Apr'22, a domestic module source will be a positive as India lacks an integrated silicon-to-module solar industry like China's +100GW ecosystem.

Storage will also, over time, offer a cheaper way of managing renewable intermittency and encourage the move away from coal. Further, cheaper power will support policy change, including critical distribution reforms. However, if RIL starts participating in bids, there is a risk of bidding rates coming down. Entry into construction, rooftop and distributed generation will increase competition for TPWR but may also help open up newer areas for the application of solar technologies.

**Prefer players with exposure to renewables:** TPWR (BUY) is our top pick in the sector as it has growing exposure to renewables. We have HOLD ratings on NTPC (heavy exposure to coal which is likely to lose share in the generation mix at the cost of renewables), CESC (faces tough competition from larger peers for distribution bids), TPW (has unused capacities and some key concessions coming up for renewal) and PWGR (asset addition to remain tepid).

### Recommendation snapshot

| Ticker | Price | Target | Rating |
|---|---|---|---|
| CESC IN | 767 | 751 | HOLD |
| NTPC IN | 118 | 111 | HOLD |
| PWGR IN | 231 | 261 | HOLD |
| TPWR IN | 119 | 141 | BUY |
| TPW IN | 447 | 461 | HOLD |

Price & Target in Rupees | Price as of 24 Jun 2021

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IT SERVICES

24 June 2021

## Accenture's stellar show to energise Indian tech stocks

- **Accenture (ACN) reported a stellar Q3FY21 performance and raised its full-year growth guidance**
- **Outsourcing saw decade-high booking growth and management indicated secular demand growth, healthy deal momentum and a tight talent market**
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**Positive readthrough for Indian IT:** ACN clocked a stellar May'21 quarter performance, which offers a positive readthrough for Indian IT service players. Higher revenue growth outperformance compared to the prior two quarters and a stronger growth outlook driven by organic revenue indicate green shoots for Indian companies. Moreover, ACN characterised market dynamics as "more sustained growth in demand beyond mere recovery", pointing to a secular demand uptick.

**Revenue growth 300bps above guidance:** ACN's Q3FY21 (Y/E Aug) revenue grew 16% YoY in local currency and 21% in USD, 300bps above the upper end of its guidance. Though above-guided revenue is a trend at ACN, the quantum of the beat was higher in Q3FY21. Outsourcing revenue (comparable business segment for Indian IT) grew 20% YoY, the highest in the last 12 quarters.

**Broad-based growth:** Growth was broad-based across verticals, led by over 15% YoY growth across public and health services (up 21%), financial services, communications & hi-tech, and products (which broke its weak performance streak). All geographies saw broad-based growth, led by North America at 18% YoY. While outsourcing continued its momentum from Q4FY20, the consulting business ramped up quickly in Q3, delivering YoY growth of 21% (vs. 4% in Q2FY21) and QoQ growth of 13%.

**FY21 outlook revised up:** ACN has raised its revenue growth guidance for FY21 to 10-11% (vs. 6.5-8.5% CC indicated in Q2FY21), including a -1% impact from reimbursable travel costs. The revised revenue guidance is on the back of organic business traction. Inorganic revenue share guidance for FY21 is unchanged at ~2.5%.

**Strong outsourcing bookings:** ACN's Q3 bookings were robust at US$ 15.4bn, up by a stellar 40% YoY but down 4% QoQ given peak bookings of US$ 16bn last quarter. The pipeline includes a record 20 new clients with over US$ 100mn in bookings. Outsourcing formed 48% of the pipeline, growing by a strong 54% YoY (the highest in over a decade), with a high book-to-bill ratio of 1.2x (vs. 1.4x in Q2FY21). Consulting formed 52% of the pipeline, growing by 29% YoY.

### Recommendation snapshot

| Ticker | Price | Target | Rating |
|---|---|---|---|
| COFORGE IN | 4,073 | 4,080 | BUY |
| HCLT IN | 990 | 1,190 | BUY |
| INFOE IN | 4,789 | 2,880 | SELL |
| LTI IN | 4,185 | 4,710 | BUY |
| MPHL IN | 2,049 | 1,580 | SELL |
| PSYS IN | 2,575 | 1,340 | SELL |
| TCS IN | 3,374 | 3,780 | BUY |
| TECHM IN | 1,080 | 1,190 | BUY |

Price & Target in Rupees | Price as of 24 June 2021

# 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

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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