

India Equity Strategy

Stick To Quality

While the CoVid-19 situation remains fluid, we believe that Nifty correction of ~30% already factors in the impact of ~1 month lockdown and return to business normalcy by Q1 end. However, if the lockdown is more severe and the business impact extends well into 2Q, we see further downsides. Recent sharp correction presents attractive opportunity for long term investing into high quality names. While government and RBI have announced stimulus packages, we expect further measures to tide over the crisis. The extent of lockdown, pace of return to normalcy and further fiscal responses remain key monitorables. Our key picks include: Infosys, Bharti, ICICI Bank, Axis Bank, ITC, UNSP, UTCEM, IGL, CDSL, CIFIC.

Stick to quality names with competitive & resilient biz models

Given the severe hit to the real economy and uncertainty over the intensity, spread and duration of CoVid-19 pandemic, we recommend exposure to high quality GARP compounders with cycle tested business models, low financial leverage and a strong competitive positioning - which will likely further consolidate post crisis. Based on our earnings sensitivity analysis, IT, Consumer Staples, Pharma and Chemicals will ride out the current turbulence with low earnings hit and should form key portfolio weights. Telecom will also be largely insulated and may actually benefit owing to higher demand in near term. While BFSI may have to absorb some negative impact on the economy, we continue to prefer large sector & niche market/segment leaders, given sharp price correction and resilient biz models. Consumer discretionary like autos, retail, entertainment, eating out, aviation are already facing demand shocks and will take time to normalize.

Stress testing earnings for CoVid-19 impact

We have done a detailed bottom up analysis to assess impact of CoVid-19 related disruptions on earnings of HSIE coverage under two scenarios: 1] Impact till 1QFY21 2] Partial impact till 2QFY21. Scenario 2 seems more likely owing to protracted lockdown and slow recovery. HSIE coverage PAT will see 19%/30% PAT hit under scenario 1/scenario 2. Unsurprisingly, Staples, Pharma and IT (all defensives) will be least hit with FY21 PAT hit between 2-10%. Aviation is likely to see swing to losses. Upstream and downstream oil companies are severely hit owing to sharp fall in oil prices, followed by cement, RE, infra, cons disc & BFSI (see pages 2-9 for detailed company wise analysis).

Strong policy response to the crisis, but more needs to be done

Government and RBI have responded strongly to the CoVid-19 crisis. RBI has addressed it in a multi-pronged fashion cutting policy rates by 75-90bps, providing unprecedented single-shot liquidity (~1.8% of GDP) through CRR cuts, TLTRO, MSF and allowing forbearance/moratorium on loan servicing. However, the fiscal package has been somewhat underwhelming and has effectively provided fiscal relief of just ~0.5%-0.6% of GDP. This is significantly lower vs. relief packages announced by various countries (ranging from 2%-16% of GDP) and we believe that FM will announce further measures targeted at small businesses, organized workers, highly impacted sectors etc.

Takeaways from interactions with management to assess CoVid-19 impact

We interacted with senior management of 25+ corporates to assess impact of CoVid-19 on their business and earnings over the near term and FY21. Please see below for a comprehensive coverage of key takeaways from interactions.

Earnings sensitivity to CoVid-19

HSIE Coverage	PAT Change	
	Scenario1	Scenario2
Autos	-11.7%	-21.3%
Banks and NBFCs	-10.0%	-17.5%
Insurance	-18.7%	-24.4%
Capital Markets	-11.3%	-22.4%
Consumer-Staples	-2.5%	-5.2%
Consumer Discretionary (ex-Autos)	-19.9%	-31.2%
Industrials	-19.7%	-38.6%
Real Estate	-29.2%	-49.6%
IT and Exchanges	-4.6%	-9.8%
Energy (Oil & Gas)	-40.2%	-57.7%
Cement	-27.7%	-42.0%
Chemicals	-9.0%	-14.6%
Pharma	-2.0%	-7.9%
Aviation	NM	NM
HSIE coverage	-18.9%	-29.7%

Source: HSIE

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Sensitivity of earnings of HSIE coverage to CoVid-19 impact

HSIE Coverage (INR Bn)	Current FY21 estimates			Costs (FY21E)		Scenario 1: Covid-19 impact lasts till 1Q FY21			Scenario 2: Covid-19 impact lasts till 2Q FY21			PAT Change		Key Remarks/Comments/Assumptions
	Revenue	EBITDA/ PPOP	PAT	Variable	Fixed	Revenue	EBITDA/ PPOP	PAT	Revenue	EBITDA/ PPOP	PAT	Scenario	Scenario	
												1	2	
Autos	2,431	332	251	1,902	198	2,230	294	222	2,085	263	198	-11.7%	-21.3%	
Maruti Suzuki India	874	109	83	693	73	807	98	74	745	86	65	-10.9%	-21.5%	Negative op lev will impact profitability, typical break even point is at ~65% utilisation levels
Bajaj Auto	338	55	53	267	16	309	49	49	291	45	46	-7.7%	-14.0%	Exports are vulnerable to fall in oil prices as Bajaj has presence in frontier markets
Mahindra & Mahindra	525	72	44	404	49	489	64	38	461	56	33	-13.2%	-25.2%	Tractor segment likely to be more insulated, SUVs to witness a larger impact
Eicher Motors	102	25	22	66	10	93	23	19	89	22	18	-12.8%	-18.4%	Consumers will delay premium purchases in the current environment
Hero MotoCorp	320	44	34	252	24	293	39	31	284	37	29	-10.4%	-15.8%	BSVI price hike to further impact consumer sentiment
Ashok Leyland	250	24	14	202	24	218	19	10	197	15	7	-28.1%	-50.6%	CV recovery will be further delayed as BSVI price hikes to impact sentiment
Subros	23	2	1	18	2	20	2	1	19	2	0.4	-22.2%	-48.1%	Auto anc's will be impacted significantly as demand from OEMs contract
Banks and NBFCs	2,564	1,920	837	1,219	1,384	2,527	1,881	753	2,491	1,840	691	-10.0%	-17.5%	
ICICI Bank	381	340	172	170	175	373	329	158	367	322	149	-8.0%	-13.2%	Scenario I: 300bps slower loan growth and 75bps rise in slippage; leads to 8% drop in earnings; Scenario II: 500bps slower loan growth and 125bps rise in slippage; leads to 13% drop in earnings
Kotak Mahindra Bank	156	115	74	40	74	154	114	71	153	112	69	-3.1%	-5.7%	Scenario I: 300bps slower loan growth and 50bps rise in slippage; leads to 3% drop in earnings; Scenario II: 500bps slower loan growth and 100bps rise in slippage; leads to 6% drop in earnings
State Bank of India	1,141	737	251	587	627	1,131	726	220	1,114	707	191	-12.5%	-24.1%	Scenario I: 300bps slower loan growth and 100bps rise in slippage; leads to 12.5% drop in earnings; Scenario II: 500bps slower loan growth and 175bps rise in slippage; leads to 24% drop in earnings
Axis Bank	291	269	119	155	146	289	267	112	288	266	107	-6.0%	-9.9%	Scenario I: 300bps slower loan growth and 75bps rise in slippage; leads to 6% drop in earnings; Scenario II: 500bps slower loan growth and 125bps rise in slippage; leads to 10% drop in earnings
IndusInd Bank	144	126	59	69	72	142	124	50	141	121	45	-15.1%	-24.2%	Scenario I: 300bps slower loan growth and 100bps rise in slippage; leads to 15% drop in earnings; Scenario II: 700bps slower loan growth and 150bps rise in slippage; leads to 24% drop in earnings
AU Small Finance Bank	26	16	9	8	14	25	16	8	24	15	7	-14.5%	-23.4%	Scenario I: 400bps slower loan growth and 100bps rise in slippage; leads to 15% drop in earnings; Scenario II: 700bps slower loan growth and 150bps rise in slippage; leads to 23% drop in earnings
Shriram Trans Finance	91	71	33	22	16	89	70	31	88	69	30	-5.8%	-8.6%	Scenario I: 400bps slower AUM growth and 125bps rise in slippage; leads to 6% drop in earnings; Scenario II: 700bps slower AUM growth and 200bps rise in slippage; leads to 9% drop in earnings
Cholamandalam Investment & Finance Company	43	30	18	11	14	42	29	15	42	28	14	-15.3%	-21.4%	Scenario I: 400bps slower AUM growth and 125bps rise in slippage; leads to 15% drop in earnings; Scenario II: 700bps slower AUM growth and 175bps rise in slippage; leads to 21% drop in earnings
Mahindra & Mahindra Financial	64	40	17	24	19	62	39	14	62	38	12	-16.7%	-25.9%	Scenario I: 400bps slower AUM growth and 150bps rise in slippage; leads to 17% drop in earnings; Scenario II: 700bps slower AUM growth and 225bps rise in slippage; leads to 26% drop in earnings
Federal Bank	54	37	19	19	27	53	35	16	50	32	14	-15.7%	-25.7%	Scenario I: 300bps slower loan growth and 100bps rise in slippage; leads to 16% drop in earnings; Scenario II: 500bps slower loan growth and 150bps rise in slippage; leads to 26% drop in earnings
LIC Housing	57	52	29	61	143	56	51	26	54	50	23	-11.8%	-20.8%	Scenario I: 200bps slower loan growth and 75bps rise in slippage; leads to 11% drop in earnings; Scenario II: 500bps slower loan growth and 125bps rise in slippage; leads to 20% drop in earnings
City Union Bank	20	16	9	7	8	19	16	8	19	16	8	-7.9%	-12.0%	Scenario I: 300bps slower loan growth and 100bps rise in slippage; leads to 8% drop in earnings; Scenario II: 500bps slower loan growth and 150bps rise in slippage; leads to 12% drop in earnings

HSIE Coverage (INR Bn)	Current FY21 estimates			Costs (FY21E)		Scenario 1: Covid-19 impact lasts till 1Q FY21			Scenario 2: Covid-19 impact lasts till 2Q FY21			PAT Change		Key Remarks/Comments/Assumptions
	Revenue	EBITDA/ PPOP	PAT	Variable	Fixed	Revenue	EBITDA/ PPOP	PAT	Revenue	EBITDA/ PPOP	PAT	Scenario	Scenario	
												1	2	
RBL Bank	42	31	12	21	24	41	30	10	40	29	9	-17.4%	-30.4%	Scenario I: 300bps slower loan growth and 100bps rise in slippage; leads to 17% drop in earnings; Scenario II: 700bps slower loan growth and 150bps rise in slippage; leads to 30% drop in earnings
DCB Bank	15	9	5	5	8	15	9	5	15	9	4	-5.1%	-10.6%	Scenario I: 300bps slower loan growth and 100bps rise in slippage; leads to 5% drop in earnings; Scenario II: 700bps slower loan growth and 150bps rise in slippage; leads to 11% drop in earnings
Karur Vysya Bank	27	20	6	16	14	25	18	4	24	17	3	-28.1%	-43.9%	Scenario I: 300bps slower loan growth and 100bps rise in slippage; leads to 19% drop in earnings; Scenario II: 700bps slower loan growth and 150bps rise in slippage; leads to 37% drop in earnings
Indostar Capital Finance	8	6	2	4	3	7	5	2	7	5	2	-11.5%	-16.5%	Scenario I: 400bps slower AUM growth and 150bps rise in slippage; leads to 12% drop in earnings; Scenario II: 700bps slower loan growth and 200bps rise in slippage; leads to 17% drop in earnings
REPCO Home Finance	6	5	3	1	1	3	5	3	3	5	3	-2.7%	-4.4%	Scenario I: 400bps slower AUM growth and 100bps rise in slippage; leads to 3% drop in earnings; Scenario II: 700bps slower AUM growth and 150bps rise in slippage; leads to 4.5% drop in earnings
Insurance	1,080	NM	127	372	228	997	NM	104	952	NM	96	-18.7%	-24.4%	
SBI Life	116	N/A	24	72	28	104	N/A	20	91	N/A	16	-17.0%	-33.1%	APE in 2Q/3Q drops by 80/65% and then gradually recovers 3Q onwards.
ICICI Prudential	80	N/A	17	62	38	72	N/A	14	62	N/A	11	-18.3%	-34.6%	APE in 2Q/3Q drops by 80/50% and then gradually recovers 3Q onwards.
ICICI Lombard	109	24	17	41	59	106	1	15	104	2	15	-14.4%	-11.3%	Lower losses from the motor and fire segment will compensate for higher losses in health segment. As share of motor is higher in the mix, profitability will be better in scenario 2.
GIC Reinsurance	469	48	39	92	8	430	(27)	30	417	(20)	33	-22.3%	-13.8%	Lower losses from the motor and fire segment will compensate for higher losses in health segment. As share of motor and fire is higher profitability will be better in scenario 2.
New India Assurance	258	27	20	35	65	246	(31)	18	243	(36)	14	-10.8%	-28.3%	Higher losses from govt. and corporate health schemes will impact profits if Covid-19 continues deeper into FY21.
Max Financial	48	N/A	11	70	30	38	N/A	7	35	N/A	6	-31.8%	-41.0%	APE in 2Q/3Q drops by 80/62% and then gradually recovers 3Q onwards.
Capital Markets	46	21	17	83	217	42	18	15	39	16	13	-11.3%	-22.4%	
Nippon Life India	12	6	6	23	77	11	6	6	11	5	5	2.4%	-4.0%	Average equity assets drop 9% and 16% in cases 1 and 2 respectively.
ICICI Securities	16	8	6	27	73	14	6	4	13	6	4	-20.8%	-30.0%	Avg. trading vols decline 10/15%, alongwith significant reduction in avg. assets impacting distribution income
Motilal Oswal Financial Services	18	7	5	33	67	17	6	5	15	5	4	-15.6%	-33.1%	Reduction in trading volumes, and AUM. Treasury profits also hit by lacklustre markets.
Consumer-Staples	1,159	363	281	651	146	1,134	354	274	1,111	343	266	-2.5%	-5.2%	
Hindustan Unilever	513	132	96	326	55	507	130	95	503	129	94	-1.2%	-1.7%	Pre-buying is supporting few categories, low crude can sustain healthy EBITDA growth
ITC	545	209	166	261	75	528	202	160	511	193	154	-3.2%	-7.3%	Lockdown will have negative impact on cigarette business
Dabur India	101	22	19	64	15	99	22	19	97	21	18	-2.4%	-4.7%	Personal care portfolio can be impacted due to lockdown, Health supplement can do well
Britannia Industries	129	21	16	99	9	126	21	16	125	20	15	-2.5%	-4.2%	Packaged food will be key beneficiary due to pre-buying opportunity and consumer will more rely in new normal
United Spirits	102	18	11	71	13	99	18	11	98	17	11	-3.6%	-5.9%	Lockdown will have negative impact on liquor business
Marico	79	16	12	57	7	78	16	11	77	15	11	-1.7%	-3.4%	Personal care portfolio can be impacted due to lockdown
Colgate Palmolive	51	14	9	31	6	50	14	9	50	14	9	-0.8%	-2.1%	Pre-buying will support but it will not be sustainable

*for Banks & NBFCs variable costs include LLPs and some apportioned opex; while fixed costs are the balance opex

HSIE Coverage (INR Bn)	Current FY21 estimates			Costs (FY21E)		Scenario 1: Covid-19 impact lasts till 1Q FY21			Scenario 2: Covid-19 impact lasts till 2Q FY21			PAT Change		Key Remarks/Comments/Assumptions
	Revenue	EBITDA/ PPOP	PAT	Variable	Fixed	Revenue	EBITDA/ PPOP	PAT	Revenue	EBITDA/ PPOP	PAT	Scenario	Scenario	
												1	2	
Emami	30	8	6	18	3	29	8	6	28	8	6	-3.9%	-5.2%	Personal care portfolio can be impacted due to lockdown
Radico Khaitan	27	4	3	19	4	26	4	3	26	4	3	-2.7%	-5.1%	Lockdown will have negative impact on liquor business
Consumer Discretionary (ex-Autos)	1,476	151	94	93,560	135,474	1,364	125	75	1,318	111	65	-19.9%	-31.2%	
Avenue Supermart	312	27	19	9,041	11,512	300	25	18	303	24	17	-7.3%	-9.5%	Cut SSSG as apparel for 35 & 60 days goes to 0. Store expansion also takes a back seat. Major cuts in GMs -GPM cut of 40-75bp due to revenue mix tilting towards Food & Non-food FMCG
Titan Co	259	31	21	19,507	19,895	233	26	17	215	22	15	-16.7%	-29.6%	-Volume cut by 10-17% across due to 35 & 60 day loss in sales in S1 & S2. GPM cut of 20-30bp in S1 & S2 to spur demand again once lock-down is over
Havells India	114	15	10	84	16	105	11	8	103	11	7	-25.4%	-29.6%	B-B will have some in the near term due to lockdown and slow execution. Lloyd will growth well due to high efforts kept by the MGT
Trent	42	5	4	3,712	11,486	38	4	4	35	3	3	-17.6%	-36.8%	35/60 days of sales lost in S1 and S2 resp as expansion stops and SSSG witnesses a significant decline. Fixed cost at ~75% is among the highest in peer-set, hence impact on EBITDA will be among the highest
Jubilant Foodworks	47	11	5	25	11	39	8	3	37	7	2	-46.7%	-63.2%	Lockdown will have major impact on QSR industry
Voltas	89	9	7	73	11	77	7	6	74	6	5	-19.8%	-24.8%	RAC can sustain healthy growth despite lockdown as it is based on impulse buying
Aditya Birla Fashion	100	7	3	16,559	27,947	91	6	2	85	5	1	-31.0%	-76.7%	-SSSG cut of 200-440bp and expansion-led growth cut of ~370-770bp in S1 & S2 for Lifestyle brands (Retail revenue) -Pantaloon's SSSG cut by 250-300bp and expansion cut by 490-1250bp in S1 & S2 as these anchor formats lose 35-60 days in sales -Impact of PAT is expected to be even higher courtesy the high debt-levels. PAT cut could be as high as 77% in S2
Crompton Consumer	53	7	5	41	5	49	6	5	48	6	5	-13.1%	-14.9%	B-B will have some in the near term due to lockdown and slow execution
Future Retail	227	19	11	20,992	22,500	222	17	10	219	16	9	-16.7%	-22.5%	-SSSG cut of 220-320 bp factored in Big Bazaar in S1 & S2. -270-300bp cut in GPM due to Food/Non-Food FMCG skew increasing in mix Company highly leveraged (financial), hence impact on PAT expected to be significant
Symphony	13	3	2	8	2	12	3	2	12	2	2	-9.2%	-12.8%	Air cooler can sustain healthy growth despite lockdown as it is based on impulse buying
V-Guard	30	3	3	23	4	28	3	2	27	3	2	-9.4%	-14.6%	Low demand from south can impact near term performance
Future Lifestyle	69	6	1	4,918	13,789	62	5	0.4	58	3	(1)	-66.4%	NM	-750/380bp cut in SSSG in S2 with no expansion-led growth. High fixed cost (73%) and financial leverage to unfavorably swing PAT in the red
V-Mart	21	2	1	1,344	3,756	19	1	1	17	1	0.4	-19.7%	-52.6%	SSSG cut - 190-290bp in S1 & S2 and expansion comes to a grinding halt in S2. High fixed cost base would lead to a significant cut in earnings
TCNS Clothing	14	2	1	3,764	3,609	13	1	1	12	1	1	-15.4%	-32.9%	Revenue base cut by 6.6-14pp
Shoppers Stop	38	3	1	3,608	10,115	34	1	(0.1)	31	0.5	(1)	NM	NM	SSSG cut by 490-1000bp in S1 and S2 as most stores are mall based and hence a recovery of footfalls would be slower vs retailers with standalone stores. Also factoring a halt in expansion. -High fixed cost base (73% of opex)
Arvind Fashion	48	2	(2)	9,860	10,816	44	1	(2)	40	(0.3)	(3)	NM	NM	Factoring in a 10-17% cut in volumes across the power and emerging brand portfolio. GAP and Sephora to follow suit as 35/60 days of sales are lost in S1 & S2

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	Revenue	EBITDA/ PPOP	PAT	Variable	Fixed	Revenue	EBITDA/ PPOP	PAT	Revenue	EBITDA/ PPOP	PAT	Scenario	Scenario	
												1	2	
Industrials (Infrastructure+ Cap Goods+ Logistics)	2,965	396	215	2,489	198	2,629	337	173	2,392	280	132	-19.7%	-38.6%	
Larsen & Toubro	1,759	217	132	1,542	46	1,568	188	111	1,436	154	87	-15.3%	-33.9%	Impact of expected delay in international execution, especially Middle East (~13% of O/S order book) which may be further impacted by expected miss in inflow from international orders
Siemens	143	16	13	111	19	127	12	10	112	8	7	-23.3%	-43.2%	Further delay in domestic capex, expected muted exports and impact on production due to manpower disruptions
Container Corporation	76	19	14	54	2	69	17	12	62	15	10	-12.4%	-23.7%	Vols to be impacted sharply as global trade is expected to contract
ABB India	83	7	5	69	7	71	5	4	63	4	3	-26.8%	-45.1%	Expect further delay in domestic capex, expected muted exports and impact on production due to manpower disruptions
KEC International	142	15	7	114	19	127	12	5	116	9	3	-30.9%	-53.7%	Impact on execution with weak domestic T&D and pvt sector capex expected to continue, coupled with delays in orders from MENA and South-East Asia which was expected to drive international order inflow
Kalpataru Power Transmission	92	10	6	76	8	82	8	4	75	7	4	-20.9%	-36.5%	Impact on execution with weak domestic T&D and pvt sector capex expected to continue, coupled with delays in international order inflow
PNC Infratech	60	8	4	48	6	52	7	3	47	6	2	-23.7%	-39.9%	Impact on execution due to expected labour disruptions and continued tough liquidity scenario in the financial market
Dilip Buildcon	104	18	6	85	12	91	15	4	82	13	3	-28.7%	-48.3%	Impact on execution due to expected labour disruptions and continued tough liquidity scenario in the financial market
KNR Constructions	29	6	2	22	4	26	5	2	23	4	1	-24.6%	-41.4%	Impact on execution due to expected labour disruptions and continued tough liquidity scenario in the financial market
IRB Infrastructure	76	31	7	42	25	66	26	4	60	23	2	-39.2%	-66.0%	Impact on execution due to expected labour disruptions and continued tough liquidity scenario in the financial market
Ashoka Buildcon	50	6	4	42	5	44	5	3	39	5	3	-20.1%	-33.9%	Impact on execution due to expected labour shortage and continued tough liquidity scenario in the financial market
Ahluwalia Contracts	21	3	2	17	2	19	2	1	17	2	1	-24.3%	-40.9%	Impact on execution due to expected labour shortage and continued tough liquidity scenario in the financial market
NCC	106	13	4	89	12	92	10	2	83	9	1	-38.3%	-64.5%	Impact on execution due to expected labour disruptions and continued tough liquidity scenario in the financial market
PSP Projects	16	2	1	13	1	14	2	1	13	1	1	-20.2%	-34.1%	Impact on execution due to expected labour disruptions and continued tough liquidity scenario in the financial market
HG Infra	29	4	2	23	3	25	4	2	23	3	1	-24.5%	-41.3%	Impact on execution due to expected labour shortage and continued tough liquidity scenario in the financial market
Gateway Striparks	14	3	1	10	1	12	3	1	11	2	0.3	-36.0%	-63.1%	Vols to be impacted sharply as global trade is expected to contract
JMC Projects	42	5	2	33	6	36	3	1	33	3	0.3	-47.3%	-79.7%	Impact on execution due to expected labour shortage and continued tough liquidity scenario in the financial market
Sadbhav Engineering	32	4	1	26	5	28	3	1	25	3	0.4	-42.0%	-70.8%	Impact on execution due to expected labour shortage and continued tough liquidity scenario in the financial market
Capacite Infraprojects	21	3	0.3	17	4	19	2	0.1	17	2	(0.1)	-64.2%	NM	Impact on execution due to expected labour disruptions and continued tough liquidity scenario in the financial market
ITD Cementation	34	3	1	27	6	30	3	0.4	27	2	(0.2)	-62.5%	NM	Impact on execution due to expected labour shortage and continued tough liquidity scenario in the financial market

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	Revenue	EBITDA/ PPOP	PAT	Variable	Fixed	Revenue	EBITDA/ PPOP	PAT	Revenue	EBITDA/ PPOP	PAT	Scenario	Scenario	
												1	2	
J Kumar InfraProjects	36	5	2	28	6	31	4	1	28	3	1	-37.2%	-62.7%	Impact on execution due to expected labour shortage and continued tough liquidity scenario in the financial market
Real Estate	246	66	37	165	57	207	53	26	181	45	19	-29.2%	-49.6%	
DLF	55	11	15	40	14	46	9	12	40	7	10	(0)	(0)	Expected delay in handover of units to customers to impact revenue recognition under CCM
Oberoi Realty	22	10	10	12	2	19	8	8	16	7	7	-17.8%	-30.0%	Delay in execution expected to impact revenue recognition under POCM
Prestige Estates	89	27	5	57	24	75	22	2	65	19	(0.01)	-59.4%	NM	Expected delay in handover of units to customers to impact revenue recognition under CCM
Brigade Enterprises	28	7	2	18	8	24	6	0.5	21	5	(0.5)	-72.5%	NM	Expected delay in handover of units to customers to impact revenue recognition under CCM
Sobha Developers	42	8	4	30	7	35	7	2	30	5	2	-35.1%	-59.1%	Expected delay in handover of units to customers to impact revenue recognition under CCM
Kolte Patil	10	3	1	7	2	9	2	1	8	2	0.4	-35.1%	-59.0%	Expected delay in handover of units to customers to impact revenue recognition under CCM
IT and Exchanges	5,153	1,154	835	1,244	2,725	5,037	1,103	797	4,936	1,045	753	-4.6%	-9.8%	
Tata Consultancy Services	1,650	431	330	334	880	1,628	415	318	1,590	388	298	-3.6%	-9.7%	Factoring lower utilisation & bill-rate
Infosys	984	246	177	213	513	964	238	171	946	227	163	-3.3%	-7.8%	Lower pricing -1.5/-3.5% QoQ onsite/offshore factored and lower net additions -1.5% QoQ
HCL Technologies	772	177	110	179	409	756	168	103	743	161	98	-6.0%	-10.9%	-2/-3/-1% QoQ ITS, ER&D, P&P for Scenario 1, extended to 2Q offset by lower SG&A
Wipro	640	126	99	185	328	624	120	94	616	114	89	-4.9%	-9.4%	Higher exposure to ENU, factoring -2.4/-2.0% in 1Q/2Q. Margin cut of 49/112bps in Scenario1/2
Tech Mahindra	407	68	45	106	234	384	62	41	377	60	39	-9.2%	-13.0%	Higher impact on Telecon & BPO, Delay in large deal ramp up. Factoring decline of -2% in 1Q/2Q and margin cut of 47/80bps in Scenario 1/2
L&T Infotech	122	23	17	26	72	119	21	15	116	20	15	-8.7%	-13.0%	-2.2% QoQ in 1Q, -1.9% QoQ in 2Q in Sce-2, Wage increase deferral offset
L&T Technologies	62	12	9	14	35	60	11	8	57	11	8	-5.9%	-11.5%	-4% QoQ in 1Q on lower Ind products & Transportation, -3% QoQ in 2Q in Sce-2
Mphasis	98	18	12	24	55	95	17	11	93	15	11	-6.2%	-13.0%	-1.5% QoQ in 1Q with DXC decline, -3% QoQ in 2Q in Sce-2
Mindtree	83	13	7	19	51	82	12	7	80	11	6	-4.0%	-11.8%	-1% QoQ in 1Q, -2.5% QoQ in 2Q in Sce-2
Hexaware	63	9	7	15	37	62	9	6	61	8	6	-4.7%	-8.5%	-4% QoQ in Jun-qtr, -2% QoQ in Sep-qtr in Sce-2
MCX	4	2	2	1	1	4	2	2	4	2	2	-3.6%	-9.9%	Strong ADTV growth in 4Q, have taken 5% decline in ADTV for 1Q/2Q, high fixed cost structure.
Persistent	40	6	4	10	23	39	5	3	38	5	3	-9.9%	-15.3%	-2.5% QoQ in 1Q impacted by both Alliance + TSU
Cyient	47	7	4	13	27	45	7	4	44	6	4	-8.5%	-13.1%	Higher exposure to Aerospace & Transportation vertical (Europe) is leading to decline. Revenue cut by 4.6/6.3% in Scenario1/2.
TeamLease	62	1	1	58	3	60	1	1	59	1	1	-11.2%	-15.2%	Higher domestic exposure, impact due to lock down. Works on thin margins and high variable cost structure.
Sonata	41	4	3	27	9	39	4	3	38	4	3	-7.9%	-10.8%	Have high exposure to Travel (Europe, top client), also client concentration will lead to higher impact.
Zensar Technologies	44	5	3	13	27	42	5	2	42	5	2	-8.9%	-13.3%	-2.3% in 1Q, High impact on Manufacturing and Retail. Higher onsite & subcon cost will impact margins
CDSL	2	1	1	0.2	1	2	1	1	2	1	1	-3.2%	-7.5%	Mostly fixed cost, WFH implemented and no major cut in revenue as markets are operating.
BSE	5	0.4	2	1	4	5	0.4	2	5	0.3	2	-2.3%	-7.4%	Higher fixed cost, WFH has been implemented, No major cut in revenue as markets are still operating. Have taken higher impact in Scenario-2 assuming drop in volumes.
Mastek	16	2	1	5	9	15	2	1	15	2	1	-8.5%	-12.3%	UK Govt - Less impact, Retail (US & UK) - High Impact. Impact will be higher in Scenario-2 and 1Q has acquisition impact.
Majesco	12	2	1	3	7	11	1	1	11	1	1	-10.3%	-14.9%	-0.3/2.1% decline in 1Q/2Q, InsPro acq integration in 1Q, higher fixed cost will impact profitability.

HSIE Coverage (INR Bn)	Current FY21 estimates			Costs (FY21E)		Scenario 1: Covid-19 impact lasts till 1Q FY21			Scenario 2: Covid-19 impact lasts till 2Q FY21			PAT Change		Key Remarks/Comments/Assumptions
	Revenue	EBITDA/ PPOP	PAT	Variable	Fixed	Revenue	EBITDA/ PPOP	PAT	Revenue	EBITDA/ PPOP	PAT	Scenario	Scenario	
												1	2	
Energy (Oil & Gas)	18,847	1,977	1,056	11,090	1,221	12,831	1,380	632	11,723	1,147	447	-40.2%	-57.7%	Scenario -1 assumptions
Reliance Industries	3,757	647	386	1,946	355	2,555	522	290	2,326	464	246	-24.9%	-36.4%	(1) GRM to correct to USD 8/bbl from USD 10.2/bbl in Sc1 and to USD 7.0/bbl in Sc2 (2) Petchem EBIT/kg to reduce by 10% of initial estimate in Sc1 and 20% in Sc2 (3) Crude oil price to fall to USD38/bbl in Sc1 and USD32/bbl in Sc2
Oil & Natural Gas Corp	1,047	529	225	436	290	683	219	20	585	136	(54)	-91.3%	NM	(1) Crude oil price to fall to USD38/bbl in Sc1 and USD32/bbl in Sc2 (2) Gas price to fall to USD2.5/mmbtu and USD2.25/mmbtu in Sc2
Indian Oil Corp Ltd	6,086	345	178	3,593	281	3,973	253	109	3,630	209	76	-38.7%	-57.3%	(1) Crude oil price to fall to USD38/bbl in Sc1 and USD32/bbl in Sc2 (2) Reduce Core GRM to USD 3/bbl in Sc1 and USD 2/bbl in Sc2
Bharat Petroleum Corp	3,331	122	75	2,075	95	2,224	108	64	2,044	90	51	-13.9%	-31.3%	(1) Crude oil price to fall to USD38/bbl in Sc1 and USD32/bbl in Sc2 (2) Core GRM reduced to USD 3.5/bbl in Sc1 and USD 2.5/bbl in Sc2
GAIL India	710	76	45	526	41	617	75	41	573	69	37	-10.0%	-17.8%	(1) Reduce NG transmission volume by 3% from 132mmcmd to 128 in Sc1 and by 5% to 126 in Sc2 (2) Crude oil price to fall to USD38/bbl in Sc1 and USD32/bbl in Sc2
Petronet LNG	420	51	33	219	13	273	53	34	232	49	31	3.3%	-4.8%	Crude oil price to fall to USD38/bbl in Sc1 and USD32/bbl in Sc2 Volume to reduce by 5% of earlier estimate in Sc2
Indraprastha Gas	72	18	13	50	5	70	18	13	65	17	12	-3.3%	-8.4%	(1) Industrial volumes to reduce by 10% of initial est in Sc1 and 25% in Sc2 (2) CNG reduce by 2% in Sc1 and 5% in Sc2
HPCL	3,126	98	44	2,082	85	2,197	79	32	2,046	65	22	-28.4%	-49.2%	(1) Change in oil price assumption to USD38 (2) Core GRM to reduce to USD 3.2/bbl in Sc1 and USD 2.2/bbl in Sc2
Gujarat Gas	106	16	8	81	7	98	15	8	89	15	7	-5.4%	-11.3%	Reduced industrial volumes by 1mmcmd (-13%) in Sc1 and 2mmcmd in Sc2
Gujarat State Petronet	22	18	11	4	4	20	16	10	19	15	9	-13.3%	-20.1%	Transmission volume to go down by 10% (-4mmcmd) in Sc1 and by 15% (-6mmcmd) in Sc2 from 41.1mmcmd
OIL India	122	43	28	49	39	75	10	3	68	6	0.1	-88.3%	-99.6%	(1) Crude oil price to fall to USD38/bbl in Sc1 and USD32/bbl in Sc2 (2) Gas price to reduce to USD2/mmbtu in Sc1 and USD2.5/mmbtu in Sc2
Mahanagar Gas	30	11	8	18	3	29	10	7	28	10	7	-3.7%	-8.5%	(1) Industrial volumes to go down by 5% than earlier est in Sc1 and by 10% in Sc2 (2) CNG vol to reduce by 2% than initial est in Sc1 and by 5% in Sc2
Gulf Oil Lubricants	18	3	2	12	3	17	3	2	16	3	2	-11.4%	-18.1%	DEO demand to be impacted considerably, lower crude prices to cushion margin fall
Cement	1,204	270	124	751	343	1,110	223	89	1,046	198	72	-27.7%	-42.0%	
UltraTech Cement	482	111	51	286	133	429	88	35	403	77	27	-30.9%	-47.4%	In Scenario 1, we factor in 10% vol decline and in Sc2, we est 15% vol loss. We have also lowered NSR est by 1%
Shree Cement	138	42	17	67	52	125	37	14	117	35	12	-20.4%	-32.2%	In Scenario 1, we factor in 10% vol decline and in Sc2, we est 15% vol loss. We have also lowered NSR est by 1%
Ambuja Cement	123	25	16	81	25	109	21	13	103	19	11	-18.5%	-27.8%	In Scenario 1, we factor in 10% vol decline and in Sc2, we est 15% vol loss. We have also lowered NSR est by 1%
ACC	161	24	15	111	33	144	20	12	136	19	10	-20.2%	-29.0%	In Scenario 1, we factor in 10% vol decline and in Sc2, we est 15% vol loss. We have also lowered NSR est by 1%
Ramco Cements	61	14	8	39	13	54	12	6	51	11	5	-21.6%	-31.8%	In Scenario 1, we factor in 10% vol decline and in Sc2, we est 15% vol loss. We have also lowered NSR est by 1%

HSIE Coverage (INR Bn)	Current FY21 estimates			Costs (FY21E)		Scenario 1: Covid-19 impact lasts till 1Q FY21			Scenario 2: Covid-19 impact lasts till 2Q FY21			PAT Change		Key Remarks/Comments/Assumptions
	Revenue	EBITDA/ PPOP	PAT	Variable	Fixed	Revenue	EBITDA/ PPOP	PAT	Revenue	EBITDA/ PPOP	PAT	Scenario	Scenario	
												1	2	
Dalmia Bharat/ Odisha Cem	107	22	3	61	44	97	18	(0.4)	91	16	(2)	NM	NM	In Scenario 1, we factor in 10 % vol decline and in Sc 2, we est 15% vol loss. We have also lowered NSR est by 1%
JK Cement	67	14	6	39	20	61	12	4	58	11	3	-27.5%	-41.9%	In Scenario 1, we factor in 10 % vol decline and in Sc 2, we est 15% vol loss. We have also lowered NSR est by 1%
JK Lakshmi	11	8	3	34	9	43	7	2	41	6	2	-23.9%	-33.2%	In Scenario 1, we factor in 10 % vol decline and in Sc 2, we est 15% vol loss. We have also lowered NSR est by 1%
STAR Cement	21	5	4	12	5	18	4	3	18	4	2	-25.5%	-36.6%	In Scenario 1, we factor in 10 % vol decline and in Sc 2, we est 15% vol loss. We have also lowered NSR est by 1%
Orient Cement	27	4	1	17	9	24	3	0.4	23	2	0.0001	-67.4%	-100.0%	In Scenario 1, we factor in 10 % vol decline and in Sc 2, we est 15% vol loss. We have also lowered NSR est by 1%
Deccan Cement	7	1	1	4	2	6	1	0.4	5	1	0.2	-43.3%	-62.9%	In Scenario 1, we factor in 10 % vol decline and in Sc 2, we est 15% vol loss. We have also lowered NSR est by 1%
Chemicals	78	26	11	53	8	74	16	10	73	15	10	-9.0%	-14.6%	Scenario -1 assumptions
Vinati Organics	13	13	4	5	1	10	4	3	9	3	2	-23.2%	-35.5%	(1) ATBS volume growth reduced to 10% from the erstwhile 15% in Sc1 and 0% in Sc2 (2) Brent price assumption at USD38/bbl in Sc1 and to USD32/bbl in Sc2
Navin Fluorine	13	3	2	8	2	12	3	2	12	3	2	-0.7%	-7.2%	(1) Refrigerants revenue degrowth by 5% in Sc1 and 10% in Sc2 (2) Specialty chemicals and Inorganic chemical revenue growth to 15% and 10% in Sc1 and 10% and 5% in Sc2 (3) CRAMS- no change in Sc1 and 25% revenue growth in Sc2
Galaxy Surfactants	30	4	3	24	3	31	4	3	32	5	3	3.1%	21.9%	(1) Blended volume growth of 10% in Sc1 and 15% in Sc2 from 8.8% (2) No change in EBITDA per unit in Sc1 and Increase EBITDA per unit to Rs 19,000 in Sc2
Alkyl Amines	11	3	2	8	1	11	2	2	10	2	1	-11.2%	-36.3%	(1) Ethyl amine production to fall to 55 tons per day in Sc1 to 45 tons per day in Sc2 (2) Methyl amine utilisation to decrease to 75% in Sc1 and 65% in Sc2 (3) Increase in Acetonitrile's realisation by another 5% YoY in Sc1 and 10% YoY in Sc2
Balaji Amines	10	2	1	8	1	10	2	1	10	2	1	-4.0%	-10.7%	(1) DMA HCL's utilisation falls to 90% in Sc1 and 75% in Sc2 from earlier est of 100 (2) Cut in DMF's production by 5% in Sc1 and 15% in Sc2 than initial est (3) Increase in Acetonitrile realisation by another 5% YoY in Sc1 and 10% YoY in Sc2
Pharma	982	204	108	347	432	976	201	106	959	193	100	-2.0%	-7.9%	
Sun Pharmaceutical Industries	358	77	44	115	167	356	76	43	349	72	41	-2.1%	-8.3%	The raw material import (high indirect exposure) from China has resumed partially. The company has inventory until March/April. Assuming normalcy in China supplies, raw material availability is not a concern. However, lockdown in India would impact production as plant work at 25-50% capacity. Logistics disruption will cause delay in transportation and shipment. We assume 15-45 days of production loss.
Dr Reddy's Laboratories	187	42	24	63	83	186	41	23	184	40	22	-1.4%	-6.1%	The company's direct dependency on China is limited. Impact on input cost will not be material. Moreover supplies from China has partially resumed. However, with the lockdown in India plants are operating at below 50% capacity as of now. This is expected to impact production and cause shipment delays. US will have higher inventory and sales should not be impacted much.

HSIE Coverage (INR Bn)	Current FY21 estimates			Costs (FY21E)		Scenario 1: Covid-19 impact lasts till 1Q FY21			Scenario 2: Covid-19 impact lasts till 2Q FY21			PAT Change		Key Remarks/Comments/Assumptions
	Revenue	EBITDA/ PPOP	PAT	Variable	Fixed	Revenue	EBITDA/ PPOP	PAT	Revenue	EBITDA/ PPOP	PAT	Scenario	Scenario	
												1	2	
Torrent Pharma	85	23	11	27	35	85	23	11	83	22	10	-1.8%	-6.9%	Sufficient inventory especially for key products. No direct exposure to China for raw materials. Domestic lockdown will impact production/logistics for products which could impact sales for 15-45 days. The company has sufficient inventory to address near term demand. However, current lockdown will impact manufacturing and logistics. Lower plant capacity will impact sales and margin to that extent. Inventory to last until March/April. China supplies for raw materials have begun partially, so don't see major impact on input costs. Lockdown in India to impact production and transportation of goods which in turn will impact sales and margins.
Cipla Ltd/India	181	34	17	74	73	180	34	17	177	32	16	-1.9%	-8.2%	
Lupin	171	28	13	68	75	170	27	12	166	26	11	-2.6%	-10.0%	
Aviation	610	115	26	360	125	493	72	(17)	459	49	(35)	NM	NM	
Interglobe Aviation	451	95	29	265	86	364	60	(1)	338	43	(14)	NM	NM	High sensitivity to fall in traffic; interest and depreciation costs to be impacted by weaker INR
SpiceJet	158	21	(3)	95	39	130	12	(16)	120	6	(21)	NM	NM	High sensitivity to fall in traffic; interest and depreciation costs to be impacted by weaker INR
Total	38,842	6,995	4,020	114,283	142,755	31,652	6,056	3,260	29,764	5,544	2,826	-18.9%	-29.7%	

Source: HSIE

Takeaways from Corporate Interactions

We interacted with senior management of 25+ corporates to assess impact of CoVid-19 on their business and earnings over the near term and FY21. Please see below for a comprehensive coverage of key takeaways from interactions.

AUTOS

Bharat Forge

Investor call takeaways - BHFC to benefit in the current downturn, driven by strong focus on innovation

We hosted Bharat Forge's management - Mr. Baba Kalyani, CMD, Mr. Amit Kalyani (Deputy MD) and the senior management team to provide a business update.

Key highlights:

- **Learnings from 2008 – Bharat Forge is a diversified and deleveraged entity currently as compared to the 2008 slowdown**
- **Mr. Baba Kalyani believes that larger suppliers will benefit in this environment** and there will be a strategic restructuring in the global supply-chains. The company has a strong balance sheet (BHFC is delevered unlike 2008), which will enable them to win new business as the situation normalises.
- Bharat Forge has transformed its business model by focusing on innovation. **The company continues to diversify its business model** by expanding into passenger cars, aerospace, light weighting components (higher usage of aluminium across industry verticals), which will enable it to withstand the downturn.
- European and US state governments **have provided stimulus** and strong support to the domestic manufacturing companies. This will enable the economy / companies to withstand the downturn, similar to 2008.
- The Class 8 truck production is expected to be 10% lower than their earlier estimate of 240,000 units in CY20. The dependence of Bharat Forge on the Oil and Gas sector is reduced to c.5% of revenues and will not be materially impacted by the same.

Other details:

COVID-19: production shut across regions

- The co has taken utmost precautions for the safety of its employees. All plants in India are currently shut. Shipments for Mar-20 are stuck in transit at the ports.
- Operations abroad are shutting down as well. Most of the automotive customers have stopped production Europe and US and expect to resume operations by mid-Apr20.
- However, some of the customers in the industrial space like Cummins etc. in the US markets are still in operations as they are categorised as critical manufacturing and support companies. The co is in touch with them to meet their demands adequately.
- Additionally, governments are rolling out stimuli to protect jobs and providing liquidity to all sectors of the economy in order to sustain the economic activity once the lockdown is at ease. This should provide some boost as the operations are resumed nationwide.

Major focus area is on diversification

- The focus is on New business development, technology related investments and focus on innovation.
- The management has identified few major verticals for future growth:
 - Passenger cars – OEMs are outsourcing investments in mechanical parts
 - Aerospace: The co now has four customers in this space vs. one last year. However, this segment has long lead times.
 - Light weight components: The co believes that there is a huge opportunity in aluminium products. Even industrial sectors will move towards usage of this lighter metal.
 - EV and Hybrids – though in the near term, the growth may be impacted

Besides, BHFC is also improving the performance of subsidiaries by reducing the fixed cost and improving product mix. The move towards aluminium based products remains unaffected in the current environment.

Going forward:

- Post the current downturn, the management believes that there will be strategic restructuring in the supply-chain which will help the stronger suppliers to gain scale.
- This will be beneficial for companies like Bharat Forge because of the advancement in technology, financial strength and capability of innovation. The co is well placed to gain market share.
- Also, some shift in business can be expected i.e. some business will come out of China into other parts of the world. Bigger companies should make most of this situation.
- **US Class 8 market:** The company has projected US Class 8 truck sales to be ~240k. However, amidst the current scenario, this number will further decline by ~10-15%.
- **Prepared for BS-VI post the lockdown is lifted:** In the first 3 weeks of March, the BS-IV inventory has been largely liquidated.
- **Financial position:** The co is well placed with a delivered balance sheet and undrawn limits of more than Rs 7bn. There is no major capex planned in India and hence the management is confident of cash flows in the coming years.
- **Non-automotive exports:** It is difficult to predict growth as the markets in US and UK are severely affected due to the COVID-19 situation. 50% of non-auto revenues are from the infrastructure segment and the remaining from oil and gas activities. However, oil and gas business has now fallen to c.5-6% of the overall revenues.

BANKS / NBFCs

CashPor Micro-credit

Takes from the call with the management

Introduction to CashPor Micro-credit:

- CashPor Micro-credit is a not for profit micro-lender head-quartered in Varanasi, Uttar Pradesh. Founded in 1997, CashPor operates out of 650 branches across 5 states.
- At present, it has an AUM of ~Rs 30bn and a borrower base of ~1mn customers (implied average o/s per borrower of ~Rs 30k, vs. overall industry average of ~Rs 38k as per CRIF Micro-lend). The organization is 100% rural focused, with no urban or semi-urban operations. It lends exclusively to BPL women.
- CashPor has an impeccable asset quality track record, with on-time repayment rates averaging ~99%+ over the last 10 years. Even during demonetization, 30 DPD peaked at just 90bps.

We hosted Cash Por Micro-credit's MD &CEO to discuss the impact of COVID-19 related incidents on micro-credit in India. Excerpts from the conversation are as follows:

- Disruptions to operations have been seen in some parts of various states since yesterday, until then there was no enforcement of any restrictions/ lock-down on ground. The Mgmt believes that government action has been quite swift and effective.
- In several parts of BH, and UP, the government and local authorities are taking strict measures to reduce the movement of people. Here operations have ceased. The situation in CG and JH is relatively normal and they are continuing with operations in large parts of these states.
- Operations are likely to be disrupted for 2 months at least. Cashpor may consider extending the tenure of loans to borrowers as it had done during demonetisation.
- Villagers'/borrowers' finances are extremely likely to come under stress, although it is not visible right now. A spike in PAR, similar to the one seen during demonetisation is likely to occur.
- Urban focused micro-lenders are likely to be impacted to a greater extent as their borrowers may attempt to return to their villages (hometowns) in rural India. Interestingly, on ground, incidents have been reported of villagers preventing people from urban areas from entering the village. In some cases, villages called in local law enforcement agencies. This evidence, while anecdotal does suggest some degree of awareness regarding the outbreak in the hinterland.
- Industry SROs (MFin and Sadhan) are likely to propose some measures to the regulator and government. The focus is on ensuring the availability of liquidity as well as the non-economic side of the issue.
- Non-bank micro-lenders are likely to see liquidity issues, like those seen during the times of the AP crisis, if the situation persists.

City Union Bank

Takes from the call with the management

In light of recent developments affecting the banking sector (YES and COVID-19), we hosted the management of CUBK on a conference call. Excerpts from the call are as follows:

YES Impact:

- The management said that the bank was not materially impacted by the YES episode and that it has not seen stress on the deposits front.
- Bulk deposits (>Rs 20mn) constitute less than 10% of the bank's deposit base and government deposits form ~1.4% of the bank's total deposit base.
- In spite of reducing deposit rates w.e.f. the 2nd week of Mar-20, and the events at YES, CUBK has seen bulk and government deposits increase by a few bps from the start of Feb-20.
- Unlike its peers, the bank did not go the extra mile to advertise its stability, instead the management chose to lay low.

COVID-19:

- The management said that TN has seen significantly fewer cases of COVID-19 vs. states such as KL and MH. The government has stepped in with pre-emptive measures. Chennai, Erode and Kanchipuram have effectively been placed under lock-down.
- The number of services offered through branches has been reduced and branches are operating at minimum (staff) capacity. Certain branch staff has been asked to work from home.
- As a significant portion of 4Q disbursements take place in the last week of March, they are likely to be impacted.
- Similarly, the last week of March also accounts for a significant portion of the quarter's recoveries, these too are likely to be impacted.
- The management has alluded that an industry body has requested the RBI to relax prudential (and other) norms so as to provide a moratorium of up to 6 months for payment of installments and to extend tenures of loans by 6 months.
- The management expects the RBI to announce relief measures for the industry.
- The management said that the impact on asset quality will be a function of the length of disruption of normal economic activity and that there is a lot of uncertainty around this.
- Typically CUBK's SMA II ranges between 5-6% of advances of which 1/3rd tends to slip. In 2008, the bank had engaged in extensive restructuring (10% of its book restructured at its peak, one of the highest levels in the industry). Eventually 20% of this restructured book slipped. The management alluded that it may resort to a similar strategy in the current scenario, if necessary.
- The management stated that it is in the process of finalising a scheme of increasing credit limits (depending on cash flows), similar to the one announced by SBIN recently.
- CUBK has a BCP and DRP in place for its treasury and international divisions in Chennai. Its backup DRP server is located in Bengaluru. They have also set up additional facilities in Kumbakonam, to deal with any exigency at other locations (for e.g. the need to seal off a place if a case is detected there).

- The management believes that its current liquid assets (Rs 25-30bn) are sufficient to tide over any squeeze.

View:

- We have always liked CUBK's conservative stance and consistent performance over the years. While asset quality and growth will obviously be severely challenged in the near term, CUBK's inherent strengths should allow it to perform better than other smaller banks/ regional peers.
- CUBK trades at 1.45x FY22E ABV of Rs 90. Our last published rating was BUY with a TP of Rs 268.

DCB Bank

Takes from the call with the management

The following are excerpts of the recent conference call held by the management of DCBB, in light of recent developments

Deposits and Liquidity

- Immediately after the moratorium was imposed, the bank did see some outflow of deposits esp. from current accounts. While some new deposits are also garnered.
- The virus has impacted the bank's ability to reach out to new liability customers.
- The bank has sufficient liquidity, indicated by the average LCR for the quarter so far at ~108% (similar to Dec-19 avg).
- The management indicated that the proportion of government deposits is not material and the existing deposits are well spread out across states.
- In the last ~10 years, the bank has mostly been a lender in the inter-bank market and it continues to be a lender there.
- The bank continues to remain focused on reducing deposit concentration (Top 20 Deposits ~8% as on Dec-19).

Assets and Asset Quality

- The bank has paused disbursements for now (since the past 7-10 days), except for certain small ticket loans. The bank will resume disbursements (at least after 30-45 days) only on after it is able to credibly assess the situation.
- The corporate book continues to constitute a small part of the bank's overall portfolio (12% as at Dec-19). Here ~8-10% of the loans are very short tenure loans to high quality corporates. Repayments here will contribute to increasing liquidity.
- The management re-emphasised that the bank's loan book is extremely granular.
- The bank's micro-credit exposure is ~5-6% (through BCs and to NBFC-MFIs).
- The bank believes that some stress is possible in its PTC portfolio.
- The CV portfolio continues to remain an area of concern for the bank.
- Reported asset quality outcomes (1HFY21) will be a function of the nature of forbearance given by the RBI.
- The bank does not have a significant LRD exposure.

Others

- Operating profit is ~3-3.5x of the provisions and thus provides margin of safety, even if some stress increases

- While business momentum is expected to slowdown, the bank has the flexibility to control cost in tandem
- Comfortable CRAR with Tier I at 12.3%(ex. 9M earnings) and Tier II at 3.5%

View

- DCBB trades at 0.63x FY22E ABV of Rs 129. Our last published rating was BUY with a TP of Rs 223.

Ujjivan Small Finance Bank

Takes from the call with the management

In light of the recent developments, affecting the banking sector, and especially the micro-finance sector (COVID-19 and YES), we hosted the management of Ujjivan Small Finance Bank on a conference call. Excerpts from the call are as follows:

Effect Of Recent Developments

- Interestingly, USFB did not see much of an impact of the developments at YES on its deposit base and that it did not see much need to alter its liability strategy in any way.
- The management also remarked that it did not have significant deposits from state governments (4% of total deposits) and that it had adequate liquidity, without diving into LCR specifics.
- USFB is better placed with CRAR of 28%+
- The spread of COVID-19 and the ensuing measures by the government and various local authorities did not have an impact on operations until this week.

Asset Quality

- With collections generally done in first three weeks of the month, USFB was relatively better off. However, the implementation of Janta Curfew and lockdowns, the bank will have some impact on collections and thus asset quality.
- Higher share of self-employed borrowers vs. daily earn and pay borrowers, USFB will relatively be better placed.
- It is noteworthy that, in January and February, USFB saw an improvement in the situation in AS, vs. December.

Response to Recent Developments

The bank has undertaken the following steps in response to the virus outbreak and resultant lock-downs/ curfews/ limitations on movement of people

- The bank's BCP and DRP have kicked in.
- Branch timings have been altered as per IBA guidelines
- The bank was utilizing the resultant downtime to get in touch with its customers.
- The bank has reached out to large no of customers so far.
- The bank is also spreading awareness about the outbreak amongst its customers.
- The bank is minimizing customer interactions.
- The bank is fast-tracking its plans to set up remote collection centres and start testing them during this period.

- Disbursals have been largely paused for now. However, in situations where the bank need not physically get in touch with the customer, the bank is going ahead with disbursals in select cases. For e.g., the bank's pilot project to digitize the workflow for lending to existing micro-credit customers.

USFB, along with other SFBs and micro-lenders is likely to approach the lender on the following contextual matters:

- A payment holiday for customers, and
- Liquidity support for certain micro-lenders (NBFC-MFIs)

BROKING

Zerodha

We hosted Zerodha Broking's management- Mr. Nithin Kamath, Co-founder on March 27, 2020 to understand Zerodha's business better and get his perspective on retail broking.

Key takeaways

- Zerodha is set to earn a Revenue/PAT of Rs 12/5bn for FY20. The company executed 7mn trades (~3x the number done by the Charles Schwab- largest broker in US) in a day in Mar-20. Clientele additions have surged at ~0.15mn in the current month- this is despite the steep correction in markets. Zerodha continues to expand the market as 60% of the new clients are first time investors. Zerodha also stated that key differentiator in this business is the platform and pricing power will sustain for companies which have strong platforms. According to Mr. Kamath sustaining the business below current pricing levels will become difficult especially if volumes decline in face of current market decline. Lastly, given changing regulations Mr. Kamath believes that the industry will consolidate to just ~40 large brokers over the next 4-5 years from the current 400 odd brokers. **Incrementally we turn are more positive on bank owned and traditional brokers such as ISEC and MOFS than before.**

Highlights of the Concall:

Financials

- For FY19, Zerodha's Revenue/PAT were ~Rs 8/4bn.
- Top-line also comprised ~15% from prop. Trading, which business was demerged beginning FY20. ISEC's Rev/APAT were Rs 16.4/4.8bn.
- Zerodha is expected to close FY20E with Revenue/APAT of ~Rs 12/5bn. Revenue comprises Brokerage/Float/Other charges at 65/15/20%.
- The trades comprise Cash equity delivery/ Intra-day equity/ Derivatives is ~25/40/25%.
- The company makes an EBIT margin of ~60-70% and is run frugally.

Impact of market meltdown and current lockdown on the business

- Beginning 9-Mar-20, the last 3 weeks have been the largest by turnover for Zerodha.
- On 26-Mar-20, Zerodha has clocked 7mn trades in a day which is by far the largest and ~2x of the average daily trades. Such days are outliers but have helped Zerodha in testing its platform.

- Surprisingly, there has been surge in new account openings which is contrary to past cycles, as retail customers continue to open accounts. The company has opened 150k accounts in Mar-20.
- Volatility is positive for brokers initially as volumes and transaction nos. increase. But in a down-trending market the impact is felt later as in periods of market lull volumes decline and business is hit.
- Zerodha has moved to a complete work from home for entire workforce beginning 9-Mar-20.
- Mr. Kamath believes that such a lockdown will attract more people to the online channel and to that extent this is a good time for fin-tech companies to add customers.

Pricing and competition

- Zerodha believes that product is key in this business and good platforms will have pricing power. The company believes that investors will pay for smarter platforms, speed of execution and features. The company believes that it continues to offer the best platform for investors and that it will continue to invest in the platform. To that extent Zerodha believes there is little risk to its business.
- The company believes pricing below the current level is unsustainable.
- Zerodha offered Rs 20/trade in 2013 when contract size on NIFTY was ~ Rs 0.2mn. At a nifty level of 12,000 contract size was ~Rs 0.9mn but brokerage has remained the same.
- Zerodha stated that if the bear market continues a rate of Rs 20/trade would not be sustainable and it may have to increase rates.
- According to Zerodha, recent regulatory changes will reduce the number of organized from the current 400 to ~40 over the next 4-5 years.
- This massive consolidation will be driven by inability of the local smaller brokers to provide margin to customers to trade as SEBI rules prevent the same.
- Historically, Brokers have had the advantage to leverage on the client securities by pledging the same to NBFC's. But Zerodha has never leveraged over the client's securities because the securities are sent to the DEMAT account at the same time.
- With the change in the SEBI's regulation, Brokers are restricted to offer margins to their clients solely based on their own funds. Also Brokers cannot keep securities with them and is mandatorily to be sent to DEMAT.
- Also, SEBI would be soon coming out with a regulation wherein the maximum leverage offered to clients on intra-day trades would be limited.

AMC License

- Zerodha had started Coin, a direct MF platform about two and half years back. Coin with an AuM of ~Rs 100bn is currently one of the largest direct MF platforms.
- Target audience for Coin are the people in their 20's.
- Zerodha will be offering low cost passive solution oriented passive products.
- The co is also planning to offer "target date" funds which can cater to individuals seeking to save for retirement, education and other needs.
- Zerodha believes that the passive investing in India is still way behind active investing, one of the major reasons being the distribution channels.

Other

- Zerodha continues to partner with start-ups eg. FinnShots, a wealth management platform.
- For first time investors Zerodha plans to provide some guidance in terms of basic rules of investing/trading. The company is planning to build nuggets on the platform which will prompt various questions to the user. Example: If the user is buying a penny stock, the platform would prompt a question: Do you want to invest in a penny stock? Mr. Kamath believes that this would help first time investors.

View

- Although the market has seen high number of discount brokerages starting up, Zerodha is fairly confident against its competition in terms of addition of new clientele and the increase in volumes traded over its platform. The main reason behind this is the product offered, its speed, user-interface, features offered and continuous efforts of management to add features and enhance user experience.
- Zerodha continues to expand the market as 60% of the new clients are first time investors.
- Pricing is already at rock bottom and in-fact may go up if volumes decline.
- Given changing regulations, Mr. Kamath believes that the industry will consolidate to just ~40 large brokers over the next 4-5 years from the current 400 odd brokers.
- Incrementally we turn are more positive on bank owned and traditional brokers such as ISEC and MOFS than before.

CONSUMER (APPLIANCES, FMCG)

Crompton Consumer

We attended conference call of Crompton Consumer and following are the key takeaways:

- MGT stated that Crompton's performance Jan/Feb and the first half of March was strong. **Revenue growth in this period was above MGT expectations and healthier than 9MFY20.** This was led by continued momentum in ECD (strong performance by coolers, stability in fans), improvement in orders and execution of B-B Lighting and robust volumes in B-C Lighting. New launches by the co in fans were also well accepted by consumers. **Growth in revenue was uniform across rural and urban markets.** However, since a significant portion of primary sales take place in the last 2 weeks of March, the shutdown is likely to have a **material impact on co's performance in 4QFY20.**
- Importantly, **B-C Lighting saw major players take a price hike in 4QFY20 for the first time since the aggressive price cuts began in July 2019.** The move was initiated by the larger players, and consequently, most other players have taken price hikes as well. Volumes in this segment were strong. MGT also does not expect there to be a significant change in the cost structure of lighting as RM inflation is likely to remain benign. Post the shutdown, some of the smaller players could face consolidation as a result of constraints in WC.
- In accordance with the nationwide lockdown, Crompton has shut all its operations, warehouses and factories until 15th April, 2020. In the midst of the shutdown, co is becoming friendly with employee, vendors and distributors. **The**

fixed costs for the co are at Rs 400mn/per month. As cash & equivalent is at Rs 5,500mn, Crompton is well positioned to ride out the disruption caused by COVID-19. Co will try and rationalised the cost wherever it is possible. Additionally, co is also taking steps to support its channel partners through initiatives like extending credit period for distributors who need it.

- MGT expects that if situation normalises in April then recovery in primary sales can be quick. Since primary sales in March got impacted which usually a channel filling period for fans/air coolers that can postpone to April end. The only segment that is likely to be adversely impacted is COOLERS as most of the sales in the category happen in April. **However, assuming the shutdown is lifted in April, most other categories will continue to perform well as a lot of pent up demand is expected to come into play.** As coolers does not form a significant part of Crompton's revenue mix, the overall impact in FY21 is expected to be muted. **Despite low levels of trade inventory, MGT is confident that Crompton can fill its channels post the shutdown without much delay. This will help the co gain an advantage over its competitors. Crompton is also continuously investing behind EComm, which will contribute to improving the co's growth prospects.**

At CMP of Rs 195, the stock is trading at 23x and 20x on FY21E and FY22E. We have BUY rating on Crompton with TP of Rs 338 (35x P/E on Mar-22).

Symphony

We attended the conference call of Symphony and following are the key takeaways of the same:

India Business

- As per MGT, supply chain disruptions will have minimal impact as there is enough inventory at company level and trade level. Trade inventory has already gone to dealer level from distributors so once the situation normalises, consumers will not find any issue wrt product availability. **Jan and Feb growth was healthy while current situation has impacted primary growth, co expects 10% growth impact of COVID-19 on 4QFY20 revenue.** Co expects to achieve similar revenues of 4QFY18 in 4QFY20, **implying growth of 11-12% YoY in 4QFY20.**
- Gross margins have been healthy in this period, benefitting from strong performance of new launches, value engineering and economies of scale.
- Co expects summer 2020 to be strong and once the situation normalizes, demand recovery can be quick. Co is well positioned in terms of channel inventory to meet the demand in peak summer, as it is the only major player which has sufficient inventory in it channels. **Most unorganised players (75% of air cooler volume) begin air cooler production from Jan-Feb which this time got big impact. Co expects that the unorganised sector could be understocked by 30-40% which could see significant opportunity for branded players (particularly Symphony as few organised players also have limited stocks).** However, if the current situation is prolonged for the entirety of April, it will have negative impact on consumer offtake (peak demand happens in April and May)
- Additionally, co expects that air cooler industry can do well in the upcoming season. Air coolers are plug and play products as compared to AC where installation is required (people may avoid installation in such situation). Many marginal air cooler players may face stiff challenges in the current situation.

International Business

- In Australia (CT), summer season has already been done and it was a good season for CT. Symphony's initiatives have also implemented this year. Australia is seeing winter and there has been an uptick in orders for heaters. **As people are staying at home more, the demand for heaters has increased.** While there can be some installation challenges as centralised heaters need installation. Symphony is well placed to meet any WC challenges that CT might face.
- In Mexico (IMPCO), disruptions have not been visible so far, and the growth in FY20 has been good. The central govt in the country has not taken any extreme measures so far, although some states have started bringing restrictions. Peak summer in Mexico is in the months of May, June and July, and hence, if the situation normalizes by then, the impact of COVID-19 is not expected to be significant.
- China subsidiary (MKE) witnessed significant impact during FY20 on account of trade war and shutdown due to COVID-19. Most of the products that the co offers in China are targeted towards industries, which have been hurt badly during the shutdown. Although the country is now returning to normal, and summer has not yet arrived in China, it remains to be seen how the conditions will impact revenues for MKE. The co expects the impact to be low due to the delay in summer and a recovery in the Chinese economy. However, for FY20, MKE is expected to register a degrowth and may post a loss.
- Overall, if COVID-19 results in a sharp drop in sales and demand, co expects some cash flow pain in the international business but it will not be significant.

The stock is trading at 22x and 18x on FY21E and FY22E. We have BUY rating on Symphony with TP of Rs 1,693 (42x P/E on Mar-22).

Voltas

We conducted a call with the mgt of Voltas Ltd. The following are the key takeaways from the same:

UCP Business

- According to the MGT, co has not faced any significant supply disruption as its suppliers resumed manufacturing from the third week of Feb. Factories in China are operating at 70-80% of capacity currently, and they are expected to be operating at 100% by the first week of April. Hence, no disruption is expected in supply lines in 1QFY21. Also, the **channel currently holds ~65 days of inventory** and the co has sufficient inventory till mid-April. Hence, when the situation normalizes, Voltas can meet the demand. However, extended lockdown can have negative impact during the season.
- Due to the closure of JNPT port in Mumbai, and the curfew imposed in most states, Voltas may face difficulty in transporting the imported materials and utilising the same. Additionally, co has shutdown production in all its factories across the country following the directives from various state governments. If the lockdown is lifted by the second week of April, the impact on revenues will not be significant as summer is delayed by 7-10 days, and the peak season will begin from mid-April. **Summer is expected to be harsher in 2020 than it was in 2019,** which could provide a boost to the co.
- According to GFK data upto Jan, Voltas has **maintained its market share at ~24% in RAC** (same as 3QFY20). However, Daikin and Hitachi have made gains

and are inching up closer to LG. Voltas still maintains a market share gap 1,000bps from the second player (LG). The entrance of Samsung in RAC biz has not created any significant disruption for the industry. Voltas surveyed the products offered by Samsung and did not find any USP or differentiator, both in features as well as price, that can pose a threat to the market. No significant announcements or launches have been seen from Chinese players either. Hence, as the situation normalizes, Voltas can gain market share due to its strong inventory and people's trust in the brand.

- MGT believes commodity deflation will definitely benefit the co, but the benefits will be visible from the next sourcing cycle which will begin from the end of 1QFY21. The benefits will be enjoyed by the entire industry, and could see GM expand in FY21. MGT also stated that since the IPL usually begins towards the end of March, there will be no significant ASP saving in 4QFY20 as a result of the postponement. **Media spend accounts for 2-2.5% of net revenues.** Approximately 80% of this amount in 1QFY21 would be spent during the IPL. Hence, in the event of cancelation of the tournament, the saving to the co could be significant.
- MGT also highlighted that the Volt-beko factory in Gujarat began production in the last week of Feb. The same has been shutdown at the moment due the directive of Gujarat govt. However, the co believes once it begins functioning, it can start production at 100% capacity within 2-3 months.

Project Business

- Project execution of the co has halted as a result of migrant workers returning to their native places. However, if the lockdown is lifted by mid-April, the impact is expected to be insignificant and reasonable growth can be expected.
- Most of Voltas' domestic projects are govt oriented, and hence, the co expects a delay in allocation of new projects as well as the payments for execution. Unlike private contractors though, **govt contracts provide a certainty of payment** and hence, the co is well positioned from a revenue viewpoint.
- Within its International biz, the orderbook stands at Rs 23bn, with the largest order coming from Qatar for a commercial boulevard. The project execution on the same had just begun before a lockdown was instituted in the country, and it is expected to take 2.5-3 months to complete. Hence, the impact of the delay in execution will not be visible in 4QFY20, but may be seen in 1QFY21. Additionally, Voltas also expects a delay in allocation of new projects in the Middle East as a result of the fall in oil prices, but when the allocation resumes, the potential opportunities will be huge. The dip in prices could also affect collection for the co, and in cases where there is consistent delay in collection, **Voltas resorts to slowing down or stopping execution of the concerned projects.**
- The depreciation in INR is a concern for the co, but no large payments are expected before June 2020. Co believes the weakness in the rupee will not sustain at current levels, and even if it corrects to 74 USD/INR (Currently 76 USD/INR), the impact of the depreciation will not be significant.

The stock is trading at 22x and 19x on FY21E and FY22E. We have ADD rating on Voltas with TP of Rs 744 (29x P/E on Mar-22).

V-Guard Industries

We attended conference call of V-Guard Industries and following are the key takeaways:

- MGT stated that the co has shut down all its operations, offices and plants due to the nationwide lockdown till 15th April, 2020. The impact of COVID-19 has now moved from a supply side issue to a broader impact on demand. However, even during the supply issues (Jan-Feb), V-Guard was well positioned as **imported SKUs contribute only 7% to co's revenues**.
- Pre-COVID-19, **4QFY20 was shaping up to be a very strong qtr for the co. Jan/Feb had posted robust growth as the temperatures in Kerala and Tamil Nadu had risen sharply, driving sales of AC stabilizers and inverters**. However, March is an important month for all cos as majority of stocking by distributors happens after 15th March. Loss of those sales will have an impact on 4QFY20. As primary sales have been impacted in March (strong month), co expects that once situation normalises the primary sales can bounce back quickly. However, it all depends on return on normalcy.
- Co is well positioned to deal with the fallout of the crisis as it had cash & equivalents of Rs 2,500mn at the end of December. It is also debt free with unutilised credit line worth Rs 5,000mn available to it. Fixed costs of the co are ~16% of its turnover (Rs 350mn/monthly), and hence, it is in a position to manage all expenses even if collections are halted for a few more weeks. V-Guard will also focus on making sure its distributors receive any assistance they may need. However, most of the costs for its distributors are WC, and the assistance will have to come in the form of moratorium on bank loan interest by the govt. Post the lockdown, V-Guard is in a good position to meet demand as its **inventory level stood at ~55 days at the end of Dec**, which is better than most of its peers, and remains healthy today as well.
- V-Guard has an initiative called Udaan which is directed towards cost rationalisation for the co. The project is at a matured stage, and hence, will help the co cut down on its costs once the situation normalizes. The focus of cost rationalisation will be on COGS which comprises of ~73% of revenue. Additionally, co will also benefit from its ongoing efforts to maximise in-house production. Co manufactures 55% of its products in-house (vs 35% 8 years ago), and this is expected to rise up to 60% in the near term.
- V-Guard was especially vulnerable due to its high reliance on Kerala, which has been the worst affected state in India in COVID-19. However, MGT believes that Kerala will be the first state to bounce back as it has taken early and efficient measures to contain the spread of COVID-19. Moreover, over the last few years, co has worked to reduce its reliance on Kerala (**22% of revenue, 18% of operating profits in FY20 vs 60% of revenue, 75% of operating profits in FY08**). Also, over the last 5 years, Kerala market has grown at a CAGR of ~3% for the co. Other markets such as Orissa, Bihar, UP, and the North East cluster have growth much faster and are more profitable with ~16% EBITDAM (10% EBITDAM in Kerala, ~14% EBITDAM in all of South). Moreover, V-Guard is not reliant on Kerala for some of its leading products like stabilizers. Co sells Rs ~200mn of stabilizers in Kerala vs Rs ~1,000mn in Tamil Nadu. Kerala is the largest market only because V-Guard holds market leading positions in wires, inverters and batteries. Hence, the impact of the slowdown in the state will be minimized for V-Guard.

At CMP of Rs 160, the stock is trading at 27x and 24x on FY21E and FY22E. We have ADD rating on V-Guard with TP of Rs 217 (32x P/E on Mar-22).

HUL, Jubilant FoodWorks and TTK Prestige MGT Call Update

HUL

We connected with the MGT of HUL to discuss the demand trends in 4QFY20 and impact of COVID-19 on the co's operations. The following are the key takeaways from the same -

- The broader demand continued to decelerate in the months of Jan & Feb 2020 and most categories have further decelerated from December. The deceleration was witnessed in urban as well as rural markets. Market growth (relevant categories) in the month of Jan 2020 remained flat, with certain categories like BPC (discretionary) seeing a decline. However, certain markets like Southern India and Delhi outperformed the rest with a continuation of the premiumisation trend. Modern Trade continued its healthy trajectory and has performed well.
- While in March (COVID-19), HUL has witnessed spike in demand for many categories as consumers are stocking necessary items like foods, staples and home & hygiene (soaps, handwash, floor cleaners). This phenomena so far is visible in some pockets (Tier-1 cities) and expected to be visible in a few Tier 2 & 3 markets as well. Currently, co is focusing on maintaining the supply of essential products on the shelves to meet the spike in demand. Production has been ramped up in the categories which are witnessing high buying.
- Globally, Unilever has managed to ensure supply chain functioning and security and HUL does not expect any disruption in its supply chain over the next 6-8 weeks. Measures have been taken to minimize the impact on the production capacity as well.
- Consumer promotional activity post COVID has not seen a significant ramp-up, but the mix with regard to medium of advertising has changed significantly as more people are resorting to staying at home.
- HUL is also assessing the situation wrt the fall in crude prices in order to determine the sustainability of the dip in prices.
- The stock is trading at 51x and 46x on FY21E and FY22E. We have REDUCE rating on HUL with TP of Rs 2,140 (47x P/E on Mar-22).

Jubilant FoodWorks

Following are the key takeaways from our conversation with the MGT of Jubilant FoodWorks

- Demand during Jan-Feb was usual while the situation surrounding COVID-19 has been evolving rapidly and has changed significantly over the last week. Demand for delivery is now also under pressure, where it was supporting the dip in dine-in until a week ago. Some mall stores, which are closed for dine-in, are being allowed to continue service via delivery. However, there is no consistency on this front and the conditions are different region-wise. Developments over the next 10 days will be crucial for keeping up the performance in 4QFY20.
- IPL will be an important event for JUBI to put up a good performance in 1QFY21, and whether it happens or not will be crucial for the co. However, the co believes this is a one/two qtr phenomenon and does not want to change the MGT's store expansion plans.

- When the new normal sets in, western QSRs like Domino's are likely to benefit due to their brand value, and recovery in the demand for delivery can be rapid. Moreover, Domino's will also benefit from having complete control over its delivery and using its own personnel for the same.
- The stock is trading at 39x and 31x on FY21E and FY22E. We have ADD rating on JUBI with TP of Rs 2,073 (43x P/E on Mar-22).

Radico Khaitan

We hosted a call with the MGT of Radico Khaitan and following are the key takeaways:

- Radico has consistently growing ahead of the market and same momentum continued even in 4QFY20. Overall volume growth is expected to be in double digits in 4QFY20, led by mid-teens growth in the P&A portfolio. This growth has been witnessed across multiple states and brands, with new launches performing well. States like UP, Delhi, Maharashtra, Telangana, WB and Assam have been the leaders in growth for Radico. MGT also stated that had the lock-down not taken place, the volume growth in 4QFY20 would have been in the range of 18-20%. Growth in the CSD channel has also been strong. MGT stated that the liquor industry across the country is likely to experience zero to negative growth in 4QFY20, after a mere 1.5% growth in 3QFY20. Hence, Radico's growth is led by market share gains.
- ENA inflation has dipped since November 2019 and prices are currently at Rs 59-60/ltr (vs ~Rs 62/ltr in Nov). The sugar crop in October 2019 was weak, which saw ENA prices peak in November 2019. However, the sugar crop in October 2020 is expected to be strong. Hence, ENA inflation is expected to remain benign in 1HFY21, and ENA prices could see a decline in 2HFY20, which will help boost the co's gross margins. **EBITDAM for FY20 is expected to be ~15.5%, due to benign RM as well as premiumisation, and MGT believes EBITDAM can improve by 70-80bps in FY21.** Growth in ASP has been 15-16% YoY, and ASP stands at ~7% of net sales of IMFL.
- Currently, all factories of the co, including bottling processes, are shut. Only the molasses plant in Rampur is open as **co has begun the manufacture of hand sanitizers**, which is an essential commodity in COVID-19. Currently, Radico is supplying hand sanitizer to multiple players as well state govts. However, **co plans to launch its own brand of hand sanitizer in the near term.**
- Due to the lock-down, the co expects **YoY growth in 1QFY21 to be muted (5-10%),** provided the lock-down is lifted by 15th April as scheduled. However, in the event the lock-down is further prolonged, MGT will have to reassess the situation to determine impact on revenues. As it stands, **MGT guidance for growth in FY21 is ~15%.** Co expects that in the new normal, post COVID-19, cos with strong balance sheets will thrive while the smaller players are likely to lose market share. Premium scotches are likely to feel the impact of downtrading. However, as most of Radico's offerings are in the sub- Rs 1,000/bottle category, **impact on the co will not be significant.** The inventory level in trade is currently at ~25-30 days, and hence, Radico is well placed to capitalise on the post-lockdown demand. Additionally, co is capable of bottling and supplying products to its vendors within 3-7 days of the lock-down being lifted. Hence, a stock-out situation is unlikely once the situation normalises. Co does not expect the liquor industry to be affected as adversely as others, and Radico is likely to outperform the industry.

- Several of Radico's brands are well placed in the market with **MM Vodka commanding ~55%** market share in Vodka, and **Morpheus** with a **~60% market share** in premium brandy. The co has continued expanding its reach and 8PM Premium is now available in 15 states. New launches like Rampur and Jaisalmer have also been well accepted and the co is scaling them up. Jaisalmer will be launched in 7-8 states including Rajasthan, MP, Karnataka in FY21, after a successful launch in a few states including Goa and Delhi in FY20. Currently, Radico has **4 millionaire brands (volume > 1 mn cases/year) in its portfolio. MGT stated that they are likely to see 3 more brands become millionaire brands in FY21.**
- Debt level for the co is currently higher than normal (Rs ~3,900mn) as the debtor level has increased in markets like Andhra and CSD. Total debtors currently stand at Rs ~1,700mn. However, the debtors are working on reducing the same, and hence, co's debt is expected to normalise soon. Debtors could reduce by Rs ~1,400mn in the near term. **MGT expects Radico to be debt free by FY22.** Additionally, there is no large capex planned by the co. **Total capex in FY21 is expected to be Rs 650-700mn**, most of which will be for expanding capacity for Rampur and maintenance capex.

At CMP of Rs 262, the stock is trading at 12x and 11x on FY21E and FY22E. We have BUY rating on Radico with TP of Rs 495 (20x P/E on Mar-22).

TTK Prestige

Following are the key takeaways from our conversation with the MGT of TTK Prestige

- Demand in Jan-Feb was healthy and MGT was expecting revival in demand. However, COVID-19 has changed the demand trend (flat in Mar) and it is difficult to assess same for 1QFY21. Co does not expect it to be a long term issue and is hopeful for a quick revival considering various effective measures by the govt.
- Dependence on China has reduced over the years and now only 10% of products are imported from China. Few factories in China have started their operations but logistical challenges may continue for a while.
- Cos with strong operational & social culture along with sound balance sheet will be able to recover quicker than others. Co has not changed their strategy wrt to product innovation and distribution ramp up plans.
- We do not have rating on the stock.

INDUSTRIALS

KSB Ltd

Analyst meet takeaways

Technological support from parent

- KSB SE & Co. KGaA, Germany is a leading global pumps player focused on R&D, and KSB benefits from technology transfer. It has technically complex product offerings catering to supercritical power plants, nuclear power plants and flue gas desulphurization (FGD) units for power plants. KSB is the sole player as of now catering to Nuclear Power Corporation (NPCIL, order of Rs 4.9bn, with an opportunity of another Rs 15bn order inflow over the next couple of years). KSB has 7 manufacturing locations with 800+ authorised dealers across India.

Healthy and well diversified order book supports revenue base

- As of CY19, KSB had an order book of ~Rs 20bn (incl. Rs 4.9bn NPCIL order to be executed over CY21/22), which lends goods revenue visibility. Order intake guidance for CY20 is Rs 15bn).
- KSB's CY19 revenue segments can be broadly categorised as – Engineered pumps(~33%), Standard pumps (~30%), Valves (~17%), Service/AMCs(~7%) & Exports (~14%). Excluding the NPCIL order, OB as on Dec-19 largely mirrors the CY19 revenue profile. Tentative execution timeframe for this OB is split equally over CY20/21, and this excludes cash & carry orders for submersible & other pumps. Across the Standard & Engineered pumps segments, contribution from various industries is as follows – Energy & Power (10%), Oil & Gas (10%), Paper/Pharma/Fertilizer/Petro (20%) and balance (60%) from general engineering industries, water and waste water treatment, building construction and domestic household, agri segment, etc.

Stable profitability indicators

- Rev/EBIDTA/APAT for CY19 was reported at Rs 12.9/1.5/0.85bn (+18.4%/17.1%/15% YoY growth). EBIDTA/APAT margins came in at 11.6% (vs 11.7% YoY) and 6.6% (vs 6.8% YoY) respectively. The company has guided for a lower CY20 revenue growth trajectory (8-10% YoY, Rs 14bn) & similar margin profile for CY20 due to macroeconomic headwinds. Margins are expected to pick up further, CY21 onwards, when the NPCIL OB moves into execution. Dividend payout at 33/28% of APAT/RPAT was announced with CY19 results.

Robust capital structure

- KSB had a gross D/E of 0.08x as on CY19, with net D/E being 0.01x, leading to minimal interest outgo. Liquidity position of the company is supported by sizable cash and bank balances of Rs 4.8bn. There is no major capex envisaged over the medium term, with moderate yearly maintenance capex run-rate of ~Rs 600mn to be maintained for automation and capacity augmentation. KSB has a strong AA+(stable) rating by ICRA, and has recently enhanced its rated limits (Fund based+Non fund based) to Rs 25bn from Rs 12bn previously, in anticipation of higher WC & BGs for NPCIL order execution.

Focus on enhancing cost efficiencies and new product development

- While the company continues to focus on new product development across its engineered pumps segment (for example, the digital & user-friendly Gamma set of pumps, and other IOT enabled pumps), there is emphasis on enhancing efficiencies across the standard pumps division. This is being done by way of more automation, robotic assemblies, continual process improvements (lean 6 sigma) and digitalization. The company has established a captive foundry for backward integration and protecting design privacy of its engineered pumps. However, capacity utilisation remains low, and the company took an impairment hit of Rs 40mn during 4QCY19. This is because outsourcing fabrication of castings is an economically more viable option for standard products like agri & domestic pumps. To keep growth momentum intact in its standard pumps division, the company is also looking to expand its dealer/service network.

Valuation

- At CMP, KSB trades at 26.5x CY19EPS and 15.1x CY19 EV/EBIDTA. **The stock is currently NOT RATED.**

Y/E Dec (Rs mn)*	CY15	CY16	CY17	CY18	CY19
Net Sales	8,708	8,791	9,692	10,931	12,939
EBITDA	1,041	1,053	1,075	1,284	1,503
APAT	698	653	677	740	851
Diluted EPS (Rs)	20.1	18.8	19.5	21.3	24.4
P/E (x)	32.3	34.5	33.3	30.5	26.5
EV / EBITDA (x)	19.5	19.6	20.3	16.8	15.1
RoE (%)	13.2%	11.2%	10.6%	10.8%	11.4%
RoCE (%)	14.1%	12.9%	11.8%	12.4%	13.1%

HG Infra, PNC Infra, Ahluwalia Contracts, KNR Construction

Company	Week 1 - 17th March 2020	Week 2 - 23rd March 2020
HG Infra	<ul style="list-style-type: none"> COVID -19 execution impacted by Rs 250-300mn for 4QFY20 No impact on banking lines 	<ul style="list-style-type: none"> All project sites stopped now No supply chain to support Labor availability also and issue. With adjoining projects also facing issues peer pressure impacted our site labor migration as well Expect Govt to come with revival scheme for the sector Somehow should be able to meet the salary, debt installment etc Should be able to reach Rs 22-23bn revenue estimate for FY20
PNC Infra	<ul style="list-style-type: none"> No major impact of Covid-19. On track to achieve FY20E guidance NHAI has slowed down tendering No major impact on banking lines Laborers taking time to return from Holi Holidays though its annual routine Overall execution may be lower by Rs 400-500mn due to this 	<ul style="list-style-type: none"> As of now projects in Lucknow, Kanpur, Allahabad got impacted due to partial lockdown Would say still operating at 65-70% utilization FY20 should be able to largely meet the guidance Will wait and watch how Apr-20 develops As of now liquidity is comfortable Supply Chain impacted may have to stop all work as material like cement, steel etc is not available
Ahluwalia Contracts		<ul style="list-style-type: none"> Worked stopped today at all sites due to lockdown Have well being of employee, labourers on mind as they can be carrier Don't think one month lockdown can hurt the fundamentals of the company Last 1 week have been strategizing on raising resources for funding fixed costs Sector will come out of the pandemic stronger

KNR Construction	<ul style="list-style-type: none"> No major impact but labor have reduced post the Holi holidays. There has been delay in arrivals 	<ul style="list-style-type: none"> Still executing at 35-40% capacity as lockdown just began in Telangana and Tamil Nadu.
	<ul style="list-style-type: none"> No impact on funding lines 	<ul style="list-style-type: none"> Only crusher related work going on Believe complete lockdown sometime this week to start
		<ul style="list-style-type: none"> May lead to all sites getting shut in case TN/Karnataka enforce shutdown for construction activities too
		<ul style="list-style-type: none"> No pending HAM FC
		<ul style="list-style-type: none"> Cube Highways Kerala BOT fund inflow may get delayed as NHAI is working at 25% capacity and approvals may get delayed
		<ul style="list-style-type: none"> Have sufficient cashflows to service liabilities
		<ul style="list-style-type: none"> Irrigation payment Rs 3bn dues supposed to get by Mar-20E end. Major relief if dues are duly received.
		<ul style="list-style-type: none"> Telangana Govt has allowed to still do irrigation works worth Rs 14bn

IT / IT SERVICES / EXCHANGES

L&T Technology Services

Highlights from Management update on COVID-19

- For L&T Technology Services (LTTS), COVID impact is seen within its Industrial Product vertical, Transportation vertical (in automotive sub-vertical which is ~50% of transportation) and Process industry vertical (in Oil & Gas sub-vertical which is ~30% of process industry); no negative impact seen in its Telecom & Hi-tech (18% of rev) and Medical devices (9% of rev) verticals.
- In Transportation vertical (36% of rev), furloughs in few projects (Tier-1s); overall furlough impact is <1% of rev but situation remains fluid. In the Industrial Product segment (19% of rev), there is delay in new projects.
- In the Telecom & Hi-tech vertical, there's no major disruption and large deal conversion is on track. LTTS has won a large deal from M&E customer and demand in the sub-segment is high.
- LTTS is currently operating at 80% in WFH mode and is soon expected to reach 90% WFH; ~10% of work not amenable to WFH due to hardware/bandwidth/data related factors. LTTS has already secured approval from clients for 95/98% offshore/onsite WFH.
- LTTS does not expect any challenges to employee productivity and doesn't expect material pricing impact from clients, although some DSO impact likely with select customers seeking extension in payment terms.
- LTTS has ~70-75% revenue certainty and high visibility of ~85% for the year, and dependence on new wins (EN+NN) to replenish the remaining. ~70% of LTTS' revenue can be categorised as critical/'keep-the-lights on' ER&D while 30% being more discretionary. As part of its strategy, LTTS has setup a task force to focus on high-Rol projects, which will buffer against potential near term volatility.

Our view

- We've factored 10.9% USD rev CAGR over FY20-22E and EBIT% at 16.6/16.9% for FY21/22E. At CMP, LTTS trades at 14.2x FY20E (>25% discount to its P/E 1-yr avg), following a 33% correction over past 3 weeks. LTTS is our preferred pick within the ER&D segment.

Mindtree

Key Highlights from the Investor call:

Demand environment & deal wins

- Deal closures in 4Q are strong as compared to 2Q-3Q and deal pipeline strong across verticals; Mindtree has not seen any cuts in discretionary spend yet and expects cloud adoption to accelerate (positive for Mindtree).
- Large strategic deal signed with Realogy (largest US real estate co.) progressing on track (will ramp up from 1Q) and is Mindtree's largest-ever deal.
- Traction in top-customer (Microsoft) and good growth expected in 4Q; increased usage of collaboration tools, ticket management and product transformation (cloud) continue to support growth.
- Duck Creek partnership is supporting growth in BFSI.
- In CPG sub-segment (>50% of RCM vertical) there's good traction – recent spike in usage of products in CPG enterprises have increased the scope of work for Mindtree, esp. in areas of digital/campaign roll outs.
- Mindtree has formed a task force to work on commercial models/cross-sell as deals move closer to renewal; early stages for commentary on price-cuts by enterprise clients.

Travel & Hospitality vertical

- Travel & Hospitality vertical at 17-18% of revenue and Mindtree has 3 clients in its T10 portfolio (*we reckon Southwest Airlines, Delta and Marriott*). While the vertical is witnessing major headwinds on account of COVID-19, there's no impact seen yet on Mindtree.

Operating performance

- Mindtree continues to focus on improving its profitability QoQ, including 4Q over 3Q; levers include offshoring, utilisation and strong growth in top client.
- Attrition is not in comfort zone but is expected to improve.

COVID-19

- Mindtree had setup war room in mid-Feb and rolled out phase-wise BCP to ensure no disruption in day-to-day operations.
- Most employees are in WFH mode and infrastructure/service-line portfolio is not a constraint.
- Employees' on-boarding kit include Laptop and remote working infrastructure, Collaboration tool; relaxation on Govt' rules on SEZ/STPI are helping.
- No disruption in service delivery, daily time-sheet tracker showing no impact on productivity.
- Hiring plans are on track and the company has just moved to digital hiring.

Our view

- We have factored Mindtree's USD rev growth at +4.2/10.9% for FY21/22E and EBIT% at 11.3/13.2% translating into 9.5% EPS CAGR over FY19-22E. At CMP, Mindtree trades at 18.4/17.1x FY20/21E as compared to its 5/10-yr avg. P/E 1-yr at 17.5/14.5x. High dependence on top client and high exposure to travel & hospitality segment are key risks.

Tata Elxsi

Key Highlights from Investor call

Media & Broadcast (39% of rev) and Medical devices vertical (8% of rev)

- Recent disruptions is creating new demand and growth opportunities for Tata Elxsi's Media & Broadcast vertical (OTT & New media sub-segment) and in the Medical devices vertical.
- Uptick seen in Tata Elxsi's OTT business based on demand for accelerated roll-out and limited impact from hardware dependence in the Media & Broadcast vertical.

Transportation vertical (49% of rev) and Top-account (16% of rev)

- Transportation segment's structural challenges have been aggravated by the recent disruption.
- While the top account (JLR) has been impacted by plant shutdown, JLR's supply chain impact will be minimal due to pre-Chinese New Year stock up and re-start of ancillary production in China. Tata Elxsi's growth is not dependent on near-term demand trends in JLR.

COVID-19 and Other Highlights

- Growth outlook provided earlier can be maintained if the COVID-19 situation de-escalates in 2-4 weeks. 4Q growth has been on track till the disruption in the prior week.
- New deals and new orders may be impacted as customers are busy with their own BCP plans. Tata Elxsi has not yet seen any deals deferrals or deal cancellations.
- The company has moved most of its employees to WFH mode, while in some cases factors such as client confidentiality, infrastructure challenges (hardware & lab dependencies) don't support WFH mode.
- Tata Elxsi started rolling out BCP 2 weeks back for its offshore employees. Currently >80% of employees in WFH mode and were supported by providing VPNs, employees having laptops and the remaining workforce by laptop on lease, enabling personal laptops and shifting desktops to employee residences.
- ~60% of Tata Elxsi's revenue is longer-duration projects while ~40% of the revenue is from short-term projects. Some part of its business is discretionary, while most part of the business is development work (testing, validation & value engineering) that is as critical as business operations.

Post a ~50% drawdown in prices over 3 weeks, Tata Elxsi now trades at <14x FY20E EPS.

IT sector update: Accenture 2QFY20

- Key read-across for Indian IT from Accenture's result include: 1) Cut in FY guidance by 2-3% (half-year impact) due to COVID-19 disruption and guidance mid-point implies -1.9/+1.3% QoQ over next 2 quarters; higher dent on discretionary business (consulting business outlook weaker), 2) Highly digitised internal functions an advantage for IT vendors to support virtual work/on-boarding and to support work virtualisation for clients, ~60% WFH levels are near optimal for large offshore centers, 3) Soft outlook for Travel (Hexaware, Mindtree), Industrial automotive and Hi-tech (LTTS) verticals, 4) Strong overall deal bookings in 2Q (Feb-qtr) with highest-ever TCV including outsourcing (positive) supported by digital, cloud and security (>65% of wins), and 5) Increase in automation (virtual agents) and possibility of increase in outsourcing (positive).
- We maintain our constructive view on the sector (*Indian IT: Built to last*) with our top picks being Infosys, LTI and Sonata.

Accenture 2Q Highlights

- **Strong deal bookings:** Accenture posted revenue of USD 11,141mn, +8% YoY CC and also posted record deal bookings at USD 14.2bn, 22% YoY CC growth with book-to-bill at 1.27x. Outsourcing bookings (highest-ever) at USD 7.05bn with book-to-bill of 1.42x and consulting book-to-bill at 1.16x. Headcount increased to 508,572 with 4,034 net additions QoQ.
- **Guidance cut:** Accenture cut its revenue growth guidance to +3 to 6% YoY CC for FY20 (Aug YE), vs. earlier guidance +6 to 8% YoY CC, impacted by risks from COVID-19. 3Q revenue growth guidance at -2 to +2% YoY CC. Guidance factors the current visibility even as the situation remains fluid.
 - FY +3Q guidance at **midpoint** implies: -1.9% QoQ and +1.3% QoQ for its 3Q/4QFY20
 - FY + 3Q guidance at **lower-end** implies: -3.9% QoQ and -0.6% QoQ for its 3Q/4QFY20
 - FY +3Q guidance at **top-end** implies: +0.1% QoQ and +3.1% QoQ for its 3Q/4QFY20

Key con-call highlights:

COVID-19 update

- Accenture's COVID-19 counter-measures/preparedness include 1) Management team spread across the globe and virtual teams, 2) Standing crisis committee led by COO has activated protocols supported by senior leaders and tested systems for facility management, business continuity and work from home (India/Philippines 60% of employees WFH, Italy & Spain 90-95%), 3) Accenture has deep experience in working virtually and is the largest user of Microsoft Teams (30mn minutes usage per day now vs. 16mn per day earlier), 4) Internal functions are highly digitised, 5) High relevance of services to its clients in supporting client readiness for remote working (eg supported a client's shift from 0 to 61,000 employees on WFH in 5 days).
- Usage of virtual agents (automation) for some clients in public services is supported by Accenture. For mission-critical projects (eg. trade reconciliation, payroll services, healthcare services), some restrictions to WFH include power and bandwidth, even as legal team continues to evaluate (and seek approval) multiple client contracts for WFH.

Verticals

- Accenture's verticals that are expected to have higher impact from COVID slowdown include 1) Travel (3% of rev), 2) Industrial automotive (7% of rev), 3) Hi-tech (including Space & Defence). In 2Q, strong growth in insurance while modest growth in banking & capital market segment (decline in Europe banking & capital market segment).

Others

- Margin levers include savings from Travel cost especially in the consulting business, however lower travel re-imburement to also negatively impact revenue growth (~1% impact). Current crisis is also reducing technology investment capacity of clients, thereby making Accenture's services more viable.

PHARMACEUTICALS

Aster DM Healthcare Ltd

Following are the key takeaways from the management concall:

- Business was not impacted till 15th March'20. However, elective surgeries in GCC and India has seen a decline post COVID-19
- **Key focus has been to control costs (HR and material) and improve FCF generation along with debt reduction**
- SARS and MERS did not have major impact on business back then

GCC (80% of business):

- 85% of population is expats and in the age group of 25-60 where the fatality rate is lower
- Dubai accounts for ~60% of biz. Unlike other GCC countries, 90% of the Dubai economy is not oil dependent and therefore may not see much impact on account of lower crude. Saudi Arabia faced issues in 2016 as significant biz came from government
- **Hospital segment has been impacted - Occupancy levels have dropped by 15-20% (were 55% until 15th March). 85-90% of business comes from elective surgeries**
- Pharmacy and clinic business was largely stable/moderate growth
- 90% of biz is Insurance led and COVID-19 is covered under Insurance. Business can witness payment delays
- **Medcare businesses have seen higher impact than Aster**
- NMC - No immediate plans of taking over NMC set up in GCC. Perception of business in GCC is questioned but their operations and disclosures are transparent

India (20% of business)

- Medical tourism is 5% of business. Lock-down and fear of COVID-19 has impacted medical tourism in India
- COVID-19 testing - Aster has 2 centres with molecular diagnostic capability. Management highlighted that current COVID-19 test kits are worth Rs 4,500 and currently private companies will not be able to earn profits from it. However if test kits are supplied free, it will become a profitable proposition

- Occupancy in India was at 63%. The business has seen a decline of 15-20% in occupancy
- Pharmacy business segment saw moderate growth with people buying essential medicines and instruments. Recent surge in Multi-vitamins & immunity products, masks and sanitisers witnessed

Financials

- 480cr of capex planned for FY21 - May defer some with restriction on non-essential capex. Focus is on improving efficiency
- Focus is to conserve cash and reduce debt
- HR = 50% of cost, Material = 25% cost. Endeavor is to bring down cost which was the case before COVID-19
- Inventory and working capital shall not be impacted due to slowdown in hospital business segment
- **Q4FY20 may not see much impact as business was largely stable for most part. Q1 will be impacted more if the trend continues**

Metropolis Healthcare Ltd

Key takeaways from the management concall:

- Metropolis labs is the first private lab in India to test Covid-19 patients on 23rd March, post the approval from government and ICMR on Saturday
- There are 13 private companies approved for testing and each would have max 2 labs which can carry out the tests
- Business was not impacted till mid March'20. However, since the rise of COVID-19 in India and ~75 cities under lock-down they have started to witness disruption in regular business with volumes in both B2B and B2C segments having started to decline
- Metropolis is in a comfortable space for cross-regional testing for COVID-19 tests. They have 7 labs equipped with PCR machines required to carry out these tests. However as of now they have started testing in Mumbai and will restrict to only places where the cases are high
- **View on Covid-19 spread - If government is able to limit the movement of people, things should be in control. As private testing expands, one will get to know how deep the problem is in India. However, management believes this wont be a short term issue and will last for months. The number of cases is likely to increase quite a bit in India.**

COVID-19

- **Three essential requirement for testing - Manpower, Machine and Reagents/chemicals**
- With enough existing capacity and 10-15 new PCR machineries ordered, company remains in a comfortable position to scale-up its capacity in coming days with ability to ramp-up in coming 3-4 weeks from 100 tests/day to 1,000 tests/day
- **However, availability of re-agents and chemicals along with kits for testing is the bottleneck.** As of now, only 2 of the 9 domestic manufacturers have received an approval to supply tests kits apart from the government imports. Sourcing kits from Indian players will not be an issue

- **The current COVID-19 test costs Rs 4,500 which is not loss making for them. However, the tests would aid them to cover fixed costs of the business**
- Management believes government policies, pricing, man-power and availability of raw material will be crucial towards scaling of tests
- Abiding by safety measures and government guidance, company has created a separate infrastructure specially for COVID-19 tests

Raw Material and Manpower management

- RM availability has not been interrupted and company is carrying 40-50 days of inventory
- While the backend staff continues to operate on regular basis, there have been some constraints on availability of front-end staff. However, management believes their tie-up with third party vendor would address the shortage
- **Mylab and Altona have received approvals towards manufacturing of COVID-19 kit in India, with Mylab having the capacity to manufacture 50-60k kits/month which shall be available in next 48 hrs to testing centres**

Financials

- Company has witnessed ~5-10% decline in prescriptions for wellness and illness volume which is expected to increase due to lock-down across regions
- **Management expects delayed payments from B2B and institutional business due to lock-down**
- Since the company follows an asset-light model with higher variable cost and falls under essential service business is not expected to be impacted much compared to other industries. However, Home-testing could get impacted in coming days
- **Capex of Rs 70-8 Lakhs would be incurred towards ordering machines. 10-15 PCR machines would be ordered which would potentially double their capacity**
- Balance sheet position continues to remain strong

Promoter Pledge

- Promoter pledge is at 19%. Lock-in period for the promoter pledge is till Apr'20
- **While there is no specific time-frame, promoters plan to reduce their pledge in coming 12 months**

Fortis Healthcare Ltd

Following are the key takeaways from the management concall:

Business Impact

- **Occupancy rate** has declined significantly to 43-45% vs 70% in Feb'20.
- The IPD and OPD volumes have declined by 35-40% and 60-80% respectively. In OPD, ~15-20% of business (radiation, dialysis etc) will continue.
- **Elective procedures (70% of procedures)** witnessed 40% decline in volumes. **Emergency services (30% of procedures)** will continue. Most Elective procedures will be deferred.
- **Medical tourism** (~10% of revenue) has declined by 80-90% and will further decline to Zero amid current COVID-19 scenario.

- **Laboratory business** witnessed a sharp decline of 70-80% in last 6-7 days with decline in both B2B and B2C segments. Logistics for sample collection has been impacted.
- Across hospital networks, Company has not seen any major increase in respiratory cases which is generally the trend in current month of the year.

COVID-19

- Currently, Fortis has 13 COVID-19 patients who are being treated and kept in isolation. Five patients have been treated and discharged.
- **~ 262 beds have been earmarked for COVID-19 patients. Half of these beds have provision for ventilators today.**
- In Mumbai, state government has requested to designate 25% of bed capacity for COVID-19 patients.
- Two of their reference labs (Mumbai and Gurgaon) have received approval for testing.
- **Fortis has capacity of performing 1,000 tests/day which can ramp-up to 2-3x if required.** It is in discussion with ICMR to add 2 more labs which have capabilities to conduct these tests.
- At Rs 4,500 the COVID-19 test will just about cover the costs. Availability of kits remains a concern.
- **There are 35 approved private labs with testing capacity of 25,000+ tests/day.**

Financials

- **Occupancy rate below 60% will lead to cash-burn due to higher fixed overhead. They expect occupancy to drop to 35% from current 43-45%.**
- Initiatives have been taken to reduce fixed overheads. Non essential capex will be deferred. Senior executives have taken a salary cut with immediate effect.
- **Open offer** - The scheduled court hearing on March 16th did not happen. Expects a delay of 2 months for a fresh date to be received unless court decides to hear on virtual basis.

For underlying thesis on our key strategy picks [click here](#)

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