

# India Equity Strategy

## Gradual bottoming out phase, look beyond the obvious

Worst of domestic economic woes are behind. However economic healing is likely to be protracted and FY21e growth of 6% will still be lower vs. potential growth. Govt & RBI are likely to maintain accommodative stance but headroom for counter cyclical measures is smaller now. While overall market valuations are still above long term averages, we believe investors should position their portfolios in favor of GARP, turnaround and select value plays instead of hiding in very expensive quality names.

### Worst seems behind, but economy in gradual auto healing phase

We believe that India's economy is in bottoming process with expected FY20GDP growth of 5% likely to mark the bottom. However recovery is likely to be weak and gradual as multiple segments of the economy are still in a difficult phase. While FY21 GDP growth is expected at 6%, it is still lower than potential. Improvement in strained segments such as Real Estate, SMEs, Autos, NBFCs is imperative for sustainable recovery.

### Accommodative policies necessary, but not sufficient

While the government/ policymakers have demonstrated strong intent in past 6 months to support the economy, given limited fiscal space, we are unable to foresee a sharp govt/regulator-stimulus-induced recovery hence forth. Govt has already fully utilized the escape clause in FRBM and RBI has already cut repo by 135bps from Dec'18. Households, pvt sector and banking system will also need to do heavy lifting to drive higher growth trajectory, in our view.

### Look beyond conventional 'quality at any price' plays

Last 2 years have seen investors chasing 'quality at any price' theme thereby making risk-reward unattractive. Given calibrated auto healing of the economy and prevailing global risk-off sentiment we see best risk-reward in quality GARP names (such as ICICI, Infosys, L&T, SBI Life) or select turnaround plays (like Axis Bank, SBI, Bharti, DLF) which are witnessing structural endogenous improvements. We also like select value plays (like ITC, Powergrid, Coal India) which have been de-rated, still have reasonable growth prospects and bereft of meaningful risk of business model disruption.

### HSIE Model Portfolio- Key: O/W Financials, Cement, Chemicals, IT, Telecom; Key U/W Consumer staples, Autos, Energy, Metals

While overall Nifty and midcap valuations are above long term averages, we see enough bottom-up investing opportunities across market caps, especially given healthy correction in select large caps and midcaps over last 2 years. We introduce model portfolio with key overweight positions in Financials, Cement, Chemicals, IT and Telecom sector while we have underweight stance in Consumer staples, Autos, Energy and Metals.

### Introducing a new rating system

Through this report we are also introducing a new rating system wherein we moving our covered stocks to a new 4 point rating scale of Buy, Add, Reduce, Sell vs. the older 3 point rating scale of Buy, Hold, Sell to better reflect relative stock picking and conviction across coverage universe (*Details inside pg 28*).

### Top strategy picks

Company	Mcap US\$ bn	RECO	TP (Rs)
<b>Mega Cap</b>			
ICICI Bk	44	BUY	639
Infosys	43	ADD	865
Bharti	40	NR	
SBI	37	BUY	421
Axis Bk	25	BUY	911
<b>Large Cap</b>			
SBI Life	12	BUY	1,160
United Spirits	7	BUY	827
DLF	7	BUY	284
L&T Infotech	5	ADD	2,175
IGL	4	BUY	560
<b>Mid Cap</b>			
Mahindra Finance	3	BUY	425
City Union Bk	2	BUY	265
Chola IFC	3	BUY	412
Jubilant Food	3	ADD	2,073
Aditya Birla FRL	3	ADD	300
<b>Small Cap</b>			
KNR Cons.	1	BUY	371
CDSL	0.4	BUY	351
JK Cement	1	BUY	1,775
Galaxy Surf	1	BUY	1,880
Alkyl Amines	0.4	BUY	2,130

CMP as on 28 Feb 2020

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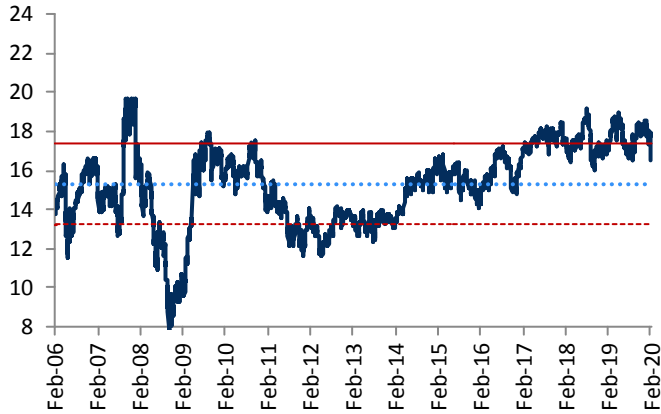
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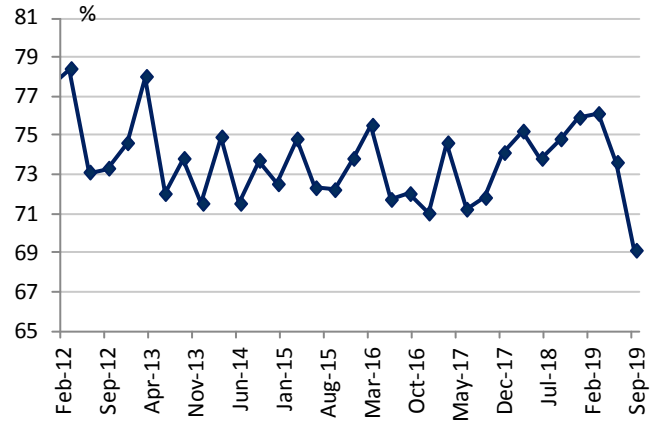
## Focus Charts

### Nifty 12 mth fwd PE



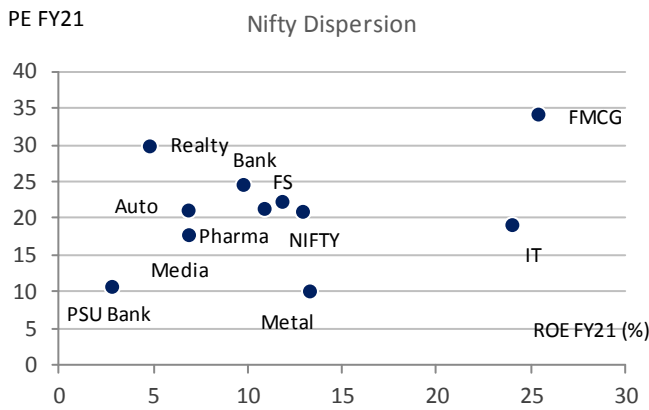
Source: Bloomberg, HDFC sec Inst Research

### Capacity utilization



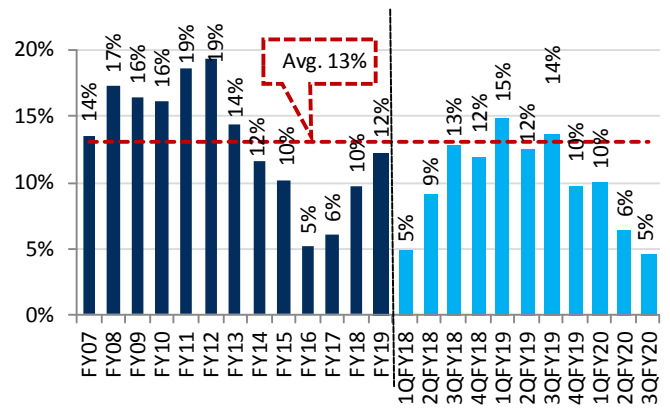
Source: RBI, HDFC sec Inst Research

### Sector wise valuation scatter of Nifty



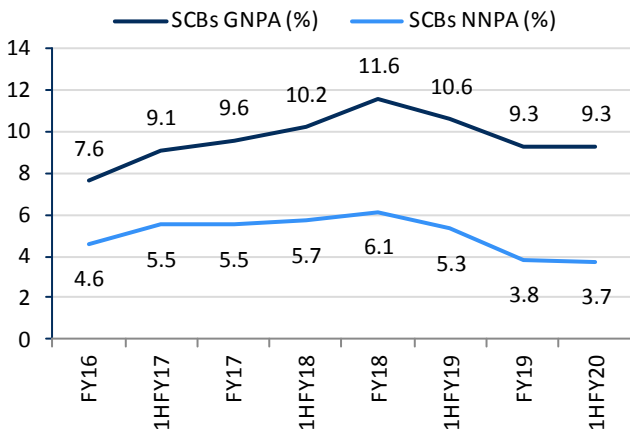
Source: Bloomberg Estimates as on 24 Feb 20

### HDFC Consumer index



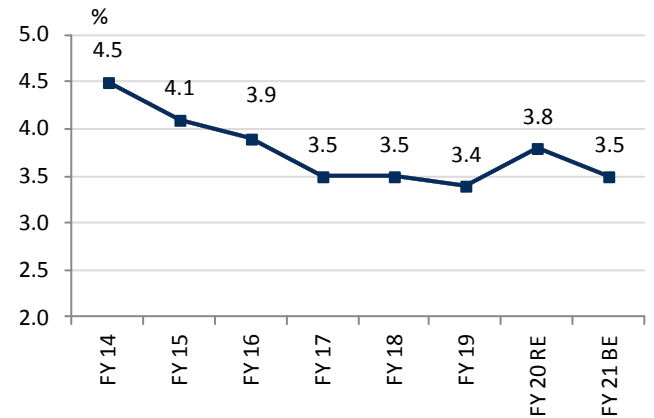
Source: Company data, HDFC sec Inst Research

### Asset Quality of Scheduled Commercial Banks



Source: RBI, HDFC sec Inst Research

### Fiscal deficit as % of GDP



Source: GoI, HDFC sec Inst Research

## HSIE Coverage

HSIE Coverage	Price	Rating	TP	M Cap US\$ bn	P/E		P/BV(ABV)		ROE		EPS Growth	
					FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
<b>Autos</b>												
Maruti Suzuki India Ltd	6,283	ADD	7,330	26.3	22.81	19.8	3.4	3.0	16%	16%	27%	15%
Bajaj Auto Ltd	2,890	BUY	3,745	11.6	15.7	13.9	3.0	2.7	20%	20%	7%	13%
Mahindra & Mahindra Ltd	456	ADD	585	7.5	12.33	11.0	1.3	1.2	11%	11%	3%	12%
Eicher Motors Ltd	16,602	ADD	20,340	6.3	21.02	17.9	3.7	3.2	19%	19%	11%	17%
Hero MotoCorp Ltd	2,052	BUY	3,070	5.7	11.99	10.7	2.5	2.2	22%	22%	6%	12%
Ashok Leyland	70	REDUCE	78	2.8	14.4	11.6	2.2	2.0	16%	18%	130%	25%
Subros	228	ADD	285	0.2	17.9	13.6	1.8	1.6	11%	12%	41%	31%
<b>Banks and NBFCs</b>												
ICICI Bank	497	BUY	639	44.4	13.2	10.1	1.9	1.7	14%	16%	87%	30%
Kotak Mahindra Bank Ltd	1,620	ADD	1,725	42.9	30.7	25.6	4.3	3.7	14%	15%	16%	20%
State Bank of India	303	BUY	421	37.5	7.04	5.5	0.9	0.8	10%	12%	60%	28%
Axis Bank Ltd	697	BUY	911	24.8	15.71	12.1	2.1	1.9	13%	15%	118%	30%
IndusInd Bank Ltd	1,104	ADD	1,491	10.6	13.3	10.3	2.0	1.7	15%	16%	8%	29%
AU Small Finance Bank	1,163	REDUCE	916	4.6	36.5	28.3	7.6	6.1	20%	21%	38%	29%
Shriram Trans Finance	1,196	ADD	1,538	3.8	8.2	7.5	1.7	1.4	17%	16%	8%	10%
Cholamandalam Investment & Finance Company	307	BUY	412	3.3	14.3	11.9	2.9	2.4	19%	19%	24%	20%
Mahindra & Mahindra Financial	345	BUY	425	2.9	12.2	10.5	2.1	1.7	13%	14%	40%	16%
Federal Bank	86	ADD	112	2.3	8.8	7.2	1.2	1.0	13%	14%	18%	21%
LIC Housing	320	REDUCE	449	2.2	5.6	4.9	1.0	0.8	15%	15%	13%	15%
City Union Bank	215	BUY	265	2.2	17.9	15.4	2.8	2.4	15%	15%	14%	16%
RBL Bank	291	REDUCE	348	1.7	12.0	8.7	1.4	1.2	11%	13%	103%	38%
DCB Bank	162	BUY	223	0.7	10.2	8.3	1.5	1.3	13%	14%	27%	23%
Karur Vysya Bank	42	REDUCE	55	0.4	5.6	3.9	0.7	0.6	9%	12%	77%	44%
Indostar Capital Finance	279	ADD	305	0.4	16.4	12.4	1.0	0.9	5%	7%	51%	33%
REPCO Home Finance	284	ADD	399	0.2	5.5	4.8	1.0	0.8	17%	16%	9%	14%
<b>Insurance</b>												
SBI Life	890	BUY	1,160	12.3	41.3	36.8	2.9	2.4	18%	18%	12%	12%
ICICI Prudential	471	ADD	505	9.4	17.8	15.7	2.5	2.2	16%	16%	24%	13%
ICICI Lombard	1,237	SELL	1,170	7.8	32.6	27.4	7.2	6.0	24%	24%	32%	19%
GIC Reinsurance	164	BUY	270	4.0	7.2	6.3	0.6	0.5	8%	9%	125%	14%
New India Assurance	109	REDUCE	130	2.5	9.1	7.6	0.5	0.5	6%	7%	-24%	19%
Max Financial	577	ADD	575	2.1	13.2	11.9	1.9	1.7	21%	20%	13%	11%
<b>Capital Markets</b>												
Nippon Life India	391	ADD	440	3.4	36.8	31.6	8.3	7.6	24%	25%	20%	17%
ICICI Securities	476	SELL	435	2.1	22.2	19.7	9.9	8.4	49%	46%	23%	13%
Motilal Oswal Financial Services	745	ADD	900	1.5	18.5	17.1	3.0	2.7	18%	17%	9%	8%
<b>Consumer- Staples</b>												
Hindustan Unilever Ltd	2,175	REDUCE	2,140	65.2	53.2	47.8	11.8	11.2	23%	24%	22%	11%
ITC Ltd	198	BUY	265	33.6	14.6	13.6	3.4	3.1	24%	24%	5%	8%
Dabur India	496	ADD	529	12.1	46.2	40.3	11.8	10.8	27%	28%	15%	14%
Britannia Industries Ltd	2,970	ADD	3,318	9.9	44.8	38.5	12.8	10.3	32%	30%	12%	16%
United Spirits	687	BUY	827	6.9	43.7	36.8	9.7	7.7	25%	23%	27%	19%
Marico	299	REDUCE	304	5.3	33.5	29.5	11.4	10.4	35%	37%	11%	14%
Colgate Palmolive	1,285	ADD	1,497	4.8	37.2	32.6	16.8	14.4	49%	48%	14%	14%
Emami	257	ADD	302	1.6	18.9	17.0	5.3	5.1	28%	30%	10%	12%
Radico Khaitan	410	BUY	495	0.8	19.4	16.6	3.0	2.6	17%	17%	29%	17%

HSIE Coverage	Price	Rating	TP	M Cap US\$ bn	P/E		P/BV(ABV)		ROE		EPS Growth	
					FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
<b>Consumer Discretionary (ex-Autos)</b>												
Avenue Supermart	2,324	SELL	1,800	20.1	73.0	58.8	11.1	9.4	16%	17%	37%	24%
Titan Co Ltd	1,255	ADD	1,260	15.4	53.7	42.3	13.4	11.3	27%	28%	30%	27%
Havells India	613	BUY	725	5.3	37.9	30.4	7.3	6.4	20%	22%	29%	25%
Trent	737	REDUCE	690	3.4	65.6	54.7	9.0	8.2	13%	14%	34%	20%
Jubilant Foodworks	1,757	ADD	2,073	3.2	45.5	36.4	12.5	9.7	31%	30%	22%	25%
Voltas	679	ADD	744	3.1	30.8	26.3	4.4	3.9	15%	16%	23%	17%
Aditya Birla Fashion	251	ADD	300	2.7	52.9	49.9	10.6	8.9	20%	17%	52%	6%
Crompton Consumer	278	BUY	338	2.4	32.9	28.9	10.1	8.1	31%	28%	15%	14%
Future Retail	304	ADD	370	2.1	18.8	17.1	2.4	2.2	14%	12%	7%	10%
Symphony	1,271	BUY	1,693	1.2	37.6	31.5	11.4	9.5	33%	33%	25%	19%
V-Guard	203	ADD	217	1.2	34.5	29.9	7.6	6.5	24%	23%	17%	15%
Future Lifestyle	349	BUY	500	0.9	37.2	27.2	3.1	2.9	8%	10%	37%	37%
V-Mart	2,211	ADD	2,700	0.6	41.3	33.0	7.5	6.3	18%	19%	24%	25%
TCNS Clothing	599	BUY	670	0.5	25.6	22.0	4.1	3.6	19%	19%	18%	16%
Shoppers Stop	380	REDUCE	370	0.5	45.7	36.5	3.5	3.2	8%	9%	1088%	25%
Arvind Fashion	346	BUY	460	0.3	-43.5	350.5	2.4	2.4	-5%	1%	-77%	-112%
<b>Industrials (Infrastructure, Cap Goods &amp; Logistics)</b>												
Larsen & Toubro Ltd	1,188	BUY	1,765	23.1	13.7	13.2	4.5	4.0	17%	16%	22%	4%
Siemens	1,304	ADD	1,533	6.4	35.3	32.2	4.8	4.3	14%	14%	15%	10%
Container Corporation	510	BUY	665	4.3	22.8	18.3	2.9	2.7	13%	15%	34%	24%
ABB India	1,185	ADD	1,254	3.5	12.0	11.1	6.6	5.9	15%	14%	21%	8%
KEC International	310	BUY	441	1.1	12.6	11.1	2.5	2.1	22%	20%	19%	13%
Kalpataru Power Transmission	332	BUY	561	0.7	9.5	8.6	1.7	1.5	15%	14%	15%	11%
PNC Infratech	172	BUY	318	0.6	9.4	8.5	1.3	1.1	15%	14%	21%	11%
Dilip Buildcon	299	BUY	605	0.6	5.7	5.2	0.8	0.7	15%	14%	28%	8%
KNR Constructions	265	BUY	371	0.5	12.5	10.6	1.6	1.4	14%	14%	14%	18%
IRB Infrastructure	84	BUY	158	0.4	5.3	9.5	0.5	0.5	9%	5%	-9%	-43%
Ashoka Buildcon	90	BUY	199	0.4	547.3	132.6	1.7	1.8	0%	1%	-87%	313%
Ahluwalia Contracts	350	BUY	383	0.3	12.6	10.2	2.1	1.8	18%	19%	81%	23%
NCC	36	BUY	104	0.3	6.0	4.9	0.4	0.4	7%	8%	27%	23%
PSP Projects	492	BUY	593	0.2	12.5	16.3	3.1	2.7	27%	17%	14%	-23%
HG Infra	237	BUY	464	0.2	6.2	5.9	1.3	1.0	23%	20%	26%	6%
Gateway Distriparks	130	BUY	190	0.2	15.2	12.2	1.0	1.0	7%	8%	-12%	24%
JMC Projects	74	BUY	136	0.2	6.2	5.5	0.8	0.7	15%	14%	7%	13%
Sadbhav Engineering	71	BUY	160	0.2	4.4	4.6	0.4	0.4	9%	8%	20%	-5%
Capacite Infraprojects	159	BUY	369	0.1	6.3	5.7	1.0	0.9	18%	17%	80%	10%
ITD Cementation	53	BUY	86	0.1	14.2	9.0	0.9	0.9	10%	10%	31%	57%
J Kumar Infraprojects	126	BUY	283	0.1	4.4	4.1	0.5	0.5	13%	12%	20%	6%
<b>Real Estate</b>												
DLF	202	BUY	284	6.5	34.9	28.4	1.3	1.2	4%	4%	56%	23%
Oberoi Realty	510	ADD	573	2.6	16.8	12.2	1.9	1.6	12%	14%	93%	37%
Prestige Estates	290	ADD	358	1.5	25.4	33.3	2.7	2.6	18%	14%	0%	-24%
Brigade Enterprises	232	ADD	252	0.4	28.7	18.0	1.9	1.8	7%	10%	6%	59%
Sobha Developers	297	BUY	590	0.4	9.4	7.2	1.3	1.1	15%	16%	24%	30%
Kolte Patil	213	BUY	310	0.2	17.4	13.4	1.7	1.5	9%	11%	1%	30%

HSIE Coverage	Price	Rating	TP	M Cap US\$ bn	P/E		P/BV(ABV)		ROE		EPS Growth	
					FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
<b>IT and Exchanges</b>												
Tata Consultancy Services Ltd	2,000	REDUCE	2,095	104.0	21.4	19.1	7.8	7.4	37%	40%	8%	12%
Infosys Ltd	732	ADD	865	43.0	16.8	15.2	4.6	4.2	28%	28%	14%	11%
HCL Technologies Ltd	534	ADD	675	20.1	12.8	11.1	2.5	2.1	21%	21%	7%	15%
Wipro Ltd	221	REDUCE	240	17.5	12.1	11.1	1.9	1.7	17%	16%	5%	9%
Tech Mahindra Ltd	744	ADD	940	9.1	13.7	11.9	2.7	2.4	21%	21%	9%	15%
L&T Infotech	1,910	ADD	2,175	4.6	18.8	15.8	4.8	4.1	28%	29%	19%	19%
L&T Technologies	1,621	ADD	1,870	2.3	18.7	15.6	4.9	4.1	28%	28%	14%	20%
Mphasis	872	ADD	1,040	2.3	13.3	11.7	2.6	2.3	20%	21%	9%	13%
Mindtree	944	REDUCE	950	2.2	19.7	14.9	4.2	3.6	23%	26%	24%	32%
Hexaware	360	ADD	430	1.5	15.3	13.3	3.3	2.9	23%	23%	10%	14%
MCX	1,278	ADD	1,450	0.9	27.0	21.6	4.8	4.5	18%	22%	7%	25%
Persistent	696	ADD	775	0.7	13.9	11.7	2.0	1.8	15%	16%	6%	19%
Cyient	426	ADD	500	0.7	10.4	9.3	1.6	1.4	16%	16%	13%	12%
TeamLease	2,322	BUY	3,222	0.6	34.2	25.2	5.3	4.4	17%	19%	29%	36%
Sonata	335	BUY	435	0.5	10.6	9.2	3.5	3.1	35%	36%	11%	15%
Zensar Technologies	137	ADD	170	0.4	10.6	8.0	1.3	1.2	13%	15%	20%	33%
CDSL Ltd	265	BUY	351	0.4	21.7	18.5	3.5	3.2	16%	17%	10%	17%
BSE	453	ADD	610	0.3	11.1	9.3	0.8	0.8	7%	9%	26%	18%
Mastek	406	BUY	595	0.2	7.8	6.5	1.2	1.1	17%	18%	26%	19%
Majesco	366	BUY	540	0.1	12.1	9.9	1.3	1.2	11%	12%	54%	23%
<b>Energy (Oil &amp; Gas)</b>												
Reliance Industries Ltd	1,329	ADD	1,566	116.7	14.0	12.9	1.8	1.7	9%	9%	13%	8%
Oil & Natural Gas Corp Ltd	92	BUY	179	16.0	3.5	3.0	0.5	0.5	10%	12%	-4%	18%
Indian Oil Corp Ltd	106	BUY	184	13.5	4.0	3.5	0.8	0.7	15%	16%	33%	14%
Bharat Petroleum Corp Ltd	426	REDUCE	456	11.6	7.4	7.5	1.9	1.7	18%	16%	11%	-1%
GAIL India Ltd	104	BUY	199	6.5	5.8	4.4	0.9	0.9	10%	12%	9%	30%
Petronet LNG	246	BUY	405	5.1	11.2	10.3	3.3	3.2	31%	32%	22%	8%
Indraprastha Gas	442	BUY	560	4.3	21.9	19.4	5.4	4.6	24%	24%	10%	13%
HPCL	198	BUY	320	4.2	5.0	4.7	0.9	0.8	14%	13%	16%	7%
Gujarat Gas	276	ADD	310	2.6	22.5	19.6	4.9	4.0	24%	22%	-1%	15%
Gujarat State Petronet	238	ADD	260	1.9	6.0	5.6	4.6	3.5	16%	15%	14%	8%
OIL India	108	BUY	216	1.6	1.1	0.9	0.3	0.3	9%	9%	-6%	19%
Mahanagar Gas	1,004	BUY	1,482	1.4	13.1	12.9	2.5	2.5	23%	21%	1%	2%
Gulf Oil Lubricants	788	BUY	1,020	0.5	16.9	15.5	4.5	3.8	29%	26%	6%	9%
<b>Cement</b>												
UltraTech Cement Ltd	4,220	BUY	5,900	16.9	23.9	21.3	2.9	2.6	13%	13%	19%	12%
Shree Cement	22,671	SELL	20,600	11.3	47.2	44.5	5.6	5.1	12%	12%	11%	6%
Ambuja Cement	205	BUY	245	5.6	25.9	24.4	1.7	1.7	7%	7%	7%	6%
ACC	1,321	BUY	1,680	3.4	16.9	15.5	2.0	1.9	12%	12%	15%	9%
Ramco Cements	768	ADD	810	2.5	23.7	19.8	3.2	2.8	14%	15%	19%	20%
Dalmia Bharat/ Odisha Cem	784	BUY	1,210	2.1	57.1	42.4	1.4	1.3	2%	3%	-14%	35%
JK Cement	1,384	BUY	1,775	1.5	18.7	15.3	3.0	2.6	17%	18%	23%	22%
JK Lakshmi	308	BUY	490	0.5	11.1	11.0	1.8	1.5	17%	15%	28%	1%
STAR Cement	86	BUY	125	0.5	9.9	8.5	1.7	1.5	18%	18%	16%	17%
Orient Cement	80	BUY	115	0.2	12.6	8.3	1.3	1.2	11%	15%	62%	51%
Deccan Cement	272	BUY	495	0.1	6.0	4.9	0.7	0.6	13%	14%	25%	22%
<b>Chemicals</b>												
Vinati Organics	940	ADD	1,062	1.3	26.3	22.1	5.7	4.6	24%	23%	16%	19%
Navin Fluorine	1,430	ADD	1,479	1.0	30.5	24.2	5.2	4.5	18%	20%	26%	26%
Galaxy Surfactants	1,594	BUY	1,880	0.8	21.9	18.6	4.4	3.7	22%	21%	14%	17%
Alkyl Amines	1,511	BUY	2,130	0.4	17.5	15.6	5.0	4.0	32%	28%	7%	12%
Balaji Amines	409	BUY	493	0.2	11.0	10.8	1.7	1.5	15%	13%	8%	2%

HSIE Coverage	Price	Rating	TP	M Cap US\$ bn	P/E		P/BV(ABV)		ROE		EPS Growth	
					FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
<b>Pharma</b>												
Sun Pharmaceutical Industries Ltd	373	ADD	450	12.4	20.2	16.5	1.8	1.6	9%	10%	6%	22%
Dr Reddy's Laboratories Ltd	2,926	ADD	3,270	6.7	20.7	17.0	2.8	2.5	14%	15%	8%	22%
Torrent Pharma	2,150	ADD	2,405	5.0	33.2	26.9	6.8	6.0	19%	21%	17%	23%
Cipla Ltd/India	402	BUY	495	4.5	19.1	16.2	1.8	1.6	14%	14%	1%	17%
Lupin	640	ADD	690	4.0	23.0	17.6	1.9	1.7	8%	10%	20%	30%
<b>Aviation</b>												
Interglobe Aviation	1,300	BUY	1,750	6.9	17.4	11.3	4.9	3.5	32%	36%	210%	53%
SpiceJet	83	ADD	95	0.7	-16.5	-27.3	-7.7	-6.0	NM	NM	-43%	-39%

Source: HDFC sec Inst Research, Bloomberg; Pricing as of 28<sup>th</sup> Feb '20, P/ABV valuation multiple is provided for Banks & NBFCs, For Life Insurance co. P/EV has been considered

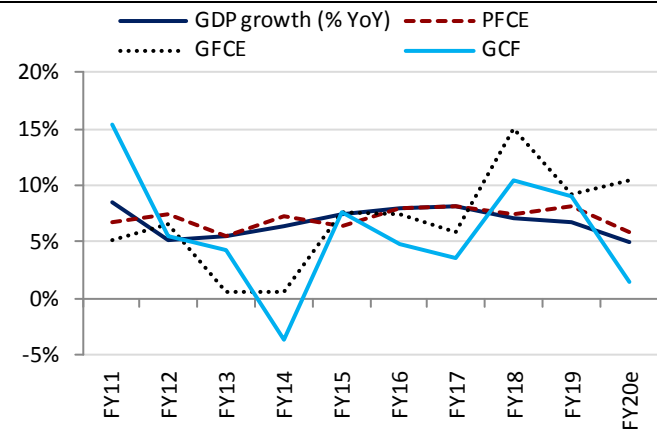
*Slowly coming out from low growth phase; GDP growth in FY21 is likely to improve to 6%yoy, though below trend levels*

## Overall economic recovery to be gradual

While India’s economy witnessed one of the toughest phases in the past year, the worst of economic cycle seems behind with several high frequency indicators exhibiting incremental improvement. However, we do not foresee a sharp rebound in FY21 and expect only a protracted auto-healing of the economy.

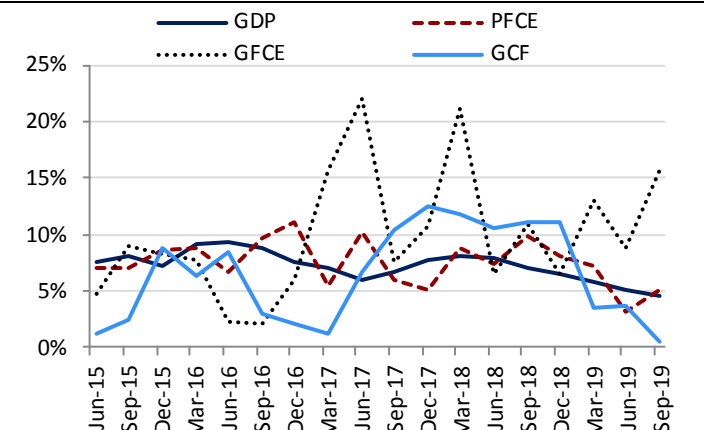
- GDP growth is likely to touch multi year lows of ~5% in FY20. While this is likely to be the bottom for real economic growth, recovery will be more calibrated and our economists expect GDP growth to recover to ~6% - still below economy’s inherent growth potential. The key driver for growth has been conscious government efforts to spend and stimulate the economy while private consumption has been in line with average growth and capital formation growth has seen a big drop.

**Annual growth (YoY) – GDP and components**



Source: CSO, MOSPI, HDFC sec Inst Research

**Quarterly growth (YoY) – GDP and components**



Source: CSO, MOSPI, HDFC sec Inst Research

- While the government/ policymakers have demonstrated strong intent in past 6 months to support the economy, given limited fiscal space (while headline Central govt fiscal deficit is estimated at 3.8%, the combined fisc deficit is est ~9%), and RBI has cut policy rates by 135bps since Dec’18, we are unable to foresee a sharp govt-stimulus-induced recovery hence forth. Households, private sector and banking system will need to participate to drive a higher growth and we expect this to materialize only in a gradual manner.

*Imperative for real estate, NBFCs, SME and autos segments to heal for a sustainable economic recovery; despite abundant systemic liquidity many segments remain credit starved*

### Improvement in strained NBFCs, Real Estate, SMEs, Auto sectors imperative for sustainable recovery;

- We believe that the key to sustainable recovery in macros will be contingent on healing of some key segments of the economy (which tend to have multiple economic linkages and high multiplier effect) i.e. Real Estate, NBFCs, SMEs – all of which have been hit by the structural shift in India’s economy post demon, GST, RERA etc. While government has indeed announced several measures (such as funding of AIFs for real estate, provision of liquidity for NBFCs etc) we think these may not be sufficient to fully cure these strained sector. Even though systemic liquidity is flush (~INR4trn), the allocation of liquidity to sectors/companies in desperate need for liquidity has been anemic.

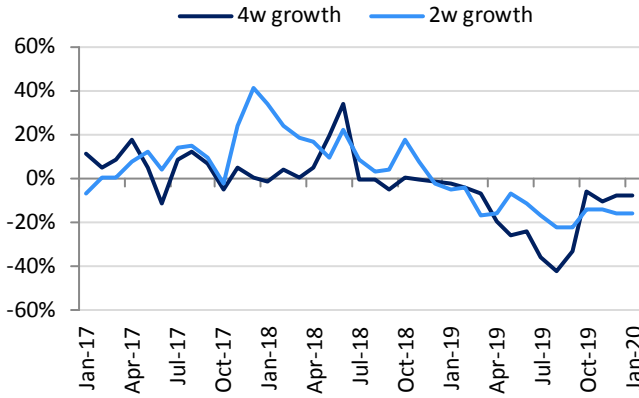


**Few consumption indicators making marginal recovery, albeit on an absolute level growth remains muted/-ve for several indicators**

### Consumption dynamics are improving but not enough

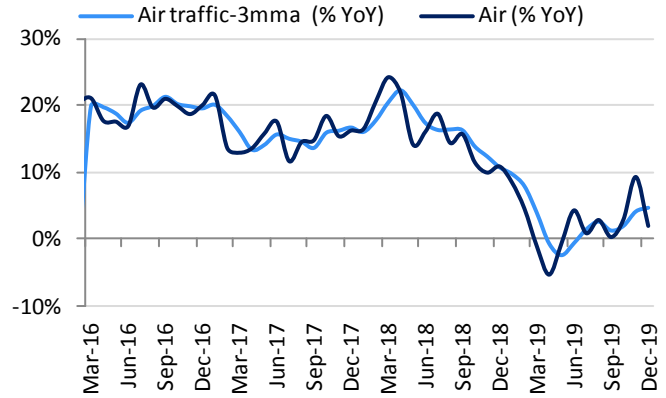
- While many consumption indicators posted sharp decline in 1HFY20, some have started to witness some improvement incrementally, albeit the absolute growth impulse still remains weak. Our autos team believes that auto volume growth should improve in FY21 owing low base, government's stimulus measures and improving rural economy. However, growth is unlikely to be very strong and we reckon that growth across cars and 2W will be contained at ~6-8% in FY21.

#### 2w/4w gth (% yoy) – some incremental recovery



Source: CMIE, HDFC sec Inst Research

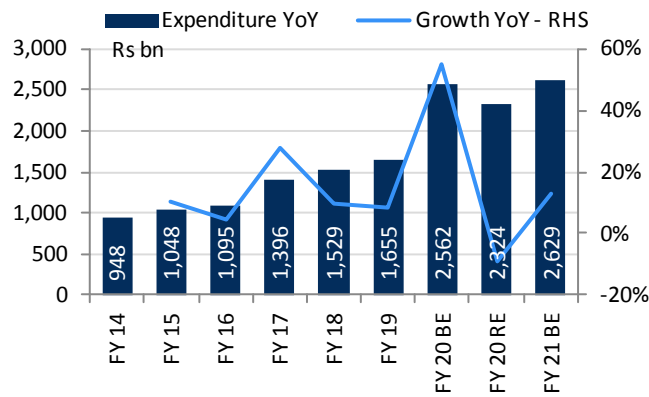
#### Air traffic growth (% yoy) – moving into +ve zone



Source: Ministry of Civil Aviation, HDFC sec Inst Research

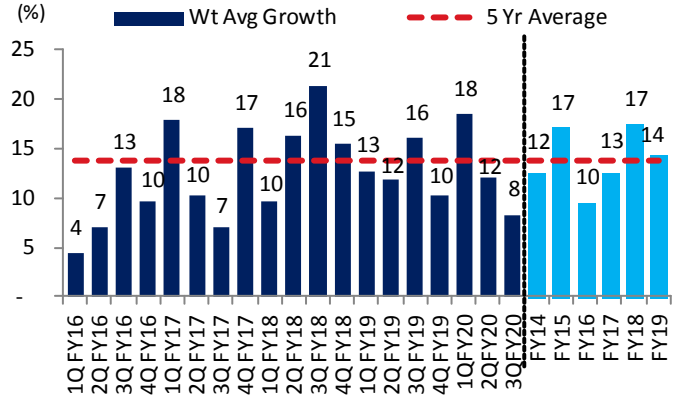
- Air and rail passenger traffic growth has also slowed down over the past year, particularly air traffic growth has eased sharply from the consistently high teens-early 20s growth seen between 2016-mid 18. Moving averages have started to post improvement into positive but still remains muted at ~5%.

#### Expenditure of Agriculture + Rural Dev mins



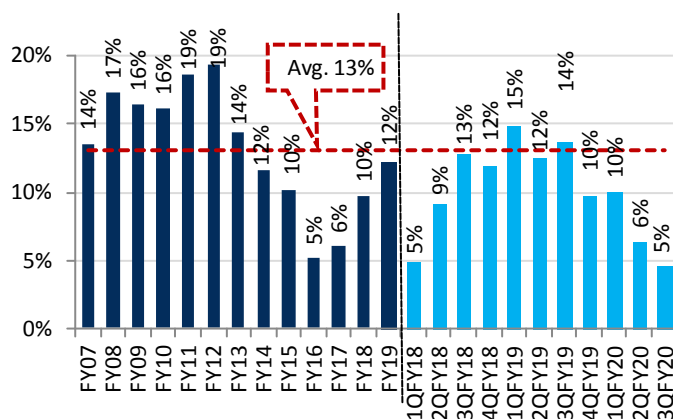
Source: Gol budget documents, HDFC sec Inst Research

#### Growth in consumer durables (appliances)



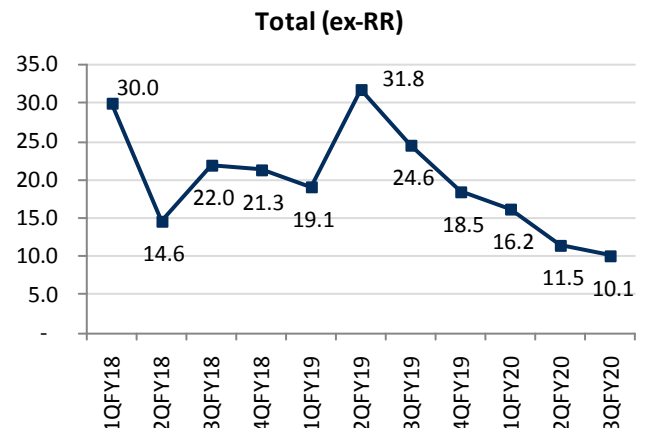
Source: Company data, HDFC sec Inst Research

#### HDFC Consumer index - growth remains muted



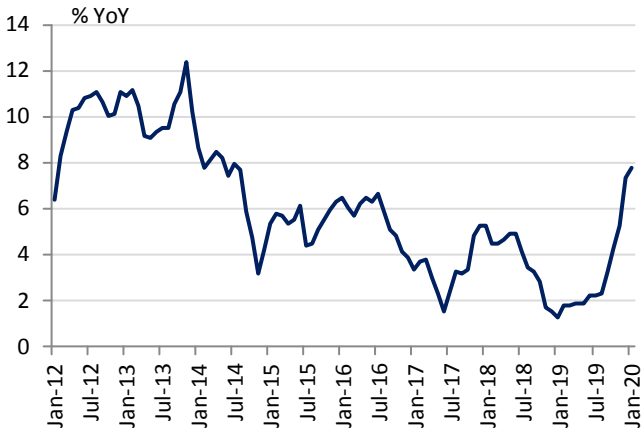
Source: Company data, HDFC sec Inst Research

#### Retail revenue growth (%YoY)



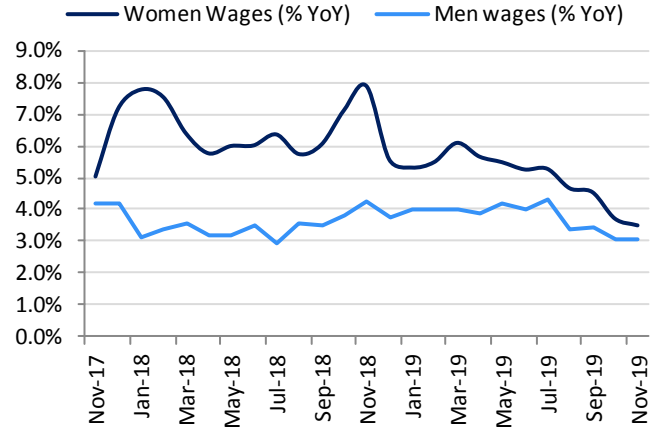
Source: Company data, HDFC sec Inst Research

**Rural CPI (% YoY) – sharp spike owing food prices**



Source: Bloomberg, HDFC sec Inst Research

**Rural wage gth (% YoY) – easing but should pick up**



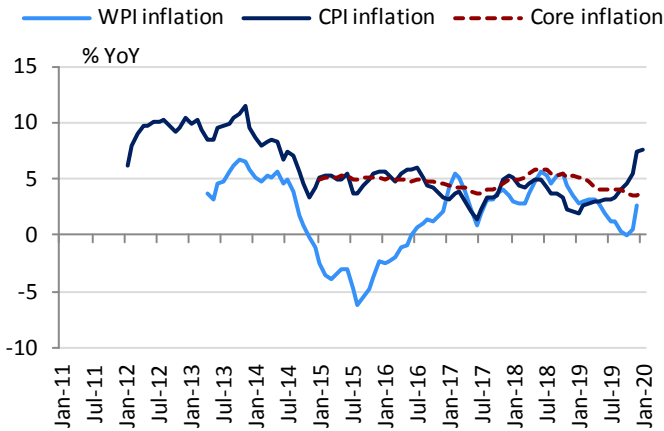
Source: RBI, HDFC sec Inst Research

**Inflation has picked up- but unlikely to be worrisome**

**Recent spike in inflation likely to ease, but RBI's policy response has been impacted by sudden uptick**

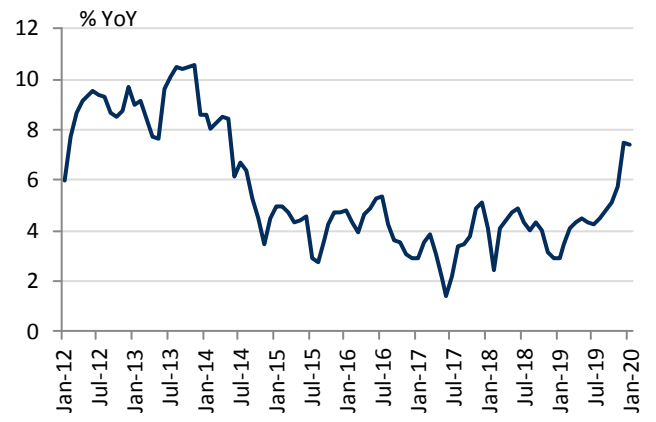
- Headline CPI inflation-currently running at 7.6%- has risen over the past few months breaching RBI's target band. Core inflation is currently at a more acceptable 4.2%- albeit has moved up over past readings. Wholesale inflation has also edged up to 3.1%-mirroring trends in CPI inflation. However, one of the key reason for recent spike – vegetable inflation- has been cooling off and it is likely that the overall headline inflation starts to show declining trend hereupon.

**WPI/CPI inflation (% YoY) – uptick all across**



Source: Bloomberg, HDFC sec Inst Research

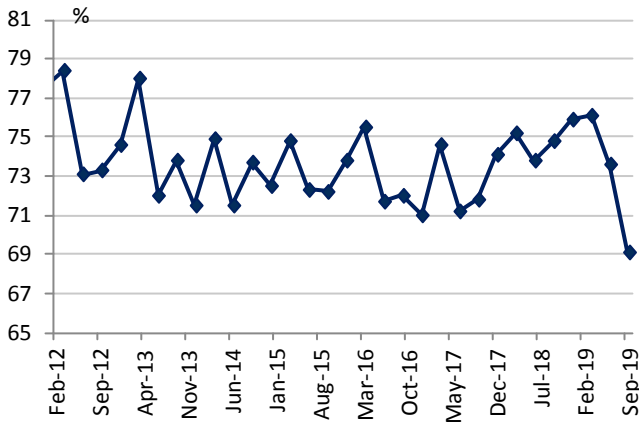
**Urban inflation (% YoY) – sharp recent spike**



Source: Bloomberg, HDFC sec Inst Research

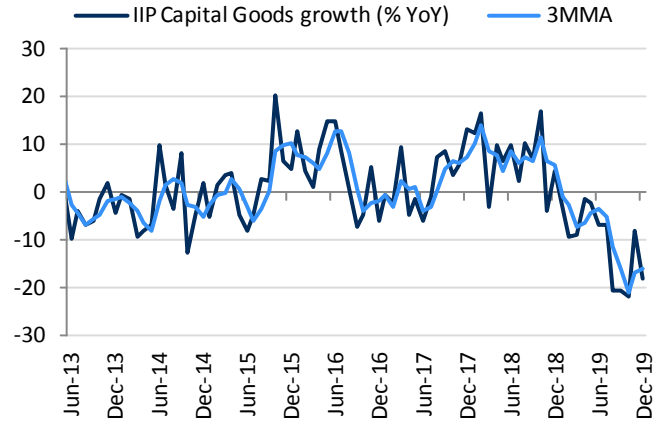
## Industry, investments, capex remain the laggard- unlikely to see sharp rebound in FY21

### Capacity utilization – running at multi year lows



Source: RBI, HDFC sec Inst Research

### IIP capital goods – still running weak

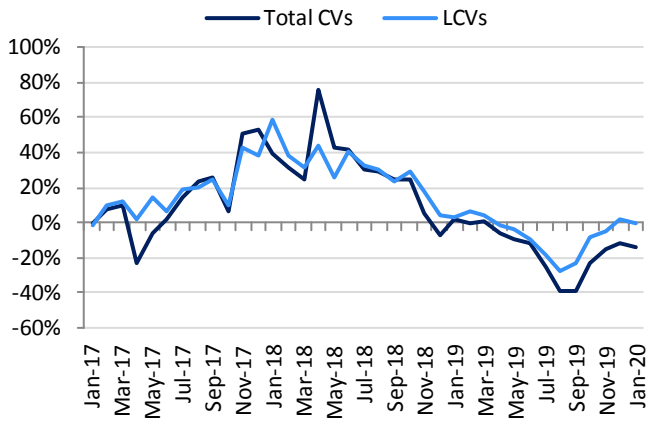


Source: Bloomberg, HDFC sec Inst Research

**Most capex indicators remain muted barring the recent surge in PMI to multi-year high levels**

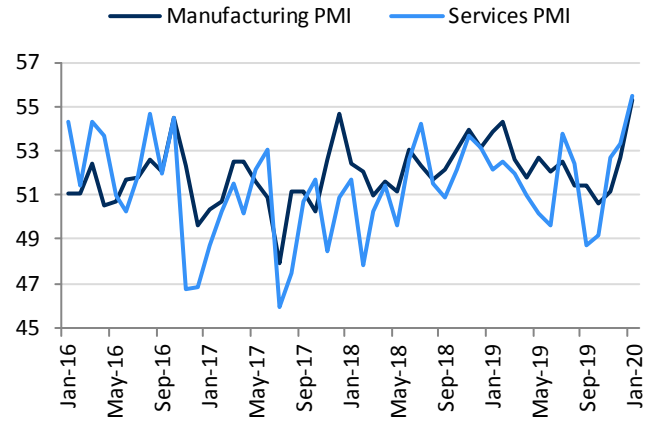
- Most investments, capex & industrial recovery indicators remain muted barring manufacturing PMI which had recently jumped to multi year high of 55.3. Needs to be seen if this sustains. Capacity utilization levels are running at a very low level and at 69% in Sep-19, was among the lowest in a decade. Till capacity utilizations move up sharply corporate capex cycle will remain muted barring some pockets of growth.

### Trend in CV sales (%)– recovering from deep lows



Source: CMIE, HDFC sec Inst Research

### PMI – sharp spike to multi year highs



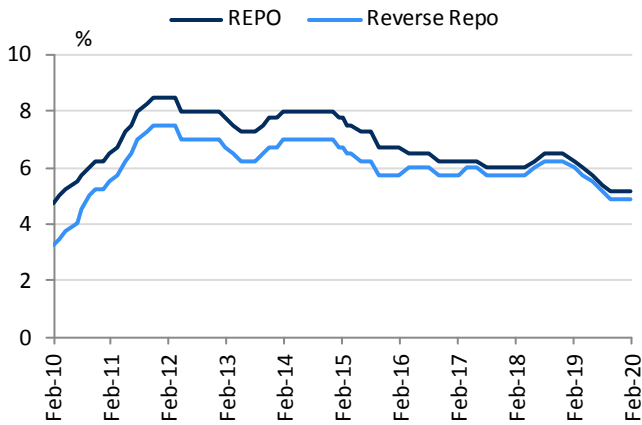
Source: CMIE, HDFC sec Inst Research

## Monetary Policy stance likely to stay accommodative- albeit further headroom seems limited

**RBI is likely to stay accommodative and could ease further at signs of falling inflation; however the room to ease further seems limited hereupon**

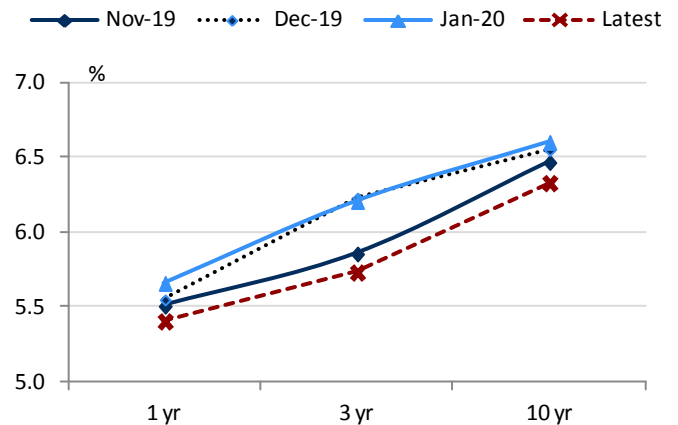
- We expect RBI to maintain its accommodative bias as growth dynamic is yet to strengthen meaningfully. However, given that inflation has moved up to 7%+ (albeit good bit of it is short lived) and RBI has already undertaken several policy measures in past year to stimulate growth, mend sentiments and aid monetary transmission, the headroom and likely impact of further accommodation could be limited.
- RBI is likely to respond to any downtick in inflation movement with some policy accommodation with repo rate expected to decline by further 25bps in FY21. RBI may continue to surprise with some unconventional measures (like earlier measures of operation twist or LTRO) but we believe that the room to stimulate growth impulses through regulatory/policy interventions is limited and the economy will likely improve via organic auto-healing of the private and household sectors.

### RBI policy rate- significant cuts already done



Source: Bloomberg, HDFC sec Inst Research

### Yield Curve - has shifted lower owing LTRO



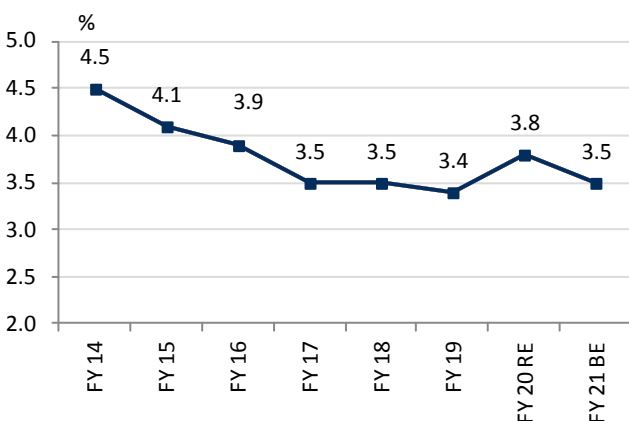
Source: Bloomberg, HDFC sec Inst Research

## Fiscal room seems limited too-govt has used FRBM escape clause

**While we deem it important, we do not see a significant room for fiscal expansion**

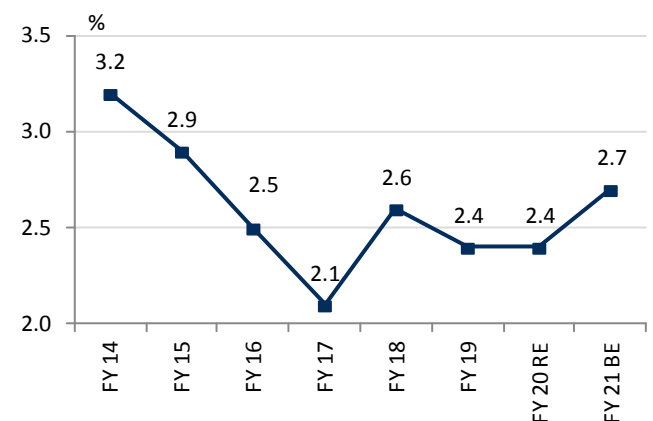
- The current government has largely desisted from fiscal profligacy, but given the weak growth environment it has strove to inject some fiscal stimulus – most notably the corporate tax cut announced in Sep'19. In addition, for both FY20 and FY21 budgets the FM has fully utilized the escape clause of FRBM Act and although we deem it imperative, we see limited room for further fiscal stimulus.

### Fiscal Deficit (% of GDP) – not much stimulus



Source: GoI budget documents, HDFC sec Inst Research

### Revenue Deficit (% of GDP)- moving up



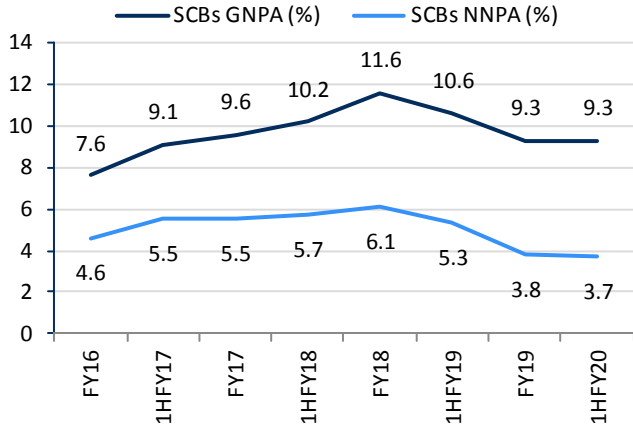
Source: GoI budget documents, HDFC sec Inst Research

*Weak credit growth is symptomatic of weak economy. Asset quality improvement is a silver lining though*

### Credit flow also needs to improve for growth to revive meaningfully

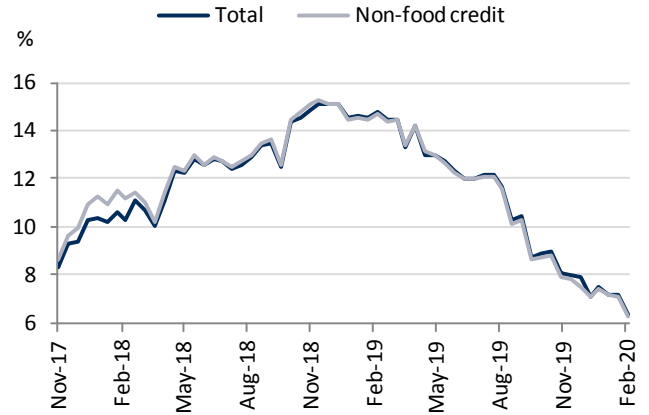
- Bank credit growth has fallen been exhibiting declining trend with PSU banks apparently not doing much of credit intermediation- to the extent of invoking FM admonition. Growth heavy lifting is largely done by select private banks. On the positive side systemic asset quality trend seem to be improving with the IBC process helping in recoveries.

#### Asset Quality of Scheduled Commercial Banks



Source: RBI, HDFC sec Inst Research

#### Credit growth –running low despite liquidity glut



Source: RBI, HDFC sec Inst Research

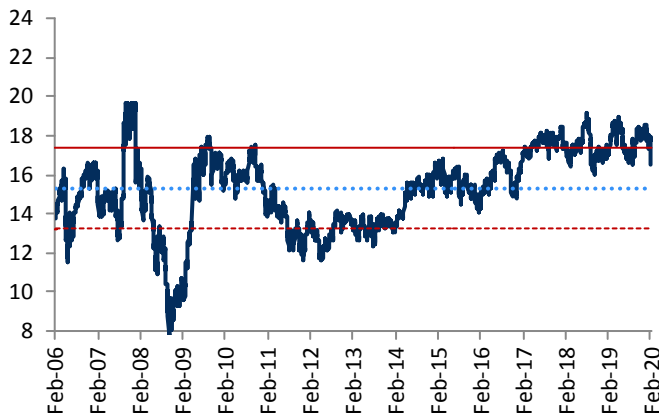
## Market valuation, earnings & flows

**Upmove in indices since Sept'19 tax rate cut has pushed market valuation above LT mean; stock picking becomes a key in the current scenario**

**We are heavily positioned on quality GARP and under-appreciated Turnaround plays and selectively into Quality at High price and Value names**

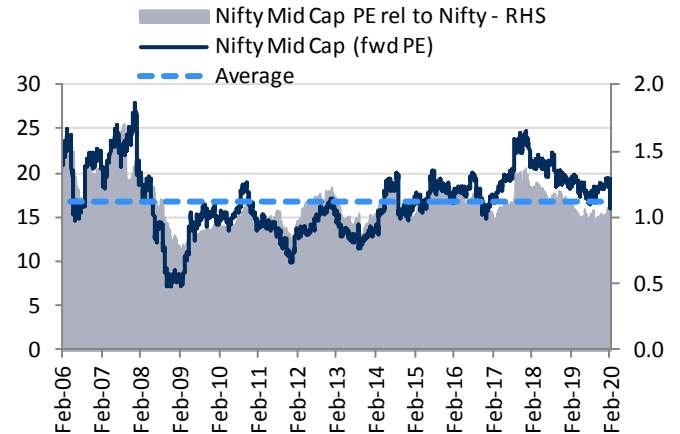
- While economic indicators have exhibited weakening trends over the past year, stock markets posted 13% performance since the government announced corporate tax cuts in September'19 till recently when coronavirus scare has diluted some of strong performance. With markets now trading above LT valuations, alpha generation will mostly be through bottom up stock picking, in our view.
- Within stock picking we believe that Quality GARP and under-appreciated turnaround plays are likely to generate alpha over the next year while we are also positively disposed towards select value stocks which still have reasonable growth prospects and bereft of meaningful risk of business model disruption. In addition, even though consumption has slowed down broadly, we continue to expect reasonable growth in low ticket size consumer-discretionary names.

### Nifty 12 mth fwd PE ratio - multiple expansion



Source: Bloomberg, HDFC sec Inst Research

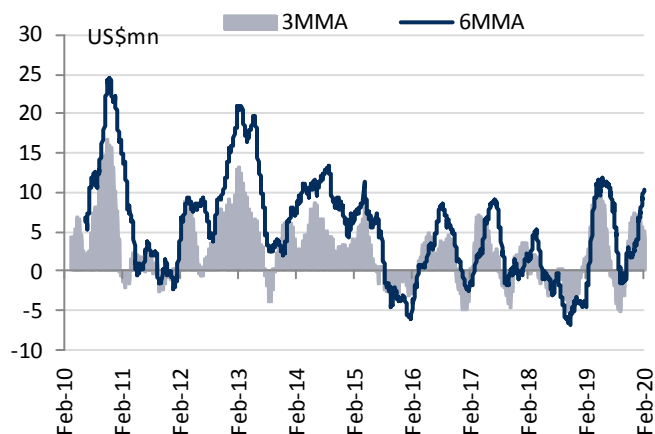
### Index valuation- mid cap premium has shrunk



Source: Bloomberg, HDFC sec Inst Research

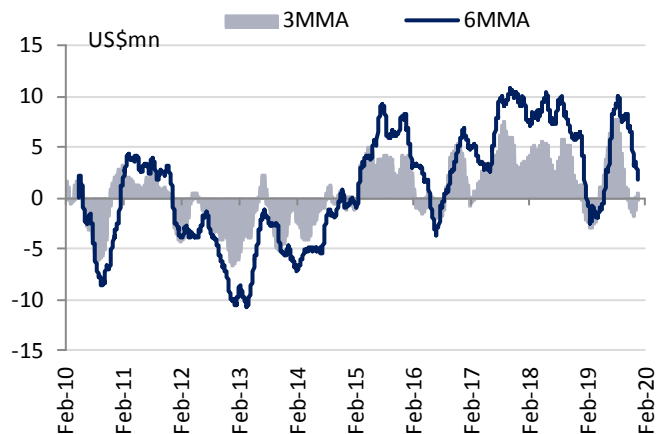
**Strategy**

**FII flows—strong lately, risk-off threat in near term**



Source: Bloomberg, HDFC sec Inst Research

**DII flows into Indian equities – foil to FIIs**

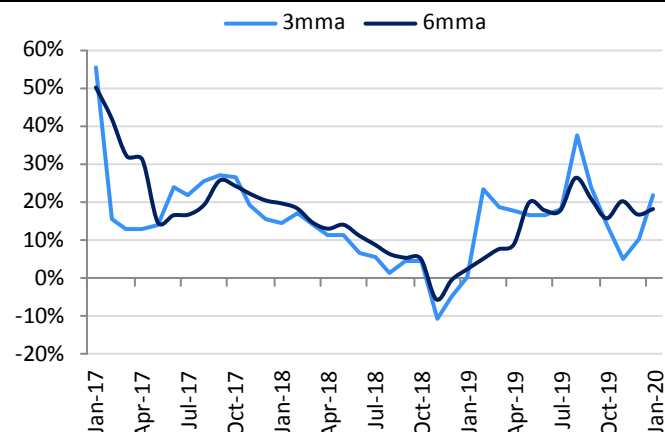


Source: Bloomberg, HDFC sec Inst Research

***FIIs have turned buyers recently—but near term risk-off threat owing coronavirus scare exists; DIIs are being cautious***

- After four years of muted/negative outturn between 2014-2018, FII flows into Indian equities improved markedly 2019 onwards and have been one of the key drivers of performance of Indian markets. However, risk-off sentiment owing scare around coronavirus has potential to impede FII flows in the near term. DIIs on the other hand have behaved differently with quantum of net investments into equities slowing down in 2019 and current year aggregate DII flows standing at just US\$400mn.

**NBP of life insurers – strong growth continues**

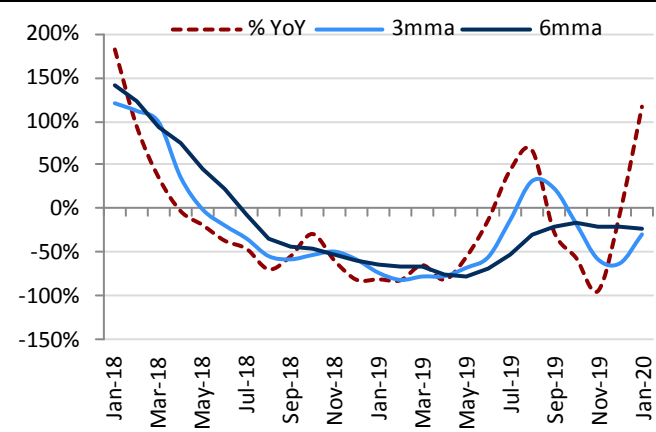


Source: IRDAI, HDFC sec Inst Research

***Life insurers NBP growth continues to be robust while flows into Equity MFs have been weak with intermittent sharp upticks***

- Flows into domestic institutional investors (i.e. equity mutual funds and life insurers) have been divergent with life insurance industry continuing to see strong growth of high teens in past 6 months while flows into equity MFs have eased over the past year with only sporadic period of sharp YoY uptick. While the SIP flows have helped to maintain an annuitized stream of flows into equity MFs, the lumpsum flows have slowed down materially. Nonetheless, we remain believers in the trend of long term financialization of India’s household savings.

**Flows into equity MFs –sudden spike**



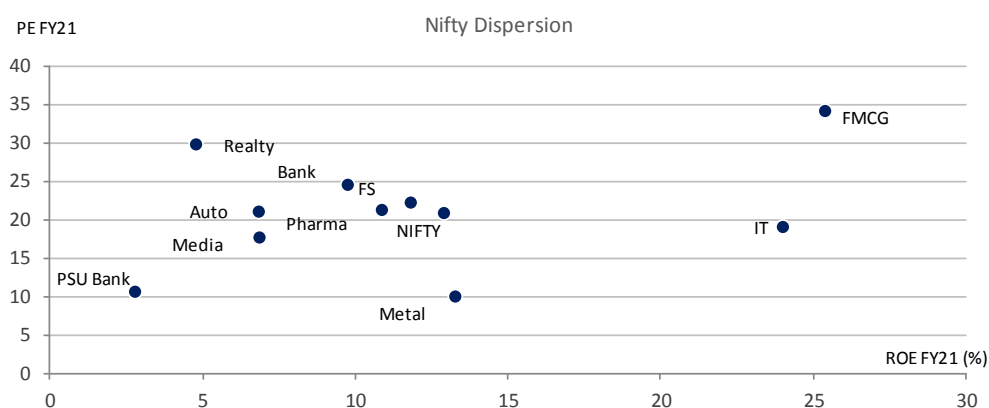
Source: AMFI, HDFC sec Inst Research

## Nifty Sectoral PAT Growth

Name	FY17	FY18	FY19	FY20E	FY21E	FY22E
Autos	-2%	22%	NM	NM	32%	25%
BFSI	-14%	-5%	31%	57%	37%	22%
Consumer	10%	14%	14%	22%	14%	15%
Industrials (Infrastructure+ Cap Goods)	40%	11%	17%	14%	16%	17%
IT	6%	3%	13%	6%	9%	9%
Oil & Gas	35%	9%	8%	-5%	24%	14%
Materials	262%	100%	7%	-16%	22%	10%
Media	170%	-33%	6%	15%	6%	13%
Pharma	16%	-51%	35%	35%	18%	15%
Telecom	-21%	-45%	-19%	NM	NM	60%
Utilities	8%	3%	21%	2%	11%	11%
<b>NIFTY</b>	<b>15%</b>	<b>11%</b>	<b>2%</b>	<b>17%</b>	<b>26%</b>	<b>16%</b>

Source: Bloomberg , HDFC sec Inst Research

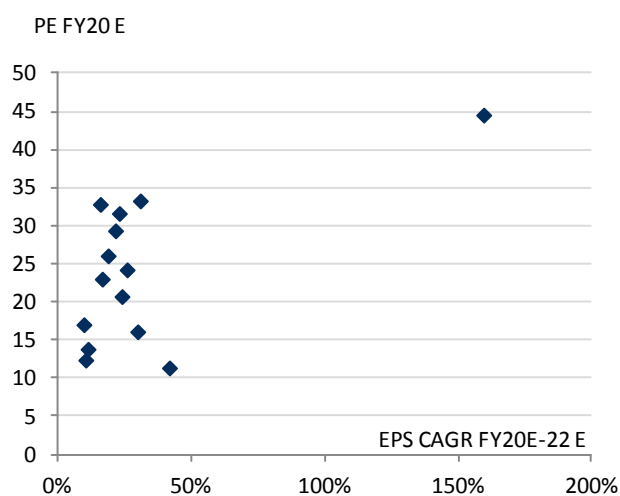
## Sector wise valuation scatter of Nifty



**Valuation divergence across and even within sectors are at extremely elevated levels, thereby providing mispriced opportunities**

Source: Bloomberg Estimates as on 24<sup>th</sup> Feb 20

## Nifty Auto valuation dispersion

Source: Bloomberg Estimates as on 24<sup>th</sup> Feb 20

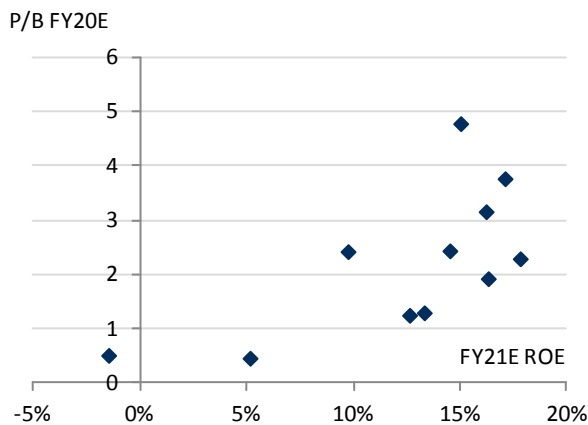
## Nifty Auto Dispersion

Name of Company/ Index	EPS CAGR FY20E-22E	PE FY20E
NIFTY AUTO	23.68%	21.05
Eicher Motors Ltd	16.29%	23.04
Motherson Sumi Systems Ltd	25.61%	24.26
Mahindra & Mahindra Ltd	10.10%	12.41
Hero MotoCorp Ltd	10.96%	13.83
Maruti Suzuki India Ltd	22.69%	31.65
TVS Motor Co Ltd	21.26%	29.39
Tata Motors Ltd	159.36%	44.57
Bajaj Auto Ltd	9.39%	17.06
Ashok Leyland Ltd	41.49%	11.38
Bharat Forge Ltd	30.57%	33.31
Apollo Tyres Ltd	29.58%	16.13
Bosch Ltd	15.57%	32.85
MRF Ltd	18.50%	26.10

Source: Bloomberg Estimates as on 24<sup>th</sup> Feb 20



### Nifty Bank valuation dispersion

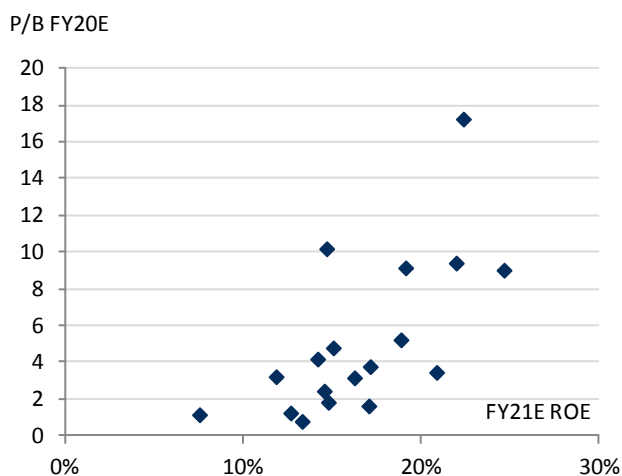
Source: Bloomberg Estimates as on 24<sup>th</sup> Feb 20

### Nifty Bank dispersion

Name of Company/ Index	ROE FY21E	P/B FY20E
NIFTY BANK	10%	2.42
Axis Bank Ltd	15%	2.44
Bank of Baroda	5%	0.45
State Bank of India	13%	1.24
HDFC Bank Ltd	17%	3.77
Kotak Mahindra Bank Ltd	15%	4.79
IndusInd Bank Ltd	18%	2.29
Federal Bank Ltd	13%	1.29
ICICI Bank Ltd	16%	3.16
RBL Bank Ltd	16%	1.92
Yes Bank Ltd	-2%	0.50

Source: Bloomberg Estimates as on 24<sup>th</sup> Feb 20

### Nifty FS valuation dispersion

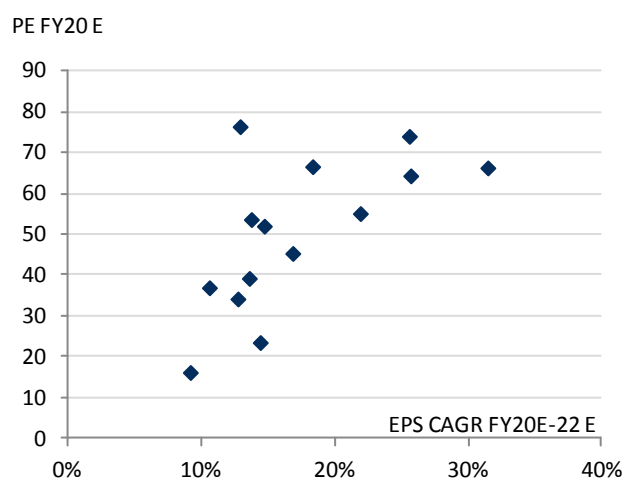
Source: Bloomberg Estimates as on 24<sup>th</sup> Feb 20

### Nifty FS dispersion

Name of Company/ Index	ROE FY21E	P/B FY20E
NIFTY FS	12%	3.22
Axis Bank Ltd	15%	2.44
Bajaj Finserv Ltd	19%	5.23
Cholamandalam Investment and Finance Co	21%	3.46
SBI Life Insurance Co Ltd	15%	10.19
State Bank of India	13%	1.24
HDFC Bank Ltd	17%	3.77
Shriram Transport Finance Co Ltd	17%	1.63
Housing Development Finance Corp Ltd	14%	4.18
Kotak Mahindra Bank Ltd	15%	4.79
Indiabulls Housing Finance Ltd	13%	0.79
Bajaj Finance Ltd	25%	9.02
ICICI Bank Ltd	16%	3.16
HDFC Life Insurance Co Ltd	22%	17.25
Edelweiss Financial Services Ltd	7%	1.15
Mahindra & Mahindra Financial Services L	15%	1.83
ICICI Lombard General Insurance Co Ltd	22%	9.41
ICICI Prudential Life Insurance Co Ltd	19%	9.15

Source: Bloomberg Estimates as on 24<sup>th</sup> Feb 20

### Nifty FMCG valuation dispersion

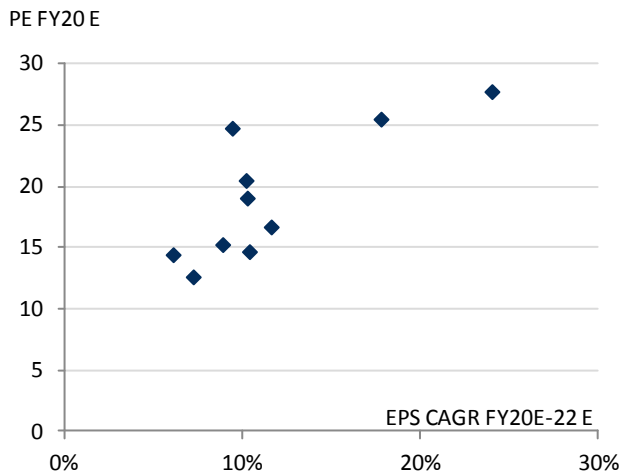
Source: Bloomberg Estimates as on 24<sup>th</sup> Feb 20

### Nifty FMCG dispersion

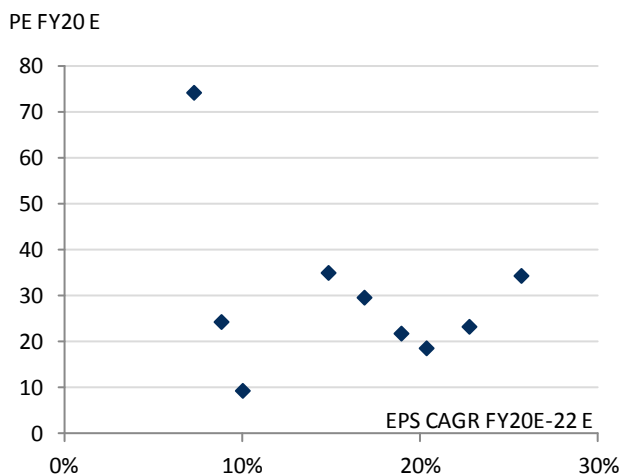
Name of Company/ Index	EPS CAGR FY20E-22 E	PE FY20E
NIFTY FMCG	12.68%	34.17
Procter & Gamble Hygiene & Health Care L	25.55%	74.02
Emami Ltd	14.36%	23.49
ITC Ltd	9.11%	16.15
Marico Ltd	10.55%	36.92
Dabur India Ltd	13.69%	53.63
Hindustan Unilever Ltd	18.29%	66.60
Nestle India Ltd	12.85%	76.40
United Spirits Ltd	21.87%	55.10
Godrej Consumer Products Ltd	13.54%	39.20
Britannia Industries Ltd	14.67%	52.01
United Breweries Ltd	31.43%	66.30
Jubilant Foodworks Ltd	25.65%	64.35
Tata Consumer Products Ltd	16.80%	45.33

Source: Bloomberg Estimates as on 24<sup>th</sup> Feb 20

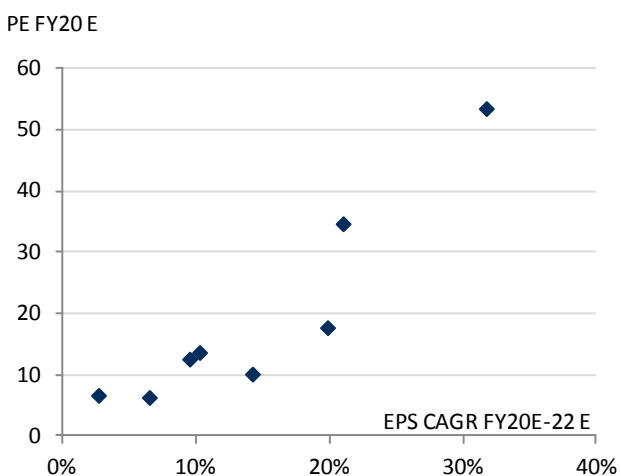
## Nifty IT valuation dispersion

Source: Bloomberg Estimates as on 24<sup>th</sup> Feb 20

## Nifty Real Estate valuation dispersion

Source: Bloomberg Estimates as on 24<sup>th</sup> Feb 20

## Nifty Media valuation dispersion

Source: Bloomberg Estimates as on 24<sup>th</sup> Feb 20

## Nifty IT dispersion

Name of Company/ Index	EPS CAGR FY20E-22E	PE FY20E
NIFTY IT	10.21%	19.05
Just Dial Ltd	7.17%	12.62
Wipro Ltd	6.04%	14.43
Infosys Ltd	10.14%	20.49
HCL Technologies Ltd	10.33%	14.68
Hexaware Technologies Ltd	8.82%	15.25
Tata Consultancy Services Ltd	9.36%	24.76
NIIT Technologies Ltd	17.73%	25.51
Tech Mahindra Ltd	11.55%	16.70
Mindtree Ltd	23.97%	27.75

Source: Bloomberg Estimates as on 24<sup>th</sup> Feb 20

## Nifty Real Estate dispersion

Name of Company/ Index	EPS CAGR FY20E-22E	PE FY20E
NIFTY REALTY	16.78%	29.82
Brigade Enterprises Ltd	22.68%	23.47
DLF Ltd	25.61%	34.55
Godrej Properties Ltd	7.19%	74.46
Oberoi Realty Ltd	18.86%	21.99
Prestige Estates Projects Ltd	8.73%	24.51
Phoenix Mills Ltd/The	14.75%	35.21
Sobha Ltd	9.93%	9.51
Sunteck Realty Ltd	20.27%	18.78

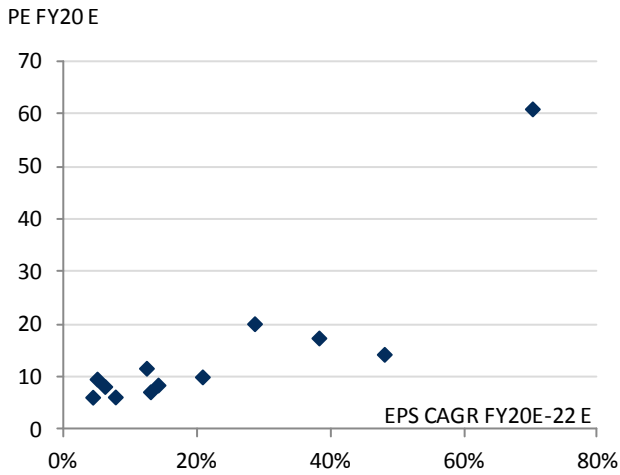
Source: Bloomberg Estimates as on 24<sup>th</sup> Feb 20

## Nifty Media dispersion

Name of Company/ Index	EPS CAGR FY20E-22E	PE FY20E
NIFTY MEDIA	19.80%	17.68
Inox Leisure Ltd	20.97%	34.66
Sun TV Network Ltd	9.46%	12.55
Zee Entertainment Enterprises Ltd	10.20%	13.62
DB Corp Ltd	6.43%	6.28
TV Today Network Ltd	14.17%	10.10
Jagran Prakashan Ltd	2.62%	6.62
PVR Ltd	31.71%	53.48

Source: Bloomberg Estimates as on 24<sup>th</sup> Feb 20

### Nifty Metal valuation dispersion



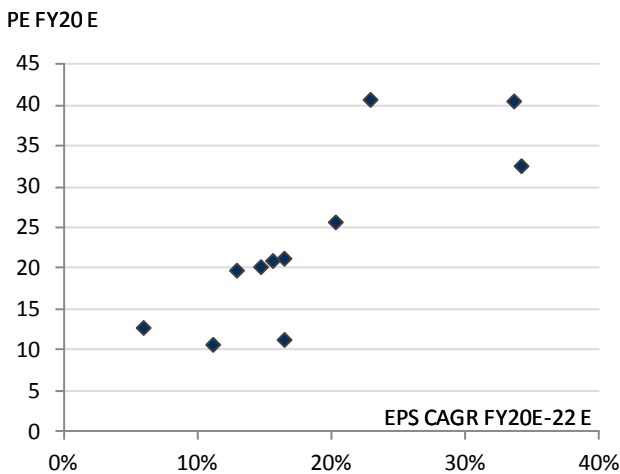
Source: Bloomberg Estimates as on 24<sup>th</sup> Feb 20

### Nifty Metal dispersion

Name of Company/ Index	EPS CAGR FY20E-22E	PE FY20E
NIFTY METAL	20.67%	9.99
Hindalco Industries Ltd	6.03%	8.16
Tata Steel Ltd	47.97%	14.29
JSW Steel Ltd	38.16%	17.41
Vedanta Ltd	14.02%	8.44
NMDC Ltd	7.61%	6.16
MOIL Ltd	12.28%	11.64
Coal India Ltd	4.21%	6.12
APL Apollo Tubes Ltd	28.50%	20.13
Welspun Corp Ltd	12.87%	7.14
National Aluminium Co Ltd	70.18%	61.08
Hindustan Zinc Ltd	4.87%	9.57

Source: Bloomberg Estimates as on 24<sup>th</sup> Feb 20

### Nifty Pharma valuation dispersion



Source: Bloomberg Estimates as on 24<sup>th</sup> Feb 20

### Nifty Pharma dispersion

Name of Company/ Index	EPS CAGR FY20E-22E	PE FY20E
NIFTY PHARMA	16%	21.27
Piramal Enterprises Ltd	6%	12.79
Sun Pharmaceutical Industries Ltd	16%	20.99
Cipla Ltd/India	15%	20.24
Dr Reddy's Laboratories Ltd	20%	25.73
Lupin Ltd	34%	32.61
Cadila Healthcare Ltd	13%	19.81
Biocon Ltd	34%	40.55
Divi's Laboratories Ltd	23%	40.74
Aurobindo Pharma Ltd	11%	10.72
Glenmark Pharmaceuticals Ltd	16%	11.32

Source: Bloomberg Estimates as on 24<sup>th</sup> Feb 20

## How should investors position ?

We launch HSIE model portfolio with this report. We have constructed our portfolio based on following premises: **(i)** we are not chasing quality at any price – we are selective in our stock picking in this bucket, **(ii)** while market has moved up post September'19 tax cuts, we still see large pocket of stocks that are priced reasonably and offer good growth (GARP), **(iii)** underappreciated turnaround stories and **(iv)** select value plays which have been derated substantially and offer reasonable earnings visibility.

**We see good pockets of risk-reward opportunities but we are not chasing “quality at any price”. We suggest moving one rung lower to GARP.**

**We are ~10% pts u-wt on QHV bucket, ~5%pts o-wt on GARP bucket, ~9%pts o-wt on Turnaround bucket**

- **Quality at high valuations (QHV):** We are not chasing **quality at any price** and are averse to taking meaningful over-weights in stocks which have been bid up to extremely high valuations even though the quality of business is very high. Such stocks have either run much ahead of their earnings trajectory – owing investors safe have seeking behavior, or, trade at very high multiples, or, exhibit very high PEG. While we do appreciate the strong structural biz model of these companies, extremely high valuations compel us to be highly selective in our approach towards this bucket with ~10% points underweight in model portfolio.

Following table contains the list of QHV stocks from HSIE coverage +Nifty 50. Stocks highlighted in light blue are the ones that have overweight position in our portfolio:

Quality	Mkt cap	TP	Stock CAGR (FY15-20)	EPS CAGR		P/E FY20 E	PEG FY20E	Div Yld FY21	P/BV(ABV)		RoE (%)	
				FY15 - FY20E	FY20E-22E				FY21E	FY22E	FY21E	FY22E
Kotak Mahindra Bank Ltd	42.9	1,725	21.0%	6.6%	17.7%	35.54	2.0	0.0%	4.3	3.7	14%	15%
Bajaj Finance Ltd	37.2	NR	64.9%	41.5%	33.5%	43.82	1.3	0.2%	6.7	5.2	25%	25%
AU Small Finance Bank	4.6	916			33.1%	50.18	1.5	0.1%	7.6	6.1	20%	21%
City Union Bank	2.2	265	23.0%	9.7%	15.1%	20.43	1.3	0.2%	2.8	2.4	15%	15%
SBI Life	12.3	1,160		28.9%	12.0%	32.42	2.7	0.3%	2.9	2.4	18%	18%
ICICI Lombard	7.8	1,170		17.0%	25.2%	42.99	1.7	0.6%	7.2	6.0	24%	24%
Hindustan Unilever Ltd	65.2	2,140	20.8%	13.2%	16.7%	65.01	3.9	1.4%	11.8	11.2	23%	24%
Nestle India Ltd	21.1	NR	19.0%	45.2%	15.0%	73.60	4.9	1.1%	45.9	41.9	100%	101%
Britannia Industries Ltd	9.9	3,318	23.4%	16.9%	14.3%	50.26	3.5	0.7%	12.8	10.3	32%	30%
Dabur India	12.1	529	13.8%	8.9%	15.0%	53.34	3.6	1.4%	11.8	10.8	27%	28%
Titan Co Ltd	15.4	1,260	27.2%	14.3%	28.6%	69.90	2.4	0.7%	13.4	11.3	27%	28%
Asian Paints Ltd	23.9	NR	17.8%	15.7%	16.1%	59.49	3.7	0.8%	13.8	12.0	28%	29%
Havells India	5.3	725	15.8%	11.0%	26.8%	48.88	1.8	1.3%	7.3	6.4	20%	22%
Voltas	3.1	744	21.1%	11.1%	19.9%	37.85	1.9	1.0%	4.4	3.9	15%	16%
Avenue Supermart	20.1	1,800		44.1%	30.3%	99.81	3.3	0.0%	11.1	9.4	16%	17%
Trent	3.4	690	41.0%	-8.5%	26.6%	87.77	3.3	0.0%	9.0	8.2	13%	14%
V-Mart	0.6	2,700	34.7%	14.7%	24.5%	51.19	2.1	0.1%	7.5	6.3	18%	19%
Siemens	6.4	1,533	-0.3%	17.4%	12.3%	40.65	3.3	0.8%	4.8	4.3	14%	14%
ABB India	3.5	1,254	1.0%	11.2%	14.4%	56.33	3.9	0.5%	6.6	5.9	15%	14%
Reliance Industries Ltd	116.7	1,566	29.0%	8.6%	10.3%	15.74	1.5	0.6%	1.8	1.7	9%	9%
Indraprastha Gas	4.3	560	40.9%	21.8%	11.6%	24.09	2.1	1.2%	5.4	4.6	24%	24%
Gujarat Gas	2.6	310		13.9%	6.8%	22.31	3.3	0.5%	4.9	4.0	24%	22%
Mahanagar Gas	1.4	1,482		19.9%	1.5%	13.27	8.6	2.3%	2.5	2.5	23%	21%
Shree Cement	11.3	20,600	17.5%	27.7%	8.4%	52.26	6.2	0.3%	5.6	5.1	12%	12%
Vinati Organics	1.3	1,062	31.7%	22.4%	17.2%	30.40	1.8	0.4%	5.7	4.6	24%	23%
Navin Fluorine	1.0	1,479	49.6%	27.5%	25.9%	38.34	1.5	0.8%	5.2	4.5	18%	20%

Source: Bloomberg, HDFC sec Inst Research, P/ABV valuation multiple is provided for Banks & NBFCs, For Life Insurance co. P/EV has been considered

**GARP is the most prominent bucket in our portfolio and we have ~500bps o-wt on GARP stocks**

- **GARP:** In this bucket we include those stocks which though offering high quality, have not yet been bid up to very high valuations and offer good GARP potential. A significant number of our portfolio picks belong to this segment. Following table contains the list of GARP stocks from HSIE coverage+Nifty 50 with the ones highlighted in blue being the overweight stocks in our portfolio. We have ~5% points overweight on GARP names in our model portfolio.

GARP	Mkt cap	TP	Stock CAGR (FY15-20)	EPS CAGR		P/E	PEG	Div Yld FY21	P/BV(ABV)		RoE (%)	
				FY15-20E	FY20E-22E				FY20 E	FY21E	FY22E	FY21E
Eicher Motors Ltd	6.3	20,340	2.5%	13.0%	14.4%	23.43	1.6	0.8%	3.7	3.2	19%	19%
Maruti Suzuki India Ltd	26.3	7,330	12.1%	11.9%	21.2%	29.08	1.4	1.3%	3.4	3.0	16%	16%
Bajaj Auto Ltd	11.6	3,745	8.3%	10.2%	10.2%	16.90	1.6	2.1%	3.0	2.7	20%	20%
HDFC Bank Ltd	89.4	NR	19.1%	17.2%	20.6%	24.11	1.2	0.9%	3.2	2.7	17%	18%
Housing Development Finance Corp Ltd	52.1	NR	12.0%	15.6%	4.7%	18.88	4.0	1.3%	3.6	3.3	14%	14%
IndusInd Bank Ltd	10.6	1,491	5.8%	17.7%	18.2%	14.40	0.8	1.0%	2.0	1.7	15%	16%
ICICI Bank	44.4	639	13.3%	-5.9%	56.1%	24.64	0.4	0.8%	1.9	1.7	14%	16%
DCB Bank	0.7	223	8.5%	12.9%	25.0%	12.98	0.5	0.9%	1.5	1.3	13%	14%
Cholamandalam Investment & Finance Company	3.3	412	22.8%	23.4%	22.0%	17.73	0.8	0.6%	2.9	2.4	19%	19%
ICICI Prudential	9.4	505		16.2%	18.8%	14.25	0.8	1.0%	2.5	2.2	16%	16%
Max Financial	2.1	575	11.7%		11.6%	7.94	0.7	0.0%	1.9	1.7	21%	20%
Motilal Oswal Financial Services	1.5	900	23.1%	30.0%	8.4%	20.15	2.4	1.8%	3.0	2.7	18%	17%
ICICI Securities	2.1	435		13.8%	17.9%	27.37	1.5	2.2%	9.9	8.4	49%	46%
Nippon Life India	3.4	440		7.9%	18.5%	44.29	2.4	1.7%	8.3	7.6	24%	25%
Marico	5.3	304	9.7%	12.6%	12.2%	37.10	3.0	2.2%	11.4	10.4	35%	37%
Colgate Palmolive	4.8	1,497	5.9%	8.1%	13.9%	42.30	3.0	1.7%	16.8	14.4	49%	48%
Radico Khaitan	0.8	495	36.9%	26.3%	23.0%	25.07	1.1	0.4%	3.0	2.6	17%	17%
Jubilant Foodworks	3.2	2,073	20.7%	30.1%	23.6%	55.68	2.4	0.5%	12.5	9.7	31%	30%
Crompton Consumer	2.4	338			14.6%	37.88	2.6	0.9%	10.1	8.1	31%	28%
V-Guard	1.2	217	25.7%	24.5%	15.9%	40.19	2.5	0.9%	7.6	6.5	24%	23%
Future Lifestyle	0.9	500	41.4%	46.9%	37.0%	51.08	1.4	0.0%	3.1	2.9	8%	10%
Future Retail	2.1	370		-241.1%	8.4%	20.05	2.4	0.0%	2.4	2.2	14%	12%
TCNS Clothing	0.5	670		47.2%	17.2%	30.29	1.8	0.0%	4.1	3.6	19%	19%
Larsen & Toubro Ltd	23.1	1,765	1.9%	19.5%	12.6%	16.74	1.3	1.6%	4.5	4.0	17%	16%
Adani Ports & Special Economic Zone Ltd	9.6	NR	3.3%	15.2%	16.6%	15.06	0.9	1.1%	2.3	2.0	19%	18%
Container Corporation	4.3	665	1.6%	-0.6%	29.0%	30.49	1.1	2.2%	2.9	2.7	13%	15%
KEC International	1.1	441	34.4%		15.9%	14.96	0.9	0.8%	2.5	2.1	22%	20%
Kalpataru Power Transmission	0.7	561	10.9%		13.2%	14.20	1.1	0.8%	1.7	1.5	15%	14%
Dilip Buildcon	0.6	605		27.5%	17.7%	7.27	0.4	0.3%	0.8	0.7	15%	14%
PNC Infratech	0.6	318		28.8%	16.0%	11.37	0.7	0.3%	1.3	1.1	15%	14%
KNR Constructions	0.5	371	27.3%	24.3%	16.0%	14.25	0.9	11.1%	1.6	1.4	14%	14%
Oberoi Realty	2.6	573	13.0%	11.2%	62.9%	32.46	0.5	0.6%	1.9	1.6	12%	14%
Prestige Estates	1.5	358	5.6%	10.1%	-13.0%	25.25	-1.9	0.3%	2.7	2.6	18%	14%
Wipro Ltd	17.5	240	0.7%	2.8%	7.2%	12.72	1.8	0.6%	1.9	1.7	17%	16%
Infosys Ltd	43.0	865	7.6%	5.6%	12.3%	19.16	1.6	3.4%	4.6	4.2	28%	28%
HCL Technologies Ltd	20.1	675	4.0%	7.7%	11.1%	13.70	1.2	3.2%	2.5	2.1	21%	21%
Tata Consultancy Services Ltd	104.0	2,095	10.8%	11.3%	10.0%	23.12	2.3	3.5%	7.8	7.4	37%	40%
Tech Mahindra Ltd	9.1	940	5.5%	10.7%	12.4%	14.98	1.2	2.2%	2.7	2.4	21%	21%
L&T Infotech	4.6	2,175		14.4%	18.7%	22.31	1.2	2.0%	4.8	4.1	28%	29%
L&T Technologies	2.3	1,870		20.6%	16.8%	21.33	1.3	1.9%	4.9	4.1	28%	28%
Mphasis	2.3	1,040	18.5%	10.6%	11.2%	14.50	1.3	3.4%	2.6	2.3	20%	21%
Hexaware	1.5	430	3.1%	14.9%	12.0%	16.75	1.4	2.4%	3.3	2.9	23%	23%
MCX	0.9	1,450	3.5%	12.5%	15.7%	28.87	1.8	2.2%	4.8	4.5	18%	22%

Source: Bloomberg, HDFC sec Inst Research, P/ABV valuation multiple is provided for Banks & NBFCs, For Life Insurance co. P/EV has been considered

GARP	Mkt cap	TP	Stock CAGR (FY15-20)	EPS CAGR		P/E	PEG	Div Yld FY21	P/BV(ABV)		RoE (%)	
				FY15-20E	FY20E-22E				FY20E	FY21E	FY22E	FY21E
Persistent	0.7	775	0.2%	4.4%	12.5%	14.77	1.2	2.0%	2.0	1.8	15%	16%
Cyient	0.7	500	-2.8%	2.9%	12.7%	11.74	0.9	3.4%	1.6	1.4	16%	16%
TeamLease	0.6	3,222		23.9%	32.4%	44.18	1.4	0.0%	5.3	4.4	17%	19%
Bharat Petroleum Corp Ltd	11.6	456	11.7%	5.7%	4.6%	8.25	1.8	3.4%	1.9	1.7	18%	16%
Petronet LNG	5.1	405	25.8%	25.0%	15.2%	13.67	0.9	6.1%	3.3	3.2	31%	32%
JSW Steel Ltd	7.9	NR	23.8%	15.6%	38.2%	15.62	0.4	1.4%	1.3	1.1	14%	16%
UltraTech Cement Ltd	16.9	5,900	9.0%	14.1%	15.7%	28.44	1.8	0.3%	2.9	2.6	13%	13%
Grasim Industries Ltd	6.3	NR	3.8%	3.8%	11.5%	14.99	1.3	0.9%	0.7	0.6	6%	6%
Ambuja Cement	5.6	245	-3.9%	-2.7%	6.2%	27.57	4.4	1.0%	1.7	1.7	7%	7%
ACC	3.4	1,680	-2.1%	8.5%	11.7%	19.40	1.7	2.3%	2.0	1.9	12%	12%
Ramco Cements	2.5	810	21.5%	22.4%	19.6%	28.29	1.4	0.4%	3.2	2.8	14%	15%
JK Cement	1.5	1,775	17.9%	27.3%	22.3%	22.91	1.0	0.8%	3.0	2.6	17%	18%
JK Lakshmi	0.5	490	-2.2%	8.7%	13.7%	14.24	1.0	0.3%	1.8	1.5	17%	15%
UPL Ltd	5.5	NR	14.5%	13.1%	25.4%	15.65	0.6	1.2%	2.1	1.7	18%	19%
Galaxy Surfactants	0.8	1,880		22.3%	15.8%	24.99	1.6	0.7%	4.4	3.7	22%	21%
Alkyl Amines	0.4	2,130	40.2%	29.3%	9.5%	18.77	2.0	1.1%	5.0	4.0	32%	28%
Dr Reddy's Laboratories Ltd	6.7	3,270	-1.9%	0.2%	14.5%	22.28	1.2	0.7%	2.8	2.5	14%	15%
Lupin	4.0	690	-19.9%	-15.3%	25.2%	27.66	0.8	1.0%	1.9	1.7	8%	10%
Torrent Pharma	5.0	2,405	13.6%	7.9%	20.3%	38.96	1.8	1.2%	6.8	6.0	19%	21%
SpiceJet	0.7	95	32.5%	-5.0%	-41.2%	-9.42	0.2	0.0%	-7.7	-6.0		
Interglobe Aviation	6.9	1,750		-6.4%	117.9%	53.82	0.5	0.9%	4.9	3.5	32%	36%

Source: Bloomberg, HDFC sec Inst Research, P/ABV valuation multiple is provided for Banks & NBFCs, For Life Insurance co. P/EV has been considered

**There are several attractive, under priced turnaround plays. Consequently this is our biggest o-wt segment**

- **Turnaround plays:** While overall economic healing will be a protracted process, some pockets of businesses/companies have been turning around perceptibly with their biz model becoming more robust. These include some corporate heavy private banks, one telco (despite the AGR overhang), some autos, few consumer stocks which are exhibiting improving earning visibility bouncing off from their cyclical/protracted troughs. We have ~9% point overweight in turnaround names.

Turnaround	Mkt cap	TP	Stock CAGR (FY15-20)	EPS CAGR		P/E	PEG	Div Yld FY21	P/BV(ABV)		RoE (%)	
				FY15 - FY20E	FY20E-22E				FY20E	FY21E	FY22E	FY21E
Mahindra & Mahindra Ltd	7.5	585	-2.9%	-7.8%	7.4%	12.72	1.7	2.0%	1.3	1.2	11%	11%
Tata Motors Ltd	5.9	NR	-23.0%	-39.8%	159.4%	38.34	0.2	0.4%	0.7	0.6	7%	11%
Axis Bank Ltd	24.8	911	5.4%	-9.0%	68.6%	34.27	0.5	0.6%	2.1	1.9	13%	15%
State Bank of India	37.5	421	3.9%		43.3%	11.28	0.3	1.4%	0.9	0.8	10%	12%
Mahindra & Mahindra Financial	2.9	425	7.8%	5.4%	27.7%	17.05	0.6	1.8%	2.1	1.7	13%	14%
Federal Bank	2.3	112	5.7%	7.2%	19.7%	10.36	0.5	1.7%	1.2	1.0	13%	14%
RBL Bank	1.7	348		11.1%	66.9%	24.38	0.4	1.1%	1.4	1.2	11%	13%
United Spirits	6.9	827	-0.8%	67.6%	23.1%	55.71	2.4	0.0%	9.7	7.7	25%	23%
Symphony	1.2	1,693	0.9%	10.2%	22.2%	47.10	2.1	1.3%	11.4	9.5	33%	33%
Aditya Birla Fashion	2.7	300	19.7%	-201.1%	27.2%	80.65	3.0	1.1%	10.6	8.9	20%	17%
DLF	6.5	284	6.2%	5.9%	38.4%	54.48	1.4	0.4%	1.3	1.2	4%	4%
Mindtree	2.2	950	9.4%	3.4%	28.2%	24.49	0.9	1.9%	4.2	3.6	23%	26%
Tata Steel Ltd	6.0	NR	7.0%	-194.2%	48.0%	12.95	0.3	2.7%	0.6	0.5	9%	9%
Bharti Airtel Ltd	39.6	NR	8.1%	-241.6%				0.3%	3.0	2.8	3%	8%

Source: Bloomberg, HDFC sec Inst Research, P/ABV valuation multiple is provided for Banks & NBFCs, For Life Insurance co. P/EV has been considered

Select value plays are looking "valuable"

- Beaten down value plays:** While value as a theme has come under severe strain in Indian equity market we believe that current market offers some reasonable risk-reward value opportunities. As portfolio focus shifts away from highly bid up growth plays, some allocation should be carved out for names which have seen sharp correction and underperformance over the past 5 years even though earnings have not seen as sharp cuts or have stayed steady. This bucket consists mainly of PSU companies that offer high dividend yield and in our view offer good risk reward.

Value	Mkt cap	TP	Stock CAGR (FY15-20)	EPS CAGR		P/E FY20E	PEG	Div Yld FY21	P/BV(ABV)		RoE (%)	
				FY15 - FY20E	FY20E-22E				FY21E	FY22E	FY21E	FY22E
Hero MotoCorp Ltd	5.7	3,070	-3.8%	5.0%	8.8%	12.66	1.4	4.3%	2.5	2.2	22%	22%
Ashok Leyland	2.8	78	3.0%	18.4%	69.2%	33.14	0.5	3.0%	2.2	2.0	16%	18%
Shriram Trans Finance	3.8	1,538	3.8%	19.7%	9.2%	8.93	1.0	1.3%	1.7	1.4	17%	16%
LIC Housing	2.2	449	-4.5%	13.1%	13.6%	6.29	0.5	2.7%	1.0	0.8	15%	15%
REPCO Home Finance	0.2	399	-14.4%	19.1%	11.5%	5.99	0.5	1.0%	1.0	0.8	17%	16%
GIC Reinsurance	4.0	270		-9.7%	60.3%	16.29	0.3	5.5%	0.6	0.5	8%	9%
New India Assurance	2.5	130		12.4%	-5.0%	6.90	-1.4	4.4%	0.5	0.5	6%	7%
ITC Ltd	33.6	265	-1.4%	9.9%	6.3%	15.34	2.4	3.8%	3.4	3.1	24%	24%
Emami	1.6	302	-11.8%	3.1%	10.6%	20.75	2.0	2.9%	5.3	5.1	28%	30%
Indian Oil Corp Ltd	13.5	184	3.8%	20.4%	23.4%	5.36	0.2	7.3%	0.8	0.7	15%	16%
Oil & Natural Gas Corp Ltd	16.0	179	-13.9%	5.5%	6.2%	3.34	0.5	10.9%	0.5	0.5	10%	12%
GAIL India Ltd	6.5	199	1.4%	8.5%	19.0%	6.26	0.3	3.1%	0.9	0.9	10%	12%
OIL India	1.6	216	-12.1%	3.3%	6.0%	1.00	0.2	9.5%	0.3	0.3	9%	9%
Gujarat State Petronet	1.9	260	14.1%	19.7%	10.8%	6.85	0.6	1.0%	4.6	3.5	16%	15%
HPCL	4.2	320	8.6%	6.9%	11.2%	5.84	0.5	4.3%	0.9	0.8	14%	13%
Hindalco Industries Ltd	4.9	NR	6.9%	38.9%	5.7%	7.27	1.3	0.9%	0.5	0.5	8%	8%
Vedanta Ltd	5.9	NR	-6.9%	-178.3%	14.0%	7.33	0.5	10.2%	0.7	0.7	10%	11%
Coal India Ltd	14.4	NR	-13.8%	5.7%	3.7%	5.86	1.6	9.9%	2.9	2.4	56%	48%
Dalmia Bharat/ Odisha Cem	2.1	1,210		69.7%	7.8%	49.30	6.3	0.3%	1.4	1.3	2%	3%
STAR Cement	0.5	125		14.8%	16.5%	11.54	0.7	2.9%	1.7	1.5	18%	18%
Zee Entertainment Enterprises Ltd	3.2	NR	-6.2%	16.4%	10.2%	12.94	1.3	1.6%	2.0	1.7	17%	17%
Sun Pharmaceutical Industries Ltd	12.4	450	-17.5%	-2.5%	13.7%	21.32	1.1	0.7%	1.8	1.6	9%	10%
Cipla Ltd/India	4.5	495	-9.8%	7.3%	8.8%	19.20	1.5	0.7%	1.8	1.6	14%	14%
Bharti Infratel Ltd	5.5	NR		42.2%	2.8%	NM	NM	6.5%	2.8	2.7	23%	24%
NTPC Ltd	14.6	NR	-2.2%	5.2%	8.5%	8.21	1.0	5.1%	0.9	0.8	12%	12%
Power Grid Corp of India Ltd	13.2	NR	5.2%	16.8%	9.6%	8.64	0.9	5.1%	1.3	1.2	18%	18%

Source: Bloomberg, HDFC sec Inst Research, P/ABV valuation multiple is provided for Banks & NBFCs, For Life Insurance co. P/EV has been considered

## HSIE Model portfolio and Sector positioning

### Sector positioning

Overweight	Neutral	Underweight
BFSI	Consumer Discretionary (ex-Autos)	Autos
Cement	Media	Consumer Staples
Chemicals	Pharma	Energy
Industrials	Utilities	Metals & Mining
IT & Exchanges		
Real Estate		
Telecom		

### Key portfolio sector preferences

- Within BFSI we prefer corporate heavy banks, life insurers, asset financiers over housing finance companies, general insurers and AMCs
- Within consumer we prefer low ticket discretionary over staples and autos
- Within industrials and construction we prefer construction plays
- Within materials our preference is for cement and chemicals over metals and mining
- Within Energy we prefer gas names over upstream and downstream oil plays



## Model portfolio

Model Portfolio	Rating	TP	M Cap US\$ bn	Index Wt	Port Wt	Rel wt (bps)	P/E		P/BV(ABV)		ROE		Dividend Yield		EPS Growth	
							FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
<b>Nifty</b>				<b>100.0%</b>	<b>100.0%</b>											
<b>Autos</b>				<b>5.9%</b>	<b>2.0%</b>	<b>-385</b>										
Eicher Motors Ltd	ADD	20,340	6.3	0.5%		-54	21.02	17.9	3.7	3.2	19%	19%	0.8%	0.9%	11%	17%
Mahindra & Mahindra Ltd	ADD	585	7.5	1.1%		-112	12.33	11.0	1.3	1.2	11%	11%	2.0%	2.0%	3%	12%
Hero MotoCorp Ltd	BUY	3,070	5.7	0.8%		-77	11.99	10.7	2.5	2.2	22%	22%	4.3%	4.5%	6%	12%
Maruti Suzuki India Ltd	ADD	7,330	26.3	2.0%		-199	22.81	19.8	3.4	3.0	16%	16%	1.3%	1.5%	27%	15%
Tata Motors Ltd	NR		5.9	0.6%		-57	7.9	5.7	0.7	0.6	7%	11%	0.3%	0.5%	384%	39%
Bajaj Auto Ltd	BUY	3,745	11.6	0.9%	2.0%	114	15.7	13.9	3.0	2.7	20%	20%	2.1%	2.2%	7%	13%
<b>Banks and NBFCs</b>				<b>40.7%</b>	<b>42.3%</b>	<b>160</b>										
Axis Bank Ltd	BUY	911	24.8	3.7%	6.3%	251	15.71	12.1	2.1	1.9	13%	15%	0.6%	0.8%	118%	30%
State Bank of India	BUY	421	37.5	2.3%	4.5%	224	7.04	5.5	0.9	0.8	10%	12%	1.4%	1.8%	60%	28%
HDFC Bank Ltd	NR		89.4	11.3%	11.3%	0	19.9	16.6	3.2	2.7	17%	18%	0.9%	1.1%	21%	20%
Housing Development Finance Corp Ltd	NR		52.1	8.3%	8.3%	0	22.5	17.2	3.6	3.3	14%	14%	1.2%	1.1%	-16%	31%
Kotak Mahindra Bank Ltd	ADD	1,725	42.9	4.5%		-447	30.7	25.6	4.3	3.7	14%	15%	0.0%	0.1%	16%	20%
IndusInd Bank Ltd	ADD	1,491	10.6	1.7%		-170	13.3	10.3	2.0	1.7	15%	16%	1.0%	1.3%	8%	29%
Bajaj Finance Ltd	NR		37.2	2.4%	1.0%	-143	32.1	24.6	6.7	5.2	25%	25%	0.2%	0.2%	36%	31%
ICICI Bank	BUY	639	44.4	6.4%	8.0%	163	13.2	10.1	1.9	1.7	14%	16%	0.8%	1.0%	87%	30%
Yes Bank Ltd	NR		1.2	0.2%		-19	13.9	4.4	0.4	0.3	1%	7%	3.3%	3.8%	-82%	NM
Mahindra & Mahindra Financial	BUY	425	2.9		1.0%	100	12.2	10.5	2.1	1.7	13%	14%	1.8%	2.1%	40%	16%
City Union Bank	BUY	265	2.2		1.0%	100	17.9	15.4	2.8	2.4	15%	15%	0.2%	0.2%	14%	16%
Cholamandalam Investment & Finance Company	BUY	412	3.3		1.0%	100	14.3	11.9	2.9	2.4	19%	19%	0.6%	0.7%	24%	20%
<b>Insurance</b>				<b>1.3%</b>	<b>2.8%</b>	<b>152</b>										
Bajaj Finserv Ltd	NR		20.0	1.3%		-128	23.4	18.4	4.2	3.3	19%	20%	0.0%	0.0%	33%	27%
SBI Life	BUY	1,160	12.3		2.8%	280	29.0	23.9	2.9	2.4	18%	18%	0.3%	0.3%	12%	12%
<b>Consumer- Staples</b>				<b>8.7%</b>	<b>5.0%</b>	<b>-371</b>										
ITC Ltd	BUY	265	33.6	3.2%	3.0%	-25	14.6	13.6	3.4	3.1	24%	24%	3.8%	4.1%	5%	8%
Hindustan Unilever Ltd	REDUCE	2,140	65.2	3.8%		-379	53.2	47.8	11.8	11.2	23%	24%	1.4%	1.6%	22%	11%
Nestle India Ltd	NR		21.1	1.3%		-128	56.4	50.4	45.9	41.9	100%	101%	1.0%	1.2%	14%	16%
Britannia Industries Ltd	ADD	3,318	9.9	0.4%		-39	44.8	38.5	12.8	10.3	32%	30%	0.7%	0.7%	12%	16%
United Spirits	BUY	827	6.9		2.0%	200	43.7	36.8	9.7	7.7	25%	23%	0.0%	0.0%	27%	19%
<b>Consumer Discretionary (ex-Autos)</b>				<b>3.3%</b>	<b>3.0%</b>	<b>-29</b>										
Titan Co Ltd	ADD	1,260	15.4	0.4%	1.0%	61	53.7	42.3	13.4	11.3	27%	28%	0.7%	0.9%	30%	27%
Jubilant Foodworks	ADD	2,073	3.2		1.0%	100	45.5	36.4	12.5	9.7	31%	30%	0.5%	0.5%	22%	25%
Asian Paints Ltd	NR		23.9	2.9%		-290	51.7	44.1	13.8	12.0	28%	29%	0.8%	0.9%	15%	17%
Aditya Birla Fashion	ADD	300	2.7		1.0%	100	52.9	49.9	10.6	8.9	20%	17%	1.1%	1.4%	52%	6%
<b>Industrials (Infrastructure+ Cap Goods)</b>				<b>3.4%</b>	<b>4.0%</b>	<b>63</b>										
Larsen & Toubro Ltd	BUY	1,765	23.1	2.8%	3.0%	13	13.7	13.2	4.5	4.0	17%	16%	1.6%	2.0%	22%	4%
Adani Ports & Special Economic Zone Ltd	NR		9.6	0.5%		-51	13.0	11.1	2.3	2.0	19%	18%	1.1%	1.4%	16%	17%
KNR Constructions	BUY	371	0.5		1.0%	100	12.5	10.6	1.6	1.4	14%	14%	11.1%	12.8%	14%	18%
<b>Real Estate</b>				<b>0.0%</b>	<b>1.0%</b>	<b>100</b>										
DLF	BUY	284	6.5		1.0%	100	34.9	28.4	1.3	1.2	4%	4%	0.4%	0.4%	56%	23%
<b>IT and Exchanges</b>				<b>13.2%</b>	<b>15.0%</b>	<b>179</b>										
Wipro Ltd	REDUCE	240	17.5	0.6%		-63	12.1	11.1	1.9	1.7	17%	16%	0.6%	0.7%	5%	9%
Infosys Ltd	ADD	865	43.0	5.8%	7.5%	170	16.8	15.2	4.6	4.2	28%	28%	3.4%	3.7%	14%	11%
HCL Technologies Ltd	ADD	675	20.1	1.4%	0.5%	-88	12.8	11.1	2.5	2.1	21%	21%	3.2%	3.7%	7%	15%
Tata Consultancy Services Ltd	REDUCE	2,095	104.0	4.4%	2.0%	-242	21.4	19.1	7.8	7.4	37%	40%	3.5%	3.7%	8%	12%
Tech Mahindra Ltd	ADD	940	9.1	1.0%	2.0%	102	13.7	11.9	2.7	2.4	21%	21%	2.2%	2.5%	9%	15%
L&T Infotech	ADD	2,175	4.6		2.0%	200	18.8	15.8	4.8	4.1	28%	29%	2.0%	2.2%	19%	19%
CDSL Ltd	BUY	351	0.4		1.0%	100	21.7	18.5	3.5	3.2	16%	17%	1.7%	2.0%	10%	17%

Model Portfolio	Rating	TP	M Cap US\$ bn	Index Wt	Port Wt	Rel wt (bps)	P/E		P/BV(ABV)		ROE		Dividend Yield		EPS Growth	
							FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
<b>Energy (Oil &amp; Gas)</b>				<b>11.0%</b>	<b>10.0%</b>	<b>-95</b>										
Reliance Industries Ltd	ADD	1,566	116.7	8.8%	7.0%	-171	14.0	12.9	1.8	1.7	9%	9%	0.6%	0.6%	13%	8%
Bharat Petroleum Corp Ltd	REDUCE	456	11.6	0.8%		-85	7.4	7.5	1.9	1.7	18%	16%	3.4%	3.3%	11%	-1%
Indian Oil Corp Ltd	BUY	184	13.5	0.5%		-48	4.0	3.5	0.8	0.7	15%	16%	7.3%	8.4%	33%	14%
Oil & Natural Gas Corp Ltd	BUY	179	16.0	0.5%		-50	3.5	3.0	0.5	0.5	10%	12%	10.9%	10.9%	-4%	18%
GAIL India Ltd	BUY	199	6.5	0.4%		-42	5.8	4.4	0.9	0.9	10%	12%	3.1%	4.9%	9%	30%
Indraprastha Gas	BUY	560	4.3		1.5%	150	21.9	19.4	5.4	4.6	24%	24%	1.2%	1.4%	10%	13%
Gujarat Gas	ADD	310	2.6		1.5%	150	22.5	19.6	4.9	4.0	24%	22%	0.5%	0.5%	-1%	15%
<b>Metals &amp; Mining</b>				<b>3.0%</b>	<b>2.0%</b>	<b>-96</b>										
Hindalco Industries Ltd	NR		4.9	0.5%	1.0%	51	7.1	6.5	0.5	0.5	8%	8%	0.8%	0.8%	2405%	9%
Tata Steel Ltd	NR		6.0	0.6%		-59	6.6	5.9	0.6	0.5	9%	9%	2.4%	2.5%	95%	12%
JSW Steel Ltd	NR		7.9	0.6%		-55	9.8	8.2	1.3	1.1	14%	16%	1.2%	1.4%	60%	19%
Vedanta Ltd	NR		5.9	0.5%		-47	6.5	5.6	0.7	0.7	10%	11%	9.2%	10.6%	13%	15%
Coal India Ltd	NR		14.4	0.9%	1.0%	14	5.6	5.5	2.9	2.4	56%	48%	9.6%	10.4%	4%	4%
<b>Cement</b>				<b>1.7%</b>	<b>3.0%</b>	<b>130</b>										
UltraTech Cement Ltd	BUY	5,900	16.9	1.1%	2.0%	91	23.9	21.3	2.9	2.6	13%	13%	0.3%	0.3%	19%	12%
Grasim Industries Ltd	NR		6.3	0.6%		-61	14.5	12.1	0.7	0.6	6%	6%	0.9%	0.9%	7%	4%
JK Cement	BUY	1,775	1.5		1.0%	100	18.7	15.3	3.0	2.6	17%	18%	0.8%	0.8%	23%	22%
<b>Chemicals</b>				<b>0.7%</b>	<b>2.0%</b>	<b>130</b>										
UPL Ltd	NR		5.5	0.7%		-70	12.0	9.9	2.1	1.7	18%	19%	1.1%	1.3%	31%	20%
Galaxy Surfactants	BUY	1,880	0.8		1.0%	100	21.9	18.6	4.4	3.7	22%	21%	0.7%	0.8%	14%	17%
Alkyl Amines	BUY	2,130	0.4		1.0%	100	17.5	15.6	5.0	4.0	32%	28%	1.1%	1.3%	7%	12%
<b>Media</b>				<b>0.5%</b>	<b>0.0%</b>	<b>-48</b>										
Zee Entertainment Enterprises Ltd	NR		3.2	0.5%		-48	12.1	10.7	2.0	1.7	17%	17%	1.6%	1.7%	7%	14%
<b>Pharma</b>				<b>2.2%</b>	<b>2.0%</b>	<b>-15</b>										
Sun Pharmaceutical Industries Ltd	ADD	450	12.4	0.8%		-84	20.2	16.5	1.8	1.6	9%	10%	0.7%	0.7%	6%	22%
Cipla Ltd/India	BUY	495	4.5	0.5%		-51	19.1	16.2	1.8	1.6	14%	14%	0.7%	0.7%	1%	17%
Dr Reddy's Laboratories Ltd	ADD	3,270	6.7	0.8%		-81	20.7	17.0	2.8	2.5	14%	15%	0.7%	0.7%	8%	22%
Torrent Pharma	ADD	2,405	5.0		2.0%	200	33.2	26.9	6.8	6.0	19%	21%	1.2%	1.5%	17%	23%
<b>Telecom</b>				<b>2.8%</b>	<b>4.0%</b>	<b>123</b>										
Bharti Airtel Ltd	NR		39.6	2.4%	4.0%	158	75.2	34.8	3.0	2.8	3%	8%	0.3%	0.5%	-142%	116%
Bharti Infratel Ltd	NR		5.5	0.4%		-35	12.4	11.9	2.8	2.7	23%	24%	6.5%	6.7%	1%	5%
<b>Utilities</b>				<b>1.9%</b>	<b>2.0%</b>	<b>16</b>										
NTPC Ltd	NR		14.6	0.9%		-92	7.5	7.0	0.9	0.8	12%	12%	5.0%	5.6%	9%	8%
Power Grid Corp of India Ltd	NR		13.2	0.9%	2.0%	108	7.9	7.2	1.3	1.2	18%	18%	5.0%	5.5%	10%	10%

Source: Bloomberg, HDFC sec Inst Research, P/ABV valuation multiple is provided for Banks & NBFCs, For Life Insurance co. P/EV has been considered

## Top Strategy Picks

Company	Rating	TP	Upside	M Cap US\$bn	Rationale
Axis Bank Ltd	BUY	911	31%	24.8	Transformative change driven by a strategic overhaul, a well articulated path for RoAE expansion, along with moderating stress and credit costs underpin our constructive stance.
State Bank of India	BUY	421	39%	37.5	Despite the possibility of lumpy stress in the near term (VIL), the worst in terms of asset quality appears to be behind SBIN. Given high coverage, a downtrend in credit costs is likely to boost RoAAs. Value unlocking from subs/ strategic holdings will boost SoTP value. At ~1x FY22E, attractive valuations underpin our stance.
ICICI Bank	BUY	639	29%	44.4	Favourable structural changes at ICICIBC (better asset quality and corporate underwriting, balance sheet retailisation and P&L fortification) underpin our constructive stance on the bank. The pace of asset quality improvement may slow in the near term as ICICIBC has seen a rise in its pool of low rated corporate loans, however, the broader trajectory remains unchanged. Moderating slippages and LLPs and improving RoAAs underpin our stance.
Mahindra & Mahindra Financial	BUY	425	23%	2.9	Over the years, MMFS has seen a considerable reduction in stress levels. The co did not face any trouble raising funds, post Sept-18, this allowed it to gain m-share and sustain superior growth even as vehicle sales plunged. Given MMFS' deep rural presence, it stands to benefit from any uptick in rural macros. At current valuations, MMFS is an inexpensive play on rural India
City Union Bank	BUY	265	23%	2.2	Likely to consistently deliver superior returns. We maintain faith despite the softer than expected performance on growth and asset quality, given inherent strengths (credit filters, prudence and customer franchise).
Cholamandalam Investment & Finance Company	BUY	412	35%	3.3	Remains are top pick amongst NBFCs. Diversification across products and geographies along with a virtually unbridled access to funds have allowed CIFC to offset some of the impact of slowing vehicle demand. Asset quality is best in class amongst AFCs.
SBI Life	BUY	1160	30%	12.3	Operating cost ratios (9.1%), and improving margins (VNBM: 20.5%). We expect SBIL to deliver strong FY20-22E VNB CAGR of 17.4% and RoEVs of ~17.5-18.5%.
United Spirits	BUY	827	20%	6.9	Gradual improvement in volume growth in Prestige and above segments coupled with peaking of input costs should drive a healthy mid teens EBITDA growth in FY21.
Jubilant Foodworks	ADD	2073	18%	3.2	Co has a levers such as (1) Steady urban demand, (2) Improving SSG (higher share of new store in FY21), (3) Menu expansion (new pizza range, sides and beverages), (4) Tech & digital for customer acquisition and (5) New store design to drive dine-in.
Aditya Birla Fashion	ADD	300	19%	2.7	Strong focus on retail and a shift to the 12 season model is likely to help improve assortment freshness – a footfall enabler; ergo growth quality and momentum across anchor formats is likely to sustain. We continue to prefer strong brands and value fashion plays and ABFRL is well placed to milk both categories
KNR Constructions	BUY	371	40%	0.5	Net cash status, strong execution capabilities and robust NWC management. Track record of timely equity recycling augurs well for future growth..
DLF	BUY	284	41%	6.5	Play on lease assets build out and cap rate compression. Large ready unsold inventory and significant balance sheet deleveraging augurs well once cycle turns towards recovery.
Infosys Ltd	ADD	865	18%	43.0	Large deal momentum, Completion of accelerated investment phase & margin stability, Pricing lever in Digital and Valuation discount (higher than avg.) to TCS.
L&T Infotech	ADD	2175	14%	4.6	Broad-based vertical presence, sub-vertical strategy and marquee accounts, Large client mining program and expanding deal pipeline, Improving alliance network/talent augmentation and Superior operating metrics vs. peers.
CDSL Ltd	BUY	351	32%	0.4	Well placed to benefit from unlisted demat opportunity, rebound in market activity and new initiatives like NAD and e-warehouse receipts. Non-linearity, healthy cash position and strong return ratios will support premium valuations
Indraprastha Gas	BUY	560	27%	4.3	We prefer IGL owing to its monopolistic gas supplier status in Delhi/NCR, regulatory support in the form of prioritized gas allocation, ban on petrol/diesel for public transport and ban on FO/LSHS/pet coke in favour of PNG. These reasons convince us that this is a business to own for the long term.
JK Cement	BUY	1775	28%	1.5	New plants in north to bolster margin and profitability for grey cement. Robust putty sale continues to keep white/putty profits strong, boosting cashflows.
Galaxy Surfactants	BUY	1880	18%	0.8	Galaxy Surfactants (GSL) is a preferred global supplier of surfactants and other specialty chemicals to leading FMCG MNCs. RMC is semi-passed on to customers, insulating its margins. GSL's products are specialised (not commoditised) but lack branding and pricing power.
Alkyl Amines	BUY	2130	41%	0.4	We remain constructive on Alkyl Amines owing to healthy product demand from the Pharma/Agro industries (~70% sales mix), impending capacity expansion for multiple products (Acetonitrile, Methyl Amines) and rising market share in Methyl Amines
Bharti Airtel	NR			39.6	

Source: HDFC sec Inst Research

## Introducing new Rating Methodology

Through this report we are also introducing a new rating system wherein we have evaluated our covered stocks on 4 point rating scale of Buy, Add, Reduce, Sell vs. the older 3 point rating scale of Buy, Hold, Sell – to better reflect relative stock picking and conviction across coverage universe. The criteria for our ratings are as below:

Rating	Criteria
BUY	>+15% return potential
ADD	+5% to +15% return potential
REDUCE	-10% to +5% return potential
SELL	>10% Downside return potential

Company	Rating		Target Price		Target Multiple		Old EPS		New EPS		Rationale for EPS/target multiple change
	Old	New	Old	New	Old	New	FY21	FY22	FY21	FY22	
<b>Consumer -FMCG, Durables and Appliances</b>											
HUL	NEU	REDUCE	1,988	2,140	45	47	40.7	45.3	40.9	45.5	Marginal change in EPS to factor-in softening in RM. Slightly higher multiple for superior execution.
ITC	BUY	BUY	335	265	23	18	13.5	14.6	13.5	14.6	No change in estimates. Valuation cut is on account of consistent pressure on cig volume by higher taxes, raising minimum age, social awareness pressure and rising illicit cig mkt
Dabur	BUY	ADD	510	529	40	43	11.3	13.1	10.7	12.3	Cut estimates due to delayed recovery. Higher multiple for superior execution within sector.
Britannia	BUY	ADD	3,551	3,318	45	43	68.2	82.5	66.4	77.2	Cut estimates due to delayed recovery. Slightly lower multiple, at par with Dabur.
United Spirits	BUY	BUY	759	827	40	43	16.1	19.2	15.7	18.7	Multiple increase due to expectation of gross margin pressure peaking out and volume recovery. At par with Dabur and BRIT.
Marico	NEU	REDUCE	350	304	35	30	9.1	10.6	8.9	10.1	Lower multiple to reflect topline growth pressure on business.
Colgate	NEU	ADD	1,392	1,497	35	38	35.5	41.3	34.6	39.4	We cut estimates for Colgate on account of delayed recovery. Multiple at 10% disc to Dabur and BRIT due to weaker growth.
Jubilant Food	BUY	ADD	2,124	2,073	46	43	31.6	38.6	31.6	38.6	Valuation cut is to factor-in any negative surprise (delayed recovery in dine-in, sustained high dairy inflation, aggregator pressure)
Emami	BUY	ADD	445	302	30	20	13.7	15.2	13.5	15.1	Multiple cut to structural growth issues in core categories
Radico Khaitan	BUY	BUY	527	495	22	20	21.4	24.8	21.1	24.7	Valuation cut to reflect delayed recovery
Havells	BUY	BUY	710	725	36	36	16.6	20.6	16.2	20.2	Marginal cut in estimates, maintain valuation
Voltas	BUY	ADD	724	744	29	29	22.5	26.6	22.0	25.8	Marginal cut in estimates, maintain valuation
Crompton	BUY	BUY	333	338	35	35	8.7	9.8	8.5	9.6	Marginal cut in estimates, maintain valuation
V-Guard	NEU	ADD	232	217	35	32	5.9	6.9	5.9	6.8	Marginal cut in estimates, valuation cut is due to consistent growth weakness in south mkt, rising competition in non-south mkt
Symphony	BUY	BUY	1,786	1,693	45	42	34.4	41.4	33.8	40.3	Marginal cut in estimates. Valuation cut is to factor-in the vulnerability to seasonality
<b>Consumer -Retail and Fashion</b>											
Avenue Supermart	SELL	SELL	1,250	1,800	DCF Based (22.5x Implied EV/EBITDA)	DCF Based (31.2x Implied EV/EBITDA)	28.1	36.2	31.8	39.5	Lower capex estimate per sqft, EPS accretive fund raising, lower WACC to 10.9% and 6% terminal growth
Titan	NEU	ADD	1,170	1,260	DCF Based(42x Implied P/E)	DCF Based(42x Implied P/E)	23.3	29.3	23.4	29.7	DCF-roll-over from Dec-20 to Mar-21
Trent	NEU	REDUCE	580	690	SOTP Based	SOTP Based	10.0	12.0	11.2	13.5	EBITDA estimates upped by 13%, lower WACC by 50bps to 10.9%.
Aditya Birla Fashion	BUY	ADD	290	300	DCF Based(23x Implied EV/EBITDA)	DCF Based(24x Implied EV/EBITDA)	4.8	5.1	4.8	5.0	Slightly higher multiple to reflect better execution
Future Retail	NEU	ADD	370	370	DCF Based(11x Implied EV/EBITDA)	DCF Based(11x Implied EV/EBITDA)	16.1	17.8	16.1	17.8	No change, only roll forward of TP
Future Lifestyle	BUY	BUY	500	500	DCF Based(13x Implied EV/EBITDA)	DCF Based(13x Implied EV/EBITDA)	9.4	12.8	9.4	12.8	No change, only roll forward of TP
TCNS Clothing	BUY	BUY	670	670	DCF Based(18x Implied EV/EBITDA)	DCF Based(18x Implied EV/EBITDA)	23.4	27.2	23.4	27.2	No change, only roll forward of TP

Company	Rating		Target Price		Target Multiple		Old EPS		New EPS		Rationale for EPS/target multiple change
	Old	New	Old	New	Old	New	FY21	FY22	FY21	FY22	
Shoppers Stop	SELL	REDUCE	370	370	DCF Based(10x Implied EV/EBITDA)	DCF Based(10x Implied EV/EBITDA)	8.1	10.2	8.1	10.2	No change, only roll forward of TP
V-Mart	BUY	ADD	2,500	2,700	DCF Based(20x Implied EV/EBITDA)	DCF Based(22x Implied EV/EBITDA)	53.6	66.9	53.6	66.9	Slightly higher multiple to reflect improving growth
Arvind Fashion	BUY	BUY	460	460	DCF Based(11x Implied EV/EBITDA)	DCF Based(11x Implied EV/EBITDA)	(7.9)	1.0	(7.9)	1.0	No change, only roll forward of TP
<b>Pharma</b>											
Dr. Reddy's	NEU	ADD	3,440	3,270	20	19	141.5	172.0	141.5	172.0	No change in EPS/target multiple lowered to account for ~10% discount to Sun/Cipla due to high contribution from uncertain US opportunities.
Torrent Pharma	Buy	ADD	2,405	2,405	16x EV/EBIDTA	16x EV/EBIDTA	64.3	79.8	64.3	79.8	No change in EPS/target multiple.
Cipla	Buy	BUY	495	495	20	20	21.1	24.8	21.1	24.8	No change in EPS/target multiple
Sun Pharma	Buy	ADD	500	450	22	20	18.5	22.6	18.5	22.6	No change in EPS/target multiple lowered to factor DoJ risk.
Lupin	NEU	ADD	705	690	20	19	27.9	35.4	27.9	36.3	Tweaked FY22 estimates by 2%/target multiple lowered to factor poor regulatory compliance.
<b>Banks and NBFC's</b>											
ICICI Bank	BUY	BUY	587	639	2.2	2.4	26.7	34.7	26.7	34.7	Improved visibility on earnings and RoAE improvement.
Kotak Mahindra Bank	NEU	ADD	1,681	1,725	4.3	4.0	38.6	46.2	38.6	46.2	No change to EPS, lowered multiple slightly.
State Bank of India	BUY	BUY	418	421	1.3	1.3	28.8	37.6	28.2	36.0	Lowered our growth and increased our slippage and LLP estimates.
Axis Bank	BUY	BUY	988	911	2.8	2.5	44.3	56.0	42.2	54.9	Increased our slippage and LLP assumptions slightly.
IndusInd Bank	BUY	ADD	1,990	1,491	3.0	2.3	96.0	119.9	82.9	107.1	Increased our slippage and LLP assumptions to a/c for a rise in stressed corporate exposures.
Cholamandalam Investment & Finance Company	BUY	BUY	425	412	3.5	3.2	23.8	27.1	21.4	25.7	We've factored fund raise, reduced our loan growth estimates and increased LLPs.
AU Small Finance Bank	NEU	REDUCE	866	916	4.8	4.8	31.3	40.7	31.3	40.2	No change to EPS, lowered multiple slightly.
Shriram Trans Finance	BUY	ADD	1,524	1,538	1.8	1.8	146.7	163.7	145.1	159.8	Lowered our loan growth estimates.
LIC Housing	NEU	REDUCE	471	449	1.3	1.2	57.3	65.7	57.3	65.7	Possibility of the merger with IDBI will be an overhang on the stock.
Mahindra & Mahindra Financial	BUY	BUY	425	425	2.3	2.2	26.9	31.3	26.9	31.3	No change to EPS, lowered multiple slightly.
Federal Bank	BUY	ADD	122	112	1.5	1.4	10.1	12.5	9.8	11.9	Lowered our loan growth estimates here.
City Union Bank	BUY	BUY	262	265	3.0	3.0	12.0	14.0	12.0	14.0	No change, only roll forward of TP
RBL Bank	NEU	REDUCE	348	348	1.5	1.6	24.2	33.3	24.2	33.3	No change to EPS, increased multiple slightly.
DCB Bank	BUY	BUY	249	223	2.0	1.8	16.0	20.1	15.9	19.5	Lowered our loan growth estimates here.
Karur Vysya Bank	NEU	REDUCE	58	55	0.9	0.8	6.9	10.1	6.6	9.6	Lowered our loan growth estimates here.
Indostar Capital Finance	NEU	ADD	300	305	1.0	1.0	17.0	22.5	17.0	22.5	No change, only roll forward of TP
REPCO Home Finance	BUY	ADD	422	399	1.3	1.2	51.8	58.9	51.8	58.9	No change to EPS, lowered multiple slightly.
<b>Oil &amp; Gas</b>											
Reliance Industries	NEU	ADD	1,562	1,566	SOTP based	Unchanged	60.9	65.8	60.9	65.8	No change, only roll forward of TP
ONGC	BUY	BUY	173	179	SOTP based	Unchanged	17.9	21.0	17.9	21.0	No change, only roll forward of TP
Indian Oil Corporation	BUY	BUY	181	184	SOTP based	Unchanged	19.4	22.1	19.4	22.1	No change, only roll forward of TP
BPCL	NEU	REDUCE	452	456	SOTP based	Unchanged	37.9	37.4	37.9	37.4	No change, only roll forward of TP
Gail	BUY	BUY	190	199	SOTP based	Unchanged	10.9	14.2	10.9	14.2	No change, only roll forward of TP
Petronet LNG	BUY	BUY	397	405	17	17	22.0	23.8	22.0	23.8	No change, only roll forward of TP
Indraprastha Gas	BUY	BUY	545	560	25	25	18.5	20.9	18.5	20.9	No change, only roll forward of TP
Gujarat Gas	NEU	ADD	273	310	20	22	12.3	14.1	12.3	14.1	Softer global LNG prices which will persist for longer than earlier anticipated by us
OIL India	BUY	BUY	209	216	SOTP based	Unchanged	25.7	30.5	25.7	30.5	No change, only roll forward of TP
Gujarat State Petronet	BUY	ADD	253	260	DCF based	Unchanged	19.7	21.3	19.7	21.3	No change, only roll forward of TP
Mahanagar Gas	BUY	BUY	1,475	1,482	19	19	76.5	78.0	76.5	78.0	No change, only roll forward of TP
Vinati Organics	NEU	ADD	1,020	1,062	25	25	35.7	42.5	35.7	42.5	No change, only roll forward of TP
HPCL	BUY	BUY	315	320	SOTP based	Unchanged	29.0	30.9	29.0	30.9	No change, only roll forward of TP
Navin Fluorine	NEU	ADD	1,479	1,479	25	25	46.8	59.1	46.8	59.1	No change
Galaxy Surfactants	BUY	BUY	1,811	1,880	22	22	72.9	85.5	72.9	85.5	No change, only roll forward of TP
Alkyl Amines	BUY	BUY	1,840	2,130	22	22	80.5	84.5	86.2	96.6	Softer Raw material, higher Acetonitrile prices & roll forward of TP
Balaji Amines	BUY	BUY	490	493	13	13	37.2	37.9	37.2	37.9	No change, only roll forward of TP

Company	Rating		Target Price		Target Multiple		Old EPS		New EPS		Rationale for EPS/target multiple change
	Old	New	Old	New	Old	New	FY21	FY22	FY21	FY22	
<b>Industrials and Real Estate</b>											
Larsen & Toubro	BUY	BUY	1,720	1,765	22	21	93.8	NA	93.8	97.2	Lowered multiple on account of limited visibility on new order inflows
DLF	BUY	BUY	284	284	NAV based	NAV based	6.6	NA	6.6	8.1	No change in TP as our NAV estimate is based on Mar-22
Siemens	NEU	ADD	1,463	1,533	35	35	36.3	41.8	36.3	41.8	No change, introduced FY22 and roll forward of TP
ABB India	NEU	ADD	1,219	1,254	42	42	24.1	29.3	24.1	29.3	No change, only roll forward of TP
Oberoi Realty	NEU	ADD	573	573	NAV based	NAV based	30.7	NA	30.7	42.2	No change in TP as our NAV estimate is based on Mar-22
Prestige Estates	NEU	ADD	358	358	NAV based	NAV based	14.3	NA	14.3	10.8	No change in TP as our NAV estimate is based on Mar-22
KEC International	BUY	BUY	390	441	14	14	27.9	NA	27.9	31.5	No change, introduced FY22 and roll forward of TP
Kalpataru Power Transmission	BUY	BUY	644	561	15	11	36.9	NA	36.9	41.0	We have ascribed 20% P/E discount to KPTL vs. KEC to factor in KPTL group level concerns & KEC better segmental diversification. Loss funding in JMC is also a group level concern.
Dilip Buildcon	BUY	BUY	681	605	12	10	45.0	NA	45.0	48.8	Lowered multiple to factor in mid single digit growth in FY22E on strong opening FY21E Rev base. DBL needs to diversify significantly beyond roads to command a better valuation multiple.
PNC Infratech	BUY	BUY	339	318	18	15	16.0	NA	16.0	17.8	Lowered multiple to factor in mid single digit growth during FY22E. PNC needs to diversify beyond roads to command better multiple.
Sobha Developers	BUY	BUY	590	590	NAV based	NAV based	40.0	NA	16.0	51.8	No change in TP as our NAV estimate is based on Mar-22.
KNR Constructions	BUY	BUY	376	371	18	15	17.6	NA	17.6	20.7	Lowered multiple as KNR needs to diversify beyond Southern markets/Roads segment.
IRB Infrastructure	BUY	BUY	172	158	4	4	18.5	NA	18.5	10.5	No change, introduced FY22 and roll forward of TP
NCC	BUY	BUY	106	104	15	12	6.5	NA	6.5	8.0	Lowered multiple to factor in delayed AP stuck debtors recovery.
Brigade Enterprises	NEU	ADD	252	252	NAV based	NAV based	8.1	NA	8.1	12.8	No change in TP as our NAV estimate is based on Mar-22
Ashoka Buildcon	BUY	BUY	200	199	12	12	0.2	NA	0.2	0.8	No change, only roll forward of TP
Sadbhav Engineering	BUY	BUY	175	160	15	12	9.0	NA	9.0	10.7	Lowered multiple to factor in SEL mid single digit growth during FY22.
Kolte Patil	BUY	BUY	310	310	NAV based	NAV based	13.3	NA	13.3	17.3	No change in TP as our NAV estimate is based on Mar-22
Ahluwalia Contracts	BUY	BUY	388	383	15	12	25.0	NA	25.0	30.8	Lowered multiple to factor in delay in Government order book execution and AHLU history of missing guidances.
PSP Projects	BUY	BUY	607	593	15	13	40.5	NA	40.5	45.7	Lowered multiple, ascribed 10% premium vs Capacite/Ahluwalia to factor in better NWC/Return Ratios.
HG Infra	BUY	BUY	441	464	12	12	33.2	NA	33.2	35.1	No change, only roll forward of TP
JMC Projects	BUY	BUY	162	136	15	11	10.0	NA	10.0	11.3	25% discount to JMC P/E multiple to factor in continued loss funding support to BOT assets.
Capacite Infraprojects	BUY	BUY	360	369	13	12	27.1	NA	27.1	29.7	Slight cut in multiple
J Kumar Infraprojects	BUY	BUY	269	283	8	8	33.6	NA	33.6	35.4	No change, only roll forward of TP
ITD Cementation	BUY	BUY	80	86	12	12	6.6	NA	6.6	7.1	No change, only roll forward of TP
<b>Cement</b>											
UltraTech Cement	BUY	BUY	5,600	5,900	15	15	176.8	198.5	176.8	198.5	No change, only roll forward of TP
Shree Cement	SELL	SELL	19,900	20,600	15	15	480.8	509.7	480.8	509.7	No change, only roll forward of TP
Ambuja Cement	BUY	BUY	245	245	11	11	7.9	8.4	7.9	8.4	No change, only roll forward of TP
ACC	BUY	BUY	1,780	1,680	11	10	78.1	85.0	78.1	85.0	We lower val multiple to 10x vs 11x earlier, as ACC will continue to lose mkt share during CY20/21 and there are also no major cost reduction levers in near term
Ramco Cements	NEU	ADD	790	810	13	12	32.3	38.8	32.3	38.8	Cem prices in south continues to be unstable, leading to scope for earnings downgrades. Thus we marginally lower val multiples to 12x
Dalmia Bharat/ Odisha Cem	BUY	BUY	1,245	1,210	12	11	13.7	18.5	13.7	18.5	We value Dalmia at 10% disc to Ramco Cem, hence we cut multiples to 11x from 12x earlier. South pricing overhang and lower return ratios despite robust op profits make us lower target valuations
JK Cement	BUY	BUY	1,654	1,775	10	10	74.0	90.4	74.0	90.4	No change, only roll forward of TP
JK Lakshmi	BUY	BUY	485	490	8	8	27.7	27.9	27.7	27.9	No change, only roll forward of TP
STAR Cement	BUY	BUY	135	125	10	9	8.7	10.2	8.7	10.2	We trim valuations to its 5-yr mean of 9x (vs 10x earlier), as margins continue to moderate. However, we ascribe high multiple vs peers (9x) as the co has regional moat driving superior return ratios
Orient Cement	BUY	BUY	120	115	8	8	6.3	9.5	6.3	9.5	Marginally trim val multipl, owing to exposure to south/Maha markets (voaltile pricing)
Deccan Cement	BUY	BUY	500	495	6	6	45.0	55.1	45.0	55.1	No change, only roll forward of TP

Company	Rating		Target Price		Target Multiple		Old EPS		New EPS		Rationale for EPS/target multiple change
	Old	New	Old	New	Old	New	FY21	FY22	FY21	FY22	
<b>Autos, Aviation, Logistics</b>											
Subros	BUY	ADD	270	285	17	17	13.3	17.9	12.8	16.7	Lowered estimates as management has scaled down its targets.
Interglobe Aviation	BUY	BUY	1,750	1,750	6x EBITDAR	6x EBITDAR	87.3	130.5	74.8	114.7	Cut estimates to factor in uncertain outlook.
SpiceJet	BUY	ADD	125	95	7x EBITDAR	6x EBITDAR	(0.4)	1.2	(5.0)	(3.1)	Lowered estimates to factor in uncertain outlook. We lower EV/EBITDA target multiple from 7x to 6x as delivery of Max planes is delayed
Container Corporation	BUY	BUY	635	665	24	24	22.4	27.8	22.4	27.8	No change, only roll forward of TP
Gateway Distriparks	BUY	BUY	180	190	SOTP based	SOTP based	8.6	10.6	8.6	10.6	No change, only roll forward of TP
Gulf Oil Lubricants	BUY	BUY	995	1,020	20	20	46.6	50.9	46.6	50.9	No change, only roll forward of TP
Maruti Suzuki	NEU	ADD	7,280	7,330	23	23	281.0	328.5	275.5	317.4	Cut EBITDA margin estimates to factor in sustained competitive intensity
Bajaj Auto	BUY	BUY	3,630	3,745	18	18	183.9	207.9	183.9	207.9	No change, only roll forward of TP
Mahindra & Mahindra	NEU	ADD	570	585	10	10	37.0	41.4	37.0	41.4	No change, only roll forward of TP
Eicher	NEU	ADD	19,650	20,340	22	22	789.8	927.7	789.8	927.7	No change, only roll forward of TP
Hero Motocorp	BUY	BUY	2,980	3,070	16	16	171.1	191.8	171.1	191.8	No change, only roll forward of TP
Ashok Leyland	NEU	REDUCE	75	78	13	13	4.8	6.0	4.8	6.0	No change, only roll forward of TP
<b>Insurance, Brokerages, AMC</b>											
SBI Life	BUY	BUY	1,120	1,160	24.4x FY22E VNB	25.1x FY22E VNB	27.4	33.3	27.4	33.3	DCF derived, roll forward of TP
ICICI Prudential	NEU	ADD	475	505	19.5x FY22E VNB	21.2x FY22E VNB	13.0	14.9	13.0	14.9	DCF derived, roll forward of TP
ICICI Lombard	SELL	SELL	1,126	1,170	26	26	37.9	45.1	37.9	45.1	DCF derived, roll forward of TP
GIC Reinsurance	NEU	BUY	264	270	0.9x P/B	0.9x P/B	22.6	25.8	22.6	25.8	No change, only roll forward of TP
New India Assurance	SELL	REDUCE	130	130	0.65x P/B	0.65x P/B	12.1	14.3	12.1	14.3	No change, only roll forward of TP
Nippon Life India	NEU	ADD	321	440	30x NOPLAT	40x NOPLAT	10.6	12.4	10.6	12.4	DCF derived, 10% discount to HDFCAMC multiple of ~45x
Max Financial	BUY	ADD	560	575	18.8x FY22E VNB	19.4x FY22E VNB	30.7	34.0	30.7	34.0	DCF derived, rollover to Mar-22E
ICICI Securities	SELL	SELL	435	435	18x Mar-22E EPS	18x Mar-22E EPS	21.4	24.2	21.4	24.2	No change
Motilal Oswal Financial Services	SELL	ADD	711	900	10/20x Broking/AMC	12/30x Broking/AMC	40.3	43.4	40.3	43.4	Broking/AMC: 33% discount to ISEC/NAM multiple
<b>IT and Exchanges</b>											
Infosys	BUY	ADD	850	865	18	18	43.5	48.1	43.5	48.1	No change, only roll forward of TP
HCL Technologies	BUY	ADD	665	675	14	14	41.7	48.2	41.7	48.2	No change, only roll forward of TP
Tech Mahindra	BUY	ADD	910	940	15	15	54.3	62.7	54.3	62.7	No change, only roll forward of TP
L&T Infotech	BUY	ADD	2,090	2,175	18	18	101.6	120.7	101.6	120.7	No change, only roll forward of TP
L&T Technologies	BUY	ADD	1,790	1,870	18	18	86.6	103.7	86.6	103.7	No change, only roll forward of TP
Mphasis	BUY	ADD	1,010	1,040	14	14	65.7	74.3	65.7	74.3	No change, only roll forward of TP
Hexaware	BUY	ADD	430	430	16	16	23.5	26.9	23.5	26.9	No change, only roll forward of TP
MCX	BUY	ADD	1,370	1,450	30	30	47.3	59.2	47.3	59.2	No change, only roll forward of TP
Persistent	BUY	ADD	745	775	13	13	50.0	59.6	50.0	59.6	No change, only roll forward of TP
Cyient	NEU	ADD	490	500	11	11	40.9	46.0	40.9	46.0	No change, only roll forward of TP
Zensar Technologies	NEU	ADD	177	170	11	10	12.9	17.1	12.9	17.1	Slowdown in TCV wins and margin performance is subpar
BSE	NEU	ADD	590	610	15	15	41.0	48.5	41.0	48.5	No change, only roll forward of TP
TeamLease	BUY	BUY	3,444	3,222	40	35	67.9	92.1	67.9	92.1	Lowered multiple due to slowdown in core growth metrics due to macro impact, margin expansion slower than expected
Sonata	BUY	BUY	422	435	12	12	31.6	36.3	31.6	36.3	No change, only roll forward of TP
CDSL Ltd	BUY	BUY	325	351	30	30	12.2	14.3	12.2	14.3	No change, only roll forward of TP
Mastek	BUY	BUY	595	595	9	9	52.3	62.4	52.3	62.4	No change, only roll forward of TP
Majesco	BUY	BUY	663	540	2.0x EV/R	1.5x EV/R	30.1	36.9	30.1	36.9	No large deal win from IBM, growth pickup slower than expected
Tata Consultancy Services	NEU	REDUCE	2,025	2,095	20	20	93.6	104.7	93.6	104.7	No change, only roll forward of TP
Wipro	NEU	REDUCE	235	240	12	12	18.3	20.0	18.3	20.0	No change, only roll forward of TP
Mindtree	NEU	REDUCE	830	950	14	15	48.0	63.3	48.0	63.3	Large deals visibility improving

Source: HDFC sec Inst Research



## HSIE Coverage Consolidated

		FY 18	FY 19	FY 20E	FY 21E	FY 22E
<b>Revenue Growth</b>						
Financials	Banks	16%	18%	19%	13%	13%
Financials	NBFCs	17%	20%	14%	12%	13%
Financials	Brokerage & AMC's	37%	-10%	-5%	8%	8%
Financials	General Insurance	29%	5%	11%	10%	10%
Consumer	Autos and Aviation	19%	11%	-4%	12%	12%
Consumer	FMCG, Appliances and Food Services	6%	12%	6%	13%	10%
Consumer	Retail and Fashion	16%	18%	13%	17%	17%
HealthCare	Pharma	-7%	10%	6%	9%	10%
Industrials	Logistics	19%	12%	8%	14%	19%
Industrials	Real Estate	0%	21%	3%	4%	8%
Industrials	Capital Goods, Construction and Infra	12%	19%	10%	12%	10%
Materials	Oil Gas and Lubricants	17%	27%	-2%	12%	4%
Materials	Cement	18%	20%	6%	8%	10%
Materials	Chemicals	16%	20%	2%	14%	17%
Technology	IT Products and Services	4%	17%	9%	10%	11%
Technology	Exchanges	19%	-1%	10%	14%	15%
<b>HSIE Coverage</b>		<b>14%</b>	<b>21%</b>	<b>3%</b>	<b>12%</b>	<b>8%</b>
<b>EBITDA Growth</b>						
Financials	Banks	8%	2%	29%	8%	12%
Financials	NBFCs	15%	20%	13%	12%	42%
Financials	Brokerage & AMC's	52%	-11%	11%	16%	12%
Financials	General Insurance	47%	-20%	13%	45%	21%
Consumer	Autos and Aviation	22%	-11%	6%	22%	18%
Consumer	FMCG, Appliances and Food Services	10%	13%	10%	15%	11%
Consumer	Retail and Fashion	37%	21%	18%	32%	21%
HealthCare	Pharma	-28%	13%	9%	10%	16%
Industrials	Logistics	29%	18%	24%	15%	20%
Industrials	Real Estate	-10%	17%	-1%	8%	14%
Industrials	Capital Goods, Construction and Infra	18%	21%	11%	15%	8%
Materials	Oil Gas and Lubricants	14%	13%	-9%	10%	9%
Materials	Cement	12%	9%	29%	9%	8%
Materials	Chemicals	17%	32%	7%	17%	17%
Technology	IT Products and Services	3%	19%	8%	12%	13%
Technology	Exchanges	60%	-26%	17%	40%	35%
<b>HSIE Coverage</b>		<b>10%</b>	<b>10%</b>	<b>7%</b>	<b>7%</b>	<b>12%</b>
<b>PAT Growth</b>						
Financials	Banks	-67%	86%	124%	58%	28%
Financials	NBFCs	44%	21%	5%	17%	15%
Financials	Brokerage & AMC's	51%	-12%	20%	18%	13%
Financials	General Insurance	37%	-31%	30%	35%	17%
Consumer	Autos and Aviation	13%	-6%	-12%	26%	19%
Consumer	FMCG, Appliances and Food Services	12%	14%	21%	15%	11%
Consumer	Retail and Fashion	63%	27%	12%	37%	23%
HealthCare	Pharma	-38%	12%	12%	8%	22%
Industrials	Logistics	35%	23%	-19%	30%	24%
Industrials	Real Estate	-30%	172%	-9%	44%	20%
Industrials	Capital Goods, Construction and Infra	27%	23%	15%	21%	4%
Materials	Oil Gas and Lubricants	8%	6%	-10%	11%	12%
Materials	Cement	12%	-1%	41%	15%	12%
Materials	Chemicals	19%	24%	22%	15%	17%
Technology	IT Products and Services	4%	16%	3%	10%	13%
Technology	Exchanges	4%	4%	3%	13%	21%
<b>HSIE Coverage</b>		<b>-1%</b>	<b>12%</b>	<b>9%</b>	<b>20%</b>	<b>16%</b>



		FY 18	FY 19	FY 20E	FY 21E	FY 22E
<b>P/E</b>						
Financials	Banks	111.03	59.76	26.72	16.89	13.19
Financials	NBFCs	13.68	11.31	10.75	9.17	7.98
Financials	Brokerage & AMC's	32.30	36.56	30.56	25.95	23.05
Financials	General Insurance	16.49	24.00	18.40	13.59	11.65
Consumer	Autos and Aviation	18.51	19.60	22.32	17.72	14.87
Consumer	FMCG, Appliances and Food Services	48.02	42.20	34.97	30.50	27.40
Consumer	Retail and Fashion	105.96	83.33	74.15	54.05	43.94
HealthCare	Pharma	29.36	26.32	23.48	21.75	17.77
Industrials	Logistics	28.80	23.45	28.88	22.29	17.94
Industrials	Real Estate	77.65	28.55	31.54	21.89	18.24
Industrials	Capital Goods, Construction and Infra	23.53	19.14	16.71	13.87	13.30
Materials	Oil Gas and Lubricants	13.33	12.57	14.01	12.66	11.33
Materials	Cement	42.03	42.52	30.08	26.08	23.31
Materials	Chemicals	40.50	32.70	26.86	23.37	19.96
Technology	IT Products and Services	22.86	19.64	18.98	17.33	15.39
Technology	Exchanges	25.05	23.98	23.21	20.45	16.89
<b>HSIE Coverage</b>		<b>26.35</b>	<b>23.44</b>	<b>21.49</b>	<b>17.88</b>	<b>15.45</b>
<b>P/B</b>						
Financials	Banks	3.32	2.92	2.69	2.34	2.07
Financials	NBFCs	2.74	2.29	1.87	1.59	1.38
Financials	Brokerage & AMC's	13.36	10.23	8.17	7.48	6.69
Financials	General Insurance	1.54	1.30	1.27	1.27	1.20
Consumer	Autos and Aviation	5.11	4.24	3.68	3.29	2.94
Consumer	FMCG, Appliances and Food Services	15.22	13.49	12.01	9.34	7.50
Consumer	Retail and Fashion	23.57	18.40	15.75	11.85	9.18
HealthCare	Pharma	3.12	2.94	2.78	2.55	2.35
Industrials	Logistics	3.78	3.21	2.94	2.81	2.77
Industrials	Real Estate	2.23	1.84	1.65	1.58	1.43
Industrials	Capital Goods, Construction and Infra	3.48	3.08	2.73	2.45	2.18
Materials	Oil Gas and Lubricants	2.01	1.82	1.63	1.48	1.38
Materials	Cement	4.32	3.92	3.53	3.12	2.83
Materials	Chemicals	10.73	8.75	7.32	6.10	5.05
Technology	IT Products and Services	5.81	5.43	5.22	4.92	4.59
Technology	Exchanges	2.50	2.24	2.30	2.53	2.46
<b>HSIE Coverage</b>		<b>3.89</b>	<b>3.47</b>	<b>3.16</b>	<b>2.83</b>	<b>2.57</b>
<b>ROE</b>						
Financials	Banks	3%	4%	9%	12%	14%
Financials	NBFCs	17%	16%	15%	15%	15%
Financials	Brokerage & AMC's	32%	22%	24%	26%	26%
Financials	General Insurance	8%	5%	7%	9%	9%
Consumer	Autos and Aviation	23%	19%	15%	17%	18%
Consumer	FMCG, Appliances and Food Services	28%	28%	27%	25%	25%
Consumer	Retail and Fashion	17%	19%	16%	17%	18%
HealthCare	Pharma	11%	11%	12%	12%	13%
Industrials	Logistics	11%	13%	10%	12%	15%
Industrials	Real Estate	2%	6%	5%	7%	7%
Industrials	Capital Goods, Construction and Infra	13%	14%	15%	16%	14%
Materials	Oil Gas and Lubricants	14%	13%	11%	11%	11%
Materials	Cement	9%	8%	10%	11%	11%
Materials	Chemicals	22%	22%	23%	22%	21%
Technology	IT Products and Services	24%	27%	26%	26%	27%
Technology	Exchanges	9%	10%	11%	12%	14%
<b>HSIE Coverage</b>		<b>13%</b>	<b>13%</b>	<b>13%</b>	<b>14%</b>	<b>15%</b>

Source: HDFC sec Inst Research

# Asset managers and Brokers

INSTITUTIONAL RESEARCH

## Sector outlook for FY21

- We believe that inflows to asset managers will still take 2-3 quarters to improve as the economy is still recovering.
- We expect broking to continue to face intense pricing pressure from discount brokers as credible players such as Bajaj Finance and PayTM launch operations.
- Given hyper competitive environment in core business, sluggish growth in distribution assets, build-out of loan assets (MTF + ESOP book) will be a key revenue driver for brokers.
- We believe strong cost control will be essential to deliver earnings growth for both AMCs and brokers.

## Review of 3QFY20

- **Weak equity inflows:** 3QFY20/FY20TD saw muted flows with net equity (ex. ETF and arb.) flows reducing 90.8/62.1% YoY to Rs 26/402bn.
- **In-line earnings for asset managers.** Both HDFCAMC and NAM reported in-line core earnings. HDFCAMC/NAM reported NOPLAT growth of ~41.0/43.1% YoY. Boosted by 40.6/6.2% YoY other income HDFCAMC/NAM reported APAT of Rs 3.5/1.5bn (+43.5/36.3% YoY).
- **ISEC:** 3QFY20 yields declined 37.5% YoY, thus despite 59.6% YoY higher volumes broking revenues declined 1.0% YoY. With lackluster equity markets MF distribution business continued to be weak and revenues were Rs 576mn (-3.8% YoY). Aided by a lower tax rate 3QFY20/9MFY20 APAT were +35.7/+5.3% YoY at Rs 1.4bn/3.9bn.
- **MOFS:** Treasury income (Rs 545mn, +82.3% beat), boosted MOFS (ex-MOHL) reported 3QFY20 PAT to Rs 1.49bn (+11.0/-3.1% YoY/QoQ). 3QFY20 net inflows for MOAMC were muted at Rs 0.8bn (-90.0/+25.0% YoY/QoQ) and APAT grew just 6.5% YoY. Cyclical uptick in broking and lower tax rate aided capital markets (in. WM) div. to report APAT growth of 46.2% YoY. However 9MFY20 core cap markets/AMC performance remains weak as PBT declined 9.9/9.0% YoY.

## Top sector ideas

- **MOFSL:** Regulatory changes to PMS by SEBI are now behind us and the AuM growth dynamics for the industry will be reset as we expect fund raising for PMSs to remain slow over the next few quarters. We believe that the asset management business is close to trough. We continue to remain wary of increased competition in broking. Lastly, despite much of the negatives in MOHL being factored in, the business needs to display scalability. We upgrade MOFS to an ADD with a TP of 900 i.e. 12/30x Broking/AMC business Mar-22E EPS
- **NAM:** We expect NAM to re-gain its lost debt market share. With Nippon Life as sole promoter we expect increased credibility of NAM to enable it to raise HNI/institutional capital. We rate NAM as ADD with TP of Rs 436 (40x Mar-22E NOLPAT + cash).

Company	OLD RECO	NEW RECO	TP (Rs)
ISEC	SELL	SELL	435
MOFS	SELL	ADD	900
NAM	NEU	ADD	440

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# Autos, Aviation & Logistics

## Sector outlook for FY21

### Autos:

- We expect the auto industry to post a back ended recovery as sales are expected to revive in 2HFY21, once the impact of the BSVI price hikes settles in. CVs and 2Ws will witness a price hike in excess of 10% while cars will be lesser impacted. The gasoline models will witness a nominal hike of Rs 10,000-20,000 while diesel variants will see a steeper price hike of 5-10%. Bajaj and Maruti are well equipped for the ongoing transition.

### Aviation:

- The sector will witness pressure on yields due to moderating domestic industry growth and the recent impact of the Coronavirus on international travel. We are enthused by the government's initiative to divest their stake in Air India. This will lead to more supply discipline in the medium term.
- For Indigo, valuation multiples are impacted due to the ongoing dispute amongst the two promoters. Any resolution of the above will lead to a re-rating of the stock. Early delivery of the 737 MAX planes will improve the cost structure of the low cost carrier SpiceJet.

### Logistics:

- **DFC commissioning in FY21:** The railways is expected to commission 1,000kms (~30% of the DFC) of the freight corridor over the next few months. IR has been spending \$1.5bn p.a. over the last two years, which is ensuring the phased wise completion of the project.
- As the freight corridor is gradually commissioned, we expect railways to gain over 100bps in market share. We believe that Container Corporation of India (BUY) will be a key beneficiary of DFC as it has a market share of 70% in the CTO segment.

## Review of 3QFY20

- Over 3QFY20, the extent of sales decline for autos has moderated, with Maruti reporting a 5% YoY growth and other OEMs reporting a sequential improvement in sales. We believe that demand is bottoming out at lower levels. The profitability has sustained, with most OEMs reporting an improvement in EBITDA margins. The outlook on profitability though is uncertain due to the cost increases on BSVI. A sales recovery is expected from 2HFY21 onwards. For logistics, near term demand trends remain weak due to the EXIM sector related volatility.

## Top sector ideas

- **Bajaj Auto:** Bajaj is well prepared for the BS-VI transition due to its existing supplies to KTM. Further, 3W/exports are ~50% of volumes which provides cushion against volatility in domestic 2W demand. The co is launching new premium brands in India including the Husqvarna and Triumph. Valuations at 17/15x for FY21/22E are not demanding and RoEs are in excess of 20%.
- **CONCOR:** With the DFC Phase-I expected to be commissioned shortly; we expect volume growth in mid-teens over FY21/22E. Margins have been resilient amidst a weak macro and Privatization initiatives will improve valuations in the medium term.

## INSTITUTIONAL RESEARCH

	OLD RECO	NEW RECO	TP (Rs)
SUBR	BUY	ADD	285
INDIGO	BUY	BUY	1,750
SJET	BUY	ADD	95
CCRI	BUY	BUY	665
GDPL	BUY	BUY	190
GOLI	BUY	BUY	1,020
MSIL	NEU	ADD	7,330
BJAUT	BUY	BUY	3,745
MM	NEU	ADD	585
EIM	NEU	ADD	20,340
HMCL	BUY	BUY	3,070
AL	NEU	REDUCE	78

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# Banks & NBFCs

## INSTITUTIONAL RESEARCH

### Sector outlook for FY21

- Credit growth will likely see an uptick aided by (1) a low base, (2) policy pushes, and (3) better macros. Pvt banks will continue to gain mkt share. We expect 13% loan growth across our coverage in FY21E vs.108% in FY20E.
- ICICIBC, AXSB & SBIN should continue to see a downtrend in reported stress. Other banks in our covge may see only a marginal decline. We expect GNPA % across our coverage to dip ~120bps YoY in FY21E.
- High PCR & lower slippages (by ~25bps in FY21E) should drive earnings growth for our covg esp. ICICIBC, AXSB and SBIN. Smaller banks (DCBB, CUBK and AUBANK) will continue to report a steady rise in earnings.
- NBFCs' growth is likely to remain weak in FY21E, despite govt. measures. Polarization is likely to continue, driven by pedigree, asset quality and book granularity. We expect NBFCs and HFCs within our coverage to clock a 13.2% (vs. 11% in FY20E) AUM growth in FY21E

### Review of 3QFY20

- B/S growth slowed for most banks within our coverage, with the exception of AXSB and ICICIBC. AUBANK grew at a healthy clip, despite headwinds.
- Most of our coverage saw NIMs improve. Drivers varied vastly: (1) ICICIBC, and SBIN benefited from higher recoveries, and (2) RBK and IIB saw faster growth in high yielding segments. CoF fell across the board.
- Our coverage (with the exception of KVB and RBK which continued to see elevated slippages QoQ) saw a considerable rise in slippages (YoY and QoQ). GNPA's increased, with the exception of ICICIBC and SBIN.
- ICICIBC and AXSB both reported an increase in inflows into their pool of low-rated corporate and SME loans (precursor to GNPA's).
- On a YoY basis, apart from SBIN, ICICIBC and FB, banks within our coverage reported a rise in non-tax provisions.
- NBFCs within our coverage saw slower B/S growth, stable to slightly higher NIMs, aided by lower CoF and stable to increasing Stage-III.

### Top sector ideas

- **AXSB:** Transformative change driven by a strategic overhaul, a well articulated path for RoAE expansion, along with moderating stress and credit costs underpin our constructive stance.
- **SBIN:** The worst in terms of asset quality appears to be behind SBIN. A downtrend in credit costs is likely to boost RoAAs. Value unlocking from subs/ strat holdings will boost SoTP value. Valuations are attractive at ~1x
- **CIFC:** Diversification across products and geographies with strong access to funds have allowed CIFC to offset some of the impact of slowing vehicle demand. Asset quality is best in class amongst AFCs.
- **MMFS:** Stress levels have reduced over years and it has raised funds, post Sept-18 without much difficulties, gaining m-share and sustain superior growth. At current valuations, MMFS is an inexpensive play on rural India.
- **CUBK:** Likely to consistently deliver superior returns. We maintain faith despite the softer than expected performance on growth and asset quality, given inherent strengths (credit filters, prudence and customer franchise).

Company	OLD RECO	NEW RECO	TP (Rs)
ICICIBC	BUY	BUY	639
KMB	NEU	ADD	1,725
AXSB	BUY	BUY	911
IIB	BUY	ADD	1,491
FB	BUY	ADD	112
CUBK	BUY	BUY	265
RBK	NEU	REDUCE	348
DCBB	BUY	ADD	223
KVB	NEU	REDUCE	55
SBIN	BUY	BUY	421
AUBANK	NEU	REDUCE	916
SHTF	BUY	ADD	1,538
CIFC	BUY	BUY	412
MMFS	BUY	BUY	425
LICHF	NEU	REDUCE	449
INDOSTAR	NEU	ADD	305
REPCO	BUY	ADD	399

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# Cement

**INSTITUTIONAL RESEARCH**

## Sector outlook for FY21

- Cement demand should recover to 6-8% rate vs flattish growth in FY20, driven by pent up demand from road and infra segments
- We expect cement prices to remain strong in the north/central markets. Expected demand revival in south to lead cement price recovery in south/east & Maha mkts.
- Falling energy cost tailwinds seen in FY20 should continue in FY21E. Overall we expect FY20 operating margin (decade high) to sustain through in FY21E.
- We are positive on the sector with greater preference for cos with large exposure to north/central markets.
- Pick up in consolidation should reduce aggressive pricing in the industry. Demand recovery and margin sustenance at decade high level should drive valuation rerating for cos with healthy return ratios and balance sheet.
- Key risks: prolonged demand weakness will pull down pricing power and spike up in petcoke/diesel prices can also lead to margin compression

## Review of 3QFY20

- Third consecutive qtr of flat volume growth YoY pulled down utilisations, and moderated NSR gain to +3% YoY.
- Lower fuel & diesel prices drove Input/freight costs decline by 3/2% YoY, thus offsetting negative operating leverage impact and opex declined 1% YoY.
- Thus, the qtrly margin (~Rs900/MT) stood at multi-year high (in 3Q).
- North/central based cos reported both higher NSR YoY and robust margins
- Mgmts remained hopeful of demand recovery and cost tailwinds in FY21

## Top sector ideas

- **UltraTech** - M&A to take a pause, focus shifts on realization improvement. Various cost levers (scale benefits) and rising green power share to further bolster margin and return ratios.
- **JK Cement** - New plants in north to bolster margin and profitability for grey cement. Robust putty sale continues to keep white/putty profits strong, boosting cashflows.

Company	OLD RECO	NEW RECO	TP (Rs)
UTCEM	BUY	BUY	5,900
SRCM	SELL	SELL	20,600
ACEM	BUY	BUY	245
ACC	BUY	BUY	1,680
TRCL	NEU	ADD	810
DALBHARA	BUY	BUY	1,210
JKCE	BUY	BUY	1,775
JKLC	BUY	BUY	490
STRCEM	BUY	BUY	125
ORCMNT	BUY	BUY	115
DECM	BUY	BUY	495

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# Chemicals

## Sector outlook for FY21

- We are positive on India's chemical space owing to the rising domestic demand in numerous end-user markets, including agrochemicals, personal care, flavors and fragrance, and dye intermediaries. This is resulting in higher consumption of chemicals per capita. With rising urbanization and income, per capita consumption is also expected to grow proportionately.
- The Indian chemicals industry has the potential to increase its market share in the global market by exporting value added products.
- We believe margins could increase for indigenous companies in FY21 owing to (1) Rising exports of value added products, (2) Softer raw material prices due to benign oil prices.
- We continue to remain positive on the Amines industry owing to their own expansion plans and strong volume traction from Pharma and Agrochemical industry. However, we prefer Alkyl Amines over Balaji given a better margin profile and a focused management.

## Review of 3QFY20

- On an aggregate level, revenue eroded by 1% YoY due mainly to softening input prices.
- EBITDA margins, however, remained strong (up 239bps YoY to 21.7%) driven by softening raw material prices (crude derivatives and Lauryl alcohol) and a better product mix.
- In 3Q, we downgraded Vinati Organics to Neutral given a demand slowdown for the high margin ATBS and increasing contribution from low margin Butyl phenol. The latter will drag margins in FY21/22E to ~36% from 39.4% in 9MFY20.
- We remain constructive on Alkyl Amines owing to healthy product demand from the Pharma/Agro industries (~70% sales mix), impending capacity expansion for multiple products (Acetonitrile, Methyl Amines) and rising market share in Methyl Amines.
- We have maintained our Sell rating on Navin Fluorine International. We raise our FY21/FY22 EPS estimates by 13-13.5% as the company has signed long term contracts in the CRAMS BU. However, post announcement of its capex plans for a Greenfield project at Dahej, the stock price has surged, pricing in the key positives.

## Top sector ideas

- **Alkyl Amines:** We remain constructive on Alkyl Amines owing to healthy product demand from the Pharma/Agro industries (~70% sales mix), impending capacity expansion for multiple products (Acetonitrile, Methyl Amines) and rising market share in Methyl Amines.
- **GALSURF** is a preferred global supplier of surfactants and other specialty chemicals to leading FMCG MNCs. RMC is semi-passed on to customers, insulating its margins. GSL's products are specialised (not commoditised) but lacks branding and pricing power

## INSTITUTIONAL RESEARCH

Company	OLD RECO	NEW RECO	TP (Rs)
VO	NEU	ADD	1,062
NFIL	NEU	ADD	1,479
GALSURF	BUY	BUY	1,880
AACL	BUY	BUY	2,130
BLA	BUY	BUY	493

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# Consumer Staples

## Sector outlook for FY21

- We expect consumption growth to improve, albeit marginally, in FY21 helped by bottoming out of rural demand, favourable base in 2H and positive pricing on yoy basis given higher agri-input inflation.
- **Key trends:** (1) Rural growth has significantly decelerated, growing at 0.5x of urban growth in FY20 vs. ~1.3x in FY19. Govt. is committed to improve farm income. Monsoon 2020 needs to be watched for rural uptick (2) Cos have decelerated the pace of new launches and focusing on scaling up recent launches and (3) Efficient distribution benefited cos during FY18-20 (post demonetization and GST), still the focus area to gain share from regional players.
- **Key Risks:** High inflation with weak wage growth is leading to negative real wage growth of 3-5% during the last 3-4 months. If it continues in FY21 then rural consumption will remain tepid.
- **Valuation:** Sector (ex-ITC) is trading at 47x 1 year forward P/E, 182% premium to Nifty (last 3/10 year avg. premium at 146/129% resp). Re-rating was sharper for companies with consistent performance (like HUL, Nestle, Dabur, Jubilant FoodWorks) while de-rating was seen for cos with weak performance (like Marico, GCPL, Emami, Bajaj Consumer, Jyothy Labs).

## Review of 3QFY20

- Our coverage universe has posted 5/8% revenue/EBITDA growth in 3QFY20 as compared to 12/11% in 3QFY19 and 6/12% in 2QFY20. We believe favorable base, targeted marketing and soft RM will deliver better earnings growth in FY21. Hence, worst seems to be over for most cos.
- Tight liquidity condition is impacting RoI for channel partners. Thereby, cos are optimising trade inventory along with better trade terms. This will slightly stretch working capital for most cos in FY20.
- Most cos foresee gradual recovery in FY21 (2Q onwards) and do not expect near term respite from slowdown. Thereby, managements are focusing on scaling recent launches, distribution reach and cost control.

## Top sector ideas

- **ITC:** Company should be able to pass on price hikes of ~8-9% without impacting volumes significantly leading to mid-single digit EBIT growth. Recent sharp de-rating has made risk-reward attractive.
- **United Spirits:** Gradual improvement in volume growth in Prestige and above segments coupled with peaking of input costs should drive a healthy mid teens EBITDA growth in FY21.
- **Jubilant FoodWorks:** Co has a levers such as (1) Steady urban demand, (2) Improving SSG (higher share of new store in FY21), (3) Menu expansion (new pizza range, sides and beverages), (4) Tech & digital for customer acquisition and (5) New store design to drive dine-in.
- **Dabur:** New CEO is re-imagining the entire strategy of Dabur and it has already started reflecting in performance. Dabur clocked 7% volume growth in 9MFY20 vs. 4% for the sector. Focus on power brands, expanding addressable market, product innovation and distribution reach will continue to drive growth outperformance for Dabur.

Company	OLD RECO	NEW RECO	TP (Rs)
HUVR	NEU	REDUCE	2,140
ITC	BUY	BUY	265
DABUR	BUY	ADD	529
BRIT	BUY	ADD	3,318
UNSP	BUY	BUY	827
MRCO	NEU	REDUCE	304
CLGT	NEU	ADD	1,497
JUBI	BUY	ADD	2,073
HMN	BUY	ADD	302
RDCK	BUY	BUY	495
HAVL	BUY	BUY	725
VOLT	BUY	ADD	744
CROMPTON	BUY	BUY	338
VGRD	NEU	ADD	217
SYML	BUY	BUY	1,693

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# Cons Discretionary (ex-autos)

**INSTITUTIONAL RESEARCH**

## Sector outlook for FY21

- Retail:** We continue to have a POSITIVE outlook on the sector and expect rev CAGR of 18% CAGR over FY19-22E for our universe. Given the general consumer slowdown, we expect formats offering value to consumers will outperform. Expect SSSG across our Retail universe to range between 2-12% with value plays such as D-MART, V-MART, Trent leading this parameter. Expect value fashion to lead on this the expansion narrative too. In Jewellery, consistently rising gold prices (up 16% YoY in 9MFY20) continues to keep fresh jewellery purchases away and a revival still seems a couple of quarters away (industry vol were down by 12% in 9MFY20 -WGC).
- Consumer Durable:** We remain positive on Consumer Durable sector and believe FY21 growth will be superior to FY20 led by gradual recovery in core segments (cables, lighting, switchgears, etc) and sustain healthy growth for cooling appliances. Imports from China are overhang for product availability in the upcoming season.

## Review of 3QFY20

- Retail:** Sector delivered rev growth of +19%/15.7% YoY (RR). Companies with a higher MBO exposure (Arvind Fashion, TCNS Clothing) were laggards as MBOs continue to remain under liquidity stress. ABFRL is smartly pivoting a larger portion of its biz through its retail channel. Operating performance remained a mixed bag, with MBO-heavy apparel retailers suffering (TCNS Clothing, Arvind Fashions). Strong private labels/brands/value fashion retailers smartly improved their cost structure (Trent, ABFRL, V-MART) despite aggressive expansion. In F&G, Avenue Supermarts just about managed to maintain its cost structure.
- Consumer Durable:** Our coverage universe has posted -2/-1% revenue/EBITDA growths in 3QFY20 as compared to 20/1% in 3QFY19 and 3/4% in 2QFY20. Core sectors growth were weak while cooling appliances clocked healthy growth in a non-seasonal quarter. Favorable base, gradual pickup in B-B and B-G and liquidity improvement in channel will deliver better earnings growth in FY21. Hence, worst seems to be over for most cos.

## Top sector ideas

- ABFRL:** Strong focus on retail and a shift to 12 season model is likely to help improve assortment freshness – a footfall enabler; ergo growth quality and momentum across anchor formats should sustain. We prefer strong brands and value fashion plays and ABFRL is well placed to milk both categories.
- Future Lifestyle & Fashion:** While FLF's Brand Factory remains its long-term money-spinner, its department store Central continues to chug along. Given bigger store sizes and lower cost of retailing vs cohort, Central is better placed to offer better off-line experience and garner footfalls.
- V-MART Retail:** 1) Strong execution, 2. Insulation from an online onslaught and 3) inherent advantage within the ecosystem given the tail's precarious working capital position makes VMART one of our preferred picks.
- Havells:** We believe most negatives are priced-in and gradual pickup in core business with recovery in Lloyd will re-rate the stock.
- Symphony (BUY):** Low trade inventory, record new launches, likelihood of a strong summer and cross selling opportunity globally will re-rate the stock.

Company	OLD RECO	NEW RECO	TP (Rs)
DMART	SELL	SELL	1,800
TTAN	NEU	ADD	1,260
TRENT	NEU	REDUCE	690
ABFRL	BUY	ADD	300
FRETAIL	NEU	ADD	370
FLFL	BUY	BUY	500
TCNSBR	BUY	BUY	670
SHOP	SELL	REDUCE	370
VMART	BUY	ADD	2,700
ARVINDFA	BUY	BUY	460

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# Industrials

## INSTITUTIONAL RESEARCH

### Sector outlook for FY21

- We expect cyclical recovery to play out during FY21 after (1) Election heavy FY20E; (2) Tight sectoral liquidity post IL&FS crisis; (3) Banking NPA resolutions and (4) Monetization of BOT assets.
- Monetization inflows during FY21 will significantly deleverage transportation plays like Sadbhav, Ashoka & Dilip Buildcon.
- Larger Capex plays have been facing headwinds as private capex outlook remained benign. Stalling of awarded projects in AP, NGT construction ban in NCR and various short term hiccups due to legal stays on under construction projects impacted FY20 growth.
- FY21 may start on a recovery note with pick up in ordering from NHA1 & Central/State Govt clients. Private Capex recovery is still muted and hence remains growth headwind. Larger Industrial plays viz. L&T, Siemens and ABB need to look beyond India to sustain growth momentum.
- Industrials balance sheet is expected to remain robust during FY21 with net D/E less than 0.5x for most of the coverage companies. Siemens/ABB remains net cash. With improvement in liquidity, NWC should further improve for the sector.
- **Key risks:** Prolonged delay in private capex recovery, slow down in global growth shrinking cap goods export opportunity, slower than expected revival in stuck projects.

### Review of 3QFY20

- Our pure play EPC coverage universe 3QFY20 Rev/EBIDTA/APAT grew 8.7/3.9/(8)% YoY. We have excluded NCC/Sadbhav/IRB from trends as they have company specific issues. EBIDTA growth was muted due to opelev yet to play out. Higher non finance/depreciation charges and lower OI impacted APAT growth.
- Large Industrials companies viz. L&T/ABB/Siemens etc coverage universe 3QFY20 Rev/EBIDTA/APAT grew 5.9/2.7/15.6% YoY. Margin expansion led to strong APAT growth.
- Order booking during 9MFY20 has been weak for the sector. Though 4QFY20 has seen sharp recovery with our coverage universe moving towards achieving FY20 order inflow guidance.
- Management commentary remains one of cautious optimism.
- NWC has deteriorated marginally on account of companies supporting vendors. Net D/E remained stable with improvement bias.

### Top sector ideas

- **L&T:** Growth guidance retained, NWC will reverse with improvement in liquidity & BS remains robust. With cyclical recovering panning out L&T is well placed for re-rating.
- **KNR Constructions:** Net cash status, strong execution capabilities and robust NWC management. Track record of timely equity recycling augurs well for future growth.
- **Siemens:** Robust balance sheet, superior technology competence and presence across industries segment augurs well for recovery. Increasing share of exports also is silver lining.

Company	OLD RECO	NEW RECO	TP (Rs)
LT	BUY	BUY	1765
SIEM IS Equity	NEU	ADD	1533
ABB	NEU	ADD	1254
KECI	BUY	BUY	441
KPP	BUY	BUY	561
DBL	BUY	BUY	605
PNCL	BUY	BUY	318
KNRC	BUY	BUY	371
IRB	BUY	BUY	158
NJCC	BUY	BUY	104
ASBL	BUY	BUY	199
SADE	BUY	BUY	160
AHLU	BUY	BUY	383
PSPPL	BUY	BUY	593
HGINFRA	BUY	BUY	464
JMCP	BUY	BUY	136
CAPACITE	BUY	BUY	369
JKIL	BUY	BUY	283
ITCE	BUY	BUY	86

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# Information Technology

**INSTITUTIONAL RESEARCH**

## Sector outlook for FY21

- We have a **POSITIVE** outlook on the sector and expect mild rev growth acceleration at 8.6% CAGR over FY20-22E (vs. 7.8% CAGR over FY17-20). INFY, HCLT and TechM are expected to lead growth in Tier-1 supported by large deal momentum, market-share gains in digital vs. global peers (platform/partnership strategy), scale in high-growth segments (ER&D), improving supply-side & stable operating metrics, and strong FCF generation/better capital allocation.
- LTI, LTTS, Sonata are preferred picks in Tier-2 IT/ER&D based on diversified portfolio, strong pedigree/niche capabilities, and growth acceleration over FY20-22 (vs. FY20).
- We also expect earnings performance to broad-base over FY20-22E as compared to Tier-1 IT/TCS skew in FY20. Tier-2 IT aggregate rev growth is expected to move to a premium over Tier-1 IT beyond FY20 (200bps growth premium over FY20-22E vs. parity in FY20 and ~250bps premium over FY17-20E). Tier-2 IT valuations (14.5/12x FY21/22E) are at >5% discount to their historical avg and Tier-1 IT (17/15x FY21/22E) at ~5% to premium.
- **Key risks:** INR appreciation, macros in US/Europe (core geographies) turning adverse, unfavorable legislation on H-1B, and volatility in large accounts' spend.

## Review of 3QFY20

- IT sector (coverage universe) delivered revenue growth of +1.9/7.9% QoQ/YoY in USD terms and +3.3/8.2% QoQ/YoY. TechM and HCLT led the growth within tier-1 IT at 5.1% QoQ and 2.3% QoQ supported by Telecom vertical (TechM) and product & platform led growth (HCLT).
- Operating performance for the sector improved sequentially (+32bps) supported by INR depreciation, while YoY decline (-93bps) impacted by increased localisation.
- Within tier-1 IT, TCS and HCLT posted strongest sequential growth in margin, while Mindtree and LTI posted strongest sequential margin improvement within tier-2 IT.

## Top sector ideas

- **Infosys:** Large deal momentum, Completion of accelerated investment phase & margin stability, Pricing lever in Digital and Valuation discount (higher than avg.) to TCS.
- **LTI:** Broad-based vertical presence, sub-vertical strategy and marquee accounts, Large client mining program and expanding deal pipeline, Improving alliance network/talent augmentation and Superior operating metrics vs. peers.
- **CDSL (Exchanges sector):** Well placed to benefit from unlisted demat opportunity, rebound in market activity and new initiatives like NAD and e-warehouse receipts. Non-linearity, healthy cash position and strong return ratios will support premium valuations.

Company	OLD RECO	NEW RECO	TP (Rs)
TCS	NEU	REDUCE	2,095
INFY	BUY	ADD	865
HCLT	BUY	ADD	675
Wipro	NEU	REDUCE	240
TechM	BUY	ADD	940
LTI	BUY	ADD	2,175
LTTS	BUY	ADD	1,870
Mphasis	BUY	ADD	1,040
Mindtree	NEU	REDUCE	950
Hexaware	BUY	ADD	430
Persistent	BUY	ADD	775
Cyient	NEU	ADD	500
Sonata	BUY	BUY	435
Zensar	NEU	ADD	170
Mastek	BUY	BUY	595
Majesco	BUY	BUY	540
Teamlease	BUY	BUY	3,222
MCX	BUY	ADD	1,450
BSE	NEU	ADD	610
CDSL	BUY	BUY	351

Note: (1) TP changes reflect rollover to Mar-22E, (2) Mindtree at 15x (14x earlier) at historical avg

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# Insurance

## Sector outlook for FY21

### Life Insurance

- The optional tax regime will negatively impact LI demand in FY21E and we expect total APE growth for pvt. players to slow down to ~7-11% in FY21E after posting ~15.0% growth in 10MFY20 & 21% CAGR in FY16-19.
- Our calculations suggest that changes to dividend taxability rules will reduce FY21E VNBMs - IPRU and SBILIFE's margins will likely reduce by ~30-40bps, while HDFCLIFE has guided for a margin contraction of 20bps.
- Overall listed life insurers are expected to post modest VNB growth in FY21E. We expect FY21E VNB growth of 13.9/11.3/12.6/13.5% for HDFCLIFE/IPRU/MAXL/SBILIFE.

### General Insurance

- Led by softer motor segment, industry GDPI growth for FY21E is expected to moderate to 9-11% (10MFY20 GDPI growth: 12.5%).
- Motor TP growth will largely be dependent on tariff increases, if any. Health should see steady growth with SAHIs likely to gain market share. Fire should grow faster owing GICRE mandated rate hikes.

## Review of 3QFY20

### Life Insurance

- APE growth was in high teens (16-19%) for listed pvt. life insurers barring IPRU (4% YoY- owing slow down in high ticket ULIP sales). Proportion of NPAR savings reverted downwards for all players. LI players focusing more on limited pay and RoP protection, as industry looks to lock in persistency and grow premium pool.
- ULIP business declined for HDFCLIFE/IPRU as sales declined 10.7/35.0% YoY while for MAXL/SBILIFE ULIPs grew 17.2/18.0% YoY.
- 9MFY20 VNB margins for IPRU, MAXL and SBILIFE were in line at 21.0%, 21.0%, & 20.5% respectively. Despite higher NPAR in sales mix, HDFCLIFE's 9MFY20 margin at 26.6% was slightly below our expectations of 27.5%.

### General Insurance

- GDPI growth continues to remain strong for all non-life insurers amidst a sluggish economy even as auto sales slowdown continues to be a drag. Motor OD pricing remains extremely competitive. While mgt of most companies believe that pricing has bottomed out, signs of improvement are yet to reflect in quarterly earnings.
- For PSU insurers, high underwriting losses were offset by high investment income while decline in FV reserve was significant- indicating profit booking on equity investments.

## Top sector ideas

- **SBILIFE:** operating cost ratios (9.1%), and improving margins (VNBM: 20.5%). We expect SBILIFE to deliver strong FY20-22E VNB CAGR of 17.4% and RoEVs of ~17.5-18.5%.
- **GICRE:** GICRE has increased rates on property and is looking to exit non-profitable foreign business. We expect improvement in the business beginning 4QFY20. Lastly, we believe that FY21/22E P/ABV valuations of 0.73/0.66x are undemanding and underpin our positive stance.

Company	OLD RECO	NEW RECO	TP (Rs)
IPRU	NEU	ADD	505
MAXF	BUY	ADD	575
SBILIFE	BUY	BUY	1,160
GICRE	NEU	BUY	270
ICICIGI	SELL	SELL	1,170
NIA	SELL	REDUCE	130

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# Pharmaceuticals

## Sector outlook for FY21

- US generics pricing has stabilized, however increased regulatory scrutiny, delay in complex generics approvals, and slower traction in specialty products continue to dampen the US business outlook. Growth in India business has picked up and is now trending in double digits (+10% YoY for 9MFY20 for IPM). Against this backdrop, we prefer stocks with higher exposure to India business as this drives better earnings stability.
- Key visible trends – a) aggressive push towards India business via acquisition/in-licensing/field force expansion, b) calibration of R&D spend – targeted towards specialty/key pipeline assets, c) increased compliance cost for US FDA plants.
- In the near term, prolonged shutdown in China due to covid-19 outbreak could lead to supply disruptions as pharma companies' dependency (direct and indirect) on China is very high. It is difficult to ascertain specific impact at this stage as the entire supply chain is inter-dependent with high sourcing requirements for key starting material (KSM)/intermediates/ API.
- Valuations appear reasonable and factor the ongoing compliance issues in our view. The sector has underperformed Nifty by 6% in last one year. It trades at 21x one year forward (20% discount to its five year average) and in line with Nifty Index (vs. 30% premium over the past 5 years).
- Key risks - Slowdown in IPM, regulatory risk at plants, delay in key approvals, US drug price fixing probe, capping of trade margins, expansion of NLEM list.

## Review of 3QFY20

- Strong trends for domestic formulations business (large pharma companies posted revenue growth of 11% YoY for Q3 and 9MFY20).
- US revenues were stable and largely reflected base business performance in the quarter (+6% YoY and +4% QoQ).
- R&D spends were flat YoY at 7.8% of sales. Gross margins improved by 40bps YoY and were flat QoQ whereas EBIDTA margins declined by 140bps YoY and improved 60bps QoQ for covered companies. EBIDTA growth was -3.4% YoY and +2.5% QoQ.

## Top sector ideas

- Torrent Pharma:** Torrent has re-rated substantially in the past three years on the back of strong execution particularly in branded markets. Despite rich valuation, we recommend Add as it offers a solid India franchise, robust earnings growth and superior return profile which justify premium over peers. We expect FCF generation of Rs39bn over FY20-22e and reduction in net debt/EBIDTA from ~1.4x in FY20 to ~0.3x by FY22. Our TP of Rs 2,405 is based on 16x FY22 EV/EBIDTA.
- Cipla:** Recovery in India and SAGA markets (56% of revenues, healthy underlying trends) will drive earnings CAGR of 10% over FY20-22e. The stock trades at reasonable valuations of 20x/17x FY21/22 EPS (~20% discount to its historical average). We believe a target multiple of 20x is justified (in line with peers) given high exposure to branded formulations market. TP is Rs495/sh.

Company	OLD RECO	NEW RECO	TP (Rs)
Sun Pharma	BUY	ADD	450
Cipla	BUY	BUY	495
Dr. Reddy's	NEU	ADD	3,270
Lupin	NEU	ADD	690
Torrent	BUY	ADD	2,405

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# Oil & Gas

**INSTITUTIONAL RESEARCH**

## Sector outlook for FY21

- Notwithstanding production cut from OPEC and non-OPEC countries, the oil prices are to remain muted owing to (1) The robust supply from US Shale, and (2) Weakening global macros. Thus, we do not foresee any petroleum subsidy sharing by upstream companies.
- Upstream stocks are trading at attractive valuations of 3.1-5.2x FY21E PER. However, GoI's stake sale to achieve its disinvestment target will remain a key overhang on the upstream stocks and keep them out of flavour.
- IMO has failed to boost middle distillate, particularly diesel, cracks. Diesel cracks are at a 10-quarter low of ~USD 11/bbl in Q4FY20 as demand from ships to comply with IMO's sulphur regulation has disappointed. Moreover, the virus outbreak in China will further shrink the demand for petroleum products. Thus, GRMs are expected to be subdued in the near term.
- A confluence of policy reforms, benign gas prices and accelerated execution of infrastructure is expected to drive gas demand in India. Revival of fertiliser plants, significant expansion in CGD networks and stricter control on polluting units will ensure sustainability of this growth in demand.
- Entry of CGD entities into new markets and the availability of CNG/PNG at a cheaper rate than substitute fuels should boost volume growth.
- We believe that the regulator will continue to provide conducive environment to CGD entities as the superior returns will be reinvested and help increase the share of gas in India's energy mix to 20% (from 6% currently) by 2025.

## Review of 3QFY20

- OMCs were outliers with a 197.8% YoY jump in PAT owing to inventory and adventitious gains compared to losses a year ago. This is in spite of fall in core GRMs by 64-87% YoY.
- Marketing margins were up 3% YoY while marketing sales were up 5%.
- Weak margins across petchem products and higher operating expenses have adversely impacted RIL performance. Crude throughput jumped 8.4% QoQ, following the planned shutdown in 2Q. Both refining and petchem segments will face demand slack, given the impending capacity additions in CY20. We expect both segments to peak out in the near term.
- CGD companies reported PAT growth of 37% YoY largely owing to 23% jump in volume growth and 11% expansion in per unit PAT margins.

## Top sector ideas

- Indraprastha Gas-** We prefer IGL owing to its monopolistic gas supplier status in Delhi/NCR, regulatory support in the form of prioritized gas allocation, ban on petrol/diesel for public transport and ban on FO/LSHS/pet coke in favour of PNG. These reasons convince us that this is a business to own for the long term.
- Gujarat Gas-** Industrial and commercial customers that constitute ~80% of GGL's volumes are fed by a blend of Long Term and spot LNG. GGL's well connected CNG network will enrich sales mix steadily (<20% today). Supply glut in the global LNG market will ensure benign spot LNG prices. As sourcing mix tilts towards spot LNG, blended purchase price will fall. This benefit will be part-retained, driving up margins and spur demand as well.

Company	OLD RECO	NEW RECO	TP (Rs)
RIL	NEU	ADD	1,562
ONGC	BUY	BUY	173
IOCL	BUY	BUY	181
BPCL	NEU	REDUCE	452
GAIL	BUY	BUY	190
PLNG	BUY	BUY	397
IGL	BUY	BUY	545
GUJGA	NEU	ADD	273
OINL	BUY	BUY	209
GUJS	BUY	ADD	253
MAHGL	BUY	BUY	1,475
HPCL	BUY	BUY	320

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# Real Estate

**INSTITUTIONAL RESEARCH**

## Sector outlook for FY21

- Residential segment is facing demand headwinds due to unaffordability and lack of investor interest. Within residential segment luxury housing has been hit the hardest, mid income/affordable demand is muted YoY.
- Going into FY21 the trends may remain similar with affordable housing projects likely to witness good traction. Lack of pricing power in residential business which is inherent fixed price nature, doesn't augur well from profitability perspective.
- Unorganized to organized market share gain may have played out over last two year post RERA and NBFC defaults. Incremental growth now has to be seen from base business growth. We expected muted residential volume growth during FY21.
- Commercial office/retail demand remains robust with all time low pan India vacancy rates of sub 13%. Global GCC expansion, India's strong talent pool and sub dollar rentals are key drivers of this robust demand.
- Further, compression in cap rate with interest rates cuts is driving the valuation of lease assets higher. REIT fund raising is witnessing good traction. We believe that FY21 will see new REITs listing.
- Key risks: Sustained delay in residential demand pickup, higher commodities inflation, DDT imposition by Central Govt in the hands of investors will impact retail demand for units.

## Review of 3QFY20

- Our coverage universe 3QFY20 Rev/EBIDTA/APAT grew 13.8/2.3/(5.4)% YoY. DLF is the key driver of this underperformance with 40/45% de-growth in 3QFY20 Rev/EBIDTA YoY. The premium segment is seeing cancellation and hence has impacted revenue.
- Despite economic slowdown and weak buyer sentiment Residential volumes have largely been muted and holding on. This has been driven by more affordable new launches and gains from unorganized players.
- Lease assets continue to witness strong leasing demand across company's viz. DLF, Oberoi, Brigade and Prestige Estate. These large players have planned huge capex program to build out lease asset portfolio.
- The valuation has been holding on for players with mixed use development portfolio. Cap rate compression is also driving the valuations higher.
- Managements commentary on pricing is muted with developers harping on volumes led recovery.
- Large part of debt increase is going towards capex.

## Top sector ideas

- DLF:** Play on lease assets build out and cap rate compression. Large ready unsold inventory and significant balance sheet deleveraging augurs well once cycle turns towards recovery.

Company	OLD RECO	NEW RECO	TP (Rs)
DLFU	BUY	BUY	284
OBER	NEU	ADD	573
PEPL	NEU	ADD	358
KPDL	BUY	BUY	310
SOBHA	BUY	BUY	590
BRGD	NEU	ADD	252

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