INSTITUTIONAL RESEARCH

India Equity Strategy

Quarterly flipbook

Q1 - margins save the day!

Q1FY21 was indeed an exceptional quarter, given the impact of COVID-induced lockdown, which tested the resilience and agility of business models. As we are nearing the end of reporting season, it has turned out to be a satisfactory one vs the heightened fears and muted expectations. Key highlights of the quarter: (1) margins beat estimates across multiple sectors such as IT, cement, pharma, staples due to (a) sharp cost-cutting initiatives leading to lower SG&As (A&P, travel expenses, etc.) and (b) improved pricing power in the wake of lower competition; (2) positive management commentaries on June/July exit run-rate of revenues as unlocking led to sharp demand rebound in multiple sectors, viz., staples, paints, select autos, cement, insurance, IT, metals, energy; (3) continued market share gains for the larger companies vs smaller players and those from the unorganised sector during Q1; (4) improving moratorium trends for lenders; (5) sharp uptick in capital markets activity leading to strong performance for brokers and exchanges while AMCs' results were subdued.

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Quarterly flipbook: Q1 - margins save the day!

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We believe the Q2/Q3 results will be better indicators of the underlying demand conditions and stress in the banking sector as supply chains settle down, moratorium period ends, and the festive season kicks in. Given the sharp pull-back in markets and Nifty valuations back to 18x FY22, markets would await more concrete evidence of a sharp FY22 earnings rebound, which is currently built-in.

Our preferred sectors are telecom, IT, chemicals, pharma, insurance, large banks, cement, and gas while we are underweight on consumption (staples, discretionary and autos). Our large-cap picks in the model portfolio include RIL, Bharti, Infosys, ITC, SBI Life, ICICI Bank, Axis Bank, and L&T. Within mid-caps, we like Max Life, IGL, Gujarat Gas, Crompton Consumer, Alkyl Amines, Galaxy Surfactants, JK Cement, and KNR Construction.

Q1FY21 results: IT, pharma, chemicals, banks, cement surprise positively
Earning misses were more prevalent in autos, consumer discretionary, energy, insurance, and AMCs while hits were mainly in IT, pharma, cement, chemicals and banks.

So, what happens to FY21/FY22 earnings?
Given Q1 trends and management commentaries for our coverage universe, we have seen aggregate PAT change by -2.5%/+0.3% for FY21/FY22. While it is a given assumption that FY21 aggregate earnings would be weak (further earnings cut in energy, autos and consumer discretionary), FY22 earning changes would be the key to watch out, going forward. FY22 earning upgrades were seen in IT, pharma and cement. We are now building in -5%/+41% YoY growth for aggregate PAT for FY21/FY22 respectively.

Our view: cautious near-term post sharp run-up, bottom-up opportunities still visible across sectors as economic recovery plays out in FY22/FY23.
With recent run-up back to pre-COVID levels for most sectors (except financials, infra, and metals), risk-reward has again turned unfavourable with limited upsides on our top picks. We maintain a mix of defensives (telecom, IT, pharma, and utilities), quality cyclicals (select banks, cement, autos, infra, and consumer discretionary) with a positive bias towards technology (telecom and IT) and manufacturing-led gradual economic recovery, which we play through cement and select financials/industrials. Our sector preference is mostly unchanged.

Q1 deviation in estimates in comparison to previews

Sector	Revenue	PAT
Autos	-1.1%	NM
Banks and NBFCs	7.9%	11.2%
Insurance	5.5%	-11.2%
Capital Markets	-0.2%	-4.7%
Consumer- Staples	4.9%	-2.8%
Consumer Discretionary (ex-Autos)	-0.7%	13%
Industrials (Infrastructure+ Cap Goods+ Logistics)	7.6%	283.4%
Real Estate	-9.7%	62.4%
IT and Exchanges	-0.1%	3.6%
Energy (Oil & Gas)	-1.6%	-7.4%
Cement	-2.1%	50.4%
Chemicals	20.0%	60.8%
Pharma	-2.6%	17.7%
HSIE Coverage	0.4%	-1.0%

Source: Bloomberg & HSIE Research

Sectoral Change in PAT Estimates in comparison to previous report

Sector	FY21E	FY22E
Autos	-32.4%	1.4%
Banks and NBFCs	-0.6%	0.5%
Insurance	-0.8%	-1.1%
Capital Markets	5.8%	1.6%
Consumer- Staples	-0.7%	-1.3%
Consumer Discretionary (ex-Autos)	-10.8%	-1.9%
Industrials (Infrastructure+ Cap Goods+ Logistics)	-1.6%	-0.6%
Real Estate	0.0%	0.0%
IT and Exchanges	2.9%	3.0%
Energy (Oil & Gas)	-8.6%	-0.5%
Cement	6.9%	2.9%
Chemicals	-5.7%	-2.3%
Pharma	6.2%	6.0%
HSIE Coverage	-2.5%	0.3%

Source: HSIE Research

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Result Scorecard- Quarterly Snapshot

HSIE Coverage	Preview estimates INR Bn			Actuals INR Bn			Deviation		
	Revenue Q1FY21E	EBITDA Q1FY21E	PAT Q1FY21E	Revenue Q1FY21	EBITDA Q1FY21	PAT Q1FY21	Revenue Q1FY21	EBITDA Q1FY21	PAT Q1FY21
Autos	**218.9**	**22.0**	**4.2**	**216.4**	**(6.7)**	**(21.4)**	**-1.1%**	**NM**	**NM**
Maruti Suzuki India	36.0	2.9	2.6	41.1	(8.6)	(2.5)	14.0%	NM	NM
Bajaj Auto	30.8	5.2	7.2	30.8	4.1	5.3	0.1%	-21.4%	-26.3%
Mahindra & Mahindra	58.0	7.0	3.9	55.9	5.7	0.4	-3.7%	-17.7%	-89.9%
Eicher Motors	7.8	1.5	1.2	8.2	0.04	(0.6)	4.8%	-97.4%	NM
Hero MotoCorp	26.9	2.7	2.6	29.7	1.1	0.6	10.6%	-59.4%	-76.4%
Tata Motors	25.0	(1.2)	(13.9)	26.9	(7.0)	(21.2)	7.5%	-463.2%	-52.7%
Ashok Leyland	5.9	0.2	(1.1)	6.5	(3.3)	(3.9)	10.1%	NM	-250.9%
Escorts	13.5	1.9	1.3	10.6	1.2	0.9	-21.2%	-36.6%	-30.7%
Endurance	12.5	1.7	0.5	6.0	0.4	(0.2)	-51.7%	-75.0%	NM
Subros	2.5	0.2	(0.02)	0.7	(0.3)	(0.2)	-71.0%	NM	-1412.5%
Banks and NBFCs	**442.3**	**303.0**	**77.9**	**477.3**	**346.6**	**86.6**	**7.9%**	**14.4%**	**11.2%**
Kotak Mahindra Bank	37.0	27.3	13.7	37.2	26.2	12.4	0.5%	-4.0%	-9.4%
State Bank of India	238.0	145.2	33.3	266.4	180.6	41.9	11.9%	24.4%	25.9%
Axis Bank	67.6	52.7	12.3	69.9	58.4	11.1	3.4%	10.8%	-9.7%
IndusInd Bank	30.2	25.3	3.0	33.1	28.6	4.6	9.7%	12.9%	52.7%
AU Small Finance Bank	5.5	3.0	1.2	5.2	4.2	1.8	-6.8%	39.0%	52.0%
Shriram Trans Finance	18.9	14.4	5.0	18.4	15.0	1.3	-3.1%	3.9%	-74.3%
Cholamandalam Investment & Finance Company	9.3	6.4	2.9	9.4	6.4	4.2	1.2%	0.3%	47.7%
Federal Bank	11.9	11.9	2.8	13.0	9.3	4.0	9.0%	-21.6%	45.2%
City Union Bank	4.2	3.1	1.0	4.4	3.6	1.5	3.5%	16.5%	52.3%
RBL Bank	9.5	7.2	1.1	10.4	6.9	1.4	10.0%	-3.9%	22.9%
DCB Bank	3.2	1.9	0.7	3.1	1.9	0.8	-3.7%	2.7%	9.5%
Karur Vysya Bank	5.6	4.0	0.6	5.6	4.7	1.1	0.5%	17.9%	69.9%
Indostar Capital Finance	1.4	0.6	0.3	1.3	0.7	0.5	-2.6%	14.7%	56.6%
Insurance	**48.1**	**5.2**	**10.7**	**50.7**	**5.3**	**9.5**	**5.5%**	**1.5%**	**-11.2%**
SBI Life	12.6	NA	2.7	12.7	NA	2.4	0.8%	NM	-11.1%
ICICI Prudential	8.2	NA	2.6	8.2	NA	2.0	0%	NM	-23.1%
ICICI Lombard	20.9	5.2	4.0	23.2	5.3	4.0	11.3%	1.5%	0.1%
Max Financial	6.4	NA	1.4	6.6	NA	1.1	3.1%	NM	-21.4%
Capital Markets	**14.3**	**7.9**	**6.0**	**14.3**	**6.6**	**5.7**	**-0.2%**	**-16.0%**	**-4.7%**
Nippon Life India	2.5	1.3	1.3	2.3	1.1	1.6	-5.1%	-15.1%	16.4%
ICICI Securities	5.1	3.0	2.1	5.1	2.6	1.9	1.3%	-12.8%	-10.2%
Motilal Oswal Financial Services	6.8	3.6	2.5	6.8	2.9	2.2	0.4%	-18.9%	-11.4%
Consumer- Staples	**342.1**	**88.5**	**66.1**	**358.8**	**85.7**	**64.3**	**4.9%**	**-3.1%**	**-2.8%**
Hindustan Unilever	101.1	25.6	19.2	105.6	26.4	18.7	4.4%	3.3%	-2.6%
ITC	83.8	30.6	24.6	95.0	26.5	23.4	13.4%	-13.5%	-4.8%
Dabur India	19.6	4.2	3.5	19.8	4.2	3.4	0.8%	0.3%	-3.4%
Britannia Industries	32.7	5.0	3.8	33.8	7.2	5.4	3.6%	44.2%	44.7%
United Spirits	10.9	1.7	0.5	10.3	(0.8)	(1.4)	-5.8%	NM	NM
Nestle	31.0	7.6	5.1	30.5	7.7	4.9	-1.6%	1.3%	-4.6%
Marico	18.6	4.1	3.0	19.3	4.7	3.3	3.2%	13.8%	12.2%
Colgate Palmolive	10.4	3.1	2.0	10.4	3.1	2.0	-0.3%	-0.3%	-2.5%
Emami	5.3	1.2	0.9	4.8	1.2	0.8	-8.4%	0.5%	-2.8%
GCPL	22.9	4.8	3.2	23.1	4.7	3.2	1.0%	-1.7%	0.6%
Radico Khaitan	3.0	0.3	0.1	4.1	0.8	0.4	34.6%	124.9%	231.6%
TTK Prestige	2.7	0.3	0.2	2.1	0.1	0.04	-22.7%	-75.0%	-82.3%

HSIE Coverage	Preview estimates INR Bn			Actuals INR Bn			Deviation		
	Revenue Q1FY21E	EBITDA Q1FY21E	PAT Q1FY21E	Revenue Q1FY21	EBITDA Q1FY21	PAT Q1FY21	Revenue Q1FY21	EBITDA Q1FY21	PAT Q1FY21
Consumer Discretionary (ex-Autos)	**105.6**	**(0.3)**	**(8.2)**	**104.9**	**(3.2)**	**(7.1)**	**-0.7%**	-837.4%	13.0%
Avenue Supermart*	40.4	1.2	0.5	38.3	1.1	0.5	-5.1%	-11.4%	-9.6%
Titan Co *	18.9	(0.3)	(2.3)	19.8	(2.5)	(3.0)	4.9%	-784.6%	-26.8%
Havells India	14.2	1.0	0.6	14.8	1.3	0.6	4.2%	30.8%	9.3%
Trent*	1.6	(0.5)	(0.8)	1.0	(1.2)	(1.4)	-39.3%	-150.0%	-69.0%
Voltas	10.8	0.5	0.4	13.0	0.7	0.8	19.9%	44.9%	83.8%
Aditya Birla Fashion*	4.6	(2.6)	(5.2)	5.1	(3.5)	(4.0)	10.5%	-33.3%	23.1%
Crompton Consumer	8.0	0.9	0.6	7.1	1.0	0.7	-10.5%	5.3%	18.1%
Symphony	0.4	(0.03)	0.1	0.4	(0.1)	0.01	-9.5%	-196.3%	-80.8%
V-Guard	3.9	0.3	0.3	4.1	0.1	0.04	4.5%	-73.2%	-85.9%
V-Mart*	1.3	(0.2)	(0.5)	0.8	(0.1)	(0.3)	-41.6%	71.0%	34.9%
Shoppers Stop*	1.5	(0.7)	(1.8)	0.5	0.02	(1.2)	-63.3%	NM	36.4%
Industrials (Infrastructure+ Cap Goods+ Logistics)	**315.5**	**27.3**	**1.2**	**339.4**	**28.8**	**4.7**	**7.6%**	**5.2%**	**283.4%**
Larsen & Toubro	203.4	18.4	0.9	212.6	16.2	1.3	4.5%	-12.1%	44.5%
Siemens	17.1	(0.8)	(0.7)	13.2	(0.1)	(0.05)	-22.9%	87.7%	93.6%
Container Corporation	12.3	3.3	2.0	11.9	1.6	0.6	-3.6%	-52.4%	-69.8%
ABB India	7.9	(0.9)	(0.7)	9.9	0.2	0.1	24.3%	NM	NM
KEC International	21.1	1.9	0.6	22.1	1.9	0.7	4.7%	2.3%	12.3%
Kalpataru Power Transmission	10.6	1.0	0.3	14.6	1.6	0.7	37.4%	58.7%	137.6%
Dilip Buildcon	17.4	2.7	0.3	18.9	3.0	0.3	8.6%	12.4%	-1.3%
Ashoka Buildcon	3.8	0.1	(0.2)	5.7	0.8	0.7	52.1%	665.5%	NM
Ahluwalia Contracts	0.5	(0.4)	(0.4)	2.5	0.2	0.1	367.5%	NM	NM
NCC	9.7	0.8	(0.5)	11.8	1.2	(0.2)	21.9%	50.4%	72.5%
PSP Projects	1.0	0.1	0.02	1.1	0.01	(0.02)	6.2%	-77.8%	NM
HG Infra	3.2	0.4	0.04	3.0	0.5	0.2	-6.8%	22.2%	239.7%
Gateway Distriparks	2.3	0.5	0.01	2.5	0.7	0.1	7.7%	43.5%	1520.4%
JMC Projects	4.5	0.4	(0.2)	4.7	0.3	(0.2)	4.4%	-28.7%	-36.8%
Capacite Infraprojects	0.5	(0.2)	(0.4)	5.0	0.7	0.3	895.6%	NM	NM
Real Estate	**27.6**	**4.6**	**(2.3)**	**24.9**	**6.5**	**(0.9)**	**-9.7%**	**41.8%**	62.4%
DLF	6.2	0.01	0.1	5.5	0.02	(0.7)	-12.2%	54.6%	NM
Oberoi Realty	2.7	1.1	0.5	1.2	0.6	0.3	-56.3%	-46.3%	-48.3%
Prestige Estates	10.9	2.1	(1.9)	12.7	4.4	0.02	16.6%	107.1%	NM
Brigade Enterprises	2.8	0.6	(0.9)	2.0	0.5	(0.5)	-26.7%	-14.1%	42.3%
Sobha Developers	5.0	0.8	(0.1)	3.5	1.0	0.1	-29.4%	25.9%	NM
IT and Exchanges	**1,199.4**	**263.6**	**185.4**	**1,198.6**	**276.6**	**192.1**	**-0.1%**	**4.9%**	**3.6%**
Tata Consultancy Services	389.7	103.5	76.5	383.2	100.2	70.1	-1.7%	-3.2%	-8.4%
Infosys Ltd	229.3	54.1	37.6	236.7	61.2	42.3	3.2%	13.1%	12.7%
HCL Technologies	180.9	42.9	26.7	178.4	45.7	29.3	-1.4%	6.6%	9.4%
Wipro	151.2	28.6	21.9	149.1	31.8	23.9	-1.4%	11.0%	9.4%
Tech Mahindra	90.0	11.6	7.6	91.1	13.0	9.7	1.2%	12.4%	27.5%
L&T Infotech	29.4	5.6	3.6	29.5	5.9	4.2	0.4%	6.1%	14.5%
L&T Technologies	13.1	2.3	1.5	12.9	2.1	1.2	-1.5%	-9.6%	-22.5%
Mphasis	22.8	4.0	2.6	22.9	4.2	2.8	0.5%	4.9%	3.9%
Mindtree	19.5	3.1	1.8	19.1	3.2	2.1	-2.3%	4.5%	15.3%
Hexaware	15.2	2.2	1.4	15.7	2.7	1.5	3.3%	22.4%	10.1%
MCX	0.6	0.2	0.4	0.7	0.3	0.6	14.7%	57.2%	60.7%
Persistent	9.4	1.2	0.7	9.9	1.5	0.9	5.0%	20.6%	36.7%
Cyient	9.7	0.9	0.7	9.9	1.0	0.8	2.6%	15.9%	21.9%
TeamLease	11.5	0.2	0.2	11.4	0.2	0.2	-1.5%	10.0%	0.8%
Sonata	8.8	0.7	0.5	9.5	0.8	0.5	7.6%	6.9%	-4.3%

HSIE Coverage	Preview estimates INR Bn			Actuals INR Bn			Deviation		
	Revenue Q1FY21E	EBITDA Q1FY21E	PAT Q1FY21E	Revenue Q1FY21	EBITDA Q1FY21	PAT Q1FY21	Revenue Q1FY21	EBITDA Q1FY21	PAT Q1FY21
Zensar Technologies	9.8	1.2	0.5	9.9	1.4	0.7	1.4%	19.1%	35.0%
CDSL	0.6	0.4	0.4	0.7	0.4	0.4	2.1%	-0.01%	20.4%
BSE	1.2	0.05	0.3	1.0	(0.1)	0.4	-14.6%	NM	33.9%
Mastek	3.7	0.6	0.4	3.9	0.7	0.4	5.0%	13.1%	11.1%
Majesco	2.8	0.3	0.1	3.1	0.4	0.2	9.5%	27.1%	25.9%
Energy (Oil & Gas)	**2,450.9**	**359.1**	**170.8**	**2,412.9**	**319.2**	**158.2**	**-1.6%**	**-11.1%**	**-7.4%**
Reliance Industries*	1,049.0	179.5	77.2	882.5	168.8	84.4	-15.9%	-6.0%	9.3%
Indian Oil Corp	552.1	63.7	23.3	624.0	55.1	19.1	13.0%	-13.4%	-18.1%
Bharat Petroleum Corp	355.3	54.7	34.9	387.9	39.2	20.8	9.2%	-28.4%	-40.6%
GAIL India	127.6	11.9	5.4	120.9	6.2	2.6	-5.3%	-47.6%	-52.4%
HPCL	341.0	42.1	25.9	377.2	43.5	28.1	10.6%	3.4%	8.6%
Gujarat Gas	14.2	2.5	1.2	10.8	1.9	0.6	-23.7%	-25.5%	-49.4%
Gujarat State Petronet	5.6	3.5	2.1	4.6	3.5	2.0	-16.8%	-1.9%	-4.3%
Mahanagar Gas	2.7	0.7	0.4	2.6	0.8	0.5	-4.3%	16.9%	24.8%
Gulf Oil Lubricants	3.4	0.5	0.4	2.4	0.3	0.2	-28.2%	-49.5%	-51.1%
Cement	**198.3**	**44.7**	**16.2**	**194.2**	**51.2**	**24.4**	**-2.1%**	**14.4%**	**50.4%**
UltraTech Cement	78.7	17.2	5.0	76.3	20.7	9.0	-3.0%	20.5%	80.2%
Shree Cement	24.8	8.1	3.0	23.3	7.0	3.7	-6.0%	-13.4%	25.3%
Ambuja Cement	21.9	4.6	3.5	21.8	6.0	4.5	-0.6%	28.9%	27.7%
ACC	26.6	4.1	2.1	26.0	5.3	2.7	-2.1%	27.4%	26.8%
Ramco Cements	10.7	2.8	1.2	10.4	2.6	1.1	-3.0%	-6.2%	-8.7%
Dalmia Bharat/ Odisha Cem	18.5	4.4	0.04	19.7	6.1	1.9	6.6%	38.7%	4344.1%
JK Lakshmi	8.5	1.6	0.5	8.3	1.4	0.4	-3.0%	-9.1%	-8.6%
STAR Cement	2.9	0.5	0.3	2.9	0.7	0.4	1.9%	23.5%	51.4%
Orient Cement	4.4	1.0	0.3	4.1	1.0	0.3	-7.7%	-3.7%	-11.0%
Deccan Cement	1.3	0.4	0.2	1.4	0.4	0.3	4.2%	7.3%	7.9%
Chemicals	**12.5**	**2.6**	**1.5**	**15.0**	**3.7**	**2.4**	**20.0%**	**39.6%**	**60.8%**
Vinati Organics	1.8	0.7	0.3	2.3	1.0	0.7	31.3%	41.3%	125.2%
Navin Fluorine	2.6	0.7	0.5	2.0	0.5	0.2	-21.0%	-22.5%	-52.9%
Galaxy Surfactants	4.9	0.5	0.2	6.1	0.9	0.6	24.9%	74.2%	129.0%
Alkyl Amines	1.6	0.4	0.2	2.5	0.8	0.5	50.4%	95.2%	118.1%
Balaji Amines	1.6	0.4	0.2	2.1	0.5	0.3	27.9%	41.4%	70.9%
Pharma	**286.6**	**53.2**	**30.0**	**279.2**	**60.9**	**35.3**	**-2.6%**	**14.6%**	**17.7%**
Sun Pharmaceutical	83.7	16.3	8.8	75.9	17.6	11.4	-9.4%	8.1%	29.5%
Dr Reddy's Laboratories	42.7	6.5	5.5	44.2	8.1	5.8	3.5%	24.0%	4.8%
Torrent Pharma	21.0	5.9	2.9	20.6	6.6	3.2	-2.0%	12.5%	11.9%
Cipla Ltd/India	41.5	6.7	3.2	44.1	10.5	5.8	6.2%	56.1%	80.3%
Aurobindo Pharma	60.2	12.6	7.6	59.2	13.2	8.1	-1.5%	4.3%	6.5%
Lupin	37.6	5.1	2.1	35.3	4.9	1.1	-6.1%	-3.8%	-47.2%
Total	**5,662.1**	**1,181.3**	**559.5**	**5,686.6**	**1,181.0**	**553.8**	**0.4%**	**-0.02%**	**-1.0%**

** Bloomberg Consensus Estimates have been taken instead of preview estimates*

Source: Bloomberg & HSIE Research

HSIE Coverage – Earnings Estimate

HSIE Coverage	CMP	MCAP $ Bn	Rating	Revenue Growth		PAT Growth		Change in PAT Estimates	
				FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Autos		**75.0**		**-10.2%**	**13.2%**	**-51.2%**	**288.6%**	**-32.4%**	**1.4%**
Maruti Suzuki India	6,588	26.6	BUY	-16.6%	18.0%	-22.0%	79.2%	0.0%	3.6%
Bajaj Auto	2,988	11.5	ADD	-8.8%	11.3%	-18.1%	15.1%	-3.4%	-1.0%
Mahindra & Mahindra	614	10.2	ADD	-6.8%	12.8%	-7.6%	28.3%	6.6%	2.6%
Eicher Motors	20,144	7.3	REDUCE	-13.1%	17.5%	-20.8%	37.3%	-5.2%	3.4%
Hero MotoCorp	2,804	7.5	BUY	-8.2%	12.8%	-19.4%	25.2%	-2.9%	0.6%
Tata Motors	125	5.4	ADD	-9.1%	11.5%	-35.1%	98.2%	-35.8%	-187.0%
Ashok Leyland	62	2.4	REDUCE	-11.5%	21.7%	-48.0%	476.2%	-33.6%	-3.3%
Escorts	1,101	2.0	ADD	-0.4%	15.5%	11.0%	31.3%	8.3%	12.7%
Endurance	960	1.8	BUY	-13.5%	14.3%	-33.1%	47.0%	0.0%	0.0%
Subros	217	0.2	ADD	-17.3%	18.5%	-67.5%	278.9%	-50.5%	-4.4%
Banks and NBFCs		**154.7**		**5.1%**	**10.0%**	**13.5%**	**43.7%**	**-0.6%**	**0.5%**
ICICI Bank	361	31.2	BUY	8.8%	11.6%	80.6%	21.4%	0.0%	0.0%
Kotak Mahindra Bank	1,307	34.5	ADD	11.6%	9.9%	5.6%	13.4%	-0.2%	-0.1%
Bajaj Finance	3,331	26.8	ADD	2.9%	17.6%	-18.3%	61.6%	0.0%	0.0%
State Bank of India	197	23.4	BUY	4.1%	7.6%	-25.0%	93.1%	3.6%	1.7%
Axis Bank	436	17.8	BUY	3.7%	15.0%	439.9%	38.7%	-5.3%	-0.8%
IndusInd Bank	507	4.7	ADD	4.4%	10.4%	-34.1%	48.1%	-1.0%	3.1%
AU Small Finance Bank	708	2.9	ADD	15.9%	19.1%	7.1%	23.0%	5.0%	6.7%
Shriram Trans Finance	686	2.3	ADD	-1.1%	2.0%	-25.2%	40.8%	-14.8%	-5.1%
Cholamandalam Investment & Finance Company	218	2.4	BUY	9.7%	6.4%	17.2%	13.8%	10.1%	3.1%
Mahindra & Mahindra Financial	133	1.8	BUY	9.5%	8.6%	6.4%	44.2%	0.0%	0.0%
Federal Bank	53	1.4	BUY	6.4%	8.2%	-22.3%	29.0%	0.5%	0.5%
LIC Housing	264	1.8	REDUCE	-3.5%	17.0%	-33.2%	45.0%	0.0%	0.0%
City Union Bank	121	1.2	BUY	3.1%	9.8%	10.6%	43.3%	3.9%	0.3%
RBL Bank	177	1.2	REDUCE	1.3%	5.7%	-4.2%	69.3%	-9.4%	-6.5%
DCB Bank	81	0.3	ADD	0.2%	12.5%	-11.8%	28.1%	-1.5%	-1.0%
Karur Vysya Bank	36	0.4	REDUCE	4.6%	7.8%	37.5%	41.8%	-3.0%	25.3%
Indostar Capital Finance	253	0.4	REDUCE	14.1%	5.6%	NM	67.9%	12.1%	0.5%
REPCO Home Finance	132	0.1	ADD	-1.3%	4.4%	-16.8%	3.8%	0.0%	0.0%
Insurance		**35.7**		**-1.6%**	**8.8%**	**54.6%**	**-7.6%**	**-0.8%**	**-1.1%**
SBI Life	839	11.2	BUY	-13.1%	13.8%	-11.7%	17.1%	0.0%	0.0%
ICICI Prudential	459	8.8	REDUCE	-18.7%	14.4%	-16.3%	20.5%	-12.7%	-11.5%
ICICI Lombard	1,310	7.9	SELL	8.3%	16.0%	26.5%	14.0%	4.0%	1.9%
GIC Reinsurance	142	3.3	BUY	-1.1%	4.5%	NM	-35.1%	0.0%	0.0%
New India Assurance	116	2.6	SELL	4.6%	10.1%	-38.8%	-1.6%	0.0%	0.0%
Max Financial	523	1.9	ADD	-4.2%	9.7%	-5.6%	12.8%	4.2%	5.4%
Capital Markets		**5.6**		**10.6%**	**4.7%**	**58.4%**	**2.1%**	**5.8%**	**1.6%**
Nippon Life India	269	2.2	REDUCE	-15.0%	14.3%	18.2%	15.3%	-2.0%	-4.5%
ICICI Securities	479	2.1	REDUCE	9.0%	0.0%	18.5%	3.9%	21.7%	9.3%
Motilal Oswal Financial Services	666	1.3	ADD	34.5%	3.8%	401.1%	-11.3%	-2.3%	-0.9%
Consumer- Staples		**175.5**		**5.4%**	**10.3%**	**3.5%**	**13.4%**	**-0.7%**	**-1.3%**
Hindustan Unilever	2,174	68.1	REDUCE	16.9%	8.0%	21.4%	11.2%	-4.4%	-5.7%
ITC	196	32.3	BUY	-1.6%	12.0%	-7.2%	12.8%	1.4%	0.1%
Dabur India	497	11.7	REDUCE	1.4%	11.9%	5.6%	11.0%	0.9%	0.2%
Britannia Industries	3,801	12.2	REDUCE	18.5%	5.8%	35.8%	7.0%	21.1%	13.1%
United Spirits	584	5.7	ADD	-12.5%	20.1%	-40.8%	93.0%	-41.5%	-11.1%
Nestle	16,355	21.1	REDUCE	8.5%	10.5%	11.8%	14.3%	-3.0%	-5.3%
Marico	366	6.3	REDUCE	1.4%	10.4%	5.1%	15.6%	0.0%	3.2%
Colgate Palmolive	1,411	5.1	ADD	4.2%	8.7%	5.2%	14.1%	1.2%	2.9%
Emami	327	1.9	REDUCE	-1.8%	8.1%	4.0%	9.4%	4.3%	2.2%
GCPL	685	9.3	REDUCE	5.5%	7.6%	8.3%	11.5%	-0.7%	-1.2%

HSIE Coverage	CMP	MCAP $ Bn	Rating	Revenue Growth		PAT Growth		Change in PAT Estimates	
				FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Radico Khaitan	398	0.7	ADD	-5.2%	17.8%	10.9%	28.2%	-2.4%	0.0%
TTK Prestige	5,384	1.0	ADD	-7.3%	19.8%	-7.8%	27.0%	0.0%	0.0%
Consumer Discretionary (ex-Autos)		**51.9**		**-10.6%**	**29.6%**	**-29.4%**	**76.5%**	**-10.8%**	**-1.9%**
Avenue Supermart	2,178	18.8	SELL	5.3%	34.6%	-7.1%	61.5%	-9.1%	-1.2%
Titan Co	1,104	13.1	REDUCE	-19.0%	35.6%	-48.5%	115.2%	-21.2%	0.8%
Havells India	611	5.1	ADD	-9.1%	21.1%	-12.7%	39.4%	-4.0%	0.6%
Trent	566	2.7	ADD	-24.6%	49.8%	NM	NM	-155.9%	-36.5%
Jubilant Foodworks	1,870	3.3	REDUCE	-12.6%	22.8%	-22.6%	52.3%	0.1%	-11.0%
Voltas	615	2.7	ADD	-19.1%	25.0%	-21.8%	50.7%	0.0%	2.3%
Aditya Birla Fashion	129	1.4	ADD	-17.6%	21.6%	-123.6%	96.0%	0.0%	0.0%
Crompton Consumer	250	2.1	ADD	-8.4%	15.4%	-11.9%	24.6%	-3.9%	1.3%
Symphony	834	0.8	REDUCE	-25.8%	27.2%	-33.6%	47.9%	-23.1%	-11.6%
V-Guard	160	0.9	REDUCE	-5.0%	18.6%	-4.8%	26.8%	-4.9%	-1.8%
V-Mart	1,770	0.4	BUY	-15.6%	34.2%	-44.4%	85.2%	0.0%	0.0%
TCNS Clothing	343	0.3	REDUCE	-16.4%	15.2%	-65.3%	93.2%	0.0%	0.0%
Shoppers Stop	172	0.2	REDUCE	-23.4%	29.3%	5.9%	48.3%	23.7%	0.0%
Industrials (Infrastructure+ Cap Goods+ Logistics)		**35.4**		**-3.4%**	**13.1%**	**-28.6%**	**49.5%**	**-1.6%**	**-0.6%**
Larsen & Toubro	983	18.4	BUY	-4.3%	10.3%	-27.6%	47.6%	0.0%	0.0%
Siemens	1,212	5.8	REDUCE	50.9%	9.4%	97.2%	18.8%	-3.9%	-3.5%
Container Corporation	380	3.1	ADD	-18.2%	25.3%	-37.4%	56.2%	-31.5%	-17.8%
ABB India	949	2.7	SELL	17.1%	10.9%	19.3%	18.6%	4.8%	4.8%
KEC International	308	1.1	BUY	3.7%	10.4%	-0.8%	18.3%	22.9%	17.1%
Kalpataru Power Transmission	243	0.5	BUY	-3.8%	6.9%	-14.5%	21.0%	-0.2%	3.0%
PNC Infratech	141	0.5	BUY	-3.7%	14.0%	-21.2%	46.2%	0.0%	0.0%
Dilip Buildcon	351	0.6	BUY	-5.6%	15.3%	-41.2%	131.6%	0.0%	0.0%
KNR Constructions	214	0.4	BUY	6.7%	19.3%	-17.3%	35.8%	0.0%	0.0%
IRB Infrastructure	120	0.6	BUY	-25.9%	13.9%	-31.5%	6.1%	7.6%	7.3%
Ashoka Buildcon	71	0.3	BUY	-5.1%	13.3%	NM	61.7%	0.0%	0.0%
Ahluwalia Contracts	244	0.2	BUY	-27.6%	59.1%	-67.9%	444.3%	0.0%	0.0%
NCC	32	0.3	BUY	-13.9%	24.4%	-55.3%	132.4%	0.0%	0.0%
PSP Projects	403	0.2	REDUCE	-30.0%	41.1%	-48.6%	100.4%	0.0%	0.0%
HG Infra	189	0.2	BUY	3.5%	20.2%	-19.1%	36.9%	0.0%	0.0%
Gateway Distriparks	83	0.1	ADD	-11.6%	13.8%	-87.1%	213.9%	-35.7%	-8.7%
JMC Projects	50	0.1	BUY	-9.7%	17.7%	-87.0%	75.0%	0.0%	0.0%
Sadbhav Engineering	48	0.1	BUY	6.7%	21.9%	-0.05%	80.4%	-1.2%	0.6%
Capacite Infraprojects	120	0.1	BUY	-27.1%	94.9%	-94.9%	2839.0%	0.0%	0.0%
ITD Cementation	44	0.1	ADD	-11.1%	29.5%	-92.6%	1750.9%	0.0%	0.0%
J Kumar Infraprojects	101	0.1	BUY	-30.6%	45.0%	-91.4%	1011.6%	0.0%	0.0%
Real Estate		**8.6**		**-19.7%**	**16.8%**	**-32.3%**	**82.0%**	**0.0%**	**0.0%**
DLF	142	4.7	BUY	-33.8%	-10.0%	-21.7%	41.4%	0.0%	0.0%
Oberoi Realty	364	1.8	BUY	3.9%	37.7%	-3.7%	114.5%	0.0%	0.0%
Prestige Estates	233	1.2	BUY	-17.7%	16.8%	-83.1%	283.4%	0.0%	0.0%
Brigade Enterprises	149	0.4	BUY	-24.7%	47.6%	NM	NM	0.0%	0.0%
Sobha Developers	229	0.3	BUY	-11.9%	13.2%	-19.1%	7.0%	0.0%	0.0%
Kolte Patil	172	0.2	BUY	-15.9%	31.2%	-14.0%	98.4%	0.0%	0.0%
IT and Exchanges		**242.7**		**1.8%**	**10.1%**	**-0.5%**	**14.2%**	**2.9%**	**3.0%**
Tata Consultancy Services	2,242	112.3	REDUCE	-0.3%	10.0%	-4.7%	15.7%	-0.4%	3.4%
Infosys	954	54.2	BUY	6.9%	11.4%	9.3%	13.0%	9.1%	6.9%
HCL Technologies	709	25.7	BUY	3.1%	10.9%	0.8%	14.6%	2.3%	-1.6%
Wipro Ltd	277	21.1	ADD	-2.7%	6.0%	-2.3%	7.4%	1.9%	1.3%
Tech Mahindra	696	9.0	BUY	-0.7%	7.4%	-10.3%	15.3%	-1.5%	-1.2%
L&T Infotech	2,440	5.7	ADD	11.3%	15.9%	12.2%	20.9%	9.1%	3.0%
L&T Technologies	1,565	2.2	REDUCE	-4.9%	14.0%	-22.9%	31.6%	-8.1%	-4.3%

HSIE Coverage	CMP	MCAP $ Bn	Rating	Revenue Growth		PAT Growth		Change in PAT Estimates	
				FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Mphasis	1,194	3.0	BUY	7.9%	11.6%	-0.001%	21.4%	2.7%	5.8%
Mindtree	1,136	2.5	ADD	0.3%	11.4%	22.5%	15.9%	12.1%	5.1%
Hexaware	395	1.6	REDUCE	13.2%	10.9%	2.3%	9.2%	9.6%	4.2%
MCX	1,658	1.1	ADD	10.8%	19.5%	2.7%	17.8%	24.2%	13.9%
Persistent	987	1.0	REDUCE	15.1%	10.9%	9.1%	4.4%	38.5%	18.8%
Cyient	369	0.5	REDUCE	-10.7%	7.1%	-22.8%	18.0%	9.3%	8.9%
TeamLease	2,118	0.5	BUY	-8.1%	21.1%	-7.1%	40.9%	-0.9%	-2.0%
Sonata	306	0.4	BUY	-0.1%	10.7%	-18.1%	18.0%	-4.4%	-6.8%
Zensar Technologies	173	0.5	ADD	-6.0%	8.0%	-5.4%	23.4%	11.9%	5.0%
CDSL Ltd	365	0.5	BUY	18.7%	13.1%	18.3%	12.3%	23.1%	18.4%
BSE	490	0.3	ADD	8.2%	13.7%	18.1%	19.2%	2.4%	-1.3%
Mastek	673	0.2	BUY	43.0%	7.6%	21.1%	8.8%	13.5%	9.9%
Majesco	775	0.3	BUY	9.2%	12.4%	10.9%	29.0%	1.5%	3.3%
Energy (Oil & Gas)		**247.8**		**-27.3%**	**17.5%**	**-17.2%**	**67.9%**	**-8.6%**	**-0.5%**
Reliance Industries	2,114	185.8	ADD	-23.3%	23.7%	-22.0%	63.7%	-15.0%	0.8%
Oil & Natural Gas Corp	77	12.9	ADD	-22.5%	14.1%	-83.5%	249.5%	-11.9%	-5.8%
Indian Oil Corp	85	10.7	ADD	-31.8%	13.6%	NM	96.6%	2.4%	0.0%
Bharat Petroleum Corp	413	12.0	ADD	-33.1%	13.5%	196.2%	42.3%	0.0%	0.0%
GAIL India	96	5.8	BUY	-32.7%	19.1%	-55.8%	33.6%	5.4%	7.3%
Petronet LNG	260	5.2	BUY	-31.6%	38.1%	-15.6%	32.5%	-1.4%	-6.0%
Indraprastha Gas	388	3.6	ADD	-15.9%	25.5%	-17.7%	36.0%	-5.1%	-1.3%
HPCL	209	4.2	ADD	-28.8%	16.0%	1057.0%	85.5%	0.0%	0.0%
Gujarat Gas	314	2.9	ADD	-25.2%	37.6%	-16.0%	61.8%	0.4%	-0.8%
Gujarat State Petronet	211	1.6	BUY	6.6%	5.1%	-18.6%	28.0%	-1.4%	13.0%
OIL India	94	1.4	REDUCE	-39.9%	23.8%	-56.4%	41.4%	-9.2%	-19.3%
Mahanagar Gas	972	1.3	ADD	-22.7%	22.3%	-29.5%	24.6%	-7.6%	-15.2%
Gulf Oil Lubricants	640	0.4	BUY	-15.2%	9.1%	-24.9%	19.5%	-4.4%	-2.0%
Cement		**41.9**		**-13.6%**	**19.6%**	**-20.0%**	**31.3%**	**6.9%**	**2.9%**
UltraTech Cement	4,010	15.5	BUY	-16.3%	21.0%	-18.9%	35.4%	0.0%	0.0%
Shree Cement	21,458	10.3	REDUCE	-10.0%	15.2%	-21.9%	17.7%	16.8%	5.8%
Ambuja Cement	221	5.9	BUY	-13.5%	14.5%	-8.3%	8.2%	14.1%	5.6%
ACC	1,385	3.5	BUY	-17.0%	16.8%	-12.2%	28.4%	13.8%	11.1%
Ramco Cements	678	2.1	ADD	-11.6%	26.6%	-8.3%	26.4%	0.0%	0.0%
Dalmia Bharat/ Odisha Cem	779	1.9	BUY	-8.0%	23.3%	NM	NM	0.0%	0.0%
JK Cement	1,508	1.6	BUY	-4.1%	21.9%	-28.0%	47.9%	0.0%	-0.6%
JK Lakshmi	271	0.4	BUY	-15.2%	20.7%	-38.5%	38.8%	0.0%	0.0%
STAR Cement	87	0.5	BUY	-6.5%	25.7%	-3.8%	29.3%	0.0%	0.0%
Orient Cement	68	0.2	BUY	-13.1%	15.6%	8.4%	21.8%	81.0%	-0.9%
Deccan Cement	272	0.1	BUY	-11.6%	20.6%	-17.2%	72.7%	0.0%	0.0%
Chemicals		**4.6**		**5.8%**	**21.8%**	**-16.5%**	**28.3%**	**-5.7%**	**-2.3%**
Vinati Organics	997	1.4	SELL	-6.7%	19.5%	-11.2%	11.2%	-2.3%	-0.1%
Navin Fluorine	1,969	1.3	ADD	16.1%	25.2%	-47.5%	53.5%	-12.7%	-3.2%
Galaxy Surfactants	1,815	0.9	BUY	5.6%	24.3%	-0.6%	26.2%	-12.9%	-10.9%
Alkyl Amines	2,835	0.8	BUY	2.6%	19.1%	-0.3%	28.9%	3.0%	3.8%
Balaji Amines	717	0.3	BUY	12.0%	15.6%	21.8%	30.6%	2.7%	3.9%
Pharma		**54.8**		**7.5%**	**12.1%**	**26.3%**	**22.2%**	**6.2%**	**6.0%**
Sun Pharmaceutical Industries	531	17.0	ADD	2.0%	12.6%	16.0%	25.5%	4.3%	6.3%
Dr Reddy's Laboratories	4,519	10.0	REDUCE	14.7%	14.1%	5.1%	21.9%	10.1%	4.4%
Torrent Pharma	2,839	6.4	ADD	5.0%	13.1%	26.7%	24.7%	5.7%	3.0%
Cipla Ltd/India	772	8.3	BUY	11.7%	10.0%	49.5%	17.3%	21.4%	17.7%
Aurobindo Pharma	879	6.9	BUY	10.3%	7.9%	17.4%	7.5%	3.1%	3.1%
Lupin	1,018	6.2	BUY	3.4%	17.6%	268.6%	55.7%	-7.2%	1.9%
Aviation		**5.9**		**-42.7%**	**39.4%**	**NA**	**NA**	**NM**	**NM**
Interglobe Aviation	1,139	5.9	ADD	-42.7%	39.4%	NA	NA	NM	NM
Total		**1,141.1**		**-15.6%**	**14.9%**	**-5.2%**	**41.2%**	**-2.5%**	**0.3%**

Source: Bloomberg & HSIE Research

AMC, Broking & Insurance

Nippon Life India Asset Management

Market share remains elusive

While we remain concerned about the loss of market share in both debt and equity assets—down 332/275bps since Mar-19 to 7.5/6.8%—we believe that post ownership change, NAM stands to benefit from increased credibility to raise HNI/institutional capital. We expect the company to focus on improving investment return performance and gradually recoup part of its lost market share, although this journey would neither be easy nor inexpensive. We expect NAM to post an FY21-23E revenue/PAT CAGR of 13.7/15.8% and retain a REDUCE rating with TP of Rs 280 i.e. at 36x (20% discount to HDFCAMC's multiple) FY22E NOPLAT + cash and investments. Any signs of improving performance and market share will be key re-rating drivers for the stock.

- **1QFY21 highlights:** Revenue at Rs 2.33bn (-28.3%/-15.1% YoY/QoQ) was 5.1% below our estimate as outflows from the credit risk fund and a reduction of equity in the mix resulted in a lower yield. Debt/equity QAAUM market share deteriorated 246/235bps YoY to 7.5/6.8%. Debt funds QAAUM declined 9.0% QoQ due to outflows and write-downs. The core operating profit was at Rs 966mn, -33.5/36.6% YoY/QoQ, mainly due to lower revenue. Recovery in equity markets and decline in bond yields resulted in treasury income of Rs 1.03bn (+192% YoY), raising APAT by 24.3% YoY to Rs 1.56bn.
- Management stated that it raised capital from HNIs/family offices (75+), corporate (26/100 BSE 100 began reinvesting), and institutions (adds: 120+ since Oct-19). NAM is revisiting its investment policy with the intent of reducing the volatility of treasury income.
- **Outlook:** We expect a gradual recovery in assets and earnings. For FY21E, we expect revenue/EBIT to decline 15.0/21.2% YoY respectively.

Financial Summary

(Rs bn)	1Q FY21	1Q FY20	YoY (%)	4Q FY20	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	2.33	3.25	*-28.3*	2.75	*-15.1*	14.8	12.0	10.2	11.7	13.2
Operating profits	0.97	1.45	*-33.5*	1.52	*-36.6*	5.3	5.7	4.5	5.5	6.6
OP Margin (%)	42.0	45.2	*-322bps*	55.6	*-1366bps*	35.8	47.3	43.8	47.4	49.8
APAT	1.56	1.25	*24.6*	0.04	*4,101.6*	4.9	4.2	4.9	5.7	6.6
EV/NOPLAT (x)						39.9	34.4	42.8	33.9	27.9
P/E (x)						34.0	40.7	34.4	29.8	25.6
ROE (%)						19.5	16.1	18.5	19.9	21.1

Source: Company, HSIE Research

Change in estimates

(Rs bn)	FY21E Revised	FY21E Old	Change % / bps	FY22E Revised	FY22E Old	Change % / bps
Revenues	10.2	10.1	1.3	11.7	11.4	2.3
EBIT	4.5	4.4	3.9	5.6	5.4	3.7
EBIT margin (%)	44.3	43.1	*114bps*	47.8	47.2	*64bps*
NOPLAT	3.4	3.3	3.7	4.2	4.0	3.4
NOPLAT margin (%)	33.0	32.2	*77bps*	35.8	35.4	*36bps*
APAT	4.9	4.6	6.2	5.7	5.5	2.6
RoE (%)	18.5	17.6	*97bps*	19.9	19.6	*30bps*

Source: Company, HSIE Research

REDUCE

CMP *(as on 27 July 2020)*	**Rs 270**
Target Price	**Rs 280**
NIFTY	**11,132**

KEY CHANGES	**OLD**	**NEW**
Rating	REDUCE	REDUCE
Price Target	Rs 271	Rs 280
EPS %	FY21E	FY22E
	+6.2%	+2.6%

KEY STOCK DATA	
Bloomberg code	NAM IN
No. of Shares (mn)	612
MCap (Rs bn) / ($ mn)	165/2,213
6m avg traded value (Rs mn)	664
52 Week high / low	Rs 453/201

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	12.2	(26.3)	18.9
Relative (%)	(7.3)	(18.4)	18.7

SHAREHOLDING PATTERN (%)	**Mar-20**	**Jun-20**
Promoters	75.9	75.9
FIs & Local MFs	6.7	6.2
FPIs	5.3	5.8
Public & Others	12.1	12.1
Pledged Shares	0.00	0.00

Source : BSE

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ICICI Securities

Strong cash ADTV growth drives PAT growth

Increased cash market activity is expected to boost broking revenue by 16.3% YoY in FY21E. We believe this would be cyclical, and as volatility and retail participation recede, we expect ISEC's market share to drop back to ~8%. We remain concerned about discount brokers acquiring a higher share in active clients and believe the yields would remain pressured. We expect a muted year for distribution income (-10.7% YoY) as average MF assets and life insurance sales could remain subdued. We expect the C/I ratio to improve substantially to 50.8% in FY21E, driving FY21/22E PAT growth of 18.5/3.9% YoY. Given the highly cyclical nature of the business, we are concerned that we may be closer to peak earnings and worry that the market may be ascribing a closer-to-peak multiple. We maintain a REDUCE rating with a target price of Rs 540, i.e. 25x FY22E EPS.

- **1QFY21 highlights**: Total broking revenue at Rs 4.1bn (+60.5%/26.6% YoY/QoQ) was led by sharp growth in cash ADTV (+115.0/57.9% YoY/QoQ), causing blended yields for the broking business to grow 16.9/31.4% YoY/QoQ to 0.7bps. Active clients base growth moderated to 3.7% QoQ; the sign-up of new clients was hit by the lockdown, and ISEC was able to launch digital sign-ups only towards the end of Apr-20. Funding book grew 158.6% QoQ to Rs 15bn due to sharp recovery in equity markets. Distribution revenue were soft at Rs 798mn (-19.1/-30.9% YoY/QoQ) as AAUMs and insurance sales were muted.
- Higher employee expenses (+35.6/23.7% YoY/QoQ), despite 1.6% QoQ lower headcount, drove total expenses higher by 30.1/9.4% YoY/QoQ. Management stated that it has provided for higher variable pay, based on strong 1QFY21 operating performance. PBT for 1Q was up 69.7/23.9% YoY/QoQ to Rs 1.93bn.
- **Outlook:** Strong cash volumes are likely to continue for most of FY21E driving up broking revenues. We expect a gradual improvement in financial product sales over the remaining 9MFY21. We build FY21E PAT growth of 18.5% YoY.

Quarterly financial summary

(Rs mn)	1QFY21	1QFY20	YoY(%)	4QFY20	QoQ(%)	FY19	FY20	FY21E	FY22E	FY23E
Adj. revenues	5,134	3,709	*38.4*	4,490	*14.3*	16,456	16,116	17,572	17,576	18,550
EBITDA	2,627	1,782	*47.4*	2,198	*19.5*	7,358	7,873	9,514	9,660	10,353
EBITDA Margin (%)	51.2	48.1	*312bps*	49.0	*222bps*	44.7	48.9	54.1	55.0	55.8
APAT	1,931	1,138	*69.7*	1,559	*23.9*	4,773	5,622	6,664	6,921	7,436
AEPS			*69.7*	4.8	*23.9*	14.8	17.5	20.7	21.5	23.1
EV/EBITDA (x)						23.8	23.9	19.5	19.2	17.9
P/E (x)						35.8	30.4	25.6	24.7	23.0
ROE (%)						50.4	49.8	49.5	43.4	40.8

Source: Company, HSIE Research

Change in estimates

(Rs mn)	FY21E Revised	FY21E Old	Change % / bps	FY22E Revised	FY22E Old	Change % / bps
Revenues	17,572	17,366	*1.2*	17,576	17,380	*1.1*
EBITDA	9,514	9,554	*-0.4*	9,660	9,682	*-0.2*
EBITDA margin (%)	54.1	55.0	*-88bps*	55.0	55.7	*-75bps*
APAT	6,664	6,548	*1.8*	6,921	6,857	*0.9*
EPS	20.7	20.3	*1.8*	21.5	21.3	*0.9*
RoE (%)	49.5	48.9	*66bps*	43.4	43.3	*11bps*

Source: Company, HSIE Research

REDUCE

CMP *(as on 22 July 2020)*	**Rs 530**
Target Price	**Rs 540**
NIFTY	**11,133**

KEY CHANGES	**OLD**	**NEW**
Rating	REDUCE	REDUCE
Price Target	Rs 530	Rs 540
EPS %	FY21E	FY22E
	+1.8	+0.9

KEY STOCK DATA	
Bloomberg code	ISEC IN
No. of Shares (mn)	322
MCap (Rs bn) / ($ mn)	171/2,291
6m avg traded value (Rs mn)	223
52 Week high / low	Rs 569/191

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	65.7	23.0	135.6
Relative (%)	45.0	30.9	136.0

SHAREHOLDING PATTERN (%)	**Mar-20**	**Jun-20**
Promoters	79.2	79.2
FIs & Local MFs	11.5	10.2
FPIs	3.2	3.8
Public & Others	6.2	6.8
Pledged Shares	Nil	Nil

Source : BSE

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Motilal Oswal Financial Services

In-line performance

A strong spurt in cash volumes (88.2% YoY) bolstered capital markets APAT 63.5% YoY (-5.9% vs. estimates), while a steep decline of 16.2% YoY in QAAUMs meant that AMC's APAT declined 33.3% YoY (-8.8% vs. estimates). Management enhanced provisions to 27.8% (+556bps QoQ) of GNPLs due to the potential COVID-19 impact, which resulted in MOHL reporting a 35.1% YoY lower APAT. Significant MTM gain (Rs 1.3bn, +272.3% YoY) on treasury resulted in MOFS (ex. MOHFL) APAT growth of 98.1%. We have mildly tweaked our estimates and retain ADD with an unchanged TP of Rs 715.

- **1QFY21 highlights: AMC (ex WM):** Revenue/EBITDA/PAT were at Rs 1,255/410/292mn (-25.4/-38.2/-28.6% YoY). A recovery in markets, better performance by MOFS' funds and launch of passive funds resulted in a healthy inflow of Rs 3.2bn. Lockdown impacted new account openings for the PMS business. **Capital Markets (in. WM)** reported revenue/EBITDA/PAT of Rs 3,659/1,168/574mn (+21.9/26.4/61.2% YoY). Broking ADTVs grew 50.8/3.6% YoY/QoQ with cash share improving 223/224bps YoY/QoQ to 11.2%; cash volumes increased 88.2% YoY. It also resulted in blended yields improving 0.2/0.3bps YoY/QoQ to 1.1bps. Distribution AUM improved 13.3% QoQ to Rs 102bn as equity markets recovered. Management has provided ~Rs 0.7bn (post-tax) on account of negative price settlement of customers' crude oil derivative positions. Regulatory changes requiring the upfront collection of margins may result in lower volumes, and this remains a risk for the industry. **Treasury** reported MTM gain on investments (mainly equity MFs) of Rs 1.3bn. At **MOHFL** the loan book declined to Rs 36.9bn (8th consecutive quarter decline) as disbursements remained muted at just Rs 0.24bn/quarter. NNPA was at Rs 1.3% (-10bps QoQ) as management provided additional coverage in light of COVID-19. Management explained that ~26% of borrowers had opted for a moratorium, but collection efficiency had improved in Jun/July-20.
- **Outlook:** The AMC business is showing traction despite a challenging environment. The broking business is expected to do well over FY21E as volumes continue to show strong traction; however, regulatory changes on an upfront collection of client margins pose as key risks.

Financial Summary: MOFS (ex-MOHL)

(Rs bn)	1QFY21	1QFY20	YoY(%)	4QFY20	QoQ(%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	5.71	4.21	*35.4*	0.65	*780.5*	17.2	13.9	18.8	19.5	21.0
EBITDA	2.79	1.55	*80.1*	-2.41	*NM*	6.1	2.3	7.3	6.9	7.5
EBITDA Margin (%)	48.9	36.7	*1,214bps*	(372.1)	*42,097bps*	35.7	16.3	39.1	35.4	35.9
APAT	2.22	1.12	*98.1*	-2.75	*NM*	4.1	1.1	5.7	5.1	5.6
P/E (x)						23.4	84.2	16.8	18.9	17.0
ROE (%)						15.0	4.0	19.1	15.3	15.5

Source: Company, HSIE Research

Estimate Change

Rs bn	FY21E			FY22E		
	FY21E Revised	FY21E Old	*Change % / bps*	FY22E Revised	FY22E Old	*Change % / bps*
Revenues	18,756	18,792	*-0.2*	19,463	19,492	*-0.1*
EBITDA	7,342	7,400	*-0.8*	6,896	6,949	*-0.8*
EBITDA margin (%)	39.1	39.4	*-23*	35.4	35.7	*-22*
APAT	5,721	5,855	*-2.3*	5,077	5,125	*-0.9*
RoE (%)	19.1	19.4	*-36*	15.3	15.3	*0*

Source: Company, HSIE Research

ADD

CMP *(as on 3 Aug 2020)*	**Rs 671**
Target Price	**Rs 715**
NIFTY	**10,892**

KEY CHANGES	**OLD**	**NEW**
Rating	ADD	ADD
Price Target	Rs 715	Rs 715
EPS %	FY21E	FY22E
	-2.3%	-0.9%

KEY STOCK DATA	
Bloomberg code	MOFS IN
No. of Shares (mn)	148
MCap (Rs bn) / ($ mn)	99/1,318
6m avg traded value (Rs mn)	86
52 Week high / low	Rs 905/426

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	32.5	(13.2)	31.3
Relative (%)	22.9	(5.8)	31.8

SHAREHOLDING PATTERN (%)	**Mar-20**	**Jun-20**
Promoters	69.8	69.8
FIs & Local MFs	4.6	4.9
FPIs	9.8	9.6
Public & Others	15.9	15.7
Pledged Shares	0.00	0.00

Source : BSE

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SBI Life Insurance

In-line performance

Over FY21E we expect covid-19 and changes in personal taxation to cause significant disruption to insurance sales (FY21E APE: -13.1% YoY). We however take a longer term view on the business and appreciate the strong distribution footprint of its parent SBI (24k+ branches), improving protection share (1QFY21: 12.6%, +137bps YoY), lowest operating cost ratios (1QFY21: 10.1%). We expect SBILIFE to deliver healthy FY20-23E VNB CAGR of 6.6% and RoEVs of ~13.4-15.4% over FY21-23E. We retain our BUY rating on SBILIFE with an unchanged TP of Rs 975 (Mar-21E EV + 28.9x Mar-22E VNB). The stock is currently trading at FY21/22E P/EV of 2.8/2.5x and P/VNB of 31.2/25.1x. Lower growth, renewals, and protection share are key risks.

- **1QFY21 highlights**: Total APE at Rs 12.7bn declined 32.1/53.1% YoY as lockdown and partial working conditions impacted sales. While share of protection in total APE improved 137/79bps YoY/QoQ to 12.6%, Retail/group protection declined 36.4/10.4% YoY/QoQ. ULIP declined 50.8% YoY resulting in its share reducing to 48.0% (-1,828bps YoY) and consequent improvement in non-linked savings business share to 26.8% (+966bps YoY). Non-linked savings business grew 6.3% YoY with NPAR savings growing to 3.6x YoY.
- Persistency deteriorated sequentially across all buckets except 61st month as renewals lagged. Strong renewal premiums growth at 29.4% YoY to Rs 45.8bn and AUM growth of 19.3% YoY to Rs 1.8tn showcase high quality of business underwritten. Solvency improved to 239% (+2,200bps YoY) as equity markets bounced back.
- **Adj. VNB margin** at 20.1% were higher by 20bps YoY but ~100bps lower than our estimates. Margins were lower mainly due to 1) negative impact of change in operating assumptions of (-120bps- largely due to re-insurance price hike), 2) mix change (+620bps), and 3) change in economic assumptions (-420bps, mainly risk free rate).
- **Outlook:** We expect FY21E to be a challenging year for the SBILIFE. We expect company to obtain approvals and launch newer high margin products over 2QFY21 and hence improvement in metrics is more likely over 2HFY21E. Overall we expect FY21E to be a muted year for the company with FY21E APE/VNB expected to decline 13.1/11.7% YoY.

Quarterly financial summary

(Rs bn)	1Q FY21	1Q FY20	YoY (%)	4Q FY20	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
NBP	30.5	31.6	-3.5	38	-19.7	137.9	165.9	160.3	182.4	219.8
APE	12.7	18.7	-32.1	27.1	-53.1	96.9	107.4	93.3	106.2	122.2
Adj. VNB	2.4	3.7	-31.4	5.8	-55.8	19.2	22.2	19.6	22.9	26.9
Adj. VNBM (%)	20.1	19.9	20bps	21.3	-120bps	19.8	20.7	21.0	21.6	22.0
EV						236.6	276.4	313.3	356.8	403.6
MCap/EV (x)						3.8	3.2	2.8	2.5	2.2
P/VNB (x)						35.8	29.4	31.2	25.1	19.8
ROEV (%)						18.9	16.8	13.4	15.1	15.4

Source: Company, HSIE Research

BUY

CMP *(as on 21 Jul 2020)*	Rs 888
Target Price	Rs 975
NIFTY	11,162

KEY CHANGES	OLD	NEW
Rating	BUY	ADD
Price Target	Rs 975	Rs 975
VNB %	FY21E Nil	FY22E Nil

KEY STOCK DATA	
Bloomberg code	SBILIFE IN
No. of Shares (mn)	1,000
MCap (Rs bn) / ($ mn)	888/11,904
6m avg traded value (Rs mn)	1,179
52 Week high / low	Rs 1,030/519

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	32.3	(8.7)	19.3
Relative (%)	8.5	(0.5)	20.3

SHAREHOLDING PATTERN (%)	Mar-20	Jun-20
Promoters	62.8	60.7
FIs & Local MFs	5.7	7.0
FPIs	25.9	26.2
Public & Others	5.6	6.1
Pledged Shares	0.0	0.0

Source : BSE

Pledged shares as % of total shares

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ICICI Prudential Life

Protection aids margins

We like IPRU's re-engineered business model, which is focused on a more diversified product mix (increasing PAR + NPAR) along with an increased protection share. We, however, remain wary of the current COVID-19 situation and believe that outlook for FY21E remains challenged and build in a 16.3% decline in FY21E VNB; post which we expect VNB to grow at FY21E-23E CAGR of 18.5%. In our opinion, a difficult FY21E is most likely to delay achieving the goal of doubling VNB by FY23E. We downgrade our rating on IPRU to REDUCE with a DCF-derived target price of Rs 445 (Mar-21E EV + 23.6x Mar-22E VNB). The stock is currently trading at FY21/22E P/EV of 2.5/2.2x and P/VNB of 30.2/23.3x. Key risks are lower-than-expected growth, protection share or higher mortality as a result of the pandemic.

- **1QFY21 highlights**: The lockdown and partial working conditions resulted in total APE declining 44.0/58.3% YoY/QoQ to Rs 8.2bn. Protection share increased to 26.0% (+1,140/820bps YoY/QoQ) as the individual savings business saw a steep decline of 54.5% YoY. Both retail and group protection held steady on a YoY basis while, within savings, the linked business was down to 43.6% (-2,750bps YoY). Persistency deteriorated 50 to 440bps across cohorts as a result of lockdown and partial working conditions. Renewal premiums growth was weak at just 2.4% YoY. AUM growth was weak at just 3.6% YoY to Rs 1.7tn, while solvency improved to 205% (+1100bps YoY).
- Increased protection and non-linked savings share of 50.4% drove VNBM to 24.4% and VNB to Rs 2.0bn (-35.0/57.2% YoY/QoQ). The company stated that increased reinsurance costs hit protection margins in 1QFY21, and would improve 2QFY21 onwards as the company had repriced the product. Management kept strong vigil on costs as costs/TWRP was contained at 8.8% (-250bps YoY). 1QFY21 PAT was at Rs 2.9bn (+0.7/60.3% YoY/QoQ).
- **Outlook**: We expect FY21E to be a muted year as APE is expected to decline 18.7% YoY. Increased protection and non-linked business in the mix are expected to drive VNBM to 22.4% (VNB of Rs 13.4bn, -16.3% YoY).

Quarterly financial summary

(Rs bn)	1Q FY21	1Q FY20	YoY (%)	4Q FY20	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
NBP	16.1	22.9	*-29.7*	42.1	*-61.8*	103.6	124.9	107.9	125.1	146.4
APE	8.2	14.7	*-44.0*	19.7	*-58.3*	78.0	73.8	60.0	68.6	78.6
VNB	2.0	3.1	*-51.5*	4.7	*-62.5*	13.3	16.1	13.4	16.2	18.9
VNB Margin (%)	24.4	21.0	*340bps*	23.8	*60bps*	17.0	21.7	22.4	23.6	24.0
EV						216.2	230.3	258.9	293.1	330.1
P/EV (x)						2.9	2.8	2.5	2.2	1.9
P/VNB (x)						33.7	26.1	30.2	23.3	18.2
ROEV (%)						19.6	8.4	12.7	14.4	14.4

Source: Company, HSIE Research

Change in estimates

(Rs bn)	FY21E Revised	FY21E Old	Change % / bps	FY22E Revised	FY22E Old	Change % / bps
APE	60.0	60.1	*-0.2*	68.6	68.5	*0.1*
VNB	13.4	14.5	*-7.6*	16.2	17.0	*-4.7*
VNB Margin (%)	22.4%	24.2%	*-180*	23.6%	24.8%	*-120*
EV	258.9	260.0	*-0.4*	293.1	295.1	*-0.7*

Source: Company, HSIE Research

REDUCE

CMP *(as on 21 Jul 2020)*	**Rs 443**
Target Price	**Rs 445**
NIFTY	**11,162**

KEY CHANGES	OLD	NEW
Rating	ADD	REDUCE
Price Target	Rs 460	Rs 445
	FY21E	FY22E
VNB %	-7.6	-4.7

KEY STOCK DATA	
Bloomberg code	IPRU IN
No. of Shares (mn)	1,436
MCap (Rs bn) / ($ mn)	636/8,521
6m avg traded value (Rs mn)	1,347
52 Week high / low	Rs 538/222

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	19.6	(9.4)	16.7
Relative (%)	(4.2)	(1.2)	17.7

SHAREHOLDING PATTERN (%)	Mar-20	Jun-20
Promoters	75.0	73.5
FIs & Local MFs	5.5	5.2
FPIs	13.3	15.1
Public & Others	6.1	6.2
Pledged Shares	0.0	0.0

Source : BSE

Pledged shares as % of total shares

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ICICI Lombard

Positives priced in

In FY21E, we expect partial working conditions to result in lower new motor vehicle policy sales and renewals. While motor premiums will be lower, we expect CoRs to improve significantly in FY21E as overall activity levels in the economy will be lower. We expect health premiums to grow with some increase in claims but, over time, we expect higher pricing power in health to protect profitability. Additionally, changing regulations in motor are expected to drive down both claims and tariffs, creating supernormal profitability in the short term. We believe that this period (of supernormal profitability) will be short lived, as we expect IRDAI to restrict third party pricing growth, thereby restraining profitability. We believe the market is not factoring in this risk; accordingly, we rate ICICIGI a SELL with an increased target price of Rs 1,090 (DDM derived Mar-22E P/E of 26.9x and a P/ABV of 5.5x).

- **1QFY21 highlights**: NEP at Rs 23.2bn grew 3.5/-0.5% YoY/QoQ as the lock-down significantly impacted new motor vehicle sales. Health and fire performed well as retail/corporate health sales held up (3.4/12.4% YoY), while price hikes resulted in fire premiums increasing 101.4% YoY. Lower economic activity resulted in lower loss ratios in motor OD (62.9%, -530/-390 bps YoY/QoQ) and motor TP (70.2%, -2,070/-830 bps YoY/QoQ). Loss ratios for health continued to be high at 75.5% (-70/+470 bps YoY/QoQ) as management stated that it was being conservative. CAT events (Amphan and Nisarg) impacted 1QFY21 by Rs 310mn vs. 1QFY20 at Rs 0.16bn (Fani). Overall 1QFY21 CoR was at 100.7% (-48/-345bps YoY/QoQ).
- **Outlook**: We expect FY21E to be a muted year in terms of NEP growth (FY21E: 8.3% YoY); however given the partial working conditions and lower economic activity, loss ratios for most lines (except health) are expected to improve. Overall, CoRs are expected to improve in FY21E to 96.8% (-520bps YoY). Health loss ratios may increase if the pandemic is not arrested.

Quarterly financial summary

(Rs mn)	1Q FY21	1Q FY20	YoY (%)	4Q FY20	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Premium (NEP)	23,238	22,449	*3.5*	23,456	*(0.9)*	83,753	94,035	101,843	118,135	134,898
Operating profit	5,310	4,752	*11.7*	2,955	*79.7*	16,241	16,462	21,183	24,213	27,983
OP margin (%)	22.9	21.2	*168bps*	12.6	*1025bps*	19.4	17.5	20.8	20.5	20.7
APAT	3,981	3,098	*28.5*	2,819	*41.2*	10,493	12,780	16,172	18,443	21,266
AEPS	8.7	6.8	*28.5*	6.2	*41.2*	23.1	28.1	35.5	40.5	46.7
P/E (x)						55.9	45.9	36.3	31.8	27.6
P/B (x)						10.5	10.1	7.9	6.5	5.5
ROE (%)						19.2	22.5	24.8	22.5	21.5

Source: Company, HSIE Research

Change in estimates

(Rs mn)	FY21E Old	FY21E Revised	Change %	FY22E Old	FY22E Revised	Change %
Net earned premium	101,843	101,843	-	118,135	118,135	-
COR (%)	97.5	96.8	*-62bps*	98.5	98.5	*-3bps*
COR (%) IRDAI	96.2	95.5	*-62bps*	97.2	97.1	*-3bps*
Underwriting profits #	926	1,559	*68.4*	(39)	(3)	*(91.2)*
PAT	15,552	16,172	*4.0*	18,094	18,443	*1.9*
Investment book	283,653	288,831	*1.8*	333,925	338,923	*1.5*
ROE (%)	24.2	24.8	*61bps*	22.9	22.5	*-39bps*

Source: Company, HSIE Research
*We include management expenses in operating expenses to calculate underwriting profits

SELL

CMP *(as on 17 Jul 2020)*	**Rs 1,288**
Target Price	**Rs 1,090**
NIFTY	**10,902**

KEY CHANGES	OLD	NEW
Rating	SELL	SELL
Price Target	Rs 1,042	Rs 1,090
	FY21E	FY22E
EPS %	+4.0	+1.9

KEY STOCK DATA	
Bloomberg code	ICICIGI IN
No. of Shares (mn)	454
MCap (Rs bn) / ($ mn)	586/7,809
6m avg traded value (Rs mn)	1,084
52 Week high / low	Rs 1,440/805

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	7.4	(8.8)	22.5
Relative (%)	(9.8)	2.9	28.1

SHAREHOLDING PATTERN (%)	Mar-20	Jun-20
Promoters	55.9	51.9
FIs & Local MFs	12.5	14.0
FPIs	23.4	26.6
Public & Others	8.3	7.5
Pledged Shares	0.0	0.0

Source : BSE

Pledged shares as % of total shares

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Max Financial

Lower margins despite higher protection

Despite a difficult environment, MAXL delivered an APE decline of just 3.5% YoY. The margin was 250bps YoY lower mainly due to an increase in reinsurance costs, which the company has passed on 2QFY20 onwards. We expect the margin to improve hereon. We believe the deal with AXSB will provide long-term distribution capability. We expect an FY21-23E APE/VNB CAGR of 12.6/16.2%. We retain our ADD rating with an unchanged target price of Rs 645 (FY21E EV + 21.3x FY22E VNB).

- **1QFY21 highlights:** Total APE declined 3.5% YoY to Rs 6.61bn but was 3.3% above our estimate. The share of protection in the mix grew 1,000/1,394bps YoY/QoQ to 25.0% as individual/group protection grew 101.9/32.3% YoY. Group protection was driven by higher GTI business. Share of NPAR savings in the mix also improved 300/389bps YoY/QoQ to 18.0%. The share of PAR and ULIP declined as customers chose protection and assured returns. **VNB/VNB margin** were at Rs 1.13bn/17.1% (Rs (210mn)/(250bps) YoY) led by (1) positive business mix and other assumptions (Rs 220mn, +320bps YoY), (2) lower interest interests (Rs (260mn), -390bps YoY), (3) cost over-run (Rs (120mn), -180bps) and (4) lower APE (Rs (50mn)/NA YoY). Management stated that it had not passed on higher reinsurance rates on protection and this, along with lower interest rates and an adverse interest rate curve, impacted margins.
- As expected, persistency declined in the range of 100-300bps QoQ across all cohorts except for the 61st month. The share of proprietary/AXSB channel grew 400/1100bps YoY to 37.0/56.0%, while that for other banks/channels declined. AUM grew 14.4/7.0% YoY/QoQ to Rs 732.5bn. Max reported solvency of 212%. Operating RoEV was at 15.9%.
- **Outlook:** NPAR savings and protection are expected to sustain in a difficult FY21E, where we expect MAXL's APE/VNB to decline 4.2/5.6% YoY. We expect regulatory approvals for JV with AXSB to come through over FY21E.

Financial Summary

(Rs bn)	1Q FY21	1Q FY20	YoY (%)	4Q FY20	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
NBP	8.99	9.11	-1.3	18.91	-52.5	51.6	52.4	50.6	56.2	65.3
APE	6.61	6.85	-3.5	14.09	-53.1	39.5	41.5	39.8	43.6	50.4
VNB	1.13	1.34	-15.7	3.21	-64.8	8.6	9.0	8.5	9.6	11.4
VNB Margin (%)	17.1	19.6	-250bps	21.6	-450bps	21.7	21.6	21.3	21.9	22.7
EV						89.7	99.8	113.9	130.6	149.9
MCap/EV (x)*						3.1	2.1	2.4	2.1	1.8
P/Adj. VNB (x)*						30.2	16.9	20.9	17.0	12.7
ROEV (%)						22.4	20.3	14.2	17.3	17.3

*Refers to implied P/VNB. EV adj for ~70% stake in Max Life. Source: Company, HSIE Research

Change in estimates

Rs bn	FY21E			FY22E		
	Revised	Old	Change %/bps	Revised	Old	Change %/bps
APE	39.8	39.8	0.0	43.6	42.8	1.8
VNB	8.5	8.6	-1.4	9.6	9.6	0.0
VNB Margin	21.3	21.6	-30bps	21.9	22.3	-40bps
EV	113.9	114.1	-0.1	130.6	130.7	-0.1

Source: HSIE Research

ADD

CMP *(as on 30 July 2020)*	**Rs 563**
Target Price	**Rs 645**
NIFTY	**11,102**

KEY CHANGES	**OLD**	**NEW**
Rating	ADD	ADD
Price Target	Rs 645	Rs 645
VNB %	FY21E -1.4%	FY22E 0.0%

KEY STOCK DATA	
Bloomberg code	MAXF IN
No. of Shares (mn)	270
MCap (Rs bn) / ($ mn)	152/2,026
6m avg traded value (Rs mn)	1,250
52 Week high / low	Rs 612/276

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	19.8	12.6	36.3
Relative (%)	7.9	20.3	35.4

SHAREHOLDING PATTERN (%)	**Mar -20**	**Jun-20**
Promoters	28.3	28.3
FIs & Local MFs	29.0	28.7
FPIs	30.6	30.5
Public & Others	12.1	12.5
Pledged Shares	26.8	25.9

Source : BSE

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Autos, Transportation & Logistics

Maruti Suzuki

Improving outlook

While Maruti reported a loss of Rs 2.5bn in 1QFY21, impacted by COVID and constrained production, the outlook is encouraging as demand has returned to ~85% of pre-COVID levels currently. While the company has ramped up production to 4,000 units/day, the OEM remains constrained for supply due to the limited activity at the Gujarat plant. Maruti is benefitting from its entry-level portfolio as customers are turning towards the use of personal mobility in the current environment. The share of first-time buyers has risen by ~5% (from 45% in 4QFY20). Further, the OEM's strategy of exiting the diesel segment is working as gasoline and diesel fuel prices have levelled off in Delhi/substantially narrowed in other regions. Reiterate Maruti as our top pick in the sector. Maintain BUY with a revised target price of Rs 6,980 at 25x Jun-22E EPS (~15% premium to the long-term historic trading multiple). Key risk: An increase in competitive intensity.

- **1QFY21 financials:** Revenue declined 79% YoY to Rs 41bn due to an 81% decline in overall volumes. Wholesale volumes for the quarter were 76.6k, and retail volumes were 119k units. The company reported an EBITDA loss of Rs 8.6bn due to the COVID impact. Higher other income (Rs 13bn vs Rs 8.3bn YoY) partially offset the above. MSIL reported a loss of Rs 2.5bn.
- **Call takeaways: (1) Positive demand outlook:** Inquiries are currently at 85-90% of pre-COVID levels. In Jun-20, several regions witnessed positive YoY growth in retails. Demand in top-10 cities (36% of demand) is gradually expected to improve as COVID cases are levelling off. **(2) Drop in replacement demand:** Replacement demand (dropped from 25% to 16%) is impacted as consumers are using their existing vehicles for longer. **(3) Diesel share is shrinking:** Share of diesel vehicles for the industry fell to 20.6% in 1QFY21 vs. 29.5% YoY, which is benefiting Maruti as it has exited this segment. Mid-end/high-end SUVs are primarily diesel-powered due to the higher torque requirements. **(4) Production ramp-up:** Currently, the OEM manufactures 4000+ units/day across its Haryana and Gujarat (single-shift) plants. As the Gujarat plant starts with the second shift in mid-Aug20, Maruti will produce an incremental 900 units per day.

Financial Summary

YE Mar (Rs mn)	1Q FY21	1Q FY20	YoY (%)	4Q FY20	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	41,065	197,198	(79.2)	181,987	(77.4)	860,203	756,106	630,787	744,176	878,020
EBITDA	(8,634)	20,478	NA	15,464	NA	109,993	73,026	51,725	89,748	114,494
APAT	(2,494)	14,355	NA	12,917	NA	75,006	56,506	44,071	78,993	99,920
Adj. EPS (Rs)	(8.3)	47.5	NA	42.8	NA	248.4	187.1	145.9	261.6	330.9
APAT Growth (%)						(2.9)	(24.7)	(22.0)	79.2	26.5
P/E (x)						24.9	33.1	42.4	23.6	18.7
RoE (%)						17.1	11.7	8.5	14.1	16.1

Source: Company, HSIE Research

Change in Estimates

Rs mn	New		Old		Change (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	630,787	744,176	643,540	749,205	(2)	(1)
EBITDA	51,725	89,748	54,701	90,354	(5)	(1)
EBITDA Margin (%)	8.2	12.1	8.5	12.1	-30 bps	0 bps
PAT	44,071	78,993	44,090	76,214	(0)	4
EPS	145.9	261.6	146.0	252.4	(0)	4

Source: HSIE Research

BUY

CMP *(as on 29 July 2020)*	Rs 6,186
Target Price	Rs 6,980
NIFTY	11,203

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 6,750	Rs 6,980
EPS %	FY21E	FY22E
	0%	4%

KEY STOCK DATA	
Bloomberg code	MSIL IN
No. of Shares (mn)	302
MCap (Rs bn) / ($ mn)	1,869/25,017
6m avg traded value (Rs mn)	8,673
52 Week high / low	Rs 7,759/4,001

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	22.0	(11.8)	11.2
Relative (%)	5.7	(4.2)	10.2

SHAREHOLDING PATTERN (%)	Mar-20	Jun-20
Promoters	56.3	56.3
FIs & Local MFs	16.7	17.1
FPIs	21.6	21.5
Public & Others	5.4	5.2
Pledged Shares	0.0	0.0

Source : BSE

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Bajaj Auto

Mixed outlook

While the COVID lockdown in Apr-20 has impacted Bajaj Auto's 1Q PAT (-53% YoY, -60% QoQ), the OEM has witnessed a sharp pick-up in 2W domestic volumes in Jun/Jul-20 with retail activity in the current month expected at 85% of normal levels. Further, exports are holding up better than expected as activity in most markets is between 75-100% of normal levels. However, the higher value 3W segment (over 20% of revenues) remains adversely impacted (20% of normal) and is unlikely to revive soon as school activity and office-related travel are yet restricted. We reiterate our ADD rating as the outlook remains mixed. We tweak our estimates lower by 3/1% over FY21-23E. We value the stock at 18x on Jun-22E EPS (at a 5% premium to the 10-year historic average trading multiple) and set a revised target price of Rs 3,120. Key risks: Extended impact of COVID on the downside and an increase in oil prices on the upside.

- **1QFY21 financials:** Affected by COVID, volumes declined 64/55% YoY/QoQ. However, the average realisation grew 12/1% YoY/QoQ due to BSVI transition. Gross margins at 32.9% surprised positively (+460bps YoY) due to a higher contribution of exports (benefit of Rs 770mn as USD realisation was at Rs 75.6 in 1Q vs. Rs 72.1 QoQ). However, EBITDA margin was lower at 13.3% (-220/510bps YoY/QoQ) due to the adverse impact of operating deleverage. Reported PAT at Rs 5.2bn declined 53/60% YoY/QoQ.
- **Call and other takeaways: Export markets:** In Jul-20, the demand for 2Ws is back at 75-80% of pre-COVID levels. Nigeria is currently at 75% of demand vs 50% in Jun-20. Markets like the Philippines, Bangladesh, and Egypt are reaching normal levels. **Demand for 3Ws lagging:** Internationally, demand for 3Ws is around 60-65% of normal levels. However, in India, the demand is yet muted and is at a mere 20% of normal levels. **Others:** The management believes that electronic injection technology is easier to service on entry-level bikes as compared to FI that is offered by the competition.

Financial Summary (Standalone)

YE Mar (Rs mn)	1Q FY21	1Q FY20	YoY (%)	4Q FY20	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	30,792	77,558	*(60.3)*	68,159	*(54.8)*	303,576	299,187	272,903	303,773	346,350
EBITDA	4,085	11,982	*(65.9)*	12,528	*(67.4)*	51,925	50,962	40,662	47,875	56,628
APAT	5,280	11,257	*(53.1)*	13,103	*(59.7)*	44,366	51,000	41,748	48,046	56,124
Adj. EPS (Rs)	18.2	38.9	*(53.1)*	45.3	*(59.7)*	153.3	176.2	144.3	166.0	194.0
APAT Growth (%)						8.5	15.0	(18.1)	15.1	16.8
P/E (x)						19.5	16.9	20.7	18.0	15.4
RoE (%)						21.7	24.5	20.0	20.9	22.2

Source: Company, HSIE Research

Change in Estimates

Rs mn	New		Old		Change (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	272,903	303,773	275,269	303,490	(1)	0
EBITDA	40,662	47,875	41,731	47,830	(3)	0
EBITDA Margin (%)	14.9	15.8	15.2	15.8	-26 bps	0 bps
PAT	41,748	48,046	43,223	48,512	(3)	(1)
EPS	144.3	166.0	149.4	167.6	(3)	(1)

Source: Company, HSIE Research

ADD

CMP *(as on 22 July 2020)*	**Rs 2,985**
Target Price	**Rs 3,120**
NIFTY	**11,133**

KEY CHANGES	**OLD**	**NEW**
Rating	ADD	ADD
Price Target	Rs 3,145	Rs 3,120
EPS %	FY21E	FY22E
	-3%	-1%

KEY STOCK DATA	
Bloomberg code	BJAUT IN
No. of Shares (mn)	289
MCap (Rs bn) / ($ mn)	864/11,583
6m avg traded value (Rs mn)	2,281
52 Week high / low	Rs 3,315/1,789

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	25.5	(3.0)	16.5
Relative (%)	4.8	4.9	16.9

SHAREHOLDING PATTERN (%)	**Mar-20**	**Jun-20**
Promoters	53.7	53.7
FIs & Local MFs	8.8	9.1
FPIs	13.9	13.7
Public & Others	23.6	23.5
Pledged Shares	0.0	0.0

Source : BSE

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Mahindra & Mahindra

A tepid quarter, sustained focus on capital allocation

M&M reported a weak 1Q (PAT of Rs 389mn, -96% YoY), impacted by the automotive segment. While tractor outlook remains upbeat due to encouraging monsoon trends, the demand for SUVs continues to be impacted by intense competition (multiple new competitor launches are lined up). Mahindra continues to focus on efficient capital allocation (targeting RoEs of 18% across business lines) and is seeking partners for SsangYong and EV segment. We reiterate our ADD rating on the stock.

- **1QFY21 financials:** Automotive/tractor volumes were down 77/24% YoY. Revenue declined 56% YoY to Rs 55.8bn. EBITDA margin at 10.3% contracted 375/340bps YoY/QoQ owing to negative operating leverage. Profitability at the tractor division improved with EBIT margin at 20.4% (+280bps QoQ). Automotive segment reported an EBIT loss of Rs 5.8bn. The company reported an exceptional income of Rs 288mn as gain on certain investments. Thus, adj. PAT came in at Rs 389mn (-96% YoY).
- **Call takeaways: (1) Supply side issues:** FES division is currently operating at >90% utilisation and automotive at >50% levels. M&M's market share in tractors contracted by 210bps to 39.1% in 1QFY21, owing to supply-side constraints. **(2) LCV segment gaining traction:** Volumes in pick-ups and SCV segment have improved due to good rural demand and improving e-com industry. **(3) No major shift to gasoline in rural markets:** The semi-urban consumers continue to prefer diesel models such as Scorpio, Bolero etc. However, the urban side has witnessed a shift – thus share of diesel has reduced to 44% (vs. 50% YoY) in UVs. **(4) Focus on 18% RoE:** M&M's subsidiary MANA has cancelled its bid to supply trucks to US postal services as focus remains on efficient capital allocation. The company is also seeking strategic investors for Mahindra Electric. M&M's board has approved the reduction in stake at SsangYong to below 50%.
- **Maintain ADD:** Our SOTP-based target price is unchanged at Rs 610 (14x Jun-22 for the core business). **Key risks:** Weak response to new models on the downside, faster-than-expected economic recovery on the upside.

Financial Summary (M&M + MVML)

YE Mar (Rs mn)	1Q FY21	1Q FY20	YoY (%)	4Q FY20	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	55,894	128,055	*(56.4)*	90,047	*(37.9)*	528,482	448,655	418,330	471,974	534,318
EBITDA	5,732	17,936	*(68.0)*	12,275	*(53.3)*	75,301	63,506	52,291	65,416	75,339
APAT	389	8,927	*(95.6)*	3,226	*(87.9)*	54,239	35,509	32,801	42,081	49,979
Adj. EPS (Rs)	0.3	7.5	*(95.6)*	2.7	*(87.9)*	45.5	29.8	27.5	35.3	41.9
APAT Growth (%)						29.5	(34.5)	(7.6)	28.3	18.8
P/E (x)						13.2	20.2	21.8	17.0	14.3
RoE (%)						16.6	10.2	9.2	10.9	11.8

Source: Company, HSIE Research

Change in Estimates

Rs mn	New			Old			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Net Revenue	418,330	471,974	534,318	421,731	476,007	539,164	(1)	(1)	(1)
EBITDA	52,291	65,416	75,339	55,036	65,975	76,022	(5)	(1)	(1)
EBITDA margin (%)	12.5	13.9	14.1	13.1	13.9	14.1	-55 bps	0 bps	0 bps
APAT	32,801	42,081	49,979	33,730	42,509	50,501	(3)	(1)	(1)
EPS	27.5	35.3	41.9	28.3	35.7	42.4	(3)	(1)	(1)

Source: Company, HSIE Research

ADD

CMP *(as on 07 Aug 2020)*	**Rs 600**
Target Price	**Rs 610**
NIFTY	**11,214**

KEY CHANGES	**OLD**	**NEW**
Rating	ADD	ADD
Price Target	Rs 610	Rs 610
EPS %	FY21E	FY22E
	-3%	-1%

KEY STOCK DATA	
Bloomberg code	MM IN
No. of Shares (mn)	1,243
MCap (Rs bn) / ($ mn)	746/9,958
6m avg traded value (Rs mn)	3,231
52 Week high / low	Rs 626/245

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	49.9	5.5	15.8
Relative (%)	28.9	13.0	12.2

SHAREHOLDING PATTERN (%)

	Mar-20	Jun-20
Promoters	19.9	19.6
FIs & Local MFs	32.6	33.8
FPIs	33.9	34.6
Public & Others	13.6	12.0
Pledged Shares	0.0	0.0

Source : BSE

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Hero Motocorp

Demand at pre-COVID level

While 1QFY21 PAT was weak at Rs 613mn (-90% YoY), the management highlighted that demand is back to pre-COVID level in 2QFY21. Hero has gained market share in the quarter, led by rising demand in rural/semi-urban markets and ramp-up in production. The OEM's foray into the premium segment has got off to an encouraging start, and it is targeting double-digit market share in it. We reiterate BUY (please see our recent note: 'Xtreme' measures, looking beyond COVID).

- **1QFY21 financials:** Volume declined by 69/58% YoY/QoQ to 5.63k units, leading to a revenue decline of 63% YoY. While reported EBITDA margin came in at 3.6% (14.4/10.6% YoY/QoQ), the company spent Rs.2.5bn on lockdown-related costs, adjusting for which margin would be at 12%. The reported PAT at Rs 613mn declined 92/90% YoY/QoQ.
- **Demand is ahead of supply currently** as the vendor network faces start/stop related hurdles, amidst rising demand. As per the management, retails are being driven by the need for personal mobility, and sales have recovered to 95% of the pre-COVID level. First_time customers and additional purchases are driving sales while replacement demand has been impacted. As sales have sustained through June-August, the volumes have exceeded the initial pent-up demand and are expected to sustain going into the festive season as well. Hero's market share has risen by 500bps in domestic 2W segment to 41% vs 35% in FY20 (motorcycle market share at 54% vs 52% in FY20).
- **Premium segment—eyeing double-digit market share, initial response to 'Xtreme 160' encouraging:** The management is targeting a double-digit market share. The OEM will follow up this launch with more models across subcategories in the premium segment. This is reflective of Hero's improved capabilities. The OEM continues to spend on R&D and has invested Rs 7bn in FY20 (higher than the competition).
- **FI technology should outpace 'E-carb' due to its larger ecosystem:** The management believes that FI technology outscores the E-Carb technology on several fronts including scalability and performance. As most competitors have migrated to FI, the ecosystem will develop for this product, which will ensure improved service availability/lower costs.
- **Maintain BUY:** We slightly trim our FY21 estimates by 2%, while keeping FY22/23 unchanged. Our target price is Rs 3,100 at 19x Jun-22E EPS (at a 15% premium to its long-term average trading multiple). **Key risks:** Slower-than-expected industry growth and a rise in competitive intensity.

Financial Summary

YE March (Rs mn)	1Q FY21	1Q FY20	YoY (%)	4Q FY20	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	29,715	80,303	(63.0)	62,384	(52.4)	336,505	288,361	264,632	298,434	344,268
EBITDA	1,081	11,580	(90.7)	6,599	(83.6)	49,301	39,580	31,138	39,410	46,149
APAT	613	7,625	(92.0)	6,207	(90.1)	33,849	30,952	24,952	31,233	36,463
Adj. EPS (Rs)	3.1	38.2	(92.0)	31.1	(90.1)	169.5	155.0	124.9	156.4	182.5
APAT Growth(%)						(8.5)	(8.6)	(19.4)	25.2	16.7
P/E (x)						16.6	18.1	22.5	17.9	15.4
RoE (%)						27.5	22.9	17.0	19.5	20.5

Source: Company, HSIE Research

BUY

CMP *(as on 14 Aug 2020)*	Rs 2,805
Target Price	Rs 3,100
NIFTY	11,178

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 3,100	Rs 3,100
EPS %	FY21E	FY22E
	-2%	0%

KEY STOCK DATA	
Bloomberg code	HMCL IN
No. of Shares (mn)	200
MCap (Rs bn) / ($ mn)	560/7,481
6m avg traded value (Rs mn)	3,782
52 Week high / low	Rs 3,023/1,475

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	25.2	19.1	6.5
Relative (%)	3.5	27.2	5.0

SHAREHOLDING PATTERN (%)

	Mar-20	Jun-20
Promoters	34.6	34.8
FIs & Local MFs	19.9	21.7
FPIs	34.3	32.7
Public & Others	11.2	10.8
Pledged Shares	0.0	0.0

Source : BSE

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Eicher Motors

Improving outlook priced in

While Eicher reported a 1QFY21 loss of Rs 552mn, the demand outlook at Royal Enfield (RE) has surprised on the upside. The management highlighted that RE bookings have reverted back to pre-COVID levels, however supply chains constraints are impacting production (operating at 40% levels). Eicher Motors will acquire the bus business of Volvo India as the OEM is consolidating its presence across the CV sub segments. The stock (37.9x/27.6x on FY21/22E earnings) at current levels is adequately factoring in the recovery in our view. We have a REDUCE rating on the stock.

- **1QFY21 financials:** Volumes for RE at ~57k units were down 69/65% YoY/QoQ. Realization grew 5% YoY to Rs 134k owing to BSVI transition. EBITDA margins came in at 0.2% (vs 25.9/20.8% YoY/QoQ) due to the negative operating leverage. Standalone PAT declined 98% YoY to Rs 123mn. However, a loss of Rs 654mn at VECV led to consolidated PAT loss of Rs 552mn.

- **Call & other takeaways: (1) Demand picking-up:** RE witnessed pick-up in demand towards the end of the quarter, especially in Tier-II and III cities. Bookings are now at almost pre-COVID level (40-45k bookings are pending due to supply issues). 80% dealerships are now open. **(2) Small Format Stores**: In 1QFY21, the co has added 38 small format stores (638 stores total stores opened). **(3) Supply chain constraints:** While the OEM has a capacity of 100k units, the plants are operating at mere 30-40% levels. Inventory currently is just at 10k units, which is less than a week. Management intends to increase this to 3 weeks. The new model launches have been delayed and are expected in 2HFY21. **(4) Exports:** The initial response from UK market has been encouraging with the Interceptor 650cc being well received. Management's long-term goal is to increase the contribution to 20% (5% currently). The OEM is aggressively expanding its new store count in international markets **(5) Volvo Buses India (VBI) acquisition**: VECV has signed an agreement with Volvo Group India for acquisition of its bus business under VBI. This will cover the manufacturing, assembly, distribution, and sales.

- **Target price:** We value the stock on Jun-22 EPS and set a revised SOTP based target price of Rs 18,030. We now value the core business at 23x (20x earlier), to factor in the expected recovery. **Key risks**: Faster-than-expected economic pick-up, encouraging response to new product launches.

Financial Summary (Consolidated)

YE March (Rs mn)	1Q FY21	1Q FY20	*YoY (%)*	4Q FY20	*QoQ (%)*	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	8,182	23,819	*(65.7)*	22,082	*(62.9)*	97,971	91,536	79,511	93,439	111,519
EBITDA	38	6,145	*(99.4)*	4,322	*(99.1)*	29,031	21,804	17,729	22,501	27,564
APAT	(552)	4,561	*NA*	3,043	*NA*	22,203	18,275	14,481	19,876	24,814
Adj. EPS (Rs)	(20.2)	167.3	*NA*	111.6	*NA*	814.5	669.4	530.4	728.1	908.9
APAT Growth(%)						1.9	(17.7)	(20.8)	37.3	24.8
P/E (x)						24.7	30.1	37.9	27.6	22.1
RoE (%)						27.8	19.3	13.7	16.7	18.2

Source: Company, HSIE Research

REDUCE

CMP *(as on 14 Aug 2020)*	**Rs 20,144**
Target Price	**Rs 18,030**
NIFTY	**11,178**

KEY CHANGES	**OLD**	**NEW**
Rating	REDUCE	REDUCE
Price Target	Rs 15,020	Rs 18,030
EPS %	FY21E	FY22E
	-5%	+3%

KEY STOCK DATA

Bloomberg code	EIM IN
No. of Shares (mn)	27
MCap (Rs bn) / ($ mn)	550/7,343
6m avg traded value (Rs mn)	4,360
52 Week high / low	Rs 23,450/12,450

STOCK PERFORMANCE (%)

	3M	**6M**	**12M**
Absolute (%)	43.6	7.7	21.5
Relative (%)	21.9	15.9	20.0

SHAREHOLDING PATTERN (%)

	Mar-20	**Jun-20**
Promoters	49.3	49.3
FIs & Local MFs	11.3	12.1
FPIs	27.7	27.0
Public & Others	11.8	11.7
Pledged Shares	0.0	0.0

Source : BSE

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Tata Motors

Volatile environment

In 1QFY21, Tata Motors reported a loss of Rs 84bn due to the impact of the lockdown on the India business and at JLR. The silver lining was that CJLR (China JV) has broken even this quarter as retails in China recovered sharply. Tata Motors is continuing with its cost-cutting initiatives (Charge+ savings target is raised to GBP 2.5bn for FY21 from GBP 1.5bn earlier). The company is moving ahead with the subsidiarisation plans for the India passenger car business. Geopolitical uncertainties will partially offset the improving outlook, in our view. Reiterate ADD.

- **1QFY21 financials: (1) Standalone:** Revenue declined 80% YoY due to a similar drop in volumes. EBITDA loss came in at Rs 7bn due to negative op-lev. Net loss was at Rs 21.2bn. **(2) JLR:** Revenue declined 44% YoY, in line with our estimates, owing to a 53% drop in volumes (ex-CJLR). JLR reported an EBITDA of 3.5% (aided by favourable hedge reserves and furlough related benefits from the UK government). However, the division reported a PBT/PAT loss of GBP 413/648mn. CJLR achieved breakeven with an EBITDA margin of 9.8% and PAT of GBP 1mn. **(3) Consolidated:** Revenue at Rs 319bn declined 48%. EBITDA margin at 5.4% (vs 5.9% QoQ) was a positive surprise. Adj. net loss came in at Rs 84.2bn owing to higher tax (due to deferred tax charge of GBP 235mn related to the reversal of previous losses).
- **China—an early recovery:** While JLR's global retails were down 42%, China Land Rover's retails were up +12%. Most countries are now witnessing a pick-up in volumes. **Cost savings at JLR:** Charge+ gained momentum with savings of GBP 1.2bn in 1Q. Targets are enhanced to GBP 6bn (earlier GBP 5bn). 1Q FCF at negative GBP 1.5bn was better than estimates.
- **Seeking partner for PV business:** Tata Motors is moving ahead with its plans for subsidiarisation of the local car business. This should happen in a time frame of 9-12 months and will lower the capital intensity for the India business. The segment assets of this division are Rs 167bn.
- **Maintain ADD:** We set a revised Jun-22 SOTP based TP of Rs 118. We value the India business at 9x EV/EBITDA, JLR at 2x EV/EBITDA and the China JV at 8x PE (which has surprised on the upside). **Key risks:** Earlier-than-expected stake sale of the PV business and an increase in geopolitical risks.

Financial Summary (Consolidated)

YE Mar (Rs bn)	1Q FY21	1Q FY20	YoY (%)	4Q FY20	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	320	615	(48)	625	(49)	3,019	2,611	2,373	2,645	2,969
EBITDA	17	38	(54)	37	(53)	298	239	208	314	363
APAT	(84)	(35)	NA	(59)	NA	(13)	(79)	(107)	(2)	35
Adj. EPS (Rs)	(23.4)	(9.7)	NA	(16.3)	NA	(3.9)	(22.0)	(29.7)	(0.5)	9.8
P/B (x)						0.6	0.8	1.0	1.0	0.9
EV/EBITDA (x)						3.2	5.1	5.9	3.8	3.1

Source: Company, HSIE Research

Change in Estimates

Rs bn	New		Old		Change (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Net Sales	2,373	2,645	2,462	2,671	(4)	(1)
EBITDA	208	314	231	318	(10)	(1)
EBITDA margin (%)	8.8	11.9	9.4	11.9	-58 bps	-2 bps
Adj PAT	(107)	(2)	(79)	(1)	NA	NA
Adj EPS (in Rs)	(29.7)	(0.5)	(21.9)	(0.2)	NA	NA

Source: Company, HSIE Research

ADD

CMP *(as on 31 July 2020)*	**Rs 105**
Target Price	**Rs 118**
NIFTY	**11,073**

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	Rs 112	Rs 118
EPS %	FY21E	FY22E
	NA	NA

KEY STOCK DATA	
Bloomberg code	TTMT IN
No. of Shares (mn)	3,089
MCap (Rs bn) / ($ mn)	323/4,323
6m avg traded value (Rs mn)	7,440
52 Week high / low	Rs 202/64

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	12.3	(40.7)	(22.8)
Relative (%)	0.7	(33.1)	(23.1)

SHAREHOLDING PATTERN (%)	Mar-20	Jun-20
Promoters	42.4	42.4
FIs & Local MFs	13.6	13.4
FPIs	16.8	15.6
Public & Others	27.2	28.6
Pledged Shares	*1.7*	*1.7*

Source : BSE

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Ashok Leyland

Demand bottoming out

While Ashok Leyland (AL) reported a 1QFY21 loss of Rs 3.9bn, the management is witnessing green shoots of demand with LCVs, ICVs and tippers witnessing a pick-up from COVID lows; demand for MHCVs (haulage trucks) remains weak. The OEM is focusing on LCVs to broad-base the sales mix and is rolling the Phoenix LCV in 3QFY21. We believe that the recovery is yet nascent and await a more meaningful pick-up in overall CV sales. Maintain REDUCE.

- **1QFY21 financials:** Volumes (down 90/85% YoY/QoQ) were affected by the COVID-led lockdown. MHCV/LCV volumes declined by 96/78% YoY. Revenue declined by 89% YoY. EBITDA loss came in at Rs 3.33bn, owing to negative operating leverage. The company reported a loss of Rs 3.87bn.
- **Call takeaways: (1) Green shoots of demand:** The OEM is witnessing a pick-up in demand from the COVID lows. In 2Q, the company will exceed 10,000 units (from ~3,800 units in 1Q). The management expects demand to be led by an improvement in ICVs, tipper sales (driven by a pick-up in infrastructure activities) and LCVs. **(2) Phoenix LCV launch**: The OEM will launch the Phoenix LCV (5-7.5T segment) in 3QFY21. AL's modular platform AVTR is well-received, and ~2,000 units have been produced. **(3) Defence reforms**: The management is enthused by the government's initiative to promote local manufacturing by banning the import of 101 products. This move will promote 'Make by India', where local manufacturers will develop indigenous technology. However, timelines remain unclear as yet. **(4) Debt levels:** AL's debt level as of Jun-20 has risen to Rs 42bn vs Rs 30.6bn in FY20, due to payments made to vendors. The debt level will moderate as demand improves/working capital cycle normalises. AL's ICDs to group companies has reduced to Rs 4bn due to repayment of Rs 1bn from its sister company.
- **Earnings**: While we are reducing our FY21 estimates to factor in the weak 1Q, our FY22/23E estimates are mostly unchanged. We now value the stock at 15x (vs 13x earlier) to factor in the bottoming of demand and set a revised target price of Rs 57. **Key risks**: a sharper-than-expected recovery and favourable response to new launches.

Financial Summary

YE March (Rs mn)	1Q FY21	1Q FY20	*YoY (%)*	4Q FY20	*QoQ (%)*	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	6,509	56,839	*(88.5)*	38,385	*(83.0)*	290,550	174,675	154,505	188,103	230,703
EBITDA	(3,332)	5,370	*NA*	1,830	*NA*	31,357	11,736	8,652	18,810	23,416
APAT	(3,871)	2,503	*NA*	114	*NA*	20,289	3,426	1,783	10,273	13,805
Adj. EPS (Rs)	(1.3)	0.9	*NA*	0.0	*NA*	6.9	1.2	0.6	3.5	4.7
APAT Growth(%)						16.7	(83.1)	(48.0)	476.2	34.4
P/E (x)						8.8	52.3	100.5	17.4	13.0
RoE (%)						26.0	4.4	2.4	13.4	16.4

Source: Company, HSIE Research

Change in Estimates

Rs mn	New			Old			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	154,505	188,103	230,703	161,059	195,686	238,438	(4)	(4)	(3)
EBITDA	8,652	18,810	23,416	9,986	19,569	24,201	(13)	(4)	(3)
EBITDA Margin (%)	5.6	10.0	10.2	6.2	10.0	10.2	-60 bps	0 bps	0 bps
PAT	1,783	10,273	13,805	2,684	10,237	13,734	(34)	0	1
EPS	0.6	3.5	4.7	0.9	3.5	4.7	(34)	0	1

Source: Company, HSIE Research

REDUCE

CMP *(as on 13 Aug 2020)*	**Rs 61**
Target Price	**Rs 57**
NIFTY	**11,300**

KEY CHANGES	**OLD**	**NEW**
Rating	REDUCE	REDUCE
Price Target	Rs 49	Rs 57
	FY21E	FY22E
EPS %	-34%	0%

KEY STOCK DATA	
Bloomberg code	AL IN
No. of Shares (mn)	2,936
MCap (Rs bn) / ($ mn)	179/2,397
6m avg traded value (Rs mn)	2,150
52 Week high / low	Rs 88/34

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	25.3	(25.1)	(0.7)
Relative (%)	5.6	(17.5)	(4.4)

SHAREHOLDING PATTERN (%)	**Mar-20**	**Jun-20**
Promoters	51.5	51.5
FIs & Local MFs	15.1	14.1
FPIs	16.9	15.6
Public & Others	16.5	18.7
Pledged Shares	*4.7*	*5.6*

Source : BSE

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Escorts

Pricing in positives

We downgrade Escorts to ADD, after the stock has more than doubled from its COVID lows (+35% from our initiation). The fund infusion from Kubota has been completed, and demand has revived led by good monsoons/encouraging kharif sowing. However, valuations are now trading well over mean P/E levels and are factoring in the near-term positives, in our view. We await detailed timelines for integration with Kubota's global operations and set a revised target price of Rs 1,200 at 16x Jun-22 EPS.

- **1QFY21 financials:** Escorts' tractor volumes for the quarter fell 14% YoY/10% QoQ (though volumes in Jun-20 were up +22% YoY, ahead of the kharif season). The average realisation declined 13/15% YoY/QoQ, owing to lower share from construction equipment revenue. EBITDA margin came in at 11.3% (+120/-280bps YoY/QoQ). While tractor EBIT margin was healthy at 14.5%, a loss in the CE segment partially offset its impact. Net profit at Rs 922mn was up 5% YoY, led by higher other income/lower tax.
- **Concall and other highlights: (1) Escorts-Kubota JV:** Fund infusion of Rs 10bn by Kubota is completed, and the Japanese partner has been issued 12.2mn shares (~10% of paid-up equity). The production of the Escorts Kubota JV will commence by 3QFY21. Kubota's products will be priced at the premium end and will compete with the likes of John Deere. **(2) Positive outlook for the tractor industry:** Management expects the domestic tractor industry to grow in low single-digits over the year (from ~710k units in FY20). Demand will be led by a normal monsoon, agri procurement by the governments, and healthy water levels. The subsidy led tractor sales is 8-9% of volumes. Replacement demand is 45-50% of sales (80-85% in mature markets like Haryana). **(3) Railway segment:** The company has Rs 4.8bn of order book as of Jun-20 with an execution timeline of 12-15 months. The management expects the segment to grow in single digits in FY21. **(4) Supply chain constraints:** Capacity utilisation for the quarter was at 50-60% levels and almost at full utilisation in Jun-20. However, the company is facing temporary supply issues. Management expects the situation to go back to normal by mid-Aug 2020.
- **Earnings outlook:** We are revising our estimates upwards by ~10% over FY21/FY22 and set a revised target price of Rs 1,200. We now value the stock at 16x (vs. 15x earlier) to factor in the improved demand outlook and equity stake by Kubota. The stock multiples are now at the upper end of the historical trading band. **Key risks**: Delays in the implementation of reforms by the government and more-than-expected market share gains.

Financial Summary (Standalone)

YE Mar (Rs mn)	1Q FY21	1Q FY20	*YoY (%)*	4Q FY20	*QoQ (%)*	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	10,616	14,230	*(25.4)*	13,807	*(23.1)*	61,964	57,610	57,358	66,228	77,297
EBITDA	9,420	12,806	*(26.4)*	11,862	*(20.6)*	7,333	6,758	6,654	8,186	9,747
APAT	922	875	*5.3*	1,404	*(34.4)*	4,764	4,925	5,469	7,183	8,587
Adj.EPS (Rs)*	9.1	8.7	*5.3*	13.9	*(34.4)*	53.6	55.4	54.1	71.1	85.0
APAT Growth(%)						36.4	3.4	11.0	31.3	19.5
P/E (x)						21.6	20.9	21.4	16.3	13.6
RoE (%)						17.1	15.1	13.0	13.6	14.2

Source: Company, HSIE Research *EPS adjusted for treasury shares

ADD

CMP *(as on 28 July 2020)*	**Rs 1,158**
Target Price	**Rs 1,200**
NIFTY	**11,301**

KEY CHANGES	**OLD**	**NEW**
Rating	BUY	ADD
Price Target	Rs 950	Rs 1,200
EPS %	FY21E	FY22E
	8%	13%

KEY STOCK DATA	
Bloomberg code	ESC IN
No. of Shares (mn)	123
MCap (Rs bn) / ($ mn)	142/1,897
6m avg traded value (Rs mn)	2,962
52 Week high / low	Rs 1,211/423

STOCK PERFORMANCE (%)

	3M	**6M**	**12M**
Absolute (%)	63.3	59.1	144.6
Relative (%)	43.4	65.2	143.0

SHAREHOLDING PATTERN (%)

	Mar-20	**Jun-20**
Promoters	40.3	40.3
FIs & Local MFs	10.0	10.0
FPIs	19.3	20.4
Public & Others	30.5	29.4
Pledged Shares	0.0	0.0

Source : BSE

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Endurance Technologies

Healthy order book

While Endurance reported a weak 1Q, the auto parts maker RFQs have risen to Rs 15.4bn in 1QFY21 (up from Rs 12.8bn QoQ). With the recent acquisition of its Italian technology partners Grimeca and Adler, the company is further expanding its presence with customers. It is winning new orders from new customers (TVS Motors), and the management expects to increase its wallet share by cross-selling products to OEMs. Endurance has raised FY21E Capex guidance to Rs 2bn (from 1.5bn earlier). <u>The stock is amongst our preferred pick in the autos/auto parts sector as the company is well-positioned to benefit from a demand recovery over FY22/23E.</u> Maintain BUY.

- **1QFY21 financials: Standalone:** Revenue/EBITDA declined by 74/99% YoY, owing to COVID-led lockdown and decline in production volumes from all major OEMs. EBITDA margin came in at 0.7% due to negative operating leverage. Standalone loss of Rs 319mn. **Consolidated:** Revenue/EBITDA declined by 68/88% YoY. EBITDA margin came in at 7.1% (17.9/14.9% YoY/QoQ). Loss of Rs 249mn. Performance of Europe operations was better than India business. The revenue decline was lower at 55% as Europe has started to open up. EBITDA margin came in at 16.3% (-123bps YoY).
- **Concall and other highlights: (1) Healthy order book, ramp-up from TVS:** The company has won new orders, particularly from TVS, an OEM in which it has a nominal presence. The orders include Rs 1,220mn for brakes and Rs 320mn for suspension components. Endurance's requests for quotes have risen to Rs 15.4bn in 1Q. **(2) New plant:** Endurance is setting up a capacity of 600k p.a of CBS brakes at its Pantnagar plant in Uttarakhand, which will commence operations by 2021. **(3) Demand is picking up in 2Q:** In 1Q, business from Bajaj Auto declined by 68%, Honda by 88% and RE and Hero by 78%. However, these OEMs are now witnessing demand pick-up and production is expected to return to pre-COVID levels. **(4) Europe business:** While sales were down 52.5% YoY, sales trends/forecasts suggest a rebound in Europe's passenger car sales. In the last two years, the company has received EUR 110mn worth of business for EV and hybrid cars from Audi, Porsche, VW, Daimler, BMW, etc.
- **Earnings outlook:** While we are lowering our FY20 estimates to factor in the weak 1QFY21 performance, we are positive on the order book ramp-up at Endurance, particularly with new OEMs. We set a revised target price of Rs 1,085, based on 26x Jun-22 EPS (25x earlier), to factor in the improving outlook **Key risks:** (1) a delayed recovery in 2W sales and (2) any pushback in timelines of new orders.

Financial Summary (Consolidated)

YE Mar (Rs mn)	1Q FY21	1Q FY20	*YoY (%)*	4Q FY20	*QoQ (%)*	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	6,031	19,092	*(68.4)*	15,968	*(62.2)*	75,105	69,177	59,819	68,401	78,575
EBITDA	427	3,414	*(87.5)*	2,379	*(82.0)*	11,288	11,308	8,528	11,260	13,190
APAT	(249)	1,656	*NA*	1,068	*NA*	5,158	5,655	3,781	5,558	6,816
Adj. EPS (Rs)	(1.8)	11.8	*NA*	7.6	*NA*	36.7	40.2	26.9	39.5	48.5
APAT Growth (%)						23.5	9.6	(33.1)	47.0	22.6
P/E (x)						26.2	23.9	35.8	24.3	19.8
RoE (%)						21.8	20.3	12.0	15.8	16.9

Source: Company, HSIE Research

BUY

CMP *(as on 14 Aug 2020)*	**Rs 960**
Target Price	**Rs 1,085**
NIFTY	**11,178**

KEY CHANGES	**OLD**	**NEW**
Rating	BUY	BUY
Price Target	Rs 1,040	Rs 1,085
EPS %	FY21E	FY22E
	-15%	0%

KEY STOCK DATA	
Bloomberg code	ENDU IN
No. of Shares (mn)	141
MCap (Rs bn) / ($ mn)	135/1,803
6m avg traded value (Rs mn)	139
52 Week high / low	Rs 1,205/562

STOCK PERFORMANCE (%)

	3M	**6M**	**12M**
Absolute (%)	49.5	(9.7)	14.3
Relative (%)	27.8	(1.6)	12.8

SHAREHOLDING PATTERN (%)

	Mar-20	**Jun-20**
Promoters	75.0	75.0
FIs & Local MFs	7.4	11.6
FPIs	16.3	11.8
Public & Others	1.3	1.6
Pledged Shares	0.0	0.0

Source : BSE

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Subros

Operations are back at 75% of pre-COVID level

While Subros reported a weak 1QFY21 (a loss of Rs 240mn), the outlook is encouraging as the company is currently operating at 75% of pre-COVID levels and production schedules from OEMs are increasing MoM. The company continues to benefit from new technology provided by Denso (vane rotary compressors and EV-based compressors). We reiterate our ADD rating on the stock – Subros remains a proxy to improving car production (at Maruti) – and we recommend investing in it on every correction (post the sharp rally from COVID level lows).

- **1QFY21 financials:** Revenue declined by 87/84% YoY/QoQ to Rs 738mn (79% - car AC, 21% - others) due to an over 85% decline in car production. Subros reported an EBITDA loss of Rs 299mn due to the impact of negative operating leverage. Depreciation was lower by 10% YoY at Rs 193mn owing to single-shift working during the quarter. PBT loss was at Rs 529mn. However, the company recognised a deferred tax credit of Rs 289mn for previous losses, and hence the reported loss came in at Rs 240mn.
- **Call and other takeaways: (1) Demand is at 75% of pre-COVID level and is rising further:** The management highlighted that the situation is improving QoQ and is currently at 70-75% of pre-COVID levels. The management is enthused by the production schedule of its customers and expects demand to further improve in Aug/Sep-20. Subros has sustained its market share at 44% in the pass car AC segment. **(2) Collaboration with Denso:** Subros continues to gain access to new product technology from the Japanese partner, including the vain rotary compressors (which are lighter and have fewer components) supplied on the new Wagon R as well as products for EVs. These compressors will replace the traditional ones over the medium term. **(3) Home AC:** Subros is manufacturing the outdoor units and plans to produce the internal units as well, post the recent ban on Chinese imports. **(4) Capex to reduce:** The major Capex spends are now over. The company will incur a Capex of Rs 500-600mn/year for FY21 (vs. normalised run rate of ~Rs 1.2bn). **(5) Imports:** The total import content is 26-28% of sales, of which China contributes to a nominal 5%.
- **Maintain ADD:** While we are lowering our estimates for FY21, we are leaving them unchanged for FY22 due to the improving outlook. We now value the stock at 19x (vs 17x earlier) to factor in the above. Our revised target price is Rs 220, based on Jun-22 EPS. **Key risks:** Aggressive market share gains by Maruti on the upside, a weaker-than-expected macro environment on the downside.

Financial Summary

YE Mar (Rs mn)	1Q FY21	1Q FY20	*YoY (%)*	4Q FY20	*QoQ (%)*	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	738	5,722	*(87.1)*	4,585	*(83.9)*	21,245	19,928	16,478	19,532	23,403
EBITDA	(299)	551	*NA*	416	*NA*	2,282	1,890	1,203	1,856	2,293
APAT	(240)	143	*NA*	161	*NA*	785	563	183	694	942
Adj. EPS (Rs)	(3.7)	2.2	*NA*	2.5	*NA*	12.0	8.6	2.8	10.6	14.4
APAT Growth (%)						27.0	(28.2)	(67.5)	278.9	35.7
P/E (x)						17.3	24.1	74.2	19.6	14.4
RoE (%)						14.5	7.8	2.4	8.7	10.8

Source: Company, HSIE Research

ADD

CMP *(as on 12 Aug 2020)*	**Rs 208**
Target Price	**Rs 220**
NIFTY	**11,308**

KEY CHANGES	**OLD**	**NEW**
Rating	ADD	ADD
Price Target	Rs 190	Rs 220
EPS %	FY21E	FY22E
	-50%	0%

KEY STOCK DATA	
Bloomberg code	SUBR IN
No. of Shares (mn)	65
MCap (Rs bn) / ($ mn)	14/182
6m avg traded value (Rs mn)	25
52 Week high / low	Rs 300/117

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	28.1	(19.5)	4.3
Relative (%)	5.8	(11.8)	2.2

SHAREHOLDING PATTERN (%)	**Mar-20**	**Jun-20**
Promoters	36.8	36.8
FIs & Local MFs	8.4	8.3
FPIs	0.6	0.6
Public & Others	54.2	54.4
Pledged Shares		

Source : BSE

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Interglobe Aviation

Delayed recovery

Indigo reported a weak 1QFY21 (loss of Rs 28.4bn) due to the adverse impact of COVID (flights commenced only from end of May-20). The demand will take longer to recover, in our view, with several restrictions in place on flying as well as weak demand from the corporate segment (50% of domestic). Amidst this uncertain backdrop, IndiGo remains better placed to withstand the downturn due to its dominant market share (current market share of 52.5%), a healthier balance sheet (as compared to competition) and cost reduction measures. We re-iterate our ADD rating.

- **1QFY21 Financials:** Due to 2 months of countywide lockdown, revenues declined 92% YoY to Rs 7.6bn. Load factor was at 61.7% vs. 89/83% YoY/QoQ. However, yields at Rs 4.5 improved 9% YoY. Ancillary revenue contributed 24% to the revenue vs. 14% QoQ driven by higher cargo volumes. The airline reported an EBITDAR loss at Rs 15.3bn due to the adverse environment and higher operating expenses. Net loss in the quarter came in at Rs 28.4bn.
- **Call & other takeaways:** (1) After the restrictions being lifted in May-20 end, IndiGo operated 200 flights/day, which has now risen to 400 flights/day. (2) The co expects to trim down the fixed costs (leasing costs, payrolls, others) by 15-20% for FY21. With salary cuts, management expects 30% lower staff cost than pre-COVID levels. (3) Cash burn rate was Rs 400mn/day in Mar-20, which has now come down to Rs 300mn/day owing to cost cutting initiatives. The company will raise additional funds to further strengthen its balance sheet. Cash balance is at Rs 184bn in 1QFY20. (4) Prior to COVID situation, leisure to business travel ratio was 50:50. However, the corporate travel remains weak.
- We are lowering our EBITDAR estimates by ~33% over FY21/22E to factor in the above. We set a revised Jun-22 TP of Rs 940 (we continue to value the stock on 6x EV/EBITDAR). **Key risks:** Any resolution of promoter differences on the upside, an increase in oil prices on the downside.

Financial Summary

YE Mar (Rs mn)	1Q FY21	1Q FY20	*YoY (%)*	4Q FY20	*QoQ (%)*	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	7,667	94,201	*(91.9)*	82,990	*(90.8)*	284,968	357,560	204,937	285,623	372,907
EBITDAR	(15,376)	26,522	*NA*	(127)	*NA*	47,940	45,348	15,826	51,426	86,953
APAT	(28,443)	12,005	*NA*	(8,735)	*NA*	1,562	(2,481)	(27,374)	(511)	30,230
Adj. EPS (Rs)	(74.0)	31.2	*NA*	(22.7)	*NA*	4.1	(6.5)	(71.2)	(1.3)	78.6
P/E (x)						223.8	(140.8)	(12.8)	(683.4)	11.6
EV/EBITDAR						11.9	8.8	25.4	7.1	3.5
RoE (%)						2.2	(3.9)	(60.5)	(1.6)	66.7

Source: Company, HSIE Research

Change in Estimates

Rs mn	New		Old		Change (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenues	204,937	285,623	279,803	330,140	(26.8)	(13.5)
EBITDAR	15,826	51,426	24,827	75,281	(36.3)	(31.7)
Adj. PAT	(27,374)	(511)	(19,258)	21,547	NA	NA
EPS	(71.2)	(1.3)	(50.1)	56.1	NA	NA

Source: HSIE Research

ADD

CMP *(as on 29 July 2020)*	**Rs 910**
Target Price	**Rs 940**
NIFTY	**11,203**

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	Rs 1,110	Rs 940
EPS %	FY21E	FY22E
	NA	NA

KEY STOCK DATA	
Bloomberg code	INDIGO IN
No. of Shares (mn)	385
MCap (Rs bn) / ($ mn)	350/4,687
6m avg traded value (Rs mn)	2,797
52 Week high / low	Rs 1,911/765

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	(1.3)	(37.8)	(42.4)
Relative (%)	(17.6)	(30.2)	(43.4)

SHAREHOLDING PATTERN (%)	Mar-20	Jun-20
Promoters	74.9	74.9
FIs & Local MFs	9.2	7.6
FPIs	13.6	14.8
Public & Others	2.4	2.8
Pledged Shares	0.0	0.0

Source : BSE

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Gulf Oil Lubricants

Recovery in sight

We reiterate our BUY rating on Gulf Oil as demand outlook has improved across segments, including the DEO segment. While 1Q volumes were weak (-40% YoY, -30% QoQ), management is witnessing encouraging recovery signs, led by the Agri and MCO segments. The company is expected to benefit from the shift towards personal mobility. The nascent battery business is scaling up and has witnessed growth in Jun-20 (albeit on a low base). Maintain BUY.

- **1QFY21 financials:** Revenue declined 45/33% YoY/QoQ owing to 41/30% drop in volumes. Demand was affected owing to COVID-led lockdown, and lower factory fills volumes. Realisations at Rs 138/KL declined 8/4%. The company sustained a double-digit EBITDA margin at 10.5% (-700/-490bps YoY/QoQ), owing to lower variable costs. PAT declined 65% YoY to Rs 172mn.
- **Call and other takeaways: (1) On-ground situation improving:** Towards the end of 1QFY21, a significant uptick in demand was witnessed across segments, including factory fills. MCO segment sales are stronger in Jul-20. Gulf is attempting to strengthen its presence in the PCO segment, where it has a limited presence**. (1) Good demand in the agri segment:** Sales from the agri segment were at an all-time high owing to good crop season and expectations of good monsoon. Rural channel sales have doubled in the quarter. Gulf Oil has tie-ups with leading OEMs including Mahindra and Swaraj. **(3) Battery business:** Battery volumes grew 30% YoY Jun-20 YTD. The company is looking at options for localisation. For setting up a new plant, greenfield Capex will be Rs 700-800mn. **(4) Other highlights:** DEO segment contributed 42% to overall volumes led ay Agri demand. PCMO segment accounted 20% (usually +25%), industrial 15% and others are 23%.
- **Maintain BUY:** Our estimates are largely unchanged. We reiterate BUY with a target price of Rs 760 @ 20x Jun-22 EPS. **Key risks**: Delayed pick-up in the DEO segment and increased competition in the PCMO segment.

Financial Summary

(Rs mn)	1Q FY21	1Q FY20	*YoY (%)*	4Q FY20	*QoQ (%)*	FY19	FY20	FY21E	FY22E	FY23E
Net Revenues	2,412	4,407	*(45.3)*	3,597	*(32.9)*	17,058	16,435	13,939	15,402	17,281
EBITDA	254	779	*(67.3)*	554	*(54.1)*	2,831	2,865	2,247	2,607	2,978
PAT	172	487	*(64.7)*	359	*(52.2)*	1,778	2,025	1,522	1,819	2,130
EPS (Rs)	3.5	9.8	*(64.7)*	7.2	*(52.2)*	35.7	40.7	30.6	36.5	42.8
PAT growth (%)						12.1	13.9	(24.9)	19.5	17.1
P/E (x)						18.0	15.8	21.0	17.5	15.0
ROE (%)						33.7	31.3	20.4	21.9	22.8

Source: Company, HSIE Research

Change in Estimates

Rs mn	New			Old			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	13,939	15,402	17,281	13,939	15,205	16,662	-	1	4
EBITDA	2,247	2,607	2,978	2,359	2,588	2,886	(5)	1	3
EBITDA margin	16.1	16.9	17.2	16.9	17.0	17.3	-80 bps	-9 bps	-9 bps
PAT	1,522	1,819	2,130	1,592	1,821	2,086	(4)	(0)	2
EPS	30.6	36.5	42.8	32.0	36.6	41.9	(4)	(0)	2

Source: Company, HSIE Research

BUY

CMP *(as on 14 Aug 2020)*	Rs 640
Target Price	Rs 760
NIFTY	11,178

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 760	Rs 760
EPS %	FY21E	FY22E
	-4%	0%

KEY STOCK DATA	
Bloomberg code	GOLI IN
No. of Shares (mn)	50
MCap (Rs bn) / ($ mn)	32/428
6m avg traded value (Rs mn)	21
52 Week high / low	Rs 905/450

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	25.5	(3.0)	16.5
Relative (%)	4.8	4.9	16.9

SHAREHOLDING PATTERN (%)

	Mar-20	Jun-20
Promoters	72.3	72.3
FIs & Local MFs	5.7	5.8
FPIs	12.0	11.9
Public & Others	10.0	10.1
Pledged Shares	0.0	0.0

Source : BSE

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Container Corporation

Policy headwinds to the forefront

Along with a weak 1QFY21 performance (PAT down 73% YoY), CONCOR's outlook is impacted by the enforcement of the revised land licences fees (LLF) policy. The annualised payout will now be significantly higher at between 3x-7x from current levels (payout of Rs 1.4bn in FY20). While CONCOR is factoring in an increased amount of ~Rs 5bn, the Ministry of Railways has raised a demand for Rs 7.7bn. We lower our estimates by ~20% over FY21-23 to factor in the above. The stock reacted adversely (-15%) on this announcement. We maintain ADD with a revised target price of Rs 400 @ 22x Jun-22E EPS. Key risks: any reduction on revised LLF charges on the upside, further delay in the DFC on the downside.

- **1QFY21 financials:** Volumes declined 21% YoY to 732k TEUs, impacted by COVID lockdown, leading to a revenue decline of 27% YoY (CONCOR's market share has fallen to 64% from 68% YoY). EBITDA margin at 13.4% was significantly below estimates owing to increased LLF (Rs 1.2bn) and higher employee cost (6.7% of revenue vs. 4.9/3.8% YoY/QoQ) due to incentives related payout. Reported PAT at Rs 617mn declined 73% YoY.
- **LLF amount to be increased manifold:** The company has received an intimation from IR to pay a substantially higher LLF of Rs 7.7bn for just two terminals (Tughlakabad and Okhla) based on the revised policy (total LLF paid in FY20 was Rs 1.4bn). However, CONCOR is estimating a lower LLF amount of ~Rs 5bn for the entire railway land, based on its estimates.
- **Will CONCOR surrender more terminals?** CONCOR has already given up 15 terminals, before this policy change. While the management highlighted that no more terminals will be surrendered as of now, the revised charges will impact business dynamics. CONCOR had been paying LLF based on number of TEUs handled. However, the ministry has revised the terms stating that LLF shall be charged as per the extant policy of Railways, i.e. at 6% of the value of land, which will be further increased to 7% annually.

Financial Summary

YE Mar (Rs mn)	1Q FY21	1Q FY20	YoY (%)	4Q FY20	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	11,891	16,389	*(27.4)*	15,686	*(24.2)*	68,819	64,738	52,975	66,369	83,399
Adj. EBITDA	1,590	4,033	*(60.6)*	4,745	*(66.5)*	14,408	16,749	10,807	15,026	19,265
APAT	617	2,278	*(72.9)*	3,097	*(80.1)*	12,154	10,282	6,437	10,055	13,412
Adj EPS (Rs)	1.0	3.7	*(72.9)*	5.1	*(80.1)*	19.9	16.9	10.6	16.5	22.0
P/E (x)						19.4	22.9	36.6	23.4	17.6
EV/EBITDA (x)						16.2	13.1	20.1	14.3	10.9
RoE (%)						12.3	10.1	6.3	9.5	12.1

Source: Company, HSIE Research

Change in Estimates

Rs mn	New			Old			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Net Revenue	52,975	66,369	83,399	56,811	68,782	83,807	(7)	(4)	(0)
EBITDA	10,807	15,026	19,265	14,288	17,498	21,287	(24)	(14)	(9)
EBITDA margin (%)	20.4	22.6	23.1	25.2	25.4	25.4	-475 bps	-280 bps	-230 bps
APAT	6,437	10,055	13,412	9,404	12,231	15,155	(32)	(18)	(11)
EPS (Rs)	10.6	16.5	22.0	15.4	20.1	24.9	(32)	(18)	(11)

Source: Company, HSIE Research

ADD

CMP *(as on 10 Aug 2020)*	Rs 386
Target Price	Rs 400
NIFTY	11,270

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	Rs 470	Rs 400
EPS %	FY21E	FY22E
	-32%	-18%

KEY STOCK DATA	
Bloomberg code	CCRI IN
No. of Shares (mn)	609
MCap (Rs bn) / ($ mn)	235/3,142
6m avg traded value (Rs mn)	805
52 Week high / low	Rs 666/263

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	7.7	(32.5)	(20.4)
Relative (%)	(13.0)	(25.7)	(22.0)

SHAREHOLDING PATTERN (%)	Mar-20	Jun-20
Promoters	54.8	54.8
FIs & Local MFs	13.7	14.4
FPIs	26.8	26.7
Public & Others	4.7	4.2
Pledged Shares	0.0	0.0

Source : BSE

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Banks, NBFCs

Kotak Mahindra Bank

Well-placed, but expensive

KMB's 1Q earnings were below estimates on account of a steep fall in non-interest income. We believe KMB is fundamentally one of the strongest banks, given (1) its strong liability franchise, (2) capital base, bolstered by the recent fund-raise, and (3) demonstrable asset quality track record. Our ADD rating (SoTP value of Rs 1,331) reflects our discomfort on valuations.

- **1QFY21 highlights**: NII grew 17.4/4.6% YoY/QoQ, in line with estimates, aided by a reduction in interest expenses. PPOP grew 9.4% YoY, but dipped 3.7% QoQ, due to a sharp 48.1% QoQ fall in non-interest income (fees dipped 32.5/38.9%), despite operating expenditure dipping 48.1% QoQ.
- **Funding**: While overall deposits were flat QoQ (+12.3% YoY), SA (+34.5/4.9%) and TD sweep (+15.3/8.1%) saw strong growth. On the back of strong SA growth, the CASA ratio rose ~600/60bps to 56.7% (one of the highest in the industry). The bank's CRAR increased to 21.2%, boosted by the Rs 74bn QIP. Evidently, the bank is very well-placed on the capital and liabilities' side.
- **Moratorium and asset quality trends**: GNPAs rose 21.8/11.8% to Rs 56.2bn (2.7%), and accounts overdue in February contributed to most of the slippages. These were mostly granular except for one large account. ~9.7% of KMB's portfolio was under moratorium, vs. ~26% as of April. 95% of the portfolio under the second moratorium came from the first one. The management indicated that the bank was more stringent while offering the second moratorium, and it would recognise stress upfront rather than defer such recognition. We expect slippages of ~2.8% over FY21-22E.
- **Provisioning:** Non-tax provisions, although down 8.2% QoQ to Rs 9.6bn, remained elevated (~3x YoY). KMB made COVID-19 related provisions of Rs 6.2bn in 1Q, taking the total stock of such provisions to ~Rs 12.7bn (62bps of advances). KMB's PCR fell 63bps QoQ to 68.4%. We anticipate non-tax provisions of 1.24% of average assets over FY21-22E.

Financial summary

YE Mar (Rs mn)	1Q FY21	1Q FY20	*YoY (%)*	4Q FY20	*QoQ (%)*	FY19	FY20	FY21E	FY22E
NII	37,239	31,730	*17.4%*	35,597	*4.6%*	112,590	134,997	150,681	165,640
PPOP	26,237	23,989	*9.4%*	27,253	*-3.7%*	83,482	100,208	113,071	121,001
PAT	12,445	13,602	*-8.5%*	12,666	*-1.7%*	48,653	59,472	62,776	71,171
EPS (Rs)	6.3	7.1	*-11.7%*	6.6	*-5.0%*	25.5	31.1	31.7	36.0
ROAE (%)						13.0	13.9	11.8	11.1
ROAA (%)						1.70	1.78	1.66	1.70
ABVPS (Rs)						201	232	287	328
P/ABV (x)						39.1	33.7	33.5	28.6
P/E (x)						4.96	4.52	3.71	3.14

Change in estimates

Rs bn	FY21E			FY22E		
	Old	New	*Change*	Old	New	*Change*
Loan	2,361	2,308	*-2.2%*	2624	2,590	*-1.3%*
NIM (%)	4.3	4.2	*-6 bps*	4.3	4.2	*-7 bps*
NII	151.5	150.7	*-0.5%*	166.4	165.6	*-0.4%*
PPOP	112.7	113.1	*0.3%*	120.3	121.0	*0.6%*
PAT	62.9	62.8	*-0.2%*	71.4	71.2	*-0.3%*
ABVPS (Rs)	292.2	286.6	*-1.9%*	329.7	328.2	*-0.5%*

Source: Bank, HSIE Research

ADD

CMP *(as on 27 July 2020)*	**Rs 1,322**
Target Price	**Rs 1,331**
NIFTY	**11,132**

KEY CHANGES	**OLD**	**NEW**
Rating	ADD	ADD
Price Target	Rs 1,331	Rs 1,331
EPS %	FY21E	FY22E
	-0.2%	-0.3%

KEY STOCK DATA	
Bloomberg code	KMB IN
No. of Shares (mn)	1,979
MCap (Rs bn) / ($ mn)	2,617/35,008
6m avg traded value (Rs mn)	8,403
52 Week high / low	Rs 1,740/1,000

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	1.5	(18.3)	(12.5)
Relative (%)	(18.0)	(10.4)	(12.7)

SHAREHOLDING PATTERN (%)	**Mar-20**	**Jun-20**
Promoters	29.9	26.1
FIs & Local MFs	12.7	15.3
FPIs	44.0	46.8
Public & Others	13.4	11.8
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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State Bank of India

Inexpensive valuations

SBIN's 1Q was ahead of estimates across fronts, aided by margin improvement, high treasury gains, and lower provisions. Asset quality improvement was optical, and COVID-19 provisions seem inadequate. Our conservative earnings estimates, consequently, remained mostly unchanged. Asset quality trends and capital raising (given SBIN's weak capital base and RoAE profile) should be watched for. The term of SBIN's current chairman is set to end in Oct-20, which creates additional uncertainty. However, SBIN has one of the strongest deposit franchises, and this, along with inexpensive valuation, drives our BUY rating (SoTP value of Rs 286).

- **1QFY21 highlights**: After a steep 18% QoQ fall in 4QFY20, NII grew 17% QoQ, 11.9% ahead of estimates. PPOP was 2.2% lower QoQ, but 11% ahead of estimates. PAT grew 81.2/17% and was ~19% ahead of our estimates.
- **Deposit traction**: At 16/6.5% YoY/QoQ, deposit growth was strong (despite the rate reduction), aided by 15.4/5.4% TD growth and a 17/8% SA growth. Strong QoQ deposit growth is not common for SBIN in 1Q and is indicative of polarisation in the deposit market, from which SBIN stands to benefit.
- **Asset quality and moratorium trends**: GNPAs dipped 23/13% to ~Rs 1.3tn (5.4%). However, this improvement is optical, as slippages (68bps) were depressed by the standstill classification benefit, and write-offs were elevated (+27.5/20.8%). The management expects corporate recoveries of the order of Rs 100-120bn in 2HFY20, where the bank has 100% coverage. As per the management, 9.5% (vs. 24% earlier) of the total book was under moratorium. Despite the sharp drop in the moratorium, we continue to factor elevated slippages of ~3.3% over FY21-22E.
- **Non-tax provisions:** At Rs 125bn (+36.1/-7.4%), non-tax provisions were surprisingly low. SBIN made ~Rs 18.4bn of COVID-19 related provisions in 1Q, taking the total stock of such provisions to Rs 30bn (just 13bps of advances). We believe that these provisions are insufficient, especially given SBIN's asset quality track record. We expect non-tax provisions to average 1.96% of loans over FY21-22E.

Financial summary

YE Mar (Rs bn)	1Q FY21	1Q FY20	*YoY (%)*	4Q FY20	*QoQ (%)*	FY19	FY20	FY21E	FY22E
NII	266.4	229.4	*16.1%*	227.7	*17.0%*	883.5	980.8	1,021.5	1,099.4
PPOP	180.6	132.5	*36.3%*	184.7	*-2.2%*	554.4	681.3	678.0	724.4
PAT	41.9	23.1	*81.2%*	35.8	*17.0%*	8.6	144.9	108.6	209.8
EPS (Rs)	4.7	2.6	*81.2%*	4.0	*17.0%*	1.0	16.2	12.2	23.5
ROAE (%)						0.4	6.4	4.6	8.3
ROAA (%)						0.02	0.38	0.27	0.48
ABVPS (Rs)						146.1	175.2	169.7	209.6
P/ABV (x)						0.56	0.43	0.44	0.35
P/E (x)						85.1	4.59	6.19	3.13

Change in estimates

Rs bn	FY21E			FY22E		
	Old	New	*Change*	Old	New	*Change*
Loans	24,483	24,483	*0.0%*	26568	26,568	*0.0%*
NIM (%)	2.9	2.9	*0 bps*	2.9	2.8	*-7 bps*
NII	1,016.5	1,021.5	*0.5%*	1,110.4	1,099.4	*-1.0%*
PPOP	645.8	678.0	*5.0%*	714.4	724.4	*1.4%*
PAT	104.9	108.6	*3.6%*	206.2	209.8	*1.7%*
ABVPS (Rs)	166.5	169.7	*1.9%*	206.7	209.6	*1.4%*

Source: Bank, HSIE Research

BUY

CMP *(as on 31 July 2020)*	**Rs 193**
Target Price	**Rs 286**
NIFTY	**11,073**

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 277	Rs 286
EPS %	FY21E	FY22E
	3.6%	1.7%

KEY STOCK DATA	
Bloomberg code	SBIN IN
No. of Shares (mn)	8,925
MCap (Rs bn) / ($ mn)	1,709/22,838
6m avg traded value (Rs mn)	14,960
52 Week high / low	Rs 351/149

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	0.5	(39.9)	(42.4)
Relative (%)	(11.0)	(32.2)	(42.7)

SHAREHOLDING PATTERN (%)	Mar-20	Jun-20
Promoters	57.6	57.6
FIs & Local MFs	24.6	24.5
FPIs	9.6	7.9
Public & Others	8.2	10.0
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Axis Bank

Conservatism hits earnings

We maintain a BUY on Axis Bank with a target price of Rs 565. We have slightly reduced our earnings estimates, as we build slower loan growth, lower NIMs, and slightly higher provisions. Improved risk practices (post CEO change), a strong balance sheet (CRAR ~17.5%, PCR ~75%), and a strong liability franchise will hold the bank in good stead. Our constructive stance on AXSB ties in with our broad thesis that large private banks with strong balance sheets and deposit franchises will emerge stronger.

- **1QFY21 highlights**: NII and PPOP growth were healthy at 19.5% and 15.8% respectively. PAT dipped 18.8% YoY to Rs 11.1bn. However, adjusted for the net impact of changes in accounting policy (NII reserve, fee recognition and provisions), PAT would have been Rs 16.3bn (+18.7% YoY).
- **Moratorium trends**: Surprisingly, AXSB's moratorium (by value) dipped to 9.7% of loans (25-28% of loans in 4QFY20). This sharp drop is encouraging but odd. As per the management, borrowers representing 90% of the second moratorium formed part of the first moratorium, and 70-80% of the borrowers who had availed of the first one paid in June. The second moratorium was subject to stricter conditions. Moratorium trends will be keenly watched.
- **Asset quality:** 21% of the gross slippages (1.6% ann.) were recognised as per the bank's credit and risk assessment criteria (technically not NPAs). 77% of corporate slippages were from the BB and below rated pool of loans. The pool itself shrank 14.4/1.7% to Rs 64.2bn (1.1% of loans). Downgrades into the pool were Rs 13.3bn. We factor in slippages of ~3.3% over FY21-22E.
- **Provisions** were 15.8% higher, led by a 21.7% growth in LLPs to Rs 35.1bn. AXSB made COVID-19 related provisions of Rs 7.3bn in 1Q (total stock Rs 37.3bn). PCR increased 576bps QoQ to 74.8%. We build in elevated LLPs at 1.93% over FY21-22E.

Financial summary

YE Mar (Rs bn)	1Q FY21	1Q FY20	YoY (%)	4Q FY20	QoQ (%)	FY19	FY20	FY21E	FY22E
NII	69.9	58.4	19.5%	68.1	2.6%	217.1	252.1	261.3	300.6
PPOP	58.4	58.9	-0.8%	58.5	-0.1%	190.1	234.4	245.7	279.9
PAT	11.1	13.7	-18.8%	(13.9)	-180.1%	46.8	16.3	87.9	121.9
EPS (Rs)	3.9	5.2	-24.6%	(4.9)	-180.1%	18.2	5.8	31.1	43.2
ROAE (%)						7.2	2.1	9.8	12.2
ROAA (%)						0.63	0.19	0.93	1.18
ABVPS (Rs)						215	268	291	344
P/ABV (x)						1.97	1.57	1.45	1.21
P/E (x)						23.4	73.2	13.5	9.7

Change in estimates

Rs bn	FY21E			FY22E		
	Old	New	Change	Old	New	Change
Loan	6,329	6,234	-1.5%	7,227	7,178	-0.7%
NIM (%)	3.4	3.3	-2 bps	3.4	3.4	-1 bps
NII	262.6	261.3	-0.5%	302.7	300.6	-0.7%
PPOP	247.5	245.7	-0.7%	281.3	279.9	-0.5%
PAT	92.8	87.9	-5.3%	122.8	121.9	-0.8%
LLP (bps)	2.0	2.1	10 bps	1.7	1.7	2 bps
ABVPS (Rs)	292	291	-0.7%	341	344	1.0%

Source: Bank, HSIE Research

BUY

CMP *(as on 21 July 2020)*	Rs 446
Target Price	Rs 565
NIFTY	11,162

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 565	Rs 565
EPS %	FY21E	FY22E
	-5.3	-0.8

KEY STOCK DATA

Bloomberg code	AXSB IN
No. of Shares (mn)	2,822
MCap (Rs bn) / ($ mn)	1,259/16,873
6m avg traded value (Rs mn)	14,295
52 Week high / low	Rs 766/285

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	6.1	(37.8)	(38.8)
Relative (%)	(17.7)	(29.6)	(37.8)

SHAREHOLDING PATTERN (%)

	Mar-20	Jun-20
Promoters	16.0	16.0
FIs & Local MFs	22.8	22.3
FPIs	45.6	46.0
Public & Others	15.6	15.7
Pledged Shares	0.0	0.0

Source : BSE

Pledged shares as % of total shares

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IndusInd Bank

Equity raise an additional positive

IIB's 1Q was a mixed bag—while PAT was dented by high provisions, and SA trends disappointed, the decline in the moratorium portfolio was a positive. Commentary indicates a continuing focus on reduction in concentration risks on both sides of the balance sheets. Further, proposed equity raise will strengthen the balance sheet. These positives drive our ADD rating (target price of Rs 584). Our low assigned multiple (1.0xFY22E) is on account of near-term earnings weakness.

- **1QFY21 highlights**: NII grew 16.4/.4% YoY/QoQ, ~10% ahead of estimates due to higher-than-expected NIMs. Other income dipped 8.7/14.3%, buoyed by significant treasury profits, as fee income fell 50.9% QoQ.
- **Asset quality and moratorium trends**: Despite elevated slippages (3% ann., led by 5.8% slippages in the CCB segment, wherein 3 a/cs worth ~Rs 11bn, accounted for ~89% of slippages), GNPAs were flat QoQ at 2.53%, due to high write-offs (Rs 8.4bn). The moratorium portfolio declined to 14% in June from 50% at its peak. 9% of CCB and 19% of CFD loans were under moratorium. Despite the significant reduction in the moratorium portfolio, we continue to model elevated slippages at ~3.8% over FY21E.
- **Non-tax provisions** were 7.4% lower QoQ at Rs 22.6bn but remained elevated (5.3xYoY). COVID-19 provisions were Rs 9.2bn, taking the total to ~Rs 12bn (61bps of loans). IIB's PCR rose 325bps QoQ to 66.6%. We model elevated LLPs of 2.5% over FY21-22E.
- **Deposit trends:** After a steep fall in 4QFY20, IIB's deposits grew 4.6% QoQ, led by 10.6/12.3% growth in CA and an 11.2/5.3% growth in TDs. Disappointingly, SA dipped 8.9/1.1%. Commentary indicates that the bank will continue to play the rate differential game to attract customers by delaying deposit rate cuts. Granular deposit traction remains an area of concern for the bank and performance on this front will be watched.
- **Equity raise:** We have factored in the proposed Rs 32.8bn equity raise at Rs 524 a share in our estimates.

Financial summary

YE Mar (Rs mn)	1Q FY21	1Q FY20	YoY (%)	4Q FY20	QoQ (%)	FY19	FY20	FY21E	FY22E
NII	33,092	28,440	16.4%	32,312	2.4%	88,462	120,587	125,901	138,985
PPOP	28,613	25,910	10.4%	28,362	0.9%	80,882	107,727	106,440	111,975
PAT	4,606	14,325	-67.8%	3,018	52.6%	33,011	44,179	29,106	43,105
EPS (Rs)	6.6	20.7	-67.9%	4.4	52.6%	54.8	63.7	37.7	55.8
ROAE (%)						13.3	14.7	7.6	9.7
ROAA (%)						1.32	1.51	0.91	1.23
ABVPS (Rs)						400	459	511	580
P/ABV (x)						1.32	1.15	1.03	0.91
P/E (x)						9.6	8.3	14.0	9.4

Change in estimates

Rs bn	FY21E			FY22E		
	Old	New	Change	Old	New	Change
Loan	2,194	2,194	0.0%	2472	2,487	0.6%
NIM (%)	4.4	4.4	1 bps	4.4	4.4	4 bps
NII	122.3	125.9	2.9%	132.4	139.0	5.0%
PPOP	99.8	106.4	6.6%	105.5	112.0	6.1%
PAT	29.4	29.1	-1.0%	41.8	43.1	3.1%
ABVPS (Rs)	511.5	511.4	0.0%	574.7	580.3	1.0%

Source: Bank, HSIE Research

ADD

CMP *(as on 28 July 2020)*	**Rs 527**
Target Price	**Rs 584**
NIFTY	**11,301**

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	Rs 601	Rs 584
EPS %	FY21E	FY22E
	-9.1%	-5.3%

KEY STOCK DATA	
Bloomberg code	IIB IN
No. of Shares (mn)	694
MCap (Rs bn) / ($ mn)	365/4,883
6m avg traded value (Rs mn)	13,276
52 Week high / low	Rs 1,597/236

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	12.6	(58.0)	(62.8)
Relative (%)	(7.3)	(52.0)	(64.4)

SHAREHOLDING PATTERN (%)	Mar-20	Jun-20
Promoters	14.3	14.7
FIs & Local MFs	16.9	16.2
FPIs	53.6	52.1
Public & Others	15.2	17.1
Pledged Shares	-	

Source : BSE

Pledged shares as % of total shares

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AU Small Finance Bank

Promising trends

AUBANK's 1QFY21 net earnings were 52% higher than estimates, driven by a sharp fall in operating expenditure and high treasury gains. The reduction in moratorium or improvement in collection efficiency and retail deposit traction were promising. We continue to believe that AUBANK is one of the best-placed SFBs due to its relatively better deposit franchise, largely secured book, and strong execution track record. Strong fundamentals and adequate opportunity bode well for the bank's long-term growth prospects. We maintain our ADD rating with a revised target price of Rs 724.)

- **Deposit trends:** Sequential deposit growth at 2.2% (+34.7% YoY) was in line with previous trends. SA deposits grew 15.4/13.9%, and retail SA grew faster at 25.3/17.9%. While overall TDs grew 43/4.4%, retail TDs grew at 15.6/7.1%. <u>The share of retail deposits increased 300/200bps to 45% and the focus on granular deposits was evident. We find that these trends are promising and will watch for progress on this front.</u>
- **AUM and disbursals:** Disbursals dipped sharply (-70.7/76.4%) to Rs 11.8bn (including Rs 2.5bn under TLTRO 2.0) due to COVID-19 related disruptions. Consequently, AUM growth slowed to 17.3% YoY (-2.8% QoQ). The share of retail loans (83.8%) continued to increase (+523bps YoY). Notably, within wholesale loans, loans to NBFCs dipped 41.5/18.7%. <u>We expect AUBANK to register an AUM CAGR of 18% over FY21-22E. AUBANK's strong fundamentals, scope for geographical expansion, and dwindling competition provide a significant long-term growth opportunity</u>.
- **Moratorium:** <u>~11% of AUBANK's loan book is under moratorium vs. 25% in April, indicating significant improvement</u>. Further, borrowers representing 67/8% of the bank's advances made full/partial EMI payments in June. The corresponding figures for April were 53/23% and for May were 53/8%. <u>While these trends are encouraging, given the sustained spread of COVID-19, the uncertainty around the extension of the moratorium, and sporadic lockdowns across the country, we will watch the developments on this front.</u>
- **Non-tax provisions:** At Rs 1.8bn (2.4% of average AUMs), non-tax provisions remained elevated (+475/20.4%) and were driven by COVID-19 related provisions of Rs 1.4bn (total COVID-19 related provisions- Rs 2.8bn). PCR rose sharply (+2300/1097bps) to 63.5%. <u>We have increased our provisioning estimates to 1.8% over FY21E (vs. 1.5% earlier) as we believe that the bank can prudently provide more to insulate the balance sheet from the impact of COVID-19, given the significant treasury gains this quarter.</u>

Financial Summary

(Rs mn)	1Q FY21	1Q FY20	*YoY (%)*	4Q FY20	*QoQ (%)*	FY19	FY20	FY21E	FY22E
NII	5,159	3,956	*30.4*	5,549	*-7.0*	13,428	19,089	22,121	26,346
PPOP	4,183	2,138	*95.6*	3,071	*36.2*	7,221	11,112	14,549	16,016
Reported PAT	2,008	1,903	*5.5*	1,223	*64.2*	3,819	6,747	6,716	7,923
EPS (Rs)						13.1	22.2	22.1	26.1
ROAE (%)						14.7	18.6	14.5	14.8
ROAA (%)						1.5	1.6	1.4	1.5
Adj. BVPS (Rs)						90.7	135.1	147.8	174.8
P/ABV (x)						7.8	5.6	4.8	4.2
P/E (x)						60.5	35.6	35.8	30.3

Source: Bank, HSIE Research

ADD

CMP *(as on 24 July 2020)*	**Rs 790**
Target Price	**Rs 724**
NIFTY	**11,194**

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	Rs 577	Rs 724
EPS %	FY21E	FY22E
	9%	6%

KEY STOCK DATA	
Bloomberg code	AUBANK IN
No. of Shares (mn)	306
MCap (Rs bn) / ($ mn)	242/3,241
6m avg traded value (Rs mn)	712
52 Week high / low	Rs 1,218/366

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	52.7	(26.1)	25.0
Relative (%)	31.0	(17.7)	24.3

SHAREHOLDING PATTERN (%)

	Mar-20	Jun-20
Promoters	31.0	29.0
FIs & Local MFs	16.5	14.6
FPIs	52.3	53.3
Public & Others	0.2	3.1
Pledged Shares	7.0	7.0

Source : BSE

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Shriram Transport Finance

Valuation attractive despite asset quality concerns

SHTF's 1Q earnings were below estimates due to higher-than-expected provisions, even as operating expenditure registered a sharp fall. The recent equity raise is a positive, and should improve SHTF's ability to raise debt too. Given the significant proportion of the book under moratorium (~47%), asset quality risks are likely to remain elevated and, consequently, we have increased our provision estimates. However, we maintain ADD with a target price of Rs 793 (1.1x FY22E ABV). SHTF's unique business model and attractive valuations underpin our stance.

- **1QFY21 highlights**: NII dipped 5% QoQ and was slightly below estimates. PPOP (+1.5%) was cushioned by the sharp fall in operating costs (-29.4%) and was 3.9% ahead of estimates. PAT jumped 43.3% QoQ but was 36% below estimates due to elevated provisions.
- **Funding and liquidity**: SHTF completed a Rs 14.9bn equity raise in August. As of 30th June, its CRAR was 18.9%. Borrowing growth was muted (5.1/0.9% YoY). Foreign borrowings (3.2% of total borrowings) were the largest incremental source of funds, growing 2x/+95.8%. SHTF's liquidity position was sequentially stable QoQ, with liquid assets constituting ~9.6% of borrowings. Performance on these fronts will be keenly watched.
- **Asset quality and moratorium**: GS III (7.98%) dipped 2.7% QoQ, aided by the standstill classification benefit. 73% of customers representing 53% of SHTF's portfolio made repayments in June. This would imply that ~47% of SHTF's portfolio is under moratorium. Further, the management indicated that ~10% of the portfolio could be restructured. We expect asset quality to deteriorate, and we build GNPAs of ~11% in FY21E.
- **Provisions:** Non-tax provisions dipped 5.7% QoQ to ~Rs 10.7bn but remained elevated (+89.7% YoY). SHTF made COVID-19 related provisions of Rs 9.6bn, taking the total stock of such provisions to ~Rs 18.7bn (1.7% of AUMs- this is creditable). GSIII coverage improved to 38.4%, while Stage I &II coverage rose to 3.7%. Nevertheless, we have increased our LLP estimates to 2.7% over FY21-22E.

Financial summary

(Rs mn)	1Q FY21	1Q FY20	*YoY (%)*	4Q FY20	*QoQ (%)*	FY19	FY20	FY21E	FY22E
NII	18,354	19,436	(5.6)	19,333	*(5.1)*	78,244	79,972	79,055	80,597
PPOP	14,952	15,428	(3.1)	14,726	*1.5*	61,605	62,336	60,746	60,363
PAT	1,286	6,312	(79.6)	2,225	*(42.2)*	25,640	25,018	18,723	26,369
EPS (Rs)	5.7	27.8	(79.6)	9.8	*(42.2)*	113.0	110.3	74.0	104.2
ROAE (%)						17.4	14.8	9.5	11.7
ROAA (%)						2.53	2.28	1.60	2.13
ABVPS (Rs)						449	530	559	718
P/ABV (x)						1.5	1.3	1.2	1.0
P/E (x)						6.1	6.2	9.3	6.6

Change in estimates

Rs mn	FY21E			FY22E		
	Old	**New**	*Change*	**Old**	**New**	*Change*
AUM	10,96,527	11,04,573	*0.7%*	1160572	11,70,564	*0.9%*
NIM (%)	7.4	7.2	*-20 bps*	7.3	7.1	*-21 bps*
NII	81,002	79,055	*-2.4%*	82,368	80,597	*-2.2%*
PPOP	62,289	60,746	*-2.5%*	62,127	60,363	*-2.8%*
PAT	21,966	18,723	*-14.8%*	27,785	26,369	*-5.1%*
ABVPS (Rs)	568.1	559	*-1.5%*	754.0	718	*-4.8%*

Source: Company, HSIE Research

ADD

CMP *(as on 14 Aug 2020)*	**Rs 686**
Target Price	**Rs 793**
NIFTY	**11,178**

KEY CHANGES	**OLD**	**NEW**
Rating	ADD	ADD
Price Target	Rs 861	Rs 793
EPS %	FY21E	FY22E
	-23.6%	-14.9%

KEY STOCK DATA	
Bloomberg code	SHTF IN
No. of Shares (mn)	253
MCap (Rs bn) / ($ mn)	174/2,319
6m avg traded value (Rs mn)	3,799
52 Week high / low	Rs 1,332/429

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	8.7	(45.2)	(32.4)
Relative (%)	(13.0)	(37.0)	(33.9)

SHAREHOLDING PATTERN (%)	**Mar-20**	**Jun-20**
Promoters	26.3	26.3
FIs & Local MFs	2.7	2.3
FPIs	64.7	63.7
Public & Others	6.4	5.5
Pledged Shares		

Source : BSE

Pledged shares as % of total shares

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Cholamandalam Investment & Finance

A mostly good show

CIFC's 1QFY21 performance was ahead of our estimates on account of lower provisions. The management believes that COVID-19 related provisions made in 4QFY20 are sufficient. While we have reduced our provision estimates, they remain conservative. CIFC's 1QFY21 disbursal performance is creditable, given the challenging environment. The company remains our top NBFC pick, its ability to access funds, strong capital position, and diversified portfolio will enable the company to capture resurgent growth. Maintain BUY with a target price of Rs 249 (2.2xFY22E ABV).

- **Funding and liquidity trends:** CIFC reported a 6.2/6.4% YoY/QoQ growth in borrowings to Rs 585bn. After declining significantly over the past two quarters, CPs outstanding saw a sharp QoQ growth (~2.5x) but were 25.7% lower YoY. Bank borrowings grew 43.2% - the fastest-growing borrowing sub-segment (YoY). Even though cash and cash equivalents rose 37.7/15.7% to Rs 80bn (available liquidity was ~Rs 110bn, including undrawn lines), the ALM position seems to have worsened QoQ, with shrinkage in cumulative quarterly surpluses across buckets. This may be on account of changes in anticipated inflows from advances. However, we do not find this worrisome as the company has been consistently well-placed on this front.
- **Moratorium and asset quality trends:** The 7.7% QoQ fall in GS-III to ~Rs 20bn (3.3%) appears promising. However, this would have been assisted by the standstill classification. Further, ~74% of the portfolio remains under moratorium and ~50% of borrowers under moratorium paid at least one instalment. As sporadic local lockdowns occur across the country, flows from the moratorium portfolio will be watched.
- **Provisions:** After the spike in 4QFY20, surprisingly, non-tax provisions registered a 48.7/89.9% fall to Rs 562mn. The management felt that it had adequately provided for COVID-19 related stress (in 4QFY20) and that coverage on GS-III (41.6%, -510/+12bps), more than adequately captured expected LGDs. However, given, that ~50% of the moratorium borrowers have not paid a single instalment, and sporadic lockdowns across the country, we have conservatively factored in non-tax provisions of 1.4% of average assets over FY21-22E.
- **Margin trends:** NIMs dipped 40/50bps to 6.1%, as the fall in yields (-80/-90bps) outpaced the fall in CoF (-40/30bps). CIFC maintained a higher proportion of liquid assets in the quarter, and these assets saw a significant decline in yields. This, along with certain write-offs in the VF portfolio was responsible for the dip in overall yields. We expect CIFC to earn NIMs of 6.4% over FY21-22E.

Financial Summary

(Rs mn)	1Q FY21	1Q FY20	*YoY (%)*	4Q FY20	*QoQ (%)*	FY19	FY20	FY21E	FY22E
Net Interest Inc.	9,403	8,240	*14.1*	9106.5	*3.3*	29,868	35,319	38,732	41,209
PPOP	6,371	5,925	*7.5*	6,140	*3.8*	21,344	24,831	26,198	27,180
PAT	4,309	3,142	*37.1*	427	*910.1*	11,862	10,524	12,336	14,039
EPS (Rs)	5.3	4.0	*30.8*	0.5	*910.0*	15.2	12.1	15.0	17.1
ROAE (%)						21.1	13.8	14.1	14.1
ROAA (%)						2.34	1.63	1.90	2.03
ABVPS (Rs)						68.1	84.2	93.0	114.1
P/ABV (x)						2.97	2.40	2.18	1.78
P/E (x)						13.3	16.7	13.4	11.8

Source: Company, HSIE Research

BUY

CMP *(as on 31 July 2020)*	**Rs 203**
Target Price	**Rs 249**
NIFTY	**11,073**

KEY CHANGES	**OLD**	**NEW**
Rating	BUY	BUY
Price Target	Rs 235	Rs 249
EPS %	FY21E	FY22E
	10.5%	3.1%

KEY STOCK DATA	
Bloomberg code	CIFC IN
No. of Shares (mn)	820
MCap (Rs bn) / ($ mn)	166/2,218
6m avg traded value (Rs mn)	1,971
52 Week high / low	Rs 349/117

STOCK PERFORMANCE (%)

	3M	**6M**	**12M**
Absolute (%)	27.0	(38.2)	(22.0)
Relative (%)	15.5	(30.5)	(22.3)

SHAREHOLDING PATTERN (%)

	Mar-20	**Jun-20**
Promoters	51.7	51.7
FIs & Local MFs	25.8	25.8
FPIs	12.2	11.9
Public & Others	10.3	10.6
Pledged Shares		

Source : BSE

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Federal Bank

Attractive valuation

We maintain a BUY on Federal Bank with a target price of Rs 64. Our earnings estimates are mostly unchanged. We assign a target multiple of 0.9x FY22E, as return ratios are likely to be subdued over FY21-22E at ~0.75%, mostly due to elevated credit costs (~1.25%) and muted growth (~10%). We believe the impact of COVID-19 on the bank will be lesser than is indicated by its current valuation. Further, we like its granular liability franchise (FB's deposits (%) from retail and small business customers are the highest amongst peers).

- **1QFY21 highlights**: NII at ~Rs 13bn (+12.3/6.6% YoY/QoQ) was 9% ahead of estimates, led by better-than-expected NIMs (3.07%). High treasury gains (Rs 3bn) resulted in a PPOP beat (+28.9% vs. estimates).
- **Moratorium trends**: FB's gross moratorium (by value) was stable at 35%. However, the net moratorium dipped to 24%, as borrowers representing ~11% of loans paid all (four) instalments, but these loans were classified as 'under moratorium'. While the downtrend in the net moratorium is positive, as some locations have re-instituted lockdowns, the sustainability of this trend will be keenly watched.
- **Provisioning**: FB made non-tax provisions of Rs 3.95bn; including COVID-19 related provisions of Rs 930mn (total Rs 1.86bn). The uptrend in PCR (59.6%, +886/510bps) persisted. We expect non-tax provisions to remain elevated at 0.9% of average assets in FY21E.
- **Deposits and capital**: FB saw healthy deposit growth at 17/2%, led by CASA deposits at 19/7%. CET-1 was ~13%. We believe that it may be prudent for the bank to raise capital. However, the management said that the bank does not intend to do so in the near term. We have not incorporated an equity raise in our estimates.

Financial summary

YE Mar (Rs mn)	1Q FY21	1Q FY20	YoY (%)	4Q FY20	QoQ (%)	FY19	FY20	FY21E	FY22E
Net Interest Income	12,964	11,542	*12.3%*	12,160	*6.6%*	41,763	46,489	49,452	53,531
PPOP	9,324	7,828	*19.1%*	9,593	*-2.8%*	27,631	32,047	33,251	35,162
PAT	4,008	3,842	*4.3%*	3,012	*33.0%*	12,439	15,428	11,994	15,474
EPS (Rs)	2.0	1.9	*3.8%*	1.5	*32.9%*	6.3	7.7	6.0	7.8
ROAE (%)						9.8	11.1	8.0	9.6
ROAA (%)						0.84	0.91	0.64	0.75
Adj. BVPS (Rs)						58.6	64.7	64.4	75.0
P/ABV (x)						0.85	0.77	0.77	0.66
P/E (x)						8.0	6.4	8.3	6.4

Source: Bank, HSIE Research

Change in estimates

Rs bn	FY21E			FY22E		
	Old	New	Change	Old	New	Change
Loan	1,317	1,319	*0.1%*	1,479	1482	*0.2%*
NIM (%)	2.9	2.9	*3 bps*	2.9	2.9	*3 bps*
NII	48.8	49.5	*1.3%*	52.8	53.5	*1.3%*
PPOP	31.9	33.3	*4.3%*	34.5	35.2	*1.8%*
PAT	11.9	12.0	*0.5%*	15.5	15.5	*0.0%*
LLP (bps)	131	139	*8.0*	102	107	*5.0*
Adj. BVPS (Rs)	66.5	64.4	*-3.2%*	76.0	75.0	*-1.3%*

Source: Bank, HSIE Research

BUY

CMP *(as on 15 July 2020)*	**Rs 50**
Target Price	**Rs 64**
NIFTY	**10,618**

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 64	Rs 64
	FY21E	FY22E
EPS %	0.5	0.0

KEY STOCK DATA	
Bloomberg code	FB IN
No. of Shares (mn)	1,992
MCap (Rs bn) / ($ mn)	99/1,320
6m avg traded value (Rs mn)	1,405
52 Week high / low	Rs 109/36

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	20.3	(45.3)	(53.3)
Relative (%)	1.6	(31.4)	(46.0)

SHAREHOLDING PATTERN (%)

	Mar-20	Jun-20
Promoters	-	-
FIs & Local MFs	37.1	36.0
FPIs	33.3	30.0
Public & Others	29.6	34.0
Pledged Shares	0.0	0.0

Source : BSE

Pledged shares as % of total shares

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RBL Bank

Near-term pain inevitable

Significant treasury gains and strong NIMs buoyed RBK's 1Q earnings. While QoQ deposit growth was healthy, deposit granularity remains an area of concern. Moratorium trends in the credit card and micro-credit portfolios, where LGDs are high, are concerning. These segments could contribute disproportionately to slippages and LLPs. Provisions are likely to remain elevated in the near term, denting return ratios. This underpins our REDUCE rating. Our price target of Rs 148 remains unchanged.

- **1QFY21 highlights**: NII grew 27.4/2% YoY/QoQ, and was 10% ahead of our estimates. PPOP grew 11.5% YoY but dipped 9.8% QoQ, led by a sharp 33.4% QoQ fall in other income, and was 3.9% below our estimates.
- **Deposits:** After the significant outflow seen in 4Q, RBK witnessed a 6.8% QoQ growth in deposits. It was led by a 24.2% QoQ growth in SA and a 6% rise in TDs. Average deposits from retail and small business customers were 31% of deposits vs. 29.3% QoQ. Granular deposit traction remains an area of concern and progress on this front will be watched.
- **Moratorium:** 13.7% of the bank's portfolio was under moratorium as of June (vs. 33% in April). The credit card and micro-credit portfolios have seen a reduction in the moratorium to 22% and ~35%. The credit card/micro-credit moratorium remains relatively sticky/elevated. These segments, along with the corporate portfolio (rated BB and below), are likely to keep slippages (4.3%) elevated in FY21E.
- **Non-tax provisions** at Rs 5bn, dipped 18.6% QoQ but remained elevated (2.3xYoY). COVID-19 related provisions were Rs 2.4bn, (total COVID-19 provisions stood were Rs 3.5bn i.e. 62bps of loans). Commentary indicated that a majority of COVID-19 related provisions pertained to the credit card portfolio and that the management expects a 70-80% increase in credit costs for this book (5% at present). We expect LLPs of ~2.8% over FY21-22E.
- Surprisingly, **NIMs** were flat QoQ at ~4.85%. CoF fell 30bps and yield increased 50bps to 13% (driven by 140bps rise in retail yields). We believe that current NIMs are unsustainable and expect a 45bps fall over FY21-22E.

Financial summary

YE Mar (Rs mn)	1Q FY21	1Q FY20	YoY (%)	4Q FY20	QoQ (%)	FY19	FY20	FY21E	FY22E
NII	10,413	8,173	*27.4%*	10,210	*2.0%*	25,395	36,296	36,780	38,867
PPOP	6,897	6,188	*11.5%*	7,648	*-9.8%*	19,398	27,516	25,842	26,787
PAT	1,412	2,671	*-47.1%*	1,144	*23.5%*	8,670	5,057	4,846	8,204
EPS (Rs)	2.8	6.2	*-55.5%*	2.2	*23.5%*	20.3	9.9	9.5	16.1
ROAE (%)						12.2	5.6	4.5	7.2
ROAA (%)						1.22	0.60	0.53	0.82
ABVPS (Rs)						168.1	184.6	195.7	214.6
P/ABV (x)						1.08	0.98	0.93	0.85
P/E (x)						9.0	18.3	19.1	11.3

Change in estimates

Rs mn	FY21E			FY22E		
	Old	**New**	*Change*	**Old**	**New**	*Change*
Loans	6,18,274	6,21,190	*0.5%*	685725	6,91,285	*0.8%*
NIM (%)	4.5	4.5	*1 bps*	4.4	4.3	*-3 bps*
NII	36,191	36,780	*1.6%*	38,000	38,867	*2.3%*
PPOP	25,342	25,842	*2.0%*	26,712	26,787	*0.3%*
PAT	4,868	4,846	*-0.4%*	8,229	8,204	*-0.3%*
ABVPS (Rs)	195.7	195.7	*0.0%*	214.6	214.6	*0.0%*

Source: Bank, HSIE Research

REDUCE

CMP *(as on 29 July 2020)*	**Rs 177**
Target Price	**Rs 148**
NIFTY	**11,203**

KEY CHANGES	**OLD**	**NEW**
Rating	REDUCE	REDUCE
Price Target	Rs 148	Rs 148
EPS %	FY21E	FY22E
	-0.4%	-0.3%

KEY STOCK DATA	
Bloomberg code	RBK IN
No. of Shares (mn)	509
MCap (Rs bn) / ($ mn)	90/1,203
6m avg traded value (Rs mn)	5,242
52 Week high / low	Rs 465/102

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	40.4	(47.3)	(60.7)
Relative (%)	24.0	(39.7)	(61.7)

SHAREHOLDING PATTERN (%)	**Mar-20**	**Jun-20**
Promoters	-	-
FIs & Local MFs	28.9	20.9
FPIs	41.8	44.6
Public & Others	29.3	34.5
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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City Union Bank

Best amongst peers

CUBK's 1QFY21 earnings were ahead of our estimates on account of lower-than-expected operating expenditure and higher-than-expected treasury gains. Expectedly, sequential balance sheet growth was negligible. The sharp reduction in the proportion of the portfolio under moratorium to just ~12.5% was heartening, and the bank's performance on this front is significantly better than that of its peers, despite its high share of SME loans. We maintain a BUY with a target price of Rs 164 (2.1x FY22E ABV). Our assigned multiple reflects the bank's (1) strong PPOP profile and capital position, which are capable of absorbing shocks, and (2) consistent performance across most parameters. It remains our preferred pick amongst the mid-tier banks.

- **Asset quality and moratorium trends:** GNPAs dipped 4.8% QoQ to Rs 13.46bn (3.9%), as there were negligible slippages. However, this was aided by the standstill classification benefit. The portfolio under moratorium registered a sharp fall and now stands at ~12.5%. It represents loans outstanding of borrowers who have not paid a single instalment. We find the progress on this front heartening; CUBK has performed much better than its peers have on this front. Nevertheless, we have conservatively kept our slippage estimates unchanged at ~4% in FY21E. CUBK saw a 6.1x/+30.6% YoY/QoQ rise in its restructured book; it now constitutes 1.12% of loans. The management guides for slippages of ~3.5% in FY21E, and expects to restructure 4.5-5% of loans (mostly from the moratorium book).

- **Provisioning:** CUBK's non-tax provisions dipped 65.1% QoQ to Rs 1.57bn, but remained elevated nevertheless (+35.6%). Even as NPA provisions registered a sharp 65.3/83.9% fall to Rs 500mn, calc. PCR rose 253/186bps to 46.8%. The bank made COVID-related provisions of Rs 1bn, taking the total stock of such provisions to ~Rs 2bn (~60bps). We anticipate the bank to make LLPs of 1.72% over FY21-22E.

- **Loan growth:** Credit growth was muted at 7.2/-0.1% YoY/QoQ. Here, the following trends stood out - (1) term loans grew 26.3/10.7% while working capital credit (58.9% of loans) dipped 2.4/6.2%. It can be attributed to the conversion of interest on working capital loans into FITLs; (2) credit to the CRE sector (8.2% of loans) grew 40.6/1.8%; and (3) non-agri jewel loans (2.4% of loans) grew 2.2x/15.1%. The bank disbursed Rs 12.2bn under the NCGTC scheme, and it expects to disburse Rs 16.3bn more. This will be a major contributor to incremental credit in the near term. We expect loan growth of ~9% over FY21-22E.

Financial Summary

(Rs mn)	1Q FY21	1Q FY20	YoY (%)	4Q FY20	QoQ (%)	FY19	FY20E	FY21E	FY22E
Net int Inc.	4,370	4,169	4.8%	4,195	4.2%	16,115	16,752	17,265	18,951
PPOP	3,560	3,514	1.3%	3,351	6.3%	12,400	13,414	13,969	15,072
PAT	1,540	1,856	-17.0%	-953	NA	6,829	4,763	5,268	7,551
EPS (Rs)	2.1	2.5	-17.3%	-1.3	NA	9.3	6.5	7.1	10.2
ROAE (%)						15.2	9.4	9.5	12.3
ROAA (%)						1.60	1.00	1.04	1.39
Adj. BVPS (Rs)						57.9	61.3	65.5	76.6
P/ABV (x)						2.02	1.91	1.78	1.53
P/E (x)						12.6	18.1	16.3	11.4

Source: Bank, HSIE Research

BUY

CMP *(as on 13 Aug 2020)*	**Rs 117**
Target Price	**Rs 164**
NIFTY	**11,300**

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 164	Rs 164
EPS %	FY21E	FY22E
	+3.9%	+0.3%

KEY STOCK DATA	
Bloomberg code	CUBK IN
No. of Shares (mn)	737
MCap (Rs bn) / ($ mn)	86/1,151
6m avg. traded value (Rs mn)	276
52 Week high / low	Rs 249/110

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(10.3)	(47.5)	(39.5)
Relative (%)	(30.0)	(39.9)	(43.1)

SHAREHOLDING PATTERN (%)

	Mar-20	June-20
Promoters	0.0	0.0
FIs & Local MFs	34.6	29.5
FPIs	20.8	21.7
Public & Others	44.6	48.8
Pledged Shares		

Source : BSE

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Indostar Capital Finance

Asset quality risks remain elevated

INDOSTAR's 1Q earnings came in above the estimates due to lower-than-expected operating and tax expenditure. The company is now well-positioned on the liquidity, capital and funding fronts, as a result of the equity infusion by Brookfield.. While the retail portfolio under moratorium registered a sharp fall, the corporate portfolio under moratorium was sticky, which would keep asset quality risks and provisions elevated and return ratios subdued in the near term. We, thus, maintain REDUCE with a target price of Rs 267.

- **1QFY21 highlights**: NII grew 10.4% QoQ to Rs 1.34bn and was in line with estimates. PPOP, at Rs 737mn (-38% YoY), was 14.7% ahead of estimates due to better-than-expected cost control. PAT was 57% higher than estimates, as tax costs fell sharply.
- **Funding and liquidity trends**: The equity infusion by Brookfield has strengthened INDOSTAR's position on these fronts. CRAR now stands at 37.7%, with a Tier 1 of 33.4%. Cash and cash equivalents at Rs 21.3bn now constitute ~30% of borrowings. The company raised ~Rs 7.3bn during the quarter from banks and capital markets at sub 9% (vs. 9.5% earlier).
- **Asset quality, moratorium and provisioning:** GNPAs were up 2.8% QoQ to Rs 3.76bn (4.5%). VF GNPAs (5.9%) rose ~10% QoQ while SME GNPAs (1.1%) dipped 35.4%. The portfolio under moratorium dipped to 57.7% (from 90%) due to a 52% fall in the retail portfolio to ~44%. Worryingly, the corporate portfolio under moratorium remained at ~90%. We, thus, believe that asset quality risks remain elevated in the near term (we build GNPAs of 7.8% in FY21E). Non-tax provisions were 61.8/96% lower YoY/QoQ, and INDOSTAR did not make additional COVID-related provisions, which stood at Rs 2.8bn.
- **Growth:** AUMs were 15.3% lower YoY, this has been on account of the fall in the corporate portfolio (-32% YoY), now ~30% of AUMs. Given INDOSTAR's comfortable funding position, it is well-positioned to resurgent growth. We estimate negligible AUM growth over FY21-22E.

Financial summary

YE Mar (Rs mn)	1Q FY21	1Q FY20	YoY (%)	4Q FY20	QoQ (%)	FY19	FY20	FY21E	FY22E
NII	1,344	1,557	*(13.6)*	1,217	*10.4*	5,177	6,028	6,879	7,268
PPOP	737	1,193	*(38.2)*	137	*437.5*	3,954	3,837	5,072	5,011
PAT	471	477	*(1.3)*	*(4,213.9)*	*NA*	2,408	(3,246)	1,281	2,150
EPS (Rs)	3.8	5.2	*(26.1)*	*(45.6)*	*NA*	26.1	(35.1)	9.5	16.0
ROAE (%)						9.5	(11.4)	4.5	5.2
ROAA (%)						2.47	(3.0)	1.28	1.98
ABVPS (Rs)						275.5	226.2	244.8	277.4
P/ABV (x)						0.92	1.12	1.04	0.92
P/E (x)						9.7	NA	26.8	15.9

Change in estimates

Rs mn	FY21E			FY22E		
	Old	New	Change	Old	New	Change
AUM	91,824	91,824	*0.0%*	100,283	100,283	*0.0%*
NIM (%)	7.0	7.2	*15 bps*	7.5	7.6	*11 bps*
NII	6,736	6,879	*2.1%*	7,158	7,268	*1.5%*
PPOP	4,752	5,072	*6.7%*	4,872	5,011	*2.8%*
PAT	1,142	1,281	*12.1%*	2,140	2,150	*0.5%*
ABVPS (Rs)	246.8	244.8	*-0.8%*	275.7	277.4	*0.6%*

Source: Bank, HSIE Research

REDUCE

CMP *(as on 13 Aug 2020)*	**Rs 254**
Target Price	**Rs 267**
NIFTY	**11,300**

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	Rs 266	Rs 267
EPS %	FY21E	FY22E
	12.1%	0.5%

KEY STOCK DATA	
Bloomberg code	INDOSTAR IN
No. of Shares (mn)	123
MCap (Rs bn) / ($ mn)	31/416
6m avg traded value (Rs mn)	60
52 Week high / low	Rs 298/166

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	(8.3)	(10.6)	(12.1)
Relative (%)	(28.0)	(3.1)	(15.7)

SHAREHOLDING PATTERN (%)	Mar-20	Jun-20
Promoters	60.6	45.5
FIs & Local MFs	20.6	2.4
FPIs	10.7	-
Public & Others	8.1	52.1
Pledged Shares		

Source : BSE

Pledged shares as % of total shares

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Karur Vysya Bank

Pain inevitable

KVB's 1QFY20 earnings were ahead of estimates, buoyed by higher-than-expected treasury gains. Even though the bank has seen elevated stress over an elongated period, asset quality risks are likely to remain elevated in the near term, especially with the sticky moratorium portfolio. Elevated provisions will depress return ratios in the near term; consequently, we assign a target multiple of just 0.6xFY22E. The appointment of new the MD & CEO, removes concerns around the leadership void at the bank. We maintain REDUCE with a target price of Rs 35.

- **1QFY21 highlights**: NII dipped 3.8/4.9% YoY/QoQ, in line with estimates. PPOP grew 6.5% YoY, but dipped 5.2% QoQ, and was 17.9% ahead of estimates, buoyed by treasury income (Rs 1.8bn, +30%QoQ).
- **Funding trends:** After a sharp and inexplicable QoQ dip in 4QFY20, deposits grew just 1.7% QoQ (-2.7% YoY). A 7.4/1% dip in term deposits led this trend. SA grew 13.5/5.6% and CA grew 12.3% QoQ (-1% YoY). Performance on this front is disappointing, given that most banks have seen much better deposit growth this quarter. The bank's CRAR rose 215/97bps to 18.1% (Tier 1 at 16.1%)as a result of a fall in RWAs (-5.2% QoQ).
- **Asset quality and moratorium:** GNPAs dipped 10.1/3.7% to Rs 40.6bn (8.3%); however, this improvement was optical, as slippages (just Rs 400mn, 35bps ann., vs. 3.7% QoQ) were depressed by the standstill classification. KVB's moratorium portfolio remained sticky, with ~41% of loans under moratorium (vs. 52% earlier). Of the Rs 86.3bn of term loans under the moratorium, borrowers representing ~34% of these loans made no payments. The sticky moratorium portfolio, given the bank's asset quality track record, is concerning. Asset quality risks will be heightened in the near term, and we expect slippages of 4.5% over FY21E.
- **Non-tax provisions** dipped 21.4% QoQ to Rs 3.4bn, led by a 35.6% fall in LLPs. PCR improved 1238/385bps to 60.9%. KVB made COVID-19 related provisions of Rs 730mn, (total stock of such provisions to Rs 1.2bn, i.e. 26bps of advance). We expect provisions to remain elevated at 2.4% over FY21-22E.

Financial summary

YE Mar (Rs mn)	1Q FY21	1Q FY20	*YoY (%)*	4Q FY20	*QoQ (%)*	FY19	FY20	FY21E	FY22E
NII	5,618	5,840	*-3.8%*	5,905	*-4.9%*	23,628	23,479	24,559	26,470
PPOP	4,739	4,451	*6.5%*	4,998	*-5.2%*	17,108	17,609	17,563	17,726
PAT	1,055	729	*44.7%*	837	*26.0%*	2,109	2,350	3,231	4,582
EPS (Rs)	1.3	0.9	*44.7%*	1.0	*26.0%*	2.6	2.9	4.0	5.7
ROAE (%)						3.3	3.6	4.9	6.7
ROAA (%)						0.31	0.34	0.46	0.61
ABVPS (Rs)						50.1	59.9	51.1	62.8
P/ABV (x)						0.70	0.58	0.68	0.56
P/E (x)						13.2	11.9	8.6	6.1

Change in estimates

Rs mn	FY21E			FY22E		
	Old	New	*Change*	Old	New	*Change*
Loans	483,752	484,499	*0.2%*	531922	532,982	*0.2%*
NIM (%)	3.7	3.8	*1 bps*	3.8	3.8	*1 bps*
NII	24,452	24,559	*0.4%*	26,318	26,470	*0.6%*
PPOP	16,683	17,563	*5.3%*	17,771	17,726	*-0.3%*
PAT	3,228	3,231	*0.1%*	4,582	4,582	*0.0%*
ABVPS (Rs)	51.1	51.1	*-0.2%*	61.9	62.8	*1.5%*

Source: Bank, HSIE Research

REDUCE

CMP *(as on 31 July 2020)*	**Rs 35**
Target Price	**Rs 35**
NIFTY	**11,073**

KEY CHANGES	**OLD**	**NEW**
Rating	REDUCE	REDUCE
Price Target	Rs 35	Rs 35
EPS %	FY21E	FY22E
	0.1%	0.0%

KEY STOCK DATA	
Bloomberg code	KVB IN
No. of Shares (mn)	799
MCap (Rs bn) / ($ mn)	28/369
6m avg traded value (Rs mn)	59
52 Week high / low	Rs 65/18

STOCK PERFORMANCE (%)

	3M	**6M**	**12M**
Absolute (%)	18.1	(27.9)	(45.1)
Relative (%)	6.6	(20.3)	(45.4)

SHAREHOLDING PATTERN (%)

	Mar-20	**Jun-20**
Promoters	2.1	2.1
FIs & Local MFs	22.8	22.1
FPIs	21.6	21.1
Public & Others	53.5	54.7
Pledged Shares		
Source : BSE		

Pledged shares as % of total shares

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DCB Bank

A mixed bag

DCBB's 1QFY21 print was in line. The QoQ de-growth in deposits was underwhelming, but DCBB's focus on improving deposit granularity was evident and is positive. Asset quality was optically stable (benefited by the standstill classification), and the moratorium book dipped significantly. Our estimates remain mostly unchanged, and we expect earnings to remain under pressure in the near term as provisions are set to rise. However, we remain optimistic about the bank's long-term prospects, and this underpins our ADD recommendation (target price of Rs 103, 0.9xFY22E ABV).

- **Funding side trends:** DCBB's deposits dipped 3.1% QoQ, led by a 3.7% dip in term deposits. While overall deposit traction may seem underwhelming, the bank's deposit granularity has improved. The contribution of Top-20 deposits fell from 9.3% as of FY20 to 8.7% as of 1QFY20, and further to 8.1% as of July 2020. The bank fully repaid outstanding certificates of deposits (Rs 6.1bn in 4QFY20). Its focus on retail term deposits (+43% YoY) over CASA (down 8.6% YoY) was clearly visible. Borrowings registered a sharp growth of 48/15.4%. DCBB's CRAR rose 16bps QoQ to 17.9%, aided by a reduction in RWAs. We watch for trends on deposit growth and granularity.
- **Asset quality and moratorium trends:** GNPAs dipped 1.5% QoQ to Rs 6.22bn (2.4%), and slippages were minuscule at 13bps (however, this was aided by the standstill classification). Further, DCBB saw a sharp rise in its restructured book, which now stands at 1.87%. CVs, mortgages, and MSME saw a sharp QoQ rise in restructuring. The proportion of the book under moratorium fell to 26% from 60% in April 2020, and collection efficiency in July improved to 59%. The bank classifies accounts which have not paid a single instalment as under moratorium. Further, the quantum of delinquent accounts (SMA) under moratorium dipped from Rs 19.1bn to Rs 5.1bn. We believe that DCBB's performance on these fronts was par for the course. Nevertheless, we believe that the bank is likely to see a rise in stress, and we factor in slippages of ~4% over FY21E.
- **Provisioning:** Non-tax provisions fell 29.2% QoQ to Rs 837mn but remained elevated (~2x YoY). NPA provisions were 6.1% higher YoY, but 22.2% lower QoQ. The bank made COVID-19 related provisions of Rs 320mn, taking the total stock of such provisions to Rs 950mn (38bps of loans). It carries floating provisions of Rs 1bn (40bps) and Rs 1.17bn of standard asset provisions (47bps). We believe the bank will see a rise in provisions, as COVID-19 related stress manifests as slippages. Consequently, we have kept our provision estimates mostly unchanged at 1.33% over FY21-22E.

Financial Summary

(Rs mn)	1Q FY21	1Q FY20	YoY (%)	4Q FY20	QoQ (%)	FY19	FY20	FY21E	FY22E
Net Interest Income	3,067	3,048	*0.6%*	3,237	*-5.2%*	11,493	12,649	12,671	14,261
PPOP	1,911	1,665	*14.8%*	2,120	*-9.8%*	6,466	7,531	7,839	8,721
PAT	794	811	*-2.1%*	687	*15.6%*	3,254	3,379	2,981	3,818
EPS (Rs)	2.6	2.6	*-2.3%*	2.2	*15.6%*	10.5	10.9	9.6	12.3
ROAE (%)						11.0	10.3	8.3	9.8
ROAA (%)						0.99	0.91	0.76	0.90
Adj. BVPS (Rs)						87.8	93.1	93.7	112.9
P/ABV (x)						0.95	0.89	0.89	0.73
P/E (x)						7.9	7.6	8.6	6.7

Source: Bank and HSIE Research

ADD

CMP *(as on 07 Aug 2020)*	**Rs 83**
Target Price	**Rs 103**
NIFTY	**11,214**

KEY CHANGES	**OLD**	**NEW**
Rating	ADD	ADD
Price Target	Rs 105	Rs 103
EPS %	FY21E	FY22E
	-1.5%	-1.0%

KEY STOCK DATA

Bloomberg code	DCBB IN
No. of Shares (mn)	310
MCap (Rs bn) / ($ mn)	26/345
6m avg traded value (Rs mn)	203
52 Week high / low	Rs 219/58

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	21.0	(53.2)	(56.1)
Relative (%)	0.0	(45.6)	(59.8)

SHAREHOLDING PATTERN (%)

	Mar-20	June-20
Promoters	14.9	14.9
FIs & Local MFs	35.3	35.9
FPIs	22.8	15.1
Public & Others	27.0	34.1
Pledged Shares	0.0	0.0

Source : BSE

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Repco Home Finance

Nothing changes

Repco's 4Q earnings were a mixed bag— NIMs were better than expected, while provisions dragged net earnings. We have reduced our earnings estimates to factor in slower growth and higher provisions, despite the management being more optimistic on both. We maintain our ADD rating with a target price of Rs 207. REPCO's strong capital base (25.9%), comfortable funding position, and attractive valuations underpin our stance.

- **1QFY21 highlights**: NII grew 13/7% YoY/QoQ and was 6.3% ahead of estimates. While PPOP grew 22.7/4.2%, PAT dipped 7.4/31.6% on account a sharp rise in provisions.
- **AUM trends: The** AUM growth trend was seen slowing in earlier quarters, and has been exacerbated by COVID-19 to come in at 7.2/1.7%-the slowest ever. Despite REPCO's small base, we project AUM growth at just ~4% over FY21-22E. We believe COVID-19 and intense competition from banks, as suggested by commentary, will limit growth.
- **Asset quality and moratorium trends:** GNPAs were stable QoQ at 4.3% but cushioned by the standstill classification benefit. As of June, 68% of REPCO's borrowers paid all instalments for the month, and ~32% of the portfolio was under moratorium. The commentary indicates that collection efficiency improved in July. We expect GNPAs to rise to 6.2% by FY21E on account of COVID-19, the management is more sanguine in its outlook.
- **Funding:** On this front REPCO is quite comfortable. Overall borrowings grew 8.4/2.8%. On a sequential basis, borrowings from Repco Bank, accounted for most of net incremental borrowings, growing 32.8/35.7%, to constitute 10.5% of borrowings. Other bank borrowings (ex-NHB) constitute 75.2% of borrowings, and grew 12.1/1.8%.
- **Provisions:** REPCO made non-tax provisions of ~Rs 400mn, most of which were related to COVID-19. We expect non-tax provisions to average 0.8% of average assets over FY21-22E, vs. 0.5% over FY16-20.

Financial summary

YE Mar (Rs mn)	4Q FY20	4Q FY19	YoY (%)	3Q FY20	QoQ (%)	FY19	FY20	FY21E	FY22E
NII	1,317	1,164	*13.1*	1,232	*6.9*	4,434	4,924	4,861	5,077
PPOP	1,093	890	*22.7*	1,021	*7.0*	3,768	4,196	4,085	4,237
PAT	477	515	*(7.4)*	697	*(31.6)*	2,346	2,804	2,333	2,422
EPS (Rs)	7.5	8.3	*(9.0)*	11.1	*(32.3)*	37.6	44.8	37.3	38.7
ROAE (%)						2.28	2.44	1.90	1.88
ROAA (%)						16.6	16.9	12.3	11.4
ABVPS (Rs)						211	233	245	287
P/ABV (x)						0.65	0.59	0.56	0.48
P/E (x)						3.7	3.1	3.7	3.6

Change in estimates

Rs mn	FY21E			FY22E		
	Old	New	*Change*	Old	New	*Change*
Loans	122,212	121,537	*-0.6%*	126108	127,474	*1.1%*
NIM (%)	4.1	4.1	*2 bps*	4.0	4.1	*5 bps*
NII	4,827.6	4,861	*0.7%*	4,936.6	5,077	*2.9%*
PPOP	3,991.4	4,085	*2.3%*	4,093.5	4,237	*3.5%*
PAT	2,510.8	2,333	*-7.1%*	2,473.0	2,422	*-2.0%*
ABVPS (Rs)	258.0	245.4	*-4.9%*	302.6	286.6	*-5.3%*

Source: Company, HSIE Research

ADD

CMP *(as on 27 July 2020)*	**Rs 139**
Target Price	**Rs 207**
NIFTY	**11,132**

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	Rs 215	Rs 207
EPS %	FY21E	FY22E
	-7.1%	-2.0%

KEY STOCK DATA	
Bloomberg code	REPCO IN
No. of Shares (mn)	63
MCap (Rs bn) / ($ mn)	9/116
6m avg traded value (Rs mn)	43
52 Week high / low	Rs 366/90

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	19.0	(57.7)	(57.3)
Relative (%)	(0.5)	(49.9)	(57.5)

SHAREHOLDING PATTERN (%)	Mar-20	Jun-20
Promoters	37.1	37.1
FIs & Local MFs	25.4	19.3
FPIs	28.9	26.7
Public & Others	8.6	16.9
Pledged Shares		

Source: BSE

Pledged shares as % of total shares

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Capital Goods

Siemens

Cost rationalisation saves the day

We maintain REDUCE on Siemens India Ltd. (SIL) and roll forward TP (Rs 1,197) to Sep-22 (35x). The sharp decline in revenues across the businesses is primarily due to (1) 1.5 months of COVID-led shutdown, (2) intermittent local lockdowns, (3) ensuing supply chain disruptions and (4) labour migration issues. With Gas & Power (G&P) business hived off at the parent (Siemens AG) level in the form of Siemens Energy, the latter entity will now hold 24% in SIL. New opportunities in digitalisation are gaining traction as clients cut capex and look towards increasing productivity through automation. SIL is also looking at enhancing capabilities across the EV Infra value chain.

- **Weak financial performance:** SIL delivered a revenue miss of 23% (Rs 13.2bn, -59%/-53% YoY/QoQ). EBITDA margin came at (0.7)%. SIL has quantified the impact of 1.5 months shutdown in terms of Rs 2.3bn additional expenses incurred due to: (1) under-recovery of fixed costs, (2) increased costs of installation due to supply chain disruptions and (3) additional spending on higher health & hygiene standards. On the positive side, the rationalisation of operating and employee expenses led to EBITDA/APAT beat of Rs 684/671mn, reported at Rs -96/-46mn. Order backlog stood at Rs 131bn, which provides visibility of over a year.
- **Navigating through COVID-19 crisis:** 10/22 factories and a warehouse are located in Maharasthra, which is one of the worst affected states. As on date, all factories and ~75% of project sites have reopened and are at utilisation levels of between 20% to 70%, with ~60% migrant workers in place. Remote commissioning, servicing and factory acceptance tests have allowed the company to steer through the crisis. Cash conservation, receivables realisation and cost rationalisation continue to be prime focus areas.
- **Industry outlook:** 3QFY20 order wins include: (1) Rs 1.8bn orders for 900 CBs to a utility in South Africa, (2) GIS of Rs 1.5bn to Bangladesh, and (3) Propulsion systems to Kochi Metro. While private capex has come to a standstill, green shoots in terms of orders are emerging in industries – water, pharma, fertilisers, chemicals, F&B, etc. Short cycle order is, in particular, impacted by poor-offtake by the auto industry and logistics issues. While tendering in Railways/Metros across segments like Electrification, Signaling, Rolling Stock, etc., is encouraging with a long pipeline, competition is high. SIL is betting on cement and steel recovery too.

Financial Summary

(Rs mn, Sep YE)	3Q FY20	3Q FY19	YoY (%)	2Q FY20	QoQ (%)	FY19	FY20E	FY21E	FY22E
Net Revenues	13,195	31,984	(58.7)	28,201	(53.2)	1,36,838	86,082	1,29,920	1,42,140
EBITDA	(96)	3,537	(102.7)	2,336	(104.1)	14,757	6,505	13,046	15,163
APAT	(46)	2,481	(101.9)	1,721	(102.7)	11,520	5,014	9,886	11,743
Diluted EPS (Rs)	(0.1)	7.0	(101.9)	4.8	(102.7)	32.4	14.1	27.8	33.0
P/E (x)						35.8	82.3	41.7	35.1
EV / EBITDA (x)						24.7	56.4	28.3	23.9
RoE (%)						13.3	5.6	11.0	12.2

Source: Company, HSIE Research

Change in Estimates

Standalone (Rs Mn)	FY20E			FY21E			FY22E		
	Old	Revised	% Chg	Old	Revised	% Chg	Old	Revised	% Chg
Net Sales	1,08,610	86,082	*(20.7)*	1,29,920	1,29,920	-	1,42,140	1,42,140	-
EBITDA	9,645	6,505	*(32.6)*	13,046	13,046	-	15,163	15,163	-
EBIDTA Margin (%)	8.9	7.6	*(132bps)*	10.0	10.0	-	10.7	10.7	-
Adj PAT	7,400	5,014	*(32.3)*	9,886	9,886	-	11,743	11,743	-

Source: Company, HSIE Research

REDUCE

CMP *(as on 11 Aug 2020)*	**Rs 1,157**
Target Price	**Rs 1,197**
NIFTY	**11,323**

KEY CHANGES	**OLD**	**NEW**
Rating	REDUCE	REDUCE
Price Target	Rs 1,104	Rs 1,197

EPS Change %	FY20E	FY21E	FY22E
	-32.3	-	-

KEY STOCK DATA	
Bloomberg code	SIEM IN
No. of Shares (mn)	356
MCap (Rs bn) / ($ mn)	412/5,524
6m avg traded value (Rs mn)	2,943
52 Week high / low	Rs1,717/947

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	12.4	(22.5)	(0.7)
Relative (%)	(9.3)	(15.7)	(2.9)

SHAREHOLDING PATTERN (%)	**Mar-20**	**Jun-20**
Promoters	75.00	75.00
FIs & Local MFs	10.20	10.13
FIIs	4.21	4.16
Public & Others	10.59	10.71
Pledged Shares	0.0	0.0

Source : BSE

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ABB India

Lacking triggers

We maintain SELL on ABB India Ltd. (ABB) with an increased target price of Rs 827/sh (42x), rolling forward to 2QCY22. The ABB business model is overly sensitive to operating leverage. ~45 days of revenue shortfall (offset partly by Mar-20 deferred billing) led to a sharp erosion in profitability with revenue/EBIDTA/APAT de-growing 43/81/79% YoY. With clients conserving capital and global growth outlook bleak, new capex headwinds remain, both locally and globally. In a restricted capex environment and deflationary expectations, high competitive intensity will curb further margin expansion. We believe the headwinds are not fully priced into the current rich valuations.

- **2QCY20 beat aided by 1QCY20 revenue deferrals, cost-cutting:** Revenue came in at Rs 9.8bn (24% beat). EBITDA stood at Rs 234mn (estimate of Rs -867mn). HSIE EBITDA estimate miss was on account of ABB reporting positive delta on (1) lower-than-expected cut in employee cost (+Rs 400mn QoQ), (2) contribution delta from higher than expected execution (+Rs 671mn), and (3) favourable forex gains of Rs 340mn. The total delta was Rs 1,071mn vs our estimate of Rs 867mn loss. The net would have been Rs 204mn EBIDTA vs Rs 234mn reported. While material expenses remain stable at ~65%, employee expenses declined due to cuts in bonuses and performance incentives. APAT: Rs 148mn (vs our estimate of Rs -681mn).
- **Resilient order inflows:** Order inflows for 2QCY20 stood at Rs 12bn (-32% YoY excluding Rs 2.4bn solar inverter biz orders in 2QCY19) despite the 45-days shutdown due to COVID lockdown. With current order book at Rs 46.7bn, there is revenue visibility for the next 6-9 months as ABB is expected to maintain book-bill with execution progressing at a decent pace across all five factories.
- **Measures to stay resilient in CY20:** To tackle short-term challenges, ABB is focusing on (1) virtual/remote client servicing via sensors & cloud, (2) cost-cutting measures till headwinds remain, (3) Concerted efforts towards sectors where green shoots are emerging viz. Data Centers/Warehousing, Food & Beverage, Pharma, and Buildings & Factories, rather than spreading arms everywhere, and (4) conserving cash and further streamlining WC.

Financial Summary*

(Rs mn, Dec year-end)	2Q CY20	2Q CY19	YoY (%)	1Q CY20	QoQ (%)	CY19	CY20E	CY21E	CY22E
Net Revenues	9,858	17,258	*(42.9)*	15,222	*(35.2)*	73,151	64,139	75,135	83,349
EBITDA	234	1,239	*(81.1)*	145	*61.7*	5,312	4,527	5,290	6,293
APAT	108	697	*(84.6)*	(1,044)	*(110.3)*	3,719	3,199	3,816	4,526
Diluted EPS (Rs)	0.5	3.3	*(84.6)*	(4.9)	*(110.3)*	17.6	15.1	18.0	21.4
P/E (x)						52.0	60.5	50.7	42.7
EV / EBITDA (x)						33.4	38.8	33.1	27.6
RoE (%)						73,151	64,139	75,135	83,349

Source: Company, HSIE Research; * Ex discontinued Power Grids Business

Change in Estimates

Standalone Rs Mn	CY20E			CY21E			CY22E		
	Old	Revised	*% Chg*	Old	Revised	% Chg	Old	Revised	*% Chg*
Net Sales (Rs mn)	59,466	64,139	*7.86*	75,135	75,135	*0*	83,349	83,349	*0*
EBITDA (Rs mn)	959	4,527	*372.33*	5,290	5,290	*0*	6,293	6,293	*0*
EBIDTA Margin (%)	1.6	7.1	*545bps*	7.0	7.0	*0.00bps*	7.6	7.6	*0.00bps*
Adj PAT (Rs mn)	1,024	3,199	*212.3*	3,641	3,816	*4.8*	4,319	4,526	*4.8*
AEPS (Rs)	4.8	15.1	*212.3*	17.2	18.0	*4.8*	20.4	21.4	*4.8*

Source: Company, HSIE Research

SELL

CMP(*as on 24 July 2020*)	**Rs 913**
Target Price	**Rs 827**
NIFTY	**11,194**

KEY CHANGES		OLD	NEW
Rating		SELL	SELL
Price Target		Rs 755	Rs 827
	CY20E	CY21E	CY22E
EPS %	212.3	4.8	4.8

KEY STOCK DATA	
Bloomberg code	ABB IN
No. of Shares (mn)	212
MCap (Rs bn) / ($ mn)	193/2,585
6m avg traded value (Rs mn)	143
52 Week high / low	Rs 1,442/722

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	2.1	(31.3)	(25.6)
Relative (%)	(19.6)	(23.0)	(26.3)

SHAREHOLDING PATTERN (%)	Mar-20	Jun-20
Promoters	75.00	75.00
FIs & Local MFs	11.61	11.06
FPIs	3.31	3.78
Public & Others	10.08	10.16
Pledged Shares	0.0	0.0

Source : BSE

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KEC International

Robust performance

<u>We maintain BUY on KEC International Ltd. (KEC) with a revised TP of Rs 334/sh (vs Rs 322/sh earlier, roll forward to Sep-22E) valuing the stock at 12x Sep-22E EPS.</u> 1QFY21 financial performance was a positive surprise on execution and profitability, aided by cost-cutting measures. The bid pipeline is strong at Rs 500-600bn, including Rs 250-300bn of bids which are yet to be opened. Labour availability has improved significantly from 50% (early lockdown) to 80% now, and all the manufacturing facilities are operational. KEC is seeing good traction in Railways, International T&D and Civil segment ordering. Balance sheet net debt-equity is stable at 1.1x. With robust prequalification in domestic/international markets and across sectors, KEC is well-placed for a re-rating.

- **Better-than-expected financial performance:** Revenue: Rs 22bn (-8.5/39.9% YoY/QoQ, 4.7% beat). De-growth due to COVID disruption. While Railways (Rs 5.2bn, 0% YoY) & Metro (Rs 1bn, 58% YoY) projects execution was strong albeit on a lower base, the largest segment of T&D with 64% share (Rs 14.5bn, -9% YoY) saw de-growth along expected lines. Cables revenue also came in lower at Rs 1.6bn (-40% YoY). EBITDA: Rs 1.95bn (-22.5/-47.4% YoY/QoQ, 2.3% beat). Margins were down 159/127bps YoY/QoQ at 8.8% (vs est. of 9%) owing to negative oplev. Consequently, RPAT/APAT came in at Rs 708mn (-20%/-63%) YoY/QoQ, 12% beat).
- **Order inflow stable, tender pipeline strong, postponement leading to slower conversion:** FYTD21 order inflow stood at Rs 19.3bn, primarily driven by international T&D. A robust order book of Rs 197bn + L1 pipeline of Rs 48bn. KEC is seeing a robust bid pipeline with Rs 250-300bn of bids submitted yet to be opened and Rs 250-300bn of bid submission due over the next two months.
- **Labour availability has improved, normalcy to return from 3QFY21:** While labour availability was a key challenge (15k labours at site vs 30k) during early stages of lockdown, KEC has since than ramped up and has labour levels of 80% now. All manufacturing facilities are operational, and execution has ramped up across all sites. Most international sites' execution is at pre-COVID levels, barring SAE, which has been impacted due to COVID-19 spikes in cases. KEC also booked some idling costs in 1QFY21 on account of same.
- **Balance sheet stable, marginal deterioration in NWC due to lower creditors:** Net debt is stable at Rs 33bn, at similar levels QoQ (1.1x net D/E). NWC deteriorated to 139 days vs 119 days QoQ, mostly on account of lower utilisation of acceptances/creditors. The quarter also witnessed a continuation of the trend of reduction in interest cost on account of higher low cost foreign debt (60%) in the borrowing mix as a result of robust execution in the international markets.

Financial summary

Y/E Mar (Rs mn)	1Q FY21	1Q FY20	YoY (%)	4Q FY20	QoQ (%)	FY20	FY21E	FY22E	FY23E
Net Revenues	22,068	24,125	(8.5)	36,710	(39.9)	119,654	124,092	137,047	151,403
EBITDA	1,949	2,513	(22.5)	3,707	(47.4)	12,344	12,417	13,992	15,479
APAT	708	886	(20.1)	1,929	(63.3)	5,655	5,613	6,639	7,666
Diluted EPS (Rs)	2.8	3.4	(20.1)	7.5	(63.3)	22.0	21.8	25.8	29.8
P/E (x)						13.3	13.4	11.3	9.8
EV/EBIDTA (x)						8.6	8.3	7.2	6.5
RoE (%)						21.6	18.1	18.0	17.7

Source: Company, HSIE Research

BUY

CMP *(as on 11 Aug 2020)*	**Rs 292**
Target Price	**Rs 334**
NIFTY	**11,323**

KEY CHANGES	**OLD**	**NEW**
Rating	BUY	BUY
Price Target	Rs 322	Rs 334
	FY21E	FY22E
EPS %	-	-

KEY STOCK DATA	
Bloomberg code	KECI IN
No. of Shares (mn)	257
MCap (Rs bn) / ($ mn)	75/1,007
6m avg traded value (Rs mn)	116
52 Week high / low	Rs 359/154

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	47.6	(14.8)	0.0
Relative (%)	26.0	(8.0)	(2.2)

SHAREHOLDING PATTERN (%)	**Mar-20**	**Jun-20**
Promoters	51.66	51.66
FIs & Local MFs	27.46	27.18
FPIs	8.70	8.70
Public & Others	12.18	12.46
Pledged Shares	-	-

Source : BSE

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Kalpataru Power Transmission

Execution-led beat

We maintain BUY on Kalpataru Power (KPTL) with an SoTP of Rs 357/sh (core 10x FY22EPS). 1QFY21 performance was a beat on all fronts, driven by robust execution amidst a challenging environment, as well as cost rationalisation. Multiple triggers are in place for a further re-rating with (1) execution efficiency reaching ~90% pre-COVID level (~75-80% execution in May-20), (2) monetisation of three BOOT transmission assets during FY21E on track, and (3) restructuring of two JMC roads BOTs, which shall reduce cash burnout (Rs ~0.5bn in FY21E vs Rs ~0.8bn in FY20). No change in FY21/22 estimates.

- **1QFY21 highlights:** Revenue: Rs 14.6bn (-12%/-37% YoY/QoQ, 37% beat). EBITDA: Rs 1.56bn (-19%/-38% YoY/QoQ, 59% beat). Margin was slightly down 91/29bps YoY/QoQ at 10.7% (vs est of 9.3%), but within the guided range of ~10.5-11%. Margin beat was driven by decent execution as well as cost curtailment. Interest cost at Rs 350mn (+3%/-24% YoY/QoQ) came in slightly lower-than-envisaged owing to debt reduction due to efficient WC management. Consequently, RPAT stood at Rs 690mn (-25%/-35% YoY/QoQ, 138% beat vs est. of Rs 290mn). Standard net debt was at Rs 7.6bn vs Rs 9.9/9.7bn YoY/ QoQ (0.21x vs 0.27x QoQ).
- **Segmental performance:** While T&D was flat YoY overall in 1QFY21(~Rs 9.5bn), Linjemontage operations are ramping up nicely with revenue of Rs 2.7bn (+ ~100% YoY) and margin improving from ~4.5% to ~5.5%. Railways and Oil & Gas (O&G) both saw ~25-30% decline. FY21E guidance is at ~5-10% revenue growth.
- **Robust order backlog and inflows:** The order book as on 1QFY21 stood at Rs 135bn. YTD FY21 inflows of Rs 24.7bn (1QFY21 orders - Rs 18.7bn, 2QFY21- Rs 6bn). Order book as of now is Rs 141bn with Rs 10bn L1 in TDI. 2HFY21 Railways electrification/O&G bid pipeline remains robust at Rs 80/50bn. KPTL will also look at 2-3 TBCB bids selectively, but to execute and exit. Equity investments in these projects would be largely met from internal accruals to keep debt in check. KPTL is also open to strategic international acquisitions in smaller consideration sizes of $25-30mn.
- **Asset monetisation seems on track:** KPTL expects to achieve zero standalone net debt status by Mar-21 (~Rs 8bn as on 1QFY21). It is in advanced stages of divesting stake in Kohima Asset to CLP India by Dec-20 (Element 3 to be commissioned soon, Elements 1 & 2 commissioned in 1QFY21). Closure of definitive agreements signed to sell Jhajjar (EV of Rs 3.1bn) & Alipurduar (EV of Rs 12.86bn) assets in 1HFY21 on track. KPTL has appointed advisors to find suitors for Shubham Logistics.

Financial summary

(Rs mn)	1Q FY21	1Q FY20	YoY (%)	4Q FY20	QoQ (%)	FY20	FY21E	FY22E	FY23E
Net Revenues	14,590	16,550	(11.8)	23,030	(36.6)	79,040	76,027	81,251	90,005
EBITDA	1,560	1,920	(18.8)	2,530	(38.3)	8,600	7,391	8,515	9,466
APAT	690	920	(25.0)	1,070	(35.5)	4,390	3,752	4,540	5,331
Diluted EPS (Rs)	4.5	6.00	(25.0)	6.97	(35.5)	28.6	24.4	29.6	34.7
P/E (x)						8.6	9.9	8.2	7.0
EV/EBIDTA (x)						5.5	6.1	4.9	4.3
RoE (%)						13.1	10.1	11.1	12.0

Source: Company, HSIE Research

BUY

CMP *(as on 13 Aug 2020)*	**Rs 247**
Target Price	**Rs 357**
NIFTY	**11,300**

KEY CHANGES	**OLD**	**NEW**
Rating	BUY	BUY
Price Target	Rs 357	Rs 357
EPS %	FY22E	FY22E
	-	-

KEY STOCK DATA	
Bloomberg code	KPP IN
No. of Shares (mn)	154
MCap (Rs bn) / ($ mn)	38/510
6m avg traded value (Rs mn)	107
52 Week high / low	Rs 516/170

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	23.7	(37.0)	(49.3)
Relative (%)	4.0	(29.4)	(53.0)

SHAREHOLDING PATTERN (%)

	Mar-20	Jun-20
Promoters	54.37	54.38
FIs & Local MFs	29.18	26.94
FPIs	7.37	7.11
Public & Others	8.71	11.57
Pledged Shares	31.26	31.27

Source : BSE

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Cement

UltraTech Cement

Well rounded performance!

UltraTech reported strong earnings beat in 1QFY21, driven by robust fixed cost reduction. Consolidated revenue/EBITDA/APAT fell 33/30/30% YoY to Rs 76.33/20.75/9.03bn. Volume fell 32% YoY, on sharper volume decline across the south and Maharashtra. UltraTech also reported robust fixed cost control in 1Q, which cushioned the earnings impact. Strong margins and working capital reduction continues to help UltraTech reduce leverage. As retail sales remain less impacted and as non-trade expected to pick up in 2HFY21E, we expect slower volume decline of 16% in FY21 and 21% rebound in FY22E. We expect stable realisation YoY, subdued energy cost outlook, and healthy cost controls to drive 5% EBITDA CAGR (FY20-23E), despite a 13% decline in FY21E. We maintain BUY with a target price of Rs 4,915.

- **1QFY21–strong cost controls and continued deleveraging**: Sales volume dipped 32/32% YoY/QoQ, hit by the sharper decline in Maharashtra and southern markets and weaker non-trade sales. Price hikes and increased trade sales firmed up NSR 4% QoQ, thus restricting YoY NSR decline at 2%. UltraTech surprised massively on operating cost as it reduced its fixed costs by 21% YoY, which significantly moderated the impact of lower sales. Its variable cost also fell 7% YoY on lower fuel, fly ash and gypsum costs. Increased share of green power (14% vs 8% YoY) also reduced costs. These drove down unitary operating cost by 4% YoY, offsetting the NSR fall. Thus, unitary EBITDA firmed up 3% YoY to Rs 1,416/MT. Strong margin focus and working capital reduction aided continued deleveraging; net debt fell 13/31% QoQ/YoY to Rs 146.51 bn in 1QFY21.
- **Outlook**: We expect the pace of volume decline to slow down 2QFY21 onwards as trade sales remain healthy and non-trade sales are expected to pick up, post monsoon. Subdued petcoke/coal prices and increasing share of low-cost green power should keep the variable cost low. The agility in fixed cost management should also aid margin expansion despite volume decline. Subsequently, we expect a 16% volume decline in FY21E, followed by 21% rebound in FY22E. We also build in margins to firm up during FY21-23E on asset sweating. We maintain our estimates and BUY rating on the stock. Our target price of Rs 4,915/sh is based on 15x Jun'22E consolidated EBITDA.

Consolidated Quarterly/Annual Financial summary

YE Mar (Rs bn)	Q1 FY21	Q1 FY20	*YoY (%)*	Q4 FY20	*QoQ (%)*	FY19	FY20	FY21E	FY22E	FY23E
Sales (mn MT)	14.7	21.4	*(31.6)*	21.4	*(31.7)*	85.8	82.5	69.0	83.5	90.0
NSR (Rs/T)	5,211	5,330	*(2.2)*	5,012	*4.0*	4,851	5,106	5,106	5,106	5,208
Opex (Rs/T)	3,795	3,954	*(4.0)*	3,872	*(2.0)*	3,995	3,965	3,920	3,944	3,993
EBITDA(Rs/T)	1,416	1,377	*2.9*	1,139	*24.3*	857	1,141	1,186	1,162	1,215
Net Sales	76.3	114.2	*(33.2)*	107.4	*(29.0)*	416.1	421.2	352.4	426.3	468.7
EBITDA	20.7	29.5	*(29.7)*	24.4	*(15.1)*	73.5	94.2	81.8	97.0	109.3
APAT	9.0	12.8	*(29.5)*	11.3	*(20.2)*	25.1	37.9	30.7	41.6	52.2
AEPS (Rs)	31.3	46.6	*(32.9)*	39.2	*(20.2)*	91.3	131.3	106.4	144.1	180.8
EV/EBITDA (x)						19.2	14.4	16.2	13.3	11.4
EV/MT (Rs bn)						12.5	11.8	11.3	10.6	10.3
P/E (x)						47.6	31.5	38.9	28.7	22.9
RoE (%)						8.3	10.4	7.6	9.5	10.9

Source: Company, HSIE Research, Consolidated Financials

BUY

CMP *(as on 28 July 2020)*	**Rs 4,135**
Target Price	**Rs 4,915**
NIFTY	**11,301**

KEY CHANGES	**OLD**	**NEW**
Rating	BUY	BUY
Price Target	Rs 4,915	Rs 4,915
	FY21E	FY22E
EBITDA %	-	-

KEY STOCK DATA

Bloomberg code	UTCEM IN
No. of Shares (mn)	289
MCap (Rs bn) / ($ mn)	1,194/15,950
6m avg traded value (Rs mn)	2,346
52 Week high / low	Rs 4,754/2,910

STOCK PERFORMANCE (%)

	3M	**6M**	**12M**
Absolute (%)	21.9	(10.3)	(8.1)
Relative (%)	2.0	(4.2)	(9.7)

SHAREHOLDING PATTERN (%)

	Mar-20	**Jun-20**
Promoters	59.70	60.09
FIs & Local MFs	14.15	14.59
FPIs	16.48	16.10
Public & Others	9.67	9.22
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Shree Cement

Margin cools off as volumes fall sharply

Shree Cement's (SRCM) standalone revenue/EBITDA fell 23/22% YoY to Rs 23.26/7.01bn, and APAT grew 2% YoY to Rs 3.71bn. It reported lower-than-estimated EBITDA in 1QFY21, on slower NSR gain QoQ. Unitary EBITDA cooled off 9% QoQ (-1% YoY) to Rs 1,421/MT. The COVID impact also led to an EBITDA loss at the UAE subsidiary. Despite the volume decline in FY21E, we expect SRCM's standalone margin to expand on stable realisation and lower input costs. We maintain our REDUCE rating with an unchanged target price of Rs 20,900.

- **1QFY21 margin cools off QoQ/YoY**: Sales volume fell 19/29% YoY/QoQ on sales loss mainly in April, while it picked up in May/June. Reported NSR rose 1% QoQ (down 1% YoY). However, adjusted for higher incentive realised in 4QFY20, cement NSR rose 3% QoQ. Unitary operating expense inflated 6% QoQ on higher freight costs (increased road-based sales and an increase in sales in the eastern region) and negative operating leverage. Input cost cooled off 1% on lower fuel cost. These moderated YoY operating expense decline at 1%, and unitary EBITDA fell 2% YoY (also -9% QoQ) to Rs 1,421/MT. While EBITDA fell 22%, higher treasury income (+143%) and lower depreciation (-33%, accelerated method) drove up APAT by 2% YoY. The UAE subsidiary is also hit hard in 1Q as revenue fell 42% YoY to Rs 1.54bn, leading to an EBITDA loss of Rs 127mn vs +Rs 453 mn YoY.
- **Outlook**: We expect SRCM's volume to decline 12% in FY21E, followed by 15% rebound in FY22E. Despite lower sales, we expect unitary EBITDA to expand during FY21E, on stable realisation and lower pet coke/coal prices. We maintain our estimates and our REDUCE rating on the stock. Our target price of Rs 20,900/share is SOTP-based. We value SRCM's standalone cement/power businesses at 16.5/5x Jun'22E respectively and its UAE subsidiary at 1x BV.

Quarterly/Annual Financial summary

YE Mar (Rs mn)	Q1 FY21	Q1 FY20	*YoY (%)*	Q4 FY20	*QoQ (%)*	FY19	FY20	FY21E	FY22E	FY23E
Sales (mn MT)	4.9	6.1	*(18.6)*	6.9	*(28.6)*	25.9	24.9	21.9	25.3	29.0
NSR (Rs/T)	4,644	4,703	*(1.3)*	4,600	*0.9*	4,223	4,615	4,712	4,752	4,858
Opex (Rs/T)	3,223	3,260	*(1.1)*	3,038	*6.1*	3,223	3,157	3,183	3,199	3,256
EBITDA(Rs/T)	1,421	1,443	*(1.6)*	1,562	*(9.1)*	1,000	1,458	1,529	1,553	1,602
Net Sales	23,258	30,364	*(23.4)*	32,175	*(27.7)*	117,221	119,040	107,118	123,378	144,490
EBITDA	7,006	9,022	*(22.3)*	10,789	*(35.1)*	27,694	36,745	33,835	39,484	46,751
APAT	3,708	3,630	*2.1*	5,882	*(37.0)*	12,457	15,702	12,262	14,436	19,302
AEPS (Rs)	102.8	104.2	*(1.4)*	163.0	*(37.0)*	357.6	435.2	339.9	400.1	535.0
EV/EBITDA (x)						29.2	20.9	22.6	19.3	16.3
EV/MT (Rs bn)						19.60	17.78	17.33	15.90	15.95
P/E (x)						64.8	51.4	65.9	56.0	41.9
RoE (%)						13.5	13.9	9.2	10.1	12.4

Source: Company, HSIE Research

REDUCE

CMP *(as on 10 Aug 2020)*	**Rs 22,396**
Target Price	**Rs 20,900**
NIFTY	**11,270**

KEY CHANGES	**OLD**	**NEW**
Rating	REDUCE	REDUCE
Price Target	Rs 20,900	Rs 20,900
	FY21E	FY22E
EBITDA %	-	-

KEY STOCK DATA

Bloomberg code	SRCM IN
No. of Shares (mn)	36
MCap (Rs bn) / ($ mn)	808/10,786
6m avg traded value (Rs mn)	1,376
52 Week high / low	Rs 25,313/15,410

STOCK PERFORMANCE (%)

	3M	**6M**	**12M**
Absolute (%)	19.6	(10.1)	10.7
Relative (%)	(1.1)	(3.3)	9.1

SHAREHOLDING PATTERN (%)

	Mar-20	**Jun-20**
Promoters	62.55	62.55
FIs & Local MFs	11.22	11.65
FPIs	11.90	11.55
Public & Others	14.33	14.25
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Ambuja Cements

Strong cost controls + healthy realisation

Ambuja delivered earnings beat in 2QCY20 as other expenses fell sharply, cushioning the impact of the COVID-led revenue loss. Standalone revenue/EBITDA fell 27/15% YoY to Rs 21.77/5.95bn. Dividend income from ACC, however, buoyed APAT by 10% to Rs 4.53bn. Volume fell 29% YoY, mainly on the large sales loss in April. However, execution of pent-up retail demand drove flattish volume growth in May/Jun. We expect continued traction in retail sales to yield slower volume decline of 10% in 2HCY20 vs the 19% YoY fall in 1H. We expect buoyant pricing in north markets, subdued energy cost outlook and healthy cost controls, to drive 8% EBITDA CAGR (CY19-22E). We maintain BUY with a revised target price of Rs 230.

- **2QCY20 highlights**: The sales loss in April and continued demand slump in Maharashtra led to 29% YoY volume decline. This implies that Ambuja registered a slight volume growth in May/Jun (ex-Maharashtra), despite COVID. A 6% QoQ price rise drove up NSR +2% YoY. Unitary opex fell 3% YoY on lower freight cost and strong fixed cost cuts. Thus, unitary EBITDA went up 19% YoY to Rs 1,421/MT, cushioning the impact of lower sales.
- **Outlook**: We expect the volume decline to slow down in 2HCY20E, and rebound in CY21E as demand normalises. Subdued petcoke and coal prices should also continue to support margin expansion. Enthused by healthy agile fixed cost controls seen in 1H, we lower our cost assumptions. Subsequently, we upgrade EBITDA estimates for CY20/21/22E by 12/5/5% respectively. Ambuja's upcoming north expansion should accelerate volume growth CY21 onwards. We maintain BUY with a revised SOTP of Rs 230/sh; we value standalone Ambuja at 11x its Jun'22E EBITDA and its 50% holding in ACC at a 20% discount to our target Mcap for ACC.

Standalone Quarterly/Annual Financial summary

YE Dec (Rs mn)	2Q CY20	2Q CY19	*YoY (%)*	1Q CY20	*QoQ (%)*	CY18	CY19	CY20E	CY21E	CY22E
Sales (mn MT)	4.2	5.9	*(28.6)*	5.8	*(27.4)*	24.2	24.0	20.4	23.1	25.4
NSR (Rs/T)	5,195	5,083	*2.2*	4,900	*6.0*	4,697	4,870	4,938	5,002	5,120
Opex (Rs/T)	3,775	3,893	*(3.0)*	3,855	*(2.1)*	3,913	3,973	3,889	3,977	4,040
EBITDA(Rs/T)	1,421	1,190	*19.4*	1,045	*35.9*	784	897	1,049	1,026	1,080
Net Sales	21,768	29,836	*(27.0)*	28,275	*(23.0)*	113,568	116,679	100,910	115,509	130,056
EBITDA	5,952	6,984	*(14.8)*	6,032	*(1.3)*	18,953	21,489	21,436	23,680	27,439
APAT	4,534	4,121	*10.0*	3,991	*13.6*	12,129	14,770	13,540	14,656	17,377
AEPS (Rs)	2.3	2.1	*10.0*	2.0	*13.6*	6.1	7.4	6.8	7.4	8.8
EV/EBITDA (x)						13.1	10.9	10.9	9.8	8.1
EV/MT (Rs bn)						8.40	7.94	7.45	7.41	7.09
P/E (x)						32.9	27.0	29.5	27.2	23.0
RoE (%)						5.9	6.8	6.0	6.2	7.1

Source: Company, HSIE Research, Standalone Financials

Change in Estimates

Rs Bn	CY20E Old	CY20E Revised	*Change %*	CY21E Old	CY21E Revised	*Change %*	CY22E Old	CY22E Revised	*Change %*
Net Revenues	100.4	100.9	*0.5*	114.9	115.5	*0.5*	129.4	130.1	*0.5*
EBITDA	19.2	21.4	*11.6*	22.6	23.7	*4.6*	26.2	27.4	*4.5*
APAT	11.9	13.5	*14.1*	13.9	14.7	*5.6*	16.5	17.4	*5.4*
AEPS	6.0	6.8	*14.1*	7.0	7.4	*5.6*	8.3	8.8	*5.4*

Source: Company, HSIE Research

BUY

CMP *(as on 24 July 2020)*	**Rs 201**
Target Price	**Rs 230**
NIFTY	**11,194**

KEY CHANGES	**OLD**	**NEW**
Rating	BUY	BUY
Price Target	Rs 220	Rs 230
EBITDA %	CY20E	CY21E
	11.6	4.6

KEY STOCK DATA	
Bloomberg code	ACEM IN
No. of Shares (mn)	1,986
MCap (Rs bn) / ($ mn)	399/5,334
6m avg traded value (Rs mn)	949
52 Week high / low	Rs 225/137

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	19.6	(6.9)	(6.8)
Relative (%)	(2.1)	1.4	(7.6)

SHAREHOLDING PATTERN (%)	**Mar-20**	**Jun-20**
Promoters	63.28	63.27
FIs & Local MFs	14.56	13.60
FPIs	15.26	16.25
Public & Others	6.90	6.88
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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ACC Limited

Strong cost controls cushion earnings

ACC delivered earnings beat as sharp reduction in fixed opex moderated the impact of COVID-led revenue loss. Consolidated revenue/EBITDA/APAT fell 37/33/41% YoY to Rs 26.02/5.25/2.71bn respectively in 2QCY20. While cement sales fell 34% YoY, NSR remained flattish YoY (+11% QoQ). A weak 2Q, pulled down 1HCY20 consolidated revenue/EBITDA/APAT by 24/15/16% YoY to Rs 61.04/11.12/5.94bn respectively. We expect the volume decline to slow down in 2HCY20, leading to 15% volume decline in CY20. Healthy pricing, benign fuel prices, and strong cost controls should aid 4% EBITDA CAGR during CY19-22E (despite fall in CY20E). We maintain BUY with a revised target price of Rs 1,610/sh.

- **Results highlights**: A sharper volume fall in south and Maharashtra markets drove 34% YoY total volume decline in 2QCY20. Healthy pricing (+11% QoQ) kept NSR flat YoY. Unitary opex also fell 3% YoY on all round cost reduction – a sharp cut in overheads and discretionary fixed costs, and lower freight & input costs. Thus, unitary EBIDTA expanded 11% YoY to Rs 1,166/MT, cushioning the impact of a sharp revenue decline. During 1HCY20, volume/NSR fell 23/1% YoY. However, opex cooled off 4%, driving up unitary EBITDA by 14% YoY to Rs 972/MT. Thus, in 1H EBITDA/APAT fell 15/16% YoY on a weak 2Q. ACC spent Rs 3.2bn towards fixed assets in 1HCY20 (for the ongoing expansions). Net cash rose 4% in 1H to Rs 48.4bn.
- **Outlook**: We expect volume decline to slow down in 2HCY20E. Further, we build in lower fixed costs, in line with the trend seen during 1HCY20. We expect fuel and packing cost to remain low, benefiting from lower petcoke and crude prices. Subsequently, we upgrade EBITDA estimates for CY20/21/22E by 10/9/6% respectively. We maintain BUY with a revised target price of Rs 1,610/sh (10x Jun'22E consolidated EBITDA).

Consolidated Quarterly/Annual Financial summary

YE Dec (Rs mn)	2Q CY20	2Q CY19	*YoY (%)*	1Q CY20	*QoQ (%)*	CY18	CY19	CY20E	CY21E	CY22E
Sales (mn MT)	4.8	7.2	*(33.7)*	6.6	*(26.8)*	28.4	28.9	24.5	28.2	32.4
NSR (Rs/T)	5,315	5,306	0.2	4,807	10.6	4,749	4,907	4,861	4,943	5,053
Opex (Rs/T)	4,149	4,254	*(2.5)*	3,975	*4.4*	4,051	4,125	4,080	4,128	4,258
EBITDA(Rs/T)	1,166	1,052	*10.8*	831	*40.2*	698	781	780	815	795
Net Sales	26,022	41,498	*(37.3)*	35,017	*(25.7)*	148,016	156,576	129,953	151,777	177,467
EBITDA	5,254	7,830	*(32.9)*	5,865	*(10.4)*	21,185	24,105	19,867	24,146	27,056
APAT	2,710	4,557	*(40.5)*	3,230	*(16.1)*	10,904	12,767	11,211	14,399	15,799
AEPS (Rs)	14.4	24.2	*(40.5)*	17.2	*(16.1)*	58.1	68.0	59.7	76.7	84.1
EV/EBITDA (x)						12.1	10.0	10.4	8.6	7.4
EV/MT (Rs bn)						8.06	7.57	6.51	6.52	5.29
P/E (x)						26.3	22.5	22.3	17.3	15.8
RoE (%)						11.0	11.6	9.5	11.6	11.9

Source: Company, HSIE Research, Consolidated Financials

Estimates revision

Rs Bn	CY20E Old	CY20E Revised	*Change %*	CY21E Old	CY21E Revised	*Change %*	CY22E Old	CY22E Revised	*Change %*
Net Revenues	128.1	130.0	*1.4*	147.3	151.8	*3.0*	172.8	177.5	*2.7*
EBITDA	18.1	19.9	*10.1*	22.2	24.1	*8.6*	25.5	27.1	*6.2*
APAT	9.8	11.2	*13.8*	13.0	14.4	*11.1*	14.6	15.8	*8.1*
AEPS	52.4	59.7	*13.8*	69.0	76.7	*11.1*	77.8	84.1	*8.1*

Source: Company, HSIE Research

BUY

CMP *(as on 20 July 2020)*	**Rs 1,330**
Target Price	**Rs 1,610**
NIFTY	**11,022**

KEY CHANGES	**OLD**	**NEW**
Rating	BUY	BUY
Price Target	Rs 1,500	Rs 1,610
EBITDA %	CY20E	CY21E
	10.1	8.6

KEY STOCK DATA	
Bloomberg code	ACC IN
No. of Shares (mn)	188
MCap (Rs bn) / ($ mn)	250/3,338
6m avg traded value (Rs mn)	1,561
52 Week high / low	Rs 1,709/895

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	13.1	(11.2)	(13.9)
Relative (%)	(5.1)	(1.3)	(11.5)

SHAREHOLDING PATTERN (%)	**Mar-20**	**Jun-20**
Promoters	54.53	54.53
FIs & Local MFs	21.03	18.38
FPIs	7.79	8.14
Public & Others	16.65	18.95
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Ramco Cements

Healthy margin cushions volume loss impact

The Ramco Cements Ltd (TRCL) reported standalone revenue/EBITDA/APAT decline of 25/28/43% YoY to Rs 10.42/2.60/1.10bn, mostly driven by the 28% YoY volume fall in 1QFY21. Amid weak demand, robust price recovery in the south, benign fuel cost, and strong discretionary cost control buoyed the margin, thus moderating the earning impact. Continued demand recovery and upcoming expansions in the southern/eastern markets should drive 7% volume CAGR during FY20-23E. We also expect its healthy margin to sustain through FY23E. We maintain estimates, target price of Rs 713/sh, and our ADD rating on the stock.

- **1QFY21—strong margin sustained YoY**: Demand weakness in the south amid COVID lockdown, drove 28/34% YoY/QoQ volume fall. However, the sharp price recovery in the southern market (NSR up 12/5% QoQ/YoY) moderated the impact. Operating expenses inflated 6/6% YoY/QoQ, pushed by negative operating leverage, higher raw material cost (one-off clinker purchase in 1Q) and higher CSR spend. Benign fuel cost and strong restraint in discretionary expenses slowed the cost inflation. Subsequently, unitary EBITDA remained buoyant at Rs 1,285/MT (+1/35% YoY/QoQ). Hence, EBITDA fell in line with sales loss. Capital charges rose YoY on account of 2mn MT GU additions in 2HFY20, leading to APAT declining at a higher rate as against the EBITDA fall. During 1Q, TRCL spent Rs 2.6 bn on ongoing expansions and repaid Rs 1.8 bn of debt.
- **Capex update and outlook**: By Sep'20, TRCL will commission 1mn MT GU in Odisha. By Mar'21, it expects to commission clinker units in Jayantipuram (1.5mn MT) and Kurnool (2.25mn MT). The 1mn MT GU at Kurnool (along with 18MW CPP, 12MW WHRS and railway siding) is delayed into FY22E (owing to COVID). 27MW WHRS at Jayantipuram will also become operational during FY21E. We maintain our estimates and target price for TRCL. Improving demand in the south should moderate TRCL's FY21E volume decline to 14%, and upcoming expansions should lead to 20% volume CAGR in FY21-23E, in our view. We also model in unitary EBITDA to remain stable at ~Rs 1,180/MT. Our target price of Rs 713/sh is based on 12x Jun'22E EBITDA. We maintain our ADD rating on the stock.

Quarterly/annual financial summary

YE Mar (Rs mn)	Q1 FY21	Q1 FY20	*YoY (%)*	Q4 FY20	*QoQ (%)*	FY1	FY20	FY21E	FY22E	FY23E
Sales (mn MT)	1.9	2.7	*(28.3)*	2.9	*(33.9)*	11.	11.2	9.6	12.0	13.8
NSR (Rs/T)	5,293	5,041	*5.0*	4,725	*12.0*	4,58	4,740	4,877	4,938	5,031
Opex (Rs/T)	4,008	3,772	*6.3*	3,770	*6.3*	3,68	3,759	3,717	3,741	3,841
EBITDA(Rs/T)	1,285	1,270	*1.2*	955	*34.5*	89	981	1,160	1,197	1,190
Net Sales	10,418	13,839	*(24.7)*	13,899	*(25.0)*	51,56	53,685	47,482	60,125	70,328
EBITDA	2,600	3,593	*(27.6)*	2,792	*(6.9)*	10,36	11,367	11,463	14,848	16,904
APAT	1,096	1,920	*(42.9)*	1,462	*(25.0)*	5,15	6,012	5,513	6,970	8,781
AEPS (Rs)	4.7	8.1	*(42.9)*	6.2	*(25.0)*	21.	25.5	23.4	29.6	37.3
EV/EBITDA (x)						16.	16.6	16.7	12.1	10.5
EV/MT (Rs bn)						10.5	10.20	9.74	8.72	8.62
P/E (x)						31.	26.5	28.9	22.9	18.2
RoE (%)						12.	12.8	10.7	12.2	13.7

Source: Company, HSIE Research, Standalone financials

ADD

CMP *(as on 14 Aug 2020)*	**Rs 677**
Target Price	**Rs 713**
NIFTY	**11,178**

KEY CHANGES	**OLD**	**NEW**
Rating	ADD	ADD
Price Target	Rs 713	Rs 713
	FY21E	FY22E
EBITDA %	-	-

KEY STOCK DATA	
Bloomberg code	TRCL IN
No. of Shares (mn)	236
MCap (Rs bn) / ($ mn)	160/2,134
6m avg traded value (Rs mn)	506
52 Week high / low	Rs 884/455

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	23.6	(14.6)	(8.2)
Relative (%)	1.9	(6.4)	(9.7)

SHAREHOLDING PATTERN (%)	**Mar-20**	**Jun-20**
Promoters	42.66	42.66
FIs & Local MFs	24.45	24.45
FPIs	8.91	8.91
Public & Others	23.98	23.98
Pledged Shares	*0.84*	*0.84*

Source : BSE

Pledged shares as % of total shares

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Dalmia Bharat

Stellar show

Dalmia Bharat's consolidated revenue fell 19% YoY to Rs 19.74bn on COVID-led sales decline (still gained market share). Robust pricing and strong cost control, however, moderated EBITDA fall to 8% at Rs 6.14bn. Despite lower EBITDA, APAT rose 30% to Rs 1.90bn on lower capital charges and higher other income. We remain bullish on Dalmia for its robust distribution and cost controls, and healthy balance sheet despite ongoing expansions. We maintain BUY with a revised target price of Rs 1,005.

- **1QFY21**: Sales volume fell 20/29% YoY to 3.7mn MT, hit by sharp demand decline in April. Its sales decline was lower versus its peers, leading to market share gains in east and south. Strong price recovery in south markets drove 12% QoQ NSR rise to Rs 5,393/MT (flat YoY). On the cost front, input costs fell due to lower pet coke prices and in absence of external clinker purchase. Freight costs also reduced on increased efficiency. Strong fixed cost controls moderated the impact of lower sales. Thus, unitary EBITDA buoyed 15% YoY to Rs 1,678/MT, cushioning EBITDA decline. Lower interest cost (on reduced interest rate), increased other income (treasury gains) and lower depreciation drove up APAT despite EBITDA decline. In 1Q, Dalmia lowered its gross/net debt by ~Rs5/4bn respectively with no capex outgo. It also bought back shares worth Rs 3.0bn in 1Q.
- **Outlook**: Dalmia expects to continue its market share gains owing to its strong distribution. Upcoming clinker and GUs in east will bolster volume recovery in 2HFY21E onwards. Thus, we model in 8% volume decline in FY21E and 25% rebound in FY22E. We upgrade FY21E consolidated EBITDA estimate by 9% on lower cost assumptions. We estimate 5% EBITDA CAGR during FY20-23E. We maintain BUY rating on the stock with a revised target price of Rs 1,005/share (10x Jun'22E consolidated EBITDA).

Consolidated Quarterly/Annual Financial summary

YE Mar (Rs mn)	Q1 FY21	Q1 FY20	YoY (%)	Q4 FY20	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Sales (mn MT)	3.66	4.55	(19.6)	5.17	(29.2)	18.7	19.3	17.8	22.2	25.5
NSR (Rs/T)	5,393	5,371	0.4	4,803	12.3	5,068	4,967	4,917	4,843	4,892
Opex (Rs/T)	3,716	3,910	(5.0)	3,820	(2.7)	4,038	3,876	3,935	3,918	3,951
EBITDA (Rs/T)	1,678	1,462	14.8	983	70.7	1,030	1,091	982	925	941
Net Sales	19,740	24,440	(19.2)	24,830	(20.5)	94,660	95,810	87,711	107,586	124,737
EBITDA	6,140	6,650	(7.7)	5,080	20.9	19,240	21,050	17,519	20,556	23,999
APAT	1,900	1,460	30.1	260	630.8	2,900	2,230	1,401	3,650	6,519
AEPS (Rs)	10.1	7.6	34.0	1.3	652.3	15.0	11.6	7.3	18.9	33.8
EV/EBITDA (x)						10.0	8.9	10.6	8.5	6.8
EV/MT (Rs bn)						7.35	7.17	6.28	4.98	4.39
P/E (x)						50.8	66.0	105.1	40.3	22.6
RoE (%)						2.8	2.1	1.3	3.4	5.7

Source: Company, HSIE Research

Estimates Revision – APAT upgrade appears large owing to low base

Rs Bn	FY21E Old	FY21E Revised	Chg %	FY22E Old	FY22E Revised	Chg %	FY23E Old	FY23E Revised	Chg %
Net Revenues	88.15	87.71	(0.5)	108.68	107.59	(1.0)	126.00	124.74	(1.0)
EBITDA	16.05	17.52	9.2	20.52	20.56	0.2	23.97	24.00	0.1
APAT	(1.59)	1.40	(188.3)	1.31	3.65	177.6	4.63	6.52	40.8
AEPS	(8.2)	7.3	(188.3)	6.8	18.9	177.6	24.0	33.8	40.8

Source: Company, HSIE Research, Consolidated Financials

BUY

CMP *(as on 07 Aug 2020)*	**Rs 764**
Target Price	**Rs 1,005**
NIFTY	**11,214**

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 990	Rs 1,005
EBITDA %	FY21E	FY22E
	9.2	0.2

KEY STOCK DATA	
Bloomberg code	DALBHARA IN
No. of Shares (mn)	187
MCap (Rs bn) / ($ mn)	143/1,906
6m avg traded value (Rs mn)	151
52 Week high / low	Rs 1,071/403

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	49.8	(14.0)	(24.3)
Relative (%)	28.8	(6.5)	(28.0)

SHAREHOLDING PATTERN (%)	Mar-20	Jun-20
Promoters	54.28	55.81
FIs & Local MFs	5.49	3.88
FPIs	15.29	14.15
Public & Others	24.94	26.16
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Star Cement

Stable margins

Star Cement (STRCEM) reported 37/42/49% YoY consolidated revenue/ EBITDA/APAT decline to Rs 2.92/0.65/0.43 bn respectively. While lower sales (volume down 38% YoY) drove this fall, the impact is moderated on stable input costs and a sharp cut in discretionary expenses. Pent-up demand execution and upcoming Siliguri GU should accelerate volume growth hereon. Further, the upcoming e-auction of local coal should aid fuel cost reduction. We estimate 15% EBITDA CAGR during FY20-23E.

- **1QFY21 - Stable margin QoQ**: Total sales volume fell 38/49% YoY/QoQ to 0.45mn MT, which is due to significant sales loss in April and early May. However, STRCEM registered volume growth in June, despite COVID impact. NSR firmed up 6% QoQ (+5% YoY), aided by price hikes and lower clinker sales in 1Q. The opex inflated 6/7% QoQ/YoY, on account of stable employee cost amid sharp volume decline. STRCEM's input cost fell, aided by lower fuel prices. The company also reduced discretionary expenses, thus cushioning cost inflation. Subsequently, unitary EBITDA stood at Rs 1,455/MT (+2% QoQ, -6% YoY).
- **Concall KTAs and outlook**: STRCEM expects to deliver flattish volume in FY21E (despite sharp loss in 1Q), buoyed by demand pick-up June onwards (we build in a 5% decline). By Sep'20, STRCEM expects to operationalise the 2mn MT Siliguri GU and complete 0.2mn MT clinker debottlenecking. These should aid in 24% volume CAGR during FY21-23E, in our view. The company is optimistic about the upcoming local coal auction in Meghalaya, which will reduce costs. We estimate 15% EBITDA CAGR during FY20-23E. We maintain our estimates and target price of Rs 120/share. We value the company at 9x its consolidated Jun'22E EBITDA.

Consolidated quarterly/annual financial summary

YE Mar (Rs mn)	Q1 FY21	Q1 FY20	YoY (%)	Q4 FY20	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Sales (mn MT)	0.45	0.73	*(38.3)*	0.87	*(48.6)*	2.9	3.0	2.8	3.7	4.3
NSR (Rs/T)	6,267	5,993	*4.6*	5,933	*5.6*	6,098	5,912	5,971	5,790	5,750
Opex (Rs/T)	4,865	4,535	*7.3*	4,587	*6.1*	4,602	4,645	4,607	4,453	4,353
EBITDA(Rs/T)	1,455	1,542	*(5.7)*	1,427	*1.9*	1,570	1,337	1,408	1,347	1,397
Net Sales	2,920	4,609	*(36.6)*	5,494	*(46.9)*	18,310	18,439	17,234	21,661	24,557
EBITDA	653	1,121	*(41.7)*	1,246	*(47.6)*	4,492	3,951	3,937	5,004	5,966
APAT	433	839	*(48.4)*	858	*(49.5)*	2,988	2,855	2,746	3,551	4,224
AEPS (Rs)	1.0	2.0	*(48.4)*	2.1	*(50.4)*	7.1	6.9	6.7	8.6	10.2
EV/EBITDA (x)						7.9	8.7	8.8	7.0	6.0
EV/MT (Rs bn)						9.65	9.55	8.07	7.09	6.71
P/E (x)						12.1	12.7	13.2	10.2	8.6
RoE (%)						*17.9*	*15.4*	*13.7*	*16.1*	*17.2*

Source: Company, HSIE Research, consolidated financials

BUY

CMP *(as on 12 Aug 2020)*	**Rs 88**
Target Price	**Rs 120**
NIFTY	**11,308**

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 120	Rs 120
	FY21E	FY22E
EBITDA %	-	-

KEY STOCK DATA	
Bloomberg code	STRCEM IN
No. of Shares (mn)	412
MCap (Rs bn) / ($ mn)	37/488
6m avg traded value (Rs mn)	22
52 Week high / low	Rs 106/56

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	27.2	0.5	(13.2)
Relative (%)	4.9	8.2	(15.3)

SHAREHOLDING PATTERN (%)	Mar-20	Jun-20
Promoters	66.77	66.78
FIs & Local MFs	8.28	8.36
FPIs	0.24	0.24
Public & Others	24.71	24.62
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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JK Lakshmi Cement

Margin stable YoY

JK Lakshmi Cement's (JKLC) standalone revenue/EBITDA/APAT fell 21/16/26% YoY to Rs 8.25/1.43/0.44bn respectively, due to lower sales. A healthy realisation and cost controls led to stable unitary EBITDA (+3% YoY to Rs 752/MT). We estimate demand recovery and benign input costs in subsequent quarters to drive 6% EBITDA CAGR during FY20-23E. JKLC expects to kick-start growth capex FY22E onwards in the northern market. We maintain estimates and BUY rating on the stock with a TP of Rs 385/share.

- **1QFY21**: Sales volume fell 18/23% YoY/QoQ to 1.91 mn MT due to minimal sales in April. However, demand uptick (albeit low) in May/Jun moderated the decline. Adjusted for the sharp fall in non-cement revenue, cement NSR increased 5/5% QoQ/YoY (against blended NSR fall of 3% YoY). Operating cost fell 4% YoY, mainly on account of a sharp cut in other expenses and as input/logistics costs remained low YoY. Adjusted for non-cement revenue, cement opex increased ~5% YoY, in our view, offsetting NSR gains. Thus, unitary EBITDA rose 3% YoY to Rs 752/MT. The non-cement revenue did not contribute to EBITDA in 1QFY21 as against ~5-6% OPM in normal periods. Lower debt drove down interest expense by 6% YoY. Other income rose 39% YoY on treasury gains.
- **Outlook**: JKLC expects demand to recover in subsequent quarters, thus moderating FY21E volume decline at 16% YoY. In FY22E, we expect 21% rebound on demand normalisation and low base effect. We expect 6% EBITDA CAGR during FY20-23E. We maintain our estimates. On capex, JKLC suggested it would start work on brownfield expansion in the northern region next year onwards. As the capex would be spread over 2-3 years, we expect JKLC's net debt/EBITDA to remain comfortably below 2.5x. We maintain BUY rating on the stock. Our target price of Rs 385/sh is SOTP based; we value the standalone cement business at 8x Jun'22E standalone EBITDA and its 73% holding in Udaipur Cement at 20% discount to current market capitalisation.

Standalone Quarterly/Annual Financial summary

YE Mar (Rs bn)	Q1 FY21	Q1 FY20	YoY (%)	Q4 FY20	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Sales (mn MT)	1.9	2.3	*(18.2)*	2.5	*(22.7)*	9.7	9.2	7.7	9.3	10.9
NSR (Rs/T)	4,331	4,472	*(3.1)*	4,305	*0.6*	4,023	4,403	4,435	4,438	4,464
Opex (Rs/T)	3,579	3,743	*(4.4)*	3,485	*2.7*	3,593	3,671	3,761	3,755	3,727
EBITDA(Rs/T)	752	729	*3.3*	820	*(8.2)*	430	732	673	683	736
Net Sales	8,252	10,419	*(20.8)*	10,612	*(22.2)*	34,122	38,823	40,435	34,304	41,405
EBITDA	1,433	1,698	*(15.6)*	2,020	*(29.1)*	4,114	4,150	6,724	5,208	6,371
APAT	444	597	*(25.5)*	1,008	*(55.9)*	840	796	2,624	1,608	2,238
AEPS (Rs)	3.8	5.1	*(25.5)*	8.6	*(55.9)*	7.1	6.8	22.3	13.7	19.0
EV/EBITDA (x)						12.0	11.1	6.5	8.4	7.2
EV/MT (Rs bn)						4.53	4.22	3.75	3.74	3.93
P/E (x)						40.1	42.3	12.8	20.9	15.0
RoE (%)						5.9	5.3	16.2	9.0	11.4

Source: Company, HSIE Research

BUY

CMP *(as on 07 Aug 2020)*	**Rs 286**
Target Price	**Rs 385**
NIFTY	**11,214**

KEY CHANGES	**OLD**	**NEW**
Rating	BUY	BUY
Price Target	Rs 385	Rs 385
	FY21E	FY22E
EBITDA %	-	-

KEY STOCK DATA	
Bloomberg code	JKLC IN
No. of Shares (mn)	118
MCap (Rs bn) / ($ mn)	34/450
6m avg traded value (Rs mn)	87
52 Week high / low	Rs 389/180

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	46.6	(19.9)	(13.6)
Relative (%)	25.6	(12.4)	(17.3)

SHAREHOLDING PATTERN (%)	**Mar-20**	**Jun-20**
Promoters	46.21	46.22
FIs & Local MFs	18.96	19.99
FPIs	10.61	10.41
Public & Others	24.22	23.38
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Orient Cement

Healthy performance despite sharp volume decline

Orient's net sales/EBITDA/APAT fell 40/34/54% YoY to Rs 4.10/0.98/0.26bn respectively, hit hard by sharp 46% volume decline. However, the company was able to contain earnings decline, aided by strong fixed cost reduction and robust realisation gains. The pace of volume decline is slowing down, and expected demand acceleration from AP/T governments should also support sales recovery, going ahead. While we expect cement realisation to cool off from peak-1Q level, subdued fuel costs and healthy cost controls should drive profit uptick. We maintain BUY, with a revised TP of Rs 95/share.

- **1QFY21**: Sales volume fell 46/48% YoY to 0.82mn MT, hit by weak demand across south and Maharashtra, and shaper demand contraction in non-trade. Amid this, robust price hike across its markets and an increased share of trade sales drove up NSR 10/20% YoY/QoQ, cushioning the volume loss impact. On the cost front, logistics disruptions and rise in fly ash-lead distance inflated input costs by 8% YoY. While Orient cut fixed costs sharply (other expenses down 44% YoY), significantly lower utilisation (41% vs 76% YoY) led to unitary fixed cost inflating by 21% YoY. These moderated the windfall from price hikes. Unitary EBITDA surged 21% YoY to Rs 1,198/MT.
- **Outlook**: Orient expects the pace of volume decline to moderate, going forward. Cement demand from AP/T is expected to accelerate in 2H buoying sales. We thus model in 18% YoY fall in FY21E and a similar rebound in FY22E. We also factor in NSR to cool off from the peak of 1Q. We reduce our fixed cost estimates to factor in strong cost focus. Thus, we upgrade FY21/22E EBITDA estimates by 18/1% respectively. The management guided that it will decide on expansions at the end of FY21E. We maintain a BUY rating with a revised target price of Rs 95/share (7x June'22E EBITDA).

Quarterly/Annual Financial summary

YE Mar (Rs mn)	Q1 FY21	Q1 FY20	YoY (%)	Q4 FY20	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Sales (mn MT)	0.8	1.5	*(45.7)*	1.6	*(47.9)*	6.4	5.8	4.8	5.6	6.1
NSR (Rs/T)	5,004	4,552	*9.9*	4,156	*20.4*	3,933	4,171	4,421	4,333	4,420
Opex (Rs/T)	3,807	3,562	*6.9*	3,364	*13.2*	3,447	3,512	3,626	3,625	3,674
EBITDA(Rs/T)	1,198	990	*21.0*	792	*51.3*	487	659	796	708	745
Net Sales	4,104	6,878	*(40.3)*	6,545	*(37.3)*	25,222	24,218	21,050	24,343	27,064
EBITDA	982	1,496	*(34.3)*	1,247	*(21.2)*	3,120	3,829	3,789	3,979	4,564
APAT	256	559	*(54.2)*	441	*(41.9)*	476	866	938	1,143	1,665
AEPS (Rs)	1.2	2.7	*(54.2)*	2.2	*(41.9)*	2.3	4.2	4.6	5.6	8.1
EV/EBITDA (x)						8.3	6.6	6.1	5.9	6.0
EV/MT (Rs bn)						3.24	3.15	2.90	2.92	3.41
P/E (x)						28.0	15.4	14.2	11.6	8.0
RoE (%)						*4.6*	*8.0*	*8.1*	*9.2*	*12.3*

Source: Company, HSIE Research

Change in Estimates

Rs Bn	FY21E Old	FY21E Revised	Change %	FY22E Old	FY22E Revised	Change %
Net Revenues	20.89	21.05	*0.7*	24.27	24.34	*0.3*
EBITDA	3.21	3.79	*18.1*	3.93	3.98	*1.2*
APAT	0.52	0.94	*81.0*	1.15	1.14	*(0.9)*
AEPS	2.5	4.6	*81.0*	5.6	5.6	*(0.9)*

Source: HSIE Research

BUY

CMP *(as on 29 July 2020)*	**Rs 65**
Target Price	**Rs 95**
NIFTY	**11,203**

KEY CHANGES	**OLD**	**NEW**
Rating	BUY	BUY
Price Target	Rs 90	Rs 95
	FY21E	FY22E
EBITDA %	18.1	1.2

KEY STOCK DATA	
Bloomberg code	ORCMNT IN
No. of Shares (mn)	205
MCap (Rs bn) / ($ mn)	13/179
6m avg traded value (Rs mn)	43
52 Week high / low	Rs 106/35

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	59.8	(22.6)	(34.4)
Relative (%)	43.4	(15.0)	(35.4)

SHAREHOLDING PATTERN (%)	**Mar-20**	**Jun-20**
Promoters	37.37	37.37
FIs & Local MFs	28.15	26.84
FPIs	7.49	3.11
Public & Others	26.99	3268
Pledged Shares	6.01	6.01

Source : BSE

Pledged shares as % of total shares

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Deccan Cements

Robust price gains; cost to reduce on WHRS ramp-up

Deccan Cement's (DECM) 1QFY21 volume fell 33% YoY. However, owing to a sharp rebound in regional pricing, revenue fell only 24% YoY to Rs 1.39bn. Margin soared 50% YoY, thus cushioning EBITDA to Rs 399mn, a decline of 1% YoY. APAT rose 12% YoY on a lower tax rate (new tax regime). We expect demand recovery and benefits accruing from WHRS and loading infrastructures to drive earnings recovery. We maintain BUY with an unchanged target price of Rs 380/sh.

- **1QFY21 - sharp margin rebound to offset the impact of volume loss**: Sales volume fell 33/14% YoY/QoQ to 0.30 mn MT, hit hard by a sharp demand decline across southern and Maharashtra markets. NSR, however, rebounded 31/14% QoQ/YoY, aided by a massive price uptick in the region. Supply chain disruptions amid COVID lockdown and negative op-lev drove up cost inflation by 5/3% YoY/QoQ. Subsequently, solid pricing gains propped up unitary EBITDA 49% YoY to a robust Rs 1,348/MT and almost offseted the impact of volume loss. DECM had migrated to the new corporate tax rate late last year. Thus, a lower tax rate of 26% vs 35% YoY boosted APAT.
- **Capex update and outlook**: DECM's 6MW WHRS is expected to be fully operational during 3QFY21, which will reduce operating expense by ~Rs 70/MT. During FY20, DECM had commissioned truck and wagon loader facilities, which will reduce material handling cost. These should aid margin expansion going ahead. DECM reported that, on 1st and 21st July, it received demand notices totalling ~Rs 244mn from regional power discoms towards differential wheeling charges due for FY03-15 and FY15-16 periods respectively. The co has already set aside Rs 96mn last qtr in this regard. The differential amounts to ~12% of its cash balance and ~3/4% of its net worth/Mcap. DECM has sought more details from these discoms and, hence, has not further provisioned for the same. We maintain our estimates, building in 18% EBITDA CAGR during FY20-23E. We maintain BUY with an unchanged target price of Rs 380/sh (5.5x Jun'22 EBITDA).

Quarterly/annual financial summary

YE Mar (Rs mn)	Q1 FY21	Q1 FY20	YoY (%)	Q4 FY20	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Sales (mn MT)	0.30	0.45	(33.5)	0.35	(14.4)	1.7	1.4	1.2	1.5	1.7
NSR (Rs/T)	4,680	4,088	14.5	3,577	30.8	3,745	3,860	4,014	4,035	4,055
Opex (Rs/T)	3,332	3,181	4.8	3,250	2.5	3,197	3,316	3,415	3,294	3,316
EBITDA(Rs/T)	1,348	907	48.6	327	312.4	547	544	600	740	739
Net Sales	1,386	1,820	(23.9)	1,238	12.0	6,514	5,558	4,914	5,926	7,087
EBITDA	399	404	(1.2)	113	252.9	95[illegible]	783	734	1,087	1,292
APAT	261	233	11.9	67	291.7	46[illegible]	433	358	619	707
AEPS (Rs)	18.7	16.7	11.9	4.8	291.7	32.9	30.9	25.6	44.2	50.5
EV/EBITDA (x)						3.[illegible]	4.7	4.4	4.5	4.9
EV/MT (Rs bn)						1.30	1.64	1.44	2.17	2.84
P/E (x)						8.[illegible]	8.8	10.7	6.2	5.4
RoE (%)						11.9	10.1	7.7	12.3	12.6

Source: Company, HSIE Research

BUY

CMP *(as on 14 Aug 2020)*	**Rs 273**
Target Price	**Rs 380**
NIFTY	**11,178**

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 380	Rs 380
EBITDA %	FY21E	FY22E
	-	-

KEY STOCK DATA	
Bloomberg code	DECM IN
No. of Shares (mn)	14
MCap (Rs bn) / ($ mn)	4/51
6m avg traded value (Rs mn)	13
52 Week high / low	Rs 418/147

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	34.8	0.8	(27.1)
Relative (%)	13.1	9.0	(28.7)

SHAREHOLDING PATTERN (%)	Mar-20	Jun-20
Promoters	56.24	56.24
FIs & Local MFs	12.52	11.30
FPIs	2.26	2.37
Public & Others	28.98	30.09
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Chemicals

Vinati Organics

At an inflexion point

Our SELL recommendation on Vinati Organics with a discounted cash flow based target price of INR 820 (WACC 10%, terminal growth 3%) is driven by (1) demand slowdown for the high margin 2-Acrylamido 2-Methylapropane Sulphonic Acid (ATBS) that contributed ~60% to its revenue mix in FY20, (2) shift in revenue mix towards lower margin Iso Butyl Benzene (IBB), which formed ~32% of the mix in 1Q versus 16% in FY20, (3) slow ramp-up in the recently-commissioned Butyl Phenol product line. In the absence of new product pipeline, we believe current valuations are high at 30.5x Mar-22E EPS. 1Q EBITDA/PAT were 41/125% above estimates owing to better-than-anticipated traction in IBB and lower than the built-in tax rate.

- **Financial performance:** 1Q EBITDA stood at INR 972mn, -19/-4% YoY/QoQ, led by higher sales volume for IBB. Despite sluggish demand for ATBS in the quarter, EBITDA margin expanded to 42.0% (41.3/41.4/40.2% in 1QFY20/4QFY20/FY20), driven by a customised order.
- **ATBS**: The product contributed 40% to the Q1 topline (59% in Q4FY20). The brownfield expansion of 14ktpa has been pushed further to 2HFY21 (earlier: 1HFY21) as current demand for the product can be met by VO's existing capacity of 26ktpa. The demand slowdown for ATBS is owing to its reduced demand by the oil and gas industry that forms 25-30% of its global demand.
- **Iso Butyl Benzene (IBB)**: Revenue contribution spiked to ~32% in 1Q. The product should witness good offtake in FY21 as the company has acquired new customers and BASF (a key customer) has resumed production of Ibuprofen, whose production requires IBB as an intermediate.
- **Takeaways from our call with the management**: The Butyl Phenol plant (capacity 35ktpa) that was commissioned in Sep-19 continues to run at low capacity utilisation in 1HFY21, given its muted demand amidst the pandemic. It was expected to contribute ~INR 1bn to the topline in FY21E, which now seems unlikely. Demand for ATBS should continue to remain muted in FY21. IBB should drive volume growth in the fiscal year.
- **Change in estimates:** We cut our FY21/22E EPS estimates by -4/-2% to INR 28.9/32.1 to factor-in a sales mix shift towards lower margin IBB from (high margin) ATBS; EBITDA margin estimate cut by 28/71bps to 39.6/37.4%.

Financial summary

YE March (INR mn)	1Q FY21	4Q FY20	QoQ (%)	1Q FY20	YoY (%)	FY19	FY20P	FY21E	FY22E
Revenues	2,316	2,453	*(5.6)*	2,907	*(20.4)*	11,081	10,289	9,600	11,473
EBITDA	972	1,017	*(4.4)*	1,202	*(19.1)*	4,036	4,139	3,800	4,291
APAT	723	746	*(3.1)*	824	*(12.2)*	2,825	3,338	2,965	3,298
AEPS (INR/sh)	7.0	7.3	*(3.1)*	8.0	*(12.2)*	27.5	32.5	28.9	32.1
P/E (x)						36.1	30.5	34.4	30.9
EV/EBITDA (x)						25.0	24.0	25.9	22.8
RoE (%)						30.6	28.6	22.0	21.7

Source: Company, HSIE Research

Change in estimates

	FY21E			FY22E		
	Old	New	% Ch	Old	New	% Ch
EBIDTA (INR mn)	3,961	3,800	*(4.1)*	4,373	4,291	*(1.9)*
AEPS (INR/sh)	30.0	28.9	*(3.9)*	32.7	32.1	*(1.8)*

Source: Company, HSIE Research

SELL

CMP *(as on 03 Aug 2020)*	**INR 992**
Target Price	**INR 820**
NIFTY	**10,892**

KEY CHANGES	OLD	NEW
Rating	SELL	SELL
Price Target	INR 825	INR 820
EPS %	**FY21E**	**FY22E**
	-3.9%	-1.8%

KEY STOCK DATA	
Bloomberg code	VO IN
No. of Shares (mn)	103
MCap (Rs bn) / ($ mn)	102/1,356
6m avg traded value (Rs mn)	106
52 Week high / low	Rs 1,256/651

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	0.7	1.8	10.1
Relative (%)	(8.8)	9.2	10.6

SHAREHOLDING PATTERN (%)	Mar-20	Jun-20
Promoters	74.05	74.06
FIs & Local MFs	6.06	11.25
FPIs	5.13	5.08
Public & Others	14.76	14.69
Pledged Shares	0.00	0.00

Source : BSE

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Navin Fluorine International

Commendable performance

We retain our ADD rating on NFIL with a target price of INR 1,840 on the back of (1) earnings visibility given long term contracts, and (2) tilt in sales mix towards customised products. The stock is currently trading at 22.5x FY23E EPS, which is contextually low, given the RoIC of 21.6/24.2% in FY22/23E.

- **View on the result:** EBITDA/APAT were 23/53% below estimates owing to 21% lower revenue and 64% higher tax outflow than anticipated.
- **Financial performance:** Revenue/EBITDA/APAT declined 15/14/40% YoY and 23/23/92% QoQ to INR 2,047/521/222mn. Revenue was adversely impacted by a temporary suspension of manufacturing facilities on the back of a nationwide lockdown, which had a trickle-down effect on the EBITDA. Despite the adversities, EBITDA margin remained intact at 25.4%. (+31/8 bps YoY/QoQ).
- **Segmental performance:** Specialty Chemicals (47% of revenue mix) and CRAMS (17%) business units (BU) grew 13/36% YoY to INR 970mn/340mn. The growth in Specialty Chemicals' revenue was backed by product portfolio expansion, deeper penetration into existing users and robust project pipeline in life/crop science. Ramp-up in the Certified Good Manufacturing-3 (cGMP-3) plant boosted revenues for the CRAMS BU.
- **Other income adjustment**: (1) Interest received on tax refund of INR 262mn, (2) marked to market gains of INR 26mn, and (3) one-off gains from sale of investments of INR 6mn have been excluded from (gross) other income of INR 356mn to arrive at the 1QFY21 Adjusted PAT of INR 222mn.
- **Change in estimates:** We cut our FY21/22E EPS estimates by 5/3% to INR 40.9/62.9, given the subdued performance of NFIL's legacy business.
- **Concall takeaways**: (1) Suspension of manufacturing operations for 15 days in Apr-20 and its phased resumption over Apr/May-20 hurt revenues from Specialty Chemicals BU by INR 100-120mn; (2) currently, capacity constraint in this BU is a bigger hurdle than lack of demand.
- **DCF-based valuation: Our target price of INR 1,840, based on Jun-22E free cash flows (WACC 10%, terminal growth 3%), offers a 6% upside to the CMP.**

Financial Summary (Standalone)

INR mn	1Q FY21	4Q FY20	QoQ (%)	1Q FY20	YoY (%)	FY19*	FY20*	FY21E*	FY22E*	FY23E*
Net Sales	2,047	2,650	*(22.7)*	2,418	*(15.3)*	9,959	10,616	12,326	15,428	17,805
EBITDA	521	672	*(22.5)*	607	*(14.3)*	2,184	2,635	3,299	4,777	5,925
APAT#	222	2,679	*(91.7)*	370	*(40.0)*	1,372	3,855	2,026	3,110	3,818
AEPS (INR)#	4.5	54.2	*(91.7)*	7.5	*(40.1)*	27.7	77.9	40.9	62.9	77.2
P/E (x)						62.7	22.3	42.5	27.7	22.5
EV/EBITDA (x)						38.4	31.3	25.3	17.7	13.8
RoE (%)						13.3	31.0	13.6	18.5	19.8

Source: Company, HSIE Research, *Consolidated, #4QFY20 includes one-off tax receipt of INR 2bn

Change in estimates (Consolidated)

YE Mar	FY21E Old	FY21E New	% Ch	FY22E Old	FY22E New	% Ch
EBITDA (INR mn)	3,435	3,299	*(4.0)*	4,914	4,777	*(2.8)*
Adj. EPS (INR/sh)	43.0	40.9	*(4.8)*	65.0	62.9	*(3.2)*

Source: Company, HSIE Research

ADD

CMP *(as on 30 July 2020)*	**Rs 1,741**
Target Price	**Rs 1,840**
NIFTY	**11,102**

KEY CHANGES	**OLD**	**NEW**
Rating	ADD	ADD
Price Target	Rs 1,850	Rs 1,840
EPS %	FY21E -5%	FY22E -3%

KEY STOCK DATA	
Bloomberg code	NFIL IN
No. of Shares (mn)	49
MCap (Rs bn) / ($ mn)	86/1,150
6m avg traded value (Rs mn)	335
52 Week high / low	Rs 1,915/575

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	10.7	45.8	189.4
Relative (%)	(1.2)	53.6	188.5

SHAREHOLDING PATTERN (%)

	Mar-20	Jun-20
Promoters	30.51	30.51
FIs & Local MFs	18.63	18.87
FPIs	19.02	19.41
Public & Others	31.84	31.21
Pledged Shares	1.05	1.05

Source : BSE

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Galaxy Surfactants

Higher per-unit EBITDA drives earnings

Our BUY recommendation on GALSURF with a price target of INR 2,100 is premised on (1) stickiness of business as 55% of the revenue mix comes from MNCs, (2) stable EBITDA margins at >12% since fluctuations in raw material costs (RMC) are easily passed on to customers, and (3) strong return ratios (RoE/RoIC of 22/18% in FY22E).

- **View on the result:** EBITDA/APAT was 74%/2.3x higher than estimates, attributable to (1) 23% higher volumes and (2) 42% higher per-ton EBITDA.
- **Resilient performance despite the pandemic:** 1Q revenue declined merely by 8/9% QoQ/YoY to INR 6bn due to (1) only 11/5% QoQ/YoY decline in overall volumes, (2) 4/-4% QoQ/YoY growth in per-unit realisation. Strong demand for performance surfactants (+8% YoY) was offset by lower demand for speciality care products (-26% YoY). Increased awareness for hygiene, given COVID-19, led to a spike in volume offtake for the former; however, as discretionary spending reduced during the pandemic, the latter suffered a blow. Despite a strong demand, labour shortage and lower production by customers (supply constraints) dragged overall volumes of the company.
- **Margins**: Gross margin dipped by 217bps QoQ to 34.2%. However, EBITDAM corrected merely by 73bps QoQ to 14.9% owing to 199bps dip in opex margins. Lower opex (-21% QoQ) was consequential to curtailed repairs and maintenance, travel, power and fuel expenses, which are likely to recover with volume. The company should be able to retain its GM/EBITDAM at 34.4/14.3% in FY21E (33.9/14.2% in FY20), driven by robust demand for performance surfactants (+12% YoY), given COVID-19.
- **Performance Surfactants' volume grew 8%YoY despite supply constraints**: Total volumes declined by 5%YoY to 52kT, predominantly owing to 26% YoY contraction in Specialty Care volumes to 15kT. Performance Surfactants (70% of vol mix) grew 8%YoY to 36kT. Blended volume growth was driven by the Africa/Middle East/Turkey (AMET) market (mainly, Egypt) that grew 10%YoY (42% of volume mix). Indian demand (37% of the 1Q volume mix) contracted 2%YoY. April and May 2020 were poor for the Indian market. However, volumes picked up in June. Volume declined 27%YoY from the RoW market (rest of the world) that comprised 21% of the 1Q volume mix.
- **Change in estimates:** We raise our FY21E EPS estimate by 44% to INR 62.9, led by (1) faster-than-anticipated recovery in volumes, with improvement in the Egypt and Indian markets, (2) buoyant demand for performance surfactants as COVID-19 acts as a tailwind, (3) higher-than-anticipated per-ton EBITDA margin in 1QFY21. We cut our FY22E per ton EBITDA by 15%, in line with the management's guidance leading to a 10% correction in EPS.
- **DCF-based valuation:** Price target of INR 2,100 is based on Mar-22E cash flows (WACC 10%, Terminal growth 3.0%). The stock is trading at 21.8x FY22E EPS.

Consolidated Financial Summary

Year Ending March (INR mn)	1Q FY21	4Q FY20	QoQ (%)	1Q FY20	YoY (%)	FY19	FY20	FY21E	FY22E
Revenues	6,072	6,567	(7.5)	6,650	(8.7)	27,630	25,964	27,424	34,094
EBITDA	905	1,026	(11.8)	961	(5.8)	3,472	3,689	3,921	4,752
APAT	565	628	(10.0)	526	7.5	1,910	2,244	2,231	2,815
AEPS (INR)	15.9	17.7	(10.0)	14.8	7.5	53.9	65.0	62.9	79.4
P/E (x)						32.1	26.6	27.4	21.8
EV/EBITDA (x)						16.8	15.9	15.0	12.2
RoE (%)						23.9	23.1	19.7	21.9

Source: Company, HSIE Research

BUY

CMP *(as on 12 Aug 2020)*	**INR 1,727**
Target Price	**INR 2.100**
NIFTY	**11,308**

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 1,915	INR 2,100
EPS %	FY21E	FY22E
	+44.1	-10.2

KEY STOCK DATA	
Bloomberg code	GALSURF IN
No. of Shares (mn)	35
MCap (INR bn) / ($ mn)	61/818
6m avg traded value (INR mn)	40
52 Week high / low	INR 1,791/975

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	31.7	4.7	44.5
Relative (%)	9.3	12.4	42.4

SHAREHOLDING PATTERN (%)	Mar-20	June-20
Promoters	70.93	70.93
FIs & Local MFs	13.62	13.60
FPIs	3.25	3.09
Public & Others	12.20	12.38
Pledged Shares	0.0	0.0

Source : BSE

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Balaji Amines

Volume and margin surprise positively!

Our BUY recommendation on Balaji Amines with a price target of INR 785 is premised on (1) robust demand from pharma and agrochemical industry that comprise 77% of its revenue mix, and (2) faster-than-anticipated recovery in plant utilisation. 1Q EBITDA/APAT was 41/71% above our estimates, attributable to (1) 10% higher sales volumes and (2) 28% higher per-kg EBITDA.

- **Volumes and realisation:** Total sales volume was 18.31kt (-9/-17% YoY/QoQ). While volume declined due to lower capacity utilisations, per-unit gross margin improved by 28/10% QoQ to INR 54/kg on the back of a better product mix and stable raw material costs. The tabulated per-kg realisation from the Amines segment comes to INR 115 (+2/10% YoY/QoQ). Back calculated per-kg EBITDA improved by 52/15% YoY/QoQ to INR 28. Utilisation for Apr/May 2020 stood at 70/80% but bounced back to pre-COVID levels from June.
- **Margins**: Gross margin stood at 47.0%, +804/-122bps YoY/QoQ. EBITDA margin jumped by 823/153bps YoY/QoQ to 24.3% (HSIE 21.9%). We believe that the current elevated level of EBITDA margin is not sustainable and expect a correction to 19.6/21.3% in FY21/22E.
- **Takeaways from the earnings call**: Production of **Acetonitrile** will double from the current 9 ton/day to 18, post a de-bottlenecking drill from Nov-2020. BLA expects Acetonitrile prices to remain elevated as its demand from pharma customers continues unabated, and the synthetic manufacturing process that is employed by the company produces a superior quality product. **Greenfield project,** INR 800mn of the budgeted INR 1.5bn has been spent; expected commissioning is by 4QFY21. **Balaji Specialty Chemicals (BSC)** revenue was unaffected by the pandemic as the end-user industry is agrochemicals.
- **Change in estimates:** We raise our FY21/22E EPS estimate by 2.7/3.9% each to INR 36.6/47.8 to factor in the 1Q performance, and in anticipation of (1) faster-than-estimated pick-up in revenue from BLA's subsidiary BSC, (2) sustainable demand for Amines from pharma and agrochemical customers, (3) spike in demand for (high-margin) Acetonitrile from the pharma sector.
- **DCF-based valuation:** Our price target of INR 785 is based on Jun-22E cash flows (WACC 10%, terminal growth 3%). The stock is trading at 14.1/11.6x FY22/23 EPS.

Standalone Financial Summary

YE Mar (INR mn)	1Q FY21	4Q FY20	*QoQ (%)*	1Q FY20	*YoY (%)*	FY19*	FY20*	FY21E*	FY22E*	FY23E*
Net Sales	2,105	2,355	*(10.6)*	2,314	*(9.0)*	9,431	9,358	10,481	12,120	13,405
EBITDA	511	535	(4.6)	371	37.7	1,934	1,807	2,055	2,586	3,058
APAT	347	324	*7.1*	200	*73.6*	1,171	975	1,187	1,550	1,876
Adj. EPS (Rs)	10.7	10.0	7.1	6.2	73.6	36.1	30.1	36.6	47.8	57.9
P/E (x)						18.6	22.4	18.4	14.1	11.6
EV/EBITDA(x)						12.3	13.5	11.2	8.7	7.1
RoE (%)						19.8	14.6	15.1	16.6	16.7

Source: Company, HSIE Research | *Consolidated

Consolidated Change in Estimates

	FY21 Old	FY21 New	*Change (%)*	FY22 Old	FY22 New	*Change (%)*
EBITDA	1,907	2,055	*7.8*	2,368	2,586	*9.2*
EPS	35.7	36.6	*2.7*	46.0	47.8	*3.9*

Source: Company, HSIE Research

BUY

CMP *(as on 13 Aug 2020)*	**Rs 672**
Target Price	**Rs 785**
NIFTY	**11,300**

KEY CHANGES	**OLD**	**NEW**
Rating	BUY	BUY
Price Target	Rs 650	Rs 785
EPS %	FY21E	FY22E
	+2.7%	+3.9%

KEY STOCK DATA	
Bloomberg code	BLA IN
No. of Shares (mn)	32
MCap (Rs bn) / ($ mn)	22/291
6m avg traded value (Rs mn)	130
52 Week high / low	Rs 698/200

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	70.7	67.0	161.1
Relative (%)	51.0	74.6	157.5

SHAREHOLDING PATTERN (%)	**Mar-20**	**Jun-20**
Promoters	53.67	53.70
FIs & Local MFs	0.28	0.36
FPIs	1.72	1.77
Public & Others	44.33	44.17
Pledged Shares	0.0	0.00

Source : BSE

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Consumer Discretionary

Havells

Marginal beat, recovery in sight

Havells' performance was marginally better than expected as it clocked a lower revenue/EBITDA decline (of 46/53% YoY) than expected (48/64% YoY). The company saw a sequential recovery in May and June, led by a quicker recovery in the B-C business (70% mix). Lloyd's recovery was ahead of other categories as sales bounced back to 80% of previous year's level in May and clocked 8% YoY growth in June. A weak season of RAC (lockdown) impacted Lloyd's performance while it was on course of recovery. We remain optimistic of its performance in the coming years though. Havells clocked better EBITDA margin than expected despite our estimates being above consensus'. Although the intensity of recovery has slightly slowed down in July, Havells is poised to continue gaining market share. The company will also benefit from the consistent shift from unorganized to organized players. We maintain our EPS estimate for FY21/FY22/FY23. We value Havells at 40x P/E on Jun-22E EPS and derive a target price of Rs 610. Maintain ADD.

- **B-C supports revenues:** Revenue declined by 46% YoY (+5% in 1QFY20 and -20% in 4QFY20). Switchgears/Cables/Lighting/ECD/Lloyd saw revenue dip by 44/41/45/46/53% YoY as the lockdown disrupted sales significantly in April. The B-C portfolio of the company (70% revenue mix) saw stronger recovery than the industrial portfolio, clocking 12% YoY growth in June. Havells gained market share across most of its portfolio, and the management expects this to continue.

- **Beat in EBITDA:** Overall gross margin dipped by 281bps YoY (-8bps in 1QFY20 and -71bps in 4QFY20) vs expectation of a dip of 36bps YoY. Employee/ASP/other expenses declined by 27/96/45% YoY. EBITDA margin dipped by 140bps YoY (+37bps in 1QFY20 and -37bps in 4QFY20) to 9%. Overall EBITDA was lower by 53% YoY to Rs 1.3bn (above estimate). Contribution margins for Switchgears/Cables/Lighting/ECD/Lloyd dipped by 810/430/1210/61/630 bps YoY. APAT declined by 64% YoY.

- **Concall takeaways:** (1) secondary sales were better than primary and channel inventory is currently lower than the pre-COVID level; (2) e-commerce revenue mix doubled (3% mix). Rural revenue mix also doubled in June from pre-COVID level (2%); (3) cash flow in 1QFY21 was negative due to quick payment to creditors, with collections now having improved; (4) capex for Lloyd in FY21 will be Rs 400-500mn; (5) 5% of the company's sales are dependent on imports from China.

Quarterly/Annual Financial summary

YE Mar (Rs mn)	1Q FY21	1Q FY20	YoY (%)	4Q FY20	QoQ (%)	FY20	FY21E	FY22E	FY23E
Net Sales	14,791	27,127	*(45.5)*	22,161	*(33.3)*	94,292	85,702	103,792	116,288
EBITDA	1,309	2,781	*(52.9)*	2,453	*(46.7)*	10,274	9,890	13,014	15,312
APAT	633	1,761	*(64.0)*	1,772	*(64.3)*	7,330	6,398	8,919	10,710
Diluted EPS (Rs)	1.0	2.8	*(64.0)*	2.8	*(64.3)*	11.7	10.2	14.3	17.1
P/E (x)						49.3	56.5	40.6	33.8
EV / EBITDA (x)						34.2	35.0	26.2	21.9
RoCE (%)						21.2	17.8	24.8	29.6

Source: Company, HSIE Research

ADD

CMP *(as on 27 Jul 2020)*	**Rs 596**
Target Price	**Rs 610**
NIFTY	**11,132**

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	Rs 610	Rs 610
EPS %	FY21E	FY22E
	0%	0%

KEY STOCK DATA	
Bloomberg code	HAVL IN
No. of Shares (mn)	626
MCap (Rs bn) / ($ mn)	373/4,984
6m avg traded value (Rs mn)	1,316
52 Week high / low	Rs 766/447

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	11.2	(4.3)	(14.8)
Relative (%)	(8.3)	3.5	(14.9)

SHAREHOLDING PATTERN (%)	Mar-20	June-20
Promoters	59.52	59.50
FIs & Local MFs	8.27	9.64
FPIs	23.04	21.95
Public & Others	9.17	8.91
Pledged Shares	0.07	0.09

Source : BSE

Pledged shares as % of total shares

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Crompton Consumer

On the path to recovery

Crompton's 1QFY21 revenue was slightly lower than estimates, declining by 47% YoY vs our estimated figure of 41% YoY. At the same time, there was a beat in EBITDA by 10% despite our estimate being higher than consensus'. Efficient cost control by the company has supported its margin in the current crisis. ECD revenue/EBIT decline was 44% YoY (better than Havells and Orient Electic). ECD saw a sequential recovery as May was down by 30% while June was down only 10% YoY. Some categories like agri pumps, geysers, appliances and mixer-grinders recorded strong growth in June. Lighting saw revenue/EBIT dip by 57/61% YoY. The B-C pick-up was healthy (9% YoY growth in June) while B-B is gradually improving. Stability in pricing in B-C lighting is supporting the segment's margin, which deteriorated in FY20. We maintain our EPS estimate for FY21/FY22/FY23 as we expect a gradual recovery from 2HFY21 onwards. We value Crompton at 35x P/E on Jun-22E EPS and derive a target price of Rs 275. Maintain ADD.

- **Marginal miss in revenue:** Revenue declined by 47% YoY (+12% in 1QFY20 and -16% in 4QFY20). Lighting/ECD saw revenue dip by 57/44% YoY as the lockdown disrupted sales significantly in April. Crompton saw recovery from May and ECD/B-C lighting sales reached 90% of last year's level for the company in June. Mixer-grinder posted strong growth of 105% YoY in June while agri pumps/geysers/appliances saw growth of 25/42/6% YoY.
- **Beat in EBITDA:** Overall gross margin was marginally lower by 13bps YoY (+27bps in 1QFY20 and +67bps in 4QFY20). Employee/other expenses declined by 12/63% YoY. EBITDA margin saw a dip of 40bps YoY (+37bps in 1QFY20 and -37bps in 4QFY20) to 14%. EBITDA was lower by 49% YoY. EBIT margin for lighting dipped by 47bps YoY on account of muted pricing in B-C lighting and weak demand in B-B. ECD margin saw a marginal improvement of 24bps YoY, aided by cost management initiatives by the company. Growth in other income and marginally lower tax rate helped the company restrict decline in PAT to 40% YoY (our estimate was -49% YoY).
- **Concall takeaways:** (1) Consumer offtake showed similar trends to primary sales; (2) manufacturing operations are now at 90% of normal levels; (3) the company did not witness any significant downtrading, and some categories saw uptrading; (4) e-commerce saw 400% YoY growth in May and June; (5) working capital for the company improved and cash stood at Rs 9.7bn.

Quarterly/Annual Financial summary

YE Mar (Rs mn)	1Q FY21	1Q FY20	YoY (%)	4Q FY20	QoQ (%)	FY20	FY21E	FY22E	FY23E
Net Sales	7,132	13,468	(47.0)	10,181	(29.9)	45,120	41,348	47,718	53,687
EBITDA	988	1,919	(48.5)	1,384	(28.6)	5,969	5,203	6,247	7,199
APAT	737	1,224	(39.8)	998	(26.1)	4,376	3,856	4,805	5,634
Diluted EPS (Rs)	1.18	1.95	(39.8)	1.59	(26.1)	7.0	6.0	7.5	8.8
P/E (x)						35.1	40.8	32.7	27.9
EV / EBITDA (x)						25.4	29.1	23.7	20.0
RoCE (%)						38.9	31.5	35.6	38.4

Source: Company, HSIE Research

ADD

CMP *(as on 27 Jul 2020)*	**Rs 245**
Target Price	**Rs 275**
NIFTY	**11,132**

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	Rs 275	Rs 275
EPS %	FY21E	FY22E
	0%	0%

KEY STOCK DATA	
Bloomberg code	CROMPTON IN
No. of Shares (mn)	627
MCap (Rs bn) / ($ mn)	155/2,071
6m avg traded value (Rs mn)	257
52 Week high / low	Rs 301/177

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	14.1	(5.8)	9.5
Relative (%)	(5.4)	2.1	9.4

SHAREHOLDING PATTERN (%)	Mar-20	June-20
Promoters	26.19	26.19
FIs & Local MFs	26.69	25.70
FPIs	30.51	29.92
Public & Others	16.61	18.19
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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TTK Prestige

Gradual recovery expected

TTK Prestige's 1QFY21 was weak as the company posted revenue/EBITDA decline of 52/86% YoY. The COVID-led lockdown impacted modern trade, CSD and rural revenue. However, e-commerce saw strong growth and gained salience (25% vs 12% pre-COVID). The company saw a healthy sequential recovery in June and July. TTK is a pure consumer play, and we expect most B-C categories to recover quicker in FY21. Work from home and increase in home cooking should support faster revenue recovery for TTK. EBITDA margin saw a sharp dip (>900bps YoY) due to an adverse revenue mix (gross margin down by 194bps YoY), and negative oplev (Rs 200mn idle cost). We cut FY21 EPS by 6% (miss in 1Q) while maintaining estimates for FY22/FY23. We value TTK Prestige at 35x P/E on Jun-22E EPS, maintain the target price of Rs 6,000. Maintain ADD.

- **Miss in revenue:** Consolidated revenue declined by 52% YoY (+4% in 1QFY20 and -14% in 4QFY20), mainly as the company lost out on sales during half the quarter. We were expecting a 38% dip in revenues. Only 60% of channels were functional, which indicates that the company saw strong growth in markets that opened up. Cookers/Cookware/Appliances/Others declined 59/45/50/41% YoY. Uncertainty around Brexit coupled with COVID kept Horwood muted.
- **Margins under pressure:** GM dipped by 194bps YoY to 40.5% (-62bps in 1QFY20 and +146bps in 4QFY20) due to an adverse product mix. Employee/Other expenses declined by 10/54% YoY. However, the company continued investing in A&P (~4% of revenue). EBITDAM dipped sharply by 918bps YoY to 3.8% (-27bps in 1QFY20 and -526bps in 4QFY20). EBITDA declined by 86% YoY to Rs 79mn. APAT declined by 89% YoY to Rs 41mn (HSIE Rs 232mn). We expect margin recovery to be quicker and favourable base will result in a healthy EBITDA growth for the remaining 9M of FY21.
- **Call takeaways:** (1) Capacity utilisation was 80% in July; (2) Production in cookware is at 105% of normal production level; (3) Channel inventory stood at a healthy level; (4) A&P was ~4% of revenue vs 6-7% in 1QFY20; (5) 19% of products are sourced from outside vendors (including imports).

Quarterly/Annual Financial summary

YE Mar (Rs mn)	1Q FY21	1Q FY20	*YoY (%)*	4Q FY20	*QoQ (%)*	FY20	FY21E	FY22E	FY23E
Net Sales	2,085	4,336	*(52)*	3,835	*(46)*	20,730	19,222	23,025	26,011
EBITDA	79	563	*(86)*	352	*(77)*	2,635	2,561	3,245	3,687
APAT	41	365	*(89)*	209	*(80)*	1,933	1,783	2,264	2,604
Diluted EPS (Rs)	3.0	26.3	*(89)*	15.1	*(80.4)*	139.4	128.5	163.1	187.6
P/E (x)						38.4	41.6	32.8	28.5
EV / EBITDA (x)						26.7	26.7	20.7	17.8
RoCE (%)						20.0	19.2	24.6	26.2

Change in Estimates

	FY21E			FY22E			FY23E		
	New	Old	*Chg (%)*	New	Old	*Chg (%)*	New	Old	*Chg (%)*
Sales	19,222	20,052	*(4.1)*	23,025	23,247	*(1.0)*	26,011	26,249	*(0.9)*
EBITDA	2,561	2,734	*(6.3)*	3,245	3,244	*0.0*	3,687	3,688	*(0.0)*
APAT	1,783	1,903	*(6.3)*	2,264	2,265	*(0.0)*	2,604	2,601	*0.1*
EPS	129	137	*(6.3)*	163	163	*(0.0)*	188	187	*0.1*

Source: Company, HSIE Research

ADD

CMP *(as on 10 Aug 2020)*	**Rs 5,458**
Target Price	**Rs 6,000**
NIFTY	**11,270**

KEY CHANGES	**OLD**	**NEW**
Rating	ADD	ADD
Price Target	Rs 6,000	Rs 6,000
	FY21E	FY22E
EPS %	-6%	0%

KEY STOCK DATA	
Bloomberg code	TTKPT IN
No. of Shares (mn)	14
MCap (Rs bn) / ($ mn)	76/1,010
6m avg traded value (Rs mn)	47
52 Week high / low	Rs 6,716/3,901

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	17.7	(4.4)	(9.3)
Relative (%)	(3.0)	2.5	(10.9)

SHAREHOLDING PATTERN (%)	**Mar-20**	**June-20**
Promoters	70.41	70.41
FIs & Local MFs	10.46	11.19
FPIs	9.84	9.51
Public & Others	9.29	8.89
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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V-Guard Industries

Non-south drags 2Q; miss on margin

V-Guard posted a disappointing set of numbers as the company clocked revenue/EBITDA decline of 42/87% YoY (HSIE expectation -45/-52% YoY). Non-south performance remained weak and contracted by 47% (21% dip in 4QFY20). The company is the No. 3-4 player in non-south markets, and channel partners continue to prefer market leaders on priority. It impacted V-Guard even in 4QFY20. Stabiliser was most impacted (51% dip in Electronics segment) as demand of RAC was impacted sharply by the lockdown. Electricals/Consumer Durable segments have declined by 31/44% YoY. Gross margin declined by 334bps YoY on account of unfavorable mix (low Stabilizer mix). Negative oplev contracted EBITDA margin by 794bps to 2% (historical low). Demand improved sequentially since May as the company reached 70% of last year's sales and achieved 90% in June. However, sporadic lockdowns hampered the rate of recovery in July. V-Guard has been losing market share in the past six months, particularly in the non-south market. We expect only a gradual recovery and weak FY21 revenue. We cut EPS estimate for FY21 by 3% while maintain estimates for FY22/FY23. We value V-Guard at 30x P/E on Jun-22E EPS and derive a target price of Rs 157. Maintain REDUCE.

- **Revenue weak:** Revenue declined by 42% YoY (+10% in 1QFY20 and -28% in 4QFY20). Electronics/Electricals/Consumer Durables saw revenue dip by 51/31/44% YoY. The company saw a sequential improvement across markets since May, with 70% outlets being open at the end of June. Non-South/South markets saw revenues decline by 47/38% YoY and revenue contribution of the South market increased to 58.3%.
- **Weak margins all-round:** Overall gross margin dipped by 334bps YoY (+216bps in 1QFY20 and +374bps in 4QFY20) vs expectation of an expansion of 144bps YoY. Employee/other expenses declined by 9/37% YoY. EBITDA margin dipped by 794bps YoY (+285bps in 1QFY20 and -215bps in 4QFY20) to 2.2%. EBITDA was down by 87% YoY at Rs 91mn vs our estimate of Rs 340mn. EBIT margins for Electronics/Electricals/Consumer Durables dipped by 1,076/197/1,443bps YoY. APAT declined by 93% YoY.
- **Concall takeaways:** (1) Impact in non-South markets was higher. Demand in Karnataka and Kerala saw improvement; (2) 70% of outlets were open at the end of June. The number slipped to 55-60% during July and has now bounced back to 70%; (3) channel inventory has reduced by ~30 days; (4) CFO was Rs 2.15bn vs. Rs 1.83bn in 1QFY20 and net cash stood at Rs 3.49bn vs. 3.25bn in 1QFY20; (5) the company is focused on expanding in e-commerce and launched products exclusive to the channel.

Quarterly/Annual Financial summary

YE Mar (Rs mn)	1Q FY21	1Q FY20	YoY (%)	4Q FY20	QoQ (%)	FY20	FY21E	FY22E	FY23E
Net Sales	4,058	6,994	*(42.0)*	5,366	*(24.4)*	24,820	23,572	27,958	31,150
EBITDA	91	712	*(87.3)*	452	*(79.9)*	2,533	2,270	2,837	3,232
APAT	36	525	*(93.1)*	325	*(88.9)*	1,776	1,691	2,145	2,459
Diluted EPS (Rs)	0.08	1.23	*(93.1)*	0.76	*(88.9)*	4.15	3.95	5.01	5.74
P/E (x)						40.7	42.8	33.7	29.4
EV / EBITDA (x)						28.0	30.8	24.5	21.3
RoCE (%)						20.5	16.9	21.3	22.6

Source: Company, HSIE Research

REDUCE

CMP *(as on 28 Jul 2020)*	**Rs 165**
Target Price	**Rs 157**
NIFTY	**11,131**

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	Rs 157	Rs 157
EPS %	FY21E	FY22E
	-3%	0%

KEY STOCK DATA	
Bloomberg code	VGRD IN
No. of Shares (mn)	428
MCap (Rs bn) / ($ mn)	71/943
6m avg traded value (Rs mn)	81
52 Week high / low	Rs 260/149

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	(7.4)	(26.9)	(30.0)
Relative (%)	(27.3)	(20.9)	(31.6)

SHAREHOLDING PATTERN (%)	Mar-20	June-20
Promoters	62.73	62.73
FIs & Local MFs	13.44	13.31
FPIs	13.39	13.07
Public & Others	10.44	10.89
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Symphony

Trade inventory to impact FY21

Symphony's 1QFY21 performance was weak but broadly in line with estimates. Domestic revenue saw a 77% YoY decline owing to COVID-led lockdown and high channel inventory (selling in non-seasonal quarters). Domestic EBIT was zero (loss excluding other income) due to negative oplev. Rest of the world (RoW) fared better, as subsidiaries saw the lower impact from lockdowns. However, CT (Australia) and China posted losses. With heavy channel inventory in the domestic business (40% of last year), we expect a weaker show in the coming quarters too. We cut our EPS estimates by 9/3/3% for FY21/FY22/FY23. We value Symphony at 30x P/E on Jun-22E EPS and derive a target price of Rs 810. Maintain REDUCE.

- **Weak but in-line revenue:** Standalone revenue declined 75% YoY (+103% in 1QFY20 and +12% in 4QFY20), in line with our expectation. Domestic/Exports fell 77/50% YoY. RoW revenue declined by 17% YoY as subsidiaries saw a lower impact from lockdown. IMPCO was relatively unaffected up to May, after which revenue fell sharply. CT saw healthy demand for heaters and strong traction in the US. GSK China saw a marginal decline. While we remain confident about the long-term growth potential of branded air coolers in India and overseas, along with Symphony's ability to gain market share, near term pressure will continue.
- **A loss at EBITDA:** Standalone gross margin dipped by 500bps YoY to 45% (-443bps in 1QFY20 and +729bps in 4QFY20) due to a high salience of spares sales, which have lower margins. Gross margin for air coolers was >50%, in line with 1QFY20. Employee expenses remained flat while ASP/other expenses declined by 79/53% YoY. Symphony recorded a loss in standalone EBITDA of Rs 80mn (HSIE Rs 27mn loss). RoW saw an EBIT loss of Rs 20mn due to high input cost, increased labour cost, and increased freight.
- **Call takeaways:** (1) Channel inventory in India is at 40% of FY20 sales (similar to FY19); (2) inventory with Symphony stands at Rs 340mn; (3) gross margin for air coolers in FY21 is expected to remain stable YoY; (4) the US market is expected to grow to 50% of CT in 3-4 years (currently 15%); and (5) the company intends to maintain a dividend payout of 50%.

Quarterly/Annual Financial summary

YE Mar (Rs mn)	1Q FY21	1Q FY20	*YoY (%)*	4Q FY20	*QoQ (%)*	FY20	FY21E	FY22E	FY23E
Net Sales	400	1,600	*(75.0)*	1,540	*(74.0)*	11,030	8,189	10,415	11,613
EBITDA	(80)	240	*(133.3)*	490	*(116.3)*	2,120	1,425	2,124	2,435
APAT	10	260	*(96.2)*	464	*(97.8)*	1,820	1,209	1,788	2,145
Diluted EPS (Rs)	0.1	3.7	*(96.2)*	6.6	*(97.8)*	26.0	17.3	25.5	30.6
P/E (x)						32.6	49.1	33.2	27.7
EV / EBITDA (x)						26.8	39.7	26.4	22.8
RoCE (%)						42.2	23.3	37.2	44.2

Change in Estimates

	FY21E			FY22E			FY23E		
	Old	New	*Chg (%)*	Old	New	*Chg (%)*	Old	New	*Chg (%)*
Sales	8,690	8,189	*(5.8)*	10,615	10,415	*(1.9)*	11,786	11,613	*(1.5)*
EBITDA	1,566	1,425	*(9.0)*	2,198	2,124	*(3.3)*	2,500	2,435	*(2.6)*
APAT	1,327	1,209	*(8.9)*	1,843	1,788	*(3.0)*	2,202	2,145	*(2.6)*
EPS	19.0	17.3	*(8.9)*	26.3	25.5	*(3.0)*	31.5	30.6	*(2.6)*

Source: Company, HSIE Research

REDUCE

CMP *(as on 11 Aug 2020)*	**Rs 840**
Target Price	**Rs 810**
NIFTY	**11,323**

KEY CHANGES	**OLD**	**NEW**
Rating	REDUCE	REDUCE
Price Target	Rs 828	Rs 810
EPS %	FY21E	FY22E
	-9%	-3%

KEY STOCK DATA	
Bloomberg code	SYML IN
No. of Shares (mn)	70
MCap (Rs bn) / ($ mn)	59/787
6m avg traded value (Rs mn)	53
52 Week high / low	Rs 1,405/690

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	1.4	(35.3)	(31.2)
Relative (%)	(20.3)	(28.5)	(33.4)

SHAREHOLDING PATTERN (%)	**Mar-20**	**June-20**
Promoters	75.00	75.00
FIs & Local MFs	10.19	10.14
FPIs	5.28	4.86
Public & Others	9.53	10.00
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Avenue Supermarts

Bruised!

D-MART's high exposure to some of the most impacted Indian districts is likely to keep both throughput and GMs/EBITDAM under pressure as essentials remain high in revenue mix until Sept-end. To add to its woes, DMART may also have to continue contending with rising cost of retailing, led by higher (1) hardship allowance to front line staff and (2) store sanitation costs. We largely maintain our FY21/22 EPS estimates and our SELL recommendation with a DCF-based TP of Rs. 1,800/sh (earlier Rs 1,750), implying ~36x FY22 EV/EBITDA. Note: TP change is a function of rollover to Jun-21.

- **1QFY21 highlights**: Higher exposure to some of the most impacted Indian districts and store closures in Apr (50% of network closed in Apr) manifested into a severe footfall loss, ergo revenue loss for D-MART. Revenue declined 33.7% YoY to Rs. 38.3bn. Higher essentials' skew in mix led to a 245bp decline in GMs and higher (1) hardship allowance to front line staff and (2) store sanitation costs led to cost of retailing spiraling by 500bp to 10.8% YoY. While Mgt highlighted that things have improved over the past three months and D-MART has recovered to 80% or more of pre-COVID sales in stores operating unhindered, discretionary consumption continues to be under pressure, especially in the non-FMCG categories.
- **Outlook**: We expect a revenue/EBITDA/PAT CAGR of 19%/22%/23% over FY20-22E. While the stock-up retailer remains well capitalized and best placed to carve out a recovery over the medium-to-long term, we believe stock performance does not capture the pandemic-led demand destruction; hence, maintain our SELL recommendation on the stock.

Quarterly financial summary

(Rs mn)	1QFY21	1QFY20	YoY (%)	4QFY20	QoQ (%)	FY18	FY19	FY20P	FY21E	FY22E
Net Revenue	38,332	57,805	(33.7)	61,935	(38.1)	150,089	199,163	246,750	259,978	349,596
EBITDA	1,089	5,959	(81.7)	4,177	(73.9)	13,373	16,422	20,385	18,940	30,279
APAT	496	3,353	(85.2)	2,869	(82.7)	7,847	9,363	13,685	12,800	20,716
EPS (Rs)	0.8	5.4	(85.8)	4.43	(82.7)	12.6	15.0	21.1	19.8	32.0
P/E (x)						184.4	154.5	105.7	113.0	69.8
EV/EBITDA (x)						108.1	88.4	72.1	77.5	48.4
Core RoCE(%)						19.4	17.5	19.1	13.3	19.1

Source: Company, HSIE Research, Consolidated Financials

Change in estimates

(Rs mn)	FY20E			FY21E			FY22E		
	New	Old	Chg. (%)	New	Old	Chg. (%)	New	Old	Chg. (%)
Revenue	246,750	246,750	-	259,978	266,174	*(2.3)*	349,596	342,753	*2.0*
EBITDA	20,385	20,385	-	18,940	19,574	*(3.2)*	30,279	29,810	*1.6*
EBITDA margin (%)	8.3	8.3	-	7.3	7.4	*(7 bps)*	8.7	8.7	*(4 bps)*
APAT	13,685	13,685	-	12,800	13,292	*(3.7)*	20,716	20,338	*1.9*
APAT margin (%)	5.5	5.5	-	4.9	5.0	*(7 bps)*	5.9	5.9	*(1 bps)*
EPS (Rs)	21.1	21.1	-	19.8	20.5	*(3.7)*	32.0	31.4	*1.9*

Source: Company, HSIE Research

SELL

CMP *(as on 10 Jul 2020)*	**Rs 2,322**
Target Price	**Rs 1,800**
NIFTY	**10,768**

KEY CHANGES	**OLD**	**NEW**
Rating	SELL	SELL
Price Target	Rs 1,750	Rs 1,800
EPS %	FY21E	FY22E
	-3.7	+1.9

KEY STOCK DATA

Bloomberg code	DMART IN
No. of Shares (mn)	648
MCap (Rs bn) / ($ mn)	1,505/19,997
6m avg traded value (Rs mn)	1,856
52 Week high / low	Rs 2,560/1,345

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(2.9)	23.7	71.9
Relative (%)	(20.4)	35.8	77.0

SHAREHOLDING PATTERN (%)

	Mar-20	Jun-20
Promoters	74.99	74.99
FIs & Local MFs	6.56	6.56
FPIs	9.62	9.62
Public & Others	8.83	8.83
Pledged Shares	0	0

Source : BSE

Pledged shares as % of total shares

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Titan

Washout quarter!

Titan's demand across categories was severely impacted in 1QFY21 due to the COVID-led nationwide lockdown. Topline declined 62% YoY to Rs. 19.8bn. The road to recovery remains hazy as weak consumer sentiment meets rising gold prices. Jewellery sales (ex-bullion sale of Rs. 6bn) declined 71% YoY to Rs. 12.2bn (HSIE: Rs. 10.5bn). Impact on profitability was even more severe across categories, courtesy unfavourable operating leverage. Titan reported a Rs 2.5bn EBITDA loss in 1Q – a first! We largely maintain our FY22 EPS estimates and arrive at a DCF-based target price of Rs 950/sh (implying 48x Jun-22 P/E). Note: DCF rolled over to Jun-21.

- **1QFY21 highlights**: Jewellery sales (82% of sales) declined 56% YoY to Rs. 18.2bn. (including Rs. 6bn of Gold Bullion sales). Ex-that, Jewellery sales declined 71% YoY to Rs. 12.2bn underpinned by a severe volume loss courtesy the pandemic (grammage down 81% YoY). Note: Jewellery realisation is up 43% YoY, implying that there is likely to have been significant downtrading in jewellery purchases too in 1Q along with lower studded ratio (1QFY21: 18% vs. 1QFY20: 25%). GMs contracted 490bp primarily led by 1. Severe destruction in the Higher GM non-jewellery biz, 2. Lower studded ratio, 3. Lower-margin Gold Bullion sales. EBITDA losses for 1Q stood at –Rs.2.5bn (a first for Titan). Watches volume/revenue declined -93/-89% YoY, and Eyewear declined 80% YoY in 1Q.
- **Outlook**: We expect a recovery in jewellery to be painfully slow as soaring gold prices act as gravity for jewellery demand in the near term. We build in revenue/EBITDA/PAT CAGR of 9%/8%/11% over FY20-23E. While Titan remains well-capitalised to ride through these tough times, the market share narrative may take a pause as other big-box jewellers resort to intense discounting to liquidate inventory. Hence, we maintain our REDUCE recommendation.

Quarterly financial summary

(Rs mn)	1QFY21	1QFY20	*YoY (%)*	4QFY20	*QoQ (%)*	FY19	FY20E	FY21E	FY22E	FY23E
Net Revenue	19,790	51510	*(61.6)*	47115	*(58.0)*	197,785	210,515	170,417	231,087	274,337
EBITDA	(2,530)	5733	*(144.1)*	6124	*(141.3)*	21,365	24,666	14,622	25,755	30,890
APAT	(2,970)	3637	*(181.7)*	3431	*(186.6)*	15,337	14,927	7,682	16,530	20,325
EPS (Rs)	(3)	4.10	*(181.7)*	3.86	*(186.6)*	17.3	16.8	8.7	18.6	22.9
P/E (x)						64.1	65.9	128.1	59.5	48.4
EV/EBITDA (x)						47.2	41.8	68.9	39.4	32.9
Core RoCE(%)						18.0	15.3	8.0	16.3	17.8

Source: Company, HSIE Research, Consolidated Financials

Change in estimates

(Rs mn)	FY20E			FY21E			FY22E		
	New	Old	*Change (%)*	New	Old	*Change (%)*	New	Old	*Change (%)*
Revenue	210,515	210,515	-	170,417	169,659	*0.4*	231,087	224,130	*3.1*
Gross Profit	58,398	58,398	-	42,093	45,299	*(7.1)*	61,712	60,750	*1.6*
Gross Profit Margin (%)	27.7	27.7	-	24.7	26.7	*(200 bps)*	26.7	27.1	*(40 bps)*
EBITDA	24,666	24,666	-	14,622	18,035	*(18.9)*	25,755	25,764	*(0.0)*
EBITDA margin (%)	11.7	11.7	-	8.6	10.6	*(205 bps)*	11.1	11.5	*(35 bps)*
APAT	14,927	14,927	-	7,682	9,750	*(21.2)*	16,530	16,405	*0.8*
APAT margin (%)	7.1	7.1	-	4.5	5.7	*(124 bps)*	7.2	7.3	*(17 bps)*
EPS	16.8	16.8	-	8.7	11.0	*(21.2)*	18.6	18.5	*0.8*

Source: Company, HSIE Research

REDUCE

CMP *(as on 10 Aug 2020)*	**Rs 1,108**
Target Price	**Rs 950**
NIFTY	**11,270**

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	Rs 900	Rs 950
EPS %	FY21E	FY22E
	-7.2	+0.2

KEY STOCK DATA	
Bloomberg code	TTAN IN
No. of Shares (mn)	888
MCap (Rs bn) / ($ mn)	983/13,124
6m avg traded value (Rs mn)	3,859
52 Week high / low	Rs 1,390/720

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	33.0	(11.9)	3.8
Relative (%)	12.3	(5.1)	2.2

SHAREHOLDING PATTERN (%)	Mar-20	Jun-20
Promoters	52.91	52.91
FIs & Local MFs	10.87	10.48
FPIs	17.74	17.55
Public & Others	19.4	19.06
Pledged Shares	0	0

Source : BSE

Pledged shares as % of total shares

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Consumer Staples

Hindustan Unilever

In-line result; margins disappoint

HUL clocked revenue growth of 4% YoY, primarily led by the GSK acquisition. Its domestic consumer business (ex-GSK) saw a decline of 7% YoY. Growth in the Hygiene & Nutrition business (80% mix) was resilient at 6% YoY, while discretionary (15% mix)/OOH (5% mix) declined by 45/69% YoY. Gross margin dipped 222bps YoY, despite GSK being GM accretive and soft crude basket. However, cost management initiatives supported the EBITDA margin. The company saw sequential improvement in demand in May and June, but overall sentiment remains weak on account of job losses and return of lockdowns in several states. The Discretionary and OOH categories are expected to remain weak in FY21. We maintain our below-consensus EPS estimate for FY21/FY22/FY23. We value HUL at 50x P/E on Jun-22E EPS and derive a target price of Rs 2,016. Maintain REDUCE on a muted absolute growth trajectory and unfavourable risk-reward.

- **Slight revenue beat:** Revenue grew by 4% YoY (+7% in 1QFY20 and -9% in 4QFY20) vs the estimate of +1% YoY. LTL domestic consumer business (ex-GSK) saw sales dip by 7% YoY (vs our estimate of 9% YoY decline) due to an 8% YoY volume decline. Home Care/PC witnessed a revenue decline of 2/12% YoY, while F&R grew by 51% YoY. Ex-GSK, F&R declined 4% YoY. GSK saw 5% YoY growth.

- **Weak gross margin, in-line EBITDA margin:** The gross margin dip of 222bps YoY (flat in 1QFY20 and +142bps in 4QFY20) was higher than our expectation (+96 bps, on account of adverse product mix and raw material inflation. Employee/other expenses grew 31/19% YoY while A&P dipped 31% YoY, leading to the overall EBITDA remaining flat YoY (+18% in 1QFY20 and -11% in 4QFY20), in line with our estimates. EBITDAM dipped by 113bps YoY. LTL EBITDA margin dipped by 170bps YoY. However, the company saw a benefit of 60bps YoY from GSK. EBIT margins for Home Care/PC dipped by 139/152bps YoY while F&R margin expanded by 24bps YoY. Lower tax rate led to APAT growth of 7% YoY (+12% in 1QFY20 and -2% in 4QFY20) vs estimate of +9% YoY.
- **Call takeaways:** (1) Management is currently uncertain about sustainable rural recovery; (2) Q1 Sales saw the benefit of ~6% distributor up-stocking indicating weak consumer offtake; (3) the company saw 80% of the portfolio gaining market share; (4) foods (organic) growth was in double digits; (5) Capex plan for the next year remains unchanged.

Quarterly/Annual Financial summary

YE Mar (Rs mn)	1Q FY21	1Q FY20	YoY (%)	4Q FY20	QoQ (%)	FY20	FY21E	FY22E	FY23E
Net Sales	1,05,600	1,01,140	4.4	90,110	17.2	3,97,830	4,64,922	5,01,942	5,40,406
EBITDA	25,390	25,520	(0.5)	19,600	29.5	98,610	1,17,922	1,31,509	1,44,815
APAT	18,730	17,510	7.0	15,630	19.8	68,604	83,258	92,569	1,01,103
Diluted EPS (Rs)	8.0	8.1	(1.4)	7.2	10.4	31.7	35.4	39.4	43.0
P/E (x)						68.8	61.5	55.3	50.7
EV / EBITDA (x)						47.2	42.6	38.0	32.2
RoCE (%)						72.2	31.6	21.2	22.6

Source: Company, HSIE Research

REDUCE

CMP *(as on 21 Jul 2020)*	**Rs 2,317**
Target Price	**Rs 2,016**
NIFTY	**11,162**

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	Rs 2,016	Rs 2,016
EPS %	FY21E	FY22E
	0%	0%

KEY STOCK DATA	
Bloomberg code	HUVR IN
No. of Shares (mn)	2,348
MCap (Rs bn) / ($ mn)	5,442/72,924
6m avg traded value (Rs mn)	11,548
52 Week high / low	Rs 2,614/1,659

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	0.0	12.8	34.7
Relative (%)	(23.8)	21.0	35.8

SHAREHOLDING PATTERN (%)	Apr-20	June-20
Promoters	61.90	61.90
FIs & Local MFs	6.32	8.34
FPIs	12.04	14.81
Public & Others	19.74	14.95
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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ITC

Resilience in challenging times

ITC's 1QFY21 beat revenue expectations as the company clocked 17% YoY decline vs the estimated decline of 28% YoY. Cigarette (adjusted for excise duty on inventory) net revenue/EBIT declined by 35/39% YoY with a volume dip of 35% YoY. The company saw sequential improvement in cigarette revenue with marginal sales in April, 30-35% YoY decline in May and a strong recovery in June. However, the last 10 days have been challenging due to the return of lockdowns. FMCG showed strong momentum as the company saw a comparable growth of 12% YoY, with 34% YoY growth in staples, convenience foods and health & hygiene (75% of the portfolio). The growth was led by packaged foods (biscuits, atta, and noodles) and hygiene products. We expect the FMCG momentum to sustain, at a slightly lower growth rate. We maintain our EPS estimate for FY21/FY22/FY23 as we expect a recovery in the company 2HFY21 onwards. We value ITC on SoTP and arrive at a target price of Rs 236 (implied P/E of 18x P/E Jun-22E EPS). Maintain BUY.

- **Beat in revenue:** Net revenue for ITC declined by 17% YoY (+6% in 1QFY20 and -6% in 4QFY20). Cigarette (net)/Hotels/Paper declined 35/94/33% YoY, while FMCG/Agri business saw 12/4% YoY growth. Cigarette revenue remained under pressure, with a volume decline of ~35% YoY, although the company has seen sequential improvement since May. FMCG portfolio (75% mix) showed strong growth of 34% YoY, led by robust growth in hygiene (Savlon grew to 5x YoY), noodles (>50% YoY) and atta (>30% YoY).
- **Margins under pressure:** Gross margin fell sharply by 555bps YoY to 58.5% (+180bps in 1QFY20 and +220bps in 4QFY20) vs an expectation of flat YoY GM. Employee/other expenses grew 1/5% YoY, leading to an EBITDAM dip of 1,184bps YoY (+105bps in 1QFY20 and -100bps in 4QFY20). Overall EBITDA declined by 42% YoY. Cigarette (adjusting for excise duty on inventory)/Hotels/Agri/Paper EBIT margins dipped by 170/1,339/85/599bps YoY. FMCG EBITDA/EBIT margin expanded by 170/117bps YoY to 7.6/3.7%. Lower taxes and higher other income restricted the decline in APAT to 26% YoY.
- **Press release and management call takeaways:** (1) 40-50% cigarette shops are operational across the country. South has the highest number of open shops; (2) cigarette channel inventory is back to the normal level; (3) the company saw market share gains in most FMCG categories; (4) modern trade/e-comm registered a growth of 20/90% YoY; (5) biscuits saw continued strength in demand in the first two weeks of July, but the momentum has now slowed down industry-wide.

Quarterly/Annual Financial summary

YE Mar (Rs mn)	1Q FY21	1Q FY20	YoY (%)	4Q FY20	QoQ (%)	FY20	FY21E	FY22E	FY23E
Net Sales	95,018	1,15,028	*(17.4)*	1,14,200	*(16.8)*	4,94,041	4,86,060	5,44,314	5,85,611
EBITDA	26,466	45,657	*(42.0)*	41,635	*(36.4)*	1,92,602	1,86,037	2,09,842	2,25,906
APAT	23,428	31,739	*(26.2)*	37,971	*(38.3)*	1,52,275	1,41,330	1,59,451	1,70,653
Diluted EPS (Rs)	1.9	2.6	*(26.4)*	3.1	*(38.3)*	12.4	11.5	13.0	13.9
P/E (x)						15.8	17.0	15.1	14.1
EV / EBITDA (x)						10.7	11.1	9.6	8.8
RoCE (%)						44.8	40.4	44.7	46.9

Source: Company, HSIE Research

BUY

CMP *(as on 24 Jul 2020)*	**Rs 200**
Target Price	**Rs 236**
NIFTY	**11,194**

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 236	Rs 236
EPS %	FY21E	FY22E
	0%	0%

KEY STOCK DATA	
Bloomberg code	ITC IN
No. of Shares (mn)	12,293
MCap (Rs bn) / ($ mn)	2,455/32,820
6m avg traded value (Rs mn)	5,804
52 Week high / low	Rs 273/135

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	10.9	(16.1)	(26.3)
Relative (%)	(10.8)	(7.8)	(27.0)

SHAREHOLDING PATTERN (%)	Mar-20	June-20
Promoters	0.00	0.00
FIs & Local MFs	42.46	42.09
FPIs	14.65	14.60
Public & Others	42.89	43.31
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Nestle India

Muted 2Q; hit by supply disruptions

Nestle's 2QCY20 was a tad soft as the company clocked 2% YoY revenue growth. Domestic business clocked a mere 2.6% YoY growth (expectation 5%), much lower than its 11-12% consistent show in the last 8 quarters. Supply chain impact was higher for Nestle as Britannia and Marico's Saffola clocked a strong 26/16% YoY growth. Maggi, Nescafe and milk portfolio have done well at the end of the quarter. E-commerce channel was up 122% YoY (3.6% of domestic revenue) as MT continued to struggle during the quarter. OOH consumption experienced a sharp decline on account of lockdown and weak consumer sentiments. GM remained weak and contracted by 190bps YoY to 56%. Cost control initiatives expanded EBITDA margin by 130bps YoY to 25.2%. We expect supply chain related impact to normalize and pantry loading led bump up is now in the past. We maintain our EPS estimate for CY20/CY21/CY22. The stock is trading at 65x P/E on CY21 EPS and limits absolute upside in the medium term, making the risk-reward unattractive. We value Nestle at 50x P/E on Jun-22E EPS and derive a target price of Rs 14,103. Maintain REDUCE.

- **Weak domestic growth:** Net sales grew by 2% YoY (+11% in 2QCY19 and +11% in 1QCY20) vs expectation of 4% YoY growth. Domestic sales grew by 2.6% YoY while exports declined by 9.3% YoY. Domestic volume growth of ~2% YoY (+12% in 2QCY19 and +9% in 1QCY20). July has witnessed sporadic lockdowns in certain areas which has impacted the recovery rate of discretionary categories. Consumers are still cautious about spending on non-necessities and demand for OOH will remain under pressure.
- **Margins in-line:** Gross margin dipped by 193bps YoY (-137bps in 2QCY19 and -223bps in 1QCY20) vs expectation of a dip of 157bps YoY. Employee expenses grew by 18% YoY. However, other expenses declined by 19% YoY leading to and EBITDA margin expansion of 130bps YoY (-109bps in 2QCY19 and -146bps in 1QCY20) to 25.2%. Overall EBITDA grew by 7% YoY to Rs 7.7bn vs our expectation of Rs 7.6bn. Sharp dip in other income was offset by lower tax rate and APAT grew by 11% YoY (+11% in 2QCY19 and +10% in 1QCY20) to Rs 4.9bn.
- **Press release takeaways:** (1) E-commerce contributed 3.6% to revenue in 2QCY20; (2) milk products, Nescafe and Maggi faced supply constraints at the start of the quarter; (3) net cash grew from Rs 12.5bn in December to Rs 19.8bn in June.

Quarterly/Annual Financial summary

YE Dec (Rs mn)	2Q CY20	2Q CY19	YoY (%)	1Q CY20	QoQ (%)	CY19	CY20E	CY21E	CY22E
Net Sales	30,505	30,009	1.7	33,253	(8.3)	123,689	134,166	148,289	164,355
EBITDA	7,677	7,161	7.2	8,103	(5.3)	29,275	31,735	35,856	40,150
APAT	4,866	4,379	11.1	5,254	(7.4)	19,879	22,220	25,388	29,005
Diluted EPS (Rs)	50.5	45.4	11.1	54.5	(7.4)	206.2	230.5	263.3	300.8
P/E (x)						83.0	74.2	65.0	56.9
EV / EBITDA (x)						55.3	50.7	44.6	39.5
RoCE (%)						73.7	66.3	61.3	66.6

Source: Company, HSIE Research

REDUCE

CMP *(as on 28 Jul 2020)*	**Rs 17,095**
Target Price	**Rs 14,103**
NIFTY	**11,301**

KEY CHANGES	**OLD**	**NEW**
Rating	REDUCE	REDUCE
Price Target	Rs 14,103	Rs 14,103
EPS %	FY21E	FY22E
	0%	0%

KEY STOCK DATA	
Bloomberg code	NEST IN
No. of Shares (mn)	96
MCap (Rs bn) / ($ mn)	1,648/22,021
6m avg traded value (Rs mn)	2,655
52 Week high / low	Rs 18,370/11,128

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	(2.7)	10.9	49.4
Relative (%)	(22.6)	16.9	47.7

SHAREHOLDING PATTERN (%)	**Mar-20**	**June-20**
Promoters	62.76	62.76
FIs & Local MFs	9.12	8.71
FPIs	11.81	12.10
Public & Others	16.31	16.43
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Britannia

Strong show led by big margin beat

Britannia clocked a robust 26% YoY revenue growth (HSIE 22%) with 22% YoY growth in volume (+4% in 1QFY20 and flat in 4QFY20). Growth in June was 30% YoY, higher than 24% YoY growth in April/May. It was driven by greater traction in packaged food category along with market share gain for Britannia with rising distribution reach. We continue to remain optimistic on the packaged food category in FY21. EBTIDAM expanded sharply by 634bps YoY, led by (1) GM expansion of 124bps YoY, (2) cut down in ASP spend by 200bps YoY and (3) focused cost reduction initiatives. With consumers remaining wary about eating outside, we expect Britannia to continue its growth trajectory over the next 2-3 quarters. The expansion in margins is likely to continue in FY21, driven by benign raw material and industry-wide rationalization in ASP spends. Hence, we increase EPS estimate by 21/13/8% for FY21/FY22/FY23. However, we remain cautious due to rich valuations (44x June-22 P/E), group company investments (via ICD), rising gross debt, and non-current investments. We value BRIT at 40x P/E on June-22E EPS and derive a target price of Rs 3,479. Maintain REDUCE.

- **Robust revenue growth:** Revenue saw a robust growth of 26% YoY to Rs 33.85bn (+6% in 1QFY20 and +2% in 4QFY20). Dairy saw 60% YoY growth while the international business grew in double digits.
- **Beat in margins:** Gross margin was up by 124bps YoY (+41bps in 1QFY20 and -152bps in 4QFY20) to 41.7%. Employee/other expenses were up by +14/7% YoY while ASP was down 26% YoY, leading to a robust EBITDAM expansion of 634bps YoY (-69bps in 1QFY20 and +24bps in 4QFY20) vs HSIE +44bps YoY. EBITDA grew by 82% YoY. Higher other income and lower taxes led to APAT growth of 109% YoY.
- **Call takeaways:** (1) No significant deceleration in growth in July; (2) Commodity inflation is expected to remain benign in FY21; (3) UP is now the second largest market; (4) The company intends to expand bakery manufacturing capacity, with a capex of Rs 7bn over the next two years and (5) GoAir repaid its entire ICD amount, while group ICDs remain flat QoQ.

Quarterly/Annual Financial summary

YE Mar (Rs mn)	1Q FY21	1Q FY20	*YoY (%)*	4Q FY20	*QoQ (%)*	FY20	FY21E	FY22E	FY23E
Net Sales	34,207	27,004	*26.7*	28,677	*19.3*	1,15,996	1,37,417	1,45,399	1,59,004
EBITDA	7,169	3,947	*81.7*	4,543	*57.8*	18,432	25,595	26,990	29,530
APAT	5,427	2,486	*118.3*	3,724	*45.7*	14,061	19,096	20,426	22,382
Diluted EPS (Rs)	22.6	10.8	*108.3*	15.5	*45.7*	58.5	79.4	84.9	93.1
P/E (x)						64.7	47.7	44.6	40.7
EV / EBITDA (x)						48.1	34.3	32.1	29.1
RoCE (%)						42.8	59.7	61.1	64.2

Source: Company, HSIE Research

Change in Estimates

	FY21E			FY22E			FY23E		
	OLD	**NEW**	*Chg (%)*	**OLD**	**NEW**	*Chg (%)*	**OLD**	**NEW**	*Chg (%)*
Sales	1,30,672	1,37,417	*5.2%*	1,43,205	1,45,399	*1.5%*	1,56,711	1,59,004	*1.5%*
EBITDA	20,893	25,595	*22.5%*	23,593	26,990	*14.4%*	26,486	29,530	*11.5%*
APAT	15,752	19,096	*21.2%*	18,128	20,426	*12.7%*	20,654	22,382	*8.4%*
EPS	65.5	79.4	*21.2%*	75.4	84.9	*12.7%*	85.9	93.1	*8.4%*

Source: Company, HSIE Research

REDUCE

CMP *(as on 17 Jul 2020)*	**Rs 3,785**
Target Price	**Rs 3,479**
NIFTY	**10,902**

KEY CHANGES	**OLD**	**NEW**
Rating	REDUCE	REDUCE
Price Target	Rs 3,120	Rs 3,479
EPS %	FY21E	FY22E
	21%	13%

KEY STOCK DATA	
Bloomberg code	BRIT IN
No. of Shares (mn)	241
MCap (Rs bn) / ($ mn)	911/12,147
6m avg traded value (Rs mn)	2,493
52 Week high / low	Rs 3,949/2,100

STOCK PERFORMANCE (%)

	3M	**6M**	**12M**
Absolute (%)	33.6	21.1	35.3
Relative (%)	16.4	32.9	40.9

SHAREHOLDING PATTERN (%)

	Mar-20	**June-20**
Promoters	50.63	50.61
FIs & Local MFs	13.38	12.66
FPIs	14.71	14.67
Public & Others	21.28	22.06
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Dabur

In-line 2Q, slight beat in domestic volume

Dabur's 1QFY21 was broadly in line with a beat in domestic revenue. Consolidated revenue/EBITDA was down by 13/9% YoY (in-line) with domestic revenue/volume decline of 7/10% YoY (HSIE -13%). In domestic, HPC and Food portfolio saw 15% and 34% YoY decline while Healthcare recorded a strong 29% YoY growth (Honey and Chywanprash up by 69% and 7x YoY). Market share gain (across portfolio), rural growth (+1% YoY) and strong demand for healthcare products were the key highlights of the result. Performance in oral care (+1% YoY) was better than Colgate (-4%YoY), and the company gained market share in toothpaste. Juices remained under pressure as OOH consumption impacted LUPs. Ecommerce saw strong growth and revenue mix jumped to 5.6% (1.5% earlier). The international business saw a 22% YoY decline with massive impact in MENA and Egypt. Bangladesh clocked 14% cc growth (healthy growth for Marico too). Margins saw improvement aided by (1) lower consumer offers, (2) price increases and (3) heightened focus on cost rationalization. We expect a gradual recovery, aided by a healthy pick-up in rural and healthcare portfolio. We maintain our EPS for FY21/FY22/FY23. We value Dabur at 42x P/E on Jun-22E EPS and derive a target price of Rs 433. Maintain REDUCE.

- **Healthcare drives revenue:** Revenue declined by 13% YoY (+9% in 1QFY20 and -12% in 4QFY20) vs HSIE estimated 14%. Domestic business declined by 7% YoY while International dipped by 22% YoY. Hair Care/Home Care were the worst impacted, declining by 23/31% YoY, while Healthcare/OTC saw strong growth of 53/34% YoY. Secondary sales fared better than primary, clocking a 5% YoY decline for the quarter and 7% YoY growth in June. The trend continued in July (up 5-6% YoY). GT/MT/CSD clocked decline of 13/28/50% YoY, but e-commerce saw robust growth.
- **Margins resilient:** Gross margin was flat at 49.4% (-9bps in 1QFY20 and -66bps in 4QFY20). Price increase and low consumer offers were offset by 3% YoY inflation in the RM basket. Employee/ASP/other expenses declined by 3/28/18% YoY, leading to an EBITDAM expansion of 126bps YoY to 21% (+122bps in 1QFY20 and -314bps in 4QFY20). EBITDA declined by 7% YoY to Rs 4.2bn (in-line). APAT declined by 10% YoY to Rs 3.4bn.
- **Call takeaways:** (1) Channel inventory stood at 16 days vs 23 days in April; (2) the company is focused on expanding its presence in e-commerce with exclusive products and increased allocation of ASP to digital media; (3) rural business grew by 1% YoY while urban declined by 13% YoY; (4) the company gained market share across several categories; (5) GT has shown signs of recovery while MT continues to be under stress.

Quarterly/Annual Financial summary

YE Mar (Rs mn)	1Q FY21	1Q FY20	YoY (%)	4Q FY20	QoQ (%)	FY20	FY21E	FY22E	FY23E
Net Sales	19,800	22,733	(12.9)	18,654	6.1	87,036	88,296	98,842	109,557
EBITDA	4,166	4,576	(9.0)	3,523	18.3	17,924	18,704	21,019	23,173
APAT	3,418	3,791	(9.8)	2,972	15.0	15,254	16,108	17,880	19,162
Diluted EPS (Rs)	1.93	2.15	(9.8)	1.68	15.0	8.63	9.12	10.12	10.84
P/E (x)						57.2	54.2	48.8	45.6
EV / EBITDA (x)						47.7	45.5	40.5	36.8
RoCE (%)						44.6	40.4	43.3	44.7

Source: Company, HSIE Research

REDUCE

CMP *(as on 30 Jul 2020)*	**Rs 492**
Target Price	**Rs 433**
NIFTY	**11,102**

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	Rs 433	Rs 433
	FY21E	FY22E
EPS %	0%	0%

KEY STOCK DATA	
Bloomberg code	DABUR IN
No. of Shares (mn)	1,767
MCap (Rs bn) / ($ mn)	869/11,607
6m avg traded value (Rs mn)	1,678
52 Week high / low	Rs 525/385

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	0.5	2.7	16.3
Relative (%)	(11.4)	10.5	15.4

SHAREHOLDING PATTERN (%)	Mar-20	June-20
Promoters	67.88	67.87
FIs & Local MFs	7.62	7.42
FPIs	17.43	17.63
Public & Others	7.07	7.08
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Godrej Consumers

Strong comeback in HI

GCPL's 1QFY21 was broadly in line with revenue/EBITDA growth of -1/3% YoY. Domestic revenue/EBITDA growth was at +5/+22% YoY, while international revenue/EBITDA growth was -8/-36% YoY. Domestic revenue growth was led by HI (27% YoY), while soaps surprised with a 2% YoY decline (HSIE +7%). Hair colours remained weak and declined by 18% YoY. Within international, GUAM was heavily impacted (-23% YoY) by lockdowns while Indonesia maintained a healthy pace (+5% YoY), driven by HI. GCPL continued to drive penetration through innovative launches, and the company launched 45 new products in its hygiene portfolio. We expect HI and hygiene portfolio to sustain healthy growth while discretionary/OOH will be muted in FY21. We maintain our EPS estimates for FY21/FY22/FY23. We value GCPL at 35x P/E on Jun-22E EPS and derive a target price of Rs 628. Maintain REDUCE.

- **HI drives revenue:** Consolidated revenue declined by 1% YoY (-5% in 1QFY20 and -12% in 4QFY20) vs the HSIE estimate of 2% YoY dip. Domestic volume growth was at 3% YoY (+5% in 1QFY20 and -15% in 4QFY20). Rural growth was ahead of urban growth. HI was benefited by channel filling, share gain from the unorganised market and higher consumer focus towards health. HI primary growth and secondary growth was mostly in line in the last 6 months. Soaps remained muted, and the company is trying to drive through new launches (Protekt brand). GUAM markets saw the severe impact of COVID-led lockdowns, with Africa among the worst impacted markets. However, demand has sequentially improved since May, while the company has launched a range of HI in Africa. Indonesia is expected to sustain healthy growth.
- **Margins resilient:** Gross margin dipped by 286bps YoY to 54.3% (+133bps in 1QFY20 and -97bps in 4QFY20). The dip in margin was driven by an adverse product mix and RM inflation (palm oil). Employee expenses remained flat YoY while ASP/other expenses declined by 46/2% YoY, leading to an EBITDAM expansion of 77bps YoY to 20.3% (+140bps in 1QFY20 and -151bps in 4QFY20). EBITDA grew by 3% YoY to Rs 4.7bn (HSIE Rs 4.8bn). APAT (excluding exceptional item and normalized tax rate) up by 6% YoY to Rs 3.17bn (HSIE Rs 3.16bn).
- **Call takeaways:** (1) Factories are operating at 90% of capacity; (2) supply chain disruption and import duty dented illegal incense sticks; (3) inventory levels to remain lower than pre-COVID levels in FY21; (4) growth in domestic business will be driven by rural growth; (5) no significant capex is expected in the near term.

Quarterly/Annual Financial summary

YE Mar (Rs mn)	1Q FY21	1Q FY20	*YoY (%)*	4Q FY20	*QoQ (%)*	FY20	FY21E	FY22E	FY23E
Net Sales	23,273	23,488	*(0.9)*	21,538	*8.1*	99,108	104,558	112,516	120,893
EBITDA	4,727	4,589	*3.0*	4,765	*(0.8)*	21,433	22,973	25,031	27,310
APAT	3,174	2,997	*5.9*	3,288	*(3.5)*	14,725	15,952	17,787	20,067
Diluted EPS (Rs)	3.1	2.9	*5.9*	3.2	*(3.5)*	14.4	15.6	17.4	19.6
P/E (x)						47.4	43.8	39.3	34.8
EV / EBITDA (x)						33.5	32.9	30.2	27.5
RoCE (%)						19.0	18.7	21.0	23.6

Source: Company, HSIE Research

REDUCE

CMP *(as on 04 Aug 2020)*	**Rs 692**
Target Price	**Rs 628**
NIFTY	**11,095**

KEY CHANGES	**OLD**	**NEW**
Rating	REDUCE	REDUCE
Price Target	Rs 628	Rs 628
EPS %	FY21E	FY22E
	0%	0%

KEY STOCK DATA	
Bloomberg code	GCPL IN
No. of Shares (mn)	1,022
MCap (Rs bn) / ($ mn)	708/9,427
6m avg traded value (Rs mn)	1,232
52 Week high / low	Rs 772/425

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	31.5	5.7	13.1
Relative (%)	12.7	13.3	11.6

SHAREHOLDING PATTERN (%)	**Mar-20**	**June-20**
Promoters	63.24	63.24
FIs & Local MFs	3.10	3.19
FPIs	26.34	26.79
Public & Others	7.32	6.78
Pledged Shares	0.42	0.42

Source : BSE

Pledged shares as % of total shares

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Marico

Domestic remains weak; beat on margins

Marico posted a mixed set of numbers as revenue declined 11% YoY due to weak domestic performance. Domestic revenue/EBIT declined by 15/2% YoY, while International revenue/EBIT grew by 2/18% YoY. The domestic performance was impacted by weak demand in VAHO (-32% YoY) and PCNO (-12% YoY). Saffola continued its strong trajectory with 16% YoY growth. The company has witnessed a sequential recovery in demand in May and June, recording a 3% YoY growth. In international, Bangladesh posted healthy 10% YoY cc growth while the lockdowns in MENA (-27% YoY cc) and South Africa (-25% YoY cc) impacted international revenue (-4% YoY cc). There is a beat at the EBITDA level, led by lower A&P. Benign copra prices and A&P rationalisation will maintain operating margins at a healthy level in FY21. While we expect the discretionary portfolio to remain muted, PCNO and Saffola are expected to drive recovery. We maintain our EPS for FY21/FY22/FY23. We value Marico at 35x P/E on Jun-22E EPS and derive a target price of Rs 351. Maintain REDUCE.

- **Saffola continues to drive revenue:** Revenue declined by 11% YoY (+7% in 1QFY20 and -7% in 4QFY20). The decline was due to a dip in domestic business of 15% YoY (+6% in 1QFY20 and +8% in 4QFY20). The International business, on the other hand, grew 2% YoY, driven by forex gains. CC revenue declined by 4% YoY for the company as lockdowns severely impacted some markets. PCNO clocked value/volume decline of 12/11% YoY, while VAHO clocked value/volume decline of 32/30% YoY. Marico achieved 111/94% of the average monthly run rate of FY20 in PCNO/VAHO. Saffola value/volume grew by 16% YoY, although the loss of sales in CSD (-48% YoY) and MT (-17% YoY) stunted its growth.
- **Margins resilient:** Gross margin expanded by 138bps YoY to 48.9% (+522bps in 1QFY20 and +23bps in 4QFY20) vs. our expectation of 19bps YoY expansion. ASP/other expenses declined by 37/9% YoY while employee expenses grew by 6% YoY, leading to an EBITDAM expansion of 298bps YoY to 24.3% (+377bps in 1QFY20 and +58bps in 4QFY20). EBITDA grew by 1% YoY vs our expectation of 8% YoY decline. APAT grew by 3% YoY.
- **Call takeaways:** (1) Consumer offtake in June has returned to pre-COVID levels, with some parts of the portfolio witnessing growth, and the trend continued in July; (2) the company saw market share gains in 90% of its portfolio; (3) management is optimistic of achieving 20% operating margin in the rest of the year; (4) the company is now able to service 75% of its total outlets; (5) its foods business is expected to grow to Rs 3-3.5bn in FY21; (6) rural revenue was 120% of the average monthly run rate of FY20 while urban revenue was flat.

Quarterly/Annual Financial summary

YE Mar (Rs mn)	1Q FY21	1Q FY20	YoY (%)	4Q FY20	QoQ (%)	FY20	FY21E	FY22E	FY23E
Net Sales	19,250	21,660	*(11.1)*	14,960	*28.7*	73,150	74,145	81,881	89,252
EBITDA	4,670	4,610	*1.3*	2,820	*65.6*	14,690	15,557	17,361	19,225
APAT	3,330	3,224	*3.3*	1,950	*70.8*	10,364	10,892	12,587	13,988
Diluted EPS (Rs)	2.58	2.50	*3.3*	1.51	*70.8*	8.03	8.44	9.75	10.84
P/E (x)						42.8	40.7	35.2	31.7
EV / EBITDA (x)						30.3	28.5	25.6	23.0
RoCE (%)						42.4	42.9	47.9	52.6

Source: Company, HSIE Research

REDUCE

CMP *(as on 27 Jul 2020)*	**Rs 350**
Target Price	**Rs 351**
NIFTY	**11,132**

KEY CHANGES	**OLD**	**NEW**
Rating	REDUCE	REDUCE
Price Target	Rs 351	Rs 351
EPS %	FY21E	FY22E
	0%	0%

KEY STOCK DATA	
Bloomberg code	MRCO IN
No. of Shares (mn)	1,291
MCap (Rs bn) / ($ mn)	452/6,052
6m avg traded value (Rs mn)	1,115
52 Week high / low	Rs 404/234

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	17.9	3.6	(2.9)
Relative (%)	(1.6)	11.4	(3.1)

SHAREHOLDING PATTERN (%)	**Mar-20**	**June-20**
Promoters	59.60	59.62
FIs & Local MFs	10.50	9.75
FPIs	22.70	23.72
Public & Others	7.20	6.91
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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United Spirits

Weak show; gradual recovery expected

United Spirits posted a disappointing set of numbers as the revenue declined 54% YoY and there was an EBITDA loss of Rs 776mn. IMFL industry saw >50% decline in volume due to COVID-led lockdown. Recovery in May and June was strong, although localised lockdowns have slowed down the rate of recovery in July. The downtrading trend was not significant, and the P&A mix is expected to improve in the ensuing quarters. GM pressure (>500bps dip YoY) was on account of (1) low franchise income (160bps impact), (2) inventory-led provision (150bps impact), (3) cost inflation (150bps impact), (4) weak P&A volumes, and (5) adverse mix in popular. Going forward, we expect lower impact of these headwinds, and the company may achieve 44-45% gross margin. Improvement in the balance sheet was encouraging as collections were healthy in 1Q. Owing to the big miss in 1Q and slower recovery in P&A, we cut our EPS estimate by 34/4/4% for FY21/FY22/FY23. We value UNSP at 42x P/E on Jun-22E EPS and derive a target price of Rs 569. Maintain ADD.

- **Weak volumes and realisation:** Revenue declined by 54% YoY (+10% in 1QFY20 and -11% in 4QFY20). P&A saw value/volume decline of 52% YoY while popular saw value/volume decline of 51/47% YoY. However, premium products and new launches continued to perform well.
- **Loss in EBITDA:** Gross margin fell sharply by 567bps YoY to 41.7% (-291bps in 1QFY20 and -400bps in 4QFY20) vs estimated 44.8%. Employee/A&P/other expenses declined 12/70/22% YoY. The company recorded a loss of Rs 776mn at the EBTIDA level. The loss at the APAT level fell to Rs 1,403mn vs an expected profit of Rs 535mn.
- **Call takeaways:** (1) All plants of the company are now fully operational; (2) 80-85% shops were operational within a month of states allowing the sale of liquor; (3) West Bengal and Orissa performed better than Maharashtra as Swiggy, Zomato were allowed to deliver liquor; (4) franchise income in the normal course is Rs 1.6-2bn per year. The company expects it to be ~40% lower going forward, (5) ENA is likely to remain stable and support gross margin, going forward, and (6) the company took a price hike in 7-8 states.

Quarterly/Annual Financial summary

YE Mar (Rs mn)	1Q FY21	1Q FY20	*YoY (%)*	4Q FY20	*QoQ (%)*	FY20	FY21E	FY22E	FY23E
Net Sales	10,302	22,184	*(53.6)*	19,938	*(48.3)*	90,909	79,580	95,598	103,928
EBITDA	-876	3,871	*(122.6)*	2,624	*(133.4)*	15,081	10,295	15,786	17,639
APAT	(1,403)	1,987	*(170.6)*	1,083	*(229.5)*	7,904	4,682	9,038	10,646
Diluted EPS (Rs)	(1.9)	2.7	*(170.6)*	1.5	*(229.5)*	10.9	6.4	12.4	14.7
P/E (x)						54.1	91.4	47.3	40.2
EV / EBITDA (x)						29.2	41.9	27.0	23.7
RoCE (%)						16.0	12.8	22.0	23.4

Source: Company, HSIE Research

Change in Estimates

	OLD			NEW			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Sales	79,580	95,598	103,928	81,140	96,555	104,964	(1.9)	(1.0)	(1.0)
EBITDA	10,295	15,786	17,639	13,512	16,374	18,270	(23.8)	(3.6)	(3.5)
APAT	4,682	9,038	10,646	7,096	9,452	11,096	(34.0)	(4.4)	(4.1)
EPS	6	12	15	10	13	15	(34.0)	(4.4)	(4.1)

Source: Company, HSIE Research

ADD

CMP *(as on 28 Jul 2020)*	**Rs 585**
Target Price	**Rs 569**
NIFTY	**11,301**

KEY CHANGES	**OLD**	**NEW**
Rating	ADD	ADD
Price Target	Rs 594	Rs 569
EPS %	FY21E	FY22E
	-34%	-4%

KEY STOCK DATA	
Bloomberg code	UNSP IN
No. of Shares (mn)	727
MCap (Rs bn) / ($ mn)	425/5,682
6m avg traded value (Rs mn)	2,460
52 Week high / low	Rs 743/443

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	11.9	(10.8)	(1.2)
Relative (%)	(7.9)	(4.7)	(2.8)

SHAREHOLDING PATTERN (%)	**Mar-20**	**June-20**
Promoters	56.76	56.76
FIs & Local MFs	7.46	7.68
FPIs	20.54	19.68
Public & Others	15.24	15.88
Pledged Shares	0.67	0.67

Source : BSE

Pledged shares as % of total shares

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Colgate Palmolive

Toothpaste returning to growth, beat in the margin

Colgate's 1Q revenue was in line while there was a beat in the margin. Net revenue contracted by 4% YoY with a domestic volume decline of 7%. Toothpaste business delivered growth with a volume decline of 2%. Toothbrushes dragged the revenue with a decline of 30-35% YoY. Trade inventory has improved vs. March. The company saw an impact of lockdown at the start of the quarter, but revenue improved sequentially (June and July witnessed growth). A higher share of large packs along with favourable mix (higher share of toothpaste) supported gross margin (+28bps YoY and 148bps QoQ). Control on A&P (down by 25% YoY) and other overheads (-2% YoY), resulted in EBITDA margin expanding by 196bps YoY. EBITDA grew by 3% YoY (HSIE expected -7.5% YoY). The company continued its product innovation with the launch of Palmolive hand sanitiser and a new range of toothbrushes 'Colgate Gentle'. We expect a gradual recovery in revenue with cost control headroom (A&P is highest in the industry) will result in healthy EBITDA growth in the ensuing quarters. We increase our EPS estimates by 1/3/3% for FY21/FY22/FY23. We value Colgate at 40x P/E on Jun-22E EPS and derive a target price of Rs 1,491. Maintain ADD.

- **Toothbrush drags revenue:** Revenue declined by 4% YoY (+4% in 1QFY20 and -7% in 4QFY20), in line with our estimates. Toothpaste saw revenue growth in the quarter while toothbrush, which is a more discretionary category, dragged revenues. Brand penetration remained strong in the quarter, and the company saw healthy growth at the end of the quarter.
- **Beat in margin:** Gross margin expanded by 28bps YoY (-5bps in 1QFY20 and +9bps in 4QFY20). Employee expenses grew by 9% YoY while ASP/other expenses declined by 25/2% YoY. EBITDA margin expanded by 196bps YoY (+59bps in 1QFY20 and -237bps in 4QFY20) to 29.6%. EBITDA saw 3% YoY growth to Rs 3.1bn, vs an expectation of Rs 2.8bn. Lower tax rate led to an APAT growth of 17% YoY.

Quarterly/Annual Financial summary

YE Mar (Rs mn)	1Q FY21	1Q FY20	YoY (%)	4Q FY20	QoQ (%)	FY20	FY21E	FY22E	FY23E
Net Sales	10,406	10,849	*(4.1)*	10,713	*(2.9)*	45,251	47,172	51,270	55,221
EBITDA	3,080	2,998	*2.7*	2,629	*17.2*	12,017	13,071	14,650	15,849
APAT	1,982	1,691	*17.2*	2,042	*(2.9)*	8,165	8,588	9,799	10,871
Diluted EPS (Rs)	7.3	6.2	*17.2*	7.5	*(2.9)*	30.0	31.6	36.0	39.9
P/E (x)						48.3	45.9	40.2	36.3
EV / EBITDA (x)						32.4	29.8	26.3	24.0
RoCE (%)						64.7	65.9	79.9	91.5

Source: Company, HSIE Research

Change in Estimates

(Rs mn)	NEW			OLD			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Net Sales	47,172	51,270	55,221	46,705	50,020	53,874	1.0%	2.5%	2.5%
EBITDA	13,071	14,650	15,849	12,942	14,223	15,387	1.0%	3.0%	3.0%
PAT	8,588	9,799	10,871	8,503	9,488	10,517	1.0%	3.3%	3.4%
EPS	31.6	36.0	39.9	31.2	34.9	38.6	1.0%	3.3%	3.4%

Source: HSIE Research

ADD

CMP *(as on 29 Jul 2020)*	**Rs 1,448**
Target Price	**Rs 1,491**
NIFTY	**11,203**

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	Rs 1,432	Rs 1,491
EPS %	FY21E	FY22E
	1%	3%

KEY STOCK DATA	
Bloomberg code	CLGT IN
No. of Shares (mn)	272
MCap (Rs bn) / ($ mn)	394/5,272
6m avg traded value (Rs mn)	1,316
52 Week high / low	Rs 1,643/1,065

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	(1.8)	(2.4)	24.5
Relative (%)	(18.1)	5.1	23.4

SHAREHOLDING PATTERN (%)	Mar-20	June-20
Promoters	51.00	51.00
FIs & Local MFs	9.96	11.22
FPIs	16.19	15.27
Public & Others	22.85	22.51
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Emami

Weak 1QFY21 though recovery is in sight

Emami posted a weak 1QFY21 as revenue/EBITDA declined by 26/8% YoY (HSIE -19/-9%). The domestic revenue decline of 26% YoY (volume decline of 28%) was due to the Navratna range, Male Grooming and Kesh King declining by 41/70/33% YoY. However, Boroplus, Healthcare, and Pain management clocked a strong growth of 28/23/15% YoY. The company saw sequential improvement in revenue growth (+8% YoY in June and double-digit growth in July), led by healthcare and pain management. The pick-up is driven by (1) healthy growth in rural markets, (2) new launches (5% contribution), and (3) channel filling. At the same time, sharp cost control (A&P down by 54% YoY) led to 487bps YoY expansion in EBITDA margin. Despite strong growth in June/July, we expect core categories to improve gradually. However, we increase our EPS estimate by 5/3/3% for FY21/FY22/FY23 on account of the strong traction in healthcare and pain management along with benign raw material prices. We value Emami at 18x P/E on Jun-22E EPS and derive a target price of Rs 232. Maintain REDUCE.

- **Weak revenue:** Consolidated revenue declined by 26% YoY (+6% in 1QFY20 and -17% in 4QFY20) vs the HSIE estimate of 19% YoY dip. Domestic volume declined by 28% YoY. Domestic/International/CSD declined by 26/18/38% YoY. The Health & Hygiene portfolio (43% mix) saw a 29% YoY growth while other brands (57% mix) saw a 44% YoY decline. Brand extension in Boroplus (soap, sanitizer, and face wash) and Zandu (hand sanitizer and healthcare products) saw excellent traction.
- **Strong margin expansion:** GM expanded by 231bps YoY to 66.5%, driven by benign raw material prices. Employee expenses grew by 1% YoY while ASP/other expenses declined by 54/22% YoY. EBITDAM expanded by 487bps YoY (+58bps in 1QFY20 and -578bps in 4QFY20). EBITDA declined by 8% YoY. Lower tax rate led to APAT growth of 2% YoY.
- **Call takeaways:** (1) E-commerce revenue mix doubled in 1QFY21; (2) decline in secondary sales (15%) was lower than primary; (3) distributor inventory fell to 19 days in July vs. 29 days in March; (4) the company will launch a new home hygiene brand in the near term; (5) promoter pledge was reduced to 55%, and would further go down to 50% in the next few days.

Quarterly/Annual Financial summary

YE Mar (Rs mn)	1Q FY21	1Q FY20	*YoY (%)*	4Q FY20	*QoQ (%)*	FY20	FY21E	FY22E	FY23E
Net Sales	4,813	6,486	*(25.8)*	5,327	*(9.6)*	26,540	26,054	28,154	30,112
EBITDA	1,230	1,341	*(8.3)*	985	*24.8*	6,896	7,199	7,750	8,274
APAT	845	830	*1.9*	702	*20.4*	4,966	5,165	5,648	6,012
Diluted EPS (Rs)	1.90	1.83	*3.8*	1.55	*22.4*	11.0	11.6	12.7	13.5
P/E (x)						21.5	20.4	18.6	17.5
EV / EBITDA (x)						15.5	14.4	13.1	12.1
RoCE (%)						22.5	26.2	32.1	37.1

Change in Estimates

	FY21E			FY22E			FY23E		
	OLD	NEW	*Chg (%)*	OLD	NEW	*Chg (%)*	OLD	NEW	*Chg (%)*
Sales	25,181	26,054	*3.5*	27,602	28,154	*2.0*	29,521	30,112	*2.0*
EBITDA	6,856	7,199	*5.0*	7,598	7,750	*2.0*	8,112	8,274	*2.0*
APAT	4,997	5,165	*3.4*	5,567	5,648	*1.5*	5,948	6,012	*1.1*
EPS *	11.0	11.6	*5.0*	12.3	12.7	*3.1*	13.1	13.5	*2.7*

Source: Company, HSIE Research *New equity after buyback

REDUCE

CMP *(as on 07 Aug 2020)*	Rs 257
Target Price	Rs 232
NIFTY	11,214

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	Rs 225	Rs 232
EPS %	FY21E	FY22E
	5%	3%

KEY STOCK DATA	
Bloomberg code	HMN IN
No. of Shares (mn)	445
MCap (Rs bn) / ($ mn)	114/1,526
6m avg traded value (Rs mn)	233
52 Week high / low	Rs 358/131

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	45.4	(14.3)	(16.7)
Relative (%)	24.4	(6.8)	(20.4)

SHAREHOLDING PATTERN (%)	Mar-20	July-20
Promoters	52.74	53.86
FIs & Local MFs	31.46	29.79
FPIs	7.00	6.90
Public & Others	8.80	9.45
Pledged Shares	47.07	48.73

Source : BSE

Pledged shares as % of total shares

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Radico Khaitan

Outperforming continues

Radico Khaitan clocked a strong 1QFY21 with a beat in revenue and margin. Revenue saw a 34% YoY decline in revenue (IMFL declined 40% YoY), beating our estimate of 51% YoY decline. IMFL industry declined by >50% YoY, Radico continued its market share gain trajectory. The sequential improvement in demand since May indicates a better revenue show in coming quarters (-10% YoY in June). Gross margin expanded sharply by 666bps YoY (5-year high) to 54.6%, aided by favourable state & product mix and strong exports (7% revenue mix). Cost control led to the expansion in EBTIDA margin of 242bps YoY to 18.5%. We continue to believe in quicker recovery in Radico. The beat in 1Q and gross margin expansion (~200bps) have led to our EPS estimate increasing by 13/10/9% for FY21/FY22/FY23. We value Radico at 18x P/E on Jun-22E EPS and derive a target price of Rs 426. Maintain ADD.

- **Beat in revenue:** The revenue declined by 34% YoY (+21% in 1QFY20 and +15% in 4QFY20). It was due to a 44% YoY decline in IMFL volumes (+12% in 1QFY20, +13% in 4QFY20). P&A/regular IMFL saw volume decline of 47/42% YoY. IMFL revenue declined 40% YoY, beating the estimated decline of 60% YoY. We model -5/18/11% overall revenue growth in FY21/22/23.
- **Strong margin expansion:** The company surprised with a 666bps YoY expansion of GM to 54.6% (-291bps in 1QFY20 and -400bps in 4QFY20) vs estimated 46.5%. The expansion was led by improved state & product mix, increased traction in exports, and a 10% price increase in Telangana. Employee/S&D/Other expenses declined 8/38/23% YoY with ASP declining by 48% YoY, leading to an expansion of 242bps YoY in EBITDAM (-155bps in 1QFY20 and flat in 4QFY20). EBITDA dipped by 25% YoY. Lower taxes helped the company restrain the dip in APAT to 21% YoY.
- **Call takeaways:** (1) 85-88% shops are operational pan-India; (2) demand continued to improve in July, and the company expects to revert to pre-COVID revenue in 2QFY21; (3) ENA prices are expected to remain stable, and margins will continue to improve; (4) premiumisation trend remains intact; (5) net debt stood at Rs 2.6bn in June vs Rs 3.8bn in March.

Quarterly/Annual Financial summary

YE Mar (Rs mn)	1Q FY21	1Q FY20	YoY (%)	4Q FY20	QoQ (%)	FY20	FY21E	FY22E	FY23E
Net Sales	4,092	6,236	*(34.4)*	5,854	*(30.1)*	24,270	23,001	27,084	30,012
EBITDA	758	986	*(23.1)*	810	*(6.4)*	3,718	3,878	4,608	5,186
APAT	441	557	*(20.8)*	449	*(1.8)*	2,134	2,366	3,033	3,527
Diluted EPS (Rs)	3.3	4.2	*(20.8)*	3.4	*(1.8)*	16.0	17.7	22.7	26.4
P/E (x)						24.9	22.5	17.5	15.1
EV / EBITDA (x)						15.3	13.9	11.3	9.6
RoCE (%)						14.5	12.8	15.2	16.4

Source: Company, HSIE Research

Change in Estimates

	OLD			NEW			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Sales	22,275	26,171	28,991	23,001	27,084	30,012	3.3	3.5	3.5
EBITDA	3,529	4,257	4,793	3,878	4,608	5,186	9.9	8.2	8.2
APAT	2,092	2,764	3,229	2,366	3,033	3,527	13.1	9.7	9.2
EPS	15.7	20.7	24.2	17.7	22.7	26.4	13.1	9.7	9.2

Source: Company, HSIE Research

ADD

CMP *(as on 24 Jul 2020)*	**Rs 395**
Target Price	**Rs 426**
NIFTY	**11,194**

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	Rs 391	Rs 426
EPS %	FY21E +13%	FY22E +10%

KEY STOCK DATA	
Bloomberg code	RDCK IN
No. of Shares (mn)	134
MCap (Rs bn) / ($ mn)	53/703
6m avg traded value (Rs mn)	294
52 Week high / low	Rs 439/220

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	38.0	3.6	28.9
Relative (%)	16.2	12.0	28.2

SHAREHOLDING PATTERN (%)

	Mar-20	June-20
Promoters	40.31	40.31
FIs & Local MFs	12.99	15.42
FPIs	19.37	18.63
Public & Others	27.33	25.64
Pledged Shares	1.83	1.42

Source : BSE

Pledged shares as % of total shares

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Infrastrcture, Construction

Dilip Buildcon

Execution surprise

Dilip Buildcon (DBL) reported 1QFY21 APAT at Rs 336mn (73%/71% YoY/QoQ), marginally behind our estimate, as revenue declined by 16%/23% YoY/QoQ. However, execution was 9% ahead of our estimate as labour availability improved to 90%. CFO during the quarter was negative at Rs 2bn as NWC days increased to 114 days from 93 days at FY20 end. Net D/E also increased from 0.8x on Mar-20 to 0.92x on Jun-20. Nonetheless, despite muted ordering in the sector, the company has won orders of Rs 107bn till date in FY21. We maintain BUY on DBL, with a target price of Rs 466/sh, given its (1) strong and diversified order book of Rs 261bn and (2) continued focus on asset recycling. We have valued EPC business at 8x FY22E EPS and HAM at 1x P/BV.

- **Marginal miss on APAT despite positive surprise in execution:** DBL reported 1QFY21 revenue/EBITDA at Rs 19/3 bn, 9%/12% ahead of our estimate, as labour availability improved to 90%. However, APAT at Rs 336mn missed our estimate marginally on account of lower other income and higher taxes. DBL earned Rs 1.1bn of early completion bonus for a HAM project during the quarter.
- **Labour availability at 90%; all sites operating:** Labour availability, which had reduced to 65-70%, has improved to 90% currently. DBL expects it to normalise after the monsoon. While DBL shied away from giving revenue guidance, with improved labour availability and its superior execution capabilities, it expects to achieve execution level similar to that in FY20. We remain conservative and maintain our revenue estimate for FY21.
- **Strong order book provides earnings visibility in the medium term:** DBL has bagged new orders worth Rs 107bn till date in FY21, across road, irrigation and tunnel segments and expects to win additional orders of Rs 50bn during FY21. It has successfully diversified its order book over the past few years as roads contribute only 50%, compared to 87% at FY18-end. With closing order book at Rs 261bn, DBL provides earnings visibility for three years on FY20 revenue.
- **Deleveraging contingent on monetization of assets:** Delay in collection led to increase in NWC days to 114 days from 93 at FY20-end. However, the company received Rs 2.5bn in early July and expects working capital to stabilise around the target range of 90-100 days in the near term. Consolidated net debt increased to Rs 33.5bn (vs Rs 29bn on Mar-20) and net D/E increased to 0.92x (up from 0.81x at FY20-end). DBL has taken moratorium on the loans and does not expect debt to rise further. While it continues to focus on reducing the debt, we expect deleveraging to happen only after completion of the Cube deal and successful monetization of the balance seven HAM assets.

Quarterly/Annual Financial summary

Year Ending March	1Q FY21	1Q FY20	*YoY (%)*	4Q FY20	*QoQ (%)*	FY19	FY20	FY21E	FY21E
Net Sales	18,920	22,500	*(15.9)*	24,597	*(23.1)*	90,586	88,556	83,599	96,375
EBITDA	3,001	3,741	*(19.8)*	3,727	*(19.5)*	15,447	14,438	11,911	16,125
APAT	336	1,253	*(73.1)*	1,151	*(70.8)*	7,607	4,160	2,445	5,664
Diluted EPS (Rs)	2.5	9.2	*(73.1)*	8.4	*(70.8)*	55.6	30.4	17.9	41.4
P/E (x)						4.7	8.6	14.6	6.3
EV / EBITDA (x)						4.5	4.5	5.6	1.8
RoE (%)						26.9	12.2	6.4	13.3

Source: Company, HSIE Research, Standalone financials

BUY

CMP *(as on 14 Aug 2020)*	**Rs 352**
Target Price	**Rs 466**
NIFTY	**11,178**

KEY CHANGES	**OLD**	**NEW**
Rating	BUY	BUY
Price Target	Rs 466	Rs 466
	FY21E	FY22E
EPS %	-	-

KEY STOCK DATA	
Bloomberg code	DBL IN
No. of Shares (mn)	137
MCap (Rs bn) / ($ mn)	48/641
6m avg traded value (Rs mn)	126
52 Week high / low	Rs 477/190

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	37.5	(6.4)	(12.3)
Relative (%)	15.8	1.8	(13.8)

SHAREHOLDING PATTERN (%)	**Mar-20**	**June-20**
Promoters	75.00	75.00
FIs & Local MFs	6.32	6.78
FPIs	9.35	8.68
Public & Others	9.33	10.54
Pledged Shares	21.48	21.48

Source : BSE

Pledged shares as % of total shares

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NCC

Positive surprise

NCC Ltd. reported better than expected execution during 1QFY21 with revenue at Rs 11.8bn (vs our estimate of Rs 9.7bn). After adjusting for tax credit of Rs 320mn, loss for the quarter stood at Rs 151mn, against our estimated loss of Rs 549mn. With order wins of Rs 26bn during the quarter, the orderbook now stands at Rs 279bn. Management expects capacity utilisation level to reach 80-90% by September end. We maintain BUY on NCC with a target price of Rs 48/sh as (1) core EPC valuation is inexpensive at 5x FY22E EPS and (2) there is improved visibility on net executable orderbook after removal/descoping of AP orders (3.4x book to bill ratio on FY20 revenue). Key risks to our estimates: (1) Deterioration in NWC days and (2) weak real estate monetisation.

- **COVID-19 slows down execution further:** During 1QFY21, NCC registered revenue of Rs 11.8bn, decline of 46/46% YoY/QoQ as COVID-led lockdown impacted execution in the first half of the quarter. Despite the measures taken to manage employee benefits (-23%/-11% YoY/QoQ) and other expenses (-54%/-48% YoY/QoQ), EBITDA margin contracted to 9.8% (-238/-305bps, YoY/QoQ) on lower revenue base. Adjusting for the tax credit of Rs 320mn pertaining to the prior period, losses stood at Rs 151mn. With improvement in labour availability, management expects execution to reach 80-90% of previous year same period in 2QFY21.
- **Orderbook at Rs279bn:** NCC had Rs 279bn of order backlog as of 1QFY21 end. Andhra orderbook stood at Rs 44bn, excluding slow-moving/cancelled AP orders. About 47% of the orderbook is from buildings & factories, and 17% from water. The rest is distributed among road, electrical, irrigation, mining, international and others. NCC won orders of Rs 26bn during the quarter, mainly in the water division. Management believes ordering activity would pick up from 2QFY21 (as the government tries to kick-start the economy) and is hopeful of achieving order wins of Rs 100bn in FY21.
- **Balance sheet position remains stable:** Debt increased by Rs 1.4bn to Rs 22bn (Rs 20bn on FY20 end with net D/E at 0.37x) as the company took a COVID loan of Rs 1.5bn. While the company had not taken moratorium on loans in the March-May period, it has availed the moratorium for June to August period from the banks where interest payments are larger to maintain liquidity. Cash balance also remained stable at Rs 3.3bn (Rs 3.2bn on FY20 end). Payments from all the state governments have been stable except AP government. Management expects the Sembcorp issue to be resolved by September-20 and hopes to recover Rs 6-6.5bn. This could be a big positive for the company.

Quarterly/Annual Financial summary

YE March (Rs mn)	1Q FY21	1Q FY20	YoY (%)	4Q FY20	QoQ (%)	FY19	FY20	FY21E	FY22E
Net Sales	11,788	21,877	*(46.1)*	21,820	*(46.0)*	1,20,798	82,188	70,791	88,068
EBITDA	1,156	2,666	*(56.6)*	2,805	*(58.8)*	14,230	10,302	7,753	10,040
APAT	(151)	813	*(118.6)*	1,037	*(114.6)*	6,229	4,147	1,328	3,086
Diluted EPS (Rs)	(0.3)	1.4	*(118.6)*	1.73	*(114.6)*	10.2	6.8	2.2	5.1
P/E (x)						3.0	4.6	14.2	6.1
EV / EBITDA (x)						2.5	3.5	4.5	3.5
RoE (%)						13.8	8.4	2.6	5.8

Source: Company, HSIE Research, Standalone financials

BUY

CMP *(as on 12 Aug 2020)*	Rs 31
Target Price	Rs 48
NIFTY	11,308

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 48	Rs 48
	FY21E	FY22E
EPS %	-	-

KEY STOCK DATA	
Bloomberg code	NJCC IN
No. of Shares (mn)	610
MCap (Rs bn) / ($ mn)	19/254
6m avg traded value (Rs mn)	802
52 Week high / low	Rs 72/16

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	33.4	(33.7)	(54.6)
Relative (%)	11.1	(26.0)	(56.7)

SHAREHOLDING PATTERN (%)	Mar-20	June-20
Promoters	19.57	19.31
FIs & Local MFs	18.42	13.41
FPIs	14.67	11.42
Public & Others	47.34	55.86
Pledged Shares	6.7	5.7

Source : BSE

Pledged shares as % of total shares

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Ashoka Buildcon

Execution surprise

We maintain BUY on Ashoka Buildcon (ASBL) with a target price of Rs 141/sh. Earnings beat is driven by better-than-expected execution, controlled expenses, and one-offs. Labour availability has improved to ~90% (from 50-65% QoQ) with sites working at ~85% pre-COVID efficiency (vs. ~50% QoQ). After suspension during the first phase of lockdown, tolling reached 85% of pre-COVID level within three weeks of resumption and continues to be at ~90% level across projects. Low net D/E of 0.02x and comfortable liquidity insulate ABL from COVID-19 headwinds. No change in FY21/22 estimates.

- **Better execution, controlled expenses, and one-offs led to earnings beat:** Revenue stood Rs at 5.7bn (-35/-50% YoY/QoQ, 52% beat vs estimate of Rs 3.7bn). EBITDA reported at Rs 0.82bn (-25/-37% YoY/Q0Q, +4% QoQ, vs estimate of Rs 107mn). EBITDA impacted positively by ~2% owing to release of contingency reserves by three SPVs nearing project completion. Further, other income included one-offs: (1) Rs 50mn from an insurance claim, (2) Rs 50mn from Rs 650mn equipment loan restructuring. ABSL was also able to curtail fixed and admin expenses. Consequently, APAT came in at Rs 691mn (+6.8%/-22.6% YoY/QoQ, vs estimate of Rs -164mn). EBITDA margin guidance is at a historical level of 12-13%. Revenue break-up between roads/railways/power T&D – Rs 4.7/0.37/0.35 bn.
- **Order book at Rs 86bn dominated by road segment:** While road segment represents 80% of the order book, 9% and 10% is constituted by Power T&D and Railways respectively. The company expects to win Rs 40-50bn (Rs 30-40bn roads, Rs 10-20bn railways) of projects once tendering activity picks up pace. Financial closure of TS-III, TS-IV and Kandi (still at ~60% 3H land) project expected by September end, in line with earlier guidance. These projects could start contributing to ASBL topline from as early as Oct-20.
- **Liquidity position comfortable:** Consolidated gross/net debt stood at Rs 56/51bn, while standalone gross/net debt stood at Rs 2.4/0.6bn (0.025x net D/E). While ABL has not availed loan moratorium at standalone level, at SPV level, interest moratorium has been availed, with principal repayments as per schedule. HAM equity and Capex requirements remain modest at Rs 2.25bn (Rs 0.56bn in FYTD21, Rs 1.6bn in FY22) and Rs ~0.7bn respectively for remaining FY21. The company believes that ACL has sufficient cash and will not require loss funding from parent entity for BOT projects. With the resumption of tolling operation and a moratorium on principal, the company has sufficient liquidity to service interest payments of BOT assets. Although ACL asset monetisation process is on hold for now, we expect meaningful progress by FY21E end. Receivables, mainly in Railways and Power T&D, are at a similar level of Rs 6.5bn (including retention money).

Financial summary

YE March (Rs mn)	Standalone					Consolidated			
	1Q FY21	1Q FY20	YoY (%)	4Q FY20	QoQ (%)	FY19	FY20	FY21E	FY22E
Net Sales	5,724	8,768	*(34.7)*	11,548	*(50.4)*	49,301	50,705	48,112	54,506
EBITDA	819	1,085	*(24.6)*	1,289	*(36.5)*	13,943	15,752	12,658	14,072
APAT	691	647	*6.8*	892	*(22.6)*	267	1,653	(1,556)	(596)
Diluted EPS (Rs)	2.5	2.3	*6.8*	3.2	*(22.6)*	1.0	5.9	(5.5)	(2.1)
P/E (x)						64.1	10.4	(11.0)	(28.7)
EV / EBITDA (x)						5.1	4.3	6.6	6.3
RoE (%)						1.6	8.9	(8.5)	(3.6)

Source: Company, HSIE Research

BUY

CMP *(as on 12 Aug 2020)*	**Rs 61**
Target Price	**Rs 141**
NIFTY	**11,308**

KEY CHANGES	**OLD**	**NEW**
Rating	BUY	BUY
Price Target	Rs 141	Rs 141
	FY21E	FY22E
EPS Change %	-	-

KEY STOCK DATA	
Bloomberg code	ASBL IN
No. of Shares (mn)	281
MCap (Rs bn) / ($ mn)	17/227
6m avg traded value (Rs mn)	79
52 Week high / low	Rs 128/37

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	7.5	(43.0)	(49.6)
Relative (%)	(14.8)	(35.3)	(51.7)

SHAREHOLDING PATTERN (%)	**Mar-20**	**Jun-20**
Promoters	54.33	54.48
FIs & Local MFs	30.81	29.63
FPIs	5.47	3.71
Public & Others	9.39	12.18
Pledged Shares	-	-

Source : BSE

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Ahluwalia Contracts

Significant beat on execution

Ahluwalia (AHLU) surprised positively on execution front (~5x our estimate), despite the shortage of labour and considerable restriction on operation in projects within city limits, as it focused on off-site execution. While revenue declined by 38/55% YoY/QoQ, APAT declined by 78%/50% YoY/QoQ. Labour availability has improved to 40% from 20% at one point of time during the lockdown. Besides, AHLU won new orders worth Rs 3bn during the quarter, taking the order book to Rs 75bn. Gross debt decreased to Rs 430mn from Rs 520mn at FY20 end. With cash balance at Rs 1.8bn, AHLU remains a net cash company. We maintain BUY on AHLU and roll forward our valuation to June-22E with target price of Rs 286 (10x June-22E EPS).

- **Strong execution leads to significant beat**: Ahluwalia reported 1QFY21 revenue at Rs 2.5bn, nearly 5x our estimate and down 38%/55% YoY/QoQ, as the company focused on off-site execution of structural framework of some of the projects. While it focused on reducing overhead expenses, EBITDA declined by 61%/19% YoY/QoQ. Adjusting for Rs 55mn of impairment and Rs 33mn write-back of liabilities, APAT came in at Rs 93mn (down 78%/50% YoY/QoQ) against our estimated loss of Rs 396mn. The company expects additional impairment of Rs 120-150mn in the next two quarters.
- **Labour shortage and cash crunch at client-side could impact execution:** Labour availability has improved to 40% from the lows 20% during the lockdown and sites are operating at 45% of capacity currently. Management expects labour shortage to continue for next 3-4 months which would impact execution in the near term. In the medium term, execution could slow down if payments from clients start getting delayed.
- **Order book remains robust at Rs ~75bn**: AHLU has won a new order worth Rs 2.9bn during 1QFY21 for construction of a hospital. Basis management commentary, the hospital segment could see ordering of Rs 70-80bn in the near term. Tendering in other segments have also been healthy. However, AHLU would bid only where there is reasonable certainty of cash flow and where it is already present. Order book now stands at Rs 75 bn, of which 48% is from the hospital segment, and 25% from institutional.
- **Net cash status provides significant comfort:** With gross debt of Rs 430mn and cash balance of Rs 1.8bn, AHLU remains a net cash company. The company incurred Capex of Rs 30mn during the quarter and has pegged Rs 100-150mn of additional Capex for the reminder of the year. With Capex intensity continuing to remain low, we expect AHLU to remain a net cash company over FY21-22E.

Quarterly/Annual Financial summary

YE March (Rs mn)	1QFY21	1QFY20	*YoY (%)*	4QFY20	*QoQ (%)*	FY20E	FY21E	FY22E	FY23E
Net Sales	2,498	4,040	*(38.2)*	5,492	*(54.5)*	18,849	13,646	21,715	27,641
EBITDA	185	476	*(61.1)*	230	*(19.4)*	1,530	1,018	2,866	3,649
APAT	93	436	*(78.5)*	188	*(50.4)*	790	310	1,690	2,251
Diluted EPS (Rs)	1.4	6.5	*(78.5)*	2.8	*(50.4)*	11.8	4.6	25.2	33.6
P/E (x)						20.6	52.4	9.6	7.2
EV / EBITDA (x)						9.9	14.9	5.1	3.8
RoE (%)						10.3	3.8	18.3	20.2

Source: Company, HSIE Research, Standalone financials

BUY

CMP *(as on 14 Aug 2020)*	**Rs 243**
Target Price	**Rs 286**
NIFTY	**11,178**

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 265	Rs 286
EPS %	FY21E	FY22E
	-	-

KEY STOCK DATA	
Bloomberg code	AHLU IN
No. of Shares (mn)	67
MCap (Rs bn) / ($ mn)	16/219
6m avg traded value (Rs mn)	8
52 Week high / low	Rs 370/136

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	40.1	(24.7)	(11.8)
Relative (%)	18.4	(16.5)	(13.3)

SHAREHOLDING PATTERN (%)	Mar-20	June-20
Promoters	58.00	58.00
FIs & Local MFs	23.28	23.13
FPIs	15.52	15.06
Public & Others	3.20	3.81
Pledged Shares	23.68	23.68

Source : BSE

Pledged shares as % of total shares

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PSP Projects

In-line performance

We maintain REDUCE on PSP Projects with a target price of Rs 370/sh (10x Mar-22E EPS). As expected, 1QFY21 was a washout with in-line revenue of Rs 1.07bn (6.1% beat). We have maintained our FY21/22E EPS. Further, sites across Gujarat, Karnataka, Rajasthan and UP remain operational. Labour availability has gradually ramped up from ~20-25% levels to ~70-75% across these states. In Maharashtra, which constitutes ~25% the order book, sites remain shut till date. At present, finishing works are progressing well, with more intensive RCC structural works on hold till labour strength returns to normalcy. No change in FY21E/22E estimates.

- **1QFY21 Highlights:** PSP Projects posted revenue/EBIDTA/APAT of Rs 1,069/13/(22) mn vs our estimates of Rs 1007/58/19 mn. Due to revenue de-growth of 65/77% YoY/QoQ, EBITDA margin slumped by 1,268bps to 1.2%. Company does not expect monsoon to impact work on Surat Diamond Bourse project as large part of exterior work is done and is hopeful of finishing it on time with revised timeline of Apr-21 (Dec-20 pre-COVID).
- Order book stands at Rs 29.6bn (including Rs 5.7bn SDB project). Bid book stands at Rs 30bn, which comprises parliament building of Rs 9bn, warehouses, Brigade Hyderabad building, Reliance Jamnagar works, etc. Equity raising plans have been shelved off for now as Central Vista project has been delayed, and in the meantime, completion of several large projects led to freeing up of BG limits. Rs 8mn loss was booked on 1 of the 2 residential units in US. Gross debt stood at Rs 0.72bn, with total fund based and non-fund based utilisation at Rs 3.8bn of the total limit of Rs 6.1bn.
- **Setting up a pre-cast concrete plant:** PSP will invest Rs 750mn in FY21 to set up a pre-cast manufacturing facility. The company has acquired land encompassing an area of ~1.4 mn sq ft near Sanand (about Rs ~250mn outgo on land). PSP intends to cater to both captive and third-party precast demand and envisages payback period to be ~5 years. PSP believes that whilst cost of construction under pre-cast is higher by ~10% vis-à-vis conventional RCC, it leads to gains in terms of quality and shorter completion timelines. Apart from this, the capex run rate will come down as equipment is to be redeployed from projects nearing completion. We believe that private contract designs are largely consultant or client driven and, hence, projects are built in-situ. Scope of pre-cast is limited. Government contracts are standard and with limited pre-cast scope again. Hence, PSP needs to build awareness and client education for use of this technology. Few product from this plant may be used for captive purpose. Large use can be for affordable housing projects under PMAY which PSP has in Maharashtra.

Financial summary

Year Ending March	1Q FY21	1Q FY20	*YoY (%)*	4Q FY20	*QoQ (%)*	FY19	FY20	FY21E	FY22E
Net Sales	1,069	3,073	*(65)*	4,564	*(77)*	10,441	14,993	10,489	14,801
EBITDA	13	427	*(97)*	505	*(97)*	1,490	1,910	1,096	1,948
APAT	(22)	255	*(109)*	343	*(106)*	902	1,293	664	1,331
Diluted EPS (Rs)	(0.6)	7.1	*(109)*	9.5	*(106)*	25	36	18	37
P/E (x)						16.2	11.3	20.7	10.3
EV / EBITDA (x)						9.8	7.9	12.3	7.0
RoE (%)						26.8	31.2	13.7	23.5

Source: Company, HSIE Research

REDUCE

CMP *(as on 05 Aug 2020)*	**Rs 405**
Target Price	**Rs 370**
NIFTY	**11,102**

KEY CHANGES	**OLD**	**NEW**
Rating	REDUCE	REDUCE
Price Target	Rs 370	Rs 370
	FY21E	FY22E
EPS change %	-	-

KEY STOCK DATA	
Bloomberg code	PSPPL IN
No. of Shares (mn)	36
MCap (Rs bn) / ($ mn)	15/197
6m avg traded value (Rs mn)	13
52 Week high / low	Rs 577/232

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	17.1	(21.0)	(14.7)
Relative (%)	(1.7)	(13.4)	(16.2)

SHAREHOLDING PATTERN (%)	**Mar-20**	**Jun-20**
Promoters	73.82	73.96
FIs & Local MFs	6.33	6.53
FPIs	1.27	0.57
Public & Others	18.58	18.94
Pledged Shares	0.0	0.0

Source : BSE

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JMC Projects

In-line performance

JMC Project's (JMC) 1QFY21 financial performance has been severely impacted as its order book has a high exposure to the worst-affected urban regions, mainly in the buildings and factories segment (58% of order backlog). With almost a one-month loss due to the lockdown, execution is now gradually ramping up with labour availability improving from 60% to 75% QoQ. Despite weak execution, order intake has been robust at Rs 34.3bn ex-L1 of Rs 17bn (JMC to surpass inflow guidance of Rs 50bn). We expect FY21E to mark new beginnings with (1) likely restructuring of 2 BOT assets (would cut loss funding to Rs 500mn vs. Rs 800mn for FY20) and (2) order accretion from international geographies. We maintain BUY with Rs 69/sh TP.

- **Execution hit owing to huge presence in worst-affected urban areas:** JMC's order book has huge exposure to buildings in Southern urban cities. Lockdown restrictions and labour scarcity impacted 1QFY21 execution, despite a robust order backlog. Work has resumed in most of the sites, and execution ramp-up should lead to normalisation by 3QFY21. Revenue: Rs 4.7bn (-48/-50% YoY/QoQ, 4.4% beat). EBITDA: Rs 279mn (-72/-74% YoY/QoQ, 29% miss). EBITDA margin: 5.9% (-518/-542 bps YoY/QoQ). APAT: a loss of Rs 218mn for the quarter (vs. estimated loss of Rs 160mn).
- **Order accretion robust, on track to beat annual guidance:** JMC has an FYTD21 order backlog of Rs 127.7bn (3.5x FY20 revenue), ex-L1 of Rs 17bn. About 58% of the order book is in buildings (private – 47%, government – 11%), while exposure to infrastructure is at 38% and industrials at 4%. JMC secured FYTD21 new orders worth Rs 34.3bn (1QFY21 – 20.6bn and 2QFY21 – Rs 13.6bn). Including L1 of Rs 17bn, it is well on track to beat Rs 50bn of order inflow guidance. Labour availability has improved to 75% and expected to normalise in 3QFY21.
- **Positive progress on road BOT asset restructuring:** JMC is in the advanced stages of restructuring the 2BOT assets (Wainganga and Kurukshetra expressway). As a step towards same, JMC has already taken investment write off of Rs 795mn in Kurukshetra project during 4QFY20. Banks need to take a final call on the same. Total equity exposure now stands at Rs 8.2bn, including Rs 760mn loss funding investment for FY20. Resolution in these BOT assets continues to be the key monitorable as loss funding may reduce from Rs 750mn to Rs 500mn annually.
- **We maintain BUY** on JMC as we see FY21E to be a turnaround year for the company. A large part of Buildings order book (~85%) is in South India, which is better-placed for real estate recovery. New opportunities are being explored in Africa from an order booking perspective. Order accretion has been robust. Net debt has increased by Rs 830mn QoQ to Rs 8.2bn, and net D/E is 0.8x, which may be a cause of concern, but manageable. Key risks: (1) delay in monetisation/resolution of BOT assets and (2) leverage.

Financial summary

YE March	1QFY21	1QFY20	*YoY (%)*	4QFY20	*QoQ (%)*	FY19	FY20	FY21E	FY22E
Net Sales	4,704	9,039	*(48.0)*	9,386	*(49.9)*	32,528	37,130	33,528	39,450
EBITDA	279	1,004	*(72.3)*	1,065	*(73.8)*	3,371	4,114	3,371	4,261
APAT	(218)	356	-	451	-	1,423	1,585	725	1,269
Diluted EPS (Rs)	- 1.3	2.1	*(161.4)*	2.7	*(148.4)*	8.5	9.4	4.3	7.6
P/E (x)						6.1	5.5	12.0	6.9
EV / EBITDA (x)						4.6	4.0	4.9	3.5
RoE (%)						16.6	16.7	7.3	11.8

Source: Company, HSIE Research

BUY

CMP *(as on 13 Aug 2020)*	**Rs 52**
Target Price	**Rs 69**
NIFTY	**11,300**

KEY CHANGES	**OLD**	**NEW**
Rating	BUY	BUY
Price Target	Rs 69	Rs 69
EPS %	FY21E	FY22E
	-	-

KEY STOCK DATA	
Bloomberg code	JMCP IN
No. of Shares (mn)	168
MCap (Rs bn) / ($ mn)	9/117
6m avg traded value (Rs mn)	9
52 Week high / low	Rs 132/30

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	37.6	(38.0)	(55.6)
Relative (%)	17.9	(30.4)	(59.2)

SHAREHOLDING PATTERN (%)

	Mar-20	Jun-20
Promoters	67.36	67.36
FIs & Local MFs	18.49	17.04
FPIs	0.50	0.29
Public & Others	13.65	15.31
Pledged Shares	-	-

Source : BSE

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Sadbhav Engineering

Back-ended recovery

We maintain BUY with revised TP of Rs 62 (vs Rs 56 earlier). With proceeds from assets transferred to Indinfravit, SADE has improved net D/E to 0.53x vs 0.75x in FY19. Company has also planned for monetizing HAM assets under ROFO with Indinfravit. However, working capital still remains stretched. Further improvement in balance sheet and pick-up in execution will lead to re-rating. We trim our FY21 estimate by 1.3% and maintain BUY.

- **4QFY20**: SADE reported 4QFY20 revenue of Rs 4.1bn, which is a 60% YoY decline and has missed our estimate by 13%. However, EBITDA margin remained stable at 12.5%. Adjusting for Rs 170mn of exceptional gain on asset transfer to Indinfravit, SADE posted loss of Rs 88mn for the quarter.
- **Execution to pick up by Sept'20**: Labor availability is 60% at the company level and execution run rate stands at Rs 50mn/day. Company expects labor availability to improve to 80-90% by Sept'20, which will help revenue run rate to improve to Rs 100mn/day. We build in revenue of Rs 24bn for FY21E.
- **Bidding prospects**: SADE has submitted bids for four NHAI projects valued at Rs 34bn for which bids will open in the next couple of weeks. Company has also bid for a metro project of Rs 4.7bn in Ahmedabad. Besides, management is looking to bid for irrigation projects. In all, SADE is looking to win Rs 20-30bn of awards in FY21. We remain cautious and build in order inflow of Rs 18bn for FY21.
- **Balance sheet**: Standalone gross debt reduced Rs 12.4bn at FY20 end vs Rs 15.9bn in FY19 on the back of proceeds from SIPL deal. Net debt stood at Rs 11.2bn vs Rs 15.3bn in FY19. Subsequently, net D/E reduced to a 10-year low of 0.53x as on FY20. Net debt includes SIPL's Rs 3.5bn loans and if this is removed, net D/E would be 0.37x. SADE plans to invest Rs 2.2bn equity in HAM projects and capex of Rs 250mn in FY21E.

Quarterly/Annual Financial summary

Year Ending March	4Q FY20	4Q FY19	*YoY (%)*	3Q FY20	*QoQ (%)*	FY19	FY20E	FY21E	FY21E
Net Sales	4,089	10,217	*(60.0)*	4,400	*(7.1)*	35,493	22,517	24,023	29,295
EBITDA	504	1,268	*(60.2)*	548	*(8.0)*	4,281	2,795	2,722	3,662
APAT	(88)	290	*(130.5)*	117	*(175.8)*	1,863	681	681	1,229
Diluted EPS (Rs)	(0.5)	1.7	*(130.5)*	0.7	*(175.8)*	10.9	4.0	4.0	7.2
P/E (x)						2.4	6.5	6.5	3.6
EV / EBITDA (x)						4.6	5.6	5.0	3.4
RoE (%)						9.2	3.2	3.2	5.5

Source: Company, HSIE Research, Standalone financials

Estimate change summary

Particulars	FY21E			FY22E		
	New	Old	*% Change*	New	Old	*% Change*
Revenues (Rs mn)	24,023	24,023	*(0.0)*	29,295	29,301	*(0.0)*
EBITDA (Rs mn)	2,722	2,722	*(0.0)*	3,662	3,663	*(0.0)*
Margins (%)	11.3	11.3	*2.9*	12.5	12.5	-
APAT (Rs mn)	681	690	*(1.3)*	1,229	1,229	*(0.0)*

Source: Company, HSIE Research

BUY

CMP *(as on 10 July 2020)*	**Rs 49**
Target Price	**Rs 62**
NIFTY	**10,768**

KEY CHANGES	**OLD**	**NEW**
Rating	BUY	BUY
Price Target	Rs 56	Rs 62
EPS %	FY21E	FY22E
	(1.3)	(0.0)

KEY STOCK DATA

Bloomberg code	SADE IN
No. of Shares (mn)	172
MCap (Rs bn) / ($ mn)	8/111
6m avg traded value (Rs mn)	34
52 Week high / low	Rs 196/23

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	94.6	(59.5)	(74.8)
Relative (%)	77.2	(47.5)	(69.7)

SHAREHOLDING PATTERN (%)

	Dec-19	Mar-20
Promoters	46.55	46.81
FIs & Local MFs	24.99	22.75
FPIs	12.20	11.06
Public & Others	16.26	19.38
Pledged Shares	14.11	26.05

Source : BSE

Pledged shares as % of total shares

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Capacite Infraprojects

The worst is over

CIL reported broadly in-line 1QFY21 performance. The good part is that the worst is over as we foresee MoM/QoQ execution ramp-up. CIL is well-placed for cyclical recovery on the back of robust order backlog (7x FY20 revenue). Management allayed liquidity concerns with no plans of equity fund raise and likely reduction in debt as execution and collections improve. The order book is well balanced between Public/Pvt at 55:45. Balance sheet is stable, labour availability has improved to ~45%, and all sites have restarted. CIL has received further Rs 1.1bn of CIDCO project advance, implying project remains on track (43% of order book). We maintain BUY with Rs 147/sh target price.

- **Massive urban exposure led to sharp revenue de-growth**: Revenue: Rs 237mn (-94% YoY, -92% QoQ, 53% miss); execution was severely impacted as most of CIL projects (entire Rs 105bn order backlog) are concentrated in cities which are one of the worst affected by COVID-19. Cost rationalization both on account of fixed and variable costs contained EBITDA loss to Rs 235mn (vs. estimate of Rs 211mn loss). Interest expense and depreciation led to higher PBT loss of Rs 549mn. CIL reported loss stood at Rs 424mn (vs estimated loss of Rs 416mn). Cost savings resulted in in-line losses.
- **Labour situation improving execution to normalise by 4QFY21**: CIL has started seeing the return of migrant workers with the numbers improving from 2,000 (third week of June-20) to 4,000 as of now and expected to further ramp-up to 5,000 by Aug-20 end. CIL has restarted 90% of the private sites and 99% of government sites. The execution is ramping up and expected to stabilise by 3QFY21 and normalise by 4QFY21, in the absence of a second COVID wave. We estimate CIL to start clocking Rs 1bn/month revenue from Sep-20 with gradual ramp-up to Rs 2bn/month by Jan-21. We believe that the worst is over for the company, and 1QFY21 performance may have been the bottom.
- **CIDCO project (Rs 45bn, 43% order book) execution kick-started, augurs well**: CIL has received CRZ/EC approvals for all seven sites. Work has started on 5/7 sites with balance two sites groundbreaking planned for Aug/Sep-20 respectively. Labour ramp-up will take place from Sep-20. Meaningful contribution from CIDCO is expected from 4QFY21.
- **Balance sheet debt stable, marginal increase:** Gross debt has marginally increased to Rs 3.5bn (part conversion of LC to debt) vs Rs 3.1bn QoQ, while gross D/E stood at 0.4x. CIL is focusing on collections and has seen improvement in Jul-20. No major ECL provisioning is envisaged for private order backlogs. CIL has Tier 1 clients like Oberoi, Godrej, Brigade, CIDCO, BSNL, K Raheja, Brookfield, etc., and, hence, we believe NWC will reduce.

Financial Summary (Standalone)

YE March (Rs mn)	1Q FY21	1Q FY20	YoY (%)	4Q FY20	QoQ (%)	FY19	FY20	FY21E	FY22E
Net Revenues	237	4,112	(94.2)	3,072	(92.3)	17,876	15,287	11,137	21,708
EBITDA	(235)	697	-	476	-	2,485	2,567	1,377	3,408
APAT	(424)	238	-	38	-	956	756	39	1,143
Diluted EPS (Rs)	(6.2)	3.5	-	0.6	-	14.1	11.1	0.6	16.8
P/E (x)						7.6	9.6	186.9	6.4
EV/EBITDA (x)						3.7	3.6	7.5	3.2
RoE (%)						12.0	8.5	0.4	11.8

Source: Company, HSIE Research

BUY

CMP *(as on 12 Aug 2020)*	Rs 107
Target Price	Rs 147
NIFTY	11,308

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 147	Rs 147
	FY21E	FY22E
EPS %	-	-

KEY STOCK DATA	
Bloomberg code	CAPACITE IN
No. of Shares (mn)	68
MCap (Rs bn) / ($ mn)	7/97
6m avg traded value (Rs mn)	11
52 Week high / low	Rs 246/70

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	41.1	(41.8)	(51.1)
Relative (%)	18.8	(34.1)	(53.2)

SHAREHOLDING PATTERN (%)	Mar-20	Jun-20
Promoters	43.79	43.79
FIs & Local MFs	10.73	10.11
FPIs	5.72	5.90
Public & Others	39.76	40.20
Pledged Shares	7.36	7.36

Source : BSE

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IT, Exchanges

Tata Consultancy Services

Positives factored in

We maintain REDUCE on TCS, following a miss on 1Q revenue/margin, offset by improving outlook. Valuations at >1SD more than adequately factor in the recovery trajectory, although the improving near-term visibility could keep the stock price elevated. Key positives include the following: (1) growth recovery is expected from 2Q (reversal of supply dent ~150bps); (2) BFSI vertical resilience is supported by strong deal wins (book-to-bill at 1.33x ex-Standard Life) and pipeline; (3) recovery trajectory is expected in continental Europe; (4) the company's strong cash generation is supported by a stable DSO in a tough quarter. Key concerns include: (1) recovery lag in Retail & CPG vertical (sub-vertical impact), manufacturing vertical, and (2) UK geography's performance (BFS weakness). Our target price of Rs 1,980 is based on 21x FY22E (+2% increase in EPS estimate).

- **1QFY21 highlights**: (1) Revenue and margin were lower than expected with a revenue decline of 6.9% QoQ (CC terms) and an EBIT margin decline of 149bps QoQ to 23.6%. (2) Significant demand reduction in Retail & CPG vertical. (3) The lateral hiring, which was frozen earlier, has been re-started selectively, while fresh on-boarding of 40,000 in FY21E is on track from July.
- **Outlook**: We expect the USD revenue growth at 1.0%/2.4%/3.3% QoQ and EBIT% of 24.0%/25.0%/25.6% over 2Q-4QFY21E respectively. FY20-22E EPS CAGR at 4.5% includes -4.9% in FY21E; valuation is at 26.9/23.4x FY21/22E EPS.

Quarterly financial summary

Y/E March (Rs Bn)	1Q FY21	1Q FY20	*YoY (%)*	4Q FY20	*QoQ (%)*	FY18	FY19	FY20	FY21E	FY22E
Revenue (USD mn)	5,059	5,485	*-7.8*	5,444	*-7.1*	19,089	20,913	22,032	20,809	22,652
Net Sales	383.22	381.72	*0.4*	399.46	*-4.1*	1,231.04	1,464.63	1,569.49	1,564.46	1,721.55
EBIT	90.48	92.20	*-1.9*	100.25	*-9.7*	305.02	374.50	385.80	384.38	439.62
APAT	70.08	81.31	*-13.8*	80.49	*-12.9*	258.26	314.72	323.40	307.70	353.17
Diluted EPS (Rs)	18.7	21.7	*-13.8*	21.5	*-12.9*	68.8	83.9	86.2	82.0	94.1
P/E (x)						32.0	26.3	25.6	26.9	23.4
EV / EBITDA (x)						24.7	20.2	19.0	18.9	16.5
RoE (%)						30.1	36.1	37.3	36.7	41.2

Source: Company, HSIE Research, Consolidated Financials

Change in estimates

(Rs Bn)	FY21E Old	FY21E Revised	Change %	FY22E Old	FY22E Revised	Change %
Revenue (USD mn)	20,675	20,809	*0.6*	22,166	22,652	*2.2*
Revenue	1,554.25	1,564.46	*0.7*	1,684.59	1,721.55	*2.2*
EBIT	377.70	384.38	*1.8*	429.61	439.62	*2.3*
EBIT margin (%)	24.3	24.6	*27bps*	25.5	25.5	*3bps*
APAT	306.36	307.70	*0.4*	346.15	353.17	*2.0*
EPS (Rs)	81.6	82.0	*0.4*	92.25	94.1	*2.0*

Source: Company, HSIE Research

REDUCE

CMP *(as on 9 Jul 2020)*	**Rs 2,204**
Target Price	**Rs 1,980**
NIFTY	**10,813**

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	Rs 1,940	Rs 1,980
EPS %	FY21E	FY22E
	+0.4	+2.0

KEY STOCK DATA	
Bloomberg code	TCS IN
No. of Shares (mn)	3,752
MCap (Rs bn) / ($ mn)	8,272/110,274
6m avg traded value (Rs mn)	7,772
52 Week high / low	Rs 2,303/1,504

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	24.8	(0.5)	5.4
Relative (%)	6.9	10.9	10.5

SHAREHOLDING PATTERN (%)

	Dec-19	Mar-20
Promoters	72.05	72.05
FIs & Local MFs	8.03	8.01
FPIs	15.90	15.74
Public & Others	4.02	4.20
Pledged Shares	2.12	2.12

Source : BSE

Pledged shares as % of total shares

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Infosys

Advancing ahead

We maintain BUY on Infosys (top pick), following 1Q revenue/margin outperformance (both absolute and relative). Key positives include the following: (1) large deal renewals (16% YoY) and largest-ever deal win (Vanguard) provide growth visibility; (2) resilience in core geography (NorthAm BFSI) and large accounts supported by demand in cloud, workplace transformation, and automation; (3) operational rigour, aided by cost optimisation (including short-term discretionary cuts), coupled with strong cash flows (1Q FCF/PAT at 130%). INFY's operational outperformance vs. TCS is reflected in margin differential being the lowest in two years (94bps), lower supply-side disruption, converging attrition coupled with revenue growth premium (>400bps over FY20-22E CAGR). Our target price of Rs 980, 20x Jun-22E EPS (18x earlier), factors in higher visibility/outperformance, following ~7% EPS estimate increase for FY22E.

- **1QFY21 highlights**: (1) Revenue and margin beat estimates with revenue decline limited to 2% QoQ and EBIT margin at 22.7%, +149bps QoQ. (2) 15 large wins of USD 1.74bn TCV including five large wins in the BFSI vertical. (3) FY21E revenue guidance of 0 to 2% (CC terms) and EBIT margin band at 21-23%. (4) Digital (44.5% of revenue) grew 25.5% YoY (CC terms).
- **Outlook**: We expect the USD revenue growth at 1.5%/3.0%/3.0% QoQ over 2Q-4QFY21E and margins at the current level. FY21/22E revenue growth is estimated at 1.0/10.3%, EBIT at 22.5/22.1% and FCF/APAT and payout/FCF at 80/83% over FY21-22E. At CMP, valuations are at 19.7/17.4x FY21/22E (>25% discount to TCS vs. the average of ~15%).

Quarterly Financial summary

YE March (Rs bn)	1Q FY21	1Q FY20	*YoY (%)*	4Q FY20	*QoQ (%)*	FY19	FY20	FY21E	FY22E	FY23E
Revenue (USD Mn)	3,121	3,131	-0.3	3,197	-2.4	*11,799*	*12,774*	12,907	14,233	15,582
Net Revenue	236.65	218.03	*8.5*	232.67	*1.7*	826.76	907.91	970.61	1,081.70	1,184.24
EBIT	53.65	44.71	*20.0*	49.27	*8.9*	188.79	193.74	218.05	238.66	259.39
APAT	42.33	37.98	*11.5*	43.15	*-1.9*	157.73	164.04	179.34	202.58	219.51
Diluted EPS (Rs)	10.0	8.9	*11.5*	10.2	*-1.9*	37.1	38.6	42.2	47.7	51.7
P/E (x)						22.4	21.5	19.7	17.4	16.1
EV / EBITDA (x)						15.4	14.8	13.1	11.8	10.7
RoE (%)						24.3	25.2	26.2	27.0	26.7

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

Rs Bn	FY21E Old	FY21E Revised	*Change %*	FY22E Old	FY22E Revised	*Change %*
Revenue (USD mn)	12,386	12,907	*4.2*	13,650	14,233	*4.3*
Revenue	931.09	970.61	*4.2*	1037.41	1081.70	*4.3*
EBIT	190.55	218.05	*14.4*	219.45	238.66	*8.8*
EBIT margin (%)	20.5	22.5	*200bps*	21.2	22.1	*91bps*
APAT	160.84	179.34	*11.5*	188.79	202.58	*7.3*
EPS (Rs)	37.9	42.2	*11.5*	44.5	47.7	*7.3*

Source: Company, HSIE Research

BUY

CMP *(as on 15 Jul 2020)*	**Rs 831**
Target Price	**Rs 980**
NIFTY	**10,618**

KEY CHANGES	**OLD**	**NEW**
Rating	BUY	BUY
Price Target	Rs 800	Rs 980
EPS %	FY21E	FY22E
	+11.5	+7.3

KEY STOCK DATA	
Bloomberg code	INFO IN
No. of Shares (mn)	4,259
MCap (Rs bn) / ($ mn)	3,541/47,114
6m avg traded value (Rs mn)	7,188
52 Week high / low	Rs 848/509

STOCK PERFORMANCE (%)

	3M	**6M**	**12M**
Absolute (%)	30.1	8.3	6.7
Relative (%)	11.4	22.2	14.0

SHAREHOLDING PATTERN (%)

	Dec-19	**Mar-20**
Promoters	13.15	13.15
FIs & Local MFs	22.79	24.52
FPIs	33.51	31.01
Public & Others	30.55	31.32
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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HCL Technologies

Steady performer

We maintain BUY on HCL Tech (HCLT), based on growth outperformance (following INFY) ahead, growth visibility (reflected in guidance for the following three quarters), and a stable operating profile supported by P&P business. Key positive attributes include the following: (1) integrated applications & IMS large deal flow and consolidation opportunities (overall 11 transformational deal signings in 1Q); (2) HCLT's prowess in cloud infra business is a strong competitive advantage with enterprises accelerating cloud adoption and higher annuity streams supported by P&P upside; (3) recovery in ER&D, led by semiconductor, telecom & hi-tech, consumer electronics sub-segments, and waning supply-side impediments, (4) BFSI outperformance supported by Temenos partnership ahead (+550bps QoQ outperformance in 1Q). The trade-off of the acquisitive growth model (including IPPs) with organic growth and impacting FCF/return metrics remain key risks ahead. Our target price of Rs 685, 14x Jun-22E EPS (at historical average), follows a nearly unchanged FY22E EPS.

- **1QFY21 highlights**: (1) HCLT's revenue came in lower than estimated at -7.2% QoQ, impacted by -7.8% QoQ in IT & BS, -9.0% QoQ in ER&D and -2.1% QoQ in P&P segment. (2) Manufacturing and MP&E verticals led the decline, offset by BFSI and technology & services verticals. (3) Revenue guidance of +1.5% to +2.5% QoQ (CC terms) over 2Q-4QFY21E and EBIT margin guidance at 19.5-20.5% for FY21E.
- **Outlook**: We expect HCLT's revenue to decline by 2.4% in FY21 implying +1.9% CQGR over 2Q-4QFY21E, with IT & BS at +2.5% CQGR, P&P at +1.2% CQGR and flat CQGR for ER&D. We have factored in EBIT margin at 20% for FY21/22E, resulting in 7.5% EPS CAGR over FY20-22E.

Quarterly Financial summary

YE March (Rs bn)	1Q FY21	1Q FY20	YoY (%)	4Q FY20	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue (USD Mn)	2,356	2,364	-0.3	2,543	-7.4	8,632	9,936	9,694	10,635	11,667
Net Sales	178.41	164.25	8.6	185.90	-4.0	604.27	706.78	728.76	808.25	904.23
EBIT	36.60	28.05	30.5	38.81	-5.7	118.21	138.53	145.44	161.36	183.61
APAT	29.25	22.20	31.8	31.54	-7.3	101.23	110.62	112.22	127.79	148.30
Diluted EPS (Rs)	10.8	8.2	31.8	11.6	-7.3	37.3	40.8	41.4	47.1	54.6
P/E (x)						16.7	15.3	15.1	13.2	11.4
EV / EBITDA (x)						11.6	9.7	8.8	7.7	6.5
RoE (%)						26.0	23.8	20.2	19.8	20.0

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

Rs Bn	FY21E Old	FY21E Revised	Change %	FY22E Old	FY22E Revised	Change %
Revenue (USD mn)	9,632	9,694	0.6	10,528	10,635	1.0
Revenue	724.06	728.76	0.6	800.17	808.25	1.0
EBIT	132.36	145.44	9.9	160.13	161.36	0.8
EBIT margin (%)	18.3	20.0	168bps	20.0	20.0	-5bps
APAT	102.30	112.22	9.7	128.37	127.79	-0.5
EPS (Rs)	37.7	41.4	9.6	47.3	47.1	-0.5

Source: Company, HSIE Research

BUY

CMP *(as on 17 Jul 2020)*	**Rs 623**
Target Price	**Rs 685**
NIFTY	**10,902**

KEY CHANGES	**OLD**	**NEW**
Rating	BUY	BUY
Price Target	Rs 665	Rs 685
EPS %	FY21E	FY22E
	+9.6	-0.5

KEY STOCK DATA	
Bloomberg code	HCLT IN
No. of Shares (mn)	2,714
MCap (Rs bn) / ($ mn)	1,691/22,553
6m avg traded value (Rs mn)	2,969
52 Week high / low	Rs 652/375

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	36.9	4.1	19.8
Relative (%)	19.7	15.8	25.3

SHAREHOLDING PATTERN (%)

	Mar-20	Jun-20
Promoters	60.33	60.33
FIs & Local MFs	9.13	10.0
FPIs	26.42	25.62
Public & Others	4.12	4.05
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Wipro

Strong operating performance

We maintain ADD on Wipro, based on in-line revenue performance and positive surprise on margins. The decline in revenue was broad-based with the highest impact witnessed in the communication, consumer and manufacturing verticals. The company has restrained from giving guidance based on an uncertain environment. The outlook remains muted for ~51% of the business comprising BFSI, retail, travel, manufacturing and energy. This may be offset by relatively better outlook in consumer (e-commerce and new age media), healthcare (hospitals), utilities and communication. Key positives include (1) strong margin expansion supported by cost optimisation, (2) pick-up in deal activity, and (3) strong cash generation (OCF is ~175% of net income). Our target price of Rs 255 is based on 14x Jun-22E EPS (+4% increase in EPS estimate, based on margin expansion).

- **1QFY21 highlights**: (1) Revenue decline of 7.3% QoQ (vs. expected -6.9% QoQ). (2) IT Services EBIT margin expansion of 146bps QoQ to 19.1% was supported by lower travel expenses (+170bps), lower employee & sub-con cost (+83bps), SG&A rationalisation (+108bps), currency, higher utilisation (+160bps to 75%), offset by higher provisions. (3) Wipro acquired IVIA Services (revenue of USD 13.5mn, +16% 2Y CAGR) in Brazil for a sum of USD 22.4mn (P/S of ~1.7x).
- **Outlook**: We have factored in -7.4/+4.8% USD revenue growth for FY21/22E respectively; FY21E implies 2/3/4Q revenue growth of -2.1/+1.3/+1.7%. We are hopeful of some recovery in growth rate with the new management on board. High return ratio (~24% RoIC) and ~7% FCF yield support valuations (P/E of 12.6x FY22E vs. 15x average).

Quarterly Financial summary

YE March (Rs bn)	1Q FY21	1Q FY20	YoY (%)	4Q FY20	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
IT revenue (USD Mn)	1,922	2,039	-5.7	2,074	-7.3	8,120	8,256	7,648	8,016	8,427
Net Sales	149.13	147.16	1.3	157.11	-5.1	585.85	610.23	593.45	629.08	660.96
EBIT	25.64	23.82	7.6	25	2.5	92.62	101.42	100.52	107.76	112.23
APAT	23.9	23.87	0.1	23.26	2.8	90.86	97.22	94.95	102.02	106.77
Diluted EPS (Rs)	4.2	4.2	0.1	4.1	2.8	15.9	17	16.6	17.9	18.7
P/E (x)						14.1	13.2	13.5	12.6	12
EV / EBITDA (x)						8.9	8.6	7.7	6.5	5.6
RoE (%)						17.3	17.3	15.8	14.8	13.6

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

Rs Bn	FY21E Old	FY21E Revised	Change %	FY22E Old	FY22E Revised	Change %
IT revenue (USD Mn)	7,716	7,648	-0.9	8,150	8,016	-1.6
Revenue	599.96	593.45	-1.1	639.76	629.08	-1.7
EBIT	91.84	100.52	9.4	103.98	107.76	3.6
EBIT margin (%)	15.3	16.9	163bps	16.3	17.1	88bps
APAT	87.48	94.95	8.5	98.00	102.02	4.1
EPS (Rs)	15.3	16.6	8.5	17.2	17.9	4.1

Source: Company, HSIE Research

ADD

CMP *(as on 14 Jul 2020)*	**Rs 225**
Target Price	**Rs 255**
NIFTY	**10,607**

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	Rs 245	Rs 255
	FY21E	FY22E
EPS %	+8.5	+4.1

KEY STOCK DATA	
Bloomberg code	WPRO IN
No. of Shares (mn)	5,714
MCap (Rs bn) / ($ mn)	1,286/17,050
6m avg traded value (Rs mn)	1,378
52 Week high / low	Rs 276/159

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	18.9	(12.5)	(13.1)
Relative (%)	1.5	1.6	(6.1)

SHAREHOLDING PATTERN (%)	Mar-20	Jun-20
Promoters	74.04	74.02
FIs & Local MFs	7.03	7.60
FPIs	8.45	7.84
Public & Others	10.48	10.54
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Tech Mahindra

Recovery on the cards

Tech Mahindra posted better-than-expected revenue and margin along with strong free cash generation. Revenue was down 6.3% QoQ CC vs. TCS/INFY/WIPRO/HCLT performance of -6.9/-2.0/-7.5/-7.2% QoQ CC respectively. Telecom was down 8.2% QoQ CC (in line with our estimate) but Enterprise (-5.1% QoQ CC) performed better than expected. Growth was led by Technology & Media (+13.1% QoQ), while all other verticals were under pressure. BPS was down 12.6% QoQ due to both demand and supply-side factors, and recovery is expected from 2H. Net new TCV wins were down 39% YoY to USD 290mn, but the pipeline remains strong. TechM will be a beneficiary of vendor consolidation in the Telecom segment because of its leadership position. The 5G related spend has shifted to early FY22, but TechM is well-poised to benefit from this spend. Margin performance was better than expected (10.1% vs. the estimate of 8.7%), led by lower travel cost, offshoring, and lower SG&A offset by higher sub-con cost. The margin recovery will be gradual, and 4Q exit will be similar to the 1QFY20 level. We increase the EPS estimate by 7.7/5.0% for FY21/22E to factor in better growth and margin. Our target price stands at Rs 720, based on 14x (in line with 5Y average) June-22E EPS. Maintain BUY.

- **1QFY21 highlights**: TechM revenue stood at USD 1,208mn -6.7% QoQ (vs. the estimate of USD 1,187mn). Telecom fall was driven by network services, Comviva seasonality, and COVID-19 impact. Enterprise fall was driven by manufacturing/BFSI/retail (-11.1/-4.4/-6.2% QoQ). EBIT margin expanded 10bps QoQ; a further expansion will be supported by rationalisation of portfolio companies, offshoring, and large deals turning steady.
- **Outlook**: We expect USD revenue growth of -5.9/+6.2% in FY21/22E. We have factored in 2/3/4QFY21 growth of -0.6/+1.6/+2.3% respectively. EBIT will be at 10.5/12.0% for FY21/22E. Telecom/Enterprise growth for FY21E will be at -10.5/-2.7% YoY.

Quarterly Financial summary

YE March (Rs bn)	1Q FY21	1Q FY20	*YoY (%)*	4Q FY20	*QoQ (%)*	FY19	FY20	FY21E	FY22E	FY23E
Revenue (USD Mn)	1,208	1,247	*-3.2*	1,295	*-6.7*	4,971	5,182	4,874	5,175	5,536
Net Revenue	91.06	86.53	*5.2*	94.9	*-4.0*	347.42	368.68	366.05	393.27	420.73
EBIT	9.17	9.93	*-7.6*	9.5	*-3.4*	52.08	42.80	38.60	47.05	51.15
APAT	9.72	9.59	*1.4*	10.21	*-4.8*	42.98	42.51	38.13	43.98	47.88
Diluted EPS (Rs)	11.1	10.9	*1.4*	11.6	*-4.8*	48.9	48.3	43.4	50.0	54.4
P/E (x)						13.6	13.8	15.3	13.3	12.2
EV / EBITDA (x)						8.0	9.1	9.5	7.8	7.0
RoE (%)						22.0	20.2	16.9	18.1	18.3

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

Rs Bn	FY21E Old	FY21E Revised	*Change %*	FY22E Old	FY22E Revised	*Change %*
Revenue (USD mn)	4,775	4,874	*2.1*	5,107	5,175	*1.3*
Revenue	359.11	366.05	*1.9*	388.12	393.27	*1.3*
EBIT	37.42	38.6	*3.2*	45.89	47.05	*2.5*
EBIT margin (%)	10.4	10.5	*13bps*	11.8	12.0	*14bps*
APAT	35.39	38.13	*7.7*	41.88	43.98	*5.0*
EPS (Rs)	40.2	43.4	*7.7*	47.6	50.0	*5.0*

Source: Company, HSIE Research

BUY

CMP *(as on 28 Jul 2020)*	**Rs 684**
Target Price	**Rs 720**
NIFTY	**11,301**

KEY CHANGES	**OLD**	**NEW**
Rating	BUY	BUY
Price Target	Rs 670	Rs 720
EPS %	FY21E	FY22E
	+7.7	+5.0

KEY STOCK DATA	
Bloomberg code	TECHM IN
No. of Shares (mn)	966
MCap (Rs bn) / ($ mn)	661/8,835
6m avg traded value (Rs mn)	2,668
52 Week high / low	Rs 846/470

STOCK PERFORMANCE (%)

	3M	**6M**	**12M**
Absolute (%)	31.5	(13.8)	6.3
Relative (%)	11.6	(7.8)	4.7

SHAREHOLDING PATTERN (%)

	Mar-20	**Jun-20**
Promoters	35.85	35.83
FIs & Local MFs	13.19	13.02
FPIs	39.66	39.59
Public & Others	11.30	11.56
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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L&T Infotech

Leadership position within mid-tiers continues

We maintain ADD on L&T Infotech (LTI), based on its growth leadership within the sector (10% CAGR over FY20-22E) and superior/stable operating profile (highest in mid-tier). LTI's multi-pronged growth is supported by the following: (1) large deals (USD 20mn NN UK-BFS win in 1Q and to accelerate in 2Q); (2) 'minecraft'/top accounts growth (T1 account posted growth); (3) new growth initiatives (LTI canvas in partnership with Microsoft) and new logo additions (16 added in 1Q including 1 F-500 logo in manufacturing vertical); (4) vendor consolidation opportunities (LTI a challenger to tier-1s); (5) resilient operations with remote transition of large deals. LTI's valuation premium to peers reflects its growth/margin/return metrics outperformance vs. mid-tier peers. Our target price of Rs 2,375, 19x Jun-22E EPS (18x earlier and 3-year average of 18x), follows ~3% EPS estimate increase for FY22E.

- **1QFY21 highlights**: (1) Revenue came in line at -4.7/+10.6% QoQ/YoY (CC terms) and margin came ahead at 17.4%, +74bps QoQ. (2) Digital revenue is at 42% of revenue and grew 18.2% YoY. (3) Greater resilience seen in BFSI, CPG, Retail, Pharma and Hi-tech M&E verticals, offset by double-digit QoQ drop in E&U and manufacturing verticals. (4) Management indicated flat 2Q sequential growth with a 'positive bias'.
- **Outlook**: We have factored 5.6/14.7% growth in the revenue for FY21/22E, implying 2Q-4QFY21E at 1.1, 2.7, 3.6% QoQ and 3.8% CQGR in FY22E. Headwinds are mostly limited to E&U and manufacturing verticals.

Quarterly Financial summary

YE March (Rs bn)	1Q FY21	1Q FY20	YoY (%)	4Q FY20	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue (USD mn)	3,90.3	3,56.5	*9.5*	4,09.9	*-4.8*	1,349	1,525	1,610	1,846	2,120
Net Sales	29.49	24.85	*18.7*	30.12	*-2.1*	94.46	108.79	121.07	140.32	164.31
EBIT	5.14	3.97	*29.5*	5.04	*2.1*	17.36	17.56	20.64	24.50	29.40
APAT	4.16	3.56	*17.1*	4.28	*-2.6*	15.16	15.21	17.05	20.61	24.54
Diluted EPS (Rs)	23.9	20.4	*17.1*	24.6	*-2.6*	87.0	87.3	97.9	118.4	141.0
P/E (x)						26.3	26.2	23.4	19.4	16.3
EV / EBITDA (x)						20.1	18.5	15.5	12.7	10.3
RoE (%)						34.6	29.5	28.7	28.8	28.5

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

Rs Bn	FY21E Old	FY21E Revised	Change %	FY22E Old	FY22E Revised	Change %
Revenue (USD mn)	1,606	1,610	*0.3*	1846	1,846	*0.0*
Revenue	120.66	121.07	*0.3*	140.33	140.32	*0.0*
EBIT	18.79	20.64	*9.8*	23.93	24.50	*2.4*
EBIT margin (%)	15.6	17.0	*147bps*	17.1	17.5	*41bps*
APAT	15.63	17.05	*9.1*	20.02	20.61	*3.0*
EPS (Rs)	89.7	97.9	*9.1*	114.97	118.4	*3.0*

Source: Company, HSIE Research

ADD

CMP *(as on 16 Jul 2020)*	**Rs 2,291**
Target Price	**Rs 2,375**
NIFTY	**10,740**

KEY CHANGES	**OLD**	**NEW**
Rating	ADD	ADD
Price Target	Rs 2,060	Rs 2,375
EPS %	FY21E	FY22E
	+9.1	+3.0

KEY STOCK DATA	
Bloomberg code	LTI IN
No. of Shares (mn)	174
MCap (Rs bn) / ($ mn)	399/5,302
6m avg traded value (Rs mn)	290
52 Week high / low	Rs 2,340/1,208

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	56.1	20.5	39.0
Relative (%)	36.9	33.5	45.8

SHAREHOLDING PATTERN (%)

	Mar-20	Jun-20
Promoters	74.53	74.51
FIs & Local MFs	7.19	7.27
FPIs	9.46	9.76
Public & Others	8.82	8.46
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Mphasis

Sprinting ahead

We maintain a BUY rating on Mphasis, based on stellar deal wins providing higher revenue visibility (growth in FY21) and a stable operating profile (improving business-mix towards Direct Core). We expect Mphasis to outperform peers based on the following: (1) robust large deal wins (>USD 100mn TCV-2-year BFSI win in 1Q and USD 216mn TCV-3-year existing logo win) to propel Direct Core growth in 2Q-3Q; (2) new logo and Blackstone-channel traction continues (>40% YoY in 1QFY21); (3) strong and diversified BFSI portfolio supported by growing Digital Risk segment; (4) MRC to restrict the near-term impact on DXC business; (5) improving business-mix to support margins (guidance of 15.5 to 16.5% EBIT margin for FY21E). Mphasis' valuation discount to mid-tier IT is expected to compress, supported by an improving mix of high-growth Direct Core limiting the impact from DXC and on FCF yield >7.5%. Our target price is Rs 1,280, 16x (15x earlier and 5-year average at 15x) Jun-22E EPS, following ~6% EPS estimate increase for FY22E.

- **1QFY21 highlights**: (1) Revenue growth of -4.6/+3.8% QoQ/YoY (CC terms) was led by Direct Core at -2.1/+6.9% QoQ/YoY (CC terms) and DXC at -15.8/-14.3% QoQ/YoY (CC terms). (2) EBIT margin came in at 15.7%, -67/+18bps QoQ/YoY. (3) Deal wins in Direct International was strong at USD 259mn (highest-ever EN+NN wins).
- **Outlook**: We have factored 2.7/10.1% growth in revenue based on Direct Core growth at 11.1/16.2% and DXC at -30/-10% for FY21/22E respectively; factored EBIT% at 16.0/17.0% for FY21/22E resulting in 10% EPS CAGR over FY20-22E. Key downside risks remain steeper decline in DXC.

Quarterly Financial summary

YE March (Rs bn)	1Q FY21	1Q FY20	*YoY (%)*	4Q FY20	*QoQ (%)*	FY19	FY20	FY21E	FY22E	FY23E
Revenue (USD mn)	305.4	296.9	2.9	319.9	-4.5	1,119	1,240	1,273	1,401	1,523
Net Sales	22.88	20.63	*10.9*	23.46	*-2.5*	77.31	88.44	95.46	106.49	118.03
EBIT	3.58	3.19	*12.2*	3.83	*-6.5*	12.48	14.19	15.25	18.14	20.26
APAT	2.75	2.65	*3.9*	3.11	*-11.5*	10.73	11.42	11.42	13.87	15.89
Diluted EPS (Rs)	14.8	14.2	*3.9*	16.7	*-11.5*	57.6	61.3	61.3	74.5	85.3
P/E (x)						19.4	18.2	18.2	15.0	13.1
EV / EBITDA (x)						14.7	11.6	10.7	8.9	7.8
RoE (%)						20.0	20.6	19.0	21.4	22.4

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

Rs Bn	FY21E Old	FY21E Revised	*Change %*	FY22E Old	FY22E Revised	*Change %*
Revenue (USD mn)	1,221	1,273	*4.3*	1,336	1,401	*4.9*
Revenue	91.76	95.46	*4.0*	101.55	106.49	*4.9*
EBIT	14.00	15.25	*9.0*	16.69	18.14	*8.7*
EBIT margin (%)	15.3	16.0	*72bps*	16.4	17.0	*60bps*
APAT	10.91	11.42	*4.7*	13.11	13.87	*5.8*
EPS (Rs)	58.6	61.3	*4.7*	70.4	74.5	*5.8*

Source: Company, HSIE Research

BUY

CMP *(as on 24 Jul 2020)*	**Rs 1,117**
Target Price	**Rs 1,280**
NIFTY	**11,194**

KEY CHANGES	**OLD**	**NEW**
Rating	BUY	BUY
Price Target	Rs 1,055	Rs 1,280
EPS %	FY21E	FY22E
	+4.7	+5.8

KEY STOCK DATA	
Bloomberg code	MPHL IN
No. of Shares (mn)	187
MCap (Rs bn) / ($ mn)	208/2,786
6m avg traded value (Rs mn)	289
52 Week high / low	Rs 1,175/612

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	65.8	23.0	22.2
Relative (%)	44.1	31.3	21.5

SHAREHOLDING PATTERN (%)

	Mar-20	Jun-20
Promoters	56.18	56.18
FIs & Local MFs	14.17	14.22
FPIs	23.87	23.65
Public & Others	5.78	5.95
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Mindtree

Changing the operating orbit

We maintain ADD on Mindtree, following a sub-par 1Q revenue performance, offset by its strong and sustainable operating trajectory. Significant growth divergence has been witnessed in the portfolio with T1 account (30% of revenue) posting double-digit QoQ, travel & hospitality (8% of 1Q revenue) downsizing to half sequentially and the residual business (~62% of revenue) posting -4.6% QoQ. Key positives include the following: (1) strong and institutionalised operational recovery, supported by SG&A optimisation, (2) growth recovery in 2Q, supported by the Realogy (large deal) ramp-up and demand recovery ex-travel & hospitality on strong renewal deal wins; and (3) DSO (including unbilled) moderation supporting strong cash generation, coupled with improving segmental profitability. Risks remain a skewed growth profile. Our target price of Rs 1,090 is based on 18x Jun-22E EPS (+5% increase in EPS estimate).

- **1QFY21 highlights**: (1) Revenue came in lower than expected with a decline of 9.1% QoQ (flat QoQ ex-T&H); (2) EBIT margin expansion of 127bps QoQ to 13.7% was supported by lower travel expenses (+210bps QoQ), lower sub-contracting (+110bps), other SG&A rationalisation (+152bps), offset by the impact of pricing/utilisation drop on gross margin; (3) CMT segmental margin was at the highest in five years, supported by growth momentum in the vertical.
- **Outlook**: Continued pursuit of high-annuity/tail rationalisation across verticals supports growth visibility, overlaid with T1 account/Realogy deal ramp-up. We have factored in -4.7/+10.1% USD revenue growth for FY21/22 respectively; FY21E decline implies T1 growth at 30%. We have factored in EBIT margin as that at 1Q level for FY21/22E. Strong EPS CAGR, >30% RoIC and >6% FCF yield support valuations (17x FY22E vs. 17.5x average).

Quarterly Financial summary

Y/E March (Rs bn)	1Q FY21	1Q FY20	YoY (%)	4Q FY20	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue (USD Mn)	253.2	264.2	*-4.2*	278.4	*-9.1*	*1,001*	*1,089*	*1,037*	*1,142*	*1,248*
Net Sales	19.09	18.34	*4.1*	20.51	*-6.9*	70.22	77.64	77.91	86.81	96.73
EBIT	3.22	1.84	*74.9*	3.24	*-0.5*	9.00	7.87	10.76	12.13	13.8
APAT	2.13	1.28	*66.7*	2.06	*3.3*	7.25	6.66	8.16	9.45	10.75
Diluted EPS (Rs)	12.9	7.8	*66.7*	12.5	*3.3*	44.1	40.5	49.5	57.4	65.2
P/E (x)						22.2	24.2	19.8	17.0	15.0
EV / EBITDA (x)						14.1	13.9	10.7	9.3	8.0
RoE (%)						24.9	19.5	24.1	24.3	24.0

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

Rs Bn	FY21E Old	FY21E Revised	Change %	FY22E Old	FY22E Revised	Change %
Revenue (USD mn)	1,055	1,037	*-1.7*	1,161	1,142	*-1.6*
Revenue	79.31	77.91	*-1.8*	88.24	86.81	*-1.6*
EBIT	9.37	10.76	*14.7*	11.46	12.13	*5.8*
EBIT margin (%)	11.8	13.8	199bps	13.0	14.0	98bps
APAT	7.17	8.16	*13.7*	8.96	9.45	*5.4*
EPS (Rs)	43.6	49.5	*13.6*	54.5	57.4	*5.3*

Source: Company, HSIE Research

ADD

CMP *(as on 14 Jul 2020)*	**Rs 978**
Target Price	**Rs 1,090**
NIFTY	**10,607**

KEY CHANGES	**OLD**	**NEW**
Rating	ADD	ADD
Price Target	Rs 980	Rs 1,090
EPS %	FY21E	FY22E
	+13.6	+5.3

KEY STOCK DATA	
Bloomberg code	MTCL IN
No. of Shares (mn)	165
MCap (Rs bn) / ($ mn)	161/2,135
6m avg traded value (Rs mn)	1,042
52 Week high / low	Rs 1,063/652

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	32.2	13.2	30.0
Relative (%)	14.8	27.3	37.0

SHAREHOLDING PATTERN (%)

	Mar-20	Jun-20
Promoters	74.11	73.49
FIs & Local MFs	5.78	7.88
FPIs	11.86	10.39
Public & Others	8.25	8.24
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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L&T Technology Services

Slow recovery ahead

We maintain REDUCE on L&T Technology (LTTS) on broad-based portfolio dent and protracted operational recovery. 1Q revenue decline was steep at -12.5% QoQ (mirroring Cyient in decline), and the dent to margin was steeper, impacted by lower utilisation and volume cuts. Recovery will be slower (vs. pre-COVID moderating growth rate) and will be supported by (1) continued traction in telecom-hi-tech vertical (inorganic in 3Q) and medical devices vertical; and (2) gradual recovery in the transportation vertical (airline sub-sector hit in 2Q) and plant engineering vertical (O&G drag). Higher portfolio susceptibility to the global economic crisis and low-annuity/high-discretionary elements are likely to result in a slower recovery of LTTS, even as medium-term opportunities open up. Our target price of Rs 1,240, 16x Jun-22E EPS, follows ~3% EPS estimate cut for FY22E.

- **1QFY21 highlights**: (1) Revenue declined 12.5% QoQ (in-line) and EBIT margin came at 12.1%, -309bps QoQ (lowest since 4QFY18). (2) Transportation and plant engineering verticals led the decline at >20% QoQ, offset by growth in telecom & hi-tech and medical devices verticals. (3) Revenue guidance of 9-10% decline organic in FY21E implies +2.3-3% CQGR. (4) Nine multi-million dollar wins in 1Q, including a USD 30mn+ win (automotive OEM) and a USD 15mn+ win.
- **Outlook**: We have factored in a revenue decline of 9.6% and margin decline of ~300bps in FY21 leading to 22% EPS decline, factoring in the recovery to 4QFY20 margin level in four quarters based on employee 'right-sizing', increase in offshore, and improvement in utilisation.

Quarterly Financial summary

YE March (Rs bn)	1Q FY21	1Q FY20	YoY (%)	4Q FY20	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue (USD Mn)	171	194	*-11.8*	195	*-12.5*	*723*	*786*	*711*	*801*	*906*
Net Sales	12.95	13.48	*-3.9*	14.47	*-10.5*	50.78	56.19	53.41	60.90	70.19
EBIT	1.57	2.30	*-31.8*	2.20	*-28.7*	9.15	11.11	8.79	11.10	13.52
APAT	1.17	1.86	*-37.0*	1.87	*-37.4*	6.87	7.50	5.78	7.61	9.38
Diluted EPS (Rs)	11.2	17.8	*-37.0*	17.9	*-37.4*	65.8	71.9	55.4	72.9	89.9
P/E (x)						21.9	20.1	26.0	19.8	16.0
EV / EBITDA (x)						15.7	12.8	15.8	12.4	9.9
RoE (%)						31.1	28.6	19.5	22.5	24.1

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

Rs Bn	FY21E Old	FY21E Revised	Change %	FY22E Old	FY22E Revised	Change %
Revenue (USD mn)	711	711	*-0.1*	794	801	*1.0*
Revenue	53.45	53.41	*-0.1*	60.32	60.9	*1.0*
EBIT	7.89	7.19	*-8.9*	9.61	9.27	*-3.6*
EBIT margin (%)	14.8	13.5	*-130bps*	15.9	15.2	*-72bps*
APAT	6.33	5.78	*-8.7*	7.88	7.61	*-3.4*
EPS (Rs)	60.7	55.4	*-8.7*	75.5	72.9	*-3.4*

Source: Company, HSIE Research

REDUCE

CMP *(as on 16 Jul 2020)*	**Rs 1,442**
Target Price	**Rs 1,240**
NIFTY	**10,740**

KEY CHANGES	**OLD**	**NEW**
Rating	REDUCE	REDUCE
Price Target	Rs 1,210	Rs 1,240
	FY21E	FY22E
EPS %	-8.7	-3.4

KEY STOCK DATA	
Bloomberg code	LTTS IN
No. of Shares (mn)	105
MCap (Rs bn) / ($ mn)	151/2,002
6m avg traded value (Rs mn)	186
52 Week high / low	Rs 1,780/995

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	17.7	(12.9)	(12.9)
Relative (%)	(1.5)	0.1	(6.1)

SHAREHOLDING PATTERN (%)

	Mar-20	Jun-20
Promoters	74.62	74.60
FIs & Local MFs	4.88	4.44
FPIs	8.37	8.95
Public & Others	12.13	12.01
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Hexaware Technologies

Protracted recovery path

We maintain REDUCE on Hexaware, following a better-than-expected 2Q, offset by a relatively slower recovery path. Key positives include the following: (1) BFS vertical strength supported by a recovery in large BFS account (mortgage); (2) continued strength in the Professional Services vertical, and market-share led gains in cloud transformation (launch of 'Amaze' solution). Key risks/negatives include the following: (1) weakness in Travel & Transportation and Manufacturing & Consumer verticals (~24% of rev) expected to continue, (2) lower discretionary spend and supply-side factors can continue to impact Application Transformation Management service-line and BPS service-line respectively. While business dynamics exhibit protracted recovery, stock price performance will trail developments around the delisting proposal. The shareholder approval for delisting (10-Aug) and the subsequent developments on offer price are likely to drive the near-term stock performance. Our target price of Rs 360, 14x Jun-22E EPS, follows ~3% EPS estimate increase for CY21E.

- **1QFY21 highlights**: (1) Revenue performance was better than expected at -0.9% QoQ CC with supply-side impact at -0.6% QoQ. (2) Travel & Transportation vertical posted a steep decline of 27% QoQ and the BPM service-line declined 10.5% QoQ. (3) Margin outperformed with EBIT margin at 13.2%, +144bps QoQ, supported by higher utilisation and INR depreciation, offset by lower bill-rate. (4) Revenue outlook of flat to small volume growth in 3Q/4Q and 2H margin outlook at 1H margin actuals +/- 30bps.
- **Outlook**: We have factored in CY20E revenue growth at 6.7% (1.2% organic) and CY21E revenue growth at 8.9%; EBIT% factored at 12.6% each for CY20/21E translating into EPS CAGR of 11.7% over CY20-22E. At CMP, Hexaware trades at 17.0x and 15.6x CY20/21E (10-year average at 14x).

Quarterly Financial summary

YE Dec (Rs Bn)	2Q CY20	2Q CY19	*YoY (%)*	1Q CY20	*QoQ (%)*	CY18	CY19	CY20E	CY21E	CY22E
Revenue (USD Mn)	208	189	*10.4*	211	*-1.2*	*678*	*793*	*846*	*922*	*1,032*
Net Sales	15.69	13.08	*19.9*	15.42	*1.8*	46.48	55.83	63.18	70.07	80.01
EBIT	2.08	1.74	*19.1*	1.82	*14.2*	6.69	7.58	7.94	8.83	10.02
APAT	1.52	1.51	*0.8*	1.75	*-12.9*	5.83	6.41	6.55	7.16	8.18
Diluted EPS (Rs)	5.1	5.1	*0.7*	5.9	*-12.9*	19.6	21.5	22.0	24.0	27.4
P/E (x)						19.1	17.4	17.0	15.6	13.6
EV / EBITDA (x)						14.1	12.8	11.0	9.8	8.6
RoE (%)						26.5	24.9	22.3	21.7	22.0

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

Rs Bn	CY2OE Old	CY20E Revised	*Change %*	CY21E Old	CY21E Revised	*Change %*
Revenue (USD mn)	818	846	*3.4*	891	922	*3.4*
Revenue	61.14	63.18	*3.3*	67.74	70.07	*3.4*
EBIT	6.95	7.94	*14.3*	8.59	8.83	*2.8*
EBIT margin (%)	11.4	12.6	*121bps*	12.7	12.6	*-8bps*
APAT	5.95	6.55	*10.1*	6.91	7.16	*3.5*
EPS (Rs)	20.0	22.0	*10.1*	23.2	24.0	*3.5*

Source: Company, HSIE Research

REDUCE

CMP *(as on 28 Jul 2020)*	**Rs 375**
Target Price	**Rs 360**
NIFTY	**11,301**

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	Rs 325	Rs 360
EPS %	CY20E +10.1	CY21E +3.5

KEY STOCK DATA	
Bloomberg code	HEXW IN
No. of Shares (mn)	299
MCap (Rs bn) / ($ mn)	112/1,498
6m avg traded value (Rs mn)	275
52 Week high / low	Rs 399/202

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	31.7	6.4	4.8
Relative (%)	11.8	12.5	3.2

SHAREHOLDING PATTERN (%)	Mar-20	Jun-20
Promoters	62.44	62.34
FIs & Local MFs	12.00	12.13
FPIs	16.82	14.03
Public & Others	8.74	11.50
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Persistent Systems

Recovery factored in

We maintain REDUCE on Persistent Systems, despite its strong 1Q performance, as current valuations (at 16x FY22E vs. 14x 5-yr average) amply factor in the recovery trajectory. The Technology Services segment continues its steady performance supported by its large accounts mining, consolidated structure, and sales re-organisation. In contrast, the Alliance segment adds uncertainty to the revenue and operating profile based on volatility in re-seller revenue, despite the growth opportunities via Red Hat and Dassault ecosystem. The leadership changes in the organisation over the past year have stabilised and fortified the non-IBM business, but the IBM ecosystem remains a work-in-progress. Our upgraded target price is Rs 775, 14x Jun-22E, following ~16% EPS upgrade on growth/margin reset. The valuation discount to mid-tier peers reflects sub-par/volatile client mining, margins, and FCF as compared to peers.

- **1QFY21 highlights**: (1) Revenue came in at USD 131mn, +3.1/9.5% QoQ/YoY, driven by Technology Services (77.1% of revenue) growth at +2.2/17% QoQ/YoY and Alliance business (22.9% of revenue) growth at +6.4/-9.8% QoQ/YoY. (2) EBIT stood at 10.4%, +113bps QoQ, supported by higher IP-led revenue and lower SG&A cost, including lower travel cost (+156bps QoQ margin tailwind). (3) Deal wins were strong including USD 50mn TCV 5-year EN in software & hi-tech and BFS consolidation win.
- **Outlook**: We have factored in revenue growth of +8.9/9.7% for FY21/22E, based on Technology Services growth at 14.6/10.5% and Alliance growth at -7.0/+6.6% over the same period; factored in EBIT at 9.9/9.4% for FY21/22E, translating into a 7% EPS CAGR over FY20-22E.

Quarterly Financial summary

YE March (Rs Bn)	1Q FY21	1Q FY20	*YoY (%)*	4Q FY20	*QoQ (%)*	FY19	FY20	FY21E	FY22E	FY23E
Revenue (USD mn)	131	120	*9.5*	127	*3.1*	481	502	546	599	653
Net Sales	9.91	8.32	*19.1*	9.26	*7.0*	33.66	35.66	41.05	45.54	50.58
EBIT	1.03	0.82	*26.1*	0.86	*20.1*	4.23	3.27	4.08	4.32	4.76
APAT	0.90	0.90	*0.0*	0.87	*3.1*	3.66	3.59	3.91	4.09	4.36
Diluted EPS (Rs)	11.8	11.8	*0.0*	11.4	*3.1*	47.8	47.0	51.2	53.5	57.0
P/E (x)						17.9	18.2	16.7	16.0	15.0
EV / EBITDA (x)						8.8	10.4	8.4	7.6	6.6
RoE (%)						15.7	14.4	15.5	14.6	14.1

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

Rs Bn	FY21E Old	FY21E Revised	*Change %*	FY22E Old	FY22E Revised	*Change %*
Revenue (USD mn)	509	546	*7.2*	549	599	*9.2*
Revenue	38.28	41.05	*7.2*	41.71	45.54	*9.2*
EBIT	3.11	4.08	*31.1*	3.63	4.32	*19.0*
EBIT margin (%)	8.1	9.9	*181bps*	8.7	9.5	*78bps*
APAT	2.94	3.91	*33.2*	3.51	4.09	*16.5*
EPS (Rs)	38.4	51.2	*33.2*	45.9	53.5	*16.5*

Source: Company, HSIE Research

REDUCE

CMP *(as on 27 Jul 2020)*	**Rs 856**
Target Price	**Rs 775**
NIFTY	**11,132**

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	Rs 640	Rs 775
EPS %	FY21E	FY22E
	+33.2	+16.5

KEY STOCK DATA	
Bloomberg code	PSYS IN
No. of Shares (mn)	76
MCap (Rs bn) / ($ mn)	65/875
6m avg traded value (Rs mn)	70
52 Week high / low	Rs 919/420

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	82.5	18.6	51.6
Relative (%)	63.0	26.4	51.5

SHAREHOLDING PATTERN (%)

	Mar-20	Jun-20
Promoters	31.44	31.47
FIs & Local MFs	24.79	27.24
FPIs	19.97	19.17
Public & Others	23.80	22.12
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Zensar Technologies

Getting back on track

Zensar's fall in revenue (-4.8% QoQ CC) was in line with the estimate, while the margin performed better than expected. The revenue declined due to stressed verticals like Consumer and Manufacturing. The fall in BFS (-12.8% QoQ CC) was higher than peers, and Insurance (Cynosure) was under pressure due to the COVID-19 impact. Hi-Tech (46% of revenue) registered growth led by a top client. The recovery in TCV wins (USD 150mn, ~30% NN) is encouraging, and the deal pipeline at USD 1.5bn remains healthy. We expect a recovery in Zensar's growth in 2HFY21E and EBITDA margin will be in the range of 13-15%. Growth will be led by Hi-Tech, stability in Manufacturing/Retail and recovery in BFSI. We increase our EPS estimate by 13.0/3.1% for FY21/22E to factor in better growth visibility and margin recovery. We increase our P/E multiple to 12x (~8% discount to 5Y average) vs. 10x earlier. Our TP of Rs 170 is based on 12x June-22E EPS. The stock trades at a P/E of 13.0/10.5x FY21/22E EPS, which is ~20% discount to 5Y average. Maintain ADD.

- **1QFY21 highlights**: Zensar posted a revenue of USD 130.8mn, -4.8/-12.1% QoQ/YoY CC in-line vs. the estimate of USD 130mn. Within verticals, the highest impact was witnessed in Consumer (-20.8% QoQ CC), Banking (-12.8%), Insurance (-7.0%), offset by growth in Hi-Tech (+3.5%). Digital is now 59.5% of revenue, down 3.2% QoQ, while the Legacy fall continues to be steep (-12.0% QoQ).
- EBIT margin expanded 11bps QoQ to 9.9% in a tough quarter vs. our expectation of 8.1%. Margin expansion was led by cost control (+240bps) offset by volume and utilisation impact of 190bps QoQ. Margin will remain stable; offshoring and lower sub-con cost will remain future margin levers.
- On the positive side, Cloud Infra Services (~19% of rev) stood up 8.5% QoQ CC. Collection improved significantly; the net cash is Rs 7.63bnm which is ~24% of MCap. We expect revenue growth of -1.2/+0.8/+1.4% in 2/3/4QFY21.

Quarterly Financial summary

YE March Rs bn	1Q FY21	1Q FY20	*YoY (%)*	4Q FY20	*QoQ (%)*	FY19	FY20	FY21E	FY22E	FY23E
Revenue (USD mn)	131	153	*-14.7*	141	*-7.0*	557	590	522	558	603
Net Sales	9.91	10.66	*-7.0*	10.18	*-2.6*	39.15	41.77	39.28	42.42	45.80
EBIT	0.99	1.14	*-13.2*	1.00	*-1.5*	4.19	3.54	3.44	4.21	4.59
APAT	0.73	0.79	*-7.1*	0.70	*5.3*	3.24	2.68	2.54	3.13	3.43
Diluted EPS (Rs)	3.2	3.4	*-7.1*	3.0	*5.3*	14.2	11.7	11.1	13.7	15.0
P/E (x)						10.2	12.3	13.0	10.5	9.6
EV / EBITDA (x)						6.0	5.2	4.9	4.0	3.3
RoE (%)						17.7	12.9	11.4	13.1	13.4

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

Rs Bn	FY21E Old	FY21E Revised	*Change %*	FY22E Old	FY22E Revised	*Change %*
Revenue (USD mn)	515	522	*1.3*	560	558	*-0.3*
Revenue	38.72	39.28	*1.4*	42.55	42.42	*-0.3*
EBIT	3.13	3.44	*10.1*	4.10	4.21	*2.5*
EBIT margin (%)	8.1	8.8	*69bps*	9.6	9.9	*27bps*
APAT	2.25	2.54	*13.0*	3.04	3.13	*3.1*
EPS (Rs)	9.8	11.1	*13.0*	13.3	13.7	*3.1*

Source: Company, HSIE Research

ADD

CMP *(as on 24 Jul 2020)*	**Rs 144**
Target Price	**Rs 170**
NIFTY	**11,194**

KEY CHANGES	**OLD**	**NEW**
Rating	ADD	ADD
Price Target	Rs 135	Rs 170
EPS %	FY21E	FY22E
	+13.0	+3.1

KEY STOCK DATA	
Bloomberg code	ZENT IN
No. of Shares (mn)	225
MCap (Rs bn) / ($ mn)	33/435
6m avg traded value (Rs mn)	31
52 Week high / low	Rs 230/64

STOCK PERFORMANCE (%)

	3M	**6M**	**12M**
Absolute (%)	60.0	(17.2)	(33.2)
Relative (%)	38.3	(8.8)	(33.9)

SHAREHOLDING PATTERN (%)

	Mar-20	**Jun-20**
Promoters	49.23	49.23
FIs & Local MFs	1.81	1.68
FPIs	40.50	38.85
Public & Others	8.46	10.24
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Teamlease Services

Recovery on the cards

Teamlease delivered an in-line revenue and better margin performance in what is being termed as a tough quarter. The impact of the pandemic was felt on core staffing (-14.4% QoQ) and specialised staffing (-5.3% QoQ). The core staffing headcount fell by 14.5% QoQ but was better than expected. EBIT margin expanded 56bps QoQ to 1.4% (estimate of 1.3%), led by tight cost control, higher core employee productivity, and increasing mark-up. The cash generation (OCF/EBITDA at 80%) improved due to lower withholding tax. Teamlease has ~40% exposure to high impacted verticals like infra, manufacturing, ENU, auto, and retail. The exposure to less impacted verticals like BFSI, agri, chemicals, essential retail, pharma, hospitality, and telecom is at ~60%. Recovery is expected in 2H with a flat 2Q.

We like the company's low-risk business model (non-outcome based) and diversified exposure across sectors. Factors such as (1) formalisation of jobs, (2) vendor consolidation, (3) focus on collect & pay, (4) cost-cutting by enterprises, and (5) client diversification will benefit market leaders like Teamlease. There is further scope for margin expansion through productivity benefits and a better business mix. Teamlease's ability to grow ~15-20% organically, focus on driving productivity through automation, lower funding exposure, domestic focus, and high management pedigree are the reasons it can command a premium valuation. The stock is trading at a PE of 40.2/28.6x FY21/22E. Our target price of Rs 2,120 is based on 30x June-22E EPS (5Y average P/E of ~35x). Maintain BUY.

- **1QFY21 highlights**: Revenue stood at Rs 11.36bn, down 14.6% QoQ, vs our estimate of Rs 11.53bn. Core/Specialised/HR services revenue was down 14.4/5.3/57.2% QoQ. The mark-up increased to Rs 761 (+1.7% QoQ), and the associate to core ratio increased to 283 (+7.2% QoQ). EBITDA margin for core/specialised stood at 2.0/8.6%, an expansion of -20/+252bps QoQ.
- Salary funding exposure at 14% is the lowest in the industry. The Teamlease PF trust has an exposure of Rs 1.73bn towards two bankrupt NBFCs, which is a risk. The company has not made any provisions regarding the same.

Quarterly Financial summary

YE March (Rs bn)	1Q FY21	1Q FY20	YoY (%)	4Q FY20	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Net Revenue	11.36	12.51	-9.2	13.3	-14.6	44.48	52.01	47.79	57.87	70.74
EBIT	0.16	0.17	-4.2	0.12	40.5	0.84	0.67	0.75	1.03	1.41
APAT	0.17	0.19	-11.3	0.20	-15.2	0.98	0.85	0.79	1.11	1.51
Diluted EPS (Rs)	10.0	11.3	-11.3	11.8	-15.2	57.3	49.5	46	64.8	88.3
P/E (x)						32.3	37.4	40.2	28.6	21.0
EV / EBITDA (x)						32.1	33.0	28.6	21.7	16.3
RoE (%)						20.0	15.2	12.8	15.6	17.9

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

Rs Bn	FY21E Old	FY21E Revised	Change %	FY22E Old	FY22E Revised	Change %
Revenue	48.59	47.79	-1.6	58.33	57.87	-0.8
EBIT	0.69	0.75	8.1	1.01	1.03	2.4
EBIT margin (%)	1.4	1.6	14bps	1.7	1.8	6bps
APAT	0.77	0.79	2.1	1.11	1.11	-0.6
EPS (Rs)	45.0	46.0	2.1	65.1	64.8	-0.6

Source: Company, HSIE Research

BUY

CMP *(as on 31 Jul 2020)*	**Rs 1,850**
Target Price	**Rs 2,120**
NIFTY	**11,073**

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 1,950	Rs 2,120
EPS %	FY21E	FY22E
	+2.1	-0.6

KEY STOCK DATA	
Bloomberg code	TEAM IN
No. of Shares (mn)	17
MCap (Rs bn) / ($ mn)	32/423
6m avg traded value (Rs mn)	51
52 Week high / low	Rs 3,200/1,415

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	15.6	(28.4)	(30.7)
Relative (%)	4.1	(20.8)	(31.0)

SHAREHOLDING PATTERN (%)	Mar-20	Jun-20
Promoters	40.02	40.02
FIs & Local MFs	10.50	11.01
FPIs	40.78	39.89
Public & Others	8.70	9.08
Pledged Shares	0.49	0.49

Source : BSE

Pledged shares as % of total shares

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Cyient

Uncertainty persists

We maintain REDUCE on Cyient, based on weak 1Q performance and uncertain growth outlook. The services (~86% of revenue) segment is severely impacted (-18.6% YoY) by structural problem in Aerospace & Defence vertical (-28% YoY). Cyient's higher mix of mechanical services and elevated exposure to stressed verticals (aerospace, travel and ENU) have magnified the COVID-19 impact vs. its peers. The company is struggling with issues such as (1) stress in services portfolio (-18.6% in FY21E), (2) issues in top accounts (A&D), (3) focus on lower margin DLM business and (4) deteriorating margin profile due to investments. While some recovery is expected in 2H, concerns related to slowdown in decision making, COVID-19 related uncertainty, and higher mix of legacy services remain. Based on margin recovery in 2H, we increase EPS estimate by 7.6/7.0% for FY21/22E. Our target price stands at Rs 285, based on 9x Jun-22E EPS, which is at ~25% discount to 5Y average 1Y-fwd P/E multiple.

- **1QFY21 highlights**: (1) Revenue declined 12.5% QoQ (vs. expectation of -14.2% QoQ). (2) Services EBIT margin declined 283 bps QoQ to 6.8% due to lower volume (-289bps), restructuring cost (-259bps), offset by cost optimisation (+295bps) and currency (+107bps). (3). Growth recovery will be led by communications, transportation and medical devices verticals. (4) Management indicated recovery in deal activity and minimal disruption due to supply side issues.
- **Outlook**: We have factored in -16/+6% USD revenue growth for FY21/22E respectively; FY21E implies 2/3/4Q revenue growth of -0.3/+0.4/+2.4%. Margin in 2QFY21 will recover to 4QFY20 level (~8%) and the exit rate will be 9-10%.

Quarterly Financial summary

YE March (Rs bn)	1Q FY21	1Q FY20	YoY (%)	4QF Y20	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue (USD Mn)	131	157	*-16.6*	149	*-12.5*	660	625	525	557	601
Net Sales	9.92	10.89	*-8.9*	10.74	*-7.6*	46.18	44.27	39.53	42.34	45.71
EBIT	0.51	1.00	*-49.1*	0.90	*-43.5*	5.33	4.08	3.11	3.93	4.42
APAT	0.81	0.91	*-10.5*	0.75	*7.6*	4.90	3.73	2.88	3.39	3.74
Diluted EPS (Rs)	7.4	8.2	*-10.5*	6.8	*7.6*	44.4	33.9	26.2	30.9	34.0
P/E (x)						6.3	8.3	10.8	9.1	8.3
EV / EBITDA (x)						3.8	4.3	4.5	3.6	3.0
RoE (%)						20.0	14.5	11.0	12.3	12.9

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

Rs Bn	FY21E Old	FY21E Revised	Change %	FY22E Old	FY22E Revised	Change %
Revenue (USD mn)	507	525	*3.6*	543	557	*2.7*
Revenue	38.09	39.53	*3.8*	41.24	42.34	*2.7*
EBIT	2.94	3.11	*5.7*	3.75	3.93	*4.9*
EBIT margin (%)	7.7	7.9	*15bps*	9.1	9.3	*19bps*
APAT	2.67	2.88	*7.6*	3.17	3.39	*7.0*
EPS (Rs)	24.3	26.2	*7.6*	28.8	30.9	*7.0*

Source: Company, HSIE Research

REDUCE

CMP *(as on 16 Jul 2020)*	**Rs 284**
Target Price	**Rs 285**
NIFTY	**10,740**

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	Rs 260	Rs 285
	FY21E	FY22E
EPS %	+7.6	+7.0

KEY STOCK DATA	
Bloomberg code	CYL IN
No. of Shares (mn)	110
MCap (Rs bn) / ($ mn)	31/415
6m avg traded value (Rs mn)	199
52 Week high / low	Rs 560/184

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	24.3	(37.0)	(47.7)
Relative (%)	5.1	(24.0)	(40.9)

SHAREHOLDING PATTERN (%)	Dec-19	Mar-20
Promoters	22.82	22.87
FIs & Local MFs	19.57	20.73
FPIs	44.31	42.16
Public & Others	13.30	14.24
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Sonata Software

On the path to recovery

Sonata posted a weak quarter; the fall in IT services (IITS) revenue (-19.6% QoQ organic) was higher-than-estimated, but margin expansion of 104bps QoQ came as a positive surprise. The impact on IITS was due to an issue in one large travel client (down ~80% QoQ); ex-travel, its revenue was up 1.2% sequentially. Sonata has invested in strengthening the Microsoft relationship, which has yielded positive results (4Y CAGR of 19%). Dynamics D365 related services (34% of revenue) has grown at an eight-quarter CQGR of 7.8%. Furthermore, the margin expansion in IITS was led by a reduction in cost, offshoring and higher IP-Led revenue. The IITS margin will be maintained in the range of 21-22%. DPS growth was strong (+12.2% QoQ), but higher discounts impacted margins. Higher cloud license sales should lead to growth in DPS, but discounts could impact profitability. We like Sonata's IP-led business model, highest margin (IITS) in Tier-2 IT, focus on high growth Microsoft ecosystem, healthy RoE (~38%), and high dividend yield (~5%). We cut our EPS estimate by 2.3/6.2% to factor in the near-term growth challenges and lower DPS margin. The stock is trading at a P/E of 13/11x FY21/22E, in line with the five-year average multiple. We increase our target multiple to 12x (vs. 11x) to arrive at a target price of Rs 320, based on June-22E EPS.

- **1QFY21 highlights**: IITS revenue declined 17.8% QoQ to USD 36.5mn vs. estimate of USD 38mn. The decline was led by travel (-85% QoQ) and non-essential retail (-17.8% QoQ) verticals. The recovery in travel will be gradual and will reach ~50% of 4QFY20 level by 4QFY21. IP-led revenue was up 5.5% QoQ and supported margins. Consolidated revenue was up 2.6% QoQ, and EBITDA margin stood at 8.2% (vs. the estimate of 8.3%). Microsoft (SI + Product Engineering + AX up-gradation) is ~60% of IITS revenue.
- We expect IITS revenue to recover from 2QFY21; IITS growth ex-TUI for 2/3/4Q is expected to be 0.4/1.7/1.8% QoQ. IITS margin is expected to be at 21.1/21.4% for FY21/22E.

Quarterly financial summary

YE March (Rs Bn)	1Q FY21	1Q FY20	YoY (%)	4Q FY20	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
IITS USD Revenue	36.5	44.3	*-17.7*	44.4	*-17.8*	161	181	153	171	186
Net Sales	9.52	8.75	*8.9*	9.29	*2.6*	29.61	37.43	37.39	41.41	45.37
EBIT	0.68	0.81	*-15.9*	0.74	*-8.0*	3.23	3.36	2.80	3.28	3.65
APAT	0.50	0.67	*-25.5*	0.74	*-33.0*	2.47	2.77	2.27	2.68	2.99
Diluted EPS (Rs)	4.8	6.5	*-25.5*	7.2	*-33.0*	23.7	26.7	21.8	25.7	28.7
P/E (x)						11.9	10.6	13.0	11.0	9.8
EV / EBITDA (x)						8.3	7.5	8.5	7.1	6.2
RoE (%)						34.7	38.5	31.9	33.5	33.3

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

Rs Bn	FY21E Old	FY21E Revised	Change %	FY22E Old	FY22E Revised	Change %
Revenue (USD mn)	159	153	*-3.6*	175	171	*-2.2*
Revenue	36.9	37.4	*1.4*	40.7	41.4	*1.9*
EBIT	2.9	2.8	*-2.5*	3.5	3.3	*-6.8*
EBIT margin (%)	7.8	7.5	*-30bps*	8.7	7.9	*-73bps*
APAT	2.3	2.3	*-2.3*	2.9	2.7	*-6.2*
EPS (Rs)	22.3	21.8	*-2.3*	27.5	25.7	*-6.2*

Source: Company, HSIE Research

BUY

CMP *(as on 11 Aug 2020)*	**Rs 283**
Target Price	**Rs 320**
NIFTY	**11,323**

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 300	Rs 320
EPS %	FY21E	FY22E
	-2.3	-6.2

KEY STOCK DATA	
Bloomberg code	SSOF IN
No. of Shares (mn)	105
MCap (Rs bn) / ($ mn)	30/399
6m avg traded value (Rs mn)	99
52 Week high / low	Rs 355/147

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	36.4	(15.6)	(16.3)
Relative (%)	14.7	(8.8)	(18.5)

SHAREHOLDING PATTERN (%)	Mar-20	Jun-20
Promoters	28.17	28.17
FIs & Local MFs	13.32	12.93
FPIs	11.66	10.37
Public & Others	46.85	48.53
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Mastek

Changing orbit

Mastek delivered strong revenue and margin performance led by full quarter integration of Evosys. Mastek organic business was down 4.4% QoQ due to weakness in UK private (-6.5% QoQ, Retail+BFS) and US Retail portfolio offset by strong UK Govt. (+13.9% QoQ). The UK Govt. will continue to perform well given Mastek's strong relationship, integration of Evosys capabilities, and revival of UK Govt spending. The UK private sector is facing the dual impact of Brexit and Covid-19 and will remain under stress. US revenue is impacted by Retail slowdown and recovery will be protracted. EBIT Margin expanded 321bps YoY to 14.7% led by the integration of high margin Evosys business. Evosys has performed well (+10% QoQ), driven by higher cloud adoption (~72% of revenue from Cloud). Mastek and Evosys go-to-market strategy will open access to new clients and geographies. The company is changing orbit and successful execution/cross-sell can lead to re-rating. We have assumed Evosys revenue of USD 71/78mn for FY21/22E and ~18% EBIT margin. We increase our USD revenue estimate by 4.6/2.4% for FY21/22E due to better performance of Evosys and UK Govt. EPS gets elevated by 13/9% for FY21/22E. Our TP of Rs 630 is based on 9x June-22E EPS plus Rs 70/share for ~5% stake in Majesco US. The stock has rallied 123% in the last 3M and trades at a P/E of 9.4/8.6x FY21/22E, which is still at ~20% discount to 5Y average multiple. Maintain BUY.

- **1QFY21 highlights**: Revenue stood at USD 50.9mn (vs. est. USD 48.5mn) led by higher Evosys revenue (USD 17.6mn vs. exp of USD 16.2mn). In CC terms revenue was up 12.1/46.1% QoQ/YoY. The order book stood at USD 101mn and the company has signed an additional deal of USD 5.5mn in the healthcare vertical. EBIT margin was down 28bps QoQ but was higher than estimate. Net cash stands at Rs 1.73bna and Mastek will receive USD 26.4mn, which will be used to retire debt.
- Evosys has ~1500 employees with a rev/Emp of USD ~47K. Evosys main markets are Middle East and UK/EU, which contributes 45/30% to its revenue.

Quarterly Financial summary

YE March	1Q FY21	1Q FY20	YoY (%)	1Q FY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue (USD Mn)	50.9	35.6	43.2	46.6	9.2	148	151	204	217	236
Net Sales	3.86	2.48	56.0	3.37	14.7	10.33	10.71	15.33	16.49	17.97
EBIT	0.57	0.28	99.4	0.51	12.5	1.16	1.32	2.15	2.36	2.61
APAT	0.40	0.24	66.9	0.52	-21.6	1.01	1.31	1.59	1.73	1.91
Diluted EPS (Rs)	16.00	9.6	67.0	20.2	-20.8	39.9	51.5	55.9	60.8	66.9
P/E (x)						13.1	10.1	9.4	8.6	7.8
EV / EBITDA (x)						8.9	8.2	5.4	4.4	3.6
RoE (%)						15.9	17.4	18.7	17.7	17.1

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

Rs Bn	FY21E Old	FY21E Revised	*Change %*	FY22E Old	FY22E Revised	*Change %*
Revenue (USD mn)	195	204	*4.6*	212	217	*2.4*
Revenue	14.65	15.33	*4.6*	16.11	16.49	*2.4*
EBIT	2.02	2.15	*6.7*	2.26	2.36	*4.3*
EBIT margin (%)	13.8	14.0	*28bps*	14.0	14.3	*26bps*
APAT	1.41	1.59	*13.0*	1.59	1.73	*9.0*
EPS (Rs)	49.4	55.9	*13.0*	55.7	60.8	*9.0*

Source: Company, HSIE Research

BUY

CMP *(as on 30 Jul 2020)*	**Rs 523**
Target Price	**Rs 630**
NIFTY	**11,102**

KEY CHANGES	**OLD**	**NEW**
Rating	BUY	BUY
Price Target	Rs 535	Rs 630
EPS %	FY21E	FY22E
	+13.0	+9.0

KEY STOCK DATA

Bloomberg code	MAST IN
No. of Shares (mn)	24
MCap (Rs bn) / ($ mn)	13/171
6m avg traded value (Rs mn)	48
52 Week high / low	Rs 560/166

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	112.4	18.6	37.6
Relative (%)	100.5	26.3	36.7

SHAREHOLDING PATTERN (%)

	Mar-20	Jun-20
Promoters	45.10	44.82
FIs & Local MFs	14.88	15.30
FPIs	6.20	5.57
Public & Others	33.82	34.31
Pledged Shares	25.70	25.55

Source : BSE

Pledged shares as % of total shares

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Multi Commodity Exchange

Strong recovery in volume

MCX market share increased to 96.7% (+530bps YoY), which demonstrates the core strength of the franchise. Both revenue and margin performance was weak in 1Q but stood better than expectation. Trading volume was down 37% QoQ in 1Q due to the impact of COVID-19, change in exchange timing (April-20) and crude fiasco, which recovered strongly to pre-COVID levels in July-20 (Rs 346bn, ~5% below 4Q level). Bullion (57% of volume) continues to drive volume (+52% above 4Q level) supported by volatility in gold/silver prices. Crude (~25% of volume) is impacted by the high margin requirement (~100%) and extreme volatility. Tailwinds like institutional participation, indices launch (Aug-20), and increasing retail penetration should boost volumes. We increase the EPS estimate for FY21/22E by +27.4/+13.6% to factor in volume recovery and better margin. The stock has rallied ~48% in the last three months and now trades at a PE of 33/28x FY21/22E EPS. We assign 30x to June-22E core PAT and add net cash (ex-SGF) to arrive at a target price of Rs 1,600. Maintain ADD.

- **1QFY21 highlights**: MCX revenue was down 30.7/8.1% QoQ/YoY to Rs 0.73bn (vs. expectation of Rs 0.64bn). Traded volume was down 41.6/18.5% QoQ/YoY to Rs 14.11tn. Total ADTV was down 36.9/15.8% QoQ/YoY to Rs 231bn. The bulk of the decline in 1Q was due to Energy (-65.9% QoQ) and Metals (-21.5% QoQ). Bullion was down only 6.6% QoQ in 1Q but is up 87% YoY in July-20. EBITDA margin stood at 38.7%, down 235bps QoQ, higher than our estimate of 26.5%.
- ADTV recovery has been strong in the past three months; in July-20, it was at Rs 345.85 (+9.9% YoY), led by Bullion and Metals. The crude volume is still down due to high margin requirements (~100% vs. ~10% earlier). MCX is planning to launch spot exchanges for Bullion and Natural Gas.

Quarterly Financial summary

YE March (Rs bn)	1Q FY21	1Q FY20	YoY (%)	4Q FY20	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Net Revenues	0.73	0.79	*-8.1*	1.05	*-30.7*	3.00	3.74	4.15	4.95	5.88
EBITDA	0.27	0.28	*-4.3*	0.41	*-34.9*	0.94	1.55	1.93	2.53	3.21
APAT	0.56	0.44	*29.1*	0.66	*-13.8*	1.7	2.33	2.39	2.81	3.40
Diluted EPS (Rs)	11.1	8.6	*29.1*	12.9	*-13.8*	33.4	45.7	47.0	55.3	66.9
P/E (x)						46.3	33.9	33.0	28.0	23.2
EV / EBITDA (x)						74.2	44.1	35.2	26.8	20.9
RoE (%)						12.9	17.8	17.3	19.9	23.2

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

Rs Bn	FY21E Old	FY21E Revised	Change %	FY22E Old	FY22E Revised	Change %
Revenue	3.45	4.15	*20.1*	4.56	4.95	*8.5*
EBITDA	1.31	1.93	*48.1*	2.17	2.53	*16.4*
EBITDA Margin (%)	37.9	46.7	*882bps*	47.6	51.0	*344bps*
APAT	1.87	2.39	*27.4*	2.48	2.81	*13.6*
EPS (Rs)	36.8	47.0	*27.4*	48.7	55.3	*13.6*

Source: Company, HSIE Research

ADD

CMP *(as on 28 Jul 2020)*	**Rs 1,699**
Target Price	**Rs 1,600**
NIFTY	**11,301**

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	Rs 1,340	Rs 1.600
EPS %	FY21E	FY22E
	+27.4	+13.6

KEY STOCK DATA

Bloomberg code	MCX IN
No. of Shares (mn)	51
MCap (Rs bn) / ($ mn)	87/1,158
6m avg traded value (Rs mn)	502
52 Week high / low	Rs 1,730/779

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	55.0	23.4	101.0
Relative (%)	35.2	29.4	99.4

SHAREHOLDING PATTERN (%)

	Mar-20	Jun-20
Promoters	0.00	0.00
FIs & Local MFs	39.31	39.65
FPIs	32.57	36.43
Public & Others	28.12	23.92
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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CDSL

Market share gain impressive

CDSL delivered a robust performance both on the revenue and margins front, driven by traction in transaction charges (32% of revenue, +59.2% QoQ). The transaction charges surged due to high retail activity, an increase in delivery volume, and strong addition of new accounts. The COVID-19 impact was felt on KYC revenue (April and May-20) and the addition of unlisted companies. NSDL also witnessed a ~59% drop in the addition of unlisted companies. CDSL continued to gain BO account market share from NSDL (stood at 53.7% in June-20 vs. 48.4% in FY19). Its incremental market share stood at 85% due to exclusive arrangements with discount brokers. BO accounts are the building blocks for a depository and have a high correlation to revenue growth. SEBI allowed Aadhaar-based e-KYC for account opening, which will boost KYC volumes. We increase the FY21/22E EPS estimate by 20.1/16.8% due to a surge in transaction revenue and expansion in margins. We value CDSL on an SoTP basis by assigning 30x to June-22E core profit and adding net cash to arrive at a target price of Rs 412. The stock trades at a P/E of 25.3/22.5x FY21/22E EPS. Maintain BUY.

- **1QFY21 highlights**: CDSL revenue was up 9.0/11.8% QoQ/YoY to Rs 0.65bn, higher than our estimate of Rs 0.64bn. Annual issuer/transaction charges contributed 32.2/31.5% to revenue and were up 7.7/59.2% QoQ. KYC/IPO-corporate action revenue was down 33.2/17.1% QoQ. The total number of BO account stood at 23.16mn in June-20, +28.7% YoY. The incremental market share of the company jumped to 85%, and it now stands at 53.7% (+470bps YoY), which is impressive.
- Adjusted for one-offs last quarter, EBIT margin was up 186bps to 54.5%, in line with our estimate of 54.7%. Employee cost was up 8.8% QoQ due to the wage hike. The margins will expand with growth due to embedded non-linearity in the business.

Quarterly Financial summary

YE March (Rs mn)	1Q FY21	1Q FY20	*YoY (%)*	4Q FY20	*QoQ (%)*	FY19	FY20	FY21E	FY22E	FY23E
Net Revenues	653	584	*11.8*	599	*9.0*	1,947	2,251	2,672	3,021	3,379
EBIT*	356	200	*78.4*	315	*12.8*	990	966	1,337	1,560	1,778
APAT	444	274	*61.9*	374	*18.8*	1,135	1,255	1,485	1,668	1,842
Diluted EPS (Rs)	4.3	2.6	*61.9*	3.6	*18.8*	10.9	12	14.2	16	17.6
P/E (x)						33	29.9	25.3	22.5	20.4
EV / EBITDA (x)						28.4	28	20.3	16.9	14.3
RoE (%)						17	17.3	18.4	18.6	18.4
Cash/Mcap (%)						15.5	16.7	18.6	20.8	23.2

Source: Company, HSIE Research, Consolidated Financials, * EBIT adjusted for one-offs for FY20

Change in Estimates

Rs Mn	FY21E Old	FY21E Revised	*Change %*	FY22E Old	FY22E Revised	*Change %*
Revenue	2,348	2,672	*13.8*	2,707	3,021	*11.6*
EBITDA	1,134	1,458	*28.6*	1,378	1,693	*22.8*
EBITDA margin (%)	48.3	54.6	*627bps*	50.9	56.0	*511bps*
APAT	1,237	1,485	*20.1*	1,428	1,668	*16.8*
EPS (Rs)	11.8	14.2	*20.1*	13.7	16.0	*16.8*

Source: HSIE Research

BUY

CMP *(as on 29 Jul 2020)*	Rs 351
Target Price	Rs 412
NIFTY	11,203

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 330	Rs 412
EPS %	FY21E	FY22E
	+20.1	+16.8

KEY STOCK DATA	
Bloomberg code	CDSL IN
No. of Shares (mn)	105
MCap (Rs bn) / ($ mn)	37/491
6m avg traded value (Rs mn)	219
52 Week high / low	Rs 368/180

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	51.8	29.8	81.0
Relative (%)	35.4	37.4	79.9

SHAREHOLDING PATTERN (%)	Mar-20	Jun-20
Promoters	20.00	20.00
FIs & Local MFs	35.76	35.46
FPIs	1.78	1.51
Public & Others	42.46	43.03
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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BSE

Fighting its way back

BSE reported lower-than-expected revenue and margin performance in the quarter due to a fall in listing income (-20% QoQ). The core revenue stream improved (transaction charges +20.7% QoQ), led by a jump in cash volume and StAR MF. EBITDA margin was in negative territory (-7.6%) due to a drop in revenue and fixed cost structure. BSE cash market share declined to 6.2% (-113bps YoY) despite a jump in volumes, which we believe can be regained through smart order routing. The StAR MF platform is witnessing strong volume growth (+52% YoY), but realisation will fall from 2Q due to lower pricing. BSE is trying to fight back and build the derivative volume again, but it's still early days. New initiatives like insurance platform, spot exchange and INX are promising, but there is no revenue visibility from them in the near term. The revival of derivatives volume on BSE, smart order routing and interoperability are key triggers to transaction revenue. The value proposed value unlocking of the StAR MF platform is positive and will be closely watched. We arrive at a SoTP-based target price of Rs 565 by assigning 10x multiple to core June-22E PAT (Rs 57/share), Rs 110/sh for the CDSL stake and adding net cash excluding SGF and clearing cash (Rs 397/sh). BSE has net cash of Rs 18bn (~78% of market cap) and a dividend yield of ~5%, which limits downside. Maintain ADD.

- **1QFY21 highlights**: Revenue was down 13.7% QoQ to Rs 1.03bn (vs. estimate of Rs 1.20bn) led by 20.7% growth in transaction revenue offset by 20.7% drop in annual listing fees (reduction in companies). StAR MF revenue stood at Rs 0.14bn (+19.3% QoQ). Currency derivative market share has declined sharply to 30.5% (-59bps QoQ). INX ADTV stood at USD 1.9bn (+2% YoY), and the number of daily trades was 82K (+88% YoY). Hopefully, INX will start contributing to revenue from FY22E. EBITDA margin will improve will growth in transaction charges.

Quarterly financial summary

YE March (Rs mn)	1Q FY21	1Q FY20	*YoY (%)*	4Q FY20	*QoQ (%)*	FY19	FY20	FY21E	FY22E	FY23E
Net Revenues	1,032	1,121	*-8.0*	1,196	*-13.7*	4,503	4,505	4,875	5,542	6,160
EBITDA	-78	55	*NM*	46	*NM*	311	81	338	831	1,147
APAT	391	451	*-13.3*	254	*53.9*	2,122	1,410	1,666	1,985	2,195
Diluted EPS (Rs)	8.7	8.7	*-0.2*	5.6	*53.9*	41.0	31.3	37.0	44.1	48.8
P/E (x)						12.5	16.3	13.8	11.6	10.5
EV / EBITDA (x)						7.0	63.4	18.6	7.4	4.8
RoE (%)						7.2	5.8	6.9	8.1	9.0

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

Rs Mn	FY21E Old	FY21E Revised	*Change %*	FY22E Old	FY22E Revised	*Change %*
Revenue	4,973	4,875	*-2.0*	5,562	5,542	*-0.4*
EBITDA	436	338	*-22.6*	869	831	*-4.4*
EBITDA margin (%)	8.8	6.9	*-184*	15.6	15.0	*-63*
APAT	1,792	1,666	*-7.1*	2,145	1,985	*-7.4*
EPS (Rs)	38.7	37.0	*-4.4*	46.6	44.1	*-5.3*

Source: Company, HSIE Research

ADD

CMP *(as on 3 Aug 2020)*	**Rs 511**
Target Price	**Rs 565**
NIFTY	**10,892**

KEY CHANGES	**OLD**	**NEW**
Rating	ADD	ADD
Price Target	Rs 525	Rs 565
	FY21E	FY22E
EPS %	-4.4	-5.3

KEY STOCK DATA	
Bloomberg code	BSE IN
No. of Shares (mn)	45
MCap (Rs bn) / ($ mn)	23/306
6m avg traded value (Rs mn)	116
52 Week high / low	Rs 590/275

STOCK PERFORMANCE (%)

	3M	**6M**	**12M**
Absolute (%)	30.9	(2.3)	6.3
Relative (%)	21.3	5.0	6.8

SHAREHOLDING PATTERN (%)

	Mar-20	**Jun-20**
Promoters	0.00	0.00
FIs & Local MFs	2.84	2.27
FPIs	16.25	15.82
Public & Others	80.91	81.91
Pledged Shares	0.00	0.00

Source : NSE

Pledged shares as % of total shares

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Oil & Gas

Reliance Industries

Strengthened Balance Sheet

Our ADD rating on RIL with a price target of INR 1,992/sh is premised on (1) induction of Facebook, Google, Intel and Qualcomm as partners in Jio Platform, which should enable the company to accelerate the growth of digital connectivity and create value in the digital ecosystem through technology offerings, (2) recovery in refining and petchem businesses in FY22E, (3) a clear path to a stronger balance sheet, (4) potential stake sale in Reliance Retail.

- RIL reported standalone EBITDA/PAT of INR 71/98bn, -48/+18% YoY. During the quarter, (1) INR 44bn was received from British Petroleum (BP) as part consideration for the sale of 49% stake in RIL's Petro Retail Marketing business (disclosed as an exceptional item), (2) INR 16bn worth of tax credit was availed, which arose out of the planned restructuring of the Oil to Chemicals business. Ex-adjustments, PAT was INR 38bn (-55% YoY), which was 19% below estimates owing to 10/11% lower-than-anticipated petchem production and per ton EBITDA.
- **Standalone refining segment**: Crude throughput declined 5/9% YoY/QoQ to 16.6mmt. GRM stood at USD 6.3/bbl, down from USD 8.9/bbl in 4Q. The sequential decline in refining margin was driven by lower cracks across products. RIL's GRMs outperformed Singapore GRM by USD 7.2/bbl (as against USD 7.7/bbl in 4Q).
- **Standalone petrochemical segment**: Production during 1Q was 8.9mmt, +2/-10% YoY/QoQ. Petchem EBITDA was INR 43bn, down 50/30% YoY/QoQ given pricing pressure because of disruptions in the local and global markets. EBITDA/t stood at INR 4,860 (vs. INR 9,851/6,063 YoY/QoQ).
- **RJio**: Revenue grew by ~42/12% YoY/QoQ to INR 166bn. ARPU rose to INR 140 (+15/8% YoY/QoQ) while the gross/net subscriber addition was ~15/10mn. We expect ARPU to increase to INR 148/161 in FY21/22E owing to tariff hike in Dec-19.
- **Reliance Retail (RR):** COVID-19 induced pain was palpable for RR's non-essentials categories. Both Consumer Electronics and Fashion & Lifestyle segments declined 70/71% YoY to INR 62/33bn as 52-65% of stores remained non-operational in 1Q. However, the grocery business grew 5% YoY to INR 100bn (estimate INR 60bn) and was relatively lesser impacted given its dominance in tier 2/3 cities vs. big city retailers, such as D-MART (-34% YoY). 1Q sales fell 17% YoY, and EBITDA margin contracted 214bps YoY to 3.8% (estimate 4%), given unfavourable operating leverage. We assign an SOTP-based fair value of INR 2.4tn (EV) implying 23x Jun-FY22E EV/EBITDA (INR 374/sh) (includes 2x Jun-22E EV/Sales for JioMart INR 133bn).

Financial Summary – Consolidated

YE Mar (INR bn)	1QFY21	4QFY20	*QoQ(%)*	1QFY20	*YoY (%)*	FY20	FY21E	FY22E	FY23E
Net Sales	883	1,365	*(35.3)*	1,580	*(44.1)*	5,967	4,579	5,662	6,491
EBITDA	169	220	*(23.4)*	216	*(21.9)*	882	698	947	1,075
PAT	129	66	*96.6*	101	*27.8*	427	333	546	646
Diluted EPS(INR)	14.2	16.8	*(15.3)*	17.1	*(16.8)*	67.4	51.7	80.7	95.5
P/E (x)						30.7	39.9	25.6	21.6
EV / EBITDA (x)						17.8	19.5	13.5	11.5
RoE (%)						10.2	7.0	10.1	10.5

Source: Company, HSIE Research

ADD

CMP *(as on 31 July 2020)*	**INR 2,067**
Target Price	**INR 1,992**
NIFTY	**11,073**

KEY CHANGES	**OLD**	**NEW**
Rating	ADD	ADD
Price Target	INR 1,560	INR 1,992
EPS %	FY21E	FY22E
	-16.4	-5.5

KEY STOCK DATA	
Bloomberg Code	RIL IN
No. of Shares (mn)	6,339
MCap (INR bn) / ($ mn)	13,104/175,154
6m avg traded value (INR mn)	34,626
52 Week high / low	INR 2,199/867

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	42.3	47.8	78.9
Relative (%)	30.8	55.5	78.6

SHAREHOLDING PATTERN (%)	**Jun-20**	**Mar-20**
Promoters	50.37	50.07
FIs & Local MFs	13.61	13.81
FPIs	24.72	24.05
Public & Others	11.30	12.07
Pledged Shares	0.0	0.0

Source : BSE

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Bharat Petroleum Corporation

High marketing margin leads the way

We maintain ADD on Bharat Petroleum (BPCL) with a price target of INR 445, owing to an expected recovery in demand for petroleum products and, subsequently, refining margins. 1Q reported EBITDA and APAT were 28% and 41% below estimates due to (1) 22% higher-than-anticipated RMC at INR 306bn, (2) 12% lower domestic marketing throughput at 7.5mmt, and (3) 92% lower reported GRM at USD 0.4/bbl, partly offset by 23% higher marketing margin of INR 7/ltr. Reported EBITDA came to INR 39bn (vs. EBITDA of INR 22bn YoY and an operating loss of INR 17bn QoQ). Crude inventory losses were INR 4bn (HSIE gain of INR 10bn) and product inventory gains were INR 10bn (HSIE INR 28bn). Forex loss stood at INR 570mn (HSIE 0). Adjusting for these, core EBITDA stood at INR 34bn (HSIE INR 16bn), +31/-23% YoY/QoQ.

- **Refining**: Crude throughput in 1Q stood at 5.1mmt (-31/-39% YoY and QoQ). Utilisation at the Kochi/Mumbai refinery stood at 88/63%, given lower demand amid the lockdown, leading to lower throughput. Core GRM stood at USD 1.9/bbl vs. USD 3.7/7.3 YoY/QoQ. GRM declined sequentially with a fall in naphtha, gas oil, gasoline and jet kero cracks. We expect crude throughput of 28.5/33.1mmt and core GRM of USD 3.6/4.1 per bbl in FY21/22E.
- **Marketing:** Domestic marketing sales volume was 7.5mmt (-32/-30% YoY/QoQ). BPCL's market share declined vis-à-vis India's consumption of petroleum products (-26/-23% YoY/QoQ), given its strong presence in urban areas that were more severely affected by the COVID-19 pandemic. Blended gross margin stood at INR 6.9/lit (+59/45% YoY/QoQ), but these do not seem sustainable in the near term. We expect blended gross margins to correct to INR ~4.5/4.6 per litre in FY21/22E.
- **Call takeaways**: (1) The execution of Propylene Derivatives Petrochemical Project (PDPP) at Kochi has been delayed further to 2HFY21 (earlier, 1QFY21) as the licensing process has been pushed forward, given COVID-19. (2) The FY21 Capex guidance has been revised from INR 125bn to INR 80-85bn, broken into refining INR 23bn, marketing INR 35bn, petchem INR 8bn, exploration INR 1bn. (3) Divestment process is on track and would conclude by Mar-21. Barring its stake in NRL, stakes in PLNG/IGL/OIL would stay intact. (4) Utilisation at Kochi and Mumbai refineries have normalised in August as India's demand for petroleum products is back to ~90%.
- **Sum of the total parts-based valuation:** Our price target comes to INR 445/sh (6.0x Mar-22E EV/e for the standalone refining and marketing businesses, 6.5x Mar-22E EV/e for the pipeline business, and INR 132/sh for other investments). The stock is currently trading at 6.3x on FY22E EPS.

Standalone Financial Summary

Year Ending March (INR bn)	1Q FY21	4Q FY20	QoQ (%)	1Q FY20	YoY (%)	FY19*	FY20P*	FY21E*	FY22E*
Revenues	388	690	*(43.8)*	763	*(49.2)*	2,982	2,846	1,904	2,160
EBITDA	39	(17)	*NA*	22	*79.6*	151	83	108	135
APAT	21	(11)	*NA*	11	*93.1*	78	31	91	129
AEPS (INR)	10.40	(5.28)	*NA*	5.38	*93.1*	39.7	15.5	46.0	65.5
P/E (x)						10.4	26.6	9.0	6.3
EV/EBITDA (x)						7.9	16.6	12.1	9.2
RoE (%)						20.7	8.1	23.1	27.5

Source: Company, HSIE Research | *Consolidated

ADD

CMP *(as on 14 Aug 2020)*	**INR 413**
Target Price	**INR 445**
NIFTY	**11,178**

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 376	INR 445
EPS %	FY21E	FY22E
	-	-

KEY STOCK DATA	
Bloomberg code	BPCL IN
No. of Shares (mn)	2,169
MCap (INR bn) / ($ mn)	896/11,967
6m avg traded value (INR mn)	4,067
52 Week high / low	INR 550/252

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	33.4	(13.3)	16.6
Relative (%)	11.7	(5.1)	15.1

SHAREHOLDING PATTERN (%)	Mar-20	June-20
Promoters	52.98	52.98
FIs & Local MFs	20.47	21.34
FPIs	12.28	11.95
Public & Others	14.27	13.73
Pledged Shares	0.0	0.0

Source : BSE

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Indian Oil Corporation

High inventory losses drag earnings

We maintain ADD on IOC with a target price of INR 96, owing to an expected recovery in demand for petroleum products and, subsequently, refining margins in 2HFY21E. 1Q EBITDA and APAT were 13% and 18% below estimates, owing to higher-than-anticipated inventory losses. EBITDA came to INR 55bn (-29% YoY) vs the operating loss of INR 111bn in 4QFY20. Refining business' inventory losses were INR 6bn, and marketing inventory losses were INR 32bn. Forex gains stood at INR 1bn. Adjusting for these, the core EBITDA stood at INR 86bn (+35/-15% YoY/QoQ).

- **Refining**: Crude throughput in 1Q stood at 12.9mmt (-25% YoY and QoQ). Lower utilisation across refineries, given the lower demand amid the lockdown, led to lower throughput. Core GRM stood at USD 4.3/bbl vs USD 3.6/7.8 in 1QFY20/4QFY20. Core GRMs declined sequentially with fall in naphtha, gas oil, gasoline and jet kero cracks.
- **Marketing:** Domestic marketing sales volume was 16.5mmt (-24/-26% YoY/QoQ). India's petroleum product consumption contracted by 26/23% YoY/QoQ, thus demonstrating that IOCL gained market share on an annual basis and lost market share sequentially. Blended gross margin stood at INR 6.0/lit (+49/30% YoY/QoQ) in 1Q, but these do not seem sustainable in the near term. We expect the blended gross margin to correct INR ~4.3 in FY21/22E.
- **Px and PTA complex project at Odisha:** The board approved the project at an investment of INR 138bn. The plant has a capacity of 800kTPA (Px) and 1.2mmt (PTA) and should be operational by 1HFY24.
- **Change in estimates:** We raise our FY21E crude throughput estimate by 1% from 62.5mmt to 63.4mmt due to higher-than-anticipated throughput in 1Q. It leads to a 2% increase in our EPS estimate of INR 6.3/share in FY21.

  Our SOTP target comes to INR 96/sh (5.0x Mar-22E EV/e for standalone refining, marketing and petchem businesses and 5.5x Mar-22E EV/e for pipeline business and INR 26/sh for other investments). The stock is currently trading at 7.4x on FY22E EPS.

Standalone financial summary

YE March (INR bn)	1Q FY21	4Q FY20	QoQ (%)	1Q FY20	YoY (%)	FY19*	FY20P*	FY21E*	FY22E*
Revenues	624	1,184	*(47.3)*	1,309	*(52.3)*	5,281	4,844	3,305	3,756
EBITDA	55	(111)	*NA*	77	*(29)*	352	55	183	253
APAT	19	(89)	*NA*	36	*(47)*	174	(46)	56	110
AEPS (Rs)	2.1	(9.6)	*NA*	3.9	*(46.9)*	18.9	(5.0)	6.3	12.0
P/E (x)						4.7	(17.9)	14.1	7.4
EV/EBITDA (x)						4.7	35.7	9.8	7.0
RoE (%)						15.4	(4.4)	5.7	10.7

Source: Company, HSIE Research | *Consolidated

Standalone change in estimates

	FY21E			FY22E		
	Old	New	*% Ch*	Old	New	*% Ch*
EBIDTA* (INR bn)	181	183	*1.0*	253	253	-
AEPS* (INR/sh)	6.2	6.3	*2.3*	12.0	12.0	-

Source: Company, HSIE Research | *Consolidated

ADD

CMP *(as on 31 July 2020)*	**INR 89**
Target Price	**INR 96**
NIFTY	**11,073**

KEY CHANGES	**OLD**	**NEW**
Rating	ADD	ADD
Price Target	INR 94	INR 96
EPS %	**FY21E**	**FY22E**
	+2.3%	0.0%

KEY STOCK DATA	
Bloomberg code	IOCL IN
No. of Shares (mn)	9,414
MCap (Rs bn) / ($ mn)	834/11,142
6m avg traded value (Rs mn)	1,861
52 Week high / low	Rs 156/71

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	5.2	(21.9)	(36.4)
Relative (%)	(6.4)	(14.3)	(36.8)

SHAREHOLDING PATTERN (%)	**Mar-20**	**Jun-20**
Promoters	51.50	51.50
FIs & Local MFs	13.40	13.97
FPIs	7.19	6.33
Public & Others	27.91	28.20
Pledged Shares	0.00	0.00

Source : BSE

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GAIL (India)

A muted quarter

Our BUY recommendation on GAIL with a price target of INR 128 is based on 15% CAGR expansion in gas transmission volume over FY21-23E to 137mmscmd on the back of (1) increase in domestic gas production, (2) increase in demand of RLNG, and (3) completion of major pipelines in the eastern and southern part of India. 1QFY21 EBITDA/APAT was 47/52% below estimates as the company reported an operating loss of INR 5bn in the NG marketing business vs our expectation of a profit of INR 4bn.

- **NG transmission**: 1Q revenue dipped 18/14% QoQ/YoY to INR 13bn, owing to 17/14% YoY/QoQ decline in transmission volumes to 90.2mmscmd and 7/4% YoY/QoQ fall in tariff to INR 1,436/tscm. We expect NG transmission volumes to rise to 103/123mmscmd in FY21/22E vs. 108mmscmd in FY20.
- **Petchem**: Revenue in 1Q grew 0.4/10% QoQ/YoY to INR 12bn, led by an increase in sales volumes by 5/35% QoQ/YoY to 183kT. However, distress prices of polymers (HDPE, LLDPE) resulted in 5/18% QoQ/YoY fall in realisation to INR 67/kg. Hence, the segment reported an operating loss of INR 430mn (vs profit of INR 2bn in 4QFY20 and loss of INR 1bn in 1QFY20). We expect sales volumes of 650/801kT in FY21/22E vs 738kT in FY20.
- **NG marketing**: Operating loss of INR 5bn (vs profit of INR 6/9bn QoQ/YoY) was owing to trading loss of INR 700/tscm (vs a gain of INR 709/980 QoQ/YoY). Volumes traded declined to 81.2mmscmd (-17/16% QoQ/YoY) with a reduction in India's gas demand in 1Q. We expect trading margins of INR 146/155 tscm (INR 644/tscm in FY20) and volumes of 90/105mmscmd in FY21/22E (96mmscmd in FY20).
- **Takeaways from the earnings call**: Capacity utilisation in 1Q declined across segments: natural gas transmission 45% (vs. 53% QoQ), petchem 76% (vs. 86% QoQ), LPG transmission 99% (vs. 109% QoQ), polymers 66% (vs. 103% QoQ), liquid hydrocarbon 76% (vs. 85% QoQ). Demand for gas has recovered in 2Q.
- **Our target price is INR 128/sh (6.0x Mar-22E EV/e for the stable Gas, LPG transmission and gas marketing business, 4.0x EV/e for the cyclical petchem and LPG/LHC business, INR 35 for investments). The stock is currently trading at 10.6x/7.9x FY21/22E EPS**.

Standalone Financial summary

YE March (INR bn)	1Q FY21	4Q FY20	QoQ (%)	1Q FY20	YoY (%)	FY19*	FY20P*	FY21E*	FY22E*
Revenues	121	178	*(31.9)*	183	*(34.0)*	762	725	488	582
EBITDA	6	25	*(74.8)*	23	*(72.4)*	97	90	55	76
APAT	3	14	*(81.2)*	13	*(80.2)*	65	94	42	56
AEPS (INR)	0.6	3.0	*(81.2)*	2.9	*(80.2)*	14.5	20.9	9.2	12.3
P/E (x)						6.8	4.7	10.6	7.9
EV/EBITDA (x)						4.6	5.5	8.8	6.3
RoE (%)						14.9	19.8	8.1	9.9

Source: Company, HSIE Research | *Consolidated

Consolidated change in estimates

	FY21E			FY22E		
	Old	New	% Ch	Old	New	% Ch
EBITDA (INR bn)	56	55	*(0.6)*	76	76	*0.7*
AEPS (INR/sh)	9.3	9.2	*(0.6)*	12.2	12.3	*0.7*

Source: Company, HSIE Research

BUY

CMP *(as on 13 Aug 2020)*	**INR 98**
Target Price	**INR 128**
NIFTY	**11,300**

KEY CHANGES	**OLD**	**NEW**
Rating	BUY	BUY
Price Target	INR 124	INR 128
	FY21E	**FY22E**
EPS %	-0.6%	+0.7%

KEY STOCK DATA	
Bloomberg code	GAIL IN
No. of Shares (mn)	4,510
MCap (Rs bn) / ($ mn)	439/5,871
6m avg traded value (Rs mn)	1,679
52 Week high / low	Rs 149/65

STOCK PERFORMANCE (%)			
	3M	**6M**	**12M**
Absolute (%)	9.0	(25.2)	(22.7)
Relative (%)	(10.7)	(17.7)	(26.4)

SHAREHOLDING PATTERN (%)		
	Mar-20	**Jun-20**
Promoters	52.06	52.10
FIs & Local MFs	18.31	19.14
FPIs	16.30	15.61
Public & Others	13.33	13.15
Pledged Shares	0.00	0.00

Source : BSE

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Hindustan Petroleum Corporation

High marketing margins lead the way

We maintain ADD on Hindustan Petroleum (HPCL) with a price target of INR 228, owing to an expected recovery in demand for petroleum products and, subsequently, refining margins. 1Q EBITDA and APAT were 3% and 9% above estimates owing to higher-than-anticipated other income. EBITDA came to INR 44bn (vs. EBITDA of INR 16bn in 1QFY20 and an operating loss of INR 17bn in 4QFY20). Refining business' inventory gains were INR 2bn, and marketing inventory gains were INR 4bn. Forex gains stood at INR 490mn. Adjusting for these, core EBITDA stood at INR 37bn (+85/9% YoY/QoQ).

- **Refining**: Crude throughput in 1Q stood at 4.0mmt (+1/-13% YoY and QoQ). Lower utilisation at the Mumbai refinery amid the lockdown led to lower throughput. Core GRM stood at USD (0.8)/bbl vs. USD 3.3/9.3 in 1QFY20/4QFY20. GRMs declined sequentially with fall in naphtha, gas oil, gasoline and jet kero cracks. We expect crude throughput of 15.5/24.0mmt and core GRM of USD 3.5/4.0 per bbl in FY21/22E.
- **Marketing:** Domestic marketing sales volume was 7.6mmt (-25/-20% YoY/QoQ). India's petroleum product consumption contracted by 26/23% YoY/QoQ, thus demonstrating that HPCL gained market share both on an annual and sequential basis. Blended gross margin stood at INR 7.5/lit (+96/80% YoY/QoQ), but these do not seem sustainable in the near term. We expect blended gross margins to correct to INR ~4.5 per litre in FY21/22E.
- **Standalone debt**: Gross debt declined 15% sequentially and jumped 79% YoY to INR 367bn as on Jun 2020. A higher debt was taken as on Mar 2020, considering the liquidity needs amid low demand for petroleum products in 1QFY21.
- **Our SOTP target comes to INR 228/sh (5.0x Mar-22E EV/e for standalone refining, marketing and petchem businesses and 5.5x Mar-22E EV/e for pipeline business and INR 35/sh for other investments)**. The stock is currently trading at 5.0x on FY22E EPS.

Standalone financial summary

YE March (INR bn)	1Q FY21	4Q FY20	*QoQ (%)*	1Q FY20	*YoY (%)*	FY19*	FY20P*	FY21E*	FY22E*
Revenues	377	662	*(43.0)*	710	*(46.9)*	2,755	2,691	1,916	2,223
EBITDA	44	(17)	*NA*	16	*164.8*	116	47	75	121
APAT	28	0	*NA*	8	*247.0*	67	3	36	66
AEPS (INR)	18.5	(13.5)	*NA*	5.3	*247.0*	43.9	2.0	23.3	43.2
P/E (x)						4.9	107.3	9.3	5.0
EV/EBITDA (x)						4.6	14.3	9.3	5.7
RoE (%)						23.9	8.6	11.0	18.4

Source: Company, HSIE Research | *Consolidated

Consolidated change in estimates

	FY21E			FY22E		
	Old	New	*% Ch*	Old	New	*% Ch*
EBIDTA (INR bn)	75.5	75.5	-	120.7	120.7	-
AEPS (INR/sh)	23.3	23.3	-	43.2	43.2	-

Source: Company, HSIE Research

ADD

CMP *(as on 6 Aug 2020)*	**INR 216**
Target Price	**INR 228**
NIFTY	**11,200**

KEY CHANGES	**OLD**	**NEW**
Rating	ADD	ADD
Price Target	INR 229	INR 228
EPS %	**FY21E**	**FY22E**
	+0.0%	0.0%

KEY STOCK DATA	
Bloomberg code	HPCL IN
No. of Shares (mn)	1,524
MCap (Rs bn) / ($ mn)	329/4,394
6m avg traded value (Rs mn)	1,613
52 Week high / low	Rs 329/150

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	6.7	(11.2)	(14.8)
Relative (%)	(13.3)	(3.3)	(17.6)

SHAREHOLDING PATTERN (%)	**Mar-20**	**Jun-20**
Promoters	51.11	51.11
FIs & Local MFs	21.66	23.61
FPIs	17.72	16.07
Public & Others	9.51	9.21
Pledged Shares	0.00	0.00

Source : BSE

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Gujarat Gas

A complete washout quarter

Our ADD recommendation on Gujarat Gas (GGL) with a price target of INR 326 is premised on (1) volume growth of 20% CAGR over FY21-23E, (2) portfolio of mature, semi-mature and new geographical areas (GAs) and (3) compelling valuations among the city gas distribution players (RoE of 27% in FY22E versus 20% for peers - Indraprastha Gas and Mahanagar Gas). 1QFY21 EBITDA/APAT was 26/49% below estimates, primarily owing to 31% lower volumes at 4.1mmscmd, offset by 7% higher per unit EBITDA margin.

- **Volumes**: Blended volume stood at 4.1mmscmd (HSIE 6.0), dragged by weak industrial demand (2.9mmscmd or 69% of volume mix versus 77% in FY20). Volume numbers cannot be compared on a YoY or QoQ basis because of the adverse impact of the nationwide lockdown in 1Q. Blended volumes have recovered to 9.5mmscmd in 2QFY21 as per the management. 13 CNG stations were commercialised in 1Q taking the company's total station tally to 413.
- **Margin:** Per unit gross spread expanded by INR 2.3/1.4 QoQ/YoY to INR 9.4/scm. This is attributable to part retention of the benefit of falling RMC. APM (30% of 1Q sourcing mix) declined to USD 2.39/mmbtu in Apr-20, -26/-35% QoQ/YoY and Asian spot LNG price (64%) declined to USD 2.8/mmbtu in 1QFY21, -43/-48% QoQ/YoY. Per unit EBITDA came to INR 4.9/scm (vs. INR 4.7 per scm in FY20).
- **Change in estimates:** We raise our FY21E per unit EBITDA margin estimates by 2% to INR 4.5/scm to factor in the company's 1QFY21 performance, leading to a 1% increase in EPS estimates to INR 11.0/sh.
- **DCF-based valuation: Our target price of INR 326 is based on Mar-22E free cash flows (WACC 11%, terminal growth rate 3.0%). The stock is currently trading at 17.4x FY22E EPS.**

Standalone financial summary

YE Mar (INR bn)	1Q FY21	4Q FY20	QoQ (%)	1Q FY20	YoY (%)	FY19	FY20P	FY21E	FY22E
Revenues	11	27	(59.4)	26	(58.6)	78	103	77	106
EBITDA	2	4	(56.5)	5	(60.2)	10	16	14	19
APAT	1	2	(76.1)	2	(74.9)	4	9	8	12
AEPS (INR)	0.9	3.6	(76.1)	3.4	(74.9)	6.3	13.1	11.0	17.8
P/E (x)						49.1	23.7	28.2	17.4
EV/EBITDA (x)						23.6	13.8	15.8	10.8
RoE (%)						21.3	32.6	20.7	27.0

Source: Company, HSIE Research

Standalone change in estimates

	FY21E			FY22E		
	Old	New	% Ch	Old	New	% Ch
Volume (mmscmd)	8.4	8.3	(0.8)	11.1	11.1	-
Per unit EBITDA (INR/scm)	4.4	4.5	2.1	4.8	4.8	0.2
EBIDTA (INR bn)	14	14	1.3	19	19	0.2
AEPS (INR/sh)	10.9	11.0	0.8	17.7	17.8	0.3

Source: Company, HSIE Research

ADD

CMP *(as on 4 Aug 2020)*	INR 310
Target Price	INR 326
NIFTY	11,095

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 325	INR 326
	FY21E	FY22E
EPS %	+0.8%	+0.3%

KEY STOCK DATA	
Bloomberg code	GUJGA IN
No. of Shares (mn)	688
MCap (Rs bn) / ($ mn)	213/2,839
6m avg traded value (Rs mn)	291
52 Week high / low	Rs 330/162

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	23.3	5.9	75.5
Relative (%)	4.4	13.5	74.0

SHAREHOLDING PATTERN (%)	Mar-20	Jun-20
Promoters	60.89	60.89
FIs & Local MFs	7.03	7.41
FPIs	9.83	9.23
Public & Others	22.25	22.47
Pledged Shares	0.00	0.00

Source : BSE

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Gujarat State Petronet

In-line performance

Our BUY recommendation on Gujarat State Petronet with a TP of INR 252 is premised on the following: (1) robust transmission volume (+11% CAGR over FY21-23E to 50mmscmd) as benign spot LNG prices should continue to drive volume growth from industrial customers and encourage RIL to continue using LNG. This should translate into growth in standalone EBITDA and APAT by 12% and 15% CAGR to INR 21bn and INR 14bn in FY23E; (2) compelling valuation at 6.2x FY22E EPS, considering the high return ratios (RoE of 25% in FY21 and FY22E) and steady cash flows (combined FCF of INR 29bn over FY21-22E).

- **View on the result**: 1QFY21 volumes, EBITDA and APAT were in line with our estimates.
- **Volumes:** Gas transmission volume for the quarter was 33.3mmscmd (-10/-13% YoY/QoQ) as against our estimate of 34.0mmscmd. Volume break-up in mmscmd was: Refinery 11.3, Power 10.3, CGD 4.7, Fertilisers 2.7, and others 4.3.
- **Tariffs:** Calculated blended transmission tariff for 1Q stood at was INR 1,298/tscm (+1% YoY and QoQ), which was in line with our estimates.
- **Mundra LNG terminal:** Currently operating at 40% capacity owing to capacity constraints of the Mundra-Chotalia pipeline. Once this pipeline's capacity is augmented, the terminal's utilisation should improve as well, since it would then be connected to the high demand area of Morbi.
- **Change in estimates:** We tweak our FY21/22E EPS estimates by +2/1% in FY21/FY22E to INR 25.0/32.0 to factor in the company's 1QFY21 performance.
- **DCF-based valuation**: We value the transmission business using Discounted Cash Flow (DCF) at INR 93/sh (WACC of 11% and terminal growth rate of 3%). To this, we add INR 159/sh as the value of its investments in Gujarat Gas, Sabarmati Gas, etc., to arrive at the target price of INR 252/sh. The stock is trading at 6.2x FY22E PER.

Standalone financial summary

YE Mar (INR bn)	1Q FY21	4Q FY20	QoQ (%)	1Q FY20	YoY (%)	FY19*	FY20*	FY21E*	FY22E*
Net Sales	5	6	(22.0)	5	(9.4)	93	122	130	137
EBITDA	3	4	(2.7)	4	(13.9)	25	32	31	39
APAT	2	2	(11.6)	2	(3.3)	10	17	14	18
Adj. EPS (INR/sh)	3.5	4.0	(11.6)	3.7	(3.3)	17.9	30.7	25.0	32.0
P/E (x)						11.0	6.5	7.9	6.2
EV/EBITDA(x)						6.4	4.4	4.4	3.1
RoE (%)						35.3	42.3	25.2	25.1

Source: Company, HSIE Research | *Consolidated

Consolidated change in estimates

(INR bn)	FY21E Old	FY21E New	% Ch	FY22E Old	FY22E New	% Ch
EBIDTA	30	31	*1.1*	39	39	*0.9*
EPS (INR/sh)	24.6	25.0	*1.6*	31.6	32.0	*1.3*

Source: Company, HSIE Research

BUY

CMP *(as on 07 Aug 2020)*	**INR 207**
Target Price	**INR 252**
NIFTY	**11,214**

KEY CHANGES	**OLD**	**NEW**
Rating	BUY	BUY
Price Target	INR 252	INR 252
EPS %	FY21E	FY22E
	+1.6%	+1.3%

KEY STOCK DATA	
Bloomberg code	GUJS IN
No. of Shares (mn)	564
MCap (Rs bn) / ($ mn)	117/1,559
6m avg traded value (Rs mn)	163
52 Week high / low	Rs 264/146

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	5.9	(15.6)	(4.6)
Relative (%)	(15.1)	(8.1)	(8.2)

SHAREHOLDING PATTERN (%)	**Mar-20**	**Jun-20**
Promoters	37.64	37.63
FIs & Local MFs	33.88	33.64
FPIs	15.75	15.54
Public & Others	12.73	13.19
Pledged Shares	0.00	0.00

Source : BSE

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Mahanagar Gas

Per-unit EBITDA margin surprise positively

Our ADD recommendation on Mahanagar Gas (MGL) with a price target of INR 1,065 is premised on its loyal customer base of CNG and commercial establishments (who together comprised ~80% of the sales mix in FY20), which are less price-sensitive than industrial customers that enable the company to maintain its per-unit margins higher than peers. We do not foresee any significant regulatory adversity in its CGD business either through a change in gas allocation or capping returns. 1QFY21 EBITDA/APAT was 17/25% above estimates, primarily owing to 18% higher per-unit EBITDA margin.

- **Volumes**: Blended volume stood at 1.1mmscmd (HSIE 1.1), dragged by weak CNG demand (0.5mmscmd or 43% of volume mix versus 69% in FY20). Volume numbers cannot be compared on a YoY or QoQ basis because of the adverse impact of the nationwide lockdown in 1Q. Gas supply has recovered to 55% of pre-COVID-19 levels in Aug-2020 vs. 25% in Apr 2020, as per the management. No new CNG station was commercialised in 1Q; total station tally still stands at 256. We expect blended volumes to remain subdued in FY21E at 2.5mmscmd owing to weak demand by CNG/industrial/commercial customers, post which they should recover jump by 18% YoY to 2.9mmscmd in FY22E.
- **Margin:** Per-unit gross spread expanded by ~INR 1 QoQ/YoY to INR 16.1/scm. This is attributable to part retention of the benefit of falling RMC. APM (82% of 1Q sourcing mix) declined to USD 2.39/mmbtu in Apr 2020, -26/-35% QoQ/YoY and Asian spot LNG price (18%) declined to USD 2.8/mmbtu in 1QFY21, -43/-48% QoQ/YoY. Per-unit EBITDA came to INR 7.9/scm (vs. INR 9.4 per scm in FY20). This was primarily due to a fall in 1Q volumes that led to an increase in per-unit operating expenditure to INR 8.2 vs. 5.7/4.9 per scm QoQ/YoY. The per-unit EBITDA margin should dip to INR 9.1 (-6% YoY) in FY21E due to lower volume offtake, and subsequently recover to INR 9.7/scm in FY22E (+6.2% YoY) as normalcy in demand returns post the pandemic.
- **Takeaways from the earnings conference call:** Capex target for FY21 is INR 5.5-6bn (contingent upon permissions from authorities), of which INR 1.2bn would be spent in the Raigad district. The demand from restaurants and hotels currently stands at 55/40% of pre-COVID levels.
- **DCF-based valuation: our target price is INR 1,065, based on Mar-22E free cash flows (WACC 11%, terminal growth rate 3.0%). The stock is currently trading at 13.7x FY22E EPS.**

Financial summary

YE March (INR bn)	1Q FY21	4Q FY20	*QoQ (%)*	1Q FY20	*YoY (%)*	FY19	FY20P	FY21E	FY22E
Revenues	2.62	6.87	*(61.9)*	7.57	*(65.4)*	27.91	29.72	22.96	28.09
EBITDA	0.80	2.44	*(67.2)*	2.77	*(71.1)*	8.85	10.53	8.33	10.41
APAT	0.45	1.70	*(73.3)*	1.70	*(73.4)*	5.46	7.94	5.60	6.97
AEPS (INR)	4.6	17.2	*(73.3)*	17.2	*(73.4)*	55.3	80.3	56.7	70.6
P/E (x)						17.5	12.0	17.1	13.7
EV/EBITDA (x)						9.7	7.8	9.9	7.6
RoE (%)						24.3	29.7	18.1	20.4

Source: Company, HSIE Research

ADD

CMP *(as on 10 Aug 2020)*	**INR 968**
Target Price	**INR 1,065**
NIFTY	**11,270**

KEY CHANGES	**OLD**	**NEW**
Rating	ADD	ADD
Price Target	INR 1,065	INR 1,065
	FY21E	**FY22E**
EPS %	0.0%	0.0%

KEY STOCK DATA

Bloomberg code	MAHGL IN
No. of Shares (mn)	99
MCap (Rs bn) / ($ mn)	96/1,276
6m avg traded value (Rs mn)	956
52 Week high / low	Rs 1,247/664

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	12.6	(19.0)	23.3
Relative (%)	(8.0)	(12.2)	21.7

SHAREHOLDING PATTERN (%)

	Mar-20	Jun-20
Promoters	32.50	32.50
FIs & Local MFs	17.03	18.69
FPIs	31.28	29.92
Public & Others	19.19	18.89
Pledged Shares	0.00	0.00

Source : BSE

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Pharmaceuticals

Sun Pharma

Cost savings drive the quarterly beat

Sun's Q1 EBIDTA/PAT beat expectations on account of improved gross margin (product mix, productivity) and lower expenses (SG&A and R&D). India business grew by 3% YoY (chronic led). The US business declined 25% QoQ, impacted by muted trends in specialty (in line with expectations) and generics (Taro, price erosion). However, market share for specialty products were maintained at pre-Covid levels. The scale up in specialty is key to drive operating leverage and margins. While the costs pertaining to this business are largely expensed, the revenue traction is yet to be seen. Sun's balance sheet continues to remain strong (repaid ~USD200mn debt in Q1). We increase our EPS estimates by 4%/7% to factor the beat and improvement in gross margin. We maintain Add rating with revised TP of Rs535.

- **Margin beat:** Sun's EBIDTA margin increased by ~487bps on a QoQ basis to 23.3% as improvement in gross margin (down 219bps) coupled with lower other expenses (down 480bps) and R&D costs (down 89bps) offset increase in staff expenditure (+300bps). Adjusting for the exceptional item (DOJ penalty on Taro), the PAT came at Rs11.3bn (down 18% YoY, +42% QoQ, one off revenues in the base).
- **Leadership in chronic therapies to aid market share gains:** Sun's India business grew by 3%YoY (vs. 6% decline for IPM) as growth in chronic segment (10% YoY) offset decline in acute segment (down -20% YoY). Sun launched 10 new products in Q1 and has expanded the field force by 10% as guided in the past.
- **Specialty business down, but market share maintained:** Sun's specialty business declined by 38% QoQ to USD78mn, however, it has been able to maintain its market share at pre-Covid levels. The fall in revenues was largely led by Levulan and Ilumya as these are clinically administered products. Sun expects some specialty products to achieve breakeven by FY22e. We believe traction in Ilumya is key to drive operating leverage and margin expansion. The product's advantage (lower dosing frequency, better safety profile) over peers should prove to be beneficial in the longer term. Contribution from US and non-US markets will be keenly monitored.
- **Key call takeaways:** a) Specialty R&D - 39% of overall R&D in Q1; b) Debt repayment - USD200mn in Q1, net debt (ex Taro) is at USD451mn; c) Halol resolution– FDA has alternate guidelines in place to inspect facilities; d) US generics – price erosion continues, expects product flow to aid base business, Pending ANDA – 98, NDA – 5; e) No change in cost structure in India biz.
- **Maintain Add, risks:** We increase our TP to Rs535 based on 22x FY22e EPS (from 21x earlier). Key risks: Delay in resolution of Halol 483s, higher price erosion in the US, slower ramp up in specialty, adverse outcome on ongoing SEBI probe on whistle-blower complaint.

Financial Summary

	1Q FY21	1Q FY20	*YoY (%)*	4Q FY20	*QoQ (%)*	FY19	FY20	FY21E	FY22E
Net Sales	74,672	82,593	*(9.6)*	80,780	*(7.6)*	286,863	323,252	329,501	371,585
EBITDA	17,644	19,956	*(11.6)*	15,051	*17.2*	64,009	69,742	78,496	91,534
APAT	11,386	13,875	*(17.9)*	8,026	*41.9*	39,731	40,100	46,507	58,358
Diluted EPS (Rs)	4.7	5.8	*(17.9)*	3.3	*41.9*	16.6	16.7	19.4	24.3
P/E (x)						32.1	31.8	27.4	21.8
RoCE (%)						*8.5*	*8.6*	*10.1*	*11.8*
RoE (%)						*9.6*	*8.8*	*10.0*	*11.1*

Source: Company, HSIE Research, *Net revenues excludes other operating income

ADD

CMP*(as on 31 July 2020)*	**Rs 532**
Target Price	**Rs 535**
NIFTY	**11,073**

KEY CHANGES	**OLD**	**NEW**
Rating	ADD	ADD
Price Target	Rs 480	Rs 535
EPS %	FY21E	FY22E
	4%	7%

KEY STOCK DATA	
Bloomberg code	SUNP IN
No. of Shares (mn)	2,399
MCap (Rs bn) / ($ mn)	1,276/17,051
6m avg traded value (Rs mn)	5,234
52 Week high / low	Rs 541/312

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	14.5	22.4	24.6
Relative (%)	2.9	30.1	24.3

SHAREHOLDING PATTERN (%)

	Dec-19	Mar-20
Promoters	54.56	54.69
FIs & Local MFs	19.07	19.39
FPIs	14.70	12.81
Public & Others	12.23	13.11
Pledged Shares	0.00	0.00

Source : BSE

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Dr. Reddy's Labs

Strong beat, positives in the price

Dr. Reddys' Q1 results beat expectations led by robust growth in PSAI and Europe business along with strong gross margin (56%, +430bps YoY). The growth outlook for PSAI business has improved as customers seek global diversification of supplies, stock higher inventories and look for reliable partners. On the gross margin front, while large part of improvement is likely to sustain, we factor some normalisation (owing to product mix variations and currency) over FY21/22. On the flip side, approval timelines for key products (gNuvaring, gCopaxone) continue to remain uncertain. The company's tax rate has inched up from 22% to 25-27% (discontinuation of R&D deduction benefits and tax holiday on one of the plant). We increase our EPS estimates for FY21/22 by 11%/4% to factor the above. The stock trades at 27x/22x FY21/22 EPS which leaves limited room for execution miss. We maintain Reduce rating with a revised TP of Rs3,940 based on 20x FY22 EPS.

- **All round beat:** Revenues grew at 15% YoY at Rs44.1bn as strong growth in PSAI (+88% YoY, new launches, currency benefit, higher volumes), Emerging markets (+54% YoY, China, Vietnam led), Europe (+ 48% YoY, new launches, currency benefits) offset weakness in India (-10% YoY) and Russia (-9% YoY) due to Covid. EBIDTA margins improved to 25.5% (+576bps YoY, +386bps QoQ) largely on back of higher gross margins (56%, +437bps YoY, +457 QoQ, currency, product mix, productivity).
- **50%+ US growth hinges on two key product approvals:** We forecast the US business to register 12% revenue CAGR over FY20-22e. More than 50% of the growth in this period is dependent on two assets - gNuvaring and gCopaxone. The CRL for gCopaxone is filed and for gNuvaring is delayed by few months. We factor gCopaxone launch in 2HFY21 and gNuvaring in Q4FY21. Any delay in approval/launch timelines will impact our estimates.
- **Key call takeaways:** a) Price erosion in US – more stable; b) gRevlimid – no visibility on trial date yet; c) India – absolute EBITDA contribution has been stable, Wockhardt business is complementary to existing portfolio; d) Net debt: Rs3.3bn, ETR at 34%; e) Guidance: Capex: Rs10bn in FY21, Tax rate - 25-27%; f) M&A opportunities – Emerging markets particularly India.

Financial Summary

(Rs bn)	1QFY21	1QFY20	YoY (%)	4QFY20	QoQ (%)	FY19	FY20	FY21E	FY22E
Net Sales	44,175	38,435	14.9	44,318	-0.3	153,851	167,371	192,035	219,087
EBITDA	11,247	7,570	48.6	9,574	17.5	30,672	34,546	47,762	55,641
Reported PAT	5,793	6,628	-12.6	7,642	-24.2	21,492	19,497	26,873	32,763
EPS (Rs)	34.8	39.8	-12.6	45.9	-24.2	129.1	117.1	161.4	196.8
P/E (x)						33.3	36.7	26.6	21.8
RoCE (%)						11.3	16.0	13.7	14.6

Source: Company, HSIE Research

Change in Estimates

	FY21 Old	FY21 Revised	YoY	FY22 Old	FY22 Revised	YoY
Revenues	186,396	192,035	3%	211,066	219,087	4%
EBITDA	41,201	47,762	16%	50,121	55,641	11%
PAT	24,406	27,123	11%	31,391	32,763	4%
EPS	146.6	162.9	11%	188.6	196.8	4%

Source: HSIE Research

REDUCE

CMP *(as on 29 July 2020)*	Rs 4,302
Target Price	Rs 3,940
NIFTY	11,203

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	Rs 3,770	Rs 3,940
EPS %	FY21E	FY22E
	+11%	+4%

KEY STOCK DATA

Bloomberg code	DRRD IN
No. of Shares (mn)	166
MCap (Rs bn) / ($ mn)	715/9,574
6m avg traded value (Rs mn)	4,024
52 Week high / low	Rs 4,336/2,351

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	10.9	36.7	62.1
Relative (%)	(5.5)	44.2	61.1

SHAREHOLDING PATTERN (%)

	Jun -20	Mar-20
Promoters	26.74	26.75
FIs & Local MFs	16.21	14.35
FPIs	29.33	30.15
Public & Others	27.72	28.75
Pledged Shares	0.00	0.00

Source : BSE

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Cipla

Solid quarter, outlook reaffirmed

Cipla's Q1 results were strong (EBITDA/PAT beat of ~85%) driven by good growth across regions and higher than expected cost savings. With strong traction in US (ramp up in Albuterol, niche launches), good growth in India (Rx business outperformed IPM growth for past four quarters, benefits of One-India strategy, Covid portfolio) and reduction in costs (good part of cost savings are likely to sustain owing to digital initiatives) margins are set to structurally improve. We forecast ~400bps of margin expansion over FY20-22e and increase our FY21/22e EPS estimates by 22%/13% to factor lower costs and strong revenue momentum. We increase our TP to Rs805 based on 23x FY22 EPS and Rs30/share for gAdvair opportunity. Maintain Buy.

- **All round beat:** Revenues at Rs43.4bn came ahead of expectations driven by strong growth across all regions. Gross margin improvement (down 658bps YoY, +202bps QoQ, gSensipar exclusivity in the base) coupled with sharp decline in lower other expenses (down 684bps YoY, down 794bps QoQ, lower SG&A and promotion spends) led to EBIDTA margin of 24.1% (+ 145bps YoY, +965bps QoQ). Adjusted PAT stood at Rs5.8bn (85% beat).
- **India business on strong footing:** India growth (+16% YoY, low base) was driven by strong performance across three verticals - prescription business (+9% YoY, chronic led), trade generics (+46% YoY, adjusted for transfers to CHL) and consumer health (Rs1bn, portfolio expansion). Implementation of One-India strategy will drive further synergies. Cipla is at the forefront with Covid care portfolio (Remdesvir, Favipiravir, Toclizumab, hand sanitizer), the contribution of which is likely to reflect from Q2 onwards.
- **Strong growth momentum in the US driven by complex launches:** US business grew by 14% QoQ to USD135mn led by ramp up in gProventil (6% TRx share in Albuterol), new launches and strong traction in base business. We factor market share ramp up in gProventil (upto 15% by FY22), recent niche launches (DHE nasal spray with CGT exclusivity, Icatibant inj) and new approvals to drive 18% CAGR (adjusted for gSensipar) over FY20-22e.
- **Key call takeaways:** a) Albuterol – stable pricing, down ~25% from Jan levels, Cipla has adequate capacity for fair share, clocked 65% share in Proventil brand; b) Other expenses to be lower by Rs4-5bn in FY21, a part of this is likely to sustain owing to digital initiatives; guides for 20% EBITDA in FY21; c) Remdesvir in India - demand outpaces supply, additional players likely to enter which should address the shortages; d) gAdvair – approval timelines of 18-20 months from filing; e) Goa plant – working with FDA; f) Net debt – Zero, Gross debt- USD317mn.

Financial Summary

Year Ending March (Rs bn)	1Q FY21	1Q FY20	YoY (%)	4Q FY20	QoQ (%)	FY18	FY19	FY20	FY21E	FY22E
Net Sales	43,462	39,890	*9.0*	43,762	*(0.7)*	152,200	163,624	171,320	191,814	211,209
EBITDA	10,487	9,046	*15.9*	6,335	*65.5*	28,271	30,973	32,060	41,615	47,522
APAT	5,779	4,782	*20.9*	2,460	*135.0*	15,489	14,924	14,995	23,112	27,112
Diluted EPS (Rs)	7.2	5.9	*20.9*	3.1	*135.0*	19.2	18.5	18.6	28.7	33.6
P/E (x)						36.4	37.8	37.6	24.4	20.8
RoACE (%)						8.9	8.3	8.6	12.1	13.0
RoAE (%)						11.6	10.2	9.7	13.8	14.3

Source: Company, HSIE Research

BUY

CMP*(as on 07 Aug 2020)*	**Rs 729**
Target Price	**Rs 805**
NIFTY	**11,214**

KEY CHANGES	**OLD**	**NEW**
Rating	BUY	BUY
Price Target	Rs 690	Rs 805
EPS %	FY21E	FY22E
	+22%	+13%

KEY STOCK DATA	
Bloomberg code	CIPLA IN
No. of Shares (mn)	806
MCap (Rs bn) / ($ mn)	588/7,837
6m avg traded value (Rs mn)	4,548
52 Week high / low	Rs 740/354

STOCK PERFORMANCE (%)

	3M	**6M**	**12M**
Absolute (%)	23.6	64.8	40.9
Relative (%)	2.6	72.4	37.3

SHAREHOLDING PATTERN (%)

	Mar-20	**Jun-20**
Promoters	36.65	36.68
FIs & Local MFs	22.63	22.33
FPIs	17.95	18.64
Public & Others	22.78	22.35
Pledged Shares	0.00	0.00

Source : BSE

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Aurobindo Pharma

Steady performance, outlook intact

Aurobindo's Q1 results were in line driven by strong growth in ARV business and stable performance in US (flat QoQ). The company continues to guide for good growth momentum in the US (ex injectables) driven by 50+ launches in the year. R&D investments are likely to inch up to 5.5% of sales (+120bps YoY) as the company targets complex /differentiated opportunities. The progress on this front is encouraging (one MDI inhaler filed in the US, depot/biosimilars filing starting 2HFY21/22). FCF generation was strong in the quarter at USD217mn aided by reduction in working capital days (lower receivables in the US). Balance sheet is comfortable with Net debt/equity at 0.08x. We increase our earnings estimates by 3% in FY21/22 and revise our TP to Rs980 based on 16x FY22 EPS (from 14x earlier). Maintain Buy.

- **Q1 snapshot:** Revenues at Rs59.2bn were largely in line as strong growth in ARV (+34% YoY, shift towards TLD), stable performance in US business (6.5% YoY, flat QoQ in cc terms) offset weak growth in EU (down 5% YoY, overstocking in Q4). US sales (USD412mn) were steady as subdued growth in injectables business (down 14% QoQ, Covid impact) was offset by strong traction in nutraceuticals (+25% QoQ). Excluding one off cost (Rs600mn, provisions), EBIDTA margin expanded to 22.2% (+91bps YoY, +44bps QoQ) as strong improvement in gross margin (58.7%, +138bps YoY, flat QoQ) partially offset increase in staff cost and R&D expense.
- **Progress on differentiated/complex pipeline is encouraging:** Depo injectables - clinical trials for first product to start in Q3FY21, filing in FY22. Biosimilars – working on 5 products, plans to file one by end of FY21 in EU, followed by another in FY22. Inhaler – one MDI inhaler filed in the US.
- **Key to Note:** a) Expects 50 launches (6 in Q1) and 50+ filings in FY21; Pricing environment is stable; b) Net debt reduction – USD168mn in Q1, will further reduce over the year; c) Unit 1, IX, XI - invited FDA for desktop review; Unit VII – completed most of CAPA, Aurolife- submitted CAPA, awaiting FDA response; d) Capex – USD150-200mn in FY21, FY22 capex will be based on decision to invest in PLI scheme.
- **Maintain Buy, risks:** We increase our earnings estimates by ~3% for FY21/22e and revise TP to Rs980 based on 16x FY22e EPS (from 14x earlier). Key downside risks: higher price erosion in the US, delay in plant resolution (Unit I, IX, XI, VII, AuroLife) and lower margin improvement in EU business.

Financial Summary

INR Mn	Q1 FY21	Q1 FY20	*% YoY chg*	Q4 FY20	*% QoQ chg*	FY19	FY20	FY21E	FY22E
Net Revenues	59,248	54,446	*8.8*	61,584	*(3.8)*	195,636	230,985	254,702	274,937
EBIDTA	13,174	11,608	*13.5*	13,425	*(1.9)*	39,520	48,643	54,610	57,737
APAT	8,072	6,591	*22.5*	8,596	*(6.1)*	23,762	28,493	33,449	35,962
Recurring EPS (Rs)	13.8	11.2	*22.5*	14.7	*(6.1)*	40.6	48.6	57.1	61.4
P/E (x)						21.7	18.1	15.4	14.4
EV / EBITDA (x)						14.3	11.2	9.6	8.6
RoE (%)						16.5	16.8	16.7	15.4

Source: Company, HSIE Research

BUY

CMP *(as on 13 Aug 2020)*	Rs 881
Target Price	Rs 980
NIFTY	11,300

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 835	Rs 980
EPS %	FY21E	FY22E
	3%	3%

KEY STOCK DATA	
Bloomberg code	ARBP IN
No. of Shares (mn)	586
MCap (Rs bn) / ($ mn)	516/6,902
6m avg traded value (Rs mn)	4,399
52 Week high / low	Rs 968/281

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	30.4	67.1	46.2
Relative (%)	10.7	74.7	42.5

SHAREHOLDING PATTERN (%)	Mar-20	Jun-20
Promoters	51.87	52.01
FIs & Local MFs	12.56	12.56
FPIs	22.26	22.63
Public & Others	13.31	12.80
Pledged Shares	0.00	0.00

Source : BSE

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Torrent Pharma

Resilient performance

Torrent's Q1 EBITDA margin expanded to 32.1% (+540bps YoY) largely driven by favorable product mix and cost savings. India (+2% YoY) and Brazil (+1% YoY, cc terms) businesses demonstrated strength on account of chronic focused portfolios. Both these markets are expected to outperform the industry. The outlook for US remains subdued until key plants are resolved. The company repaid debt of Rs4.4bn in Q1 and is on track to reduce it by Rs10bn in FY21. We like Torrent's India franchise and its superior return profile. Higher contribution from India justifies the premium multiple over peers. We increase our EPS estimates by 6%/3% for FY21/22e to factor lower costs. We revise TP to Rs2,620 based on 16x EV/EBIDTA.

- **Margin beat:** Revenues grew by 1% to Rs20.4bn as strong growth in RoW (+30% YoY, broad based, aided by higher stocking of inventories) was offset by Brazil (down 20% YoY, +1% YoY in cc terms), Germany (down 11% YoY, +19% QoQ, upgrading quality system) and US (down 8% QoQ, lack of new launches). EBITDA margin (31.8%, +540bps YoY, +395bps QoQ) was driven by gross margin improvement (higher chronic share) and cost savings. Other expenses include Rs150mn of forex loss.
- **India and Brazil will outperform the industry:** While India growth in Q1 was impacted by Covid, new launches - Ticagrelor, Vildagliptin and Remogliflozin gained market share on a QoQ basis. Torrent expects price led growth to continue and new launches to drive growth (plans 10 new launches). In Brazil, strong presence in cardiac, CNS and diabetes segment is expected to drive outperformance. The covered market stands at ~23% and therefore has significant room for growth.
- **US remain lackluster:** US business declined to USD47mn from its quarterly run rate of USD50-52mn. Torrent plans to launch 1-2 products through external collaboration. We factor revenues to decline in FY21 on back of no meaningful launches. Resolution of key plants remains critical for approvals.
- **Key call takeaways:** a) Dahej and Indrad- submitted closure report, invited FDA for desktop audit; b) US - No plans to enter in sartans in near future, to file 10-14 ANDAs in FY21; c) Germany – guides for double digit growth for next three years; d) India - cost structure to largely remain unchanged.

Financial Summary

(Rs mn)	Q1 FY21	Q1 FY20	YoY (%)	Q4 FY20	QoQ (%)	FY19	FY20	FY21E	FY22E
Net Sales	20,140	19,760	*1.9*	19,120	*5.3*	76,098	79,390	83,381	94,300
EBITDA	6,610	5,410	*22.2*	5,490	*20.4*	19,201	21,700	24,512	28,174
APAT	3,210	2,160	*48.6*	2,620	*22.5*	7,302	9,720	12,311	15,353
Diluted EPS (Rs)	19.0	12.8	*48.6*	15.5	*22.5*	43.1	57.4	72.7	90.7
P/E (x)						56.5	42.4	33.5	26.9
EV/EBIDTA (x)						23.5	20.6	17.6	14.9
RoCE (%)						11.1	14.2	16.5	19.1

Source: Company, HSIE Research

Change in estimates

(Rs mn)	FY21 Old	FY21 Revised	*YoY*	FY22 Old	FY22 Revised	*YoY*
Revenues	82,585	83,381	*1.0%*	92,822	94,300	*2%*
EBITDA	24,003	24,512	*2.1%*	27,996	28,174	*1%*
PAT	11,651	12,311	*5.7%*	14,902	15,353	*3%*
EPS	68.8	72.7	*5.7%*	88.1	90.7	*3%*

Source: HSIE Research

ADD

CMP*(as on 30 July 2020)*	**Rs 2,437**
Target Price	**Rs 2,620**
NIFTY	**11,102**

KEY CHANGES	**OLD**	**NEW**
Rating	ADD	ADD
Price Target	Rs 2,405	Rs 2,620
EPS %	FY21E	FY22E
	6%	3%

KEY STOCK DATA	
Bloomberg code	TRP IN
No. of Shares (mn)	169
MCap (Rs bn) / ($ mn)	412/5,507
6m avg traded value (Rs mn)	1,576
52 Week high / low	Rs 2,699/1,543

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	3.9	26.8	48.5
Relative (%)	(8.0)	34.6	47.6

SHAREHOLDING PATTERN (%)	**Jun-20**	**Mar-20**
Promoters	71.25	71.25
FIs & Local MFs	9.71	10.89
FPIs	10.99	9.82
Public & Others	8.05	8.04
Pledged Shares	0.00	0.00

Source : BSE

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Lupin

Recovery in sight

We upgrade Lupin to Buy premised on: a) recovery in US business led by gProAir approval (imminent) and ramp up in Levothyroxine; b) bounce back in India growth (solid franchise, chronic skewed portfolio); c) operating leverage to aid margin expansion of ~500bps over FY20-22e. Management commentary was positive, indicating normalization of US business, continued cost reduction efforts as well as good progress on complex/specialty pipeline. With monetization of key assets, resolution of key facilities and margin levers in place, the business is set to post strong earnings growth of ~50% CAGR over FY20-22e. We reduce our FY21 EPS by 7% to factor Q1 miss but keep FY22 estimates largely intact. We increase our TP to Rs980 based on 22x FY22 EPS (from 21x earlier). Upgrade to Buy.

- **Trough quarter** – Revenues at Rs35.2bn (down 9% YoY, down 8% QoQ) were impacted by muted trends in the US (USD157mn, down 26% QoQ, lower seasonal products, Metformin impact, lower demand), India (down 2% YoY, lockdown impact). API business reported strong growth of 17% YoY. EBIDTA Margin remained flat at 13.8% on a QoQ basis as higher staff cost (+264bps QoQ, one time impact), R&D spends (10% of sales, +118bps QoQ) offset lower other expenses (down 397bps QoQ). Adj PAT came lower at Rs1bn impacted by weak operational trends and higher tax rate (60%).
- **gProAir approval and Levo ramp up to lift US outlook:** Lupin expects to receive approval for gProAir in August (Perrigo exclusivity expires on Aug 23) and launch in September. Albuterol pricing has been stable and management targets ~20% market share over a period in this category. We expect gProAir launch, ramp up in Levothyroxine (12% market share, targets high teens despite competition), re-launch of Metformin (before end Q2) to drive significant momentum from 2HFY21. We forecast US business to grow at 10% CAGR over FY20-22e.
- **Significant operating leverage to drive margin expansion:** With recovery in key businesses and cost containment measures (guided for lower staff cost, reduction in Solosec burn rate), EBITDA margin is set to expand significantly from 14.5% in FY20 to 19.6% in FY22e.
- **Key call takeaways:** a) Guidance for FY21- EBIDTA margin of 17% excluding other income and forex; tax rate – 35-40% for FY21; b) **Key products** –gFostair (EU) – approval by end CY20 and launch in FY21, bEnbrel – gradual roll out in EU markets, Peg-filgrastim filing in US by end of FY21, gSpiriva in US –launch in 2022; c) Plant remediation -awaiting Somerset inspection in the near term followed by Goa and Pithampur.
- **Upgrade to Buy, risks:** We upgrade Lupin to Buy (from Add) and increase our TP to Rs980 from Rs920 based on 22x FY22 EPS (from 21x earlier) based on improved visibility on key launches, cost reduction efforts and plant resolution. Key risks: delay in approvals, escalation of Metformin issue, delay in resolution of key plants, drug price-fixing lawsuit in the US.

Financial Summary

	Q1 FY21	Q1 FY20	*YoY (%)*	Q4 FY20	*QoQ (%)*	FY18	FY19	FY20	FY21E	FY22E
Net Sales	34,686	38,155	*-9.1*	37,910	*-8.5*	158,041	144,543	152,307	157,432	184,415
EBITDA	4,881	7,598	*-35.8*	5,253	*-7.1*	31,475	23,504	22,107	27,548	36,213
APAT	1,087	2,647	*-58.9*	3,065	*-64.5*	14,718	8,521	3,526	12,995	20,143
Adj. EPS (Rs)	2.4	5.8	*-58.9*	6.8	*-64.5*	32.5	18.8	7.8	28.7	44.4
P/E (x)						27.3	47.2	114.2	31.0	20.0
RoE (%)						10.8	6.2	2.8	9.6	13.3

Source: Company, HSIE Research

BUY

CMP*(as on 07 Aug 2020)*	**Rs 880**
Target Price	**Rs 980**
NIFTY	**11,214**

KEY CHANGES	**OLD**	**NEW**
Rating	ADD	BUY
Price Target	Rs 920	Rs 980
	FY21E	FY22E
EPS %	-7%	+1%

KEY STOCK DATA	
Bloomberg code	LPC IN
No. of Shares (mn)	453
MCap (Rs bn) / ($ mn)	399/5,319
6m avg traded value (Rs mn)	2,777
52 Week high / low	Rs 956/505

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	8.2	24.3	12.5
Relative (%)	(12.8)	31.9	8.8

SHAREHOLDING PATTERN (%)

	Mar-20	Jun-20
Promoters	46.92	46.92
FIs & Local MFs	16.27	18.58
FPIs	22.68	21.31
Public & Others	14.13	13.19
Pledged Shares	0.00	0.00

Source : BSE

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Real Estate

DLF

Stable performance

DLF reported revenue of Rs 5.5bn (-59%/-68% YoY/QoQ, 12% miss). Issuance of the possession letters got adversely affected during the lockdown and, hence, impacted revenue recognition. Rental business was impacted owing to the retail malls remaining shut due to lockdown and waivers given by DLF to tenants. Construction has recommenced at all sites, and DLF is operating at ~ 65% of pre-COVID levels. The company has not availed interest moratorium. Office segment remains robust with longer-term drivers in place and robust collections of 95%. We do believe that rental escalation may remain soft. Retail recovery will be much more protracted as its worst hit. Balance sheet remains comfortable with net D/E of ~0.1x.

- **1QFY21 Highlights:** Consolidated revenue/EBITDA/PAT stood at Rs 5,486/17/(707)mn. EBITDA margin slumped to 0.3% (-1769/-1838bps YoY/QoQ). Quarterly fixed cash outgo as part of other expenses has come down by 33% to Rs 1bn vis-à-vis Rs ~1.5bn earlier run-rate, partially offsetting negative oplev. Net debt is stable at Rs 52bn, and is expected to remain at current levels till FY21; deleveraging is expected post that. Office rental collection efficiency is at ~95%. 100% rental waivers were extended to retail tenants for 1QFY21. It will come down to ~50% for 2QFY21. Retail rentals would come down to ~Rs 2.3bn in FY21 vs ~Rs 6.5bn in FY20. DLF wants to bring down debt/NOI to <4x by FY23, from ~5.3x currently.
- **Under-construction portfolio:** 95% pre-leasing has been achieved for 2.5msf Cyber Park, with ~85% fit-outs in final stages; rent commencement from 4QFY21. The focus is to complete Phase 1 of Downtown Gurgaon & Chennai, 2msf, over the next 2 years with a combined rental potential of Rs ~4bn. Development for the 1st phase of Noida IT Park has commenced. The strategy will be to pre-lease and then organise the strata sale of the leased portfolio. Chennai Block 11/12 rentals to commence from Aug-20/Apr-21.
- **Ready inventory to see delayed monetisation, new launches on track:** In a tough environment, DLF has unsold and nearing-completion inventory of Rs 89bn (vs. Rs 91bn QoQ). About ~53% high-value inventory is in DLF Phase V and, hence, it will be challenging to monetise. DLF remains committed to new launches of mid-income housing and plotted independent floors; launches of 10mn sqft being planned by FY21. DCCDL annual capex and dividend run-rate (Rs ~8-10bn each) will halve in FY21.

Financial summary

YE Mar (Rs mn)	1Q FY21	1Q FY20	*YoY (%)*	4Q FY20	*QoQ (%)*	FY19	FY20	FY21E	FY22E
Net Sales	5,486	13,312	*(58.8)*	16,942	*(67.6)*	83,661	60,828	40,289	36,260
EBITDA	17	2,397	*(99.3)*	3,167	*(99.5)*	21,415	11,351	7,273	6,428
APAT	(707)	1,183	*(159.7)*	3,889	*(118.2)*	11,911	9,928	7,774	10,990
Diluted EPS (Rs)	(0.3)	0.5	*(159.7)*	1.6	*(118.2)*	4.8	4.0	3.1	4.4
P/E (x)						29.7	35.7	45.5	32.2
EV / EBITDA (x)						22.5	34.6	56.3	63.2
RoE (%)						3.5	2.9	2.2	3.1

Source: Company, HSIE Research

BUY

CMP *(as on 06 Aug 2020)*	Rs 143
Target Price	Rs 219
NIFTY	11,200

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 224	Rs 219
EPS Change %	FY21E	FY22E
	-	-

KEY STOCK DATA	
Bloomberg code	DLFU IN
No. of Shares (mn)	2,475
MCap (Rs bn) / ($ mn)	353/4,712
6m avg traded value (Rs mn)	1,724
52 Week high / low	Rs 267/115

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	9.8	(42.1)	(15.2)
Relative (%)	(10.2)	(34.1)	(18.1)

SHAREHOLDING PATTERN (%)

	Mar-20	Jun-20
Promoters	74.95	74.95
FIs & Local MFs	1.76	1.76
FPIs	18.33	18.54
Public & Others	4.96	4.75
Pledged Shares	-	-

Source : BSE

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Oberoi Realty

Back-ended recovery

We maintain BUY with revised TP of Rs 500 (vs Rs 538 earlier) to factor in 10-15% property price discount and recalibration of cap rates higher by 100bps to 11%. Although we expect luxury residential demand to be tepid, we remain constructive on ORL, given its comfortable balance sheet (net D/E 0.16x), strong brand recognition and new incremental 1.1mn sqft leasing in Commerz-3. We revise our EPS for FY21/22 by +38%/-35% as profit recognition for Worli 360W is expected to be in FY21E (vs FY22E earlier) and completion of residential projects could be delayed due to COVID-led disruption.

- **1QFY21**: ORL reported 1QFY20 revenue of Rs 1.2bn, which is 80% YoY decline and missed our estimate by 56%. Despite a sharp decline in topline, ORL remained in green with APAT at Rs 280mn (-82% YoY) on better EBITDA margin (49% vs 39% in 1QFY20) and lower interest expense (Rs 179mn vs Rs 239mn in 1QFY20).
- **Labor availability improving; focus on building inventory**: Labor availability has improved to 60% from the low of 25% amid the lockdown period. With material shortage issues also sorted out, ORL is looking to build healthy inventory levels to cater to the post-pandemic pent-up demand. ORL is holding on to prices and expects payment deferrals through customized financial engineering.
- **Presales dropped by 95%**: Oberoi Realty sold only five units in the quarter as bookings dropped by 95% YoY to 12k sqft. Collections also fell by 85% to Rs 717mn. With the easing of the lockdown, site visits have increased though conversions are slow as customers are chasing discounts.
- **Balance sheet position comfortable**: Standalone net debt stood Rs 13.7bn at the end of 1QFY21 with net D/E at 0.16x, which is comfortable, in our view. Despite a sharp decline in pre-sales, ORL managed to generate positive operating cash flow of Rs 603mn in the quarter. COVID-19 hit properties Westin and Oberoi Goregaon mall do not require any funding from ORL.

Quarterly/Annual Financial summary

(Rs mn)	1QFY21	1QFY20	YoY	4QFY20	QoQ	FY19	FY20	FY21E	FY22E
Net Sales	1,180	6,033	*(80.4)*	6,155	*(80.8)*	25,825	22,376	14,783	20,475
EBITDA	579	2,352	*(75.4)*	3,705	*(84.4)*	11,554	10,480	6,458	9,006
APAT	280	1,521	*(81.6)*	2,510	*(88.9)*	8,169	6,893	7,484	7,417
Diluted EPS (Rs)	0.8	4.5	*(81.6)*	6.9	*(88.9)*	22.5	19.0	20.6	20.4
P/E (x)						19.2	22.8	21.0	21.2
EV / EBITDA (x)						14.6	16.0	25.3	18.3
RoE (%)						11.6	8.3	8.3	7.7

Source: Company, HSIE Research, Standalone financials

Estimate change summary

Particulars	FY21E New	FY21E Old	% Change	FY22E New	FY22E Old	% Change
Revenues (Rs mn)	14,783	21,623	*(32)*	20,475	29,764	*(31)*
EBITDA (Rs mn)	6,458	8,711	*(26)*	9,006	12,333	*(27)*
EBITDA (%)	43.7	40.3	*8.4*	44.0	41.4	*6.2*
APAT (Rs mn)	7,484	5,418	*38*	7,417	11,442	*(35)*

Source: Company, HSIE Research

BUY

CMP *(as on 15 July 2020)*	**Rs 371**
Target Price	**Rs 500**
NIFTY	**10,618**

KEY CHANGES	**OLD**	**NEW**
Rating	BUY	BUY
Price Target	Rs 538	Rs 500
	FY21E	FY22E
EPS %	38	(35)

KEY STOCK DATA	
Bloomberg code	OBER IN
No. of Shares (mn)	364
MCap (Rs bn) / ($ mn)	135/1,799
6m avg traded value (Rs mn)	199
52 Week high / low	Rs 586/290

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	20.0	(33.0)	(34.7)
Relative (%)	1.3	(19.1)	(27.3)

SHAREHOLDING PATTERN (%)	**Mar-20**	**June-20**
Promoters	67.70	67.70
FIs & Local MFs	5.32	4.26
FPIs	24.91	26.15
Public & Others	2.07	1.89
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Prestige Estates Projects

Monetisation awaited

PEPL pre-COVID rerating was backed by robust expansionary plans on asset build-out and likely deleveraging through REIT, but COVID-19 has now put a spanner in the wheel. As such, FY21E residential collections will remain subdued, and headwinds like work from home and retail footfall/hotel occupancy normalisation will take time. PEPL continues to evaluate monetisation opportunities in the rental business and potential REIT listing over the medium term. Labour availability has now ramped up to ~65%, with normalisation expected by 3QFY21. We maintain BUY on PEPL with an SOTP of Rs 280/sh. No change in FY21/22 estimates.

- **1QFY21 financial highlights:** 1QFY21 revenue reported at Rs 12.7bn (-17%/-36% YoY/QoQ, 17% beat). EBITDA stood at Rs 4.4bn (-17%/-12% YoY/QoQ, 107% beat). Margin came in at 34.5% (34.3/25.2% YoY/QoQ, vs. estimate of 19.4%). Interest cost and depreciation at Rs 2.5/1.6bn in line. Loss from associates at Rs 12mn (vs the estimated loss of Rs 200mn), while minority interest at Rs 184mn (vs estimate of Rs -197mn). Consequently, RPAT came in at Rs 16mn (-99%/-90% YoY/QoQ, vs estimate of Rs 1.9bn loss). Net debt is at Rs 0.84bn (1.5x), with an average borrowing rate at 9.65%.
- **1QFY21 operational highlights:** As expected, Retail & Hospitality saw virtually nil activity, while Office collections continued to remain robust at ~99%. Residential/Commercial segment registered Rs 3.9bn sales (PEPL share; 0.56msf) vs Rs 8.6/9.9bn YoY/QoQ with no launches or completions, largely from Lakeside Habitat, Golfshire, Tech Cloud, and White Meadows. With many units in the handing-over stage, PEPL expects sales to touch Rs ~10bn in 2QFY21E. Seven projects are lined up for launch in 2Q/3QFY21.
- **Robust Office rentals, 25% mall rental waivers until Dec-19:** Collections stood at Rs 5.75bn (PEPL share) vs Rs 9.0/10.9bn YoY/QoQ, while rental income stood at Rs 1.84bn. Annuity (Office+Retail; PEPL share) exit rental stood at Rs 10.5bn pa (Rs ~20bn bn pa incremental potential over next 4-5 years). Hence, with several office projects under construction and in the planning stage and two upcoming malls (Under planning at 56msf; Ongoing at Rs 53msf), PEPL can reach current annuity level in 3-5 years in case all operational assets are monetised via REIT, which is being actively looked at.
- **Monetisation remains key monitorable as debt inches up slightly:** Net debt has increased by Rs 2.3bn QoQ to Rs 84bn in 1QFY21. The net D/E stands at 1.50x vs 1.86/1.46x YoY/QoQ (Rs ~9bn equity infusion in FY20). However, (1) the recent allotment of preference shares to GIC for a consideration of Rs 4.2bn and further Rs 4.6bn equity raise from institutional investors, (2) likely fund raise of ~Rs25bn ($300-400mn) from -select PE investors pre-REIT, and (3) REITs eventual listing in FY22/23E provide sufficient liquidity to PEPL's Capex plans while maintaining debt at the current position, significantly improving the debt to equity structure.

Financial summary

YE March (Rs mn)	1Q FY21	1Q FY20	*YoY (%)*	4Q FY20	*QoQ (%)*	FY19	FY20	FY21E	FY22E
Net Sales	12,737	15,387	*(17.2)*	19,823	*(36)*	52,407	81,248	66,875	78,116
EBITDA	4,391	5,277	*(16.8)*	4,996	*(12)*	14,538	23,560	18,001	21,342
APAT	16	773	*(97.9)*	154	*(90)*	3,262	3,651	617	2,367
Diluted EPS (Rs)	0.0	2.1	*(98.1)*	0.4	*(90)*	8.7	9.1	1.5	5.9
P/E (x)						26.6	25.4	150.3	39.2
EV / EBITDA (x)						11.3	7.2	9.7	8.3
RoE (%)						9.8	14.4	3.5	6.9

Source: Company, HSIE Research

BUY

CMP *(as on 14 Aug 2020)*	**Rs 232**
Target Price	**Rs 280**
NIFTY	**11,178**

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 280	Rs 280
EPS Change %	FY21E	FY22E
	-	-

KEY STOCK DATA	
Bloomberg code	PEPL IN
No. of Shares (mn)	401
MCap (Rs bn) / ($ mn)	93/1,245
6m avg traded value (Rs mn)	161
52 Week high / low	Rs 426/134

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	48.1	(36.3)	(17.9)
Relative (%)	26.4	(28.1)	(19.4)

SHAREHOLDING PATTERN (%)	Mar-20	Jun-20
Promoters	65.48	65.48
FIs & Local MFs	3.86	2.62
FPIs	29.42	30.11
Public & Others	1.24	1.79
Pledged Shares	-	-

Source : BSE

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Brigade Enterprises

Muted performance

BRGD reported 1QFY21 pre-sales volume/value at 0.42mn sqft/Rs 2.5bn, registering decline of 63%/58% YoY. While leasing activity was conspicuous by its absence, rental collection from existing portfolio remained healthy at 98% in 1QFY21. The company has given 50% waiver on MG during the lockdown for the retailers who have reopened at the mall. BRGD has started operations at hospitality assets and hopes to achieve gross operating breakeven by 2QFY21. Collection of Rs 3.8bn led to positive operating cashflow of Rs 820mn. Net debt also remained stable at Rs 29bn (Rs 28bn at FY20-end, BRGD's share). Despite midterm challenges in hospitality and retail business, we maintain BUY with target price of Rs 213/sh as BRGD has strong liquidity. Lease tie-up in BTG Bengaluru will lead to further re-rating.

- **Revenue misses estimates:** Revenue (Rs 2bn) for the quarter declined by 71%/68% YoY/QoQ as revenue from residential and hospitality business declined by 78% and 86% YoY respectively. Despite reducing overhead expenses by 54%, EBITDA declined by 74%/65% YoY/QoQ. Consequently, BRGD posted a loss of Rs 527mn against our estimated loss of Rs 501mn. Labour availability has improved from 30%, post ease of restriction, to 50% currently. Management expects it to normalize by 3QFY21, which would help book better revenue from the residential segment.
- **Residential sales at 0.4mn sqft; commercial rent collection at +98%:** BRGD registered pre-sales of 0.4mn sqft (~40% of 1QFY20) as booking activity picked up from 15% in April to 65% in June. The company expects sales to improve further as it has strengthened its digital channels. Management also highlighted three trends which, we believe, will continue in the medium term: (1) preference for completed homes, (2) higher interest from NRI buyers and, (3) demand for larger space. Despite the lockdown, rent collection from office space remained healthy at +98% in the quarter. However, new leasing was mostly absent. BRGD launched two new projects, one each in residential (0.62mn sqft) and office (1.3mn sqft).
- **Balance sheet remains stable with strong liquidity:** Collection of Rs 3.8bn during the quarter was largely from residential (Rs 2.8bn) and office (Rs 0.8bn) segments. Consolidated net debt stood at Rs 36.2bn (vs Rs 35.2bn on Mar'20), of which Rs 19bn is LRD/GOP securitized debt. With rents from BTG Bengaluru and WTC Chennai commencing by Jan-21, BRGD has headroom to raise additional Rs 22bn in LRD. With Rs 4.6bn of cash, net D/E stood at 1.23x. BRGD has opted for loan moratorium for its hospitality and retail assets (Rs 12bn), which are facing significant headwinds.

Quarterly/Annual Financial summary

Year Ending March (Rs mn)	1Q FY21	1Q FY20	YoY (%)	4Q FY20	QoQ (%)	FY19	FY20	FY21E	FY22E
Net Sales	2,033	7,087	*(71.3)*	6,359	*(68.0)*	29,727	26,322	19,813	29,248
EBITDA	474	1,823	*(74.0)*	1,352	*(64.9)*	7,897	6,633	5,416	9,629
APAT	(527)	412	*NA*	27	*NA*	2,399	1,511	(249)	1,352
Diluted EPS (Rs)	(2.6)	2.0	*NA*	0.1	*NA*	11.7	6.4	(1)	6.6
P/E (x)						12.5	23.0	(121)	22.2
EV / EBITDA (x)						8.3	10.6	14	8.0
RoE (%)						10.7	5.8	(1)	6.1

Source: Company, HSIE Research, Standalone financials

BUY

CMP *(as on 13 Aug 2020)*	**Rs 147**
Target Price	**Rs 213**
NIFTY	**11,300**

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 213	Rs 213
	FY21E	FY22E
EPS %	-	-

KEY STOCK DATA	
Bloomberg code	BRGD IN
No. of Shares (mn)	204
MCap (Rs bn) / ($ mn)	30/405
6m avg traded value (Rs mn)	49
52 Week high / low	Rs 255/91

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	46.7	(35.4)	(16.1)
Relative (%)	27.0	(27.8)	(19.8)

SHAREHOLDING PATTERN (%)	Mar-20	June-20
Promoters	46.82	46.82
FIs & Local MFs	17.17	18.49
FPIs	11.85	11.95
Public & Others	24.16	22.74
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Sobha

Stable performance

Amidst challenging COVID-19 environment, SDL reported operationally robust 1QFY21 with pre-sales of 0.65mn sq ft (-39% YoY) aided by resilient sales in Bengaluru (70% of sales in 1QFY20), lower de-growth 35% YoY (74.5% of sales in 1QFY21). Despite the first half of IQFY21 facing lockdown related issues, total collections for the quarter stood at Rs 5.5bn (-39/-42% YoY/QoQ), this is commendable. Sales activity has picked up in June and trend is flowing into 2QFY21, with SDL indicating a better 2QFY21. Whilst sales inquiries have reached pre-COVID levels, the conversion is yet to happen as buyers want to visit the site physically. We maintain BUY with NAV of Rs 348/sh.

- **Revenue miss, PAT beat led by cost-saving, pre-sales robust:** Revenue: Rs 3.5bn (29% miss). EBIDTA margins: 28.5% (+918bps YoY, +1020bps QoQ). EBITDA: Rs 1.0bn (69% beat). PAT: Rs 66mn (vs estimated loss of Rs 290mn); PAT beat was largely led by Rs 300mn savings in employee cost and favourable mix led gross margin expansion. Pre-sales volume for the quarter stood at 0.65mn sqft (-39% YoY). Total sales by value at Rs 4.9bn (-37% YoY), with average price realisation at Rs 7,498/sqft. Cost of funds (average) has decreased by ~5bps QoQ to 9.64%.

- **Working towards normalisation:** SDL has seen a good recovery in the labour availability at the site with levels at 60% vs. 50% during Jun-20 end. Over the next few months, SDL expects to reach normalcy. The current focus is on the monetisation of the existing stock of 15.3mn sqft unsold area. The new launch pipeline is robust at 14.3mn, but we believe this will take time to come to market on account of soft demand. SDL during 4QFY20 had recognised 1.93mn sqft of bookings with low/delayed collection as probable cancellation and made it available for sales. From 1QFY21, this has become part of the overall unsold area and is not being disclosed separately. If an old buyer starts servicing the payments, SDL re-allocates the unit and adds it to the sold area. Advances received from the old cancelled sale are refunded to the old buyer once new buyer payment exceeds the advance received from the old buyer.

- **Focus on improving liquidity:** SDL generated Rs 927mn from operating activities and had the free cash flow to firm of Rs 907mn in 1QFY21. Consolidated net debt remained stable at Rs 30.2bn (vs Rs 30.2bn on Mar'20). Net debt-equity stood at 1.24x. With a check on capex, no new investment in land acquisition and deferrals of payments on the existing unpaid land bank, management further wants to reduce Net D/E ratio to 1.1x in FY21. Whilst SDL has availed interest and principal repayment moratorium, the management guided it is well geared to service debt post moratorium expiry on 31st Aug 2020. SDL is awaiting onetime restructuring guidelines and may not opt for it unless terms are very attractive.

Financial summary

Y/E March (Rs mn)	1QFY21	1QFY20	YoY (%)	4QFY20	QoQ (%)	FY19	FY20	FY21E	FY22E
Net Sales	3,500	11,767	*(70.3)*	9,101	*(61.5)*	34,421	37,539	33,072	37,452
EBITDA	998	2,275	*(56.1)*	1,667	*(40.1)*	6,733	7,593	6,566	6,944
APAT	66	906	*(92.7)*	507	*(87.0)*	2,970	2,815	2,268	2,428
Diluted EPS (Rs)	0.7	9.6	*(92.7)*	5.3	*(87.0)*	31.3	29.7	23.9	25.6
P/E (x)						7.4	7.8	9.7	9.0
EV / EBITDA (x)						6.9	6.9	8.0	7.5
RoE (%)						11.9	12.1	9.0	9.0

Source: Company, HSIE Research

BUY

CMP *(as on 10 Aug 2020)*	**Rs 231**
Target Price	**Rs 348**
NIFTY	**11,270**

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 348	Rs 348
EPS change (%)	FY21	FY22
	-	-

KEY STOCK DATA	
Bloomberg code	SOBHA IN
No. of Shares (mn)	95
MCap (Rs bn) / ($ mn)	22/292
6m avg traded value (Rs mn)	85
52 Week high / low	Rs 550/118

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	30.1	(41.8)	(56.3)
Relative (%)	9.4	(35.0)	(57.9)

SHAREHOLDING PATTERN (%)

	Mar-20	Jun-20
Promoters	51.78	51.90
FIs & Local MFs	15.50	10.94
FPIs	23.37	19.48
Public & Others	9.35	17.68
Pledged Shares	0.0	0.0

Source : BSE

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