Market snapshot

Equities - India	Close	Chg .%	CYTD.%
Sensex	53,161	0.8	-8.7
Nifty-50	15,832	0.8	-8.8
Nifty-M 100	26,713	1.0	-12.3
Equities-Global	**Close**	**Chg .%**	**CYTD.%**
S&P 500	3,900	-0.3	-18.2
Nasdaq	11,525	-0.7	-26.3
FTSE 100	7,258	0.7	-1.7
DAX	13,186	0.5	-17.0
Hang Seng	7,817	2.5	-5.1
Nikkei 225	26,871	1.4	-6.7
Commodities	**Close**	**Chg .%**	**CYTD.%**
Brent (US$/Bbl)	115	1.2	48.3
Gold ($/OZ)	1,839	0.7	0.6
Cu (US$/MT)	8,419	0.5	-13.6
Almn (US$/MT)	2,470	1.3	-12.0
Currency	**Close**	**Chg .%**	**CYTD.%**
USD/INR	78.3	0.0	5.4
USD/EUR	1.1	0.3	-6.9
USD/JPY	135.2	0.0	17.5
YIELD (%)	**Close**	**1MChg**	**CYTD chg**
10 Yrs G-Sec	7.4	-0.03	1.0
10 Yrs AAA Corp	7.8	0.00	0.8
Flows (USD b)	**27-Jun**	**MTD**	**CY21**
FIIs	-0.16	-6.18	-28.24
DIIs	0.15	5.69	26.31
Volumes (INRb)	**27-Jun**	**MTD***	**YTD***
Cash	433	474	645
F&O	66,076	1,08,017	1,00,232

Note: *Average

Today's top research idea

Vehicle Finance: Margin compression imminent, but are there other levers?

- Expect vehicle financiers to use the levers of operating and credit costs to deliver a healthy RoA, despite the expected compression in NIM. We model an AUM CAGR of 21%/12%/11% and a PAT CAGR of 14%/26%/ 17% for CIFC/MMFS/SHTF over FY22-24.
- This will translate in a RoA of 2.6%/1.9%/2.3% and a RoE of 19%/9%/12 for CIFC/MMFS/SHTF in FY24E. We cut our FY23/FY24 estimate by 13%/14% for MMFSL and by 4%/9% for SHTF to factor in a NIM compression and minor changes in loan growth/credit costs.
- We maintain our preference for CIFC, followed by SHTF. CIFC benefits from a well-diversified loan book, with newer business lines shaping up well. It will perhaps have more levers than its other peers to deliver a healthier RoA/RoE.

Research covered

Cos/Sector	Key Highlights
Vehicle Finance	Margin compression imminent, but are there other levers?
Container Corporation	Well placed to capitalize from the DFC opportunity
EcoScope	Monsoon Weekly: June witnessed rainfall deficit, but much of the season still remains

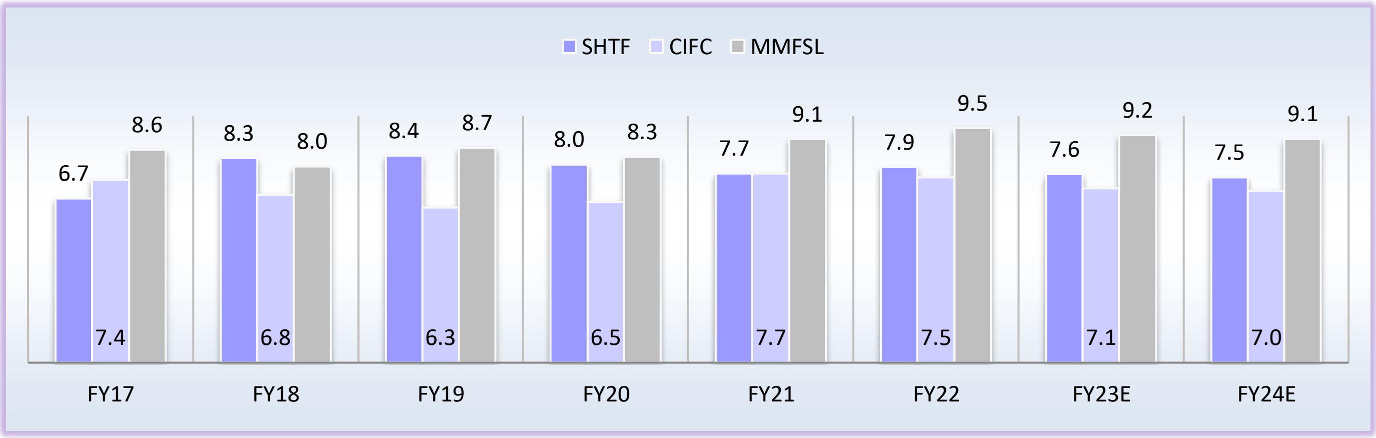
Piping hot news

M&M launches the all new Scorpio N at Rs 11.99 lakh to Rs 19.49 lakh for first 25,000 customers

Scorpio, a brand that established strong credentials for Mahindra & Mahindra as a leading Indian automotive maker, started a new chapter on Monday with a bigger and a better model in its new generation, that the company hopes will help in attaining SUV leadership in terms of revenues.

Chart of the Day: Vehicle Finance (Margin compression imminent, but are there other levers?)

Expect margin compression of 30-45bp in FY23 for the vehicle financiers



Research Team (Gautam.Duggad@MotilalOswal.com)

Kindly click on textbox for the detailed news link

1

M&M launches the all new Scorpio N at Rs 11.99 lakh to Rs 19.49 lakh for first 25,000 customers

Scorpio, a brand that established strong credentials for Mahindra & Mahindra as a leading Indian automotive maker, started a new chapter on Monday with a bigger and a better model in its new generation.

2

India's petroleum products' export falls 1% in May after rising 22% in April

Export of petroleum products fell 1% in May over the year after rising 22% in April as demand soared in the domestic market, according to the oil ministry data. India exported 5.7 million metric tonnes (MMT) of petroleum products in May, 6% higher than in April but 1% lower than in May 2021. Imports increased 14% to 3.2 MMT in May over the year, compared to 3.8 MMT in April. Net export contracted 0.4 MMT during the month over the year.

3

TVS to bet on electric vehicles; to come up with 5-25-kW products

Chennai-based two-wheeler major TVS Motor Company has said the company is focusing on electric vehicles (EVs), and is coming up with multiple products in the two- and three-wheeler segments.

4

Government receives 38 bids for commercial mines' auction

The coal ministry on Monday said that it has received a total of 38 bids during three rounds of commercial coal mines' auctions.

5

India saw 9.36 bn transactions worth Rs 10.2 trn in Q1 2022, UPI leads

India saw 9.36 billion transactions amounting to Rs 10.25 trillion in the first quarter (January-March period) via various payment modes led by Unified Payment Interface (UPI), a new report showed on Monday.

6

Six airbags to be made mandatory in eight-seater vehicles: Nitin Gadkari

The government will make it mandatory for carmakers to provide a minimum of six airbags in motor vehicles that can carry up to eight passengers for enhanced safety of occupants, Union minister Nitin Gadkari said on Monday.

7

Households account for more than half of total credit: RBI data

Indian households including HUFs accounted for 53 percent of share in total credit even as loans to industry gained pace during FY'22, according to the quarterly basic statistical returns released by the Reserve Bank of India.

Vehicle Finance

NIM

(%)	FY22	FY23E	FY24E
SHTF	7.9	7.6	7.5
MMFS	9.5	9.2	9.1
CIFC	7.5	7.1	7.0

Credit costs (% of loans)

(%)	FY22	FY23E	FY24E
SHTF	3.4	2.7	2.5
MMFS	3.9	2.8	2.7
CIFC	1.3	1.2	1.2

RoA

%	FY22	FY23E	FY24E
SHTF	2.0	2.2	2.3
MMFS	1.3	1.8	1.9
CIFC	2.7	2.6	2.6

RoE

(%)	FY22	FY23E	FY24E
SHTF	11.5	11.9	12.4
MMFS	6.6	9.0	9.4
CIFC	20.2	18.3	18.6

Margin compression imminent, but are there other levers?

Expect NIM compression of 30-45bp in FY23; other levers to limit impact on RoA

- **There can be a 140-165bp increase (including the 90bp already announced in May-Jun'22) in policy repo rates in FY23. Given the fixed-rate lending nature of Vehicle Finance and depending on the nature of the liabilities, borrowing and product mix, and the pricing power, the impact on margin can vary between 30bp and 45bp among different lenders in FY23.**
- **Semiconductor shortages persisted for a large part of FY22. The situation is expected to sustain, with supply-side issues unlikely to get fully resolved in FY23. If fuel prices were to stay or moderate from current levels, we do not estimate any significant impact on vehicle demand or on repayments or collections. However, if fuel prices were to increase by 10%-15% from current levels, we expect higher delinquencies particularly in the CV-CE segment.**
- **Commodity-price inflation is feeding into higher ticket size of New and Used Vehicles. This will aid disbursement growth in FY23 as well. Rising interest rates in isolation will not have a direct impact on demand for either Passenger or Commercial Vehicles, but even a moderate slowing down of the economy has the potential to keep demand for new vehicle purchases muted.**
- **Demand for Commercial Vehicles (CVs) has exhibited an improving trajectory for the last four-to-five months. We expect the demand momentum to sustain in FY23, with higher capacity utilization from Infrastructure spending feeding into the demand for newer vehicles.**
- **In 1HFY23, lenders will endeavor to minimize the impact of higher borrowing costs by reducing excess liquidity and increasing the proportion of short-term borrowings (to the extent their ALM allows). We have tweaked our credit growth estimates marginally and also factored in NIM compression for large vehicle financiers in our coverage.**
- **Asset quality for all three vehicle financiers – CIFC, MMFS, and SHTF – exhibited a strong improvement, with NS3 for each one of them comfortably below 4% as of Mar'22. Write-offs were elevated, suggesting that repossessions and settlements were used more aggressively to effect the improvement in asset quality, even as the RBI NPA circular will become effective from Oct'22.**

Valuation and view: We expect vehicle financiers to use the levers of operating and credit costs to deliver a healthy RoA, despite the expected compression in NIM. We model an AUM CAGR of 21%/12%/11% and a PAT CAGR of 14%/26%/ 17% for CIFC/MMFS/SHTF over FY22-24. This will translate in a RoA of 2.6%/1.9%/2.3% and a RoE of 19%/9%/12 for CIFC/MMFS/SHTF in FY24E. We cut our FY23/FY24 estimate by 13%/14% for MMFSL and by 4%/9% for SHTF to factor in a NIM compression and minor changes in loan growth/credit costs. We maintain our preference for CIFC, followed by SHTF. CIFC benefits from a well-diversified loan book, with newer business lines shaping up well. It will perhaps have more levers than its other peers to deliver a healthier RoA/RoE. We maintain our Buy rating on all the three vehicle financiers viz. CIFC with a TP of INR780 (3.9x FY24E BVPS), on SHTF with a TP of INR1,450 (1.2x FY24E BVPS) and on MMFS with a TP of INR210 (1.5x FY24E BVPS).

E-way bill generation stable, showing signs of an improvement

Macro trends have been positive both on the farm as well as freight side. While the last two years may seem like an aberration, with reported e-way bill data exhibiting volatility (driven by various COVID waves), we believe it is now showing signs of stability. With a further improvement in economic momentum, e-way bill generation data will witness a further uptick in FY23.

Higher ticket sizes will aid growth in disbursement; estimate 10-12% AUM growth in core Vehicle Finance in FY23

Domestic M&HCV volumes bottomed out in FY21 (~59% lower than their FY19 peak), with demand starting to recover from 2HFY22. While a sharp rise in diesel prices may hurt near-term CV demand, medium-term demand is likely to stay strong, led by higher capacity utilization and strong replacement in the M&HCV segment. Vehicles financiers (including an unlisted player) suggest a 5-6% increase in average ticket sizes (ATS) across vehicle types in FY22. With expectations of a similar increase in ATS in FY23, we estimate an AUM growth of 10-12% in Vehicle Finance in FY23 for the three key players under over coverage universe.

Expect a margin compression of 30-45bp in FY23, but the same can be partly mitigated

Just as vehicle financiers benefitted from a declining interest rate cycle over FY21-22, with a few of them even reporting historically higher spreads and NIM, we believe that FY23 will be a real acid test of liability strength and the mix of respective franchises. Impact of higher cost of borrowings will be partly mitigated by further rationalizing the excess liquidity on the balance sheet and by optimizing the borrowing and product mix. We still estimate a margin compression of 30-45bp for vehicle financiers in FY23.

Improvement in asset quality accompanied by elevated write-offs; performance of the restructured pool still an important monitorable

CIFC, MMFS, and SHTF ended FY22 with a sharp improvement in asset quality, which was accompanied by higher write-offs and utilization of management overlay and COVID-related provisions on the Balance Sheet. We expect this improvement in asset quality to sustain. This, combined with a further utilization of COVID-related provisions, should result in lower credit costs (as % of loans) of 1.2%/2.8%/2.7% for CIFC/MMFS/ SHTF in FY23E.

Container Corporation

BSE SENSEX	S&P CNX
53,161	15,832

Stock Info

Bloomberg	CCRI IN
Equity Shares (m)	609
M.Cap.(INRb)/(USDb)	380 / 4.9
52-Week Range (INR)	754 / 554
1, 6, 12 Rel. Per (%)	-2/10/-11
12M Avg Val (INR M)	1143
Free float (%)	45.2

Financials Snapshot (INR b)

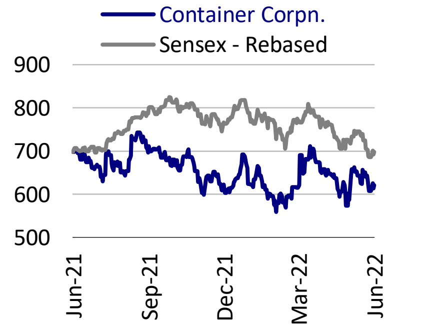
Y/E March	2022	2023E	2024E
Net Sales	75.9	90.6	108.2
EBITDA	17.3	20.5	24.8
Adj. PAT	10.6	12.8	15.7
Adj. EPS (INR)	17.4	21.0	25.7
EPS Gr. (%)	81.1	20.2	22.7
BV/Sh. (INR)	176.9	185.3	195.6
Ratios			
Net D/E (x)	(0.3)	(0.3)	(0.4)
RoE (%)	10.1	11.6	13.5
RoCE (%)	10.5	12.0	13.9
Payout (%)	51.6	60.0	60.0
Valuations			
P/E (x)	35.8	29.8	24.2
P/BV (x)	3.5	3.4	3.2
EV/EBITDA (x)	19.5	16.0	12.9
Div. Yield (%)	1.4	2.0	2.5
FCF Yield (%)	2.0	3.5	4.2

Shareholding pattern (%)

As On	Mar-22	Dec-21	Mar-21
Promoter	54.8	54.8	54.8
DII	17.0	15.7	16.5
FII	23.5	24.9	24.0
Others	4.7	4.7	4.7

FII Includes depository receipts

Stock's performance (one-year)



CMP: INR624 TP: INR750 (+20%) Buy

Well placed to capitalize from the DFC opportunity

- CCRI witnessed a robust performance over FY22, with 12% volume growth and robust margin improvement. Growth was driven by Domestic volumes, which grew 32% in FY22 as against an 8% growth in EXIM volumes.
- Going forward, CCRI is very well placed to capitalize on the DFC opportunity. While it is already benefiting from the partial commissioning of the Rewari-to-Palanpur section of WDFC (with a faster turnaround time and improved efficiency), additional benefits are expected to flow through once JNPT and Dadri are connected to the DFC. It aims to handle ~5m TEUs in FY23E.
- The company is looking to enter into a long-term lease arrangement for its terminals owned by the Indian Railways and expects a development on that front soon. With decent volume growth and margin, we expect CCRI to clock a revenue/EBITDA/PAT CAGR of ~19%/20%/21% over FY22-24. The stock trades at 13x FY24E EV/EBITDA. We maintain our Buy rating on the stock with a DCF-based TP of INR750, implying a potential upside of 20%.

Commissioning of the DFC to drive sustainable volumes and earnings performance for CCRI

- CCRI is witnessing the benefits emanating from the recent commissioning of the Rewari-to-Palanpur DFC stretch. There has been a significant gain in terms of faster turnaround time and improved efficiency. Further benefits are expected once the DFC is connected to Dadri and JNPT. While DFC construction has been slow due to the COVID-19 pandemic and land availability issues, the same is expected to be ramped up.
- The company is targeting an EXIM/domestic volume growth of 12-15%/25% YoY, taking total volumes to ~5m TEUs in FY23E. The domestic segment is expected to grow faster than EXIM and reach ~25mt by FY25.
- Being the market leader in Rail container transportation, CCRI will be one of the biggest beneficiaries of the DFC. Along with an improvement in volumes (due to shift in volumes from Road to Rail), it will also lead to improved efficiency and margin enhancement.

CCRI is targeting new growth areas to enhance volumes; focus is on boosting network Infra, with a huge capex plan over the next few years

- CCRI started bulk cement commercial operations in FY22. The company sees extremely strong potential in cement transportation and is looking to handle volumes of ~12mt over the next three years. Trial runs have also been conducted for transporting food grains in containers.
- It is also witnessing strong interest for 3PL logistics and distribution logistics services. It is working with OEM equipment manufacturers for first mile last mile operations. These new business lines can provide strong support to growth in the long term.

- CCRI is planning a capex of INR80b over the next three-to-four years to be executed through internal accruals. This investment will largely be towards infrastructure, rolling stock, containers, and equipment.

Valuation and view

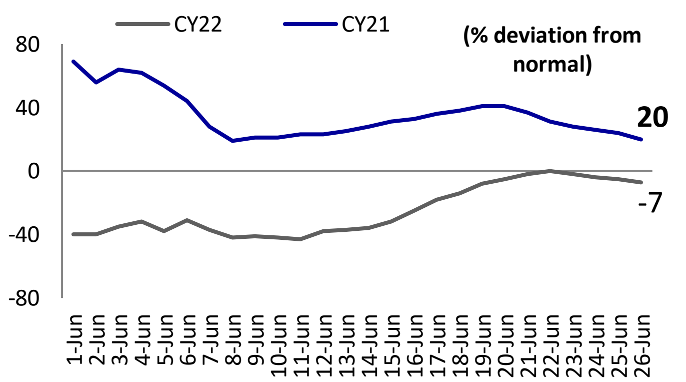
- We expect CCRI to witness a robust volume pick-up, driven by the commissioning of the DFC, thereby leading to 19% revenue CAGR over FY22-24. With a pick-up in domestic volumes and efficiency improvements from DFCs, EBITDA margin for CCRI is likely to remain stable ~23%, resulting in 20% EBITDA CAGR over FY22-24.
- The stock trades at 13x FY24E EV/EBITDA. We maintain our Buy rating on the stock with a DCF-based TP of INR750, implying a potential upside of 20%.

Weekly Update: June witnessed rainfall deficit, but much of the season still remains

Southwest monsoon at 7% deficit as of 26th Jun'22

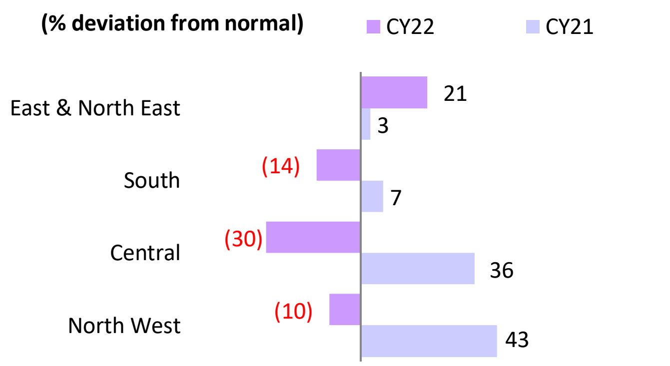
- After a brief three-day period (22nd-24th Jun'22) of heavy rainfall in the northwest region, which led to 0% deficit in all-India rainfall on 22nd Jun'22, India's cumulative rainfall has once again reported a deficit of 7% (v/s normal levels) as of 26th Jun'22, compared with a surplus of 20% in CY21 and 22% in CY20. The deficiency is caused by the northwest region, which has again fallen into deficit coupled with the other two regions – central and south – that continue to exhibit shortfalls (*Exhibits 1,2,3)*.
- The southwest monsoon season is critical to Kharif sowing and such inconsistency in rains has raised concern over food prices. As of 24th Jun'22, Kharif sowing is 24% lower than the area sown last year *(Exhibit 4)*.
- However, the monsoon season consists of four months, of which three are still remaining. Month-wise rainfall received during CY02-21 shows that on an average, June receives only 19% of the season's rainfall. July receives almost one-third, followed by August at 29% of the total rainfall in one season. In CY21 as well, while June received 21% of the rainfall, July received 30% followed by August at 22%. Therefore, however gloomy the situation may seem currently, it is still too early to draw any conclusions *(Exhibit 5)*.

All-India rainfall showed no deficit on 22nd Jun'22 due to better rains in the northwest; but has again fallen into deficit



Southwest Monsoon Season beginning June

Rainfall is deficient in all regions this year except in the east and northeast



Data as of 26th June for both years

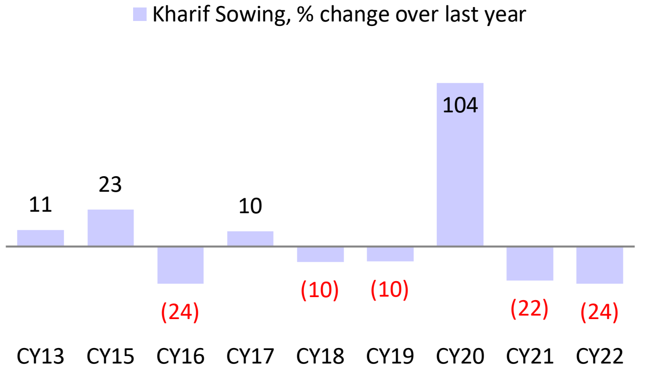
Source: IMD, CEIC, MOFSL

After three days (22nd-24th Jun'22) of surplus rainfall, the northwest region has again fallen into deficit

% deviation from normal	01-Jun	08-Jun	12-Jun	14-Jun	16-Jun	19-Jun	22-Jun	26-Jun
All India	**-40**	**-42**	**-38**	**-36**	**-25**	**-8**	**0**	**-7**
North-West	-79	-94	-85	-76	-72	-33	9	-10
Central	-69	-88	-69	-65	-60	-48	-34	-30
South Peninsula	18	-26	-41	-42	-31	-22	-14	-14
East and North-East	-45	-7	1	4	27	48	38	21

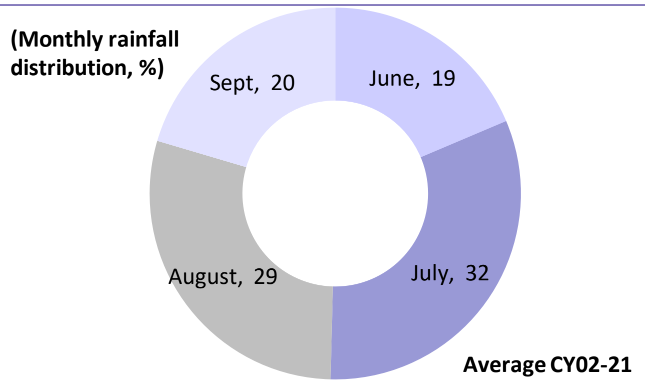
Source: CEIC, MOFSL

Kharif crop sowing is 24% lower than last year as of 24th Jun'22, similar to what was seen this time last year



Data as of ~24th June for all years

Historical average shows July receives the maximum amount of rainfall in one season

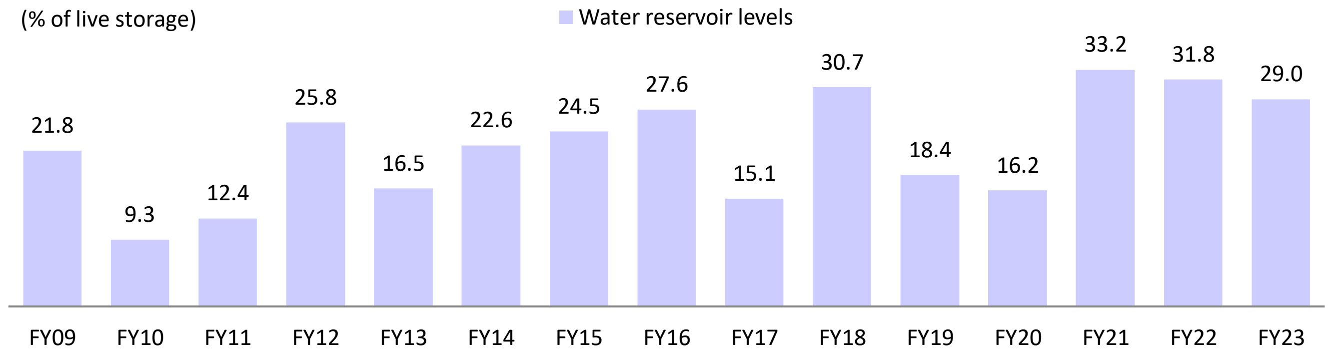


Source: IMD, MOFSL

Water reservoir level is lower than last year as of 23rd Jun'22

- Water reservoir level as of 23rd Jun'22 was at 29% of live storage capacity, lower than last year (~32%) during this time, but it is higher than the average 26% of live storage capacity in the previous five years. Even compared with historical standards, barring the previous two years (FY21-22), reservoir level of 29% is acceptably high (*Exhibit 6)*.

Water reservoir level is at a three-year low as of 23rd Jun'22



Around third week of June for all years

Source: CEIC, MOFSL

Dixon: Domestic mobile demand is slow while global demand is strong; Atul Lall, MD

- Demand is not buoyant, cautious on demand
- Not witnessing supply side challenges from China
- Domestic mobile demand is slow while global demand is strong
- Remain committed to full year revenue guidance of Rs 16,000-17,000 crore for FY23
- Major portion of our capex plan is committed to refrigerators
- Remain committed to capex plan of Rs 350 crore this year
- Debt to equity ratio to remain sub 0.2

Read More

IEX: Exchange clearing price is down Rs 6-7 currently; SN Goel, CMD

- Saw unprecedented rise in electricity demand from March-June 15, 2022
- Exchange clearing price is down Rs 6-7 currently
- April volumes were flat, May volume grew by 16%, expect June volume in single digit
- See competition in term-ahead-market

Read More

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