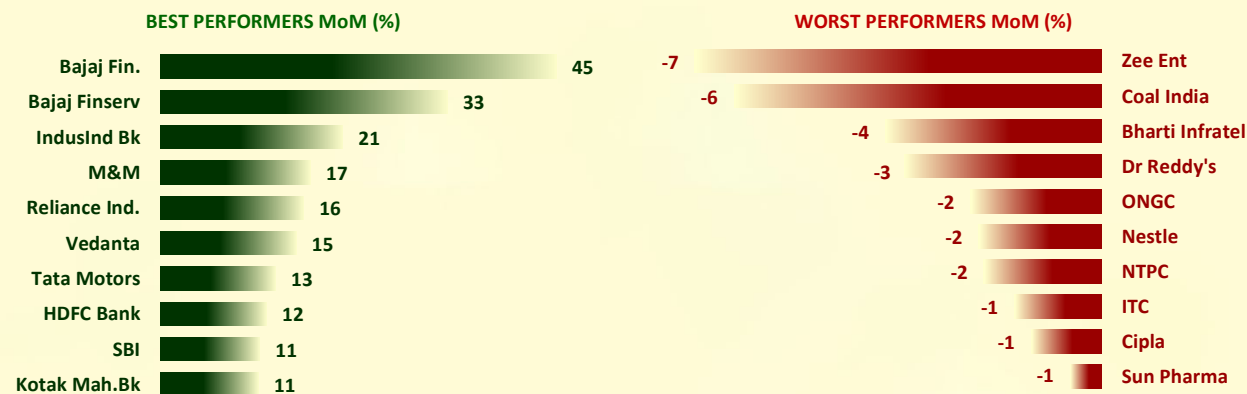


# BULLS & BEARS

## INDIA VALUATIONS HANDBOOK



### Highlights of Jun'20 edition

- Nifty up 7.5% in Jun'20; markets upbeat on positive sentiment.
- All sectors close higher MoM; PSU Banks, Real Estate, Private Banks, Autos and NBFCs top performers.
- FII inflows highest in 7 months, DIIs flows muted.

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- **Strategy:** Market resumes upward journey in Jun'20; Mid-cap index outperforms Nifty
- **Valuation deep-dive for the month:** Banks
- **Indian equities:** Nifty, sector performance and key valuation metrics
- **Global equities:** Performance and valuation snapshot
- **Valuations:** Nifty/Mid-cap companies
- **Sector highlights:** Overview and sector valuations
  - AUTO
  - BANKS / FINANCIALS
  - CAPITAL GOODS
  - CEMENT
  - CONSUMER
  - HEALTHCARE
  - INFRASTRUCTURE
  - MEDIA
  - METALS
  - OIL & GAS
  - RETAIL
  - TECHNOLOGY
  - TELECOM
  - UTILITIES

## NOTES:

- Prices as on 30<sup>th</sup> June'20
- **BULL icon:**   
Sectors trading at a premium to historical averages
- **BEAR icon:**   
Sectors trading at a discount to historical averages
- Valuations are on 12-month forward basis unless otherwise mentioned
- Sector valuations are based on MOSL coverage companies
- Global equities data sourced from Bloomberg; Nifty valuations based on MOSL estimates

Investors are advised to refer to important disclosures made at the end of this report.

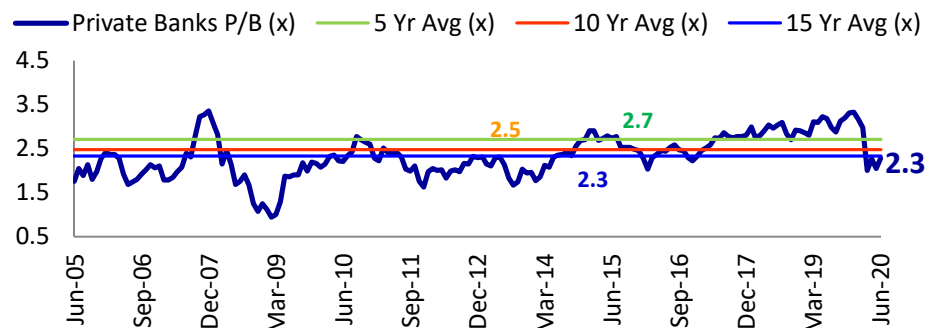
# Strategy: Market resumes upward journey in Jun'20; Mid-cap index outperforms Nifty

- **Markets up 8% in Jun'20:** After consolidating in May'20 (down 2.8% MoM), the Nifty headed north in Jun'20 (up 7.5% MoM) to cross the 10k mark and close at 10,302. After trudging down to a low of 7,610 on 23<sup>rd</sup> Mar'20, the Nifty bounced back more than 35% from its lows. Strong momentum in Jun'20 was despite the Indo-China border conflict and weak corporate earnings. FII inflows of USD2.5b in Jun'20 were the highest in 7 months while DII inflows remained muted at USD0.3b. The Nifty Mid-cap index has marginally outperformed the Nifty on YTD'20 basis; even in Jun'20, it surpassed the Nifty and was up 10.8%. The Nifty Mid-cap 100 P/E ratio now trades at 18.8x (v/s 11.6x in Mar'20), a 9% discount to large-caps. Over the last three months, the Top-15 has marginally lagged the Next-35, indicating marginal reversal in the sharp polarisation witnessed within the Nifty since Dec'17.
- **4QFY20 earnings muted as expected:** The 4QFY20 earnings for our Nifty and MOSL Universe were largely in line with our muted expectations. Nifty sales declined 5.1% YoY (v/s est. -10%), while EBITDA/PBT/PAT declined 4.8%/28.6%/20.1% YoY (v/s est. -8.8%/-21.2%/-20%). PAT was dragged by Autos, Oil and Gas (O&G), Metals, Private Banks and NBFCs. Our FY21/FY22E Nifty EPS estimates have been cut by 9%/6% to INR454/INR637 (prior: INR499/INR677). We now expect FY21 Nifty EPS to decline by 3.7%. Direction of earnings revision for the broader markets still remains downward – with 113 companies in the MOFSL Universe witnessing an earnings cut of >5% and 25 witnessing upgrades of >5%+ for FY21.
- **Global markets close higher in Jun'20:** Barring Russia (-2%), which ended lower, Jun'20 saw all key global markets like Brazil (+9%), India (+8%), MSCI EM (+7%) and Taiwan (+6%) close higher in local currency. Over the last 12 months, MSCI EM (-6%) outperformed MSCI India (-11%). Notably, over the last 10 years, MSCI India outperformed MSCI EM by 58%. MSCI India's P/E is at a premium of 70% to MSCI EM's P/E, above its historical average premium of 54%. India's share in world market cap currently stands at 2.2%, below its historical average of 2.5%.
- **All sectors closed higher MoM in Jun'20:** In Jun'20, PSU Banks (+17%), Real Estate (+12%), Private Banks (+11%), Autos (+8%) and NBFCs (+8%) were the top performers. Bajaj Finance (+45%), Bajaj Finserv (+33%), IndusInd Bank (+21%), M&M (+17%) and Reliance Industries (+16%) were the top performers on MoM basis. Zee Ent (-7%), Coal India (-6%), Bharti Infratel (-4%), Dr Reddy's (-3%) and ONGC (-2%) were the key laggards. In this edition, we take a deep-dive into the valuation metrics of the Banking sector.
- **Economic activity and demand side revival remains the key:** The 4QFY20 corporate earnings were muted but on expected lines. Given the disruption owing to the COVID pandemic, earnings recovery seems pushed back by at least a year. Meanwhile, markets are looking beyond FY21, aided by global recovery and gradual return to normalcy. Amidst the overall challenging macros, one silver lining is the 'Rural' economy, which has seen lesser damage from the COVID pandemic. Drivers for rural income remain robust with the strong start to monsoons, robust Kharif sowings, and sharp hike in allocation to MGNREGA. Near-term earnings predictability has been impaired and hopes have now shifted to potential FY22E earnings recovery. After the 39% rally from Mar'20 lows, the Nifty at 20.6x P/E is now trading at a slight premium to its long period average and is not looking as attractive as it did in Mar'20. Further upside, in our view, now rests on the inter-play of the Health crisis and restoration of normalcy in the economy. We advocate a more cautious/defensive portfolio positioning.
- **Top Ideas: Large-caps:** ICICI Bank, Bharti Airtel, Infosys, HUL, HDFC, Dabur, M&M, Reliance Industries.  
**Mid-caps:** ABFRL, TCPL, Crompton Consumer, Alkem, LT Infotech, Gujarat Gas, JSPL, Motherson Sumi

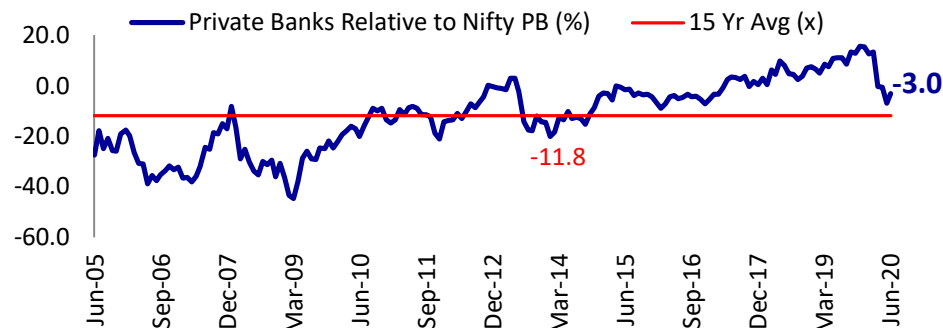
# Valuation deep-dive for the month: Banks

- Over the past few years, muted corporate lending has resulted in systemic loan growth being largely driven by the retail segment. However, the outbreak of COVID-19 should lead to weakening of credit demand in Consumer Retail, MFI and SME/Business banking segments. We, thus, expect loan growth of Private Banks to moderate in FY21E.
- As at 30<sup>th</sup> Apr'20, many large private banks indicated that the proportion of customers availing moratorium has been in the range of 25-35% (in value terms). For small and mid-sized banks, the number is much higher. However, we believe the incidence of moratorium will show stable/declining trends now (under moratorium 2.0) as economic activity has started to pick up.
- We expect potential increase in delinquencies for the MSME/SME segments due to cash flow mismatches, led by liquidity strain, unsecured retail to the self-employed segment and the MFI business. Thus, credit cost trends should remain elevated in the near term. Most private banks, thus, have taken board approval to raise capital over FY21E to manage the current crisis.
- Historically, **Private Banks** (10-year average P/B multiple of 2.5x) have always traded at a premium to **PSBs** (0.9x) due to their superior earnings profile, return ratios and consistent market share gains. However, the COVID-19 pandemic has led to severe correction in banking stocks. This has resulted in banking stocks trading at all-time lows or closer to the levels around the GFC crisis. Private Banks, thus, currently trade at 2.3x 1-year forward P/B (after touching high of 3.3x). Overall, we expect earnings to deteriorate on elevated provisioning, subdued loan growth and higher liquidity levels, which should impact the margin trajectory.
- On the other hand, P/B multiple of PSBs at 0.8x is trading below its 10-year average of 1.2x. We do not expect any material re-rating of PSBs as they are still facing issues related to asset quality and mergers.
- However, in the current environment, we prefer large Private Banks (ICICIB, HDFCB) over mid-sized banks. Private Banks (a) have better ability to deal with increasing NPA risk, (b) are well capitalized, and (c) should continue gaining market share in key business segments. Amongst PSU banks, SBIN remains our top idea. We believe SBIN's massive liability strength and strong PPop will enable it to successfully navigate through the current crisis.

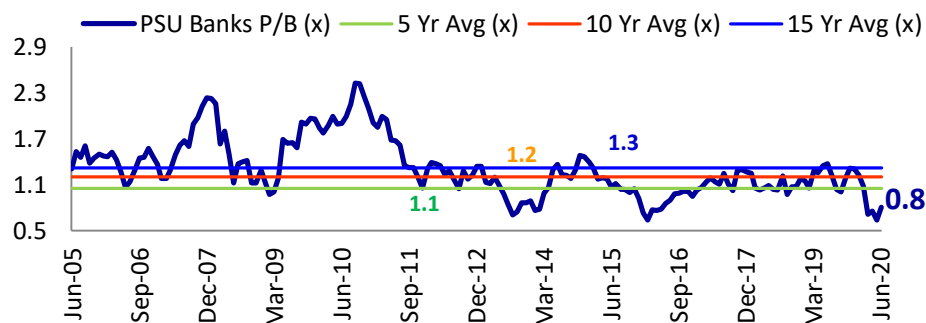
## Trend in Pvt Banks P/B – one-year forward



## Private Banks prem/disc relative to Nifty P/B



## Trend in PSU Banks P/B – one-year forward



# Sentiment upbeat: Nifty up 7.5% MoM in Jun'20 after sliding in May

- **Indian equities:** Markets up on positive investor sentiment
  - After consolidating in May'20 (down 2.8% MoM), the Nifty headed north in Jun'20 (up 7.5% MoM) to cross the 10k mark and close at 10,302.
  - All sectors closed higher MoM in Jun'20. PSU Banks (+17%), Real Estate (+12%), Private Banks (+11%), Autos (+8%) and NBFCs (+8%) were the top performers.
  - For CY20 YTD, the Nifty is down 15%. Healthcare (+21%) is the sole positive performer. PSU Banks (-44%), Metals (-31%), Real Estate (-31%), NBFCs (-29%) and Private Banks (-24%) were the key laggards.
  - FII inflows of USD2.5b in Jun'20 was the highest in 7 months. DII inflows remained muted during the month at USD0.3b.
- **Stock performance:** Breadth positive in Jun'20; 39 Nifty stocks end higher
  - Bajaj Finance (+45%), Bajaj Finserv (+33%), IndusInd Bank (+21%), M&M (+17%) and Reliance Industries (+16%) were the top positive performers on MoM basis. Zee Ent (-7%), Coal India (-6%), Bharti Infratel (-4%), Dr Reddy's (-3%) and ONGC (-2%) were the key laggards.
- **Global equities:** All major economies end higher in Jun'20
  - Barring Russia (-2%), which ended lower, Jun'20 saw all key global markets like Brazil (+9%), India (+8%), MSCI EM (+7%) and Taiwan (+6%) close higher in local currency.
  - Over the last 12 months, MSCI EM (-6%) outperformed MSCI India (-11%). Notably, over the last 10 years, MSCI India outperformed MSCI EM by 58%. MSCI India's P/E is at a premium of 70% to MSCI EM's P/E, above its historical average premium of 54%.
- **Sector valuations:** Financials and Autos Outperform; Consumer underperforms
  - Private Banks trade at a P/B of 2.3x, below their historical average of 2.5x (8% discount). Over the past few years, muted corporate lending resulted in systemic loan growth being largely driven by the retail segment. However, the COVID-19 outbreak should lead to weakening of credit demand in Consumer, Retail, MFI and SME/Business banking segments. We, thus, expect loan growth of Private Banks to moderate in FY21E.
  - Auto sector is trading at P/E of 48.8x (~100% premium to its LPA) on weak FY21E earnings due to the impact of COVID-19. In Jun'20, tractor volumes grew 12.7% YoY due to strong rural demand. 2Ws/PVs declined 29%/48%. However, retails were much stronger than wholesales, which were impacted by supply side issues. Valuations on P/E basis appear at a premium to 10-year LPA due to the washed-out earnings of 1HFY21. While demand recovery surprised everyone alike, momentum sustenance is now a key monitorable.



## About the product

As the tagline suggests, **BULLS & BEARS** is a handbook on valuations in India. Every month, it will cover:

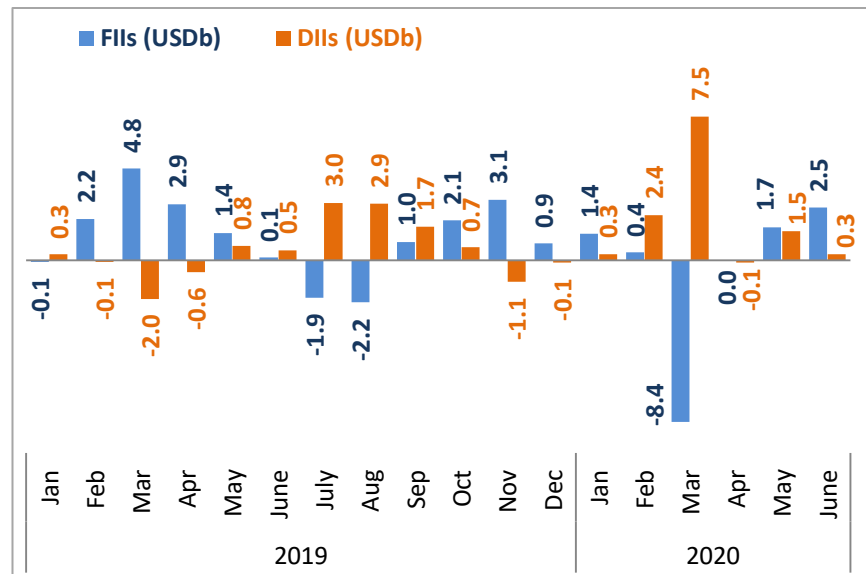
- Valuations of Indian markets vis-à-vis global markets
- Current valuation of companies in various sectors
- Sectors that are currently valued at premium/discount to their historical long-period averages



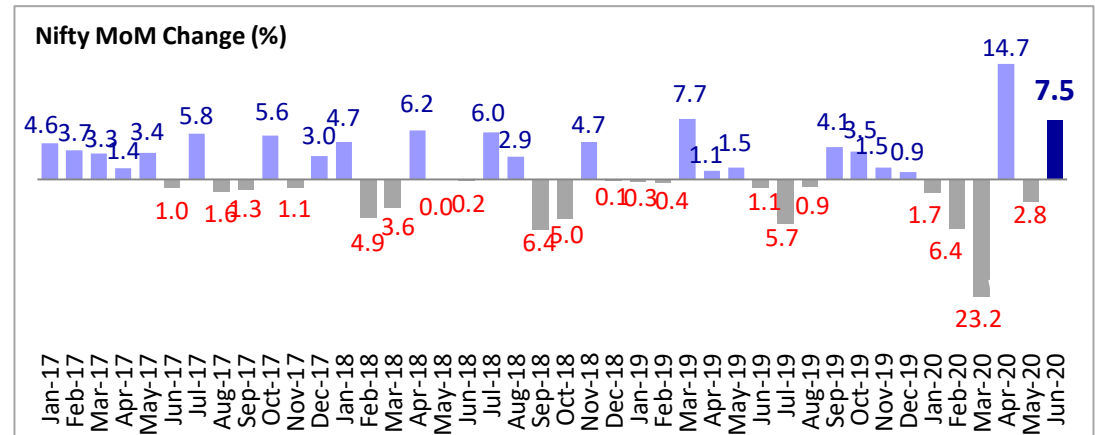
# Indian equities: Nifty does a U-turn in Jun'20 on positive sentiment

- After consolidating in May'20 (down 2.8% MoM), the Nifty headed north in Jun'20 (up 7.5% MoM) to cross the 10k mark and close at 10,302.
- All sectors closed higher MoM in Jun'20. PSU Banks (+17%), Real Estate (+12%), Private Banks (+11%), Autos (+8%) and NBFCs (+8%) were the top performers.
- For CY20 YTD, the Nifty is down 15%. Healthcare (+21%) is the sole positive performer.
- PSU Banks (-44%), Metals (-31%), Real Estate (-31%), NBFCs (-29%) and Private Banks (-24%) were the key laggards.
- Jun'20 saw FII inflows of USD2.5b – the highest in 7 months. DII inflows remained muted during the month at USD0.3b.

## Institutional flows (USD b) — FII inflows highest in 7 months; DII flows muted in Jun'20



## Nifty MoM change (%) — climbs in Jun'20 after a decline in May'20



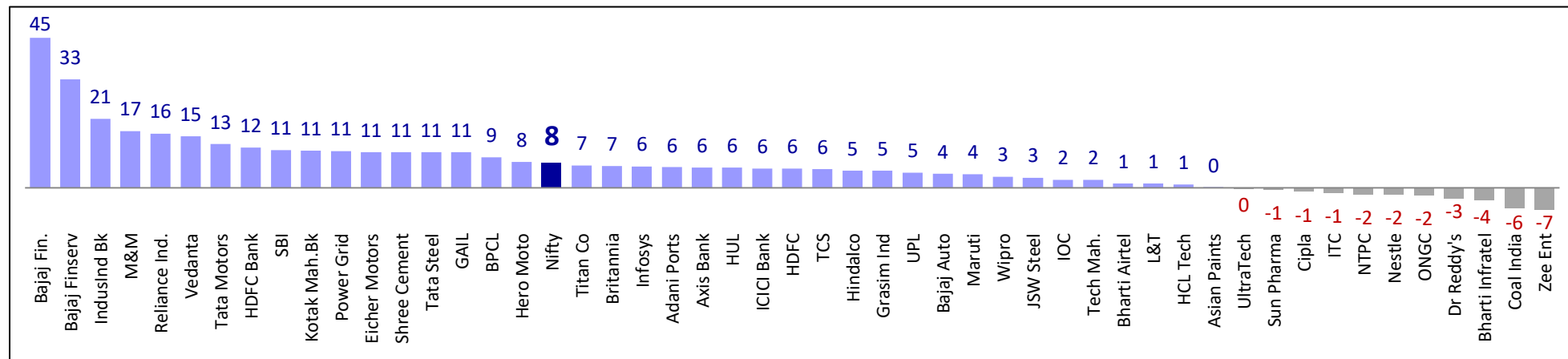
## Sectoral performance—absolute and relative to Nifty (%) — Financials, Real Estate and Autos top positive performers

Sector	MoM Abs. Performance (%)						CY20 YTD Chg (%)	MoM Relative Perf. (%)						CY20 YTD Chg (%)
	Jan	Feb	Mar	Apr	May	Jun		Jan	Feb	Mar	Apr	May	Jun	
Banks-PSU	-5	-11	-34	2	-16	17	-44	-4	-4	-11	-13	-13	10	-28
Real Estate	11	-16	-36	7	-3	12	-31	12	-10	-13	-8	0	5	-15
Banks-Pvt	-2	-4	-30	14	-9	11	-24	-1	2	-6	-1	-6	3	-9
Midcap100	5	-7	-30	15	-2	11	-14	7	0	-7	1	1	3	1
Auto	-2	-14	-31	24	6	8	-17	0	-8	-8	10	8	1	-2
NBFC	0	-9	-27	16	-14	8	-29	1	-3	-4	1	-11	1	-14
Oil	-6	-9	-21	20	-2	7	-14	-4	-3	3	6	1	-1	1
Utilities	-1	-10	-20	8	-1	6	-18	0	-3	4	-7	2	-1	-3
Metal	-9	-13	-31	18	1	6	-31	-7	-7	-7	3	4	-2	-16
Technology	3	-6	-14	11	-1	6	-4	4	1	9	-4	2	-2	12
Cap. Goods	3	-12	-29	11	1	4	-24	5	-5	-5	-4	4	-3	-9
Healthcare	4	-3	-10	26	2	4	21	6	3	13	12	5	-4	36
Consumer	2	-6	-6	5	1	3	-1	4	1	17	-10	4	-4	14
Cement	7	-6	-25	9	12	2	-6	9	0	-2	-5	15	-6	10
<b>Nifty-50</b>	<b>-2</b>	<b>-6</b>	<b>-23</b>	<b>15</b>	<b>-3</b>	<b>8</b>	<b>-15</b>							

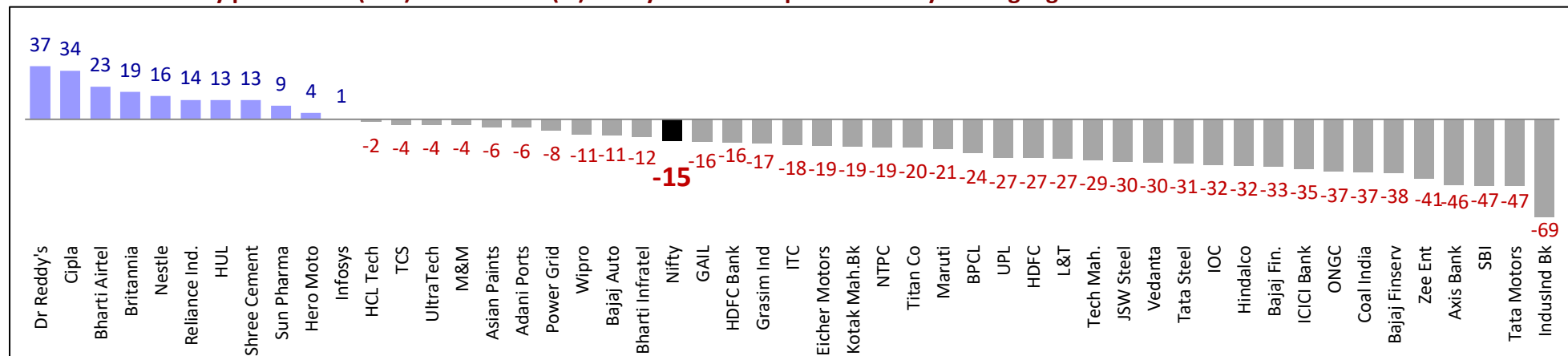
# Indian equities: Breadth positive in Jun'20; 39 Nifty stocks end higher

- **Nifty – best and worst performers in June'20:** Bajaj Finance (+45%), Bajaj Finserv (+33%), IndusInd Bank (+21%), M&M (+17%) and Reliance Industries (+16%) were the top positive performers on MoM basis. Zee Ent (-7%), Coal India (-6%), Bharti Infratel (-4%), Dr Reddy's (-3%) and ONGC (-2%) were the key laggards.
- **Nifty – best and worst performers in CY20 YTD:** Dr Reddy's (+37%), Cipla (+34%), Bharti Airtel (+23%), Britannia (+19%) and Nestle (+16%) were the top positive performers. IndusInd Bank (-69%), Tata Motors (-47%), SBI (-47%), Axis Bank (-46%) and Zee Ent (-41%) were the worst performers.

## Best and worst Nifty performers (MoM) in May'20 (%) – breadth positive, 78% of Nifty stocks traded higher



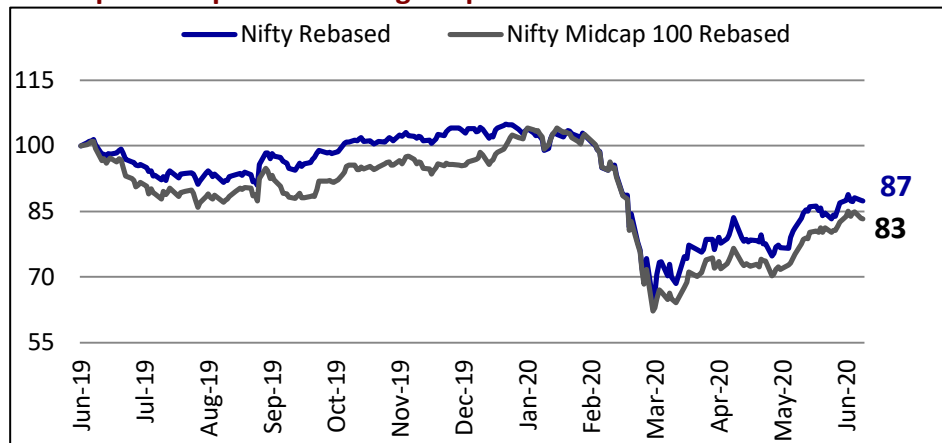
## Best and worst Nifty performers (YoY) in CY20 YTD (%) – only eleven companies in Nifty trading higher



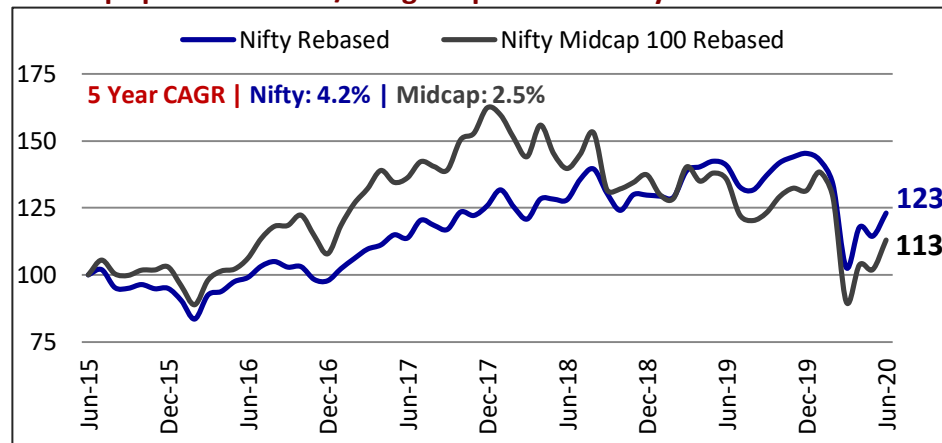
# Indian equities: Mid-caps underperform large-caps in last 12 months

- In last 12 months, mid-caps were down 17% as against the Nifty's decline of 13%. Notably, over the last 5 years, mid-caps have underperformed by 10%.
- The Nifty Mid-cap100 P/E ratio now trades at 18.8x (v/s 11.6x in Mar'20), a 9% discount to large-caps.

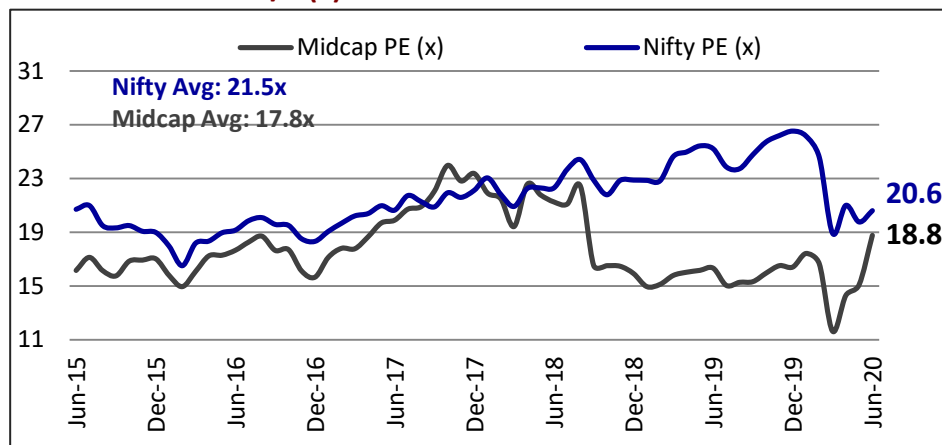
## Mid-caps underperformed large-caps in the last 12 months



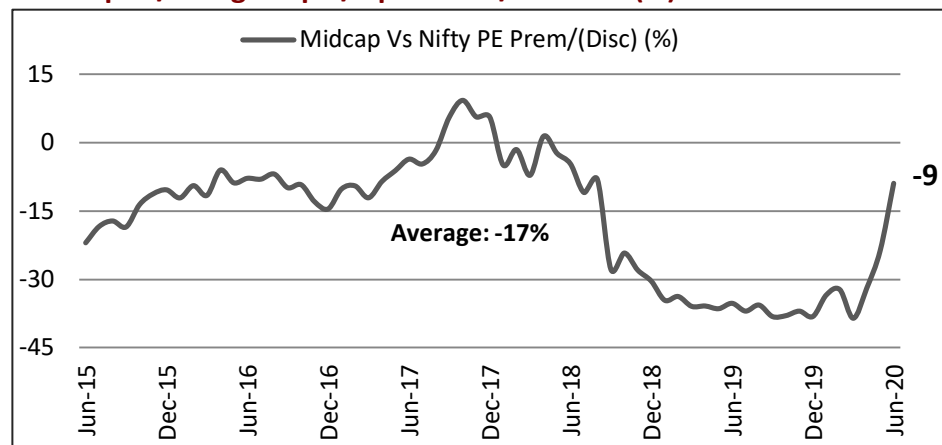
## Mid-caps performance v/s large-caps in last five years



## 12-month forward P/E (x)



## Mid-caps v/s large-cap P/E premium/discount (%)



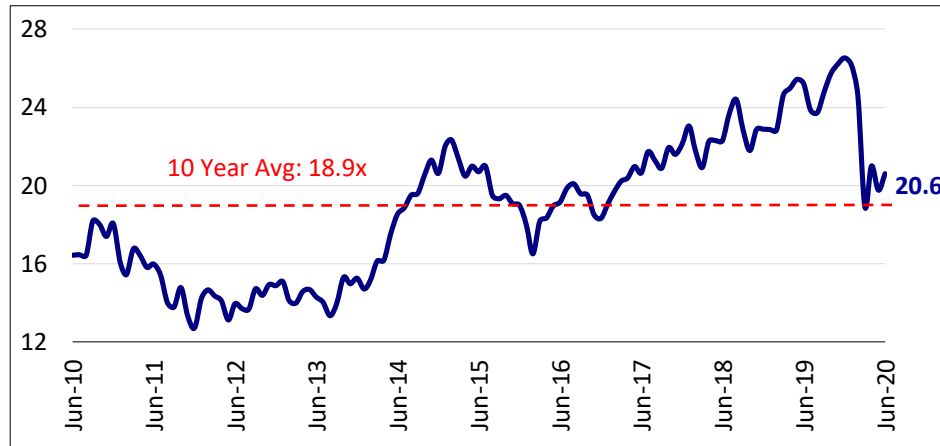
Source: MOFSL, Bloomberg for Midcap valuation.



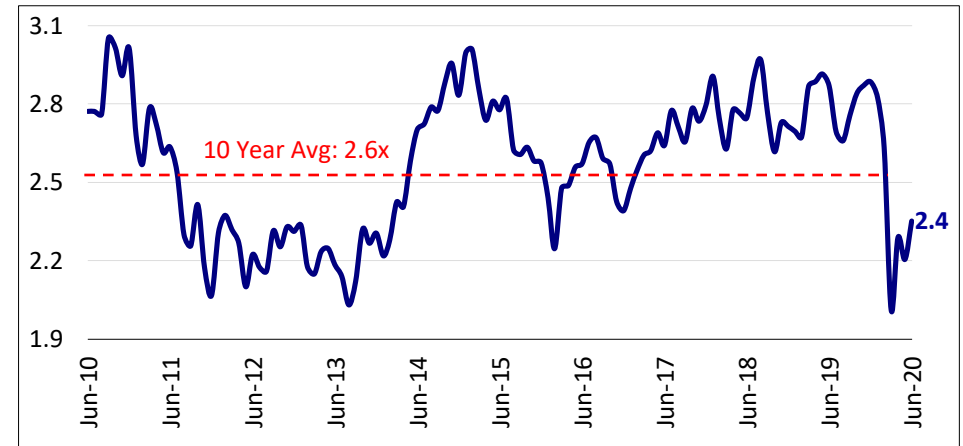
# Indian equities: Nifty forward P/E above LPA, while P/B well below historic averages

- The Nifty trades at 12-month forward P/E of 20.6x, 9% premium to its long-period average. The Nifty's P/B of 2.4x is below its historical average of 2.6x (9% discount).
- The Nifty's 12-month trailing P/E of 22x is trading at 12% premium to its long-period average of 19.7x. At 2.5x, the Nifty 12-month trailing P/B is well below the historical average of 2.8x.

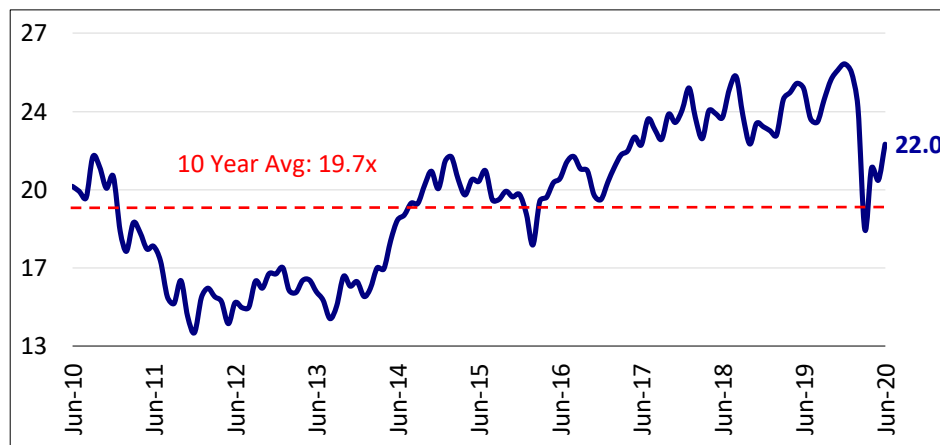
**12-month forward Nifty P/E (x)**



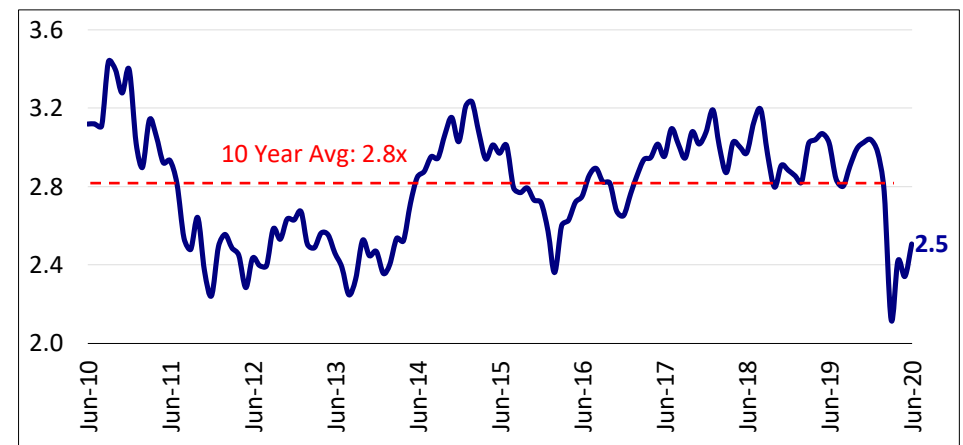
**12-month forward Nifty P/B (x)**



**Trailing Nifty P/E (x)**



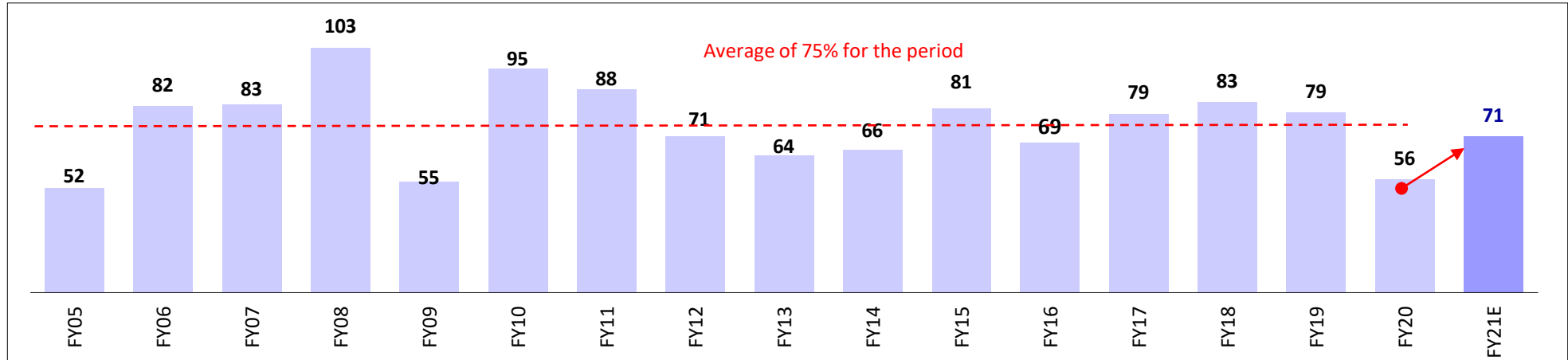
**Trailing Nifty P/B (x)**



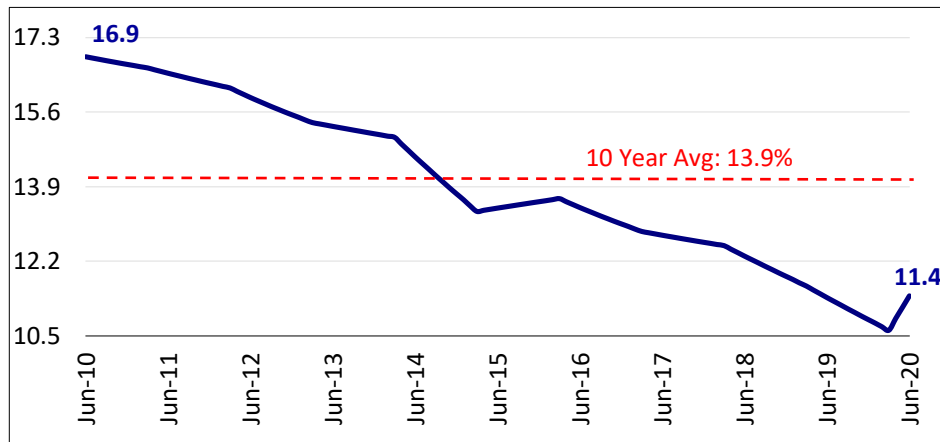
# Indian equities: Market cap-to-GDP ratio rebound; near to its LPA

- Market cap-to-GDP ratio has been volatile as it moved from 79% in FY19 to 56% (FY20 GDP) in Mar'20 to 71% now (FY21E GDP) – near the long-term average of 75%.
- The Nifty is trading at 12-month forward RoE of 11.4%, below its long-term average of 13.9%.

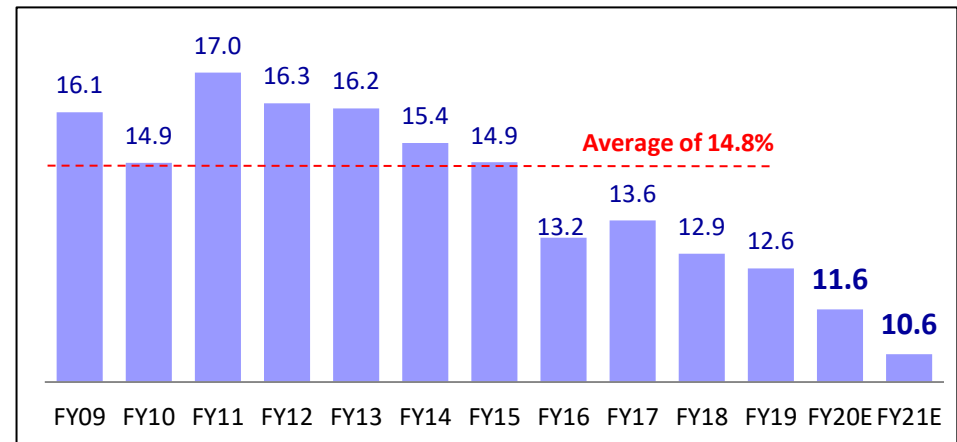
**Trend in India's market cap-to-GDP (%) – trading near its long-period averages**



**12-month forward Nifty RoE (%)**



**Trend in Nifty RoE (%)**

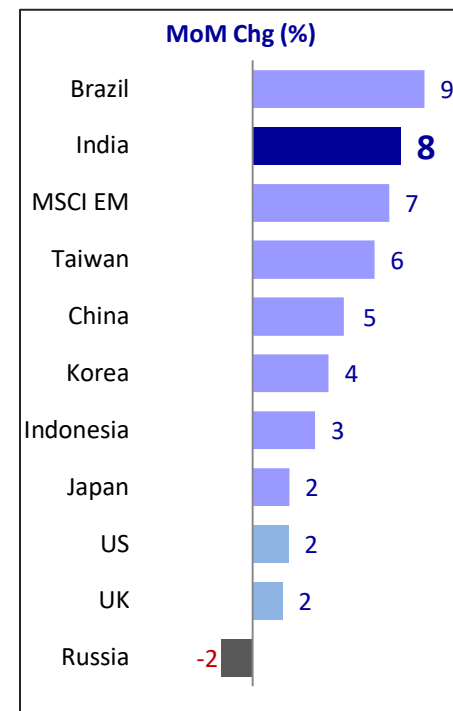


# Global equities: All major economies end higher in June'20

- Barring Russia (-2%), which ended lower, June'20 saw all key global markets like Brazil (+9%), India (+8%), MSCI EM (+7%) and Taiwan (+6%) close higher in local currency.
- Indian equities are trading at 22.7x FY21E earnings. Brazil and US are trading at premium, while other key markets continue to trade at a discount to India.

## India (Nifty) v/s other markets

	Index Value	Mkt Cap (USD T)	CY20 YTD Chg (%)		PE (x)		Prem / Disc to India PE (%)		PB (x)		RoE (%)	
			Local Currency	In USD	CY19 / FY20	CY20 / FY21	CY19 / FY20	CY20 / FY21	CY19 / FY20	CY20 / FY21	CY19 / FY20	CY20 / FY21
<b>India</b>	<b>10,302</b>	<b>1.8</b>	<b>-15</b>	<b>-20</b>	<b>21.8</b>	<b>22.7</b>			<b>2.5</b>	<b>2.4</b>	<b>11.6</b>	<b>10.6</b>
Brazil	95,056	0.7	-18	-40	17.2	30.4	-21	34	1.9	1.7	11.7	5.7
US	3,100	32.8	-4	-4	20.3	24.9	-7	10	3.4	3.4	15.7	14.5
Japan	22,288	5.7	-6	-5	19.7	21.6	-10	-5	1.7	1.6	8.7	7.6
UK	6,170	2.7	-18	-24	17.5	18.4	-20	-19	1.5	1.5	9.0	3.3
Taiwan	11,621	1.3	-3	-2	18.9	18.0	-13	-21	1.7	1.9	9.2	12.6
Indonesia	4,905	0.4	-22	-25	15.2	16.4	-31	-28	1.6	1.7	10.4	12.8
MSCI EM	995	17.3	-11	-11	14.0	16.2	-36	-29	1.4	1.5	10.9	9.8
Korea	2,108	1.4	-4	-8	20.9	15.0	-4	-34	0.8	0.9	4.3	5.1
China	2,985	8.2	-2	-4	14.0	12.3	-36	-46	1.4	1.3	10.3	10.1
Russia	4,860	0.6	-9	-21	5.8	10.3	-73	-55	0.7	0.6	12.1	7.7

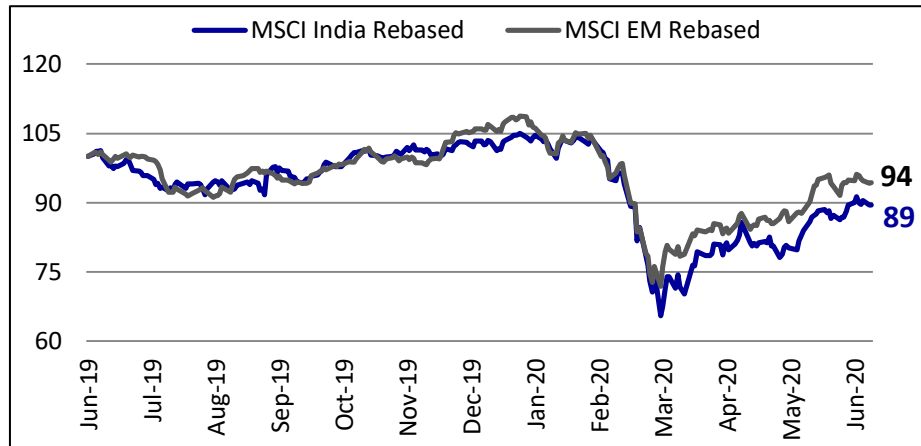


Source: Bloomberg/MOFSL

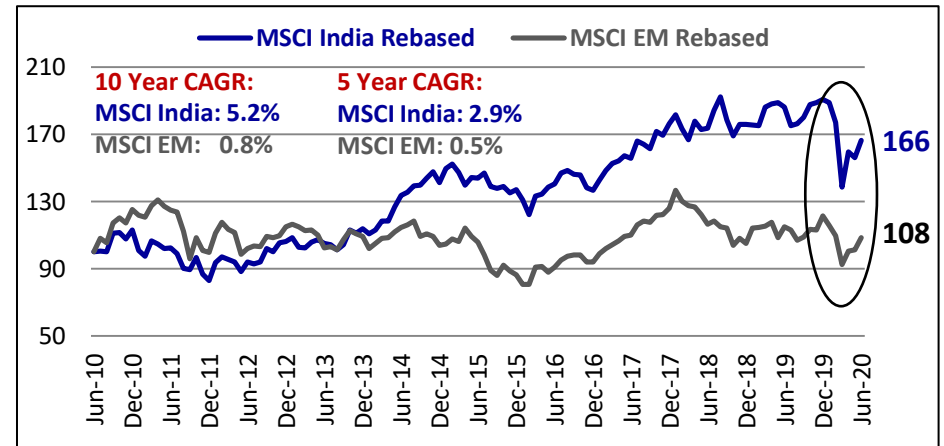
# Global equities: MSCI EM outperforms MSCI India over last 12 months

- Over the last 12 months, MSCI EM (-6%) outperformed MSCI India (-11%). Notably, over the last 10 years, MSCI India has outperformed MSCI EM by 58%.
- MSCI India's P/E is at a premium of 70% to MSCI EM's P/E, above its historical average premium of 54%.

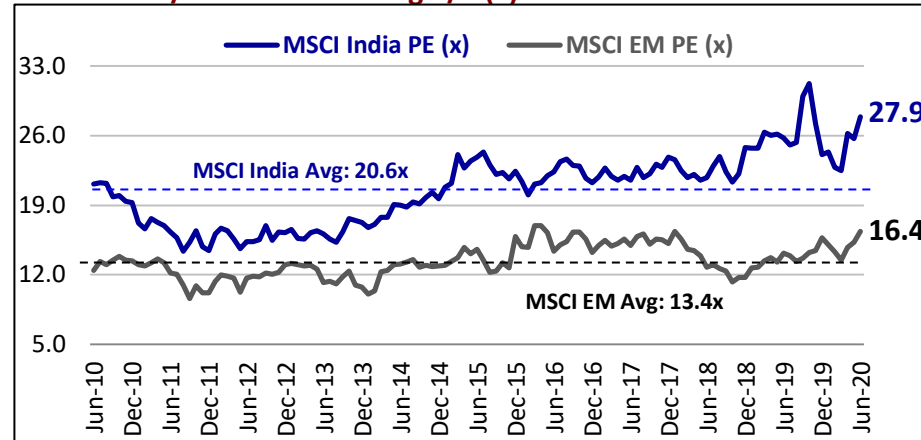
## MSCI EM v/s MSCI India performance over 12 months



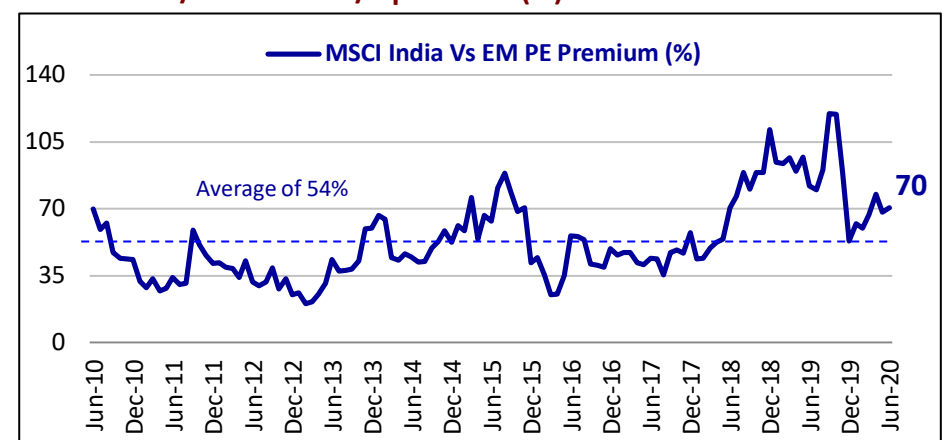
## MSCI India outperformed MSCI EM by 58% over the last 10 years



## MSCI India v/s MSCI EM trailing P/E (x)



## MSCI India v/s MSCI EM P/E premium (%)

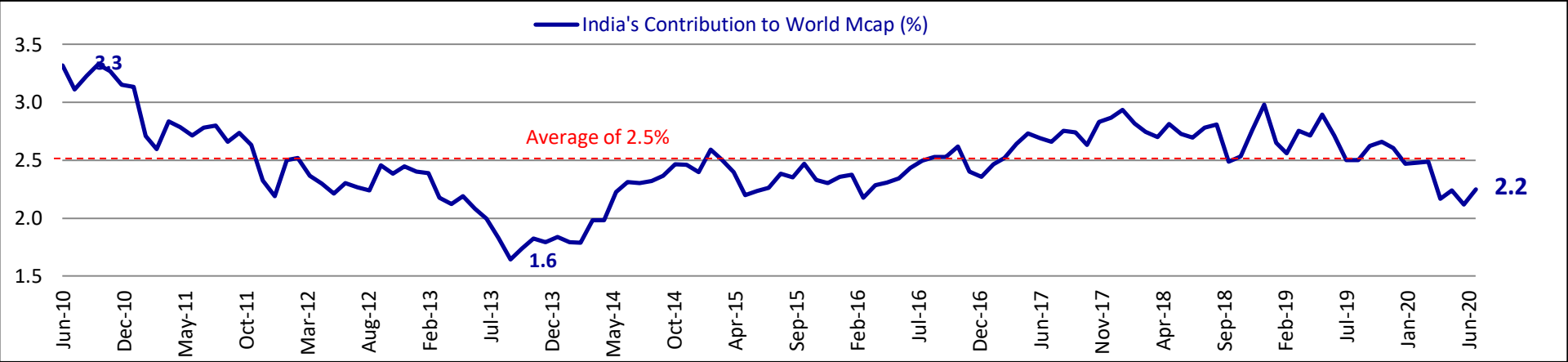


Source: Bloomberg

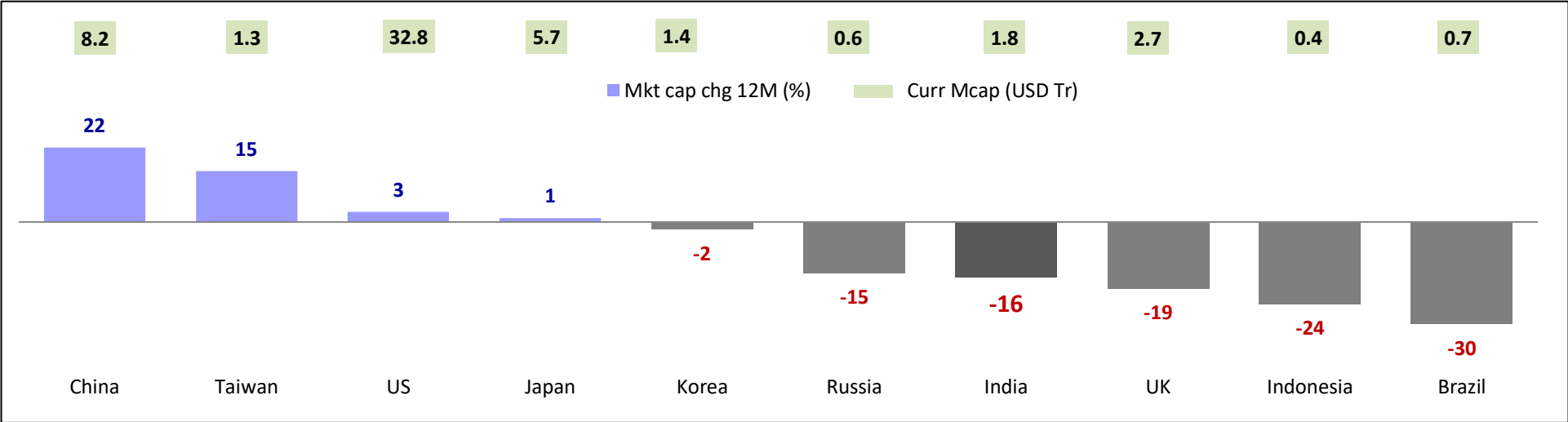
# Global equities: India's share in world market cap below its historical average

- India's share in world market cap is at 2.2% – below its historical average of 2.5%.
- Over the last 12 months, world market cap has increased 1.3% (USD1t) while India's market cap is down 16%.

Trend in India's contribution to world market cap (%)



Market cap change in last 12 months (%)



Source: Bloomberg

# Nifty: ~50% companies trading at discount to historical averages

- **Companies trading at a significant premium to their historical averages:** Asian Paints (+94%), Shree Cement (+91%), Reliance Industries (+69%), Titan (+59%) and Nestle (+58%).
- **Companies trading at a significant discount to their historical averages:** Zee (-68%), Coal India (-49%), NTPC (-47%), IOCL (-46%) and GAIL (-42%).

## Snapshot: Nifty companies' valuations

Name	Sector	PE (x)			Relative to Nifty P/E (%)		PB (x)			Relative to Nifty P/B (%)	
		Current	10 Yr Avg	Prem/Disc (%)	Current	10 Yr Avg	Current	10 Yr Avg	Prem/Disc (%)	Current	10 Yr Avg
Bajaj Auto	Auto	17.1	16.6	3	-17	-12	3.7	5.1	-27	57	97
Eicher Motors	Auto	32.7	26.5	24	59	40	4.4	6.5	-32	88	153
Hero MotoCorp	Auto	19.5	17.9	9	-5	-5	3.5	6.2	-43	50	141
Mahindra & Mahindra	Auto	15.3	17.6	-13	-26	-7	1.7	2.9	-43	-30	12
Maruti Suzuki	Auto	36.1	23.6	53	75	25	3.5	3.4	3	50	33
Tata Motors	Auto	NA	12.3	NA	NA	-35	0.7	1.8	-60	-69	-30
Axis Bank	Banks - Private	13.6	36.8	-63	-34	95	1.2	2.0	-39	-48	-22
HDFC Bank	Banks - Private	20.7	20.9	-1	1	11	2.9	3.4	-15	25	34
ICICI Bank	Banks - Private	17.2	20.8	-18	-17	10	1.8	1.8	0	-25	-32
IndusInd Bank	Banks - Private	6.3	19.2	-67	-70	2	0.8	2.8	-71	-66	8
Kotak Mahindra Bank	Banks - Private	28.7	24.7	16	39	31	3.4	3.1	10	42	19
State Bank	Banks - PSU	6.9	14.6	-53	-66	-23	0.6	1.2	-48	-74	-55
Bajaj Finance	Banks - NBFC	37.3	20.1	86	81	6	4.5	3.4	36	93	30
HDFC	Banks - NBFC	36.0	34.9	3	75	85	3.2	4.4	-26	38	71
Larsen & Toubro	Capital Goods	16.0	22.8	-30	-22	21	1.8	2.9	-37	-23	12
Grasim Inds	Cement	12.4	11.8	5	-40	-37	1.1	1.7	-38	-55	-33
Shree Cement	Cement	65.1	34.1	91	216	81	6.0	4.6	30	154	78
Ultratech Cement	Cement	35.6	29.1	23	73	54	2.5	2.8	-9	7	8
Asian Paints	Consumer	86.4	44.6	94	319	136	14.4	11.6	24	511	351
Britannia Inds.	Consumer	50.5	34.7	46	145	84	19.0	12.6	51	709	389
Hind. Unilever	Consumer	60.2	41.3	46	192	119	38.8	33.2	17	1549	1188
ITC	Consumer	16.5	26.1	-37	-20	38	3.5	6.9	-50	48	168
Nestle India	Consumer	74.4	47.1	58	261	150	83.7	29.3	186	3459	1037



# Nifty: ~50% companies trading at discount to historical averages

Name	Sector	PE (x)			Relative to Nifty P/E (%)		PB (x)			Relative to Nifty P/B (%)	
		Current	10 Yr Avg	Prem/Disc (%)	Current	10 Yr Avg	Current	10 Yr Avg	Prem/Disc (%)	Current	10 Yr Avg
Cipla	Healthcare	25.4	28.1	-10	23	49	2.7	3.2	-16	16	26
Dr Reddy's Labs	Healthcare	25.1	25.3	-1	22	34	3.5	3.8	-7	51	48
Sun Pharma	Healthcare	22.9	29.9	-24	11	58	2.3	4.5	-49	-2	74
Zee Ent.	Media	8.5	26.3	-68	-59	39	1.4	5.4	-75	-43	109
Hindalco	Metals	12.0	10.4	16	-42	-45	0.9	1.3	-31	-63	-51
JSW Steel	Metals	30.3	20.0	51	47	6	1.5	1.5	3	-36	-43
Tata Steel	Metals	NA	18.1	NA	NA	-4	0.6	1.4	-59	-75	-45
Vedanta	Metals	14.3	12.5	15	-31	-34	0.8	1.9	-60	-67	-25
BPCL	Oil & Gas	10.4	10.5	-1	-50	-45	1.7	1.8	-1	-26	-32
GAIL	Oil & Gas	7.7	13.4	-42	-63	-29	0.9	1.7	-48	-63	-35
IOCL	Oil & Gas	5.2	9.6	-46	-75	-49	0.8	1.2	-35	-68	-55
ONGC	Oil & Gas	6.2	10.3	-40	-70	-45	0.5	1.3	-64	-80	-49
Reliance Inds.	Oil & Gas	22.9	13.5	69	11	-28	2.1	1.5	45	-9	-43
Titan Co	Retail	68.9	43.2	59	234	129	12.3	10.4	19	424	304
HCL Technologies	Technology	13.1	8.5	55	-36	-55	2.4	2.1	16	2	-20
Infosys	Technology	19.2	13.6	41	-7	-28	4.2	3.2	31	80	25
TCS	Technology	24.2	19.6	23	17	4	7.5	6.5	14	217	153
Tech Mahindra	Technology	14.7	13.0	13	-29	-31	2.0	2.8	-29	-17	7
Wipro	Technology	13.8	12.8	8	-33	-32	2.0	2.3	-15	-15	-9
Bharti Airtel	Telecom	NA	35.7	-	-	89	3.8	2.2	72	63	-13
Bharti Infratel	Telecom	13.9	22.6	-38	-32	20	2.9	3.4	-15	24	33
Coal India	Utilities	6.9	13.4	-49	-67	-29	2.1	5.8	-63	-9	124
NTPC	Utilities	6.9	13.0	-47	-67	-31	0.7	1.4	-47	-68	-46
Power Grid Corp.	Utilities	8.2	11.5	-29	-60	-39	1.3	1.7	-24	-44	-33
UPL	Others	10.7	12.8	-17	-48	-32	1.5	2.5	-42	-37	-2
<b>Nifty</b>		<b>20.6</b>	<b>18.9</b>	<b>9</b>			<b>2.4</b>	<b>2.6</b>	<b>-9</b>		

# Mid-caps' outperform large-caps in June'20

- The Nifty Mid-cap 100 was up 10.8% in June'20, as against the Nifty's rise of 7.5%.
- Best mid-cap performers in June'20: Trident (+53%), Jubilant Life (+48%), Brigade Ent (+35%), Mahindra CIE (+25%) and DCB Bank (+22%).

Company	PE (x)			Relative to Nifty P/E (%)		PB (x)			Relative to Nifty P/B (%)		Price Chg (%)	
	Current	10 Yr Avg	Prem/Disc (%)	Current	10 Yr Avg	Current	10 Yr Avg	Prem/Disc (%)	Current	10 Yr Avg	MoM	CY20YTD
Trident	10.4	8.4	23	-50	-55	1.0	0.9	14	-57	-65	53	3
Jubilant Life	11.1	12.8	-13	-46	-32	1.5	1.6	-2	-35	-39	48	22
Brigade Enterpr.	23.8	16.9	40	16	-10	1.2	1.2	0	-51	-55	35	-38
Mahindra CIE	22.9	30.7	-25	11	63	0.9	2.5	-64	-61	-1	25	-29
DCB Bank	9.2	15.8	-42	-56	-16	0.7	1.5	-55	-72	-43	22	-56
Persistent Sys	12.9	13.8	-6	-37	-27	1.8	2.3	-22	-23	-10	21	-6
M & M Financial	17.6	20.0	-12	-15	6	0.9	2.3	-62	-64	-12	20	-48
Engineers India	9.9	18.6	-47	-52	-1	2.1	3.5	-41	-11	38	19	-24
Emami	19.3	31.7	-39	-7	68	4.6	10.5	-56	95	306	14	-29
Federal Bank	7.8	12.6	-38	-62	-33	0.6	1.2	-48	-73	-53	13	-42
Team Lease Serv.	23.4	37.4	-37	14	98	4.0	6.2	-36	69	140	13	-32
CESC	6.7	10.5	-36	-67	-45	0.8	0.8	-3	-67	-69	12	-16
Birla Corpn.	13.2	15.9	-17	-36	-16	0.9	1.1	-20	-63	-58	12	-5
Laurus Labs	16.7	15.6	8	-19	-18	2.5	2.5	0	7	-3	11	45
Jyothy Lab.	26.3	37.6	-30	28	99	3.6	4.6	-22	54	80	11	-20
LIC Housing Fin.	6.3	11.4	-45	-69	-39	0.7	1.8	-63	-72	-29	11	-39
Phoenix Mills	38.8	33.2	17	88	76	2.3	2.3	-1	-2	-10	10	-30
Alembic Pharma	23.6	17.0	39	14	-10	4.5	4.2	7	90	63	5	60
Sun TV Network	11.8	19.6	-40	-43	4	2.7	4.8	-43	15	85	5	-8
Strides Pharma	11.3	61.1	-81	-45	224	1.4	3.2	-56	-40	25	3	13
Blue Star	52.2	37.3	40	153	98	5.8	6.7	-13	148	160	2	-41
Torrent Power	12.6	16.0	-21	-39	-15	1.5	1.4	7	-37	-46	0	12
Aegis Logistics	16.1	25.6	-37	-22	35	2.9	3.4	-14	24	32	0	-9
MCX	26.2	31.7	-17	27	68	4.3	3.7	15	83	45	-2	10
Ajanta Pharma	23.6	17.7	33	15	-6	4.0	4.6	-12	71	78	-7	45

# Sector valuations: Financials, Autos Outperforms; Consumer underperform

- Private Banks trade at a P/B of 2.3x, below their historical average of 2.5x (8% discount). Over the past few years, muted corporate lending has resulted in systemic loan growth being largely driven by the retail segment. However, the outbreak of COVID-19 would lead to weakening of credit demand in Consumer Retail, MFI and SME/Business banking segments. We, thus, expect loan growth of Private Banks to moderate in FY21E.
- Auto sector is trading at P/E of 48.8x (~100% premium to its LPA) on weak FY21E earnings due to the impact of COVID-19. In Jun'20, tractor volumes grew 12.7% YoY due to strong rural demand. 2W /PV declined 29%/48% however retails were much stronger than wholesales impacted by supply side issues. Valuations on P/E basis appear at a premium to 10-year LPA due to the washed-out earnings of 1HFY21. While the demand recovery has surprised everyone alike, however momentum sustenance is a key monitorable.
- Consumer sector P/E of 43.2x in Jun'20 is at a premium of ~23% to its 10-year average of 35.2x. On a P/B basis, the sector trades at 10.7x, a premium of 9% to its 10-year average multiple of 9.9x. COVID-19 outbreak and lockdowns has affected consumer needs and sentiments. From a demand standpoint, demand for staples and essential products remained stronger than consumer discretionary. Moreover, with the lockdown disrupting manufacturing and supply chain for most companies in the first half of 1QFY21, there has been significant recovery in the second half of the quarter.

## Snapshot: Sector valuations

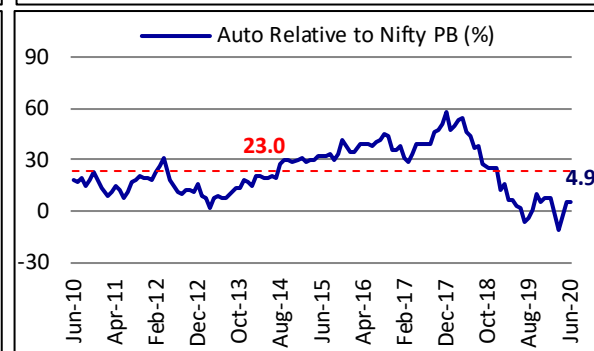
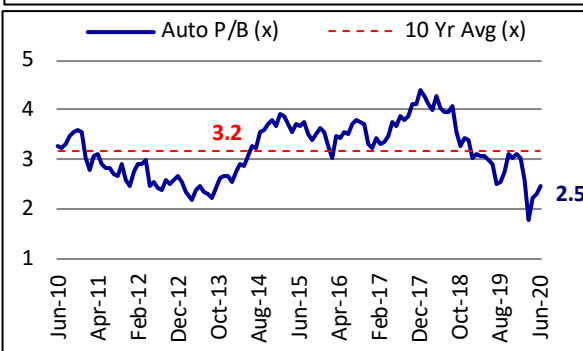
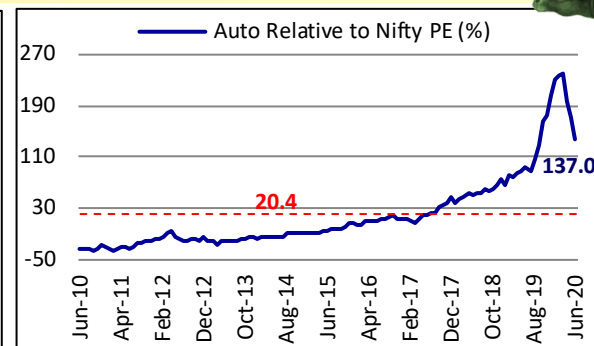
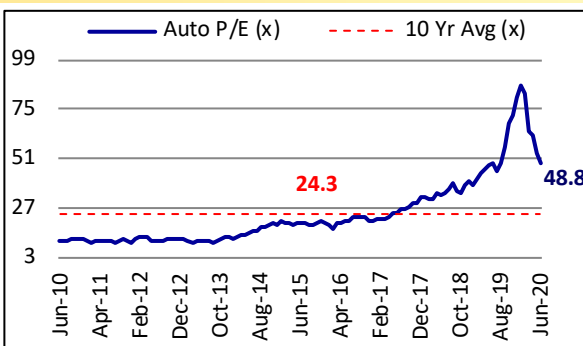
Sector	PE (x)			Relative to Nifty P/E (%)		PB (x)			Relative to Nifty P/B (%)	
	Current	10 Yr Avg	Prem/Disc (%)	Current	10 Yr Avg	Current	10 Yr Avg	Prem/Disc (%)	Current	10 Yr Avg
Auto	48.8	24.3	101.0	137	20	2.5	3.2	-22.4	5	23
Banks - Private	18.5	20.0	-7.3	-10	4	2.3	2.5	-8.1	-3	-4
Banks - PSU	10.3	13.6	-24.5	-50	-31	0.8	1.2	-33.0	-66	-53
NBFC	21.4	20.0	7.0	4	6	2.6	3.0	-15.5	9	18
Capital Goods	24.8	29.6	-16.2	20	55	2.2	3.2	-31.9	-7	23
Cement	30.8	23.6	30.4	49	24	2.2	2.6	-14.8	-6	1
Consumer	43.2	35.2	22.6	110	88	10.7	9.9	8.6	355	286
Healthcare	24.5	24.9	-1.5	19	33	3.3	4.0	-19.3	38	58
Infrastructure	12.5	14.1	-11.4	-39	-24	0.7	1.9	-60.9	-69	-27
Media	13.1	25.8	-49.5	-37	40	2.1	4.9	-57.6	-12	90
Metals	20.5	14.1	45.9	0	-27	0.8	1.2	-31.0	-65	-54
Oil & Gas	14.9	11.9	25.3	-28	-36	1.6	1.5	5.4	-34	-42
Retail	106.5	55.3	92.4	417	193	9.2	6.4	43.9	290	147
Technology	19.4	17.1	13.3	-6	-7	4.2	4.3	-2.2	80	68
Telecom	Loss	-	-			6.2	2.4	157.0	163	-5
Utilities	7.5	12.6	-40.4	-63	-30	1.0	1.9	-46.8	-56	-24



# Autos: Tractor sales grew in Jun'20; 2W/PV demand recovery surprised



- Auto sector is trading at P/E of 48.8x (~100% premium to its LPA) on weak FY21E earnings due to the impact of COVID-19.
- In Jun'20, tractor volumes grew 12.7% YoY due to strong rural demand. 2W /PV declined 29%/48% however retails were much stronger than wholesales impacted by supply side issues
- Valuations on P/E basis appear at a premium to 10-year LPA due to the washed-out earnings of 1HFY21. On P/B basis, valuations are near -1SD below mean.
- While the demand recovery has surprised everyone alike, however momentum sustenance is a key monitorable. We expect some stability only from Sep'21 for 2Ws /PVs, while CVs should be even more back-ended.



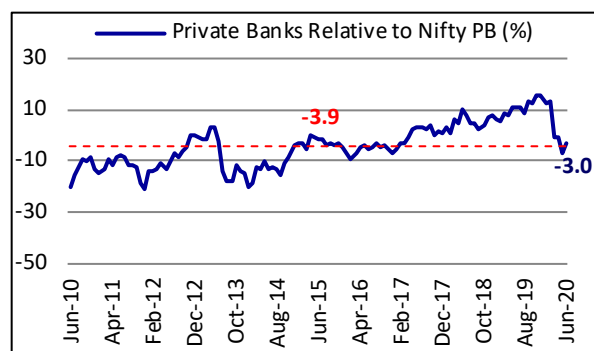
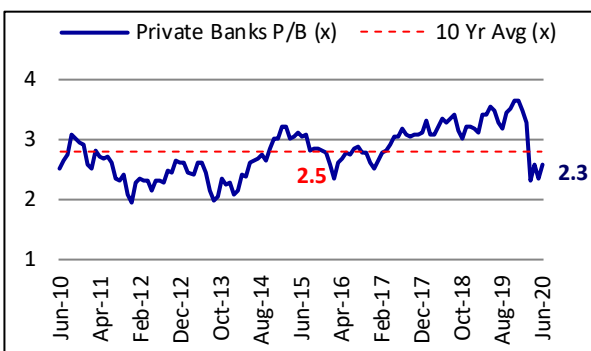
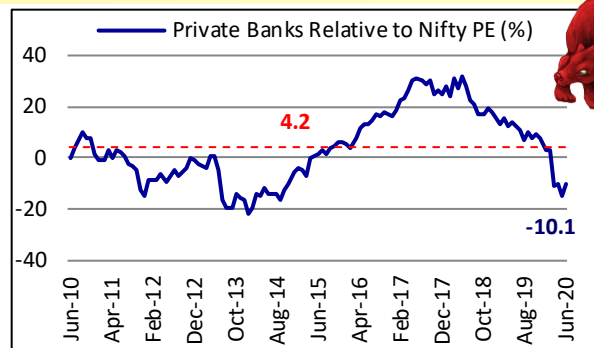
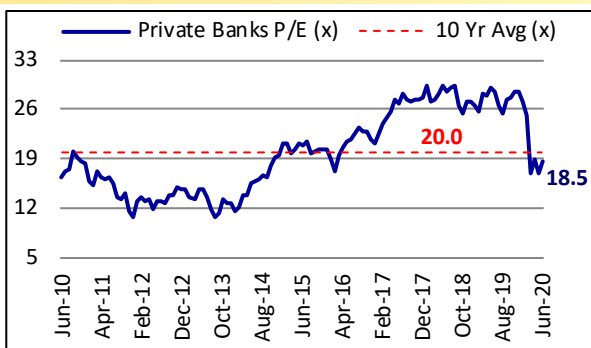
Sector Performance

MoM: 8%

Company	PE (x)			Relative to Nifty P/E (%)		PB (x)			Relative to Nifty P/B (%)	
	Current	10 Yr Avg	Prem/Disc (%)	Current	10 Yr Avg	Current	10 Yr Avg	Prem/Disc (%)	Current	10 Yr Avg
Amara Raja Batt.	17.7	19.9	-11	-14	6	2.7	3.9	-32	13	51
Ashok Leyland	na	20.2	na	na	7	1.9	2.9	-35	-20	12
Bajaj Auto	17.1	16.6	3	-17	-12	3.7	5.1	-27	57	97
Bharat Forge	56.5	33.0	71	174	75	2.7	4.3	-37	15	67
Bosch	34.1	35.3	-4	65	87	3.3	5.5	-40	41	114
CEAT	16.0	12.7	26	-22	-33	1.2	1.3	-9	-50	-49
Eicher Motors	32.7	26.5	24	59	40	4.4	6.5	-32	88	153
Escorts	19.0	10.0	91	-8	-47	2.2	1.2	88	-7	-55
Exide Inds.	14.4	22.4	-36	-30	19	1.8	3.1	-42	-23	21
Hero Motocorp	19.5	17.9	9	-5	-5	3.5	6.2	-43	50	141
M & M	15.3	17.6	-13	-26	-7	1.7	2.9	-43	-30	12
Mahindra CIE	22.9	30.7	-25	11	63	0.9	2.5	-64	-61	-1
Maruti Suzuki	36.1	23.6	53	75	25	3.5	3.4	3	50	33
Motherson Sumi	29.3	28.6	3	42	51	2.5	5.0	-50	5	94
Tata Motors	na	12.3	na	na	-35	0.7	1.8	-60	-69	-30
TVS Motor Co.	37.2	25.2	48	81	34	4.6	4.8	-6	94	88

# Private Banks: Business environment remains challenging due to COVID-19 outbreak

- Private Banks trade at a P/B of 2.3x, below their historical average of 2.5x (8% discount).
- Over the past few years, muted corporate lending has resulted in systemic loan growth being largely driven by the retail segment. However, the outbreak of COVID-19 would lead to weakening of credit demand in Consumer Retail, MFI and SME/Business banking segments. We, thus, expect loan growth of Private Banks to moderate in FY21E.
- As on 30th Apr'20, many large private banks indicated that the proportion of customers availing the moratorium has been in the range of 25-35% (in value terms) while for small and mid-size banks, the moratorium has been much higher. However, we believe the incidence of moratorium to show stable/declining trends under moratorium 2.0.
- We expect potential increase in delinquencies in short duration loans, unsecured retail and MFI loans. We expect asset quality to remain vulnerable for many banks in the near term and thus credit cost to remain elevated.
- Thus, most of the private banks are looking to raise capital over FY21E to manage with the current crisis.



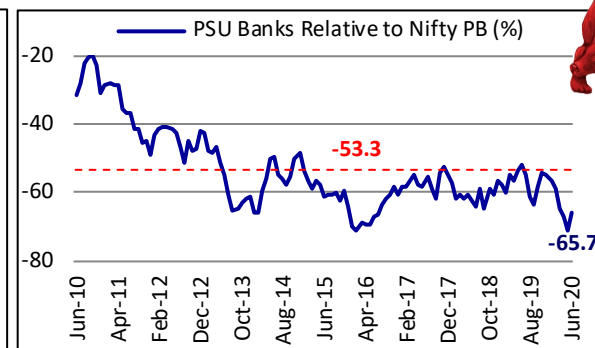
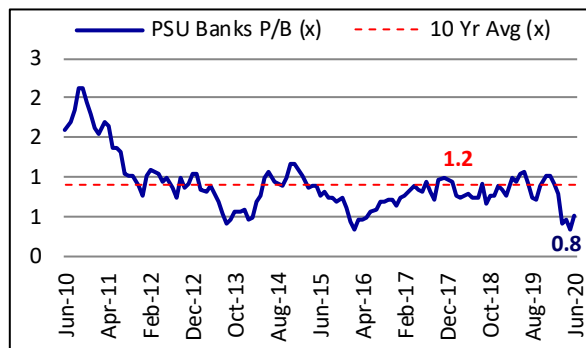
Sector Performance

MoM: 11%

Company	PE (x)			Relative to Nifty P/E (%)		PB (x)			Relative to Nifty P/B (%)	
	Current	10 Yr Avg	Prem/Disc (%)	Current	10 Yr Avg	Current	10 Yr Avg	Prem/Disc (%)	Current	10 Yr Avg
Axis Bank	13.6	36.8	-63	-34	95	1.2	2.0	-39	-48	-22
DCB Bank	9.2	15.8	-42	-56	-16	0.7	1.5	-55	-72	-43
Federal Bank	7.8	12.6	-38	-62	-33	0.6	1.2	-48	-73	-53
HDFC Bank	20.7	20.9	-1	1	11	2.9	3.4	-15	25	34
ICICI Bank	17.2	20.8	-18	-17	10	1.8	1.8	0	-25	-32
IndusInd Bank	6.3	19.2	-67	-70	2	0.8	2.8	-71	-66	8
Kotak Mah. Bank	28.7	24.7	16	39	31	3.4	3.1	10	42	19

# PSU Banks: Asset quality to remain under pressure; Merger related challenges in the near term

- PSU Banks trade at a P/B of 0.8x, below their historical average of 1.2x (33% discount).
- PSBs (barring SBI) are still facing asset quality pressures and now in the midst of mergers and thus will face challenges in the near term related to integration, cultural issues and balance sheet cleansing in weak PSBs.
- The outbreak of COVID-19 has further resulted in subdued loan growth. Thus, loan growth will likely moderate to ~7% for SBIN and to ~5% for BoB over FY21E.
- PSBs have relatively higher share of exposure in the SME segment, and thus, asset quality will remain under pressure in the near term. We expect credit cost trends to remain elevated.
- Most of the PSB (ex-SBI) has a weak capital position and given the asset quality challenges in the near term due to COVID crisis; most PSBs would require capital from the Govt. to better manage the current crisis and elevated credit cost.
- We do not believe PSBs to be value calls, apart from SBI, which has a relatively strong balance sheet.



## Sector Performance

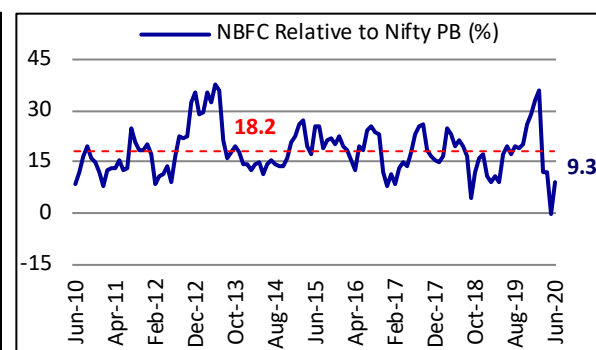
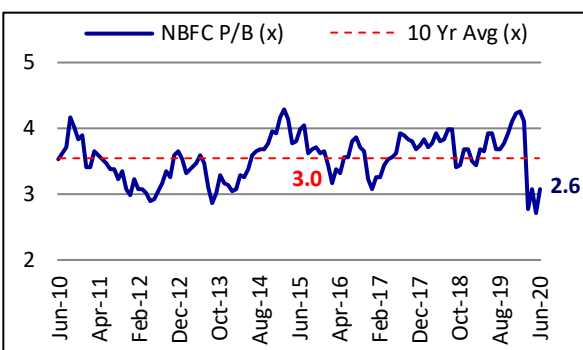
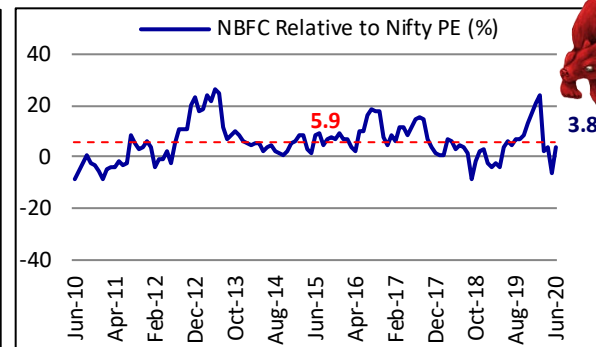
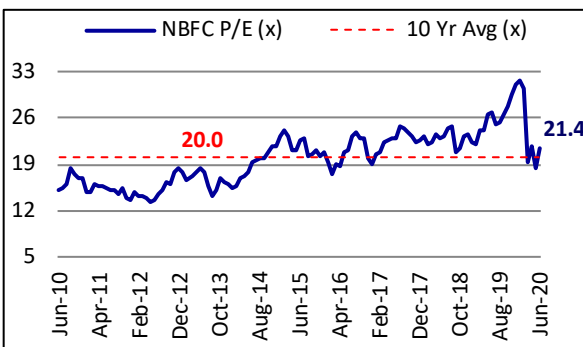
MoM: 17%

Company	PE (x)			Relative to Nifty P/E (%)		PB (x)			Relative to Nifty P/B (%)	
	Current	10 Yr Avg	Prem/Disc (%)	Current	10 Yr Avg	Current	10 Yr Avg	Prem/Disc (%)	Current	10 Yr Avg
Bank of Baroda	8.5	9.2	-7	-59	-51	0.3	0.9	-67	-87	-63
Punjab Natl. Bank	na	8.0	-		-58	0.4	0.9	-62	-85	-64
St Bk of India	6.9	14.6	-53	-66	-23	0.6	1.2	-48	-74	-55



# NBFCs: Improving collection and disbursement trends

- NBFCs trade at a P/B of 2.6x, below their historical average of 3.0x (15% discount).
- Across all product segments, there has been a clear improvement in disbursement as well as collection trends in June vs May
- In vehicle finance, our channel checks suggest that disbursements have recovered to 70% of monthly run rate in June for players who have adequate liquidity
- HFCs, there has been a meaningful decline in the number of customers availing the second phase of the moratorium, while for vehicle financiers, the decline is modest.
- Most NBFCs are sitting on enough liquidity to last another 3-4 months. Traction of fund raising from banks and from recent government schemes is improving.
- Significant redemptions coming up for NBFCs. Some NBFCs could face challenges in rolling over or re-financing the redemption requirements at competitive rates
- We like HDFC given its leadership position, strong balance sheet (Provision buffer > GNPLs) and declining cost of funds.



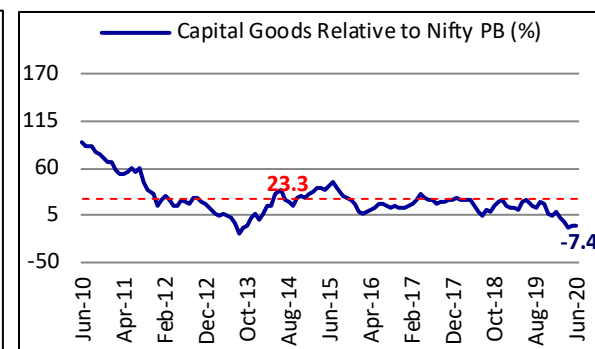
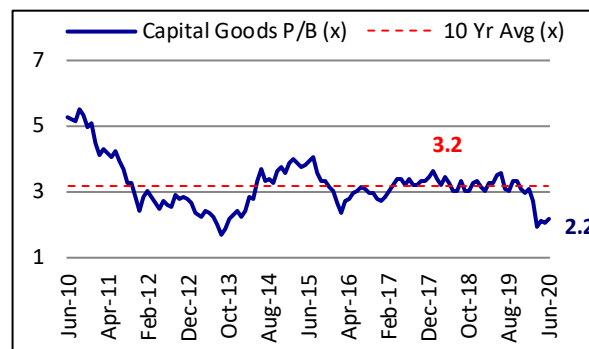
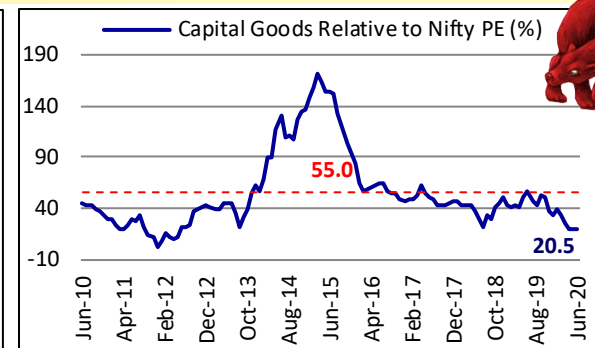
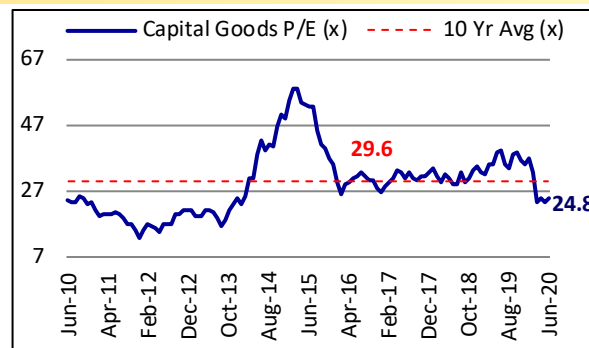
Sector Performance

MoM: 8%

Company	PE (x)			Relative to Nifty P/E (%)		PB (x)			Relative to Nifty P/B (%)	
	Current	10 Yr Avg	Prem/Disc (%)	Current	10 Yr Avg	Current	10 Yr Avg	Prem/Disc (%)	Current	10 Yr Avg
Bajaj Finance	37.3	20.1	86	81	6	4.5	3.4	36	93	30
Chola. Invst. & Fin.	18.3	15.6	17	-11	-17	1.7	2.3	-24	-26	-11
H D F C	36.0	34.9	3	75	85	3.2	4.4	-26	38	71
L&T Fin.Holdings	7.0	15.3	-54	-66	-19	0.8	1.8	-56	-66	-29
LIC Housing Fin.	6.3	11.4	-45	-69	-39	0.7	1.8	-63	-72	-29
M & M Financial	17.6	20.0	-12	-15	6	0.9	2.3	-62	-64	-12
Muthoot Finance	12.1	8.0	51	-41	-57	2.9	1.7	75	23	-36
PNB Housing	9.0	20.5	-56	-56	9	0.4	2.2	-81	-82	-16
Shri.City Union.	6.5	14.1	-54	-68	-26	0.6	1.9	-72	-76	-24
Shriram Trans.	8.7	12.9	-33	-58	-32	0.8	1.9	-59	-67	-26

# Capital Goods: Working capital to be under stress in FY21

- Capital Goods sector trades at 1-year forward P/E multiple of 24.8x, at 16% discount to its 10-year average of 29.6x.
- Even on P/B basis, the sector trades at 32% discount to its 10-year average multiple of 3.2x.
- Valuation premium relative to the Nifty on a P/B basis has narrowed – it now trades at 7% discount v/s its 10-year average premium of 23%. On a P/E multiple basis, the premium has narrowed to 20% from its 10-year average premium of 55%.
- Company valuations have been impacted by (a) total shutdown of businesses due to the COVID-19 issue, (b) overall slowdown in business activity with 1H being a lean season, and (c) pressure on the operational performance due to the prevailing competitive intensity and cost headwinds (rise in input cost).



## Sector Performance

MoM: 4%

Company	PE (x)			Relative to Nifty P/E (%)		PB (x)			Relative to Nifty P/B (%)	
	Current	10 Yr Avg	Prem/Disc (%)	Current	10 Yr Avg	Current	10 Yr Avg	Prem/Disc (%)	Current	10 Yr Avg
A B B	97.6	79.1	23	374	319	5.4	6.3	-15	129	146
B H E L	28.8	24.9	15	40	32	0.4	1.7	-75	-82	-36
Blue Star	52.2	37.3	40	153	98	5.8	6.7	-13	148	160
Cummins India	23.0	27.9	-18	11	48	2.5	5.6	-56	5	119
Engineers India	9.9	18.6	-47	-52	-1	2.1	3.5	-41	-11	38
Havells India	64.5	33.4	93	213	77	7.7	6.6	16	225	156
K E C Intl.	12.5	15.6	-20	-39	-18	2.1	2.1	-3	-13	-18
Larsen & Toubro	16.0	22.8	-30	-22	21	1.8	2.9	-37	-23	12
Siemens	34.9	50.5	-31	69	168	3.9	6.0	-35	65	132
Thermax	31.1	35.2	-12	51	87	2.6	4.0	-34	12	54
Voltas	42.1	26.6	58	105	41	3.9	3.4	14	65	32

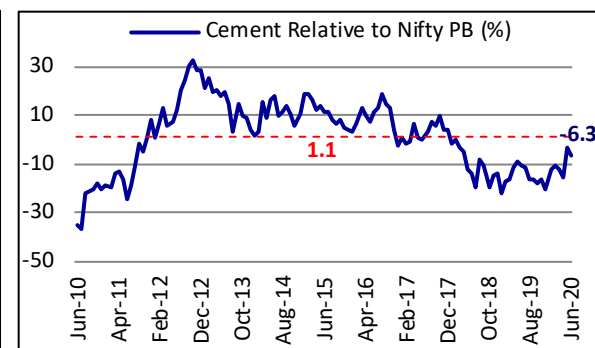
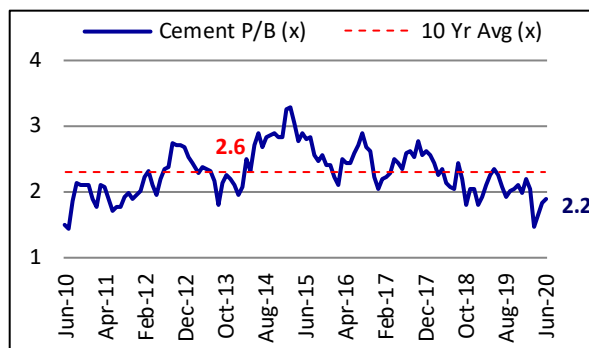
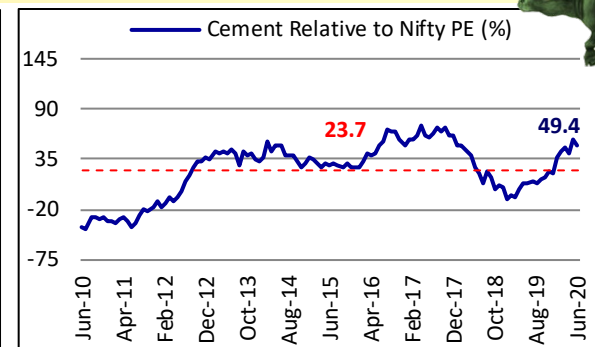
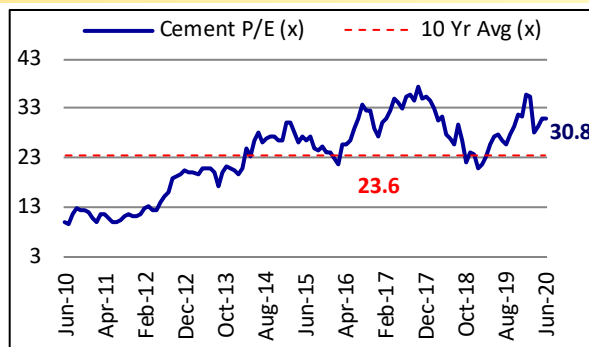
# Cement: Volume recovery continues in June



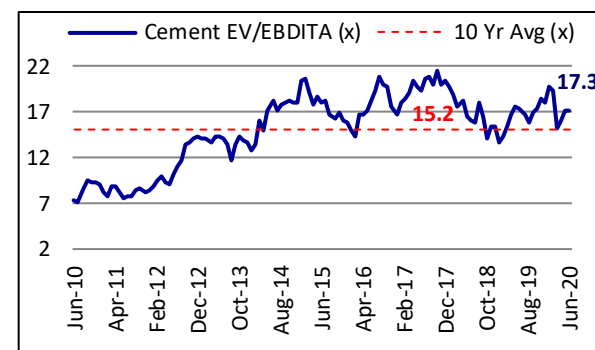
- Cement sector trades at 1-yr forward EV/EBITDA of 17.3x, which is above its historical average of 15.2x.
- Volume recovery remained strong in June with rural growth compensating for weakness in urban areas. Activity in urban areas is expected to remain weak in the near term due to onset of monsoon and lower availability of labourers, many of whom have returned to their home towns due to COVID-19.
- Cement prices have been strong rising nearly 3-4% YTD FY21 on stronger production and pricing discipline in light of weak industry demand.
- Moreover, energy costs have been trending down in the past six months, which should help reduce the adverse impact of negative operating leverage.

## Sector Performance

MoM: 2%



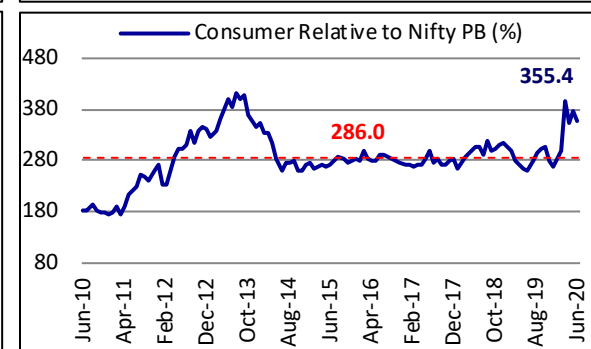
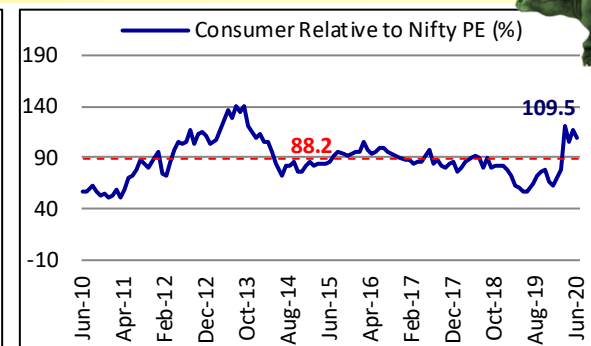
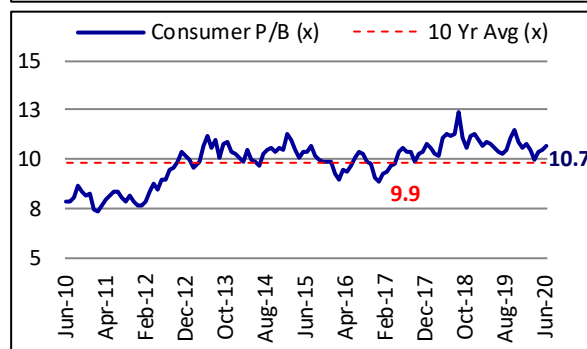
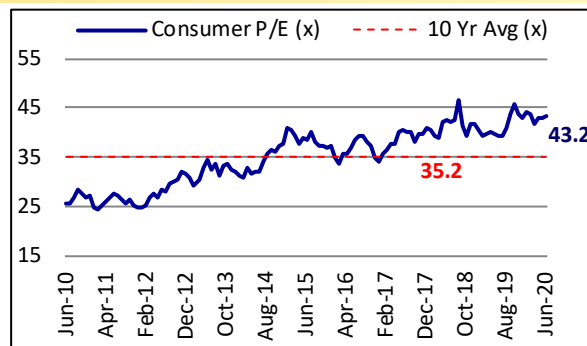
Company	PE (x)			Relative to Nifty P/E (%)		PB (x)			Relative to Nifty P/B (%)		EV/EBITDA (x)		
	Current	10 Yr Avg	Prem/Disc (%)	Current	10 Yr Avg	Current	10 Yr Avg	Prem/Disc (%)	Current	10 Yr Avg	Current	10 Yr Avg	Prem/Disc (%)
ACC	28.6	27.2	5	39	44	2.0	2.9	-29	-13	11	11.9	12.8	-7
Ambuja Cem.	35.1	30.9	14	70	63	1.7	2.6	-36	-30	0	19.1	16.7	14
Birla Corpn.	13.2	15.9	-17	-36	-16	0.9	1.1	-20	-63	-58	7.2	7.9	-9
Grasim	12.4	11.8	5	-40	-37	1.1	1.7	-38	-55	-33	25.3	23.5	8
India Cem.	na	29.3	na	na	55	0.7	0.7	9	-69	-74	12.9	8.6	50
Shree Cem.	65.1	34.1	91	216	81	6.0	4.6	30	154	78	25.4	16.9	51
UltraTech	35.6	29.1	23	73	54	2.5	2.8	-9	7	8	14.9	14.4	3



# Consumer: Valuations off highs but still superior than long-term average



- Consumer sector P/E of 43.2x in Jun'20 is at a premium of ~23% to its 10-year average of 35.2x. On a P/B basis, the sector trades at 10.7x, a premium of 9% to its 10-year average multiple of 9.9x.
- COVID-19 outbreak and lockdowns has affected consumer needs and sentiments. From a demand standpoint, demand for staples and essential products remained stronger than consumer discretionary.
- Moreover, with the lockdown disrupting manufacturing and supply chain for most companies in the first half of Q1FY21, there has been significant recovery in the second half of the quarter.
- Rural demand is expected to be strong due to (a) positive monsoon outlook, (b) increasing rural income, and (c) low impact of COVID. Companies with higher exposure to rural are expected to deliver better performance than their peers.



## Sector Performance

MoM: 3%

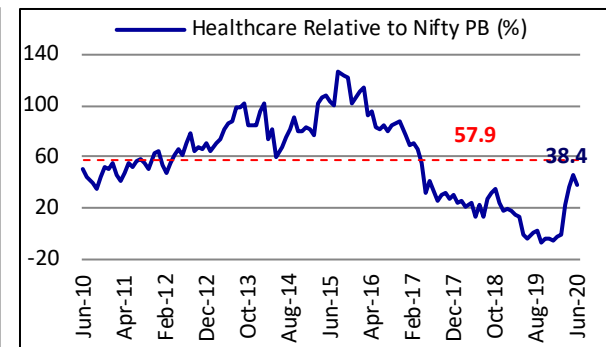
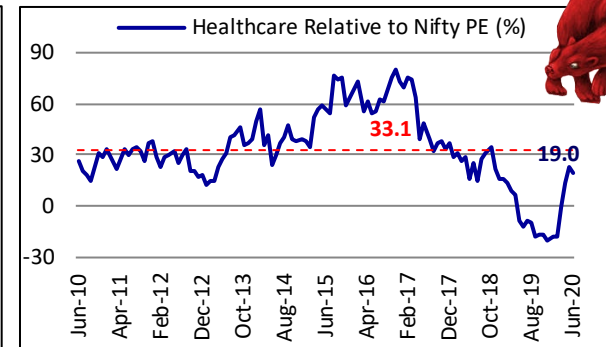
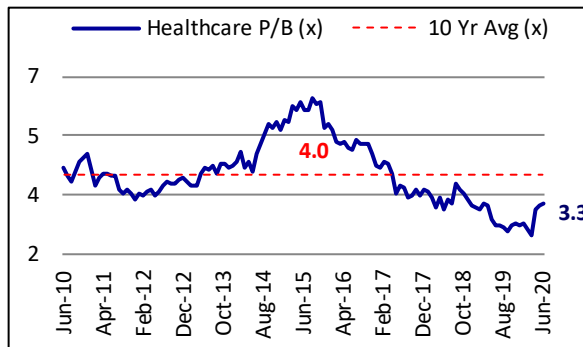
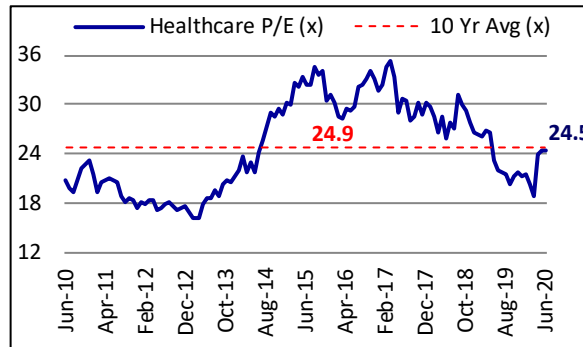
Company	PE (x)			Relative to Nifty P/E (%)		PB (x)			Relative to Nifty P/B (%)	
	Current	10 Yr Avg	Prem/Disc (%)	Current	10 Yr Avg	Current	10 Yr Avg	Prem/Disc (%)	Current	10 Yr Avg
Asian Paints	86.4	44.6	94	319	na	14.4	11.6	24	511	351
Britannia Inds.	50.5	34.7	46	145	84	19.0	12.6	51	709	389
Colgate-Palm.	44.2	37.5	18	115	99	27.2	24.4	11	1058	849
Dabur India	50.8	35.9	42	147	90	11.4	10.3	11	386	299
Emami	19.3	31.7	-39	-7	68	4.6	10.5	-56	95	306
GlaxoSmith C H L	35.7	30.4	17	73	61	8.4	7.9	6	257	209
Godrej Consumer	45.8	36.9	24	122	96	9.6	7.6	26	309	195
Hind. Unilever	60.2	41.3	46	192	119	38.8	33.2	17	1549	1188
ITC	16.5	26.1	-37	-20	38	3.5	6.9	-50	48	168
Jyothy Lab.	26.3	37.6	-30	28	99	3.6	4.6	-22	54	80
Marico	42.0	35.6	18	104	88	11.6	11.0	6	393	327
Nestle India	74.4	47.1	58	261	150	83.7	29.3	186	3459	1037
P & G Hygiene	61.2	50.0	23	197	165	26.3	20.0	32	1020	676
Page Industries	72.4	49.4	46	251	162	24.0	21.5	12	922	736
Pidilite Inds.	84.4	39.5	113	310	109	14.3	9.3	54	508	261
United Breweries	149.2	82.8	80	624	339	7.4	9.6	-22	216	271
United Spirits	68.5	98.0	-30	233	419	9.4	12.4	-24	301	380

# Healthcare: PE multiple on Steep recovery mode after 3.5 years of downtrend

- After 3-5 years of downtrend in Healthcare PE, it is back to 10-year average over past three months. Interestingly, 9 out of 16 companies under coverage are still trading at considerable discount to their 10-year average.
- The pre-buying of medicines in anticipation of shortage, increased off-take of antibiotics/pain relievers has led pharma companies exhibit better performance over near term.
- Further, ANDA approvals by USFDA remains on track, despite COVID led disruption. Additionally, Indian pharma companies are persuading USFDA for virtual inspection, increasing scope of early compliance. This augurs well for better growth outlook in US generics segment.
- However, reduced patient-doctor connect coupled with lesser number of new launches is expected to impact growth in domestic formulation (DF) segment over near term.
- Thus, we expect re-rating to continue for companies with (a) increased US generics sales, and tilt towards chronic portfolio in DF, differentiated business model and lower financial leverage.

## Sector Performance

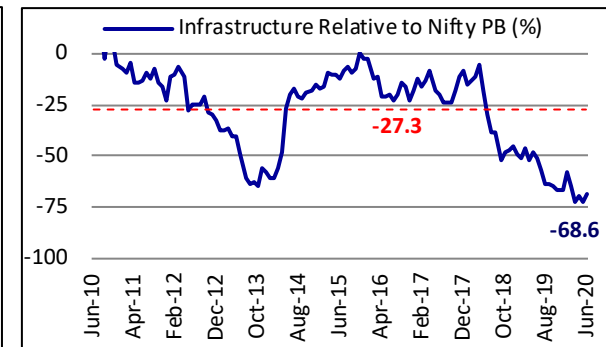
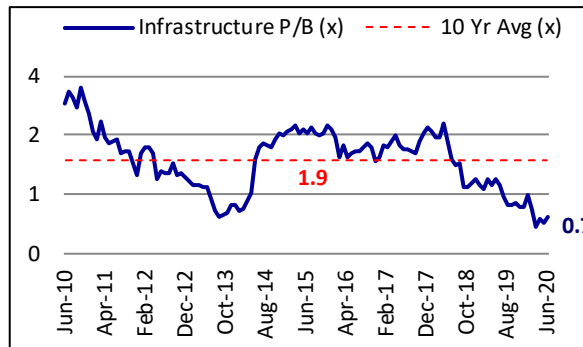
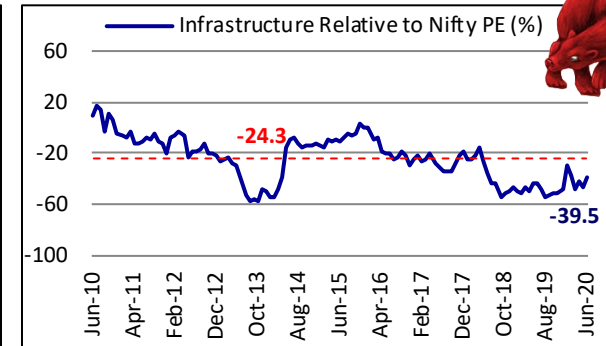
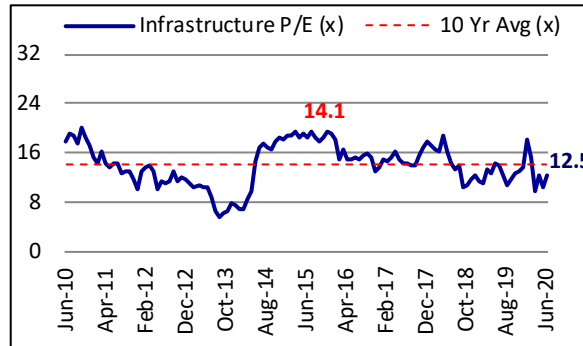
MoM: 4%



Company	PE (x)			Relative to Nifty P/E (%)		PB (x)			Relative to Nifty P/B (%)	
	Current	10 Yr Avg	Prem/Disc (%)	Current	10 Yr Avg	Current	10 Yr Avg	Prem/Disc (%)	Current	10 Yr Avg
Aurobindo Pharma	14.2	14.2	0	-31	-25	2.2	2.8	-23	-7	10
Ajanta Pharma	23.6	17.7	33	15	-6	4.0	4.6	-12	71	78
Biocon	38.6	28.2	37	87	50	6.0	3.4	79	157	31
Cadila Health.	19.7	22.0	-10	-4	17	2.8	4.7	-41	19	84
Cipla	25.4	28.1	-10	23	49	2.7	3.2	-16	16	26
Divi's Lab.	35.5	23.4	51	72	24	6.4	4.9	30	170	91
Dr Reddy's Labs	25.1	25.3	-1	22	34	3.5	3.8	-7	51	48
Glaxosmit Pharma	43.2	51.5	-16	110	173	12.2	11.2	10	420	333
Glenmark Pharma.	15.9	23.4	-32	-23	24	1.8	4.0	-54	-22	54
Ipca Labs.	24.4	25.7	-5	18	36	4.6	3.3	42	97	27
Jubilant Life	11.1	12.8	-13	-46	-32	1.5	1.6	-2	-35	-39
Laurus Labs	16.7	15.6	8	-19	-18	2.5	2.5	0	7	-3
Lupin	28.3	30.1	-6	37	60	3.0	4.5	-33	27	73
Sun Pharma.Inds.	22.9	29.9	-24	11	58	2.3	4.5	-49	-2	74
Strides Shasun	11.3	61.1	-81	-45	224	1.4	3.2	-56	-40	25
Torrent Pharma.	30.6	21.8	40	48	16	6.5	4.8	37	178	86

# Infrastructure: Projects and Toll collection resume albeit at lower intensity

- Infrastructure sector trades at a P/B of 0.7x, at a 61% discount to its historical average.
- Post muted ordering activity consecutively in FY19 and FY20, business momentum has further weakened with suspension in toll collection for ~30 days due to the COVID-19 issue. This has come at a time when the NHAI ordering activity usually picks up. Post resumption of toll collection activity, the vehicle traffic is still inching towards its pre-COVID level.
- While the government has drawn out massive infrastructure development plans with expected investment of INR100t by 2024, FY21 currently looks like a washout.
- We expect strong business opportunities for all players in the sector, which should boost their balance sheets. This should gradually lead to an improvement in the operational performance.

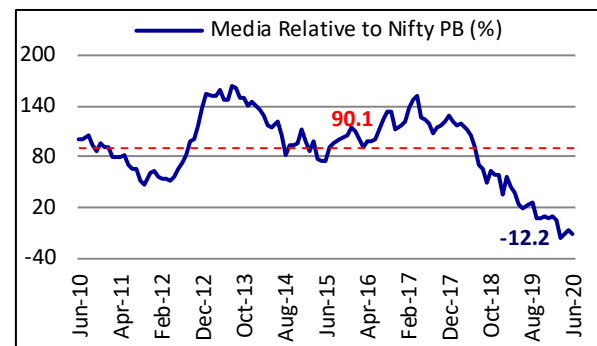
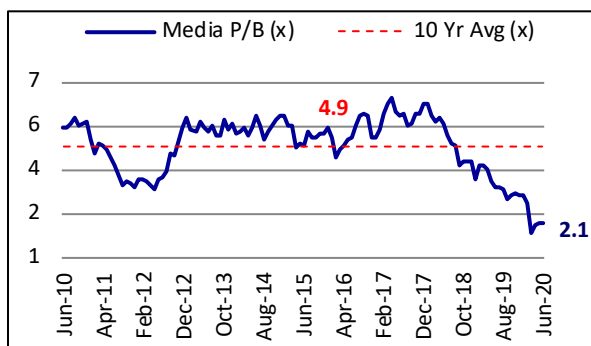
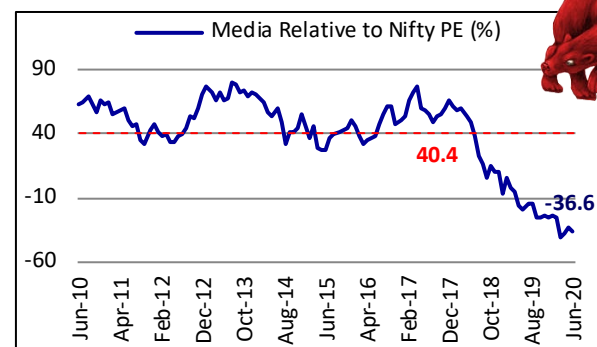
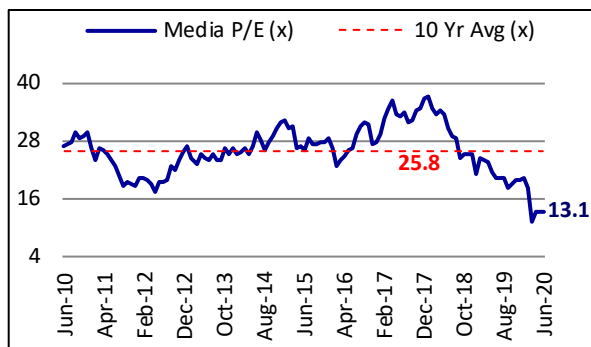


Company	PE (x)			Relative to Nifty P/E (%)		PB (x)			Relative to Nifty P/B (%)	
	Current	10 Yr Avg	Prem/Disc (%)	Current	10 Yr Avg	Current	10 Yr Avg	Prem/Disc (%)	Current	10 Yr Avg
Ashoka Buildcon	7.2	13.1	-	-	-31	0.6	1.6	-61	-74	-39
IRB Infra.Devl.	12.5	10.4	20	-39	-45	0.5	1.4	-68	-81	-45
KNR Construct.	15.0	9.7	55	-27	-49	1.6	1.5	7	-32	-42



# Media: Ad revenues could gradually improve with lockdown lifting

- Media sector P/E of 13.1x is at ~50% discount to its 10-year historical average of 25.8x.
- With the gradual lifting of lockdown, advertisement revenue could improve for the players.
- Some production houses have resumed shootings.
- As per the government guidelines, cinema halls would open in the third phase of unlock and dates are yet to be decided.
- OTT is likely to gain strong momentum with MNC giants grabbing a large pie.



Company	PE (x)			Relative to Nifty P/E (%)		PB (x)			Relative to Nifty P/B (%)	
	Current	10 Yr Avg	Prem/Disc (%)	Current	10 Yr Avg	Current	10 Yr Avg	Prem/Disc (%)	Current	10 Yr Avg
PVR	na	38.2	na	na	103	4.5	3.9	14	92	53
Sun TV Network	11.8	19.6	-40	-43	4	2.7	4.8	-43	15	85
Zee Entertainmen	8.5	26.3	-68	-59	39	1.4	5.4	-75	-43	109

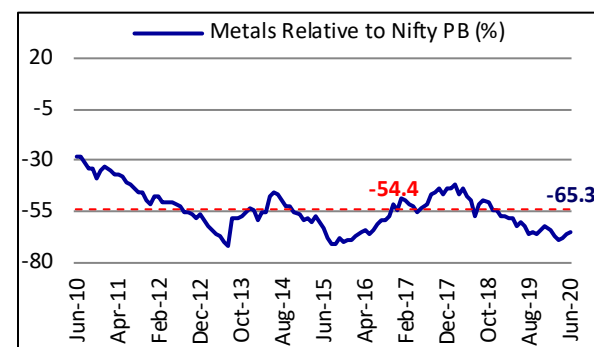
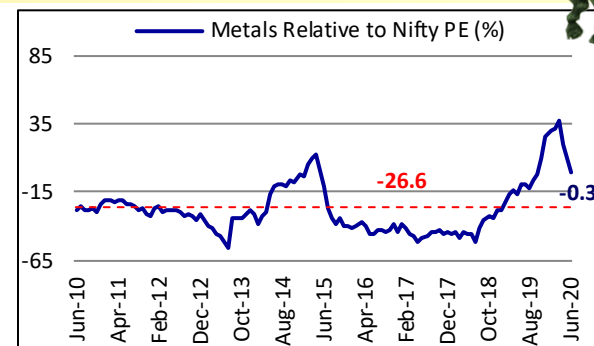
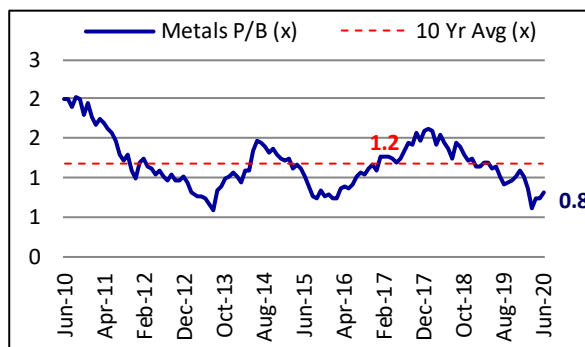
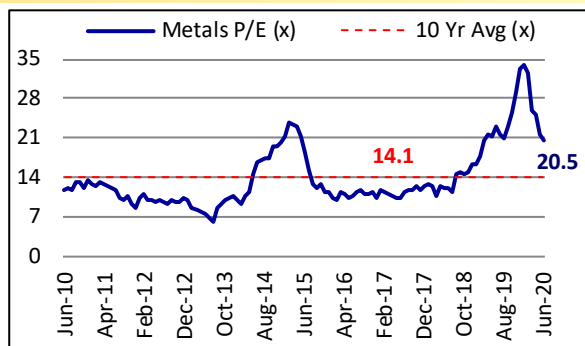
# Metals: Higher exports supporting utilization as domestic demand is weak



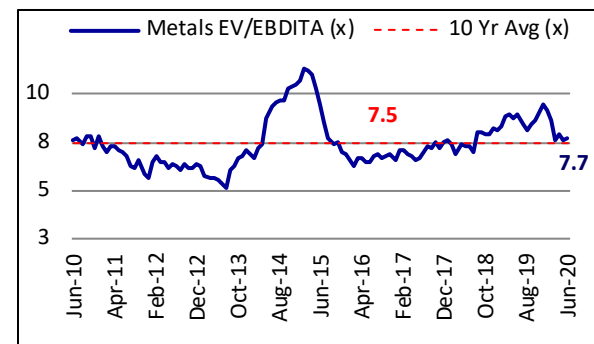
- Metals sector trades at a EV/EBITDA of 7.7x (near 10-year historical average).
- Capacity utilization is rising gradually helped by higher exports and bottoming out of domestic demand.
- Domestic HRC Steel prices fell by ~INR1,000/t in Jun to INR35,750/t whereas primary rebar steel prices declined by INR1,500/t. However, lower iron ore and coking coal is likely to keep spreads favorable. India HRC FoB export price rose ~USD25/t MoM to US\$445/t in line with the regional prices which bodes well for regional players.
- LME Aluminium prices increased 4% MoM to US\$1,582/t whereas LME zinc prices increased 2% MoM to US\$2,031/t.
- Expect domestic demand to remain weak in H1FY21 and recover from 3QFY21. Steel and aluminum producers are relying on higher exports in order to push volumes.

## Sector Performance

MoM: 6%



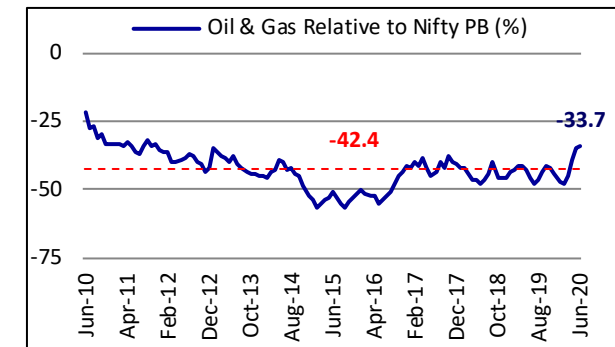
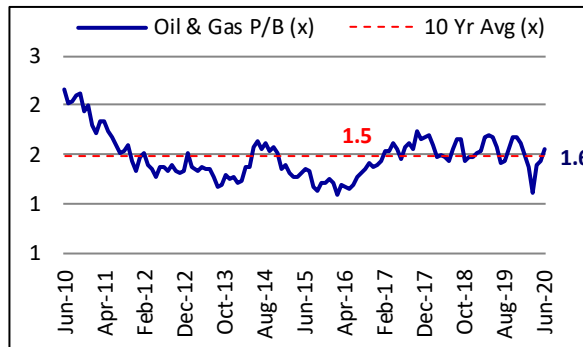
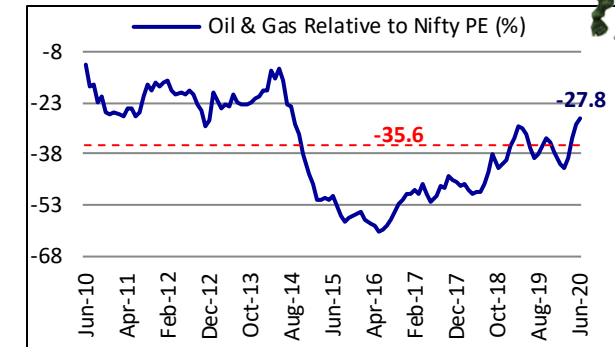
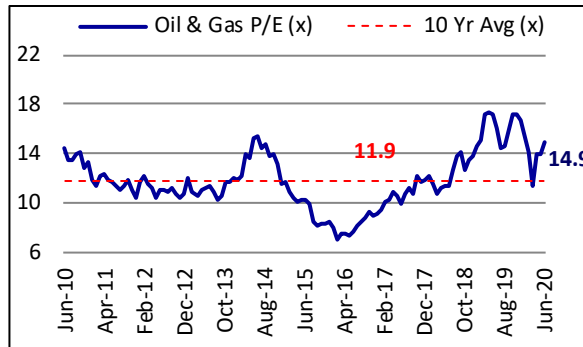
Company	PE (x)			Relative to Nifty P/E (%)		PB (x)			Relative to Nifty P/B (%)		EV/EBITDA (x)		
	Current	10 Yr Avg	Prem/Disc (%)	Current	10 Yr Avg	Current	10 Yr Avg	Prem/Disc (%)	Current	10 Yr Avg	Current	10 Yr Avg	Prem/Disc (%)
Hind.Zinc	13.7	10.7	28	-34	-43	2.1	2.2	-5	-10	-13	6.9	6.3	10
Hindalco	12.0	10.4	16	-42	-45	0.9	1.3	-31	-63	-51	6.4	7.3	-13
Jindal Steel	na	16.5	na	na	-13	0.5	1.2	-57	-79	-54	5.7	10.2	-44
JSW Steel	30.3	20.0	51	47	6	1.5	1.5	3	-36	-43	9.3	8.2	14
NALCO	32.6	15.9	105	58	-16	0.7	1.1	-42	-72	-56	6.2	7.9	-21
NMDC	8.5	10.1	-16	-59	-47	0.9	2.0	-57	-64	-22	6.0	6.6	-9
SAIL	na	15.5	na	na	-18	0.3	0.8	-57	-86	-69	13.5	15.3	-12
Tata Steel	na	18.1	na	na	-4	0.6	1.4	-59	-75	-45	9.2	8.0	14
Vedanta	14.3	12.5	15	-31	-34	0.8	1.9	-60	-67	-25	6	5	19



# Oil & Gas: Crude prices float ~USD40/bbl, OMCs resume retail price hikes



- Oil & Gas sector trades at a P/B of 1.6x (at par with its historical average of 1.5x) and P/E of 14.9x (at ~25% premium to the long-term average of 11.9x).
- Brent prices for the month increased to an average of ~USD40.1/bbl, as OPEC+ extended the production cuts of 9.7mnbopd to end of July. Also, demand saw a huge revival as most of the countries came out of the lockdowns.
- Refining margins improved marginally to –USD0.5/bbl (from –USD1.5/bbl), primarily due to improvement in Gasoline and Gasoil.
- Also, as OMCs resumed retail price hike on auto fuels, gross marketing margins revived back to normal (average) from <INR2/lit. Also, as per the guidance by OMCs, MS and HSD sales have reached ~90% of normal levels in June, with ATF demand only ~30-40% of normal.
- As per the guidance of CGDs, except revival in CNG volumes in the latter end of the current financial year only, while industrial volumes lead the recover.



## Sector Performance

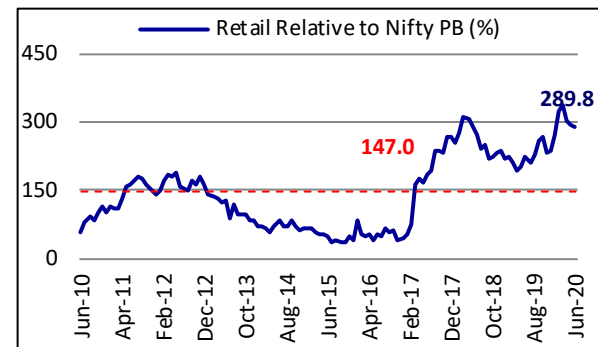
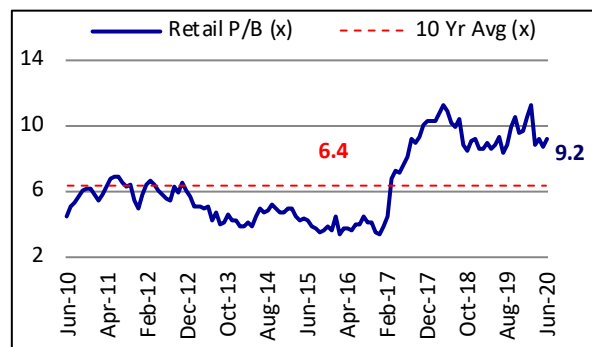
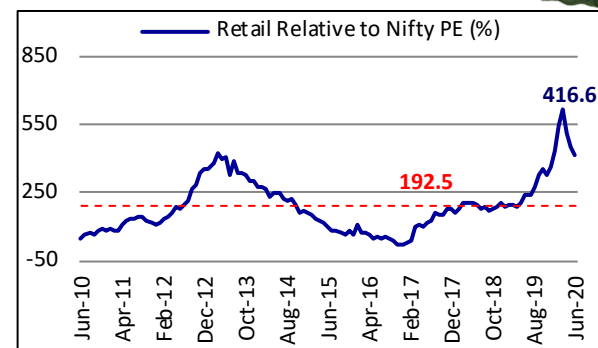
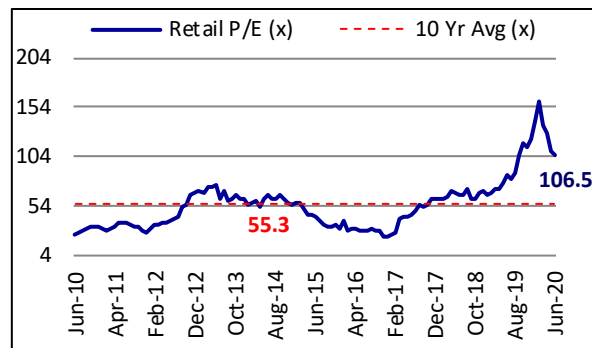
MoM: 7%

Company	PE (x)			Relative to Nifty P/E (%)		PB (x)			Relative to Nifty P/B (%)	
	Current	10 Yr Avg	Prem/Disc (%)	Current	10 Yr Avg	Current	10 Yr Avg	Prem/Disc (%)	Current	10 Yr Avg
Aegis Logistics	16.1	25.6	-37	-22	35	2.9	3.4	-14	24	32
B P C L	10.4	10.5	-1	-50	-45	1.7	1.8	-1	-26	-32
GAIL (India)	7.7	13.4	-42	-63	-29	0.9	1.7	-48	-63	-35
Guj.St.Petronet	11.9	11.7	2	-42	-38	1.6	1.7	-5	-33	-35
H P C L	5.4	17.6	-69	-74	-7	1.0	1.2	-20	-58	-52
I O C L	5.2	9.6	-46	-75	-49	0.8	1.2	-35	-68	-55
Indraprastha Gas	34.9	17.5	99	69	-7	5.2	3.5	51	122	34
M R P L	7.2	12.4	-42	-65	-34	0.7	1.5	-51	-68	-41
O N G C	6.2	10.3	-40	-70	-45	0.5	1.3	-64	-80	-49
Petronet LNG	13.0	12.9	1	-37	-32	3.0	2.7	13	29	4
Reliance Inds.	22.9	13.5	69	11	-28	2.1	1.5	45	-9	-43

# Retail: Stores begin opening up



- Retail sector trades at a P/E of 106.5x, at ~92% premium to its 10-year historical average.
- With the gradual lifting of lockdown, malls and stores have started to opening up..
- Although footfalls have remain subdued, conversion and average bill size is higher as only serious buyers are turning up.
- Regional value retailers are expected to perform better as those areas are less impacted by the pandemic.
- Most of the retailers have availed rental waiver during the store shutdown along with restructuring of rental agreement until Mar'21.

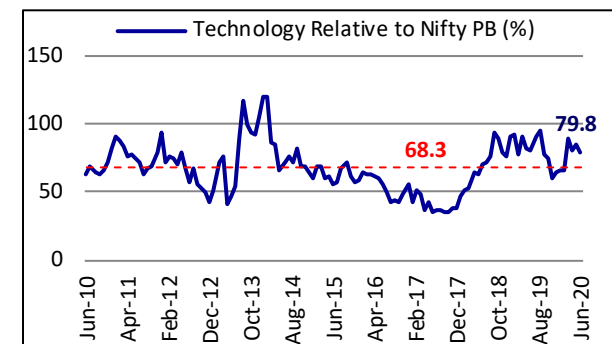
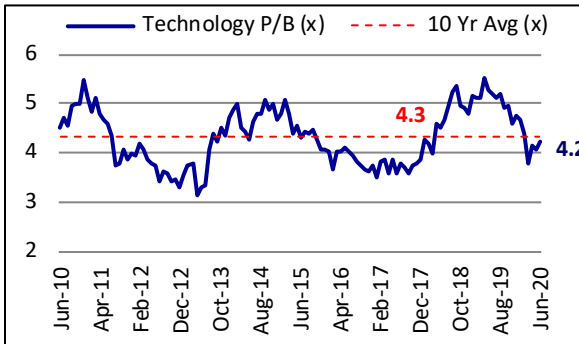
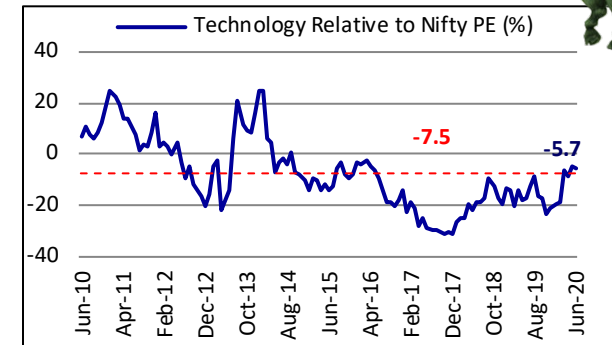
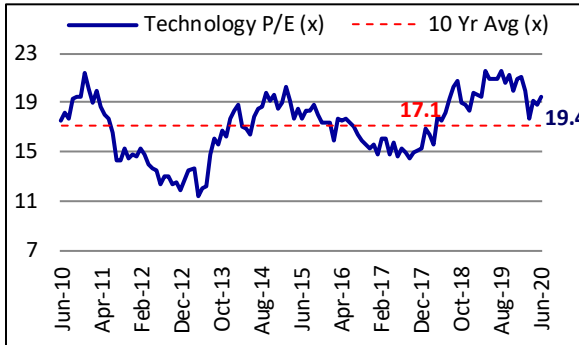


Company	PE (x)			Relative to Nifty P/E (%)		PB (x)			Relative to Nifty P/B (%)	
	Current	10 Yr Avg	Prem/Disc (%)	Current	10 Yr Avg	Current	10 Yr Avg	Prem/Disc (%)	Current	10 Yr Avg
Aditya Birla Fashion	na	179.1	na	na	849	12.5	12.5	0	430	385
Avenue Supermarts	99.1	83.7	18	381	343	11.2	11.0	1	376	329
Future Lifestyle	NA	47.3	na	na	151	1.3	2.4	-45	-44	-8
Future Retail	25.9	37.0	-30	26	96	1.0	4.3	-77	-59	67
Jubilant	157.0	74.8	110	662	296	22.2	13.3	67	843	417
Shoppers Stop	na	50.3	na	na	167	0.0	5.6	-100	-100	117
Titan	68.9	43.2	59	234	129	12.3	10.4	19	424	304
Trent	200.0	128.3	56	870	580	8.2	4.2	96	247	61
V-Mart Retail	91.3	39.4	132	343	109	6.3	5.3	19	169	107

# Technology: Industry to emerge stronger from COVID-19



- Technology sector is trading at a P/E of 19.4x, at ~13% premium to its historical average of 17.1x.
- Supply side issues have subsided for most companies as lockdown relaxation have begun in few geographies
- Deal wins continue to happen though sales cycles have elongated a bit. Companies have been able to add new clients as well which is a key positive.
- 1QFY21 is expected to see maximum impact with companies largely expected to see mid single digit to mid teens decline in revenue (USD) sequentially depending on their exposure to impacted verticals.
- Most companies will see a margin contraction in 1QFY21, MTCL's guidance to manage margin at 4QFY20 level is surprising and a key positive.
- US' H1B visa related executive order is a short term measure which should not have any material impact due to good skill availability currently in market, good localization ratio (~65%) for most firms.
- We remain positive on INFO, TCS and HCLT in Tier 1 and LTI and MTCL in Tier 2. This is attributable to their historical track record of adapting to multiple business challenges/technology cycles.



Sector Performance

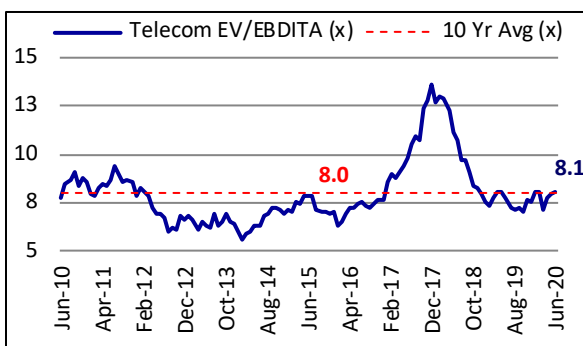
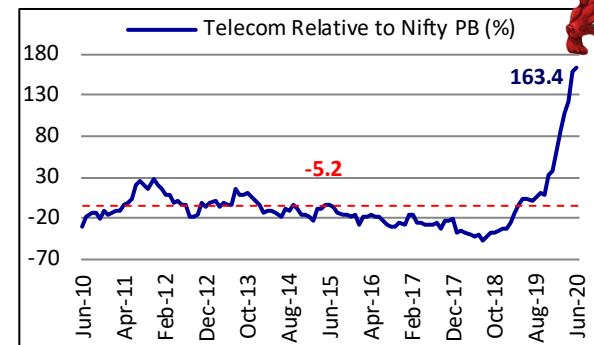
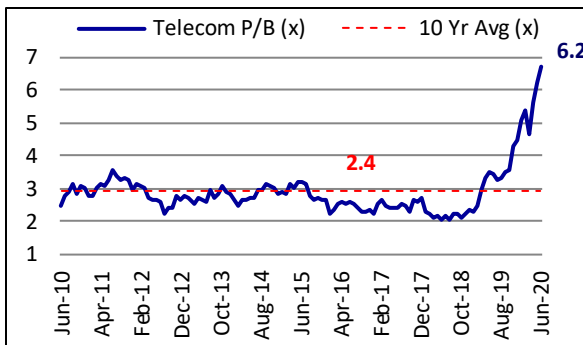
MoM: 6%

Company	PE (x)			Relative to Nifty P/E (%)		PB (x)			Relative to Nifty P/B (%)	
	Current	10 Yr Avg	Prem/Disc (%)	Current	10 Yr Avg	Current	10 Yr Avg	Prem/Disc (%)	Current	10 Yr Avg
Cyient	11.6	12.8	-9	-44	-32	1.0	2.1	-49	-56	-20
HCL Technologies	13.1	8.5	55	-36	-55	2.4	2.1	16	2	-20
Hexaware Tech.	17.1	14.0	23	-17	-26	3.1	3.4	-9	32	33
Infosys	19.2	13.6	41	-7	-28	4.2	3.2	31	80	25
Mphasis	15.1	12.9	17	-27	-32	2.5	2.2	14	6	-15
NIIT Tech.	18.5	11.7	57	-10	-38	3.2	2.0	62	35	-24
TCS	24.2	19.6	23	17	4	7.5	6.5	14	217	153
Tech Mahindra	14.7	13.0	13	-29	-31	2.0	2.8	-29	-17	7
Wipro	13.8	12.8	8	-33	-32	2.0	2.3	-15	-15	-9
Zensar Tech.	9.1	11.0	-17	-56	-42	1.1	1.9	-40	-52	-26

# Telecom: Multiple Deals all the way



- Telecom sector is trading at an EV/EBITDA of 8.1x, near its 10-year historical average of 8x.
- The Supreme Court has deferred the hearing for AGR matter until 3<sup>rd</sup> week of July and asked telcos to create a proposal to either make a reasonable upfront payment or furnish undertakings to claim the benefit of staggered payment.
- Telcos witnessed huge surge in data consumption during the first week of lockdown which was flattened to normal level after OTTs limit the video streaming quality to 480p on mobile.
- With the gradual lifting of lockdown, telcos could start witnessing new sim offtake.

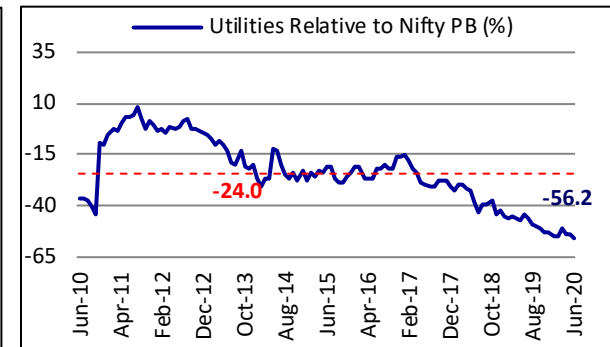
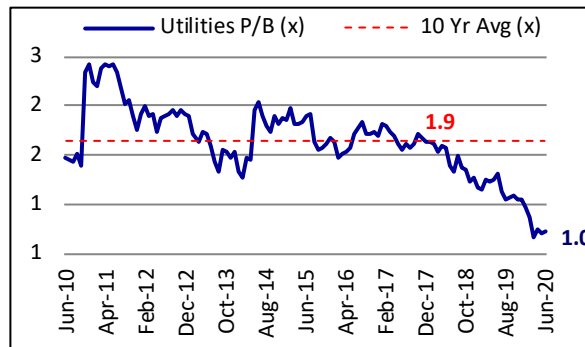
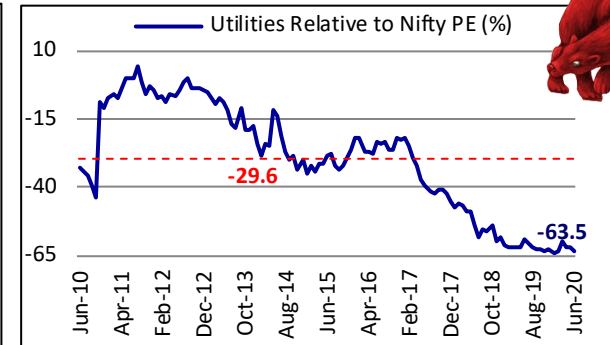
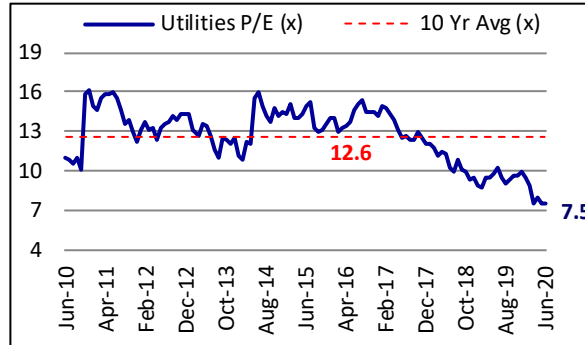


Company	PE (x)			Relative to Nifty P/E (%)		PB (x)			Relative to Nifty P/B (%)	
	Current	10 Yr Avg	Prem/Disc (%)	Current	10 Yr Avg	Current	10 Yr Avg	Prem/Disc (%)	Current	10 Yr Avg
Bharti Airtel	na	35.7	na	na	89	3.8	2.2	72	63	-13
Idea Cellular	na	16.9	na	na	-11	na	2.7	na	na	6
Tata Comm	19.9	17.5	14	-4	-7	na	4.6	na	na	80



# Utilities: Electricity generation declines 16% YoY in May'20

- Utilities trade at a P/B of 1.0x, at 47% discount to its historical average.
- Barring Torrent Power, all stocks under our coverage are trading at a discount to their historical average P/B.
- Short-term power prices were slightly higher MoM at INR2.57/kWh in May'20.
- Electricity generation has decreased 16% YoY in May '20



## Sector Performance

MoM: 6%

Company	PE (x)			Relative to Nifty P/E (%)		PB (x)			Relative to Nifty P/B (%)	
	Current	10 Yr Avg	Prem/Disc (%)	Current	10 Yr Avg	Current	10 Yr Avg	Prem/Disc (%)	Current	10 Yr Avg
CESC	6.7	10.5	-36	-67	-45	0.8	0.8	-3	-67	-69
Coal India	6.9	13.4	-49	-67	-29	2.1	5.8	-63	-9	124
JSW Energy	10.4	15.5	-33	-49	-18	0.6	1.4	-54	-73	-46
NHPC	6.9	10.1	-32	-67	-47	0.6	0.8	-31	-75	-67
NTPC	6.9	13.0	-47	-67	-31	0.7	1.4	-47	-68	-46
Power Grid Corpn	8.2	11.5	-29	-60	-39	1.3	1.7	-24	-44	-33
Torrent Power	12.6	16.0	-21	-39	-15	1.5	1.4	7	-37	-46
Tata Power	11.5	24.8	-54	-44	31	0.6	1.7	-62	-73	-34

## NOTES

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SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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