IDBI capital

Status check on various sectors

Equity Research

We recently interacted with couple of 2W/4W dealers and following are the key takeaways:

- Recently opened dealership are working with ~33% staff.
- Rural consumer are far more positive and confident whereas Urban consumers are uncertain, scared and seeing cancellation in booking.
- Booking cancelation are happening due to job loss, uncertain about paying EMI's, small business persons are cutting down on their expense and deferred their purchases, uncertain about future income levels.
- Expect casual buyer will go away and serious buyer to visit showroom. Level of enquiries to reduces whereas conversion rates to improve.
- Trend towards cheaper vehicles are increasing and seeing lot of down trading is happening. Customers are opting for base variants. Expect demand for entry level cars/Hatchbacks/ and used vehicles to increase.
- consumer finance/price hike post BSVI would remain to be key issue for 2W segment.
- As long as govt using term "Lockdown" customer would be uncertain about discreationy buying.
- Tractors are better placed compare to any other segment.
- New enquiries levels are poor.
- Do not see customers are waiting for higher discounts.

Fleet operator channel checks

- Existing EMI's, salaries, rented godown, shortage of drivers and loaders and unloaders are the key issue.
- Currently 1cr trucks in India of which ~12-15lakh were functional in April20.
- Before COVID, 70% (72-75 lakhs) trucks were functional. During COVID-19 utilisation level was 10% (April20) and currently is industry utilisation is at ~30%.
- Driver prefers to come on the same day. Return trip is not happening as drivers have to come with empty truck. Return trip is not happening so it is a half trip. Ready to work drivers would be the future for the transport industry.
- State govt are giving employment to labours which is impacting the transporter industry. Migrant labour is a biggest issue for transport industry.
- Looking for more collaboration with other state transporter for drivers.
- E-commerce company have rollers and trollies which help them to run the operations.
- No demand for second hand trucks in fact new trucks are available at much cheaper rate.

Outlook: We expect 2W/4W industry sales to decline 15%/18% for FY21. We expect CV industry sales to decline ~25% for FY21. We believe nationwide lockdown/negative consumer sentiments to impact overall auto industry and we do not see any revival in near term.

Banking

Fortnight (%)	8-May-20	24-Apr-20	10-May-19
Credit growth	6.5	6.7	13.0
Deposit growth	10.6	9.8	10.4
CD ratio	74.0	74.9	76.9
Excess SLR over regulatory requirement	8.9	8.8	7.7
Monthly (%)	**Apr-20**	**Mar-20**	**Apr-19**
Non Food Bank Credit	7.3	6.7	11.9
Agriculture Credit	3.9	4.2	7.9
Industry Credit	1.7	0.7	6.9
Retail Credit	12.1	15.0	15.7
Services Credit	11.2	7.4	16.8
Housing Credit	13.9	15.4	18.6
Auto Credit	8.6	9.1	4.9
Credit Card Credit	4.8	22.5	26.4
Consumer Durable Credit	43.7	47.6	(69.1)
Personal Credit	13.7	19.7	21.4
Services Credit			
Transport Operator	5.5	4.3	16.0
Tourism & Hotel	15.0	17.9	7.5
Trade	7.5	4.6	10.2
Commercial Real Estate	14.8	13.6	8.3
NBFC	30.3	25.9	37.8
Credit growth ex NBFC	4.9	5.4	11.6
Industry Credit			
Large Industry Credit	2.7	0.6	8.1
Medium Industry Credit	(6.4)	(0.7)	3.5
Small Industry Credit	(2.2)	1.7	1.0

Credit growth improved in April; however decline MoM

- April month data suggests, non food bank credit growth improved to 7.3% YoY vs 6.7% YoY (March data); however, credit book declined on MoM basis which is inline with historical data. Growth in services segment has decline to 11.2% as against 16.8% last year as well as growth in retail segment has decline to 12% vs 15.7% last year.
- Lockdown impact has been visible in Retail segment in the month of April. Retail segment has grown strongly at 15-16%, however growth slowed down to 12% YoY in April. Within retail, bigger segments like housing slowed down to 14% YoY while vehicle loans still growing at 9% although vehicle sales are at all time low. Unsecured segments like credit cards and personal loans which were growing at 22-25% and 20-22% have reported just 5% and 14% respectively.
- Credit to services are driven by NBFC (30% YoY), Commercial Real Estate (14.8% YoY), trade (7.5% YoY) and transport operators (5.1% YoY). Ex-NBFC bank system credit growth has fallen to 4.9% as of April 2020 vs 11.6 % last year.
- April month has been under lockdown while at the fag end of May month some parts of country being opened for economic activity. We expect credit flow to declined further in May month as well while cabinet approvals for MSME segment with respect to credit guarantee scheme, credit sanctions as well as disbursals have started from banking systems to MSMEs. Thus, some credit uptick in June month could be visible.

- With respect to RBI fortnight data as of 8 May’20 show decline in credit growth to 6.5% which justifies our view. Deposit growth has remain strong at 10.6% vs 10.4% last year. We expect deposit growth to remain strong as safer haven for savings under current situations. Excess SLR over regulatory requirement remains high at 8.9% as banks have been risk averse to lend.

Micro-finance

- Overall MFI credit stands at Rs2.1tn, which has slowed to 24.2% in Dec 2019 and Total number of MFI loan accounts stands at 10.1Cr vs. 8.7Cr in the previous year.
- Banks now hold the largest share of MFI portfolio at 40%, NBFC MFI now have a share of 31%, SFB 18% and balance by other NBFC and non-profit firms.
- MFI have been the most impacted from the lockdown situation as collections happens through meetings which was not possible. Also, Banks and MFIs have reported approx. 100% customers have opted for moratorium.
- In may month, with new guidelines for client meetings, collections started although at lower levels. Interactions with MFI suggests from June month collections have improved and many customers are not opting for second round of moratorium which starts from 1st June 20.

NBFCs

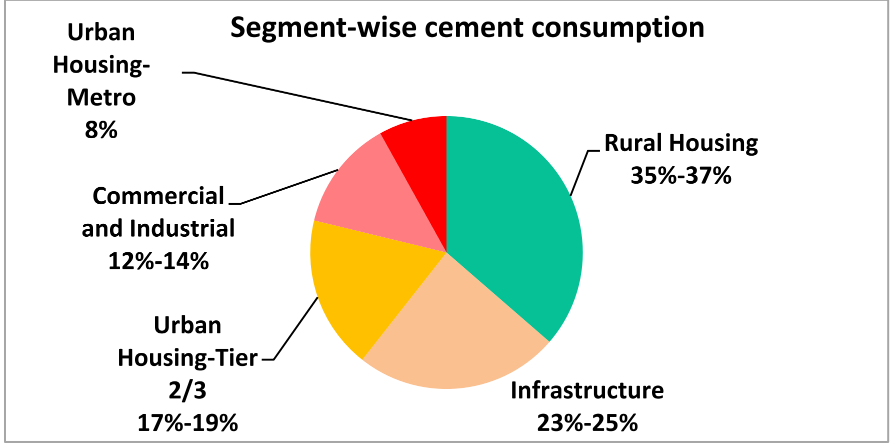
- Credit outstanding to NBFCs from banks continues to grow strongly at 30% YoY in the month of April’20.
- Interactions with NBFCs suggests larger ones have not availed moratorium on the bank borrowings while sufficient liquidity on the balance sheet should support them to pass through these tough times.

Insurance

- Life insurance new business premium for the month of April 2020 has de-grew by 32.6%, and on a APE basis it has de-grew by 40.2%.
- On a APE basis, private sector has a market share of 54.8%, whereas LIC has market share of 45.2%.
- Premium for Non-Life segment has de-grew by 10.7% YoY for the month of March and grew by 11.7% on YTD basis. Private sector has grown by 15.3%, whereas PSU has grown by 6.4%.
- In non-life, private sector has a market share of 61.4%.
- We expect business growth to slowdown in near term, especially in savings business while sluggishness in capital markets could result in lower demand for ULIPs.
- However, Protection and Annuity to do better due to Covid-19 and also easy to transact through digital channels.

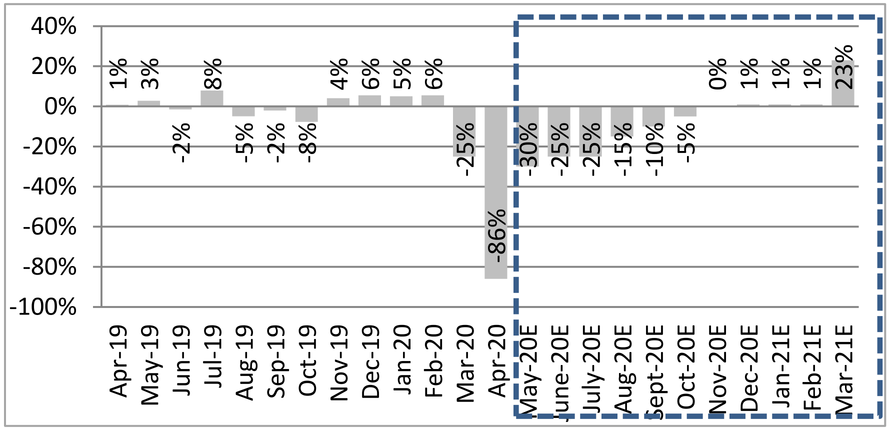
- **FY21E cement demand to decline by 15% YoY:** Cement production in India for the month of Apr-20 decreased by 86% YoY to 4mt. In May-20, led by pent up demand from rural and semi urban areas, cement companies have seen plant utilization of 65-70%. We expect gradual recovery in cement demand in the coming months. For FY21E, we modeled cement production to decline by 15% YoY. In 15% decline, we expect cement demand to be weak until monsoon ends in Sept. We have modeled cement demand to decline by 35% in 1H but improve as we move in 2H by +4%.
- **Industry utilization is expected at 53% in FY21E**: Cement industry in the last 5 years have operated at utilization of 60%+. But due to lockdown, FY21E cement industry utilization is expected to dip to 53%. Having said this, utilization is expected to increase to 63% in FY22E, driven by normalization of demand.
- **Sector wise demand trend**: Cement demand is driven by Infra (25%), Commercial (14%) and Housing (61%). In Housing, its sub segment Rural housing (35%) is expected to pick faster led by a) Good Rabi crop b) Labour availability c) less covid cases as of now. Urban housing (8%) will take time to pick up . Infra is contingent upon govt. spending and could be muted in FY21E. **Region wise demand**: West will take time to recover as 1) COVID cases are high 2) labor migration. East / Central / North will recover fast in cement demand growth. This can also be cross checked with regional daily power demand trend. As economic activity has picked up in East / Central / North versus West.

Segment-wise cement consumption



Source: IDBI Capital

Expect gradual recovery in cement demand growth in FY21E



Source: PIB Release, IDBI Capital

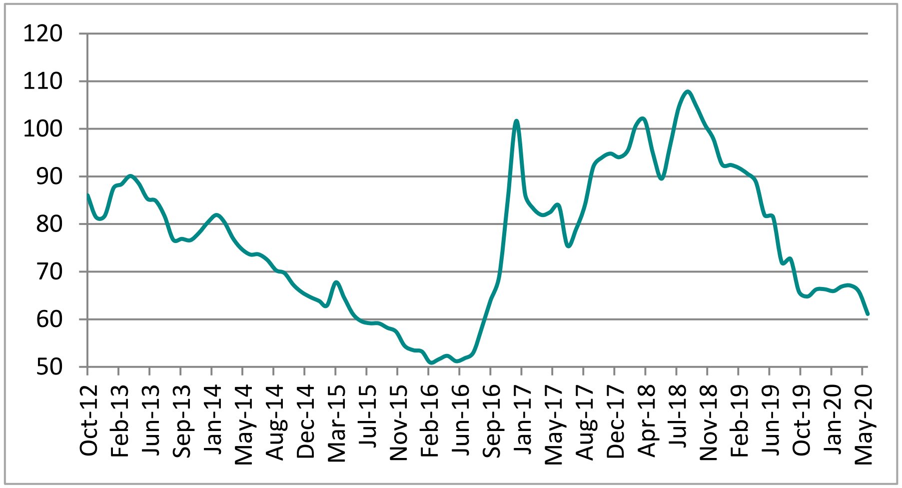
All India cement demand supply matrix: Utilization to dip to 53% in FY21E

	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Cement Capacity m tonne	417	428	468	481	499	514	534
Yearly new Supply m tonne	15	11	40	13	18	15	20
Change in supply yoy	3.7%	2.6%	9.3%	2.8%	3.7%	3.0%	3.9%
Cement Demand m tonne	269	272	297	334	329	280	336
Yearly new demand m tonne	12	3	25	37	-5	-49	56
Change in Demand yoy	4.7%	1.1%	9.2%	12.5%	-1.5%	-14.9%	20.0%
Cement Utilization	**65%**	**64%**	**63%**	**69%**	**66%**	**54%**	**63%**

Source: IDBI Capital

- **Costs are soft:** In May-20, imported coal prices (20% of opex) declined by 8% MoM. We expect operating costs of the company to remain soft given the overall softness in commodity prices. Freight cost may not decline as retail level petrol/diesel prices are same (post increase in taxes by the govt.).
- **Prices in June-20:** Our channel check suggests, average cement prices at an all India level is up 1% MoM in June-2020. Cement prices are up 7% so far in FY21E. In the environment of soft demand, price hike is implemented for partial recovery of high fixed costs. For the sustenance of price hike in commodity (cement), demand revival is the key element according to us.
- **View on cement stocks/sector:** In the sector we have BUY rating on ACC and Accumulate on Ultratech. We like ACC due to net cash balance sheet, exposure in East and South region which is relatively less impacted from Covid. And preference for Ultratech is from its leadership position (24% Market share). But after recent uptick in stock prices, the upside is capped.

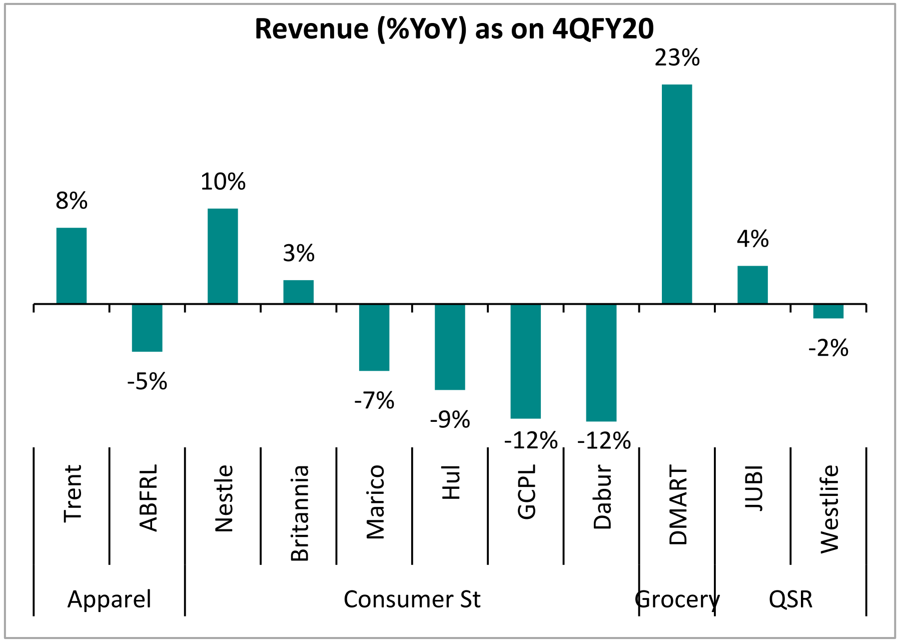
Imported coal prices trend : Remains soft (USD/t)



Source: Bloomberg, 6322 kcal

Companies focused on essentials and value pricing are doing well…

- **DMART** remained most resilient company to fight the blow of lock-down during Mar’20 as overall revenue during the month grew at 11% YoY while other companies reported 19-24% YoY decline. However based on our channel check, we note that DMART is currently facing staff-shortage issues (due to flight of migrants to their native towns). Topline in the month of May’20 is up 17% MoM, however still overall business is down 45-50% from normal levels.
- **In QSR space,** JUBI ‘s performance has been better than Westlife. We note that currently, JUBI has opened 938 stores covering 87% of its entire delivery area. JUBI has now launched zero-contact-takeaway (after having pioneered zero-contact-delivery) in their stores. This will help offset likely business loss from dine-in.
- **In apparel retailing space;** Trent outperformed competition with 8% YoY revenue growth in 4QFY20. Currently, Trent has been able to open all its standalone stores. However, stores which are in malls (c. 70% of total portfolio) are also being opened in phased manner. Value pricing, higher business from loyal customer (c. 80% revenue contribution) and superior control over inventory will help Trent to outperform competition in apparel industry.
- **In consumer staples;** companies having higher exposure to food portfolio (in-home consumption) has showed resilient performance. Nestle and Britannia are the only two companies which reported positive YoY revenue growth during 4QFY20. However, companies having higher exposure to discretionary portfolio remained vulnerable; GCPL and Dabur revenue in 4QFY20 fell by 12% YoY (highest compared to other companies).



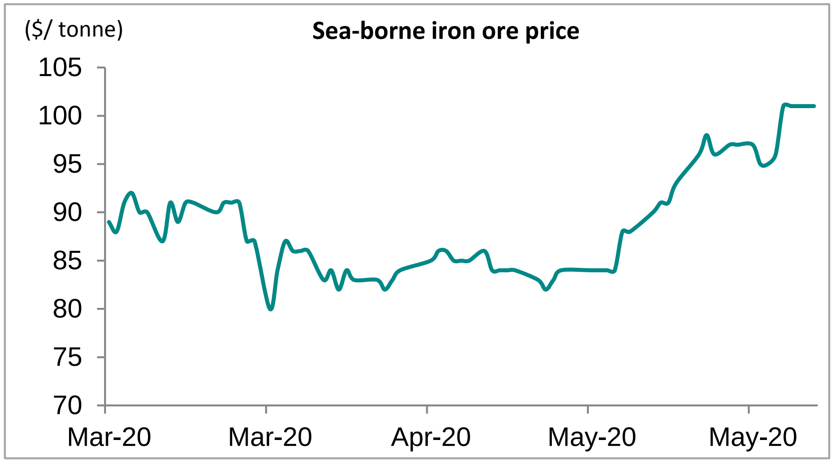
- **Production for consumer staples are now back to 75-90%;** We note that most of the FMCG companies are now back on its feet; HUL, Britannia, Dabur, Marico, GCPL are now able to produce 75-90% of their capacity. However, currently production is limited to fast selling SKUs only.

- **Due to its global linkage, the Indian IT sector has been one of the sector facing a surge in near-term headwinds due to the Covid-19 pandemic**
  - Q4FY20 was largely impacted by supply-side constraints due lock-down in India and delays in or inability to get client approvals for enabling work-from-home service delivery
  - In Q1FY21, most of the Indian IT companies have been able to get approvals for and have been able to activate work-from-home service delivery to the maximum possible (90%+ of the workforce)
  - Also, lock-down has been partially lifted for IT services companies in most of the locations
  - However, Q1FY21 is likely to see the impact of lock-down at client locations and headwinds on their businesses is likely to weigh on their IT spend. Most of the companies expect Q1 to see impact similar to that at the time of GFC (as regards QoQ decline in revenue) or more. They are hopefully of stability in Q2 and improvement in QoQ growth from Q3
  - Most of the companies expect increase in receivables in H1FY21
  - All the Indian IT companies have suspended giving guidance for FY21. We expect companies to see mid to high single-digit decline in revenue for FY21
  - Many companies have received strong client-feedback for enabling work-from-home operations for their clients and also seamless work-from-home driven service delivery; We expect them to benefit from vendor consolidation in the near to medium term
- **How different is the current scenario vs. the GFC?**
  - GFC did not have shut-down of businesses as it has happened currently and GFC had severe impact on the BFSI sector but Covid-19 pandemic has impacted almost every sector
  - GFC did not have a meaningful technology transformation vs. digital transformation across most of the verticals currently
  - GFC had seen productivity gains demanded by clients and in the current scenario the same is likely to be accompanies by increase in offshoring given the surge in remote-working during lockdowns
  - During GFC governments of key markets that of the US, Europe amongst others provided stimulus packages after assessing the impact. However, they have already announced strong stimulus packages to reduce the impact of the pandemic.

- **Impact on verticals**
  - Travel, transportation & Hospitality has been amongst the verticals being hit the most. However, it has insignificant share of revenue for Indian IT Tier-1
    - Mid-tier companies (NIIT Technologies, Mindtree and Hexaware) have higher share of revenue from this vertical but all three have been able to reasonably offset the impact of the same through growth in other verticals
  - Retail & CPG (7.3% to 16.8% of revenue for Tier 1 Indian service providers) has also seen severe impact especially on the non-essentials segment
  - Manufacturing (8.2% to 20.7% of revenue) has also been severely impacted by shutdowns. However, companies are hopeful of pick-up in Auto sector (passenger cars) which increasing preference for personal mobility. Other verticals like Aerospace & Defence, Off-highway and others are likely to see softness for the rest of FY21.
  - BFSI (15.3% to 31.3% of revenue) vertical has been impacted by supply-side constraints till now. However, H1FY21 is expected to see demand-side weakness in capital markets, wealth management and Insurance.
  - ENU (~13% of revenue) had also seen impact of weak commodity prices especially in-case of Oil & Gas. Also, other commodities and utilities are expected to see softness in the near term.
  - Hi-tech (7.9% to 16.2% of revenue) vertical has been one of the verticals which has seen a net-positive impact due to a significant increase in the adoption of cloud and virtualization / remote-access working processes. This is likely to see further acceleration in FY21 and companies with strong execution in Q4FY20/Q1FY21 are likely to benefit from vendor-consolidation .
  - Communications & Media (5.5% to 48.2% of revenue) vertical has seen mixed impact. While communications has seen increase data (wireless and broadband) consumption, network expansions (4G/5G/FTH) have seen deferrals. Similarly within media, broadcasting and OTT has seen significant uptick but out-of-home segments like sports, parks, etc. has seen sharp downtick.
  - Pharmaceuticals and Healthcare (6.4% to 13.5% of revenue) vertical has seen mixed impact with higher spend by Pharma companies on Covid-19 vaccine and Hospital/Diagnostics seeing capacities used for Covid-19 treatments. Spends on other areas have seen a down-tick in the near-term. However, there is increase focus on digitization.

- **Work-from-home (WFH) enablement is here to stay; Higher focus on Digital skills**
  - IT companies (Indian and foreign) believe that there will be a structural change in the WFH enabled service-delivery going forward. There has been continued focus on best-in-class service delivery + client satisfaction + security. We believe that solutions other than ER&D and BPM are likely to see significant increase in WFH enablement
  - Tier-1 IT companies have even initiated plans to consolidate their office spaces in alignment to revised WFH service delivery plans
  - There is likely to be increased pressure on employees to enhance their digital skills and on companies to drive training for digital technologies in WFH environment
- **Tier-1 companies to honor offers to freshers and laterals; To change salary structures to avoid pay-cuts**
  - Tier-1 companies plan to honor all offers already made for new hiring. However, employee onboarding is likely to be differed during the year
  - While companies have freezed salary increase they plan to change the variable pay-out structure to avoid broader salary-cut
- **Strong balance sheet ; Payout strategy is unlikely to change**
  - Almost all the Tier-1 and mid-tier Indian IT companies have significant amount of cash on their balance sheet to stomach the near-term impact of the pandemic
  - Receivables are expected to increase in Q1/Q2 and we expect decline in receivable days in H2FY21. However, for FY21 we expect YoY increase in receivable days of 10%+.
  - We expect majority of the companies not to make any change their payout strategy to shareholders. However, majority of the dividend payout and share-buyback are likely to happen in H2FY21.
- **Outlook on the sector**
  - We maintain our cautious outlook on the sector with Cyient (CYL) being the only BUY due to its undemanding valuation.
  - We would recommend investors to focus on companies with strong track-record of EBIT margin management and revival of growth and are positive on Tata Consultancy Services (TCS), Infosys (INFO), HCL Technologies (HCLT) and L&T Technologies (LTI). However, given the recent uptick in these stocks we would recommend buying post 15-20% correction.

- **Management commentaries positive:** During May, two of the largest steel companies (JSPL and JSW Steel) reported better than expected results for Q4FY20. Further, their guidance on volumes and profitability was better than market expectations. Both these companies aim to increase exports if demand in the domestic market remains weak. The commentary from JSPL was very positive with volume guidance of 15% growth in steel business for FY21 and hence the stock jumped up sharply post the results.
- **Production ramps-up in May:** JSW Steel's production increased sharply by 122% MoM to 1.2 mn tonnes in May, representing a capacity utilization of 83%. In April, most of the steel companies were operating at 40-50% utilization levels. Even NMDC's iron ore sales for May jumped up 85% MoM to 2.6 mn tonnes after it slashed iron ore prices by Rs400/tonne. Even though production was high at 1.8 mn tonnes during April, most steel mills were either shut or operating at low utilization in April. Nevertheless, lower prices of domestic ore and ramp up by steel mills led to higher offtake in May for NMDC.
- **Labour migration prominent:** Many steel companies have started reporting labour shortages as many labourers have migrated to their hometowns during May. Further, steel companies are facing problems of tight liquidity and logistical constraints (supply chains affected). Nevertheless, global giants such as Rio Tinto and Vale are making advanced payments to suppliers so that their own supply chain run smoothly. This is in contrast to Indian companies who have tendencies to hold back payments which in turn affect their own supply chain in current environment.
- **Steel prices outlook**: Steel prices have remained flattish in the month of May. As we enter the monsoon season, steel prices are likely to remain muted, although prices are unlikely to fall meaningfully. Manganese ore prices cooled off by 10% during May after sharp increase of 45% towards the end of April. During April, supply shocks in South Africa (largest producer of manganese ore) had led to sharp increase in manganese ore price.
- **Spurt in global iron ore prices:** Even though the domestic iron ore prices have remained weak, global iron ore prices increased by 20% to $101/tonne during May due to rising Chinese demand alongside supply constraint at Vale's Brazilian plant and falling port inventory. In the domestic market, however, iron ore prices fell due to weak demand from steel companies. Also, coking coal prices fell by 26% during May which should lower the raw material costs for Indian steel companies in coming months.



- **Crude oil price moved from discount to premium:** Indian refiners were enjoying a huge discount of upto US$5-8/bbl on crude oil purchase in the month of April and early May'2020. However, discount has not just wiped out but some refiners are paying premium as well in some cases.
- **Petroleum product demand consistent on a rise:** As lockdown partially lifting out, demand for petroleum products continuously on the rise .Demand for petroleum products improved ~65-70% MoM in May'2020 and was lower by 30-35% from pre-COVID levels. Auto fuels, which was down by 55-60% in April is now down by just 25% YoY. Jet fuel, demand though still down over 50% which was down by nearly 91%.
- **Refinery utilisation:** Refinery utilisation at BPCL improved to 83% now from 63% in Apr'2020 and 77% in May 2020. Similarly, IOC and HPCL's refineries are operating at over 80% now. Also, RIL's refinery utilisation, which saw just 10% drop, is not running closer to full utilisation. We expect it to improve further until second wave of Covid impact us again.
- **Marketing Margin:** As crude oil price hitting ~US$38/bbl and with stagnant retail auto fuel price, gross marketing margin for petrol has turned negative Rs0.25-0.5/ltr while its closer to zero for diesel now. Before hike in additional excise duty on petrol and diesel, OMCs were enjoying a gross marketing margin of Rs14-18/ltr.
- **Gross Refining Margins:** Singapore GRM further deteriorated in the month of May'2020 led by weaker diesel, Naphtha and FO cracks. Singapore GRM declined to a negative (US$1.5/bbl) in May vs a negative (US$0.8/bbl). Petrol cracks still in red zone at -US$5.2/bbl vs -US$5.7/bbl in Apr'20. Further, diesel cracks also declined to US$2.6/bbl from US$6.4/bbl, Naphtha and FO also dipped MoM to -US$5.3/bbl and -US$6.9/bbl in May'2020 vs -US$4.2/bbl and US$1.5/bbl in Apr'2020 respectively.
- **Rising gas demand led by power, refineries & fertilisers:** Gas demand is growing at a rapid speed in India led by strong demand growth from Power, refineries and Fertilizers unit. Also, with partial opening of lockdown, CNG demand is also on a consistent rise. GSPL 's volume has come back to pre-Covid levels and now operating at closer to 40mmscmd. Though, volume growth at Morbi is still low. We believe it to improve gradually once demand would be back.

Paper

- COVID-19 would have a negative impact on domestic paper industry sales, as except demand for packaging and to some extent tissue, rest of the segments are facing sharp decline in demand. Nationwide lockdown has led to closure of offices as well as schools and colleges, which dented copier paper and writing paper demand in last 2 months.
- Though the central Government permitted paper companies to start operations, unavailability of labor, shortage of raw material and logistics issues kept many players to shut their operations. Even the organized players (JK Paper, TNPL etc) were operating at 60%-70% of capacity in the month May, 2020.
- Apart from muted domestic demand, rising imports from China remains a concern. The industry’s 15% demand is taken care by imports, which has grown by 18% till January, 2020. As per the reports, Chinese companies are likely to push the unsold inventory to the country, despite the fall in the rupee. This coupled with a subdued demand environment and high stocks in the supply chain would weigh on paper prices for most of the grades.

Hotels

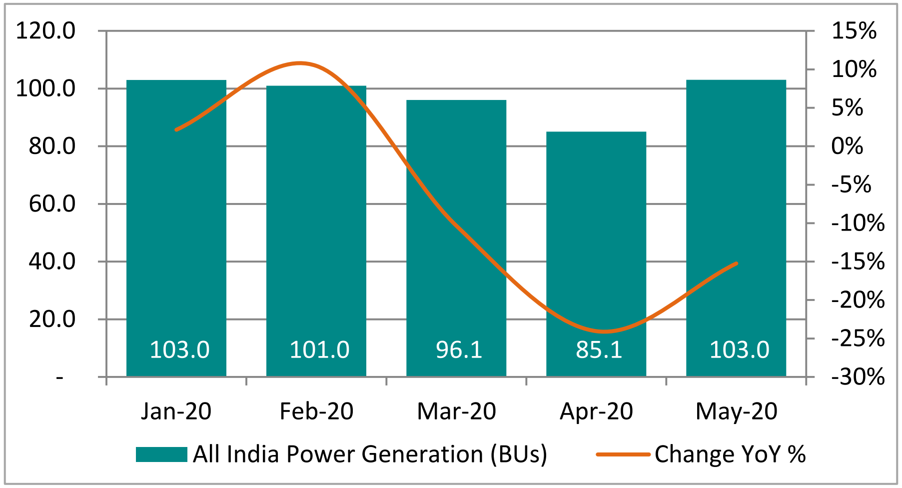
- The Indian hospitality industry is undoubtedly one of the biggest casualties of COVID-19 outbreak as demand has declined to an all-time low. Nationwide lockdown, suspension of Visas, the imposition of Section-144 (prohibition against mass gatherings) has led to most of the hotels being shut in May, 2020. Though room inventory is being used for medical staff, it is at subsidized rates.
- The overall revenue of the Indian hotel sector is set to decline by anywhere between US$8.8 bn to US$ 10 bn, reflecting an erosion of 39%-45% compared over last year. Besides the actual business loss, the hotel owners will also incur losses due to fixed operating expenses, debt repayments and interest payments.
- The industry is expecting relief measures from the central/state government to survive the storm and revive later as the things normalise. We believe it would be a survival of the fittest and the companies with sound balance sheet and agile to change business strategies would survive in future.

Power demand: Power contributes 20% to Index of Industrial production and good proxy for economic activities on the ground. All India power demand in the month of May-20 declined by 15% YoY to 103 BUs. And in April-20, power demand declined by 24% YoY.

Daily power demand: Power demand has started to show traction post start of industrial / manufacturing units (contribute 40% to demand) from 20th April. And we noticed good improvement in power demand until 25th May and post which we noticed severity in the decline of power demand. On 31st May power demand declined by -15% YoY.

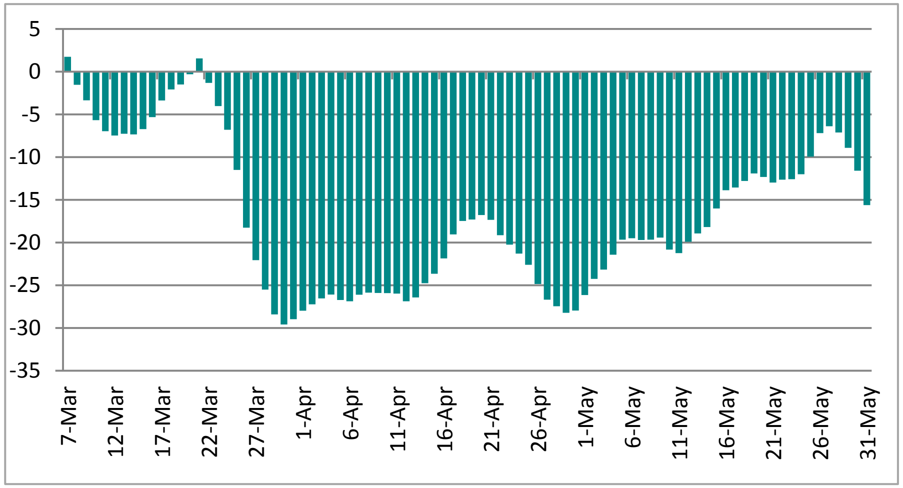
Regional power demand: Region wise, north region (33% of all India power demand) saw good power demand and it showed demand growth on few days in May-20. But in the last few days of May-20, power demand has declined sharply in North and East region. We understand this is partially driven by weather condition. As residential demand contribute 25% to total demand and there was sharp dip in heat wave.

All India Power Demand : May 20 at -15% YoY



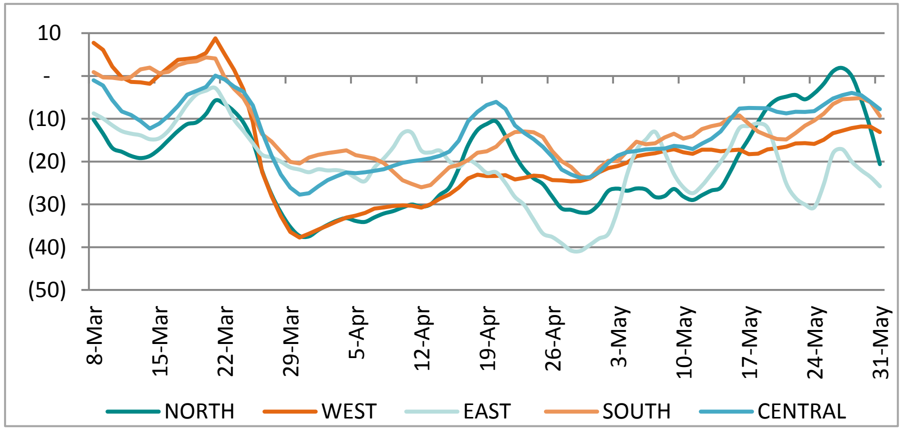
Source: CEA

All India change in daily Power demand : Decline increased in last few days of May (yoy, %)



Source: CEA

Region wise change in daily power demand: Sharp decline in North and East in last few days of May (YoY, %)



Source: CEA

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