Market snapshot

Equities - India	Close	Chg .%	CY20.%
Sensex	48,564	-1.0	17.6
Nifty-50	14,281	-1.1	17.2
Nifty-M 100	21,470	-2.1	25.2
Equities-Global	**Close**	**Chg .%**	**CY20.%**
S&P 500	3,768	0.0	15.7
Nasdaq	12,999	0.0	43.0
FTSE 100	6,721	-0.2	-11.6
DAX	13,848	0.4	3.5
Hang Seng	11,463	1.3	1.3
Nikkei 225	28,242	-1.0	19.4
Commodities	**Close**	**Chg .%**	**CY20.%**
Brent (US$/Bbl)	54	-0.6	-18.3
Gold ($/OZ)	1,841	0.7	21.4
Cu (US$/MT)	7,968	0.4	29.3
Almn (US$/MT)	1,962	-1.5	10.5
Currency	**Close**	**Chg .%**	**CY20.%**
USD/INR	73.3	0.3	2.9
USD/EUR	1.2	0.0	7.7
USD/JPY	103.7	-0.2	-4.7
YIELD (%)	**Close**	**1MChg**	**CY20 chg**
10 Yrs G-Sec	5.9	-0.04	-0.6
10 Yrs AAA Corp	6.7	-0.06	-1.0
Flows (USD b)	**18-Jan**	**MTD**	**CY21**
FIIs	0.09	0.63	0.54
DIIs	-0.01	-0.09	-0.09
Volumes (INRb)	**18-Jan**	**MTD***	**YTD***
Cash	806	770	770
F&O	27,578	31,876	31,876

Note: *Average

Today's top research idea

ECONOMY | 2020s: Decade to regain lost economic strength

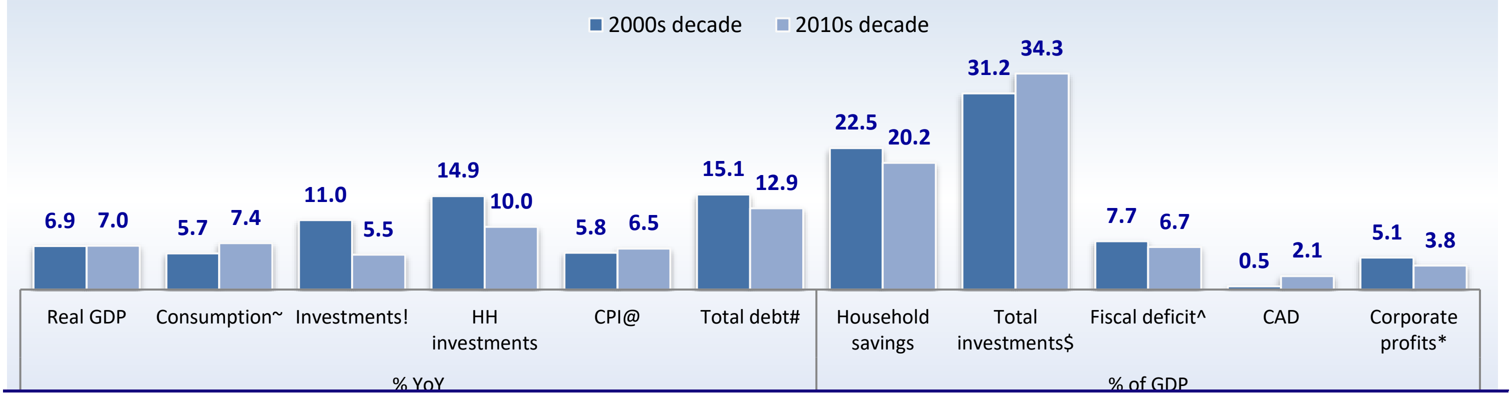
- The third decade of the 21st Century has begun on an unprecedentedly weak note. This makes the 2020s decade highly unusual, but interesting.
- How strong or weak India's economic recovery could be and what could be done to make it stronger is what we have addressed in this note.
- Why talk about this now? There are two reasons: a) COVID-19 presents the opportunity to address difficult structural challenges, and b) assuming these issues are resolved over the next few years, the nation would have two more decades to reap the economic benefits before the demographic dividend starts disappearing from the 2050s decade.
- Therefore, we argue that healing undertaken in 2020s decade could help India reap the benefits over subsequent decades and become a middle-income nation before favorable factors start reversing.

Research covered

Cos/Sector	Key Highlights
Economy	2020s: Decade to regain lost economic strength
Mindtree	Strong 3Q led by stellar margin performance
Oil & Gas	Marketing margins – an elixir for OMCs
Larsen & Toubro	Order inflow winning spree continues
Coromandel Int.	2HFY21 looks promising owing to better rabi season
IndiaMART	Another quarter of strong performance; beat on all fronts!
IRB Infra.	Strong EPC execution
Shoppers Stop	Prolonged recovery

Chart of the Day: Economy (2020s: Decade to regain lost economic strength)

Comparison of India's economic indicators in the first two decades of the 21st Century



~ Personal + Government

! Excluding 'errors & omissions (E&O)'

@ CPI for industrial workers before FY12

Total debt is our estimate compiled from all institutional sources for non-financial sector

$ Including 'errors & omissions (E&O)'

^ Center + State governments

* For listed + unlisted companies available in Capitaline

Source: CSO, RBI, Capitaline, CEIC, MoFSL

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In the news today

Kindly click on textbox for the detailed news link

1

Maruti Suzuki hikes prices of select vehicles by up to Rs 34,000

The country's largest carmaker Maruti Suzuki India on Monday said it has increased the price for select models by up to Rs 34,000 to offset adverse impact of rising input costs. The company is increasing the price for select models owing to an increase in various input costs...

2

Budget seen raising import duties by 5%-10% on dozens of items: Report

India is considering hiking import duties by 5%-10% on more than 50 items including smartphones, electronic components and appliances in the upcoming budget, three government sources privy to the discussions told Reuters on Monday. The move to increase import duties is part of Prime Minister Narendra Modi's self-reliant India campaign that aims to promote and support domestic manufacturing, said the sources, who asked not to be named as the discussions are not public. One of the sources said the government was seeking to target additional revenue of about 200 billion to 210 billion rupees ($2.7 billion to $2.8 billion) from the moves…

3

New launches of housing units increased by 56% in Q4 2020: Report

Sales of housing units in top 7 cities in India increased by 78% in Q4 2020 to 110,811 units against 62,197 units in Q3 2020, according to a report by PropEquity, an real estate data, research and analytics firm. The report points out that new launches rose by 56% during the same period to 62,891 units from 40,275 units as market sentiment increased…

4

Falling gold prices boost jewellery demand up by 10-20%

India's jewellery demand has increased by 10-20% this month compared with December with the fall in gold prices prompting consumers to place orders now for weddings slated for the next quarter. This year, April, May and June have the most number of wedding dates. Also, most of the marriages that were postponed…

5

Ocean Infraheights to invest Rs 450 crore in Greater Noida commercial project

NCR-based Ocean Infraheights Private Limited, will invest Rs 450 crore in developing 3 million sq ft of commercial and retail hub in Greater Noida (west), a senior company official said. Spread in 25-acre, the project Golden I was acquired from another company, who couldn't continue with the construction…

6

Low production due to COVID-19 raising fuel prices: Dharmendra Pradhan

Union Minister for Petroleum and Natural Gas Dharmendra Pradhan on Monday said fuel prices had gone up because of lower production in oil-producing nations due to the coronavirus pandemic. This lower production had caused an imbalance in demand…

7

Govt extends bid deadline for Pawan Hans by a month to February 18

The government has extended the preliminary bid submission deadline for buying Pawan Hans by a month till February 18. The Department of Investment and Public Asset Management (DIPAM) had in December invited bids for strategic sale, along with transfer…

Economy

2020s: Decade to regain lost economic strength

- **The third decade of the 21st Century has begun on an unprecedentedly weak note. Due to the physical lockdown on account of COVID-19, global GDP decline has been the fastest in the peacetime era. This makes the 2020s decade highly unusual, but interesting. How strong or weak India's economic recovery could be and what could be done to make it stronger is what we have addressed in this note.**
- **India's average GDP growth in the first two decades of the 21st Century remained the same; however, the drivers varied drastically. After both decades reported strong growth in the first year, economic growth weakened. It then strengthened considerably in the middle and faltered once again towards the end, creating sleeping S-shaped growth curves. Nonetheless, the growth in the 2000s decade was led by investments, while consumption was the key driver in the 2010s decade.**
- **Although the third decade begins at the absolute bottom – which could only improve over the course of the decade – the scars of COVID-19 may mean limited economic strength in the recovery phase. Nevertheless, it does provide an unmatched opportunity to address difficult structural economic issues – this would help the nation move from low growth in the first half to high-single-digit growth before the end of the 2020s decade, and on a sustainable basis too.**
- **Besides these structural issues, there are five more areas wherein improvement is needed to support India's economic growth. Many of these areas have already shown some promise in 2020; however, sustained improvement in these areas is needed, without which lost economic strength cannot be regained.**

IMPROVEMENT IN THESE FIVE AREAS IN THE 2020S DECADE WOULD BE FOLLOWED CLOSELY

01

- **Without a strong Financial sector, no nation can witness high economic growth. Unlike in the first decade, India's Financial sector diversified and struggled in the 2010s decade. While it has been extremely resilient in 2020, supported by regulatory changes and strong capital injection, credit growth remains tepid. Continued efforts to keep the system clean, further consolidation, and adequate capital bode very well for higher credit growth over a period of time.**

02

- **India's Residential Real Estate (RRE) sector has been at the core of economic slowdown. A large reduction in interest costs and various sops by central/state governments have complemented low-to-stable home prices and low-to-stable income growth in prospective buyers to support robust recovery in the RRE sector. Although the resilience of this recovery is in question at this stage, it certainly provides a template of how the RRE sector may be revived.**

03

- **From being a member of the Fragile Five over 2012–14, India has come a long way in securing its position as one of the most favored investment destinations. As the country has the world's 5th largest stock of foreign exchange (FX) reserves, the external sector has turned from an area of concern to comfort. Going forward, although BoP surplus would reduce, FX reserves of USD585b provide enough insurance to follow the long-term roadmap, without worrying too much about external vulnerability.**

04

- ***"No crisis should be wasted,"* and the Government of India (GoI) seems to have taken this very seriously. In the past few months, GoI has announced a number of structural reforms, ranging from labor, agricultural, to educational reforms. The beauty of reforms is that they disturb the existing ecosystem and nudge the present beneficiaries to compete with new players. As a result, they are almost certain to bring efficiency or productivity improvements.**

05

- **Lastly, GoI has shown renewed drive toward India's Manufacturing sector. The Production-Linked Incentive (PLI) Scheme was announced for 13 shortlisted sectors in 10 ministries/departments, with the approved financial outlay totaling INR1.97t over the next five years. While the government's Make In India initiative has failed to yield the desired results in the last five years, the focused approach and linked incentives are expected to yield better results in PLIs.**

Whether Indian households would keep their financial positions healthy is an important pre-requisite for better growth over the long term

While following the developments on these important changes, we would also closely observe other important economic indicators related to the financial positions of Indian households, the corporate sector, and the government.

We believe COVID-19 may act as a trigger to nudge the Household sector to start worrying about its deteriorating finances – falling savings, rising leverage, and weak incomes. While 2020 led to extreme behaviors, pushing financial savings sharply higher, this would start reversing from 2021 as things begin to normalize. Whether Indian households would keep their financial positions healthy is an important pre-requisite for better growth performance over the long term.

Furthermore, this government has shown remarkable resistance to any major stimulus, which provides further confidence that government finances could improve consistently over the next decade. While the fiscal deficit would remain above 3% of GDP for the next few years, the path to fiscal consolidation would be watched closely. **The faster the fiscal consolidation, the lower would be the fiscal support toward economic growth and vice-versa**. As we had discussed in detail here, it could take many years for the general government to bring its debt-to-GDP ratio (at 86% of GDP in 2QFY21) back down to pre-COVID levels (of ~68%). This implies the fiscal support toward economic growth in the 2020s decade would be lower than in the 2010s decade.

As households and the government remain cautious on spending and repair their balance sheets, a sharp and sudden surge in non-government investments is unlikely. **With the rising formalization in the economy benefitting the organized Corporate sector disproportionately at the initial stage, this sector's balance sheet would also strengthen over the decade.**

All of these factors imply that while economic revival may be limited over the next few years, the improved balance sheets of economic participants – along with sustained improvements in the five areas mentioned above – would mean the stage is set to move from low growth to high-single-digit growth before the end of the 2020s decade. Moreover, with these adjustments, strong growth may be sustainable for several years, even a couple of decades. If, however, this repairing does not happen, it is very likely the economy would continue to crawl sideways – with some years of decent growth and some years of weak growth – leading to subdued average growth. These adjustments, we believe, are inevitable to move to a high-growth trajectory on a sustainable basis.

Healing undertaken in the third decade of the 21st Century could help India reap the benefits over subsequent decades and become a middle-income

Why talk about this now? There are two reasons: a) COVID-19 presents the opportunity to address difficult structural challenges – which is already visible in some areas and b) assuming these issues are resolved over the next few years, the nation would have two more decades (the 2030s and 2040s) to reap the economic benefits before the demographic dividend starts disappearing from the 2050s decade. Therefore, we argue that healing undertaken in the third decade of the 21st Century could help India reap the benefits over subsequent decades and become a middle-income nation before favorable factors start reversing.

Mindtree

Estimate change	↑
TP change	↑
Rating change	↔

Bloomberg	MTCL IN
Equity Shares (m)	165
M.Cap.(INRb)/(USDb)	273.5 / 3.8
52-Week Range (INR)	1780 / 692
1, 6, 12 Rel. Per (%)	9/31/72
12M Avg Val (INR M)	1482

Financials & Valuations (INR b)

Y/E Mar	2021E	2022E	2023E
Sales	79.8	92.0	103.4
EBIT Margin (%)	17.4	17.6	17.5
PAT	10.9	12.4	13.9
EPS (INR)	65.9	75.3	84.1
EPS Gr. (%)	71.9	14.2	11.7
BV/Sh. (INR)	233	282	337
Ratios			
RoE (%)	31.1	29.3	27.2
RoCE (%)	24.4	23.9	22.4
Payout (%)	37.4	35.0	35.0
Valuations			
P/E (x)	25.2	22.0	19.7
P/BV (x)	7.1	5.9	4.9
EV/EBITDA (x)	15.1	12.5	10.9
Div Yield (%)	1.5	1.6	1.8

Shareholding pattern (%)

As On	Dec-20	Sep-20	Dec-19
Promoter	61.0	67.6	73.6
DII	10.6	12.0	6.2
FII	13.3	12.0	10.5
Others	15.1	8.4	9.7

FII Includes depository receipts

CMP: INR1,661 TP: INR1,765 (+6%) Neutral

Strong 3Q led by stellar margin performance

Risk-adjusted valuation remains unattractive

- Mindtree (MTCL) delivered strong revenue growth in 3Q (5.0% QoQ USD), above our estimate of 3.6% QoQ, on a broad-based performance across client buckets and industries (with the exception of BFSI). While deal wins (USD312m) were stable QoQ, they remain c20% below the highs seen some quarters ago.
- More importantly, we were surprised by further expansion in the EBIT margin (+290bp QoQ / +760bp YoY), led by a 430bp QoQ increase in utilization (all-time high) and 70bp increase in offshore mix (six-year high). For 9MFY21, sales (USD) / EBIT / PAT came in at -3%/74%/87%.
- We expect MTCL to continue to benefit from a strong demand environment, especially given the high exposure to cloud (19% of revenues) – USD revenue growth was in the low-to-mid teens. In addition to reporting strong revenue growth, the company should benefit from the massive margin expansion over 2QFY20–3QFY21 (10pp) – the majority of which the management expects to retain despite an increase in investments in sales and new employee additions.
- Hence, despite the near-term drag due to wage hikes in 4QFY21, along with the gradual resumption of travel next year, we raise our FY22 EBITDA margin expectation to 21.1% (19.0% earlier).
- However, we continue to see high exposure to the top client (28.5% of revenues) as a risk – despite modest growth seen over the last two quarters. While MTCL has been trying to diversify its client exposure for a long time, this has only increased (c10pp over FY19–21E), which remains a concern.
- We upgrade our FY22/FY23 EPS estimates by 10%/11% as we factor in 170bp margin expansion, apart from the strong beat during the quarter. The stock is trading at 20x FY23 EPS. It has been one of the best performers in CY20 in the IT sector, with returns of 88% over the past year. We believe the key positives are already captured, and we see limited upside hereafter. Our TP of INR1,765 implies 21x FY23 EPS (15% discount to LTI). **Maintain Neutral.**

Strong all-round beat

- MTCL's revenues grew 5.0% QoQ to USD274m, above our estimate of 3.6% QoQ growth.
- The EBIT margin expanded 290bp QoQ to 19.6%, above our expectations of 16.5%. This was largely led by a 430bp increase in utilization and 70bp increase in the offshore mix sequentially.
- PAT increased 28.7% QoQ to INR3.2b, against our expectation of INR2.5b; this was primarily owing to higher operational income.
- Growth in 3Q was driven by Travel & Hospitality (12.6% QoQ), Retail & Manufacturing (5.5% QoQ), and Technology, Media & Services (5.2% QoQ). The BFSI vertical posted muted growth of 0.9% QoQ.
- In terms of geography, growth was broad-based, with the US growing 4.7% QoQ, while Europe inched up 3.7% QoQ. RoW reported robust growth of 10.9% QoQ.

- In terms of Services, growth was largely skewed toward Data & Intelligence (10.2% QoQ). Other services lines – Cloud (6.1% QoQ), Enterprise IT (4.6% QoQ), and Customer Success (2.9% QoQ) – also reported robust growth.
- Growth was broad-based. Revenues from the top customer grew 3.6% QoQ and 22.9% YoY.
- Total TCV was USD312m (+51% YoY) for 3QFY21. On a YTD basis, MTCL exceeded deal wins of USD1b.

Largely in-line revenue; beat on margins

- The management continues to see strong demand across geographies and service lines, and the pipeline remains healthy.
- Among the verticals, Travel is still some quarters away from a full recovery. It has reached bottom levels and would only grow from hereon.
- The management intends to invest in growth in the coming quarters, which would be a headwind to margins.
- The company expects wage hikes to impact margins in the next quarter (-250bps). Despite this, the management is confident of sustaining margins in the 20%+ range on a sequential basis.
- This was possible owing to reduced travel cost on account of COVID-19, but largely because of company-specific optimization levers.
- The company has embarked on a rigorous re-skilling program, which has led to increased utilization. Now that utilization has reached ~83% levels, the management intends to hire aggressively.
- The company actively seeks inorganic opportunities, apart from significant organic traction.

Valuation and view – fair valuations; limited upside

- Since Jul'19, post the disruption pertaining to ownership change, Mindtree has been undertaking encouraging steps toward achieving stability in both its client and employee counts.
- The strategy change to increase focus on annuity revenue and tail account rationalization is already reflected in the revenue and client mixes.
- (1) A stable outlook for the Top account, (2) decent deal signings, and (3) the ability to sustain improved margins are key positives.
- Consistent margin expansion and a positive outlook on the same are key positives. High exposure to Travel, Transport, and Hospitality remains a drag on overall recovery.
- The stock is currently trading at 20x FY23E EPS. The stock has been one of the best performers in the IT sector in CY20, with returns of 87%. We believe the key positives are already captured, and we see limited upside hereafter. Our TP of INR1,765 implies 21x FY23 EPS (15% discount to LTI). **Maintain Neutral.**

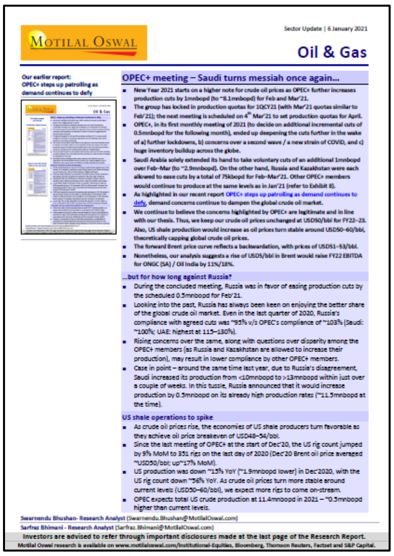
Quarterly Performance

(INR m)

Y/E March	FY20				FY21E				FY20	FY21E	Est.	Var. (% /
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QFY21	bp)
Revenue (USD m)	**264**	**271**	**275**	**278**	**253**	**261**	**274**	**283**	**1,089**	**1,072**	**270**	**1.4**
QoQ (%)	0.8	2.6	1.5	1.2	-9.1	3.1	5	3.4	8.7	-1.6	3.6	141bp
Revenue (INR m)	**18,342**	**19,143**	**19,653**	**20,505**	**19,088**	**19,260**	**20,237**	**21,256**	**77,643**	**79,841**	**19,958**	**1.4**
YoY (%)	11.9	9.1	10	11.5	4.1	0.6	3	3.7	10.6	2.8	1.6	142bp
GPM (%)	**26.6**	**26.9**	**29.1**	**30.4**	**26.3**	**27.5**	**30.6**	**29.2**	**28.3**	**28.5**	**31.6**	**-96bp**
SGA (%)	14	13.9	13.5	13.2	8.1	7.9	7.5	7.7	13.6	7.8	12	-448bp
EBITDA (INR M)	**2,318**	**2,482**	**3,063**	**3,512**	**3,478**	**3,784**	**4,679**	**4,580**	**11,375**	**16,521**	**3,912**	**19.6**
EBITDA Margin (%)	12.6	13	15.6	17.1	18.2	19.6	23.1	21.5	14.7	20.7	19.6	352bp
EBIT (INR M)	**1,649**	**1,775**	**2,364**	**2,833**	**2,881**	**3,215**	**3,962**	**3,836**	**8,621**	**13,894**	**3,293**	**20.3**
EBIT Margin (%)	9	9.3	12	13.8	15.1	16.7	19.6	18	10.5	16.4	16.5	308bp
Other income	-387	59	215	-220	17	232	489	149	-333	887	111	341.5
ETR (%)	26.5	26.4	23.6	21.1	26.5	26.4	26.6	26.5	23.9	26.5	26	65bp
PAT	**927**	**1,350**	**1,970**	**2,062**	**2,130**	**2,537**	**3,265**	**2,929**	**6,309**	**10,861**	**2,519**	**29.6**
QoQ (%)	-53.3	45.6	45.9	4.7	3.3	19.1	28.7	-10.3			-0.7	2941bp
YoY (%)	-41.4	-34.6	3	3.9	129.8	87.9	65.7	42	-16.3	72.1	27.9	3788bp
EPS (INR)	**5.6**	**8.2**	**12**	**12.5**	**12.9**	**15.4**	**19.8**	**17.8**	**38.3**	**65.9**	**15.3**	29.4

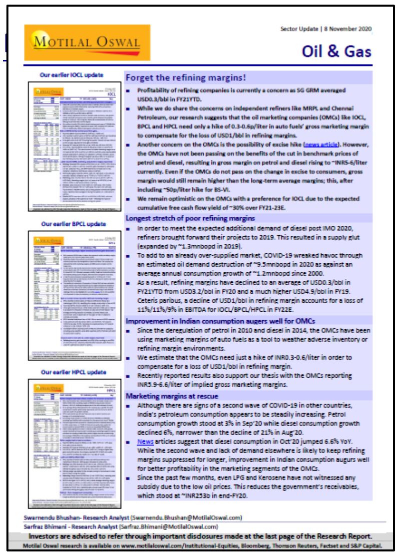
Oil & Gas

Our earlier report:
Saudi turns messiah once again



Oil & Gas

OPEC+ meeting – Saudi turns messiah once again



Oil & Gas

Forget the refining margins!

Marketing margins – an elixir for OMCs

- **The COVID outbreak has brought about huge volatility in the Oil and Gas space, resulting in highly unpredictable margins. Refiners continue to face the longest stretch of poor refining margins. Although, for OMCs, marketing margins have truly been an elixir.**
- **As highlighted in our recent report [Saudi turns messiah once again...,](#) voluntarily cutting an additional 1mnbopd has led to a spike in Brent prices (~USD55/bbl currently v/s USD44.3/bbl in 3QFY21).**
- **Retail auto fuel prices in India have reached all-time highs, thus restricting gross marketing margins to INR1.7–2.7/lit (v/s INR4.5–5/lit in 3QFY21). However, gross marketing margins in FY21'TD still average INR6.5–7/lit (well above the long-term average of ~INR3/lit).**
- **Reflecting on the taxes, the government increased excise duty on petrol and diesel by INR13–16 in CY20 – an increase of 65–100% YoY (despite average crude prices declining ~35% YoY to ~USD42/bbl in CY20). Despite the rise in excise, OMCs have protected their marketing margins well.**
- **As per our current assumptions:**
  - **We expect crude oil prices to hover in the range of USD50–60/bbl as production from the US increases and OPEC+ production normalizes (from cuts of ~8.1mnbopd).**
  - **We do not expect the excise duty to be hiked further. In fact, the government has intervened at instances when retail prices have peaked. Thus, there is room to lower the excise duty from current levels if crude oil prices rise. Despite a disruptive year, excise duty collections in FY21'till-Nov were up ~48% YoY to INR1.96t, while indirect tax collections (GST, customs, excise and others) were just 2% lower YoY at INR6.05t.**
  - **We model gross marketing margins at INR3.3/lit for petrol and diesel over FY22–23E.**
- **The current curtailment in gross marketing margins comes at a time when petroleum product demand in India has recorded growth exceeding pre-COVID levels – resulting in better absolute marketing segment nos. for the companies. In our view, as crude oil prices stabilize, OMCs would raise their gross marketing margins on auto fuels.**
- **We reiterate our belief in the sustainability of marketing margins around the long-term average (if not higher) – while aiding poor refining margins in the short term as well as cushioning against possible inventory loss.**
- **We maintain our positive stance on OMCs (with IOCL as our top pick).**

Marketing margins to the rescue

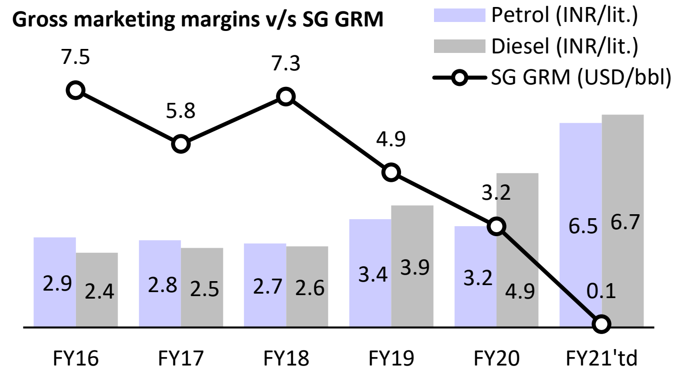
- **Since the deregulation of retail fuel prices in 2014, the government has implemented excise duty cuts twice, in Aug'17 and Sep'18, due to the peaking of Retail Selling Prices (RSP) at these times** *(refer to exhibit 5-6).*
- In India, taxes constitute 57–62% of RSP, with excise alone forming 39–43% of RSP. This leaves huge room for the government to reduce the excise duty when crude oil prices are high.
- **As per our analysis, sensitivity to change in excise duty on auto fuels by INR1/lit results in change of INR120-130b in government collections.**
- The government (through excise) and OMCs (through gross marketing margins) have been using margins on auto fuels as a key tool to manage their finances/profits. To put this into perspective, OMCs increased their gross marketing margins to INR3–5/lit over FY19–20 (from INR2.5-3/lit in FY16-18) as SG GRM contracted to USD3–5/bbl (from USD6–7/bbl - *refer to Exhibit 1*).

- **As per our analysis, OMCs need a hike of just INR0.3–0.6/lit to compensate for loss of USD1/bbl in refining margins.** For FY21'TD, the SG GRM average stands at ~USD0.1/bbl, with gross marketing margins at INR6.5–6.7/lit (up INR2–3 YoY). OMCs reported implied marketing margins, including inventory gains (on all products) of INR6–9/lit in 1HFY21.

Refining margins to improve from trough

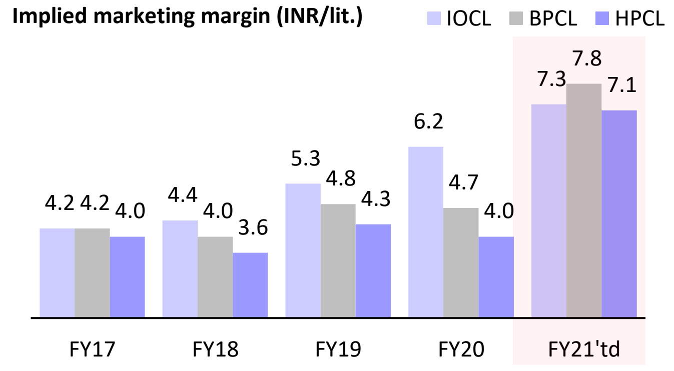
- Despite the optimism surrounding vaccines and changing macros globally, demand concerns continue to be the biggest constraint on recovery in refining margins. Refiners are facing the longest stretch of poor refining margins, and simple refiners are likely to bear the brunt of this.
- **As per IEA, refining capacity of ~1.7mnbopd is expected to be closed down permanently (combined) over 2020–21,** with the maximum closures expected in the US (~1mnbopd – permanent closures or conversions to bio-refining).
- We believe even China's teapot refiners (which are operating at all-time high run-rates of 72–77% post the easing of the COVID lockdowns – *refer to Exhibit 17*) would see huge shutdown on the back of environmental concerns in China. This would be further weighed by a poor refining margin environment. **As per Wood Mackenzie, ~1.2mnbopd of teapot refinery capacity is expected to close over the next 1–2 years.**
- Factoring in the aforementioned closures of refining capacities, along with an improvement in product demand from current levels, **we believe refining margins should improve going forward. Hence, we build-in a normalized margin scenario of USD5–6/bbl for FY22/FY23E.**
- Also, various refiners across the globe are integrating their refineries with petchem units (to capitalize on the huge potential in the Downstream Chemicals market and improve economics/spreads with forward integration).

OMCs' gross marketing margins rose to INR3–5/lit in FY19–20 as SG GRM contracted…



Source: IOCL, MOFSL

…with reported implied marketing margins including inventory gains of INR6–9/lit in 1HFY21



Source: Company, MOFSL

Larsen & Toubro

BSE SENSEX	S&P CNX
48,564	14,281

CMP: INR1,335 TP: INR1,625(+22%) Buy

Order inflow winning spree continues

Likely working capital improvement to aid execution and re-rating

- **Large ticket size order wins leads to order inflow assumption upgrade:** With new order announcements worth ~INR660b (at the midpoint range of the new ticket size classification) after the 2QFY21 result, YTD order inflow in the core business now stands ~INR970b, or ~84% of our last published full-year core E&C order inflow assumption. This is largely helped by large ticket size orders, including two packages of High Speed Rail and two packages of Barmer refinery project, along with chunky orders in Water, Rail, and Road sector. As we enter peak awarding season in the coming months, we expect flattish growth in core E&C/overall order inflows v/s earlier expectation of a -20%/-14% decline.
- **FY21-end order book position to stimulate revenue growth:** Even with flattish order wins in the 4Q, L&T would end FY21 with a record high order book of INR3.5t (+16% YoY). This would translate into a multi-year high order book-to-revenue ratio of 3.7x, providing strong revenue visibility over the next 2-3 years. While certain large ticket size orders may have a longer execution period, its strong order book position and low base of FY21 would help in clocking over 15% revenue CAGR over FY21-23E.
- **Faster economic recovery could spur revenue growth further:** As a pure play EPC company, the only impediment to revenue growth is its working capital position. As COVID-19 vaccines get rolled out, the speed of economic recovery, and hence the restoration of government revenue both for the Centre and states, holds key for infrastructure spending. The current low interest rate scenario is the best time to revitalize infrastructure spending in India. Thus, any faster than expected improvement in the macro environment is a key catalyst for L&T's earnings growth.
- **Working capital improvement likely on the cards:** The cyclical nature of the business implies that an upswing in the economic environment is likely to result in an improvement in its working capital cycle. L&T's working capital cycle had worsened to ~27% at present from 18% in FY19. We expect working capital to improve from here on, helped by better execution, seasonal improvement in working capital cycle by 4QFY21-end, and strengthening government financials. A large part of the deterioration in working capital is on account of payables as L&T had supported its vendors with easy payment terms during the pandemic. As the situation improves for MSMEs/SMEs, normalization of payment terms should aid the working capital cycle.
- **Re-rating on cards on improving core E&C outlook and ease of funding risks in the non-core business:** L&T is likely to witness a re-rating on account of: a) improving fundamentals in the core E&C business as the ordering environment picks up, and b) funding in the non-core business is largely factored into the stock price, with likely fund infusion via a rights issue in L&T Finance Holdings

Stock Info

Bloomberg	LT IN
Equity Shares (m)	1,402
M.Cap.(INRb)/(USDb)	1874.3 / 26
52-Week Range (INR)	1390 / 648
1, 6, 12 Rel. Per (%)	1/13/-13
12M Avg Val (INR M)	5679
Free float (%)	100.0

Financials Snapshot (INR b)

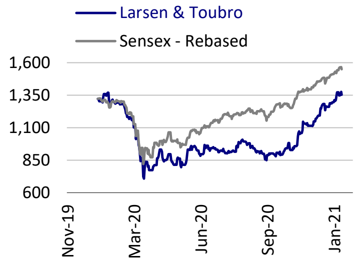
Y/E Mar	2020	2021E	2022E
Sales	1,455	1,377	1,660
EBITDA	163	144	190
PAT	89	60	92
EBITDA (%)	11.2	10.4	11.5
EPS (INR)	63.4	42.7	65.6
EPS Gr. (%)	10.5	-32.6	53.7
BV/Sh. (INR)	475	529	568
Ratios			
Net D/E	1.9	1.8	1.9
RoE (%)	13.3	8.1	11.6
RoCE (%)	5.7	4.2	5.2
Payout (%)	26.5	30.0	30.0
Valuations			
P/E (x)	21.1	31.3	20.4
P/BV (x)	2.8	2.5	2.4
EV/EBITDA (x)	18.9	22.2	17.5
Div Yield (%)	1.4	1.7	1.5
FCF Yield (%)	0.8	-4.2	-4.7

Shareholding pattern (%)

As On	Sep-20	Jun-20	Sep-19
Promoter	0.0	0.0	0.0
DII	35.5	36.0	37.2
FII	19.1	19.9	20.7
Others	45.4	44.0	42.1

FII Includes depository receipts

Stock Performance (1-year)



(INR20b as per our estimate). Hyderabad Metro losses are likely to be elevated till traffic comes back. Thanks to the E&A sale proceeds, funding risk in the non-core businesses is no longer a concern and a thing of the past from here on, at least for the next 2-3 years.

- **Raise FY22E/FY23E core E&C earnings by ~4% each:** We raise our FY21E/FY22E/FY23E core E&C order inflow assumption by 23.2%/7.6%/7.3%, taking into account high ticket size order wins and improving economic growth. Our FY22E order inflow assumption stands at -4% YoY (+24% YoY adjusted for the High Speed Rail order) and is still 5% below our FY20 estimate to address the impact of COVID-19 on capex spending in India. On account of higher order inflow assumption, we raise FY22E/FY23E core E&C earnings by 3.5%/4.2% and consolidated earnings by 2.4%/2.7%. Our estimates adequately take into account commodity price inflation.
- **Maintain Buy with a higher TP of INR1,625/share:** Over the past one-year, L&T has underperformed the Nifty by ~15%. Adjusted for the valuation of listed subsidiaries, the core business has underperformed Nifty by 30% and is valued ~40% below the last peak hit during the interim Budget in Jul'19 after May'19 elections. The stock itself is down 15% from its peak, whereas its subsidiaries have witnessed an over 50% jump. We attribute the underperformance to the COVID-induced impact on economic growth and fiscal concerns towards infrastructure spending in the country. With a recovery in sight, we see room for its core business to see a meaningful re-rating. We maintain **our Buy rating** with a higher TP of **INR1,625/share** on account of: **a)** core business target P/E multiple of 20x v/s long-term average of 22x, and **b)** contribution from four listed subsidiaries, after applying a 20% holding company discount. Adjusted for valuation of subsidiaries (INR604/share contribution), L&T trades at FY22E/FY23E P/E of 16x/14x, providing ample valuation comfort. Should the stock move to its long-term average multiple of 22x, our target price would stand at INR1,730 assuming no change in the valuation of its subsidiaries.

Coromandel International

BSE SENSEX	S&P CNX
48,564	14,281

Coromandel FUTURE POSITIVE

Stock Info

Bloomberg	CRIN IN
Equity Shares (m)	292
M.Cap.(INRb)/(USDb)	241.4 / 3.3
52-Week Range (INR)	880 / 444
1, 6, 12 Rel. Per (%)	2/-25/24
12M Avg Val (INR M)	424
Free float (%)	42.4

Financials Snapshot (INR b)

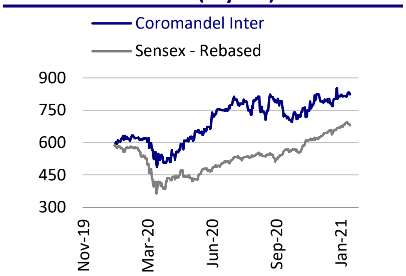
Y/E Mar	2021E	2022E	2023E
Sales	146.9	158.8	173.0
EBITDA	22.0	23.3	25.6
PAT	14.7	16.0	17.7
EBITDA (%)	14.9	14.7	14.8
EPS (INR)	50.3	54.7	60.5
EPS Gr. (%)	38.3	8.8	10.7
BV/Sh. (INR)	181	216	255
Ratios			
Net D/E	0.1	0.0	(0.0)
RoE (%)	30.6	27.5	25.7
RoCE (%)	26.2	25.8	24.6
Payout (%)	33.4	35.1	35.7
Valuations			
P/E (x)	16.3	15.0	13.6
EV/EBITDA (x)	4.5	3.8	3.2
Div Yield (%)	1.7	1.9	2.2
FCF Yield (%)	7.7	3.4	4.0

Shareholding pattern (%)

As On	Dec-20	Sep-20	Dec-19
Promoter	57.6	59.6	61.7
DII	19.2	19.7	18.5
FII	7.0	5.9	3.5
Others	16.2	14.9	16.3

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR823 TP: INR1,090 (+32%) Buy

2HFY21 looks promising owing to better rabi season

Long-term story intact

In this report, we have analyzed the sowing movement in CRIN's key states and corresponding fertilizer volume data. Here are the key highlights:

- NPK fertilizer is driving overall manufacturing volumes, with double-digit growth in key states in 3QFY21 (as per the Ministry of Fertilizers).
- AP, Telangana, and Maharashtra would lead NPK fertilizer's growth.
- An increase in rabi paddy and chilly sowing acreage in CRIN's key markets would prove beneficial.

Strong volume growth continues

- As per data from the Ministry of Fertilizers, CRIN's overall volumes in 3QFY21 grew 21% YoY, driven by 128% YoY growth in trading volumes, whereas manufacturing volumes de-grew 3% YoY.
- Total phosphatic fertilizer volumes grew 8% YoY; growth was seen despite strong growth of 27% in the base quarter. Growth in the current quarter is driven by 13% YoY growth in NPK fertilizer, whereas DAP has de-grown 14% YoY. Manufacturing DAP volumes declined 62% YoY, whereas trading volumes increased 508% YoY in 3QFY21. NPK volumes grew 13% YoY on account of 6% YoY growth in manufacturing volumes and trading volumes of 43,423mt – which were absent in the base quarter. Traded volumes of urea and MOP grew 17% and 104% YoY, respectively.

NPK fertilizer sees double-digit growth across key states, ex-Karnataka

- CRIN's key markets are Andhra Pradesh (AP), Telangana, Maharashtra, Karnataka, West Bengal, and Odisha. These six states account for 94% of CRIN's NPK/DAP volumes and 84% of its overall volumes (as of FY20).
- CRIN's overall fertilizer volumes in AP (which formed 31% of DAP + NPK volumes as of FY20) grew 18% YoY in 3QFY21, driven by 9% growth in phosphatic fertilizer and 126% YoY growth in urea. Within phosphatic fertilizer, NPK volumes grew 11% YoY, whereas DAP declined 4% YoY.
- In Telangana as well (which forms 28% of CRIN's NPK/DAP volumes), overall volume growth of 26% YoY was driven by phosphatic fertilizer (+12% YoY) and urea (+140% YoY). Within phosphatic fertilizer, NPK volumes grew 20% YoY, whereas DAP declined 23% YoY.
- Volume growth in Maharashtra (which forms 13% of CRIN's NPK/DAP volumes) was the highest v/s other key markets at 54% YoY. Overall volume growth was driven by phosphatic (+13% YoY), urea (+108% YoY), SSP (+226% YoY), and MOP (+512% YoY). Within phosphatic fertilizer, NPK volumes grew 23% YoY, whereas DAP declined 23% YoY.
- In Karnataka (which forms 11% of CRIN's NPK/DAP volumes), overall volumes grew 18%, driven by 117% YoY growth in urea, whereas phosphatic fertilizer volumes declined 10% YoY.

- West Bengal (which forms 7% of CRIN's NPK/DAP volumes), overall volumes grew 43% YoY, driven by 317% YoY growth in urea and 14% YoY growth in phosphatic fertilizer. Within phosphatic fertilizer, NPK volumes grew 18% YoY, whereas DAP declined 77% YoY.

Increasing rabi acreage to support CRIN's growth in 2HFY21

- The above-mentioned five key states (Maharashtra, AP, Telangana, West Bengal, Karnataka, and Odisha) – which contribute the majority to CRIN's sales volumes – reported marginal cumulative rabi acreage growth of 0.2% YoY in FY21 (as on 15th Jan'2021). Wheat/Rice rabi acreage increased 8% / 14% YoY, whereas jowar/maize acreage fell 9%/5%.
- Maharashtra saw the highest increase in rabi sowing acreage in FY21 – 7% YoY to 5.46m-ha. Growth in acreage in Maharashtra was driven by increased sowing of maize (+44% YoY), pulses (+16% YoY), and wheat (+12% YoY). On the other hand, jowar acreage fell by 10% YoY to 1.6m-ha.
- AP posted a drop in sowing in rabi, and area under sowing acreage dropped by 10% YoY to 1.5m-ha in FY21. Major crops that contributed to the drop include jowar (dropped 38% YoY), maize (dropped 39% YoY), pulses (dropped 14% YoY), and oilseeds (dropped 20% YoY). Rice was the only major crop (33% of total area under coverage) wherein an increase in sowing acreage was reported in AP. Additionally, rice rabi sowing increased 14% YoY to 0.53m-ha. As per our channel checks, chilly sowing acreage in AP increased ~15%.
- Telangana was another state to post decline in rabi acreage by 14% YoY to 0.56m-ha. The drop in acreage was primarily attributable to a plunge in maize and pulses by 54% YoY and 17% YoY, respectively. However, the decrease in overall rabi acreage was offset by an increase in rice sowing by 11% YoY (59% of the total area under coverage). As per our channel checks, chilly sowing acreage has increased 20–25% in Telangana.
- Overall, pan-India rabi sowing increased 2% YoY to 65.2m-ha in FY21 (v/s ~64.2m-ha in FY20). Growth in acreage was majorly driven by increased sowing of wheat (+2% YoY), followed by rice (+5% YoY), pulses (+2% YoY), and oilseeds (+5%). Coarse Cereals sowing acreage plunged by 8% YoY, coupled with a drop in jowar and maize acreages by 10% and 5% YoY, respectively.

Valuation and view

- We believe the earnings growth momentum is likely to sustain in 3QFY21. We expect CRIN to report revenue / EBITDA / adj. PAT growth of 15%/17%/29% YoY to INR37.7b/INR5.4b/INR3.4b in 3QFY21 on the back of a strong on-going rabi season. We expect Manufacturing EBITDA/mt to grow 10% YoY to INR4,200/mt in 3QFY21. Absolute EBITDA from the Trading segment would grow 5.8x YoY on account of higher volumes and better trading margins.
- We believe key levers, which would drive growth for CRIN going forward, are: (i) a focus on increasing penetration in CRIN's existing markets, (ii) debottlenecking to increase capacity, (iii) CRIN's efforts to find a way to lower the cost of raw material (rock) while maintaining the same level of quality, and to establish an alternative sourcing destination (which would aid in saving cost), (iv) the launch of 3–4 molecules in the Crop Protection segment, (v) inorganic growth, and (vi)

retail – focusing on profitable growth in the Retail business by reorganizing retail stores depending on the consumption pattern.

- The structural story remains intact with regard to increasing farmers' awareness about having balanced nutrients in crops. This is likely to aid the shift from urea to complex fertilizers, and CRIN thus stands to be a key beneficiary. However, the key monitorable in the near future shall be RM prices.
- We expect a revenue/EBITDA/PAT CAGR of 10%/14%/19% over FY20–23E. We value CRIN at 18x FY23E EPS to arrive at TP of INR1,090. Maintain **Buy.**

Quarterly volume trend (MT)

	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	9MFY20	9MFY21
Manufactured									
NPK	3,50,000	10,42,000	6,30,000	5,80,000	6,30,000	9,37,000	6,66,635	20,22,000	22,33,635
Growth %	*-16.7%*	*2.2%*	*26.0%*	*23.4%*	*80.0%*	*-10.1%*	*5.8%*	*4.4%*	*10.5%*
DAP	90,000	1,60,000	1,10,000	1,00,000	1,40,000	16,000	42,334	3,60,000	1,98,334
Growth %	*-35.7%*	*77.8%*	*450.0%*	*0.0%*	*55.6%*	*-90.0%*	*-61.5%*	*44.7%*	*-44.9%*
SSP	1,20,000	1,94,000	1,50,000	1,10,000	1,30,000	2,02,000	1,58,360	4,64,000	4,90,360
Growth %	*9.1%*	*14.1%*	*0.0%*	*-15.4%*	*8.3%*	*4.1%*	*5.6%*	*6.9%*	*5.7%*
Total Mfg	**5,60,000**	**13,96,000**	**8,90,000**	**7,90,000**	**9,00,000**	**11,55,000**	**8,67,329**	**28,46,000**	**29,22,329**
Growth %	*-16.4%*	*9.1%*	*32.8%*	*12.9%*	*60.7%*	*-17.3%*	*-2.5%*	*8.7%*	*2.7%*
Traded									
MOP	20,000	66,000	40,000	50,000	30,000	81,000	46,791	1,26,000	1,57,791
Growth %	*0.0%*	*65.0%*	*0.0%*	*66.7%*	*50.0%*	*22.7%*	*17.0%*	*27.0%*	*25.2%*
DAP Traded	30,000	18,000	10,000	10,000	60,000	1,65,000	60,788	58,000	2,85,788
Growth %	*-25.0%*	*-86.2%*	*-85.7%*	*-66.7%*	*100.0%*	*816.7%*	*507.9%*	*-76.0%*	*392.7%*
NPK Traded	0	0	0	0	0	0	43,423	0	43,423
Growth %	-	-	-	*0.0%*	-	-	-	*NA*	*NA*
Urea	70,000	1,48,000	1,50,000	1,10,000	60,000	1,92,000	3,05,327	3,68,000	5,57,327
Growth %	*0.0%*	*-63.0%*	*-40.0%*	*-54.2%*	*-14.3%*	*29.7%*	*103.6%*	*-49.7%*	*51.4%*
Total Trading	**1,20,000**	**2,32,000**	**2,00,000**	**1,70,000**	**1,50,000**	**4,38,000**	**4,56,329**	**5,52,000**	**10,44,329**
Growth %	*-7.7%*	*-59.3%*	*-44.4%*	*-43.3%*	*25.0%*	*88.8%*	*128.2%*	*-48.5%*	*89.2%*
Total - Mfg + Trading	**6,80,000**	**16,28,000**	**10,90,000**	**9,60,000**	**10,50,000**	**15,93,000**	**13,23,658**	**33,98,000**	**39,66,658**
Growth %	*-15.0%*	*-12.0%*	*5.8%*	*-4.0%*	*54.4%*	*-2.1%*	*21.4%*	*-8.0%*	*16.7%*

Source: Department of Fertilizer, MOFSL

Andhra Pradesh forms 31% of CRIN's NPK + DAP sales

Volume (MT)	3QFY20	3QFY21	Change % YoY
Manufactured			
NPK	2,63,246	2,81,944	7%
DAP	48,290	28,252	-41%
SSP	27,566	25,992	-6%
Total - Manufacturing	**3,39,102**	**3,36,188**	**-1%**
Traded			
MOP	19,815	20,741	5%
DAP	1,361	19,394	1325%
NPK	0	10,188	
Urea	34,655	78,467	126%
Total - Trading	55,831	1,28,790	131%
NPK - Mfg + Trading	2,63,246	2,92,132	11%
DAP - Mfg + Trading	49,651	47,645	-4%
Phosphatic - Mfg + Trading	3,12,897	3,39,778	9%
Total - Mfg + Trading	3,94,933	4,64,978	18%

Source: MOFSL, Department of fertilizer

IndiaMART

BSE SENSEX	S&P CNX
48,564	14,281

Conference Call Details

Date: 19th Jan 2020
Time: 16:00 IST
Dial-in details:
imes Webinar

Financials & Valuations (INR b)

Y/E Mar	2021E	2022E	2023E
Net Sales	6.7	8.4	10.3
EBITDA	3.3	3.6	4.4
NP	3.0	3.5	4.2
EPS (INR)	104.6	119.9	144.8
EPS Gr. (%)	103.9	14.6	20.7
BV/Sh. (INR)	299.8	466.8	673.3
RoE (%)	73.9	49.8	40.4
RoCE (%)	74.7	49.8	40.4
PE (x)	70.7	61.7	51.1
PB (x)	70.7	61.7	51.1

CMP: INR7460

Another quarter of strong performance; beat on all fronts! Board approves INR11b in fund raising

Revenue grew 5% YoY in 3QFY21 (v/s our estimate of 2.3%). EBIT grew 122% YoY (v/s our estimate of 78%). PAT grew 102% YoY (v/s our estimate of 61%).

Strong revenue growth led by healthy increase in paid suppliers

- Revenue stood at INR1.7b (3% beat on our estimate), up 5.3% YoY and 6.4% QoQ.
- Total collections have now recovered back to pre COVID-19 levels at INR 1.8b, implying a sequential growth of 10%.

Continued cost optimization resulted in strong margin

- EBIT margin was the highest ever at 48.4% (v/s our estimate of 40%), +26pp YoY and +100bp QoQ. This was led by continued optimization across all cost items.
- All traffic on the platform was organic in nature. The company has not incurred any advertisement expenses.
- PAT rose 102% YoY to INR802m, implying a PAT margin of 46%.

Other highlights

- The Board has approved raising of funds, not exceeding INR11b. An extraordinary general meeting is scheduled on 10 Feb'21 to seek approval of its members for the proposed fund raising.
- Traffic grew 35% YoY to 253m in 3QFY21 v/s 188m in 3QFY20.
- Total suppliers on the platform stood at 6.4m, an increase of 9% YoY.
- Total paid suppliers stood at 148K (v/s our estimate of 147k), an increase of 4% YoY and 5% QoQ. ARPU increased by 3% YoY to INR 46.7k.
- Deferred revenue stood at INR 6330m, a marginal decline of 2% YoY, but an increase of 1% QoQ.
- Total cash and Investments stood at INR 11.4B, an increase of 33% YoY.
- OCF stood at INR 770m, up 9% YoY, implying an OCF-to-PAT ratio of 96%.

- **Valuation and view:** We will revisit our estimates post its earnings call. The outlook on growth in paid suppliers, ARPU, and cost structure will be keenly watched.

Consolidated quarterly earnings model (INR m)

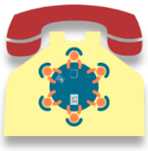
Y/E March	FY20				FY21				FY20	FY21E		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QFY21E	Var. (%)
Gross Sales	**1,470**	**1,566**	**1,649**	**1,701**	**1,531**	**1,632**	**1,736**	**1,797**	**6,386**	**6,696**	**1,687**	**2.9**
YoY Change (%)	30.1	28.4	23.1	23.3	4.1	4.2	5.3	5.7	26.0	4.9	2.3	300
Total Expenditure	1,110	1,203	1,213	1,178	798	815	858	970	4,704	3,441	969	-11
EBITDA	**360**	**363**	**436**	**523**	**733**	**817**	**878**	**827**	**1,682**	**3,255**	**717**	**22**
Margin (%)	24.5	23.2	26.4	30.7	47.9	50.1	50.6	46.0	26.3	48.6	42.5	800bp
Depreciation	40	50	58	59	44	44	38	39	207	165	45	-16
Interest	0	7	5	17	18	18	16	0	29	52	0	NA
Other Income	140	205	166	172	337	179	246	258	683	1,020	181	36
PBT before EO expense	**460**	**511**	**539**	**619**	**1,008**	**934**	**1,070**	**1,046**	**2,129**	**4,058**	**852**	**26**
PBT	**460**	**511**	**761**	**612**	**1,004**	**932**	**1,065**	**1,046**	**2,344**	**4,047**	**852**	**25**
Tax	140	422	141	169	263	234	263	257	872	1,017	214	23
Rate (%)	30.4	82.6	18.5	27.6	26.2	25.1	24.7	24.6	37.2	25.1	25.1	-40bp
Minority Interest and Profit/Loss of Asso. Cos.	0	0	0	0	0	0	0	0	0	0	0	
Reported PAT	**320**	**89**	**620**	**443**	**741**	**698**	**802**	**789**	**1,472**	**3,030**	**639**	
Adjusted PAT	**320**	**89**	**398**	**450**	**745**	**700**	**802**	**789**	**1,257**	**3,036**	**639**	**26**
YoY Change (%)	-156.1	-55.5	37.2	55.2	132.8	686.5	101.5	75.2	498.6	141.5	60.5	4,100bp
Margins (%)	21.8	5.7	24.1	26.5	48.7	42.9	46.2	43.9	19.7	45.3	37.9	830bp

E: MOFSL estimates

IRB Infrastructure

BSE SENSEX	S&P CNX
48,564	10,618

Conference Call Details



Date: 19th January 2021
Time: 10:00am IST
Dial-in details:
+91-22-6280 1341

Financials & Valuations (INR b)

Y/E Mar	2020	2021E	2022E
Sales	68.5	47.5	54.0
EBITDA	29.7	23.6	27.4
PAT	6.6	1.5	2.2
EBITDA (%)	43.4	49.6	50.6
EPS (INR)	18.9	4.2	6.2
EPS Gr. (%)	-21.9	-77.6	47.4
BV/Sh. (INR)	190.2	192.0	195.8
Ratios			
Net D/E	0.8	1.8	1.8
RoE (%)	10.2	2.2	3.2
RoCE (%)	12.0	8.9	7.9
Payout (%)	11.7	57.0	38.7
Valuations			
P/E (x)	6.0	27.0	18.3
P/BV (x)	0.6	0.6	0.6
EV/EBITDA (x)	3.1	7.0	5.9
Div Yield (%)	1.8	1.8	1.8
FCF Yield (%)	341.7	-126.6	47.2

CMP:INR114 Neutral

Strong EPC execution; higher depreciation in BOT business leads to earnings miss

3QFY21 earnings snapshot

- Consolidated revenue declined 11% YoY to INR15.5b and was 17% ahead of our estimate on stronger than expected execution in the EPC segment.
- EBITDA was flat YoY at INR7.2b and was 6% ahead of our estimate. Higher revenue from lower margin Construction business implies a lower beat on EBITDA.
- On account of higher depreciation and losses from associates, adjusted PAT declined 57% YoY to INR695m and missed our expectation by 29%.
- YoY headline numbers are not entirely comparable owing to transfer of assets into the second InvIT and accretion of Mumbai Pune Phase II project.

Segmental highlights

- **EPC business:** Revenue declined 22% YoY to INR10.8b and was 27% ahead of our expectation. Stronger execution led to 14% decline in the EPC order book (excluding O&M). The order book stood at INR42.8b, with order book-to-revenue ratio of just 1.1x. Net profit declined 53% YoY to INR1b.
- **BOT business:** Revenue increased 30% YoY to INR4.7b and was in-line with our expectation. Like-for-like toll collection grew 3.7% YoY. On account of higher depreciation and losses from associates, adjusted PAT loss stood at INR315m v/s INR546m loss last year. YoY headline numbers are not entirely comparable owing to transfer of assets into the second InvIT and accretion of Mumbai Pune Phase II project.

Quarterly performance INR m

Y/E March	FY20				FY21E				FY20	FY21E	MOSL	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			3QE	%
Net Sales	17,730	17,521	17,426	15,845	10,223	11,233	15,472	10,572	68,522	47,500	13,199	17
YoY Change (%)	15.3	22.3	-2.6	-18.7	-42.3	-35.9	-11.2	-33.3	2.2	-30.7	-24.3	
EBITDA	8,554	7,474	7,137	6,549	4,776	5,550	7,200	6,043	29,714	23,568	6,779	6
Margin (%)	48.2	42.7	41.0	41.3	46.7	49.4	46.5	57.2	43.4	49.6	51.4	
Depreciation	1,535	1,139	955	1,054	844	1,285	1,914	1,394	4,683	5,437	1,600	
Interest	3,628	3,813	4,099	4,104	3,656	4,350	4,407	3,743	15,644	16,156	4,200	
Other Income	481	490	475	504	512	455	477	673	1,950	2,117	500	
Extra-Ordinary expense	0	0	0	574	0	0	0	0	574	0	0	
PBT	3,872	3,012	2,558	1,895	788	370	1,355	1,579	11,337	4,091	1,479	-8
Tax	1,805	1,010	961	767	331	150	468	259	4,544	1,207	346	
Rate (%)	46.6	33.5	37.6	40.5	42.0	40.5	34.5	16.4	40.1	29.5	23.4	
Share of profit in Associates	0	0	0	-158	-759	-417	-192	-32	-158	-1,400	-150	
Reported PAT	2,066	2,002	1,597	1,543	-301	-197	695	1,288	7,209	1,484	983	-29
Adjusted PAT	2,066	2,002	1,597	969	-301	-197	695	1,288	6,635	1,484	983	-29
YoY Change (%)	-17.4	15.7	-27.0	-53.4	-114.6	-109.8	-56.5	32.8	-21.9	-77.6	-38.5	
Margin (%)	11.7	11.4	9.2	6.1	-2.9	-1.8	4.5	12.2	9.7	3.1	7.4	

Shoppers Stop

Estimate change	⟷
TP change	↑
Rating change	⟷

Bloomberg	SHOP IN
Equity Shares (m)	88
M.Cap.(INRb)/(USDb)	22.6 / 0.3
52-Week Range (INR)	423 / 124
1, 6, 12 Rel. Per (%)	-6/7/-63
12M Avg Val (INR M)	49

Financials & Valuations (INR b)

Y/E March	FY21E	FY22E	FY23E
Sales	18.2	31.7	34.2
EBITDA	0.2	4.8	5.2
Adj. PAT	-2.8	-1.3	-1.3
EBIT Margin (%)	0.9	15.2	15.1
Adj. EPS (INR)	-26.0	-11.8	-11.5
EPS Gr. (%)	NM	NM	NM
BV/Sh. (INR)	9.4	NM	NM
Ratios			
Net D:E	NM	NM	NM
RoE (%)	NM	NM	NM
RoCE (%)	NM	1.2	1.2
Payout (%)	0.0	0.0	0.0
Valuations			
P/E (x)	NM	NM	NM
EV/EBITDA (x)	251.3	7.7	7.0
EV/Sales (x)	2.2	1.2	1.0
Div. Yield (%)	0.0	0.0	0.0

Shareholding pattern (%)

As On	Dec-20	Sep-20	Dec-19
Promoter	65.5	63.9	63.9
DII	19.7	19.4	22.8
FII	5.6	6.6	7.0
Others	9.3	10.2	6.4

FII Includes depository receipts

CMP: INR204 TP: INR 220 (+8%) Neutral

Prolonged recovery

- Hit by COVID-19, SHOP's revenue declined 29% YoY, led by lower footfalls and improved focus towards strategic initiatives like Personal Shopper and First Citizen. This resulted in a healthy recovery in footfalls and increased sales contribution of ~6% from omni-channels.
- We have cut our FY21E revenue/EBITDA estimate by 12%/92% due to the prolonged impact from the COVID-19 pandemic.

EBITDA turns positive on sharp cost-cutting measures

- Standalone revenue fell 29% YoY to INR7.1b (in line) due to a 50% decline in footfalls. However, revenue was up 142% QoQ as footfalls improved by ~36% during the festive months of October-November.
- Gross margin fell 400bp YoY, despite higher private label mix, on inventory provisioning and deep discounting of private labels and older stock.
- EBITDA declined 52% YoY to INR949m (16% miss), with margin shrinking by 650bp to 13.4%. The miss could be attributed to higher than estimated operational costs, with employee/SG&A cost at INR660m/INR1.1b (v/s our estimate of INR605m/INR869m).
- Other income stood at INR310m (4.7x YoY), which includes INR212m adjusted for rent concessions. Excluding the same, other income stood at INR189m.
- PBT/PAT stood at -INR279m/-INR207m (v/s our estimate of -INR124m/-INR100m).
- Total First Citizen membership stands at 7.7m. It added 0.3m customers in 3QFY21. These customers contributed 83% of sales, with 6% higher average transaction value during the quarter. Personal Shoppers constituted 16% of sales, up 220bp YoY, with an average ticket size of 2.7x.

Highlights from the management commentary

- Once the COVID-19 pandemic ends, business recovery is expected to touch FY19 levels by 2Q or 3QFY22.
- Gross profit was impacted by INR160m provisioning and deep discounted selling by private labels.
- e-commerce sales increased to 6% v/s ~2% last year. Sales from Amazon grew 3x YoY, constituting ~20% of total omni-channel sales. The same is expected to rise to 15-25% over the next 2-3 years.
- Two key positive changes in the business due to the pandemic are: a) New store openings are ~20% smaller in terms of size, at 20-30k sq ft, enhancing productivity significantly; and b.) Increased focus on private labels to improve margin.
- The management expects to open 10-12 departmental stores annually from FY22, majorly in Tier II cities, and close 5-7 non-profitable stores.

Valuation and view

- Increasing sales from initiatives like Personal Shopper and First Citizen and rise in sales from the omni-channel program is encouraging, but declining footfalls and closures of non-performing stores raises concerns over profitability.
- SHOP, which caters to the lifestyle apparel retail segment, could see a more pronounced impact as: a) our channel checks suggest customers downtrading to value apparel given the prevailing economic challenges, b) higher share of stores in malls (86% stores), which was impacted by restricted footfalls/lower rental negotiations (v/s high street stores).
- The contribution of private products to revenue is still low at 16%, though the management's focus is on increasing its share of sales. In the changing Apparel Retail market impacted by the e-commerce space, retailers selling private labels like Westside, Reliance Trends, Pantaloons, Max, FBB, and Zudio, with product exclusivity, have seen far higher revenue growth.
- We roll forward our estimates to FY23E. We value SHOP on a SoTP basis, assigning an FY22E EV-to-EBITDA of 11x and standalone EV-to-sales of 1x to Crossword to arrive at our TP of INR220. The stock trades at an FY23E EV-to-EBITDA of 7x. Maintain **Neutral**.

Standalone - Quarterly perf. (INR M)

Y/E March	FY20				FY21				FY20	FY21	FY21E	Est. Var
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3Q	(%)
Total revenue from operations	**8,324**	**8,453**	**9,941**	**7,092**	**539**	**2,924**	**7,076**	**6,150**	**33,810**	**16,690**	**7,242**	**-2**
YoY Change (%)	NA	2.3	-0.5	-29.0	-93.5	-65.4	-28.8	-13.3	-2.9	-50.6	-13.0	
Total Expenditure	6,942	7,081	7,966	6,326	1,563	3,271	6,127	5,614	28,315	16,575	6,109	0
EBITDA	**1,382**	**1,372**	**1,975**	**766**	**-1,024**	**-347**	**949**	**537**	**5,495**	**115**	**1,133**	**-16**
EBITDA Margin (%)	16.6	16.2	19.9	10.8	-189.9	-11.9	13.4	8.7	16.3	0.7	15.6	
Depreciation	884	878	934	1,696	997	941	1,003	1,021	4,392	3,962	948	6
Interest	484	474	478	508	552	607	535	555	1,944	2,250	609	-12
Other Income	24	181	66	64	1,040	631	310	300	335	2,281	300	3
PBT before EO expense	**38**	**201**	**629**	**-1,375**	**-1,533**	**-1,265**	**-279**	**-739**	**-506**	**-3,816**	**-124**	**126**
PBT	**38**	**201**	**629**	**-1,575**	**-1,533**	**-1,365**	**-279**	**-739**	**-706**	**-3,916**	**-124**	**126**
Tax	14	255	681	-247	-382	-342	-72	-185	703	-981	-24	
Rate (%)	35.8	126.7	108.3	15.7	24.9	25.1	25.9	25.0	-99.5	25.0	19.6	
Reported PAT	**24**	**-54**	**-52**	**-1,328**	**-1,151**	**-1,023**	**-207**	**-555**	**-1,409**	**-2,936**	**-100**	**108**
Adj PAT	**81**	**-54**	**-52**	**-734**	**-1,112**	**-1,123**	**-207**	**-555**	**-759**	**-2,996**	**-100**	**108**
YoY Change (%)	-17.4	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	

E: MOFSL Estimates

LIC: Need to bring back some tax incentives for insurance; Vipin Anand, MD

- Expect the recovery seen in December to continue
- Pension and Group schemes businesses have started picking up
- Maximum premium comes from pension products that need tax incentives
- There is a need for bringing back some of the tax incentives for insurance
- Even pure protection products have 18% GST levied on them
- Short-term products have been discouraged already by taxing them on maturity
- In the current year, investment in equities has been 50% more YoY
- Have made a record profit of Rs. 33000 crore this year so far
- Lot of cash is coming in; investment and profit-booking will continue
- Unit-linked insurance plans have started selling well
- LIC will close the year with strong ULIP portfolio
- Decision on IDBI Bank will be driven by interest of our policyholders

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PVR: Will turn EBITDA positive soon once new releases comes in next few quarters; Nitin Sood, CFO

- Film ‘Master’ has done really well in Southern India
- Response to ‘Master’ gives us hope of new content releasing soon
- Expect new Hindi releases in the next few weeks
- Will able to turn EBITDA positive soon after new releases in next few quarters
- Need sub-20% occupancy levels for break even
- Have taken cost cutting measures in the last 9 months
- Will see Hollywood releases April/ May onwards
- Have liquidity of Rs. 370 crore as on December 31, 2020

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Metropolis Health: Promoter of Hitech will be part of Metropolis team; Ameera Shah, Promoter & MD

- Promoter of Hitech will be a part of the Metropolis team
- Majority of the acquisition price would be recognised as goodwill
- FY20 Hitech margin were similar to Metropolis margin
- Traditionally, there is profit escalation as one goes deeper into the city
- Own both brands; will decide which brand to use for which market
- Hitech is well-known in the mid-market segment in Chennai
- Hitech has 31 labs and 68 collection centres
- Don’t expect more acquisition in FY21. Goal is to focus on integration of Hitech acquisition

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L&T Finance: Witnessing a surge in rural demand; Dinanath Dubhashi, MD & CEO

- Disbursements and fee income have been strong in Q3
- Seeing a surge in rural demand due to Government scheme and good rainfall
- Uptick in rural demand has helped disbursement
- Farm collection efficiency is better than Pre-COVID levels
- Made an additional provision of Rs. 144 crore on a housing finance company exposure

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Narayana Hrudaylaya: Complication of vaccine is less than that of COVID-19; Devi Shetty, Chairman & Executive Director

- Would like every person to vaccinate themselves
- Complication of vaccine is less than that of COVID-19
- Need only 30000-45000 nurses to facilitate faster vaccination
- Nature of taking any medicine is that there are some side effects
- If 2-3 lakh people were given an aspirin, many would have a side effect
- If it is proved that someone dies due to vaccine, it must be investigated
- Down to hardly 10-20 ICU beds occupied by COVID-19 patients

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